Muthoot Microfin Ltd (MUTMIC)

CMP: ₹154 | Target ₹ 210 (36%) | Target Period: 12 months | BUY

November 6, 2026

Healthy quarter; recovery momentum remains monitorable....

About the stock: Established in 2011, Muthoot Microfin Ltd., part of the Muthoot Pappachan Group, is the third-largest microfinance institution in India by AUM. The company primarily provides unsecured microfinance loans to women borrowers under JLG model and has gradually diversified into individual, MSME and other rural lending products through its pan-India distribution network.

Q2FY27 performance: Muthoot Microfin reported a healthy Q2FY27 performance, with AUM growing 22% YoY (6% QoQ) to ₹15,323 crore, supported by highest-ever quarterly disbursements of ₹2,900 crore (+27.5% YoY/+9.7% QoQ). NIM improved 50 bps QoQ (57 bps YoY) to 12.5%, while PAT increased 3.6x YoY (36.2% QoQ) to ₹111 crore, aided by improving margins and operating efficiency. Asset quality strengthened further, with GNPA/NNPA improving to 3.38%/1.05%, while credit cost remained stable QoQ at 2.6%, within the guided range of 2.5–3.0%.

Investment Rationale:

- **Deeper customer-penetration strategy to sustain growth:** Muthoot Microfin's shift towards individual lending is enabling deeper penetration of its existing customer base, with non-JLG share rising to 31%, ahead of the FY27-end target. With only ~2.7 lakh customers graduated from a base of 32.7 lakh, significant headroom remains to capture higher borrowing requirements through MSEL and secured lending. Higher wallet share led by cross sell, coupled with selective geographical expansion, should support 18–20% AUM CAGR over FY27–28E and progress towards the ₹30,000 crore FY30 target.
- **Operating leverage and funding efficiencies to drive earnings:** NIM expanded 50 bps QoQ with management expecting further improvement. This is supported by 1) improving collections and lower non-earning assets, 2) declining borrowing cost (9.9%), aided by rating upgrades and access to lower-cost PTC funding, and 3) a growing share of higher-yielding individual loans. While reversal in interest rate scenario could moderate funding benefits, continued refinancing at competitive rates should support margin resilience. Further, scaling individual lending through existing branches and centralised underwriting should improve operating leverage, with management targeting operating expenses of 5.5–5.75% of AUM over the longer term, supporting earnings.
- **Improving portfolio quality to support sustainable earnings**: Selective graduation of seasoned borrowers and increasing share of individually underwritten loans should strengthen portfolio resilience and moderate provisioning requirement. Improving collections and near-zero delinquency in the MSEL portfolio have supported credit-cost moderation to 2.6%. Management expects further improvement as portfolio mix evolves, while NatCat coverage mitigates weather-related risks. Lower credit cost should support RoA/RoE exceeding 3.3%/18% in FY27.

Rating and Target Price

- Muthoot Microfin's improving growth momentum, increasing share of non-JLG loans and deeper wallet share provide visibility on sustained AUM expansion. Continued NIM improvement, lower funding cost, operating leverage and moderating credit cost should support earnings growth. However, outlook on business growth and asset quality remains caution. Thus, we lower our multiple at ~1x FY28E, assigning target price of ₹210. Maintain Buy, amid steep correction in stock price.

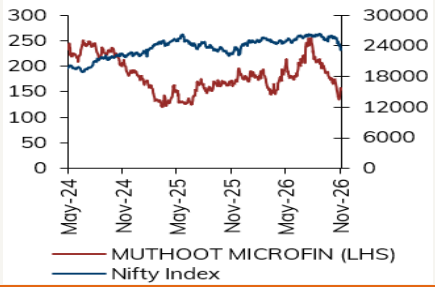
Particulars

Particulars	Amount
Market Capitalisation	₹ 2,632 crore
Net worth	₹ 3056 crore
52-week H/L	₹ 263 /134
Face Value	₹ 10

Shareholding pattern

(in %)	Dec 25	Mar 26	Jun 26	Sep 26
Promoter	55.5	55.5	55.5	55.5
FII	23.2	22.8	23.1	23.2
DII	3.0	3.5	3.4	3.1
Public	16.7	16.6	16.5	16.7
Other	1.7	1.6	1.6	1.6

Price Chart



Key risks

(i) Lower than expected AUM growth amid macro or climatic uncertainty

(ii) Volatility in delinquencies

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Key Financial Summary

₹ crore	FY25	FY26	3 Year CAGR (FY23-FY26)	FY27E	FY28E	2 Year CAGR (FY26-28E)
NII	2,369	2,139	18%	2,516	3,072	20%
PPP	753	648	14%	966	1,159	34%
PAT	(223)	170	1%	400	498	71%
ABV (₹)	147.2	161.2		184	213	
P/E	-11.6	15.2		6.5	5.2	
P/ABV	1.0	1.0		0.8	0.7	
RoE (%)	-8.2%	6.2%		13.1%	14.2%	
RoA (%)	-2.0%	1.4%		2.9%	3.0%	

Source: Company, ICICI Direct Research

Result Update

ICICI Securities – Retail Equity Research

Concall highlights and outlook

Business Segment Performance

- Q2FY27 disbursement stood at ₹2,900 crore, the highest-ever quarterly disbursement, up 27.5% YoY and 9.7% QoQ. H1FY27 disbursement reached ₹5,545 crore.
- AUM grew 22% YoY and 6% QoQ to ₹15,323 crore. Management reiterated FY27 AUM growth guidance of 20%, with scope to exceed it, supported by a seasonally stronger H2 and festive demand.
- Portfolio mix stood at 69% JLG and 31% non-JLG, vs. 76:24 in Q1FY27 and 82:18 in Q4FY26. This is ahead of the 70:30 mix targeted for FY27-end, with growth led by individual lending.
- The Muthoot Small Enterprise Loan (MSEL) portfolio stood at ₹4,164 crore (27.2% of AUM), with Q2 disbursement of ₹1,298 crore.
- On the new MSEL book (originated from July 2025), 90+ DPD stood at 0.02% and 30+ DPD at 0.1%. Collection efficiency was 99.7%, e-NACH enrolment 100%, effective yield 24.5% and product RoA 8.1%.
- The MSEL book is built by graduating existing JLG customers with 700+ credit scores and long repayment track records. Around 2.7 lakh of the ~32 lakh customer base have been graduated so far.
- Underwriting efficiency is being supported by in-house credit scorecards, AI-assisted credit assessment, Account Aggregator integration, e-KYC and e-sign.
- The secured portfolio (Micro-LAP and gold) rose to ₹653 crore (4.2% of AUM), from less than 1% six months earlier.
- The Micro-LAP book crossed ₹100 crore in October 2026, with ~18 months of seasoning and near-zero delinquency.
- Gold loan disbursement through the referral and co-lending partnership with Muthoot FinCorp stood at ₹453 crore in Q2. Under co-lending, MML holds 60% share and Muthoot FinCorp 40%.
- The company purchased a ₹200 crore gold loan portfolio from Muthoot FinCorp. These loans were originated earlier under the referral model, bringing MML's existing customers back onto its books.
- Management indicated an effective yield of ~12–12.5% on gold loans under the referral model, including a 1.5% upfront fee, with an average tenor of ~5 months.
- Management stated that conservative LTVs and income-based assessment have resulted in no stress in the gold book.
- The active borrower base stood at 32.7 lakh, up 0.6% QoQ. 49.6% of borrowers are unique to MML and 31.1% have one additional lender. Borrowers with 3+ other lenders declined to 4.3%, from 10.1% in Q2FY26.Unique MML borrowers reported 30+ PAR of 5.2%, vs. 20.1% for borrowers with 4+ other lenders.
- Between Mar-24 and Sep-26, total industry exposure to MML's customers rose only from ₹62,216 crore to ₹64,602 crore. Over the same period, MML's own exposure rose from ₹12,194 crore to ₹15,323 crore, reflecting wallet-share gains without overleveraging customers.
- The branch network stood at 1,675. A branch profitability module identified 80 underperforming branches, and management has initiated measures to merge, rationalise or redeploy resources across them.
- Management is deepening its presence in Assam, Andhra Pradesh and Telangana, and plans to enter Jammu & Kashmir shortly.
- The fully digital Suvidha loan through the customer app has disbursed ₹1.5 crore so far, reducing processing time to under 30 minutes from ~2 days. Customer app installations reached 21.6 lakh.

Margins

- Average cost of borrowing declined 20 bps QoQ to 9.9%, reaching single digit for the first time, ahead of FY27-end guidance. Incremental cost of borrowing stood at 9.7%.
- Funds raised in Q2 stood at ₹3,213 crore, taking H1FY27 fund raise to ₹5,947 crore. This included a ₹250 crore NCD at a 9.25% coupon.

- PTC borrowings accounted for 29% of H1FY27 funding, vs. 34% in FY26, at an all-in cost of ~8%, aided by priority-sector demand from private and foreign banks. Management expects ~30% of incremental borrowings to come through the PTC route.
- Despite the recent 25 bps rate hike, management expects cost of funds to remain stable or decline further, supported by the CRISIL AA- rating, CareEdge Global's revision of its outlook to Positive, and an ECB drawdown likely in Q3FY27.
- NIM expanded 50 bps QoQ and 57 bps YoY to 12.5%, the upper end of the 12.3–12.5% guidance. The improvement was driven by better collections, lower NPAs and lower funding cost. Management expects FY27 NIM to exceed the upper end of the guided range.
- Operating cost declined to 6.1% of AUM, from 6.3% QoQ and 7% YoY. Management reiterated its long-term target of 5.5–5.75%. The cost-to-income ratio improved 557 bps QoQ to 48.1%, below the sub-50% guidance.
- AUM per branch improved to ₹9.2 crore, from ₹8.7 crore in Q1FY27 and ₹7.3 crore a year ago, against a target of ₹12–13 crore. AUM per loan officer reached ₹1.8 crore.
- The company closed the quarter with liquidity of ₹1,835 crore and unavailed sanctions of ₹4,442 crore.
- CRAR stood at 25.5%, and management does not foresee a need for further capital raising.
- Insurance income contributes less than 5% of total revenue and is offered as a pass-through product. Management does not expect a material impact from the IRDAI draft regulation.

Asset Quality

- Collection efficiency improved to 98.1% in Q2FY27, up 477 bps YoY, and further to 99.2% in October 2026. X-bucket collection efficiency remained at 99.9%.
- GNPA declined 32 bps QoQ and 123 bps YoY to 3.4%, while NNPA remained flat QoQ at 1.1%. PCR stood at 69.6%, vs. 72.4% in Q1FY27, while Stage 2 assets declined to 1.6% from 1.7% QoQ.
- Credit cost remained at 2.6%, the lowest in nine quarters and within the guided range of 2.5–3%. An ECL release of ₹54.2 crore during Q2FY27, reflecting improvement in portfolio performance and macroeconomic assumptions, partially offset write-offs and waivers of ₹153.8 crore.
- No management overlay is held. The company carries other provisions of ₹24.3 crore as a contingency buffer, which management intends to build further.
- Exposure to drought-affected districts stood at ₹551 crore (3.6% of the portfolio), comprising on-book group loans across 34 districts in Maharashtra (3.1%) and Karnataka (0.5%).
- NatCat insurance covers 81.7% of this exposure, with coverage of 89.3% in Maharashtra and 68.9% in Karnataka.
- Over 60% of first-time defaulters in Maharashtra committed to repay. The remainder cited instructions from local leaders but indicated willingness to pay.
- ~85% of the overall portfolio is covered under NatCat insurance, while less than 2% is directly dependent on agriculture.
- Assam exposure is below ₹100 crore with 100% NatCat coverage. The Bihar portfolio of ~₹1,000 crore has seen no drought impact, and collection efficiency there continues to improve.
- SROs have issued guidance on empathetic collection practices and are working to distinguish regulated MFIs from unregulated lenders to address misinformation.

Guidance

- Management stated that FY27 guidance remains fully intact, with expectations of achieving or exceeding 20% AUM growth and surpassing the upper end of NIM guidance.
- Management expects credit cost to improve beyond the guided range and RoA and RoE to exceed the upper ends of 3.3% and 18%, respectively.

- Management reiterated FY27 PAT guidance of ₹425–450 crore, against H1FY27 PAT of ₹192 crore, citing Q3 and Q4 as seasonally stronger quarters.
- Digital collections reached 46.7% of total collections, from 40.5% in Q1FY27 and ~25% a year ago. Management expects to achieve its 75% target well ahead of 2030.
- The company has applied for CGFMU credit guarantee cover, while budget allocation at the CGFMU level is still awaited.
- Management reiterated its long-term target of ₹30,000 crore AUM by 2030.

Exhibit 1: Variance Analysis

	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)	Comments
NII	339	324	4.3	322	5.3	Growth led by healthy loan book expansion and declining borrowing cost
Reported NIM (%)	12.5	11.9	60 bps	12.0	50 bps	Reduction in cost of funds aided NIMs
Other Income	138	42	230.6	102	34.4	Growth driven by higher fee income and fair value gains
Net Total Income	476	366	30.1	424	12.3	
Staff cost	163	155	5.2	162	0.8	
Other Operating Expenses	64	62	2.4	64	-0.1	Operating efficiency led by technology investment and improved productivity
PPP	249	149	67.4	198	25.7	
Provision	99	112	-11.7	92	7.6	Credit cost remained stable at 2.6% with continued improvement in collection efficiency
PBT	151	37	305.7	107	41.2	
Tax Outgo	40	6.59	NM	25	57.5	
PAT	111	31	263.0	81	36.2	Growth led by margin expansion, improving operating efficiency and lower credit cost

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Income	2369	2139	2516	3072
Interest expenses	930	874	1020	1191
Net Interest Income	1439	1265	1496	1880
% growth	30%	-12%	18.3%	25.7%
Non-Interest Income	195	242	399	317
Net Income	1634	1506	1895	2198
Employee cost	534	604	659	722
Other operating Exp.	347	255	270	317
Operating Profit	753	648	966	1159
Provisions	1042	439	475	513
PBT	-289	209	491	647
Taxes	-66	39	91	149
Net Profit	-223	170	400	498
% growth	N.A	N.A	134.9%	24.4%
EPS (₹)	-13.3	10.1	23.8	29.7

Source: Company, ICICI Research

Exhibit 3: Key Ratios (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Valuation				
No. of Equity Shares	16.8	16.8	16.8	16.8
EPS (₹)	(13.3)	10.1	23.8	29.7
BV (₹)	157.1	170.1	194.0	223.7
ABV (₹)	147.2	161.2	184.4	213.3
P/E	(11.6)	15.2	6.5	5.2
P/BV	1.0	0.9	0.8	0.7
P/ABV	1.0	1.0	0.8	0.7
Yields & Margins (%)				
Yield on Advances	26.3%	22.4%	22.1%	22.3%
Avg. cost of funds	11.4%	10.0%	9.7%	9.4%
Spreads	14.9%	12.3%	12.3%	12.8%
Net interest margin	16.0%	13.2%	13.1%	13.6%
Quality and Efficiency				
Cost / Total net income	53.9%	57.0%	49.0%	47.2%
GNPA%	4.8%	3.9%	3.2%	2.8%
NNPA%	1.3%	1.1%	1.0%	0.9%
RoA (%)	-2.0%	1.4%	2.9%	3.0%
RoE (%)	-8.2%	6.2%	13.1%	14.2%

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Sources of Funds				
Capital	168	168	168	168
Reserves and Surplus	2,465	2,687	3,087	3,584
Networth	2,632	2,854	3,254	3,752
Borrowings	7,926	9,547	11,457	13,863
Other Liabilities & Provisions	298	283	187	378
Total	**10,857**	**12,685**	**14,898**	**17,993**
Applications of Funds				
Fixed Assets	77	69	76	84
Investments	354	406	426	447
Advances	8,740	10,396	12,416	15,188
Other Assets	1,686	1,813	1,980	2,274
Total	**10,857**	**12,685**	**14,898**	**17,993**

Source: Company, ICICI Research

Exhibit 5: Growth ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Total assets	-6.3%	16.8%	17.4%	20.8%
Advances	-5.9%	19.0%	19.4%	22.3%
Borrowings	-5.9%	20.4%	20.0%	21.0%
Total Income	17.7%	-7.8%	25.8%	16.0%
Net interest income	30.0%	-12.1%	18.3%	25.7%
Operating expenses	38.8%	-2.6%	8.3%	11.8%
Operating profit	-0.1%	-14.0%	49.0%	20.0%
Net profit	N.A	N.A	134.9%	24.4%
Book value	-6.3%	8.3%	14.0%	15.3%
EPS	N.A	N.A	134.9%	24.4%

Source: Company, ICICI Research

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Sell: <-15%

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