Muthoot Microfin Ltd (MUTMIC)

ICICI Direct

CMP: ₹ 210 | Target: ₹ 270 (29%) | Target Period: 12 months | BUY

July 10, 2026

Vision FY30 lays roadmap for multi-year growth...

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.

- AUM mix: JLG loans - 82.5%; Individual loan - 17.1%; MSME LAP- 0.3%

Investment Rationale

- **Customer-penetration strategy to drive the next growth cycle:** Under Vision 2030, management aims to increase AUM from current ₹14,000 crore to ₹30,000 crore by FY30. Of this, ~₹11,700 crore of incremental AUM is expected from gaining wallet-share from existing customers with superior repayment track record for 1-2 cycle. New customer accretion is expected to garner remaining ~₹4,300 crore. Thus, next phase of growth is expected to be driven by deeper penetration within existing customer base rather than JLG-led customer acquisition. We believe customer-graduation model across MSEL, MSME LAP, gold and other products to support AUM CAGR of ~18–20% over FY26-28E.
- **Portfolio repricing, funding optimization and productivity gains to drive profitability:** Post yield pressure witnessed in FY25-26, we expect yields to improve by ~60 bps to ~23% by FY28E, led by repricing of back book, scaling up of higher-yielding disbursement and decline in NPA related drag. Cost of funds are expected to moderate to ~9.4% (vs. ~10.0%), aided by rating upgrade and access to low-cost securitisation markets, driving NIMs to ~14.3%. Deeper customer penetration, scaling of higher ticket size products and reduction of cash handling should improve productivity, driving operational efficiency to 5.9% (of AUM), thereby aiding operating profit CAGR of ~30% over FY26-28E.
- **Building a more resilient portfolio across portfolio**: A rising share of individually underwritten portfolio to seasoned customers supported by strengthened risk-management architecture including proprietary scorecards, AI-led underwriting, dedicated collections team and digital customer engagement are expected to aid asset quality and lower credit cost volatility. This along with deeper wallet-share within existing borrower is expected to drive further moderation in GNPA to 2.8% and moderation in credit cost by FY28E. This should support healthier return ratios, with RoA/RoE improving to 3.1%/14.9% by FY28E.

Rating and Target Price

- Muthoot Microfin is well placed to benefit from improving microfinance cycle, supported by its strong parentage, experienced management team, strategic customer penetration and calibrated expansion beyond JLG loans. Margin expansion driven by portfolio repricing, lower funding costs and normalization in credit costs, along with operating leverage, is expected to support a meaningful recovery in earnings over medium term. We value the stock at ~1.2x FY28E BV and assign BUY rating with a target price of ₹270.

Key Financial Summary

₹ crore	FY25	FY26	3 Year CAGR (FY23-FY26)	FY27E	FY28E	2 Year CAGR (FY26-28E)
NII	2,369	2,139	18%	2,596	3,155	21%
PPP	753	648	14%	878	1,167	34%
PAT	(223)	170	1%	335	515	74%
ABV (₹)	147.2	161.2		181	211	14%
P/E	-15.8	20.7		10.5	6.8	
P/ABV	1.4	1.3		1.2	1.0	
RoE (%)	-8.2%	6.2%		11.1%	14.9%	
RoA (%)	-2.0%	1.4%		2.4%	3.1%	

Source: Company, ICICI Direct Research

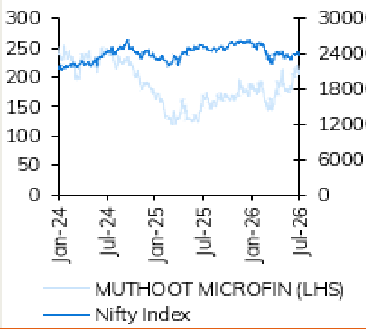
Particulars

Particulars	Amount
Market Capitalisation	₹ 3590 crore
52 week H/L	231 / 141
Net Worth	₹ 2854 crore
Face value	10
DII holding (%)	4
FII holding (%)	23

Shareholding pattern

(in %)	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	55.5	55.5	55.5	55.5
FII	23.3	23.2	22.8	23.1
DII	2.8	3.0	3.5	3.4
Others	18.4	18.3	18.2	18.1

Price Chart



Key risks

i) Higher-ticket unsecured lending increases borrower concentration risk

ii) Intensifying competition for high-quality customers

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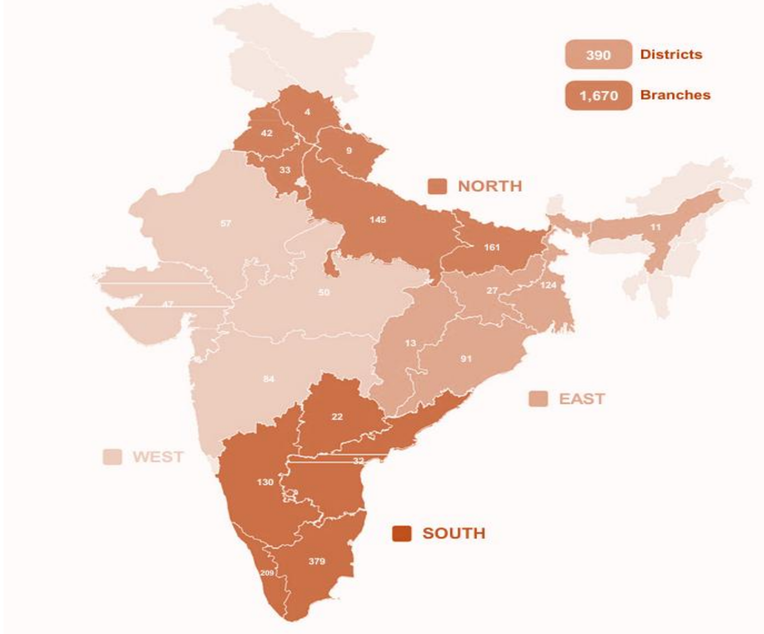
Conviction Pick

ICICI Securities – Retail Equity Research

Company Background

Muthoot Microfin Ltd., part of the Muthoot Pappachan Group, is the third largest microfinance institution in India by AUM, focused on providing financial services to low-income households, primarily through unsecured lending to women borrowers under the Joint Liability Group (JLG) model. The company commenced microfinance operations in 2011 and has since expanded into a pan-India franchise with a presence across 20 states and union territories, covering 390 districts through a network of 1,670 branches. As of FY26, the company has served 32.7 lakh active customers and maintained a geographically diversified and granular loan book. The company's operations remain predominantly rural, while the South region contributed 48% of the overall portfolio.

Exhibit 1: Diversified presence with rural contributing 97.8% of AUM



Source: Company, ICICI Direct Research

The company has demonstrated steady growth, with AUM increasing from ₹6,254 crore in FY22 to ₹14,006 crore in FY26, representing a CAGR of ~22.3% over the period. Management has outlined a long-term objective of scaling AUM to ~₹30,000 crore by FY30. To support this growth while reducing reliance on traditional group lending, the company has been steadily diversifying its product portfolio beyond its core JLG business. During FY26, Muthoot Microfin expanded its offerings through Muthoot Small Enterprise Loans (MSEL) and MSME loans. The company plans to leverage the broader Muthoot Pappachan Group ecosystem to deepen customer engagement through cross-selling initiatives, and has commenced sourcing gold loans, allowing it to address a wider range of customer credit needs and benefit from group synergies without significant incremental investments in distribution infrastructure. As of FY26, the portfolio comprised ~82.5% JLG loans and ~17.5% non-JLG products, with management targeting a gradual increase in the share of non-JLG products to ~46.6% of AUM by FY30.

Plan to grow AUM from ₹14,006 crore in FY26 to ₹30,000 crore in FY30

Exhibit 2: Product Classification

Product	Loan Type	Purpose	Ticket Size	ATS	Tenure	AUM
Joint Liability Group (JLG)	Unsecured Microfinance	Income generation and livelihood activities for women borrowers under the group lending model	₹10,000-₹85,000	₹64,000	12–24 months	₹11,572 crore
Muthoot Small Enterprise Loan	Unsecured Individual Loan	Working capital and business expansion for existing customers engaged in trading, services, manufacturing, agriculture and allied activities	₹60,000-₹3 lakh	₹1.8 lakh	2–3 years	₹2,387 crore
SME (LAP)	Secured Business Loan	Business expansion and funding requirements against property as collateral	₹1 lakh-₹10 lakh	₹4.3 lakh	2–10 years	₹47 crore
Gold loan	Secured Retail	Short-term liquidity and working capital needs against pledged gold jewellery	₹1,000 and above	₹53,000	6–12 months	

Source: Company, ICICI Direct Research

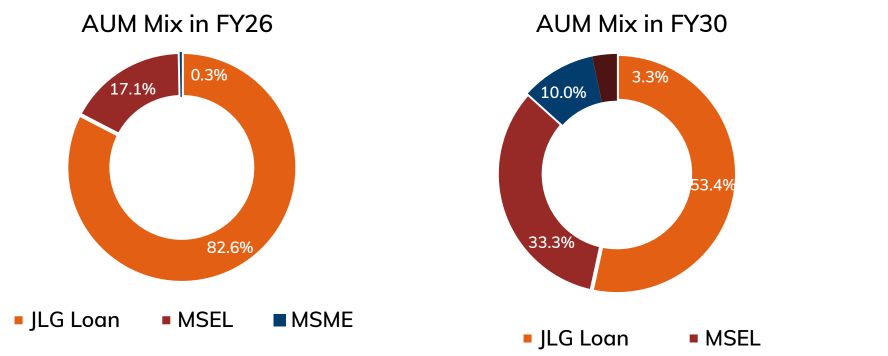
Investment Rationale

Customer penetration strategy to drive the next growth cycle

The Indian microfinance industry underwent a sharp correction during FY25 following a prolonged phase of rapid credit expansion, rising borrower leverage and deterioration in asset quality, prompting lenders to significantly curtail disbursements and tighten underwriting standards. Industry portfolio outstanding declined from a peak of ~₹4.43 lakh crore in Mar'24 to ~₹3.21 lakh crore in Dec'25 before recovering to ~₹3.31 lakh crore in Mar'26, while portfolio quality deteriorated sharply with industry PAR 31-180 (portfolios that are 31 to 180 days past their due date) peaking at 6.2% in Mar'25 improving to 3.4% in Dec'25 and 2% in Mar'26, as lenders focused on collections rather than growth. Against this backdrop, Muthoot Microfin reported a loss of ₹223 crore in FY25 (after management overlay of ~₹ 230 crore), with credit cost increasing to 9.4% and GNPA rising to 4.85%.

The company used this period to strengthen underwriting, improve customer selection and tighten collection processes. As industry conditions normalised during FY26, management accelerated its customer penetration strategy by expanding beyond the traditional JLG product into individual loans, Micro-LAP, gold loans and other secured lending products. Non-JLG products already contribute ~17% of AUM, providing additional growth avenues while reducing reliance on the core JLG portfolio.

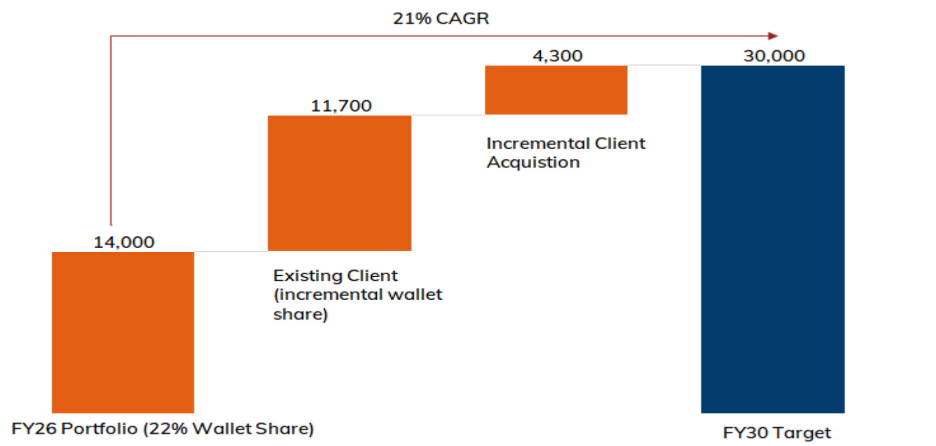
Exhibit 3: Targeted Portfolio mix by FY30



Source: Company, ICICI Direct Research

Unlike the pre-FY25 growth cycle, which was largely driven by customer acquisition within the JLG segment, the next phase of growth is expected to be led by deeper customer penetration within its existing franchise. Management's Vision 2030 targets AUM of ₹30,000 crore by FY30, supported by two key growth levers:(i) increasing wallet share within existing customer base by ~2% annually, which is estimated to contribute ~₹11,700 crore of incremental AUM by FY30, and (ii) adding ~1.3 lakh new customers annually, expected to generate a further ~₹4,300 crore of portfolio growth over the same period. Consequently, the portfolio mix is targeted to evolve from a predominantly JLG-led franchise to a more diversified rural retail portfolio, with non-JLG products expected to account for ~47% of AUM by FY30, comprising MSEL (individual loans) at 33%, Micro-LAP at 10%, and retail secured products including gold loans, two-wheelers and used commercial vehicles at approximately 3%.

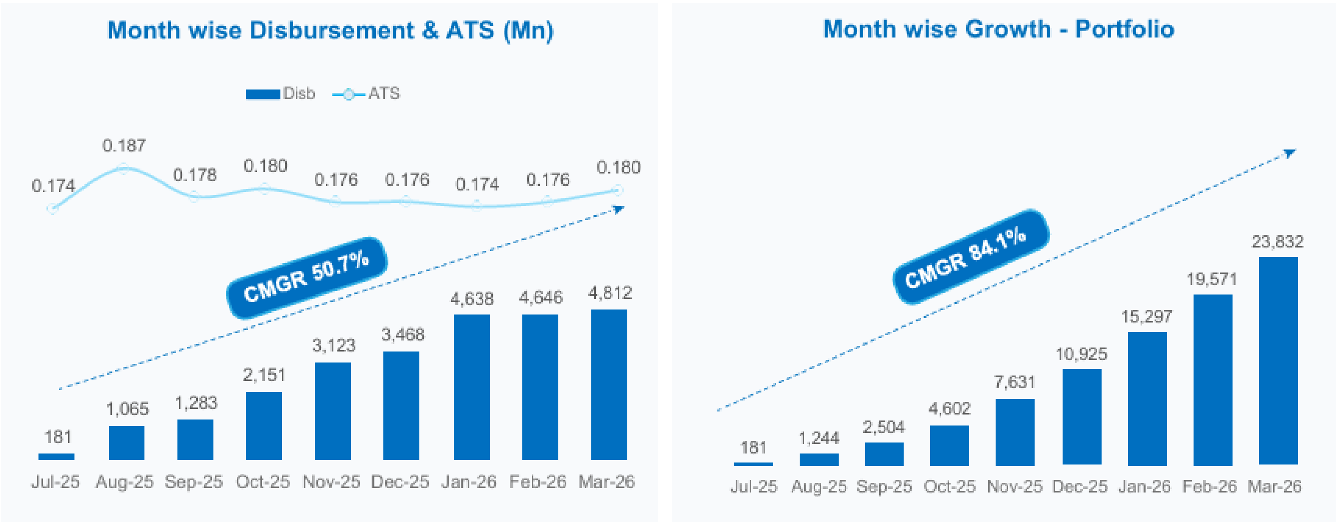
Exhibit 4: Portfolio growth bridge



Source: Company, ICICI Direct Research

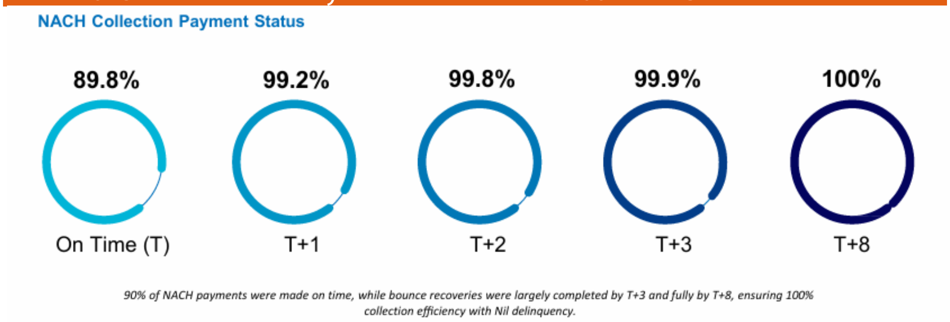
MSEL has emerged as the flagship product within the company's diversification strategy, demonstrating strong early execution while maintaining superior asset quality. The unsecured individual business loan product offers ticket sizes of ₹60,000-3 lakh at 23-25% yields with an average ticket size of ~₹1.8 lakh through monthly EMI repayments collected entirely via e-NACH. During FY26, MSEL scaled rapidly with ₹2,537 crore of disbursements, taking the portfolio to ₹2,383 crore (17% of AUM), while maintaining a stable average ticket size of ₹1.74-1.87 lakh. Monthly disbursements increased from ₹18 crore in Jul'25 to ₹481 crore in Mar'26, reflecting strong customer acceptance. Portfolio quality has remained robust with 0% GNPA, 100% collection efficiency, 90% on-time mandate success, and almost all bounced mandates recovered by T+3 (3 days after due date), supported by lending only to existing credit-tested customers with a minimum bureau score of 700, of which 59% maintain bureau scores above 750, and nearly 68% of loans extended to second- and third-cycle customers, supporting disciplined portfolio growth and validating management's diversification strategy.

Exhibit 5: Robust traction witnessed in MSEL loans



Source: Company, ICICI Direct Research

Exhibit 6: Collection efficiency remains robust at ~100% in MSEL



Source: Company, ICICI Direct Research

JLG will continue to serve as the entry point for first-time borrowers, following which customers demonstrating consistent repayment behaviour over a minimum of two cycles are assessed for migration to higher-ticket products such as MSEL, Micro-LAP, gold and two-wheeler loans based on household needs and repayment capacity. This customer-graduation model is further strengthened by the broader Muthoot Group ecosystem, enabling the company to leverage an established rural franchise to cross-sell secured lending products, deepen customer relationships and increase wallet share without relying solely on new customer acquisition. This is supported by a differentiated underwriting framework comprising ~1,800 field-level credit professionals, proprietary scorecards, Accounts Aggregator integration and AI-enabled income assessment tools, enabling the company to originate higher-ticket individual and secured loans with better risk visibility. The graduation strategy is focused on substituting customers' existing external borrowings with Muthoot Microfin products rather than increasing overall leverage, thereby mitigating the risk.

We believe Muthoot Microfin's customer-graduation strategy, strengthening underwriting capabilities and access to the broader Muthoot Group ecosystem position it to deliver sustainable growth, with AUM expected to grow at CAGR of ~18-

20% in FY26-28E, while improving portfolio diversification, asset quality and earnings quality.

Portfolio repricing and funding optimization to support margin expansion

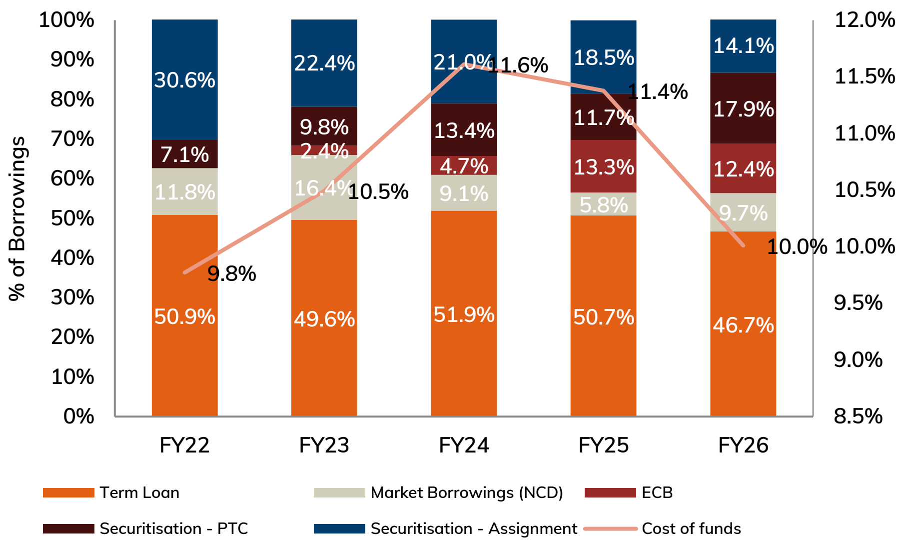
Portfolio yields remained under pressure during FY26 as the company continued to carry a large proportion of loans originated at lower lending rates introduced during the industry downturn to support collections. As a result, portfolio yield declined from ~22.5% in FY25 to 18.8% in FY26. Management increased lending rates during Q2FY26; however, nearly 30% of loan book has been repriced with a substantial proportion yet to get repriced. Consequently, the benefit of higher lending rates has only partially flowed through the portfolio. As higher-yielding disbursements progressively replace the older loan book, management expects NIM to improve by ~50 bps in FY27.

While the increasing contribution from individual, Micro-LAP and other secured lending products is expected to exert some pressure on portfolio yields, we expect the impact to be largely offset by the full flow-through of lending rate increases implemented during Q2FY26 and lower NPA-related drag. As asset quality improves and the stressed portfolio is progressively replaced by performing assets, lower interest reversals are expected to support realised portfolio yields. Consequently, we expect overall portfolio yields to remain resilient despite the evolving product mix.

JLG loans currently generate yields of ~24.5%, individual loan ~23.5% while MSME earns yield in the range of ~18-22%

The company has also materially strengthened its liability franchise over the past year, reducing its cost of funds from 11.02% in FY25 to 10.27% in FY26, while incremental borrowing costs moderated further to ~9.9%. We expect borrowing costs to decline further from FY27 onwards, supported by (1) the recent rating upgrade to AA-/Stable, reflecting improving asset quality, earnings recovery, which should enhance access to lower-cost funding, (2) growing access to low-cost securitisation markets (with recent PTC transactions executed at ~8.1–8.2%), and (3) management's target to increase the share of NCDs and ECBs from 22% to ~40% of borrowings by FY30, further diversifying the funding mix and reducing reliance on traditional bank borrowings.

Exhibit 7: Funding Mix Profile



Source: Company, ICICI Direct Research

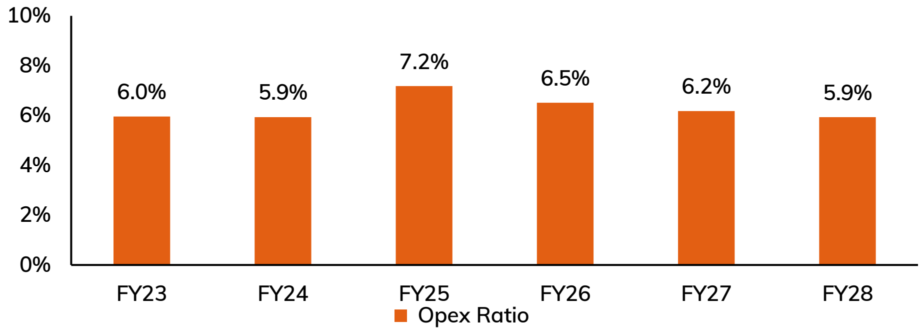
Factoring in the benefit of portfolio repricing, favourable product mix, lower NPA-related yield drag and improving funding economics, we expect yield on advances to improve from 22.4% in FY26 to 23% by FY28E, while average cost of funds moderates from ~10.0% to ~9.4% over the same period, supporting NIM improvement from 13.2% in FY26 to ~14.3% by FY28E.

Leveraging existing infrastructure to improve operating efficiency

Microfinance remains a distribution-intensive business, with branch infrastructure and employee cost accounting for a significant portion of the operating cost base. However, Muthoot Microfin's diversification strategy is being executed through its existing operating platform, allowing the company to scale individual loans, micro-

LAP and other products without proportionate investments in branches and manpower. As a result, operating expenses as a percentage of AUM are expected to decline from 6.5% in FY26 to 5.9% by FY28E.

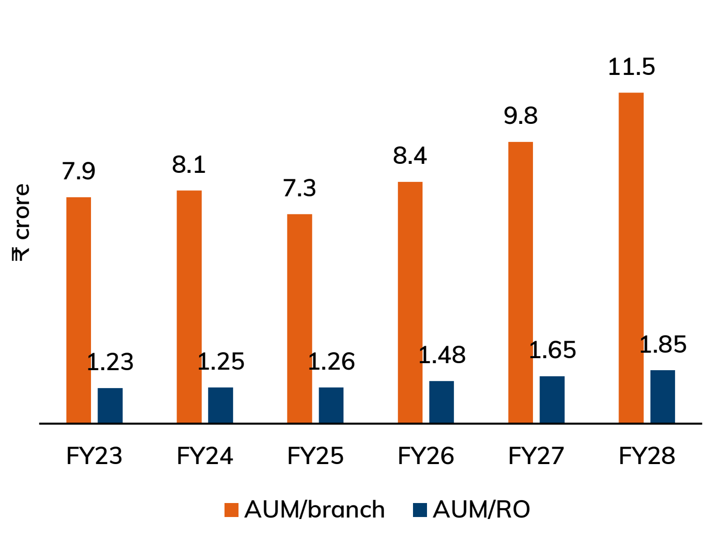
Exhibit 8: Leveraging existing infrastructure to support opex moderation



Source: Company, ICICI Direct Research

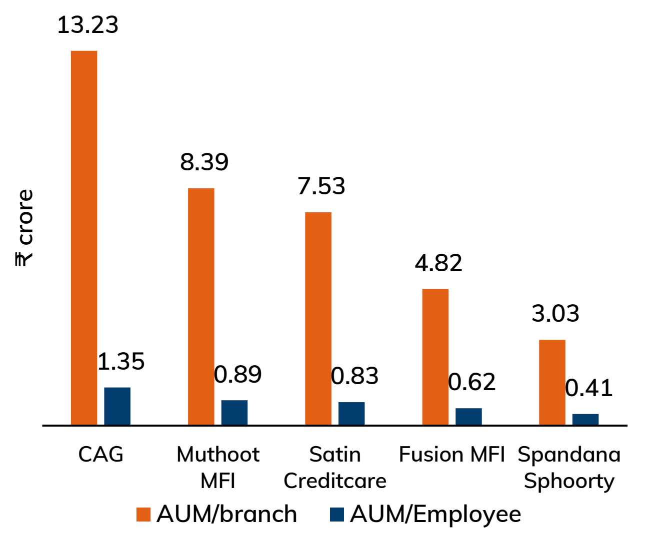
As product penetration deepens within the existing customer base, productivity gains are expected to remain a key driver of operating leverage. The company's increasing focus on higher-ticket, non-JLG lending products, supported by digital collections and cross-sell opportunities, has already translated into meaningful productivity improvements. Monthly sourcing productivity per employee increased from ~₹7.6 lakh in FY25 to ~₹12 lakh in FY26, while the average ticket size rose from ~₹60,000 to ~₹1 lakh. Despite rationalising its branch network and relationship officer base, Muthoot Microfin increased its AUM from ~₹12,350 crore to ~₹14,006 crore, reflecting higher employee productivity and improved customer wallet share. Consequently, AUM per relationship officer increased from ₹1.26 crore to ₹1.48 crore, while AUM per branch improved from ₹7.3 crore to ₹8.4 crore. As the product mix stabilises and higher-ticket products scale further, management targets productivity of ₹18–19 lakh per employee per month and an average ticket size of ~₹1.5 lakh by FY30, providing a clear runway for continued operating leverage.

Exhibit 9: Customer penetration to improve productivity



Source: Company, ICICI Direct Research

Exhibit 10: Productivity remains competitive across peers



Source: Company, ICICI Direct Research

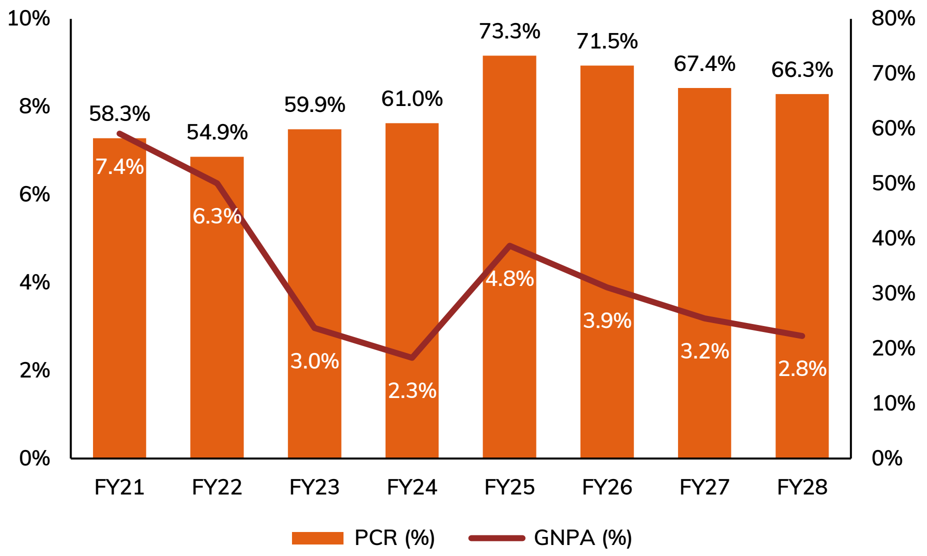
Operating efficiency is expected to benefit from (1) higher wallet share and product diversification within the existing customer base, (2) branch rationalisation and shared underwriting infrastructure across product categories, and (3) increasing digitalisation of collections and servicing processes. Digital collections increased from 23% in FY25 to 34% in FY26, while individual loans and LAP are serviced through e-NACH, reducing collection intensity and improving scalability. Digital collections enhance productivity by eliminating cash handling and bank deposit activities, allowing Relationship Officers to spend more time with customers while reducing centre meeting duration. In addition, AI-enabled collection tools and paperless onboarding are expected to further improve employee productivity over time.

Consequently, operating leverage is expected to be a key driver, contributing to operating profit CAGR of ~34% over FY26-28E.

Building a more resilient portfolio across credit cycles

Muthoot Microfin's asset quality framework has evolved beyond the traditional JLG lending model, with diversification and underwriting discipline increasingly acting as structural credit cost levers. The company has demonstrated resilience across multiple operating cycles, growing AUM from ₹1,758 crore in FY16 to ₹14,006 crore in FY26 despite navigating several natural calamities, the COVID-19 pandemic and periodic industry-wide disruptions. While asset quality remained volatile given the unsecured nature of the JLG book, the company steadily strengthened its provisioning buffer, increasing PCR from 58% in FY21 to 71.5% in FY26, thereby enhancing balance sheet resilience through credit cycles. The company's medium-term objective is not merely to recover from the recent sector stress cycle, but to build a portfolio less vulnerable to future disruptions through (1) a rising share of individually underwritten loans, (2) deeper wallet-share within existing borrower relationships and (3) a strengthened risk-management architecture. Diversification is expected to not only act as a growth strategy but also as an asset-quality lever, helping reduce dependence on a single product category while creating stronger customer relationships across multiple lending products. This is particularly relevant as credit cost remains one of the largest earnings swing factors for microfinance lenders, and sustainable reduction in credit cost can materially improve profitability and return ratios.

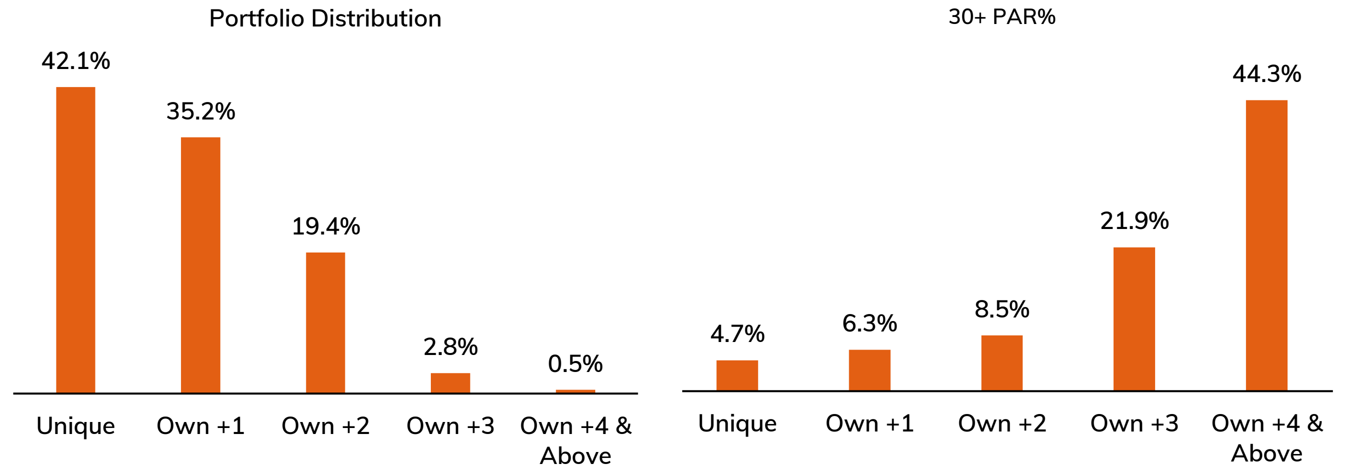
Exhibit 11: Consistent improvement in PCR despite industry headwinds



Source: Company, ICICI Direct Research

The company follows a differentiated underwriting model supported by a dedicated credit vertical of ~1,800 employees operating independently from the sourcing function, with a credit officer present at every branch. The underwriting process combines field-level customer assessment, centralised approval and AI-assisted credit appraisal tools that evaluate household cash flows, business inventory and repayment capacity. For individual loans, underwriting standards are materially tighter, with lending restricted to existing credit-tested customers, a minimum bureau score requirement of 700 (currently ~97% of borrowers have bureau scores above 730). The company has also implemented an internal risk scorecard, accounts-aggregator based banking assessment and technology-led fraud controls including geo-tagging, e-KYC and face authentication. In addition, the company is using AI in underwriting – converting relationship officer interactions to credit appraisal memorandum, access borrowers account balance and transactions, speech and sentiment analysis, early warning signals and dynamic risk rating. Post-MFIN guardrails JLG rejection rates have increased to ~60%, with a focus on maintaining resilience across portfolio quality. Resultantly, collection efficiency improved from 93% in Q1FY26 to 96.4% in Q4FY26, while X-bucket collection efficiency normalised to ~99.8%, indicating fresh slippages have largely returned to pre-stress levels. Portfolio resilience is further supported by an improving borrower mix, with 42.1% of the portfolio comprising unique Muthoot borrowers as of Q4FY26. This customer cohort exhibits the strongest repayment behaviour, with 30+ PAR of just 4.7% and 100% X-bucket collection efficiency.

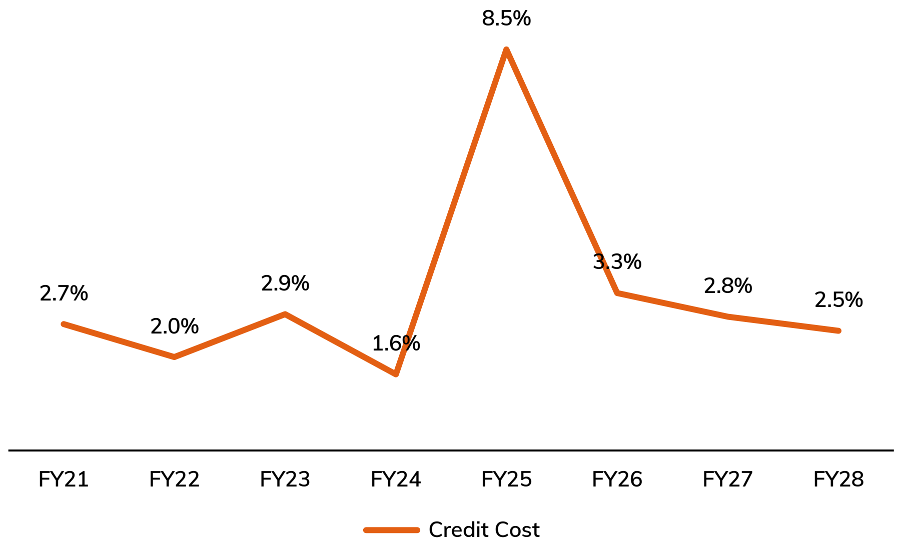
Exhibit 12: Performance of Unique Borrowers to Muthoot



Source: Company, ICICI Direct Research

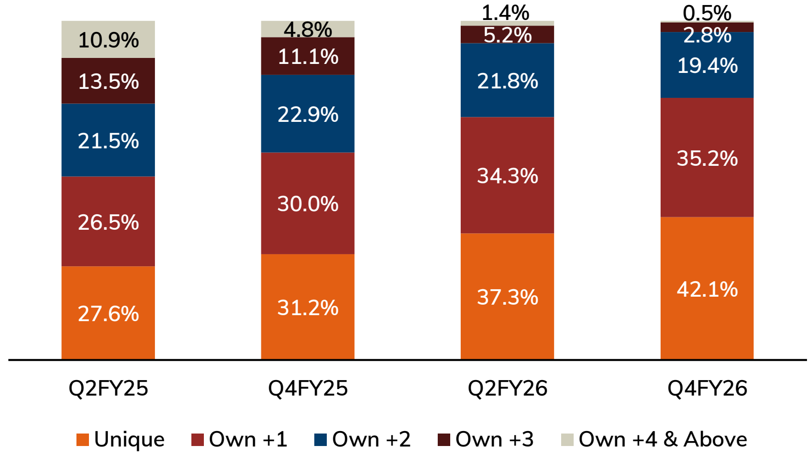
Following the sharp deterioration witnessed during the recent sector stress, credit cost moderated from 9.4% in FY25 to 3.3% in FY26, while GNPA improved from 4.8% to 3.9%, reflecting the effectiveness of the company's strengthened underwriting, collection and provisioning framework. We expect further improvement in asset quality as collection efficiency normalises, underwriting discipline strengthens and the portfolio gradually shifts towards individual loans. Accordingly, we estimate GNPA to decline to 2.8% by FY28E, resulting in RoA and RoE of 3.1% and 14.9%, respectively by FY28E.

Exhibit 13: Credit cost seems to be peaked with improvement anticipated ahead



Source: Company, ICICI Direct Research

Exhibit 14: Gradual reduction in own +2 or more lenders segment

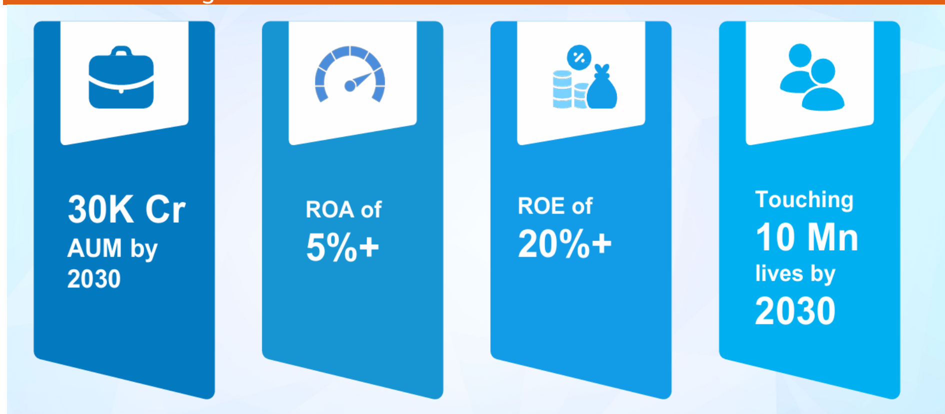


Source: Company, ICICI Direct Research

Vision 2030: Building a structurally higher-growth, higher-return and more resilient rural financial franchise

Vision 2030 outlines management's roadmap to transform Muthoot Microfin from a predominantly JLG-focused microfinance institution into a diversified rural financial-services franchise, targeting ₹30,000 crore AUM (vs. ₹14,005 crore in FY26) by FY30. Rather than pursuing aggressive balance-sheet expansion through customer acquisition, management has adopted a calibrated ~20% CAGR strategy centred on increasing customer engagement and wallet share. Management estimates that higher wallet share across its existing customer base can contribute ~₹11,000 crore of incremental AUM, while the addition of ~1.3 lakh new customers annually could generate another ~₹4,300 crore, highlighting that the majority of future growth is expected to be driven by deeper customer relationships rather than customer accretion.

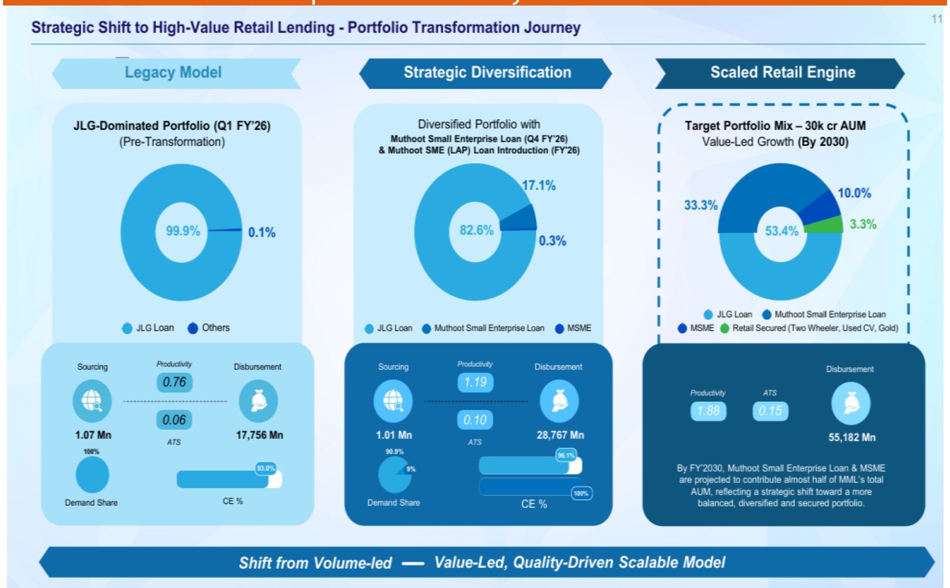
Exhibit 15: Strategic Vision 2030



Source: Company, ICICI Direct Research

The strategy is anchored around a customer-graduation model, where borrowers with better repayment history and income profile move from JLG loans into individual MSME, LAP, gold, vehicle and other secured products. Accordingly, the portfolio mix is expected to evolve from ~83% JLG today to ~53.4% by FY30, with individual MSEL loans contributing ~33.3%, MSME-LAP ~10% and other secured retail products ~3%. Importantly, management views diversification primarily as a strategy aiming consistency in asset quality, believing that broader customer engagement will reduce dependence on the cyclical JLG business, improve repayment behaviour and normalise long-term credit costs towards ~2.5%, resulting in a structurally more resilient portfolio across credit cycles

Exhibit 16: Gradual shift in portfolio underway

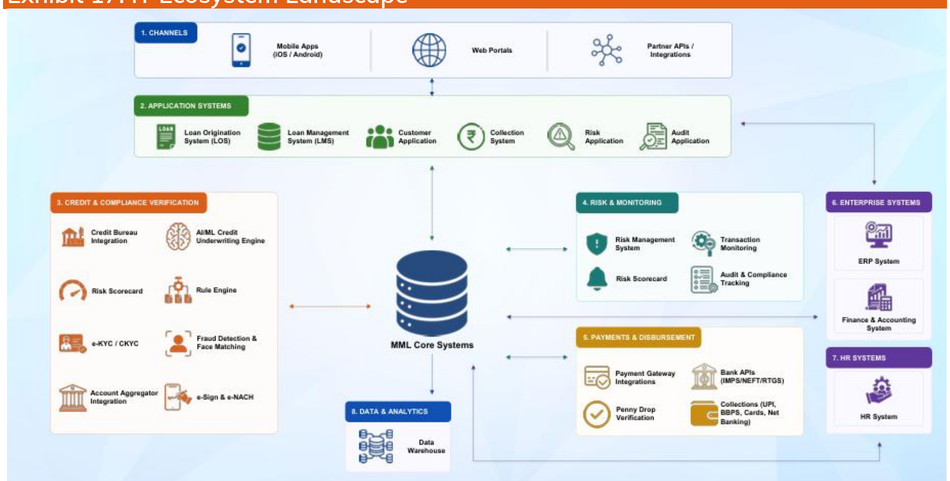


Source: Company, ICICI Direct Research

Execution is expected to be supported by a differentiated underwriting framework combining a dedicated team of ~1800 employees with technology-led decision making. Individual loans undergo cash-flow assessment, account aggregator integration, bureau verification, proprietary scorecards, AI-assisted credit appraisal and centralised credit oversight, while maintaining a human-in-the-loop approval process. Management has also introduced stricter product gating, including a minimum bureau score of 700 for individual loans, with collateral-backed gold loans serving as the primary exception for previously defaulted customers. These initiatives are intended to improve risk selection while enabling portfolio diversification without compromising credit quality.

Technology and operating leverage form another key pillar of Vision 2030. The company has developed an in-house technology platform comprising proprietary lending applications, a unified data warehouse, AI/ML-driven analytics and a customer application with over 20 lakh users to improve sourcing, underwriting, collections and cross-selling. Management targets monthly sourcing productivity of ₹18–19 lakh per employee, an average ticket size of ~₹1.5 lakh and 75% digital collections by FY30. Importantly, these productivity gains are expected to be delivered largely through the existing network of 1,670 branches, over 33 lakh active customers and more than 15,000 field employees, allowing the company to scale through higher employee productivity and customer engagement rather than proportionate investments in physical distribution, thereby improving operating leverage and capital efficiency.

Exhibit 17: IT Ecosystem Landscape



Source: Company, ICICI Direct Research

Together with branch rationalisation, cross-selling in mature southern markets, expansion into newer geographies through JLG lending and leveraging the broader Muthoot ecosystem across gold loans, housing finance and vehicle finance, management believes the company can improve both growth quality and operational efficiency while strengthening customer retention. Using this strategy, management aims to increase portfolio yield to 22–23% from 18.8% in FY26, expand NIM to 13.5–14% from ~12%, reduce operating expenses below 5% from 6.4% in Q4FY26 and normalise credit costs to ~2.5%, supporting sustainable RoA above 5% and RoE above 20%.

Stable management team with a proven execution track record

Muthoot Microfin's business resilience is supported by the strong parentage of the Muthoot Pappachan Group and a stable, experienced management team that has built the company's microfinance franchise from its formative years into one of India's leading NBFC-MFIs. The senior leadership team brings over ~20 years of average experience across banking, financial services, microfinance, risk management and operations, with several key executives having been associated with the Muthoot Pappachan Group and the company for a decade, ensuring continuity in strategy and execution. The management has successfully navigated multiple industry disruptions, including natural disasters, demonetisation, Covid-19 pandemic and the recent microfinance sector stress during FY25–26. During these periods, it prioritised portfolio quality over aggressive growth by strengthening underwriting standards, intensifying collection efforts, enhancing portfolio monitoring and maintaining prudent liquidity, resulting in collection efficiency improving to 96.4%, GNPA declining from 4.85% in FY25 to 3.89% in FY26 and credit costs moderating to ~3.3%, while scaling the franchise to AUM of ~₹14,000 crore.

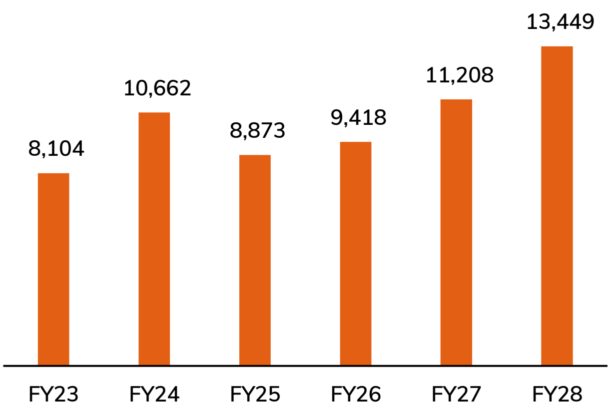
Exhibit 18: Profile of key management and Senior Management Personnel

Name	Designation	Joined	Description
Sadaf Sayeed	Chief Executive Officer	2015	He holds a Bachelor's degree in Commerce (Hons.) from the University of Delhi and an MBA from Guru Gobind Singh Indraprastha University. He has over 25 years of experience in banking and financial services, including more than 15 years with the Muthoot Pappachan Group. Prior to becoming CEO, he served as COO of the microfinance division at Muthoot Fincorp and has held leadership roles at HDFC Bank, Indiabulls Credit Services, GE Countrywide Consumer Financial Services, Satin Creditcare Network and Spandana Sphoorty Financial.
Praveen T	Chief Financial Officer	2016	A Chartered Accountant with over 19 years of experience in finance, accounting and financial management. He has been associated with the Muthoot Pappachan Group for more than 13 years, previously serving at Muthoot Fincorp before joining Muthoot Microfin.
Udeesh Ullas	Chief Operating Officer	2022	He holds a Bachelor of Commerce degree from Mahatma Gandhi University and a Master of Business Administration degree from Ariston School of Business Studies. . He brings over 21 years of experience across retail banking, operations, debt management and microfinance, including more than 18 years with the Muthoot Pappachan Group. Prior to joining Muthoot Microfin, he worked with Muthoot Fincorp, ICICI Bank, Fullerton India Credit Company and Cochin Bridge Infrastructure Company.
Jinsu Joseph	Chief Risk Officer	2022	He holds a Bachelor of Commerce degree from Mahatma Gandhi University and is an associate member of the Institute of Chartered Accountants of India. He has over 15 years of experience in finance. He has spent more than nine years with the Muthoot Pappachan Group and was associated with Maben Nidhi Limited as Head of Department – Risk Management and Audit, and with Tamil Nadu Mercantile Bank Limited as Senior Manager.
Dileep Kumar Pathak	Chief Internal Auditor	2016	He holds a post-graduation degree in Business Administration from the University of Lucknow. He has over 16 years of experience in audit and risk management, with significant depth in the microfinance industry. He has been with the Muthoot Pappachan Group since 2011, where he established and strengthened Muthoot Microfin's internal audit function. Earlier, he worked with Satin Creditcare Network and ICICI Bank.
Deepu S	Chief Information Security Officer	2023	He holds a Bachelor of Engineering degree from Anna University in Electronics and Communication Engineering. He holds the CISA, CISM and ISO 27001:2022 Lead Auditor certifications. He has over 18 years of experience in information systems governance and audit. Prior, he was associated with Deloitte Touche Tohmatsu India LLP and South Indian Bank Limited.
Linson Chelamattathil Paul	Chief Technology Officer	2022	He holds a Master of Commerce degree from Mahatma Gandhi University, a Master of Science degree in Computer Science from Annamalai University, and a Master of Business Administration degree from Mahatma Gandhi University.He has over 25 years of experience in human resources, with more than 13 years spent within the Muthoot Pappachan Group. His previous experience includes leadership roles at V-Guard Industries, Malayala Manorama TV and Joyalukkas India.
Subhransu Pattnayak	Chief Human Resource Officer	2021	He holds a Bachelor of Science degree from Utkal University and a Post Graduate Diploma in Business Administration from the Technological Institute for Management and Advanced Computer Education. He became EVP-HR in 2021 and CHRO in 2024.He has over 25 years of experience in human resources, with more than 13 years spent within the Muthoot Pappachan Group. Prior to joining the Group, he worked with Nicholas Piramal India and ICICI Bank.
Neethu Ajay	Chief Compliance Officer & Company Secretary	2014	She holds a Bachelor of Commerce degree from Mahatma Gandhi University and is an associate member of the Institute of Company Secretaries of India. She has over 12 years of experience in compliance and secretarial functions.

Source: Company, ICICI Direct Research

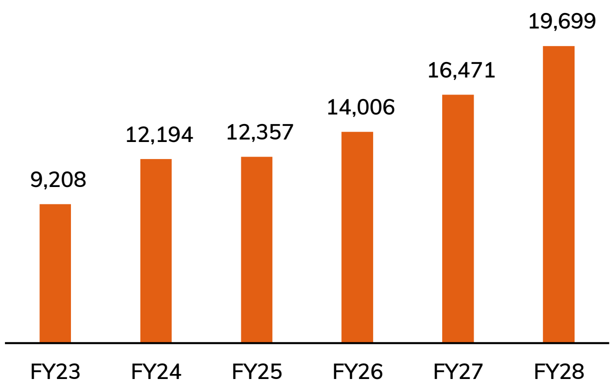
Financial Outlook

Exhibit 19: Strong disbursement pipeline...



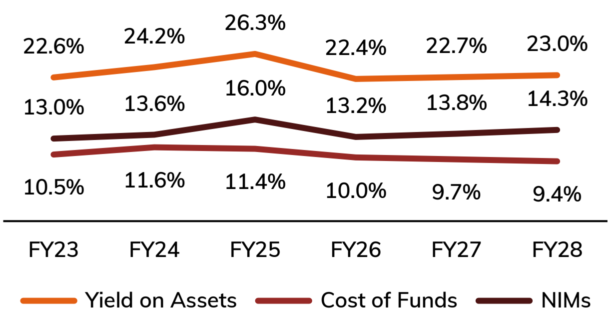
Source: Company, ICICI Direct Research

Exhibit 20: ..to enable recovery in AUM growth



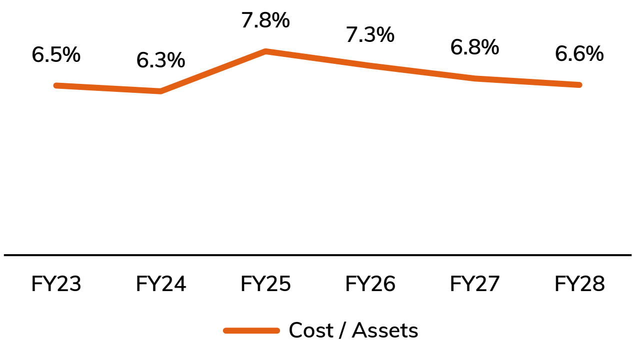
Source: Company, ICICI Direct Research

Exhibit 21: Gradual expansion anticipated in margin .....



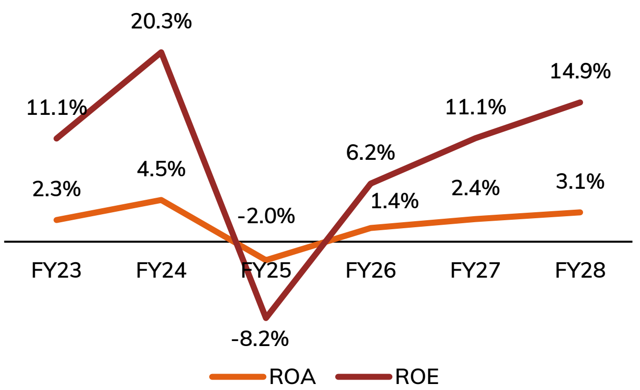
Source: Company, ICICI Direct Research

Exhibit 22: ...coupled with improving efficiency



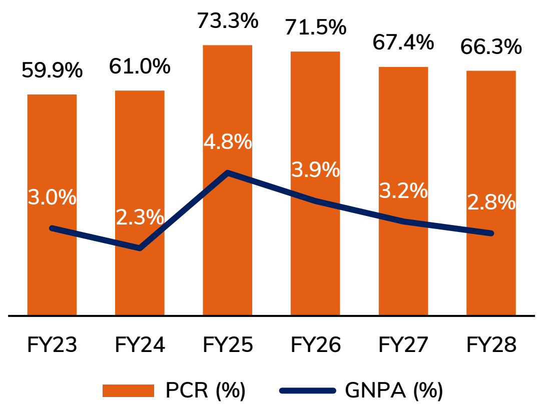
Source: Company, ICICI Direct Research

Exhibit 23: .....is expected to strengthen RoA to ~3.1%



Source: Company, ICICI Direct Research

Exhibit 24: Asset quality anticipated to witness recovery



Source: Company, ICICI Direct Research

Valuation

Exhibit 25: Valuation matrix

Stocks	CMP	EPS				BVPS				P/BV				P/E			
		FY25	FY26	FY27E	FY28E	FY25	FY26	FY27E	FY28E	FY25	FY26	FY27E	FY28E	FY25	FY26	FY27E	FY28E
Muthoot Microfin	210	-13.3	10.1	20.0	30.7	157.1	170.1	190.1	220.8	1.3	1.2	1.1	1.0	-15.8	20.7	10.5	6.8
CAG	1543	33.3	48.5	89.9	110.3	435.5	489.5	579.4	689.7	3.5	3.2	2.7	2.2	46.4	31.8	17.2	14.0
Fusion MFI *	229	-111.4	1.0	17.2	27.9	158.1	151.9	167.3	194.2	1.4	1.5	1.4	1.2	-2.1	226.7	13.3	8.2
Spandana Sphoothy *	305	-145.2	-91.0	11.7	29.9	351.2	298.6	285.7	315.6	0.9	1.0	1.1	1.0	-2.1	-3.4	26.1	10.2

Source: Bloomberg, Company, ICICI Direct Research

- The microfinance industry has historically been characterized by cyclical fluctuations in business growth, asset quality and earnings. We believe the sector is currently nearing the bottom of the cycle, with improving operating conditions expected to support a gradual recovery in growth and profitability.

- Muthoot Microfin is well positioned to benefit from this recovery, backed by its strong parentage, experienced management team with a stable operating track record, and a disciplined execution approach. The company's strategy of deepening customer penetration within its existing franchise is expected to support business growth while improving operating productivity. Backed by its large and seasoned borrower base, the company is expanding its portfolio beyond JLG loans through individual and secured retail lending products, which is expected to drive ~19% AUM growth over FY26-28E while creating a more balanced portfolio mix.

- Portfolio repricing, favourable product mix, lower NPA-related yield drag and declining cost of funds are expected to support NIM expansion to ~14.3% by FY28E, while operating leverage through better employee productivity and utilisation of the existing branch network should further strengthen profitability. Further, a normalization in credit costs, coupled with operating leverage, should drive a meaningful recovery in earnings and return ratios with RoA at ~3.1% over the medium term.

- At the current valuation, we believe the market is largely pricing in the recent cyclical weakness and underappreciating the company's earnings recovery potential. We therefore view the current risk-reward as favourable and maintain our constructive stance on the stock. Valuing the stock at ~1.2x FY28E BV, we assign target price of ₹270 and Buy rating on the stock.

Exhibit 26: Fundamental comparison

Stocks	AUM		YoA(%)		CoF (%)		NIM (%)		RoA (%)		RoE (%)		CAR (%)		GNPA (%)		NNPA (%)	
	FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26
Muthoot Microfin	12,357	14,006	26.3	22.4	11.4	10.0	16.0	13.2	(2.0)	1.5	(8.2)	6.2	27.9	23.9	4.8	3.9	1.3	1.1
CAG	25,948	29,590	21.4	19.5	9.5	8.0	13.7	13.9	1.9	2.6	7.9	10.5	25.4	24.4	4.8	3.2	1.7	1.1
Fusion MFI *	8,980	7,407	20.5	21.0	10.3	10.3	10.2	10.8	(12.2)	0.2	(54.5)	0.7	22.4	36.5	7.9	3.2	0.3	0.5
Spandana Sphoothy *	6,819	4,420	22.5	20.5	12.0	12.6	12.8	9.1	(9.2)	(10.5)	(30.7)	(30.8)	37.1	35.9	5.6	3.8	1.2	0.7

Source: Bloomberg, ICICI Direct Research

Risk and Concerns

Rising borrower concentration and credit exposure vulnerabilities

While management's focus on the Micro and Small Enterprise Loan (MSEL) portfolio is intended to drive customer penetration, the shift towards higher ticket sizes structurally alters the risk profile. Previously, a granular loan book mitigated systemic impact, as a default would require a larger pool of borrowers to significantly impair asset quality. However, the introduction of larger ticket sizes effectively increases borrower-specific concentration risk. Given that these portfolios are entirely unsecured in nature, any stress among high-exposure borrowers reduces the cushion against NPA formation. Thus, a fewer number of individual account slippages could now lead to a higher spike in stressed assets.

Heightened competitive intensity for high-quality clients may pressure yields

In the wake of recent industry-wide asset quality challenges, microfinance lenders are aggressively pivoting toward risk-mitigation strategies, with a primary focus on retaining high-quality, proven borrowers. This collective shift has significantly intensified competition within the ecosystem for clients who have demonstrated better repayment histories across multiple cycles. As various players vie for the same pool of creditworthy borrowers by expanding their wallet share and offering bundled products, the bargaining power is gradually shifting toward the customer. To protect its market share and ensure high retention rates, the company may be compelled to offer more competitive pricing. This environment may exert pressure on yields and compress net interest margins.

Operational and execution hurdles from multi-product diversification

As the company aggressively expands beyond its core Joint Liability Group (JLG) lending into segments like MSME LAP and retail lending products, it introduces increase in operational complexity. This strategy relies heavily on cross-utilizing the existing workforce, meaning the same loan officers must now cater to multiple distinct product lines. This will require extensive and continuous employee training. Any execution delays in staff upskilling or gaps in branch infrastructure could lead to operational friction, higher customer churn, or internal control lapses, potentially stalling the momentum of the customer penetration strategy.

Regulatory intervention on pricing and operating practices

Muthoot Microfin remains exposed to regulatory risks inherent to the microfinance sector, particularly any tightening in RBI guidelines around borrower leverage, underwriting norms, collection practices or pricing. While the removal of the interest-rate cap has provided greater flexibility to lenders, any future regulatory intervention aimed at curbing sector spreads, tightening customer protection norms or imposing stricter operating guardrails could weigh on yields, increase compliance costs and moderate growth.

Natural calamity disruptions across key operating geographies

Muthoot remains vulnerable to floods, cyclones and other adverse weather events that could disrupt borrower cash flows, impair collections and lead to asset-quality volatility. The company has been affected by such disruptions in the past, including the Kerala floods, Tamil Nadu cyclone and flood-related disruptions across Bihar, West Bengal and Odisha. While Muthoot Microfin provides natural calamity insurance to borrowers, severe disruptions could still weigh on collection efficiency, credit costs and disbursement momentum.

Financial Summary

Exhibit 27: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Income	2369.5	2139.0	2595.6	3155.1
Interest expenses	930.1	874.5	1019.6	1185.8
Net Interest Income	1439.4	1264.5	1576.0	1969.3
% growth	30.0%	-12.1%	24.6%	25.0%
Non Interest Income	195.1	241.7	243.2	270.9
Net Income	1634.5	1506.2	1819.2	2240.2
Employee cost	533.9	603.5	671.8	756.1
Other operating Exp.	347.1	254.5	269.7	316.7
Operating Profit	753.4	648.2	877.7	1167.4
Provisions	1042.3	439.3	466.6	499.0
PBT	-288.9	208.9	411.1	668.5
Taxes	-66.4	38.6	76.0	153.8
Net Profit	-222.5	170.3	335.0	514.7
% growth	N.A	N.A	97%	54%
EPS (₹)	-13.3	10.1	20.0	30.7

Source: Company, ICICI Direct Research

Exhibit 28: 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	20.0	30.7
BV (₹)	157.1	170.1	190.1	220.8
ABV (₹)	147.2	161.2	180.7	210.7
P/E	(15.8)	20.7	10.5	6.8
P/BV	1.3	1.2	1.1	1.0
P/ABV	1.4	1.3	1.2	1.0
Yields & Margins (%)				
Yield on Advances	26.3%	22.4%	22.7%	23.0%
Avg. cost on funds	11.4%	10.0%	9.7%	9.4%
Spreads	14.9%	12.3%	12.9%	13.5%
Net interest margin	16.0%	13.2%	13.8%	14.3%
Quality and Efficiency				
Cost / Total net income	53.9%	57.0%	51.8%	47.9%
GNPA%	4.8%	3.9%	3.2%	2.8%
NNPA%	1.3%	1.1%	1.0%	0.9%
RoA (%)	-2.0%	1.4%	2.4%	3.1%
RoE (%)	-8.2%	6.2%	11.1%	14.9%

Source: Company, ICICI Direct Research

Exhibit 29: 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	3,022	3,536
Networth	2,632	2,854	3,189	3,704
Borrowings	7,926	9,547	11,457	13,748
Other Liabilities & Provisions	298	283	335	280
Total	**10,857**	**12,685**	**14,982**	**17,732**
Applications of Funds				
Fixed Assets	77	69	76	84
Investments	354	406	426	447
Advances	8,740	10,396	12,518	14,971
Other Assets	1,686	1,813	1,961	2,229
Total	**10,857**	**12,685**	**14,982**	**17,732**

Source: Company, ICICI Direct Research

Exhibit 30: Growth ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Total assets	-6.3%	16.8%	18.1%	18.4%
Advances	-5.9%	19.0%	20.4%	19.6%
Borrowings	-5.9%	20.4%	20.0%	20.0%
Total Income	17.7%	-7.8%	20.8%	23.1%
Net interest income	30.0%	-12.1%	24.6%	25.0%
Operating expenses	38.8%	-2.6%	9.7%	13.9%
Operating profit	-0.1%	-14.0%	35.4%	33.0%
Net profit	N.A	N.A	96.8%	53.6%
Book value	-6.3%	8.3%	11.7%	16.1%
EPS	N.A	N.A	96.8%	53.6%

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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