Muthoot Microfin Ltd.

BP WEALTH

Management Meet Note **25th June 2026**

Key Takeaways

- ⇒ Vision 2030 targets Rs. 30,000 crores AUM, 5%+ RoA, 20%+ RoE and Rs. 1,000 crores PAT by FY30.
- ⇒ Management aims to diversify beyond traditional microfinance lending by scaling Muthoot Small Enterprise Loan (MSEL), Loan Against Property (LAP) and gold loans, reducing reliance on Joint Liability Group (JLG) while increasing wallet share within its existing customer base.
- ⇒ Management believes the Microfinance Institution (MFI) stress cycle has largely normalized, with credit costs declining to 3.5% and GNPA improving to 3.89%.
- ⇒ Despite a gradual shift away from JLG, management remains confident of sustaining 12.5% NIMs and improving RoA through lower credit costs, lower opex and potential funding-cost tailwind.

Company overview

Muthoot Microfin Ltd. (MML) is one of India's leading NBFC-MFIs and the microfinance arm of the Muthoot Pappachan Group (MPG). The company primarily provides Joint Liability Group (JLG) loans to low-income women in rural and semi-urban markets, helping them meet income-generation and livelihood financing needs. Its core JLG product has an average ticket size of Rs. 60,000 and forms 83% of the loan portfolio. As of FY26, the company operated through 1,670 branches across 21 states and union territories, serving 33 lakh active borrowers with an AUM of Rs. 14,006 crores. Beyond its core JLG business, MML also offers Muthoot Small Enterprise Loans (MSEL), Micro-LAP and gold loans to existing customers as they graduate to higher-ticket credit requirements. This enables the company to serve multiple borrowing needs within the same customer ecosystem while gradually building a more diversified rural retail lending franchise.

Setting the context

Muthoot Microfin entered FY25 amid one of the most challenging periods for the Indian microfinance industry. Rapid post-pandemic credit growth, multiple lender exposure and borrower over-leverage led to a sharp deterioration in asset quality across the sector, while the Karnataka ordinance on recovery practices further disrupted collections. Consequently, the company reported a net loss of Rs. 222 crores in FY25, with credit costs rising to 9.4% and GNPA increasing to 4.85%. FY26 marked the beginning of the recovery, supported by tighter underwriting, disciplined disbursements, improving collections and branch rationalisation. More importantly, management used this period to reposition the company from a monoline microfinance lender into a diversified rural retail finance franchise. The strategy is centred on reducing dependence on traditional JLG lending by expanding into higher-ticket products such as MSEL, Micro-LAP and gold loans, while deepening wallet share within its existing customer base. This strategic shift formed the key focus of the Capital Markets Day and underpins the company's Vision 2030 roadmap.

Recovery has created the foundation

Management believes the business has moved beyond the stress cycle that impacted the MFI industry over FY25. Credit costs declined sharply to 3.5% in FY26 from 9.4% in FY25, ahead of the company's original guidance of 4-6%, driven by tighter underwriting standards, elevated rejection rates of 60-65% and improving borrower repayment behaviour. Collection efficiency improved from 93% in Q1FY26 to 96.4% in Q4FY26 through AI-led recovery initiatives, early warning systems and greater use of digital repayment mechanisms. Consequently, GNPA improved to 3.89% from 4.85%, aided by stronger collections and the growing contribution of MSEL and LAP portfolios, which continue to report significantly lower delinquency levels than the traditional JLG book. Management has guided for AUM growth of 12-15% in FY27, supported by improving borrower behaviour, a higher contribution from MSEL, LAP and gold loans, and deeper penetration within its existing base of 33 lakh customers. Notably, the company delivered 13% AUM growth in FY26 against its initial guidance of 5-10%, providing confidence in the next phase of growth.

Sector Outlook	Positive

Stock

CMP (Rs.)	210
NSE Symbol	MUTHOOTMF
BSE Code	544055
Bloomberg	MUTHOOTM IN
Reuters	MUTO.BO

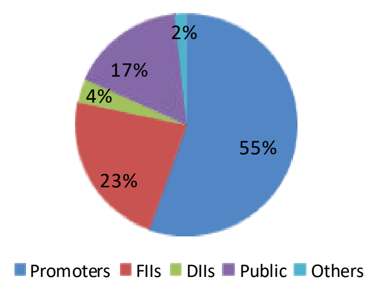
Key Data

Nifty	24,050
52WeekH/L(Rs.)	218 / 131
O/s Shares (Cr.)	17
Market Cap (Rs. Cr.)	3,614
Face Value (INR)	10

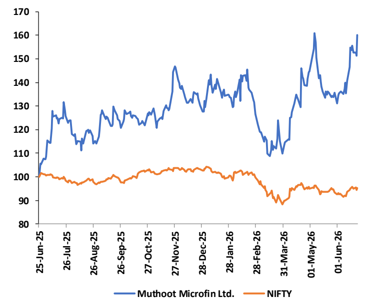
Average volume

3 months	8,20,091
6 months	5,39,352
1 year	4,56,726

Share Holding Pattern (%)



Relative Price Chart



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Diversification is built around customer graduation

Management's diversification strategy is centered on increasing wallet share from its existing base of 33 lakh borrowers rather than relying on large-scale customer acquisition. With industry-wide rejection rates remaining elevated at 60-65%, the company views its credit-tested customer base as a lower-risk and more efficient growth opportunity. As borrowers mature, their reliance on microfinance loans declines while demand for gold loans, business loans and other secured products increases. The company aims to retain this borrowing within its ecosystem by graduating customers from JLG loans into higher-ticket products such as MSEL and Micro-LAP. With AUM at an all-time high of Rs. 14,006 crores in FY26, management is targeting Rs. 30,000 crores by FY30 (21% CAGR), with Rs. 11,700 crores of incremental AUM expected from existing customers and the remaining Rs. 4,300 crores from new customer acquisition. Tamil Nadu provides evidence that this transition is already underway. MFI exposure within the customer cohort has declined from 46% to 24%, while gold loan and business loan penetration has increased materially over the same period. The portfolio has also evolved rapidly, with JLG reducing from 99% in Q1FY26 to 83% currently, while non-JLG products increased to 17%. Management expects the mix to shift further to 53% JLG and 47% non-JLG by FY30, with growth increasingly driven by MSEL, LAP, gold loans and other secured products, reducing dependence on traditional microfinance lending and strengthening asset quality.

Risk-adjusted returns will improve

Management believes the shift towards MSEL, LAP and gold loans will improve risk-adjusted returns rather than dilute profitability. While traditional JLG loans carry yields of 24.5%, they also experience higher credit costs and NPA drag. In comparison, MSEL yields 23.5%, LAP yields 18-22% and gold loans yield 17-21%, but these products carry significantly lower expected credit losses. MSEL and MSME-LAP continue to report near-zero delinquency levels, while Micro-LAP yields of 27-28%, including processing fees, provide an additional lever for margin expansion. Management expects NIMs to remain sustainable at 12.5% in FY27, supported by lower NPA drag as credit costs normalize towards 2.5%, a higher contribution from MSEL and Micro-LAP, and continued reduction in funding costs. Cost of funds has already declined from 11.02% in FY25 to 10.27% in FY26, while incremental borrowings are being raised at 9.9%. PTC transactions are being executed at 8.1-8.2%, while a potential rating upgrade could lower borrowing costs by another 100bps. Management's bridge to 5%+ RoA comprises 100bps from lower credit costs, 150bps from operating leverage and the balance from margin expansion and funding-cost benefits. Operating leverage is expected to come from higher-ticket products, improving branch productivity and slower branch expansion, allowing AUM growth to outpace operating expenses.

Gold lending could become an important growth lever

Management identified inflation as the primary external risk, given its direct impact on rural borrower cash flows. Funding costs remain another important monitorable, particularly as banks remain selective in lending to NBFCs and the company increasingly accesses NCD and ECB markets. From an execution perspective, the key variables to track are the pace of diversification, the seasoning of the MSEL portfolio, progress in scaling gold loans and a potential rating upgrade, which remains one of the most meaningful upside levers to profitability.

Outlook

Muthoot Microfin remains a potential turnaround story, with early signs that management's diversification strategy is gaining traction. The shift beyond traditional JLG lending into MSEL, Micro-LAP and gold loans is already visible, helping improve portfolio quality and reduce dependence on a single product. More importantly, these products carry significantly lower credit costs and should make earnings less vulnerable to the extreme stress cycles that have historically impacted the microfinance sector. That said, execution remains the key monitorable. Scaling secured lending businesses requires different capabilities, and while the Muthoot ecosystem provides a meaningful advantage through its existing expertise in gold and secured lending, these portfolios still need to season through a full credit cycle. Funding costs also remain an important variable despite recent improvement. Overall, the company appears to have sufficient capital to support growth without near-term equity dilution, but the investment case now hinges on whether management can successfully execute its diversification roadmap while maintaining asset quality and profitability. If successful, Muthoot Microfin could emerge as a more diversified rural retail finance franchise rather than a pure-play MFI lender.

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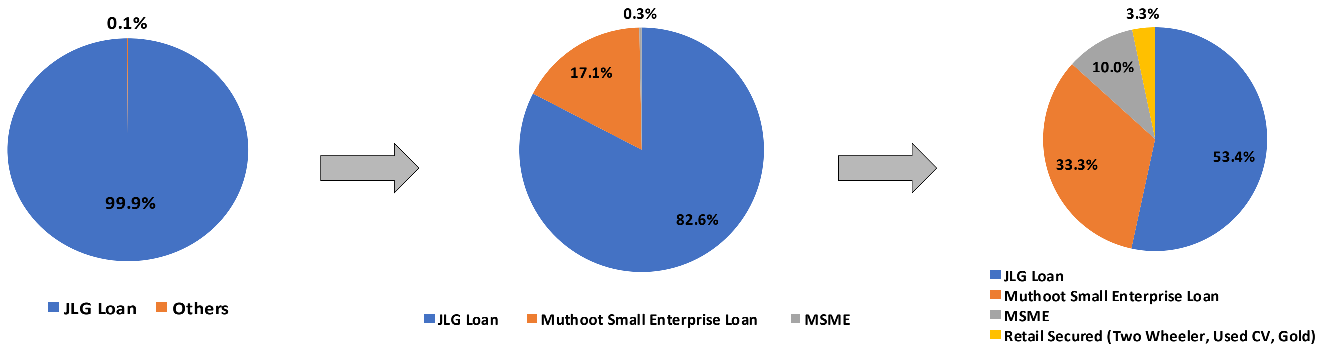
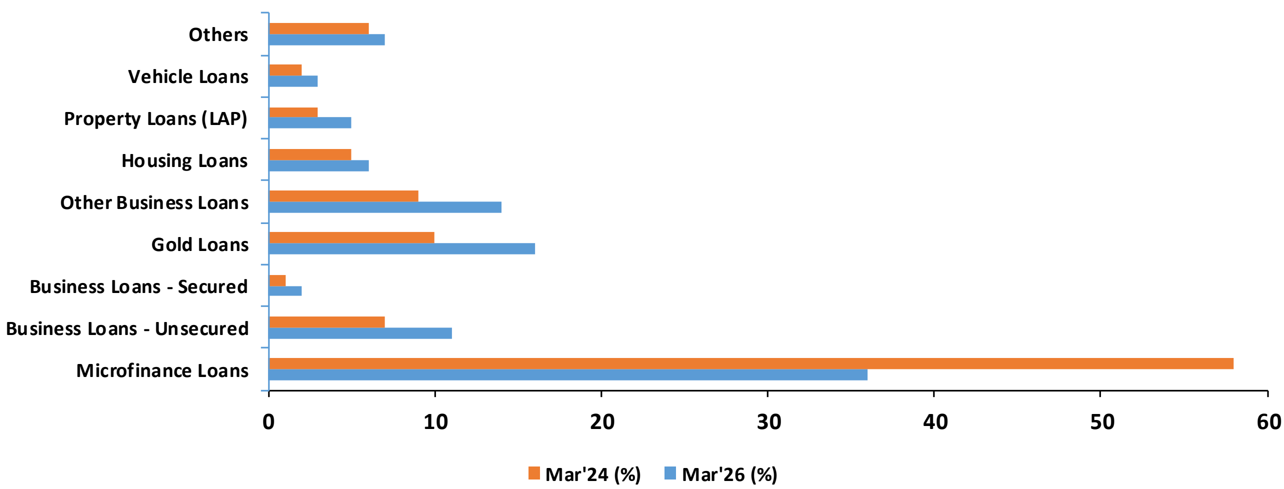
Vision 2030

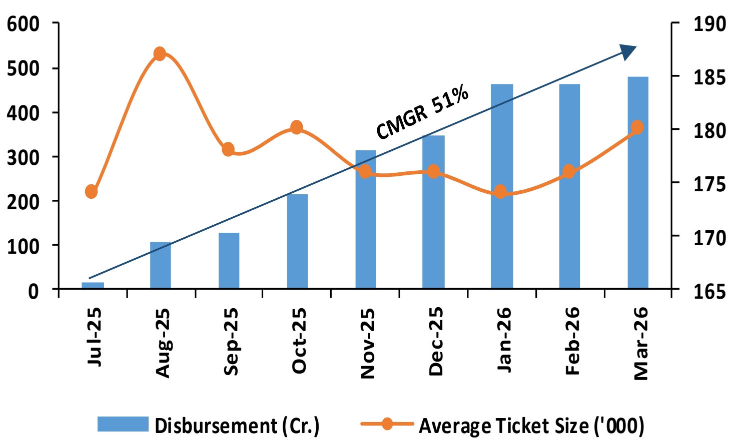
(1) Legacy Model (Q1FY26)	(2) Strategic Diversification (Q4FY26)	(3) Target Portfolio Mix (2030)

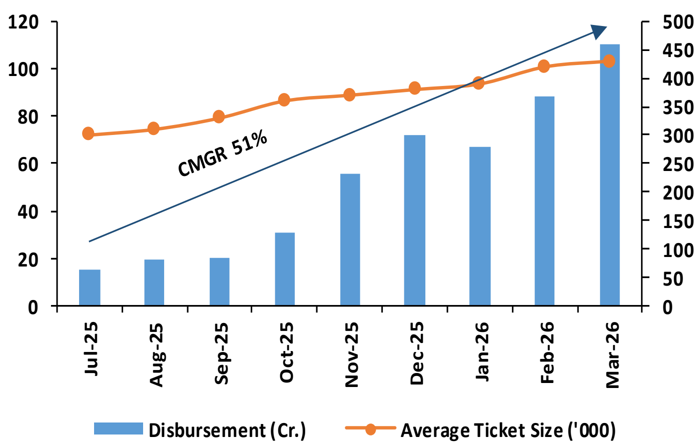


Portfolio Mix Change



Muthoot Small Enterprise Loan	Muthoot SME (LAP) Loan & Referral Gold Loan





Source: Bloomberg, Company, BP Equities Research

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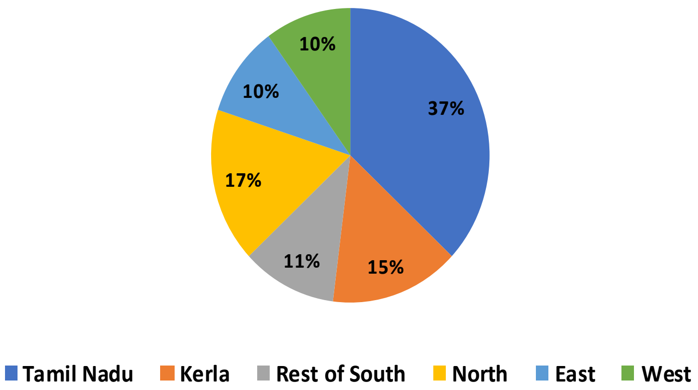
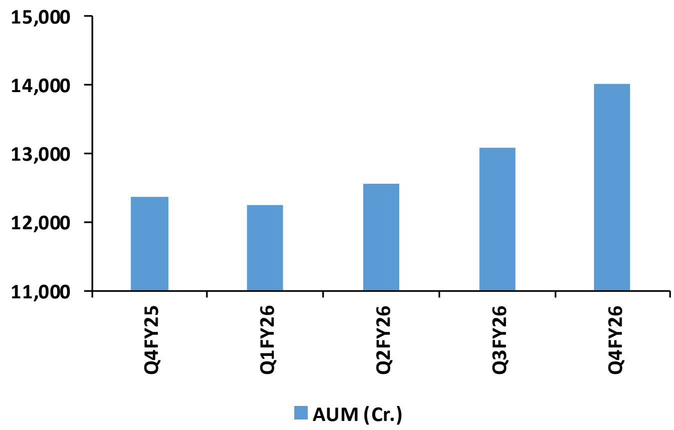
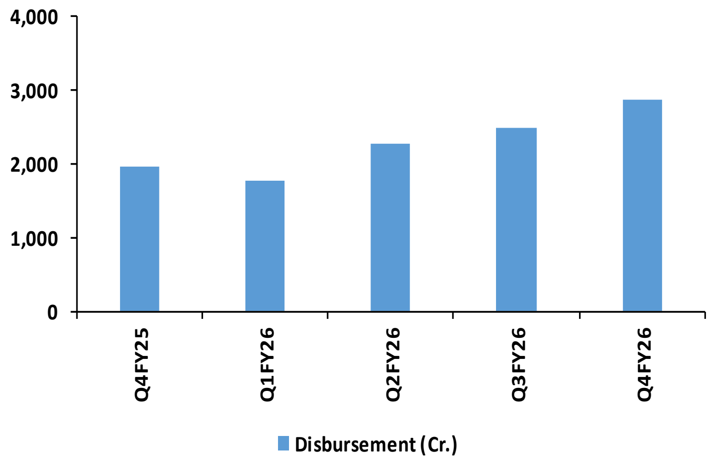
Region-wise Portfolio Share



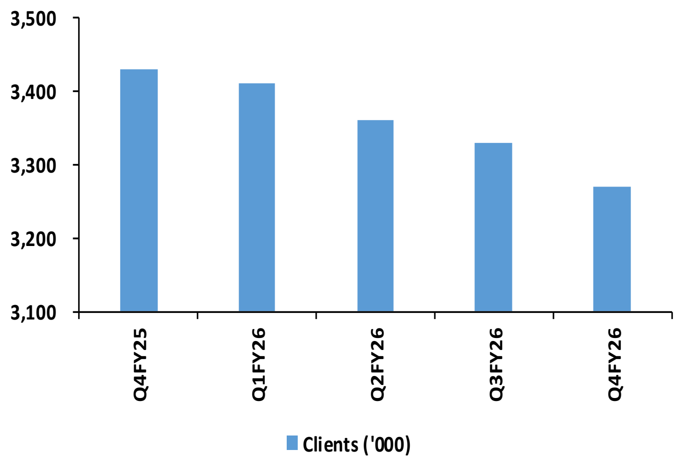
Assets Under Management



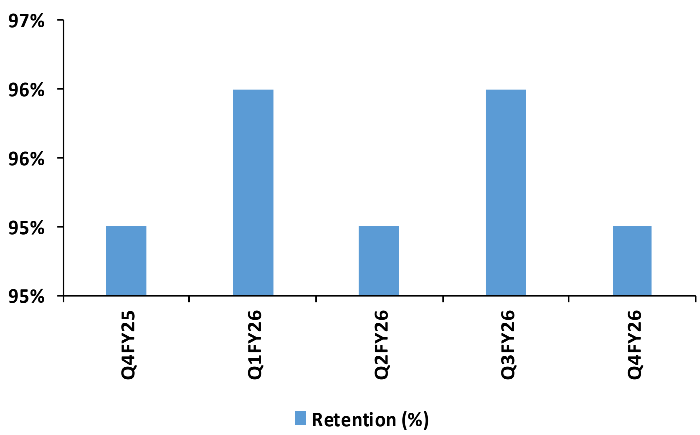
Disbursements



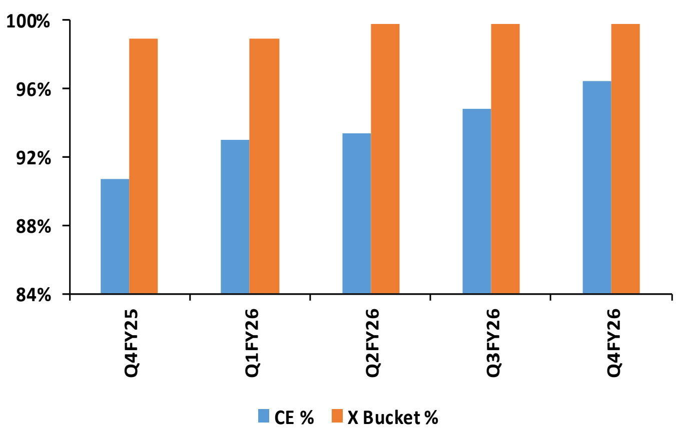
Clients



Customer Retention



Collection Efficiency



Source: Bloomberg, Company, BP Equities Research

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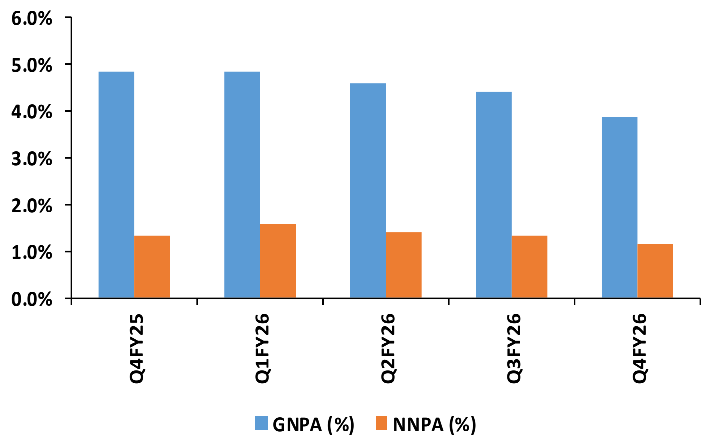
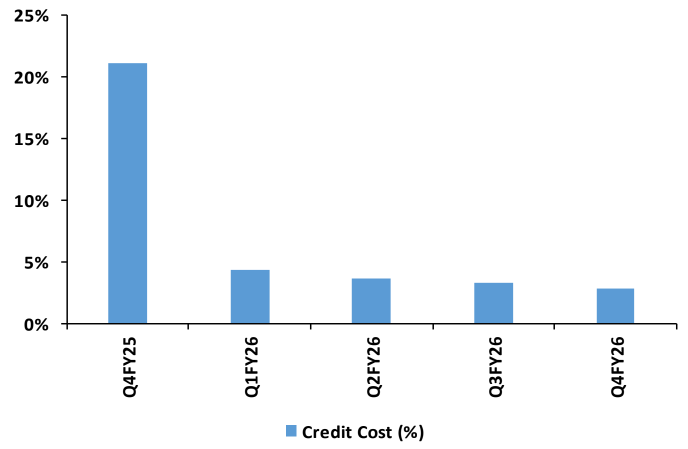
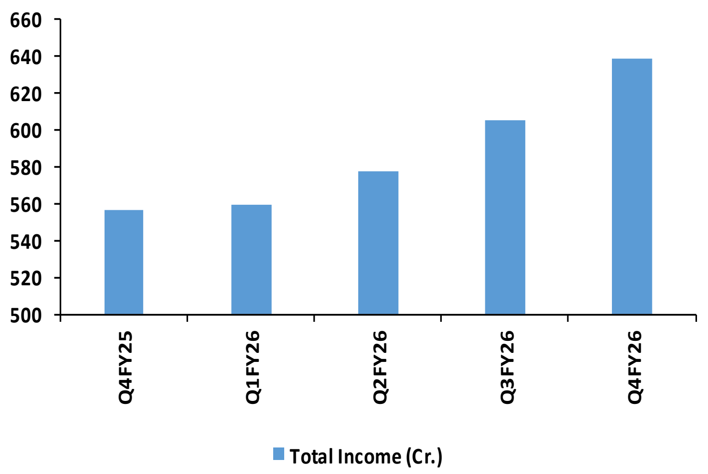
Asset Quality



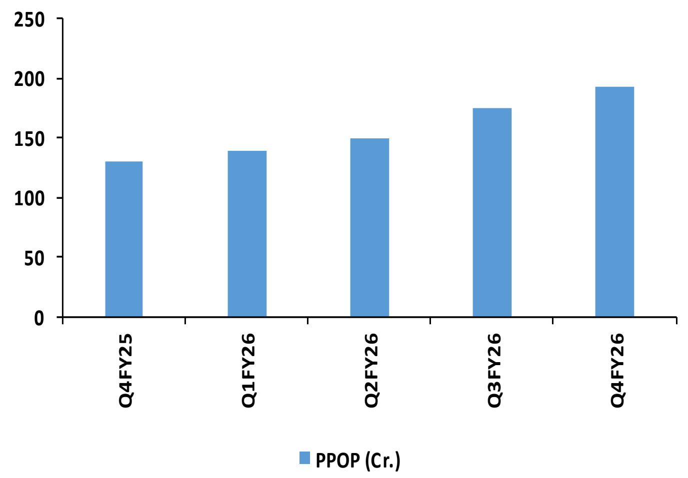
Credit Cost



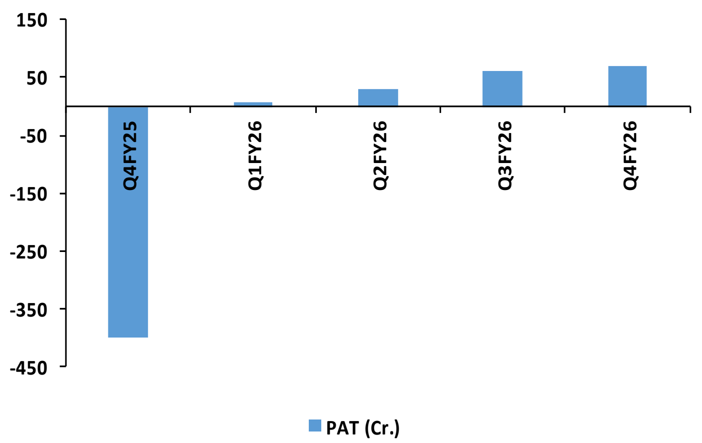
Total Income Growth



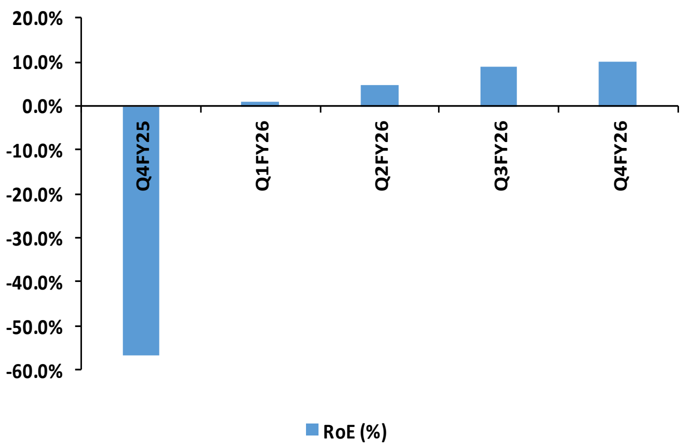
Pre-provisioning Operating Profit



Profit After Tax



Collection Efficiency



Source: Bloomberg, Company, BP Equities Research

Muthoot Microfin Ltd.

Key Financials (in Cr.)				
YE March (Rs. Cr.)	**FY23**	**FY24**	**FY25**	**FY26**
Net Interest Income	**742**	**1,102**	**1,439**	**1,265**
Growth (YoY)		48.6%	30.6%	-12.1%
Net Revenue	**897**	**1,402**	**1,634**	**1,506**
Growth (YoY)		56.3%	16.6%	-7.8%
Pre-Provision Operating Profit	**436**	**764**	**868**	**656**
Growth (YoY)		75.1%	13.6%	-24.4%
Net Profit	**164**	**450**	**-223**	**170**
Growth (YoY)		174.3%	-	-
Diluted EPS (Rs.)	**12.0**	**30.2**	**-13.1**	**10.2**
Balance Sheet (in Cr.)				
Loans (net)	7,027	9,436	8,740	10,396
Growth (YoY)		**34.3%**	**-7.4%**	**19.0%**
Investments	63	47	354	406
Total Assets	**8,529**	**11,590**	**10,857**	**12,685**
Total Borrowings	6,493	8,359	7,926	9,547
Net Worth	**1,626**	**2,804**	**2,632**	**2,854**
Valuation Ratios				
GNPA %	2.97%	2.29%	4.84%	3.89%
NNPA %	**0.60%**	**0.35%**	**1.34%**	**1.14%**
PCR %	—	—	73.32%	71.53%
CRAR %	**21.87%**	**28.97%**	**27.85%**	**23.92%**
Debt/Equity (x)	4.0x	3.0x	3.0x	3.3x
Operating margin %	**14.72%**	**25.46%**	**-11.27%**	**8.78%**
Net profit margin %	11.33%	19.67%	-8.68%	7.15%

Source: Company reports

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Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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