

CareEdge Global assigns 'CareEdge BB-/Stable' rating to dollar bonds of Muthoot Microfin Limited

USD 15 million External Commercial Borrowing	CareEdge BB-/Stable
USD 35 million External Commercial Borrowing (proposed)	CareEdge BB-/Stable

CareEdge Global has assigned a '**CareEdge BB-/Stable**' rating to Muthoot Microfin Limited's (MML) USD 50 million external commercial borrowing program.

Muthoot Microfin Ltd (MML) is a part of Muthoot Pappachan Group (MPG) and is engaged in providing microfinance loans to women borrowers. The company had an asset under management (AUM) of Rs 12,253 crore (~USD 1.4 billion)¹ as of June 30, 2025. Muthoot Fincorp Ltd (MFL) is the flagship company of the group and holds 50.2% of the shares in MML. Promoters also hold 5.3% directly in MML, thereby resulting in promoter and promoter group's holding in the company at 55.5%.

Rating Rationale

The rating is driven by MML's established position as a leading microfinance company in India as reflected in the size of its AUM which has grown at a compounded annual growth rate (CAGR) of ~25% over the past four years through FY25, comfortable capitalisation, and a diversified resource profile along with experienced management.

The MPG group ventured into the microfinance business in 2010 and operated as a separate division of MFL. Subsequently, MML received its Non-Banking Financial Company-Microfinance Institution (NBFC-MFI) license from the Reserve Bank of India (RBI) in March 2015, and the microfinance business has been with MML since then. While MML's portfolio has grown significantly over the years, the growth was flat in fiscal 2025. That was primarily owing to tightening of disbursements given the deterioration in credit quality faced by the microfinance industry since H2FY25.

The rating strengths are partly offset by credit risk associated with weak profile of borrowers, the unsecured asset class and the industry, which often materialises in the form of deterioration in asset quality amid higher delinquencies as also seen during the past few

¹USD-INR exchange rate of 87.74 as on October 22, 2025

quarters owing to macro-economic factors and socio-political interventions. Karnataka, one of MML's key microfinance markets, witnessed rising delinquencies driven by socio-political events, dip in rural incomes, lower credit discipline of borrowers coupled with their overleveraging and weakening of the joint liability group (JLG) model. This resulted in MML's overall Gross Non-Performing Assets (GNPAs) rising to 4.8% (March 31, 2025) and the company reporting losses in fiscal 2025 due to higher provisions and management overlay. However, the company's Karnataka exposure has reduced to Rs 473 crore (~USD 54 million) as of June 30, 2025, against Rs 1,127 crore (~USD 128 billion) as of March 31, 2024. Further, regulatory changes implemented in April 2025 which capped unsecured loan exposure and imposed a limit on the number of loans per borrower have started to address these issues, of late. Adherence to these guardrails and MML's prudent underwriting norms have resulted in a net profit of Rs 6 crore (~USD 0.7 million) in the first quarter of fiscal 2026. These measures are expected to result in positive profit for fiscal 2026.

The rating also factors in expected support to MML from its parent, MFL. MML, second largest entity in the Muthoot Pappachan Group (MPG), is strategically important to the group owing to the upscaling opportunities it provides to the group entities (especially parent) for catering to same clientele once their credit profile and track record is established after onboarding in MML. It is also crucial from an overall portfolio diversification perspective.

Outlook: Stable

The stable outlook reflects CareEdge Global's expectation that MML's credit profile would continue to be driven by its established position in the microfinance segment along with the expected support from its parent.

Rating Sensitivities

Upward factors

- Improvement in the credit profile of the parent company
- Significant improvement in asset quality because of product diversification and/or improvement in portfolio performance
- Lower operational expense (opex) of 5-6% along with sustained reduction in credit costs

Downward factors

- Dilution of ownership below majority or a change in the stance of support from the parent
- Further deterioration in the asset quality resulting in higher GNPA of 6-8% and extending losses at the net level on a sustained basis
- Increase in gearing level beyond 5x on a sustained basis

Analytical Approach

CareEdge Global has analysed the business and financial risk profiles of MML on a standalone basis. We also factor in expected support from its parent, MFL, in our ratings. CareEdge Global believes MML is likely to receive support from MFL during a distress scenario given the increasing significance of MML within the MPG, strategic alignment and financial services vertical being the group's key focus area.

Key Rating Drivers

Strengths

Leading microfinance company in India with geographically diversified portfolio

MML, with its AUM of Rs 12,253 crore (~USD 1.4 billion), is a leading MFI in India. The group has been in the microfinance business for over 15 years and has witnessed many cycles of business downturns and credit vulnerability, inherent in this sector since 2010. Despite that, it has maintained a healthy business profile by virtue of its long presence, agile underwriting practices and financial flexibility. The company's AUM has grown at a CAGR of ~25% in the past four years through fiscal 2025. This was despite a flattish growth in fiscal 2025, owing to macro-economic challenges faced by the microfinance sector.

After initially starting with Kerala centric operations, MML gradually diversified its presence over the past 15 years to 20 states across the country with a network of 1,726 branches. Nonetheless, geographical concentration remains with top three states (Tamil Nadu, Kerala & Bihar) contributing ~51% of total AUM as of March 31, 2025. Similarly, the southern region contributed ~48% of overall portfolio, followed by northern region with 24%. The management has indicated that the company's geographical mix is unlikely to change significantly over the medium term. Indeed, MML intends to diversify its portfolio beyond microfinance as part of its strategy following the RBI's new MFI regulations, which have relaxed thresholds for 'qualifying assets'.

Comfortable Capitalisation and Diversified Resource Profile

MML maintains a comfortable capitalisation profile, with a capital adequacy ratio of around 27.9% as of June 30, 2025, well above the regulatory requirement of 15%. Capitalisation has remained above 20% during the past five years and has been aided by capital infusion at regular intervals as well as IPO in fiscal 2024 (Rs 960 crore [~USD 109 million]) which included fresh issuance of Rs 760 crore (~USD 87 million). Higher capital adequacy ratio (CAR) is largely on account of IPO proceeds coupled with lower AUM growth and the same is likely to normalise with pickup in disbursements going forward. The company's gearing² increased to 3.2x as of March 31, 2025, from 3.0x as of March 31, 2024, primarily due to reduction in net worth owing to losses incurred in fiscal 2025. In absence of any fresh capital infusion plans,

² Net worth has been adjusted for deferred tax assets (net) and intangible assets for computation of gearing

gearing is expected to increase from present levels in the near-to-medium term, however, it is expected to remain under 5x.

The company has a diverse resource profile with banks and non-banking financial institutions (NBFIs) contributing ~62% of its total borrowing, followed by foreign currency (FC) borrowing at ~17%. MML's average cost of borrowing has gradually reduced over the years and stood at 10.8% for the first quarter of this fiscal. The incremental borrowing is at 10.3%, which is expected to further improve given the management's plan to increase the share of FC borrowing over the medium term.

Expected support from the parent and experienced management

CareEdge Global believes MML has a strong likelihood of receiving support from MFL, both on an ongoing basis as well as in a distress scenario given majority shareholding (50.2%), shared name and common branding with the parent resulting in moral obligation to support. Support expectation also emanates from investors considering MML as an integral part of the MPG group and thus any default by MML would weaken the resource raising capability of the group. Furthermore, the promoters of MPG are also on MML's board and there is strategic oversight from MFL in MML's operations. The microfinance business is strategically important to the group from a diversification perspective as well the opportunities to upscale the clientele of MML for other product offerings of MPG. Accordingly, CareEdge Global has factored a two-notch benefit of parent support in MML's overall rating, as per its Group Rating Methodology.

The company's senior leadership team has long-standing experience in banking and financial services and have been associated with MML for a long time. An experienced team and group synergies has enabled a wide distribution network, resulting in MML's business scaling up. The management team is supported by an experienced board. The Board of Directors includes three directors from the promoter group / MPG, five independent directors, and two investor-nominated directors (Great Pacific Capital and Creation Investments).

Weaknesses

Modest Asset Quality underpinned by recent deterioration across industry

MML's asset quality remains modest due to weak borrower profile in microfinance segment coupled with unsecured lending. While the asset quality had improved during fiscal 2021 to fiscal 2024, it deteriorated materially in fiscal 2025, with gross non-performing assets (GNPA) rising to 4.8% (Rs 451 crore [~USD 51 million]) as of March 31, 2025, owing to rising delinquencies across all geographies in all the buckets (30+, 60+, 90+ DPDs) and higher write-offs. The same was owing to weakening of macroeconomic factors such as dip in rural income coupled with higher inflation and worsening of credit profile such as overleveraging of borrowers coupled with poor credit discipline, witnessed across MFIs over the last 4-5

quarters. This coupled with socio-political incidents and regulatory interventions in certain states resulted in asset quality deterioration. These factors impacted collection efficiency of the MFIs. For MML, the overall collection efficiency stood at 91% during the last six months through June 2025 (versus 96-97% during normal course of business) indicating continued stress in the underlying asset class.

Owing to deterioration in asset quality, credit cost increased to 9.0% during fiscal 2025 (versus 2-4% range on a steady state basis), thereby significantly impacting MML's return metrics. This year too, credit cost is expected to remain elevated at around 6% with a meaningful normalisation expected only in next fiscal. Higher credit costs coupled with increase in operating expense (enhanced collection incentives to drive recoveries) resulted in company reporting loss of Rs 223 crore (~USD 25 million). Consequently, the return on assets (RoA) reduced to -1.9% in fiscal 2025, as against 4.4% in the previous fiscal. Amidst the prevailing macro-economic situation, MML's ability to improve collection efficiency and turn profitable will remain a key monitorable.

Portfolio Vulnerable to Macroeconomic Shocks

The microfinance segment continues to be impacted by the marginal profile of borrowers who are vulnerable to economic downturns. MML's borrowers comprise of low and middle-income individuals engaged in services (32% as of March 31, 2025), agriculture and allied services (25%), animal husbandry (24%) and trading activity (11%).

Historically, the poor credit behaviour in this segment is underpinned by socio-political events (such as the "announcement" of farm loan waivers) and its sensitivity to the borrowers. The materialisation of such instances in multiple states / geography coupled with the sector's cyclical nature have exerted pressure on asset quality of MFIs and impaired their credit profile. Similarly, lack of understanding & awareness has resulted in misinterpretation of certain ordinances in CY2025 by borrowers in Karnataka and Tamil Nadu leading to deterioration in loan repayment behavior for non-financial reasons. Additionally, environmental factors such as floods, drought / heat wave etc. can affect the income levels and ability of the borrowers impacting the asset quality. Since this segment is highly susceptible to the impact of economic downturn, maintaining good asset quality while increasing the scale of operations will remain a key monitorable. CareEdge Global expects asset quality issues to continue in the near term, particularly with MML's borrower segment and asset class.

Liquidity

MML's liquidity position is adequate, with no negative cumulative mismatches as per the asset-liability mismatch statement as of June 30, 2025. The company had liquidity of around Rs 833 crore (~USD 95 million) in cash and cash equivalents as of June 30, 2025. This is adequate

to meet the upcoming debt maturities for the next 12 months factoring the expected collections.

Environmental, Social and Governance (ESG) considerations

The Environmental, Social, and Governance (ESG) considerations of MML are integrated into its operations and social outreach. The company has implemented an ESG Policy, ensuring that its financial services do not negatively impact the environment. It has empowered 0.6 million households with clean energy and helped reduce 5,01,085 tonnes of CO2 emissions. MPG had established wind farms in Tamil Nadu in 1993, with a total installed capacity of 25 MW. The group has articulated its plans to double the wind power generation capacity.

Socially, it focuses on financial inclusion and women empowerment, offering skill development training to rural women to help them find jobs or start their own ventures with minimum capital. MML helped micro and small enterprises to restart their businesses post Covid-19 crisis with its "Restart India" campaign. MML also gives utmost importance to customer relationships and apart from grievance mechanism and customer care cells. On the governance front, the company's board functions effectively, with five out of ten directors being independent. Furthermore, the company upholds strong ethical practices with a Whistleblower Policy and a Workplace Harassment Prevention Policy, promoting transparency, accountability, and employee safety.

About the company

Muthoot Microfin Limited is a non-banking financial institution-microfinance institution (NBFC-MFI) and part of the Muthoot Pappachan Group (MPG). While the group has been in microfinance business since 2010, MML received its MFI license from RBI in March 2015. The company is focused on providing small-ticket collateral-free loans to women borrowers. Its products include income generation loans (agriculture & animal husbandry), product (consumer durable) loans, water and sanitation loans, individual loans, and MSME business loans. While MML started providing gold loans (secured) in 2024, it constitutes a miniscule share of its overall portfolio.

As on June 30, 2025, MFL held 50.2% equity in MML, followed by its promoters, who held 5.3%. Along with the three promoter directors, the board also includes five independent directors and one director each nominated by two private equity investors, Greater Pacific Capital and Creation Investments, having ~23% stake in the company. As of June 30, 2025, the company operated in 20 states through 1,726 branches, managing a portfolio of Rs 12,253 crore (~USD 1.4 billion).

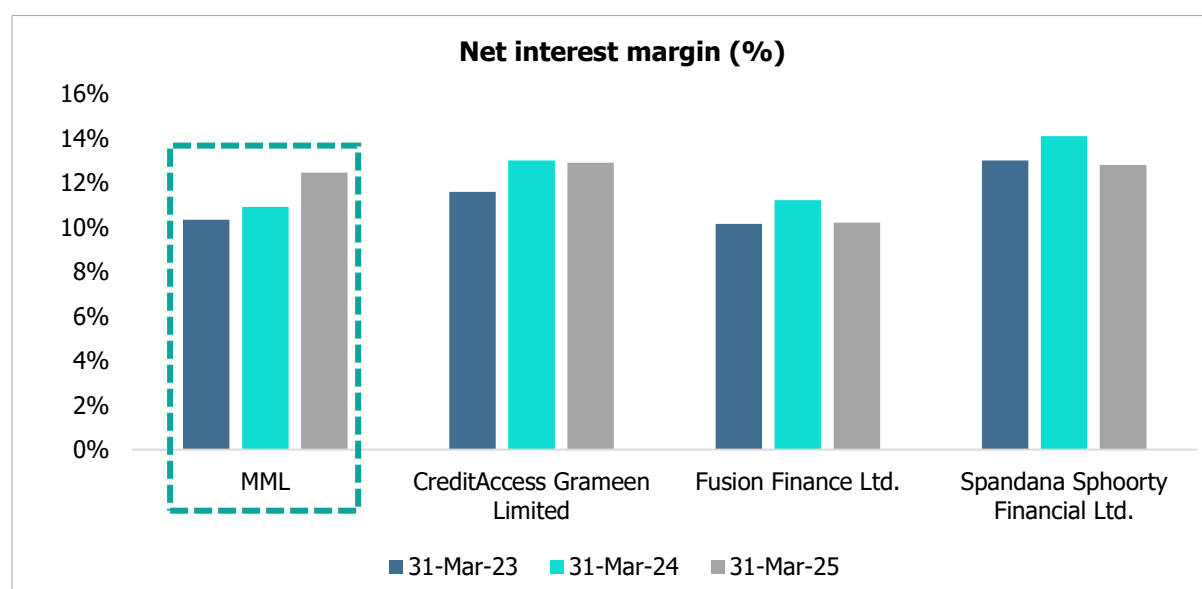
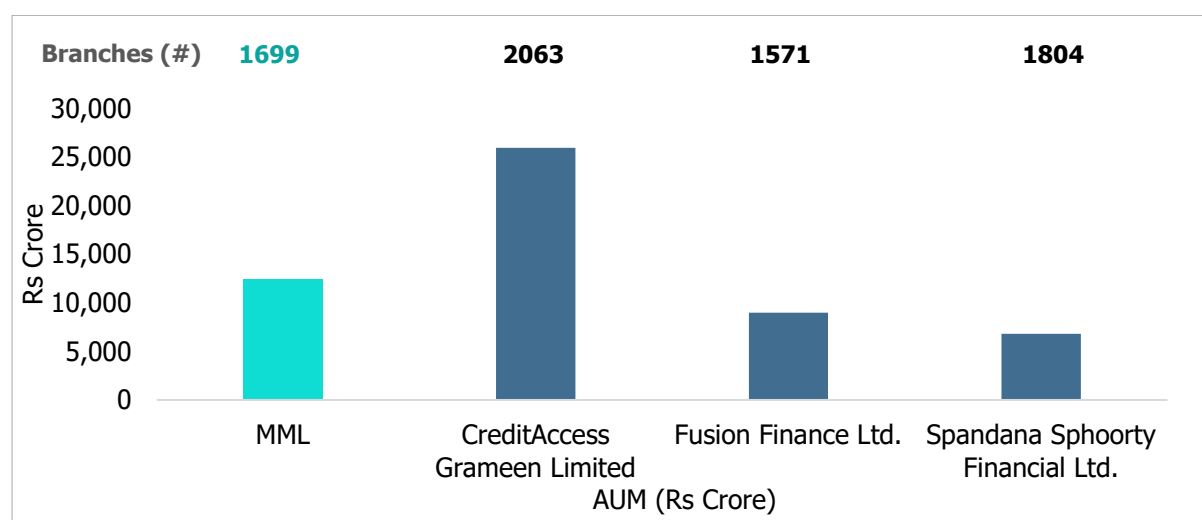
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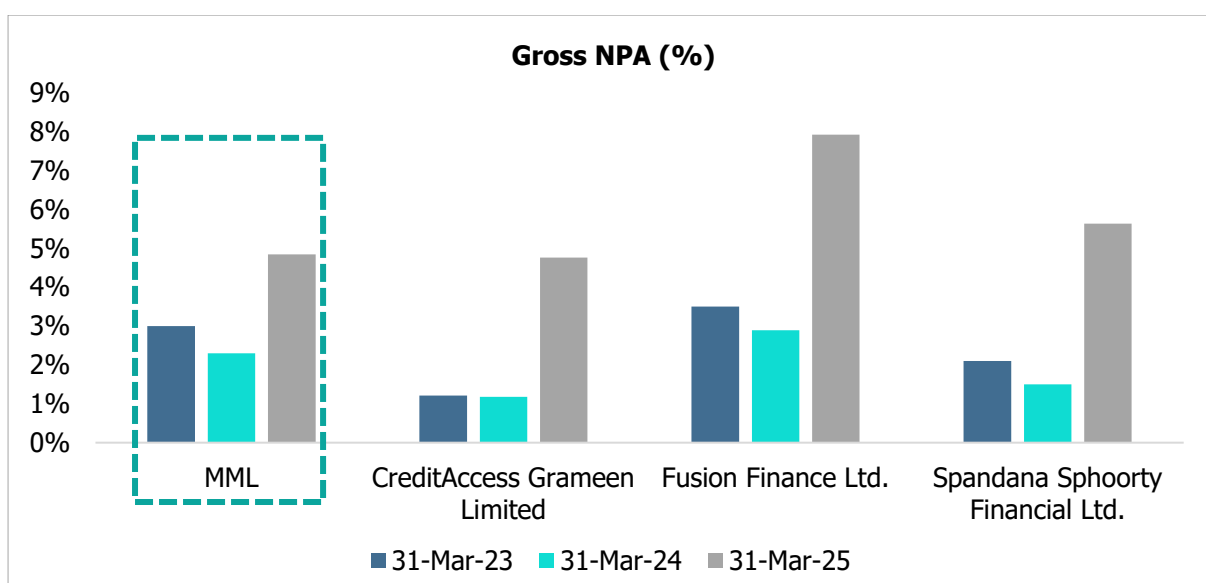
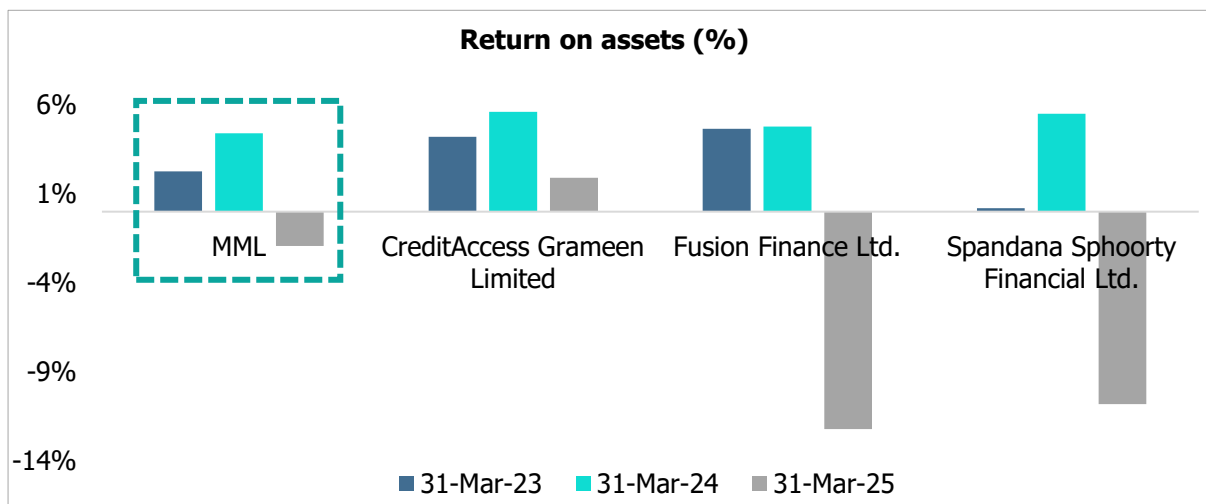
Muthoot Fincorp Limited (MFL) is a non-banking financial institution (NBFC) and the flagship

entity of the Muthoot Pappachan Group. It was established in 1997 and renamed to its current name in 2002 and started as a lender against gold assets. MFL has diversified into secured and unsecured MSME lending business to diversify its overall portfolio.

The company's standalone AUM stood at Rs 33,563 crore (~USD 3.8 billion) as of March 31, 2025. On a combined level, MFL's AUM stood at Rs 51,534 crore (~USD 5.9 billion) as of March 31, 2025, comprising ~55% of gold loans, followed by microfinance loans (MML; 24%). Vehicle loans (Muthoot Capital Services Ltd) and housing finance loans (Muthoot Housing Finance Company Ltd) constituted 6% and 5% of the portfolio respectively.

Comparison with other Microfinance Institutions





Recent Updates and Financial Summary

MML posted a net profit of Rs 6 crore (~USD 0.7 million) for the quarter ended June 2025, versus Rs 113 crore (~USD 13 million) posted for the same period of the previous year. However, it has significantly improved on a sequential basis from a loss of Rs 401 crore (~USD 46 million) in the last quarter of fiscal 2025.

As of June 30, 2025, its AUM reached Rs 12,253 crore (~USD 1.4 billion), marginally up from Rs 12,210 crore (~USD 1.4 billion) a year earlier given slower net disbursements. The asset quality continued to remain weak with GNPA's and NNPA's of 4.9% and 1.6% respectively as of June 30, 2025 (PY: 2.1% and 0.7% respectively). MML maintained a healthy CAR of 27.9% as of June 30, 2025.

Key Summary Financial Metrics

Particulars	Unit	March 31, 2023	March 31, 2024	March 31, 2025
AUM	Rs crore	9,208	12,194	12,357
Net Interest Margin	%	10.3	10.9	12.5
Cost to Income	%	51.4	45.5	50.4
GNPA	%	3.0	2.3	4.8
Return on Assets	%	2.3	4.4	-1.9
CAR	%	21.9	29.0	27.9

Solicitation Status

These ratings are solicited. The management has provided information and meetings to the CareEdge Global analytical team for the rating.

Rating History

Instrument	Type	Rating	Date
External commercial borrowings	Long-Term Foreign Currency (Solicited)	CareEdge BB-/Stable	October 23, 2025

Criteria Applied

[CareEdge Global's Rating Methodology for Financial Institutions](#)

[CareEdge Global's Group Rating Methodology](#)

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