

Muthoot Microfin Ltd. – Investment BUY Call – 6 Months Horizon

Dear Bajaj Capital Investors,

New Stock Recommendations for BUY on 6 May 2026

CMP -> 214.5

Upside Potential-> 12%

Investment Horizon -> 6 Months

Target price -> 240

Muthoot Microfin Ltd presents a compelling BUY opportunity for a short- to medium-term investment horizon of 3–6 months, supported by improving fundamentals, strengthening asset quality and reasonable valuations. The stock is currently trading at an attractive Price-to-Book (P/B) multiple of 1.28x (TTM), which appears undemanding relative to its improving return profile and sectoral tailwinds within the microfinance space. The recent capital raise of INR 2,451 crore further strengthens the balance sheet, enhances capital adequacy and provides sufficient headroom to support calibrated growth.

Operational performance in Q4FY26 reflects a strong recovery trajectory. The company reported AUM/GLP growth of 13.3% YoY to INR 14,005.6 crore, driven by healthy disbursements growth of 46.8% YoY to INR 2,876.7 crore, indicating robust credit demand. Importantly, growth is increasingly quality-led rather than aggressive, supported by disciplined underwriting standards. The strategic shift towards a diversified portfolio mix, including secured and higher-ticket loans, and the expansion of the non-JLG portfolio to 17.5% indicate improving business sustainability and risk calibration.

Earnings performance has shown a sharp turnaround, with Net Interest Income (NII) rising 14.9% YoY to INR 369 crore and Pre-Provisioning Operating Profit (PPOP) surging 48% YoY to INR 192.8 crore, reflecting strong operating leverage. The company reported a PAT of INR 71.1 crore versus a loss of INR 401.2 crore YoY, highlighting normalization in credit costs and earnings recovery. Additionally, Net Interest Margins (NIMs) improved to 12.0%, while the cost-to-income ratio declined significantly to 53.2%, indicating enhanced operational efficiency.

Asset quality metrics have improved meaningfully, which remains a key positive. GNPA declined by 95 bps YoY to 3.89%, while NNPA reduced to 1.14%, reflecting effective risk management and better collections. Collection efficiency improved to 96.43% (X-bucket at 99.82%), underscoring strong recovery trends. Consequently, credit costs reduced sharply from 9.4% in FY25 to 3.5% in FY26, with Q4FY26 credit cost further moderating to 2.8%, providing strong earnings visibility going forward.

On the funding side, the cost of funds declined by 75 bps to 10.27%, which, coupled with improving asset yields, supports margin expansion. Management commentary remains constructive, citing improving operating conditions across geographies, sustained credit demand in income-generating segments, and a calibrated growth approach. Given the confluence of improving asset quality, strong earnings recovery, better cost efficiencies, and reasonable valuations, we recommend a BUY on Muthoot Microfin Ltd for a 3–6-month investment horizon, with expectations of continued rerating driven by fundamental strengthening and sectoral recovery.

Q4FY26 Results:

Particulars (Rs. Cr)	Q4 FY26	Q4 FY25	YoY	Q3FY26	QoQ
Net Interest Income (NII)	369.0	321.1	14.9%	358.8	2.8%
Pre-Provision Operating Profit (PPOP)	192.8	130.3	48.0%	175.3	10.0%
Profit After Tax (PAT)	71.1	-401.2	117.7%	62.4	13.9%

Key Ratios	Q4 FY26	Q4 FY25	YoY	Q3FY26	QoQ
Net Interest Margin (NIM)	12.0%	10.9%	104 bps	12.0%	-4 bps
Cost/Income Ratio	53.2%	61.6%	-842 bps	54.8%	-163 bps
Opex/GLP Ratio	6.4%	6.6%	-25 bps	6.5%	-14 bps
Gross NPA	3.9%	4.8%	-95 bps	4.4%	-51 bps
Return on Assets (ROA)	2.1%	-13.0%	1,510 bps	1.9%	16 bps
Return on Equity (ROE)	10.1%	-56.9%	6,702 bps	9.1%	99 bps

Happy investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team