



INDIAN MICROFINANCE SECTOR

Industry witnessing turnaround; healthy
portfolio growth and improved
profitability expected in FY2023

SEPTEMBER 2022

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sachin Sachdeva
+91 124 4545 307
sachin.sachdeva@icraindia.com

Arpit Agarwal
+91 124 4545 873
arpit.agarwal@icraindia.com



Table of Contents

OUTLOOK: STABLE	6
EXECUTIVE SUMMARY	8
Growth Trends.....	10
Growth Bounces Back In FY2022; Slight Moderation In Q1 FY2023, But Improvement Expected In The Rest Of FY2023	11
Overall Microfinance Sector (all lenders) Reports Growth In Portfolio In H2 FY2022 & Q1 FY2023.....	12
Disbursements Picked Up In H2 FY2022, Followed By Some Moderation In Q1 FY2023	13
Unique Borrowers And Loan Per Borrower Started Improving Again From Q4 FY2022	14
Entity-level Concentration Continues With Large Players Gaining Market Share	15
Asset Quality Pressures Persist	16
Asset Quality Weakened In Q1 FY2022, Followed By Some Improvement In Q2 FY2022.....	17
Large MFIs Witnessed Lower Delinquencies, Supported By Better Recoveries, Growth In Scale And Restructuring.....	18
Restructuring Increased Significantly In H1 FY2022; Remained Elevated As Of March 2022	19
Microloan Pools (PTCs) Rated By ICRA Witnessed Healthy Collections With Minimal Impact Of Third Wave	20
Delinquencies Of Microloan Pools Rated By ICRA At Lowest Level Since Onset Of The Pandemic.....	21
Funding and Liquidity.....	22
NBFC-MFIs Raised ~Rs. 58,700-crore Debt In FY2022, Up 32% YoY; Banks Continue To Account For Significant Share	23
Overall Liquidity Position Of NBFC-MFIs Remained Healthy In FY2022	24
Healthy Liquidity Position Of Several Lenders Across SFBs & MFIs	25
Securitisation Volumes Of NBFC-MFIs Bounced Back In Q4 FY2022; Further Growth Expected In FY2023.....	26
ICRA Projections	28
Portfolio Growth Bounced Back In FY2022; Expected To Pick Up Further In FY2023	29
MFIs Reported Improvement In Profitability, While SFBs Reported Deterioration In FY2022; Improvement Expected In FY2023	31
Increase In Operational Costs In FY2022; Expected To Remain Elevated In The Near Term.....	33
Credit Costs Increased In FY2022; Moderation Expected In FY2023	34

Adequate Leverage Profile Of The Industry.....	35
Leverage Expected To Remain Comfortable.....	36
Key Regulatory Changes	38
RBI's Regulatory Framework For Microfinance Loans – March 2022.....	39
ICRA Ratings in the Sector	41
ANNEXURE	44
Annexure 1: List Of MFIs And Microfinance-focused SFBs Rated By ICRA As On August 31, 2022	45
Annexure 2: List Of Entities Used For Consolidation Of Financials.....	46

Table of EXHIBIT

Exhibit 1: Growth Trend of AUM of NBFC-MFIs.....	11
Exhibit 2: ICRA Sample (NBFC-MFIs) On-Book Portfolio Growth Trend	11
Exhibit 3: Industry (all lenders) AUM Growth Trend	12
Exhibit 4: Share of Various Lender Categories in Overall Microfinance Portfolio Mix	12
Exhibit 5: Quarterly Disbursement Trend	13
Exhibit 6: Trend in Growth of Industry-wide Unique Borrowers	14
Exhibit 7: Trend in Growth of Portfolio Outstanding per Borrower	14
Exhibit 8: Market Share of Top Players (NBFC-MFIs & SFBs)	15
Exhibit 9: Number of Entities (NBFC-MFIs & SFBs) with AUM Within a Particular Range	15
Exhibit 10: Trend in Delinquencies of NBFC-MFIs (ICRA sample*)	17
Exhibit 11: Delinquency Trend of NBFC-MFIs Based on Size (ICRA sample*)	18
Exhibit 12: NBFC-MFIs Restructuring	19
Exhibit 13: NBFC-MFIs Restructuring	19
Exhibit 14: NBFC-MFIs Restructuring	19
Exhibit 15: Monthly Collection Efficiency* (MCE) of ICRA-rated PTCs	20
Exhibit 16: Delinquency Trend in ICRA-rated MFI Pools	21
Exhibit 17: Quarterly Trend in Debt Raised by NBFC-MFIs (industry)	23
Exhibit 18: NBFC-MFIs' (ICRA sample) Borrowing Profile Trend	23
Exhibit 19: Liquidity as % of AUM as on March 31, 2021 (NBFC-MFIs)	24
Exhibit 20: Liquidity as % of AUM as on March 31, 2022 (NBFC-MFIs)	24
Exhibit 21: Trend in Liquidity as % of AUM of NBFC-MFIs	24
Exhibit 22: Liquidity as % of AUM as on March 31, 2021 (MFIs + SFBs)	25
Exhibit 23: Liquidity as % of AUM as on March 31, 2022 (MFIs + SFBs)	25
Exhibit 24: Trend in Microloan Securitisation	26
Exhibit 25: Trend in Microloan Securitisation (PTC + DA)	26
Exhibit 26: Projected Trends in On-Book Portfolio	29
Exhibit 27: Projected Trends in Profitability Metrics	31
Exhibit 28: Projected Trends in Opex/AMA	33

Exhibit 29: Projected Trends in Credit Costs.....	34
Exhibit 30: Leverage (managed gearing) Trend Across Entities (MFIs & SFBs).....	35
Exhibit 31: Projected Trends in Leverage.....	36
Exhibit 32: Equity Capital Infusion Trends	37
Exhibit 33: Distribution of ICRA-rated MFIs and Microfinance-focused SFBs as on August 31, 2022	42
Exhibit 34: Rating Actions (changes) in FY2022 & YTD FY2023 (till August 31, 2022)	43

OUTLOOK: STABLE

NBFC-MFIs' AUM expected to grow by 22-25% in FY2023 driven by buoyant demand and expected increase in average ticket sizes






With expected recovery in delinquencies, credit cost expected to decline in FY2023, though it would remain above the pre-Covid level

Adequate capital and liquidity support entity-level risk profiles

Non-banking financial companies - microfinance institutions (NBFC-MFIs) reported a healthy rebound in the growth in the assets under management (AUM) in H2 FY2022. With the pickup in economic activity and growth in disbursements in H2 FY2022, NBFC-MFIs registered an overall growth of 25% in their AUM in FY2022 with the AUM crossing Rs. 1,00,000 crore as on March 31, 2022. However, with disbursements slowing down, NBFC-MFIs saw a decline in the annualised growth rate of the AUM to 8% in Q1 FY2023 as the industry was busy implementing the revised regulatory framework. Nevertheless, given the buoyant demand and the expected increase in the average ticket size, the growth in the industry's AUM in the remaining quarters is expected to improve significantly. ICRA estimates full year growth of 22-25% in FY2023. Microfinance-focused small finance banks (SFBs) also witnessed a similar growth trajectory and are expected to grow at a healthy pace, going forward as well. This is expected to keep the combined on-book portfolio growth of NBFC-MFIs and SFBs at a similar range of 22-25% in FY2023.

- **90+ dpd to improve in FY2023:** The gradual improvement in collections helped the industry register an improvement in delinquencies in H2 FY2022 followed by a further recovery in Q1 FY2023. The 90+ days past due (dpd) of 5.7% as on March 31, 2022 was higher than ICRA's estimate of 5% as slippages from the restructured book remained high. However, with further write-offs and recoveries, the 90+ dpd improved to around 5% by June 30, 2022. For FY2023, ICRA expects a significant decline in delinquencies driven by some recoveries and write-offs by the entities and retains its estimate of 90+ dpd at around 2% by March 31, 2023.
- **Healthy on-balance sheet liquidity and capitalisation profile:** On-book liquidity, as a percentage of the AUM, stood at around 18% as on March 31, 2022 for the ICRA sample¹ of NBFC-MFIs compared to around 20% as on March 31, 2021 (15% as on March 31, 2020). In addition, the NBFC-MFIs (ICRA sample) enjoyed an adequate capitalisation profile with a managed gearing {(on-book borrowings + off-book)/net worth} of 4.2 times as on March 31, 2022. Going forward, ICRA expects the leverage to remain adequate.
- **Stable outlook on NBFC-MFIs:** ICRA carries a Stable outlook for the microfinance industry, driven by the expected healthy growth in the AUM and the improvement in the profitability. The Reserve Bank of India's (RBI) revised regulations have given more flexibility to NBFC-MFIs for fixing the lending rates, which is expected to provide upside to the profitability going forward.

¹ ICRA sample comprises 26 NBFC-MFIs accounting for around 80% of the industry AUM as on March 31, 2022

AUM Growth		22-25% in FY2023	Given the buoyant demand and the expected increase in the average ticket size, the growth in the industry's AUM in the remaining quarters of FY2023 is expected to improve significantly. ICRA estimates full year growth of 22-25% in FY2023. SFBs are also expected to grow at a healthy pace and the overall growth in the AUM of MFIs + SFBs is expected to be in a similar range of 22-25% in FY2023.
Credit Costs		To remain elevated in FY2023, though better than FY2022	With the expected recovery in delinquencies, the credit cost is expected to decline in FY2023, though it would remain above the pre-Covid level. The outstanding restructured portfolio of NBFC-MFIs (ICRA sample) improved to 7.7% of AUM as on March 31, 2022 from 10.7% of AUM as on September 30, 2021. ICRA expects a further decline in the same in FY2023, driven by amortisation and slippages.
Funding and Liquidity of MFIs & SFBs		Debt – Rs. 40,000 crore in FY2023	Liquidity is expected to remain comfortable for most entities. The combined funding requirement in FY2023 to support growth, apart from refinancing existing/maturing lines, stands at around Rs. 40,000 crore for MFIs and SFBs.
Profitability (RoMA) MFIs + SFBs		1.5-1.7% in FY2023	With the improvement in margins and the reduction in credit costs, the profitability is expected to improve in FY2023, though it would remain below the pre-Covid level (FY2020). The combined profitability of NBFC-MFIs and SFBs is expected to be 1.5-1.7% in FY2023 with SFBs reporting a lower return on managed assets (RoMA) at 1.1-1.3% than that of MFIs at 1.9-2.1%.
Capital		Comfortable	Moderate capital requirement is expected to meet the envisaged growth over FY2023-FY2025. Large MFIs are expected to be comfortably placed with respect to the leverage profile. The combined equity capital requirement is estimated at Rs. 6,500-7,000 crore for MFIs and SFBs during FY2023-2025.



EXECUTIVE SUMMARY

- The industry (NBFC-MFIs) witnessed a revival in disbursements in H2 FY2022, especially in Q4 FY2022, after a lull in H1 FY2022. With the pickup in economic activity and the growth in disbursements in H2 FY2022, the industry registered an overall growth of 25% in its AUM in FY2022 with the AUM crossing Rs. 1,00,000 crore as on March 31, 2022.
- The disbursements in the first quarter of a fiscal are usually lower and were impacted in the current fiscal (FY2023) as well because the industry was busy implementing the revised regulatory framework. NBFC-MFIs reported an annualised growth of 8% in their AUM in Q1 FY2023. Nevertheless, given the buoyant demand and the expected increase in the average ticket size, the growth in the industry's AUM in the remaining quarters is expected to improve significantly. ICRA estimates full year growth of 22-25% for FY2023.
- As normalcy returned in Q2 FY2022 with the fall in Covid-19 infection rates and the improvement in the collection efficiency (CE), the softer bucket delinquencies of the sector improved. Further, entities restructured the affected exposures, which also led to an improvement in the overdue for some players. The performance of the restructured book, however, remains a monitorable as a sizeable part of the restructured book of many large entities was still under moratorium as on June 30, 2022.
- The gradual improvement in collections helped the industry register an improvement in delinquencies in H2 FY2022 followed by further recovery in Q1 FY2023. The 90+ dpd improved to around 5% by June 30, 2022 from the high of 6.2% as on September 30, 2021. For FY2023, ICRA expects a significant decline in delinquencies driven by some recoveries and write-offs by the entities. For the 90+ dpd, ICRA retains its estimate of around 2% by March 31, 2023.
- On the liquidity front, NBFC-MFIs and SFBs continued to maintain a healthy liquidity profile in FY2022 though a marginal decline was seen to reduce the negative carry. On-book liquidity, as a percentage of the AUM, stood at around 18% as on March 31, 2022 for the ICRA sample of NBFC-MFIs compared to around 20% as on March 31, 2021 (around 15% as on March 31, 2020). For NBFC-MFIs and SFBs combined, the on-book liquidity, as a percentage of the AUM, stood at around 16% as on March 31, 2022 compared to around 19% as on March 31, 2021 (around 15% as on March 31, 2020).
- The industry witnessed pressure on its yields and hence margins in FY2021 and the trend continued to some extent in FY2022. SFBs witnessed higher pressure on the net interest margins (NIMs) as the reversal of interest income impacted the yields, though the large MFIs reported largely stable NIMs in FY2022 compared to FY2021. The negative carry, because of the excess liquidity maintained by most entities, also played a part in lowering the NIMs. On an overall basis, the industry (MFIs + SFBs) reported a decline in the return on managed assets (RoMA) to 0.3% in FY2022 (-0.3% in H1 FY2022) from 0.6% in FY2021. This was primarily on account of SFBs and small MFIs with both categories reporting losses in FY2022. Large MFIs and hence overall NBFC-MFIs reported profits in FY2022. With the performance of the restructured portfolio yet to be fully established, as a part of the restructured portfolios of several entities was still under moratorium as on March 31, 2022, the pressure on the profitability is expected to remain to some extent, though ICRA expects a significant improvement in FY2023 followed by further improvement in FY2024.
- Given the industry's (NBFC-MFIs and SFBs) on-book portfolio growth (compound annual growth rate – CAGR) estimate of 20-25% p.a. for FY2023-FY2025 and the intention of maintaining the blended managed gearing below 6.0 times (below 8.0 times for SFBs and below 5.0 times for NBFC-MFIs), the players would need external capital of Rs. 6,500-7,000 crore (18-20% of closing net worth as on March 31, 2022) during this period, in ICRA's opinion.
- On the regulatory front, the RBI issued its final regulations, i.e. Master Direction - Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022, on March 14, 2022, which were initially made applicable from April 1, 2022 (however, the RBI later allowed the framework to be implemented not later than October 1, 2022). The said paper makes regulations lender agnostic and is hence applicable to all the RBI regulated entities (REs) involved in microfinancing activities. The regulations have removed the pricing cap applicable to NBFC-MFIs, amid other changes, and aim to provide a level playing field to all the players involved in microfinancing activities.

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
+91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: Jayantac@icraindia.com
Tel: +91 80 4332 6401/ +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: Communications@icraindia.com
Tel: +91 124 4545 860

Registered Office

B-710, Statesman House 148,
Barakhamba Road
New Delhi-110001
Tel: +91 11 23357940-45

Corporate Office

Building No. 8, 2nd Floor,
Tower A, DLF Cyber City, Phase II,
Gurgaon - 122 002
Tel: +91-124-4545300

Ahmedabad

1809-1811, Shapath V,
Opp: Karnavati Club,
S.G.Highway, Ahmedabad - 380015
Tel: +91 79 4027 1500/501

Bengaluru 1

'The Millenia', Tower B Unit No. 1004,
10th Floor, 1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

4th Floor, 'Shoban'
6-3-927/A&B, Somajiguda
Raj Bhavan Road,
Hyderabad - 500 082
Tel: +91 40 4067 6500

Hyderabad 2

No. 7-1-58, 301, 3rd Floor, 'Concourse',
Above SBI-HPS Branch, Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Kolkata

A-10 & 11, 3rd Floor,
FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg,
Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony, S. No. 210
CTS 3202 Range Hills Road,
Shivajinagar, Pune - 411 020
Tel: +91 20 2556 1194

Email: Info@icraindia.com

Helpdesk: 9354738909

Website: www.icra.in/ www.lcraresearch.in