

Money & Banking

MICROFINANCE BOOST

Improved demand, recovery to boost microfinance industry

Shobha Roy Kolkata | Updated on January 02, 2022



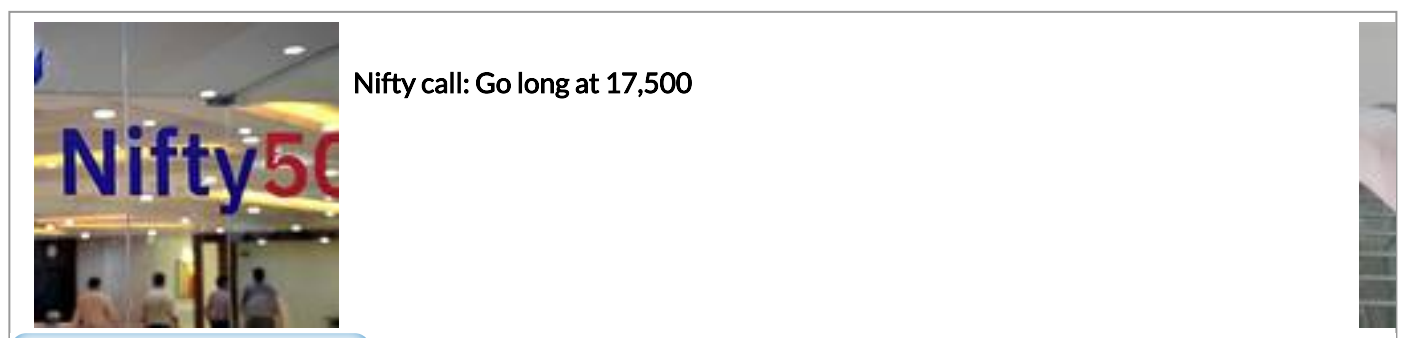
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Sector expects disbursements to pick up momentum by fourth quarter of this fiscal

The microfinance industry in India, which has been reeling under pressure due to a decline in collection efficiency and lower disbursements on the back of Covid-19-induced slowdown, is expecting to be back on track by the fourth quarter of this fiscal backed by a steady demand for credit and improved recovery.

According to Alok Misra, CEO and Director, Microfinance Institutions Network (MFIN), there has been an improvement in collection efficiency and disbursements have also been steadily growing.

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For the quarter ended September 30, 2021, NBFC-MFIs disbursed close to ₹19,672 crore through 54.3 lakh accounts. This is almost 141 per cent higher than the disbursements of ₹8,155 crore made during the same period a year ago, when both collections and disbursements had come to a grinding halt due to lockdowns across the country.

As on 30 September 2021, the industry served 5.65 crore unique borrowers through 10.52 crore loan accounts. Nearly 65 per cent of the portfolio is concentrated in the East, North-East and South regions.

The top 10 states constitute close to 82 per cent in terms of gross loan portfolio (GLP). West Bengal retains its spot as the largest State in terms of portfolio outstanding followed by Tamil Nadu and Bihar. Among top 10 States, West Bengal has the highest average loan outstanding per unique borrower of ₹51,648 followed by Assam at ₹46,300, the MFIN data said.

Healthy demand to boost AUM

A latest report by ICRA suggests that while the second wave of Covid-19 infections impacted business volumes in Q1 of FY22; nevertheless, growth is expected to pick up and the assets under management (AUM) of MFI industry is likely to grow by 12-15 per cent during the current fiscal.

The healthy demand in the industry and increasing level of economic activity is likely to result in a steady growth in disbursements and improvement in collection efficiency.

“The disruptions caused by the second wave impacted the AUM growth of the industry in H1 FY22 as the movement of people was greatly hindered and the entities focused on collections instead of disbursements. The pandemic-induced disruptions moderated the portfolio growth to around 5 per cent (annualised) in H1 FY22 as compared to growth of 9 per cent in FY21 . Nevertheless, aforementioned favourable factors provide hope for better growth prospects in FY22 with an estimated growth rate of 12-15 per cent,” Sachin Sachdeva, Vice President and Sector Head, Financial Sector Ratings, ICRA said.

Recovery and collections

According to ICRA, the asset quality metrics weakened quite sharply during the first half of this fiscal because of the localised lockdowns imposed by various States and union territories on account of the second wave. This impacted borrowers' cash flows and hence the collection efficiency.

With the gradual opening of the economy, microfinance activities resumed in Q2 and collections also bounced back to March 2021 levels. However, despite the recovery in collection efficiency in the second quarter, overdues increased significantly with the 90+ days past due (dpd) at 6.2 per cent as on September 30, 2021 compared to 5.3 per cent as on March 31, 2021. The delinquencies had risen significantly in May-June 2021.

However, with incremental restructuring and some recovery in collection efficiency, the reported delinquencies declined by September 30, 2021, though the same remain elevated as compared to March 2021 level. In addition, the industry had around 10 per cent of its AUM restructured as on September 30, 2021, and the performance of this (restructured book) would have to be monitored so as to get a clear view on any further rise in asset quality stress.

On the recovery front, though there were some markets such as Assam and West Bengal which continued to have lower collection efficiency (marginally less than 90 per cent), some other states including Bihar, Uttar Pradesh and parts of South India have seen collection efficiency close to 94-95 per cent. The collection efficiency is steadily improving across these States as well, sources said.

Though the portfolio growth is expected to drive an improvement in revenue, the expected elevated credit costs are likely to keep the profitability subdued in FY22 .

Comfortable liquidity

From a liquidity perspective, the MFIs have been supported by the various measures undertaken by the Reserve Bank of India (RBI) and the central government. During Q2 of this fiscal, NBFC-MFIs received a total of ₹14,389 crore in debt funding, which is 47 per cent higher than the same period last year. Other banks contributed 49 per cent of the total borrowing received followed by the top five banks at 23 per cent.

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