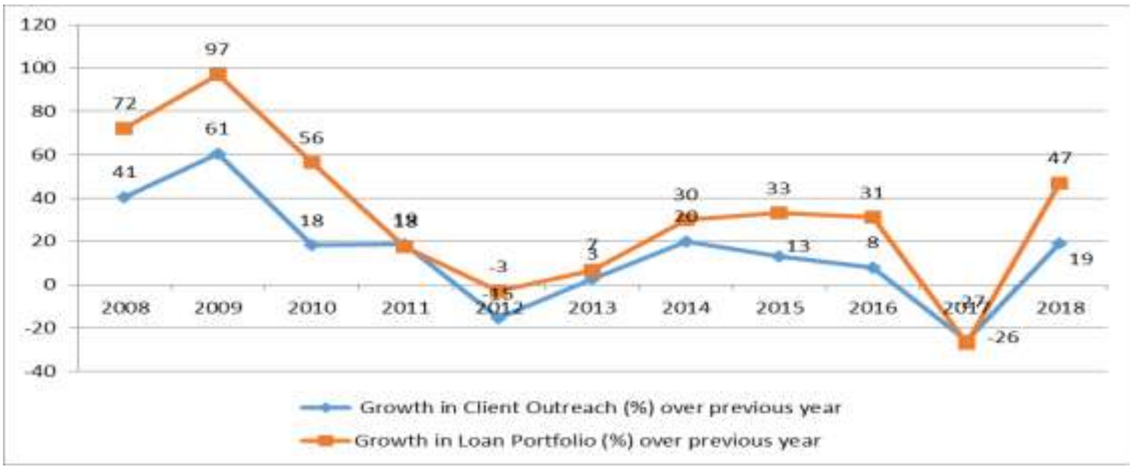
Empowering Through Inclusive Finance

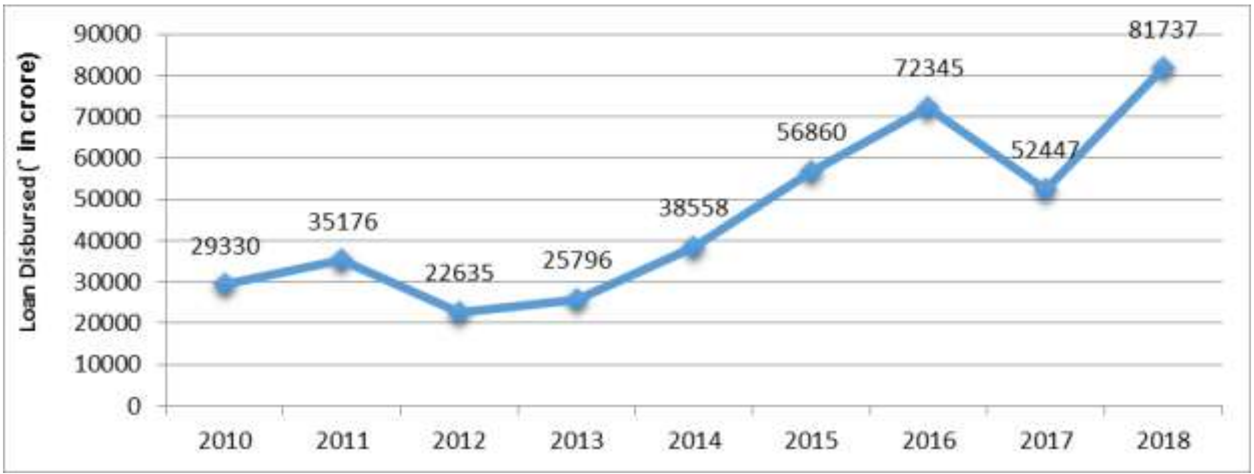
Microfinance Industry (MFI) bounces back, grows at 47% pegged at Rs. 68, 789 crore

New Delhi, September 19, 2018: The Indian Microfinance Industry has shown signs of positive recovery post impediments faced in the previous year. According to **Sa-Dhan's "Bharat Microfinance Report – 2018",** the Indian microfinance industry clocked a growth of **47%**, with gross loan portfolio of **₹68,789** crore compared to 2017's industry size of ₹46,842 crore. **Commenting on Bharat Microfinance Report 2017, P. Satish – Executive Director, Sa-Dhan, said,** *"While the overall environment is conducive for the growth of the microfinance sector, the post-demonetization effects persist in certain geographies where the institutions are still grappling with repayment related issues. The carry over effect has been noticed in the financials of some MFIs which had a bigger exposure in these geographies."*

Growth trend is also visible in the client outreach segment. Growth in client outreach was 19% over the past year. According to the Bharat Microfinance Report 2018, *Growth in outreach and loan portfolio has fluctuated year on year and reached its lowest level in 2012, owing to the AP crisis and consequent drop in commercial funding to MFIs. In 2013, however, the reverse trend started and continued in 2015 thanks to resumption of bank funding to MFIs. This upward growth is broken again in 2016 and 2017 because some Large MFIs converted to Bank and Small Finance Banks and exiting the MFI sector. The sector settled into new normal in 2018 and the breaks of 2016 and 2017 were left behind as aberrations*. The following chart encapsulates Growth Fluctuations in Outreach and Loan Outstanding over the last decade.

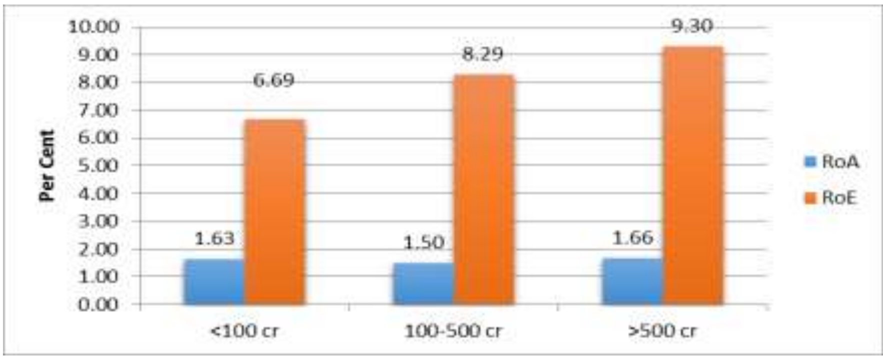


2017-18 witnessed 56% increase in loan disbursements over the previous year. It stood at ₹81,737 crore, the highest since 2015-16. However, the top ten MFIs disbursed ₹55,013 crore which is 67% of sector's total and rest of other MFIs disbursed 33% only. Among the regions, South still dominates the overall loan disbursement of MFIs with 34% followed by East with 30%. Central and West have a share of 18% and 9% respectively. While North and Northeast have least disbursement share of 7% and 2% respectively.

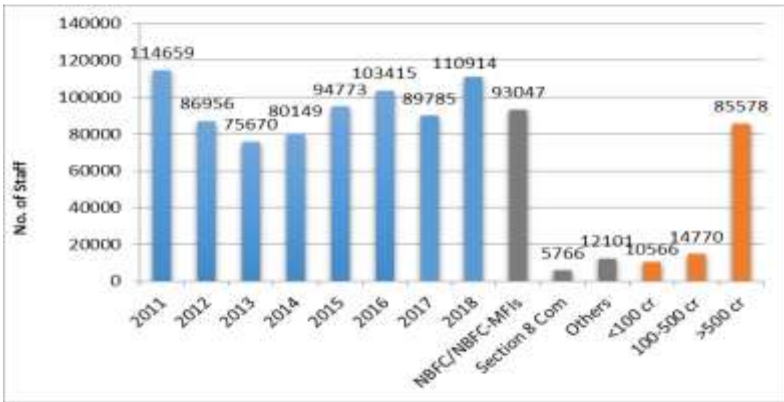


An interesting aspect of BMR 2018 is the fact that while the share of Rural clientele continues to higher at 55 % of the total, it has declined from 61 % in 2016-17. In the quantum of loan amount outstanding Rural India is still much higher. Out of the Rs. 68, 789 crore, Rural areas have a share of around Rs. 39,800 Cr or 58%.

Since the worst crisis of the microfinance sector in 2010, the sector has come back strongly and has been going from strength to strength for the last few years. This has again brought the sector in focus for the investors as it has shown immense potential in profitability, measured by the ROA and ROE of the last few years which has made the sector attractive to investment. In 2017-18, ROA and ROE stand at a healthy 1.63% and 7.48% for all types of MFIs put together. It needs to be noted that there is a clear trend of higher ROA and ROE for larger scale of operations. Hence the largest MFIs with outstanding portfolios over `500 crores have the highest ROA and highest ROE of 1.66% and 9.3% respectively while the MFIs with outstanding portfolio under `100 crore have ROA and ROE of only 1.63% and 6.69%.



84% workforce is being engaged by For-profit MFIs and MFIs with outstanding portfolio above `500 crore engaged 77% of the workforce in the industry. The MFI sector had brought down its workforce significantly from over one lakh in 2011 to just over 75,000 in 2013. Thanks to an increased fund flow to the sector, MFIs increased their workforce over the years in order to support their enhanced activity. As on 31st March' 2018, total workforce stood at 1,10,914 – a growth of 24%.

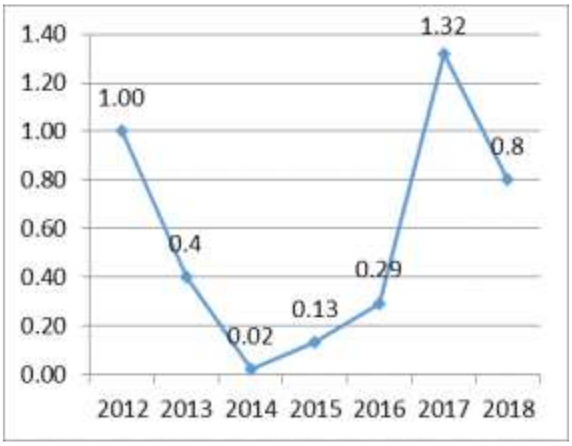


The loan portfolio is the primary income-generating asset in an MFI's balance sheet. Interest income typically constitutes over 90% of the total income of MFIs. Since lending in general has an inherent risk of repayment default, maintaining a healthy loan portfolio with minimum loan default ensures the profitability and financial health of an MFI. This section presents the analysis of current performance of the loan portfolio quality as measured through Portfolio at Risk1 (PAR 30 Days)

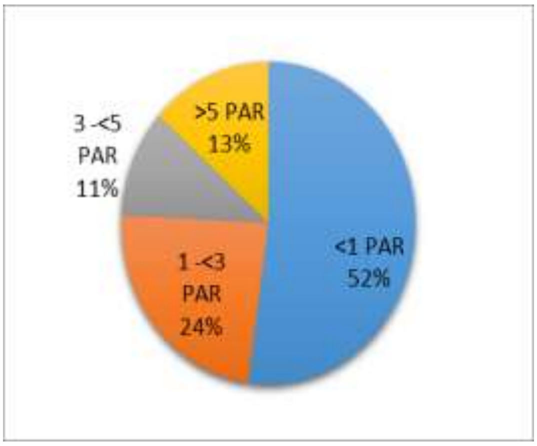
The portfolio quality of Indian MFIs is by and large healthy if we exclude the CDR (Corporate Debt Restructuring) MFIs' figures based in Andhra Pradesh. The overall PAR for the MFI sector has been coming down since 2012, but went up briefly post demonetization. However, overall PAR has since stabilized to normal levels.

[1] PAR indicates the proportion of outstanding amount of all loan accounts having past due/arrears to the total loan portfolio. In general, PAR 30, that is, the portfolio / part of the portfolio remaining unpaid 30 days and beyond crossing the due date, would be used as a measure to assess the portfolio quality.

MFI Loan Portfolio at Risk (PAR)



Distribution of MFIs Based on PAR



Adaption of technology will be key for the development of the sector. While loan disbursement has become 100% cashless, the sector will benefit enormously when loan repayments also follows the same method. Sa-Dhan has implemented a project “To Develop Digital Ecosystem for Improving Access to Finance for Unbanked” with support of HSBC. The progamme delves in important aspects like - (i) why transacting digitally is important, (ii) knowledge required to transact digitally such as knowledge on OTP, PINS, linking Aadhaar (iii) things to be avoided whilst conducting digital transactions and (iv) more specific digital financial literacy relevant to MFIs customers such as repayment of loans through online channels.

About Sa-Dhan

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Sa-Dhan is the oldest and largest association of community development finance institutions in India. It has been working for more than one and a half decades in supporting and strengthening the agenda of Financial Inclusion in India and creates a space and understanding of microfinance with policy makers, bankers, government, researchers and practitioners. It has a membership base of 187 institutions which reaches out to approximately 35 million clients across the country, with loan outstanding of more than Rs. 69,789 crores from over 90% districts in India. Sa-Dhan is recognized by the RBI as a Self-Regulatory-Organization (SRO) for the Microfinance Sector; and as a National Support Organization (NSO) by National Rural Livelihood Promotion (NRLM).

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