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INDIAN MICROFINANCE SECTOR

Collections bounce back to March 2021 level; Asset quality remains monitorable

DECEMBER 2021

Highlights

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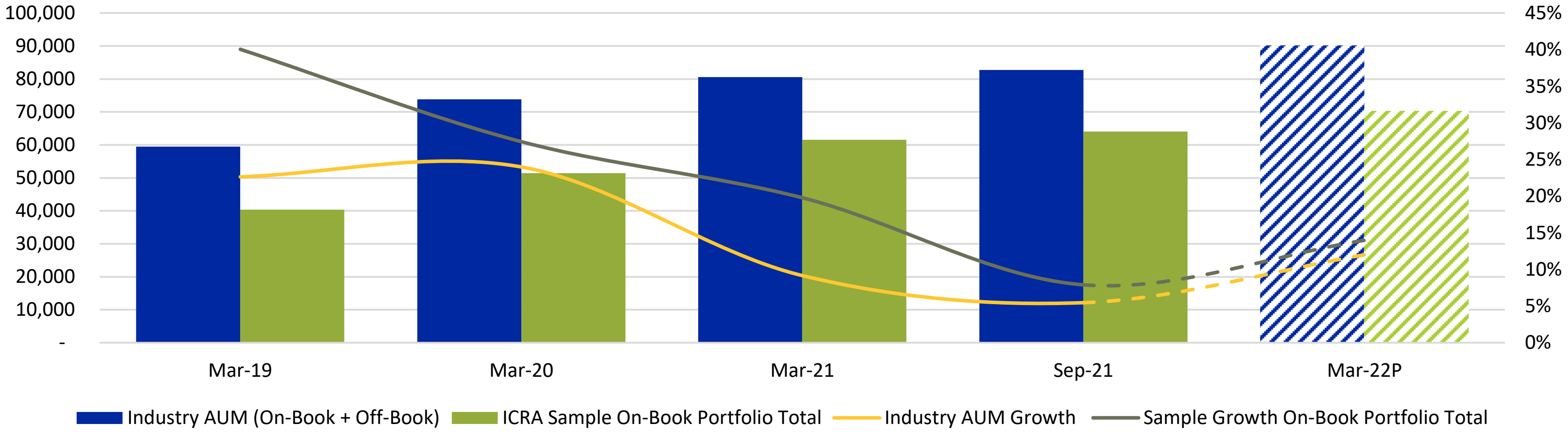
ICRA maintains the Negative outlook on the microfinance industry with continued uncertainty on asset quality and the ability of MFIs to recover from overdue/restructured accounts. Nevertheless, the growth in the AUM in FY2022 is expected to be better compared to FY2021.

- The disruptions caused by the second wave of the Covid-19 pandemic led to a decline in the microfinance industry's assets under management (AUM) in Q1 FY2022. Nevertheless, Q2 FY2022 witnessed some recovery in disbursements and ICRA expects the trend to continue in H2 FY2022.
- The subdued operating environment and the weakness in the asset quality metrics impacted the demand for securitisation. Consequently, the proportion of the off-book portfolio declined in H1 FY2022.
- The collection efficiency dipped by around 20-25% during April-May 2021 vis-à-vis the March 2021 level. However, with the gradual easing of restrictions, the collection efficiency bounced back by September 2021 to the March 2021 level.
- Notwithstanding the recovery in the collection efficiency in Q2 FY2022, the 90+ days past due (dpd) deteriorated to 6.2% as on September 30, 2021 from 5.3% as on March 31, 2021. ICRA expects the 90+ dpd to decline slightly in H2 FY2022, though it would remain elevated.
- Among the top 10 states as per the AUM, the portfolio quality was largely in line with the pan-India average, except for the weaker performance in West Bengal and Kerala. Nevertheless, the high share of vaccination in these states provides hope of a less adverse impact in case of future waves.
- The incremental restructuring in H2 FY2022 was around 8.4% of the AUM and consequently the outstanding restructured portfolio (adjusted for run-down and repeat restructuring), as on September 30, 2021, was around 10% of the AUM. ICRA expects some decline by March 2022.
- The Reserve Bank of India (RBI) and the Government of India (GoI) undertook various measures to shore up liquidity and introduced guarantee schemes for the stressed non-banking financial companies (NBFCs) including microfinance institutions (MFIs).

Second wave of Covid-19 impacted growth in H1 FY2022; some recovery expected in H2 FY2022

Exhibit 1: MFI Growth Trend (AUM & On-book)

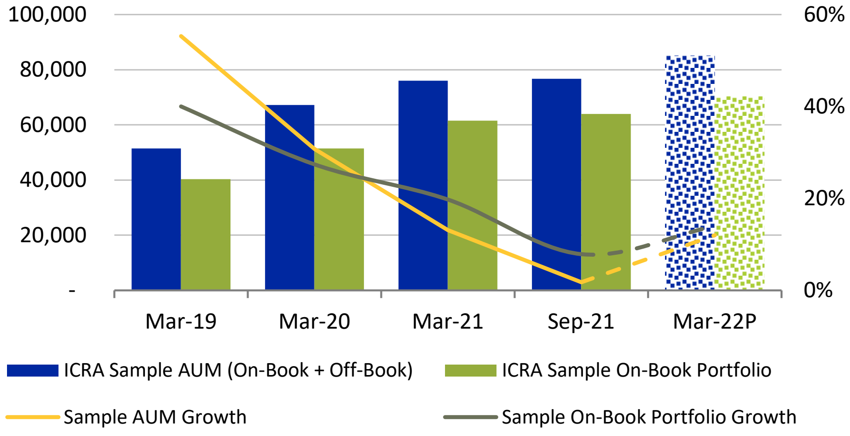


- The disruptions caused by the second wave impacted the growth of the microfinance industry in H1 FY2022 as the movement of people was greatly hindered and the entities focused on collections instead of disbursements. Consequently, the industry reported a significant moderation in growth in H1 FY2022.
- The industry's AUM witnessed an annualised growth of 5% in H1 FY2022 to Rs. 82,749 crore as on September 30, 2021 from Rs. 80,549 crore as on March 31, 2021 (Rs. 73,792 crore as on March 31, 2020). The ICRA Sample also saw a moderation in the growth of the on-book portfolio in H1 FY2022.

Source: Data from various MFIs, MFIN Micrometer, ICRA Research

Increase in share of on-book portfolio; off-book transactions to revive in H2 FY2022

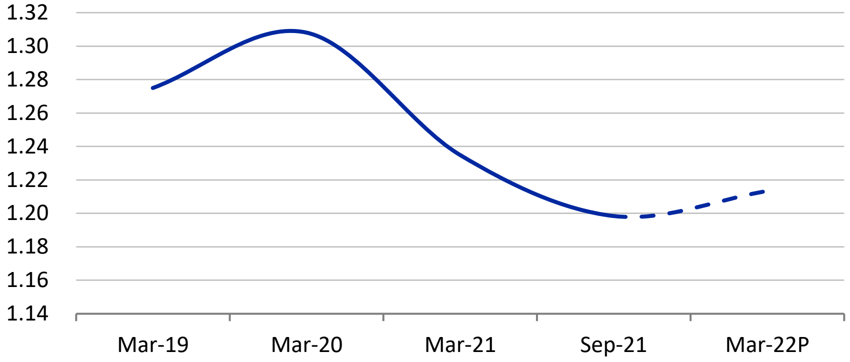
Exhibit 2: ICRA Sample (MFIs) Portfolio Growth Trend



Source: Data from various MFIs, ICRA Research

- The sector faced challenges in collections and disbursements owing to the second wave in H1 FY2022, leading to a decline in demand for securitisation.
- Lower availability of loan pools for securitisation also impacted volumes, which, in turn, restricted the availability of funds with MFIs for further disbursement.

Exhibit 3: ICRA Sample (MFIs) AUM/On-book Ratio

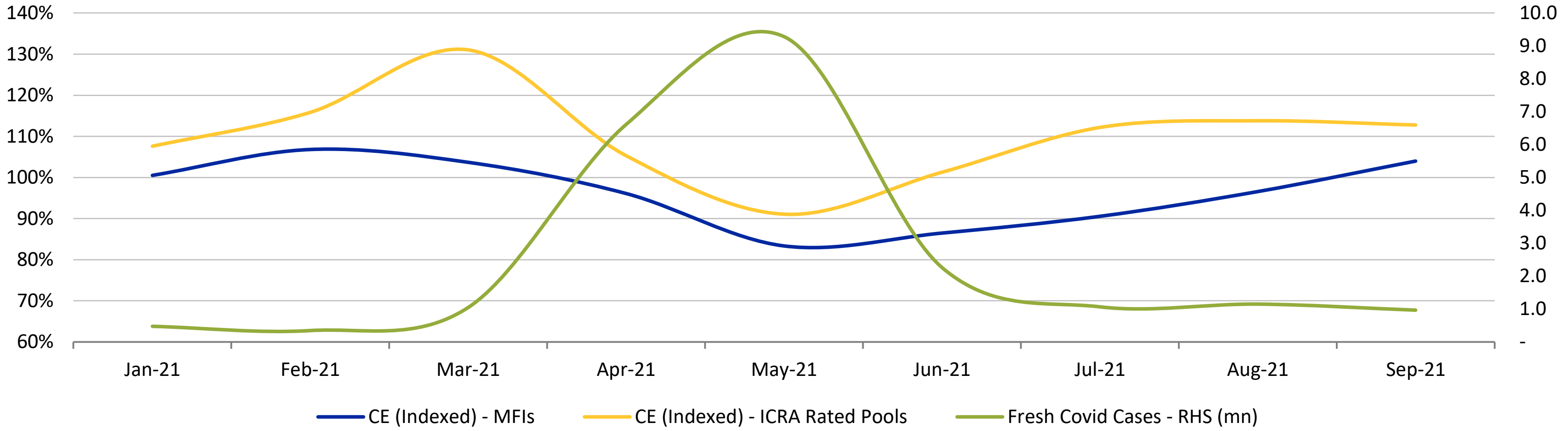


Source: Data from various MFIs, ICRA Research

- The share of the on-book portfolio for the ICRA Sample increased in H1 FY2022. Nevertheless, with the gradual improvement in disbursements and collections, and an increase in demand for securitisation/direct assignment, ICRA expects the trend to reverse slightly in H2 FY2022.

Collections in September 2021 bounce back to March 2021 level

Exhibit 4: Trend in Collection Efficiency* of MFIs (ICRA Sample)



- The collection efficiency* (indexed to January 2021) dipped significantly in Q1 FY2022 as the second wave of infections led to localised lockdowns. It declined by about 20-25% during April-May 2021 vis-à-vis the March 2021 level.
- However, with the gradual easing of restrictions, the collection efficiency bounced back by September 2021 to the March 2021 level.

Source: Data from various MFIs, ICRA Research

** (Current collections + overdue recoveries)/(monthly scheduled demand)*

Increase in delinquencies in H1 FY2022; some respite expected in H2 FY2022

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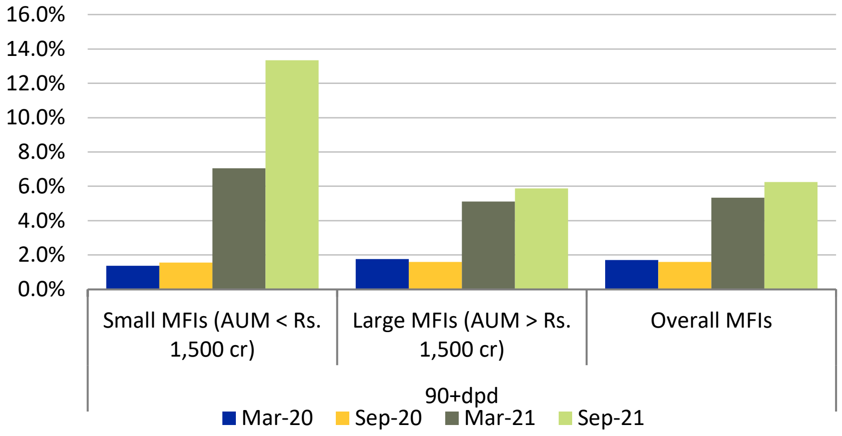
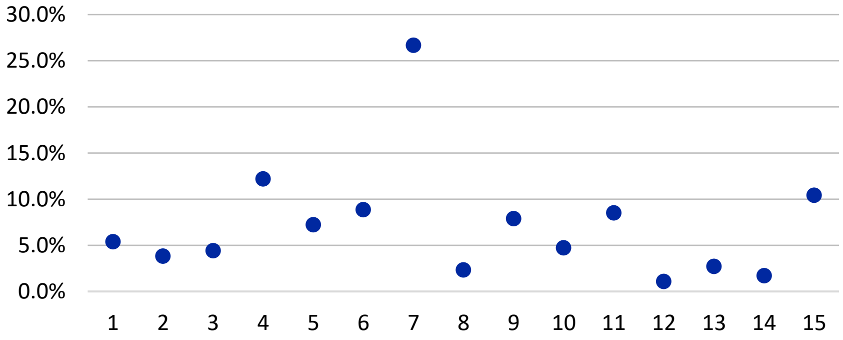
Exhibit 5: Trend in Delinquencies of MFIs Based on Size (ICRA Sample)



Source: Data from various MFIs, ICRA Research

Exhibit 6: Delinquency (90+dpd) Distribution across MFIs (ICRA Sample) as on September 30, 2021



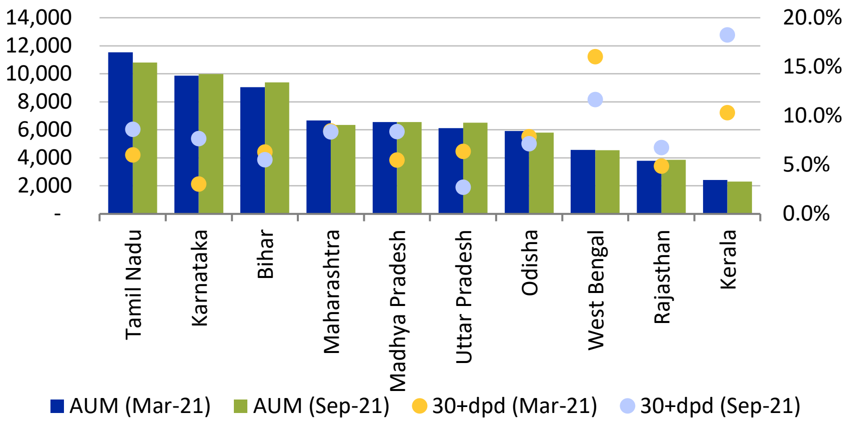
Source: Data from various MFIs, ICRA Research

- With the gradual opening of the economy, microfinance activities resumed in Q2 FY2022. Nevertheless, overdues increased significantly with the 90+ dpd at 6.2% as on September 30, 2021 compared to 5.3% as on March 31, 2021.
- MFIs increased their provision buffers; however, write-offs have been relatively limited so far.
- Larger MFIs (AUM > Rs. 1,500 crore) fared relatively better with lower delinquencies compared to smaller MFIs.

- The 90+dpd of the ICRA Sample varied from 1.1% to 26.7%.
- Given the gradually improving collection efficiency and the expected rise in the AUM, the share of the 90+dpd is expected to decline in H2 FY2022, though it would be subject to a potential third wave of the pandemic.

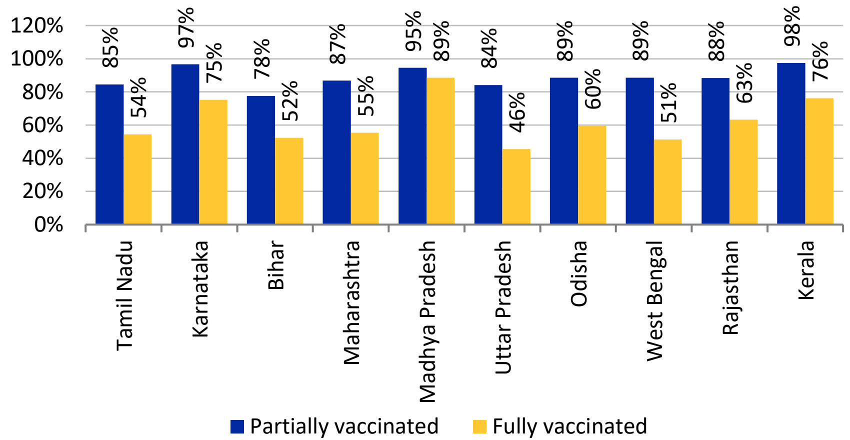
State-wise portfolio quality

Exhibit 7: Trend in State-wise (Top 10 by AUM) Delinquencies (30+dpd)



Source: Data from various MFIs, Sa-Dhan Q-MF Report, ICRA Research

Exhibit 8: State-wise (Top 10 by AUM) Vaccination Status (% of adult population)



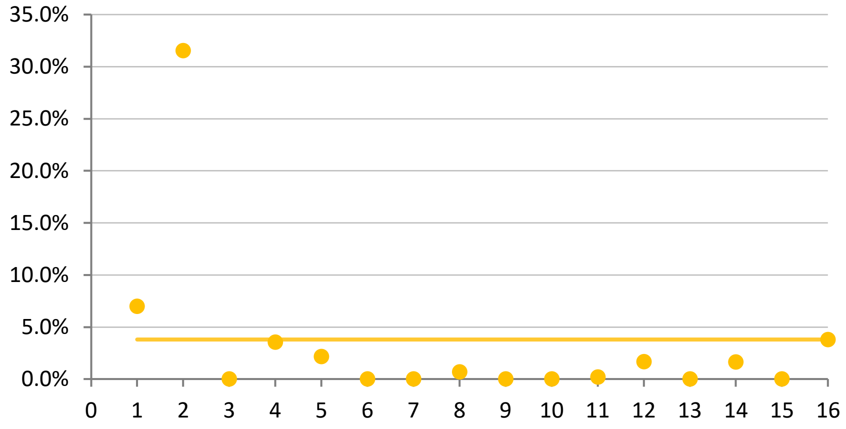
Source: Data from various MFIs, Sa-Dhan Q-MF Report, mygov.in, uidai.gov.in, CoWin, MoHFW; ICRA Research

- The top 10 states accounted for around 80% of NBFC-MFIs' AUM as on September 30, 2021.
- Among the top states, the portfolio quality was weaker in West Bengal and Kerala for NBFC-MFIs.

- The high share of vaccinated population provides hope for a less adverse impact on the asset quality in case of future waves of the pandemic.

Increase in restructuring in H1 FY2022

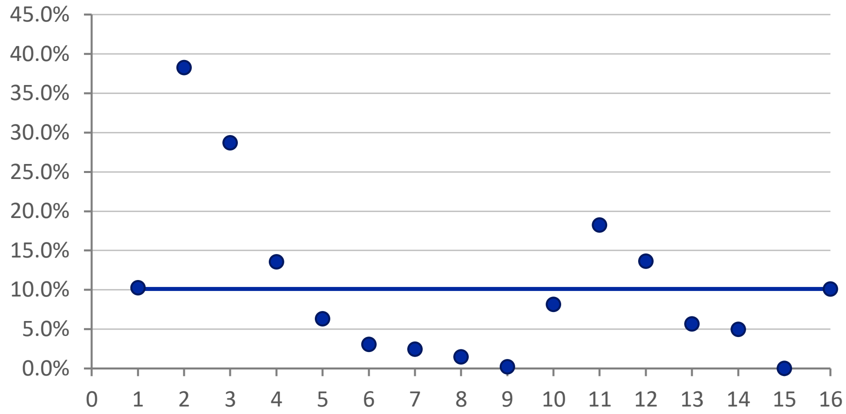
Exhibit 9: MFIs Restructuring (O/s portfolio as % of AUM as of Mar-21)



Source: Data from various MFIs, ICRA Research

- The level of loan restructuring by MFIs in FY2021 was slightly lower than previously anticipated. The average restructuring as of March 2021 was 3.7%.
- However, the second wave of infections and the prolonged weakness in the operating environment challenged the recovery witnessed in H2 FY2021.

Exhibit 10: MFIs Restructuring (O/s portfolio as % of AUM as of Sep-21)



Source: Data from various MFIs, ICRA Research

- Incremental restructuring in H2 FY2022 was 8.4% of the AUM and consequently the outstanding restructured portfolio (adjusted for run-down and repeat restructuring), as on September 30, 2021, was around 10%.
- The second restructuring package announced by the RBI to provide relief to Covid-19 impacted borrowers revitalized the demand for restructuring in FY2022. Unlike the last fiscal, no comprehensive forbearance (loan moratorium) has been offered to borrowers.

Measures Taken By RBI And GoI For Covid

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Details of schemes/programmes – RBI	Amount in Rs. '000 crore
Targeted long-term repo operations (TLTROs) of up to three years tenor at a floating rate linked to the policy repo rate for deployment in investment grade corporate bonds, commercial paper, and non-convertible debentures over and above the outstanding level of investments in these bonds in March 2020	100
TLTRO 2.0 auctions in tranches, with at least 50% of the total amount availed going to small and mid-sized NBFCs and MFIs in April 2020	50
Special refinance facilities at the policy repo rate to National Bank for Agriculture and Rural Development, Small Industries Development Bank of India, National Housing Bank and Export-Import Bank of India to meet sectoral credit needs in April 2020	75
Special liquidity facility for mutual funds (SLF-MF) to alleviate intensified liquidity pressures from redemption burden faced by MFs in April 2020	50
Partial Credit Guarantee Scheme extended to cover borrowings of lower rated NBFCs, housing finance companies (HFCs) and MFIs in May 2020	45
Special liquidity scheme for NBFCs. Investment will be made in primary and secondary market transactions in investment grade debt paper of NBFCs, HFCs and MFIs in July 2020. This was 100% guaranteed by the GoI	30
On Tap TLTRO was announced in October 2020 and banks were permitted to provide funds to NBFCs under the on tap TLTRO scheme in February 2021	100
Special three-year LTRO of Rs. 10,000 crore at repo rate for small finance banks (SFBs), to be deployed for fresh lending of up to Rs. 10 lakh per borrower in May 2021, available till October 31, 2021	10
Priority sector lending status to on-lending by SFBs to smaller MFIs (with asset size up to Rs. 5,00 crore) in May 2021, available till March 31, 2022	-
Detail of schemes/programmes – GoI	
- Collateral free loans with 100% credit guarantee from GoI cover extended to businesses/micro, small & medium enterprises (MSMEs) with loan outstanding up to Rs. 50 crore (20% of the loan o/s in February 2020) - Emergency Credit Line Guarantee Scheme (ECLGS) 2.0 was launched for healthcare sector and 26 stressed sectors (identified by Kamath Committee), with credit outstanding of more than Rs. 50 crore and up to Rs. 500 crore as on February 29, 2020, stressed due to Covid-19, among other criteria (20% of the loan o/s in February 2020) - ECLGS 3.0 was introduced to cover business enterprises in hospitality, travel and tourism, leisure, civil aviation and sporting sectors that meet the specified criteria (40% of the loan o/s in February 2020 or Rs. 2 crore, whichever is less) - ECLGS 4.0 100% guarantee cover to loans up to Rs. 2 crore to hospitals/nursing homes/clinics/medical colleges for setting up on-site oxygen generation plants Validity of ECLGS extended to September 30, 2021 or till guarantees for an amount of Rs. 450 thousand crore are issued. Disbursement under the scheme permitted up to December 31, 2021	450 (enhanced from 300)
Subordinated debt with partial credit guarantee support would be extended to non-performing assets (NPA)/stressed MSMEs (May 2020)	20
Fund of funds (FoF) with corpus of Rs. 10,000 crore would be created for equity funding of MSMEs with growth potential and viability. FoF to mobilise equity of about Rs. 50,000 crore (May 2020)	10
Loan Guarantee Scheme for COVID Affected Sectors (health sector – Rs. 50,000 crore; other sectors – Rs. 60,000 crore) (June 2021)	110
Credit Guarantee Scheme for MFIs (June 2021)	7.5

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ICRA Analytical Contact Details

Karthik Srinivasan	**Sachin Sachdeva**	**Prateek Mittal**
Senior Vice-President	*Vice-President*	*Senior Analyst*
karthiks@icraindia.com	sachin.sachdeva@icraindia.com	prateek.mittal@icraindia.com
022 - 6114 3444	0124 – 4545 307	033 – 7150 1132

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Business Development/Media Contact Details

L. Shivakumar	**Jayanta Chatterjee**	**Naznin Prodhani**
Executive Vice-President	*Executive Vice-President*	*Head Media & Communications*
shivakumar@icraindia.com	jayantac@icraindia.com	communications@icraindia.com
022- 6114 3406	080 – 4332 6401	0124 – 4545 860

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Thank You!