



# Non-banking Financial Companies – Microfinance Institutions

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**Improved risk profile driven by healthy  
profitability and adequate  
capitalisation**

**February 2024**



# List of abbreviations

<b>ARCs</b>	Asset reconstruction companies
<b>AUM</b>	Assets under management
<b>BPS</b>	Basis points
<b>BC</b>	Business correspondent
<b>CoF</b>	Cost of funds
<b>CP</b>	Commercial paper
<b>DA</b>	Direct assignment
<b>DPD</b>	Days past due
<b>FI</b>	Financial institution
<b>MCE</b>	Monthly collection efficiency
<b>MFIs</b>	Microfinance institutions

<b>NBFCs</b>	Non-banking financial companies
<b>NBFC-MFIs</b>	Non-banking financial companies – microfinance institutions
<b>NCD</b>	Non-convertible debentures
<b>NIM</b>	Net interest margin
<b>P.A.</b>	Per annum
<b>PTCs</b>	Pass-through certificates
<b>RBI</b>	Reserve Bank of India
<b>RoMA</b>	Return on average managed assets
<b>SFB</b>	Small finance bank
<b>SHG</b>	SHG Bank Linkage Programme
<b>YoY</b>	Year-on-year

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## NBFC-MFIs Sector Outlook

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*ICRA carries a Stable outlook on the sector as it expects healthy growth and profitability*





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*ICRA expects the AUM growth of NBFC-MFIs to remain healthy in FY2024-FY2025, but lower than the highs seen in FY2023.*

*ICRA expects NBFC-MFIs to report RoMA of 3.2-3.4% in FY2024, with the same projected to improve further to 3.3-3.5% in FY2025.*



- The growth in the NBFC-MFIs' AUM is expected to remain healthy, given the buoyant demand. However, it is expected to moderate to 24-26% in FY2024 and further to 23-25% in FY2025 from the highs seen in FY2023.



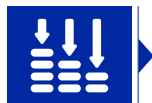
- NBFC-MFIs witnessed a significant increase in the borrower base, which grew by 29% YoY in H1 FY2024. With a focus on increasing the borrower base, the portfolio outstanding per borrower grew by a mere 4% YoY in H1 FY2024 with relatively lower ticket size loans disbursed to new borrowers.



- ICRA expects the overall profitability to remain healthy with RoMA of 3.2-3.4% in FY2024. It is expected to improve further to 3.3-3.5% in FY2025, aided by gradual moderation in credit costs and some improvement in the operating efficiency.



- With the impact of the Covid-19 pandemic waning, delinquencies have been improving over the last few quarters. While there could be some uptick in Q3 FY2024 owing to regional issues, ICRA estimates an overall decline of around 40-60 bps in 90+dpd for FY2024, aided by write-offs, recoveries and increase in scale.



- NBFC-MFIs raised sizeable funds (~Rs. 50,000 crore including securitisation) in H1 FY2024, which was around 50% higher on a YoY basis. The fund raise was largely supported by on-book funding from banks. Securitisation volumes also remain healthy.



- With the waning of stress and to meet the qualifying assets criteria, the liquidity level of NBFC-MFIs, as of September 2023, was lower than the past levels but remains adequate. Moreover, the sector's access to funding remains sufficient.



- Regular equity infusions have helped maintain adequate capitalisation with the managed gearing estimated at 4.4 times as of September 2023. ICRA expects moderate capital requirement of Rs. 2,000-2,500 crore in FY2024-FY2025 to maintain a managed gearing of less than 4.5 times, considering the growth outlook.



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