

NBFC-MFIs

**Industry set for profitability boost in
FY2024, with growth remaining
robust**

May 2023



ICRA expects RoMA of NBFC-MFIs to improve to 2.6-2.8% in FY2024 from 1.9-2.1% in FY2023e



- ICRA expects the non-banking financial company – microfinance institutions (NBFC-MFIs) sector to report a return on managed assets (RoMA) of 1.9-2.1% in FY2023 and projects the same to increase further to 2.6-2.8% in FY2024.



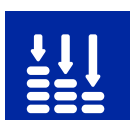
- The improvement in the profitability would be an interplay of the growth in the assets under management (AUM), increase in net interest margins (NIMs) and reduction in credit costs, though the operating costs are expected to remain range-bound.



- The impact of rising interest rates on funding costs is likely to be visible in H2 FY2023 and FY2024. However, the NIMs are expected to rise in FY2023 and FY2024 as the entities have increased their lending rates under the new regulatory regime.



- With the expectation of buoyant demand and increase in the average ticket size, as seen Q2 FY2023 onwards, the industry's AUM is projected to grow at a healthy rate. ICRA estimates AUM growth of 30-35% for FY2023 and 20-25% for FY2024.



- While demand remains firm at present, uncertain global macroeconomic conditions, the high interest rate scenario and the increasing base of the industry would lead to a moderation in the growth rate in FY2024.



- The credit cost is expected to decline in FY2024 with continued improvement in the asset quality indicators, driven by recoveries and write-offs. ICRA expects the 90+ days past due (dpd) of NBFC-MFIs (ICRA sample) to improve to 2.0-2.2% by March 2024 from 3.7% as on December 31, 2022.



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Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice-President	karthiks@icraindia.com	+91-22-61143444
Sachin Sachdeva	Vice-President	sachin.sachdeva@icraindia.com	+91-124-4545-307
Prateek Mittal	Senior Analyst	prateek.mittal@icraindia.com	+91-33-7150-1132
Arpit Agarwal	Analyst	arpit.agarwal@icraindia.com	+91-124-4545-873





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693377
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860





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