



MICROFINANCE INSTITUTIONS NETWORK

Media Coverage Report

**NBFC-MFIs' AUM rises 42% y-o-y led by increase in Q1 disbursements
(Micrometer)**

Media Coverage Index

Sr. No.	Date	Publication Name	Edition
NBFC-MFIs' AUM rises 42% y-o-y led by increase in Q1 disbursements			
1.	25.09.2023	Business Standard	Print + Online
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4.	08.09.2023	Financial Express	Online

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Amber lights switched on

Microfinance institutions are turning cautious as indebtedness shows signs of uptick: From the rural economy to the kirana store. Raghu Mohan reports

I don't want to sound alarmist, but it pays to be cautious," says Manoj Kumar Nambiar, managing director (MD) of Arohan Financial Services, a microfinance institution (MFI). MFIs are now the largest providers of micro-credit with loans outstanding of ₹1,42,245 crore at end-May 2023; their share being 40.6 per cent of industry portfolio of ₹3,50,322 crore (this data is based on loans originated after February 2017; June 2023 data is not yet available). While banks were dominant during Covid-19, MFIs have since taken the lead. The value of the Financial Inclusion Index (FI Index) for March 2023 at 60.1 compares to 56.4 in March 2022, with growth across all sub-indices. "Improvement in FI Index was mainly contributed by usage and quality dimensions, reflecting deepening of financial inclusion," said the Reserve Bank of India (RBI) last week. So, what explains Nambiar's stance? "Indebtedness is on the rise. While delinquencies have not gone up, they are still not back to their

pre-Covid levels". More than 75 per cent of the microfinance portfolio is in rural areas. "The sector needs to take adequate caution while expanding its credit portfolio so that it doesn't burden borrowers with extra repayments, especially at a time when the rural economy may suffer due to a rainfall deficit," says Jiji Mammen, chief executive officer (CEO) and executive director of Sa-Dhan, a MFI self-regulatory organisation. Bihar is a case in point: The largest state in terms of microfinance loan outstanding is rainfall deficient.

Industry's challenge

The average loan amount disbursed per account has moved up: During Q1 FY24, it was ₹44,114, an increase of around 8.3 per cent in comparison to the same quarter of the last financial year, according to the Microfinance Institution Network. And a gradual shift to individual loans from the joint liability group model gives rise to overleveraging risks. "The concurrent challenge is managing growth alongside credit quality, which warrants meticulous observation," notes CareEdge Ratings. This is

despite there being a discernible reduction in the restructured loan portfolio, with the book contracting to 5.1 per cent as on September 30, 2022 from 9.5 per cent in FY22 and further to 1.6 per cent in FY23. Another variable: "Continuation of support from impact funds and private equity (PE) investors at the same pace will also be critical and needs to be closely monitored," according to CareEdge.

And last week, Mint Road issued a key notification that went below the radar: Data quality index (DQI) for commercial and microfinance segments by credit information companies (CICs). CICs have been asked to provide DQI to credit institutions (CIs), latest by March 31, 2024; this information would also include numeric scores on a monthly basis. And CIs have been asked to undertake a half-yearly review of DQI for all segments to improve the quality of the data submitted to CICs. Simply put, the quality of microfinance loans is under close watch.

Here's one more data point to take into account. Across all fast-moving consumer goods (FMCG) categories, the number of stores stocking products has gone down month-on-month. "With the August rain shortfall being at almost a 100-year low, we do see kiranas stocking very carefully. Even as we expect edible oil prices to hold during the festival season, they are currently down by over a third year-on-year and leading to a drop in sales," says Akshay D'Souza, chief of growth and insights at Bizom, a retail intelligence platform. "As we look ahead, it does seem that the impact of rains in September will be critical to the sowing season and this could impact sentiment and sales and consumption of FMCG products, especially in rural areas".

In the plot

A potential slowdown in credit to MFIs is to be read in along with what's happening in the world of business correspondents (BCs), who have played a big role in financial inclusion, contributing hugely to the success of the Pradhan Mantri Jan Dhan Yojana (PMJDY). "Yet we continue to face challenges in accessing adequate VC (venture capital) funding. This could become a hurdle for financial inclusion going ahead," says Seema Prem, co-founder and CO, FIA Global, a corporate BC.

The underserved have started to become more comfortable with adopting complex financial products, says BC industry, with its extensive digital network and millions of trained banking agents is uniquely positioned to cater to this demand effectively (even as boots-on-ground continues to be critical). "Without funding, BCs will struggle to invest in the latest technology, enhance their service offerings and expand their reach". A fact: No BC has received funding in the last decade for working on the PMJDY programme. What's sought to be conveyed here is that by investing in BCs, the government will set the foundation for a robust financial ecosystem that fosters entrepreneurship, wealth creation, and employment opportunities. And, in turn, this will contribute significantly to propelling the march towards a \$5 trillion economy.

"Customer affinity of the BC channel is strong and leveraging the extensive distribution network of these agents can improve the flow of credit to the underserved. The RBI should work towards broadening the current co-lending framework to allow banks to collaborate with tenured BCs," says Dharamidhar Tripathy, MD and CEO of Business Correspondent Resource Council. His solution: Set up an India Business Correspondent Equity Fund – similar to the India Microfinance Equity Fund – as a consortium between government, banks and financial institutions. This will catalyse VC and PEs also to join in.

What is unfolding on the MFI plot on early signs of indebtedness mirrors what is mentioned in RBI's September bulletin: Net financial savings were down at 5.1 per cent of gross domestic product (GDP) in FY23 from 7.2 per cent in the previous financial year. Financial liabilities of households were sharply up 5.8 per cent last fiscal compared with 3.8 per cent in FY22, suggesting a larger-than-usual recourse to debt-driven consumption.

And on top of all this, there's the elephant in the room: We are heading towards a big electoral cycle. The temptation to announce loan write-offs – will it raise its head?



We continue to face challenges in accessing adequate VC funding. This could become a hurdle for financial inclusion



SEEMA PREM
Co-founder & CEO, FIA Global



The (microfinance) sector needs to be careful so that it doesn't burden borrowers with extra repayments



JJI MAMMEN
CEO & ED, Sa-Dhan

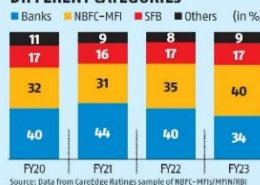


It pays to be cautious. Delinquencies haven't gone up, but are still not back to their pre-Covid levels



MANOJ KUMAR NAMBIAR
MD, Arohan Financial Services

PORTFOLIO TRENDS ACROSS DIFFERENT CATEGORIES



STRESSED ASSETS



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NBFC-MFI disbursements increase 45.8% to Rs 30,398 crore in Q1FY24



Illustration: Ajay Mohanty

Abhijit Lele | Mumbai

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Loans disbursed by non-banking financial companies-micro finance institutions (NBFC-MFIs) rose by 45.8 per cent year-on-year (Y-o-Y) to Rs 30,398 crore during April-June 2023 (Q1FY24) against Rs 20,845 crore during April-June 2022 (Q1FY23), according to Micro Finance Institutions Network (MFIN) data.

The surge in disbursements is on the back of slowdown in activity during April-June 2022 when lenders were reorganising working operations as the Reserve Bank of India (RBI) revised regulatory norms.

The changed norms provided a level-playing field for NBFC-MFIs compared to banks, which are also formidable players in the micro finance space.

Sequentially, however, the disbursements were much lower compared to Rs 41,490 crore in January-March 2023 (Q4FY23), the final quarter of FY23.

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Led by hike in Q1 disbursements, AUM of NBFC-MFIs up 42%

BIG LEAP. Total equity of NBFC-MFIs grew 30.2% y-o-y to ₹26,290 cr as on June 30

Anshika Kayastha
Mumbai

Assets under management of NBFC-MFIs rose 41.6 per cent y-o-y to ₹1.3 lakh crore as of June 2023, led by a 45.8 per cent increase in Q1 disbursements to ₹30,398 crore. The AUM accounted for 41 per cent of the total outstanding MF1 loans as of June 2023.

NBFC-MFIs disbursed these loans through 68.9 lakh accounts, as compared to disbursements of ₹20,845 crore in the year-ago period through 51.2 lakh accounts, as per Microfinance Industry Network (MFIN)'s Micrometer report for Q1FY24.

Of the AUM as of June 2023, ₹1 lakh crore was owned portfolio and ₹22,111 crore was managed or off-balance sheet loans, the report said, adding that the average loan ticket size increased 8.3 per cent y-o-y to ₹44,114.

“During Q1FY24, NBFC-MFIs received a total of ₹15,708 crore in debt funding, which is 65.7 per cent



STEADY RISE. About 1.02 crore loans were disbursed during April-May, with the trend indicating Q1 disbursements to be higher than the 1.16 crore loans disbursed in Q1 FY23 GETTY IMAGES

higher than Q1FY23. Total equity of the NBFC-MFIs grew by 30.2 per cent y-o-y to ₹26,290 crore as on June 30, 2023,” the report said.

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On an overall basis, microfinance loans were up 19.5 per cent for the 11-month period ended May 2023 to ₹3.5 lakh crore, serving 7 crore unique borrowers through 13.2 crore loan accounts.

About 1.02 crore loans were disbursed during April-May, with the trend indicating Q1 disbursements to be

higher than the 1.16 crore loans disbursed in Q1 FY23. Loans worth ₹43,501 crore were disbursed during these two months compared with ₹45,830 crore disbursed in April-June of 2022.

“Once June data is available the y-o-y growth will be higher. The sector has increased client outreach by nearly 1 crore during the last 11 months,” said MFIN CEO and Director Alok Misra.

He added that the portfolio quality of loans improved, with the 1-60 day PAR (portfolio at risk) bucket declining to 1.77 per

cent in May 2023 from 3.62 per cent a year ago.

SECOND LARGEST

Banks were the second largest micro credit lenders with total loan outstanding of ₹1.1 lakh crore, accounting for 32.5 per cent of total loans, followed by small finance banks which had an AUM of ₹60,293 crore and market share of 17.2 per cent. NBFCs accounted for another 8.7 per cent and other MFIs for the remaining 1 per cent.

East, north-east and southern States comprised 63 per cent of the total portfolio, with Bihar maintaining its position as the largest State in terms of portfolio outstanding, followed by Tamil Nadu and Uttar Pradesh. The share of East and North-east States fell to 34.4 per cent from 37 per cent a year ago, whereas that of South and North regions gained over 1.5 per cent each.

Active microfinance loan accounts were up 12.5 per cent to 13.2 crore in May 2023, the report said.

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URL: <https://www.financialexpress.com/business/sme-microfinance-loan-portfolio-jumps-nearly-20-during-april-may-fy24-from-q1-previous-fiscal-report-3236893/>

Microfinance loan portfolio jumps nearly 20% during April-May FY24 from Q1 previous fiscal: Report

Lender-wise, 85 NBFC-MFIs were the largest provider of micro-credit with a loan amount outstanding of Rs 1,42,245 crore, accounting for 40.6 per cent of the total industry portfolio during the April-May period. On the other hand, 13 banks held the second largest share of the portfolio in micro-credit with a total loan outstanding of Rs 1,13,806 crore.

industry portfolio during the April-May period. On the other hand, 13 banks held the second largest share of the portfolio in micro-credit with a total loan outstanding of Rs 1,13,806 crore.

Written by [Sandeep Soni](#)

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The average loan size, according to the report increased from Rs 39,597 in Q1 last fiscal to Rs 42,675 during April-May this fiscal. (Image: pixabay)

Microfinance loans: The Microfinance sector's loan portfolio grew 19.5 per cent in the past 11 months as the loan outstanding as of May 2023 stood at Rs 3.5 lakh crore vis-a-vis Rs 2.93 lakh crore as of June 2022 while loan accounts grew to 13.2 crore till May from 11.8 crore in June last year. The April-May FY24 data for the microfinance sector was released on Friday by Microfinance Industry Network (MFIN), an industry association for Microfinance and RBI-recognized self-regulatory organization.