

The MicroScape

FY 2018 - 2019



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Preface & Acknowledgements

MFIN

Micro Finance Institutions Network (MFIN) is an association of Non-Bank Finance Company Micro Finance Institutions (NBFC-MFIs). Currently the association has 56 members, diverse in size and geographic spread, representing over 70% of the microfinance operations of NBFC-MFIs and around 37% of the microfinance industry in India, excluding SHGs [Micrometer Q4 2018-19]. MFIN works closely with regulators and other key stakeholders to achieve larger financial inclusion goals through microfinance.

MFIN's vision is to be an engine of inclusive growth for India and help provide financial services to 100 million low income households by the year 2020, in a responsible and transparent manner, thereby helping them build sustainable livelihoods.

MFIN was established in October 2009 as the primary representative body of the NBFCs engaged in microfinance. Since its establishment, MFIN has spearheaded a range of initiatives that help meet the diverse and challenging needs of a rapidly evolving industry. It has been at the forefront of transformative work for the microfinance industry in area of policy advocacy and market development (business conduct, infrastructure, information/analysis, and best practices among others).

Knowledge and information based on relevant, accurate and timely data are edifice of MFIN's work in three core areas of Self-regulation, Advocacy and Development. Over the years, MFIN has taken a series of steps to contribute to enhanced body of information to guide market practices and support policy discourse. The MicroScape, our annual publication, is one critical product to support our efforts to bring greater transparency and accountability to the industry.

MicroScape

This is the eighth edition of the MicroScape, that offers a comprehensive operational and financial benchmark for the NBFC-MFIs in a given financial year. Analysis presented in the MicroScape is based on data and Audited Financial Statements collected from the of MFIN member MFIs (NBFC-MFIs).

This edition of the MicroScape captures the important operational and financial trends in the industry for the Financial Year (FY) 18-19 and compares key performance indicators with previous three financial years FY 15-16, FY 16-17 and FY 17-18.

Data and methodology

The analysis is based on the data of 31 NBFC-MFIs for the FY 2018-19. However, there are variations in data sets for other three financial years (FY 15-16, FY 16-17 and FY 17-18) due the year of establishment of some MFIs. MFIs have been grouped based on their Gross Loan Portfolio (GLP) at the end of each FY. MFIs with GLP < Rs 100 Cr were categorized as small, GLP > Rs 100-500 Cr as medium and GLP > Rs 500 Cr. as large. Complete list of MFIs under different **peer groups** in each FY is provided in the **Annexure 1** and a high-level number of institutions included for analysis are as below.

FY	All	Small	Medium	Large
2015-16	21	3	10	8
2016-17	23	2	12	9
2017-18	28	4	10	14
2018-19	31	6	9	16

Data and ratios used for operational analysis is taken from Annual Data Collection Tool (ADCT) sent by MFIs and thus is self-reported data. Financial analysis is based on the Audited Financial Statements of MFIs for the FYs 2015-16, 2016-17, 2017-18 and 2018-19. The approach adopted for analysis is highlighted below

- Productivity and financial ratios are weighted averages unless stated. All data points and analysis presented in this report pertains to MFIN member NBFC-MFIs that shared data.
- Treatment of the financial statements is based on IFRS Standards
- CGAP standard definitions and formulae are used for all analysis. Definitions and ratio used in the publication is provided in **Annexure 2**

MFIN is grateful to its Members for their unflinching support and cooperation in providing very detailed and rich data in an accurate manner.

Benchmarks
[FY 2018-19 & as on 31 March 2019]

Outreach	All	Small	Medium	Large
Av. GLP/MFI (Rs Cr)	1,398	50	267	2,539
Av. loan O/s/account (Rs)	21,934	20,884	17,329	22,293
Av. loan disb./MFI (Rs Cr)	1,503	55	331	2,706
Av. loan disb./account (Rs)	25,271	24,828	26,065	25,222
Operational efficiency				
Borrowers per loan officer	468	248	504	469
GLP per loan officer (Rs Lk.)	103	52	87	104
Borrowers per branch	2,507	853	2,208	2,573
GLP per branch (Rs Cr.)	4.4	2.0	4.3	5.4
Loan officers per branch	5	3	4	5
Loan officers to total staff	62%	65%	58%	62%
Operating Expense Ratio	6.7%	15.4%	7.1%	6.6%
Financial Cost Ratio	10.9%	10.3%	13.7%	10.7%
Cost per borrower (Rs)	1,186	1,569	1,008	1,197
Financial performance				
Loan portfolio to total assets	78.6%	67.5%	78.8%	78.6%
Borrowings to total assets	73.4%	59.8%	77.4%	73.2%
LLR to total assets	1.0%	0.4%	0.8%	1.0%
Equity to total assets	21.0%	24.1%	17.5%	21.2%
CRAR	25.4%	30.9%	21.9%	25.7%
Debt to Equity ratio	3.8	3.1	4.7	3.7
Return on Assets	3.6%	-1.2%	2.3%	3.7%
Return on Equity	17.8%	-4.0%	14.7%	18.1%
OSS	120%	94%	112%	121%
PAR >30	1.6%	0.3%	0.7%	1.7%
Gross NPA	1.1%	0.1%	0.4%	1.2%
Net NPA	0.2%	0.1%	0.4%	1.2%
Risk coverage ratio	0.61	1.45	1.23	0.60

Section 1

Outreach Analysis

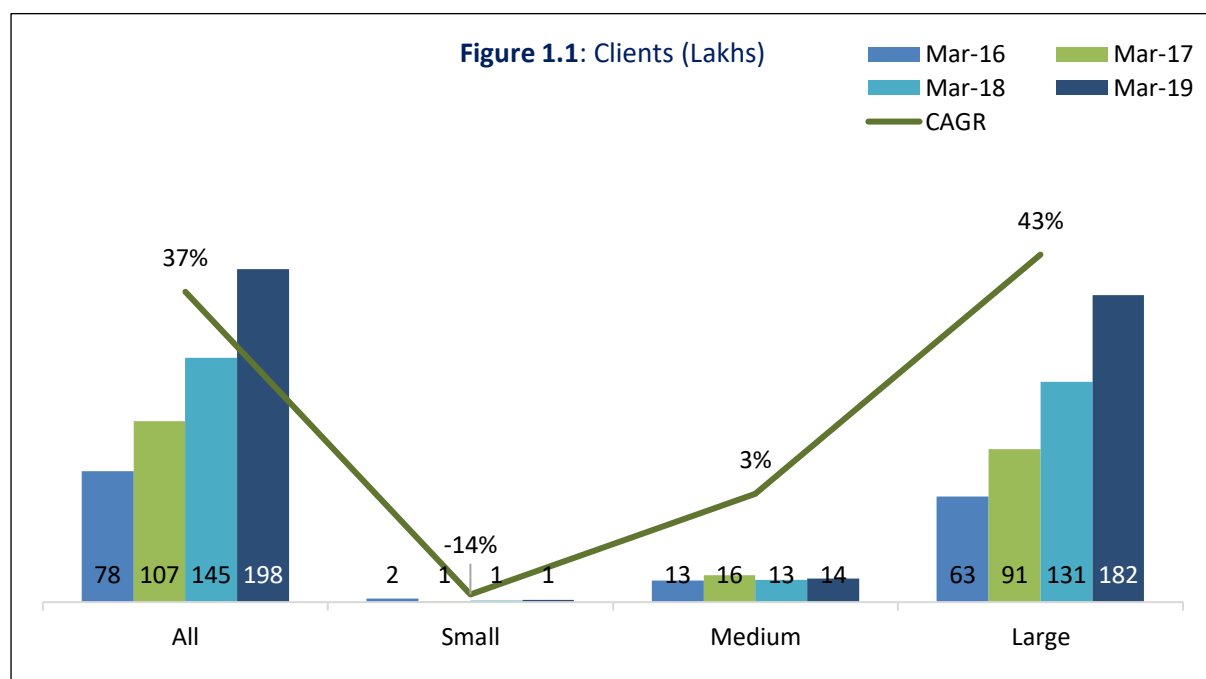
The outreach of the MFIs has been analyzed in terms of growth in the number of clients, branches, employees and portfolio. The table below benchmarks the compound annual growth rate (CAGR) for the small, medium and large MFIs across the four outreach parameters. The average portfolio & loan numbers shown in the table is for FY 2018-19.

CAGR (FY 15-16 to 18-19)	All	Small	Medium	Large
Clients	36.6%	-13.7%	3.0%	42.8%
Branches	42.2%	17.9%	-1.2%	52.8%
Employees	45.8%	7.1%	8.5%	52.7%
GLP	51.2%	10.0%	12.6%	56.3%

Portfolio & loan (FY 18-19)	All	Small	Medium	Large
Av. GLP/MFI (Rs Cr)	1,398	50	267	2,539
Av. loan O/s/account (Rs)	21,934	20,884	17,329	22,293
Av. loan disb./MFI (Rs Cr)	1,503	55	331	2,706
Av. loan disb./account (Rs)	25,271	24,828	26,065	25,222

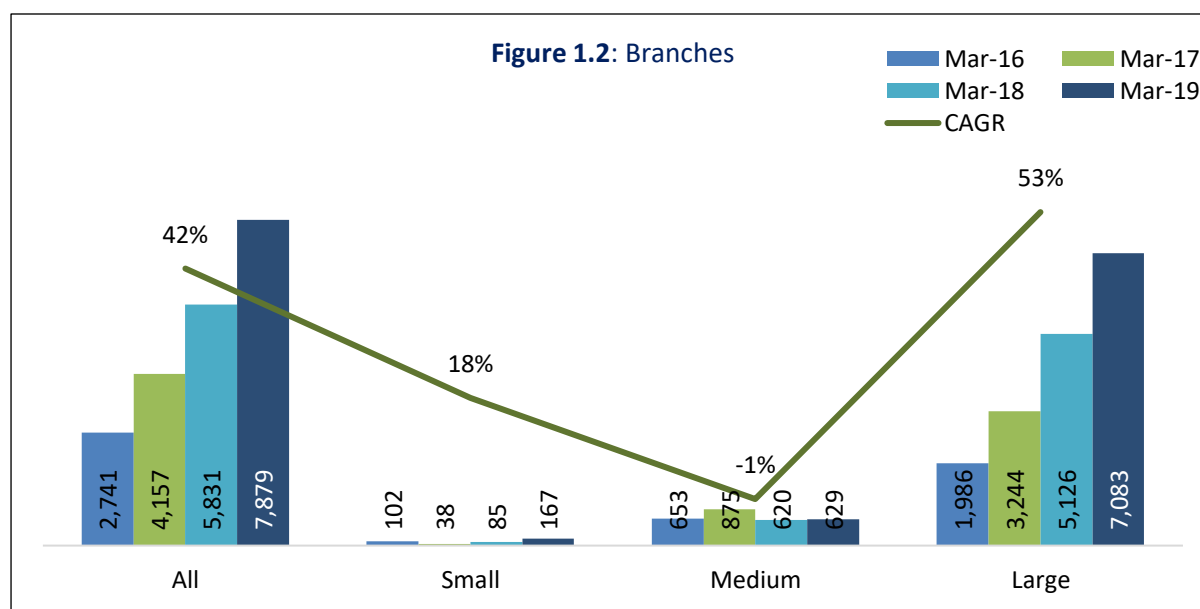
1.1 Clients

Many events have occurred in the past financial years which impacted the NBFC-MFIs. The first event was the transformation of the eight large NBFC-MFIs into SFBs when RBI started issuing licenses in the FY 2015-16, the second event was the announcement of demonetization of Rs 500 and Rs 1,000 bank notes on 8th November 2016 followed by another major event during IL & FS crisis in 2018. However, the NBFC MFIs have been able to maintain a reasonable CAGR of 28% for growth in number of clients over the last four years. **Figure 1.1** shows contribution to client outreach by various category of MFIs.



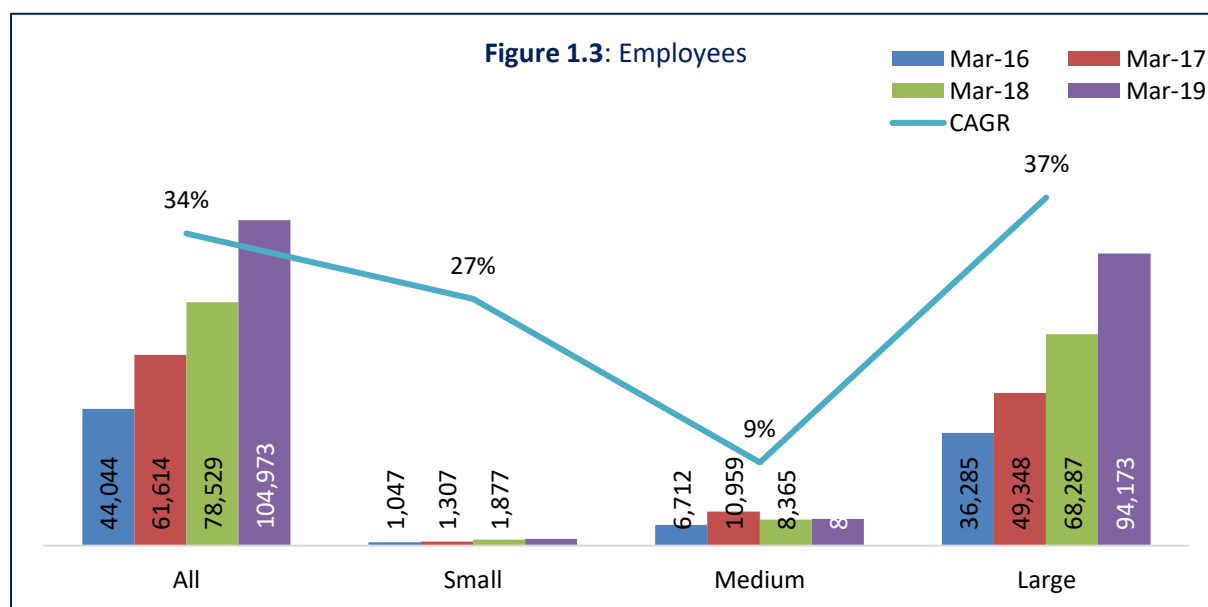
1.2 Branches

The number of branches has grown steadily at a CAGR of 29.5%. The growth of the smaller MFIs appears much higher than the other categories of MFIs mainly due to a smaller base number. It is also because the small sized MFIs generally expand their branches faster within their operational areas before they start consolidating. **Figure 1.2** shows the branch outreach of the NBFC-MFIs.



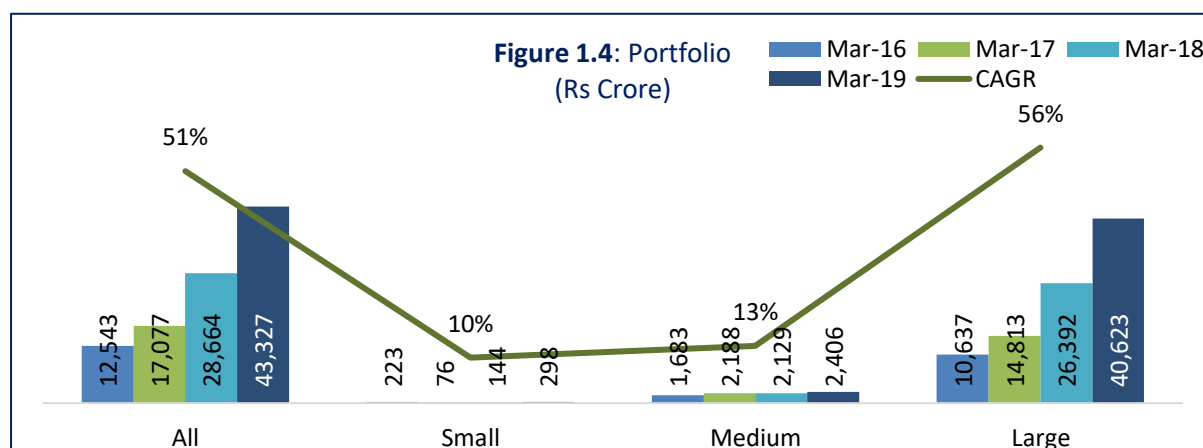
1.3 Employees

Growth in terms of number of branches should be mirrored by growth in number of employees also. CAGR for number of employees since FY 15-16 is 33.6%, which is better than the CAGR branches and indicates that further consolidation and expansion have happened in the existing branches and new branches have also been added. Employee strength is one of the main growth drivers of an MFI operations. The total number of employees (including field staff) have now crossed 1 Lakh mark and stands at 1,04,973 as on 31 March 2019. **Figure 1.3** depicts the employees with various categories of MFIs.

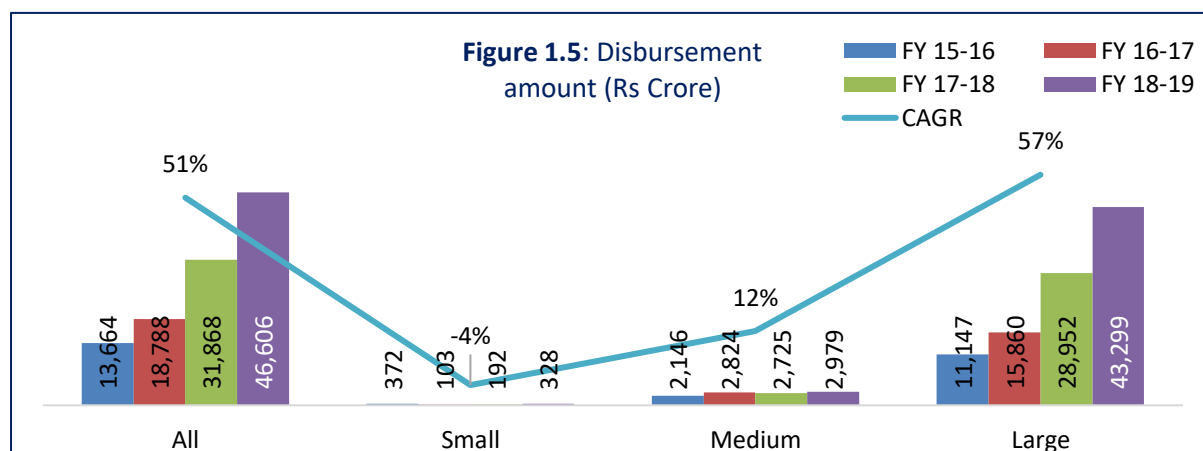


1.4 Portfolio

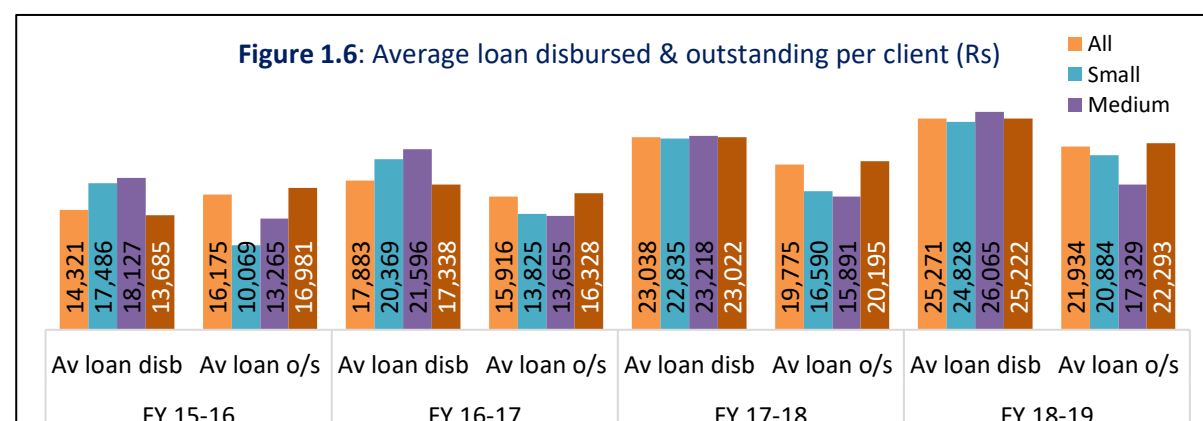
Despite events that have potentially impacted the growth of portfolio down, the NBFC-MFIs have been able to achieve an impressive CAGR in GLP of 51% over last three-year period (Mar'16 to Mar'19). The growth pattern across various categories of MFIs shows that while large MFIs have superior access to funds and hence growth prospects, small and medium MFIs struggle to do so. **Figure 1.4** illustrates outreach of the MFIs in terms of portfolio outstanding with their clients.



The disbursement pattern is similar to the growth in portfolio with overall CAGR of 40.1% as shown in **Figure 1.5**. Large MFIs have contributed the maximum to the growth with a CAGR of 43.0% in disbursement. The small and medium MFIs have recorded a CAGR of 18.6% and 15.4% respectively.



The growth rate of disbursements, when compared with the CAGR of number of clients, indicates that some part of the growth in GLP has been due to addition of new clients while a significant contribution is also due to increased loan size to existing clients, from Rs 15,436 during the FY 2015-16 to Rs 25,543 for the FY 2018-19, as depicted in **Figure 1.6** below.



Section 2

Operational Efficiency

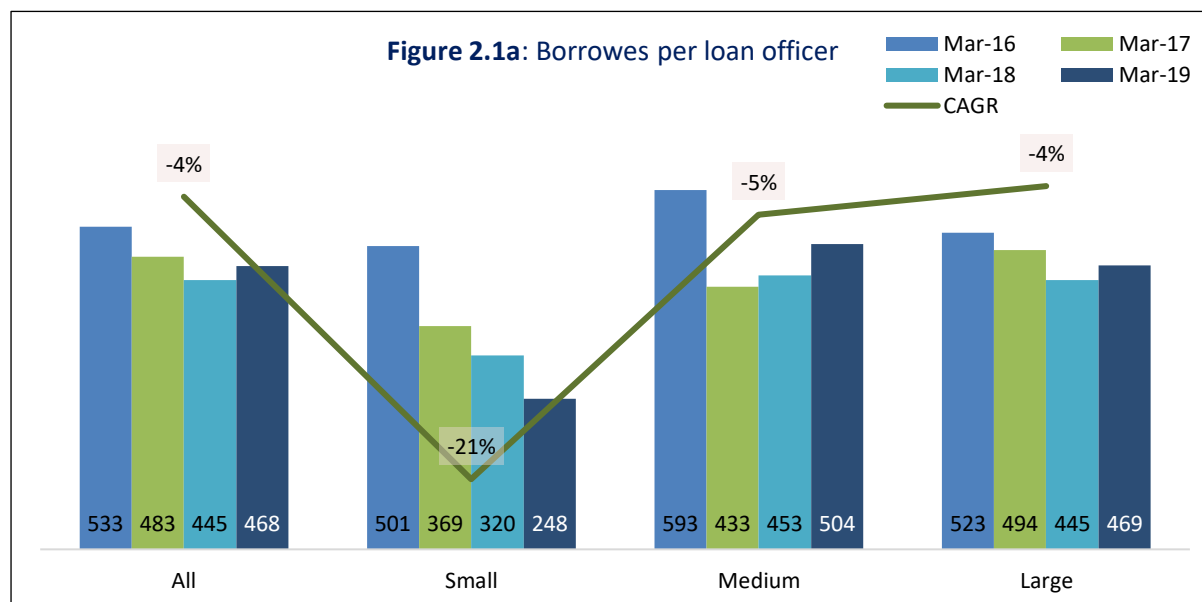
The operational efficiency of an MFI largely depends on staff productivity and its ability to optimize cost of operations. The size of an MFI also defines the level of operational efficiency that can be achieved, as larger MFIs have better economies of scale. The table below benchmarks the key efficiency ratios for various category of MFIs, for the FY 2018-19 and as on 31 March 2019.

Parameters (FY 18-19)	All	Small	Medium	Large
Borrowers per loan officer	468	248	504	469
GLP per loan officer (Rs Lk.)	103	52	87	104
Borrowers per branch	2,507	853	2,208	2,573
GLP per branch (Rs Cr.)	4.4	2.0	4.3	5.4
Operating Expense Ratio	6.7%	15.4%	7.1%	6.6%
Cost per borrower (Rs)	1,186	1,569	1,008	1,197

2.1 Staff productivity

a) Borrowers per loan officer

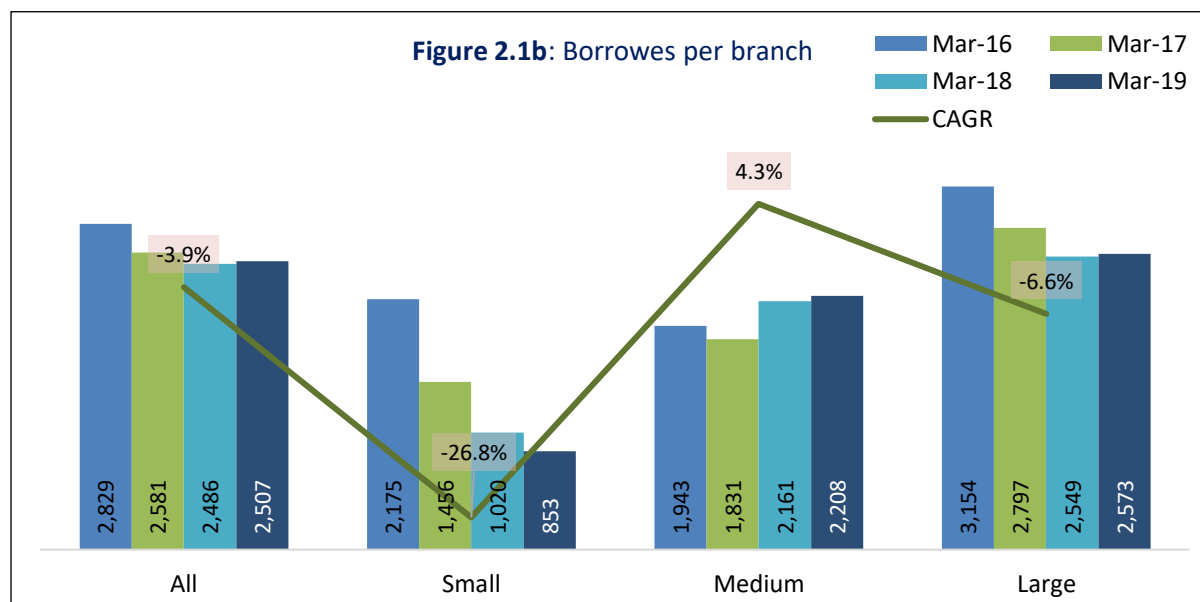
Borrower per loan officer is an important indicator for how efficiently operations are being handled by the Microfinance institutions. As has been seen historically, the efficiencies increase with increasing size of the institutions. **Figure 2.1a** illustrates borrowers per loan officer for last four financial years by size of MFIs.



After the demonetization period, for the first couple of years (FY 16-17 and 17-18) overall efficiencies at an industry level came down slightly, signaling that the industry was emphasizing on improving client connect. In this FY 18-19, there has been a slight overall increase in number of borrowers per loan officer.

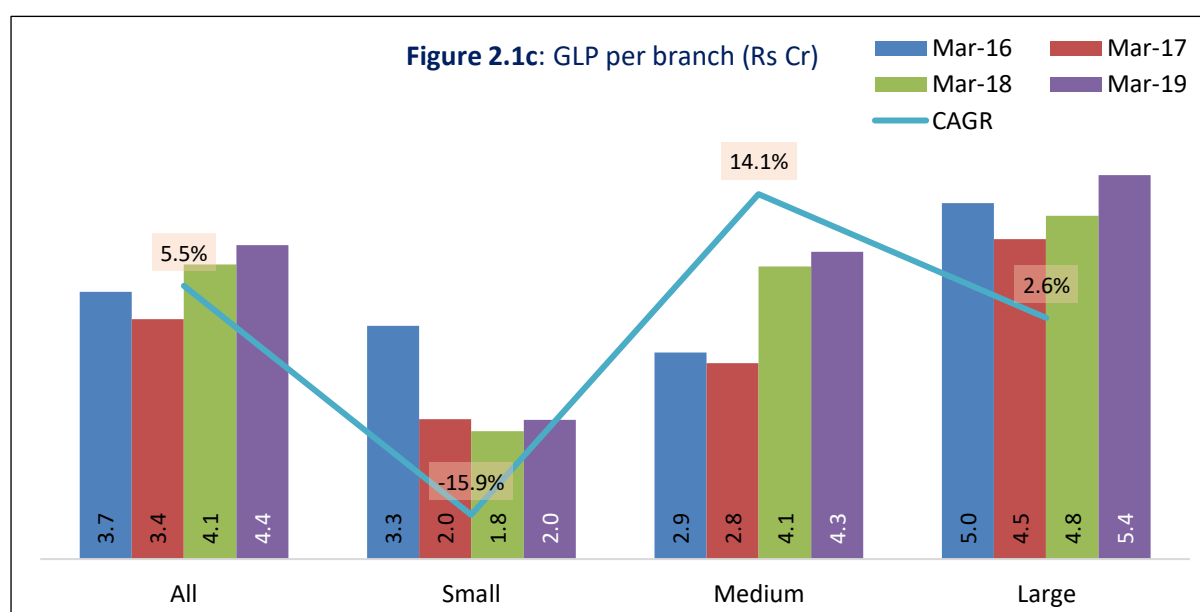
b) Borrowers per branch

Borrowers per branch have reduced at a CAGR of 3.9% per year between FY 15-16 to FY 18-19. As on 31st March 2019 this stands at 2,507 borrowers per branch. For Small MFIs, the numbers have dropped at a high rate, primarily due to some Small MFIs moving to Medium and Large MFIs categories. **Figure 2.1b** illustrates borrowers per branch for last four financial years.



c) GLP per branch

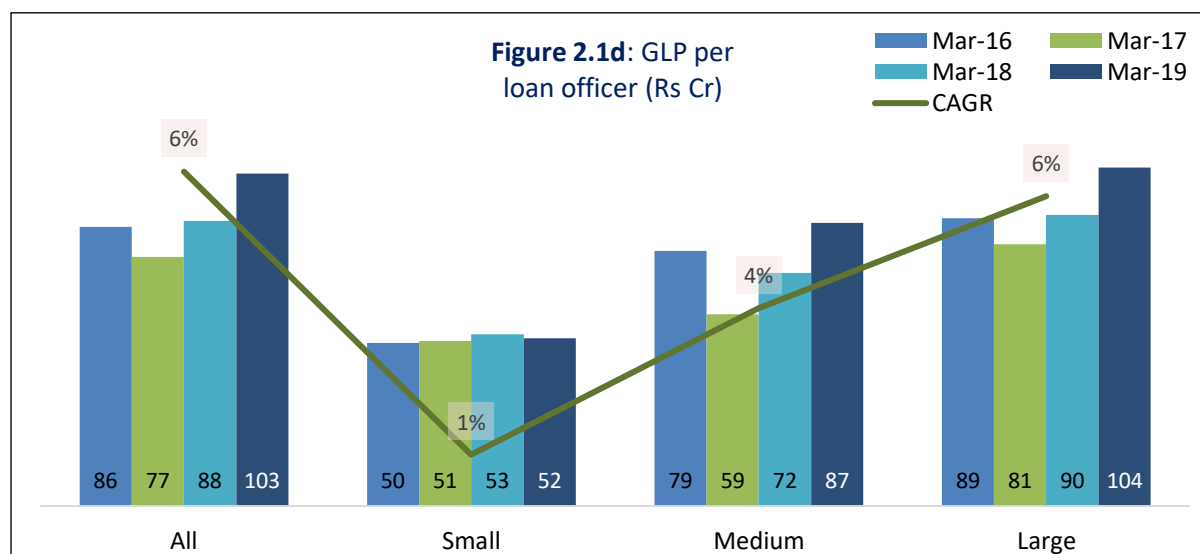
The GLP per branch witnessed a CAGR of around 5.5% since FY 2015-16 as shown in **Figure 2.1c**. As evident, the increase of GLP per branch can be largely attributed to the increase in loan size per borrower since number of borrowers per branch have fallen at a CAGR of 3.9%. This increase is an effort by the MFIs to meet the increased credit needs of their borrowers. Even the RBI has now endorsed this by increasing the statutory indebtedness limit for an individual microfinance borrower.



d) GLP per loan officer

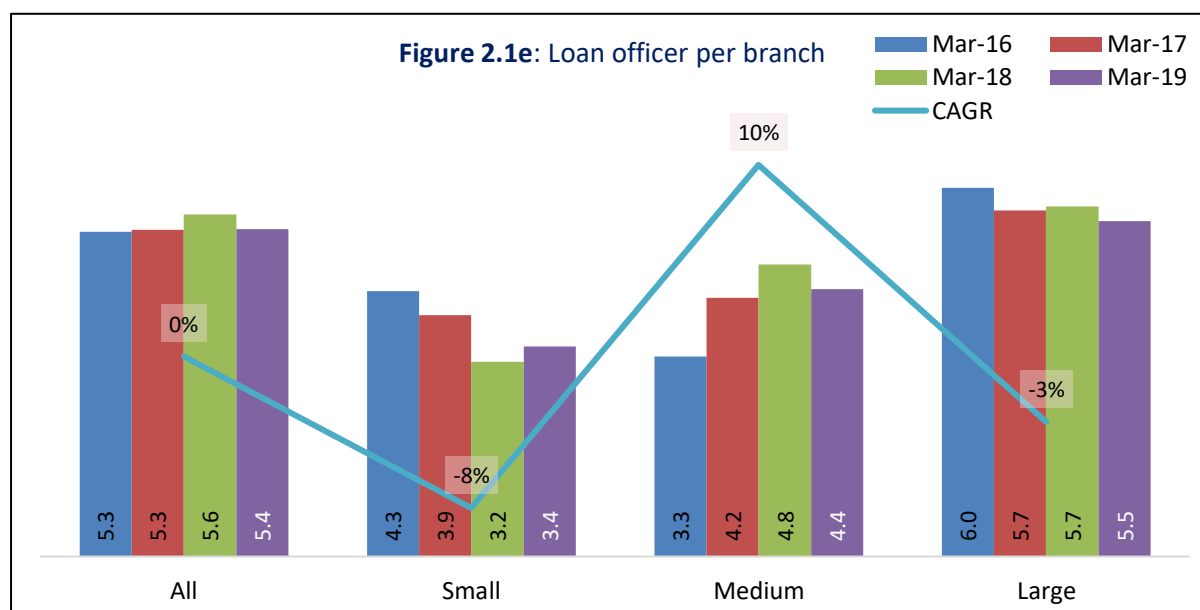
With number of clients growing at 37% CAGR and GLP growing at almost 51% CAGR it is expected that each client would have a higher loan outstanding. At the same time, the growth in number of loan officer at a CAGR of 43% has not proportionately increased with GLP growth.

Net impact of the two observations is that GLP per loan officer has grown by CAGR of 6%. The growth shows a further improvement in the efficiency of operations. Small MFIs however, have not been able to successfully harvest these efficiencies due to inherent funding issues because of their size. **Figure 2.1d** below shows the GLP per loan officer.



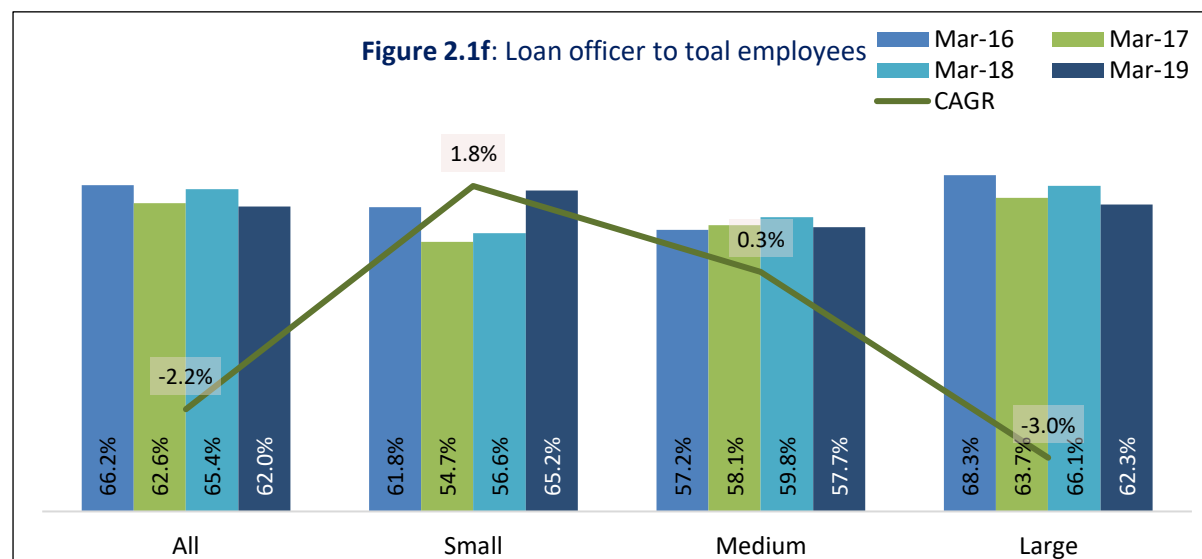
e) Loan officers per branch

As a part of intensification of operations at a branch level to generate higher operational efficiencies, the loan officers per branch marginally increased from 5.3 in FY 15-16 to 5.4 in the current FY 18-19. **Figure 2.1e** shows the comparison of loan officers per branch over the last three financial years.



f) Loan officers to total employees

Microfinance is a people intensive business. Hence, majority of human resource is the work force which is involved in direct borrower relationship management. However, as the size of MFI increases the institutions are better equipped to optimize the support and ancillary functions. **Figure 2.1f** below analyses the ratio of loan officer to total employee base.

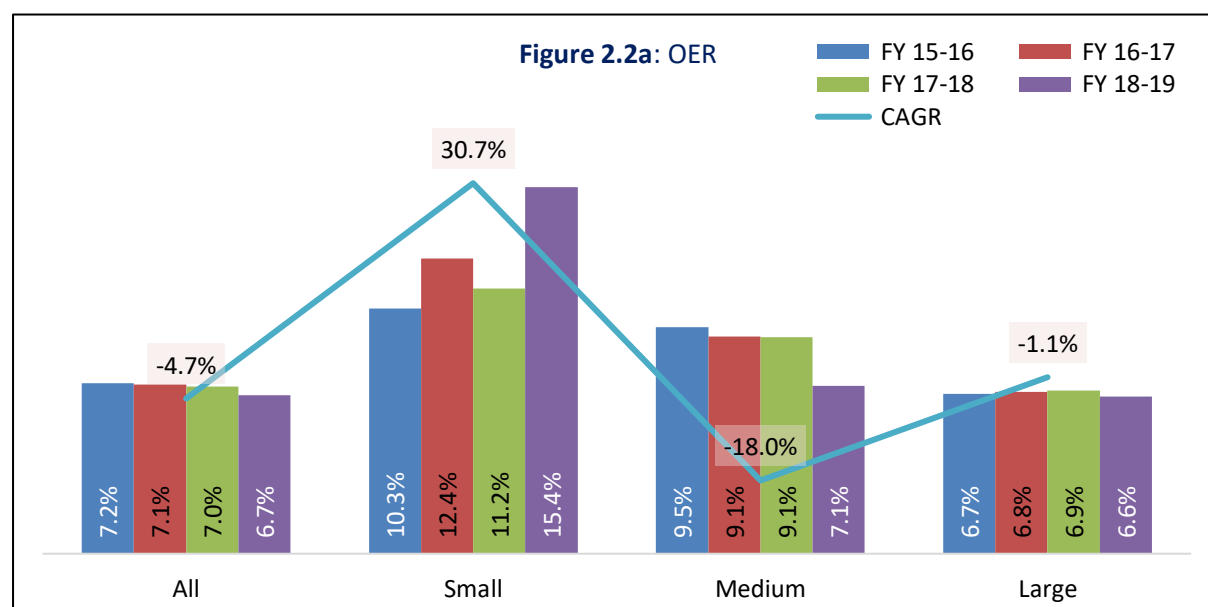


2.2 Cost efficiency

a) Operating Expense Ratio (OER)

Microfinance is a high touch business. Hence, it is expected that operational expense would be on the higher side. As evident from **Figure 2.2a** below the operational expenses have optimized for the overall microfinance business. However, for small MFIs OER continues to remain high. Large as well as Medium MFIs have been successful in reducing their OER.

Since 2016-17, the cohort of Small MFIs have had at least one institution which has just started their operations and hence the overall ratio looks very high, but most members of the group have the OER in the range of 9.5% - slightly above 10%.



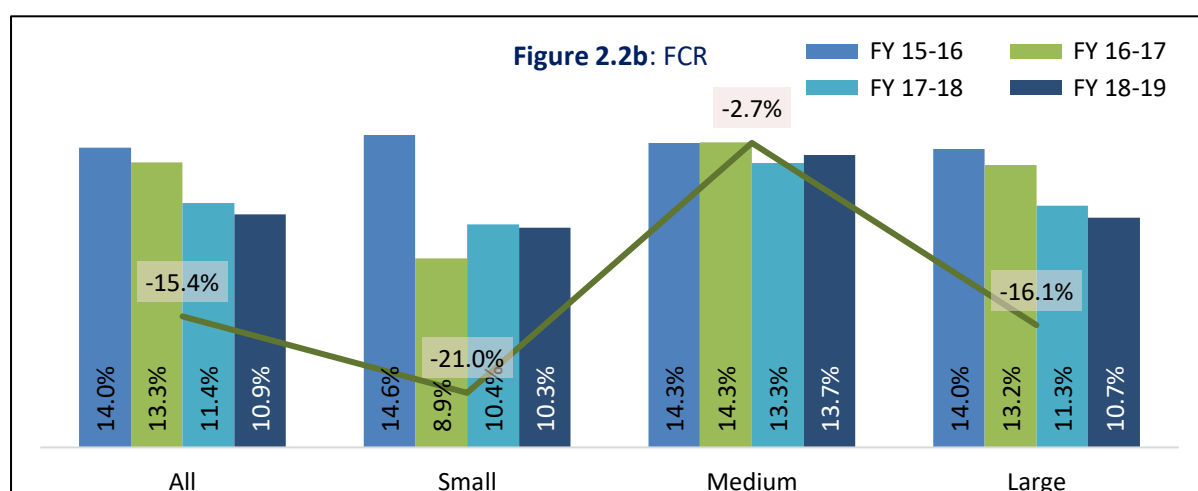
Personnel expense contributes the maximum to the total operating cost as shown in the table below.

FY	Break-up of operating expenses	All	Small	Medium	Large
FY 15-16	Personnel expenses	61.63%	67.92%	61.41%	61.47%
	Depreciation and amortisation	2.36%	3.44%	2.17%	2.37%
	Other operating expenses	36.01%	28.64%	36.42%	36.17%
FY 16-17	Personnel expenses	65.26%	62.58%	63.60%	65.62%
	Depreciation and amortisation	2.50%	2.58%	2.55%	2.49%
	Other operating expenses	32.23%	34.84%	33.85%	31.89%
FY 17-18	Personnel expenses	65.73%	64.68%	66.03%	65.71%
	Depreciation and amortisation	3.52%	3.04%	3.23%	3.55%
	Other operating expenses	30.75%	32.28%	30.75%	30.74%
FY 18-19	Personnel expenses	67.00%	63.75%	71.69%	66.73%
	Depreciation and amortisation	2.82%	2.48%	2.93%	2.81%
	Other operating expenses	30.19%	33.77%	25.37%	30.46%

Note: Other operating expenses include admin expenses, rent, IT expenses, travel and communications expenses etc.

b) Financial Cost Ratio (FCR)

All segments of the industry have witnessed a decrease in FCR in comparison to FY 15-16, mainly driven by the large MFIs as depicted in **Figure 2.2b** below. Large institutions have been able to bring higher efficiency in their effort to access low cost source of financing for the operations. For Medium MFIs the decrease in FCR has been minimal. It is clearly visible from the lower FCR of large MFIs that they have better sources of finance.

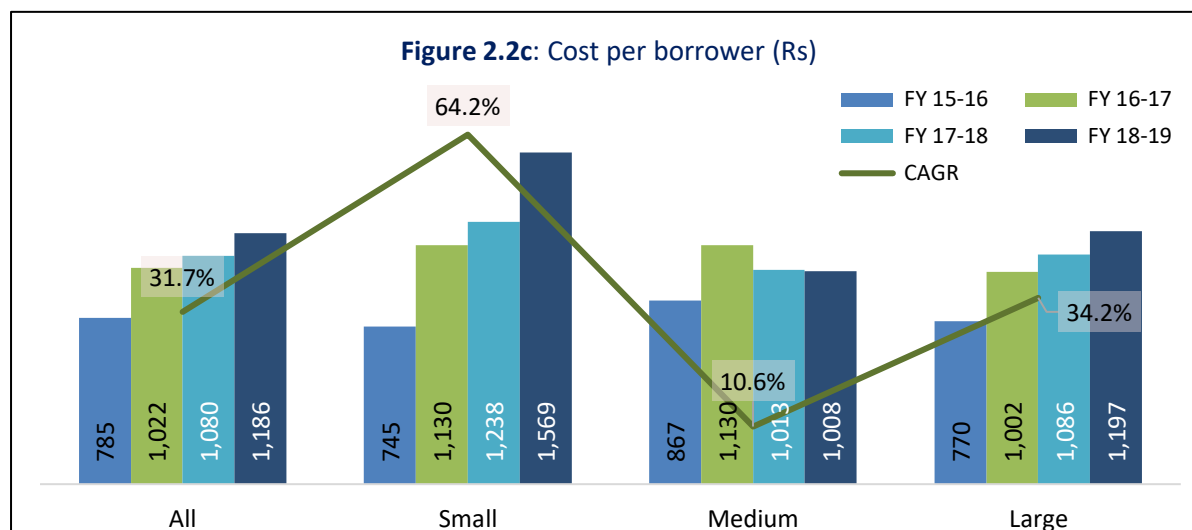


However, it is pertinent to point out that the lower FCR of Small MFIs should be interpreted not as low-cost borrowings, but a higher portion of equity funds deployed for on-lending. As on 31 Mar'19, at an overall industry level, equity forms 27% of the total on-balance sheet portfolio, but for Small MFIs it is 36% as shown in below table. Another important trend is that the overall use of equity for lending purposes has increased for all but Medium MFI segment it much lower at 22%.

As on	Equity to Total On-Balance Sheet Portfolio			
	All	Small	Medium	Large
Mar 16	20%	30%	22%	19%
Mar 17	22%	36%	27%	22%
Mar 18	22%	37%	19%	23%
Mar 19	27%	36%	22%	27%

c) Cost per borrower

The cost per borrower has shown an increasing trend as depicted in **Figure 2.2c**. Since FY 15-16 the cost per borrower has grown at a CAGR of 31.7%. In all these years Microfinance has battled with one or the other crisis, which would have contributed to higher costs. The higher costs per borrower also indicates the necessity of improving usage of technology to optimize costs.



d) Distribution of total expenses

The expenses of MFIs can be classified into four broad categories – funding expenses, operating expenses, provisioning & write off expenses and Corporate Social Responsibility (CSR) related expenses. It is evident that in the last couple of years, due to the effect of demonetization and IL&FS crisis there is a greater shift towards provisioning and write-off expenses, particularly of the medium and large MFIs and the proportion of funding expenses to total expenses have reduced. The last financial year (FY 18-19) saw a drop in the provisioning and write off expenses. The table below captures the distribution of these four categories of expenses in proportion to total expenses:

FY	Proportion to total expenses	All	Small	Medium	Large
FY 15-16	Funding expenses	59.55%	53.74%	55.46%	60.50%
	Operating expenses	36.15%	43.81%	41.24%	34.95%
	Provisioning & write off	4.24%	2.44%	3.30%	4.47%
	CSR	0.07%	0.00%	0.01%	0.08%
FY 16-17	Funding expenses	55.08%	41.05%	54.69%	55.21%
	Operating expenses	35.36%	57.54%	41.46%	34.27%
	Provisioning & write off	9.50%	1.41%	3.84%	10.46%
	CSR	0.06%	0.00%	0.01%	0.06%
FY 17-18	Funding expenses	46.86%	41.05%	49.80%	46.62%
	Operating expenses	33.66%	51.35%	38.16%	33.20%
	Provisioning & write off	19.42%	3.99%	12.01%	20.11%
	CSR	0.06%	0.00%	0.02%	0.06%
FY 18-19	Funding expenses	54.07%	44.66%	59.19%	53.82%
	Operating expenses	39.51%	60.63%	35.32%	39.67%
	Provisioning & write off	6.39%	3.81%	5.43%	6.48%
	CSR	0.03%	0.00%	0.05%	0.03%

Section 3

Financial Performance

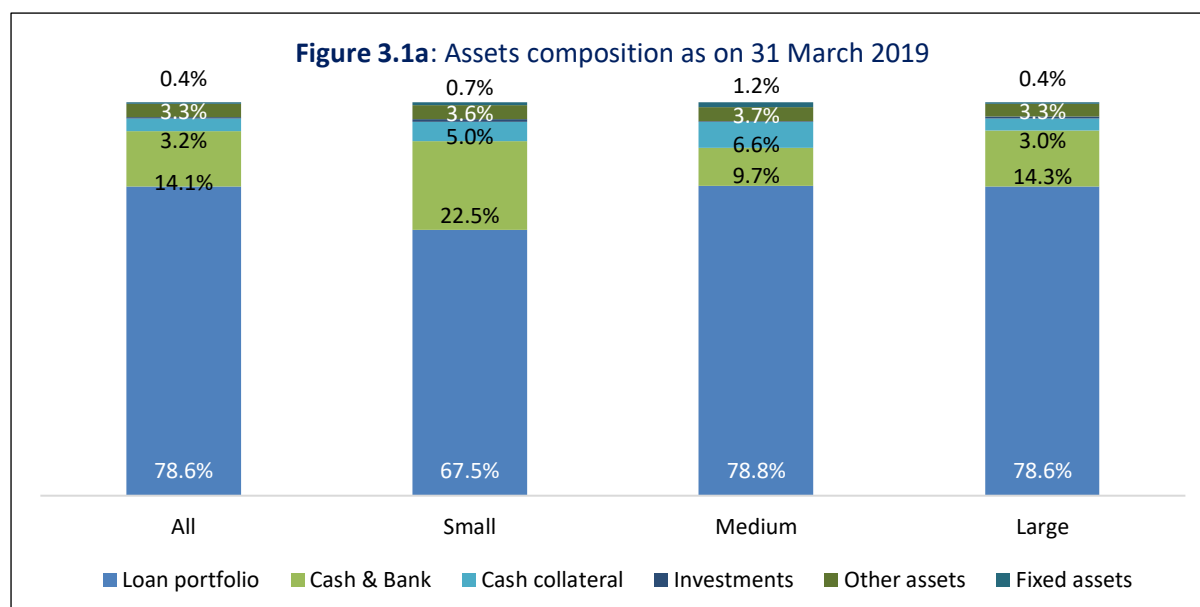
This section highlights the Financial performance benchmarks of the MFIs. Financial performance is largely dependent on raising low cost funds and generating operational and financial efficiency. As with operational efficiency, financial performance also varies with size of MFIs. Larger MFIs by virtue of their better rating and efficiencies have access to lower cost funds. In comparison, small and medium sized MFI access majority of their funding from other NBFCs (rather than banks) which are relatively costlier. The table below benchmarks the key financial performance ratios for various category of MFIs, for the FY 2018-19 and as on 31 March 2019.

Key financial ratios	All	Small	Medium	Large
Loan portfolio to total assets	78.57%	67.53%	78.82%	78.63%
Borrowings to total assets	73.38%	59.81%	77.45%	73.22%
LLR to total assets	0.99%	0.44%	0.83%	1.00%
Equity to total assets	20.96%	24.12%	17.52%	21.15%
CRAR	25.43%	30.90%	21.89%	25.74%
Debt to Equity ratio	3.77	3.15	4.71	3.72
Return on Assets	3.58%	-1.24%	2.34%	3.68%
Return on Equity	17.81%	-4.03%	14.72%	18.13%
OSS	120%	94%	112%	121%
PAR >30	1.62%	0.30%	0.71%	1.69%
Gross NPA	1.14%	0.11%	0.44%	1.19%
Net NPA	0.18%	0.11%	0.44%	1.19%
Risk coverage ratio	0.61	1.45	1.23	0.60

3.1 Composition of the balance sheet

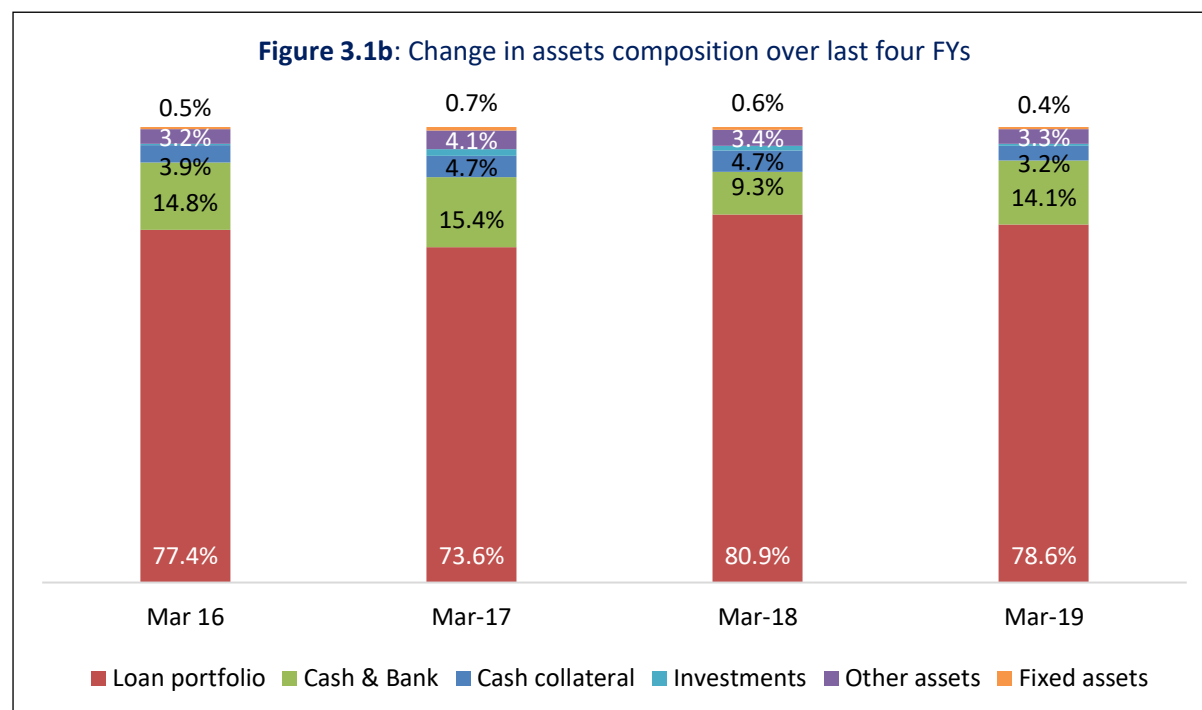
a) Assets composition across category of MFIs

As on 31 March 2019, Loan portfolio constitutes close to 79% of the asset. Cash in hand and bank was around 14% of total assets followed by cash collateral and other assets of ~3.2%, and investments of ~3.2% as shown in **Figure 3.1a**. For Small and Medium MFIs Cash collateral represents a relatively higher share as compared to Large entities which signifies that the larger entities are able to raise funds economically. This adds to their higher profitability as will be discussed later in the report.



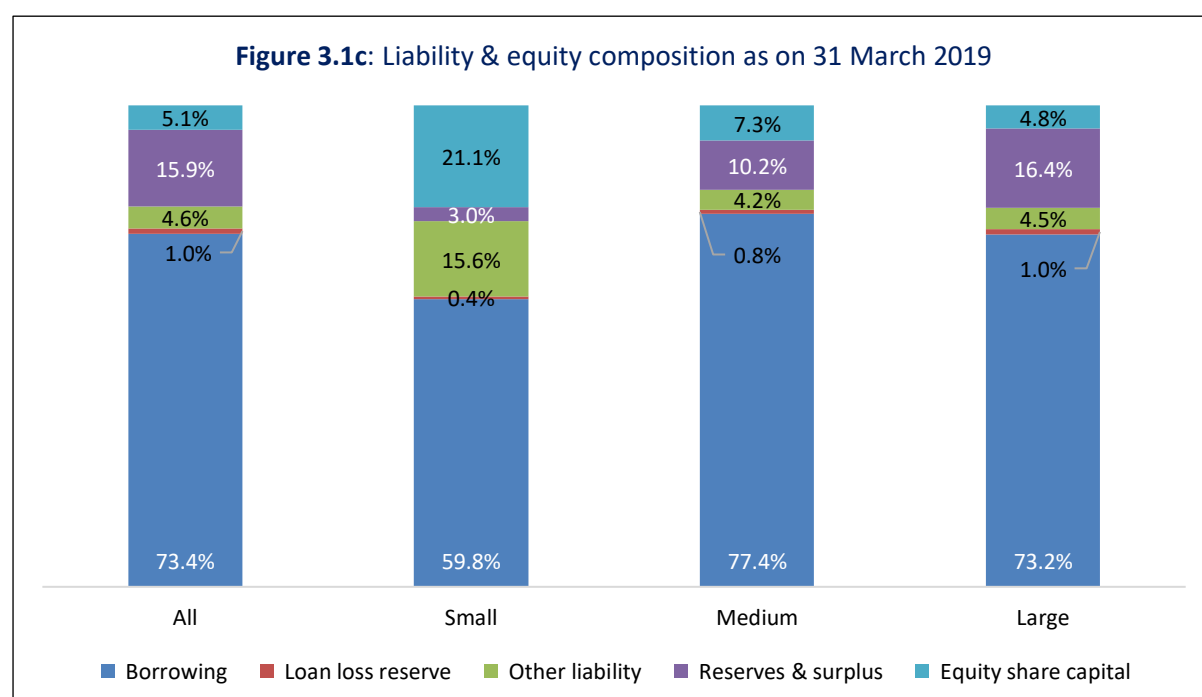
b) Assets composition across last four financial years

The composition of assets has changed since end-Mar'17. The data shown in **Figure 3.1b** indicates that MFIs have been able to increase the deployment of assets into the loan portfolio which is the most productive asset for an MFIs, optimizing the cash and bank balances and other assets.



The total assets of the MFIs have also grown at a healthy CAGR of 50%. As expected, the large MFIs have grown at a much faster rate of 56%. The CAGR of Small and medium MFIs appear low because of shifting to larger MFI categories as they grow (for example an MFI listed as a small MFI in FY 15-16 may have been categorized as a medium MFI in FY 17-18).

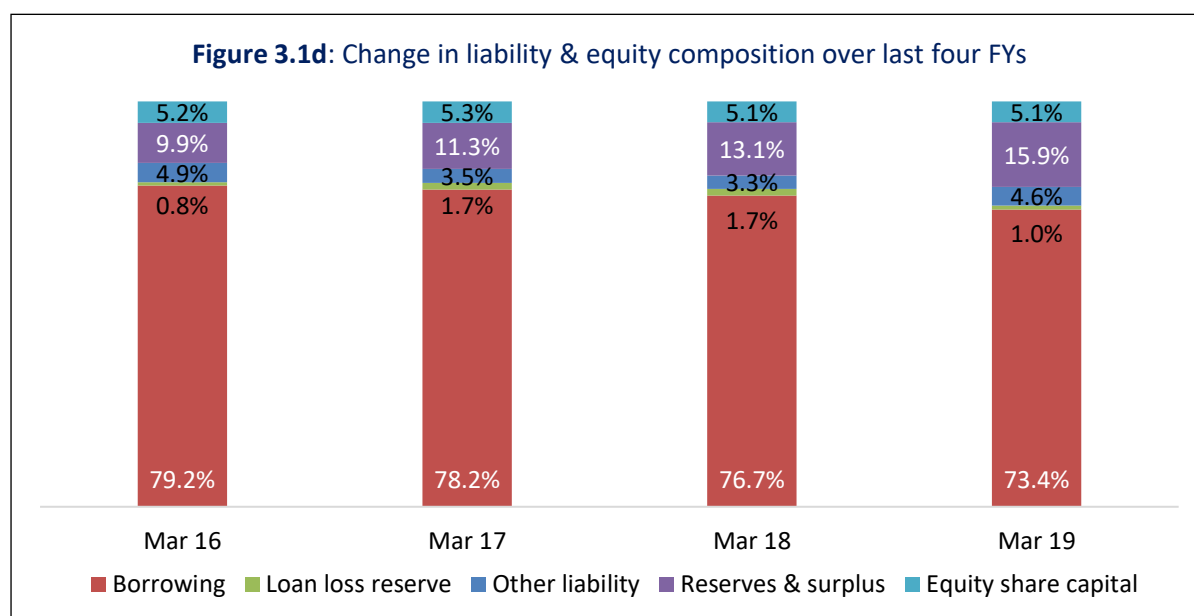
c) Liability and Equity composition



Similar to previous FYs Small MFIs continue to use higher proportion of Equity funds for lending purposes. Overall comparison of different components of liability show that close to 75% of liability are related to borrowings and in case of Small MFIs this is around 60%. As the MFIs grow and scale-up they are able to leverage their equity better and access diverse and cost-effective source of funds.

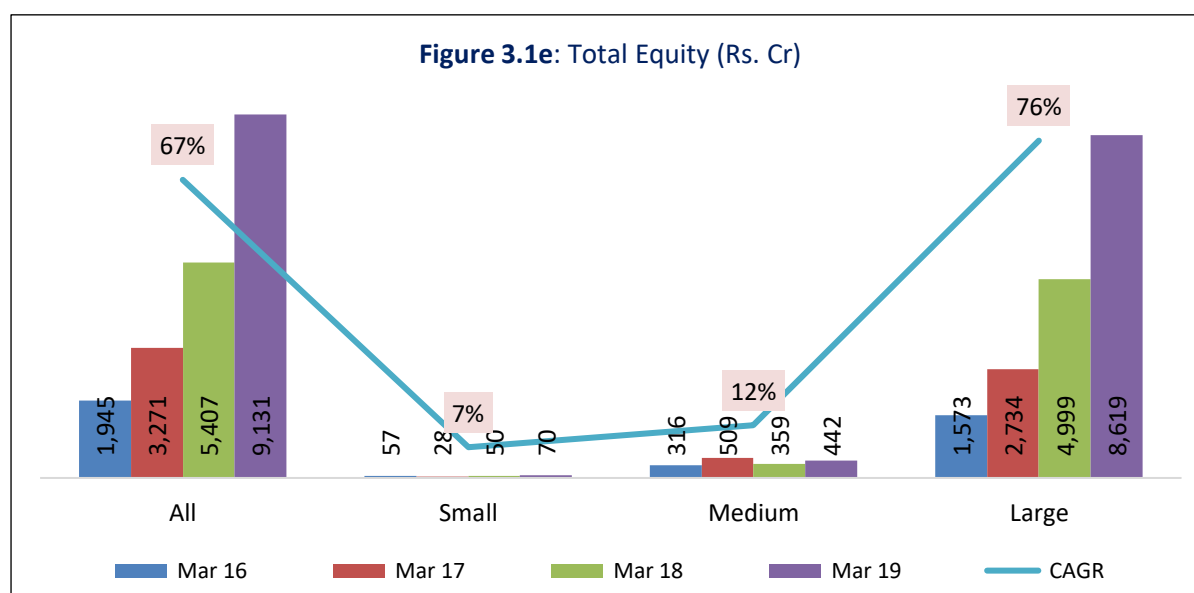
d) Liability and Equity composition across last four years

The change in the composition of liability and equity over the last four years is shown in **Figure 3.1d**. Borrowings continues to be the main source of funding, but the proportion of reserves and surplus has increased over the years. This indicates that MFIs have been able to build up their reserves and progressively deploy a higher proportion of their own funds for financing their assets.

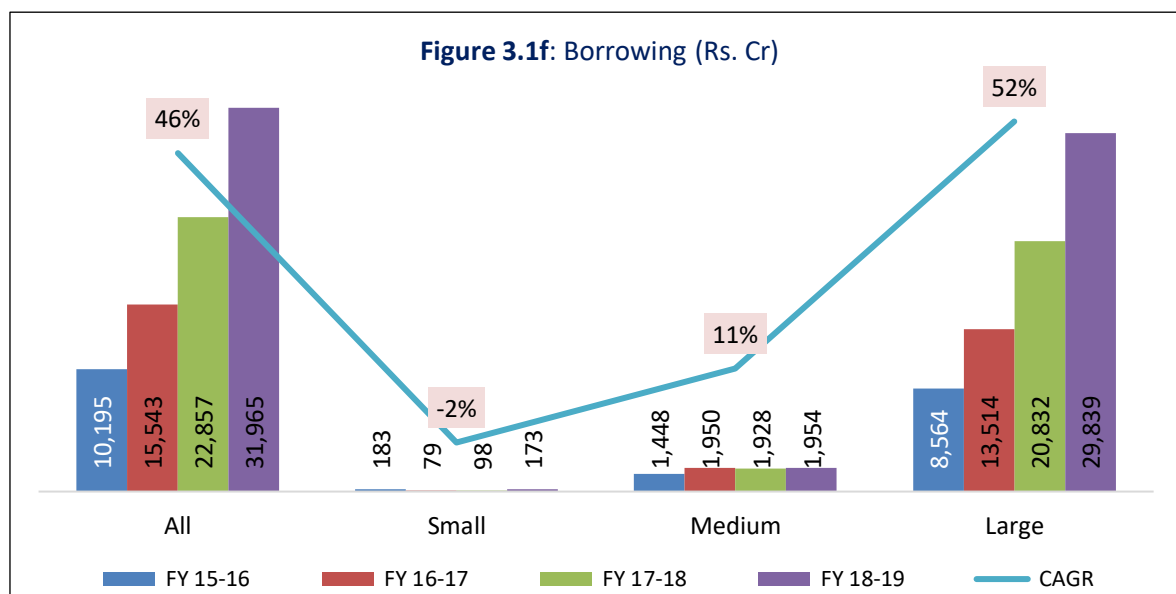


e) Borrowing and equity

The CAGR of borrowings and equity are shown in **Figures 3.1e** and **3.1f**. The borrowings have grown at a CAGR of around 46% (similar to the CAGR of GLP of around 42% as analyzed in Section 1.4) while the total equity has a comparatively better CAGR of around 67%. In terms of equity, FY 18-19 was a successful year, as reflected from a steep increase in investments to MFIs, particularly the large ones.



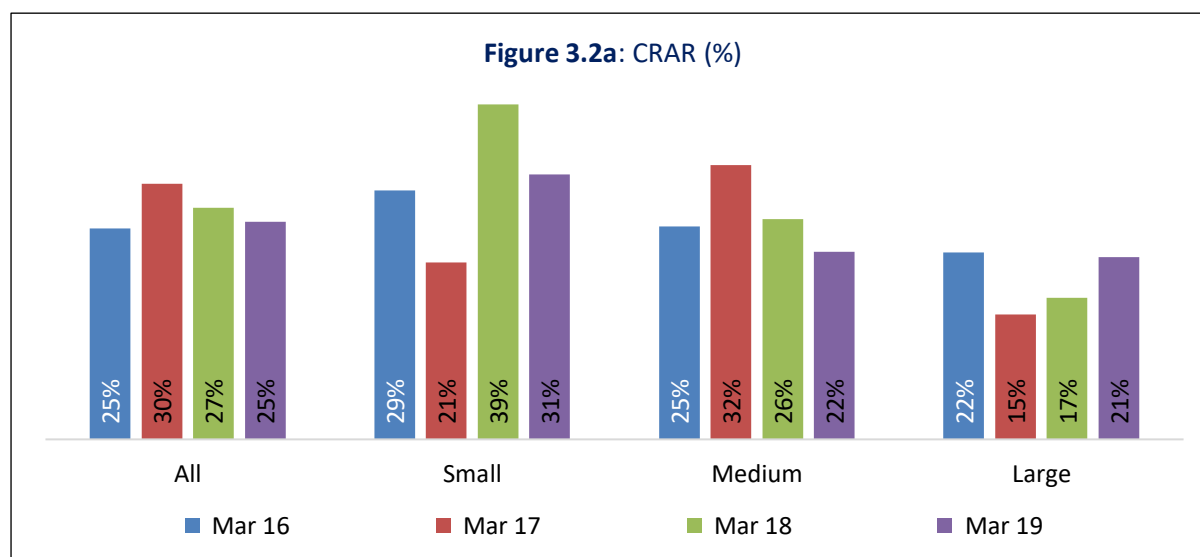
Large MFIs were able to grow at a CAGR of 52%, much higher than Small and Medium entities. This showcases the challenges faced by Small and Medium MFIs in times of demonetization and NBFC liquidity crisis. Both Lending and investing community has largely favored Large institutions.



3.2 Capital Adequacy

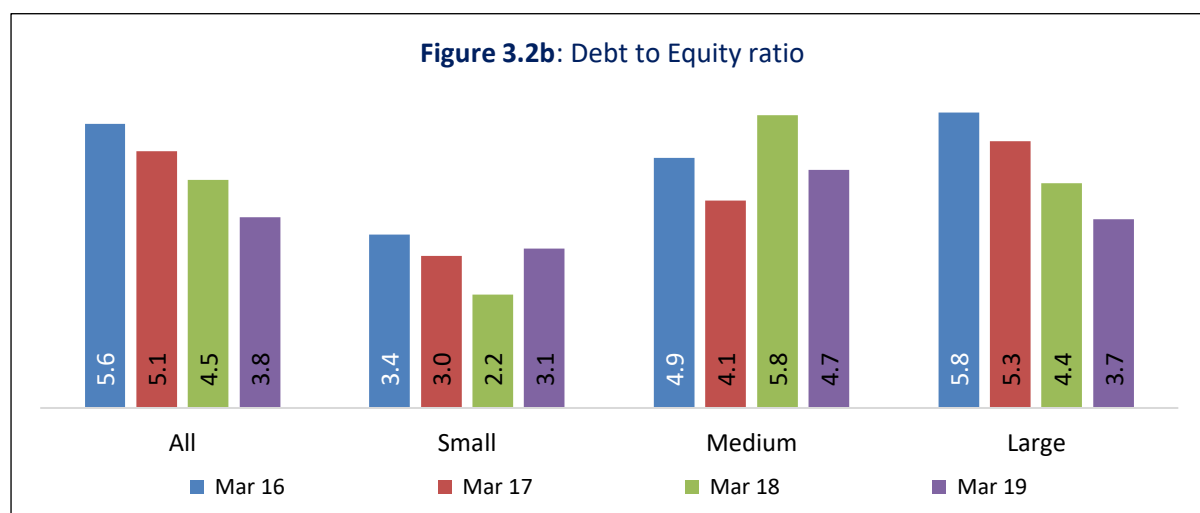
a) Capital to Risk Weighted Assets Ratio (CRAR)

At an aggregate level average CRAR for all entities (Simple Average) stood at 25% as on end of FY 18-19. This is much higher than required 15% as per RBI guidelines. However, based on the trend for last four years it is evident that during demonetization, MFIs were faced with many challenges, but they have been able to tide over the difficult period. New capital has been sourced and overall asset growth has kept pace with the capital created.



b) Debt to Equity

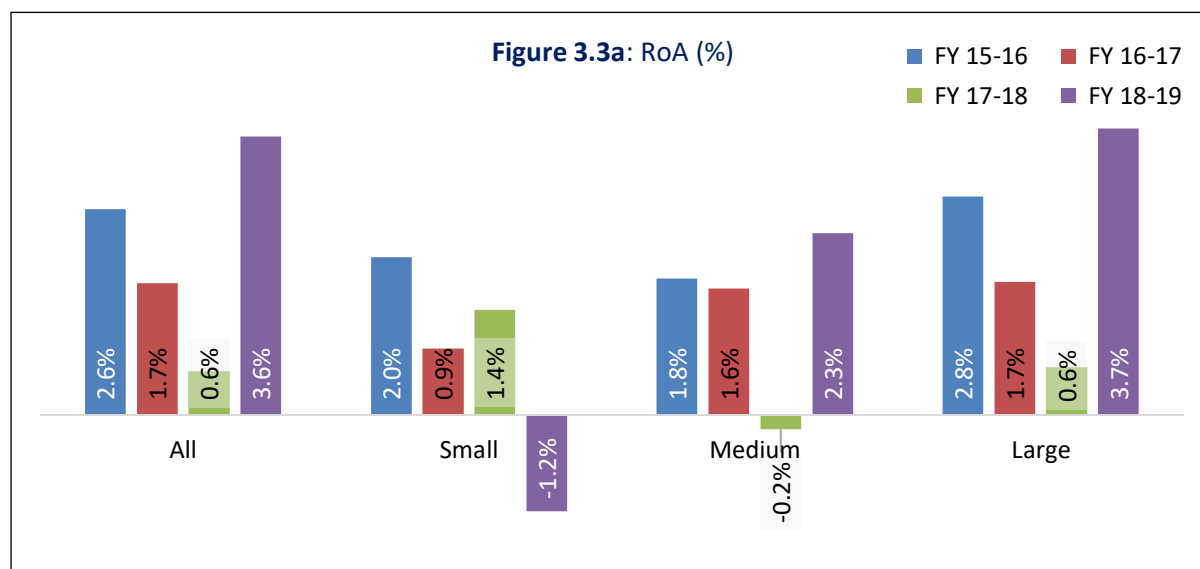
Debt to Equity ratio indicates the extent to which the MFIs have been able to leverage their equity to source borrowings. **Figure 3.2b** below shows the trend of Debt to Equity ratio. It is evident that the ability to leverage equity is to a large extent based on the size of an MFI. It further strengthens the argument that more and more Equity is being deployed for portfolio creation as was discussed above. Demonetization and IL&FS crisis led to some difficulties for the MFIs in terms of liquidity and borrowings in 2 consecutive FY. This led to a funding crisis particularly for the Small entities as can be seen by their Debt to Equity ratio coming down to around 2.2. Net effect of this was that these entities were squeezed from all sides in terms of non-availability of funds for disbursement, funds becoming costly and uneconomical and putting pressure on profitability.



3.3 Profitability

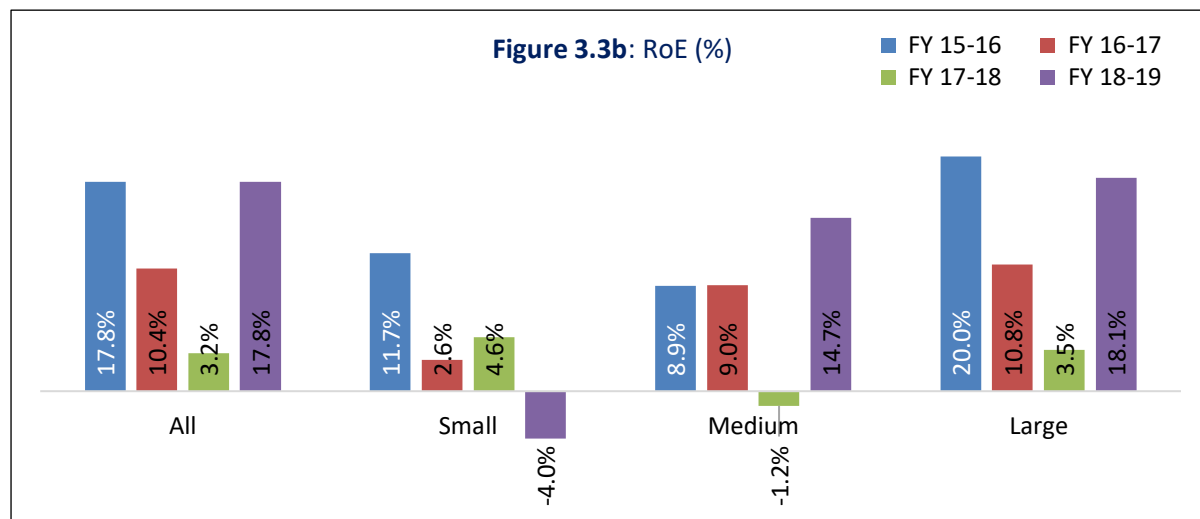
a) Return on Asset (RoA)

As depicted in **Figure 3.3a** below, after a muted year in terms of profitability, the industry has come out of the red zone to the pre-demonetization levels of RoA. However, Small MFIs have still not been able to recover fully as some of them are in initial phase of their operations and faced extreme situations due to demonetization and liquidity squeeze caused by NBFC crisis (causing dearth of funding and high costs). FY 17-18 was particularly difficult for the sector due to the additional provisioning and write-offs of demonetization portfolio.



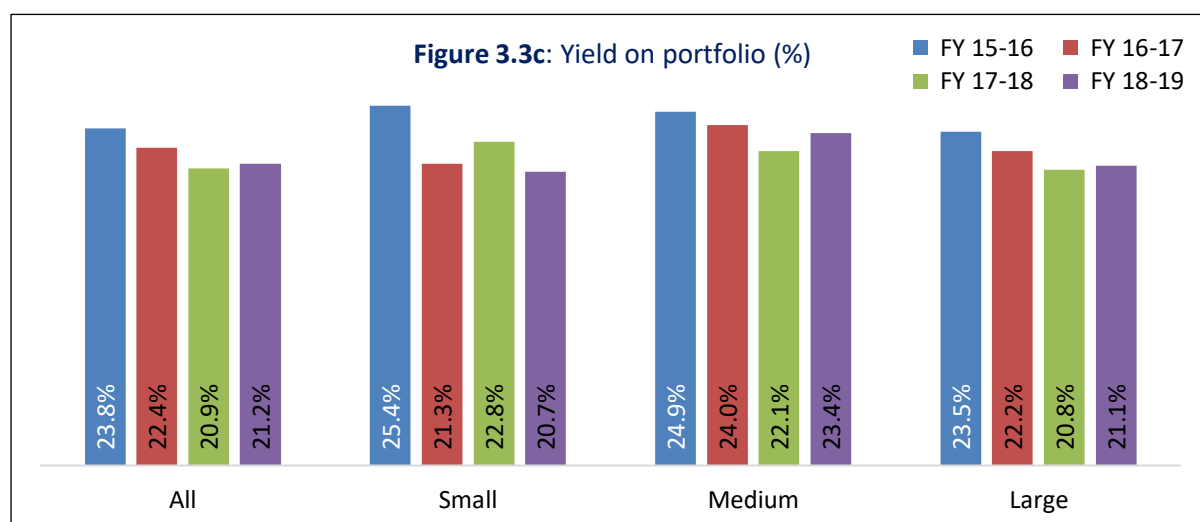
b) Return on Equity (RoE)

Trends of RoE follows similar pattern of RoA but the overall outlook remains positive. Negative RoE in FY 17-18 for small and medium MFIs highlights impact a large scale events such as demonetization can have on profitability. **Figure 3.3b** shows the trend of Return on Equity for last four financial years.



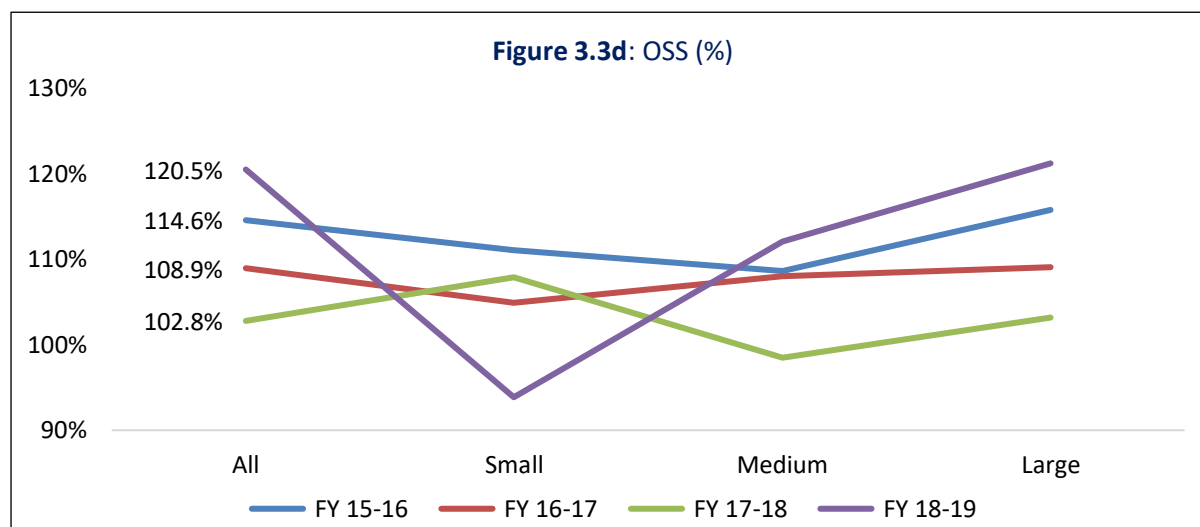
c) Yield on portfolio

Yield for loan portfolio of NBFC MFIs is tightly regulated by RBI guidelines which restrict the spread over Cost of Funds available and hence the maximum permissible interest rate to retail borrower. This restriction has two different levels (12% for below 100 Cr NBFC MFI and 10% for more than 100 Cr MFI). Movement of Yield can be seen in the **Figure 3.3c**. It is important to note that for last three financial years Small MFI group has had one, two and one new entrants respectively that commenced their business activities late in the financial year and hence skewed the average Yield downwards.



d) Operational Self-Sufficiency (OSS)

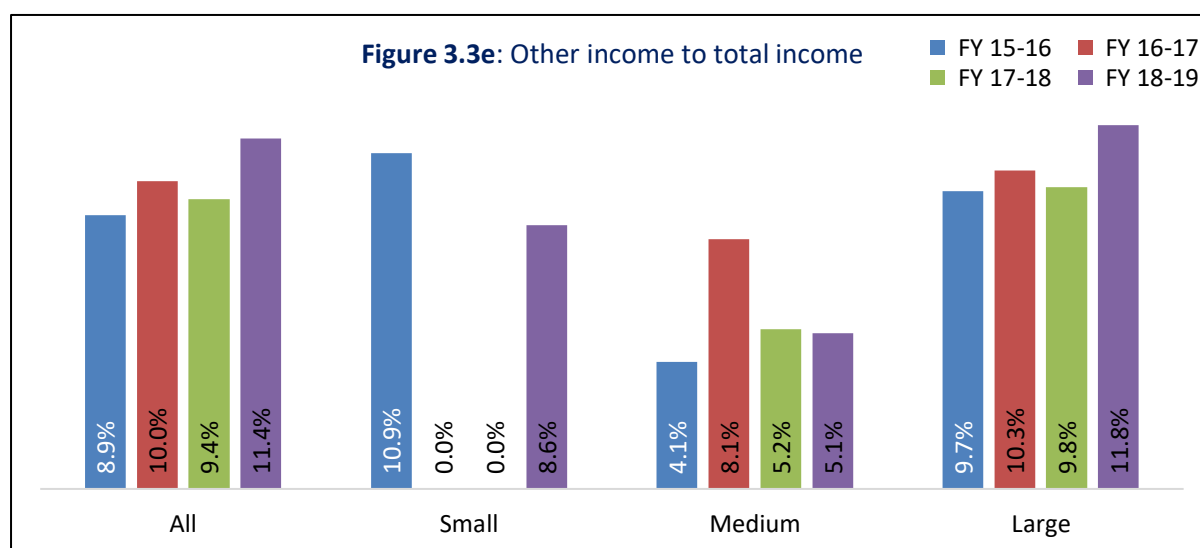
As expected for OSS decreased in FY 16-17 and bottomed out in FY 17-18 as depicted in **Figure 3.3d**. An increase in OER (as shown in Section 2.2a) reflects an increase in cost per borrower (analyzed in Section 2.2c). This coupled with a capping on interest rate chargeable to clients as per RBI regulation ultimately leads to a situation where MFIs borrowing at a higher rate of interest are not able to use the entire spread available to them (12% for sub 100 Cr and 10% for more than 100 Cr entities).



However, despite the setback, at an overall level and at individual category levels MFIs have been able to maintain >100% OSS for the FY 18-19 which means that they are still able to cover their operational expenses from their operational incomes.

e) Income on Off-BS items to Total Income ratio

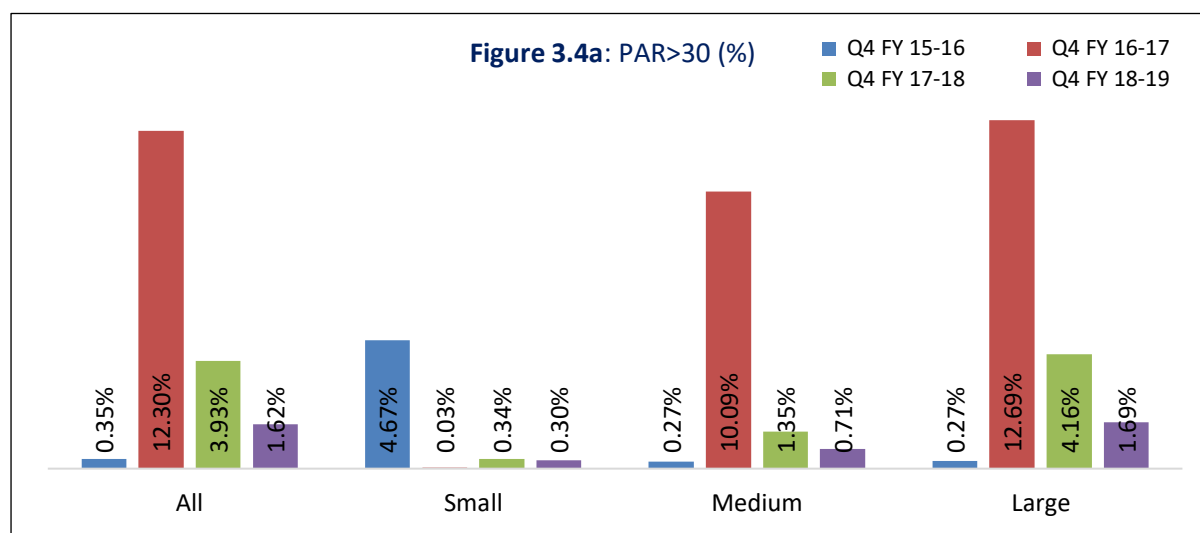
Income on Off-BS items includes income from operations as business correspondent and income on securitization. **Figure 3.3e** below shows ratio of income on off balance sheet items to total income ratio. As can be deduced the income on off balance sheet operation contributed a significant portion of income for all category of MFIs during FY 18-19. For small MFIs two entities reported BC operations in FY 15-16, both of which became medium sized MFIs in the subsequent year. Hence, in the next two financial years no small entity reported any off-balance sheet operational income. MFIs are now playing the key role of BC for many banks enabling them to reach geographies which were hitherto very difficult for them to reach and serve due to operational constraints in the banking model.



3.4 Portfolio quality

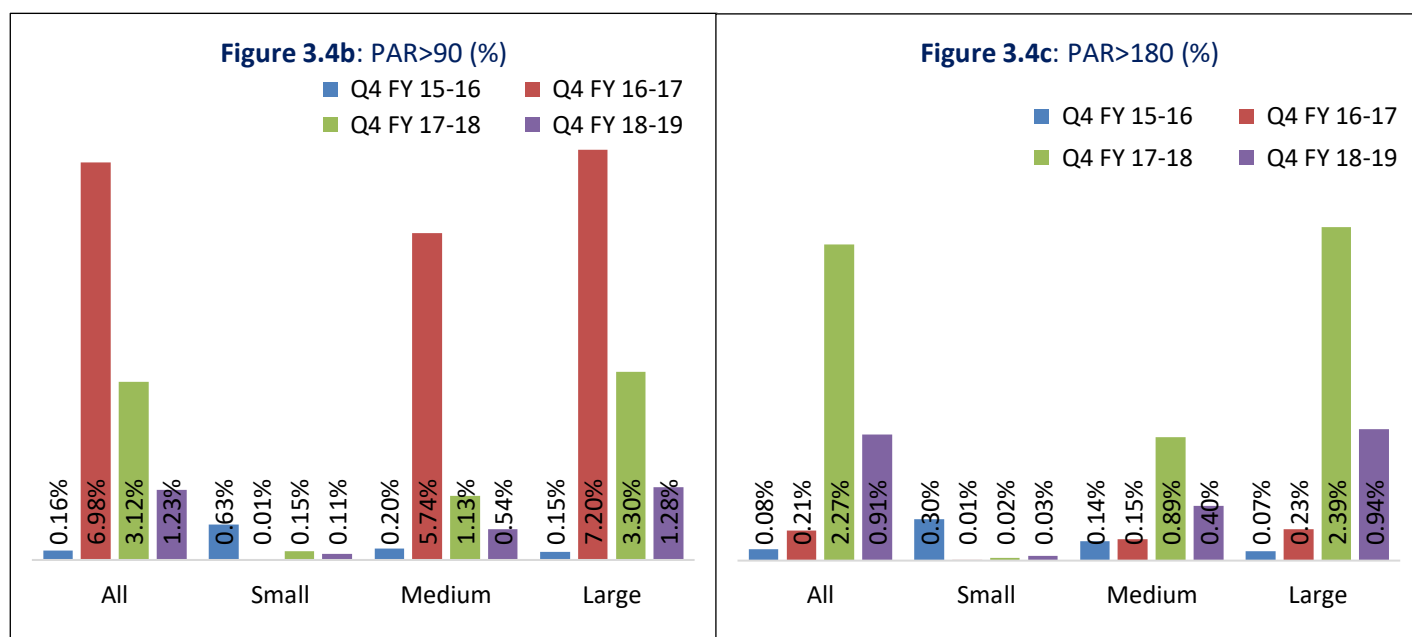
a) Portfolio at Risk (PAR) analysis

PAR>30 (%): PAR>30 is an early indicator of portfolio quality. As can be seen from **Figure 3.4a**, PAR>30 increased significantly during FY 16-17, as collections got affected for several months after demonetization in November 2016. The effect on the smaller entities was more severe in comparison to the medium and large MFIs. It has tapered down and as on 31st March 2019 PAR 30 is 1.21% for the overall industry.



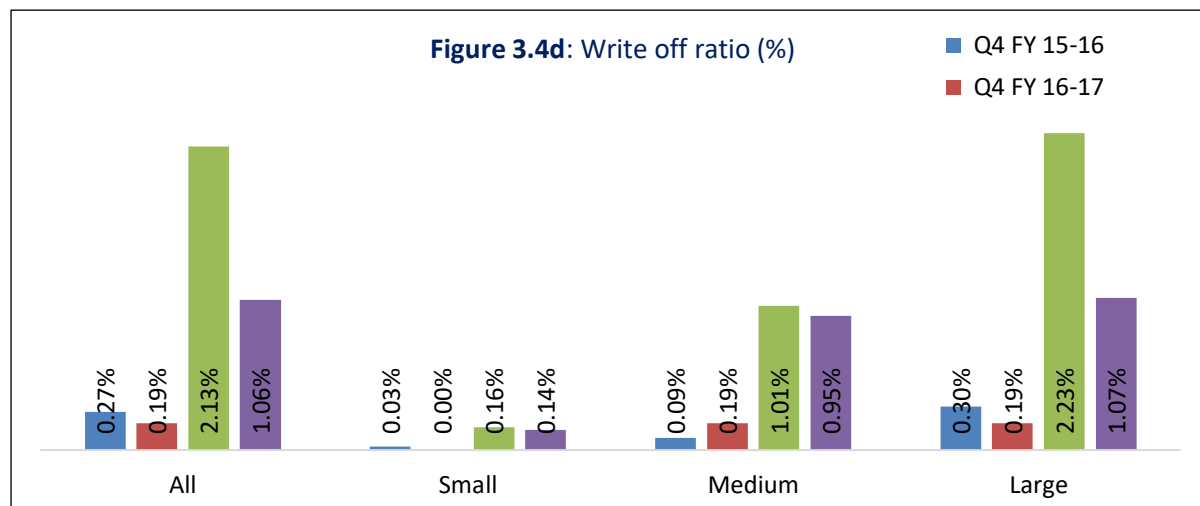
PAR > 90 (%) and PAR > 180 (%)

PAR> 90 (**Figure 3.4b** and **Figure 3.4c**) follows similar trend of PAR 30. However, there has been a very noticeable improvement in the movement from PAR > 90 bucket to PAR > 180 bucket (**Figure 3.4c**). Both parameters have reached sub 1% levels which is what the MFI industry is familiar and used to.



b) Write-off ratio analysis

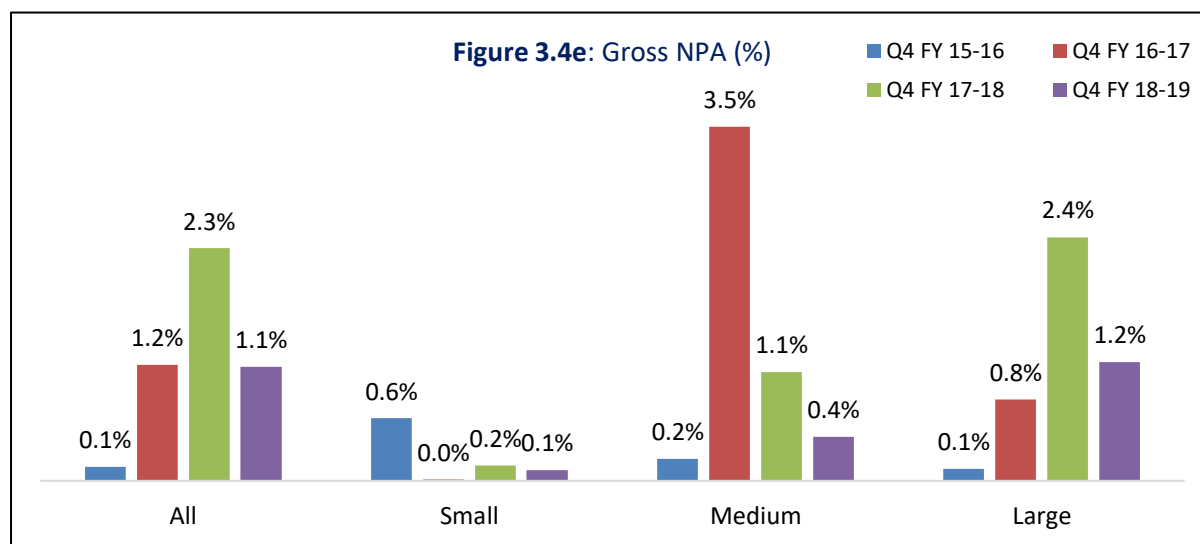
As shown in the **Figure 3.4g**, **Write-off ratio** for the industry was 0.88% as on 31 March 2019. Considering the level of delinquency, which was observed during demonetization, the write-off ratio indicates that major part of delinquencies was recovered and reverted to healthy portfolio.



Note: PAR figures are based on operational and self-reported data by MFIN member institutions while Write-off ratio is based on audited financial data reported in their P&L statement.

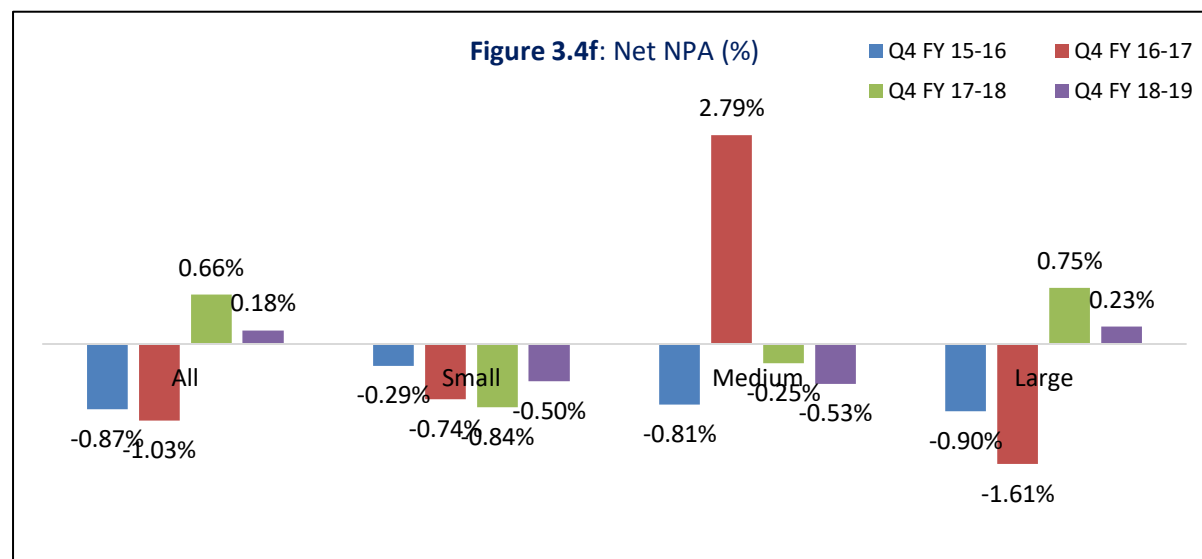
c) Gross NPA

Gross Non-Performing Asset (GNPA) came down to around 1% as on 31 March 2019. For last FY-end the Gross NPA was more than 2%. The impact of demonetization seems to have worn off and portfolio health has visibly improved. **Figure 3.3e** shows the trend of gross NPA.

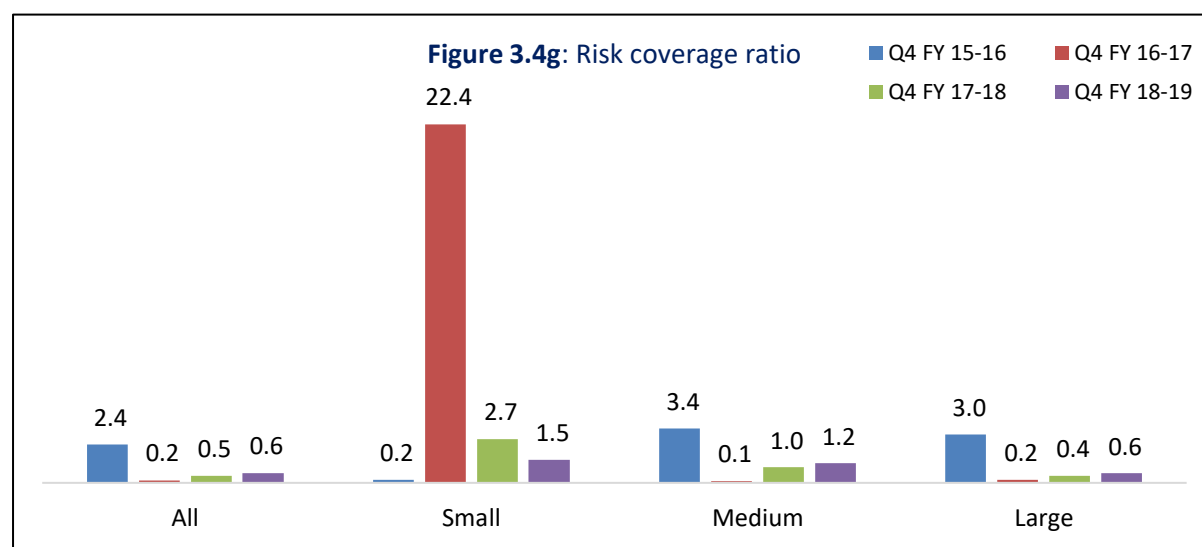


d) Net NPA

At the end of FY 18-19, overall Net NPA is close to zero after staying positive for the last year. Net NPA being negative indicates that the gross NPA is adequately provisioned for. The Net NPA peaked in end-FY 16-17 due to impact of demonetization. **Figure 3.3f** captures the Net NPA trends over the last four financial years.



The risk coverage ratio compares the portfolio with delinquencies greater than 30 days with the loan loss reserve maintained by the MFIs. So, ratio of lower than 1 indicates more than adequate risk coverage. **Figure 3.4g** shows that the ratio is progressively increasing which signifies that the provisioning requirement may increase in future and therefore risk management practices would also need strengthening.



Annexure 1: Panel of MFIs

FY 15-16	FY 16-17	FY 17-18	FY 18-19
Adhikar	Adhikar	Adhikar	Adhikar
		Adi Chitragupta	Adi Chitragupta
Annapurna	Annapurna	Annapurna	Annapurna
Arohan	Arohan	Arohan	Arohan
Asirvad	Asirvad	Asirvad	Asirvad
		Aviral	Aviral
Belstar	Belstar	Belstar	Belstar
		Centrum	Centrum
CreditAccess	CreditAccess	CreditAccess	CreditAccess
Fino	Fino	Fino	Fino
Fusion	Fusion	Fusion	Fusion
Growing Opportunity	Growing Opportunity	Growing Opportunity	Growing Opportunity
Jagaran	Jagaran	Jagaran	Jagaran
M Power	M Power	M Power	M Power
Midland	Midland	Midland	Midland
			Mitrata
Muthoot Microfin	Muthoot Microfin	Muthoot Microfin	Muthoot Microfin
Namra	Namra	Namra	Namra
		NEED	NEED
Samasta	Samasta	Samasta	Samasta
Sarala	Sarala	Sarala	Sarala
Satin	Satin	Satin	Satin
			Save
	Satya	Satya	Satya
			Sindhuja
Svasti	Svasti	Svasti	Svasti
Svatantra	Svatantra	Svatantra	Svatantra
SVCL	SVCL	SVCL	SVCL
	Unacco	Unacco	Unacco
		Vaya	Vaya
VFS	VFS	VFS	VFS

Annexure 2: Glossary

Term	Definition
Borrowers per branch	Number of Active Borrowers / Number of Branches
Borrowers per loan officer	Number of Active Borrowers / Number of Loan officers
Branches	Number of branches
Capital to Risk Weighted Assets Ratio (CRAR)	Tier I + Tier II + Tier III (Capital funds) / Risk weighted assets. However, ratio used in the report is as reported in audited statements of the panel of MFIs..
Clients	Number of active clients
Cost per borrower	Operating Expense / Number of Active Borrowers
Debt to equity ratio	Total Liabilities / Total Equity
Employees	Number of Employees
Financial Cost Ratio (FCR)	Total funding expenses / Average On-balance sheet portfolio
Gross Loan Portfolio (GLP)	On balance sheet portfolio plus managed portfolio
GLP per branch	Gross Loan Portfolio / Number of Branches
GLP per loan officer	Gross Loan Portfolio / Number of Loan Officers
Gross NPA (GNPA)	Gross Non-Performing Assets / On Balance Sheet Portfolio
Liability and Equity composition	Borrowing, Loan loss reserve, Other liability, Reserve and Surplus and Equity share capital as percent of total liability
Loan officers per branch	Number of Loan officer / Number of Branch
Loan officers to total employees	Number of Loan officers / Number of Employees
Net NPA (NNPA)	(Gross NPA - Loan Loss Reserve) / (On Balance Sheet Portfolio – Loan Loss Reserve)
Net Interest Margin (NIM)	NBFC-MFIs are allowed to charge a margin which is the difference between the amount charged to the borrower and the cost of funds to the NBFC-MFI, which shall not exceed 10% for large MFIs (loans portfolios exceeding Rs 100 crore) and 12% for the others. The interest rates charged by an NBFC-MFI to its borrowers shall be the lower of the (i) The cost of funds plus margin as indicated in above; or (ii) The average base rate of the five largest commercial banks by assets multiplied by 2.75. The ratio used in the report is as reported in audited statements of the panel of MFIs.
Operating Expense Ratio (OER)	Total Operating Expenses / Average On-balance sheet portfolio
Operational Self-Sufficiency (OSS)	Financial Revenue less grants / (Financial Expense + Impairment Losses on Loans + Operating Expense + Tax Expense)
Other income to total income ratio	Total other income to total income
Portfolio at Risk (PAR > 30, 90 and 180 days)	Outstanding balance of portfolios overdue > 30 or 90 or 180 Days / Gross Loan Portfolio
Return on Assets (RoA)	Profit After Tax / Average Total Assets
Return on Equity (RoE)	Profit After Tax / Average Total Equity
Risk coverage ratio	Principal amount outstanding on Gross Loan Portfolio overdue >30 days / (Loan loss provision - balance sheet portfolio)
Yield on portfolio (Yield)	Interest income on loan portfolio / Average On-balance sheet portfolio

Annexure 3: Peer group wise tables on various performance parameters

A Outreach

	All	Small	Medium	Large
Client (Lakhs)				
Mar-16	78	2	13	63
Mar-17	107	1	16	91
Mar-18	145	1	13	131
Mar-19	198	1	14	182
CAGR	37%	-14%	3%	43%
Branches				
Mar-16	2,741	102	653	1,986
Mar-17	4,157	38	875	3,244
Mar-18	5,831	85	620	5,126
Mar-19	7,879	167	629	7,083
CAGR	42%	18%	-1%	53%
Employees				
Mar-16	21,981	717	3,739	17,525
Mar-17	35,469	274	6,366	28,829
Mar-18	49,836	479	4,952	44,405
Mar-19	68,065	881	4,774	62,410
CAGR	46%	7%	8%	53%
Portfolio (Rs. Cr)				
Mar-16	12,543	223	1,683	10,637
Mar-17	17,077	76	2,188	14,813
Mar-18	28,664	144	2,129	26,392
Mar-19	43,327	298	2,406	40,623
CAGR	51%	10%	13%	56%
Disbursements (Rs. Cr)				
FY 15-16	13,664	372	2,146	11,147
FY 16-17	18,788	103	2,824	15,860
FY 17-18	31,868	192	2,725	28,952
FY 18-19	46,606	328	2,979	43,299
CAGR	51%	-4%	12%	57%

B Operational Efficiency

	All	Small	Medium	Large
Average loan disbursed per client (Rs)				
FY 15-16	14,321	17,486	18,127	13,685
FY 16-17	17,883	20,369	21,596	17,338
FY 17-18	23,038	22,835	23,218	23,022
FY 18-19	25,271	24,828	26,065	25,222
CAGR	21%	12%	13%	23%
Average loan O/s per client (Rs)				
Mar-16	16,175	10,069	13,265	16,981
Mar-17	15,916	13,825	13,655	16,328
Mar-18	19,775	16,590	15,891	20,195
Mar-19	21,934	20,884	17,329	22,293
CAGR	11%	28%	9%	9%

	All	Small	Medium	Large
Borrowers per loan officer				
Mar-16	533	501	593	523
Mar-17	483	369	433	494
Mar-18	445	320	453	445
Mar-19	468	248	504	469
CAGR	-4%	-21%	-5%	-4%
Borrowers per branch				
Mar-16	2,829	2,175	1,943	3,154
Mar-17	2,581	1,456	1,831	2,797
Mar-18	2,486	1,020	2,161	2,549
Mar-19	2,507	853	2,208	2,573
CAGR	-4%	-27%	4%	-7%
GLP per branch (Rs. Cr)				
Mar-16	3.7	3.3	2.9	5.0
Mar-17	3.4	2.0	2.8	4.5
Mar-18	4.1	1.8	4.1	4.8
Mar-19	4.4	2.0	4.3	5.4
CAGR	5.5%	-15.9%	14.1%	2.6%
GLP per loan officer (Rs. Lakhs)				
Mar-16	86	50	79	89
Mar-17	77	51	59	81
Mar-18	88	53	72	90
Mar-19	103	52	87	104
CAGR	6%	1%	4%	6%
Loan officer per branch				
Mar-16	5.3	4.3	3.3	6.0
Mar-17	5.3	3.9	4.2	5.7
Mar-18	5.6	3.2	4.8	5.7
Mar-19	5.4	3.4	4.4	5.5
CAGR	0%	-8%	10%	-3%
Loan officers to total employees				
Mar-16	66.2%	61.8%	57.2%	68.3%
Mar-17	62.6%	54.7%	58.1%	63.7%
Mar-18	65.4%	56.6%	59.8%	66.1%
Mar-19	62.0%	65.2%	57.7%	62.3%
CAGR	-2.2%	1.8%	0.3%	-3.0%
Operating Efficiency Ratio (OER)				
FY 15-16	7.2%	10.3%	9.5%	6.7%
FY 16-17	7.1%	12.4%	9.1%	6.8%
FY 17-18	7.0%	11.2%	9.1%	6.9%
FY 18-19	6.7%	15.4%	7.1%	6.6%
CAGR	-2.4%	14.3%	-9.5%	-0.5%
Financial Cost Ratio (FCR)				
FY 15-16	14.0%	14.6%	14.3%	14.0%
FY 16-17	13.3%	8.9%	14.3%	13.2%
FY 17-18	11.4%	10.4%	13.3%	11.3%
FY 18-19	10.9%	10.3%	13.7%	10.7%
CAGR	-8.0%	-11.1%	-1.4%	-8.4%

	All	Small	Medium	Large
Cost per borrower (Rs)				
FY 15-16	785	745	867	770
FY 16-17	1,022	1,130	1,130	1,002
FY 17-18	1,080	1,238	1,013	1,086
FY 18-19	1,186	1,569	1,008	1,197
CAGR	14.8%	28.2%	5.2%	15.9%
Provisioning & write off expense ratio				
FY 15-16	0.7%	0.6%	0.6%	0.7%
FY 16-17	2.1%	0.3%	0.8%	2.3%
FY 17-18	2.5%	0.8%	1.4%	2.6%
FY 18-19	0.2%	1.0%	-0.1%	0.2%
CAGR	-34.4%	14.4%	-156.6%	-33.1%
CSR expense ratio				
FY 15-16	0.02%	NA	0.00%	0.02%
FY 16-17	0.01%	NA	0.00%	0.02%
FY 17-18	0.01%	NA	0.01%	0.01%
FY 18-19	0.01%	NA	0.01%	0.01%
CAGR	-25.8%	NA	80.3%	-30.7%

C Financial Performance

	All	Small	Medium	Large
Operational Self Sufficiency (OSS)				
FY 15-16	115%	111%	109%	116%
FY 16-17	109%	105%	108%	109%
FY 17-18	103%	108%	98%	103%
FY 18-19	120%	94%	112%	121%
CAGR	1.7%	-5.5%	1.0%	1.5%
Total Assets (Rs. Cr)				
Mar-16	12,868	252	1,876	10,740
Mar-17	19,872	111	2,617	17,144
Mar-18	29,790	162	2,432	27,196
Mar-19	43,562	289	2,522	40,751
CAGR	50.2%	4.7%	10.4%	56.0%
Equity (Rs. Cr)				
Mar-16	1,945	57	316	1,573
Mar-17	3,271	28	509	2,734
Mar-18	5,407	50	359	4,999
Mar-19	9,131	70	442	8,619
CAGR	67.4%	7.0%	11.9%	76.3%
Equity to total assets				
Mar-16	0.15	0.23	0.17	0.15
Mar-17	0.16	0.25	0.19	0.16
Mar-18	0.18	0.31	0.15	0.18
Mar-19	0.21	0.24	0.18	0.21
CAGR	11.5%	2.2%	1.4%	13.0%

	All	Small	Medium	Large
Borrowing (Rs. Cr)				
FY 15-16	10,195	183	1,448	8,564
FY 16-17	15,543	79	1,950	13,514
FY 17-18	22,857	98	1,928	20,832
FY 18-19	31,965	173	1,954	29,839
CAGR	46.4%	-1.8%	10.5%	51.6%
Return on Asset				
FY 15-16	2.65%	2.03%	1.75%	2.81%
FY 16-17	1.69%	0.85%	1.62%	1.71%
FY 17-18	0.56%	1.35%	-0.18%	0.62%
FY 18-19	3.6%	-1.2%	2.3%	3.7%
CAGR	10.5%	-184.8%	10.1%	9.4%
Return on Equity				
FY 15-16	17.8%	11.7%	8.9%	20.0%
FY 16-17	10.4%	2.6%	9.0%	10.8%
FY 17-18	3.2%	4.6%	-1.2%	3.5%
FY 18-19	17.8%	-4.0%	14.7%	18.1%
CAGR	0.1%	-170.0%	18.1%	-3.2%
Yield on portfolio				
FY 15-16	23.8%	25.4%	24.9%	23.5%
FY 16-17	22.4%	21.3%	24.0%	22.2%
FY 17-18	20.9%	22.8%	22.1%	20.8%
FY 18-19	21.2%	20.7%	23.4%	21.1%
CAGR	-3.7%	-6.5%	-2.0%	-3.6%
Debt to Equity				
Mar-16	5.61	3.42	4.94	5.83
Mar-17	5.07	3.00	4.09	5.27
Mar-18	4.51	2.23	5.78	4.44
Mar-19	3.77	3.15	4.71	3.72
CAGR	-12.5%	-2.8%	-1.6%	-13.9%
CRAR				
Mar-16	24.6%	29.0%	24.8%	22.8%
Mar-17	29.8%	20.7%	32.0%	29.4%
Mar-18	27.1%	39.1%	25.7%	24.3%
Mar-19	25.4%	30.9%	21.9%	25.7%
CAGR	1.1%	2.1%	-4.1%	4.1%
Risk Coverage Ratio				
Mar-16	2.38	0.19	3.41	3.02
Mar-17	0.16	22.44	0.11	0.17
Mar-18	0.45	2.73	0.97	0.44
Mar-19	0.61	1.45	1.23	0.60
CAGR	-36.3%	98.4%	-28.9%	-41.7%
Other income to total income ratio				
FY 15-16	8.89%	10.92%	4.12%	9.68%
FY 16-17	10.00%	0.00%	8.12%	10.35%
FY 17-18	9.43%	0.00%	5.18%	9.81%
FY 18-19	11.40%	8.58%	5.06%	11.82%
CAGR	8.6%	-7.7%	7.1%	6.9%

	All	Small	Medium	Large
Gross NPA (%)				
Mar-16	0.14%	0.62%	0.22%	0.12%
Mar-17	1.16%	0.01%	3.54%	0.81%
Mar-18	2.33%	0.15%	1.09%	2.44%
Mar-19	1.14%	0.11%	0.44%	1.19%
CAGR	99.9%	-44.2%	26.5%	114.4%
Net NPA (%)				
Mar-16	-0.9%	-0.3%	-0.8%	-0.9%
Mar-17	-1.0%	-0.7%	2.8%	-1.6%
Mar-18	0.7%	-0.8%	-0.3%	0.8%
Mar-19	0.2%	-0.5%	-0.5%	0.2%
CAGR	-159.4%	19.7%	-13.2%	-163.7%
PAR > 30				
Mar-16	0.3%	4.7%	0.3%	0.3%
Mar-17	12.3%	0.0%	10.1%	12.7%
Mar-18	3.9%	0.3%	1.4%	4.2%
Mar-19	1.6%	0.3%	0.7%	1.7%
CAGR	67.0%	-60.0%	38.7%	84.0%
PAR > 90				
Mar-16	0.2%	0.6%	0.2%	0.1%
Mar-17	7.0%	0.0%	5.7%	7.2%
Mar-18	3.1%	0.2%	1.1%	3.3%
Mar-19	1.2%	0.1%	0.5%	1.3%
CAGR	96.4%	-44.1%	39.3%	105.8%
PAR > 180				
Mar-16	0.1%	0.3%	0.1%	0.1%
Mar-17	0.2%	0.0%	0.2%	0.2%
Mar-18	2.3%	0.0%	0.9%	2.4%
Mar-19	0.9%	0.0%	0.4%	0.9%
CAGR	123.3%	-51.3%	41.5%	140.6%
On-BS portfolio to total asset				
Mar-16	77%	76%	77%	77%
Mar-17	74%	69%	72%	74%
Mar-18	81%	83%	79%	81%
Mar-19	79%	68%	79%	79%
CAGR	0.5%	-3.7%	0.6%	0.5%
Borrowings to total assets				
Mar-16	79%	73%	77%	80%
Mar-17	78%	71%	75%	79%
Mar-18	77%	60%	79%	77%
Mar-19	73%	60%	77%	73%
CAGR	-2.5%	-6.2%	0.1%	-2.8%

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