

The MicroScape

FY 2017 - 2018



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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 47 members, diverse in size and geographic spread, representing over 77% of the microfinance operations of NBFC-MFIs and around 41% of the microfinance industry in India, excluding SHGs [Equifax Credit Insights, Q4 2017-18]. 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 led 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 MicroScope, our annual publication, is one critical product to support our efforts to bring greater transparency and accountability to the industry.

The MicroScope

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

This edition of the MicroScope captures the important operational and financial trends in the industry for the FY 2017-18 and compares key performance indicators with previous two financial years FY 2015-16 and FY 2016-17.

Data and methodology

The financial analysis is based on the data of 35 NBFC-MFIs for the Financial Year (FY) 2017-18. However, there are variations in data sets for other two financial years (FY 15-16, FY 16-17) due to 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	26	5	13	8
2016-17	28	6	13	9
2017-18	35	10	11	14

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 and 2017-18. The approach adopted for analysis is highlighted below

- Productivity ratios are weighted averages
- **Financial ratios for various peer groups are based on simple averages of the individual ratios derived for each MFI, unless otherwise stated.** This methodology has been employed to net-off the disproportionate impact of large MFIs, on the overall industry 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 2017-18 & as on 31 March 2018]

	All	Small	Medium	Large
Outreach				
Av. GLP/MFI (Rs Cr)	1,330	66	384	2,976
Av. loan O/s/account (Rs)	17,569	15,813	16,552	17,710
Av. loan disb./MFI (Rs Cr)	1,466	76	474	3,240
Av. loan disb./account (Rs)	22,968	24,199	23,789	22,858
Operational efficiency				
Staff efficiency				
Borrowers per loan officer	471	407	451	474
GLP per loan officer (Rs Lk.)	91	65	76	94
Borrowers per branch	2,581	1,401	2,074	2,706
GLP per branch (Rs Cr.)	5.0	2.2	3.5	5.4
No. of Loan officers per branch	5.5	3.4	4.6	5.7
Loan officers to total staff	64.8%	54.3%	58.7%	65.9%
Cost efficiency				
Operating Expense Ratio	7.0%	10.2%	10.2%	6.8%
Financial Cost Ratio	10.7%	15.1%	13.7%	10.5%
Cost per borrower (Rs)	1,176	1,394	1,228	1,168
Financial performance				
Balance sheet composition				
Loan portfolio to total assets	79.1%	79.8%	80.6%	79.0%
Cash in hand to total assets	11.9%	5.1%	8.2%	12.3%
Cash collateral to total assets	4.0%	8.6%	4.7%	3.9%
Borrowings to total assets	72.4%	73.1%	67.8%	72.7%
LLR to total assets	1.9%	0.9%	2.0%	1.9%
Equity to total assets	20.8%	22.5%	13.7%	21.4%
Capital adequacy				
CRAR (simple average)	25.6%	35.2%	21.0%	23.7%
Debt to Equity ratio	3.8	3.4	6.3	3.7
Profitability				
Return on Assets	1.5%	0.3%	-1.0%	1.8%
Return on Equity	8.2%	1.5%	-7.3%	9.1%
Yield on portfolio	19.1%	25.9%	22.0%	19.7%
NIM (simple average)	9.1%	10.2%	9.0%	8.9%
OSS	108%	101%	95%	110%
Other income to total income	4.4%	5.0%	8.5%	4.1%
Portfolio quality				
PAR >30	2.9%	2.4%	1.6%	3.0%
Gross NPA	2.8%	0.5%	2.0%	3.0%
Net NPA	0.4%	-0.6%	-0.5%	0.5%
Risk coverage ratio	1.7	1.6	1.0	1.7

Section 1

Outreach Analysis

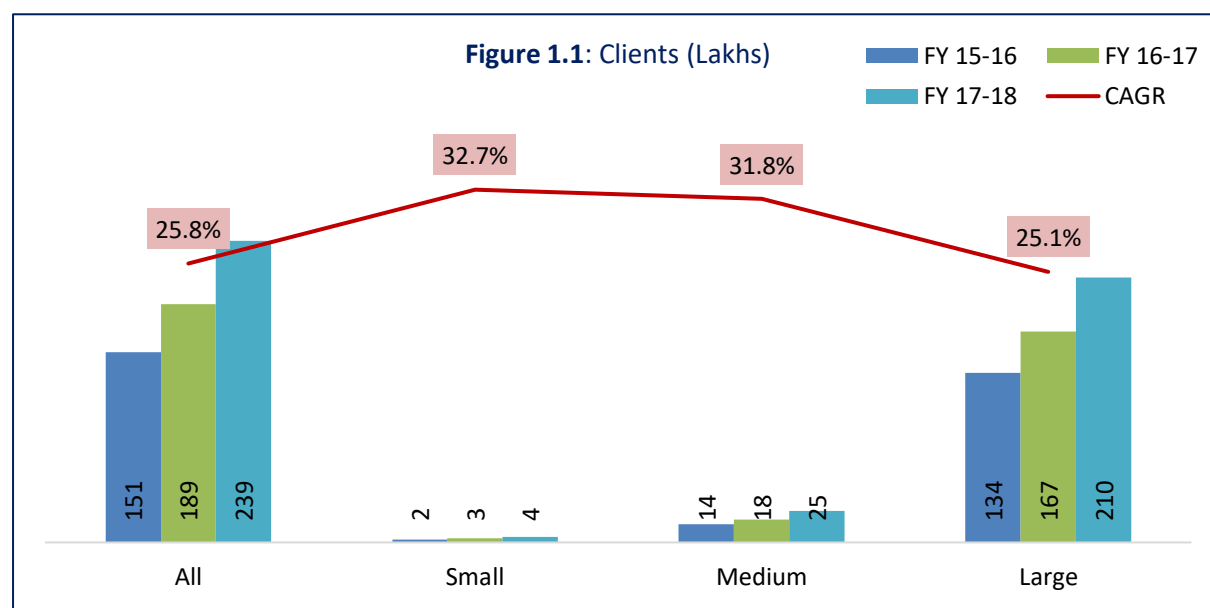
The outreach of the MFIs has been analyzed in terms of growth in the number of clients, branches, employees and portfolio. The table below benchmarks the compound annual growth rate (CAGR) for the small, medium and large MFIs across the four outreach parameters. The average portfolio & loan numbers shown in the table is for FY 2017-18.

CAGR (FY 15-16 to 17-18)	All	Small	Medium	Large
Clients	25.8%	32.7%	31.8%	25.1%
Branches	28.1%	75.6%	32.7%	26.3%
Employees	33.5%	44.7%	34.3%	33.1%
GLP	39.5%	35.6%	45.0%	39.0%

Portfolio & loan (FY 17-18)	All	Small	Medium	Large
Av. GLP/MFI (Rs Cr)	1,330	66	384	2,976
Av. loan O/s/account (Rs)	17,569	15,813	16,552	17,710
Av. loan disb./MFI (Rs Cr)	1,466	76	474	3,240
Av. loan disb./account (Rs)	22,968	24,199	23,789	22,858

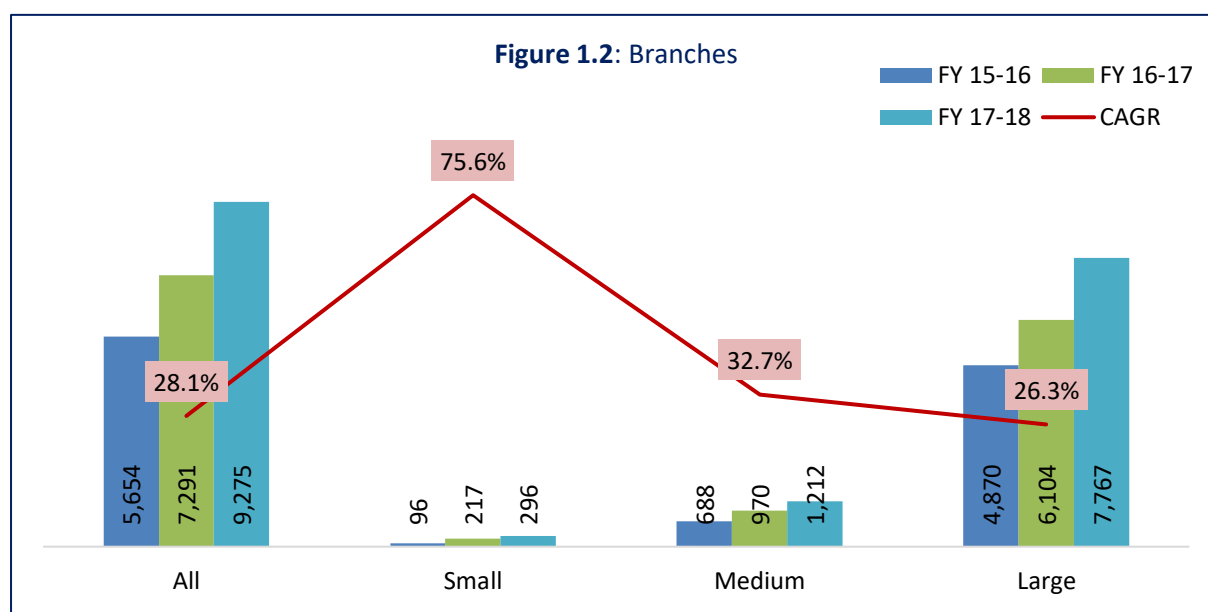
1.1 Clients

The three-year period from FY 2015-16 to FY 2017-18 witnessed two major events 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 and the second event was the announcement of demonetization of Rs 500 and Rs 1,000 bank notes on 8th November 2016. However, despite these events, the NBFC-MFIs as a whole have shown high resilience as evident from the CAGR of clients of 25.8%. During the period the total number of clients increased from 1.51 Cr as on 31 March 2016 to 2.39 Cr as on 31 March 2018. **Figure 1.1** shows contribution to client outreach by various category of MFIs.



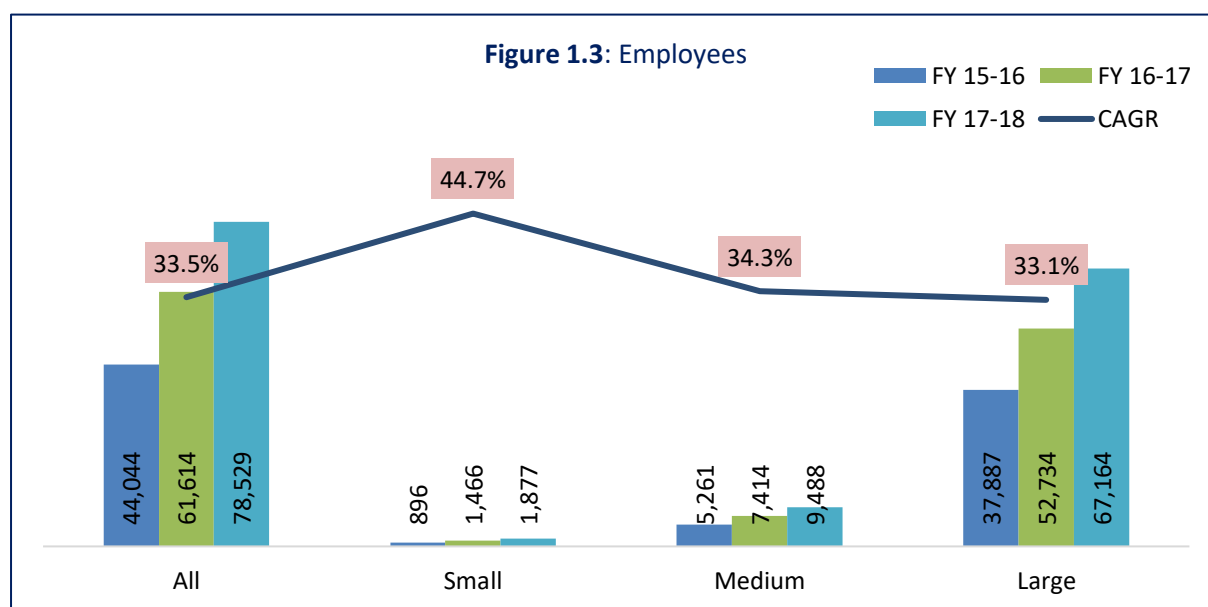
1.2 Branches

The branches have grown at a CAGR of 28.1%. The growth of branches of the smaller MFIs appear much higher than the other categories of MFIs mainly due to their smaller base. It is also because the small sized MFIs generally expand their branches faster within their operational areas before they start consolidating. The total number of branches increased from 5,654 as on 31 March 2016 to 9,275 as on 31 March 2018. **Figure 1.2** shows the branch outreach of the NBFC-MFIs.



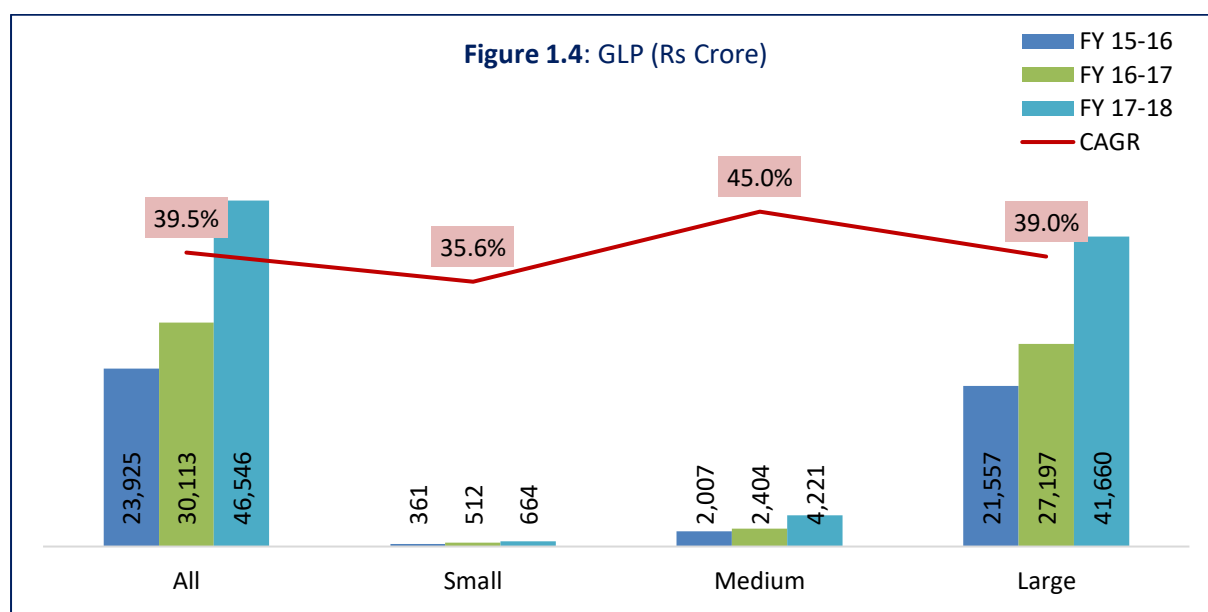
1.3 Employees

Employee strength is one of the main growth drivers of an MFI operations. The total number of employees (including field staff) have reached 78,529 as on 31 March 2018 with a CAGR of 33.5%. Similar to the growth pattern of number of branches, the small MFIs recorded a higher CAGR in comparison to other categories. **Figure 1.3** depicts the employees with various categories of MFIs.

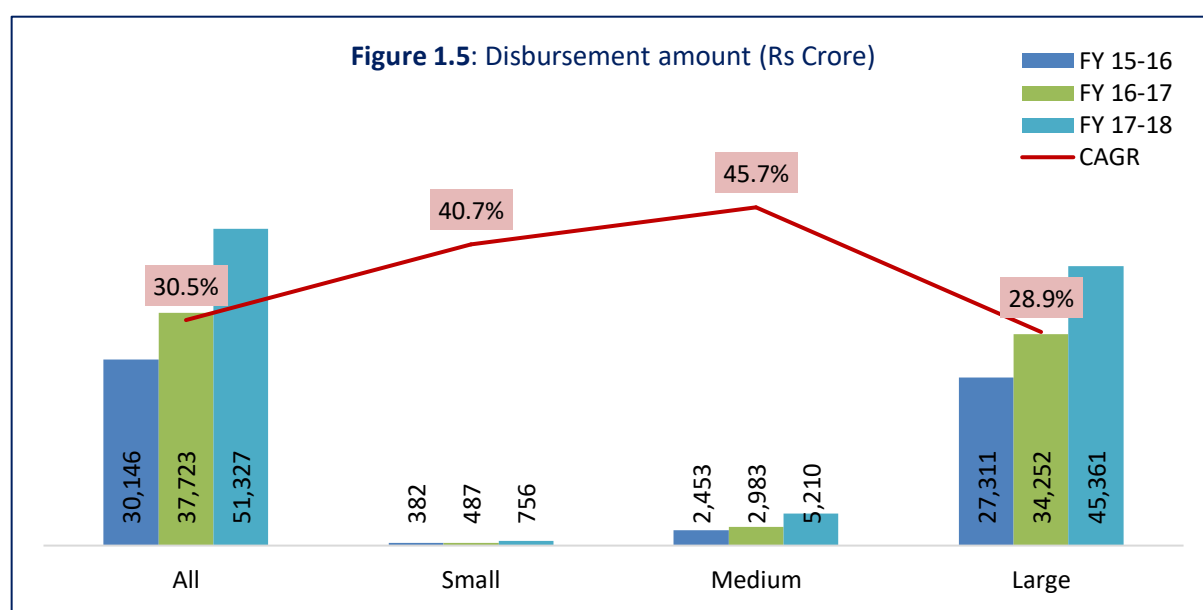


1.4 Portfolio

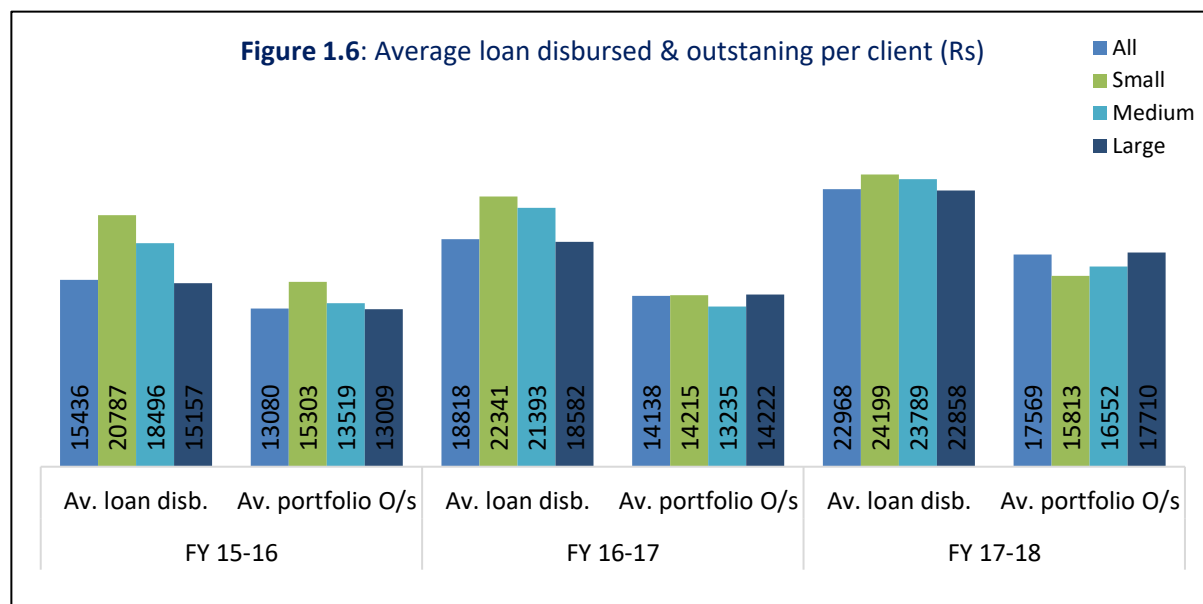
The NBFC-MFIs have achieved an impressive CAGR in GLP of 39.5% over last two-year period (Mar'16 to Mar'18). The growth pattern across various categories of MFIs is contrary to the pattern observed for clients and branches with medium and large MFIs showing better GLP growth in comparison to small MFIs. This highlights the limited ability of small MFIs in initial stages of their operations to mobilize funds to fuel their growth. **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 30.5% as shown in **Figure 1.5**. The growth in disbursement of the small and medium MFIs appears higher due to a smaller base in the FY 2015-16. The CAGR of 28.9% in disbursement of large MFIs, which is lower than the overall CAGR, shows that they have expanded responsibly.



The disbursements growth pattern, when compared with the CAGR of number of clients of 25.8%, 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 22,968 for the FY 2017-18, as depicted in **Figure 1.6** below.



The overall proportion of average loans outstanding to average loan amount disbursed per account was around 85% during FY 2015-16. In the next two financial years (2016-17 and 2017-18), this ratio has decreased and is in the range of 75%. Since the principal component of the repayments is smaller in the initial months, it can be inferred that new loans disbursed in the FYs 16-17 and 17-18 were lower in comparison to FY 2015-16. This relates to the brief phase after demonetization, starting December 2016, during which the disbursements were affected.

Section 2

Operational Efficiency

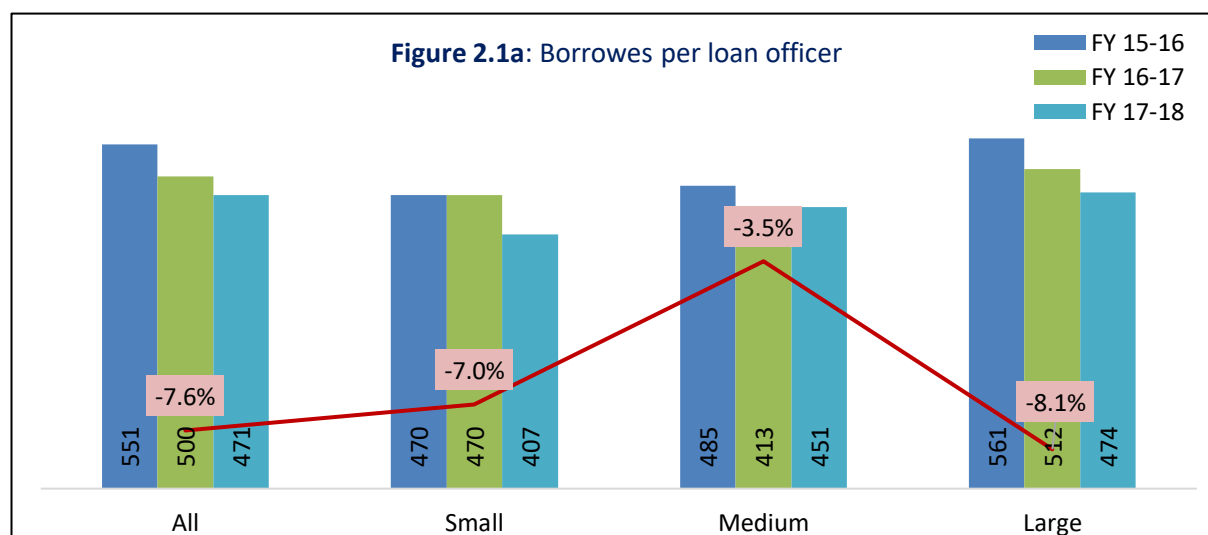
The operational efficiency of an MFI largely depends on staff productivity and its ability to optimize cost of operations. The size of an MFI also defines the level of operational efficiency that can be achieved as larger MFIs have better economies of scale. The table below benchmarks the key efficiency ratios for various category of MFIs, for the FY 2017-18 and as on 31 March 2018.

Parameters (FY 17-18)	All	Small	Medium	Large
Borrowers per loan officer	471	407	451	474
GLP per loan officer (Rs Lk.)	91	65	76	94
Borrowers per branch	2,581	1,401	2,074	2,706
GLP per branch (Rs Cr.)	5.0	2.2	3.5	5.4
Operating Expense Ratio	7.0%	10.2%	10.2%	6.8%
Cost per borrower (Rs)	1,176	1,394	1,228	1,168

2.1 Staff productivity

a) Borrowers per loan officer

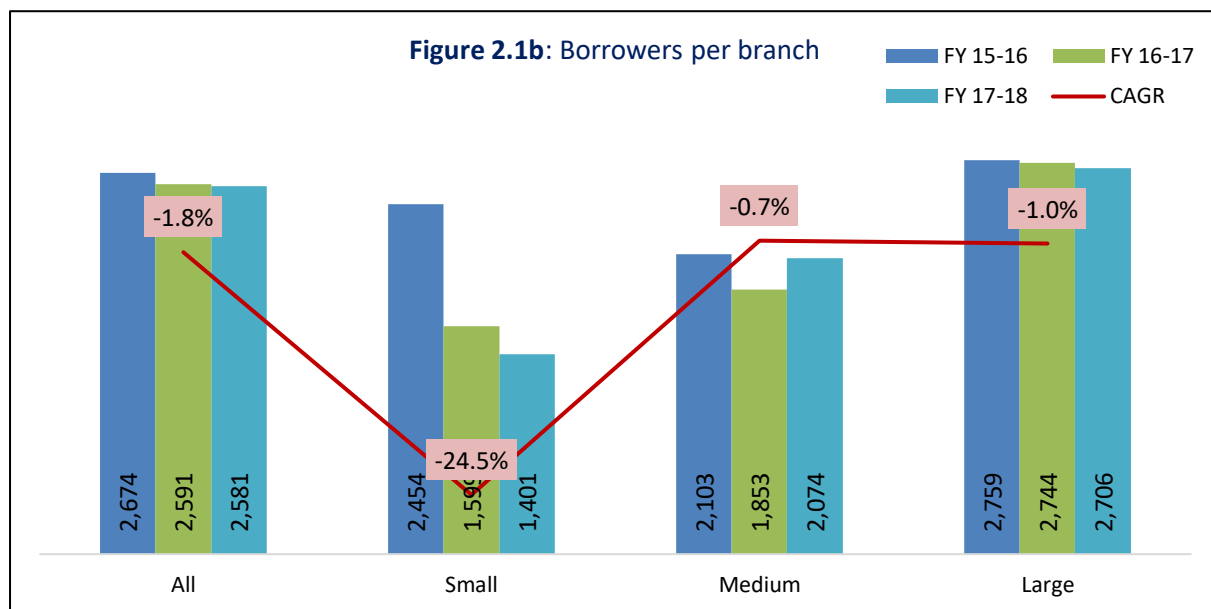
Borrower per loan officer is an important criterion for evaluating efficiency of operations. Increasing trend of borrowers per loan officer with increase in size of MFI shows that MFI are able to generate efficiencies as they grow from a smaller to a larger size. **Figure 2.1a** illustrates borrowers per loan officer for last three financial years by size of MFIs.



Post demonetization there has been a noticeable change in in this indicator as the efficiency levels across all categories of MFIs have witnessed a drop since FY 2015-16. While the larger MFIs continue to have better staff productivity, the focus of all categories of MFIs has been to strengthen and consolidate relationships with their clients to retain them even if it is at a cost of relatively lesser efficiency levels than in the past.

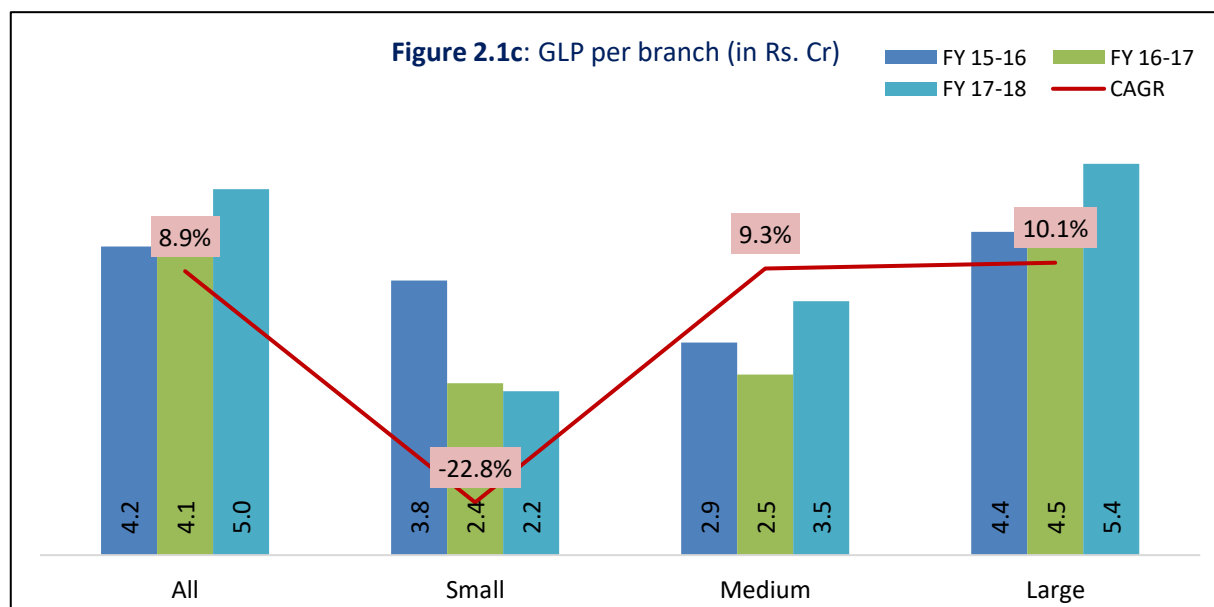
b) Borrowers per branch

Similarly, borrowers per branch decreased in FY 2017-18, vis-à-vis FY 2015-16. In comparison to the FY 2016-17, the number of borrowers per branch showed a marginally decline. As on 31st March 2018 this stands at 2,581 borrowers per branch. For Small MFIs, the numbers have decreased substantially, primarily due to some Small MFIs moving to Medium and Large MFIs categories. **Figure 2.1b** illustrates borrowers per branch for last three financial years.



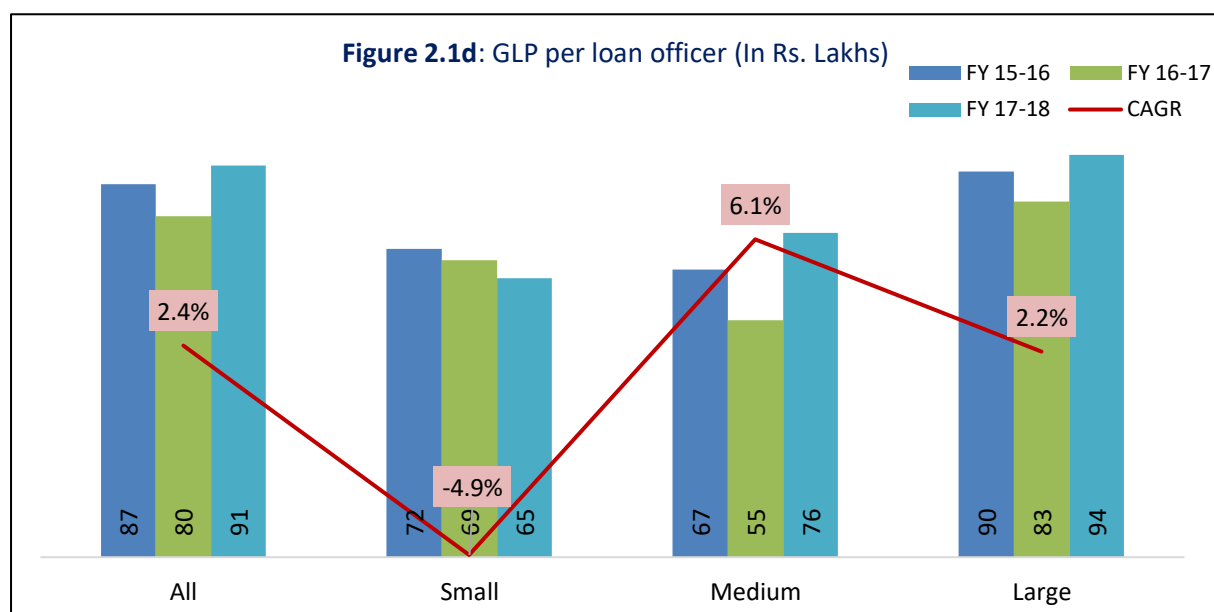
c) GLP per branch

The GLP per branch witnessed a CAGR of around 9% since FY 2015-16 as shown in **Figure 2.1c**. It is clear that the MFIs have been able to maintain overall economies of scale by increasing the average loan size to the borrowers (CAGR of 22%), despite the decline in staff efficiency numbers. It is perceived that this approach would not only allow the MFIs to meet the increasing credit demand of their borrowers and also provide an opportunity to the field staff to spend more time during meetings/transactions to strengthen relationship with borrowers.



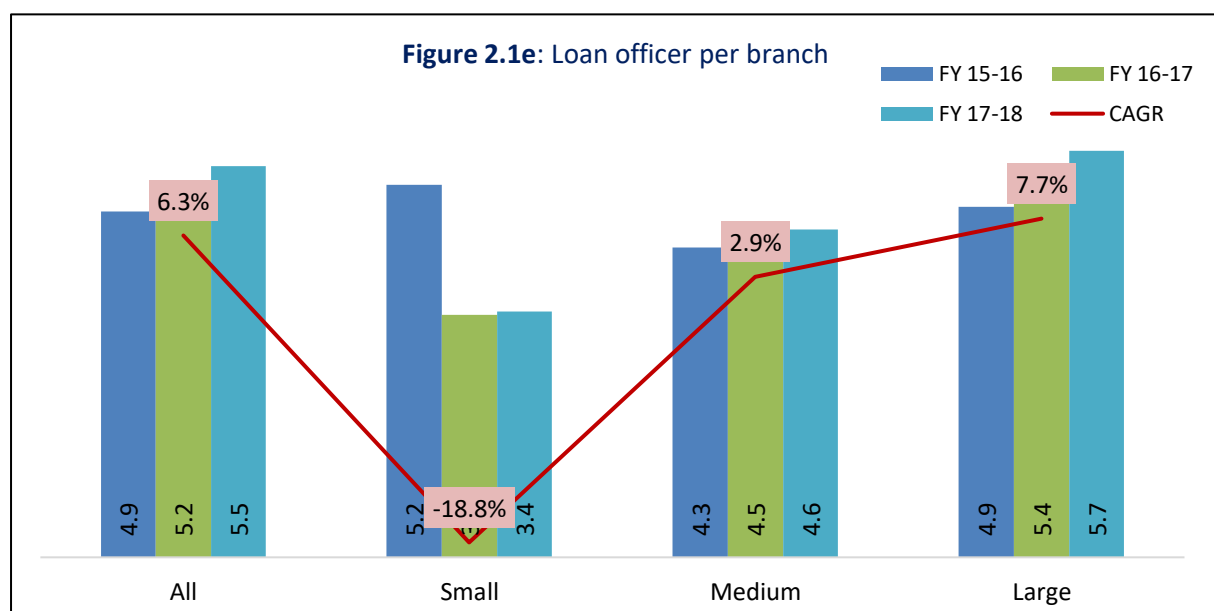
d) GLP per loan officer

On expected lines, GLP per loan officer has increased by CAGR of 2.4%. This seen with decreasing trend of borrowers per loan officer provides an insight on the changing approach of the MFIs to maintain efficiency. However, the variation in the trend for small MFIs is mainly due to some small MFIs (in FY 2-15-16) transforming into medium and large MFIs in the subsequent years. But it reinforces the fact that their ability to obtain funds is restricted, in comparison to other categories. **Figure 2.1d** below shows the GLP per loan officer.



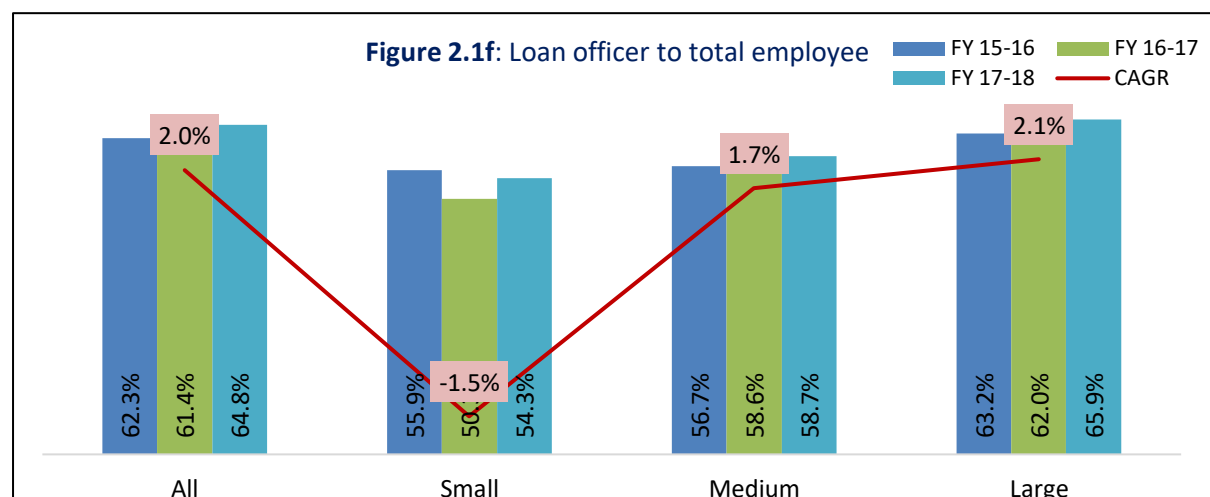
e) Loan officers per branch

As explained earlier, MFIs are concentrating more on servicing their clients better. In this effort, loan officer per branch has increased from 4.9 loan officers per branch in FY 2015-16 to 5.5 loan officers per branch in FY 2017-18. **Figure 2.1e** shows the comparison of loan officers per branch over the last three financial years.



f) Loan officers to total employees

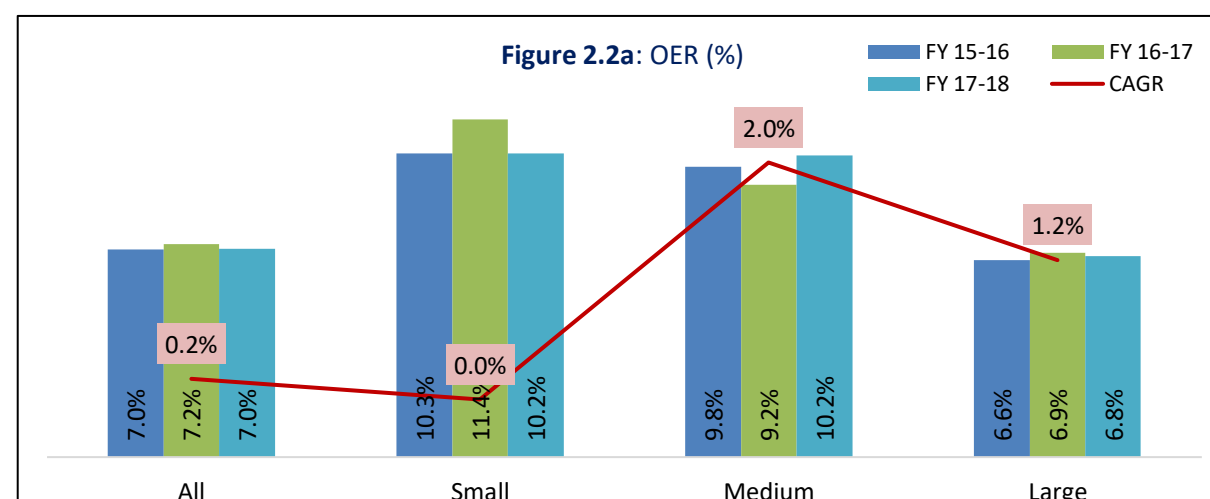
Microfinance is a people intensive business. Hence, majority of human resource is the work force which is involved in direct borrower relationship management. Overall, the ratio of loan officer to total employees is around 65% but is lower for smaller MFIs. **Figure 2.1f** below analyses the ratio of loan officer to total employee base.



2.2 Cost efficiency

a) Operating Expense Ratio (OER)

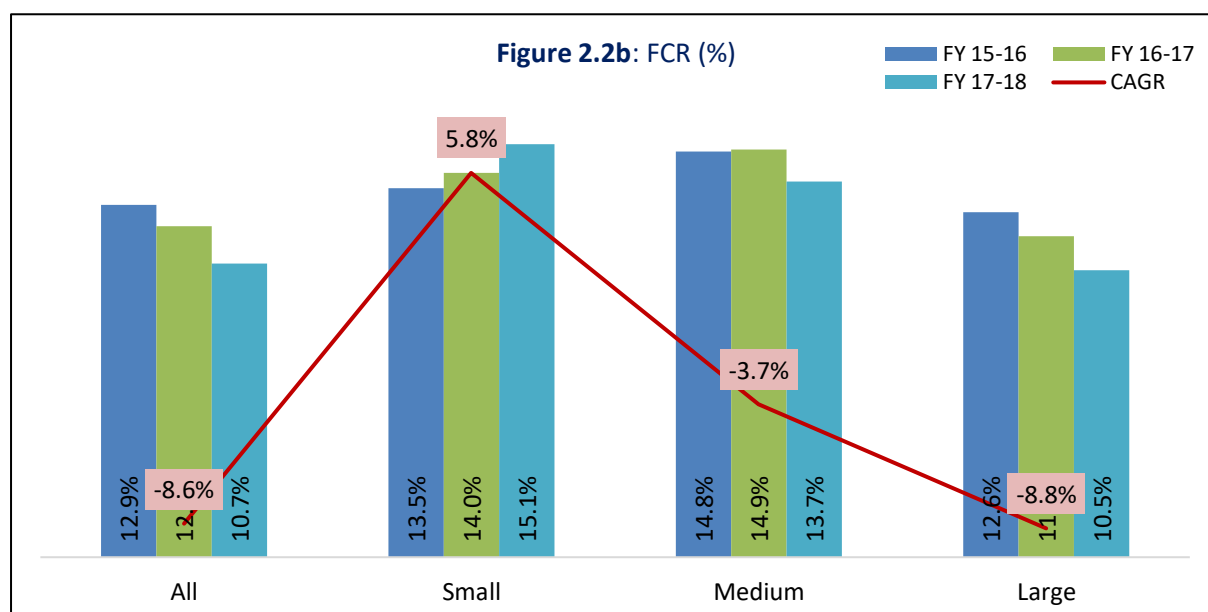
Operational expense makes majority of expense apart from financial cost of funding and loan loss provisioning expense. As shown in **Figure 2.2a**, OER for the MFIs has been around 7% over the years, but increased after FY 2015-16. It is evident that OER of small and medium MFIs are similar but significantly much higher than that of the large MFIs, indicating that MFIs are able to become cost efficient after the cross the threshold of Rs 500 Cr GLP.



It is notable that personnel cost (staff salaries and benefits) forms the most significant part of operating expenses. Personnel cost was in the range of 65% to 71% of the operating expenses for the FY 2017-18. The trend was similar for the previous FYs as well. For the smaller & medium MFIs the ratio of personnel cost was higher in comparison to the large MFIs.

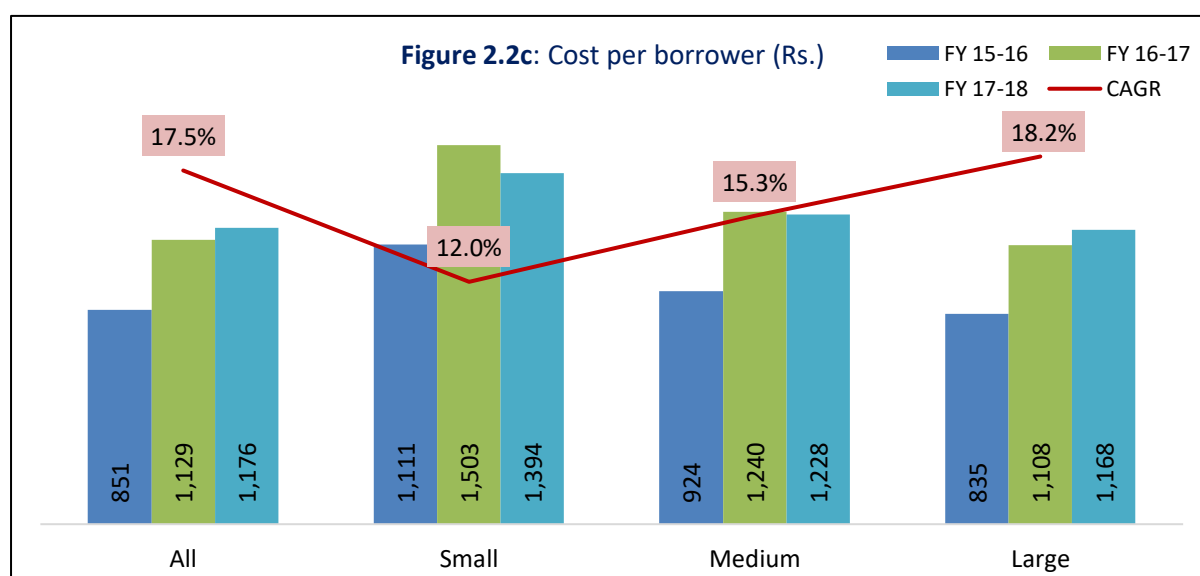
b) Financial Cost Ratio (FCR)

Financial cost ratio for Small MFI is much higher as compared to Medium and Large entities. While, overall the FCR has reduced by a CAGR of 8.6% in the last three financial years, it has increased for the small MFIs. This is largely due to the high dependence of the small MFIs on other NBFCs, which charge higher rate of interest in comparison to banks and other development financial institutions. **Figure 2.2b** compares the FCR for last three financial year for different peer groups and at an industry level.



c) Cost per borrower

Over the last three financial years cost per borrower has increased significantly at a CAGR of 17.5%. Majority of this increase happened in FY 16-17, which reflects the change in approach of the sector (as discussed above) in terms of servicing their clients. Post FY 2016-17 the increase in cost per borrower has increased moderately, as shown in **Figure 2.2c** below.



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. The table below captures the distribution of these four categories of expenses in proportion to total expenses in the last three FYs.

Proportion to total expenses	All	Small	Medium	Large
FY 2015-16				
Funding expenses	57.33%	53.80%	54.91%	57.78%
Operating expenses	39.14%	44.13%	41.91%	38.60%
Provisioning & write off	3.49%	2.07%	3.17%	3.57%
CSR	0.04%	0.00%	0.01%	0.04%
FY 2016-17				
Funding expenses	50.55%	47.82%	54.85%	50.01%
Operating expenses	37.75%	49.05%	41.70%	37.04%
Provisioning and write off	11.66%	3.13%	3.44%	12.91%
CSR	0.04%	0.00%	0.01%	0.04%
FY 2017-18				
Funding expenses	46.20%	48.80%	48.03%	46.00%
Operating expenses	37.59%	48.24%	39.98%	37.21%
Provisioning and write off	16.17%	2.96%	11.98%	16.74%
CSR	0.04%	0.00%	0.01%	0.05%

It is evident that in the last couple of years, due to the effect of demonetization, 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. It is expected that this impact will wean off in the next financial year (2018-19) as the required provisioning have been taken care of. The proportion of operating expenses to total expenses have remained at the similar level.

Section 3

Financial Performance

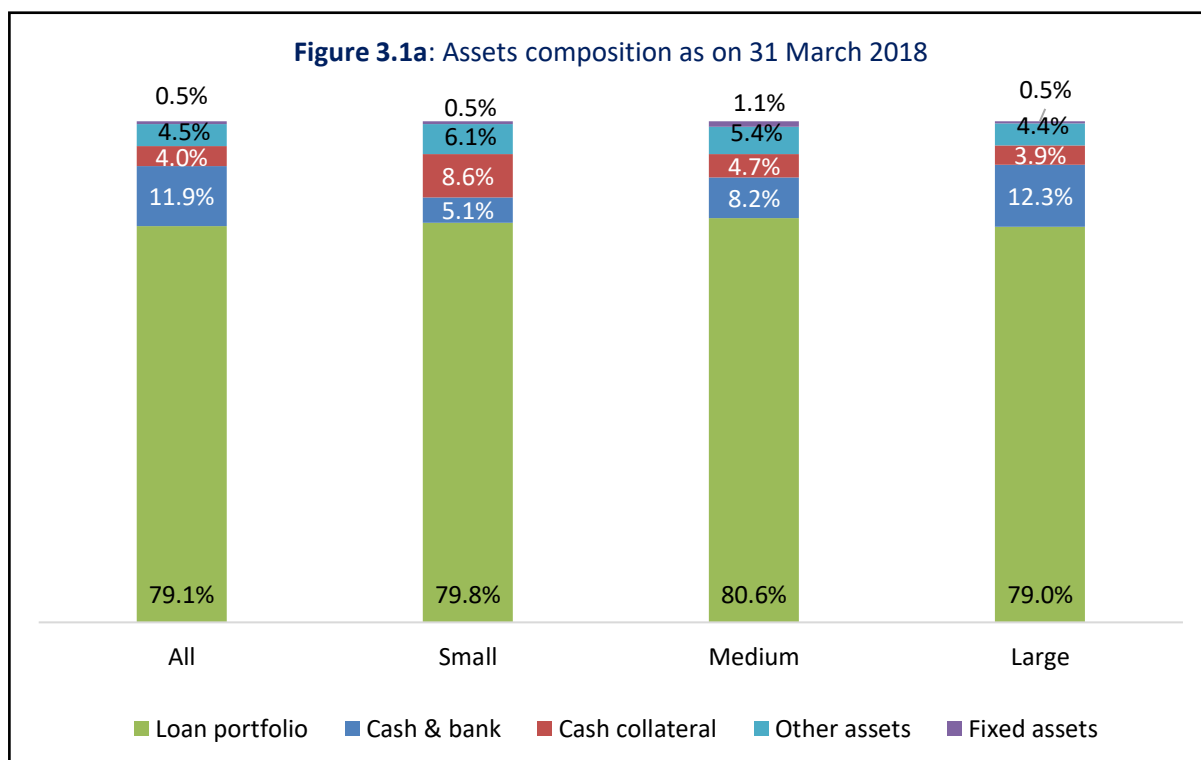
This section highlights the Financial performance benchmarks of the MFIs. Financial performance is dependent on how efficient the operations are, financing costs of the MFI and sources of other incomes. As with operational efficiency, financial performance also varies with size of MFIs. Larger MFIs have the benefit of lower cost of funds since significant proportion of their borrowings are from banks. In comparison, small and medium sized MFI access majority of their funding from other NBFCs which are relatively costlier. The table below benchmarks the key financial performance ratios for various category of MFIs, for the FY 2017-18 and as on 31 March 2018.

Key financial ratios	All	Small	Medium	Large
Balance sheet composition				
Loan portfolio to total assets	79.1%	79.8%	80.6%	79.0%
Cash in hand to total assets	11.9%	5.1%	8.2%	12.3%
Cash collateral to total assets	4.0%	8.6%	4.7%	3.9%
Borrowings to total assets	72.4%	73.1%	67.8%	72.7%
LLR to total assets	1.9%	0.9%	2.0%	1.9%
Equity to total assets	20.8%	22.5%	13.7%	21.4%
Capital adequacy				
CRAR (simple average)	25.6%	35.2%	21.0%	23.7%
Debt to Equity ratio	3.8	3.4	6.3	3.7
Profitability				
Return on Assets	1.5%	0.3%	-1.0%	1.8%
Return on Equity	8.2%	1.5%	-7.3%	9.1%
NIM (simple average)	9.1%	10.2%	9.0%	8.9%
OSS	108%	101%	95%	110%
Portfolio quality				
PAR >30	2.9%	2.4%	1.6%	3.0%
Gross NPA	2.8%	0.5%	2.0%	3.0%
Net NPA	0.4%	-0.6%	-0.5%	0.5%
Risk coverage ratio	1.7	1.6	1.0	1.7

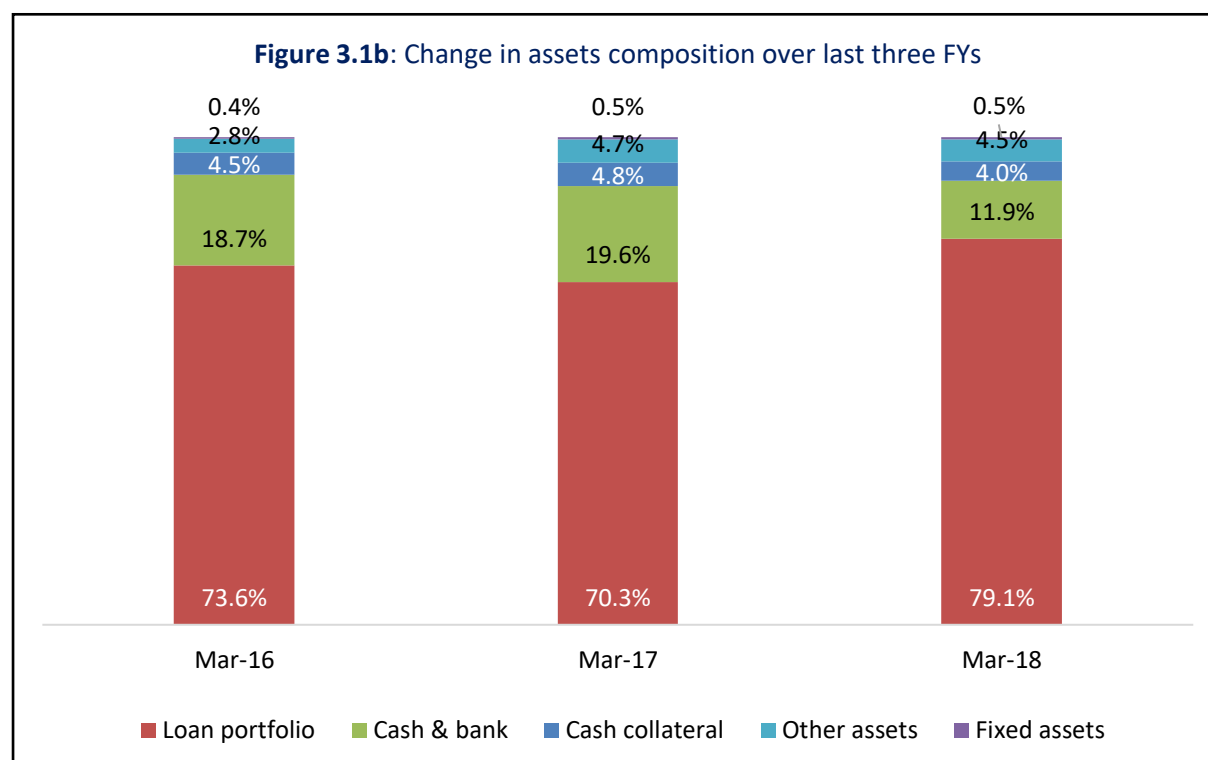
3.1 Composition of the balance sheet

a) Assets composition

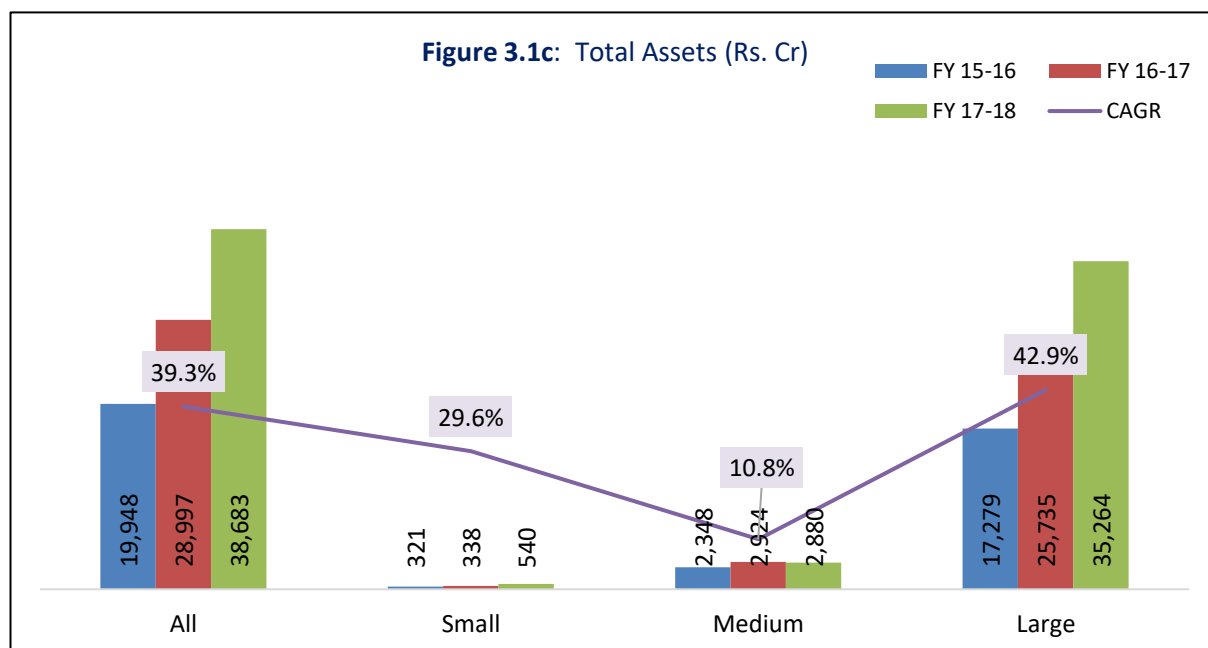
As on 31 March 2018, the MFIs had nearly 80% of their assets deployed in loan portfolio. Cash in hand and bank was around 11% of total assets followed by cash collateral of ~4%, other assets of ~4.5% and fixed assets of ~0.5% as shown in **Figure 3.1a**. While the composition of the portfolio as the largest part of assets was similar across various category of MFIs, there are variations in the composition of cash collateral. The small MFIs have had to keep a higher proportion of assets in the form of cash collateral to access funds for on-lending. The larger MFIs are able to get a better bargain for % of cash collaterals required to access funds.



The composition of assets has changed over the last three years. 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, by reducing the year-end cash and bank balances.

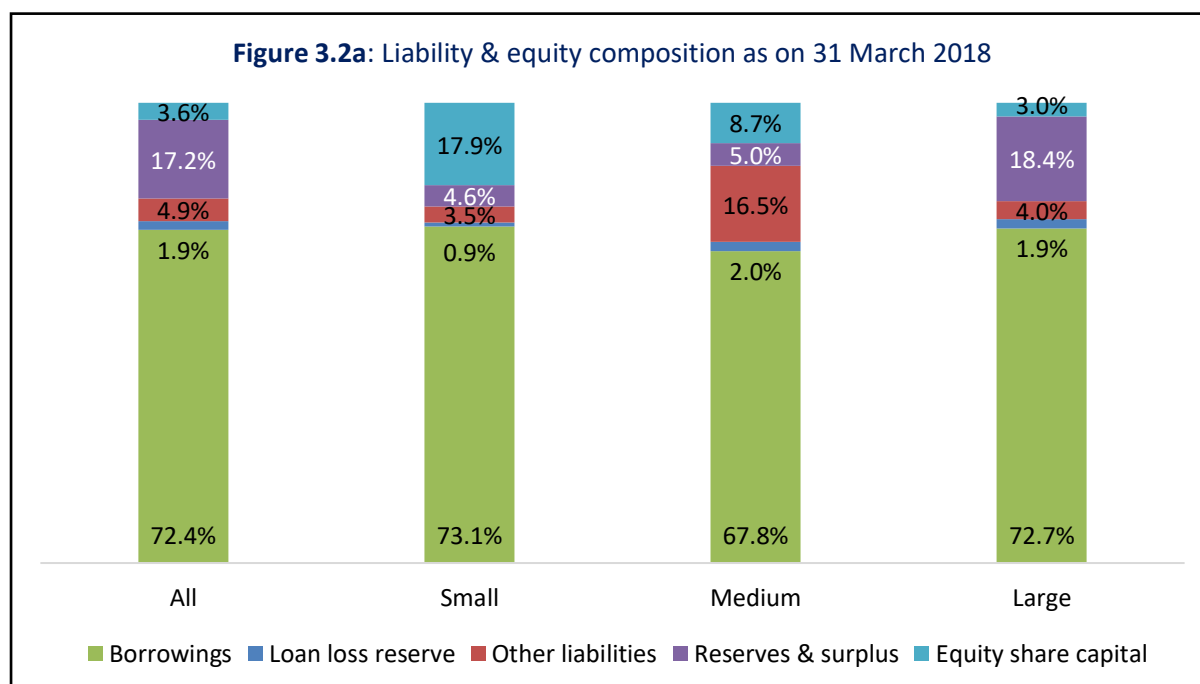


The total assets of the MFIs have also grown at a healthy CAGR of 39.3% as shown in **Figure 3.1c** below. As expected, the large MFIs had a slightly better CAGR of 42.9% in comparison to the industry growth. The CAGR of medium MFIs appear low because four such MFIs became large in FY 2017-18.

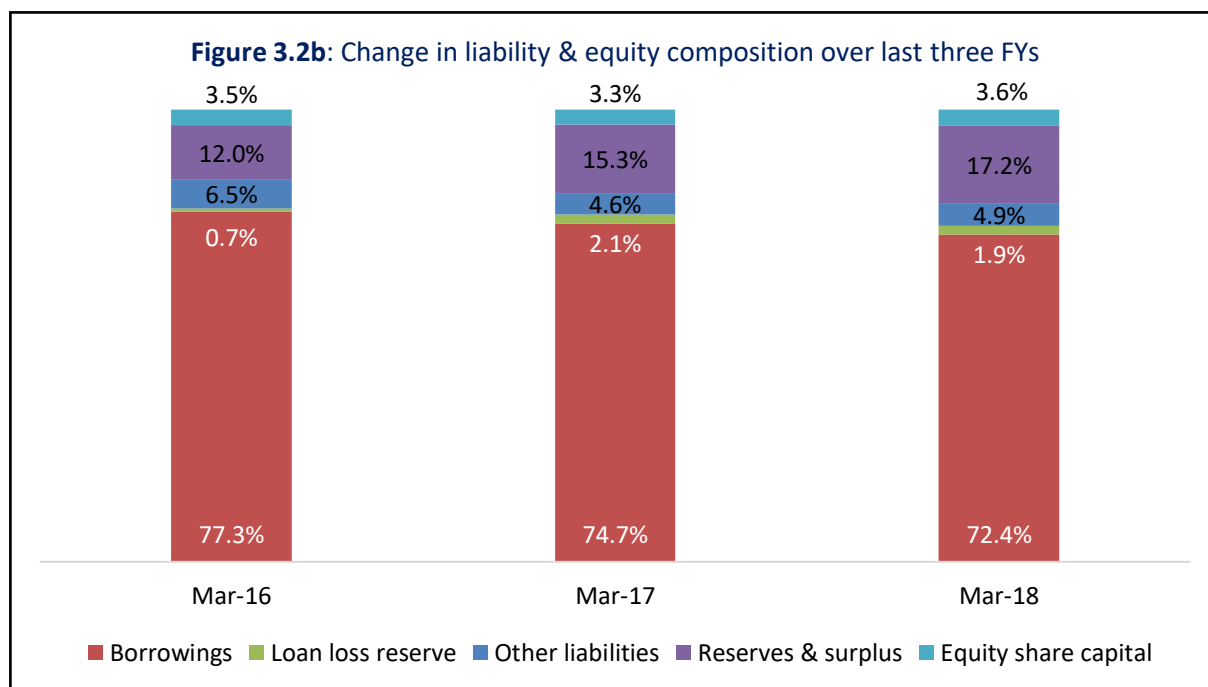


b) Liability and Equity composition

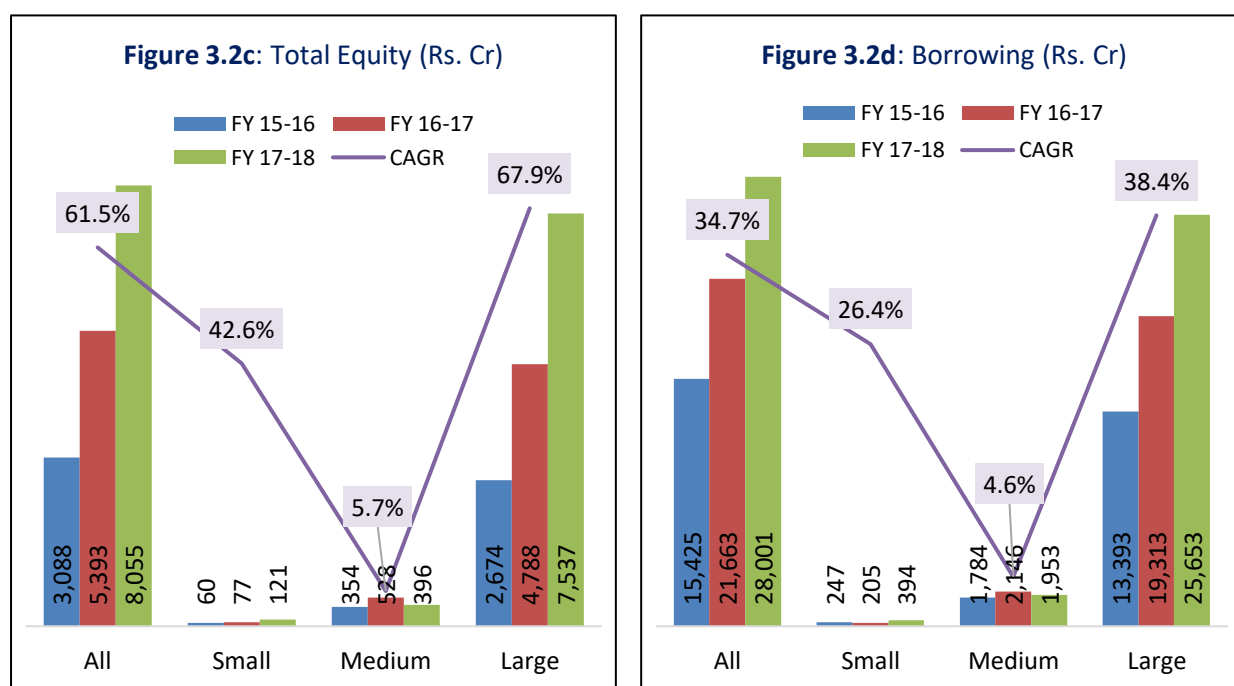
The composition of liability and equity as a proportion of total assets is depicted in **Figure 3.2a**, for various categories of MFIs. It is evident that borrowings and equity form the major sources of funds for the MFIs and ranges from around 70% to 90% depending on their size. While borrowings as proportion of total assets is similar for all categories of MFIs, for the smaller MFIs a higher proportion of their own funds (equity share capital) is used than the reserves and surplus. As the MFIs grow and scale-up they are able to build a stronger reserve and surplus and as a result the proportion of own funds decreases.



The change in the composition of liability and equity over the last three years is shown in **Figure 3.2b**. It shows a decreasing trend of borrowings as the main source of funding while the proportion of reserves and surplus have increased. This indicates that MFIs have been able to progressively deploy a higher proportion of their own funds for financing their assets.



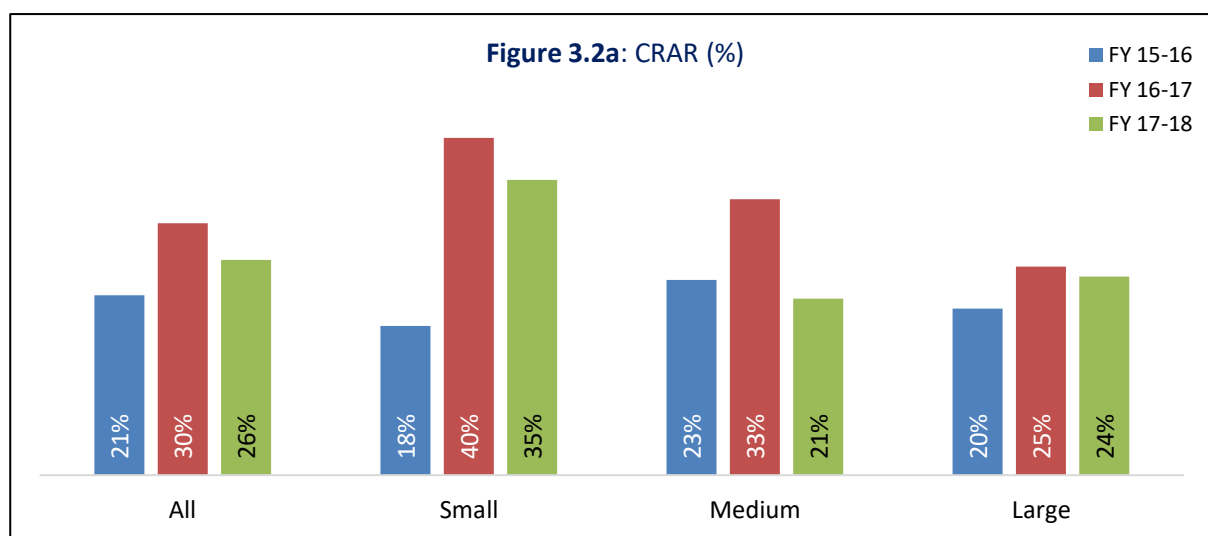
The CAGR of borrowings and equity are shown in **Figures 3.2c** and **3.2d**. The borrowings have grown at a CAGR of around 35% (similar to the CAGR of GLP of around 39% as analyzed in Section 1.4) while the total equity has a comparatively better CAGR of around 62%. This explains that despite the setback during demonetization the MFIs have been able to recover and build their reserves and surplus and deployed a greater proportion of their own funds for financing the portfolio.



3.2 Capital Adequacy

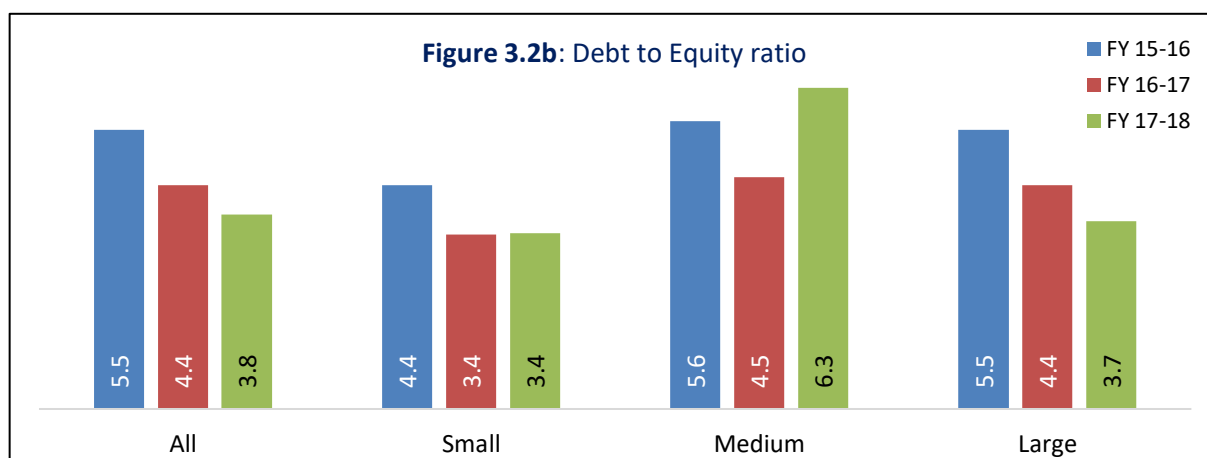
a) Capital to Risk Weighted Assets Ratio (CRAR)

CRAR is a statutory ratio which is reported by NBFC MFIs as a compliance. Below analysis is based on the **simple average** of the reported CRAR. As discussed above, small MFIs have higher proportion of their equity (as % of total assets) deployed in operations. As a result, the small MFIs have a higher CRAR in comparison to other MFIs as shown in **Figure 3.3a**. Overall the sector (& all category of MFIs) continue to maintain a healthy CRAR of around 26% which is much higher than the minimum requirement of 15% for NBFC MFIs set by RBI, despite a decline in the FY 2017-18.



b) Debt to Equity

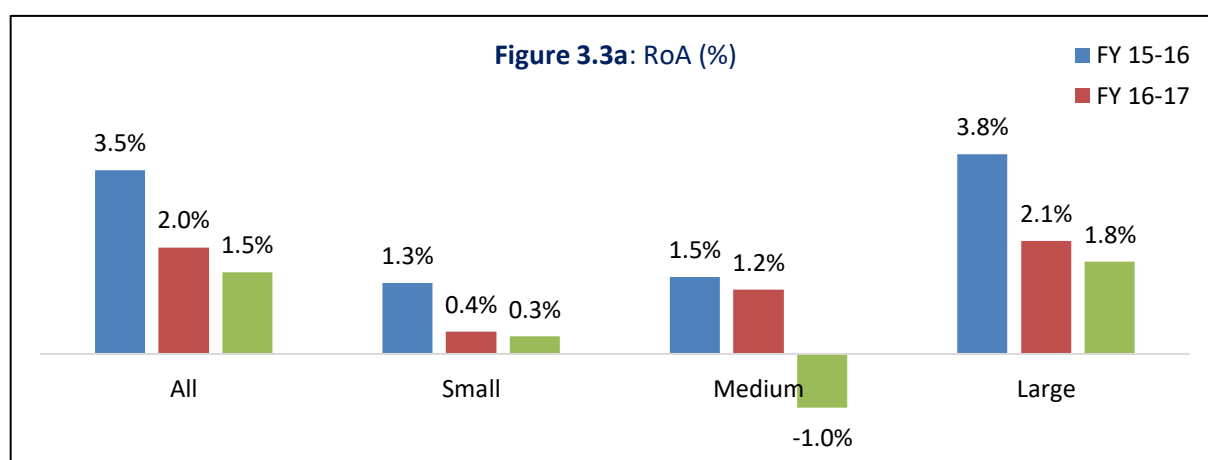
Debt to Equity ratio indicates the extent to which the MFIs have been able to leverage their equity to source borrowings. **Figure 3.3b** below shows the trend of Debt to Equity ratio. It is evident that the ability to leverage equity is to a large extent based on the size of an MFI. However, after demonetization there has been a general declining trend in debt to equity ratio across all category of MFIs. It also relates to the analysis in Section 3.1b which shows that the proportion of equity as a source of funds have increased over the last two years. So clearly, the MFIs were under leveraged in the FY 2017-18 as compared to previous years and it provides a good cushion for them to grow in the next year.



3.3 Profitability

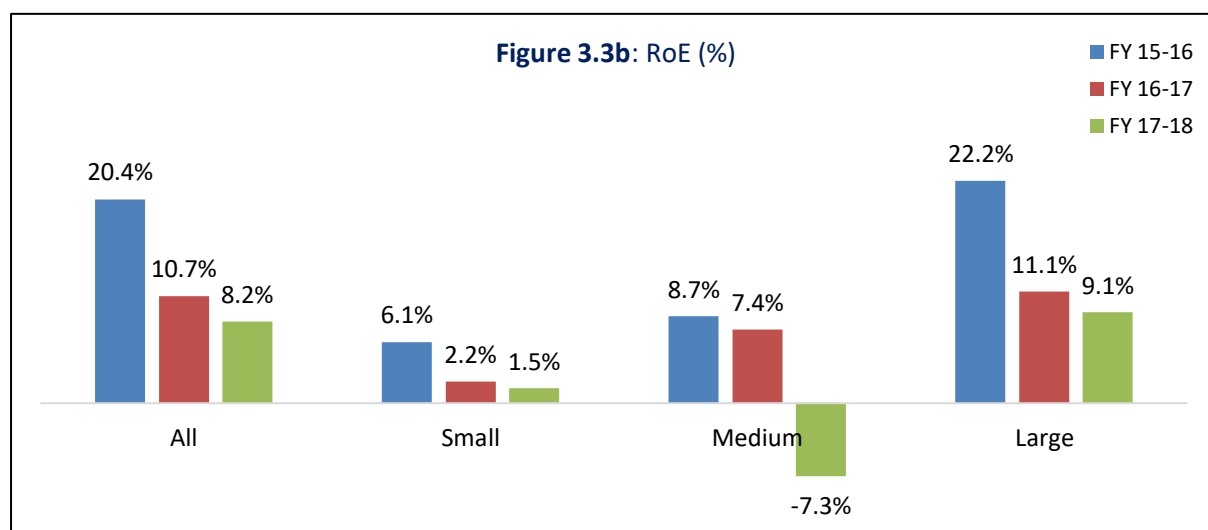
a) Return on Asset (RoA)

Industry is witnessing moderation in profitability as depicted in **Figure 3.2a** below. All categories of MFIs were affected, and in particular the medium sized entities whose aggregate RoA became negative during the FY 2017-18. The impact of demonetization on RoA started showing in the FY 2016-17 and extended to FY 2017-18 due to higher provisioning requirements and write off of bad portfolio. The impact was more pronounced in FY 2017-18 as majority of provisioning as well write-offs happened in this year (further analysed in the next section). However, the overall outlook in relation to profitability and sustainability of MFIs operations seems positive as this is a one-off event and the MFIs are expected to achieve normalcy in the next financial year.



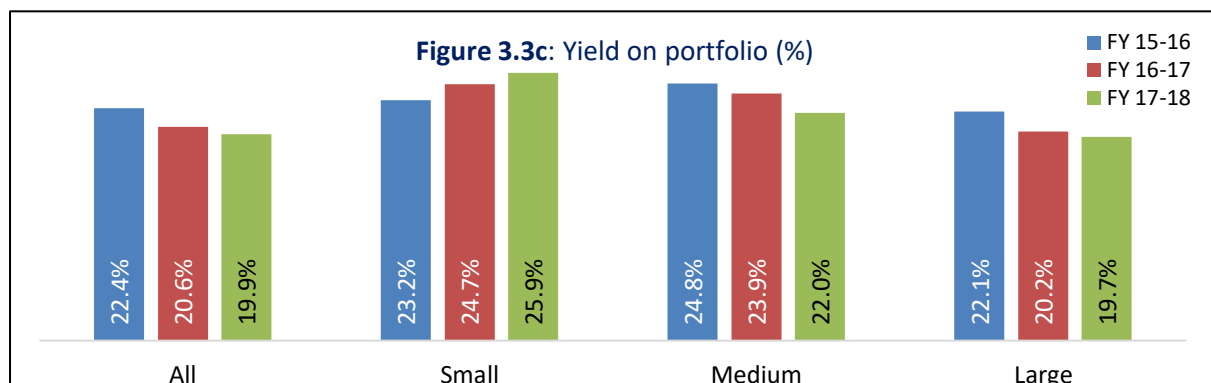
b) Return on Equity (RoE)

Trends of RoE follows similar pattern of RoA and shows a continued dip over the last two financial years', but the overall outlook remains positive. It also highlights that no peer group is immune to large scale events such as demonetization. **Figure 3.3b** shows the trend of Return on Equity for last three financial years.



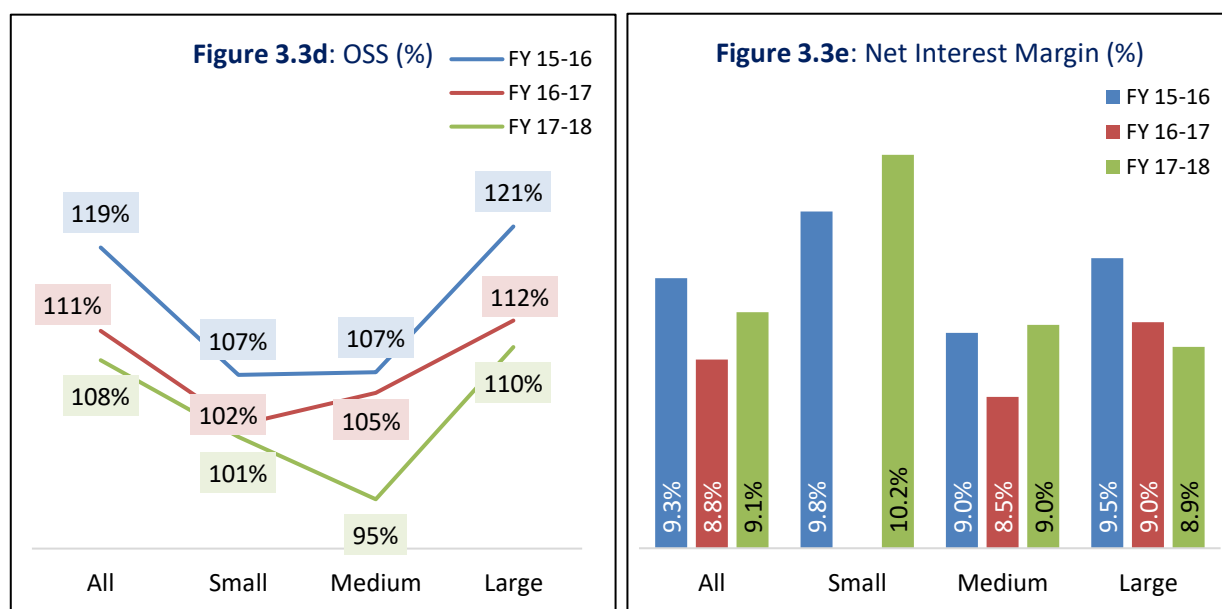
c) Yield on portfolio

As per RBI regulation, interest charged to microfinance borrower by a NBFC MFI is closely associated to cost of their borrowings. Hence trends of Yield on portfolio (Yield) follows the trends of FCR. As is the case with FCR, yield has increased slightly for small MFIs since their FCR has also increased. For other peer groups, the FCR has decreased and so has the yield. However, yield has to be seen in the context of operational self-sufficiency (discussed in Section 3.4d) which provides a good indication on whether the yield has been sufficient to cover major operational costs. **Figure 3.2c** shows the trend of Interest Yield for last three financial years.



d) Operational Self-Sufficiency (OSS)

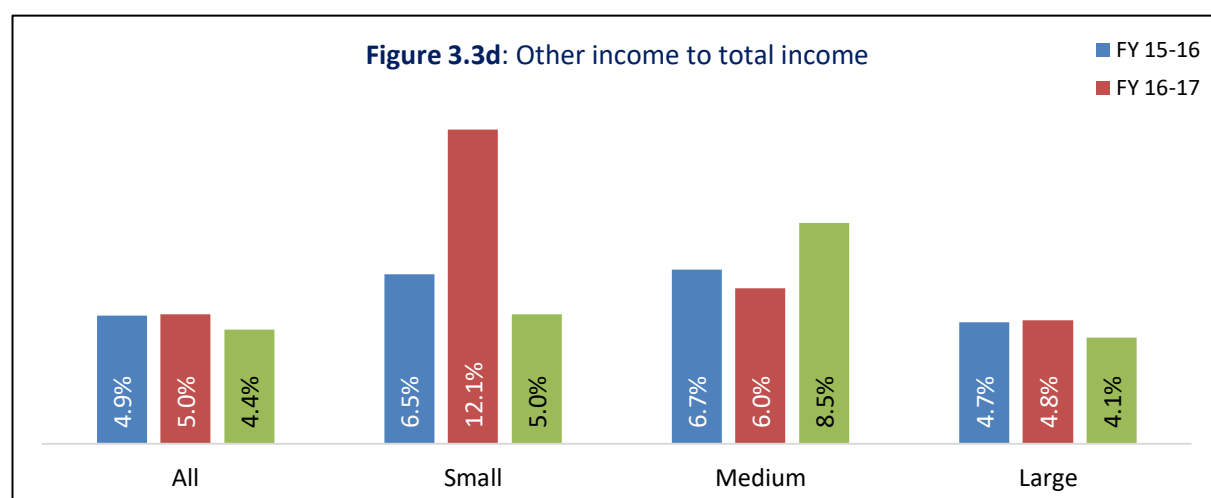
In line with the trend of RoA and RoE, the OSS of the MFIs across all categories have also decreased, as depicted in **Figure 3.3d**. OSS gets impacted with the increase in OER (as shown in Section 2.2a) which is also reflected in the increase in cost per borrower (analyzed in Section 2.2c). At the same time, the pricing of NBFC-MFIs is regulated and capped based on their sizes. The MFIs are not able to optimize their Net Interest Margins (NIM) as allowed by the RBI (10% for MFIs with portfolio ≥ 100 Cr and 12% for those with portfolios < 100 Cr) as pricing needs to be adjusted in every quarter based the changes in the [average base rate of the top 5 banks $\times 2.75$] and its [own cost of funds + NIM], whichever is less. The NIM analysis (based on simple average of NIMs indicated in the audited financial statements of the MFIs) is presented in **Figure 3.3e** [NIM for small MFIs was not available for FY 2016-17].



However, despite the setback the MFIs have been able to maintain >100% OSS which means that they are still able to cover their operational expenses from their operational incomes. Though for the medium sized category, the OSS dropped below 100% mainly because a few of the better performing ones had transformed into large MFIs.

e) Other income to total income ratio

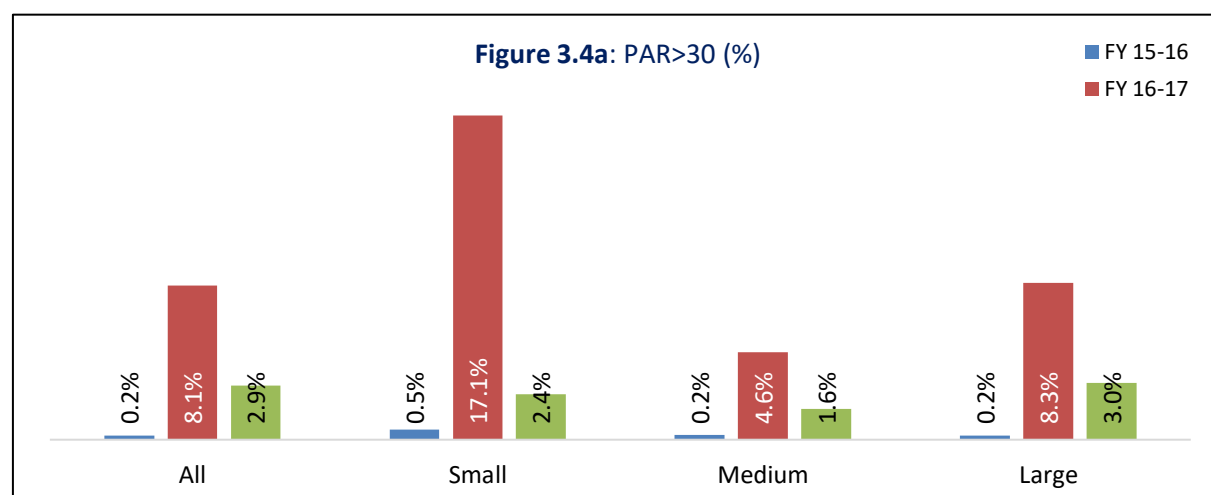
Other income includes interest & dividend income from investments, grants and other miscellaneous income. Over the last three financial years, income from sources other than core MFI operations have contributed between 4% to 5% to NBFC MFI's total income. For FY 16-17 this ratio increased slightly to 5% and declined in FY 17-18 to 4.4%. **Figure 3.3f** below shows movement of other income to total income ratio.



3.4 Portfolio quality

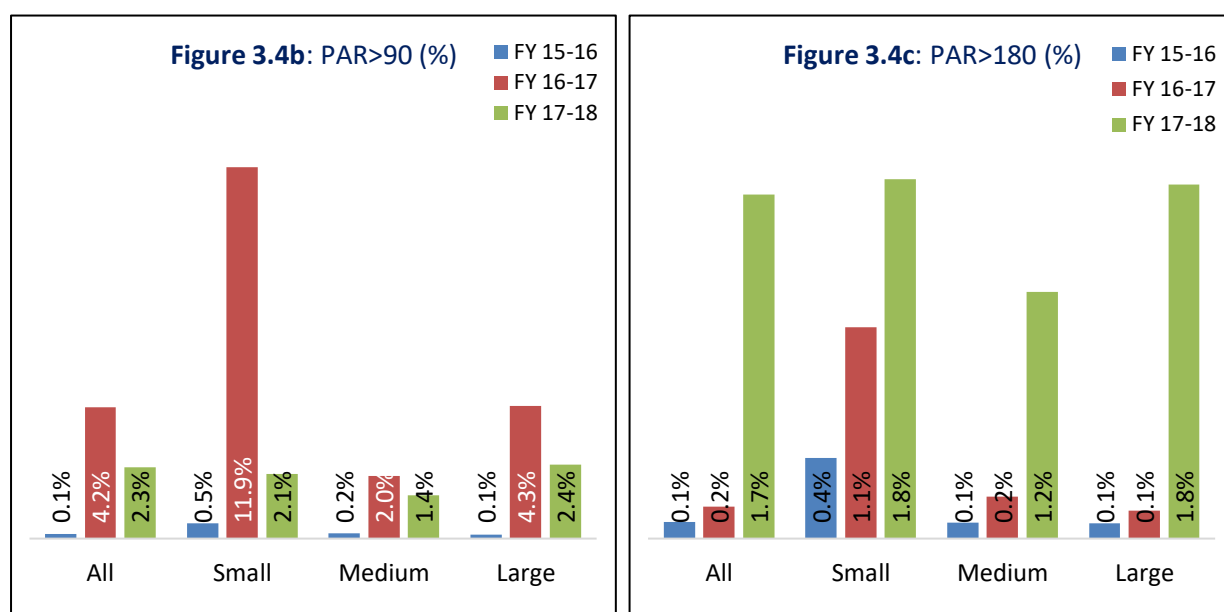
a) Portfolio at Risk (PAR) analysis

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.

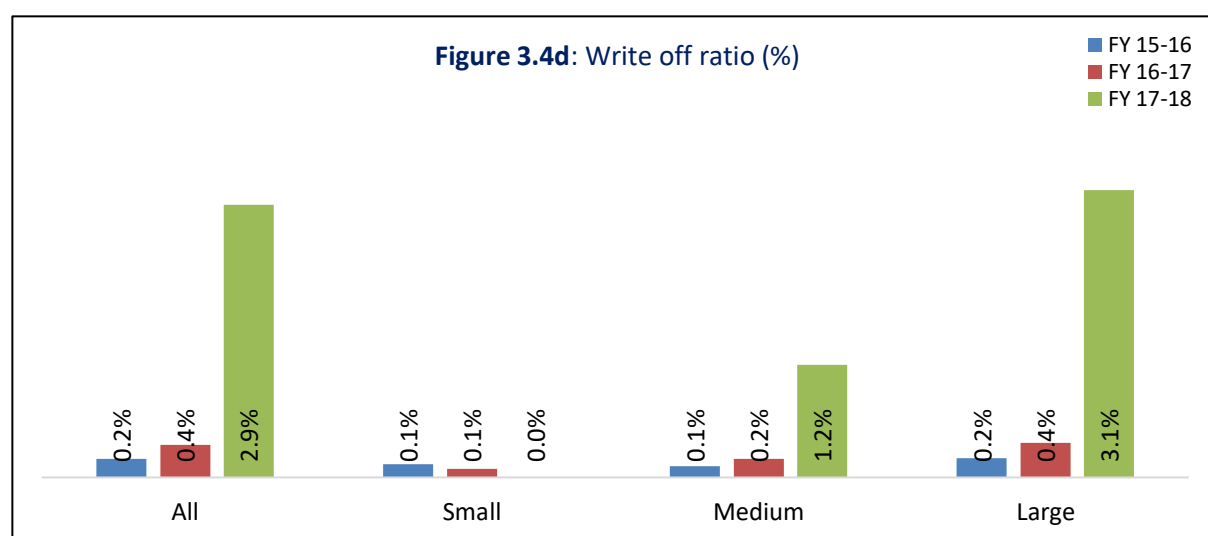


PAR > 90 (%) and PAR > 180 (%)

PAR> 90 (**Figure 3.4b**) 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**). At an industry level PAR > 90 which was 4.2% in financial year 16-17 ended up down at 1.7% of PAR > 180 in financial year 17-18. This indicates that with regular follow-ups and encouraging dialogue with the borrowers, the MFIs were able to recover a substantial part of the delinquent portfolio that was overdue more than 90 days.



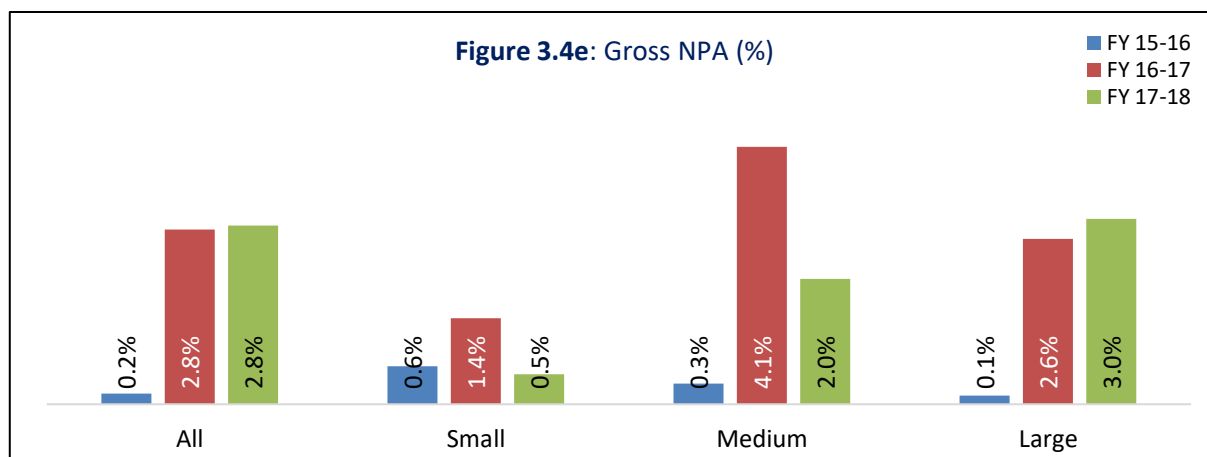
As shown in the **Figure 3.4g**, **Write-off ratio** for the industry was 2.9% as on 31 March 2018. Considering the level of delinquency, which was observed during demonetization, this write-off ratio indicates that major part of delinquencies was recovered and reverted to healthy portfolio.



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.

b) Gross NPA

Gross Non-Performing Asset (GNPA) for the NBFC MFI sector increased as expected in the last two years. As on 31 March 2016, the overall Gross NPA was around 0.2% indicating a very healthy portfolio quality. In the next two financial years the portfolio quality deteriorated as discussed in the above section, resulting in a Gross NPA of 2.8% as on 31 March 2017 and 31 March 2018. **Figure 3.3e** shows the trend of gross NPA.



The Gross NPA of the banking sector was around 9.1% on 31 March 2018. So, when compared with the banking sector which have a high proportion of their loans and advances in secured form (~80%), the NBFC-MFIs have done a commendable job in maintaining a much lesser gross NPA of 2.8% and of assets which are almost totally unsecured. The table below illustrates the gross NPA of banks and NBFC-MFIs over the last three years.

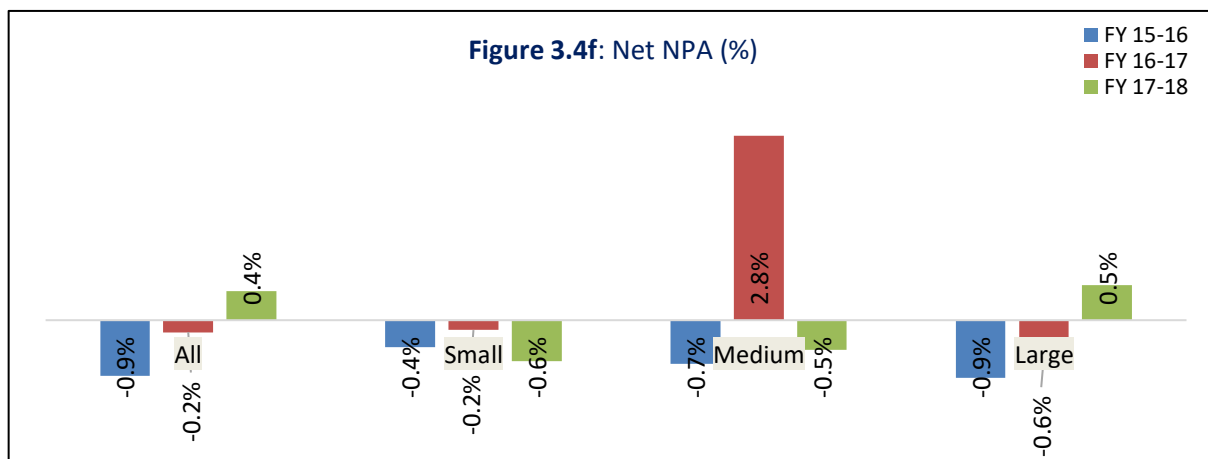
FY	Banks [#]		NBFC-MFIs	
	% of secured assets	GNPA	% of secured assets	GNPA
2015-16	81%	7.6%	~0%	0.2%
2016-17	81%	9.5%	~0%	2.8%
2017-18	79%	9.1%	~0%	2.8%

Source: RBI Data Warehouse "Online - <https://dbie.rbi.org.in/DBIE/dbie.rbi?site=home>".

Tables on "Liabilities & Assets of Scheduled Commercial Banks" and "Movement of Non-Performing Assets of Scheduled Commercial Banks"

c) Net NPA

Net NPA was negative for as on 31 March 2016 and 31 March 2017 which indicates that the MFIs were maintaining a lower reserve in comparison to the NPAs. While additional provisioning was done in the FY 2016-17, flexibility was provided by RBI for asset classification till March 2017 and though the net NPA improved it was still negative. In the current FY 2017-18, the industry as a whole has a positive net NPA of 0.4%, despite higher provisioning and write-offs which indicates their resilience and combined strength. It is expected that the small and medium sized MFIs will also have a positive net NPA by the end of next financial year (2018-19). **Figure 3.3f** captures the Net NPA trends over the last three financial years.



d) Risk Coverage Ratio

The risk coverage ratio compares the portfolio with delinquencies greater than 30 days with the loan loss reserve maintained by the MFIs. So, ratio closer to 1 indicated optimum coverage of risk. The adequacy of coverage of risk increases (ratios less than 1) or decreases (ratios >1) depending on the extent of deviation from the ratio of 1.

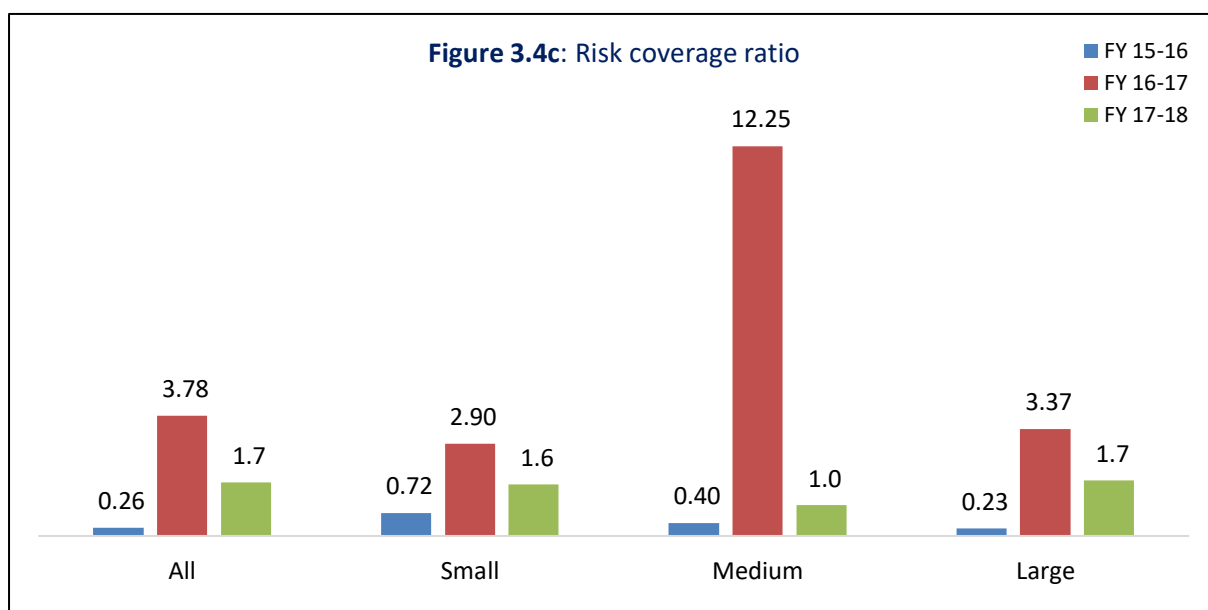


Figure 3.4c shows that the loan loss reserves maintained by the MFIs are sufficient cover the delinquency risks as on 31 March 2018. There was an abrupt mismatch of risk and coverage as on 31 March 2017 for the reasons discussed in the above sections, but the MFIs have been able to pull it back to normalcy.

Annexure 1: Panel of MFIs

Operational Data (based on self-reported data for Micrometer)		
FY 15-16	FY 16-17	FY 17-18
Adhikar	Adhikar	Adhikar
		Adi Chitragupta
Agora	Agora	Agora
Annapurna	Annapurna	Annapurna
Arohan	Arohan	Arohan
	Aviral	Aviral
Belstar	Belstar	Belstar
BFIL	BFIL	BFIL
Chaitanya	Chaitanya	Chaitanya
CreditAccess Grameen	CreditAccess Grameen	CreditAccess Grameen
Fino	Fino	Fino
Fusion	Fusion	Fusion
Growing Opportunity	Growing Opportunity	Growing Opportunity
Hindusthan	Hindusthan	Hindusthan
	Inditrade	Inditrade
Jagaran	Jagaran	Jagaran
	Janakalyan	Janakalyan
Light	Light	Light
M Power	M Power	M Power
Madura	Madura	Madura
Margdarshak	Margdarshak	Margdarshak
Midland	Midland	Midland
MSM	MSM	MSM
Muthoot Microfin	Muthoot Microfin	Muthoot Microfin
Namra	Namra	Namra
	NEED	NEED
Nightingale	Nightingale	Nightingale
Pahal	Pahal	Pahal
Saija	Saija	Saija
Samasta	Samasta	Samasta
Sambandh	Sambandh	Sambandh
Satin	Satin	Satin
	Satya	Satya
Share	Share	Share
Shikhar	Shikhar	Shikhar
Sonata	Sonata	Sonata
Spandana	Spandana	Spandana
Svasti	Svasti	Svasti
Svatantra	Svatantra	Svatantra
SVCL	SVCL	SVCL
	Unnaco	Unnaco
Unnati	Unnati	Unnati
Varam	Varam	Varam
	Vaya	Vaya
VFS	VFS	VFS

Financial Data (based on audited financial statements)		
Q4 FY 15-16	Q4 FY 16-17	Q4 FY 17-18
Adhikar	Adhikar	Adhikar
		Adi Chitragupta
Agora	Agora	Agora
Annapurna	Annapurna	Annapurna
		Aviral
Belstar	Belstar	Belstar
BFIL	BFIL	BFIL
		Centrum
Chaitanya	Chaitanya	Chaitanya
CreditAccess	CreditAccess	CreditAccess
Fino	Fino	Fino
Fusion	Fusion	Fusion
Growing Opportunity	Growing Opportunity	Growing Opportunity
Hindusthan	Hindusthan	Hindusthan
		Inditrade
		Janakalyan
Light	Light	Light
M Power	M Power	M Power
Midland	Midland	Midland
Muthoot Microfin	Muthoot Microfin	Muthoot Microfin
Namra	Namra	Namra
		NEED
Pahal	Pahal	Pahal
Saija	Saija	Saija
Samasta	Samasta	Samasta
Satin	Satin	Satin
	Satya	Satya
Shikhar	Shikhar	Shikhar
Sonata	Sonata	Sonata
Svatantra	Svatantra	Svatantra
SVCL	SVCL	SVCL
	Unnaco	Unnaco
Unnati	Unnati	Unnati
		Vaya
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

	All	Small	Medium	Large
Client (Lakhs)				
FY 15-16	151	2	14	134
FY 16-17	189	3	18	167
FY 17-18	239	4	25	210
CAGR	25.8%	32.7%	31.8%	25.1%
Branches				
FY 15-16	5,654	96	688	4,870
FY 16-17	7,291	217	970	6,104
FY 17-18	9,275	296	1,212	7,767
CAGR	28.1%	75.6%	32.7%	26.3%
Employees				
FY 15-16	44,044	896	5,261	37,887
FY 16-17	61,614	1,466	7,414	52,734
FY 17-18	78,529	1,877	9,488	67,164
CAGR	33.5%	44.7%	34.3%	33.1%
Portfolio (Rs. Cr)				
FY 15-16	23,925	361	2,007	21,557
FY 16-17	30,113	512	2,404	27,197
FY 17-18	46,546	664	4,221	41,660
CAGR	39.5%	35.6%	45.0%	39.0%
Borrowers per loan officer				
FY 15-16	551	470	485	561
FY 16-17	500	470	413	512
FY 17-18	471	407	451	474
CAGR	-7.6%	-7.0%	-3.5%	-8.1%
Borrowers per branch				
FY 15-16	2,674	2,454	2,103	2,759
FY 16-17	2,591	1,599	1,853	2,744
FY 17-18	2,581	1,401	2,074	2,706
CAGR	-1.8%	-24.5%	-0.7%	-1.0%
GLP per branch (Rs. Cr)				
FY 15-16	4.2	3.8	2.9	4.4
FY 16-17	4.1	2.4	2.5	4.5
FY 17-18	5.0	2.2	3.5	5.4
CAGR	8.9%	-22.8%	9.3%	10.1%

	All	Small	Medium	Large
GLP per loan officer (Rs. Lakhs)				
FY 15-16	87.2	72.1	67.2	90.0
FY 16-17	79.7	69.4	55.3	83.1
FY 17-18	91.5	65.2	75.8	94.1
CAGR	2.4%	-4.9%	6.1%	2.2%
Loan officer per branch				
FY 15-16	4.9	5.2	4.3	4.9
FY 16-17	5.2	3.4	4.5	5.4
FY 17-18	5.5	3.4	4.6	5.7
CAGR	6.3%	-18.8%	2.9%	7.7%
Loan officers to total employees				
FY 15-16	0.6	0.6	0.6	0.6
FY 16-17	0.6	0.5	0.6	0.6
FY 17-18	0.6	0.5	0.6	0.7
CAGR	2.0%	-1.5%	1.7%	2.1%
Operating Efficiency Ratio (OER)				
FY 15-16	7.0%	10.3%	9.8%	6.6%
FY 16-17	7.2%	11.4%	9.2%	6.9%
FY 17-18	7.0%	10.2%	10.2%	6.8%
Financial Cost Ratio (FCR)				
FY 15-16	12.9%	13.5%	14.8%	12.6%
FY 16-17	12.1%	14.0%	14.9%	11.7%
FY 17-18	10.7%	15.1%	13.7%	10.5%
Cost per borrower (Rs)				
FY 15-16	851	1,111	924	835
FY 16-17	1,129	1,503	1,240	1,108
FY 17-18	1,176	1,394	1,228	1,168
CAGR	17.5%	12.0%	15.3%	18.2%
Operational Self Sufficiency (OSS)				
FY 15-16	119%	107%	107%	121%
FY 16-17	111%	102%	105%	112%
FY 17-18	108%	101%	95%	110%
Total Assets (Rs. Cr)				
FY 15-16	19,948	321	2,348	17,279
FY 16-17	28,997	338	2,924	25,735
FY 17-18	38,683	540	2,880	35,264
CAGR	39.3%	29.6%	10.8%	42.9%

	All	Small	Medium	Large
Equity (Rs. Cr)				
FY 15-16	3,088	60	354	2,674
FY 16-17	5,393	77	528	4,788
FY 17-18	8,055	121	396	7,537
CAGR	61.5%	42.6%	5.7%	67.9%
Borrowing (Rs. Cr)				
FY 15-16	15,425	247	1,784	13,393
FY 16-17	21,663	205	2,146	19,313
FY 17-18	28,001	394	1,953	25,653
CAGR	34.7%	26.4%	4.6%	38.4%
Return on Asset				
FY 15-16	3.5%	1.3%	1.5%	3.8%
FY 16-17	2.0%	0.4%	1.2%	2.1%
FY 17-18	1.5%	0.3%	-1.0%	1.8%
Return on Equity				
FY 15-16	20.4%	6.1%	8.7%	22.2%
FY 16-17	10.7%	2.2%	7.4%	11.1%
FY 17-18	8.2%	1.5%	-7.3%	9.1%
Yield on portfolio				
FY 15-16	22%	23%	25%	22%
FY 16-17	21%	25%	24%	20%
FY 17-18	20%	26%	22%	20%
Debt to Equity				
FY 15-16	5.5	4.4	5.6	5.5
FY 16-17	4.4	3.4	4.5	4.4
FY 17-18	3.8	3.4	6.3	3.7
CRAR				
FY 15-16	21%	18%	23%	20%
FY 16-17	30%	40%	33%	25%
FY 17-18	26%	35%	21%	24%
Risk Coverage Ratio				
FY 15-16	0.3	0.7	0.4	0.2
FY 16-17	3.8	2.9	12.3	3.4
FY 17-18	1.7	1.6	1.0	1.7
Other income to total income ratio				
FY 15-16	5%	7%	7%	5%
FY 16-17	5%	12%	6%	5%
FY 17-18	4%	5%	9%	4%

	All	Small	Medium	Large
Gross NPA (%)				
FY 15-16	0.2%	0.6%	0.3%	0.1%
FY 16-17	2.8%	1.4%	4.1%	2.6%
FY 17-18	2.8%	0.5%	2.0%	3.0%
Net NPA (%)				
FY 15-16	-0.9%	-0.4%	-0.7%	-0.9%
FY 16-17	-0.2%	-0.2%	2.8%	-0.6%
FY 17-18	0.4%	-0.6%	-0.5%	0.5%
PAR > 30				
FY 15-16	0.2%	0.5%	0.2%	0.2%
FY 16-17	8.1%	17.1%	4.6%	8.3%
FY 17-18	2.9%	2.4%	1.6%	3.0%
PAR > 90				
FY 15-16	0.1%	0.5%	0.2%	0.1%
FY 16-17	4.2%	11.9%	2.0%	4.3%
FY 17-18	2.3%	2.1%	1.4%	2.4%
PAR > 180				
FY 15-16	0.1%	0.4%	0.1%	0.1%
FY 16-17	0.2%	1.1%	0.2%	0.1%
FY 17-18	1.7%	1.8%	1.2%	1.8%
Write off ratio				
FY 15-16	0.2%	0.1%	0.1%	0.2%
FY 16-17	0.4%	0.1%	0.2%	0.4%
FY 17-18	2.9%	0.0%	1.2%	3.1%

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