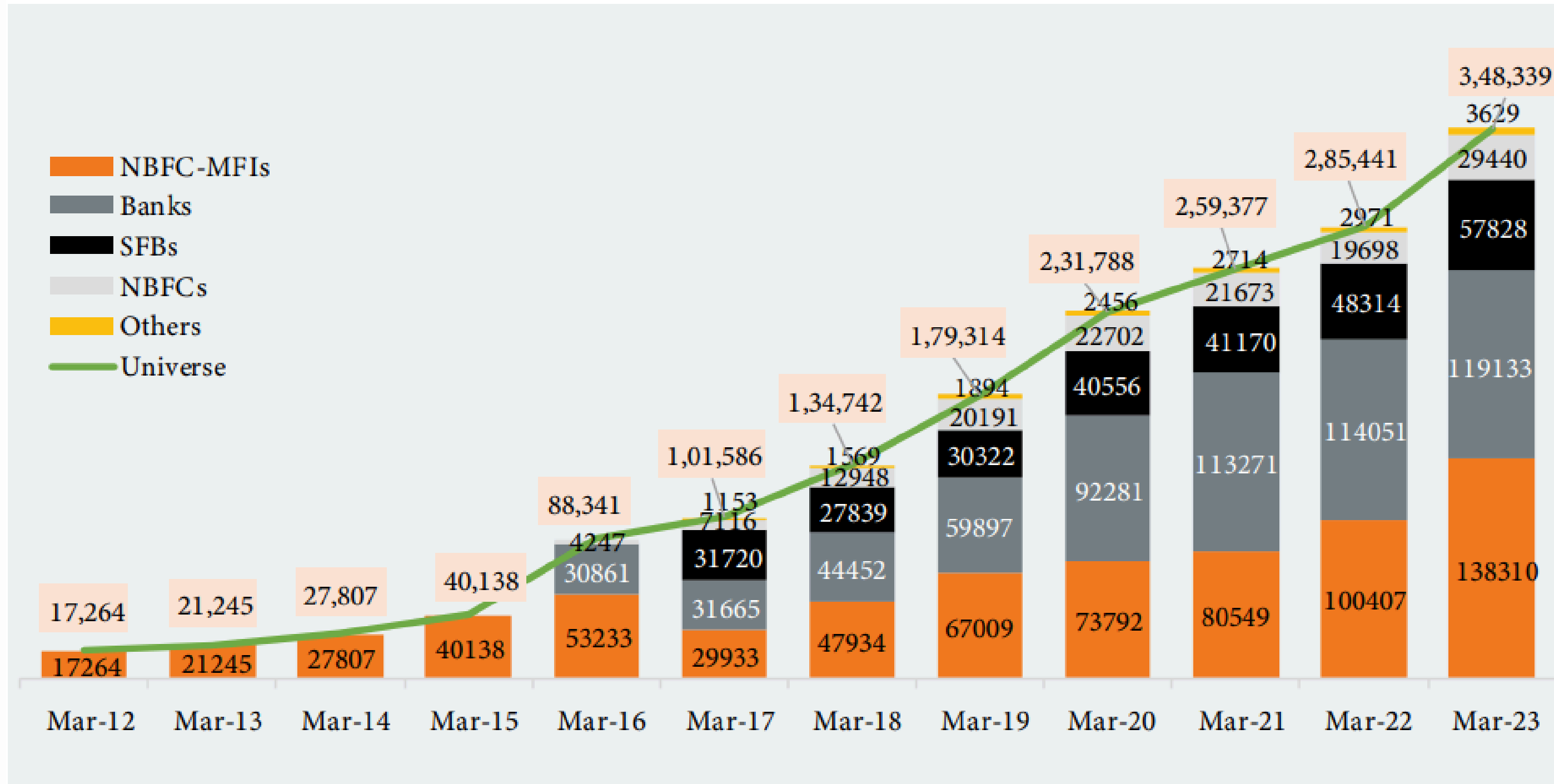


Insights Unwrapped

Microfinance Sector: Key Insights and Emerging Challenges

Growth in Micro-financing in the Past Decade

Growth of Microfinance Portfolio (INR Cr) since 2012



The NBFC-MFI* sector has witnessed remarkable growth, expanding over 20-fold at a CAGR of 20.8%, from INR 17,264 Cr in March 2012 to INR 3,48,339 Cr in March 2023.

Among all microfinancing entities, NBFC-MFIs (82 in total) remain the largest providers of micro-credit, contributing 39.7% of the total industry portfolio.

Source: MFIN Micrometer; Equifax, data from Mar-19 onwards based on portfolio originated after Feb-17

* NBFC MFI: Non-Banking Financial Company - Micro Finance Institution

Non-Income Generation Loans in MFIs

The Microfinance Institution (MFI) sector plays a vital role in uplifting individuals at the bottom of the economic pyramid. Most lenders present themselves as impact-driven, emphasizing "Income Generation" as the primary purpose of their loans—a purpose that remains statistically dominant in the industry. However, the ground reality often diverges from this narrative. Although non-income-generating loans constitute a small percentage of overall loans, their rising absolute levels are increasingly worrisome.

Year	2016	2017	2018	2019	2020	2021	2022	2023
Income Generation Loans	94%	85%	93%	89%	93%	90%	96%	95%
Non-income Generation Loans	6%	15%	7%	11%	7%	10%	4%	5%

Data Source: MFIN

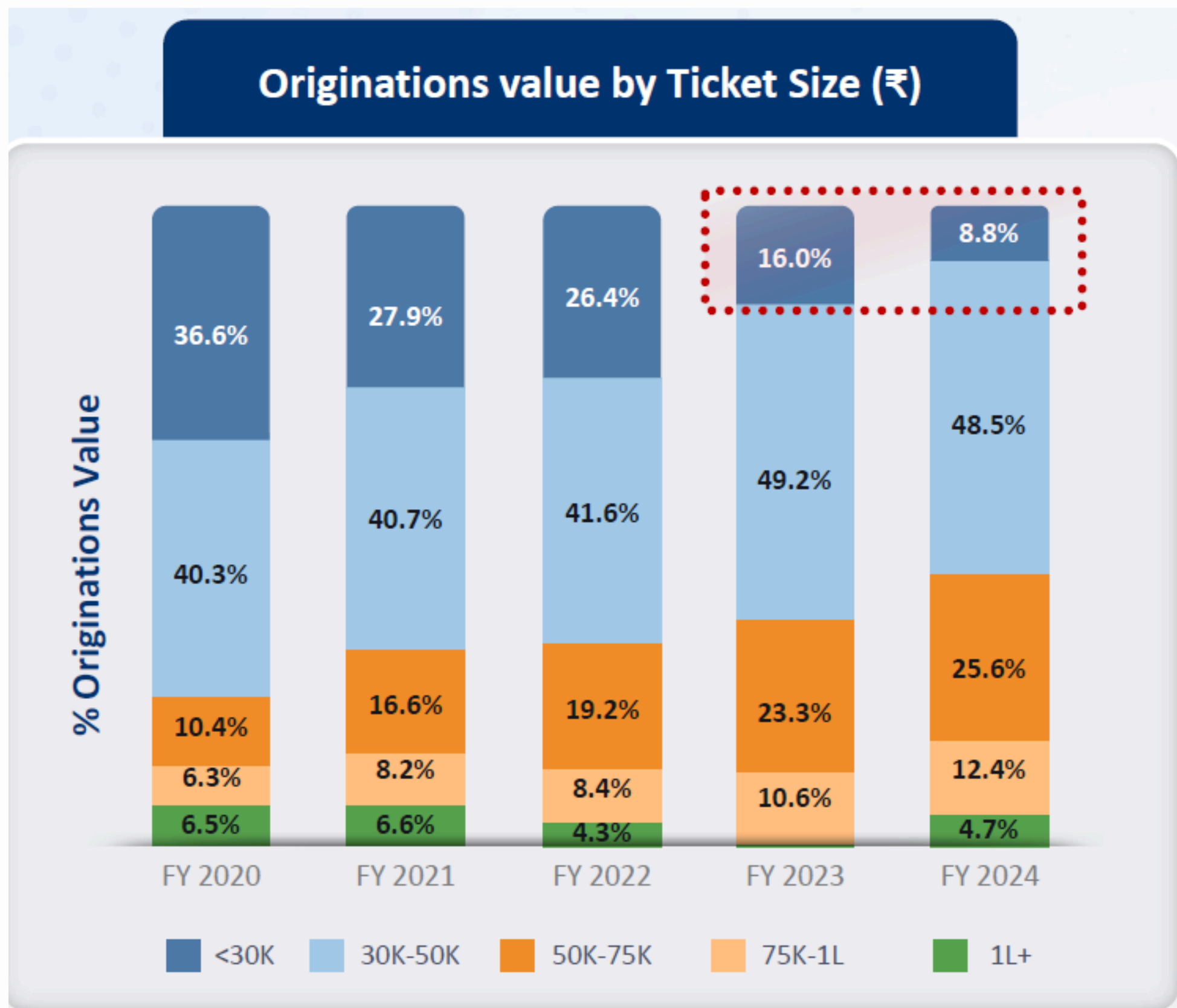
Concerns Over Loan Utilization in Microfinance

The relationship between loan outstanding per borrower and growth in incomes (proxied by GDP per capita) suggests that loans may not be used for income-generating activities. This discrepancy highlights an area that requires closer scrutiny.

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Loan Outstanding per Borrower (₹)	13,164	15,985	16,260	19,454	21,983	24,044	26,863	30,135	33,824
YoY %	17.3%	21.4%	1.7%	19.6%	13.0%	9.4%	11.7%	12.2%	12.2%
GDP Per Capita	1751.7	1875.7	1986.6	2086.5	1972.76	1796.49	1961.96	2098.22	2239.25
YoY%	6.8%	7.1%	5.9%	5.0%	-5.5%	-8.9%	9.2%	6.9%	6.7%

Data Source: MFIN, Koyfin

Moving to Higher Ticket Size



The $\leq ₹30K$ ticket size segment experienced a steep decline, dropping from 16% in FY2023 to 8.8% in FY2024. **Conversely, there was a significant rise in originations for ticket sizes exceeding INR 1 lakh, which surged from virtually nil to 4.7% during the same period.**

For NBFC-MFIs*, the average ticket size increased by 11%, from INR 40.9K in FY2023 to INR 45.4K in FY2024. (Source: CRIF)

Credit Landscape- A Snapshot

	Portfolio as of Mar'24 (₹ Lakh Cr)	Growth % Mar'23 to Mar' 24	Originations Value FY24 (₹ Lakh Cr)	Growth % FY23 to FY24	Originations Volume FY24 (Lakh)	Growth % FY23 to FY24
Consumption Loans	90.3	15.2%	48.4	8.7%	3,825.2	14.2%
MSME Loans (Individual & Entity)	64.1	17.8%	54.2	5.4%	274.5	19.3%
Microfinance	4.4	26.8%	3.8	19.0%	835.0	6.0%
Corporate Loans (Only Entity)	58.4	-2.3%	67.8	-3.6%	4.8	4.2%

Source: CRIF High Mark

The data suggests that the growth of the microfinance industry is contributing to a risk of over-leveraging among borrowers, which could present challenges for the sector. While the overall loan portfolio expanded by 26.8% year-over-year (YoY) and loan origination value increased by 19.0% YoY, the volume of loans grew by only 6.0% YoY. ***This disparity indicates a trend of excessive leveraging, likely driven by larger ticket sizes and/or a concentration of loans among the same borrowers. While this is not yet an alarming concern, it is a development that warrants close monitoring.***

Provisioning Trends

Prov as % of NII	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
CREDITACC	14.4%	15.8%	18.0%	44.2%
FUSION	27.7%	31.2%	87.6%	174.1%
MUTHOOTMF	18.9%	19.7%	22.1%	40.8%
SATIN	14.7%	23.9%	22.0%	44.2%
SPANDANA	21.0%	-25.6%	48.1%	146.8%

Data Source: Koyfin

Provisions are key indicators of a lender's financial health, reflecting past performance or future expectations. Lenders often under- or over-provision with the strategic aim of managing near-term earnings.

(INR Million)

Lender	Loan Book (Q2 FY25)	Cum 4Q Prov	% of Loan Book
CREDITACC	2,35,303	8,349	3.5%
FUSION	91,393	12,515	13.7%
MUTHOOTMF	97,803	3,505	3.6%
SATIN	90,796	3,124	3.4%
SPANDANA	91,344	6,862	7.5%

Data Source: Koyfin

In the pure-play MFI sector, Fusion and Spandana stand out as notable cases, both experiencing significant increases in provisions as a percentage of their Net Interest Income (NII).

Credit Access Grameen Ltd, Fusion Finance Ltd, Muthoot Finance Ltd, Satin Creditcare Network Ltd, Spandana Sphoorty Financial Ltd

NII- Net Interest Income

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