

INDIA

Microfinance

Collections revived sharply in July'21, but not completely out of the woods

Microfinance sector, while going through one of the most prolonged and uncertain asset quality cycles since 2010, continued to surprise the street with sharp improvement in July'21 collections. Resurgence of covid in mid-April'21 and subsequent lockdowns & restrictions derailed the improving collections trend in MFI space. While we note that covid spread was higher in Rural & Semi-urban region during second wave, lockdowns were limited to impacted districts which helped reviving economic activities much quicker (within 2 months vs 4-5 months in 1st wave). As a result, collections reached 90%+ by July'21, within 2 months from lows vs 5-7 months it took to reach 90% in first wave. Players having higher exposures in Maharashtra, Assam and West Bengal took little longer to reach 90%+ collections during first wave. However, during the 2nd wave, even collections in most impacted states like Kerala, Maharashtra etc. recovered sharply in July'21. Total GNPL + write-offs + ECLGS + restructured portfolio varies between 10-18% (ex-deferment for CAGL) with provision coverage of 150-40% as on June'21 for our coverage universe.

Table 1: Player-wise provision coverage and GNPL + Rest + ECLGS + write-offs

As on June'21 (%)	Equitas	Ujjivan*	Suryoday	CAGL	Spandana	MMFL	Bandhan
GNPL	6.6	11.6	9.2	8.1	4.6	4.9	9.3
ECLGS	0.0	0.0	3.0	0.0	0.0	0.0	3.4
Write-offs	5.9	2.3	4.4	4.7	5.0	4.6	3.6
FY20		0.5	2.4	4.1	4.9	3.3	3.6
Q1FY22		1.7	2.0	0.6	0.1	1.3	0.0
Total GNPL + Std rest + Write-offs + ECLGS	12.5	13.9	16.6	12.8	9.6	9.5	16.4
Standard Restructured pool	4.9	5.1	8.4	0.7	0.0	0.0	7.6
Collection deferment % of AUM				54.6	10.4		
Provision coverage (ex write-offs)	55.7	70.6	37.8	79.0	169.7	118.2	141.3

For Equitas / Ujjivan / Suryoday only MFI sector data considered with I-Sec estimates.

Provision coverage = ECL / NPA provision + provision on restructured portfolio + covid buffer + floating provision

For Bandhan & Suryoday – we have assumed entire ECLGS disbursements towards EEB.

For Spandana – deferment pool is customers not paying full or partial EMI during Q1FY22

For CAGL – we have considered deferment pool as customers opting for 1 month deferment.

Source: Company, I-Sec research

► **MFI customers continued to show agility and resiliency.** Considering high human touch model, relatively higher spread of covid in rural + semi urban locations during the 2nd wave, collections were expected to remain lower in Q1FY22. However, surprising element was sharp improvement in collections in July'21. From the lows of ~70% (average of our coverage universe) in May/June'21, collection reached almost 90% by July'21 but was lower for players having higher exposure in Maharashtra, Kerala and West Bengal.

► **Credit cost in FY22e to settle lower than FY21 levels.** During FY21, MFI players (including banks, SFBs, NBFC-MFIs) witnessed elevated credit cost of 4-9%. Within MFI players, NBFC-MFIs were more conservative with credit cost of 6% / 9% for CAGL and Spandana, respectively, while the same was lower for SFB & banks – Bandhan at 5.1%, Ujjivan 5.5% and Suryoday 4.3%. Covid resurgence in mid-April'21 again raised concern over the likely elevated credit cost for MFI players in FY22e. While we believe credit cost will continue to remain significantly higher than historical averages, it will be lower than FY21 levels for players who are carrying adequate provisioning pool as on June'21. We derive our comfort from the intent of MFI borrowers to start paying dues once business activity level resumes, the same reflects in collection touching 90% within 2 months from the 2nd wave led disruptions.

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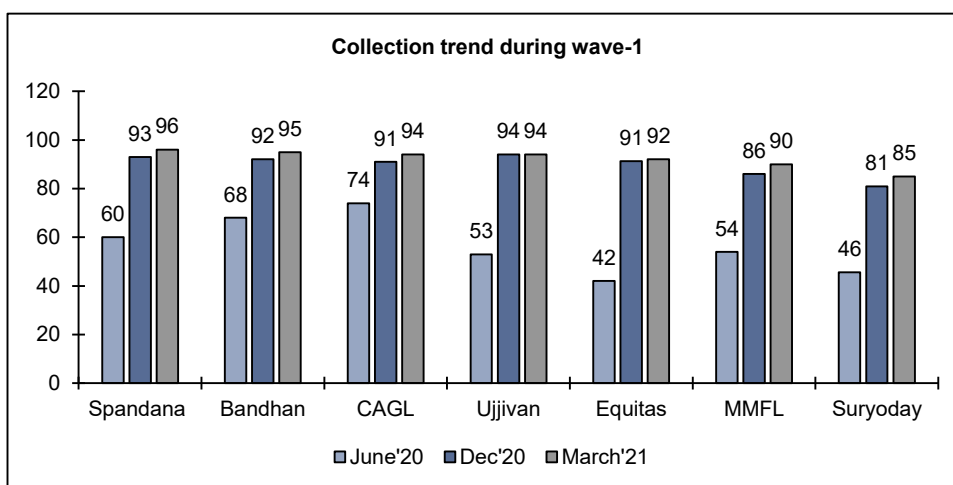
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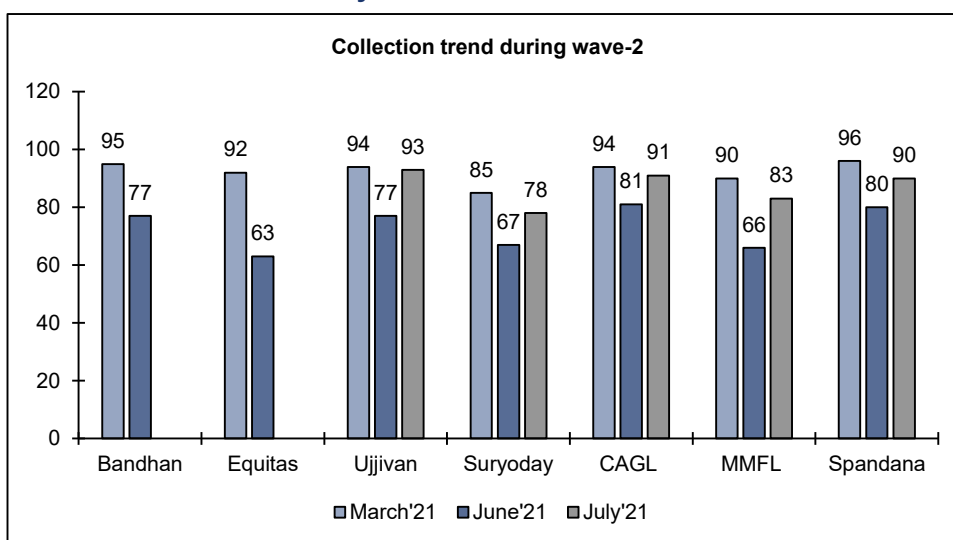
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Chart 1: Player-wise collection trend during 1st wave – it took almost 6 months to reach 90% collection from June'20 lows of ~60%...



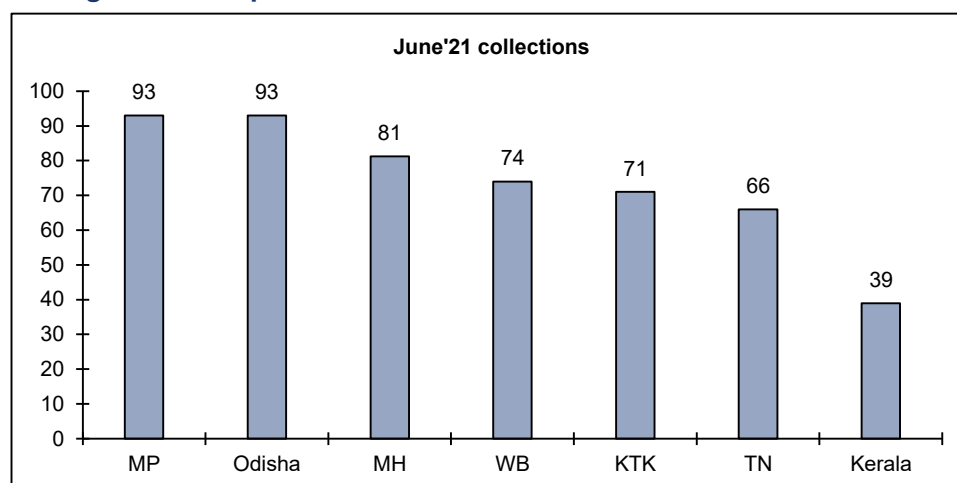
Source: Company, I-Sec research

Chart 2: ...however, during 2nd wave it took only 2 months to touch 90% collection from lows in May/June'21



Source: Company, I-Sec research

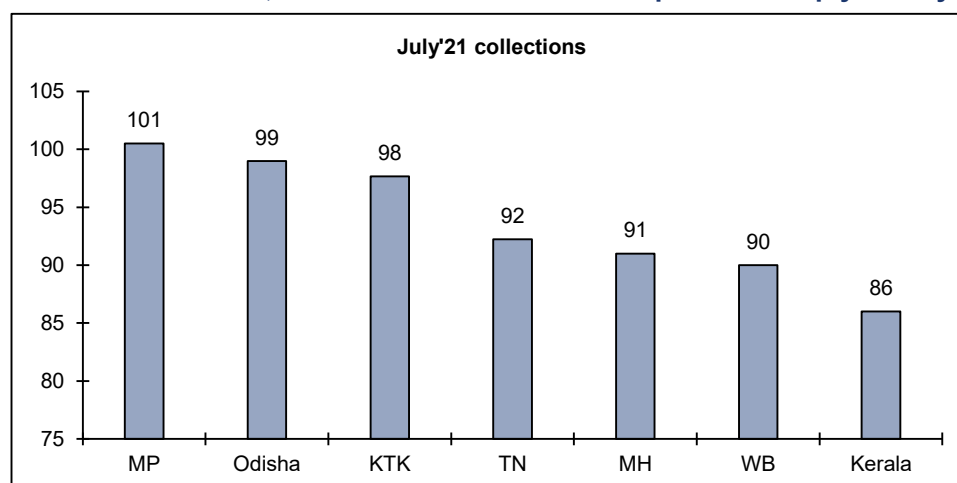
Chart 3: MP and Odisha were best performing states while Kerala and TN were amongst worst impacted in 2nd wave...



Its indicative range - State-wise June'21 collection data is average of our coverage universe and availability of player-wise state-wise data.

Source: Company, I-Sec research

Chart 4: ...however, collections across states improved sharply in July'21



Its indicative range - State-wise June'21 collection data is average of our coverage universe and availability of player-wise state-wise data.

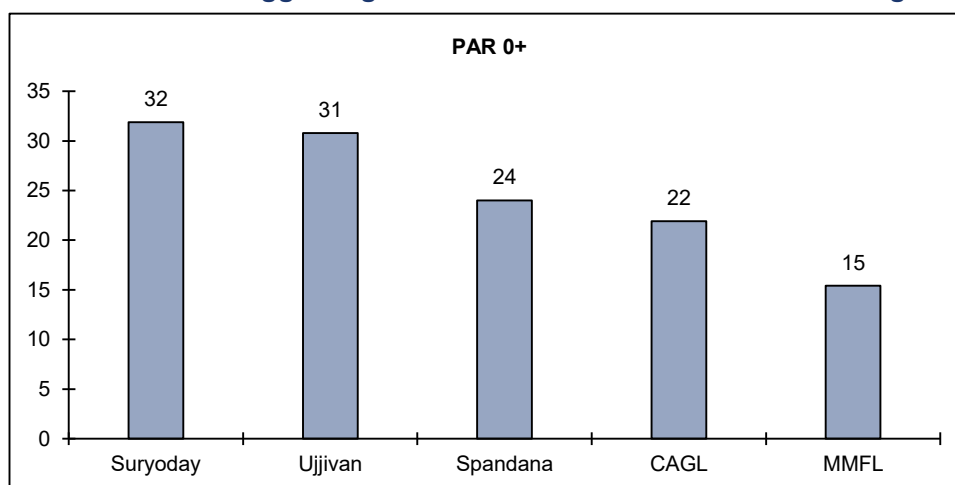
Source: Company, I-Sec research

Table 2: Player-wise, state-wise collections in June'21 & July'21

Collections	TN		KTK		Kerala		MH		WB		MP		Odisha	
	June' 21	July' 21	June' 21	July' 21	June' 21	July' 21	June' 21	July' 21	June' 21	July' 21	June' 21	July' 21	June' 21	July' 21
Bandhan									73					
Ujjivan	60	94	66	102	39	86	76	87	74	90	N/A	N/A	N/A	N/A
Suryoday	66	103	71	99	N/A	N/A	95	113	N/A	N/A	99	111	102	107
Equitas	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CAGL	78	90	76	92	N/A	N/A	84	88	N/A	N/A	87	90	95	96
MMFL	60	82	N/A	N/A	N/A	N/A	70	76	N/A	N/A	N/A	N/A	82	94
Spandana		93	55	82	42	57		93			N/A	91		
Average	66	92	67	94	41	72	81	91	74	90	93	97	93	99

Source: Company, I-Sec research

Chart 5: While collections improved sharply in July'21, PAR 0+ continued to remain elevated suggesting flow back to earlier buckets would be gradual



Source: Company, I-Sec research

Table 3: NBFC-MFIs and Bandhan are adequately provided as on June'21

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For CAGL – we have considered deferment pool as customers opting for 1 month deferment.

Source: Company, I-Sec research

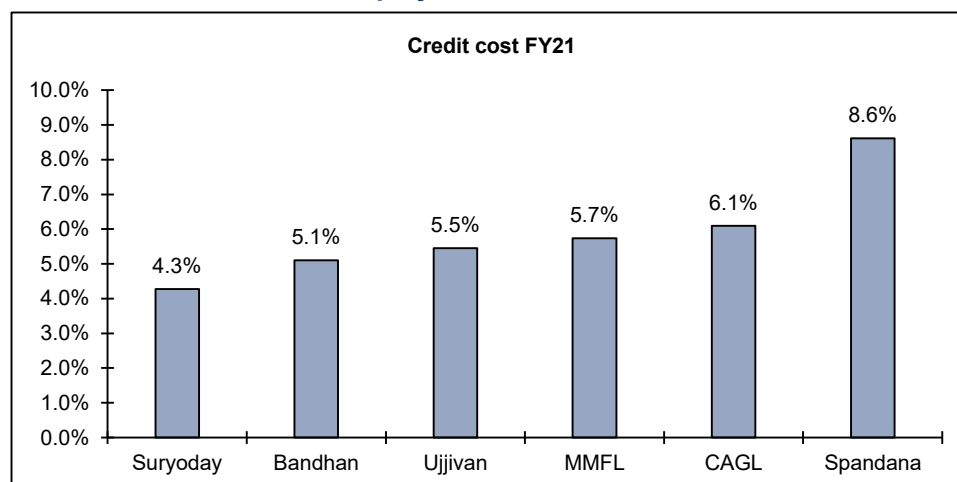
Table 4: We estimate ~20-50% flow forward rate for MFI players from non-current portfolio during FY21

	July'20	August'20	August'20	August'20	August'20	August'20
I-sec Flow forward rates (MFI)	Equitas	Ujjivan	Suryoday	CAGL	Spandana	MMFL
August'20	61%	68%	70%	76%	80%	64%
Delinquent pool since August'20	39%	32%	30%	24%	20%	36%
As at March'21						
Incremental GNPL between March'20 to March'21	2%	10%	8%	3%	3%	5%
Restructuring	5%	7%	3%	1%	0%	
W/offs	1%	0%	2%	3%	4%	3%
Total stress	8%	17%	13%	6%	7%	8%
FY21 Flow rate	21%	52%	44%	27%	36%	22%

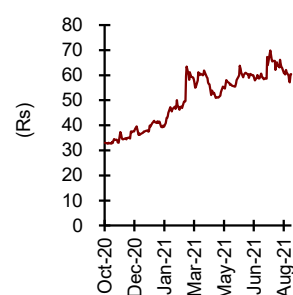
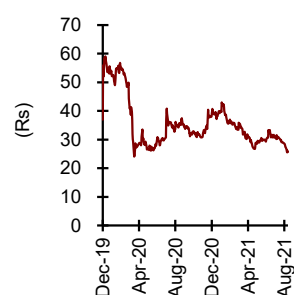
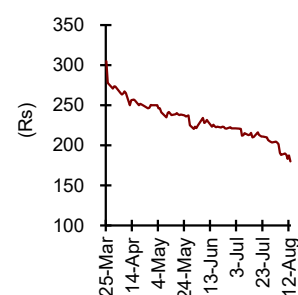
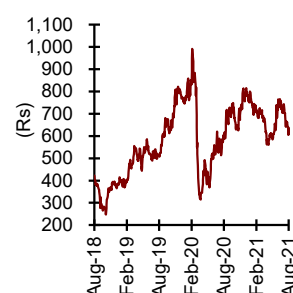
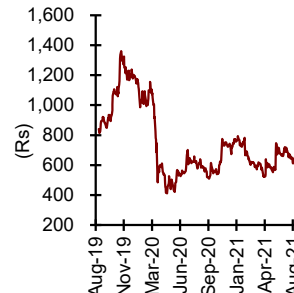
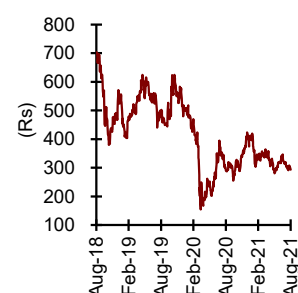
For Equitas we have considered July'20 collections, for Bandhan we have taken June'20 collections.

Delinquent pool is considered as 100% - collection %.

Source: Company, I-Sec research

Chart 6: Credit cost across players in FY21

Source: Company, I-Sec research

Price charts**Equitas SFB****Ujjivan SFB****Suryoday SFB****CreditAccess Gramin****Spandana Spoorthy****Bandhan Bank**

Source: Bloomberg

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