

15 March 2024

India | Equity Research | Sector Update

## NBFCs

### Microfinance expert – MFI sector continues to be resilient with stable collections

We met Dr. Alok Misra, CEO and Director of MFIN, to understand the underlying business trends and key developments in NBFC-MFI sector. Takeaways: a) Amid news of mounting regulatory concern over NBFC sector, NBFC-MFIs are better placed given microfinance industry is already operating on cashless disbursements post demonetisation and FY24 YTD growth remained around 13%. b) While weighted average lending rate for top-17 players has increased by 200bps to 23.7% since spread cap removal, the increase was largely due to increase in cost of funds as well as on account of losses incurred during covid. c) Some players being outlier might have attracted regulator attention but most MFI players are operating as per MFIN's code of conduct with board approved pricing policy. d) Total Punjab portfolio stands at INR 59bn with exposure to highly impacted districts at around INR8bn; collections have either improved or stabilised since Dec'23 levels.

### Pan-India collections in Jan'24 have either improved or remained stable as compared to Dec'23

During Q3FY24 earnings concall, many MFI payers highlighted about some pockets of stress namely Punjab (karza mukti abhiyan), Tamil Nadu (floods) and Rajasthan (prolonged covid impact in some villages and some initial issues of KMA) etc. The same increases concern over near-term collection trend if pocket-specific issues start spreading at state level, followed by neighbouring states. However, Pan-India collections (including the above mentioned states) in Jan'24 have either improved or remained stable at Dec'23 level and there are no signs of stress amplifying in the above mentioned states or spreading to other states.

### Outstanding portfolio in Punjab stands at INR59bn, of which only around INR8bn is in most impacted districts

While collection in Punjab was impacted by external issue, over indebtedness of consumer may also be a contributor to lower collections. Consumption pattern in Punjab (more affluent and aspirational state irrespective of income level) is very different from other low income states, and external issue resulted in lower collections. However, concentrated efforts from MFIN and lenders along with multiple discussions with state administration have ensured limited impact and have stabilised the situation. While collections in Punjab continued to remain low in affected districts, overall industry exposure in impacted districts at INR8bn is less likely to trigger any industry-level challenge.

### Weighted average lending rates have gone up by ~200bps but most players operate within MFIN's code of conduct

Regulator comments on MFI lending rates have triggered a discussion on lending rate cut given the perception of disproportionate increase in MFI lending rate post spread cap removal in Mar'22. While weighted average lending rate has increased by ~200bps to 23.7% in the past 1.5 years, most players operate as per MFIN's code of conduct and the increase was largely to offset abnormal credit costs incurred during covid and increase in cost of funds. However, few outliers might have triggered the regulator's attention. MFIN periodically collects data and share it with the RBI as well as has proactively guided MFI players to pass on rate benefit to customers, wherever possible.

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### Detailed takeaways

- Broadly, there were three issues in news – Punjab, higher interest rate and TN floods in Q3FY24.
- WA rate for top 17 players is 23.7% - up by 200 bps, post removal of cap on NBFC-MFIs.
- After repo rate hike – cost of fund has risen by 50-60 bps.
- Industry-level write-offs stood at 12% (with institutional differences) due to covid, and hence, the recent interest rate increase has to be seen in the context of losses incurred by MFI players.
- Margin, cost of fund, cost of operations, cost of credit risk (normal and abnormal) – are the four broad parameters to calculate pricing and all these parameters by and large are board approved hence not much of a levy with companies to play around with pricing on quarterly basis. However, there can be outliers.
- Cross-cycle RoA, RoE is normally inbuilt in the pricing formula, considering unsecured nature of the business and past experience.
- NBFC-MFIs are nudged to pass on the benefit - reduce rates by whatever extent possible in a gradual manner and other charges like processing fee.
- As per MFIN's Directive, minimum time gap of one month between the disbursement of the primary credit product and the third-party product other than credit life insurance should be there.
- Ticket size was INR 22,000 10 years ago, currently it is INR 45,000. It has barely kept pace with the inflation. Loan tenure is also stagnant.
- Household income increase – not a part of discussion.
- If individual loan path is taken for all clients – the bedrock of microfinance will be eroded and will also increase opex.
- If entities are doing individual loans – MFIN's stand has been that IL offering should ideally be limited to mature client who has completed 3-4 cycles.
- Bandhan and HDFC Bank are also part of MFIN now.
- Any MFI entity who is a RE with retail lending portfolio– has to be member of MFIN. No RE with retail microfinance portfolio can be an associate now. 19 members already transitioned from associate to member.
- TN floods – the situation is back to normal.
- The issue in Punjab affected only 5-6 districts. It started with Karj Mukti, with one person trying to spread it in other states also such as Haryana, UP, Maharashtra and some states in Southern India. It was successful only in Punjab. MFIN met Finance Minister of Punjab and apprised him of the issue as well as RBI press release cautioning people not to fall prey to such malafide campaigns, Govt of Punjab knows that it is an issue and RBI has also impressed upon it to tackle it so that credit culture is not vitiated.
- Suppression of income from INR 5 lakh to INR 3 lakh is not that much a problem, from indebtedness point of view as maximum obligation for repayment is capped, but if someone bumps up 1.5 lakh family income to INR 3 lakh, it could be a problem.

- MFIN working on devising methods to deal with tradelines like KCC which are in the nature of Cash Credit for repayment obligation calculation.
- No new stress pocket observed as such in terms of collections.
- Total Punjab portfolio – INR 59bn of which the worst impacted five-six districts account for INR 8bn.
- Unique borrowers – top 300 districts – unique borrowers' proportion will come down, unless there is a completely new area / village in that district.
- Number of lenders cap has been removed and people are raising issue but repayment obligation cap ensures that indebtedness won't be an issue as long as income assessment is properly done.
- Started third-party evaluation of entities to check whether they are following MFIN's code of conduct and if everything is as per compliance.
- UP & Bihar – formal sector penetration is lowest in these two states. People are aspirational, there is demand for credit. Both these states have seen stable governance/law/order in the last 10 years; 1/4th population might be covered in MFI.
- AP, Telangana could be the next growth story just like UP and Bihar.

**Exhibit 1: Player-wise AUM growth trend (INR mn)**

AUM	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
RBL	37,530	45,840	50,210	59,630	65,170	67,850	68,270	36%	1%
Bandhan	5,81,300	5,39,200	5,27,600	5,68,200	5,13,000	5,39,900	5,80,200	10%	7%
IIB	2,94,030	2,96,170	2,96,880	3,22,150	3,19,810	3,43,630	3,57,610	20%	4%
Fusion	73,890	80,472	86,536	92,962	97,118	1,00,264	1,06,930	24%	7%
CAGL	1,56,150	1,65,390	1,77,860	2,10,310	2,18,140	2,24,880	2,33,820	31%	4%
Spandana	55,130	57,820	68,520	85,110	88,480	97,840	1,04,040	52%	6%
Satin	63,890	64,170	67,980	79,290	83,670	88,940	98,110	44%	10%
LTFH	1,43,970	1,58,400	1,74,850	1,86,930	1,97,430	2,16,720	2,31,100	32%	7%
Ujjivan	1,12,970	1,21,480	1,28,230	1,42,250	1,48,190	1,52,260	1,54,710	21%	2%
Utkarsh	81,730	85,350	87,010	92,160	90,590	92,920	1,00,540	16%	8%
Suryoday	33,821	34,661	33,061	37,430	38,100	41,060	44,250	34%	8%
Muthoot - Belstar	46,964	51,381	53,409	61,925	70,082	78,741	88,346	65%	12%
Equitas - MFI	40,070	41,440	46,000	52,250	56,260	58,780	60,560	32%	3%
Manappuram-Asirvad	70,125	71,181	80,655	92,972	93,104	1,00,889	1,06,850	32%	6%
IIFL Samasta	62,761	67,579	78,343	97,856	1,02,550	1,13,069	1,20,899	54%	7%
Muthoot Microfin			82,646	92,083	1,00,376	1,08,671	1,14,581	39%	5%
<b>Total AUM</b>	<b>18,54,331</b>	<b>18,80,534</b>	<b>20,39,790</b>	<b>22,73,508</b>	<b>22,82,069</b>	<b>24,26,414</b>	<b>25,70,816</b>	<b>26%</b>	<b>6%</b>
<b>QoQ growth (%)</b>	<b>2%</b>	<b>1%</b>	<b>8%</b>	<b>11%</b>	<b>0%</b>	<b>6%</b>	<b>6%</b>		

Source: Company data, I-Sec research

**Exhibit 2: Incremental growth was mainly driven by new customer acquisition as reflected in 23% YoY growth in borrower base vs 26% AUM growth as on Q3FY24**

Total Borrower base (nos mn)	Q3FY23	Q3FY24	YoY (%)
Bandhan	13.0	13.6	5%
IIB	7.6	8.7	15%
Fusion	3.4	3.8	11%
CAGL	3.9	4.7	19%
Spandana	2.2	3.0	32%
Satin	2.4	3.4	45%
Equitas - MFI	1.9	2.0	4%
Manappuram-Asirvad	2.9	3.8	31%
IIFL Samasta	2.1	2.9	38%
Muthoot Microfin	2.6	3.3	27%
<b>Average</b>			<b>23%</b>

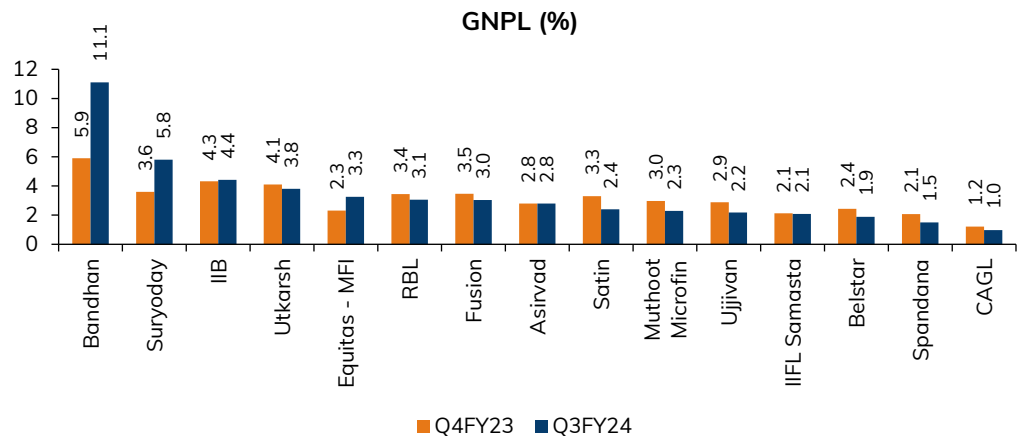
Source: Company data, I-Sec research

**Exhibit 3: Average portfolio outstanding increased by 9% YoY**

Average Portfolio outstanding (INR)	Q3FY23	Q3FY24	YoY (%)
Bandhan	40,585	42,662	5%
IIB	39,085	41,027	5%
Fusion	25,452	28,288	11%
CAGL	45,142	49,823	10%
Spandana	30,589	35,149	15%
Satin	28,805	28,687	0%
Equitas - MFI	23,824	30,076	26%
Manappuram-Asirvad	27,812	28,118	1%
IIFL Samasta	37,847	42,272	12%
Muthoot Microfin	31,787	34,722	9%
<b>Average</b>			<b>9%</b>

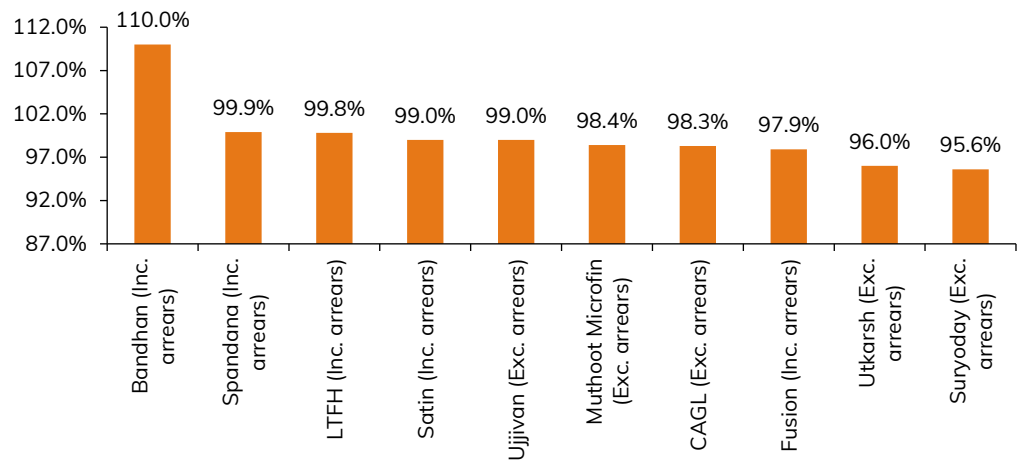
Source: Company data, I-Sec research

**Exhibit 4: Improvement in GNPL of most players in 9MFY24; Bandhan, Suryoday, IndusInd and Equitas were the only layers with jump in GNPL**



Source: Company data, I-Sec research

**Exhibit 5: Collections trend in Q3FY24**



Source: Company data, I-Sec research

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