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Non-Banking Financial Companies – Microfinance Institutions

Lending rates likely to moderate, however, earnings to remain healthy in FY2025

MARCH 2024

Agenda

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1 Risk-based Pricing Implemented by NBFC-MFIs

2 AUM Trends for Risk-based Pricing Parameters

3 Microfinance Sector Growth

4 NBFC-MFIs Sector Outlook

5 ICRA Ratings across NBFC-MFIs

Highlights

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Profitability is expected to remain healthy even if NBFC-MFIs were to reduce their lending rates by 50-100 bps from current levels.

ICRA continues to maintain a Stable outlook on the sector with the expectation of healthy growth and profitability in FY2025.

NBFC-MFIs increased their lending rates by 200-400 bps after application of the revised regulatory framework from 2022 and implementation of the risk-based pricing system. Risk-based pricing by NBFC-MFIs considers borrower vintage, regional risks, and loan end-use, apart from borrower credit worthiness. The extent of increase in lending rates, however, has raised concerns, especially from the regulator.

In view of the above, entities have started revising their lending rates downwards. A 50-100 bps revision shall pull down earnings from current levels with return on managed assets (RoMA) and return on net worth (RoE) declining* by 40-80 bps and 200-350 bps, respectively; nonetheless, profitability will remain healthy.

NBFC-MFIs reported a healthy assets under management (AUM) growth of 34% YoY in 9M FY2024 with the focus on addition of new borrowers in the current fiscal. While delinquencies are observed to be lower for such first loan cycle borrowers, interest rates are relatively higher for such borrowers given higher sourcing expenses incurred and limited track record of repayment.

Reported delinquencies varied across geographies during the pandemic, making a case for NBFC-MFIs charging lower rate of interest with states having lower delinquencies and vice-versa. Share of states, which exhibited relatively lower delinquencies during the pandemic—viz., Bihar, Uttar Pradesh, Tamil Nadu, Karnataka, etc—have been increasing as entities focused on disbursements in these states.

**Assuming a leverage of 4.0-4.5 times and stable credit and operating costs*

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Thank You!