



Non-banking Financial Companies – Microfinance Institutions

**Microfinance at crossroads:
Managing growth amidst evolving
asset quality risks**

August 2024



List of abbreviations

ARCs	Asset reconstruction companies
AUM	Assets under management
bps	Basis points
BC	Business correspondent
CoF	Cost of funds
CP	Commercial paper
DA	Direct assignment
dpd	Days past due
FI	Financial institution
MCE	Monthly collection efficiency
MFIs	Microfinance institutions

NBFCs	Non-banking financial companies
NBFC-MFIs	Non-banking financial companies – microfinance institutions
NCDs	Non-convertible debentures
NIM	Net interest margin
p.a.	Per annum
PTCs	Pass-through certificates
RBI	Reserve Bank of India
RoMA	Return on average managed assets
SFB	Small finance bank
SHG	SHG Bank Linkage Programme
YoY	Year-on-year

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NBFC-MFI Sector Outlook

ICRA maintains Stable outlook on sector supported by adequate capitalisation and liquidity; asset quality key monitorable



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NBFC-MFIs' AUM growth is expected to moderate to 17-19% in FY2025, given rising concerns about asset quality and potential risk of overleveraging of borrowers

ICRA maintains a Stable outlook on the sector on the back of adequate capitalisation and liquidity even as earnings and asset quality shall witness near-term headwinds.



- ICRA expects the delinquencies to increase in FY2025 with credit costs increasing by 100-120 bps in FY2025 from 2.2% in FY2024. The 90+ dpd of NBFC-MFIs had declined by 50 bps in FY2024 to 2.1% as of March 2024, in line with ICRA's estimates.



- Farmers' protests and Karz Mukti Abhiyan in certain regions have impacted collections and the asset quality. This, along with climatic conditions and operational challenges, would keep the asset quality under pressure in the near term.



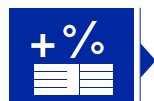
- Further, there are underlying concerns about potential overleveraging of borrowers in certain geographies. One of the industry's self regulatory organisations introduced guardrails recently for responsible lending to strengthen lending practices and address the concerns regarding overleveraging of borrowers.



- The AUM growth of NBFC-MFIs moderated to 29% in FY2024 from 36% in FY2023. While demand remains robust, the AUM growth is expected to decline to 17-19% in FY2025, given the rising concerns about the asset quality.



- Increasing cost of funds and downward revisions in lending rates are likely to compress the interest margins of NBFC-MFIs in FY2025. This, along with asset quality pressure, is expected to moderate their earnings in FY2025. Nonetheless, ICRA expects NBFC-MFIs to report a healthy RoMA of 2.5-2.7% in FY2025 and 2.8-3.0% in FY2026, though lower than the record high of 3.6% in FY2024.



- NBFC-MFIs raised ~Rs. 1,15,000-crore debt funds in FY2024, mainly from banks (including securitisation), to support growth. Their liquidity level, as of March 2024, remained adequate despite declining from past levels.



- Regular equity infusions have helped maintain adequate capitalisation with the managed gearing estimated at 4.0 times as of June 2024. ICRA expects moderate capital requirement of Rs. 2,000-2,500 crore during FY2025-FY2026 to maintain gearing at current level, considering the growth outlook.



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Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice President	karthiks@icraindia.com	+91-22-61143444
A M Karthik	Senior Vice President	a.karthik@icraindia.com	+91 44 45964308
Prateek Mittal	Assistant Vice President	prateek.mittal@icraindia.com	+91-33-71501100
Arpit Agarwal	Senior Analyst	arpit.agarwal@icraindia.com	+91-124-4545873
Jatin Arora	Senior Analyst	jatin.arora@icraindia.com	+91-124-4545846





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Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860





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