

Non-banking Financial Companies – Microfinance Institutions

Asset quality weighs heavily on growth and profitability

DECEMBER 2024



Agenda













Highlights





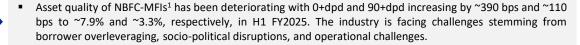
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ICRA expects NBFC-MFIs' AUM growth to decline sharply to a muted 0-5% in FY2025 from 29% in FY2024 amid mounting asset quality concerns

ICRA anticipates compression in margins and rise in credit costs to affect profitability; RoMA expected to moderate to 0.4-0.8% in FY2025 from 3.6% in FY2024

ICRA has a Negative outlook on the sector given the significant near-term headwinds on growth, asset quality and profitability.







• The sharp increase in the overall overdue book in H1 FY2025 poses significant downside risks to the near-term loan quality of the sector. Delinquencies are expected to further increase in the near term amid an expected rise in rejection rates, resulting in lower incremental credit and liquidity available with borrowers.



Around 22% of the NBFC-MFIs' borrowers had loans from more than three lenders as of September 2024. Also, around 5% of the borrowers have total microfinance exposure above Rs. 2 lakh as of September 2024. With the revised guardrails and inclusion of unsecured retail loans in cap of total indebtedness, more borrowers will be ineligible for incremental funding.



■ The overall attrition rate for the 12 months ended September 30, 2024 remained high with field level attrition exceeding 70% during the period. In H1 FY2025, NBFC-MFIs are gradually reducing the number of clients and assets under management (AUM) per field officer in an attempt to reduce workload, control attrition and focus on collections.



■ The AUM of NBFC-MFIs declined by 4% in H1 FY2025 (growth of 29% in FY2024) amid operational challenges and asset quality concerns. Further, expected increase in borrower rejection rates is likely to result in subdued disbursements and a sharp moderation in AUM growth to 0-5% in FY2025.



■ Increasing cost of funds and downward revisions in lending rates are likely to compress the interest margins of NBFC-MFIs in FY2025. Along with asset quality pressure leading to higher credit costs, this is expected to impact earnings in FY2025. NBFC-MFIs are likely to report a subdued return on average managed assets (RoMA) of 0.4-0.8% in FY2025, significantly lower than the record high of 3.6% in FY2024.



Nonetheless, given the growth outlook, ICRA expects the industry to maintain adequate leverage amid the moderate capital requirement. Further, given the relatively shorter tenure of loans, NBFC-MFIs are well placed from an asset-liability management (ALM) perspective with no mismatches up to at least a year.



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

















ICRA 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 – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860



















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