MFIs weather the liquidity storm in the NBFC space in FY19; Assets under Management (AUM) grew by 47 per cent

Expected to continue its growth momentum going forward, AUM to grow by 40-45 per cent in FY20

Brickwork Ratings, Mumbai, 30 October 2019: Brickwork Ratings (BWR) expects micro-finance institutions (MFIs) AUM to grow by 40-45 per cent in FY20 with the availability of the credit, expectation of reduced interest rates and disciplined collection and recovery model. Also, the recent proposed increase by RBI in the household income limit for eligible borrowers and higher permissible indebtedness of borrowers, augurs well for the growth momentum.

The sector suffered the shocks of demonetisation in FY17, wherein the AUM growth slowed to 20 per cent. The growth rebounded in FY18 to around 55 per cent, continued its momentum in FY19 at 47 per cent and is expected to record a healthy 40-45 per cent growth in FY20. Eastern India has been growing at a rapid pace with AUM in states like Bihar, Orissa, West Bengal, Jharkhand and Assam growing much faster than the overall growth rate.

The growth in the AUM has been driven by both client additions as well as increase in ticket size of loans. Since, microfinance sector caters to customers from the lower end of the income spectrum, increase in the ticket size of loan also increases the chances of delinquencies. With RBI proposing to raise the lending limit per eligible borrower, average ticket size of loans will go up further and may impact the delinquencies of the MFIs. However, data of BWR rated MFIs does not indicate the same and in fact, NPAs have remained roughly the same in accounts where ticket size is higher.

In FY20, BWR expects Portfolio at Risk (PAR) levels to moderate and reach closer to 1 per cent supported by high portfolio growth and robust collections in the portfolio originated post demonetisation. However, certain risks like over lending as evident from the high-ticket size loans, flood situation in Kerala, Karnataka & Maharashtra and any further announcements of farm loan waiver could hamper the asset quality with PAR going up to 2 per cent in a stress scenario. In the past, delinquency rates have been higher with PAR at ~2.5 per cent in FY19, from states like Madhya Pradesh, Uttar Pradesh and Maharashtra.
Overall, MFI sector is poised to continue its growth momentum going forward driven by growth in client additions as well as increase in average ticket size of loans. However, higher ticket size loans might result in over-leveraging of borrowers that poses a risk to the asset quality of players. Though data of BWR rated MFIs does not reflect a trend of weaker asset quality for higher ticket size loans, a sudden spike in ticket size will be an area of concern.

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