MICRO FINANCE SECTOR IN INDIA

MAY 2025

BRICKWORK RESEARCH

Microfinance sector in India

Coverage

- Evolution of the Microfinance Sector
- Industry Structure and Key Stakeholders
- Microfinance Ecosystem at a Glance
- Product Offerings Overview
- Funding and Capital Structure
- Regulatory and Policy Landscape
- Technology and Digital Transformation
- Growth Drivers
- Opportunities and Future Outlook
- Key Trends
- Competitive Landscape and Key Players
- Microfinance Industry Snapshot
- India's Microfinance Sector Crisis: FY25
- Financial Performance
- Key Stats:
  - Market % Share Trends By Lender Type
  - Disbursement Trends – Institution wise
  - Delinquency Trends
  - Loan Disbursal Trend (Value and Volume)
  - Loans Disbursed by Banks and Financial Insitutions to MFIs by Bank Groups (Rs million)
  - Outstanding Bank Loans and Average Outstanding Bank Loans of Self Help Groups by Bank Groups
  - Bank Loans Disbursed During the Year to Self Help Groups by Bank Groups
  - Outstanding Non Performing Assets of Self Help Groups by Bank Groups (Rs million)
- Key Financial Ratios (Industry)
- Key Challenges
- Outlook and Opportunities

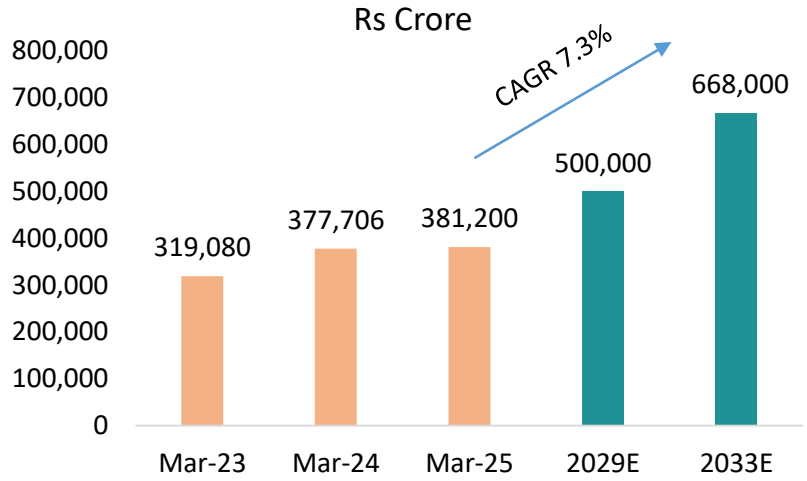
Executive Summary

- The Microfinance sector in India is playing a crucial role in financial inclusion and socio-economic development. Microfinance institutions (MFIs) are helping underserved populations, including low-income households, rural entrepreneurs, and women-led enterprises. Post-pandemic, the sector has seen a recovery, supported by regulatory clarity, digitization, and robust credit demand in semi-urban and rural areas
- **Industry Size and Growth Trajectory and Market Segmentation:** The microfinance sector in India has grown at a CAGR of over 18% over the past five years, with the total loan portfolio outstanding for industry standing at Rs 3,48,015 crore (approximately USD 41.4 billion at an exchange rate of ₹84/USD) as of December 31, 2024. The sector primarily operates through joint liability group models and self-help groups. NBFC-MFIs hold the largest market share, followed by banks and SFBs. The Indian microfinance sector's loan portfolio decreased by 14% in March 2025, mainly due to asset quality issues and cautious lending practices. The sector serves diverse segments, including rural and semi-urban areas, low-income households, agriculture, small businesses, education, healthcare, and housing, with a focus on rural and semi-urban areas
- **Growth Projections:** The Indian microfinance market is expected to grow at a CAGR of around 7.3% to reach Rs 6,68,000 crore by 2033, driven by financial inclusion initiatives, rural development programs, and product diversification
- **Asset Quality Deterioration:** India’s microfinance sector in 2025 is experiencing significant stress, with asset quality deteriorating sharply and portfolio contraction across the industry due to deteriorating asset quality, portfolio contraction, rising delinquencies, over-leveraging, and regulatory headwinds, primarily serving low-income borrowers. The share of loans overdue for 30–180 days escalated to 6.4% during Q3 FY25, up from 2% in the same period the previous year. This signals ongoing difficulties in loan recovery and heightened credit risk
- **Margin Compression:** Net Interest Margins are expected to shrink in FY25 due to asset quality concerns and declining yields, despite two years of improved profitability post-RBI's removal of lending rate caps. Assets Under Management growth is projected to slow to 0%-5%, with credit costs remaining elevated
- **Key Trends:** The sector is undergoing a rapid digital transformation, utilizing digital lending platforms, UPI integration, and AI-driven automation for improved operational efficiency, cost reduction, and enhanced customer experience. Digitalization and tech adoption are transforming operations in MFIs, with growth seen in eastern and northeastern states. MFIs are diversifying into micro-enterprise loans, MSME finance, insurance, pensions, and remittances. Women empowerment is a key focus, as they constitute over 95% of the borrower base, reinforcing the sector's social impact
- **Regulatory Developments:** The Reserve Bank of India (RBI)’s revised regulatory framework, which introduced uniform regulations across all microfinance lenders from 2022 onwards, continues to promote responsible lending, enhance transparency, and protect borrower interests. The emphasis on risk-based pricing, removal of interest rate caps, and a household-level indebtedness threshold have reshaped business models, driving greater efficiency and accountability. New MFIN guidelines, including a 3-lender cap and ₹0.15 million loan limit per borrower, are causing stress levels and may increase borrower rejection rates
- **Regulatory Tightening and Lending Restrictions:** The RBI has imposed stricter regulations, including excluding default loss guarantees from fintech firms for stressed loans. Self-regulatory organizations have also introduced guardrails, limiting the number of MFIs lending to a single borrower and capping loan amounts at ₹2 lakh
- **Current Challenges:** Growth in assets under management (AUM) is expected to slow to 0-5% in FY25, down from 28-29% in FY24. Rising delinquency rates and increased non-performing assets are causing stress in states like Bihar, Tamil Nadu, Uttar Pradesh, and Odisha, while MFIs face high operational costs, margin compression, and increased regulatory scrutiny
- **Opportunities:** Digital transformation, including digital lending platforms and AI-driven credit monitoring, is improving efficiency and outreach. Government initiatives like Pradhan Mantri Jan-Dhan Yojana (PMJDY), MUDRA, and SHG-Bank Linkage are boosting sector growth and financial inclusion. Despite challenges, the sector is crucial for rural development and women's empowerment
- **Outlook:** FY25 faces challenges like margin compression and regulatory hurdles, but signs of revival emerge from improved collections and reduced attrition. Banks with microfinance exposure are better positioned due to diversified portfolios and stronger asset quality. Long-term growth depends on digital adoption and policy interventions. The Indian microfinance sector is expected to reach a Gross Loan Portfolio (GLP) of Rs 5 lakh crore by FY2027, driven by enhanced regulatory oversight, digital innovation, and alignment with developmental priorities, promoting financial inclusion, rural entrepreneurship, and women's economic empowerment

Introduction

- The Microfinance sector in India is undergoing significant transformation in 2025 due to a growing regulatory framework, digitization, and a renewed policy focus on inclusive growth, aiming to provide credit and financial services to underserved and economically vulnerable populations in rural and semi-urban areas
- The Indian microfinance sector comprises NBFC-MFIs, banks, Small Finance Banks, and non-profit institutions with support from self-regulatory organizations like MFIN and Sa-Dhan
- India's microfinance sector, serving over 8 crore clients across 28 states, 8 Union Territories (Uts), and 723 districts, has a loan portfolio of ₹3.81 lakh crore as of March 31, 2025
- NBFC-MFIs accounting for the largest share, followed by banks and SFBs, due to robust demand, digital enablement, and regulatory clarity. The sector contributes about 2–3% to India's Gross Value Added (GVA) and supports approximately 1.3 crore jobs
- **Loan Portfolio & Outreach:** As of March 2025, the sector's gross loan portfolio (GLP) stood at ₹381,200 crore, with approximately 14 crore active loans. The portfolio outstanding as of December 2024 was ₹348,015 crore, with NBFC-MFIs holding the largest share.
- **Market Size and Growth:** The Indian microfinance market is projected to reach to Rs 6,68,000 crore by 2033, reflecting a compound annual growth rate (CAGR) of around 7.3%
- This growth is driven by high demand for microloans among low-income and underserved segments, government initiatives promoting financial inclusion, and the sector's social impact, particularly in empowering women through Self-Help Groups and microloans
- The Reserve Bank of India regulates microfinance institutions (MFIs) under the NBFC-MFI framework, implementing 'cease and desist' orders for predatory pricing and inadequate income assessment. Despite the sector benefits from priority sector lending status, lower policy rates are not effectively transmitted to smaller players
- Despite the current stress, the sector remains vital for financial inclusion and poverty alleviation. Long-term prospects depend on improved governance, transparency, and adaptation of business models to changing regulatory and market conditions
- Gross non-performing assets (NPAs) have surged to 16% as of March 2025, up from 8.8% a year earlier, with defaults rising across MFIs, small finance banks, and even traditional banks. Asset quality deterioration and stricter regulatory norms have led to a contraction in the gross loan portfolio by about 7% to ₹3.8 lakh crore by March 2025

India's Microfinance Market Size and Growth Projections (Loan Portfolio Outstanding)



Source: SIDBI, MFINIndia, Crif High Mark, BWR Research

- Collection efficiency has declined sharply, leading to a 31% and 13% quarter-on-quarter drop in disbursals during Q1 and Q2 of FY25, respectively
- Net interest margins (NIMs) are shrinking due to rising credit costs and declining yields, further straining profitability. Credit costs are projected to remain elevated at 5.4%-6% in FY25
- Growth in AUM for NBFC-MFIs is expected to nosedive to just 4% in FY25, compared to 28% in FY24

Overview and Market Size

Overview

- The sector operates through various entities, including Non-Banking Financial Company – Microfinance Institutions (NBFC-MFIs), Banks, Small Finance Banks (SFBs), Cooperatives and Societies, Section 8 (Not-for-Profit) Companies and NGOs, under the regulatory oversight of the RBI
- Total book size Rs 3.81 lakh crore as of March 2025
- **FY21-FY24:** The microfinance industry witnessed a strong Compound Annual Growth Rate (CAGR) of 20% during this period, driven by a 13% CAGR in borrower count and a 6% CAGR in average loan exposure
- NBFC-MFIs hold the largest market share at 40% followed by banks at 31%
- Contributing 2.03% to the gross value added (GVA) to India's GDP and supporting 1.3 crore jobs
- **Key Players and Operational Models:** CreditAccess Grameen, Kinara Capital, and Mutoot Microfin are leading institutions providing microloans, gold loans, and housing finance to over 4 million women. They use joint liability groups for 80% of microloans and 40% of MFIs use mobile platforms for disbursements and repayments, reducing operational costs
- **Key Drivers** - Financial inclusion, digital adoption, women's empowerment
- **Challenges**- High interest rates, asset quality, over-leveraging, regulatory tightening
- The Union Budget 2025-26 has introduced measures to strengthen MSMEs by enhancing credit guarantees and supporting first-time entrepreneurs, expanding the credit ecosystem, revising MSME classification criteria, and providing targeted support for labor-intensive sectors. These measures are expected to improve access to resources and foster innovation
- Short-term stress remain, but medium-term growth expected as sector stabilizes and digital adoption deepens

₹3.81T

Loan Portfolio
Gross loan portfolio exceeded ₹3.81 trillion as of March 2025

8 Crore

Unique Borrowers
The Indian microfinance sector serves about 8 crore (80 million) unique borrowers as of late 2024

126M

Active Loan Accounts
Serving over 126 million active loan accounts India, reflecting that many borrowers hold multiple loans

East & NE

Regional Focus
East and Northeast lead in microfinance activity

Evolution of the Microfinance Sector

Year	Milestone
1974	SEWA Bank established in Gujarat for self-employed women
1982	NABARD established to facilitate rural credit and SHG formation
1992	SHG-Bank Linkage Programme (SBLP) launched by NABARD
2000s	Emergence of private MFIs like SKS Microfinance, Spandana, Bandhan, etc
2010	Andhra Pradesh MFI crisis due to over-indebtedness and coercive recovery practices
2011	Malegam Committee report laid down regulatory framework
2014	Bandhan becomes the first MFI to get a universal bank license
2022	RBI issues a revised regulatory framework for microfinance loans to enhance borrower protection and uniformity

Industry Structure and Key Stakeholders

Stakeholder	Description
1. Microfinance Institutions (MFIs)	Core entities providing microcredit and related services
2. Reserve Bank of India	Apex regulator for NBFC-MFIs and overall guidelines for microfinance operations
3. Self-Regulatory Organizations (SROs)	Industry bodies like Sa-Dhan and MFIN (Microfinance Institutions Network) ensure code of conduct adherence and responsible lending practices
4. National Bank for Agriculture and Rural Development (NABARD)	Promotes SHG-Bank linkage program, capacity building, and refinancing support
5. SIDBI (Small Industries Development Bank of India)	Provides funding and technical support to MFIs and financial intermediaries
6. Commercial Banks	Lend to MFIs (as priority sector lending) and directly participate in SHG financing
7. SHGs and JLGs	Community-based models that facilitate credit delivery and ensure repayment discipline
8. Development Organizations and NGOs	Play a catalytic role in promoting SHGs, financial literacy, and social development
9. Credit Information Companies (CICs)	Entities like Equifax and CRIF High Mark maintain borrower credit histories, ensuring prudent lending
10. FinTech and Digital Players	Offer tech-enabled micro-lending platforms, digital onboarding, and analytics-based credit scoring

Microfinance Ecosystem at a Glance

Entity Type	Share in MFI Portfolio	Regulated By	Key Contribution
NBFC-MFIs	~35-40%	RBI	Specialized microfinance lending
Banks	~30-35%	RBI	Credit + deposit services
SFBs	~15-20%	RBI	Holistic financial services
SHGs	~10%	NABARD	Savings-linked credit, women empowerment
Not-for-Profit MFIs	~5%	Varies	Financial literacy, inclusion outreach

MFIs (including NBFC-MFIs) remain the dominant force, holding the largest share of the microfinance loan portfolio, while banks and SFBs are also significant contributors

Operational Models

1. **Joint Liability Group (JLG):**
    - Groups of 3–10 members, focused on credit generation
    - Highly scalable, fast turnaround, NPAs historically <1%

2. **Self-Help Group (SHG):**
    - Groups of 10–20, with a greater focus on savings
    - Less scalable, NPAs in the range of 7–8%

SHG-Bank Linkage Programme (SHG-BLP): Largest globally, linking SHGs to formal banking for credit and savings

Product Offerings Overview

Micro-Credit and Group Lending	• Micro-Credit loans are small, collateral-free loans offered to individuals without traditional banking services, aiming to support income-generating activities and improve economic stability • Micro-credit in India primarily targets low-income households through group-based lending models like Joint Liability Groups (JLGs) and SHGs. JLGs consist of 4-10 members who jointly liable for each other's loans, leading to high repayment rates and reduced transaction costs. Loan amounts range from ₹10,000 to ₹3,00,000, with tenures up to 36 months. Interest rates for group loans range from 18% to 26%
Micro-Savings and Micro-Insurance	• Micro-Savings are financial products designed to promote savings among low-income individuals, offering low minimum balance requirements and no service charges • Micro-Insurance offers affordable insurance plans for low-income populations, covering risks like accidents, health issues, and crop failures, with simplified claim processes and low premiums • Micro-savings products are essential for low-income populations, providing safe and convenient savings for emergencies, investments, and future needs. Regulatory restrictions limit for-profit MFIs from offering direct savings products, but SHG-linked savings have a potential annual savings base of $2.8 billion. Micro-insurance addresses risk protection needs among microfinance clients, with annual demand between $460 million and $2 billion. State-supported schemes supplement the private micro-insurance market
Pension and Remittance Products	• Pension products like the National Pension Scheme are promoted among informal and unorganized sector workers, offering old-age security and retirement savings. Microfinance institutions aggregate pension schemes, enrolling workers from construction, dairy, and fisheries sectors. MFIs offer remittance services for low-cost, accessible money transfers
Livelihood and Enterprise Development Services	• MFIs offer non-financial services like livelihood training, enterprise development, and financial literacy programs to enhance clients' income-generating capacity, ensure sustainable repayment, and reduce poverty. Integrating these services leads to better asset performance and higher client incomes

Funding and Capital Structure *(1/2)*

- **Bank Lending:** Microfinance institutions (MFIs) primarily rely on loans from banks and development finance institutions (DFIs) like NABARD and SIDBI for funding. The funding cost varies significantly, ranging from 10.5% to 16%, depending on the institution's size and creditworthiness. Large MFIs access easier bank funding, while small and mid-sized MFIs face challenges
- Microfinance institutions in India have seen a shift in their funding sources, with the Reserve Bank of India reducing risk weights on loans from 125% to 100% in 2025
- **Government initiatives:** Government initiatives like the Pradhan Mantri Mudra Yojana and the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) continue to support the sector, with CGTMSE approving over 1 crore loan guarantees. Non-banking financial companies are also diversifying their funding sources, increasingly utilizing capital markets and fintech partnerships to reduce their dependence on traditional bank loans
- **Alternative Funding:** Non-banking financial companies (NBFCs) are diversifying their funding sources, increasingly utilizing capital markets and fintech partnerships to decrease their reliance on traditional bank loans

A. Sources of Funds: Equity, Debt, Refinance

1. Equity Capital

- **Promoter and Private Equity Investments:** Microfinance Institutions (MFIs) are primarily funded by equity from promoters, private equity investors, and development finance institutions (DFIs)
- **Tiered Capital Structure:** The Tiered Capital Structure, consisting of Tier I capital (paid-up equity, retained earnings) and Tier II capital (subordinated debt, hybrid instruments), is crucial for regulatory compliance and capital adequacy
- **IPO Pathway:** Larger MFIs (e.g., CreditAccess Grameen, Spandana Sphoorty) have accessed public markets to raise equity
- **SIDBI,** a subsidiary of IDBI Bank, serves as the primary financial institution for the Micro, Small, and Medium Enterprises sector, including microfinance
- **MUDRA,** a subsidiary of SIDBI, was established in 2015 to offer refinance assistance to MFIs, banks, and NBFCs, with an authorized capital of ₹5,000 crore and a paid-up capital of ₹1,675.93 crore as of March 31, 2023

2. Debt Capital

- **Term Loans** from Banks and NBFCs: These are the primary sources of debt for MFIs, typically with tenors ranging from 1 to 5 years
- **Non-Convertible Debentures (NCDs):** MFIs issue NCDs, often subscribed by institutional investors such as mutual funds, insurance firms, and DFIs
- **Subordinated Debt:** This forms part of Tier II capital, enhancing regulatory capital adequacy and often has a longer tenor and higher cost
- **Bank Lending:** Commercial banks, including public and private sector banks, extend loans to MFIs and NBFCs, but face challenges like rising defaults and asset quality concerns
- **NBFCs:** NBFCs, often reliant on short-term commercial papers, are now more attractive to bank lending due to recent regulatory relaxations by the Reserve Bank of India

Funding and Capital Structure *(2/2)*

3. Refinance Mechanisms

- MFIs receive concessional loans from apex institutions like SIDBI, NABARD, and MUDRA to support on-lending to underserved segments and expansion into new geographies or segments
- SIDBI offers refinance facilities to banks, NBFCs, and MFIs through schemes like MSERS and FABIA-MSMEs, focusing on Micro and Small Enterprises Refinance
- MUDRA has provided ₹65,564 crore in refinance to various MFIs, NBFCs, Scheduled Commercial Banks, Regional Rural Banks, and Small Finance Banks until March 31, 2023

B. Role of SIDBI, NABARD, and MUDRA

- SIDBI act as the primary financial institution for the MSME sector, offering refinance and term lending to banks, NBFCs, and MFIs, and actively supports the development of microfinance institutions
- NABARD is a government agency that focuses on agriculture and rural development, provides refinance support to Regional Rural Banks, State Cooperative Banks, and MFIs, and supervises them
- MUDRA, a subsidiary of SIDBI, provides refinance assistance to banks, MFIs, and NBFCs for lending to micro and small businesses, managing the Pradhan Mantri Mudra Yojana implementation
  - It provides refinance support to micro and small enterprises, offering loans up to ₹10 lakh for income-generating activities and monitoring the Pradhan Mantri Mudra Yojana implementation through its portal

C. Bank Lending and Securitization Trends

- **Bank Lending to MFIs:** Banks are the largest lenders to MFIs due to PSL compliance and RBI's Co-Lending Model. They typically provide term loans and working capital limits. Post-pandemic recovery has seen a resurgence in bank lending, particularly to larger NBFC-MFIs
- **Securitization Trends:** Securitization of MFI loans has become a crucial funding tool, enabling MFIs to raise off-balance sheet capital, improve liquidity, and diversify their funding base. The RBI's revised securitization framework (2022) increased confidence by allowing lower risk weights and true sale-based transactions. Major players include Northern Arc, Vivriti Capital, and select NBFC-MFIs

D. Cost of Funds and Leverage Metrics

Cost of Funds: Varies based on institution size, rating, and source:

- **SIDBI/NABARD/MUDRA refinance:** ~7–9% p.a.
- **Bank loans to top-rated MFIs:** ~9–10.5% p.a.
- **NCDs/Subordinated debt:** ~11–13% p.a.
- Cost of funds is lower for NBFC-MFIs than for NGO-MFIs or smaller entities, owing to better access and credit ratings

Leverage Metrics:

- RBI prescribes a maximum debt-to-equity ratio of 7:1 for NBFC-MFIs
- Top MFIs operate with gearing ratios between 3x and 6x, reflecting strong access to debt markets
- **Regulatory capital adequacy norms:** Minimum CRAR of 15%, with Tier I capital not less than 10%
- Well-capitalized MFIs are better placed to expand operations and absorb credit shocks

Regulatory and Policy Landscape (2025) *(1/2)*

Role of RBI in Microfinance Regulation:

- The RBI regulates microfinance sector, overseeing NBFC-MFIs and indirectly regulating other MFIs through lending banks, covering registration, capital adequacy, asset classification, client selection, and fair practices
- The RBI has introduced a harmonised regulatory framework in March 2022, applicable to all microfinance lending entities, regardless of their legal form, to streamline and ensure uniformity in the regulatory landscape of the sector, which has traditionally been governed by different framework

Master Directions and Regulatory Changes

- The RBI has introduced the Reserve Bank of India Master Directions, 2022, aiming to adopt a borrower-centric and entity-neutral regulatory framework

  Key features of the Master Directions:

  - **Definition of Microfinance Loan:** A loan of up to ₹3 lakh provided to a household with annual income not exceeding ₹3 lakh (revised from ₹1.25 lakh for rural and ₹2 lakh for urban households).
  - **Uniform Regulation Across Lenders:** Applicable to all REs (Regulated Entities) including commercial banks, SFBs, NBFCs, NBFC-MFIs, and cooperative banks.
  - **Board-approved Policies:** All REs are required to adopt a board-approved policy for pricing, assessment of household income, and repayment capacity
  - RBI has revised risk weights for microfinance loans, reducing the risk weight for banks to 75% and consumer credit loans to 100%. These changes aim to improve capital efficiency and credit flow, while balancing financial stability with greater financial inclusion. These changes are effective immediately

Pricing Caps, Margin Norms, and Risk Management Guidelines

- The RBI removed explicit pricing caps for MFIs in 2022, requiring transparent disclosure of interest rates and charges in fact sheets. Lenders must publish their pricing approach, risk gradation, and penalty charges, ensuring borrowers are fully informed. Risk management guidelines have been tightened due to rising delinquencies, emphasizing the need for robust credit assessment and portfolio monitoring
- The RBI has removed the interest rate ceiling, allowing market-driven pricing with transparency and fairness. Lenders must disclose annualized interest rates, processing fees, insurance charges, and prepayment penalties. Monthly repayment obligations should not exceed 50% of household income. Risk management frameworks must be robust, including household income assessment, repayment capacity checks, and monitoring of borrower indebtedness

Regulatory and Policy Landscape (2025) *(2/2)*

Code of Conduct and Client Protection Standards

- The RBI requires banks to adopt fair practices and a code of conduct, including responsible lending, transparent disclosures, and grievance redressal mechanisms. Loan agreements must be in the borrower's vernacular language, with clear pricing and penalties. Banks lending to MFIs must ensure client protection and market conduct norms

Financial Inclusion and PMJDY Linkages

- The microfinance sector is a key driver of financial inclusion, serving low-income and unbanked populations. Its links with PMJDY have expanded access to formal banking, enhancing the delivery of microfinance and financial services

Key Regulatory Features

Feature	Pre-2022 Norms	Latest (2025) Updates
Pricing Cap	10–12% margin cap	No explicit cap; focus on transparency
Risk Weight (Banks)	125% for consumer credit	75% (RRP-qualifying), 100% otherwise
Code of Conduct	Mandated	Enhanced client protection
Client Disclosure	Required	Fact sheet, vernacular agreements
Financial Inclusion Linkages	Priority sector lending	PMJDY integration, expanded outreach

Technology and Digital Transformation

Technological advancements are transforming India’s microfinance sector by enhancing service delivery and expanding financial inclusion for underserved communities. Innovations like Aadhaar, UPI, e-KYC, and AI-based credit scoring have streamlined operations, reduced costs, and strengthened risk management. However, challenges such as inadequate infrastructure, low digital literacy, and cybersecurity risks need targeted solutions. Sustained investments in digital infrastructure, capacity building, and supportive regulation are essential to ensure inclusive, tech-driven growth in the sector.

Role of Digital Lending and Mobile Platforms

- **Enhanced Client Interaction**: Digital platforms have improved MFI outreach, especially in rural areas, through mobile-based loan origination and customer engagement
- **Agent-Assisted Models**: Field agents and banking correspondents use mobile apps to bridge gaps between MFIs and borrowers, enabling digital onboarding and real-time collections
- **Faster Processing**: Paperless onboarding and mobile solutions have cut loan processing times, improving efficiency in underserved regions
- **Convenient Transactions**: Mobile platforms support 24/7 loan disbursements and repayments via USSD and UPI, reducing cash dependency

Aadhaar, UPI, and E-KYC Integration

- India's digital public infrastructure has significantly boosted microfinance operations through Aadhaar-based identification, e-KYC, and UPI. Aadhaar-based identification reduces duplication and fraud, e-KYC streamlines customer onboarding, especially in remote areas, and UPI facilitates low-cost, real-time digital transactions, promoting a cashless ecosystem and easing repayment mechanisms

Use of AI/ML for Credit Scoring

- Artificial Intelligence (AI) and Machine Learning (ML) are being used to improve underwriting and risk assessment. AI uses non-traditional data sources like mobile phone usage, utility payments, and psychometric tests to assess borrower creditworthiness. ML tools analyze transaction patterns and repayment behavior to predict defaults and improve portfolio quality. AI helps identify inconsistencies or unusual patterns indicating fraudulent activity, particularly for new-to-credit or thin-file customers in MFIs

Industry Examples

- **Ujjivan Small Finance Bank**: Leverages technology for branchless banking, digital loan disbursement, and customer onboarding in rural areas
- **Fusion Microfinance**: Adopts digital tools for paperless operations, automating field processes, and real-time credit validation
- **Svasti Microfinance**: Uses technology to serve women entrepreneurs with digital loan products and flexible repayment options

Growth Drivers (1/2)

Financial Inclusion, Rising Rural Sector Credit Demand and Digital Transformation	• **Financial Inclusion Push:** Government initiatives like PMJDY, Digital India, and Aadhaar-based KYC have expanded the formal financial ecosystem, fostering microfinance outreach. RBI's financial inclusion index shows improved access, usage, and quality of financial services in rural and semi-urban India, including increased microfinance and digital banking penetration, and tailored financial products • **Rising Rural and Informal Sector Credit Demand:** India's population, particularly in Tier III and rural areas, is significantly underbanked or unbanked, with micro and small enterprises, agriculture-linked livelihoods, and informal workers still relying on microfinance institutions for working capital and consumption loans • **Digital Transformation:** Digital tools like mobile banking, AI-driven credit scoring, and paperless onboarding are reducing operational costs and improving outreach, while FinTech-MFI partnerships are transforming customer acquisition and repayment mechanisms • **Policy and Regulatory Support:** RBI's 2022 harmonised regulatory framework for microfinance lending has facilitated uniform treatment across NBFC-MFIs, banks, and SFBs, promoting innovation and expansion through increased debt limits • **Women's Economic Empowerment:** Over 90% of MFI borrowers are women, promoting economic empowerment and ensuring strong repayment discipline and social impact
Private Equity and Institutional Investment	• **Growing PE/VC Interest:** Private Equity (PE) and Venture Capital (VC) investments in microfinance have increased in recent years, primarily focusing on NBFC-MFIs and digital micro-lending platforms due to high asset quality, consistent portfolio growth, and social impact narrative • **Strategic Acquisitions and Consolidations:** Market consolidation is gaining momentum, with large Non-Banking Financial Companies (NBFCs) acquiring smaller MFIs to diversify portfolios and reach underserved segments, driven by increasing interest from impact investors, ESG (Environmental, Social, and Governance) -focused funds, and sovereign wealth funds • **Public Market Access:** Large MFIs like CreditAccess Grameen, Spandana Sphoorty, and Fusion Microfinance have utilized IPOs to increase transparency and capital inflow in public markets • **Debt and Refinance Support:** Refinance from institutions like SIDBI, MUDRA Bank, and NABARD is crucial for funding MFIs, while priority sector lending (PSL) classification ensures regular bank credit flow
Role in Sustainable Development Goals (SDGs)	• Microfinance directly contributes to UN Sustainable Development Goals (SDGs) like No Poverty, Gender Equality, Decent Work and Economic Growth, Reduced Inequalities, and Industry, Innovation, and Infrastructure. It empowers women, supports micro-enterprises, reduces inequalities, and facilitates entrepreneurial development in rural and remote areas. MFIs are also integrating environmental and social governance standards into their lending frameworks

Growth Drivers (2/2)

Expansion Strategies and Capacity Building

- **Geographic Diversification:** MFIs are expanding into eastern and central Indian states, focusing on rural-centric branches, agent networks, and Self-Help Groups (SHG) linkages due to low credit penetration and high demand
- **Digital Lending and FinTech Collaboration:** Digital lending and FinTech collaboration involves AI and ML tools for credit underwriting, customer profiling, and loan monitoring, as well as mobile apps and Unstructured Supplementary Service Data (USSD)-based platforms for improved access and repayments
- **Capacity Building and Skilling:** The initiative includes investing in staff training, community awareness programs, and customer literacy, as well as focusing on responsible lending practices, grievance redressal mechanisms, and credit counselling
- **Product Diversification:** Expand microcredit to include insurance, pensions, savings products, and livelihood-linked loans, utilizing group-based lending, credit guarantees, and micro-insurance bundling
- **Technology Infrastructure:** The technology infrastructure includes the adoption of Core Banking Systems and APIs (Application Programming Interfaces) for integration with national digital rails, as well as data analytics for portfolio risk monitoring and MIS enhancements

India's microfinance sector is expected to experience long-term growth due to strong demand, a supportive regulatory regime, digital adoption, and increasing institutional investor interest. It aligns with SDGs and emphasizes inclusive growth, making it a promising segment for commercial and impact-focused stakeholders

Key Trends

Strong Growth Momentum	• Between FY2018 and FY2024, the sector experienced a CAGR of approximately 18%, with a robust recovery post-COVID bolstered by enhanced collections and disbursements
Diversification of Lenders	• While, NBFC-MFIs lead outreach, banks and SFBs increase microfinance portfolios, accounting for about 50% of Gross Loan Portfolio. Large MFIs are transitioning into SFBs, integrating with formal financial systems
Geographic Distribution	• The sector is predominantly located in Eastern and Southern India, such as Bihar, West Bengal, and Tamil Nadu, but is also expanding into Central and Western regions
Digital Transformation	• The rise in digital lending platforms, Aadhaar-based eKYC, and UPI-enabled repayments has significantly improved operational efficiency and improved the borrower experience
Improving Asset Quality	• Post-COVID, Portfolio at Risk (PAR) >30 days has declined due to improved credit behavior and risk assessment models, while industry Gross Non-Performing Asset (GNPA) levels stabilized at 1.5%-2% in FY2024
Increased Focus on Customer Protection	• The regulatory focus has shifted towards customer protection, with a focus on interest rate transparency, total indebtedness caps, and lender code of conduct compliance

Competitive Landscape and Key Players

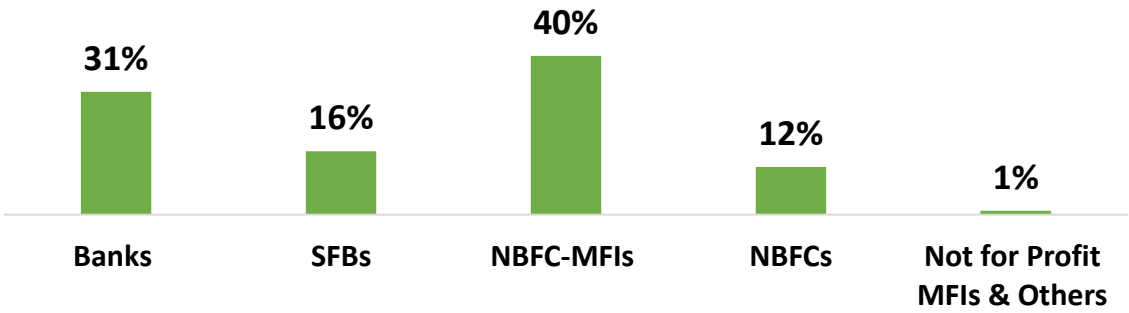
Major MFIs and Market Share

- The sector comprises 168 MFIs operating across 28 states, 8 UTs, and 723 districts
- NBFC-MFIs are the largest providers, holding the biggest share of the microfinance loan portfolio

Top Players Holding Large Market Share (as of 2024)

- SKS Microfinance (Bharat Financial Inclusion)
- Spandana Sphoorty
- Bandhan Bank
- Ujjivan Small Finance Bank
- CreditAccess Grameen
- Jana Small Finance Bank
- Equitas Small Finance Bank
- Satin Creditcare Network
- Arohan Financial Services
- Asirvad Microfinance
- Fusion Microfinance Ltd.

Share in Industry Gross Loan Portfolio by Lender Type



*Source: SIDBI Report 2025, *Data as of Sep. 2024*

Entry of Corporate Houses and New Players

- The Indian microfinance sector is witnessing a surge in new entrants and corporate-backed initiatives. Companies like Adani Capital, Tata Capital, and Mahindra Finance are expanding into MSME and rural lending, leveraging tech-driven models
- Adani Capital, the financial services arm of the Adani Group, has entered the Micro, Small, and Medium Enterprises (MSME) and micro-lending segments, focusing on tier-2 and tier-3 locations with tech-based underwriting.
- Tata Capital has expanded its rural and small-ticket lending through partnerships and digital models. Mahindra Finance operates in rural lending, with overlap in microfinance-like products through vehicle and enterprise finance
- FinTechs like Paytm and PhonePe have entered the small-ticket digital lending space, targeting micro-entrepreneurs and merchants through partnerships with NBFCs or co-lending structures.
- Digital-only MFIs and neo-lenders like Svatantra Microfin are expanding operations rapidly. Global investors, including CDC Group, ResponsAbility, LeapFrog Investments, and Temasek, have shown strong interest in Indian MFIs with tech integration, rural footprint, and ESG alignment

The Indian microfinance sector is facing challenges due to rising delinquencies and operational pressures. However, corporate houses and fintech players are driving innovation, capital infusion, and digital transformation. Supportive government policies and regulatory reforms are expected to shape a more resilient and inclusive ecosystem

Opportunities and Future Outlook

Market Potential and Credit Gap

- India's microfinance sector has a potential demand of ₹13 lakh crore for FY 23-24, but a 70% credit gap exists, indicating a significant unmet need for microcredit among low-income households and MSMEs. Despite growth, only 40% of MSME credit demand is met by formal channels, leaving a credit gap of ₹30 lakh crore. The sector's total loan portfolio exceeds ₹5 lakh crore, but rural areas still rely on informal credit sources

Expansion into Underserved Areas

- Microfinance institutions (MFIs) in India have grown but are concentrated in rural areas, accounting for 80% of their portfolio. They play a crucial role in reaching unbanked and underprivileged populations through group-based lending models and partnerships. MFIs are also key partners in government financial inclusion programs like Pradhan Mantri Mudra Yojana and National Rural Livelihood Mission
    - The share of rural borrowers in microfinance has reached a 10-year high, with 83% of clients from rural areas. MFIs operate in 28 states, five Union Territories, and over 646 districts in India, reaching over 532 lakh clients with a total loan outstanding of ₹1.8 lakh crore under micro-credit. However, 82-84% of the microfinance portfolio is concentrated in just 10 states, with 56% in Bihar, Tamil Nadu, Uttar Pradesh, West Bengal, and Karnataka. To address this imbalance, studies are being commissioned to identify challenges preventing deeper penetration into several districts and spread financial inclusion more evenly across the country

Digital Transformation and Innovation

- Microfinance institutions (MFIs) in India are leveraging digital platforms for loan disbursement, repayment collections, and customer relationship management. Mobile banking apps, online portals, and biometric authentication systems have improved operational efficiency and service delivery in remote areas. Key technological advancements include AI-driven data analysis and personalization, UPI and digital payment integration, blockchain technology, and cybersecurity measures. AI algorithms provide valuable insights, enhance customer experiences, and streamline internal processes. Blockchain technology offers secure, transparent, and efficient transactions, while investments in advanced cybersecurity measures, such as biometric authentication and AI-driven threat detection systems, safeguard customer data and protect against fraudulent activities. These innovations are essential for scaling operations and reaching underserved populations effectively

Indian Microfinance Sector Growth

- The Indian microfinance sector is expected to grow due to digital innovation, government support, and financial inclusion. However, challenges like fundraising difficulties, portfolio quality concerns, and regional lending disparities persist. Strategic initiatives and technological advancements are needed to unlock the sector's full potential and ensure sustainable development. Post-pandemic, the sector shows signs of recovery, with improved asset quality and renewed loan growth. Continued regulatory support, digital transformation, and expansion into underserved regions are crucial for sustained growth and financial inclusion

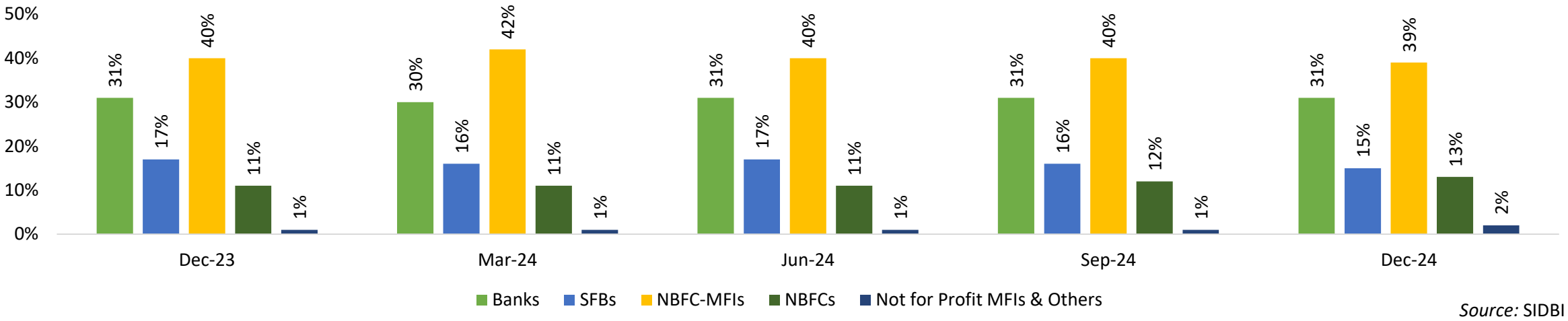
India’s Microfinance Industry Snapshot

- The microfinance industry's portfolio outstanding as of December 31st, 2024 stood at Rs. 348,015 crore, with 11.93 crore active loans. NBFC-MFIs contribute the most. The industry's portfolio outstanding declined by 4% in December 2023 and 7% in September 2024. Non-Banking Financial Company - Microfinance Institutions (NBFC-MFIs) continue to have the largest share in the portfolio outstanding
- Disbursements by value witnessed annual decline of 35%. with all lenders experiencing a decline from July 2024 to September 2024 to October 2024 to December 2024, with the highest number of loans issued under the 25k-50k ticket size category
- The portfolio outstanding for Aspirational Districts as of December 31, 2024 was Rs 51,011 crore, with a 1% growth from December 2023, while loans worth Rs 50,407 crore were disbursed from January to December 2024
- As of December 31, 2024, the microfinance industry's book size was Rs 348,015 crore, with SFBs experiencing the highest delinquency rates, while NBFCs have the highest average ticket size
- The average ticket size of loans increased by 12% year-on-year in October-December 2024 compared to October-December 2023

Snapshot as on 31st December 2024	Banks	SFBs	NBFC-MFIs	NBFCs	Not for Profit MFIs & Others	Total Industry
Active Live Borrowers(‘000)	27,448	15,336	33,086	10,211	1,649	87,730
Active Loans ('000)	38,326	18,229	49,714	11,351	1,708	119,328
Portfolio (Rs crore)	108,947	52,620	136,676	44,542	5,230	348,015
Disbursed Amount (Rs crore) –January-March 2024	25,150	8,198	22,137	7,736	738	63,959
Average Ticket Size (Rs) – January-March 2024	53,965	54,039	51,152	63,027	45,873	53,776
30+ Delinquency (Portfolio Outstanding)	7.71%	7.73%	6.99%	3.90%	6.43%	6.92%
90+ Delinquency (Portfolio Outstanding)	**4.15%**	**4.37%**	**4.16%**	**2.04%**	**2.86%**	**3.90%**

Source: SIDBI

Market % Share Trends By Lender Type



Source: SIDBI

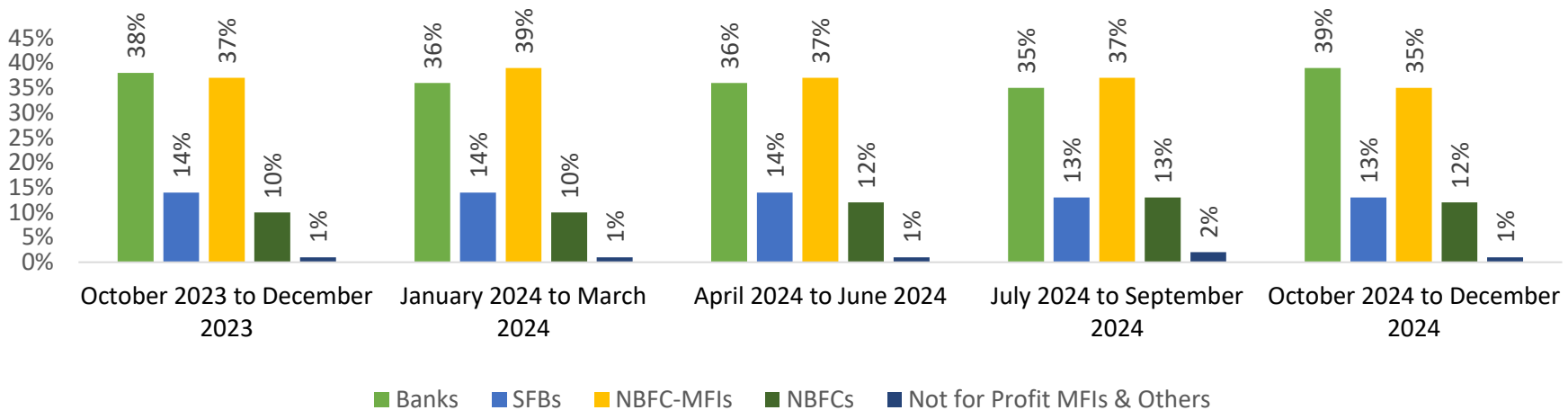
Portfolio Outstanding (Rs. crore)

Particulars	Dec'2023	March 2024	June 2024	Sep' 2024	Dec 2024	Y-o-Y Growth (%)
Banks	113,079	115,686	123,475	115,981	108,947	-4%
SFBs	62,722	61,705	65,154	60,838	52,620	-16%
NBFC-MFIs	147,386	161,848	156,841	147,187	136,676	-7%
NBFCs	40,141	41,453	44,581	44,907	44,542	11%
Not for Profit MFIs & Others	465	520	1,096	5,005	5,230	1025%
Total Industry	**363,793**	**381,212**	**391,147**	**373,918**	**348,015**	-4%
Q-o-Q growth rate (%)		5%	3%	-4%	-7%	

Source: SIDBI

As of December 31, 2024, the Indian microfinance industry's portfolio outstanding stood at ₹3.48 trillion (₹348,015 crore), reflecting a 4% year-on-year (YoY) decline compared to December 2023.

Disbursement Trends – Institution wise



Period	Disbursement Amount (Rs Crore)
October 2023 to December 2023	98,395
January 2024 to March 2024	116,704
April 2024 to June 2024	81,054
July 2024 to September 2024	70,535
October 2024 to December 2024	63,959

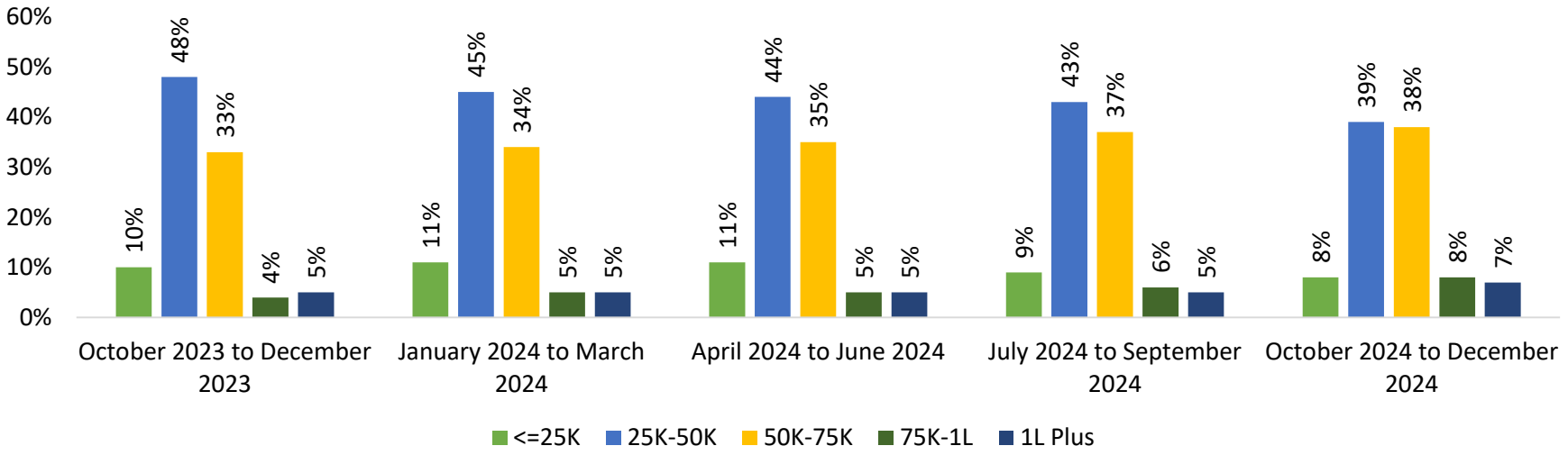
No. of Loans Disbursed (in lakh)

Particulars	October 2023 to December 2023	January 2024 to March 2024	April 2024 to June 2024	July 2024 to September 2024	October 2024 to December 2024
Banks	76	88	61	50	47
SFBs	29	33	23	18	15
NBFC-MFIs	81	97	63	54	43
NBFCs	18	20	16	15	12
Not for Profit MFIs & Others	2	3	2	2	2
Total Industry	**206**	**241**	**165**	**139**	**119**

During October 2024 to December 2024, financial institutions disbursed 1.19 crore loans worth Rs 63,959 crore, with a 42% YoY decline in volume and 35% decrease in amount

Source: SIDBI

Industry Ticket Size Trends



No. of Loans Disbursed (in lakh)

Particulars	October 2023 to December 2023	January 2024 to March 2024	April 2024 to June 2024	July 2024 to September 2024	October 2024 to December 2024
<=25K	21	26	18	13	10
25K-50K	98	109	72	60	47
50K-75K	68	83	59	51	45
75K-1L	9	11	8	8	9
1L Plus	10	12	8	7	, 8
Total	**206**	**241**	**165**	**139**	**119**
Q-o-Q loan disbursal growth rate %		17%	-31%	-16%	-14%
All India ATS (Rs)	**48,017**	**48,518**	**49,048**	**50,633**	**53,776**

Source: SIDBI

There is a notable shift towards higher average ticket sizes, indicating either a move towards larger loans or a consolidation of lending

The decline in the number of small-ticket loans (₹25k–₹50k) may reflect changing borrower profiles, regulatory caution, or evolving risk perceptions in the sector

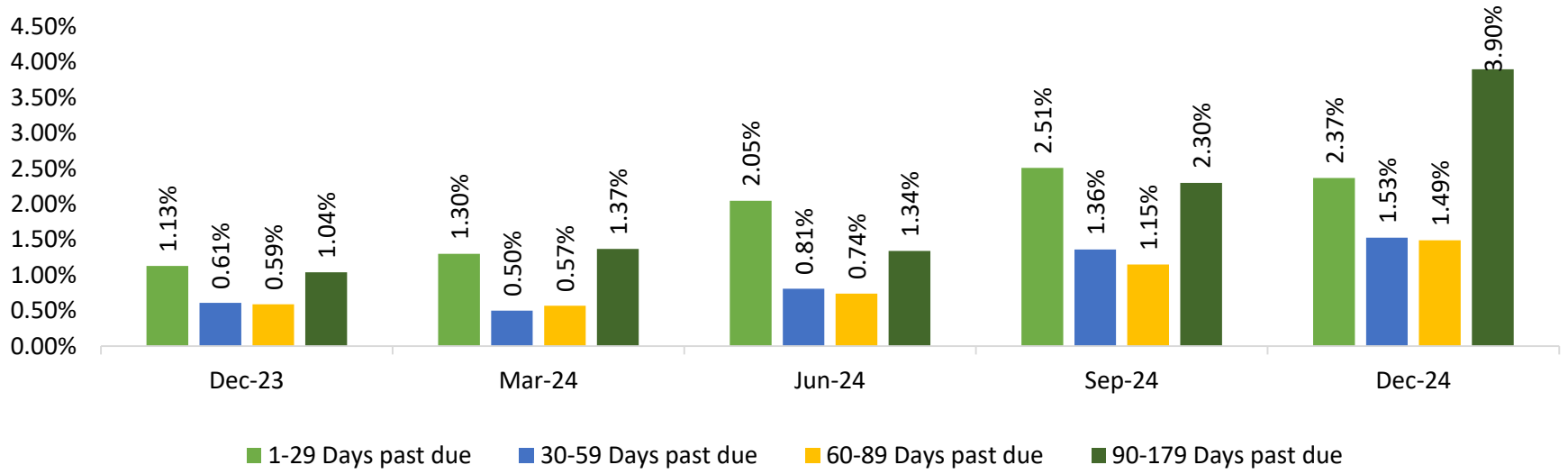
While the highest number of loans were in the ₹25,000–₹50,000 category, this segment saw a 52% annual decline in loan count

However, industry average ticket size increased by 12% year-on-year, reaching ₹53,776 by the end of 2024, indicating a shift toward higher-ticket loans

Loan disbursal for larger ticket sizes decreased by 20% in October 2024 to December 2024 period compared to October 2023 to December 2023, while industry average ticket sizes increased by 12% in October 2024 to December 2024

Industry Response and Shifts: Lenders are now cautiously focusing on higher-ticket loans, which have grown faster than the overall market, despite lower delinquency rates. NBFC-MFIs and banks continue to dominate the sector, showing the fastest growth

Delinquency Trends



The sector is facing increased stress, especially in long-term delinquencies. Small Finance Banks have the highest delinquency rates, while Non-Banking Financial Companies have the lowest. Geographical concerns and borrowers with multiple loans and high credit exposures are also contributing to the situation

Portfolio at Risk (PAR) 31–180 days: Rose sharply to 6.4% in December 2024 from 4.3% in September 2024.

In December 2024, all buckets experienced an increase in delinquency, except for 1-29 days past due, with the 90-179 days past due bucket experiencing the highest increase from September 2024.

Underlying Causes:

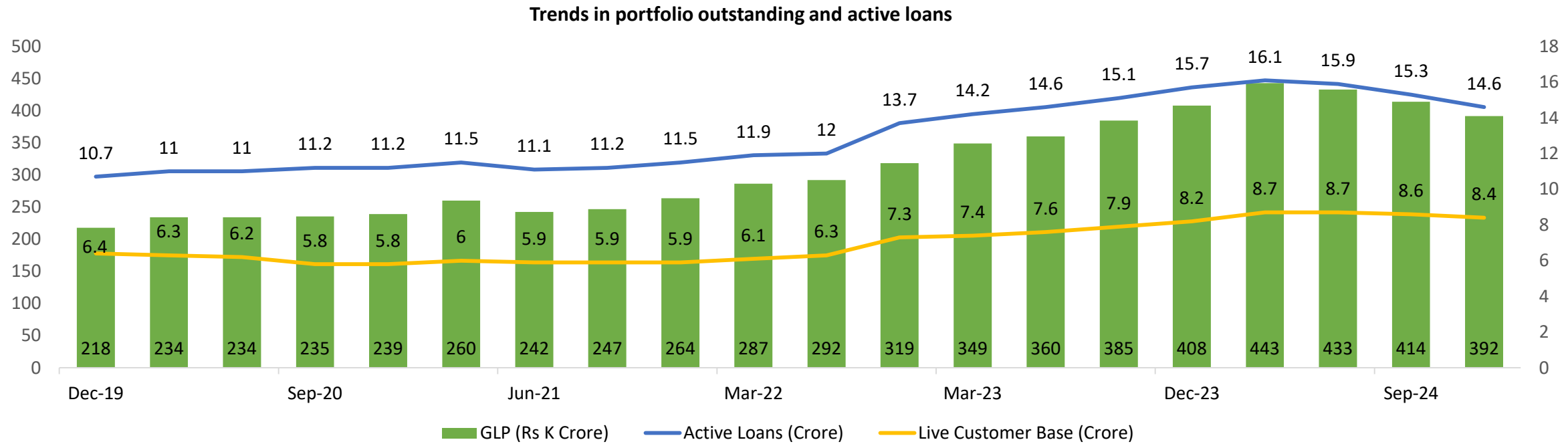
Over-leveraged borrowers with multiple loans from lenders are causing increased debt burdens and credit risk. External shocks like economic uncertainty and climate change exacerbate this issue. High delinquency rates are pronounced in states like Bihar, Uttar Pradesh, Tamil Nadu, and Odisha, accounting for over 60% of incremental delinquencies. The proportion of borrowers with both microfinance and retail loans is also increasing

Rise in Delinquency Across Buckets

Particulars	December 2023	March 2024	June 2024	September 2024	December 2024
1-29 Days past due	1.13%	1.30%	2.05%	2.51%	2.37%
30-59 Days past due	0.61%	0.50%	0.81%	1.36%	1.53%
60-89 Days past due	0.59%	0.57%	0.74%	1.15%	1.49%
90-179 Days past due	**1.04%**	**1.37%**	**1.34%**	**2.30%**	**3.90%**

Source: SIDBI

Microfinance book size contracts by 4% YoY



Source: CRIF High Mark

- The Indian microfinance portfolio contracted by 4.0% year-on-year (Y-o-Y) in December 2024, dropping from ₹408,000 crore in December 2023 to ₹391,500 crore
- This marks a significant deviation from the growth trajectory seen in previous quarters
- This decline was attributed to regulatory changes, risk realignment, and stricter underwriting and collection strategies. Stress indicators worsened, with Portfolio at Risk rising to 6.4% in the 31-180-day bucket and 3.7% in the 180-day and beyond bucket.
- Further, loan disbursements fell sharply, with a 41.7% drop in the number of loans and a 34.9% drop in disbursed amount in the December 2024 quarter compared to the previous year
- Moreover, the number of active microfinance loans in India dropped from 15.7 crore in December 2023 to 14.6 crore in December 2024, indicating a clear decline in loan supply.
- **Portfolio Quality:** Delinquencies in the 31–180 day bucket rose sharply to 6.4% in December 2024 from 2% a year ago, reflecting increased stress in asset quality

Loan Disbursal Trend (Value and Volume)

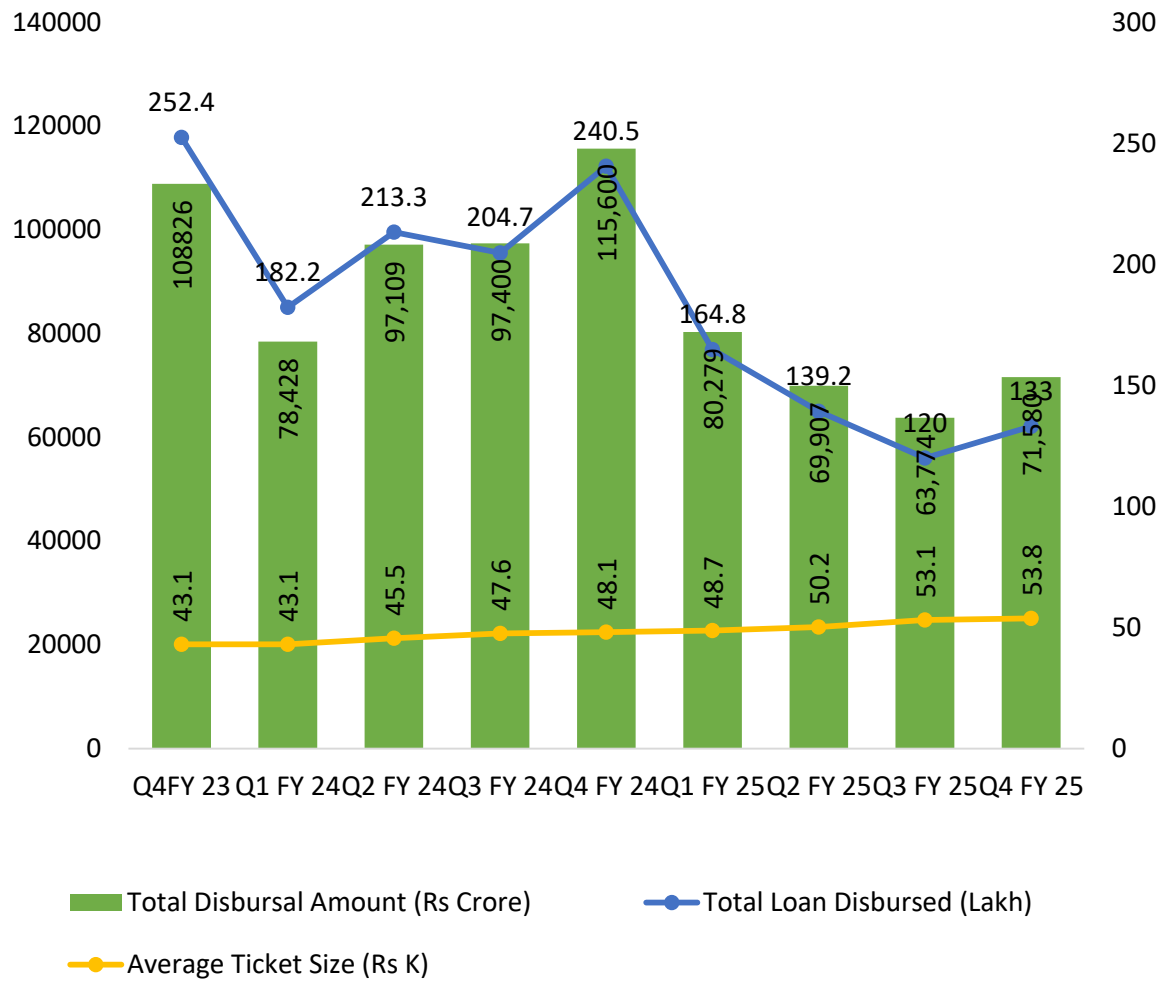
- The microfinance sector saw a sharp slowdown, with loan disbursal value falling 34.9% year-on-year (YoY) from ₹97,400 crore in Q3 FY24 to ₹63,440 crore in Q3 FY25, reflecting tighter liquidity or more cautious lending practices amid rising delinquencies or macroeconomic uncertainties
- Loan Disbursal Volume declined even more sharply, by 41.7% YoY, indicating a broad-based fall in customer acquisition and small-ticket lending activity
- The contraction could be attributed to rising delinquencies, credit risk aversion among lenders, regulatory tightening, and demand-side issues like rural distress, uneven monsoons, and inflation, which affect borrower repayment capacity, borrower over-leverage, collection challenges, and stricter underwriting. Small Finance Banks (SFBs) were hit hardest, reducing their exposure due to rising NPAs

Shift in Lending Strategy:

- Lenders are focusing on portfolio quality, moving towards higher-ticket loans (above ₹50,000), with the average loan size rising to ₹53,350 in December 2024, up from ₹47,374 a year ago

Asset Quality and Delinquencies:

- Early-stage delinquencies (1–30 days past due) improved slightly, but riskier buckets (31–180 days, and 180+ days past due) worsened, with PAR (31–180 days) rising to 6.4% and PAR (180+ days) to 3.7% in Q3 FY25.



Source: CRIF High Mark

Microfinance Gross Loan Portfolio Surges 24% in FY24

- The Indian microfinance sector saw a 24.5% year-on-year increase in its Gross Loan Portfolio in FY24, reaching ₹4.33 lakh crore as of March 31, 2024, attributed to strong credit demand and recovery from previous years' challenges, indicating a strong demand for credit and the sector's growing role in financial inclusion
- **Borrower Base:** As of March 2024, the sector had 14.9 crore active loan accounts, indicating a 15.4% increase in active loan accounts compared to the previous year, serving 7.8 crore unique borrowers
- Loan disbursals during FY24 totaled ₹3.35 lakh crore, up from ₹2.96 lakh crore in FY23, with 7.26 crore loans disbursed during the year.
- The average loan amount disbursed per account rose by 9.9% to ₹45,024
- **Regional Distribution:** The East & Northeast, South regions collectively accounted for 62% of the total portfolio, with Bihar being the largest state with the highest outstanding portfolio
- **Portfolio Quality and Performance:** Portfolio quality showed mixed trends, with banks showing an improvement in portfolio at risk (PAR) 31-180 days past due (DPD) from 2.7% to 2.2%, while NBFC-MFIs experienced a deterioration from 1.5% to 2% and SFBs PAR 31-180 DPD worsened from 2.2% to 2.9%.
- **Sector Capital and Funding:** NBFC-MFIs' AUM increased 29.5% to ₹1.56 lakh crore, total equity grew 39% to ₹34,435 crore, and debt funding surged 29.1% to ₹89,308 crore in FY24
- India's microfinance industry experienced significant growth in FY24, driven by increased demand, wider reach, and loan disbursals. NBFC-MFIs dominate, while banks and small finance banks expanded their portfolios. The sector's overall health remains strong, but certain segments have seen portfolio risk rise. This highlights microfinance's crucial role in financial inclusion

Institution Type	Outstanding Loan (₹ crore)	Share of Total Portfolio
NBFC-MFIs	1,70,903	39.4%
Banks	1,44,022	33.2%
Small Finance Banks	74,278	17.1%
NBFCs	9.3% of total	
Other MFIs	0.9% of total	

NBFC-MFIs remained the largest provider of micro-credit, followed by banks and small finance banks

Source: mfinindia.org

Loans Disbursed by Banks and Financial Institutions to MFIs by Bank Groups (Rs million)

Year	Total banks	Total	Public sector banks	Private sector banks	Small finance banks	Foreign banks	Regional rural banks	Co-operative banks
2017-18	2,22,282.30	2,21,336.00	94,861.40	1,24,217.10		2,257.50	559.3	387
2018-19	1,37,209.50	1,36,452.30	89,280.90	39,716.40	5,935.00	1,520.00	51.6	705.6
2019-20	1,91,330.00	1,86,269.10	87,425.10	96,754.00	690	1,400.00	130.7	4,930.20
2020-21	1,21,203.40	1,06,258.40	35,567.50	76,380.80	100		192.6	15,152.40
2021-22	2,31,734.50	2,16,914.10	95,649.20	1,20,415.00	850		332.6	14,487.80
2022-23	3,67,569.90	3,51,638.10	1,82,622.50	1,67,545.50	1,470.00		823.2	15,108.60
2023-24	2,81,521.20	2,63,082.80	1,01,265.50	1,95,267.30			1,009.10	17,429.30

Outstanding Bank Loans of Micro Finance Institutions (MFIs) by Bank Groups (Rs million)

Year	Total banks	Total	Public sector banks	Private sector banks	Small finance banks	Foreign banks	Regional rural banks	Co-operative banks
2017-18	2,61,721.90	2,60,395.20	93,671.70	1,62,808.50		3,915.00	641.6	685.1
2018-19	1,60,448.10	1,58,964.70	58,283.80	91,583.50	6,327.50	2,770.00	145	1,338.40
2019-20	2,72,558.30	2,67,118.70	95,567.30	1,66,072.70	928.7	4,550.00	280.3	5,159.30
2020-21	2,10,627.40	1,92,237.30	81,071.10	1,26,098.80	155.3		376.5	18,316.10
2021-22	3,48,653.70	3,29,607.10	1,42,507.40	1,86,237.70	862.1		803.2	18,243.40
2022-23	4,41,197.90	4,24,105.20	1,69,927.40	2,52,282.80	1,895.00		1,137.40	15,955.30
2023-24	5,58,255.30	5,33,019.70	2,39,108.10	3,31,583.20			1,328.10	23,907.40

Source: B2K Analytics

Outstanding Bank Loans and Average Outstanding Bank Loans of Self Help Groups by Bank Groups (Rs Million)

Total banks	Total	Public sector banks	Private sector banks	Regional rural banks	Co-operative banks	Total banks
2017-18	7,55,984.50	4,87,480.50	4,46,222.20	41,258.40	2,27,386.40	41,117.60
2018-19	8,70,981.50	5,56,411.10	5,18,028.30	38,382.80	2,61,959.90	52,610.60
2019-20	10,80,750.70	7,12,158.20	6,39,700.00	72,458.20	3,03,210.10	65,382.40
2020-21	10,32,583.20	5,97,857.00	5,14,866.40	82,676.60	3,59,232.20	75,807.90
2021-22	15,10,513.00	10,26,575.70	9,23,303.60	1,03,272.10	3,94,886.60	89,050.70
2022-23	18,80,788.00	12,92,440.90	11,49,108.00	1,43,332.90	4,82,159.40	1,06,187.70
2023-24	25,96,637.30	18,28,730.90	16,36,280.50	1,92,450.40	6,37,274.40	1,30,631.90

Average Outstanding Bank Loans (Rs Million)

	Total banks	Total	Public sector banks	Private sector banks	Regional rural banks	Co-operative banks
2017-18	1,50,583.80	1,67,860.20	1,68,582.00	1,60,431.00	1,37,126.70	89,766.40
2018-19	1,71,543.20	1,91,785.90	1,93,949.90	1,66,686.10	1,54,499.90	1,09,471.00
2019-20	1,90,371.20	2,16,156.40	2,21,629.00	1,77,468.40	1,63,966.10	1,22,621.90
2020-21	1,78,640.10	1,85,767.80	1,85,212.10	1,89,396.40	1,76,723.70	1,43,247.80
2021-22	2,24,113.10	2,45,495.00	2,55,870.60	1,80,174.90	1,94,619.80	1,68,246.90
2022-23	2,70,342.70	3,07,567.80	3,20,673.40	2,31,663.70	2,19,851.00	1,89,013.70
2023-24	3,35,405.50	3,82,338.70	4,02,080.00	2,69,737.50	2,62,601.70	2,45,549.10

Source: B2K Analytics

Bank Loans Disbursed During the Year to Self Help Groups by Bank Groups (Rs Million)

Year	Total banks	Total	Public sector banks	Private sector banks	Regional rural banks	Co-operative banks
2017-18	4,71,858.80	2,87,076.20	2,50,583.40	36,492.90	1,51,193.40	33,582.20
2018-19	5,83,176.30	3,44,924.70	3,07,351.90	37,572.80	1,95,526.40	42,725.20
2019-20	7,76,593.50	4,84,310.90	4,25,897.10	58,413.70	2,42,316.20	49,966.40
2020-21	5,80,706.80	2,79,525.10	2,23,404.60	55,803.30	2,44,943.00	56,238.70
2021-22	9,97,292.30	6,12,257.70	5,33,813.60	78,444.10	3,25,912.40	59,122.10
2022-23	14,52,002.30	9,30,881.90	8,03,491.40	1,27,390.50	4,42,904.10	78,216.30
2023-24	20,92,858.70	14,26,251.80	12,39,239.10	1,87,012.70	5,68,328.80	98,278.10

Average Bank Loans Disbursed During the Year to Self Help Groups by Bank Groups (Rs Million)

Year	Total banks	Total	Public sector banks	Private sector banks	Regional rural banks	Co-operative banks
2017-18	2,08,682.50	2,25,531.80	2,21,033.20	2,62,170.90	1,93,202.80	1,63,271.50
2018-19	2,16,119.30	2,27,988.00	2,23,368.00	2,74,418.00	2,07,826.00	1,74,620.10
2019-20	2,46,850.90	2,69,646.00	2,73,117.20	2,46,777.60	2,21,538.60	1,95,093.60
2020-21	2,01,118.00	1,91,805.90	1,83,467.20	2,34,713.40	2,06,742.20	2,29,277.90
2021-22	2,93,470.80	2,94,460.30	3,00,732.60	2,57,861.60	2,94,895.90	2,76,484.60
2022-23	3,38,027.10	3,76,659.20	3,87,902.30	3,18,443.60	2,82,020.30	3,08,381.30
2023-24	3,81,758.60	4,26,016.20	4,23,152.90	4,46,014.80	2,97,152.20	4,43,323.30

Source: B2K Analytics

Outstanding Non Performing Assets of Self Help Groups by Bank Groups (Rs million)

Year	Total banks	Total	Public sector banks	Private sector banks	Regional rural banks	Co-operative banks
2017-18	46,280.60	31,012.00	29,694.90	1,317.10	12,160.30	3,108.20
2018-19	45,240.10	28,973.90	27,807.10	1,166.80	12,748.30	3,517.90
2019-20	53,217.00	36,046.70	34,172.10	1,874.50	13,252.70	3,917.70
2020-21	48,892.10	30,338.60	28,940.30	1,398.20	14,346.00	4,207.50
2021-22	57,437.10	33,185.60	30,602.50	2,583.10	12,417.20	11,834.30
2022-23	52,493.40	34,022.10	32,020.00	2,002.00	11,937.20	6,534.10
2023-24	53,175.40	36,706.80	34,659.90	2,046.90	10,335.10	6,133.50

Outstanding Savings of Self Help Groups by Bank Groups (Rs Million)

Year	Total banks	Total	Public sector banks	Private sector banks	Regional rural banks	Co-operative banks
2017-18	1,95,921.20	1,16,642.20	1,12,340.60	4,301.70	58,073.50	21,205.40
2018-19	2,33,244.80	1,32,402.30	1,25,243.20	7,159.00	76,920.10	23,922.40
2019-20	2,61,520.50	1,56,621.80	1,35,020.40	21,601.40	78,112.70	26,786.00
2020-21	3,74,776.10	2,25,963.30	1,83,918.90	31,185.60	95,116.80	53,696.00
2021-22	4,72,404.80	3,07,264.80	2,45,772.80	51,892.00	1,37,912.50	27,227.50
2022-23	5,88,926.80	3,46,899.80	3,26,921.00	19,978.70	1,82,027.70	59,999.30
2023-24	6,50,891.50	4,24,265.90	4,00,146.50	24,119.30	1,90,180.30	36,445.40

Source: B2K Analytics

India's Microfinance Sector Crisis: FY25

India's microfinance sector is experiencing a severe crisis in FY25, with gross non-performing assets (NPAs) reaching 16%, nearly doubling from 8.8% in the previous year. This sharp deterioration has led to significant stress across lenders, borrowers, and investors

A. Asset Quality and Non-Performing Assets (NPAs)

- Gross NPAs surged to around 16% at the end of FY25, doubling from 8.8% in FY24. In absolute terms, NPAs rose to ₹61,000 crore from ₹38,000 crore a year earlier
- The joint liability group (JLG) lending model, a cornerstone of microfinance, is under strain, with rising defaults and doubts about its effectiveness in ensuring collections
- Small Finance Banks (SFBs) reported the highest NPA ratios, with 22% of their microfinance portfolios turning bad, followed by universal banks (17.5%) and NBFC-MFIs (12.3%)

B. Loan Portfolio and Growth

- The cumulative gross loan portfolio of the sector contracted by about 7% to ₹3.8 lakh crore in FY25 as lenders reduced exposure in response to rising loan losses
- AUM growth for NBFC-MFIs is projected to compress sharply to 0%-5% in FY25, a steep decline from 29% in FY24
- Disbursements and portfolio growth had slowed significantly in early FY25, but Q4FY25 saw some signs of recovery, with a resurgence in loan growth reported by several MFIs and SFBs

C. Profitability and Margins

- Credit costs remain elevated at 5.4%-5.6%, putting further strain on profitability. Margin compression is evident, with operational challenges such as high employee attrition and increased regulatory compliance costs. Return ratios, including Return on Assets (ROA), are expected to decline significantly for many lenders. Pre-provision operating profit (PPoP) pressures are mounting due to elevated credit costs and rising stress levels

D. Regulatory Tightening: In response to rising defaults, the RBI and self-regulatory organizations introduced stricter lending norms in 2024, capping total borrower indebtedness at ₹2 lakh and reducing the number of microfinance lenders per borrower from four to three

These measures, while aimed at promoting responsible lending, have led to increased borrower rejection rates and a slowdown in disbursements

Lender Impact:

- **Small Finance Banks (SFBs):** ~22% of microfinance loans turned bad
- **Universal Banks:** ~17.5% NPA ratio on microfinance exposure
- **NBFC-MFIs:** Over 12% NPA ratio

Causes of the Crisis:

- **Weak Underwriting and Overleveraging:** Many borrowers have loans from multiple lenders, with 8–10% of assets linked to borrowers with four lenders and 9% to those with five or more
- **Collapse of the JLG Model:** The traditional joint liability group (JLG) model, which relied on peer pressure for repayments, is weakening, especially in urban areas where social ties are weaker
- **Post-Pandemic Rural Stress:** Declines in rural incomes have impaired repayment capacity
- **Regulatory and Political Interventions:** State-level regulations in Tamil Nadu and Karnataka, aimed at curbing coercive recovery, have disrupted collections and emboldened defaults
- **Borrower Indebtedness:** Rising debt burdens and overlapping loans with retail products have led to higher defaults

Microfinance Sector in India: Stress and Impact on FY25 Profits

- Significant stress in FY25, resulting in a decline in profitability for both microfinance institutions and banks with large portfolios

Key Factors Behind the Stress:

- **Deterioration in Asset Quality:** The sector experienced a significant increase in non-performing assets (NPAs) during FY25, indicating a rise in borrowers' defaults. Banks also experienced a doubled 90+ days past due delinquency rate in microfinance, reaching 6% as of March 31, 2025, from 2.4% a year ago
- **Rising Credit Costs:** MFIs and NBFCs faced increased credit costs due to higher provisions for bad loans, which directly impacted their profits
- **Borrower Overleveraging and Overlaps:** Borrower overleveraging and overlaps, due to multiple loans and increased competition, have resulted in higher indebtedness and strain on repayment capacity
- **Selective Lending and Tightened Disbursements:** Lenders, including banks, have become more cautious, reducing new loan disbursements and tightening underwriting norms to manage further stress

Impact on Profits:

- Several listed MFIs reported either losses or substantial declines in profits in Q4 FY25:
  - Muthoot Microfin posted a loss of ₹401 crore
  - Fusion Finance reported a loss of ₹164.5 crore
  - CreditAccess Grameen's net profit dropped by 88% to ₹47 crore (from ₹397 crore a year ago)
  - Satin Creditcare Network’s profit declined by 67% to ₹41 crore
- Private banks with significant microfinance exposure experienced significant profits drops, with some reporting an 80% drop in net profit in the March quarter due to tripled provisioning for bad loans
- Net Interest Margins (NIMs) for NBFCs offering micro loans are expected to decrease from 12.8% in FY25 to 12.6% in FY26, while credit costs are predicted to rise from 0.8% in FY24 to 1.1% in FY25

Market Growth and outlook:

- NBFC-MFIs' AUM growth is expected to slow to 4% in FY25, compared to 28% in FY24 and 37% in FY23. However, the sector is expected to recover, with growth returning to 10-15% in FY26 under a conservative scenario. Early signs of recovery include improved asset quality and loan growth in Q4 FY25. The sector is expected to undergo further consolidation, with weaker entities potentially merging or exiting the market
- The Indian microfinance sector, as of December 2024, is navigating a period of increased stress, marked by a decline in portfolio size, sharp rise in delinquencies—especially in the 31–180 day and 180+ day overdue categories—and a strategic shift by lenders toward higher-ticket, lower-risk loans. Over-leveraging among borrowers and external economic pressures continue to challenge asset quality, prompting lenders to adopt more prudent and selective lending practices.

India's Microfinance Portfolio Trend (2020–2025)

- The microfinance sector experienced a strong rebound after the pandemic, with the gross loan portfolio growing from ₹2.60 trillion in March 2021 to ₹3.92 trillion by December 2024
- The Indian microfinance sector has shown resilience and recovery from the COVID-19 pandemic to 2025, navigating through operational challenges and aligning with the evolving regulatory and credit environment. The sector experienced a pre-pandemic momentum in FY2020, with a 20%+ y-o-y growth in the gross loan portfolio (GLP) of around ₹2.3 lakh crore. The pandemic led to significant operational challenges, particularly during nationwide lockdowns, affecting field-level collections.
- In FY2021, growth moderated, with the GLP increasing marginally to ₹2.6 lakh crore. However, the sector experienced a liquidity crunch, partially mitigated by RBI's Targeted Long-Term Repo Operations (TLTRO) and SIDBI's refinancing support.
- FY2022 saw recovery and rebuilding, with collections improving steadily and the sector GLP growing to around ₹2.9 lakh crore. Improved credit discipline and customer engagement helped bring down delinquencies, with PAR >30 dropping to ~6%.
- FY2023 saw robust rebound, with the GLP reaching around ₹3.5 lakh crore, driven by normalization of economic activity, rise in rural consumption, and digital enablement of operations. NBFC-MFIs captured nearly 40% market share, while banks and Small Finance Banks contributed around 35% and 15%, respectively.
- FY2024 saw consolidation and digitization, with the GLP expanding to around ₹4.4 lakh crore with a y-o-y growth of ~27%. The focus is increasingly on responsible lending, financial literacy, and customer protection. With further penetration of credit bureaus, account aggregators, and Open Credit Enablement Network (OCEN), microcredit is becoming more data-driven

Key Trends

- India's micro finance institutions (MFIs) industry has seen a significant growth over the past 12 years, expanding from ₹17,264 crore in 2012 to ₹3.93 lakh crore by November 2024, a 21-fold expansion, highlighting its crucial role in financial inclusion and economic development, underpinned by regulatory reforms, digital adoption, and expanding financial inclusion
- Despite recent stress, improved risk management and regulatory support have helped maintain sector stability and profitability
- The market remains underpenetrated, with only about one-third of the potential market currently served, indicating significant future growth opportunities

Union Budget 2025–26: Implications for the Microfinance Sector

The Union Budget 2025–26 introduced several key measures aimed at strengthening the MSME ecosystem, which in turn is expected to positively impact the microfinance sector. The key initiatives include:

- **Enhanced Credit Guarantee Mechanisms:** The budget proposes an expansion of credit guarantee schemes to reduce lenders' credit risk and improve access to formal credit, especially for micro and small enterprises, potentially supporting MFIs by lowering lending risk and promoting greater outreach
    - The credit guarantee limit for micro and small enterprises has been doubled from ₹5 crore to ₹10 crore per loan, enabling an estimated ₹1.5 lakh crore in additional credit over the next five years. Startups also have doubled their guarantee cover, allowing exporter MSMEs to access term loan cover up to ₹20 crore
- **Support for First-Time Entrepreneurs:** Dedicated schemes have been introduced to support first-time entrepreneurs, focusing on inclusive financing, which is expected to boost demand for microfinance services, particularly among underserved and new-to-credit segments
- **Expansion of the Credit Ecosystem:** The budget aims to expand the credit ecosystem by introducing digital public infrastructure, simplified documentation, and alternative credit scoring models, which will benefit MFIs by enabling faster onboarding and risk assessment of clients in rural and semi-urban areas
- **Revised MSME Classification Criteria:** The investment and turnover thresholds for MSME classification have been significantly increased, allowing more enterprises to qualify for benefits and access larger resources. For instance, micro enterprises now have limits of ₹2.5 crore investment and ₹10 crore turnover
    - The revised MSME classification criteria aim to improve eligibility for government benefits and formal credit for micro and small units, potentially expanding the market for Micro, Small, and Medium Enterprises (MFIs)
- **Targeted Support for Labor-Intensive Sectors:** The budget allocated specific support to labor-intensive sectors like textiles, handicrafts, food processing, and rural industries, aiming to boost credit demand and repayment capacity in MFIs due to improved income generation

Expected Impact

These measures are expected to:

- **Broaden the addressable market** for MFIs by bringing more micro and small enterprises into the formal fold
- Improve credit access for micro-enterprises and self-employed individuals
- Strengthen the operational base of MFIs through better credit quality.
- Foster innovation and entrepreneurship at the grassroots level
- Contribute to inclusive economic growth by enhancing financial empowerment in rural and semi-urban areas

Financial Performance *(1/2)*

- The Indian microfinance sector in FY25 is navigating a challenging environment marked by asset quality stress, shrinking profitability, and operational headwinds
- **Revenue & Interest Income:** Revenue growth has slowed after two years of improvement post-RBI deregulation, and NIMs are expected to decrease in FY25 due to emerging asset quality issues and declining yields, despite strong demand
- **Operating Expenses:** MFIs are experiencing moderately increased operating costs due to increased collection efforts and increased overheads, despite slower balance sheet growth
- **Credit Costs:** Credit costs have increased significantly, with projections for FY25 ranging from 6% to 9.6% due to higher provisions for bad loans and delinquencies
- **Net Profit/Loss:** NBFC-MFIs experienced increased net losses in Q3 and Q4 FY25 due to high credit costs and slow disbursement growth, with a projected decline in Return on Total Assets
- **Assets Under Management:** AUM growth has significantly declined, with FY25 expected to see only 0-5% growth compared to 29% in FY24, primarily due to asset quality concerns and borrower over-leveraging
- **Loan Portfolio Quality:** The loan portfolio quality has deteriorated due to an increase in the overall overdue book and a rise in non-performing assets
- **Capital & Leverage:** Despite losses causing capital impairment, leverage remains manageable due to reduced disbursement volumes and sufficient liquidity buffers
- **Liquidity:** Most NBFC-MFIs have sufficient liquidity to cover 2-3 months of scheduled debt repayments, but ongoing losses may impact capital adequacy
- **Rising Delinquencies Impact Microfinance Institutions in India:** Rising delinquencies in India are causing significant financial losses for microfinance institutions (MFIs). This is due to increased credit costs, reduced net interest income, shrinking lending capacity, increased operational strain and costs, and investor and funding risks. Credit costs for NBFC-MFIs are expected to rise to 320-340 basis points for FY25, reflecting the heavier provisioning burden. Unpaid loans also limit MFIs' ability to extend new loans, limiting growth and profitability. Increased delinquencies also necessitate intensified collection efforts and monitoring, raising operational expenses and weighing on profits. Persistent high delinquencies can undermine lender and investor confidence, potentially restricting access to fresh capital and bank funding, especially for smaller MFIs

Ratio	FY2025 (Estimated Range)	Remarks
Net Interest Margin (NIM)	9.5% – 10.5%	High due to short-tenure, high-yield products
Cost to Income Ratio	58% – 62%	Rising operational costs and tighter regulations may keep this ratio elevated
Credit Cost / Loan Book	1.2% – 1.6%	Credit costs are projected to rise sharply in FY25 due to higher delinquencies, borrower over-leveraging, and proactive provisioning.
RoA (Return on Assets)	2.5% – 3.0%	RoA is expected to decline but remain healthy:
RoE (Return on Equity)	14% – 18%	Moderate decline in RoE likely due to profitability pressure
Gross NPA Ratio	1.8% – 2.4%	Rising delinquencies expected to keep GNPA elevated
Net NPA Ratio	0.6% – 1.2%	Rising gross NPAs and credit costs suggest upward pressure on net NPAs as well
Capital Adequacy Ratio (CRAR)	>14%	The sector remains well-capitalized
Debt-to-Equity Ratio	3.5x – 4.0x	Cautious lending and higher provisioning may limit further leveraging
Liquidity Coverage Ratio (LCR)	>100% (for regulated entities)	Comfortable liquidity position RBI mandates LCR for larger NBFCs to ensure short-term liquidity resilience, ensuring adequate buffers for NBFCs and SFBs

Financial Performance *(2/2)*

Rising delinquencies and tightened lending practices:	The microfinance sector in India faced significant challenges in the first three quarters of FY25 (April–December 2024), including rising delinquencies, tightened lending practices, and declining loan disbursements. Asset quality deteriorated, with a 24% year-on-year decline in AUM growth. Regulatory concerns were raised by the RBI, which observed that some non-banking financial companies, including microfinance institutions (MFIs), were adopting a "growth-at-any-cost" approach, leading to supervisory actions
Q2 FY25 Delinquency Rates	In Q2 FY25, delinquency rates rose to 4.3%, particularly in states like Bihar, Tamil Nadu, Uttar Pradesh, and Odisha. The microfinance portfolio shrunk by 4.3% compared to June, and loan disbursement declined by 29%. Small finance banks experienced the steepest decline
Microfinance Loan Portfolio	In Q3 FY25, the gross loan portfolio shrunk by 3.5% to ₹3.85 trillion, and the share of loans overdue for 30-180 days increased to 6.4%. Collection efficiency for microfinance loans dropped to 90%, and profitability was squeezed due to rising credit costs and tighter lending practices. The overall credit cost was projected to rise to 5.4-5.6% for FY25
Surge in non-performing assets (NPAs)	A surge in non-performing assets (NPAs), weakening of the joint-liability lending model, and shrinking net interest margins are putting stress on India's microfinance sector. Small finance banks have been hit hardest, with 22% of their microfinance loans turning bad. Major microfinance lenders and banks have seen significant declines in share prices, with some firms losing up to 68% of their market value
Downturn Impact on Rural Borrowers	The current downturn is seen as more structural than cyclical, with economic slowdown, natural disasters, and election disruptions impacting rural borrowers. Borrower over-leveraging and weak underwriting have led to unsustainable debt burdens, with lenders often prioritizing loan volume over careful assessment of individual repayment capacity. The Joint Liability Group (JLG) model, which relies on social pressure and collective responsibility, is under strain due to changing borrower profiles, weakened group cohesion, and higher individual defaults. Larger loan sizes and weaker community ties, especially in urban areas, have eroded the model's foundational strengths
Regulatory Pressures and Loan Waiver Campaigns:	Regulatory and political pressures, such as stricter lending norms and penalties for coercive recovery practices, have further complicated collections and investor sentiment. Loan waiver campaigns have weakened repayment discipline, as some borrowers expect government debt forgiveness. The financial impact is expected to shrink net interest margins for MFIs in FY25, with credit costs projected to rise to 6%. Sector growth is expected to slow to 4% in FY25

Other Fund Based Financial Services Industry– Key Financial Indicators & Ratios (Industry)

S. No.	Ratios	Unit	2019 - 20	2020 - 21	2021 - 22	2022 - 23	2023 - 24
1	Capital Employed	Rs million	21,810,771	22,282,521	23,493,058	29,809,683	33,338,285
2	Total Term Liabilities	Rs million	13,529,672	13,567,605	14,227,679	17,704,237	19,454,114
3	Total Outside Liabilities	Rs million	20,211,287	20,790,617	21,546,261	24,735,312	27,087,194
4	Gross fixed assets	Rs million	1,204,031	1,368,674	1,577,594	1,761,418	1,375,239
5	Operating expenses as % of fin services income	%	85.59	80.30	72.45	68.16	62.61
6	PAT as % of net worth	%	-2.11	-0.30	7.12	10.67	12.73
7	PAT as a % of total income	%	-4.27	-0.68	15.99	23.46	27.39
8	PAT as % of tot assets excl reval	%	-0.50	-0.07	1.82	3.07	3.76
9	PAT as % of income from fin serv	%	-5.11	-0.82	19.00	28.91	32.44
10	PAT as a % of capital employed	%	-0.62	-0.09	2.25	3.62	4.45

Source: B2K Analytics

Key Challenges

Over-Indebtedness & Loan Defaults	Multiple loans from multiple MFIs lead to excessive debt and higher default rates, exacerbated by weak identification systems and lack of robust credit checks
Credit Risk and Delinquencies	The issue of credit risk and delinquencies arises from borrowers' unstable income sources and credit history, and can increase due to rising non-performing assets and loan losses
High Interest Rates & Operational Costs	MFIs charge higher interest rates than mainstream banks due to high operational costs and lack of subsidized funds, making repayment difficult for poor borrowers
Limited Access to Capital	Smaller MFIs face challenges in securing affordable funding, particularly non-bank MFIs that cannot accept public deposits, limiting their growth and capacity to serve rural markets
Regulatory Challenges & Policy Uncertainty	Regulatory challenges and policy uncertainty in MFIs are exacerbated by frequent changes, unclear guidelines, and inconsistent oversight, leading to operational inefficiencies
Weak Governance and Limited Transparency	MFIs often face challenges in governance, transparency, and balancing social and business objectives, which can hinder access to capital and trust
Competition from Digital Lenders	Digital lending platforms are escalating competition, forcing traditional MFIs to innovate and adapt
Limited Product Diversification	MFIs primarily provide credit, but their limited product diversification limits their impact on overall financial inclusion
Financial Illiteracy	Many clients struggle with financial literacy, which hinders their ability to comprehend loan terms, manage debt, and fully utilize microfinance services
Regional Disparities	The spread and performance of loans vary significantly across states, with some regions experiencing higher overdue loans and others remaining underserved

Operational and Financial Challenges

Asset Quality and Defaults	Microfinance loans' delinquencies have remained high, with 90+ days past due defaults rising from 1.8% in Q1 FY25 to 3.5% in Q3 FY25. Regulatory actions, like the Karnataka government's crackdown on unsecured lending, have impacted collection efficiencies, with recovery expected in Q2 FY26
Profitability Pressures	MFIs' net interest margins are expected to decrease in FY25 due to asset quality concerns and declining yields, signaling a transition to a more challenging phase requiring careful financial management
Operational Costs and Outreach	Expanding into remote and underserved areas incurs significant costs, limiting the ability of MFIs to scale and maintain profitability
Consumer Protection	As the sector grows, concerns about predatory lending, aggressive recovery practices, and the risk of debt traps have intensified, underscoring the need for stronger regulatory oversight and consumer safeguards

Opportunities

Market Potential and Credit Gap

- India's microfinance sector exhibited a potential demand of approximately ₹13 lakh crore for FY 23-24, but a 70% credit gap exists, indicating a significant unmet need for microcredit among low-income households and MSMEs
- Despite growth, only 40% of MSME credit demand was met by formal channels, leaving a credit gap of ₹30 lakh crore. The sector's total loan portfolio exceeds ₹5 lakh crore, but rural areas still rely on informal credit sources

Expansion into Underserved Areas

- The share of rural borrowers in microfinance has reached a 10-year high, with 83% of clients from rural areas. MFIs operate in 28 states, five Union Territories, and over 646 districts in India, reaching over 532 lakh clients with a total loan outstanding of ₹1.8 lakh crore under micro-credit
- However, 82-84% of the microfinance portfolio is concentrated in just 10 states, with 56% in Bihar, Tamil Nadu, Uttar Pradesh, West Bengal, and Karnataka. To address this imbalance, studies are being commissioned to identify challenges preventing deeper penetration into several districts and spread financial inclusion more evenly across the country

Digital Transformation and Innovation

- Microfinance institutions (MFIs) in India are leveraging digital platforms for loan disbursement, repayment collections, and customer relationship management. Mobile banking apps, online portals, and biometric authentication systems have improved operational efficiency and service delivery in remote areas. Key technological advancements include AI-driven data analysis and personalization, UPI and digital payment integration, blockchain technology, and cybersecurity measures
- AI algorithms provide valuable insights, enhance customer experiences, and streamline internal processes. Blockchain technology offers secure, transparent, and efficient transactions, while investments in advanced cybersecurity measures, such as biometric authentication and AI-driven threat detection systems, safeguard customer data and protect against fraudulent activities. These innovations are essential for scaling operations and reaching underserved populations effectively

Outlook

- India's microfinance sector is facing its worst crisis in years, fueled by high NPAs, overleveraged borrowers, and a breakdown in traditional lending models. The outlook is cautious, with further stress expected unless structural reforms and improved risk management are implemented. Despite regulatory tightening and operational challenges, recovery and consolidation suggest a gradual stabilization, with the sector's resilience and adaptability determining its trajectory
- The outlook remains challenging, with asset quality stress likely to persist for another two to three quarters. Some green shoots of recovery are expected by the end of FY26, as indicated by recent improvements in asset quality and loan growth in Q4FY25. The sector is expected to undergo further consolidation, with weaker players either exiting or merging with stronger entities
- **Profitability Under Pressure:** Rising credit costs and shrinking net interest margins threaten sector profitability
- **Growth Slowdown:** Sector growth is expected to fall to 4% in FY25, with continued caution from lenders. Continued regulatory oversight, risk management enhancements, and digital transformation will be crucial for the sector’s long-term stability and growth
- **Structural Challenges:** The breakdown of group-based lending models and persistent overleveraging suggest the crisis is more structural than cyclical, requiring a fundamental rethink of business models and risk management
- India's microfinance sector is facing significant challenges, including a rise in delinquencies and a projected gross Non-Performing Assets ratio of 16% in FY25. Key factors include rising delinquencies and overleveraging, regulatory tightening, and operational challenges
- Microfinance institutions are focusing on enhancing risk management, diversifying loan portfolios, and investing in operational efficiency to overcome the ongoing repayment challenges. While early-stage delinquencies have improved, long-term defaults suggest ongoing repayment challenges. A gradual recovery is expected, contingent on effective regulatory measures and improved underwriting practices. The sector's recovery will depend on sustained efforts to address structural issues, regulatory compliance, and the resilience of rural economies
- The Reserve Bank of India reported a doubled stress in the sector between April and September 2024, with the share of stressed assets increasing from 2.15% to 4.30%. Regulatory tightening has led to increased borrower rejection rates and a slowdown in disbursements
- Credit costs for microfinance institutions are projected to rise, and return on total assets is expected to decline to approximately 0.4% in FY25. Operational challenges include disruptions from local elections, high attrition rates among field staff, and difficulties in real-time borrower tracking
- Further, challenges like fundraising difficulties, portfolio quality concerns, and regional lending disparities persist. Strategic initiatives and technological advancements are needed to unlock the sector's full potential and ensure sustainable development. Post-pandemic, the sector shows signs of recovery, with improved asset quality and renewed loan growth. Continued regulatory support, digital transformation, and expansion into underserved regions are crucial for sustained growth and financial inclusion
- The RBI and government initiatives are crucial for sector stability and growth. Regulatory reforms have improved transparency and borrower protection, boosting investor confidence. Schemes like PMMY facilitate capital access for micro-entrepreneurs. However, credit alone is insufficient for poverty alleviation, and MFIs must provide skill development, business consulting, and marketing assistance

** Views are personal*

Authors

Manasvi Joshi - Research Analyst
Abhishek Das, Senior Research Analyst
Girish Basantani, Senior Research Analyst
Vikrant Chaturvedi, Senior Manager – Research

ABOUT BRICKWORK RATINGS

Brickwork Ratings (BWR) is India's home-grown credit rating agency built with the superior analytical prowess of the industry's most experienced credit analysts, bankers and regulators. Established in 2007, BWR aims to provide reliable credit ratings by creating new standards for assessing risk and by offering accurate and transparent ratings. BWR provides investors and lenders timely and in-depth research across the structured finance, public finance, financial institutions, project finance and corporate sectors. Our experienced analysts have published over 13,370 ratings across asset classes. BWR is committed to providing the investment community with products and services needed to make informed investment decisions. BWR is a registered credit rating agency by Securities and Exchange Board of India (SEBI) and a recognised External Credit Assessment Agency (ECAI) by the Reserve Bank of India (RBI) to carry out credit ratings in India. BWR is promoted by Canara Bank, India's leading public sector bank.

More information on Canara Bank is available for reference at www.canarabank.com BWR Rating Criteria are available at https://www.brickworkratings.com/ratingscriteria.aspx Brickwork Ratings, a SEBI-registered credit rating agency, has also been accredited by the RBI, and it offers rating services for bank loan, NCD, commercial paper, bonds, securitised paper etc. BWR has Canara Bank, a nationalised bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence, with offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi, along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitised paper of over 19,09,101 Cr. Additionally, fixed deposits and commercial papers, among others, worth over 84,580 Cr have been rated.

DISCLAIMER