Microfinance institutions’ AUM to grow 40-45% in FY20, says Brickwork Ratings

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Chennai, November 1

Microfinance institutions (MFIs), which provide financial services to the low-income population, are expected to record healthy growth for the second year in a row in FY20 despite the challenging conditions in the NBFC sector.

The growth momentum in the MFI segment will continue going forward, with assets under management (AUM) expected to grow in the range of 40-45 per cent in the current fiscal, according to Brickwork Ratings. Availability of credit, expectations of reduced interest rates, and a disciplined collection and recovery model are expected to drive growth this fiscal. Also, the RBI’s recent proposal to increase the household income limit for eligible borrowers, and the higher permissible indebtedness of borrowers, augurs well for the growth momentum.

Growth drivers

The AUM of the microfinance industry grew by 47 per cent y-o-y in FY19 on the back of an increase in the client base (up 34 per cent to 3.17 crore), coupled with disbursement of higher ticket size loans (up 13 per cent). On the other hand, other NBFCs have struggled with liquidity since September 2018.

MFIs have been able to increase their client base by expanding to other districts in States where they already have a presence and by expanding their reach in under-penetrated States such as Rajasthan, Assam, Jharkhand and Gujarat.

Eastern India has been growing at a rapid pace, with the AUM in Bihar (77 per cent), Odisha (40 per cent), West Bengal (83 per cent), Jharkhand (53 per cent) and Assam (167 per cent) growing much faster than the overall growth rate (47 per cent).

These five States accounted for almost 40 per cent of the total AUM, the report said.

An increase in the ticket size of loans has also been driving growth. The average loan amount disbursed per account went up to ₹25,543 in FY19, compared to ₹15,419 in FY16. This signifies that demand for credit in rural areas has been increasing as they account for nearly 75 per cent of the total AUM.

Mature markets such as Bihar, Odisha and West Bengal, which have historically seen growth in client additions, will now see higher ticket size loans. Therefore, future growth is expected to be driven by client additions in new under-penetrated geographies, and high ticket size loans in States with a big presence. In FY19, MFIs raised a significant proportion of their liabilities from securitisation to keep their liquidity position in check.

Demonetisation had slowed down the AUM growth to 20 per cent in FY17 from 35 per cent in FY16. However, growth rebounded in FY18. The growth momentum has continued in FY19, and is expected to sustain in FY20 as well.

The loans disbursed by an MFI should be to borrowers whose rural household annual income does not exceed ₹1 lakh (proposed to be increased to ₹1.25 lakh), or to borrowers whose urban and semi-urban household income does not exceed ₹1.6 lakh (proposed to be increased to ₹2 lakh).