

MICROFINANCE MAY NEED UPTO RS 9,000 CRORE OVER 3 YEARS TO MEET GROWTH

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The country's [microfinance](#) sector which rose by 25 per cent in the first quarter, may need Rs 6,000-9,000 crore over the next three years to meet its [growth](#) plans, says a report.

According to a report by rating agency [Icra](#), the growth prospects for the sector remain good and the industry is expected to grow at 20-22 per cent in the current financial year.

It said while [investors](#) continued to support the industry with equity infusion of Rs 4,061 crore in FY18 (approximately Rs 6,570 crore in FY17), 87 per cent of the capital was infused in the top 10 lenders in terms of portfolio size.

"The sector would need external capital of Rs 6,000-9,000 crore till FY21 to meet the growth plans," the report said.

While raising capital is unlikely to be a major impediment for well-managed large MFIs/SFBs, the smaller entities may continue to struggle to raise equity.

"This could result in an increase in the share of smaller MFIs originating more portfolio through the BC model, as partners to larger lenders, to conserve capital," the report said.

Alternatively, there could be further consolidation in the industry with the smaller MFIs being acquired by larger NBFCs/banks.

During the first quarter of the current financial year, the microfinance sector grew 25 per cent on annualised basis to Rs 2.25 lakh crore, supported by good collection efficiency, continued investor support to the sector, funding availability and demand for microcredit, the report said.

MFIs also witnessed improvement in their asset quality during the first quarter.

The overall 0+ days past due (dpd) for the sector reduced to 8 per cent in June 2018 from a peak of 23.6 per cent in February 2017, the report said.

Harder bucket delinquencies reduced as well with the 90+ dpd declining to 7.3 per cent in June 2018 from 12.2 per cent in June 2017, supported by increased portfolio growth, write-offs and arrear funding by some lenders, the rating agency said.

The report, however, said excluding one large player whose delinquencies were significantly higher than that of the industry, the 90+ delinquencies for the rest were significantly lower at 2.9 per cent as of June 2018, as against a peak of 8.1 per cent as of June 2017.

Uttar Pradesh, [Maharashtra](#), Gujarat and Uttarakhand, which had high delinquencies as of June 2017, showed a reduction in delinquency levels across all buckets during the quarter, it highlighted.

The report said there has been an increase in microfinanciers ticket sizes and loan tenures.

"While the opportunity to scale up and grow remains intact, there is need for a more involved credit analysis and assessment of the actual debt repayment capacity of the borrower," it said.

The risk management policies of lenders in the sector need to be aligned with responsible and sustainable growth, where the overall indebtedness of the borrower from all formal sources is

considered for leverage calculations rather than for compliance with regulatory norms, the agency said.

The asset quality indicators should be supported over the medium-term, by structural factors such as group selection/ elimination and the fact that MFIs represent the least cost of funding for borrowers. The segment remains vulnerable to income shocks and is politically sensitive.

"Therefore, we expect credit costs for the sector to remain volatile with mean credit costs at 1.5-2.5 per cent, which could vary among players across cycles, depending on their risk management practices," the report said.

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