20/09/2023

The Board of Directors
Asirvad Micro Finance Limited
9th Floor, No.9,
Club House Road, Anna Salai,
Chennai - 600 002
Tamil Nadu, India

Dear Sir,

Re.: **Proposed initial public offering of equity shares bearing face value [₹ 10] each (the "Equity Shares") of Asirvad Micro Finance Limited (the "Company" and such offering, the "Issue")**

We refer to your e-mail dated 26/07/2023 regarding the content provided to you for your internal use by CRISIL Market Intelligence & Analytics (CRISIL MI&A) as part of your subscription to its industry research on the following industry:

- *CRISIL Market Intelligence & Analytics (CRISIL MI&A) – Indian Microfinance Industry* in *September 2023* (the "**Report**")

As requested by you, we accord our no objection and give consent to you for inclusion of our name and details as an independent research provider and to quoting data/ reproducing content, extracting or utilizing the Report, whether in whole or part from our Report (hereinafter referred to as "**Material**") available to you as part of the above subscription or including the references to such Material, either in whole or part, and the information contained in this letter, in the draft red herring prospectus ("**DRHP**") to be filed with Securities and Exchange Board of India ("**SEBI**"), BSE Limited ("**BSE**") and National Stock Exchange of India ("**NSE**" and together with BSE the "**Stock Exchanges**"), the red herring prospectus ("**RHP**") and the prospectus ("**Prospectus**") to be filed with the Registrar of Companies, Tamil Nadu at Chennai ("**RoC**"), and thereafter with SEBI and the Stock Exchanges or any other document to be issued or filed in relation to the Issue in India, including any publicity or other materials, marketing material, statutory advertisements, corporate or investor presentations, press/ media releases, research reports prepared by the Company or the book running lead managers in connection with the Issue, any international supplement of the foregoing for distribution to investors outside India to be issued or filed in relation to the Issue, (collectively, the "**Issue Documents**").

In this regard, we undertake that no consent, approval, or permission will be required by the Company in the future in connection with using our name and/ or contents of the Material, in full or in part in relation to the Issue, subject to the following:

- Your reproducing the Material on an `as is where is basis' clearly mentioning the document source & date of release. E.g. - *CRISIL Market Intelligence & Analytics (CRISIL MI&A) – Indian Microfinance Industry*.
- Your ensuring that there is no misrepresentation/modification to our views/opinions and that the Material is not mentioned out of context or misguidingly.
- Your ensuring that the Material consisting of charts/graphs also contains the relevant texts explaining the charts / graphs.
- Your ensuring that the Disclaimer of CRISIL (given below) is also reproduced along with the Material, at the relevant place in the Issue Documents.

You agree and undertake not to misrepresent, make any changes to, obliterate or tamper with the Report or present any part thereof out of context or in violation of applicable laws and regulations, if any. Further, you acknowledge and agree that we do not accept responsibility for the Issue Documents or any part thereof except in respect of and to the extent of the Material reproduced or included in the Issue Documents subject to the below stated disclaimer. We confirm that information contained in the Materials have been obtained or derived from publicly available sources and interaction with industry participants, which we consider as reliable and after exercise of reasonable care and diligence by us.

We confirm that we have, where required, obtained requisite consent or duly acknowledged the source(s), that may be required from any governmental authority or any other person in relation to any information used by us in the Material.

We also consent to the technical proposal covering scope dated 6th July 2023 entered into between us and the Company, this letter, the Material and the Report (a) being designated as a material document in connection with the Issue and the Material being disclosed in the "**Material Contracts and Documents for Inspection**" section of the Issue Documents; and (b) being kept open for inspection by members of the public as a material document in connection with the Issue from the date of the RHP till the date of closing of the Issue. We further give our consent to upload the Material on the Company's website and being made available to the public on such website until listing of equity shares of the Company pursuant to the Issue and such web link to the Material being disclosed in the Issue Documents.

We confirm that we are an independent agency and are not, in any manner, related to the Company, its promoters its directors, its key managerial personnel, its senior management or the book running lead managers appointed in relation to the Issue ("**Book Running Lead Managers**"). Neither the Company, nor its promoters, its directors, its key managerial personnel, its senior management or the Book Running Lead Managers, as stated in **Annexure A**, are related parties to us as per the definition of 'related party' under the Companies Act, 2013, and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, each as amended, as on the date of this letter.

We confirm that we are not and have not been engaged or interested in the formation or promotion or management of the Company.

We also agree that such disclosures would be made in the Issue Documents only as deemed fit by the Company and the Book Running Lead Managers.

<u>Given below is the disclaimer to be used in the Issue Documents.</u>

"CRISIL Market Intelligence & Analytics (CRISIL MI&A), a division of CRISIL Limited (CRISIL) has taken due care and caution in preparing this report (Report) based on the Information obtained by CRISIL from sources which it considers reliable (Data). This Report is not a recommendation to invest / disinvest in any entity covered in the Report and no part of this Report should be construed as an expert advice or investment advice or any form of investment banking within the meaning of any law or regulation. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary permission and/or registration to carry out its business activities in this regard. Asirvad Micro Finance Limited will be responsible for ensuring compliances and consequences of non-compliances for use of the Report or part thereof outside India. CRISIL MI&A operates independently of, and does not have access to information obtained by CRISIL Ratings Limited, which may, in their regular operations, obtain information of a confidential nature. The views expressed in this Report are that of CRISIL MI&A and not of CRISIL Ratings Limited. No part of this Report may be published/reproduced in any form without CRISIL's prior written approval."

We represent that our execution, delivery and performance of this consent have been duly authorized by all necessary action (corporate or otherwise).

We understand that this letter does not impose any obligation on the Company or the Book Running Lead Managers to include in the Issue Documents all or any part of the information with respect to which consent for disclosure is being granted pursuant to this letter provided the terms of this letter are complied with.

This letter may be shared by the Company, with the Book Running Lead Manager(s) (including their affiliates) and advisers concerned and appointed in in relation to the Issue. We have no objection with you sharing the Material with any regulatory or judicial authority as required by law or regulation in relation to the Issue or pursuant to a request/ order passed by any authority. We also authorize you to deliver this letter of consent and the Material to SEBI, the Stock Exchanges and the RoC pursuant to the Companies Act, 2013, and the rules thereunder, each as amended, or to any governmental, regulatory or any other authority, as may be required as per applicable law, in relation to the Issue.

We agree to keep strictly confidential, the non- public information relating to the Issue until such time that: (A) such disclosure by us is approved by the Company; or (B) such disclosure is required by law or regulation, in which case prior intimation shall be given to the Company and the Book Running Lead Managers (including their affiliates), where practical and legally permissible, or (C) such information is already in public domain or comes into public domain through no fault of ours.

All capitalized terms used herein and not specifically defined shall have the same meaning as ascribed to them in the Issue Documents, as the case may be.

For CRISIL Limited

CRISIL Limited
Mumbai

Suresh Krishnamurthy

Senior Director

Annexure A

List of promoter(s) of the Company

Manappuram Finance Limited

List of directors of the Company:

1. V P Nandakumar
2. B N Raveendra Babu
3. Raja Vaidyanathan Venkataraman Sattanathapuram
4. Gautam Rathindranath Saigal
5. Ramanathan Annamalai
6. Desh Raj Dogra
7. Thotanchath Balakrishnan
8. Pushya Sitaraman
9. Subrata Kumar Atindra Mitra
10. Abhijit Sen
11. Harshan Kollara Sankarakutty
12. Anita Belani
13. Sumitha Jayasankar

List of key managerial personnel of the Company:

1. B N Raveendra Babu
2. Rajesh K R N Namboodiripad
3. Aparna Menon

List of senior management of the Company:

1. Rajesh K R N Namboodiripad
2. Aparna Menon
3. Chintha Prasad
4. Chalasani Sathish Kumar
5. Muthu Bhaskar
6. Shyju K
7. Sugesh Ram K S
8. Joshy K G
9. Adinadh K R
10. Jiji Josesph

List of Book Running Lead Managers:

JM Financial Limited

Kotak Mahindra Capital Company Limited; and

Nomura Financial Advisory and Securities (India) Private Limited

SBI Capital Markets Limited

CRISIL Market Intelligence & Analytics (CRISIL MI&A) – Indian Microfinance Industry

September 2023

Overview of Indian economy

India among fastest-growing economies despite elevated geopolitical tensions and geoeconomic fragmentation

The Indian economy was among the fastest-growing in the world prior to onset of the Covid-19 pandemic. In the years leading up to the global health crisis, the country's economic indicators posted gradual improvements. The twin deficits, namely current account and fiscal deficits, narrowed, while the growth-inflation mix showed a positive and sustainable trend.

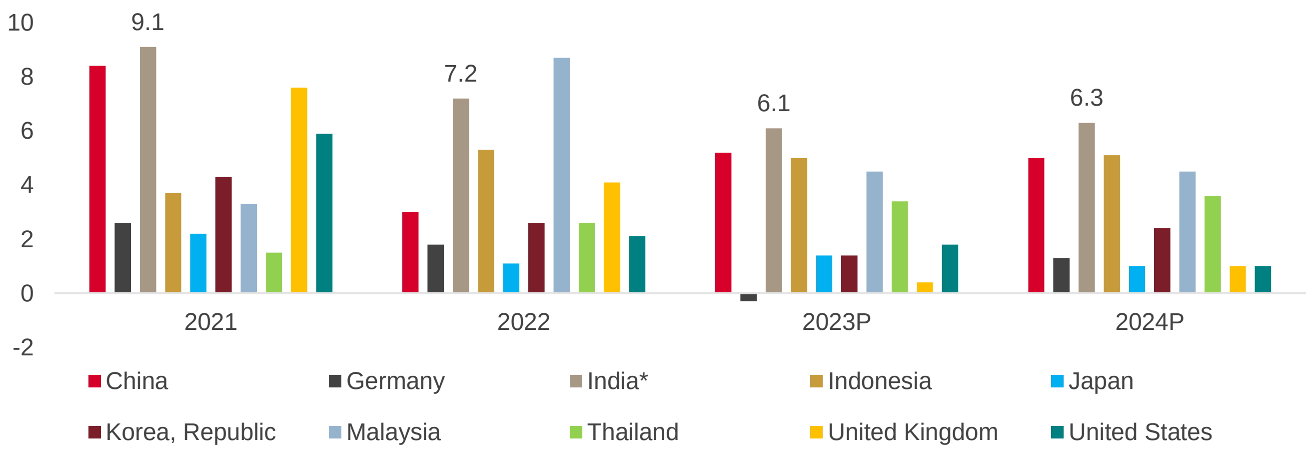
Despite the ongoing Russia-Ukraine war, India continues to maintain its position as one of the fastest-growing economies globally. This can be attributed to various factors such as demographic advantage, robust domestic demand, economic reforms, manufacturing and infrastructure development, technological advancements, and digital push.

In fact, the International Monetary Fund (IMF), in its July 2023 economic outlook update, revised its India economic growth forecast in real terms for the current fiscal to 6.1% from previous 5.9% estimate in April 2023, citing momentum from stronger-than-expected growth in the fourth quarter of fiscal 2023 as a result of stronger domestic investment.

In contrast, global economic growth is projected to decelerate from an estimated 3.5% in 2022 to 3.0% in 2023, with the growth rate sustaining in 2024, according to the IMF. While the forecast for 2023 is slightly higher by 0.2% than the earlier estimate, it remains weaker than the historical average. Also, world trade growth is expected to slow to 2.0% in 2023 from 5.2% in 2022, before rising to 3.7% in 2024, which is still well below the 2000 to 2019 average growth of 4.9%.A large part of the lower growth stems from risk that the global economy could fragment into blocs amid the Russia-Ukraine war and other intensifying geopolitical issues, which could increase restrictions on trade, cross-border movement of capital, technology and workers, and international payments.

India's nominal GDP growth has exhibited a remarkable trend of consistently surpassing that of numerous other countries, highlighting its strong economic momentum.

Year-on-year real GDP change in %

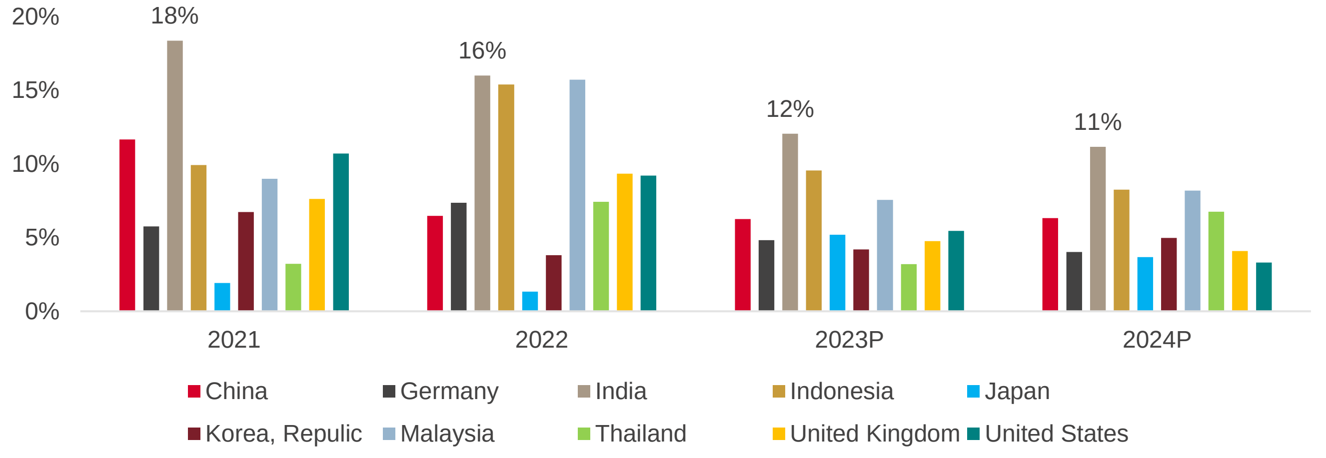


P: Projected
* For India, 2021 and 2022 forecasts are of fiscal years, i.e. 2021 = fiscal 2022; 2022 = fiscal 2023
Notes:

1) All forecasts are IMF forecasts
2) India's growth projections are 6.6% in 2023 and 5.8% in 2024, based on calendar year basis.

Source: International Monetary Fund (IMF) World Economic Outlook Update, July 2023

Year-on-year nominal GDP change in %



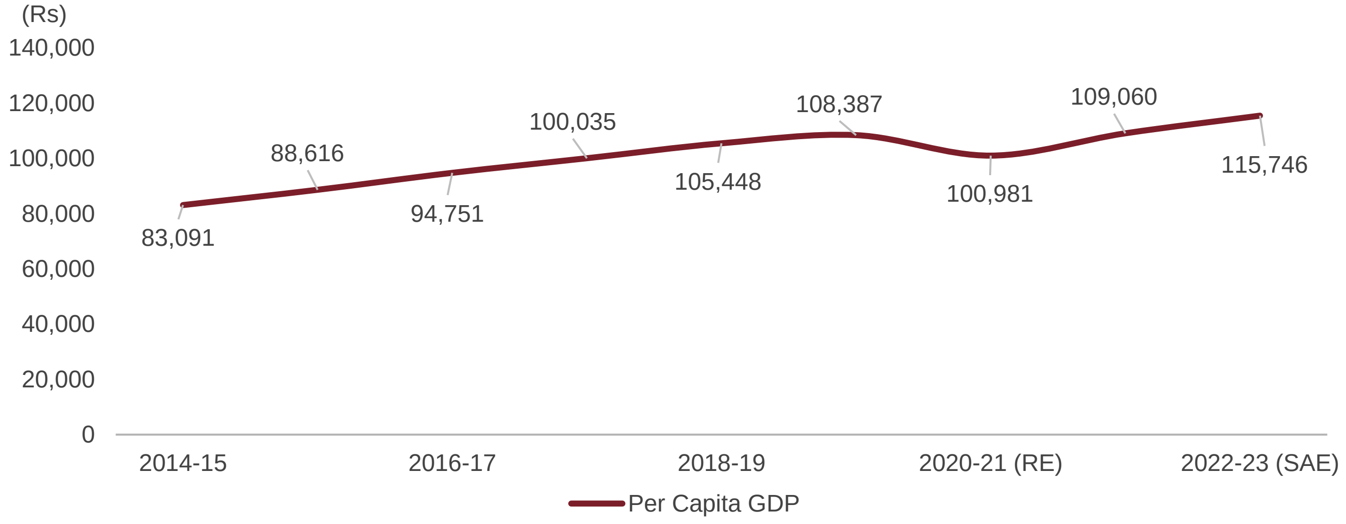
P: Projected
Notes:
1) All forecasts are IMF forecasts
2) The data is based on current prices in national currency for each country.
Source: International Monetary Fund (IMF) World Economic Outlook, April 2023

Per capita GDP increasing

India's per capita gross domestic product (GDP) recorded a 5.46% CAGR over fiscals 2015 to 2020 on real basis, rising from ~Rs 83,000 to ~Rs 108,000. A pandemic-induced nationwide lockdown in the early part of fiscal 2021 led to a decline in income and widespread temporary loss of jobs, pushing per capita GDP lower by 6.8% on-year, to ~Rs 101,000 in fiscal 2021, back to fiscal 2018 levels.

On this low pandemic-impacted base, per capita GDP recorded a ~8% growth in fiscal 2022, rising to Rs 109,000, thus crossing the pre-Covid-19 level of fiscal 2020. In fiscal 2023, per capita GDP rose to an all-time high of Rs 115,746 as economy registered consecutive years of robust growth.

Per capita GDP for India

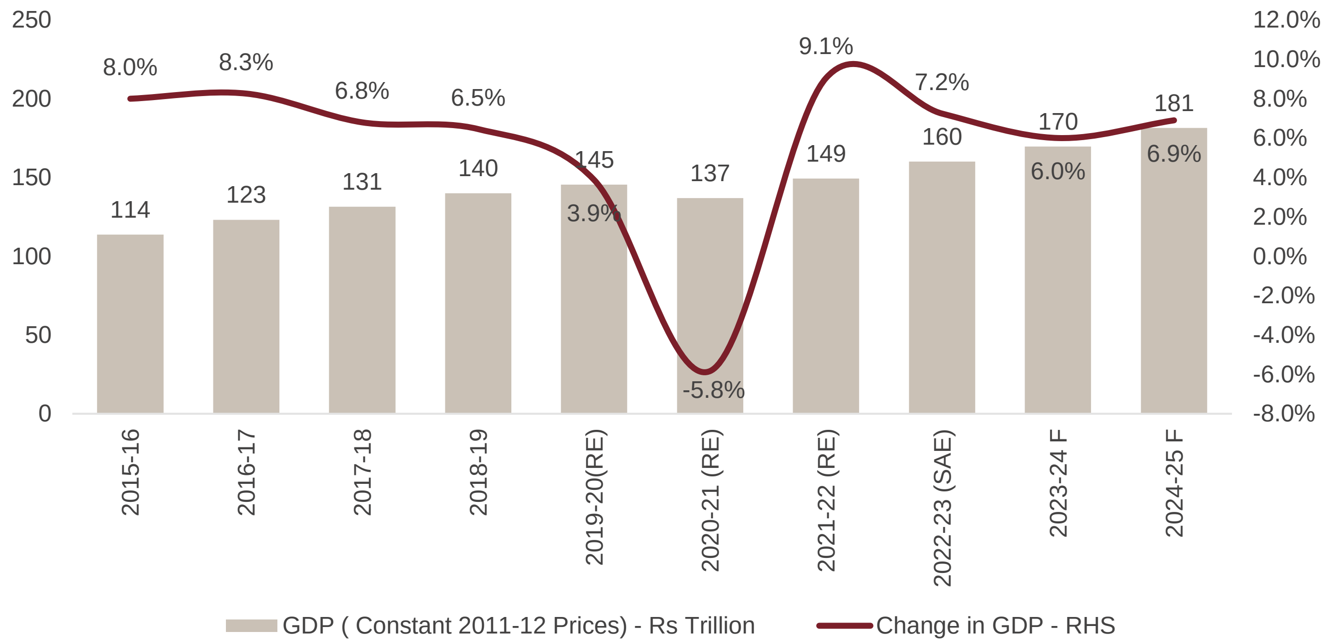


RE: Revised estimate; SAE: Second Advance Estimates
Note: Based on constant prices, 2011-12 base.
Source: National Account Statistics, CRISIL MI&A Research

With GDP growth gaining pace, CRISIL MI&A Research forecasts per capita income will further gradually improve, boosting domestic consumption over the medium term. As per IMF estimates, India's per capita income (at current prices) is expected to grow annually at over 8% over the next two years.

Gross Domestic Product (GDP): Review and outlook

On-year GDP change



P: Projected; RE: Revise estimate; SAE: Second Advanced Estimate

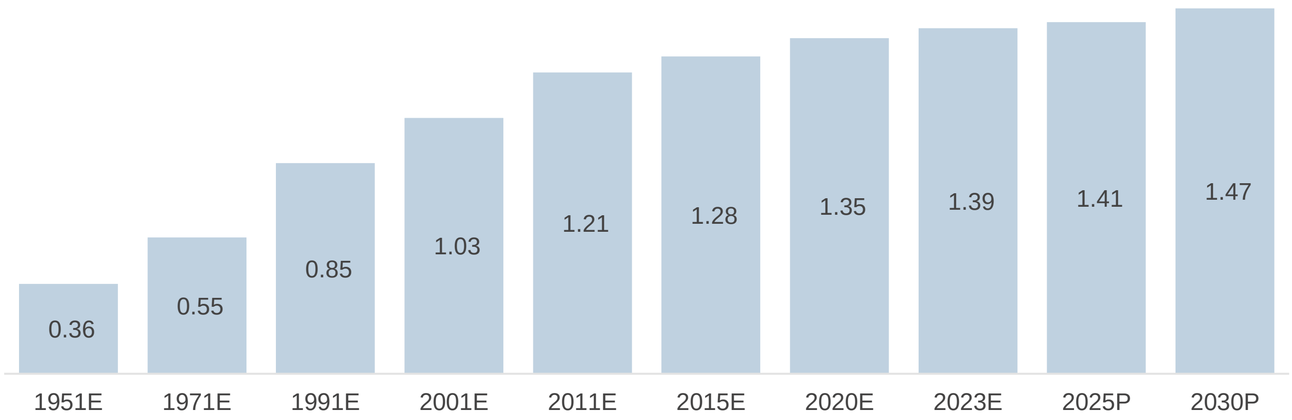
Source: National Statistical Office (NSO), CRISIL MI&A Research

Indigenous advantages to lift economic growth rate in longer term

Growing population an asset to the economy

As per the report published (in July 2020) by the National Population Commission, Ministry of Health and Family Welfare, India's population in 2011 was 121 crore, comprising ~24.6 crore households. The decadal growth rate during 2001-2011 stood at 17%. This is estimated to have fallen to 12% during 2011-2021 and is likely to decline further to 9% during 2021-2031. However, with the country's population in 2030 estimated at 147 crore, India will continue to be a major opportunity market from a demand perspective.

India's population growth trajectory (billion)



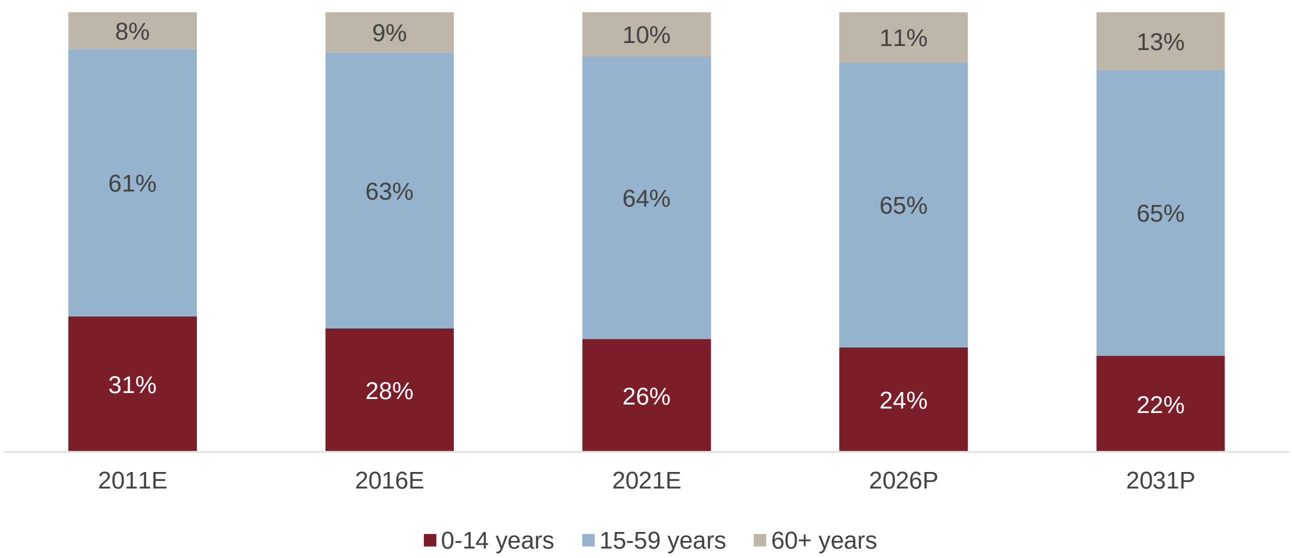
Note: P – Projected, E – Estimates

Source: Census of India 2011, Ministry of Health and Family Welfare, CRISIL MI&A Research

Favourable demographics

India has one of the world's largest youth populations, with a median age of 28 years. About 90% of Indians are below 60 years of age. It is estimated that 64% of this population is aged between 15 and 59 years. CRISIL MI&A Research expects that the large share of working population, coupled with rapid urbanisation and rising affluence, will propel growth in the economy.

India's demographic division (share of different age groups in population)



Note: P – Projected, E – Estimates

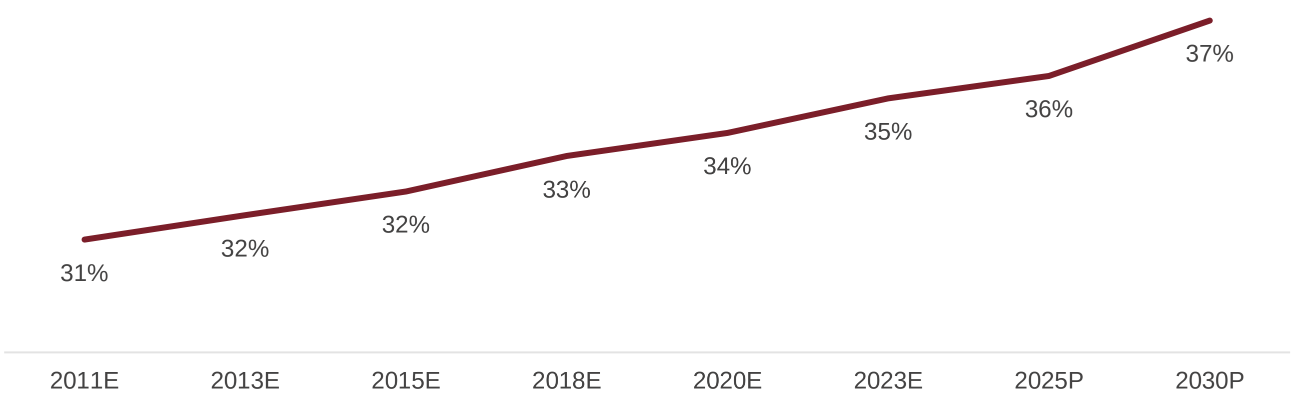
Source: Census of India 2011, Ministry of Health and Family Welfare, CRISIL MI&A Research

Urbanisation on the rise

Urbanisation is a key growth driver for India, supporting faster infrastructure development, job creation, development of modern consumer services, and the city's ability to mobilise savings. The share of urban population in total population has been rising consistently and is expected to reach 35% by 2023 from 31% in 2011, spurring demand.

Urban consumption in India has shown signs of improvement, and given the country's favourable demographics, coupled with rising disposable incomes, the trend is likely to continue and help domestic economic growth.

Urbanisation population as a percentage of total population in India



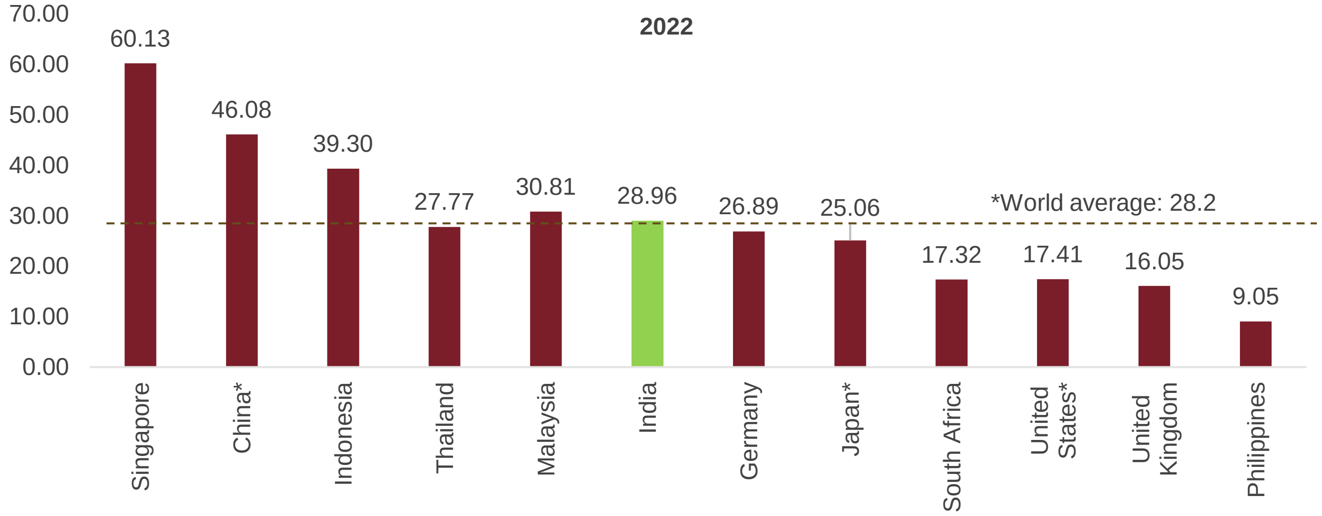
Note: P – Projected, E – Estimates

Source: Census of India 2011, Ministry of Health and Family Welfare, CRISIL MI&A Research

Household savings decreasing yet higher than world average

According to the World Bank, the savings rate, or the proportion of gross domestic savings (GDS) in India's GDP has trended downward in the past decade. India's GDS peaked at 34.4% of the GDP in fiscal 2007 and dipped to 32.8% in fiscal 2008. This was largely on account of a sharp slowdown in public savings, with the government resorting to fiscal stimulus to address the external shock from the Global Financial Crisis. However, India's domestic savings is still higher at 28.96% at the end of 2022, compared with the world average of 28.2% at the end of 2021.

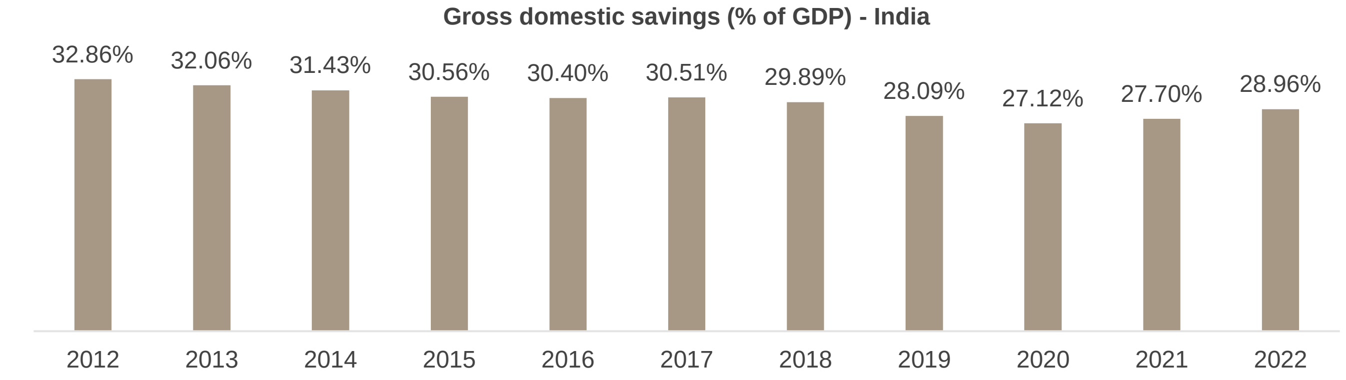
India's domestic savings (in % of GDP) higher than the world average



Note: The savings rate is in %

*Figures for China, Japan and the United States and world average are based on 2021.

Source: World Bank, CRISIL MI&A Research



Source: World Bank, CRISIL MI&A Research

CRISIL MI&A Research expects India to continue being a high-savings economy at least over the next decade. CRISIL MI&A Research is also positive on the savings rate increasing in the medium term, as households become focused on creating a nest egg for future post pandemic-induced uncertainties. As per the RBI, the share of financial savings increased from 45% in fiscal 2016 to 51% in fiscal 2021, while that of the physical savings fell from 55% to 48% before increasing to 60% in fiscal 2022. The money getting financialised is increasingly being invested in mutual funds and insurance funds. The share of mutual funds increased to nearly 10% in March 2022 from 7% in June 2018, while that of insurance funds rose to 24% from 20%. Going forward, if the trend continues, it is expected to boost capital markets and consequently, the economy.

Gross domestic savings trend

Parameters (Rs billion)	Mar-2015	Mar-2016	Mar-2017	Mar-2018	Mar-2019	Mar-2020	Mar-2021	Mar-2022
GDS	40,200	42,823	48,251	54,807	60,004	59,411	57,168	70,767
Household sector savings	24,391	24,749	27,871	32,966	38,446	38,452	44,347	46,195
Gross financial Savings	12,572	14,962	16,147	20,564	22,637	23,246	30,544	25,979
Net financial savings	36%	45%	41%	40%	39%	40%	51%	39%
Savings in physical assets	62%	53%	57%	59%	60%	59%	48%	60%
Savings in the form of gold and silver ornaments	2%	2%	2%	1%	1%	1%	1%	1%

Note: The data is for financial year ending March; Gross financial savings of the household sector include gross financial savings of the quasi corporate sector

Source: MOSPI, CRISIL MI&A Research

Structural reforms that will drive future growth

While India has a structural advantage on account of its young workforce, improving consumption pattern and increasing urbanisation, the nation's long-term growth is expected to be supported by the following government initiatives:

- Focus on infrastructure investments rather than boosting consumption to enhance the productive capacity of the economy
- The Production Linked Incentive (PLI) scheme which aims to boost local manufacturing by providing volume-linked incentives to manufacturers in specified sectors

- Policies aimed at greater formalisation of the economy that will accelerate per capita income growth
- Adoption of digital technology
- The announcement of the National Infrastructure Pipeline to provide better infrastructure for all sectors, enhance ease of living of citizens and make growth more inclusive
- The National Monetisation Policy of operating public infrastructure assets acts as a key means for sustainable infrastructure financing
- Inclusion of a larger share of population under health insurance as part of the Ayushman Bharat scheme
- Initiatives launched by the Indian government to promote financial inclusion such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and the Pradhan Mantri Suraksha Bima Yojana (PMSBY)

Union Budget 2023-24: Leaning more on capex, while tightening the fiscal belt

Budgeting for a post-pandemic economy

In the budget for fiscal 2024, the government continued its march towards fiscal consolidation, led by a broad-based recovery in the Indian economy in fiscal 2023. It set a target of reducing fiscal deficit to 5.9% of the gross domestic product (GDP) in fiscal 2024 from 6.4% (revised estimate or RE) this fiscal. It also reiterated its commitment to bring the fiscal deficit below 4.5% of GDP by fiscal 2026.

Though fiscal 2023 has witnessed a broad-based recovery and resilient domestic demand so far, headwinds from slowing global growth and tighter financial conditions threaten to hurt the country’s economic prospects in fiscal 2024.

The budget has tried to strike a balance between fiscal consolidation and growth by continuing to focus on capital expenditure and creating a fiscal space for that by cutting revenue expenditure. In addition, it eased the tax burden on the middle-income segment to improve consumer confidence and promote a more inclusive recovery.

Budget scores big on capex thrust to support growth

Budget 2023-24 paves the way for yet another year when the government is using the infrastructure capex tool to support the economy. But this time, the push is larger to lift the post-pandemic domestic economy out of the woods and simultaneously crowd in private sector capex.

That said, the government has largely stuck to its medium-term path of lifting the productive capacity of the economy through higher infrastructure spending rather than directly boosting consumption in a broad-based manner in a pre-election year.

Despite a slowing economy and hence slower growth in tax collections, in conjunction with the need to trim the fiscal deficit, capex has received its due.

Total central government capex growth is seen doubling to ~28% from 14% this fiscal. This includes capex from the budget and capex incurred by central public sector enterprises (CPSEs). While the role of CPSEs in capex has been waning since fiscal 2019, fiscal 2024 could see a mild rise in their capex.

Budget announcements have positive impact on agriculture sector

As per the budget announcement, cumulative budget allocation under the Ministry of Agriculture & Farmers' Welfare (MoA&FW), Department of Fertilisers (DoF) and Ministry of Rural Development (MoRD) was reduced 13% on-year to Rs 4.6 lakh crore in fiscal 2024BE from Rs 5.27 lakh crore in fiscal 2023RE. The agriculture and rural development budget this year veers towards structural changes and reduces focus on short-term measures. MGNREGA witnessed a 33% cut in allocation, bringing down its share in the department’s budget to 38% from 49% in the previous fiscal. Normalisation of the rural economy, led by moderately strong agricultural growth and a swift recovery from the pandemic-induced slowdown, culminating in better employment opportunities, have driven this decrease. On the other hand, the share of other schemes such as Pradhan Mantri Awas Yojana (PMAY increased to 35% from 27%, with an allocation of Rs 0.54 lakh crore in fiscal 2024BE (13% on-year growth).

It is important to note that the budget laid special emphasis on modernisation of agriculture through the introduction of the Agriculture Accelerator Fund and digital public infrastructure for agriculture. The Agriculture Accelerator Fund, which emphasises on providing support to agricultural start-ups by the rural youth, will help in strengthening rural entrepreneurship and bringing innovative and affordable solutions for challenges faced by farmers. Also, digital public infrastructure for agriculture will enable improved information availability for all stakeholders in the agriculture value chain, thereby aiding access to credit and allowing better planning for farmers as well as processors.

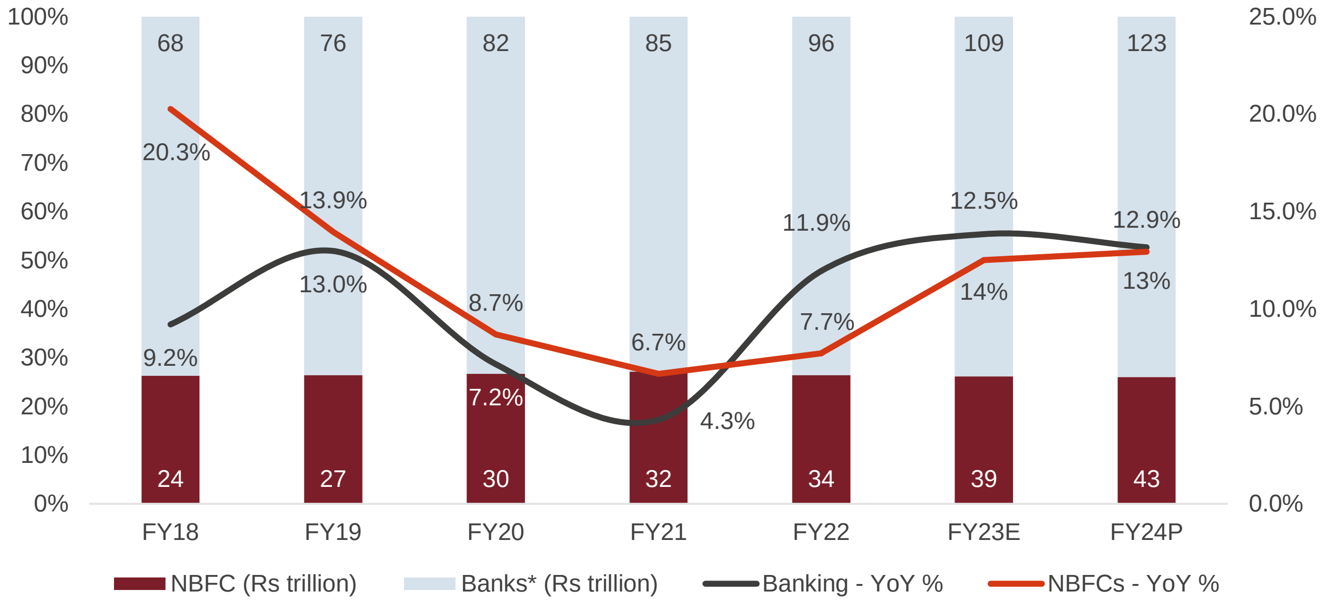
Increased allocation for the PLI scheme in the food processing sector is expected to boost export of value-added products, thereby fetching higher realisations for food processors.

Credit growth revived sharply in fiscal 2023 despite slowdown in overall economy

Aggregate financial credit in India is estimated at ~Rs 147 trillion (excluding agricultural credit) as of March 2023, with banks having a major share in the pie at Rs 109 trillion and NBFCs/HFCs (housing finance companies) holding the balance Rs 39 trillion. Banking sector credit in India is estimated to have grown at 13-15% during fiscals 2023. Going ahead, CRISIL MI&A Research expects bank credit to grow at 12-14% during fiscal 2024, with a large part of this growth spurred by the retail segment, primarily owing to rising demand for home and vehicle loans and supported by recovery in the services segment, with pent up demand in NBFCs and the trade segment.

Further, post a moderation in growth after the pandemic abated, NBFCs were back on track with an estimated credit growth of 12-13% in fiscal 2023, taking the NBFCs’ (including HFCs and PFC REC) credit outstanding to Rs 39 trillion. CRISIL MI&A Research expects the growth trend to continue with credit growth at 13-14% during fiscal 2024. The primary growth drivers for the fiscal 2024 and the previous fiscals 2023 are the key retail segments such as Housing, Auto and Microfinance.

Banks a major source of credit in the economy alongside NBFCs which gained momentum



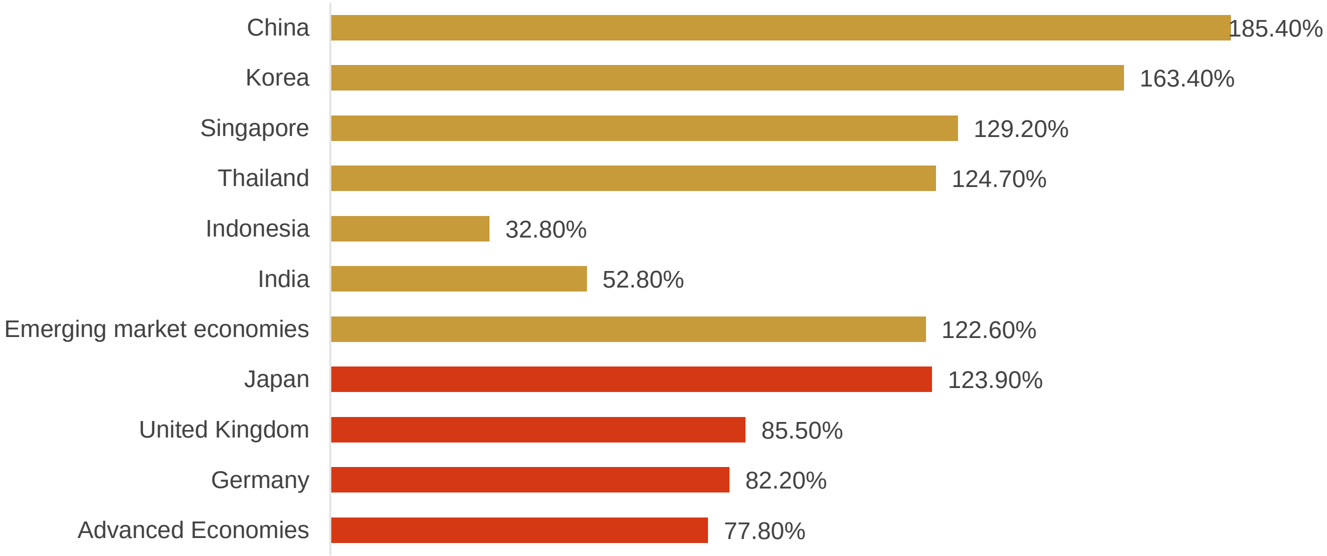
* Note: The above representation of bank credit is exclusive of agriculture and food credit
P – Projections
Source: Reserve Bank of India (RBI), CRISIL MI&A Research

Financial inclusion

Under-penetration of the Indian banking sector provides opportunities for growth

The Indian banking sector is significantly under-penetrated as observed in the current bank credit-to-GDP ratio of 52.80% for India as of the fourth quarter of 2022. This provides immense opportunities for banks and other financial institutions over the long term.

Bank credit to private non-financial sector as a % of GDP ratio for major economies (as of fourth quarter of CY22)



Note: **Emerging market economies** comprise Argentina, Brazil, Chile, China, Colombia, Czechia, Hong Kong SAR, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, Thailand, and Turkey.

Advanced economies comprise Australia, Canada, Denmark, the euro area, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

Source: BIS Data, CRISIL MI&A Research

Rural sector supporting India growth story

India's retail segment has been a key driver of the country's consumption growth story in recent years. In the past decade, the retail sector in India has expanded at a rapid pace, driven by factors, such as rising disposable income, urbanisation, and the proliferation of e-commerce.

According to the Economic Survey report dated January 31, 2023, the government's emphasis has been on improving the quality of life in rural areas to ensure more equitable and inclusive development. The aim of the government's engagement in the rural economy has been 'transforming lives and livelihoods through proactive socio-economic inclusion, integration, and empowerment of rural India'. The survey notes that a multi-pronged approach has helped raise rural incomes and improve the quality of life through different schemes, such as:

1. **Livelihood and skill development**
   a. The Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM), which aims to enable economically weak households to access gainful self-employment and skilled wage employment opportunities, resulting in sustainable and diversified livelihood options for them.
   b. Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), under which a total of 4.31 crore households availed of employment. A total of 137.34 crore person-days' employment has been generated under the Scheme (until July 28, 2023).

2. **Women empowerment**

   The transformative potential of Self-Help Groups (SHGs), exemplified through their key role in the on-ground response to Covid-19, has served as the fulcrum of rural development through women empowerment. India has around 1.2 crore SHGs, 88% being all-women SHGs. Also, there has been a steady rise in Rural Female Labour Force Participation Rate (FLFPR) from 19.7% in fiscal 2019 to 27.2% in fiscal 2022.

3. **Housing for all**

   The Pradhan Mantri Awas Yojana – Gramin (PMAY-G) was launched in November 2016 with the aim of providing around 3 crore pucca houses with basic amenities to all eligible houseless households living in kutcha and dilapidated houses in rural areas by 2024. Under the scheme, landless beneficiaries are accorded the highest priority in the allotment of houses. A total of 2.7 crore houses have been sanctioned and 2.33 crore houses have been completed by March 31, 2023, under the scheme.

Other initiatives of the government are towards promoting smoke-free rural homes and rural infrastructure.

Additionally, e-commerce has been a significant contributor to the growth of rural areas. The e-commerce market in India has grown exponentially in recent years. This growth can be attributed to increased internet penetration, the proliferation of smartphones, and the convenience offered by online shopping.

Additionally, the government has taken various steps to improve overall financial inclusion:

Jan Dhan Yojana: In 2014, the government launched the Pradhan Mantri Jan Dhan Yojana (PMJDY), aimed at providing basic banking services to every household in the country. Under the scheme, bank accounts were opened for people who did not have them, and RuPay debit cards were issued to account holders. As on July 19, 2023, 49.56 crore accounts had been opened with deposits amounting to Rs 200,590.25 crore. Also, about 67% of PMJDY account holders belong to the rural and semi-urban areas, and the remaining 33% are households from urban and metro areas. Further, 33.82 crore RuPay cards have been issued to new banked account holders for facilitating banking transactions.

Schemes such as the P**radhan Mantri Suraksha Bima Yojana (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)** to provide accidental death or disability cover, and the Atal Pension Yojana to provide pension cover to subscribing bank account holders.

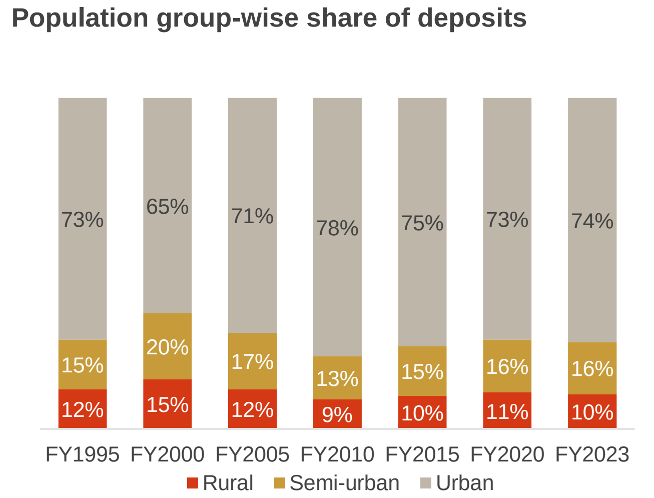
- **Sukanya Samriddhi Yojana:** The savings scheme launched in 2015 is targeted at parents accumulating savings funds for girl children 10 years or younger under the 'Beti Bachao, Beti Padhao' campaign. The total number of registered subscribers as of fiscal 2023 was 35,008,208 and the amount saved was Rs 175,007.65 crore.
- **Small-savings schemes:** Various small-savings schemes have been introduced by the government for the promotion of risk-free government-backed saving portfolios for low- and medium-income individuals, including National Savings Deposit Account, Post Office Savings Account, Senior Citizen Savings Scheme, Kisan Vikas Patra and National Savings Certificate (NSC). The collections under NSC stood at Rs 220,259.13 crore in fiscal 2022 (up to January 2022).
- **Direct-benefit transfer (DBT):** DBT has been instrumental in the acceleration of financial inclusion since it has helped eliminate human interface and leakages in the system, ensuring timely, accurate and quality services and fund transfers to the beneficiaries. This tool has helped in the disbursal of benefits to a wide population spread geographically through 312 government schemes, such as the Pradhan Mantri Matru Vandana Yojana (PMMVY) for women, Pradhan Mantri Ujjwala Yojana (PMUY), Krishi Unnati Yojana (KUY) or Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) for beneficiary bank accounts held by any gender. The total DBT was Rs 7,16,396 crore in fiscal 2023 and Cumulative Total DBT was Rs 30,60,241 crore.

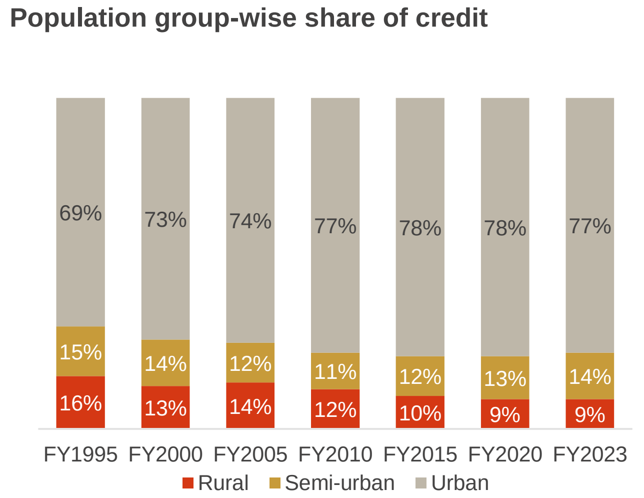
- **Aadhaar card:** It has played a critical role in promoting financial inclusion in India by enabling easy and efficient identification of individuals and reducing the need for physical documents. Aadhaar Card has been used for various initiatives, such as PMJDY, DBT, mobile wallets, and e-KYC, to improve financial access.
- **Mobile banking:** The government has promoted mobile banking to make financial services accessible to people who are unable to access physical bank branches. Mobile banking has increased financial inclusion in rural areas. Some of the mobile banking initiatives for financial inclusion are United Payments Interface (UPI), mobile wallets, Jan Dhan Yojana Mobile App, and business correspondent (BC) model.
- **Financial literacy programmes:** The government has launched various financial literacy programmes to educate people about the benefits of financial planning and management. These programmes aim to improve financial literacy among the marginalised sections of the society and empower them to make informed financial decisions. The government and financial institutions have launched various financial literacy programmes (National Centre for Financial Education, Swabhimaan, etc.) to improve financial literacy among the general public, especially in rural areas.
- **Kisan Credit Card (KCC):** The KCC scheme aims at providing adequate and timely credit support to farmers for their agricultural activities at various stages of farming. The provisional total number of operative KCCs stood at 2.82 crore in fiscal 2023, with a total outstanding loan amount of Rs 5,18,636 crore, up from Rs 4,76,273 crore in fiscal 2023 (provisional amount).
- **National Pension Scheme (NPS):** Regulated by the Pension Fund Regulatory and Development Authority (PFRDA), NPS is mandatory for Central government employees and voluntary for corporates and all citizens (aged 18-65 years) with matching contributions by the employer. As of March 2023, NPS had 1.73 crore subscribers — 35% under the state government and 14% under the Central government.
- **Priority-sector lending:** PSL is an important policy tool used by the RBI to promote financial inclusion in India. The PSL requirement mandates banks allocate a specified percentage of their lending portfolio to priority sectors, such as agriculture; micro, small and medium-sized enterprises (MSMEs); education; housing; and other weaker sections of the society. As of fiscal 2023, bank credit to PSL stood at Rs 50,59,321 crore, up from Rs 45,43,093 crore from fiscal 2022 (provisional amounts from the RBI's annual report).

Rural India accounts for 47% of GDP, but only 10% of deposits and 9% of credit

Rural India has a crucial role to play, as 65% of the population resides in rural areas, as per 2021 data from the Economic Survey January 2023 and as per the Census data of 2011, there are over 6.4 lakh villages in India. About 47% of India's GDP comes from rural areas; however, their share is abysmally low at just 10% of total banking deposits and 9% of total credit as of March 2023. The share of credit to rural areas has declined gradually over the years to a mere 9% in fiscal 2023 from 16% in fiscal 1995. Lack of bank infrastructure, low level of financial literacy and investment habits, along with lack of formal identification, are some of the reasons for low penetration.

Share of bank credit and deposits shows low penetration in rural areas

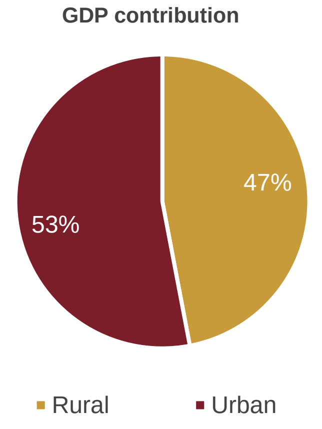




Note: Urban includes data for urban and metropolitan areas, Above data represents indicators for scheduled commercial banks in India

Source: RBI; CRISIL MI&A Research

Rural versus urban split of GDP

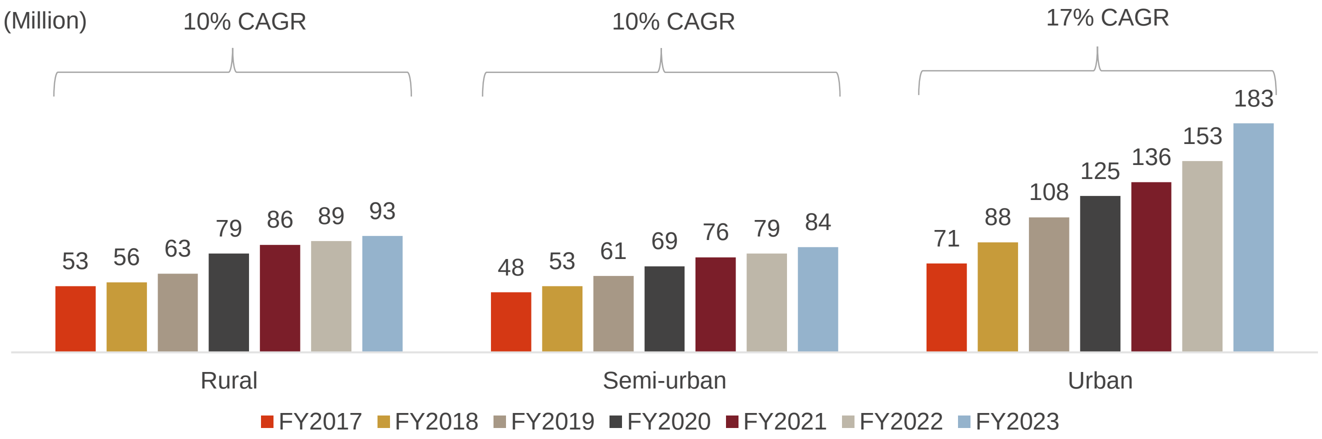


Source: CSO; RBI; CRISIL Research estimates (for GDP contribution as per 2017)

Financial inclusion is lower in rural areas than in urban areas in India. Hence, there are significant growth opportunities, as competition for banking services is lower in rural areas as well. Initiatives such as PMJDY and digital banking, along with increasing emphasis on financial literacy, have led to increasing financial inclusion in rural areas. In rural areas, the number of bank credit accounts grew at a 10% CAGR, while the number of bank deposit accounts grew at a CAGR of 5% between fiscals 2017 and 2023. We can expect faster growth in rural areas in the long term on account of digital infrastructure and as payments banks increase their reach by expanding into rural areas and increasing financial awareness.

The number of credit accounts in semi-urban areas grew at a CAGR of 10%, while the number of deposit accounts grew at a CAGR of 5% between fiscals 2017 and 2023. The number of credit accounts in urban areas grew at a CAGR of 17% and the number of deposit accounts grew at a CAGR of 7% between fiscals 2017 and 2023.

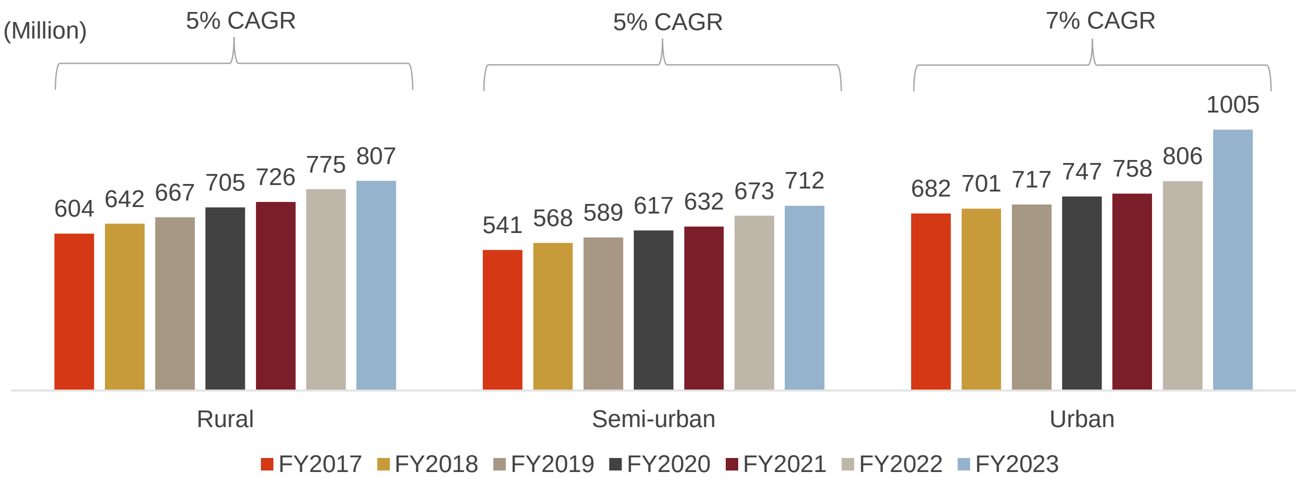
Bank credit accounts in rural, semi-urban and urban areas



Note: Urban includes data for urban and metropolitan areas; data represents only bank outstanding credit accounts; above data represents indicators for scheduled commercial banks in India

Source: RBI; CRISIL MI&A Research

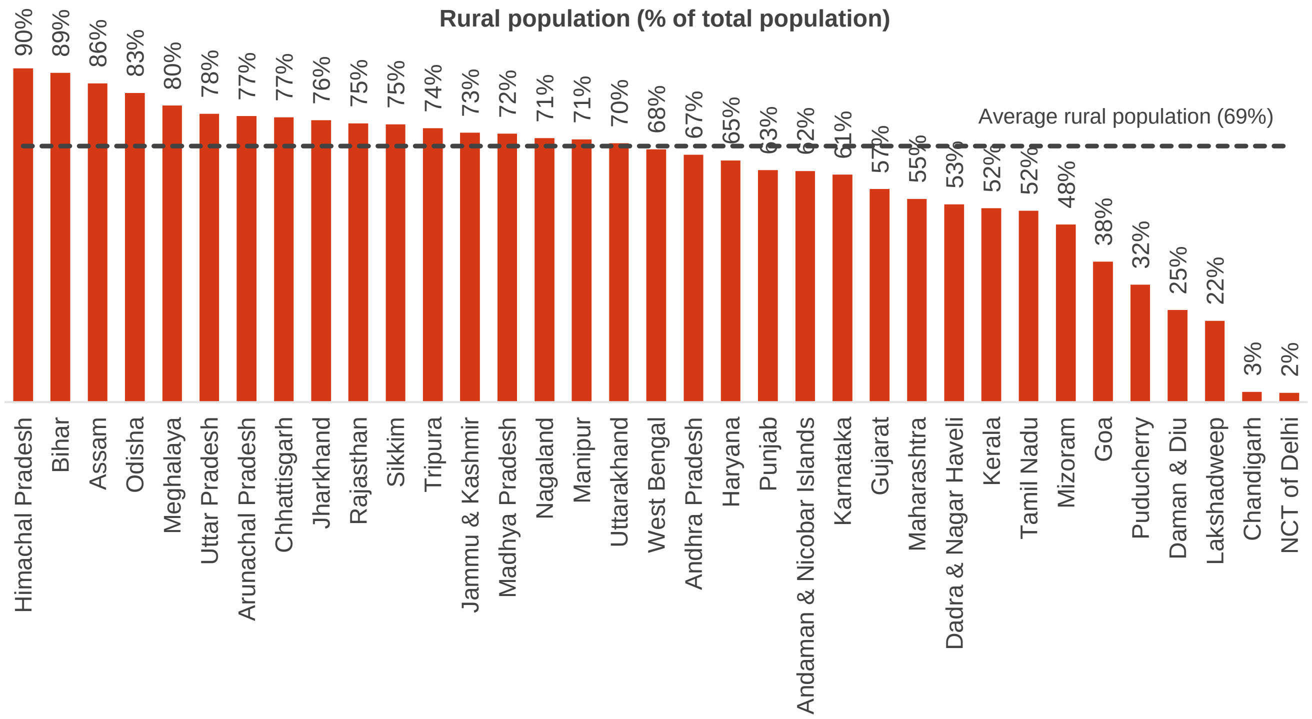
Bank deposit accounts in rural, semi-urban and urban areas



Note: Urban includes data for urban and metropolitan areas; amounts are as of the end of the fiscal year indicated. Data represents only bank deposit accounts. Above data represents indicators for scheduled commercial banks in India

Source: RBI, CRISIL MI&A Research

State-wise share of rural population (2011)



Note: Sequence of states are arranged in descending order of the proportion of rural population;
Source: Census 2011, CRISIL MI&A Research

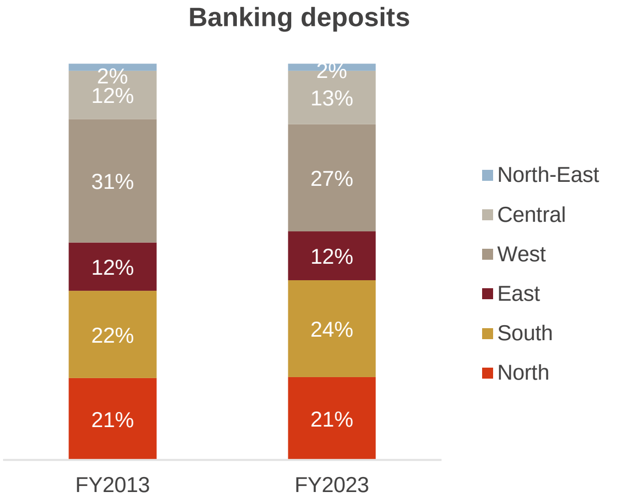
Although most Indian households are in rural areas, the potential of banking infrastructure in these areas is not yet fully explored. Hence, there is a gap in supply of and demand for financial services in the country's rural areas, which are pockets of opportunity for the financial services sector.

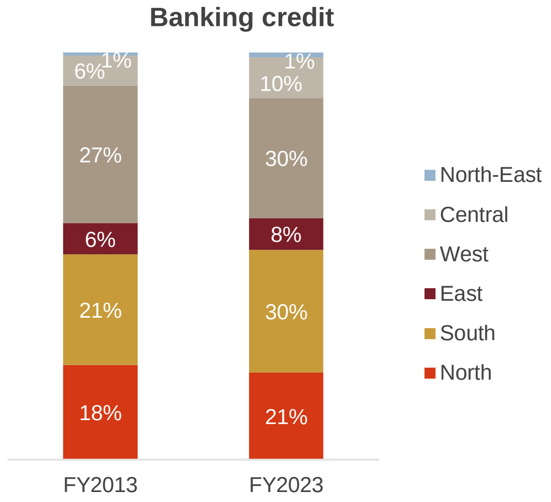
Region-wise asymmetry: Over 50% of deposits and 60% of credit held by south and west

In value terms bank credit and deposits are predominantly concentrated in the southern and western regions, while these are considerably low in the northeastern and eastern regions. Deposit penetration in the southern region increased 200 bps to 24% in fiscal 2023 from 22% in fiscal 2013 and credit penetration jumped 900 bps to 30% from 21%. On the other hand, the former decreased in the western region by 400 bps to 27% from 31%, while the latter increased 300 bps to 30% from 27%. There has been no change in deposit penetration in northern regions, while credit penetration increased by 300 bps in fiscal 2023. The share of the north-east region remained stable at 2% for deposits at 1% for credit.

Deposit penetration in the eastern and central regions have remained relatively stable over the past 10 years, whereas credit penetration improved 400 bps in the central region to 10% in fiscal 2023 from 6% in fiscal 2013. Credit penetration in eastern region improved 200 bps to 8% in fiscal 2023 from 6% in fiscal 2013. And while the share of the Northeast was stable, it was a lowly 2% for deposits at 1% for credit.

Region-wise share of banking deposits and credit





Notes:

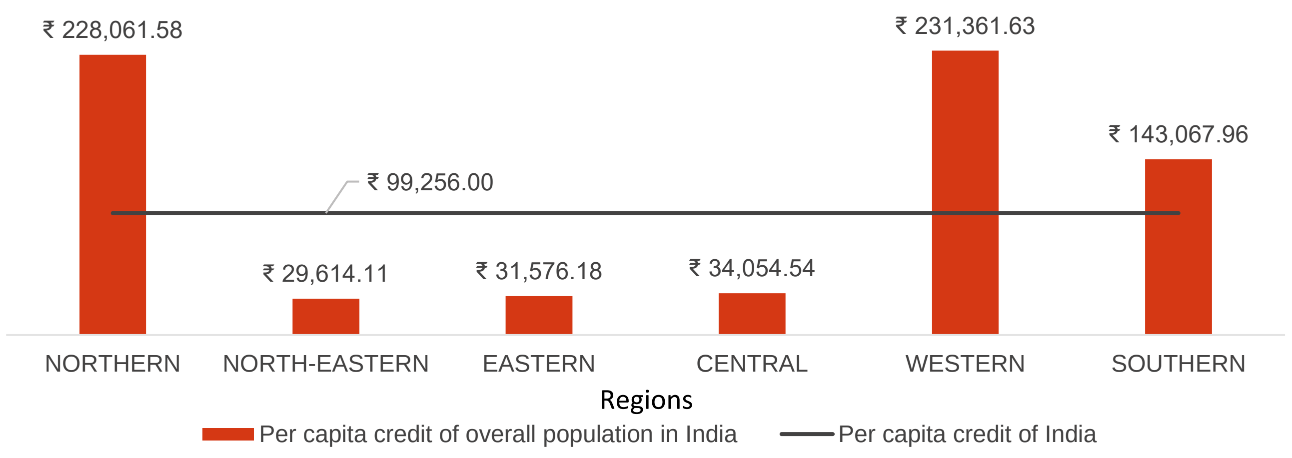
1. Northeast includes Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura
2. Central includes Chhattisgarh, Madhya Pradesh, Uttar Pradesh and Uttarakhand
3. West includes Goa, Gujarat, Maharashtra, Dadra and Nagar Haveli, and Daman and Diu
4. East includes Bihar, Jharkhand, Odisha, Sikkim, West Bengal, and Andaman and Nicobar Islands
5. South includes Andhra Pradesh, Telangana, Karnataka, Kerala, Tamil Nadu, Lakshadweep, and Puducherry
6. North includes Haryana, Himachal Pradesh, Jammu and Kashmir, Ladakh, Punjab, Rajasthan, Chandigarh, and Delhi

Source: RBI, CRISIL MI&A Research

Region-wise bank credit and deposit per capita

Bank credit per capita in the eastern and central regions has been second and third lowest, respectively, among all the regions in fiscal *2023*, and nearly three times lower than the national credit per capita. When compared with the other regions, this implies low penetration of banks in the two regions. In contrast, the northern and western regions have more than 2 times credit per capita vis-à-vis the national average, while in the southern region, it is near 1.4 times.

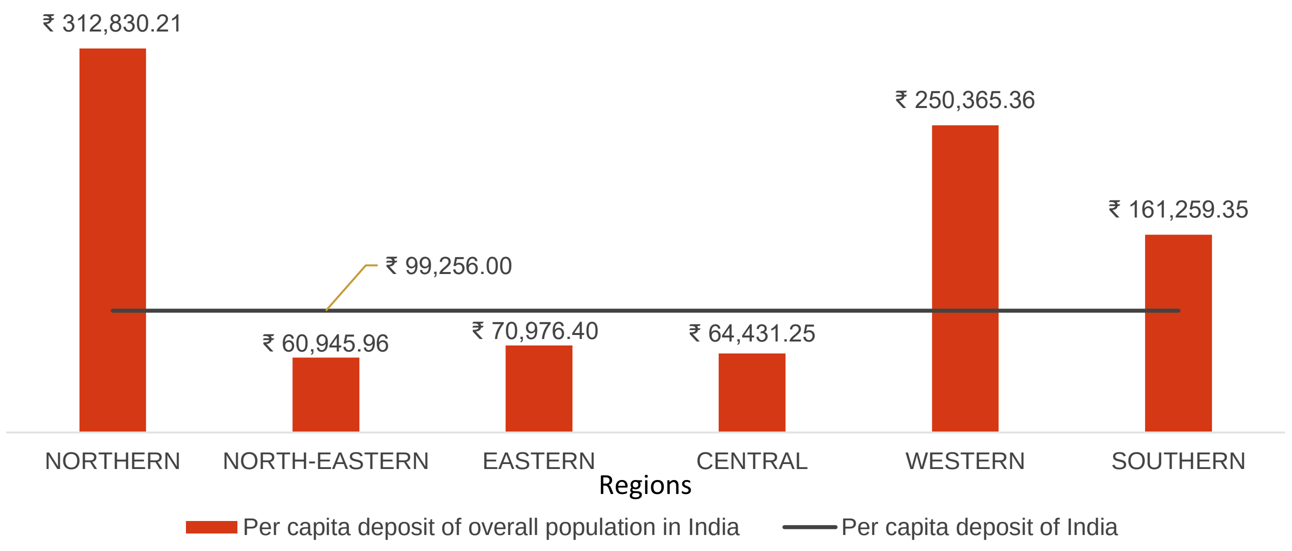
Per capita credit region-wise



Source: RBI, CRISIL MI&A Research

Similarly, bank deposit per capita has been dominated by the northern and western regions, accounting for over 3 times and 2.5 times the national deposit per capita, respectively, whereas the northern, northeastern and central regions were lower by 1.5 times.

Per capita deposit of overall population in India



Source: RBI, CRISIL MI&A Research

This provides an opportunity for all lending and deposit accepting institutions to expand in these regions, and also widen their footprint in specific regions.

Large variation in credit availability across states, districts and regions

The central region had the highest share of overall population of India, at 26%, in fiscal 2023. Yet, its share in overall credit was a mere 9%. Similarly, the eastern region accounted for 23% share of the overall population, but comprised only 7% of the overall credit. The credit-to-deposit ratio of the eastern region was the lowest among all regions. In contrast, the western and southern regions had disproportionately high share in overall credit compared to their share in overall population.

That said, credit availability in the states and various districts in the same state vary widely. This indicates latent opportunity for providing banking services to unserved or underserved customers. For instance, Uttar Pradesh, Maharashtra and Bihar are the most populous states in India, accounting for 17%, 9% and 9% share, respectively, of the overall population. While Maharashtra's share in overall credit outstanding was 28% in fiscal 2023, the shares of Uttar Pradesh and Bihar were only 5% and 1%, respectively.

Based on bank credit accounts in rural areas, West Bengal, Bihar, Odisha, Jharkhand, Jammu and Kashmir, Himachal Pradesh, and Meghalaya had more than 45% of credit accounts in rural areas, while for Maharashtra, Delhi, Gujarat, Kerala, Haryana, Chandigarh, Puducherry, and Mizoram, the share was below 20%.

In value terms, states such as Maharashtra, Delhi, Chandigarh and Kerala have less than 5% of credit outstanding in rural areas, while Manipur, Tripura, Meghalaya, Jammu and Kashmir, Ladakh, Lakshadweep and Himachal Pradesh have more than 30% of rural credit outstanding.

But even in Maharashtra and Delhi, which are the states with highest share in overall credit, more than 80% of the total credit outstanding was concentrated in the top five districts as of fiscal 2023.

State-wise rural credit accounts in banks and top five districts concentration (fiscal 2023)

Region / state / union territory	No. of districts	% share in overall population in India	Share in overall credit	Credit-to-deposit ratio	Concentration of credit in top 5 districts	% of credit in rural areas	Concentration of credit accounts in top five districts	% of credit accounts in rural areas
Western region	**74**	**14%**	**34%**	**92%**	**NA**	**3%**	**NA**	**8%**
Maharashtra	36	9%	28%	100%	90%	2%	80%	6%
Gujarat	33	5%	5%	72%	70%	9%	50%	18%
Goa	2	0%	0%	25%	100%	18%	100%	31%
Dadra and Nagar Haveli, and Daman and Diu	3	0%	0%	38%	100%	3%	100%	5%
Southern region	**146**	**20%**	**28%**	**89%**	**NA**	**11%**	**NA**	**27%**
Tamil Nadu	38	6%	9%	106%	59%	12%	36%	28%
Karnataka	29	5%	7%	64%	75%	11%	46%	33%
Telangana	34	3%	5%	102%	78%	9%	46%	29%
Andhra Pradesh	26	4%	4%	151%	44%	18%	26%	35%
Kerala	14	3%	3%	65%	67%	2%	51%	4%
Puducherry	4	0%	0%	65%	100%	11%	100%	18%
Lakshadweep	1	0%	0%	10%	100%	40%	100%	40%
Northern region	**111**	**13%**	**21%**	**74%**	**NA**	**9%**	**NA**	**26%**
NCT of Delhi	1	2%	11%	90%	100%	0%	100%	0%
Rajasthan	33	6%	3%	82%	53%	17%	41%	32%
Haryana	22	2%	3%	58%	64%	11%	44%	22%
Punjab	22	2%	2%	53%	59%	20%	46%	30%
Jammu and Kashmir	20	1%	1%	55%	59%	36%	49%	52%
Chandigarh	1	0%	1%	76%	100%	0%	100%	1%
Himachal Pradesh	12	1%	0%	33%	74%	60%	67%	72%
Ladakh	2	0%	0%	40%	100%	37%	100%	44%
Central region	**167**	**26%**	**9%**	**53%**	**NA**	**18%**	**NA**	**38%**
Uttar Pradesh	75	17%	5%	45%	40%	21%	19%	44%
Madhya Pradesh	52	6%	3%	72%	53%	13%	32%	28%
Chhattisgarh	27	2%	1%	74%	73%	10%	43%	27%
Uttarakhand	13	1%	1%	36%	89%	22%	82%	35%
Eastern region	**126**	**23%**	**7%**	**44%**	**NA**	**19%**	**NA**	**50%**
West Bengal	24	7%	4%	48%	72%	15%	40%	46%
Bihar	38	9%	1%	45%	48%	26%	39%	50%
Odisha	30	3%	1%	44%	62%	22%	38%	53%
Jharkhand	24	3%	1%	34%	69%	20%	56%	52%
Sikkim	5	0%	0%	43%	99%	28%	99%	40%
Andaman and Nicobar Islands	5	0%	0%	52%	100%	20%	100%	25%

Region / state / union territory	No. of districts	% share in overall population in India	Share in overall credit	Credit-to-deposit ratio	Concentration of credit in top 5 districts	% of credit in rural areas	Concentration of credit accounts in top five districts	% of credit accounts in rural areas
Northeastern region	**114**	**4%**	**1%**	**49%**	**NA**	**26%**	**NA**	**42%**
Assam	33	3%	1%	52%	53%	24%	37%	44%
Tripura	8	0%	0%	42%	86%	35%	82%	43%
Meghalaya	11	0%	0%	38%	90%	35%	84%	48%
Manipur	16	0%	0%	73%	83%	31%	84%	31%
Nagaland	12	0%	0%	49%	78%	22%	72%	28%
Arunachal Pradesh	26	0%	0%	27%	71%	29%	63%	35%
Mizoram	8	0%	0%	41%	85%	17%	78%	22%

NA: Not applicable.

Notes:

1. Arranged in descending order of share in overall credit outstanding of banks in each region
2. Green indicates states with higher share in overall credit compared with its share in India's population, red indicates states with lower relative share in overall credit compared with its share in India's population, and orange indicates states with equivalent share in overall credit compared with its share in India's population.

Source: RBI, CRISIL MI&A Research

States with low financial penetration present a strong case for growth

Madhya Pradesh, Bihar and Uttar Pradesh have ample headroom for growth, given their low credit penetration amid sustained economic growth. Similarly, western states such as Maharashtra and Gujarat have showcased good growth in terms of GDP, though Gujarat has relatively low credit penetration, thereby presenting huge potential.

Uttar Pradesh, Bihar, Jharkhand, Assam, Meghalaya and Chhattisgarh had the lowest credit account penetration among all states in fiscal 2023. These states also exhibit lower CRISIL Inclusix scores, indicating low financial inclusion.

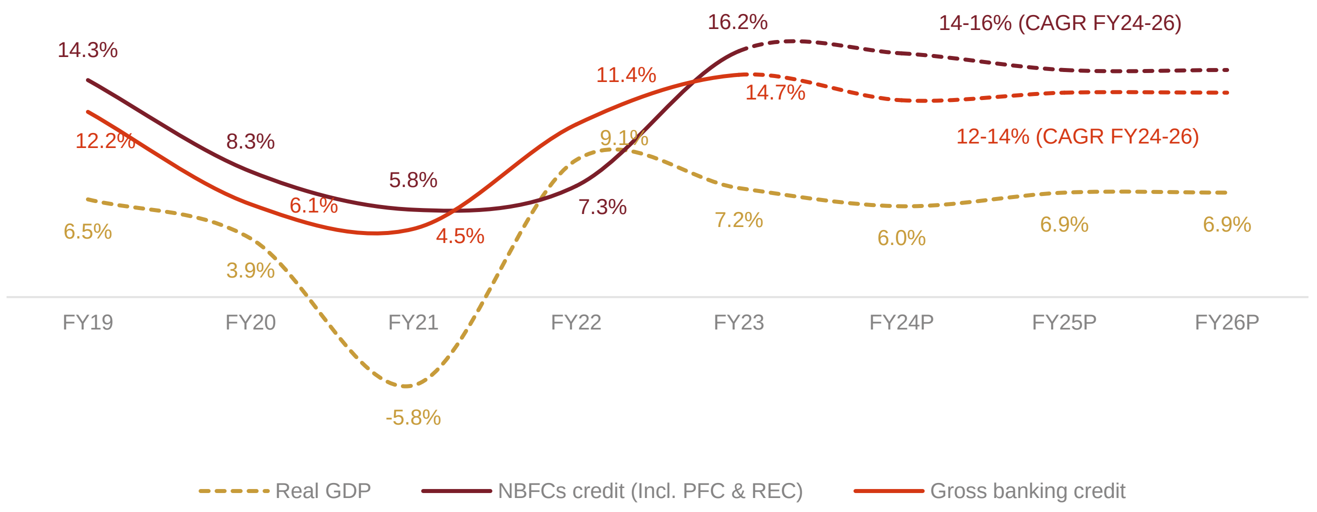
With lower financial penetration, these states present a huge untapped market and potential for growth in the future as their state GDPs gradually increase.

Indian Microfinance Industry

Overall NBFCs - review and outlook

NBFCs clocked double-digit credit growth last fiscal, continuing healthy momentum

NBFCs to report retail segment-led credit growth of 14-16% in medium term

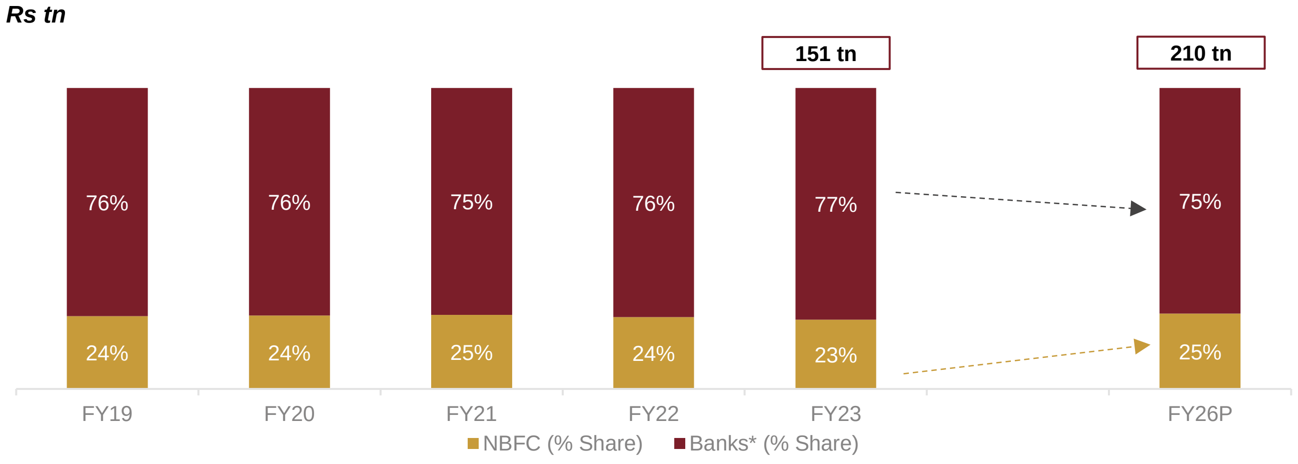


Note: P — projected
Source: Reserve Bank of India (RBI), National Housing Bank (NHB), Ministry of Finance, company reports, CRISIL MI&A Research

Between fiscals 2016 and 2018, non-banking financial companies (NBFCs) clocked 15% compound annual growth rate (CAGR) in credit, mainly due to the aggressive expansion of their footprint and the entry of numerous new players across India. However, non-banks faced headwinds after the IL&FS default in September 2018, followed by a liquidity crisis. Later, funding challenges and the Covid-19 pandemic added to the pressures, curbing growth. Banks benefitted in this milieu and used their surplus liquidity to gain market share in terms of credit in a few key segments. The pandemic brought about a sudden halt in economic activity and slowed down demand for credit in fiscal 2021.

In fiscal 2022, the economy began to reopen, and lockdowns were relaxed after the second wave of the pandemic, leading to normalisation of business activities, which drove credit growth in most segments.

NBFCs outpace Banks in credit growth in medium term capturing market share



*Note: *The above representation of bank credit is exclusive of agriculture, international and food credit*

P: Projected

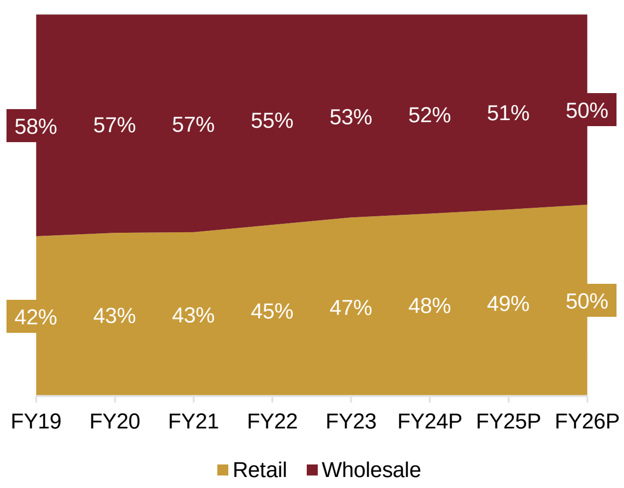
Source: CRISIL MI&A Research

Following moderation in credit growth during pandemic, NBFCs were back on track with growth of 16.2% last fiscal. This took the credit outstanding of NBFCs (including HFCs, PFC and REC and excluding HDFC) to ~Rs 34.8 trillion. CRISIL MI&A Research expects credit growth of 14-16% in the medium term. The primary growth drivers being retail housing loans, personal loans, auto loans and microfinance in the retail segment, and micro, small and medium enterprise (MSME) loans in the wholesale segment. With NBFCs outpacing banks in credit growth the market share of NBFCs is expected to increase by ~200 bps to 25% till fiscal 2026.

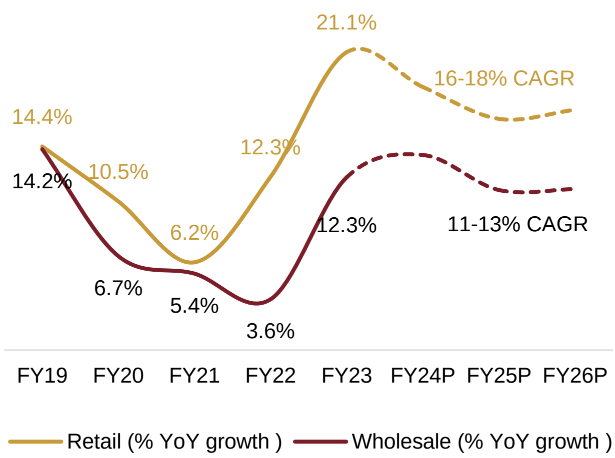
Retail segment drove credit growth last fiscal for NBFCs

Market share gain for retail segment to continue this fiscal

Share of retail vs wholesale in NBFCs



Credit growth of retail vs wholesale segments



Note: P — projected

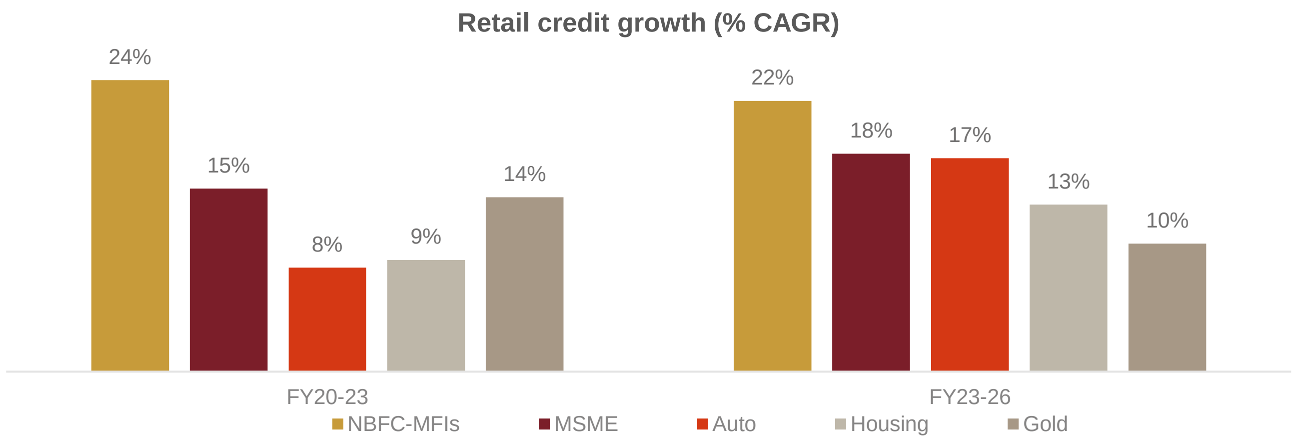
1) Retail includes housing, auto, gold, microfinance, personal loans, consumer durables, and education

2) Wholesale includes MSME, real estate and large corporate, infrastructure, and construction equipment
Source: Industry, CRISIL MI&A Research

After the NBFC crisis in fiscal 2018, the retail segment led growth in the NBFC sector, while the wholesale segment saw low single-digit growth from fiscal 2020 to fiscal 2022. Last fiscal, the retail segment grew 21.1% and the wholesale segment by 12.3%. While credit growth was broad-based in the retail segment, MSME was the primary growth driver for the wholesale segment.

With continued focus on the retail segment and multiple players announcing plans to reduce wholesale exposure, the retail segment's market share is expected to rise further and have an equal share by the end of fiscal 2026. The growth rate for retail loans supported by Housing, MFI and auto is expected to be in range of 16-18% between fiscal 2024-26

Retail segment continues to lead NBFC credit growth



NBFCs market share (FY23)	37%	26%	45%	20%	22%

Note: P — Projected
Source: Company reports, CRISIL MI&A Research

Overall NBFCs are expected to continue outpacing banking credit growth with a focus on growing the retail portfolio. Key retail segments supporting in the overall NBFCs with double-digit credit growth between fiscal 2024-26 includes micro-finance, retail housing, auto, and gold loans.

Increase in interest yields and improving credit cost to support RoA

	Yield on average assets		Cost of Funds		NIM		Credit Costs		Return on average assets	
	FY23	FY24P	FY23	FY24P	FY23	FY24P	FY23	FY24P	FY23	FY24P
Housing	9.8%	10.5%	6.9%	7.8%	2.9%	2.7%	0.3%	0.4%	1.8%	2.0%
Gold	15.1%	15.9%	5.2%	5.8%	9.9%	10.1%	0.1%	0.2%	4.8%	4.8%
MFI	17.3%	18.7%	7.3%	8.0%	10.0%	10.8%	3.3%	2.8%	2.6%	3.5%
Auto	12.5%	13.0%	5.8%	6.7%	6.6%	6.2%	1.8%	1.7%	2.3%	2.4%

Note: The above ratios are calculated on average total assets
Source: Company reports, CRISIL MI&A Research

In fiscal 2023, to tackle inflation the Reserve Bank of India started increasing policy repo rating by 40 bps in May 2022 and 50 bps in June, August and September 2022, 35 bps in December 2022 and 25 bps in February 2023, taking policy repo rate to 6.50%. After an aggregate hike of 250 bps during fiscal 2023, the central bank has been on a pause and evaluating the impact of rates hike on the economy since the pass on happens with a lag.

Overall yield and cost of funds for the retail segments are estimated to have gone up during fiscal 2023 due to the interest rates hikes. However, the amount of pass-on has been distinct across all segments on account of level of competition, nature of asset class and segmental credit demand. The overall yields are expected to inch up moderately in fiscal 2024. Accordingly, a stable or modest increase in RoA is expected across all segments in fiscal 2024.

Improved NIM (except gold segment) and decline in credit costs are the key reasons for improving or stable profitability across most segments in fiscal 2023. Further, increased competition from banks across all retail segments had a less than expected impact on the NBFCs' / HFCs' yields. This led to marginal moderation in NIM. Additionally, with healthy asset quality and lower credit cost, the RoAs are expected to improve across segments.

Growth and development of the Indian microfinance industry

MFI industry portfolio outstanding logged 22% CAGR between fiscals 2016 and 2023

The industry's portfolio outstanding clocked 22% compound annual growth rate (CAGR) between March 2016 and March 2023 to reach Rs 3,492 billion. The microfinance industry's joint liability group (JLG) portfolio has recorded a healthy growth in the past few years.

In fiscal 2021, the industry was adversely impacted by the onset of the Covid-19 pandemic. While disbursements came to a standstill and the industry portfolio outstanding dropped in the first quarter of the year, they picked up subsequently and reached pre-Covid levels in the third and fourth quarters.

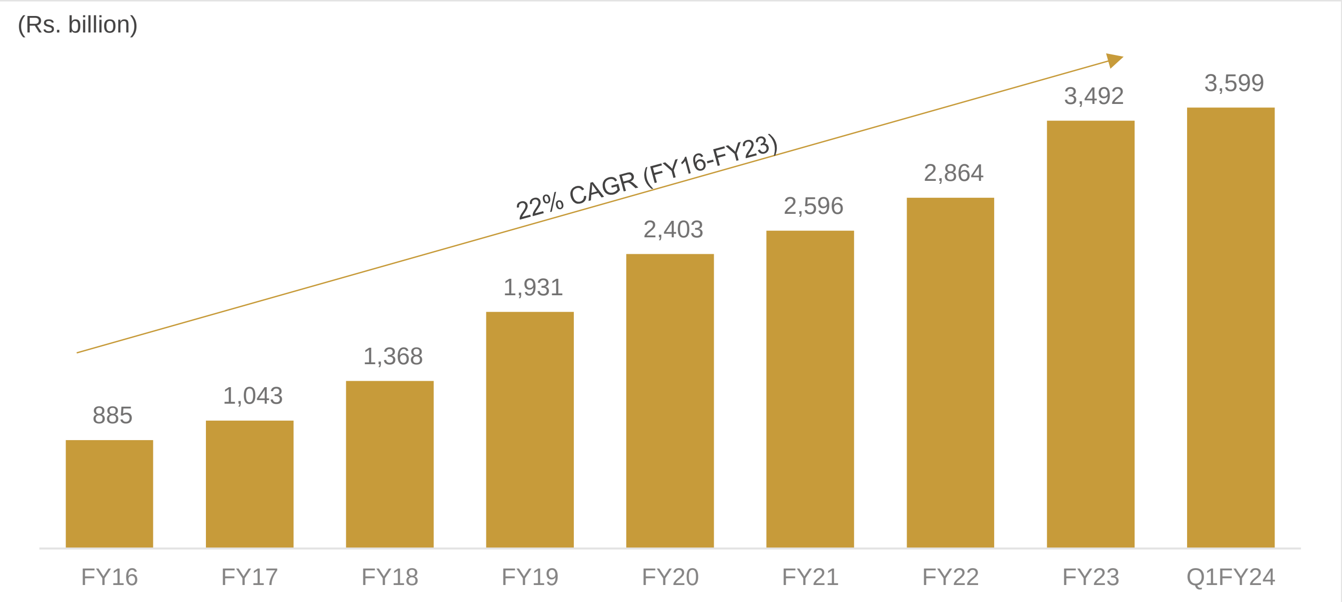
In fiscal 2022, the second wave led to another slowdown, although not as severe as in the previous fiscal. On-year, the industry portfolio outstanding grew 10%.

In fiscal 2023, the overall microfinance industry portfolio outstanding grew 22% on-year to Rs 3,492 billion. A significant portion of the on-year growth of the overall microfinance industry can be attributed to the expansion of the NBFC-MFI sector.

Overall industry portfolio outstanding in the first quarter of this fiscal reached Rs 3,599 billion. CRISIL MI&A Research expects the overall microfinance industry to grow approximately 18% on-year this fiscal and a further 15% in the next fiscal. Going forward, it will continue to see strong growth on the back of the government's continued focus on strengthening the rural financial ecosystem, robust credit demand, and bigger-ticket loans disbursals.

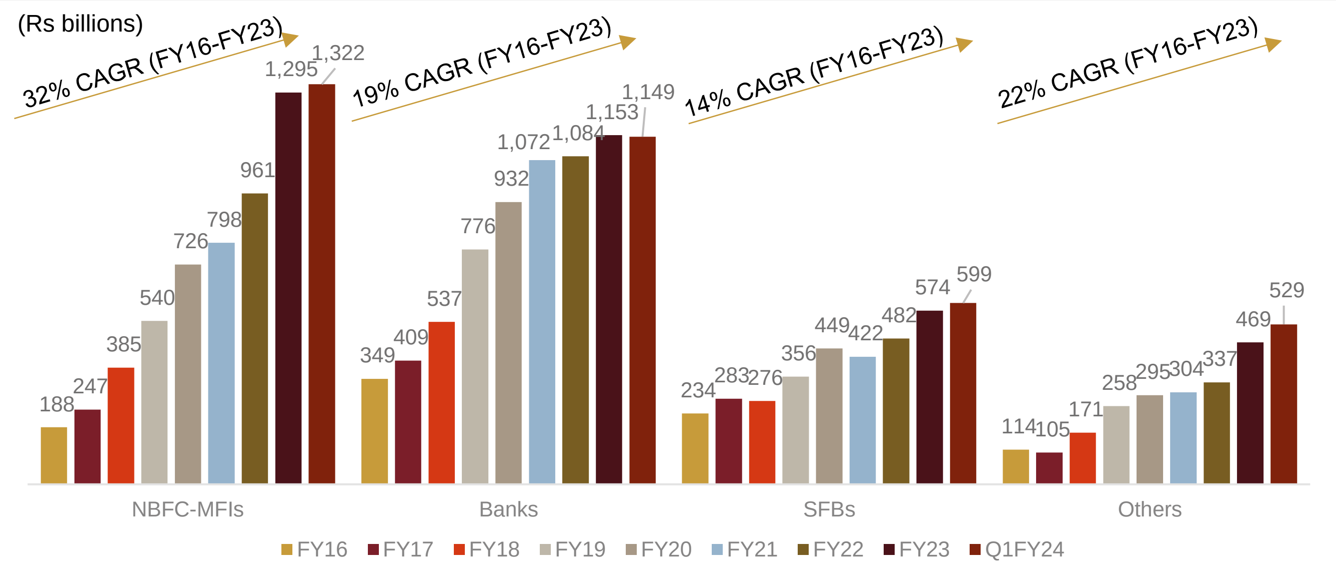
The microfinance industry's growth has been relatively high despite the impact of various events such as demonetization, farm loan waivers, natural calamities, the IL&FS crisis, and the pandemic.

MFI industry portfolio outstanding clocked 22% CAGR between fiscals 2016 and 2023



Note: Data includes data for banks' lending through JLG, small finance banks (SFBs), NBFC-MFIs, and other MFIs. It excludes data for banks' lending through self-help groups (SHG).
Source: CRIF Highmark, CRISIL MI&A Research

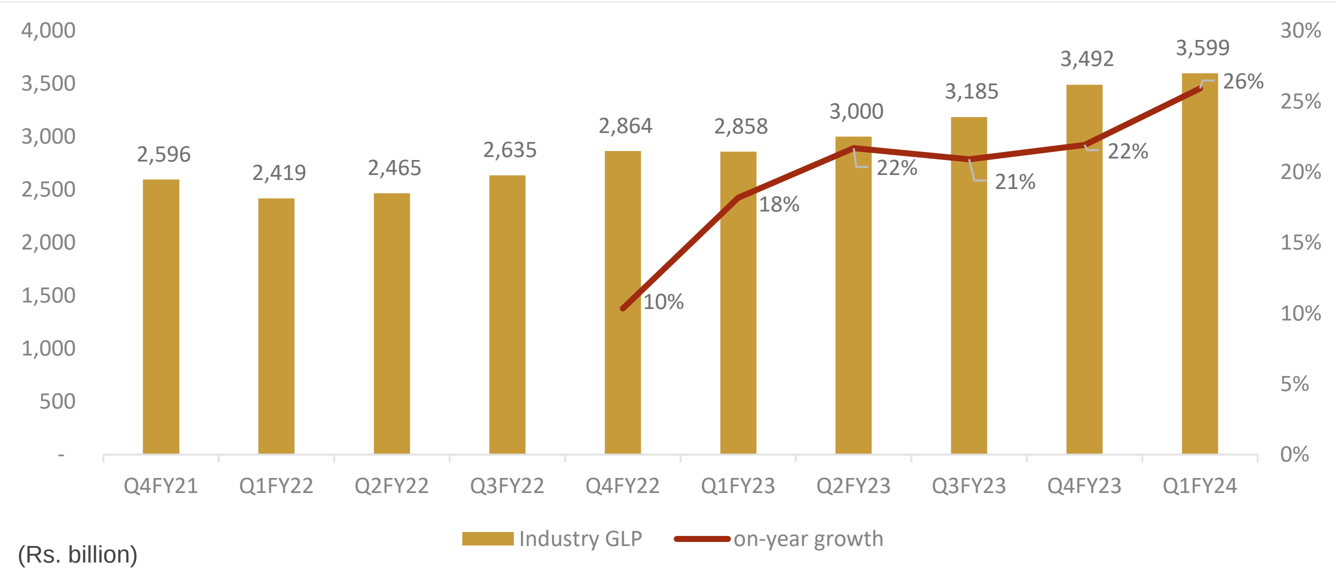
NBFC-MFIs' historical CAGR surpasses that of other industry player groups



Note: Data includes data for banks' lending through JLG, small finance banks (SFBs), NBFC-MFIs, and other MFIs. It excludes data for banks' lending through self-help groups (SHG).
Source: CRIF Highmark, CRISIL MI&A Research

Industry portfolio outstanding grew 22% on-year in fourth quarter of fiscal 2023

On-year growth for the fourth quarter of fiscal 2023 stood at 22% and for the first quarter of fiscal 2024 stood at 26%.



Note: Data includes data for banks' lending through JLG, small finance banks (SFBs), NBFC-MFIs, and other MFIs. It excludes data for banks' lending through self-help groups (SHG).; GLP refers to Gross loan portfolio.
Source: CRIF Highmark, CRISIL MI&A Research

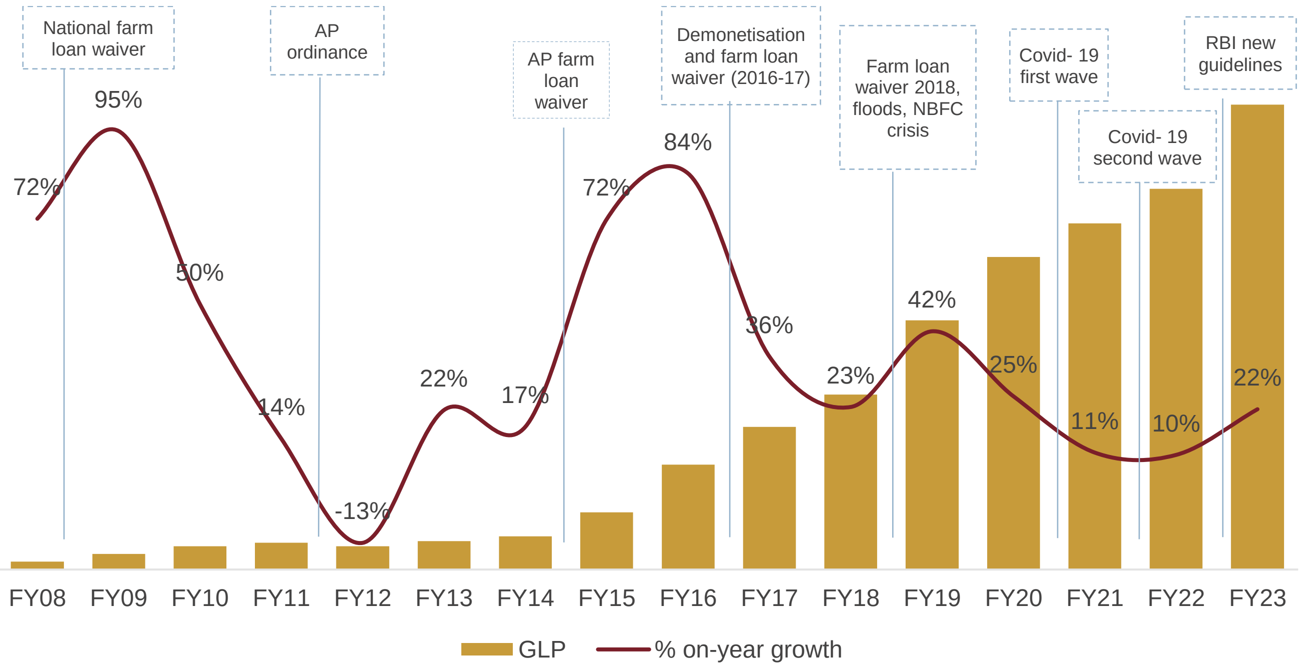
Industry resilient despite major setbacks and changing landscape

The microfinance industry has been growing despite facing various headwinds in the past decade, such as the national farm loan waivers (2008), the Andhra Pradesh crisis (2010), Andhra Pradesh farm loan waiver (2014), demonetization (2016), and more state-specific farm loan waivers (2017 and 2018). Of these events, the Andhra

Pradesh crisis of 2010 had a lasting impact on the industry. Some players had to undertake corporate debt restructuring and found it difficult to sustain their business. While the demonetization of Rs 500 and Rs 1,000 denomination banknotes in November 2016 hurt the industry, the impact was not as deep as the Andhra Pradesh crisis and was limited to certain districts. Portfolio at risk (PAR) data as of September 2018 indicates the industry recovered strongly from the aftermath of the demonetization. Furthermore, collections since September 2017 remained healthy. The liquidity crisis in 2018, however, had a ripple effect on microfinance lending as smaller NBFC-MFIs with capital constraints and lenders relying on NBFCs for funding slowed down disbursements.

NBFC-MFIs faced initial hiccups at the start of fiscal 2021 due to the pandemic on account of uncertainty over collections and aversion by lenders to extend further funding to them. However, the situation improved gradually and most NBFC-MFIs, with the exception of a few, were able to improve the liquidity buffers during the course of the year by raising funds and after getting support from various government schemes. While the resurgence of Covid-19 led to a fresh bout of uncertainty with respect to collections in the first quarter of fiscal 2022, the impact was not as pronounced as in the early part of the previous fiscal. The industry gradually rebounded in fiscal 2022 on account of increased disbursements. Further, with revised MFI guidelines announced by the RBI in March 2022 that increased the total household income threshold for collateral-free loans coupled with higher consumption demand and lower slippages fueled growth in fiscal 2023. In February 2023 Telangana High Court ordered that RBI-regulated NBFCs operating as MFIs should not be governed by state laws, Only the central bank has power to regulate these entities. A similar Supreme Court ruling last year reaffirmed that state moneylending acts will not apply to NBFCs that are under the regulation of the RBI, addressing industry dual regulation issues.

MFI industry has shown resilience over the past decade



Note: Data includes numbers for banks lending through JLGs, SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs. It excludes data for banks lending through SHGs. The amounts are as at of the end of the financial year; GLP refers to Gross loan portfolio
Source: MFIN, CRISIL MI&A Research

Over the years, MFIs have proven their resilience to high-impact events. They have played an important role in promoting inclusive growth by providing credit to borrowers at the bottom of the economic pyramid. Despite catering to a vulnerable audience, the MFIs have historically proven their ability to recover effectively from crisis situations within a few months (for instance, demonetization) and have been able to maintain profitability over a cycle. Amid the pandemic, the MFIs bolstered their capital position by raising fresh equity. Their ability to raise capital, even in such uncertain times, can be attributed to the latent growth potential of the sector, capability of the industry to wade through periods of crises by taking proactive steps, social impact of MFI lending, and healthy profitability over business cycles. Furthermore, MFI lending is closely regulated by the RBI. Over the years, the central bank has come up with various regulations to enable long-term sustainable growth in the sector and reduce systemic risks.

Demonetization (2016)

On November 8, 2016, the central government announced the demonetization of Rs 500 and Rs 1,000 notes, effectively removing in value terms ~86% of the currency from circulation. The move shook the MFI industry. The replacement of the demonetized currencies with new Rs 500 notes and Rs 2,000 notes was sluggish. As a consequence, the portfolio outstanding of the MFI industry suddenly slumped. Disbursements were the worst hit as they declined 29% in the second half compared with a 60% growth in the first half of the year.

The demonetization affected the asset quality of the MFIs, as PAR>90 days for the industry jumped to 10.47% as of March 2017 compared with 7.66% as of March 2016. Among various states, asset quality worsened especially in Uttar Pradesh, Maharashtra, Karnataka, and Madhya Pradesh. However, in these states as well, the deterioration in asset quality was largely on account of the poor performance of a few districts.

Farm loan waivers in fiscals 2017 and 2018

Uttar Pradesh, Maharashtra, Karnataka, and Punjab had announced farm loan waivers with varying coverage. This impacted the collections initially. However, efforts by MFIs to educate borrowers about the applicability of the scheme have led to a gradual pick-up in loan collection. Even the government and industry associations helped the MFIs by making announcements through media to create awareness among the borrowers.

State	Total registered farmers (million)	% of marginal and small farmers in total registered farmers (%)	Extent of loan waiver (Rs billion) *	Key features of the loan waiver
Uttar Pradesh	23.3	92.5	363.59	Crop loans up to Rs 0.1 million per farmer taken by small and marginal farmers until March 31, 2016
Maharashtra	13.7	57.3	340.22	Farm loans of all indebted farmers, regardless of their land holdings, whose loan accounts went into default from April 1, 2009 to June 30, 2016, with a cap of Rs 0.15 million per farmer Farmers with loans more than Rs 0.15 million were allowed to repay the loans in three instalments beyond June 30, 2017, with the government providing a one-time settlement by depositing the last instalment of Rs 0.15 million in their accounts A bonus of 25% of debt, capped at Rs 25,000, to farmers who regularly repaid their loans until July 31, 2017 *A one-time settlement scheme for farmers, whose loans have been restructured, with the government contributing Rs 0.15 million per account*
Karnataka	7.8	77.3	86.15	*Crop loans of up to Rs 50,000 per farmer, if borrowed from co-operative banks*
Punjab	1.1	34.1	100.00	Crop loans of up to Rs 0.2 million per farmer. The scheme mostly covered farmers with up to 5 acres of land *Overall, outstanding institutional crop loans of households, where a farmer has committed suicide, were waived*

*Notes: The number of operational holdings assumed as a proxy for the number of registered farmers; * reported by state governments in press statements*
Source: National Sample Survey Office (NSSO) situation assessment survey of agricultural households (2013), CRISIL MI&A Research

It led to a slowdown in lending, was mostly due to lower repayments caused by a disturbance in the repayment cycle in the above-mentioned states. However, the impact on the NBFC-MFIs was less as compared with banks due to being in regular touch with the customers.

Impact of floods in Kerala and Odisha (2018-20)

In 2018, severe floods hit southern India, with Kerala being one of the worst affected areas. This affected the state's microfinance industry adversely. The credit quality of most of the borrowers deteriorated due to the loss of income-generating businesses caused by the floods. In May 2019 and May 2020, Odisha witnessed its worst cyclones, Fani and Amphan. These impacted West Bengal and Odisha severely and resulted in a near-term spike in the PAR portfolio of the NBFC-MFIs and small finance banks (SFBs).

NBFC liquidity crisis

The liquidity crisis plaguing NBFCs in India had a minor ripple effect on micro-lenders. Lenders who relied on NBFCs for funding slowed down disbursement and started looking at different avenues to raise money. However, the impact of the crisis was not that profound since large NBFC-MFIs had a diversified funding mix and were able to leverage this to their advantage. The outstanding borrowings of the NBFC-MFIs logged a 22% CAGR between March 2021 and March 2023.

Impact of Covid-19 pandemic

The protracted nationwide lockdown to contain the spread of Covid-19 affected the income-generation ability and the savings of MFI borrowers. Typically, these borrowers have weaker credit profiles. About 50-60% of the micro loans were under moratorium as of August 2020. Also, because of the nationwide lockdown, and several state-imposed lockdowns thereafter, the normal operations of MFIs — loan origination and collections — were a challenge, especially during the first few months after the onset of the pandemic. This had an adverse impact on the MFIs since their operations are field-intensive, involving personal interactions, such as home visits and physical collection of cash.

Prior to the lockdown, many MFIs had managed to shore up their liquidity by March-end in fiscal 2020. They had already done a majority of their collection before the lockdown. In fact, collection efficiency was largely intact — at 98-99%. The MFIs also drew down bank loans for the purpose of on-lending in the last week of March, which is typically a period marked by high business activity. However, planned disbursements did not happen on account of the lockdown. Disbursements reached the pre-Covid level in the third and fourth quarters of fiscal 2021 led by rural and semi-urban areas since the impact of the pandemic was relatively lower there.

Key government steps that supported MFIs during the Covid-19 crisis

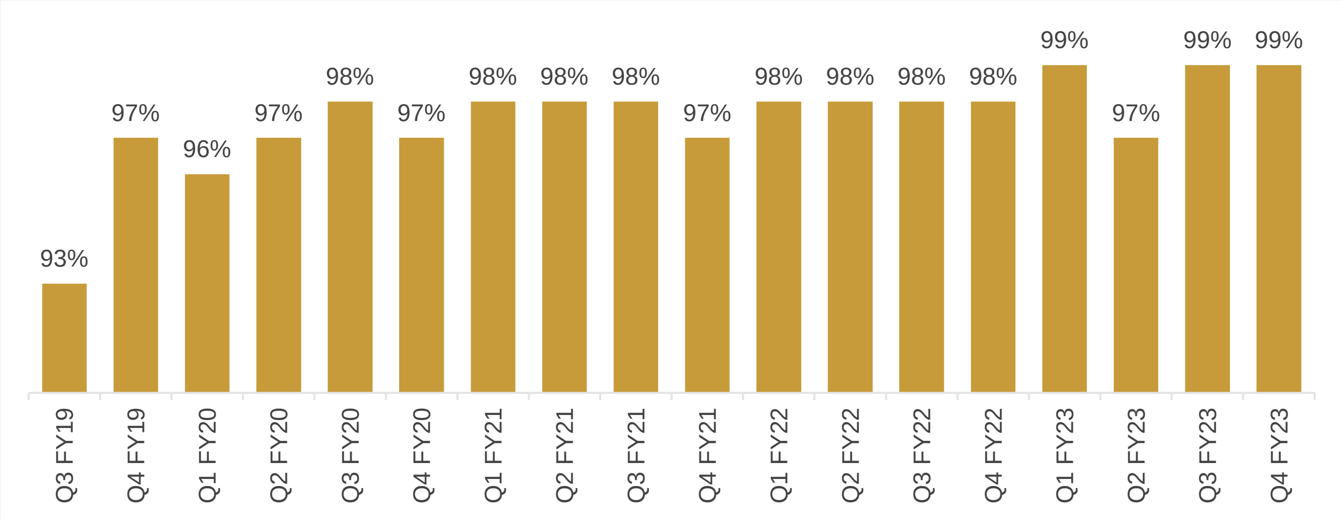
- **Reducing the debt servicing burden through a moratorium period:** The RBI initially permitted lending institutions to allow a moratorium of three months on repayment of instalments for term loans outstanding as on March 1, 2020, and defer interest payments due on working capital facilities outstanding. The moratorium was further extended by another three months until August 31. However, the banks were instructed to provide 10% additional provisioning for availing of this benefit, which could be later adjusted against the provisioning requirements for actual slippages. These measures were intended to boost confidence in the economy and provide relief to the borrowers.
- **Refinance support from RBI:** In April 2020, the RBI announced refinancing support of Rs 250 billion to the National Bank for Agriculture and Rural Development (NABARD), which provides support to NBFC-MFIs, rural regional banks and co-operative banks.

- **Loan interest subvention scheme:** Under this scheme, the government provided 2% interest subvention to loans given under the Mudra-Shishu scheme. These loans of up to Rs 50,000 ticket size are primarily given by the NBFC-MFIs to low-income groups.
- **PSL status for SFB lending to NBFC-MFIs:** On May 5, 2021, the RBI announced that fresh lending by the SFBs to the NBFC-MFIs with asset size less than Rs 5 billion for on-lending to individual borrowers will be classified under priority sector lending (PSL). This encouraged the flow of credit to smaller MFIs, which were facing relatively bigger funding-access challenges. The facility to the SFBs was made available up to March 31, 2022.
- **SLTRO:** The RBI announced a special long-term repo operation (SLTRO) programme to the tune of Rs 100 billion for the SFBs to soften the impact of the second wave of Covid-19. The first auction took place on May 17, 2021. It continued in subsequent months until the amount was fully utilised. The amount borrowed from this scheme was to be utilised to lend to small business units and other unorganised sectors.
- **Credit Guarantee Scheme:** On June 28, 2021, the Minister of Finance announced the Credit Guarantee Scheme through the MFIs for the first 2.5 million customers for a maximum tenure of three years. Three-fourths of the guarantee was provided to scheduled commercial banks for a ticket size up to Rs 1.25 lakh to new or existing NBFC-MFIs. This addressed the severe cash flow distress the second wave inflicted on individuals and small businesses.

Adoption of technology in microfinance industry

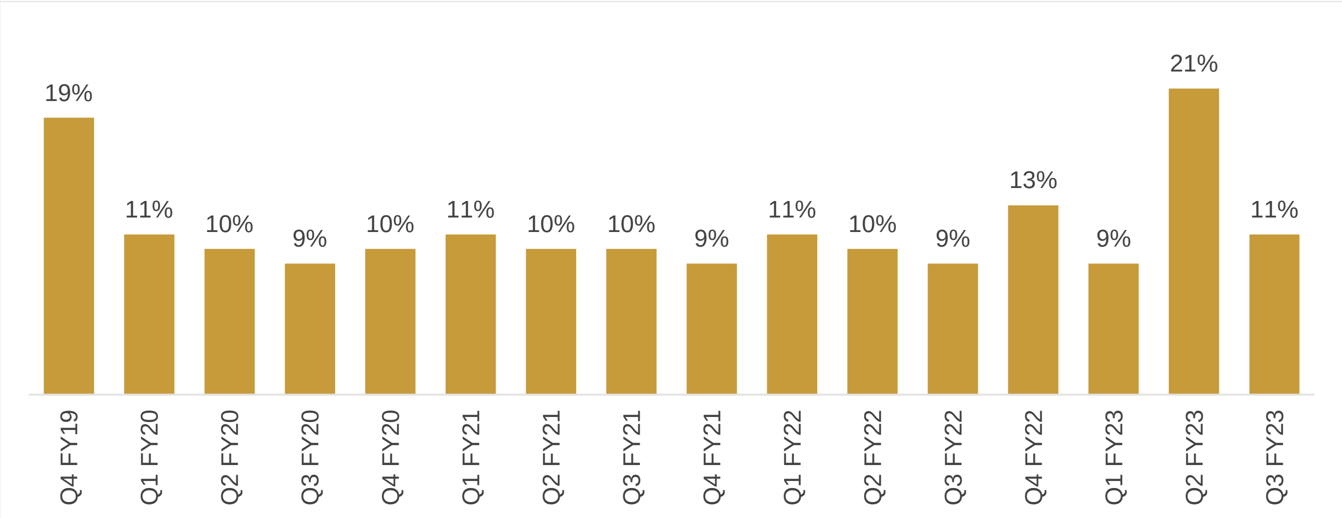
- The microfinance industry in India has witnessed a significant transformation with the advent of digital technology. Many players in the industry have adopted digital initiatives to enhance their operations and reach out to more customers. Some of the digital initiatives taken by players in the MFI industry include mobile-based applications, digitalisation of loan process, use of Aadhaar-based authentication, cashless transactions and digital financial education.
- The MFIs have also partnered with fintech companies to enhance their digital capabilities and provide better services to customers. The fintech companies offer solutions such as digital payments, credit scoring and loan management systems that the MFIs can leverage to improve their operational efficiency and expand their reach.
- Cashless disbursements and collections have become increasingly popular in the microfinance industry in India, as they promote transparency, reduce cash handling costs and improve customer experience.

Trend in cashless disbursement



Source: MFIN report, CRISIL MI&A Research

Trend in cashless collections



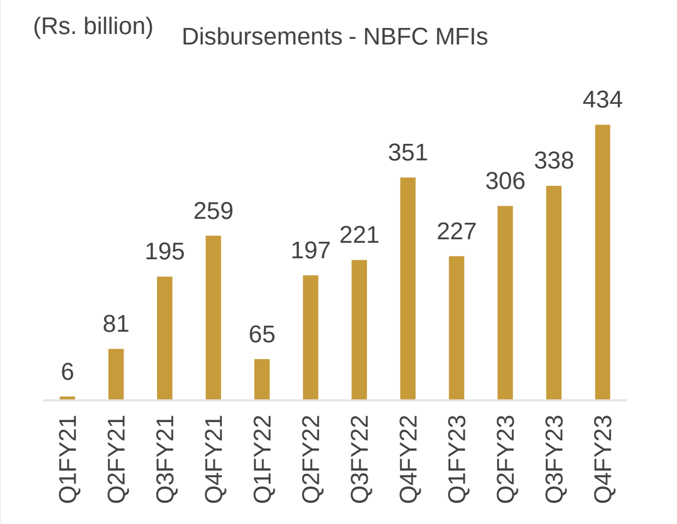
Source: MFIN report, CRISIL MI&A Research

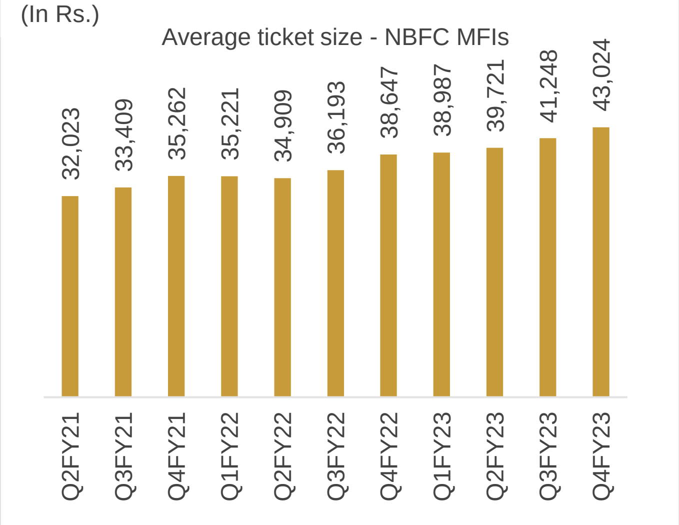
NBFC-MFIs' disbursements grew 57% in fiscal 2023

In fiscal 2021, the disbursement witnessed a slack on account of the nationwide lockdown imposed to contain the pandemic, which brought the economic activities to a grinding halt in the first half. In the second half, with activities resuming, the credit outflow picked up. Further, the first quarter of fiscal 2022 saw the impact of the second wave of the pandemic leading to localised lockdowns. The growth rebounded in the second half and pace continued during fiscal 2023 with aggregated disbursement rising to Rs 1,306 billion (57% on-year growth).

The growth was supported by rural economic revival, improved collection efficiency, implementation of the RBI's new regulatory framework, increased penetration and bigger average ticket size of disbursement which grew 11% from Rs 36,647 in the fourth quarter of fiscal 2022 to Rs 43,024 in the fourth quarter of fiscal 2023.

Increasing average ticket size and overall economic recovery support disbursements





Source: CRISIL MI&A Research, MFIN

Outlook for Indian microfinance industry

Rising penetration to support continued growth of the industry

With economic revival and unmet demand in rural regions, CRISIL MI&A Research expects the overall MFI portfolio size to reach Rs 5,451 billion by the end of fiscal 2026.

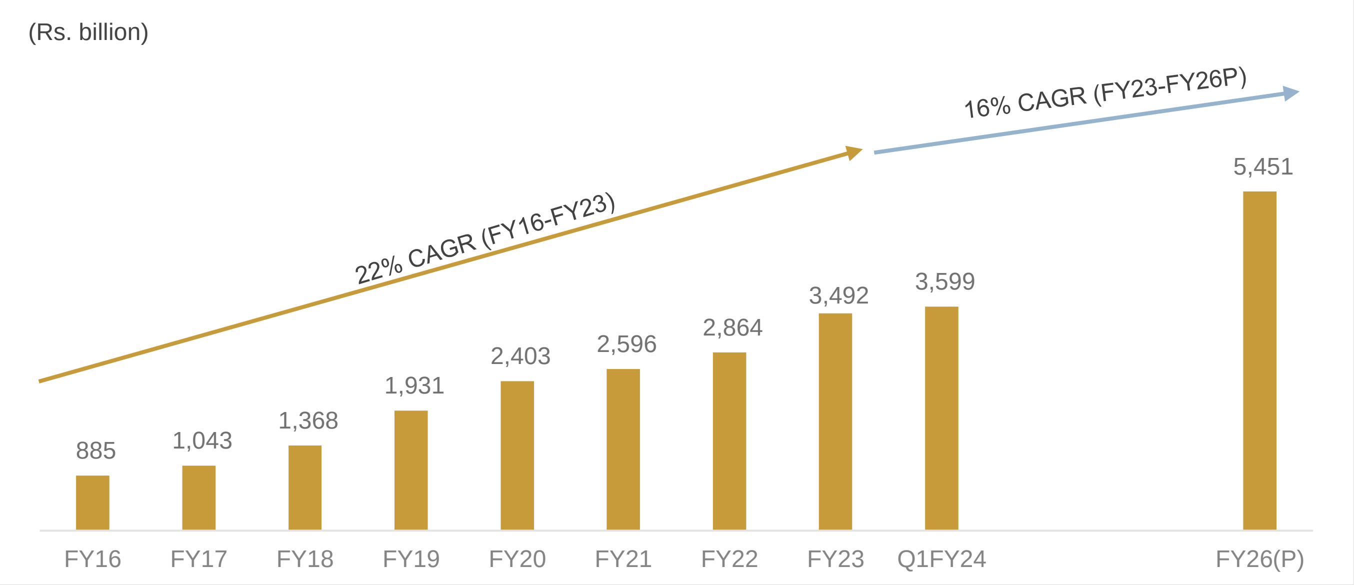
CRISIL MI&A Research expects the MFI industry to log 16% CAGR between fiscals 2023 and 2026. Key drivers for the superior growth outlook include increasing penetration into the hinterland and expansion into newer states, faster growth in the rural segment, increase in average ticket size and higher usage of support systems such as credit bureaus. The presence of self-regulatory organisations, such as MFIN and Sa-Dhan, is also expected to support the sustainable growth of the industry going forward.

Moreover, household credit is a huge untapped market for the MFI players. The country has seen household credit penetration via MFI loans rising, but it is still on the lower side.

Key enablers for the microfinance industry growth

- Digitalisation is expected to bring down costs, improve collection efficiency and profitability for the MFIs. CRISIL MI&A Research expects the lower cost of servicing customers, better productivity and lower credit costs through the use of technology will help the MFIs improve their profitability
- The MFIs have built a large distribution network in the urban and rural India. Now, these MFIs are leveraging this network to distribute financial and non-financial products, including insurance and product financing of other institutions to members at a cost lower than competition
- New regulations will help further deepen the penetration of microcredit in the country. With enhancement of the household income threshold, the MFIs are expected to reach many more households. The regulations are also expected to create a level playing field, which will increase the competition, in turn, benefitting the end customer.

MFI industry portfolio outstanding to log 16% CAGR between fiscals 2023 and 2026

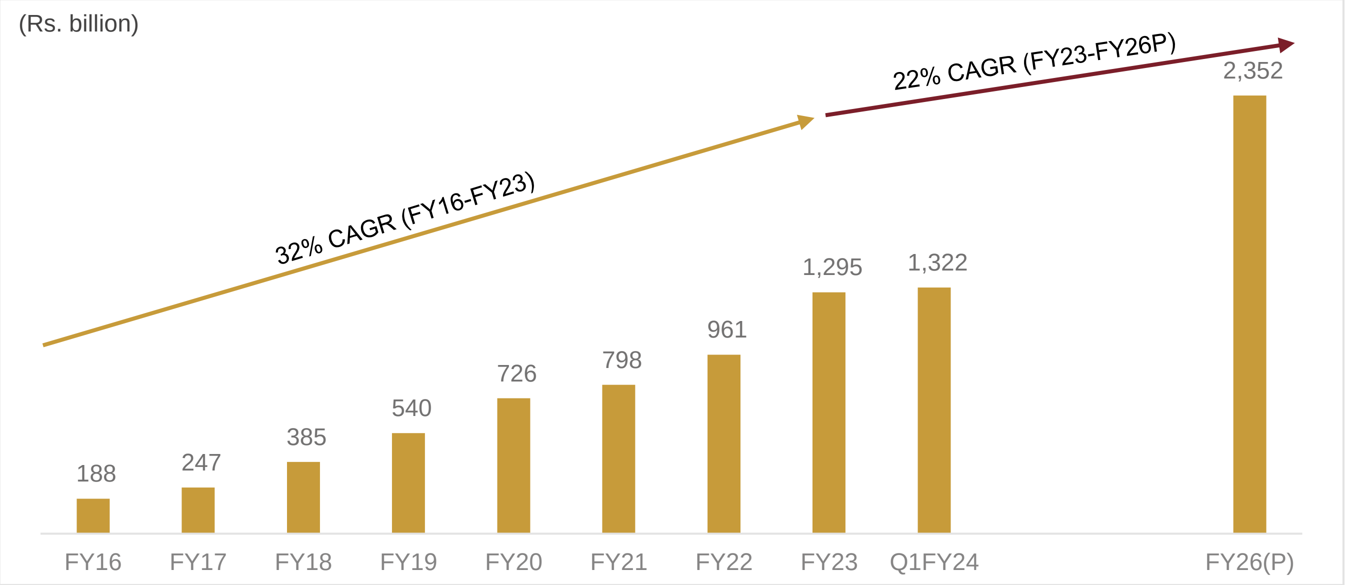


Note: FY26 portfolio outstanding estimated as per CRISIL MI&A. P: Projected.
Data includes data for banks' lending through JLG, small finance banks (SFBs), NBFC-MFIs, and other MFIs. It excludes data for banks' lending through self-help groups (SHG).
gSource: CRIF Highmark, company reports, industry and CRISIL MI&A Research

NBFC-MFI growth rate fastest amount other player groups

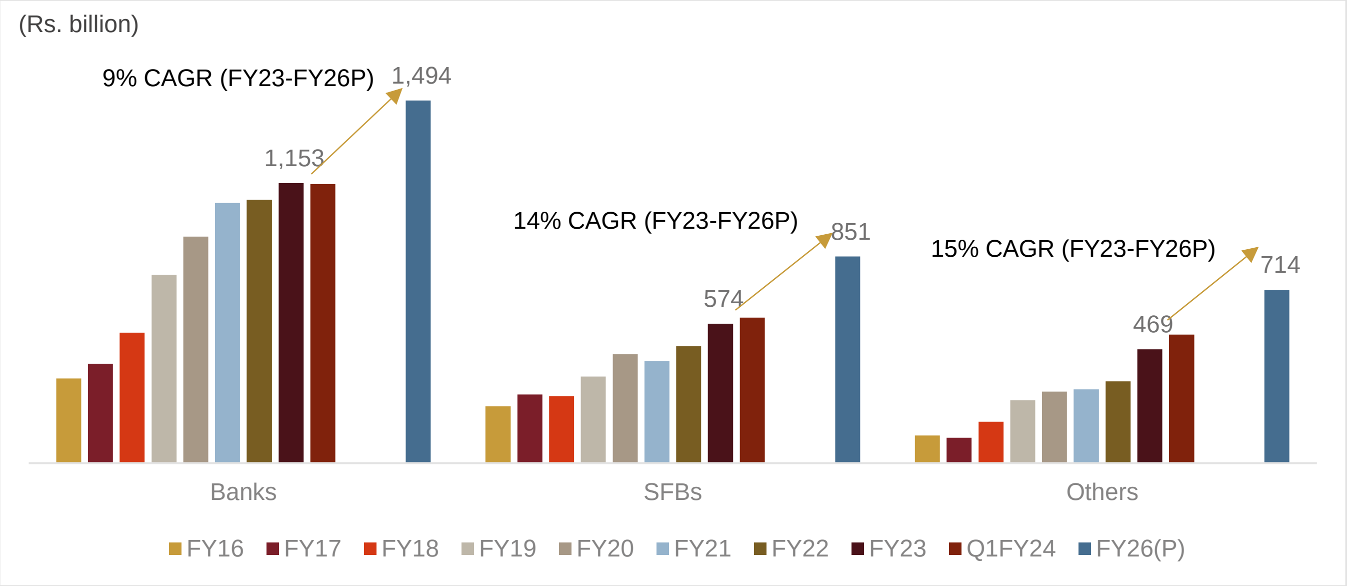
The portfolio outstanding of the NBFC-MFIs grew at a healthy CAGR of 32% between fiscals 2016 and 2023 to Rs 2,352 billion. While the growth of the MFI industry and NBFC-MFI portfolio is considerably lower than their historical growth, incremental industry growth would be driven by consistent expansion in the client base of the MFIs and increased penetration into rural areas. The historical growth rate for the NBFC-MFIs has been faster than other player groups in the industry. Going ahead, CRISIL MI&A Research expects the NBFC-MFIs to continue to outplace other MFI lenders. The NBFC-MFIs are expected to gain market share in the medium term with a healthy double-digit CAGR of 22% between fiscals 2023 and 2026. The microfinance sector in India is regulated by the RBI. The RBI's new regulatory regime for microfinance loans effective April 2022 has done away with the interest rate cap applicable on loans given by the NBFC-MFIs, and also supports growth by enabling players to calibrate pricing in line with customer risk.

Portfolio outstanding of NBFC-MFI industry to grow faster than industry



Notes: P: Projected; Data includes NBFC-MFI players
Source: CRIF Highmark, CRISIL MI&A Research

Projected portfolio outstanding of other players

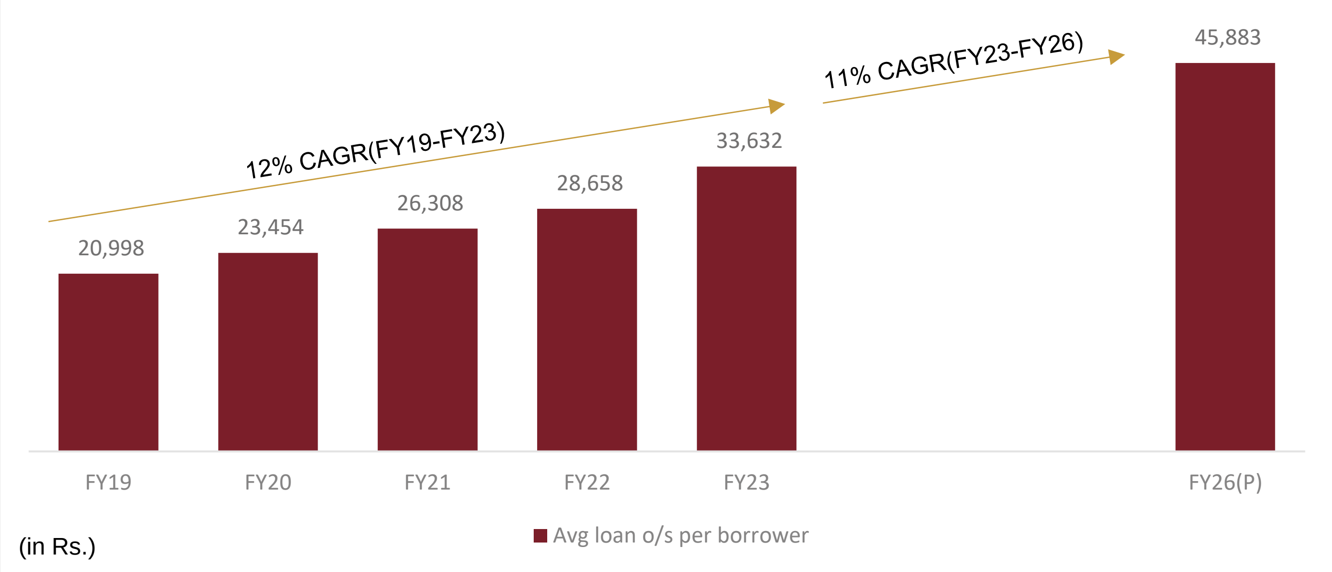


Notes: P: Projected
Data includes data for banks' lending through JLG, small finance banks (SFBs), NBFC-MFIs, and other MFIs. It excludes data for banks' lending through self-help groups (SHG).
Source: CRIF Highmark, CRISIL MI&A Research

Factors contributing to the growth of NBFC-MFIs

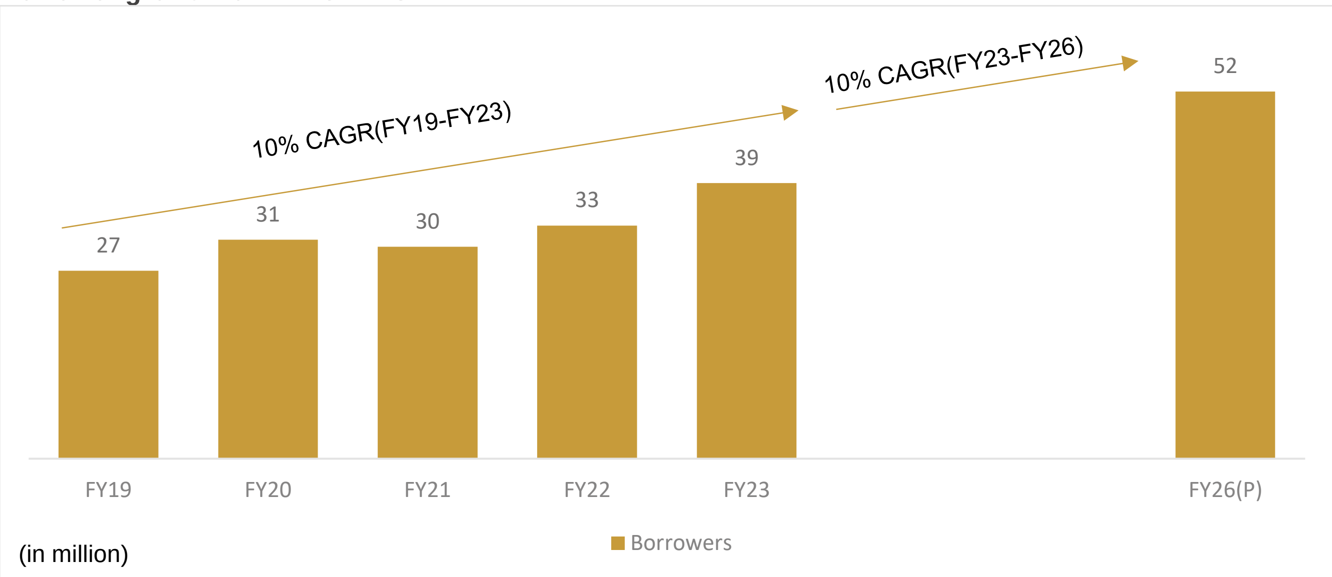
The average loan outstanding per borrower for NBFC-MFIs is expected to rise to Rs. 45,883 in fiscal year 2026, up from Rs. 33,632 in fiscal year 2023, indicating a CAGR of 11%. Concurrently, the number of borrowers for NBFC-MFIs is forecasted to reach 52 million in fiscal year 2026, up from 39 million in fiscal year 2023, with a CAGR of 10%.

Average loan outstanding per borrower of NBFC-MFI



Note: Calculated by AUM as of end of financial year divided by number of clients.
Source: MFIN, CRISIL MI&A Research

Borrower growth for NBFC-MFIs



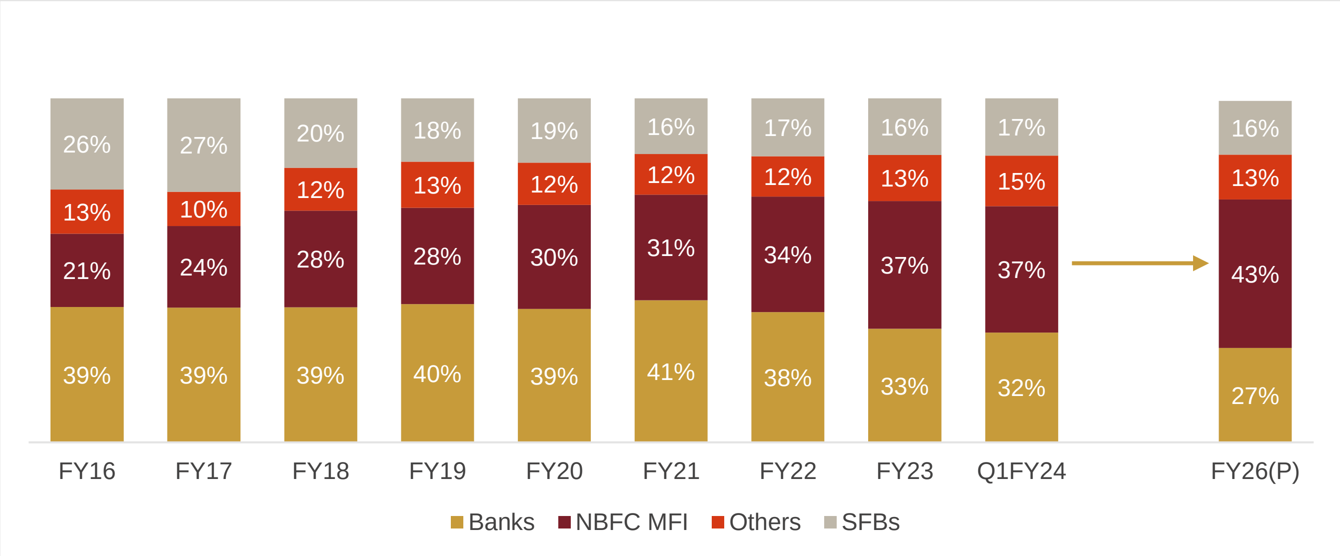
Source: MFIN, CRISIL MI&A Research

NBFC-MFIs to gain market share in portfolio outstanding between fiscals 2023 and 2026

Banks had the largest share in the microfinance industry in fiscal 2022, as they lend under priority sector lending (PSL) norms. However, NBFC-MFIs have been growing aggressively. Their loan books logged 32% CAGR between fiscals 2016 and 2023, compared with 19% for banks. The focused lending approach for NBFC-MFIs, along with support from investors (impact and PE funds), have been critical post pandemic. CRISIL MI&A Research expects this trend to continue in the medium term with NBFC-MFIs' growth continuing to outpace that of banks.

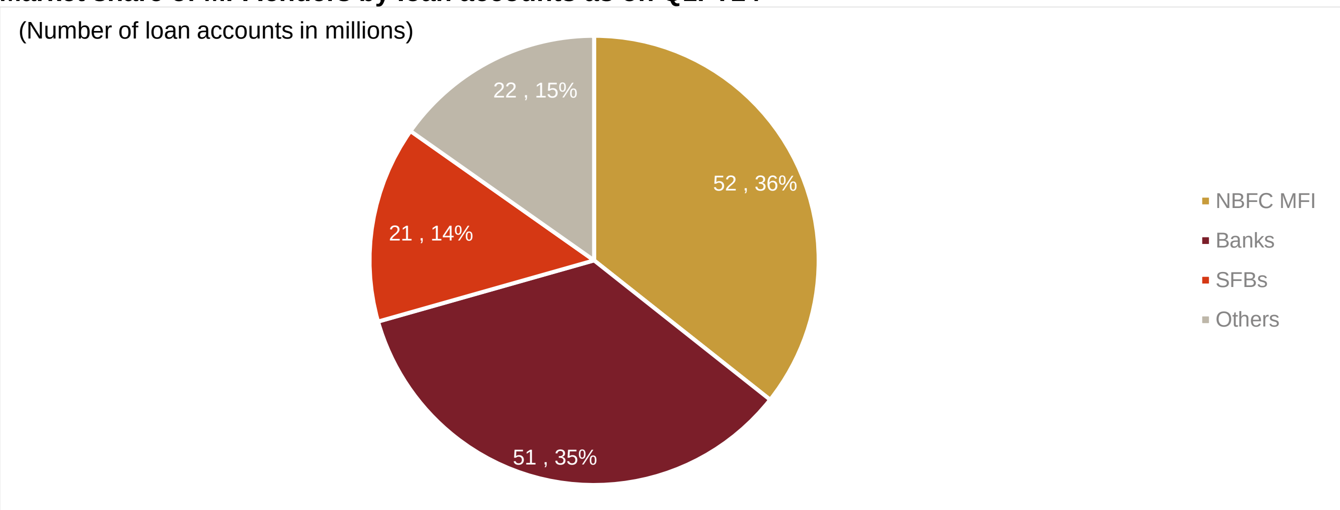
As of fiscal 2023, NBFC-MFI had the highest market share at 37% of overall MFI portfolio outstanding. Moreover, the Reserve Bank of India (RBI) introduced a revised regulatory framework effective October 1, 2022, which grants greater flexibility to NBFC-MFIs. This regulatory update is expected to stimulate growth in the NBFC-MFI segment and further enable it to gain market share from banks. The share of NBFC-MFIs is expected to increase to 43% by fiscal 2026.

Market share of MFI lenders by portfolio oustanding



Note: The amounts are as of end-financial year; P: Projected
Source: CRIF Highmark, CRISIL MI&A Research

Market share of MFI lenders by loan accounts as on Q1FY24



Note: Data includes data for banks' lending through JLG, small finance banks (SFBs), NBFC-MFIs, and other MFIs. It excludes data for banks' lending through self-help groups (SHG).
Source: CRIF Highmark, CRISIL MI&A Research

Key success factors

Ability to attract funds/raise capital and maintain healthy capital position

The microfinance industry has seen rapid growth over the past few years owing to small ticket sizes and doorstep disbursement. Despite this, a large portion of the market remains underpenetrated, making it necessary for MFIs to raise funds at regular intervals to sustain growth. This remains a challenge for several MFIs owing to perceived risk of the borrower segment, their susceptibility to socio-political issues, and volatility in asset quality. The ability of

MFIs to raise funding from diverse sources and maintain a capital position much higher than the prescribed regulatory minimum is vital for long-term sustainability.

Geographically diversified portfolio helps MFIs mitigate risks

A large, well-diversified portfolio in different geographies enables players to mitigate risks associated with a concentrated portfolio. Apart from this, a wider scale of operation helps them reduce operating expenses as a percentage of outstanding loans. Rural areas are still under-penetrated in India; hence, players operating in/focused on these areas are likely to see faster growth in their portfolios.

Ability to control asset quality and ageing of NPAs

The vulnerability of MFI portfolios to local issues and events that impact the repayment ability of borrower households makes it critical for them to have a strong hold on asset quality and regularly engage with borrowers to control the ageing of NPAs. MFIs, thus, need to put in place methods and use analytics to understand and predict the quality of the portfolio, and minimise the frequency and size of asset quality-related risks.

MFIs are focused on technology enablement

MFIs play a crucial role in providing financial access to underserved segments in the country. There is a huge potential for providing products and services to consumers at the bottom of the pyramid. Considering the challenges, and also the latent growth opportunities in meeting consumer needs, it would be beneficial for MFIs to enter into partnerships with fintech companies and tap the digital medium for financial inclusion.

Digitalisation to bring down costs, improve collection efficiency and profitability for MFIs

Digitalisation has impacted almost all aspects of the financial services industry. However, it is far more critical to the MFI industry as lower operating cost can result in higher financial inclusion and increased benefits for customers. The use of technology has helped MFIs grow at a fast pace, improve efficiency, reduce cash usage and turnaround time, develop new products, provide better services to customers, and use analytics for portfolio monitoring and credit appraisal. According to the MFIN report, about 42 out of 49 NBFC-MFIs have reported 100% of their disbursement through cashless mode in the fourth quarter of fiscal 2023.

CRISIL MI&A Research expects that the lower cost of servicing customers, better productivity, and lower credit costs through the use of technology will help MFIs improve their profitability.

Credit risk mitigation by credit bureaus

Credit bureaus such as Equifax and CRIF Highmark collect data from several MFIs and build a comprehensive database that captures the credit history of borrowers. These databases are updated weekly. The presence of credit bureaus ensures that MFIs have access to more data on their borrowers, helping them make informed lending decisions over the long run.

Competitive dynamics

In the ever-evolving landscape of the financial sector, NBFC-MFIs have emerged as a resilient force, poised to perform better than other MFI lenders due certain key aspects:

1. **SFBs Focus on Non-MFI Portfolio:** While Small Finance Banks (SFBs) diversify their financial services beyond microfinance, NBFC-MIs specialize in catering to the financial needs of the underserved populations. This focused approach allows NBFC-MFIs to develop a deeper understanding of their target borrowers base, Which in turn help them formulating lending strategies tailor made to microfinance sector. Hence, NBFC-MFIs are better equipped to navigate the unique challenges of microfinance lending.

2. **High cost-to-income ratio for SFBS:** SFBs often grapple with a relatively high cost-to-income ratio compared to NBFC-MFIs. The broader scope of services offered by SFBs requires a more extensive infrastructure, a larger workforce, and higher operational costs. SFBs are also subject to more regulatory constraints. Whereas, NBFC-MFIs, with their microfinance focused business model, can maintain leaner operations, leading to a more favorable cost-to-income ratio. This cost-efficiency enhances the sustainability of NBFC-MFIs, making them better positioned to withstand economic fluctuations.

3. **Deeper Rural Distribution Networks:** NBFC-MFIs boasts extensive rural distribution networks having invested substantial time and resources focusing on rural areas. This allows them to have deeper penetration in rural areas than traditional banks. This focused local presence also increases their ability to assess and mitigate risks associated with lending to low-income borrowers. NBFC-MFIs robust rural networks are invaluable assets that contribute significantly to their superior performance when compared to other MFI lenders.

4. **Higher Flexibility:** NBFC-MFI have the ability to engage in direct assignment transactions. Direct assignment allows NBFC-MFIs to transfer their loan portfolios to banks or other financial institutions, freeing up capital for further lending. This provides NBFC-MFIs with higher liquidity and better risk management capabilities, which are particularly advantageous during economic slowdowns or unforeseen crises.

CRISIL MI&A Research expects NBFC-MFIs to grow at a much faster rate vis-a-vis SFBs, on account of increasing focus of the latter towards product suites beyond the MFI loan portfolio and improving liquidity for NBFCs in the system.

Comparison of different participants in microfinance lending business

	Scheduled commercial banks	SFBs	MFIs
Priority sector lending			
Targeted lending to sectors	• 40% for priority sector lending of their adjusted net bank credit (ANBC) or equivalent off-balance-sheet exposure (whichever is higher) – 18% of ANBC to agriculture – 7.5% of ANBC to micro-enterprises – 12% of ANBC to weaker sections	• 75% for priority sector lending of their ANBC – 18% of ANBC to agriculture – 7.5% of ANBC to micro-enterprises – 12% of ANBC to weaker sections • At least 50% of loan portfolio should constitute loans and advances of up to ₹2.5 million	• 75% of loans should be qualifying microfinance assets – Income generation loans > 50% of total loans
Prudential norms			
Capital adequacy framework	• Minimum Tier 1 capital: 7% • Minimum capital adequacy ratio: 9%	• Minimum Tier 1 capital: 7.5% • Minimum capital adequacy ratio: 15%	• Tier 1 capital > Tier 2 capital • Minimum capital adequacy ratio: 15%
Margin cap	• No margin cap	• No margin cap	• No margin cap
CRR / SLR	• Maintenance of CRR/SLR mandatory	• Maintenance of CRR/SLR mandatory	• No such requirement
Leverage ratio	• Minimum leverage ratio of 4%	• Minimum leverage ratio of 4%	• No such requirement

	Scheduled commercial banks	SFBs	MFIs
Liquidity coverage ratio/ net stable funding ratio (NSFR)	• Mandatory requirement to maintain liquidity coverage ratio	• Minimum liquidity coverage ratio of 100% by January 1, 2021 • NSFR will be applicable to SFBs on par with scheduled commercial banks as and when finalised	• No such requirement
Funding			
Deposits	• Primarily rely on deposits for funding requirements •	• Primarily rely on deposits for funding requirements • Deposit ramp-up will take time	• Cannot accept deposits
Bank loans/ market funding	• Access to broader array of market borrowings	• Access to broader array of market borrowings • No access to bank loans	• Diversified funding sources, including bank loans, short- and long-term market borrowings; funding from NABARD, MUDRA loans, etc
Products			
Products offered	• Full spectrum of banking, savings, investment and insurance products	• Can offer savings and investment products apart from credit products/loans • Can act as corporate agent to offer insurance products • Cannot act as business correspondent to other banks	• Can act as a business correspondent to another bank and offer savings, deposits, credit and investment products • Can act as a corporate agent to offer insurance products

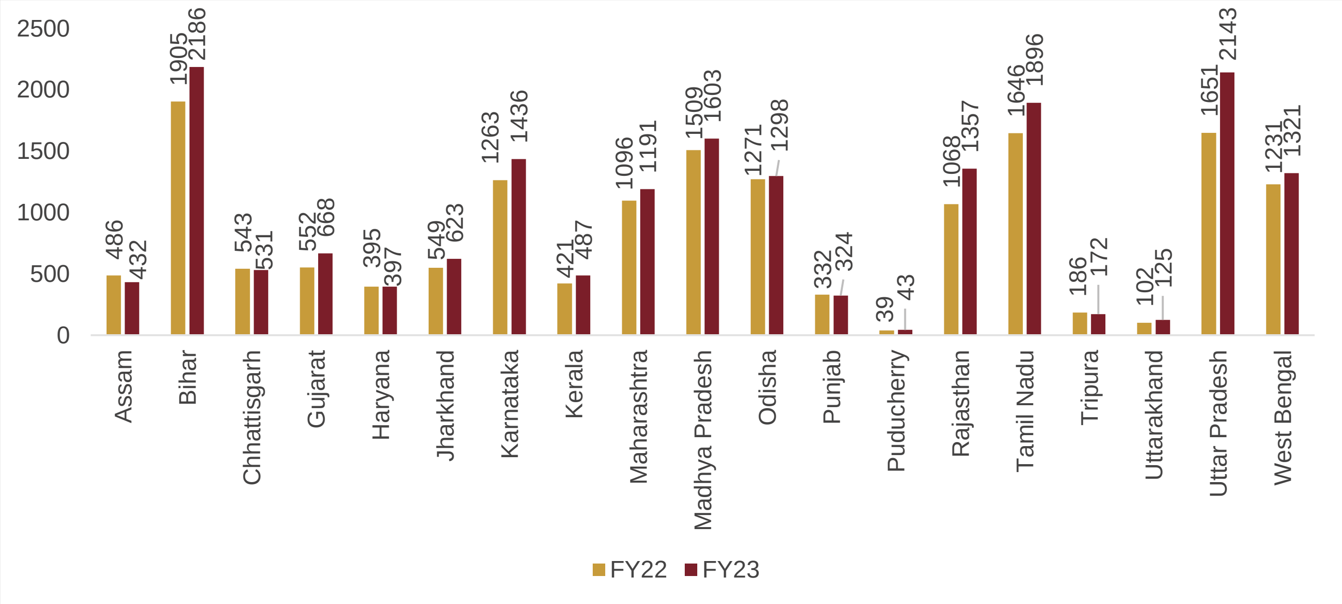
Source: RBI, CRISIL MI&A Research

Though the above regulations related to MFIs seem to be less relaxed than others, they provide an opportunity to MFIs to maintain a singular focus on the customers they cater to and the products they offer. The processes and systems can be built more efficiently and customised to the requirements of the customers, and deeper local understanding can be developed to handle nuances of different geographical areas. Another major advantage is the institution can be more flexible, and react and adjust to various events faster. Also, being under the purview of the RBI provides a separate identity to the institutions, and policy measures related to this segment gets due focus.

Players tapping newer states and districts to widen client base

CRISIL MI&A Research finds a significant jump in the number of MFIs operating in Uttar Pradesh, Rajasthan and Gujarat in recent years. The total number of branches in these states has significantly increased in fiscal 2023 compared to fiscal 2022, leading to a jump in their portfolio outstanding. The availability of borrower credit related data from credit information companies has also ensured that MFIs have access to more data on borrowers, helping them make informed lending decisions.

Total branches of NBFC-MFIs in each state/UT



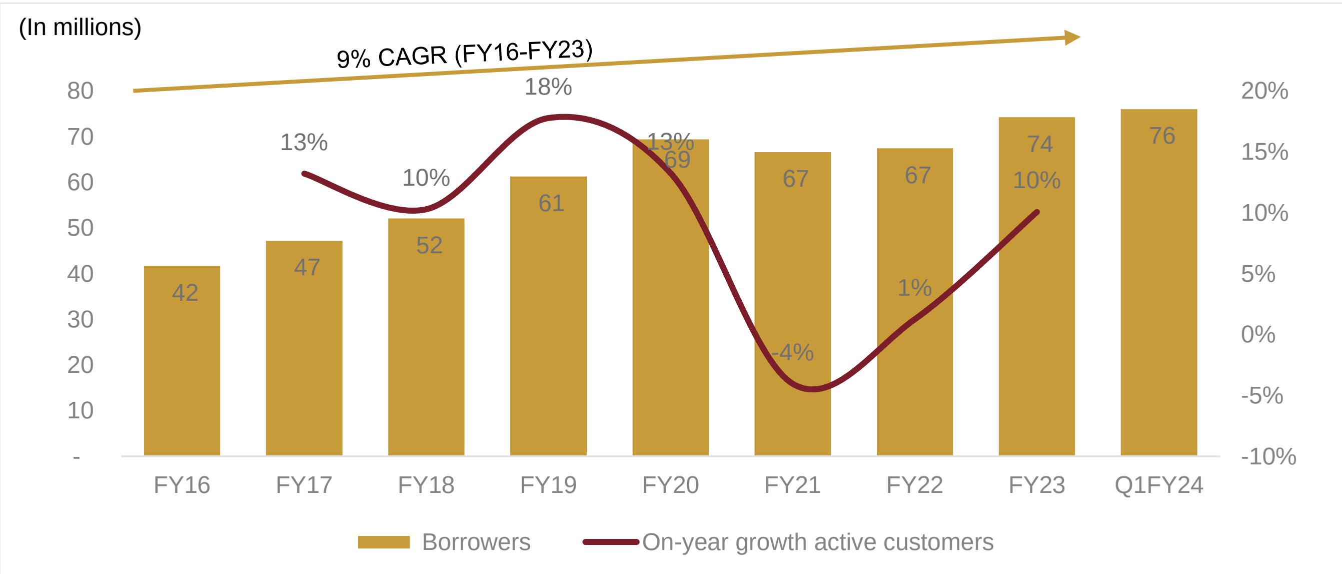
Note: Data includes only NBFC-MFI players and states where ten or more MFIs are operating
Source: MFIN, CRISIL MI&A Research

In the past few years, many MFIs have opened branches in untapped districts, thus increasing their penetration. In states where the presence of MFIs and banks is strong, ticket size has increased as well. CRISIL MI&A Research expects penetration to deepen going forward, which will further drive growth. Madhya Pradesh, Bihar and Tamil Nadu are states with large unserved populations and hence, provide an opportunity for existing players to improve their penetration and market share.

Increasing number of borrowers and loans accounts of MFIs

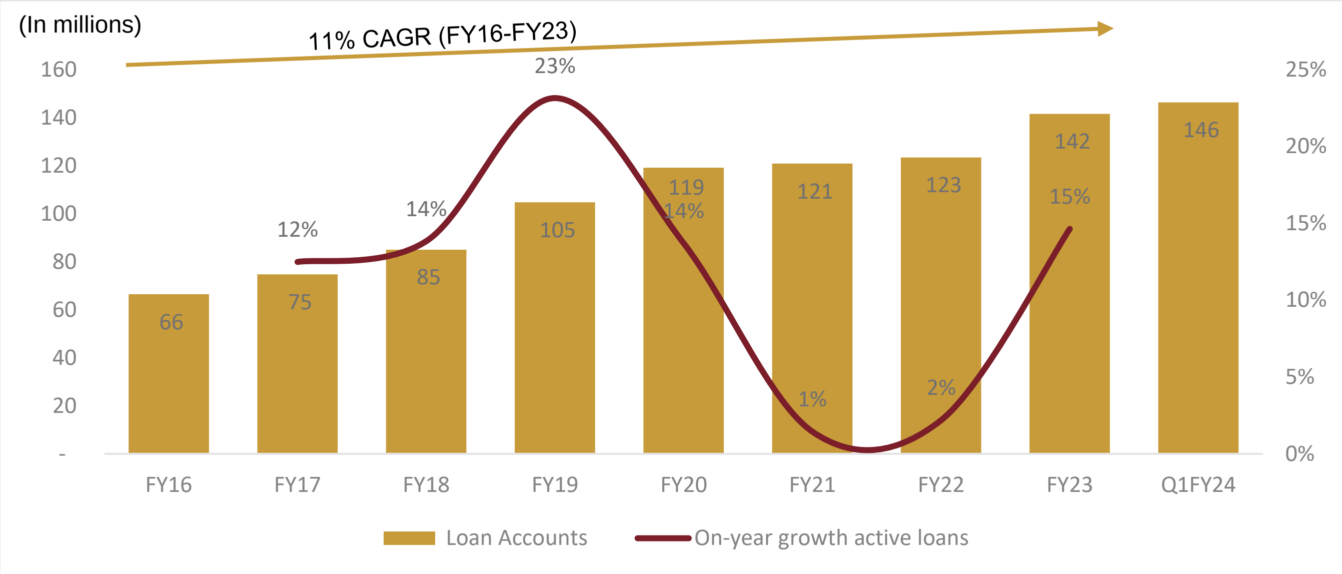
Over the past seven years, the microfinance sector has experienced moderate growth, with the borrower base expanding at 9% CAGR between fiscals 2016 and 2023. In fiscal 2023, the total number of borrowers reached 74 million. Concurrently, the number of loan accounts logged a moderate 11% CAGR, reaching a total of 142 million.

Number of active customers of MFIs



Source: CRIF Highmark, CRISIL MI&A Research

Number of active loan accounts of MFIs

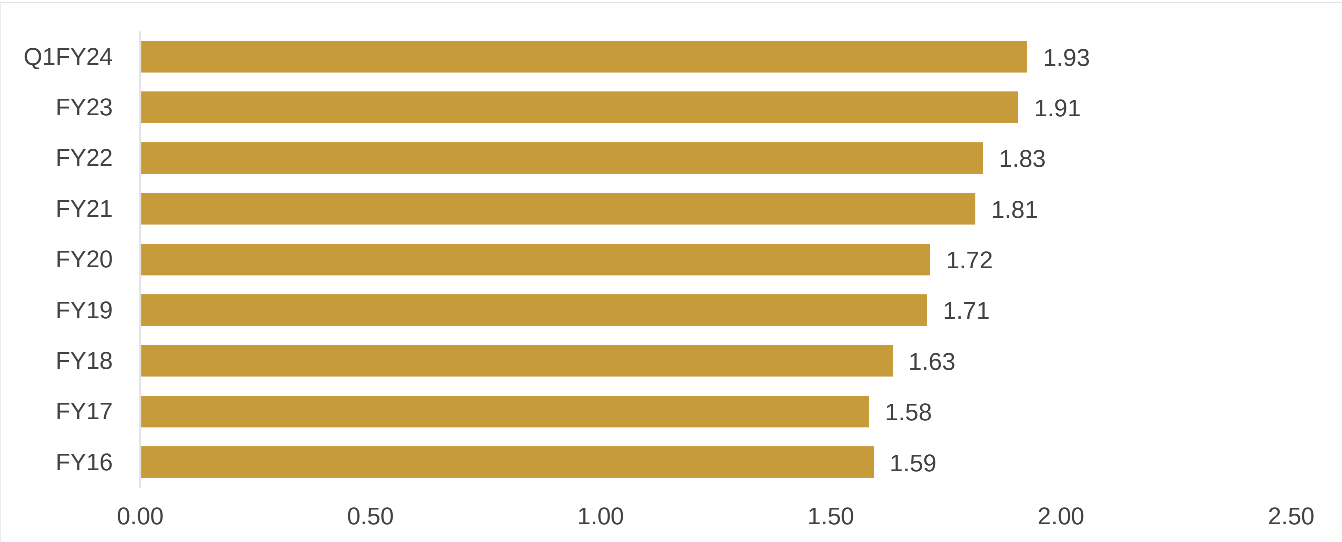


Source: CRIF Highmark, CRISIL MI&A Research

Increasing average number of loan accounts per borrower

As the number of loan accounts has grown at a faster rate than the number of borrowers, there has been a consistent upward trend in the average number of loan accounts held by each borrower. This figure rose from 1.59 in fiscal 2016 to 1.91 in fiscal 2023.

Average number of active loan accounts per active borrower



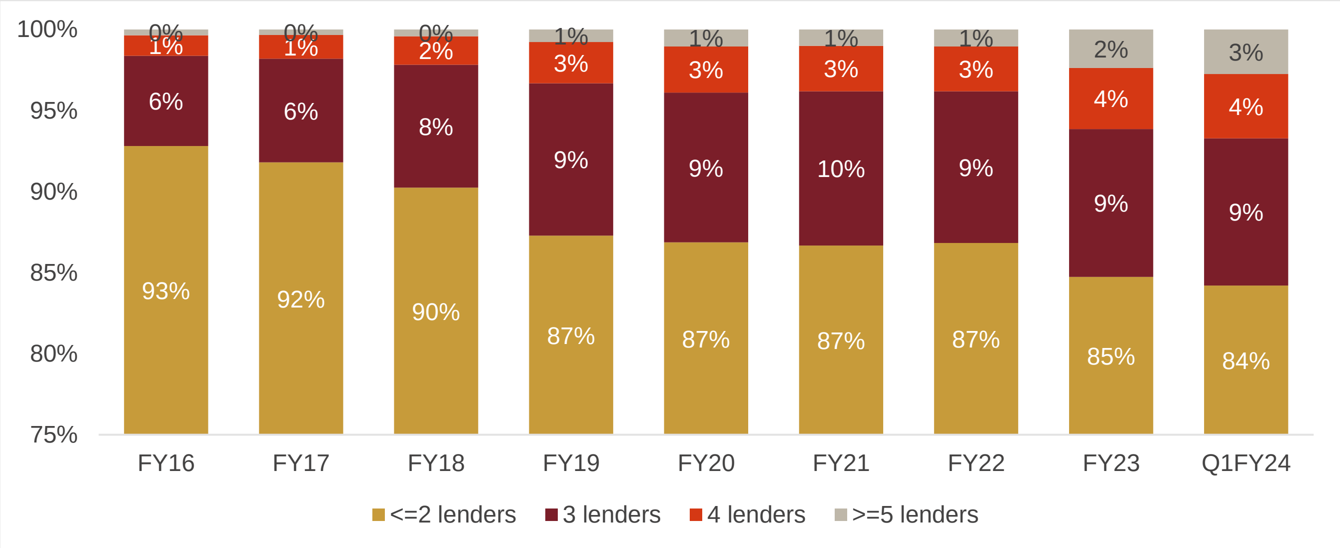
Source: CRIF Highmark, CRISIL MI&A Research

Percentage of active MFI borrowers with loans from more than two lenders increased to 16% in June 2023

The trend of borrowers taking MFI loans from multiple lenders has shown a steady rise over the years. In June 2023, approximately 16% of borrowers held active loans from more than two lenders, a significant increase compared to the 7% recorded in March 2016. This data illustrates a growing demand for MFI loans among borrowers.

Moreover, the elimination of restrictions on NBFC-MFIs regarding lending to multiple borrowers has led to a rise in the proportion of borrowers utilizing multiple MFI loans. Despite the change in regulations, 84% of borrowers have loans from two or less than 2 lenders.

Percentage of borrowers with MFI loan from more than two lenders



Note: Data includes data for banks' lending through JLG, small finance banks (SFBs), NBFC-MFIs, and other MFIs. It excludes data for banks' lending through self-help groups (SHG).
Source: CRIF Highmark, CRISIL MI&A Research

Average ticket size to expand due to higher loan eligibility under the new regulatory framework, but at a slower pace

The average ticket sizes of both banks and NBFCs have notably shifted in recent years. Specifically, NBFCs have experienced a consistent increase in their average ticket size, while banks saw a decline in theirs up until the first half of fiscal 2023. This changing trend has allowed NBFCs to capture a larger market share compared with banks.

Average ticket size	Q4FY21	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
NBFC-MFI	35,262	38,647	38,987	39,721	41,248	43,024
Growth for NBFC-MFI		9.60%	0.88%	1.88%	3.84%	4.31%
NBFCs	41,306	42,882	44,204	43,438	44,485	46,561
Growth for NBFCs		3.82%	3.08%	-1.73%	2.41%	4.67%
Banks (JLG)	43,699	39,514	37,342	37,231	38,458	42,000
Growth for Banks (JLG)		-9.58%	-5.50%	-0.30%	3.30%	9.21%
SFBs	37,037	45,238	45,281	44,631	47,162	49,174
Growth for SFBs		22.14%	0.10%	-1.44%	5.67%	4.27%

Note: Amounts are in rupees.
Source: MFIN, CRISIL MI&A Research

Portfolio outstanding of NBFC-MFIs is on the rise, specifically within the higher ticket size segment

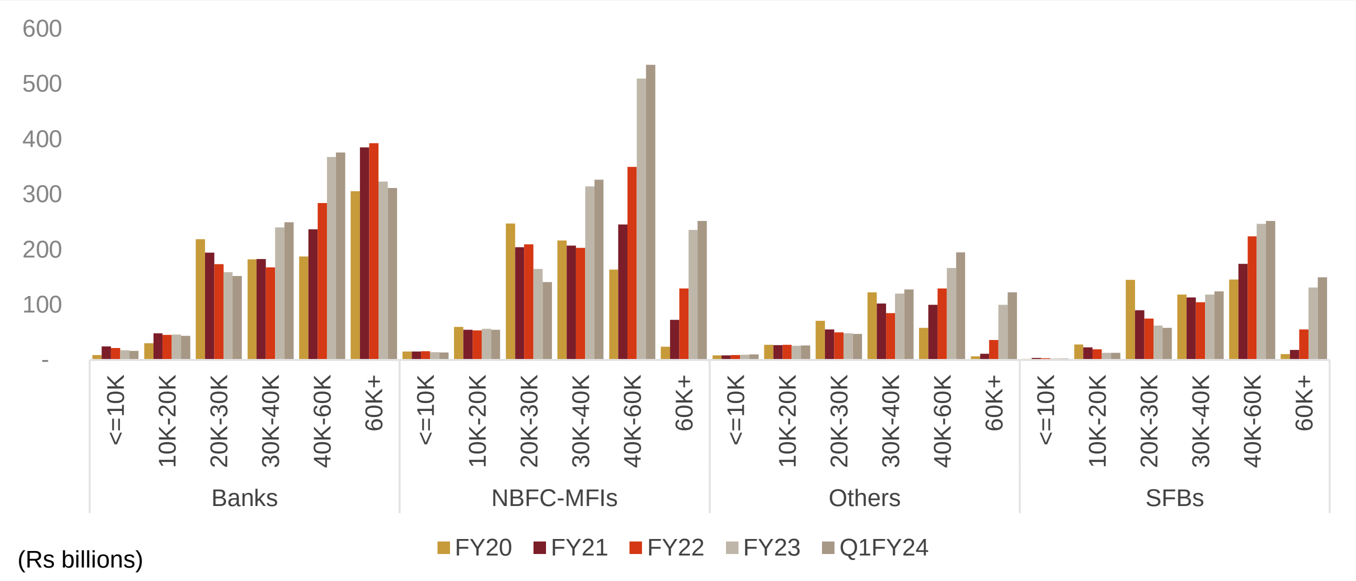
Portfolio outstanding has risen over the years in the higher ticket sizes for the overall industry. This highlights a notable trend, particularly for NBFC-MFIs, with several implications for both the microfinance sector and the broader financial ecosystem.

Several factors have contributed to the increase in portfolio outstanding for NBFC-MFIs in higher ticket size ranges:

1. Diversification of financial services: NBFC-MFIs have been expanding their product offerings to cater to a more comprehensive range of financial needs of their clients
2. Growing entrepreneurship: The rise of entrepreneurship and small businesses could be driving demand for larger loans. Entrepreneurs often require more substantial capital injections to scale up their ventures
3. Enhanced risk management: NBFC-MFIs have been adopting more sophisticated risk assessment and management techniques, allowing them to comfortably extend larger loans while minimising credit risks
4. Regulatory changes: Changes in regulatory frameworks and government initiatives have encouraged NBFC-MFIs to explore higher ticket size loans as a means to promote economic development and financial inclusion
5. Investor interest: Attracting investors interested in supporting the growth of the microfinance sector is also driving NBFC-MFIs to diversify their loan portfolios by offering higher ticket size loans

Increase in portfolio outstanding for NBFC-MFIs in the higher ticket sizes thus signifies a dynamic shift in the microfinance industry. It reflects the industry’s adaptability to changing customer needs and preferences, potentially contributing to greater financial inclusion and economic development in the regions where these institutions operate. However, it also underscores the importance of prudent risk management and regulatory oversight to ensure the sustainability and stability of this evolving sector.

Portfolio outstanding for each ticket size bucket across lenders



Source: CRIF Highmark, CRISIL MI&A Research

In India, microfinance plays an important role in delivering credit to people to the bottom of the economic pyramid. Owing to its grassroot-level connect, it can support income-generating activities and livelihoods in both rural and urban geographies. Further, microfinance acts as a potential tool for empowering women who constitute the largest part of its borrower base. The essential features of microfinance loans are that they are small amounts, have short tenures, are extended without collaterals and the frequency of loan repayments is greater than that of traditional commercial loans. These loans are generally granted for income-generating activities, but also provided for consumption, housing and other purposes. Thus, MFI operations have traditionally been cash-intensive and have become very aggressive in rural areas, especially after demonetization.

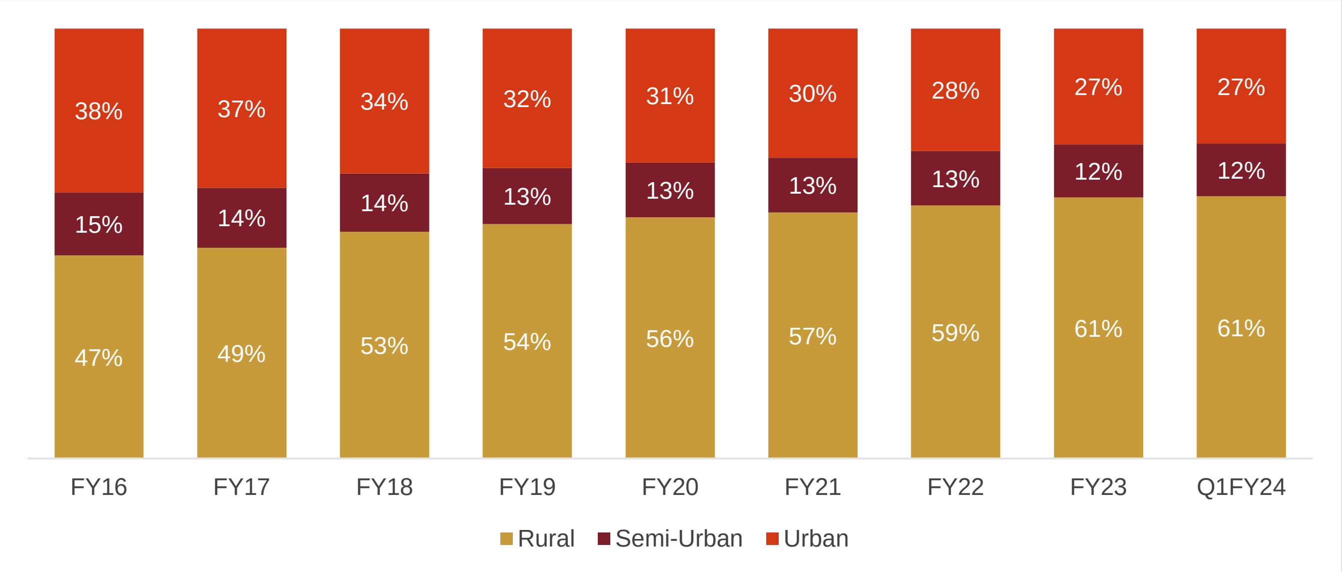
Rural segment to drive MFI business

The share of rural segment in MFI business to remain higher than urban and semi urban at 61%. The demand from this segment expected to rise. Despite 65% of population and 47% of GDP contribution, the rural segment's share in credit remains low at 9% of bank credit outstanding as of March 2023, thereby opening up a huge opportunity for savings and loan products.

With the government's focus on financial inclusion, financial institutions are opening new branches in unbanked areas. As of June 2023, the share of rural segment in overall MFI portfolio increased to 61% of the portfolio outstanding from 47% in fiscal 2016. In case of NBFC-MFIs, the rural share increased to 65% from 51%. This is due to less competition and lower credit penetration.

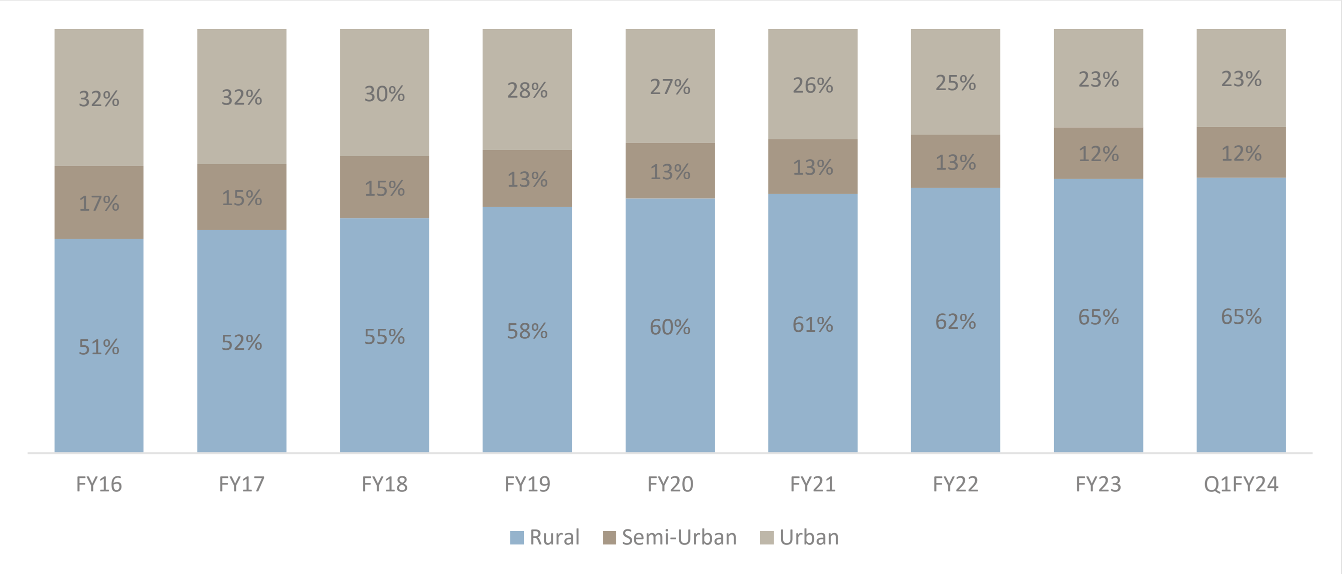
The significant under-penetration of credit in rural areas offers strong potential for growth. Given the relatively deeper reach, existing client relationships and employee base, MFIs are well placed to address this demand which is currently being met by informal sources such as local money lenders.

Rural regions account for 61% share in overall MFI portfolio outstanding as of June 2023



Note: Data includes data for banks' lending through JLG, small finance banks (SFBs), NBFC-MFIs, and other MFIs. It excludes data for banks' lending through self-help groups (SHG).
Source: CRIF Highmark, CRISIL MI&A Research

Rural accounts for 65% share in NBFC-MFI portfolio outstanding as of June 2023



Source: CRIF Highmark, CRISIL MI&A Research

Advantages in rural focused business

- **Huge market opportunity** – Despite its large contribution to GDP of 47%, the share of rural areas is abysmally low at 9% of total credit (as of March 2023). This provides a huge market opportunity for MFI players present in the segment.
- **Less competition** – In remote areas, informal credit channels have a major presence. In other words, there is a huge section of the unbanked population with low competition. MFI players are better placed to tap this market.
- **Geographic diversification** – With increased focus on diversifying their portfolio and expanding reach, MFI players are expected to log higher growth as they tap newer geographies.

- **Loan recovery and control on ageing NPAs** – MFI players are experienced in collecting and monitoring default risk. This will help them keep asset quality under check.
- **Lower delinquency rates** – Asset quality of rural regions is better than urban and semi-urban since fiscal 2017, due to better risk profile of customers and credit discipline.

Challenges in rural-focused business

The microfinance industry mainly caters to the poor or marginalised section of the society, because of which it faces inherent challenges, especially in rural areas:

1. **High cost of reaching the customers**: Providing microfinance loans in rural India requires reaching people in remote and sparsely populated regions, where deploying manpower and requisite infrastructure for disbursing loans and recovery can often be expensive. The high cost of reaching the customers and the small volume and ticket size of transactions lengthens the breakeven period.
2. **Lack of financial awareness:** Lack of financial and product awareness is a major challenge for institutions in rural areas. They are faced with the task of educating people about the benefits of financial inclusion, product and services offered by them, and need to establish trust before selling a product.
3. **Vulnerability of household income to local developments:** Uncertainty and unpredictability faced by low-income households and vulnerability of their incomes to local developments affect their repayments.
4. **High proportion of cash collections:** Despite a large proportion of loans disbursed through the cashless mode, collections in unbanked and rural areas are still in cash. This leads to increased time spent on reconciliation, risk involved in handling cash, and higher turnaround time from the financier's perspective.

That said, the rural economy proved to be resilient during the pandemic. India witnessed above-normal, timely and largely well-distributed monsoon since 2019, thus benefitting the agriculture industry, in particular, and rural India in general. Further, increase in the agriculture credit target and allocation of infrastructure fund for the development of Agriculture Produce and Livestock Market Committee reiterate the government's commitment to boost rural India's growth.

NBFC-MFI regulatory guidelines

Potential harmonisation of regulations for MFI lending

In February 2021, the RBI outlined the need to harmonise regulations governing the MFI lending industry and proposed a revamped framework. A potential harmonisation of regulations for MFI lending will positively impact NBFC-MFIs as banks and SFBs will also be governed by the same regulations, hence eliminating the competitive edge they currently enjoy. The key proposals include (i) a common definition of microfinance loans for all regulated entities, (ii) a Board-approved policy for household income assessment, (iii) capping the outflow on account of repayment of loan obligations of a household to 50% of the household income, (iv) greater flexibility of repayment frequency for all microfinance loans, (v) no pre-payment penalty or requirement of collateral, (vi) introduction of a standard simplified fact sheet on pricing of microfinance loans for better transparency, (vii) alignment of pricing guidelines for NBFC-MFIs with guidelines for NBFCs, and (viii) withdrawal of guidelines currently applicable to only NBFC-MFIs, including withdrawal of the two-lender norm for lending by NBFC-MFIs and withdrawal of all pricing-related instructions applicable to NBFC-MFIs.

The new regulatory regime ensures a level playing field and benefits NBFC-MFIs

In its master directions on microfinance loans released in March 2022, the RBI has done away with the interest rate cap applicable on loans given by NBFC-MFIs. Entities providing microfinance loans will have to put in place a Board-approved policy for the pricing of loans. The policy should include the interest rate model, the range of spread of each component for various categories of borrowers, and the interest rate ceiling and all other charges on MFI loans.

With microfinance loans provided by NBFC-MFIs and banks/SFBs now being subject to the same rules unlike the earlier regime, the RBI has ensured a level playing field for both NBFC-MFIs and banks/SFBs.

The increase in annual household income cap for microfinance borrowers (to Rs 3,00,000 in both urban and rural areas), removal of the two-lender norm for lending by NBFC-MFIs, and providing NBFC-MFIs greater flexibility to offer non-MFI loans (MFI loans should account for 75% of total assets for NBFC-MFIs, as per the new regulations) will increase market opportunities and enable NBFC-MFIs to achieve a more balanced portfolio.

On the flip side, the increase in annual household income threshold could increase the maximum permissible indebtedness limit of borrowers from Rs 1,25,000. While limit of 50% of total household incomes on the loan repayment obligation will act as a safeguard against excessive leveraging, the increased permissible debt limit and possibility of divergences in household income assessment criteria across lenders still pose risks. Proper data infrastructure would be required to analyse and estimate household income, especially in rural areas.

Following RBI's revised regulations for MFI loans effective October 1, 2022, some MFIs have increased interest rates for borrowers by 150-200 bps, especially for customers with untested credit behaviour.

CRISIL MI&A Research expects the rates to slowly stabilise as MFIs begin to adapt to the new regime and put in place processes to assess household income, leverage and risk capture based on the new guidelines. Competitive forces would prevent a substantial spurt in rates for MFI customers, especially those with a good repayment track record and credit behaviour.

The key changes in the regulatory framework and their potential impact on NBFC-MFIs are captured below:

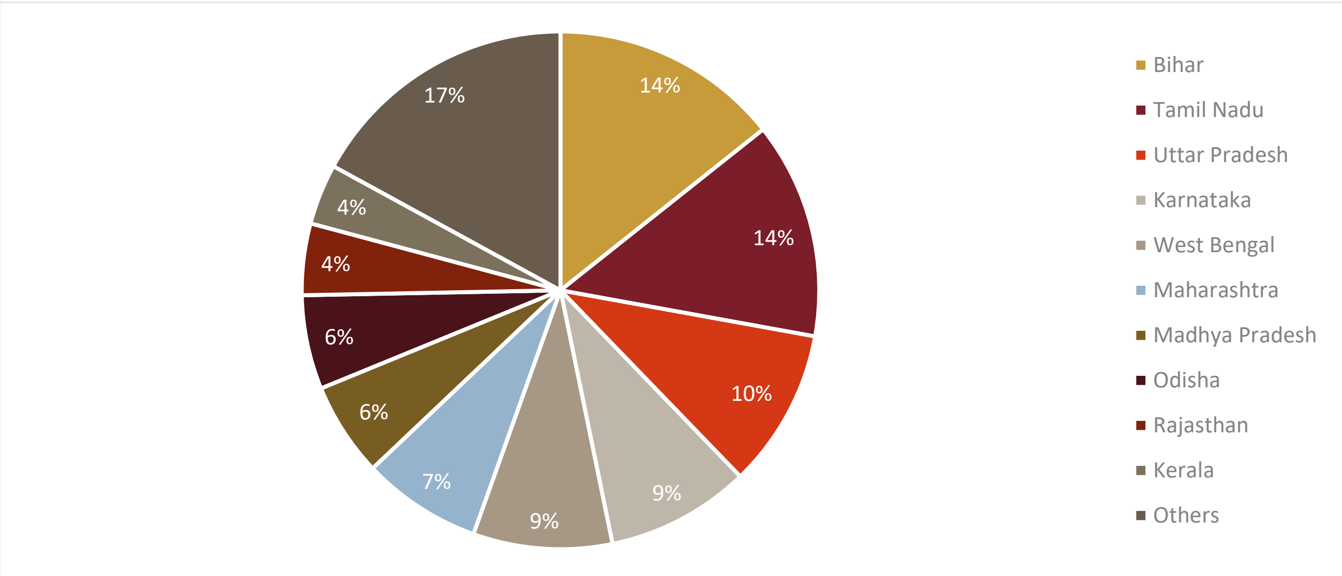
<table>
<tr><th rowspan="2">Area of regulation</th><th colspan="2">Earlier regulations</th><th>New regulations (effective April 1, 2022)</th></tr>
<tr><th>For NBFC-MFIs</th><th>For banks and SFBs</th><th>For all regulated entities*</th></tr>
<tr><td>Loan pricing</td><td>Margin cap at 10% for large MFIs (loan portfolios > Rs 1 billion)
12% for small MFIs (loan portfolios < Rs 1 billion)</td><td rowspan="2">No restrictions for banks and SFBs</td><td rowspan="2">No pricing cap. Underwriting of loans to be done on risk-based analysis, and a risk premium to be charged based on the borrower.
A Board-approved policy for pricing of loans to be put in place. The policy should include the interest rate model, the range of spread of each component for various categories of borrowers, and the interest rate ceiling and all other charges on MFI loans.</td></tr>
<tr><td>Processing fees</td><td>Not more than 1% of the gross loan amount</td></tr>
<tr><td>Qualifying criteria</td><td>85% loans unsecured</td><td>Have to meet the target set for priority sector loans</td><td>The minimum requirement of microfinance loans has been revised to 75% of an NBFC-MFI's total assets.
The maximum limit on microfinance loans for NBFCs other than NBFC-MFIs has been revised to 25% of the total assets from 10% previously.</td></tr>
<tr><td>Household income</td><td>Rural areas: Rs 125,000 per annum
Urban areas: Rs 200,000 per annum</td><td rowspan="3">No restrictions for banks and SFBs</td><td rowspan="2">Annual household income: Up to Rs 300,000 for urban as well as rural areas. (Higher than the amount stated in the consultation paper issued in June 2021 – up to Rs 125,000 for rural areas and Rs 200,000 for urban and semi-urban areas)
Board-approved policy for the assessment of household income.</td></tr>
<tr><td>Ticket size of loans</td><td>Rs 75,000 in the first cycle and Rs 125,000 in the subsequent cycles</td></tr>
<tr><td>Tenure of loans</td><td>Not less than 24 months for loan amounts in excess of Rs 30,000</td><td>As per the revised regulation cap/restrictions for ticket size and tenure has been removed.</td></tr>
</table>

Lending to the same borrower	Not more than two lenders allowed per borrower	More than two banks can lend to the same borrower	Limit on maximum loan repayment obligation of a household towards all loans: 50% of monthly household income.
Overall borrower indebtedness	Should not exceed Rs 125,000	No restrictions for banks and SFBs	

**Regulated entities include all commercial banks (including SFBs, local area banks and regional rural banks), excluding payments banks; all primary (urban) co-operative banks, state co-operative banks and district central co-operative banks; and all NBFCs (including MFIs and housing finance companies)*
Source: RBI, CRISIL MI&A Research

Top 10 states account for over 83% of MFI loans

State-wise distribution of MFIs loan portfolio outstanding (as of June 2023)



Source: CRIF Highmark, CRISIL MI&A Research
Note: Data includes data for banks' lending through JLG, small finance banks (SFBs), NBFC-MFIs, and other MFIs. It excludes data for banks' lending through self-help groups (SHG).

State wise portfolio outstanding of MFI Industry

(In Rs. millions)

State	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Q1FY24
Bihar	57,060.47	76,676.86	1,16,632.67	1,85,418.69	2,62,002.42	2,88,199.72	3,56,329.20	4,91,810.73	5,15,289.39
Tamil Nadu	1,20,892.25	1,48,433.95	1,88,295.41	2,76,761.74	3,34,066.11	3,27,768.27	3,67,576.68	4,64,029.56	4,86,976.52
Uttar Pradesh	75,966.09	75,764.97	91,313.34	1,20,740.33	1,56,940.46	1,78,980.74	2,35,509.67	3,38,435.89	3,57,033.73
Karnataka	84,592.29	95,192.08	1,21,841.55	1,63,579.89	1,97,590.51	2,13,394.66	2,42,317.32	3,16,686.60	3,24,621.22
West Bengal	1,09,267.39	1,44,020.61	1,90,480.50	2,65,739.02	3,21,184.32	3,59,163.35	3,31,594.15	3,09,624.39	3,12,597.22
Maharashtra	82,637.12	92,391.63	1,05,504.40	1,43,908.22	1,83,620.50	,95,049.68	2,19,247.53	2,74,529.96	2,68,713.76
Madhya Pradesh	56,779.44	59,309.95	79,014.85	1,08,589.83	1,40,062.82	1,57,305.04	1,73,377.83	2,08,826.47	2,11,755.86
Odisha	38,502.60	50,039.38	81,593.60	1,15,058.93	1,34,113.34	1,51,714.47	1,72,066.46	2,04,437.35	2,11,558.27
Rajasthan	22,733.32	24,354.35	38,582.48	66,206.26	93,528.69	1,10,240.97	1,24,828.70	1,56,084.66	1,60,753.90
Kerala	29,668.96	37,706.14	55,074.00	69,895.69	90,075.00	94,136.11	1,04,376.28	1,27,515.75	1,36,424.41
Jharkhand	12,940.02	17,814.97	25,059.22	39,328.33	53,027.28	64,012.66	79,019.61	1,06,798.15	1,09,673.77
Gujarat	32,795.22	33,839.05	39,325.29	55,208.40	69,441.45	71,051.14	79,628.03	1,01,374.53	1,06,167.62
Andhra Pradesh	35,066.54	34,619.00	35,509.53	36,904.31	41,600.44	45,486.97	47,903.59	59,154.66	63,511.29
Chhattisgarh	12,083.06	16,171.55	24,338.74	34,838.90	43,662.61	48,097.78	52,445.41	62,048.42	62,763.41
Punjab	12,859.80	15,687.87	20,861.70	31,956.06	43,865.68	44,400.14	49,838.60	58,883.98	60,085.70
Assam	39,186.57	52,415.39	76,470.35	1,14,984.72	1,16,964.11	1,16,309.13	88,244.29	59,737.64	58,645.03
Haryana	13,086.65	17,052.99	19,973.66	29,095.03	39,349.82	42,592.59	50,975.33	58,008.55	58,130.46
Telangana	23,937.30	22,873.56	23,073.14	23,291.71	22,917.44	25,582.95	28,621.45	34,322.81	35,047.46
Tripura	8,072.48	10,564.38	15,085.79	22,617.43	25,904.60	27,632.86	24,433.68	19,014.42	18,447.54
Uttarakhand	8,256.60	8,026.10	8,524.30	10,139.61	12,277.74	13,857.51	15,223.62	16,947.22	16,734.07
Puducherry	1,905.52	2,530.85	2,947.03	4,395.66	5,607.30	5,525.37	5,907.36	6,780.68	7,153.07
Delhi	4,937.21	4,952.56	4,312.84	5,586.92	6,432.67	6,124.41	5,881.52	6,499.67	6,282.93
Himachal Pradesh	163.23	227.92	351.68	459.86	710.69	874.14	1,278.45	1,732.13	1,802.30
Goa	354.25	453.72	823.29	1,159.21	1,206.41	1,289.26	1,137.60	1,348.81	1,400.81
Manipur	45.13	103.43	450.80	849.98	1,319.18	1,297.26	1,237.97	1,266.57	1,219.73
Mizoram	59.32	114.71	224.57	430.45	757.59	746.78	647.52	948.31	1,033.34
Meghalaya	834.04	898.24	1,053.80	1,417.39	1,622.56	1,517.66	1,139.77	999.75	1,022.17
Sikkim	530.97	611.29	798.53	1,111.58	1,400.30	1,388.16	1,082.06	978.15	963.80
Jammu & Kashmir	37.84	39.34	57.83	105.45	165.28	197.84	428.60	750.80	776.14
Arunachal Pradesh	40.33	54.48	125.33	142.36	208.63	204.52	259.56	434.96	537.86
Chandigarh	91.72	104.14	142.74	248.99	315.45	346.43	391.72	517.71	529.63
Nagaland	27.11	110.41	251.56	460.80	604.61	775.21	691.56	470.36	444.67
Andaman & Nicobar	14.03	17.16	9.81	33.19	25.39	53.88	134.18	140.05	138.19
Dadra & Nagar Haveli	50.64	72.12	101.32	145.65	162.65	177.05	145.81	140.37	115.32
Daman & Diu	10.68	13.81	16.37	37.61	52.49	59.59	62.87	54.95	35.43
Lakshadweep	-	0.03	0.05	0.03	0.03	0.07	0.18	0.25	0.22
Total	**8,85,486.18**	**10,43,258.99**	**13,68,222.07**	**19,30,848.25**	**24,02,786.56**	**25,95,554.37**	**28,63,984.16**	**34,91,335.26**	**35,98,386.26**

Note: Data includes data for banks' lending through JLG, small finance banks (SFBs), NBFC-MFIs, and other MFIs. It excludes data for banks' lending through self-help groups (SHG).
Source: CRIF Highmark, CRISIL MI&A Research

State wise portfolio outstanding of NBFC-MFI Industry

(In Rs. millions)

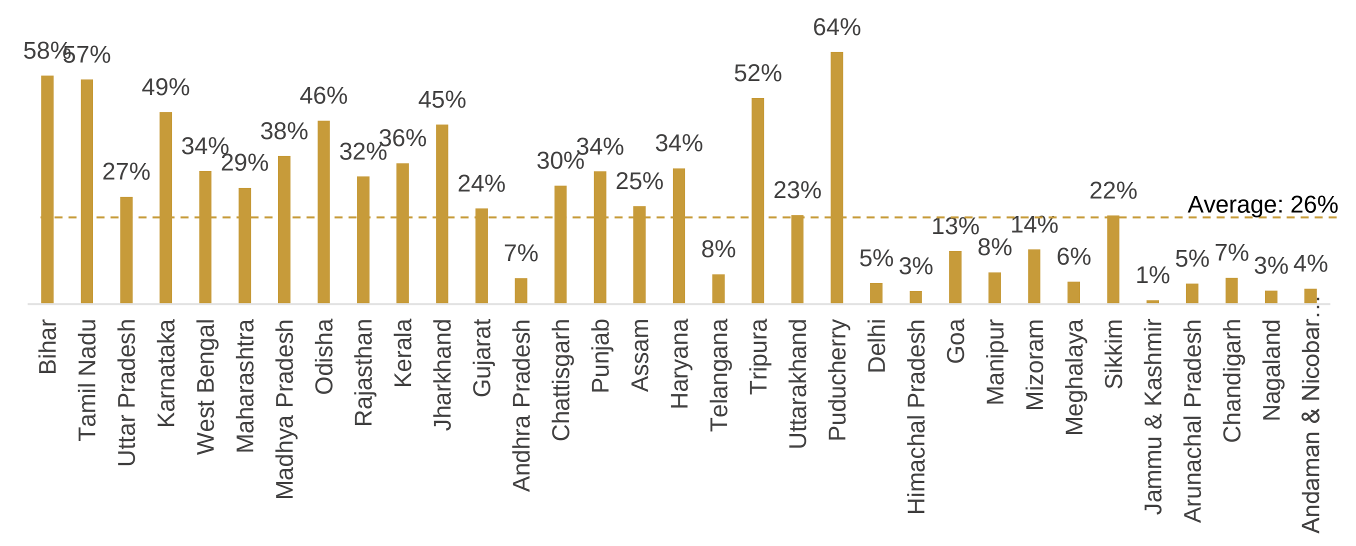
State	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Q1FY24
Bihar	12,790.45	17,750.39	30,126.02	49,858.49	76,567.25	83,483.56	1,09,492.12	1,69,818.78	1,78,557.49
Tamil Nadu	23,620.22	36,823.69	53,510.30	73,939.44	95,774.49	1,01,489.43	1,25,352.98	1,50,814.01	1,52,493.34
Uttar Pradesh	27,183.39	26,042.19	35,410.01	45,897.55	58,327.44	61,982.40	87,059.98	1,44,025.37	1,54,774.64
Karnataka	23,826.08	32,067.88	48,434.43	58,600.16	76,239.34	91,291.90	1,05,089.16	1,34,270.37	1,29,884.47
West Bengal	8,873.81	15,201.85	28,382.72	37,710.85	47,614.36	49,801.51	52,230.04	67,268.42	72,758.98
Maharashtra	15,939.98	21,597.38	35,080.53	46,472.12	65,266.50	72,964.75	85,364.74	1,14,242.37	1,05,545.29
Madhya Pradesh	17,290.35	19,867.91	30,705.60	39,720.22	55,523.29	66,147.30	77,049.43	99,770.98	1,01,260.17
Odisha	8,787.11	12,494.82	25,914.56	41,839.90	52,583.13	57,772.65	66,629.70	83,666.36	85,657.65
Rajasthan	2,284.55	3,697.47	9,072.28	17,485.12	29,423.28	35,121.79	46,491.15	64,303.07	67,046.08
Kerala	4,583.89	8,953.07	11,560.97	18,212.85	24,111.25	24,227.74	28,354.41	34,296.50	34,741.23
Jharkhand	2,790.22	4,532.60	6,926.02	11,248.06	16,494.13	20,858.19	28,449.20	44,875.05	46,680.50
Gujarat	4,720.81	5,343.10	8,389.72	13,318.55	19,231.70	20,713.53	28,121.53	40,322.44	42,691.11
Andhra Pradesh	10,615.55	10,559.87	11,127.33	11,484.22	14,957.35	16,837.90	16,268.00	20,386.14	20,926.96
Chhattisgarh	4,744.49	5,890.31	9,010.67	13,498.45	18,038.20	20,741.68	23,615.43	29,955.61	30,170.82
Punjab	5,825.45	6,300.75	10,355.64	12,968.47	21,271.44	20,839.08	23,053.25	28,560.27	28,426.47
Assam	1,693.39	5,131.09	12,368.53	23,806.93	23,588.37	20,892.14	17,636.53	17,853.38	19,066.48
Haryana	2,419.54	4,156.70	5,834.48	8,048.10	11,852.48	12,946.60	17,949.69	22,770.29	22,648.00
Telangana	6,958.52	6,944.16	6,991.95	7,103.02	7,334.07	7,756.70	7,794.62	8,346.50	8,378.20
Tripura	134.25	299.57	1,434.31	3,085.06	4,375.58	4,326.36	4,484.16	5,712.05	6,133.63
Uttarakhand	2,035.23	1,889.93	2,536.72	2,885.82	3,639.52	3,952.23	5,323.79	6,731.46	6,819.42
Puducherry	369.12	580.62	768.88	1,261.01	1,606.41	1,640.05	1,937.17	2,342.59	2,344.09
Delhi	395.95	405.16	480.15	392.46	342.86	315.78	394.19	442.99	485.16
Himachal Pradesh	45.96	63.88	111.01	196.04	321.84	426.35	764.35	1,198.60	1,272.97
Goa	98.73	137.26	216.20	449.75	436.63	453.07	460.14	632.88	638.99
Manipur	14.33	53.86	116.75	246.41	435.78	354.41	310.90	227.20	206.04
Mizoram	13.64	22.34	33.07	49.54	91.66	64.86	43.55	39.14	93.66
Meghalaya	14.46	57.97	144.43	281.24	328.30	287.18	208.47	180.18	187.98
Sikkim	0.96	6.41	11.70	62.58	127.61	147.68	176.67	204.75	202.88
Jammu & Kashmir	36.37	32.51	49.83	96.01	154.95	189.00	415.68	737.22	764.49
Arunachal Pradesh	1.86	6.50	16.63	21.03	39.27	29.07	76.44	255.93	327.69
Chandigarh	15.56	13.95	26.56	41.36	63.13	64.09	54.81	86.12	92.12
Nagaland	5.34	9.05	12.91	28.93	43.09	48.68	30.85	35.81	36.50
Andaman & Nicobar	1.09	1.78	2.21	25.89	15.46	18.40	119.11	128.77	129.60
Dadra & Nagar Haveli	0.23	1.22	2.73	10.83	10.12	8.97	12.38	9.01	7.54
Daman & Diu	0.31	0.64	0.77	10.09	17.99	16.19	20.26	16.67	9.12
Lakshadweep	0.00	0.02	0.03	0.02	0.00	0.02	0.00	0.05	0.04
Not classified								578.69	368.29
Total	**1,88,131.17**	**2,46,937.91**	**3,85,166.64**	**5,40,356.55**	**7,26,248.26**	**7,98,211.26**	**9,60,834.88**	**12,95,105.99**	**13,21,828.12**

Note: Data includes overall portfolio outstanding of NBFC-MFIs
Source: CRIF Highmark, CRISIL MI&A Research

Underpenetrated states to drive MFI growth

CRISIL MI&A Research expects growth in the MFI portfolio to be led by states that have a relatively lower penetration such as Uttar Pradesh, Gujarat, and Uttarakhand; along with some of the moderately penetrated states such as Rajasthan, Maharashtra, and Chhattisgarh.

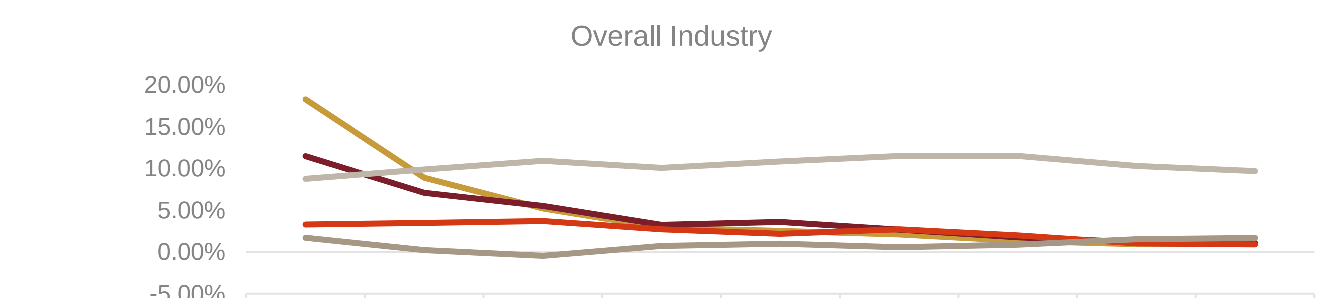
Underpenetrated states may have potential for growth and customer expansion (March 2023)



Note: Penetration has been computed by dividing the number of unique active MFI borrowers by the estimated number of households in the respective state.
Source: MFIN, CRISIL MI&A Research

Asset quality

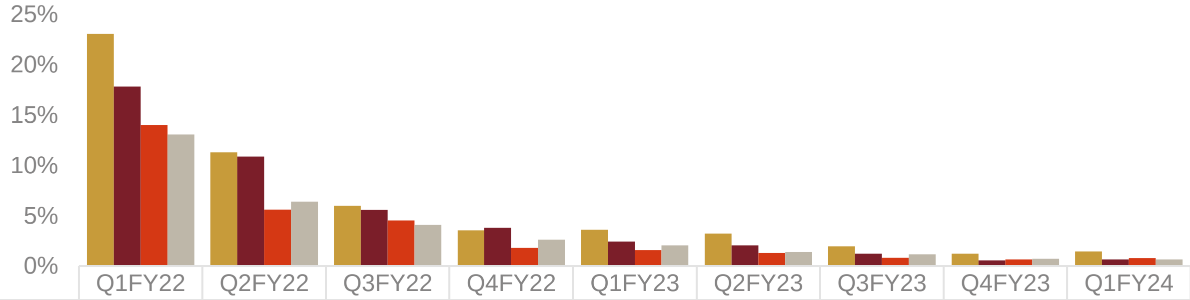
The asset quality appears to be stabilising for the overall industry, as indicated by a significant decrease in the flow of loans from the current bucket over the past two years. In the first quarter of fiscal 2024, overdue loans for the industry exhibited a positive trend, with PAR 1-30 at ~1.05% (down from ~18.28% in the first quarter of fiscal 2022), PAR 31-90 at 1.06% (compared with ~11.47% in the first quarter of fiscal 2022), and PAR 91-180 at 0.90% (a decrease from 3.28% in the first quarter of fiscal 2022). PAR 180+ experienced a slight increase, reaching ~9.70% (up from 8.76% in the first quarter of fiscal 2022). Also note that all lender groups observed a reduction in their PAR 1-30, PAR 31-90, and PAR 91-180 DPD buckets.



	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
PAR 1-30	18.28%	8.87%	5.21%	2.89%	2.52%	2.11%	1.34%	0.92%	1.05%
PAR 31-90	11.47%	7.10%	5.50%	3.26%	3.61%	2.68%	1.75%	1.16%	1.06%
PAR 91-180	3.28%	3.47%	3.70%	2.69%	2.17%	2.70%	1.96%	1.03%	0.90%
PAR 180+	8.76%	9.88%	10.90%	10.08%	10.82%	11.47%	11.50%	10.31%	9.70%
Writeoffs	2%	0%	0%	1%	1%	1%	1%	2%	2%

Note: Write-offs pertain to the particular quarter.
Source: CRIF Highmark, CRISIL MI&A Research

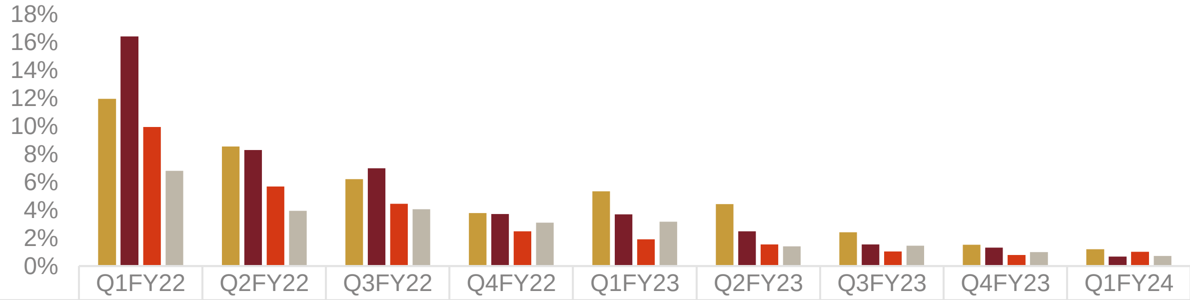
PAR 1-30



	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Banks	23%	11%	6%	4%	4%	3%	2%	1%	1%
SBFs	18%	11%	6%	4%	2%	2%	1%	1%	1%
NBFC-MFIs	14%	6%	5%	2%	2%	1%	1%	1%	1%
Others	13%	6%	4%	3%	2%	1%	1%	1%	1%

Source: CRIF Highmark, CRISIL MI&A Research

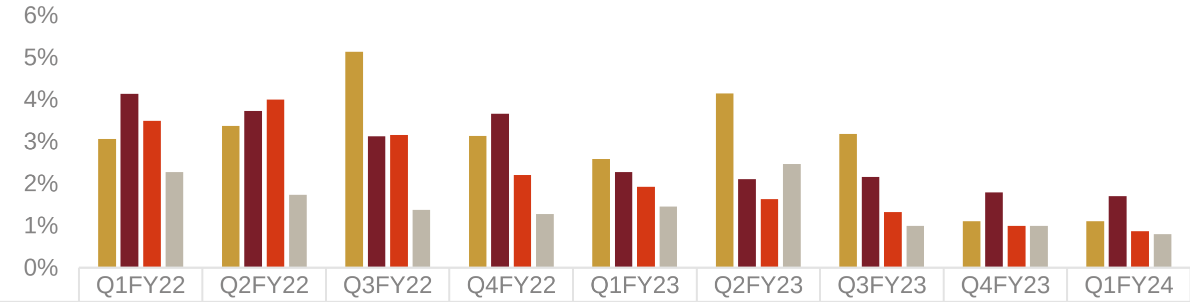
PAR 31-90



	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Banks	12%	9%	6%	4%	5%	4%	2%	2%	1%
SBFs	16%	8%	7%	4%	4%	2%	2%	1%	1%
NBFC-MFIs	10%	6%	4%	2%	2%	2%	1%	1%	1%
Others	7%	4%	4%	3%	3%	1%	1%	1%	1%

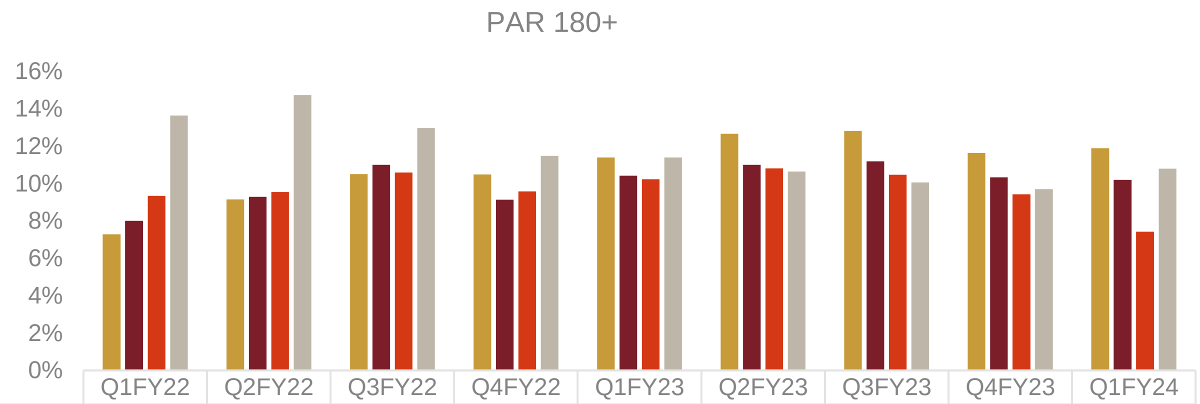
Source: CRIF Highmark, CRISIL MI&A Research

PAR 90-180



	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Banks	3%	3%	5%	3%	3%	4%	3%	1%	1%
SBFs	4%	4%	3%	4%	2%	2%	2%	2%	2%
NBFC-MFIs	3%	4%	3%	2%	2%	2%	1%	1%	1%
Others	2%	2%	1%	1%	1%	2%	1%	1%	1%

Source: CRIF Highmark, CRISIL MI&A Research

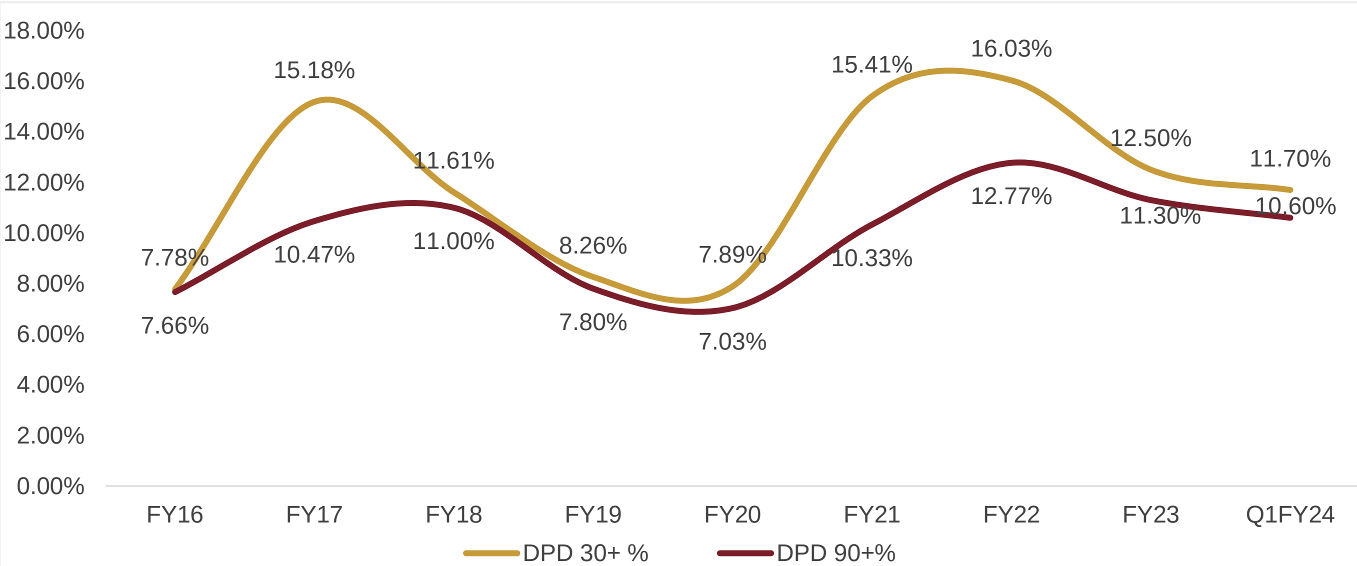


	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Banks	7%	9%	11%	10%	11%	13%	13%	12%	12%
SBFs	8%	9%	11%	9%	10%	11%	11%	10%	10%
NBFC-MFIs	9%	10%	11%	10%	10%	11%	10%	9%	7%
Others	14%	15%	13%	11%	11%	11%	10%	10%	11%

Source: CRIF Highmark, CRISIL MI&A Research

In fiscal 2021, the asset quality deteriorated sharply, reflecting the adverse impact of Covid-19 on the industry. The industry's PAR>30 and PAR>90 shot up to 15.41% and 10.33%, respectively, in March 2021, and deteriorated to 16.03% and 12.77%, respectively, in March 2022. This could be attributed to slippages from the restructured book for various MFI players. The situation improved marginally with PAR>30 at 12.50% and PAR>90 at 11.30% in March 2023 and deteriorated to 11.70% and 9.00%, respectively, in June 2023. CRISIL MI&A Research believes that timely recoveries and controlling incremental slippages would be critical for MFIs to maintain their asset quality.

Asset quality trend of the overall MFI industry

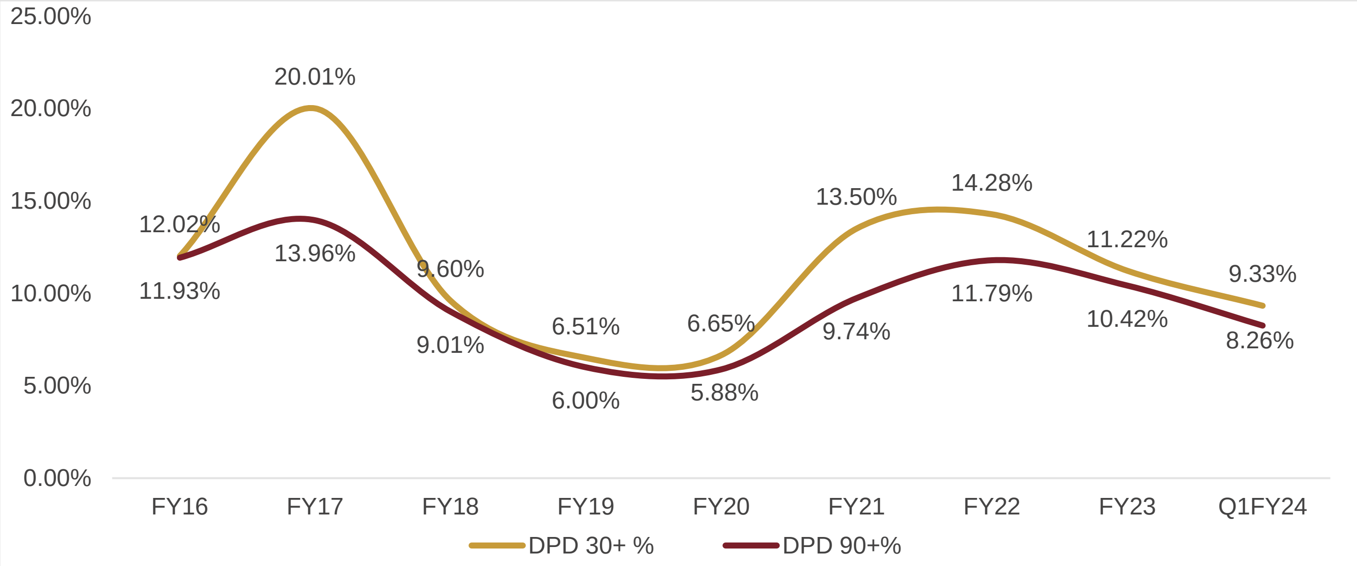


Note: PAR 30+ and PAR 90+ include delinquency beyond 180 days and 360 days.
Source: CRIF Highmark, CRISIL MI&A Research

Among peer groups, the PAR>30 and PAR>90 metrics for NBFC-MFIs exhibited a positive trend, improving to 6.65% and 5.88%, respectively, in fiscal 2020 from 12.02% and 11.93%, respectively, in fiscal 2016. However, they subsequently increased to 11.22% and 10.42%, respectively, in fiscal 2023 before improving marginally to 9.33% and 8.26%, respectively, in June 2023. While asset quality has been on an upward trajectory, it remains at a moderate level compared with the pre-pandemic period due to additional slippages in the restructured portfolio.

With collection efficiency now back to pre-pandemic levels, the asset quality is forecast to continue to improve in the upcoming fiscal periods.

Asset quality trend of the overall NBFC-MFI industry

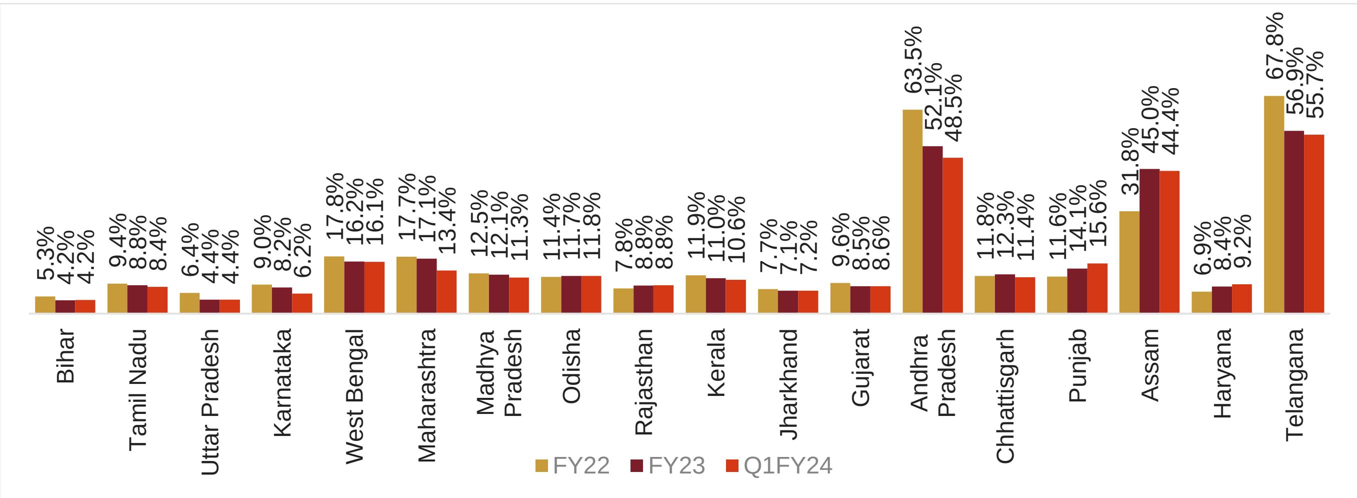


Note: PAR 30+ and PAR 90+ include delinquency beyond 180 days and 360 days.
Source: CRIF Highmark, CRISIL MI&A Research

Asset quality has improved across states

The asset quality has improved across most top states. Assam witnessed a sharp deterioration in asset quality with PAR 90+ increasing to 44.4% in June 2023. PAR 90+ of Rajasthan, Haryana, and Orissa increased 0.3-2.3 percentage points in June 2023 compared with fiscal 2021, while that of Punjab increased 4.1%. Asset quality improved significantly by 12-15% for Andhra Pradesh and Telangana in June 2023 compared with fiscal 2021. Bihar exhibited the best asset quality as of June 2023.

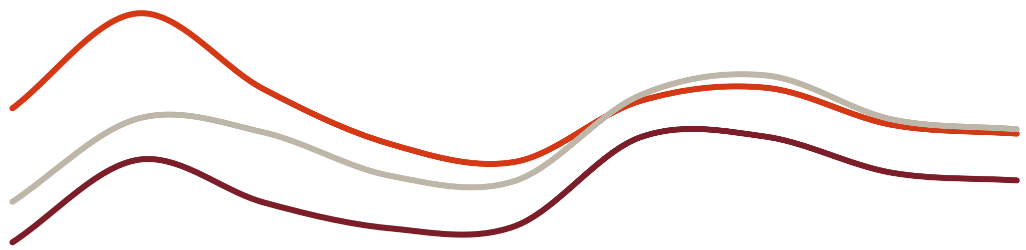
Bihar ranks the lowest in terms of PAR>90 among the top states



Note: PAR 90+ includes delinquency beyond 180 days.
Source: CRIF Highmark, CRISIL MI&A Research

While assessing the portfolio quality of the entire MFI industry, a sharp deterioration in asset quality across rural, semi-urban, and urban regions is evident over fiscal 2021-22, However, the situation improved marginally in fiscal 2023 and as of the first quarter of fiscal 2024. A more detailed examination of long-term trends reveals that asset quality tends to be notably stronger in rural areas compared with urban and semi-urban areas due to factors such as robust farm income, favourable monsoon conditions, and the inherent strength of rural economies.

Asset quality of rural regions better than urban and semi-urban regions (PAR 90+)

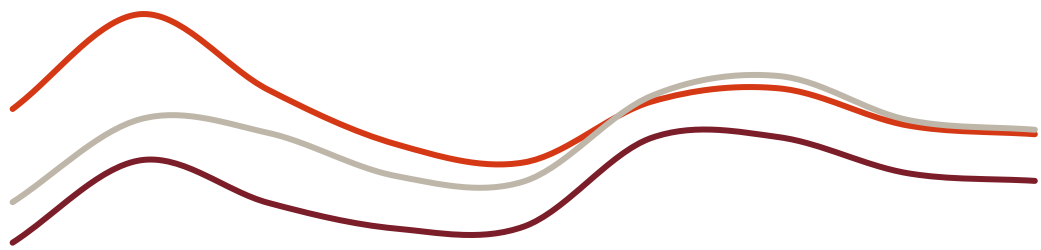


	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Q1FY24
Rural	4.3%	11.7%	7.9%	5.6%	5.8%	13.8%	13.8%	10.6%	9.9%
Semi-urban	16.4%	24.9%	18.1%	13.2%	11.6%	17.0%	18.2%	14.9%	14.1%
Urban	8.0%	15.5%	14.2%	10.3%	9.8%	17.5%	19.3%	15.4%	14.5%

Rural Semi-urban Urban

Note: PAR 90+ includes delinquency beyond 180 days of the MFI industry.
Source: CRIF Highmark, CRISIL MI&A Research

Asset quality of rural, urban, and semi-urban regions (PAR 30+)



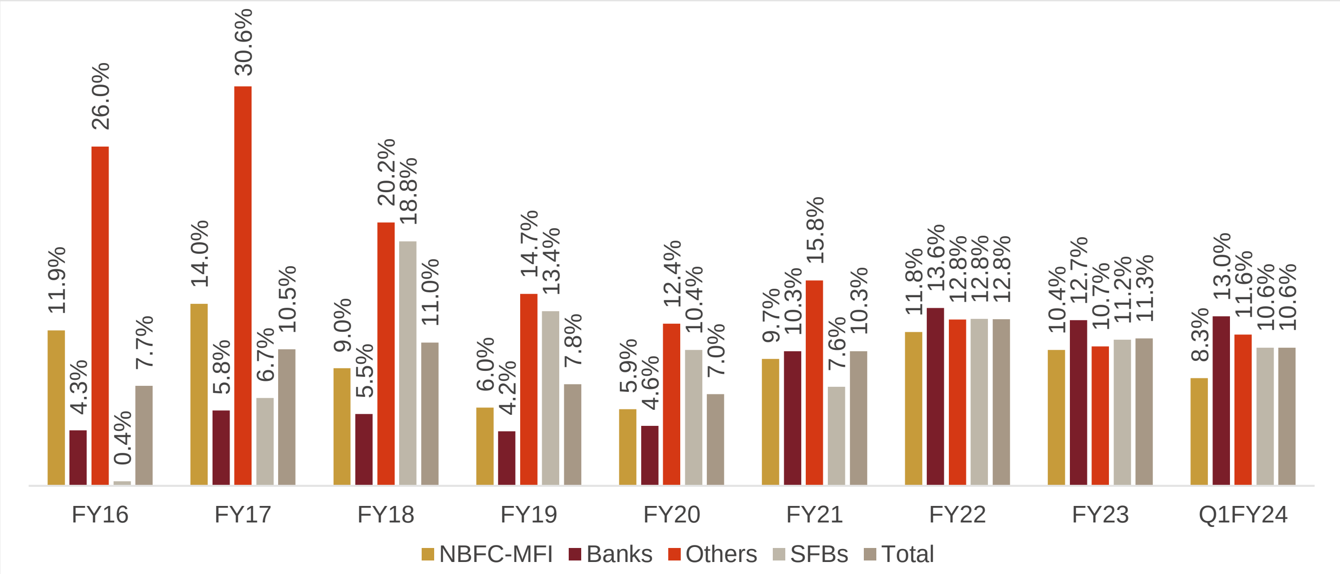
	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Q1FY24
Rural	4.3%	11.7%	7.9%	5.6%	5.8%	13.8%	13.8%	10.6%	9.9%
Semi-urban	16.4%	24.9%	18.1%	13.2%	11.6%	17.0%	18.2%	14.9%	14.1%
Urban	8.0%	15.5%	14.2%	10.3%	9.8%	17.5%	19.3%	15.4%	14.5%

Rural Semi-urban Urban

Note: PAR 30+ includes delinquency beyond 180 days of the MFI industry.
Source: CRIF Highmark, CRISIL MI&A Research

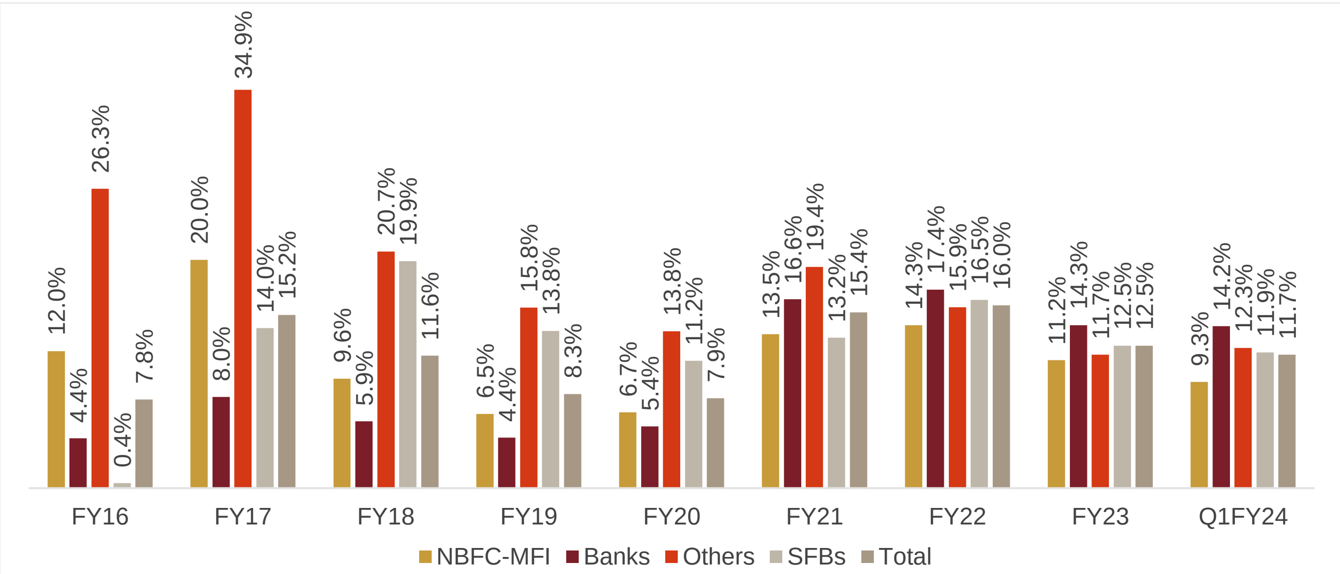
NBFC-MFIs have emerged as standout performers, surpassing other player groups in the PAR90+ days bucket. Focused lending practices and proactive risk management have enabled them to maintain lower levels of delinquency, ensuring a healthier loan portfolio. This achievement underscores their resilience and effectiveness in managing credit risk.

NBFC-MFIs have performed better than other player groups (PAR 90+ days)



Note: PAR 90+ includes delinquency beyond 180 days of the MFI industry.
Source: CRIF Highmark, CRISIL MI&A Research

Asset quality of player groups in the microfinance industry (PAR 30+ days)



Note: PAR 30+ includes delinquency beyond 180 days of the MFI industry.
Source: CRIF Highmark, CRISIL MI&A Research

MFI roll forward rate back to pre-pandemic levels

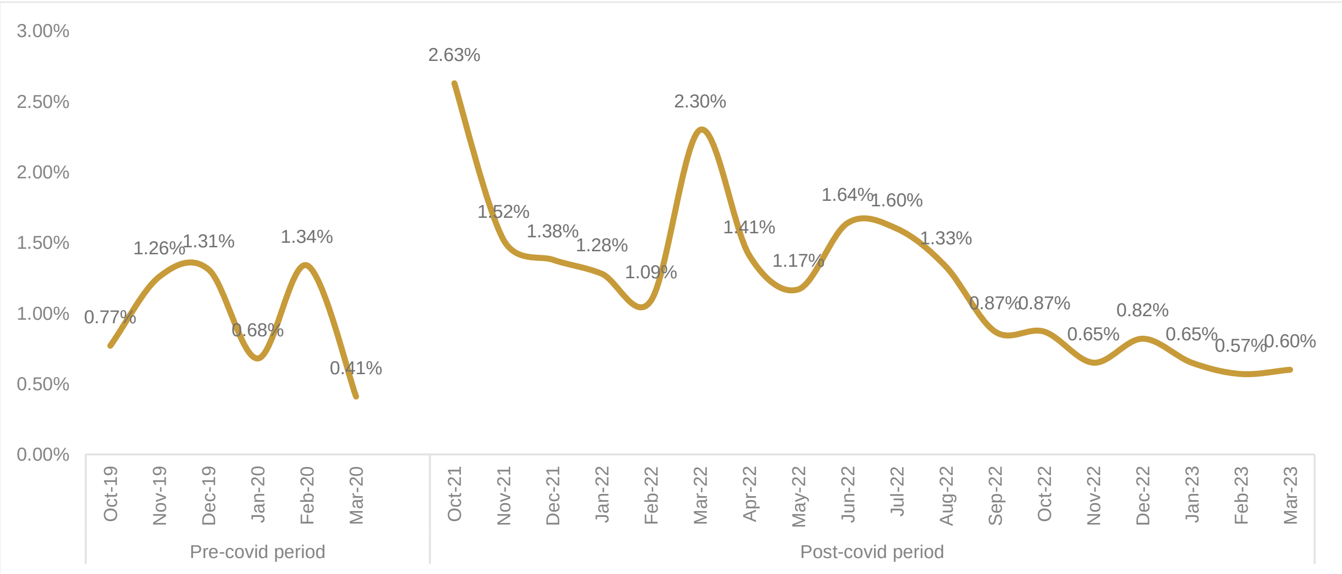
The MFI industry has shown remarkable resilience as it recovers from the pandemic's impact. Roll forward rate has now returned to pre-pandemic levels. This positive development indicates a significant step towards normalcy and stability within the MFI sector.

During the COVID-19 pandemic, the microfinance industry faced unprecedented challenges, including increased provisioning and a rise in credit costs due to economic uncertainties. MFI collections had plunged to near zero in April 2020, because of the pandemic-induced nationwide lockdown. However, as the economy gradually reopened and borrowers regained their financial footing, the MFI sector demonstrated its ability to adapt and recover. This is despite MFI borrowers having relatively weaker credit profiles and field-intensive operations involving high personal touch, such as home visits and physical collection of cash.

The return of the roll forward rate to pre-pandemic levels signifies several positive aspects:

1. Stabilized Operations: MFIs have successfully navigated through the turbulent period, demonstrating operational resilience and adaptability.
2. Improved Asset Quality: The fact that the roll forward rate has rebounded suggests that asset quality has improved, as borrowers are increasingly meeting their repayment obligations.

As the MFI sector continues to rebuild and adapt to the evolving financial landscape, achieving pre-pandemic roll forward rates is a significant milestone that reflects the industry's resilience, commitment to its mission, and positive outlook for the future. It serves as a testament to the industry's ability to weather storms and emerge stronger, ready to fulfill its crucial role in providing financial services to underserved communities.



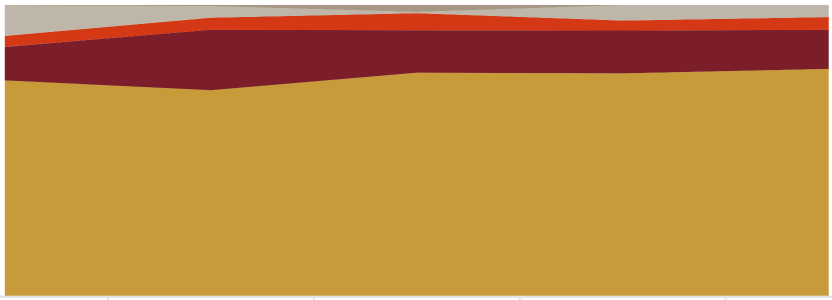
Note: The roll forward rate is for current (0 DPD) to 1-30DPD
Roll forward rate has been calculated by current (0 DPD) balance at the beginning of month divided by current balance in 1-30DPD bucket at the end of month.
Source: CRIF Highmark, CRISIL MI&A Research

Banks continue to be an integral source of funds for NBFC-MFIs

Banks have traditionally been the key lenders to NBFC-MFIs. Smaller players would resort to portfolio sell-outs to channel growth.

However, in fiscal 2021, funds raised by NBFC-MFIs through non-convertible debenture (NCD) issuances increased substantially, mainly due to targeted long-term repo operations (TLTRO) announced by the RBI. TLTRO enables lower-rated entities to issue bonds at a low interest rate. It also enables banks to invest in specific sectors through debt instruments to boost credit flow in the economy. The scheme aims at providing adequate system-level liquidity and targeted liquidity to sectors and entities facing difficulties in raising funds from the markets. Under the RBI's on-tap TLTRO scheme, liquidity availed by banks had to be deployed in corporate bonds, commercial papers and NCDs issued by entities in sectors such as MFIs and construction.

NBFC MFI - Borrowing mix



	FY20	FY21	FY22	FY23	FY24P
Commercial papers	0%	0%	2%	0%	0%
Others	11%	4%	0%	5%	4%
Subordinate debt	4%	4%	6%	3%	4%
Debentures	12%	21%	15%	15%	13%
Term loans	74%	71%	77%	77%	78%

Note: P: Projected
Source: CRISIL MI&A Research, MFIN

NBFC-MFIs also raised funds through the partial credit guarantee scheme under which the RBI extended a special liquidity facility to NABARD, SIDBI and National Housing Bank to the tune of Rs 25,000 crore, Rs 15,000 crore and Rs 10,000 crore, respectively, to be further lent to sectors such as construction and small and medium NBFC-MFIs. After an increase in term loans from banks by 600 bps in fiscal 2022, the borrowings remained range bound in fiscal 2023.

The share of term loans is expected to increase with a decline in NCD borrowings on account of hardening of interest rates due to a 250 bps hike in repo rates in fiscal 2023. The RBI has continued to pause interest rate hikes since February 2023 and is monitoring the impact of rate transmission on the economy. In addition, MFIs have been regularly raising equity over the years, indicating stable investor confidence.

Reduction in credit cost to boost profitability of MFIs in the medium term

In fiscals 2021 and 2022, the cost of borrowing remained relatively stable despite the pandemic. However, with an increase in the repo rate in fiscal 2023, the cost of borrowing is estimated to have increased for MFIs. The increase is likely to be offset by steeper lending rates, thereby cushioning net interest margins (NIMs). Further, enhanced flexibility to set lending rates is one of the drivers supporting a revival in MFIs' profitability this fiscal, led by RBI's removal of the interest margin cap on lending rates under its new regulatory framework for microfinanciers.

Over fiscals 2021 and 2022, annual credit costs of the industry shot up to 3-5% because of pandemic-related provisioning. However, most MFIs increased provisioning levels to fortify their balance sheets against asset quality risks. CRISIL MI&A Research estimates credit costs decreased last fiscal because of lower provisions and an improvement in repayment levels of borrowers.

A majority of borrowers in the microfinance sector receive loans from NBFC-MFIs at fixed interest rates due to the short duration of these loans. Any changes in the repo rate are quickly reflected in the interest rates charged to borrowers. However, it is important to note that these revised interest rates apply only to new borrowers, as existing borrowers continue to operate under the previous rate structure. While an increase in the repo rate will lead to higher yields for NBFC-MFIs, we anticipate that NIMs of these institutions will generally remain range bound. CRISIL MI&A Research predicts a gradual decrease in credit costs throughout fiscal 2024 to support the overall profitability of the microfinance industry. In this context, the new framework introduced by the RBI is favourable for MFIs. This framework includes higher income eligibility thresholds for borrowers and provides greater flexibility in loan pricing for MFIs.

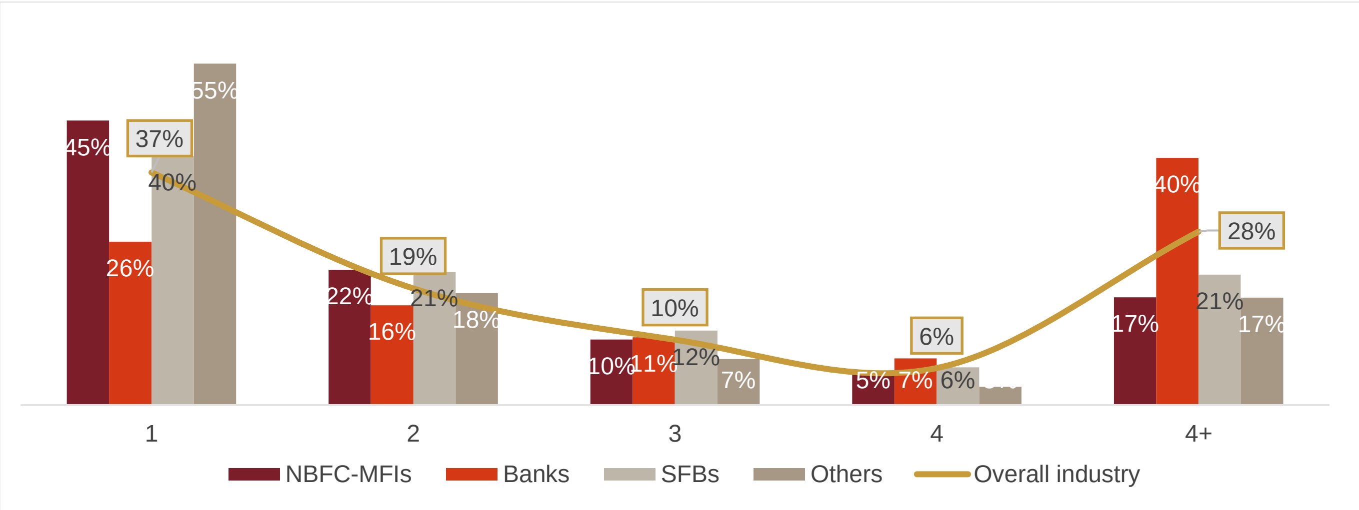
Profitability (return on assets) of MFIs to improve this fiscal

RoA tree	FY19	FY20	FY21	FY22	FY23	FY24P
Interest income	18.2%	17.2%	15.7%	15.9%	17.3%	18.7%
Interest expense	8.5%	7.7%	7.4%	7.1%	7.3%	8.0%
Net interest income	**9.7%**	**9.6%**	**8.3%**	**8.8%**	**10.0%**	**10.7%**
Other income	2.1%	2.0%	1.2%	1.3%	2.3%	1.6%
Operating costs	5.5%	5.1%	4.4%	4.9%	5.4%	4.9%
Credit cost	0.7%	1.5%	4.6%	3.5%	3.3%	2.8%
Tax	1.6%	1.5%	0.3%	0.6%	1.0%	1.1%
RoA	**4.0%**	**3.5%**	**0.2%**	**1.1%**	**2.6%**	**3.5%**

Note: P: projected; *All above ratios are calculated on average assets.*

Source: CRISIL MI&A Research

Loan cycle-wise breakup of disbursements as of June 2023



Source: CRIF Highmark, CRISIL MI&A Research

NBFC-MFIs have a longstanding track record of high customer retention in loan cycles 2 and 3. The high customer distribution in loan cycle 1 indicates the focus of NBFC-MFIs on acquiring new customers.

MFI borrower penetration in retail loans as of March 2023

With enhanced financial literacy and better financial standing, borrowers are increasingly availing other retail financial products. Approximately 56% of MFI borrowers hold retail loans in addition to their microfinance loans as of March 2023.

The overlap of MFI and Retail borrowers exhibits a low corelation with regards to percent of borrowers having loans from multiple lenders across MFI and retail segment. The percent of borrowers with loan from one MFI and from one retail lender as of March 2023 was ~48%.

MFI vs Retail lender association by number of borrowers

	Number of lenders	Retail lender association					Total
		1	2	3	4	>=5	
MFI – Lo	1	47.65%	7.79%	1.72%	0.50%	0.39%	**58.05%**

	2	17.58%	4.70%	1.24%	0.36%	0.20%	**24.08%**
	3	7.04%	2.61%	0.84%	0.27%	0.16%	**10.91%**
	4	2.49%	1.20%	0.46%	0.17%	0.10%	**4.42%**
	>=5	1.17%	0.74%	0.36%	0.16%	0.11%	**2.54%**
Total		**75.92%**	**17.04%**	**4.62%**	**1.45%**	**0.97%**	**100.00%**

Source: CRIF Highmark, CRISIL MI&A Research

DPD for MFI vs Retail overlap portfolio outstanding

Portfolio outstanding		**Retail DPD**								**Total**
		CURRENT	**1_30**	**31_60**	**61_90**	**91_120**	**121_150**	**151_180**	**>180**	
MFI DPD	**CURRENT**	64.80%	4.42%	2.12%	1.11%	1.80%	0.38%	0.30%	8.08%	83.00%
	1_30	1.27%	0.19%	0.08%	0.04%	0.06%	0.02%	0.01%	0.29%	1.97%
	31_60	0.55%	0.07%	0.07%	0.03%	0.04%	0.01%	0.01%	0.18%	0.96%
	61_90	0.49%	0.07%	0.05%	0.13%	0.05%	0.01%	0.01%	0.21%	1.02%
	91_120	0.29%	0.04%	0.03%	0.02%	0.03%	0.01%	0.01%	0.12%	0.55%
	121_150	0.26%	0.04%	0.03%	0.02%	0.03%	0.01%	0.01%	0.12%	0.52%
	151_180	0.24%	0.04%	0.02%	0.01%	0.02%	0.01%	0.01%	0.12%	0.48%
	>180	5.13%	0.66%	0.47%	0.30%	0.56%	0.13%	0.12%	4.14%	11.51%
Total		**73.04%**	**5.52%**	**2.87%**	**1.66%**	**2.60%**	**0.58%**	**0.47%**	**13.26%**	**100.00%**

Source: CRIF Highmark, CRISIL MI&A Research

Gold loan industry

While the industry has been around for several decades with local financiers and moneylenders extending finance against gold, especially in semi-urban and rural areas, the industry has witnessed a spurt in organized financiers offering gold loans since 2008 with the specialized gold loan NBFCs expanding their branch network and making available loans in a very easy and consumer friendly manner by putting in place strong systems and processes. Gold Loan financing was availed predominantly by lower income group customers with limited or no access to other forms of credit with need for urgent borrowing or bridge financing requirements.

Still, the unorganised segment occupies majority of share in gold financing and is characterised by the presence of numerous pawnbrokers, moneylenders and landlords operating at a local level. Though these players operate with a deeper understanding of local markets and offer immediate liquidity without any documentation formalities, customers are left vulnerable to exploitation, due to the absence of regulatory oversight. Such players also give lower loan-to-value ratio compared with organized ones while charging exorbitant interest.

Credit demand for Gold Loans for the organised players increased due to relatively lower and affordable interest rates, the need for liquidity for assets held in gold and increased awareness and acceptance of Gold Loan financing. Additionally, high rural indebtedness along with relative inaccessibility to personal and retail loans from banks for the borrowers have been the drivers for growth of organized segment.

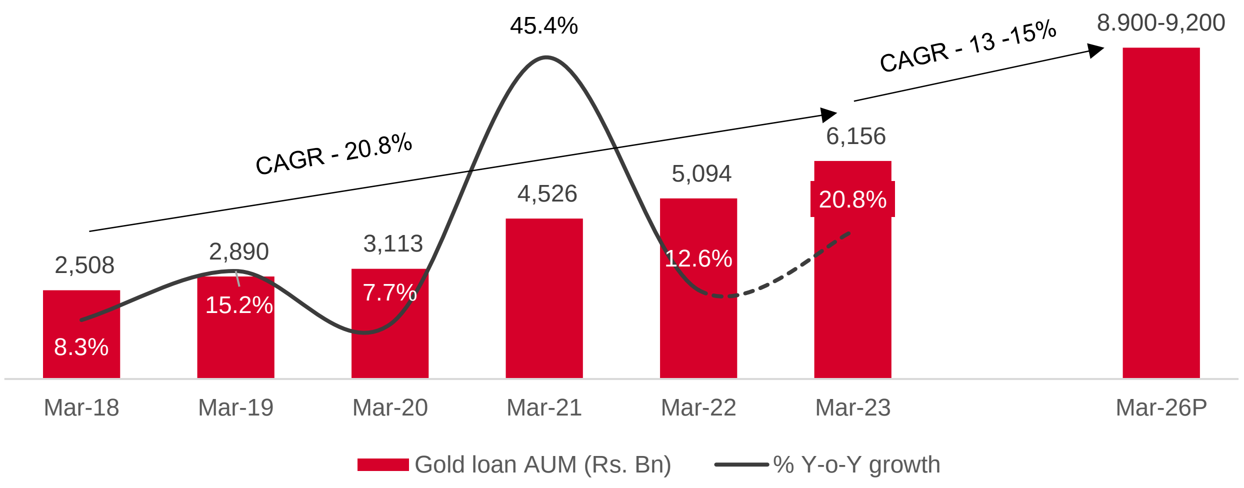
Manappuram Finance is one of the largest NBFCs in gold loan segment. The two biggest NBFC players in the gold segment are Manappuram Finance and Muthoot Finance with AUM (Assets under Management) of Rs. 206 bn and Rs. 660 bn., respectively, as of June 2023.

Gold loan to grow on four factors

Source: CRISIL MI&A Research

That said, the overall gold loan assets under management (AUM) stood at Rs 6.2 trillion in fiscal 2023 and is expected to reach ~Rs 7.4 trillion this fiscal. Furthermore, it is expected to reach ~Rs. 9.0 trillion at a CAGR of 15%- till fiscal 2026.

Organised gold loan AUM trend



P: Projected

Note: Includes agriculture lending by banks with gold as collateral

Source: Company reports, CRISIL MI&A Research

The firming up of gold prices in India on account of elevated inflation, global economic slowdown, rupee depreciation, and increase in gold import duty could support the loan-to-value (LTV) ratio of lenders, with rising prices is also creating headroom for credit growth.

LTV, which had peaked in fiscal 2021 due to correction in gold prices and moratorium on repayments, has moderated since then and remained stable last fiscal.

Credit growth is being further supported by a shift to organised players from unorganised market. This is largely due to exorbitant rates of interest charged, lack of clarity regarding valuation of gold and LTV and lack of assurance of getting the pledged asset back by the unorganised players.

Going forward, CRISIL MI&A believes that the organized gold loan market is expected to be driven by increasing gold loan penetration, rising share of organized financiers and market expansion through geographical diversification.

- Organised gold loan penetration in India (computed as gold stock with organized financiers divided by total gold stock in India) is estimated to be approximately 7% as of March 2023, which indicates that organised gold loan market has significant headroom for growth. Going forward, gold loan penetration is expected to increase further on geographical diversification, rising branch network, and households increasingly looking to monetise their gold holdings for personal and business needs. In addition, increase in gold prices and expectations of micro-enterprises using gold loans to fund working capital requirements is expected to also aid growth of gold financing.

- According to CRISIL MI&A, due to increasing awareness about benefits of availing gold loans from organised segment, the share of organised gold loan financiers has increased from 56-58% in Fiscal 2017 to approximately 61-63% (in terms of value) in Fiscal 2023. Going forward, CRISIL MI&A expects the trend to continue, and the share of organised loan market is expected to further improve from approximately 61% to approximately 63% in the near term.

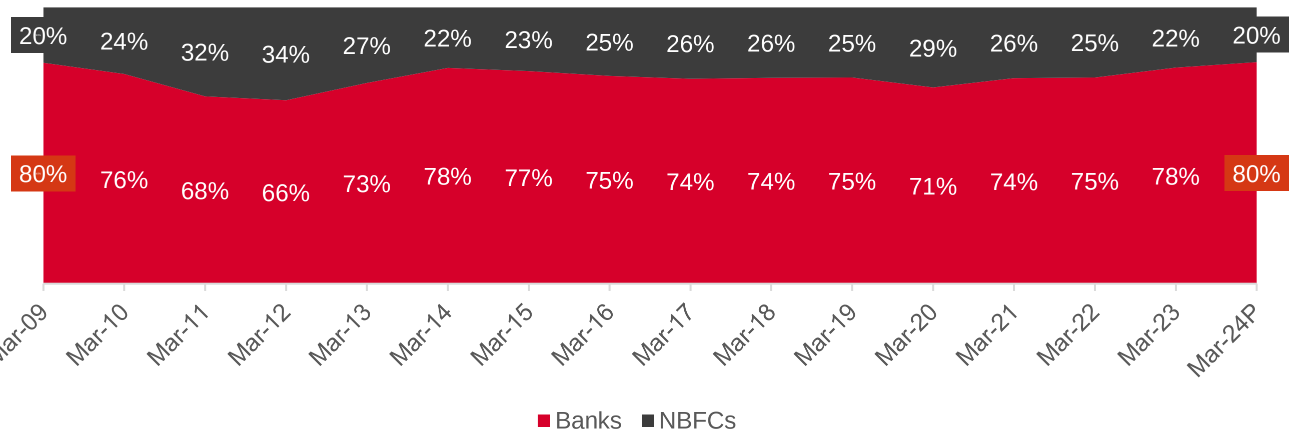
In the organised segment, there has been a further to digital and online platforms along with phygital mode of business from physical mode of business. In fact, growing uptake in these modes is expected to be the primary driver going forward.

Interplay in market share between banks and gold loan NBFCs

Banks, which historically comprised majority share of the domestic gold loan portfolio, saw their share increase significantly following major disruptions to the financial markets, such as the Global Financial Crisis in 2008, the taper tantrum of fiscal 2014, and the onset of the pandemic in fiscal 2021. This was due to banks focussing on the gold segment as a product with relatively better asset quality on the back of liquid collateral like gold and higher ROI and increase in gold prices. More recently, in fiscal 2021, i.e., during the peak of the Covid-19 pandemic, increase in the regulatory cap on LTV to 90% for a year provided further impetus to banks to focus on the safer segment of gold loans. Post fiscal 2021, despite the regulatory cap on LTV lowered to 75%, the growth momentum of banks continued, as the country was buffeted by the effects of the second wave of Covid-19 and subsequent reimposition of lockdowns.

The aggressive focus of banks has led to a sustained reduction in the share of gold loan NBFCs, which continued in fiscal 2023. The NBFC customers typically focus more on customer experience and turnaround time (TAT) as opposed to lower rate of interest provided by banks. But while NBFCs lose further market share this fiscal, the gold loan segment is expected to continue to grow, led by banks with healthier balance sheets, at least in the near term.

Trend in market share between banks and NBFCs



P: Projected

Note: Includes agriculture lending by banks with gold as collateral

Source: Company reports, CRISIL MI&A Research

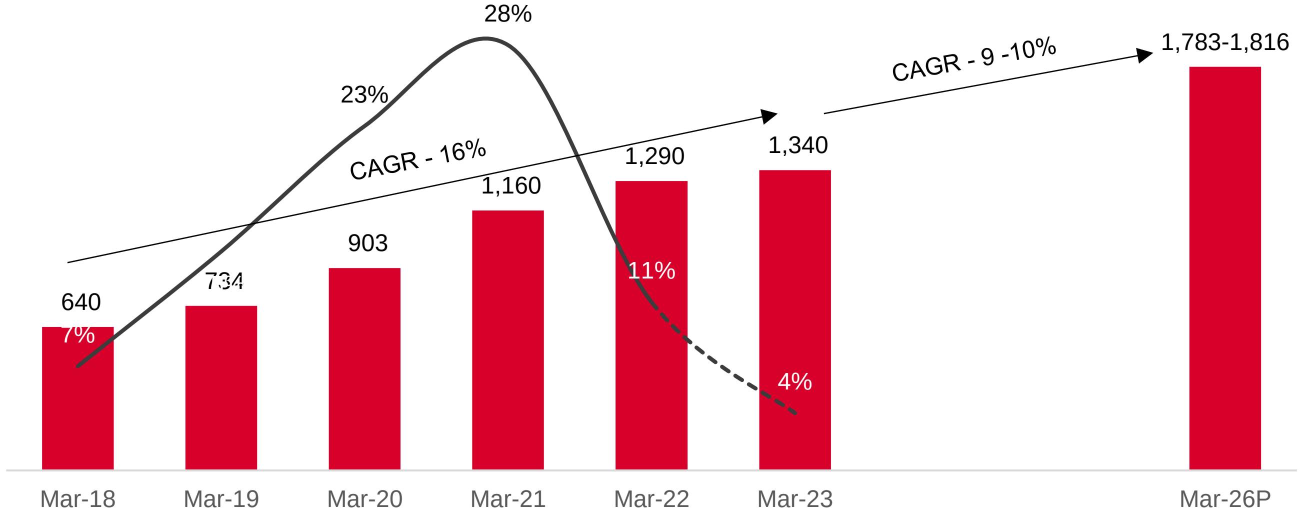
NBFCs compete on the basis of operating efficiency, turnaround time, local connect while managing risks

Despite banks having a competitive advantage of offering gold loans at lower cost, gold loan NBFCs have been trying to compete with banks through aggressive expansion of branch and increased focus on customer experience. NBFCs focus more single-mindedly on the gold loans business and have, accordingly, built their service offerings by investing significantly in manpower, systems, and processes as per the needs of the customer, some of which are listed below:

1. **Lower turnaround time and lesser documentation:** The gold loan borrower generally wants to procure the loan as quickly as possible and availability of well-trained and experienced employees in assessment and valuing gold helps NBFCs to disburse loans faster as compared to a bank.
2. **Wider reach and better local connect:** NBFCs have a geographically wider and deeper reach, especially in rural and semi-urban regions, where demand for gold loans is higher
3. **Risk management process:** Most NBFCs have put in place a comprehensive and robust risk management process taking into account their experiences over the years and the key risks in the process including steps taken to prevent fraud, store the gold safely, and recoup losses in case of a loan turning non-performing.

The growth in disbursals by gold loan NBFCs moderated further in fiscal 2023, owing to increased competition from banks and lower rural credit demand. Also, as cash flows improved following a rebound in economic activity, borrowers began repaying their loans and redeeming the gold. However, the trend is expected to reverse with recovery in rural demand, expanding of branches and optimisation of gold loan branches.

Gold loan NBFCs on branch-expansion spree amid rising gold prices



P: Projected

Source: Company reports, CRISIL MI&A Research

In an effort to better compete with banks and fintechs, gold loan NBFCs are expanding their reach and customer base through focused marketing strategies, with increased advertising and employee benefits. They are also working towards ringfencing their high-value customer base (loans >Rs 2 lakh), which are targeted by banks, and expanding to cater to rural low-income customers. The overall customer base of gold loan NBFCs, though, remains stable, as banks typically cater to higher ticket sizes.

Until fiscal 2022, NBFCs exhibited decent growth performance with 16% CAGR followed by a marginal growth rate of 4% in fiscal 2023. CRISIL MI&A Research expects the gold AUM credit growth to pick to 9-11% in fiscal 2024 on account branch expansion and optimisation, expected firming of gold prices and spur in credit demand in NBFC target consumer segment. In the medium term, NBFCs' gold loan book is expected to grow at a CAGR of 9-10% till fiscal 2026.

Average ticket size

Average ticket size has been rising over the past five years, supported by rising gold prices, as it has created headroom for incremental credit because of lowering of the LTV ratio. As a part of regulatory requirement, the LTV for NBFCs is capped at 75%. The overall credit growth is supported by increase in volume as well as value in form of increased ticket size which is driven by increase in price of the underlying gold.

Increase in average ticket size contributed to AUM growth

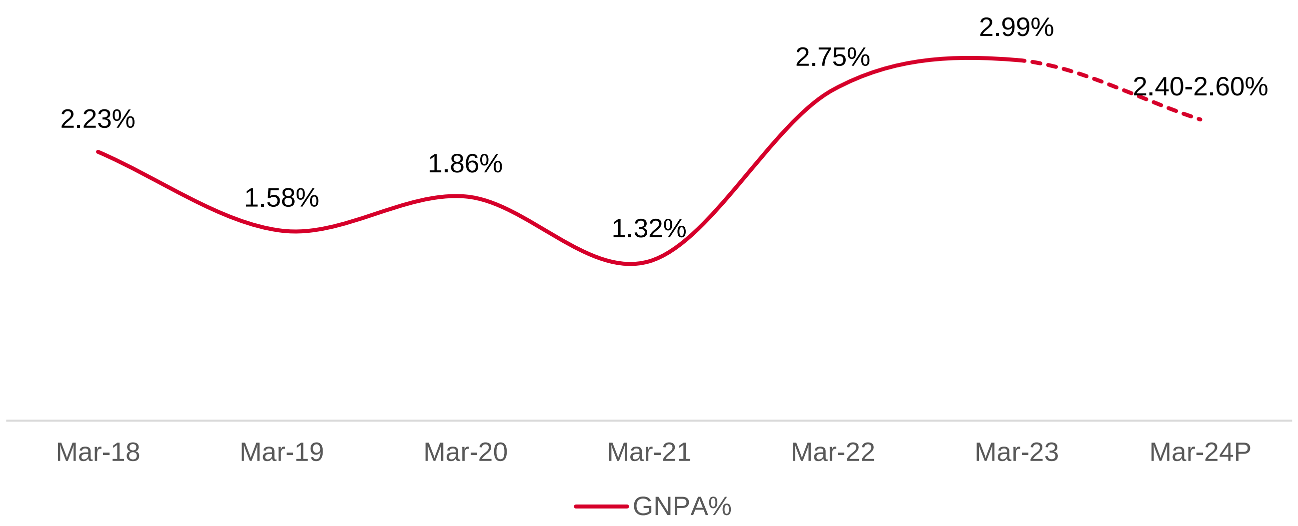
Average ticket size (in lakhs)	FY19	FY20	FY21	FY22	FY23
Manappuram Finance	0.33	0.39	0.45	0.57	0.58
Muthoot Finance	NA	NA	0.61	0.69	~0.70
SBFC Finance	1.02	0.90	0.90	0.90	0.90
Kosamattam Finance Limited	0.34	0.37	0.44	0.45	NA
Fedbank Financial Services	NA	NA	NA	NA	1.01
IIFL Finance	0.58	0.56	0.59	0.70	0.63

NA: Not available
Source: CRISIL MI&A, company reports

NPAs for gold loan NBFCs to improve in fiscal 2024

Gross non-performing asset (GNPA) of gold loan NBFCs, despite remaining elevated in fiscal 2023, is expected to improve in fiscal 2024. CRISIL MI&A Research expects GNPAs, which trended at 2.99% in fiscal 2023 to improve to 2.40-2.60% in fiscal 2024, owing to better collection efficiency and recovery via auctions to some extent. However, going forward, volatility in gold prices could pose some challenges to the asset quality in an otherwise relatively safe segment.

GNPAs to ease from current elevated levels



Source: Company reports, CRISIL MI&A Research

But GNPAs of the top two gold financiers remained elevated at 3.20% as of March 2023. The stress on asset quality could be because of combination of migration of teaser loans to higher RoI and loosening of credit filters in fiscal 2023.

Traditionally, GNPAs have been controlled via recoveries through gold auction. However, as gold financing involves personal connect, gold auctions tend to be the last resort, and typically non-performing assets (NPAs) are resolved via repayment by the customer. Additionally, further slippages in case of GNPAs because of migration of teaser loans to higher rates could be limited, as majority of the teaser loan book has already been migrated. Given the liquid nature of collaterals and recent increase in gold prices, the ultimate loss given default (LGD) would be modest.

Gold loan NBFCs' LTV ratio ranges 60-70%, which provides sufficient buffer against price fluctuations of gold prices. Lenders also ensure adequate provisioning, supported by residual effect from deterioration in asset quality during the peak of the pandemic in fiscal 2022. Additionally, it must be noted that any volatility in gold prices could translate into higher LGD rates, thereby increasing ECL provisioning.

Profitability subdued due to further compression of NIM

Lowest yields in 5 years

	FY19	FY20	FY21	FY22	FY23
Manappuram Finance Ltd	24.20%	25.40%	24.90%	22.20%	21.00%
Muthoot Finance Ltd	21.23%	23.03%	22.17%	20.06%	17.70%
IIFL Finance	18.10%	19.40%	18.00%	16.30%	17.50%
Kosamattam Finance Ltd	20.56%	19.43%	17.76%	17.70%	NA
Muthoot Fincorp Ltd	21.62%	21.73%	21.62%	18.74%	NA

Source: CRISIL MI&A Research, company reports

Yields have been on a declining trend for various players amid intense competition from banks. Competition continues to put pressure on net interest margins (NIMs) of gold loan NBFCs. Typically, banks offer gold loans at a lower yield of 7-15% due to low cost of funds advantage for banks, while NBFCs charge 18-24%. The initial effect of competition was felt when certain NBFCs introduced teaser rate loans which adversely impacted yields. With majority of the teaser loans reducing, yields may have bottomed out. However, at a structural level, they will continue to be lower than pre-pandemic levels in the near to medium term.

Factors supporting gold loan AUM growth

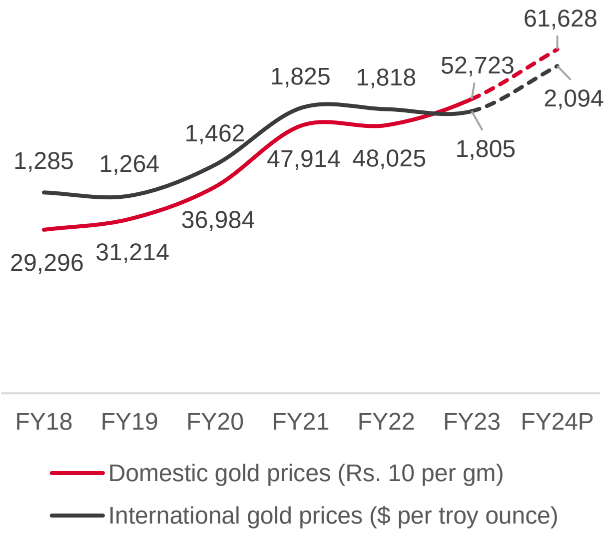
a) Rising gold prices

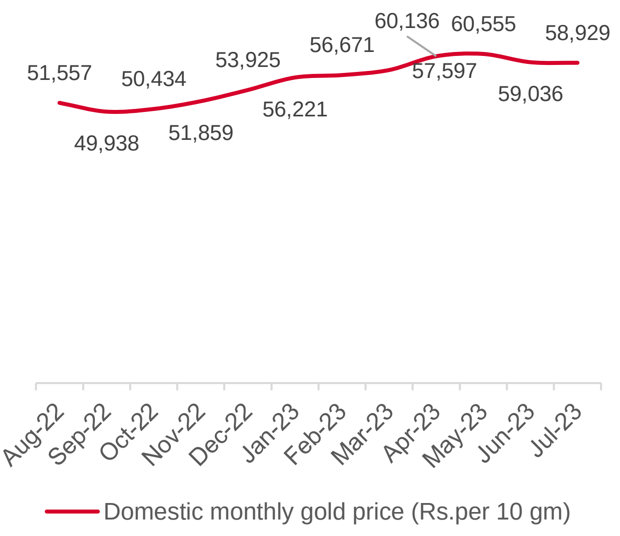
The gold finance market is sensitive to movements in gold prices. An increase in gold prices will lower the LTV, creating headroom for incremental credit growth for the same collateral. However, an adverse movement could result in calling the loan early or call for additional margin to maintain the LTV below the regulatory cap of 75%. A sustained downward movement in gold prices adversely impacts credit growth in the segment.

Given the liquid nature of the collateral, gold loans are easier to liquidate, and therefore, recover. Additionally, firming up of gold prices could lead to lower LGD during ECL calculation, which could result in a lower provision cover. Adversely, any weakening in gold prices would result in higher LGD, and consequently, a higher provision cover. Further, given the significance of gold and sentimental value attached to gold jewellery in the Indian culture, customers typically ensure repayments and further redemption of these ornaments. This translates into relatively lower rate of delinquencies in the segment.

International gold prices are expected to inch up further this fiscal, given the higher inflation outlook, increasing Federal Reserve rate, and global slowdown. In Indian markets, the rupee depreciation and increased import duty supported a rise in gold prices last fiscal. However, a slowdown in discretionary spending will impact consumption and thereby, demand. Tapering gold imports on a quarterly basis indicates muted demand.

International and domestic gold prices to rise this fiscal





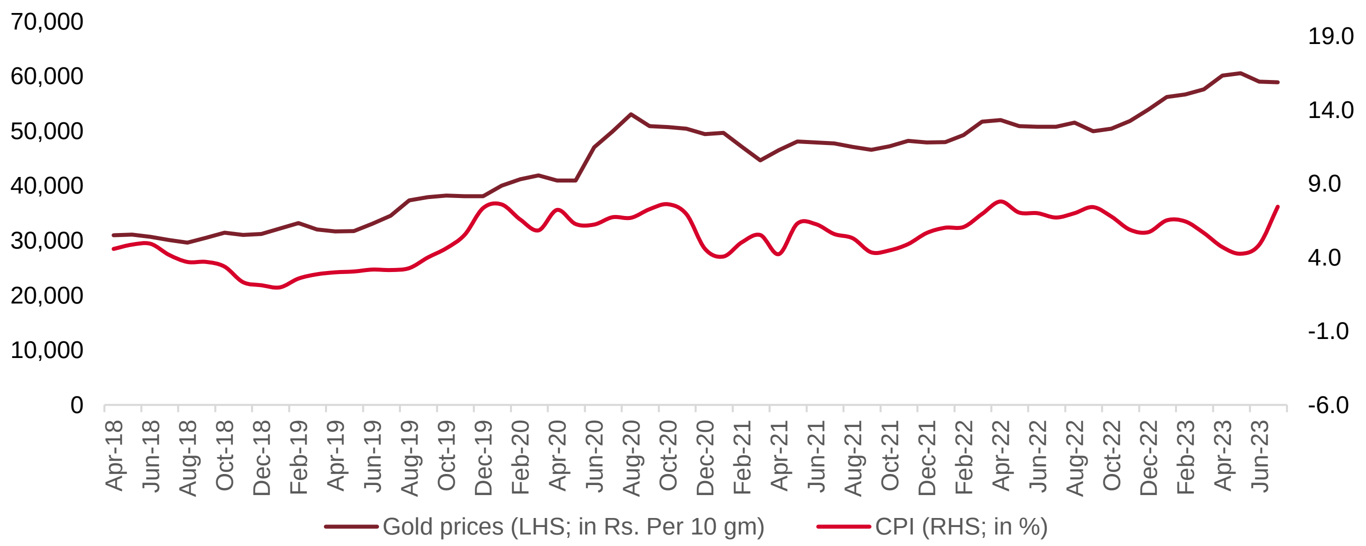
Note: 1) P: Projected

2) Prices are averaged for the respective periods

Source: Company reports, CRISIL MI&A Research, World Gold Council, World Bank

b) Gold is a hedge against inflation

Gold prices have moved in tandem with CPI, proving to be a hedge against inflation



Source: CRISIL MI&A

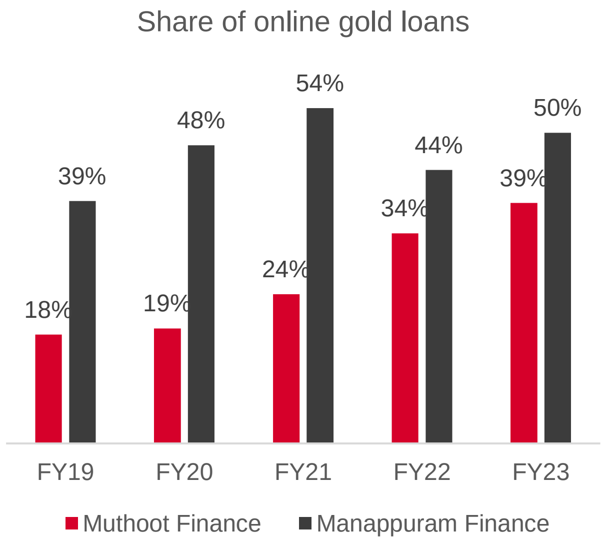
Between fiscals 2019 and fiscal 2023, gold prices moved in line with the consumer price index (CPI). The current trend of rising inflation started during the pandemic period. This was caused by supply chain disruptions during the pandemic, government spending, and very low interest rates held over an extended period. Post the cooling of inflation after the first wave of the pandemic, the CPI crossed the RBI's inflation target range of 6% in May 2021. The average monthly gold price was hovering around Rs 48,084/10 g. Over the subsequent months, both gold and inflation began heading higher with the CPI topping 7.8% in April 2022 and gold hitting its cycle high at Rs 52,023/10 g in the same month. Post this, CPI began to cool off and entered RBI's inflation target range of 4-6%. Inflation printed 5.9% on-year in November 2022. At the same time, gold prices cooled to Rs 51,859/10 g. Post this, inflation has remained sticky and gold prices too have been on a rising trajectory.

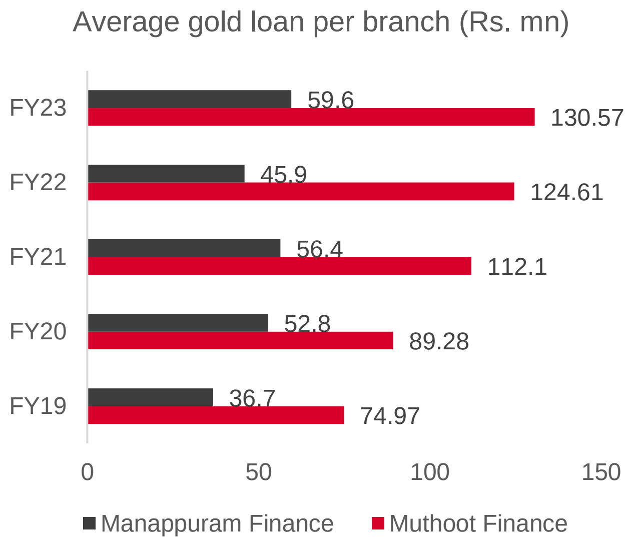
c) Online gold loan schemes

Online gold loan schemes enable consumers to get gold loans against jewellery stored at the vaults of gold loan NBFCs or their homes. Online gold loan providers have tied up with banks and payment gateway service providers to facilitate this service. These digital gold loan products are sanctioned within a few hours through the online process and can be accessed via mobile applications, on online platforms, with prepaid cards, and so on. Know your customer (KYC) checks, registration, and disbursements are all possible online. Though these loans require borrowers to personally deliver gold collateral at their nearest branch, some NBFC lenders have started providing doorstep delivery, wherein the verification of gold ornaments as well as gold collection is done at the customer's residence. These are managed through a central application that is simultaneously accessed by all branches for every transaction.

Manappuram Finance was the first company to launch online gold loans services in September 2015. Muthoot Finance launched its online gold loan scheme through its website and the iMuthoot application in September 2016. In addition to traditional players, fintech companies such as Rupeek have been offering completely digital loans since 2015. Online gold loans have gained traction since their launch.

Rising online loans to increase average gold loan per branch



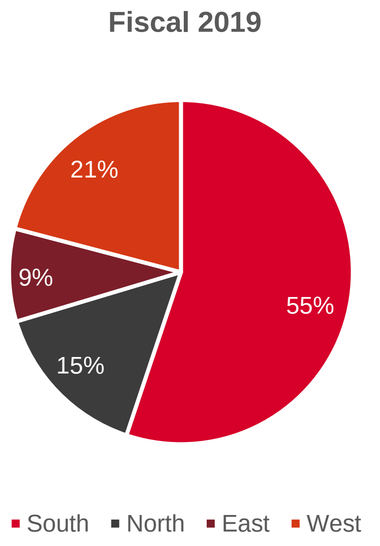


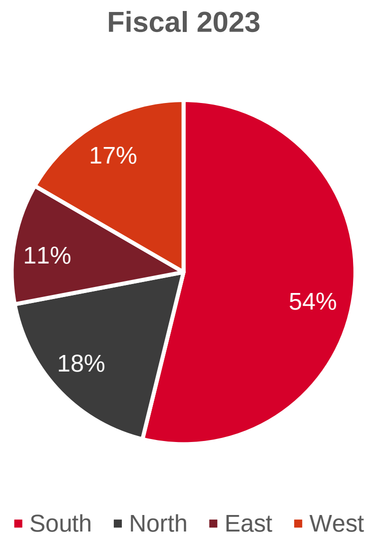
Source: Company reports, CRISIL MI&A Research

d) Diversification of branches in the non-south regions

Currently, South India continues to dominate overall loan demand among specialised gold loan NBFCs, while the non-south regions are likely to become growth centres. Changing consumer perceptions on gold loans, led by increasing awareness, as well as rising funding requirements, will drive faster growth in the non-south. Branch additions are also mainly taking place in the north and east where their existing numbers are low, indicating expansion potential in these regions.

Region-wise branch distribution





Note: Aggregate includes Muthoot Finance, Manappuram Finance and IIFL Finance

Source: Company reports, CRISIL MI&A Research

Specialised gold loan NBFCs have inherent advantages over others

NBFCs offer convenience, while banks offer lower ROI

	Gold loan NBFCs	Bank	Moneylenders
LTV	Up to 75%	75%	Higher than 75%
Processing fees	None/minimal	Higher compared with NBFCs	None
Interest rate	18-24% p a	7-15% p a	25-50% p a
Penetration	Highly penetrated	Selective branches	Highly penetrated
Mode of disbursal	Cash/cheque	Cheque	Cash
Working hours	Open beyond banking hours	Typical hours	Open beyond banking hours
Regulator	RBI	RBI	Non-regulated
Fixed office place	Proper branches	Proper branches	No fixed place
Customer service	High specialised focus	Non-core	Core focus
Documentation required	Minimal	KYC compliance	Minimal
Repayment structure	Flexible repayment structure	EMI-based	-
Average TAT	10 minutes	1-2 hours	>10 minutes

Source: Company reports, CRISIL MI&A Research

Peer comparison

In this chapter, CRISIL MI&A Research has analysed the operational performance and key financial indicators of top 10 NBFC-MFI (non-banking finance company-microfinance institution) players in terms of assets under management (AUM), and some small finance banks (SFBs) and Bandhan Bank that have loan portfolios inclined towards the MFI segment. However, the business models of SFBs and Bandhan Bank are different from NBFC-MFIs.

Asirvad Microfinance Limited is the third largest NBFC-MFI in India in terms of AUM as of March 2023

Asirvad Microfinance has maintained its position in the top five leading players throughout. As on March 2023, it is within a small distance of its nearest competitor, which is placed second in terms of AUM. Among the considered NBFC-MFIs, Asirvad Microfinance stood third in terms of AUM growth during fiscal 2023.

Among banks and SFBs, Bandhan Bank leads in terms of AUM. However, Jana SFB reported the highest on-year growth, at 35.86%, followed by Equitas SFB and Ujjivan SFB with y-o-y of 35.27% and 32.61%, respectively.

Among the top 10 NBFC-MFIs, Asirvad Microfinance has the highest percentage of secured assets as compared to peers indicating better risk balance.

Comparison of key players in the MFI industry

AUM (Rs billion)	Market share#	As of March 31, 2019	As of March 31, 2020	As of March 31, 2021	As of March 31, 2022	As of March 31, 2023
Top 10 NBFC-MFIs*						
CreditAccess Grameen Ltd	16.03%	71.59	98.96	113.41	137.32	210.31
IIFL Samasta Finance Ltd	8.04%	22.86	34.00	47.96	64.84	105.52
Asirvad Microfinance Ltd	**7.66%**	**38.41**	**55.03**	**59.85**	**70.20**	**100.41**
Fusion Micro Finance Ltd	7.09%	26.41	36.57	46.38	66.54	92.96
Muthoot Microfin Ltd	7.02%	43.54	49.32	49.77	65.67	92.08
Annapurna Finance Pvt Ltd	6.72%	30.18	40.09	48.08	65.49	88.14
Spandana Sphoorty Financial Ltd	6.08%	43.72	68.29	81.39	61.51	79.80
Satin Creditcare Network Ltd	6.05%	63.74	72.66	72.75	64.09	79.29
Svatantra Microfin Pvt Ltd	5.72%	12.32	26.02	35.64	54.47	74.99
Belstar Microfinance Ltd	4.72%	18.41	23.59	32.99	43.65	61.92
Banks and SFBs^						
Bandhan Bank	NM	447.76	718.46	870.43	993.38	1091.2
Equitas SFB	NM	117.04	153.67	179.25	205.97	278.61
Ujjivan SFB	NM	110.49	141.53	151.40	181.62	240.85
Jana SFB	NM	64.67	101.40	118.51	132.50	180.01
Utkarsh SFB	NM	47.42	66.60	84.15	106.31	139.57
ESAF SFB	NM	45.87	66.07	84.15	121.31	139.24
Fincare SFB	NM	35.30	53.45	60.72	76.00	99.11
Suryoday SFB	NM	29.70	37.11	42.06	50.63	60.15

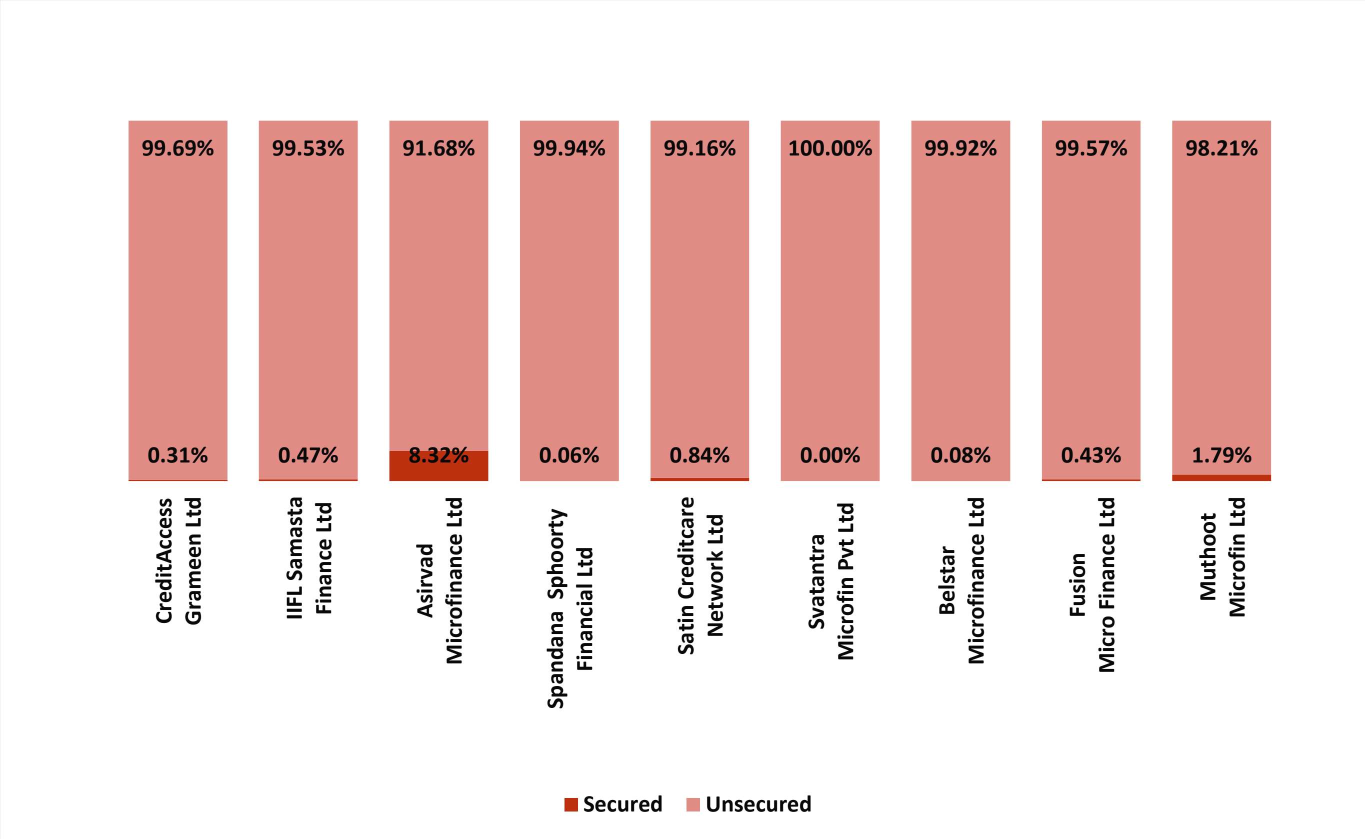
Source: MFIN, company reports, CRISIL MI&A Research
*Note: *AUM for NBFC-MFI players comprises largely of MFI loans and some non-MFI loans allowed as per extant regulations and based on each company's strategy.*

^For Banks and SFBs, total loan advances have been considered as AUM
#Market share is based on March 2023 AUM of NBFC-MFIs; NBFC MFIs are arranged in order of March 2023 AUM
NA – Not available; NM – Not meaningful

AUM	y-o-y growth FY20	y-o-y growth FY21	y-o-y growth FY22	y-o-y growth FY23	CAGR (FY19-FY23)
Top 10 NBFC-MFIs					
CreditAccess Grameen Ltd	38.23%	14.60%	21.08%	53.15%	30.92%
IIFL Samasta Finance Ltd	48.73%	41.06%	35.20%	62.74%	46.58%
Asirvad Microfinance Ltd	**43.27%**	**8.76%**	**17.29%**	**43.03%**	**27.15%**
Fusion Micro Finance Ltd	38.47%	26.83%	43.47%	39.71%	36.97%
Muthoot Microfin Ltd	13.28%	0.91%	31.95%	40.22%	20.59%
Annapurna Finance Pvt Ltd	32.84%	19.93%	36.21%	34.59%	30.73%
Spandana Sphoorty Financial Ltd	56.20%	19.18%	-24.43%	29.74%	16.23%
Satin Creditcare Network Ltd	13.99%	0.12%	-11.90%	23.72%	5.61%
Svatantra Microfin Pvt Ltd	111.20%	36.97%	52.83%	37.67%	57.07%
Belstar Microfinance Ltd	28.14%	39.85%	32.31%	41.86%	35.42%
Banks and SFBs					
Bandhan Bank	60.46%	21.15%	14.13%	9.85%	24.94%
Equitas SFB	31.29%	16.65%	14.91%	35.27%	24.21%
Ujjivan SFB	28.09%	6.97%	19.96%	32.61%	21.51%
Jana SFB	56.75%	16.91%	11.80%	35.86%	29.17%
Utkarsh SFB	40.46%	26.35%	26.33%	31.29%	30.98%
ESAF SFB	44.04%	27.36%	44.16%	14.78%	32.00%
Fincare SFB	51.42%	13.60%	25.16%	30.41%	29.45%
Suryoday SFB	24.93%	13.34%	20.39%	18.80%	19.29%

Source: MFIN, company reports, CRISIL MI&A Research

Secured Unsecured Mix of Top 10 NBFC-MFIs



Source: Company reports
Note: Information pertains to FY22 for Muthoot Microfin and Fusion Microfinance Ltd since annual report of FY23 is not available. Information not available for Annapurna Finance.

Disbursement (Rs billion)	FY19	FY20	FY21	FY22	FY23	Growth y-o-y FY20	Growth y-o-y FY21	Growth y-o-y FY22	Growth y-o-y FY23
Top 10 NBFC-MFIs									
CreditAccess Grameen Ltd	82.21	103.89	96.41	128.33	185.39	26.37%	-7.20%	33.11%	44.46%
IIFL Samasta Finance Ltd	24.18	30.79	36.95	57.10	102.09	27.33%	20.01%	54.53%	78.79%
Asirvad Microfinance Ltd*	**42.85**	**47.80**	**36.20**	**85.57**	**193.76**	**11.55%**	**-24.27%**	**136.38%**	**126.43%**
Fusion Micro Finance Ltd	28.21	35.73	36.76	60.58	83.75	26.68%	2.88%	64.80%	38.25%
Muthoot Microfin Ltd	45.58	40.66	25.81	46.69	81.04	-10.79%	-36.52%	80.90%	73.57%
Annapurna Finance Pvt Ltd	40.09	40.13	30.86	53.23	77.14	0.10%	-23.10%	72.49%	44.92%
Spandana Sphoorty Financial Ltd	49.69	80.04	64.26	31.42	76.24	61.08%	-19.72%	-51.10%	142.65%
Satin Creditcare Network Ltd	62.52	80.45	43.94	40.31	73.90	28.68%	-45.38%	-8.26%	83.33%
Svatantra Microfin Pvt Ltd	11.32	24.86	24.14	47.30	62.86	119.56%	-2.91%	95.94%	32.90%
Belstar Microfinance Ltd	17.97	26.19	24.35	35.46	57.95	45.75%	-7.03%	45.63%	63.42%

Source: MFIN, company reports, CRISIL MI&A Research
*Note: *Disbursements include gold loans as well. Asirvad's disbursement through MFI stood at Rs.83.97 billion for FY2023.*

Asirvad Microfinance recorded the third highest number of clients in fiscal 2023

Asirvad Microfinance has maintained its position in the top 5 in terms of client base throughout fiscals 2019 and 2023. In terms of compound annual growth rate, clientele growth was strong for Svatantra Microfin and Belstar Microfinance, at 40.79% and 32.56%, respectively. Growth was in double digits for Asirvad Microfinance, at 16.20%, during the period.

Client outreach	No of Clients (million)				
	As of March 31, 19	As of March 31, 20	As of March 31, 21	As of March 31, 22	As of March 31, 23
Top 10 NBFC-MFIs					
CreditAccess Grameen Ltd	2.42	2.90	2.90	2.90	4.30
IIFL Samasta Finance Ltd	1.01	1.54	1.60	1.80	2.40
Asirvad Microfinance Ltd	**1.81**	**2.37**	**2.40**	**2.60**	**3.30**
Fusion Micro Finance Ltd	1.55	1.70	2.10	2.70	3.50
Muthoot Microfin Ltd	1.59	1.90	1.90	2.10	2.80
Annapurna Finance Pvt Ltd	1.51	1.75	1.85	2.31	2.50
Spandana Sphoorty Financial Ltd	2.46	2.57	2.40	2.30	2.10
Satin Creditcare Network Ltd	3.15	3.10	2.70	2.50	2.60
Svatantra Microfin Pvt Ltd	0.56	1.01	1.30	1.70	2.20
Belstar Microfinance Ltd	0.68	1.20	1.40	1.80	2.10
Banks and SFBs*					
Bandhan Bank	16.50	20.10	23.00	26.30	30.00
Equitas SFB	NA	2.40	3.90	5.68	NA
Ujjivan SFB	4.67	5.44	4.93	6.48	7.69
Jana SFB	NA	3.07	NA	NA	NA
Utkarsh SFB	2.00	2.50	NA	3.00	NA
ESAF SFB	2.88	2.86	3.89	4.50	NA
Fincare SFB	1.54	2.55	2.09	2.39	2.76
Suryoday SFB	1.18	1.46	1.49	1.92	2.31

*Note: *For Banks and SFBs, clients Include total number of customers*
Source: MFIN, company reports, CRISIL MI&A Research

Client outreach	Client growth				
	FY20	FY21	FY22	FY23	CAGR (FY19-FY23)
Top 10 NBFC-MFIs					
CreditAccess Grameen Ltd	19.98%	0.00%	0.00%	48.28%	15.49%
IIFL Samasta Finance Ltd	52.48%	3.90%	12.50%	33.33%	24.16%
Asirvad Microfinance Ltd	**30.94%**	**1.27%**	**8.33%**	**26.92%**	**16.20%**
Fusion Micro Finance Ltd	9.68%	23.53%	28.57%	29.63%	22.58%
Muthoot Microfin Ltd	19.50%	0.00%	10.53%	33.33%	15.20%
Annapurna Finance Pvt Ltd	15.89%	5.71%	24.86%	8.23%	13.43%
Spandana Sphoorty Financial Ltd	4.47%	-6.61%	-4.17%	-8.70%	-3.88%
Satin Creditcare Network Ltd	-1.59%	-12.90%	-7.41%	4.00%	-4.68%
Svatantra Microfin Pvt Ltd	80.36%	28.71%	30.77%	29.41%	40.79%
Belstar Microfinance Ltd	76.47%	16.67%	28.57%	16.67%	32.56%
Banks and SFBs					
Bandhan Bank	21.82%	14.43%	14.35%	14.07%	16.12%
Equitas SFB	NA	62.50%	45.64%	NA	NA
Ujjivan SFB	16.49%	-9.38%	31.44%	18.67%	13.28%
Jana SFB	NM	NM	NM	NM	NA
Utkarsh SFB	NM	NM	NM	NM	NA
ESAF SFB	-0.73%	35.73%	15.80%	NM	NA
Fincare SFB	66.12%	-18.04%	14.35%	15.48%	15.80%
Suryoday SFB	23.73%	2.05%	28.86%	20.31%	18.29%

Notes: NA – Not available; NM – Not meaningful
Source: MFIN, company reports, CRISIL MI&A Research

Asirvad Microfinance stood second in terms of number of employees and number of branches.

In terms of number of loans disbursed per loan officer, its position improved to first in fiscal 2023 from fourth in the previous fiscal.

Reach and efficiency parameters (FY23)	No of employees	No. of loan officers	No of branches	Clients per employee	Clients per branch	Clients per loan officer	No of loans disbursed per loan officer	No. of loans disbursed
Top 10 NBFC-MFIs								
CreditAccess Grameen Ltd	16,759	15712	1,786	254	2,388	271	311	4,883,000
IIFL Samasta Finance Ltd	12,213	6214	1,267	193	1,858	379	382	2,372,000
Asirvad Microfinance Ltd*	**15,874**	**8736**	**1,684**	**210**	**1,983**	**382**	**450**	**3,928,000**
Fusion Micro Finance Ltd	9,625	6269	1,019	365	3,452	561	352	2,209,000
Muthoot Microfin Ltd	10,227	6274	1,172	271	2,366	442	340	2,134,000
Annapurna Finance Pvt Ltd	10,356	6501	1,183	241	2,106	383	231	1,500,000
Spandana Sphoorty Financial Ltd	9,674	7503	1,153	220	1,844	283	220	1,648,000
Satin Creditcare Network Ltd	9,222	6125	1,078	278	2,374	418	285	1,748,000
Svatantra Microfin Pvt Ltd	7,272	4685	804	306	2,770	475	351	1,643,000
Belstar Microfinance Ltd	8,022	4533	767	262	2,742	464	297	1,346,000

Source: MFIN, company reports, CRISIL MI&A Research
*Note: *For loans disbursed per loan officer, disbursements include gold loans as well*

Reach and efficiency parameters (FY22)	No of employees	No. of loan officers	No of branches	Clients per employee	Clients per branch	Clients per loan officer	No of loans disbursed per loan officer	No. of loans disbursed
Top 10 NBFC-MFIs								
CreditAccess Grameen Ltd	11,951	8257	1,164	244	2,510	354	414	3,415,000
IIFL Samasta Finance Ltd	10,730	5861	807	163	2,171	299	248	1,453,000
Asirvad Microfinance Ltd*	**12,581**	**7507**	**1,525**	**205**	**1,688**	**343**	**292**	**2,190,000**
Fusion Micro Finance Ltd	8,716	8399	900	312	3,020	324	202	1,699,000
Muthoot Microfin Ltd	8,003	5635	905	256	2,266	364	242	1,363,000
Annapurna Finance Pvt Ltd	8,606	5809	984	269	2,253	399	228	1,324,000
Spandana Sphoorty Financial Ltd	8,379	6220	1,049	271	2,168	366	112	698,000
Satin Creditcare Network Ltd	10,736	7058	1029	229	2,385	348	136	957,000
Svatantra Microfin Pvt Ltd	5,957	3472	692	282	2,431	485	364	1,265,000
Belstar Microfinance Ltd	5,939	3299	729	308	2,511	555	307	1,013,000

Source: MFIN, company reports, CRISIL Research
*Note: *For loans disbursed per loan officer, disbursements include gold loans as well*

Reach and efficiency parameters (FY21)	No of employees	No of loan officers	No of branches	Clients per employee	Clients per branch	Clients per loan officer	No of loans disbursed per loan officer	No. of loans disbursed
Top 10 NBFC-MFIs								
CreditAccess Grameen Ltd	10,625	7451	964	270	2,979	385	360	2,683,000
IIFL Samasta Finance Ltd	6,835	4060	618	237	2,618	237	268	1,090,000
Asirvad Microfinance Ltd*	**7,233**	**4490**	**1,062**	**334**	**2,273**	**538**	**276**	**1,241,000**
Fusion Micro Finance Ltd	6,406	4188	710	331	2,987	506	273	1,145,000
Muthoot Microfin Ltd	6,961	4622	755	267	2,461	402	165	762,000
Annapurna Finance Pvt Ltd	7,304	4492	870	253	2,126	412	191	858,000
Spandana Sphoorty Financial Ltd	8,644	6721	1,052	283	2,324	364	211	1,418,000
Satin Creditcare Network Ltd	10,612	6588	1011	250	2,627	408	201	1,327,000
Svatantra Microfin Pvt Ltd	4,613	2468	512	279	2,518	522	268	661,000
Belstar Microfinance Ltd	4,562	2105	649	303	2,127	656	336	707,000

Source: MFIN, company reports, CRISIL MI&A Research
*Note: *For loans disbursed per loan officer, disbursements include gold loans as well*

Banks and SFBs

Reach and efficiency parameters (FY23) *	No of employees	No of branches	Clients per employee	Clients per branch	Clients per loan officer	No of loans disbursed per loan officer
Bandhan Bank	69,702	5,999	430	5,001	NM	NM
Equitas SFB	20,563	922	NA	NA	NM	NM
Ujjivan SFB	17,870	629	430	12,226	NM	NM
Jana SFB	NA	NA	NA	NA	NM	NM
Utkarsh SFB	15,424	830	NA	NA	NM	NM
ESAF SFB	NA	NA	NA	NA	NM	NM
Fincare SFB	14,804	1231	186	2242	NM	NM
Suryoday SFB	6,025	577	383	4,003	NM	NM

Notes: NM – Not meaningful
**For Banks and SFBs, clients include total number of customers.*
Source: MFIN, company reports, CRISIL MI&A Research

Geographical Presence of select players

Asirvad Microfinance is most diversified with the highest number of districts among the top 10 NBFC-MFIs and stands second in terms of presence in states. It also ranked second based on average branches per state for fiscal 2023. Basis the data available, Asirvad Microfinance has the lowest concentration with 38% in Top 3 states among the top 10 NBFC-MFIs.

Asirvad Microfinance grew geographically between FY2015 and FY2016 i.e from 5 states in FY2015 to 13 states in FY2016. It expanded to 110 districts in FY2016 from 44 districts in FY2015.

No. of states	FY19	FY20	FY21	FY22	FY23
Top 10 NBFC-MFIs					
CreditAccess Grameen Ltd	14	14	14	14	15
IIFL Samasta Finance Ltd	17	17	17	17	19
Asirvad Microfinance Ltd	**23**	**23**	**23**	**23**	**23**
Fusion Micro Finance Ltd	18	18	18	18	20
Muthoot Microfin Ltd	16	16	16	16	18
Annapurna Finance Pvt Ltd	18	18	18	20	20
Spandana Sphoorty Financial Ltd	18	18	18	18	18
Satin Creditcare Network Ltd	23	23	23	23	24
Svatantra Microfin Pvt Ltd	17	17	19	19	19
Belstar Microfinance Ltd	18	18	18	18	18
Banks and SFBs					
Bandhan Bank	34	34	34	34	34
Equitas SFB	13	15	17	18	18
Ujjivan SFB	24	24	24	24	25
Jana SFB	NA	NA	NA	NA	NA
Utkarsh SFB	11	15	16	22	26
ESAF SFB	14	18	21	21	NA
Fincare SFB	13	19	13	17	19
Suryoday SFB	11	12	13	14	15

Notes:
NA – Not available
Source: MFIN, company reports, CRISIL MI&A Research

No. of districts	FY19	FY20	FY21	FY22	FY23
Top 10 NBFC-MFIs					
CreditAccess Grameen Ltd	157	230	247	301	351
IIFL Samasta Finance Ltd	210	228	252	288	332
Asirvad Microfinance Ltd	**290**	**314**	**326**	**408**	**450**
Fusion Micro Finance Ltd	254	283	323	361	385
Muthoot Microfin Ltd	217	245	249	281	321
Annapurna Finance Pvt Ltd	232	292	320	346	388
Spandana Sphoorty Financial Ltd	263	280	282	294	314
Satin Creditcare Network Ltd	340	383	372	374	384
Svatantra Microfin Pvt Ltd	149	221	247	303	336
Belstar Microfinance Ltd	76	155	170	186	216
Banks and SFBs					
Bandhan Bank	NA	NA	NA	566	600
Equitas SFB	NA	NA	NA	NA	NA
Ujjivan SFB	223	244	248	248	271
Jana SFB	NA	NA	NA	NA	NA
Utkarsh SFB	48	173	188	224	253
ESAF SFB	124	NA	NA	NA	NA
Fincare SFB	144	177	271	246	490
Suryoday SFB	NA	NA	NA	NA	NA

Source: MFIN, company reports, CRISIL MI&A Research

No. of districts	Ranks
Top 10 NBFC-MFIs	
CreditAccess Grameen Ltd	5
IIFL Samasta Finance Ltd	7
Asirvad Microfinance Ltd	**1**
Fusion Micro Finance Ltd	3
Muthoot Microfin Ltd	8
Annapurna Finance Pvt Ltd	2
Spandana Sphoorty Financial Ltd	9
Satin Creditcare Network Ltd	4
Svatantra Microfin Pvt Ltd	6
Belstar Microfinance Ltd	10
Banks and SFBs	
Bandhan Bank	1
Equitas SFB	-
Ujjivan SFB	3
Jana SFB	-
Utkarsh SFB	4
ESAF SFB	-
Fincare SFB	2
Suryoday SFB	-

Source: MFIN, company reports, CRISIL MI&A Research

Average number of branches per state	FY19	FY20	FY21	FY22	FY23
Top 10 NBFC-MFIs					
CreditAccess Grameen Ltd	48	66	69	83	119
IIFL Samasta Finance Ltd	29	33	36	47	67
Asirvad Microfinance Ltd	**39**	**43**	**44**	**64**	**73**
Fusion Micro Finance Ltd	29	33	39	50	51
Muthoot Microfin Ltd	35	43	47	57	65
Annapurna Finance Pvt Ltd	32	40	48	49	59
Spandana Sphoorty Financial Ltd	51	56	58	58	64
Satin Creditcare Network Ltd	42	50	44	45	45
Svatantra Microfin Pvt Ltd	16	26	27	36	42
Belstar Microfinance Ltd	22	34	36	41	43
Banks and SFBs					
Bandhan Bank	118	134	156	166	176
Equitas SFB	30	57	51	48	51
Ujjivan SFB	20	24	24	24	25
Jana SFB	NA	NA	NA	NA	NA
Utkarsh SFB	44	34	35	31	32
ESAF SFB	30	25	26	27	NA
Fincare SFB	44	37	62	54	65
Suryoday SFB	35	40	43	40	38

Notes:
NA – Not available
Source: MFIN, company reports, CRISIL MI&A Research

FY23	Share of rural portfolio	Share of top states by AUM
Top 10 NBFC-MFIs		
CreditAccess Grameen Ltd	85%**	74.30% in top 3 states
IIFL Samasta Finance Ltd	NA	NA
Asirvad Microfinance Ltd	**NA**	**38.00% in top 3 states#**
Fusion Micro Finance Ltd	93%	53.00% in top 3 states
Muthoot Microfin Ltd	NA	54.81% in top 3 states
Annapurna Finance Pvt Ltd	NA	NA
Spandana Sphoorty Financial Ltd	87%*	44.80% in top 3 states
Satin Creditcare Network Ltd	77%*	NA
Svatantra Microfin Pvt Ltd	NA	NA
Belstar Microfinance Ltd	88%**	NA
Banks and SFBs		
Bandhan Bank	35%^	NA
Equitas SFB	NA	NA
Ujjivan SFB	7%*	41.13% in top 3 states
Jana SFB	NA	NA
Utkarsh SFB	63%**	NA
ESAF SFB	NA	NA
Fincare SFB	93.47%**	NA
Suryoday SFB	NA	NA

Notes:
NA – Not available
**Share of rural clients as a percentage of loan portfolio in FY2023*
***Share of rural clients is a percentage of borrower base in FY2023*
^ Share of rural clients is a percentage of banking outlets
#Consists only of MFI AUM
Source: MFIN, company reports, CRISIL MI&A Research

Asirvad Microfinance stood third in terms of branches per district among top 10 NBFC-MFIs in fiscal 2023

Productivity metrics	No of branches per district				
Top 10 NBFC-MFIs	**As of March 31,19**	**As of March 31,20**	**As of March 31,21**	**As of March 31,22**	**As of March 31,23**
Top 10 NBFC-MFIs					
CreditAccess Grameen Ltd	4.27	4.04	3.90	3.87	5.09
IIFL Samasta Finance Ltd	2.35	2.46	2.45	2.80	3.82
Asirvad Microfinance Ltd	**3.25**	**3.32**	**3.26**	**3.74**	**3.74**
Fusion Micro Finance Ltd	2.05	2.09	2.20	2.49	2.65
Muthoot Microfin Ltd	2.57	2.82	3.03	3.22	3.65
Annapurna Finance Pvt Ltd	2.46	2.46	2.72	2.84	3.05
Spandana Sphoorty Financial Ltd	3.49	3.61	3.73	3.57	3.67
Satin Creditcare Network Ltd	2.87	2.98	2.72	2.75	2.81
Svatantra Microfin Pvt Ltd	1.85	2.02	2.07	2.28	2.39
Belstar Microfinance Ltd	5.26	3.89	3.82	3.92	3.55

Source: MFIN, CRISIL MI&A Research

Asirvad Microfinance has diversified geographically and reduced its dependency on few districts. This is reflected from its low AUM per district among select NBFC-MFIs in fiscal 2023. This geographic expansion across districts can also be seen by an increase in branches, which has led to a lower AUM per branch as well.

Productivity metrics	AUM per branch (Rs. million)					AUM per district (Rs. million)				
Top 10 NBFC-MFIs	As of March 31,19	As of March 31,20	As of March 31, 21	As of March 31, 22	As of March 31, 23	As of March 31,19	As of March 31,20	As of March 31, 21	As of March 31, 22	As of March 31, 23
Top 10 NBFC-MFIs*										
CreditAccess Grameen Ltd	106.85	106.52	117.65	117.97	117.75	455.99	430.26	459.15	456.21	599.17
IIFL Samasta Finance Ltd	46.37	60.61	77.61	80.35	83.28	108.86	149.12	190.32	225.14	317.83
Asirvad Microfinance Ltd	**40.77**	**52.81**	**56.36**	**46.03**	**59.63**	**132.45**	**175.25**	**183.59**	**172.06**	**223.13**
Fusion Micro Finance Ltd	50.79	61.88	65.32	73.93	91.23	103.98	129.22	143.59	184.32	241.45
Muthoot Microfin Ltd	78.17	71.27	65.92	72.56	78.57	200.65	201.31	199.88	233.70	286.85
Annapurna Finance Pvt Ltd	52.95	55.84	55.26	66.55	74.51	130.09	137.29	150.25	189.28	227.16
Spandana Sphoorty Financial Ltd	47.57	67.61	77.37	58.64	69.21	166.24	243.89	288.62	209.22	254.14
Satin Creditcare Network Ltd	65.24	63.74	71.96	62.28	73.55	187.47	189.71	195.56	171.36	206.48
Svatantra Microfin Pvt Ltd	44.80	58.34	69.61	78.71	93.27	82.68	117.74	144.29	179.77	223.18
Belstar Microfinance Ltd	46.03	39.12	50.83	59.88	80.73	242.24	152.19	194.06	234.68	286.67
Banks and SFBs^										
Bandhan Bank	111.94	157.59	163.92	176.16	181.90	NA	NA	NA	1755.09	1818.67
Equitas SFB	298.58	179.94	208.19	237.02	302.18	NA	NA	NA	NA	NA
Ujjivan SFB	233.10	246.14	263.30	315.86	382.91	495.47	580.04	610.48	732.34	888.75
Jana SFB	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Utkarsh SFB	98.37	131.36	150.81	154.97	168.16	987.82	384.97	447.61	474.59	551.66
ESAF SFB	108.44	145.52	152.17	210.97	NA	NA	NA	NA	NA	NA
Fincare SFB	62.04	75.18	75.06	82.70	80.52	245.14	301.98	224.07	308.95	202.27
Suryoday SFB	77.75	77.80	75.65	89.62	104.25	NA	NA	NA	NA	NA

*Notes: *AUM for NBFC-MFI players comprises largely of MFI loans and some non-MFI loans allowed as per extant regulations and based on each company's strategy.*
^For Banks and SFBs, total loan advances have been considered as AUM
NA – Not available
Source: MFIN, company reports, CRISIL MI&A Research

Productivity metrics	AUM per employee (Rs. million)					AUM per customer# (Rs)				
Top 10 NBFC-MFIs	**As of March 31,19**	**As of March 31,20**	**As of March 31, 21**	**As of March 31, 22**	**As of March 31, 23**	**As of March 31,19**	**As of March 31,20**	**As of March 31, 21**	**As of March 31, 22**	**As of March 31, 23**
Top 10 NBFC-MFIs*										
CreditAccess Grameen Ltd	8.88	9.14	10.67	11.49	12.55	29,619	34,124	39,107	47,352	48,909
IIFL Samasta Finance Ltd	4.75	5.80	7.02	6.04	8.64	22,634	22,078	29,975	36,022	43,967
Asirvad Microfinance Ltd	**7.76**	**8.87**	**8.27**	**5.58**	**6.33**	**21,221**	**23,219**	**24,938**	**27,000**	**30,427**
Fusion Micro Finance Ltd	6.01	6.57	7.24	7.63	9.66	17,039	21,512	22,086	24,644	26,560
Muthoot Microfin Ltd	6.37	6.79	7.15	8.21	9.00	27,384	25,958	26,195	31,271	32,886
Annapurna Finance Pvt Ltd	6.10	6.73	6.58	7.61	8.51	19,987	22,909	25,989	28,351	35,256
Spandana Sphoorty Financial Ltd	6.57	8.30	9.42	7.34	8.25	17,772	26,572	33,913	26,743	38,000
Satin Creditcare Network Ltd	6.12	6.52	6.86	5.97	8.60	20,235	23,439	26,944	25,636	30,496
Svatantra Microfin Pvt Ltd	4.93	6.63	7.73	9.14	10.31	22,000	25,762	27,415	32,041	34,086
Belstar Microfinance Ltd	6.40	5.33	7.23	7.35	7.72	27,074	19,658	23,564	24,250	29,486
Banks and SFBs										
Bandhan Bank	13.84	18.07	17.60	16.50	15.66	27,137	35,744	37,845	37,771	36,373
Equitas SFB	7.99	9.54	10.83	11.70	13.55	NA	64029	45962	36262	NA
Ujjivan SFB	7.49	7.93	9.14	10.75	13.48	23,660	26,017	30,710	28,028	31,320
Jana SFB	3.86	6.25	7.02	NA	NA	NA	33028	NA	NA	NA
Utkarsh SFB	7.43	7.54	8.12	8.43	9.05	23708	26640	NA	35436	NA
ESAF SFB	21.16	19.80	22.13	29.29	NA	15905	23075	21655	26957	NA
Fincare SFB	6.42	7.26	6.86	6.48	6.70	22997	20961	29054	31800	35911
Suryoday SFB	7.56	7.90	8.20	9.64	9.98	25,169	25,418	28,228	26,372	26,039

*Notes: *AUM for NBFC-MFI players comprises largely of MFI loans and some non-MFI loans allowed as per extant regulations and based on each company's strategy.*
^For Banks and SFBs, total loan advances have been considered as AUM
NM – Not meaningful
#For Banks and SFBs, customer includes total number of clients.
Source: MFIN, company reports, CRISIL MI&A Research

Productivity metrics	AUM per loan officer (Rs. million)				
	As of March 31,19	As of March 31,20	As of March 31, 21	As of March 31, 22	As of March 31, 23
Top 10 NBFC-MFIs*					
CreditAccess Grameen Ltd	12.41	12.83	15.22	16.63	13.39
IIFL Samasta Finance Ltd	7.93	9.66	11.81	11.06	16.98
Asirvad Microfinance Ltd	**14.36**	**16.49**	**13.33**	**9.35**	**11.49**
Fusion Micro Finance Ltd	9.30	10.34	11.07	7.92	14.83
Muthoot Microfin Ltd	11.05	10.37	10.77	11.65	14.68
Annapurna Finance Pvt Ltd	10.27	11.28	10.70	11.27	13.56
Spandana Sphoorty Financial Ltd	9.36	11.19	12.11	9.89	10.64
Satin Creditcare Network Ltd	10.64	11.16	11.04	9.08	12.95
Svatantra Microfin Pvt Ltd	7.80	12.35	14.44	15.69	16.01
Belstar Microfinance Ltd	12.73	11.35	15.67	13.23	13.66

*Notes: *AUM for NBFC-MFI players comprises largely of MFI loans and some non-MFI loans allowed as per extant regulations and based on each company's strategy. ^For Banks and SFBs, total loan advances have been considered as AUM*
NA – Not available
Number of loan officers is not available for Banks and SFBs, hence is excluded from the table.
Source: MFIN, company reports, CRISIL MI&A Research

Asirvad Microfinance stood first both in terms of disbursement per branch and disbursement per employee in fiscal 2023.

Productivity metrics	Disbursement per branch (Rs. Million)					Disbursement per employee (Rs. million)				
	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23
Top 10 NBFC-MFIs										
CreditAccess Grameen Ltd	122.70	111.83	100.01	110.25	103.80	10.19	9.60	9.07	10.74	11.06
IIFL Samasta Finance Ltd	49.05	54.88	59.79	70.76	80.58	5.03	5.25	5.41	5.32	8.36
Asirvad Microfinance Ltd*	**45.49**	**45.87**	**34.09**	**56.11**	**115.06**	**8.65**	**7.70**	**5.00**	**6.80**	**12.21**
Fusion Micro Finance Ltd	54.24	60.46	51.77	67.31	82.19	6.41	6.42	5.74	6.95	8.70
Muthoot Microfin Ltd	81.82	58.76	34.19	51.59	69.15	6.67	5.60	3.71	5.83	7.92
Annapurna Finance Pvt Ltd	70.33	55.89	35.47	54.10	65.21	8.11	6.74	4.23	6.19	7.45
Spandana Sphoorty Financial Ltd	54.07	79.25	61.08	29.95	66.12	7.47	9.73	7.43	3.75	7.88
Satin Creditcare Network Ltd	63.99	70.57	43.46	39.17	68.55	6.00	7.22	4.14	3.75	8.01
Svatantra Microfin Pvt Ltd	41.18	55.75	47.15	68.35	78.18	4.53	6.33	5.23	7.94	8.64
Belstar Microfinance Ltd	44.93	43.44	37.52	48.64	75.55	6.25	5.92	5.34	5.97	7.22

Source: MFIN, company reports, CRISIL MI&A Research
*Note: *Disbursements include gold loans as well*

Asirvad Microfinance ranked lowest among the selected NBFC-MFIs in terms of average portfolio outstanding per account.

The ticket size of Asirvad Microfinance based on disbursements increased significantly on-year at 26.25% in fiscal 2023.

Productivity metrics	Average portfolio outstanding per account (Rs)					Average ticket size based on disbursements (Rs)				
Top 10 NBFC-MFIs	As of FY 19	As of FY20	As of FY21	As of FY22	As of FY23	FY 19	FY20	FY21	FY22	FY23
Top 10 NBFC-MFIs										
CreditAccess Grameen Ltd	17,288	17,920	26,884	30,223	28,680	21,379	20,000	35,938	37,576	37,965
IIFL Samasta Finance Ltd	20,458	18,653	23,734	29,770	44,000	27,072	27,279	33,900	39,294	43,038
Asirvad Microfinance Ltd*	**13,146**	**14,570**	**15,866**	**19,749**	**25,262**	**20,466**	**22,628**	**29,268**	**39,070**	**49,324**
Fusion Micro Finance Ltd	16,771	19,539	21,550	23,873	25,550	26,427	29,801	32,113	35,668	37,922
Muthoot Microfin Ltd	23,150	21,833	21,840	22,889	27,418	31,161	33,164	33,855	34,252	37,985
Annapurna Finance Pvt Ltd	19,776	22,672	23,537	24,469	34,605	31,338	35,207	35,989	40,198	51,436
Spandana Sphoorty Financial Ltd	14,723	22,300	31,012	24,753	35,182	26,279	34,308	45,318	45,025	46,256
Satin Creditcare Network Ltd	17,682	19,974	24,419	24,246	29,489	26,723	31,486	33,113	42,113	42,276
Svatantra Microfin Pvt Ltd	21,011	10,661	13,114	26,581	25,373	29,995	36,252	36,517	37,399	38,252
Belstar Microfinance Ltd	21,283	13,723	18,635	23,686	27,021	29,355	30,747	34,430	35,025	43,051

Source: MFIN, company reports, CRISIL MI&A Research
*Note: *Average ticket size based on disbursements include gold loans as well.*

Asirvad Microfinance is one of the youngest NBFC-MFI players with a relatively strong credit rating of CRISIL 'AA-'

Among the top 10 NBFC-MFIs, Asirvad Microfinance was the first one to receive AA- rating from CRISIL and was the fastest to receive AA- rating.

Top 10 NBFC-MFIs	Date of incorporation	NBFC-MFI / SFB status date	Credit rating as of March 2023	No of years to achieve AA- rating
CreditAccess Grameen Ltd	1991	2013	ICRA AA-, CRISIL A+, IND AA-	11 years (ICRA)
Fusion Micro Finance Ltd	1994	2014	CRISIL A, ICRA A, CARE A	NA
Asirvad Microfinance Ltd	**2007**	**2013**	**CRISIL AA-**	**3 years (CRISIL)**
Muthoot Microfin Ltd	1992	2015	CRISIL A+, IND A	NA
IIFL Samasta Finance Ltd	1995	2013	CRISIL AA-, ICRA A+	4 years (CRISIL)
Annapurna Finance Pvt Ltd	1986	2013	CRISIL A-, ICRA A-, CARE A-	NA
Svatantra Microfin Pvt Ltd	2012	2013	CRISIL A+, ICRA A+, CARE AA-,	4 years (CARE)
Satin Creditcare Network Ltd	1990	2013	ICRA A-, CARE BBB+	NA
Spandana Sphoorty Financial Ltd	2003	2015	CRISIL A , ICRA A-, IND A,	NA
Belstar Microfinance Ltd	1988	2013	CRISIL AA-, ACUITE AA, CARE AA-, ICRA A+	7 years (CRISIL)

Source: Company reports, Rating rationales, CRISIL MI&A Research

Asirvad Microfinance stood second lowest in terms of cost of borrowing and fourth highest in terms of NIM (net interest margin) in fiscal 2023 among top 10 NBFC-MFIs.

FY23	Yields on advances	Cost of borrowing*	NIM	Opex ratio	PPOP to Average assets	Credit costs
Top 10 NBFC-MFIs						
CreditAccess Grameen Ltd	NA	9.05%	11.54%	4.54%	8.22%	2.19%
IIFL Samasta Finance Ltd	22.96%	9.37%	12.45%	13.12%	2.13%	0.06%
Asirvad Microfinance Ltd	**21.35%**	**9.01%**	**10.77%**	**6.41%**	**6.88%**	**3.22%**
Fusion Micro Finance Ltd	NA	10.24%	11.50%	5.34%	8.55%	2.41%
Muthoot Microfin Ltd	NA	10.47%	10.50%	6.53%	6.18%	3.16%
Annapurna Finance Pvt Ltd	20.39%	10.03%	6.90%	6.32%	5.15%	4.59%
Spandana Sphoorty Financial Ltd	18.33%	9.31%	9.48%	5.38%	6.46%	6.23%
Satin Creditcare Network Ltd	NA	10.56%	7.78%	5.89%	9.90%	5.36%
Svatantra Microfin Pvt Ltd	NA	9.93%	10.26%	4.75%	7.95%	5.36%
Belstar Microfinance Ltd	20.85%	8.72%	9.57%	5.73%	3.97%	2.68%
Banks and SFBs						
Bandhan Bank	13.86%	8.72%	6.29%	3.15%	4.81%	3.32%
Equitas SFB	16.67%	6.48%	8.22%	6.58%	3.80%	1.32%
Ujjivan SFB	19.73%	6.08%	9.48%	6.33%	5.22%	1.35%
Jana SFB	17.69%	6.96%	7.24%	5.61%	4.37%	3.25%
Utkarsh SFB	19.56%	6.80%	8.95%	5.79%	4.91%	2.54%
ESAF SFB	19.81%	6.02%	9.68%	6.49%	4.71%	2.57%
Fincare SFB	20.19%	6.47%	9.33%	7.48%	3.79%	2.90%
Suryoday SFB	19.04%	6.10%	8.28%	5.61%	3.74%	2.62%

Source: Company reports, CRISIL MI&A Research
*Note: *Year end average cost of borrowings*

FY22	Yields on advances	Cost of borrowing*	NIM	Opex ratio	PPOP to Average assets	Credit costs
Top 10 NBFC-MFIs						
CreditAccess Grameen Ltd	19.16%	8.18%	9.72%	4.99%	5.95%	3.27%
IIFL Samasta Finance Ltd	20.54%	8.96%	10.91%	6.08%	5.48%	1.83%
Asirvad Microfinance Ltd	**22.14%**	**11.22%**	**9.64%**	**6.51%**	**6.60%**	**6.28%**
Fusion Micro Finance Ltd	20.56%	9.72%	8.66%	4.76%	5.99%	5.62%
Muthoot Microfin Ltd	18.04%	9.70%	7.95%	6.69%	3.60%	2.27%
Annapurna Finance Pvt Ltd	21.33%	10.16%	6.62%	5.75%	3.36%	3.00%
Spandana Sphoorty Financial Ltd	20.57%	11.64%	9.69%	4.56%	6.98%	6.13%
Satin Creditcare Network Ltd	21.31%	10.56%	7.39%	5.58%	3.02%	2.30%
Svatantra Microfin Pvt Ltd	17.48%	9.56%	7.71%	5.18%	5.69%	3.03%
Belstar Microfinance Ltd	20.84%	9.17%	9.61%	5.76%	5.13%	3.73%
Banks and SFBs						
Bandhan Bank	13.88%	4.88%	6.86%	2.78%	6.31%	6.21%
Equitas SFB	17.33%	6.75%	7.89%	6.60%	3.38%	1.91%
Ujjivan SFB	16.73%	5.70%	8.07%	6.80%	2.69%	5.19%
Jana SFB	19.60%	7.58%	7.08%	5.80%	2.93%	2.90%
Utkarsh SFB	17.85%	6.92%	7.80%	5.41%	3.74%	3.15%
ESAF SFB	17.44%	5.99%	7.64%	5.74%	3.27%	2.78%
Fincare SFB	21.45%	7.07%	9.28%	6.85%	4.57%	4.51%
Suryoday SFB	18.72%	6.31%	7.85%	5.55%	3.56%	5.26%

Source: Company reports, CRISIL MI&A Research
*Note: *Year end average cost of borrowings*

FY21	Yields on advances	Cost of borrowing*	NIM	Opex ratio	PPOP to Average assets	Credit costs
Top 10 NBFC-MFIs						
CreditAccess Grameen Ltd	19.67%	8.92%	9.74%	4.60%	6.45%	5.54%
IIFL Samasta Finance Ltd	21.77%	9.25%	12.28%	7.93%	4.74%	2.41%
Asirvad Microfinance Ltd	**20.22%**	**10.03%**	**8.52%**	**4.93%**	**5.63%**	**5.11%**
Fusion Micro Finance Ltd	20.92%	10.13%	8.98%	4.37%	5.51%	4.38%
Muthoot Microfin Ltd	20.67%	10.08%	7.77%	6.20%	3.39%	3.18%
Annapurna Finance Pvt Ltd	22.67%	11.63%	7.52%	5.17%	3.67%	3.64%
Spandana Sphoorty Financial Ltd	22.19%	10.16%	12.72%	3.22%	11.44%	8.96%
Satin Creditcare Network Ltd	20.17%	10.80%	6.64%	5.19%	3.53%	3.66%
Svatantra Microfin Pvt Ltd	17.92%	10.53%	5.68%	5.25%	3.64%	2.48%
Belstar Microfinance Ltd	20.79%	9.99%	9.65%	6.05%	4.60%	2.70%
Banks and SFBs						
Bandhan Bank	14.69%	5.89%	7.32%	2.73%	6.55%	3.70%
Equitas SFB	18.96%	7.66%	8.17%	6.04%	4.03%	1.70%
Ujjivan SFB	18.22%	6.93%	8.91%	6.34%	4.13%	4.08%
Jana SFB	21.34%	8.30%	7.60%	6.30%	2.71%	2.21%
Utkarsh SFB	19.12%	8.23%	7.79%	5.06%	3.89%	2.33%
ESAF SFB	20.03%	7.60%	8.45%	5.79%	3.82%	2.53%
Fincare SFB	22.70%	8.63%	9.29%	6.14%	4.84%	2.90%
Suryoday SFB	17.73%	8.09%	6.80%	5.44%	2.62%	2.42%

Source: Company reports, CRISIL MI&A Research
*Note: *Year end average cost of borrowings*

FY20	Yields on advances	Cost of borrowing*	NIM	Opex ratio	PPOP to Average assets	Credit costs
Top 10 NBFC-MFIs						
CreditAccess Grameen Ltd	20.69%	9.00%	11.69%	4.30%	8.14%	2.62%
IIFL Samasta Finance Ltd	24.73%	10.15%	14.48%	8.77%	8.84%	2.03%
Asirvad Microfinance Ltd	**22.75%**	**10.34%**	**9.91%**	**4.61%**	**8.99%**	**1.82%**
Fusion Micro Finance Ltd	22.54%	11.42%	9.76%	5.09%	4.93%	2.36%
Muthoot Microfin Ltd	22.30%	10.82%	8.34%	7.46%	7.65%	7.14%
Annapurna Finance Pvt Ltd	22.81%	11.33%	8.10%	6.06%	3.71%	1.28%
Spandana Sphoorty Financial Ltd	24.87%	11.88%	14.60%	4.19%	15.87%	5.03%
Satin Creditcare Network Ltd	21.07%	10.84%	7.24%	6.09%	5.79%	2.73%
Svatantra Microfin Pvt Ltd	18.24%	9.80%	6.81%	7.10%	-0.25%	2.65%
Belstar Microfinance Ltd	24.40%	10.48%	12.39%	7.12%	6.85%	1.01%

Source: Company reports, CRISIL MI&A Research
*Note: *Year end average cost of borrowings*

FY19	Yields on advances	Cost of borrowing*	NIM	Opex ratio	PPOP to Average assets	Credit costs
Top 10 NBFC-MFIs						
CreditAccess Grameen Ltd	20.46%	9.57%	11.14%	4.24%	9.19%	1.20%
IIFL Samasta Finance Ltd	23.97%	10.95%	13.44%	9.98%	6.64%	1.20%
Asirvad Microfinance Ltd	**21.43%**	**10.27%**	**8.03%**	**4.28%**	**7.44%**	**0.82%**
Fusion Micro Finance Ltd	23.78%	11.22%	7.77%	5.55%	3.23%	0.75%
Muthoot Microfin Ltd	22.32%	10.25%	9.34%	7.16%	9.82%	0.93%
Annapurna Finance Pvt Ltd	21.21%	10.21%	8.23%	6.65%	4.05%	0.58%
Spandana Sphoorty Financial Ltd	26.63%	13.51%	14.66%	3.49%	11.88%	1.04%
Satin Creditcare Network Ltd	23.91%	12.31%	8.07%	5.62%	5.52%	0.80%
Svatantra Microfin Pvt Ltd	18.04%	10.82%	10.32%	7.56%	3.02%	0.51%
Belstar Microfinance Ltd	24.50%	10.65%	11.56%	5.68%	7.17%	1.08%

Source: Company reports, CRISIL MI&A Research
*Note: *Year end average cost of borrowings*

Among the top 10 NBFC-MFIs, Asirvad Microfinance has the third lowest credit costs amongst peers in pre covid periods along with GNPA standing at 0.48% in FY2019 and 1.60% in FY2020.

Average of pre-covid years (FY19 and FY20)	Yields on advances	Cost of borrowing*	NIM	Opex ratio	PPOP to Average assets	Credit costs
Top 10 NBFC-MFIs						
CreditAccess Grameen Ltd	20.57%	9.29%	11.41%	4.27%	8.66%	1.91%
IIFL Samasta Finance Ltd	24.35%	10.55%	13.96%	9.38%	7.74%	1.62%
Asirvad Microfinance Ltd	**22.09%**	**10.31%**	**8.97%**	**4.45%**	**8.22%**	**1.32%**
Fusion Micro Finance Ltd	23.16%	11.32%	8.76%	5.32%	4.08%	1.55%
Muthoot Microfin Ltd	22.31%	10.53%	8.84%	7.31%	8.74%	4.03%
Annapurna Finance Pvt Ltd	22.01%	10.77%	8.17%	6.35%	3.88%	0.93%
Spandana Sphoorty Financial Ltd	25.75%	12.70%	14.63%	3.84%	13.87%	3.04%
Satin Creditcare Network Ltd	22.49%	11.57%	7.65%	5.86%	5.66%	1.77%
Svatantra Microfin Pvt Ltd	18.14%	10.31%	8.56%	7.33%	1.38%	1.58%
Belstar Microfinance Ltd	24.45%	10.56%	11.98%	6.40%	7.01%	1.04%

Source: Company reports, CRISIL MI&A Research
*Note: *Year end average cost of borrowings*

The significant jump in cost to income ratio between FY2020- FY2022 is due to branch expansion from 1042 branches in FY2020 to 1525 branches in FY2022 to further 1684 branches in FY2023.

	Cost to income ratio								
	FY19	FY20	FY21	FY22	FY23	change in bps(FY19-FY20)	change in bps(FY20-FY21)	change in bps(FY21-FY22)	change in bps(FY22-FY23)
Top 10 NBFC-MFIs									
CreditAccess Grameen Ltd	35.26%	34.54%	41.65%	45.60%	35.57%	-72	711	395	-1,004
IIFL Samasta Finance Ltd	60.04%	49.81%	62.59%	52.59%	86.04%	-1,023	1,278	-1,000	3,345
Asirvad Microfinance Ltd	**41.31%**	**33.88%**	**46.66%**	**49.65%**	**48.26%**	**-743**	**1,278**	**298**	**-139**
Fusion Micro Finance Ltd	63.21%	50.84%	44.26%	44.26%	38.44%	-1,237	-658	0	-582
Muthoot Microfin Ltd	42.16%	49.36%	64.61%	65.02%	51.39%	721	1,525	41	-1,363
Annapurna Finance Pvt Ltd	62.15%	62.00%	58.50%	63.07%	55.10%	-14	-350	457	-797
Spandana Sphoorty Financial Ltd	24.94%	20.89%	21.96%	39.55%	45.44%	-406	107	1,759	589
Satin Creditcare Network Ltd	51.27%	51.27%	59.47%	64.92%	37.30%	0	820	544	-2,762
Svatantra Microfin Pvt Ltd	71.46%	103.69%	59.08%	47.63%	37.41%	3,223	-4,461	-1,145	-1,022
Belstar Microfinance Ltd	44.22%	50.97%	56.77%	52.91%	59.07%	675	580	-387	616
Banks and SFBs									
Bandhan Bank	32.58%	30.83%	29.39%	30.54%	39.54%	-175	-144	115	899
Equitas SFB	78.18%	66.37%	59.99%	66.12%	63.41%	-1,181	-638	613	-271
Ujjivan SFB	76.45%	67.45%	60.58%	71.68%	54.82%	-901	-687	1,110	-1,686
Jana SFB	203.95%	80.58%	69.90%	66.46%	56.22%	-12,337	-1,068	-344	-1,024
Utkarsh SFB	58.63%	57.58%	56.54%	59.11%	54.15%	-105	-104	258	-496
ESAF SFB	66.43%	64.93%	60.24%	63.69%	57.93%	-150	-469	345	-577
Fincare SFB	66.36%	55.76%	55.93%	60.01%	66.36%	-1,060	17	408	635
Suryoday SFB	47.70%	47.08%	67.50%	60.93%	60.01%	-62	2,042	-657	-92

Source: Company reports, CRISIL MI&A Research

Asirvad Microfinance posted strong Profit After Tax (PAT) growth in fiscal 2023, stood second in terms of y-o-y growth. Additionally, Asirvad has surpassed its pre-covid PAT in fiscal 2023. PPOP which saw a significant on year growth in FY22 and FY23 after a degrowth in FY21, stood fourth in terms of value.

PPOP	FY19	FY20	FY21	FY22	FY23	y-o-y growth FY20	y-o-y growth FY21	y-o-y growth FY22	y-o-y growth FY23	CAGR (FY19-FY23)
Top 10 NBFC-MFIs										
CreditAccess Grameen Ltd	572.74	733.44	753.33	817.65	1506.41	28.06%	2.71%	8.54%	84.24%	27.35%
IIFL Samasta Finance Ltd	88.44	203.03	167.45	296.25	162.88	129.58%	-17.52%	76.91%	-45.02%	16.50%
Asirvad Microfinance Ltd	**259.12**	**457.24**	**330.49**	**417.07**	**584.40**	**76.46%**	**-27.72%**	**26.20%**	**40.12%**	**22.55%**
Fusion Micro Finance Ltd	89.40	193.37	277.57	393.18	712.35	116.29%	43.55%	41.65%	81.18%	68.01%
Muthoot Microfin Ltd	298.80	291.71	140.47	175.87	436.19	-2.37%	-51.85%	25.20%	148.01%	9.92%
Annapurna Finance Pvt Ltd	110.19	152.98	193.42	217.58	406.02	38.83%	26.43%	12.49%	86.61%	38.55%
Spandana Sphoorty Financial Ltd	514.37	860.20	817.57	530.51	518.01	67.23%	-4.96%	-35.11%	-2.36%	0.18%
Satin Creditcare Network Ltd	357.68	401.09	265.63	229.97	743.30	12.14%	-33.77%	-13.42%	223.21%	20.06%
Svatantra Microfin Pvt Ltd	28.65	-4.94	115.61	271.50	529.81	-117.25%	-2439.58%	134.84%	95.14%	107.38%
Belstar Microfinance Ltd	122.10	156.20	137.77	205.90	214.08	27.92%	-11.80%	49.45%	3.98%	15.07%

Source: Company reports, CRISIL MI&A Research

PAT	FY19	FY20	FY21	FY22	FY23	y-o-y growth FY20	y-o-y growth FY21	y-o-y growth FY22	y-o-y growth FY23	CAGR (FY19-FY23)
Top 10 NBFC-MFIs										
CreditAccess Grameen Ltd	321.76	327.50	142.39	382.14	826.03	1.78%	-56.52%	168.38%	116.16%	26.58%
IIFL Samasta Finance Ltd	53.20	107.30	66.62	50.60	128.18	101.69%	-37.91%	-24.04%	153.30%	24.59%
Asirvad Microfinance Ltd	**151.64**	**235.33**	**16.88**	**15.26**	**218.13**	**55.19%**	**-92.83%**	**-9.62%**	**1329.73%**	**9.52%**
Fusion Micro Finance Ltd	50.60	69.60	43.94	21.70	387.15	37.55%	-36.86%	-50.62%	1684.08%	66.31%
Muthoot Microfin Ltd	201.23	18.21	7.05	47.40	163.89	-90.95%	-61.25%	571.93%	245.77%	-5.00%
Annapurna Finance Pvt Ltd	62.50	82.89	1.82	17.19	32.72	32.62%	-97.80%	844.51%	90.34%	-14.94%
Spandana Sphoorty Financial Ltd	308.70	336.60	128.90	46.60	12.34	9.04%	-61.71%	-63.85%	-73.53%	-55.29%
Satin Creditcare Network Ltd	194.94	156.27	-13.55	40.22	264.33	-19.84%	-108.67%	-396.72%	557.21%	7.91%
Svatantra Microfin Pvt Ltd	16.66	29.19	26.99	46.85	129.77	75.23%	-7.55%	73.57%	176.99%	67.06%
Belstar Microfinance Ltd	72.80	98.90	46.65	45.13	130.00	35.85%	-52.83%	-3.26%	188.06%	15.60%

Source: Company reports, CRISIL MI&A Research

Asirvad Microfinance reported the third highest Return on Equity (ROE) and fourth highest Return on Assets (ROA) among the top 10 NBFC-MFIs in fiscal 2023. It also ranked third highest in terms of earnings per share. EPS which had seen a dip during Covid-19, is back to its pre-covid level in FY2023.

Players	ROE						
	FY19	FY20*	FY20	FY21*	FY21	FY22	FY23
Top 10 NBFC-MFIs							
CreditAccess Grameen Ltd	13.61%	15.27%	13.01%	6.29%	4.52%	10.09%	18.26%
IIFL Samasta Finance Ltd	28.06%	NA	27.67%	NA	11.50%	6.14%	11.04%
Asirvad Microfinance Ltd	**18.85%**	**NA**	**25.52%**	**4.59%**	**1.61%**	**1.26%**	**16.68%**
Fusion Micro Finance Ltd	11.45%	11.83%	7.63%	NA	3.60%	1.68%	21.16%
Muthoot Microfin Ltd	31.25%	NA	2.03%	NA	0.79%	4.26%	11.06%
Annapurna Finance Pvt Ltd	14.52%	15.88%	11.98%	NA	0.24%	2.21%	3.27%
Spandana Sphoorty Financial Ltd	16.37%	19.47%	14.98%	21.63%	4.84%	1.62%	0.41%
Satin Creditcare Network Ltd	16.93%	16.77%	12.00%	1.32%	-0.92%	2.60%	15.02%
Svatantra Microfin Pvt Ltd	11.35%	NA	11.41%	NA	5.94%	6.50%	12.86%
Belstar Microfinance Ltd	27.69%	NA	22.03%	23.51%	8.98%	6.46%	13.35%
Banks and SFBs							
Bandhan Bank	18.96%	26.83%	22.91%	18.29%	13.53%	0.72%	11.87%
Equitas SFB	9.80%	12.74%	9.75%	16.69%	12.51%	7.35%	12.20%
Ujjivan SFB	11.49%	16.15%	14.04%	4.30%	0.26%	-13.97%	31.80%
Jana SFB	-177.01%	NA	3.51%	NA	7.77%	0.46%	17.08%
Utkarsh SFB	15.85%	NA	20.84%	NA	9.37%	4.18%	22.64%
ESAF SFB	14.60%	19.59%	19.25%	11.14%	8.65%	3.97%	19.41%
Fincare SFB	20.32%	26.16%	18.28%	22.03%	11.78%	0.80%	8.31%
Suryoday SFB	12.19%	16.48%	11.40%	6.03%	0.89%	-6.00%	5.03%

Source: Company reports, CRISIL MI&A Research
*Note: *Adjusted ROE for Covid provisions*

Players	ROA						
	FY19	FY20*	FY20	FY21*	FY21	FY22	FY23
Top 10 NBFC-MFIs							
CreditAccess Grameen Ltd	4.37%	3.99%	3.64%	1.51%	1.22%	2.78%	4.51%
IIFL Samasta Finance Ltd	3.99%	NA	4.67%	NA	1.88%	0.94%	1.68%
Asirvad Microfinance Ltd	**3.56%**	**5.43%**	**4.63%**	**0.82%**	**0.29%**	**0.21%**	**2.57%**
Fusion Micro Finance Ltd	1.81%	2.75%	1.77%	NA	0.87%	0.33%	4.65%
Muthoot Microfin Ltd	6.61%	NA	0.48%	NA	0.17%	0.97%	2.32%
Annapurna Finance Pvt Ltd	2.28%	2.67%	2.01%	NA	0.03%	0.27%	0.42%
Spandana Sphoorty Financial Ltd	6.30%	8.07%	6.21%	8.09%	1.80%	0.61%	0.15%
Satin Creditcare Network Ltd	2.91%	3.15%	2.26%	0.26%	-0.18%	0.53%	3.52%
Svatantra Microfin Pvt Ltd	1.77%	NA	1.49%	NA	0.85%	0.98%	1.95%
Belstar Microfinance Ltd	4.27%	4.84%	4.33%	3.67%	1.56%	1.12%	2.41%
Banks and SFBs							
Bandhan Bank	3.87%	4.78%	4.08%	2.88%	2.13%	0.10%	1.49%
Equitas SFB	1.45%	1.82%	1.39%	2.33%	1.75%	1.09%	1.85%
Ujjivan SFB	1.72%	2.50%	2.18%	0.71%	0.04%	-1.89%	3.86%
Jana SFB	-20.31%	NA	0.26%	NA	0.51%	0.03%	1.12%
Utkarsh SFB	1.74%	NA	2.39%	NA	1.04%	0.45%	2.37%
ESAF SFB	1.53%	2.34%	2.30%	1.24%	0.97%	0.36%	1.59%
Fincare SFB	3.16%	3.64%	2.54%	2.81%	1.50%	0.09%	0.89%
Suryoday SFB	2.92%	3.52%	2.43%	1.33%	0.20%	-1.25%	0.86%

Source: Company reports, CRISIL MI&A Research
*Note: *Adjusted ROA for Covid provisions*

Asirvad Microfinance had capital adequacy ratio of 19.66% as of fiscal 2023, well above the statutory requirement of 15%

	Debt to equity ratio (x)					Capital adequacy ratio (%)				
Top 10 NBFC-MFIs	As of FY19	As of FY20	As of FY21	As of FY22	As of FY 23	As of FY19	As of FY20	As of FY21	As of FY22	As of FY23
Top 10 NBFC-MFIs										
CreditAccess Grameen Ltd	1.99	2.93	2.42	2.66	3.19	35.26%	23.60%	31.75%	26.54%	23.60%
IIFL Samasta Finance Ltd	5.85	3.81	5.49	5.26	5.50	20.51%	25.80%	18.60%	17.83%	17.14%
Asirvad Microfinance Ltd	**4.25**	**4.33**	**4.38**	**5.19**	**5.46**	**31.82%**	**25.37%**	**23.33%**	**20.81%**	**19.66%**
Fusion Micro Finance Ltd	4.68	2.48	3.56	4.32	2.92	26.92%	35.82%	27.26%	21.94%	27.94%
Muthoot Microfin Ltd	2.77	3.22	3.39	2.99	3.99	33.05%	29.09%	22.55%	28.75%	21.87%
Annapurna Finance Pvt Ltd	4.44	5.10	6.40	7.83	5.83	25.23%	26.74%	27.71%	29.78%	24.66%
Spandana Sphoorty Financial Ltd	1.56	1.16	1.91	1.20	1.95	42.46%	47.44%	39.20%	50.74%	36.87%
Satin Creditcare Network Ltd	4.55	3.72	4.04	3.40	2.85	31.19%	30.45%	25.28%	27.84%	26.60%
Svatantra Microfin Pvt Ltd	6.21	6.57	5.36	5.53	5.45	18.68%	20.55%	21.88%	25.65%	22.32%
Belstar Microfinance Ltd	3.96	3.81	5.16	4.16	4.42	25.88%	25.67%	22.24%	24.06%	21.97%

Source: Company reports, CRISIL MI&A Research

Asirvad Microfinance had the fifth lowest Gross Non-performing Asset (GNPA) and seventh lowest Net NPA ratio among the selected NBFC-MFIs in fiscal 2023

	GNPA					NNPA				
	As of FY19	As of FY20	As of FY21	As of FY22	As of FY23	As of FY19	As of FY20	As of FY21	As of FY22	As of FY23
Top 10 NBFC-MFIs										
CreditAccess Grameen Ltd	0.61%	1.57%	4.38%	3.12%	1.21%	0.17%	0.37%	1.37%	0.94%	0.35%
IIFL Samasta Finance Ltd	NA	2.80%	1.80%	3.07%	2.12%	NA	0.00%	0.00%	0.00%	0.00%
Asirvad Microfinance Ltd	**0.48%**	**1.60%**	**2.50%**	**1.67%**	**2.81%**	**0.00%**	**0.00%**	**0.00%**	**0.32%**	**1.15%**
Fusion Micro Finance Ltd	1.55%	1.12%	5.50%	5.70%	3.46%	0.56%	0.39%	2.20%	1.60%	0.87%
Muthoot Microfin Ltd	NA	8.10%	7.86%	6.26%	2.97%	NA	4.05%	2.15%	1.55%	0.60%
Annapurna Finance Pvt Ltd	NA	1.36%	7.36%	9.80%	3.84%	NA	0.84%	2.79%	2.63%	1.35%
Spandana Sphoorty Financial Ltd	NA	0.36%	5.76%	17.70%	2.07%	NA	0.07%	3.26%	11.80%	0.63%
Satin Creditcare Network Ltd	NA	1.57%	8.40%	8.01%	3.28%	NA	0.37%	4.75%	2.47%	NA
Svatantra Microfin Pvt Ltd	NA	1.29%	2.13%	3.38%	NA	NA	0.68%	1.13%	1.51%	NA
Belstar Microfinance Ltd	NA	1.03%	2.72%	6.75%	2.42%	NA	0.42%	0.59%	1.48%	0.66%
Banks and SFBs										
Bandhan Bank	2.04%	1.48%	6.81%	6.46%	6.46%	0.58%	0.58%	3.51%	1.66%	1.66%
Equitas SFB	2.53%	2.72%	3.59%	4.06%	2.60%	1.44%	1.66%	1.52%	2.37%	1.14%
Ujjivan SFB	0.90%	0.90%	7.10%	7.10%	2.88%	0.30%	0.20%	2.90%	0.60%	0.04%
Jana SFB	NA	2.80%	6.71%	4.98%	NA	NA	1.30%	4.84%	3.43%	NA
Utkarsh SFB	1.39%	0.71%	3.75%	6.10%	3.23%	0.12%	0.18%	1.33%	2.31%	0.39%
ESAF SFB	1.61%	1.53%	6.70%	7.83%	2.49%	0.77%	0.64%	3.88%	3.92%	1.13%
Fincare SFB	1.29%	0.90%	6.42%	7.80%	3.25%	0.34%	0.40%	2.80%	3.60%	1.30%
Suryoday SFB	1.81%	2.80%	9.40%	11.80%	3.10%	0.44%	0.60%	4.70%	5.90%	1.50%

Note: NNPA ratio is net NPAs to net advances as reported by the company

Source: Company reports, CRISIL MI&A Research

Average Provisions and writeoffs of last four FYs as a percent of Total assets	FY23
Top 10 NBFC-MFIs	
CreditAccess Grameen Ltd	1.98%
IIFL Samasta Finance Ltd	0.66%
Asirvad Microfinance Ltd	**2.61%**
Fusion Micro Finance Ltd	2.36%
Muthoot Microfin Ltd	2.16%
Annapurna Finance Pvt Ltd	2.33%
Spandana Sphoorty Financial Ltd	5.11%
Satin Creditcare Network Ltd	3.41%
Svatantra Microfin Pvt Ltd	2.10%
Belstar Microfinance Ltd	1.60%
Banks and SFBs	
Bandhan Bank	2.89%
Equitas SFB	1.09%
Ujjivan SFB	1.87%
Jana SFB	1.88%
Utkarsh SFB	1.52%
ESAF SFB	1.54%
Fincare SFB	2.26%
Suryoday SFB	2.46%

Source: Company reports, CRISIL MI&A Research

Experience of leadership team (Fiscal 2023)

Asirvad Microfinance has a higher proportion of independent directors as compared to most of the top 10 NBFC MFIs.

	Date of incorporation	No of directors*	Proportion of independent directors
Top 10 NBFC-MFIs			
CreditAccess Grameen Ltd	1991	8	50%
IIFL Samasta Finance Ltd	1995	6	67%
Asirvad Microfinance Ltd	**2007**	**13**	**69%**
Fusion Micro Finance Ltd	1994	NA	NA
Muthoot Microfin Ltd	1992	NA	NA
Annapurna Finance Pvt Ltd	1986	NA	NA
Spandana Sphoorty Financial Ltd	2003	13	46%
Satin Creditcare Network Ltd	1990	7	71%
Svatantra Microfin Pvt Ltd	2012	6	33%
Belstar Microfinance Ltd	1988	11	36%
Banks and SFBs			
Bandhan Bank	2014	13	62%
Equitas Small Finance Bank Ltd	1993	10	90%
Ujjivan Small Finance Bank Ltd	2016	9	67%
Utkarsh SFB	2016	8	63%
ESAF SFB	2016	NA	NA
Fincare Small Finance Bank Ltd	1995	11	60%
Suryoday SFB	2008	NA	NA

**As of March 2023*
NA: FY2023 Annual report Not Available
Source: Company reports, CRISIL MI&A Research

Of the top 10 NBFC-MFIs, Asirvad Microfinance has the second highest promoter holding.

Additionally, among the top 10 NBFC- MFIs, Asirvad Microfinance, IIFL Samasta and Muthoot Microfin are the only three having non private equity promoter holding, of which Asirvad Microfinance stands first with 97.60% shareholding held by Manappuram Finance Ltd.

Asirvad Microfinance operates on a promoter-driven and professionally managed model, wherein not only is the majority of the shareholding with promoters, but also the entire portion is held by Manappuram Finance Ltd. Post acquisition in 2015 by Manappuram Finance, its AUM grew significantly at a CAGR of 52.57% between FY2015 and FY2023.

	FY23			
NBFC-MFIs	**Promoter shareholding**	**Promoter shareholding through promoter group/ financial sponsors**	**Listed /unlisted**	**Change in promoter**
CreditAccess Grameen Ltd	72.44%	Entire shareholding is held by CreditAccess India NV	Yes	Founder is not active in the business*
Fusion Micro Finance Ltd	67.96%	Of the total 67.96%, 4.87% is held by Devesh Sachdev, rest is with Honey Rose Investments Ltd (39.37%) Creation Investments Fusion (23.72%), and others	Yes	**Yes.** Incorporated as Ambience Fincap Pvt Ltd, and after takeover by Devesh Sachdev, company name was changed to Fusion Micro Finance Ltd in 2009
Asirvad Microfinance Ltd	**97.60%**	**Entire shareholding is held by Manappuram Finance Ltd**	**In process**	**Yes. Manappuram Finance Ltd took over the company in 2015**
Muthoot Microfin Ltd^	74.79%	Of the total 74.79%, 54.46% is held by Muthoot Fincorp Ltd and remaining by individual promoters	No	No change in promoters
Annapurna Finance Pvt Ltd^	9.93%	Information not available	No	No change in promoters
IIFL Samasta Finance Ltd	99.80%	Of the total 99.80%, 99.51% is held by IIFL Finance Ltd and remaining by Narayanaswamy Venkatesh and Shivaprakash Deviah	No	**Yes.** IIFL acquired stake in Samasta Microfinance in 2017
Satin Creditcare Network Ltd	39.45%	Of the total 39.45%, 37.05% is held by Trishashna Holdings & Investments Pvt Ltd and remaining by other promoters and promoter groups	Yes	No change in promoters
Svatantra Microfin Pvt Ltd	82.46%	Entire shareholding is with Ananyashree Birla	No	**Yes**. In 2019, 98.02% shareholding was transferred to Ananyashree Birla from investment companies of Aditya Birla Group
Spandana Sphoorty Financial Ltd	63.00%	Of the total 63%, 41.28% is held by Kangchenjunga Ltd, 14.50% by Padmaji Ganjireddy (promoter) and remaining by other promoters and promoter groups	Yes	**Yes.** The founder promoter resigned in 2021
Belstar Microfinance Ltd	13.05%	Of the total 13.05%, 12.26% is held by Sarvam Finance Inclusion Trust, and remaining by promoters and other promoter groups	No	**Yes.** The company was acquired by the Hand in Hand Group, a non-governmental organisation, in September 2008, and then, Muthoot Finance acquired ~60% share (as of March 2022) in 2016

Note:
^Information pertains to FY22 since annual report of FY23 is not available
**Vinatha Reddy (founder) is no longer part of the Board. The company is professionally managed.*
Source: Company reports, CRISIL MI&A Research

Annexure:

List of formulae

ROA	Profit after tax / Average of total assets on book
ROE	Profit after tax / Average net worth
NIM	(Interest income – Interest expense) / Average of total assets on book
Yield on advances	Interest earned on loans and advances / Average of advances on book
Cost of borrowing	Interest expense / (Average of total borrowings)
Cost to income	Operating expenses / (Net interest income + Other income)
Opex ratio	Operating expenses (Employee benefit expenses + Depreciation expenses + Other expenses)/ Average total assets on book
Credit cost	Provisions / Average total assets on book
PPOP	Total Income - Interest expense – Opex

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