

Press Release

New Virtuous Cycle for Indian Microfinance Sector Use of digital technology set to be a game changer

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Acuite Ratings & Research is pleased to launch its special research report on the Indian microfinance sector. After a start in the late 90's, the joint lending group (JLG) model in India has grown steadily over the last two decades amidst several existential threats and is today one of the largest of its kind in the world. It is estimated that the aggregate loan portfolio in microfinance under JLG in India stood at over Rs 3.5 Lakh Cr as on March 2023 which covers both banks and MFIs.

Says Sankar Chakraborti, MD & CEO, Acuite Ratings & Research "Indian microfinance sector is an exemplary model of a business which has demonstrated resilience to multiple crises over the last two decades. Given its important role in socio-economic development, it has continued to receive support from all the stakeholders including the Government and the Regulator. The sector has recovered well from the Covid pandemic and is in for a new virtuous cycle with increasing use of digital technology and improved risk management. "

Says Suman Chowdhury, Chief Economist and Head-Research "The microfinance sector has exhibited a solid growth recovery in FY23 after a highly disruptive pandemic. NBFC-MFIs have been the primary growth engine with a strong portfolio CAGR of 24.6% in the FY21-FY23 period which has raised their market share to 39.7%, the highest among all category of microfinance lenders. Simultaneously, the stress on asset quality of MFIs (including NBFCs and non-profit organisations) has reduced significantly with 30+dpd delinquencies declining from a high of 8.3% in Mar-22 to 1.5% in Mar-23, albeit partly supported by write-offs. We expect the total microfinance (JLG) portfolio to exceed Rs 4 Lakh Cr by Mar-24. However, faster growth will necessitate higher deployment of technology to mitigate risks and intensive use of credit analytics. Further, many MFIs would also need to raise fresh capital after FY24, given that the average leverage will be close to 4.0x by the current fiscal year end."

The report on the microfinance sector is based on a "bottom-up" approach for analysis using a large representative sample that covers all the major NBFC-MFIs, most of the mid-size ones as well as smaller non-profit MFIs. It also includes an assessment of portfolio quality in various states through an internally designed Credit Risk index. Further, an extensive market survey has been undertaken to validate the analysis. Please write to info@acuite.in for further enquiry or to subscribe to the report.

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,700 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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