

# MicroLend

QUARTERLY PUBLICATION ON MICROFINANCE LENDING

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### State of the Sector

Microfinance industry saw another good quarter with 9.7% QoQ growth. The disbursements were 18% higher in Q1 2018-19 as compared to Q1 FY 2017-18. NBFC MFIs strengthened their market leadership with over 35% market share, whereas small finance banks are defocussing from the sector with diversification into other lines of products. While the industry is now serving nearly 5 crore borrowers, the growth seems to be driven by the 28% Y-o-Y jump in the average outstanding per borrower. The average ticket size of a microfinance loan has also gone up since last year by 8.9% Y-o-Y to nearly Rs. 28,300 now.

### Sectoral Snapshot

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	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018
GLP (INR Cr)	106.6K	110.7K	121.0K	137.3K	150.6K
GLP Growth		3.88%	9.30%	13.39%	9.72%
Average Ticket Size	26.0K	26.5K	26.9K	27.6K	28.3K
Average Exposure	24.1K	24.8K	27.9K	29.6K	30.8K
PAR 31-180 %	7.33%	3.74%	2.73%	1.59%	1.30%
Write-Off (Amount) %	0.60%	0.71%	0.80%	0.92%	1.06%

The Months indicate the book closing periods. GLP Growth % Indicates change over previous period.

### Synopsis

- Gross Loan Portfolio (GLP) has increased by 9.72%, as of June 2018 over the last quarter, while the quarterly amount disbursed dipped 14% between Q4FY1718 and Q1FY1819
- PAR 1-30 for SFB has reduced from 5.3% in Q1 FY 2017-18 to 2.6% by Q1 FY 2018-19
- PAR 31-180 for SFBs & Aspirants has reduced from 15.4% to 3.3% between June 2017 to June 2018
- The Microfinance Outreach has grown to 5 Cr active microfinance borrowers with an 11.1% Y-o-Y growth by June 2018.
- National average ticket size has increased by 8.8% year on year by June 2018, while national average exposure increased by 27.8% for the same period.

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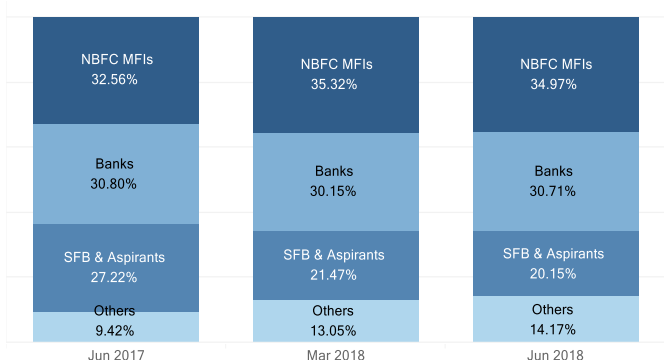
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## Industry Size &amp; Quarterly Growth



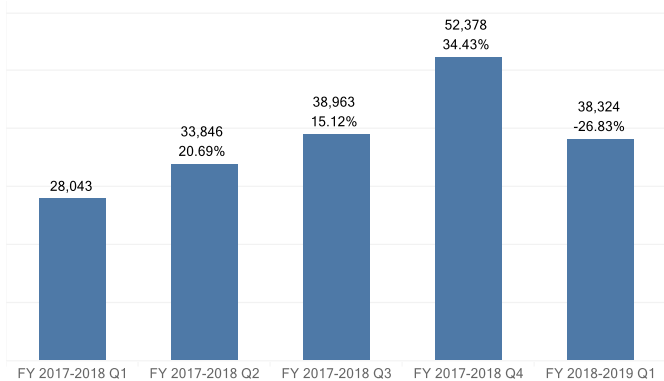
The Months indicate the book closing periods. % Indicates change over previous period.

## Market Share By Lender Type



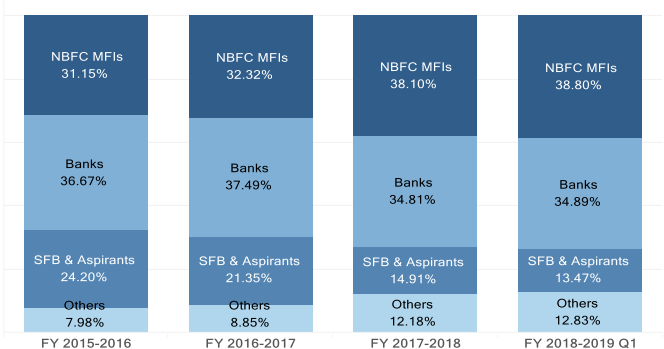
The Months indicate book closing periods. % indicates the Market Share by the Lender Type.

## Disbursals By Quarter



The time periods indicate the Financial Year Quarters by Loan Origination Period. % indicates change over previous period.

## Disbursals Growth By Lender Type



The Financial Years indicate the Loan Origination Periods. % indicates the Market Share by Lender Type.

## Industry Growth &amp; Market Share

The GLP stands at INR 150.6K Cr in June 2018, registering a YoY growth of 41.28%. A high QoQ growth rate of 13.39%, is witnessed in the last quarter of FY 2017-18. The industry experienced comparatively higher Q-o-Q growth rate in Q1 FY 2018-19 (9.72%) against Q1 FY 2017-18 (0.83%).

In June 2018, NBFC-MFIs had the largest market share (34.97%), closely followed by Banks (30.71%), SFB & Aspirants (20.15%) and others (14.17%). Since June 2017, NBFC-MFIs consistently maintained their market dominance with more than 30% of market share. Market share of NBFC MFIs has increased by 2.41% from June 2017 to June 2018, while there has been a shrinkage of 7.07% in market share for SFBs & Aspirants.

## Sourcing Growth &amp; Market Share

Rs 38,324 Cr were disbursed as microfinance loans in the first quarter of financial year 2018-19. Loan disbursals in value terms in Q1 FY 2018-19 are 36.66% higher as compared to Q1 FY 2017-18. Total loans disbursed in Q1 FY 2018-19 is 13M which is 21% higher than Q1 FY 2017-18.

33% of the loan disbursals were in Eastern and southern regions of India. Similar regional mix is observed for the gross loan portfolio, during FY 2017-18. North eastern and eastern states lead the way in terms of Y-o-Y growth in total disbursed amount, with 53% and 44% respectively.

Banks had the maximum market share of 36.67% in financial year 2015-2016, followed by NBFC MFIs with 31.15%. Similar trend was observed for financial year 2016-2017. However, in financial year 2017-2018, NBFC MFIs took the pole position with the market share of 38.10%, followed by Banks with 34.81%. Although banks observed a constant market share of 30-35% from Q1 FY 2015-16 till Q1 FY 2018-19, their disbursals have doubled during this period, from Rs 6,961 Cr to Rs 13,371 Cr.

### National & Top States - Borrower & Loan Leverage Levels

	Average Ticket Size			Average Exposure		
	Jun 2017	Mar 2018	Jun 2018	Jun 2017	Mar 2018	Jun 2018
TN	23.6K	25.5K	26.1K	23.7K	28.6K	30.0K
WB	32.3K	34.5K	36.3K	28.2K	34.1K	36.3K
KA	24.4K	25.5K	25.8K	26.3K	30.8K	32.0K
MH	24.7K	25.8K	26.3K	23.1K	26.8K	27.6K
BR	26.4K	28.0K	28.5K	24.8K	31.4K	32.1K
UP	25.6K	27.2K	27.6K	20.7K	25.4K	25.9K
National	26.0K	27.6K	28.3K	24.1K	29.6K	30.8K

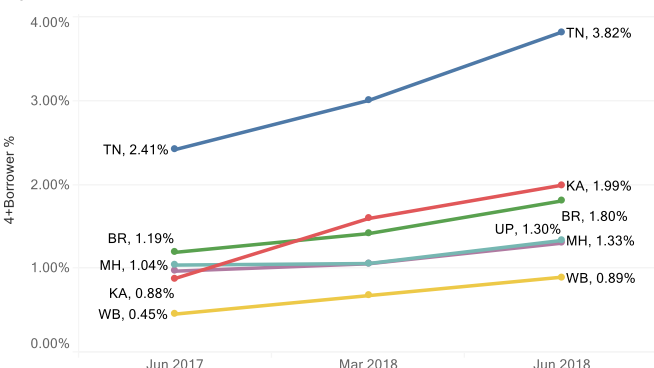
The Months indicate book closing periods. Average Ticket Size is basis per Loan Account & Average Exposure is basis per Borrower.

## Borrower Leverage

The average ticket size per loan has increased by 8.9% YOY to reach Rs 28.3K. The average exposure per borrower is Rs 30.8K as of June 2018, and it has accelerated by 27.80%, between June 2017 and June 2018. West Bengal, Bihar and Karnataka record higher average exposure, as compared to the national average.

Amongst top states, West Bengal records highest average ticket size. West Bengal also has higher market concentration (high HHI value) indicating the lending market share is concentrated amongst a few lenders. West Bengal sees one of the most variations (20k to 60k) in ticket sizes offered by top lenders in the state. The variation in ticket sizes in Tamil Nadu is 18k to 32K.

### Top States - Borrower Associated With 4 Or More Lenders



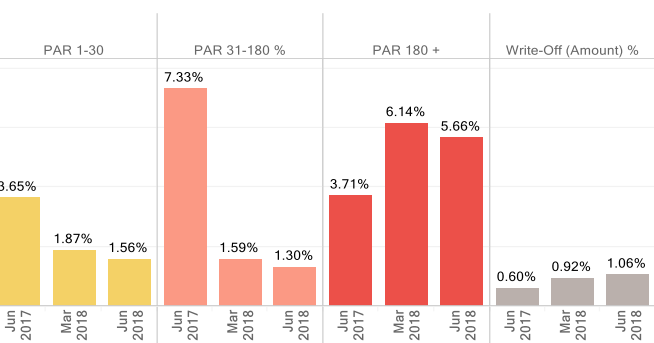
The Months indicate book closing periods. Borrowers with only Active Lender Associations are considered.

## Compliance

3.8% of borrowers in Tamil Nadu have loans running with 4 or more lenders. This number has sharply risen from 2.41% in Jun 2017. Karnataka also experienced similar sharp rise from 0.88% in Jun17 to 1.99% as of Jun18. Even though there has been a sharp rise, the absolute number is still not very concerning.

The Y-o-Y change in Borrowers associated with 4 or more lenders in Uttar Pradesh and Maharashtra is lower compared to other states while the borrowers with 3 more lenders has increased from 5% to 6% and 6.5% to 7.4%, respectively. The gross loan portfolio for Uttar Pradesh & Maharashtra has grown by 31% & 25% Y-o-Y, while the amount disbursed has grown by 11% & 24%, respectively.

### Portfolio Risk Levels



The Risk Levels are basis the Delinquent Portfolio (excluding Write-off) & Overall Portfolio reported at the respective book closing period.

## Industry Risk Profile

Portfolio at Risk (PAR) 1-30, which indicates the early delinquency rates, has reduced from 3.65% in June 2017 to 1.56% in June 2018, indicating improved collections. The risk levels for PAR 31-180, has reduced from 7.33% in June 2017 to 1.30% in June 2018, but a substantial part of this portfolio has also shifted to PAR 180+. The drop in the risk level for PAR 180+ from March 2018 to June 2018, is attributed to the increase in the write off amount to the tune of 334 Cr. Few market players have written off their portfolio which had become long overdue over past 2 years.

**7 out of Top 10 NBFC MFIs (in terms of Portfolio Outstanding) have started adopting digital channel to source as well as service their loan portfolio.**

Source: Latest Annual Reports of institutions

Note: Herfindahl-Hirschman Index (HHI) is an indicator of concentration. High index signifies high market concentration amongst a few players, while low HHI indicates higher market competition – business reasonably spread across many market players.

## PAR 1-30 Levels

	Jun 2017	Mar 2018	Jun 2018
NBFC MFIs	2.96%	1.04%	0.94%
Banks	3.04%	1.67%	1.85%
Others	3.26%	2.30%	0.95%
SFB & Aspirants	5.32%	3.23%	2.63%
Grand Total	3.65%	1.87%	1.56%

The Risk Level is basis the 1-30 days past due Portfolio & Overall Portfolio reported at the respective book closing period.

## PAR 31-180 Levels

	Jun 2017	Mar 2018	Jun 2018
NBFC MFIs	5.68%	1.18%	0.93%
Banks	2.66%	0.90%	0.64%
Others	5.07%	1.25%	0.82%
SFB & Aspirants	15.37%	3.42%	3.28%
Grand Total	7.33%	1.59%	1.30%

The Risk Level is basis the 31-180 days past due Portfolio & Overall Portfolio reported at the respective book closing period.

## PAR 180+ Levels

	Jun 2017	Mar 2018	Jun 2018
NBFC MFIs	5.22%	4.70%	4.16%
Banks	0.70%	2.01%	2.07%
Others	4.23%	4.24%	3.73%
SFB & Aspirants	5.14%	15.49%	15.11%
Grand Total	3.71%	6.14%	5.66%

The Risk Level is basis the 180 days or more past due Portfolio & Overall Portfolio reported at the respective book closing period.

## Risk Segments

PAR1-30 for SFBs has come down from 5.32% in June 2017 to 2.63% by June 2018. NBFC MFIs have registered a drop of (2.02%) in the PAR 1-30 risk level from June 2017 to June 2018, as compared to Banks (1.19%).

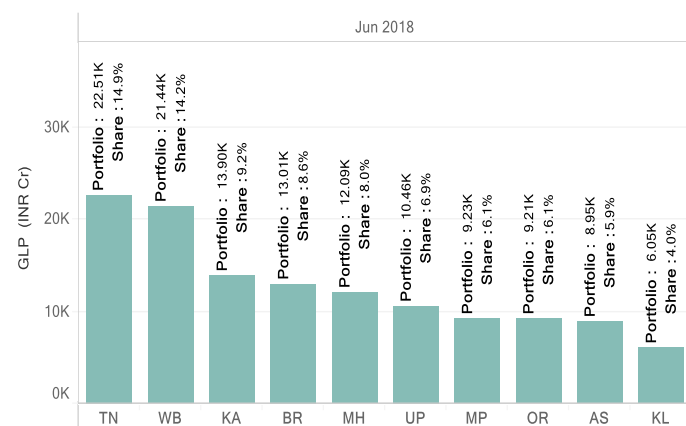
Overall levels for PAR 31-180 has reduced from 7.33% in June 2017 to 1.30% by June 2018. PAR 31-180 for SFBs has reduced from 15.37% to 3.28% during the period of Q1 FY 2017-18 to Q1 FY 2018-19, while NBFC MFIs witnessed a drop of (4.75%) from 5.68% to 0.93%, during the same time period. PAR31-180 has come under 1% level for NBFC-MFIs and Banks after many quarters.

The risk levels for PAR 180+ were 6.14% in March 2018 and stand at 5.66% in June 2018. The PAR 180+ for the post-demonetization book is controlled better as compared to pre-demonetization book. Improving risk levels of PAR 1-30, PAR 31-180 along with the PAR 180+, indicate improving collection efficiency. The continued delinquencies on portfolio 180+ is gradually being written-off.

PAR31+ for SFBs has just come down from 20.51% in Jun17 to 18.39% in Jun18, despite a 5% growth in GLP during the same period. Some write-off from PAR180+ portfolio of SFBs can be expected in next few quarters.

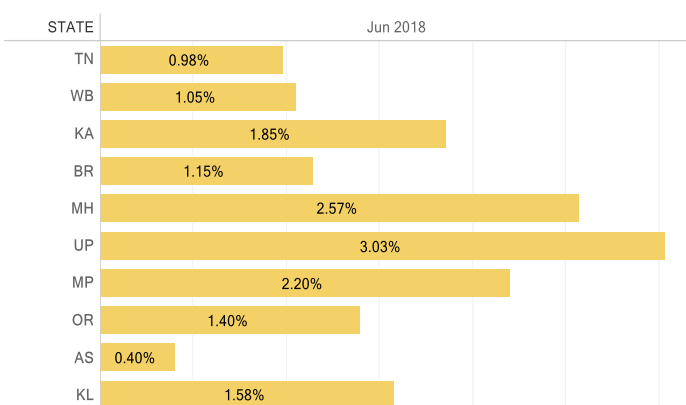
Note: NBFC MFIs includes all RBI registered NBFC MFIs. Banks includes all Banks (Except SFBs) reporting microfinance lending. SFB & Aspirants includes all awardees of Small Finance Bank License. Others includes generic NBFCs operating microfinance portfolio etc.

### Portfolio Distribution at State Level



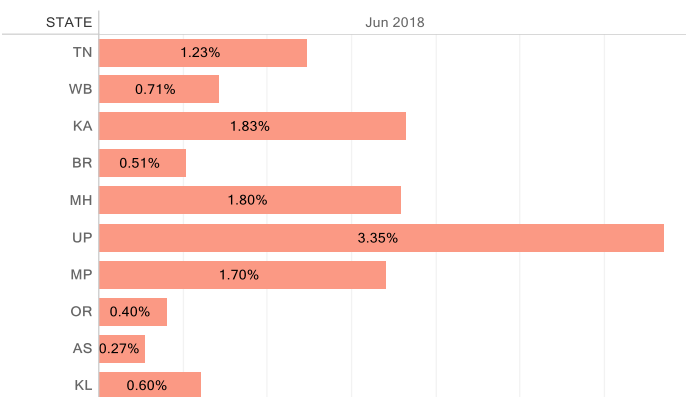
The Portfolio Size & Market Share are basis the last quarterly book closing period.

### State Level PAR 1-30



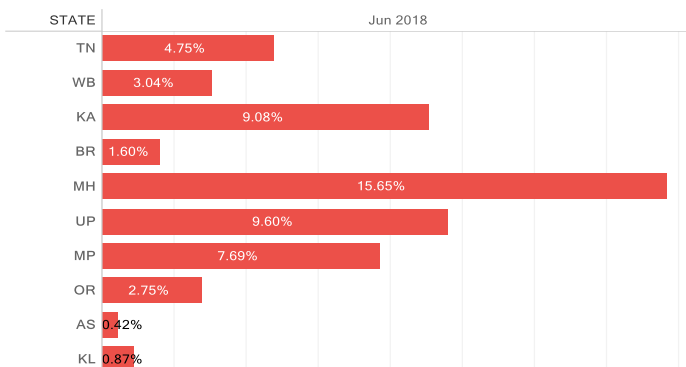
The Risk Level is basis the 1-30 days past due Portfolio & Overall Portfolio reported at the last quarterly book closing period.

### State Level PAR 31-180



The Risk Level is basis the 31-180 days past due Portfolio & Overall Portfolio reported at the last quarterly book closing period.

### State Level PAR 180+



The Risk Level is basis the 180 or more days past due Portfolio & Overall Portfolio reported at the last quarterly book closing period.

## Dive into Geography

Top 10 states continue to account for 84% of the microfinance Industry’s gross loan portfolio though Bihar, Odisha and Assam have made the cut now. Overall, eastern region dominates the market share with 33% of total GLP share, followed by southern region, western region and northern region. Tamil Nadu continues to be the largest market with 15% share. Amongst the top states, Assam, West Bengal and Odisha have high HHI (>3800) indicating highly concentrated market i.e. dominance in market share by a few market players.

Uttar Pradesh continues to show the highest risk level of 3.03% for early delinquencies, followed by Maharashtra (2.57%) and Madhya Pradesh (2.20%), amongst the major states. All states have shown improvement in Q1 FY2018-19 except for Maharashtra which had minor slip from 2.37% (Mar18) to 2.57% (Jun18).

Uttar Pradesh also has the highest risk level of 3.35% for PAR 31-180, followed by Maharashtra & Madhya Pradesh – the states most affected in post-demonetization period. All states have improved on this bucket.

Maharashtra, Uttar Pradesh, Karnataka and Madhya Pradesh continue to have bad assets i.e. high PAR180+. Maharashtra and Karnataka had values of 15.65% and 9.08% for PAR 180+ respectively as of Jun 2018. Maharashtra and Karnataka have higher percentage of written off loans as well as of June 2018, as compared to eastern states such as West Bengal, Odisha, Bihar and Jharkhand.

## Our Views

Microfinance sector has grown 7x in last 7 years and is now supporting over 5 crore women borrowers across the country. Average ticket size of microfinance loans continues to increase as borrowers have more choice of lenders and families' fund requirement has gone up because of price inflation.

Most institutions including NBFC MFIs are opting for cashless transactions leveraging Aadhaar seeding, Mobile penetration and use of newer technologies. All of this should reduce the cost and improve the speed of entering newer geographies, thus may incentivize institutions to go deeper to acquire more first-time borrowers.

States such as Bihar, Odisha, Uttar Pradesh and Madhya Pradesh offer significant potential for growth given their under penetration. In eastern states, the borrower base is spread across districts, whereas states such as Uttar Pradesh and Madhya Pradesh show high borrower concentration in a few districts, and also only to satellites of main towns and cities.

High HHI of lenders is observed in eastern and north eastern states, as compared to other regions - it signifies that few market players are dominating these regions. East and North-East offers room for other national players to increase their presence in eastern market. Eastern states also witnessed highest growth of borrowers associated with 4 or more lenders. Regulations need to be revised to consider activity based guidelines rather than constitution based guidelines to make the guidelines more effective.

After the blip post demonetization, the industry has again picked up pace in portfolio growth and timely collections since last 9-12 months. With growing ticket sizes, increasing customer base and sub 1% PAR31-180, we expect the industry to again experience growth this fiscal.

## MicroLend

MicroLend is a quarterly publication from CRIF High Mark on Microfinance lending in India. The publication presents trends & analysis of key parameters such as Gross Loan Portfolio, Growth, Market Share, Borrower Leverage, Compliance and Portfolio Risks. The report also slices the data for major states to observe any geographical patterns.

CRIF High Mark strives to keep its data accurate and up to date. The Analysis in this report is based on the trade line as submitted to the Bureau by the member institutions and the customer base enquired with the Bureau as part of the portfolio review. The results are NOT to be construed or used as a "legal description". CRIF High Mark does not assume any liability for any errors, omissions, or inaccuracies in the data provided regardless of the cause of such or for any decision made, action taken, or action not taken by the user in reliance upon any data provided herein. The contents of the report shall not be reproduced in part or whole without permission from CRIF High Mark Credit Information Services Pvt. Ltd.

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