India: Small Finance Banks & large NBFC MFIs

Image by <a href="https://pixabay.com/users/igorovsyannykov-6222956

...forlorn expression of a vendor with no business, lockdown 2020

Size, growth & performance, 2020-21

M-CRIL Limited

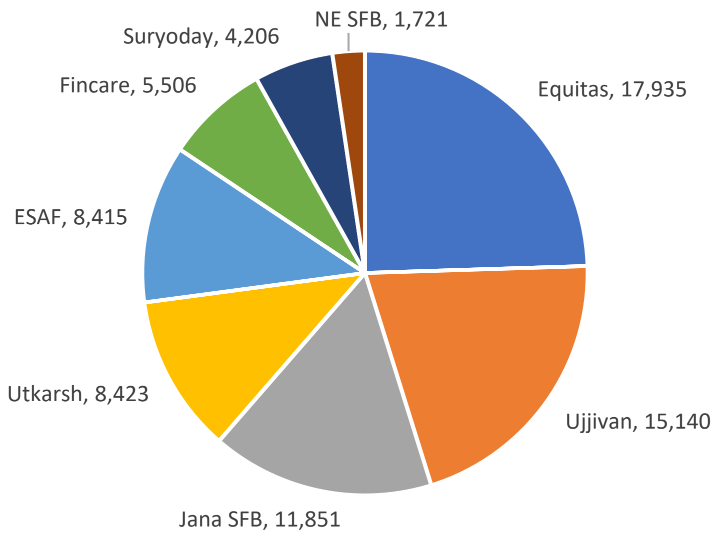
inclusive microeconomics

www.m-cril.com

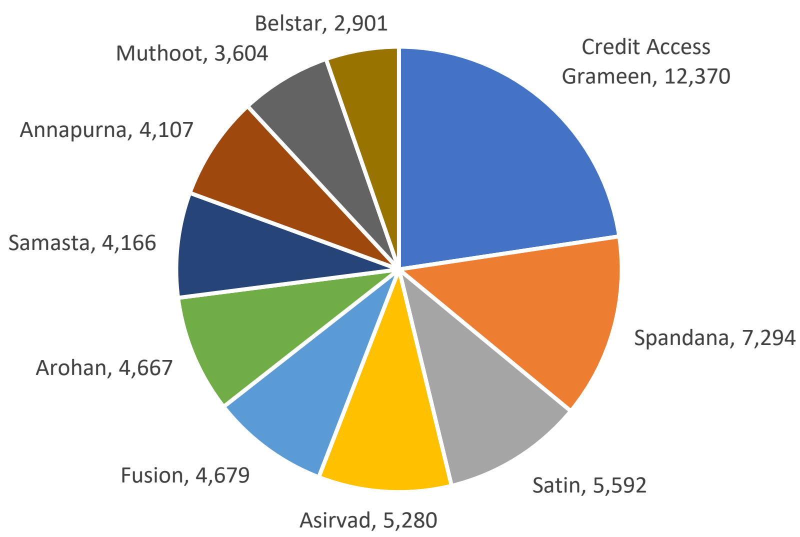
November 2021

India Small Finance Banks & large NBFC MFIs
Size, Growth & Performance, end-March 2021[1]

Small Finance Banks, gross loan portfolio[2]
Total ₹73,200 crore/US$9.9 billion



Largest 10 NBFC MFIs, gross loan portfolio
Total ₹54,660 crore/US$7.4 billion



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[1] All information used in this infographic is taken from the 2020-21 Annual Reports of the respective financial institutions. Since the presentation of numbers is not standardised across financial statements, M-CRIL has compiled these from various places in these reports. While every effort has been made to ensure accuracy, we do not claim that all numbers are correct to the last digit. The infographic is indicative rather than definitive.

[2] Gross loan portfolio includes amounts written off during the year

Growth 2018-19 to 2020-21 (% per annum) & **Portfolio quality end-March** (% for March 2019 to March 2021)

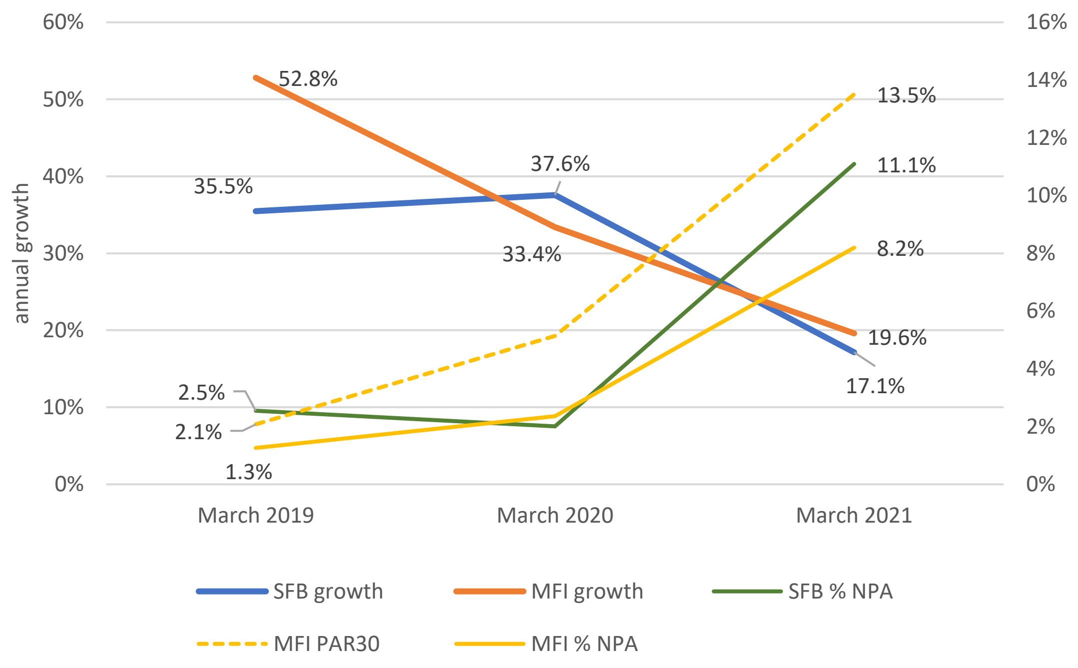
Covid-19 has caused a dramatic decline in growth rates

from 35-50% down to 17-20%

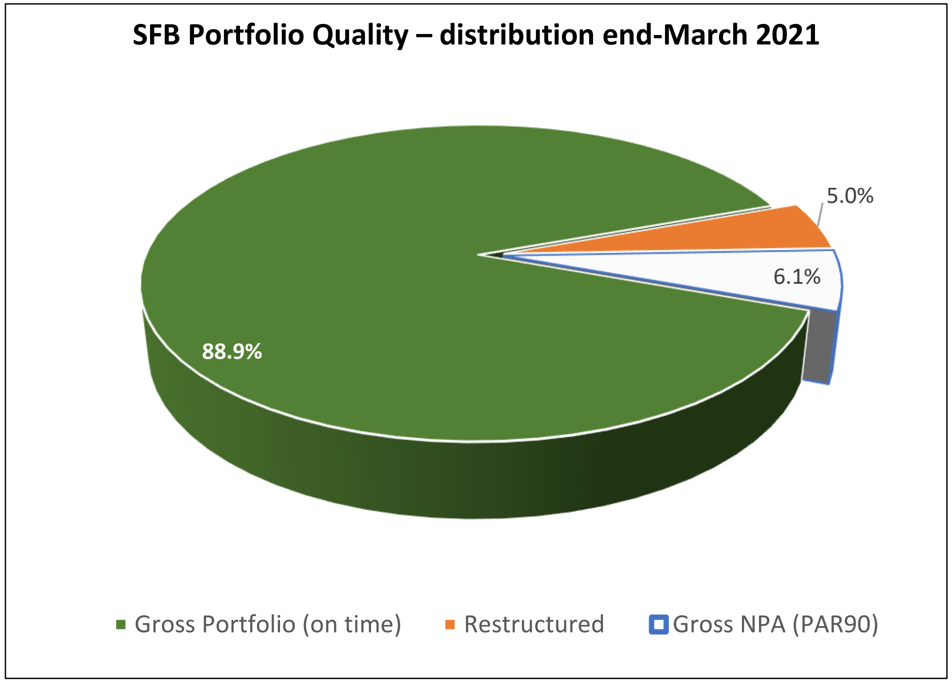
Portfolio quality has shown the expected spike resulting from lockdowns

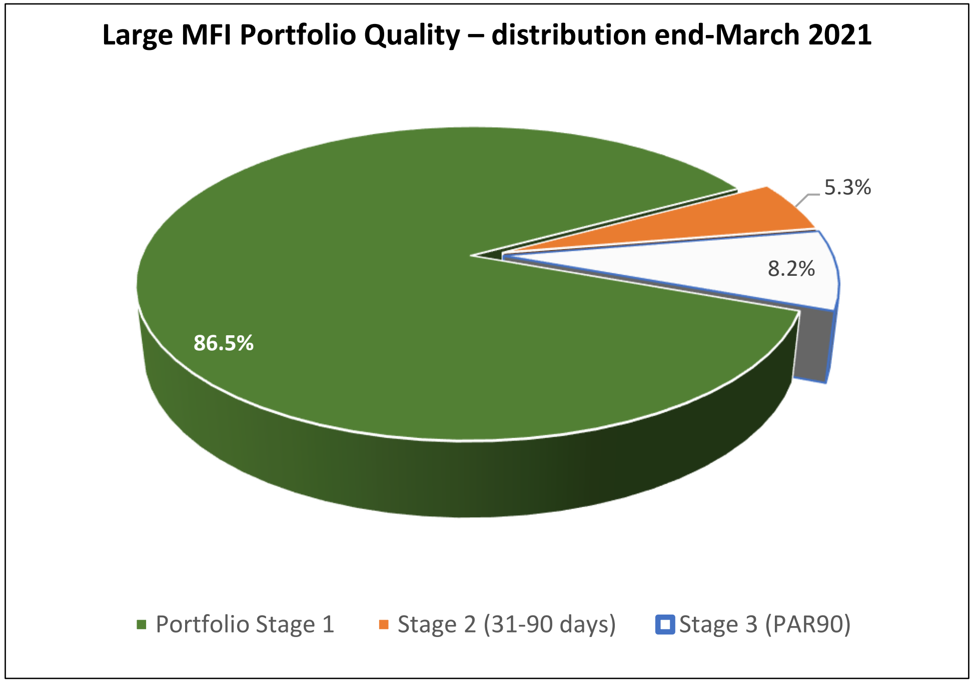
up from 1.3% to 2.5% NPA (PAR_{90}) to 8% to 11% levels

PAR_{30} for MFIs has risen from 2.1% in March 2019 to 13.5% in March 2021



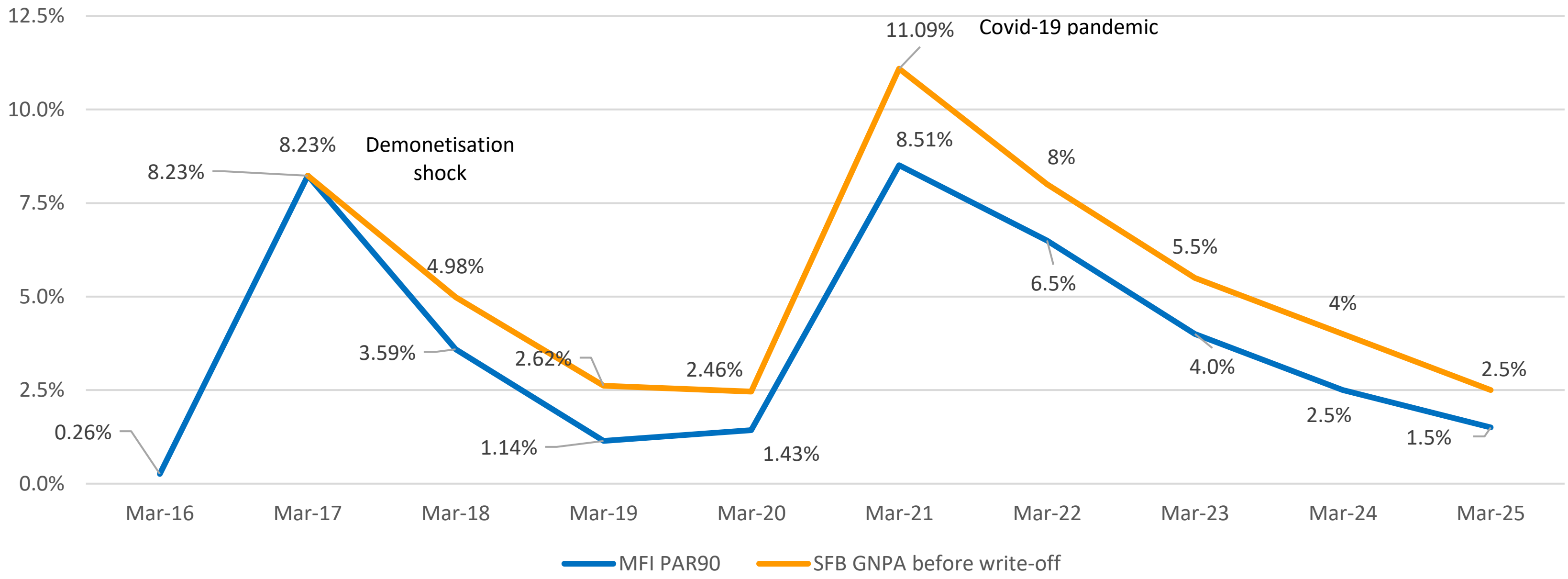
The distribution of portfolio between categories includes restructured and written off portfolios as part of Gross NPAs/Stage 3





NPAs have increased further in June 2021 and MFI PAR_{30} has increased to 15%

but the improved Covid situation since then is expected to improve portfolio quality as depicted in the graph below



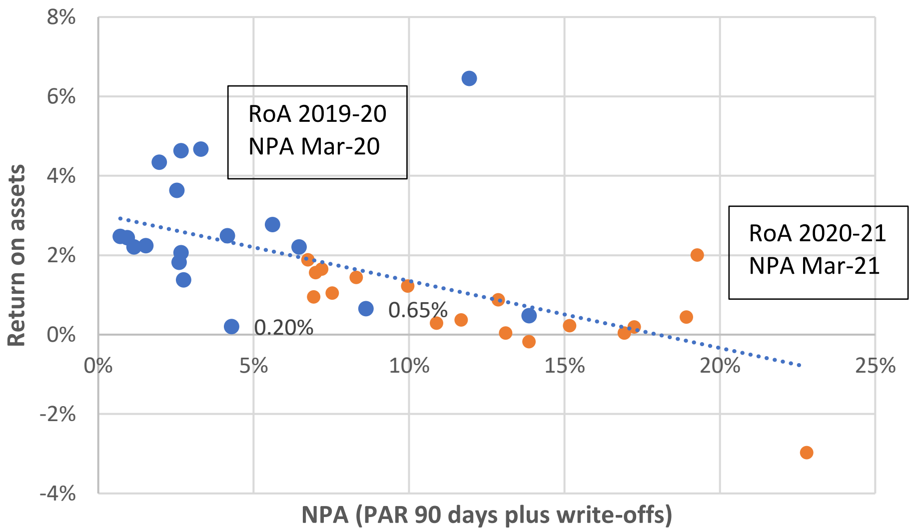
Nevertheless, as indicated by M-CRIL in our Advisory Note of June 2021, it will take four years for the inclusive finance sector to recover from the effects of the pandemic on the performance of service providers (IFSPs) – twice as long as it took to recover from the demonetisation shock of 2016-17

[assuming there are no further waves of the pandemic in the winter of 2021-22]

There is a stark difference in the performance of IFSPs (SFB/NBFC-MFIs) over the past two years

between financial year 2019-20 and 2020-21.

The figure below plots NPA (including write-offs) as % of GLP at end-March 2020 and end-March 2021 against the return on assets (RoA) of each IFSP (SFB/MFI) during years 2019-20 and 2020-21 respectively. It shows that all IFSP (aparts from a couple) are almost equally affected by the pandemic; the individual IFSP performance markers have shifted effectively *en masse* **down** the trendline towards the low performance bottom-right area from the better performing top-left area of the graph.



NPAs increased by 4-5 times between end-March 2020 and end-March 2021 while Return on Assets declined by factors of 1/3 to1/5

Clearly the difficulties caused to individual borrowers by Covid resulted in substantial increases in **NPAs as % of GLP**. Assuming no further **major waves** of the pandemic – thanks to vaccines – a shift in performance markers for 2021-22 up towards the top left of the graph (but not to the level of 2019-20) is likely.