

Banks

India

Sector View: **Attractive** NIFTY-50: **23,323**

June 12, 2024

Microfinance—no concerns, but staying watchful

The 4QFY24 update from CRIF Highmark puts microfinance gross loan portfolio (GLP) at ~Rs4.4 tn (up ~27% yoy). GLP growth was led by a robust 18% yoy growth in unique active borrowers, indicating an optimistic environment. NBFC-MFIs have slowed a bit, thereby narrowing the growth gap with other lenders. Delinquencies have inched up marginally in select areas, but overall the asset quality situation seems comfortable. While we remain watchful, we expect profitability to stay healthy over the medium term.

GLP growth led by borrower additions; NBFC-MFIs have slowed from peak

CRIF's data for the microfinance industry shows that business momentum has sustained in 4QFY24. GLP for the industry was ~Rs4.4 tn (up 27% yoy, 9% qoq; Exhibit 1). Borrower additions stayed strong (up ~18% yoy to ~87 mn), while average exposure per borrower was up ~8% yoy to ~Rs51,000 (Exhibits 2 and 4). GLP growth was fairly divergent, with NBFC-MFIs growing faster than other lender categories during FY2023, but growth rates converged in FY2024.

Taking comfort from slower growth and decline in cases of multiple lending

Bihar and UP have been growing faster than the industry in the past two years, but this growth has now slowed down (34% and 38% yoy, respectively) closer to the industry. This convergence adds to our comfort on the sector (and especially on lenders operating in these states). We also saw a rise in cases of multiple lending and indebtedness (Exhibits 11-14) in several states, likely driven by the removal of the 2-lender cap on NBFC-MFIs beginning April 2022, but that appears to have corrected marginally in 2HFY24.

The asset quality situation is largely stable for the industry, although we have seen a marginal increase in delinquency levels. PAR 1-30 (calculated) declined qoq from 1.0% to 0.7%, while PAR 31-90 inched up marginally qoq from 1.1% to 1.2% (highest increase for NBFC-MFIs). The delinquency situation across states has not shown any widespread deterioration, though select pockets have seen a marginal increase in delinquency levels.

No major signs of stress as of now; profitability to stay healthy

The microfinance industry reported healthy and broad-based growth in FY2024. At the same time, a few lenders have indicated marginal weakness in collections in select areas—due to varied reasons such as floods, fraudulent debt waiver schemes, election-related disturbances and employee attrition. Based on credit bureau data and recent conversations with management, we expect the impact of these disturbances to stay confined to small pockets; the probability of a broad-based deterioration in asset quality appears low. We are still in an environment where lenders are optimistic about the business outlook and hence, willing to supply credit. Hence, we believe that profitability for the industry should stay healthy over the medium term. Nevertheless, we continue to watch for any potential concerns from any regulatory intervention or changes in the growth strategy of lenders, given the format of recent growth.

[Full sector coverage on KINSITE](#)

M B Mahesh, CFA
mb.mahesh@kotak.com
+91-22-4336-0886

Nischint Chawathe
nischint.chawathe@kotak.com
+91-22-4336-0887

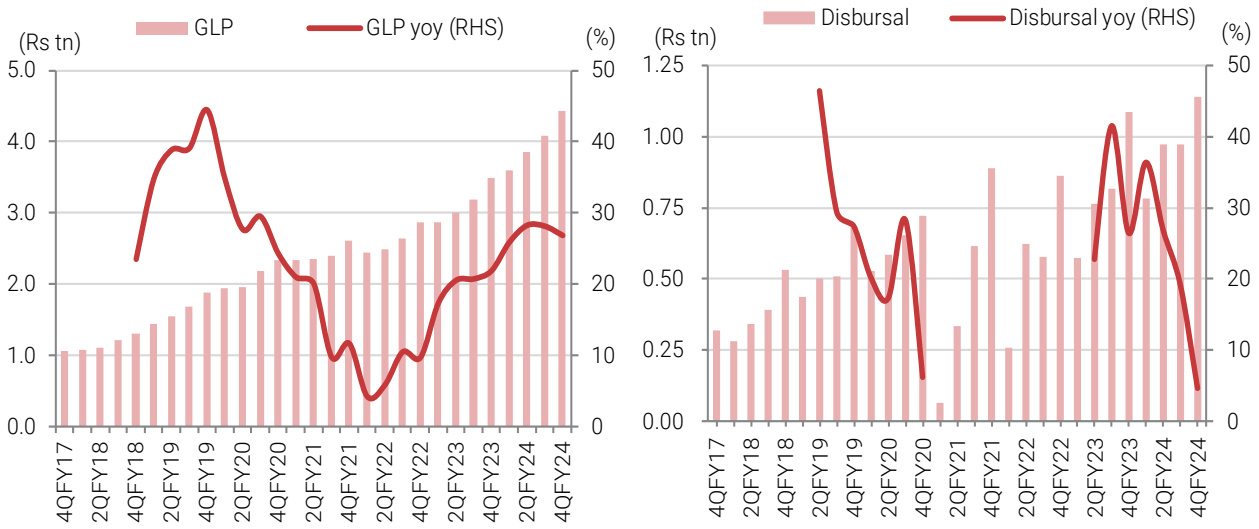
Ashlesh Sonje, CFA
ashlesh.sonje@kotak.com
+91-22-4336-0889

Abhijeet Sakhare
abhijeet.sakhare@kotak.com
+91-22-4336-1240

Varun Palacharla
varun.palacharla@kotak.com
+91-22-4336-0888

Microfinance GLP grew 27% yoy to ~Rs4.4 tn; disbursements up ~5% yoy

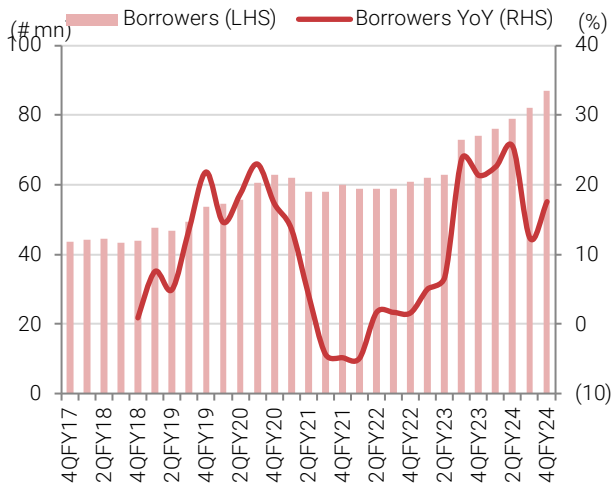
Exhibit 1: Growth trends in MFI GLP and disbursements, March fiscal year-ends (Rs tn, % yoy)



Source: CRIF Highmark

Growth in MFI borrowers (~18% yoy) is near pre-Covid level

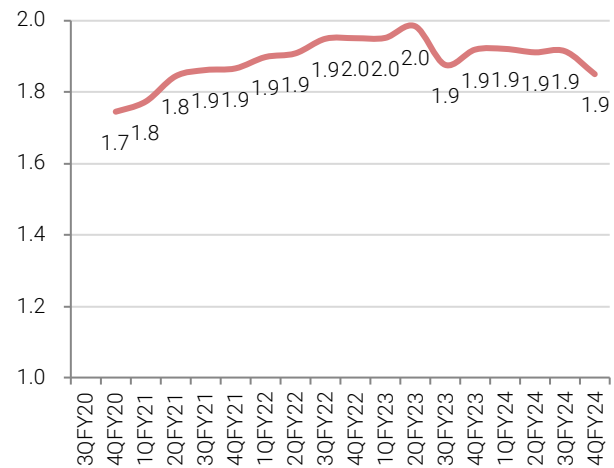
Exhibit 2: Number of MFI borrowers, March fiscal year-ends (#)



Source: CRIF Highmark

Average # of active accounts per borrower has flattened out

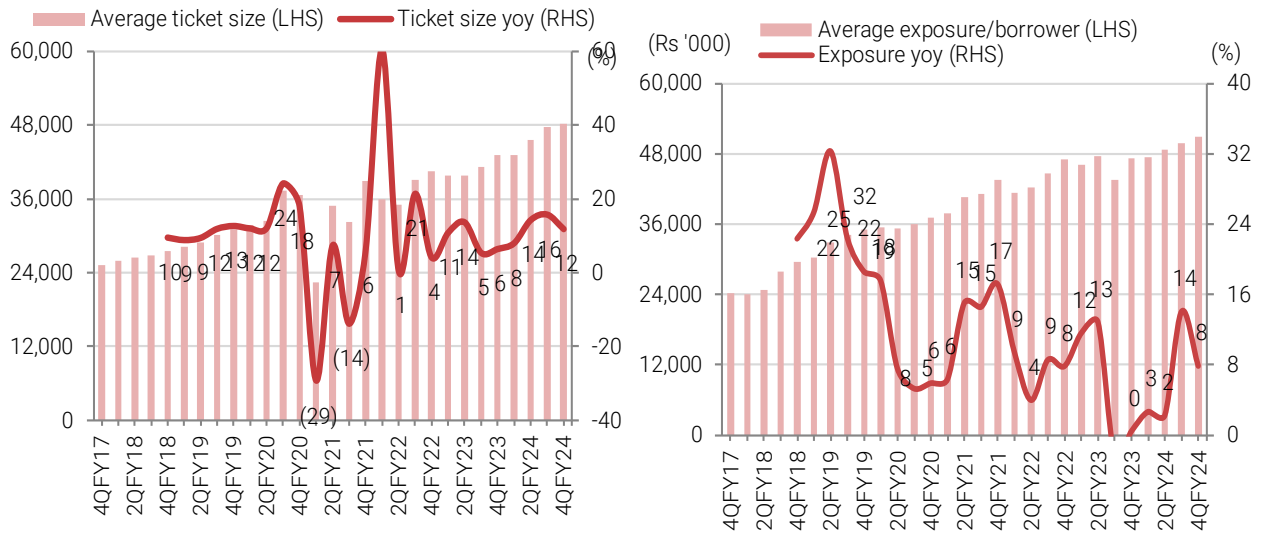
Exhibit 3: Average # of active accounts per borrower, March fiscal year-ends (#)



Source: CRIF Highmark

Average ticket size of disbursements is up ~12% yoy to ~Rs48,000; average exposure/borrower is up ~8% yoy to ~Rs51,000 (up ~38% from pre-Covid level)

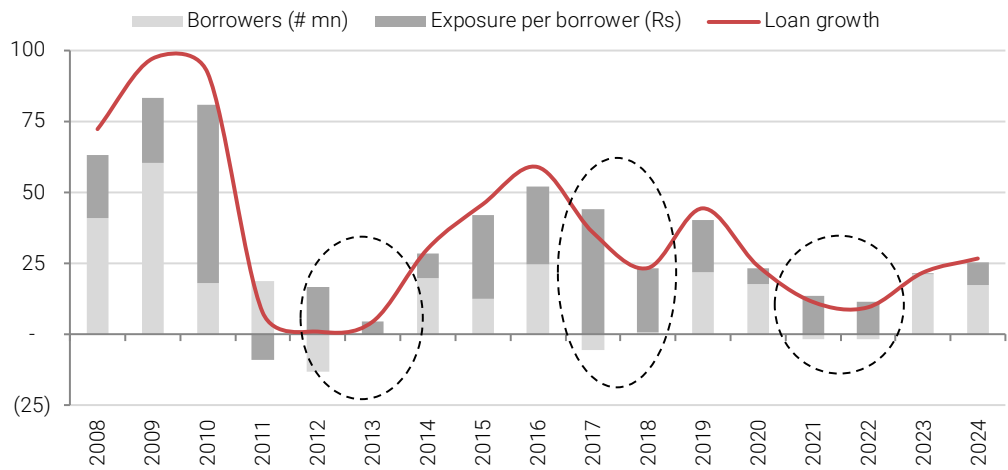
Exhibit 4: Granularity metrics—average ticket size of disbursements and average exposure per borrower (Rs, % yoy)



Source: CRIF Highmark

Crises led to decline in borrowers, whereas ticket sizes continue to grow

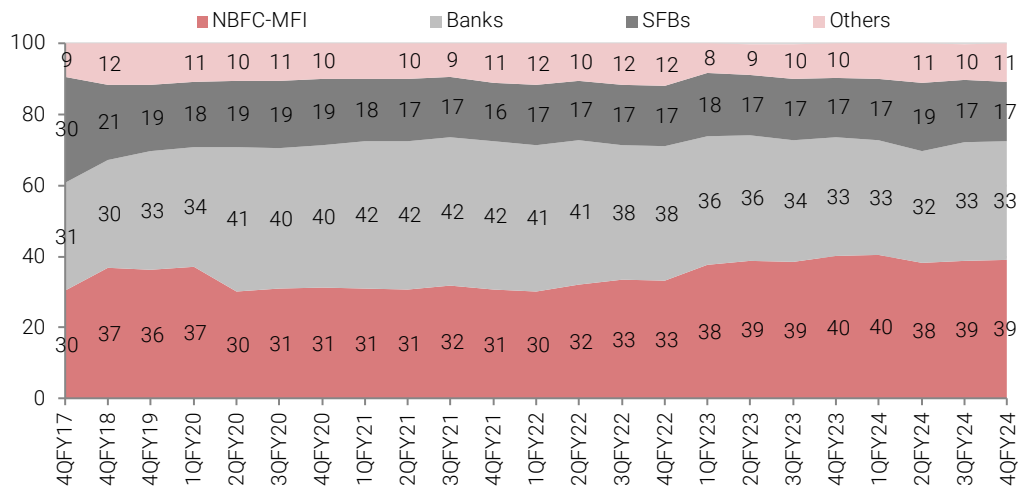
Exhibit 5: Growth in borrowers yoy and average exposure per borrower, March fiscal year-ends (%)



Source: CRIF Highmark

The loan mix has been broadly flat over the past year

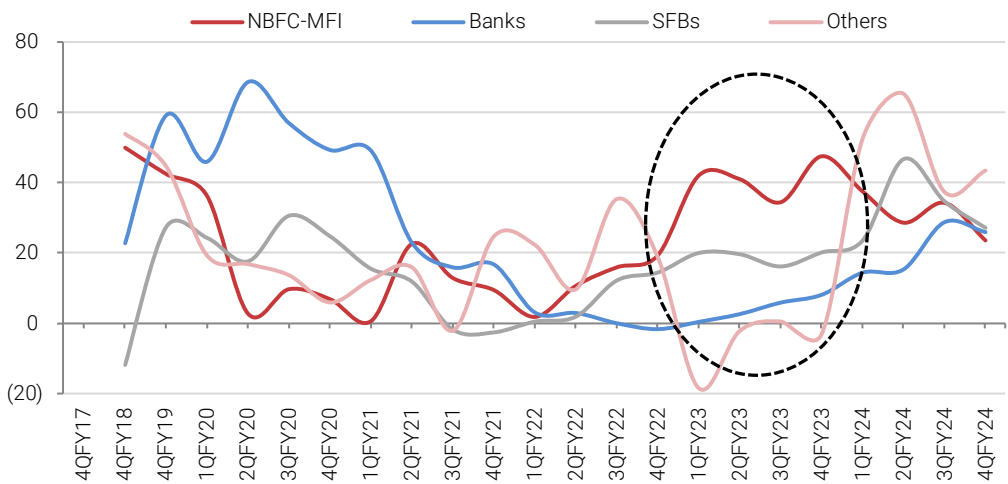
Exhibit 6: Growth in microfinance portfolio across lender categories, March fiscal year-ends (% yoy)



Source: CRIF Highmark

The gap in growth rates narrowed further in 4QFY24

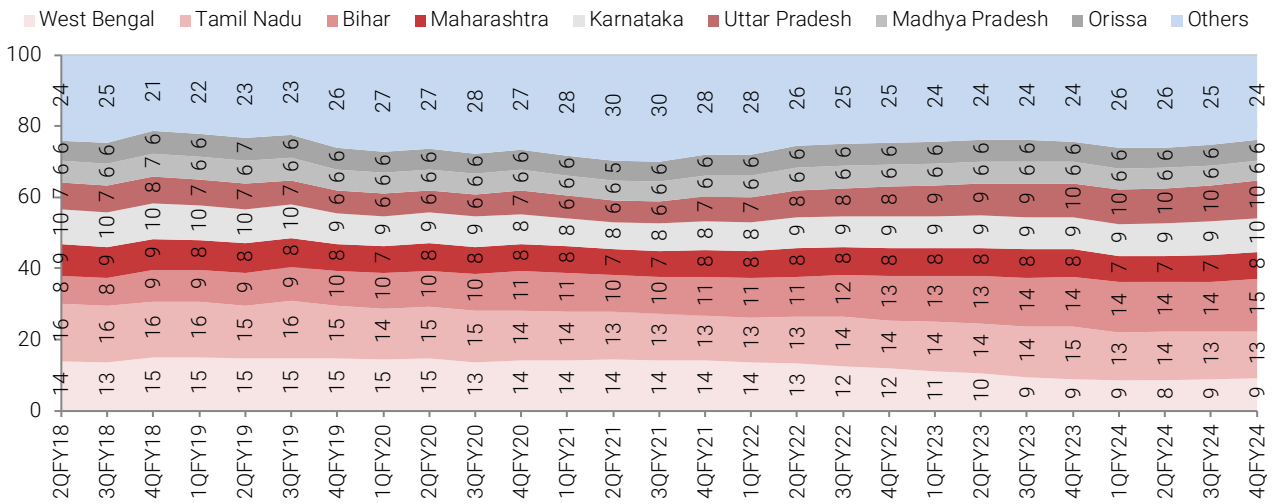
Exhibit 7: Growth in microfinance portfolio across lender categories, March fiscal year-ends (% yoy)



Source: CRIF Highmark

Share of Bihar and UP has increased steadily, while West Bengal has lost ~500 bps share from pre-Covid level

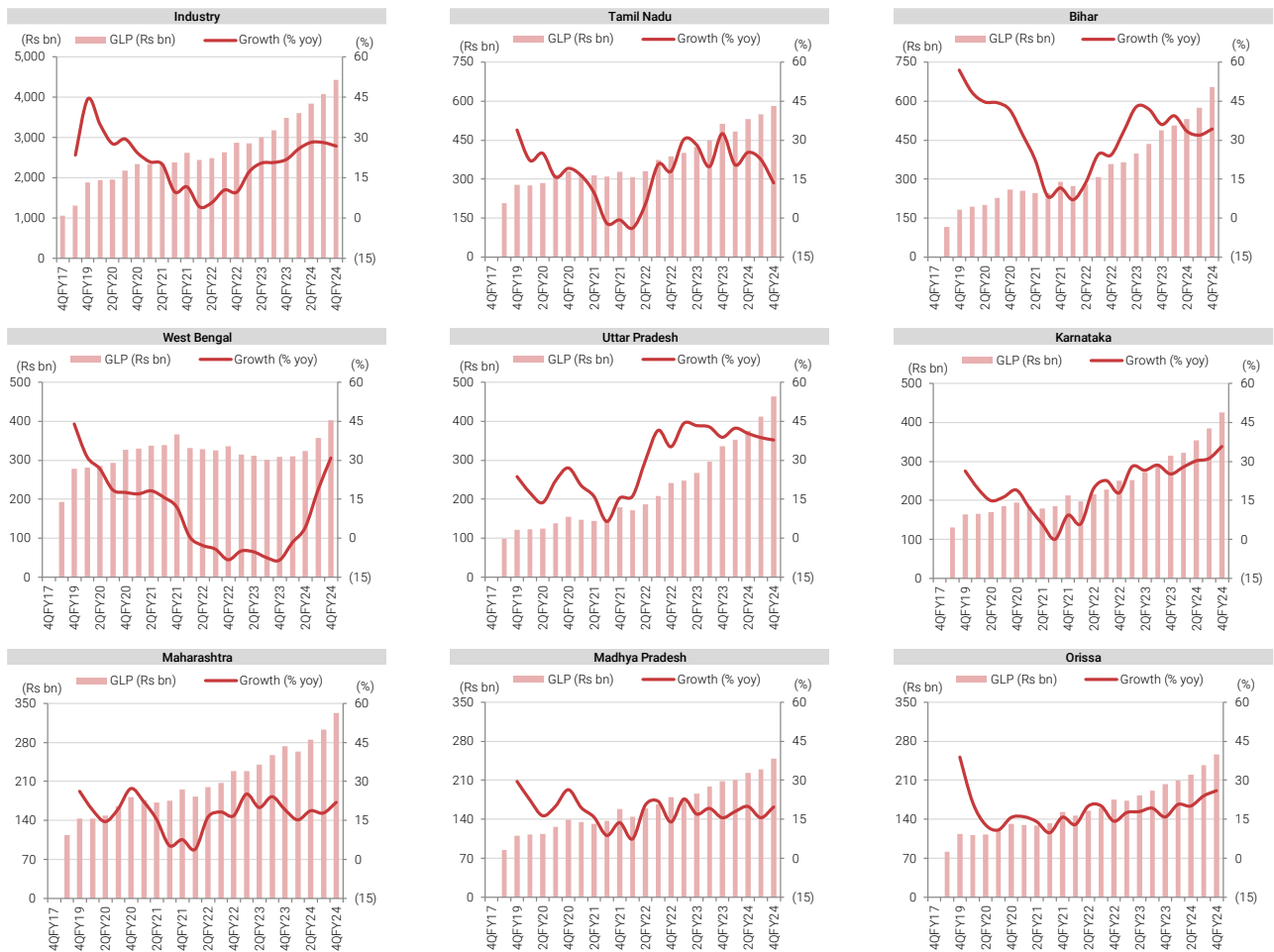
Exhibit 8: Microfinance GLP mix by state, March fiscal year-ends (%)



Source: CRIF Highmark

GLP growth in Bihar and Uttar Pradesh has cooled off modestly closer to industry level; West Bengal has seen a sharp improvement in growth

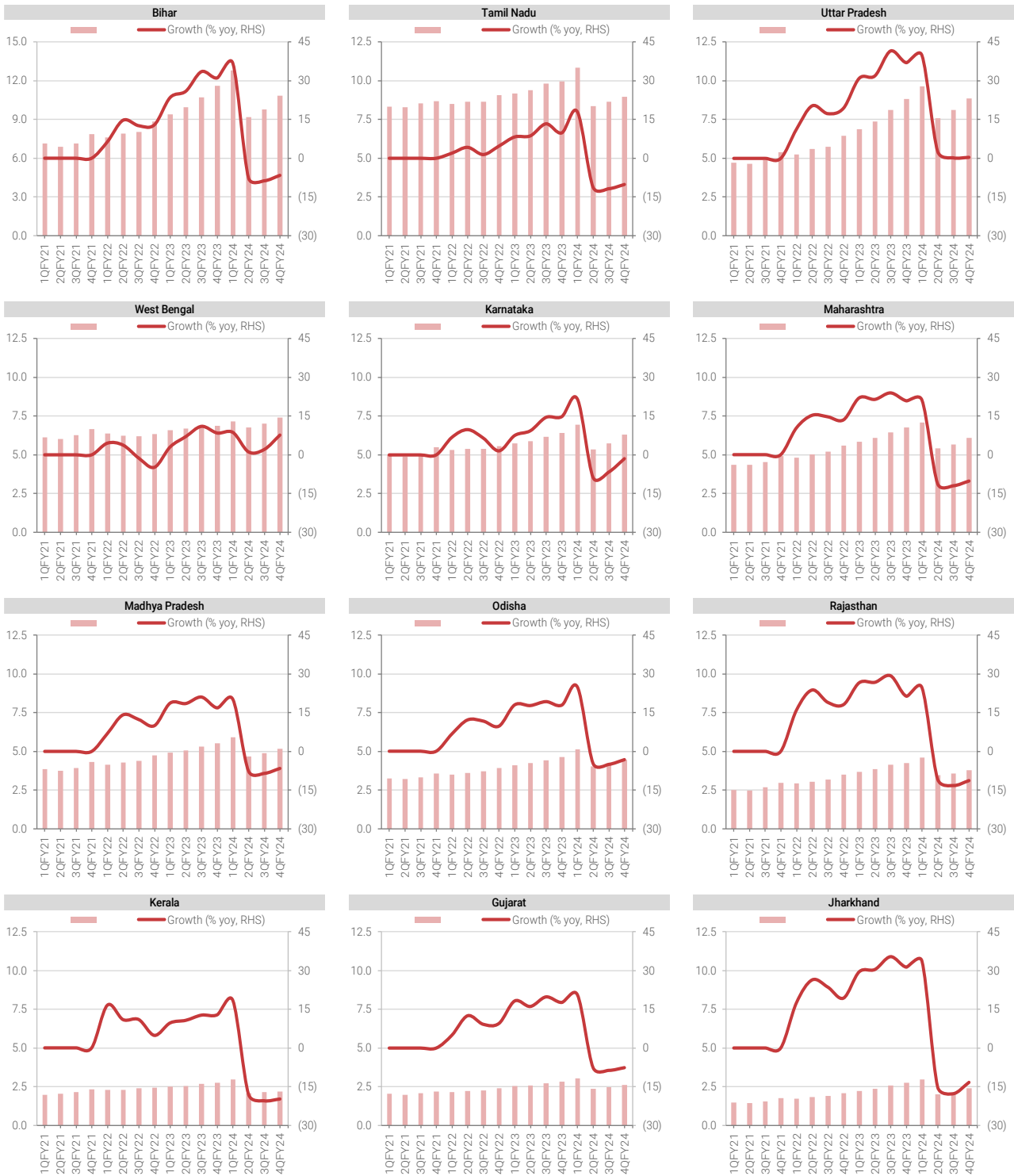
Exhibit 9: Growth trends in MFI GLP across states, March fiscal year-ends (Rs tn, % yoy)



Source: CRIF Highmark

Trend on new borrower additions is healthy across states

Exhibit 10: Number of active unique borrowers across states, March fiscal year-ends (#, mn)

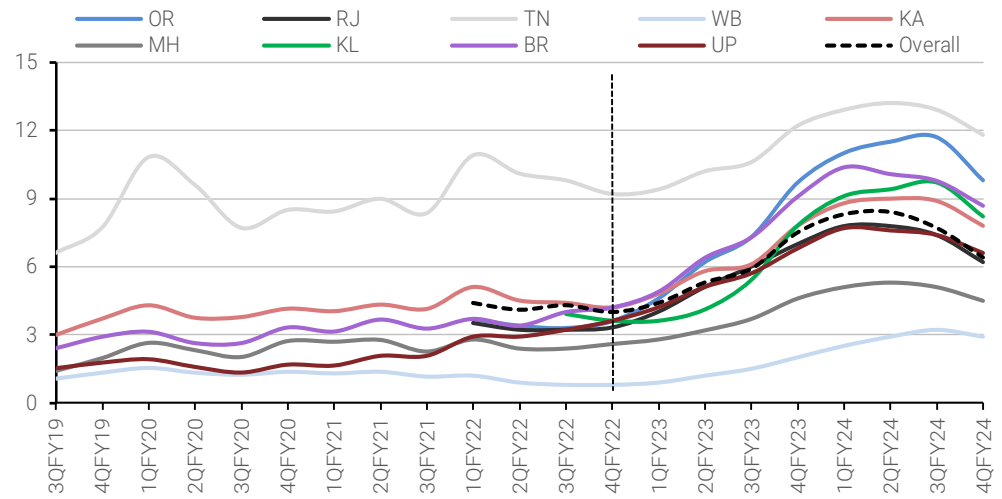


Note: The sharp sequential decline in 2QFY24 was due to correction for duplication.

Source: MFIN, Kotak Institutional Equities

Cases of multiple lending increased steadily after the removal of 2-lender cap on NBFC-MFIs starting April 2022; however, cases of multiple lending have reduced a bit in 2HFY24

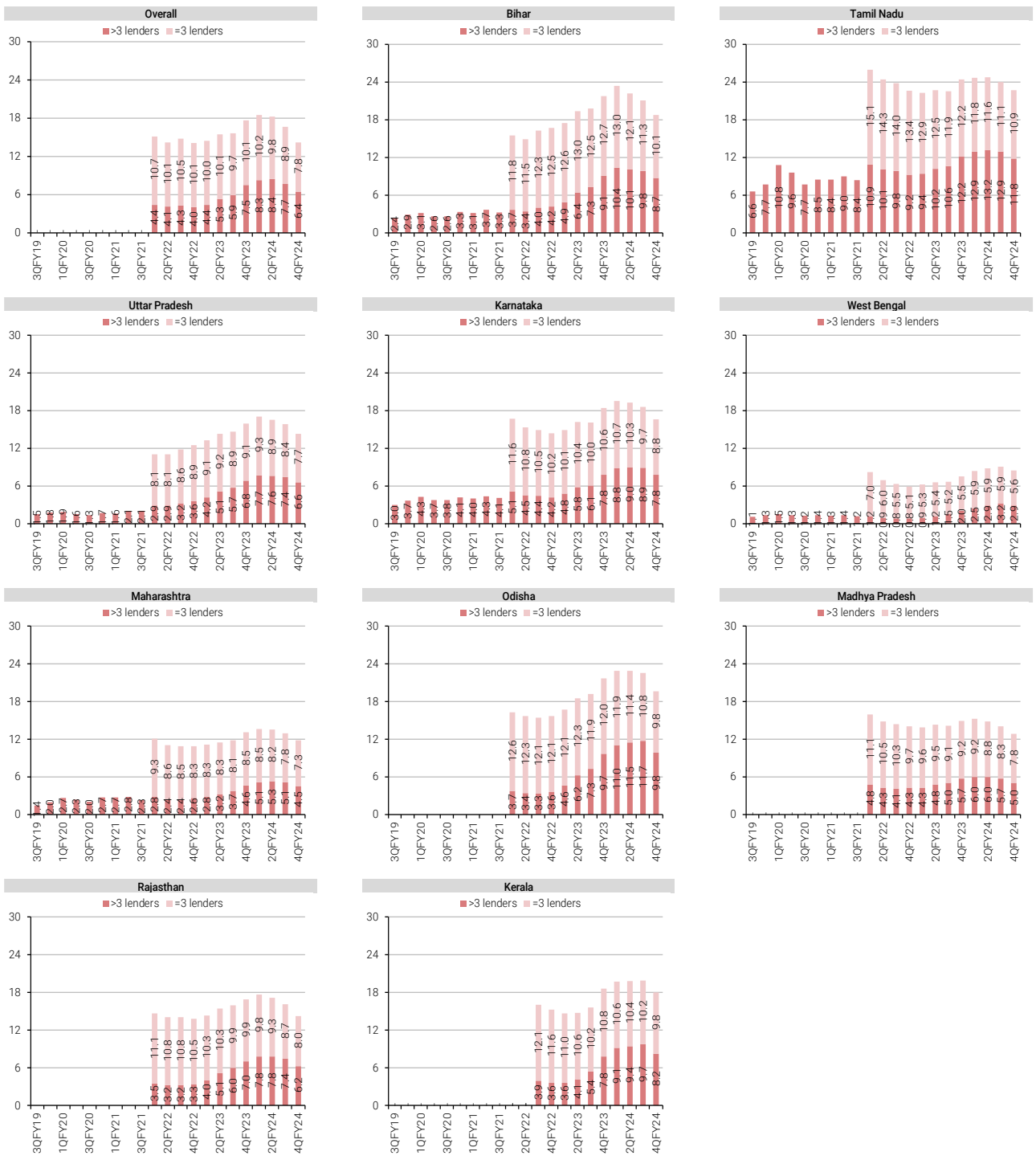
Exhibit 11: State-wise proportion of borrowers associated with 4 or more lenders, March fiscal year-ends (%)



Source: CRIF Highmark

Incidence of multiple lending increased sharply in UP, Bihar, Odisha, Kerala and Rajasthan, but it is declining now

Exhibit 12: Proportion of microfinance borrowers having 3 or more active microfinance lender relationships, March fiscal year-ends (%)



Source: CRIF Highmark

Multiple lending cases increased sharply in Bihar recently; Odisha also has a high instance of multiple lending

Exhibit 13: Proportion of active microfinance borrowers, with >2 lenders and >Rs60k loan outstanding, March fiscal year-ends (%)

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Bihar	4.3	4.6	4.9	5.0	5.0	5.0
Karnataka	4.1	4.4	4.7	4.7	4.6	5.0
Kerala	5.7	5.8	6.9	5.8	5.3	5.8
MP	3.3	3.5	3.5	3.4	3.2	3.1
Maharashtra	3.1	3.2	3.2	3.0	2.9	2.9
Odisha	6.2	6.6	6.5	6.5	6.2	6.4
Rajasthan	3.9	3.8	3.7	3.6	3.4	3.4
Tamil Nadu	6.6	6.8	7.2	6.9	6.5	6.8
UP	2.8	2.9	3.1	3.2	3.2	3.1
WB	2.9	2.8	3.0	2.9	2.8	2.8

Source: Sa-dhan, Kotak Institutional Equities

Indebtedness level has increased across key states, except West Bengal

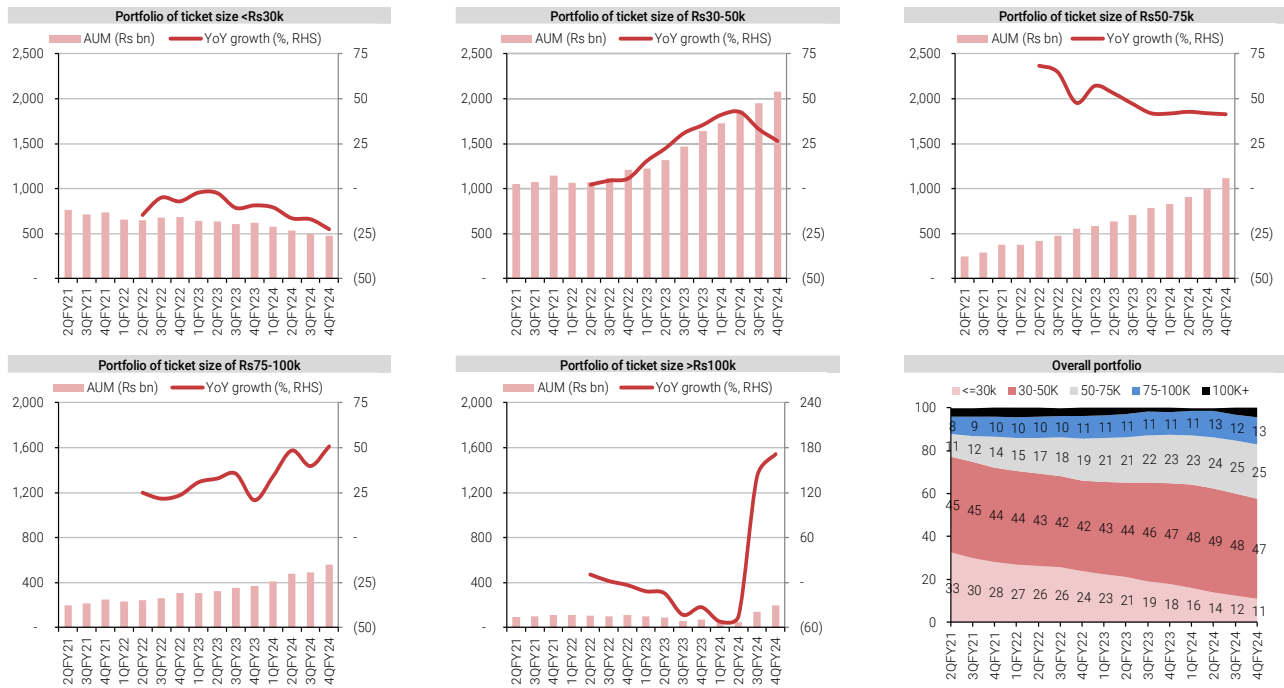
Exhibit 14: Proportion of microfinance borrowers, with outstanding of >Rs125k, March fiscal year-ends (%)

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Bihar	2.3	3.0	3.2	3.3	3.3	3.3
Karnataka	2.4	3.4	5.1	5.3	5.4	5.3
Kerala	2.5	3.1	5.3	4.6	5.0	5.4
MP	1.5	1.8	2.1	2.0	2.0	1.8
Maharashtra	1.7	2.1	2.5	2.5	2.6	2.6
Odisha	3.3	3.8	4.2	4.2	4.0	3.8
Rajasthan	1.8	2.1	2.5	2.4	2.3	2.1
Tamil Nadu	1.9	2.6	3.5	3.9	3.9	4.5
UP	1.7	2.0	2.2	2.2	2.1	2.0
WB	5.9	5.9	6.5	5.4	4.8	3.2

Source: Sa-dhan, Kotak Institutional Equities

The segments of Rs75-100k and >Rs100k ticket sizes have seen the sharpest growth in GLP recently

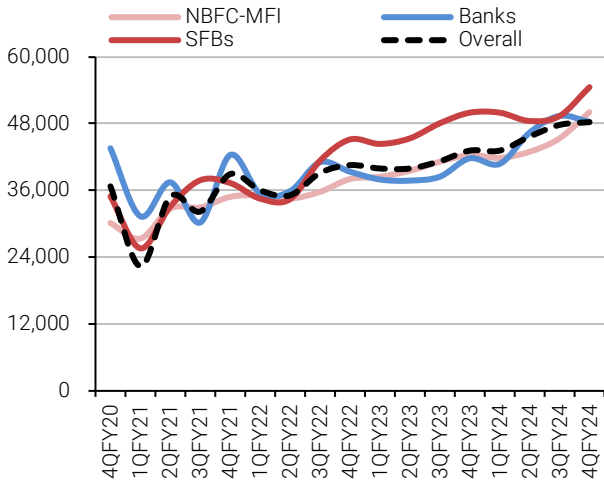
Exhibit 15: Growth trends in MFI GLP across ticket sizes, March fiscal year-ends (Rs bn, % yoy)



Source: CRIF Highmark

We have seen some convergence of disbursement ticket sizes across players recently

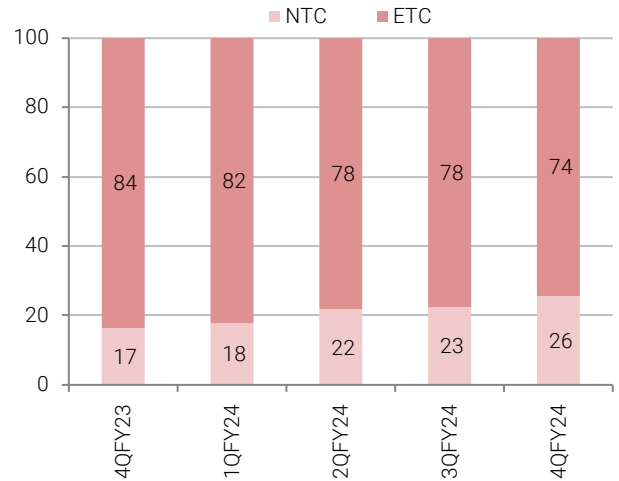
Exhibit 16: Average ticket size of new originations by lender type, March fiscal year-ends (Rs)



Source: CRIF Highmark

Share of disbursements to new-to-credit (NTC) borrowers has inched up over the past year

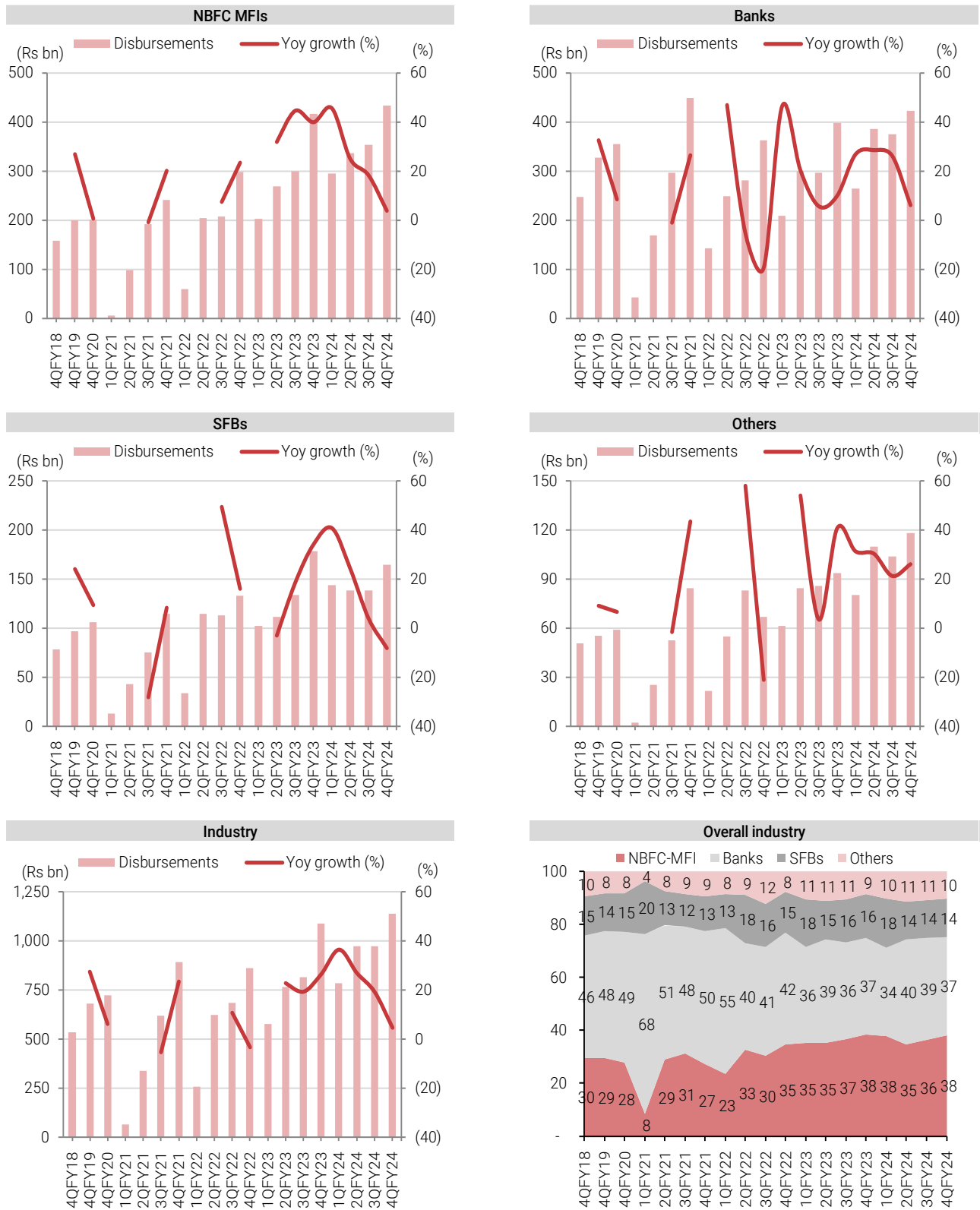
Exhibit 17: Breakup of microfinance disbursements by credit history of borrowers, March fiscal year-ends (%)



Source: CRIF Highmark

Disbursements were modestly higher yoy for most lender categories

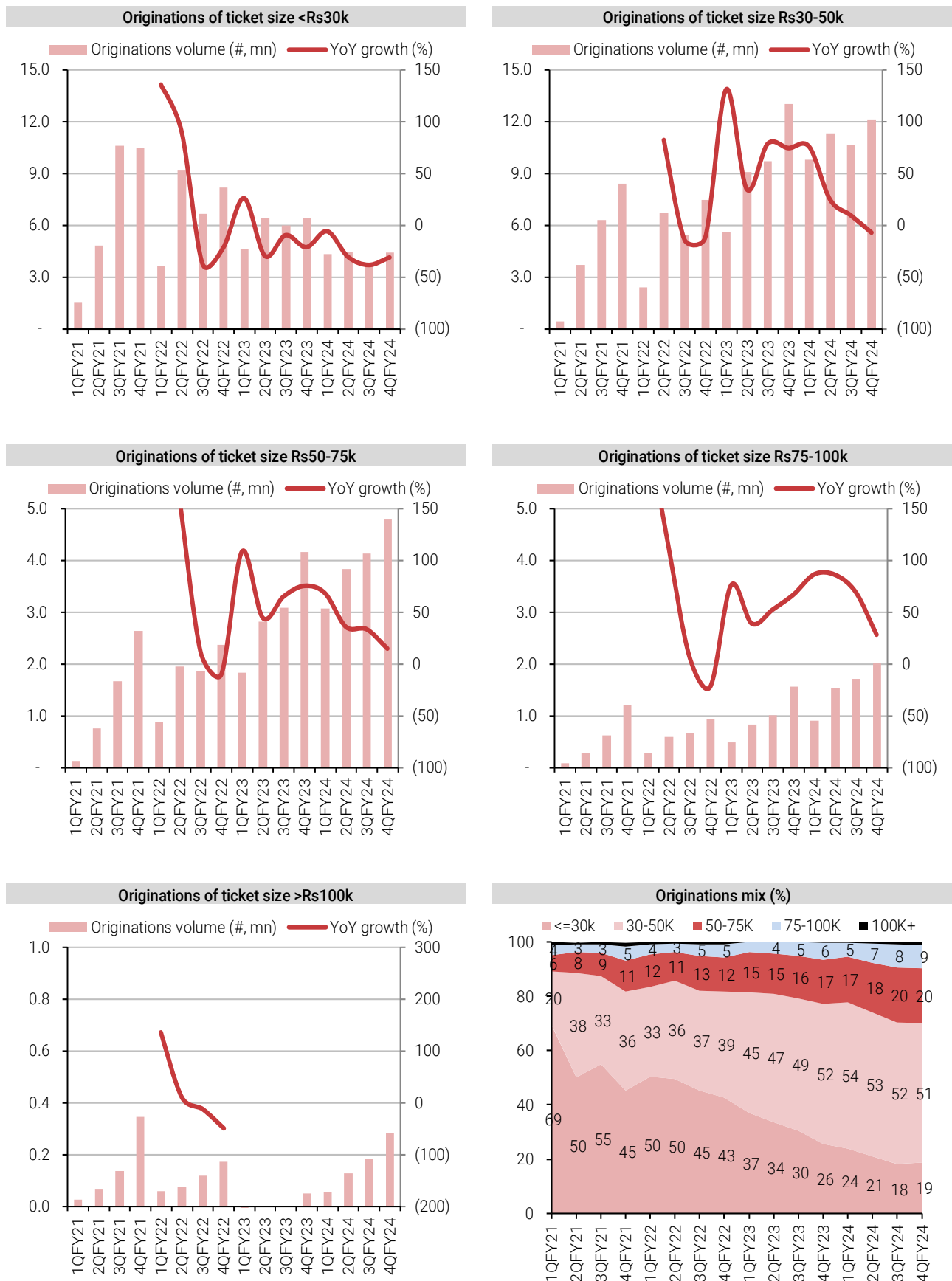
Exhibit 18: Growth trends in MFI disbursements, March fiscal year-ends (Rs bn, % yoy)



Source: CRIF Highmark

Growth in disbursement volume has been robust across ticket sizes >Rs30k

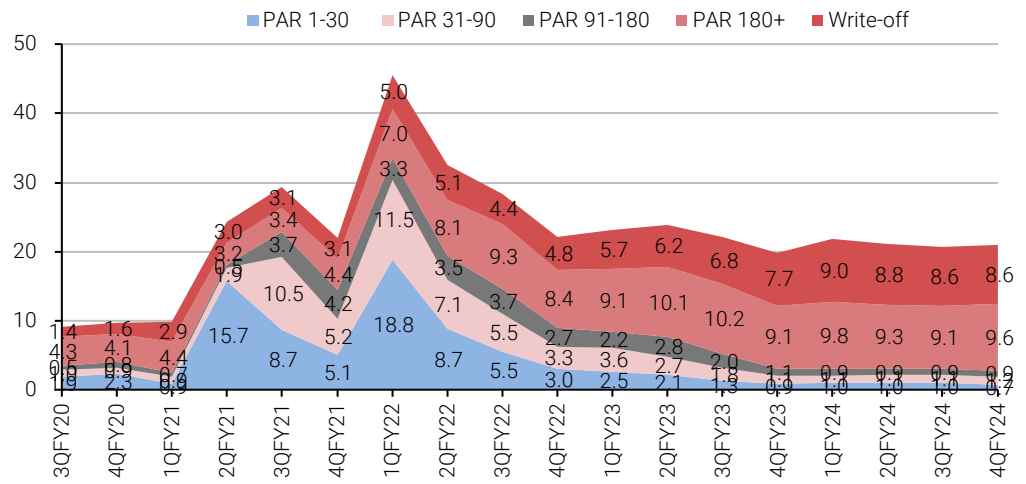
Exhibit 19: Growth trends in MFI disbursement volumes across ticket sizes, March fiscal year-ends (#, mn)



Source: CRIF Highmark

PAR 1-90 has been declining gradually

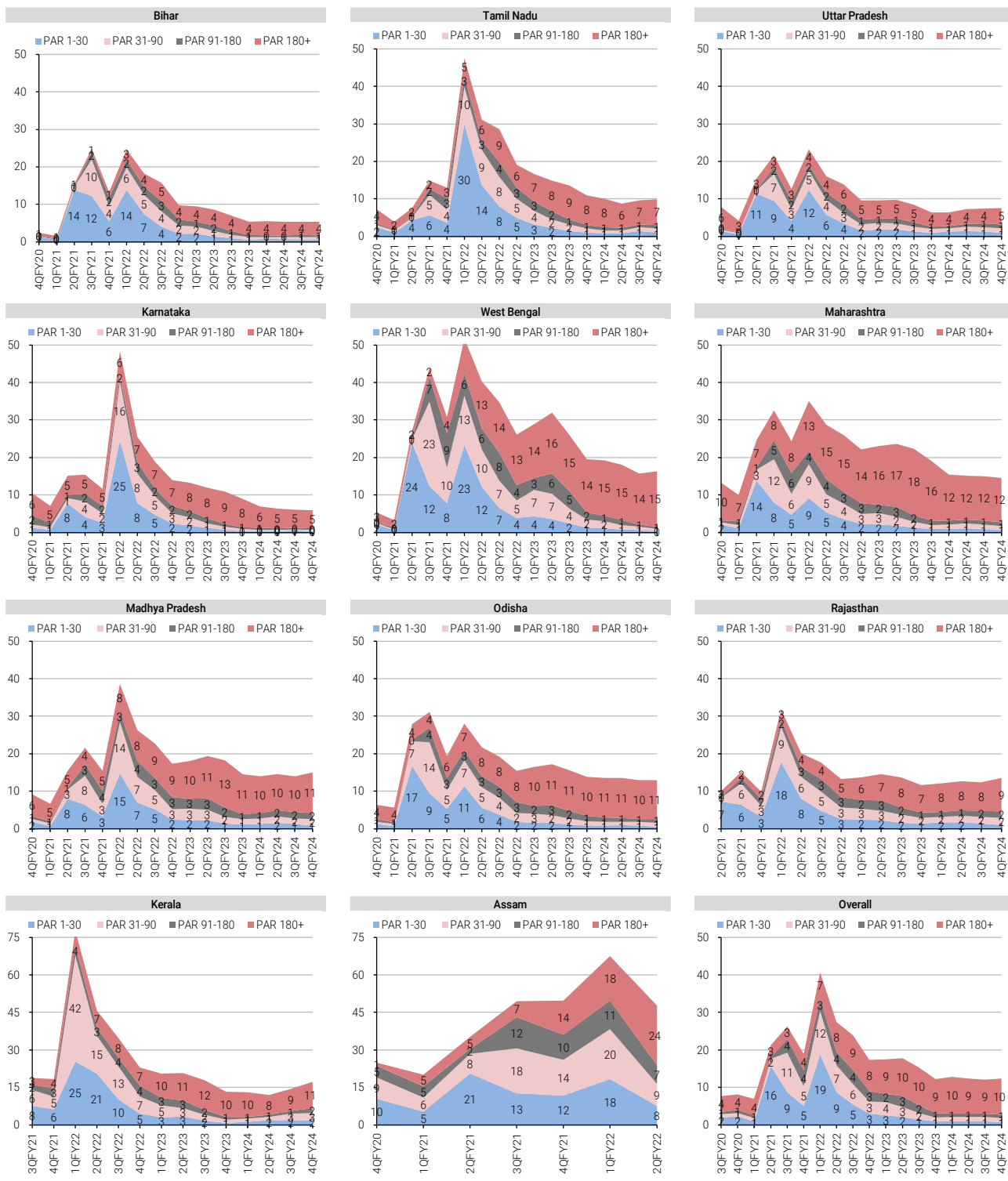
Exhibit 20: Portfolio at risk (PAR) for the microfinance industry, March fiscal year-ends (% of GLP)



Source: CRIF Highmark

Bihar and Uttar Pradesh are showing healthy asset quality for now

Exhibit 21: Delinquency levels in dpd buckets across states (in descending order of MFI GLP, %)

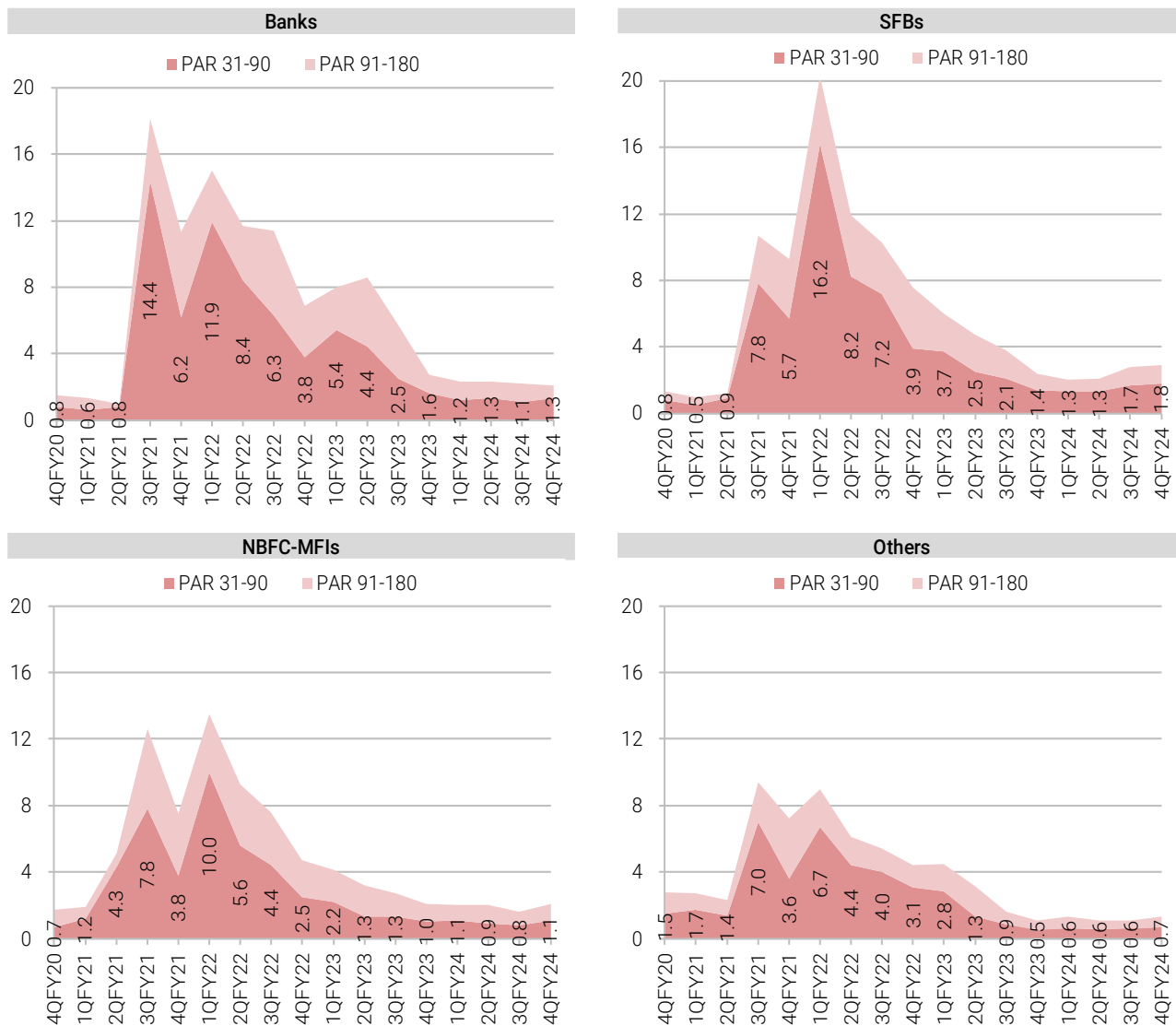


Note: Data for Assam is available until 2QFY22.

Source: CRIF Highmark

PAR levels increased marginally for the SFBs during 2HFY24

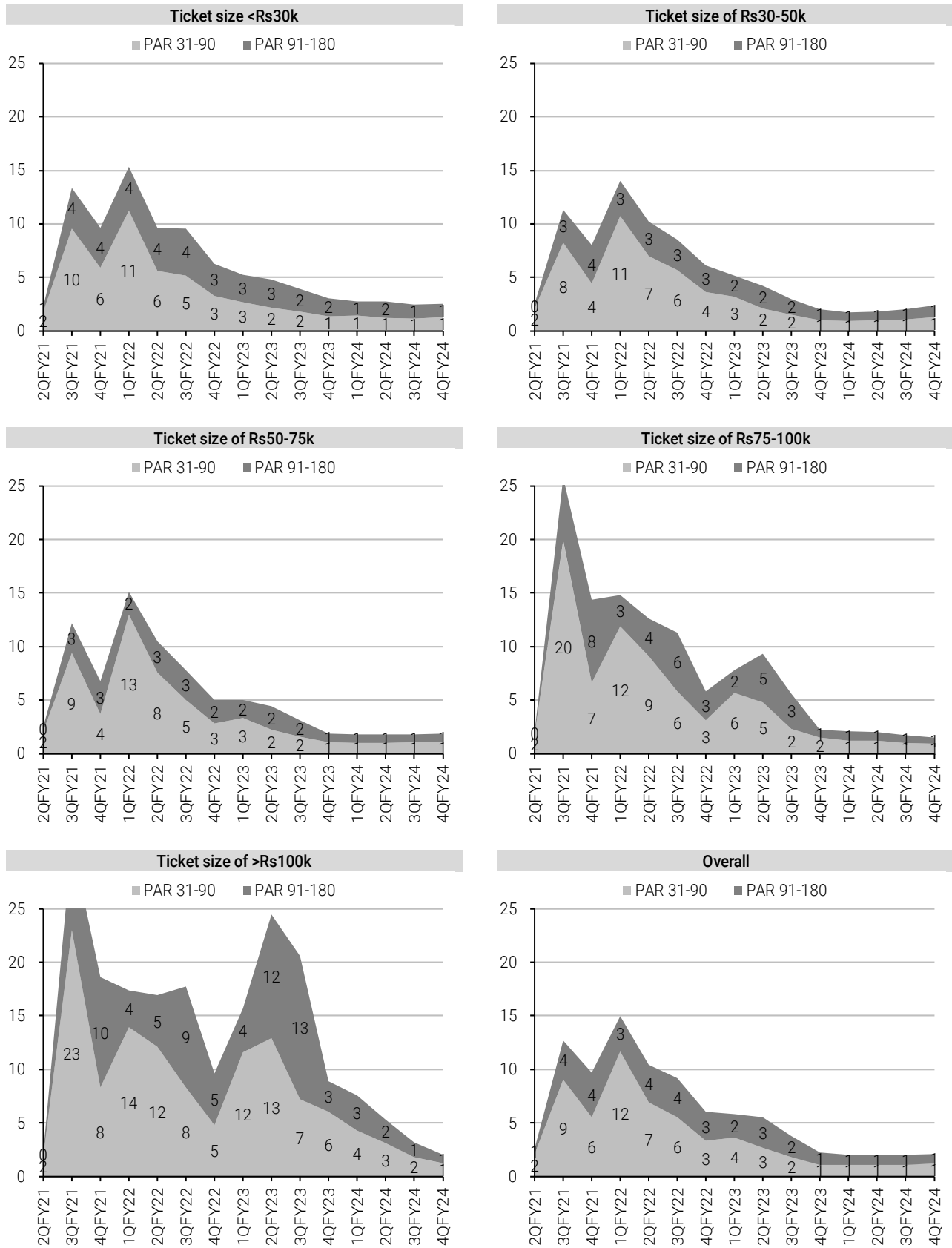
Exhibit 22: Delinquency in microfinance portfolio by lender category, March fiscal year-ends (%)



Source: CRIF Highmark

The highest ticket size segment (>Rs100,000) has reported higher delinquency level as compared with other segments in the past year

Exhibit 23: Delinquency by ticket size of outstanding loans, March fiscal year-ends (%)

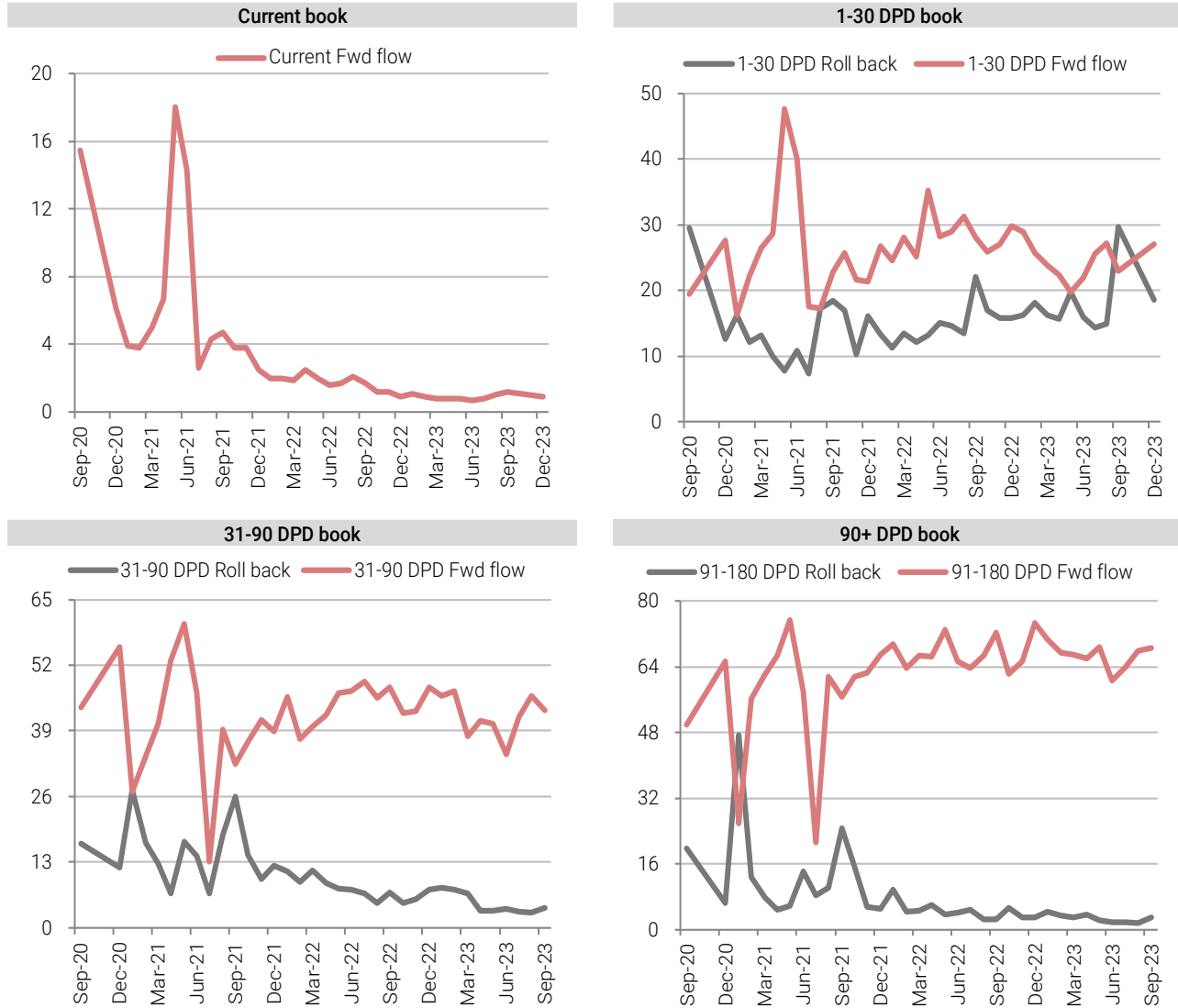


Source: CRIF Highmark

Appendix

Forward flow from the "0 DPD" bucket has been under control in the past few quarters (until December 2023)

Exhibit 24: Monthly collection roll rates by volume in 1-180 DPD bucket for the MFI industry, March fiscal year-ends (% of active loans)

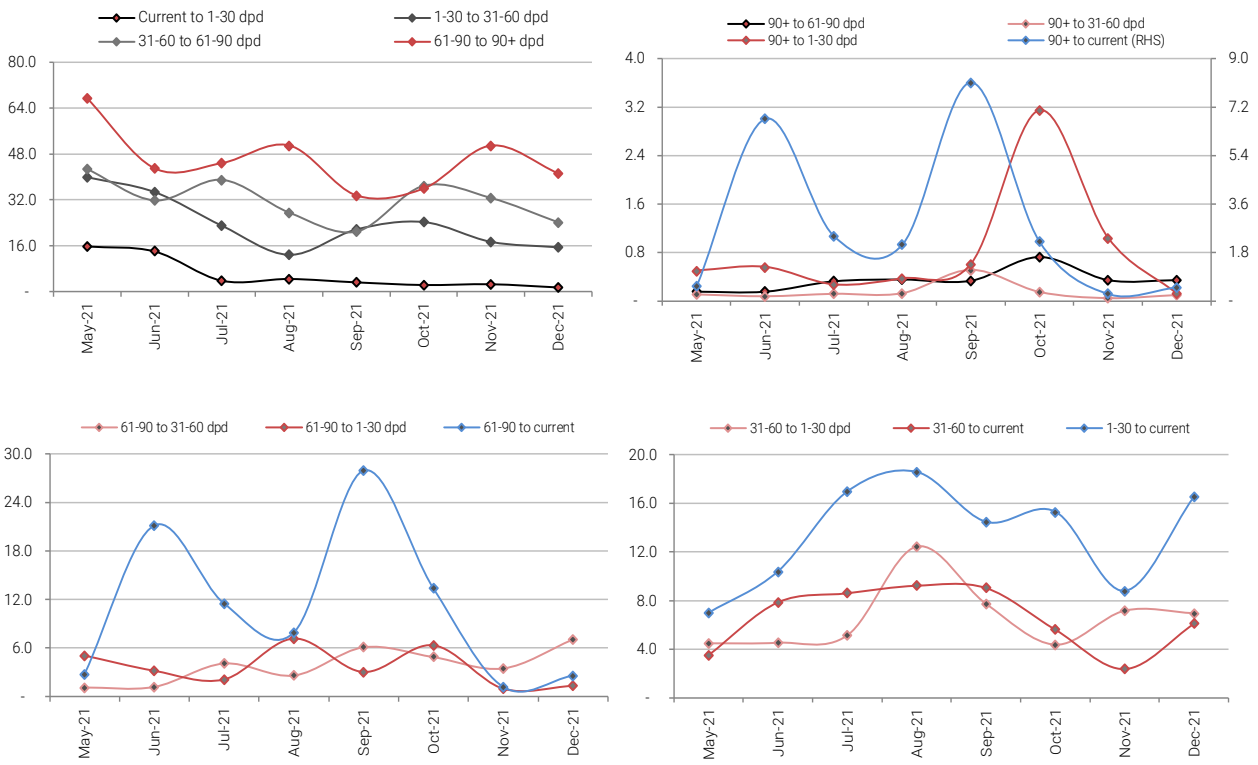


Note: This data is not available yet for 4QFY24.

Source: CRIF Highmark

Rate of transition from “90+ DPD” bucket to “current” bucket tends to be slightly higher during quarter-end months

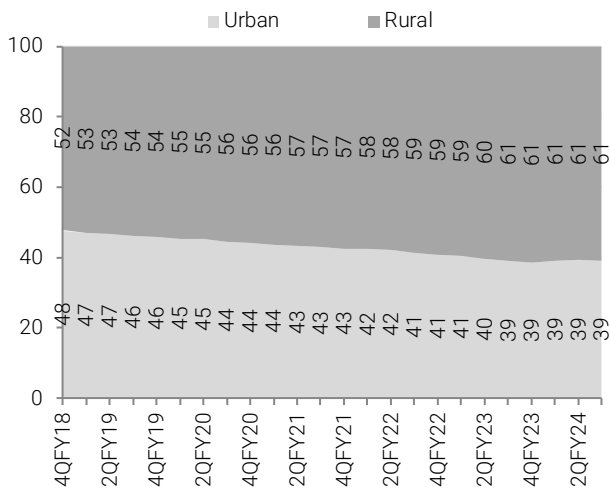
Exhibit 25: Roll-forward/roll-backward from respective buckets (as % of loans in that bucket)



Source: CRIF Highmark, CRISIL Research

Rising share of rural over past few years

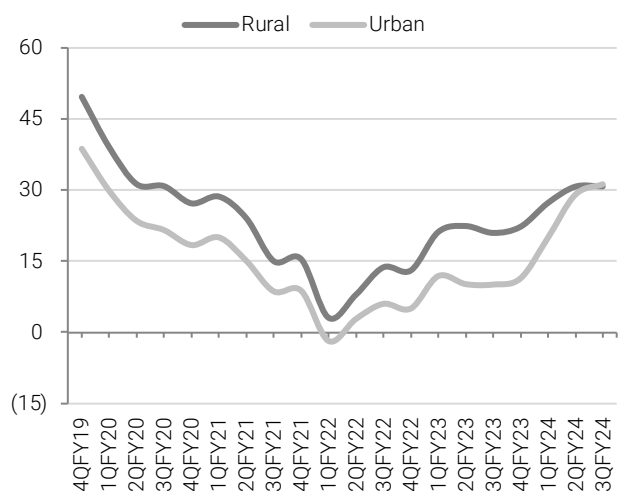
Exhibit 26: GLP split by rural and urban, March fiscal year-ends (%)



Source: CRIF Highmark

Growth rate in urban and rural markets has also converged

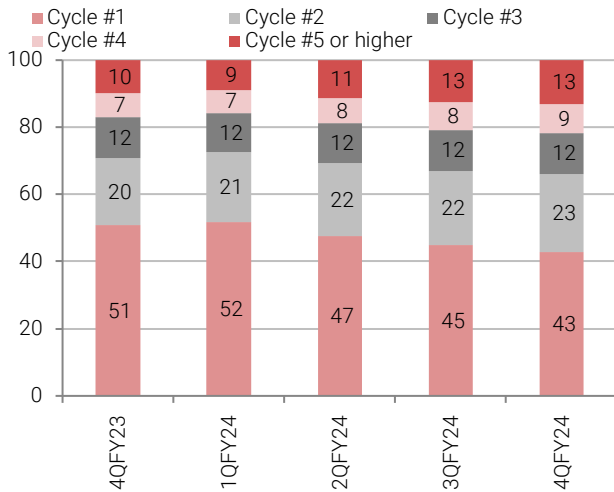
Exhibit 27: GLP growth yoy for rural and urban geographies, March fiscal year-ends (%)



Source: CRIF Highmark

Share of disbursements to new borrowers (cycle #1) has declined steadily over the past year

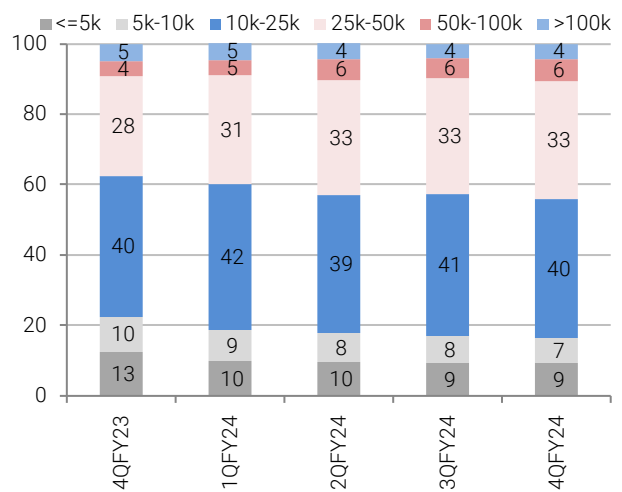
Exhibit 28: Breakup of disbursements by loan cycle of the borrower, March fiscal year-ends (% by value)



Source: CRIF Highmark

Share of disbursements to borrowers in lower income buckets (<Rs10k per month) has been steadily declining

Exhibit 29: Breakup of disbursements by monthly income of the borrower, March fiscal year-ends (% by value)



Source: CRIF Highmark

The probability of roll-back drops sharply after a loan has crossed into 30+ DPD

Exhibit 30: Transition matrix for microfinance loans (as % of loans in that bucket at the beginning of the month)

Transitions in the month of December 2023											
	Current	1-30 DPD	31-60 DPD	61-90 DPD	91-120 DPD	121-150 DPD	151-180 DPD	180+ DPD	Written off	Closed	Cumulative roll-backs
Current	95.0	0.8	0.1	-	-	-	-	-	-	4.2	
1-30 DPD	18.6	50.4	24.5	2.3	0.1	0.1	-	-	-	3.9	22.5
31-60 DPD	2.8	2.2	49.2	39.4	3.6	0.1	-	-	-	0.2	2.5
61-90 DPD	3.8	0.5	1.7	48.8	38.0	3.4	0.2	0.1	0.1	3.3	9.3
91-120 DPD	3.6	0.2	0.3	1.5	31.5	52.2	6.5	0.2	1.8	2.3	7.9
121-150 DPD	2.1	0.1	0.1	0.2	0.8	28.9	59.0	5.7	1.1	2.0	5.3
151-180 DPD	1.0	0.1	-	0.1	0.2	0.9	34.3	57.9	3.8	1.7	4.0
180+ DPD	0.2	-	-	-	-	-	-	98.8	0.5	0.5	0.7

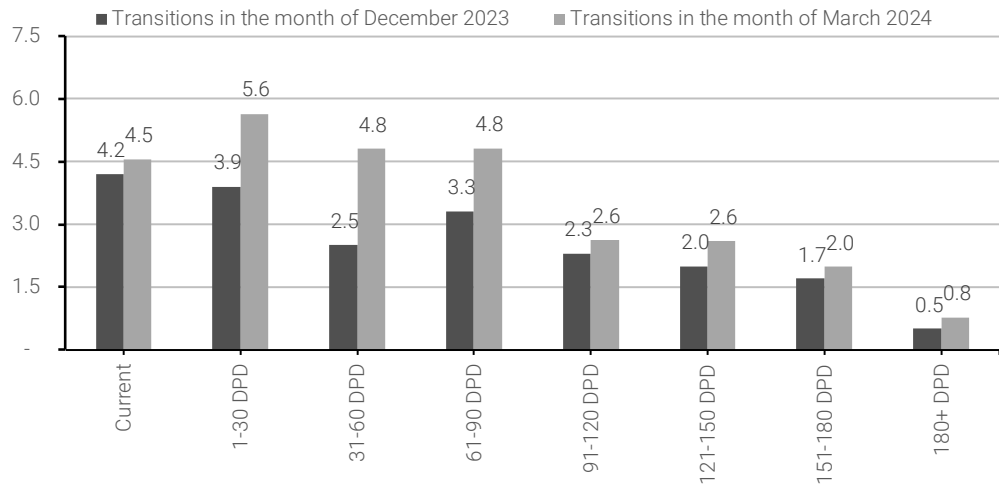
Transitions in the month of March 2024											
	Current	1-30 DPD	31-60 DPD	61-90 DPD	91-120 DPD	121-150 DPD	151-180 DPD	180+ DPD	Written off	Closed	Cumulative roll-backs
Current	94.7	0.5	0.0	-	-	-	-	0.2	0.0	4.5	
1-30 DPD	13.0	46.9	32.1	1.9	0.0	0.0	-	0.1	0.2	5.6	18.6
31-60 DPD	3.1	1.8	38.2	49.7	2.1	0.0	0.0	0.1	0.1	4.8	9.7
61-90 DPD	2.0	0.6	1.7	50.8	38.5	1.3	0.0	0.2	0.1	4.8	9.1
91-120 DPD	2.9	0.3	0.3	1.1	19.7	66.7	4.3	0.2	1.8	2.6	7.3
121-150 DPD	2.3	0.1	0.1	0.2	0.6	16.4	71.7	5.1	0.8	2.6	5.9
151-180 DPD	0.4	0.1	0.1	0.1	0.3	0.9	21.6	69.2	5.2	2.0	3.9
180+ DPD	0.0	0.0	-	-	0.0	0.0	0.0	97.3	1.8	0.8	0.9

Note: We have included the proportion of loan closures in the calculation of "cumulative roll-backs".

Source: CRIF Highmark

The probability of loan closure tends to be higher in the SMA-2 bucket as compared with SMA-1

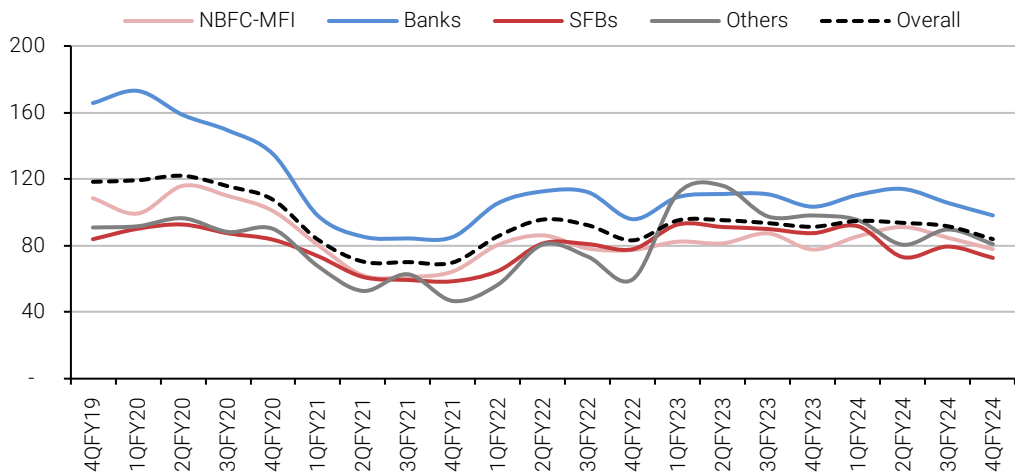
Exhibit 31: Proportion of loan closures across different delinquency buckets during a month, (as % of loans in that bucket as at the beginning of the month)



Source: CRIF Highmark

Repayment rate for banks has historically been higher than other lender categories

Exhibit 32: Repayment rate across lender categories, March fiscal year-ends (%)



Note: Repayment rate = 100* (Disbursements over last four quarters - (current advances - advances 12 months ago))/(advances 12 months ago)

Source: CRIF Highmark, Kotak Institutional Equities

There seems to be a positive correlation between repayment rate and AUM growth

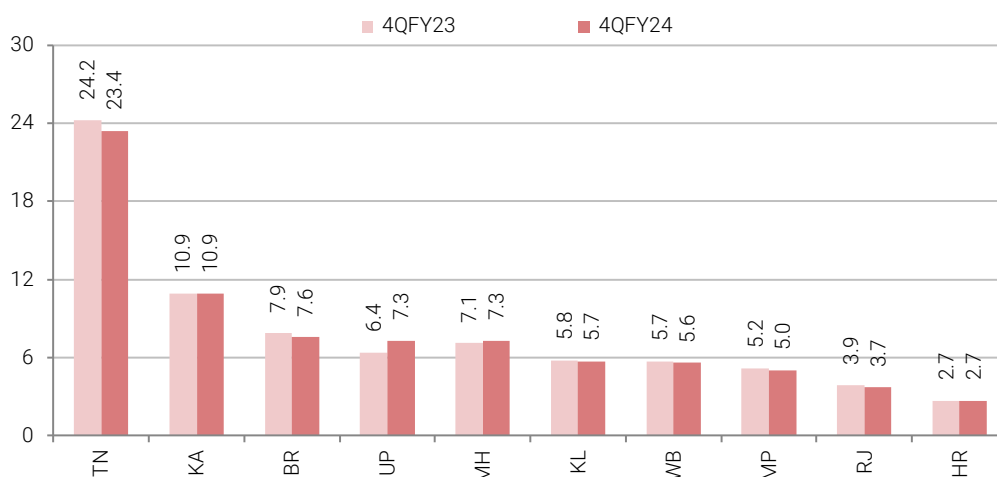
Exhibit 33: Lender category-wise repayment rate and loan growth, March fiscal year-ends (%)

	2019	2020	2021	2022	2023
Repayment rate (%)					
NBFC-MFI	193	114	83	111	143
Banks	284	233	119	92	106
SFB	138	133	53	105	106
AUM growth yoy (%)					
NBFC-MFI	42	7	9	19	32
Banks	59	49	17	(2)	4
SFB	27	25	(3)	14	14

Source: CRIF Highmark

Microfinance borrowers in Bihar and UP have better access to other retail credit as compared with several other states

Exhibit 34: Proportion of live microfinance borrowers with active retail loan exposure (%), March fiscal year-ends (%)



Source: CRIF Highmark

RoA for microfinance industry has been quite volatile, driven by credit cost

Exhibit 35: Profitability (RoA tree) of microfinance industry (% of average assets)

	2018	2019	2020	2021	2022	2023
Interest income	17.7	18.2	17.2	15.7	15.9	17.3
Interest expense	8.9	8.5	7.7	7.4	7.1	7.3
Net interest income	8.8	9.7	9.5	8.3	8.8	10.0
Other income	1.4	2.1	2.0	1.2	1.3	2.3
Total revenues	10.2	11.8	11.5	9.5	10.1	12.3
Operating cost	5.1	5.5	5.1	4.4	4.9	5.4
PPOP	5.1	6.3	6.4	5.1	5.2	6.9
Credit cost	1.4	0.7	1.5	4.6	3.5	3.3
PBT	3.7	5.6	4.9	0.5	1.7	3.6
Tax	1.6	1.6	1.5	0.3	0.6	1.0
RoA	2.1	4.0	3.4	0.2	1.1	2.6

Source: CRISIL Research

Average RoA for the SFB industry has been ~1.5%

Exhibit 36: Profitability (RoA tree) of SFB industry (% of average assets)

	2019	2020	2021	2022	2023E
Interest income	14.1	14.5	12.9	11.8	12.7
Interest expense	6.6	6.7	6.0	5.0	5.1
Net interest income	7.5	7.8	6.9	6.8	7.6
Other income	2.0	1.7	2.1	1.6	1.5
Revenues	9.5	9.5	9.0	8.4	9.1
Operating cost	6.1	5.8	4.9	5.3	5.5
PPOP	3.4	3.7	4.1	3.1	3.6
Provisions	0.9	1.3	2.2	2.3	1.2
PBT	2.5	2.4	1.9	0.8	2.4
RoA	1.7	1.9	1.5	0.7	1.8

Source: CRIF Highmark

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Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5+5% returns over the next 12 months.

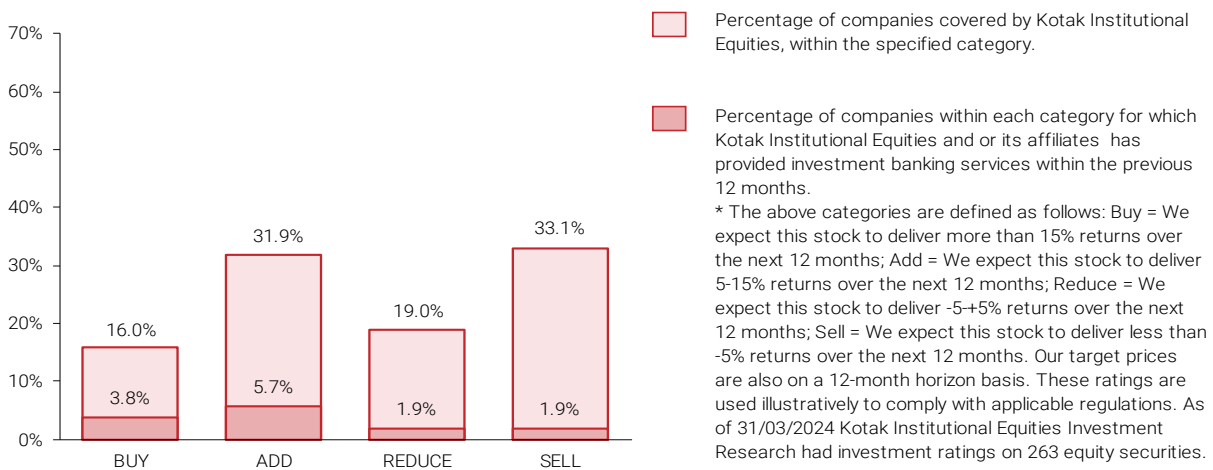
SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our Fair Value estimates are also on a 12-month horizon basis.

Our Ratings System does not take into account short-term volatility in stock prices related to movements in the market. Hence, a particular Rating may not strictly be in accordance with the Rating System at all times.

Distribution of ratings/investment banking relationships

Kotak Institutional Equities Research coverage universe



Source: Kotak Institutional Equities

As of March 31, 2024

Coverage view

The coverage view represents each analyst’s overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: **Attractive, Neutral, Cautious.**

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Corporate Office

Kotak Securities Ltd.
27 BKC, Plot No. C-27, "G Block" Bandra Kurla
Complex, Bandra (E) Mumbai 400 051, India
Tel: +91-22-43360000

Overseas Affiliates

Kotak Mahindra (UK) Ltd
8th Floor, Portoken House
155-157 Minorities, London EC3N 1LS
Tel: +44-20-7977-6900

Kotak Mahindra Inc
PENN 1,1 Pennsylvania Plaza,
Suite 1720, New York, NY 10119, USA
Tel: +1-212-600-8858

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Details of	Contact Person	Address	Contact No.	Email ID
Customer Care/ Complaints	Mr. Ritesh Shah	Kotak Towers, 8th Floor, Building No.21, Infinity Park, Off Western Express Highway, Malad (East), Mumbai, Maharashtra - 400097	18002099393	ks.escalation@kotak.com
Head of Customer Care	Mr. Tabrez Anwar		022-42858208	ks.servicehead@kotak.com
Compliance Officer	Mr. Hiren Thakkar		022-42858484	ks.compliance@kotak.com
CEO	Mr. Shripal Shah		022-42858301	ceo.ks@kotak.com

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