

IMPROVEMENT IN COLLECTIONS

MFIs shrug off asset quality concerns

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Mumbai, December 23

MICROFINANCE INSTITUTIONS (MFIs) are confident that the asset quality stress in the segment will be managed

going ahead owing to robust loan underwriting systems, improvement in loan collections and a rise in economic activity across sectors.

“Currently, most of the new portfolios that are being created are witnessing a better performance with more than 99% credit recoveries. I believe this performance will hold good going forward unless there is a systemic or a social impact on the segment,” Pravash Dash, managing director and chief executive officer, Arthan Finance, said.

“In some of the large MFIs, you will find that digital collec-

tion is happening onwards of 75% of the entire collections that have come in. That is also helping them reduce their overall NPA numbers,” he said.

To put things in perspective, microfinance lenders saw a deterioration in asset quality in several loan buckets in July-September.

The non-performing asset ratio in the portfolio of risk (PAR) of more than 60 days rose to 3.83% as on September 30, from 3.56% as on June 30, data from a press release by non-governmental organisation Sa-Dhan showed.

Similarly, the non-performing asset ratio in the PAR of more than 90 days rose to 2.27% as on September 30, from 1.85% as on June 30. The non-performing asset ratio in the PAR of more than 180 days rose to 11.02% as on September 30, from 10.25% as on June 30.

While bad loans in the micro-loan segment had bal-



ber 30, from 10.25% as on June 30.

At the same time, outstanding loans among microfinance providers rose 20% year-on-year (y-o-y) in the September quarter, suggesting that an inclination to lend remains strong among these lenders.

looned as a result of Covid-led restrictions, bankers took solace in the fact that the portfolios of these lenders have been improving since these restrictions were eased.

“The Covid slippages in the sector were reflective of the overall pan-India situation, but still the slippage was not as steep as in other sectors,” said Divesh Sachdev, founder and chief executive officer, Fusion Micro Finance.

“The bounce-back has been much faster due to the resilience of microfinance clients,” he said.

Broadly, micro lenders bring a ‘high-touch’ approach when engaging with their clients, which helps them keep the asset quality in check. The use of group-based lending model to women borrowers with shorter repayment fre-

quencies and regular touch points through weekly, fortnightly, monthly meetings enables them to strengthen client relationships, said experts.

Since adequate loan loss reserves have already been created by MFIs, write-offs would not affect the sustainability of the institutions, say bankers.

“Traditionally, most of these MFIs were operating on a sale-and-collect model where the same team would bring disbursements and collections,” Dash said. “But now, invariably you will find that there is a separate collection team which is working with delinquent customers. This model is very affordable and profitable for MFIs as they make money even if this team collects ₹15,000 from customers.”

FROM THE FRONT PAGE

Markets fall for fourth day as Covid fear takes over

DATA POINTS AT A GLANCE

■ Advance-decline ratio: Out of 3,655 traded securities, 411 advanced while 3,181 declined and 63 stocks remained unchanged



■ Nifty PSU Bank was the biggest loser, down 6.06%, its steepest fall since Feb 22, 2022

■ 50 firms hit all-time lows, 294 firms hit 52-week low

■ Despite this fall, 64 firms hit 52-week high and 19 firms touched all-time high

■ India VIX up 6.4% to hit a seven week high of 16.16 – a level last seen on Nov 2, 2022

“DOMESTIC EQUITY markets corrected this week reacting to negative global cues. Globally, markets remained volatile as it reacted to reported rise in covid cases in China and a strong US GDP data. Brent crude oil prices continue to trade around the \$80 per barrel mark whereas the US 10-year treasury yield saw some upward movement this week. Covid case count in China and concern about possible recession will continue

to influence the global equity market in the near term,” said Shrikant Chouhan, head of Equity Research (Retail), Kotak Securities.

He added that most sectors reported negative returns this week due to broader weakness in the markets. BSE Pharma index was the bright spot as it gave positive returns led by re-emergence of covid scare.

“Globally, markets were losing their grip post the Fed

announcement hinting at a further rate hike in upcoming meeting. Robust US economic data points such as better-than-expected Q3 GDP, higher consumer confidence along with a healthier jobless claims fuelled the worries flaming the volatility. Additionally, the spike in Covid cases across China dampened the appetite for risk as it instilled fears of another global Covid outbreak,” said Vinod Nair, head of Research at Geojit Financial Services.

Most Asian markets fell after forecast-beating US data fuelled expectations that the Federal Reserve will lift interest rates well into the next year. South Korea’s Kospi fell 1.8% while the Nikkei 225 shed 1%. European stock markets were trading flat in

thin holiday-affected volumes. The US inflation data is due later on Friday.

“The Nifty is firmly in the grip of bears. On the weekly charts, it has

reached the 20-week moving average (17,839), which can provide some relief during the next week. The crucial support is placed at 17,730-17,700 and the immediate resistance stands at 17,930-18,000,” said Jatin Gedia, technical research analyst, Sharekhan by BNP Paribas.

RCap: Hindujas spring a surprise

The letter added: “It is, therefore, patently illegal for the administrator and CoC to entertain any bid which comes after conclusion of the challenge process and in deviation to the financial proposal submitted by such resolution applicant during the challenge process,” a letter by Torrent Group said.

According to the headline

set by the National Company Law Tribunal (NCLT), RCap’s resolution should be closed by January 31. This had also prevented the CoC from extending the e-auction deadline.

Bids for RCap’s assets were reduced to a two-horse race after Oaktree Capital stayed away from the e-auction and the Cosmea Financial and Piramal Group consortium had pulled out earlier on Tuesday, the eve of the e-bidding date.

Lenders had termed Oaktree’s demands as impractical and rejected them earlier.

On December 13, the CoC had hiked the auction base price by nearly 25% to ₹6,500 crore from the initial ₹5,231 crore, which was the highest bid placed by the Cosmea-Piramal consortium.

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