Market Intelligence
& Analytics

CRISIL
An S&P Global Company

3rd May 2024
To,
Belstar Microfinance Limited
No 33, 48th Street,9th Avenue,
Ashok Nagar, Chennai- 600083

Kind Attn.: Mr Muralidharan

Dear Sir/Madam

Re.: **Proposed initial public offering of face value of ₹ 10 each (the "Offer") in India by Belstar Microfinance Limited (the "Company") (the "Issue")**

We refer to your email/request dated 5th March 2024 regarding the content provided to you for your use by CRISIL MI&A as part of your subscription to its Industry Research on the following industry:

- *CRISIL MI&A* – Report on Microfinance Industry in India – For Belstar Microfinance,March 2024("**Report**As requested by you, we accord our no objection and give consent to be named as an "expert" in terms of the Companies Act, 2013, as amended and for including our name as an independent industry research provider, reproducing , extracting or utilizing the report, whether in whole or in part (hereinafter referred to as `**Material'**) ,including references to such Material made from the Report made available to you as part of the above subscription in the draft red herring prospectus ("**DRHP**") to be filed with Securities and Exchange Board of India ("**SEBI**") and the stock exchanges where the Issue is proposed to be listed (the "**Stock Exchanges**"), the red herring prospectus ("**RHP**") and the prospectus ("**Prospectus**") to be filed with the Registrar of Companies, Tamil Nadu at Chennai ("**RoC**"), SEBI and the Stock Exchanges or any other document to be issued or filed in relation to the Offer in India, including any publicity or other materials, marketing materials, statutory advertisements, presentations or press releases prepared by the Company or its advisors, including any international supplement of the foregoing for distribution to investors outside India to be issued or filed and research reports prepared by the Company (collectively "**Offer Documents**") and any other corporate or investor presentations or press releases prepared by the Company in relation to the offer subject to the following:
- Your reproducing the Material on an `as is where is basis' clearly mentioning the document source & date of release. Eg. - Report on Microfinance Industry in India – For Belstar Microfinance,March 2024
- Your ensuring that there is no misrepresentation/modification to our views/opinions and that the Material is not mentioned out of context or misguidingly.
- Your ensuring that the Material consisting of charts/graphs also contains the relevant texts explaining the charts / graphs.
- Your ensuring that the Disclaimer of CRISIL (given below) is also reproduced along with the Report, at the relevant place in the Offer Documents.

You agree and undertake not to misrepresent, make any changes to, obliterate or tamper with the Report or present any part thereof out of context or in violation of applicable laws and regulations, if any. Further, you acknowledge and agree that CRISIL does not accept responsibility for the Offer Documents or any part thereof, except in respect of and to the extent of the Material reproduced or included in the Offer Documents subject to the below stated disclaimer. We confirm that information contained in the Materials have been obtained or derived from publicly available sources, which we consider as reliable and after exercise of reasonable care and diligence by us.

Given below is the disclaimer to be used in the Offer Documents.

"*CRISIL Market Intelligence and Analytics (MI&A) , a division of CRISIL Limited (CRISIL) has taken due care and caution in preparing this report (Report) based on the Information obtained by CRISIL from sources which it considers reliable (Data). This Report is not a recommendation to invest / disinvest in any entity covered in the Report and no part of this Report should be construed as an expert advice or investment advice or any form of investment banking within the meaning of any law or regulation. oWithout limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary permission and/or registration to carry out its business activities in this regard. Belstar Microfinance Limited will be responsible for ensuring compliances and consequences of non-complainces for use of the Report or part thereof outside India. CRISIL MI&A operates independently of, and does not have access to information obtained by CRISIL's Ratings Limited which may, in their regular operations, obtain information of a confidential nature. The views expressed in this Report are that of CRISIL MI&A and not of CRISIL's Ratings Limited . No part of this Report may be published/reproduced in any form without CRISIL's prior written approval*."

The Material may be shared by the Company, with the book running lead manager(s) (("**BRLMs**") and advisers concerned in the relation to the Offer. We also consent to the inclusion of the Report, this letter as well as the engagement letter RU/BD/BELSTAR/INDUSTRYCHAPTER/2023/CH1226 dated 27 september 2023 and Addendum no 1 dated 6th March 2024 executed between us and the Company and as a part of the "*Material Contracts and Documents for Inspection*" in connection with the Offer, which will be available to public for inspection from the date of the RHP until the Bid / Offer Closing Date and have no objection with you sharing the report with any regulatory or judicial authority as required by law or regulation in relation to the Offer or pursuant to a request / order passed by any authority.

Further, we consent to (i) the Report (together with any amendments, modifications, alternations);(ii) this Letter; and (iii) the engagement letter RU/BD/BELSTAR/INDUSTRYCHAPTER/2023/CH1226 dated 27 september 2023 and Addendum no 1 dated 6th March 2024executed between us and the Company being hosted on the website of the Company, being made available to the public on such website and a link to the Report being disclosed in the Offer Documents till the completion of the Offer.

This letter may be shared by the Company, with the Book Running Lead Manager(s) and advisers concerned in relation to the Offer. We authorise you to deliver this letter of consent to SEBI, the Stock Exchanges and RoC pursuant to Sections 26 and 32 of the Companies Act, 2013 and the rules notified thereunder, each as amended or any other legal, governmental or regulatory authorities as may be required in connection with the Offer.

We confirm that we are not and have not been engaged or interested in the formation or promotion or management of the Company and as per our records and information submitted by the Company, we confirm that the Company, its Promoters, Directors, Key Managerial Personnel, Senior Managerial Personnel and BRLMs as stated in **Annexure** are not a 'related party' of CRISIL Limited, as per the definition of 'related party' under the Companies Act, 2013 and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, each as amended, as on the date of this letter. We confirm that we are an independent agency with no relationship with the Company or its current Directors, Promoters, Key Managerial Personnels, Senior Management Personnel or the BRLMs as on date.

We further confirm that we have, where required, obtained requisite consent or duly acknowledged the source(s), as may be required, or other person, in relation to any information used by us in the Material. We further confirm that there are no further consents, permissions, approvals, or intimation required for the quoting or sourcing of information and data or reproduction of content contained in the Material in any Offer Documents.

We represent that our execution, delivery and performance of this consent has been duly authorized by all necessary actions (corporate or otherwise).

This letter may be shared by the Company, with BRLMs, legal counsels and advisers concerned in relation to the Offer.

This letter does not impose any obligation on the Company or the BRLMs to include in any Offer Document all or any part of the information with respect to which consent for disclosure is being granted pursuant to this letter provided that the terms of this letter are complied with.

We agree to keep strictly confidential, the non- public information relating to the Offer until such time that: (A) such disclosure by us is approved by the Company; or (B) such disclosure is required by law or regulation; or (C) such information is already in public domain or comes into public domain through no fault of ours.

All capitalized terms used herein and not specifically defined shall have the same meaning as ascribed to them in the Offer Documents.

For CRISIL Limited

CRISIL Limited Mumbai

Miren Lodha
Senior Director, CRISIL MI&A

Annexure

Name of the Company: Belstar Microfinance Limited

Name of the Promoter(s) of the Company: Kalpanaa Sankar, Sarvam Financial Inclusion Trust and Muthoot Finance Limited.

List of Directors:

S. No	Name of Directors	DIN No.	Designation
1	Dr. Kalpanaa Sankar	01926545	Managing Director
2	Mr. Balasubramanian Balakumaran	09099182	Whole-time Director
4	Mr. Vadakkakara Antony George	01493737	Independent Director
5	Mr Krishnamoorthy Venkataraman	02443410	Independent Director and Chairman
6	Mr. Chinnasamy Ganesan	07615862	Independent Director
7	Ms. Rajeswari Karthigeyan	10051618	Independent Director
8	Mr. Kutticka ttu Rajappan Bijimon	00023071	Non-Executive Director
9	Mr. George Alexander	00018384	Non-Executive Director
10	Mr. George Muthoot Jacob	00018955	Non-Executive Director
11	Mr. Vijay Nallan Chakravarthi	08020248	Non-Executive Director
12	Mr. Siva Chidambaram Vadivel Alagan	08242283	Non-Executive Director

Book Running Lead Managers:
ICICI Securities Limited
4th Floor, ICICI Venture House,
Appasaheb Marathe Marg,
Prabhadevi, Mumbai – 400025
Maharashtra, India

Axis Capital Limited
1st Floor, Axis House, C-2
Wadia International Center,
Pandurang Budhkar Marg
Worli, Mumbai – 400 025,
Maharashtra, India

HDFC Bank Limited
Investment Banking Group,
Unit No. 701, 702 and 702-A,
7th Floor, Tower 2 and 3, One International Centre,
Senapati Bapat Marg,
Prabhadevi, Mumbai – 400013

Maharashtra, India

SBI Capital Markets Limited
1501, 15th Floor, A & B Wing
Parinee Crescenzo
G Block, Bandra Kurla Complex, Bandra (E)
Mumbai 400 051
Maharashtra, India

Advisors:

Legal Counsel to the Company as to Indian Law

AZB & Partners
AZB House,
Peninsula Corporate Park,
Ganpatrao Kadam Marg,
Lower Parel,
Mumbai 400 013,
Maharashtra, India

Legal Counsel to the Book Running Lead Managers as to Indian Law

Trilegal
One World Centre,
10th floor, Tower 2A & 2B,
Senapati Bapat Marg, Lower Parel
Mumbai 400 013
Maharashtra, India

International Legal Counsel to the Book Running Lead Managers

Linklaters Singapore Pte. Ltd.
17-01 One Geoge Street
Singapore 049 145

Report on Microfinance Industry in India

For Belstar Microfinance
March 2024

Overview of Indian Economy

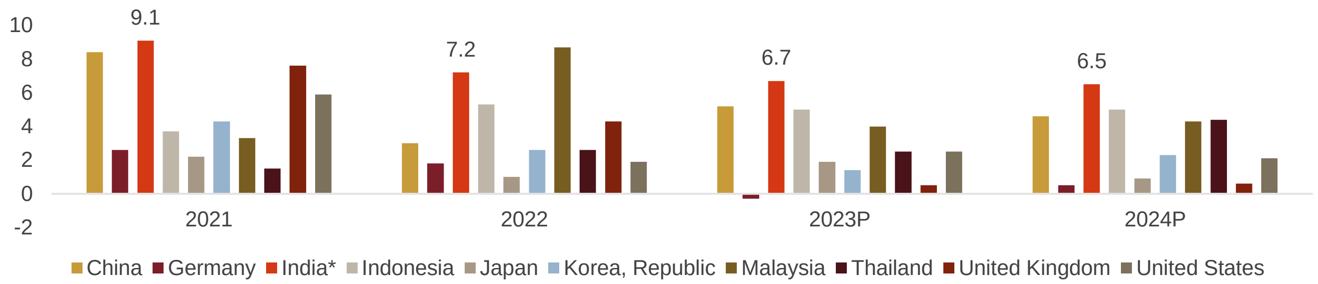
India among fastest-growing economies despite elevated geopolitical tensions and geoeconomic fragmentation

The global economy is witnessing tightening of monetary conditions in most regions. As per the International Monetary Fund (IMF) (*World Economic Outlook Update – January 2024*), global growth prospects are estimated to have seen a marginal increase to 3.1% in CY 2024 from 3.0% in CY 2023, well below the historical (2000-2019) average of 3.8%. Global trade is estimated to have reached a record level of approximately $32 trillion in calendar year 2022 but, is expected to drop below $31 trillion in calendar year 2023. The trade outlook for the calendar year 2024 is expected to be negatively impacted by geopolitical frictions, persisting inflation and lower global demand. Furthermore, deceleration in domestic growth could lead to some softening in imports. The central bank policy rates expected to be elevated to fight inflation amid withdrawal of fiscal support and low underlying productivity growth. Due to restrictive monetary policy, inflation is falling in most regions. As per IMF (World Economic Outlook Update – January 2024), global headline inflation is expected to be around 5.8% in CY 2024 and 4.4% in CY 2025.

IMF, in its January 2024 economic outlook update, revised its India economic growth estimate in real terms for FY24 to 6.7% from previous 6.3% estimate in October 2023, citing momentum from resilient domestic demand. Further, the growth forecast for FY25 also witnessed an increase at 6.5% from the previous 6.3% forecast in October 2023. In contrast, global economic growth is projected at 3.1% in CY 2024 and 3.2% in CY2025, according to the IMF.

CRISIL MI&A expects a moderation in growth to 6.8% in FY25, largely due to cyclical factors. In FY24, global growth is expected to slow and the impact of the Reserve Bank of India's (RBI's) rate hikes on domestic demand will play out. Further, the impact of the escalation of the Middle East conflict and geopolitical tension from the Russia-Ukraine war on energy and logistics costs needs to be monitored.

Year-on-year real GDP change in %

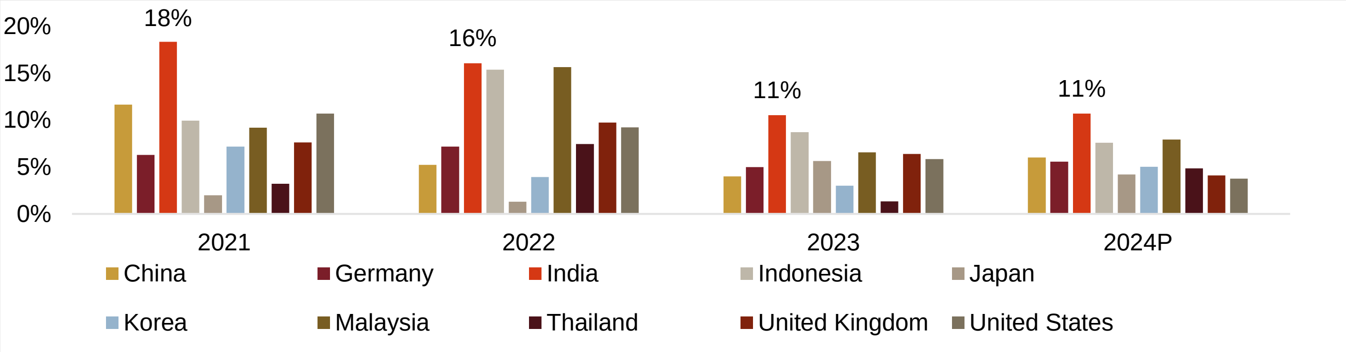


P: Projected
** For India, forecasts are of fiscal years, i.e., 2021 = fiscal 2022; 2022 = fiscal 2023*
Notes:
1) *All forecasts are IMF forecasts*

Source: International Monetary Fund (IMF) World Economic Outlook Update, January 2024, CRISIL MI&A

India's nominal GDP growth has exhibited a remarkable trend of consistently surpassing that of numerous other countries, highlighting its strong economic momentum.

Year-on-year nominal GDP change in %



P: Projected

Notes:

1) *All forecasts are IMF forecasts*
2) *The data is based on current prices in national currency for each country.*

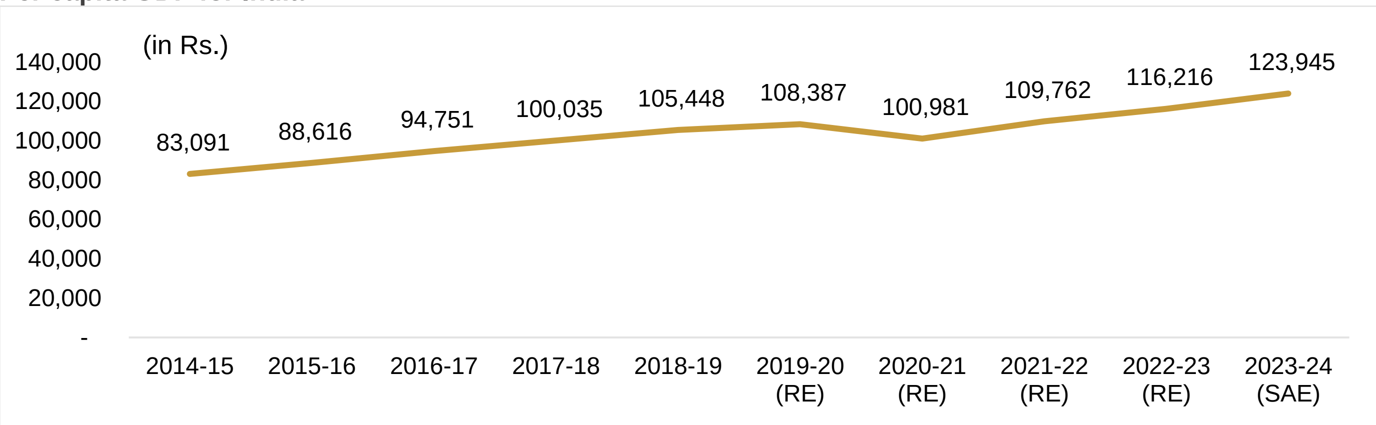
Source: International Monetary Fund (IMF) World Economic Outlook, October 2023, CRISIL MI&A

Per capita GDP increasing

India's per capita gross domestic product (GDP) recorded a 5.46% CAGR over fiscals 2015 to 2020 on real basis, rising from ~Rs 83,000 to ~Rs 108,000. A pandemic-induced nationwide lockdown in the early part of fiscal 2021 led to a decline in income and widespread temporary loss of jobs, pushing per capita GDP lower by 6.8% on-year, to ~Rs 101,000 in fiscal 2021, back to fiscal 2018-19 levels.

On this low pandemic-impacted base, per capita GDP recorded a ~9% growth in fiscal 2022, rising to Rs 109,700, thus crossing the pre-Covid-19 level of fiscal 2020. In fiscal 2024, per capita GDP is estimated to have risen to an all-time high of Rs 123,945 as economy registered consecutive two years of robust growth.

Per capita GDP for India



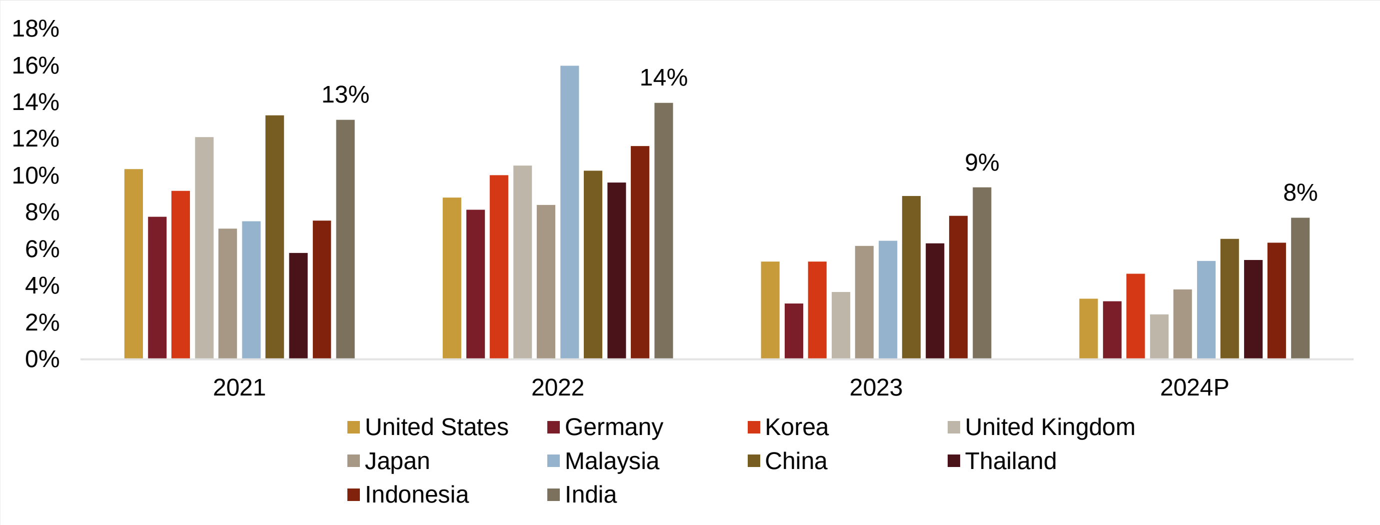
RE: Revised estimate; SAE: Second Advance Estimates

Note: Based on constant prices, 2011-12 base.

Source: National Account Statistics, CRISIL MI&A

With GDP growth gaining pace, CRISIL MI&A forecasts per capita income will further gradually improve, boosting domestic consumption over the medium term. As per IMF estimates, India's per capita income (at current prices) is expected to grow annually at over 8% over the next two years.

Y-o-y growth in per capita GDP at current prices (in USD)

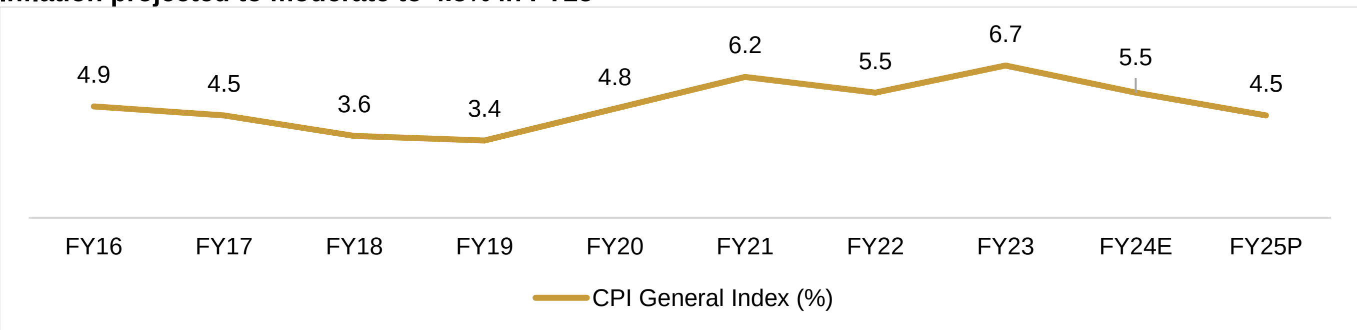


Note: GDP per capita at current prices in dollars; P – Projected
Source: IMF World Economic Outlook (October 2023 update), CRISIL MI&A

Consumer Price Index ("CPI") inflation to average at 4.5% in Fiscal 2025

Inflation based on the Consumer Price Index (CPI) stayed put at 5.1% in February 2024. Core inflation inched down to 3.4% in February 2024 from 3.5% in January 2024. Falling fuel inflation, supported by government measures to reduce cooking gas prices has helped but so has easing global raw material prices. Fuel inflation remained negative for the sixth straight month in February 2024, falling to 0.8% compared to -0.6% in January 2024. CRISIL MI&A expects the CPI inflation for fiscal 2025 to average 4.5%. Cooling domestic demand, assumption of a normal monsoon along with a high base for food inflation should help moderate inflation in FY25. A non-inflationary budget that focusses on asset-creation rather than direct cash support also bodes well for core inflation. However, an unusual weather event, if at all, could reverse the easing. Similarly, recent developments in the Red Sea and a fading low base effect for commodity prices could put some upside pressure on core inflation and would need monitoring.

Inflation projected to moderate to 4.5% in FY25



Note: E = Estimated; P = Projected, Source: CRISIL MI&A

Gross Domestic Product (GDP): Review and outlook

India to remain one of the fastest growing economies amid global slowdowns

As the Indian economy battled the four Cs — COVID-19, conflict (geopolitical), climate change, and central bank actions — it has shown a fair degree of resilience. Despite global slowdown, tightening of monetary conditions, and high inflation, India recorded a higher economic growth rate compared with many peer economies owing to its relatively strong local consumption, lower reliance on global demand, and continued resilience to external blows.

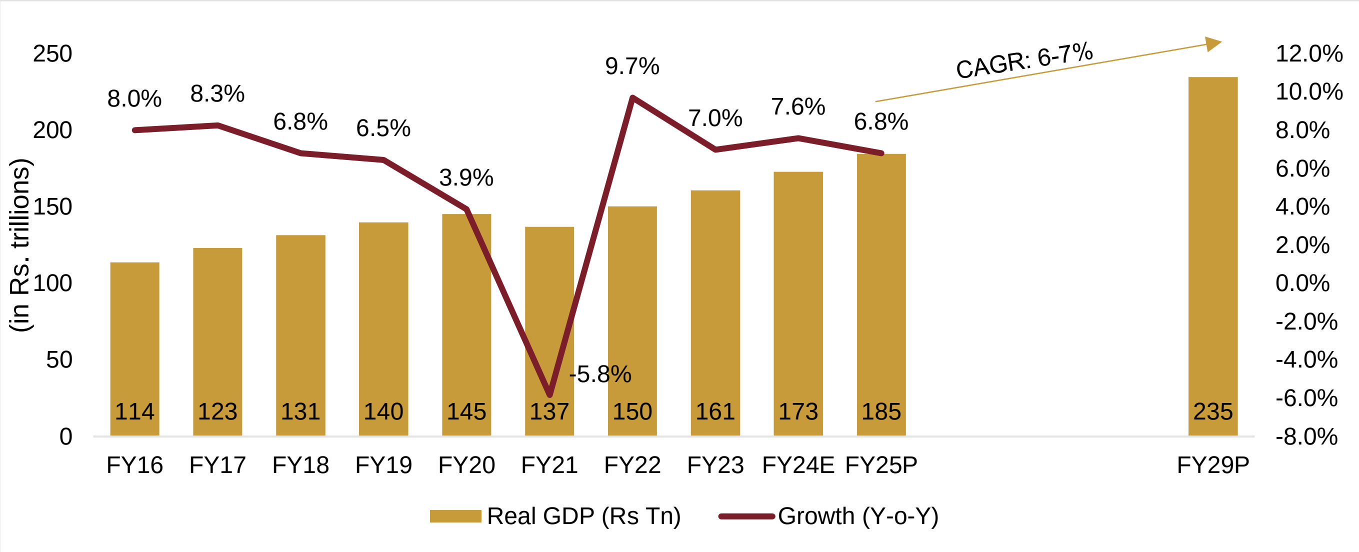
India's gross domestic product growth (GDP) exceeded expectations yet again when the real GDP grew by 8.4% in Q3FY24 after growing by 8.1% in Q2FY24. National Statistics Office (NSO) now pegs Fiscal 2024 growth rate at 7.6% as compared to previous estimate of 7.3%. However, the gross value added (GVA) estimate, measuring GDP from a production approach was unchanged at 6.9% as per previous estimates. Sharp rise in net tax growth was a key factor in the upward revision of GDP growth causing the divergence between GDP and GVA. Based on estimates, real GDP growth in Q4FY24 is estimated to have slowed down to 5.9%. Growth in Fiscal 2024 has been driven by fixed investments (10.2% growth), while private consumption at 3.0% trailed overall GDP growth. On the supply side, industry grew the fastest at 9% while agriculture and services lagged growth.

Some of the factors which have spurred post pandemic recovery are:

- Higher government spending on infrastructure creation and welfare schemes: Government's policies and schemes such as Production-linked incentives, Atmanirbhar Bharat, Emergency credit linked guarantee scheme (ECLGS), etc. promoted growth of the economy. Further, increased capital expenditure primarily for railways, roads and highways, housing and defence services to push the economic growth.
- Global Demand: Buoyant post-pandemic global demand lifted exports from the manufacturing sector, information technology (IT)/IT-enabled services (ITeS), and other professional services. Strong export performance of fiscal 2022 continued till first half of fiscal 2023.
- Global liquidity: Amidst increased global uncertainty, foreign inflows increased driven by structural reforms and measures improving the ease of doing business which made India one of the attractive FDI destinations.
- Policy interventions: RBI reduced repo rates by 115 basis points from 5.15% in February 2020 to 4.00% in May 2020 to increase liquidity in the system and support banks and NBFCs to increase credit growth. Further, there were multiple fiscal packages which were announced by the government in the form of cash transfer to senior citizens, women Jan Dhan account holders, farmers, etc., credit facility for street vendors, collateral free lending programme for MSMEs with 100% credit guarantee, partial credit guarantee scheme for public sector banks on borrowings of NBFCs, HFCs, and MFIs, increase in borrowing limits of state governments for FY21, etc. All these interventions ensured economic growth.
- Growth in agricultural production: Despite having uneven rainfall for the past years, agricultural production and agricultural exports in India have been on a rise.

CRISIL MI&A expects a moderation in growth to 6.8% in FY25, largely due to cyclical factors. In FY24, global growth is estimated to have slowed down with the impact of the Reserve Bank of India's (RBI's) rate hikes on domestic demand playing out. Further, the impact of the escalation of the Middle East conflict and geopolitical tension from the Russia-Ukraine war on energy and logistics costs needs to be monitored.

India's economy to grow at 6.8% in fiscal 2025



Note: E = Estimated, P = Projected; GDP growth is based on constant prices, GDP growth till FY23 is actuals. GDP Estimates for fiscals 2023-2024 is based on NSO Estimates and 2024-2025 is projected based on CRISIL MI&A estimates; and that for fiscals 2025-2029 based on IMF estimates; Source: NSO, CRISIL MI&A, IMF (World Economic Outlook)

Macroeconomic outlook for Fiscal 2025

Macro variables	FY24E	FY25P	Rationale for outlook
Real GDP growth (year-on-year)	7.6%^	6.8%	Slowing global growth is likely to weaken India's exports, while peak impact of past rate hikes and lower fiscal impulse could temper domestic demand. Despite the lower forecast, India continuous to grow at the highest rate in world propelled by budgetary support to capital expenditure and rural incomes to support growth.
Consumer price index (CPI) inflation (year-on-year)	5.5%	4.5%	Lower commodity prices, base effect, and cooling off domestic demand is likely to help in moderating inflation in FY25.
10-year Government security yield (Fiscal-end)	7.0%	6.8%	A moderate reduction in gross market borrowings to lower pressures on yields in FY25. This, coupled with lower inflation, is likely to moderate yields in FY25. India's inclusion in the JP Morgan Emerging Market Bond Index is favorable for capital flows into government debt.
CAD (Current account balance)/GDP (%)	-1.0%	-1.0%	Softer crude oil prices and moderation in domestic growth will keep deficit in check despite tepid exports of exports. Alongside, robust services trade surplus and healthy remittances will keep the CAD in check.
Rs/$ (March average)	83.0	83.5	Lower current account deficit (CAD) and healthy foreign portfolio flows into debt amid a favorable domestic macro environment will support the rupee.

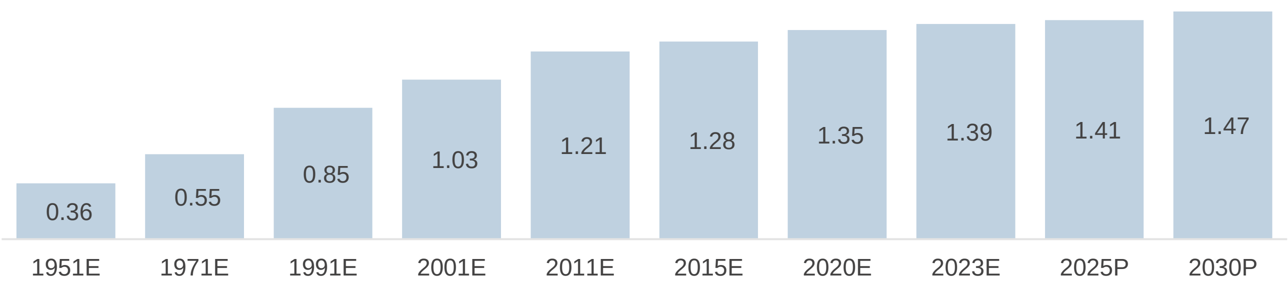
Note: E- Estimated, P – Projected, (^) NSO Second Advance Estimate
Source: Reserve Bank of India (RBI), National Statistics Office (NSO), CRISIL MI&A

Indigenous advantages to lift economic growth rate in longer term

Growing population - An asset to the economy

As per the report published (in July 2020) by the National Population Commission, Ministry of Health and Family Welfare, India's population in 2011 was 121 crores, comprising ~24.6 crore households. The decadal growth rate during 2001-2011 stood at 17%. This is estimated to have fallen to 12% during 2011-2021 and is likely to decline further to 9% during 2021-2031. However, with the country's population in 2030 estimated at 147 crores, India will continue to be a major opportunity market from a demand perspective.

India's population growth trajectory (billion)



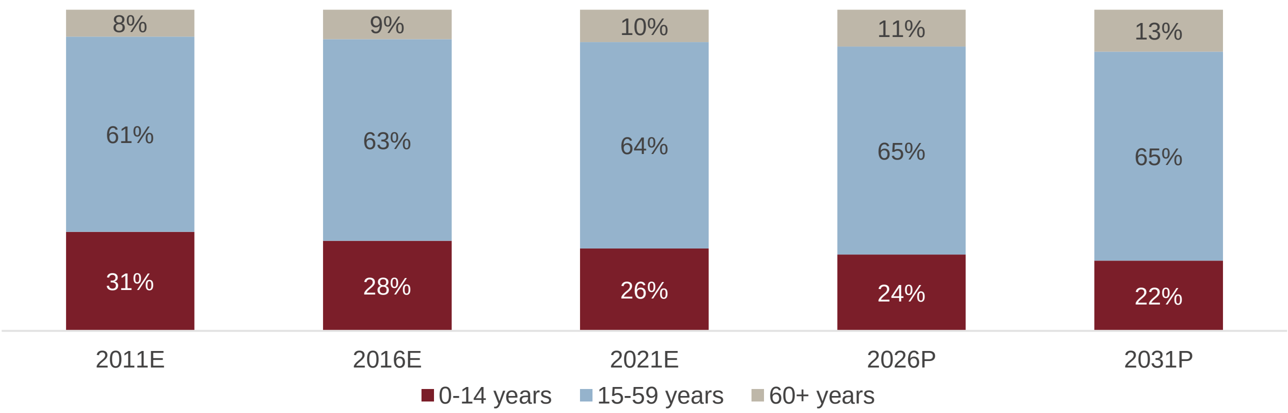
Note: P – Projected, E – Estimates

Source: Census of India 2011, Ministry of Health and Family Welfare, CRISIL MI&A

Favourable demographics

India has one of the world's largest youth populations, with a median age of 28 years. About 90% of Indians are below 60 years of age. It is estimated that 64% of this population is aged between 15 and 59 years. CRISIL MI&A expects that the large share of working population, coupled with rapid urbanisation and rising affluence, will propel growth in the economy.

India's demographic division (share of different age groups in population)



Note: P – Projected, E – Estimates

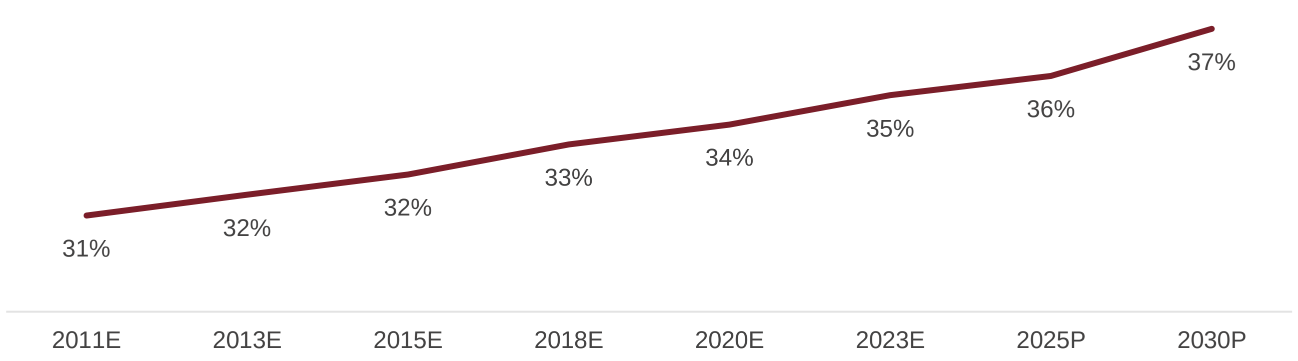
Source: Census of India 2011, Ministry of Health and Family Welfare, CRISIL MI&A

Urbanisation on the rise

Urbanisation is a key growth driver for India, supporting faster infrastructure development, job creation, development of modern consumer services, and the city's ability to mobilise savings. The share of urban population in total population has been rising consistently and is expected to reach 35% by 2023 from 31% in 2011, spurring demand.

Urban consumption in India has shown signs of improvement, and given the country's favourable demographics, coupled with rising disposable incomes, the trend is likely to continue and help domestic economic growth.

Urbanisation population as a percentage of total population in India



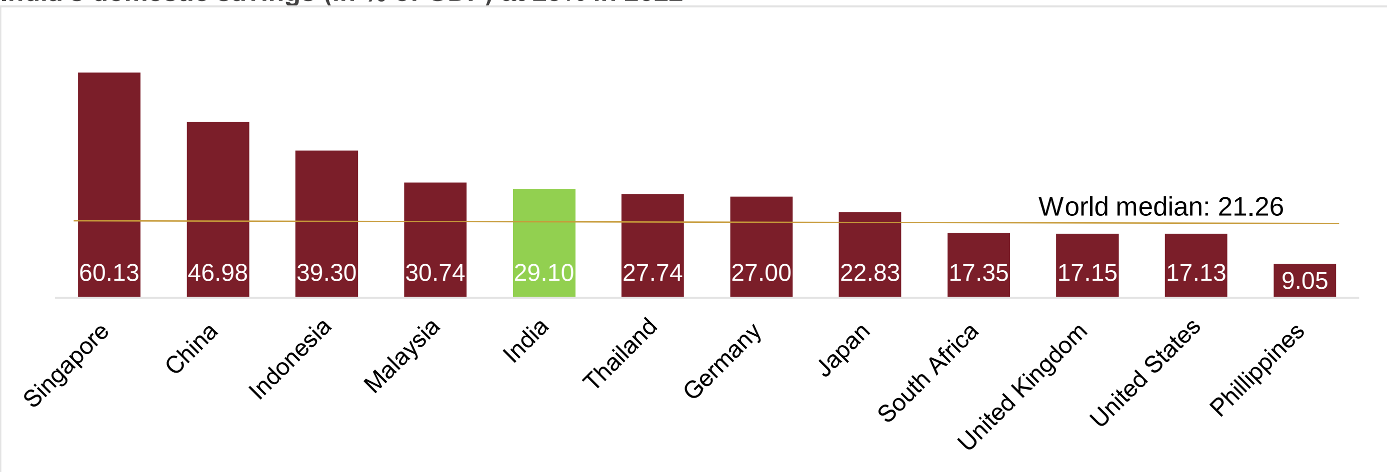
Note: P – Projected, E – Estimates

Source: Census of India 2011, Ministry of Health and Family Welfare, CRISIL MI&A

Household savings decreasing yet higher than world average

According to the World Bank, the savings rate, or the proportion of gross domestic savings (GDS) in India's GDP has trended downward in the past decade. India's GDS peaked at 34.4% of the GDP in fiscal 2007 and dipped to 32.8% in fiscal 2008. This was largely on account of a sharp slowdown in public savings, with the government resorting to fiscal stimulus to address the external shock from the Global Financial Crisis. However, India's domestic savings is still higher at 28.96% at the end of 2022, compared with the world average of 28.2% at the end of 2021.

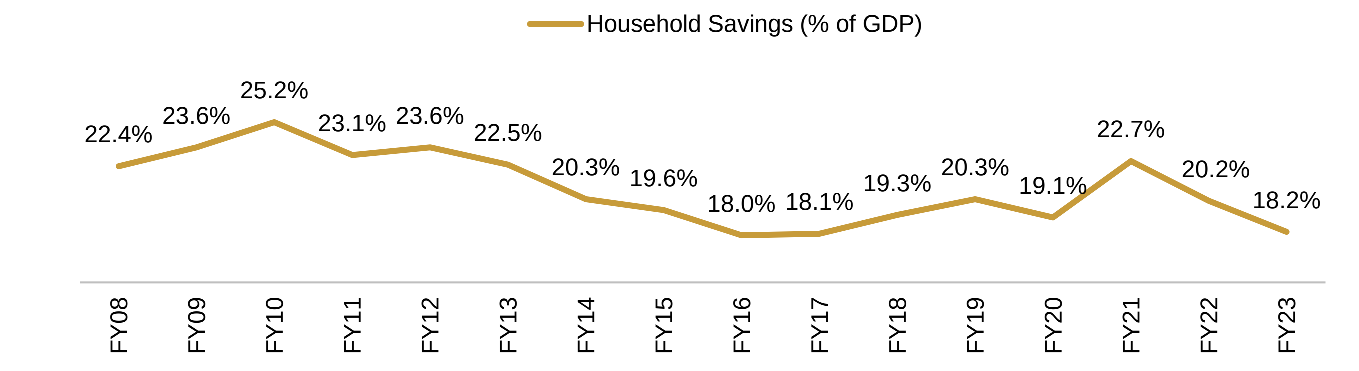
India's domestic savings (in % of GDP) at 29% in 2022



Note: The savings rate is in %

Source: World Bank, CRISIL MI&A

Household savings as a percentage of GDP increased to 22.7% in FY21 and declined subsequently in FY22 and FY23



Source: Ministry of Statistics and Programme Implementation (MOSPI), RBI, CRISIL MI&A

Gross domestic savings trend

Parameters (Rs. Billion)	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
GDS	40,200	42,823	48,251	54,807	60,004	59,411	57,869	73,631	81,500
Household sector savings (net financial savings, savings in physical assets and in the form of gold and silver ornaments)	24,391	24,749	27,871	32,966	38,446	38,452	45,056	47,423	49,632
Household sector savings as proportion of GDS (%)	61%	58%	58%	60%	64%	65%	78%	64%	61%
Gross financial savings	12,572	14,962	16,147	20,564	22,637	23,246	30,670	26,120	29,736
Financial liabilities	3,768	3,854	4,686	7,507	7,712	7,747	7,374	8,993	15,572
Savings in physical assets	15,131	13,176	15,946	19,442	23,095	22,522	21,355	29,683	34,834
Savings in physical assets as a proportion of GDS (%)	38%	31%	33%	35%	38%	38%	37%	40%	43%
Savings in the form of gold and silver ornaments	456	465	465	467	427	431	405	613	634

Note: The data is for financial year ending March; Gross financial savings of the household sector include gross financial savings of the quasi-corporate sector
Source: MOSPI, CRISIL MI&A

Structural reforms that will drive future growth

While India has a structural advantage on account of its young workforce, improving consumption pattern and increasing urbanisation, the nation’s long-term growth is expected to be supported by the following government initiatives:

- Focus on infrastructure investments rather than boosting consumption to enhance the productive capacity of the economy
- The Production Linked Incentive (PLI) scheme which aims to boost local manufacturing by providing volume-linked incentives to manufacturers in specified sectors
- Policies aimed at greater formalisation of the economy that will accelerate per capita income growth
- Adoption of digital technology

- The announcement of the National Infrastructure Pipeline to provide better infrastructure for all sectors, enhance ease of living of citizens and make growth more inclusive
- The National Monetisation Policy of operating public infrastructure assets acts as a key means for sustainable infrastructure financing
- Inclusion of a larger share of population under health insurance as part of the Ayushman Bharat scheme
- Initiatives launched by the Indian government to promote financial inclusion such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and the Pradhan Mantri Suraksha Bima Yojana (PMSBY)

Positive government measures to aid economic growth for India

Going forward, CRISIL MI&A expects India's GDP growth to moderate to 6.8% in Fiscal 2025 from better than expected growth of 7.6% in Fiscal 2024, on account of high interest rates and lower fiscal impulse (from reduction in fiscal deficit to 5.1% of the GDP), tempering demand and normalising of the net tax impact as witnessed in Fiscal 2024.

CRISIL MI&A expects this growth to be supported by the following factors also on account of the impact of the 2023-24 Union Budget and 2024-25 Interim Budget:

- The Interim Budget of 2024-25 announced a 17.7% y-o-y growth towards capital expenditure in the next fiscal with infrastructure sectors seeing an increase in allocations. The increase in aggregate budgetary support for infrastructure by 17% to reach Rs. 12.5 trillion lays emphasis on the broad plan for infrastructure spending by the Government that is expected to give a push to economic growth. The railways capex was increased by 15% over FY23 and capex for roads and highways was increased by 25% over FY23. These capex initiatives are expected to drive economic growth. A total sum of Rs. 2.65 trillion is budgeted towards railways capital expenditure in the FY25 interim budget, a 2% increase from previous year's revised estimates.
- Budgetary support towards rural areas through rural employment and incomes will support demand. Aggregate spends on the four key schemes – Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), Pradhan Mantri Awas Yojana (Gramin) (PMAY-G), Pradhan Mantri Gram Sadak Yojana (PMGSY) and Pradhan Mantri Kisan Samman Nidhi (PM-Kisan) are budgeted to increase 13.2% year-on-year in FY25 after a ~10% drop in each of the previous two fiscals.
- One key area of announcement was towards support in technological advancement that would serve as growth driver to enable financial inclusion, ensure better availability of customer data, enable faster and secure sharing of documents with financial institutions and increase rural penetration. This in turn is expected lead to improving efficiency in terms of operating and credit cost for financial institutions.

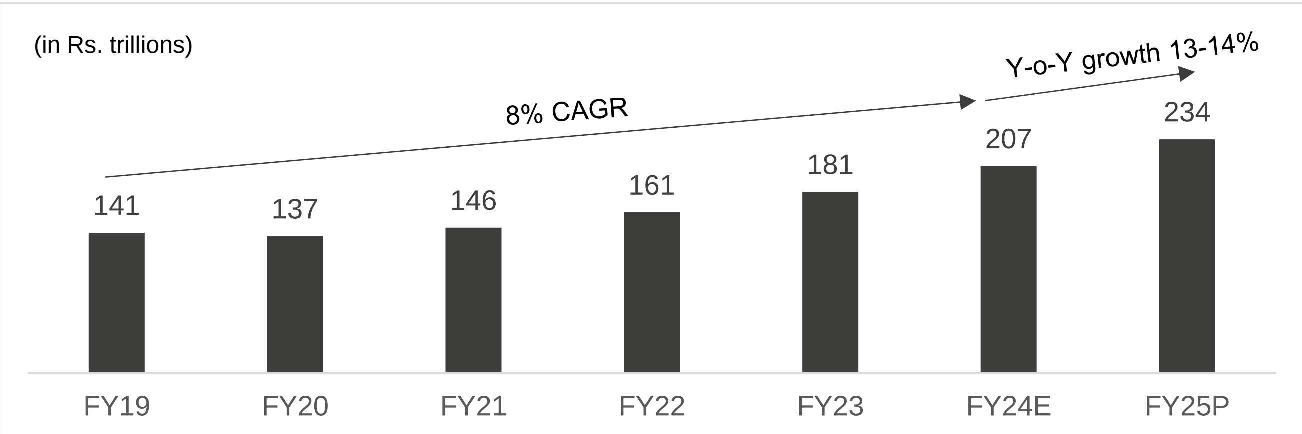
Overall Credit scenario in India

Systemic credit to grow at 13%-14% CAGR between Fiscal 2024 and Fiscal 2025

Corporate credit determines the growth in overall credit as it accounts for nearly two-third of systemic credit. The slowdown in economic activity, coupled with heightened risk aversion among lenders, tightened the overall credit growth to approximately ~6.3% in FY21. In FY22, the systemic credit growth picked up steam despite the second wave of COVID-19 hurting economic growth in the first quarter of the fiscal. Retail credit has been a strong driving force behind the growth in overall credit. Retail credit witnessed a growth of 10% year on year during FY21 and 14% during FY22, while non-retail credit grew at a slower pace of 3% and 9% during FY21 and FY22.

The systemic credit grew at 10.5% in FY22 to reach approximately Rs. 161 trillion. The growth was mainly driven by the budgetary push towards investments, pick-up in private investment, and business activities. In FY23, Systemic credit showed strong growth on back of pent-up retail demand from sectors like housing and vehicle and strong credit demand from NBFCs and trade segment. Further in Fiscal 2024 and Fiscal 2025, retail segment is expected to continue leading credit growth. High growth was seen in the unsecured book of the lenders during the first half of Fiscal 2024. CRISIL MI&A projects systemic credit to grow at 13-14% in Fiscal 2025. However, the impact of RBI circular on consumer loans could impact credit growth in the near future.

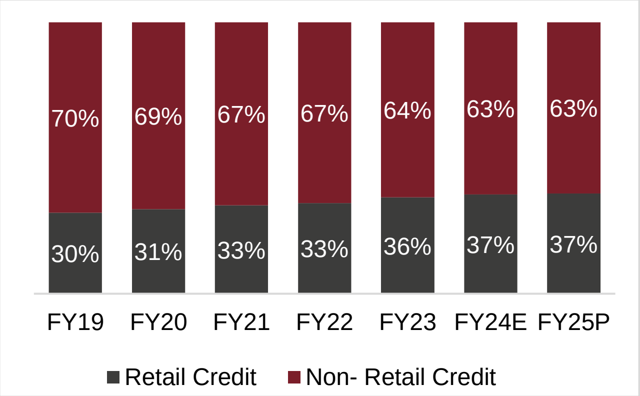
Systemic credit to grow by 13-14% between fiscal 2024 & fiscal 2025



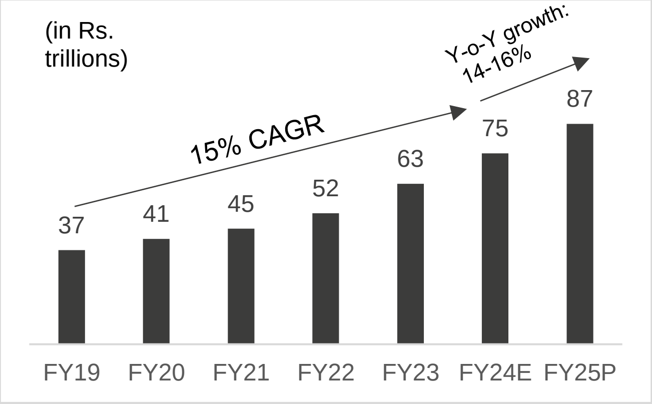
Note: P: Projected, E: Estimated, Systemic credit includes domestic banking credit (after deduction of bank lending to NBFC), NBFC credit, commercial papers, external borrowings, corporate bonds excluding those issued by Banks and NBFC; Source: RBI, Company Reports, CRISIL MI&A

The retail credit (includes Housing finance, Vehicle Financing, Gold Loans, Education Loans, Consumer Durables, Personal loans, credit cards and microfinance) in India stood at Rs. 75 trillion as of FY24 which rapidly grew at a CAGR of 15% between Fiscals 2019 and 2024. Retail credit growth in FY20 was around approximately 12% which came down to approximately 10% in FY21. However, post-pandemic, retail credit growth revived back to reach approximately 14% in FY22. In FY23, retail credit has grown at 22% on a year on year basis. Retail credit is estimated to have grown at 18-19% in Fiscal 2024. With the merger of HDFC Ltd. with HDFC Bank, retail housing is estimated to have grown in steady double digits. Growth in retail credit was supported by steady demand in underlying assets like housing, auto and growth in credit card and personal loans growth driven by consumption. The Indian retail credit market has grown at a strong pace over the last few years and is expected to grow further at 14-16% in Fiscal 2025 with risks evenly balanced. Moreover, the increasing demand and positive sentiments in the Indian retail credit market, presents an opportunity for both banks and NBFCs to broaden their investor base. However, RBI's risk weight circular, sustained inflation and increase in lending rates could play spoilsport in the retail credit growth.

Retail segment is estimated to account for 37% of overall systemic credit as of Fiscal 2025



Retail credit growth to continue a strong footing in Fiscal 2025



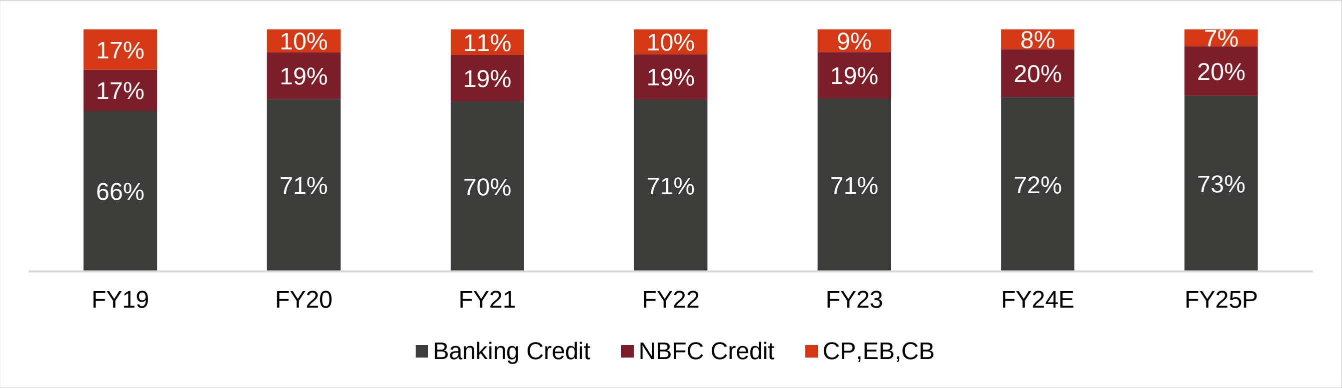
Note: P – Projected, E: Estimated.
Source: RBI, CRISIL MI&A

Growth of retail asset classes portfolio

Asset class (Rs trillion)	FY20	FY21	FY22	FY23	FY24E	FY26P	CAGR (FY20-FY24E)	CAGR (FY24E -FY26)
Consumer durables	0.4	0.4	0.5	0.6	0.8-1.0	1-2	18%	23-25%
Housing loans	20.4	21.9	24.0	28.9	33-34	43-44	13%	12-14%
Personal loans	5.4	6.3	7.7	10.3	12-14	15-17	24%	11-13%
Gold loans	3.1	4.5	5.1	6.2	7-8	9-10	24%	15-17%
MF loans	2.4	2.6	2.9	3.5	4-5	5-6	15%	16-18%

Note: P – Projected, E: Estimated; Source: CRISIL MI&A

Share of NBFC credit in overall systemic credit to reach 20% in FY25



Note: P: Projected; Systemic credit includes domestic banking credit, NBFC credit, commercial papers (CP), external borrowings (EB), corporate bonds (CB) excluding those issued by Banks and NBFC; Source: RBI, Company Reports, CRISIL MI&A

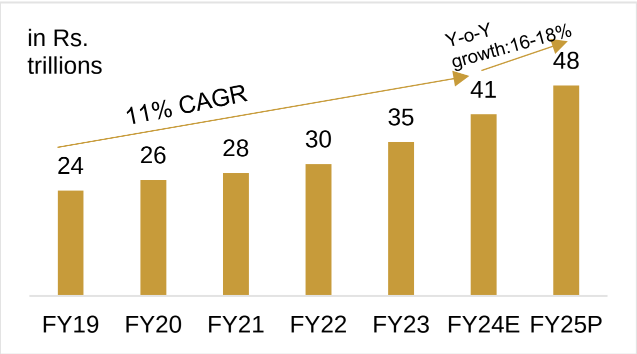
Outlook of Overall NBFCs

NBFC credit to grow faster than systemic credit

Over the past decade, banking credit growth lagged systemic credit growth for several years as NBFCs grew at a much faster pace. NBFCs clocked 15% CAGR in credit, between fiscals 2016 and 2018, mainly due to aggressive expansion of their footprint and entry of numerous new players across India. This also coincided with a decline in bank credit growth. However, the NBFC sector faced headwinds after the IL&FS default in September 2018, followed by a liquidity crisis. Later, funding challenges and the Covid-19 pandemic added to the pressures, curbing growth. Banks benefitted in this milieu and used their surplus liquidity to gain market share in terms of credit in a few key segments.

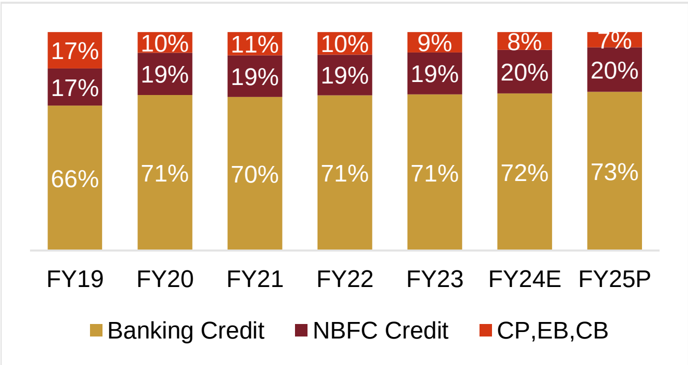
During fiscals 2019 to 2024, NBFC credit is estimated to have witnessed a growth at CAGR ~11%, while NBFC retail credit is estimated to have grown at ~14% CAGR over the same time-period. NBFCs have shown remarkable resilience and gained importance in the financial sector ecosystem, growing from less than Rs 2 trillion AUM at the turn of the century to Rs. 41 trillion at the end of Fiscal 2024. Going forward, CRISIL MI&A expects NBFC credit to grow at 16-18% in Fiscal 2025, with microfinancing and vehicle financing to lead the growth in retail segment, and MSME loans in the wholesale segment continuing to be the primary drivers. Rapid revival in the economy is expected to drive consumer demand in Fiscal 2025, leading to healthy growth in NBFCs.

NBFC credit to grow at 16-18% between fiscal 2024 and 2025



Note: P = Projected; E = Estimated; Others include Commercial papers, External borrowings, corporate bonds excluding those issued by Banks and NBFCs
Source: RBI, Company reports, CRISIL MI&A

Share of NBFC Credit in overall systemic Credit to reach 20% in fiscal 2025

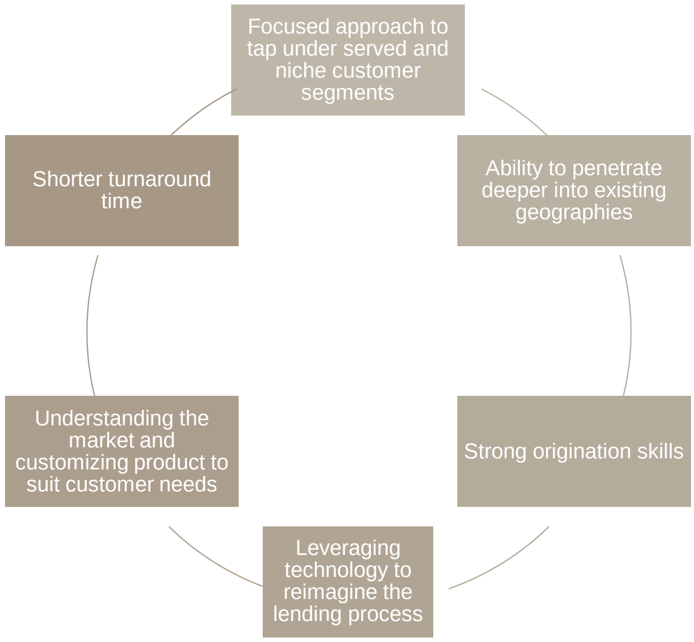


Note: P: Projected; E = Estimated; Systemic credit includes domestic banking credit, NBFC credit, commercial papers, external borrowings, corporate bonds excluding those issued by Banks and NBFCs
Source: RBI, Company Reports, CRISIL MI&A

NBFC's share is estimated to have increased from 12% in Fiscal 2008 to 20% in Fiscal 2024 and projected to be remained stable in fiscal 2025. CRISIL MI&A believes that NBFCs will remain a force to reckon within the Indian credit landscape, given their inherent strength of providing last-mile funding and catering to customer segments that are not catered by banks.

Lending to MSMEs has gained traction over the past three fiscals, with a focus on unsecured business loans amid higher competition from banks in the traditional segments. Heavy competition from banks and impact on asset quality of gold loans led to a slowdown in credit flow for gold finance NBFCs, resulting in low growth last fiscal. Overall, consolidation in certain corporate groups and other corporate activities indicate buoyancy in the NBFC space and expectations of healthy credit growth.

Growth of NBFCs reflects the customer value proposition offered by them



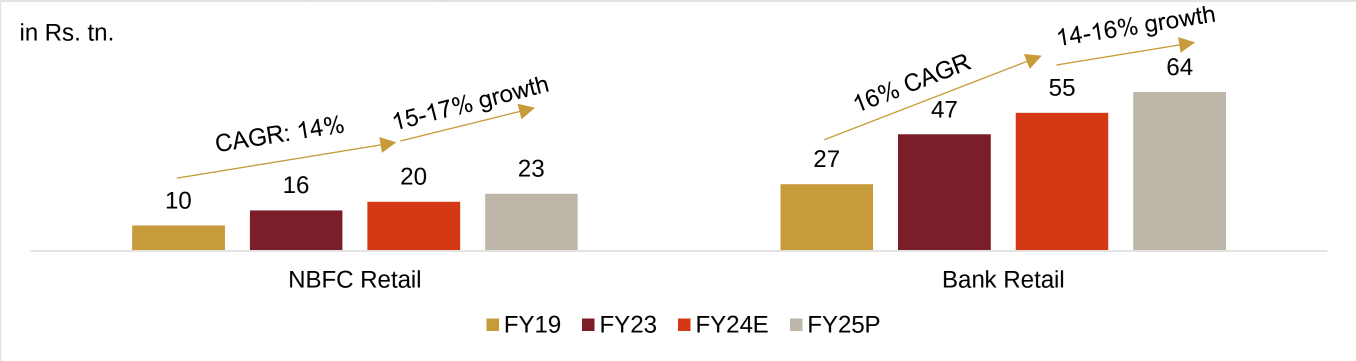
Source: CRISIL MI&A

Retail segment to support NBFCs overall credit growth

The NBFC sector has, over the years, evolved considerably in terms of size, operations, technological sophistication, and entry into newer areas of financial services and products. The number of NBFCs as well as the size of the sector have grown significantly, with a number of players with heterogeneous business models starting operations. The increasing penetration of neo-banking, digital authentication, and mobile phone usage as well as mobile internet has resulted in the modularization of financial services, particularly credit.

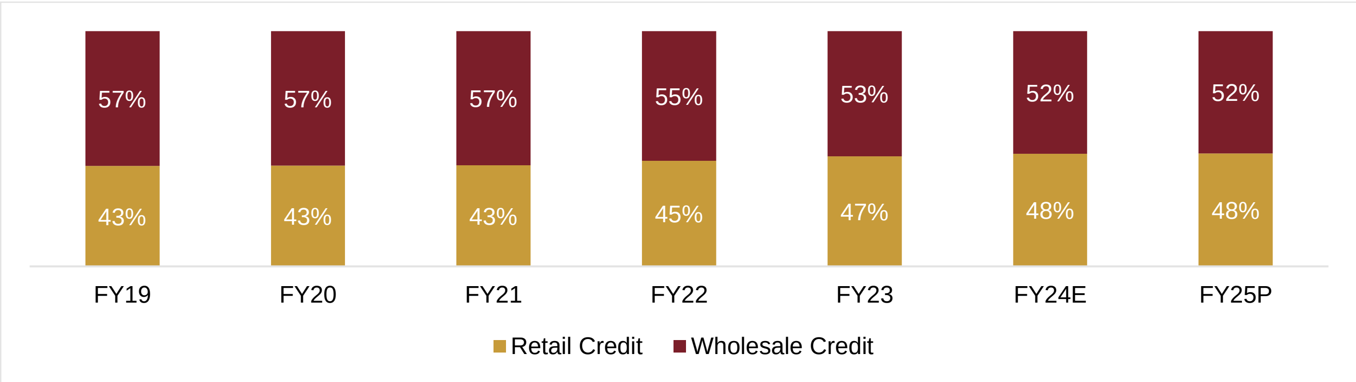
Overall NBFC credit during fiscals 2019 to 2024, is estimated to have witnessed a CAGR of ~11% which was majorly led by retail segment which accounts for ~48% of overall NBFC credit and estimated to have witnessed a CAGR of ~14%, while NBFC non-retail credit is estimated to have witnessed a growth of ~9% during the same time period. Going forward, growth in the NBFC retail segment is expected at 15-17% in Fiscal 2025 which will support overall NBFC credit growth, with continued focus on the retail segment and multiple players announcing plans to reduce wholesale exposure. The retail segment's market share is expected to remain stable at 48% in Fiscal 2025. The moderation of growth of NBFC retail portfolio is on account of normalisation in unsecured segment which had witnessed exuberant growth in the past and impact of RBI's risk weight circular. Between Fiscal 2018 and Fiscal 2020, unsecured portion of the NBFC book logged a CAGR of 43%. Growth dipped in Fiscal 2021 on account of pandemic as NBFCs focussed on the secured segment where the loss given default was low. After the pandemic, NBFCs focussed on targeting New to Credit (NTC) customers focussing on Tier 2 and lower tier cities. Unsecured segment of NBFCs grew at a CAGR of more than 40% post pandemic as compared to 10-11% growth in secured lending, as a part of NBFC's retail portfolio. The emergence of fintech players also played a key role in growth of unsecured lending with their new lending practices and catering to segments that traditional financial institutions might not reach.

NBFCs retail credit is expected to grow at 15% - 17% in Fiscal 2025



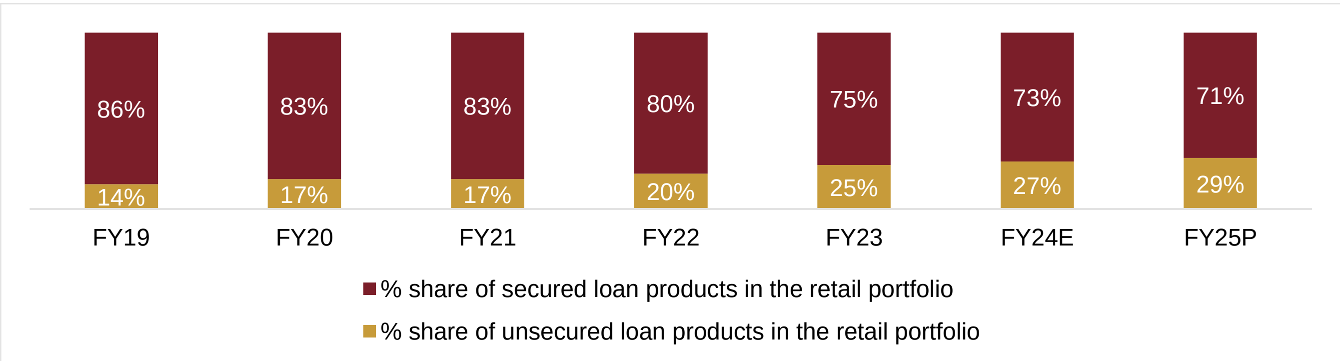
Note: P = Projected; Retail credit above includes housing finance, vehicle finance, microfinance, gold loans, construction equipment finance, consumer durable finance, MSME loans and education loans; Source: Company reports, RBI, CRISIL MI&A

Share of retail credit in total NBFC credit to continue to grow



Note: P = Projected, E: Estimated; Retail credit above includes housing finance, auto finance, microfinance, gold loans, consumer durable finance, MSME loans, education loans & other smaller segments
Source: Company reports, CRISIL MI&A

Secured segment to lose further ground as unsecured segment growth continues to remain robust

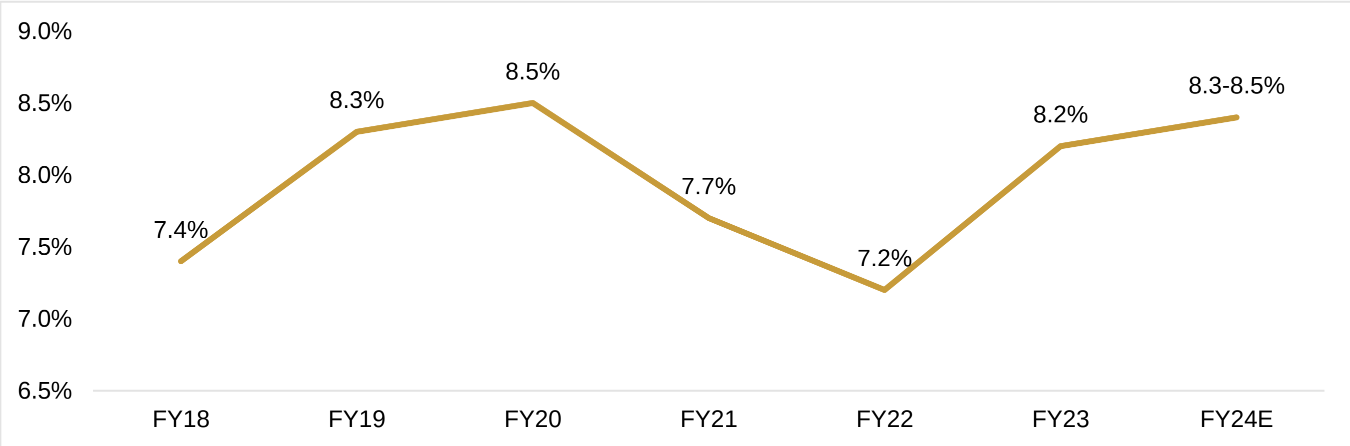


Note: For calculation of unsecured retail loans for NBFCs, segments such as personal loans, microfinance loans, consumer durables loans and a share of education loans are considered
Source: RBI, NHB, MFIN, CRISIL MI&A

NBFC borrowing cost estimated to have increased in fiscal 2024

On account of increased unsecured lending in recent times by NBFCs, RBI introduced the risk weights circular as a deterrent to the growth of unsecured loans. As per the circular, the risk weights of all consumer loans (extended by both banks and NBFCs) was increased excluding housing loans, vehicle, education and gold loans. Additionally, the risk weights for exposure by banks to NBFCs where the extant risk weight of the NBFC is below 100% was also increased. An increase in cost of funds for NBFCs could drive the demand for securitisation and co-lending. NBFCs will also need to maintain adequate capital buffers.

Borrowing cost for NBFCs estimated to have increased in fiscal 2024



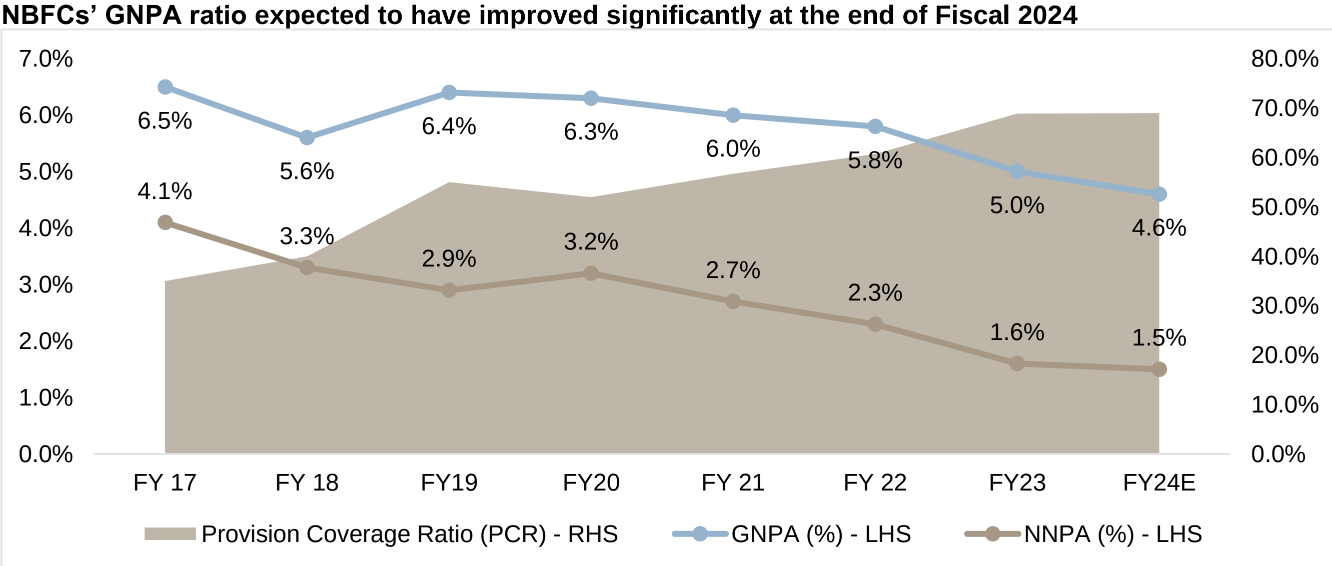
Note: Data represents cost of borrowing of players, which cumulatively accounts for 85% of overall NBFC AUM, E: Estimated

Source: Company reports, CRISIL MI&A

Asset quality expected to have improved on account of efficiency in collection process and improvement in economic activity in Fiscal 2024

Asset quality for NBFCs is influenced by various factors such as economic cycle, target customer segment, geographical exposure, and local events. Within the NBFC universe itself, it is observed that various asset classes tend to exhibit heterogeneous behaviour. For example, the asset quality in small business loans and personal loans tends to be highly correlated with the macroeconomic environment. This is because asset quality is more influenced by local factors, events that have wide ranging repercussions such as demonetisation and COVID-19 and relative leverage levels amongst borrowers.

NBFCs' GNPA ratio expected to have improved significantly at the end of Fiscal 2024



Note: E = Estimated; Source: RBI, CRISIL MI&A

Asset quality metrics improved in Fiscal 2023 for two reasons. First is the RBI's follow-up circular dated February 15, 2022, deferring the implementation of the NPA upgradation norm till September 30, 2022. This provides a reasonable transition time for NBFCs to recalibrate processes, revamp their collection infrastructure and teams, and persuade borrowers to align with the new dispensation. Second is the improvement in macro-economic activity, which acted as a tailwind.

Asset Quality for NBFCs improved at the end of Fiscal 2023 and is expected to have improved further in Fiscal 2024 on account of normalisation of economic activity and improved collection efficiency across segments with the gold segment being an exception. Collection efficiency is expected to hold up in the near future resulting in easing of the asset quality pressure.

Credit cost for NBFCs estimated to have moderately declined in Fiscal 2024, and profitability to have improved in Fiscal 2024

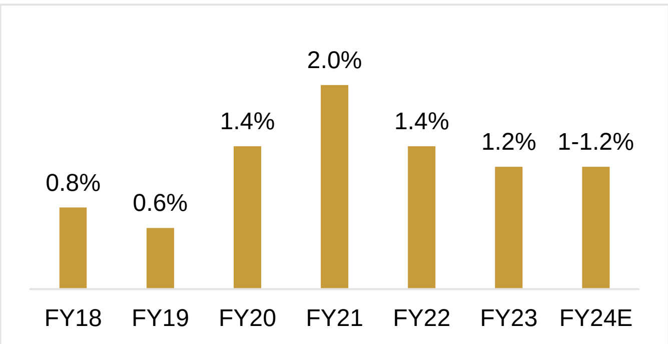
Overall yield for the retail segments increased in fiscal 2023 due to the interest rates hikes. However, the amount of pass-on has been distinct across all segments on account of level of competition, nature of asset class and segmental credit demand. Accordingly, a stable or modest increase in RoA was seen across all segments in fiscal 2024.

In Fiscal 2023, decline in credit costs due to improved collections and lower slippages supported improvement in profitability aided by higher yields. The MFI segment, which typically has more pricing power, was able to improve its NIM. Similarly, the housing segment also improved its NIM owing to the floating nature of its loan book where it was able to pass on the increase in rates to its customers faster. However, competition from banks and subdued credit demand resulted in NIM compression for the gold segment.

In Fiscal 2024, credit cost is estimated to have moderately declined on account of improved collections and lower asset quality stress translating to moderate increase in RoA. In the near term, the impact of RBI circular on risk weights on cost of funds, thereby NIM and RoA will be a key monitorable.

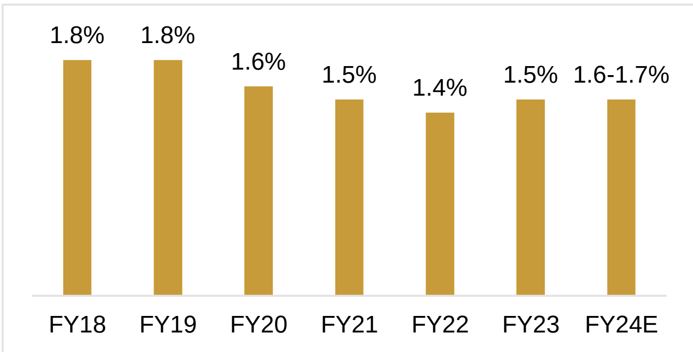
Profitability ratios of NBFCs

Credit costs for NBFCs moderately declined in Fiscal 2024



Note: E: Estimated
Source: CRISIL MI&A

Profitability (RoA) moderately increased in Fiscal 2024 for NBFCs



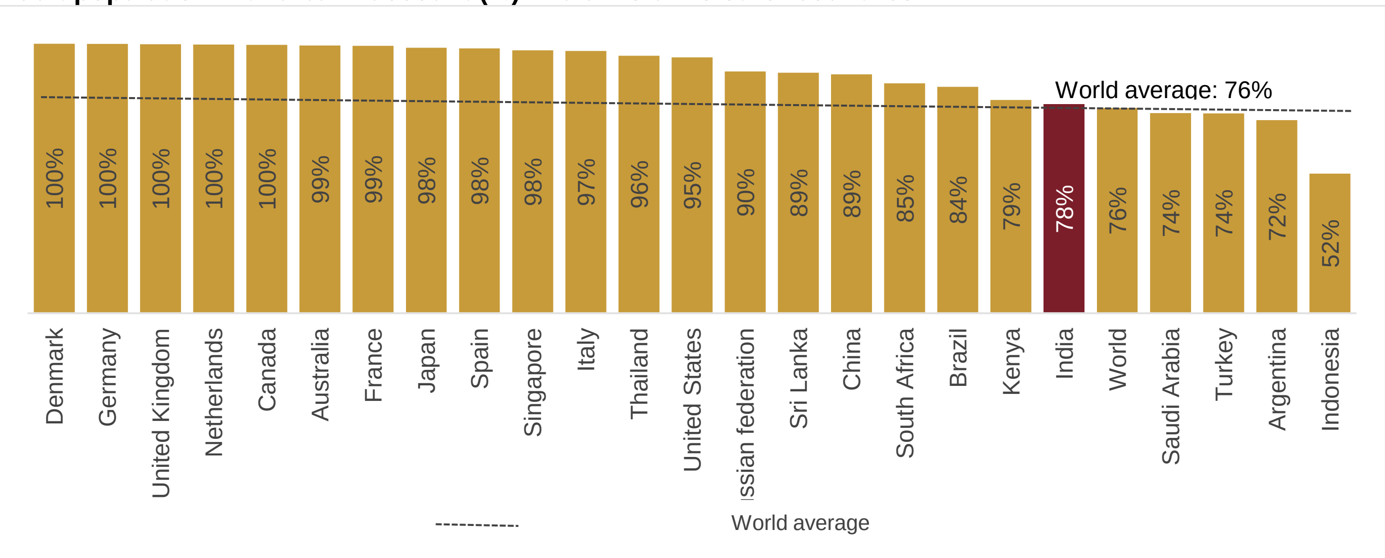
Note: E = Estimated
Source: CRISIL MI&A

Financial inclusion

Financial Inclusion on a fast path in India

Overall literacy in India is at 77.7% as per the results of recent NSSO survey conducted from July 2017 to June 2018, which is still below the world literacy rate of 86.5%. However, according to the National Financial Literacy and Inclusion Survey (NCFE-FLIS) 2019, only 27% of Indian population is financially literate indicating huge gap and potential for financial services industry. The survey defines financial literacy as combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. According to the World Bank's Global Findex Database 2021, the global average percentage of adult population with an account opened with a bank, financial institution or mobile money provider, was approximately 78% in calendar year 2021. India's financial inclusion has improved significantly over calendar years 2014 to 2021 as adult population with bank accounts increased from 53% to 78% (Source: Global Findex Database) due to the Indian government's efforts to promote financial inclusion and the proliferation of supporting institutions.

Adult population with a bank account (%): India vis-à-vis other countries

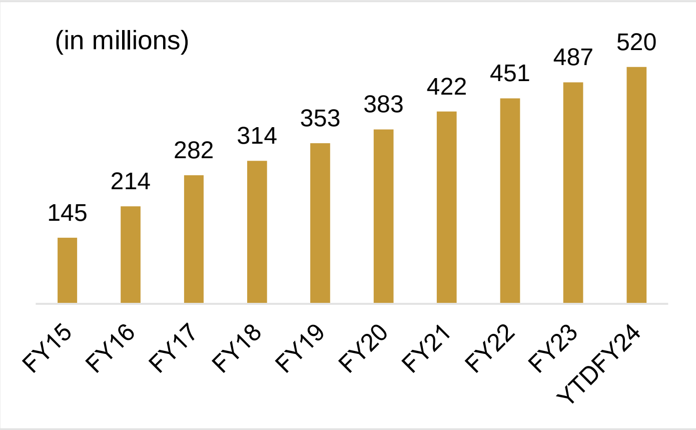


Notes: 1. Global Findex data for India excludes northeast states, remote islands and selected districts. 2. Account penetration is for the population within the age group of 15+, Source: World Bank – The Global Findex Database 2021, CRISIL MI&A

The two key initiatives launched by the Government to promote financial inclusion are the Pradhan Mantri Jan Dhan Yojana (PMJDY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY). Under the PMJDY, the Government's aim is to ensure that every household in India has a bank account which they can access from anywhere and avail of all financial services such as savings and deposit accounts, remittances, credit and insurance affordably. PMJJBY is a one-year life insurance scheme that offers a life cover of ₹ 0.2 million at a premium of ₹ 330 per annum per member, which can be renewed every year. The Government has also launched the Pradhan Mantri Suraksha Bima Yojana (PMSBY), an accident insurance policy that offers an accidental death and full disability cover of ₹ 0.2 million at a premium of ₹ 12 annually. As per the Government, more than 100 million people have registered for these two social security schemes.

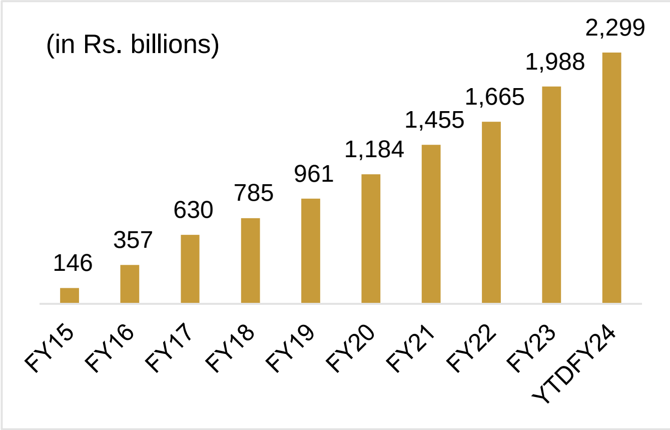
As per the Global Findex Database 2021, ~54% of the world's 740 million unbanked adults live in only seven countries (India, Bangladesh, China, Indonesia, Egypt, Nigeria and Pakistan), of which almost 31% (230 million) are in India. This shows an immense opportunity for furtherance of financial inclusion. As of March 2024, 520 million PMJDY accounts had been opened, of which 67% were in rural and semi-urban areas, with total deposits of Rs. 2,299 billion. (Source: Pradhan Mantri Jan-Dhan Yojana: Progress Report)

Number of PMJDY accounts



Note: As at the end of each Fiscal and as of 20th March 2024 for YTDFY24
Source: PMJDY; CRISIL MI&A

Total balance in PMJDY accounts

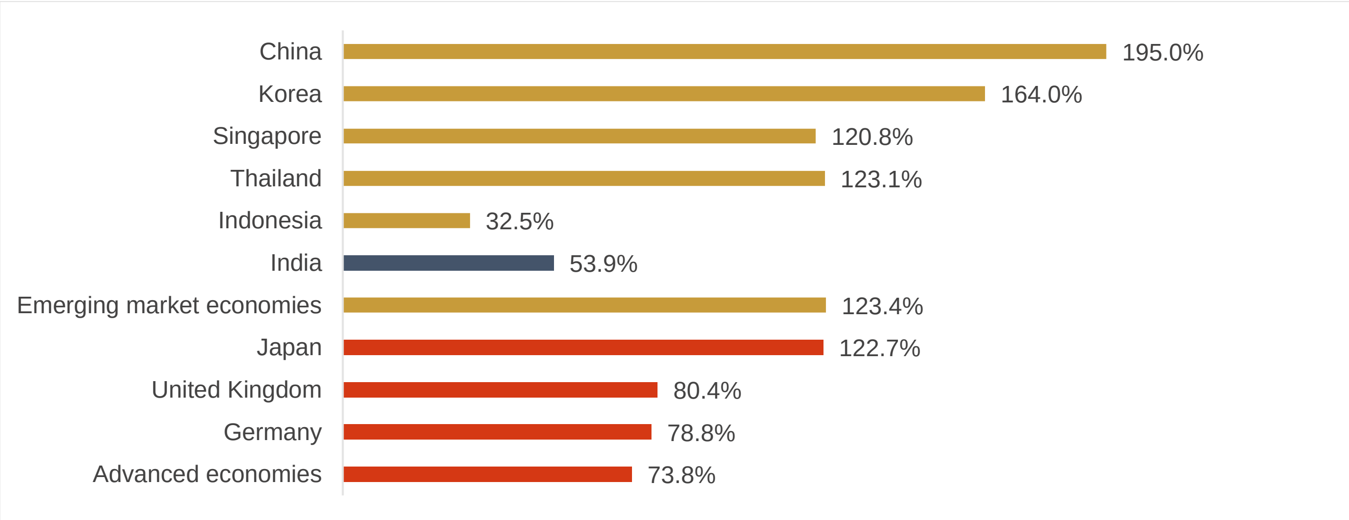


Note: As at the end of each Fiscal and as of 20th March 2024 for YTDFY24
Source: PMJDY; CRISIL MI&A

Under-penetration of the Indian banking sector provides opportunities for growth

The Indian banking sector is significantly under-penetrated as observed in the current bank credit-to-GDP ratio of 53.9% for India as of the third quarter of CY2023. This provides immense opportunities for banks and other financial institutions over the long term.

Bank credit to private non-financial sector as a % of GDP ratio for major economies (as of Q3 CY23)



Note: Emerging market economies comprise Argentina, Brazil, Chile, China, Colombia, Czechia, Hong Kong SAR, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, Thailand, and Turkey; Advanced economies comprise Australia, Canada, Denmark, the euro area, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.
Source: BIS Data, CRISIL MI&A

Rural sector supporting India growth story

India's retail segment has been a key driver of the country's consumption growth story in recent years. In the past decade, the retail sector in India has expanded at a rapid pace, driven by factors, such as rising disposable income, urbanisation, and the proliferation of e-commerce.

According to the Economic Survey report dated January 31, 2023, the government's emphasis has been on improving the quality of life in rural areas to ensure more equitable and inclusive development. The aim of the government's engagement in the rural economy has been 'transforming lives and livelihoods through proactive socio-economic inclusion, integration, and empowerment of rural India'. The survey notes that a multi-pronged approach has helped raise rural incomes and improve the quality of life through different schemes, such as:

1. **Livelihood and skill development**

    a. The Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM), which aims to enable economically weak households to access gainful self-employment and skilled wage employment opportunities, resulting in sustainable and diversified livelihood options for them.

    b. Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), under which a total of 6.18 crore households availed of employment. A total of 295.62 crore person-days' employment has been generated under the Scheme (until April 4, 2024).

2. **Women empowerment**

    The transformative potential of Self-Help Groups (SHGs), exemplified through their key role in the on-ground response to Covid-19, has served as the fulcrum of rural development through women empowerment. India has around 1.2 crore SHGs, 88% being all-women SHGs. Also, there has been a steady rise in Rural Female Labour Force Participation Rate (FLFPR) from 19.7% in fiscal 2019 to 27.2% in fiscal 2022.

3. **Housing for all**

    The Pradhan Mantri Awas Yojana – Gramin (PMAY-G) was launched in November 2016 with the aim of providing around 3 crore pucca houses with basic amenities to all eligible houseless households living in kutcha and dilapidated houses in rural areas by 2024. Under the scheme, landless beneficiaries are accorded the highest priority in the allotment of houses. A total of 2.94 crore houses have been sanctioned and 2.59 crore houses have been completed by April 4, 2024, under the scheme.

Other initiatives of the government are towards promoting smoke-free rural homes and rural infrastructure.

Additionally, e-commerce has been a significant contributor to the growth of rural areas. The e-commerce market in India has grown exponentially in recent years. This growth can be attributed to increased internet penetration, the proliferation of smartphones, and the convenience offered by online shopping.

The government has taken various steps to improve overall financial inclusion:

- **Direct-benefit transfer (DBT):** DBT has been instrumental in the acceleration of financial inclusion since it has helped eliminate human interface and leakages in the system, ensuring timely, accurate and quality services and fund transfers to the beneficiaries. This tool has helped in the disbursal of benefits to a wide population spread geographically through 312 government schemes, such as the Pradhan Mantri Matru Vandana Yojana (PMMVY) for women, Pradhan Mantri Ujjwala Yojana (PMUY), Krishi Unnati Yojana (KUY) or Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) for beneficiary bank accounts held by any gender. The total DBT was Rs 5,56,654 crore in fiscal 2024 (provisional figures) and Cumulative Total DBT was Rs 35,41,066 crore as of March 2024.

- **Aadhaar card:** It has played a critical role in promoting financial inclusion in India by enabling easy and efficient identification of individuals and reducing the need for physical documents. Aadhaar Card has been used for various initiatives, such as PMJDY, DBT, mobile wallets, and e-KYC, to improve financial access.
- **Mobile banking:** The government has promoted mobile banking to make financial services accessible to people who are unable to access physical bank branches. Mobile banking has increased financial inclusion in rural areas. Some of the mobile banking initiatives for financial inclusion are United Payments Interface (UPI), mobile wallets, Jan Dhan Yojana Mobile App, and business correspondent (BC) model.
- **Financial literacy programmes:** The government has launched various financial literacy programmes to educate people about the benefits of financial planning and management. These programmes aim to improve financial literacy among the marginalised sections of the society and empower them to make informed financial decisions. The government and financial institutions have launched various financial literacy programmes (National Centre for Financial Education, Swabhimaan, etc.) to improve financial literacy among the general public, especially in rural areas.
- **Kisan Credit Card (KCC):** The KCC scheme aims at providing adequate and timely credit support to farmers for their agricultural activities at various stages of farming. According to Ministry of Finance, Department of Financial Services, total number of operative KCC accounts stood at 7.36 crores with total outstanding amount of Rs. 8.86 lakh crores as of June 30, 2023.
- **National Pension Scheme (NPS):** Regulated by the Pension Fund Regulatory and Development Authority (PFRDA), NPS is mandatory for Central government employees and voluntary for corporates and all citizens (aged 18-65 years) with matching contributions by the employer. As of March 2023, NPS had 1.73 crore subscribers — 35% under the state government and 14% under the Central government.
- **Priority-sector lending:** PSL is an important policy tool used by the RBI to promote financial inclusion in India. The PSL requirement mandates banks allocate a specified percentage of their lending portfolio to priority sectors, such as agriculture; micro, small and medium-sized enterprises (MSMEs); education; housing; and other weaker sections of the society. Lending to such priority sectors not only increases the credit access to underserved sectors but also lead to higher economic growth and promotes inclusive development. It also encourages banks to develop innovative products and services specifically for priority sectors. As of fiscal 2023, bank credit to PSL stood at Rs 50,59,321 crore, up from Rs 45,43,093 crore from fiscal 2022 (provisional amounts from the RBI's annual report).

  Priority sector lending ensures credit flow to underserved segments of the population through banks. PSL also encourages bridging the gap between rural and urban credit and hence lower regional imbalances. PSL is also used by the government to ensure that credit is given to sectors which can help the country in the long term. PSL mandates banks to lend to MSMEs which ultimately adds to the overall manufacturing output of the country.

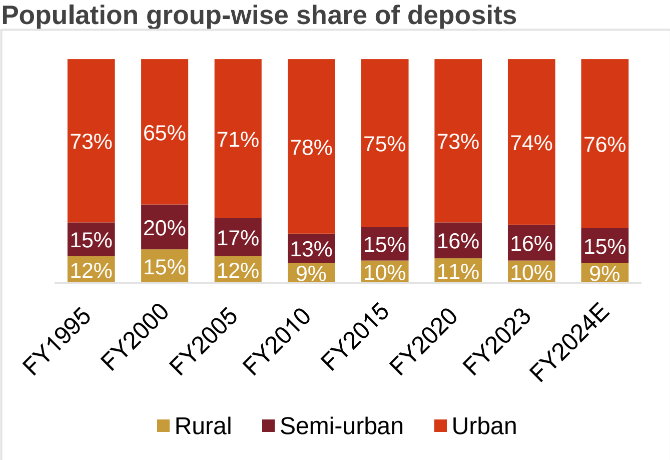
- **Small Saving Schemes:** Sukanya Samridhi Yojana is a savings scheme designed by the government especially for girl children. Parents of a girl child can save for their education and marriage purposes through this investment scheme. The scheme was launched as a part of the Beti Bachao, Beti Padhao campaign. As of December 2023, 3.2 crore accounts were active as part of the scheme. Mahila Samman Savings Certificate was launched as a part of Union Budget 2023-24 through which women of any age could open an account with a minimum deposit of Rs. 1,000 and maximum deposit of Rs. 2,00,000 provided with a facility of partial withdrawal. The interest rate for the accounts was declared at 7.5% p.a. which will be compounded quarterly. Other small saving schemes available include Kisan Vikas Patra.

Rural India accounts for 47% of GDP, but only 10% of deposits and 9% of credit

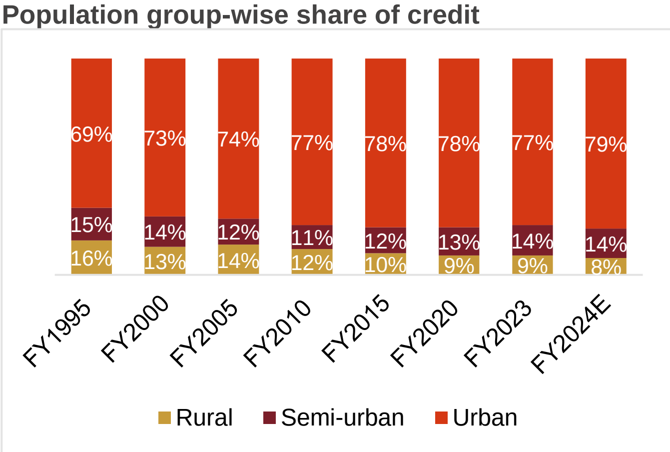
Rural India has a crucial role to play, as 65% of the population resides in rural areas, as per 2021 data from the Economic Survey (January 2023) and as per the Census data of 2011, there are over 6.4 lakh villages in India. About 47% of India's GDP comes from rural areas; however, their share is abysmally low at just 9% of total banking deposits and 9% of total credit as of March 2024. The share of credit to rural areas has declined gradually over the years to a mere 8% in fiscal 2024 from 16% in fiscal 1995. Lack of bank infrastructure, low level of financial literacy and investment habits, along with lack of formal identification, are some of the reasons for low penetration.

Share of bank credit and deposits shows low penetration in rural areas

Population group-wise share of deposits



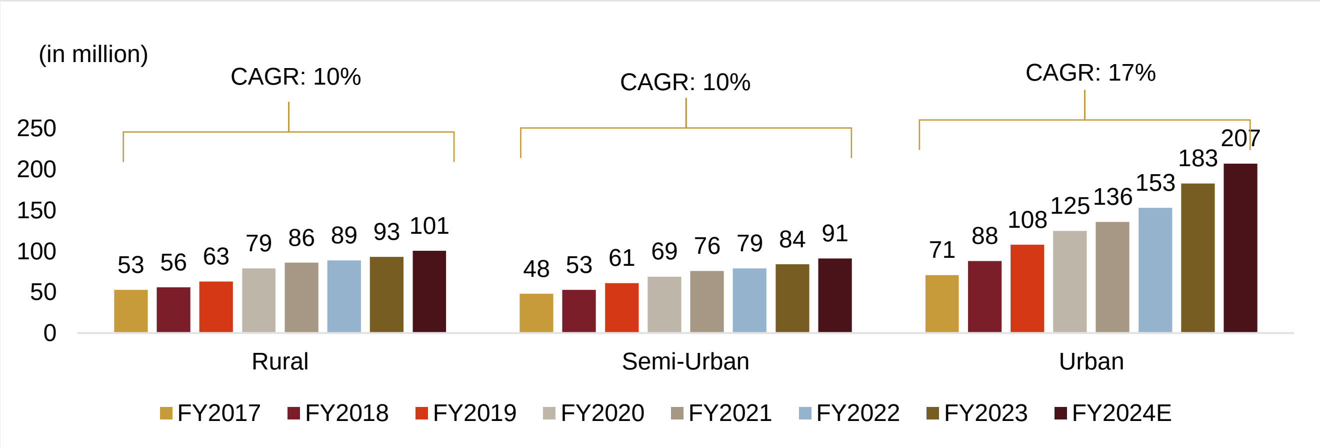
Population group-wise share of credit



Note: Urban includes data for urban and metropolitan areas, Above data represents indicators for scheduled commercial banks in India, E: Estimated.
Source: RBI; CRISIL MI&A

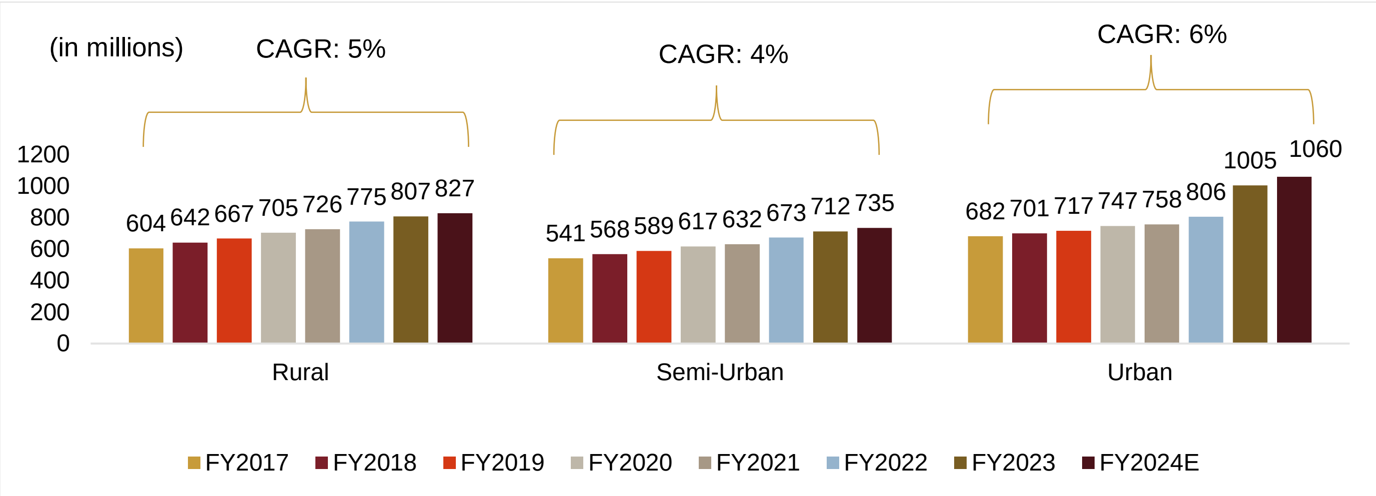
Financial inclusion is lower in rural areas than in urban areas in India. Hence, there are significant growth opportunities, as competition for banking services is lower in rural areas as well. Initiatives such as PMJDY and digital banking, along with increasing emphasis on financial literacy, have led to increasing financial inclusion in rural areas.

Bank credit accounts in rural, semi-urban and urban areas



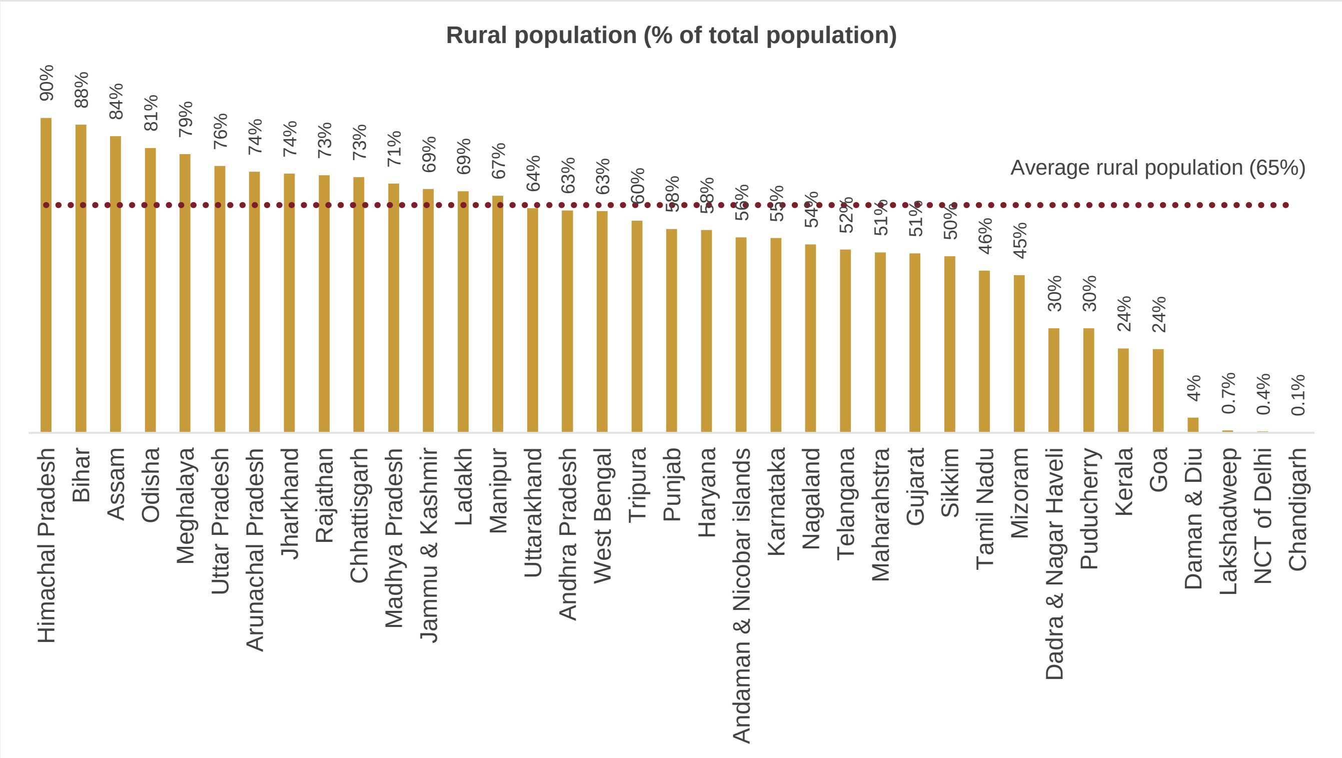
Note: Urban includes data for urban and metropolitan areas; data represents only bank outstanding credit accounts; above data represents indicators for scheduled commercial banks in India, E: Estimated.
Source: RBI; CRISIL MI&A

Bank deposit accounts in rural, semi-urban and urban areas



Note: Urban includes data for urban and metropolitan areas; amounts are as of the end of the fiscal year indicated. Data represents only bank deposit accounts. Above data represents indicators for scheduled commercial banks in India, E: Estimated.
Source: RBI, CRISIL MI&A

State-wise projected share of rural population (2023)



Note: Sequence of states are arranged in descending order of the proportion of rural population.
Source: Report of the technical group on population projections – July 2020, CRISIL MI&A

Although most Indian households are in rural areas, the potential of banking infrastructure in these areas is not yet fully explored. Hence, there is a gap in supply of and demand for financial services in the country's rural areas, which are pockets of opportunity for the financial services sector.

Region-wise asymmetry: Over 50% of deposits and 60% of credit held by south and west

In value terms bank credit and deposits are predominantly concentrated in the southern and western regions, while these are considerably low in the northeastern and eastern regions. Deposit penetration in the southern region increased 200 bps to 24% in fiscal 2024 from 22% in fiscal 2013 and credit penetration jumped 800 bps to 29% from 21%. On the other hand, the former decreased in the western region by 300 bps to 28% from 31%, while the latter increased 700 bps to 34% from 27%. There has been no change in deposit penetration in northern regions, while credit penetration increased by 200 bps in fiscal 2024. The share of the north-east region remained stable at 2% for deposits at 1% for credit.

Deposit penetration in the eastern and central regions have remained relatively stable over the past 11 years, whereas credit penetration improved 300 bps in the central region to 9% in fiscal 2024 from 6% in fiscal 2013. Credit penetration in eastern region improved 100 bps to 7% in fiscal 2023 from 6% in fiscal 2013. And while the share of the Northeast was stable, it was a lowly 2% for deposits at 1% for credit.

Region-wise share of banking deposits and credit

Region	Banking deposits		Banking credit	
	2013	2024E	2013	2024E
North-East	2%	2%	1%	1%
Central	12%	13%	6%	9%
West	31%	28%	27%	34%
East	12%	12%	6%	7%
South	22%	24%	21%	29%
North	21%	21%	18%	20%

Notes:

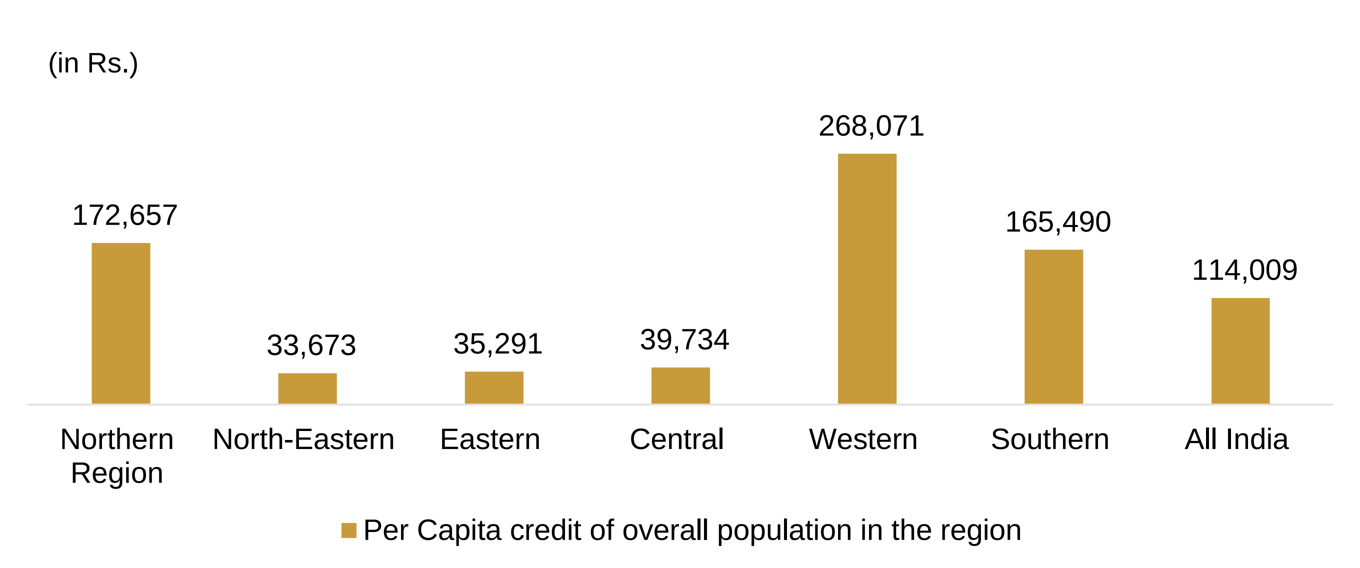
1. *Northeast includes Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura*
2. *Central includes Chhattisgarh, Madhya Pradesh, Uttar Pradesh and Uttarakhand*
3. *West includes Goa, Gujarat, Maharashtra, Dadra and Nagar Haveli, and Daman and Diu*
4. *East includes Bihar, Jharkhand, Odisha, Sikkim, West Bengal, and Andaman and Nicobar Islands*
5. *South includes Andhra Pradesh, Telangana, Karnataka, Kerala, Tamil Nadu, Lakshadweep, and Puducherry*
6. *North includes Haryana, Himachal Pradesh, Jammu and Kashmir, Ladakh, Punjab, Rajasthan, Chandigarh, and Delhi*
7. *E: Estimated*

Source: RBI, CRISIL MI&A

Region-wise bank credit and deposit per capita

Bank credit per capita in the eastern and central regions has been second and third lowest, respectively, among all the regions in fiscal 2024, and nearly two times lower than the national credit per capita. When compared with the other regions, this implies low penetration of banks in the two regions. In contrast, the northern and western regions have more than 1.5 times credit per capita vis-à-vis the national average, while in the southern region, it is near 1.4 times.

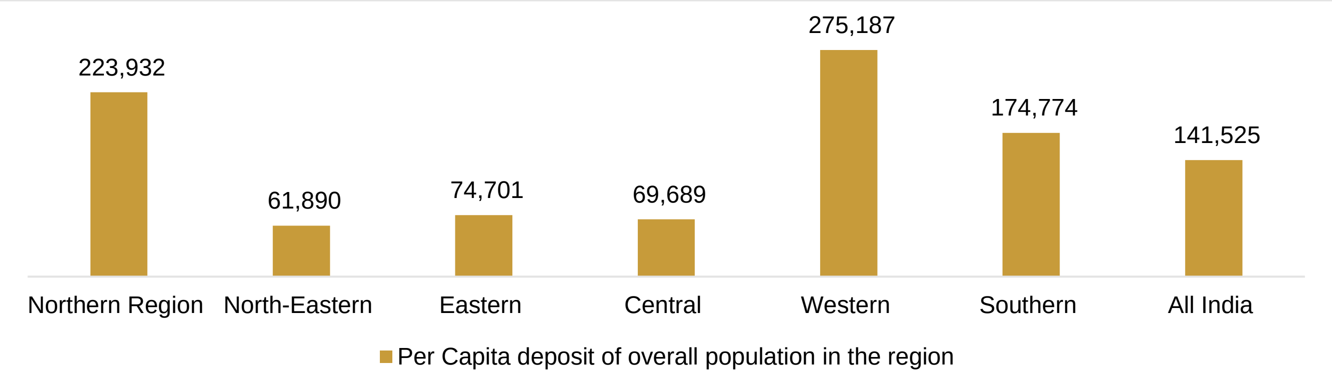
Per capita credit region-wise (Fiscal 2024E)



Note: Per capita calculated by credit in the region divided by total population in the region. Population projected as per UIDAI, E: Estimated
Source: RBI, CRISIL MI&A

Similarly, bank deposit per capita has been dominated by the northern and western regions, accounting for over 1.5 times and 2 times the national deposit per capita, respectively, whereas the northern, northeastern and central regions were lower by 1.5 times.

Per capita deposit of overall population in India (Fiscal 2024E)



Note: Per capita calculated by credit in the region divided by total population in the region. Population projected as per UIDAI, E: Estimated
Source: RBI, CRISIL MI&A

This provides an opportunity for all lending and deposit accepting institutions to expand in these regions, and also widen their footprint in specific regions.

Large variation in credit availability across states, districts and regions

The central region had the highest share of overall population of India, at 26%, in fiscal 2024. Yet, its share in overall credit was a mere 9%. Similarly, the eastern region accounted for 23% share of the overall population but comprised only 7% of the overall credit. The credit-to-deposit ratio of the eastern region was the lowest among all regions. In contrast, the western and southern regions had disproportionately high share in overall credit compared to their share in overall population.

That said, credit availability in the states and various districts in the same state vary widely. This indicates latent opportunity for providing banking services to unserved or underserved customers. For instance, Uttar Pradesh, Maharashtra and Bihar are the most populous states in India, accounting for 17%, 9% and 9% share, respectively, of the overall population. While Maharashtra's share in overall credit outstanding was 28% in fiscal 2024, the shares of Uttar Pradesh and Bihar were only 5% and 1%, respectively.

Based on bank credit accounts in rural areas, West Bengal, Bihar, Odisha, Jharkhand, Jammu and Kashmir, Himachal Pradesh, and Meghalaya had more than 45% of credit accounts in rural areas, while for Maharashtra, Delhi, Gujarat, Kerala, Chandigarh, Puducherry, and Mizoram, the share was below 22%. In value terms, states such as Maharashtra, Delhi, Chandigarh and Kerala have less than 5% of credit outstanding in rural areas, while Manipur, Tripura, Meghalaya, Jammu and Kashmir, Ladakh, Lakshadweep and Himachal Pradesh have more than 20% of rural credit outstanding. But even in Maharashtra and Delhi, which are the states with highest share in overall credit, more than 90% of the total credit outstanding was concentrated in the top five districts as of fiscal 2024.

State-wise rural credit accounts in banks and top five districts concentration (Fiscal 2024E)

Region / state / union territory	No. of districts	% share in overall population in India	Share in overall credit	Credit-to-deposit ratio	Concentration of credit in top 5 districts	% of credit in rural areas	Concentration of credit accounts in top five districts*	% of credit accounts in rural areas*
Western region	**74**	**14%**	**34%**	**97%**	**NA**	**3%**	**NA**	**8%**
Maharashtra	36	9%	28%	105%	92%	2%	80%	6%
Gujarat	33	5%	5%	75%	71%	8%	50%	18%
Goa	2	0%	0%	26%	100%	20%	100%	31%
Dadra and Nagar Haveli, and Daman and Diu	3	0%	0%	44%	100%	3%	100%	5%
Southern region	**146**	**20%**	**29%**	**95%**	**NA**	**9%**	**NA**	**27%**
Tamil Nadu	38	6%	9%	114%	61%	11%	36%	28%
Karnataka	29	5%	7%	68%	77%	9%	46%	33%
Telangana	34	3%	5%	109%	82%	7%	46%	29%
Andhra Pradesh	26	4%	4%	155%	49%	15%	26%	35%
Kerala	14	3%	3%	69%	68%	2%	51%	4%
Puducherry	4	0%	0%	68%	100%	9%	100%	18%
Lakshadweep	1	0%	0%	11%	100%	40%	100%	40%
Northern region	**111**	**13%**	**20%**	**77%**	**NA**	**7%**	**NA**	**26%**
NCT of Delhi	1	2%	10%	90%	100%	0%	100%	0%
Rajasthan	33	6%	3%	87%	55%	13%	41%	32%
Haryana	22	2%	3%	65%	66%	8%	44%	22%
Punjab	22	2%	2%	57%	60%	19%	46%	30%
Jammu and Kashmir	20	1%	1%	59%	60%	35%	49%	52%
Chandigarh	1	0%	1%	79%	100%	0%	100%	1%
Himachal Pradesh	12	1%	0%	35%	75%	57%	67%	72%

Region / state / union territory	No. of districts	% share in overall population in India	Share in overall credit	Credit-to-deposit ratio	Concentration of credit in top 5 districts	% of credit in rural areas	Concentration of credit accounts in top five districts*	% of credit accounts in rural areas*
Ladakh	2	0%	0%	46%	100%	37%	100%	44%
Central region	**167**	**26%**	**9%**	**57%**	**NA**	**14%**	**NA**	**38%**
Uttar Pradesh	75	17%	5%	49%	43%	16%	19%	44%
Madhya Pradesh	52	6%	3%	75%	55%	11%	32%	28%
Chhattisgarh	27	2%	1%	81%	75%	8%	43%	27%
Uttarakhand	13	1%	1%	40%	90%	19%	82%	35%
Eastern region	**126**	**23%**	**7%**	**47%**	**NA**	**17%**	**NA**	**50%**
West Bengal	24	7%	3%	49%	74%	14%	40%	46%
Bihar	38	9%	1%	49%	51%	22%	39%	50%
Odisha	30	3%	1%	49%	63%	19%	38%	53%
Jharkhand	24	3%	1%	36%	71%	17%	56%	52%
Sikkim	5	0%	0%	47%	99%	29%	99%	40%
Andaman and Nicobar Islands	5	0%	0%	54%	100%	20%	100%	25%
Northeastern region	**114**	**4%**	**1%**	**54%**	**NA**	**23%**	**NA**	**42%**
Assam	33	3%	1%	58%	55%	21%	37%	44%
Tripura	8	0%	0%	46%	89%	24%	82%	43%
Meghalaya	11	0%	0%	43%	92%	33%	84%	48%
Manipur	16	0%	0%	78%	83%	31%	84%	31%
Nagaland	12	0%	0%	56%	82%	22%	72%	28%
Arunachal Pradesh	26	0%	0%	34%	78%	29%	63%	35%
Mizoram	8	0%	0%	46%	93%	9%	78%	22%

NA: Not applicable.

Notes:

1. *Arranged in descending order of share in overall credit outstanding of banks in each region*
2. *Green indicates states with higher share in overall credit compared with its share in India's population, red indicates states with lower relative share in overall credit compared with its share in India's population, and orange indicates states with equivalent share in overall credit compared with its share in India's population.*
3. *(*) Concentration of credit accounts in top five districts and % of credit accounts in rural areas as of Fiscal 2023*
4. *E: Estimated*

Source: RBI, CRISIL MI&A

States with low financial penetration present a strong case for growth

Madhya Pradesh, Bihar and Uttar Pradesh have ample headroom for growth, given their low credit penetration amid sustained economic growth. Similarly, western states such as Maharashtra and Gujarat have showcased good growth in terms of GDP, though Gujarat has relatively low credit penetration, thereby presenting huge potential.

Uttar Pradesh, Bihar, Jharkhand, Assam, Meghalaya and Chhattisgarh had the lowest credit account penetration among all states in fiscal 2024. These states also exhibit lower CRISIL Inclusix scores, indicating low financial inclusion.

With lower financial penetration, these states present a huge untapped market and potential for growth in the future as their state GDPs gradually increase.

State-wise GDP and GDP growth (Q3 FY 2024)

States	GSDP - Constant Prices FY23 (In Rs. Billion)	Y-o-Y growth FY22-FY23	CAGR (FY19-FY23)	Credit Penetration as on December 2023	Credit growth (FY19-Q3FY24)	CRISIL Inclusix Score (FY2016)
Western Region						
Maharashtra	20,279.71*	9%**	1%^	222%	11%	62.7
Gujarat	13,722.04*	11%**	5%^	61%	10%	62.4
Goa	555.48*	4%**	2%^	52%	9%	88.9
Southern Region						
Tamil Nadu	14,533.21	8%	5%	100%	11%	77.2
Karnataka	13,263.19	8%	5%	80%	12%	82.1
Telangana	7,267.07	8%	5%	111%	12%	72.8
Andhra Pradesh	7,543.38	7%	5%	87%	15%	78.4
Kerala	5,727.47*	12%**	1%^	91%	12%	90.9
Puducherry	278.34*	16%**	2%^	68%	11%	87.7
Northern Region						
Delhi	6,526.49	9%	4%	250%	5%	86.1
Rajasthan	7,994.49	8%	6%	65%	13%	50.9
Haryana	6,084.20	7%	3%	79%	16%	67.7
Punjab	4,615.39	6%	4%	74%	9%	70.9
Jammu & Kashmir-U.T.	1,347.16	8%	4%	71%	14%	47.8
Chandigarh	302.87*	6%**	0%^	282%	2%	86.7
Himachal Pradesh	1,345.76	6%	4%	36%	12%	72.3
Central Region						
Chhattisgarh	2,890.82	8%	4%	60%	15%	45.7
Madhya Pradesh	6,431.24	7%	4%	66%	13%	48.7
Uttarakhand	2,071.04	7%	3%	41%	12%	69.0
Uttar Pradesh	13,046.78	8%	4%	59%	15%	44.1
Eastern Region						
West Bengal	8,540.23	8%	4%	62%	8%	53.7
Bihar	4,424.73	11%	4%	50%	17%	38.5
Odisha	4,638.59	7%	5%	49%	16%	63.0
Jharkhand	2,598.00	7%	3%	44%	15%	48.2
Sikkim	221.44	7%	4%	29%	19%	60.2
Andaman & Nicobar Islands	71.72*	7%**	1%^	56%	14%	63.9
North Eastern Region						
Assam	2,891.92	10%	6%	40%	15%	47.9
Tripura	429.97	9%	4%	28%	10%	66.2
Meghalaya	252.09	4%	2%	48%	17%	34.6
Manipur	205.15*	14%**	4%	53%	19%	32.0
Arunachal Pradesh	198.01*	7%**	6%^	41%	18%	34.7
Mizoram	184.94*	13%**	5%^	24%	17%	43.2
Nagaland	183.63*	4%**	3%^	46%	17%	32.4

Note: 1. Credit penetration calculated as banking credit to states as of December 2023 divided by state GSDP (at constant prices) as of Fiscal 2023.

2. (*) GSDP as of Fiscal 2022

3. (**) Year on year growth over Fiscal 2021

4. (^) CAGR calculated from Fiscal 2019 to Fiscal 2022

5. CRISIL Inclusix, India's first financial inclusion index, was launched in 2013 with the objective of creating a dependable yardstick that would become a policy input to further the cause of inclusion. CRISIL Inclusix weighs three service providers (banks, insurers and microfinance institutions) on four dimensions (branch, credit, deposit and insurance).

Source: RBI, MOSPI, CRISIL MI&A

Global Microfinance Industry

Gross loan portfolio (GLP) and number of borrowers of Indian MFIs highest in the world

As of fiscal 2017, globally, there are 120 million MFI borrowers with an overall GLP of US$ 112 billion. While the global trend for driving financial inclusion and catering to the needs of the underserved remained intact, there exist regional differences due to a variety of factors arising out of regulatory, political and economic environment. Globally, the total number of active borrowers and GLP have increased 9.8% and 14.3% respectively on year in fiscal 2017.

The global microfinance industry reported healthy growth of 10% CAGR over 2016-2020 while India reported stronger growth of 24% during the same period. India's share in microfinance industry has increased to 15% in 2020 from 9% in 2016. The aggregate GLP of India's MFIs is the highest as compared to other countries in the world in fiscal 2017. India also had the highest number of active borrowers (at 37.89 million as of fiscal 2017), it was followed by Bangladesh (which had 26.92 million as of fiscal 2017).

Top 10 countries with the highest number of MFI borrowers

Country	Number of active borrowers (in thousands)	Gross Loan Portfolio (in million $)
India	37,891.7	21,033.0
Bangladesh	26,916.4	7,896.5
Vietnam	7,317.3	8,675.8
Mexico	6,465.0	3,068.8
Philippines	5,187.4	1,043.6
Pakistan	5,062.2	1,681.2
Peru	4,921.4	12,443.3
Colombia	2,743.1	6,334.6
Cambodia	2,172.9	7,713.1
Brazil	2,090.8	998.6

Source: Global Outreach & Financial Performance Benchmark Report – 2017-18 MIX Market (www.themix.org), CRISIL Research

India had the best asset quality amongst other countries

India had healthy profitability (RoA) despite lending at much lower interest rates due to the superior asset quality and relatively lower operating cost.

	Yield on advances	Operating expenses	PAR > 90 days	RoA (%)
India	13.8%	7.7%	2.3%	1.7%
Africa	20.0%	14.5%	6.6%	1.5%
EAP	15.3%	7.0%	3.3%	1.8%
ECA	20.8%	9.4%	14.5%	0.3%
LAC	21.0%	12.3%	4.6%	2.1%
MENA	26.2%	15.6%	3.7%	4.4%
South Asia	18.3%	9.0%	2.9%	2.8%
Total	19.2%	10.6%	4.7%	2.0%

Source: Global Outreach & Financial Performance Benchmark Report – 2017-18 MIX Market (www.themix.org), CRISIL Research

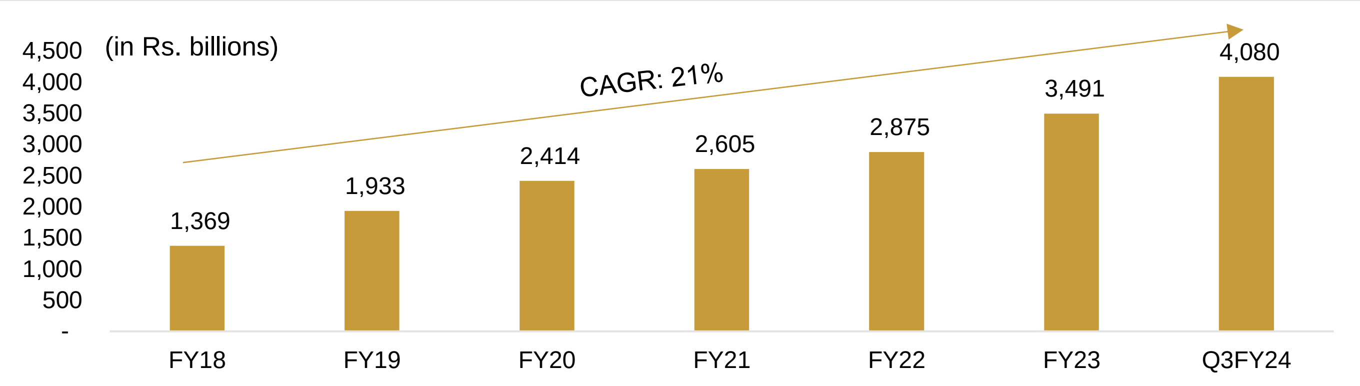
Indian Microfinance Industry

Industry GLP has surged at 21% CAGR between fiscal 2018 and nine months ended fiscal 2024

The industry's portfolio outstanding clocked 21% compound annual growth rate (CAGR) between March 2018 and December 2023 to reach Rs 4,080 billion. The microfinance industry's joint liability group (JLG) portfolio has recorded a healthy growth in the past few years. A significant portion of the on-year growth of the overall microfinance industry can be attributed to the expansion of the NBFC-MFI sector and exponential growth in SHG lending which witnessed on-year growth of 71% in fiscal 2023.

As of December 2023, overall industry portfolio outstanding reached Rs 4,080 billion. Going forward, the overall microfinance industry is expected to see strong growth on back of government's continued focus on strengthening the rural financial ecosystem, strong credit demand, and higher ticket sized loans disbursed by microfinance lenders.

GLP clocked 21% CAGR between FY18 and Q3FY24



Source: CRIF Highmark, CRISIL MI&A

Business models in the MFI sphere

MFIs focus on the JLG model for lending to borrowers as it is easier to form such groups, whereas banks have a dominant presence in the SHG model through their self-help group–bank linkage programme (SHG-BLP). However, some NBFC-MFIs also follow SHG model.

JLG lending model: Under the JLG lending model, the primary task is to identify a prospective village, based on parameters such as total population, total income, and population of poor individuals. Subsequently, potential members (usually women) are identified, based on factors such as total household income and number of members in the household. These candidates are then organised into groups of 5-7 members each, with 3-5 such groups coming together to form a centre; the amount is lent to an individual borrower. In the event an individual borrower defaults on payment, the concept of social collateral comes into play, and the other group members repay the loan amount due. In case of a default, the group is blacklisted and deemed ineligible to receive further loans from any MFI. This model ensures that the individual borrower is subject to constant peer pressure that urges her to make timely repayments.

SHGs lending model: SHGs are typically formed at grassroot level, comprising individuals from similar socioeconomic backgrounds. Members pool their savings and contribute to a common fund for common goal by supporting each other. MFIs provide capacity building support to there SHGs, offering training and guidance on financial literacy, entrepreneurship and other relevant skills to empower members and enhance their financial management capabilities.

An SHG is a financial intermediary, formed by 15-20 local members (mostly women). These members contribute small amounts on a regular basis for a few months to build the base capital in the group, and subsequently commence lending activities. Once a firm's credit history is in place, the SHG gets linked to a bank and becomes a channel for microfinance. MFIs extend loans to the groups, which are collectively responsible for the repayment. This collective responsibility fosters a sense of accountability and peer pressure from the group members encouraging timely repayments

Advantages of SHG lending model

Reduced risk: Group based lending under the SHG model helps spread the risk of default across the members of SHG. This shared responsibility and social collateral often lead to higher repayment rates, reducing the overall credit risk for the MFIs.

Lower operational costs: The SHG model allows MFIs to leverage the group's internal mechanisms for monitoring and collection of loans. This can reduce the operational costs associated with loan disbursal and management, thereby improving the overall cost-efficiency of the lending process.

Enhanced outreach: through the SHG model, MFIs can penetrate deeper into rural communities, reaching underserved populations that may have limited or no access to formal financial services.

Sustainable growth: The SHG lending model promotes sustainable growth by encouraging savingd and responsible borrowing habits among the members. This, in turn, facilitates a more stable and predictable flow of funds, enabling MFIs to plan and manage their lending activities more efficiently.

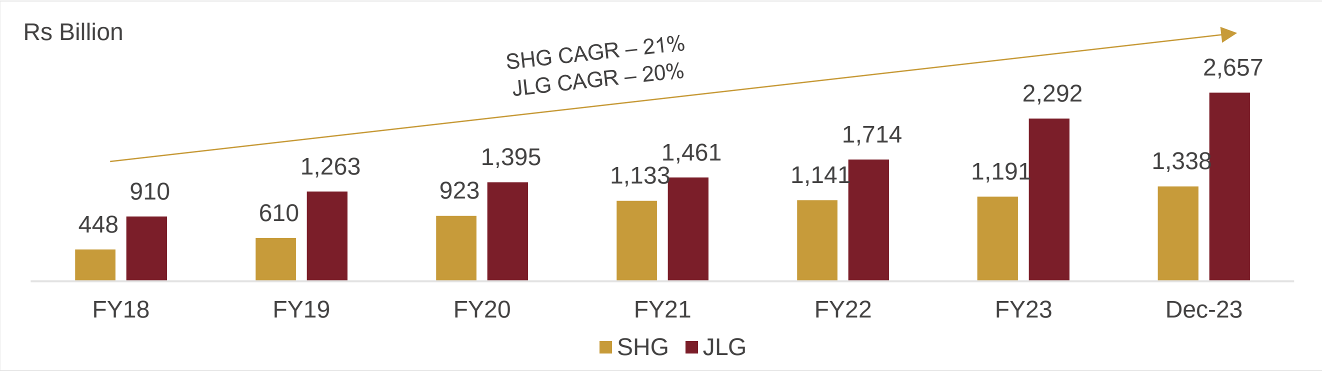
Collection models adopted by MFIs

Field agent / employee collection: MFIs deploy field agents/employees who visit borrowers directly in their communities or workplaces to collect loan repayments. This model allows for personalized interactions, building trust, and often results in higher repayment rates due to the familiarity and relationship between the agents/employees and borrowers. However, this increase the operating cost for MFIs.

Digital payment channels: Some MFIs utilize digital payment channels, including online banking, mobile banking apps, etc. allowing borrowers to make repayments from their homes and workplaces. This model streamlines the repayment process and enhances overall efficiency.

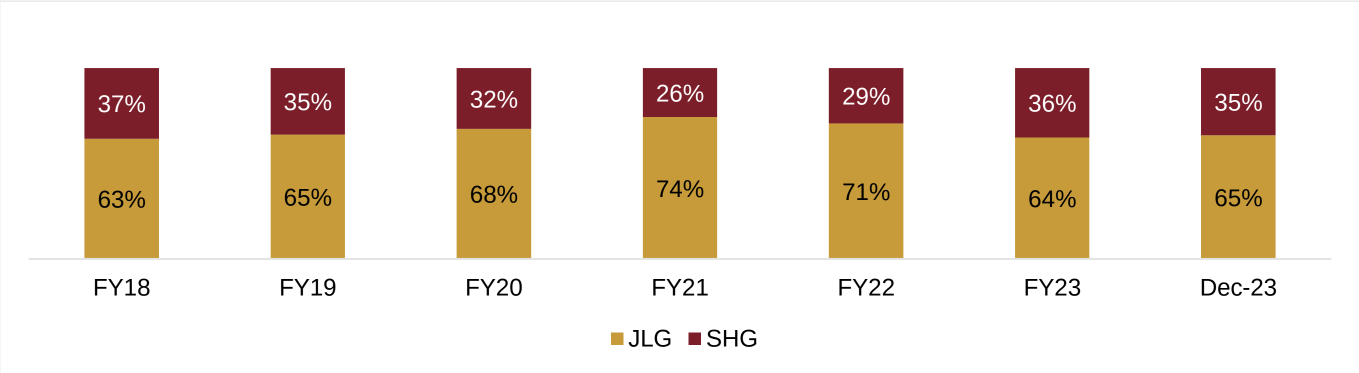
Branch based collection: In some of the MFIs, repayments are made at branches. Borrowers need to visit branch office and make repayments. This reduces the operational cost for the MFIs.

SHG and JLG grew at 21% and 20% CAGR between FY18 and Q3FY24



Note: SHG data includes microfinance portfolio of banks lent through the SHG Bank Linkage Programme and JLG data includes portfolio outstanding data for SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs lent through the Joint Liability Group (JLG) program.
Source: MFIN, CRISIL MI&A

SHG has been gaining market share since fiscal 2021



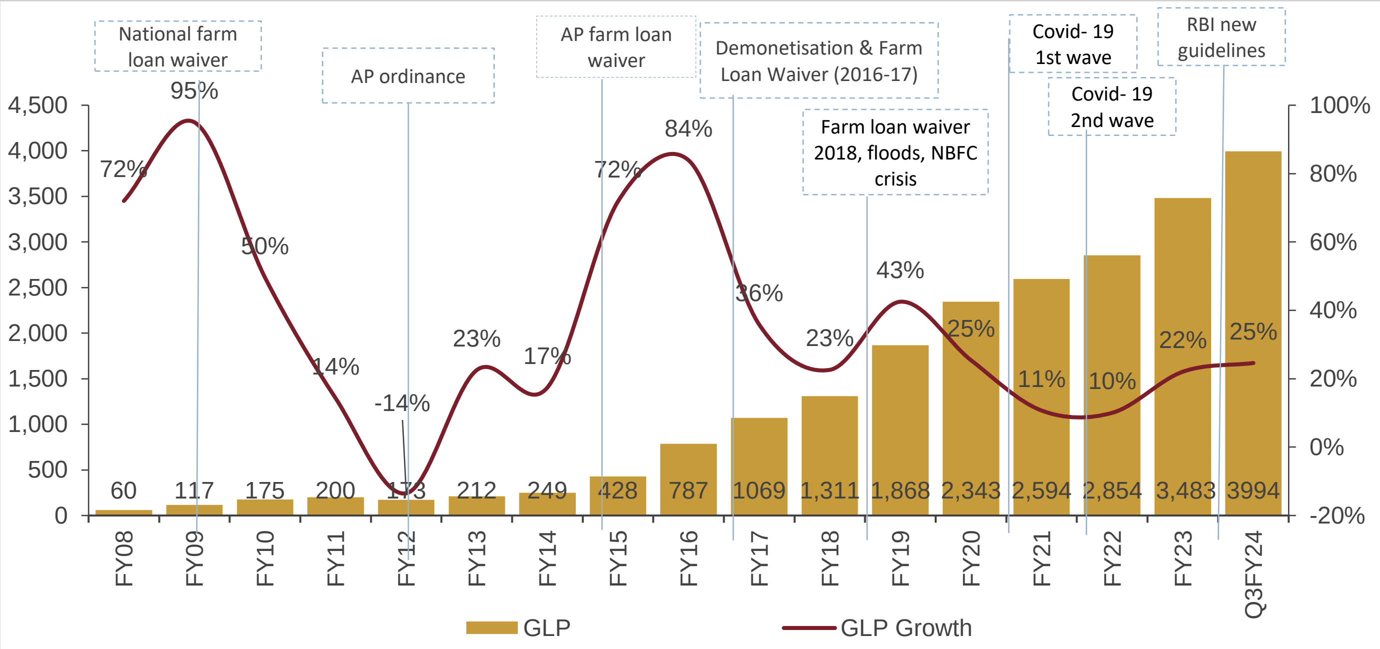
Note: SHG data includes data for Banks lending through SHG and JLG data includes data for lending through joint liability group (JLG) program by Banks, SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs; Source: MFIN, CRISIL MI&A

Industry resilient despite major setbacks and changing landscape

The microfinance industry has been growing despite facing various headwinds in the past decade, such as the national farm loan waivers (2008), the Andhra Pradesh crisis (2010), Andhra Pradesh farm loan waiver (2014), demonetization (2016), and more state-specific farm loan waivers (2017 and 2018). Of these events, the Andhra Pradesh crisis of 2010 had a lasting impact on the industry. Some players had to undertake corporate debt restructuring and found it difficult to sustain their business. While the demonetization of Rs 500 and Rs 1,000 denomination banknotes in November 2016 hurt the industry, the impact was not as deep as the Andhra Pradesh crisis and was limited to certain districts. Portfolio at risk (PAR) data as of September 2018 indicates the industry recovered strongly from the aftermath of the demonetization. Furthermore, collections since September 2017 remained healthy. The liquidity crisis in 2018, however, had a ripple effect on microfinance lending as smaller NBFC-MFIs with capital constraints and lenders relying on NBFCs for funding slowed down disbursements.

NBFC-MFIs faced initial hiccups at the start of fiscal 2021 due to the pandemic on account of uncertainty over collections and aversion by lenders to extend further funding to them. However, the situation improved gradually and most NBFC-MFIs, with the exception of a few, were able to improve the liquidity buffers during the course of the year by raising funds and after getting support from various government schemes. While the resurgence of Covid-19 led to a fresh bout of uncertainty with respect to collections in the first quarter of fiscal 2022, the impact was not as pronounced as in the early part of the previous fiscal. The industry gradually rebounded in fiscal 2022 on account of increased disbursements. Further, with revised MFI guidelines announced by the RBI in March 2022 that increased the total household income threshold for collateral-free loans coupled with higher consumption demand and lower slippages fueled growth in fiscal 2023. In February 2023 Telangana High Court ordered that RBI-regulated NBFCs operating as MFIs should not be governed by state laws, only the central bank has power to regulate these entities. A similar Supreme Court ruling last year reaffirmed that state moneylending acts will not apply to NBFCs that are under the regulation of the RBI, addressing industry dual regulation issues.

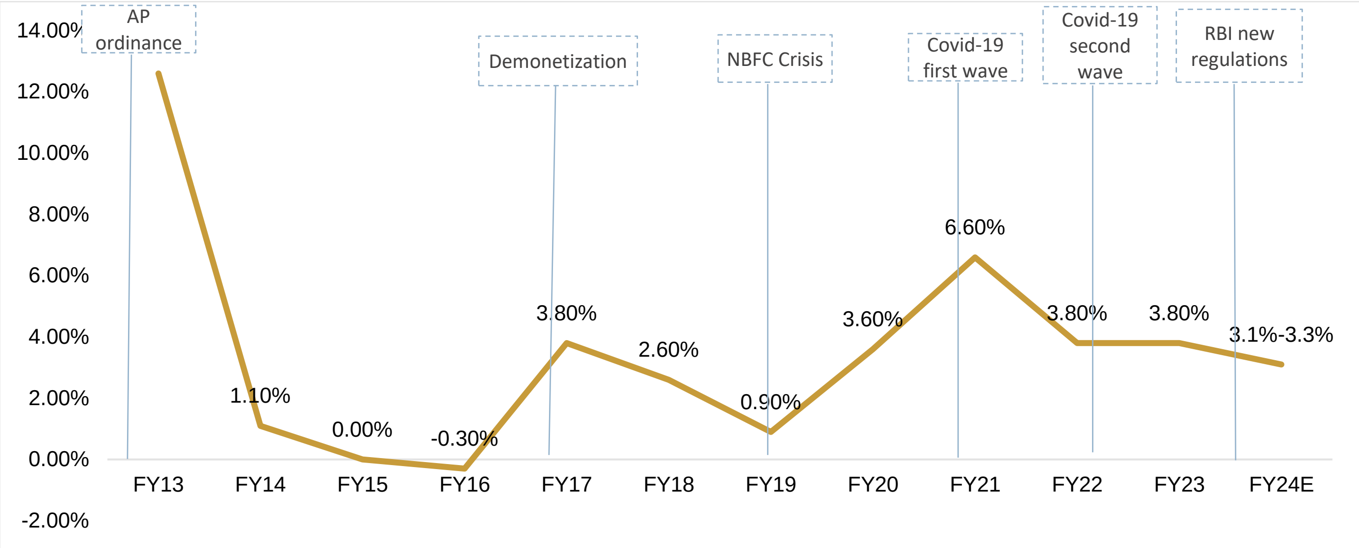
MFI industry has shown resilience over the past decade



Note: Data includes numbers for banks' lending through JLG program by SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs. It excludes data for banks' lending through SHGs. The amounts are as at the end of fiscal year and as the end of quarter for Q3FY24. For Q3FY24 Y-o-Y growth calculated over Q3FY23
Source: MFIN, CRISIL MI&A

Over the years, MFIs have proven their resilience to high-impact events. They have played an important role in promoting inclusive growth by providing credit to borrowers at the bottom of the economic pyramid. Despite catering to a vulnerable audience, the MFIs have historically proven their ability to recover effectively from crisis situations within a few months (for instance, demonetization) and have been able to maintain profitability over a cycle. Amid the pandemic, the MFIs bolstered their capital position by raising fresh equity. Their ability to raise capital, even in such uncertain times, can be attributed to the latent growth potential of the sector, capability of the industry to wade through periods of crises by taking proactive steps, social impact of MFI lending, and healthy profitability over business cycles. Furthermore, MFI lending is closely regulated by the RBI. Over the years, the central bank has come up with various regulations to enable long-term sustainable growth in the sector and reduce systemic risks.

Credit costs for microfinance industry across various events



Note: Data includes data for MFIs which constitute more than 60% of Industry, E: Estimated.

Source: Company Reports, CRISIL MI&A

NBFC-MFIs have gained market share and to grow faster than SFBs

Loans in the microfinance sector are provided by banks, SFBs, NBFC-MFIs, other NBFCs, and non-profit organisations. Most of the banks provide loans under the SHG model. However, they also disburse microfinance loans directly or through BCs to meet their priority-sector lending targets.

The RBI awarded in-principal SFB licenses to 10 applicants on September 16, 2015, of which eight were MFIs. The share of SFBs in microfinance industry has been reducing over the past years from 20% in FY18 to 17% in Q3FY24 and the NBFC-MFIs have gained market share from 28% in FY18 to 33% in Q3FY24 owing to increasing reach in newer geographies and deepening penetration in existing regions. Going forward, CRISIL MI&A expects NBFC MFIs to grow at a faster rate than the overall MFI industry and increase its share further.

Participants in the MFI lending business are:

Participants	Description	Player examples
Bank SHGs	refers to banks who provide microcredit under the SHG programme	SBI, Union Bank of India, Axis Bank, ICICI Bank, Bank of Baroda, Bandhan Bank etc.
Banks	portfolios for direct and indirect lending (through BCs) by banks; private banks are key constituents	
NBFC-MFIs	MFIs exclusively focused on the microfinance business, and accordingly registered as NBFC-MFIs with the RBI.	Credit Access Grameen Ltd, IIFL Samasta, Asirvad Micro Finance Ltd., Fusion Microfinance Ltd., Spandana Sphoorty Finance Ltd., Annapurna Finance Ltd., Satin Creditcare Network Ltd., Belstar Microfinance Ltd., Muthoot Microfin, etc.
SFBs	Small finance banks lending microfinance loans, most of these were formerly NBFC-MFIs	AU SFB*, ESAF SFB, Equitas SFB, Fincare SFB, Jana SFB, Suryoday SFB, Ujjivan SFB, and Utkarsh SFB
NBFCs	has a microcredit lending business, in addition to other lending businesses	SMFG India Credit, L&T Finance, Tata Capital
Non-profit MFIs	MFIs registered as not-for-profit organisation	Cashpor

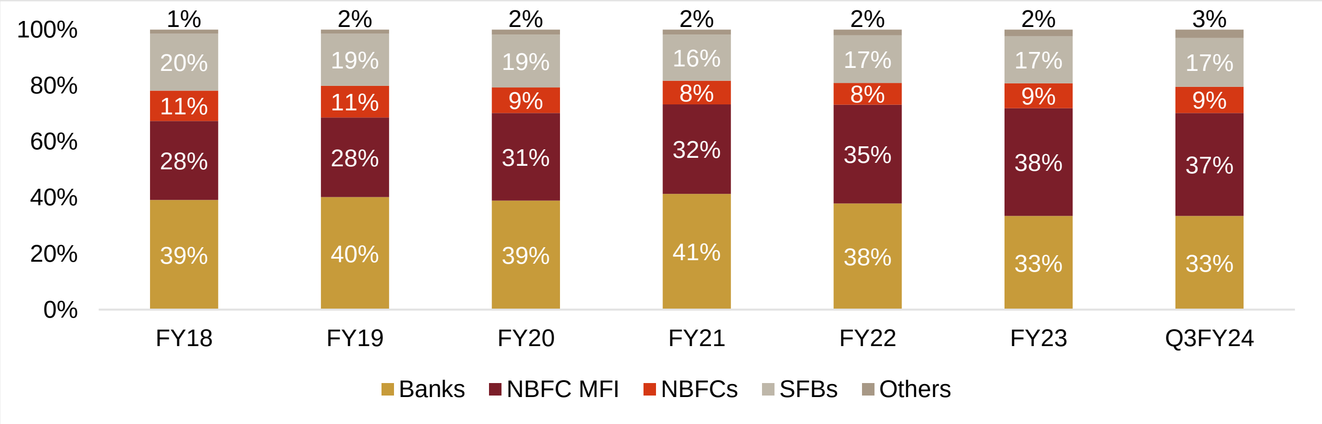
Note: (*) Post consideration of AU SFB's merger with Fincare SFB and exposure to Fincare's microfinance portfolio; Source: CRISIL MI&A

NBFC-MFIs and non-profit MFIs are the only two player groups with loan portfolios exclusively focused towards microcredit. Some of the well-established MFIs have converted to SFBs or have been acquired by banking institutions, which has led to a change in the landscape.

After commencement of operations, SFBs that were previously NBFC-MFIs started expanding in other asset classes, such as affordable housing, SMEs and vehicle finance, to create a balance between secured and unsecured assets, while diversifying their product offering. This strategy of diversification may result in other assets growing more in comparison to the microfinance portfolios of SFBs.

Hence, CRISIL MI&A expects NBFC-MFIs to grow at a much faster rate of 23-25% between fiscal 2024 and 2027 vis-v-a-vis SFBs which are expected to grow at slower rate, on account of increasing focus of SFBs towards other product suite beyond the MFI loan portfolio.

NBFC MFIs account for 37% of the total gross loan portfolio as of Q3FY24



Note: Data includes data for banks SHG, bank JLG, SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs.
Source: CRIF Highmark, CRISIL MI&A

Demonetization (2016)

Most of the collection and repayment of the microfinance loans are in cash and hence the effect of demonetization was severe on the microfinance industry leading to higher credit costs. Because of cash crunch in the economy, borrowers were not able to provide cash to the microfinance lenders. While collections suffered, lenders were also not able to disburse new loans on account of low liquidity in the system. MFIs which had higher cash and liquidity with them were better placed than small MFI lenders. A decrease in loan portfolio as well as a decrease in ticket size of the players was seen post demonetization for MFI lenders. However, post demonetization MFI lenders scaled their tech platform as well as opened new direct accounts thus giving a push to financial inclusion.

Farm loan waivers in fiscals 2017 and 2018

Farm loan waivers are provided by the government due to any natural calamity or poor monsoon; farmers are not able to repay the loan and the government takes charge of repaying the loan. Waivers only include certain type of loans with respect to ticket size and from specific lending institutions including only a few categories of farmers. Loan waivers do not help farmers in the long run and disrupt the credit culture in the area.

Maharashtra, Uttar Pradesh and Karnataka were among the states which provided for the highest loan waivers in the country. States like Andhra Pradesh and Telangana have also provided for farm loan waivers. Farm loan waivers impacted the collections initially. However, efforts by MFIs to educate borrowers about the applicability of the scheme have led to a gradual pick-up in loan collection. Even the government and industry associations helped the MFIs by making announcements through media to create awareness among the borrowers.

It led to a slowdown in lending, was mostly due to lower repayments caused by a disturbance in the repayment cycle in the above-mentioned states. However, the impact on the NBFC-MFIs was less as compared with banks due to being in regular touch with the customers.

Details of amount of farm loans waived off by various states (as of March 2020)

State	Name of the debt waiver scheme since 2014	Key Features	Actual Amount waived (in Rs. Crores)
Jammu and Kashmir	50% KCC Waiver Scheme – 2017	KCC loans upto Rs. 1 lakh were given 50% waiver in a phased manner.	244.10
Karnataka	Karnataka State Debt Waiver Scheme – 2017	To waive off agri farmer loans upto Rs. 2 lakhs taken from state run cooperative banks	7,794.00
	Karnataka State Debt Waiver Scheme 2018		14,293.92
Chhattisgarh	2015-16 (Debt Waiver Scheme -2015)	To waive off agri farmer loans	129.76
	2018-19 (CG Government Short Term Agri, Debt Waiver Scheme -2018)		6,100.00
Madhya Pradesh	Debt Waiver Scheme -2018	The scheme intended to waive agri loans up to Rs. 2 lakh	11,912.00
Maharashtra	Chhatrapati Shivaji Maharaj Shetkari Sanman Yojana, 2017	The scheme intended to waive off loans to the extent of Rs. 1.5 lakhs	30,500.00
Punjab	Crop Loan Waiver scheme 2017-18	Government to waive off farm loans for approx. 10 lakh farmers	4,625.00
Rajasthan	Farm Loan Waiver by Cooperative Banks (for short term crop loans)	State Government to waive loans upto Rs. 50,000 for loans taken by farmers till 30th September 2017	7,524.66
	Farm Loan Waiver by Cooperative Banks (for medium and long term agriculture loans)		7,850.92
Tamil Nadu	Crop Loan Waiver -2016 (Small and Marginal Farmers)	Government of Tamil Nadu to waive off loans issued to small and marginal farmers by cooperative banks	5,318.73
Puducherry	Loan Waiver Scheme 2018		19.42
Uttar Pradesh	Debt Waiver Scheme 2017-18	Waive loans up to Rs. 1 lakh for crop loans disbursed before FY2017	25,233.48

Source: Waiving Off Agriculture Loan (2018) : Ministry of Agriculture & Farmers Welfare, Written Answers to Rajya Sabha (6th March 2020), CRISIL MI&A

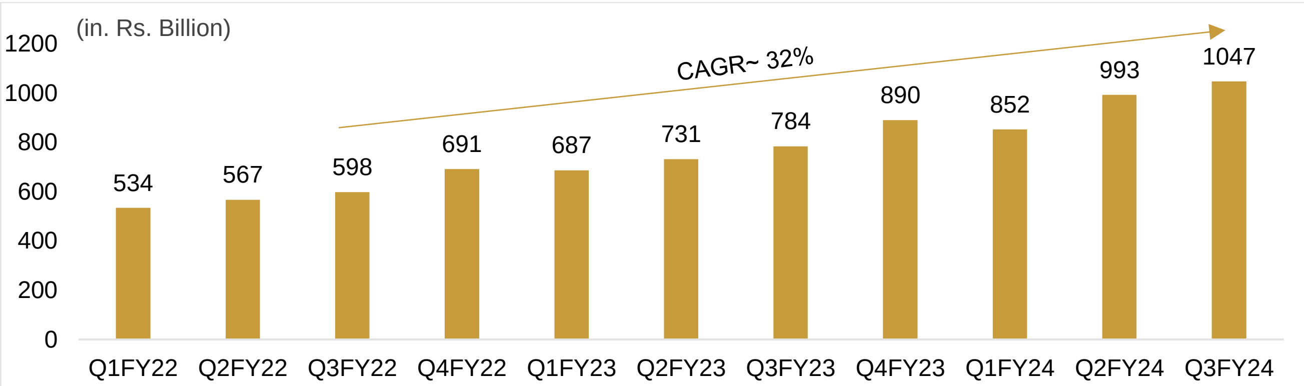
Impact of floods in Kerala and Odisha (2018-20)

In 2018, southern India suffered severe floods. Kerala was one of the most affected; its microfinance industry was adversely impacted, and credit quality of most borrowers deteriorated due to loss of income-generating businesses. In May 2019 and May 2020, Odisha witnessed the worst cyclones, Cyclone Fani and Cyclone Amphan, in 20 years. These cyclones impacted the states of West Bengal and Odisha severely and resulted in a near-term spike in NBFC-MFIs and SFBs' PAR portfolio.

NBFC liquidity crisis

The liquidity crisis plaguing NBFCs in India had a minor ripple effect on micro-lenders. Lenders who relied on NBFCs for funding slowed down disbursement and started looking at different avenues to raise money. However, the impact of the crisis was not that profound since large NBFC-MFIs had a diversified funding mix and were able to leverage this to their advantage. The outstanding borrowings of the NBFC-MFIs logged a 32% CAGR between Q3FY22 and Q3FY24.

Funding trend of NBFC-MFIs (outstanding borrowing)



Note: Data includes only NBFC-MFIs
Source: MFIN, CRISIL MI&A

Impact of Covid-19 pandemic

The protracted nationwide lockdown to contain the spread of Covid-19 affected the income-generation ability and the savings of MFI borrowers. Typically, these borrowers have weaker credit profiles. About 50-60% of the micro loans were under moratorium as of August 2020. Also, because of the nationwide lockdown, and several state-imposed lockdowns thereafter, the normal operations of MFIs — loan origination and collections — were a challenge, especially during the first few months after the onset of the pandemic. This had an adverse impact on the MFIs since their operations are field-intensive, involving personal interactions, such as home visits and physical collection of cash.

Prior to the lockdown, many MFIs had managed to shore up their liquidity by March-end in fiscal 2020. They had already done a majority of their collection before the lockdown. In fact, collection efficiency was largely intact — at 98-99%. The MFIs also drew down bank loans for the purpose of on-lending in the last week of March, which is typically a period marked by high business activity. However, planned disbursements did not happen on account of the lockdown. Disbursements reached the pre-Covid level in the third and fourth quarters of fiscal 2021 led by rural and semi-urban areas since the impact of the pandemic was relatively lower there.

Key government steps that supported MFIs during the Covid-19 crisis

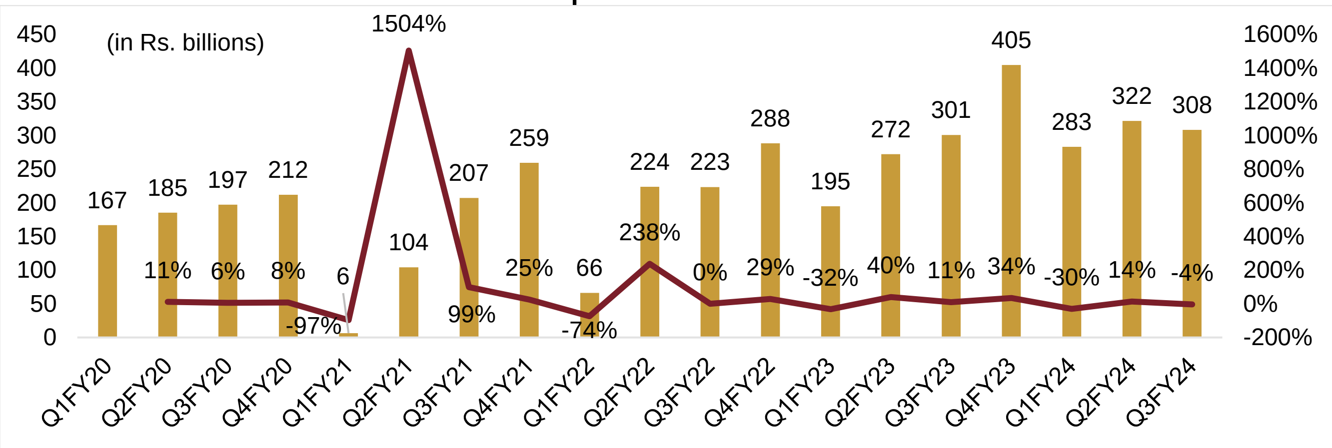
- **Reducing the debt servicing burden through a moratorium period:** The RBI initially permitted lending institutions to allow a moratorium of three months on repayment of instalments for term loans outstanding as on March 1, 2020, and defer interest payments due on working capital facilities outstanding. The moratorium was further extended by another three months until August 31. However, the banks were instructed to provide 10% additional provisioning for availing of this benefit, which could be later adjusted against the provisioning requirements for actual slippages. These measures were intended to boost confidence in the economy and provide relief to the borrowers.
- **Refinance support from RBI:** In April 2020, the RBI announced refinancing support of Rs 250 billion to the National Bank for Agriculture and Rural Development (NABARD), which provides support to NBFC-MFIs, rural regional banks and co-operative banks.
- **Loan interest subvention scheme:** Under this scheme, the government provided 2% interest subvention to loans given under the Mudra-Shishu scheme. These loans of up to Rs 50,000 ticket size are primarily given by the NBFC-MFIs to low-income groups.
- **PSL status for SFB lending to NBFC-MFIs:** On May 5, 2021, the RBI announced that fresh lending by the SFBs to the NBFC-MFIs with asset size less than Rs 5 billion for on-lending to individual borrowers will be classified under priority sector lending (PSL). This encouraged the flow of credit to smaller MFIs, which were facing relatively bigger funding-access challenges. The facility to the SFBs was made available up to March 31, 2022.
- **SLTRO:** The RBI announced a special long-term repo operation (SLTRO) programme to the tune of Rs 100 billion for the SFBs to soften the impact of the second wave of Covid-19. The first auction took place on May 17, 2021. It continued in subsequent months until the amount was fully utilized. The amount borrowed from this scheme was to be utilized to lend to small business units and other unorganized sectors.
- **Credit Guarantee Scheme:** On June 28, 2021, the Minister of Finance announced the Credit Guarantee Scheme through the MFIs for the first 2.5 million customers for a maximum tenure of three years. Three-fourths of the guarantee was provided to scheduled commercial banks for a ticket size up to Rs 1.25 lakh to new or existing NBFC-MFIs. This addressed the severe cash flow distress the second wave inflicted on individuals and small businesses.

NBFC-MFIs' disbursements grew 19% year on year as of nine months ended fiscal 2024

In fiscal 2021, the disbursement witnessed a slack on account of the nationwide lockdown imposed to contain the pandemic, which brought the economic activities to a grinding halt in the first half. In the second half, with activities resuming, the credit outflow picked up. Further, the first quarter of fiscal 2022 saw the impact of the second wave of the pandemic leading to localised lockdowns. The growth rebounded in the second half and pace continued during fiscal 2023 with aggregated disbursement rising to Rs 1,172 billion (46% on-year growth).

The growth was supported by rural economic revival, improved collection efficiency, implementation of the RBI's new regulatory framework, increased penetration and bigger average ticket size of disbursement.

Disbursements for NBFC-MFIs have crossed pre-covid levels



Note: Data includes only NBFC MFI players.
Source: CRIF Highmark, CRISIL MI&A

Rising penetration to support continued growth of the industry

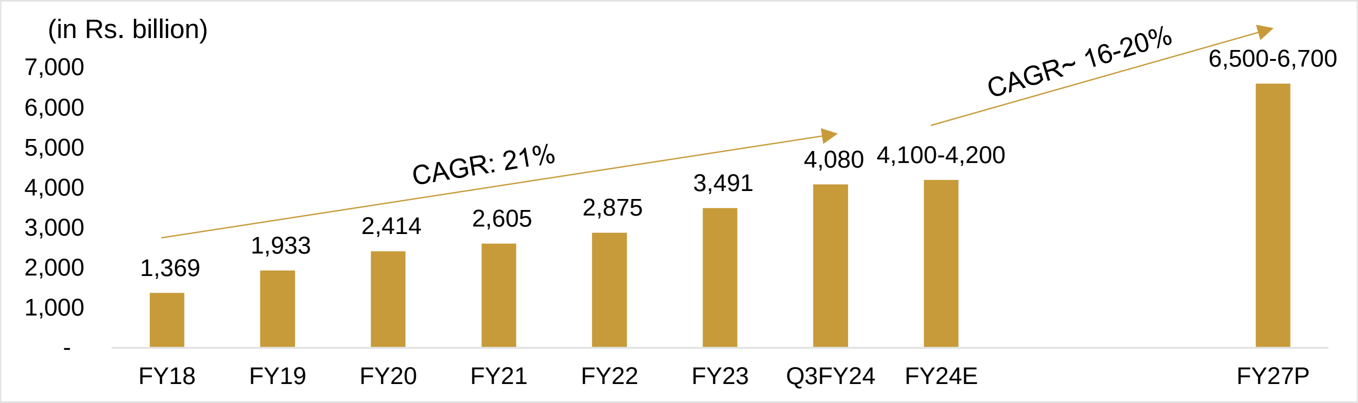
With economic revival and unmet demand in rural regions, CRISIL MI&A expects the overall MFI portfolio size to grow at CAGR of 16-20% between fiscals 2024 and 2027. CRISIL MI&A expects NBFC MFI industry to log 23-25% CAGR between fiscals 2024 and 2027. Key drivers for the superior growth outlook include increasing penetration into the hinterland and expansion into newer states, faster growth in the rural segment, increase in average ticket size and higher usage of support systems such as credit bureaus. The presence of self-regulatory organisations, such as MFIN and Sa-Dhan, is also expected to support the sustainable growth of the industry going forward.

Moreover, household credit is a huge untapped market for the MFI players. The country has seen household credit penetration via MFI loans rising, but it is still on the lower side.

Key enablers for the microfinance industry growth

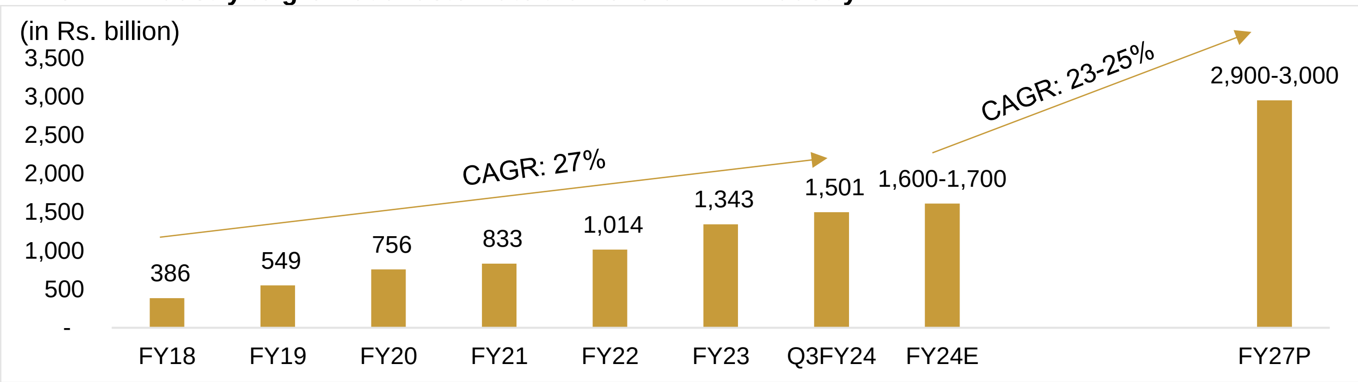
- Digitalisation is expected to bring down costs, improve collection efficiency and profitability for the MFIs. CRISIL MI&A expects the lower cost of servicing customers, better productivity and lower credit costs through the use of technology will help the MFIs improve their profitability.
- The MFIs have built a large distribution network in the urban and rural India. Now, these MFIs are leveraging this network to distribute financial and non-financial products, including insurance and product financing of other institutions to members at a cost lower than competition.
- New regulations will help further deepen the penetration of microcredit in the country. With enhancement of the household income threshold, the MFIs are expected to reach many more households. The regulations are also expected to create a level playing field, which will increase the competition, in turn, benefiting the end customer.

Overall MFI Industry (GLP) to grow at 16-20% CAGR over fiscal 2024-27



Note: P: Projected, E: Estimated. Source: CRIF Highmark, CRISIL MI&A

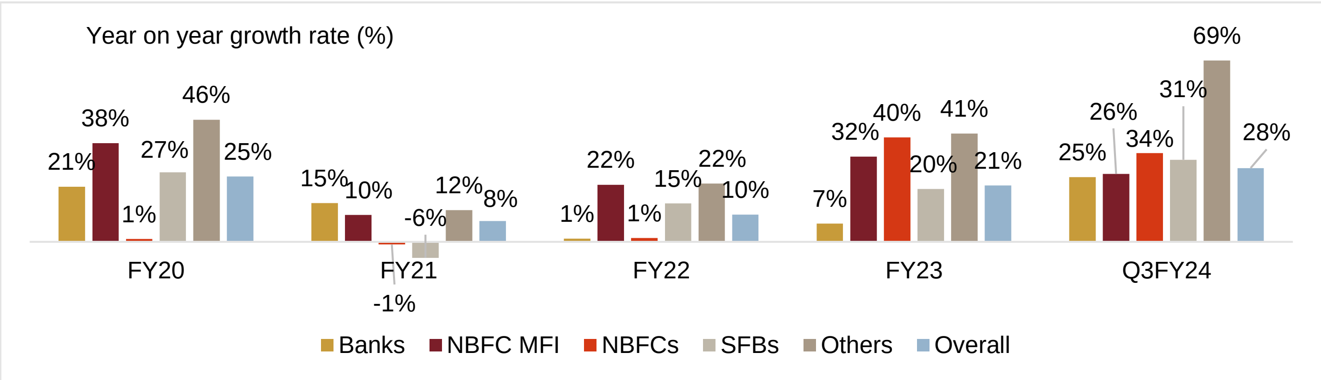
NBFC-MFI Industry to grow at a faster rate than overall MFI Industry



Note: P: Projected, E: Estimated. Source: CRIF Highmark, CRISIL MI&A

The portfolio outstanding of the NBFC-MFIs grew at a healthy CAGR of 27% between fiscals 2018 and nine months ended fiscal 2024 to Rs 1,501 billion. NBFCs and NBFC-MFIs registered Y-o-Y growth at 40% and 32% respectively in fiscal 2023. Going ahead, CRISIL MI&A expects the NBFC-MFIs to outpace other MFI lenders amid improving asset quality and continued traction in economic activity. Complementing the tailwinds will be rising profitability supported by higher net interest margins. The confluence of these factors augurs well for the credit profiles of NBFC MFI, allowing them to grow faster. The NBFC-MFIs are expected to gain market share in the medium term with a healthy double-digit CAGR of 23-25% between fiscals 2024 and 2027.

NBFC-MFIs witnessed higher growth than overall portfolio since fiscal 2020

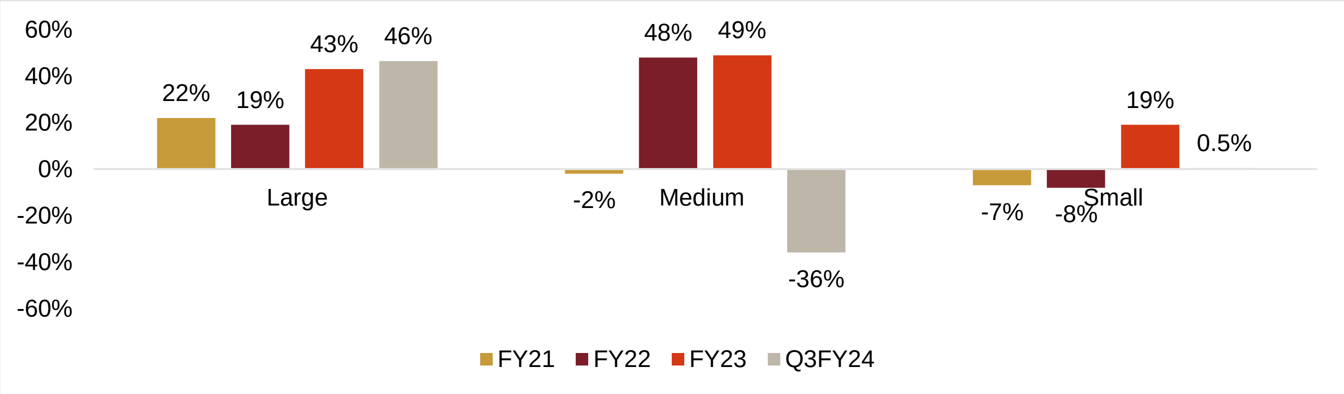


Note: Q3FY24 year on year growth rate calculated over Q3FY23.

Source: CRIF Highmark, CRISIL MI&A

Large and medium NBFCs have been able to grow faster than small NBFCs on account of their ability to raise funds, increase distribution spread at a faster rate and offer competitive products to gain market share.

Higher growth in Large & Medium NBFC MFIs compared to smaller ones (Y-o-Y growth)



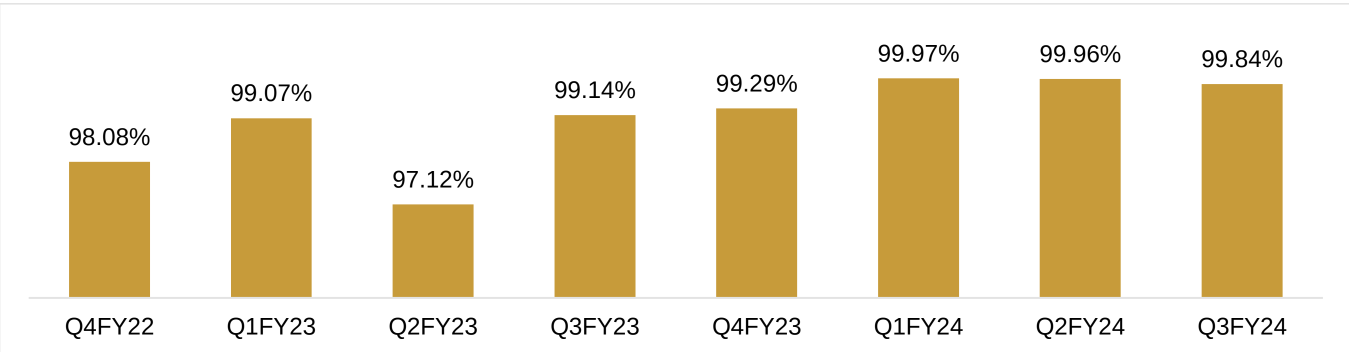
Note: Data includes 48 NBFC MFI players constituting ~91% of the overall NBFC MFI market, Players are classified based on Gross Loan Portfolio (GLP), Large players have GLP>Rs. 20,000 million, Medium players have GLP between Rs. 5,000 and Rs. 20,000 million, Small players have GLP upto Rs. 5,000 million, Q3FY24 year on year growth rate calculated over Q3FY23.

Source: MFIN, Company Reports, CRISIL MI&A

Adoption of technology in Microfinance Industry

- The microfinance industry in India has witnessed a significant transformation with the advent of digital technology. Many players in the industry have adopted digital initiatives to enhance their operations and reach out to more customers. Some of the digital initiatives taken by players in the MFI industry include mobile-based applications, digitalisation of loan process, use of Aadhaar-based authentication, cashless transactions and digital financial education.
- The MFIs have also partnered with fintech companies to enhance their digital capabilities and provide better services to customers. The fintech companies offer solutions such as digital payments, credit scoring and loan management systems that the MFIs can leverage to improve their operational efficiency and expand their reach.
- Cashless disbursements and collections have become increasingly popular in the microfinance industry in India, as they promote transparency, reduce cash handling costs and improve customer experience.

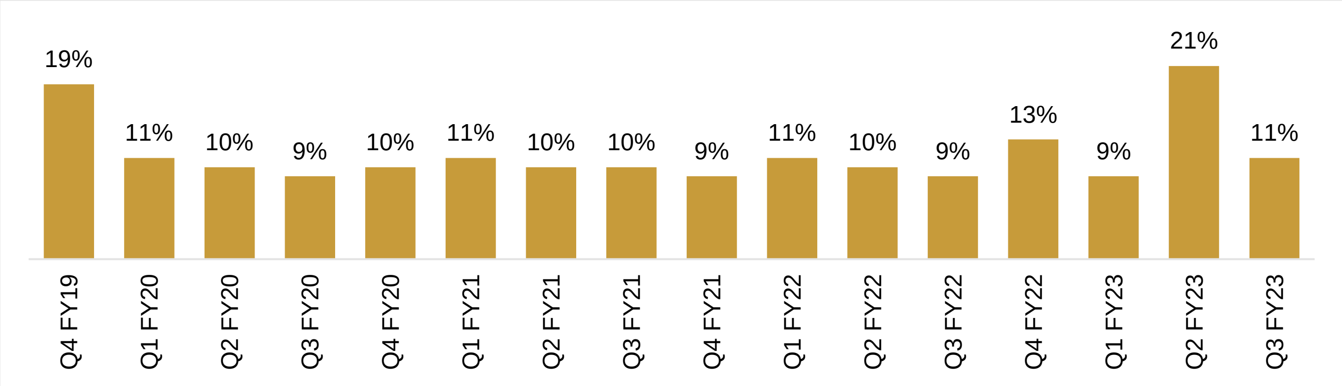
Trend in cashless disbursements for NBFC-MFIs



Note: Data includes NBFC MFI players. Cashless disbursements % is loan amount disbursed through cashless mode.

Source: MFIN, CRISIL MI&A

Trend in cashless collections



Source: MFIN report, CRISIL MI&A

Players tapping newer states and districts to widen client base

CRISIL MI&A finds a significant jump in the number of MFIs operating in Uttar Pradesh, Rajasthan and Gujarat in recent years. The total number of branches in these states has significantly increased as of Q3 fiscal 2024 compared to fiscal 2022, leading to a jump in their portfolio outstanding. The availability of borrower credit related data from credit information companies has also ensured that MFIs have access to more data on borrowers, helping them make informed lending decisions.

Total branches of MFIs in each state/UT

State	No. of branches (FY22)	No. of branches (FY23)	No. of branches (Q3FY24)	Population served per branch (Thousands per branch, Q3FY24)
Arunachal Pradesh	NA	10	12	130
Assam	486	432	358	100
Bihar	1,905	2,186	2,498	51
Chhattisgarh	543	531	556	54
Delhi	9	5	5	4,272
Gujarat	552	668	743	96
Goa	17	19	17	93
Himachal Pradesh	29	40	48	156
Haryana	395	397	394	77
Jharkhand	549	623	664	59
Karnataka	1,263	1,436	1,529	44
Kerala	421	487	471	76
Maharashtra	1,096	1,191	1,261	100
Meghalaya	7	7	7	478
Madhya Pradesh	1,509	1,603	1,685	51
Orissa	1,271	1,298	1,273	36
Punjab	332	324	342	90
Pondicherry	39	43	51	27
Rajasthan	1,068	1,357	1,349	60
Sikkim	NA	NA	NA	NA
Tamil Nadu	1,646	1,896	1,968	39
Tripura	186	172	135	31
Uttarakhand	102	125	152	77
Uttar Pradesh	1,651	2,143	2,450	96
West Bengal	1,231	1,321	1,367	72

Note: Data includes only NBFC-MFI players; Population projected by UIDAI as of 31st March 2023.

Source: MFIN, CRISIL MI&A

In the past few years, many MFIs have opened branches in untapped districts, thus increasing their penetration. In states where the presence of MFIs and banks is strong, ticket size has increased as well. CRISIL MI&A expects penetration to deepen going forward, which will further drive growth. States with large unserved populations provide an opportunity for existing players to improve their penetration and market share.

Rural segment to drive MFI Business

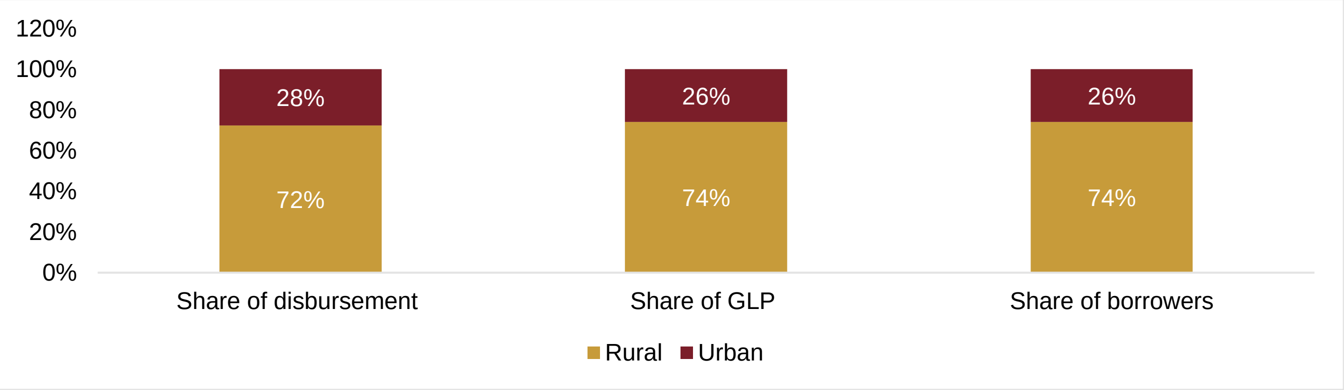
CRISIL MI&A expects the rural segment to drive MFIs' business, with burgeoning demand expected from this segment. With fewer branches and outlets in rural and semi-urban areas as compared with urban areas, the rural market (comprising of rural and semi-urban) in India is still under-penetrated, thereby opening up a huge opportunity for savings and loan products. CRISIL MI&A believes that establishing a good rapport with rural customers leads to longer and more loyal customer relationship, which can be further leveraged to cross-sell other products.

With the government's focus on financial inclusion and increasing number of financial institutions opening up branches in the unbanked areas, CRISIL MI&A has seen that demand for loan is higher in rural areas. As of Fiscal 2023, the rural pie had accounted for 72% of the overall disbursement. Additionally, in terms of GLP, rural regions accounted for 74% of the overall portfolio of NBFC-MFIs, other NBFCs, and non-profit MFIs.

Disbursement and number of borrowers in rural areas (as of Fiscal 2023)

(Rs billion)	Disbursement (FY23)	Portfolio outstanding (FY23)
Rural	1,273	1,331
Urban	486	468

Rural areas account for almost 72% share in disbursement, 74% in GLP and 74% in number of borrowers (Fiscal 2023)



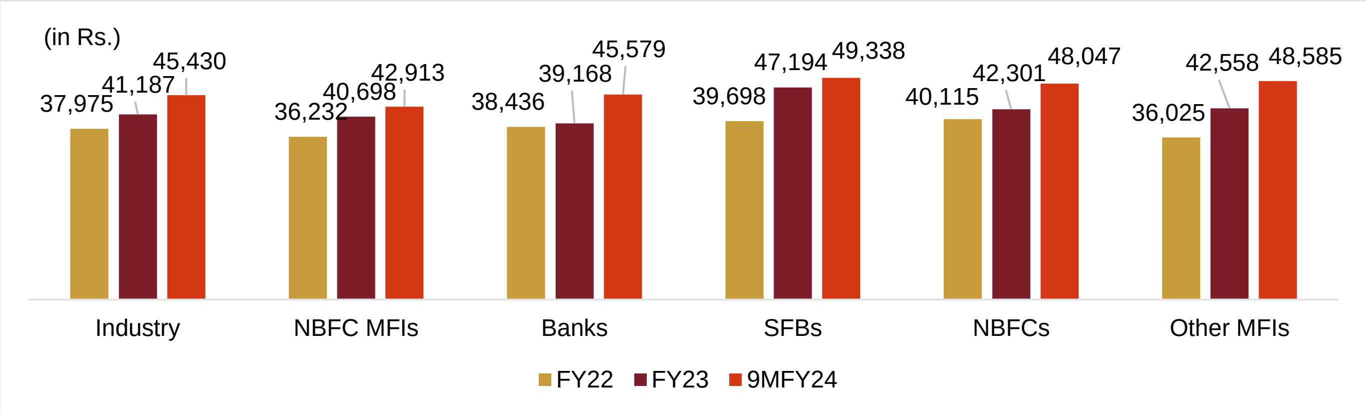
Note: Values taken as per Bharat Microfinance Report 2023.
Source: Sa-Dhan, CRISIL MI&A

With higher focus on rural areas, over the past few fiscals, NBFC-MFIs have been able to maintain better asset quality in rural areas compared to that in urban areas. Such a trend in asset quality forms a strong base for NBFC-MFIs to penetrate more into rural areas.

Average ticket size to continue to expand in the coming years

The average ticket size of NBFC MFIs has risen in fiscal 2023 to Rs 40,698 from Rs 36,232 in fiscal 2022, translating into a growth of 12% on year. As of Q3FY24, the average ticket size for NBFC MFI players increased to Rs 42,913. CRISIL MI&A expects the trend to continue in the medium term with NBFC-MFIs continue to growth at a healthy pace outpacing banks and gaining market share.

Average ticket size of NBFC-MFI players lower compared to the industry



Source: CRIF Highmark, CRISIL MI&A

Key success factors

Furthering financial inclusion provides huge potential for growth for MFIs

Given the sheer size of India's population and considering that a large section still lacks access to formal banking services, driving financial inclusion has always been a priority for the government. The banking system and 'priority sector' lending have been the most explored channels to bring majority of the population under the ambit of formal credit institutions. India is on the threshold of a high-growth trajectory; hence, financial inclusion is imperative for sustaining equitable growth.

Over the years, the industry has also proactively made investments towards expanding the usage of technology and creating adequate risk monitoring systems by sharing portfolio data with credit bureaus. The usage of technology has helped MFIs improve efficiency, reduce cash usage, and provide better services to customers. The usage of analytics for portfolio monitoring and credit appraisal has helped the industry take corrective action as required.

From an investor perspective too, MFI is perceived as an attractive asset class due to the availability of PSL benefit, the number of touchpoints that MFIs have deep into the hinterland, and the social impact they create.

Credit risk mitigation by credit bureaus

Credit bureaus such as Equifax and CRIF Highmark collect data from several MFIs and build a comprehensive database that captures the credit history of borrowers. These databases are updated weekly. The presence of credit bureaus ensures that MFIs have access to more data on their borrowers, helping them make informed lending decisions over the long run.

Ability to attract funds/raise capital and maintain healthy capital position

The microfinance industry has seen rapid growth over the past few years owing to small ticket sizes and doorstep disbursement. Despite this, a large portion of the market remains underpenetrated, making it necessary for MFIs to raise funds at regular intervals to sustain growth. This remains a challenge for several MFIs owing to perceived risk of the borrower segment, their susceptibility to socio-political issues, and volatility in asset quality. The ability of MFIs to raise funding from diverse sources and maintain a capital position much higher than the prescribed regulatory minimum is vital for long-term sustainability.

Geographically diversified portfolio helps MFIs mitigate risks

A large, well-diversified portfolio in different geographies enables players to mitigate risks associated with a concentrated portfolio. Apart from this, a wider scale of operation helps them reduce operating expenses as a percentage of outstanding loans. Rural areas are still under-penetrated in India; hence, players operating in/focused on these areas are likely to see faster growth in their portfolios.

Ability to control asset quality and ageing of NPAs

The vulnerability of MFI portfolios to local issues and events that impact the repayment ability of borrower households makes it critical for them to have a strong hold on asset quality and regularly engage with borrowers to control the ageing of NPAs. MFIs, thus, need to put in place methods and use analytics to understand and predict the quality of the portfolio, and minimize the frequency and size of asset quality-related risks.

Digitalisation to bring down costs, improve collection efficiency and profitability for MFIs

Digitalisation has impacted almost all aspects of the financial services industry. However, it is far more critical to the MFI industry as lower operating cost can result in higher financial inclusion and increased benefits for customers. The use of technology has helped MFIs grow at a fast pace, improve efficiency, reduce cash usage and turnaround time, develop new products, provide better services to customers, and use analytics for portfolio monitoring and credit appraisal. According to the MFIN report, about 42 out of 48 NBFC-MFIs have reported 100% of their disbursement through cashless mode in the third quarter of fiscal 2024.

CRISIL MI&A expects that the lower cost of servicing customers, better productivity, and lower credit costs through the use of technology will help MFIs improve their profitability.

MFIs' partnership with fintech companies to be key success enabler

MFIs play a crucial role in providing financial access to underserved segments in the country. There is a huge potential for providing products and services to consumers at the bottom of the pyramid. Considering the challenges, and also the latent growth opportunities in meeting consumer needs, it would be beneficial for MFIs to enter into partnerships with fintech companies and tap the digital medium for financial inclusion.

The collaboration of MFIs with fintech companies will help to raise their operational efficiencies and also to reduce costs. This will also make consumers digitally aware and prepare them for the future. Grasping the importance of fintech companies in financial inclusion and operational efficiencies, some of the leading NBFC-MFIs and SFBs have collaborated with fintech companies.

Promoters who have seen several business cycles

A promoter has a crucial role in the success of a business. A promoter with a strong and vast experience in the same field of business is essential for the success of the company. The experience and domain knowledge of a promoter and top management officials becomes more decisive and critical, especially in the case of handling a crisis because of either internal or external factors. The growth of a company during a normal scenario also depends largely on the decision-taking ability of the promoter, and his/her understanding of the industry, market and competition.

Gradual development of other support systems

Role of MFIN and Sa-Dhan

MFIN was recognised as a self-regulatory organisation (SRO) for NBFC-MFIs in India in June 2014. As an SRO, MFIN has been authorised by the RBI to exercise control and regulation on its behalf, to ensure compliance with regulatory instructions and industry code of conduct. With this, MFIN became the first network to attain such recognition not only in India, but also in Asia.

In September 2017, MFIN released its mutually agreed code of conduct (MACC). As part of this code, an institution will not lend to a borrower who has already availed of loans from three microcredit lenders. While existing RBI regulations were only applicable to NBFC-MFIs, MACC brought other lenders within the ambit of this guidance. This does not include SHGs, though.

MFIN's role as an SRO also includes research and training responsibilities, and submission of MFI financials to the RBI. MFIN's current membership consists of over 50 NBFC–MFIs in the country.

Sa-Dhan is the second association in the business of microfinance to be given SRO status by the central bank. It has the mandate to engage with policymakers and regulators to provide a favourable policy environment for the promotion and growth of microfinance and financial inclusion in India. Its responsibility includes surveillance of the microfinance sector and submission of its annual report to the RBI. It is also entrusted with having a grievance and dispute redressal mechanism for clients of NBFC-MFIs, ensuring borrower protection and monitoring compliance of NBFC-MFIs with the regulatory framework put in place by the RBI.

Post demonetization, MFIN and Sa-Dhan took a proactive role in spreading awareness on MFIs and their operations in various parts of the country, particularly in the event of a socio-political disturbance, where timely intervention with local and state authorities and awareness workshops helped dissipate disturbances before they scaled up.

MUDRA

In Union Budget 2015-16, the government proposed the formation of a Micro Units Development & Refinance Agency Ltd (MUDRA) to facilitate financial inclusion of non-corporate small business sector through refinance and development support. A majority of this sector does not have access to formal sources of finance. MUDRA will be responsible for refinancing and developing the micro-enterprises sector, by providing support to financial institutions that lend to small and micro business entities. MUDRA offers low-cost funding to MFIs, which, in turn, helps MFIs to fund their borrowers.

NABARD refinancing MFIs to encourage lending in rural areas

NABARD is a key facilitator of microfinance initiatives in the country, with a focus on rural areas. It assists eligible NBFC-MFIs and SFBs by providing them with long-term refinance support. In April 2020, the RBI allocated Rs 250 billion to NABARD for refinancing to cooperative banks, RRBs and MFIs to support financial institutions in the current challenging situation because of the pandemic.

SIDBI

SIDBI was set up in April, 1990 with a purpose to facilitate and strengthen credit flows to MSMEs and address both financial and developmental gaps in the MSME ecosystem. SIDBI, through its various schemes, provides liquidity support to the MSME sector by extending loans to NBFCs, MFIs and Banks at lower cost in order to maintain the credit flow. In April 2000, SIDBI also launched a National Microfinance Support Program (NMFSP) in collaboration with Department of International Development, UK (DFID) to bring in best microfinance practices in India and extended the collaboration with International Fund for Agriculture Development, Rome (IFAD) in April 2002 for on-lending support to MFIs

Challenges in rural focused business of MFIs

Financial literacy: People in rural areas often lack financial knowledge and therefore having transaction with them and making them understand terms and conditions of loan products become challenging. Further, due to lack of financial literacy, most of the borrowers fail to manage their debt properly which leads to default in repayment.

Cost of outreach: Reaching rural areas and servicing small loan amounts involve high cost of operations. Setting-up branches and/or having partnership with agents, high disbursement and collection cost involved (employees need to visit remote villages for sourcing and collection of small loan amounts which increase the transportation cost) increase the overall cost of MFIs focusing in rural areas.

Technological challenges: People in rural areas are not so tech savvy to understand and carry out banking transactions and therefore requirement of manual involvement is more which is time consuming and also increases the cost.

Advantages of rural focused business of MFIs

Serving the unserved: Rural areas often have a population with limited access to formal financial services. MFIs having presence in rural areas can serve the unserved and financially excluded people. Market for such MFIs is larger as compared to MFIs focusing more on semi-urban and urban areas, and therefore lesser competition and lesser customer acquisition cost. It can lead to steady and sustainable growth for MFIs as there is untapped potential in these underserved areas.

Customized services: MFIs having presence in rural areas can connect more with local requirements and therefore can make and offer customized products and services suitable for customers' needs. Such customized products act as a more relevant and impactful financial solutions for customers.

Lower competition: Compared to urban areas, rural regions may have fewer financial services providers, giving rural focused MFIs an opportunity to establish themselves as key players in the market.

Social impact: By providing financial services in underserved rural areas, MFIs can contribute to poverty reduction, financial inclusion and overall socioeconomic development, thereby making a substantial positive impact on the communities they serve and get associated with them for a longer time.

Regulations

Microfinance sector in India governed by RBI guidelines

MFIs were operating largely unregulated till 2010, when the Andhra Pradesh (AP) Ordinance came into effect. Subsequently, in 2011, the RBI released guidelines that defined NBFC-MFIs, and provided an operating and regulatory framework for MFIs in India.

RBI guidelines issued in December 2011

In November 2010, the RBI set up a sub-committee under the chairmanship of Mr Y H Malegam to address issues concerning the domestic microfinance industry. This was in light of heightened perceived risk towards the sector, after the AP ordinance was enacted. Based on the committee's recommendations, the NBFC-MFI directions issued by the RBI came into effect in December 2011. These guidelines were last updated in July 2022.

The guidelines defined an NBFC-MFI as a non-deposit-taking NBFC with parameters given below:

NBFC-MFI - Regulation guidelines

Parameter	Provision
Minimum net owned funds (NOF)	Current NOF - Rs 50 million (Rs 20 million in NE region) NOF by March 31, 2025 – Rs 70 million (Rs 50 million in NE region) NOF by March 31, 2027 – Rs 100 million
Qualifying assets*	Not less than 75% of its total assets
Capital adequacy	Capital adequacy ratio consisting of tier I and tier II capital, which will not be less than 15% of its aggregate risk weighted assets
Loan repayment obligations	Maximum 50% of the monthly household income. The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50% of the monthly household income shall include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration.

** Refer to the table for 'qualifying asset'*

Qualifying asset

Parameter	Provision
Total monthly repayment obligations of borrower should not exceed	50% of monthly household income
Household annual income	Upto Rs 3,00,000
Collateral	None

The new regulatory regime ensures a level playing field and benefits NBFC-MFIs

CRISIL MI&A expects the rates to slowly stabilize as MFIs begin to adapt to the new regime and put in place processes to assess household income, leverage and risk capture based on the new guidelines. Competitive forces would prevent a substantial spurt in rates for MFI customers, especially those with a good repayment track record and credit behaviour.

The key changes in the regulatory framework and their potential impact on NBFC-MFIs are captured below:

<table>
<tr><th rowspan="2">Area of regulation</th><th colspan="2">Earlier regulations</th><th>New regulations (effective April 1, 2022)</th></tr>
<tr><th>For NBFC-MFIs</th><th>For banks and SFBs</th><th>For all regulated entities*</th></tr>
<tr><td>Loan pricing</td><td>Margin cap at 10% for large MFIs (loan portfolios > Rs 1 billion)
12% for small MFIs (loan portfolios < Rs 1 billion)</td><td rowspan="2">No restrictions for banks and SFBs</td><td rowspan="2">No pricing cap. Underwriting of loans to be done on risk-based analysis, and a risk premium to be charged based on the borrower.
A Board-approved policy for pricing of loans to be put in place. The policy should include the interest rate model, the range of spread of each component for various categories of borrowers, and the interest rate ceiling and all other charges on MFI loans.</td></tr>
<tr><td>Processing fees</td><td>Not more than 1% of the gross loan amount</td></tr>
<tr><td>Qualifying criteria</td><td>85% loans unsecured</td><td>Have to meet the target set for priority sector loans</td><td>The minimum requirement of microfinance loans has been revised to 75% of an NBFC-MFI's total assets.
The maximum limit on microfinance loans for NBFCs other than NBFC-MFIs has been revised to 25% of the total assets from 10% previously.</td></tr>
<tr><td>Household income</td><td>Rural areas: Rs 125,000 per annum
Urban areas: Rs 200,000 per annum</td><td rowspan="3">No restrictions for banks and SFBs</td><td rowspan="3">Annual household income: Up to Rs 300,000 for urban as well as rural areas. (Higher than the amount stated in the consultation paper issued in June 2021 – up to Rs 125,000 for rural areas and Rs 200,000 for urban and semi-urban areas)
Board-approved policy for the assessment of household income.

As per the revised regulation cap/restrictions for ticket size and tenure has been removed.</td></tr>
<tr><td>Ticket size of loans</td><td>Rs 75,000 in the first cycle and Rs 125,000 in the subsequent cycles</td></tr>
<tr><td>Tenure of loans</td><td>Not less than 24 months for loan amounts in excess of Rs 30,000</td></tr>
<tr><td>Lending to the same borrower</td><td>Not more than two lenders allowed per borrower</td><td>More than two banks can lend to the same borrower</td><td rowspan="2">Limit on maximum loan repayment obligation of a household towards all loans: 50% of monthly household income.</td></tr>
<tr><td>Overall borrower indebtedness</td><td>Should not exceed Rs 125,000</td><td>No restrictions for banks and SFBs</td></tr>
</table>

**Regulated entities include all commercial banks (including SFBs, local area banks and regional rural banks), excluding payments banks; all primary (urban) co-operative banks, state co-operative banks and district central co-operative banks; and all NBFCs (including MFIs and housing finance companies)*

Source: RBI, CRISIL MI&A

The new regulations by the RBI for microfinance provide new definition for microfinance loans which will include a collateral-free loan given to a household having annual household income up to Rs. 3 lakhs irrespective of end use and mode of application/ processing/ disbursal (either through physical or digital channels). It shall increase the market for NBFC-MFIs as they would be able to target a greater number of households with income up to Rs. 3 lakhs.

The RBI has removed the cap on number of NBFC-MFIs who can provide loas to a borrower and instead of overall borrower indebtedness limit, the RBI has defined and capped total monthly loan obligations to 50% of the monthly household income. This shall help in keeping check on leveraging of borrowers.

Interest rates have not been capped in the new regulations; however, the RBI has asked to put in place a board-approved policy which will cover approach for arriving at the all-inclusive interest rate, delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters; the range of spread of each component for a given category of borrowers; and a ceiling on the interest rate and all other charges applicable to the microfinance loans. This shall provide flexibility to NBFC-MFIs.

Comparison of different participants in microfinance lending business

	Scheduled commercial banks	SFBs	MFIs
Priority sector lending			
Targeted lending to sectors	• 40% for priority sector lending of their adjusted net bank credit (ANBC) or equivalent off-balance-sheet exposure (whichever is higher) 18% of ANBC to agriculture 7.5% of ANBC to micro-enterprises 12% of ANBC to weaker sections	• 75% for priority sector lending of their ANBC 18% of ANBC to agriculture 7.5% of ANBC to micro-enterprises 12% of ANBC to weaker sections • At least 50% of loan portfolio should constitute loans and advances of up to ₹2.5 million	• 75% of loans should be qualifying microfinance assets Income generation loans > 50% of total loans
Prudential norms			
Capital adequacy framework	• Minimum Tier 1 capital: 7% • Minimum capital adequacy ratio: 9%	• Minimum Tier 1 capital: 7.5% • Minimum capital adequacy ratio: 15%	• Tier 1 capital > Tier 2 capital • Minimum capital adequacy ratio: 15%
Margin cap	• No margin cap	• No margin cap	• No margin cap
CRR / SLR	• Maintenance of CRR/SLR mandatory	• Maintenance of CRR/SLR mandatory	• No such requirement
Leverage ratio	• Minimum leverage ratio of 4%	• Minimum leverage ratio of 4%	• No such requirement
Liquidity coverage ratio/ net stable funding ratio (NSFR)	• Mandatory requirement to maintain liquidity coverage ratio	• Minimum liquidity coverage ratio of 100% by January 1, 2021 • NSFR will be applicable to SFBs on par with scheduled commercial banks as and when finalised	• No such requirement

	Scheduled commercial banks	SFBs	MFIs
Funding			
Deposits	• Primarily rely on deposits for funding requirements •	• Primarily rely on deposits for funding requirements • Deposit ramp-up will take time	• Cannot accept deposits
Bank loans/ market funding	• Access to broader array of market borrowings	• Access to broader array of market borrowings • No access to bank loans	• Diversified funding sources, including bank loans, short- and long-term market borrowings; funding from NABARD, MUDRA loans, etc
Products			
Products offered	• Full spectrum of banking, savings, investment and insurance products	• Can offer savings and investment products apart from credit products/loans • Can act as corporate agent to offer insurance products • Cannot act as business correspondent to other banks	• Can act as a business correspondent to another bank and offer savings, deposits, credit and investment products • Can act as a corporate agent to offer insurance products

Source: RBI, CRISIL MI&A

Though the above regulations related to MFIs seem to be less relaxed than others, they provide an opportunity to MFIs to maintain a singular focus on the customers they cater to and the products they offer. The processes and systems can be built more efficiently and customised to the requirements of the customers, and deeper local understanding can be developed to handle nuances of different geographical areas. Another major advantage is the institution can be more flexible and react and adjust to various events faster. Also, being under the purview of the RBI provides a separate identity to the institutions, and policy measures related to this segment gets due focus.

MFIs also focusing on third-party products to provide customer centric services

The MFIs have built a large distribution network across urban and rural India. They are now leveraging this network to distribute the financial and non-financial products of other institutions to their members. Their networks allow such distributors access to a segment of the market which many others do not otherwise have access to. While MFIs continue to focus on their core business of providing microcredit services, they seek to diversify into other businesses by scaling up certain pilot projects involving fee-based services and secured/unsecured individual lending. Such diversification also helps MFIs retain existing customers who want to also start small and medium enterprises (SMEs) on their own, have business needs (retail business loans or 2-wheeler loans), or want a better lifestyle (home improvement loans, two-wheeler loans etc.). The objective is to increase member loyalty and also provide economic benefits to members and their families. The product diversification enables MFIs to add stability to their asset base in case of event risks.

Individual micro-lending

Individual micro-lending by NBFC-MFIs (including SFBs) is aimed at two segments of customers. Firstly, it allows MFIs to graduate existing good and loyal customers to higher ticket individual loans. Secondly, it helps them tap new markets and improve outreach by serving the underserved customer segment with better margins in overall lending.

Many MFIs have already started targeting such customers with specific needs, for their various ventures. Since, as per an RBI directive, individual lending cannot be more than 15% of the overall portfolio, this portfolio currently varies from 10-15% of total outstanding loans for most MFIs. Maximum variance permitted for individual loans between the minimum and maximum interest rate cannot exceed 4%. Average interest paid on borrowings and charged by MFI is to be calculated on average monthly balances of outstanding borrowings and loan portfolios, respectively.

Product financing

Microfinance companies lend for both consumption as well as productive purposes. In 2011, RBI regulations stipulated a minimum of 70% of MFI loans were to be deployed for income-generating activities. This was because lending towards non-income generating activities could result in people remaining trapped in a debt cycle.

Agriculture and trading are the major sub-sectors where income-generation loans are deployed. Non-income generation loans are used for consumption, housing, education, mobile, water and sanitation, health etc. Microfinance lenders provide these loans by cross-selling to the existing microfinance borrowers.

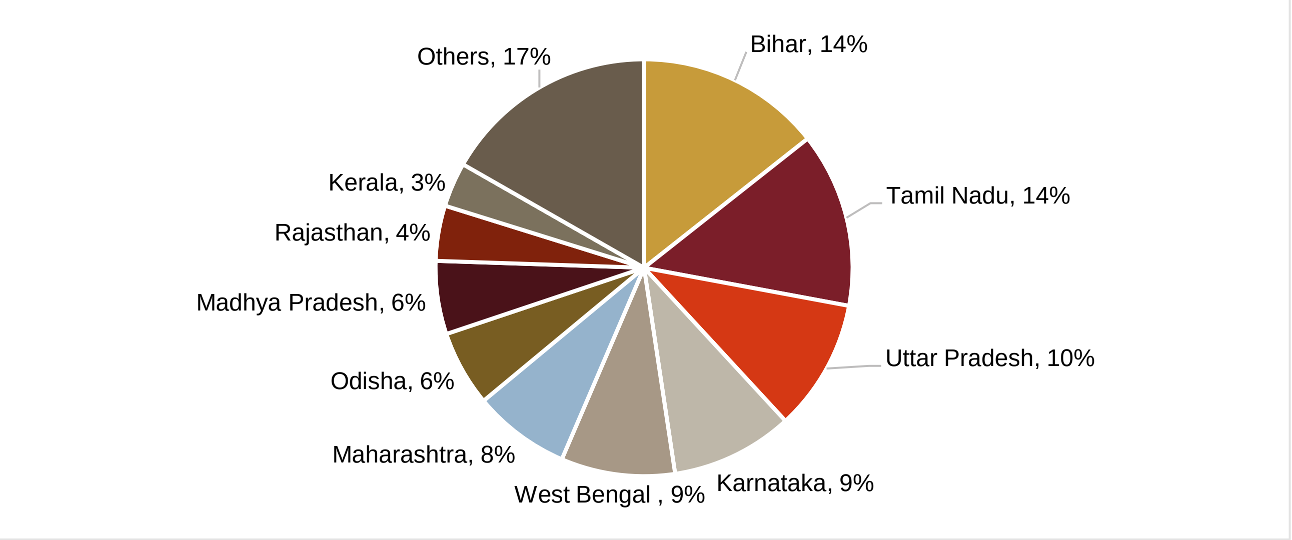
The 70% floor towards income-generation loans was changed in 2015. As per an RBI regulation in April 2015, a part (i.e., maximum of 50%) of the aggregate amount of loans may be extended for other purposes such as housing repairs, education, medical and other emergencies. However, the aggregate amount of loans given to a borrower for income generation should constitute at least 50% of the total loans from the NBFC-MFI. As per the latest RBI (Regulatory Framework for Microfinance Loans) Directions 2022, a minimum of 50% of aggregate amount were to be deployed for income-generation activities.

State-wise Analysis

Top 10 states contribute about 83% of MFI loans

About 83% of the gross loan portfolio is concentrated in the top 10 states with Bihar (14%), Tamil Nadu (14%), and Uttar Pradesh (10%) recording the highest shares as of December 2023.

State-wise distribution of MFI loans portfolio o/s (as of December 2023)



Source: CRIF Highmark, CRISIL MI&A

State-wise distribution of MFI Gross loan portfolio

State	Portfolio outstanding (Rs Cr)							
	FY18	FY19	FY20	FY21	FY22	FY23	Q3FY24	CAGR (FY18 – Q3FY24)
Andaman & Nicobar	1	3	3	4	14	14	18	65.5%
Andhra Pradesh	3,567	3,707	4,180	1,509	4,812	5,915	7,577	14.0%
Arunachal Pradesh	13	15	21	17	26	43	74	35.5%
Assam	7,673	11,542	11,759	5,796	8,870	5,974	6,173	-3.7%
Bihar	11,669	18,561	26,251	25,061	35,742	49,181	58,595	32.4%
Chhattisgarh	2,443	3,499	4,387	4,019	5,277	6,205	6,765	19.4%
Chandigarh	14	25	32	29	39	52	54	25.9%
Daman and Diu	2	4	5	5	6	5	3	13.1%
Delhi	432	559	644	478	589	650	764	10.4%
Dadra and Nagar Haveli	11	16	18	17	16	14	10	-1.9%
Goa	82	116	121	111	114	135	170	13.4%
Gujarat	3,934	5,523	6,949	6,031	7,971	10,136	12,173	21.7%
Himachal Pradesh	35	46	71	73	129	173	184	33.3%
Haryana	2,001	2,914	3,949	3,807	5,125	5,801	6,119	21.5%
Jharkhand	2,521	3,976	5,374	5,601	8,051	10,680	12,308	31.8%
Jammu and Kashmir	6	11	17	18	45	75	80	57.8%
Karnataka	12,159	16,323	19,716	18,821	24,191	31,588	38,665	22.3%
Kerala	5,508	6,991	9,011	7,676	10,442	12,752	14,082	17.7%
Lakshadweep	0	0	0	0	0	0	0.02	30.9%
Maharashtra	10,561	14,410	18,394	14,681	21,976	27,453	30,704	20.4%
Meghalaya	106	142	163	107	114	100	114	1.4%
Manipur	45	85	133	117	129	127	104	15.7%
Madhya Pradesh	7,905	10,869	14,024	13,275	17,371	20,883	23,163	20.6%
Mizoram	23	43	76	68	65	95	121	33.9%
Nagaland	25	46	60	53	69	47	45	10.8%
Orissa	8,174	11,533	13,445	12,211	17,257	20,444	23,953	20.6%
Punjab	2,089	3,200	4,397	3,658	5,006	5,888	6,106	20.5%
Pondicherry	295	440	561	479	591	678	819	19.5%
Rajasthan	3,860	6,625	9,364	9,935	12,515	15,608	17,476	30.0%
Sikkim	80	112	141	106	109	98	116	6.7%
Tamil Nadu	18,835	27,687	33,424	28,246	36,800	46,403	55,335	20.6%
Tripura	1,514	2,271	2,603	2,254	2,459	1,901	2,042	5.3%
Telangana	2,309	2,331	2,294	622	2,867	3,432	4,256	11.2%
Uttarakhand	853	1,015	1,230	1,136	1,526	1,695	1,882	14.8%
Uttar Pradesh	9,139	12,086	15,716	15,638	23,607	33,844	41,657	30.2%
West Bengal	19,061	26,597	32,155	24,807	33,209	30,962	36,052	11.7%

Source: CRIF Highmark, CRISIL MI&A

State-wise MFI disbursements from Fiscal 2019 to nine months ended Fiscal 2024

Row Labels	FY19	FY20	FY21	FY22	FY23	9MFY24	CAGR (FY19-FY23)
Andaman and Nicobar	6	4	6	14	11	12	17%
Andhra Pradesh	631	1,259	1,278	1,499	3,130	3,434	49%
Arunachal Pradesh	15	21	15	23	37	51	25%
Assam	13,989	11,692	6,666	3,551	2,684	2,309	-34%
Bihar	24,121	31,640	24,458	36,304	50,792	42,078	20%
Chattisgarh	4,131	4,769	3,930	4,770	5,795	4,266	9%
Chandigarh	34	42	30	37	48	30	9%
Daman & Diu	4	4	3	4	3	2	-7%

Delhi	604	665	485	605	723	441	5%
Dadra & Nagar Haveli	20	21	14	15	12	5	-12%
Goa	144	119	98	86	129	115	-3%
Gujarat	5,745	6,748	5,183	7,494	9,809	7,546	14%
Himachal Pradesh	49	75	72	120	154	110	33%
Haryana	3,329	4,165	3,411	4,747	5,342	3,476	13%
Jharkhand	5,037	6,365	6,105	8,100	10,813	8,718	21%
Jammu & Kashmir	11	18	17	45	70	46	58%
Karnataka	17,829	19,761	16,725	21,712	30,013	26,629	14%
Kerala	7,928	9,826	5,869	9,489	10,957	8,228	8%
Lakshadweep	0.01	0.01	0.01	0.01	0.02	0.01	28%
Maharashtra	15,192	19,192	13,500	19,262	24,461	19,852	13%
Meghalaya	181	196	112	77	84	68	-17%
Manipur	124	159	87	108	116	10	-2%
Madhya Pradesh	12,047	15,010	12,585	15,197	19,521	14,479	13%
Mizoram	56	88	57	52	102	83	16%
Nagaland	72	87	72	61	35	31	-16%
Odisha	13,737	14,436	12,097	15,686	19,258	15,473	9%
Punjab	3,651	4,792	3,163	4,342	5,017	3,275	8%
Pondicherry	489	569	353	509	600	516	5%
Rajasthan	8,391	10,809	9,904	11,785	14,908	10,980	15%
Sikkim	133	150	96	87	96	63	-8%
Tamil Nadu	29,816	32,492	21,090	31,877	43,056	36,237	10%
Tripura	3,075	3,149	2,294	2,251	1,877	1,465	-12%
Telangana	99	260	549	1,145	1,773	1,951	106%
Uttarakhand	1,040	1,249	1,166	1,388	1,630	1,255	12%
Uttar Pradesh	13,442	17,887	16,178	24,482	35,509	29,775	27%
West Bengal	35,819	39,945	28,451	28,809	29,153	24,868	-5%
Total	**221,005**	**257,680**	**196,130**	**255,782**	**327,774**	**268,050**	**10%**

Source: CRIF Highmark, CRISIL MI&A

State wise asset quality

State	Portfolio at risk > 90				
	FY20	FY21	FY22	FY23	Q3FY24
Andaman & Nicobar	2.2%	5.8%	3.9%	3.1%	3.4%
Andhra Pradesh	79.9%	61.3%	63.5%	52.1%	40.8%
Arunachal Pradesh	4.3%	6.4%	5.5%	7.3%	4.7%
Assam	5.8%	24.6%	31.9%	45.0%	46.1%
Bihar	1.0%	3.8%	5.3%	4.2%	4.0%
Chhattisgarh	4.0%	8.6%	11.7%	12.3%	11.4%
Chandigarh	1.6%	6.3%	14.0%	13.4%	13.5%
Daman and Diu	2.1%	3.1%	7.5%	8.0%	13.7%
Delhi	12.7%	11.4%	12.8%	14.1%	14.9%
Dadra and Nagar Haveli	1.3%	3.4%	7.0%	7.4%	15.1%
Goa	2.2%	6.8%	9.9%	9.5%	6.8%
Gujarat	7.7%	7.7%	9.6%	8.5%	8.6%
Himachal Pradesh	5.7%	8.5%	8.9%	5.9%	6.1%
Haryana	5.3%	4.5%	6.9%	8.4%	10.5%
Jharkhand	4.2%	6.3%	7.6%	7.1%	6.6%
Jammu and Kashmir	1.7%	3.1%	1.4%	1.2%	1.5%

Karnataka	8.2%	6.8%	9.0%	8.2%	5.2%
Kerala	3.1%	7.2%	11.9%	11.0%	10.1%
Lakshadweep	0.0%	0.0%	7.7%	5.7%	5.8%
Maharashtra	10.6%	14.4%	17.7%	17.1%	12.8%
Meghalaya	6.4%	14.9%	19.6%	23.1%	20.3%
Manipur	1.8%	3.1%	4.3%	3.3%	51.9%
Madhya Pradesh	6.7%	9.0%	12.5%	12.1%	11.3%
Mizoram	1.1%	2.8%	8.0%	4.1%	3.7%
Nagaland	1.7%	10.2%	8.6%	16.5%	17.1%
Orissa	4.7%	9.2%	11.4%	11.7%	11.2%
Punjab	2.7%	7.7%	11.6%	14.1%	14.6%
Pondicherry	0.9%	4.7%	12.0%	11.9%	9.2%
Rajasthan	2.2%	3.7%	7.8%	8.8%	9.1%
Sikkim	6.1%	9.3%	10.2%	9.4%	9.3%
Tamil Nadu	4.3%	6.1%	9.4%	8.8%	7.2%
Tripura	1.2%	7.2%	11.6%	7.8%	9.1%
Telangana	92.0%	66.1%	67.7%	56.9%	46.0%
Uttarakhand	12.1%	10.8%	12.0%	8.2%	8.3%
Uttar Pradesh	6.1%	5.5%	6.4%	4.4%	4.8%
West Bengal	2.9%	13.4%	17.8%	16.2%	14.2%

Source: CRIF Highmark, CRISIL MI&A

Number of MFI players in each state

States	Total MFIs						
	FY18	FY19	FY20	FY21	FY22	FY23	Q3FY24
Bihar	26	32	35	34	35	31	30
Uttar Pradesh	17	24	29	29	32	29	30
Rajasthan	17	19	24	25	26	29	29
Madhya Pradesh	19	23	26	27	28	28	30
Jharkhand	14	20	28	27	28	26	27
Haryana	13	16	21	22	23	25	26
Odisha	20	24	27	25	25	24	25
Gujarat	14	19	22	20	22	24	24
West Bengal	13	19	23	23	24	23	22
Chhattisgarh	20	21	27	25	26	22	22
Tamil Nadu	11	16	18	18	21	21	22
Maharashtra	25	25	26	25	25	20	22
Karnataka	10	13	18	19	20	20	20
Assam	8	16	19	19	19	17	16
Uttarakhand	11	10	12	11	14	16	17
Punjab	9	12	13	14	15	14	15
Kerala	8	10	10	11	11	11	10
Delhi	6	6	NA	5	5	5	5
Andhra Pradesh	NA	NA	NA	NA	2	4	7
Telangana	NA	NA	NA	NA	3	2	6
Manipur	NA	NA	NA	NA	2	1	NA
Arunachal Pradesh	NA	NA	NA	NA	0	5	5
Goa	NA	6	6	6	7	7	7
Himachal Pradesh	NA	5	6	5	6	8	9
Meghalaya	3	6	7	7	7	7	7

Pondicherry	NA	9	13	12	13	11	11
Tripura	NA	8	12	13	13	13	12

Note: NA – Not available.

Source: MFIN, CRISIL MI&A

Underpenetrated states to drive growth for MFI in the coming years

CRISIL MI&A expects growth in the MFI portfolio to come from states that have a relatively lower penetration. Thus, CRISIL MI&A expects underpenetrated states like Andhra Pradesh and Telangana to drive future growth along with some of the moderately penetrated states, such as Rajasthan, Maharashtra, Madhya Pradesh and Gujarat.

Underpenetrated states (up to 17%)
Moderately penetrated states (17-36%)
Highly penetrated states (>36%)

Source: MFIN, CRISIL MI&A

Notes: 1) Penetration has been computed by dividing number of unique MFI borrowers by estimated number of households as of December 2023.
2) Pan-India penetration has been determined based on the analysis of 24 states.

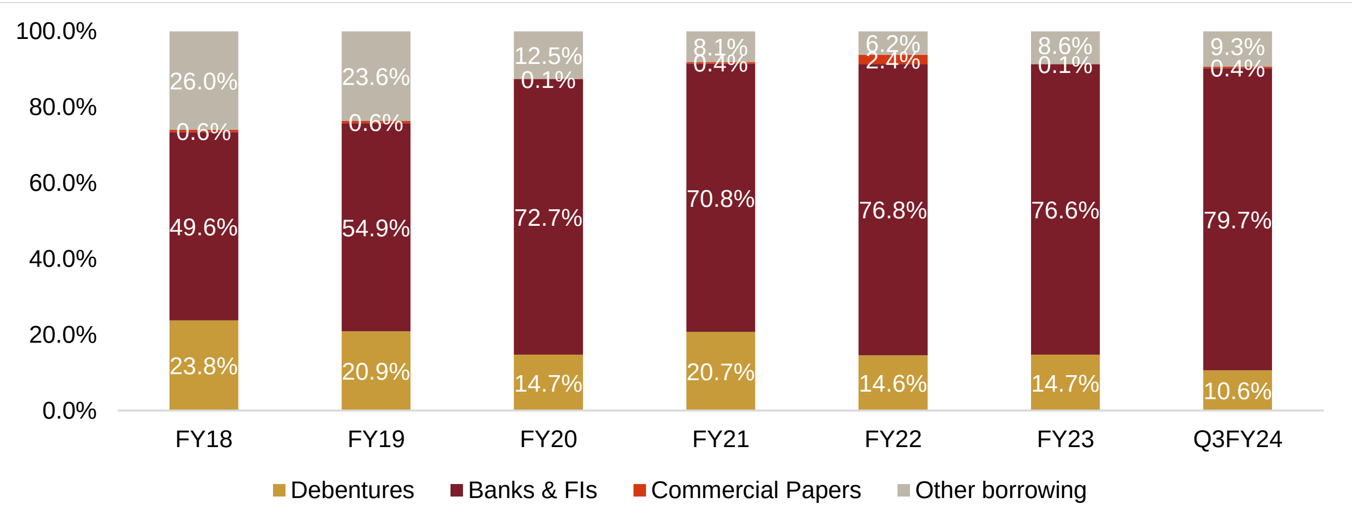
3) Data includes data for banks lending through joint liability group (JLG), SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs. It excludes data for Banks lending through SHG. The amounts are as of December 30, 2023.

Borrowing Mix

Banks have traditionally been the key lenders to NBFC-MFIs. Smaller players would resort to portfolio sell-outs to channel growth. However, in fiscal 2021, funds raised by NBFC-MFIs through non-convertible debenture (NCD) issuances increased substantially, mainly due to targeted long-term repo operations (TLTRO) announced by the RBI. NBFC-MFIs also raised funds through the partial credit guarantee scheme under which the RBI extended a special liquidity facility to NABARD, SIDBI and National Housing Bank to the tune of Rs 25,000 crore, Rs 15,000 crore and Rs 10,000 crore, respectively, to be further lent to sectors such as construction and small and medium NBFC-MFIs. After an increase in term loans from banks by 600 bps in fiscal 2022, the borrowings remained range bound in fiscal 2023.

Going forward, with increased interest rates in the global markets and domestic bond markets, the share of external borrowings and capital market borrowing is expected to have declined in fiscal 2024 and a marginal uptick is expected during fiscal 2025 on account of expectation on decline in repo rate during first quarter of fiscal 2025 and in turn improvement in cost of funds form debt market.

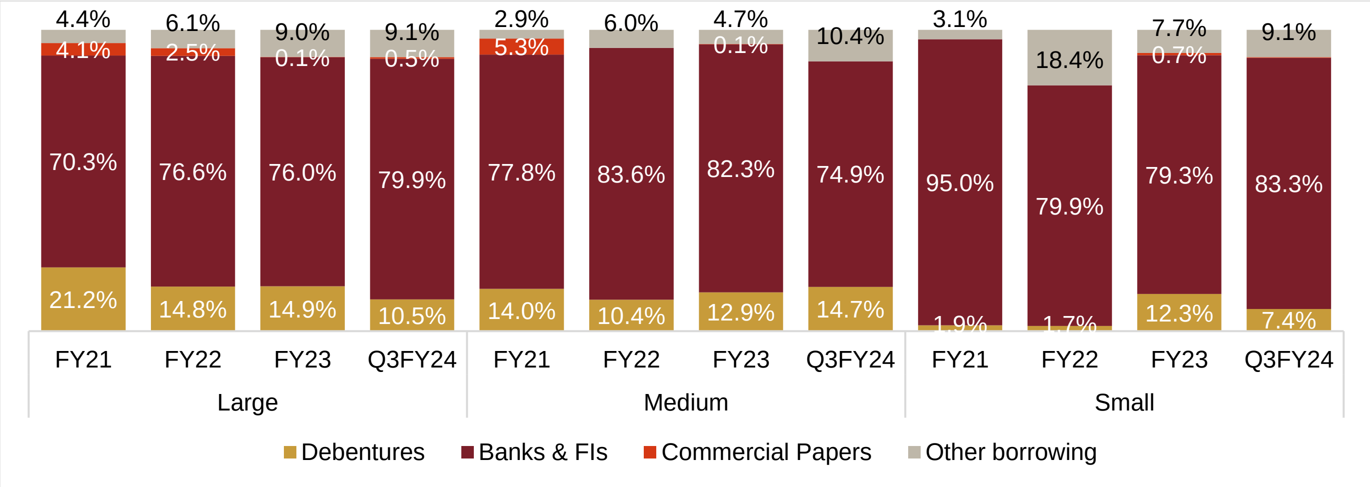
Borrowing mix of NBFC-MFIs



Note: Data is based on sample set of NBFC MFIs accounting for 95% of the GLP as of Q3FY24, Other borrowing include sub-debt and external borrowings

Source: MFIN, CRISIL MI&A

Borrowing mix of NBFC-MFIs across different bucket size



Note: Data is based on sample set of NBFC MFIs accounting for 91% of the GLP as of Q3FY24, Other borrowing include sub-debt and external borrowings; Small NBFC MFIs – AUM < Rs 500 Cr, Medium NBFC MFIs – AUM Rs 500 Cr to Rs 2,000 Cr, Large NBFC MFIs – GLP > Rs 2,000 Cr

Source: MFIN, CRISIL MI&A

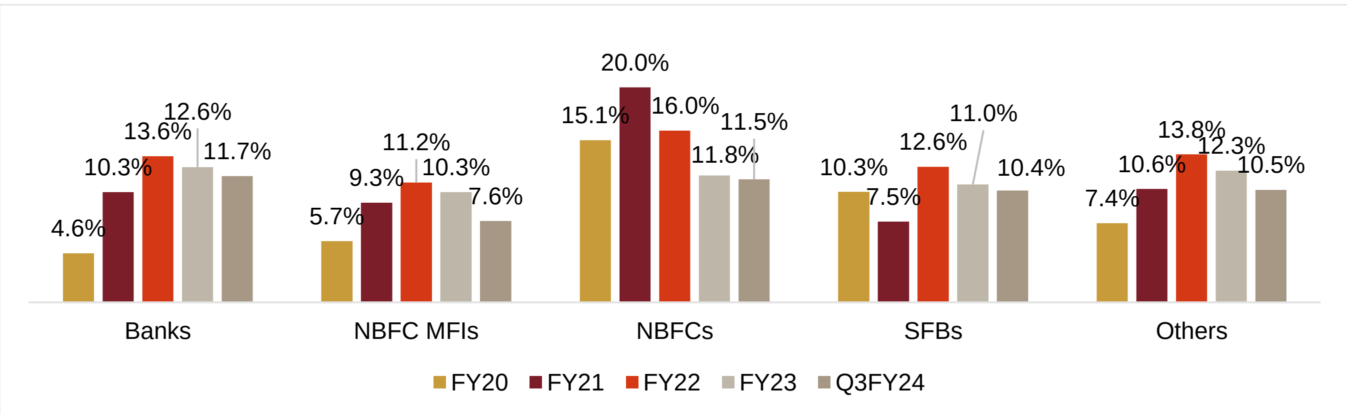
As of Q3FY24, ~80% of the debt funding for large MFIs was from Banks and other financial institutions. Medium and small MFIs were also able to source 75% and 83% debt funding from banks and other financial institutions respectively.

Asset quality

In fiscal 2021 and fiscal 2022, the asset quality deteriorated sharply, reflecting the adverse impact of Covid-19 on the industry. The asset quality of NBFC-MFIs started deteriorating in fiscal 2021 and PAR>90 shot up to 11.2% in fiscal 2022. This could be attributed to slippages from the restructured book for various MFI players. The situation improved marginally in the first half of fiscal 2023 thereby witnessing an improvement in fiscal 2023.

PAR>90 metrics for NBFC-MFIs exhibited a positive trend in third quarter of fiscal 2024 improving to 7.6%. With collection efficiency now back to pre-pandemic levels, the asset quality is forecast to continue to improve in the upcoming fiscal periods.

Asset quality (PAR> 90) trend over the years



Source: CRIF Highmark, CRISIL MI&A

Credit cost to stabilise after heavy provisioning during previous fiscals

Over fiscals 2021 and 2022, annual credit costs of the industry shot up to 3-5% because of pandemic-related provisioning. However, most MFIs increased provisioning levels to fortify their balance sheets against asset quality risks. Fiscal 2023 witnessed stabilization in credit cost resulting into improved profitability. Credit costs decreased further in fiscal 2024 because of lower provisions and an improvement in repayment levels of borrowers.

A majority of borrowers in the microfinance sector receive loans from NBFC-MFIs at fixed interest rates due to the short duration of these loans. Any changes in the repo rate are quickly reflected in the interest rates charged to borrowers. However, it is important to note that these revised interest rates apply only to new borrowers, as existing borrowers continue to operate under the previous rate structure. While an increase in the repo rate will lead to higher yields for NBFC-MFIs, we anticipate that NIMs of these institutions will generally remain range bound. CRISIL MI&A estimates a gradual decrease in credit costs throughout fiscal 2024 to support the overall profitability of the microfinance industry. In this context, the new framework introduced by the RBI is favourable for MFIs. This framework includes higher income eligibility thresholds for borrowers and provides greater flexibility in loan pricing for MFIs.

After an aggressive round of rate hikes in Fiscal 2023, RBI paused and monitored inflation and the impact of rate hikes on the economy. The monetary policy impacts the real economy with a lag of 3-4 quarters. Yields were high for NBFC-MFI in Fiscal 2024 supported by revised MFI guidelines. In terms of credit cost, post heavy provisioning witnessed in Fiscal 2021 and Fiscal 2022, Fiscal 2023 and Fiscal 2024 witnessed stabilisation of credit cost resulting in improved profitability. The trend is expected to continue in Fiscal 2025.

Supported by risk based pricing and complete pass-on of rate hikes, interest income increased in Fiscal 2024

RoA tree	FY19	FY20	FY21	FY22	FY23	FY24E	FY25P
Interest income	19.0%	18.1%	16.6%	16.2%	17.0%	19.0%	18.8%
Interest expense	8.3%	7.7%	7.5%	7.3%	7.1%	8.3%	7.7%
Net interest income	10.7%	10.3%	9.1%	8.9%	10.0%	10.7%	11.1%
Other income	2.4%	2.8%	1.6%	1.8%	2.8%	2.5%	2.4%
Operating costs	5.7%	5.5%	5.0%	5.5%	6.0%	6.2%	6.2%
Credit cost	1.0%	3.0%	5.1%	3.7%	3.8%	2.6%	2.4%
RoA	**4.3%**	**3.2%**	**0.5%**	**1.1%**	**2.6%**	**4.2%**	**4.6%**

Note: P: projected, E: Estimated, All above ratios are calculated on average assets, Data is based on sample set of top 10 NBFC MFIs accounting for 80% of the GLP as of Q3FY24
Source: CRISIL MI&A

Peer Comparison

In this chapter, CRISIL MI&A has analysed the operational performance and key financial indicators of top 10 NBFC-MFI (non-banking finance company-microfinance institution) players in terms of assets under management (AUM) and select small finance banks (SFBs) and Bandhan Bank that have loan portfolios inclined towards the MFI segment. However, the business models of SFBs and Bandhan Bank are different from NBFC-MFIs.

Business model of an NBFC-MFI differs from that of an SFB/Bank on account of RBI's regulation for qualifying assets for an NBFC-MFI. For an NBFC-MFI, a minimum of 75% of its total assets should consist of microfinance loans. For an SFB/Bank, the primary goal is to meet the target of Priority Sector Loans (PSL) with no restriction of qualifying assets. However, for all SFB/Bank, NBFC and NBFC-MFI microfinance loans have the same definition which is a collateral free loan to households with annual household income up to Rs. 300,000.

Belstar Microfinance Limited is the ninth largest NBFC-MFI in India in terms of AUM as of December 2023

Belstar Microfinance has maintained its position amongst the top ten leading NBFC MFI with a market share of 6.2% as of December 2023.

Belstar Microfinance had the highest AUM growth (year-on-year) as of Q3 Fiscal 2024 among the peer set. In terms of growth between Fiscal 2019 and Fiscal 2023, Belstar Microfinance stood fourth in the peer set.

Comparison of key players in the MFI industry

AUM (Rs billion)	Market share#	As of March 31, 2019	As of March 31, 2020	As of March 31, 2021	As of March 31, 2022	As of March 31,2023	As of Dec 31, 2023
Top 10 NBFC-MFIs							
CreditAccess Grameen Ltd	16.5%	71.6	99.0	113.4	137.3	210.3	233.8
IIFL Samasta Finance Ltd	9.2%	22.9	34.0	48.0	64.8	105.5	130.8
Asirvad Microfinance Ltd	8.1%	38.4	55.0	59.9	70.2	100.4	115.6
Muthoot Microfin Ltd	8.1%	43.5	49.3	49.9	62.5	92.1	114.6
Fusion Micro Finance Ltd	7.5%	26.4	36.1	46.4	67.9	93.0	106.9
Satin Creditcare Network Ltd	6.9%	63.7	72.7	72.8	64.1	79.3	98.1
Spandana Sphoorty Financial Ltd	6.9%	43.7	68.3	77.4	62.0	79.8	97.6
Annapurna Finance Pvt Ltd	6.7%	30.2	40.1	48.1	65.5	88.1	95.4
Belstar Microfinance Ltd	**6.2%**	**18.4**	**26.3**	**33.0**	**43.7**	**61.9**	**88.3**
Svatantra Microfin Pvt Ltd	5.2%	12.3	26.0	35.6	54.5	75.0	74.5
Banks and SFBs							
Bandhan Bank	NM	447.8	718.5	870.4	993.4	1,091.2	1,159.4
Equitas SFB	NM	117.0	153.7	179.3	206.0	278.6	327.8
Ujjivan SFB	NM	110.5	141.5	151.4	181.6	240.9	277.4
Jana SFB	NM	65.2	113.0	127.7	153.5	201.0	236.1
Utkarsh SFB	NM	47.4	66.6	84.2	106.3	139.6	164.1
ESAF SFB	NM	45.9	66.1	84.3	123.4	163.3	181.5
Suryoday SFB	NM	30.0	37.1	42.1	50.6	61.1	76.0

Note: (1) AUM for NBFC-MFI players comprises largely of MFI loans and some non-MFI loans allowed as per extant regulations and based on each company's strategy, (2) #: Market share is based on December 2023 AUM of NBFC-MFIs; NBFC MFIs are arranged in order of December 2023 AUM (3) NA – Not available; NM – Not meaningful

Source: MFIN, Company reports, CRISIL MI&A

AUM Growth	y-o-y growth FY20	y-o-y growth FY21	y-o-y growth FY22	y-o-y growth FY23	CAGR (FY19-FY23)	Y-o-Y growth 9MFY24
CreditAccess Grameen Ltd	38.2%	14.6%	21.1%	53.2%	30.9%	31.5%
IIFL Samasta Finance Ltd	48.7%	41.1%	35.2%	62.7%	46.6%	54.2%
Asirvad Microfinance Ltd	43.3%	8.8%	17.3%	43.0%	27.2%	33.6%
Muthoot Microfin Ltd	13.3%	3.1%	25.4%	47.2%	20.6%	38.6%
Fusion Micro Finance Ltd	38.5%	28.6%	46.3%	37.0%	37.0%	23.6%
Satin Creditcare Network Ltd	14.0%	0.8%	-11.9%	23.7%	5.6%	44.3%
Spandana Sphoorty Financial Ltd	56.2%	13.3%	-19.9%	28.7%	16.2%	47.1%
Annapurna Finance Pvt Ltd	32.8%	19.9%	36.2%	34.6%	30.7%	19.0%
Belstar Microfinance Ltd	**28.1%**	**25.4%**	**32.3%**	**41.9%**	**35.4%**	**65.4%**
Svatantra Microfin Pvt Ltd	111.2%	37.0%	52.8%	37.7%	57.1%	6.8%
Banks and SFBs						
Bandhan Bank	60.5%	21.2%	14.1%	9.8%	24.9%	18.6%
Equitas SFB	31.3%	16.6%	14.9%	35.3%	24.2%	31.6%
Ujjivan SFB	28.1%	7.0%	20.0%	32.6%	21.5%	26.7%
Jana SFB	73.3%	13.0%	20.2%	31.0%	32.5%	28.4%
Utkarsh SFB	40.5%	26.4%	26.3%	31.3%	31.0%	30.8%
ESAF SFB	44.0%	27.5%	46.5%	32.3%	37.4%	35.9%
Suryoday SFB	23.5%	13.4%	20.4%	20.8%	19.5%	40.5%

To Note: (1) NA: Not Available, (2) NBFC MFIs are arranged in order of December 2023 AUM.
Source: MFIN, company reports, CRISIL MI&A.

Disbursement of key players in the MFI Industry

Belstar Microfinance has shown a year on year growth rate of 85.0% as of nine months ended Fiscal 2024. As of Fiscal 2023, Belstar Microfinance had shown an year on year growth rate of 63.4% which was the sixth highest among the compared peer set.

Disbursement (Rs billion)	FY19	FY20	FY21	FY22	FY23	9MFY24	Growth y-o-y FY23	Growth y-o-y 9MFY24
Top 10 NBFC-MFIs								
CreditAccess Grameen Ltd	82.2	103.9	96.4	128.3	185.4	150.8	44.5%	32.7%
IIFL Samasta Finance Ltd	24.2	30.8	37.0	57.1	102.1	86.5	78.8%	37.9%
Asirvad Microfinance Ltd	42.9	47.8	36.2	85.6	193.8	NA	126.4%	NA
Muthoot Microfin Ltd	45.6	40.7	26.4	46.7	81.0	77.7	73.6%	37.4%
Fusion Micro Finance Ltd	28.2	35.7	37.1	61.8	86.0	71.0	39.1%	16.5%
Satin Creditcare Network Ltd	62.5	80.5	43.9	40.3	73.9	68.8	83.3%	42.1%
Spandana Sphoorty Financial Ltd	49.7	80.0	60.3	30.7	76.2	63.3	148.7%	36.0%
Annapurna Finance Pvt Ltd	40.1	40.1	30.9	53.2	77.1	56.0	44.9%	7.8%
Belstar Microfinance Ltd	**18.0**	**26.2**	**24.4**	**35.5**	**58.0**	**67.8**	**63.4%**	**85.1%**

Disbursement (Rs billion)	FY19	FY20	FY21	FY22	FY23	9MFY24	Growth y-o-y FY23	Growth y-o-y 9MFY24
Svatantra Microfin Pvt Ltd	11.3	24.9	24.1	47.3	62.9	43.9	32.9	-3.9%

Note: NA: Not Available, NBFC MFIs are arranged in order of December 2023 AUM.
Source: MFIN, company reports, CRISIL MI&A

Belstar Microfinance recorded the second highest growth in number of clients between fiscal 2019 and fiscal 2023

Over the period between fiscal 2019 and fiscal 2023, Belstar Microfinance witnessed the second highest growth in the number of clients at 32.6%. Only Svatantra Microfinance witnessed a faster client growth of 40.8% between the same period.

Belstar Microfinance has recorded the fifth highest y-o-y growth in number of clients as of nine months ended Fiscal 2024 at 22.7%.

Client outreach	No of Clients (million)					
	As of FY19	As of FY20	As of FY21	As of FY22	As of FY23	As of Q3FY24
Top 10 NBFC-MFIs						
CreditAccess Grameen Ltd	2.4	2.9	2.9	2.9	4.3	4.7
IIFL Samasta Finance Ltd	1.0	1.5	1.6	1.8	2.4	2.9
Asirvad Microfinance Ltd	1.8	2.4	2.4	2.6	3.3	NA
Muthoot Microfin Ltd	1.6	1.9	1.9	2.1	2.8	3.3
Fusion Micro Finance Ltd	1.6	1.7	2.1	2.7	3.5	3.8
Satin Creditcare Network Ltd	3.1	3.1	2.7	2.5	2.6	3.2
Spandana Sphoorty Financial Ltd	2.5	2.6	2.2	2.2	2.3	2.8
Annapurna Finance Pvt Ltd	1.5	1.8	1.9	2.3	2.5	2.6
Belstar Microfinance Ltd	**0.7**	**1.2**	**1.4**	**1.7**	**2.1**	**2.7**
Svatantra Microfin Pvt Ltd	0.6	1.0	1.3	1.7	2.2	2.3
Banks and SFBs						
Bandhan Bank	16.5	20.1	23.0	26.3	30.0	32.6
Equitas SFB	NA	2.4	3.9	5.7	NA	NA
Ujjivan SFB	4.7	5.4	5.9	6.5	7.7	8.2
Jana SFB	NA	3.1	3.2	3.7	4.6	5.2
Utkarsh SFB	2.0	2.5	2.9	3.1	3.6	4.2
ESAF SFB	2.9	2.9	3.9	4.5	6.8	7.9
Suryoday SFB	1.2	1.5	1.5	1.9	2.3	2.6

Note: For Banks and SFBs clients include total number of customers (both liability & asset side), NBFC MFIs are arranged in order of December 2023 AUM
Source: MFIN, Company reports, CRISIL MI&A

Client outreach	Client growth					
	FY20	FY21	FY22	FY23	CAGR (FY19-FY23)	Q3FY24$
CreditAccess Grameen Ltd	20.0%	0.0%	0.0%	48.3%	15.5%	17.5%
IIFL Samasta Finance Ltd	52.5%	3.9%	12.5%	33.3%	24.2%	38.1%
Asirvad Microfinance Ltd	31.0%	1.3%	8.3%	26.9%	16.2%	NA

Client outreach	Client growth					
	FY20	FY21	FY22	FY23	CAGR (FY19-FY23)	Q3FY24$
Muthoot Microfin Ltd	19.5%	0.0%	10.5%	33.3%	15.2%	26.9%
Fusion Micro Finance Ltd	9.7%	23.5%	28.6%	29.6%	22.6%	11.8%
Satin Creditcare Network Ltd	-1.6%	-12.9%	-7.4%	4.0%	-4.7%	33.3%
Spandana Sphoorty Financial Ltd	4.5%	-6.6%	-4.2%	-8.7%	-3.9%	33.3%
Annapurna Finance Pvt Ltd	15.9%	5.7%	24.9%	8.2%	13.4%	8.3%
Belstar Microfinance Ltd	**76.5%**	**16.7%**	**28.6%**	**16.7%**	**32.6%**	**22.7%**
Svatantra Microfin Pvt Ltd	80.4%	28.7%	30.8%	29.4%	40.8%	9.5%
Banks and SFBs						
Bandhan Bank	21.8%	14.4%	14.4%	14.1%	16.1%	14.0%
Equitas SFB	NA	62.5%	45.6%	NA	NA	NA
Ujjivan SFB	16.5%	-9.4%	31.4%	18.7%	13.3%	12.9%
Jana SFB	NA	2.6%	16.5%	24.5%	NA	NA
Utkarsh SFB	25.0%	16.0%	8.3%	14.3%	15.75%	NA
ESAF SFB	-0.7%	36.0%	15.7%	51.8%	24.1%	NA
Suryoday SFB	23.7%	2.1%	28.9%	20.3%	18.3%	20.1%

Notes: (1) NA – Not available; (2) ($) Y-o-Y Growth rate calculated over Q3FY23, (3) For Banks and SFBs clients include total number of customers (both liability & asset side), (4) NBFC MFIs are arranged in order of December 2023 AUM

Source: MFIN, Company reports, CRISIL MI&A

Belstar Microfinance has the third highest Clients per Branch at end of 9 months ended Fiscal 2024

Belstar Microfinance has the third-best servicing capability with its clients per branch at 2,680, only behind Fusion Microfinance (3,260) and Satin Creditcare (2,739) as of nine months ended Fiscal 2024. In terms of no. of loans disbursed per loan officer, Belstar Microfinance stood second amongst the top 10 NBFC MFIs as of nine months ended Fiscal 2024. Belstar Microfinance had the highest clients per loan officer at 512 among the peer set.

Reach and efficiency parameters (9MFY24)	No of employees	No. of loan officers	No of branches	Clients per branch	AUM per branch (in Rs million)	Disb per branch (in Rs million)	Disb per loan officer (in Rs. million)	Clients per loan officer	No of loans disbursed per loan officer	No. of loans disbursed (in millions)
Top 10 NBFC-MFIs										
CreditAccess Grameen Ltd	19,062	13,054	1,894	2,486	123.5	79.6	11.6	361	286	3.7
IIFL Samasta Finance Ltd	15,478	9,461	1,572	1,820	83.2	55.0	9.1	302	202	1.9
Asirvad Microfinance Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Muthoot Microfin Ltd	13,067	7,996	1,424	2,302	80.5	54.6	9.7	410	70	0.6
Fusion Micro Finance Ltd	11,883	7,694	1,155	3,260	92.6	61.4	9.2	489	214	1.6
Satin Creditcare Network Ltd	11,138	7,823	1,165	2,739	84.2	59.1	8.8	408	187	1.5
Spandana Sphoorty Financial Ltd	12,261	8,305	1,484	1,888	65.8	42.7	7.6	337	186	1.5
Annapurna Finance Pvt Ltd	11,514	7,257	1,335	1,948	71.5	41.9	7.7	358	145	1.1

Reach and efficiency parameters (9MFY24)	No of employees	No. of loan officers	No of branches	Clients per branch	AUM per branch (in Rs million)	Disb per branch (in Rs million)	Disb per loan officer (in Rs. million)	Clients per loan officer	No of loans disbursed per loan officer	No. of loans disbursed (in millions)
Belstar Microfinance Ltd	**10,169**	**4,299**	**1,009**	**2,680**	**87.6**	**67.2**	**11.8**	**512**	**231**	**1.3**
Svatantra Microfin Pvt Ltd	8,956	5,614	966	2,416	77.2	45.5	7.8	416	175	1.0

Note: NBFC MFIs are arranged in order of December 2023 AUM.
Source: MFIN, Company reports, CRISIL MI&A

Reach and efficiency parameters (FY23)	No of employees	No. of loan officers	No of branches	Clients per branch	AUM per branch (in Rs million)	Disb per branch (in Rs million)	Disb per loan officer (in Rs. million)	Clients per loan officer	No of loans disbursed per loan officer	No. of loans disbursed (in millions)
Top 10 NBFC-MFIs										
CreditAccess Grameen Ltd	16,759	15,712	1,786	2,388	117.8	103.8	11.8	271	311	4.9
IIFL Samasta Finance Ltd	12,213	6,214	1,267	1,858	83.3	80.6	16.4	379	382	2.4
Asirvad Microfinance Ltd	15,874	8,736	1,684	1,983	59.6	115.1	22.2	382	450	3.9
Muthoot Microfin Ltd	10,227	6,274	1,172	2,366	78.6	69.2	12.9	442	340	2.1
Fusion Micro Finance Ltd	9,625	6,269	1,019	3,452	91.2	84.4	13.7	561	352	2.2
Satin Creditcare Network Ltd	9,222	6,125	1,078	2,374	73.6	68.6	12.1	418	285	1.8
Spandana Sphoorty Financial Ltd	9,674	7,503	1,153	1,844	69.2	66.1	10.2	283	220	1.7
Annapurna Finance Pvt Ltd	10,356	6,501	1,183	2,106	74.5	65.2	11.9	383	231	1.0
Belstar Microfinance Ltd	**8,022**	**4,533**	**767**	**2,742**	**80.7**	**75.6**	**12.8**	**464**	**297**	**1.4**
Svatantra Microfin Pvt Ltd	7,272	4,685	804	2,770	93.3	78.2	13.4	475	351	1.6

Note: NBFC MFIs are arranged in order of December 2023 AUM.
Source: MFIN, Company reports, CRISIL MI&A

Geographical presence of select players in the MFI Industry

Amongst the NBFC MFIs, Bandhan bank has the highest presence in 35 states and caters to customers at a pan India level.

No. of states	FY19	FY20	FY21	FY22	FY23	9MFY24
Top 10 NBFC-MFIs						
CreditAccess Grameen Ltd	14	14	14	14	15	17
IIFL Samasta Finance Ltd	17	17	17	17	19	22
Asirvad Microfinance Ltd	23	23	23	23	23	NA
Muthoot Microfin Ltd	16	16	16	16	18	18
Fusion Micro Finance Ltd	18	18	18	18	20	22
Satin Creditcare Network Ltd	23	23	23	23	24	24
Spandana Sphoorty Financial Ltd	18	18	18	18	18	21

Annapurna Finance Pvt Ltd	18	18	18	20	20	20
Belstar Microfinance Ltd	**18**	**18**	**18**	**18**	**18**	**19**
Svatantra Microfin Pvt Ltd	17	17	19	19	19	19
Banks and SFBs*						
Bandhan Bank	34	34	34	34	34	35
Equitas SFB	13	15	17	18	18	18
Ujjivan SFB	24	24	24	24	25	26
Jana SFB	NA	NA	NA	NA	24	24
Utkarsh SFB	11	15	16	22	26	26
ESAF SFB	14	18	21	21	NA	23
Suryoday SFB	11	12	13	14	15	15

Notes: NA – Not available, (*) For banks and small finance banks, figures includes states and UTs, NBFC MFIs are arranged in order of December 2023 AUM.

Source: MFIN, company reports, CRISIL MI&A

No. of branches per state	FY19	FY20	FY21	FY22	FY23	9MFY24
Top 10 NBFC-MFIs						
CreditAccess Grameen Ltd	48	66	69	83	119	111
IIFL Samasta Finance Ltd	29	33	36	47	67	71
Asirvad Microfinance Ltd	39	43	44	64	73	NA
Muthoot Microfin Ltd	35	43	47	57	65	79
Fusion Micro Finance Ltd	29	33	39	50	51	53
Satin Creditcare Network Ltd	42	50	44	45	45	49
Spandana Sphoorty Financial Ltd	51	56	58	58	64	71
Annapurna Finance Pvt Ltd	32	40	48	49	59	67
Belstar Microfinance Ltd	**22**	**34**	**36**	**41**	**43**	**53**
Svatantra Microfin Pvt Ltd	16	26	27	36	42	51
Banks and SFBs*						
Bandhan Bank	118	134	156	166	176	178
Equitas SFB	30	57	51	48	51	54
Ujjivan SFB	20	24	24	24	25	28
Jana SFB	NA	NA	NA	NA	31	33
Utkarsh SFB	44	34	35	31	32	34
ESAF SFB	30	25	26	26	30	32
Suryoday SFB	35	40	43	40	38	45

Notes: NA – Not available, (*) For banks and small finance banks, figures includes states and UTs, NBFC MFIs are arranged in order of December 2023 AUM.

Source: MFIN, company reports, CRISIL MI&A

Incremental branch additions	FY19	FY20	FY21	FY22	FY23	9MFY24
Top 10 NBFC-MFIs						
CreditAccess Grameen Ltd	154	259	35	200	622	108
IIFL Samasta Finance Ltd	320	68	57	189	460	305
Asirvad Microfinance Ltd	110	100	20	463	159	NA
Muthoot Microfin Ltd	90	135	63	150	267	252
Fusion Micro Finance Ltd	145	71	119	190	119	136
Satin Creditcare Network Ltd	-18	163	-129	18	49	87
Spandana Sphoorty Financial Ltd	225	91	42	-3	104	331
Annapurna Finance Pvt Ltd	196	148	152	114	199	152
Belstar Microfinance Ltd	**164**	**203**	**46**	**80**	**38**	**242**
Svatantra Microfin Pvt Ltd	144	171	66	180	112	162
Banks and SFBs						
Bandhan Bank	300	559	751	329	360	246
Equitas SFB	-	462	7	8	53	41
Ujjivan SFB	10	101	-	-	54	100
Jana SFB			34	96	39	27
Utkarsh SFB	77	25	51	128	144	50
ESAF SFB	10	31	99	2	145	31
Suryoday SFB	140	95	79	9	12	95

Notes: NA – Not available, NBFC MFIs are arranged in order of December 2023 AUM.

Source: MFIN, company reports, CRISIL MI&A

District wise presence of select players in the MFI Industry

Amongst the NBFC MFIs, Fusion Microfinance is the most diversified with presence across 434 districts as of December 2023. In comparison, Belstar has presence in 275 districts.

No. of districts	FY19	FY20	FY21	FY22	FY23	9MFY24
Top 10 NBFC-MFIs						
CreditAccess Grameen Ltd	157	230	247	301	351	367
IIFL Samasta Finance Ltd	210	228	252	288	332	406
Asirvad Microfinance Ltd	290	314	326	408	450	NA
Muthoot Microfin Ltd	217	245	249	281	321	346
Fusion Micro Finance Ltd	254	283	323	361	385	434
Satin Creditcare Network Ltd	340	383	372	374	384	398
Spandana Sphoorty Financial Ltd	263	280	282	294	314	403
Annapurna Finance Pvt Ltd	232	292	320	346	388	419
Belstar Microfinance Ltd	**76**	**155**	**170**	**186**	**216**	**275**
Svatantra Microfin Pvt Ltd	149	221	247	303	336	367
Banks and SFBs						
Bandhan Bank	NA	NA	NA	566	600	613
Equitas SFB	NA	NA	NA	NA	NA	NA
Ujjivan SFB	223	244	248	248	271	321
Jana SFB	NA	NA	NA	NA	NA	NA
Utkarsh SFB	48	173	188	224	253	NA
ESAF SFB	124	NA	NA	NA	NA	NA
Suryoday SFB	NA	NA	NA	NA	NA	NA

Notes: NA – Not available, NBFC MFIs are arranged in order of December 2023 AUM.

Source: MFIN, company reports, CRISIL MI&A

No. of branches per district	FY19	FY20	FY21	FY22	FY23	9MFY24
Top 10 NBFC-MFIs						
CreditAccess Grameen Ltd	4	4	4	4	5	5
IIFL Samasta Finance Ltd	2	2	2	3	4	4
Asirvad Microfinance Ltd	3	3	3	4	4	NA
Muthoot Microfin Ltd	3	3	3	3	4	4
Fusion Micro Finance Ltd	2	2	2	2	3	3
Satin Creditcare Network Ltd	3	3	3	3	3	3
Spandana Sphoorty Financial Ltd	3	4	4	4	4	4
Annapurna Finance Pvt Ltd	2	2	3	3	3	3
Belstar Microfinance Ltd	**5**	**4**	**4**	**4**	**4**	**4**
Svatantra Microfin Pvt Ltd	2	2	2	2	2	3
Banks and SFBs						
Bandhan Bank	NA	NA	NA	10	10	10
Equitas SFB	NA	NA	NA	NA	NA	NA
Ujjivan SFB	2	2	2	2	2	2
Jana SFB	NA	NA	NA	NA	NA	NA
Utkarsh SFB	NA	3	3	3	3	NA
ESAF SFB	3	NA	NA	NA	NA	NA
Suryoday SFB	NA	NA	NA	NA	NA	NA

Notes: NA – Not available, NBFC MFIs are arranged in order of December 2023 AUM.

Source: MFIN, company reports, CRISIL MI&A

Belstar Microfinance has the fifth highest share of MFI portfolio amongst NBFCs-MFI

Amongst the NBFC MFIs, Belstar Microfinance has the fifth highest share of MFI portfolio at 95% as of December 2023.

9M Fiscal 2024	Share of MFI Portfolio	Share of non-MFI Portfolio	Growth of MFI Portfolio CAGR (FY21-9MFY24)
CreditAccess Grameen Ltd	93%.	7%	30%
IIFL Samasta Finance Ltd	93%*	7%*	NA
Asirvad Microfinance Ltd	92%^^	8%^^	22%^
Muthoot Microfin Ltd	99%	1%	NA
Fusion Micro Finance Ltd	96%	4%	34%
Satin Creditcare Network Ltd	97%	3%	12%
Spandana Sphoorty Financial Ltd	99.5%	0.5%	10%
Annapurna Finance Pvt Ltd	86%^^^	14%^^^	20%
Belstar Microfinance Ltd	**95%**	**5%**	**41%**
Svatantra Microfin Pvt Ltd	NA	NA	NA
Banks and SFBs			
Bandhan Bank	50%**	50%	0%
Equitas SFB	18%	82%	26%
Ujjivan SFB	72%	28%	24%
Jana SFB	44%	56%	14%
Utkarsh SFB	61%	39%	15%
ESAF SFB	72%	28%	25%
Suryoday SFB	58%	42%	16%

Note: 1) (*) As of Fiscal 2023 2) (^) CAGR from fiscal 2019 to Q1 fiscal 2024 3) (**) Emerging Entrepreneurs Business group and individual loans (Esrtwhile Microbanking Unit), 4) (^^) As of Q1 fiscal 2024, 5) ($) As of September 2023, (6) (^^^) As of December 2022, (7) *NBFC MFIs are arranged in order of December 2023 AUM*

Source: CRISIL MI&A

Comparison of key players in the MFI space based on geographical concentration of portfolio

Belstar Microfinance's concentration of top state in terms of AUM stands at 48% as of December 2023.

As of December 2023	Share of rural portfolio	Share of top states by AUM			Share of top districts by AUM		
		Top States	Top 3 states	Top 5 states	Top District	Top 5 Districts	Top 10 districts
Top 10 NBFC-MFIs							
CreditAccess Grameen Ltd	85%* ^^	32%	73%	80%$$	3%	11%	19%
IIFL Samasta Finance Ltd	NA	21%	50%	60%$$	2%^	10%	16%^
Asirvad Microfinance Ltd	88%$	14%$	38%$	55%$	NA	NA	NA
Muthoot Microfin Ltd	97%	26%*	55%*	71%***	3%	12%	20%
Fusion Micro Finance Ltd	93%	23%***	54%	70%	NA	NA	NA
Satin Creditcare Network Ltd	76%^^***	26%	48%	55%$$	NA	NA	NA
Spandana Sphoorty Financial Ltd	87%*	15%	41%	61%	2%	8%	13%
Annapurna Finance Pvt Ltd	83%* ^^	20%*	51%$	NA	NA	10%^	NA
Belstar Microfinance Ltd	NA	**48%**	**63%**	**72%**	**4%**	**17%**	**30%**
Svatantra Microfin Pvt Ltd	NA	21%$	NA	69%$	NA	NA	NA
Banks and SFBs							
Bandhan Bank	34%#	NA	NA	NA	NA	NA	NA
Equitas SFB	NA	50%^^^	76%	85%	NA	NA	NA

As of December 2023	Share of rural portfolio	Share of top states by AUM			Share of top districts by AUM		
		Top States	Top 3 states	Top 5 states	Top District	Top 5 Districts	Top 10 districts
Ujjivan SFB	8%	14%	39%	56%	NA	NA	NA
Jana SFB	36%#	13%	37%	52%	NA	NA	NA
Utkarsh SFB$$$	38%#	42%	79%	89%	NA	NA	NA
ESAF SFB	60%##	39%	71%	85%	NA	NA	NA
Suryoday SFB	28%#	29%	67%	87%	NA	NA	NA

Notes:
NA – Not available
** Data as of Fiscal 2023*
^ Data as of December 2022
$ Data as of June 2023
**** Data as of September 2023*
^^ Share of rural clients is a percentage of total clients
*** Share of top 6 districts*
$$ Share of top 4 states
 # Share of rural branches as % of total branches
Rural and semi-urban portfolio
$$$ For MFI portfolio
^^^ For Tamil Nadu and Pondicherry
NBFC MFIs are arranged in order of December 2023 AUM
Source: MFIN, company reports, CRISIL MI&A

Productivity Metrics of key players in the MFI space

Belstar Microfinance had the third highest AUM per branch as of December 2023 at Rs 87.6 million after CreditAccess Grameen at Rs 123.5 million and Fusion Microfinance at Rs 92.6 million among top 10 NBFC-MFI.

Productivity metrics	AUM per branch (Rs. million)					
Top 10 NBFC-MFIs	As of March 31,19	As of March 31,20	As of March 31, 21	As of March 31, 22	As of March 31, 23	As of Dec 31, 23
Top 10 NBFC-MFIs*						
CreditAccess Grameen Ltd	106.9	106.5	117.7	118.0	117.8	123.5
IIFL Samasta Finance Ltd	46.4	60.6	77.6	80.4	83.3	83.2
Asirvad Microfinance Ltd	40.8	52.8	56.4	46.0	59.6	NA
Muthoot Microfin Ltd	78.2	71.3	66.0	69.1	78.6	80.5
Fusion Micro Finance Ltd	50.8	61.9	65.3	75.4	91.2	92.6
Satin Creditcare Network Ltd	65.2	63.7	72.0	62.3	73.6	84.2
Spandana Sphoorty Financial Ltd	47.6	67.6	77.4	58.6	69.2	65.8
Annapurna Finance Pvt Ltd	53.0	55.8	55.3	66.6	74.5	71.5
Belstar Microfinance Ltd	**46.0**	**39.1**	**50.8**	**59.9**	**80.7**	**87.6**
Svatantra Microfin Pvt Ltd	44.8	58.3	69.6	78.7	93.3	77.2
Banks and SFBs						
Bandhan Bank	111.9	157.6	163.9	176.2	181.9	185.7
Equitas SFB	298.6	179.9	208.2	237.0	302.2	340.4
Ujjivan SFB	233.1	246.1	263.3	315.9	382.9	380.6
Jana SFB	295.0	193.1	206.3	214.7	266.6	302.3
Utkarsh SFB	98.4	131.4	150.8	155.0	168.2	186.4
ESAF SFB	108.4	145.5	152.4	222.4	233.3	248.3
Suryoday SFB	78.6	77.8	75.6	89.6	106.0	113.1

*Notes: *AUM for NBFC-MFI players comprises largely of MFI loans and some non-MFI loans allowed as per extant regulations and based on each company's strategy, NA – Not available, NBFC MFIs are arranged in order of December 2023 AUM.*
Source: MFIN, company reports, CRISIL MI&A

Belstar Microfinance had the second highest AUM per loan officer as of December 2023 at Rs 15.4 million amongst the peer set.

Productivity metrics	AUM per loan officer (Rs. million)					
	As of March 31,19	As of March 31,20	As of March 31, 21	As of March 31, 22	As of March 31, 23	As of Dec 31, 23
Top 10 NBFC-MFIs*						
CreditAccess Grameen Ltd	12.4	12.8	15.2	16.6	13.4	17.9
IIFL Samasta Finance Ltd	7.9	9.7	11.8	11.1	17.0	13.8
Asirvad Microfinance Ltd	14.4	16.5	13.3	9.4	11.5	NA
Muthoot Microfin Ltd	11.1	10.4	10.8	11.1	14.7	14.3
Fusion Micro Finance Ltd	9.3	10.3	11.1	7.9	14.8	13.9
Satin Creditcare Network Ltd	10.6	11.2	11.0	9.1	12.9	12.5
Spandana Sphoorty Financial Ltd	9.4	11.2	12.1	9.9	10.6	11.8
Annapurna Finance Pvt Ltd	10.3	11.3	10.7	11.3	13.6	13.1
Belstar Microfinance Ltd	**12.7**	**11.4**	**15.7**	**13.2**	**13.7**	**15.4**
Svatantra Microfin Pvt Ltd	7.8	12.4	14.4	15.7	16.0	13.3

*Notes: *AUM for NBFC-MFI players comprises largely of MFI loans and some non-MFI loans allowed as per extant regulations and based on each company's strategy, NA – Not available, Number of loan officers is not available for Banks and SFBs, hence is excluded from the table NBFC MFIs are arranged in order of December 2023 AUM.*
Source: MFIN, company reports, CRISIL MI&A

Productivity metrics	AUM per district (Rs. million)						
	As of March 31,19	As of March 31,20	As of March 31, 21	As of March 31, 22	As of March 31, 23	As of Sept 30, 23	As of Dec 31, 23
Top 10 NBFC-MFIs*							
CreditAccess Grameen Ltd	456.0	430.3	459.2	456.2	599.2	617.8	637.1
IIFL Samasta Finance Ltd	108.9	149.1	190.3	225.1	317.8	315.1	322.1
Asirvad Microfinance Ltd	132.5	175.3	183.6	172.1	223.1	247.7	NA
Muthoot Microfin Ltd	200.7	201.3	199.9	233.7	286.9	NA	331.2
Fusion Micro Finance Ltd	104.0	129.2	143.6	184.3	241.5	243.9	246.4
Satin Creditcare Network Ltd	187.5	189.7	195.6	171.4	206.5	227.5	246.5
Spandana Sphoorty Financial Ltd	166.2	243.9	288.6	209.2	254.1	236.2	242.3
Annapurna Finance Pvt Ltd	130.1	137.3	150.3	189.3	227.2	226.3	227.7
Belstar Microfinance Ltd	**242.2**	**152.2**	**194.1**	**234.7**	**286.7**	**281.2**	**321.2**
Svatantra Microfin Pvt Ltd	82.7	117.7	144.3	179.8	223.2	205.2	203.1

*Notes: *AUM for NBFC-MFI players comprises largely of MFI loans and some non-MFI loans allowed as per extant regulations and based on each company's strategy, NA – Not available, NBFC MFIs are arranged in order of December 2023 AUM.*
Source: MFIN, company reports, CRISIL MI&A

Belstar Microfinance had the highest disbursements per loan officer as of December 2023 at Rs 11.8 million amongst the peer set.

Productivity metrics	Disbursements per loan officer (Rs. million)					
	As of March 31,19	As of March 31,20	As of March 31, 21	As of March 31, 22	As of March 31, 23	As of Dec 31, 23
Top 10 NBFC-MFIs*						
CreditAccess Grameen Ltd	14.3	13.5	12.9	15.5	11.8	11.6
IIFL Samasta Finance Ltd	8.4	8.7	9.1	9.7	16.4	9.1

Productivity metrics	Disbursements per loan officer (Rs. million)					
	As of March 31,19	As of March 31,20	As of March 31, 21	As of March 31, 22	As of March 31, 23	As of Dec 31, 23
Asirvad Microfinance Ltd	16.0	14.3	8.1	11.4	22.2	NA
Muthoot Microfin Ltd	11.6	8.6	5.7	8.2	12.9	9.7
Fusion Micro Finance Ltd	9.9	10.1	8.9	7.4	13.7	9.2
Satin Creditcare Network Ltd	10.4	12.4	6.7	5.7	12.1	8.8
Spandana Sphoorty Financial Ltd	10.6	13.1	9.6	5.1	10.2	7.6
Annapurna Finance Pvt Ltd	13.6	11.3	6.9	9.2	11.9	7.7
Belstar Microfinance Ltd	**12.4**	**12.6**	**11.6**	**10.7**	**12.8**	**11.8**
Svatantra Microfin Pvt Ltd	7.2	11.8	9.8	13.6	13.4	7.8

*Notes: *AUM for NBFC-MFI players comprises largely of MFI loans and some non-MFI loans allowed as per extant regulations and based on each company's strategy, NA – Not available, Number of loan officers is not available for Banks and SFBs, hence is excluded from the table NBFC MFIs are arranged in order of December 2023 AUM.*
Source: MFIN, company reports, CRISIL MI&A

Belstar Microfinance had an average portfolio outstanding per account at Rs 31,156 as of December 2023, as compared to the average of top 10 MFIs at Rs 29,264. Also, Belstar Microfinance had an average ticket size based on disbursements at Rs 52,370 in Q3 Fiscal 2024, as compared to the average of top 10 MFIs at Rs 47,331.

Productivity metrics	Average portfolio outstanding per account (Rs)							
Top 10 NBFC-MFIs	As of FY 19	As of FY20	As of FY21	As of FY22	As of FY23	As of Q1FY24	As of Q2FY24	As of Q3FY24
CreditAccess Grameen Ltd	17,288	17,920	26,884	30,223	28,680	27,149	27,363	30,532
IIFL Samasta Finance Ltd	20,458	18,653	23,734	29,770	44,000	25,392	24,639	25,231
Asirvad Microfinance Ltd	13,146	14,570	15,866	19,749	25,262	24,339	27,411	NA
Muthoot Microfin Ltd	23,150	21,833	21,840	22,889	27,418	NA	27,613	28,477
Fusion Micro Finance Ltd	16,771	19,539	21,550	23,873	25,550	25,817	26,216	27,325
Satin Creditcare Network Ltd	17,682	19,974	24,419	24,246	29,489	28,656	28,786	29,674
Spandana Sphoorty Financial Ltd	14,723	22,300	31,012	24,753	35,182	33,790	32,171	30,542
Annapurna Finance Pvt Ltd	19,776	22,672	23,537	24,469	34,605	35,045	35,785	36,305
Belstar Microfinance Ltd	**21,283**	**13,723**	**18,635**	**23,686**	**27,021**	**27,445**	**29,497**	**31,156**
Svatantra Microfin Pvt Ltd	21,011	10,661	13,114	26,581	25,373	25,060	24,002	24,138
Average of top 10 MFIs	18,529	18,185	22,059	25,024	30,258	28,077	28,430	29,264

Note: NBFC MFIs are arranged in order of December 2023 AUM
Source: MFIN, CRISIL MI&A

Productivity metrics	Gross Loan Portfolio outstanding per customer (Rs)							
Top 10 NBFC-MFIs	As of FY 19	As of FY20	As of FY21	As of FY22	As of FY23	As of Q1FY24	As of Q2FY24	As of Q3FY24
CreditAccess Grameen Ltd	29,619	34,124	39,107	47,352	48,909	49,577	48,887	49,749
IIFL Samasta Finance Ltd	22,634	22,078	29,975	36,022	43,967	44,288	45,170	45,090
Asirvad Microfinance Ltd	21,221	23,219	24,938	27,000	30,427	28,974	29,595	NA

Muthoot Microfin Ltd	27,384	25,958	26,195	31,271	32,886	NA	33,960	34,721
Fusion Micro Finance Ltd	17,039	21,512	22,086	24,644	26,560	26,978	27,171	28,139
Satin Creditcare Network Ltd	20,235	23,439	26,944	25,636	30,496	29,882	29,946	30,659
Spandana Sphoorty Financial Ltd	17,772	26,572	33,913	26,743	35,310	36,230	35,431	34,868
Annapurna Finance Pvt Ltd	19,987	22,909	25,989	28,351	35,256	35,984	36,932	36,688
Belstar Microfinance Ltd	**27,074**	**19,658**	**23,564**	**24,250**	**29,486**	**30,470**	**31,496**	**32,719**
Svatantra Microfin Pvt Ltd	22,000	25,762	27,415	32,041	34,086	33,452	32,830	32,404

Note: NA: Not Available, NBFC MFIs are arranged in order of December 2023 AUM.
Source: MFIN, CRISIL MI&A

Productivity metrics	Average ticket size based on disbursements (Rs)							
Top 10 NBFC-MFIs	**FY 19**	**FY20**	**FY21**	**FY22**	**FY23**	**Q1FY24**	**Q2FY24**	**Q3FY24**
CreditAccess Grameen Ltd	21,379	20,000	35,938	37,576	37,965	38,414	38,747	44,242
IIFL Samasta Finance Ltd	27,072	27,279	33,900	39,294	43,038	43,500	45,244	46,624
Asirvad Microfinance Ltd	20,466	22,628	29,268	39,070	49,324	51,922	29,552	NA
Muthoot Microfin Ltd	31,161	33,164	33,855	34,252	37,985	NA	43,510	46,415
Fusion Micro Finance Ltd	26,427	29,801	32,113	35,668	37,922	42,368	42,240	44,699
Satin Creditcare Network Ltd	26,723	31,486	33,113	42,113	42,276	43,789	47,371	49,632
Spandana Sphoorty Financial Ltd	26,279	34,308	45,318	45,025	46,256	41,617	40,306	41,447
Annapurna Finance Pvt Ltd	31,338	35,207	35,989	40,198	51,436	52,483	53,985	52,946
Belstar Microfinance Ltd	**29,355**	**30,747**	**34,430**	**35,025**	**43,051**	**50,119**	**50,791**	**52,370**
Svatantra Microfin Pvt Ltd	29,995	36,252	36,517	37,399	38,252	43,533	43,213	47,601
Average of top 10 MFIs	27,020	30,087	35,044	38,562	42,751	45,305	43,494	47,331

Note: NA: Not Available, NBFC MFIs are arranged in order of December 2023 AUM.
Source: MFIN, CRISIL MI&A

Belstar Microfinance is one of the top ten NBFC-MFI players with a relatively strong credit rating of CRISIL 'AA' and a stable outlook

Top 10 NBFC-MFIs	Long Term credit rating as of March 2024
CreditAccess Grameen Ltd	ICRA AA- (Stable), CRISIL AA- (Stable), IND AA- (Stable)
IIFL Samasta Finance Ltd	ACUITE AA (Rating Watch with Negative Implications), CRISIL AA-/Watch Developing (Rating Watch with Developing Implications), IND AA (Rating Watch with Negative Implications)
Asirvad Microfinance Ltd	CRISIL AA-/CRISIL PPMLD AA- (Stable), CARE AA- (Stable)
Muthoot Microfin Ltd	CRISIL A+/CRISIL PPMLD A+ (Stable)
Fusion Micro Finance Ltd	CRISIL A+ (Stable), ICRA A+ (Stable), CARE A+ (Stable)
Satin Creditcare Network Ltd	ICRA A (Stable), CARE BBB+ (Stable), IVR A (Stable)
Spandana Sphoorty Financial Ltd	CRISIL A (Positive), ICRA A (Positive), IND A (Stable)
Annapurna Finance Pvt Ltd	CRISIL A- (Stable), ICRA A- (Stable), CARE A- (Positive)
Belstar Microfinance Ltd	**CRISIL AA/CRISIL PPMLD AA (Stable), ACUITE AA (Stable), CARE AA- (Stable)**
Svatantra Microfin Pvt Ltd	CRISIL AA- (Stable), CARE AA- (Stable)
Banks and SFBs	

Top 10 NBFC-MFIs	Long Term credit rating as of March 2024
Bandhan Bank	CRISIL AA- (Stable), ICRA AA (Negative)
Equitas SFB	CARE AA- (Stable), IND AA- (Stable)
Ujjivan SFB	CARE AA- (Stable)
Jana SFB	ICRA BBB+ (Positive), IND A- (Stable)
Utkarsh SFB	ICRA A+ (Stable), CARE A+ (Stable)
ESAF SFB	CARE A (Stable), BWR (Negative)
Suryoday SFB	ICRA A (Stable)

Note: NBFC MFIs are arranged in order of December 2023 AUM.
Source: Company reports, Rating rationales, CRISIL MI&A

Profitability Metrics

Belstar Microfinance has a higher dependence on term loans from banks (83.1%) as compared to the peer set.

Borrowing Mix for NBFC-MFI

Fiscal 2023	Term Loans from banks	Term Loans from FIs	Term Loans from NBFCs	External Commercial Borrowings	Subordinated Liabilities	Debentures	Others
CreditAccess Grameen Ltd	65.8%	9.4%	3.7%	9.8%	0.5%	10.3%	0.6%
IIFL Samasta Finance Ltd	59.2%	13.4%	14.5%	-	6.4%	6.6%	-
Asirvad Microfinance Ltd	67.5%	4.1%	4.9%	-	4.7%	13.8%	5.1%
Muthoot Microfin Ltd	46.4%	18.7%	-	-	-	21.8%	13.1%
Fusion Micro Finance Ltd	73.1%	-	14.6%**	1.3%	1.7%	9.3%	-
Satin Creditcare Network Ltd	32.8%	-	12.0%**	-	6.5%	20.0%	28.8%
Spandana Sphoorty Financial Ltd	27.1%	-	13.3%	2.8%	0.3%	39.6%	16.9%
Annapurna Finance Pvt Ltd	NA	NA	NA	NA	NA	NA	NA
Belstar Microfinance Ltd	**83.1%**	**0.7%**	**-**	**-**	**3.4%**	**12.9%**	**-**
Svatantra Microfin Pvt Ltd	69.4%	-	19.5%**	-	7.6%	3.5%	-

Note: 1) Others include collateralized borrowings, borrowings under securitisation agreement etc. 3) (**) Loans from other parties, (4) NBFC MFIs are arranged in order of December 2023 AUM.
Source: CRISIL MI&A

Belstar Microfinance has the highest net interest margin as of December 2023 among top 10 NBFC-MFIs

Belstar Microfinance has the highest net interest margins at 10.5% as of December 2023.

9MFY24	Yields on advances	Cost of borrowing	NIM	Opex (as % of average AUM)	PPOP (%)	Credit costs
CreditAccess Grameen Ltd	16.9%	7.1%	9.4%	3.4%	7.2%	1.3%
IIFL Samasta Finance Ltd	NA	NA	NA	7.2%	NA	NA
Asirvad Microfinance Ltd	NA	8.0%	10.4%*	4.8%	7.3%	2.8%
Muthoot Microfin Ltd	NA	8.9%	7.8%*	4.5%	5.3%	1.2%
Fusion Micro Finance Ltd	17.4%^	7.8%	9.2%*	4.2%	7.2%	2.4%
Satin Creditcare Network Ltd	NA	9.2%	7.4%*	4.3%	5.4%	0.9%
Spandana Sphoorty Financial Ltd	NA	9.7%	8.4%*	5.0%	6.2%	1.7%
Annapurna Finance Pvt Ltd	NA	8.6%	7.4%*	5.0%	5.1%	2.4%
Belstar Microfinance Ltd	**19.6%^**	**7.3%**	**10.5%***	**4.5%**	**7.6%**	**3.4%**

9MFY24	Yields on advances	Cost of borrowing	NIM	Opex (as % of average AUM)	PPOP (%)	Credit costs
Svatantra Microfin Pvt Ltd	NA	NA	NA	4.2%	NA	NA
Banks and SFBs						
Bandhan Bank	11.1%	4.7%	3.6%	3.7%	3.1%	1.2%
Equitas SFB	13.2%	5.6%	4.9%	6.1%	2.6%	0.5%
Ujjivan SFB	15.5%	5.4%	5.4%	6.3%	3.8%	0.4%
Jana SFB	13.2%	NA	4.5%	5.4%	3.1%	1.8%
Utkarsh SFB	14.7%	5.7%	5.6%	6.0%	3.6%	1.3%
ESAF SFB	16.6%	5.3%	6.8%	6.9%	3.9%	1.6%
Suryoday SFB	15.1%	5.3%	5.2%	7.6%	3.1%	1.1%

Note: 1) (^) Yield calculated on total interest income, 2) NA: Not Available 3) (*) Net Interest Income calculated as total interest income minus total interest expense 5) NBFC MFIs are arranged in order of December 2023 AUM.
Source: Company reports, CRISIL MI&A

Belstar Microfinance stood lowest in terms of cost of borrowing in fiscal 2023 among top 10 NBFC-MFIs.

Belstar Microfinance had lowest cost of borrowing at 8.7% as of Fiscal 2023 as compared to top 10 MFIs.

FY23	Yields on advances	Cost of borrowing	NIM	Opex (as % of average AUM)	PPOP (%)	Credit costs
CreditAccess Grameen Ltd	21.0%	9.1%	11.3%	4.8%	8.2%	2.2%
IIFL Samasta Finance Ltd	23.0%	9.4%	12.2%	11.8%	2.1%	0.1%
Asirvad Microfinance Ltd	21.3%	9.0%	10.3%	6.4%	6.9%	3.2%
Muthoot Microfin Ltd	22.3%	10.5%	10.3%	6.0%	6.2%	3.1%
Fusion Micro Finance Ltd	22.8%	10.2%	11.4%	5.6%	8.6%	2.4%
Satin Creditcare Network Ltd	20.7%	10.6%	6.9%	6.2%	9.9%	5.4%
Spandana Sphoorty Financial Ltd	18.3%	9.3%	9.0%	6.1%	6.5%	6.2%
Annapurna Finance Pvt Ltd	20.4%	10.0%	6.1%	6.5%	5.2%	4.6%
Belstar Microfinance Ltd	**20.8%**	**8.7%**	**9.0%**	**6.4%**	**6.2%**	**3.0%**
Svatantra Microfin Pvt Ltd	22.1%	9.9%	10.0%	4.9%	8.0%	5.4%
Banks and SFBs						
Bandhan Bank	13.9%	5.3%	4.8%	4.5%	4.8%	2.8%
Equitas SFB	16.7%	6.5%	6.8%	8.4%	3.8%	1.3%
Ujjivan SFB	19.7%	6.1%	7.9%	8.5%	5.2%	0.1%
Jana SFB	17.7%	7.0%	5.7%	7.3%	4.4%	3.3%
Utkarsh SFB	19.6%	6.8%	7.6%	8.1%	4.9%	1.8%
ESAF SFB	19.8%	6.0%	8.0%	8.6%	4.7%	2.6%
Suryoday SFB	19.0%	6.1%	6.5%	9.1%	3.7%	2.6%

Note: 1) NBFC MFIs are arranged in order of December 2023 AUM.
Source: Company reports, CRISIL MI&A

Belstar Microfinance stood fifth in terms of Total Income CAGR from fiscal 2019 to fiscal 2023 among top 10 NBFC-MFIs.

Players	Total Income CAGR FY19-FY23	Other Income/ Non-interest Income CAGR FY19-FY23	Net Interest Income CAGR FY19-FY23	Opex CAGR FY19-FY23	PPOP CAGR FY19-FY23	PAT CAGR FY19-FY23
CreditAccess Grameen Ltd	29.0%	36.0%	28.5%	27.8%	27.3%	26.6%
IIFL Samasta Finance Ltd	50.7%	49.9%	51.7%	65.8%	16.5%	24.6%
Asirvad Microfinance Ltd	24.2%	21.0%	27.8%	31.5%	22.6%	10.2%
Muthoot Microfin Ltd	17.8%	-9.5%	27.5%	20.6%	9.9%	-5.0%
Fusion Micro Finance Ltd	38.0%	63.5%	46.6%	30.5%	68.0%	66.3%
Satin Creditcare Network Ltd	6.4%	32.8%	2.3%	4.1%	20.1%	7.9%
Spandana Sphoorty Financial Ltd	7.6%	39.2%	4.3%	26.0%	0.2%	-55.3%
Annapurna Finance Pvt Ltd	31.9%	52.3%	20.8%	28.8%	38.5%	-14.9%
Belstar Microfinance Ltd	**29.6%**	**63.4%**	**26.5%**	**36.8%**	**28.5%**	**15.6%**
Svatantra Microfin Pvt Ltd	67.2%	184.7%	71.1%	45.0%	107.4%	67.1%
Banks and SFBs						
Bandhan Bank	24.3%	23.4%	18.8%	26.5%	41.5%	3.0%
Equitas SFB	19.1%	24.0%	25.6%	22.1%	22.8%	28.5%
Ujjivan SFB	23.6%	30.0%	22.3%	15.8%	48.1%	53.3%

Jana SFB	28.2%	51.8%	43.5%	3.2%	NM	NM
Utkarsh SFB	31.5%	49.5%	32.3%	31.9%	38.1%	44.1%
ESAF SFB	28.8%	27.4%	35.0%	28.4%	40.5%	35.3%
Suryoday SFB	21.0%	9.8%	18.1%	27.2%	12.3%	-2.7%

Note: NBFC MFIs are arranged in order of December 2023 AUM.
Source: Company reports, CRISIL MI&A

Belstar Microfinance has the third lowest cost to income ratio as of December 2023 among top 10 NBFC-MFIs.

Belstar Microfinance's cost to income ratio stood at 38.3% which was the third lowest after CreditAccess Grameen (30.7%) and Fusion Microfinance (36.5%) as of December 2023.

Cost to income ratio	FY19	FY20	FY21	FY22	FY23	9MFY24
CreditAccess Grameen Ltd	35.3%	34.5%	41.7%	45.6%	35.6%	30.7%
IIFL Samasta Finance Ltd	60.0%	49.8%	62.6%	52.6%	86.0%	61.9%
Asirvad Microfinance Ltd	41.3%	33.9%	46.7%	49.7%	48.3%	39.7%
Muthoot Microfin Ltd	42.2%	49.4%	64.6%	65.0%	51.4%	47.1%
Fusion Micro Finance Ltd	63.2%	50.8%	44.3%	44.3%	38.4%	36.5%
Satin Creditcare Network Ltd	51.3%	51.3%	59.5%	64.9%	37.3%	44.0%
Spandana Sphoorty Financial Ltd	24.9%	20.9%	22.0%	39.6%	45.4%	40.9%
Annapurna Finance Pvt Ltd	62.2%	62.0%	58.5%	63.1%	55.1%	51.2%
Belstar Microfinance Ltd	**44.2%**	**51.0%**	**56.8%**	**52.9%**	**50.5%**	**38.3%**
Svatantra Microfin Pvt Ltd	71.5%	103.7%	59.1%	47.6%	37.4%	38.9%
Banks and SFBs						
Bandhan Bank	32.6%	30.8%	29.1%	30.5%	39.5%	46.2%
Equitas SFB	78.2%	66.4%	60.0%	66.1%	63.4%	64.8%
Ujjivan SFB	76.5%	67.5%	60.3%	71.7%	54.8%	53.8%
Jana SFB	204.0%	80.6%	69.9%	66.5%	56.2%	58.0%
Utkarsh SFB	58.6%	57.6%	55.4%	59.1%	54.2%	56.0%
ESAF SFB	66.4%	64.9%	60.2%	63.7%	57.9%	57.6%
Suryoday SFB	47.7%	47.1%	64.4%	60.9%	60.0%	61.5%

Note: NBFC MFIs are arranged in order of December 2023 AUM.
Source: Company reports, CRISIL MI&A

Profitability of Players

Belstar has the second best average RoE from Fiscal 2019- Fiscal 2023 among the peer set at 15.7% after IIFL Samasta Finance at 16.9%. As of 9 months ended Fiscal 2024, Belstar Microfinance has the second highest RoE at 19.5% after Asirvad Microfinance at 19.9%.

Players	ROE						
	FY19	FY20	FY21	FY22	FY23	Avg (FY19-FY23)	9MFY24
Top 10 NBFC-MFIs							
CreditAccess Grameen Ltd	13.6%	13.0%	4.5%	10.1%	18.3%	11.9%	18.6%
IIFL Samasta Finance Ltd	28.1%	27.7%	11.5%	6.1%	11.0%	16.9%	NA
Asirvad Microfinance Ltd	18.9%	25.5%	1.5%	1.3%	17.1%	12.9%	19.9%
Muthoot Microfin Ltd	31.3%	2.0%	0.8%	4.3%	11.1%	9.9%	15.3%
Fusion Micro Finance Ltd	11.2%	7.6%	3.6%	1.7%	21.2%	9.1%	14.8%
Satin Creditcare Network Ltd	16.9%	12.0%	-0.9%	2.6%	15.0%	9.1%	13.3%
Spandana Sphoorty Financial Ltd	16.4%	15.0%	4.8%	1.6%	0.4%	7.6%	10.7%
Annapurna Finance Pvt Ltd	14.5%	12.0%	0.2%	2.2%	3.3%	6.4%	13.7%
Belstar Microfinance Ltd	**27.7%**	**22.0%**	**9.0%**	**6.5%**	**13.4%**	**15.7%**	**19.5%**
Svatantra Microfin Pvt Ltd	11.4%	11.4%	5.9%	6.5%	12.9%	9.6%	NA
Banks and SFBs							
Bandhan Bank	19.0%	22.9%	13.5%	0.7%	11.9%	13.6%	10.6%

Players	ROE						
	FY19	FY20	FY21	FY22	FY23	Avg (FY19-FY23)	9MFY24
Equitas SFB	9.8%	9.8%	12.5%	7.3%	12.2%	10.3%	10.9%
Ujjivan SFB	11.5%	14.0%	0.3%	-14.0%	31.8%	8.7%	20.6%
Jana SFB	-177.0%	3.5%	7.8%	0.5%	17.1%	-29.6%	15.4%
Utkarsh SFB	15.9%	20.8%	9.4%	4.2%	22.6%	14.6%	14.1%
ESAF SFB	14.6%	19.3%	8.7%	4.0%	19.4%	13.2%	18.2%
Suryoday SFB	12.2%	11.4%	0.9%	-6.0%	5.0%	4.7%	9.3%

Note: NBFC MFIs are arranged in order of December 2023 AUM.
Source: Company reports, CRISIL MI&A

Players	ROA						
	FY19	FY20	FY21	FY22	FY23	Avg (FY19-FY23)	9MFY24
Top 10 NBFC-MFIs							
CreditAccess Grameen Ltd	4.4%	3.6%	1.2%	2.8%	4.5%	3.3%	4.4%
IIFL Samasta Finance Ltd	4.0%	4.7%	1.9%	0.9%	1.7%	2.6%	NA
Asirvad Microfinance Ltd	3.6%	4.6%	0.3%	0.2%	2.6%	2.3%	3.3%
Muthoot Microfin Ltd	6.6%	0.5%	0.2%	1.0%	2.3%	2.1%	3.4%
Fusion Micro Finance Ltd	1.8%	1.8%	0.9%	0.3%	4.6%	1.9%	3.6%
Satin Creditcare Network Ltd	2.9%	2.3%	-0.2%	0.5%	3.5%	1.8%	3.3%
Spandana Sphoorty Financial Ltd	6.3%	6.2%	1.8%	0.6%	0.2%	3.0%	3.4%
Annapurna Finance Pvt Ltd	2.3%	2.0%	0.03%	0.3%	0.4%	1.0%	2.0%
Belstar Microfinance Ltd	**4.3%**	**4.3%**	**1.6%**	**1.1%**	**2.4%**	**2.7%**	**3.3%**
Svatantra Microfin Pvt Ltd	1.8%	1.5%	0.9%	1.0%	2.0%	1.4%	NA
Banks and SFBs							
Bandhan Bank	3.9%	4.1%	2.1%	0.1%	1.5%	2.3%	1.4%
Equitas SFB	1.5%	1.4%	1.7%	1.1%	1.9%	1.5%	1.5%
Ujjivan SFB	1.7%	2.2%	0.04%	-1.9%	3.9%	1.2%	2.6%
Jana SFB	-20.3%	0.3%	0.5%	0.03%	1.1%	-3.7%	1.2%
Utkarsh SFB	1.7%	2.4%	1.0%	0.5%	2.4%	1.6%	1.7%
ESAF SFB	1.5%	2.3%	1.0%	0.4%	1.6%	1.4%	1.7%
Suryoday SFB	2.9%	2.4%	0.2%	-1.2%	0.9%	1.0%	1.5%

Note: NBFC MFIs are arranged in order of December 2023 AUM.
Source: Company reports, CRISIL MI&A

Belstar Microfinance had capital adequacy ratio of 18.6% as of December 2023, well above the statutory requirement of 15%

	Debt to equity ratio (x)		Capital adequacy ratio (%)		Tier 1 Ratio (%)	
Top 10 NBFC-MFIs	As of FY 23	As of 9MFY24	As of FY23	As of 9MFY24	As of FY23	As of 9MFY24
Top 10 NBFC-MFIs						
CreditAccess Grameen Ltd	3.2	3.1	23.6%	24.5%	22.7%	23.6%
IIFL Samasta Finance Ltd	5.5	NA	17.1%	24.3%	13.5%	NA
Asirvad Microfinance Ltd	5.5	4.2	19.7%	23.2%	15.6%	NA
Muthoot Microfin Ltd	4.0	3.0	21.9%	29.6%	21.9%	NA
Fusion Micro Finance Ltd	2.9	3.0	27.9%	27.9%	26.6%	NA
Satin Creditcare Network Ltd	2.8	3.0	26.6%	28.7%	25.3%	NA
Spandana Sphoorty Financial Ltd	1.9	2.3	36.9%	35.9%	36.9%	NA
Annapurna Finance Pvt Ltd	5.8	5.1	23.6%	26.0%	21.8%	NA
Belstar Microfinance Ltd	**4.4**	**4.9**	**22.0%**	**18.6%**	**20.3%**	**15.4%**
Svatantra Microfin Pvt Ltd	5.4	NA	22.3%	19.8%	16.1%	NA
Banks and SFBs						
Bandhan Bank	1.3	0.7	19.8%	17.9%	18.7%	16.9%
Equitas SFB	0.6	0.4	23.8%	20.2%	23.1%	19.7%

	Debt to equity ratio (x)		Capital adequacy ratio (%)		Tier 1 Ratio (%)	
Top 10 NBFC-MFIs	As of FY 23	As of 9MFY24	As of FY23	As of 9MFY24	As of FY23	As of 9MFY24
Ujjivan SFB	0.6	0.7	25.8%	24.4%	22.7%	22.0%
Jana SFB	3.5	2.0	15.6%	16.3%	13.0%	14.9%
Utkarsh SFB	1.2	0.6	20.6%	23.2%	18.3%	21.5%
ESAF SFB	2.0	1.0	19.8%	21.0%	18.1%	18.9%
Suryoday SFB	1.7	1.5	33.7%	27.8%	30.8%	25.7%

Note: NBFC MFIs are arranged in order of December 2023 AUM.
Source: Company reports, CRISIL MI&A

	Restructured book (as % of advances)	Provision Coverage Ratio		
Top 10 NBFC-MFIs	As of 9MFY24	As of FY 22	As of FY23	As of 9MFY24
Top 10 NBFC-MFIs				
CreditAccess Grameen Ltd	0.02%^	69.9%	71.1%	70.1%
IIFL Samasta Finance Ltd	0.7%^	NA	NA	NA
Asirvad Microfinance Ltd	0.1%**	80.8%	59.1%	51.8%
Muthoot Microfin Ltd	1.4%^	75.2%	79.8%	85.6%
Fusion Micro Finance Ltd	0.03%^	71.3%	74.9%	74.7%
Satin Creditcare Network Ltd	0.1%^	69.2%	54.3%	60.4%
Spandana Sphoorty Financial Ltd	0.04%**	33.3%	69.6%	70.0%
Annapurna Finance Pvt Ltd	0.1%^	73.2%	64.8%	68.5%
Belstar Microfinance Ltd	**0.002%**	**73.9%**	**72.7%**	**91.5%**
Svatantra Microfin Pvt Ltd	0.3%*	55.3%	61.2%	NA
Banks and SFBs				
Bandhan Bank	NA	74.3%	76.0%	68.5%
Equitas SFB	1.0%*	41.7%	56.2%	55.3%
Ujjivan SFB	0.4%	91.7%	98.6%	92.2%
Jana SFB	0.5%	19.3%	73.6%	67.6%
Utkarsh SFB	0.2%*	62.1%	87.9%	93.8%
ESAF SFB	0.1%	49.9%	54.6%	47.4%
Suryoday SFB	NA	49.4%	50.5%	53.6%

Note: (*) As of Fiscal 2023, (**) As of Q1 Fiscal 2024, Provision Coverage Ratio calculated as Gross Non-performing Asset minus Net Non-performing Asset divided by Gross Non-performing Asset, NBFC MFIs are arranged in order of December 2023 AUM.
Source: Company Reports, CRISIL MI&A

Belstar Microfinance had the third lowest Gross Non-performing Asset (GNPA) and lowest Net NPA (NNPA) ratio among the selected NBFC-MFIs as of December 2023 among top ten NBFC-MFIs

	GNPA						NNPA					
	As of FY19	As of FY20	As of FY21	As of FY22	As of FY23	As of 9MFY24	As of FY19	As of FY20	As of FY21	As of FY22	As of FY23	As of 9MFY24
Top 10 NBFC-MFIs												
CreditAccess Grameen Ltd	0.61%	1.57%	4.38%	3.12%	1.21%	0.97%	0.17%	0.37%	1.37%	0.94%	0.35%	0.29%
IIFL Samasta Finance Ltd	NA	2.80%	1.80%	3.07%	2.12%	2.10%	NA	0.00%	0.00%	0.00%	0.00%	NA
Asirvad Microfinance Ltd	0.48%	1.60%	2.50%	1.67%	2.81%	2.78%	0.00%	0.00%	0.00%	0.32%	1.15%	1.34%
Muthoot Microfin Ltd	NA	8.10%	7.86%	6.26%	2.97%	2.29%	NA	4.05%	2.15%	1.55%	0.60%	0.33%
Fusion Micro Finance Ltd	1.55%	1.12%	5.50%	5.71%	3.46%	3.04%	0.56%	0.39%	2.20%	1.64%	0.87%	0.77%
Satin Creditcare Network Ltd	NA	1.57%	8.40%	8.01%	3.28%	2.40%	NA	0.37%	4.75%	2.47%	1.50%	0.95%

Spandana Sphoorty Financial Ltd	NA	0.36%	5.76%	17.70%	2.07%	1.50%	NA	0.07%	3.26%	11.80%	0.63%	0.45%
Annapurna Finance Pvt Ltd	NA	1.36%	7.36%	9.80%	3.84%	3.17%	NA	0.84%	2.79%	2.63%	1.35%	1.00%
Belstar Microfinance Ltd*	**1.27%**	**1.11%**	**2.72%**	**5.68%**	**2.42%**	**1.88%**	**0.14%**	**0.09%**	**0.59%**	**1.48%**	**0.66%**	**0.16%**
Svatantra Microfin Pvt Ltd	NA	1.29%	2.13%	3.38%	5.00%	NA	NA	0.68%	1.13%	1.51%	1.94%	NA
Banks and SFBs												
Bandhan Bank	2.04%	1.48%	6.81%	6.46%	4.87%	7.02%	0.58%	0.58%	3.51%	1.66%	1.17%	2.21%
Equitas SFB	2.53%	2.72%	3.73%	4.24%	2.76%	2.53%	1.44%	1.66%	1.58%	2.47%	1.21%	1.13%
Ujjivan SFB	0.90%	0.90%	7.07%	7.34%	2.88%	2.18%	0.30%	0.20%	2.93%	0.61%	0.04%	0.17%
Jana SFB	NA	2.80%	7.25%	5.71%	3.94%	2.19%	NA	1.30%	8.40%	4.61%	1.04%	0.71%
Utkarsh SFB	1.39%	0.71%	3.75%	6.10%	3.23%	3.04%	0.12%	0.18%	1.33%	2.31%	0.39%	0.19%
ESAF SFB	1.61%	1.53%	6.70%	7.83%	2.49%	4.16%	0.77%	0.64%	3.88%	3.92%	1.13%	2.19%
Suryoday SFB	1.81%	2.80%	9.41%	11.80%	3.13%	3.06%	0.44%	0.60%	4.73%	5.97%	1.55%	1.42%

Note: (*) For Belstar Microfinance GNPA (%) calculated as GNPA divided by gross advances and NNPA (%) calculated as NNPA divided by net advances, NBFC MFIs are arranged in order of December 2023 AUM.
Source: Company reports, CRISIL MI&A

Experience of leadership team

Belstar Microfinance ranks highest in terms of average experience of key managerial personnel as compared to top 10 NBFC-MFIs.

Players	Date of incorporation	Total number of directors	Total number of independent directors	Team Size of key managerial personnel	Average of total experience (Key Managerial Personnel) years
Top 10 NBFC-MFIs					
CreditAccess Grameen Ltd	1991	8	3	19	24
IIFL Samasta Finance Ltd**	1995	6	4	10	19
Asirvad Microfinance Ltd	2007	11	7	12	19
Muthoot Microfin Ltd	1992	10	5	7	21
Fusion Micro Finance Ltd	1994	6	3	9	24
Satin Creditcare Network Ltd	1990	8	6	11	24
Spandana Sphoorty Financial Ltd	2003	10	4	8*	23
Annapurna Finance Pvt Ltd	1986	15	4	18	15
Belstar Microfinance Ltd	**1988**	**11**	**4**	**11**	**25**
Svatantra Microfin Pvt Ltd	2012	6	2	10	21
Banks and SFBs					
Bandhan Bank	2014	14	8	26	26
Equitas Small Finance Bank Ltd	1993	10	9	15	28
Ujjivan Small Finance Bank Ltd	2016	8	6	12	27
Utkarsh SFB	2016	8	4	14	25
ESAF SFB	2016	10	5	10	21
Suryoday SFB**	2008	7	5	24	24

*Note: (1) Basis company websites as on March 2024, (2) * Executive Team (3) ** As of October 2023 (4) NBFC MFIs are arranged in order of December 2023 AUM.*
Source: Company reports, CRISIL MI&A

List of formulaes

Parameters	Formula
Cost to Income Ratio	Operating expenses for the relevant fiscal year divided by total income minus interest expense
Operating Expense	Operating Expenditure (Employee Expenses + Depreciation and amortization expense + Fees and commission expense+ Other expenses)
Opex to total average assets	Operating expenses divided by total average assets at the end of the financial year
RoA	Profit after tax / average of total assets on book
RoE	Profit after tax / average net worth
NIMs	(Interest income on loans and advances – interest paid) / average of total assets on book
Yield on advances	Interest earned on loans and advances / average of total advances on book
Cost to income	Operating expenses / (net interest income + other income)
Cost of borrowings	Interest paid / (average of deposits and borrowings)
Credit cost	Provisions / average total assets on book
Debt to Equity Ratio	Total Borrowings / Total shareholder equity of the same fiscal