Business Standard

Janalakshmi to lead investor rush into microfinance sector

After Janalakshmi's record-breaking deal, Indian MFI sector likely to raise Rs 2,000 crore in FY15

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Janalakshmi Financial Services, a non-banking financial company (NBFC) focused on the urban under-served, is expected to lead the rush of private equity (PE) funds into India's microfinance sector, signalling a strong recovery. According to sources, global PE major TPG is among the two global PE funds that are in advanced discussions with the Bangalore-based firm to invest about $100 million with an existing investor.

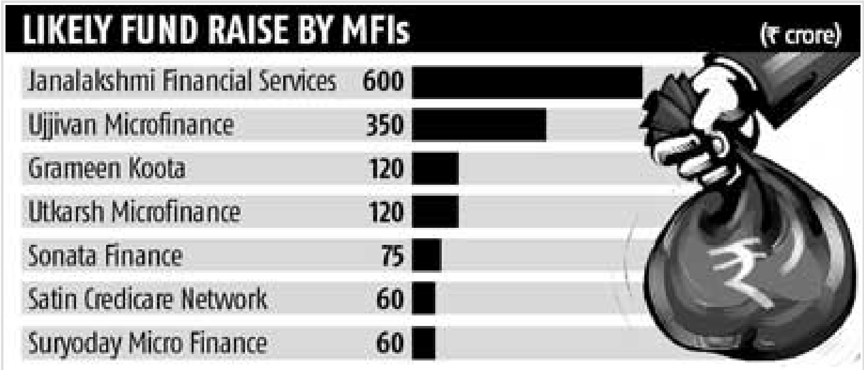
As and when Janalakshmi, started by social entrepreneur Ramesh Ramanathan, sews up the transaction, it will mark India's largest PE funding in the microfinance sector, which was recently hit by a major crisis in Andhra Pradesh (AP). Last year, Janalakshmi had raised a record Rs 325 crore; the funding round was led by Morgan Stanley.

After this transaction, which is to close by October 2014, eight other microfinance institutions are expected to the funding rounds by raising Rs 2,000 crore by the end of FY15. According to sources, Ujjivan Financial Services, started by Samit Ghosh, will initiate a fund raise for Rs 350 crore. Various other fast-emerging microfinance institutions such as Grameen Koota, Utkarsh Microfinance, Satin Creditcare Network, Sonata Finance, and Suryoday Micro Finance are among those that have initiated talks to raise PE funds.

CARE Ratings said in a recent report the microfinance sector was entering a phase of relative stability after going through three broad risk phases in the past - high growth (till 2010), high volatility (2010-11), consolidation (2011-13).

Explaining the rationale, CARE Ratings said: "The overall credit profile of the MFIs (microfinance institutions) has shown improvement with improving profitability, as stable margins are expected during FY14 onwards on account of removal of interest rate cap and control in operating expenses. The players in the sector are also adequately capitalised with overall gearing increasing moderately in spite of good growth in the loan portfolio in FY13. Overall gearing has been at comfortable levels mainly on account of equity infusion from the private equity investors post AP crisis."

JP Morgan and Global Impact Investing Network in their research said that investments into social impact space was likely to increase globally during 2014, with South Asia and Southeast Asia



among the top regions likely to attract a major share. Intellecap, an advisory firm focused on social enterprises, said $1.6 billion of capital has been invested in 220 impact enterprises across India, with half of the investments in microfinance. Unitus Capital, an impact investment-focused investment bank, expects impact equity investments in India to grow 30 per cent this year.

In its recent report, Intellecap added that the microfinance sector alone has been able to attract $225 million in follow-on capital involving only mainstream PE and venture capital investors in later rounds, indicating the sector's ability to attract mainstream capital without the support of impact funds. Cumulatively, the microfinance sector saw total investments of $458 million from mainstream venture capital and PE investors in the first round and follow-on deals.