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MFIs entering new phase of stability, higher profits: Care

"This phase is expected to be characterised by a more stable regulatory environment, steady availability of funds, improving profitability with comfortable asset quality and capital adequacy and relatively lesser impact of concentration risk," Care said in a report.

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Care Ratings today said micro finance sector is entering a phase of stable regulatory environment, higher availability of credit and increased profitability. The agency believes that **MFIs are slowly coming out of the damage inflicted by the Andhra Pradesh crisis of 2010.**

According to Care, micro-finance sector has gone through three broad phases in the past: high growth (till 2010), high volatility (2010-11), consolidation (2011-13); and is now entering the fourth phase of relative stability. "This

phase is expected to be characterised by a more stable regulatory environment, steady availability of funds, improving profitability with comfortable asset quality and capital adequacy and relatively lesser impact of concentration risk," Care said in a report.

The report said although MFIs will see improvement in their credit profiles, credit ratings may not immediately show improvement as those will continue to factor in risks associated with unsecured lending, socio-political intervention, geographic concentration and

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operational risks related to cash based transaction.

The report said that RBI recognises micro-finance sector as it achieves the objective of financial inclusion by providing access to financial services to the unbanked population of the country. "With recent introduction of NBFC MFIs guidelines and priority sector lending (PSL) status being retained, RBI has reaffirmed MFI's role in financial inclusion," it said.

Highlighting the higher availability of funds, the report said that total debt of the MFIs has increased to Rs 11,001 crore in FY13 from Rs 6,661 crore in FY12. "The sector has also been attracting regular equity infusion from private equity investors reflecting the increasing confidence of the investors regarding growth potential in the sector," the report said.

Care said the credit profile of the MFIs has shown improvement with improving profitability as stable margins are expected from FY14 onwards on account of removal of interest rate cap and control in operating expenses. MFIs 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," the report said. The rating agency expects, going forward, that MFIs may expand their client base and reach out to more underserved areas of the country.

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