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# NBFC-MFI loan book likely to grow 30% in FY23 with resurgence in demand for micro loans: Report

*Credit and finance for MSMEs: The YoY growth in NBFC-MFIs loan book had peaked at 66 per cent in FY18 (during the FY17-23 period) before it slipped to 14 per cent in FY21 amid Covid.*

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The highest share in the NBFC-MFIs loan book was of Joint liability group (JLG) loans.

**Credit and finance for MSMEs:** Non-banking financial companies (NBFCs) in the microfinance sector (NBFC-MFIs) are expected to see a 30 per cent year-on-year (YoY) growth in their loan book in the financial year 2022-23 on the back of a resurgence in demand for micro loans, especially from Tier-III cities, said credit rating company CareEdge in a report on Wednesday. The gross loan portfolio of NBFC-MFIs in the current fiscal is likely to hit the Rs 81,215 crore mark vis-a-vis Rs 61,341 crore in FY22 that saw 17 per cent YoY growth, the company said based on data from its sample set of NBFC-MFIs.

The YoY growth in NBFC-MFIs loan book had peaked at 66 per cent in FY18 (during the FY17-23 period) before it slipped to 14 per cent in FY21 amid Covid. The recovery began in FY22 supported by strong disbursements in the latter part of the fiscal, shrugging off negative growth and the halt in business operations witnessed in Q1FY22 owing to the second wave of the pandemic, the report noted.

The highest share in the NBFC-MFIs loan book was of Joint liability group (JLG) loans. However, the report said that with the growing ticket size across loan products and the new guidelines by the Reserve Bank of India (RBI), which deregulate the maximum cap on interest rates and lower the minimum required share of MFI loans in the portfolio to 75 per cent from 85 per cent earlier, the share of individual, MSME, and other non-MFI loans may gradually increase in the portfolio mix in the medium term.

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JLG is essentially an informal group of around 4 to 10 people for the purpose of availing bank loans either individually or through the group against mutual guarantee, according to RBI.

With respect to the asset quality, which saw increased stress due to the rise in delays in repayment by the end borrowers because of the Covid impact, loans overdue by more than 90 days (portfolio at risk or PAR 90+ days past due) for the NBFC-MFI sector is expected to improve.

Importantly, the PAR 90+ had jumped to 4.82 per cent as of March 31, 2022, as compared to 2.07 per cent as of March 31, 2020. However, supported by a resurgence in economic activity post Q2 FY22, the average collection efficiency for micro-loans improved substantially from 75 per cent during Q1 FY22 to 92 per cent during Q3 FY22 and further to 96 per cent during Q4FY22, the report added.

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