Impact of Covid 2.0 on

NBFC - MFIs

Impact Note

Formerly Known as
IFMR Capital

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Covid 1.0 Vs Covid 2.0

NBFC Operations	Covid 1.0	Covid 2.0
Lockdown Impact on Businesses	Lockdown was nation-wide, sudden and a complete shut-down resulting in taking people by surprise	Taking lessons from Covid 1.0, the lockdown was differentiated, decided by local administration with most business segments being open for restricted hours (manufacturing, transport and other essential services), thus reducing the impact of the clamp-down
Rural Economy	The infection had largely left rural India untouched	Covid 2.0 impacted rural India but given the lower population density and partial opening allowed for essential services, earnings was impacted more by fear of venturing out than closing of businesses
Collection Trend	Was deeply impacted because of the strict lockdown and also on account of regulatory moratorium	Has been impacted, but the partial operations that have been allowed even during lockdown has helped stem the drop in collections; NBFCs with multi state operations (North-South divide of covid wave) have been able to rely on the opening in Southern India when Northern India was closed and vice-versa currently
Disbursement Trend	NBFC operations were in disarray trying to cope with moratorium requests, lockdown related inability to reach customers and sharp reduction in disbursements given the newness of the first wave.	NBFCs have been better prepared in Covid 2.0 with staff operating till 2:00PM initially in April/May and now till 5:00PM in many regions in central and northern India with incremental relaxation in lockdown except some geographies (TN, Karnataka, AP) ; Disbursements have not come to a halt;
Moratorium / Restructuring	NBFC-MFIs had flexibility to offer moratorium to end borrowers since the lenders to NBFCs had offered them moratorium, giving significant relief to the end borrower and NBFCs.	NBFC-MFIs are not eligible for the restructuring of the loan taken by them from other lenders during Covid-2, while the end borrowers are eligible for it, so NBFCs have offered the restructuring to select borrowers.

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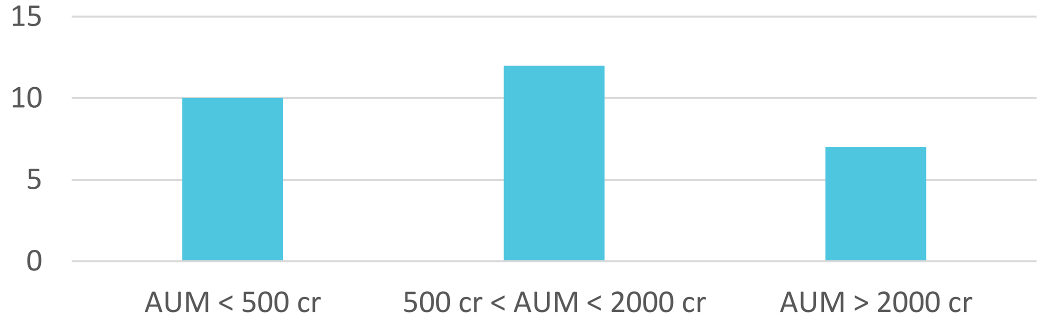
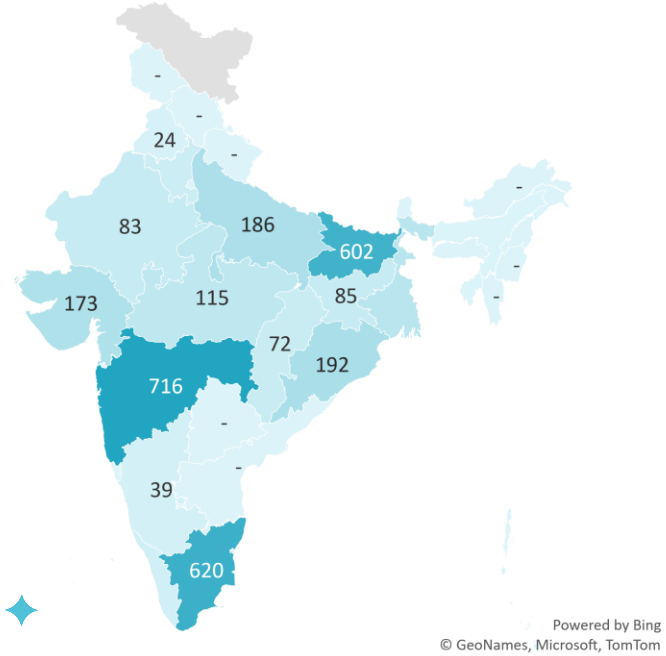
MFI Portfolio

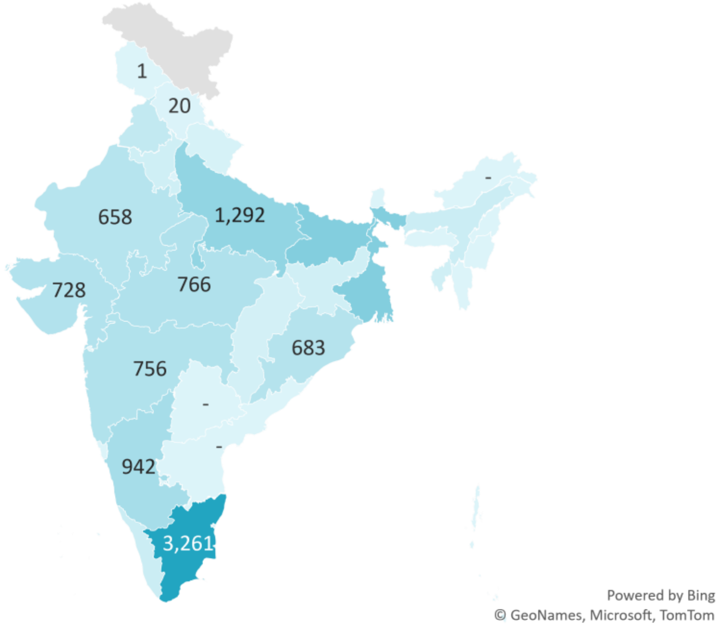
Information from **29 NBFC-MFIs** including 10 smaller MFIs (AUM < INR 500 Cr.), 12 medium size MFIs (INR 500 Cr. < AUM < INR 2000 Cr.) and 7 larger MFIs (AUM > INR 2000 Cr.)



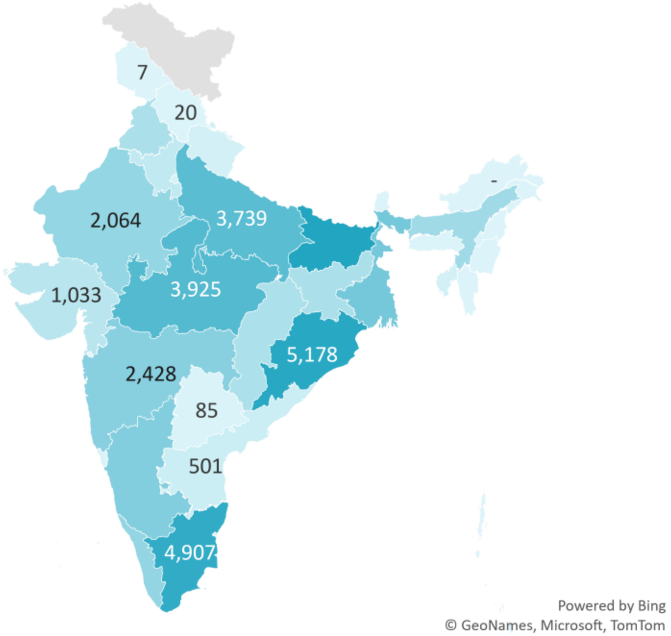
AUM < 500 Cr.



500 Cr. < AUM < 2000 Cr.



AUM > 2000 Cr.



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*The numbers in the maps of India indicate the AUM in each state managed by respective AUM category of MFIs

Covid-19 Update – MFI sector – June 2021

Lockdown update

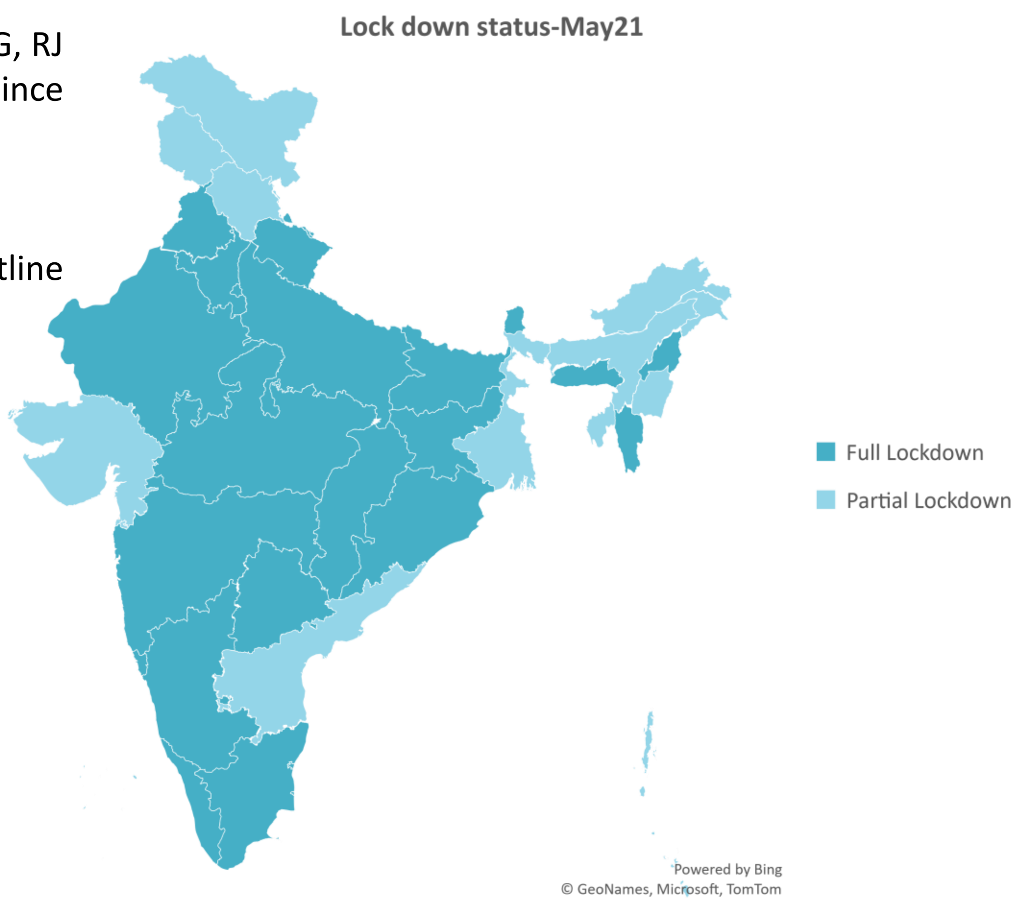
- Lockdown was for a shorter period, i.e., less than a month in most of the states
- However stringent lockdown was enforced for a brief period in a few states such as TN, CG, RJ & OD, but MFI operations in rural areas have not been impacted as in the first lockdown, since the branches are open, and the staff is available

MFI collections & branch operations

- Most MFI branches are functional but Covid-19 infection & death rates among the frontline staff is a major concern
- Vaccinating frontline staff is being driven on priority
- No center meetings in April and May, collections being done through center leaders or group leaders and through digital modes
- April collection are in the range of 85-95% and May is in the range of 70-80%.
- Nil disbursements except few exceptional cases

RBI & Government support

- SFB on-lending to MFIs to be considered under PSL
- Restructuring window for individual loans has been offered again
- All time high procurement of Agri produce and higher MSP
- [Government Credit Guarantee Scheme for NBFC-MFIs]



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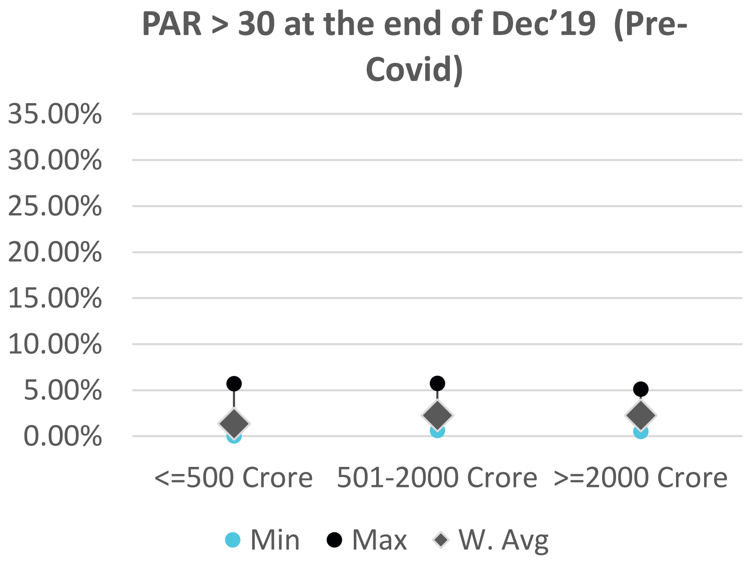
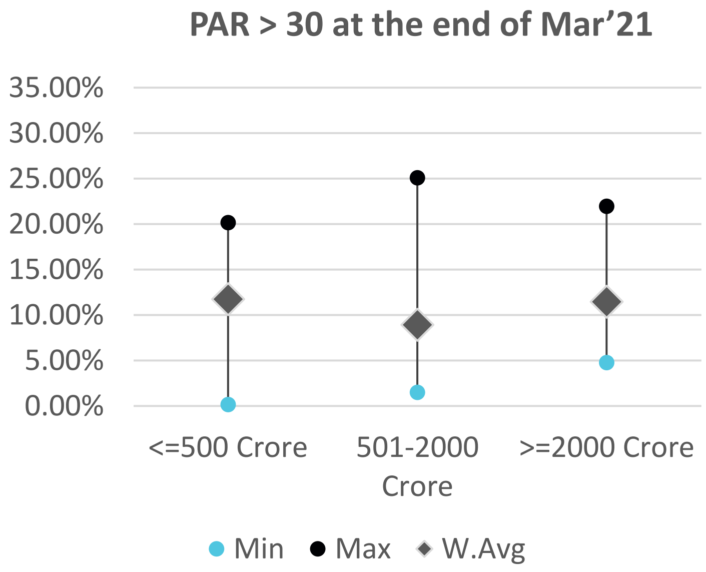
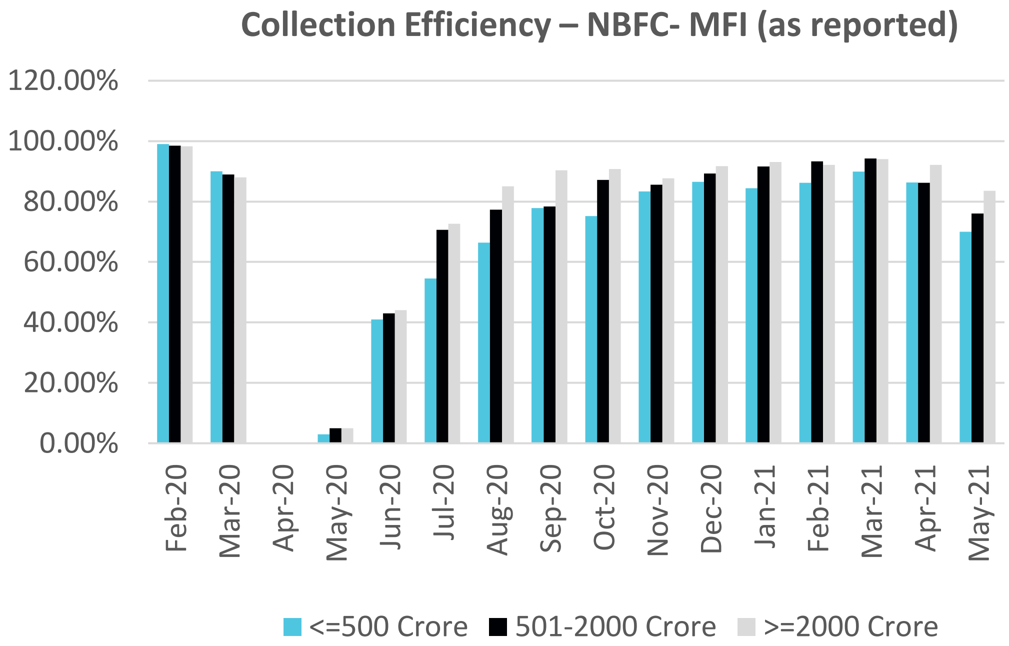
Larger MFIs show marginally better Collection Efficiency

- **Larger MFIs demonstrated higher CE compared to the smaller MFIs, since they are able to quickly launch new products for supporting the affected borrowers and also benefited from geographical diversification which allowed them to absorb the shock of lockdowns and its impact on collections**
- **Smaller MFIs have shown better portfolio quality in normal times due to better control on operations resulting from focused approach within a limited geographical presence**
- **Collections across MFIs have been resilient in Covid 2.0 unlike Covid 1.0**







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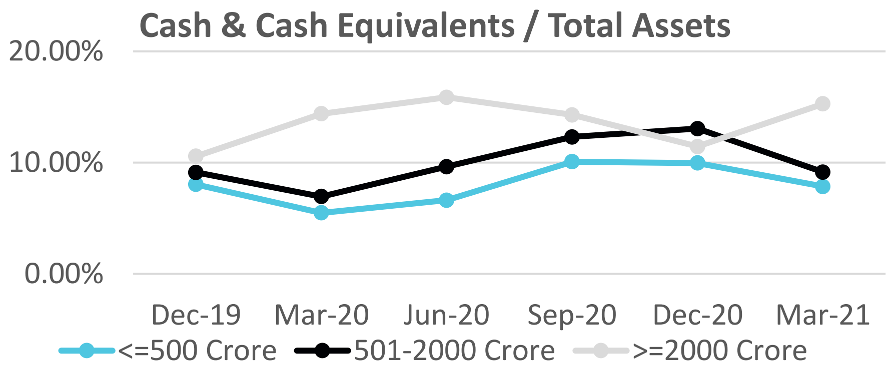
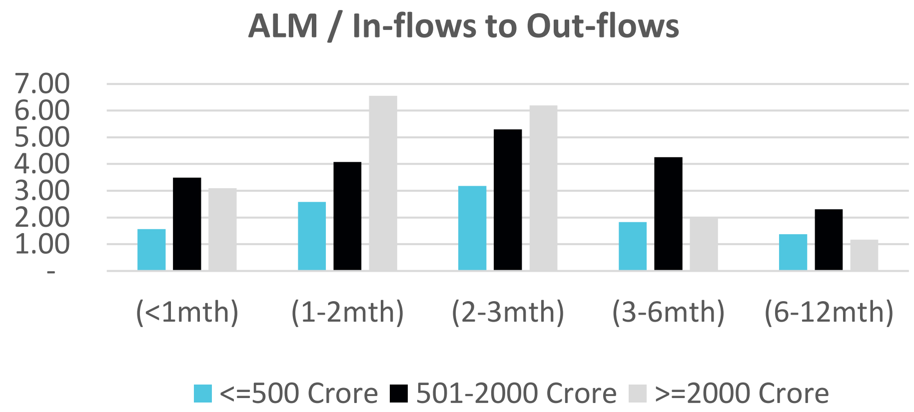
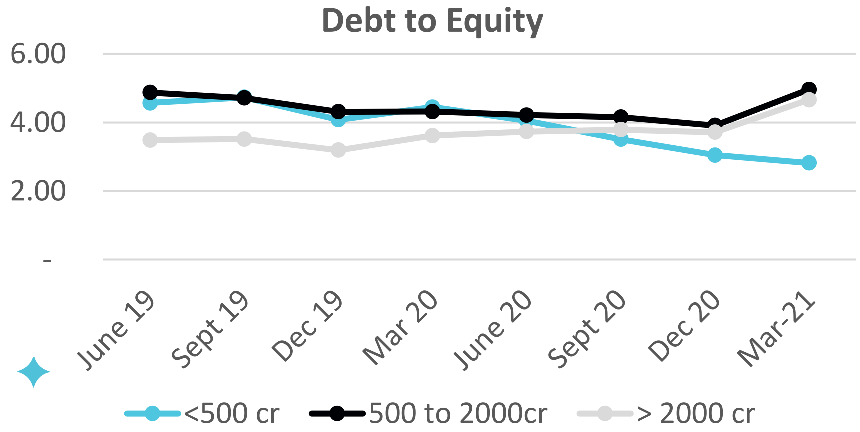
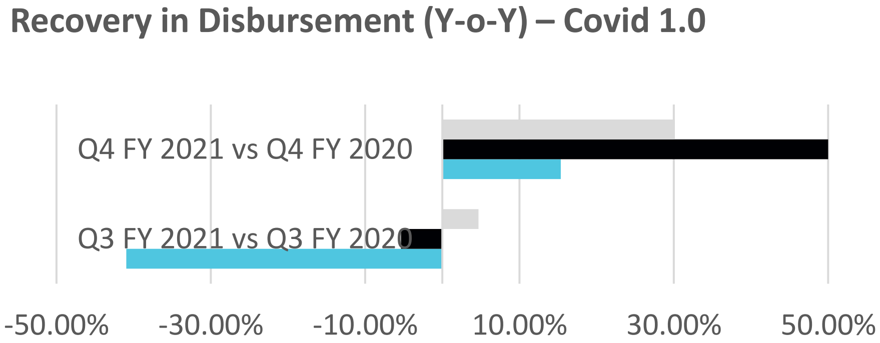
Most MFIs have positive ALM across the buckets

- **Larger MFIs have maintained higher cash balance while smaller MFIs have lower cash balance**
- **Smaller MFIs have seen a Covid led de-leveraging due to portfolio rundown and consequent reduction in debt**
- **Uptick in borrowing by mid and large NBFC-MFIs by March resulting in disbursement growth in Q4 FY 2021 before Covid 2.0 struck**









	Q3 FY 2021 vs Q3 FY 2020	Q4 FY 2021 vs Q4 FY 2020
>=2000 Crore	4.70%	30.14%
501-2000 Crore	-5.34%	50.00%
< 500 Crore	-40.96%	15.34%

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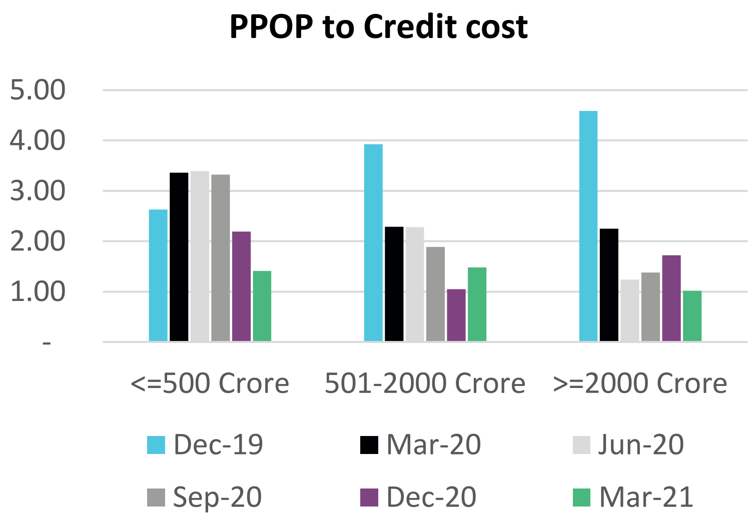
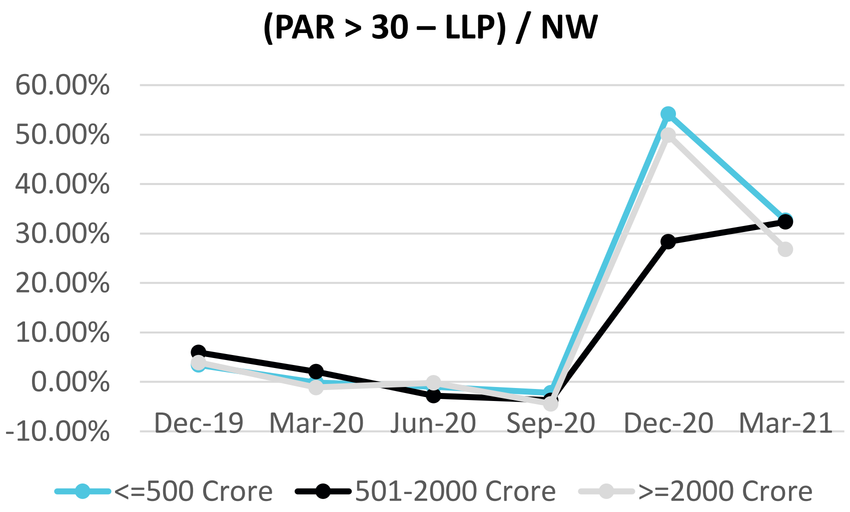
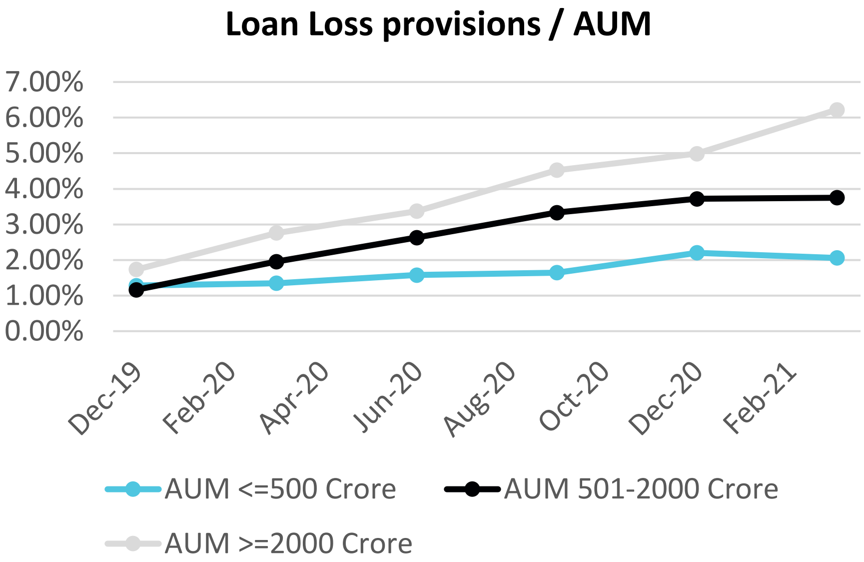
Large MFIs lead Provisions

- **Loan Loss Provisions to AUM has been lower for smaller MFIs since most of them follow Ind-GAAP and make provision based on overdue EMIs as per the RBI norms, while the larger MFIs that follow Ind-AS made provisions based on ECL**
- **Many MFI saw a sharp improvement in unprovided PAR30 as of March 2021 as a result of improved collections, restructuring and on account of provisioning**







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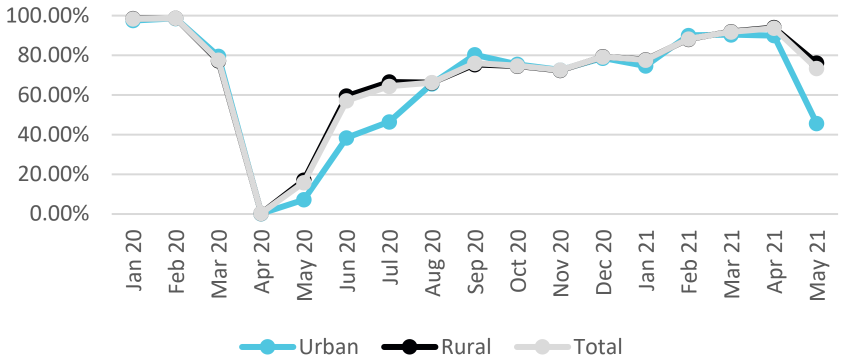
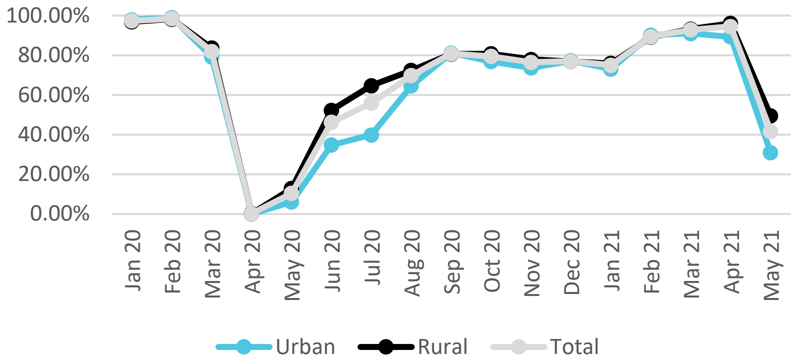
NBFC – MFIs: Rural India Impacted by Covid 2.0; But Not Anymore than Urban India

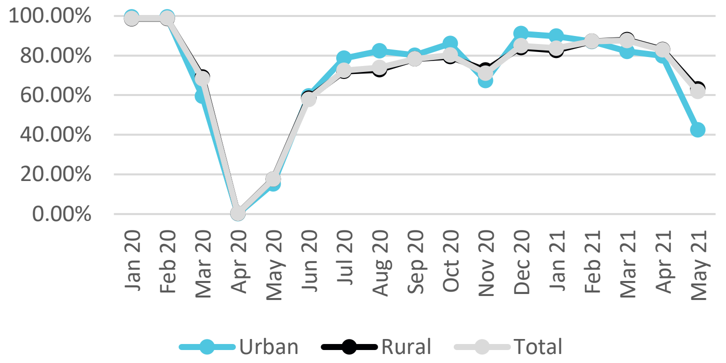
All states



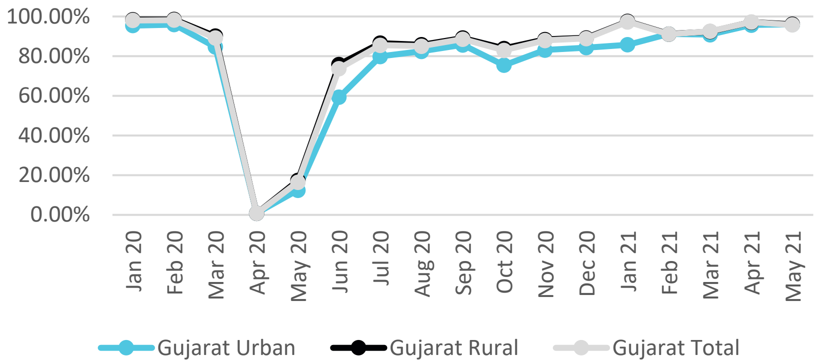
Tamil Nadu



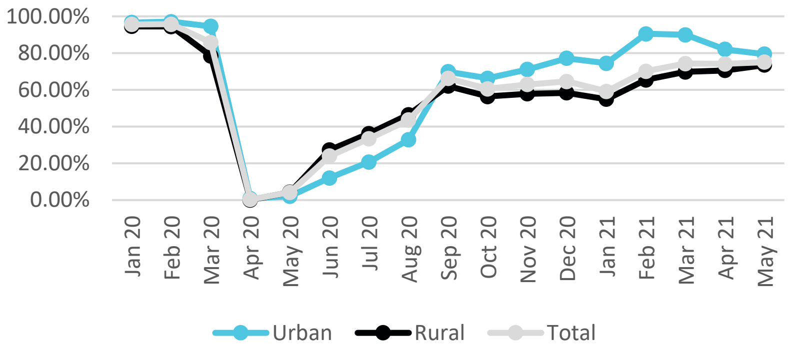
Uttar Pradesh



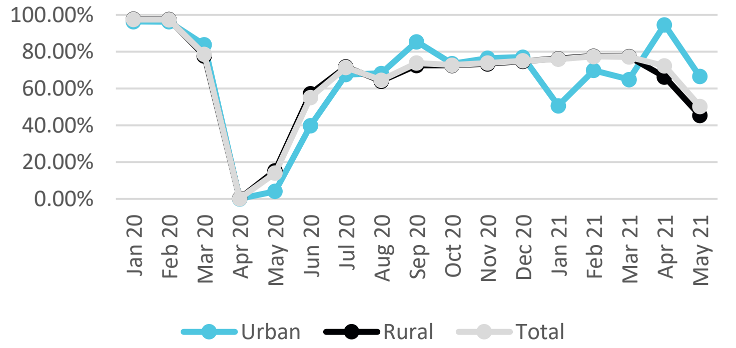
Gujarat



Maharashtra

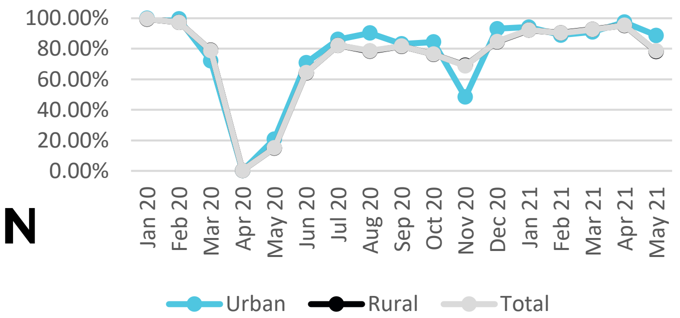


Madhya Pradesh

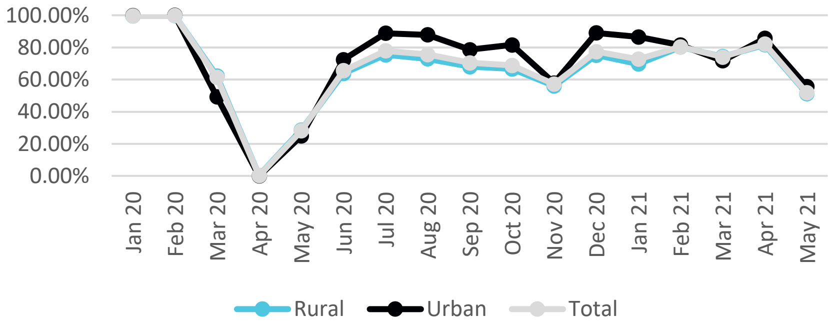


***Based on Securitisation Loans**

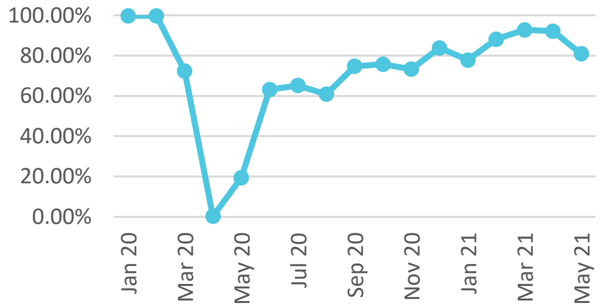
Rajasthan



Punjab



Bihar (Rural)



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