

## BANKING

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## Framework to harmonise microfinance regulations

- RBI has released a consultative document on the regulation of microfinance that seeks feedback from stakeholders by Jul'21
- The proposed guidelines include withdrawal of the interest rate ceiling and relaxation of various regulatory restrictions on NBFC-MFIs
- We believe these norms would promote competition and encourage healthy lending practices without being disruptive as anticipated earlier

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**Interest rate cap abolished:** Under the proposed guidelines, the RBI will allow the board of directors of NBFC-MFIs to determine the interest rates to be charged for loans as against present rules where the regulator dictates the maximum rates these institutions can charge.

**Select restrictions eased:** The central bank has retained the overall income cap of Rs 125k/Rs 200k for rural/semi urban borrowers and capped the EMI at 50% of household income. Moreover, a limit for maximum permissible level of indebtedness for microfinance borrowers shall be made applicable to all lenders. However, the RBI has withdrawn most regulatory restrictions around (1) loan limit of Rs 75k in the first cycle and Rs 125k in subsequent cycles, (2) loan tenure, (3) 50% lending towards income generation activity, and (4) the two-lender limit.

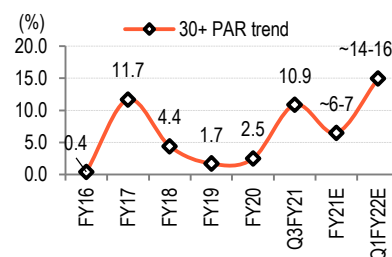
**Guidelines not as disruptive as anticipated:** We believe these guidelines encourage competition and aim to build healthy lending practices by providing autonomy to NBFC-MFIs to set interest rates based on their board-approved policies. Moreover, the proposals are not as disruptive as anticipated earlier. However, we remain cautious on the microfinance sector as its collection efficiency is expected to decline in Q1FY22 owing to protracted Covid-19 curbs amid the second wave that will intensify pressure on asset quality.

### Recommendation snapshot

Ticker	Price	Target	Rating
AUBANK IN	1,070	1,300	BUY
BANDHAN IN	317	335	ADD
CBK IN	155	165	ADD
HDFCB IN	1,479	1,800	BUY
KMB IN	1,768	2,100	BUY
SBIN IN	430	515	BUY

Price &amp; Target in Rupees | Price as of 14 June 2021

### NBFC-MFIs' 30+ PAR trend



Source: Crisil Ratings



## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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