

BANKING

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Assam, W. Bengal MFI collections yet to pick up

We interacted with non-listed MFI players in the states of Assam and West Bengal for a ground-level perspective on the microfinance climate amidst a resurgence of the pandemic and the ongoing assembly elections. Takeaways:

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No loan waivers in West Bengal yet: Our checks suggest the microfinance sector in West Bengal is recovering marginally MoM but is yet to attain normalcy, as livelihood and income levels of the state's underbanked customers remain weak. Recovery in client activation and collection efficiency rates has been delayed because unlocking was pushed to Sep'20, transportation opened with a lag, and value chain businesses were affected. Currently, the second wave of the pandemic and elections are key challenges. Payment delays, however, are largely due to poor borrower cash flows and not prospective loan waivers.

Lenders in Assam waiting out the storm: In Assam, microfinance loans overdue for more than 30 days (PAR>30 days) stood at <1% in Sep'19, but asset quality has deteriorated to ~25% in Dec'20 due to protests as well as the pandemic. Microfinance loan waiver promises during the ongoing polls have further eroded the credit culture. Lenders are currently operating at 65-80% collection efficiency depending on location and many players based in middle-to-upper Assam have stopped disbursing fresh loans in mid-January. The last phase of elections in the state ended on 6 April but lenders are looking to assess the situation post results on 2 May before resuming disbursements.

Covid affecting northeast states with a lag: In terms of restrictions due to the pandemic, states in the northeastern region of India are tracking western and southern parts of India with a lag of 45-60 days. Hence, it is possible that growth and asset quality of the microfinance portfolio in Assam and West Bengal may take a hit in Jul-Aug'21 but the impact is unlikely to be as severe as the initial lockdown phase.

Harmonisation of NBFC-MFI guidelines could hit banks and SFBs hard: NBFCs-MFIs, and not banks, currently offer the cheapest lending rates in the sector. In the absence of regulatory guidelines, some banks offer loans as high as 24-26% plus processing fees. If the RBI's proposal to bring the regulatory framework for banks in line with the stricter norms in place for microfinance lenders, banks could see their margins on these loans capped at 10%.



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