POWER
MUTHOOT MICROFIN MONTHLY NEWSLETTER

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ACCOLADES

Muthoot Microfin raises ₹ 75 crore via market-linked debentures

Muthoot Microfin Limited, the microfinance arm of Muthoot Pappachan Group has raised ₹75 crore through the issuance of market-linked debentures (MLD) in June 2021. The issue is executed on a private placement basis.

The Principal Protected Market Linked (PP-MLD) debentures are listed in the Bombay Stock Exchange and is rated A/Stable by CRISIL. The rating implies high degree of safety regarding timely servicing of financial obligations and low credit risk of the instrument. The tenor of the debentures is 18 months.

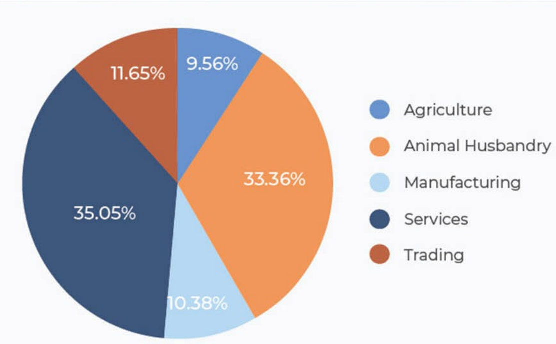
The CEO of the company, Mr Sadaf Sayeed commented, "The idea is to diversify the sources of funding for Muthoot Microfin, we plan to raise ₹ 500-600 crore this FY through MLD. These funds will be utilised for disbursements to microfinance clients. We are expecting a rebound in the rural economy post the pandemic woes and we are well equipped to service the sector with ample fund, operational reach, and adequate resources. We also plan to close our $50 million equity fundraising very soon."

OBSERVATORY

Operational Highlights	
Districts	268
Branches	773
Active Clients	18,12,033
Disbursement (June)	₹ 0.13 Cr.
Total Disbursement	₹ 17,194.34 Cr.
Field employees	6,791
Total Employees	7,054

Client per capita Income/month	Percentage
< = 1000	00.17 %
1000 – 1500	00.77 %
1501 – 2500	11.33 %
2501 – 3500	32.43 %
3501 – 5000	36.24 %
5000 Above	19.05 %

Client Portfolio Distribution by Activity



PAPPACHAN muthoot MICROFIN
A Muthoot Pappachan Group Company

IMPACT

In pursuit of progress

Lata Arunraj Nadar, a 35-year-old housewife turned entrepreneur from Sangalwadi in Sangli, Maharashtra is now a successful businesswoman in food processing sector after years of struggle.

Today, her work is acknowledged by the people in her village, and many consider her as a role model and mentor. However, her success didn't come easily; it came after a lot of trouble and hardships.

Lata inherited her interest in food processing from her mother who was specialised in making crispy snacks which was popular in the village. The goodwill motivated Lata to enter the field. She took the first step by attending a training course. She felt ready for the venture, but lack of capital remained a hurdle.

At that time, she was introduced to Muthoot Microfin by a friend. Excited about the hassle-free loan procedures, Lata joined a JLG and availed her first cycle loan of ₹20,000. She utilised the entire amount to set up a wood fire stove at her thatched makeshift work area located right next to her house.

Lata's dedication, hard work and technical expertise earned through the training enabled her to successfully build the business. Her products including - crispy snacks, laddu and jalebi became famous for its taste and quality. She received orders from bakeries nearby and employed four women to increase production.

Lata is now on her third cycle loan of ₹60,000 and has expanded her product line with biscuits, papad, wafer chips and other baked goods. Her weekly profit is around ₹6000 and continues to grow. She is committed to her endeavour and wishes to grow her business over the time in a step-by-step manner.

She says "Muthoot Microfin came to my life at the right juncture and its support simply changed my life for good; I will recommend Muthoot to all my friends who want to succeed in their entrepreneurial life".

IMPACT

Building a business from scratch

LOAN ID - 1105320101051994

Surayabi Salim Patel's story is an inspiration for every rural women, which enthuses them to be independent and break free from the handcuffs of societal stereotypes.

The 28-year-old from Yawal in Jalgaon district of Maharashtra successfully crossed all hurdles to establish a small footwear shop almost from scratch. Suraya was forced to work as her husband's limited income from daily labour was not enough for the family of five. She anticipated the potential for a small footwear shop in her village and identified a good place to start with. However, all her efforts to find capital failed on her inability to produce collateral security for the loans.

She was searching for ways to raise money including from loan sharks when she was introduced to Muthoot Microfin by a relative. Surayabi immediately joined a JLG after understanding its simple and collateral free loan procedures to avail her first cycle loan of ₹25,000. She made all the arrangements to start the venture and within a couple of months, established the small business with reasonable earnings.

Apart from the loans, Muthoot Microfin also provided Surayabi with business acumen training which helped her to overcome initial challenges and follow her passion no matter what. Today, Surayabi not only raises her two children with quality education but also takes care of the entire family out of her income from the shop. Her small business gained a stable clientele, and her weekly profit now averages around a minimum of ₹2000. Surayabi has now employed a neighbour to make local chappals which has huge demand and sales, allowing her to bulk buy other footwears from the city market.

Today, Surayabi is a successful entrepreneur creating employment opportunities for other women in her village. However, Surayabi is not done yet. She's making plans to expand her business into clothing, availing more financial support from Muthoot Microfin.

How is the interest rate cap going to shape up the microfinance sector?

By Thomas Muthoot, Managing Director – Muthoot Microfin Ltd.

On 14th of June 2021, Reserve Bank of India released a consultative document on Regulations of Microfinance; these draft regulations are nothing less than a major reform for the Microfinance Industry. This is a very pragmatic and visionary document which liberalizes the regulations governing microfinance lending. The documents aim to harmonise regulation among all players in the microfinance industry and foster competition which will ultimately benefit the end borrowers. One of the biggest reforms among many in the draft document is liberalising the pricing regime for NBFC-MFI. Till now NBFC-MFIs were required to maintain their lending rate as lower of the two formulae shown below:

(i) Cost of funds plus a margin cap of 12 per cent, if its loan portfolio does not exceed ₹100 crore; or 10 per cent otherwise; or (ii) 2.75 times of the average base rate of the five largest commercial banks.

In declining interest rate scenario, these formulae create a very difficult situation for NBFC-MFIs, as for every 100 bps of base rate reduction, NBFC- MFIs have to reduce 275bps in their lending rate. Post the Covid-19 outbreak, RBI in its monetary policy has taken several initiatives to infuse liquidity, has cut policy rates to promote lending and boost economic activity. As a result, base rates of commercial banks have reduced and the rates that MFIs can charge have also reduced by 330 bps in just 5 quarters.

Meanwhile, the operating costs of MFIs have marginally increased or remained same, but credit cost has increased significantly. Due to collection related challenges due to the pandemic, there is also greater strain on operational costs; high digital adoption by customers is still quite far away. This is in-turn creating a severe pressure on margins of NBFC-MFIs, especially the smaller ones who are not able to borrow money at cheaper rates. The concept of margin caps was introduced in 2010-11, the idea came from Malegam Committee recommendation. Among many other recommendations, the study had recommended a rate cap of 26% and margin cap of 12%, which later evolved into 10% margin cap for MFIs with more than ₹100cr AUM; and a formula linked to the base rates of the top 5 commercial banks.

These regulations served the purpose in those times when there was lot of ambiguity and speculation about MFI interest rates, because there was lack of availability of data. But since the turn of the decade Microfinance industry has matured a lot, 8 MFIs have become SFBs, one has become a full commercial bank, several of them are now listed on stock exchanges. Hence there is ample amount of information and case-studies available about MFIs in public domain. There are full-fledged MFI credit bureau systems in place. There are very well-respected Industry-SROs namely MFIN and Sa-Dhan which are actively monitoring this space. This gives RBI enough confidence to consider liberalizing the pricing regime for microfinance sector.

Besides, pricing cap was prohibitive and discriminatory considering the regulatory arbitrage that currently exists between NBFC-MFIs as compared to Banks, SFBs, and Section-8 companies. While NBFC-MFIs which represent 30% of the market were subjected to this margin cap, institutions such as Banks, SFBs, Section-8 companies, and other NBFCs were free to charge interest rates as per their own pricing policies. By liberalizing this pricing cap, RBI would create a level playing field for all the operators in Microfinance space. This will lead to a healthy competition and customers will get benefit out of this.

Liberalising of pricing cap will also encourage financial inclusion, earlier in difficult territories where cost of operation is high or risk is high, MFIs were reluctant to operate due to their inability to price loans as per their risks and costs. Now with new proposed pricing regime, a risk-based pricing can be followed, which will allow MFIs to explore some new territories and provide much needed credit to unserved and underserved. A universal risk-based pricing would also be good for financial health of the microfinance industry. To summarize, this liberalised pricing cap policy as proposed by RBI is very bold, pragmatic, and a sensible move.