

MIX Microfinance World: India: Post-Crisis Results



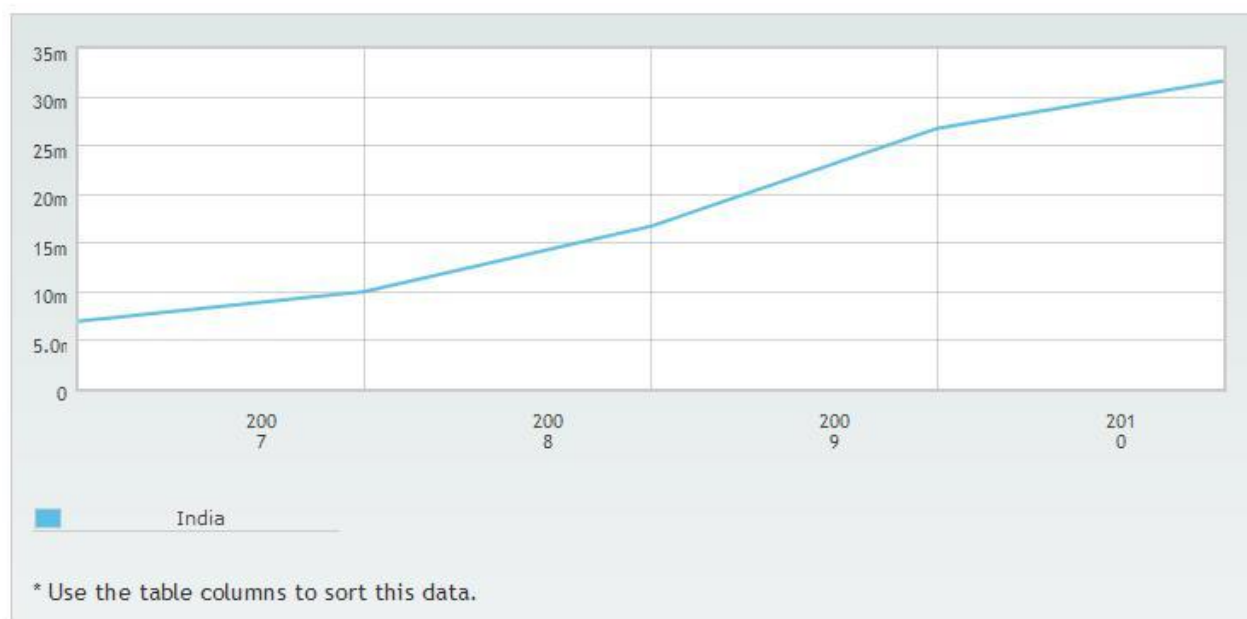
Growth slows, followed by the decline

The 2010 crisis in Andhra Pradesh (AP) halted the rapid expansion of the Indian microfinance market, causing a high concentration of microfinance institutions in AP to become unsustainable. For the first time, MIX presents [data on over 90 Indian MFIs](#) to understand the impact of the crisis on the market. The data shows a deceleration in the market through March 2011, and a decline for a smaller group of institutions reporting data through June 2011. Based on still-high risk levels, we can assume growth in the region will remain slow or in decline for some time.

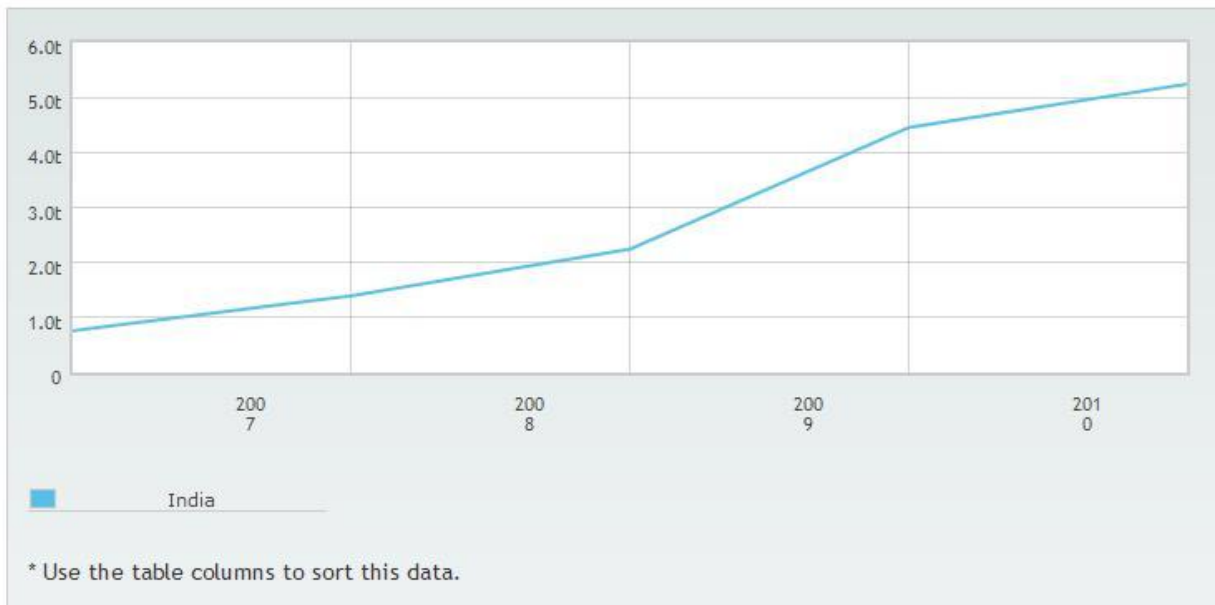
Growth rates for both loan portfolios and clients in fiscal year 2010 were a mere 17 percent, compared to growth rates of 95 percent and 57 percent in 2009. Although sector growth did not stop completely by March 2011, it did slow down dramatically. Even in AP itself, where [no fresh loans have been issued since the crisis began](#), year-on-year growth was still positive through March 2011. However, AP and most other states showed declining portfolios after March. In this article, we discuss in further detail, which states have contributed most to the continued growth of the market and which have proven to be laggards.

Figure 1: Growth in borrowers and gross loan portfolio, India

Growth in borrowers



Growth in gross loan portfolio

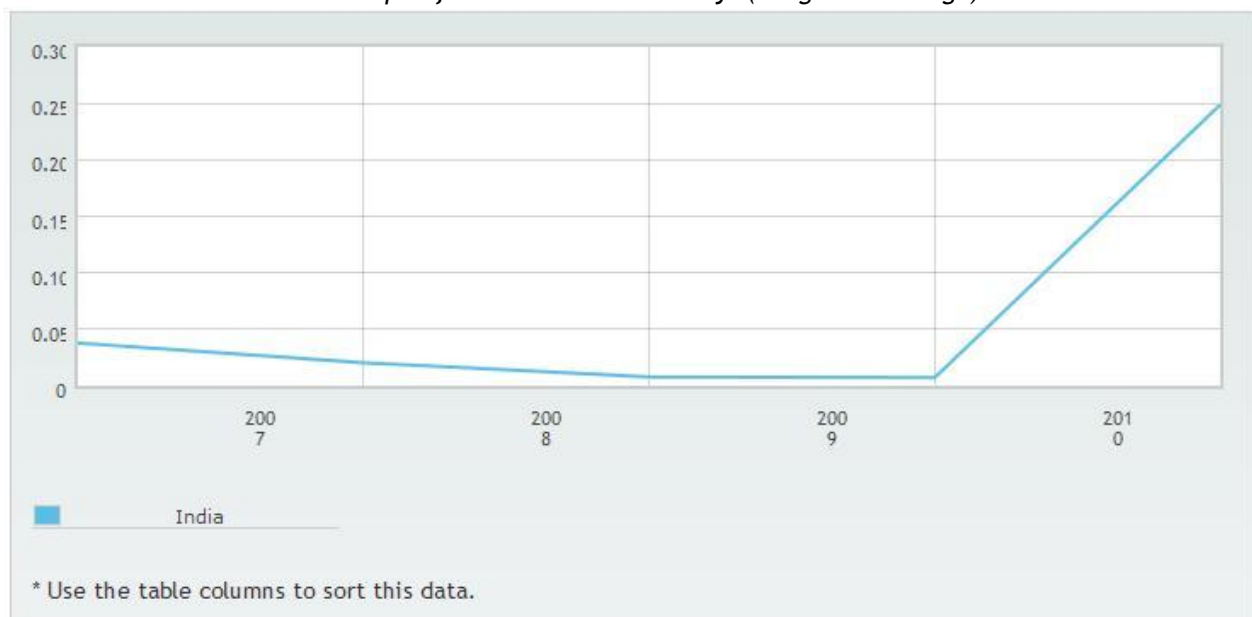


Risk levels remain high

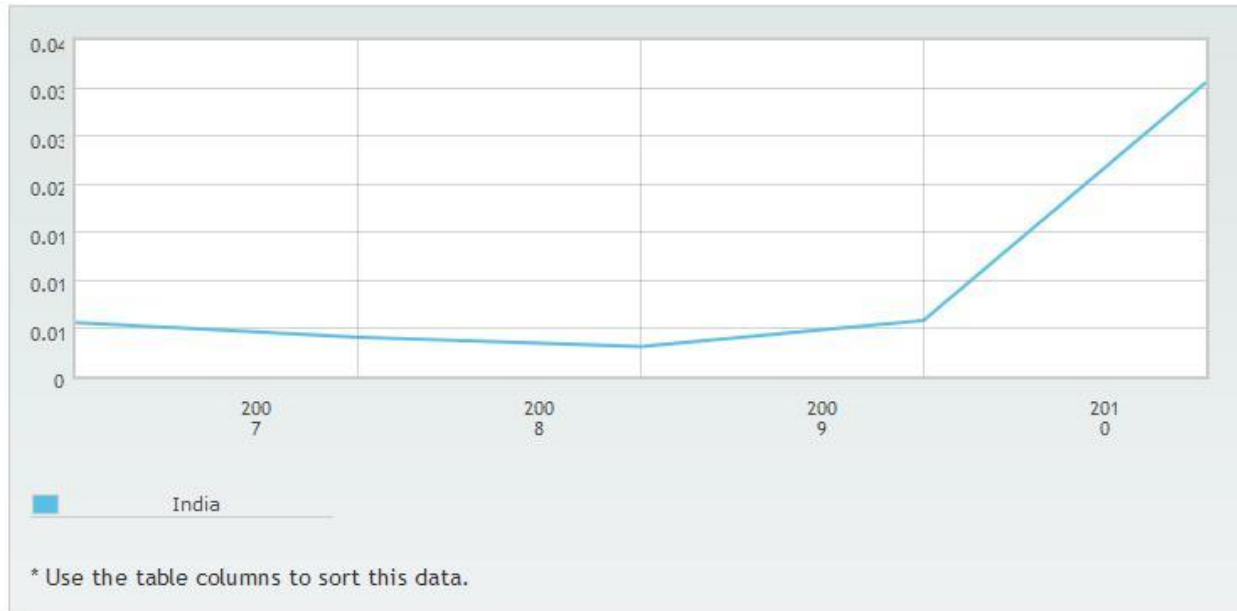
Sky-rocketing portfolio-at-risk (see Figure 2) more clearly shows the devastating impact of the Andhra crisis on the Indian microfinance sector. Figure 2 below shows the trends seen in both PAR > 30 and write-offs. In 2010, portfolio-at-risk rose to an all-time high of over 25 percent, from below one percent the year prior. Loan write-offs also increased to 3 percent from a mere 0.6 percent for the same period one year earlier. As the 2010 fiscal year had only six months of post-crisis results, we can expect larger write-offs in the coming quarters building up to the 2011 year-end (31st March, 2012). However, the level of write-offs in 2011 will depend upon the events that have yet to unfold in the region, which will affect the recovery of the market in Andhra Pradesh. Media reports claimed that the microfinance sector experienced a significant drop in repayment rates to an all-time-low of 10-15 percent in AP. Even with an offer to [halve the interest rate charged on overdue loans](#), the industry has not been able to increase recovery rates.

Figure 2: Trends in portfolio-at-risk and write-offs, India

Trends in portfolio-at-risk over 30 days (weighted average)



Trends in write-offs (weighted average)



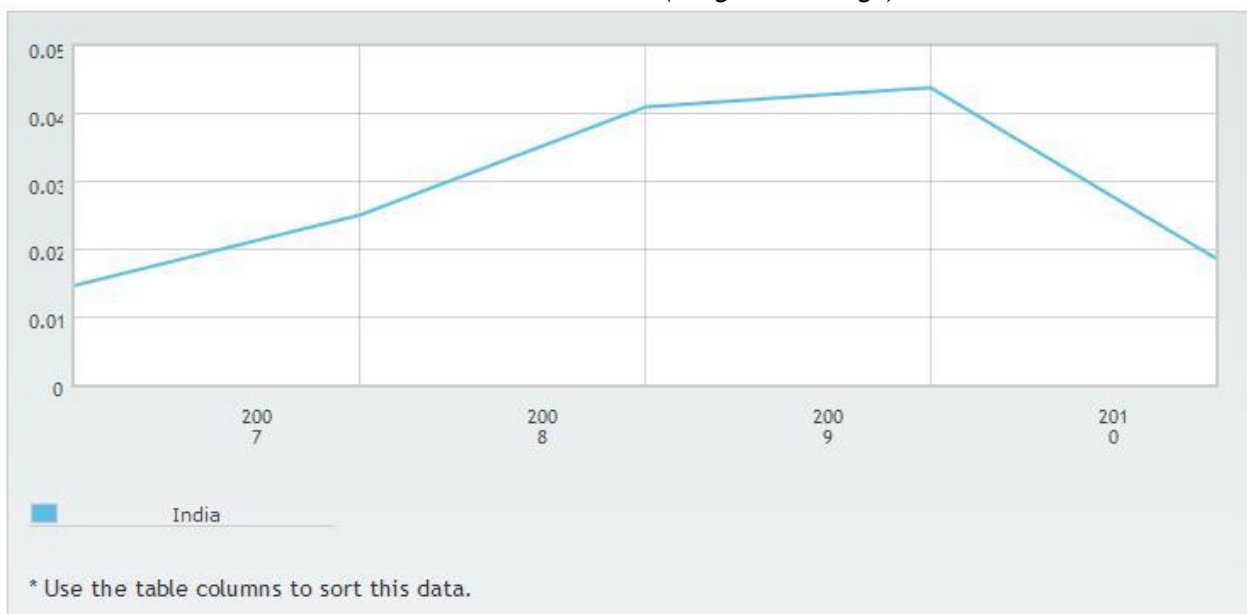
Returns and revenues

Returns were not insulated from the Andhra crisis and, as expected, weighted average return on assets dropped - to 1.9 percent against 4.4 percent in the previous year. Return on equity similarly fell from 26 percent to 9.5 percent in 2010, as increasing costs for MFIs added pressure to margins. Rising defaults by AP clients added to the woes of the microfinance sector and had nationwide effects, increasing loan write-off and provisioning costs. Financing expenses also increased due to rising borrowing costs and the inability to raise funds for growth.

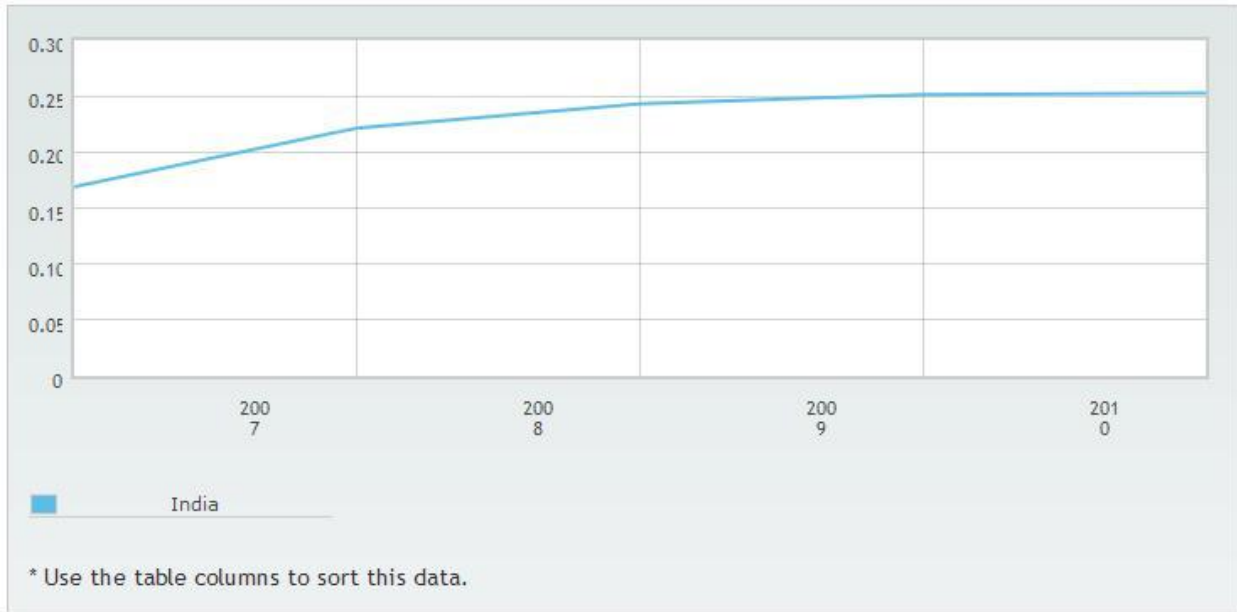
Indian MFIs have been borrowing at higher interest rates compared to their counterparts in South Asia. In 2009, the weighted average interest rate on approximately USD 3.5 Billion outstanding debt held by Indian MFIs was just under 12 percent, with the weighted average term at 42 months. While data for 2010 has been less forthcoming, early information indicates that interest rates and terms have remained at similar levels. Portfolio yields [were constant with last year at 25 percent](#), although this is expected to drop further as many MFIs post-ordinance [announced a slash in interest rates](#). See Figure 3 for the trends in return and yield ratios.

Figure 3: Trends in returns and portfolio yield

Trends in return on assets (weighted average)



Trends in portfolio yield (weighted average)



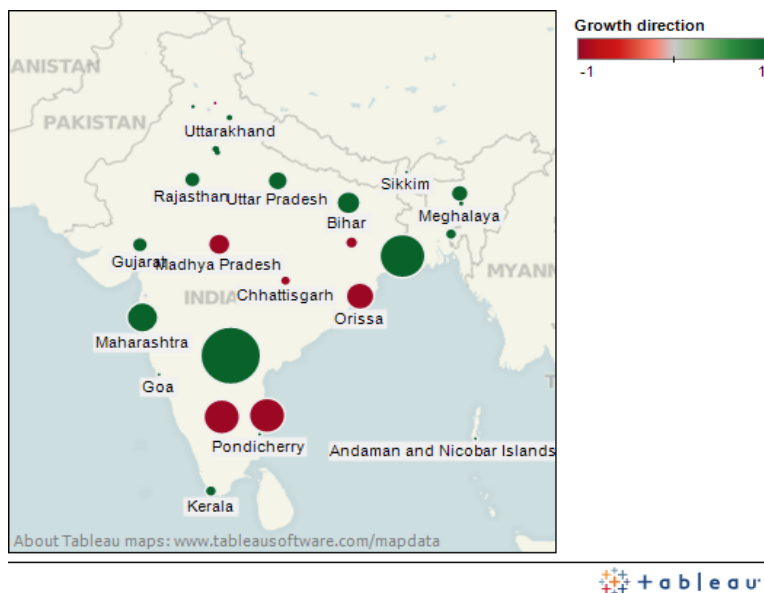
Regional Growth

With so much negative news surrounding the sector, are we losing focus on activity outside AP? To shed additional light on regional growth, MIX collected and analyzed MFI data on a state-by-state basis. We looked at gross loan portfolio, number of borrowers, number of offices, and number of employees as of 31 March 2010, 31 March 2011, and 30 June 2011 to gauge the performance of MFIs in states other than AP, and determine if they were able to take advantage of diversification to weather the crisis.

Occasional reports from MFIs like Ujjivan that have little exposure to Andhra Pradesh, posting strong performance paint a contrasting picture to the sharp declines reported in Andhra Pradesh. Building on the question of stability outside of Andhra Pradesh, 2010 fiscal year data does not show a country-level drop-off, as might have been expected if the largest sub-region in the sector collapsed.

Growth over the previous fiscal year was impressive in states outside of AP, however, growth turned negative over the most recent quarter in most states. Figure 4 below maps portfolio volumes by state. (There is a scroll option in the upper left allows for viewing data at the three different points in time) As the map changes to data for 31 March 2011 and 30 June 2011, the bubbles will change color to represent the directional change in portfolio size.

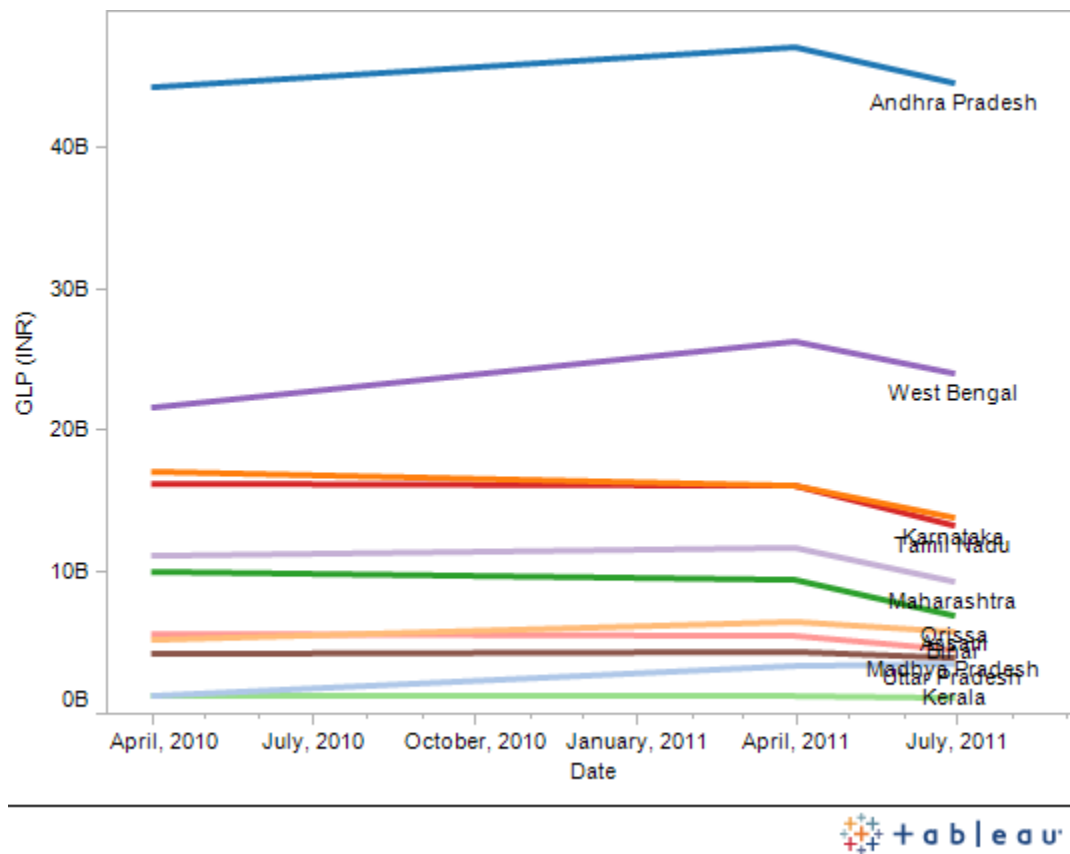
Figure 4: Map of India with state-level portfolio from 31 March 2010 to 30 June 2011



Note: The map is based on the responses of 17 MFIs that represent approximately 65% of the total market by GLP. Bubble sizes represent relative portfolio of each state. Portfolio measured in INR. Green bubbles indicate growth over the time period and red bubbles indicate contraction over the time period.

The positive growth (represented by the green bubbles) through 31 March 2011 turns red the following quarter for most states as growth declines. Presumably, the decline in AP started much earlier than 31 March 2011, but it is interesting to see other states experiencing negative growth along with Andhra Pradesh. Seven states experienced negative year-on-year growth through FY 2011 before AP. That number grows to an astounding 22 out of 26 states the following quarter. Digging deeper into the data, the magnitude of the decline appears to be greater in many other states than in AP (see Figure 5 below). Did news about the crisis in AP affect borrower behavior elsewhere in India? Or were institutions forced to retrench or rein in growth in other regions to deal with the impact of the crisis on their AP portfolios? In either case, what began as a crisis in one state appears to have had effects throughout India, with more reductions in portfolios likely over time.

Figure 5: State-level growth trends (largest states by portfolio)



The regional analysis that you have just read is an excerpt from "[Where is the growth?](#)", available to MIX Premium users. MIX Premium subscribers have access to this analysis and much more. If you would like to learn more about MIX Premium Solutions, [please click here](#).