NBFC Sector Assessment

Our Mission: To continuously better the lives of all our clients through customized financial solutions

Next 60 mins

- Impact Assessment
- Outlook
    - Asset quality
    - Disbursements and growth
    - Profitability Impact assessment
- Sector assessment
    - HFC
    - LAP/ MSME
    - CV
    - MFI

Impact assessment

NBFCs: Situation Analysis

Sector	Pre COVID	April	May	June	July
MFI	98%+	1-5%	15-25%	50-65%	60-80%
CV	80%+	20-30%	30-35%*	45-50%	60-70%
2W	85%+	25-35%	45%-55%	60-70%	65-85%
MSME	85%+	35-45%	40%-50%**	55-60%	60-75%
HFC	85-98%	50-60%	50-60%, few outliers 75%	70-80%	75-85%
Consumer Finance	90-95%+	55%-85%; (SEP vs. SAL)	Declining to 40-80%	50-80%	55-80%

*HCV reporting some decline, ** few have reported decline to c. 20% in May

- The collection efficiencies declined significantly in the month of Apr’20 before improving for cash based collection models in May’20
- Few cos. in MSME have also seen decline in collection efficiencies in May, driven by higher moratorium requests and also some weakening of cash flows due to repeated lockdown
- 90%+ of branches are open and staff available at the field

- As per ground feedback, green shoots witnessed:
  - Easing of lockdown, helping in return of incomes
  - Borrowers with agri based livelihoods showing better behaviour, with easing logistics and government measures
  - Field activities started even where branch could not be opened on account of containment zones

State Disruptions and Impact on collection efficiency

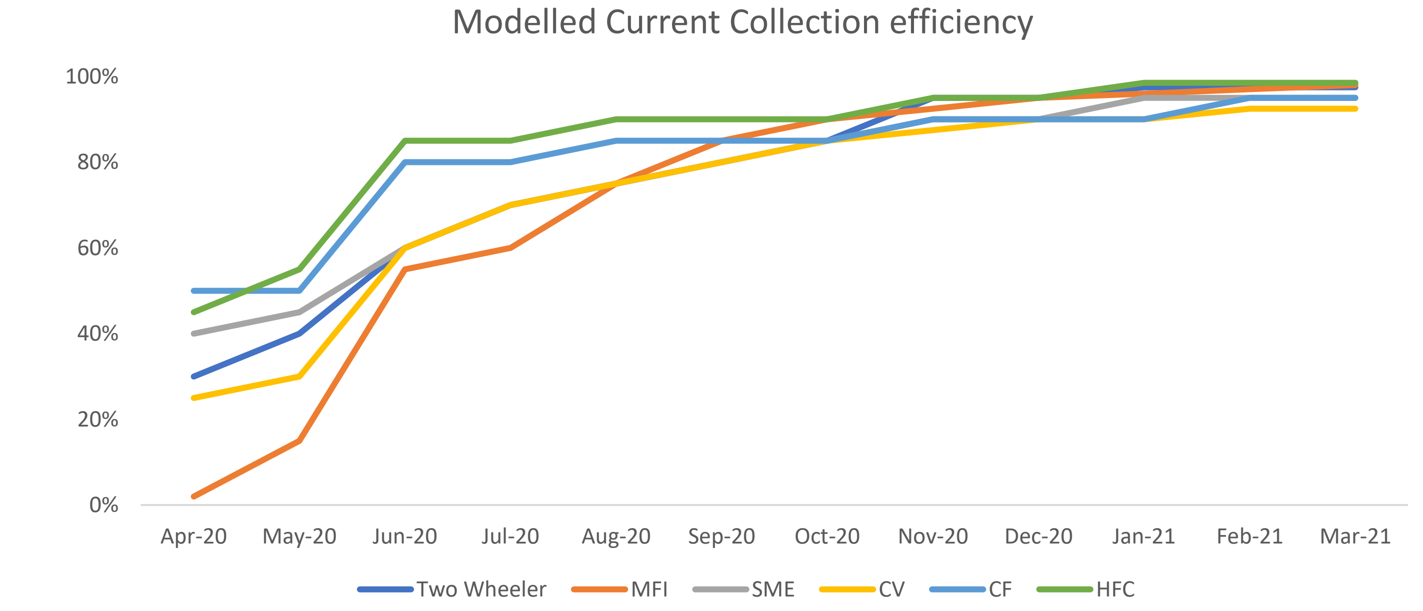
Collection Efficiency	Tamil Nadu	Maharashtra
Housing	90%	85%
2W	75%	80%
SME	75%	65%
CV	65%	55%
CF	80%	70%
MFI	60%	50%

- Sectoral collection efficiency performance has been mapped to two most lockdown impacted states – Tamil Nadu and Maharashtra
- We are increasingly seeing resumption of economic activity linked to recoveries

Outlook

PAR would increase, credit cost to be spread over next 2 years

Sector	90-180 DPD Pre COVID	90+ dpd by Dec'20	90+ dpd by Mar'21	FY21 + FY22 credit cost
CV	4.4%	New: 8%-10% Used: 11-13%	New: 5%-7% Used: 8-10%	New: 2.5-3.2% Used: 4.5-5.0%
CF	0.7%-2%	9%-11%	6%-8%	4.2-5.5%
HFC	0.9%	Sal: 2.5-3% AFH/ SE: 4%-5%	Sal: 1.5-2% AFH/ SE: 2.5-3%	Sal: 0.7-0.9% AFH/ SE: 1.3-1.6%
MFI	0.5%	8.5%-10%	6.5-8%	4.5-6%
SME	1.5%-5.5%	10%-12%	7%-8%	4-5.5%



- 90+ dpd levels to increase materially for each sector
- Based on the cash flow modelling along with actual performance reported by entities during Q1FY21
- Extension of moratorium (Morat 2.0) provides leeway to collect with no risk of asset quality deterioration
- Would see top ups, refinance increasing, which would further support asset quality
- Credit cost would be spread over FY21 & FY22
    - Entities have also provided during FY20
- Credit cost for morat vs. non morat customers to be starkly different:
    - 50-70% of morat customers could slip, and recovery being long drawn and also dependent on asset monetisation
    - Slightly higher stress assumed for non morat customers as well in the current scenario

Disbursement and Demand expectation

Sector	% of previous year disbursement for the same period: Q1FY21	Jul'20-Mar'21	Rationale
CV	< 5%	60-70%	• Relaxed load norms for existing vehicles • Lower economic activity
CF	< 20%	80-90%	• Significant demand from customers • Stricter underwriting to curtail disbursements • Focus on existing customer base
HFC	< 5%	75-85%	• Limited commitment for long term liabilities by borrowers; however positive surprises could be – correction in prices, self construction with uptick in rural demand and focus on housing for all
MFI	< 2%	95-105%	• Restart business cycles • Small ticket sizes, easier underwriting • Repayment ability not impacted materially
SME	< 5%	70-80%	• Unsecured to see more traction due to lower valuations/ haircuts by secured lenders on collateral • Focus on existing clients, lot of govt. push/ measures to be seen

- Q1FY21 was almost a washout from disbursement perspective across sectors, July is also weak
- All sectors would see a degrowth In disbursements during Jul20-Mar21, and hence even more acute decline for full year

RoA balancing

RoA Tree	Large Used CV	Smaller Used CV	New CV	Large MFI	Small MFIs	LAP	Unsecured MSME	Affordable Housing
Total Yield	15.0%	21.0%	13%	20.5%	24.0%	20.0%	26.0%	16.0%
Cost of Funds (adj. for leverage)	8.0%	10.0%	7.5%	8.5%	13.0%	12.0%	14.0%	9.0%
Opex (excl. tax)	1.8%	6.4%	2.2%	5.5%	8.8%	5.2%	6.7%	4.5%
Credit Cost	3.0%	3.5%	1.5%	3.5%	1.8%	2.0%	3.8%	0.8%
RoA	**1.7%**	**1.1%**	**1.4%**	**2.3%**	**0.5%**	**0.6%**	**1.2%**	**1.7%**
Leverage	**5.1**	**2.5**	**4.5-6**	**2.5**	**4.5**	**4.5 – 5.5**	**2.8 – 3.2**	**2.5 – 3.5x**

- Higher NPAs would lead to lower yields and income
    - DA reversal to further impact the topline
- Cost of funds to be supported by
    - Improved liquidity
    - Reducing benchmark rates
    - However, increase in negative carry to maintain higher liquidity buffers and lower rated players (BBB+ and below) would continue to see pressure
- Opex could reduce between 10-20%
- Low leverage would support financial performance of cos.

HFC and LAP/ MSME

Field Update – HFC and LAP/ Secured MSME

Sector	April	May	June
Larger HFCs	70 – 75%	65 – 75%	60 – 80%
Small HFCs/ AFH	50 – 65%	40 – 70%	50 – 75%

Sector	April	May	June
MSME	25-35%	35-45%	40%-50%**
Secured MSME	~45%	~ 50%	~60%
Unsecured MSME	~ 30%	~35%	~ 45%
School Finance	~22%	~ 28%	~ 28%
SCF^	~25%	~65%	~80%

** few have reported decline to c. 20% in May

^We have also seen entity reporting 100%+ CE across three months

- July indicates further improvement of 5-10 percentage points in collection efficiency over June nos. and bounce rates declining by half as compared to May/June

- HFC sector has held up best in terms of collection efficiency during the lockdown
- AFHs have reported relatively lower efficiencies, but again better than other asset classes

- MSME has a very wide spectrum, with varied end use, underwriting strategy and the impact sustained due to COVID

Differentiating factors

Salaried vs. Self Employed

- Salaries class is emerging as more resilient inspite of job losses and salary reduction which appear to be temporary
- Self employed segment witnessing weal collection numbers even after lockdown withdrawal

HL vs LAP

- While most AHFCs are provide LAP loans, the proportion varies from 5 – 35%. While it helps with higher yield, post covid this segment may see higher credit costs
- On field operations, collection effort will be major differentiating factors to contain credit cost

Essential vs. Non - essential

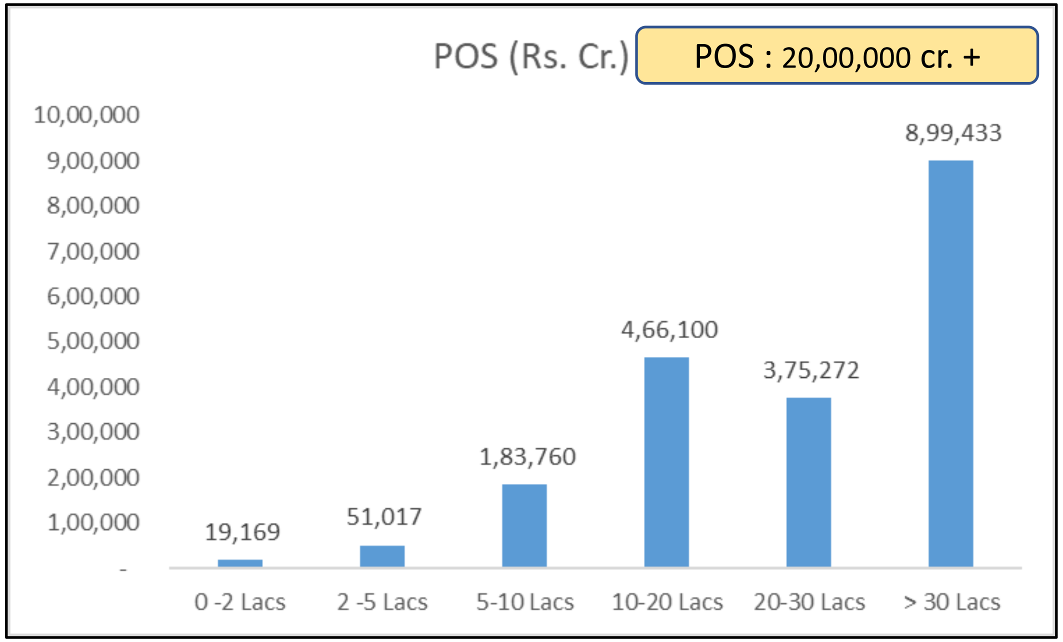
- While there are job an income loss, borrowers in essential segment such as agri, FMCG, pharma etc. whether salaries or self employed are expected to exhibit better credit behavior

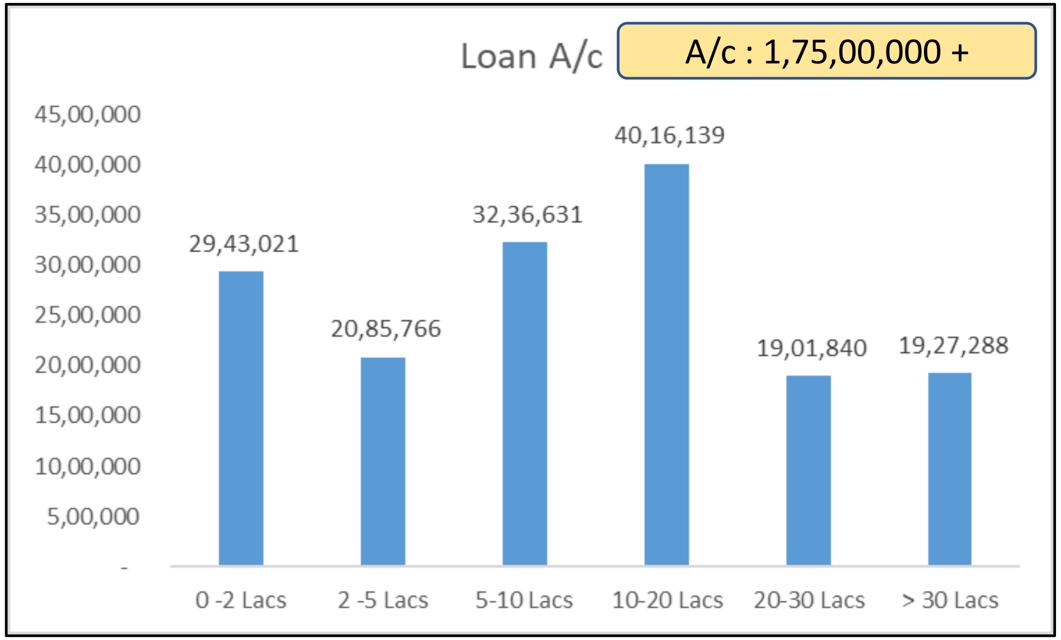
AFH vs. Others

- The customer profile for AFH is relatively weaker with a skew towards self employed/ blue collared workers
- Tenor fatigue sets in faster for AFH segment, overall asset quality data also demonstrates the same

Industry

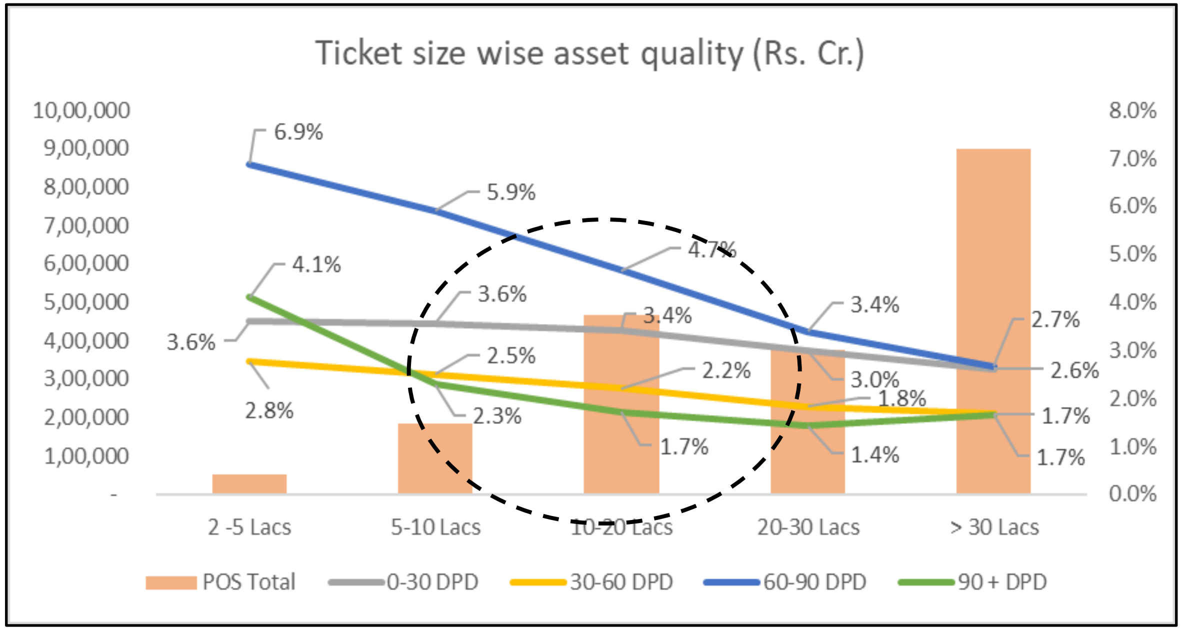
- Borrowers in HFC segment can be classified basis the loan ticket size. These could be in the affordable housing segment, the mid market segment and the premium segment.
- While the upper mid market and premium segment accounts for the larger share in terms of value, account wise there is a more even distribution across all segments. This has mainly led to higher quality client selection and consequential lower credit costs among various secured asset classes.

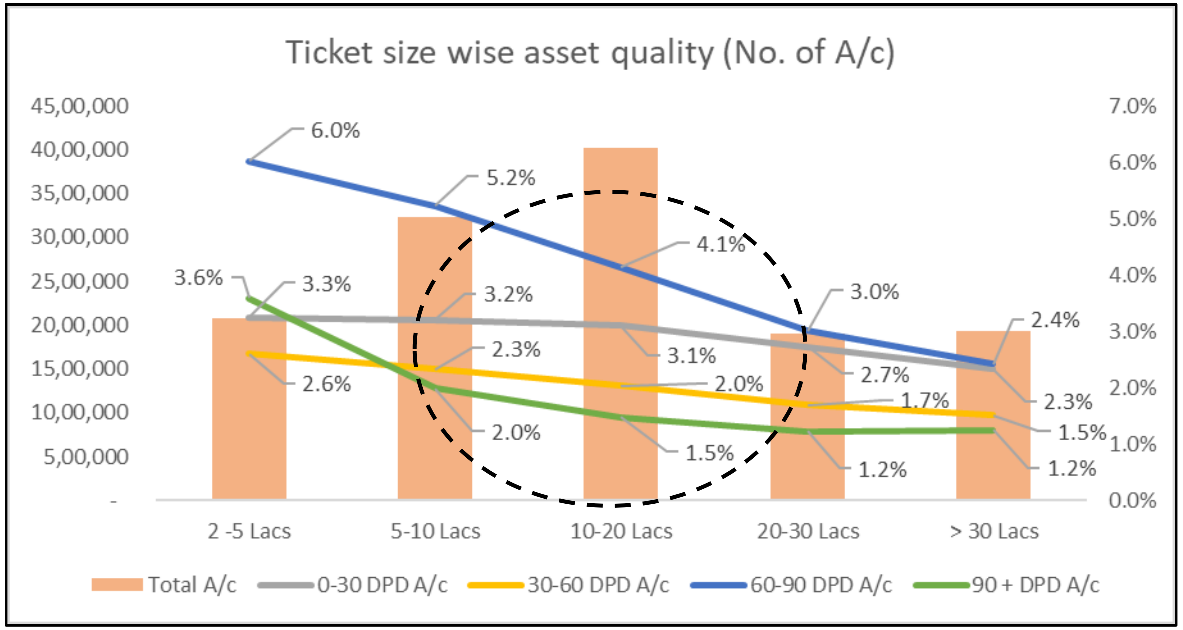




- The above numbers are industry representative numbers which include lending by public and private sector banks, NBFCs and other lending institutions which encompass over 20,00,000 cr of outstanding debt to the sector.
- Based on portfolio distribution in value and volume terms and the asset quality performance, borrowers in 10-30 lac segment provide for more distributed portfolio combined with delinquency levels. This represents the middle-income group in outskirts of Tier 1 cities as well as Tier 2 & Tier 3 cities.
- This segment has also seen significant government push in recent years through interest subsidy schemes.

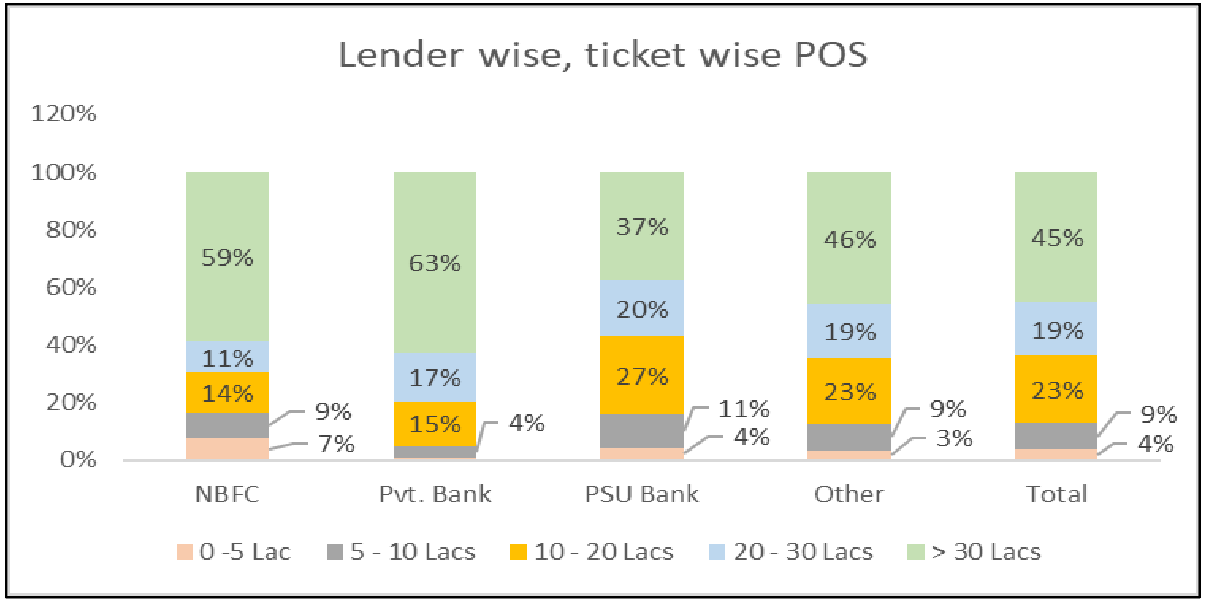
Industry – Ticket size analysis factors

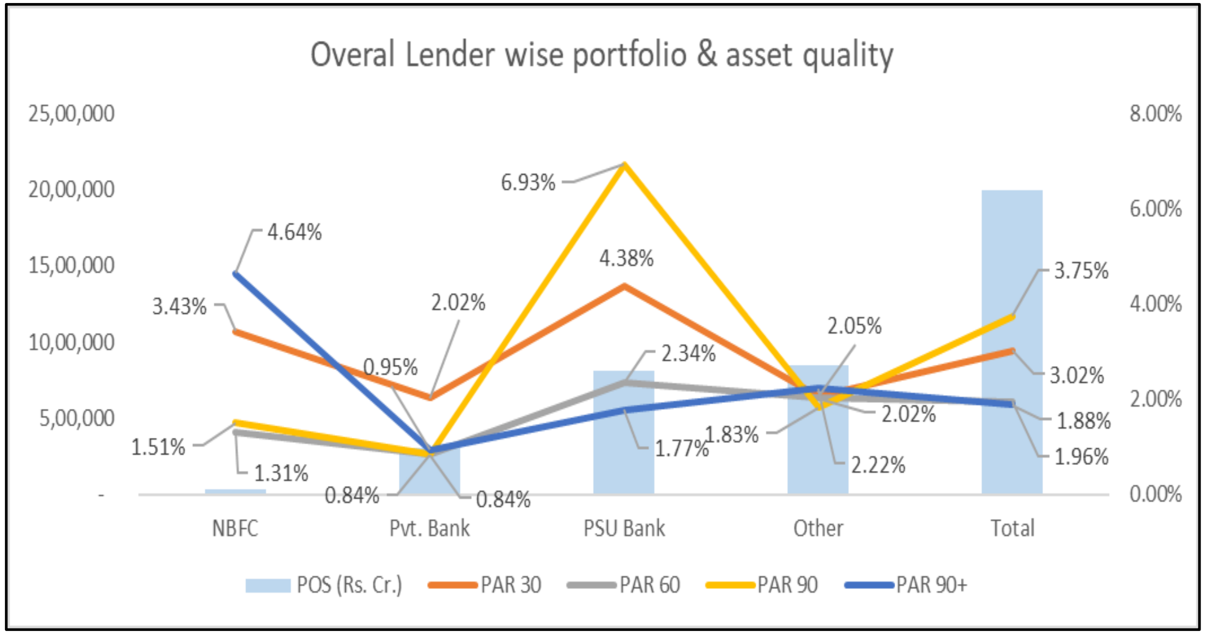




- Sizeable sector of over 20,00,000 cr with active participation from public and private sector banks. NBFCs have also actively grown portfolio in this segment in recent years.
- 10-30 ticket size segment is preferred in as it offeres diversification, better pricing and control over credit cost apart from being one of most secured asset class for lending. This represents the middle-income group in outskirts of Tier 1 cities as well as Tier 2 & Tier 3 cities.
- 10-30 lac segment has also seen significant government push in recent years through interest subsidy schemes (PMAY).
- The 10-30 lac ticket size segment represents 42% of the sector in value terms and 36% in volume terms. Attractiveness in this segment is further added through better quality pricing and lower credit cost compared to other asset classes.
- Several NBFCs have entered the HFC segment with focus on lending in 10-30 lac ticket size segment. Also the well established large HFCs have significantly scaled up lending in this segment.

Player wise trend





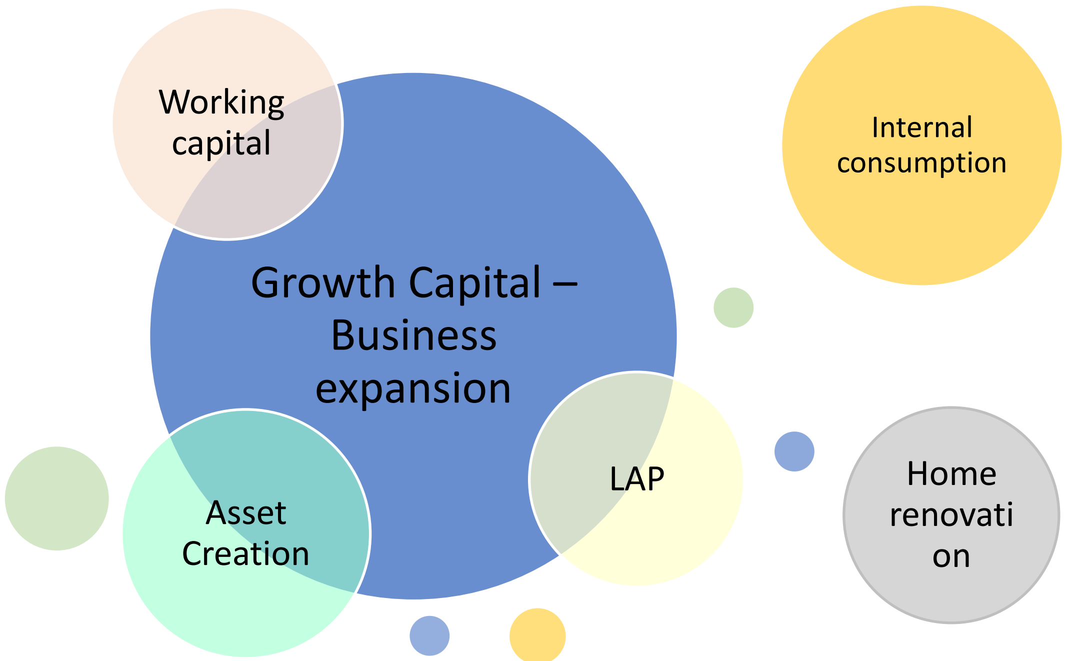
- HFC segment in India is predominantly catered to by Banks and other financial institutions.
- NBFCs have a small share in the segment mainly on account of higher borrowing cost structure as compared banks and shorter liability maturity profile as compared to long term mortgage assets
- PAR 30 and PAR 60 are range bound among different players between 2% – 5% and 1% - 2% respectively. This indicates the ability to roll back delinquent accounts from these buckets
- PAR 90 is higher representing accumulated stress in accounts which have not been able to roll back and are facing underlying cash flow stress
- PAR 90+ shows sharp reversal from PAR 90 position mainly on account of secured asset class and general practice by players to invoke collateral enforcement through legal recourses available.

Customer Type and End-use of Loan

Categorization of customers

Salaried	Documented
	Non documented
Non Agri	Traders
	Manufacturers
	Services
Agri and allied	

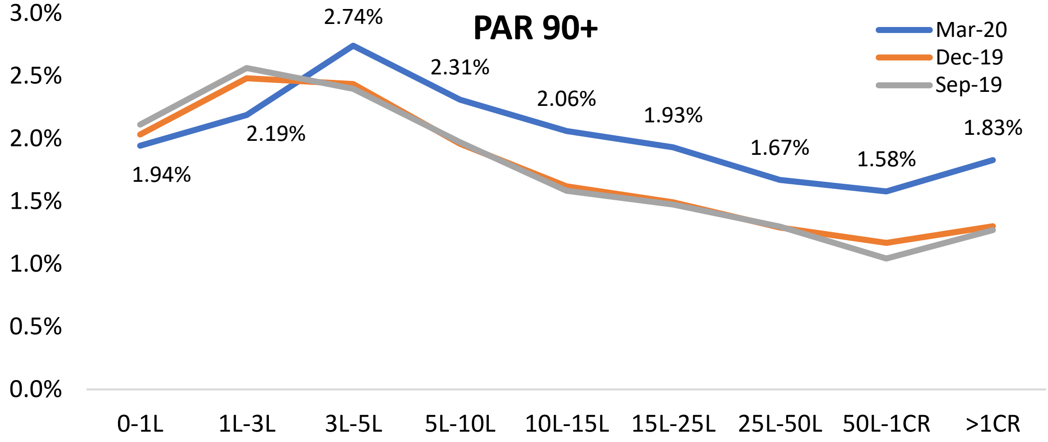
End-use of Loan

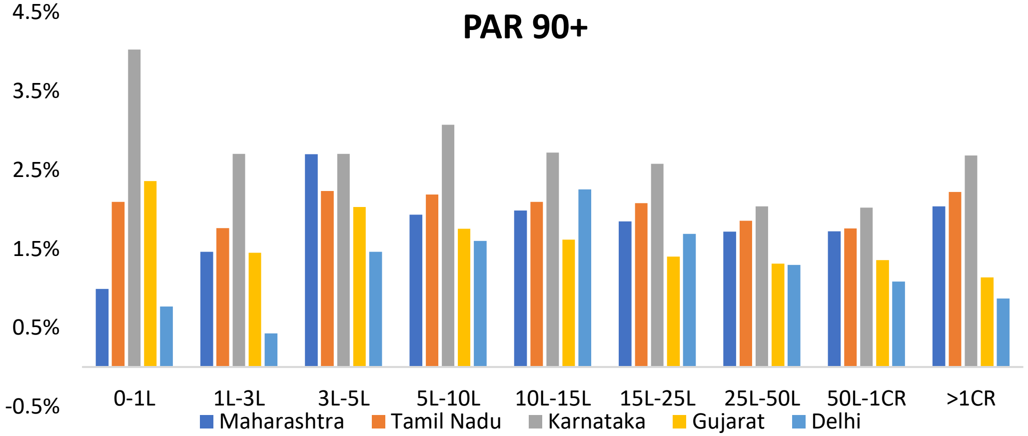


Tenor and pricing of the loan depends on the profile of the customer and end use of the loan

LAP Asset Quality: Basis Ticket Size

	Overall Market		New Disbursement	
Ticket	**PAR 0**	**PAR 90**	**PAR 0**	**PAR 90**
A. 0-1L	10.07%	1.94%	12.92%	1.44%
B. 1L-3L	13.41%	2.19%	9.57%	0.67%
C. 3L-5L	15.18%	2.74%	6.72%	0.64%
D. 5L-10L	17.27%	2.31%	8.29%	0.32%
E. 10L-15L	16.31%	2.06%	7.99%	0.26%
F. 15L-25L	14.39%	1.93%	7.04%	0.28%
G. 25L-50L	12.32%	1.67%	5.64%	0.23%
H. 50L-1CR	10.84%	1.58%	4.26%	0.15%
I. >1CR	13.11%	1.83%	5.23%	0.24%





- Most of the recovery happens towards to end of the quarter / financial year. Subdue collection efforts due to lockdown announcement could not help in roll back of buckets, resulted in higher delinquency
- Asset quality (measured by 0+) peaks for ₹ 5-10 lakh ticket size and then increased for > ₹ 1 cr ticket size exposures in March 20
- Asset quality is hight for ₹ 5-25 lakh ticket size across top states, except Gujarat. PAR 90+ is highest in Karnataka across buckets

Financial Performance – LAP/ Secured MSME

													Avg for FIs with AUM (in ₹ cr)*		
Company	**BFL**	**BFL**	**BFL**	**SCUF**	**SCUF**	**SCUF**	**MAS**	**MAS**	**MAS**	**Capri**	**Capri**	**Capri**	**< 150**	**150-500**	**500 - 5000**
Period	**FY18**	**FY19**	**FY20**	**FY18**	**FY19**	**FY20**	**FY18**	**FY19**	**FY20**	**FY18**	**FY19**	**FY20**	**D'19/M'20**	**D'19/M'20**	**M'20**
Total Yield	18.2%	19.4%	22.2%	21.2%	21.2%	19.9%	12.3%	13.8%	11.4%	17.9%	17.6%	14.3%	23.2%	23.5%	26.0%
Cost of funds	6.5%	6.6%	7.3%	7.0%	7.4%	7.2%	4.7%	5.0%	4.6%	4.6%	6.2%	5.3%	3.2%	11.6%	8.9%
Employee exp	2.0%	1.9%	2.1%	2.9%	3.1%	2.9%	1.0%	1.1%	0.9%	3.7%	3.5%	2.4%	14.8%	3.8%	5.4%
Other Opex	2.4%	2.3%	2.6%	2.7%	2.5%	2.0%	0.9%	0.7%	0.6%	2.0%	1.9%	1.1%	8.3%	2.1%	1.9%
Depreciation	0.1%	0.2%	0.3%	0.1%	0.1%	0.3%	0.0%	0.0%	0.0%	0.3%	0.2%	0.2%	0.5%	0.2%	0.4%
Tax	1.9%	2.4%	1.8%	1.7%	1.9%	1.2%	1.7%	2.0%	0.9%	1.8%	1.5%	1.3%	0.4%	1.8%	2.2%
Credit costs	1.5%	1.6%	3.5%	4.2%	2.7%	3.0%	1.2%	1.3%	1.5%	0.7%	0.3%	0.7%	1.3%	0.5%	2.2%
ROAA	3.5%	4.3%	4.5%	2.5%	3.5%	3.4%	2.8%	3.7%	3.0%	4.7%	4.0%	3.3%	-5.4%	3.4%	5.0%
(TD/TNW)	3.89	4.41	3.28	3.84	3.53	3.13	2.44	3.08	3.01	1.26	2.05	1.86	0.37	3.01	1.58
ROAE	19.5%	22.0%	19.0%	12.1%	16.8%	14.5%	18.8%	19.6%	19.0%	8.8%	10.5%	9.4%	-3.4%	10.2%	6.9%

Source : Listed companies financials and VCPL portfolio analysis; '* Analysis on 17 FIs with VCPL balance sheet exposure

- FIs having good external rating get benefit in form of low cost of borrowings
- Large NBFCs (BFL) have multiple products in bouquet with large and small ticket size loans which help in diversify the risk. NIM in the range of 4-6%. However, chunkier loans in the past lead to historic credit cost in the range of 1.5% to 3.5%

Financial Performance – Unsecured MSME

Period	FY - 18	FY - 19	FY - 20	FY - 18	FY - 19	FY - 20	FY - 18	FY - 19	FY - 20	FY - 19	FY - 20	FY - 19	FY - 20	FY - 19	FY - 20
Total Revenue	80	210	405	123	240	215	87	236	466	22	45	19	44	24	39
NW	89	495	519	388	527	515	142	633	833	60	130	96	70	38	60
Borrowings	399	708	1,389	546	622	537	420	983	1,351	91	109	99	100	109	104
AUM	470	1,048	1,797	1,105	1,385	1,031	440	1,370	2,420	198	386	144	227	123	161
ROA Tree (Based on AUM)															
Gross Yield	27.8%	28.8%	30.3%	19.6%	23.9%	27.0%	28.8%	27.1%	27.4%	30.4%	24.2%	27.5%	28.0%	24.6%	31.3%
(-) Cost of Funds	9.8%	9.6%	10.2%	7.0%	6.2%	8.0%	12.3%	9.5%	9.6%	4.7%	5.2%	8.9%	7.1%	9.5%	11.3%
(-) All Opex (+ D - T)	14.9%	11.6%	12.2%	18.5%	15.1%	13.0%	27.0%	14.2%	11.1%	33.2%	20.7%	34.0%	23.8%	24.2%	24.2%
(-) Credit Costs	1.8%	2.9%	3.9%	5.4%	8.4%	8.9%	7.2%	3.1%	5.0%	0.8%	6.1%	2.9%	7.6%	7.4%	4.9%
ROAA	1.3%	4.7%	4.0%	-11.3%	-5.8%	-2.9%	-17.6%	0.3%	1.8%	-8.3%	-7.7%	-18.3%	-10.6%	-16.5%	-9.1%
Leverage	4.46	1.43	2.68	1.41	1.20	1.04	3.25	1.61	1.67	1.55	0.85	1.07	1.56	4.31	1.99
ROAE	5.9%	6.8%	10.7%	-16.0%	-6.9%	-3.1%	-57.3%	0.5%	2.9%	-12.9%	-6.6%	-19.5%	-16.5%	-71.2%	-18.0%
PPOP	3%	8%	8%	-6%	3%	6%	-10%	3%	7%	-7%	-2%	-15%	-3%	-9%	-4%
Cost of debt	12.6%	13.1%	13.5%	12.5%	13.2%	14.8%	14.8%	12.3%	14.2%	11.4%	14.5%	14.5%	14.2%	13.1%	13.1%
Emp Cost	10.4%	7.9%	9.0%	10.3%	5.6%	6.1%	11.6%	4.7%	4.0%	22.3%	14.4%	19.0%	12.4%	13.0%	10.9%
Other Opex	4.5%	3.7%	3.3%	8.3%	9.5%	6.9%	15.3%	9.5%	7.2%	10.9%	6.3%	14.9%	11.4%	11.3%	13.3%

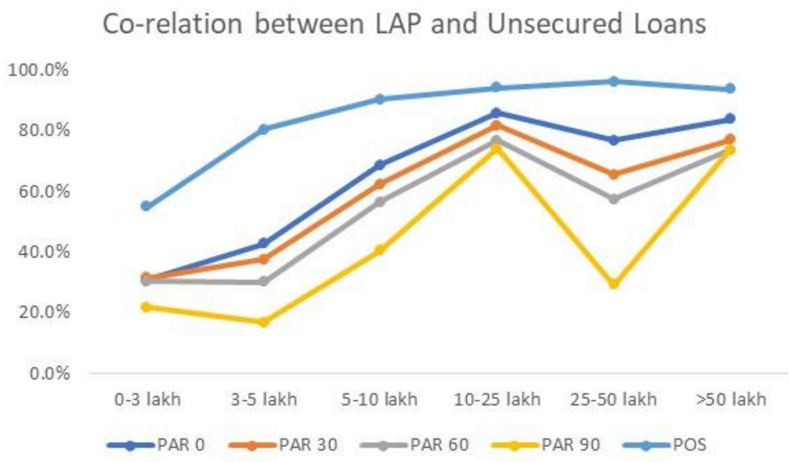
- Key operational drivers / costs are based on different business models (staff led / digital / DSA led) and has impact on credit costs.

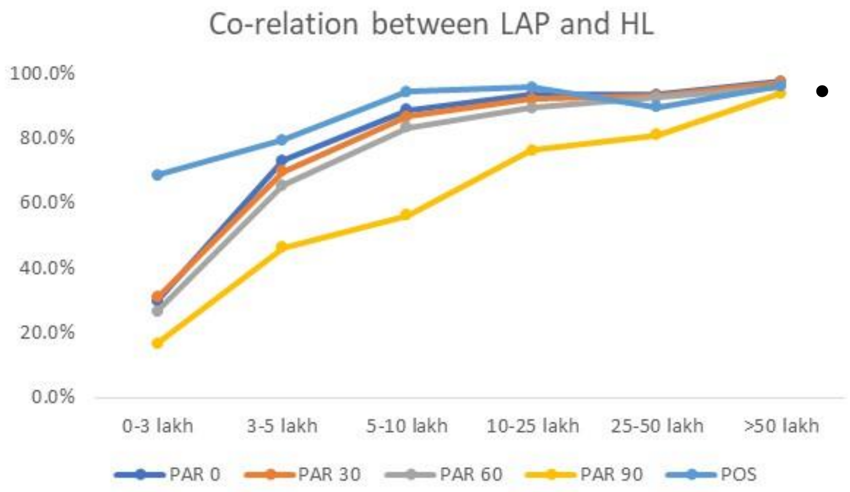
Operational Performance

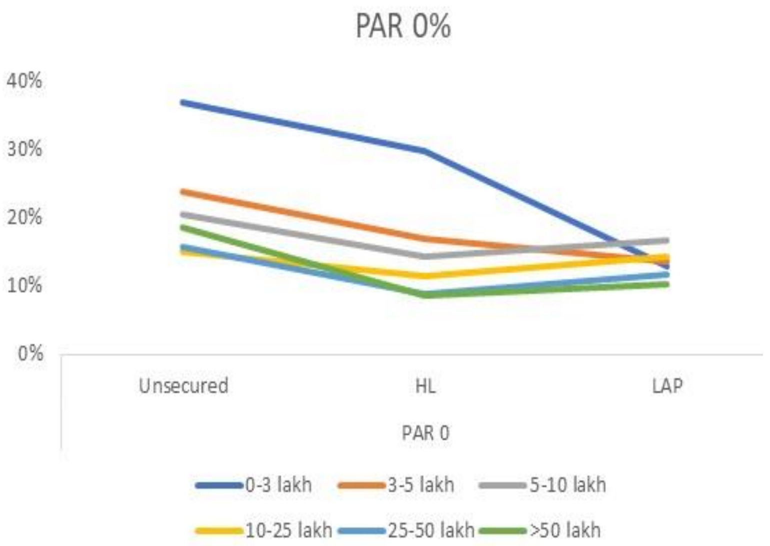
Operational Efficiency	BFL	SCUF	MAS	Capri	Median for players with AUM (in ₹ cr) < 150	150-500	500 - 5000
Period	Mar-20	Mar-20	Mar-20	Mar-20	D'19/M'20	D'19/M'20	D'19/M'20
States	18	NA	7	8	4	5	8
Branches	2,392	947	105	87	9	79	129
Employees	18,392	28,699	1,500	1,690	78	307	1,266
Active Customers (in '000)	24,130	4,076	700	23	2	21	48
Disb. (during FY)	NA	24,071	NA	1,276	31	74	444
AUM (₹ cr)	1,16,102	29,085	5,966	4,035	50	410	1,614
Disb./branch/month (₹ Crs)	NA	2.12	NA	1.22	0.29	0.20	0.68
Disb./emp./month (₹ Crs)	NA	0.07	NA	0.06	0.09	0.03	0.05
AUM per branch (₹ Crs)	48.54	30.71	56.82	46.38	2.98	5.35	11.83
AUM per Emp. (₹ Crs)	6.31	1.01	3.98	2.39	0.43	1.03	1.08
Borrowers/branch (in '000)	10.09	4.30	6.67	0.26	0.07	0.19	0.27
Borrowers/employee (in '000)	1.31	0.14	0.47	0.01	0.01	0.03	0.02
Emp/branch (count)	7.69	30.31	14.29	19.43	9	5	10
Emp Expense/emp p.a. (₹ lakhs)	12.48	2.95	3.49	5.77	5.82	4.02	4.06
Conveyance/emp p.a. (₹)	NA	NA	NA	NA	33,077	25,976	37,436
Branch rental /month (₹)	NA	NA	NA	NA	21,155	10,371	18,896

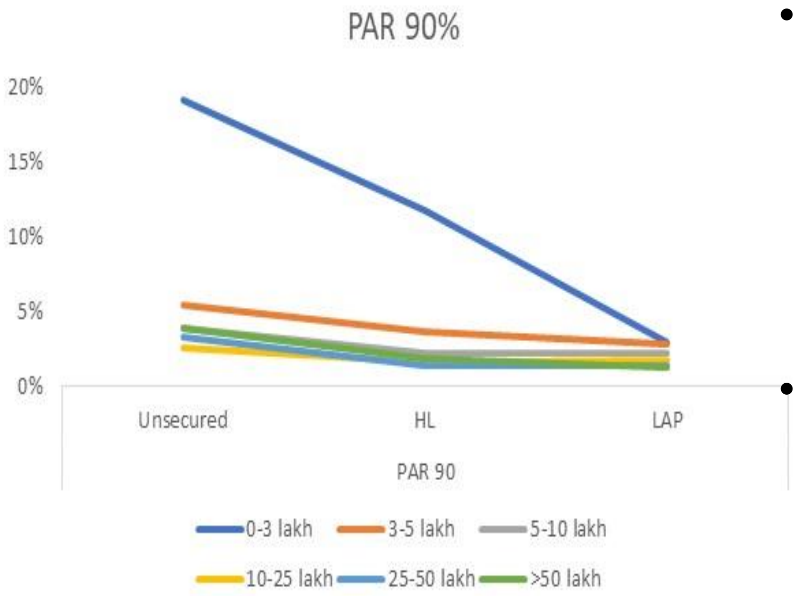
- The players with median AUM < ₹ 150 cr
  - High employee cost: new-age NBFC and paying high remuneration to attract talent
  - High disbursement per branch: few FIs are operating from central office
- Branch rental for sample FIs with AUM in the range of ₹ 150-500 cr (mostly in Rajasthan) is lower than others due to presence of branches in tier III and IV towns

Co-relation between various HFC, LAP and Unsecured asset class







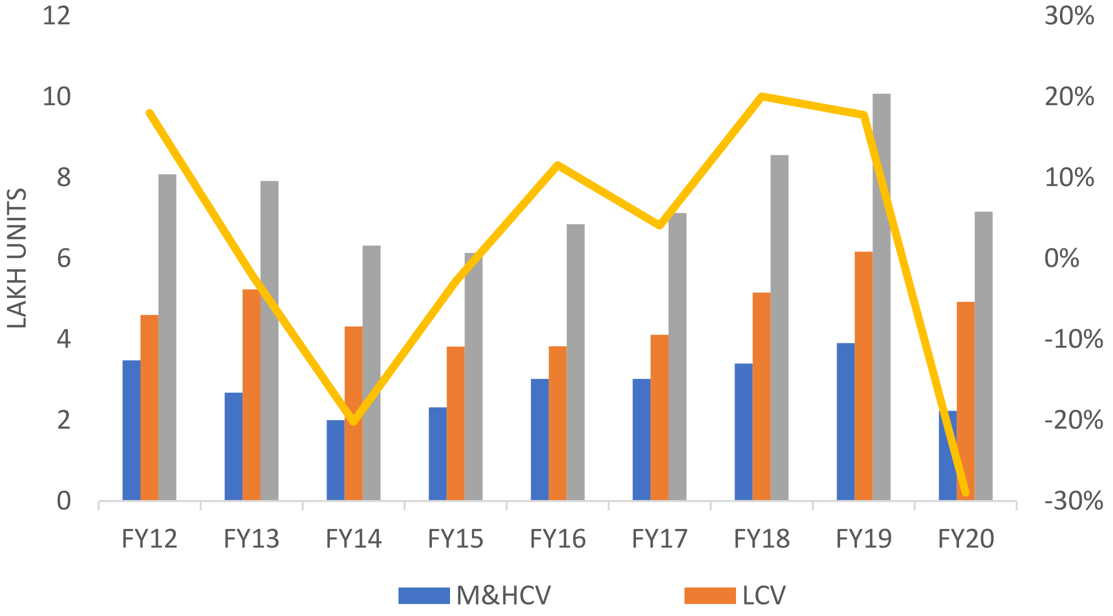


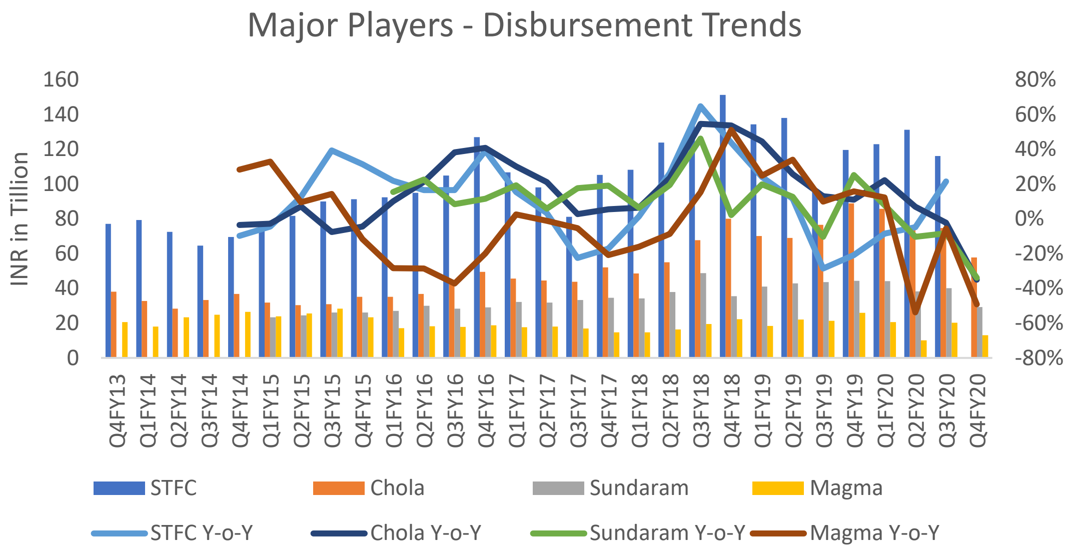
- LAP and unsecured loan:
  - The co-relation improves with increasing ticket sizes between secured and unsecured loans
  - The credit behaviour of ₹ 10-25 L ticket size is same for LAP and unsecured.
- LAP and HL have significant co-relation,
  - Asset quality behaviour also tends to be stronger for larger ticket sized loans
- Top cities of India account for largest PoS for small ticket unsecured loans

Source: CB report and VCPL research

CV

Commercial Vehicles: Sales Trends

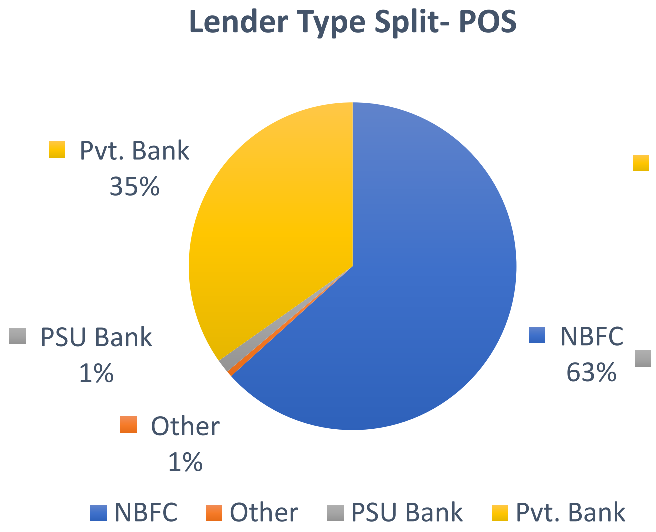


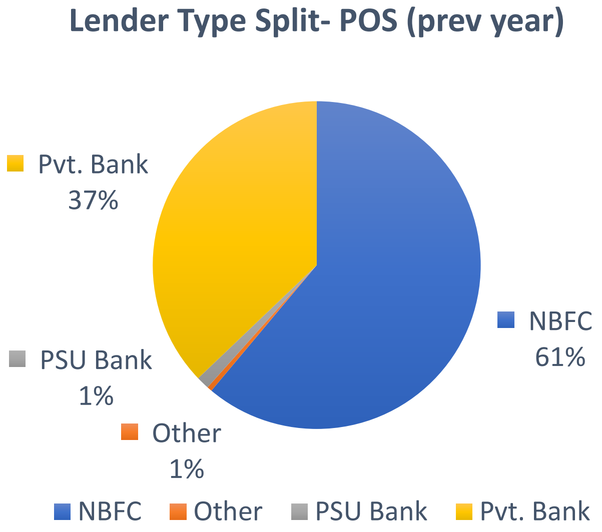


- The overall CV market has seen robust growth over the past two years – 20% in FY 2018 and 18% in FY 2019 – driven by growth in vehicle categories across tonnages.
- But there have been divergence in the sale trends between HCVs and LCVs over the past decade. HCV sales picked up from July 2017 (post GST implementation) and showed high growth till June 2018. LCV Sales, however, has seen secular growth from FY 2016.
- However, sales have taken a hit in FY20, declining close to 30%. Decline for HCV has been close to 50% while it was ~20% for LCV.
- FY21 is also expected to see pressure on sales with close relation to overall economic activity in the country.

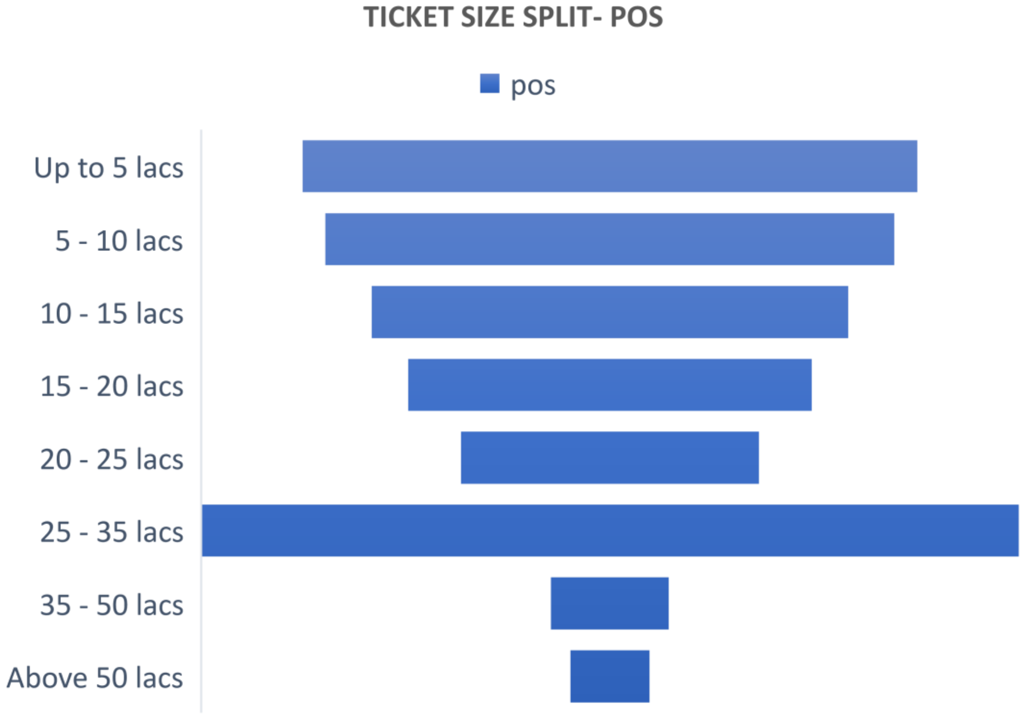
CV Finance: Exposure Trends

- Market for CV financing in India is estimated to stand at Rs 4 trillion and this has grown in tandem with the increasing sales till FY19
- New vehicle financing dominated by private banks and captive financiers (Auto OEMs)
- Used vehicle financing is dominated by NBFC segment, like Shriram, Cholamandalam, and Sundaram
- Share for NBFCs have increased from 56% to 62% from Jun-18 to Sep-19. But as per report, the share of NBFCs in new CV loans is ~40% only





Source – Credit Bureau Dara



Source – Credit Bureau Dara

- 25-35 lacs have the highest share which is the most common bucket for new M&HCV
- Loan above Rs 35 lacs is low in line with lower sales of high tonnage niche vehicles
- Exposure in lower buckets will be a mix of funding for new SCV/ LCV as well as loan for used vehicles

Differentiating Factors

LCV vs. M&HCV

- Intracity vs. intercity transportation
- Unit cost economics

FTB vs. SRTO vs. Large operator

- Asset being the only income generator or dependence on drivers (hence availability as well)
- Importance of asset for the owner

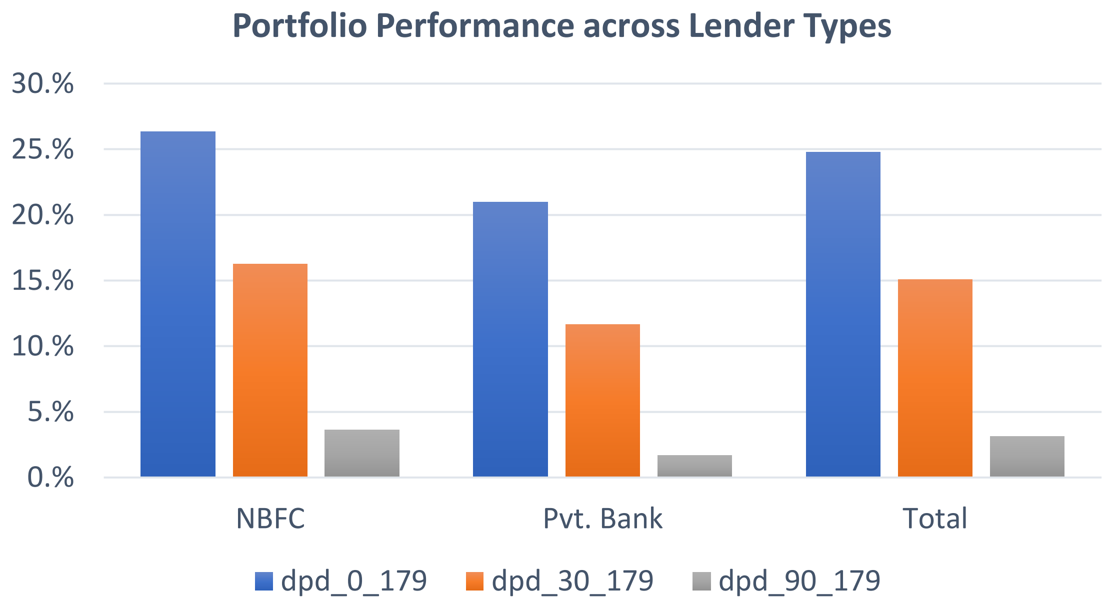
Goods vs. Passenger

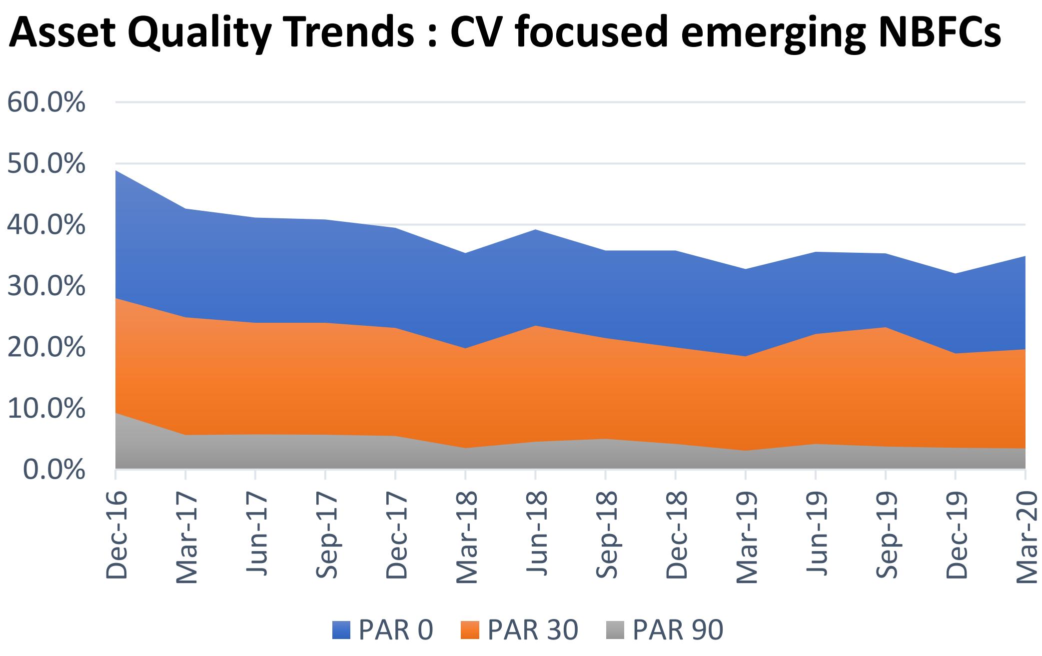
- Ease of lockdown supported cashflow generation for goods vehicles
- Public transport still not operational, impacting cash generation

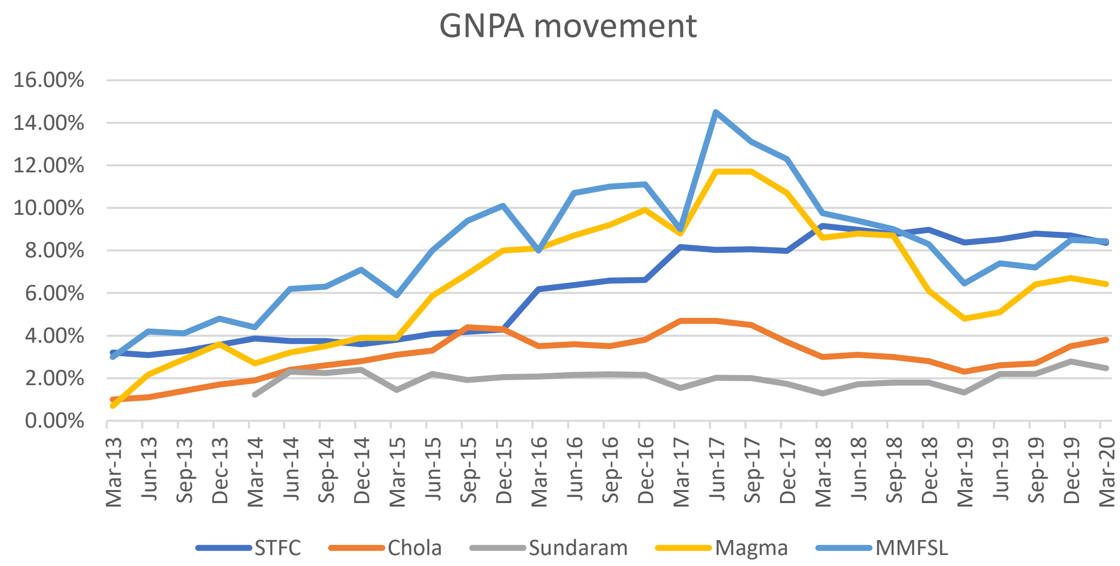
New vs. Used

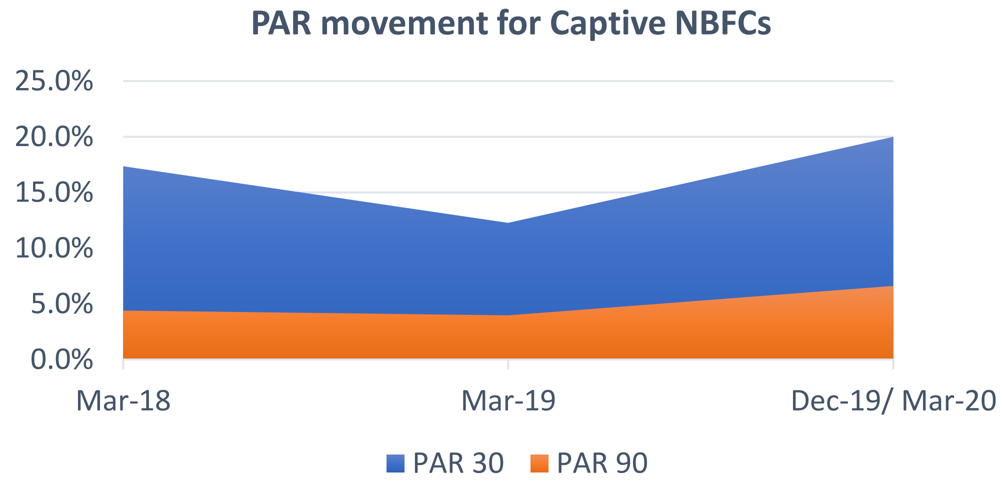
- Customer profile
- Capital cost and resultant unit cost economics

Asset Quality









Financial Performance

	STFC		Chola		Sundaram		Magma		MMFSL		Larger players >1000 to 5000 crs Total Assets	Small Players with <1000 crs Total Assets	Captive NBFCs
	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	Dec/Mar-2020	Dec/Mar-2020	Dec/Mar-2020
Total Yield	**15.7%**	**16.3%**	**14.7%**	**15.1%**	**14.9%***	**11.4%**	**17.1%**	**15.5%**	**14.7%**	**14.5%**	**22.1%**	**23.6%**	**12.8%**
Cost of Funds	7.6%	8.1%	7.6%	8.0%	6.5%	6.0%	6.6%	7.8%	6.6%	6.8%	8.9%	11.2%	7.7%
Opex (excl. tax)	1.8%	2.0%	2.7%	2.7%	2.5%	1.7%	4.5%	4.1%	3.1%	2.9%	6.4%	8.8%	2.0%
Credit Cost	2.5%	2.8%	0.7%	1.6%	0.3%	0.8%	3.0%	3.1%	1.0%	2.9%	2.5%	1.0%	2.0%
Tax	1.2%	0.9%	1.3%	0.9%	1.3%	0.6%	1.0%	0.3%	1.4%	0.6%	1.1%	0.6%	0.2%
RoA	**2.5%**	**2.5%**	**2.5%**	**1.8%**	**5.5%**	**2.1%**	**2.1%**	**0.2%**	**2.6%**	**1.3%**	**3.2%**	**2.0%**	**0.9%**
Leverage	5.6	5.2	8.2	6.7	5.0	4.9	4.6	4.2	4.8	5.2	2.3	3.3	4.2
RoE	**17.5%**	**14.8%**	**21.0%**	**14.7%**	**24.6%**	**13.7%**	**12.6%**	**1.0%**	**15.2%**	**8.1%**	**10.0%**	**9.0%**	**7.0%**

- The yields across player can be closely correlated to the asset mix in AUM
- Leverage has reduced for most entities in the last 2 years with unfavorable environment. This has restricted the increase of cost of funds on average AUM to some extent and helped protect margins. But the impact has been seen in RoE
- Additional COVID provision in FY20 by listed cos.

Operational Performance

Operational Efficiency	STFC	Chola	Sundaram	Magma	MMFSL	Median for players with >1000 to 5000 crs Total Assets	Median for Players with <1000 crs Total Assets
	Mar-20	*Mar-20*	*Mar-20*	*Mar-20*	*Mar-20*	*Dec-19/ Mar-20*	*Dec-19/ Mar-20*
No. of Branches	1758	1091	610	327	1322	221	32
No. of Employees	28045	26558	4213		21862	2788	184
No. of Active Borrowers (in mn)	2.12	1.40		2.00		0.10	0.008
AUM per Branch (Rs. Crs)	62.43	55.50	57.52	49.34	49.16	8.93	4.29
AUM per Employee (Rs. Crs)	3.91	2.28	8.33		2.97	0.71	0.81
Disbursement per branch per month (Rs crs)		2.23	2.07	1.64	2.67	1.12	0.28
Disbursement per employee per month (Rs crs)		0.09	0.30		0.16	0.09	0.07
Employee Expense per Employee p.a. (Rs lacs)	3.60	2.47	8.51		5.25	2.69	3.30
No. of Active Borrower per branch	1206	1283		6116		383	306
No. of Active Borrower per employee	76	53				30	54
Employee per branch	16	24	7		17	13	4

- While the AUM per branch is highest for STFC, the number of borrowers per branch is lower than Chola, indicating higher ticket size or same customer with multiple loans.
- In terms of employee efficiency, Sundaram is extremely high. It may also be function of ticket size of loans and also on account of use of off roll employees. The employee cost per employee is also the highest for Sundaram and may indicate better resources being used to drive efficiency along with outsourcing of low-cost employees, driving the per employee cost high.
- The disbursement and related efficiency numbers in FY20 would be marginally below normal level due to pressure on growth in FY20 due to market conditions.

Microfinance

MFI: Field Update

Sector	Pre COVID	April	May	June
CE	98%+	1-5%	16% [0 - 30%]	25-85% [Avg 50-65%]
Branch Opening	100%	Most opened after May 3	95% [80-100%]	~100%
Staff Availability	100%	Most returned to their homes	85% [65-98%]	~90-95%
Disbursement	Normal run	Nil	Nil	June: Started [few entities and small amount] July also 10% old levels (expected) Aug – basis Collections expect improvement

Collections

- Improving trend seen after near zero collection in April
- Most MFIs still relying on individual collections, some have started group collections.
- Where group collections also happening attendance is around 40-60%
- Little traction on digital collections – market not prepared for these alternatives

As per ground feedback, improving collections witnessed owing to:

- Easing of lockdown restrictions and movement of staff to branches.
- Opening of branches and Staff Availability [More than 95% branches 90% staff available]
- Field staff able to meet borrowers and discourage from taking Morat

MFI: State wise update [June]

State	POS % [Industry]	Collection Efficiency	Remarks
Tamil Nadu	22%	40-70%	Entities having portfolio in the 4 districts under lockdown in June were more impacted.
West Bengal	13%	40-60%	Significant improvement from around 10% collections in May despite impact on portfolio in Districts hit by Amphan. Could see dip in collections with lockdown in July.
Bihar	**10%**	**50-85%**	**Mostly on higher side [70%]**
Karnataka	9%	50-60%	People conserving cash for future
Maharashtra	8%	15-50%	Political Issue: Demand for extension of moratorium across the board High Covid Impact, fear amongst borrowers Urban MFIs [Mumbai, Thane, Pune] –borrowers in containment zone, income impacted, migration issue
UP	**6%**	**60-70%**	**Relatively higher collections**
MP	**6%**	**~70%**	**Few outliers with those having presence in urban centres like Indore, Ujjain [<20% CE)**
Odisha	5%	50-60%	Slow to off-take due to movement restrictions Borrowers – low income profile, need more time
Assam	5%	30-60%	Recent Floods in Assam, accessibility is an issue Overhang of Protests in Nov'19, delinquencies high
Rajasthan	**4%**	**80-100%**	**Performing well despite sporadic lockdowns**
Gujarat	3%	~70-80%	Performing well other than urban centres like Ahmedabad and Surat

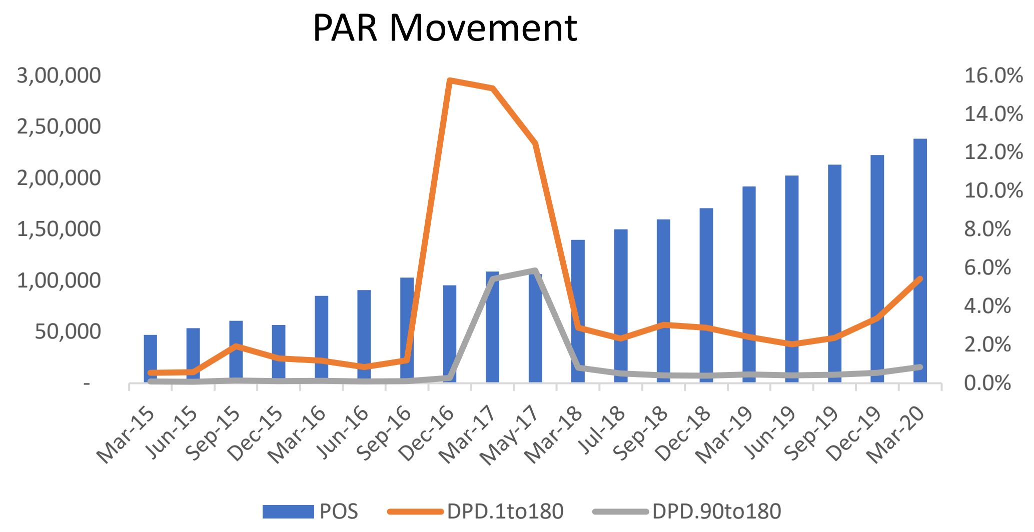
Historical Experience: Event Risk and Asset Quality

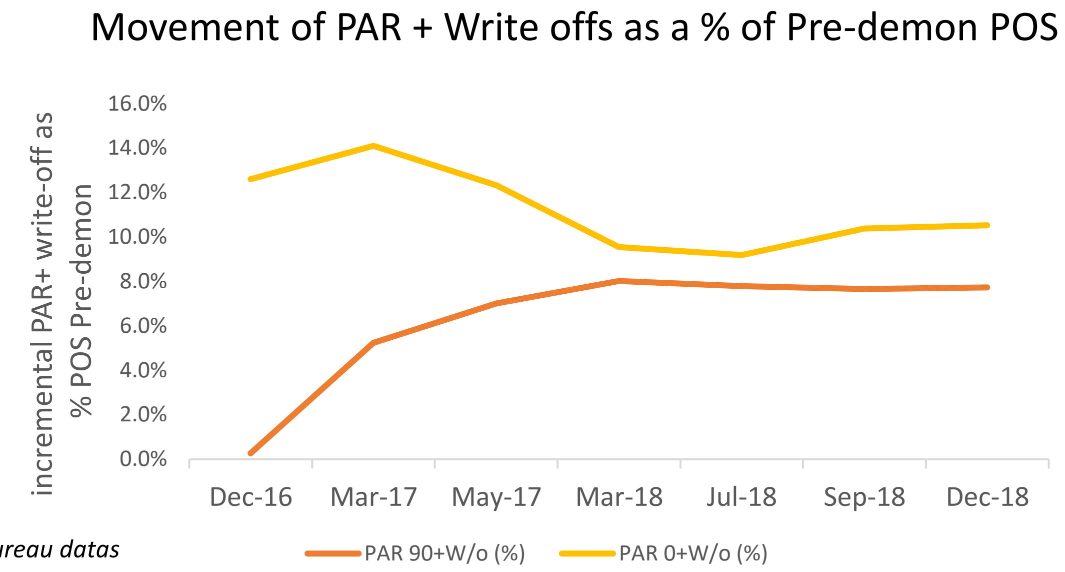
- AP crisis – 2010 (1st major event)
- Demon – Nov 2016 (2nd Major event)
- Lockdown – March 2020 (3rd Major event)
- Annual floods in:
  - West Bengal
  - Assam
  - Bihar
- Floods in:
  - Kerala: 2018, 2019
  - Karnataka, Maharashtra: 2019
  - TN: 2015
- Cyclones/ typhoons in:
  - Odisha: 2013, 2014, 2019, 2020
  - WB: 2015, 2016, 2017, 2019, 2020
  - TN: 2016, 2017, 2018
  - Gujarat: 2015, 2019

- Local unrest - 2014-2016:
  - Burhanpur MP – 2015
  - Sagar, Vidisha, Narsingpur MP – 2014-15
  - Amroha , JP Nagar – 2015
  - Alwar, RJ
  - Coastal Karnataka – 2020
  - Assam – 2019-20

- Natural calamities have been pretty frequent in various parts of the country, however preparation to handle the same has also improved significantly
- Majorly impacted regions have been on Western Ghats, which were protected from floods but witnessing the same in the last 2 years
- Environment protection steps taken to mitigate the losses – ground water recharging, afforestation etc.

Asset quality and Credit cost trends





Source: Credit bureau datas

- Natural calamities have been pretty frequent in various parts of the country with recent ones being cyclone Fani in Odisha, floods in Kerela. The intuitive expectation would be to witness increase in PAR/ weak assets, however the graph above indicates an increase only due to demonetisation (PAN India event), and localised events (even if impacting multiple districts across 2-4 states not moving the needle).

- As a result, the overall credit loss was c. 2.5-2.75% for the industry over the period Mar15-Mar19.

- The major contribution to the credit cost was announcement of demonetization (a PAN India event) which lead to peak delinquencies i.e. PAR 1-180 rising to 16% as on Dec-16 and PAR 90-180 to 6% as on May-17. However maximum loss (90+DPD including write-offs) upto Dec-18 indicate credit loss of ~7.7% from the portfolio outstanding as on Sept-16 (pre-demonetization).

Differentiating Factors

Rural vs Urban

- Rural centric MFIs better placed due to lower impact on economic activity during lockdown and Govt. support
- Urban centers dependent on non-essential industries / discretionary purchases could see higher stress

Geography

- Geographies seeing local lockdowns to see temporary dip in collections.
- Events such as cyclones, floods, political and social intervention risk to have localized state level or district impact.
- Diversified entities would be better placed.

Installment size

- Those with higher share of lower ticket size loans and fortnightly/weekly collection model better placed due to smaller installments.

Liquidity and Disbursements

- Ability to disburse important to incentivize borrowers to repay.
- Ability to raise funds and having adequate liquidity will be important.

Borrowers / Field Officer

- Those areas where borrowers per field officer are higher viz. 600-1200, may face challenge due to individual collections.
- MFIs ability to hire and redeploy staff in these areas will be crucial for collections

High Profitability : Cushion for absorbing credit costs

MFI Size	Small		Medium		Large			Consol	
ROA Tree / Period	**FY19**	**H1FY20**	**FY19**	**H1FY20**	**FY19**	**H1FY20**	**FY20**	**FY19**	**H1FY20**
Total Yield	24.35%	25.60%	19.90%	20.07%	22.89%	21.42%	21.74%	21.49%	21.11%
Cost of funds	12.20%	13.02%	8.35%	8.78%	8.85%	7.43%	7.39%	8.63%	8.13%
Spread	**12.14%**	**12.59%**	**11.56%**	**11.29%**	**14.05%**	**13.98%**	**14.35%**	**12.85%**	**12.98%**
Opex	8.96%	9.41%	6.61%	6.37%	5.13%	4.97%	4.73%	5.69%	5.64%
Employee Cost	**6.21%**	**6.68%**	**4.64%**	**4.55%**	**3.63%**	**3.53%**	**3.38%**	**4.01%**	**4.01%**
Operating costs (others)	2.75%	2.74%	1.97%	1.81%	1.50%	1.45%	1.35%	1.68%	1.63%
Operating profitability	**3.18%**	**3.18%**	**4.95%**	**4.92%**	**8.91%**	**9.01%**	**9.62%**	**7.16%**	**7.34%**
Credit Costs	0.66%	0.45%	1.35%	0.84%	1.11%	1.26%	3.21%	1.16%	1.08%
Dep, Tax and other exp	1.21%	0.60%	1.11%	1.19%	2.87%	3.18%	2.29%	2.14%	2.38%
ROA	**1.31%**	**2.13%**	**2.49%**	**2.90%**	**4.93%**	**4.57%**	**4.12%**	**3.86%**	**3.89%**
ROMA	**1.01%**	**1.68%**	**2.05%**	**2.34%**	**4.13%**	**3.84%**	**3.42%**	**3.24%**	**3.23%**
Leverage-on book	**4.81**	**4.38**	**4.21**	**4.19**	**2.52**	**2.28**	**2.67**	**3.01**	**2.81**
Cash as % of AUM	20%	14%	15%	13%	15%	14%	16%	15%	14%

RoA for large and Medium size MFIs is 2.5-3% and thus ability to absorb the credit costs remains sufficient

Most large players already have provided additional provision of 1-1.5% in Q4FY20

Smaller players with relatively low ROAs may see losses if credit cost > 2.5%

Thank You

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