

# Microfinance growth may nosedive to 4% in FY25

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With lenders tightening disbursements and constraints on funds, the growth in assets under management (AUM) of non-banking financial companies-microfinance institutions (NBFC-MFIs) is expected to moderate sharply to 4 per cent in FY25 from 28 per cent in FY24.

The portfolio of NBFC-MFIs had grown by 37 per cent in FY23, according to CareEdge Ratings.

Sanjay Agarwal, director, CareEdge Ratings, said MFIs have reduced lending activity. Banks are also very selective in giving funds to micro lenders. The rating agency on Friday released growth outlook for 2025.

## QUALITY CONCERNS

Asset growth of microfinance, NBFC, MFI (in%)

	Assets growth	Gross NPAs	Credit costs
FY21	14 	5.4 	5.0 
FY22	17 	6.2 	3.7 
FY23	37 	2.6 	3.4 
FY24	28 	2.8 	2.6 
FY25E	4 	4.5 	6.5 

E: Estimates; source: CareEdge Ratings

Slowdown in business activity has been visible in the two quarters of the current financial year (FY25).

Data from Micro Finance Institution Network (MFIN) showed the AUM of NBFC-MFIs grew by 8.5 per cent year-on-year (Y-o-Y) till September 2024. The AUM had grown by 29.5 per cent in FY24.

The growth saw momentum in FY23

after the Reserve Bank of India (RBI) liberalised various regulatory norms, including cap on margins.

As a proactive step to contain stress, self-regulatory organisations (SROs) in the microfinance sector — MFIN and Sa-dhan — have made norms stricter for lending.

Earlier this month, Alok Misra,

chief executive & director, MFIN, had said that considering the ongoing challenges, the industry decided to moderate disbursement growth and focus on strengthening underwriting standards and repayment collections.

Referring to stress in the microfinance sector, the rating agency said deterioration in asset quality may be higher for entities operating in vulnerable geographies.

The gross non-performing assets (NPAs) may rise to 4.5 per cent in FY25 from 2.8 per cent in FY24 and 2.6 per cent in FY23, according to CareEdge estimates.

These lenders would also have to set aside higher amounts as provision for rising stress.