



Guide to Microfinance - India

July 2009

Executive Summary

Market

- Microfinance in India operates through two channels
 - Microfinance institutions (MFIs)
 - NABARD's SHGs bank linkage programme (SBLP) - a partnership model between SHGs, banks and NGOs
- Women account for a% of the credit clientele
- Microfinance is predominant among the Southern States, especially A

Government Initiative

- The introduction of the Micro Financial Sector Development and Regulation Bill, 2007
 - **Major Aspects:** Definition of microfinance organizations, conditions for mobilization of savings and creation of a regulatory body
 - **Limitations:** Regulatory body, differential regulation, dual regulation, preferential regulation and lax prudential norms
 - **Recommendation:** Encompassing a wide spectrum of institutions and modifying rules for depository MFIs

Trends & Characteristics

- Low penetration level providing high growth opportunity
- Large scale PE/VC activity
- High interest rate and issue with repayments
- Lack of interest from formal financial institutions
- Opportunity in the urban sector

Major Players

- The major microfinance institutions in India are
 - Company 1
 - Company 2
 - Company 3



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- Introduction
 - Institutions
 - Market Overview
 - Government Initiatives
 - Trends and Characteristics
 - Major Players
 - Key Developments
 - Appendix

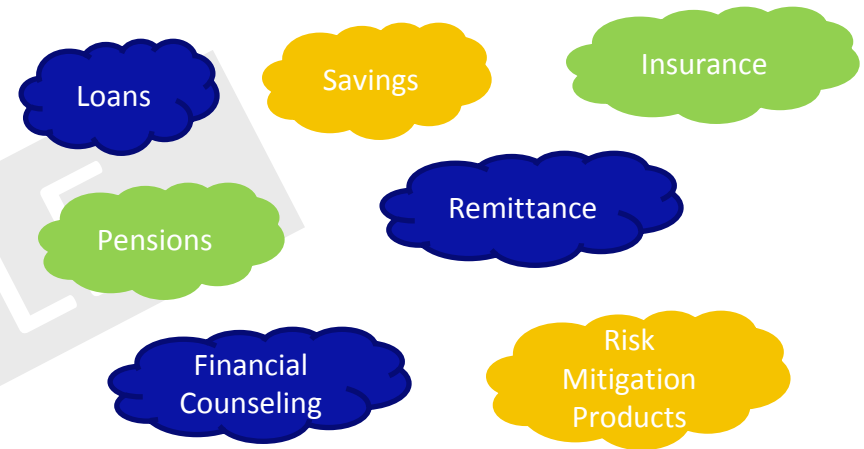


Microfinance industry has been growing across the globe with India playing a vital role

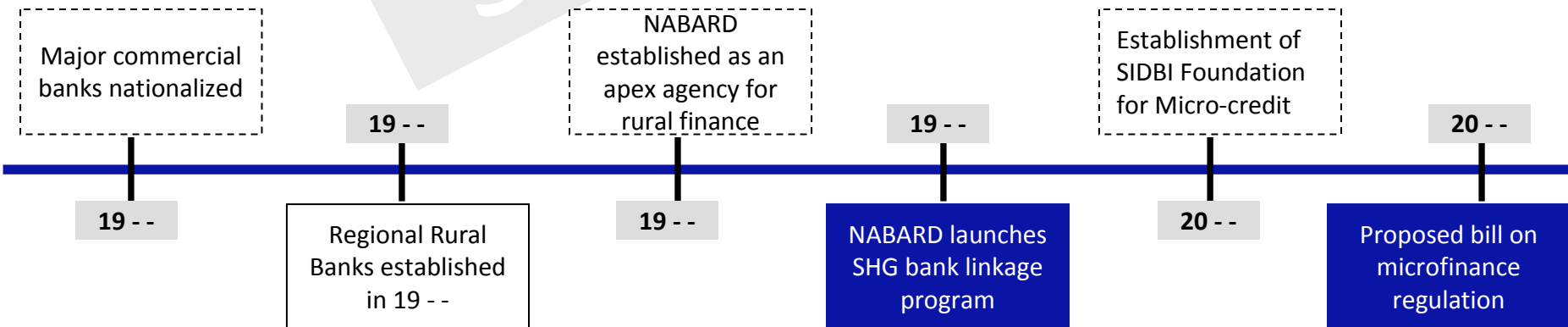
Definition

- Microfinance is defined as the provision of thrift (savings), credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and improve living
- World Bank estimates that there are over X microfinance institutions worldwide

Services Provided



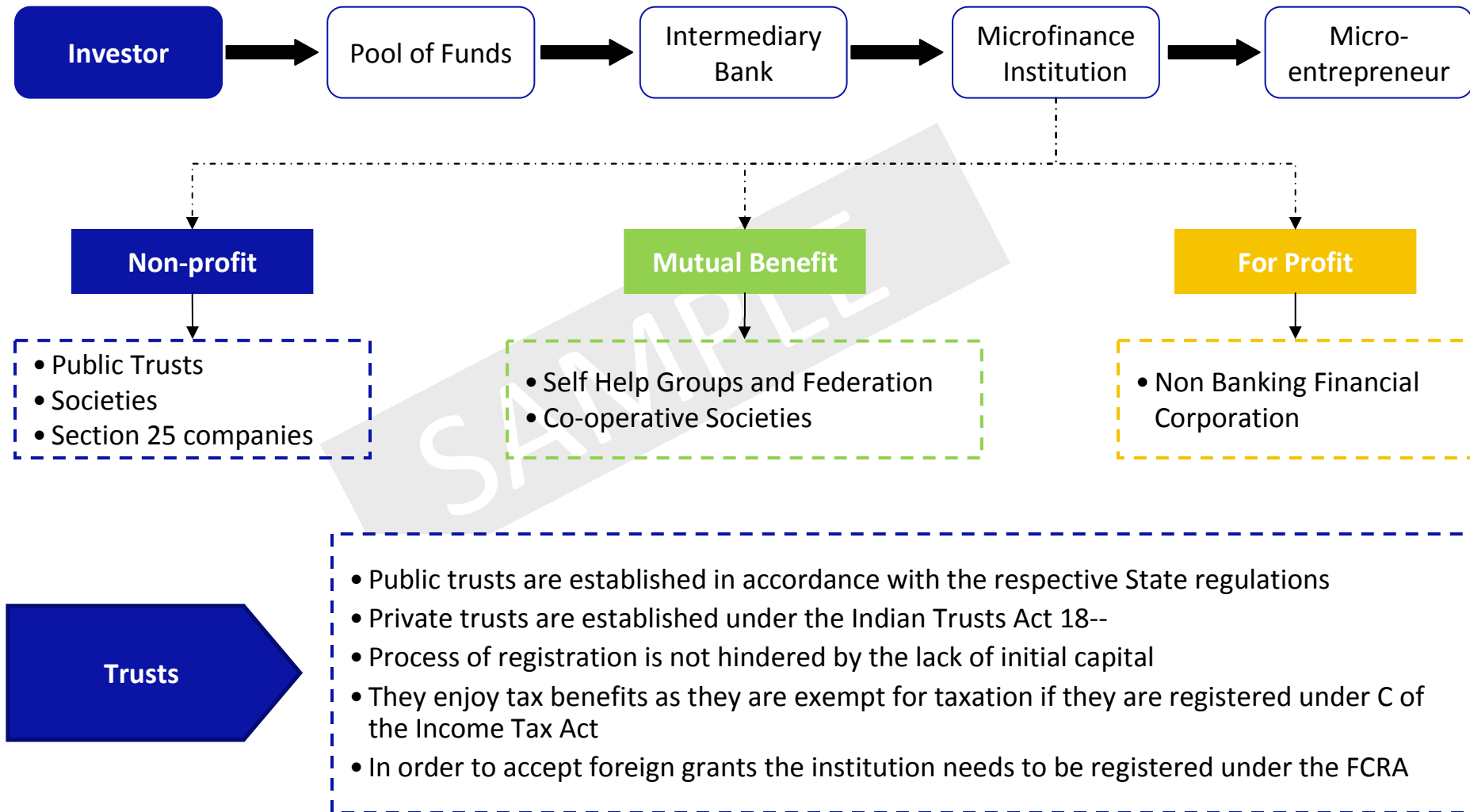
Major Milestones in India



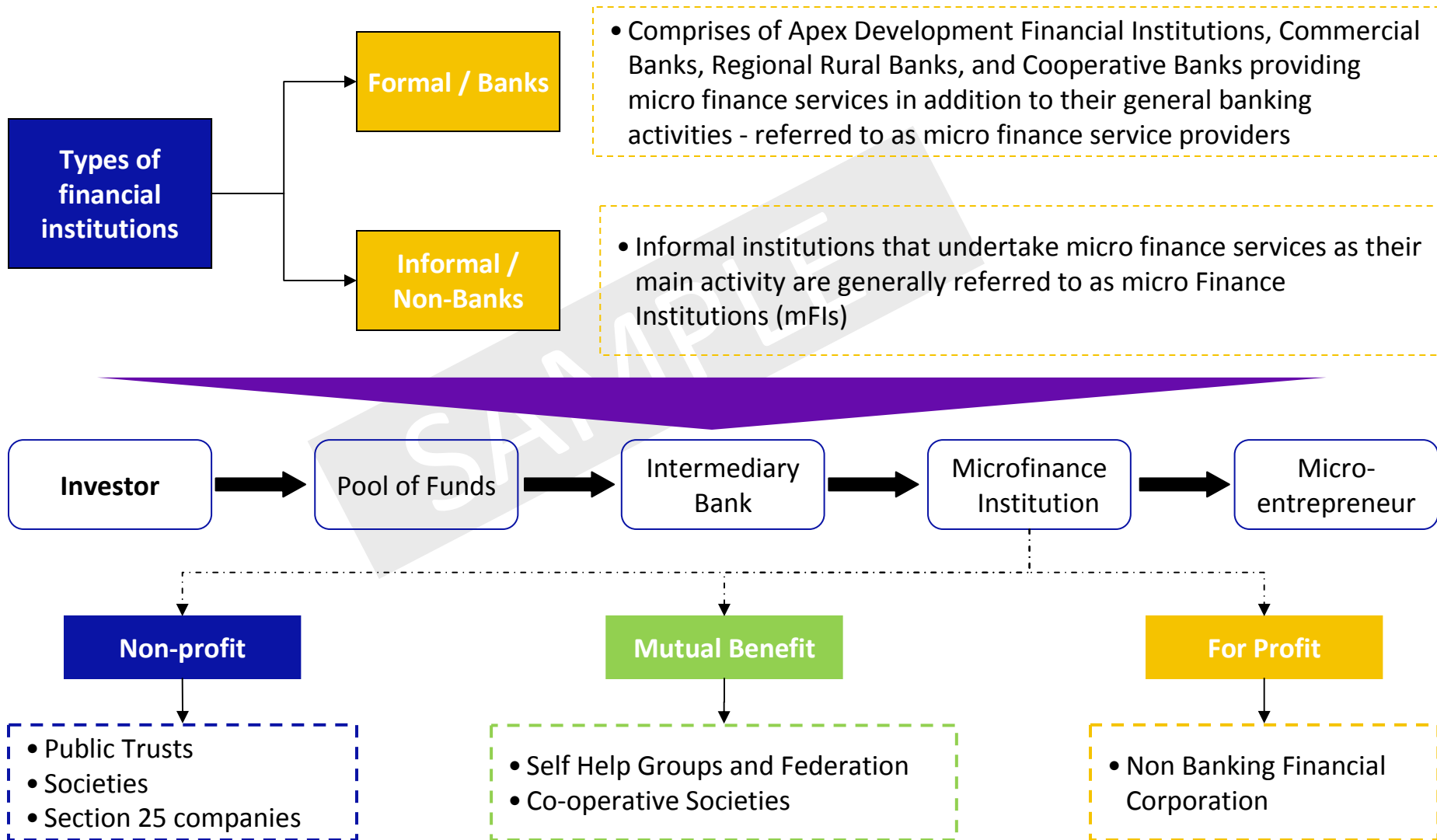
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Types of Microfinance Institutions (1/4)



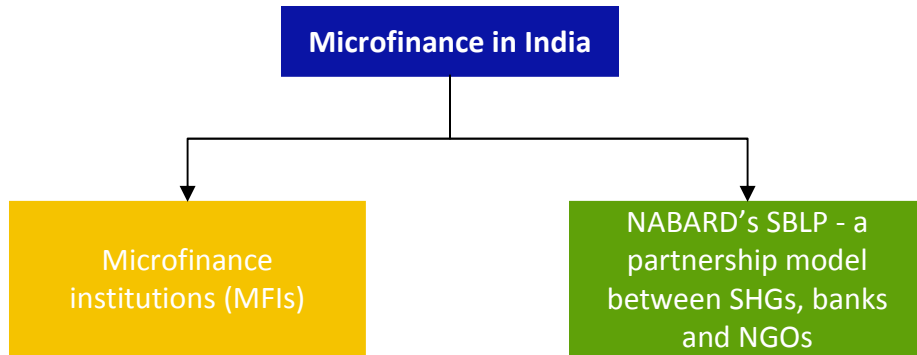
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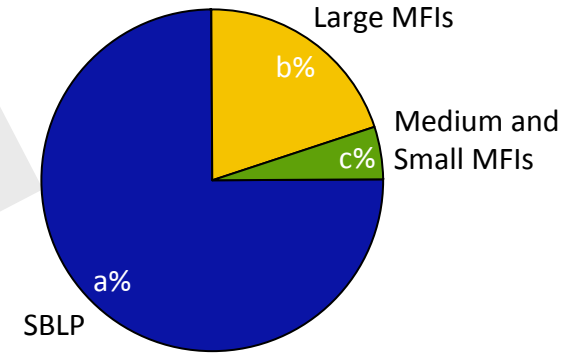
In India, microfinance sector operates via two routes - Microfinance Institutions and Self Help Groups

Overview

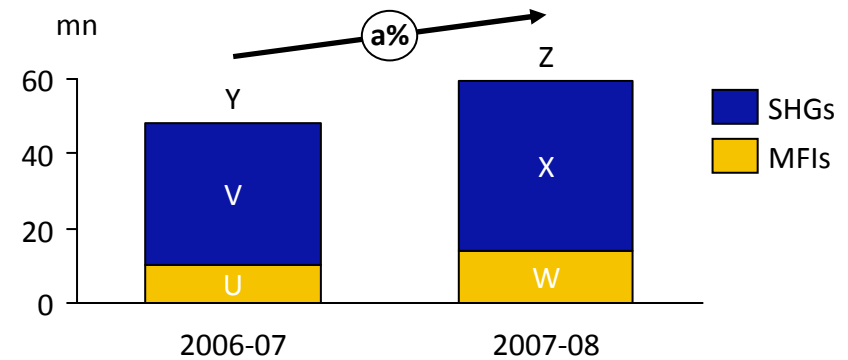


- Demand for micro-credit is pegged at USD XX bn but the supply stands at less than USD YY bn
- Outstanding micro-credit portfolio amounted to ~INR U bn in 2007-08
- Microfinance is predominant among the Southern States, especially Andhra Pradesh
- v% of the consumers are from the rural sector
 - Women account for w% of the credit clientele
- Highest growth observed in the loan segment ranging from INR X0 – INR Y

Credit Distribution (07-08)



Client Outreach



Source:



Introduction of the bill is expected to create a definite regulatory framework for microfinance institutions

Micro Financial Sector Development and Regulation Bill, 2007

Purpose

Regulating and supervising cooperative societies and non-profit institutions (including societies and trusts) that are providing microfinance

Definitions

- Microfinance: Includes loans, savings, insurance and pension services. Loans cannot exceed more than INR X (INR Y for housing purposes)
- MFO: Any organisation that provides micro-finance services including societies, trusts and cooperative societies

Major Aspects

- **Definition of Microfinance Organizations:** NBFCs and Section 25 companies, which account for ~a% of microfinance loans outstanding are excluded from its scope
- **Mobilization of Savings:** States that MFOs are authorized to collect deposits from their members
 - Certain conditions must be satisfied
 - Have a minimum capital base of INR U mn
 - Be in operation for a minimum of v years
 - Receive approval from the Microfinance Development Council (MDC), an entity promoted by NABARD
- **New Regulator:** NABARD to be the regulatory body for both depository and non-depository micro MFOs . Its role entails
 - Facilitating the development of credit rating norms and performance benchmarks
 - Specifying the accounting form and the auditing standards
 - Promoting financial literacy of MFO clients and sector-related research
 - Disseminating information relating to best practices



Trends and Characteristics

Trends and Characteristics

Low penetration level provides tremendous growth opportunities

Large scale PE/VC activity

High interest rate and issue with repayments

Lack of interest from formal financial institutions

Opportunity in the urban sector



Players (1/8)

Company Snapshot: Company 1

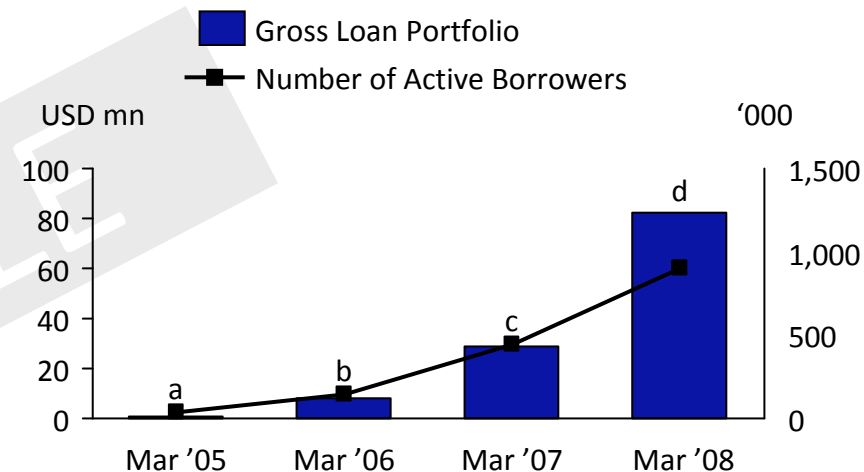
Corporate Information

Established	20--
Headquarters	Kolkata
Services Offered	<ul style="list-style-type: none">• Micro loans• Micro Enterprise Program• Health Loan

Business Highlights

- It is a non-profit entity
- Operates in X States through Y branches
- Primarily focusing on 3 programs
 - P1
 - P2
 - P3

Financial Performance and Outreach



Business Outlook

- It is planning to raise INR XX bn in FY '09-'10 by selling agricultural loans to banks
- Plans on expanding operations to Delhi and Mumbai because of large scale rural urban migration
- Expected to encompass Uttar Pradesh, Rajasthan and Gujarat
- Plans on opening B new branches

Source:



Thank you for the attention

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