

09:39 AM   18 NOV <b>MARKET STATS</b> ▾	SENSEX <b>26,162</b> ▼ -65.98	NIFTY 50 <b>8,063</b> ▼ -16.80	GOLD (MCX) (Rs/10g.) <b>29,120</b> ▼ -263.0	USD/INR <b>68.07</b> ▲ 0.12	<b>CREATE PORTFOLIO</b>	<b>Download ET MARKETS APP</b>	CHOOSE LANGUAGE ENG
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## MFIs may find high ovedues due to demonetisation: India Ratings

By ET Bureau | Updated: Nov 18, 2016, 01.30 AM IST

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MUMBAI: Microfinance firms are likely to see capital erosion if cash flows do not improve by the end of the fiscal year as most of them have liquidity in the form of unencumbered cash and have not availed bank lines to meet debt obligations for 30-60 days in the event of business disruption, a report by [India Ratings](#) said.

Besides, a limited focus on a few states also exposes them to higher defaults, it added. An analysis by India Ratings said if [money flow](#) does not fully normalise by end March next year, Tier 1 capital of a few players could come within kissing distance of regulatory minimum levels and this could have a positive fallout.

Banking habits are expected to improve in the long term, as currency flow resumes. This would be a good development for the lenders as well as their borrowers when their credit history improves. A typical borrower under the joint liability or JLG could service Rs 50,000-Rs 60,000 loan in over two years and many borrowers are expected to have touched this leverage limit. Credit bureau reports indicate lenders are often pursuing existing microfinance borrowers to build books and have very few new borrowers as operating cost could rise.

In the first half of FY17, the rural borrower segment's real income growth was almost the same as the rural [consumer price index](#) (CPI), indicating that the rate of ticket size growth of existing borrowers should moderate to contain the impact of borrowers' rising leverage.

Another feature that the ratings firm notes is that lenders are growing their loan books by lending more to few borrowers rather than lending to more people, besides focusing on a limited geography and a few states.

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