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Banks slow lending to smaller MFIs

By [Atmadip Ray](#), ET Bureau | Updated: Dec 02, 2016, 07.15 AM IST

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KOLKATA: It's deja vu for the Rs 60,000-crore [microfinance](#) industry as some major banks are going slow in lending to small and medium-sized microfinance companies or suspending it for the time being as they are ascertaining the downstream market which saw gaps in repayment and slackening disbursements.

This is a throwback to the 2010 liquidity crisis, which was triggered by non-payment of loans by end-borrowers in [Andhra Pradesh](#) prompting banks to stop lending to micro lenders across the spectrum.

There may not be immediate crisis this time, but not receiving bank funding has put MFIs in a fix. Microfinance Institutions Network, the industry organization, has confirmed the matter. "Yes, it's happening. Smaller MFIs, which are comparatively fragile than the bigger ones, are facing difficulty in getting fresh loans from banks," MFIN chief executive Ratna Vishwanathan told ET.

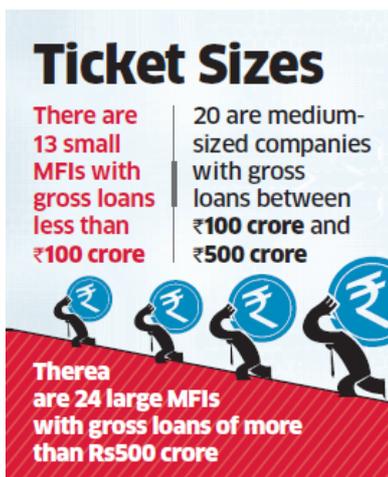
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She, however, said that bigger MFIs with deep pockets and overseas funding and the ability to withstand difficulties did not face such an issue so far.

Market sources said that banks such as [IDBI Bank](#) and [YES Bank](#) are going slow on disbursement as well as fresh sanction of loans. Mails written to both these lenders remain unanswered. Slow disbursement may also arise because of the cash crunch, which has affected the entire economy.

"We have learnt from the 2010 crisis that the moment one chain breaks, the next one also starts breaking," Satin Creditcare Network Chairman HP Singh told ET. "It's important for us to stand together. No one has gone wrong this time... not the MFIs, not the borrowers, but the situation is such that repayment is impacted, especially in pockets where cash availability is an issue," Singh said.

Satin, being a bigger micro lender with Rs 3278 crore of gross loan portfolio at the end of June, said it did not face any problem in bank funding, but Kolkata-based Village Financial Services with Rs 291 crore business, said it did.

According to MFIN, there are 13 small MFIs with gross loans less than Rs 100 crore, 20 are medium-sized companies with gross loans between Rs 100 crore and Rs 500 crore, and 24 large MFIs with gross loans of more than Rs 500 crore.

MFI leaders said that repayment of loans has improved after the fear of bad credit bureau scores. But MFIs are facing major hurdles in loan disbursements as bank branches are rationing cash withdrawal, with smaller MFIs facing the brunt as they are not receiving bank loans either.

In 2010, several MFIs in Andhra Pradesh went bust when banks stopped lending to them.

"Growth is likely to take a pause," said [Credit Suisse](#) in a report on Bharat Financial Inclusion (formerly SKS Microfinance). "The company is constrained by cash (recycling collected cash). Overall disbursements are less than 70% of collected cash, and 30% below 2Q (second quarter) run rate since the announcement," it said.

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