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MFIs see improvement in repayments

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Collections hit a low after demonetisation was announced; vested interests in some States urging borrowers to seek waivers

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Kolkata, December 2:

After the initial slump in collections and disbursements, micro-finance institutions (MFIs) are now looking at a "much improved" scenario, nearly three weeks since demonetisation.

But there seems to be problems in States such as Uttar Pradesh, Madhya Pradesh and Maharashtra. Vested interests here are asking borrowers not to repay and seek waivers, yet again citing demonetisation as a reason.

Improving scenario

Ratna Viswanathan, CEO, Micro Finance Institutions Network, the self-regulatory body of MFIs, pointed out that collections have moved up to 65-70 per cent for the industry as a whole.

That is, for every ₹ 100 that MFIs were supposed to collect, the recovery has been between ₹ 65 and ₹ 70.

Loan recoveries (also called collections) had fallen to around ₹ 30-40 in the second week. It had practically come down to nought for smaller MFIs in the first few days after demonetisation.

"I would say there's been some improvement, but it is far from normal still. Paybacks have started," she told *BusinessLine* .

Collections improve

Echoing her thoughts is Kolkata-headquartered Village Financial Services. VFS was one of the MFIs that was hit hard, especially in recoveries from rural areas.

Kuldip Maity, the MD and CEO of the company, says the situation is improving now. Collections are around ₹ 90 for every ₹ 100 due. This was as low as ₹ 60 in the first few days post-demonetisation.

"There seems to be increased liquidity in the rural sectors. We are receiving new notes as repayment. In another 15-odd days, assuming there are no major shake-ups, we expect the situation to normalise," he pointed out.

For Arohan Financial Services, collections are now above 80 per cent. They had fallen to 20-30 per cent a day after demonetisation was announced.

Ujjivan Financial Services' MD, Samit Ghosh, too says things are in "much better shape now". In November, the MFI's collection was around 90 per cent.

"We aren't back to normal. But from November 14 onwards both collections and disbursals have improved," Ghosh maintained.

Disbursals

As Ghosh points out, disbursals have resumed from November 14. Loan disbursals in November, was 10 per cent lower than in the previous month.

VFS and Bandhan Bank have resumed disbursals.

Manoj Nambiar, MD, Arohan, however, points out to the problem of absence of cash for disbursing small-ticket loans (₹ 25,000 and below).

"There is a limit on cash withdrawals from banks. On an average, we require ₹ 5-10 lakh. So, there are some issues with disbursals of small loan amounts," he pointed out.

Arohan is looking at ways to facilitate direct transfer of such small amounts to beneficiary accounts. But the worry-line for MFIs seems to be Uttar Pradesh, Maharashtra and Madhya Pradesh.

As Ratna Vishwanathan of MFIN points out, "vested interests" are asking borrowers not to repay loans with the promise that these would be waived later.

Ujjivan, for example, which has exposure in western Uttar Pradesh, has decided to go slow on disbursals here. In fact, MFI sources point to Amravati as one of the problem areas in Maharashtra.

The industry body is also said to have met the Chief Ministers of Maharashtra and Madhya Pradesh to arrive at a solution.

“There are vested interests at play here. And it can impact repayment cycles here. We have sought help from state governments,” Vishwanathan said.

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