Demonetisation effect: Microfinance NPAs remain elevated in many states

Another cause can be traced to the loan waivers announced by these state governments

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Almost 18 months after demonetisation was announced, the microfinance sector continues to suffer, as a substantial portion of its loan portfolio in some states remains at risk. At national level, the portfolio at risk (PAR) — value of loans in arrears — for delinquencies of more than 30 days (PAR>30) was almost 6 per cent at the end of December 2017, up from 0.3 per cent at the end of September 2016. It had soared to 14.1 per cent at the end of March 2017.

In Maharashtra, Uttar Pradesh (UP), Haryana, Madhya Pradesh (MP), Punjab and Rajasthan, PAR remains well above the national average. Most of these states have witnessed widespread farm distress, with their governments announcing farm loan waivers.

The data is based on reports published by the Micro Finance Institutions Network, a self-regulatory organisation, which collects nationwide data on the sector.

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Entities in the segment and experts told *Business Standard* that even 6 per cent is a high and worrisome level. “The numbers reflect the continued stress post-demonetisation, as people affected during the exercise have not been able to fully resume their trade and business activities. So, they are unable to pay back,” said Praseeda Kunam, chief executive officer (CEO) of Samhita Microfinance, which serves at least 100,000 borrowers. “Much of these loans aren’t coming back and companies are readying plans to write these off gradually in the next four quarters, on the back of higher provisioning.” States that continue to see the highest PAR are the same ones where stress was highest during the demonetisation period.

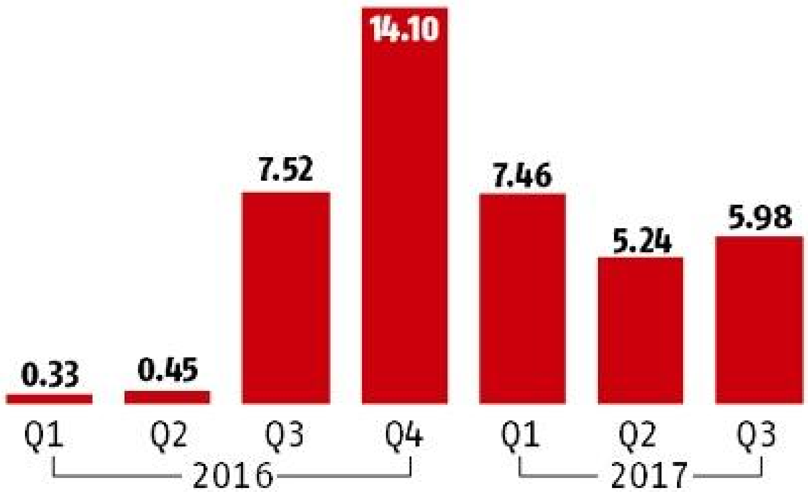
- The problem of indebtedness is compounded in times of rural distress
- Agricultural growth had slowed to 2.7 per cent in the first half of 2017-18
- Uttar Pradesh,Haryana, Madhya Pradesh , Punjab and Rajasthan have witnessed widespread farm distress, with their governments announcing farm loan waivers

For instance, PAR in UP had soared from 28.7 per cent at the end of the December quarter of FY17 — the period when demonetisation was announced — to 37 per cent at the end of the next quarter. It remained elevated at 14.1 per cent at the end of December 2017.

In Maharashtra, PAR rose to 28 per cent at end-March 2017. It has since dipped to 14.1 per cent at the end of December 2017. A similar trend was observed in MP, Punjab and Rajasthan, having a PAR of 8.7 per cent, 7.2 per cent and 5.7 per cent, respectively, at end-December 2017. Put together, the gross lending portfolio of these six states is Rs 153 billion, of which roughly 11.5 per cent or Rs 17.7 billion is at immediate risk. Part of the problem can be traced to the inability to service multiple loans in times of stress. “The same people are availing numerous loans from different entities. Though the government and regulators claim they are working on solving the problem, the situation hasn’t changed much

NOTE BAN EFFECT

At national level, the portfolio at risk (PAR>30)* was almost 6% at the end of December 2017 (%)



PORTFOLIO AT RISK IN MAJOR STATES* (%)

	2016		2017			
States	Sep	Dec	Mar	Jun	Sep	Dec
Maharashtra	0.3	9.1	28.0	15.5	17.4	14.1
Uttar Pradesh	0.4	28.7	37.0	23.7	17.7	14.1
Haryana	0.5	14.0	22.0	15.4	15.8	13.8
Madhya Pradesh	0.4	7.2	17.0	12.8	11.5	8.7
Punjab	0.2	8.1	16.0	18.8	9.3	7.2

*For delinquencies of more than 30 days

Data: MFIN

because there are a lot of workarounds, and for-profit entities exploit loopholes to beef their loan books," said the CEO of a microfinance firm. Companies are exploiting loopholes in regulations to provide multiple loans to the same person, in violation of Reserve Bank of India regulations and self-regulatory organisation rules, said an expert.

Non-banking finance companies in the space are formally not allowed to lend more than Rs 100,000 to the same borrower. However, entities such as banking correspondents (BCs) lend multiple times to the same person, the expert added, facilitated by the fact that regulation doesn't count BC loans in the micro finance loan limit. The problem of indebtedness is compounded in times of rural distress. Agricultural growth had slowed to 2.7 per cent in the first half of FY18. "It's only the old demonetisation period loans which are displaying weakness; new loans show strong recoveries," says Bhaskar Babu, CEO and co-founder, Suryoday Small Finance Bank, earlier a microfinance institution. "The new portfolio is showing decent repayment, back to normal levels of less than one per cent delinquency; the older portfolio needs to be written off."

For Suryoday, the pre-provisioning default rate is 7 per cent but the firm is provisioning for up to Rs 500-million. The post-provisioning number would rest at about 2 per cent in a year.

Another cause can be traced to the loan waivers announced by these state governments. "There is trouble in some areas in MP and UP, where farm loan waivers were announced and rumours spread by local leaders about not repaying the microfinance loans. People believed these and continue to default on payments, hoping their loans will be waived," said Samhita Microfinance's Kunam.