Small MFIs turn vulnerable to default, seek relief package

BY ATMADIP RAY, ET BUREAU | UPDATED: APR 28, 2020, 11.17 PM IST

KOLKATA: Banks and non-bank lenders are staring at around Rs 3000 crore of default by smaller microfinance firms, which are fighting to stay afloat without the access to the liquidity support provided by Reserve Bank of India and its intermediaries.

In a desperate cry to the finance minister, a group of about 100 small microfinance firms with less than Rs 200 crore loan portfolio each has sought conversion of their outstanding bank loans into equities as their fund dried up.

Every microfinance lender including the bigger ones is facing the stress since business stalled during lockdown while the smaller ones are always more vulnerable.

They have also sought fresh loans from banks to keep operation running with them face immediate risk of non-payment of salaries, property rents and bank dues. These firms, which are at the bottom of the pyramid of the country's microfinance universe, cater to 25 lakh micro borrowers and while employ about 12400 people, according to information collated by Sa-dhan, the largest sectoral group.

Sa-Dhan executive director P Satish said that some its members have already failed to honour payments to lenders. "More defaults cannot be ruled out in the absence of liquidity support. MFIs will face difficulty in recovering their loans even after lockdown due to stoppage of businesses and due to erosion of savings of end-borrowers," he said.

Their loan outstanding was Rs 5,332 crore at the end of January with outstanding borrowing at Rs 3355 crore. The outstanding borrowing by all MFIs put together is in excess of Rs 50000 crore.

In a joint letter to finance minister Nirmala Sitharaman, the group of small MFIs said that their margins are getting eroded affecting their borrowing ability.

“All our lenders including banks and financial institutions may be advised to convert their outstanding loans into equity with five years of lock-in and additionally to provide loans for further lending,” they said in the letter dated April 27. “Alternatively, these could also be converted to long term loans of 5-7 years with reduced interest rates. Lending institutions may further be advised to de-invoke all the personal guarantees of promotors as it will be impossible for us to honour as these personal guarantees are disproportionate to the assets of promotors."

“MFIs deserve a lot of support now. And that should happen quickly. Otherwise the whole model will fall beyond redemption,” a senior executive with a state-run bank said.

But banks are split in their decision to extend moratorium benefit to institutional borrowers like MFIs with several top ones including State Bank of India denying it, going against Reserve Bank of India’s advisory. RBI, while created an enabling provision to allow moratorium to every borrower in stress, left the final decision to banks’ board.

“The bigger issue is that if the lockdown gets extended till May-end or MFIs are not able to meet borrowers for collections and disbursements, how many MFIs will have the cash to meet their operational expenses and for how many months. If they run out of cash, then they may not be able to survive,” chief executive of a microfinance firm said.

RBI’s liquidity support has so far been restricted to firms with higher credit ratings while most smaller MFIs are either fall below investment grade or have never sought credit ratings. Sa-Dhan said that less than 30 of their 212 members would be eligible for financing support from intermediaries such as Small Industries Development Bank of India and National Bank for Agriculture & Rural Development. RBI has lined up a facility of Rs 50000 crore for Sidbi, Nabard and National Housing Bank so that they can refinance lenders.