

Bihar, UP, Karnataka Leading Growth Of Microfinance Industry: Report

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Microfinance industry

Bihar

UP

Karnataka

Microfin

Banking

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States like Bihar, Uttar Pradesh and Karnataka are emerging as leaders of growth in the microfinance industry. According to a report by HDFC Securities, the microfinance industry in India has been expanding at an impressive pace. The report emphasised that the microfinance institution (MFI) sector is growing faster than the overall industry growth rate in states like Bihar, Tamil Nadu, UP and Karnataka, highlighting an intensified concentration of microfinance activity in certain regions.

It said "While the overall MFI penetration is healthy, select Top states such as Bihar (approximately 80 per cent), Tamil Nadu (approximately 53 per cent) and Karnataka (approximately 57 per cent) have high MFI penetration levels. This suggests plausible growth saturation in these markets, with other states likely to contribute higher to overall growth.

Bihar, Uttar Pradesh, and Karnataka have outpaced the industry's average growth rate, contributing substantially to the industry's expansion. However, this rapid growth brings with it potential challenges. The MFI penetration rate, or the percentage of potential borrowers being served by microfinance institutions, remains robust at a national level. Nevertheless, states like Bihar (around 80 per cent), Tamil Nadu (around 53 per cent), and Karnataka (approximately 57 per cent) exhibit especially high penetration rates.

These figures suggest that these states might be nearing a saturation point in terms of microfinance reach, which could limit future growth potential. This may encourage further growth contributions from less penetrated states as the industry looks for expansion opportunities. Non-banking financial company microfinance institutions (NBFC-MFIs) have made notable gains post-pandemic, increasing their market share from 31 per cent in March 2021 to 40 per cent by June 2024. This gain reflects the significant growth efforts by NBFC-MFIs in recent years, as they play a larger role in catering to underserved areas.

The Indian microfinance industry, valued at Rs 4.2 trillion, has shown robust growth, with a compound annual growth rate (CAGR) of 20 per cent from FY21 to FY24. This growth has been fuelled by an increase in both borrower numbers, which grew at a 13 per cent CAGR, and average exposure per borrower, which rose by 6 per cent CAGR.

As of now, Pan-India micro-credit penetration stands at over 40 per cent, a reduction from 80 per cent in FY12. One area of concern noted in the report is the issue of borrower over-leverage in certain high-growth regions, attributed partly to practices circumventing the Reserve Bank of India's harmonisation guidelines.

The report's findings suggest that while the microfinance industry continues to grow, the need for caution in managing borrower exposure and potential over-leverage is essential to ensure sustainable growth across diverse geographies. (ANI)