Home

Latest

Elections

Multimedia

Mor

**Politics** 

Home / Markets / News / Fusion Micro, Spandana: Rally in MFI stocks has more legs, say analysts

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## Fusion Micro, Spandana: Rally in MFI stocks has more legs, say analysts

Opinion

Analysts expect the sector to see strong loan growth in FY24 and FY25 driven by increase in ticket sizes, strong customer acquisitions, and regulatory tailwinds

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Microfinance

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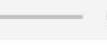




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cent on the bourses, outperforming the benchmark S&P BSE Sensex by a wide margin. The rally, triggered by robust loan growth post the Covid-19-induced demand slowdown, market share gains, and improved net interest margins and asset quality, is here to stay as

During the past six months, shares of microfinance institutions (MFIs) have surged up to 45 per

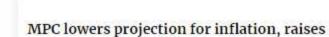
earnings growth momentum will likely continue, analysts said. "We expect the re-rating for MFI players to continue as they stay on a strong growth path along

with materially lower credit costs which, in turn, should drive faster return expansion. Despite the recent outperformance, valuations remain favourable," said Sameer Bhise of JM Financial, in a co-authored note with Akshay Jain and Apurva Deshmukh. From a tepid loan growth of 11 per cent CAGR during FY20-22, industry wide microfinance loan portfolio grew 22 per cent year-on-year in FY23 to Rs 3.48 trillion, a report by MFIN India, the

microfinance industry association, said. Microfinance loan disbursals improved by 23 per cent to Rs 2.96 trillion last fiscal compared to Rs 2.39 trillion in FY22.

nine months of FY23 (9MFY23). The market share of banks, involved in microfinancing, meanwhile, fell by 430bps to 36 per cent during the period.

This helped MFIs expand their market share to 38.2 per cent, up 331 basis points during the first



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At the bourses, shares of Suryoday Small Finance Bank, Satin Creditcare Network, Ujjivan Small

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the bourses, while the S&P BSE Bankex index slipped 0.2 per cent. "The real game changer has been the new regulatory changes, proposed by the Reserve Bank of India in April last year. There has been a removal of margin caps, and the household income to get qualified for micro-finance loan has been increased to Rs 3 lakh per annum. The former change would aid in profitability whereas the latter would help expand the top line," said Veer Trivedi, research analyst at SAMCO Securities.

Finance Bank, CreditAccess Grameen, Fusion Micro Finance, Five Star Business Finance, and

Spandana Sphoorty have jumped between 7per cent and 45.3 per cent over the past six months,

data by ACE Equity shows. By comparison, the 30-pack Sensex index has added 2.2 per cent on

## growth rate at 20-25 per cent CAGR over the next 12-18 months.

shows.

benefit.

(TP: Rs 48).

The road ahead

"The removal of the lending rate cap by the RBI has enabled MFIs to engage in risk-based pricing, which has boosted net interest margins (NIMs) and, in turn, increased returns on total assets (RoTA). Credit costs have declined from their peak in fiscal year 2021 but remain higher

than pre-Covid levels. We expect NIMs to continue improving, resulting in RoTA rising to

approximately 3.25 per cent for FY24, aided by controlled credit costs of approximately 2.5 per

Analysts expect the sector to see strong loan growth in FY24 and FY25 driven by increase in

ticket sizes, strong customer acquisitions, and regulatory tailwinds. CareEdge Ratings pegs this

cent," it said in a report. Meanwhile, industry-wide stressed assets, which includes gross non-performing assets and the restructured assets, fell to 3 per cent on average as of March 2023 from 6 per cent in December 2022, and 13 per cent in September 2021. Net profit for FY23 jumped between 69 per cent and 1,680 per cent YoY across listed players, data

Net profit for FY23 jumped between 69 per cent and 1,680 per cent YoY across listed players, data Investment strategy

Against this backdrop, Veer Trivedi of SAMCO Securities believes quality MFIs will continue to

"Don't buy solely on macro upcycle as there could be regional risk as well. Thus, an MFI with a well spread geographic presence is important. Investors who feel they have missed the bus need not feel disappointed as the momentum is expected to continue," he added.

Anand Rathi Shares and Stock Brokers, which recently initiated coverage on the sector, has a 'Hold' rating on Credit Access Grameen with a target price of Rs 1,421; and 'Buy' on Fusion Microfinance (TP: Rs 684) and Spandana Sphoorty (TP: Rs 847).

JM Financial, meanwhile, has 'Buy' on Creditaccess Grameen (TP: Rs 1,450), and Ujjivan SFB

