



Microfinance Index of Market Outreach and Saturation

Maharashtra

Supplement to India Feb 2018

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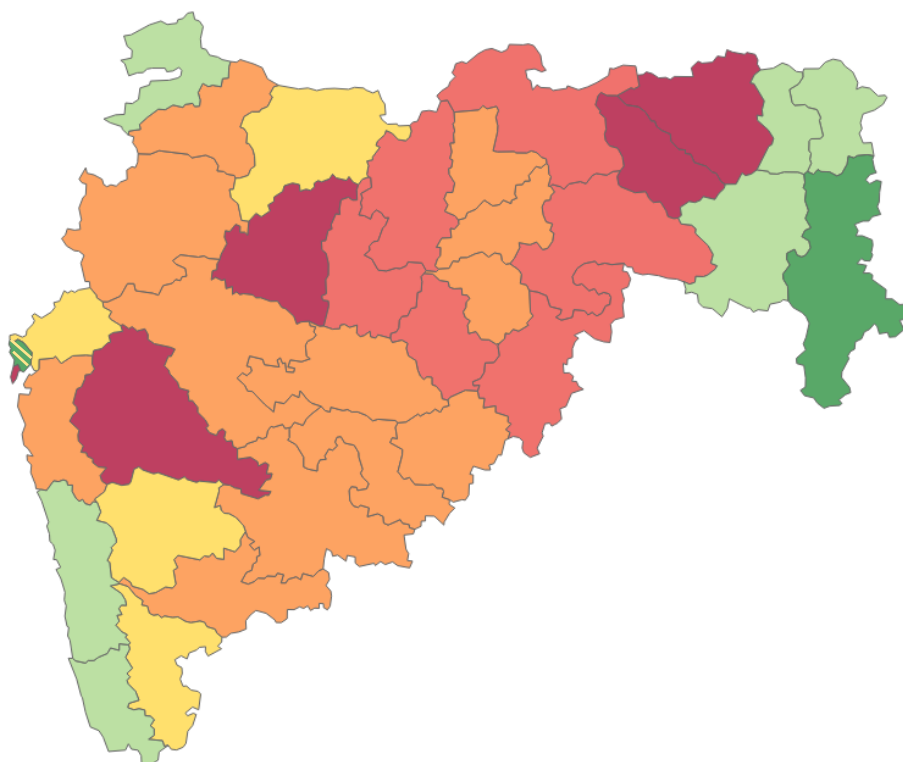
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Summary. Within the scope of this MIMOSA study, Maharashtra is a state of averages – average penetration, average multiple borrowing, mixed indicators on competition together implying average levels. But when it comes to measures of overindebtedness and certainly delinquency, the state stands out – and not in a good way, with higher number of borrowers than elsewhere reporting repayment struggles and delaying their repayments. Finally, collections practices don't yield major concerns. On the whole, it's a state struggling with a period of high delinquency, some of which may be due to political interference (announcement of loan waivers), some may be due to overindebtedness, and some due to other factors. However, none of the indicators considered below imply any major structural issues with the microfinance sector in the state.

Penetration. Despite the moderate saturation level and a MIMOSA score of 4 overall, Maharashtra features substantial disparity in penetration levels across the state. The northeast districts of Wardha and Nagpur, along with Pune and Aurangabad are all heavily saturated, while more remote districts, particularly along the eastern border with Chhattisgarh, are underserved. Much of the rest of the state is moderately saturated.

An important caveat are the figures for Mumbai district (46% penetration, score 6) and Mumbai suburban (12% penetration, score 1) may not be reliable – it's likely that a significant portion of the borrowers in Mumbai district may have borrowed from branches there, but actually reside in Mumbai suburban, thus causing the former to appear deeply saturated while the latter looks underserved. This is a pattern we have seen in other markets, with small adjoining districts "sharing" borrowers across the district lines. While we have kept the score for Mumbai district at 6, we adjusted Mumbai-suburban to the same neutral score of 3 as neighboring Thane.



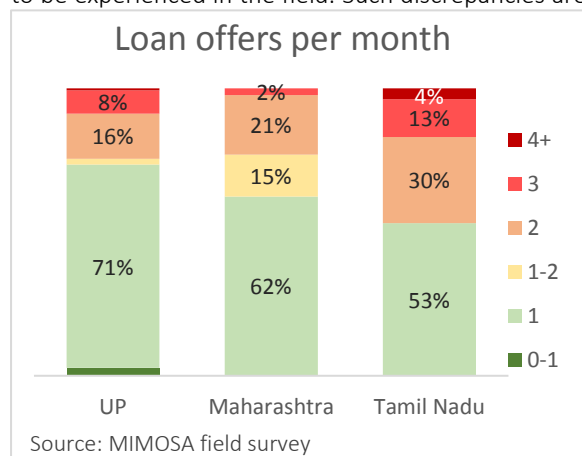
Multiple borrowing in Maharashtra is moderate, with 3.5% of borrowers holding 3+ loans, roughly in line with the average for the country overall (3.3%). This level is also consistent with the overall level of penetration. While there are some discrepancies in some districts, most of the deviations are normal and don't give rise to the types of concerns seen in Uttar Pradesh. The two possible exceptions to this are the two neighboring southwestern districts of Kolhapur and Sangli, both with penetration rates of 17% (Mimosa scores of 3 and 4, respectively), but whose multiple borrowing levels are about 50% higher than expected based on our model. As with Uttar Pradesh, it is

possible that one or more aggressive lenders operating in the area or other local factors could lead to this type of pattern, though in the case of Maharashtra, it appears to be limited to just these two districts that account for about 6% of the state's population.

Apart from this, multiple borrowing levels in the remaining districts are unexceptional. By way of comparison, after Kolhapur and Sangli, the next highest level of multiple borrowing in the state is in the Nagpur district, among the most saturated in the state. Its share of borrowers with 3+ loans stands at 5% – less than the entire state-level average for Tamil Nadu.

Within the microfinance segment, judging from the field survey, multiple borrowing in Maharashtra remains modest, and well below that of Uttar Pradesh (see UP report for details).¹

Competition. The Herfindahl–Hirschman Index (HHI) of 718 for MFIs active in Maharashtra makes it the most competitive market among the large states in India. It is also the most competitive score recorded by the MIMOSA project to-date. However, it bears noting again that even within the state boundaries, MFIs appear to have strong regional focus, so that even if market shares at the state level imply very high competition, that's not how it seems to be experienced in the field. Such discrepancies are to be expected over large areas, and Maharashtra after all counts over 120 million residents.



The point is supported by the field survey, where the top three most commonly mentioned institutions from which clients had borrowed accounted for 67% of the total – well above both Uttar Pradesh and Tamil Nadu. Similarly, only 2% of respondents reported receiving 3 or more loan offers on a typical month – significantly lower than the other states. On the other hand, the state or one of its cities (Mumbai and Amravati) were mentioned being among top 3 most competitive hotspots by 50% of respondents to the MFI survey, making it the 2nd most cited state after Tamil Nadu.

Finally, despite being India's financial center, Maharashtra's banks and non-MFI NBFCs don't appear to be making large inroads into the microfinance sector, having been cited as lenders in only 7% of cases during the field survey.

In all, despite the mixed findings from different sources, we do not see competition as an exceptionally high risk in Maharashtra.

¹ The field survey in Maharashtra was conducted in March 2017 in the districts of Pune, Nagpur and Wardha.

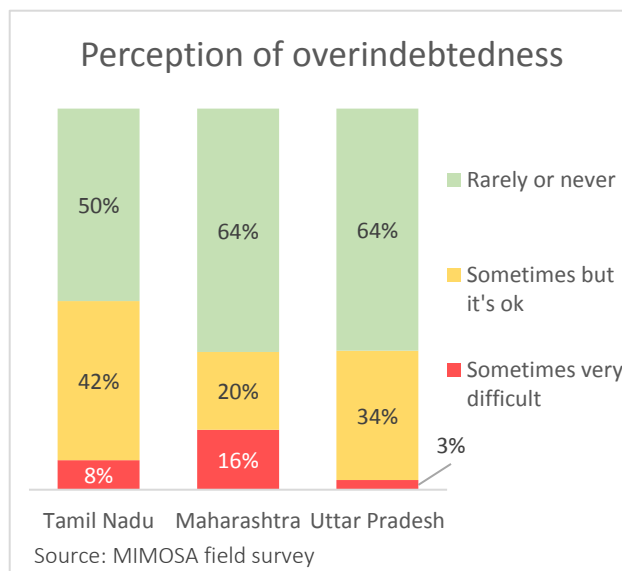
Overindebtedness levels in Maharashtra present an interesting contrast to Uttar Pradesh and Tamil Nadu. When asked how often they have trouble with making a loan payment, 64% of those polled stated that such situations happened only rarely or never. But among those who reported repayment stress at least sometimes, almost as many chose the most difficult statement “sometimes it’s very difficult,” rather than the more gentle version “sometimes, but it’s manageable.” This stands in sharp contrast to the other states. Moreover, this isn’t likely to just be an artifact of small samples – a total of 39 respondents chose one of those two answers. Serious repayment issues seem to be more common in Maharashtra than in Uttar Pradesh and certainly more so than in Tamil Nadu.

Given that Maharashtra has been leading the sector in levels of long-term delinquency (14.8% PAR 90 as of Sep 2017)² following demonetization, seeing this feedback on the ground is unsurprising. Indeed, among those respondents who had experienced repayment stress, 73% stated that their usual response was to delay the payment – in stark contrast to Tamil Nadu and Uttar Pradesh, where clients tended to turn to their JLG groups or friends and family for help. Determining causality between these figures is complicated and probably impossible. Is a larger number of clients delaying payments because they’re overindebted or has the new environment made delaying payments acceptable, thus leading clients to report greater stress as an explanation for not paying? It’s likely that both reasons are in play.

One notable factor with non-payments was a significant number of clients (4.5%) stating that they stopped paying their loans because multiple other group members were not repaying their loans. This type of reverse group dynamics was only cited in Maharashtra. One can only assume that situation has been further aggravated by the announcement of loan waivers in October 2017, after we conducted our survey.

Of course establishing that clients are not repaying isn’t an especially satisfying explanation. MFIs can readily see this in their portfolios. The more relevant question is why are they not paying? No doubt the loan waiver has something to do with this. But there may also be other factors that make clients in Maharashtra more fragile. The state has one of the highest levels of migrants from other parts in India, and it’s possible that when faced with cashflow problems, they’re less able to turn to the network of friends and family that they would have back home.

Collections practices. The field survey in Maharashtra did not yield stories of high concern, as in Uttar Pradesh. Nevertheless 5% of clients did complain about loan officers using abusive language and threatening to call police as part of their collections tactics.



² MFIN Micrometer #23, September 2017

Column no:	1	2	3	4	5	6	7	8
Region	Population (000s)	HDI	Population density (per km2)	MIMOSA Score	Borrowing capacity (%)	Borrowers per adult (%)	Penetration over capacity	Borrowers with 3+ loans (%)
Maharashtra	122,891	0.682	399	4	13.3	19.5	6.2	3.5
Thane District	12,089	0.726	>1200	3	19.2	20.8	1.6	4.0
Pune	10,309	0.738	660	6	16.0	28.2	12.2	4.7
Mumbai Suburban	10,206	0.763	>1200	1	19.9	12.3	-7.6	3.1
Nashik District	6,681	0.677	430	4	13.4	17.7	4.3	4.3
Nagpur	5,089	0.713	514	6	14.6	27.2	12.6	5.0
Ahmadnagar	4,968	0.653	291	4	12.0	16.5	4.4	4.1
Solapur	4,719	0.660	317	4	12.3	19.2	6.9	3.6
Jalgaon District	4,620	0.656	393	3	12.7	15.5	2.8	4.2
Kolhapur	4,237	0.698	551	3	14.5	17.5	3.0	6.2
Aurangabad District	4,042	0.659	399	6	12.8	26.9	14.0	2.9
Nanded District	3,671	0.596	349	5	11.3	20.6	9.3	1.2
Mumbai District	3,440	0.763	>1200	6	19.9	46.0	26.1	3.0
Satara District	3,285	0.673	314	3	12.5	14.0	1.4	3.2
Amravati District	3,158	0.636	259	5	11.5	22.1	10.6	4.6
Sangli	3,085	0.673	360	4	12.8	16.8	3.9	5.2
Yavatmal District	3,035	0.635	223	5	11.2	21.5	10.3	3.7
Raigarh	2,882	0.688	403	4	13.4	17.7	4.3	3.1
Buldana District	2,830	0.620	293	5	11.4	19.3	7.9	1.2
Bid District	2,828	0.615	265	4	11.1	17.3	6.2	0.8
Latur District	2,685	0.601	375	4	11.6	15.8	4.2	2.7
Chandrapur District	2,400	0.651	210	2	11.5	10.1	-1.3	1.6
Dhule District	2,241	0.609	312	4	11.3	15.8	4.5	2.5
Jalna District	2,142	0.601	279	5	11.0	21.0	10.0	0.9
Parbhani District	2,008	0.620	323	5	11.6	22.1	10.5	0.7
Akola District	1,989	0.655	351	4	12.4	18.6	6.2	2.9
Osmanabad District	1,816	0.589	240	4	10.5	15.9	5.5	2.4
Nandurbar District	1,800	0.548	302	2	10.1	7.7	-2.4	1.2
Ratnagiri District	1,764	0.664	214	2	11.7	9.1	-2.6	1.6
Gondiya District	1,446	0.636	277	2	11.6	10.2	-1.5	1.9
Wardha District	1,417	0.656	224	6	11.6	29.9	18.3	4.5
Bhandara District	1,311	0.651	321	2	12.2	11.7	-0.4	3.4
Washim District	1,309	0.586	267	4	10.6	16.1	5.5	2.3
Hingoli District	1,289	0.588	267	4	10.6	17.3	6.7	0.8
Gadchiroli District	1,172	0.551	81	1	8.8	4.3	-4.5	0.4
Sindhudurg	928	0.683	178	2	11.9	9.9	-2.0	1.7

Source: 1) India 2011 Census, UNDP; 2) India Planning Commission; UNDP; Maharashtra Human Development Report 2012; 3) Ministry of Statistics and Programme Implementation; 4-5, 7) MIMOSA; 6, 8) CRIF High Mark