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## **Venture funds upbeat on MFIs**

*Shilpy Sinha*

MUMBAI: Sector seeks capital to meet 15 per cent capital adequacy from April 2011.

Lured by its 100 per cent growth and the fact that it seems immune from adverse global developments, private equity companies and venture capitalists are upbeat on investment in micro finance institutions (MFIs).

According to Reserve Bank of India guidelines, MFIs will have to maintain a 15 per cent capital adequacy ratio from April 2011. At present, the requirement is 10 per cent, which they have to increase to 12 per cent from April 2010.

“Many professionals have identified the MFI business as good potential towards entrepreneurship. They also need capital on a continuous basis, as micro finance is a capital-intensive business, since as you keep growing you need capital to maintain CAR, Capital infusion also becomes essential since MFIs are at a growth stage,” said Y V Shivnarain Vice President, Spandana Sphoorty Financial.

He added that MFIs would need another Rs 15,000 to Rs 25,000 crore over the next five years. PE companies have invested Rs 2,500 crore in MFIs since 2006. Other than meeting the mandatory capital norms, MFIs need capital to invest in branch networks, human resources and technology.

SKS Microfinance is likely to come up with an initial public offer this year. “SKS has seen equity investments from development funds like Sidbi, angel investors like Vinod Khosla, VC funds like Sequoia and even financial institutions like Bajaj Allianz. We raise debt from nearly 40 banks and financial instruments like NCDs, commercial papers, etc. Microfinance is a capital-intensive business and MFIs are keen on scaling up. The capital adequacy ratio is also a key reason,” said Suresh Gurumani, CEO and Managing Director of SKS.

PE companies say the sector is immune to developments in the global economy, with 25 per cent returns over a three to five-year period. Also, the sector is growing at 100 per cent yearly. Experts say there are very few opportunities at this growth pace, with such low delinquency on loans.

## Top investments in microfinance (\$ mn)

Company	Investors	Amount
SKS Microfinance	SVB, Sandstone Capital, Others	75
Share Microfin	IFC, Others	50
Spandana	Temasek	50
Share Microfin	Aavishkaar Goodwell, Legatum	27
Spandana	Valiant Capital	22
Ujjivan Financial Services	Sequoia Capital India, Unitus, Bellwether, Lok Capital, India Financial Inclusion Fund, Others	21
MAS Financial Services	ICICI Venture, FMO	20

*Source: Venture Intelligence*

“Investment is driven by opportunity. This is a relatively new industry and promises high growth. MFIs are rapidly increasing their reach and top line. There is a rush to fund this segment, as there is a good amount of money to be made,” said Rajesh Singhal, managing partner at Milestone Religare Investment Advisors.

Besides PE funds such as Sequoia, Temasek, JM Financial and ICICI Venture that actively fund the sector, there are individual investors such as Vinod Khosla. There are also dedicated microfinance funds such as Lok Capital, Bellwether and Aavishkaar Goodwell.

According to Venture Intelligence, a research company which specialises in PE and merger and acquisition deals, total PE investments in MFIs in 2009 was \$160 million (Rs 800 crore). The number of deals rose from 13 in 2008 to 16 in 2009.

Also, last year, MFIs raised Rs 400 crore through non-convertible debentures, while over Rs 500 crore came in from securitisation of loans by banks.