

Evolution of the Indian Microfinance Sector

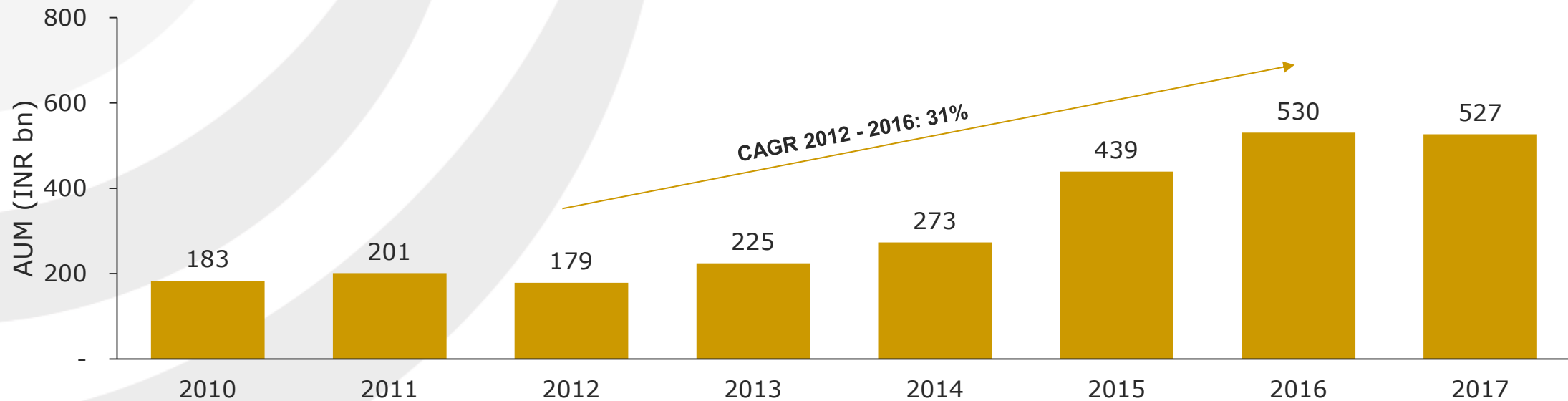
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Microfinance History in Brief

- Microfinance has existed for ~25 years in India
- Government sponsored “bank-linkage” programme and NGO-MFIs inspired by the Grameen model provided the initial impetus
- Commercialisation started 10 years later, when private sector banks started lending to MFIs, on the back of “priority sector” classification by the Reserve Bank of India (RBI) and collaboration with DFIs and foundations
- Equity funds followed around the same time, in mid-2000s: Caspian was set up in 2004 – first investment from Bellwether Microfinance Fund in 2005
- 5 years later, by 2010, we had seen major highs (unprecedented equity and debt inflows, an IPO) and a major low (Andhra

Microfinance: Last Seven Years

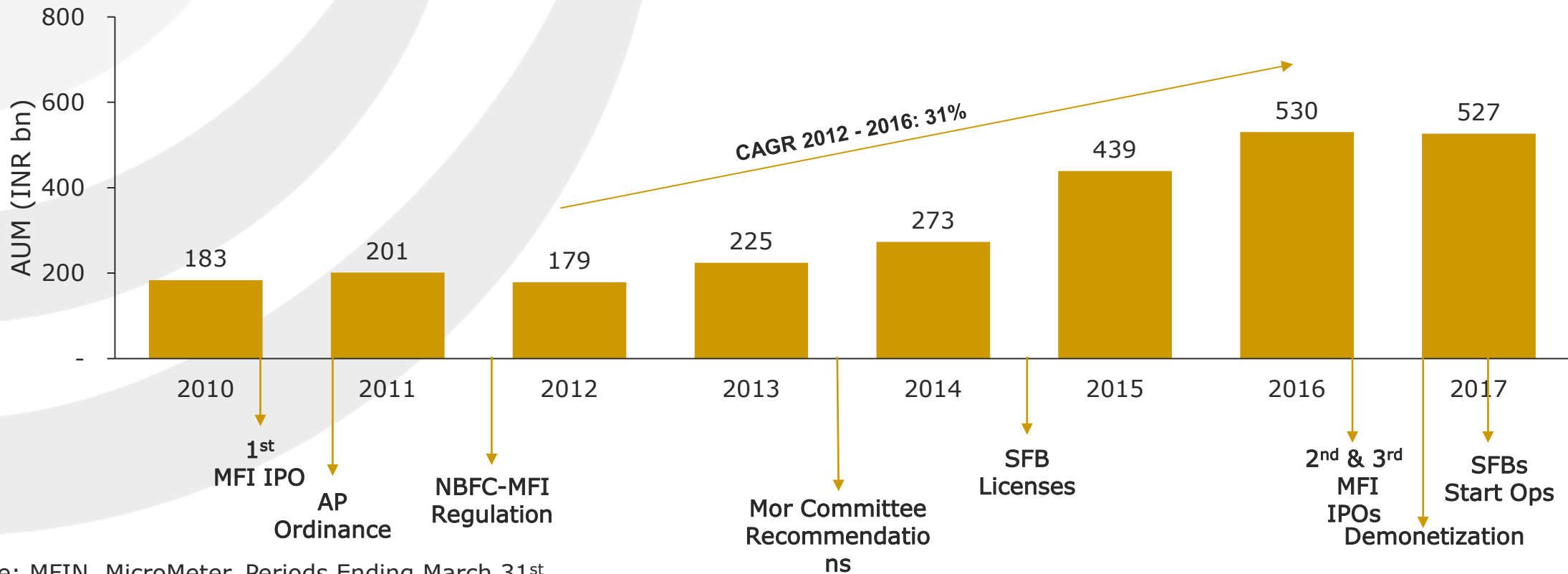


Source: MFIN, MicroMeter, Periods Ending March 31st

AUM is Loan Portfolio Outstanding on MFI books

Note: €1 = INR 75.3 as on November 9th 2017

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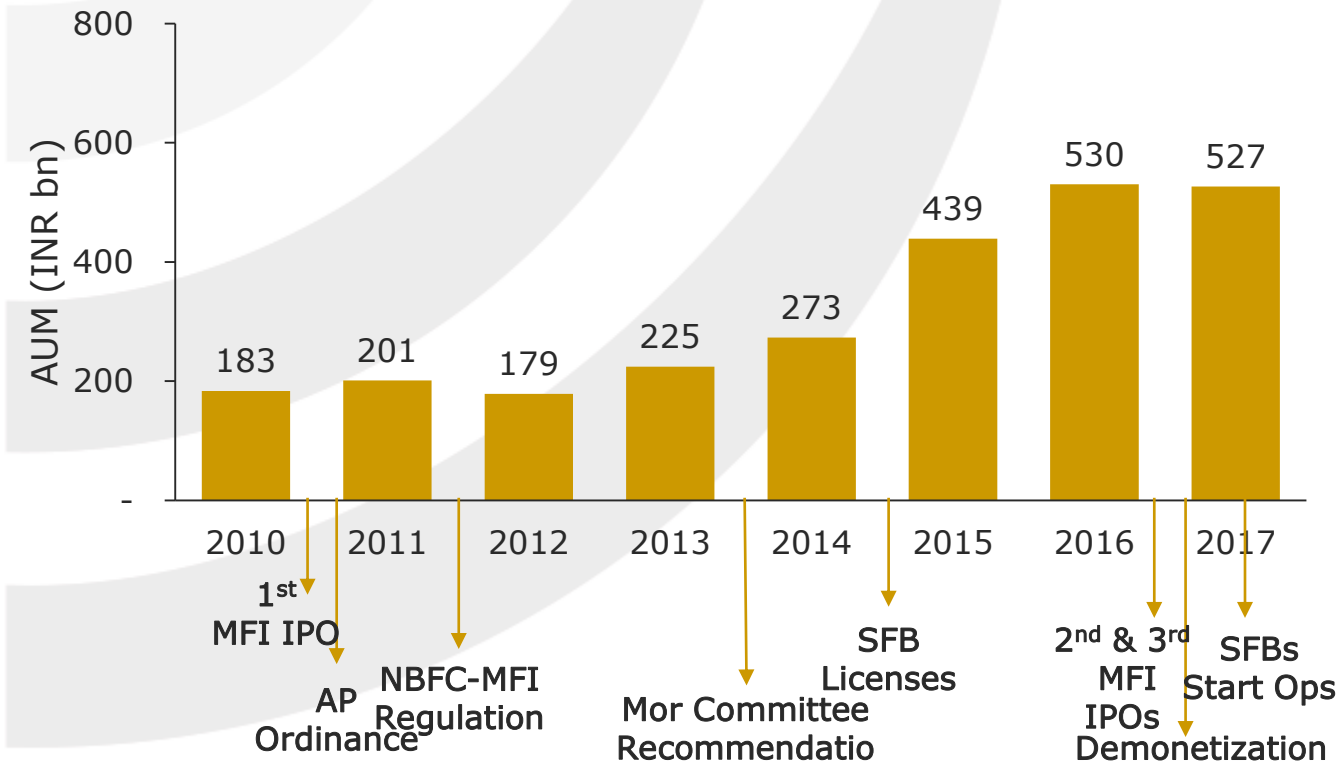
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Macro Events Shaping Microfinance in Recent Years

Key Developments

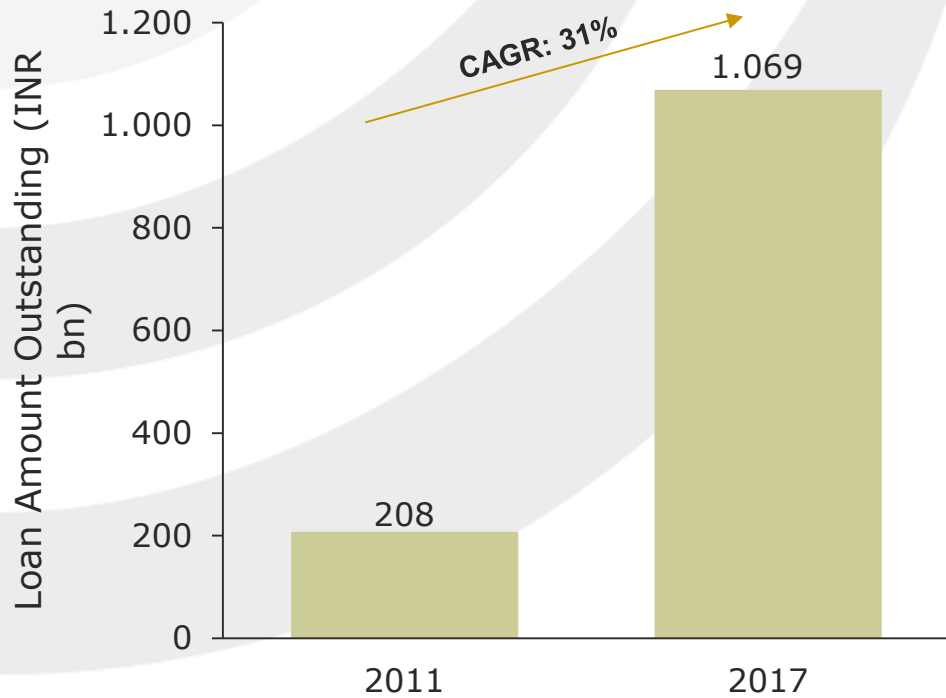
- **Aug 2010:** First Indian MFI IPO
- **Oct 2010:** AP Ordinance curbing MFI activities in the state; impact felt pan country
- **Dec 2011:** RBI creates a special category for microfinance– NBFC-MFI
- **Jan 2014:** Nachiket Mor Committee recommends creation of differentiated banks to promote financial inclusion
- **Sep 2015:** 10 Small Finance Bank (SFB) licensees announced
- **Apr/May 2016:** Listing of 2 MFIs transitioning to SFB
- **Nov 2016:** Demonetization
- **FY 2016-17:** 9 SFBs start operations



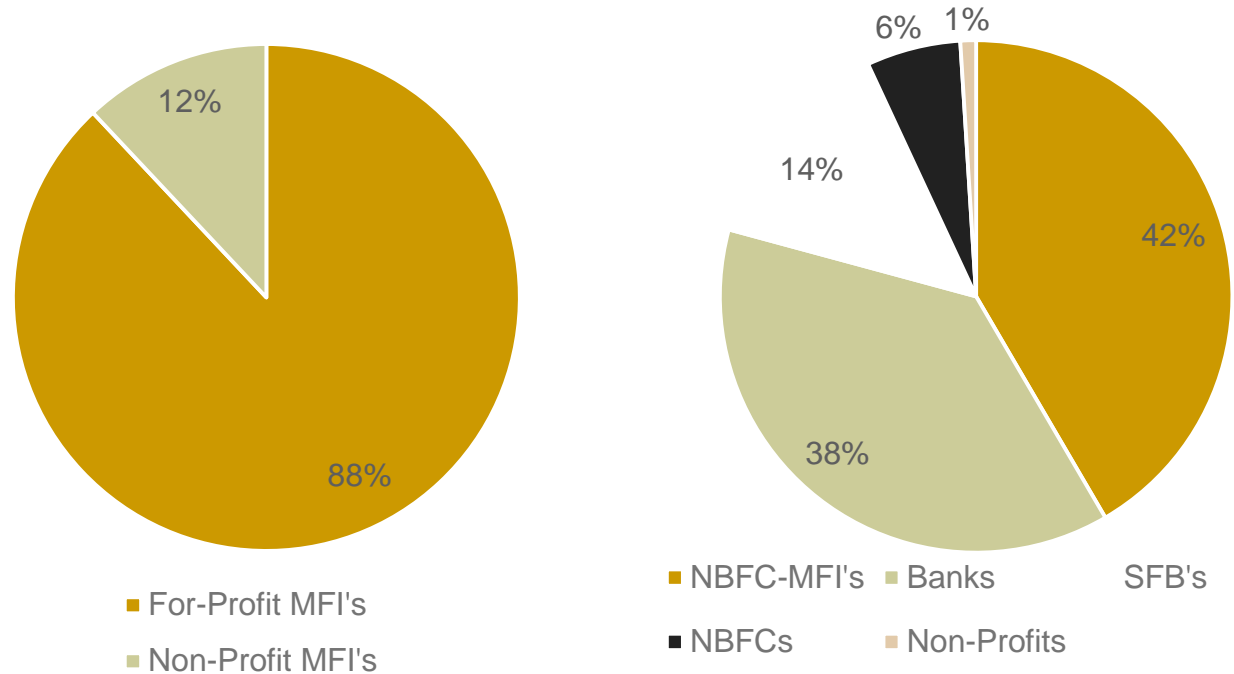
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Diversity in Providers of Microfinance Over Time

Growth of Portfolio Outstanding



2011 → 2017



Source: Bharat Microfinance Report, 2011; MFIN MicroMeter, March 2017
 Note: €1 = INR 75.3 as on November 9th 2017

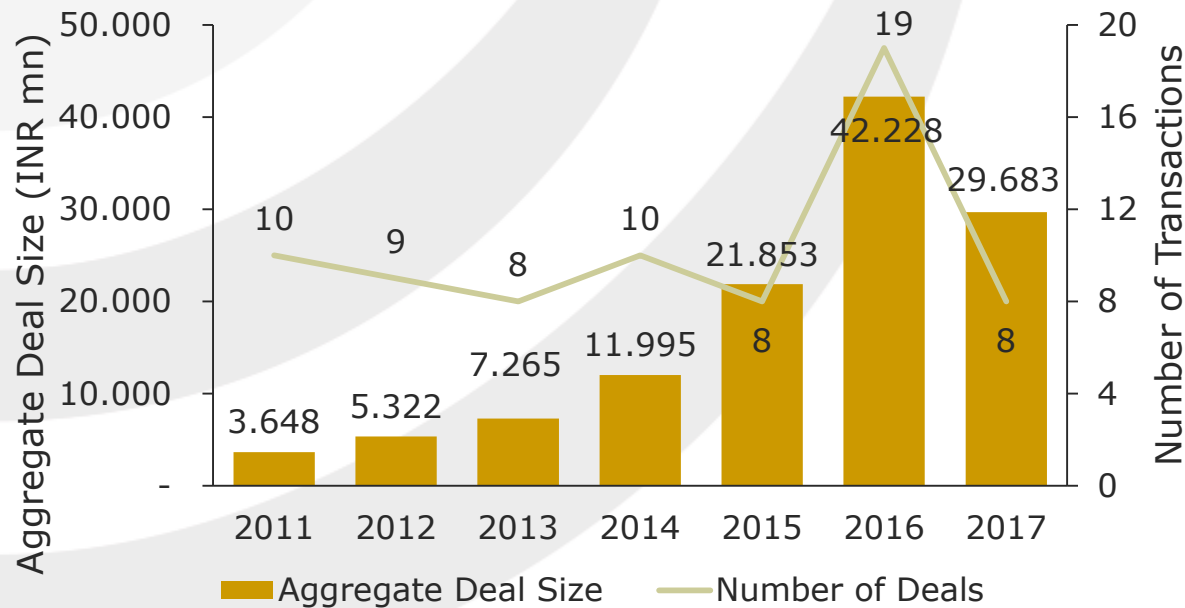
Looking Back 2010 to 2017:

Political Risk > Regulatory Support > Stability > Growth > Exits

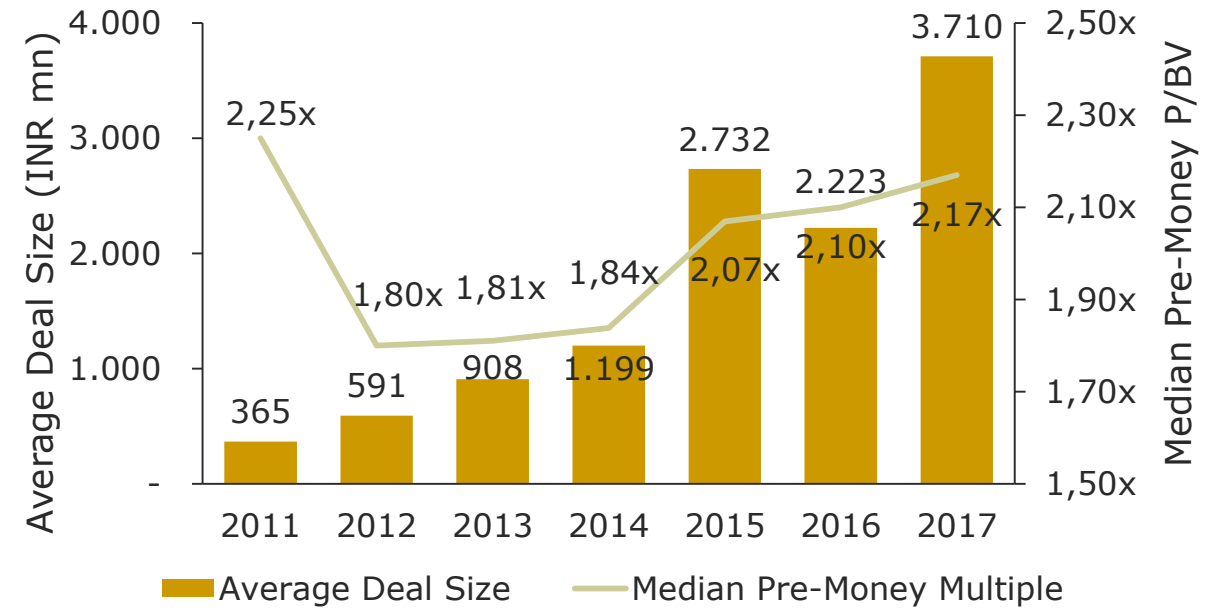
- After the AP Ordinance, RBI stepped in with a new regulation/classification to stabilise MFIs and further enhanced it by creating a framework to enable their conversion to banks
- Microfinance as a whole (bank or non-bank) is now a legitimate part of the financial sector; viewed as well-regulated and better understood by stakeholders
- This has enabled a steady flow of funds – debt and equity
- Two recent IPOs have established it as an investible asset – the post listing experience has been materially different from the first one
- Exits from secondary sales have become easier to project and

Equity Raised by Microfinance Institutions

Deal Size & Volume



Average Deal Size & Valuation



Note: Excludes secondary transactions; includes primary capital raised in IPOs and QIPs.

Source: Caspian Data

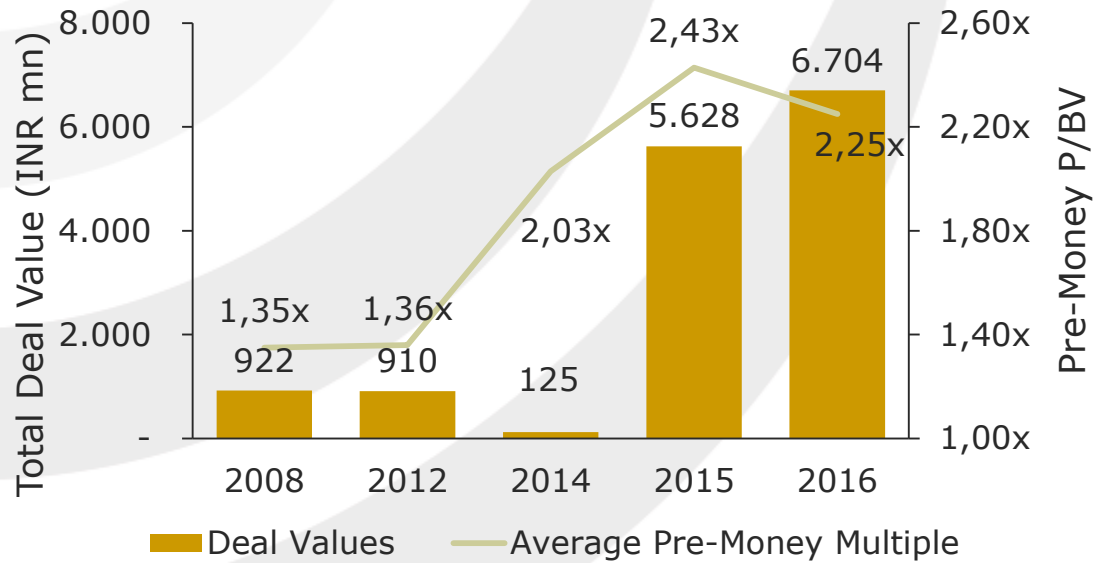
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Investing Landscape 2011-2017

- 2011-2014: Largely, impact funds and DFIs
- 2014-2016: VC/PE led club deals with impact investors in scaled MFIs; impact funds led investments in other early-stage financial inclusion businesses
- Valuations: started to look up from 2014
- Liquidity: improved dramatically from 2014-2015
- Impact funds gradually replaced by VC/PE funds in private rounds of scaled companies. In public listings, institutional investors like mutual funds and insurance companies brought in the bulk of the capital

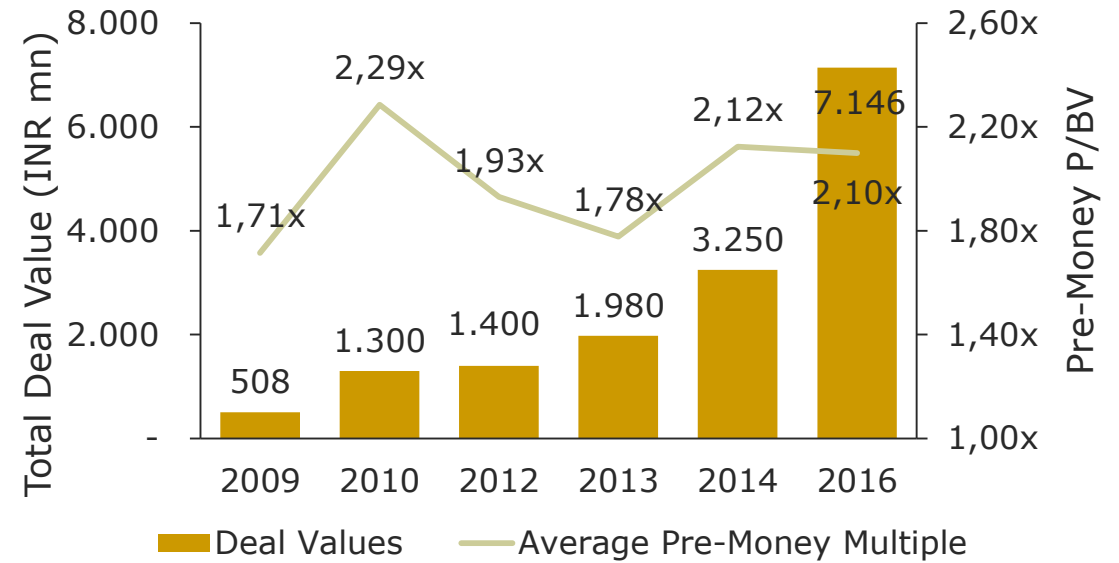
Capital Raised by Large MFIs – Two Examples

Company A



% Contribution by Impact Investors					
54%	100%	100%	11%	0%	

Company B



% Contribution by Impact Investors					
56%	0%	80%	92%	65%	0%

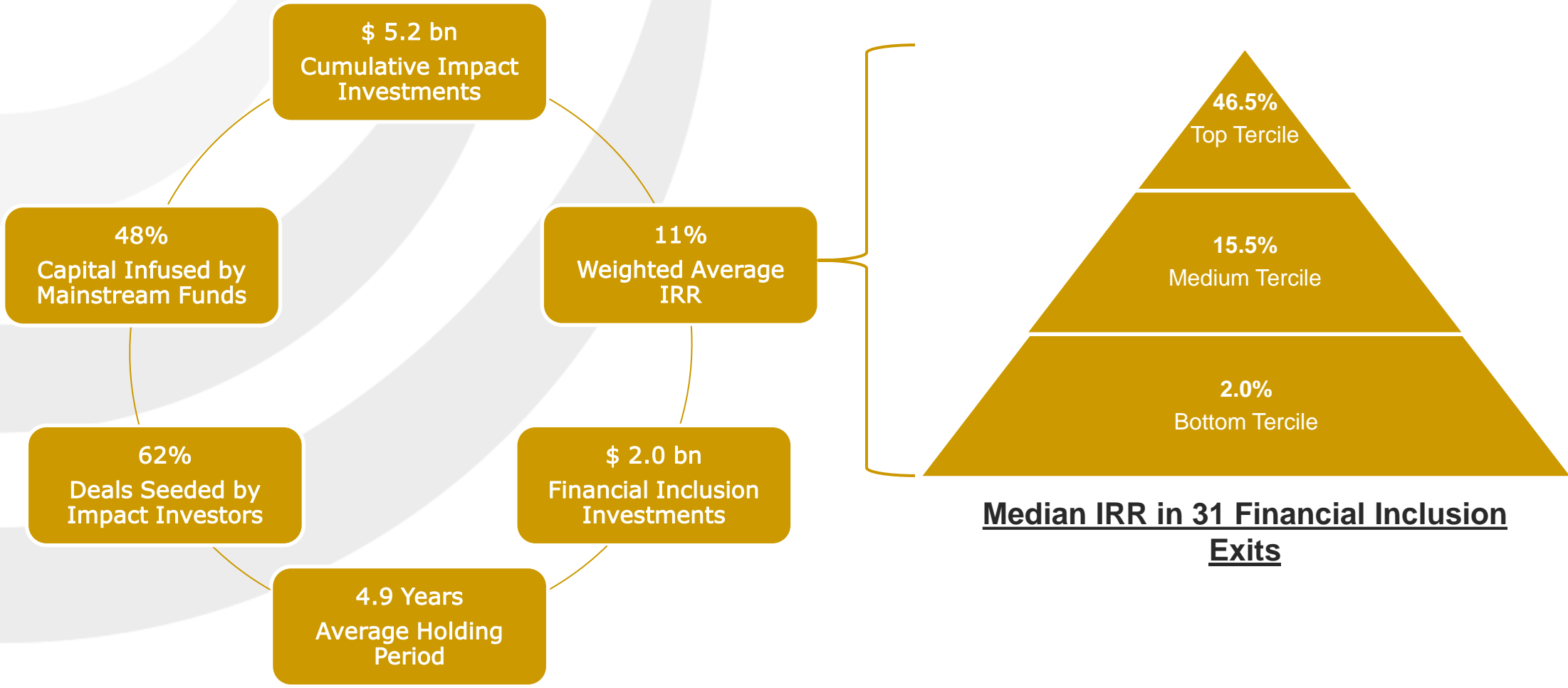
Includes only primary capital raised and IPO

Source: Caspian Data, Red Herring Prospectuses
 Note: €1 = INR 75.3 as on November 9th 2017

Exit Experience

- Industry data on exits reveals the risks as much as the rewards that investors have experienced – it's a wide spectrum: 46% in the top tercile compared to 2% in the bottom
- Financial inclusion accounted for ~65% of all impact investment exits between 2010 and 2016 by volume, compared to ~40% of all investments by value
- Average holding period is lower than expected at 5 years
- In most exit rounds, impact investors have taken partial exits, staying invested alongside mainstream funds and institutional investors

Impact Investments at a Glance (2010 – 2016)



Source: McKinsey, Impact Investing Finds it's place in India, September 2017
*2010 – 2015, (Note: €1 = INR 75.3 as on November 9th 2017)