

'Mudra Bank is a game changer'

It will make a positive impact on interest rate, says Dilli Raj, SKS Microfinance President

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The RBI's front-loaded rate cut in the last policy may not have been met with similar deep actions from banks. But SKS Microfinance surprised the street with a sharp rate cut of 100 basis points cutting its rate to 19.75 per cent. With this rate cut, SKS Microfinance becomes the first MFI to charge a sub-20 per cent interest rate. Bloomberg TV India discusses this with Dilli Raj, President of SKS Microfinance.

We have tracked SKS Microfinance very closely from the time you went into the IPO. At that point a sub-20 per cent interest rate on microfinance was unthinkable. Even as early as last couple of years. What has allowed you to get your rates so drastically down?

There has been a significant progress in bringing down our cost of borrowing. Just two years back, post turnaround also, our marginal cost of borrowing was 13.6 per cent, which has come down to 11.3 per cent. There are a couple of reasons. One, as we turned around and reinforced network with profitability and capital raise, there was a rating upgrade. We have a rating of 'A1+' for the short term and 'A+' for the long term, which is the best rating anyone could get in the MFI sector as of date. The second reason being we have slightly diversified the

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sources basket. We have started accessing the money market instruments like commercial paper which we have issued at 9.5 per cent in the last month. Third, we have got a refinance from Mudra at 10 per cent.

Is Mudra Bank going to be a big game changer in this sense? Because the whole concept of the bank is really to get low-cost finance to the underfinanced?

Certainly, Mudra is a game changer and it is a phenomenal initiative by the Ministry of Finance. They hit the ground running. This was announced in the last Budget Speech of Finance Minister Arun Jaitley. In a matter of six months, they put up an institution and got a fantastic team and started refinancing. To start with, Mudra would make a very positive impact on upsetting the interest rate structure of the sector which is what we have done. So if we can raise refinance at 10 and as we walk this path I am sure Mudra would reduce the rate of the refinance and that is going to translate to price cut war.

The other move has been from the RBI which has allowed a higher tenure loan up to ₹30,000 for under two years. What does it mean for cost of funds?

This is a very positive development. As you increase the ticket size your operating cost structure benefits. Your operating cost in percentage terms would come down. We have seen some progress in bringing down the operating costs too. If you look at the metric of cost to income it was

around 74.5 per cent two years back and went down to 61 per cent and last quarter it has come down to 47 per cent. As the ticket size grows up, within this aided by dispensation we see a significant improvement in the operating cost structure.

