

Equity Investment in Indian Microfinance: A guide for practitioners

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1. Executive Summary

As their client bases and portfolios increase, large MFIs in India are increasingly turning to private equity investors to help meet their financing needs. In the first half of this report, we document and analyse this recent rise in private equity inflows into Indian microfinance. We show that the flow of private equity funds into Indian MFIs has increased dramatically over the past three years, driven largely by big ticket investments made by mainstream (as opposed to microfinance-focused) private equity funds. Further, we predict that while the global financial crisis has temporarily slowed this growth in recent months, growth in private equity investment in MFIs will continue to resume and increase in the years ahead. In the second half of this report, we describe the process of raising equity and offer tips to MFIs seeking to raise equity for the first time. We conclude by briefly discussing two alternate sources of potential financing for MFIs: portfolio buy-outs and securitization.