



Microfinance, for the first time in years, feels less like a crisis play and more like a normal, humming business again. The sense of “survival mode” that defined the last credit cycle is giving way to a quieter, more confident optimism across the leading lenders.

The storm that finally passed

Over the past few years, microfinance institutions (MFIs) have been buffeted by wave after wave of disruption – from Covid-era stress and localised repayment shocks to funding squeezes and regulatory overhauls. Yet, if you look at the latest set of numbers from the large players, the narrative is shifting from damage control to consolidation and growth. Collections have stabilised, incremental stress is no longer spiking quarter after quarter, and lenders are starting to talk about expansion rather than just restructuring. For anyone who has watched this space closely, that change in tone is significant.

Risk tide recedes, confidence returns

What stands out in recent disclosures is how sharply asset quality has stopped deteriorating and, in many cases, has begun to improve. Provision buffers built up during the worst of the cycle are now cushioning portfolios, while more disciplined underwriting and tighter credit filters are visible in the numbers. The conversation has moved from “How bad can it get?” to “How fast can we get back to steady-state RoA and RoE?” When management teams start using phrases like “business as usual”, you know the fear premium that once shadowed the sector is finally easing.

Leaders pull away from the pack

Within this normalisation, a clear pecking order is emerging. Well-capitalised, scaled lenders are clocking healthier returns on assets and equity than their smaller, less diversified peers, and the gap is widening. Institutions that spent the downturn investing in analytics, collection capability and risk frameworks are now reaping the benefits through lower credit costs and stronger profitability. For investors, this is quietly turning microfinance from a high-beta tactical trade into a more predictable, compounding story where quality of franchise matters more than sheer growth.

Profit pools shift, but the opportunity stays big

Even with all the churn, the underlying demand for small-ticket credit at the bottom of the pyramid has barely flinched. Borrowers who temporarily slipped during the shock years are, in many cases, back in the fold, and new-to-credit segments are opening up as formalisation deepens. The result is a sector where system-level growth is not explosive, but the mix of profitable, granular, repeat lending is improving quarter on quarter. For players who can keep



credit discipline intact, this is as attractive a structural opportunity as it has ever been – only now with a better handle on the risks.

Microfinance has manoeuvred through its most volatile phase, this turn in the cycle feels different. The scars of the last few years have forced the industry to internalise hard lessons on diversification, risk pricing and collections, and those lessons are now embedded in everyday practice. The industry is moving into a phase where returns are increasingly driven by execution excellence rather than sheer macro luck. That's when the real compounding starts – when an industry that has survived its worst test begins to behave, and be valued, like a mature, disciplined financial business rather than a perpetual experiment.

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