

**World Microfinance Forum Geneva  
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**EQUITY INVESTMENTS IN MICROFINANCE**

**Venky Natarajan  
Lok Capital, India**

# Lok Capital

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**Investment objective:** equity investments in Microfinance institutions in India

**Fund size:** USD \$22MM

**Investors:** IFC, CDC, KfW, FMO, ACCION, responsAbility, DID & individuals

**Key Promoters:**

- Rajiv Lall – MD and CEO of Infrastructure Development Finance Corporation
- Donald Peck – Managing Partner at Actis

**Team:** Vishal Mehta, Venky Natarajan, Sanjib Jha, Preeth Gowdar, Sandeep Lohani

**Services:** Equity investment through the Lok fund and Technical Assistance and Capacity building through Lok Foundation

# Equity Investments - Trends and innovations

- Demand for microcredit continues to drive impressive growth for many MFIs
- Increased growth has caused equity round sizes to increase exponentially and to occur with greater frequency
- Management teams of MFIs have become increasingly well-informed about equity – its applications, its unique characteristics, and the equity investment process. This is a positive development in the sector

## Trends and innovations (cont'd...)

- Increased valuations have made 5-6 times book value and 10 times forward earnings the norm. Caused by:
  - Increased participation from numerous mainstream, commercial private equity investors
  - The buzz created by Microfinance
- Esoteric investment structures: innovations on convertibles, call options, clawbacks

# Challenges

- Artificially high premiums demanded by MFI entrepreneurs, driven by increasing interest in the sector from equity investors
- Lack of quality managers still a big hurdle for building the MFIs for future.
- Fundamental value creation still not picking up
- Exits have never been realized in Indian Microfinance – tough to gauge the viability of different exit options
- Foreign funds must work around legal/regulatory limitations of Foreign Direct Investment in India
- Non-existent capital markets makes debt financing increasingly difficult

## Challenges (cont'd...)

- Industry still divided with clear distinctions between the upper tier institutions, who are profitable and have the ability to effectively utilize commercial funding and the lower tier institutions who are struggling to attain growth and develop formal processes
- Off-balance sheet financing structure have not found stable footing

# Future prospects

- Consolidation likely to occur not only by larger MFIs buying smaller MFIs, but by financial services heavyweights entering the microfinance sector
- IPOs are a distinct possibility within the 1 to 2 years
- Technology and MIS systems will play a major role in distinguishing the best MFIs from the rest – especially as client growth numbers swell into the millions
- Smaller MFIs will step-up product innovation and not only restricted to financial services
- M&A still 2 years away