MSME PULSE

OCTOBER 2020

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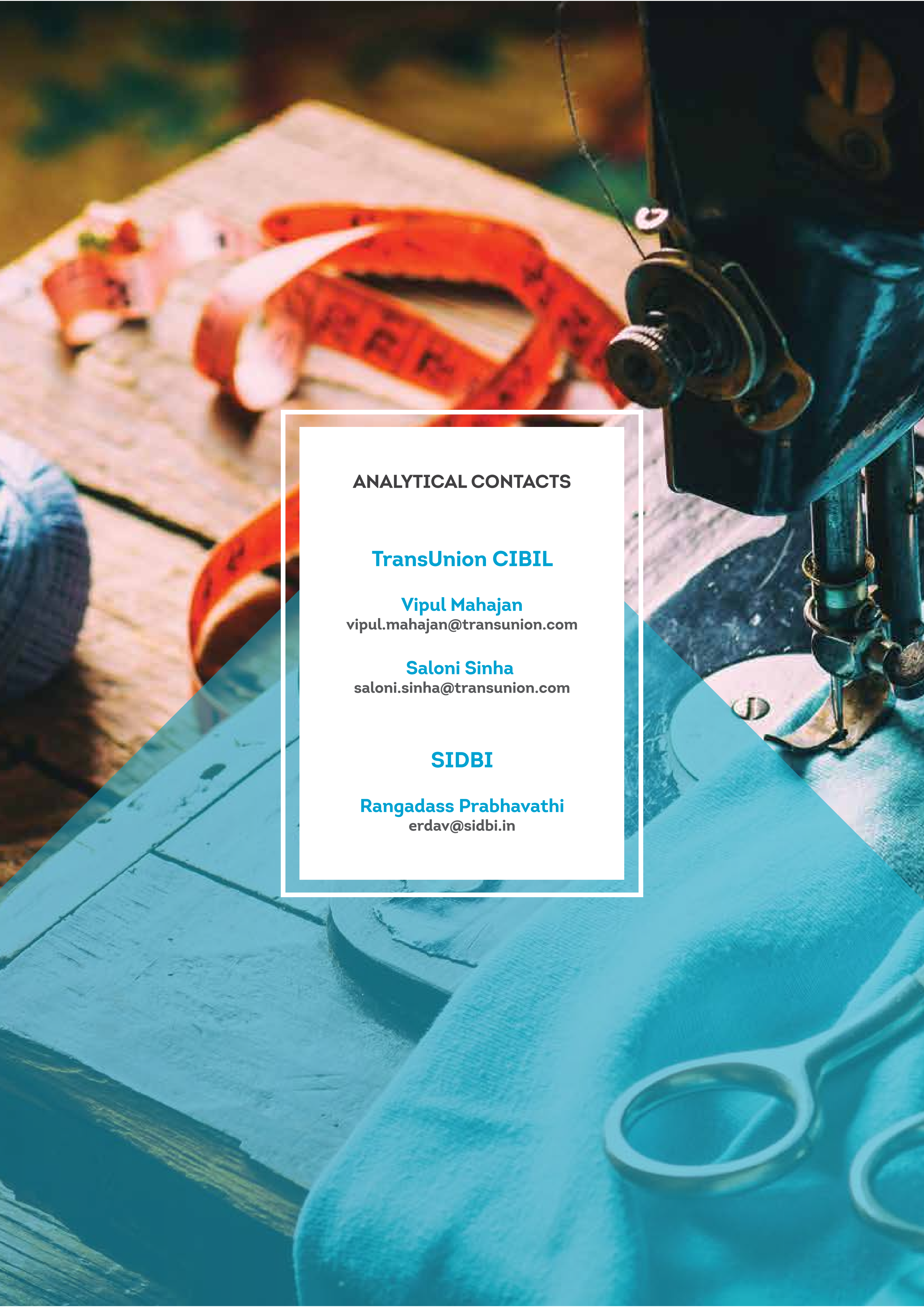

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Table of Contents

02 Executive Summary

04 MSME Lending Portfolio Trends

05 Geography: Credit growth in MSME Lending

06 MSME Lending market share: NBFCs losing market share

07 Impact of Emergency Credit Line Guarantee Scheme (ECLGS) on MSME Lending

10 Behavioral changes in COVID-19 pandemic times to MSME Lending industry

18 NPA Trends in MSME Lending

20 Structurally strong MSMEs continue to be resilient

23 Sectoral Risk Assessment of MSMEs

24 Conclusion

Executive Summary

ECLGS boosted credit infusion to MSMEs: Credit infusion to MSMEs declined sharply post the lockdowns due to COVID-19 pandemic. The ECLGS scheme implementation brought the much needed boost and significantly helped in reviving credit infusion to MSMEs post its announcement in May 2020. Catalysed by this scheme, Public sector banks disbursed 2.6 times higher loan amount to MSMEs in Jun'20 over Feb'20. Even private sector banks' credit disbursals in the MSME segment for Jun'20 were back at Feb'20 levels.

Geographies which experienced less stringent lockdowns showed relatively better credit infusion and lesser decline in credit outstanding: MSME lending in Metro regions had the sharpest drop during lockdown and relatively lower rate of revival post-ECLGS. While number of MSME loans disbursed in Urban, Semi-urban and Rural regions for Jun'20 is over 3 times that of Feb'20,it was at 1.86 times for Metro regions.

Similar trend is observed at state level- i.e. for states of Bihar, Jharkhand, Punjab and Kerala, the number of MSME loans disbursed in Jun'20 are over 4 times as compared to Feb'20; whereas for Maharashtra and Delhi it is 1.86 and 1.06 times respectively for the same period.

Micro loans segment showed the lowest decline in credit outstanding: At ₹16.94 lakh crores, the aggregate MSME credit outstanding reduced by 5.7% Y-O-Y as of Jun'20. However the Micro loans segment increased by 1% Y-O-Y with ₹4.5 lakh crores of credit outstanding as of Jun'20. While all the MSME sub-segments benefitted out of ECLGS, Micro loans had the largest increase in number of loans disbursed clocking 3 times the figure in Jun'20 over Feb'20.

NBFCs lag behind in fresh MSME loans disbursed and experience drop in market share: While disbursals by PSBs and Private Banks have come back to pre-covid levels, NBFCs have managed only 20% of Feb'20 disbursal amount in Jun'20. As a result, NBFCs lost their credit market share to PSBs and Private Banks. We may expect NBFC disbursal amounts to improve given their enquiries for Jun'20 were at 40% of Feb'20 levels and improved to 60% in Jul'20 and Aug'20.

Structually strong MSMEs continue to be resilient during COVID-19 pandemic: In the 4 month window of Mar'20 to Jun'20 post- pandemic, the super-prime segment of CMR-1 to CMR-3 show lowest instances of missed payments on term loans at 25%; and in the sub-prime segment of CMR-7 to CMR-10 at 36% On Cash Credit /Over Draft facilities, the prime segment of CMR-4 to CMR-6 have relatively higher transition into higher utilization rate buckets than super-prime segment of CMR-1 to CMR-3. So, if missed payments and increasing utilization rates are considered as early signs of stress build up then structurally strong MSMEs continue to be relatively more resilient even through the economic disruptions posed by the pandemic.

Executive Summary

Structurally strong MSMEs are existing in all the sectors: We have analysed the CMR distribution of MSMEs mentioned in the RBI's Report of the Expert Committee on Resolution Framework for Covid-19 related Stress dated 07 Sep 2020. The analysis indicates that sectors like Logistics, Hotel-Restaurant-Tourism and Mining have relatively lower proportion of super-prime MSMEs. While sectors like Chemical & Pharmaceuticals, Manufacturing and Auto components, Manufacturing & Dealership have relatively largest share of super-prime MSMEs. But, a large majority of MSMEs across sectors are structurally strong and stand better placed in the current economic challenges.

CMR distribution of credit enquiries in Aug'20 has spiked towards higher risk from Feb'20 level: CMR distribution for PSBs, Private banks and NBFCs have reduced for super-prime MSMEs in the CMR-1 to CMR-3 bracket and increased for sub-prime MSMEs in the CMR-7 to CMR-10 bracket in Aug'20 as compared to Feb'20. Highest increase observed in sub-prime enquiries from NBFCs- from 15% in Feb'20 to 24% in Aug'20. PSBs showed the highest drop in super-prime enquiries- from 38% in Feb'20 to 32% in Aug'20. However, month-on-month trajectory of CMR distribution across all lender types has resumed to the Feb-20 level.

MSME segment NPA rates for Jun'20 are marginally higher than Mar'20: The NPA rates in Jun'20 for most MSME segments are marginally higher than the Mar'20 levels, but this trend is inline with the Jun'19 over Mar'19 increase observed during previous year. NBFCs showed a sharp rise in MSME NPA rates for Jun'20 at 9.7% compared to their Jun'19 levels of 5.8%. NPA rates of Private Banks have also increased to 5.8% in Jun'20 vis-a-vis 4.6% in Jun'19.

MSME Lending Portfolio Trends

The total on-balance sheet commercial lending exposure in India stood at ₹67.03 lakh crores in Jun'20, marginally lower than ₹69.77 lakh crores from Jun'19. MSME Segment is at ₹16.94 lakh crores credit exposure as of Jun'20 and has observed reduction in credit exposure across most sub-segments of MSME lending except the Very Small and Micro1 sub-segments. Large corporates segment is at ₹50.09 lakh crores credit exposure as of Jun'20 and has observed a YoY contraction of 3.3% for the period Jun'19 to Jun'20.[1]

Exhibit 1: on Balance-Sheet Commercial Credit Exposure (In ₹ Lakh Crore)

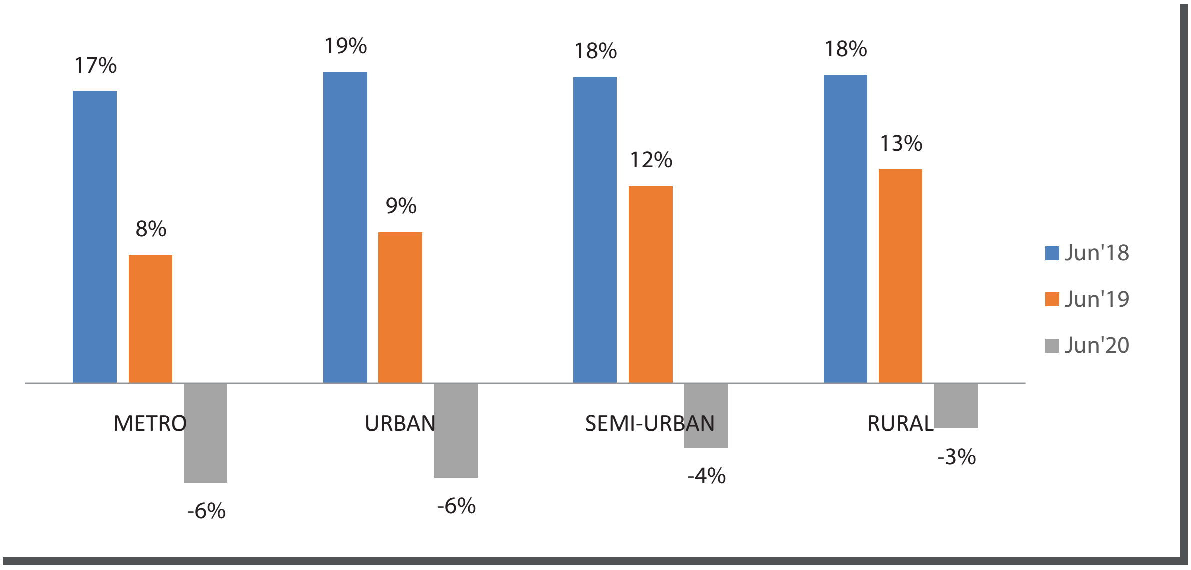
	Very Small <₹10 Lakhs	Micro 1 ₹10-50 Lakhs	Micro 2 ₹50 Lakhs-1 Crores	Small ₹1-10 Crores	Medium1 ₹10-25 Crores	Medium2 ₹25-50 Crores	Large >₹50 Crores	Overall
Jun'18	0.78	1.91	1.30	6.51	3.27	2.67	44.90	61.33
Sep'18	0.82	2.02	1.37	6.84	3.38	2.75	48.93	66.11
Dec'18	0.85	2.10	1.42	7.04	3.45	2.78	49.99	67.63
Mar'19	0.88	2.18	1.48	7.29	3.55	2.87	52.33	70.59
Jun'19	0.88	2.14	1.45	7.23	3.48	2.79	51.79	69.77
Sep'19	0.89	2.20	1.47	7.25	3.47	2.78	51.50	69.57
Dec'19	0.92	2.23	1.50	7.33	3.48	2.77	51.49	69.73
Mar'20	0.93	2.19	1.45	7.02	3.33	2.62	52.03	69.58
Jun'20	0.91	2.17	1.42	6.81	3.18	2.46	50.09	67.03
Y-o-Y growth	3.2%	1.0%	-1.9%	-5.8%	-8.7%	-11.8%	-3.3%	-3.9%

1. Commercial loans classified on the basis of credit exposure aggregated at entity level, Very Small: <10L; Micro1: 10L-50L; Micro2: 50L-1Cr; Small: ≥1Cr <10Cr; Medium1: ≥ 10Cr <25Cr;Medium2: ≥ 25Cr <50Cr; Large ≥ 50Cr. Micro segment includes Very Small, Micro1 and Micro2 segments and Medium segment includes Medium 1 and Medium 2

Geography: Credit growth in MSME lending

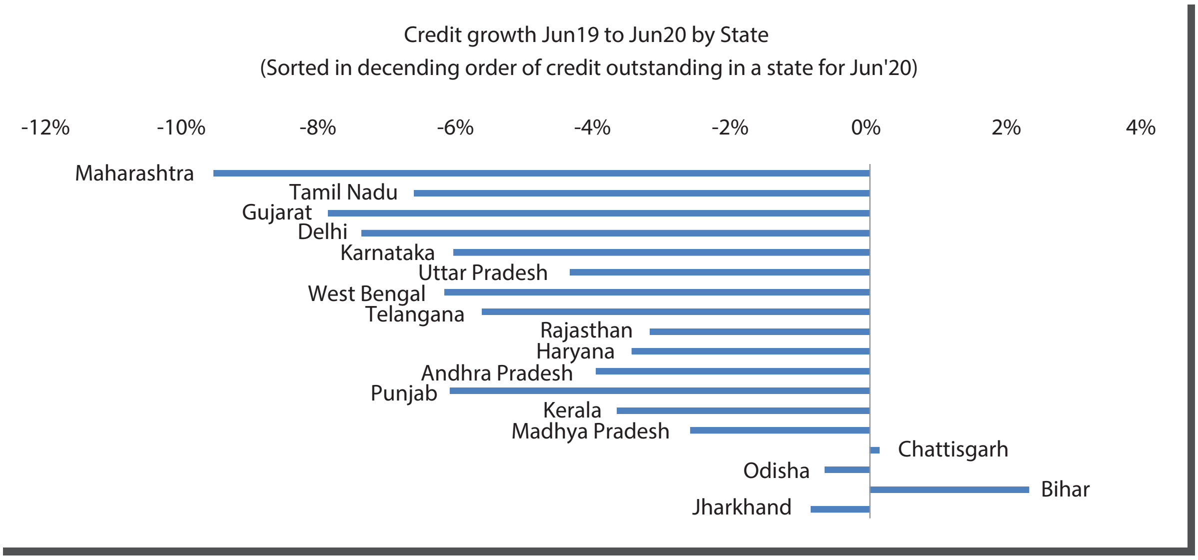
Growth rate in MSME credit outstanding has contracted across regions. Sharpest drop in credit observed in Metro and Urban areas. Rural and Semi-urban areas have also witnessed slowdown in growth, but at a lower rate in comparison with Metro and Urban areas.

Exhibit 2: Region-wise MSME YoY credit growth



State-wise MSME portfolio growth indicates that credit outstanding has contracted in most of the States. Top 18 States are depicted in order of MSME credit outstanding. Maharashtra experienced highest slowdown in growth, followed by Gujarat. While Chhattisgarh and Bihar witnessed slight growth in the MSME portfolio.

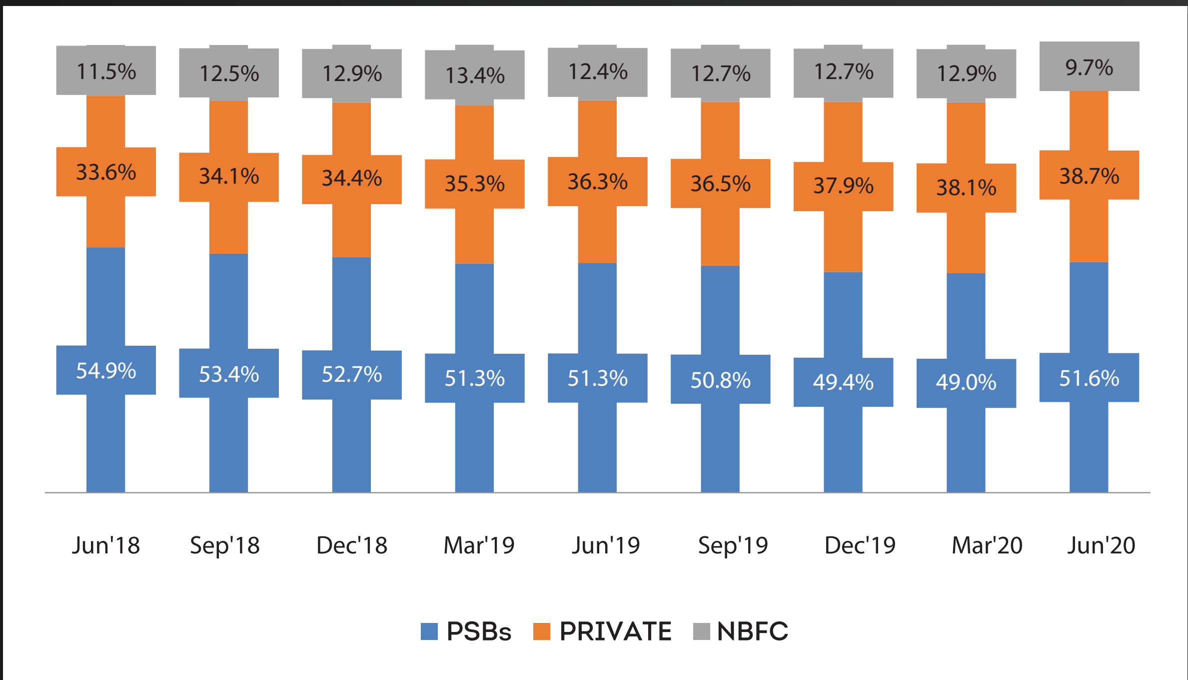
Exhibit 3: State-wise MSME YoY credit growth



MSME Lending market share: NBFCs losing market share

Public Sector Banks (PSB) have traditionally been the dominant lenders to the MSME sector. But the typical trend for last few years is that Private Banks and NBFCs have strongly competed with PSBs in gaining a larger share of the MSME sector. However, that trend has changed post the nationwide lockdown due to the COVID-19 pandemic and the stimulus packages announced by the Government of India. PSBs have regained market share- from 49.0% in Mar'20 to 51.6% in Jun'20. Private Banks continue to expand their market share as well. However, NBFCs have observed relatively sharpest decline in credit outstanding of their portfolios, making them lose market share in the MSME lending industry.

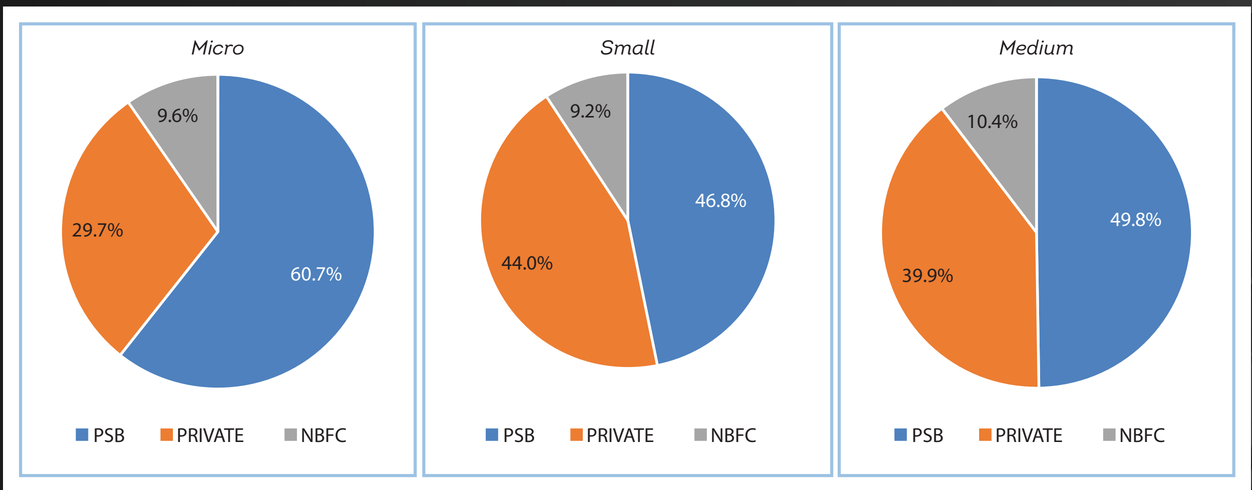
Exhibit 4: Proportionate share of Lenders in MSME over 2 years



**Other lenders have been excluded in the market share analysis*

Share of lenders across MSME sub-segments: PSBs continue to be the dominant contributors in providing credit to Micro segment borrowers, holding almost 60% share in this segment. PSBs are playing a critical role in enabling financial inclusion of Micro Enterprises. The share of PSBs and Private Banks in the Small segment of borrowers is 47% and 44% respectively. Medium segment, which has the larger ticket size MSME loans, is again dominated largely by PSBs.

Exhibit 5: Share of Lenders across MSME Segments as of Jun'20



Impact of Emergency Credit Line Guarantee Scheme (ECLGS) on MSME Lending

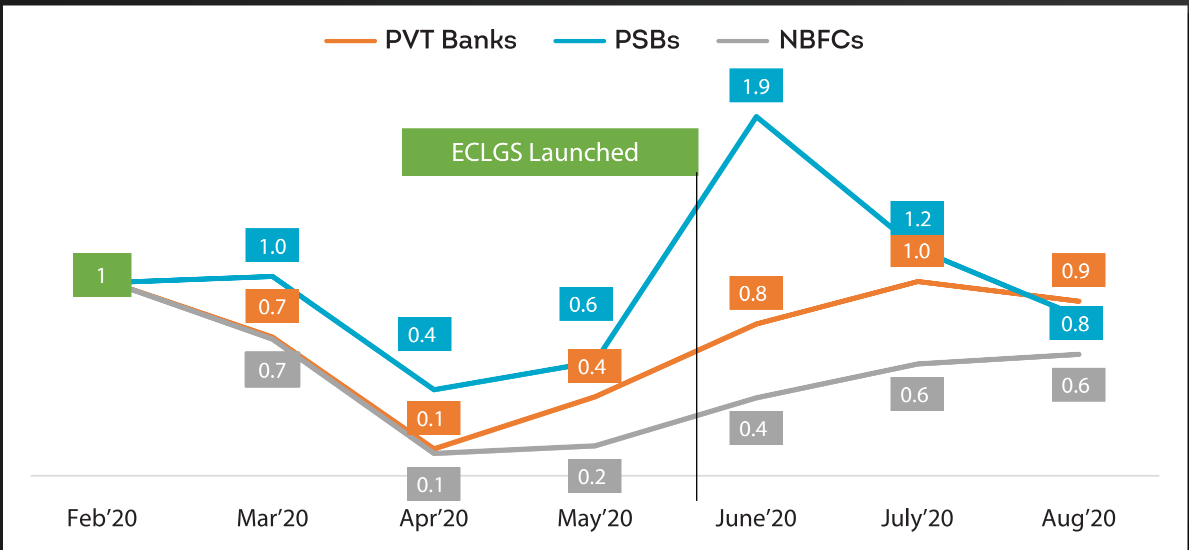
Aatmanirbhar Bharat Initiative launched by the Government of India included a series of interventions to boost the resurgence in the MSME sector. The interventions included equity infusion to MSMEs via fund of funds, subordinate debt for stressed MSMEs, MSME definition based on turnover and investment, provision for clearing MSME dues in 45 days by the Government and PSUs and providing guaranteed emergency credit line to MSMEs. Among all the interventions, MSME lending ecosystem utilized the Emergency Credit Line Guarantee Scheme (ECLGS) extensively.

The latest information and operating guidelines about ECLGS can be found on its website eclgs.com. The key highlights of ECLGS are:

- It provides credit guarantee of upto ₹3 lakh crores / 31st Oct, whichever is reached earlier on MSME lending.
- MSMEs with combined outstanding loans across all lenders of up to ₹50 crore as on 29th Feb, 2020 and annual turnover of up to ₹250 crore for FY 2019-20 are eligible.
- Borrower accounts should be less than or equal to 60 days past due as on 29th Feb, 2020 in order to be eligible under the Scheme, i.e. All borrowers who have not been classified as SMA 2 or NPA by any of the lenders as on 29th Feb, 2020 are eligible for the Scheme.
- MSMEs are eligible up to 20% of their total outstanding loans up to ₹50 crore as on 29th Feb, 2020, subject to the borrower meeting all the eligibility criteria.

In the month of May'20 Aatmanirbhar Bharat initiative was announced and ECLGS operating guidelines were issued. The impact of ECLGS on MSME lending is clearly visible from Jun'20 onwards. The number of credit enquiries by lenders shot up immediately and have sustained at higher levels compared to the lows during lockdown.

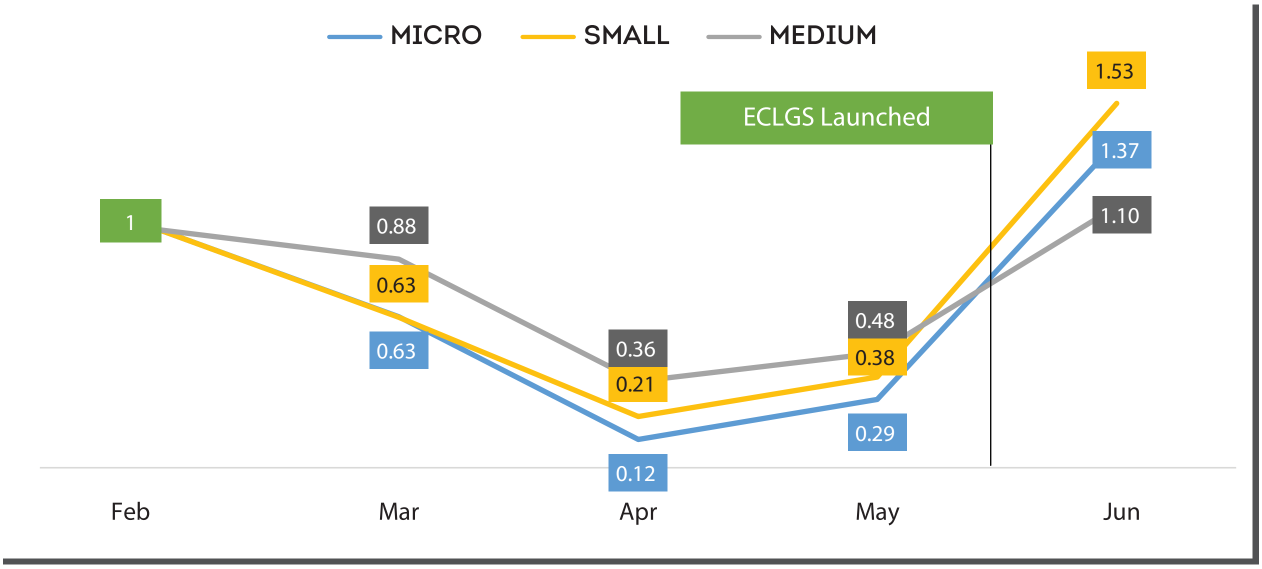
Exhibit 6: Month on month change in number of commercial credit enquiries by lender group indexed to Feb'20



Feb'20 enquiries are indexed at 1. In the lockdown phase, the enquiries across all lender groups were impacted. However, PSBs were relatively least impacted during the lockdown phase. After ECLGS was launched, PSBs were the first ones to react to the scheme and in Jun'20 their credit enquiries jumped to 1.9x of the Feb volumes. Private Banks had a gradual rise in credit enquiries with Jul'20 enquiry volumes coming back to the same level as Feb volumes. NBFCs have also gradually taken advantage of ECLGS, but they are yet to regain their pre-covid levels.

Enquires trend is also reflected in loans disbursed to MSMEs. The Micro segment has seen highest loan disbursals compared to Small and Medium segment in terms of number of loans disbursed (volume). However, by loan amount disbursed (value) the disbursement is highest for Small segment in Jun'20.

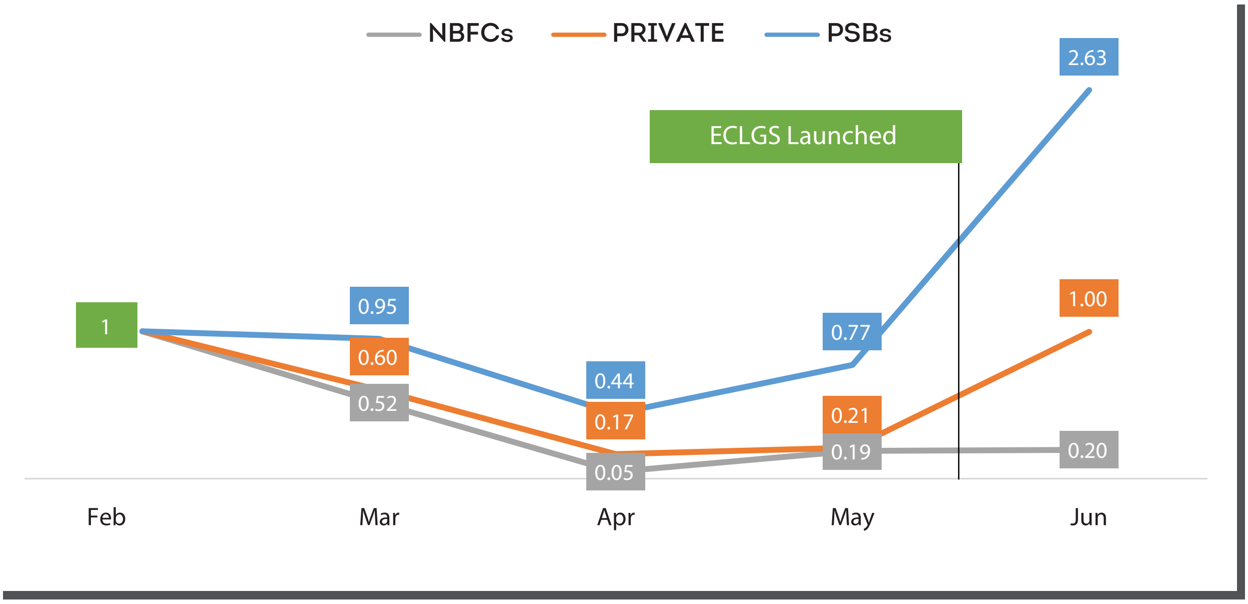
Exhibit 7: Month on month loans disbursed (by value) across MSME sub-segment indexed to Feb'20.



Average loan amount disbursed in Jun'20 is much lower than Feb'20 average loan amount disbursed due to 20% capping of ECLGS. But, even with that capping total loan amount disbursed for all sub-segments of MSME lending is higher for Jun'20 compared to Feb'20.

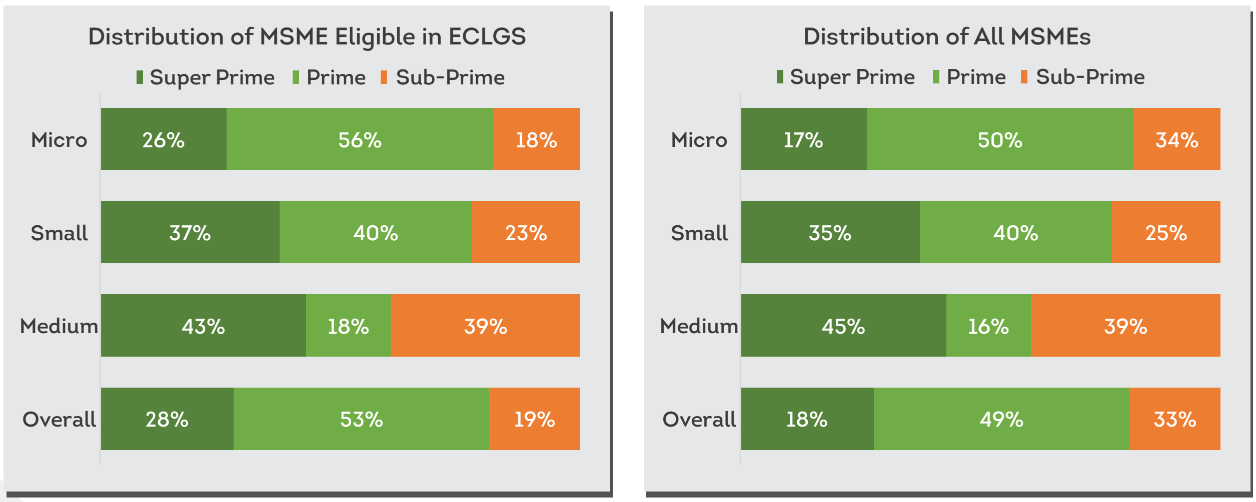
However, the trends on loan amount disbursed are not uniform across lender groups. Just like number of credit enquiries, PSBs have disbursed significantly higher loan amount in Jun'20, 2.63x of Feb'20 disbursals. Private Banks have come back to their earlier disbursal amount levels from Feb'20. NBFCs have only been able to bounce back to 0.2x of Feb'20 disbursal amounts in Jun'20. But, we may expect NBFCs disbursal amounts to improve to better levels given their enquiries for Jun'20 were at 0.4x of Feb'20 versus 0.6x in Jul'20 and Aug'20.

Exhibit 8: Month on month loan disbursed (by value) across lender group indexed to Feb'20.



From a credit risk perspective, the loans disbursed under ECLGS have 100% credit guarantee. But, the fact that 81% of eligible MSMEs belong to structurally strong CMR-6 or better provides further confidence in the scheme. In the sub-segments, Micro segment has large share of 82% companies with CMR-6 or better, whereas Medium segment has relatively lower share of 61% companies with CMR-6 or better. When compared with industry level portfolio distribution, MSMEs in super-prime, prime and sub-prime are 18%, 49% and 33% respectively.

Exhibit 9: Portfolio distribution of MSMEs as of Feb'20 by CMR[2] for all MSMEs in industry and the ones eligible for ECLGS[3]



2. MSMEs categorized based on CMR as Super Prime: CMR-1 to CMR-3, Prime: CMR-4 to CMR-6 and Sub-Prime: CMR-7 to CMR-10.

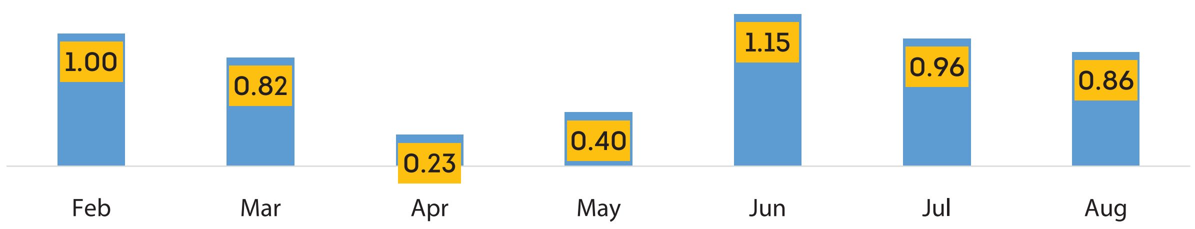
3. Eligible MSMEs defined as MSMEs with aggregate credit exposure less than or equal to ₹50 crores and less than equal to 60 days past due as of 29th Feb, 2020.

Behavioral changes in COVID-19 Pandemic times to MSME lending industry

COVID-19 Pandemic has brought many behavioral changes in the MSME lending ecosystem. The customer behavior, customer profile and lenders response to the evolving situation has changed the dynamics of MSME Lending.

The nation-wide lockdown impact on credit enquiries is visible for Apr'20 and May'20. But, stimulus package of ECLGS Scheme has helped enquiries bounce back to pre-covid levels. The Enquiries done in Aug'20 are 0.86 times of Feb'20 and as discussed in ECLGS section of MSME Pulse, PSBs had been the first movers with peak in Jun'20, Private Banks in Jul'20 and NBFCs in Aug'20.

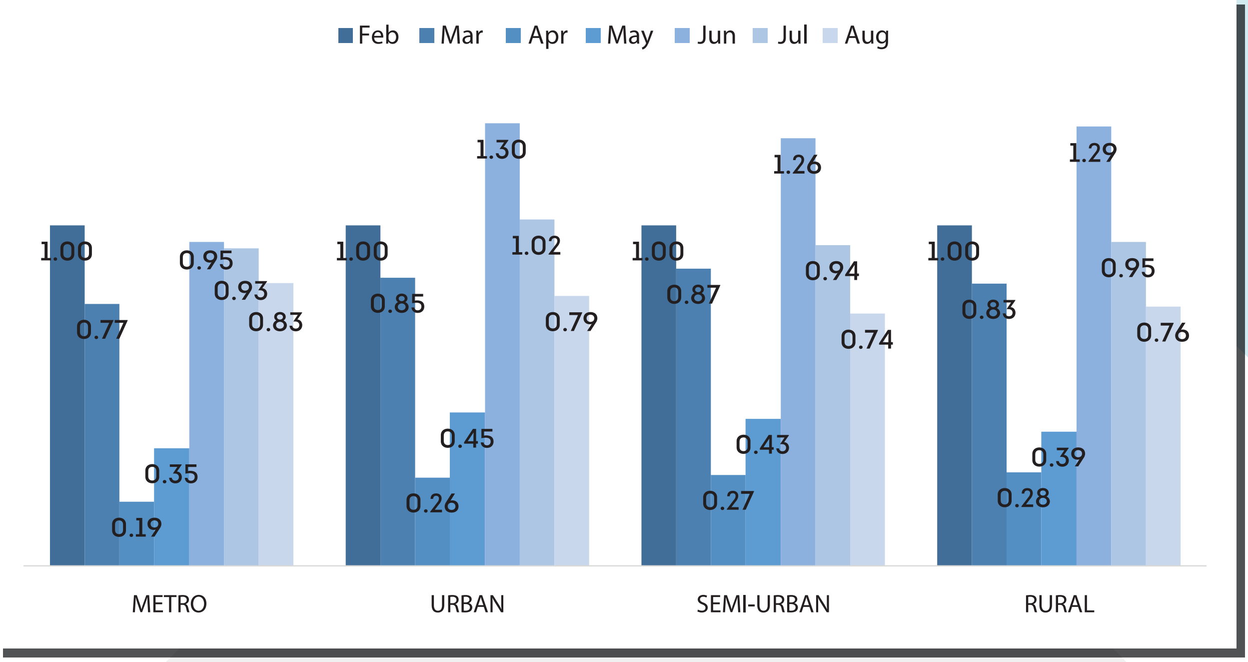
Exhibit 10: Month on month change in commercial credit enquiries indexed to Feb'20



Credit enquiries across region

Diving further into geography, it is observed that Metro cities were most impacted in credit enquiries during Apr'20 and May'20, but post ECLGS they are back with relatively steady credit enquiries. Urban, Semi-Urban and Rural regions had a relatively lower impact during April and May'20 but still very significant compared to their pre-covid levels. Post-ECLGS Urban, Semi-Urban and Rural regions observed a very sharp rise in credit enquiries for Jun'20, probably due to less severe lockdowns in those regions.

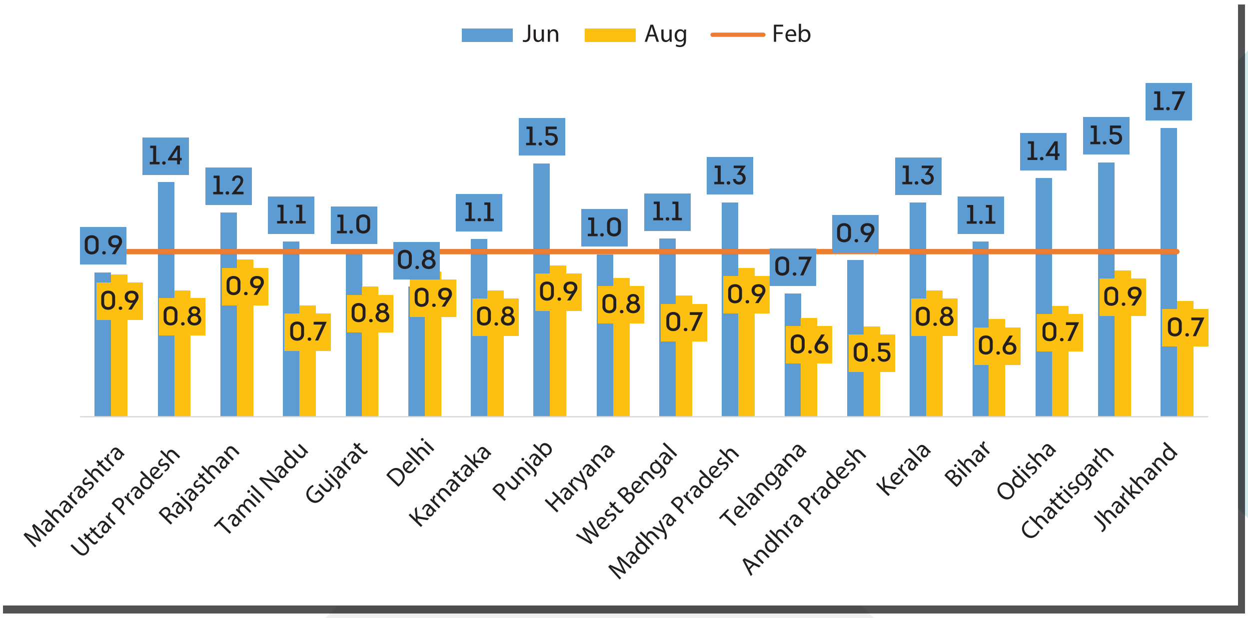
Exhibit 11: Credit Enquiries Pre & Post Covid by regions [Feb20 enquiries indexed to 1]



Credit enquiries across States

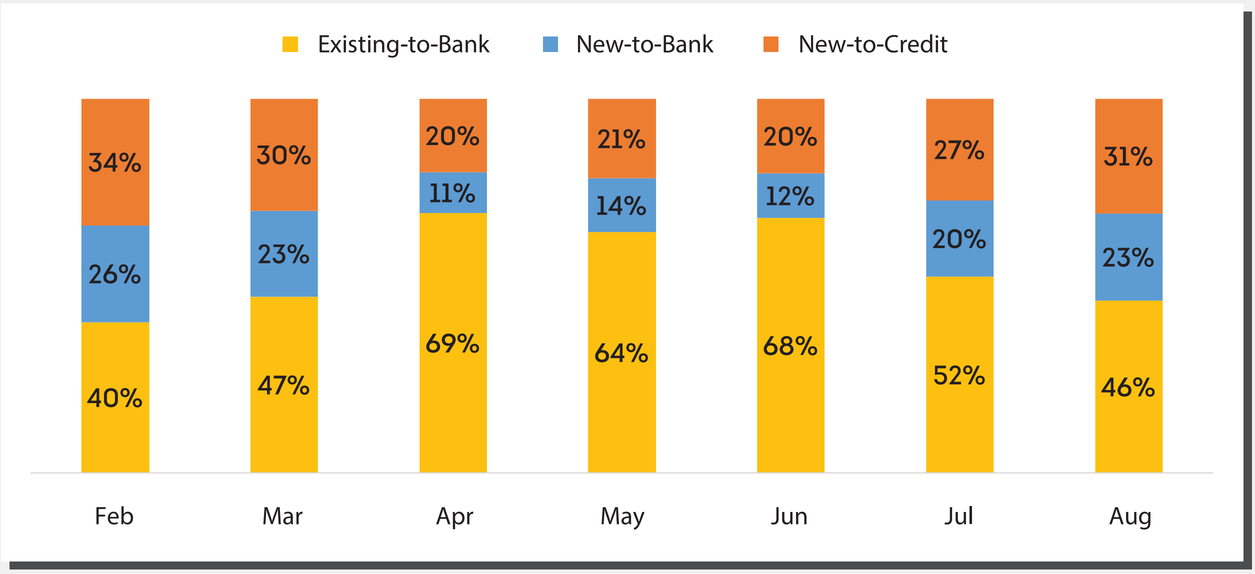
Overall high level of enquiries driven by ECLGS were observed in Jun'20, but for larger states like Maharashtra, Delhi, Telangana and Andhra Pradesh, enquiries level in Jun'20 were lower compared to Feb'20 enquiries. Uttar Pradesh, Rajasthan, Punjab, Madhya Pradesh, Kerala, Chhatisgarh and Jharkhand had a very sharp jump in credit enquiries in Jun'20.

Exhibit 12: Credit Enquiries Post Covid by State for months of 2020 [Feb20 enquiries indexed to 1]
Top 18 states sorted in descending order of credit enquiries in Jun'20 and Aug'20



To understand the way lenders reacted to post-covid credit demand, borrowers are further classified based on their existing relationship with the lenders. Borrowers who had an existing commercial credit relationship with the lender were tagged Existing-to-Bank (ETB), no commercial credit relationship with the lender but a commercial credit relationship with another lender are tagged New-to-Bank (NTB), and no commercial credit relationship with any lender are tagged New-to-Credit (NTC). It is witnessed that the share of enquiries for NTC borrowers reduced and increased for ETB borrowers during Apr'20 to Jun'20. Though in Jul'20 and Aug'20 NTC enquiries share has almost recovered back to pre-covid levels. These trends of ETB, NTB and NTC enquiries are consistent across all lender groups of PSBs, Private Bank and NBFCs.

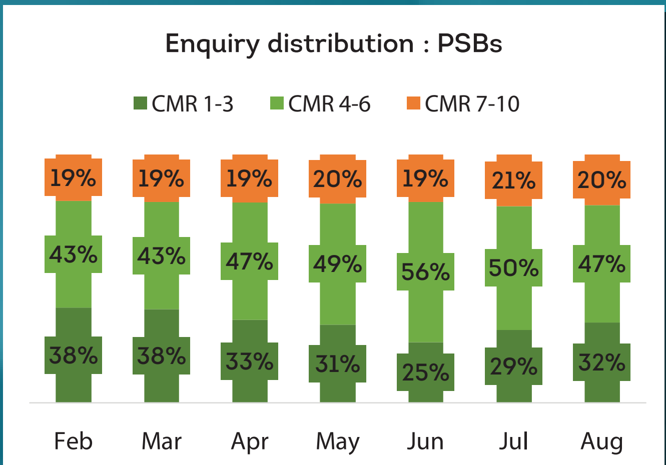
Exhibit 13: Month on month credit enquiries by borrower type

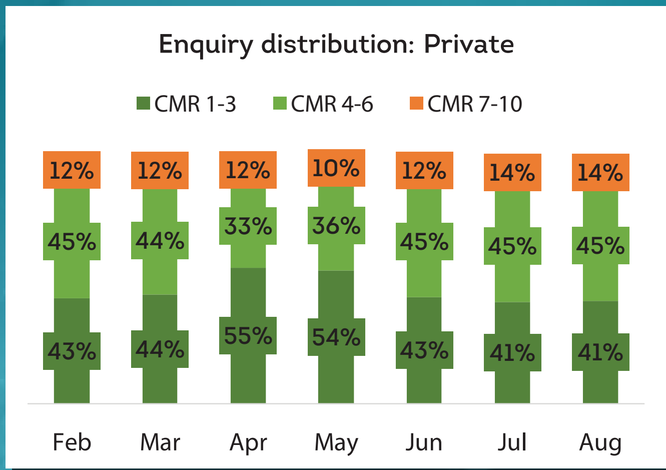


Changing CMR distribution on enquires- lender wise rank distribution of PSB/PVT/NBFC

CMR distribution of enquiries post-covid had sharp movements, in some situations the trends have come back to pre-covid levels but in other situations they continue to remain altered.

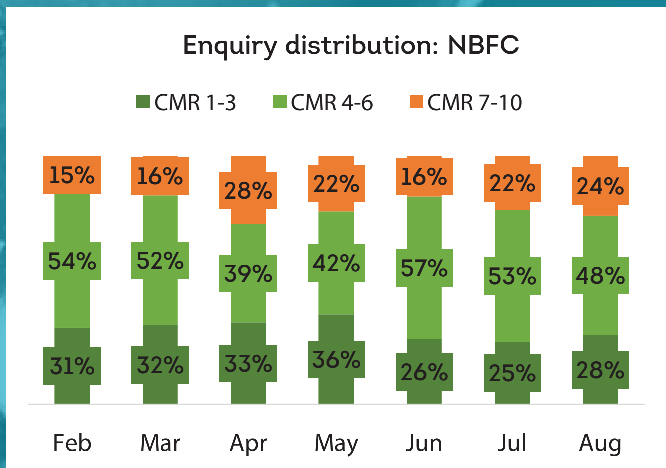
Exhibit 14: Month on month credit enquiries by CMR across lender category





Post-covid credit enquiries done by PSBs show higher enquiries for CMR 4-6 and lower enquiries for CMR 1-3 compared to pre-covid. While the trend has shifted gradually towards pre-covid levels, but it is still not fully aligned.

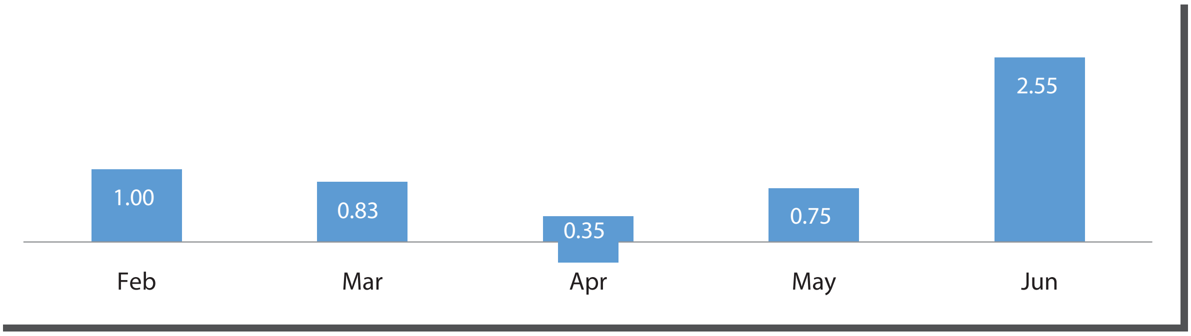
For Private Banks while their Jul'20 and Aug'20 enquiries distribution is broadly aligned to pre-covid levels but still there is marginal increase in CMR 7-10 enquiries.



Loan Originations: Pre & Post Covid

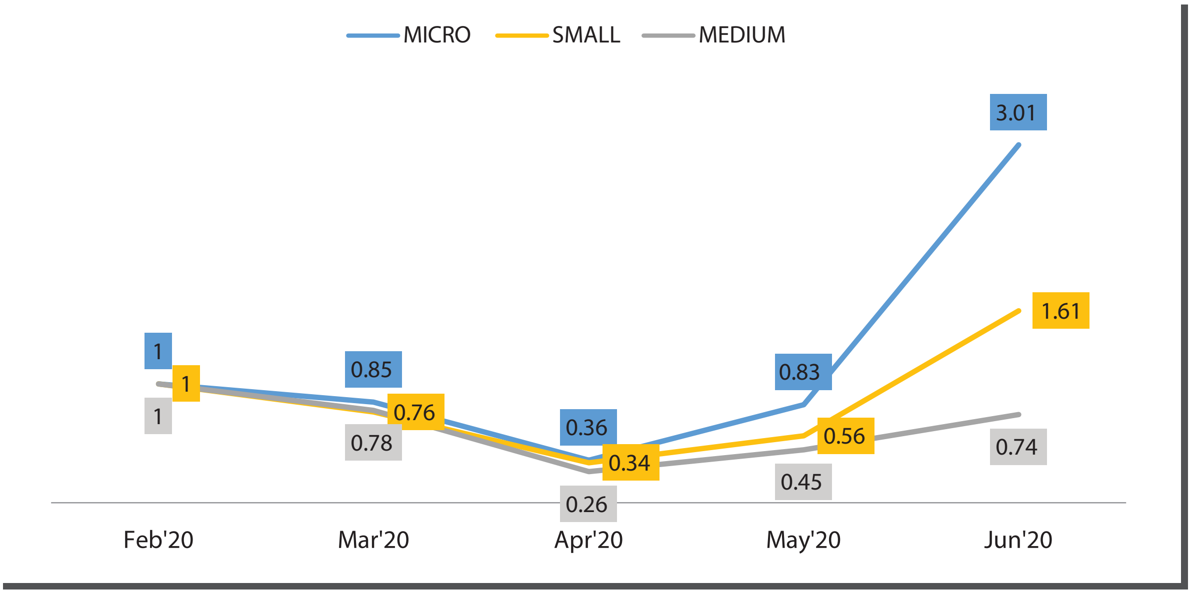
From Exhibit-1, it is evident that credit growth has started to show signs of slowed down even pre-covid and outbreak of covid has further impacted the recovery process and contracted credit further. To overcome this, the government and the regulators have responded by providing an economic stimulus package to enhance liquidity and to ensure the cash flow for businesses. The number of accounts disbursals were very low in Apr'20 in MSME segment, but credit activity has picked-up since Jun'20. To understand the impact of covid on credit supply to MSMEs, number of disbursals done on MSME entities in Feb'20 are indexed to 1. In Apr'20, when lockdown was imposed, disbursals declined by 0.35x of pre-covid disbursals in Feb'20 and increased significantly in Jun'20 to 2.55x.

Exhibit 15: Month on month credit disbursals (by volume) indexed to Feb'20



Highest number of loan disbursals observed in Micro segment followed by Small segment. Disbursals in Medium segment is yet to recover to pre-covid levels in volume terms.

Exhibit 16: Month on month credit disbursals (by volume) across segments indexed to Feb'20



Disbursals by geography:

Diving further into geography, the trends are similar to credit enquiries with Urban, Semi-Urban and Rural regions experiencing sharper rise in Jun'20 volumes than Metro regions.

Exhibit 17: Month on month loan disbursals (by volume) by region [Feb disbursals indexed to 1]

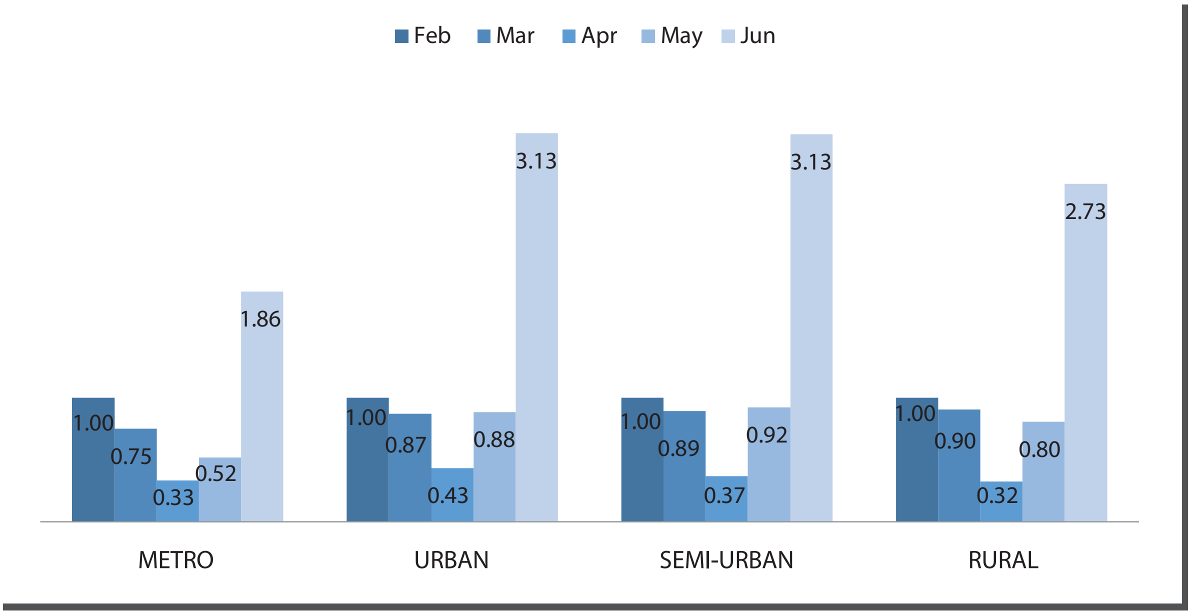
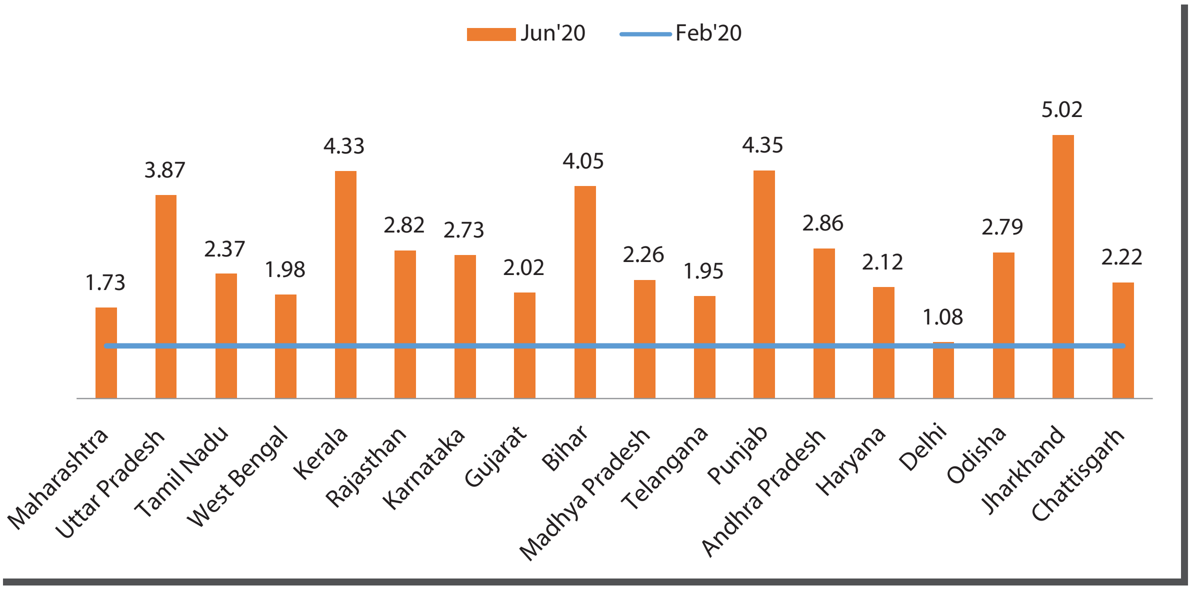


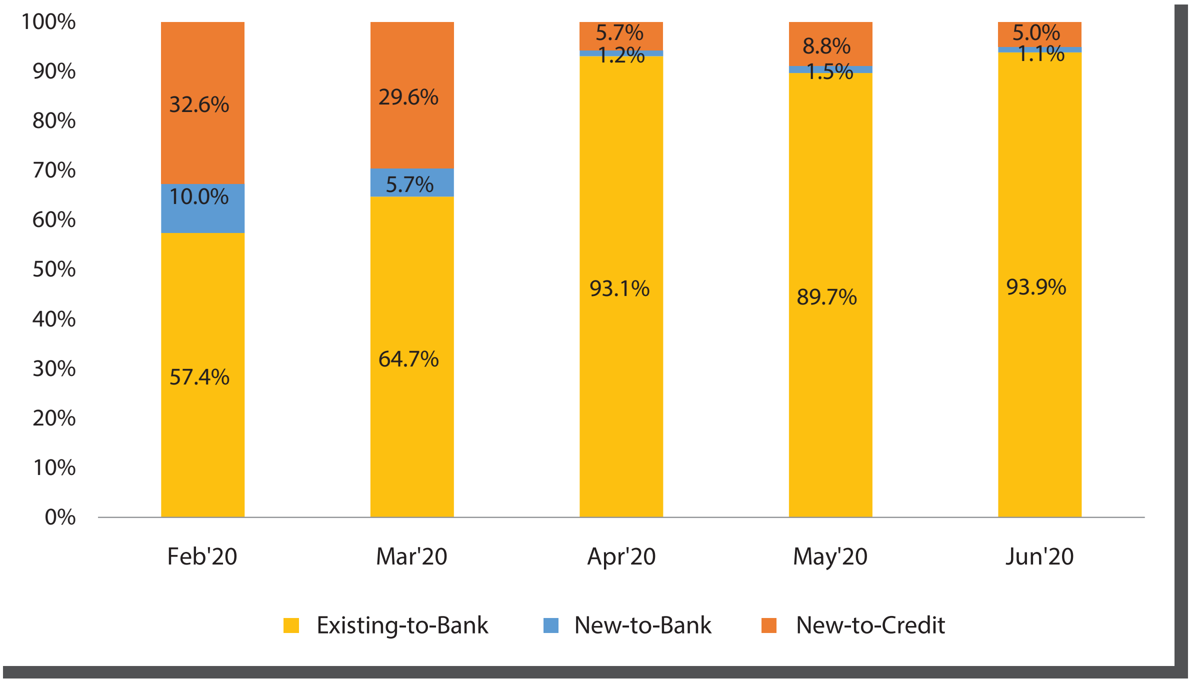
Exhibit 18: Month on month loan disbursals (by volume) by State [Feb disbursals indexed to 1] Sorted in decending order of loan disbursals for jun' 20



To understand the way lenders have reacted in term of credit supply to borrowers, share of disbursals observed across New-to-Bank (NTB), Existing-to-Bank (ETB) and New-to-Credit (NTC).

It is witnessed that the proportion of disbursals (by value) is highest for ETB borrowers in pre-covid times, and has taken a much dominant position post-covid till Jun'20. Whereas NTB and NTC credit disbursals have reduced. Though it is important to note that July'20 and Aug'20 enquiries have shown an improvement in NTB and NTC enquiries share, so we can expect improvement for their share in disbursals also.

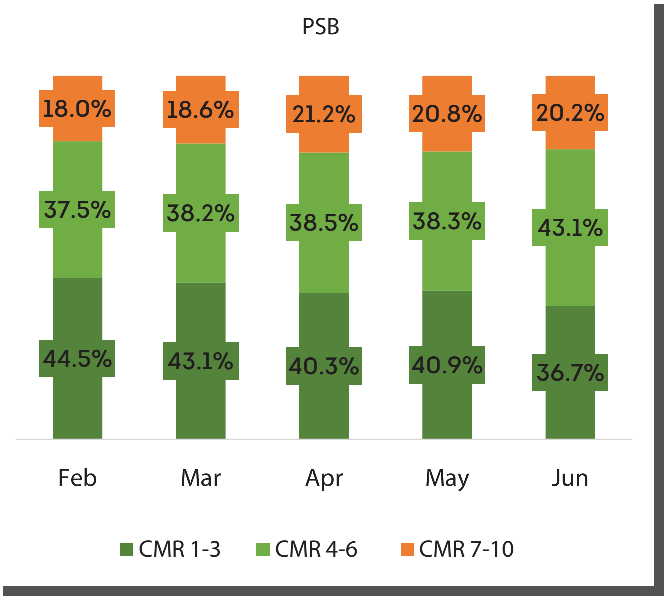
Exhibit 19: Month on month loan disbursals (by volume) by borrowers type

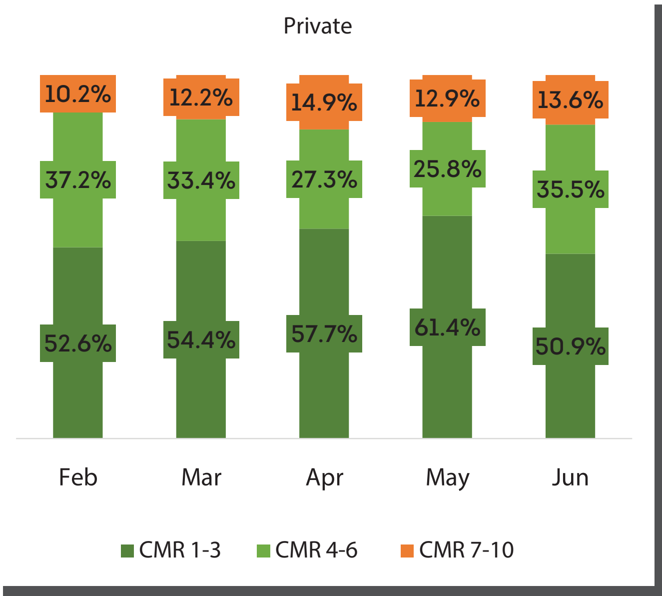


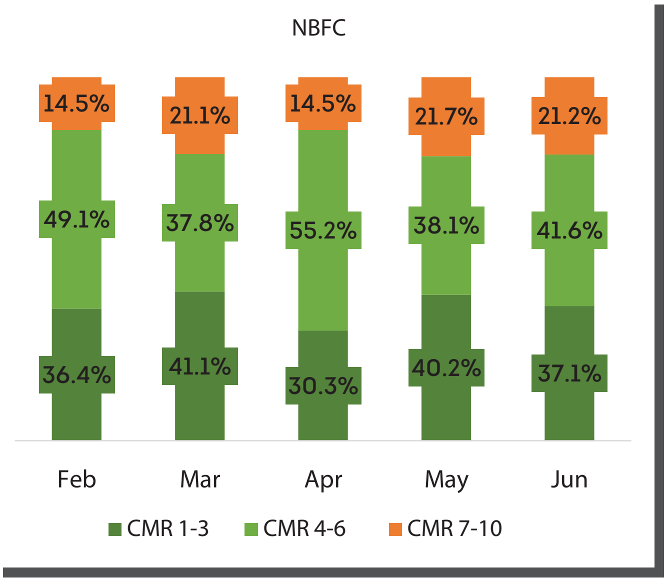
Changing CMR distribution on disbursals- lender-wise rank distribution of PSB/PVT/NBFC

At industry level, disbursals have shifted towards CMR 1-3 and CMR 4-6 segment for all lender groups for Jun'20. Though with the backdrop on 100% credit guarantee in ECLGS, it may not impact the credit cost of lenders. And as seen in credit enquiries CMR distribution for Aug'20 has improved towards lower risk CMR segments.

Exhibit 20: Month on month loan disbursals (by volume) by CMR



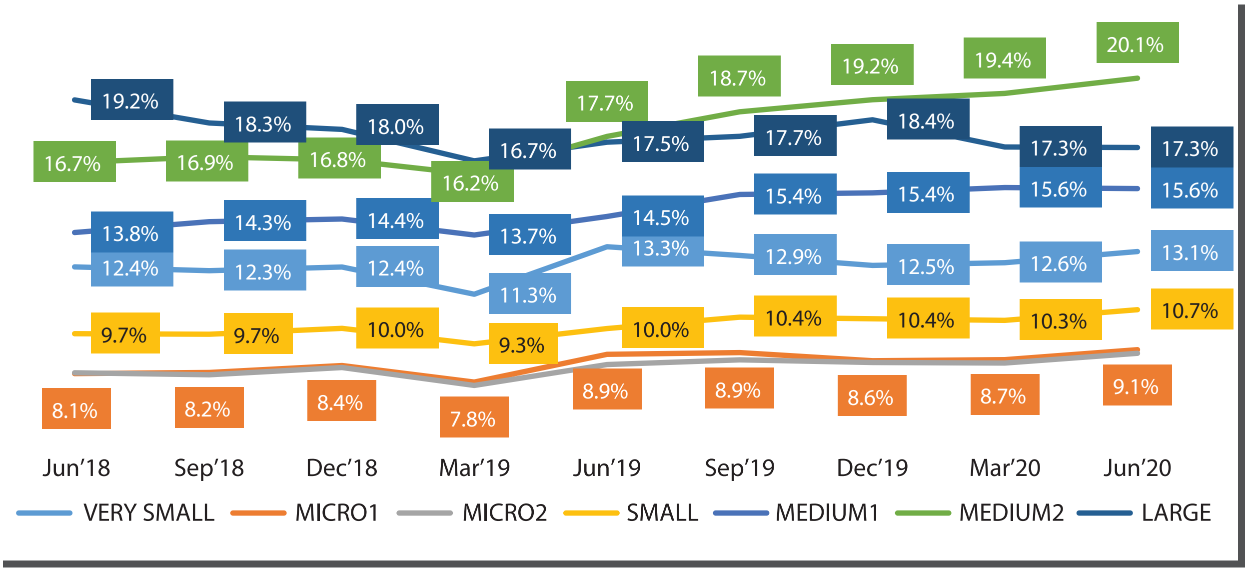




NPA Trends in MSME lending

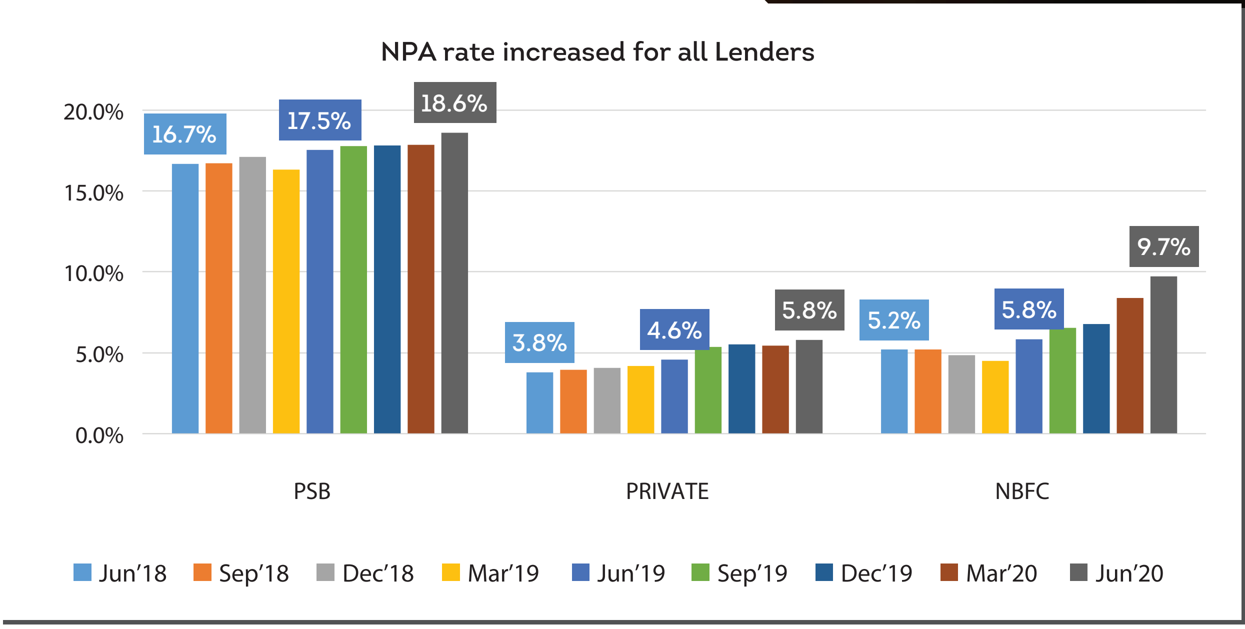
The overall NPA rate in commercial lending has remained stable at 16.1% in Jun'20, similar to Jun'19. When compared with Mar'20, NPA rates have increased slightly for most of the sub-segments. Within the MSME sub-segments, the NPA rates are generally higher for sub-segments with larger ticket sizes. The exception to this trend is the Very Small segment (less than ₹ 10 lakhs exposure) which has a higher NPA rate of 13.1% in Jun'20.

Exhibit 21: Segment-Wise NPA Rate



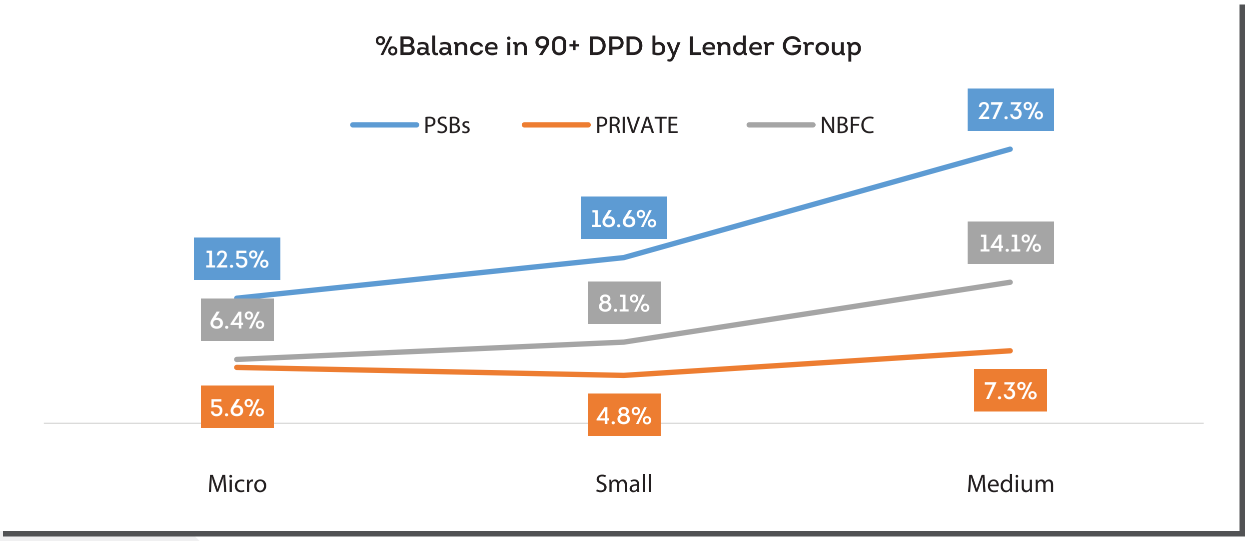
NPA Rate for MSMEs across lenders: NPA in MSMEs have increased for all lenders, from 11.4% in Jun'19 to 12.8% in Jun'20. Private Banks NPA rates have increased from 4.6% in Jun'19 to 5.8% in Jun'20. The NPA rates of PSBs have increased from 17.5% in Jun'19 to 18.6% in Jun'20. But, NBFCs have witnessed the most significant increase in NPA rates from 5.8% in Jun'19 to 9.7% in Jun'20. One of the reasons for a sharp increase in NBFCs NPA rates is their most pronounced slowdown in MSME credit growth.

Exhibit 22: NPA Rates of lender group in MSME Segment



A cross-tab outlook of lender group and MSME sub-segment shows that Private Banks have lowest NPA rates even at sub-segment levels and PSBs have highest NPA rates across sub-segments. Also, the trend that NPA rates are generally higher for sub-segments with larger ticket sizes, broadly holds true even for each lender group.

Exhibit 23: NPA Rates of lender group across MSME Segments for Jun'20



Structurally strong MSMEs continue to be resilient

Covid-19 pandemic has posed many challenges for MSMEs which have affected every MSME in some shape and form. In the previous MSME Pulse, a study was published highlighting that structurally strong MSMEs are in better position to face upcoming challenges posed by covid-19 pandemic. And now, as we see early signs of performance by MSMEs, this study aims to bring out the impact of covid-19 pandemic on different MSMEs. The following time snapshots are considered in this study to understand impact on MSME borrowers.

- Post-Covid: Snapshot of performance changes in four months window of Mar'20 to Jun'20.
- Pre-Covid: Same period a year earlier i.e. snapshot of performance changes in four months window of Mar'19 to Jun'19.

Borrowers with live credit facilities between Feb'20 and Jun'20 are considered for this analysis. They are further classified into segments based on types of loans taken to observe appropriate risk indicators as performance. For MSME borrowers with at least one term-loan, the performance indicator observed is missed payment. Missed payment is defined as loans where payment was required to be made, but the payment was not made between Mar to Jun.

Similarly, for MSME borrowers with at least one overdraft / cash credit facilities performance indicator considered is transition in utilization rates. Utilization rate is defined as the ratio of outstanding credit balance across all lenders to credit limit across all lenders, for relevant credit facilities.

MSME borrowers profiled based on these characteristics:

- Type of Loan: Out of the total ₹18.2 lakh crores MSME outstanding as of Feb'20, 18% outstanding belong to the entities who have only Term Loans and 43% belongs to entities having only Working Capital Loans. Remaining 39% fund based outstanding belong to entities having both TL and WC facilities as of Feb'20.

Type of loan	Feb'19	Feb'20
Only TL	16%	18%
Only WC	39%	43%
TL+WC	45%	39%

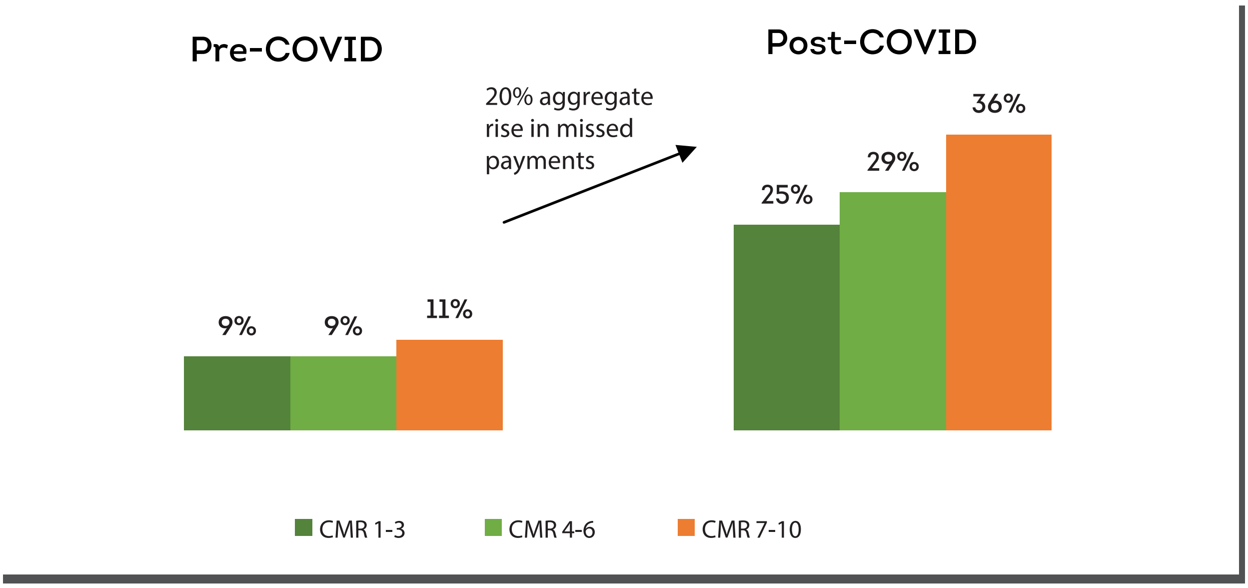
- CIBIL MSME Rank (CMR): CMR distribution shows that super-prime segment of CMR 1 to CMR-3 is 34%, prime segment CMR-4 to CMR-6 comprises 36% and remaining 29% in sub-prime segment fall in CMR-7 to CMR-10 range.

CMR	Feb'19	Feb'20
CMR 1-3	30%	34%
CMR 4-6	38%	36%
CMR 7-10	32%	29%

Structurally strong MSMEs have lower missed payments post-covid

MSME segment with at least one term loan had 9% to 11% missed payments in the pre-covid times depending upon their CMR. In the post-covid times the missed payments for the four months window of Mar'20 to Jun'20 have increased to about 30%. But, the rise in missed payments post-covid is far more pronounced by MSME's CMR than pre-covid times.

Exhibit 24: Proportion of Missed Payments for Term Loan across CMR



In the 4 month window of post-covid time, CMR-1 to CMR-3 have lowest missed payments to the tune of 25% compared to 36% in CMR-7 to CMR-10. Indicating that structurally strong MSMEs continue to be relatively more resilient in the economic shock posed by COVID-19 pandemic.

Super-prime MSMEs have lower transition into higher utilization rate buckets

Utilization level of borrowers are bucketed in following groups <50%, 50%-75% and 75%+. The transition matrix of borrowers is studied for the four months from Mar'20 to Jun'20 across the above defined utilization rate buckets. And transition matrix are studied separately based on borrowers' structural strength using CMR.

Exhibit 25: Transition of Utilization levels for Working Capital Loans

		Utilization Rate Bucket as of Jun'20			
CMR as of Mar'20	Utilization Rate Bucket as of Mar'20	<50%	50-75%	75%+	Proportion of borrowers as of Feb'20
CMR1-3	<50%	77%	14%	9%	12.9%
	50-75%	34%	44%	22%	4.9%
	75%+	12%	16%	72%	10.7%
CMR4-6	<50%	69%	16%	14%	8.6%
	50-75%	23%	49%	28%	6.3%
	75%+	6%	10%	84%	28.3%
CMR7-10	<50%	87%	7%	6%	5.8%
	50-75%	14%	71%	15%	2.6%
	75%+	2%	3%	95%	19.9%

The sub-prime segment of CMR 7 to CMR-10 have very restricted transition of utilization rates because most of the borrowers already have high utilization rates. But, between the prime and super-prime segment, it is evident that prime segment of CMR-4 to CMR-6 has relatively higher transition into high utilization rate buckets than super-prime segment of CMR-1 to CMR-3.

To summarize, if missed payments and increasing utilization rates are considered as early signs of stress build up then structurally strong MSMEs continue to be relatively more resilient even in covid pandemic situation.

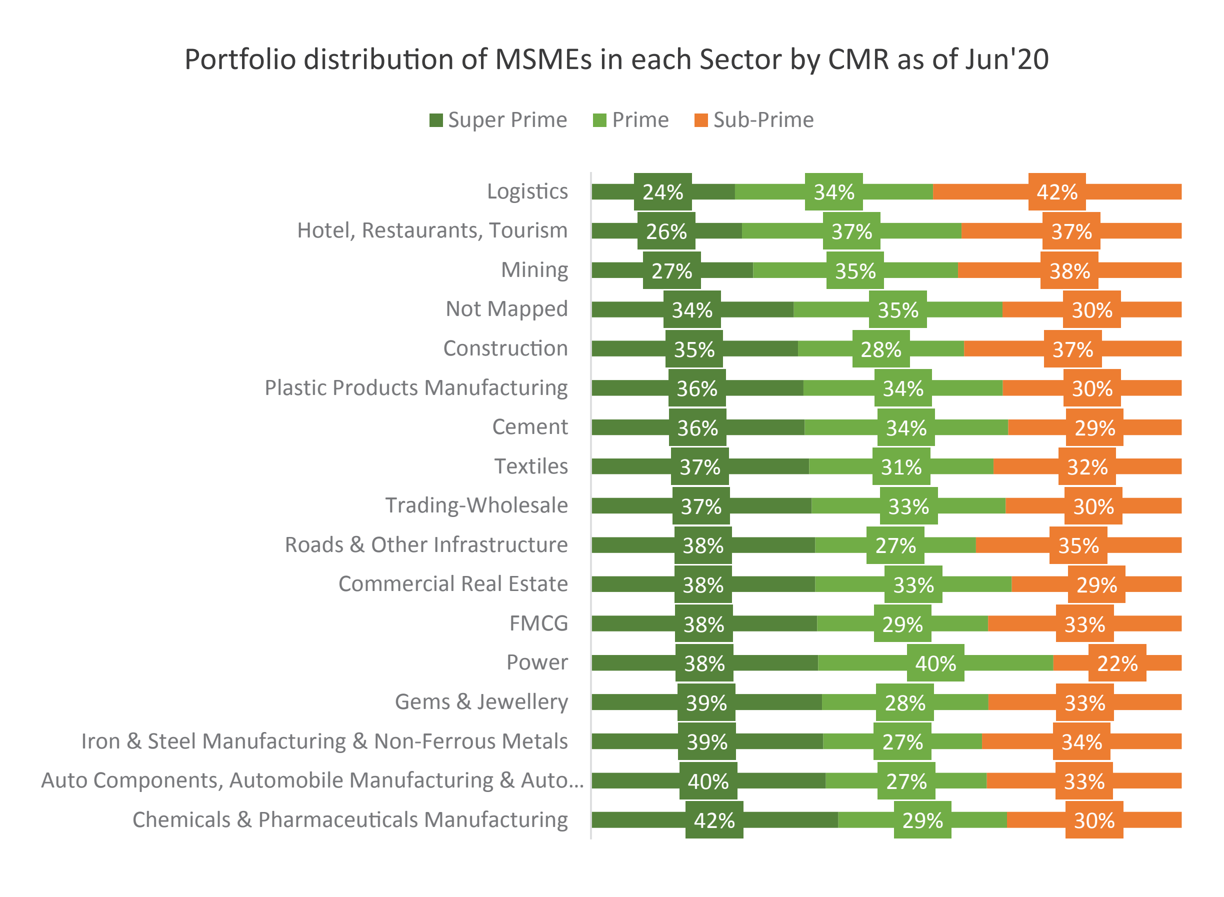
Sectoral Risk Assessment of MSMEs

Sector-wise risk assessment of MSME borrowers is done to understand structural strength of MSMEs in each sector. The sectors for which the analysis is conducted are taken from RBI's expert committee chaired by KV Kamath on 'Report of the Expert Committee on Resolution Framework for Covid-19 related Stress'. CMR distribution of MSMEs has marginal movement between Feb'20 and Jun'20, hence the latest CMR is used for this analysis.

The CMR distribution for all sectors is very different from each other. Logistics, Hotel-Restaurant-Tourism and Mining sectors have lower proportion of Super-prime MSMEs. And Chemical & Pharmaceuticals manufacturing and Auto components, manufacturing & dealership sectors have relatively highest share of super-prime MSMEs.

Another perspective is that all sectors have some MSMEs which are either structurally strong or weak. The covid situation might not have impacted all sectors equally, but we can see that there are still a large majority of MSMEs across sectors are structurally strong and shall be better placed in current economic challenges.

Exhibit 26: Portfolio distribution of MSMEs for sectors mentioned in Kamath Committee by CMR as of Jun'20[4]



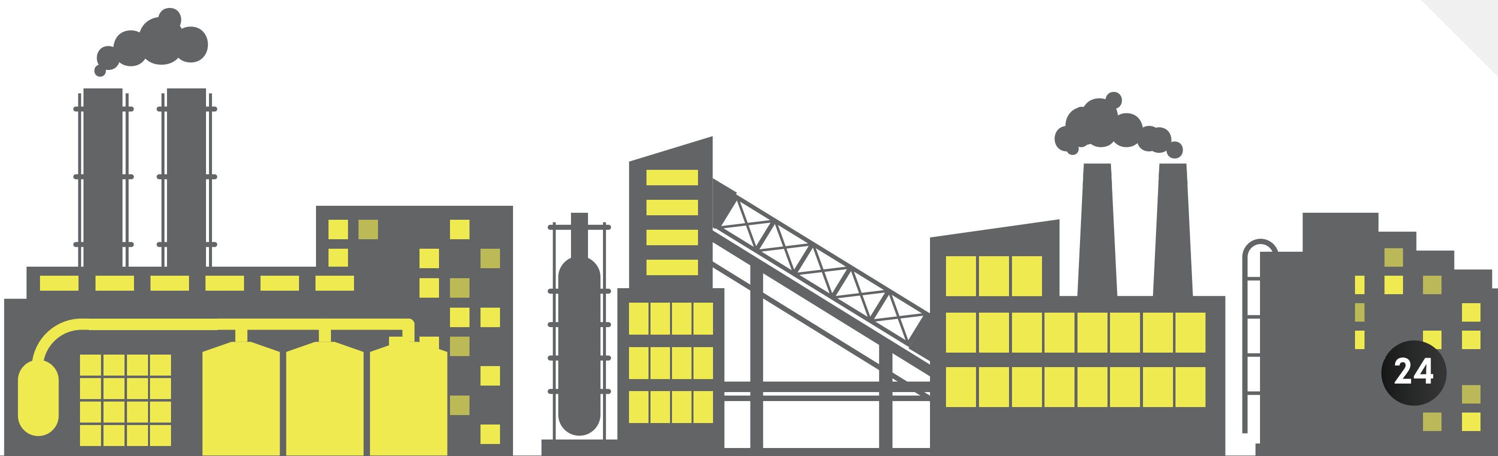
[4.] Sectors are mapped on best effort basis using information submitted by lending institutions to TransUnion CIBIL's commercial credit database; Kamath committee report only mentions Road, information in 4. Roads & Other Infrastructure is for full infrastructure sector; Kamath committee report mentions Consumer Durables/Food, information in 9. FMCG is for food processing and beverages sector; Companies which either belong to a different sector than mentioned in Kamath committee or sector information is not available are mentioned as Not Mapped; MSMEs categorized based on CMR as Super Prime: CMR-1 to CMR-3, Prime: CMR-4 to CMR-6 and Sub-Prime: CMR-7 to CMR-10

Conclusion

The economic situation due to covid pandemic has thrown many challenges and opportunities to MSME lending ecosystem over the last six months. All the ecosystem players have been adapting continuously to the new normal of lending to MSMEs.

The timely release of ₹3 lac crores package for MSMEs by government and a swift adoption of the package by lenders provided the much needed platform for MSMEs to leverage in current times. We are observing states like Bihar, Jharkhand,Punjab and Kerala taking a lead in the bounce back of MSME lending and the usual hot beds of lending like Maharashtra and Delhi lag behind in the bounce back story. While a lot of focus is towards driving credit to MSMES, from a risk perspective the structurally strong MSMEs still continue to be resilient.

As we progress further into the new normal, we shall see many new challenges and opportunities unfold for the ecosystem. The requirement of closely monitoring the finer nuances of MSMEs at an industry level and taking timely and optimal interventions shall be the cornerstone of sustained growth for lenders, MSMEs and the economy in the long run.



About SIDBI

Small Industries Development Bank of India has been established under an Act of the Parliament in 1990. SIDBI is mandated to serve as the Principal Financial Institution for executing the triple agenda of promotion, financing and development of the Micro, Small and Medium Enterprises (MSME sector) and co-ordination of the functions of the various Institutions engaged in similar activities. Over the years, through its various financial and developmental measures, the Bank has touched the lives of people across various strata of the society, impacted enterprises over the entire MSME spectrum and engaged with many credible institutions in the MSME ecosystem. For more information, visit www.sidbi.in.

About TransUnion CIBIL

TransUnion CIBIL is India's leading credit information company and maintains one of the largest repositories of credit information globally. We have over 3000 members–including all leading banks, financial institutions, non-banking financial companies and housing finance companies–and maintain more than 900 Million credit records of individuals and businesses.

Our mission is to create information solutions that enable businesses to grow and give consumers faster, cheaper access to credit and other services. We create value for our members by helping them manage risk and devise appropriate lending strategies to reduce costs and increase portfolio profitability. With comprehensive, reliable information on consumer and commercial borrowers, they are able to make sound credit decisions about individuals and businesses. Through the power of information, TransUnion CIBIL is working to support our members drive credit penetration and financial inclusion for building a stronger economy

We call this Information for Good.

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