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MSME PULSE

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Executive Summary

Quarterly Commercial credit growth has slowed down: Commercial credit which has been steadily growing over the past few years, has slowed down in the quarter ending Jun'19. The Year-On-Year (YOY) commercial credit growth was at 10.4% in the quarter ending in Jun'19. However, a Quarter-on-Quarter (QoQ) comparison, suggests that Jun'19 quarter ending exposure levels are lower than Mar'19 quarter ending exposure by 2.6%. The total on balance sheet commercial lending exposure in India declined to ₹63.8 Lakh Crores in Jun'19 from ₹65.5 Lakh Crores in Mar'19.

Micro Loans (less than ₹1 Crore) and SME Loans (₹1 Crore - ₹25 Crores) have shown an annual growth of 12% in Jun'19 over Jun'18. While MID (₹25 Crores - ₹100 Crores) segment has grown merely at 3.6%, the Large (>₹100 Crores) segment shows 10.8% annual growth rate.

Marginal deterioration in asset quality: The NPA rate surged to 16.1% in Jun'19 from 15.5% in Mar'19. The overall NPA rate of commercial lending was at 17.2% in Jun'18. NPA rates in Micro and SME segment have remained range bound between 8.5% (Jun'18) to 8.7% (Jun'19) and 10.6% (in both Jun'18 and Jun'19) respectively over last one year. Growth in credit exposure is proportional to gross NPA amount in Micro & SME segment and therefore the NPA rate remains range bound. Crucial to note that NPA rate in commercial lending was at a peak of 17.2% in Jun'18.

NBFCs lose market share: Non-Bank Financial Companies (NBFCs) that were steadily gaining market share across all commercial credit segments, could not maintain the pace in H1-2019. Public Sector Banks have traditionally been the largest lender to the MSME (Micro and SME Segment) sector. Over the few years, Private Banks and NBFCs have successfully managed to gain market share from Public Sector Banks on MSME lending. However, in the quarter ending Jun'19, the share of NBFCs has declined for the first time in the last two years. NBFCs have also witnessed an increase in NPA rates in the same period.

Negative credit growth for NBFCs in H1-2019: NBFC credit outstanding shows a 1% decline over a six month period (Jan - Jun'19) versus same period last year. NBFCs credit growth was at 17.9% last year from Jan'18 - Jun'18 period. The absolute NPA amount has also increased in the range of 25-28%. The NPA rate for NBFCs has escalated to 5.9% in the quarter ending Jun'19 from 4.4% in Jun'18. Slowdown in credit growth coupled with the ongoing crisis the NBFC industry is facing, has contributed to the decline in asset quality for the segment.



Rate of default on rise, even though acquisition quality has improved: The number of loan acquisitions in H1-2019 has reduced by 8% over H1-2018. Even though latest acquisitions are better quality, the overall rate of default has increased in Jun'19 as compared to previous quarters. Analysis also reveals that the ratio of total loans sanctioned over total enquiries made by NBFCs has also reduced, indicating a decline in approval rate.

Building Credit Risk in MSMEs of Auto Industry: Auto industry has historically been one of the best performing industries. While some of the other industries, like Textiles and Construction have seen a rise in the NPA rates, Auto industry continues to be the lowest delinquent industry. About 45% of MSMEs in Auto industry belong to CMR-1 to CMR-3 compared to 38% for MSMEs in other industries. Change in the riskiness of Auto Industry MSMEs is measured using their CMR (CIBIL MSME Rank) transition between Jun'17 and Jun'19. The CMR transition matrix for Auto industry MSMEs between June'17 - June'18 had a 2-notch downgrade in CMR-1 to CMR-3 between 12% and 15%, this has increased between 14% to 24% in the June'18 to June'19 period. This indicates that the good MSMEs in Auto industry have downgraded more than last year.

Commercial lending – Portfolio and NPA trends

The total on balance sheet commercial lending exposure in India stood at ₹63.8 Lakh Crores, as of Jun'19, with Micro and SME¹ segments constituting ₹15.7 Lakh Crores exposure (~24.5% of commercial credit outstanding). Large corporates having aggregated credit exposure of more than ₹100 Crores, account for ₹42.4 Lakh Crores (~66.5% of commercial credit outstanding).

Micro Loans (less than ₹1 Crore) and SME Loans (₹1 Crore-₹25 Crores) in the commercial lending space showing YOY growth of 12% for the period Jun'18 - Jun'19. While MID (₹25 Crores - ₹100 Crores) segment has grown just by 3.6%, Large (>₹100 Crores) segment has shown reasonable growth of 10.8% from Jun'18 - Jun'19.

	Micro <₹1 Crore	SME ₹1-25 Crores	Mid ₹25-100 Crores	Large >₹100 Cr	Overall
Jun'17	3.27	8.09	4.97	34.45	50.77
Sep'17	3.48	8.47	5.17	34.75	51.86
Dec'17	3.74	8.88	5.40	36.40	54.41
Mar'18	4.04	9.59	5.50	37.82	56.95
Jun'18	4.13	9.86	5.52	38.30	57.81
Sep'18	4.29	10.03	5.54	39.88	59.73
Dec'18	4.58	10.59	5.75	41.15	62.08
Mar'19	4.78	11.40	5.91	43.43	65.52
Jun'19	4.62	11.04	5.72	42.42	63.80
Y-o-Y growth (Jun'18 - Jun'19)	12.0%	12.0%	3.6%	10.8%	10.4%

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

Source: TransUnion CIBIL

Commercial loans classified into various segments basis credit exposure aggregated at entity level, Micro less than ₹1 Crore, SME ₹1 Crore-₹25 Crores, MID ₹25 Crores-₹100 Crores, Large >₹100 Crores, Stated credit exposure is fund based

NPA Trends in Commercial Lending: The overall NPA rate of Commercial Lending was at 16.1% in Jun'19 v/s 17.2% in Jun'18. While the credit has grown by 10.4%, gross NPA has increased by 3.2%. The stock of gross NPA in commercial exposure increased by ₹31.6 K Crores in Jun'19 over Jun'18.

Looking into individual segments further, NPA rates in Micro and SME segment have remained range bound between 8.5% (Jun'18) to 8.7% (Jun'19) and 10.6% (Jun'18 and Jun'19) over last one year. The growth rate in credit exposure and gross NPA amount in Micro/SME segment are comparable.

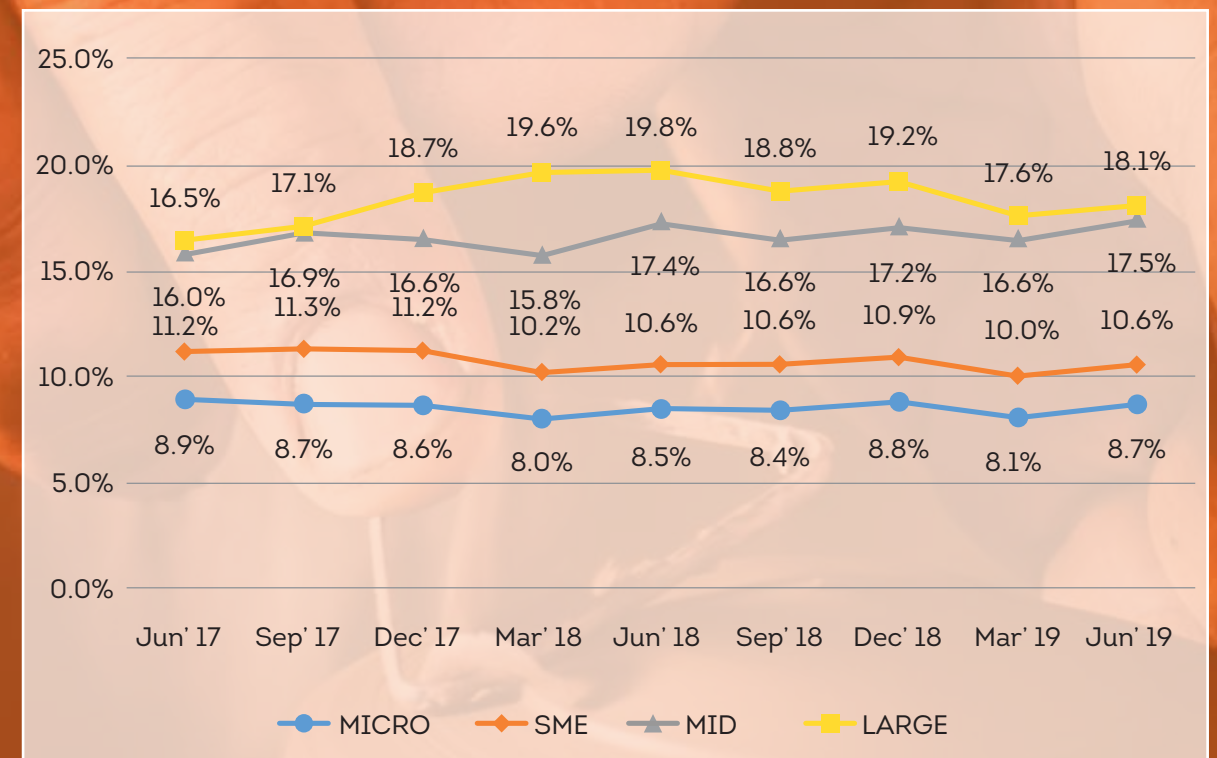


Exhibit 2: Segment-Wise NPA Rate

MICRO AND SME SEGMENT

This section delves into detailed analysis on sub-segment of Micro and SMEs where entity-wise credit exposure is less than or equal to ₹ 25 Crores. Micro is further classified as Very Small, Micro1 and Micro2 and SME segment is classified as SME1, SME2.

Period	Very Small less than ₹10 Lakhs	Micro 1 ₹10-50 Lakhs	Micro 2 ₹50 Lakhs - 1 Crore	SME 1 ₹1- 15 Crores	SME 2 ₹15-25 Crores	SME upto ₹25 Crores
Jun'17	0.64	1.57	1.05	6.49	1.60	11.36
Sep'17	0.70	1.65	1.12	6.81	1.66	11.95
Dec'17	0.79	1.78	1.18	7.13	1.74	12.62
Mar'18	0.83	1.93	1.28	7.79	1.81	13.63
Jun'18	0.81	1.99	1.33	8.05	1.80	13.99
Sep'18	0.85	2.07	1.37	8.18	1.84	14.32
Dec'18	0.91	2.19	1.48	8.63	1.96	15.17
Mar'19	0.94	2.28	1.56	9.34	2.06	16.18
Jun'19	0.91	2.21	1.51	9.07	1.96	15.66
Y - o - Y Credit growth (From (Jun'18 - Jun'19)	11.3%	10.9%	13.9%	12.7%	8.9%	12.0%

Exhibit 3: On Balance Sheet MSME Credit Exposure (In ₹ Lakh Crore)

Source: TransUnion CIBIL

For the period of Jun'18 - Jun'19, the entities having less than ₹25 Crores credit exposure have shown credit growth of 12.0% as against a growth rate of 23.1% between Jun'17 - Jun'18. Very Small segment (less than ₹10 Lakh exposure) have shown credit growth of 11.3% from Jun'18 - Jun'19 as against a growth rate of 26.2% between Jun'17 - Jun'18.

Within the MSME segment, the NPA rates are higher for larger size exposures. The exception to this trend is the Very Small segment (less than ₹10 Lakhs exposure) which has a higher NPA rate of ~11.6% in Jun'19. The larger SME2 segment (₹15-25 Crores credit exposure) also exhibits higher NPA rate of 14.4% in Jun'19.

NPA reduced significantly in Mar'19 but surged thereafter

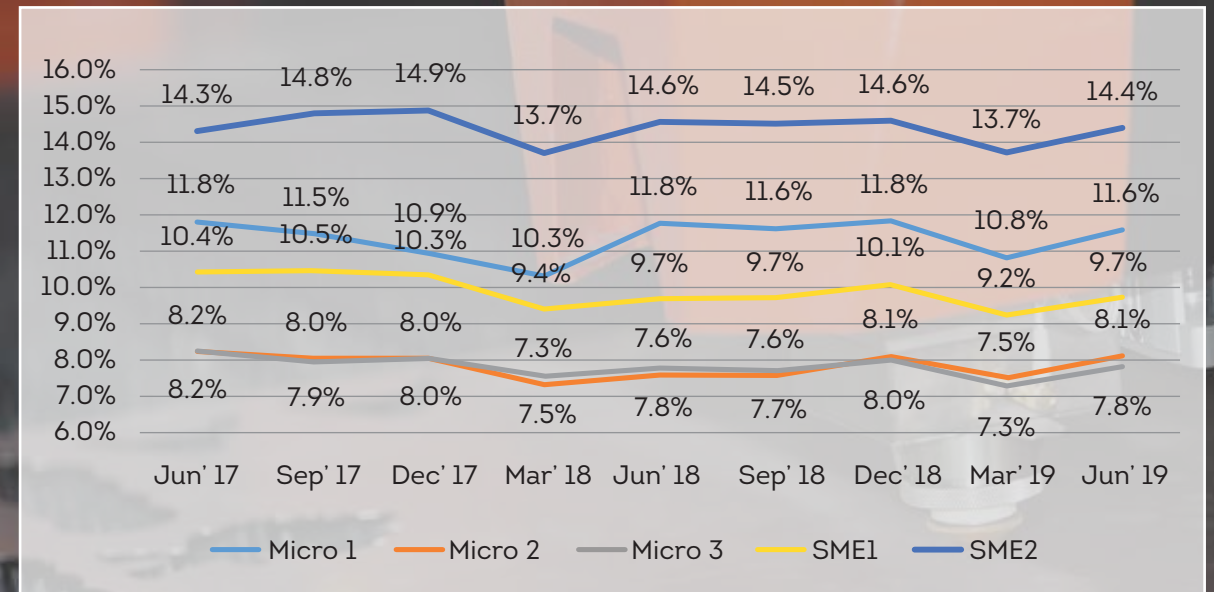


Exhibit 4: MSME NPA Rate

Source: TransUnion CIBIL

NBFCs LOSE MARKET SHARE

Public Sector Banks have traditionally been the dominant lenders to the MSME (Micro and SME Segment) sector. In last few quarters prior to Jun' 19, Private Banks and NBFCs have successfully competed with Public Sector Banks in getting a larger share of the MSME sector. However, in the quarter ending Jun' 19, NBFCs share has declined for the first time in two years.

Market-Share Dynamics: For private sector banks, lending to MSMEs has grown by 16.4% from Jun'18 - Jun'19. The market share of Private Banks in MSME lending has increased to 38.1% in Jun'19 from 35.7% in Jun'18

The market share of public sector banks in MSME lending has fallen to 49.2% in Jun' 19 from 52.7% in Jun' 18 but it has shown marginal quarterly growth from 48.9% to 49.2% from Mar'19 to Jun'19. NBFCs market share has reduced from 13.7% to 12.6% between Mar'19 and Jun'19.

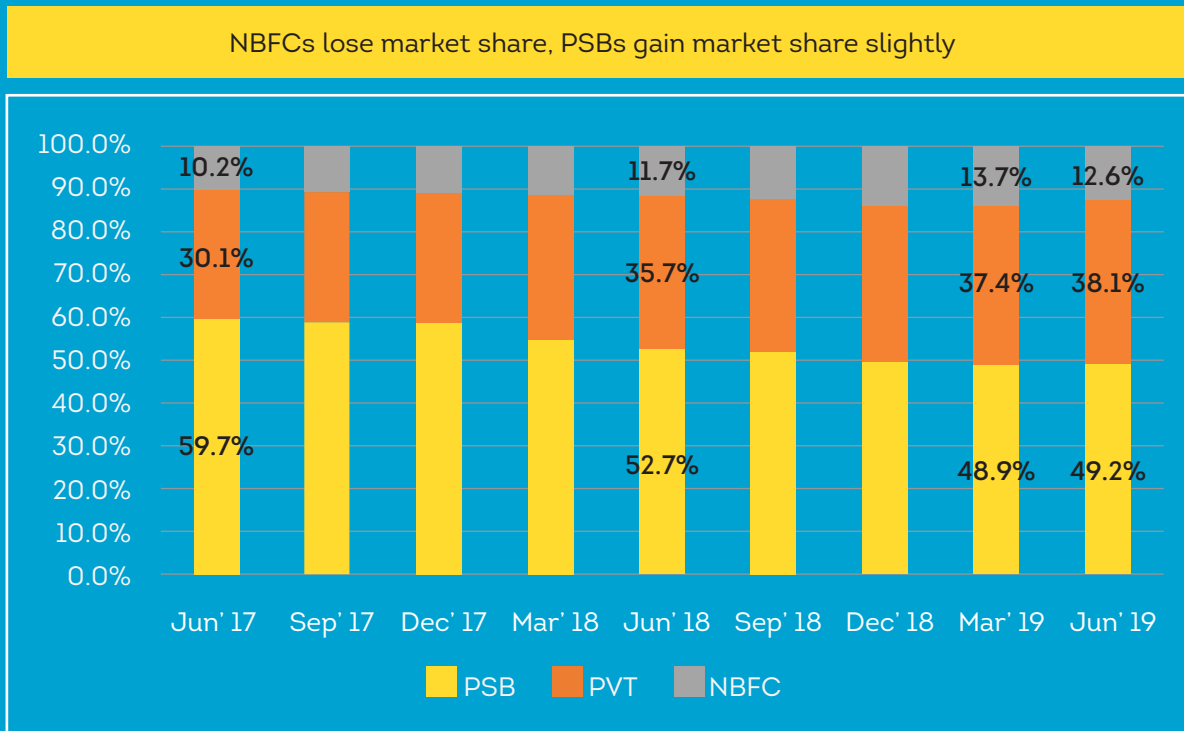


Exhibit 5: Credit to GDP Ratio in MSME Segment

*Other lenders excluded for market share analysis



NPA: Private Banks exhibit NPA levels in the range of 3% - 4% in the MSME segment. Within this, New Private Sector Banks on an average exhibit the lowest delinquency rates. The NPA level of the PSBs has increased from 15.4% in Jun' 18 - 16.1% in Jun' 19. NBFCs have also witnessed an increase in NPA rates in the quarter ending Jun' 19.

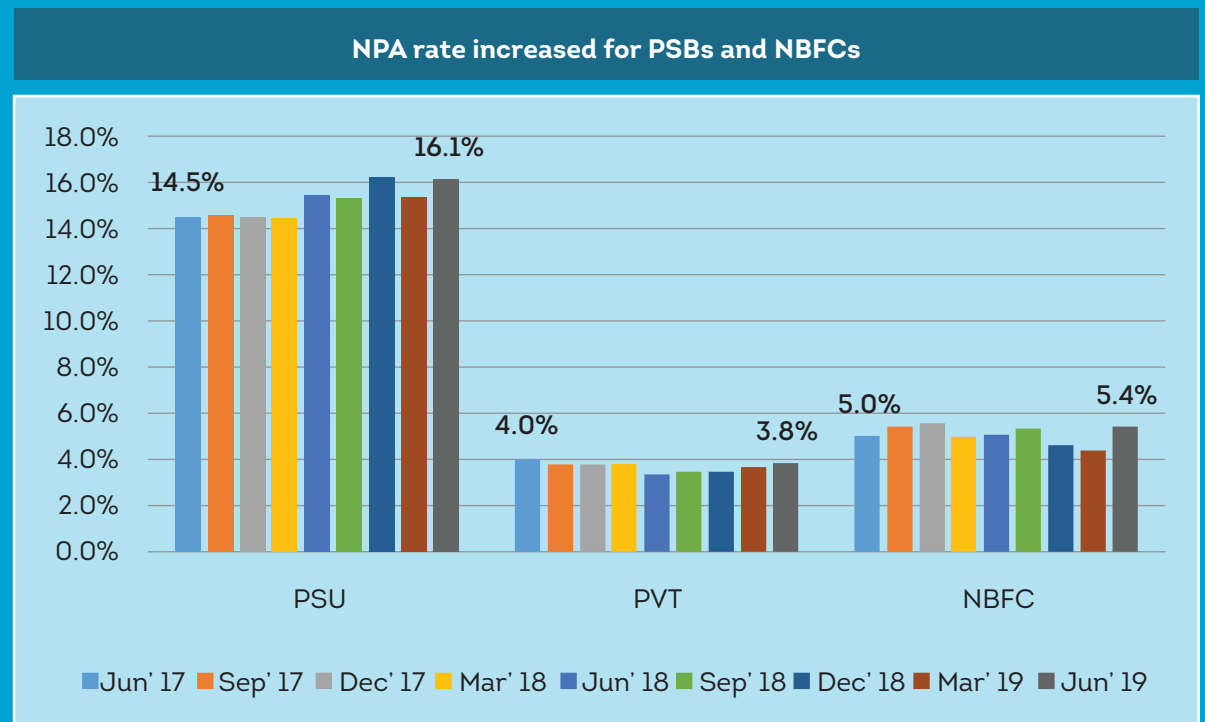


Exhibit 6: NPA Rates of Lender Types in MSME Segment

STUDY ON NBFC SLOWDOWN

Given that, NBFCs contribute almost 10% of the total commercial credit in India, credit outstanding by non-banking finance companies (NBFCs) have plunged by 19% in a year from Jun' 18 - Jun' 19, from 31% a year before from Jun'17 - Jun'18.

Credit growth and NPA trends

The entire commercial entity segment is considered for the analysis of NBFCs credit and NPA trends over last 2 years from Jun' 17 - Jun' 19. Total credit exposure of NBFCs in Jun' 17 was ₹3.97 Lakh Crores and NPA rate was 5.1%. To study the credit growth vis-à-vis gross NPA growth, credit outstanding balance and gross NPA in Jun' 17 is scaled to 1. For every six month period, credit and gross NPA amount is observed. The study reveals that NBFC credit outstanding has dropped 1% at the end of Jun' 19 in last 6 months from Dec' 18. In the earlier year, credit growth between Dec' 17 and Jun' 18 was 17.9% for 6 months period.

Last 6 months comparison of credit and gross NPA trends for NBFCs show that NBFC loan growth is in negative zone, while gross NPA continue to grow in similar ratio. This is leading to a surge in NPA rate in the last 6 months from 4.7% to 5.9% for all commercial entities.

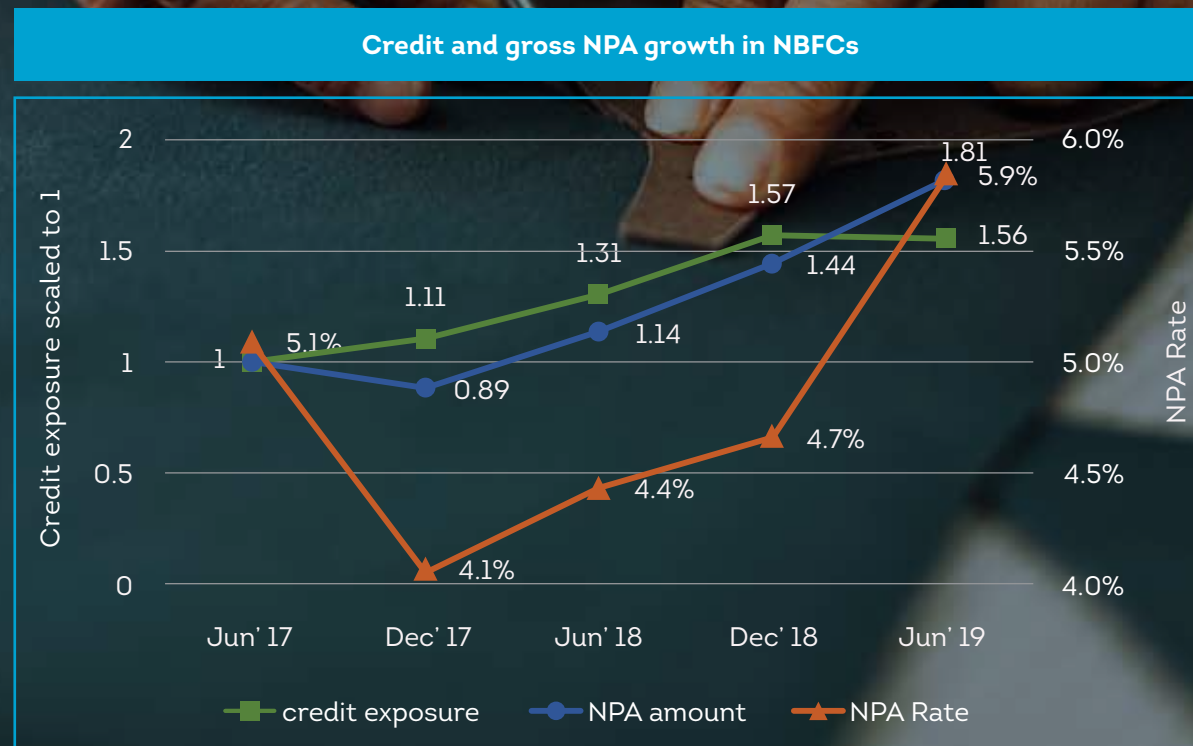


Exhibit 7: Credit and NPA growth of NBFCs

Above chart depicts that while the credit outstanding for NBFCs have grown with a CAGR of 25% in two years period from Jun' 17 - Jun' 19, gross NPA balance has increased with a CAGR of 35% for the same period. NPA rate in Jun' 17 was observed at 5.1% which declined in Dec' 17, but has continuously increased till Jun' 19.

	Jun'17	Dec'1	Jun'18	Dec'18	Jun'19
Credit Growth	-	10.8%	17.9%	20.4%	-1.0%
NPA amount growth	-	-11.4%	28.5%	26.7%	25.8%

Exhibit 8: Half Yearly Credit and NPA Balance Growth

*Credit growth computed for every six month periods starting Jun' 17 - Jun' 19

Above table summarizes the credit growth for six months period between Jun' 17 and Jun' 19. Absolute NPA amount has increased in the range of 25-28%. For the period from Dec' 18 to Jun' 19, since the credit growth is negative and gross NPA amount is increasing continually, NPA rate of lending has slipped to 5.9% in the quarter ending Jun' 19 from 4.7% in Dec' 18. The worsening growth in slowdown pose challenges to their asset quality.

Loan Demand and Supply

After witnessing strong growth over the past few years, NBFCs credit growth slowed down in past few quarters in 2019 due to the liquidity conditions. Total loans sanctioned by NBFCs was highest in calendar years H1-2018 (Jan' 18 - Jun' 18), while it has declined for H2 2018 and H1 2019, from 182K in H1-2018 to 170K (in H2-2018) and now to 168K in H1-2019. The number of sanctions in H1-2019 has reduced by 8% compared to H1-2018

The Study reveals that the ratio of total sanctioned to total enquiries* done by NBFCs have also reduced, which can be inferred as lower approval rate of loans.



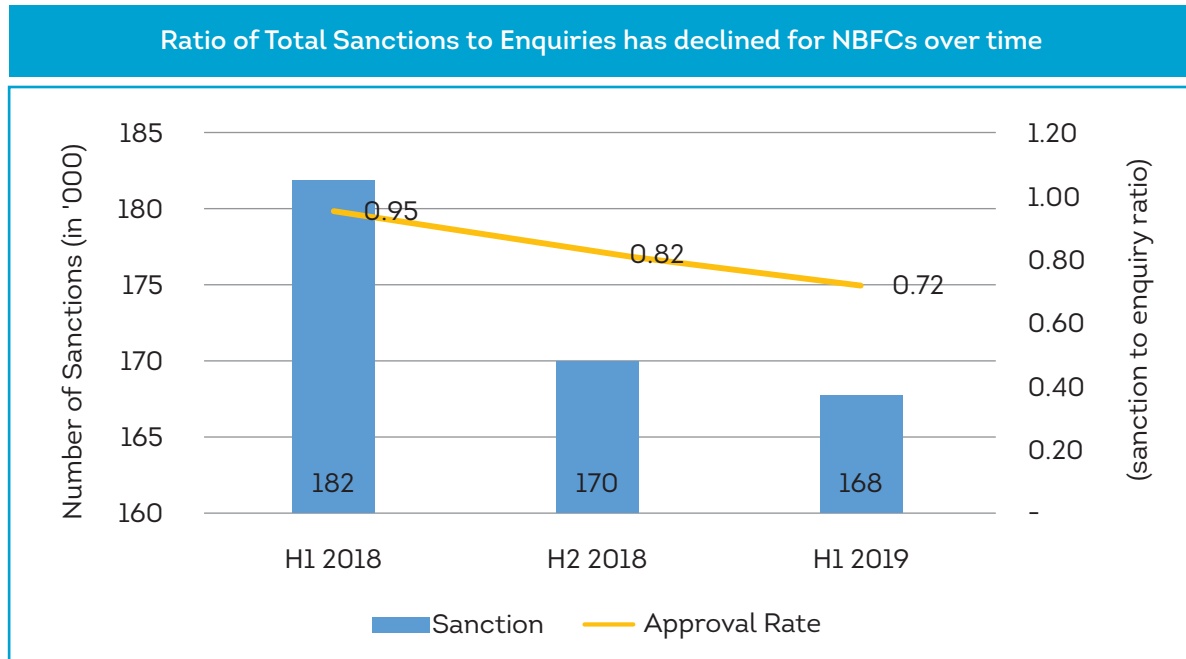


Exhibit 9: Loan Sanctions and Enquiries Ratio

Vintage delinquency of acquisitions

NPA vintage study is done to check how the quality of acquisitions have moved for NBFCs. All the fresh acquisitions for a period are selected and their NPA rates within the portfolio observed for the subsequent quarters. Vintage curves for fresh acquisitions are done from Jun' 16 - Jun' 19 period. For the acquisition done in various quarters, NPAs have peaked in Jun' 19.

It is observed that recent acquisitions show a better quality as compared to previous quarters. Default rate of loans acquired after Mar' 18, within 2-3 quarters of acquisitions is lower compared to average default rate observed after 2-3 quarters for all other acquisitions. However, default rate is higher in Jun' 19 for all acquisitions compared to previous quarters. Default rate by Q6 has changed drastically for acquisitions done in Jun' 16 quarter vs Mar' 18 quarter.

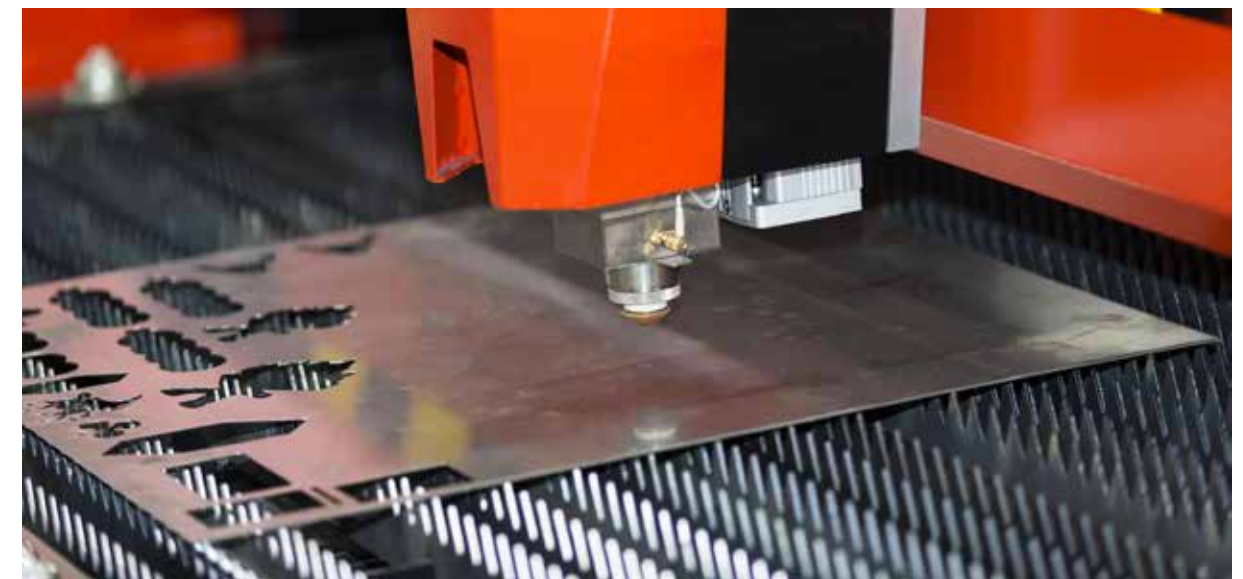


Acquisition period	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13
Jun'16	0.3%	0.3%	0.9%	0.9%	1.5%	3.0%	4.0%	3.3%	4.1%	6.2%	7.3%	7.1%	8.7%
Sep'16	0.2%	0.5%	1.0%	1.6%	3.2%	4.1%	3.7%	4.3%	6.2%	7.3%	6.7%	8.1%	
Dec'16	0.1%	1.0%	2.0%	3.3%	4.5%	3.7%	4.5%	6.0%	7.1%	6.5%	7.9%		
Mar'17	0.3%	1.1%	2.2%	3.8%	2.7%	3.6%	4.9%	5.7%	5.4%	6.9%			
Jun'17	0.3%	1.3%	3.7%	2.0%	2.8%	4.0%	4.7%	4.8%	6.2%				
Sep'17	0.2%	1.3%	1.6%	2.3%	3.8%	4.9%	4.7%	6.3%					
Dec'17	1.1%	0.5%	1.1%	2.3%	3.5%	4.2%	5.9%						
Mar'18	0.2%	0.2%	0.9%	2.1%	3.0%	4.9%							
Jun'18	0.1%	0.2%	0.9%	1.6%	3.4%								
Sep'18	0.0%	0.3%	0.9%	2.0%									
Dec'18	0.1%	0.2%	0.8%										
Mar'19	0.1%	0.1%											
Jun'19	0.1%												

Exhibit 10: Vintage delinquency of NBFCs acquisitions

STUDY OF BUILDING CREDIT RISK IN MSMEs OF AUTO INDUSTRY

In order to understand the impact on the MSMEs operating in Auto industry, it's important to contrast their performance with some of the other industries in the country. Measuring the performance of all the lending done to the MSMEs in the Auto industry using NPA rates, it is clear that the Auto industry has historically been one of the best performing industries. While some of the other industries, like Textiles and Construction have seen a rise in the NPA rates, Auto industry continues to be the lowest delinquent industry.



NPA Rates over last 3 years in Industry segments

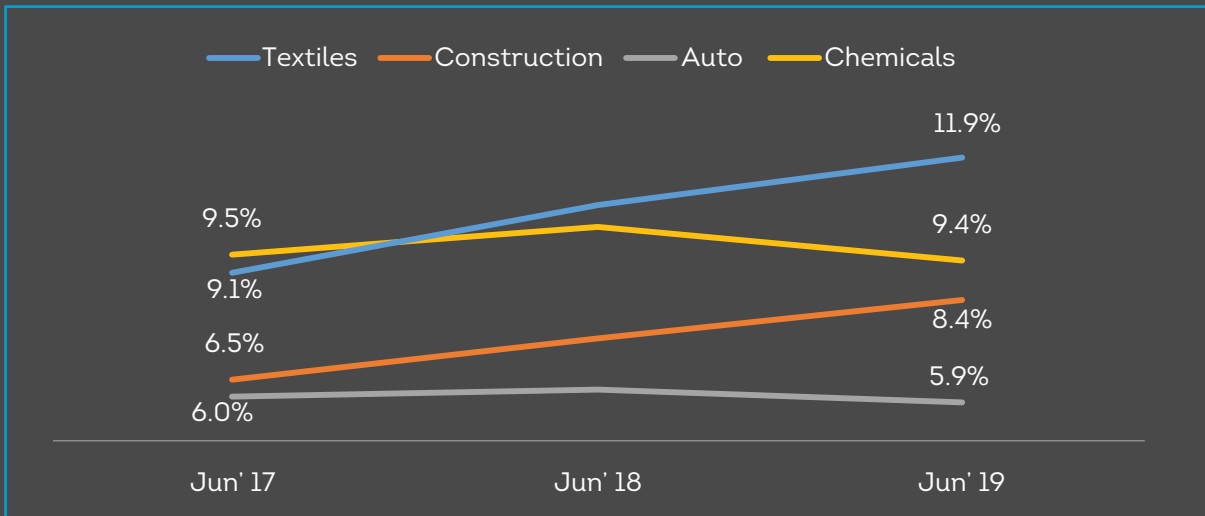


Exhibit 11: NPA Rates of Major Industries in MSME Segment

However, NPA rate may be a very lag indicator to understand a sectoral risk. To further deep dive into the Auto industry MSMEs, we can look into the transition matrix of these MSMEs based on CIBIL MSME Rank (CMR). CMR is a credit score for MSMEs where the score output is rank values between 1 to 10. CMR predicts early signs of risk. Typically, MSMEs with CMR-1 to CMR-3 are considered lowest risk, CMR-4 to CMR-6 are considered medium risk and CMR-7 to CMR-10 are the highest risk. The transition matrix for Auto industry MSMEs between June' 17 to June' 18 had 2-notch downgrades in CMR-1 to CMR-3 between 12% to 15%, this has increased from 14% to 24% in the June' 18 to June' 19 period.



Transition Matrix on CIBIL MSME Rank (CMR) for MSMEs in Auto industry for the period of Jun'17 - Jun' 18												
		CMR for June 2018										
		CMR-1	CMR-2	CMR-3	CMR-4	CMR-5	CMR-6	CMR-7	CMR-8	CMR-9	CMR-10	2-notch downgrade
CMR for June '2017	CMR-1	57%	28%	10%	2%	0%	1%	0%	0%	1%	0%	15%
	CMR-2	10%	54%	23%	8%	1%	2%	1%	1%	1%	0%	13%
	CMR-3	2%	20%	42%	24%	3%	5%	1%	1%	2%	0%	12%
	CMR-4	0%	6%	23%	46%	6%	10%	4%	3%	3%	1%	19%
	CMR-5	0%	5%	12%	31%	22%	12%	9%	4%	4%	1%	17%
	CMR-6	0%	3%	10%	27%	10%	23%	6%	6%	8%	3%	17%
	CMR-7	1%	3%	10%	21%	6%	12%	26%	7%	9%	6%	15%
	CMR-8	0%	2%	6%	17%	3%	11%	9%	25%	18%	9%	16%
	CMR-9	0%	0%	1%	8%	0%	5%	15%	21%	21%	29%	
	CMR-10	0%	0%	0%	0%	0%	0%	11%	5%	2%	83%	

Exhibit 12: CMR Transition Matrix

Transition Matrix on CIBIL MSME Rank (CMR) for MSMEs in Auto industry for the period of Jun' 18 - Jun' 19												
		CMR for June '2019										
		CMR-1	CMR-2	CMR-3	CMR-4	CMR-5	CMR-6	CMR-7	CMR-8	CMR-9	CMR-10	2-notch downgrade
CMR for June '2018	CMR-1	45%	31%	17%	3%	1%	1%	0%	0%	1%	0%	24%
	CMR-2	9%	48%	25%	12%	2%	2%	1%	1%	1%	0%	18%
	CMR-3	2%	19%	40%	25%	3%	5%	2%	2%	2%	0%	14%
	CMR-4	0%	5%	22%	46%	5%	10%	4%	4%	3%	1%	22%
	CMR-5	1%	4%	12%	34%	19%	12%	7%	6%	5%	1%	18%
	CMR-6	0%	2%	10%	30%	9%	23%	7%	9%	9%	2%	20%
	CMR-7	1%	3%	10%	20%	6%	12%	26%	6%	11%	5%	16%
	CMR-8	0%	1%	6%	24%	4%	11%	9%	25%	15%	5%	16%
	CMR-9	0%	1%	4%	8%	2%	5%	21%	23%	23%	14%	
	CMR-10	0%	0%	0%	0%	0%	0%	16%	9%	7%	68%	

Exhibit 12: CMR Transition Matrix

But, the 2-notch downgrades for the medium risk grades (CMR-4 to CMR-6) and high risk grades (CMR-7 and CMR-8) are still similar for both the periods. This shows that the medium risk MSMEs have broadly not deteriorated more than last year, however the good risk MSMEs in Auto industry have downgraded more than last year.

This behavior though is not consistent across all the clusters of Auto industry in the country. Some clusters have shown higher deterioration than others. If we group the clusters among severity of deterioration then we shall classify the MSMEs in Ludhiana, Rajkot, Kolkata, Tiruvallur, Kanchipuram, Vadodara and Surat in the least deteriorated group A. The MSMEs in Pune, Mumbai, Ahmedabad, Indore, Chennai, Nashik and Hyderabad shall be classified in the next group Band the MSMEs in Faridabad, Delhi, Bangalore, Jaipur, Gurgaon, Raipur, Nagpur, Jalandhar and Aurangabad in the most deteriorated group C.

MSMEs in Group A have negligible increase in CMR downgrades.



2-Notch CMR downgrades in Auto Industry

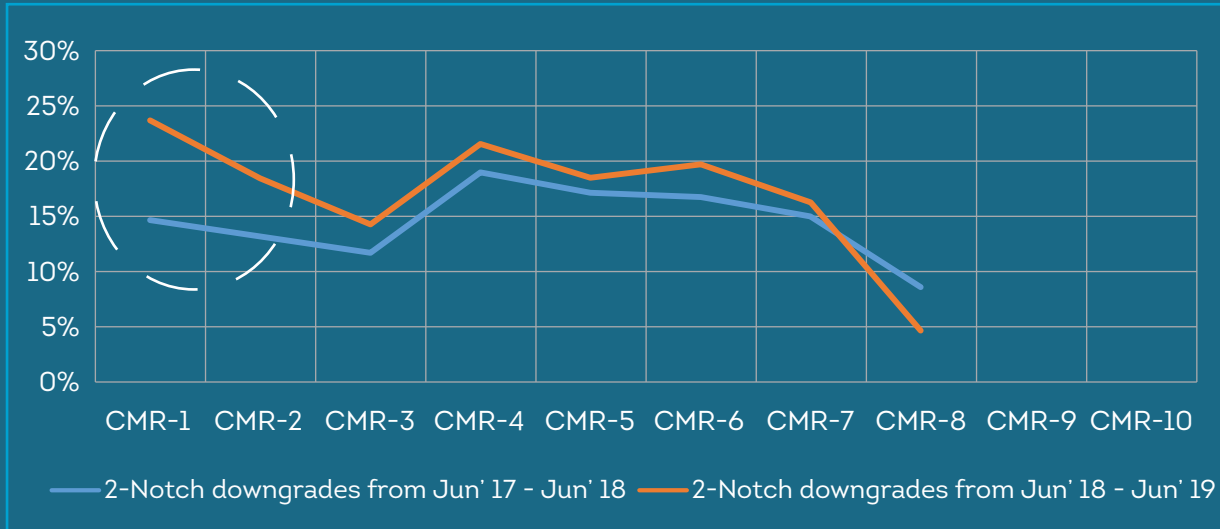


Exhibit 13: CMR Transition across two years in Auto Industry

2-Notch CMR downgrades of Auto industry MSMEs in Group A

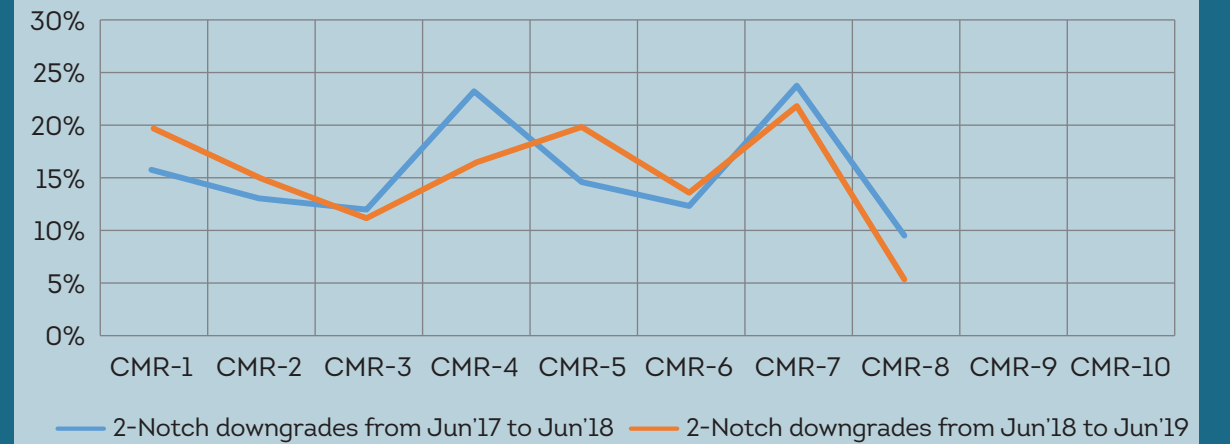


Exhibit 14: CMR Transition across two years in Auto Industry (Group A MSMEs)

MSMEs in Group B have some increase in CMR downgrades.

2-Notch CMR downgrades of Auto industry MSMEs in Group B

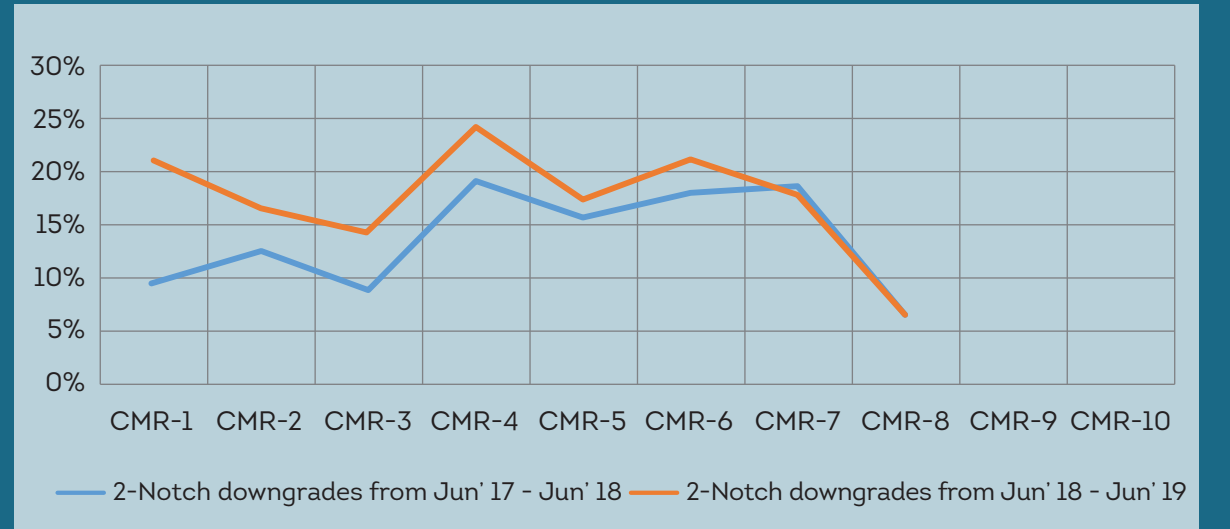


Exhibit 15: CMR Transition across two years in Auto Industry (Group B MSMEs)

MSMEs in Group C have significant increase in CMR downgrades.

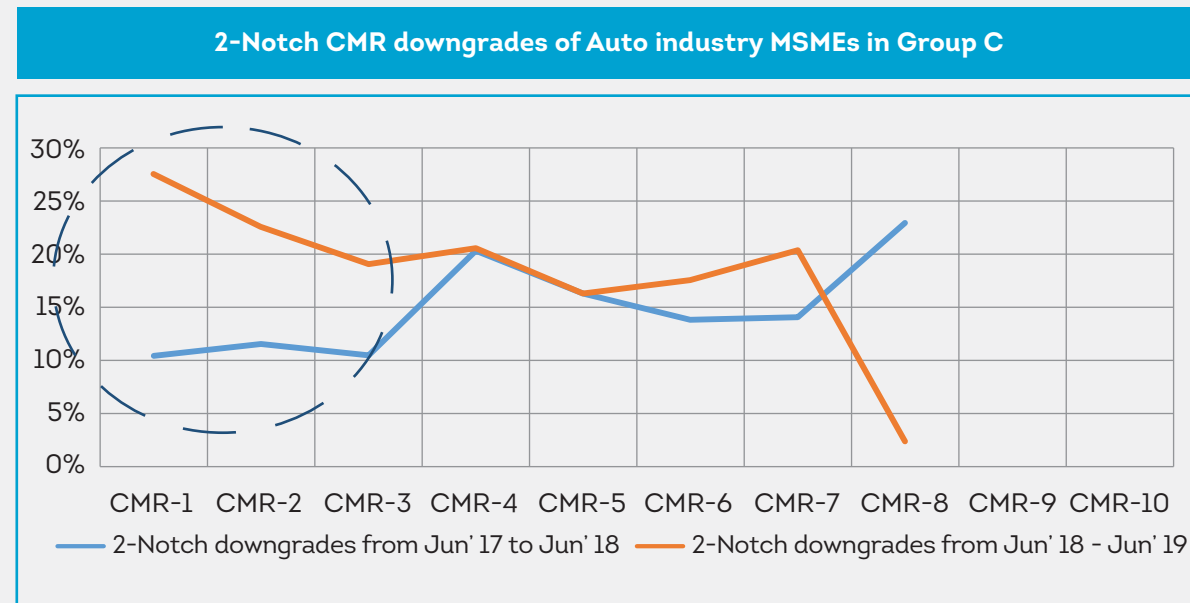


Exhibit 16: CMR Transition across two years in Auto Industry (Group C MSMEs)

Though the underlying risk for the MSMEs in Auto industry may be increasing but at an overall level CMR distribution for Auto industry MSMEs is positively skewed towards better CMR grades. About 45% of MSMEs in Auto industry belong to CMR-1 to CMR-3 compared to 38% for MSMEs in other industries.



CMR distribution of Jun'2019

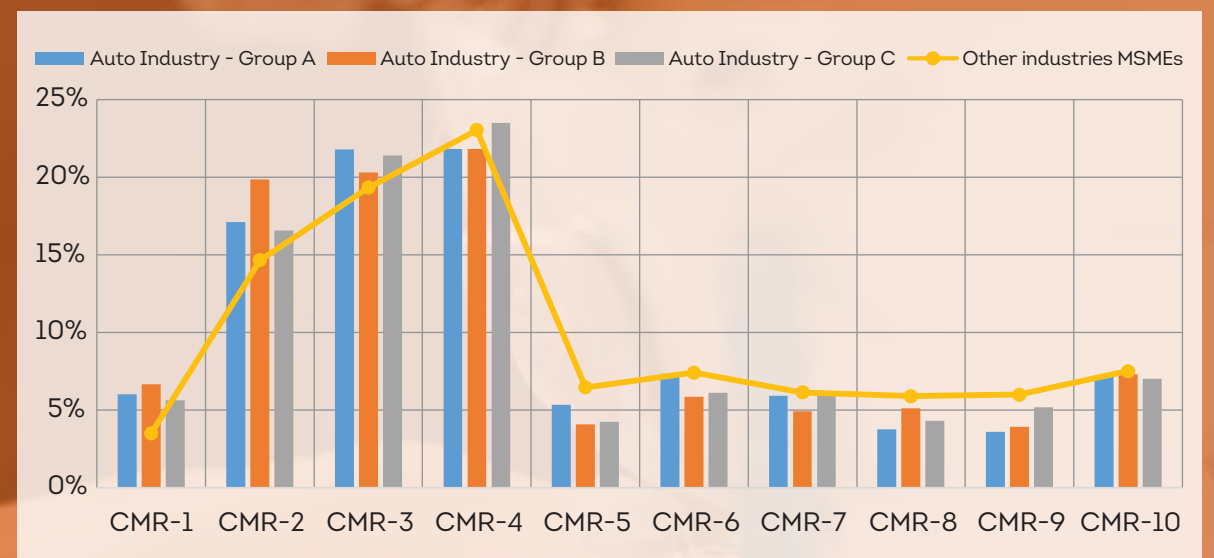


Exhibit 17: Portfolio Distribution across CMR for MSMEs

The recent economic events impacting Auto industry MSMEs have made it tough for MSMEs in this industry to stay super prime for credit quality (CMR-1 to CMR-3), but still this sector has better overall credit health MSMEs than some other industries in the country.

CONCLUSION

There is no gainsaying the fact that credit to the Commercial Sector and MSMEs in particular has been impacted over the past nine months. Even though some of the slowdown is attributable to the ongoing economic slowdown, there is no denying the fact that the issues in the NBFC sector regarding funding / liquidity challenges have had a significant deleterious impact on the over flow of funding. We would expect the situation to improve gradually on the back of the various policy announcements by the RBI and the Government as well as the expected cyclical pickup in economic growth.