

MARCH 2018

MSME PULSE



TransUnion^{tu} CIBIL

 sidbi

ANALYTICAL CONTACTS

TransUnion CIBIL

Deep Narayan Mukherjee

Chief Product Officer
deep.mukherjee@transunion.com

Vipul Mahajan

JVP & Head, Commercial Products
vipul.mahajan@transunion.com

Rahul Vithani

AVP, Commercial Products
rahul.vithani@transunion.com

Saloni Sinha

Manager, Commercial Products
saloni.sinha@transunion.com

SIDBI

Dr. Ravindra Kumar Singh

General Manager
singhrk@sidbi.in

Nitin Shukla

Assistant General Manager
nitinshukla@sidbi.in



MOHAMMED MUSTAFA

CHAIRMAN &
MANAGING DIRECTOR - SIDBI

When I joined SIDBI, after a while, people started asking as to what does SIDBI do, what has it done for MSMEs? This was a difficult question to answer. I realised that while SIDBI started to intervene in both financial and non-financial space to help small scale industries, it could not achieve the scale to make a difference. We further realised that there are enough players in the market to extend finance. There was another issue that there are not early signs to help take decisions by those who matter and make policies, be it bankers or policy makers.

Information is key to decision making and if it is available at the right time, meaningful interventions can be made. To resolve this, SIDBI has taken two major initiatives, one was an MSE Sentiment Index where the survey captures qualitative responses in respect to current and forthcoming quarters which provides a broad direction of overall situation and as to what is happening in respect of specific sectors and what is the status of employment, taxation, profit, etc. We have partnered with Crisil for this. The first edition was launched on 3rd February by Hon'ble Finance Minister. The next one will be available in April 2018.

Now coming to MSME Pulse, we realised that structured data in respect of MSME is not available during the year. While there is some data available with respect to SCBs, there is no data in respect to NBFCs. Further, such data does not tell as to how many new entrepreneurs have accessed credit and what is the situation across different states. This is the gap we are trying to fill and MSME Pulse will also be published every quarter and I thank CIBIL for partnering for this effort.



SATISH PILLAI

MD & CEO
TransUnion CIBIL

It is a defining moment for TransUnion CIBIL to join hands with Small Industries Development Bank of India (SIDBI) for the launch of India's first comprehensive report on MSME Sector "MSME PULSE"

With over 3000 members, including all leading banks, financial institutions, non-banking financial companies and housing finance companies, maintaining a history of over 310 million consumers and over 13 million businesses, TU CIBIL strongly believes in "Information for Good" Focused on our mission to create solutions that enable businesses to grow and give consumers faster and cheaper access to credit, this initiative would embark a new journey in the history of creating unparalleled credit access for MSMEs.

Indian economy is poised to be among the fastest growing economies in the world for next five to ten years. MSME is the most promising sector that will boost the growth prospects for India through tremendous economic activity& job creation. In view of its significance for Indian economy, it is pertinent to closely track and monitor the segment.

In light of the fact that Indian Government is also bringing in major reforms to MSME sector, "MSME PULSE" will cater to the needs of policy makers, lenders and industry bodies in making robust and faster decisions based on comprehensive data. This unique report will depict existing trends. At the same time, report will also highlight the areas that demand attention for inclusive growth and empower the sector to fully bloom.

TU CIBIL has always made dedicated efforts to facilitate faster and cheaper access for credit to the Indian MSME sector. Most notably, TU CIBIL launched CIBIL MSME Rank in March 2017, Rank that captures the credit worthiness of MSMEs comprehensively.

We at TU CIBIL will continue our endeavor to devise new solutions and improvise in aiding the sector and Indian Economy.

Table of Contents

The Need for MSME Pulse	7
Executive Summary	8
1. On balance-sheet commercial lending – Portfolio and NPA trends	11
2. Steady growth in new MSME credit seeker (NTC MSME borrower)	16
3. Market share: Private players acknowledge the attractiveness of the MSME segment	19
4. Future NPA Pipeline - Limited potential stress in the MSME segment	21
5. MSME loan growth and NPA in the top 10 states	23
6. Sector Analysis – Portfolio trends	24
7. Event Study I: Demonetization and GST impact on MSME lending	26
8. Event Study II: Impact of RBI relief on NPA reporting of SME borrowers	29
9. MSME lending – A structural opportunity	30
10. Leveraging data analytics and policy enablers for MSME lending	32



51 MILLION MSME
 **UNITS**

117 MILLION
PEOPLE 

43% MSME
 **EXPORT SHARE**



THE NEED FOR MSME PULSE

MSME critical for the Indian economy: Micro, Small and Medium Enterprises (MSME) sector is a vibrant and dynamic sector promising high growth potential for the Indian economy. MSMEs play a critical role in the economy by providing large employment opportunities, while contributing significantly to the Gross Domestic Product (GDP) and exports of India. There are close to 51 million MSME units in the country that employ about 117 million people across various sectors¹, constituting 40% of the workforce². The MSME share to the total (non-agriculture) GDP is about 37% and they also contribute to 43% of exports based on the data maintained by Ministry of Commerce³.

Dependable tracking on MSME activity: In view of the significance of MSME sector to the Indian economy, it is essential to closely track and monitor this segment. Careful monitoring of the health of MSME portfolio regularly and frequently is vital for tracking the efficacy of policy, banking and business decisions while ensuring timely intervention for controlling potential losses and crises. Credit flow and portfolio delinquency levels are widely considered among the most effective, timely and accurate indicators for economic health. This report focuses on these metrics drawn from TransUnion CIBIL commercial bureau to track MSME credit activity.

Comprehensive study on over 5 million+ entities: To address the need for tracking the health of the MSME segment, TransUnion CIBIL and SIDBI have undertaken a joint initiative to publish a quarterly report-'MSME Pulse'. This report is based on a study done on over 5 million active MSMEs that have access to formal credit, with live credit facilities in the Indian banking system. This study is expected to improve the understanding of qualitative and quantitative aspects of MSME lending, across various sub-segments and categories of lenders. These insights are expected to provide critical strategic and tactical inputs to policy makers and institutional lenders to support them in their MSME credit risk management while driving sustainable access to finance for the MSME sector.

Notes:

¹ https://www.unido.org/sites/default/files/2017-10/WP_15_2017_.pdf

² <http://msme.gov.in/sites/default/files/MEME%20ANNUAL%20REPORT%202015-16%20ENG.pdf>

³ <http://pib.nic.in/newsite/PrintRelease.aspx?relid=107296>

EXECUTIVE SUMMARY

Fastest growing exposure in Commercial Lending - Micro (credit exposure less than ₹1 Crore) and Small Medium Enterprise (SME) (₹ 1 Crore to ₹ 25 Crores) segments constitute ₹ 11.7 Lakhs Crore credit exposure (23% of commercial credit outstanding) with Y-o-Y growth of 20% and 9% respectively as compared to 4% for Mid (₹ 25 Crores to ₹ 100 Crores) and 0.5% for Large (exposure greater than ₹ 100 Crores) from Dec' 16 to Dec' 17.

Relatively stable asset quality, with limited downside: Non-Performing Asset (NPA) rates have remained range bound between 9.2% (Dec' 16) to 8.8% (Dec' 17) for Micro and 11.3% (Dec' 16) to 11.2% (Dec' 17) for SME segment. In comparison, for the large corporate segment, NPA rates increased from 14.7% (in Dec'16) to 16.9% (in Dec' 17). As such, the MSME sector exhibited high credit growth and relatively lower cyclical deterioration in asset quality.

A deep dive in the quality of the portfolio of the MSME (less than ₹ 10 Crore) exposure shows, that while NPAs are stable and in control, the likelihood of sharp increase in NPA rate is low. Recognized NPA exposure for MSME is ₹ 77,000 Crores as on Dec' 17. ₹ 8000 Crores is the non-NPA exposure of entities whose other exposures are tagged as NPA by at least one other bank or credit institution. Exposure of ₹ 26,000 Crores is for entities which show irregular payment behavior by having continuous overdue for the last 6 months, but have not reached the NPA stage yet. Some portion of this ₹ 34,000 Crores has high likelihood of turning into NPA in near future.



First time MSME borrowers, on the rise: The number of MSME entities seeking credit for the first time New to Credit (NTC) borrowers increased significantly from ~2.7 Lakhs in the six month period from January to June 2016 to ~4 Lakhs in the period from July to December 2017. The NTC MSME usually belongs to the “Very Small” segment (less than ₹ 10 Lakhs exposure). Providing access to credit for NTC MSME borrowers is largely enabled by Public Sector Banks which have about 79% contribution specifically in this segment.

Private Banks gaining market share: While Public Sector Banks are enabling financial inclusion, the MSME segment is becoming increasingly attractive for the Private Banks & Non Banking Financial Companies (NBFCs) from a profitability and Priority Sector Lending (PSL) perspective. Private Banks and NBFCs have aggressively stepped up acquisition efforts through branch expansion and digitization initiatives offering lower turn-around-time (TAT) and superior service to these borrowers, thereby gaining market share from 34% in Dec' 15 to 40% in Dec' 17.

Event Study I - Impact of Demonetization and Goods and Services Tax (GST): The first edition of this study also contains a separate analysis on the impact of demonetization and launch of GST on the flow of credit to MSMEs. The findings indicate that the impact of demonetization was felt more by smaller MSMEs or those located in smaller centers. Whereas the impact of GST was more uniform across all sub-segments of MSMEs. However, the entities have bounced back from the impact of these two events and their credit activity has recovered to pre-demonetization levels.

Event Study II - Impact of Reserve Bank of India (RBI) Relief on NPA reporting of SME borrowers: The latest RBI guideline on relaxation on NPA recognition of MSME entities registered for GST is likely to benefit 1.41 Lakh borrowers with an exposure of ₹ 12,910 Crores as of Jan' 18. This dispensation will also benefit some of the 1.66 Lakh borrowers having exposure of ₹ 82,000 Crores with CIBIL MSME Rank 7 to 10 who have a high probability of slippage to the 90+ bucket in the next few months and provide them and the lenders additional time to work on remedial measures.



MSME SHARE

~23% OF COMMERCIAL
CREDIT

OUTSTANDING

1. ON BALANCE-SHEET COMMERCIAL LENDING – PORTFOLIO AND NPA TRENDS

Overview of Commercial lending: The total on balance-sheet commercial lending exposure in India stood at ₹ 51.3 Lakh Crores, as of Dec' 17 with Micro and SME segments constituting ₹ 11.7 Lakh Crores exposure (~23% of commercial credit outstanding). Large corporates having an aggregate credit exposure of more than ₹ 100 Crores, account for ₹ 34.6 lakh Crores (~67% of commercial credit outstanding).

Micro Loans (less than ₹ 1 Crore) and SME Loans(₹ 1 to ₹ 25 Crores) provide the silver lining to the commercial lending space showing YOY growth of 20% and 9% respectively. In comparison, Mid (₹ 25 to ₹ 100 Crores) and Large (>₹ 100 Crores) segments have grown by 4% and 0.5% respectively from Dec' 16 to Dec' 17.

Table 1.A: On balance-sheet commercial credit exposure (in ₹ Lakh Crores)


	Micro <1 Crore	SME 1 - 25 Crores	MID 25 - 100 Crores	Large 100 Crores+	Overall
Dec'15	2.7	6.6	4.3	29.6	43.3
Mar'16	2.7	6.9	4.6	32.5	46.8
Jun'16	2.9	7.3	4.6	32.5	47.4
Sep'16	3.0	7.5	4.8	34.2	49.5
Dec'16	2.9	7.5	4.9	34.4	49.7
Mar'17	3.1	7.8	4.9	34.3	50.1
Jun'17	3.3	8.1	5.0	34.6	50.9
Sep'17	3.3	8.1	5.0	34.5	51.0
Dec'17	3.5	8.2	5.1	34.6	51.3

The overall NPA rate of commercial lending was at 15.3% in Dec' 17 compared to 14.0% in the previous year. Further, NPA rates in MSME segment have stayed range bound with an increase of 8% to 8.8% and 9.8% to 11 % respectively during the 2 year period from Dec' 15 to Dec' 17. The NPA rate of large corporates has increased significantly over the last 2 years from 7.9% in Dec' 15 to 16.9% in Dec' 17. The NPA rates of Mid and Large segments have rapidly increased which coincided with RBI Asset Quality Review (AQR).

The Micro (less than ₹ 1 Crore) and the SME (₹ 1 to ₹ 25 Crores) segments are the only two segments that have maintained NPA rates below 12% over the period of 2 years from Dec' 15 to Dec' 17. Many Mid-sized companies tend to be in the supply chain of large corporates and thus have to struggle with extended receivable days period because of delay in payments by large corporates, which is among the reasons for high NPA rate for this segment.

Notes:

^a Commercial loans classified into various segments basis credit exposure aggregated at entity level . Micro less than ₹1 Crore, SME ₹ 1Crore of ₹ 25 Crores, Mid ₹ 25 Crores to ₹ 100 Crores, Large > ₹ 100 Crores, Stated credit exposure is fund based



NPA RATE
10.5% MSME
16.7% LARGE & MEDIUM

Rapid Deterioration in Mid & Large Segment, while MSME segment have relatively stable NPA Rate.

CREDIT GROWTH 

31.9%
BORROWER SEGMENT WITH < 10 LAKHS

13.7%
OVERALL MSME

Rapid Deterioration in Mid & Large Segment, while MSME segment have relatively stable NPA Rate

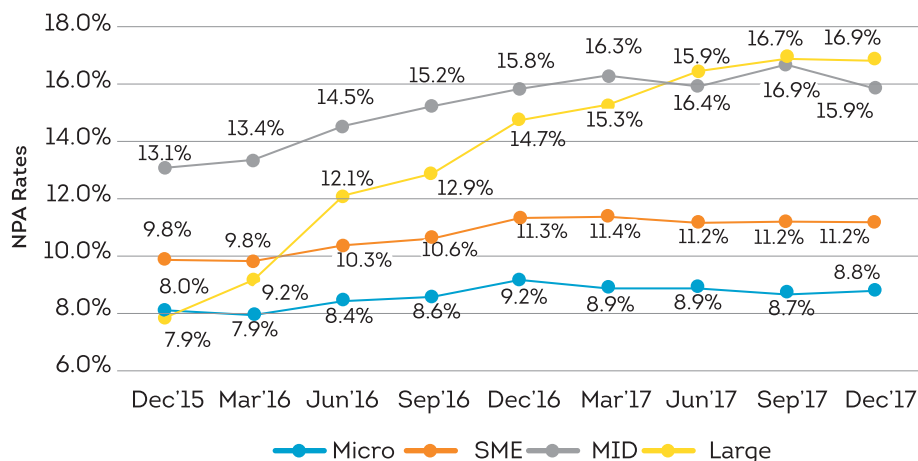


Figure 1: Segment-wise NPA Rate in last 2 years

The RBI updated its priority sector regulations in June 2015 which emphasized micro-sector lending which provided an impetus to the MSME sector credit growth. Supportive government policies enable sustainable credit growth for this sector.

Deep-Dive on MSME: This report delves into detailed analysis on sub-segment of MSMEs⁵ where entity-wise credit exposure is less than or equal to ₹ 10 Crores. Micro is further classified as Very Small, Micro1 and Micro2. This MSME segment also includes lower SME segments i.e. SME1 and SME2⁶.

Table 1B: Credit Exposure of MSME Segments (in ₹ Lakh Crores)

Period	Very Small <10 Lakhs	Micro1 10-50 Lakhs	Micro2 50 Lakhs - 1 Crore	SME1 1-5 Crores	SME2 5-10 Crores	MSME up to 10 Crores
Dec'15	0.58	1.29	0.84	2.66	1.57	6.94
Mar'16	0.55	1.32	0.87	2.79	1.67	7.19
Jun'16	0.56	1.39	0.93	2.98	1.76	7.63
Sep'16	0.58	1.46	0.97	3.06	1.79	7.85
Dec'16	0.56	1.42	0.95	3.06	1.81	7.80
Mar'17	0.58	1.49	1.01	3.22	1.87	8.16
Jun'17	0.64	1.57	1.06	3.36	1.93	8.56
Sep'17	0.67	1.60	1.07	3.38	1.92	8.63
Dec'17	0.74	1.66	1.10	3.44	1.92	8.86
Y-o-Y Credit growth (From Dec'16-Dec'17)	31.9%	17.1%	15.6%	12.5%	6.2%	13.7%

Notes:

⁵Defined as the entities having an aggregate credit exposure up to ₹10 Crores.

⁶MSMEs are classified into various segments basis ticket size of loan amount disbursed, Micro1 less than ₹ 50 Lakhs, Micro2 ₹50 Lakhs to 1 Crore, SME1 1 Crore to ₹5 Crores, SME2 ₹5 Crores to ₹10 Crores .

For the period Dec' 16 to Dec' 17, the entities having less than ₹ 1 Crore credit exposure have shown the highest credit growth. Very Small segment (less than ₹ 10 Lakhs exposure) have shown credit growth of 31.9%, followed by entities having '₹ 10 Lakhs to ₹ 50 Lakhs' and '₹ 50 Lakhs to ₹ 1 Crore' exposure with growth of 17.1% and 15.6% respectively. Entities in the segment of less than ₹ 1 Crore credit account for 39% of MSME exposure i.e. ₹ 10 Crores.

Within the MSME segment, the NPA rates are higher for larger exposures. The exception to this trend is the Very Small segment (less than ₹ 10 Lakhs exposure) which has a higher NPA rate of about 11.5% in Dec' 17. The larger SME segment (₹ 5 Crores to ₹ 10 Crores credit exposure) also exhibits higher NPA rate of 11.3% in Dec' 17.

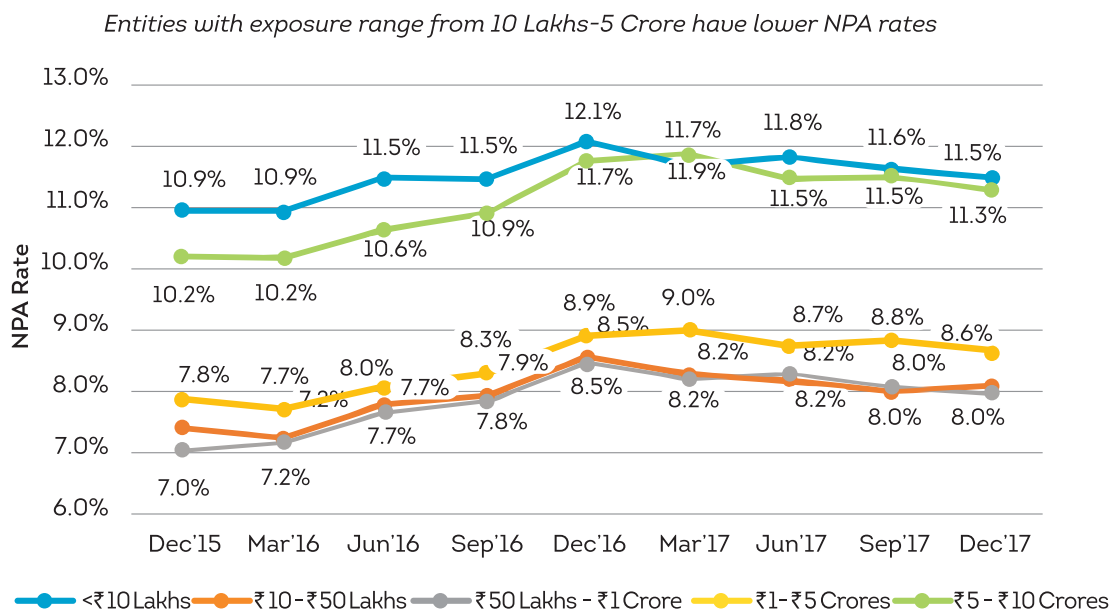


Figure 2: NPA Rates of MSME Segments



NPA RATE

LARGE SEGMENT (₹5-₹10 Crores)

11.3%

in Dec' 17

VERY SMALL SEGMENT (< ₹10 Lakhs)

11.5%

in Dec' 17

*Entities with exposure range from
₹ 10 Lakhs - ₹ 5 Crores have lower NPA rates*

2. STEADY GROWTH IN NEW MSME CREDIT SEEKER

Number of entities which are seeking formal credit for the first time are defined here as New to Credit (NTC) borrowers. As such, NTC borrowers need not be New to Bank (NTB) since a lot of them would be having banking relationships in the form of current and savings account. NTC borrowers entering the formal credit sector have accelerated from ~2.7 Lakhs for the six month period of Jan to Jun 2016 to ~4 Lakhs in Jul to Dec 2017. The highest growth has been observed in the very small segment (less than ₹10 Lakhs exposure) in H2-2017. This acceleration coincides with a high number (~3.4 million) of new firms which have been formalized by registering themselves for GST. As a percentage of the total borrower base, NTC additions grew from 7.2% to 9.7% in the very small borrower segment and 4.3% to 5.2% in the MSME segment.

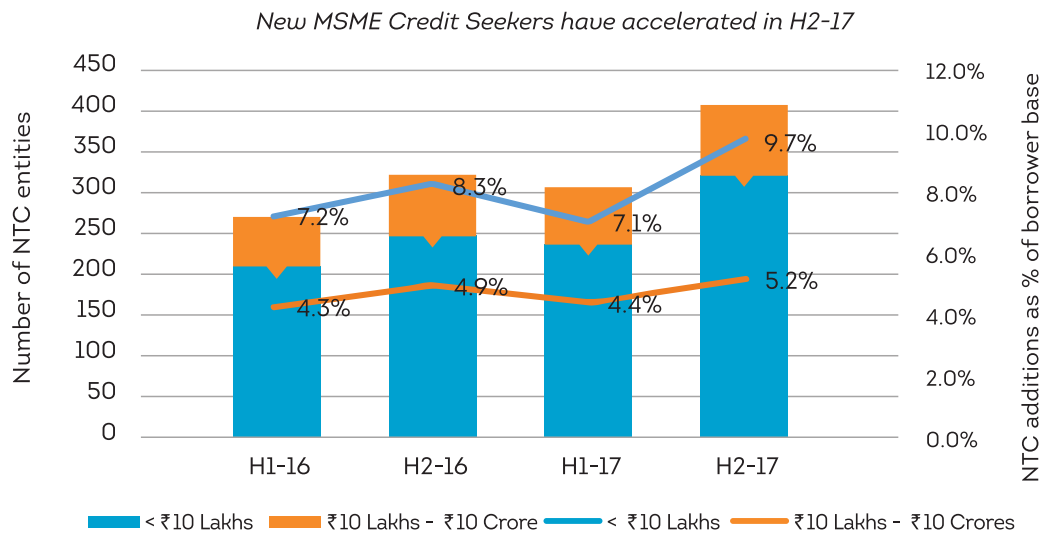


Figure 3: New to Credit Entities Share and Growth



4

LAKHS

NTC borrowers entering formal credit sector
(Jul' 17-Dec' 17)



Figure 4: Share of Lenders in < 10 Lakhs segment

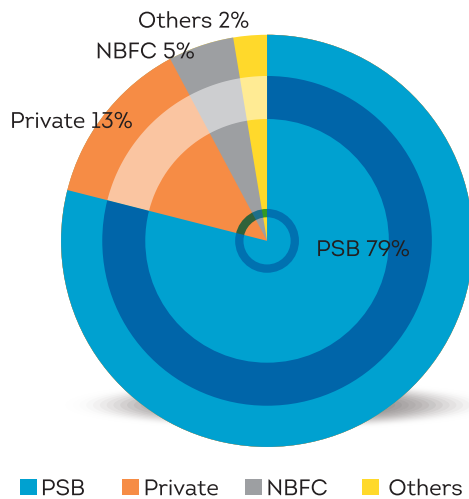
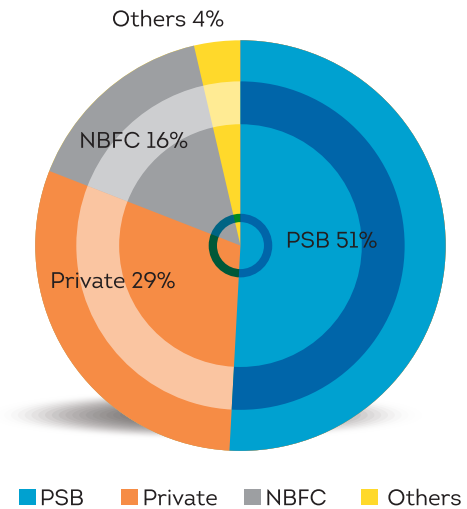


Figure 5: Share of Lenders in < 10 Lakhs to 10 Crores segment



Public Sector Banks (PSB) are the dominant contributors in providing access to finance to the “Very Small” segment (less than ₹ 10 Lakhs) NTC borrowers. PSBs hold 79% share in onboarding NTC borrowers in this segment. PSBs are playing a critical role in enabling financial inclusion of micro enterprises.

The share of Public Sector Banks in NTC segment of borrowers’ with an exposure of ₹ 10 Lakhs to 10 Crores is 51%. Private Banks and NBFCs have shown higher willingness to extend credit to NTC borrowers in the MSME (₹ 10 Lakhs to 10 Crores’) compared to the smaller and less formal segment.

Which Institutions are instrumental in formalizing New Borrowers?

For all the NTC entities, share of PSBs is very high in less than ₹ 10 Lakhs NTC segment. High penetration of credit to entities in this segment could be because of the regulatory mandate of not accepting collateral security in the case of loans up to ₹ 10 Lakhs extended to units in the MSME sector. Banks are also advised to extend collateral-free loans upto ₹ 10 Lakhs to all units financed under the Prime Minister Employment Generation Program of Khadi and Village Industries Commission (KVIC).

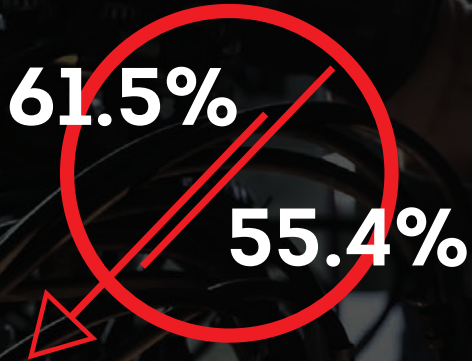
This mandate probably has limited the participation of Private Banks and NBFCs in this segment as collateral security provides additional comfort to lenders in absence of credit history.

The NTC growth is further expected to accelerate, empowered by the dual tailwinds of higher formalization of freshly registered GST firms coupled with government sponsored schemes for lending to new borrowers, encouraging banks towards NTC MSME lending.

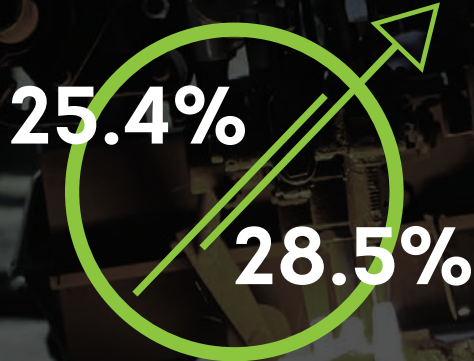
MARKET SHARE

(DEC. 2015 - DEC. 2017)

PUBLIC SECTOR BANKS



PRIVATE BANKS



NBFCs



3. MARKET SHARE: PRIVATE PLAYERS ACKNOWLEDGE THE ATTRACTIVENESS OF MSME SEGMENT

The combination of high credit demand and relatively low NPA rates make MSME among the most attractive target segment for institutional lenders. The MSME credit opportunity stands out in a period where credit growth in large corporate is somewhat constrained.

While PSBs have traditionally been the dominant lenders to the MSME sector, Private banks and NBFCs have made significant inroads in this segment of late. The market share of Private Banks has grown from 25.4% to 28.5% and for NBFCs, it has grown from 7.9% to 10.4% during the period Dec'15 to Dec' 17. In the corresponding period, the market share of PSBs has reduced from 61.5% in Dec' 15 to 55.4% in Dec' 17.

The share of MNC banks has been low in this segment due to the relaxed priority sector lending (PSL) guidelines for MNC banks. However with the new PSL guidelines requiring MNC banks (with greater than 20 branches) to be at par with Indian banks on Micro Enterprise lending by March 18, even MNC banks are expected to grow their MSME books.

Private Banks and NBFCs exhibit NPA levels in the range of 3.5 to 5% while Public Sector Banks have NPA rates of 10 to 12% in the MSME segment.

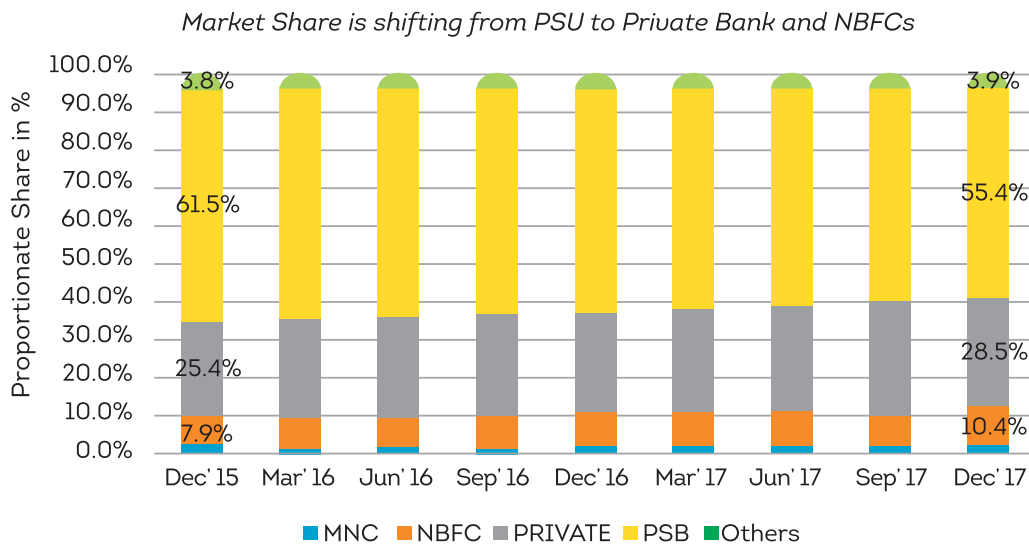


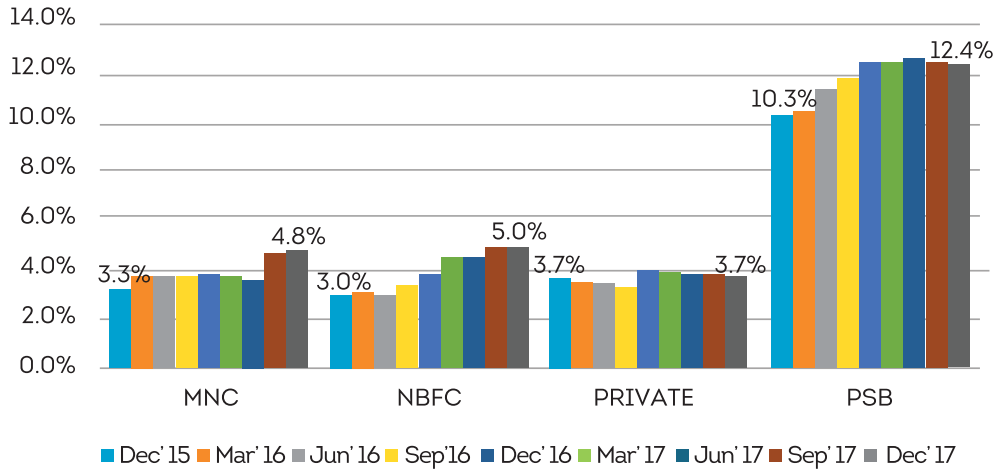
Figure 6: Share of Lender Types in MSME Segment

SHARE OF PVT. LENDERS (MNC, PVT, NBFC)



The NPA rate for the MSME segment has been stable for Private Banks. The PSBs have comparatively higher NPA rate in the MSME segment. The NPA of the PSBs has increased from 10.3% in Dec'15 to 12.4% in Dec' 17. NBFCs have also witnessed an increase in NPA rates in the last 4 quarters from about 3.5% to 5%.

Figure 7: MSME segment has been relatively stable over time



NPA RATE (DEC'17)

3.7% PVT BANKS

12.4% PSU BANKS

MSME segment has been relatively stable over time

4. FUTURE NPA PIPELINE - LIMITED POTENTIAL STRESS IN MSME SEGMENT

NPA Stack study is done to understand the potential stress in MSME Lending which will determine the future levels of recognized NPA. MSMEs for which NPA loans are reported from the “Known layer” of stress that has been built up in the lending industry over a period of time. The potential NPA rate in future would be driven by two types of entities/exposures:

- i) Partially recognized NPA: Borrowers tagged as NPA with one lender, however reported standard with other lender(s) (High Risk).
- ii) Irregular Borrowers: Borrowers with continuous overdue (Medium - Risk) but not tagged as NPA or has not reached the NPA stage.

A deep dive into the data for “Partially Recognized” NPA & “Irregular Borrowers” shows that while NPAs are stable and in control, the likelihood of sharp increase in NPA rates is low. Recognized NPA exposure for MSME is ₹ 77000 Crores as on Dec’ 17. ₹ 8000 Crores is the Non-NPA exposure of entities whose other exposures are tagged as NPA by at least by one other bank. ₹ 26000 Crores of exposure belongs to the entities which show very irregular payment behavior by having continuous overdue for last 6 months, but have not reached the NPA stage. Some portion of this ₹ 34000 Crores has high likelihood of turning into NPA in the near future.

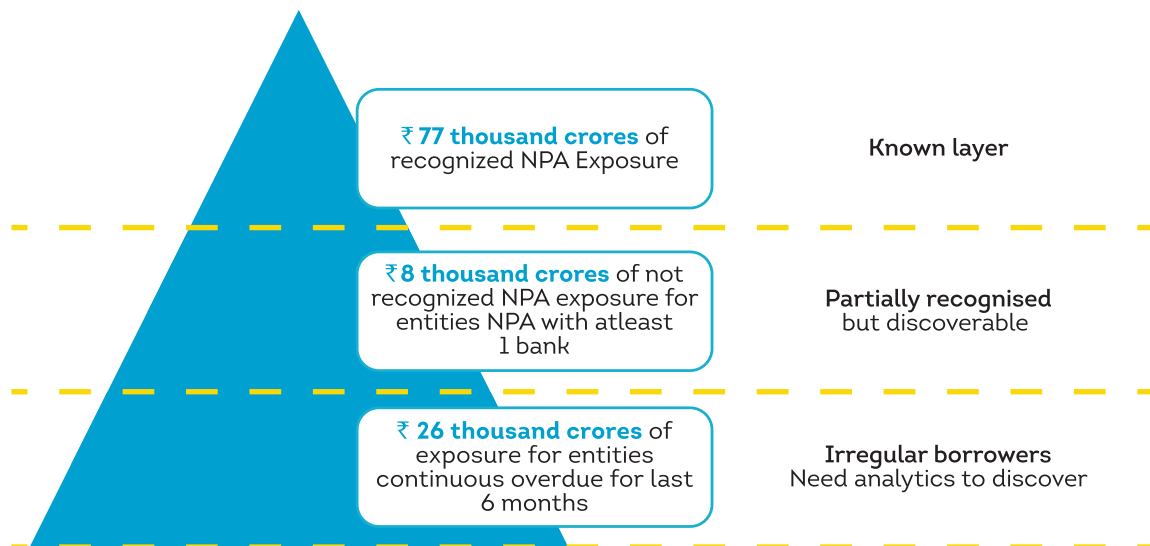


Figure 8: Potential NPA Stack of MSMEs

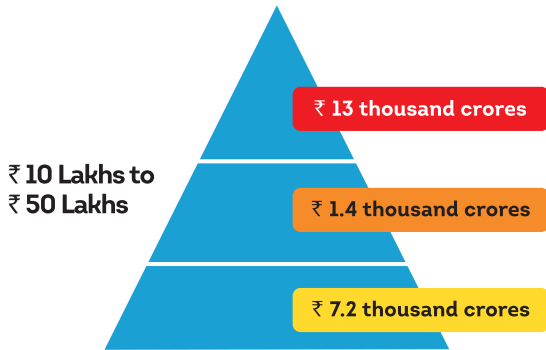
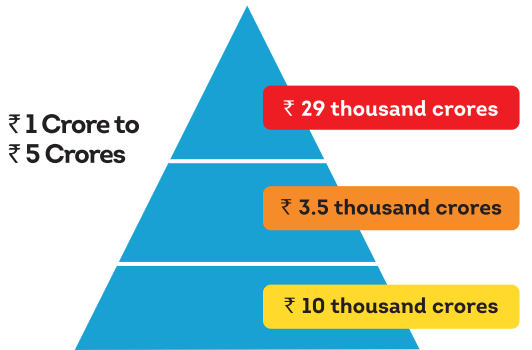
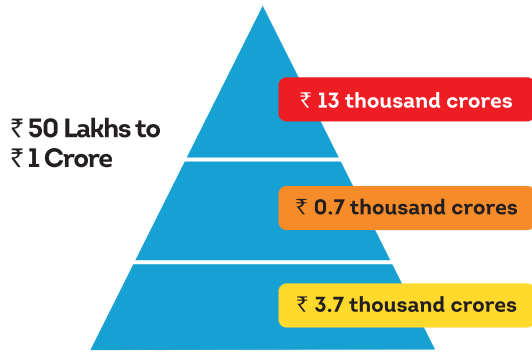
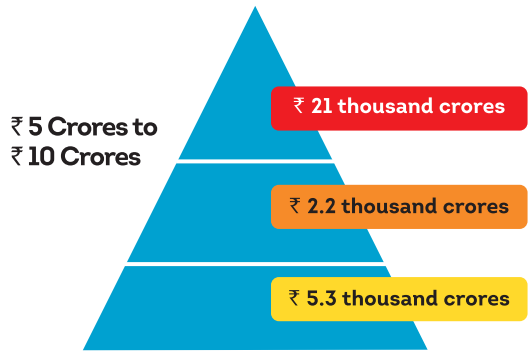


Figure 9: Segment-wise potential NPA Stack

■ Known Layer
 ■ Unknown Layer
 ■ Hidden Layer



5. MSME LOANS GROWTH AND NPA IN TOP 10 STATES

Top 5 states namely Maharashtra, Tamil Nadu, Gujarat, Andhra Pradesh and Uttar Pradesh account for 45% of the banking sector's exposure to MSME segment. Among the top 10 states, Rajasthan, which accounts for 4.3% of banking exposure to MSMEs, has the lowest NPA rate (as of Dec' 17) of 3.5%.

Table 5.A: State-wise Credit exposure and Credit Share

State	Exposure in ₹000 Crores (Dec' 17)	Credit Growth (between Dec' 16 -Dec' 17)	NPA Rate (Dec' 17)
MAHARASHTRA	123.61	10.0%	11.5%
TAMIL NADU	82.59	12.4%	8.0%
GUJARAT	67.17	10.7%	6.3%
ANDHRA PRADESH	67.14	18.6%	9.9%
UTTAR PRADESH	57.90	21.0%	8.3%
KARNATAKA	49.85	12.4%	8.2%
DELHI	49.53	11.0%	10.3%
WEST BENGAL	38.72	10.6%	12.5%
RAJASTHAN	38.23	18.3%	3.5%
HARYANA	35.46	18.0%	6.9%

MAHARASHTRA, TAMIL NADU, GUJARAT, ANDHRA PRADESH, UTTAR PRADESH

**TOP 5 STATES
EXPOSURE
TO MSME
SEGMENT**

45%



6. SECTOR ANALYSIS – PORTFOLIO/NPA TRENDS IN PROMINENT MSME SECTORS:

We have picked 10 prominent sectors with respect to credit exposure in the MSME space to analyze the sector attractiveness with respect to the portfolio growth and NPA rates.

Sectors with low cyclical NPA rate and high growth rate are attractive for the lending institutions from a risk and profitability perspective

- As per TransUnion CIBIL analysis based on the credit information submitted by its member credit institutions Construction, Leather-Rubber-Plastic, Chemicals and Food Products manufacturing are the most attractive sectors with lower NPA rates (9 to 12%) and higher credit growth (8 to 12%).
- Construction has been among the better performing sectors amongst MSMEs. This is in contrast to large construction companies which are struggling with project implementation delays and negative cash flows. MSMEs in construction sector are involved with smaller projects related to local public bodies, with most significant portion of the job being maintenance of public utilities and goods. As such, these involve short implementation periods with low legal/regulatory complexity and thus cash flow issues are much lower than that of larger construction companies. MSME companies in this sector also include

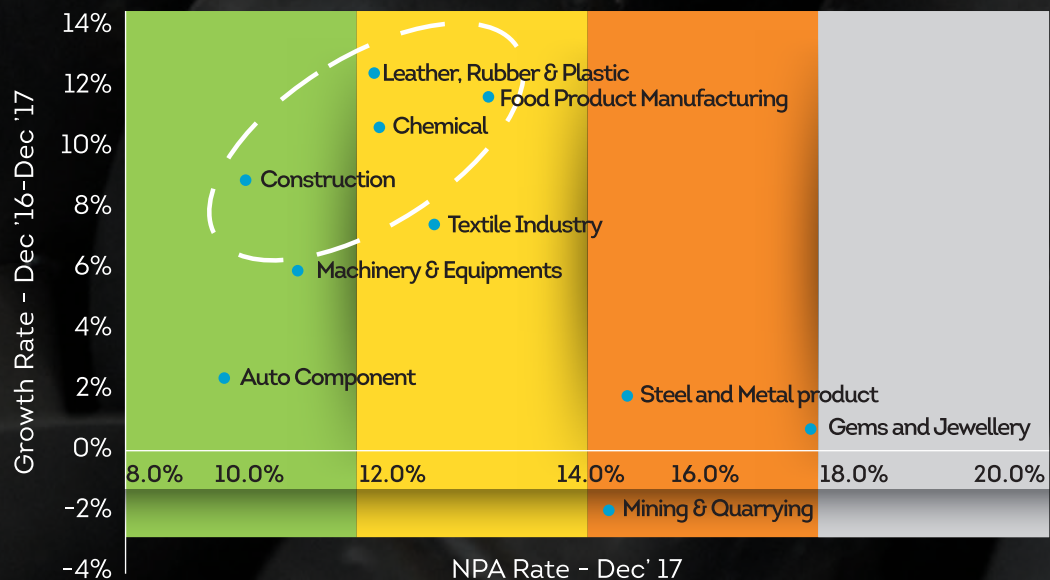


Figure 10: Sector analysis of credit growth and NPA rates

wholesale and retail traders of construction commodities and materials, demand for which has been stable in the recent times and hence these entities have been performing relatively well.

- Given the buoyancy in the domestic auto sector, credit growth for the MSME auto component players is likely to go up. The Machinery and Equipment sector's credit growth is also ripe for pick up, but it will depend upon revival of overall capex activity in the economy.
- Steel & Metals, Gems & Jewellery and Mining are the most risky segments having NPAs ranging from 14 to 17% and also have low credit growth rate (less than 2%). Low credit growth also indicates traditional riskiness in these sectors and increased risk aversion of banks in lending to these sectors.
- Sectors such as Steel & Metal products and Gems & Jewellery have been facing demand pressure particularly on the export side for several years. As such NPAs remain high with limited credit growth. Additionally, Steel and Metal product MSMEs typically have to contend with low margins and volatility of commodity prices. Pressure in domestic capex and real estate sector also had an adverse impact on the sector.

CONSTRUCTION,
LEATHER-RUBBER-
PLASTIC, CHEMICALS
& FOOD PRODUCTS

LOW NPA
RATE

HIGH GROWTH
SECTORS

7. EVENT STUDY I: DEMONETIZATION AND GST IMPACT IN MSME LENDING

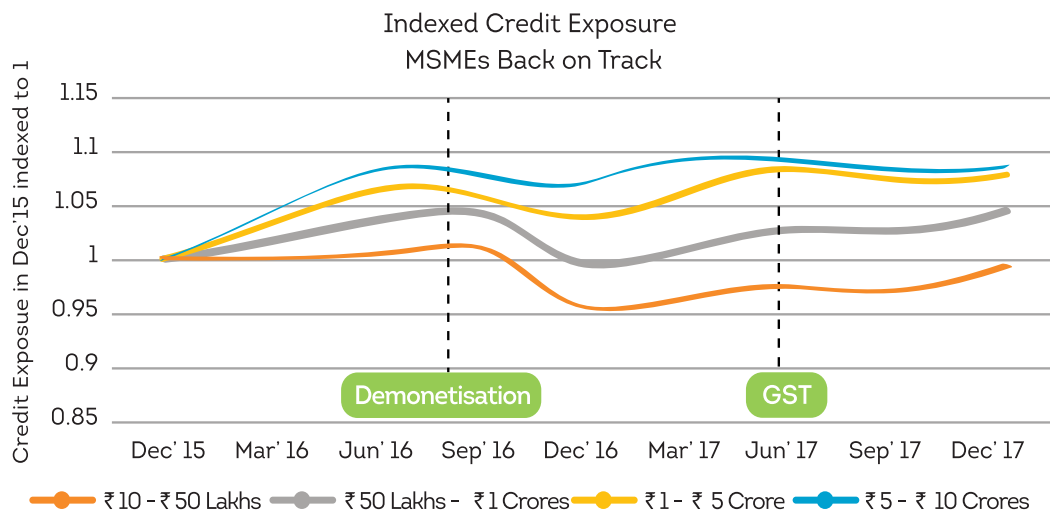


Figure 11: Demonetization & GST Impact on MSMEs

Details of borrowers used in the study: To study the impact of Demonetization and GST, a set of borrowers have been selected. These are borrowers who have been credit active during the entire period of Dec' 15 to Dec' 17. This is to eliminate the impact of new and exited borrowers on the analysis.

In this segment majority of the credit facilities are working capital lines. The utilization levels of these working capital lines tend to be closely associated with the levels of economic activity reflected in production, trade, revenue and the like. The relative reduction in credit exposure in the period post demonetization and post GST launch arguably, may have been linked to moderation in economic activity related to this segment.

The credit exposure of smaller Micro Enterprise segment has fallen further in this period, compared to the Medium SME segment. By March 2017, the credit exposure recovered and exceeded the pre-demonization level in most segments of MSMEs, other than those with credit exposure below ₹ 50 Lakhs.

Post introduction of GST in Q2 2017, credit exposure again lowered for most MSME segments. Smaller segments contracted to pre-demonetization levels. Currently, other than the MSME with the smallest exposures, possibly the smallest MSMEs, the larger MSMEs have recovered to levels well exceeding their pre-demonetization levels.

Specifically, MSMEs with exposures from ₹ 10 Lakhs to ₹ 10 Crores have recovered business activity to pre-demonetization levels, the segment with exposure of less than ₹ 10 Lakhs has still not recovered to that extent.

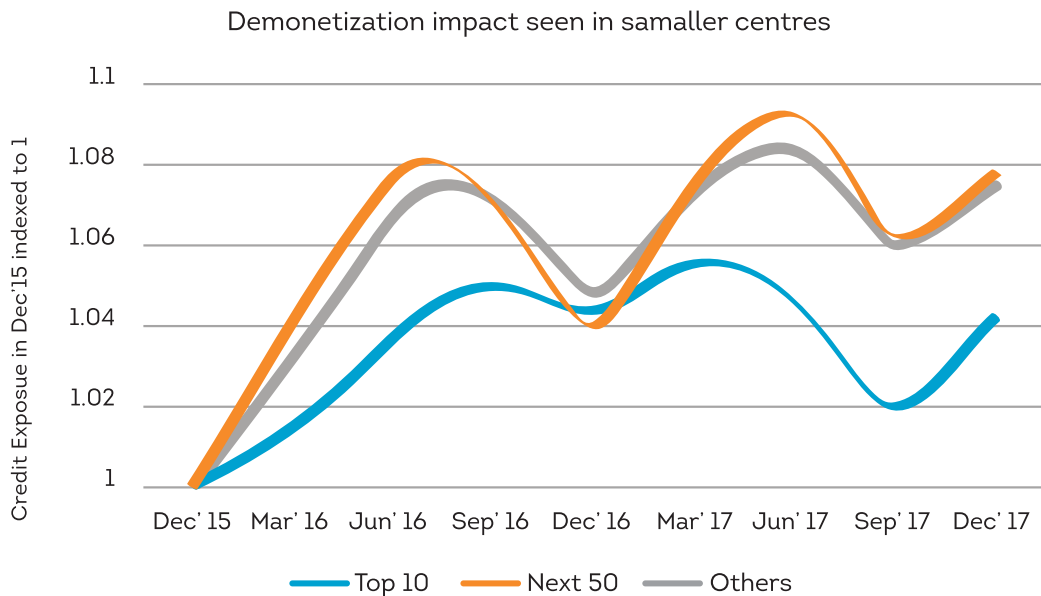


Figure 12: Indexed Credit Exposure of Cities

The Top 10 cities⁷ were impacted to a much lower extent even during the demonetization period, the smaller districts which were witnessing higher growth were impacted and felt greater shock due to unavailability of valid currency notes compared to larger centers, however the credit growth recovered in subsequent quarters given that the supply chains adjusted to the change and higher cash back in circulation. However, the growth was again impacted for the 1st quarter post GST introduction and it was agnostic of geographical location.

Notes:

⁷Top 10 cities are- MMR, NCR, Hyderabad, Chennai, Bangalore, Kolkata, Ahmedabad, Pune, Chandigarh, Vadodara. These districts account for 37% of total MSME credit exposure up to ₹ 10 Crores



SMALLER SEGMENTS SAW HIGHEST IMPACT OF DEMONITIZATION

DEMONITIZATION IMPACT HIGHER IN SMALLER CITIES



RBI relief likely to impact

1.41 LAKHS
NPA BORROWERS
HAVING OUTSTANDING
₹12,910 CRORES

1.66 LAKHS
BORROWERS
WITH CMR 7-9
OUTSTANDING OF
₹ 82,000 CRORES

8. EVENT STUDY II: IMPACT OF RBI RELIEF ON NPA REPORTING OF SME BORROWERS

RBI has announced relief measures for MSMEs registered under GST. For MSME borrowers registered under GST having aggregate banking exposure of below ₹ 25 Crores as on 31 Jan 2018, and borrowers whose loans were standard as on Aug 31, 2017, relief has been provided as a part of the circular¹⁰.

Accounts of borrowers in the above category would be declared NPA only if the dues to the banks are more than 180 days past repayment date (extension of 90 days on account status). A provision of 5% is required to be made in respect of these borrowers.

The RBI dispensation is likely to provide temporary respite to 1.41 Lakh borrowers who were standard in Aug '17 and reported NPA in Jan '18 having an exposure of ₹ 12,910 Crores¹¹. This will reduce the Gross NPA amount of the banks by the same amount in the corresponding reporting period.

It is important to note that even in the portfolio that is standard as on Jan '18, there are about 1.66 Lakh borrowers with exposure of ₹ 82,000 Crores which have a CIBIL MSME Rank (CMR) 7 to 10¹². The dispensation will also benefit some of these borrowers who have a high probability of slippage to the 90+ bucket in the next few months and provide them and the lenders additional time to work on remedial measures.

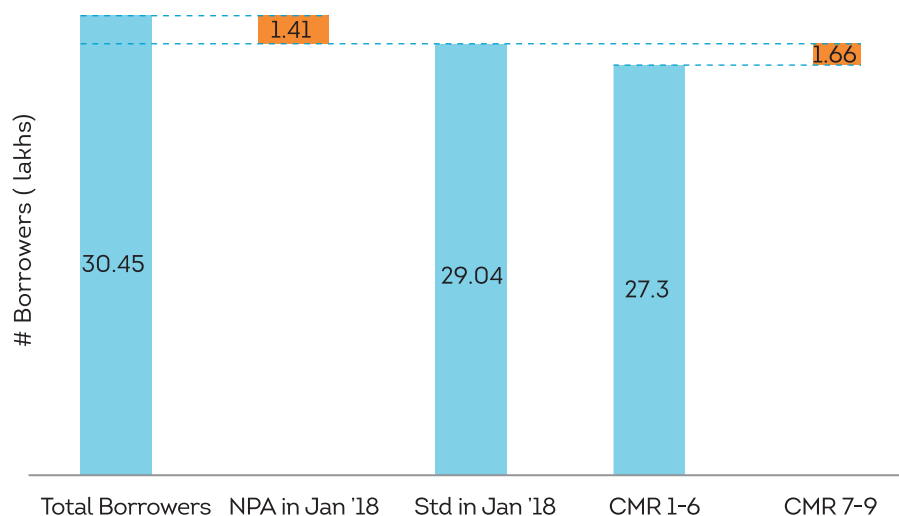


Figure 13: Impact of RBI circular on NPA recognition in MSMEs

Notes:

¹⁰ Relief for MSME Borrowers registered under Goods and services Tax (GST). (<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11216&Mode=0>) dated feb 7, 2018.

¹¹ Analysis of ₹ 30.45 Lakh borrowers with aggregate exposure less than 25 ₹ Crores as on Jan '18 and reported standard in Aug '17. While the RBI has restricted the benefit to only MSME entities (Turnover less than ₹250 Crores) registered with GST, as per our estimation majority of the entities captured in this analysis will fall in that criteria.

¹² CMR 7 to 10 represent high to very high basket, where delinquency rate historically has ranged between 20% to 90%.

9. MSME LENDING – A STRUCTURAL OPPORTUNITY

The MSME sector remains significantly under-penetrated on the organized lending front. Out of the 51 million MSME units, only 5 million units have access to formal credit. This represents a significantly larger gap when compared to retail coverage. Digital push coupled with GST implementation will push the MSMEs towards higher formalization and hence credit coverage. The MSME segment also has low cyclical NPA among all commercial banking segments. Addressing the potential of the MSME sector effectively can help deliver profitable growth for the commercial lending industry.

Given the way the MSME sector has recovered from the dual economic disruptions and the imminent turnaround in few core sectors of the economy, it is expected that the MSME sector is poised for a period of high and sustainable growth. The SME sector is providing the financial institutions with a huge opportunity to capitalize on this favorable macroeconomic environment and provide the much needed stability, granularity and sustainability to their lending books.

The government along with the central and state agencies has shown remarkable support to MSME sector through various landmark initiatives. While, a number of initiatives have been launched through multifaceted programs and schemes for driving ease of doing business, access to formal credit has been facilitated through various Government sponsored schemes like MUDRA, PMEGP, CGTMSE and others.

MSME segment, if targeted and serviced appropriately, can grow to have substantial share of Indian banks' commercial balance sheets and profits in the next 3-4 years. A triumvirate of stable risk, high growth and credit spreads along with progressive regulatory support will prove catalyst for sustainable growth.



10. LEVERAGING DATA ANALYTICS AND POLICY ENABLERS FOR MSME LENDING

Significant scope exists to increase access to credit for MSMEs while reducing the cost of credit to the borrower and increasing profitability for the lenders. This is possible through astute and extensive usage of data analytics not just for underwriting but also for formulating policy actions:



Enabling Access of Alternate Data on MSME

Lenders and credit information companies (CICs) need to be provided access to alternate data such as GST, Employees' Provident Fund Organisation (EPFO) and Utility Bill payment information. This will provide critical underwriting/risk assessment inputs for the NTC MSME Borrowers and enhance overall risk assessment quality of MSME.



Improving MSME's access to "Trade Receivable Electronic Discounting System" (TReDS) by reducing information asymmetry

MSME can improve access to finance in the form of credit opportunities by leveraging TReDS. To enable this, regulatory approval is required for TReDS to access CICs and submission of trade finance data to the credit information companies.



Bolstering securitization of MSME segment exposure

Regulators must form enabling policies for securitization of MSME exposures with real time risk assessment by credit bureau. MSME with live credit exposure are in excess of 5 million, with majority of them having exposures below ₹5 Crores and are usually not rated by credit rating agencies. Utilizing credit information from CICs to assess the risk of MSME portfolio for securitization will improve the objectivity and transparency of the risk assessment process, thereby increasing its appeal to domestic and foreign institutional investments in the MSME bonds segment.



Strong policy incentives for geographical credit expansion and inclusion

A few states like UP, Bihar, Odisha, Madhya Pradesh have a substantial base of MSME entities but have significantly lagged behind in terms of credit growth and penetration. Special focus credit clusters need to be created to improve credit flow in these states along with strong policy incentives for lending in these focus clusters. This will increase MSME lending penetration in these states and provide a significant push to the economic output and employment opportunities.

About SIDBI

Small Industries Development Bank of India (SIDBI), is the Principal Financial Institution for the Promotion, Financing and Development of the MSME sector and for coordination of the functions of the institutions engaged in similar activities. The business domain of SIDBI consists of MSMEs, which contribute significantly to the national economy in terms of production, employment and exports. SIDBI meets the financial and developmental needs of the MSME sector with a Credit+ approach to make it strong, vibrant and globally competitive. 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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TransUnion CIBIL Limited
[Formerly: Credit Information Bureau (India) Limited]
CIN: U72300MH2000PLC128359

P: 6638 4600
F: 6638 4666
W: transunioncibil.com

One Indiabulls Centre, Tower 2A, 19th Floor,
Senapati Bapat Marg, Elphinstone Road,
Mumbai - 400 013