

MMSME PULSE

TransUnion^{tu} CIBIL

sidbi

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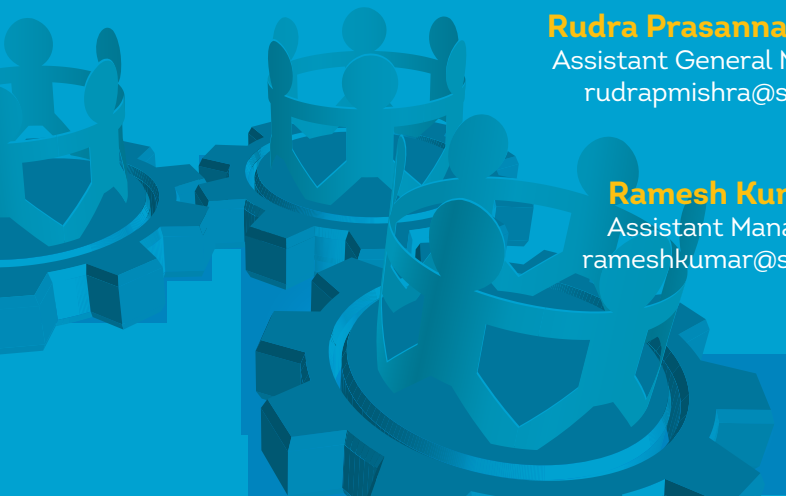


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1. EXECUTIVE SUMMARY

Total credit exposure in India stood at ₹111.1 Lakh crores: Total credit exposure stood at

₹111.1 Lakh Crores as of Dec'18. The Mid and Large Corporate segments hold the largest share of 43% and exposure of ₹47.5 Lakh Crores. Consumer Lending (Retail, Agriculture and Priority Sector Lending) is the second biggest segment with a share of 35% and exposure of ₹38.4 Lakh Crores. The MSME segment (business lending to both corporate entities and individuals) stands third with a share of 23% of the aggregate pie.

Credit growth resumes in earnest: The Year-On-Year (YOY) commercial credit growth continues to rise clocking 14.4% in the Dec'18 quarter. The Large (greater than ₹100 Crores exposure) segment has shown very high credit growth of 14.9% signaling revival trends. The Micro (exposure less than ₹1 Crore) and SME (₹1 Crore - ₹25 Crores) segments constitute ₹14.8 Lakh Crores credit exposure (23.7% of commercial credit exposure) scaling YOY growth of 19.2% and 15.9% respectively. In comparison it is 5.0% for Mid (₹25 Crores - ₹100 Crores) from Dec'17 to Dec'18.

Banking Sector on the way to recovery: After a long period of stress, the banking sector seems to be on the course to recovery as the NPA rates have started showing a gradual decline. The NPA rate reached its peak in the period between Mar'18 to Jun'18 for the Mid and Large segments. We witnessed a reduction in the NPA rate for the Large segment from 20% in Jun'18 to 19% in Dec'18. Similarly, the NPA rate for the Mid segment declined from 18% in Jun'18 to 16.5% in Dec'18.

MSME credit growth on a firm footing: Aggregate MSME lending (both entities and individuals) has expanded rapidly over the last five years. Total balance outstanding has increased from ₹10.4 Lakh Crores in Dec'13 to ₹25.2 Lakh Crores in Dec'18 - a compounded annual

growth rate (CAGR) of 19.3%. The growth in aggregate MSME Lending in over the last five years has been powered by a 15.7% CAGR of lending to entities and a 26.1% increase in business lending to individuals.

Improvement in lending intensity: Aggregate MSME lending as a proportion of the GDP has increased by around 400 basis points (bps) to reach 13.6% in Dec'18 from Dec'13. The rapid increase in the MSME lending intensity has been driven by a 130 bps and 260 bps improvement in lending to entities and individuals respectively. It is noteworthy that MSME lending intensity – as measured by MSME loans outstanding divided by MSME GVA (Gross Value Added) has moved up from 32.2% in Dec'13 to 47.6% in Dec'18 – a landmark increase of 15.4 percentage points (pps). This growth has been driven by an increase of 5.8 pps in lending to entities and 9.7 pps in lending to individuals.

PSBs Share in MSME lending has been reducing: The market share of PSBs (Public Sector Banks) in MSME lending (both entities and individual segment) has reduced from 58% to 39% in 5 years period from Dec'13 to Dec'18. PSBs continue to be the single biggest lender to MSMEs but the gap between the PSBs and the Private (PVT) segment has narrowed from a significant 37 pps in Dec'13 to just about 7 pps in Dec'18. However, going forward, we would expect that the PSBs would be able to claw back some of the share losses as more PSBs come out of the PCA framework. Their market share growth will also be aided by the continued funding constraints being experienced by the NBFC segment.

New MSME Credit seekers have accelerated in 2018: The ongoing trend of increasing formalization as well as financial inclusion implies that the number of new MSMEs has been consistently increasing across geographies. NTC borrowers entering the formal credit sector have accelerated from ~2.7 Lakhs in 6 months in H1-16 to ~3 Lakhs in H1-17 and further on to ~5.2 Lakhs in H1-18. The Mudra scheme is noteworthy for its financial inclusion impact as NTC MSMEs in <₹10 Lakhs segment have increased by 74% between H1-17 to H1-18, from 2.3 Lakhs to 4.1 Lakhs. Providing access to credit for NTC MSME entities is largely enabled by PSBs which have about 78% contribution in <₹10 Lakhs segment.

2. COMMERCIAL LENDING – PORTFOLIO AND NPA TRENDS

As of Dec'18, the total on-balance sheet commercial lending exposure in India stood at ₹62.3 Lakh Crores with the Micro and SME¹ segments constituting ₹14.8 Lakh Crores exposure (~23.7% of commercial credit outstanding). Large corporates having aggregated credit exposure of more than ₹100 Crores, account for ₹41.9 Lakh Crores (~67.1% of commercial credit outstanding).

Micro Loans (less than ₹1 Crore) and SME Loans (₹1 Crore - ₹25 Crores) continue to grow in the commercial lending space showing YOY growth of 19.2% and 15.9% respectively. While Mid (₹25 Crores - ₹100 Crores) segment has grown by 5.0%, the Large (> ₹100 Crores) segment has shown high growth of 14.9% over Dec'17 to Dec'18 period.

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

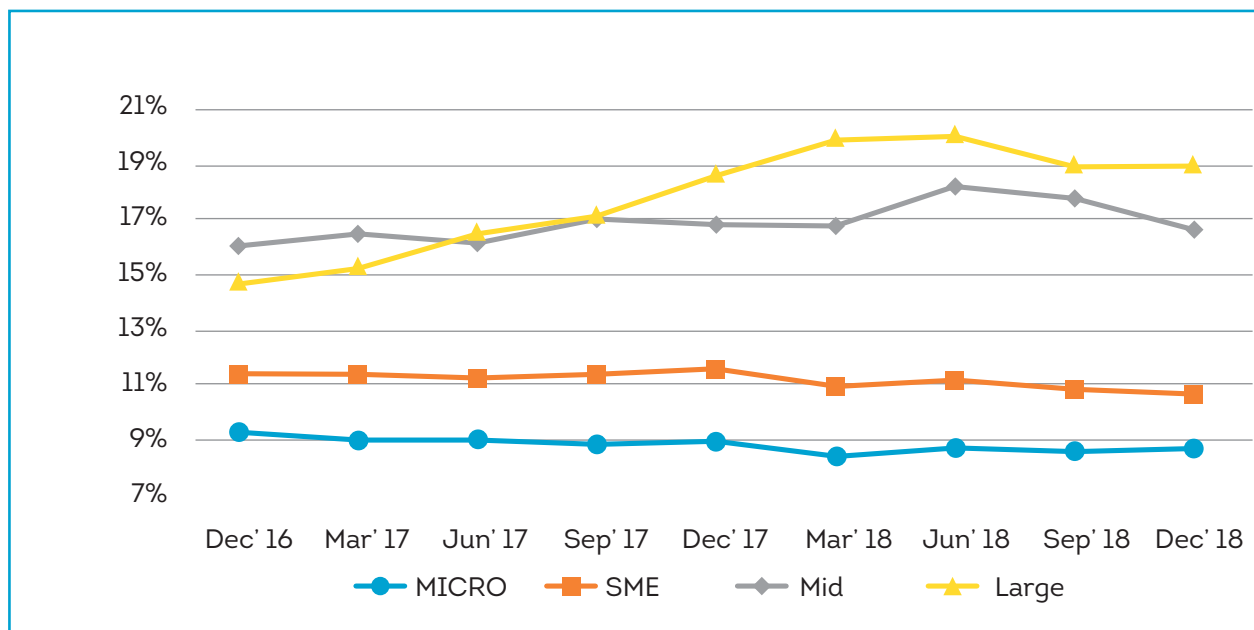
	Micro <₹1 Cr	SME ₹1 - 25 Cr	Mid ₹25 - 100 Cr	Large >₹100 Cr	Overall
Dec'16	2.9	7.5	4.9	34.3	49.6
Mar'17	3.1	7.8	4.9	34.1	50.0
Jun'17	3.3	8.1	5.0	34.4	50.8
Sep'17	3.5	8.5	5.2	34.7	51.8
Dec'17	3.7	8.9	5.4	36.4	54.5
Mar'18	4.0	9.6	5.5	37.8	57.0
Jun'18	4.2	10.0	5.5	38.3	58.1
Sep'18	4.3	10.1	5.5	39.8	59.7
Dec'18	4.5	10.3	5.7	41.8	62.3
Y - o - Y Credit growth (Dec'18)	19.2%	15.9%	5.0%	14.9%	14.4%

Source: TransUnion CIBIL

¹ 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 gross NPA rate in commercial lending was 16.7% in Dec'18, inching slightly from 16.5% in Dec'17. The stock of gross NPA in commercial exposure increased by ₹1.35 Lakh Crores in Dec'18 over Dec'17. The NPA rate had reached its peak in the period between Mar'18 to Jun'18 for Mid and Large segments. However, after experiencing a long period of stress, the Commercial Credit Sector seems to be on the course to recovery as the NPAs have finally started showing gradual decline after the Jun'18 quarter.

Exhibit 2: Segment - wise NPA Rate



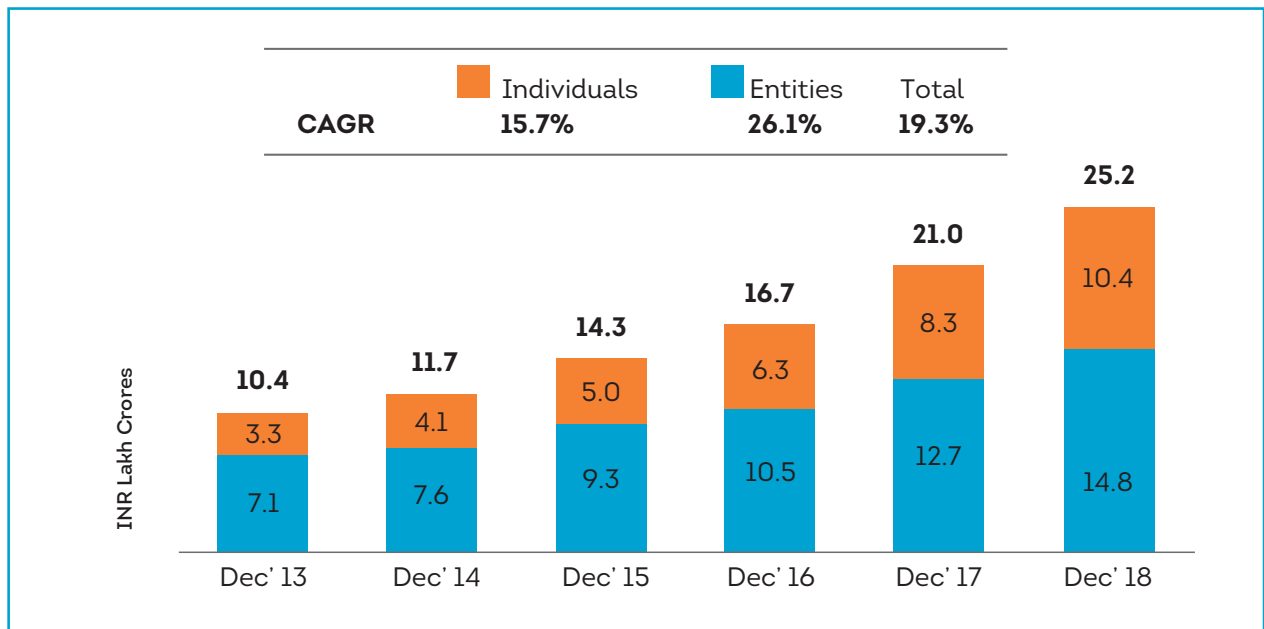
Source: TransUnion CIBIL

3. MSME LENDING – A FIVE YEAR PERSPECTIVE

For the purpose of this analysis, MSME lending includes all business loans given to both entities and individuals having a fund based exposure till ₹25 Crores. All loans reported on the name of the entity are included within the analysis. All individual loans with a business purpose are also included in the analysis.

Primary categories of loans on the name of individuals that are included within the analysis are Loans Against Property, Gold Loans, Loans Against Shares, Loans to Professionals, Commercial Vehicle Loans, Construction Equipment Loans, Secured Business Loans, Unsecured Business Loans and Priority Sector Business Loans. Considering the dual nature of both Loans Against Properties (LAP) and Gold Loans, we have included 80% of LAP and 60% of Gold Loans amount outstanding as the loans that could be classified as commercial in nature.

Exhibit 3: Credit Growth of MSME Segment



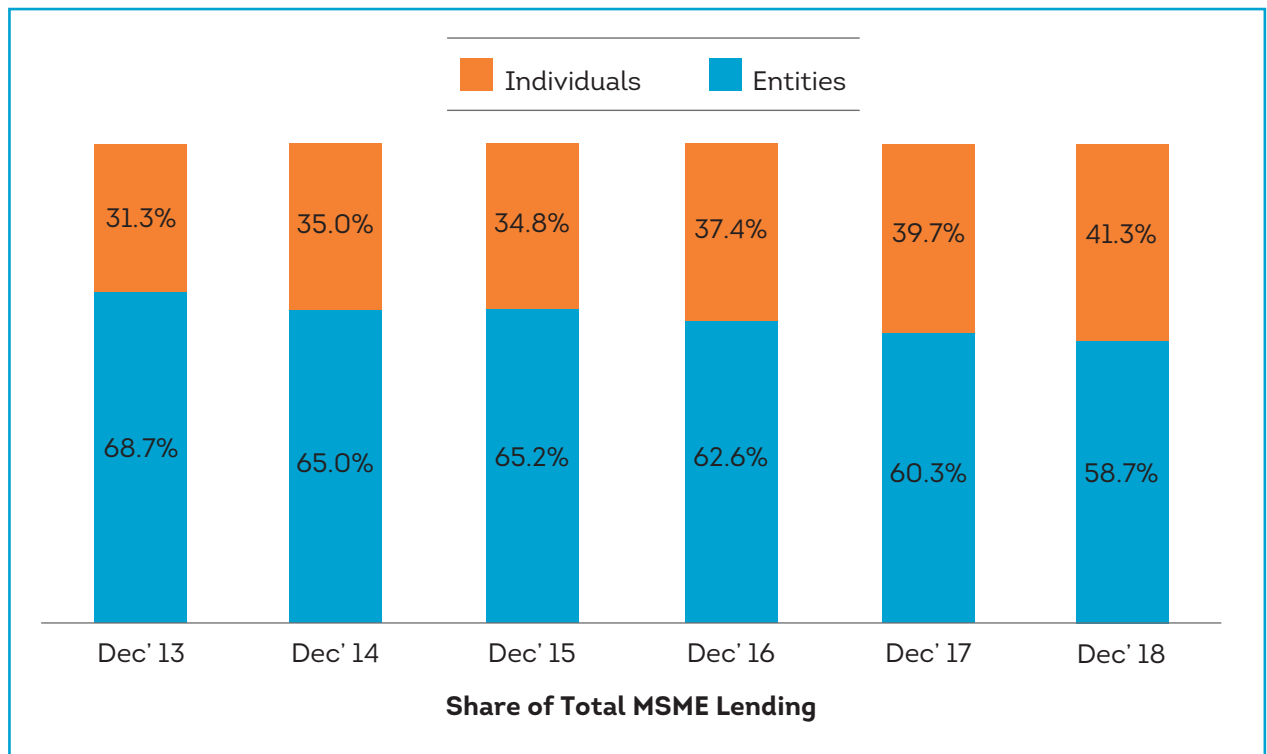
Source: TransUnion CIBIL

As it is quite evident, aggregate MSME lending (both entities and individuals) has expanded at a rapid rate in the past five years. The total balance outstanding has increased ₹10.4 Lakh Crores in Dec'13 to ₹25.2 Lakh Crores in Dec'18 – a compounded annual growth rate (CAGR) of 19.3%.

The growth in aggregate MSME lending in the past five years is powered by a 15.7% CAGR of lending to entities and 26.1% of business lending to individuals. The comparatively higher rate of business lending to individuals has translated into a major shift in the composition of the MSME Lending industry in favor of individuals.

Even though MSME lending to entities continues to have a dominant share of the aggregate market, its share in the overall pie has declined consistently from 68.7% in Dec'13 to 58.7% in Dec'18. Conversely, the share of MSME lending to individuals has increased by around 10 percentage points (pps) to 41.3% in Dec'18.

Exhibit 4: Market Share of MSME Entity and Individual Segment

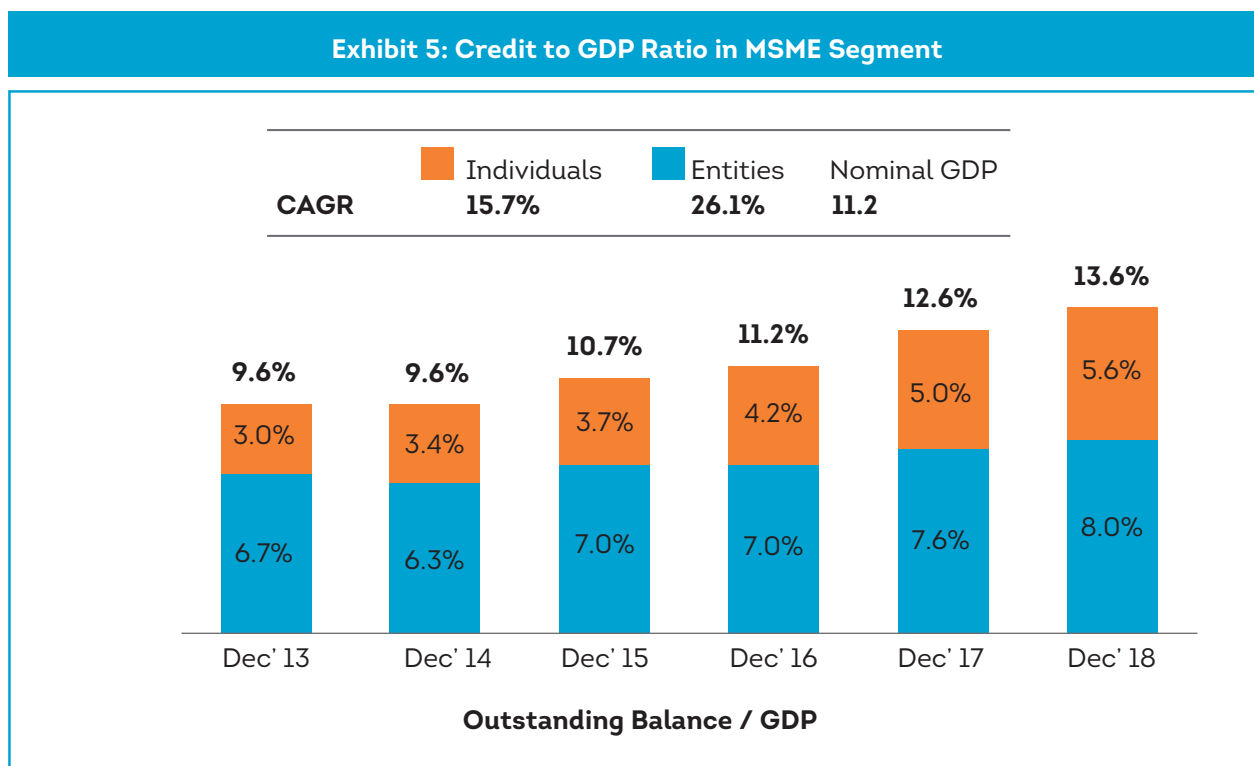


Source: Ministry of MSME

LENDING INTENSITY ANALYSIS

It is important to analyze the growth in MSME lending from the perspective of the overall macroeconomic environment to get a better picture of the improvement in financial access / lending intensity. Aggregate MSME lending as a proportion of the GDP has increased by around 400 basis points (bps) to reach 13.6% in Dec'18.

The rapid increase in MSME lending intensity has been driven by a 130 bps and 260 bps improvement in lending to entities and individuals respectively.

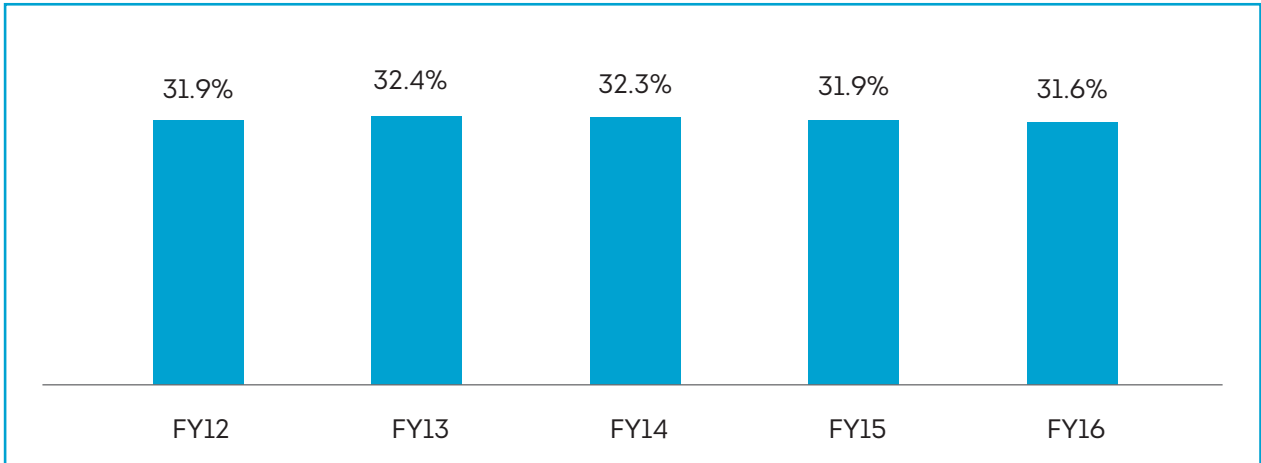


Source: Ministry of MSME

Even though the comparison of MSME lending trends with the GDP trends provides us with directional information regarding the lending intensity, it may not be the most appropriate measure as it does not account for the contribution of the MSME industry to the overall GDP. A better measure would be to compare MSME lending to the MSME Gross Value Added (GVA).

Getting information regarding the economic contribution of MSMEs is quite challenging. The FY18 Annual Report of the Ministry of Micro, Small and Medium Enterprises provides the following information regarding the contribution of the MSME sector to the overall GVA of the country:

Exhibit 6: Share of MSMEs in GVA



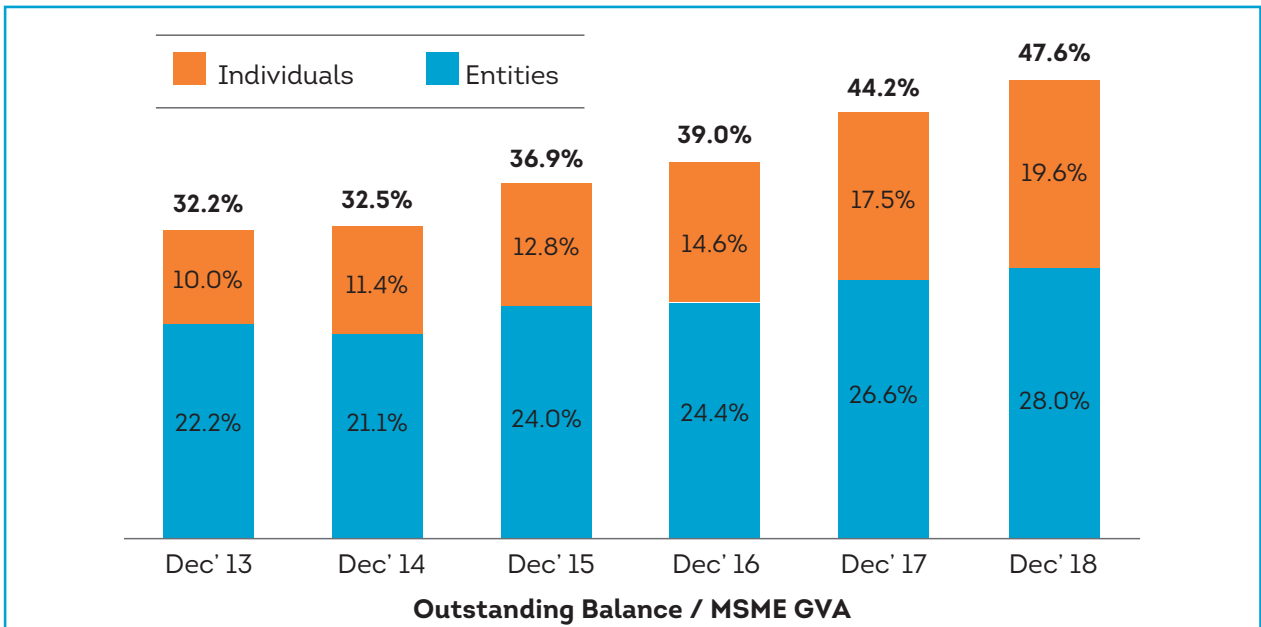
Source: TransUnion CIBIL

The share of the MSME sector in the overall GVA has remained steady at around 32% over a five year period - from FY12 to FY16. We have used this data to calculate the MSME GVA over the period - Dec'13 to Dec'16 and assumed that the share has remained constant at the Dec'16 level for both Dec'17 and Dec'18.

It is noteworthy that MSME lending / MSME GVA has moved up from 32.2% in Dec'13 to 47.6% in Dec'18 - a landmark increase of 15.4 pps as seen in Exhibit 7. This growth has been driven by an increase of 5.8 pps in lending to entities and 9.7 pps in lending to individuals.

Another important point to note is the significant acceleration in lending in the past couple of years leading to Dec'18. Growth of this magnitude needs to be monitored carefully as rapid acceleration in debt buildup is a harbinger of stress in the system.

Exhibit 7: Credit to GVA Ratio in MSME Segment



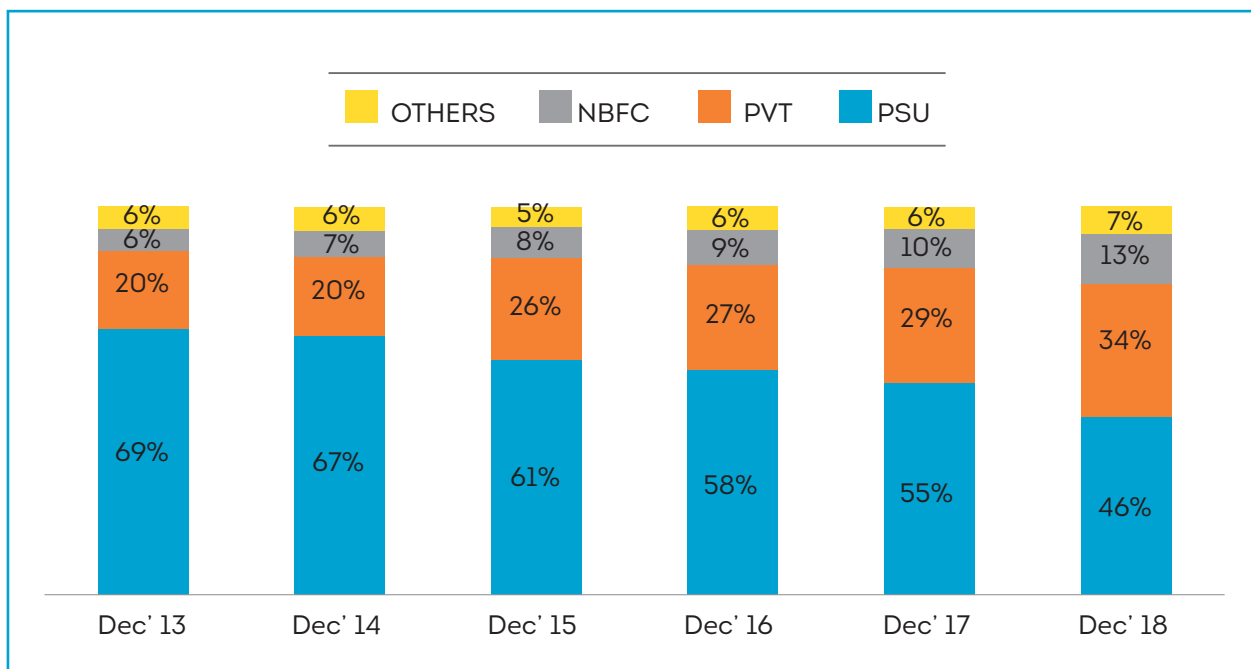
Source: TransUnion CIBIL, CEIC & Ministry of MSME

PLAYER SEGMENT MARKET SHARE ANALYSIS

The rapid growth in MSME lending in the country has been accompanied by the structural transformation of the industry as well with the Public Sector Banks (PSBs) exhibiting a sustained and significant decline in market share.

This trend is particularly evident in MSME lending to the commercial entities segment. The share of PSBs has declined from over two-thirds of the market in Dec'13 to less than half of the market in Dec'18. The biggest beneficiaries of this trend have been the PVT and the NBFC players.

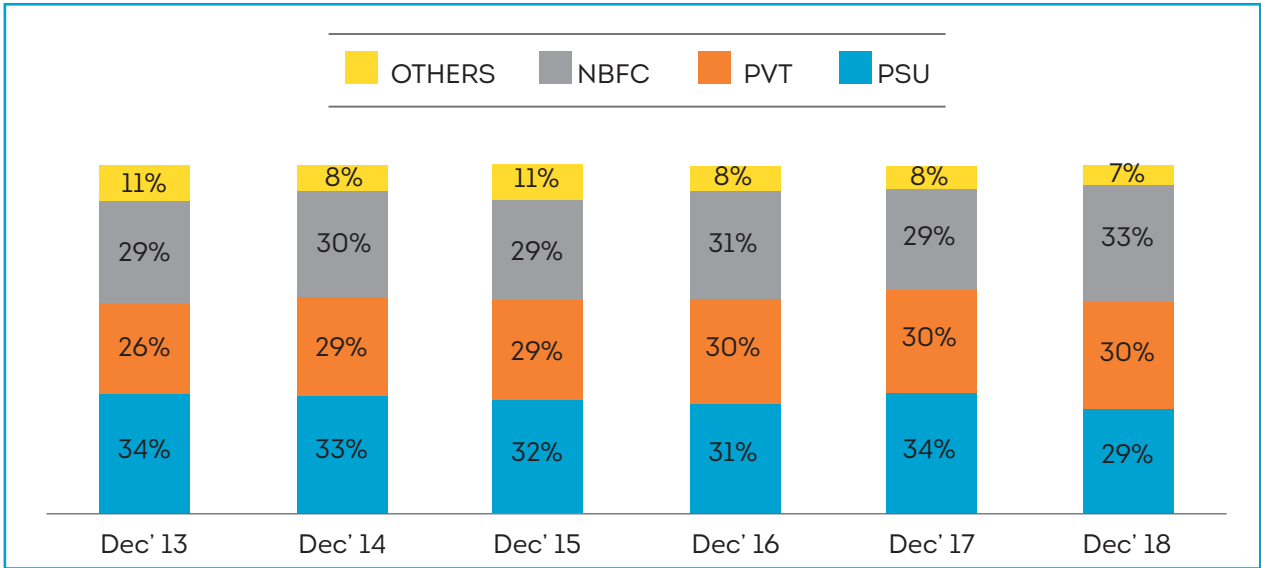
Exhibit 8: Share of Lenders in MSME Entity Segment



Source: TransUnion CIBIL

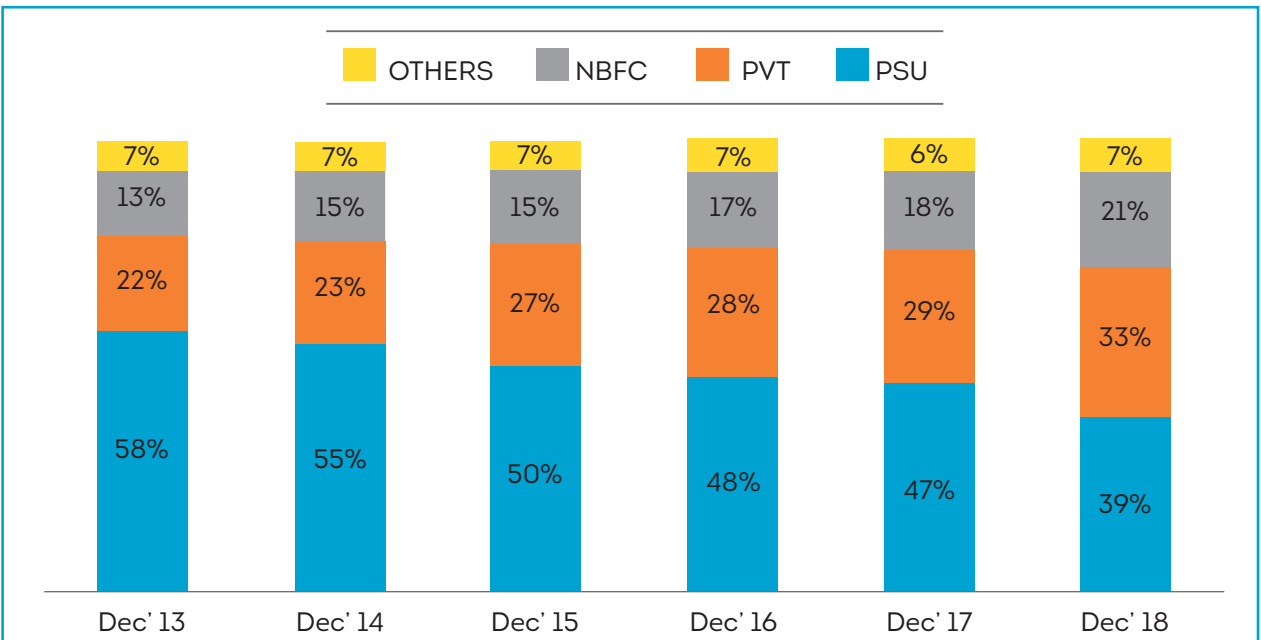
We see similar trends – albeit of slightly different magnitudes – when we analyze the market share of the various player segments in MSME lending to individuals. In contrast to the MSME entities lending space where PSBs are still the biggest, they now hold the third position in MSME lending to individuals. This is a rapid decline from the first position in Dec'13. Both the PVT and the NBFC segments have gained market share by around 4 pps each over the past five years on account of a decline in the share of the PSB and the OTHERS segment.

Exhibit 9: Share of Lenders in MSME Individual Segment



On a consolidated level, PSBs continue to be the single biggest segment but the gap between the PSB and the PVT segment has narrowed from a significant 37 pps in Dec'13 to just about 7 pps in Dec'18. However, going forward, we would expect that the PSB players would be able to claw back some of the share losses, as more PSBs are likely to come out of the PCA framework. Their market share growth will also be aided by the continued funding difficulties being experienced by the NBFC segment.

Exhibit 10: Share of Lenders in MSME Segment



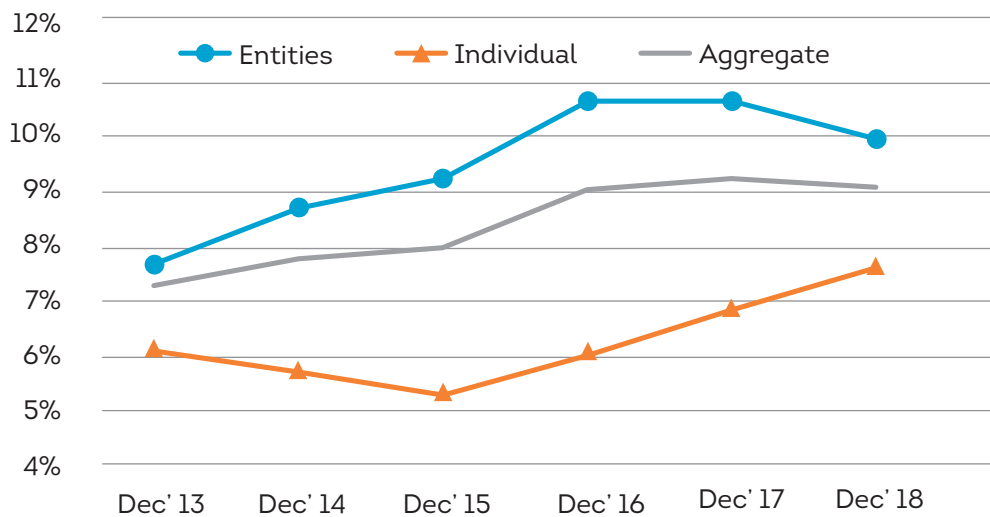
Source: TransUnion CIBIL

NPA TRENDS

It is extremely challenging to compare the NPA trends of MSME lending across entities and the individual segments on account of significant divergences in data submission standards. In order to provide a like-to-like comparison, we have computed NPA across both the segments utilizing the following assumptions:

- An account is classified as NPA when the days past due (DPD) is 90 or more
- Any account that is not marked as closed in the bureau is assumed to be open
- There is no upper limit for the DPD accounts and charged-off accounts (having DPD of 180+) are also included in the analysis

Exhibit 11: NPA Trends in Overall MSME Segment



As expected, we witness material difference in the NPA rate between the entities and the individual segments. This can partly be explained by the divergent contribution of the PSBs to the entities and the individual segments. Part of the explanation stems from the significant difference in the relative contribution of the various exposure size segments to the overall entities and individual segments. However, it is also worth noting that the divergence between the entity and the individual segment is narrowing considerably in the past few years.

4. NEW MSME CREDIT SEEKERS HAVE ACCELERATED IN 2018

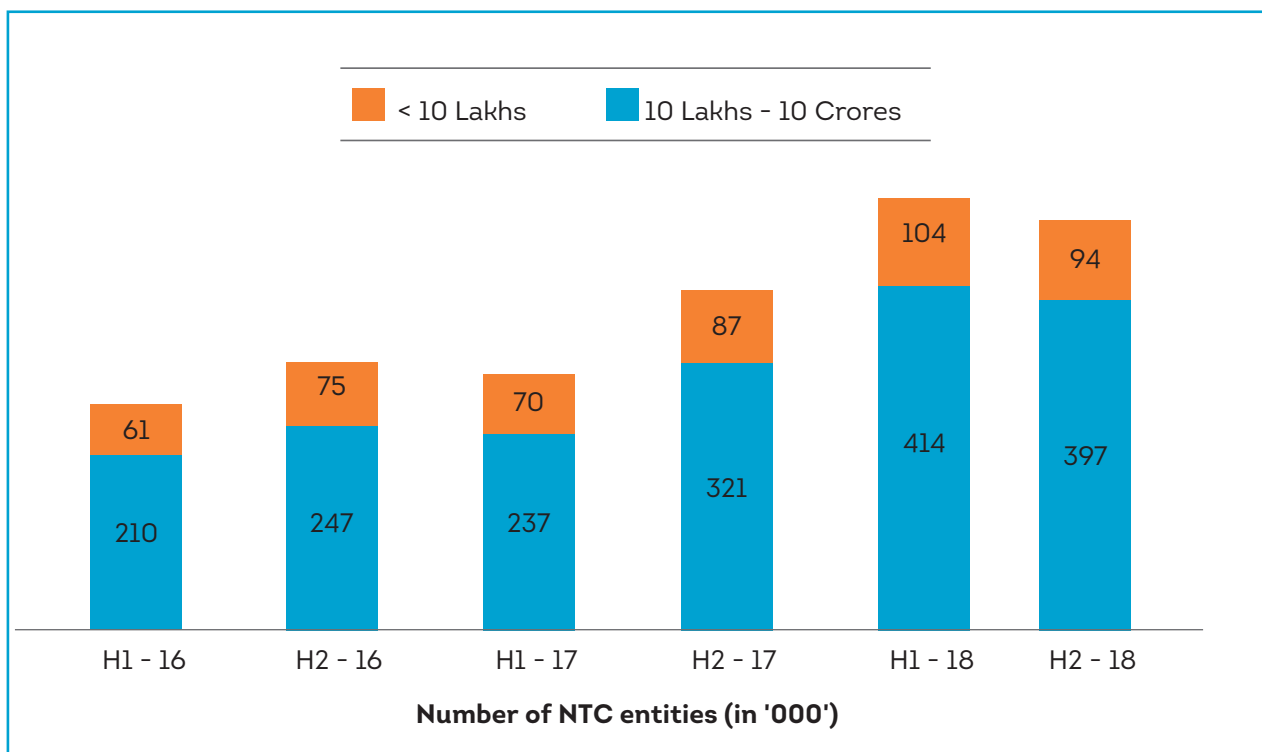
A business entity that is seeking formal credit for the first time is defined here as New to Credit (NTC) borrower. In this analysis, we are looking at the behavior of corporate entities that have a credit exposure of ₹10 Crores or less.

The ongoing trend of increasing formalization as well as financial inclusion implies that the number of new MSMEs has been consistently increasing across geographies. NTC borrowers entering the Formal Credit sector have accelerated from ~2.7 Lakhs in 6 months in H1-16 to ~3 Lakhs in H1-17 and further on to ~5.2 Lakhs in H1-18.

The highest acceleration is observed between the periods H1-17 to H2-17, where NTC borrowers' growth is observed at 32%. This high growth is attributed majorly to NTC addition in the Very Small segment (<₹10 Lakhs exposure) in H2-17. This acceleration also coincides with high number of new firms which have formalized by registering themselves for GST. In the half-year ending Dec'18, ~4.9 Lakhs NTC business borrowers were added, which is 5% lower than the NTC observed in H1-2018.

Pro MSME government policies and schemes, assisted by Central and State Institutions has helped in this significant growth of MSMEs in India. The Mudra scheme is noteworthy for its financial inclusion impact as NTC MSMEs in <₹10 Lakhs segment have increased by 74% between H1-17 to H1-18, from 2.3 Lakh to 4.1 Lakhs.

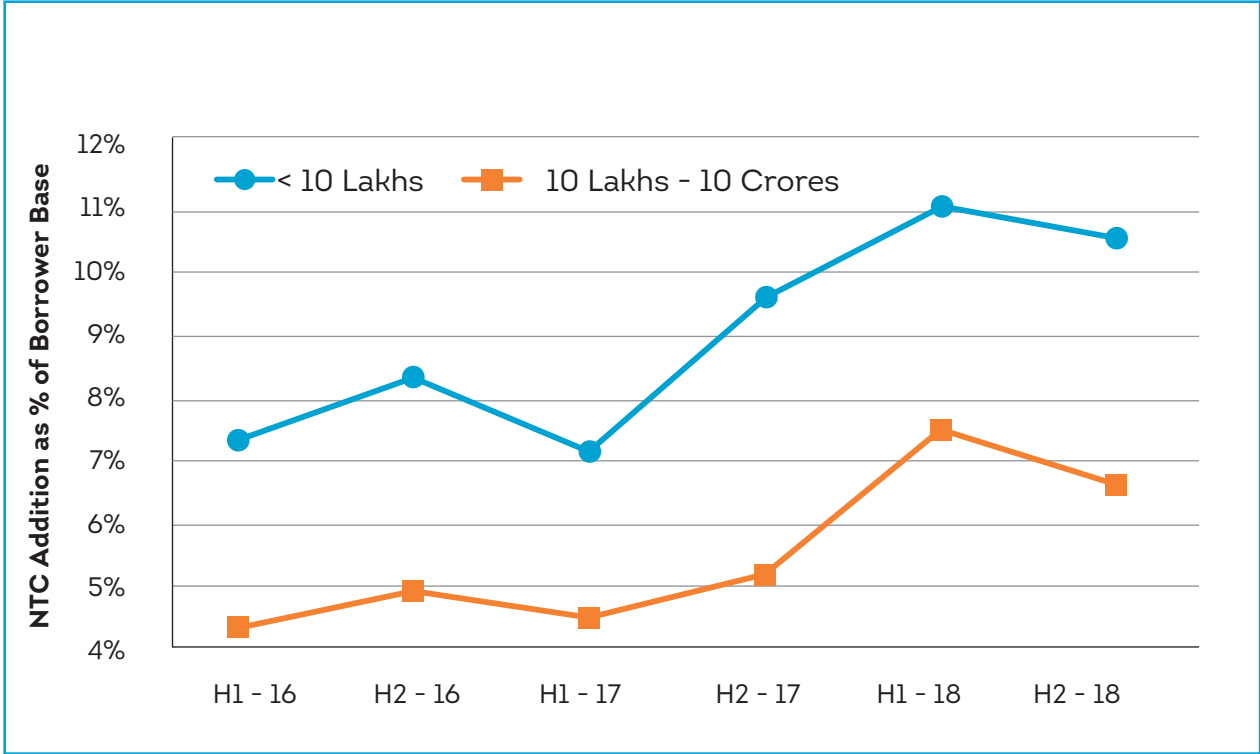
Exhibit 12: Number of NTC MSMEs in 6 Month Period



Source: TransUnion CIBIL

As a percentage of the total borrower base, NTC additions grew from 9.7% to 10.6% in the Very Small borrower segment and 5.2% to 6.7% in the ₹10 Lakhs to ₹10 Crores segment between H2-17 to H2-18.

Exhibit 13: New to Credit Entities – Share & Growth



Source: TransUnion CIBIL

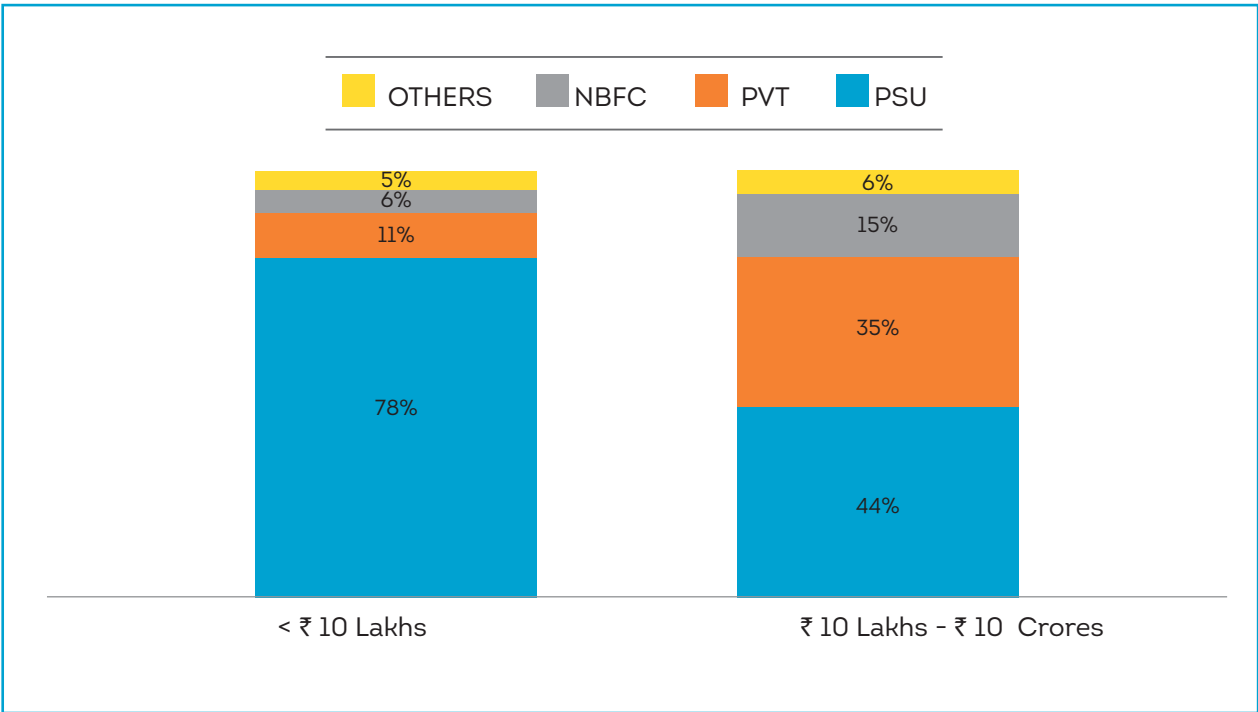
SHARE OF LENDERS IN EXTENDING CREDIT TO NTCs

Public sector banks have been pioneers in providing financial support to several MSMEs under various schemes like SME Credit Card, SME Smart Score, SME Credit Plus, SME Collateral Free Loan and many other schemes. RBI has also mandated scheduled commercial banks to achieve 20% YOY credit growth to the MSME sector.

PSBs are playing a critical role in providing access to finance to the Very Small (<10 Lakhs) NTC borrowers with 78% share in onboarding NTC borrowers in this segment. In the same period from July to December, a year before (in H2-17 NTC), share of PSBs providing finance to NTC in this segment was 79% while it was 13% for Private, 5% NBFCs and 2% other lenders.

PSBs have an overwhelming dominance in the NTC (sub ₹10 Lakhs) segment. Policies that allow the provision of Collateral Free Loans for all loans extended with a ticket size of less than ₹10 Lakhs under the Prime Minister Employment Generation Programme of KVIC as well as other central schemes are a major contributory factor behind this trend.

Exhibit 14: Share of Lender Types in NTC Segment (H2 - 2018)



Source: TransUnion CIBIL

In the entity segment of '₹10 Lakhs - ₹10 Crores', the NTC share of PSBs in NTC segment is 44% in H2-2018. Private Banks and NBFCs have shown higher willingness to extend credit to NTC borrowers in this MSME (10 Lakhs to 10 Crores) segment, compared to the smaller and less formal segment. In H2-2017, share of PSBs was 51%, Private Banks 29%, NBFCs 16%. Share of PSBs and NBFCs in loan to ₹10 Lakhs - ₹10 Crores segment has reduced from H2-2017 to H2-2018, while Private Banks have gained NTC share in this segment.

5. SECULAR GROWTH RUN IN MSME LENDING TO CONTINUE

The NPA rates in commercial lending are now inching downwards and it is possible that we may have already seen the peak of NPA rates in the Indian Banking system. The Mid and Large Corporate lending is also entering another cyclical growth phase. MSME lending has grown in the past 5 years and given the structural strength of the MSME lending segment combined with the tailwinds of growing Large Corporate sector with declining NPA rates, we may see the MSME lending intensity grow even further.

In addition, while PSB's market share in this segment has been shrinking, digitization initiatives in these banks and few more banks probably coming out of the PCA framework, we may witness PSB's lending expansion in the MSME segment further fueling growth in this segment.

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 the 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

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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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