

TransUnion[®] CIBIL



MSME PULSE

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EXECUTIVE SUMMARY

Broad based recovery in credit growth: Overall credit exposure (Y-O-Y) has shown the highest growth rate in the last five quarters. In addition, after the lows of Sep'17, even exposure of the Large (credit exposure greater than ₹100 Crores) segment has grown two consecutive quarters showing early signs of recovery in credit growth. Micro (credit exposure less than ₹1 Crore) and SME (credit exposure in the range of ₹1 Crore - 25 Crores) segments constitute ₹12.6 Lakh Crores credit exposure (23% of commercial credit outstanding) with Y-O-Y growth of 22.2% and 12.8% respectively. In comparison, between Mar'17 and Mar'18, MID (credit exposure in the range of ₹25 Crores - 100 Crores) segment exposure has grown by 7.2% and Large (credit exposure greater than ₹100 Crores exposure) segment by 5.9%

Large segment asset deterioration continues, Mid segment NPA rate restricted: In the Large corporate segment, NPA rates increased from 15.3% (Mar'17) to 18.0% (Mar'18). The directional reduction in NPA rate of Mid segment (16.3% in Mar'17 to 15.9% in Mar'18) may be attributed to bad debt being sold to Asset Reconstruction Companies (ARC) and uptick in loan growth in this segment. Assets under the management of ARCs' increased by commensurate amount during the period.

Relatively stable asset quality for MSMEs: MSME NPA rates have remained stable and range bound. In the Micro segment the NPA rate has moved from 8.9% (Mar'17) to 8.8% (Mar'18). In SME segment the NPA rate hovered between 11.4% (Mar'17) and 11.2% (Mar'18). Recognized NPA exposure for MSME is ₹81,000 Crores as on Mar'18

Growth to ensure asset quality: The future NPA in the segment may be driven by ₹11,000 Crores exposure, which are currently tagged as 'standard' but belong to entities at least one or more exposures of which are tagged as NPA by other banks or credit institutions. Additionally, as of 31st Mar'18, there is a system-wide exposure of ₹120,000 Crores belonging to entities with CIBIL MSME Rank (CMR) between CMR-7 and CMR-10. CMR-7 to CMR-10 are associated with High Risk. These high-risk exposures are expected to add ₹16,000 Crores in NPA by Mar'19. However, strong credit demand in this segment, among other things driven by formalization of credit demand is likely to keep the overall NPA rate in this segment in check. In addition, RBI relief to MSME borrowers with aggregate exposure up to ₹25 Crores, giving 90 day extension for repayments, is likely to lead to a reversal of about ₹15,000 Crores Gross NPA in this segment.

New Private Banks most successful in tapping MSME opportunity: Private Banks and NBFCs have further increased their market share in Micro and SME lending from 27.5% and 9.1% in Mar'17 to 30.3% and 10.9% respectively in Mar'18. Share of Public Sector Bank (PSB) has fallen from 57% to 50.4% in the same period. Despite higher growth rate New Private Banks have better quality of acquisition of New to Bank (NTB) borrowers with 46% of them belong to high quality CMR-1 to CMR-3. In comparison, other lenders have around 35% of their incremental borrowers in CMR-1 to CMR-3.

New Private Sector Banks have 9% NTB acquisition in CMR-7 to CMR-10 grades compared to 16% in PSBs and 14% in NBFCs. However, New Private Banks and NBFCs lending to such high risk borrowers are largely offering asset backed loans, against identifiable and recoverable assets such as Commercial Vehicles, Construction Equipment, Property, etc. PSBs tend to offer to the same segment general Working Capital and Term Loans which are typically secured by a mix of current assets, plant and machinery and other movable and immovable assets.

Formalization may add a Million New-to-Credit (NTC) MSME borrowers annually: Number of NTC borrowers in MSME segment continued to accelerate with 5 Lakh NTCs estimated in H1-18 compared to 4 Lakhs in H2-17. In effect going forward, it may be expected that annually, at least a Million plus NTC, MSME borrowers would be seeking formal credit. A recent NTC portfolio study suggests 60% first-time borrowers sustain or increase their credit exposure, in the two-year period following their first formal loan.

Demonetization and GST Impact are firmly behind the MSMEs: As of Mar'18 based on the credit utilization exposure, the metric, used to gauge the impact in this study, it appears that most MSMEs including the smallest ones have recovered from the impact of demonetization and GST.

Risk Profile study of top 30 locations: A study of the risk profiles of the top 30 locations by CMR distribution of borrowers shows that locations in the North and West regions have a comparatively better risk profile than the locations in the South and East.



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

The overall analysis is done on over 5 Million business entities ranging from proprietorship / partnership all the way to listed entities. The credit data is updated monthly with exposure and performance details from Banks, NBFCs, HFCs, Co-operative Banks, Regional Rural Banks and other regulated lenders.

Overall Commercial Lending Exposure Trend: The total on balance sheet commercial lending exposure in India stood at ₹54.2 Lakh Crores, as of Mar'18 with Micro and SME¹ segments constituting of ₹12.6 Lakh Crores exposure (~23% of commercial credit outstanding). Large corporates having aggregated credit exposure of more than ₹100 Crores, account for ₹36.3 Lakh Crores (~67% of commercial credit outstanding).

Micro Loans (less than ₹1 Crore) and SME Loans (₹1-25 Crores) continue to surge in the commercial lending space showing Y-O-Y growth of 22.2% and 12.8% respectively. While MID (₹25-100 Crores) segment has grown by 7.2%, Large (>₹100 Crores) segment has shown early signs of recovery in credit growth, growing by 5.9% from Mar'17 to Mar'18.

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 |
|--|-------------------|----------------------|------------------------|----------------------|---------|
| 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* | 3.7 | 8.8 | 5.3 | 35.5 | 53.3 |
| Mar'18** | 3.8 | 8.8 | 5.3 | 36.3 | 54.2 |
| Y-O-Y Credit growth (From Mar'17- Mar'18) | 22.2% | 12.8% | 7.2% | 5.9% | 8.1% |

NPA Trends in commercial lending: The overall NPA rate of commercial lending was at 16.0% in Mar'18 (14.4%, Mar'17). The stock of gross NPA in commercial exposure increased by ₹1.48 Lakh Crore in Mar'18 over Mar'17. However, quarterly additions to NPA suggest that the steepest rise was between Q2FY'18 to Q3FY'18, While the growth in NPA rate has moderated, it is too early to conclude that the NPA problem is close to bottoming out.

Looking into individual segments further, NPA rates in Micro and SME segment have remained range bound between 8.9% (Mar'17) to 8.8% (Mar'18) and 11.4% (Mar'17) to 11.2% (Mar'18) over the last one year. The growth rate in credit exposure and gross NPA amount in Micro/SME segment are comparable thus the coincidental gross NPA rate remains range bound.

Notes:

¹ Commercial loans classified into various segments basis credit exposure aggregated at entity level, Micro less than ₹1 Crore, SME ₹1-₹25 Crores, Mid ₹25-₹100 Crores, Large >₹100 Crores, Stated credit exposure is fund based
 *Numbers based on recent refreshed data with TU CIBIL. **Trends basis the data available till date

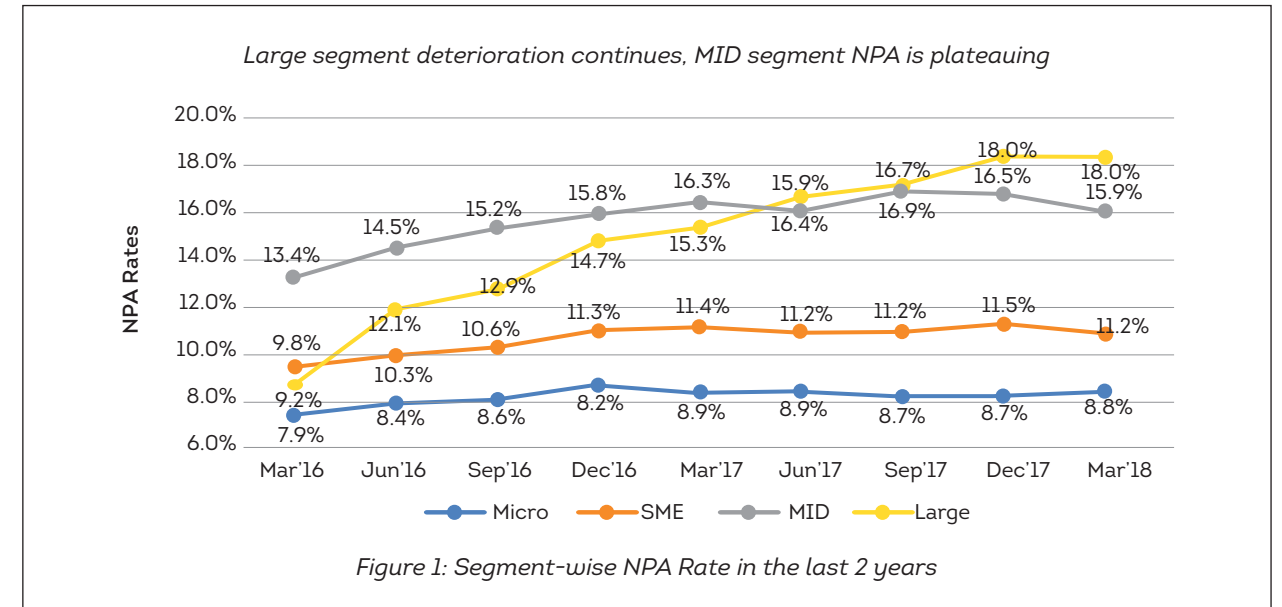




NPA RATE
MICRO
8.9-8.8
 MAR' 17 MAR' 18

NPA RATE
SME
11.4-11.2
 MAR' 17 MAR' 18

Credit exposure for MID segment has grown by 7.2% from Mar'17 to Mar'18, while gross NPA amount has grown by 5% in the same period. The incremental bad assets for MID segment in Dec'17 is ₹3,700 Crores compared to the quarter ending in Sep'17. Subsequently this segment has observed a reduction in gross NPA amount of ₹3,200 Crores from Dec'17 to Mar'18 ending quarter. It is also observed that while there has been a reduction in the absolute NPA amount, at the same time a large amount of stressed assets have moved to ARCs in the quarter ending Mar'18². The NPA rate of large corporates continues to surge to 18% in Mar'18 from 15.3% in Mar'17. It is early to conclude whether the Gross NPA rates in the Large and MID segment has peaked out. As such the stock of NPA borrowers, some of whose exposures continue to remain standard, as well as accounts with irregular payment behavior continue to remain non-trivial.



Notes:
²Bad loans of Large and Mid-segments are moving to ARCs, (ARCs reported 3 Lakh Crores in the quarter ending Mar'18) translating into a reduction of NPA rate for MID segment

Micro and SME Segments

This section delves into a detailed analysis on the sub-segments of Micro and SMEs where entity-wise credit exposure is less than or equal to ₹25 Crores. Micro is further segmented as Very Small, Micro1 and Micro2. Likewise, SMEs are further classified as SME1, SME2, and SME3.

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

| Period | Very Small less than 10 Lakhs | Micro1 10-50 Lakhs | Micro2 50 Lakhs - 1 Crore | SME1 1-5 Crores | SME2 5-10 Crores | MSME3 10-25 Crores | TOTAL up to 25 Crores |
|--|-------------------------------------|--------------------------|---------------------------------|-----------------------|------------------------|--------------------------|-----------------------------|
| Mar'16 | 0.55 | 1.32 | 0.87 | 2.79 | 1.67 | 2.49 | 9.69 |
| Jun'16 | 0.56 | 1.39 | 0.93 | 2.98 | 1.76 | 2.59 | 10.22 |
| Sep'16 | 0.58 | 1.46 | 0.97 | 3.06 | 1.79 | 2.64 | 10.49 |
| Dec'16 | 0.56 | 1.42 | 0.95 | 3.06 | 1.81 | 2.67 | 10.47 |
| Mar'17 | 0.58 | 1.49 | 1.01 | 3.22 | 1.87 | 2.75 | 10.92 |
| Jun'17 | 0.64 | 1.57 | 1.06 | 3.36 | 1.93 | 2.80 | 11.37 |
| Sep'17 | 0.67 | 1.60 | 1.07 | 3.38 | 1.92 | 2.80 | 11.44 |
| Dec'17 | 0.77 | 1.75 | 1.16 | 3.71 | 2.07 | 3.00 | 12.47 |
| Mar'18 | 0.79 | 1.80 | 1.17 | 3.76 | 2.08 | 3.00 | 12.60 |
| Y-o-Y Credit growth (From Mar'17- Mar'18) | 34.9% | 21.2% | 16.3% | 16.9% | 11.2% | 9.0% | 15.4% |

For the period Mar'17 to Mar'18, the entities having less than ₹25 Crores credit exposure have shown accelerating credit growth of 15.4% (Mar'16 to Mar'17, 12.7%). The Very Small segment (less than ₹10 Lakh exposure) has shown credit growth of 35%, followed by entities having '₹10 Lakhs ₹50 Lakhs' and '₹1 Crore - 5 Crores' exposure with growth of 21.2% and 16.9% respectively.

Within the MSME segment, the NPA rates are higher for larger size exposures. Credit growth for the segment '₹5 Crores - 10 Crores' is 11% from Mar'17 to Mar'18, however the gross NPA amount in this segment has grown by 4% for the same period, lead to the reduction of NPA rate. The exception to this trend is the Very Small segment (less than ₹10 Lakhs exposure) which has a higher NPA rate of about 11.1% in Mar'18. The larger SME3 segment (₹10-25 Crores credit exposure) also exhibits higher NPA rate of 13.9% in Mar'18.

Notes:
³MSMEs are classified into various segments on the basis of the ticket size of the loan amount disbursed, Micro 1 less than 50 lakhs, Micro2 50 lakhs-1 Crore, SME1 1 Crore - 5 Crores, SME2 5 Crores - 10 Crores, SME3 10 Crores - 25 Crores

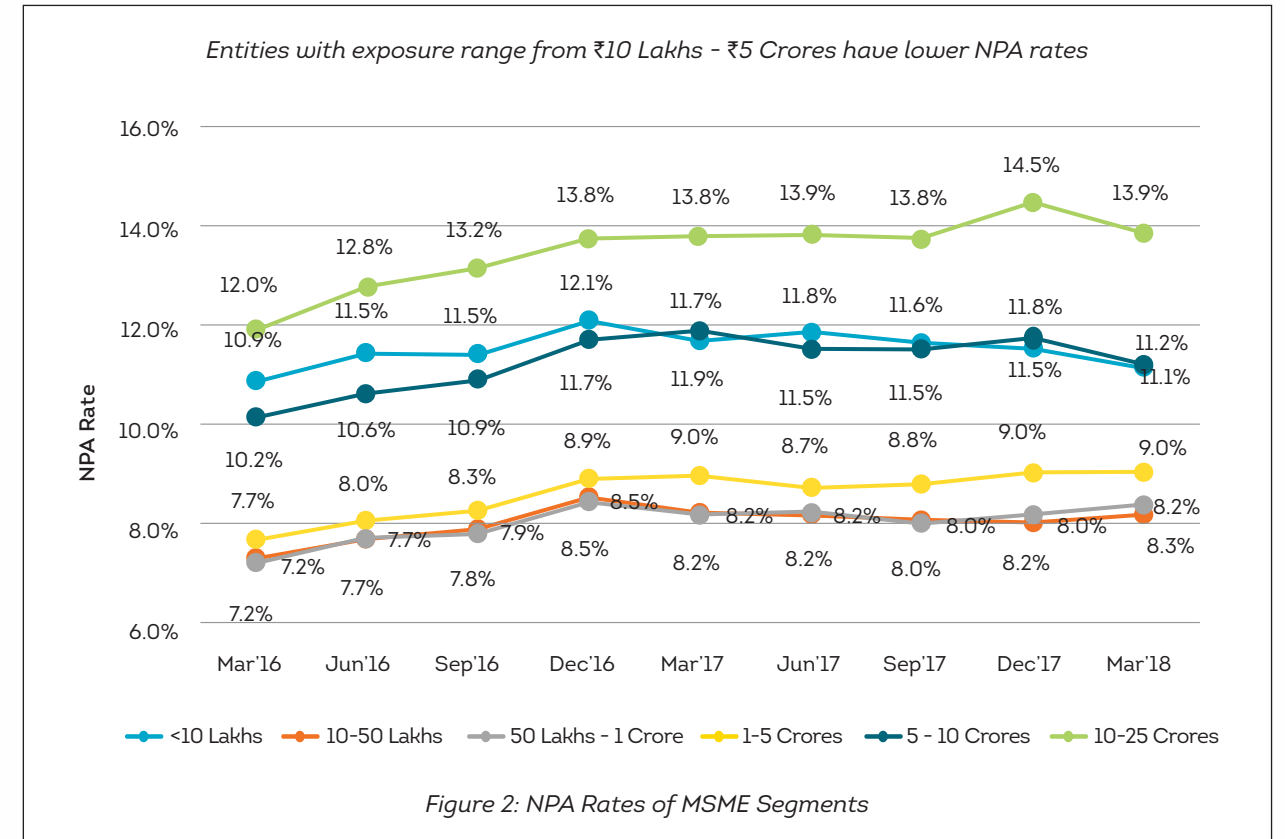
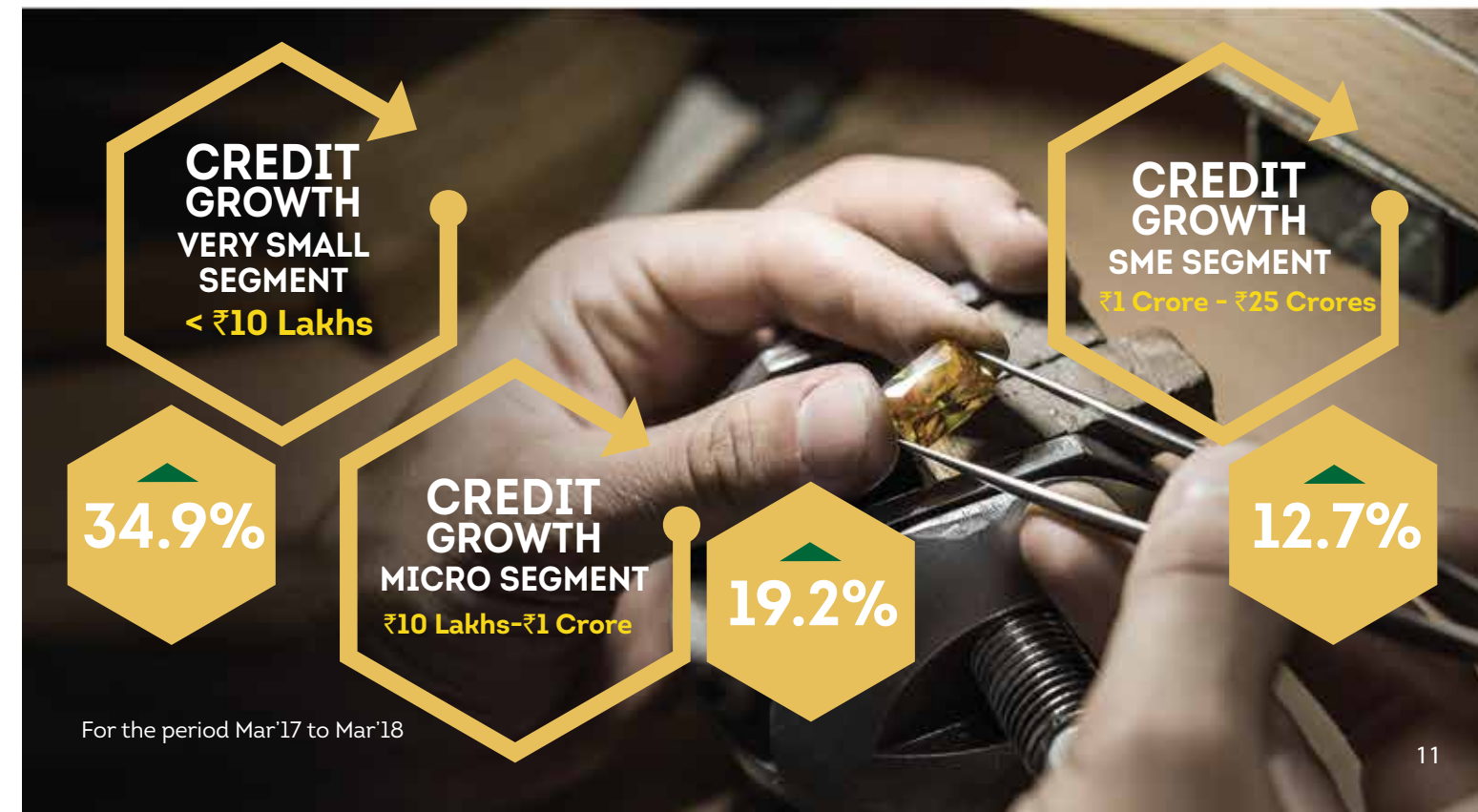
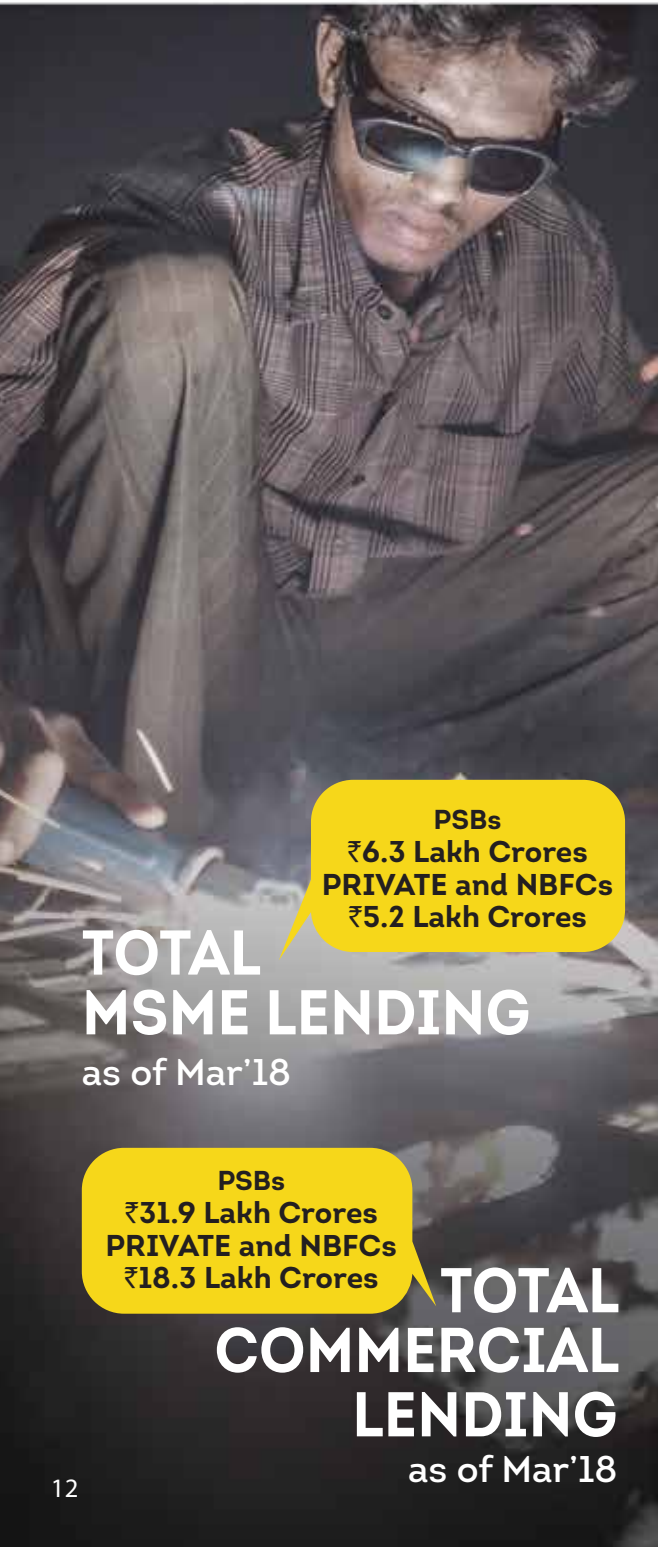


Figure 2: NPA Rates of MSME Segments



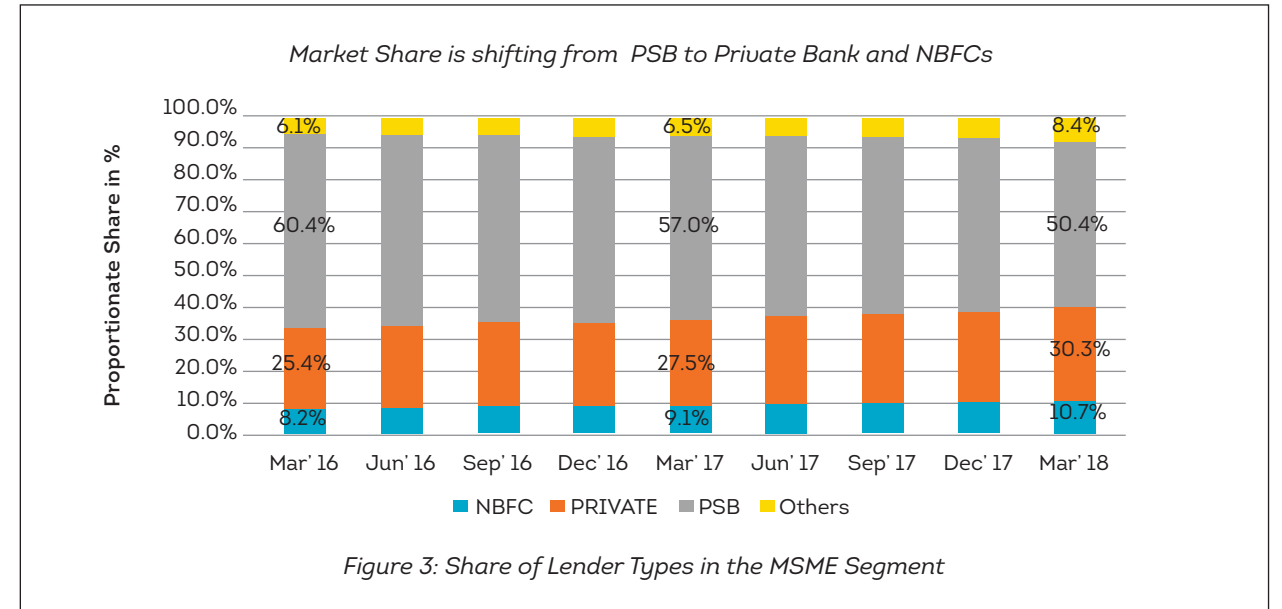
2. COMPETITIVE LANDSCAPE: NEW PRIVATE SECTOR BANKS LIKELY TO REAP THE MSME OPPORTUNITY MOST PROFITABLY



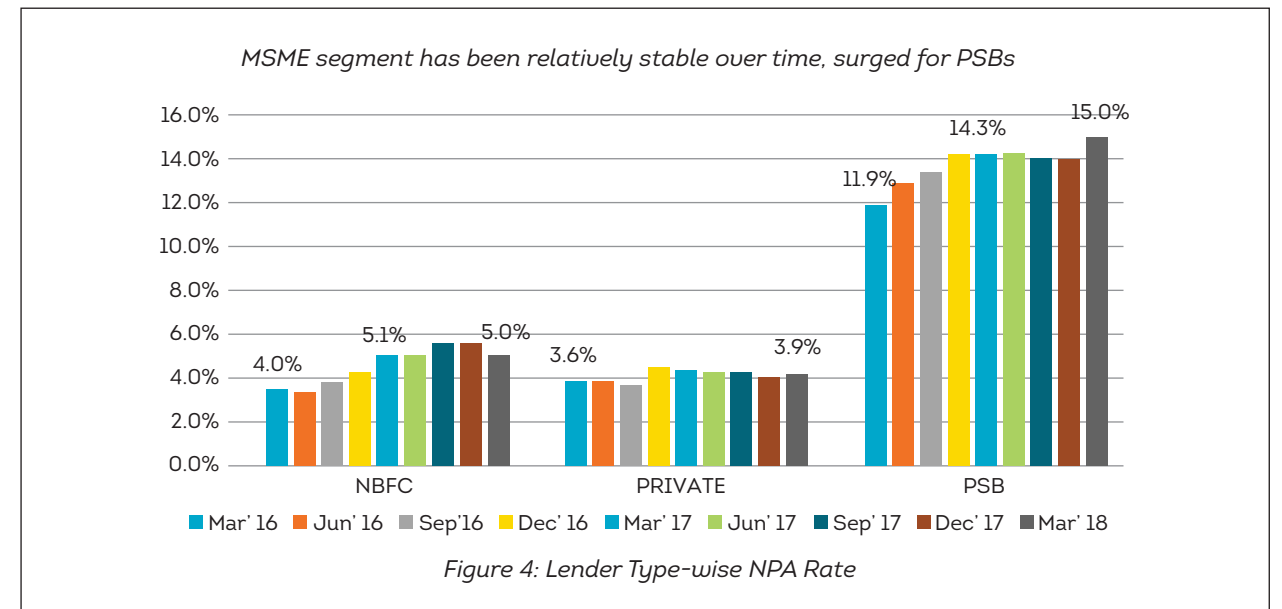
The combination of high credit demand and relatively low NPA rates make MSME among the most attractive target segment for institutional lenders. Public Sector Banks (PSBs) have traditionally been the dominant lenders to the MSME sector. But in last few quarters, Private Banks and NBFCs have successfully competed with public sector banks in getting a larger share of the lucrative MSME pie. Micro and SME exposure (less than ₹25 Crores) accounts for around 20% of PSBs total commercial outstanding credit as of Mar'18, compared to 28% in Private Banks and 30% in NBFCs as of Mar'18.

Market-Share Dynamics: While there has been 15.4% Y-O-Y growth for Micro and SME Segments, PSBs' MSME portfolio has grown only by 2.1% in the last 1 year. Furthermore, for private sector banks, lending to MSMEs has grown by 27.2% in the period Mar'17-Mar'18. The market share of public sector banks in MSME lending has fallen to 50.4% by Mar'18 from 57.0% in Mar'17 (60.4% in Mar'16). The market share of Private Banks has grown from 27.5% (Mar'17) to 30.3% (Mar'18) and for NBFCs, it has grown from 9.1% to 10.9% during the period Mar'17 to Mar'18.

Growth-NPA Tango: Private Banks and NBFCs exhibit NPA levels in the range of 3 - 5% in the MSME segment. Within this, New Private Sector Banks having an average exhibit the lowest delinquency rates while NBFCs tend to have NPA rates at the higher end of the range. The gross NPA amount for PSBs has increased by 7.3% in MSME Segment, while credit has grown by 2.1% in one year from Mar'17-Mar'18.



The NPA of the PSBs has increased from 14.3% in Mar'17 to 15.0% in Mar'18 (11.9%, Mar'16). NBFCs have also witnessed an increase in NPA rates from Mar'16 to Mar'18.



TOTAL MSME LENDING
as of Mar'18

PSBs
₹6.3 Lakh Crores
PRIVATE and NBFCs
₹5.2 Lakh Crores

PSBs
₹31.9 Lakh Crores
PRIVATE and NBFCs
₹18.3 Lakh Crores

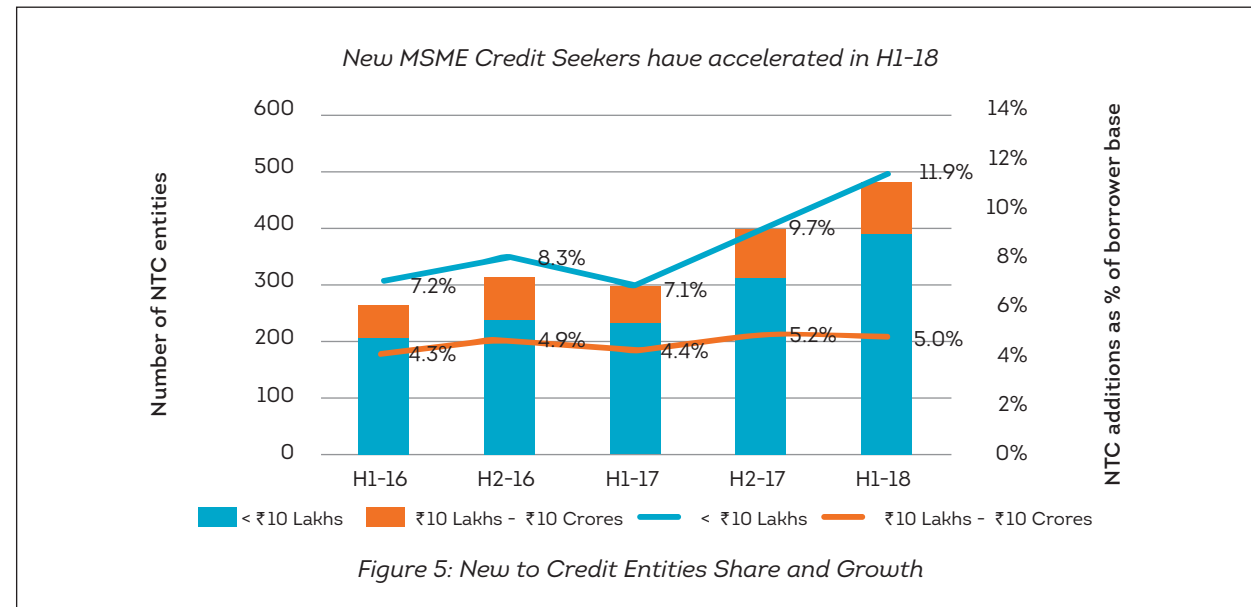
TOTAL COMMERCIAL LENDING
as of Mar'18

3. NEW MSME CREDIT SEEKERS ARE ACCELERATING

Number of business entities which are seeking formal credit for the first time are defined here as New to Credit (NTC) borrowers. This section delves into a detailed analysis of MSMEs, where entity-wise credit exposure is less than or equal to ₹10 Crores. As such, NTC borrowers typically do not apply for loans larger than this size. In the quarter ending Mar'18, NTC borrowers were 2.7 Lakhs, H1-18 is expected to have 5 Lakh plus NTC⁴ business borrowers. This is 21% higher than the NTC borrowers observed in H2-17 (~4 Lakhs).

The highest growth is observed in the Very Small segment (less than ₹10 Lakhs exposure) in the quarter ending Mar'18 and is expected to grow by 24% in H1-18 as compared to H2-17. This acceleration coincides with formalization of the economy attributable to legal changes such as GST. The financial inclusion aspect, particularly for businesses, which seek loans of ticket size below ₹10 lakhs, have also benefitted from the Mudra loan scheme.

As a percentage of the total borrower base, NTC additions are expected to grow from 7.2% to 11.9% in the Very Small borrower segment and 4.3% to 5.0% in the MSME segment from H1-16 to H1-18.



Transition of MSME NTC borrowers in 2 years: 60% of NTC borrowers have a sustainable business profile

While the number of NTC borrowers are increasing due to the dual tailwinds of formalization and regulatory push towards lending in this segment, it is important to investigate behavior of first time borrowers once the loan is availed. This would provide us with an insight on whether the additional economic opportunity created through formal lending is sustainable and create long term economic benefit.

The NTC borrowers acquired in H1-16 have been considered and their Mar'18 status has been considered to see the transition over time.

Notes:

⁴This is an estimate based on new to credit additions up to Mar'18

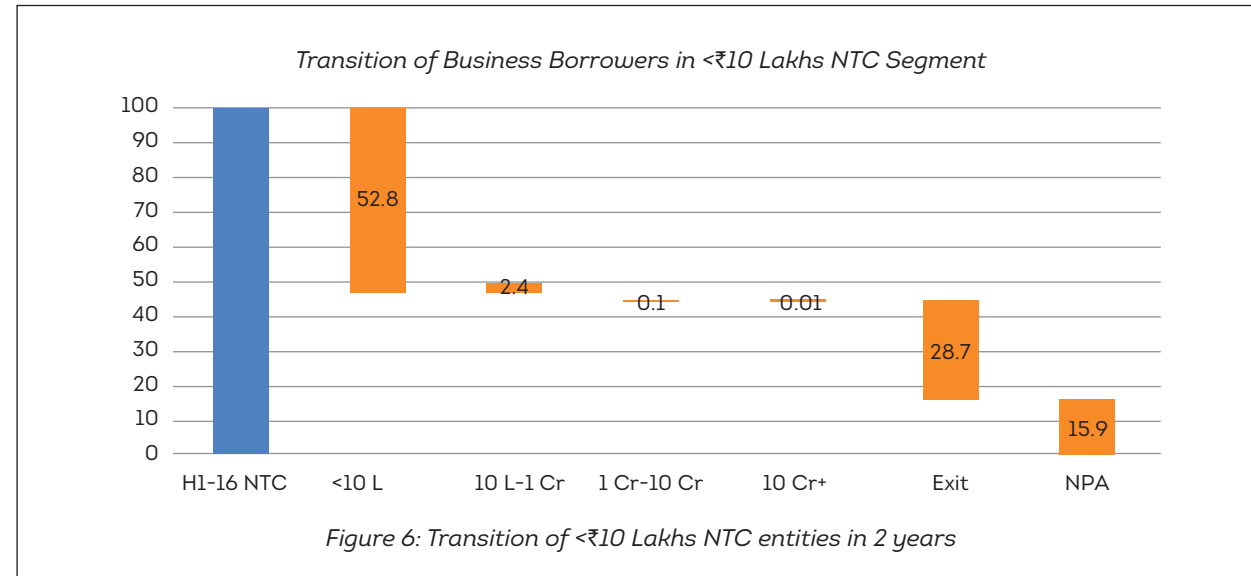


NEW TO CREDIT BORROWERS ACQUIRED

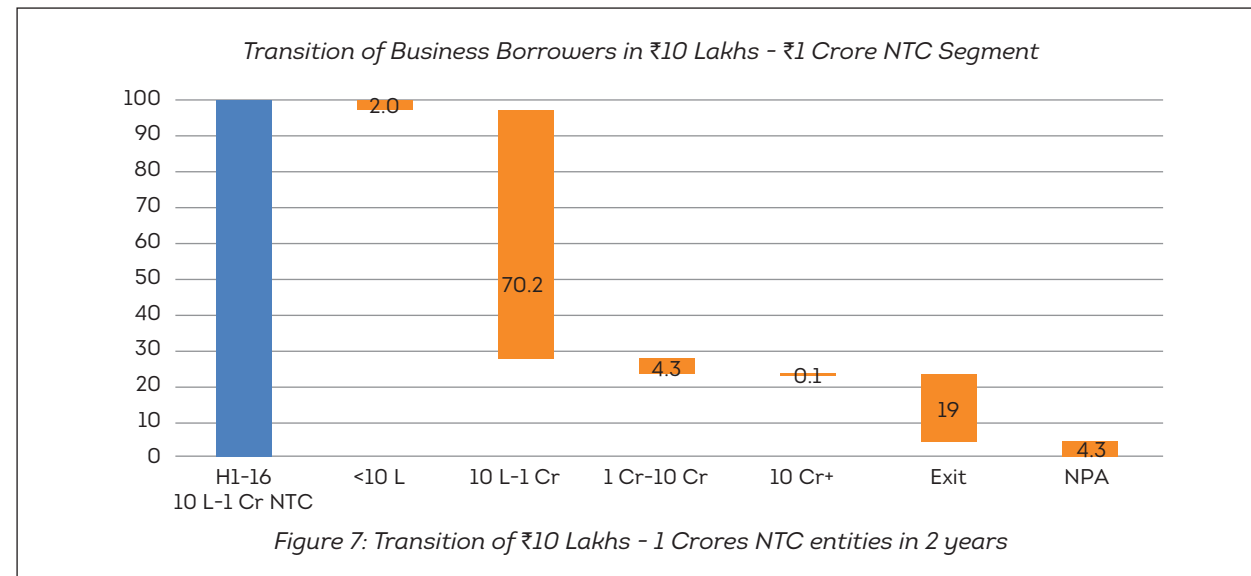
| | REMAINED IN THE SAME BUCKET | EXITED THE FORMAL LENDING | TURNED NPA | MOVED TO A HIGHER AMOUNT |
|----------------------|-----------------------------|---------------------------|------------|--------------------------|
| <₹10 LAKHS | 52.8% | 28.7% | 15.9% | 2.5% |
| ₹10 LAKHS - ₹1 CRORE | 70.2% | 19.0% | 4.3% | 4.4% |
| >₹1 CRORE | 65.8% | 21.5% | 4.3% | 3.2% |

PERIOD-MAR'16 TO MAR'18

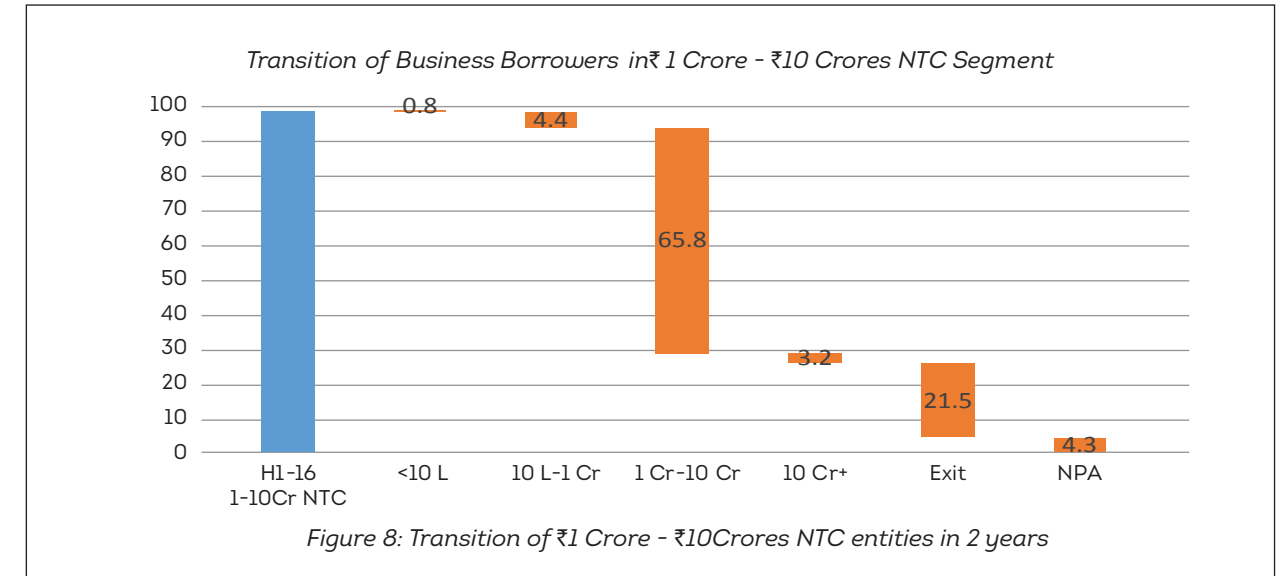
Of all the borrowers who availed sub ₹10 Lakhs loans for the first time between Jan-Jun'16, 52.8% remained in the same bucket in the following period of 2 years from Mar'16 to Mar'18. 2.5% borrowers moved to borrowing an amount greater than ₹10 Lakhs. Overall about 55.3% borrowers in this segment have sustained or grown their level of credit activity. 28.7% of NTC borrowers exited the formal lending. 15.9% borrowers turned NPA.



Of all the borrowers who availed ₹10 Lakhs to ₹1 Crore loans for the first time between Jan-Jun'16, 70.2% remained in the same bucket in the following period of 2 years from Mar'16 to Mar'18. 4.4% borrowers moved to borrowing an amount greater than ₹1 Crore. Overall about 74.6% borrowers in this segment have sustained or grown their level of credit activity. 19.0% of NTC borrowers exited the formal lending. 4.3% borrowers turned NPA.

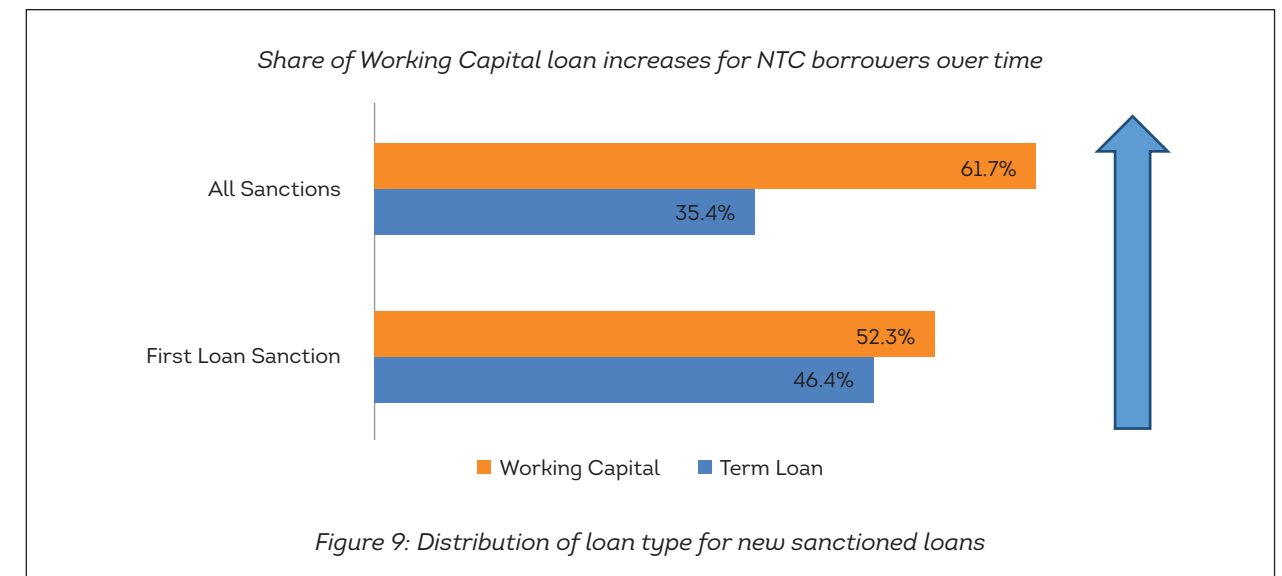


Of all the borrowers who availed ₹1 Crore - ₹10 Crores loans for the first time between Jan-Jun'16, 65.8% remained in the same bucket in the following period of 2 years from Mar'16 - Mar'18. 3.2% borrowers moved to borrowing an amount greater than ₹10 Crores. Overall about 69.0% borrowers in this segment have sustained or grown their level of credit activity. 21.5% of NTC borrowers exited the formal lending. 4.3% borrowers turned NPA.



60% of the NTC borrowers have sustained or grown their credit activity in the two-year period following their first formal loan

Additionally, the share of working capital credit facilities have grown from 52.3% in the first loan sanctioned to 61.7% in the quarter ending Mar'18 over a period of 2 years for the same set of entities. This depicts the increasing level of maturity and stickiness of the credit activity of these entities.



Private Banks are focusing more on acquisition of large ticket sized NTC MSMEs

Private Banks focus shifted towards large size MSMEs: The acquisition pattern of NTC MSMEs has been analyzed for the period of Jan-Jun'16 and Jul-Dec'17 across the lenders. A proportionate share of NTC MSMEs across lenders is depicted below for H1-16 and H2-17. For Private Banks, the loan sanctions across all segments of MSMEs has been rising. The proportionate share of NTC borrowers for Private Banks has increased from 33% to 41% for '₹1 Crore - ₹5 Crores' segment and 32% to 49% for the '₹5 Crores - ₹10 Crores' segment. However, PSBs has remained the dominant lender for business entities in the <₹10 Lakhs segment. Furthermore, the geographies in which PSBs operate indicate it would be difficult for small business borrowers in such a geography to find alternative lenders. NBFCs have also increased their share significantly in very small segment (<₹10 Lakhs) in last 2 years.

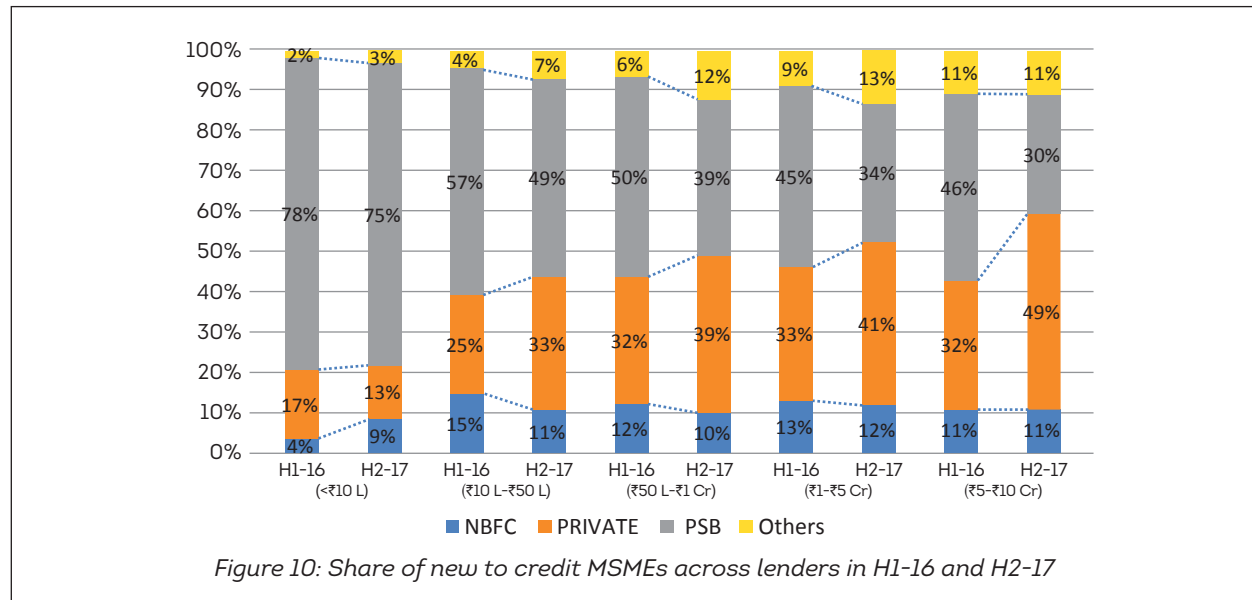


Figure 10: Share of new to credit MSMEs across lenders in H1-16 and H2-17

The share of very small NTC enterprises in the Rural and Urban areas is 59% and 41% respectively. As we move from lower ticket size enterprises to higher ticket size of MSMEs, the share of NTC in urban areas increases. The large ticket segment of NTC MSME acquisition is high in urban areas as compared to the rural areas.

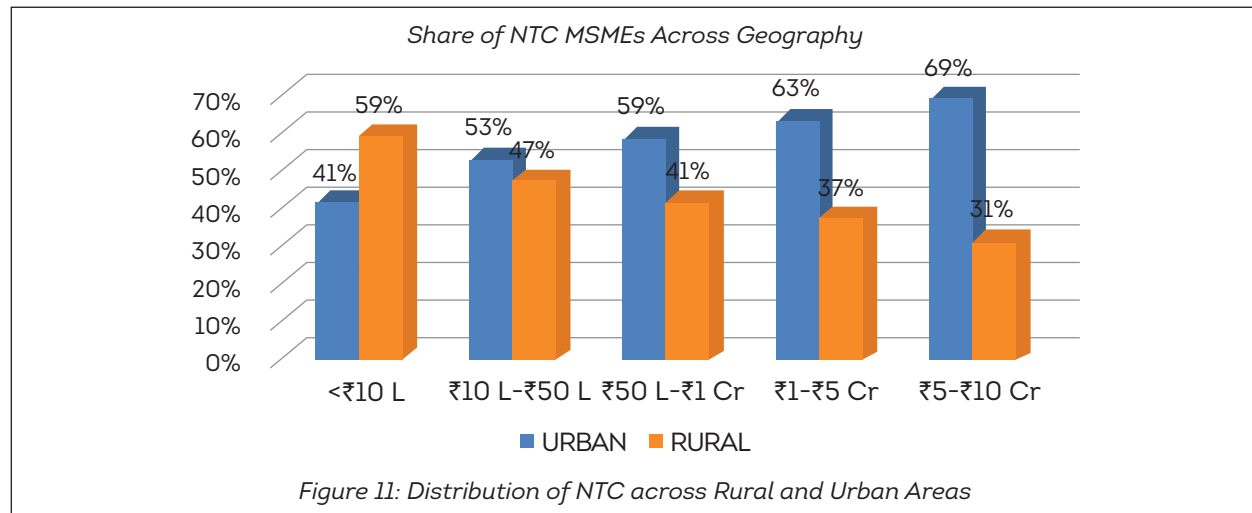
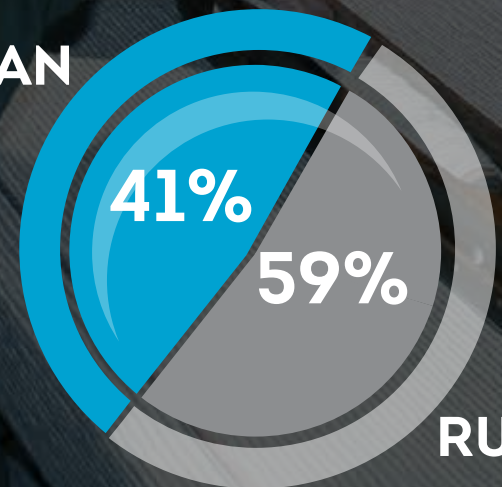


Figure 11: Distribution of NTC across Rural and Urban Areas



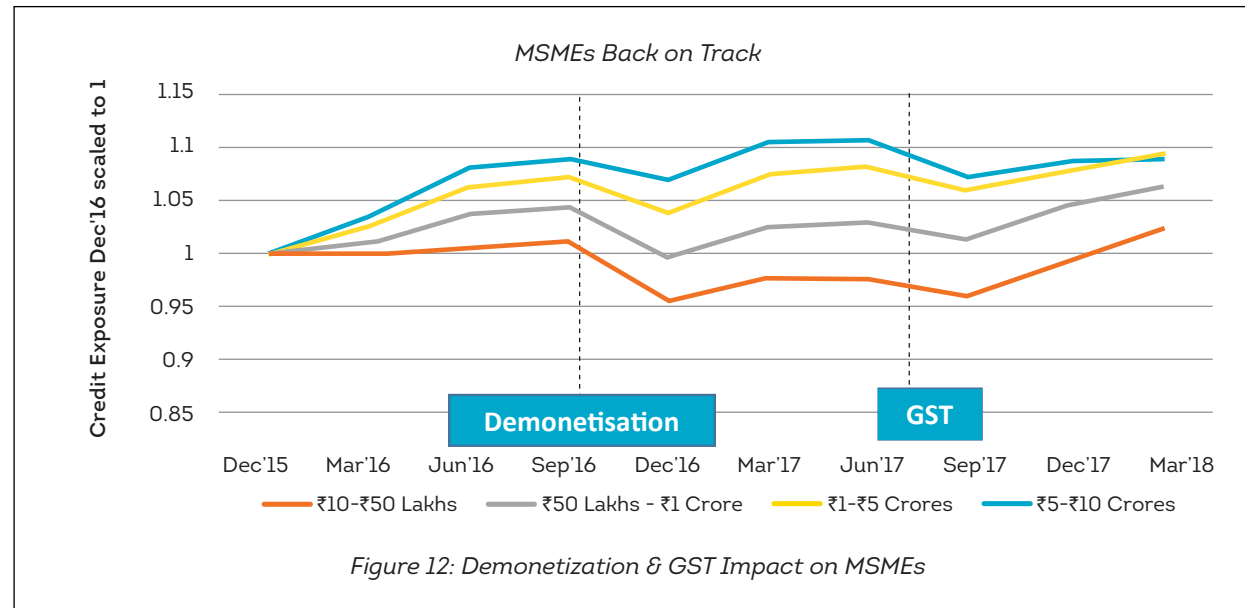
VERY SMALL NTC ENTERPRISES

URBAN



RURAL

4. MSME SEGMENT HAS FULLY RECOVERED FROM DEMONETIZATION AND GST IMPACTS



Details of borrowers used in the study: To study the impact of Demonetization and GST, only those borrowers were selected who were credit active during the entire period of Dec'15 to Mar'18. 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 tends to be closely associated with the levels of economic activity reflected in production, trade, revenue and the likes. 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.

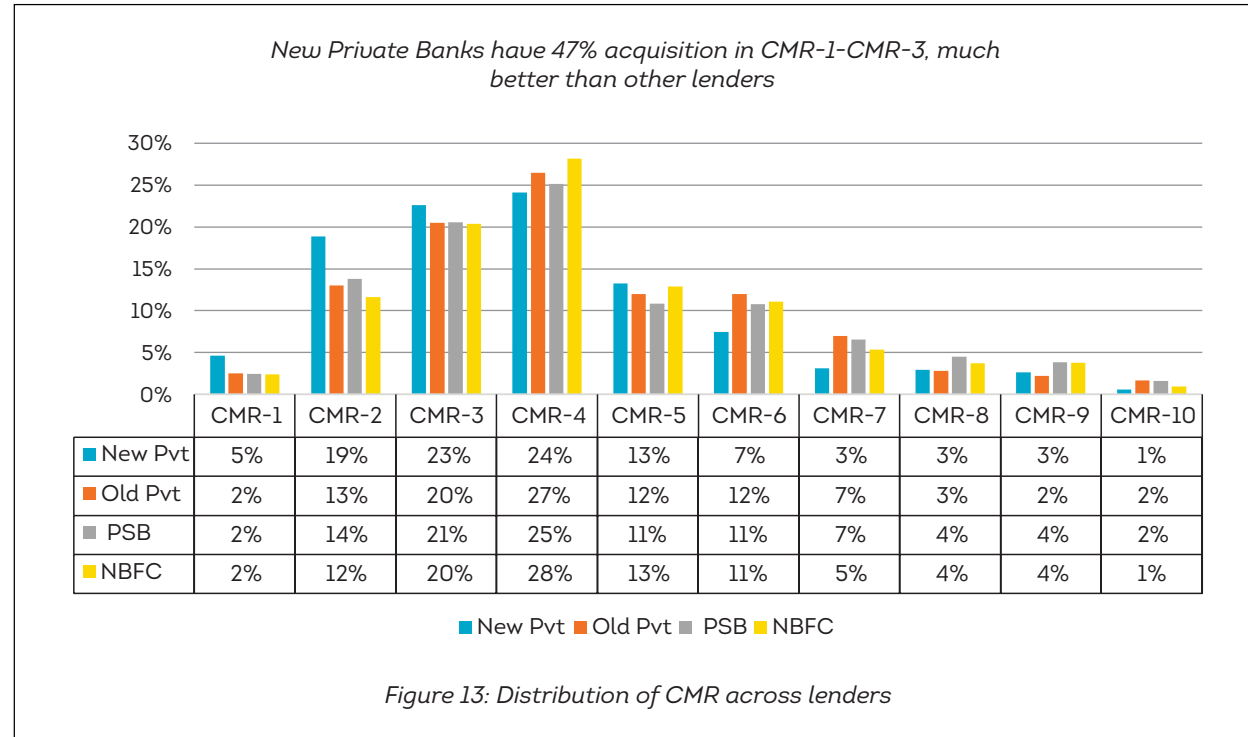
Post introduction of GST in Q2 2017, credit exposure again lowered for most MSME segments. Smaller segments contracted to pre-demonetization levels. In the last 2 quarters the credit activity has surpassed the pre-demonetization level activity in all segments.

Specifically, MSME with exposures from ₹10 Lakhs - ₹10 Crores had recovered business activity to pre-demonetization levels in Sep'17, the segment with exposure of less than ₹10 Lakhs had not recovered to that extent up to Dec'17, but they have also now recovered to pre demonetization levels by Mar'18.



5. NEW PRIVATE SECTOR BANKS HAVE SUPERIOR ACQUISITION PROFILE IN MSME SPACE

As mentioned in the earlier sections, Private banks and NBFCs have a lower NPA rate in the MSME segment. This lower MSME NPA rate is driven primarily by having a superior quality of acquisition. We have compared the quality of MSME New-to-Bank (NTB) acquisition measured using CIBIL MSME Rank (CMR) of various kinds of institutions in the period from Jul'17 - Dec'17.



New Private Banks have a significantly better profile in acquiring NTB accounts in the MSME space. New Private Banks acquire 47% of NTBs in CMR-1 to CMR-3 ranks compared to 36% for old Private Sector Banks, 37% for PSBs and 34% for NBFCs.

New Private Banks have 9% acquisition in CMR-7 to CMR-10 ranks compared to 14% in Old Pvt sector banks, 16% in PSBs and 14% in NBFCs.

Table 5.A. Proportion of Acquisition in CMR-7 to CMR-10

| | Plain Working Capital/ Term Loan | Asset Backed/ Retail Loans | NFB/ Trade | Other Facilities |
|-------------|-------------------------------------|-------------------------------|---------------|---------------------|
| New Private | 22% | 62% | 7% | 9% |
| Old Private | 60% | 21% | 8% | 10% |
| PSB | 62% | 16% | 12% | 10% |
| NBFC | 4% | 80% | 6% | 11% |

It is observed that while New Private sector banks are lending in the high risk segment of CMR-7 to CMR-10 they are mitigating the risk by extending mostly Asset Backed loans in this segment (Commercial Vehicle, Commercial Equipment, Auto Loans, Gold Loans, Mortgage Loans), while PSBs are extending plain Working Capital and Term Loan structures (62%) in this high risk segment.

Even NBFCs which have 14% acquisition in the CMR-7 to CMR-10 ranks have 80% exposure through asset backed structures thus mitigating risk of lending in the high risk segment.

ACQUIRING NTB ACCOUNTS

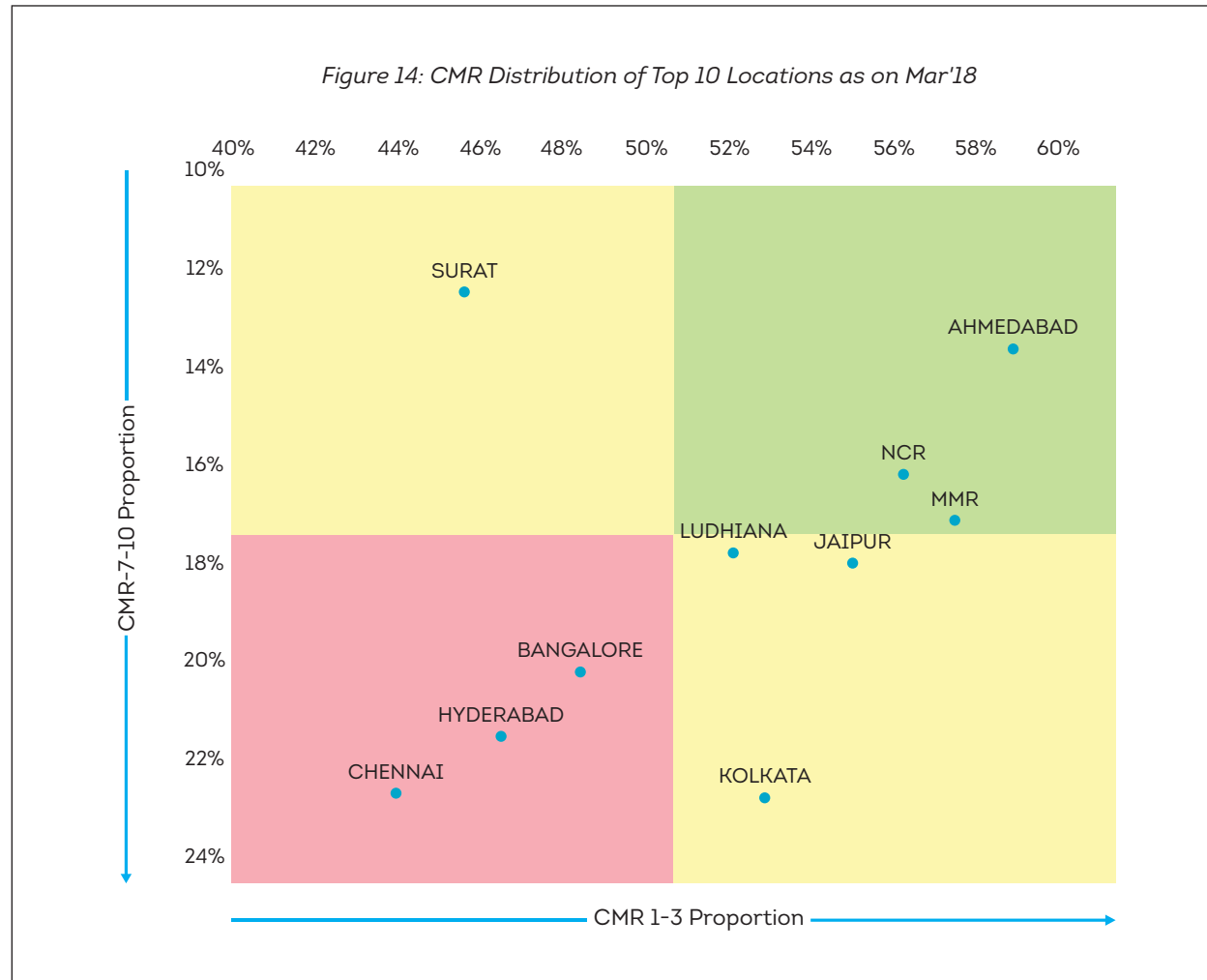
NEW PRIVATE BANK
 CMR-1-3: 47%
 CMR-7-10: 9%

OLD PRIVATE SECTOR
 CMR-1-3: 36%
 CMR-7-10: 14%

PSUs
 CMR-1-3: 37%
 CMR-7-10: 16%

NBFCs
 CMR-1-3: 34%
 CMR-7-10: 14%

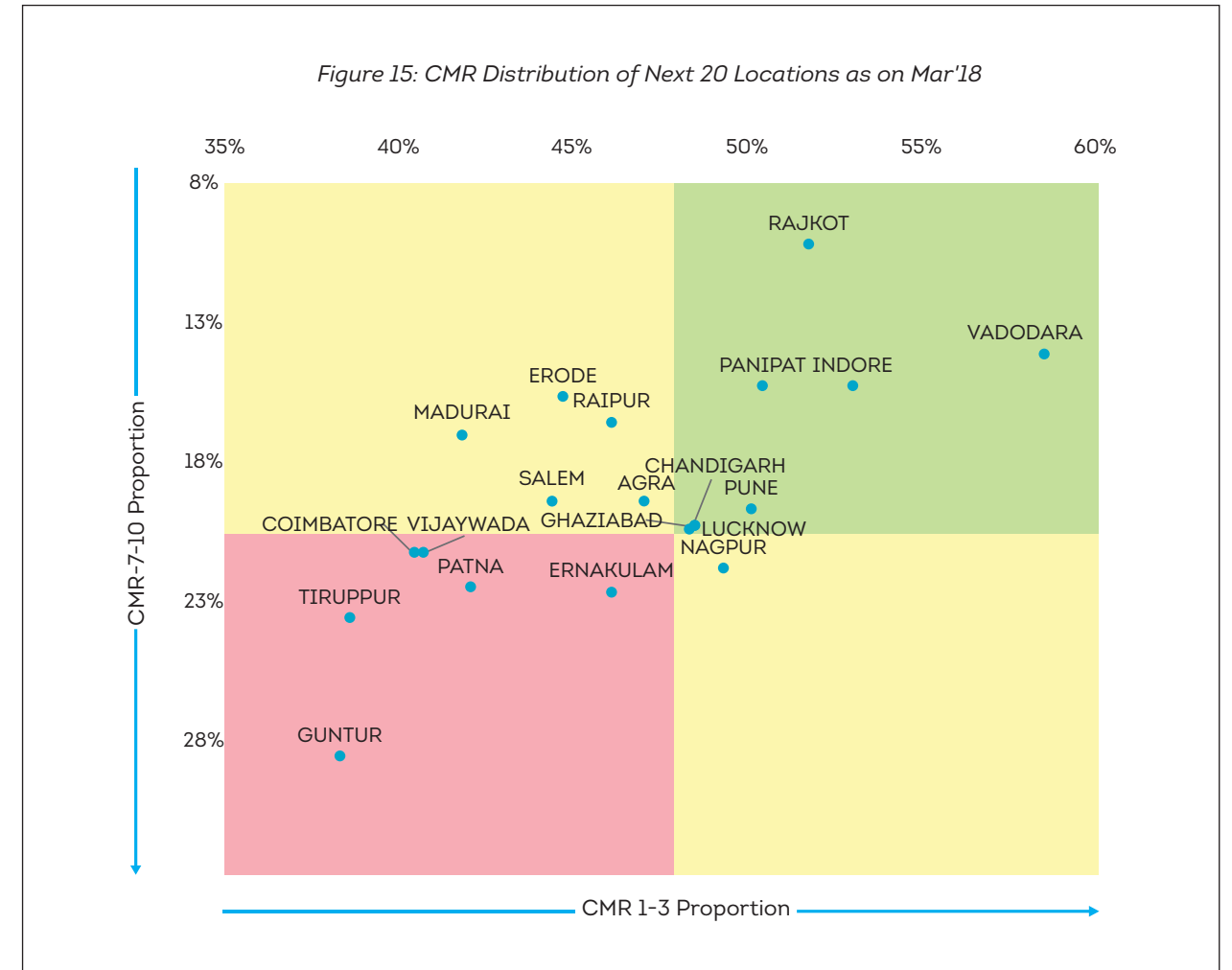
6. MSME CREDIT RISK PROFILE OF TOP 30 LOCATIONS



Among the Top 10 locations Ahmedabad, MMR, NCR, Ludhiana & Jaipur have a better risk profile with high proportion of CMR-1 to CMR-3 borrowers and a low proportion of CMR-7 to CMR-10 borrowers. Surat has a low proportion of high risk borrowers.

Rajkot, Panipat, Indore, Vadodara, Pune and Lucknow are relatively low risk locations amongst Tier 2 locations for MSME segment.

Guntur, Tiruppur, Patna and Kochi are relatively higher risk locations with high proportion of low rated companies.



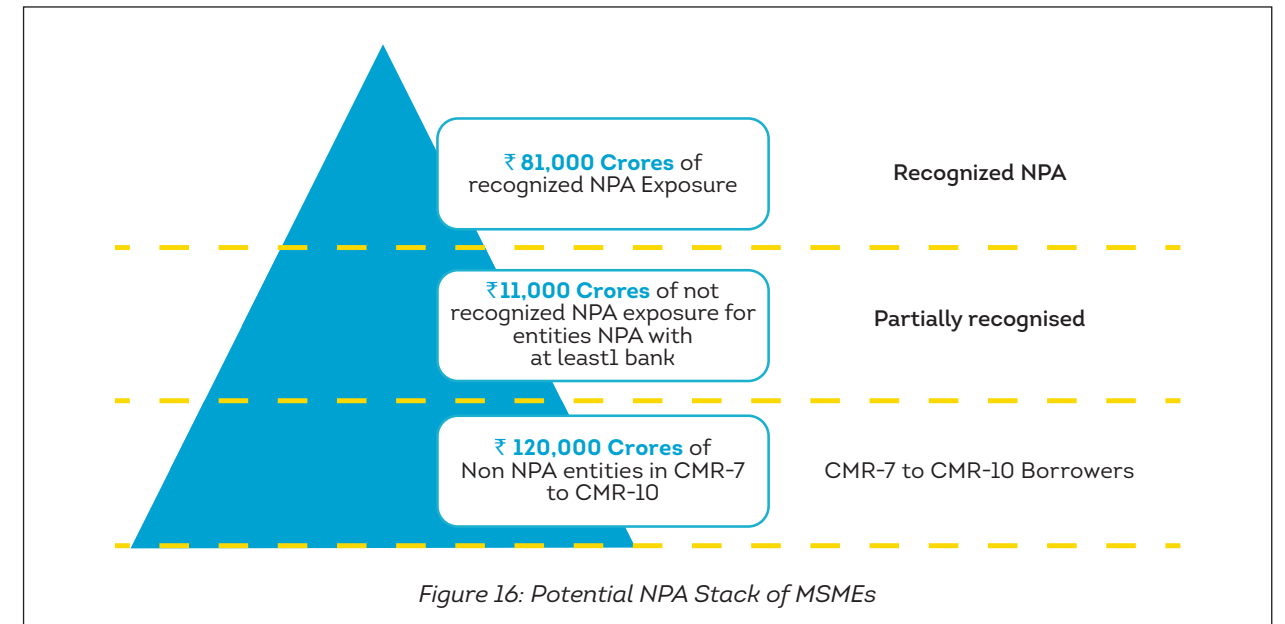
Overall locations in the North (NCR, Punjab, Haryana, Rajasthan) & West (Maharashtra, Gujarat) have a comparatively better risk profile than the South (Tamil Nadu, Andhra Pradesh/Telangana, Kerala) and East locations

7. RISK SNAPSHOT OF MSME PORTFOLIO AS ON MAR'18 – FUTURE PIPELINE

A risk snapshot study is done to understand the current and potential stress in MSME Lending which will determine the future levels of recognized NPA. MSMEs for which NPA loans are reported form the “Known layer” of stress that has built up in the lending industry over a period of time. The potential NPA rate in the 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) CMR-7 to CMR-10 Borrowers: Non NPA Borrowers with CIBIL MSME Rank of CMR-7 to CMR 10 having higher probability of default by Mar'19

A deep dive into the data for “Partially Recognized” NPA & CMR-7 to CMR-10 borrowers shows that while NPAs are stable and in control, the likelihood of a sharp increase in NPA rates is low.



Overall, Recognized NPA exposure for MSME is ₹81,000 Crores as on Mar'18.

RBI has provided a special dispensation for encouraging formalization of MSMEs on 6th Jun'18, which says that for entities with aggregate exposure of ₹25 Crores, which were standard as on Aug'17, will be classified as standard if the repayments are made within 180 days. As per data on Mar'18, the total exposure of entities that were standard in Aug'17, and where repayments are delayed by 90 to 180 days in Mar'18 is ₹15,000 Crores. Hence this relaxed guideline for NPA recognition is likely to benefit these entities with ₹15,000 Crores exposure and reduce gross NPAs in this segment by a similar amount.

₹11,000 Crores is the Non-NPA exposure of entities whose other exposures are tagged as NPA by at least by one other bank. ₹120,000 Crores of exposure belongs to the entities which are in the high risk category of CMR-7 to CMR-10.

Going by the past trends about ₹12,000 Crores is expected to turn NPA by Mar'19.

Hence at a gross level from the partially recognized layer and CMR-7 to CMR-10 borrowers, about ₹16,000 Crores of additional NPA is expected in the next 12 months which translates to a gross addition of 20% on the current NPA base. However the net addition will be much lower given the recoveries from existing NPA pool. As such, given that the portfolio growth rate in this segment is expected to remain in the 15-20% range, at an overall level, for the MSME segment the NPA rates are expected to be stable in the next 12 months.

We have plotted the portfolio distribution by CIBIL MSME Rank to understand the distribution of risk in different types of lenders.



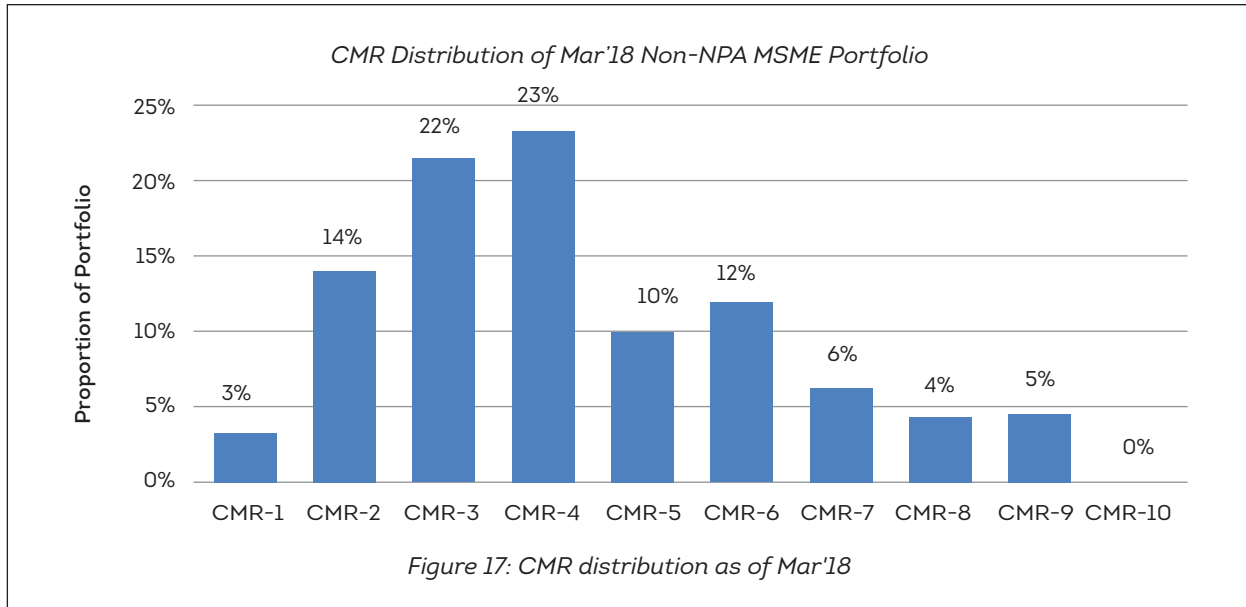


Figure 17: CMR distribution as of Mar'18

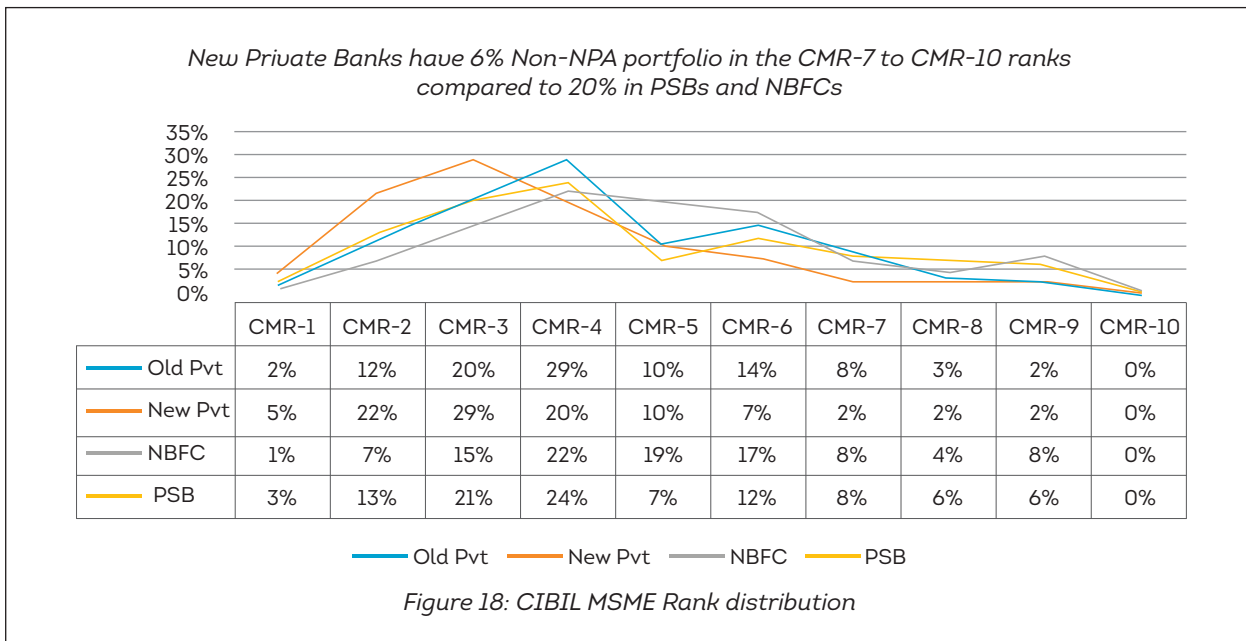


Figure 18: CIBIL MSME Rank distribution

New Private sector banks have a significantly superior risk profile of the MSME portfolio compared to the market as New Private Sector Banks have 6% Non-NPA portfolio in the CMR-7 to CMR-10 ranks, compared to 13% for Old Private Sector Banks, and 20% for NBFCs and the NBFC high risk portfolio is similar to PSBs however NBFCs have significantly lower NPAs, it can be attributed to more asset backed structures and superior collection efficiencies of NBFCs.

**₹16,000 CRORES
ARE EXPECTED
TO TURN NPA BY
MARCH 2019.**



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.

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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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