TransUnion CIBIL

CIBIL MSME RANK

NOW COVERS A WIDER SPECTRUM OF MSME SEGMENT

Ranking businesses lesser than exposure of ₹10Lakhs to ₹50 Crores.

Micro, Small and Medium Enterprises (MSME) sector has emerged as one of the key sectors within Indian economy contributing to growth, exports and job creation. MSME lending is shifting more towards lower vintage borrowers especially in the Micro segment. This has necessitated an objective model to identify high-risk customers given the fact that MSME sector is largely unorganized and significant information asymmetry challenges exist. CIBIL MSME Rank (CMR) is a credit default-predictor model for Micro, Small and Medium Enterprises (MSME). CMR provides insights into the credit behaviour of the borrowing entity (MSMEs) and predicts the probability of default over a one-year horizon.

CIBIL MSME Rank (CMR) is a robust model which risk differentiates borrowers in the smallest Micro segment having aggregate commercial credit exposure lesser than ₹10 Lakhs to the Medium segment having aggregate commercial credit exposure of ₹50 Crores.

CIBIL MSME Rank is a grade assigned to the MSME based on its credit profile, credit behaviour and firmographics on a scale of 1 to 10, CMR-1 being the least risky MSME and CMR-10 being the most risky MSME. Higher the CMR, higher the probability of default associated with the MSME.~7.5 Million MSMEs across India are eligible for CMR thereby helping the lending institutions to take better informed decisions and provide faster and cheaper credit to the deserving MSMEs based on their risk profiles.

CIBIL MSME Rank enables:

a. Evaluation of Credit Risk in an objective manner
b. Reduction in Turn-Around-Time (TAT) of loan approval process
c. Adoption of rule-based loan renewal/enhancement process
d. Early warning system for Portfolio Monitoring
e. Pre-screening of borrowers and making pre-approved loan offers
f. Rule-based limit setting
g. Risk-based pricing

How has CIBIL MSME Rank revolutionized commercial underwriting in India?

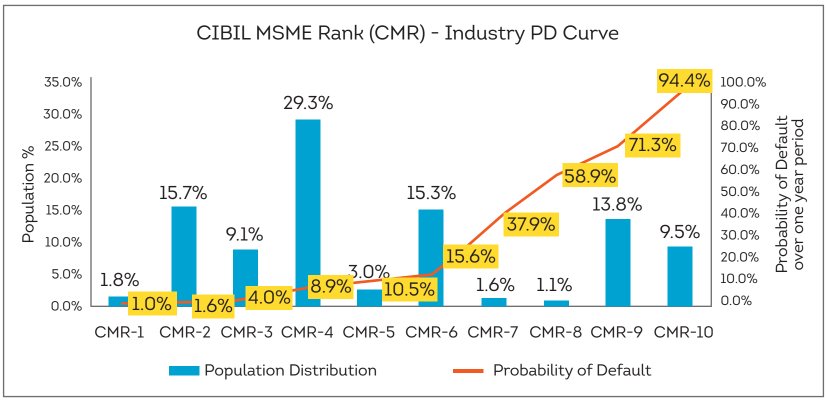
CIBIL MSME Rank (CMR) is enabling lending institutions to evaluate credit profile of borrowers in an objective data driven manner. CMR has been widely adopted by banks and other financial institutions to create a rule based lending framework, risk based pricing of loans, automating renewals and effective portfolio monitoring and management.

RBI expert committee on MSME (Chairmanship of Sri U K Sinha) in June 2019 has recommended the incorporation of CMR in credit rating mechanism since CMR is a strong indicator of:

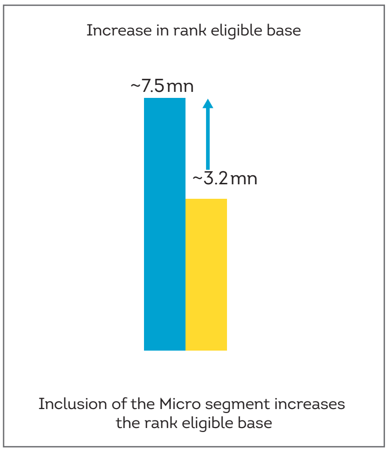
- liquidity risk,
- repayment track,
- specific behaviour pertaining to vintage and recency to credit.

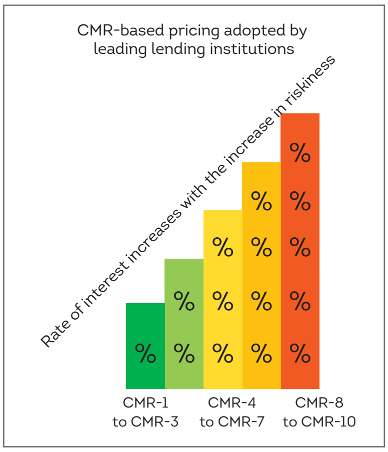
CIBIL MSME Rank Industry Probability of Default (PD) Curve

CIBIL MSME Rank model is based on a large, diversified database spanning across industries and geographies. CMR Industry Probability of Default Curve below shows the distribution of entities across CMR and the probability of default (over a one-year horizon).

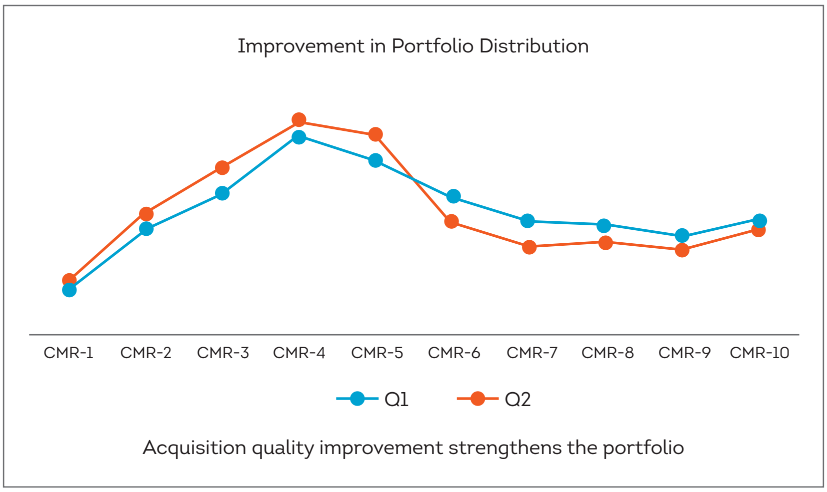


CIBIL MSME Rank in Action





*illustrative representation



*illustrative representation

CIBIL MSME Rank – Industry Best Practices

- **CMR for Acquisition**

CMR is a part of the credit and lending policies of several leading lending institutions. These lending institutions have implemented "Green channel" or "Straight-through" processing facilitating faster sanctions for MSMEs with CMR-1 to CMR-3 resulting in reduced Turn-Around-Time (TAT).

CMR improves operational efficiency at the sourcing/acquisition stage by distinguishing the good borrowers from the risky ones. CMR is also used for pre-screening of borrowers and offering pre-approved loans to the least risky MSMEs. This helps in reducing the marketing cost of the lending institutions.

- **CMR for Risk Appraisal**

CMR supplements the underwriting process by providing an objective and consistent interpretation of the credit risk associated with borrowers. CMR is used for risk based pricing of loans – offering lower interest rate to CMR-1 to CMR-3 MSMEs.

- **CMR for enabling Digital Lending**

CMR helps to adopt rule based digital lending process. It aids in automating renewal/enhancement decisions and setting the right limits for MSMEs.

- **CMR for Portfolio Monitoring and Management**

CMR provides early warning signals to enable lending institutions monitor the risk transition and manage the portfolio effectively.

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