

# MSME PULSE

AUGUST 2023

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## Mr. Sivasubramanian Ramann

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Chairman and MD, SIDBI

The progressive reforms introduced by the government for the MSME sector resurgence have borne fruit as reflected in the vigorous business activity and improved credit uptake in micro and small segments. We would encourage the credit industry to duly support this increasing demand by providing timely access to credit opportunities for MSMEs, thereby contributing to the sustained growth of the sector and the economy to meet the government's USD 5 trillion economy objective.



## Mr. Rajesh Kumar

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MD and CEO, TransUnion CIBIL Ltd.

Bridging the demand supply gap is a priority call-to-action for lenders. With rising demand, improved credit performance and promising economic growth prospects, the time is conducive for lenders to expand their MSME credit portfolios. India has approximately 630 lakh MSME corporates of which only 250 lakh have ever availed credit from formal sources. While the sector continues to grow at a projected compound annual growth rate (CAGR) of 2.5%, the number of MSME corporate entities is expected to touch 750 lakh by FY 23. Of these, around 500 lakh are expected to be NTC MSMEs. Lenders can tap into this vast segment by identifying deserving NTC MSMEs, connecting with them and customizing credit products for their requirements.

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**Disclaimer:**

1. All numbers mentioned in this MSME pulse report are in INR (Indian National Rupee)
2. FY Q4 2023 values are provisional and subject to revision as additional data is reported to the TransUnion CIBIL credit bureau.

The Indian economy has sustained its growth momentum, with overall economic activity remaining resilient. MSME sector, which is the backbone of India's economy, reflects these trends and shows steady credit growth trajectory. This edition of MSME Pulse decodes Commercial<sup>1</sup> credit insights from FY 23-Q4 and its findings indicate:

- **Commercial credit growth momentum continues:** Commercial credit portfolio grew at 15% year-over-year (YOY) and credit exposure stood at INR 27.7 Lakh Crores in FY 23-Q4.

Mapping India's MSME credit sector- FY 23-Q4		
Demand (Commercial Credit Inquiry Volumes) Indexed to : FY 20-Q3 = 100		
FY 22-Q4	FY 23-Q4	YoY Growth (%)
170	226	33%
Supply (MSME Disbursement Amounts - In ₹ Lakh Crore)		
FY 22-Q4	FY 23-Q4	YoY Growth (%)
2.45	2.41	- 1.6 %
Growth (Balance-Sheet MSME Credit Exposure - In ₹ Lakh Crore) upto 720 days*		
FY 22-Q4	FY 23-Q4	YoY Growth (%)
21.7	25.3	16.6%
Performance (Delinquency Rates)#		
90-720 Days Past Due (DPD) (incl Sub-standard)		
FY 22-Q4	FY 23-Q4	YoY Change (bps)
2.9%	2.4%	-0.5%

\*MSME portfolio excludes ~ ₹ 2.4 lakh crores of default cases beyond 720 DPD /loss /doubtful category.

# New delinquency definition excludes legacy accounts with DPD beyond 720 days or reported as loss/doubtful.

- **Highest growth in 'micro'-segment originations:** New-originations for FY 23-Q4 stood at INR 241K Crore. 'Micro' segment (credit exposure less than INR 1 Crore) registered 23% YOY growth in originations value while 'small' segment (credit exposure between INR 1 Crore to INR 10 Crores) grew at a mere 1%. Also, originations value on 'medium' segment (credit exposure between INR 10 Crores to INR 50 Crores) fell by 19% YOY.
- **Growth directly proportional to industrialization:** Higher MSME credit growth is seen in states that have higher industrialization. State wise analysis shows that credit growth was highest in Uttar Pradesh, Karnataka, Telangana and Haryana, primarily driven by 'micro' loans. Amongst these four states, Karnataka exhibited highest growth rate of 8%. Credit supply by Public Sector Banks to 'micro' enterprises in Karnataka grew by 119% YOY.
- **MSME credit performance improved:** Following the pandemic induced stress, delinquency rates had surged. It has gradually declined through the quarters as MSMEs continued to serve their credit obligations well. Delinquency rates have dropped across all the three lender categories, with private banks being the lowest at 1.4%.

- **Bridging the demand supply gap is priority call-to-action for lenders:** With rising demand, improved credit performance and promising economic growth prospects, time is conducive for lenders to expand their MSME credit portfolios. India has approximately 630 Lakh MSME corporates of which only 250 Lakh have ever availed credit from formal sources. While the sector continues to grow at a projected compound annual growth rate (CAGR) of 2.5%, the approximate number of MSME corporate entities is expected to touch 750 Lakh by FY 23. Of these, around 500 Lakh are expected to be NTC MSME entities. Lenders can tap into this vast segment by identifying deserving NTC MSMEs, connecting with them and customising credit products for their requirements.
- **New-to-credit (NTC) entities will define the next phase of MSME credit growth:** This edition of MSME Pulse covers a study on 'micro' NTC MSMEs and analyses the potential of this segment in catalysing MSME credit growth. In FY 23-Q4, 56% originations were NTC driving home the fact that NTC segment will be instrumental in defining the next phase of MSME credit growth. NTC segment contributed more than 61% of originations within 'micro' loans with high share of borrowers who have availed sub 10 Lakh loan.

With rapid evolution of information infrastructure and technology, MSME credit underwriting has become information oriented, quicker, and more trustworthy. Credit institutions must astutely wield the power of data for identifying deserving NTC MSMEs and supply credit to them to scale sustainable growth.

*<sup>1</sup>Commercial loans classified on the basis of credit exposure aggregated at entity level, Micro: exposure up to ₹ 1 crores  
Very Small: < ₹ 10 lakhs; Micro1: Exposure between ₹ 10 lakhs and ₹ 50 lakhs; Micro2: Exposure between ₹ 50 lakhs and ₹ 1 crores.*

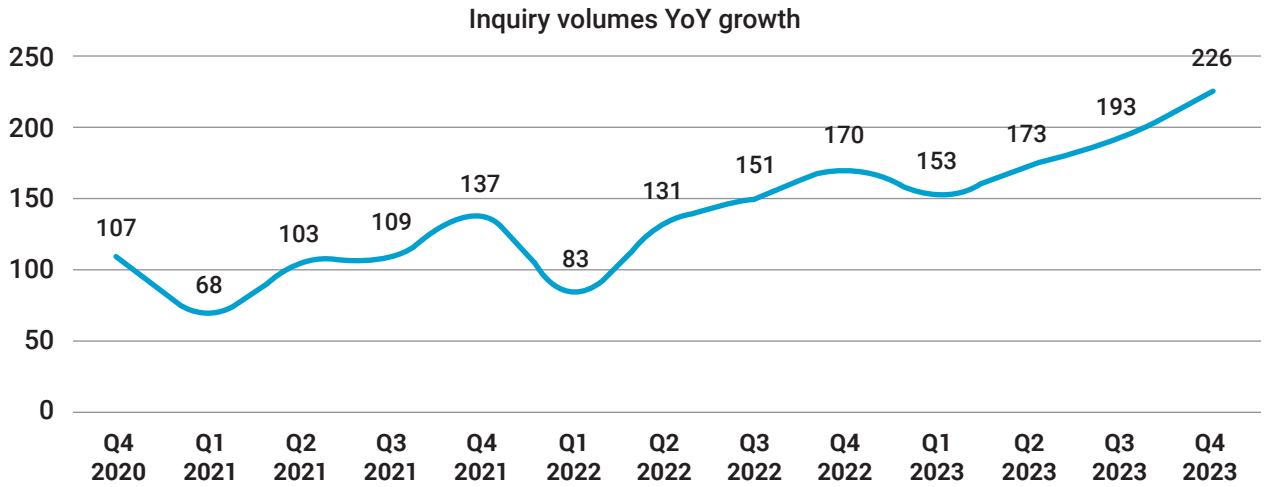


**Commercial Credit Demand Grows Steadily**

The improvement in economic activity has spurred the demand for commercial loans which grew 33% in FY 23-Q4 when compared to the same time last year. Credit demand (inquiry) in FY 23-Q4 was double than that in FY 20-Q4, indicating substantial and noteworthy increase in borrowing activity.

*Demand for Commercial Credit grew by 33% YoY in FY 23-Q4*

**Indexed Commercial Credit Inquiry Volume**



*Financial Year Quarters  
Index: FY 20-Q3*



## Credit Demand by Lender Category

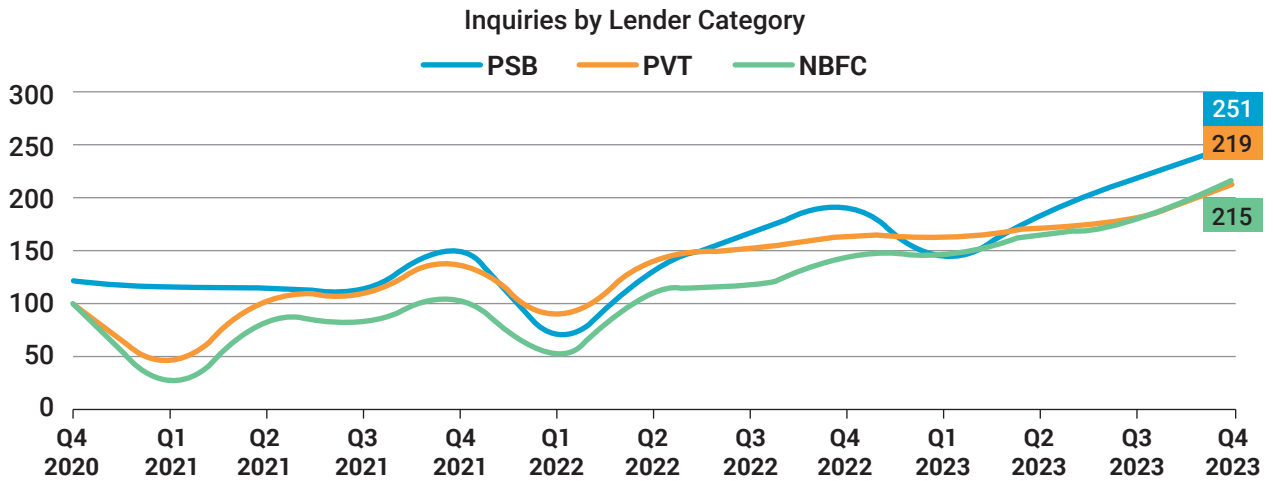
In FY 23-Q4, demand for credit at PSBs and private sector banks grew 1.3 times of the previous year volumes. With credit demand at NBFCs growing 1.5 times over the previous year, they are rapidly emerging as competitive players in the commercial credit space. Improvement in business activity, availability of enriched credit data and rapid implementation of digital lending are the crucial factors driving growth of MSME credit demand.

**Credit demand from public and private sector banks grows by 1.3x**

**Increase in credit demand can be attributed to:**

- a. Improvement in business activity**
- b. Availability of enriched credit data**
- c. Increase in adoption towards digital lending**

### Indexed Commercial Credit Inquiries by Lender Type



Financial Year Quarters  
Index: FY 20-Q3

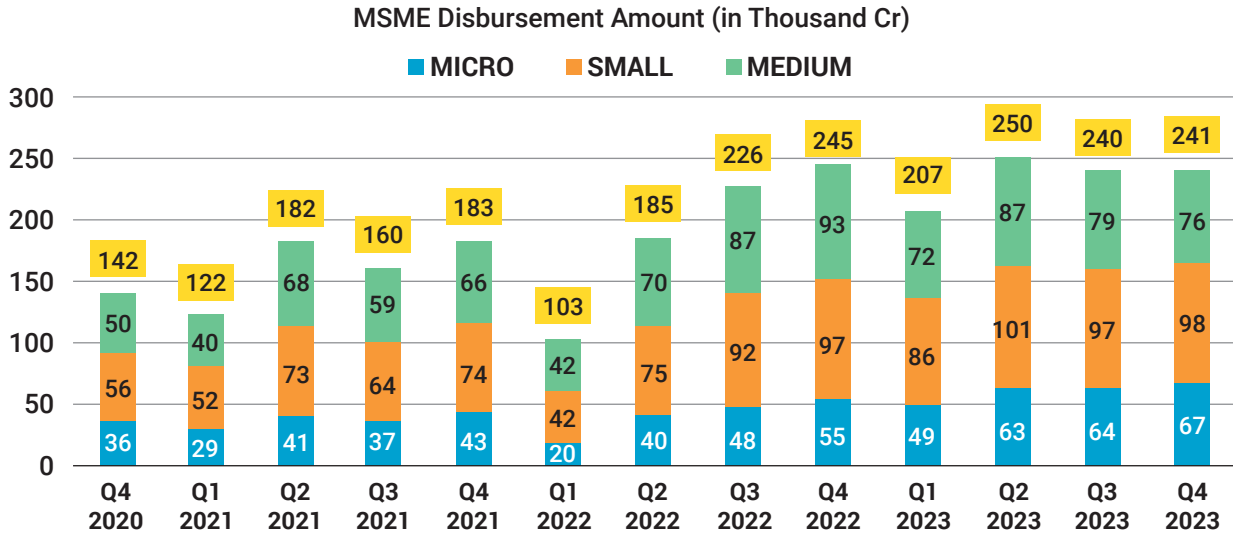




## Credit Supply Falls Short of Demand

Credit flow to MSME sector is slower compared to the increasing demand as lenders follow a cautious approach on commercial lending. Credit demand grew at 33% whereas supply grew at only 11% in FY 23-Q4.

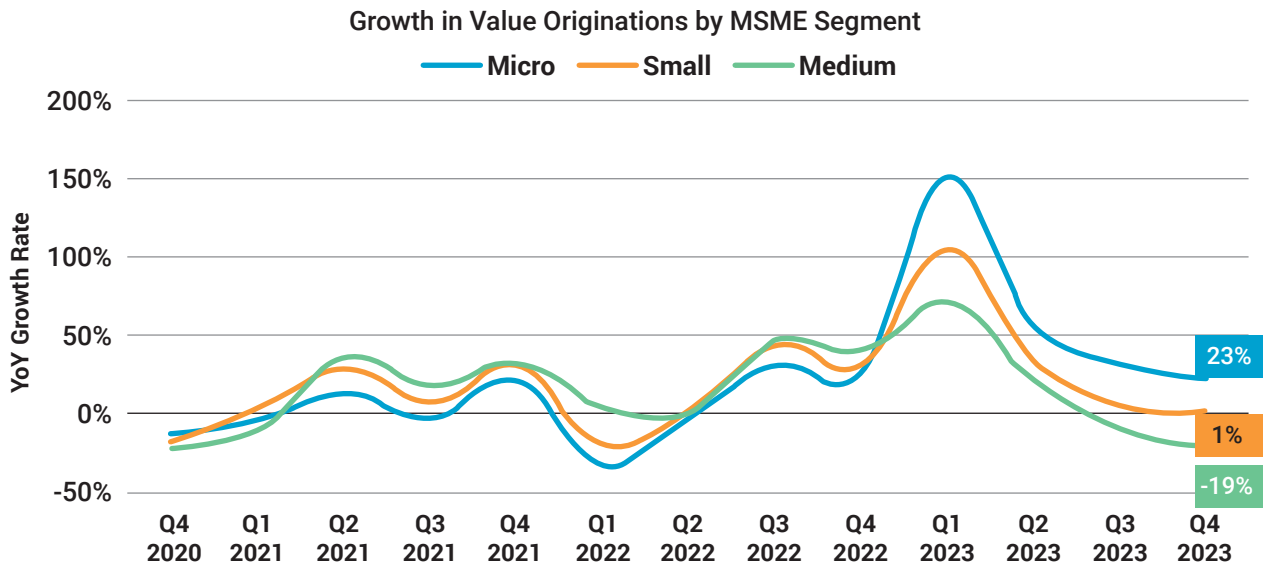
In FY 23-Q4, total amount on new MSME credit originations was INR 241K Crores. Compared to FY 20-Q4, commercial loans disbursement saw 1.7X growth as of March 2023.



Financial Year Quarters

## PSBs are the Leading Credit Suppliers to 'Micro' Enterprises

With 'micro' enterprises gaining prominence, commercial loan originations show similar trends as those observed in credit demand. Insights show 23% YoY growth in borrowers who availed sub INR 1 Crore loans while borrowers seeking greater than INR 1 Crore grew at a lesser rate. Thus showing that 'micro' loans (less than 1 Crore) are driving the credit growth.

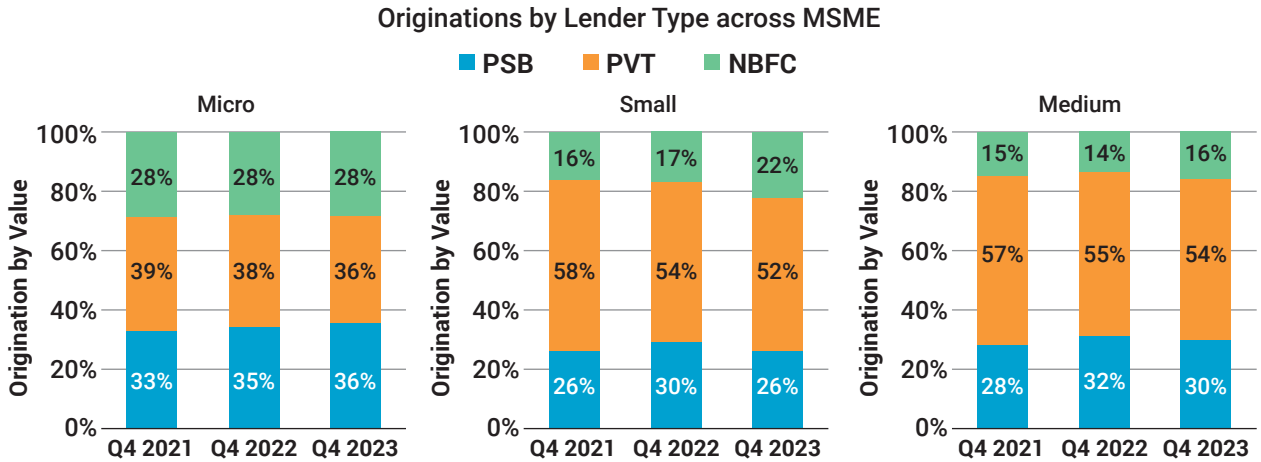


Financial Year Quarters

## Credit Supply by Lender Category

Private banks have been at the forefront of lending to the MSME sector with the highest share in commercial loans origination. However, NBFCs are rapidly grabbing share with considerable increase in FY 23-Q4, albeit in 'small' segments. While there has been a marginal decline in commercial loan disbursements by private and public sector banks, NBFCs exhibit an encouraging trajectory, indicating a positive trend in their lending activities.

### Proportionate Share of Origination Balance by Lenders Across Borrower Type

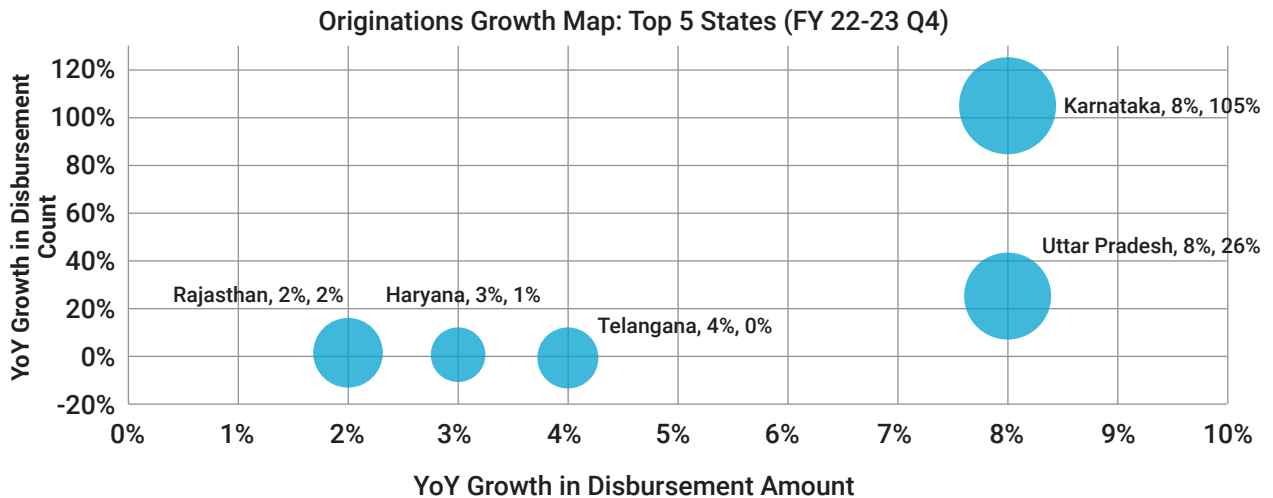


Financial Year Quarters

Commercial lending to MSME entities continues to be concentrated in the states that have higher industrialization. Karnataka and Uttar Pradesh grew fastest in terms of Originations.

High industrialized states in terms of total sanctioned amount (Maharashtra, Gujarat & Tamil Nadu) maintained largest share in terms of origination value despite a drop of ~8% in FY 23-Q4.

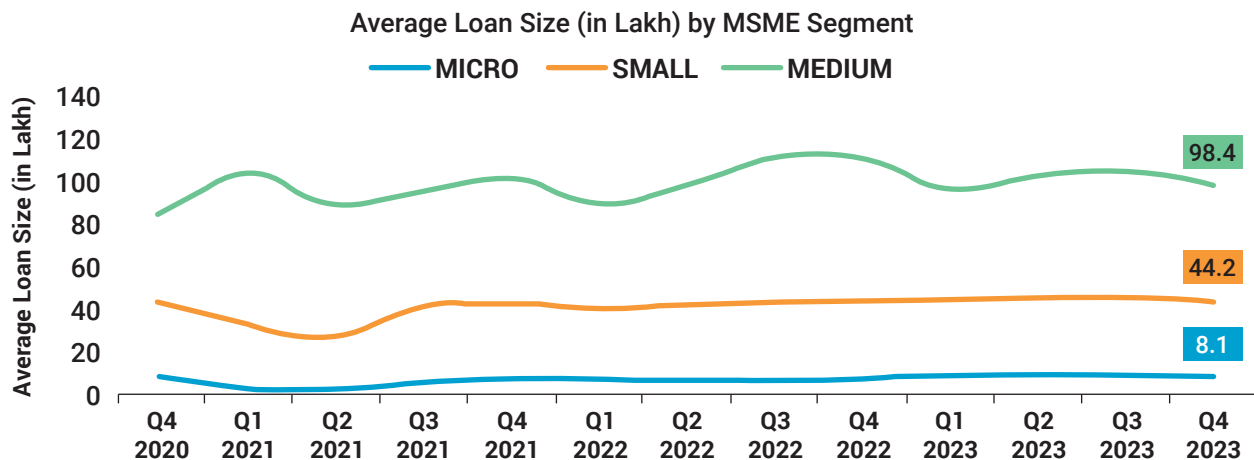
The growth observed in these states can be attributed to the favourable business environment and conducive conditions supported by the ease of doing business.



## Average Loan Size has Decreased Across MSME Borrower Segment

There has been a decrease in average loan size for commercial loans availed by MSME entities in FY 23-Q4, especially for borrowers availing loans greater than INR 1 Crore. This shift indicates a trend towards smaller loan sizes among MSME entities, reflecting changing borrowing preferences and requirements in the market.

### Average Loan Size (in Lakh) by MSME Segment

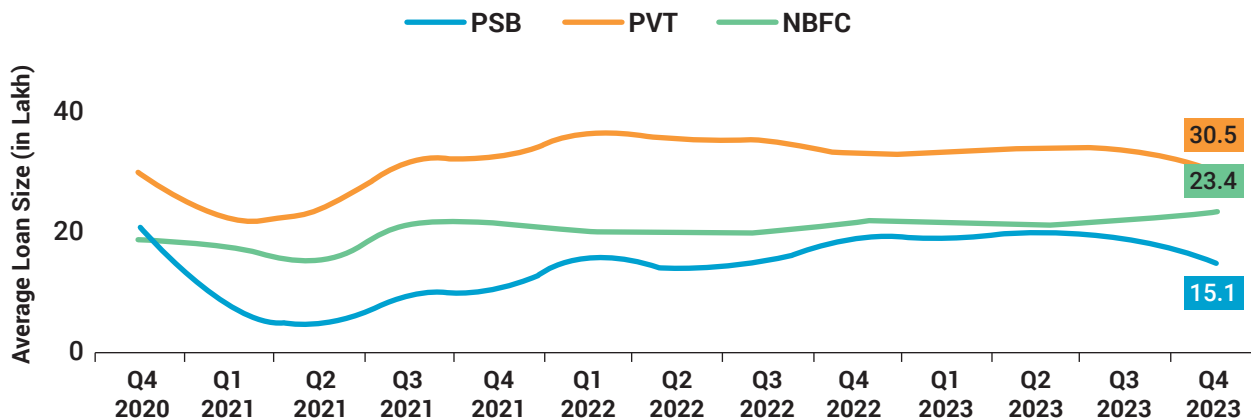


Financial Year Quarters

Conservative approach by lenders, low risk appetite and higher cost of collections have resulted in the decrease in average loan size at public sector and private banks. Loan ticket size at public sector banks and private banks reduced by 21% and 7%, respectively, while the average loan size at NBFCs increased by 9% YoY for FY 23-Q4.

**Loan ticket size at public sector banks and private banks reduced by 21% and 7%, respectively, while average loan size increased at NBFC by 9%.**

### Average Loan Size (in Lakh) by Lender category



Financial Year Quarters

## COMMERCIAL CREDIT GROWTH CONTINUES TO REMAIN BUOYANT IN MARCH 2023

The total commercial credit exposure stands at 27.7 Lakh Crores as of FY 23-Q4. However, a portion of this book- approximately 9% amounting to INR 2.4 Lakh Crores- consists of legacy accounts with DPD (Days Past Due) beyond 720 days or accounts reported as loss/doubtful. For the purpose of this MSME Pulse analysis, our focus will be on accounts with less than 720 DPD and Sub-standard, which amounts to a substantial INR 25.3 Lakh Crores as of FY 23-Q4, exhibiting 16% year-on-year growth.

In terms of credit outstanding balance, 'micro' borrowers (availing less than INR 1 Crore loan) contribute approximately 26%, accounting for a significant INR 6.5 Lakh Crores. On the other hand, 'small' borrowers (availing loans between INR 1 Crore to INR 10 Crores) and 'medium' borrowers (availing loans between INR 10 Crores to INR 50 Crores) collectively constitute around 74% of the commercial outstanding balance, equivalent to a remarkable INR 18.9 Lakh Crores.

Balances for 'micro', 'small' and 'medium' segment continue to grow at 18%, 17% and 15% YoY respectively in the commercial lending space.

**Balances for 'micro', 'small' and 'medium' segment continue to grow at 18%, 17% and 15% YoY.**

### On Balance-Sheet Commercial Credit Exposure (In Lakh Crore)

	<=720 DPD, sub-std	720+ DPD/DBT/LOSS	Total
Q4 2020	18.5	1.7	19.7
Q1 2021	17.8	1.8	19.6
Q2 2021	18.4	1.8	20.2
Q3 2021	18.8	1.9	20.7
Q4 2021	19.6	1.9	21.5
Q1 2022	19.4	2.1	21.5
Q2 2022	19.9	2.2	22.1
Q3 2022	20.7	2.3	23.0
Q4 2022	21.7	2.4	24.2
Q1 2023	22.1	2.4	24.5
Q2 2023	23.3	2.5	25.8
Q3 2023	24.2	2.6	26.8
Q4 2023	25.3	2.4	27.7
	16%	-1%	15%

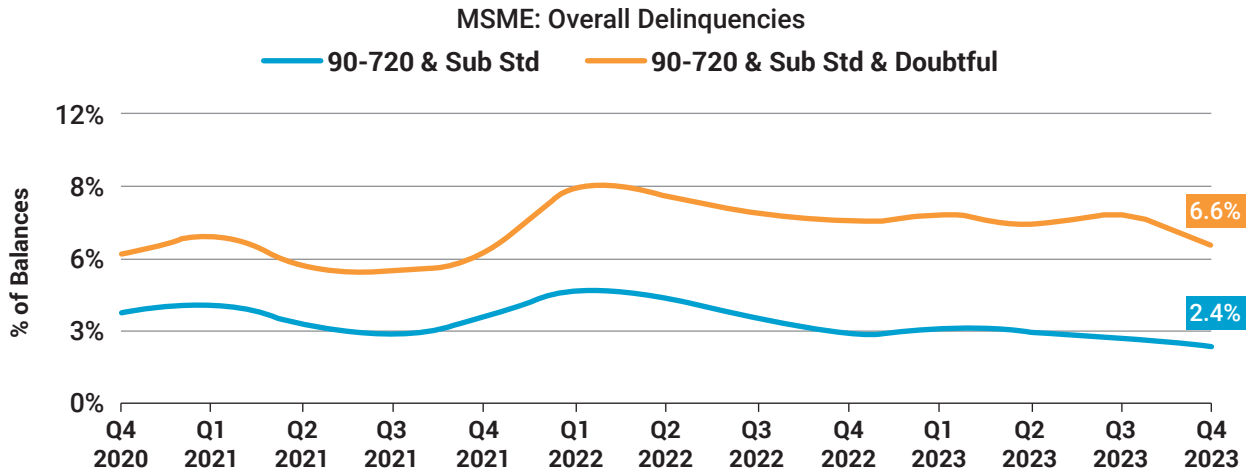
	MICRO	SMALL	MEDIUM	Total
Q4 2020	4.6	7.5	6.0	18.0
Q1 2021	4.5	7.3	5.9	17.8
Q2 2021	4.7	7.6	6.1	18.4
Q3 2021	4.8	7.8	6.2	18.8
Q4 2021	5.0	8.1	6.4	19.6
Q1 2022	5.0	8.0	6.3	19.4
Q2 2022	5.1	8.3	6.5	19.9
Q3 2022	5.2	8.6	6.8	20.7
Q4 2022	5.5	9.1	7.2	21.7
Q1 2023	5.5	9.2	7.3	22.1
Q2 2023	5.9	9.7	7.7	23.3
Q3 2023	6.2	10.1	7.9	24.2
Q4 2023	6.5	10.6	8.3	25.3
YOY Q4 2023	18%	17%	15%	16%



**Delinquency rates are at 2.4% for FY 23-Q4**

## MSME Borrowers Show Improved Delinquency Rates

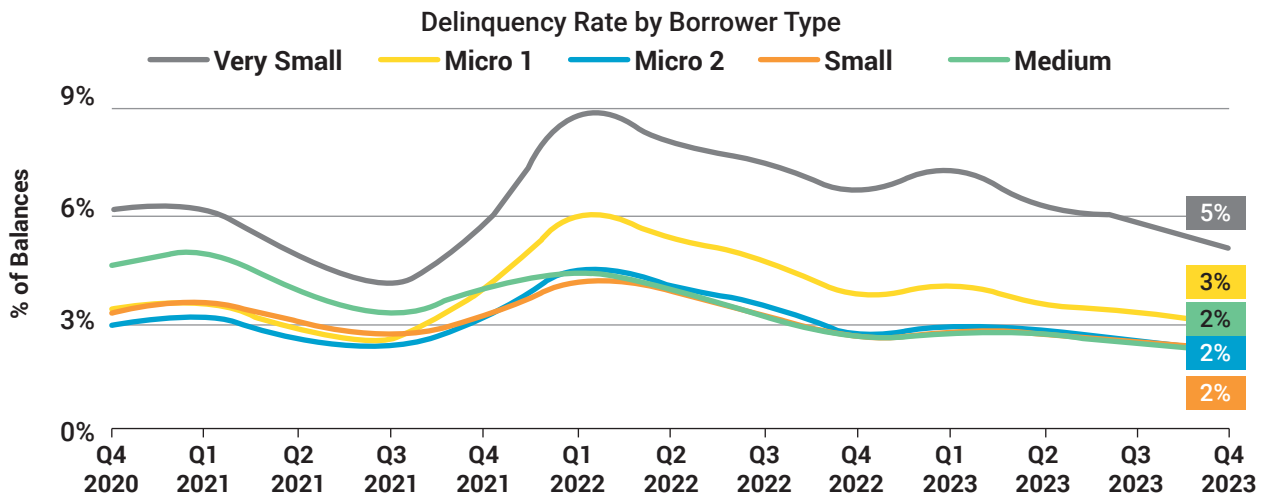
An examination of commercial lending data reveals a decrease in the rate of delinquency in the year FY 23. For 90-720 DPD & Sub Std. the delinquency rates are at 2.4% for FY 23-Q4. This is the lowest delinquency rate in the last 2 years.



The portfolio performance shows decline in delinquency across all borrower segments.

Delinquency Rate	Q4 2020	Q4 2021	Q4 2022	Q4 2023
'Micro'	3.7%	4.0%	3.9%	3.1%
'Small'	3.1%	3.1%	2.4%	2.0%
'Medium'	4.1%	3.5%	2.3%	1.9%

Further sub-segment wise break-up shows highest delinquency rates of 5% in the very 'small' segment (credit exposure less than 10 Lakh) within the 'micro' segment of MSME.



Delinquency rates are declining across all the three lender categories. NBFCs showcased the largest decline in delinquency rates at 3.6% in FY 23-Q4, down from 5.0% in FY 22-Q4.

*Delinquency rates declining across all the three lender categories – largest drop in NBFC*

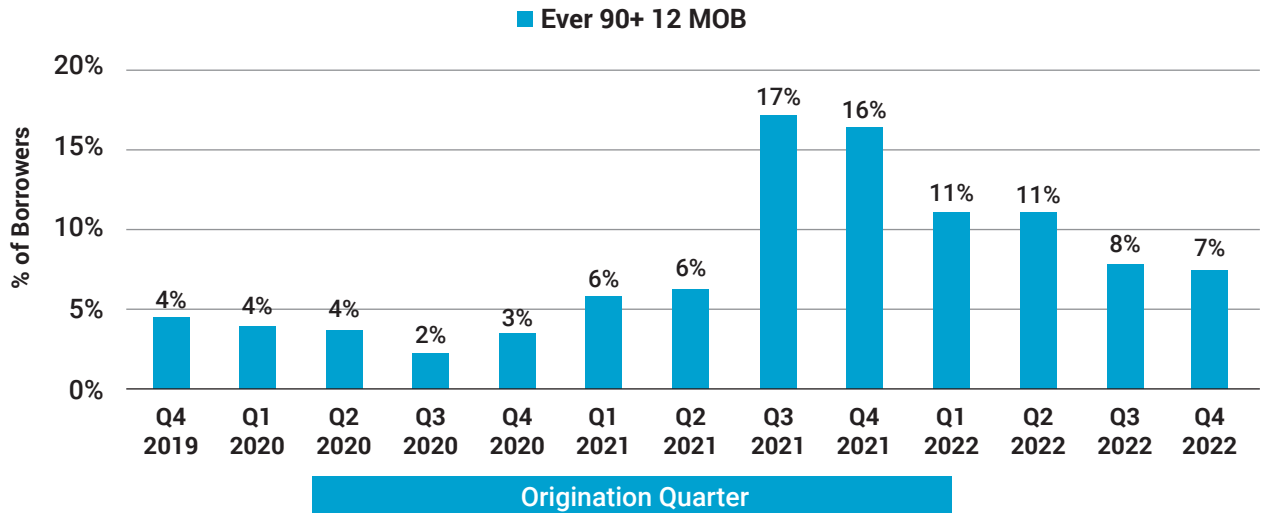
Delinquency Rate	Q4 2020	Q4 2021	Q4 2022	Q4 2023
PSBs	5.3%	4.6%	3.7%	3.0%
PVT	2.1%	2.4%	1.6%	1.4%
NBFC	4.6%	5.0%	5.0%	3.6%



## DECLINING VINTAGE DELINQUENCY SIGNIFIES IMPROVED MSME CREDIT PERFORMANCE

To provide deeper insights into the performance of recent originations, TransUnion CIBIL presents vintage delinquency trends. This measurement of early delinquency encompasses the origination period from FY 19-Q4 to FY 22-Q4. During this timeframe, early delinquency peaked for commercial loans originating in FY 21-Q3 and FY 21-Q4. Though vintage delinquency for originations in the fiscal period 22-23 remained elevated compared to pre-COVID originations, there is a slight indication of improvement observed for loans originated in FY 22-Q4.

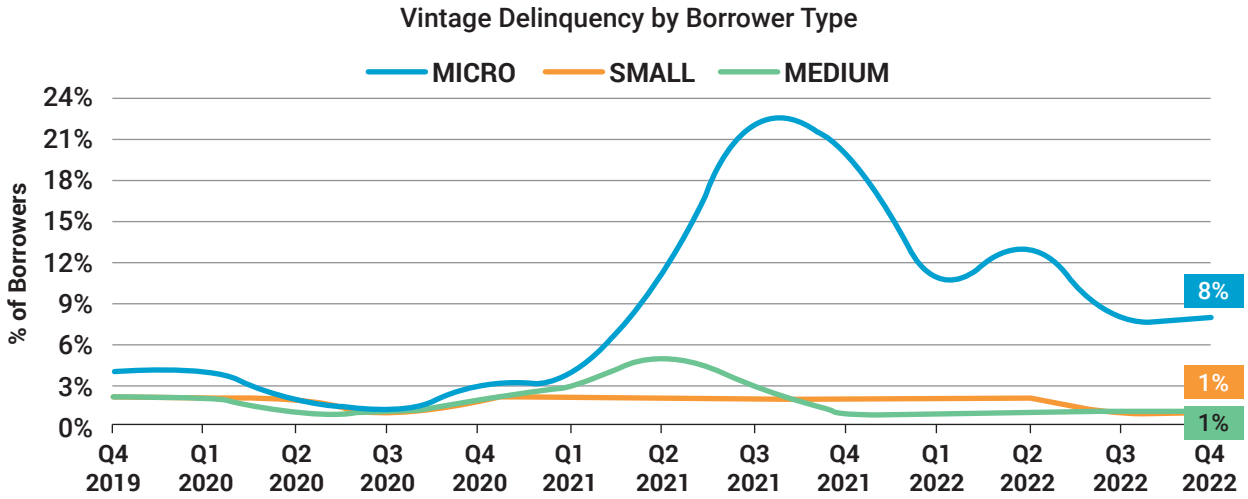
Vintage Delinquencies



Financial Year Quarters

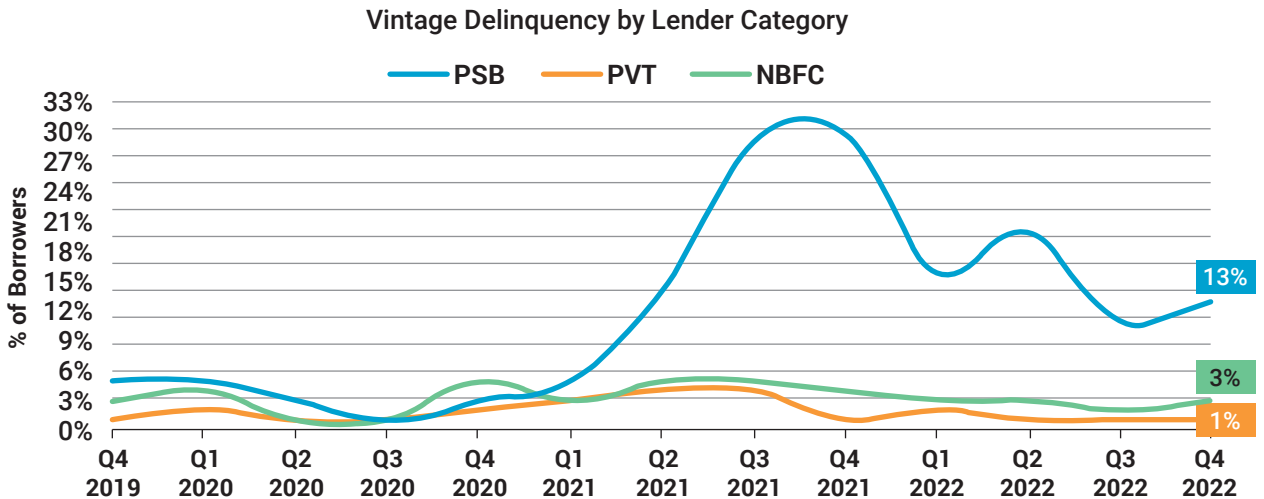
## By Borrower Category

Vintage delinquency stands highest for the 'micro' segment at 8% contributed mainly from public sector banks origination in semi-urban area.



## By Lender Type

Vintage delinquency stands highest for PSB originations at 13%.





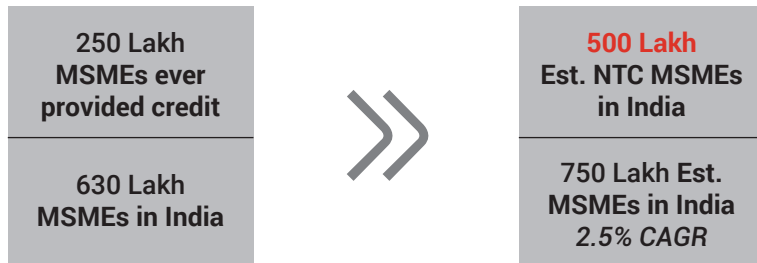
# NEW-TO-CREDIT (NTC) 'MICRO' MSMES- DRIVERS OF SUSTAINABLE GROWTH

Emerging business entities that are eligible of credit can be the drivers of the next leg of MSME credit growth. Timely supply of credit to these emerging entities by customising credit products and delivery based on their requirements will empower these enterprises to manage cash flows and run their business operations smoothly. Enabling credit access to NTC MSMEs will support financial inclusion goals while also catalysing economic growth by contributing to the GDP, increasing export share and generating large scale employment.

India has approximately 630 Lakh MSME corporates of which only 250 Lakh have ever been credited. While the sector continues to grow at a projected compound annual growth rate (CAGR) of 2.5%, in the coming times, the approximate number of MSME corporate entities is expected to touch 750 Lakh. Out of this estimate, around 500 Lakh are expected to be NTC MSME entities.

Commercial Loans are classified into various segments basis credit exposure aggregated at entity level. 'Micro' enterprises defined as those where the investments do not exceed 100 Lakh rupees. These 'micro' entities are further classified into three borrower categories. 'Very small', where the credit exposure is less than INR 10 Lakh, 'micro1' where the credit exposure is between INR 10 Lakh to 50 Lakh and 'micro2' where the credit exposure is between INR 50 Lakh to 100 Lakh.

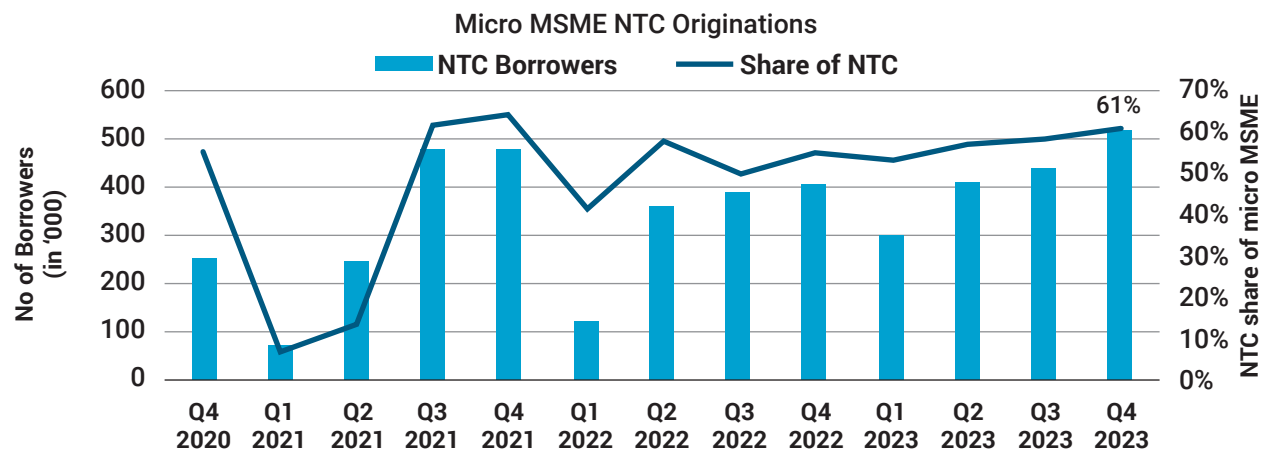
NTC MSME entities are defined as those who open their first-ever MSME credit product. These are first-generation entrepreneurs, first time exporters and those that seek credit for expansion or technological innovations in existing businesses.



Source: Ministry of Micro, Small and Medium Enterprises

Uncovering insights to provide greater credit access to NTC within 'micro' segment (less than 1 Crore) is crucial as NTC borrowers hold significant growth potential for lenders.

In FY 23-Q4, NTC borrowers accounted for 56% of new loan origination in the MSME lending space. Specifically within the 'micro' segment (less than 100 Lakh), these borrowers contributed over 61% of originations. The high credit demand for commercial loans within this 'micro' segment, coupled with positive lender sentiment and robust demand, has propelled the growth of NTC borrowers, significantly contributing to greater financial inclusion.



Financial Year Quarters (% of loans in their respective category)



Credit Exposure  
less than INR 10 Lakh

Credit Exposure between  
INR 10 Lakh and  
INR 50 Lakh

Credit Exposure between  
INR 50 Lakh and  
INR 100 Lakh

**75%** Share of NTC  
in originations

**40%** Share of NTC  
in originations

**16%** Share of NTC  
in originations

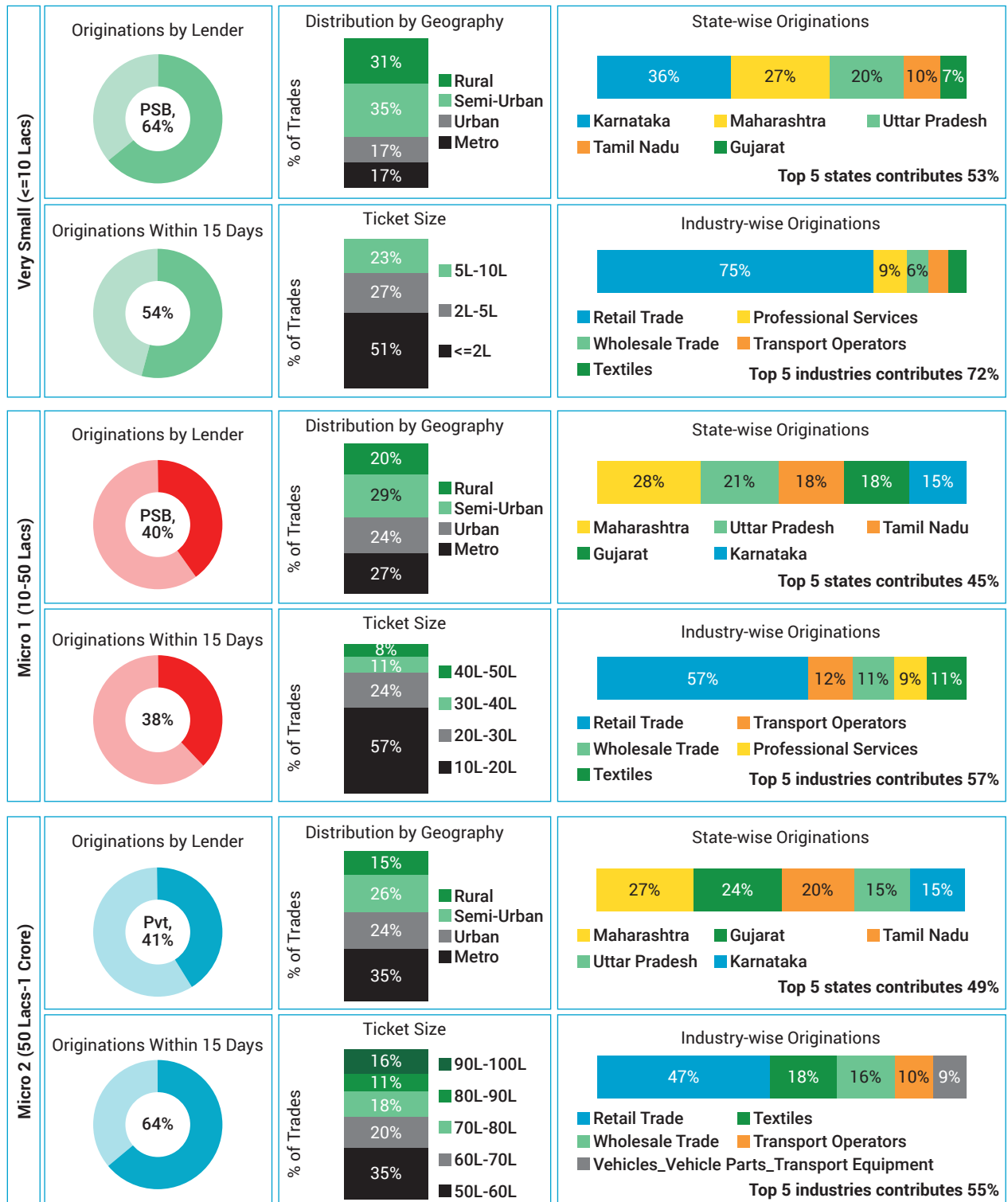
*Financial Year Quarters (% of loans in their respective category)*



# Exploring Markets for New-to-Credit (NTC) Growth

## NTC Segment Flourishes Backed by Strong Demand from Retail Traders

In the micro MSME segment, NTC borrowers account for an impressive 61% of originations.



- Public sector banks have been the dominant lenders to NTC borrowers seeking less than INR 50 Lakh loans, while private banks leading suppliers of loans between INR 50 Lakh to 1 Crore ('micro 2')
- Credit access is available across diverse geographies enabling NTC borrowers from rural and semi-urban areas to avail loans of ticket size less than INR 10 Lakh.
- More than 50% of NTC borrowers who avail loans less than INR 50 Lakh begin their journey with smaller-ticket size loans.
- Retail traders constitute the largest proportion of NTC borrowers.
- With the advancement of digitalization and improved access to information, the turnaround time across micro loans (less than INR 100 Lakh), has significantly improved. Fastest processing time was on INR 50 Lakh and 1 Crore ('micro 2') loan segment.

Furthermore, ample opportunity exists towards driving deeper penetration in the segments where borrowers are seeking loans between INR 50 Lakh and INR 1 Crore. Different category lenders specialize in serving specific NTC or unserved borrowers, thereby facilitating greater credit access across various borrower segments.

## Comparative View of New-to-Credit (NTC) and Existing-to-credit (ETC) Borrowers in the 'Micro' MSME segment

In this study, we delved into the market characteristics of 'micro' MSMEs to compare NTC lending with Existing-to-credit (ETC) borrowers. The ETC population comprises entities with established credit history, providing a basis for insightful analysis.

We observed that NTC borrowers are driving the growth in credit originations amongst borrowers seeking less than INR 1 Crore loans ('micro'). Insights show that increasing number of borrowers are availing loans of lower ticket size. While borrowers availing loans below 10 Lakh contribute significantly to both NTC and ETC segments, this contribution is particularly high for NTC borrowers. This makes it imperative for lenders to build their strategies around focusing more on the borrower segment availing loans below 10 Lakh ('very small').

*NTC borrowers driving growth in credit originations amongst borrowers seeking less than 1 Crore loans*

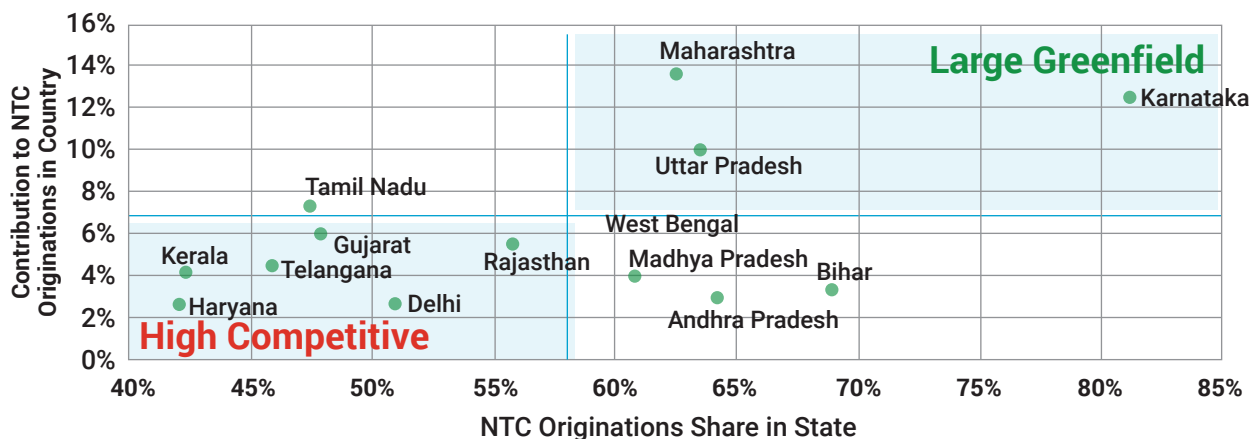
Speaking of regional distribution, since lenders maintain consistent credit policies across regions, there is a similar share of originations distribution in NTC and ETC. Indicating that lenders are supporting increasing demands in all the tiers.

Nevertheless, remote geographies present greater opportunity for NTC growth due to the rising focus on financial inclusion. States like Uttar Pradesh, Maharashtra and Karnataka have a steady growth pattern in NTC share with respect to origination as well as proportion. Haryana, Delhi and Kerala on the other hand, have highly competitive markets that show a great potential for growth and opportunity.

*Remote geographies present greater opportunity for NTC growth due to the rising focus on financial inclusion*

Lenders must focus on a stronger acquisition strategy in these geographies to establish a deeper presence.

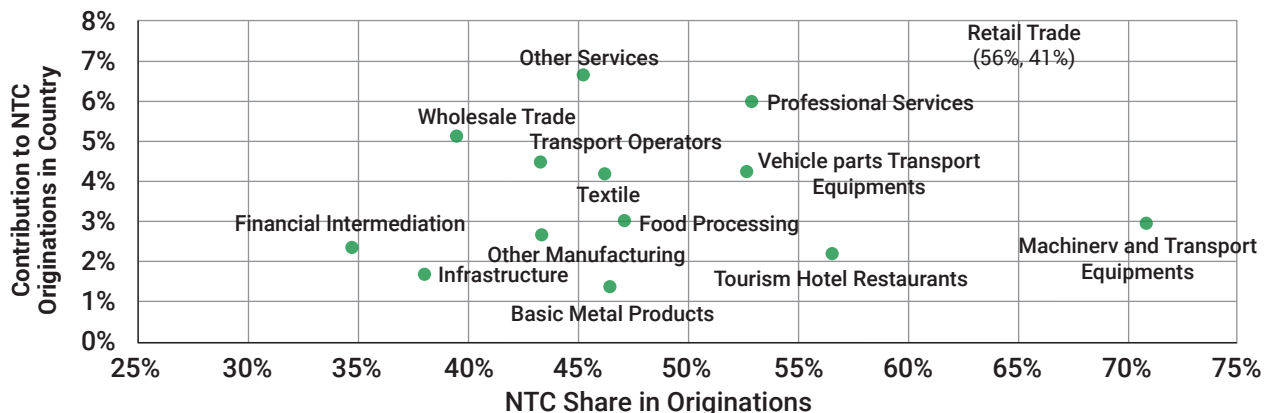
### FY 23-Q4: NTC Origination of 'Micro' MSME by State



Traders in the Retail and Machinery and Transport Equipment sectors are also seeing a growth in the NTC borrower segment.

**Traders in Retail & Machinery/Transport Equipment sectors seeing growth in NTC**

**FY 23-Q4 : NTC Origination of 'Micro' MSME by Industries**



**Credit Profile of NTC Borrower us ETC Borrower**

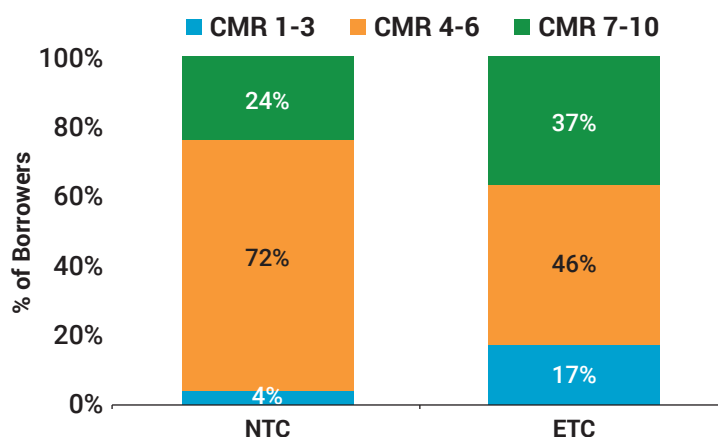
To further expand access to this segment, it is imperative to understand the journey of the NTC and ETC borrowers. For this purpose, we considered commercial loan originations between the time period from October 2020 and March 2021. For ETC borrowers, we only considered those with a credit history of at least two years prior to the said period. The MSME Borrower category and CIBIL MSME Rank (CMR) were measured at time "t," while CMR rank for NTC borrowers was measured at "t+6."

Insights show that 'micro' NTC borrowers compared differently to ETC borrowers in risk distribution and borrower category.

ETC borrowers had a very distinct risk profile when compared to NTC borrowers. The initial CMR generated for NTC borrowers typically falls within the medium-risk category (CMR 4-6), accounting for approximately 72% of borrowers. On the other hand, 46% of borrowers with established credit histories are classified in the medium-risk range.

Hence, to ensure comparability amongst the two population segments, the profile of ETC has been controlled for risk and 'micro' MSME sub segments.

**Distribution as per CMR Bands**



Our analysis of the credit participation (i.e., type of credit products and ticket-size) for NTC borrowers and ETC borrowers revealed their distinct characteristics and preferences when it comes to credit demand for commercial loans. We observed that one in every two NTC borrowers originated their credit journey through a demand loan (a short-term loan that the borrower must pay back whenever the lender demands it), with lower access to credit whereas approximately 61% availed loans of a ticket size of less than 1 Lakh when compared to recent loan originations by ETC borrowers.

Products	NTC	ETC	Ticket Size	NTC	ETC
Long Term Loan	8%	15%	<1Lakh	61%	36%
Mid Term Loan	7%	14%	1-2 Lakh	7%	15%
Demand Loan	54%	12%	2-5 Lakh	11%	25%
Cash Credit	11%	7%	5-10 Lakh	10%	17%
Unsecured Business Loan	3%	6%	10-25 Lakh	7%	48%
Overdraft	7%	6%	25 Lakh+	4%	29%

### Product Definition:

Long Term Loan: Loan for period above 3 years

Mid Term Loan: Loan for period above 1 year and up to 3 years

Demand Loan: Short-term loan to meet working capital requirements

Cash Credit: Short-term loan backed by inventory and receivables of the company

Unsecured Business Loan: Loans without pledging any asset as collateral

Overdraft: Credit facility to withdraw an amount at any time

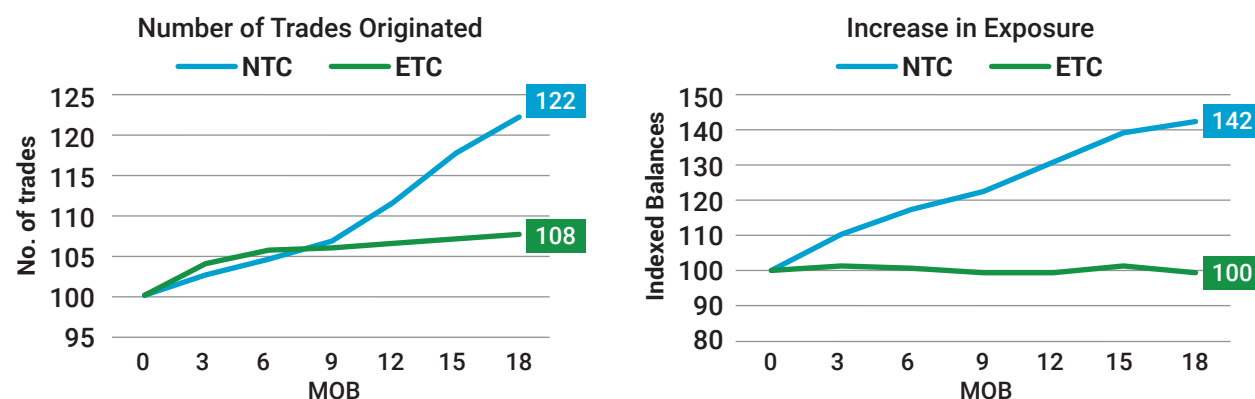
\*\* Top 6 loan products which account for 90% of NTC originations

## NTC Borrowers – Insights and Trajectory for the Next 18 Months

In this section, we explore the true potential of NTC borrowers by examining the profitability derived from their credit balance growth. By thoroughly evaluating their credit journey, we aim to uncover the substantial opportunities that lie within this borrower segment.

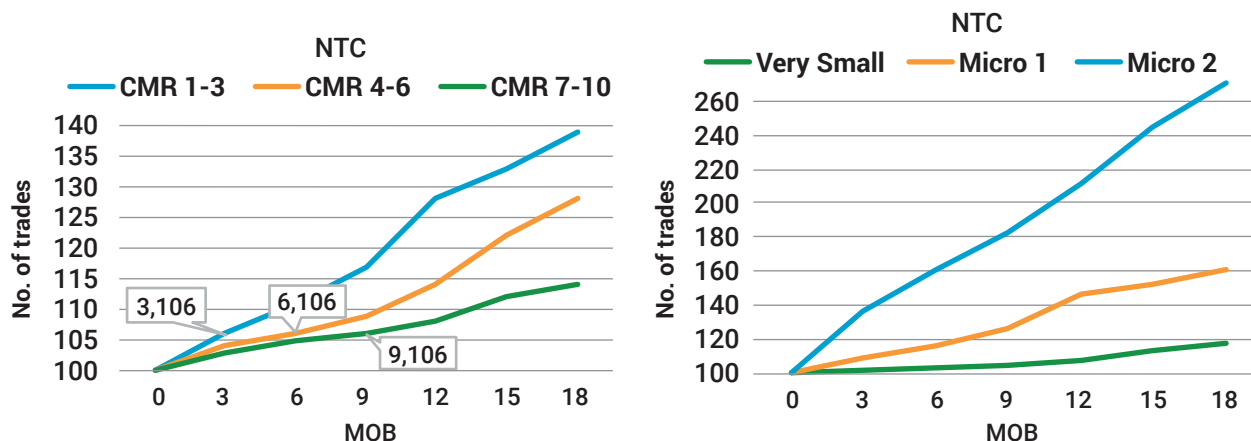
To gain valuable insights, we closely monitored the credit journey of NTC borrowers for a period of 18 months, starting from their entry into the MSME market between October 2020 and March 2021. By comparing credit score migration at “t+6” for NTC borrowers and at ‘t’ for ETC borrowers, we assessed the credit performance of newly originated credit products for both populations to identify any deterioration or improvement in credit health.

Our findings revealed that NTC ‘micro’ MSME borrowers embark on their credit journey with smaller loan amounts, but they present an exceptional growth opportunity. With higher rate of account openings, these borrowers showcase a strong potential for further improvement in credit access. Over the course of 18 months following the first credit loan origination, NTC MSME borrowers demonstrated remarkable credit growth, building balances that are 1.4 times higher compared to ETC borrowers.



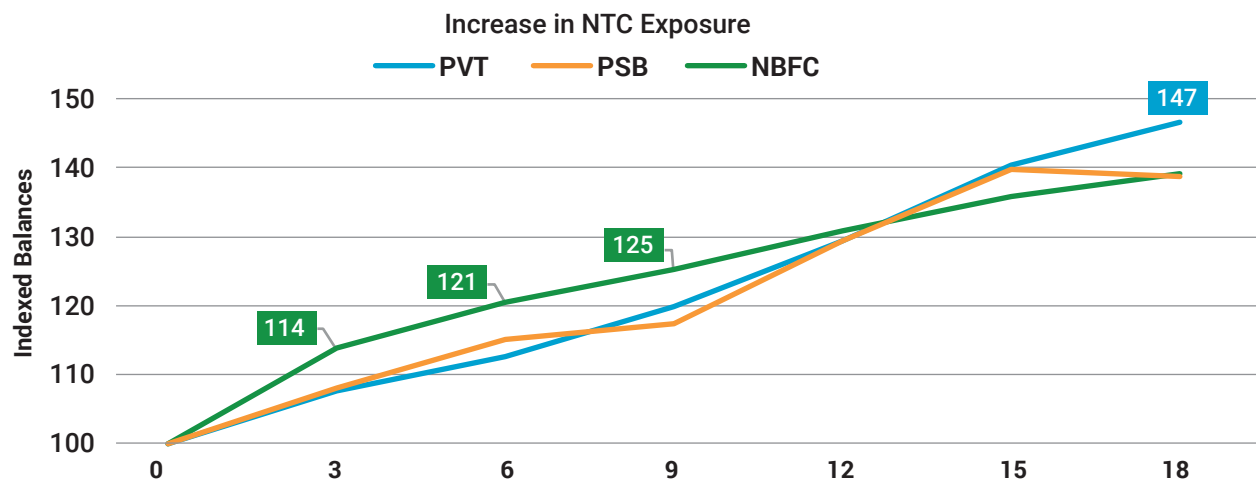
Indexed at MOB0

Our analysis further reveals that the low-risk segment (CMR 1-3) grows faster, with clear inflection point between 9-12 months. This not only shows the lender's confidence in good credit quality, but also translates into more credit account openings. On the right-hand chart, we can see from a 'micro' sub segments perspective that borrowers availing loans between 50 Lakh and 100 Lakh tend to access more number of loans in the following months as compared to borrowers availing less than 50 Lakh loans.



Indexed at MOB0

Lenders are encouraged to expand further credit to the NTC borrowers in the micro category to increase wallet share early on. These borrowers provide an excellent opportunity for cross-sell & up-sell, allowing lenders to maximise their earning potential.



As NTC consumers gain credit access, build history, and open more products, they exhibit a faster rate of improvement than their ETC counterparts. This emphasizes the positive impact of credit access on the creditworthiness of NTC borrowers.

**NTC consumers exhibit a faster rate of improvement than their ETC counterparts.**

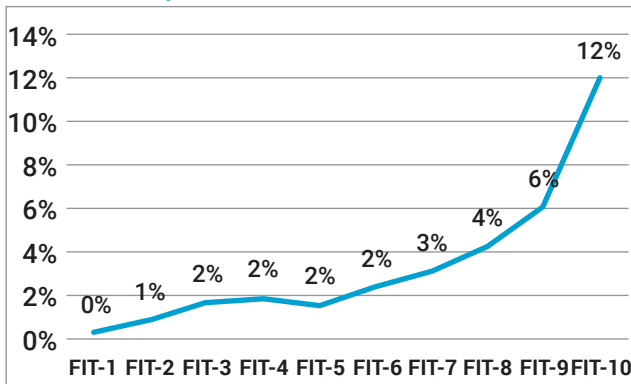
Ever 90+ DPD in 12 MOB	NTC	ETC
Very Small	26%	22%
Micro 1	2%	9%
Micro 2	2%	5%

However, with respect to delinquency, NTC borrowers perform marginally worse than ETC borrowers. Those availing loans of less than INR 10 Lakh ('very small') showed 4% higher delinquency at 12 months, implying that enhanced underwriting data and tools are critical to assess risk accurately.

## FIT Rank

Our study examined 'micro' MSME NTC loans originated between August 2018 and September 2019 and mapped them against FIT Rank. We found that loans beyond FIT Rank 5 have a significantly higher probability of default compared to loans with FIT rank ranging between 1-5. Lenders can mitigate risk by leveraging enhanced data and tools to better predict creditworthiness, particularly in the NTC borrower segment. While NTC segment leads to greater financial inclusion, 'micro' MSME (exposure less than 1 Crore) consumers are skewed towards higher risk. Hence, there is a need for alternative data sources, such as digital and financial records, income data, and trade data (bank statements, GST, ITR, etc.), that can play a crucial role in underwriting 'micro' MSME NTC consumers and maintaining a favourable risk-reward ratio. Further, lenders offering loans to NTC segment can also benefit from the use of FIT data to appropriately price the risk and evaluate the MSME.

Probability of Default Curve



FIT Rank	Probability of Default		
	Very small	Micro 1	Micro 2
Low (FIT 1-3)	1.8%	2.4%	1.7%
Medium (FIT 4-8)	3.6%	4.3%	5.5%
High (FIT 9-10)	12.3%	11.7%	14.9%





## CHARACTERISTICS OF MSMEs HAVING COMMERCIAL AND CONSUMER CREDIT INFORMATION - COMPREHENSIVE CREDIT INFORMATION REPORT (CCIR)

In this CCIR study, we extensively examined proprietorship-level data from the commercial bureau, which we then cross-referenced with individual PAN information from the consumer bureau. Our analysis is based on the most recent available data, specifically the live portfolios of both the commercial and consumer bureaus as of March 2023.

We focused on commercial borrowers and explored their first-ever trades in both commercial and consumer domains, including consumer products and credit scores. Remarkably, we found that at least 20% of the commercial entities had a presence in the consumer bureau, indicating a significant overlap between business and retail activities. Among these consumers, approximately 80% had prior trade history in the consumer bureau before seeking commercial credit.

Delving into the consumer bureau data, we identified three prominent product categories: Consumption loans, Vehicle loans, and Mortgage loans. These categories represent the top choices among consumers seeking credit, further underscoring the interconnectedness between their commercial and personal financial endeavours.

First Origination	Borrower %	Product	Borrower %
First Loan in Consumer	78%	Consumption Loans	58%
First Loan in Commercial	14%	Vehicle Loans	42%
Same time	8%	Mortgage Loans	34%
		Agri Loans	14%
		Other Loans	63%





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