**SIDBI and TransUnion CIBIL launch “MSME Pulse”- India’s largest study based on over 5M entities with active credit accounts**

*MSME emerges as the most attractive segment incommercial credit with fastest growth andrelatively low and stable NPAs*

**Mumbai, 12th March 2018**:SIDBI in association with TransUnion CIBIL launched “MSME Pulse”- a quarterly report on MSME credit activity, for closely tracking and monitoring the MSME segment in the country. The report is based on a study done on over 5 Million active MSMEs who have access to formal credit, with live credit facilities in the Indian banking system.

Micro, Small and Medium Enterprises (MSME) sector is the most vibrant and dynamic sector promising high growth potential for the Indian economy. There are close to 51 Million MSME units in the country that employ about 117 Million people across various sectors, constituting 40% of the workforce. The MSME share to the total Gross Domestic Product (GDP) is about 37% and they also contribute to 43% of exports based on the data maintained by Ministry of Commerce. In view of the critical nature of this segment, careful monitoring of the health of MSME portfolios regularly and frequently is vital for tracking the efficacy of policy, banking and business decisions while ensuring timely intervention for controlling potential losses.

The key findings of the study reveal that while the overall NPA rate remained range bound from 8% to 11% in the MSME segment during the last 2 years, the NPA rate of large corporates has increased significantly from 7.9% to 16.9% during the same period. Further, there has been a significant increase in the new borrowers entering the formal credit sector which has accelerated from ~2.7 lakhs for the six-month period of Jan to Jun 2016 to ~4 lakhs in Jul to Dec 2017, indicating fresh investments being made. The report, while giving an insight on the prominent MSME sectors for the lending institutions from a risk and profitability perspective, also presents the effects of dual economic disruptions of demonetization and GST along with the impact of relief measures announced by RBI for MSMEs registered under GST.

Speaking at the launch, Shri N S Vishwanathan, Deputy Governor, Reserve Bank of India said, “Comprehensible information is the need of the hour. The MSME sector accounts for 31% of the GDP; providing employment to over 111 million people. Bringing every element of this sector to the formal fold as such is imperative. This is where well-analysed data plays an important and significant role. The MSME Pulse report will help in providing fresh insights about the sector. The joint effort by SIDBI and TransUnion CIBIL is commendable and will bring the MSME sector into the formal fold in a big way.”

Shri Mohammad Mustafa, Chairman and Managing Director, SIDBI in his address said*“Information is key to decision making and if it is available at the right time, meaningful engagements and interventions can be made. SIDBI firmly believes that economic tools are very meaningful and offer independent outside assessment hence crucial for supporting policy decisions. With the launch of MSME Pulse, SIDBI and TransUnion CIBIL aim to provide the credit industry with trends and insights for making information oriented business decisions.” While highlighting the present state of formal lending to this segment, he further added that “The MSME sector remains significantly under-penetrated on the organized lending front. Out of the 51 Million MSME units, only 5 Million units have access to formal credit. Digital push coupled with GST implementation will push the MSMEs towards higher formalization and hence credit coverage.”*

Mr. Satish Pillai, Managing Director and CEO, TransUnion CIBIL emphasised that *“MSME segment, if targeted and serviced appropriately, can grow to have substantial share of Indian bank's commercial balance sheets and profits in the next 3-4 years. A triumvirate of stable risk, high growth and credit spreads along with progressive regulatory support will prove catalyst for sustainable growth. This study will help provide deeper understanding of qualitative and quantitative aspects of MSME lending, across various sub-segments and categories of lenders.”*

**MSME Pulse Highlights**

* **Fastest growing exposure in Commercial Lending**: Micro (credit exposure less than ₹ 1 Crore) and SME (₹ 1 Crore-25 Crore) segments constitute ₹ 11.7 lakh Crorecredit exposure (23% of commercial credit outstanding) with Y-o-Y growth of 20% and 9% respectively as compared to 4% for Mid (₹ 25 Cr-100 Crore) and 0.5% for Large (greater than ₹ 100 Crore exposure) from Dec’16 to Dec’17.
* **Relatively stable asset quality:**NPA rates have remained range bound between 9.2% (Dec’16) to 8.8% (Dec’17) for Micro and 11.3% (Dec’16) to 11.2% (Dec’17) for SME segment. In comparison, for Large corporate segment, NPA rates increased from 14.7% (in Dec’16) to 16.9% (in Dec’17). As such, MSME sector exhibited high credit growth and relatively lower cyclical deterioration in asset quality.

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

* **First time MSME borrowers, on the rise:** Number of MSME entities seeking credit for the first time (*New to Credit (NTC) borrowers*) increased significantly- from ~2.7 lakhs in the six month period from January -June 2016 to ~4 lakhs in the period from July to December 2017. The NTC MSME usually belongs to the “Very Small” segment (less than *₹* 10 lakhs exposure). Providing access to credit for NTC MSME borrowers is largely enabled by Public Sector Banks which have about 80% contribution specifically in this segment.

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

* **Private Banks gaining market share:** While Public Sector Banks are enabling financial inclusion, the MSME segment is becoming increasingly attractive for the Private Banks & NBFCs from a profitability and PSL (Priority Sector Lending) perspective. Private Banks and NBFCs have aggressively stepped up acquisition efforts through branch expansion and digitization initiatives offering lower turn-around-times (TATs) and superior service to these borrowers, thereby gaining market share from 34% in Dec’15 to 40% in Dec’17.
* **Impact of Demonetization and GST:** The findings indicate that the impact of demonetization was felt more by smaller MSME or those located in smaller centres. However the impact of GST was more uniform across all sub-segments of MSMEs. However, the entities have bounced back from the impact of these two events and their credit activity has recovered to pre-demonetization levels.
* **Impact of RBI Relief on NPA reporting of SME borrowers:** The latest RBI guideline on relaxation on NPA recognition of MSME entities registered for GST is likely to benefit 1.41 lakh borrowers with an exposure of *₹* 12,910 Crore in Jan’18. This dispensation will also benefit some of the 1.66 lakh borrowers having exposure of *₹* 82,000 Crore with CIBIL MSME Rank 7 to 10 who have a high probability of slippage to the 90+ bucket in the next few months and provide them and the lenders additional time to work on remedial measures.
* **State wise MSME credit exposure-** Top 5 states namely Maharashtra, Tamil Nadu, Gujarat, Andhra Pradesh and Uttar Pradesh account for 45% of the banking sector’s exposure to MSME segment. Among the top 10 states, Rajasthan has the lowest NPA rate (as of Dec’17) of 3.5%, which account for 4.3% of banking exposure to MSMEs.

***Click here to read the full report:*** https://www.transunioncibil.com/insights-events

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