TransUnion CIBIL

MSME
PULSE

JUNE 2021

sidbi

QUOTES

Mr. Sivasubramanian Ramann

Chairman & MD
SIDBI

"

The MSME credit data speaks volumes of success of ECLGS scheme. The scheme has played a major role in 40% Y-o-Y growth in disbursements to the sector, thereby reviving the business sentiments among the MSMEs. The key highlight which signals the revival is credit to NTB which has returned back to pre-COVID levels, while credit to ETB remains buoyant. The recent additional relief measures by Government, especially in healthcare, travel and tourism, are expected to improve credit offtake in MSME sector. Going forward, the lenders need to continuously monitor the health of credit portfolios, while sustaining credit growth to MSMEs.

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Mr. Rajesh Kumar

MD and CEO of
TransUnion CIBIL

"

The significant surge in MSME credit demand post unlocks reasserts India's growth story. Government's pro-growth initiatives like extending ECLGS support to the tune of ₹4.5 lac crores, regulatory reforms like restructuring of loans and the swift implementation of these initiatives by banks & credit institutions using data analytics has paved the way for fortifying MSMEs. With these progressive policies and support, India's MSME sector is set on a definite resurgence trajectory and this bodes well for the future strength and growth of our economy."

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EXECUTIVE SUMMARY

ECLGS and other interventions for the MSME sector have led to higher loan amount disbursed to MSME segment in FY 2021 than earlier years.
In FY 2021, the country disbursed loans worth ₹9.5 lakh crore to MSME sector; higher than preceding year of ₹6.8 lakh crore in FY 2020. This sharp jump in MSME lending for FY 2021 was supported by Atmanirbhar Bharat scheme of ECLGS which provided 100% credit guarantee to lenders.

Unlocks in June'21 have led to a sharp bounce back in credit demand (measured as credit enquiries) by MSMEs, which was dampened by the 2nd wave after a strong 4th quarter of FY'21.
After the initial drop in commercial credit enquries by 76% due to the 1st wave, they recovered fast with ECLGS and have since sustained close to pre-COVID levels. March'21 commercial credit enquiries were 32% over pre-COVID levels; this strong momentum was impacted by 2 nd wave, but June '21 has a sharp recovery back to pre-COVID levels.

MSME credit outstanding has grown by 6.6% YoY in March'21, with Micro segment growing the fastest at 7.4%.
Strong rebound in credit demand, accompanied by equally strong credit supply and ECLGS support, has led to growth in the credit outstanding amount of MSME sector to ₹20.21 lakh crores, with a YoY growth rate of 6.6%. Micro segment has grown fastest at 7.4%, followed by Small segment at 6.8% and Medium segment at 5.8%.

Lending to New-to-Bank (NTB) MSMEs has recovered back to pre-COVID levels, while lending to Existing-to-Bank (ETB) continues to be bouyant.
Credit disbursals to NTB MSMEs had dropped by 90% in April'20 compared to pre-COVID levels, and has gradually reurned back to 5% higher than pre-COVID levels in March'21. Credit disbursals to ETB MSMEs jumped to 75% over pre-COVID levels in June '20 due to ECLGS, and since then has sustained at pre-COVID levels.

Policy level interventions by government and regulator have reflected in controlling the credit downgrades in MSME till Dec.'20, with a jump in downgrades for March'21.
MSME credit performance movement, measured through CIBIL MSME Rank (CMR) downgrades, has been broadly in control till Dec.'20 with policy-level interventions. With the lifting of moratorium and clarification in guidelines for delinquency recognition, the downgrades have jumped in the quarter of March'21 – leading to a rise in the pool of mid-risk MSMEs.

Risk appetite across lenders is back to pre-pandemic levels.
Approval rates have increased across all lenders with the backing of 100% credit guarantee of ECLGS. The originations share by CMR show that share of high-risk segment CMR 7–10 dropped and low-risk segment CMR 1–3 increased in the initial period of pandemic. But now, the originations distribution by CMR is similar to that of the pre-COVID-19 levels.

Lenders are relatively more open to lend to MSMEs which missed payments in last 12 months.
29% of the borrowers from MSME lending in Jan to Mar'21, have missed more than one payment in last three months. The same proportion for Jan'20 to March'20 was at 21%, indicating increasing acceptance of lenders to fund MSMEs with missed payments.

NPA rates for MSME portfolios are stable due to high credit growth.
With the strong inflow of credit in the MSME sector, and various support measures from government and regulator, the NPA rates for MSMEs are controlled at 12.5% for March 21 compred to 12.6% for March'20. However, the NPA rates for March '21 are higher than Dec.'20 (12%) coupled with credit downgrades.

CREDIT GROWTH OF MSME LENDING

The total on-balance sheet commercial lending exposure in India stood at ₹74.36 lakh crores in March'21, with YOY growth rate of 0.6%. MSME segment's credit exposure is ₹20.21 lakh crores as of March'21, showing YOY growth rate of 6.6% and this credit growth is observed across all the subsegments of MSME lending 1

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

	Very Small <₹10 Lakhs	Micro 1 ₹10-50 Lakhs	Micro 2 ₹50 Lakhs-1 Crores	Small ₹1-10 Crores	Medium 1 ₹10-25 Crores	Medium 2 ₹25-50 Crores	Large >₹50 Crores	Overall
Mar'19	0.86	2.18	1.49	7.44	3.65	22.96	54.10	72.68
Jun'19	0.86	2.14	1.47	7.38	3.58	2.88	53.77	72.09
Sep'19	0.88	2.20	1.50	7.42	3.58	2.87	53.27	71.72
Dec'19	0.92	2.25	1.52	7.54	3.61	2.86	53.39	72.10
Mar'20	0.96	2.31	1.56	7.64	3.65	2.85	54.93	73.88
Jun'20	0.94	2.27	1.52	7.51	3.65	2.85	55.06	73.81
Sep'20	0.93	2.34	1.59	7.84	3.73	2.91	50.33	69.65
Dec'20	0.97	2.37	1.61	7.95	3.80	2.94	52.06	71.70
Mar'21	1.02	2.47	1.67	7.15	3.88	3.00	54.15	74.36
Y-o-Y growth	6.3%	6.9%	7.1%	6.7%	6.3%	5.3%	-1.4%	0.6%

In FY 2021, the country disbursed loans worth ₹9.5 lakh crore to MSME sector, which is higher than preceding years of ₹6.8 lakh crore in FY 2020. This sharp jump in MSME lending in 2021 has been supported by Atmanirbhar Bharat scheme of ECLGS which provided 100% credit guarantee to lenders.

Exhibit 2: Disbursement Amounts (In ₹ Lakh Crore)

	Micro	Small	Medium	Overall
	< ₹ 1 Cr	₹ 1-10 Crs	₹ 10-50 Crs	
Apr. '19–June. '19	0.33	0.57	0.55	1.45
July '19–Sept. '19	0.42	0.65	0.61	1.69
Oct. '19–Dec. '19	0.42	0.68	0.62	1.72
Jan. '20–March '20	0.44	0.74	0.73	1.91
April '20–June '20	0.43	0.83	0.69	1.95
July '20–Sept. '20	0.58	1.09	1.00	2.67
Oct. '20–Dec. '20	0.52	0.97	0.92	2.41
Jan. '21–March '21	0.52	0.97	0.95	2.45

[1] Commercial loans classified on the basis of credit exposure aggregated at entity level, Very Small: <10L; Micro1: 10L-50L; Micro2: 50L-1Cr; Small: ≥1Cr >10Cr; Medium1: ≥ 10Cr >25Cr; Medium2: ≥ 25Cr >50Cr; Large ≥50Cr. Micro segment includes Very Small, Micro1 and Micro2 segments and Medium segment includes Medium1 and Medium2.

Trends in indexed volume of commercial credit enquiries suggest credit demand in the MSME sector is back to pre-COVID-19 levels. The sharp drop during April'20 and May'20 is due to the countrywide lockdown, and we see a similar trend during the second wave in April 2021. However, enquiries seem to be picking up since May'21.

Exhibit3: Indexed Credit Inquiry Volumes

Commercial Credit Inquiry Volumes
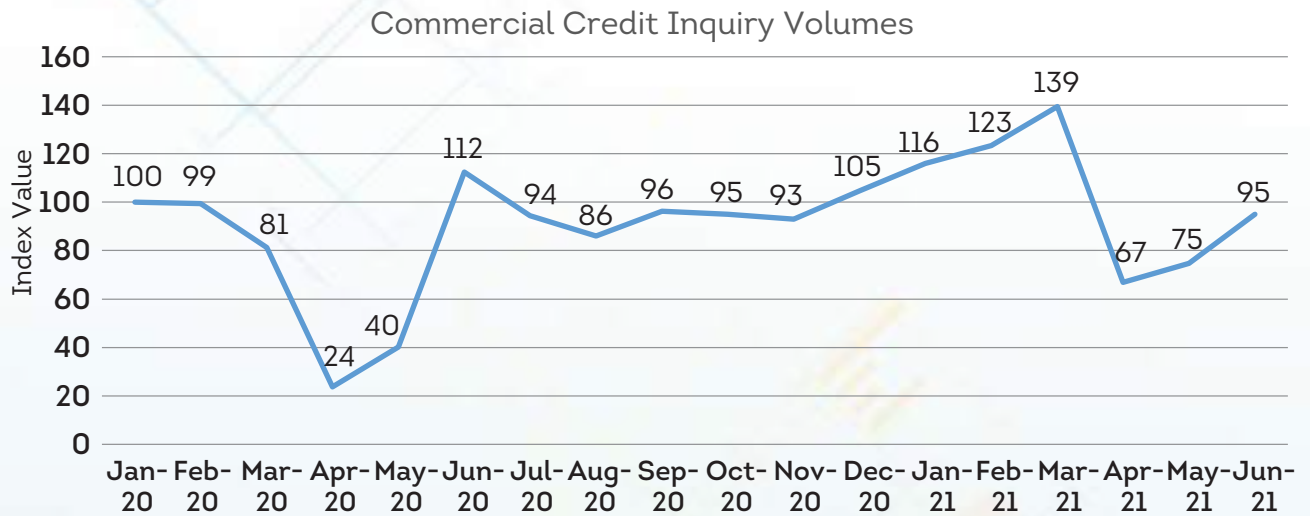
Since the launch of ECLGS, credit originations have seen an uptick. Compared to Jan.'20, which has been taken as the baseline for indexing, we see growth in credit originations have been strong since June'20.

Exhibit 4: Indexed Originations of MSME loans by amount

**Indexed MSME Originations Balances**
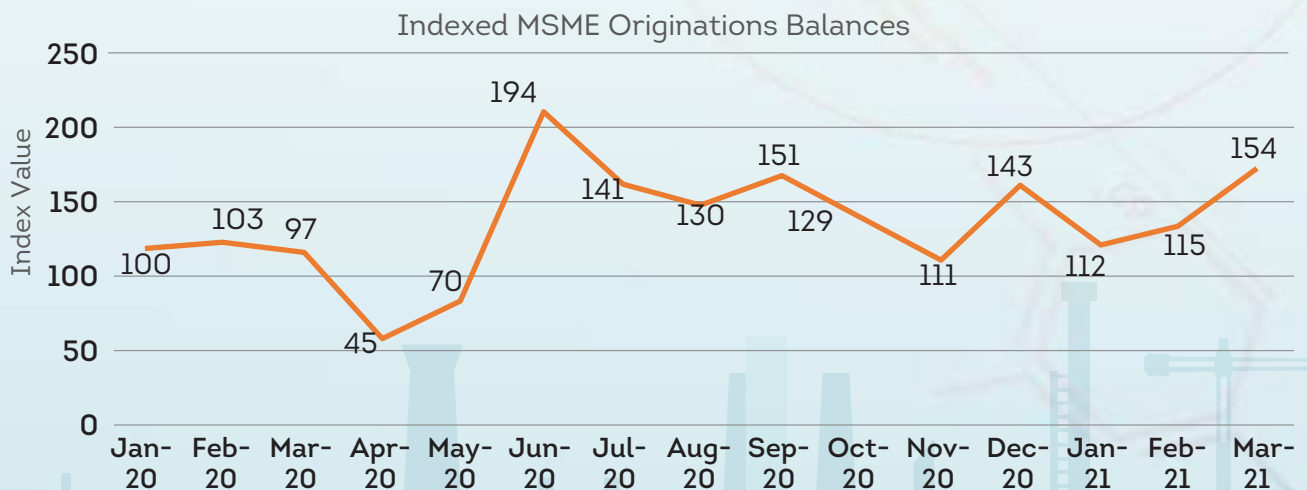
CREDIT ACTIVITY BY TYPE OF BORROWERS

Borrowers who were sanctioned loans are further classified based on their existing relationship with the lenders. Borrowers who had an existing commercial credit relationship with the lender are defined as Existing-to-Bank (ETB), Borrowers with no commercial credit relationship with the respective lender or any other lender are classified as New-to-Bank (NTB).

While a strong rebound was seen initially for ETB primarily because of the design of ECLGS scheme, over time we see NTB also picking up. Credit disbursals to NTB MSMEs had dropped by 90% for Apr'20 compared to pre-covid levels and has gradually returned to higher than pre-covid levels for Mar'21. Credit disbursals to ETB MSMEs jumped to more than double of pre-covid levels in June'20, due to ECLGS and since then has sustained pre-covid levels.
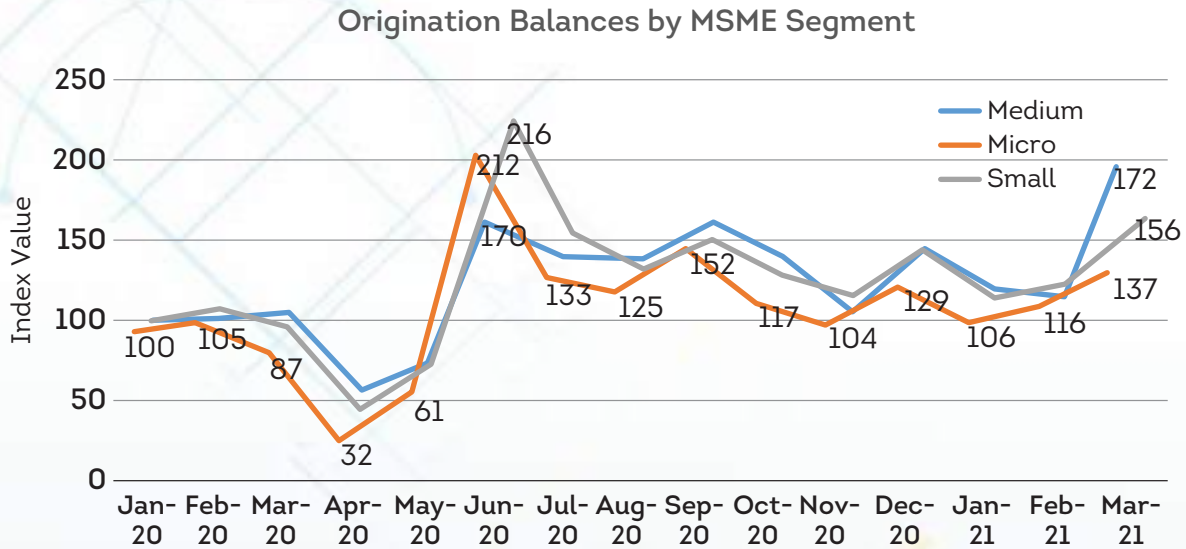
Exhibit 5: Indexed Origination Balances by Borrower Type

Origination Balances by Borrower Type
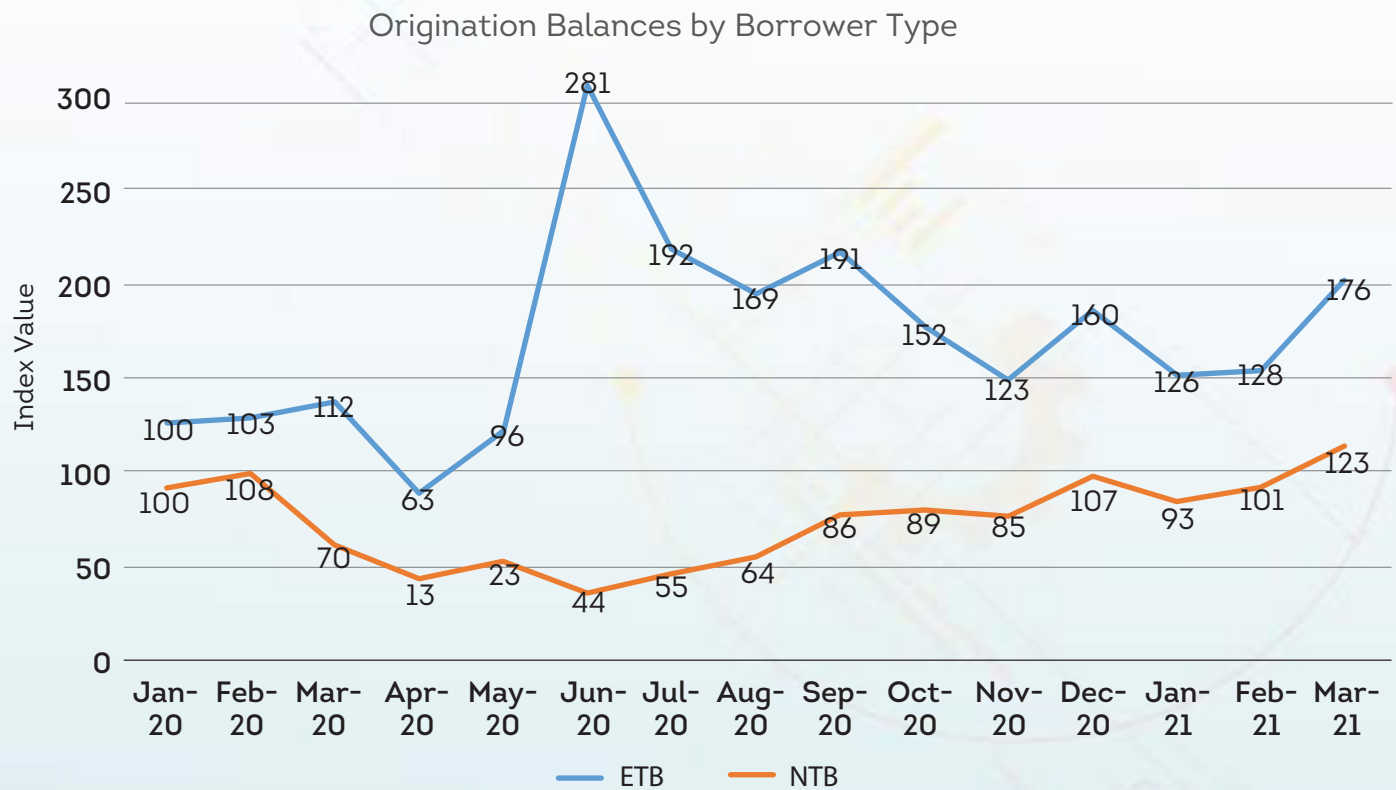
Looking at originations by size of the borrowers, we see that new originations in Micro segment, which was affected the most by nationwide lockdowns, have picked up and is higher than pre-COVID levels. Similar trends are seen for both Small and Medium segments of MSMEs.
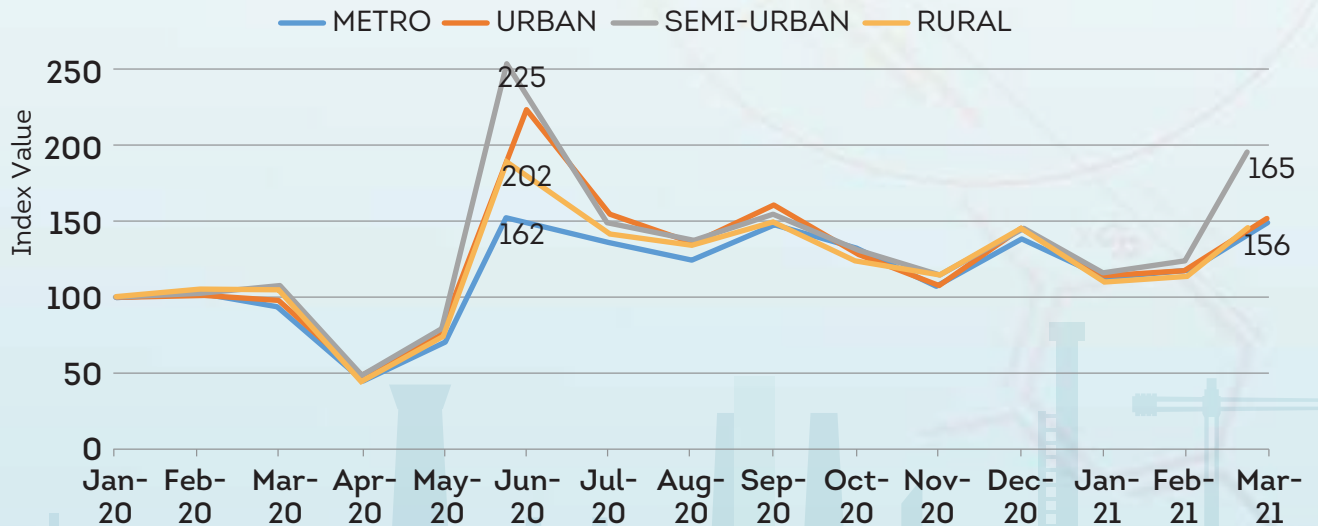
Exhibit 6: Indexed Origination Balances by MSME Segment

Origination Balances by MSME Segment

Legend: Medium, Micro, Small

Y-axis: Index Value (0 to 250)

X-axis: Jan-20, Feb-20, Mar-20, Apr-20, May-20, Jun-20, Jul-20, Aug-20, Sep-20, Oct-20, Nov-20, Dec-20, Jan-21, Feb-21, Mar-21

Data labels: 100, 105, 87, 32, 61, 212, 216, 170, 133, 125, 152, 117, 104, 129, 106, 116, 172, 156, 137

CREDIT ACTIVITY BY REGION

Diving further into geographies, the disbursal trends are similar in urban, semi-urban and rural regions which experienced sharper rise in disbursements in June'20 as compared to metro regions. But overall, all the regions benefitted from ECLGS intervention. In more recent months, all regions are showing signs of rebound and have crossed pre-COVID levels.

Exhibit 7: Region-wise Indexed Originations of MSME loans by amount

Legend: METRO, URBAN, SEMI-URBAN, RURAL

Y-axis: Index Value (0 to 250)

X-axis: Jan-20, Feb-20, Mar-20, Apr-20, May-20, Jun-20, Jul-20, Aug-20, Sep-20, Oct-20, Nov-20, Dec-20, Jan-21, Feb-21, Mar-21

Data labels: 225, 202, 162, 165, 156

CREDIT PERFORMANCE AND HEALTH CHECK

CIBIL MSME Rank (CMR) is a credit risk rank for MSMEs that predicts the probability of an MSME becoming NPA in the next 12 months. CMR is applicable to MSMEs with aggregate commercial borrowings up to INR 50 Crores. Currently more than 9 Million MSMEs are eligible for CIBIL MSME Rank. CMR standardizes the risk management process and enables objective lending decisions while reducing the turnaround time for underwriting. From a portfolio management perspective, CMR enables rules-based, bulk renewals and portfolio monitoring by observing the slippages in rank over a period of time.
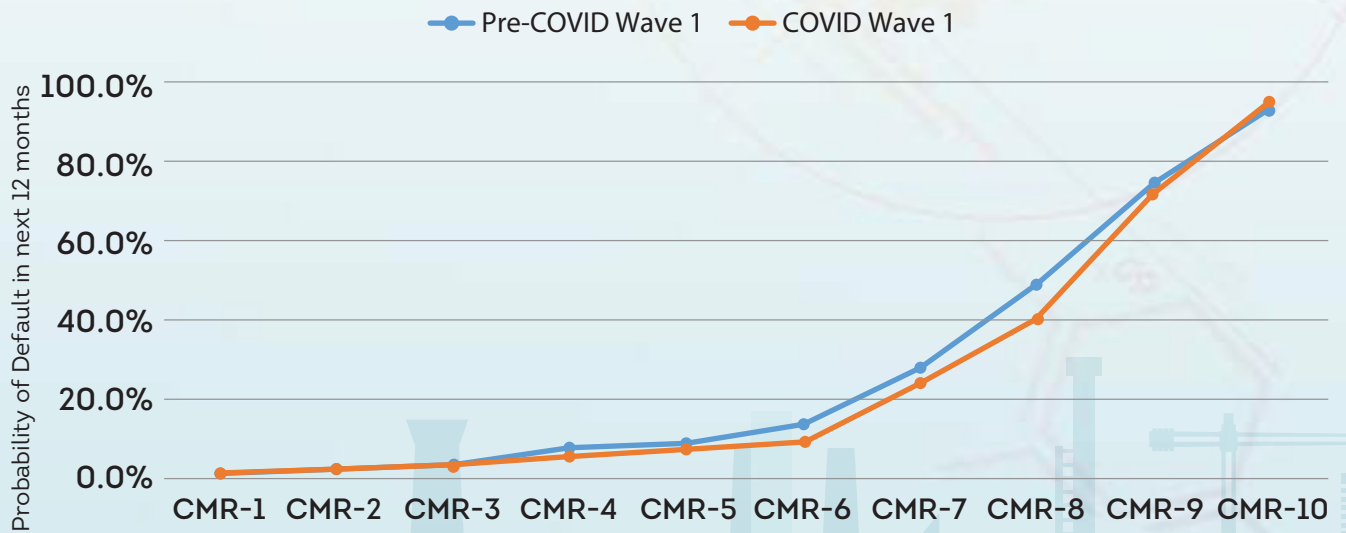
Exhibit 8: CIBIL MSME Rank Predictive Model
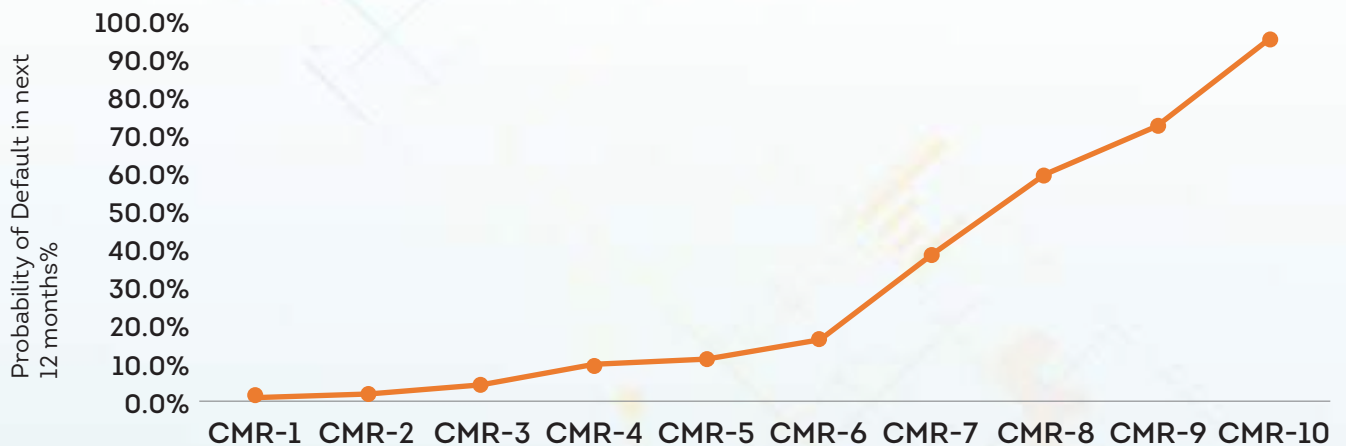
The past year has witnessed unprecedented turmoil in the economy through various cycles of lockdowns and unlock phases, as well as reduction in demand, job losses and economic degrowth. There were several regulatory measures during this period, including Atmanirbhar Bharat scheme of ECLGS, moratorium and guidelines for delinquency recognition – due to which all risk models needed to be closely monitored. CIBIL MSME Rank which has been extensively used by lenders since 2017 and has been able to distinguish good MSMEs from bad, was also examined closely during this period of stress. CMR's ability to differentiate risk among MSMEs continues to be strong amidst economic stress posed with COVID, as evidenced by the below PD curve which examines CMR rank differentiation pre and post COVID. For pre COVID, CMR Ranks of entities as of March'19 was mapped against the performance definition[2] of ever 90+dpd in the next 12 months. Post-COVID, CMR Ranks of entities as of March'20 were mapped against the performance definition of ever 90+dpd in the next 12 months.

[2]Performance is evaluated using the standard definition of 90+ ever in 12 months. Ever in the definition signifies that if an account touches 90+ dpd status at any point during the 12 months, it will be counted as "bad".

Exhibit 9: CIBIL MSME Rank Pre-COVID and Post-COVID Wave 1

Legend: Pre-COVID Wave 1 — COVID Wave 1

Y-axis: Probability of Default in next 12 months (0.0%, 20.0%, 40.0%, 60.0%, 80.0%, 100.0%)

X-axis: CMR-1, CMR-2, CMR-3, CMR-4, CMR-5, CMR-6, CMR-7, CMR-8, CMR-9, CMR-10

TRANSITION IN RISK PROFILE

CIBIL MSME Rank transition is monitored for borrowers over a one-year period starting March 20 to March'21, and transition is monitored for rank buckets of CMR 1-3, CMR 4-5, CMR 6-7 and CMR 8-10. It is observed that 32% of borrowers who were in CMR 1-3 in March '20 downgraded to lower rank buckets by March'21, and 21% of borrowers who were CMR 4-5 in March'20 upgraded to higher rank bucket by March'21.

Exhibit 10: Transition Matrix of CMR from Mar'20 to Mar'21

		CMR as of Mar'21				Downgrades	Upgrades
		CMR 1-3	CMR 4-5	CMR 6-7	CMR 8-10		
CMR as of March '20	**CMR 1-3**	68%	21%	7%	4%	32%	
	CMR 4-5	21%	53%	16%	10%	26%	21%
	CMR 6-7	6%	22%	57%	15%	15%	28%
	CMR 8-10	1%	3%	18%	78%		22%

A quarterly comparison view of CMR across risk buckets shows in the recent quarters, there's been an increase in downgrades across all buckets, thereby indicating risk build up. The downgrades are highest for CMR 1-3, followed by CMR 4-5.
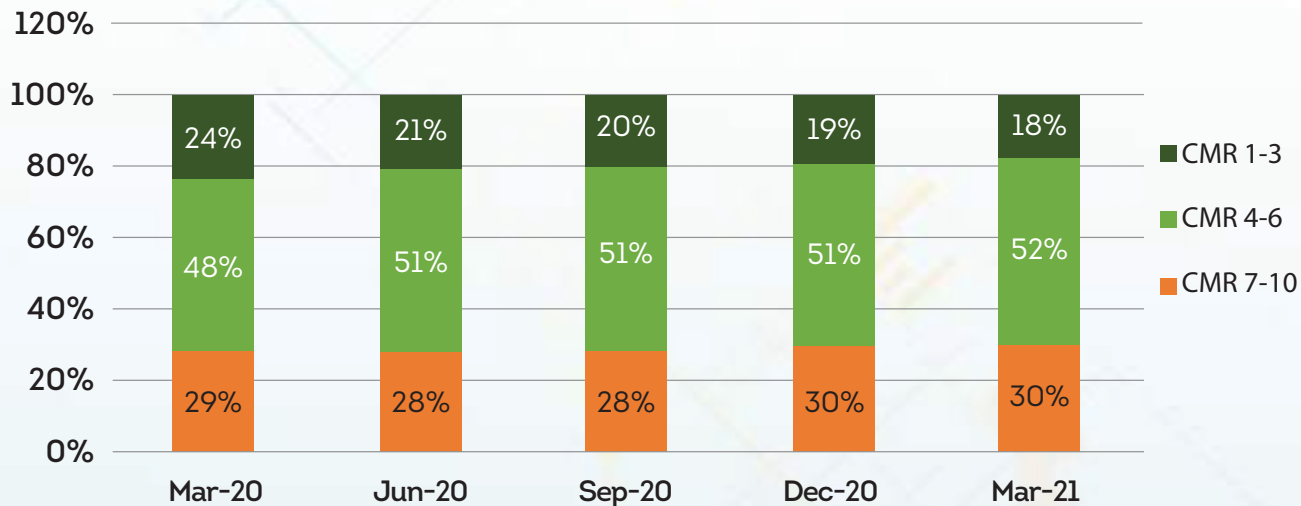
Exhibit 11: Downgrades for MSMEs by CMR

Downgrades for MSMEs by CMR

CMR 1-3 — CMR 4-5 — CMR 6-7
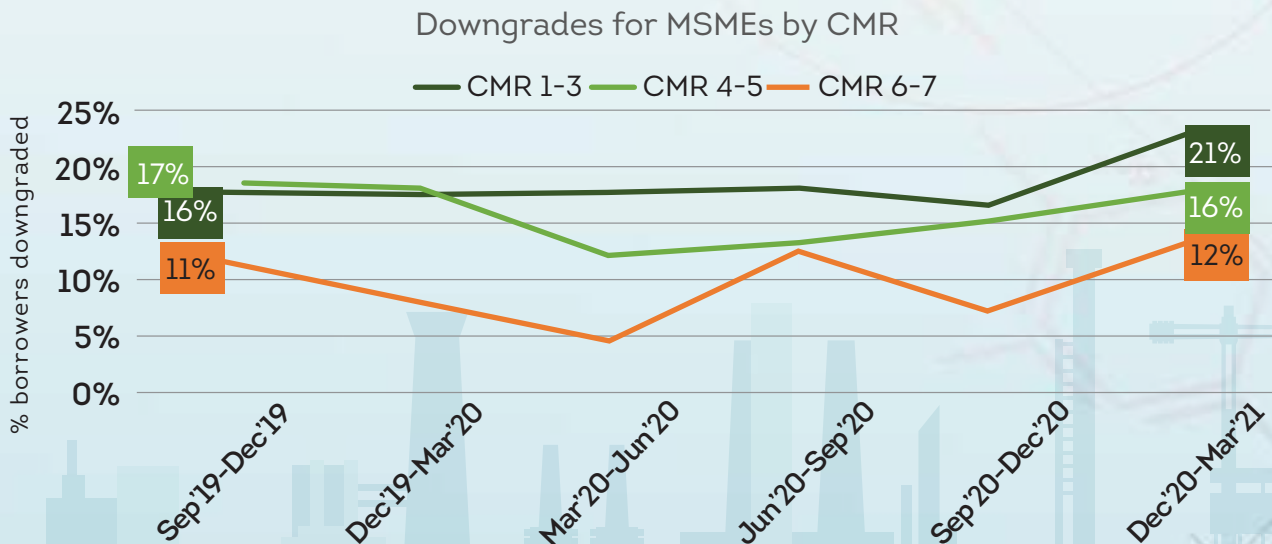
As a consequence, the pool of mid-risk borrowers has grown faster. As of March'21, 52% of borrowers are in the range of CMR 4–6 compared with 48% in March'20. The transition into mid- risk segment of CMR 4–6 has happened from low-risk segment of CMR 1–3. However, high-risk segment of CMR 7–10 is still stagnant at 30%.

Exhibit 12: Distribution of MSME portfolio by CMR

Distribution of Borrowers by CMR

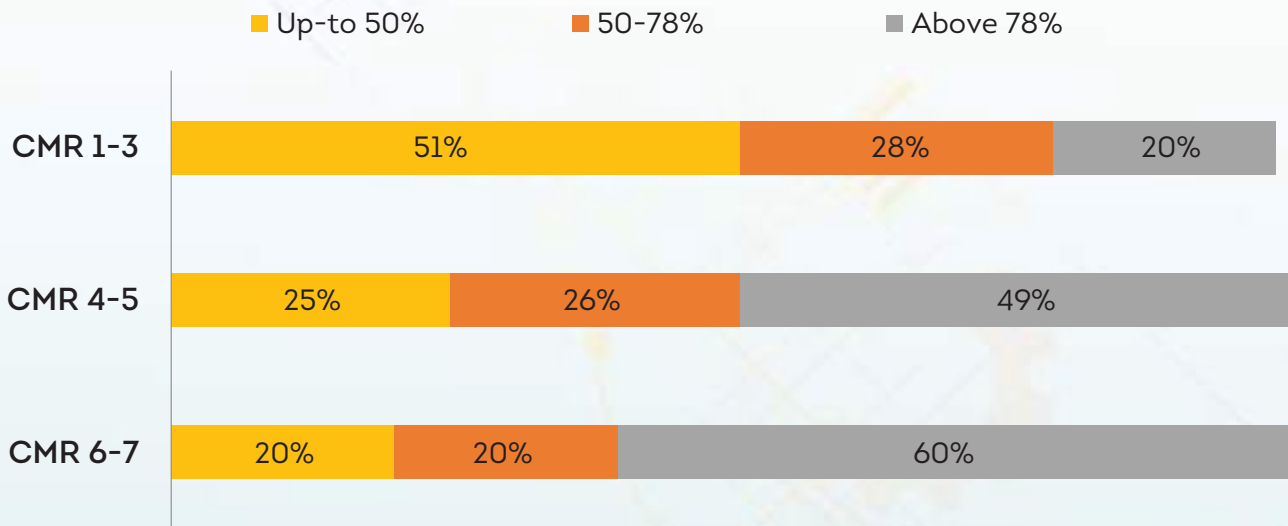|	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
CMR 1-3	24%	21%	20%	19%	18%
CMR 4-6	48%	51%	51%	51%	52%
CMR 7-10	29%	28%	28%	30%	30%

TRENDED ALGORITHM TO FURTHER DIFFERENTIATE GOOD BORROWERS

An accelerated increase in credit balances in the recent quarters - especially in the Medium Risk and High Risk segments make the case stronger for heightened portfolio monitoring. Trended utilization in credit balances for revolving credit facilities like cash credit and overdraft loan are analyzed over a period of 12 months using CreditVision® (CV) utilization algorithms. This enables further disaggregation of credit bureau data, and when used in conjunction with CMR, provides a sharper risk differentiation.
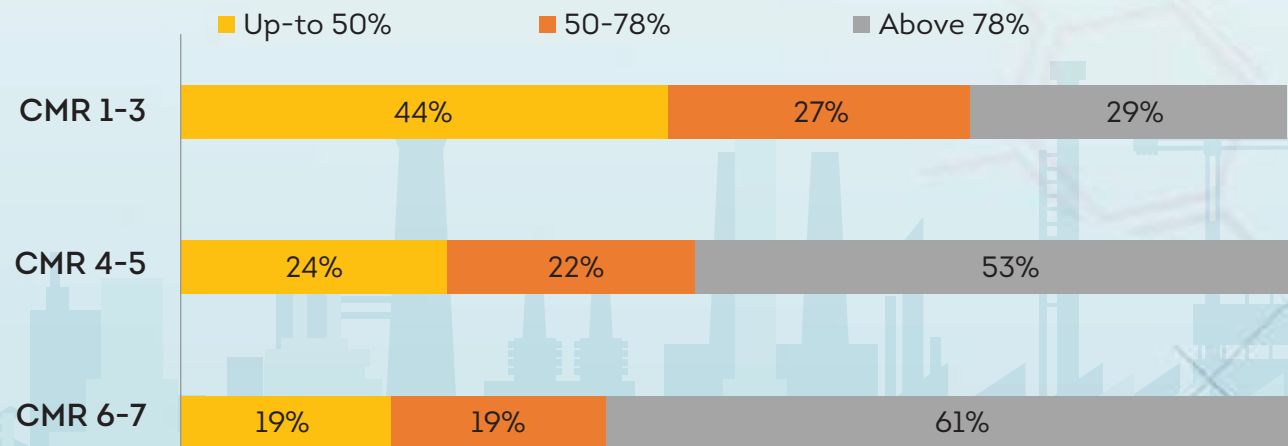
Split of utilization within the CIBIL MSME Ranks indicates the MSME entities in the highest utilization segment (>78% average Utilization) are just 20% of CMR 1–3 Rank borrowers, while the number reaches 60% in the CMR 6–7 Rank borrowers. Thus, using the trended utilization algorithm, it's possible to identify pockets of stress within the good ranks, as well as segment better borrowers amongst medium-risk borrowers.

Exhibit 13: Portfolio Level: Average Aggregate Utilization (Mar'21)

Legend: ■ Up-to 50%   ■ 50-78%   ■ Above 78%

	Up-to 50%	50-78%	Above 78%
CMR 1-3	51%	28%	20%
CMR 4-5	25%	26%	49%
CMR 6-7	20%	20%	60%

To assess the credit standing of borrowers pre- and post-COVID wave 1, comparing the average utilization levels of borrowers pre-wave 1 (March'20), a higher proportion of borrowers were in the higher utilization segment (>78% average utilization) in March '20. MSME utilization levels suggest going into wave 2, MSMEs are structurally stronger compared to wave 1.

Exhibit 14: Portfolio Level: Average Aggregate Utilization (Mar'20)

Legend: ■ Up-to 50%   ■ 50-78%   ■ Above 78%

	Up-to 50%	50-78%	Above 78%
CMR 1-3	44%	27%	29%
CMR 4-5	24%	22%	53%
CMR 6-7	19%	19%	61%

CMR and aggregate average revolving utilization of MSME entities is mapped and bad rate is observed. Bad rate is defined as ever 90+ Days Past Due (DPD) observed in the next 12 months. Using average revolving utilization as one of the risk differentiators, we can find relatively better borrowers in the same risk bucket. For the medium-risk MSMEs (CMR 4-5), entities with utilization less than 78% are reasonably steady, witnessing default rate of 8%, while in the same risk segment, entities with utilization more than 78% are showing 13% bad rate which is almost double. Same trend is observed for entities in CMR 6-7 where bad rate doubles when utilization is increased. This enables selection of low-risk borrowers even among CMR 4-7 segment borrowers.
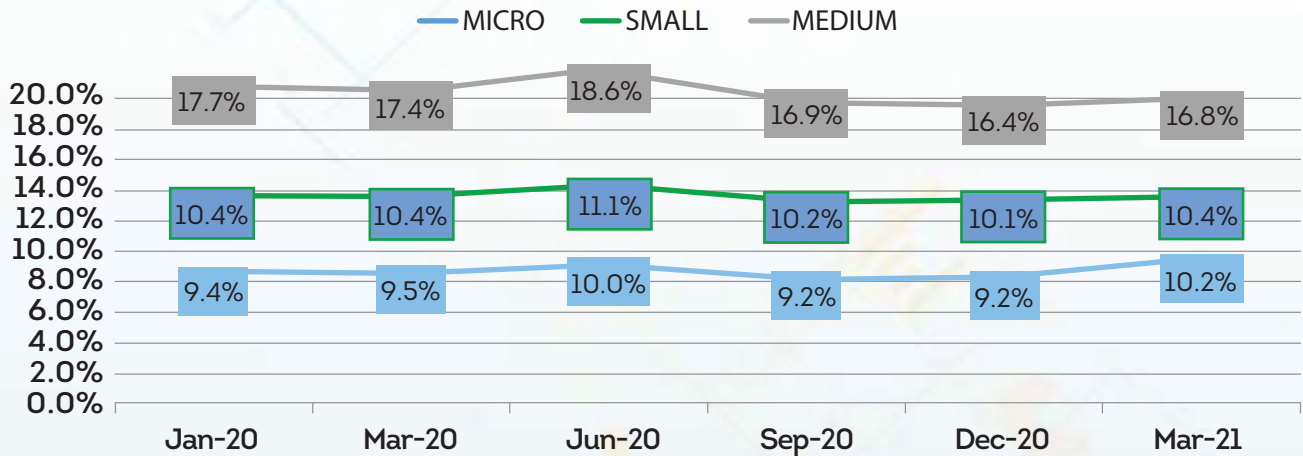
CreditVision attributes and algorithms provide additional insight into the CIBIL MSME Rank, and enables lenders to deep dive into the various dimensions of the borrower, thus enabling lenders to build custom policies around CMR.

Exhibit 15: Bad rate by CMR

Average Aggregate Utilization (12m)	CIBIL MSME Rank (CMR)				
	CMR 1-3	CMR 4-5	CMR 6-7	CMR 8-10	Overall
Up-to 50%	3%	7%	11%	68%	12%
50-78%	3%	8%	12%	69%	15%
Above 78%	4%	13%	24%	81%	21%
Overall	3%	10%	19%	77%	15%

The overall NPA rate in MSME lending remained stable till June'20, and reduced across all subsegments in Sept.'20. It remains stable for Small and Medium segments till March'21. Within the MSME subsegments, the NPA rates are higher for subsegments with larger ticket sizes. There is again an increase in NPA rate in March'21 over Dec.'20 for Micro segment. Reduction in NPA rates across subsegments is driven by high credit supply since ECLGS. The NPA rates may be subject to change as regulatory/legal guidelines emerge.
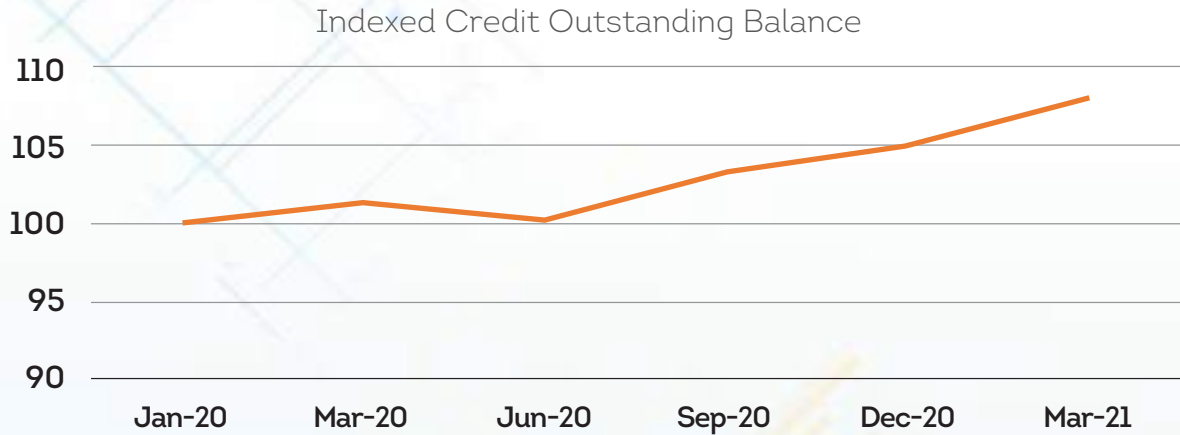
Exhibit 16: Segment-Wise NPA Rate

	MICRO	SMALL	MEDIUM
Jan-20	9.4%	10.4%	17.7%
Mar-20	9.5%	10.4%	17.4%
Jun-20	10.0%	11.1%	18.6%
Sep-20	9.2%	10.2%	16.9%
Dec-20	9.2%	10.1%	16.4%
Mar-21	10.2%	10.4%	16.8%

SHIFTS IN LENDER DRIVEN STRATEGIES
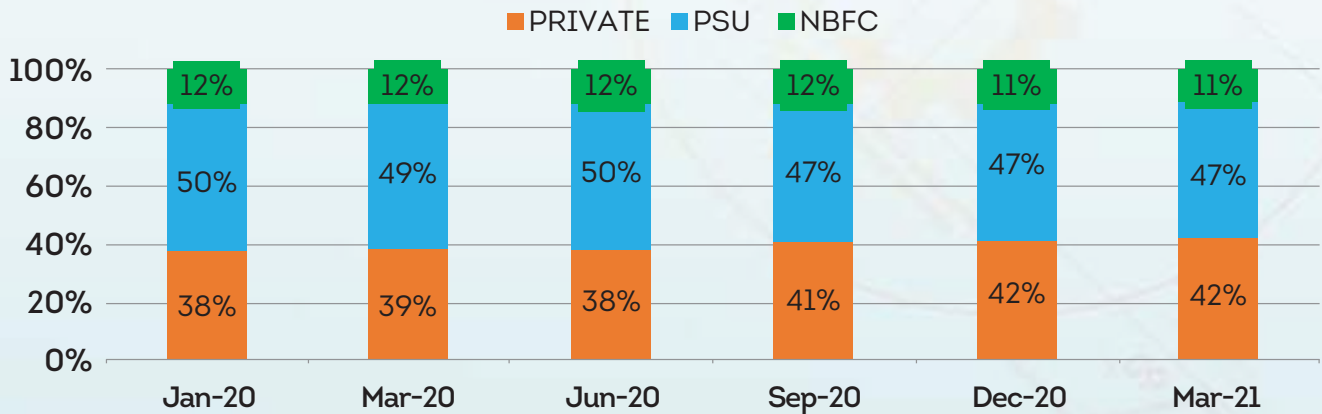
Growth in outstanding balances have been increasing steadily post June 2020.

Exhibit 17: Indexed Credit Outstanding Balances

Indexed Credit Outstanding Balance

Private banks have gained a couple of percentage points in market share at the expense of PSUs. The same for NBFCs has remained more or less constant.

Exhibit 18: Proportionate share across lenders - New Originations

■ PRIVATE ■ PSU ■ NBFC

|	Jan-20	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
NBFC	12%	12%	12%	12%	11%	11%
PSU	50%	49%	50%	47%	47%	47%
PRIVATE	38%	39%	38%	41%	42%	42%

*Other lenders who have been excluded in the market share analysis

SHIFT IN AVERAGE TICKET SIZE OF LOANS

ETB average loan size declined in the period from March to September 2020, post which it has started trending back to pre-COVID levels. NTB segment has seen a declining trend in average ticket sizes.

Exhibit 19: Average Loan Size by Borrower Type - New Originations

Average Loan Size by Borrower Type — ETB, NTB
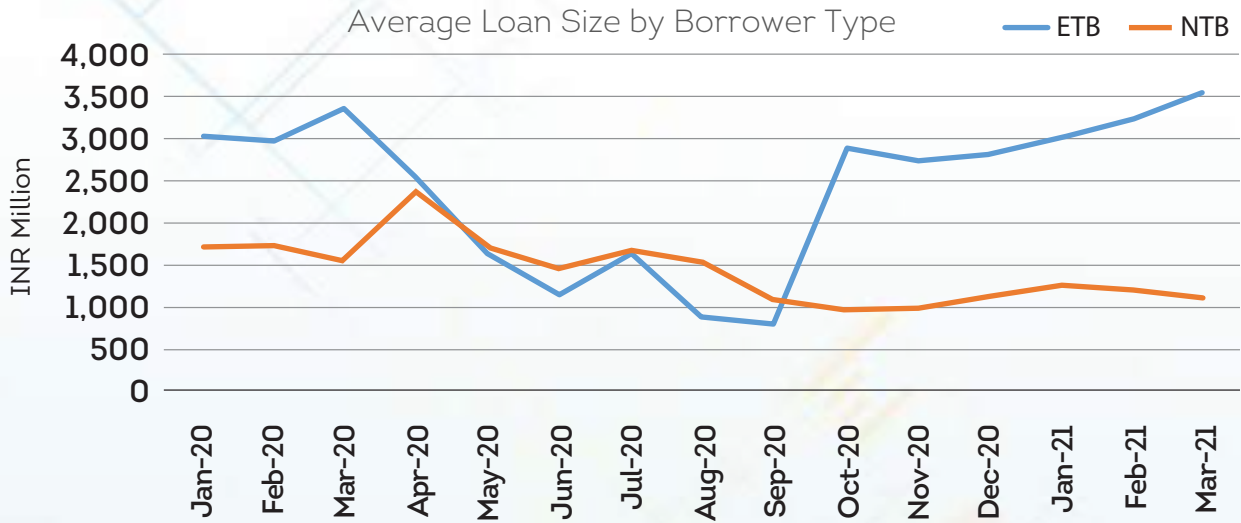
The average ticket size for MSME loan originations has reduced for all lender groups. Even though private banks and NBFCs are gradually returning to pre-COVID 19 ticket sizes, public sector banks continue to maintain low ticket sizes.

*Exhibit 20: Average Loan Size by Borrower Type – New Originations*

Average Loan Size by Borrower Type — PSU, PVT, NBFC
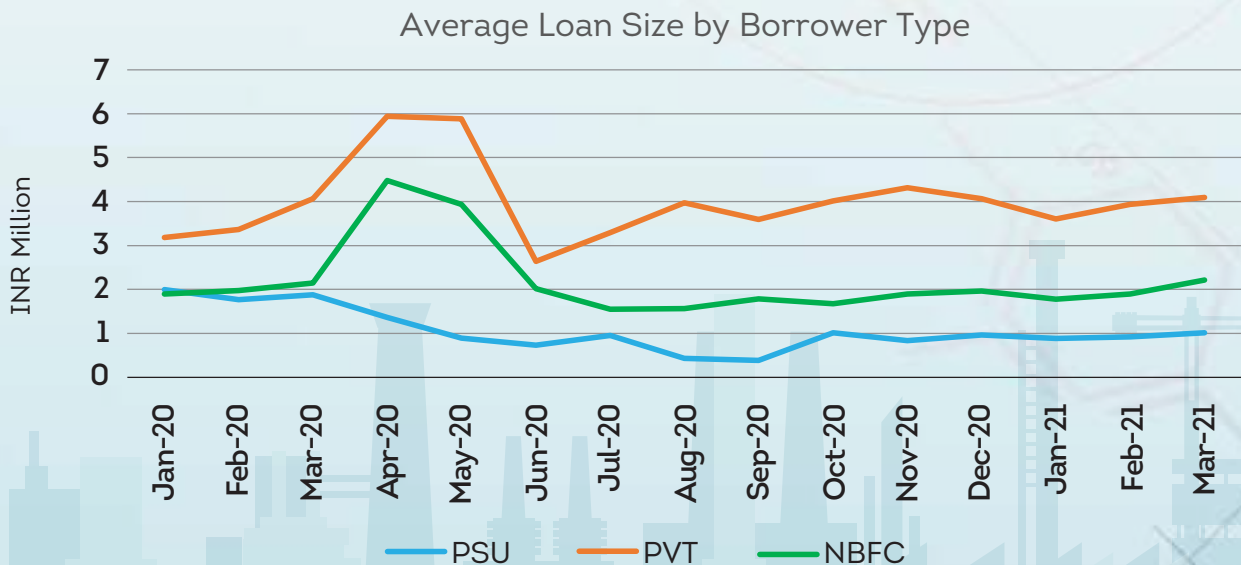
Second, approval rates have increased across all lenders with the backing of 100% credit guarantee of ECLGS. Though after the initial spike in approval rates of June'20, private banks and NBFCs are gradually returning to pre-COVID 19 levels.

Exhibit 21: Indexed Approval Rate by Lender Category

Indexed Approval Rate by Lender Category
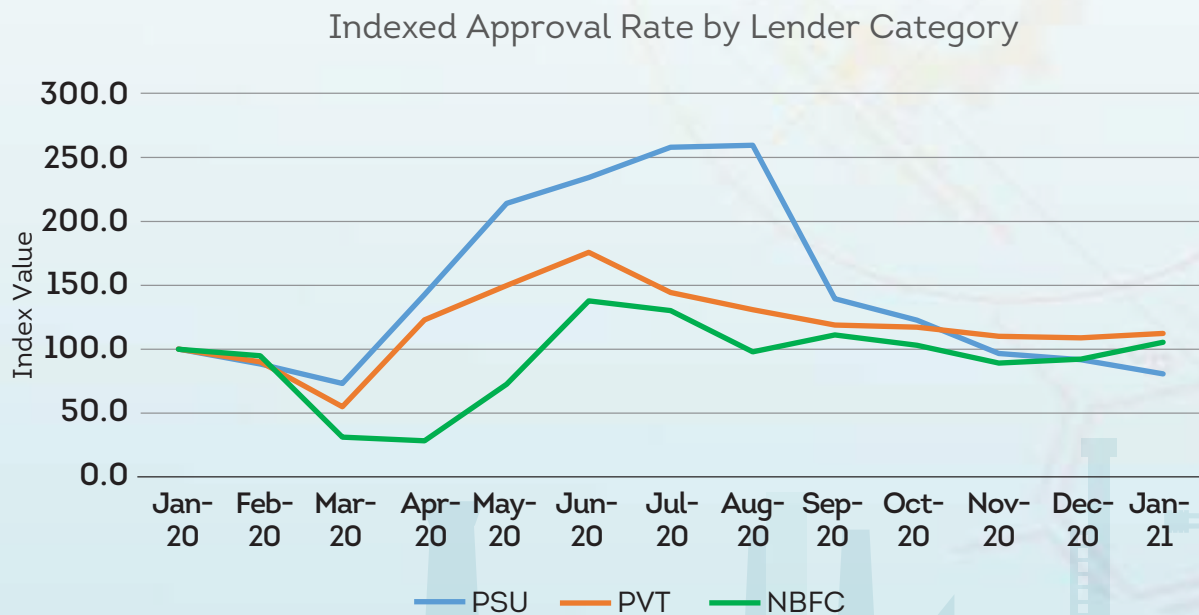
Approval rates for private sector banks are back to pre-COVID levels after the spike in April–August 2020 due to ECLGS. Same for NBFCs post the initial slump during March–April 2020. Public sector banks saw the highest relative surge in approval rates and are now on a declining trend.

Exhibit 22: Indexed Origination Balances by Lender Category

Indexed Origination Balances by Lender Category
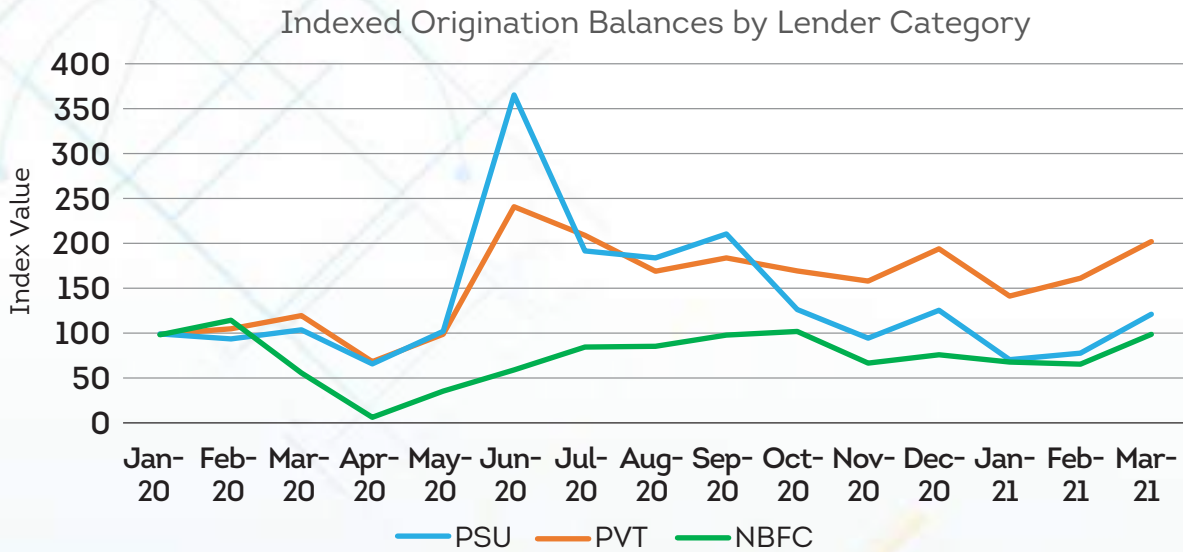
After the decline in the last quarter of 2020, there's been steady growth in origination balances for all lenders – back to pre-COVID levels in March 2021.

Exhibit 23: Indexed Commercial Credit Inquiries by Lender Category

Indexed Commercial Credit Inquiries by Lender Category
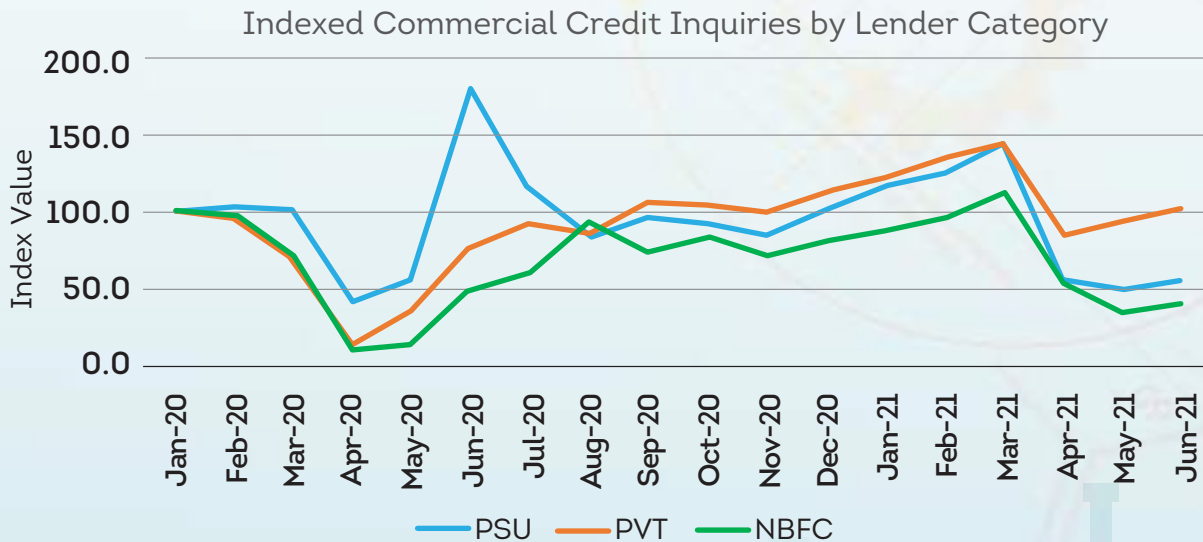
All lender types have seen a steady increase in inquiry growth and have crossed pre-pandemic volumes.
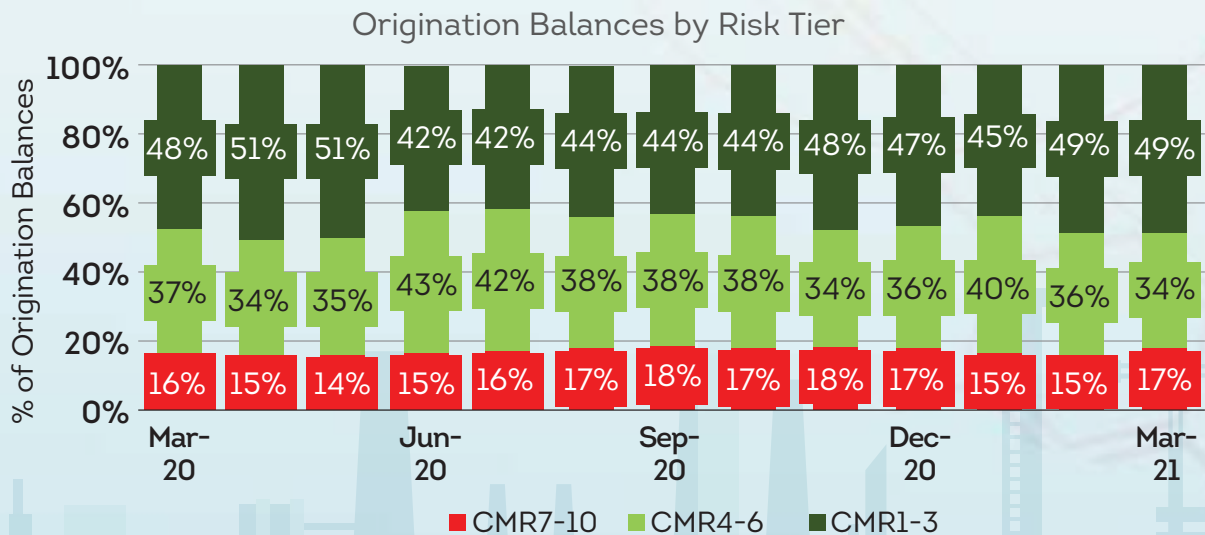
The highest beneficiary of high approval rates are high-risk segment MSMEs with CMR 7–10 followed by CMR1–3. Their approval rates jumped over two times their pre-COVID-19 levels in June'20. Since then, approval rates have dropped steadily.

Exhibit 24: Indexed Approval Rate by Risk Tier

Indexed Origination Balances by Lender Category
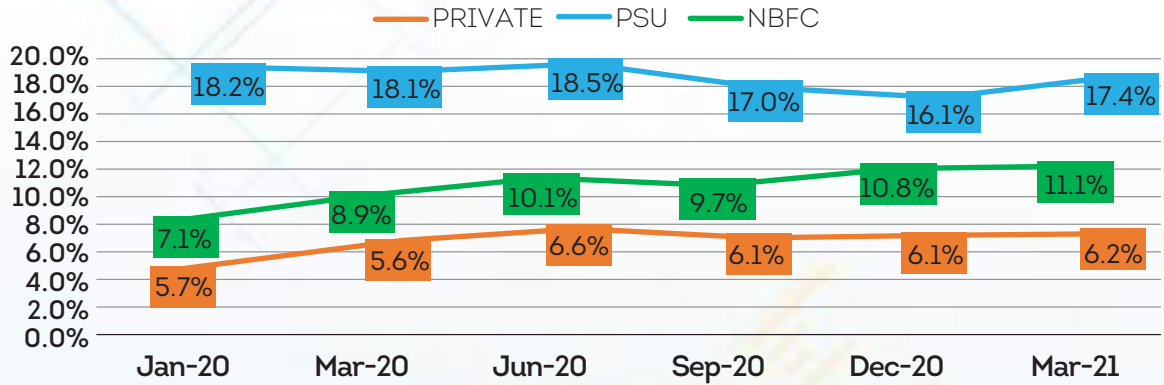

Legend: CMR1-3, CMR4-6, CMR7-10
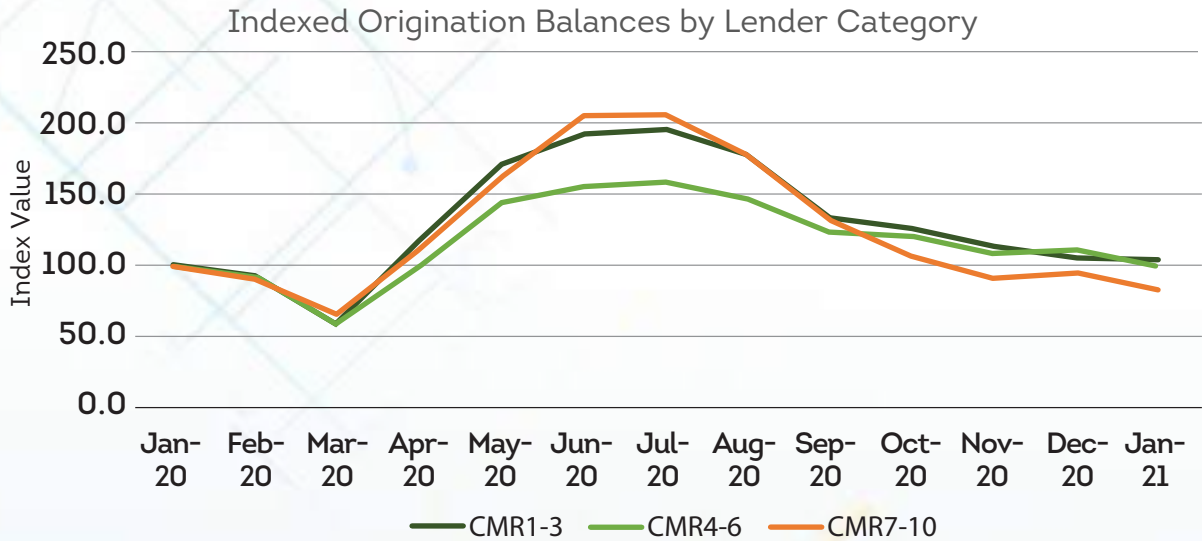
As a result, despite a temporary scaling during the peak of pandemic, risk appetite has returned to pre-pandemic levels. The originations share by CMR show that share of high-risk segment CMR 7–10 dropped, and low-risk segment CMR 1–3 increased in the initial period of pandemic. But now, the originations distribution by CMR is similar to that of the pre-COVID-19 levels.

Exhibit 25: Originations distribution of MSMEs by CMR

Origination Balances by Risk Tier

Month	CMR7-10	CMR4-6	CMR1-3
Mar-20	16%	37%	48%
	15%	34%	51%
	14%	35%	51%
Jun-20	15%	43%	42%
	16%	42%	42%
	17%	38%	44%
Sep-20	18%	38%	44%
	17%	38%	44%
	18%	34%	48%
Dec-20	17%	36%	47%
	15%	40%	45%
	15%	36%	49%
Mar-21	17%	34%	49%

NPAs in MSME segment have increased for all lenders in March'21 compared to Dec.'20. NPA rates of private banks have been quite stable from Sept.'20 till March'21. The NPA rates of public sector banks have reduced to 16.1% in Dec.'20 from 17.0% in Sept.'20, and again increased to 17.4% in March'21. NBFCs have shown steady growth in NPA rates from Sept.'20 to March'21. One of the reasons for an increase in NPA rates of NBFCs is their most pronounced slowdown in MSME credit growth.

Exhibit 26: NPA Rates of lender group in MSME Segment

Legend: PRIVATE, PSU, NBFC

|	Jan-20	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
PSU	18.2%	18.1%	18.5%	17.0%	16.1%	17.4%
NBFC	7.1%	8.9%	10.1%	9.7%	10.8%	11.1%
PRIVATE	5.7%	5.6%	6.6%	6.1%	6.1%	6.2%

NEW NORMAL: BORROWER PROFILE OF ORIGINATIONS POST-COVID

An analysis of borrower profiles of entities getting funded post-COVID wave 1 compared to entities getting funded pre-COVID wave 1 was carried out to understand whether there are any significant differences. Only working capital and term loan new originations were taken into consideration – all renewals, as well as GECL Loans (Top up Loans under ECLGS), were excluded. Since credit characteristics of borrowers is analyzed, all new to credit originations are excluded from the analysis. Sanctions between ₹.1 Lakh to ₹.1 Crore were considered for this analysis. Time period considered is originations from Jan'21 to March'21 for post-COVID wave 1, and originations from Jan.'20 to March'20 for pre-COVID wave 1. The time period of Jan–March'21 was chosen because this is when normalcy was restored post the various stages of lockdown-unlock and when regulatory interventions were also reduced.

CREDIT CHARACTERISTICS PRE AND POST-COVID: CIBIL MSME RANK

*Exhibit 27: CIBIL MSME Rank of New Originations pre and post COVID Wave 1.*
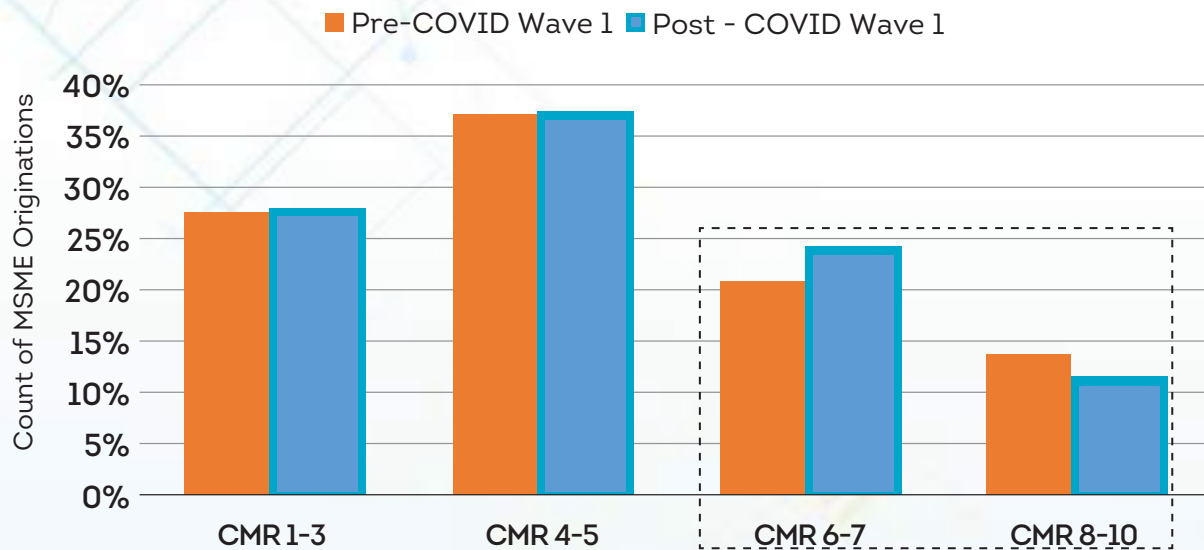
Post-COVID wave 1, there's a reduction in new originations on high-risk MSME entities (CMR 8–10). This reduction is offset by an increase in originations in CMR 6–7, implying lenders have reduced risk appetite in the current uncertain environment. Also, the proportion of borrowers getting funded in CMR 1–5 is the same, which demonstrates the ability of CMR to risk differentiate good entities, as well as the fact that structurally strong borrowers continue to get credit.

CREDIT CHARACTERISTICS PRE AND POST-COVID: MISSED PAYMENTS

Exhibit 28: Missed Payments Ratio of Entities with new originations

CreditVision algorithm missed payments captures the payment behavior of MSMEs across their outstanding obligations. Missed payments ratio algorithm for this analysis captures the 12-month missed payment behavior of the entity and helps lenders understand their past payment record.
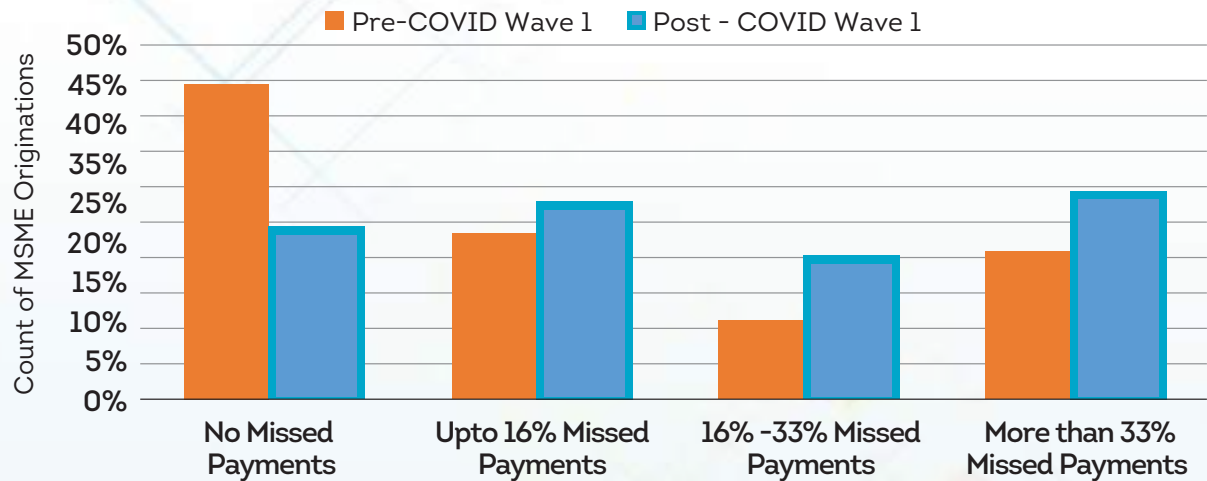

29% of the borrowers from MSME lending in Jan to Mar'21, have missed more than 33% of the payments due i.e. one payment out of every three payments due in the last twelve months. The same proportion for Jan'20 to march'20 was at 21%. This indicates increasing acceptance of lenders to fund MSMEs with missed payments. The number of MSME entities with clean payment record has significantly reduced post-COVID wave 1, and going forward, this would be a key indicator to understanding the stress levels of MSMEs.

CREDIT CHARACTERISTICS PRE AND POST-COVID: UTILIZATION

CreditVision Algorithm Utilization captures the utilization behavior of MSME entities across revolving credit facilities like cash credit and overdraft loan over a period of 12 months.

Exhibit 29: Average Utilization of Entities with new originations pre and post COVID Wave 1

■ Pre-COVID Wave 1 ■ Post - COVID Wave 1
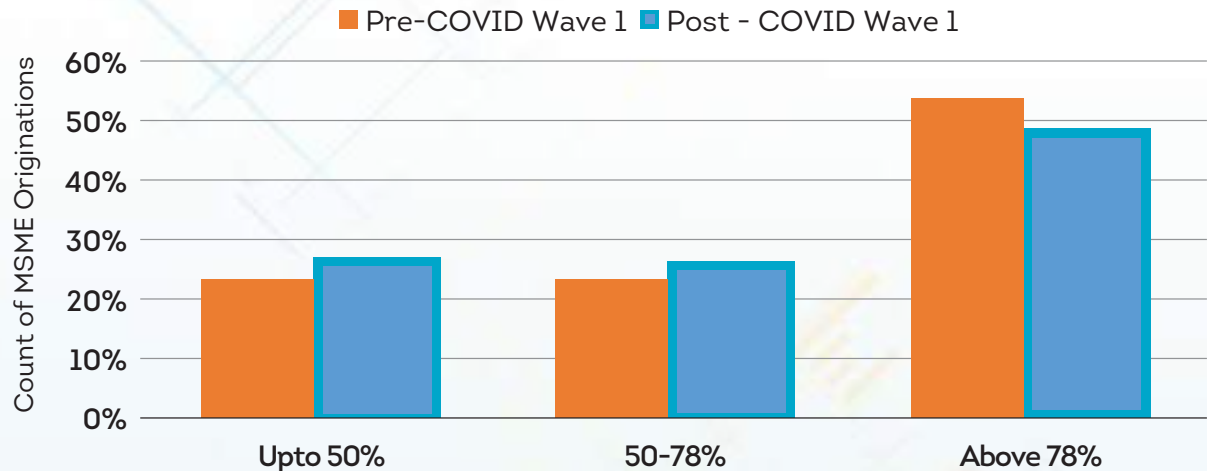
Of lending to MSMEs from Jan. to March '21, 48% was to borrowers who have aggregate utilization levels of more than 78% in last 12 months; the same proportion for Jan. '20 to March'20 was 54%. This indicates a significant proportion of new loan originations were for growth and not for stress.

Trended algorithms like missed payments and utilization help capture credit behavior of MSMEs at a more granular level. This enables lenders to achieve additional risk differentiation so they can further sharpen their credit policies and portfolio management frameworks to find and fund good MSME entities.