Financial Foresights

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Evolving Contours of MSME Lending in India

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About FICCI

FICCI is the voice of India's business and industry. Established in 1927, it is India's oldest and largest apex business organization. FICCI is in the forefront in articulating the views and concerns of industry. It services its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 2,50,000 companies.

Disclaimer

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Industry Insights

The Changing Landscape of MSME Financing in India

Ramesh Bawa
MD & CEO
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As India aspires to become a developed super-economy, the transformation of MSME sector remain a prerequisite. Indian MSMEs contribute 8 percent to National GDP, 45 percent to manufacturing output, 40 percent to exports, and provide employment opportunities which are second only to agriculture sector. Some of the macroeconomic surveys suggest that the next impetus for growth in India's economy will come from micro, small, medium-size enterprises (MSMEs and startups.

The MSMEs have tremendous potential to be an important source of employment and entrepreneurship. However, lack of adequate access to finance has remained the biggest hindrance for MSMEs to grow, compete, and create jobs. A recent study reveals that a large majority of MSMEs do not have access to finance and were self-financed. The reasons are numerous – insufficient operating information, financial illiteracy of small enterprise owners, small ticket size of loans, among others, this has resulted in large number of MSMEs grappling with shortage of funds.

Fintechs to boost MSMEs

The fintech companies are fast emerging as 'one-stop shop' for all financial needs of small enterprises. The technological innovations have transformed the entire financial services value chain. In addition, the usage of behavioural and psychometric information and social media traces has equipped several fintech companies and non-banking financial institutions in addressing the funding requirements for micro, small and medium enterprises in the country.

The fintechs are making inroads into financial services industry as innovator and enabler, robust enough to carry the risk of loans and recoveries. The innovative business models have enabled them to emerge as a catalyst for growth for MSMEs. The fintechs are helping MSMEs to become more bankable and independent by removing major obstacles like quick access to fi ance. The fintechs lenders free from regulatory and legacy baggage are gaining competitive edge over traditional banks.

The online lending platforms are witnessing several new entrants in the market offering novel financial products to MSMEs. The fintechs have paved a hassle-free route to efficient and customised credit products for MSMEs. The impact of fintech companies' proficien lending processes can be measured in several tangible aspects. These include short-term online loan offering, quick loan disbursal, competitive interest rates, ease of securing small ticket loans, and low cost of transaction.

The fintech lending in India is at nascent stage compared to global counterparts, though it is poised for enormous expansion. The details are self-explanatory – the MSMEs and active start-up ecosystem is in constant need of credit, while banks are unable to meet this growing demand owing to reasons like high transactional cost and old business models. The need of the hour is to innovate products for mass market, and address challenges such as lack of financial and digital literacy and restrictive policy measures.

Innovation in financial products

The debt financing for early-stage companies is virtually non-existent, while MSMEs also lack mezzanine risk capital products. The lack of debt financing options for small and medium entrepreneurs has meant that businesses grow slower and are less able to take advantage of economic opportunities. Another example where traditional bank lending hasn't catered well to small businesses is lack of franchising financing frameworks. A strong emphasis should be laid to support and develop innovative financial products and franchisees

MSME lending is a costly affair for financiers because the processing of each application calls for intensive fieldwork and high levels of scrutiny, making the market under-penetrated. Nearly 50 percent of total application processing time is taken up in collecting the required documents. Therefore, one can witness an inherent aversion to formal financial services such as banks and online lending platforms on the part of small businesses. Hence, it's imperative to increase digital awareness among the MSMEs.

The crucial role of PSU banks

As per the policy package announced by the government for stepping up credit to MSMEs, the public sector banks will facilitate specialized MSME branches in identified clusters/ centres where there's strong dominance of small enterprises. This endeavor will enable entrepreneurs to have easy access to the bank credit. The public sector banks are being advised to open at least one specialized branch in each district for providing better service to MSMEs as a whole.

The cluster-based approach to MSME lending is intended to meet diverse needs of the sector. This can be achieved through extending banking services to recognized MSE clusters. A cluster-based approach may be more beneficial in dealing with well-defined and recognized groups. In this approach availability of appropriate information for risk assessment and monitoring by lending institutions can also be achieved. Hence, it's important to ensure that PSU banks provide adequate lending facilities to MSMEs for their business expansion and working capital needs.

United Nations Industrial Development Organisation (UNIDO) has identified 388 clusters spread over 21 states in various parts of the country. The Ministry of Micro, Small and Medium Enterprises has also approved a list of clusters under the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) and Micro and Small Enterprises Cluster Development Programme (MSE-CDP) located in 121 minority concentration districts. The PSU banks are being recommended to increase thrust on MSME financing and take appropriate measures to improve credit flow to identified cluster

Credit rating for MSMEs

The credit rating of MSMEs by reputed credit rating agencies should be encouraged. This will facilitate credit flow to MSMEs and enhance comfort-level of lending institutions. The banks are recommended to consider these ratings earnestly while assessing rate of interest for lending to MSMEs. It has been observed that a majority of MSMEs are not aware about credit ratings, hence it's important that an awareness drive be regularly conducted for owners of small and medium enterprises.

The regulators in developed nations such as United Kingdom and United States have been proactive in allowing fintech companies to grow and challenge the traditional players. It's important to encourage an atmosphere in which innovation in financial services and products is predominant, this will immensely benefit MSMEs. The government as well as the Reserve Bank of India have put in place a host of enablers to facilitate digital lending in India. The initiatives include payment bank licences, Aadhar, e-KYC, e-Signetc, among others. All of these are meant to create favorable environment, which would foster application, assessment and ultimately enablement of digital lending along with other traditional sources of lending to various sectors of economy including MSMEs. ■

__Ramesh Bawa__ has rich experience of around three decades in the Banking and Financial Services Sector. He has built up a strong and effectual relationship and has a large network of business association with Banks/ Financial Institutions / Insurance Companies both domestically and internationally. Mr Bawa had worked with organizations like Syndicate Bank and National Housing Bank. In 1995, he joined IL&FS Group and at IL&FS he went on to hold various senior positions. Then, in October 2006, he became the Managing Director and the Chief Executive Office of IL&FS Financial Services Ltd and recently in May 2015 he has also been entrusted with the responsibility of Managing Director of IL&FS Investment Managers Limited, a Private Equity arm of IL&FS Group. He is also on the Board of several IL&FS Group companies which are related to the financia service and infrastructure sector.

He holds a Post Graduation Degree in Personnel Management & Industrial Relationship and also a Masters Degree in Political Science.

He is Member of BRICS Business Council Working Group on Financial Services (FSWG) from India and Member – FICCI National Committee on NBFCs since May, 2017.

Under his leadership and able guidance, the Company has received a number of awards under various categories from time to time. Mr Bawa's contribution to the financia sector has been stupendous and he has also been recognized and honored with various accolades from the leading and prominent awardee Institutions. To name a few, 'Visionary & Role Model CEO' and most recently one of the 'Most Promising Business Leaders of Asia' 2017 by the Economic Times.

TReDing a New Path to MSME Finances

Kalyan Basu
MD & CEO
A.TREDS Ltd.

Delayed payments and working capital crunch are words which any MSME owner lives with. Limited financial resources (credit history and collateral) forces MSMEs to take loans from informal sources. These informal sources which are friends, family members, chit funds, money lenders extend loans at rates as high as 26% to 35%. Such high rate of interest leads to further deterioration in financial health of the MSMEs and severely constraints their growth.

With Government making an all-out effort to ensure ease of business and a thriving fintech sector, MSMEs now have many new avenues to seek working capital loans such as NBFCs, P2P lenders and TReDS (Trade Receivables Discounting System) platforms, etc. These new age lending mechanisms use alternate data points to create a credit history and appraise financing parameters with a new approach. We are witnessing a slow but steady movement from traditional balance sheet based financing to flow base financing with completely new set of data points for appraising and approving credit applications

This article is aimed at introducing TreDS, a model which has the potential to transform MSME Financing.

TReDS is a new concept in India and was introduced by RBI based on the report of the Raghuram Rajan Committee on Financial Sector Reforms in 2008. The RBI appointed a working group which submitted its report in November 2009 based on which the concept paper was floated in 2014. This was followed up with the draft and the final guidelines in December 2015. At present there are three operating platforms under the License of RBI.

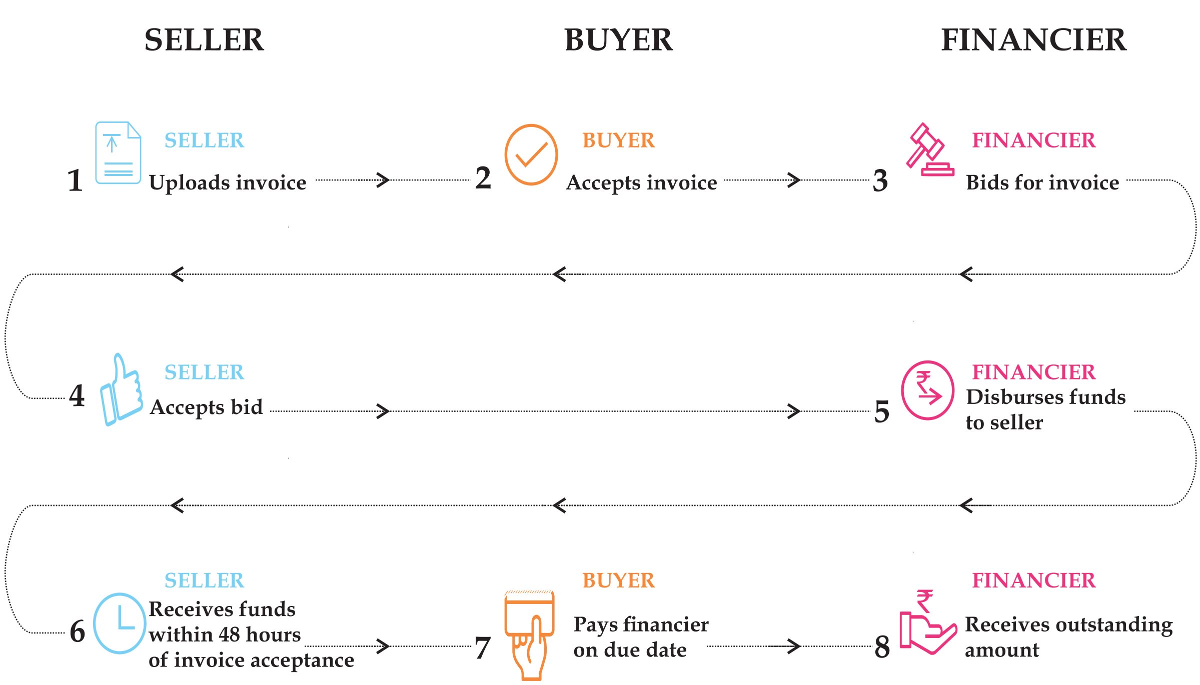
TReDS is an electronic platform that allows a transparent and online Factoring of receivables through a bidding process. This process is commonly known as bill discounting, where a financier, typically a bank or a factoring company , buys a bill (Invoice) from the seller of goods before it's due for payment or before the buyer credits the full value of the bill(Invoice) to the seller. In other words, a seller gets credit against a bill (Invoice) which is due to him at a later date net of discount. The discount is the interest paid to the financier

One of the major reasons for introduction of TReDS was to ensure timely payments to MSMEs, allowing them to access credit at the best possible interest rate depending on the risk perception of their large buyers. The other reason for introducing TReDS was to provide MSMEs an alternate source of creating credit history based on the track record of realisation of their receivables from the large buyers. With the implementation of GST, sales related data can be tracked, this can become an excellent tool for validation and help in developing a flow based appraisal mechanism for financiers in funding MSMEs. I strongly believe that all these initiatives including mandatory procurement rules by PSUs and Government departments and Government e-Market Place (GEM) for MSMEs will result in better financial inclusion. Risk perception of MSMEs is high because of their small size, lack of experience, limitation in responding to external environment, lack of collateral, etc. Hence finance from the formal segment is tepid and despite all the good intensions their still exist a wide gap between demand and supply. I would request all concerned to consider a credit insurance based program to reduce the risk of the Financiers for short term trade related loans. To start with this may be limited to only Micro and Small segment for factoring of receivables through the TReDS platform with a cap on the maximum coverage.

The contribution of MSMEs in our economy in terms of employment generation, contribution to GDP , Exports , manufacturing , etc. is well known to all, but the challenge and bottle necks to satisfy the financial needs of MSMEs is miles away from what is required. So, let us understand TReDS process better and know how factoring would benefit the MSMEs and how this can reduce the gap of demand and supply of finance to the MSMEs. Invoicemart, the TreDS platform promoted by A.TREDS Ltd. , offersboth Factoring as well as Reverse Factoring of invoices raised by MSMEs.

Factoring

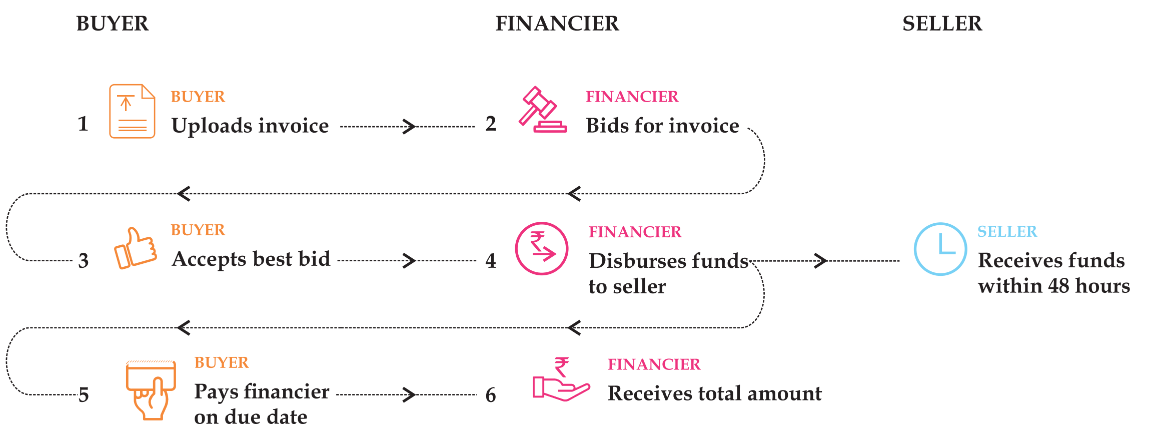
A factoring transaction begins when a Seller uploads an invoice on the platform and creates a Factoring Unit (FU). An FU contains necessary details of the invoice in digital format and must be accepted by the Buyer before it is sent to Financiers for bidding. The Seller then chooses the most suitable bid and receives funds from the Financier within 48 hours. On the due date of payment, the Buyer pays the outstanding amount to the Financier.



Reverse factoring

A Reverse Factoring transaction begins when a Buyer uploads an invoice on the platform, on behalf of the Seller and creates a Factoring Unit (FU). A FU contains necessary details of the invoice in digital format which is sent to Financiers for bidding. The Buyer then chooses the most suitable bid.

The Seller receives funds from the Financier within 48 hours. On the due date of payment, the Buyer pays the outstanding amount to the Financier.



A buyer is a reputed Large or midcorporate / MNC / PSU / Govt. Entity, seller is the MSME and the financi r is a bank or an NBFC Factor. All three of them are required for the factoring transaction to be completed on the platform.

Advantages

It is imperative to understand the benefits of a platform like Invoicemart over regular bill discounting. Firstly it is without recourse to the Seller and does not require any collateral from the Seller. Secondly, an **online platform** allows the seller **multiple** Factors (financiers) to choose from. The seller is not restricted to one Factor that he visits or he has an on-going relationship with. Third, the platform allows the seller to choose from most competitive interest rates offered by the financiers on boarded on Invoicemart, the TReDS platform. The process of uploading an invoice is **paperless** and the seller does not require uploading the documents multiple times. Apart from one-time registration the whole process is **paperless**. Under the unique bidding system offered by Invoicemart the seller gets the best deal and that too at discounting rates offered by the financiers on the risk perception of the Buyer and not the MSME and hence the discounting rates are much better than what he would have got on the basis of his own financial strength. The MSME owners need not visit different bank branches in order to get the best rate. With an electronic TReDS platform at his disposal, he can sit at the comfort of his office and fin the most competitive rate, spending more time in growing his business rather than finding sources of finance

TReDS in its present set up, requires a buyer (a large corporate / PSU / CPSE / Govt.Depts.) to refer their sellers (MSMEs) which are to be on boarded (registered) on the platform. Discounting can start only after the referred sellers are on boarded (registered) with the platform. For getting on barded on the platform both Buyer and Sellers KYCs are mandatory along with execution of master agreement (one time) with the Platform. Invoicemart is a web based application and buyers and sellers are provided with a front end for operating on the platform.

Invoicemart allows buyers to align their cash flows better with flexibl usance period upto 180 days and also acceptances on the platform does not have an adverse effect on their leverage. Moreover, by paying early they not only ensure a steady supply of raw material but also gets an additional tool to reduce input cost. The seller gets the funds on the basis of buyer's credit rating without any collateral and without recourse to them. So MSMEs are ensured of best discounting rates and timely realisation of receivables brings down the working capital finance cost substantially. Funding through the TReDS platform qualifies under Priority Sector Lending (PSL) and is beneficial for financiers as the get a high quality, short term PSL portfolio with negligible acquisition cost. Hence it is a model beneficial for all the participants, simple to understand and operate and being technology driven up scaling is never a constraint.

We are very thankful to the Finance Ministry and the RBI in providing unstinting support to the TReDS platforms and creating an enabling atmosphere which would result in a fertile ecosystem. I would also request the concerned authorities to come up with a credit insurance scheme for the Macro and Small segment for Invoices factored through TReDS platform. ■

__Kalyan Basu__ is the CEO & MD of A.Treds Ltd. (A joint venture between Axis Bank Ltd. and Mjunction Services Ltd.) the holding company of the digital invoice discounting platform Invoicemart.

He comes with over 3 decades of experience across banking sector. Staring his career with Central Bank of India, moving on to ICICI Bank and then to Axis Bank.

During these years Mr. Basu worked across functions and segments. He has worked at various branches for more than seven years, moving on to Head Forex and Trade Finance at ICICI Bank, Main Branch Kolkata. He has also worked with Product Team of ICICI Bank at Mumbai for a year and has been a key member on the team developing new current account products.

During his 14 plus years with Axis Bank he has been Head of Trade Advance and Forex for New Delhi Main Branch and also headed Corporate Banking Operations. He was a part of Large Corporate Credit (North) for more than fiv years and SME Head for North for more than 4 years. Before moving to Head A. TREDS LTD he was Head of Supply Chain Finance for Axis Bank.

Prior to heading Invoicemart, Mr. Basu held leadership roles at Axis Bank including Head – Supply Chain Finance, Head - SME franchisee for the North Region and Relationship Manager for large corporates, handling sectors like Steel, Cement, Rubber, Glass, NBFCs.

Mr. Basu has been a part and seen banking in India go through monumental changes. With banks adopting technology in late 90s, to the advent of Core Banking Systems, the rise of private sector banks and development of specialised and dedicated products for SME and corporates.

His in depth knowledge and experience of adopting to new technology and riding the next wave of growth in the BFSI sector puts him in a commanding position to steer Invoicemart in the new era of FinTech revolution witnessed by the country.

Mr. Basu is driven by the idea of financia inclusion of MSMEs. With his rich experience across various corporate banking functions, he acutely knows the pains faced by millions of MSMEs in obtaining timely credit. Whether it is due to lack of financia literacy or a lack of adequate credit/collateral profile with Invocicemart he wants to bridge the gap between the working capital requirements of MSMEs and the financiers Mr. Basu believes that biggest challenge of employment generation which the country faces today can only be addressed through accelerating growth of MSMEs. At Invoicemart he leads his team with the ethos of nation building based on the highways of tech and innovation leading to an inclusive growth for the MSME segment.

Mr. Basu who was born in Kolkata city has experienced life closely across various cities of the country. He did his schooling from Frank Anthony Public School, Kolkata and his graduation from the University of Kolkata, later on he became a Certifie Associate of Indian Institute of Bankers (CAIIB). International Chamber of Commerce (ICC) has also certifie him as a Documentary Credit Specialist (CDCS).

IPL for MSMEs – Innovative Policies & Lending

Royston Braganza
CEO
Grameen Capital

IPL fever has once again gripped the nation! Every gully, mohalla, dusty village street and tony club seems to reflect the nation's fascination with the game. The rise to superstardom beckons; and an enthusiastic nation watches closely. As one works at the bottom of the pyramid, this cannot but fascinate me. The ability for the simple to dream big… be it the gully batsman or the bowler from the hinterland, the ecosystem seems to be working in providing the platform, incentive and impetus needed to make it to the big league. Why can't it be the same with our MSMEs.

The Union Cabinet recently approved the change in definition of MSME from one based on investment in plant and machinery to one based on sales turnover. While this is awaiting Parliament approval, it is a step in the right direction to improve 'Ease of Doing Business'.

With a $2.8 trillion economy and growth hovering at about 7%, India makes for a pretty picture. However, the flipside is the low per capita ranking at 126 and about 20% of the population still reeling under poverty call for urgent action. Micro, Small and Medium industries can play a crucial role in boosting entrepreneurial action on the ground leading to improved incomes and enhanced access to social services.

While much has been said and written about MSME finance, I would like to focus on just one aspect of this huge canvas – social enterprises serving the poor and excluded populations.

Businesses with a defined sense of purpose to respond to societal challenges have been termed as social enterprises and are now gaining momentum as a new horizontal in the MSME sector. As an impact investor, the value proposition of financing such socially driven, scalable enterprises is immense;

- The adoption of Sustainable Development Goals, it is widely estimated, has opened $12 trillion of market opportunities in food and agriculture, cities, energy and materials, and health and well-being alone. However, access to capital for these enterprises remains severely constrained.
- Publically available data tells us that out of the 51 million MSME units, only 5 million units have access to formal credit, clearly indicating a large need
- IFC estimates a gap of $2 trilion in funding for MSMEs in emerging economies like India.

The Curious Case of Microfinance: The MFI space in India has seen the growth of micro-financing entities fro NGO lenders to non-banking financial corporations (NBFC), to Small Finance Banks and further to universal banks with hugely successful IPOs that can be largely attributed to a conducive environment for growth. Probably the IPL format seems to be working here – build the ecosystem and success will follow!

The Challenge

Rising NPAs (Non-Performing Assets) and banking sector frauds have turned the banks to be more cautious, especially in the MSME / social enterprise sector contributing to the already lengthy loan procedures. In addition, lack of access to formal credit and therefore, a credit history creates a vicious loop in the cumbersome process of raising finance.

The Solution

Several scalable innovations under the social business category often fail to see the light of day due to lack of financing. Today, venture debt companies are filling in the financing need of the MSMEs at a stage where the exposure for a traditional bank or NBFC is not conducive. Interestingly, we are seeing banks and venture debt firms join forces to work on collaborative models of MSME financing making it lucrative for both parties. We at, Grameen Impact Investments, offer debt financing to enterprises in social sectors namely – Affordable Healthcare, Affordable Education, Financial Services (FinTech & Inclusion), Skill Development, Agriculture, Clean Energy and Impact Innovation to help scale these enterprises to augment their impact.

However, challenges of the 21st century require new age solutions.

Innovative Financing | Blended Financing | Impact Bonds | Crowd- Sourcing

- Blended financing models can allow MSME to access pools of large mainstream capital for growth. The point of blended finance is to use public or charitable funds to attract private money in projects that normally wouldn't attract this investment.
- Innovations in 'outcome financing' or 'pay for success' are gathering momentum. This has tremendous potential as capital market players can collaborate with development multilateral agencies to structure innovative financing vehicles that de-risk the investor, ensure the outcomes are well-defined, measured and achieved. Such impact bonds can be replicated in MSMEs working on areas of sanitation, water, education, healthcare, clean energy, agriculture and a vast array of social issues in India.

The 'Educate Girls' program in Rajasthan, India, aims to improve learning outcomes and enrollment in schools. The impact investor is UBS Optimus Foundation and the outcome funder is Children's Investment Fund Foundation. Such a deal structure, a development impact bond, has led to a win-win situation for all three entities.

- Given the perception of risk involved in the financing of MSMEs, crowd funding has emerged as an alternative source of capital. Crowd funding enables such enterprises to solicit funds in smaller sums from a large number of investors via the Internet. Today, there are many crowd funding platforms whose model has evolved from donation and reward-based to debt and equity based. They are used for smaller loans which fulfill the requirement of cheap microcredit at very low interest rates of around 6% to 10%

With these innovative frameworks already churning the wheels to close the credit gap in MSMEs, a growth conducive government policy framework is essential to complement and build an enabling ecosystem for MSMEs. Creative use of CSR pools of capital for guarantees and Priority Sector Lending guidelines are tools which policy makers can use to create an optimal ecosystem for MSME financing

The advent of Fintech

With the fast changing technological landscape- the advent of robotics, AI, machine learning and other hi-tech products and services, financing is seeing a rapid shift as well. These services will also lead to reduction in cost of capital due to automated and reduced cost of service. Broadly, fintech can improve access to credit, reduce price of credit and increase transparency in the system. A collaboration between fintech organizations and banks is a win–win situation as both parties can gain from strengths on both sides to co-create value. The biggest value the banks see with this collaboration is the speed-to-market and convenience which is the need of the hour for the MSMEs. For instance, banks and NBFCs have started seeing value in alternate credit scoring methods and have become much more forthcoming in adopting them. Measures like these can pave the way for an ecosystem which will be inclusive of MSMEs.

Lending platforms such as Credit Mantri are providing borrowers with quick access to lenders and lenders with transparent information about the borrowers.

Conclusion

A mix of traditional credit facilities from banks and innovative financing mechanisms will be critical for the growth of MSME in recent times. The policymakers need to simplify the complex regulatory policies in place and create policies for greater financial inclusion of the MSME sector. Suitable incentives need to be provided to fin-techs working towards addressing the MSME financing challenges. A holistic environment of access to risk capital, knowledge platforms and policy support will be needed to support India's growth story built on the pillars of Micro, Small and Medium enterprises. We are standing today at the dawn of the new opportunity, and if India can get this right we stand a chance of realizing the dream of one day becoming a truly inclusive and winning society. Just like the IPL! ■

***Royston Braganza** joined Grameen Capital in 2007 to launch the organization as CEO. He currently oversees all aspects of operations in India.*

Grameen Capital, founded by Grameen Foundation USA, IFMR Trust and Citigroup, is a firs of its kind social business enabling Microfinanc Institutions and Social Enterprises develop wider access to the capital markets. Grameen Capital is part of the global Grameen family of companies, the flagshi of which is the Nobel Prize-winning Grameen Bank founded by Nobel Laureate Professor Muhammad Yunus.

To realise his dream of a "Capital-with-a-Conscience" ecosystem, Royston along with Grameen Capital, recently promoted "Grameen Impact Investments India" a unique vehicle to provide debt financin to social enterprises across sectors such as Affordable Education and Skill Development, Affordable Healthcare, Clean energy & Innovation, Agriculture, Financial Inclusion and Livelihoods.

In his earlier assignment, as a Senior Vice President with HSBC, Royston was instrumental in setting up and heading HSBC's Microfinanc & Priority Sector business. Prior to that, he was the head of HSBC's SME Business.

Before joining HSBC, Royston worked in Citibank India for over 8 years in various assignments both across the Consumer Bank as well as the Corporate Bank.

He serves on many boards and advisory bodies, including Sa-Dhan, Grameen Foundation India, FICCI Financial Inclusion Committee, the United Nations Microfinanc Resource Group, Impact Investors Council, Inclusive Business Action Network and the Banking & Finance Committee of the Indian Merchant Chambers. He has been invited to address various programs, in India and globally, promoting impact investing and blended financ as a sustainable tool to eradicate poverty and achieve the Sustainable Development Goals.

The London-based Finance Monthly publication named Royston in their 2013 Global CEO Award Winners list as one of the Top 4 CEOs in Asia, and Top 2 in India, the other one being Kumar Mangalam Birla. He has also been awarded the Global CSR Leadership award by World CSR Congress and the Power of One Award by the Archdiocese of Bombay.

Royston has done his Masters in Management Studies from the prestigious Jamnalal Bajaj Institute of Management Studies, Mumbai.

Fintech Lending can Drive Exponential Growth for MSMEs in India

Gaurav Hinduja
Co-founder and Managing Director
Capital Float

2017 had been a remarkable year for FinTech companies with the introduction of GST and effects of demonetization driving impetus to cashless transactions. The government in the budget for FY 18-19 has stated its clear intent to support digital lending startups and the MSME enterprises, however, there are still key policies that need to be defined to comprehend their economic potential at a higher measure.

Young businesses and SMEs often suffer from rejection of loan application owing to the lack of a prior credit history. The heavy demands of collateralized credit from traditional financiers furthermore weakens the resolve of SMEs in India. With each SME segment operating inherently different business models and credit periods, a cookie-cutter approach towards underwriting has proven to be ineffectual.

With India being one of the most active FinTech markets in the world, the Digital Lenders Association of India (DLAI) brought together FinTech lenders and associated entities under one roof to advise and consolidate the efforts of the digital lending industry. DLAI aims to suitably represent to the Government as well as other industry bodies and highlight the various challenges faced by FinTech lenders and its customers.With less than 2 months into the new financial year, here are some of the policy recommendations that may have a significant impact on the FinTech community and increase the ease of business for its customers.

Collaboration between Government backed entities and the Fintech community

Over the past couple of years, government initiatives such as Digital India and Financial Inclusion have brought about a paradigm shift in perspectives for digitization. To sustain the momentum of this transformation, the government can drive its activities to make credit accessible to industries on a massive scale.

Embedding financing linkage into the web portals of industry-specific government initiatives is the first step towards increasing awareness of digital financing, especially to the micro, small and medium enterprises (MSMEs). Also, the Central Government can provide FinTech lenders access to ecosystems like eProcurement Portal and Army Canteen Suppliers (DGSND) to finance a wide range of suppliers aligned to them.

Also, public and private-sector banks can be directed to collaborate with fintechs for loans that were rejected by them. Since the latter have different means of underwriting with the use of both conventional and non-conventional data points, a partnership in this regard would mean more access to capital for MSMEs.

Formulating P2P-friendly guidelines for MSME-friendly financin

The RBI guidelines for peer-to-peer lending platform issued in October 2017 was met with mixed sentiments from the FinTech community. While the new regulations were a sign of recognition to the growing influence of P2P lenders, they dictate high market-access barriers that inhibit innovation and restrict participation by the MSME segments on such platforms. Some of these include:

1. Capped capital limits for entities participating on these platforms at ₹10 lakhs with a maximum individual exposure of ₹50,000
2. Restriction for P2P platforms to provide credit enhancements
3. Lack of consideration for sophisticated investors who understand the high risk associated with direct lending to MSMEs

With the enforcement of limits on the amount that can be invested or borrowed on P2P platforms, digital financing is represented as an unattractive financing option, especially for SMEs. Also, an upper cap ofRs 10 lakhs, has the undesired effect of inviting only unsophisticated lenders onto these platforms.

However, this can be resolved by defining a cap of 5% of net worth for lenders and a maximum individual loan amount of ₹25 lakhs for borrowers. To enhance investor protection, credit enhancement facility backed by appropriate Capital Adequacy ratio could be extended by these digital lending platforms to ensure that these guarantees can be met.

Carving new niches using streamlined access to data

Incorporating unconventional data points in its credit underwriting, along with traditional evaluation parameters, has helped digital lenders serve a wider range of MSMEs across the country. With the amount of data available being at an all-time high, it would be beneficial for FinTech companies to utilize these to underwrite borrowers efficiently

The GST regime has called for all tax returns to be filed online, and businesses across the country have initiated the process with full vigour. Access to the GSTIN database through a secure API for digital lenders and credit rating agencies will result in faster credit evaluation and disbursals. This is because underwriting practices such as verification of business income, invoices and purchase orders can be processed using the information available on the GSTN portal.

Also, to eliminate fraud and improve access to credit, transaction data from a borrower's business account can be made available to FinTech lenders. An initiative to provide this data directly to them via APIs without involving intermediaries would go a long way in reducing the cost and turnaround time of MSME loans.

Access to public funding avenues for Fintech lenders

Continuous innovation is the future of financing, and India's FinTech sector has been successful in accelerating the country's transformation into a digital economy. Yet, many a pioneering young lender find themselves in jeopardy when it comes to raising funding for their operations.

For example, public funding initiatives such as MUDRA and SIDBI offer refinancing support to overcome the shortfall of ₹32 billion faced by financial institutions that deliver credit to MSMEs. However as FinTech lenders do not fit within the bracket of banks, traditional NBFCs or micro-financing institutions, they become ineligible for funding from these institutions. Also, the minimum holding period norms restrict digital lenders from securitizing a significant volume of the loans they disburse.

The Government can easily resolve this crisis by modifying guidelines to extend these public sources of funding to FinTech lenders, at terms and conditions that are in line with the nature of the industry they service.

Paperless financial transactions - A stepping stone to complete digitization

Adopting a digital infrastructure requires creating web-based solutions for all aspects of financing. One such platform that has produced groundbreaking outcomes in terms of processing high volume transactions electronically is e-NACH. Though electronic mandates through the NACH only takes 2 days, this facility is largely restricted to a few private and public-sector banks. However, the provision to issue eMandates should be extended to digital lenders as FinTechs have captured a significant market share of MSME financing. Also, with the use of API based eMandates, they will be able to further reduce the time of NACH registration.

As we are into the new financial year, we hope that these recommendations are evaluated and implemented soon; a close partnership between the Government bodies, Public Sector enterprises and FinTech lenders will go a long way in providing quick, easy financing to the under served but high potential MSME segments in India. ■

__Gaurav Hinduja__ co-founded Capital Float, a digital lending company in 2013. Under his direction, the company has grown to become the largest digital lender to SMEs in India. As the Managing Director of Capital Float, he continues to drive leadership in the Fintech space through numerous strategic partnerships with industry leaders in the e-commerce, travel, hospitality and trade segments. Gaurav has played a key part in Capital Float's evolution of becoming the leading digital co-lending model for SME lending. He was the COO of Gokaldas Exports and possesses immense experience in operations and complex supply chain management. Gaurav holds an MBA from Stanford University and graduated from Christ University in Bangalore with a distinction in commerce.

Going Full Throttle: Empowering the MSME Growth Engine to Stimulate the Indian Economy through Reforms in GST

Alok Mittal

CEO & Co-founder
Indifi Technologies Private Limited

The rollout of the Goods and Services Tax, a new taxation regime that replaced 15-odd indirect taxes in India, was marked with unmatched fanfare across the country. The reason behind this was simple: the tax had perceptible benefits for every stakeholder within the value chain, from raw material suppliers down to the end-consumers of the finished goods. But good things often come at a price, and as far as one can see, Indian MSMEs have been paying a high price for enjoying these benefits

Let’s first understand the c untry’s MSME sector, and why it is deemed so important. Micro, small, and medium-sized enterprises contribute about 45% to our nation’s GDP. This figure is three times the contribution made by corporate India towards the same. Moreover, India is estimated to have 42.50 million registered and unregistered SME units – a number which essentially amounts to around 95% of the total industrial units operating within the country. The MSME segment also generates more jobs when compared to other sectors, including the public sector.

And yet, it is by far most disadvantaged.

One of the prime challenges that the MSME sector in India faces is in terms of credit penetration. MSMEs are often outmuscled by larger enterprises, which have broader business networks and are benefitted by the economies of scale. In order to compete against these players, small businesses often have to extend credit to their customers through debt on invoices. The settlement of this debt might take 90 days or even more. This creates a significant shortage of working capital that MSME businesses require to procure raw materials and to pay their suppliers. This increases the capital –and credit –requirement for MSMEs, which is denied to them by traditional financial institutions more often than not.

A report reveals that the prevailing credit gap within the MSME sector stands at a whopping 56%, or about INR 1,765 lakh crore.

It is not that nothing has been done to counter this challenge. Several institutions such as SIDBI, NABARD, and NSIC, along with MSME-centric government schemes such as MUDRA, have been established to address this disparity. However, since many of these initiatives have not altered their strategic approach to reflect the dynamically-changing business landscape, they are still far from eliminating the MSME credit deficit and generating the desired results in the bigger macroeconomic picture. Adding to this prevalent challenge, the GST rollout in 2017 – which is a promising development expected to deliver significant benefits in the long term, has further crippled the sector.

Good, bad, better, and best of GST for MSMEs

The MSME sector in India has borne the maximum brunt of the country’s transition to the new tax regime. With the GST rollout, the sector is now subject to a revenue threshold limit of INR 10 lakhs for North-eastern states and INR 20 lakhs for the rest of the country. The new limits are substantially lower in comparison to the INR 1.5 crore threshold defined under the excise duty, thus considerably increasing the tax burden on MSMEs.

However, this isn't the only tax burden that they're experiencing. Earlier, stock transfers were subject only to excise duty on the removal of goods. Under GST, 'supply' includes all transactions between a principal and an agent. Therefore, supply of goods from a taxable entity to a non-taxable entity also comes under the ambit of supply. The quantum of impact varies depending on multiple factors such as stock turnaround time (at warehouse), credit cycle, and magnitude of stock transfer. These higher working capital requirements impact MSMEs negatively by directly increasing the operational costs, which in turn leads to an increase in the price of finished goods. Services have also been placed in the higher tax slab under the new tax regime, subjecting service-based MSMEs to higher tax rates.

Centralised registrations have also been scrapped. This implies that if services of a state unit of a company supplies services to another unit in a different state, then such transactions are also liable for taxes. Under GST, input tax credit is not available to a compliant company if its vendors do not apply for the same in their returns. As a result, supply chains have been affected and disrupted by the variance in GST compliance across the board.

Working on capital availability: The challenges encountered in financing MSME

GST has also benefitted M MEs in many ways, with the biggest and most obvious being the consolidation of various regions across India into a unified market. Earlier, Indian businesses had to pay interstate taxes for supplying their goods to regions beyond their home states. While larger businesses tackled this problem by establishing regional warehouses,such an approach was not a feasible option for MSMEs given their limited corpus. This ended up restricting them largely to their chief arena of operations. But even as GST has provided a fillip to MSME growth by offering smaller businesses a national market to cater to, capital availability continues to limit any attempts towards the same.

If capital is adequately available, MSMEs have the potential to push India towards its aimed double-digit economic growth. The advent of online lending marketplaces been extremely beneficial for MSMEs in tackling the prevailing financial challenges. Using various cutting-edge technologies, newage platforms are actively filling in the credit gap and providing some much-needed relief to smaller businesses. Some leading platforms are even extending innovation driven products, such as invoice based credit, enabling MSMEs to improve their efficiency by utilizing their unproductive assets.

Though credit penetration has significantly increased with the rise of such tech-driven platforms, there are certain challenges that are preventing the credit advancement. MSMEs largely need loans that are oriented towards short-term needs, such as ensuring enough working capital. With the digital enablers in place, lenders are now in a position to service such shorter tenure requirements that have a loan period of less than one year. However, as per the current RBI guidelines, term loans up to 2 years need to be held on the originators' balance sheet for a minimum of 3 months before they are eligible for securitization. This effectively makes such loans ineligible for securitisation.

The intention behind establishing the Minimum Holding Period (MHP) and Minimum Retention Requirement (MRR) is understandable, i.e. to minimize the credit risk, but changing the MHP requirement for MSME loans below INR25 lakhs will help lenders broaden MSMEs' access to credit. In order to ensure more 'skin in the game' for lenders, a lower MHP may be allowed with a higher MRR.

With substantial GSTIN data also available now, opening API access to the GSTIN database will allow lenders to verify the authenticity of invoices, purchase orders, and cross-verify business incomes from the MSME financials. This data will, moreover, pave the way for a faster and more efficient underwriting of the borrower. Similarly, the ability of lenders to directly retrieve transaction data from the borrowers' bank account will go a long way in eliminating fraud and improving access to credit. With most of this data already available, it would be easier and more time-efficient for prospective lenders to receive this directly from banks through APIs rather than through intermediaries.

One thing that often goes unnoticed in India is that we do not utilize alternative data repositories that provide critical insights into a borrower's financial health, such as utility bills and post-paid telecom payment cycles. Utility companies and telecom operators must be mandated to report payments of dues to the credit bureaus. This will essentially serve to facilitate better access to credit for MSMEs that do not have a prior credit record.

MUDRA is refinancing MFIs, NBFCs, and banks who lend under the scheme. This, however, comes with a cap on the final rate that can be charged 3% above the refinance rate for banks, 6% for NBFCs, and 10-12%for MFIs, depending on their portfolio size. The small ticket and shorter tenure of loans on digital platforms entail higher operating costs than typical NBFCs and become unviable with 6% cap. Since most of the new lenders incur high operational expenditures, it is recommend that this cap should be increased to 10-12% for lenders in line with MFIs (for loans up to INR 5 lakh) and 8-10% (for loans in the range of INR5-25 lakh). This will help in expanding the reach of financing to MSMEs through digital lenders. MUDRA should also extend its credit enhancement to digital lenders, both platforms and NBFCs, as this will go a long way in increasing the MSME access to capital.

As India gears up to re-emerge as the fastest growing large economy this year, it will be interesting to see when the country will finally achieve the much-anticipated double-digit growth rate. But while there's uncertainty about the timing of the same, one thing is absolutely certain: the instrumental role that Indian MSMEs will play in realising this vision. ■

Alok Mittal *has over 20 years of operational and entrepreneurial experience. Alok has an accurate knack of understanding the needs of access to Small Medium business financin in India. This is what led him to establish Indifi a platform for enabling debt financin for small businesses.*

Alok is also the President of Digital Lenders Association of India, an active angel investor, co-founder of Indian Angel Network, and on the board of TiE (The Indus Entrepreneurs) Delhi. Prior to starting Indifi Alok setup and ran Canaan Partners' operations in India, investing in high growth technology and internet startups. Earlier, Alok co-founded JobsAhead.com, a leading web-based recruitment business in India, which was acquired by Monster.com, the global leader in online recruitment.

Before founding JobsAhead, Alok worked with Hughes software in telecom and internet technologies. Alok is a computer science graduate from IIT Delhi, and completed his MS and Management of Technology programs from UC Berkeley.

Alok is passionate about creating value through startups! He is also keenly interested in entrepreneurship development in India.

Fintech Reach for MSME Financing

Sundeep Mohindru
Founder Director
Mynd Solutions

India is expected to emerge as one of the leading economies in the world over the next decade in the light of a positive political and economic scenario. The Micro, Small & Medium Enterprises (MSME) segment is expected to play a significant role in the emergence of the Indian economy. The development of this segment is extremely critical to meet the national imperatives of financial inclusion and generation of significant levels of employment across urban and rural areas.

With the implementation of the Goods and Services Tax (GST) and the continued policy push on increasing the taxpayer base through 'formalisation' of the economy, it will be interesting to follow the journey in the coming years and witness that the sector is able to finally resolve the paradoxes and reward entrepreneurship, which would have far-reaching benefits in a nation with a large young population and low rate of job creation in the formal economy

Fintech's in the digital value chain

Fintech can play a pivotal role in enabling the spread of finance to each level of economy and thereby transforming the way business is done and accelerate the economic growth.

Taking a cue from China, where in less than half a decade, Chinese citizens have embraced digital payments much more enthusiastically than their counterparts in West. Fintech companies are helping to spread the fruits of the nation's economic boom beyond its coastal fringes and big cities – a key policy objective of Central government and core to meetings its goals of financial inclusion. In doing so, China has leapfrogged the developed world, aided by light hand regulation, ready access to capital and crucially, a consumer base that is more receptive to the digital transition than any other nation in the world. Fintech sector in China has surpassed US as number one destination for VC capital investment.

Over the last three years, fintech in India has seen rapid growth, and is expected to grow further. The ecosystem for fintech in India has also received a boost through government and regulatory initiatives, and startups in the segment have leveraged the new opportunities and launched innovative and competitive products.

Fintechs have created innovative solutions in financial inclusion space such as e-wallets, alternate capital sources as well as in the loan value chain. Innovative fintech solutions are found across loan origination, loan management and loan collection.

Fintech solutions based on cloud, alternate scoring models, big data and blockchain, can drastically change the way banks function by introducing agility, a connected operating model and reduced cost structure.

Mynd has set up M1xchange, for financing the receivables of MSME sector and there by reducing the business risk of MSME for the collection of receivables.

This addresses the concerns of a current factoring/receivable finance ecosystem. Being an open architecture for on-boarding of the buyer and seller on a transparent platform, the stakeholders can transparently see the bill details, the validated acceptance, the bill value and its due date. Also, the financier can safely assume the repayment of the bill discounted will directly come to him from the buyer in full without any dilution. This enhances the process of getting the receivables for MSME and lowers down the time spent in verification processes and ledger audits.

The main purpose of M1xchange is to facilitate smooth flow of liquidity in the system and make available the finance at a competitive rate. As soon as the bills are raised by the MSMEs and approved by large corporates on TReDS platform, banks or financiers can bid for them based on the risk rating of large corporates. MSMEs will receive their dues from the banks or financiers without waiting for the credit period agreed with large corporates. The shortening of payment cycle and the smooth flow of liquidity through the platform will ensure that MSMEs do not lose out on business opportunities due to shortage of funds. The cost of funds will be reduced for MSME's as banks will be bidding on the basis of risk rating of a corporate.

Banks will also benefit through the platform as cost of acquisition and servicing the business will reduce substantially. Further the MSME funding on platform will qualify for Priority Sector Lending (PSL) criteria, thereby enhancing the compliance for the banks.

Further digital process has enabled reach to every city and town of India. The government support to direct all PSU's to register on M1xchange (TReDS) for enabling the financing of their MSME suppliers, is first of its kind initiative. This will solve the challenge of collection of receivables from government companies.

Blockchain for lending

Blockchain shared public ledger has brought transparency to all the stakeholders involved. The bill discounting process cycle has been reduced from four days to almost real-time. The Indian banks aim to enhance the digital experience of its corporate clients, partners and developers who collaborate with them on an API banking platform 07, which is an integrated blockchain solution by leveraging cloud based cognitive services.

M1xchange along with MonetaGo have launched a blockchain network in India to prevent financial fraud and double invoicing problems.

Changing regulatory and policy reforms

In a wave of technology driven reform, the government and Indian regulators such as Ministry of Corporate Affairs (MCA), Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), etc. have from time to time, carried out amendments in various enactments/regulations to enable a smooth combination of technology with the existing ways of doing business.

The Indian regulators have issued new/revised regulations/ guidelines to keep up with the changing mode of business such as: The RBI has allowed banks to trade in PSL certificates. This was proposed to allow a more efficient implementation of the PSL mandate. The merit of this was also to allow the most efficient lender to provide access to the poor, while finding a way for banks to fulfil their PSL norms at a lower cost.

The RBI has also allowed the setting up of small finance banks which will provide loans on small scale and work towards financial inclusion. With respect to the lending business, the RBI has allowed peer-to-peer lending for small value loans in phase 1. As a matter of ease of doing business, there are various procedural changes made to the Companies Act, 2013 by the MCA. The latest one includes no separate registration for Permanent Account Number (PAN) and Tax Deduction and Collection Account Number (TAN) and companies need to make a consolidated application while incorporating/ registering themselves with the MCA.

The government has started acknowledging that the MSME sector faces immense hurdles during their initial days when it comes to credit, access to top-notch technology and meeting regulatory compliance. To further boost their ease of doing business in this front, the government has set aside INR100 crore fund to help small and medium scale enterprises by setting up help desks, awareness camps and relevant infrastructure which MSMEs can utilise to solve their technology problems related to compliance. The programme is also expected to spread awareness about updated accounting and taxation norms among firms. The Government has also notified the Insolvency and Bankruptcy Code, 2016 (the Code). This Code provides a market determined, time-bound mechanism for orderly resolution of insolvency, wherever possible, and ease of exit, wherever required. Timely implementation of government policies is another major bottleneck faced by MSMEs. The Indian government has taken concrete steps on this front by launching the 'MSME ESiksha Portal' a real-time monitoring system for follow-up actions on pending decisions relating to policies and governance. ■

__Sundeep Mohindru__ is a chartered accountant by profession with more than 18 years of experience in Consulting, audit, IT products and finance Sundeep is the Founder Director of Mynd Solutions.

Mynd has set up M1xchange, a Fintech platform for servicing financ needs of MSME across India. M1xchange has been awarded as the Best Digital Solution of the year 2017 by Shri Amitabh Kant, CEO, NITI Aayog in Express IT Awards. M1xchange has hosted Nationalised, Private and Foreign banks to offer Supply chain financ at most competitive rates with a unique model of bidding by the banks.

Sundeep initiated Mynd with a small team of just fiv people in 2002 and has been instrumental in steering it to evolve into a solutions company. He has worked with teams to bring about substantial improvements in growth, profitabilit and performance, which has helped Mynd achieve remarkable customer, employee and stakeholder satisfaction. Mynd employs more than 1200 people and transforms the client's business in Finance, HR and Business processes. Mynd has been servicing a large number of multinational companies in India, APAC, MEA region through its on-shore and off-shore model.

Sundeep has been the on the Board of Directors for many renowned companies. He has played a key role for planning the entry strategy and has set up subsidiaries for many multinational companies in India.

MSME –A Rising Star on Indian Landscape

Rajesh Mokashi

Managing Director& CEO
CARE Ratings

MSMEs constitute a vital sector promising high growth potential for the Indian economy as it encompasses both manufacturing and services. MSMEs are a major engine of growth and employment generation in the country and a major constituent of exports. In 2015-16, there were close to 63 million MSME units in the country that employ nearly 111 million people across various sectors. The MSME sector contributed to nearly 29% of the GDP while the contribution to total exports was at around 43% in 2015-16. The sector has recorded a growth rate of 7% in 2015-16. It assumes greater significance in the light of the 'Make in India' campaign operationalized by the government. In addition, the Digital India revolution has also provided a good scope to promote MSME participation in the Information, Communication and Telecommunication (ICT) sector.

Problems faced by MSMEs

Despite the sector's strategic importance in overall industrialization strategy and employment generation, as well as the opportunities that the Indian landscape presents, the MSME sector confronts several challenges. The problems confronting these sectors are known as these are inherent in their operations given their structures. While the technological hurdles and financial problems are persistent, some of the other problems faced by this sector are high cost of credit, low access to new technology, poor adaptability to changing trends, lack of access to international markets, lack of skilled manpower, inadequate infrastructure facilities, including power, water, roads, etc., and regulatory issues related to taxation, labour laws, environmental issues etc.

Any improvement in their status would require adequate flow of credit from the formal banking sectors as this has become a precondition for their operations, which has appeared to be an obstacle in the overall growth of this segment. Traditionally public sector banks have been the lenders for formal credit to MSMEs. Private sector banks and NBFCs have been steadily extending credit to MSMEs. However, lately other lenders have also entered the MSME lending space such as FinTech companies. FinTech companies leverage on growing technological advances like smartphones and innovative and flexible credit products. These companies are providing the financial assess to MSME's by extending the loans themselves, connecting MSMEs to banks and financial institutions using marketplace model and by becoming financial product aggregators.

Despite, the main challenges in procuring finance for them are as follows.

First, the flow of credit is limited as while it is part of the priority sector lending and banks have to lend to them, they are reluctant to do so as the probability of NPAs is high especially during the downturn. Despite credit to this sector qualifying as priority sector credit and banks being advised to achieve 20% y-o-y growth in credit to MSMEs, a little over 90% of units in this sector remain excluded from access to finance or depend on self-finance. For export-oriented SME units the demand for trade finance becomes even more critical; particularly in the context of vulnerability to volatility in exchange rates, as was noticed in the last few years. Their problem is aggravated by the fact that when there is a downturn, the large companies who are their main purchasers delay in either picking up their products or making payment on time. This increases their receivables leading to greater reliance on banks finance. While there has been talk of setting up of factoring exchanges to enable them to churn their receivables, there has been limited traction here.

Second, the cost of borrowing is high as the risk perception is more compelling for banks. Therefore, while the other companies are able to borrow say within 100 to 200 bps over their base rate, SMEs end up paying 400-600 bps over the base rate. Hence, debt servicing becomes a challenge given that they do operate on thin margins to begin with and as a corollary, their propensity to default becomes higher.

Third, unlike their medium and large counterparts, these units are not in a position to borrow from international markets as they are too small to draw confidence. Therefore they can never take advantage of the lower interest rate situation in global markets

Consequently, the support from banks to this sector is hence quite low with less than 10-12% of bank credit going to the SME segment. Most of these non-registered enterprises do not even maintain proper books of accounts and are not formally covered under taxation areas. Therefore, banks find it difficult to lend to them.

Recent measures

After realizing the potential for the MSME sector in India, the government of India has embarked on undertaking various measures to boost the MSME sector and tackle the issues faced by the sector.

- The policy interventions such as demonetization and introduction of GST have led to massive formalization of the businesses of MSMEs. GST compelled MSMEs to register in order to claim tax-credits. GST led to lower tax burden and easier compliance. The single tax will enhance the efficiency, improve demand and competitiveness. Due to lower costs there will be ease in starting new business. It will also lead to faster logistics and delivery along with better use of capital and lower interest cost.
- The formalization under GST is generating enormous financial information database of MSMEs' businesses and finances. It is expected that this big data base will be useful for improving financing of MSMEs' capital requirement, including working capital.
- The thrust towards digitalization has been advocated both by the present government as well as the banking and financial services industry for this purpose. Several new players, individually and in collaboration with banks and other institutions, have entered into the digital lending and information space.
- Further, the proposed onboarding of public sector banks and corporates on Trade Electronic Receivable Discounting System (TReDS) platform and linkage with GSTN would also be beneficial for MSME financing
- In the Union Budget 2018-19, the govt. allocated Rs. 3,794 crore to MSMEs sector for giving credit support, capital and interest subsidy and innovations. The FM had highlighted the importance of Fintech companies in growing the MSME sector.

- MUDRA Yojana launched in April, 2015 has led to sanction of Rs 4.6 lakh crore in credit from 10.38 crore MUDRA loans. 76% of loan accounts are of women and more than 50% belong to SCs, STs and OBCs. It has been proposed in the Budget to set a target of Rs 3 lakh crore for lending under MUDRA for 2018-19 after having successfully exceeded the targets in all previous years.
- In February 2018, the RBI granted a relaxation on NPA recognition of MSME entities registered for GST. The entities registered under GST with aggregate exposure of less than Rs. 250 million will be granted extension of maximum 180 days to repay the unpaid dues between Sept'17-Jan'18 to banks and NBFCs, without a downgrade in the asset classification
- The RBI also removed priority sector credit caps on MSMEs (services). The existing credit caps of Rs. 50 mn per borrower for micro and small and Rs. 100 mn per borrower for the classification under priority sector have been done away with.
- In February 2018 there were changes announced in the Credit Guarantee Scheme for MSMEs. The annual Guarantee Fees (AGF) will now be on outstanding loan amount rather than sanction amount. The coverage of the Credit Guarantee Scheme (CGS) would now be extended to MSE retail traders segment. Significantly, the extent of guarantee coverage is up to 75% from existing 50% for proposals above ₹50 lakh. Also loans with Partial Collateral Security under Credit Guarantee Scheme would now be included in the scheme. All this will benefit the units in this sector.
- Small Finance Banks focus on lending to un-served and underserved sections. These banks are mandated to extend 75% of Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL) with at least 50% per cent of its loan portfolio to loans upto Rs. 25 lakh.
- New players have entered the MSME lending landscape in form of P2P companies

Credit rating - Access to capital

GST has mandated the registered entities to prepare formal accounts in the given timelines. This enable increased efficiency, decrease in cost. As the financial information is made available in the more formal manner it will help in improving the rating of these entities, which would further enhance the access to markets for funding of capital requirements.

Benefits of credit ratin

- Enables establishment of credibility with stake holders: A good rating may help an entity to establish comfort & confidence with customers, suppliers, collaborators, lenders, etc. This in turn facilitates the better SMEs to differentiate themselves from others.
- Long term sustainability: Credit rating enables timely planning for riskier capex. It helps in better financial discipline.
- Credit growth: it helps lenders to tap the entities falling under high growth trajectory. It also facilitates faster decision making.
- Capital management: credit rating gives independent opinion on the credit quality of the rated entity and also assesses the capital adequacy norms.
- Self-improvement tool: The rating also helps an important self-improvement tool as it provides insight for benchmarking.
- Relatively easier access to funding: A better-rated entity can explore wide untraditional sources of funding, which not only reduces the access time but also opens up the possibility for borrowing at a lesser cost.

CARE Ratings introduced SME rating in 2006 in association with National Small Industries Corporation (NSIC), which is intended entirely for Small and Medium Scale Enterprises. This rating indicates the relative level of financial strength and performance capability of an MSME entity compared to other MSMEs. The rating is based on four major parameters such as management, business, industry and financials. On the cumulative basis, CARE Ratings has rated 1.33 lakh SMEs in FY17.

CARE Ratings' Start-up Rating

CARE Ratings' has taken an initiative to score start-ups based on the assessment of the idea of the start-up and its ability to convert the idea into sustainable operations. The rating indicates stage of the start-up as information for the users. While assigning the rating two broad parameters are assessed;

- **Stage Indicator –** Indicates at which stage the entity is in depending upon the progress from idea level to operational level to growth
- **Start-up Score -** Assessment of the idea of the start-up and the ability of the start-up to convert that idea into sustainable operations **–'0' to '100'.**

Certain other parameters which have a bearing on the rating are target market, competitive advantage, revenue model, speed of implementation, investment required in technology, regulatory compliances and investments made by private equity fund or venture capitalists.

The way ahead

Clearly we need to enhance the share of credit to this sector to enable them to grow. It is a huge universe, which is linked to not just supplying products for medium and large industry but also self-employment. Apart from traditional products of cash credit, term loans, bills discounting, packing credit etc. one must resort to innovative products like factoring, reverse factoring, SME collective bonds and SME IPO without book building process. Furthermore, a separate vertical in banks can be setup which would be mandated to provide finance to MSMEs at a lower rate by borrowing through External Commercial Borrowings (ECB).

To address information related issues while reducing the cost involved, one option can be extensive use of credit score model. Another option can be use of credit rating and due diligence services offered by Credit Rating Agencies (CRAs). Credit scoring offers a modern alternative for the traditional method of evaluating loans for small businesses where loans were approved on the basis of the banker's qualitative judgment and the financial condition carried significant weight in the appraisal process. Due diligence report provides valuable inputs to sanctioning authorities on the profile verification and SWO analysis of the MSMEs.

Some other routes that may be explored are

- Equity financing would open up another promising avenue of financing to the MSME, which has remained untapped as a source of credit for the MSME sector.
- Lending with availability of credit enhancements – credit enhancements in financial markets don't just work as partial financial support mechanisms that come into play in case of contingencies but also work as confidence boosters by virtue of the aforementioned characteristic.
- Creation of SME Finance Companies – just as in the case of infrastructure finance companies or micro-finance companies that are not engaged in real economic activity but in the financing of it, SME financ companies may be established in the country.
- Loans to SME clusters. Currently banks lend to individual units with weak credit profiles that often turn to NPAs. This perhaps, may be avoided if lending is targeted to an SME cluster, such that borrowing costs, funds received and burden of repayment are shared by member units of the cluster rather than by a single unit.

- Linking lending to ratings. This allows for transparency in lending regime, inducing confidence in SME units to access bank finance

MSME financing would be a critical factor for the development of this sector and the economy. The RBI and the government have taken steps to make this possible. Banks would need to see viable business models by looking at all options to ensure that such lending is attractive on a standalone basis. The use of an external credit rating adds a kind of an enhancement for judging the creditworthiness of the unit. The SMEs on their part have to also get their act together and become more professional in their operations so that the team comprising the regulator, bank and the units work better together to deliver finer results. ■

__Rajesh Mokashi__ is currently the Managing Director & CEO of CARE Ratings Ltd. (Formely known as Credit Analysis & Research Ltd.) a premier credit rating agency in India and also Director in CARE's subsidiary companies viz. CARE Ratings (Africa) Pvt. Ltd.,CARE Ratings Nepal Ltd., CARE Risk Solutions Private Limited (Formerly known as CARE Kalypto Risk Technologies and Advisory Services Pvt. Ltd.) and CARE Advisory Research and Training Ltd. Mr. Mokashi is also director in international rating agency ARC Ratings S.A., Portugal and ARC Ratings Holdings Ltd. He is also Vice Chairman in Association of Credit Rating Agencies in Asia (ACRAA).

Mr Mokashi has over 30 years' experience and worked with Otis Elevator Company India Ltd, DSP Financial Consultants Ltd. and Kotak Mahindra Finance Ltd before joining CARE. He has worked in diverse areas in ratings such as rating operations, criteria development, business development, disinvestment advisory services, international ventures, regulatory compliance, human resources management, information technology etc. He was involved in several strategic initiatives including the IPO of CARE.

Mr. Mokashi is a member of Corporate Bonds and Securitisation Advisory Committee of Securities and Exchange Board of India (SEBI).

Mr. Mokashi was a member of the Working Group formed by National Housing Bank (NHB) for promoting RMBS and other Alternate Capital Market Instruments – covered Bonds [October 2012].

Mr. Mokashi was a member of the Committee on Differential Premium for Banks set up by the Deposit Insurance and Credit Guarantee Corporation (DICGC) [May 2015]

Mr Mokashi has a Masters Degree in Management from NMIMS. Mr Mokashi is a Graduate in Mechanical engineering from VJTI, Mumbai University.

He has also completed CFA programme both from the CFA Institute, USA and ICFAI Hyderabad.

Mr Mokashi has also attended specialized course in Risk Management from the Stern School of Business, New York University, USA.

Mr Mokashi is an avid reader and has been a guest faculty at several national level institutions on topics related to risk management.

Customer Centricity: The Paradigm Shift in the Indian MSME Lending Ecosystem

Arun Nayyar
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Edelwiess Retail

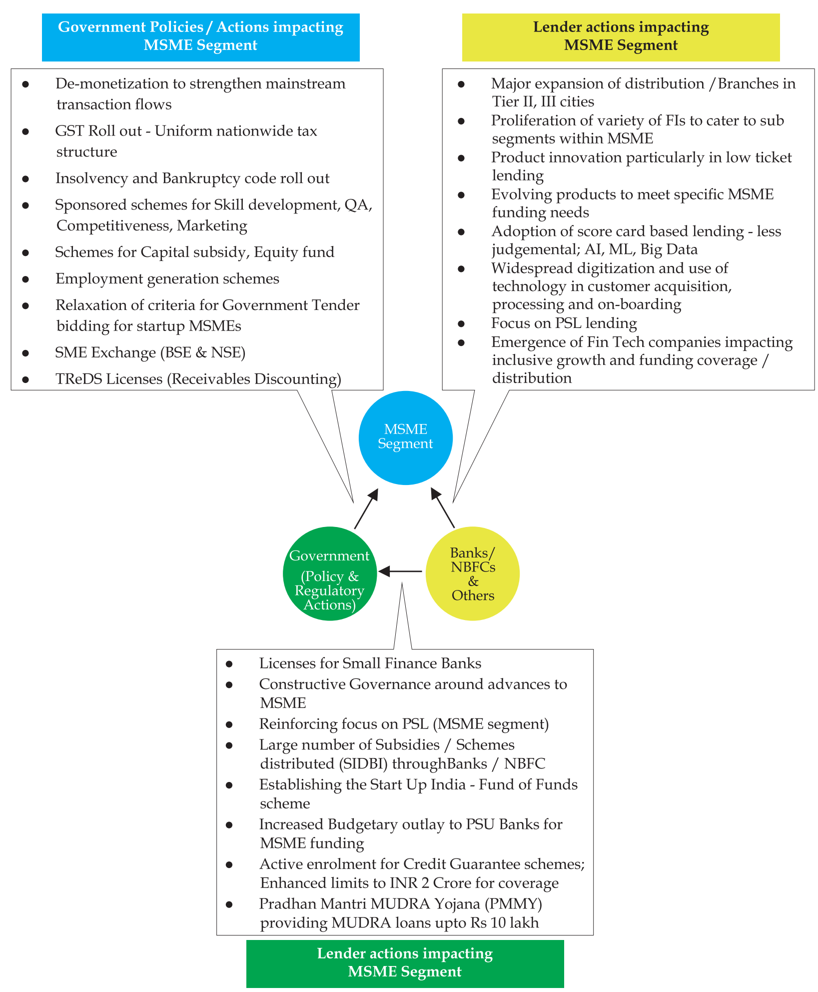
MSME – Power engine of the economy and a large consumer of credit

India has over 51 million MSME units employing around 117 million people (~ 40% of the workforce) and their contribution to the total (non-agriculture) GDP is about 37%. The MSME segment is also a large consumer of credit. The Micro (credit exposure less than ₹ 1 Crore) and Small (exposures ₹ 1 Crore-25 Crore) segments constitute ₹ 11.7 lac Crore credit exposure (23% of commercial credit outstanding) with Y-o-Y growth of 20% and 9% respectively from Dec'16 to Dec'17[1] The overall MSME credit growth has been at a healthy 13% CAGR between FY 12 – FY 17.

The above, coupled with other macro enabling factors, in the past few years, MSMEs have emerged as a strategic segment. "MSME Customer Centricity" has now evolved as a theme with both the Government and lenders. Customer centric approach is now a key driving force for product innovation, distribution, technology and regulatory enabling actions.

Lenders today invest heavily in manpower, technology and research to anticipate trends, understand evolving customer needs, and identify unaddressed market segments besides digitally acquiring customers and improving overall customer experience.

The MSME Customer Centric journey so far



[1] *Source: MSME SIDBI PULSE March 2018.*

Government – Policy formulation and actions for the MSME franchise

The government plays a pivotal role in promoting a healthy climate for MSME franchise development.

Some of the key policy and strategic measures include

- Credit Guarantee Scheme (CGS) limit enhancement to Rs 2 Crore.
- Under Pradhan Mantri Mudra Yojana (PMMY), MSMEs are given loans up to Rs 10 Lakh with no collateral. Since inception INR 2.46 lac Crore disbursed.
- Government has set up business incubators to train eligible youth in various skills and hence provide an opportunity to set up their own business enterprises.
- Government has also launched Atal Innovation Mission (AIM), Support to Training and Employment Programme for Women (STEP), Startup India etc. which helps in training and skill development.
- Technology centres in 8 cities provide technical and business advisory support to MSME entrepreneurs.
- With launch of Udyog Aadhaar Memorandum (UAM), government has simplified the erstwhile lengthy procedure of filing for MSME registration
- GST – Nationwide single tax structure.
- Enabled set up of SME Exchange (BSE & NSE) and Trade Receivables Discounting System (TReDS) – Receivables Discounting Exchange.

Lenders – Customer centric innovation & enablers

The context within the MSME lending eco-system has transformed from being product and distributor centric to being customer centric. This has led to strategic capabilities being built within the MSME financing environment. Technology, data driven analytics, digital strategies and research for product innovation are playing a differentiating role for lenders in acquiring and retaining customers in a competitive market place. Lenders who have adapted a customer centric model of innovation have gained far greater market share both within the traditional and the new age MSME segments.

A deeper look at the MSME credit requirements and corresponding areas of innovation and development elucidates this point.

		Customer Need	Customer Centric – "Innovation and Enablers" By Lenders / FIs
MSME Funding Needs	Mid to LongTerm	Equity	✓ FY 17 – 198 VC Funds and 302 AIF registered with SEBI ✓ Sector specific and agnostic Funds now available ✓ Strong government impetus in setting up the Startup India Fund of Funds ✓ SME Exchange inception at BSE / NSE
		Debt – Against Property Collateral / Equipment	✓ Increasingly other forms of non-property collateral being accepted by Financiers; NBFCs play a key role here ✓ Market threshold of lending against property collateral now from ~ INR 1 Lac upwards (Benefits MSME segment, particularly in Tier II, III cities) ✓ Huge distribution increase particularly by NBFCs in Tier II, III Cities ✓ Higher LTV offered by NBFCs ✓ Score Card based lending decision, bringing in uniformity and speed ✓ Strong focus of Banks / NBFCs to digitally acquire customers to bring down cost of acquisition and remit pricing benefit to end client ✓ Several NBFCs have Equipment Manufacturer tie ups enabling faster turn-around in Equipment loan disbursal

		Customer Need	Customer Centric – "Innovation and Enablers" By Lenders / FIs
MSME Funding Needs	Short Term	Debt - Against Book Debts /Receivables	✓ TReDS – Receivables Discounting exchange launched ✓ Several Banks / NBFCs have innovative parameterised products for Card Receivable Financing under e-commerce segment offering ✓ Large number of NBFCs offer structured solutions against book debts
		Debt - Short Term	✓ Strong usage of big data analytics to evaluate loan applications ✓ Adoption of Score Card based lending – shift from erstwhile judgmental lending ✓ Digitization / Technology transformed has this space; MSME clients can now evaluate the interface with lender at each of the four stages of pre-acquisition, credit processing, on-boarding and relationship management during the life cycle of the loan ✓ Innovative financial products in line with market / regulatory developments eg, Loans basis input credit claims under GST offered by several Banks; and Against Card Receivable ✓ Aggregators playing a significant role in building loan market places for lender / product evaluation ✓ Fin Techs playing a significant role in building models of AI, ML to improve end customer experience ✓ Launch of Small Finance Banks – impacting penetration and distribution in a big way for small ticket lending

Summary

The MSME Lending eco-system in India continues to evolve due to the Customer Centric approach adopted in innovation for the segment. The issues faced by MSMEs within this space are no longer largely related to supply of finance but of know-how around the right funding solution and lender selection or both. This is further accentuated due to a variety of government schemes being offered to the MSME segment.

The government should invest further in promoting awareness, availability and fitment of the various schemes to the MSME segment.

For lenders, there is a need to offer increased counselling to MSMEs to understand the specific need for finance when dealing with a credit application. MSMEs should also invest time seeking financial advice or crystallize their near and long term funding needs through self-help platforms.

Digitization has already impacted this space in a major way and Fin Tech companies are leading the way in creation of digital architecture for seamless customer acquisition, credit predictive modelling, Artificial Intelligence and Machine Learning capabilities for credit processing. These measures will benefit MSMEs seeking credit. Over the next few years, the entire application to on-boarding experience would be vastly different from the present.

The credit environment is enabling and has the necessary backing of both the government and the lenders; MSMEs seeking credit should make most of this climate to ensure critical growth to the Indian economy. ■

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Through his career, Arun has successfully managed a variety of assignments in India and overseas covering sales and relationship management, credit risk management, product & portfolio management, corporate credit ratings, auditing and overall profi centre management. The roles were held in established businesses, liquidating and stressed portfolios and startups.

An avid reader and speaker at several forums, Arun has also authored several articles for various publications impacting SME Lending in India. He serves as a member in several key committees within the Edelweiss Group.

Financing MSMEs : What Lies Ahead?

Kalpana Pandey
CEO & MD
CRIF High Mark

February 2018 marked a landmark proposal by the Union Cabinet to redefine micro, small and medium enterprises (MSMEs) based on their annual revenue, replacing the current definition that relies on self-declared investment on plant and machinery. This comes close on the heels of measures by the Government of India to bolster the MSME sector's growth – the 5% cut in corporate tax from 30% to 25% announced in this year's Union Budget for the companies with turnover of up to Rs 250 crores; the RBI's recent decision to extend the credit period to small businesses before classifying their loans as non-performing assets, or bad loans; hiking of customs duty to support labour intensive industries such as leather, food processing etc.

MSMEs are known to be the mainstay of any growing economy. They are one of the key contributors to the GDP of the country but a much bigger provider of the employment to the populace. In India, 31% of the GDP and nearly 40% of the total exports is contributed by MSMEs. These 5 crore MSMEs provide employment to over 11.1 crore Indians i.e. 16-17% of the adults.

Any business, more so with MSMEs, requires finance to sustain its existence and grow its business to achieve newer scales. One of the important source of such finance is the formal channel of Banks and NBFCs. The Economic Survey released in January 2018 highlighted that the MSME sector received only 17.4% of the total credit outstanding. Our data also shows that 14-15% of formal credit from Banks and NBFCs today is directed towards MSMEs. 80% of the MSME credit is supported by commercial banks, 50% of the credit coming from public sector banks. Since MSME sector is included in the priority sector considerations, the banking sector continues to focus on financing MSMEs

Despite the fact that the importance of MSME sector has been very well acknowledged and several steps have been taken to assist MSMEs in becoming financially strong, nearly 92% of the MSMEs are still not funded externally. Most MSMEs still largely depend on finances from internal sources or from local moneylenders- thus making the finance either insufficient o quite expensive. The quantum of credit disbursed to MSMEs is also not commensurate to the sector's contribution to GDP. International Finance Corporation (IFC) estimates the financing gap for MSMEs in India to be about Rs 2.93 lakh crores. Such a mammoth demand-supply gap is a growing concern for the economy, especially with the vision of the Government of making India the next economic superpower.

Access to finance - Still a challenge for MSMEs?

A hoard of challenges have emerged as the underlying reason for MSMEs not having an easy access to finance. As demonstrated by the research done by Singh &Wasdani (IIMBangalore), most of these challenges are presented in front of MSMEs at each stage of the lifecycle – start-up, survival, growth and sustenance. Some of the key challenges listed out by them are: difficulty in furnishing collateral or a guarantee, complicated procedures in loan application and processing, time taken to process loan requests, high services fees and higher interest rates, absence of formal accounting system, and a lack of knowledge about the available schemes.

Most of these issues faced by MSMEs are common knowledge now – and these emerge because of a lack of trust that financiers have on the MSMEs and the documents furnished by them. Our data shows NPAs on MSME loans to be over 6% - since this is slightly higher than the retail loan book, this also makes lenders somewhat skeptic on MSME loans.

One of the toughest task for financiers is adjudging the creditworthiness of a MSME business. For absence of reliable information about the MSME, most traditional banks demand a collateral or a guarantee to consider a MSME for any credit. An early-stage MSME, when in need of credit, find it tougher to furnish any asset which can be considered as a collateral. This is why perhaps one can hear many entrepreneurs say “you don’t get finance when you need the most”.

Financiers require documentary evidence of the accounts and banking history as part of the credit application process to help understand income and expenses. Many MSMEs especially the sole proprietorships, family run ones etc. do not even maintain a formal record of their business activities. Bankers therefore take longer time to assess the loan eligibility given the complexities involved in supporting documents furnished by MSMEs. More complexities in loan process, longer processing time and higher uncertainties in the underlying business of MSMEs makes such loans more expensive – higher processing cost and even higher interest rates.

If we compare this situation to retail lending eco-system, the individual borrower has enough access to finance. Most financier have automated their loan processing systems using credit scores, additional data points and analytics. This has made loan approvals possible in just a few minutes instead of many days. A few financiers are now able to even disburse loans within 10 minutes of the application.

Same tools can be effectively used even when the MSME takes the centre stage as the borrower. Credit Scores are now available even for MSMEs and their credit history from the credit bureaus such as CRIF High Mark is available to financiers at a click of the button.

Over the last 4-5 years, we have observed an increased use of credit reports even for MSME financing. The crucial role played by credit bureaus in bridging the gap between lenders and MSMEs is one of trust and transparency. This can instantly reduce the preliminary evaluation time in all such cases where a MSME has previously availed a formal credit.

Some studies have also shown a personal bias of the banker involved also playing a factor in getting credit approved in case of MSME. Given the tricky nature of personal dynamics and first look judgements, a credit score basis the credit historyis a more scientific and objective tool to depend on. It predicts the risk that a promoter or MSME poses in timely repayment of loans based on past behaviour. Tools such as Risk scorecards, Decision analytics, Decision Rule Engine etc, which are very popular with retail lenders, can be effectively applied to MSME loan processing as well, thereby significantly reducing the subjectivity involved and the time taken to process the loan application.

Bankers also tend to rely a lot on the promoter’s personal credentials and understandably so, given that the promoter’s income and future is quite intertwined with that of the MSME business. Promoter’s creditworthiness can be quite reliably assessed using the promoter's personal credit score. In cases where MSME doesn't have credit history, promoter's personal credit history could stand a good ground.

It is in fact advisable that the promoters prepare themselves by checking their own credit score and the credit score of the MSME directly from the credit bureaus such as CRIF High Mark. It can enable them to be more prepared with the pre-requisites before approaching a bank or a NBFC for credit.

The new-age lenders and the fintech players are leveraging some of these tools and perhaps many more to differentiate themselves from traditional lenders. The newer lenders are gaining attention from the MSMEs and are able to meet the immediate financing needs of MSMEs through a largely automated loan processing system. Some of the fintech players are acting as intermediaries between the MSME and the traditional lenders by deploying such tools to minimize process complications, inefficiencies and time required

The need of the hour

It is pertinent to understand that just the credit score cannot reduce the information asymmetry that exists between the financiers and the MSMEs. Financiers look for lot more information about the MSME such as the business accounts, current accounts, income statements, expense statements, sales statements etc before being comfortable with an application.

Some of these requirements are tough to meet in near future. However, with the advent of variety of technologies – digital and otherwise and the efforts of various stakeholders – the government, the financiers, the MSME associations and the MSMEs themselves – the future looks better. I am particularly excited by three developments that we are all experiencing in our country and that have the potential to significantly influence MSM financing.

First is increased adoption of digital payment. This development kick-started with the Demonetization of Rs 500 and Rs 1000 currency notes in November 2016. Introduction of a very simplified infrastructure such as UPI and push by wallet & payments companies has brought many small MSMEs into this fold. A trail of digital payments received and made by MSME will be an excellent source of reliable information about the MSME's business and its cash flows. MSMEs registered on e-commerce platforms also are creating a significant footprint of their sales and returns. Many e-commerce companies are facilitating access to finance to the sellers through their partnership with financiers - such transactional data provides comfort to financiers in going ahead with a loan.

Second is introduction of a unified indirect tax regime through GST. With lakhs of businesses filing the GST returns every month, banks and NBFCs can potentially have direct access to verifiable data on income and expenses of the MSME.

Third is establishment of trade receivables platforms which will promote invoice discounting and thus improve cash flows for the MSMEs. A MSME will be able to put an invoice due from a large corporate for discounting, and cut the cash cycle to manage its cash flows better.

Having understood the relevance of a trustworthy middleman who can bring transparency and thus efficiency into the equation, the government is adopting several measures to introduce new centralized data pools that could lead to increased use of data across the banking and other sectors. Repository of moveable assets within CERSAI is one such move.

With reliable data at their immediate disposal, the financiers will be able to process MSME loan requests much quicker and also in a more robust way. In spite of all these initiatives, India continues to be faced by the challenge of data silos. A challenge for financiers would be to go to many disparate data sources (silos) to get relevant information and aggregate them to take final decision. If intermediaries such as credit bureaus are allowed to harness the power of these disparate data sources, such intermediaries can supply aggregated comprehensible data from the variety of data sources, making it simpler for financiers to use.

The journey made thus far by all stakeholders in the MSME ecosystem is one through extreme caution. Many initiatives taken up by the Government has put MSME into limelight. With the power of newer technologies, increased digitization and the strong will from each stakeholder to better things, the path ahead for MSME sector looks exciting. ■

***Kalpana Pandey** has over 25 years of experience in the BFSI segment, She has been spearheading CRIF High Mark's transition into a new age credit information bureau in India. Capitalizing on her past experience as Chief Technology Office of erstwhile High Mark and at HDFC Bank as Senior Vice President-IT, Kalpana's expertise are designing & managing many 'Time & Business' critical set-ups in key organizations. She excels in conceptualizing and transforming challenges into business opportunities.*

Kalpana began her career with State Bank of India and then worked with IDBI Principal Asset Management Company as Head-Technology. An M.Tech (Computer Science & Technology) from IIT Roorkee, she is also certifie on various internationally accepted Best Practices, Frameworks and Standards on Enterprise Architecture, Governance, Risk, Compliance & other Management practices.

Risk Mitigation and Simpler Financing through Big Data

Dillip Ranjan Rout
VP & Head - Collections
Lendingkart Finance Limited

Risk. An all-consuming, all-pervasive word no matter which sphere of society you consider or whichever market sector your business operates in. The addition of this one word suddenly seems to dull down any kind of bright picture or projection in life or business. In terms of business, risk can often have a bookish definition. It is the chance an investment's actual return will differ from the expected return. Financing is a business model wherein risks and returns are direct derivatives. With alternative lending picking up pace in India, faster loan disbursal and even faster approval/sanctions are the call of the hour. In the face of such a demand, the degree of risk involved also increases manifold. The only sustaining relief is access to valid and concrete data.

Data, or organized information, is something that allows investors and businesses to take calculated risks. Calculated risks are any day better than risk alone. You study the market, get a feel of the pulse regarding your specific sector and then decide on the best course of action, accounting for any mishaps that might occur. Coming to financing, the more historical, social and entrepreneurial data you can process about your clients, the more comfortable you can be in deciding on the kind or amount of credit you can offer. Acquisition and proper processing of data plays a critical role in risk mitigation. In layman terms, the more variables you know of in any situation, the surer you become of the outcome.

That brings us next to Big Data. The term has been around since 2005, first coined by O'Reilly Media. But 90% of all available data has been created in the past 2 years. Earliest records of using data to measure business performance date back almost 7000 years to the accounting system in Mesopotamia. Derek Price in 1961, published Science Since Babylon, and explains how data exponentially increases with each scientific advance. Big Data is simple to understand from its face value. This encompasses huge data sets that can be analyzed through algorithms and computers to deduce patterns, trends and associations, particularly regarding human behavior and interactions.

So, how do all these come together?

Digital lending – fi ancing online and the risks involved

Digital lending hasn't yet become pureplay digital in India. There are still dependencies on physical proof of business, revenue, tenure and credit history. A large portion of that is due to the low rate of financial inclusion when it comes to businesses. When it comes to personal financing, the pastures are a bit greener. After all, as per a 2014 report from CRISIL, 1 in every 2 Indians has a savings account with a bank and there has been a 40% increase in bank savings accounts since 2009. India's financial inclusion score stands at 42.8 out of 100 as of 2014. But when we filter out the data, businesses with well-maintained current accounts are still few and far between.

There could be multiple reasons behind this. Savings accounts are technically easier to open and maintain than current accounts. Entrepreneurs who earlier had a salary account might even continue to use the same account for business purposes because of the zero-balance benefit offered. Banks might encourage opening of savings accounts more citing the advantage of higher interest rates being paid on the balance maintained. In India, sadly, current accounts do not offer any interest payment. This also forces smaller companies/businesses to divert a bulk of their funds to liquid investments in the market. For digital lenders that assess business revenue prima facie from bank accounts, sometimes this can present a rather colorless profile. Most of the problems mentioned in here can be much readily addressed by educating businesses of the need to have good cash flow records on their bank accounts.

A loan application with any digital lender typically collects five basic nuggets of data. The name of the applicant, date of birth, phone number, email address, and in some cases, PAN number. With the mandatory introduction of Aadhaar linkage with bank accounts and phone numbers, lenders can always do a reverse trace to gather credit data. Consent for collection of such information is taken when the applicant agrees to the initial terms and conditions while applying online. An initial credit check through CIBIL, Experian or other credit bureau allows the application to either proceed further down the process pipeline or to be rejected upfront. After the application is approved and the terms of the loans (loan amount, interest rate and tenure) which fits the risk profile o the applicants are communicated to him/her, physical signature is still needed from the borrower on the agreement papers in most cases. India stack has the provision of e-Sign and e-KYC, but lenders still must boost up their technology stack to bring in these benefits. At the same time, people and businesses must also be educated about the advantages of these features and how to effectively use them.

Coming to sanctioned loans, there's quite a bit of difference between working capital loans and startup capital loans. Not necessarily one can be used in lieu of the other. Most small businesses do not understand this or have at least been painted a wrong picture. Working capital loans are mostly given to existing businesses based on the performance of the business. A business with good and consistent revenue generation will obviously stand a greater chance of getting approvals for a business loan faster. Based on the same tenets, the business loan can also be a collateral-free one. As the qualifier for such a business loan is the business itself. A startup capital loan on the other hand is used for setting up a business. For the same reasons, such loans require multiple documents and criteria to be present and fulfilled, much more than what a working capital loan might require. Constraints in applying for a business loan aren't many, but they can be strict based on the lender. A working capital loan for example, will require the applicant to furnish his/her current account statements, GST registration, company registration and business PAN. These are the basic requirements, though there might be more as per the lender's process.

So, what are the major problems that are faced by digital lenders when approving loan applications? They can be effectively summarized into four points –

1. **Assumption about Norms**

   Digital lenders do not rely only on credit scores, bank statements and income statements. For loan applications, they collect data from social media, government agencies and multiple other sources. They even welcome businessmen with less or insignificant credit history. Digital lenders often assume such young businessmen know about credit bureaus and the implications if a loan default happens.

2. **Lost in Translation**

   Most digital lenders are quite reserved about the entirety of their processes, especially when it comes to credit appraisal.

Adding on to this, almost every other businessman has an upfront negative attitude when they face any financial stress in their everyday business operations, instead of looking for ways to resolve the same. The situation becomes quite bleak at the time of application rejection, when the applicant doesn't fully understand their shortcomings and the lender can't fully explain their half of the story.

3. **Inadequacy of Data**

   Digital lenders can often jump the gun when it comes to lending to new clients. Thus, most do not observe a full business cycle that portrays growth and decline/stagnation. As per RBI, banks and lenders have been warned as well against outsourcing credit appraisal processes. Lenders need to assess businesses post a full business cycle which normally happens within 3-4 years.

4. **Loan Recovery Liabilities**

   When it comes to recovery of loans in cases of delinquencies, digital lenders face a lot of flak especially in rural areas where collection resources are scarce. Recovery procedures via legal and court processes are expensive and time consuming as well.

These hiccups cannot be solved overnight. Digital lenders and businesses need to work together to reduce these constraints as much as possible. But until then, actual instantaneous approvals and sanctions of business loans is still a distant goal.

The role of big data in SME financin

It is not that Big Data hasn't been leveraged till now in the financial sector. Crowdfunding platforms like Milaap are based on huge data sources. ShareChat and Mooshak are already leveraging user data to improve their offerings. And if you don't know about all these, Facebook is already famous and infamous regarding its usage of user data.

Big Data and its analysis provides insights into consumer behavior and tendencies. In the financial sector, such insights can prove to be decisive when it comes to approving or rejecting a loan application. It will allow for a kind of profiling based on historical data from various sources. Since the data sources are numerous and the amount of data is huge, there are lesser chances of the data being altered or modified

People share more information online than they realize. Subliminally and subconsciously, such information becomes a treasure trove of data that can be used to gauge the intention and behavior of an applicant when it comes to digital lending. The past spending, comments, views, likes/shares of a topic can provide insight into the mindset of a potential borrower and help digital lenders make more informed decisions. Since Big Data relies heavily on algorithms, it will be a continuous effort to keep tweaking these algorithms to have the most beneficial output regarding credit appraisals.

This will, eventually, not result only in less risky decisions, but faster turnaround times for loan processing and sanctioning. That will add to the goodwill of the company as well. Going a step further, by implementing blockchain, such data can be made more secure. Added to that, systems on the blockchain network can share the data as well. This will make the digital lending network much more resistant to frauds and delinquency on the part of borrowers.

Quicker, less risky credit decisions and efficient risk management systems

Benchmarks like WeChat's of disbursing loans within 0.3 seconds are lofty. But they can be achieved. Digital lenders of India need to understand that a lot of work goes into making lightning fast approvals and sanctions a reality. Especially when businesses in India still suffer from thin file problems. Big Data is a plausible facet of the solution but isn't the complete answer. For a holistic answer to the problem, lenders and borrowers must do a lot of data sharing.

For example, borrowers cannot simply blame lenders for the rejection of their loan application and must investigate their own credit history, bank records and revenue generation. Lenders need to share the inner workings of their credit appraisals and inform borrowers of the gaps that cause a fault in their credit profiles

With constant data sharing and improved analytics, lenders can expect better applications to come their way and borrowers can have a better estimate of what loan amount they can possibly secure without an outright rejection. Lenders also need to understand that just because a borrower has been constantly diligent, sanctioning a loan amount greater than the needs doesn't necessarily put them in the good books. Borrowers on the other hand, shouldn't apply for a loan whose EMI that is way more than half the monthly savings they can afford.

A good understanding of credit history and scores goes a long way in avoiding dangerous financial pitfalls.

Loans on Tap

India Stack is an initiative that implements DigitalLocker, Aadhaar, eKYC, eSign, UPI. Out of these, as of now, only Aadhaar is in the process of being made mandatory, which is helping in linking existing mobile phones to people and their various identification numbers issued. That is the first step in filtering data tha can be used effectively in getting more insightful information about customers. Many apps centered on personal loans are already in the Indian market helping individuals out. There is no reason that the same thing cannot be achieved for businesses as well. All it will take is a little bit of work, a lot of innovation, a little forbearance and quite a bit of trust. ■

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NBFCs can Significantly Bridge the Credit Gap for MSMEs

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MSMEs are the engine of India's GDP growth

MSMEs are the backbone of Indian economy, contributing to nearly a third of the GDP of India. Further, their contribution in India's GDP is expected to increase significantly to 2020. Since MSMEs will be a strong contributor to the India's growth story, it is imperative to ensure conditions that facilitate and reinforce MSME growth.

The funding gap for MSMEs is more than INR 2.5 lakh crores

Adequate availability of credit is a key enabler for the growth of MSMEs. However, penetration of formal sources of funding is estimated to be less than one-fourth of the total MSMEs in India. The situation is worse for small enterprises (<INR 5 million turnover), out of which less than a tenth have access to institutional finance. Clearly, the share of credit to the MSME segment is disproportionate to their GDP contribution. While there are varying estimates on the extent of credit gap for MSMEs in India, we believe that the funding gap for the MSME sector is in excess of INR 2.5 lakh crores.

Catering to this funding gap can unlock a big growth opportunity, both for MSMEs and credit institutions. As the share of MSMEs increases in India's growing GDP, the credit to this segment has the potential to grow at an even faster rate. This presents a big lending opportunity for funding institutions in general and NBFCs in particular.

Key reasons for MSME funding gap

To capitalize on the MSME funding opportunity, one needs to understand the specific challenges restricting credit to this sector. Among the factors that inhibit availability of institutional credit to MSMEs, the most significant are non-availability of adequate financial records, collateral, and credit history for determining eligibility for loans. This makes it difficult for banks to bridge the funding gap, as most banks rely on collateral and strong financials and credit history. NBFCs have the potential to overcome these challenges, and play a pivotal role in formal lending to MSMEs.

NBFCs are already emerging as serious lenders to MSMEs

Basis the CIBIL commercial bureau data for MSME credit for the period Dec'15 – Dec'17, we notice that Public Sector Banks (PSBs) have been the dominant lender to MSMEs. In this period, the share of Private Banks increased from 25.4% to 28.5%, while that of NBFCs increased from 7.9% to 10.4%.Clearly, NBFCs are emerging as a serious lender to the MSME segment, but could potentially do a lot more to further increase their overall share in MSME lending.

Challenges and propositions for NBFCs to enhance MSME lending

The main challenge for NBFCs to lend to MSMEs is the information gap on the part of MSMEs. There is lack of awareness among MSME owners about the proposition of NBFCs and their more inclusive norms(compared to banks). Further, the inhibition to approach the formal lending sector, combined with the inertia to continue with status quo (informal sources of lending) makes it even more difficult for NBFCs to lend to MSMEs.

Another major constraint in catering to MSMEs is their geographic spread, as a significant number of MSMEs are based outside of top 50 cities in India. As per NSS (2015-16), around 51% of MSMEs operate in rural regions

Above constraints can be overcome by NBFCs by following strategies: (1) adopting a lean model of branch expansion, (2) leveraging digital intermediaries to access new MSME customers, (3) moving beyond traditional credit assessment that relies essentially on financials and credit history for determining loans eligibility. These steps will enable NBFCs to cater to a larger set of under-reached MSMEs, and also support the financial inclusion agenda for India.

1 **Lean model of branch expansion key to cost-effective reach**

In ensuring geographic reach to the MSMEs, the challenge for NBFCs is in operating cost-effectively. In tier-2 & tier-3 locations, it is difficult to justify the profitability of a full-fledge NBFC branch office, because of lower overall business volumes. This problem can be overcome by adopting a hub-and-spoke model of branches, where the spoke branches are lean and low-cost, with minimal admin costs, and set-up to cater to a small employee base.

2 **Partnerships with digital intermediaries will enable NBFCs to reach out to more MSMEs**

NBFCs can tap onto large MSME customer databases available with new-age digital intermediaries (like e-aggregators, loyalty customer databases of e-commerce companies, internet marketing, etc). This will help both in reaching out to new MSME customers, and in addressing the information/ awareness gap of MSMEs with regard to the lending proposition of NBFCs.

3 **NBFCs need to evolve beyond traditional credit assessment**

Traditionally, banks and NBFCs lend to MSMEs based on strong financial track record and co - lateral (property). This traditional credit assessment model significantly restricts the pool of MSMEs that can be serviced by formal lending institutions (banks and NBFCs). NBFCs have, however, selectively started to use alternate credit assessment models, to allow for more MSMEs to avail formal loans. NBFCs need to continue to innovate and evolve their credit assessment methodologies, to be able to provide loans to more underserved MSMEs.

Favorable policy and regulatory support can also help in bridging MSME credit gap

There have been several regulatory developments already that are expected to have a positive impact on the growth of credit in the MSME segment. Introduction of GST has helped not only in onboarding MSMEs onto the formal economy, but has also enabled data generation that can significantly enhance the speed and effectiveness of credit assessment. Next, under the Credit Guarantee Scheme (CGS), the Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE) compensates for loss to the lending institutionsin the event of a default on loans to small businesses. This is enabling NBFCs to lend to a large number of new customers in the MSME segment.

These policy developments can be more instrumental in MSME credit growth. Specifically, there are more than 9 million MSMEs registered on the GST platform. If this data is made available selectively and systematically to lending institutions, it can enable easier credit assessment of the MSMEs, easing the overall lending process. The KYC norms stipulated by RBI for MSMEs could also be revisited to allow for easier process for genuine credit-seeking MSMEs, but having limited formal documents (e.g. checks on documents of incorporation and establishment could be eased). Next, under the CGTMSE, there is merit in enhancing the current limit (INR 2 Crore), to further the interest of formal lending institutions towards the respective underserved MSMEs segment.

Conclusion

India is on a fast growth trajectory, and MSMEs are a key driver for the same. To ensure an environment conducive to MSME growth, they need to have access to easy credit options. NBFCs are well positioned to play a significant role in resolving the specific constraints restricting flow of credit to MSMEs. To ensure cost effective reach, geographic expansion through leaner branches will be the key. NBFCs can reach to a larger MSME customer base through digital means and partnerships, and bridge information and awareness gaps. Higher adoption of alternative credit assessment techniques will allow for loans to MSMEs that do not qualify through traditional loan eligibility criteria. Select policy support actions will also help NBFCs bridge the credit gap for MSMEs effectively. ■

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***Rakesh Singh** has 24 years of experience in the financia services industry,across both large Banking and Non-Banking financia institutions. Currently, he is the Chief Executive Office of ABFL since July 2011. He is responsible for the day-to-day management of the NBFC and for building the necessary scale to make ABFL, a leader and a role model in the sectors in which it operates. In this role, he develops and implements robust business plans with a focus on building a strong team with a culture of high performance, transparency and accountability.*

He also serves as a director on the Board of ABHFL and is responsible for driving the housing financ strategy. He is also the Director of Aditya Birla Money Mart and responsible for leading the wealth management business.

Rakesh is a part of several industry forums, including Federation of Indian Chambers of Commerce and Industry, and lends his expertise as a member of FICCI's Banking and Financial Institutions Committee. He is also on the Board as a member for the NarseeMonjee Institute of Management Studies.

He joined ABFL from Standard Chartered Bank where he spent 16 years, starting in Retail Assets (Mumbai and Kolkata) and moving on to become Head for Mortgages, India. His last assignment with Standard Chartered Bank was as General Manager & Head SME Banking, India and South Asia.

Rakesh is an alumnus of the Harvard Business School and the Indian Institute of Management, Kolkata and also holds a post-graduation degree in International Relations.

The Evolving Contours of MSME Lending in India

Manav Jeet
MD & CEO
Rubique

MSME as a segment is fast emerging as the biggest contributor to India's GDP. In fact, MSME accounts for more than 40 percent of the total workforce in India. This area has not just been generating employment but has also been generating revenue for a long time. For the government, MSMEs are a good source of revenue but have not been provided with many incentives off late. However, under the current government, the Mudra Yojana has helped provide a much-needed boost to the MSME lending avenue. In fact, it has been 3 years that the Pradhan Mantri Mudra Yojana was introduced to cater to entrepreneurs in the MSME sector. The once underlooked sector is now receiving a substantial impetus by receiving loans worth up to 10 lakhs.

How do things look for MSME lending

The landscape of MSME lending is gradually improving. It is a crucial sector for India and its transformation can help boost the country forward. So, it comes as no surprise that the government is taking steps to reform MSME lending and allow further growth

According to an Apex industry body, only 33-34% of MSME firms have access to banks and other financial institutions. The rest have to rely on friends, family, and other private channels to receive funding for their business. This study goes on to reveal the challenges that are hindering the growth of MSME in India.

The present debt finance demand in this sector lies somewhere north of Rs. 32 lakh crores and out of this, over Rs. 6 lakh crores of debt is being financed by the formal sectors. Public sector banks account for 70% of MSME financing while private and foreign banks account for more than 20%. The Reserve Bank of India is taking various steps to ensure that MSME lending becomes a priority and can overcome its present set of challenges. Priority-based lending norms can encourage better financing but it can also cause constraints in the forces of demand-supply.

At this point, securing the transparency of MSME lending can help influence the lending process. Banks are often skeptical and hesitant when it comes to offering loans to small-scale units and this outlook needs to change. A credit guarantee system and awareness about MSME lending is the need of the hour. This will allow this sector to grow their credit, limit the number of financial risks and focus on their work. Financial institutions need to work with MSMEs that are linked to large supply chains of corporate customers and use that relationship to control credit.

It is quite clear that under financing at every stage is killing the MSME industry slowly. Borrowing credit from private lenders and taking personal loans because banks are hesitant is what hinders

MSME even more. Many MSME entrepreneurs often pledge their own homes or personal properties against these loans. They don't understand the legal consequences of such an action. Since banks take a long time as well as make them go through a drawn-out verification, often people go to private lenders. While banks do not require any additional collateral, the process of lending is still pretty strict.

However, the credit to MSMEs is expected to grow by 12-14 percent in the next five years. According to a report by ICRA, non-banking finance companies are expected to expand at about 20-21 percent CAGR during this period and bank credit to MSMEs will grow at a lower CAGR of 9-11 percent.

Non-banks are more flexible and provide customized credit assessment for MSME lending. They have been moving to lower ticket loans in view of asset quality pressure in large ticket loans and better yields in small ticket loans.

The future of MSME lending

Non-banking financial companies and mostly Fintech companies are now acting as an enabler for the unbanked sector in India. This also includes the MSME sector that is largely under-banked. Recent advancements in financial technology have helped transform the entire sector of financial services. These Fintech companies are using behavioral and psychometric information and bridging the gap in the MSME lending. Fintech promises to carve a smooth road for entrepreneurs involved in the MSME sector and hopefully make MSME lending a much better process.

New age Fintech marketplaces offer a platform to bring SMEs and financial institutions together. It either provide a list of options or act as lead generation platforms for financial institutions. But of late, end-to-end financial support provided by some of these platforms have come up as a big relief to the SME segment.

A few new age Fintech companies loaded with cutting-edge backend technologies have made it possible for SMEs an easy discovery of financing products as per their requirements, reducing uncertainty

There is already an aversion towards formal financial services in the MSME sector. This is due to lack of financial as well as digital literacy. Complacency is one of the biggest reasons for failure and fintech companies are changing the way how money-lending works. With all the technological advancements in the financial sector by their side, Fintech companies are thus becoming a one-stop-shop for smaller businesses who need swift loan disbursal. This helps in quicker loans at low-interest rates and finding the right fit for bot lenders and borrowers. There is simply no hassle when it comes to procuring small ticket loans. Cost of transactions is kept to a minimum. On top of all this, it is much easier to get loans from fintech companies than from a bank

Fintech companies are combining non-conventional data sources with traditional scoring methodologies for underwriting loans. With GST being implemented, it has helped create digital trails for the SMEs. The Government has made the digital transformation of businesses compulsory which has facilitated the movement of offline businesses to online platforms by e-filing taxes and online documentation. This has made data available which the new-age fintech players are using to accurately assess the credit-worthiness of SMEs based on their proprietary algorithms. The fintech players are using advanced technology to scientifically evaluate the SMEs and using evolved decision making and match making algorithms, they are contributing to bridging the SME credit lending gap.

Fintech companies have not only brought in transparency in SME loan disbursements but have also built a healthy win-win ecosystem by enhancing customer experience on one side and on the other side helps fina cial institutions improve quality.

Fintech is more than just a is ruption at this point. It is changing the way we look at banking and MSME lending. It is eradicating the pain points that I mentioned earlier so that access to business finance becomes simple and easy. It is creating inroads in the world of finance so that MSME can survive and thrive without feeling the fear of extinction.

MSMEs are a major driver of the economy of this country and it is important that it continues to remain so. ■

__Manav Jeet__ is firs generation entrepreneur. He is the Managing Director and CEO of Rubique, a leading financia online matchmaking platform offering a comprehensive range of financia products and services from multiple Banks & FI's, through cutting-edge technology platform.

Manav conceptualized Rubique with a vision to fulfil every financia aspiration in the customer's life cycle in the shortest, simplest and speediest way through an online credit marketplace. He aims to bring transparency and to improve the existing business practices through technology-enabled solutions for the entire ecosystem – customer, financia institutions and infl -encers. A veteran banker with over two and a half decades of rich experience in the fiel   of banking & financia services, Manav Jeet is a well-recognized name in the industry.

A professional with the distinguished reputation for being the driving force, he has a proven track record in operational effi-ciencies, business development, sales productivity, managing large teams & financia management.

Prior to setting up Rubique he has served in several strategic leadership positions in prestigious corporates like HDFC Bank, Citicorp Finance, SBI Mutual Fund, Reliance Capital and Yes Bank. He has played an instrumental role in various product set ups during his tenure with HDFC, Reliance Consumer Finance & Yes Bank. In his career, he has handled various types of products ranging from Micro finance Retail & SME loans to unsecured business – including credit card.

Under his leadership, Rubique has been regarded as one of the most promising Fintech companies in India today. With port-folio of around INR 2,670 crores loan disbursement through the platform, 82,000+ credit card setups & revenue generation of INR 47 crores, Rubique is marching towards a leadership place in its domain. The model has also been accredited with many recognitions such as being named the 'The Most Promising Brand' by The Economic Times, selection in Abu Dhabi Global Market (ADGM) FinTech Regulatory Laboratory (RegLab) program, finalis in Benzinga Global Fintech Awards 2017 & 2018 and being featured in IDC's FinTech 101 list for Asia/Pacifi   as one of the 10 fast growing fintech in India.

Fast-Tracking Formal Financing for MSMEs
Six Recommendations to Change the Game

Ashu Suyash
Managing Director & Chief Executive Office
CRISIL

Despite well-intentioned government initiatives such as Make in India, Start-Up India and Stand-Up India, funding constraints continue to impede faster growth of micro, small and medium enterprises (MSMEs).

A CRISIL analysis reveals a triple whammy at work – stretched working capital, with one in every three MSMEs hobbled by delays in payments from mid and large corporates; slowdown in growth of bank credit to the segment due to the stress in asset quality of public sector banks; and greater dependence of the entities on unsecured loans and promoter funding.

That clouds the prospects of a segment much vaunted for its economic significance – with over 6.33 crore enterprises, employing over 11 crore people, and contributing nearly 29% of GDP and 40% of exports

CRISIL believes a six-pronged effort, executed well, can change the landscape structurally. They are:

1. Improving credit flow by addressing information asymmetry

Lack of financial knowhow, financial discipline, willingness to share credible information and openness to third-party risk assessment among MSMEs results in information asymmetry for lenders, heightening their risk perception and making them averse to lending to the segment.

It follows, therefore, that a free flow of information from MSMEs or other credible sources to credit providers will facilitate easier flow of credit.

MSME performance rating assessments have a huge role to play here.

An analysis based on 9,100 MSMEs that have been evaluated more than once by CRISIL since fiscal 2009 shows performance rating assessments have led to enhanced operational performance (44% of rated MSMEs improved their scores on business and management parameters) and sustained improvement in creditworthiness (healthy performance ratings upgrade to downgrade ratio of 1.88 times).

More importantly, performance ratings have increased these MSMEs' access to formal credit (over 60% of the lot received additional bank finance post assessment) as lenders were able to base their credit decisions on credible assessments, thereby reducing the risk of NPAs.

What's more, the interest costs tend to be lower, too. As per RBI data, bank credit to MSEs stood at Rs 9.1 lakh crore as of February 2018. Assuming one in four MSMEs got an interest rate concession of 0.25% from banks, the potential savings work out to Rs 550 crore.

And that's not all. A CRISIL study shows that nearly 1,600 MSEs that were evaluated 4 times consecutively delivered strong performances. Their net worth and assets swelled 24% and 14%, respectively, on an annualised basis, and net interest savings amounted to 75 basis points over a four-year period. These MSEs also saw significant accretion in their coffers, with profits increasing 16% annually. This led to creation of more jobs by these enterprises, with their employee base expanding 9% annually. Higher-rated MSMEs showcased stronger relationships with bankers, suppliers and customers. Thus, credit culture can be deepened with performance rating of MSMEs.

2. **Hastening resolutions under Credit Guarantee Fund Trust for MSEs (CGTMSE)**

CGTMSE, with a corpus of only Rs 7,500 crore against cumulative guarantees of ~Rs 1.2 lakh crore, has so far been used largely by public sector banks.

Private sector banks have been reluctant to lend because of the prolonged claim settlement process, cap on pricing of loans, steep guarantee fee to avail cover and lack of confidence to lend without collateral owing to rising NPAs. NBFCs may have similar inhibitions.

The answer is ensuring timely claims settlement and linking service/ guarantee fee to the underlying credit risk of each proposal through independent and robust credit health assessment using the government's Performance and Credit Rating Scheme. Currently, the fee is based on NPAs of banks and their claim payout ratio.

3. **Ensuring symmetric disbursal under MUDRA**

It has been seen that 50% of the sanctions by the Micro Units Development and Refinance Agency (MUDRA) in the past two fiscals were made in the last quarter to meet targets. Such lumpy disbursals could trigger NPAs, so must be avoided.

Besides, the guarantee cover is inadequate to meet the NPA ratio of 8-9%. Cumulative sanctions by lenders have topped Rs 5 lakh crore, with guarantee cover of only Rs 3,000 crore.

The imperatives thus are clear: ensure quarterly disbursals; modify risk-reward mechanism under guarantee cover so as to induce wider participation of lenders; and improve underwriting by adopting diversified lending with appropriate risk assessments such as peer group comparison, performance ratings and credit analytics.

4. **Exploring non-conventional funding sources**

Securitisation can be an important alternative to improve cash flows, and alternative financin platforms – such as peer-to-peer (P2P) lending, Trade Receivables Discounting System (TReDS), and BSE SME/NSE Emerge platforms – need to be given a significant boost, too.

The brave new world of financial technology, or fintech, is opening up opportunities, including online market places. CRISIL recently acquired Pragmatix, a data analytics firm specialising in customer insights, sales and marketing, governance, risk modeling, regulatory reporting, KPI management and decision support. CRISIL is exploring ways to apply data analytics to the MSME segment to aid credit assessments for lenders.

Algorithm-based lending using data mining techniques could provide excellent leverage to provide huge quantity of data on customer segmentation, banking profitability, credit scoring and approval, predicting payment from customers, marketing, detecting fraud transactions, cash management, forecasting operations and optimising stock. Given the scale of MSMEs, these techniques can be applied en masse to the MSME segment for credit assessment.

Additionally, learnings from strong offtake of microfinance pools can be replicated for MSE pools as well. Here, priority lending benefits and higher yields can draw diverse investors.

To be sure, going forward, digital transaction trails under GST will also enable better understanding of MSE cash flows and help structure investor payouts accordingly.

Non-conventional funding sources can also help MSMEs reduce their cash-conversion cycle (CCC), which is the time taken to sell inventory, collect receivables and pay suppliers. A CRISIL analysis shows the CCC of MSMEs it rates shows significant variations, even within the same industry. It also shows that slow CCC is plaguing the entire sector.

5. TReDS can boost liquidity, given some tweaks

Though these are early days, TReDS has the potential to boost balance sheet liquidity of MSMEs, with some tweaks. And given the platform has government backing, there is credibility.

However, there is reluctance among large enterprises to participate due to lack of transparency and reduced flexibility to renegotiate terms with MSEs, or to defer payments. It is also time-consuming, considering bankers take time to assign limits to transactions as they have no prior exposure and need to conduct due diligence.

Among possible solutions, corporates (including PSUs) can be encouraged to consider trading a minimum percentage of MSE payables through TReDS. Also, since such exposure is typically short term, it could be treated as treasury exposure of 35-60 days, and accordingly, lenders allowed to discount the MSE receivables at lower than base rate and due diligence in line with treasury exposures.

6. Other steps for collateral-free financin

We believe strengthening the collateral registry and TReDS, allowing rating agencies to access information and launch relevant credit-assessment products, incentivising information sharing and capture of non-financial transaction details, incentivising building a longer rating history (three years or more), providing impetus to structured finance and availability of credible MSMEs for listing, and making enforcement of delayed payments to MSMEs more stringent would engender collateral-free financing, and thereby create self-liquidating, self-financing products

The result of these six steps would be a multi-fold increase in formal credit to the MSME sector. That can change the game. ■

__Ashu Suyash__ leads CRISIL's domestic and global businesses, steering its efforts to deliver high quality analytics, opinions and solutions to a wide range of clients from small companies to large corporations, investors, top global financia institutions, policy makers and governments.

Under her leadership, CRISIL has strengthened existing business portfolios, enhanced its customer value proposition and is creating new intellectual properties.

Ms. Suyash has 29+ years of experience in the financia services industry. Prior to CRISIL, she served as the Chief Executive Office of L&T Investment Management Ltd and L&T Capital Markets Ltd. She led Fidelity's Indian Mutual Fund business from 2003 to 2012 as its Country Head and Managing Director.

Prior to Fidelity Mutual Fund, Ms. Suyash was the Head of Strategy and Business Development at Citibank. During her 15+ year long tenure with the bank, she held several key positions across the corporate, consumer and investment banking divisions.

Over the years, Ms. Suyash has been recognised among the Top 50 Women in business in India and Asia by various publications.

Ms. Suyash is a Chartered Accountant and holds a Bachelor's degree in Commerce. She has a keen interest in the education sector and is on the Advisory Board of the Chartered Institute for Securities & Investment, is associated with the Board of Studies at NMIMS, NM College and is also on the Advisory Board of Aseema Charitable Trust - an NGO that provides education to underprivileged children.

Wave 2.0 of Digital MSME Lending – Key Enablers

Amit Sachdev
Co-founder and CEO
CoinTribe

MSME lending in India has witnessed Wave 1.0 of digital transformation over the last few years. A number of online lending players have chosen to look at unsecured MSME lending, traditionally perceived a challenge, as a massive opportunity with technology driven innovations around business model, product suite, credit algorithms, customer acquisition, servicing etc. Besides the determined spirit of entrepreneurs, what has enabled success of Wave 1.0 has been significant digital evolution in the Indian ecosystem including Aadhaar based digital identity check, mobile and internet penetration, favourably disposed government policies and regulations, growth of e-commerce platforms that has improved technology awareness among MSMEs.

While Wave 1.0 has seen initial success with reasonable improvement in turn-around-times, introduction of new capital to MSME lending, quality of customer servicing, I believe India is gearing up to witness a lot more transformational Wave 2.0 of MSME lending with a slew of changes that are underway. A lot more data will be soon available through Goods and Service Tax (GST) about to complete one full year since launch last July, lending process efficiency would further improve through CKYC and eNACH, growth of e-commerce would further drive amenability of MSMEs to online processes, digital infrastructure likely to get better with Reliance Jio led disruption, digital agenda of the government etc. However, there is a need to do lot more and the extent of disruption in Wave 2.0 will be a function of the speed and quality of enabling environment that government and regulator can establish with focus on the following five enablers

1. Data, data and more data

The key bottleneck to MSME lending over last so many decades has been the inability of banks and NBFCs to assess business health of MSMEs in the absence of credible financial statements and inability to scale up manual intensive underwriting processes. Online lending players have innovated with credit algorithm based lending that leverage large number of variables derived from multiple data sources to develop a scalable risk assessment model for MSME lending. The degree of accuracy and TAT of these credit algorithms is a function of the number of useful online data points that can be fed into the credit algorithm. There are several high utility data sources such as Income tax data, electricity bill data, telecom data, bank account data, GST data, credit card data etc that are not available online to lenders even with customer consent. Government should set up a financial data warehouse that could give access to these rich data points with due customer consent.

2. Regulatory clarity on use of Aadhaar based eSign

The Gazette of India (Regd. No. D. L. – 330 04/99, dated January 28, 2015, Ministry of Communications and Information Technology) and Information Technology Act, 2000 have legalised and authorized the use of Aadhaar based e Sign to digitally sign contracts including loan documents between the lenders and borrowers. This enables a complete digital loan documentation and signing process and eliminates need for borrower's over 50 signatures in a typical MSME loan documentation. However, most banks and NBFCs are uncertain about use of eSign in the absence of clarity from regulator, the RBI. A suitable guidance from RBI to banks and NBFCs on this subject would go a long way in driving faster adoption of eSign, thus improving customer experience as well as overall process efficiency

3. Faster implementation of CKYC and eNACH

CKYC and eNACH solve two of the significant process challenges in lending. CKYC enables online access to verified KYC documents while eNACH enables lenders to implement auto debit mandates online with borrower consent.

While the mutual fund and broking industry has adopted CKYC quite well, the adoption of CKYC by banking industry continues to remain low even months after its launch with only a handful of over 82 Crore bank accounts being covered under CKYC process currently. This experience is quite similar to the initial reluctance among large banks to sharing borrowers' repayment track record with credit bureaus and it would require an active intervention by the regulator to ensure speedy adoption of CKYC by all banks. Besides, CKYC process is currently limited to individuals. It is important to ensure inclusion of business KYC in the CKYC process.

While NACH has been in use for quite sometime now as a process for a borrower to authorize auto debits of loan repayments from borrower bank accounts, execution of a NACH mandate takes upto a few weeks and requires multiple iterations given error prone manual data entry and back-end process. eNACH has been introduced as a digital alternative to the manual process involved in NACH and is supposed to add significant improvement in Turn-around-time (TAT) as well as process ease and accuracy. However, eNACH is still in infancy with participation of only a few banks. Besides, eNACH process is currently limited to personal bank accounts. It is important to ensure inclusion of business accounts in the eNACH process for it to fully benefit the MSME ecosystem. Similar to CKYC, it would be important for the regulator and NPCI to ensure time bound adoption of eNACH by all key banks.

4. Swacch Property Abhiyan

Property ownership is seen as a very strong indicator of a borrower's stability and is a powerful parameter in credit eligibility determination for both secured and unsecured loans. In addition, the property value is also an important metric for secured loans. Currently, records of registered properties are maintained physically. Lack of digital records makes it extremely difficult to search and validate property titles. In quite a few cases, it leads to highly avoidable scenario of multiple registrations of the same property leading to ambiguity around real ownership of properties. More importantly, large number of properties and land parcels are not even registered making them useless for credit purposes.

It is proposed that full inventorising, digitization and dematerialization be undertaken for all properties across municipal corporations, development authorities, village panchayat offices etc to enable smooth search, validation, transaction as well as lien creation, where required.

5. Regular updation of Aadhaar records

Aadhaar enabled eKYC process has made the KYC process lot convenient and real time. However, quite often Aadhar records such as applicant's mobile number, address are not updated bringing down the utility of Aadhaar. Given that banks and utility companies stay in constant touch with customers, they are highly likely to have updated customer records as well. A periodic updation of Aadhar database using bank and utility company data could significantly improve the utility of Aadhaar. ■

Amit Sachdev *is the Co-founder and Chief Executive Office of CoinTribe, the leading online loan disbursement platform. Amit aims to revolutionize the lending processes in India, make it completely technology-driven and enable CoinTribe to emerge as the largest online lending marketplace of our country. His alma maters include IIT Varanasi as well as IIM Lucknow and has served prestigious Boston Consulting Group as a Principal.*

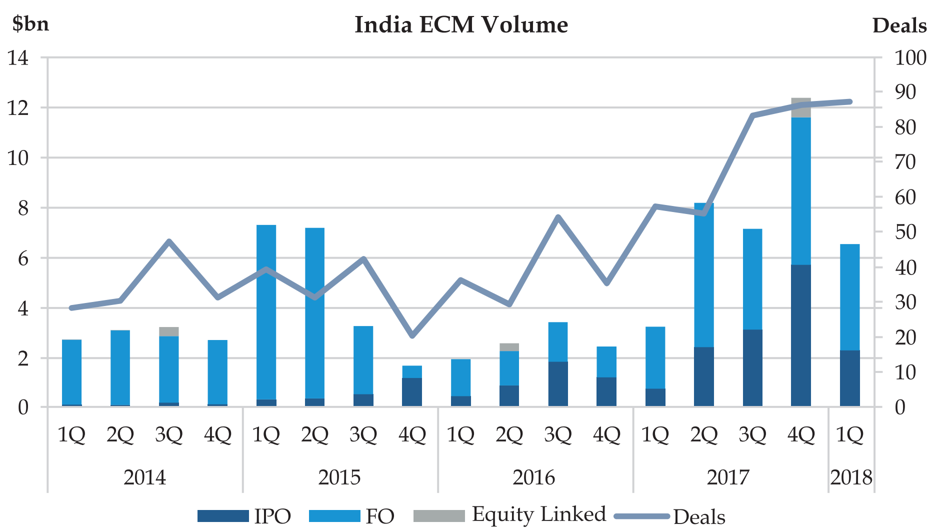
He has worked closely with several prominent financia institutions and has assisted them with new business build, strategic planning, design and execution of transformation agenda, digital agenda, product-growth strategy, risk management, and many more key business problems. Amit's expertise in the fiel has also been tapped by upcoming banks and he has played a pivotal role in framing their banking application, competitive strategy, bank set-up plan.

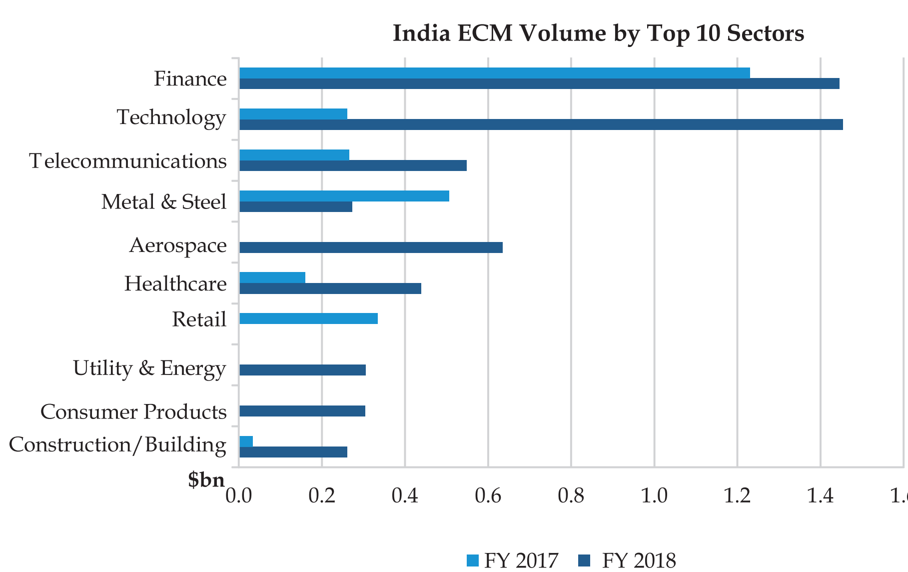
FICCI – Data Centre

Equity Capital Markets

- **Indian ECM** volume stood at $6.5bn (via 87 deals) for 1Q 2018, up more than 100% on the $3.2bn (via 57 deals) raised in 1Q 2017
- **IPO** volume increased considerably to $2.2bn (via 54 deals) for 1Q 2018, compared to $686m (via 37 deals) for 1Q 2017. There were no convertibles issued for the first quarters of 2018 and 201
  - **Follow-on** volume for 1Q 2018 increased 72% to $4.3bn (via 33 deals)from the $2.5bn (via 20 deals) for 1Q 2017
- **TCS Ltd.'s** $1.4bn follow on via book runners **Morgan Stanley and CITI** is the largest ECM transaction for 1Q 2018

In association with





Top 10 ECM Deals - FY 2018					
Date	Issuer	Sector	Deal Type	Deal Value($m)	Bookrunners
12-Mar	TCS Ltd	Technology	FO	1,383	MS, CITI
20-Mar	Bandhan Bank Ltd	Finance	IPO	686	KOTAK, AXIS, GS, JM Financial, JPM
21-Mar	Hindustan Aeronautics	Aerospace	IPO	635	SBI, AXIS
15-Feb	Idea Cellular Ltd	Telecom	FO	546	BAML, CITI
5-Mar	HDFC Ltd	Finance	FO	290	KOTAK, CITI, CITIC, CS, IIFL, JM Financial, Motilal Oswa
8-Mar	Piramal Enterprises Ltd	Healthcare	FO	274	KOTAK
10-Jan	NMDC	Mining	FO	194	ICICI, SBI, CITI
23-Mar	Jindal Steel & Power Ltd	Metal & Steel	FO	184	JM Financial, AXIS, ICICI, SBI
13-Mar	L&T Financial Services	Finance	FO	154	Edelweiss, CITI, JM Financial, Motilal Oswal
17-Feb	Aster DM Healthcare Ltd	Healthcare	IPO	153	KOTAK, AXIS, GS, ICICI, JM Financial, YES

Asia Pacific ECM Volume by Nation 1Q 2018				
Pos.	Nationality	Deal Value ($m)	No.	% Share
1	China	55,599	168	63.2
2	Japan	7,944	69	9.0
3	India	6,475	87	7.4
4	Australia	5,891	165	6.7
5	South Korea	4,963	36	5.6
6	Hong Kong	2,084	69	2.4
7	Thailand	1,359	10	1.5
8	Taiwan	1,168	38	1.3
9	Singapore	848	14	1.0
10	Malaysia	841	27	1.0

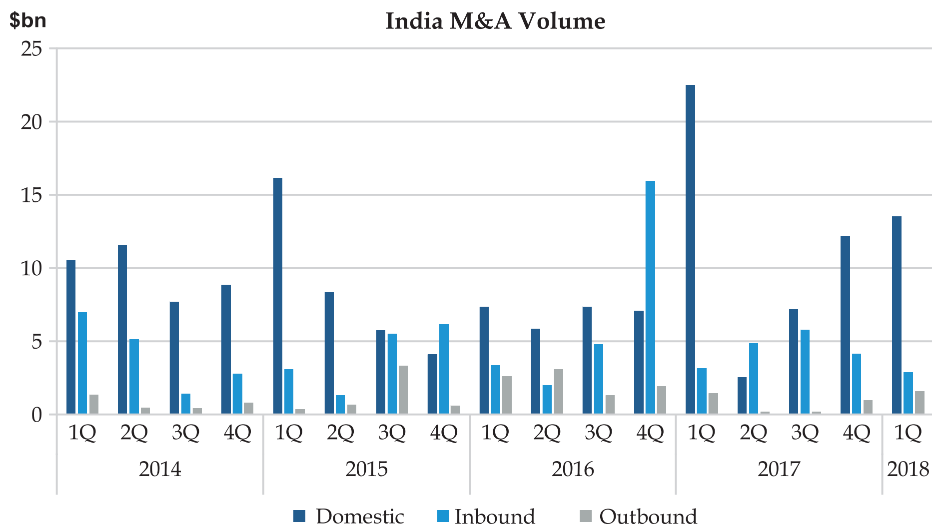
India ECM Volume 1Q 2018				
Pos.	Bookrunner Parent	Deal Value ($m)	No.	% Share
1	Citi	1,109	5	17.1
2	Morgan Stanley	691	1	10.7
3	Axis Bank	691	8	10.7
4	State Bank of India	557	7	8.6
5	Kotak Mahindra Bank Ltd	479	4	7.4
6	JM Financial Ltd	353	7	5.5
7	Fortune Financial Services (India)	317	3	4.9
8	ICICI Bank	300	7	4.6
9	Bank of America Merrill Lynch	273	1	4.2
10	Edelweiss Financial Services Ltd	234	5	3.6

India FO and Conv. Volume 1Q 2018				
Pos.	Bookrunner Parent	Deal Value ($m)	No.	% Share
1	Citi	1,109	5	26.1
2	Morgan Stanley	691	1	16.2
3	Fortune Financial Services (India)	317	3	7.4
4	Kotak Mahindra Bank Ltd	316	2	7.4
5	Bank of America Merrill Lynch	273	1	6.4
6	Axis Bank	172	4	4.0
7	ICICI Bank	164	3	3.9
8	Edelweiss Financial Services Ltd	161	3	3.8
9	JM Financial Ltd	141	4	3.3
10	State Bank of India	132	3	3.1

India Block Trade Volume 1Q 2018				
Pos.	Bookrunner Parent	Deal Value ($m)	No.	% Share
1	Citi	1,109	5	30.1
2	Morgan Stanley	691	1	18.7
3	Fortune Financial Services (India)	317	3	8.6
4	Bank of America Merrill Lynch	273	1	7.4
5	ICICI Bank	164	3	4.4
6	Edelweiss Financial Services Ltd	161	3	4.4
7	JM Financial Ltd	141	4	3.8
8	State Bank of India	132	3	3.6
9	Credit Suisse	108	3	2.9
10	Motilal Oswal Financial Services	101	3	2.7

Mergers & Acquisitions

- **India** ranked as the fourth targeted nation in **Asia Pacific regio** for 1Q 2018 with $16.4bn, down considerably on the $25.6bn announced for 1Q 2017
- India **Outbound M&A** volume up 9% to $1.6bn for 1Q 2018 compared to $1.4bn for 1Q 2017
- India **Inbound M&A** volume down 9% to $2.9bn for 1Q 2018 from the $3.1bn for 1Q 2017
- **Domestic M&A** volume down considerably to $13.5bn for 1Q 2018, compared with $22.5bn for 1Q 2017
- **ONGC Ltd.'s,** 16.5% stake in **Hindustan Petroleum Ltd.** in a $3.2bn valued transaction is the largest announced M&A transaction for 1Q 2018

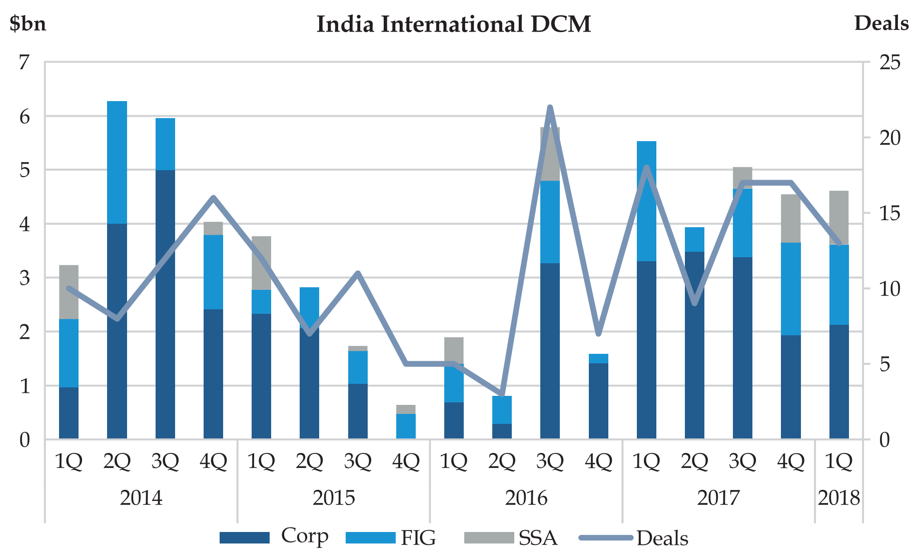


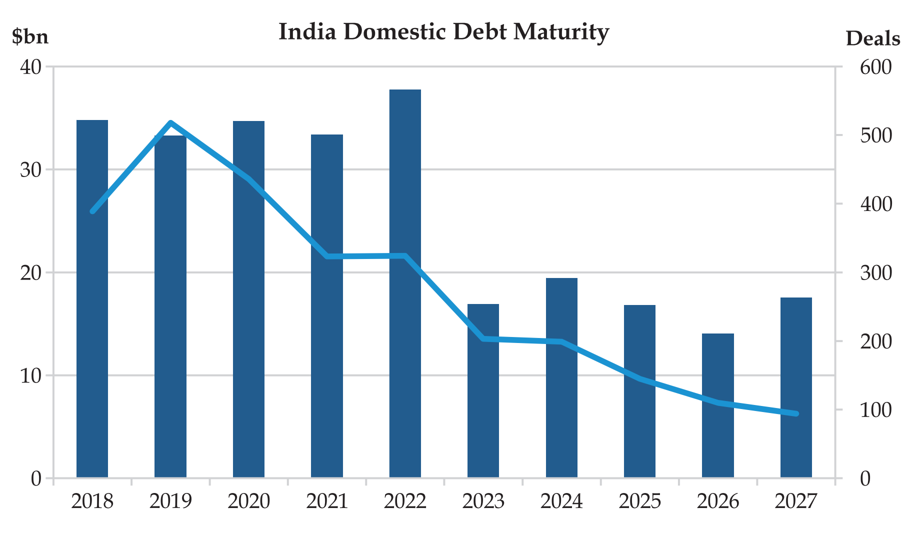
India Announced M&A Advisory Ranking 1Q 2018				
Pos.	Advisor	Value $m	# Deals	% Share
1	Citi	3,595	2	21.9
2	State Bank of India	3,195	1	19.5
3	Macquarie Group	1,484	1	9.1
4	Goldman Sachs	905	3	5.5
5	LionTree Advisors LLC	794	1	4.8
6	Credit Suisse	493	2	3.0
7	Jefferies LLC	405	1	2.5
8	Deutsche Bank	400	1	2.4
8	Barclays	400	1	2.4
10	Morgan Stanley	300	1	1.8

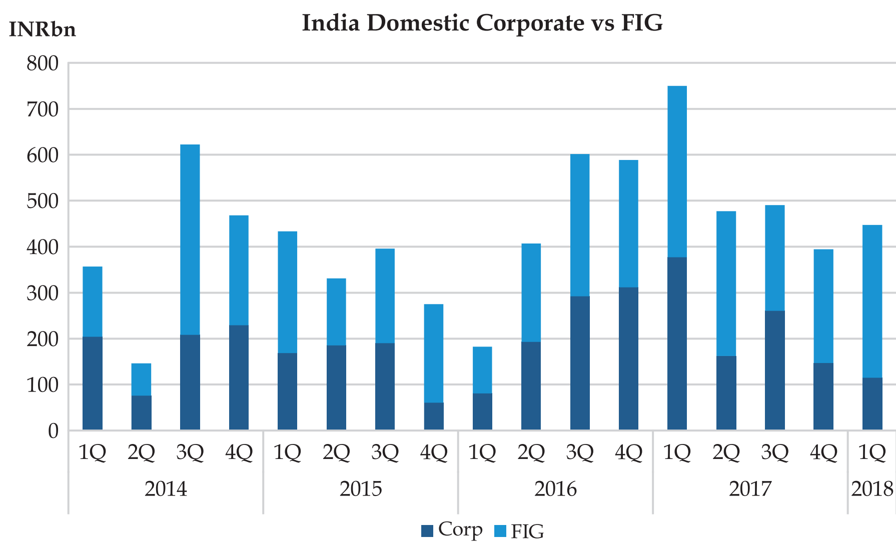
India Announced M&A Attorney Ranking 1Q 2018				
Pos.	Attorney	Value $m	# Deals	% Share
1	AZB & Partners	4,555	20	27.8
2	Shardul Amarchand Mangaldas & Co	3,989	2	24.3
3	Cyril Amarchand Mangaldas	3,195	2	19.5
4	Jones Day	1,756	2	10.7
5	J Sagar Associates	1,749	7	10.7
6	Proskauer Rose LLP	794	1	4.8
6	Gunderson Dettmer Stough Villeneuve	794	1	4.8
6	Covington & Burling	794	1	4.8
9	Ropes & Gray LLP	405	1	2.5
9	Hughes Hubbard & Reed LLP	405	1	2.5

Debt Capital Markets

- **India DCM** issuance for 1Q 2018 reached $14.9bn (via 95 deals), down 34% on the $22.4bn (via 195 deals) raised in 1Q 2017
- **Corporate IG** and **Agency** bonds accounted for 54% and 29% of the total DCM volume with $8.0bn and $4.3bn, respectively for 1Q 2018
  - **Tata Sons Ltd.** led the offshore issuer table for 1Q 2018 with a 28.2% share, while **Rural Electrification Corp** topped the domestic issuer ranking with a 20.6% share
- India **Domestic DCM** volume reached INR664.2bn for 1Q 2018, down 40% on the INR1.11tr raised in 1Q 2017. Activity decreased to 82 deals during 1Q 2018 from the 177 recorded for 1Q 2017
- **International** issuance for 1Q 2018 reached $4.6bn, compared with 1Q 2017 volume of $5.5bn. Activity decreased to 13 deals versus 18 deals for 1Q 2017

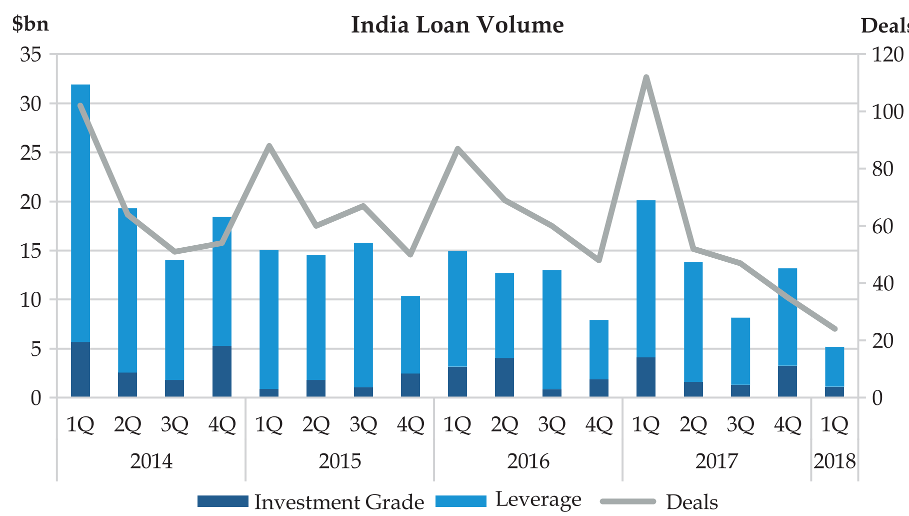


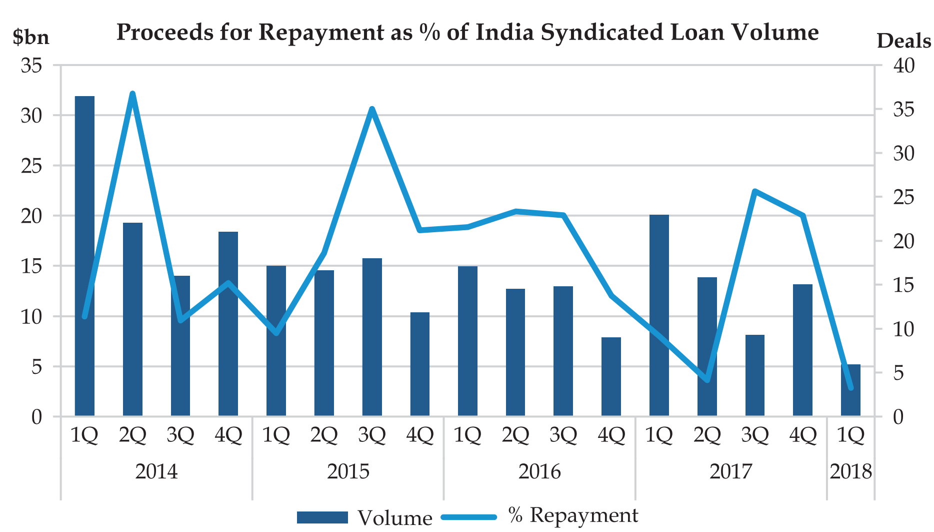


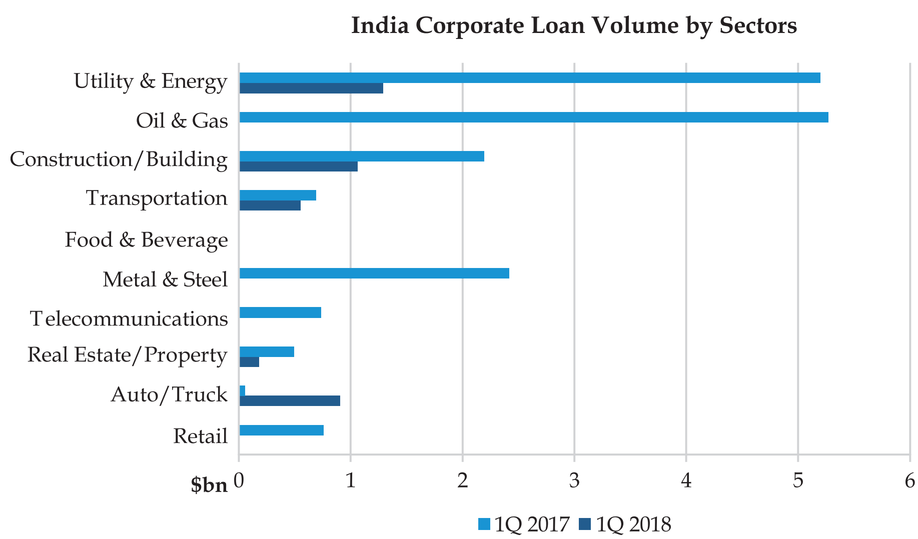

India Domestic Corporate vs FIG
INRbn
800
700
600
500
400
300
200
100
0
1Q
2Q
3Q
4Q
2014
2015
2016
2017
2018
Corp
FIG

Loan Markets

- **India loan** volume fell drastically to $5.2bn (via 24 deals) for 1Q 2018 compared to the $20.1bn (via 112 deals) for 1Q 2017
    - **Leveraged** loan volume was down to $4.1bn via 21 deals, compared to $16.0bn (via 112 deals) for 1Q 2017
    - **Investment grade** loan volume was down to $1.1bn (via 3 deals) versus $4.1bn (via 7 deals) for 1Q 2017
- Among the corporate borrowers, **Utility & Energy** sector topped the industry ranking for 1Q 2018 ($1.3bn) with a 31.8% share
- **TML Holdings Pte Ltd.'s (Tata Group)** $906m **leveraged** deal arranged by **ANZ, Bank of Tokyo MUFJ, Credit Agricole, DBS, FAB, MIZUHO, SCB, AXIS, BOCL, Bank of Nova Scotia Asia, CITI, EDC and Sumitomo Mitsui** is the largest transaction for 1Q 2018






India Corporate Loan Volume by Sectors
Utility & Energy
Oil & Gas
Construction/Building
Transportation
Food & Beverage
Metal & Steel
Telecommunications
Real Estate/Property
Auto/Truck
Retail
$bn
0
1
2
3
4
5
6
1Q 2017
1Q 2018

Project Finance

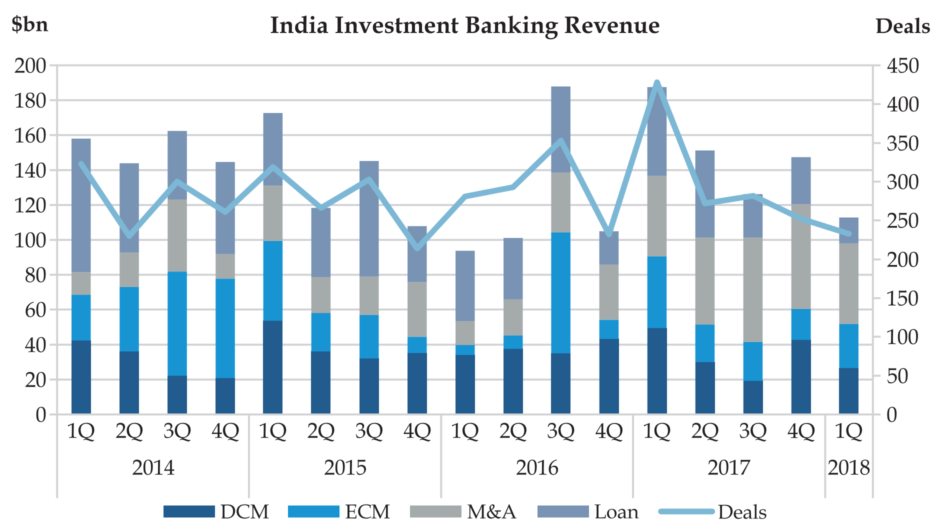
India Project Finance Loans Ranking 1Q 2018				
Pos.	Mandated Lead Arranger	Value $m	# Deals	% Share
1	Axis Bank Ltd	645	3	22.0
2	Yes Bank Ltd	591	2	20.1
3	State Bank of India	461	3	15.7
4	ICICI Bank Ltd	376	5	12.8
5	Bajaj Consultants Pvt Ltd	159	1	5.4
6	IndusInd Bank Ltd	156	1	5.3
7	Export Development Canada - EDC	75	1	2.5
7	Intesa Sanpaolo SpA	75	1	2.5
7	Mitsubishi UFJ Financial Group Inc	75	1	2.5
7	Mizuho Financial Group Inc / SCB	75	1	2.5

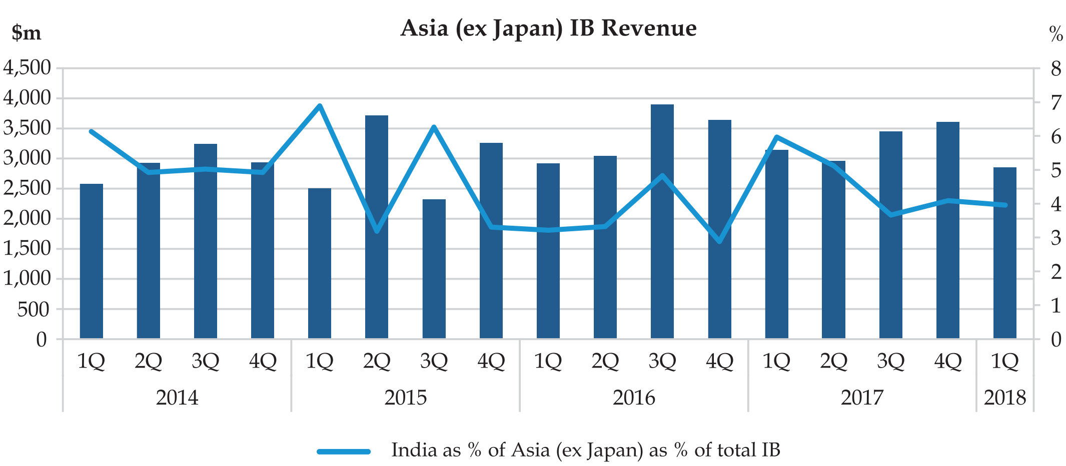
India Sponsor Ranking for Project Finance 1Q 2018				
Pos.	Sponsor	Value $m	# Deals	% Share
1	Essel Group	543	2	17.0
2	Shapoorji Pallonji & Corp Ltd	293	1	9.2
3	Birla Corp Ltd	266	1	8.3
4	Parampujya Solar Energy Pvt Ltd	250	1	7.8
5	H-Energy Renewables Pvt Ltd	229	1	7.2
6	Sadbhav Engineering Ltd	199	2	6.2
7	JK Cement Ltd	183	1	5.7
8	Welspun Enterprises Ltd	180	1	5.6
9	JSW Group	169	1	5.3
10	IRB Infrastructure Developers Ltd	159	1	5.0

Top 10 Indian Project Finance Deals 1Q 2018				
Financial Close Date	**Borrower**	**Project Name**	**Sector**	**Value $m**
26-Mar	Warora-Kurnool Transmission Ltd	Warora-Kurnool Switchable Line Reactors	Power	429
2-Jan	Shapoorji Pallonji Pandoh Takoli Pvt Ltd	Four Laning of Pandoh-Takoli Highway	Road	293
15-Jan	Reliance Cement Co Pvt Ltd	Reliance Cement Plant Refinancing II	Processing plant	266
12-Feb	Wardha Power Co Pvt Ltd	Adani 350MW Solar PV Project in Karnataka	Renewable fuel	250
1-Mar	Haridaspur Paradip Railway Co Ltd	Haradispur-Paradip Railway PPP Additonal Financing	Rail-Infrastructure	240
23-Mar	H-Energy Pvt Ltd	H-Energy FSRU Project in Jaigarh Port	Gasfield exploration & development	229
22-Jan	JK Cement Ltd	JK Cement Plant Upgrade Project Refinancing 2	Processing plant	183
19-Feb	Welspun Aunta-Simaria Project Pvt Ltd	Welspun Aunta-Simaria Road Reconstruction PPP	Road	180
1-Jan	JSW Cement Ltd	JSW Cement Plant Refinancing	Processing plant	169
12-Feb	Kishangarh Gulabpura Tollway Pvt Ltd	Kishangarh-Gulabpura Section of NH79 PPP	Road	159

Investment Banking Revenue

- India IB revenue reached $113m for 1Q 2018, down 40% on 1Q 2017 ($188m). Revenue was also down 23% compared to last quarter 2017 ($147m)
- Syndicated Loan fees accounted for 13% of total India IB revenue for 1Q 2018 with $15m which is down by 71% on the $51m for 1Q 2017
- DCM revenue accounted for 24% of total India IB revenue for 1Q 2018 with $27m which is down 46% on the $49m for 1Q 2017
- M&A fees accounted for 41% of the total India IB revenue for 1Q 2018 with $46m which is almost similar compared with 1Q 2017
- ECM fees accounting for 22% of the total India IB revenue, decreased 39% to $25m in 1Q 2018 from the $41m for 1Q 2017





Financial Sector Engagements

Interactive Session with Mr. Govind Mohan, Joint Secretary, Department of Economic Affairs Ministry of Finance

An interactive session for FICCI's Fintech Committee members was organized with Mr. Govind Mohan, Joint Secretary, Department of Economic Affairs, Ministry of Finance on 3rd May 2018 at North Block, New Delhi.

The FICCI delegation was led by Mr. Sudhakar Ramasubramanian, Co-chair, FICCI Fintech Committee & MD and CEO of Aditya Birla Idea Payments Bank Ltd. The meeting saw a discussion around various issues relating to development of Fintech sector in India and how Fintechs can be leveraged to enhance access to finance for MSMEs.

Interactive Session for students of National Institute of Financial Management

An interactive session for the visiting student delegation from National Institute of Financial Management (NIFM) was organized by FICCI in Singapore on 19th April 2018. NIFM is an autonomous institution under the Department of Economic Affairs, Ministry of Finance, Government of India. Students of their Post Graduate Diploma in Management (Financial Markets) program visited Singapore on a study tour with a view to gain exposure on international financial markets and how Singapore has evolved a major regional financia center.

FICCI partners with Ministry of Finance, Government of India for 3rd Annual Meeting of the Asian Infrastructure Investment Bank

Asian Infrastructure Investment Bank (AIIB), headquartered in Beijing, commenced its operations in January 2016 and has now grown to 84 approved members from around the world. India is one of the founding members and the second largest shareholder in the bank, next to China, with 7.5 % voting share, followed by Russia.

The bank was formed with a view to deepening engagements within Asia Pacific countries for building of infrastructure in the region. The Bank will have its 3rd Annual Meeting from 25-26 June 2018 in Mumbai. Government of India is hosting the third annual meeting of the bank.

As a precursor to the AIIB Annual Meeting, AIIB in association with Ministry of Finance, Government of India, is organising a series of eight-thematic lead-up events in key Indian cities on themes that are important for infrastructure sector.

The participants in these events would be eminent experts, policy practitioners, bilateral partners, officials from central government, state governments, industry leaders and representatives of Multilateral Development Banks including AIIB and will deliberate on pertinent issues relating to financing, institutional and regulatory environment, technological options for sustainable infrastructure development and other relevant aspects.

Federation of Indian Chambers of Commerce and Industry (FICCI) and Research and Information Services for Developing Countries (RIS) will be co-organising four lead-up events in Guwahati, Bhopal, Pune and Mumbai.

The theme for the Guwahati lead-up event scheduled on 14-15 May 2018 is 'Physical and Social Infrastructure for Regional Development'. The objective is to highlight the huge untapped potential of the Northeast in boosting India's trade by strengthen its ties with South East Asia and promoting regional development, which has not yet been fully harnessed due to inadequate infrastructure.

Following the Guwahati event, the next lead-up event will be held in Bhopal on 21 May 2018 on the theme 'Clean and Renewable Energy'. The growing demand for energy incremental to rising prosperity of middle class and rapid industrialization has posed challenges for developing countries including India. The workshop will explore avenues for reducing dependence on the traditional and conventional sources of energy to clean, efficient and low -carbon energy sources.

The third lead-up event would be held in Pune on 31 May – 1 June 2018. 'Water and Sanitation' would be the central theme of the workshop. The theme resonates the desire of governments in developing countries to provide clean and safe drinking water and proper sanitation to its citizen.

The fourth lead-up event will be held in Mumbai on 11June 2018 and would focus on the theme 'Private Sector Participation and Innovation in Resource Mobilization'. The workshop will emphasize the importance of private sector in resource generation to develop economic infrastructure and underline the government's role in framing regulatory ecosystem conducive to private sector investments.

In addition to the four lead-up events, FICCI will also be organising along with the Ministry of Finance 'India Infrastructure Expo 2018' from 24-26 June 2018.

The objective of the exhibition is to offer companies from the public and private sector to showcase their latest solutions, technologies and offerings in the realm of infrastructure project development and delivery. Companies can highlight their capabilities and key projects delivered over time for information of all participants. Further, the exhibition will also offer states and national governments of AIIB member countries to showcase investment opportunities in their respective regions / countries to financial investors from across the world. Financial institutions from member countries can also use this platform to showcase innovative financing solutions for complex infrastructure projects.

FICCI - Biz2Credit - USISPF India Roundtable on 'Frontiers of Digital Finance'

FICCI, Biz2Credit and the US-India Strategic Partnership Forum organized an India Roundtable on 'Frontiers of Digital Finance' on 7th March 2018 at Mumbai. This Roundtable is a part of a round-robin conference which started with the inaugural conference in New York on 2-3 October 2017.

Mr. Rashesh Shah, President, FICCI & Chairman and CEO, Edelweiss Group delivered the key note address at the conference. In his address Mr. Shah remarked that we are living in a 'Golden Age of Compounding' in India – referring to the accelerated growth of India's GDP, which grew from $1 trillion in 2007 to $2 trillion in 2015. What the country had achieved in the first sixty years, it was able to repeat the feat in the next seven and half years. He proceeded to hypothesize that India's GDP is well positioned to hit the $5 trillion mark by the year 2025 and asserted that the 'digital revolution' underway has made this possible. He delineated the four key trends emerging in India, alongside the digital revolution i.e. democratization of credit, financialization of household savings, privatization of the financial services sector and disintermediation of banking.

Interactive Session with Mr. Rajiv Kumar, Secretary, Financial Services, Ministry of Finance

An interactive session with Mr. Rajiv Kumar, Secretary, Financial Services, Ministry of Finance (MoF) for FICCI's Financial Sector Committee members was organized on 5th April 2018 at FICCI, New Delhi. The session saw participation of senior industry leaders from different segments like Banking, Insurance, Pensions, NBFCs, Fintechs, Capital Markets etc. The meeting was chaired by Mr. Rashesh Shah, President, FICCI and Dr. Sanjaya Baru, Secretary General, FICCI also graced the occasion. ■

Policy Recommendation

- **FICCI Submission to the MCA and IBBI on the Report of MCA Insolvency Law Committee**

  Based on suggestions received from stakeholders, FICCI has made a detailed submission to the Ministry of Corporate Affairs and the Insolvency and Bankruptcy Board of India (IBBI) on the Report of the MCA Insolvency Laws Committee on several significant proposals made in the Report with respect to calculation of interest on interim finance, guarantees given by corporate debtors, Moratorium, Regulatory Approvals, Withdrawal on account of settlement etc.

- **FICCI Submission to the MCA and the RBI on the applicability of Ind AS to NBFCs and HFCs**

  On the basis of requests from Industry, FICCI has submitted a detailed representation to the MCA and the RBI to consider deferring the implementation date of Ind AS for NBFCs and HFCs by a year to bring in alignment in applicability of Ind AS to Banks. Banks and NBFCs, including HFCs, operate in a closely interlinked manner and inconsistency in accounting treatments will disrupt smooth operations leading to delays for the next few months.

- **FICCI Submission to the SEBI on draft SEBI (Buyback of Securities) Regulations, 2018**

  SEBI had issued a Discussion Paper on the draft SEBI (Buyback of Securities) Regulations, 2018. Based on feedback received from members, FICCI has submitted its recommendations on the draft Regulations on the key proposals pertaining to timeline for public announcement, conditions for buy back, odd-lot buyback, participation by unregistered shareholder etc

- **FICCI Submission on Ease of Doing Business to the DIPP, Ministry of Commerce and Industry**

  FICCI has submitted its recommendations to the Department of Industrial Policy and Promotion (DIPP) on ease of doing business. These pertain to restriction on layering of subsidiaries, definition of related party transaction, voting by related parties, threshold for appointment of KMPs, independent directors' criteria etc.

- **FICCI Submission on Insurance, NBFCs, Fintech and Pensions to Department of Financial Services, Ministry of Finance**

  FICCI has submitted detailed submissions to Department of Financial Services on issues related to Insurance, NBFCs, Fintech and Pensions.

FICCI

Indian Banks' Association

#FIBAC 2018

20th-21st Aug 2018
Hotel Trident
Nariman Point, Mumbai
India

INAUGURAL ADDRESS

Shri N.S. Vishwanathan

Deputy Governor, Reserve Bank of India

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- One of the leading banking conferences in Asia
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- Hear from renowned speakers from across the globe on the theme of the conference
- Obtain compendium of articles on contemporary issues by financial luminaries
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Target Audience

- Executives of the Banking and Financial Services Sector
- CEOs and CFOs of corporate sector
- International Banking & Financial Services companies foraying into India
- Private Equity and Venture Capitalists
- Policy makers and regulators
- IT companies and Technology providers
- FINTECH and e-commerce companies
- Educational Institutions

Key Sessions

- Financial services to SME in increasingly digital eco-system
- Digital enabled sales
- New ways of doing credit
- Bank transformation roadmap
- Digital post demonetization
- Ways for improved credit and payments to MSMEs: GeM and TReDs
- Cyber security
- The new corporate bank
- Insolvency Bankruptcy Code
- Performance management 2.0

Registration Fee

Delegate Fee for Conference (Per Delegate) – Indian*			
FICCI Corporate / IBA members	₹12000	FICCI Associate members	₹13000
Non - FICCI / Non - IBA members	₹15000	Professors	₹6000
Students	₹ 3500		
Delegate Fee for Conference (Per Delegate) - Foreign*			
SAARC Countries	₹ 15,500	Other Countries	₹16,500

*18% GST Extra

For participation, please contact

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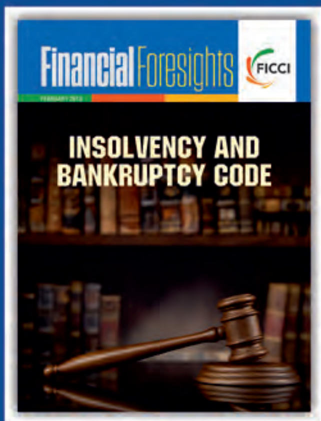

Financial Foresights :
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January 2018

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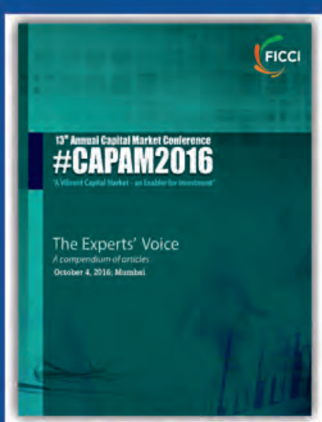

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The Experts' Voice - A compendium of articles
October 2016

FIBAC 2016 Proceedings –Digital and
Beyond: New Horizons in Indian Banking
August 2016

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April 2016

The Changing Face
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January 2016

15th Annual Capital Market Conference

FICCI

#CAPAM2018

Tuesday, September 11, 2018, Trident, Nariman Point, Mumbai

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Mr. Ajay Tyagi
Chairman
Securities and Exchange Board of India

ABOUT THE CONFERENCE

CAPAM is a leading event in the Indian capital markets space and provides an excellent platform to discuss and debate key issues pertaining to this domain.

Organized under the aegis of FICCI's Capital Markets Committee, the 15th edition of this Conference promises to be a high profile knowledge-sharing and networking platform. Senior policy makers, regulators and who's who of industry are expected to participate at the forum.

WHO SHOULD ATTEND?

This Conference is designed for all organizations and individuals with an interest in the capital market, including:

- Executives of the Capital Market, Real Sector and Financial Services Sector
- CEOs, CFOs and Finance Managers of Companies
- Representatives of Government and Regulators
- Foreign Portfolio Investors (FIIs, QFIs), Private Equity, Pension Funds
- Legal Firms
- Research firms, Educational Institutions & Economists

GLIMPSES FROM THE PAST

From Left to right: Sanjeev Sanyal, Principal Economic Adviser, Ministry of Finance, G Mahalingam, Whole Time Member, SEBI, Neeraj Kumar Gupta, Secretary, DIPAM, Ministry of Finance, GOI, Smita Jhingran, Secretary, CCI, Sujoy Bose, CEO, National Investment and Infrastructure Fund.

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FICCI

Financial Foresights Distribution & Readership

The publication is presently disseminated online to a large set of audience of over 5000 people.

The readership mainly comprises:

- FICCI members across the country
- Economists & academicians
- Senior government officials
- Members of the diplomatic community (India and abroad)
- Policy experts

The electronic version of the publication is also disseminated globally through FICCI's international offices.

Partnership Opportunities

There are various options available for partnering with FICCI's quarterly publication Financial Foresights

Principal Partner (6 Lakh INR) - Benefits

- Inside front cover page advertisement in each issue
- 5 complementary delegate passes in any three of the financial sector conferences (Banking, Fintech, Capital Markets, Insurance & Pensions)

Co-Partner (3 Lakh INR) - Benefits

- 1 full page advertisement in each issue
- 3 complementary delegate passes in any three of the financial sector conferences (Banking, Fintech, Capital Markets, Insurance & Pensions)

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Advertisements for print & online version per issue of the publication

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Inside front cover/inside back cover	1,50,000
Full page (other than inside front/ inside back cover)	1,00,000
Half page (other than inside front/ inside back cover)	60,000

Partnership Benefits

1. **Strong brand image**

   FICCI is the largest and oldest apex business organisation in India with a strong brand image. Association with FICCI would therefore help in creating a stronger brand image for the partner.

2. **Large reach**

   FICCI has an extensive membership base across the country including various regional chambers of commerce in India. This would enable the sponsor to increase its brand reach manifolds and target the key decision makers in the field of business, finance and economy.

3. **Activity throughout the year**

   As the publications are circulated every three months, the partner would be able to enjoy repeated visibility through the year.

For further details, please contact

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email: amit.tripathi@ficci.com

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Industry's Voice for Policy Change

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