

FINANCE SYMPOSIUM

Latest Appraisal Techniques in SME & Retail Loans

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Small and Medium Enterprises (SMEs) sector has emerged as a dynamic and vibrant sector of the economy.

This sector is the backbone of India's economy and the key to our competitiveness.

SME Sector in
India
accounts for

95% of all industrial units

40% of industrial output

70% of industrial employment

35 % of exports

Prime driver of new
employment

SME sector is vital to
the Indian economy

SME Scenario – Global Vs Indian



Country	Share of total establishment	Share of Output	Share of Employment	Share of exports
India	95%	40%	45%	40%
U.S.A.	98%	N.A.	53%	N.A.
Japan	99%	52%	72%	13%
Taiwan	97%	81%	79%	48%
Singapore	97%	32%	58%	16%
Korea	90%	49%	51%	40%
Malaysia	92%	13%	17%	15%
Indonesia	99%	36%	45%	11%

Source: International Finance Corporation

Small makes a Big Difference

- Small industries contributes **39%** of the manufacturing output and around **40%** of the **total export** of the country.
- This sector employs an estimated 31 million persons spread over 12.8 million enterprises.
- The labour intensity in the MSE sector is estimated to be almost 4 times higher than large enterprises.
- This sector is already getting major boost due to various government initiatives such as 'Make in India'.

As India gears up to retrace the high growth path, the MSMEs sector assumes a pivotal role in driving the growth engine.

Characteristics of SMEs

- Low Capital Base & Limited Assets
- Geographical Diversity & High Mortality
- Poor Access to Capital Markets
- Scattered (Cluster approach – a solution)
- Lack of Collateral
- Cash Intensity in Transactions (Demonitisation)
- Poor Financial Disclosures (tax issues?)
- Poor Marketing
- High Risk Perception (leading to high borrowing costs)

What do SMEs want ?

- Reliable & Good Quality Service
- Loyal and Lasting Banking Relationship
- Doorstep Banking
- Relationship Manager (One point contact)
- Comfort/ Relationship with Financiers' Staff
- Low Cost of Delivery
- Combination of Personal and Business Banking

SWOT Analysis - SME

STRENGTHS

- ✓ Quick decision making ability
- ✓ Risk taking ability
- ✓ Strong emotional bonding with self created business
- ✓ Creating self sustaining business model
- ✓ Self Developed leadership Values

WEAKNESS

- ✓ Resistance to spend for long term objectives
- ✓ Tendency to divert business profit to personal use
- ✓ Limited human resources and staff
- ✓ Higher cost of production

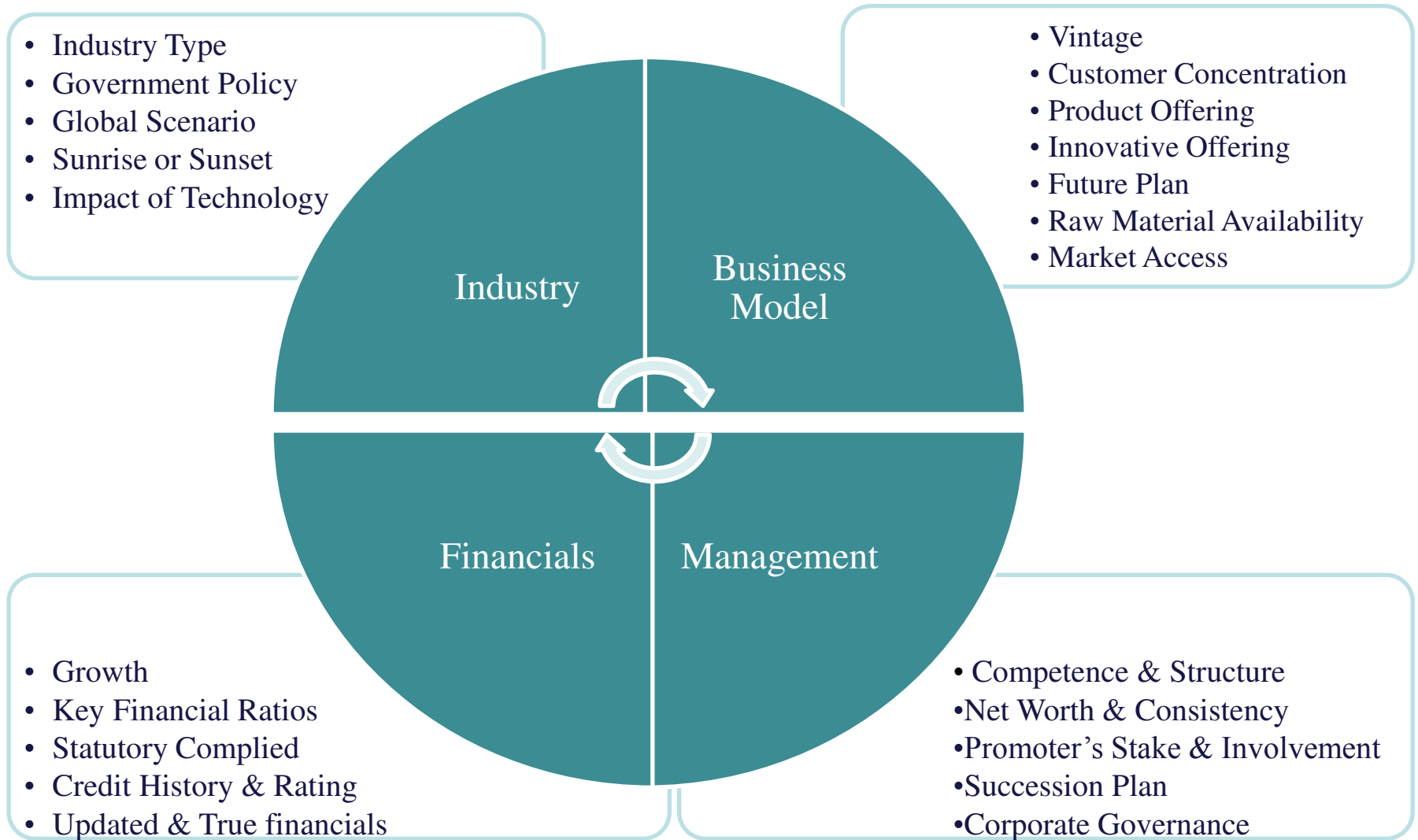
OPPORTUNITIES

- ✓ Government regulation softening
- ✓ Increasing reliance on technology
- ✓ Growing demand and customer base

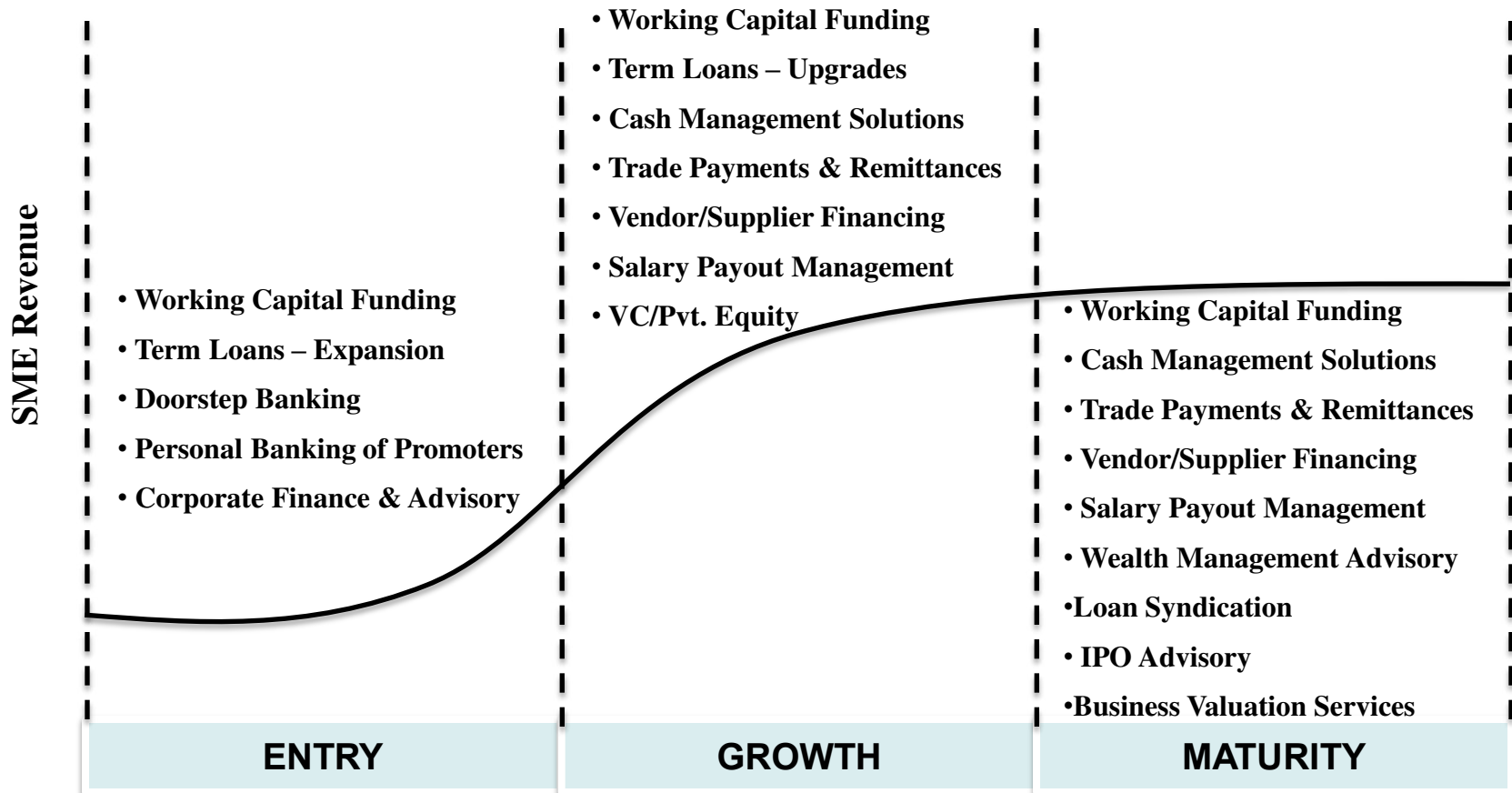
THREATS

- ✓ New substitute products emerging
- ✓ Price competition
- ✓ Economic pressure

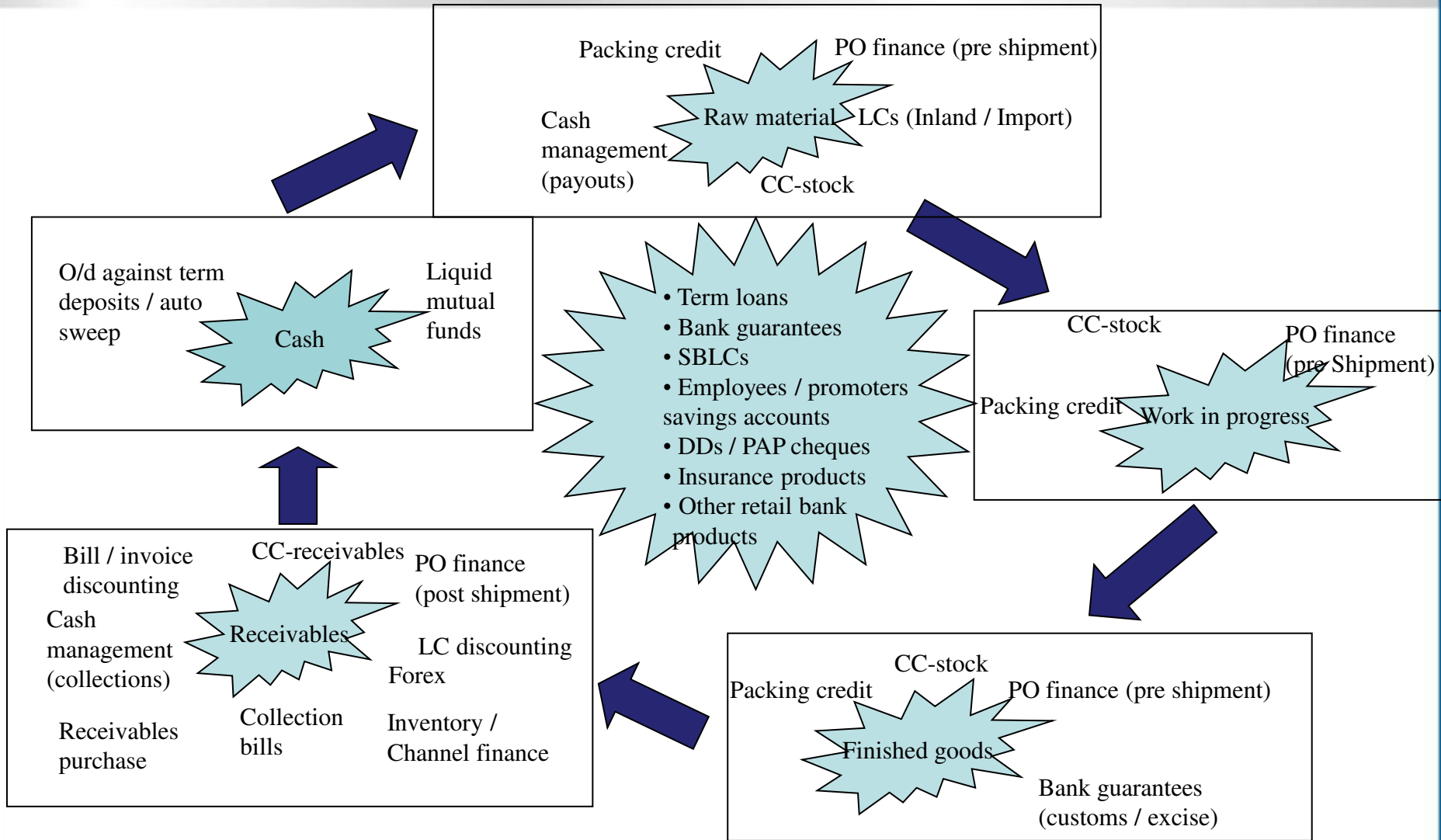
SMEs -- Lender's perspective



FULFILLING FINANCIAL NEEDS OF SMEs AT EVERY STAGE HIGH GROWTH BUSINESS



Operating Cycle and product opportunities



‘One Bank’ approach thereby offering complete suite of products to SME Banking clients



Financing Challenges

Limited Assets ; Inability to provide Assets as Collateral

Non Availability/Lack of Financial History

Financing Techniques/Solutions

- Funding under CGTMSE upto INR 10 MM
- Extending charge on assets without additional collateral for existing customers
- Unsecured Funding on Anchor Comfort through Dealer/Vendor Finance model

- Credit assessment based on Surrogates such as banking transactions of the customers (No Financials requirement).
- Parameterized Overdraft for pre-qualified customers.
- Funding on basis of Payment Guarantee

Financing Challenges

‘One-size-fits-all’ approach of majority of Banks - lack of understanding of SME Business Strengths

Generic Products - Irrespective of Industry Segment dynamics

High Servicing/ Administrative Costs associated with the Sector

Financing Techniques/Solutions

- Cluster Financing - Enables lending to SMEs located in close proximity/same Industry segment
- Life cycle Financing

- Knowledge Banking - Develop differential products and risk programs based on understanding of key SME sectors.

- Lowering cost through tie-ups with CGTMSE/rating agencies
- Use of Digital platforms to reduce costs and optimise geographical reach.

Financing Challenges

SME clients served through non dedicated channels

Lack of customer awareness on digital channels

Perceived as High risk segment

Financing Techniques/Solutions

- Dedicated Relationship Manager to handle client relationship
- Doorstep Banking

- Simple solutions like Mobile Banking/CMS to be offered & properly marketed to this sector
- Digitization of Approval and other In- house processes

- Effective use of CIBIL to remove information asymmetries and reducing problems of adverse selection

Financing Challenges

Financing Mechanism/Solutions

Quick Assessment

- Funding to based on organised data from Anchors eg. Sellers of e-commerce
- Auto renewals of limits basis account conduct.

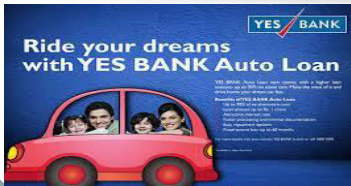
Need for lower Ticket size

- Parameterized program basis banking transactions to cater to lower ticket size.

Limited Funding Availability

- Approach to offer complete range of product to lend to entire spectrum of MSME clients - One stop solution.

Retail Products Offering to SME



Pre-approved Car loan for business/personal use



Customised CV loan for purchase of Commercial vehicles and refinance for working capital needs



Home loans to make Housing dream of SME come alive / Affordable Housing for employees



Mortgage of property to meet business expansion needs.



Equipment Finance



Government Thrust to MSME

The government has recognized the key role that this segment plays in

- creating new enterprises
- in providing employment to a large segment of the population

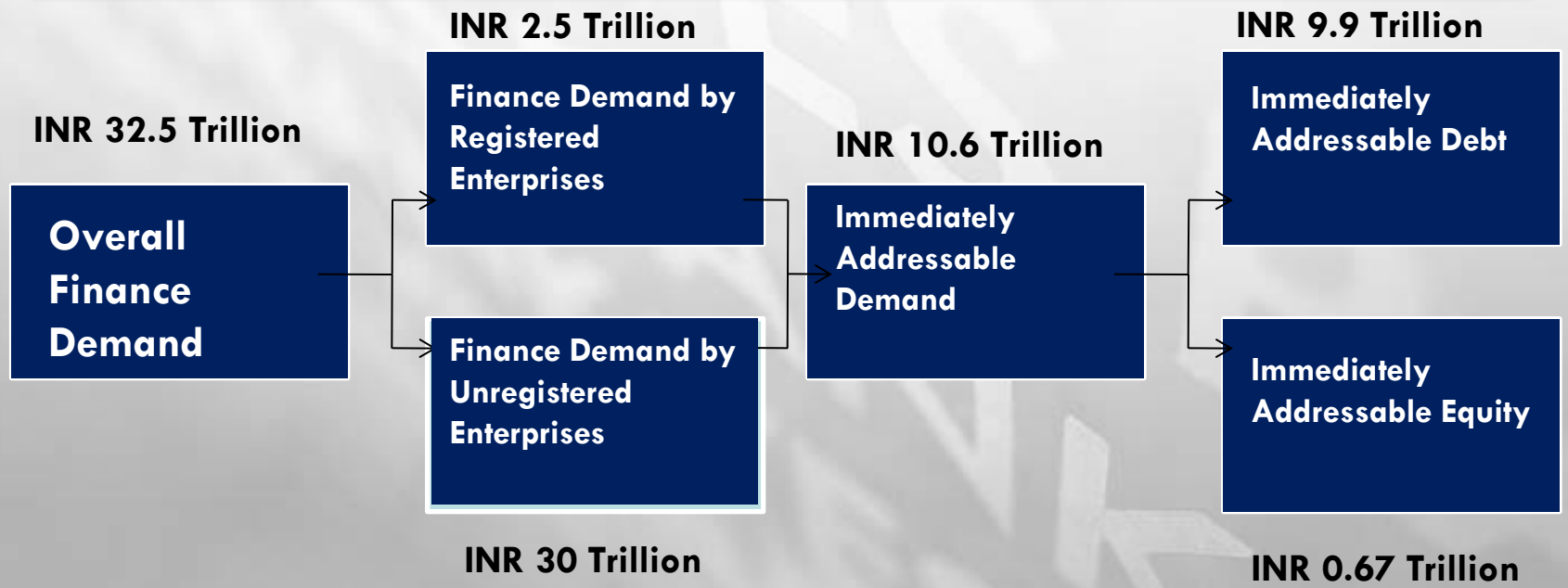


THANK YOU

MSME Finance Demand

Total finance demand of INR 32.5 trillion in the MSME sector which comprises of INR 26 trillion of debt demand and INR 6.5 trillion of equity demand

Out of the overall finance demand, 78% is self financed or from informal sources and remaining 22% is through formal sources of which bank accounts for nearly 85% of debt supply to the MSME sector



Three Pillars For MSME Growth

YES BANK

EXPERIENCE OUR EXPERTISE

Legal and Regulatory Framework

- Legal and regulatory framework to define the sector – MSMED Act 2006
- Financial regulations to bolster supply of finance – SARFAESI 2002, Credit
- Information Companies (Regulation) Act 2005
- Inclusion of MSE in purview of PSL
- Master circulars on lending to MSME

Government Support

- Policies to facilitate support on multi-pronged support
- Promotion of cluster development
- Financial support through apex sector bodies like SIDBI
- Funding support to credit guarantee schemes to enhance unsecured financing
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- Support to increase penetration of credit rating

Financial Infrastructure Support

- Credit Bureau to track credit history of enterprises
- Collateral registry of immovable assets
- Credit rating agencies
- Asset reconstruction companies
- SME stock Exchange to facilitate primary and secondary transactions for SME securities

Financial Solutions through the Business Life Cycle

