

ADITYA BIRLA



FINANCE

The 'big' Small and Medium story

- A commentary on SME Financing

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Key Fundamentals update



Developments since Mar 14

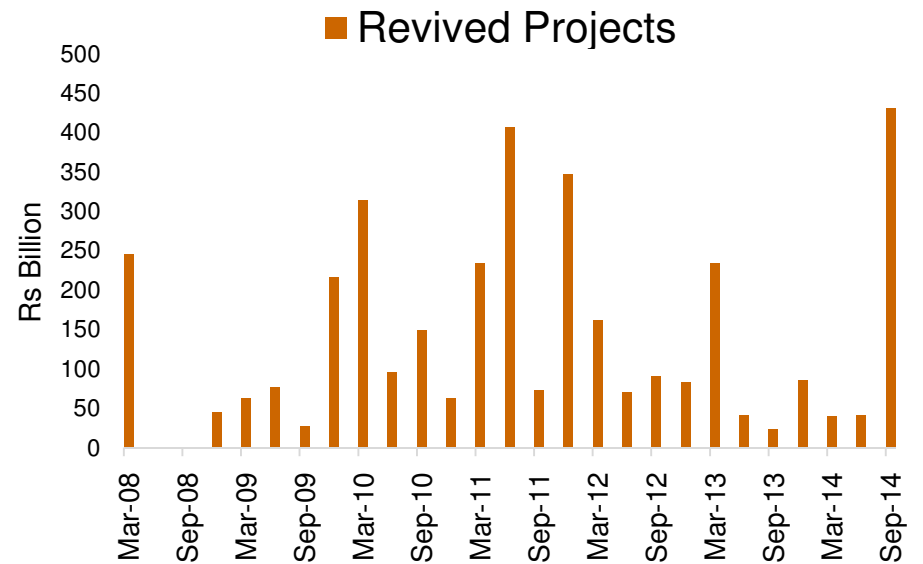
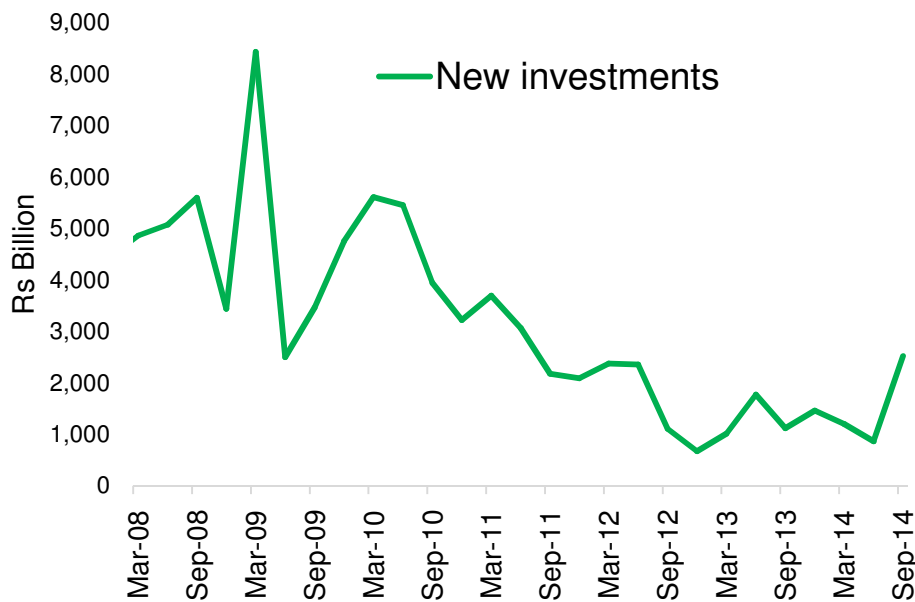
- New Government
- Fed tapering / US Recovery
- El Nino / Weak Monsoons
- Fundamentals still not strong
- Commodity Price changes

	Apr – Dec 13	Nov 14
Equity	Red arrow pointing down	Green arrow pointing up
Interest Rates	Red arrow pointing down	Yellow arrow pointing right
Currency	Red arrow pointing down	Yellow arrow pointing right
Real Estate	Red arrow pointing down	Red arrow pointing down
Commodity	Yellow arrow pointing right	Green arrow pointing up

Lead indicators show improvement but Industry still remains a concern



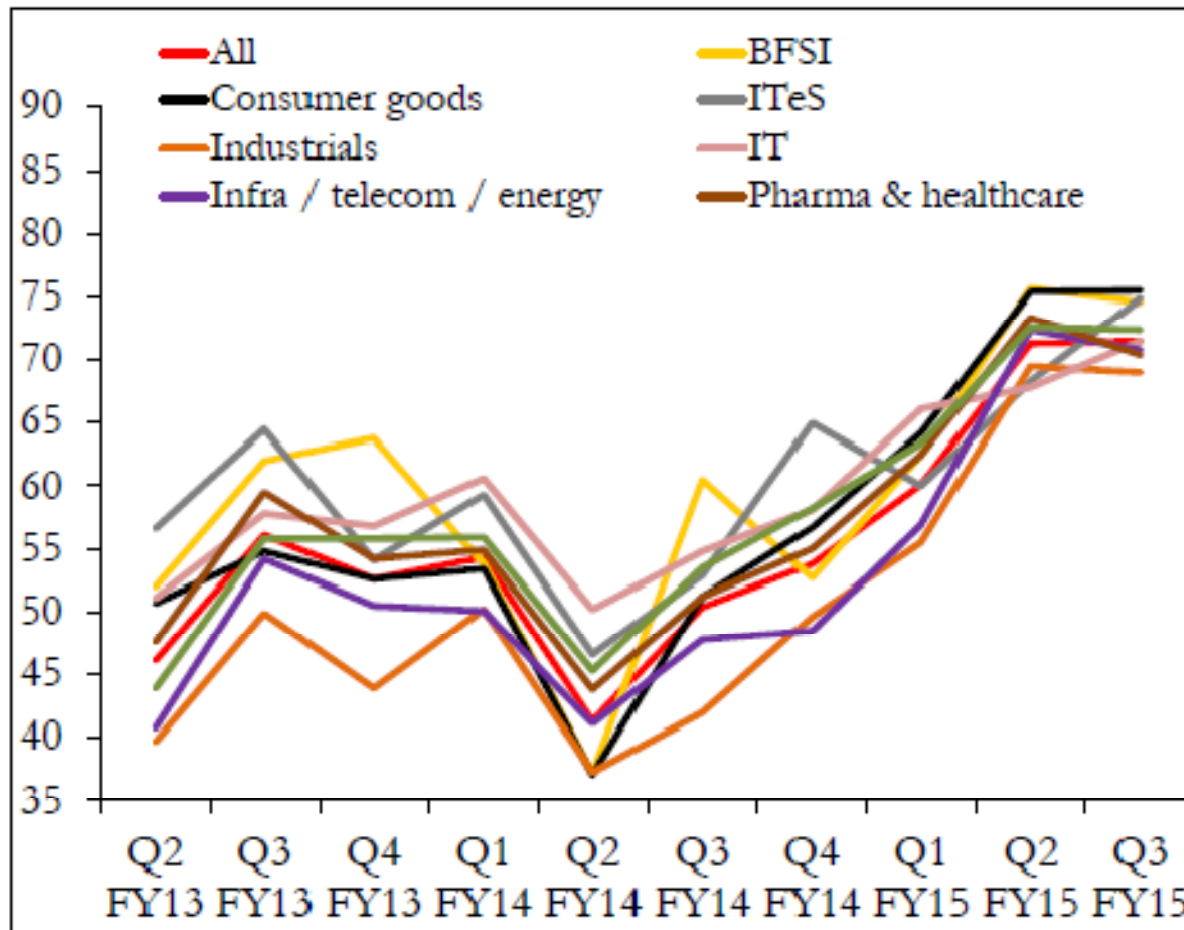
% YoY	Cement Production	Steel production	Commercial Vehicle Sales	Passenger Car Sales	Two Wheeler Sales	Railway Freight
Jul - 14	16.50%	3.40%	-10.60%	1.20%	17.20%	6.40%
Aug - 14	10.30%	9.10%	-4.30%	5.60%	19%	9.00%
Sep - 14	3.20%	4.00%	9.00%	-3.40%	23.60%	3.60%



Importantly, Business Confidence is on the rise



Q3FY15 Business Confidence and Performance Index



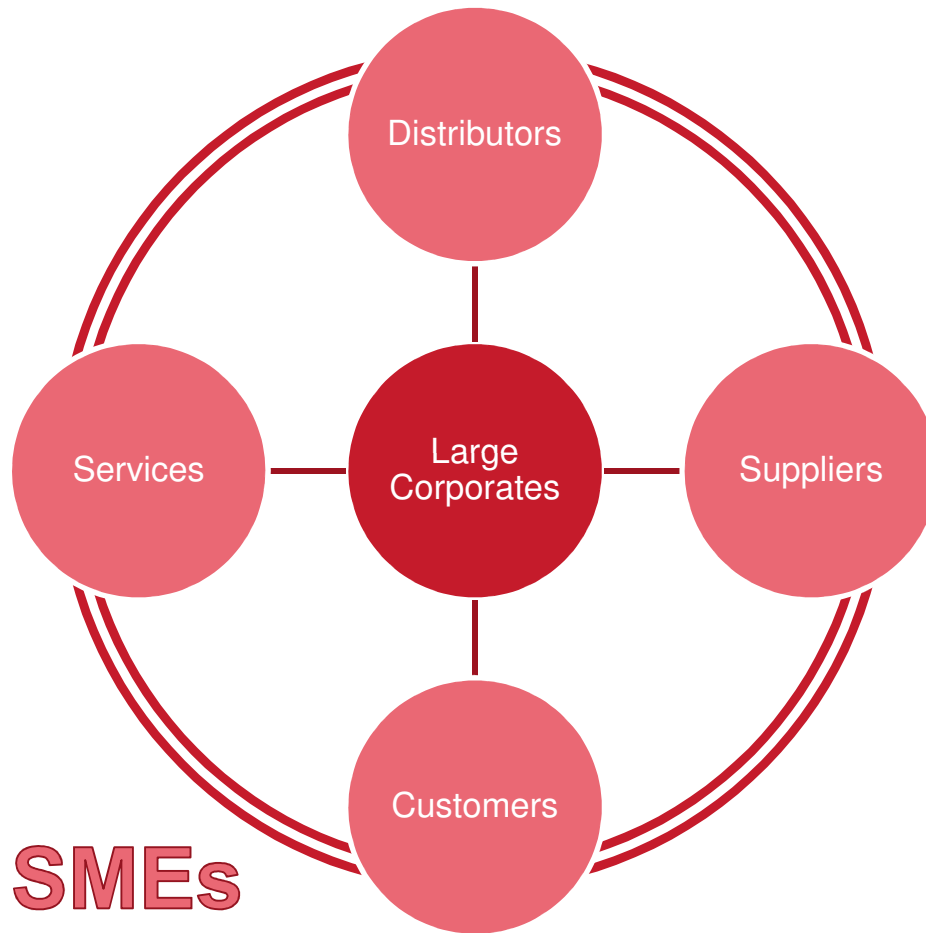
Source: IMA India's quarterly BCPI Survey of September-October 2014; ~350 respondents

The “Make in India” initiative clearly focusses on Manufacturing for driving the next leg of growth



The SME space will be a critical cog in this effort

To spur the growth of the Manufacturing Sector, India needs to turbo-charge its SMEs



Large corporates and SME's partner for a variety of transactions

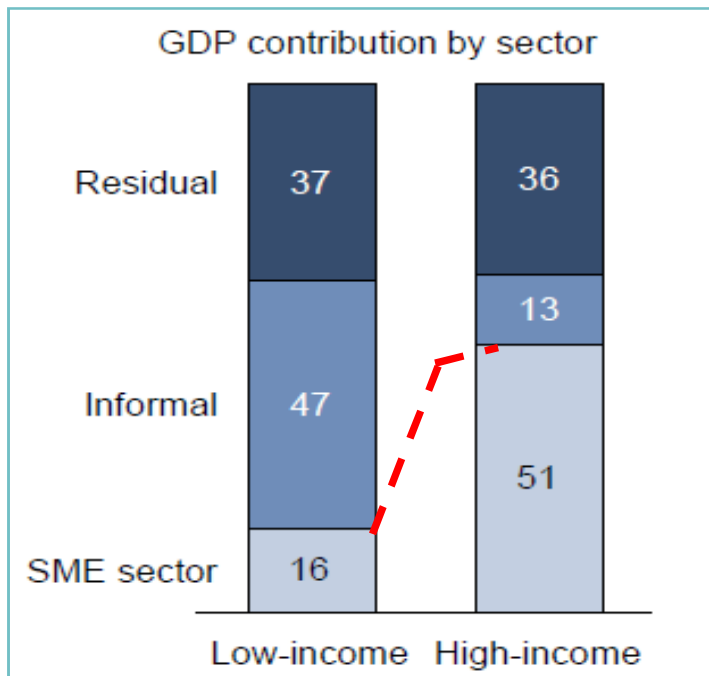
During the recent financial downturn, SME's propped up India's economy by significantly increasing investments

Growth of these entities very crucial to the growth of core industries

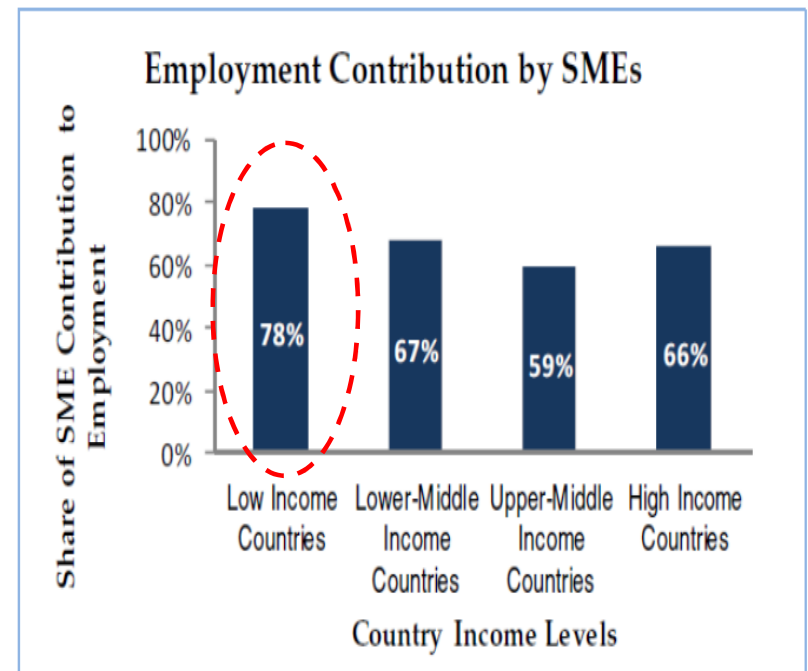
SMEs are the proverbial back bone of the economy – in particular, the manufacturing sector

Necessary for the large organizations to support the SMEs to prop up the building blocks of Indian Economy

The SME potential is significant when compared to other economies



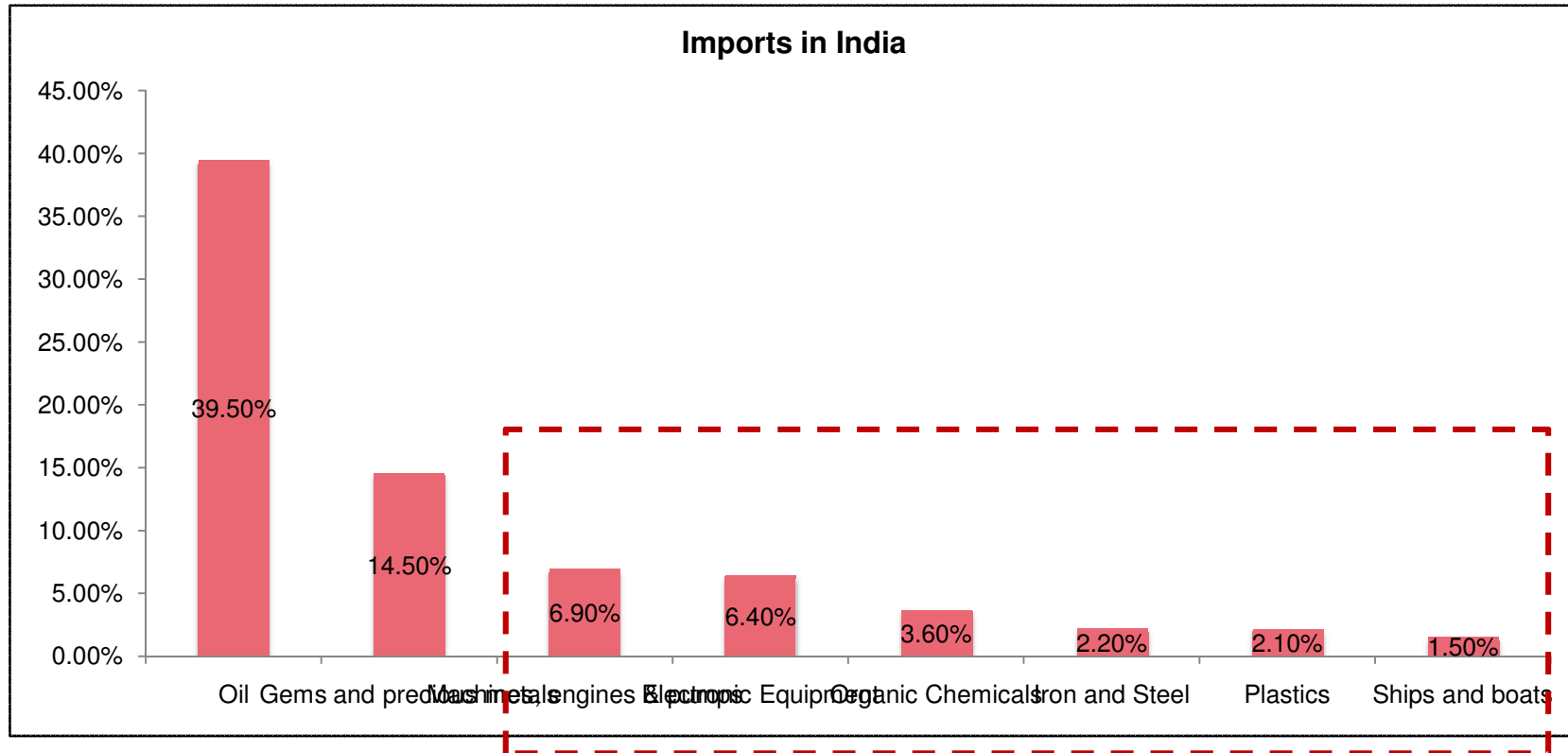
Contributes **12%-16%** compared to **51%** in developed countries



Employ **45%** of the total workforce in India compared to **78%** in developing countries

Source: Report on Support to SMEs in Developing Countries Through Financial Intermediaries

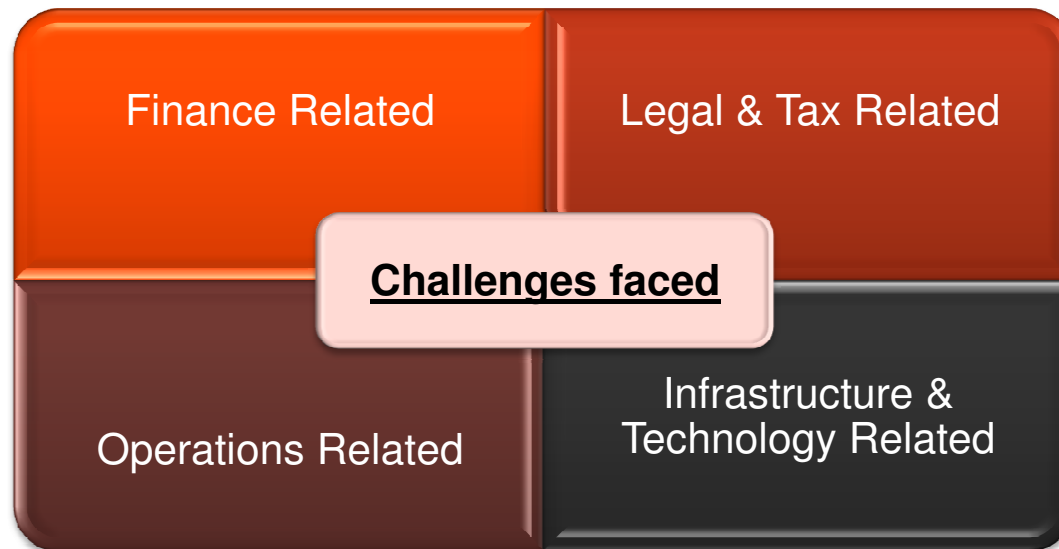
India is the 10th largest requirement of import in the world, with a focus on manufacturing, we can target reduction on our dependence on imports



Source: Economic data on www.worldrichestcountries.com

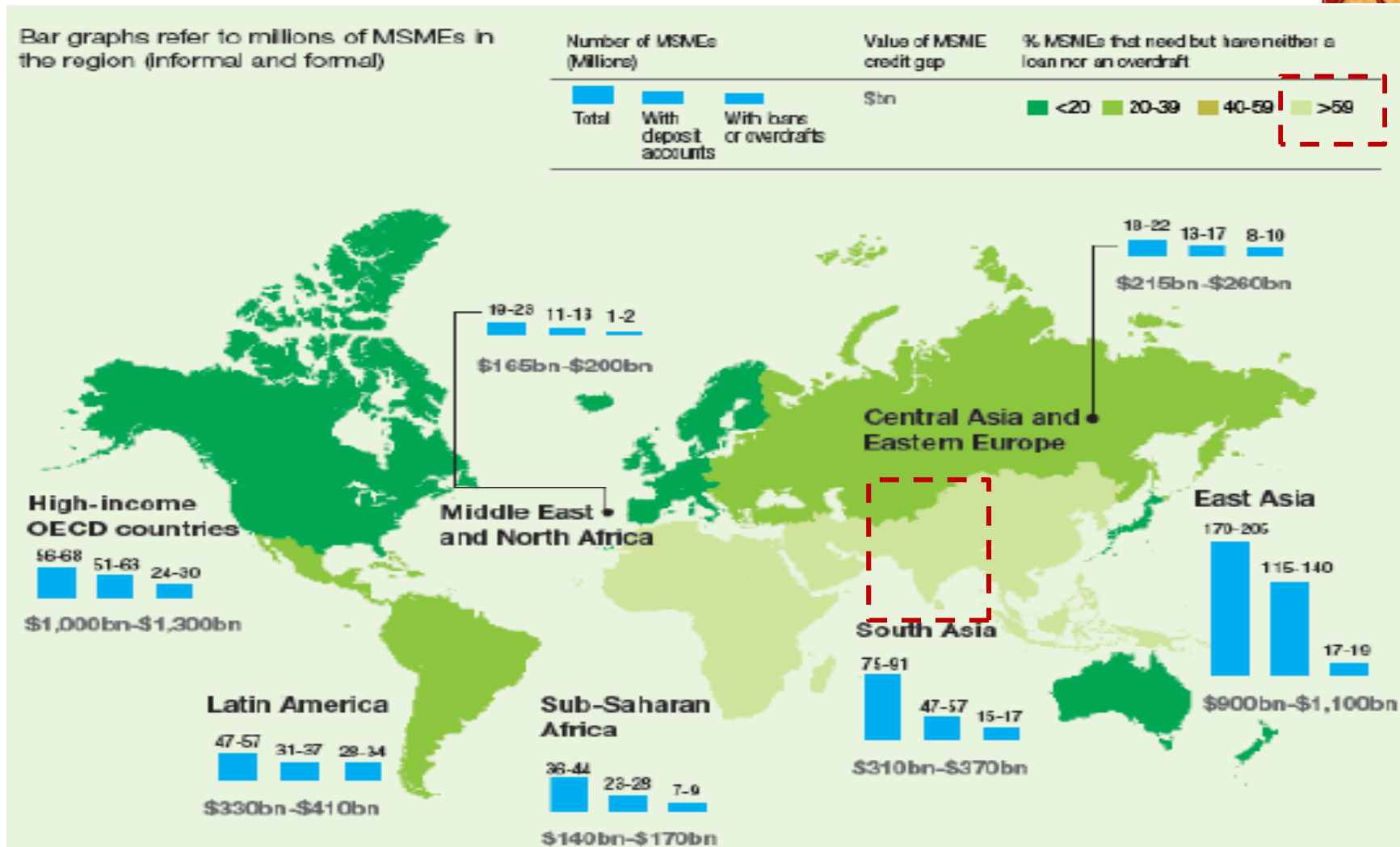
Identifying the Bottlenecks

Key Challenges faced



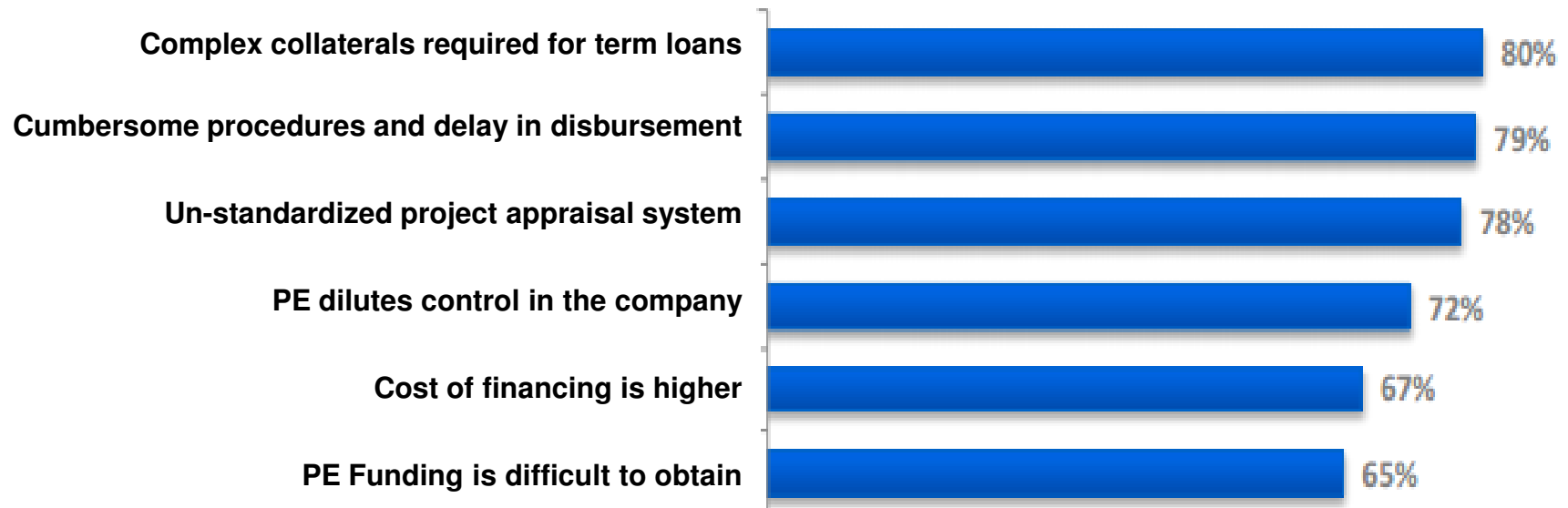
Source : Report on The Indian SME Survey Analysing Indian SME Perceptions Around Union Budget 2014-15 by Grey hound and FirstBiz

Financing remains a key challenge



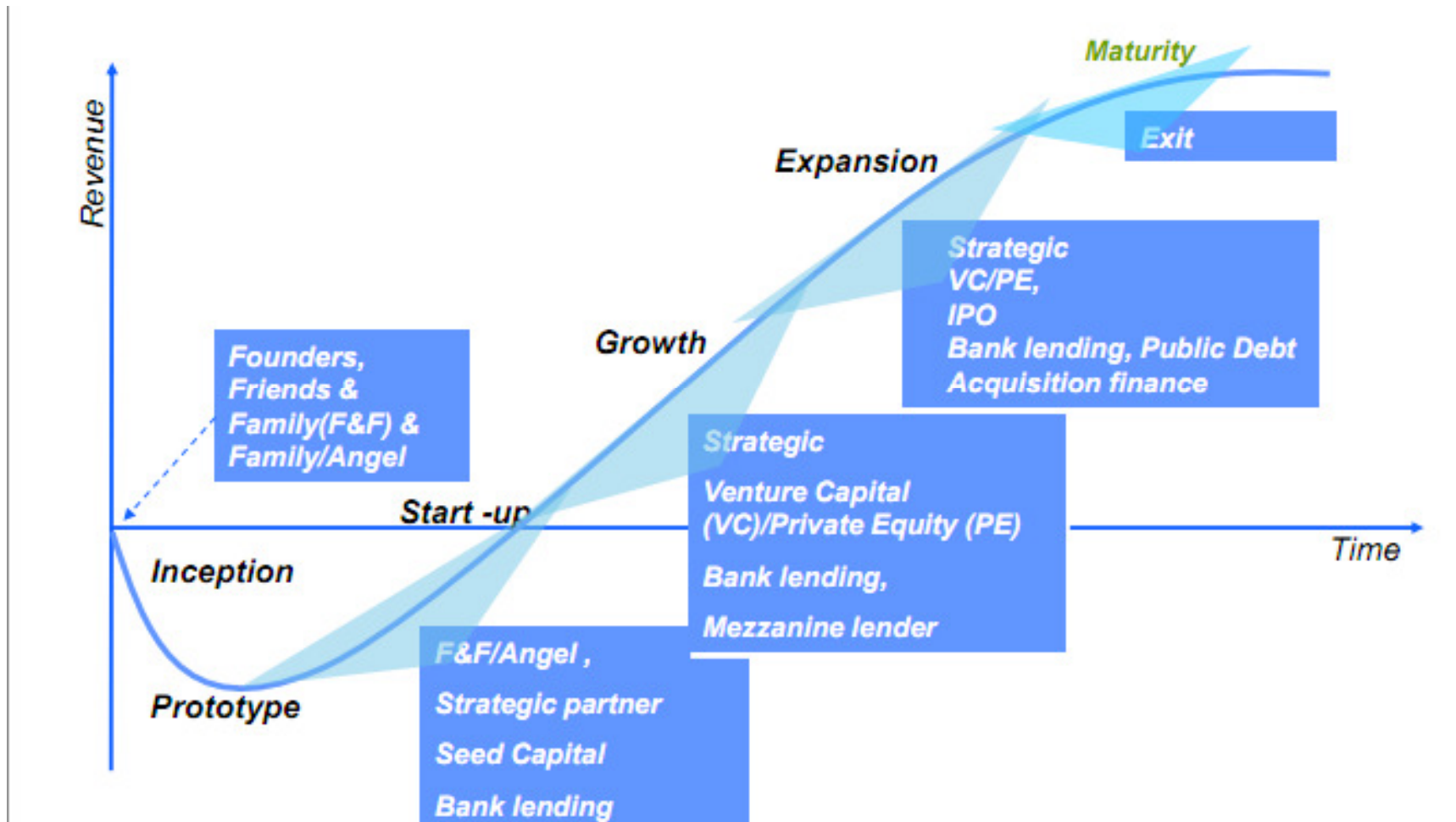
More than 59% SMEs in India do not have access to formalized Lending against 20% in developed countries

Deep diving into financing related challenges



Source : Report on The Indian SME Survey Analysing Indian SME Perceptions Around Union Budget 2014-15 by Grey hound and FirstBiz

Need to address financing challenges across the lifecycle



Exploring Traditional and New Financing Options

Highlighting a few...

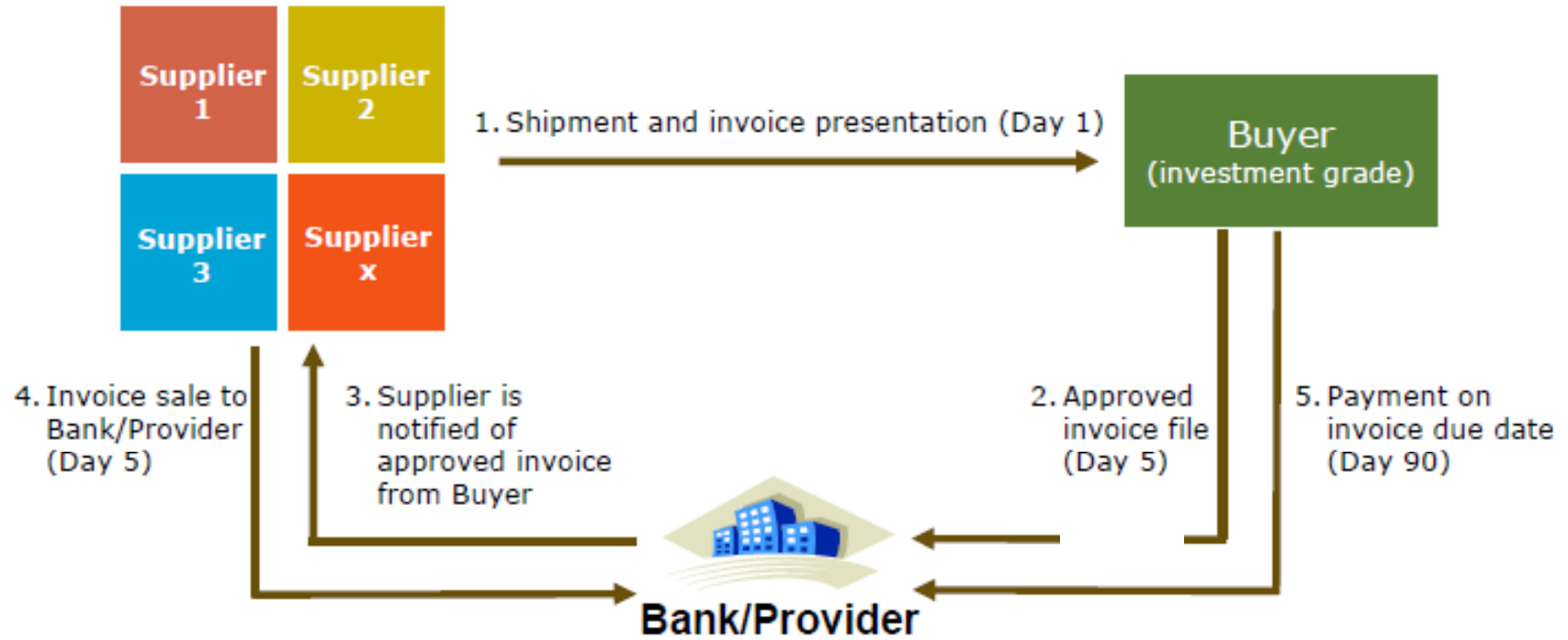


Financing Options

- **Supply Chain Finance** – Unsecured Credit to Vendors and Channel of Large Corporate
- **SME Exchange** – To raise equity funding without liquidating control unlike PE
- **Crowd Funding** – Raise Term loans without in-depth analysis and project specific funds
- **Leveraged Lease Finance** – To get equipments on lease instead of getting into cumbersome process of taking a loan
- **Specific End Use Variants such as IPR backed Loan, Franchisee Financing, Auction Finance, etc** – Giving collateral options to SMEs
- **7 day online Business loans** – To get quick and fast loans
- **7 Minute Loan to E-commerce Vendors** – Unsecured and quick loans to E-Commerce vendors



Working Capital – Supply Chain Finance



- **Supply Chain Finance** : Enables SMEs to obtain easy working capital finance
- **Leverages on the relationship** SMEs have with Large Corporates
- Help's unrated SMEs access formal lending



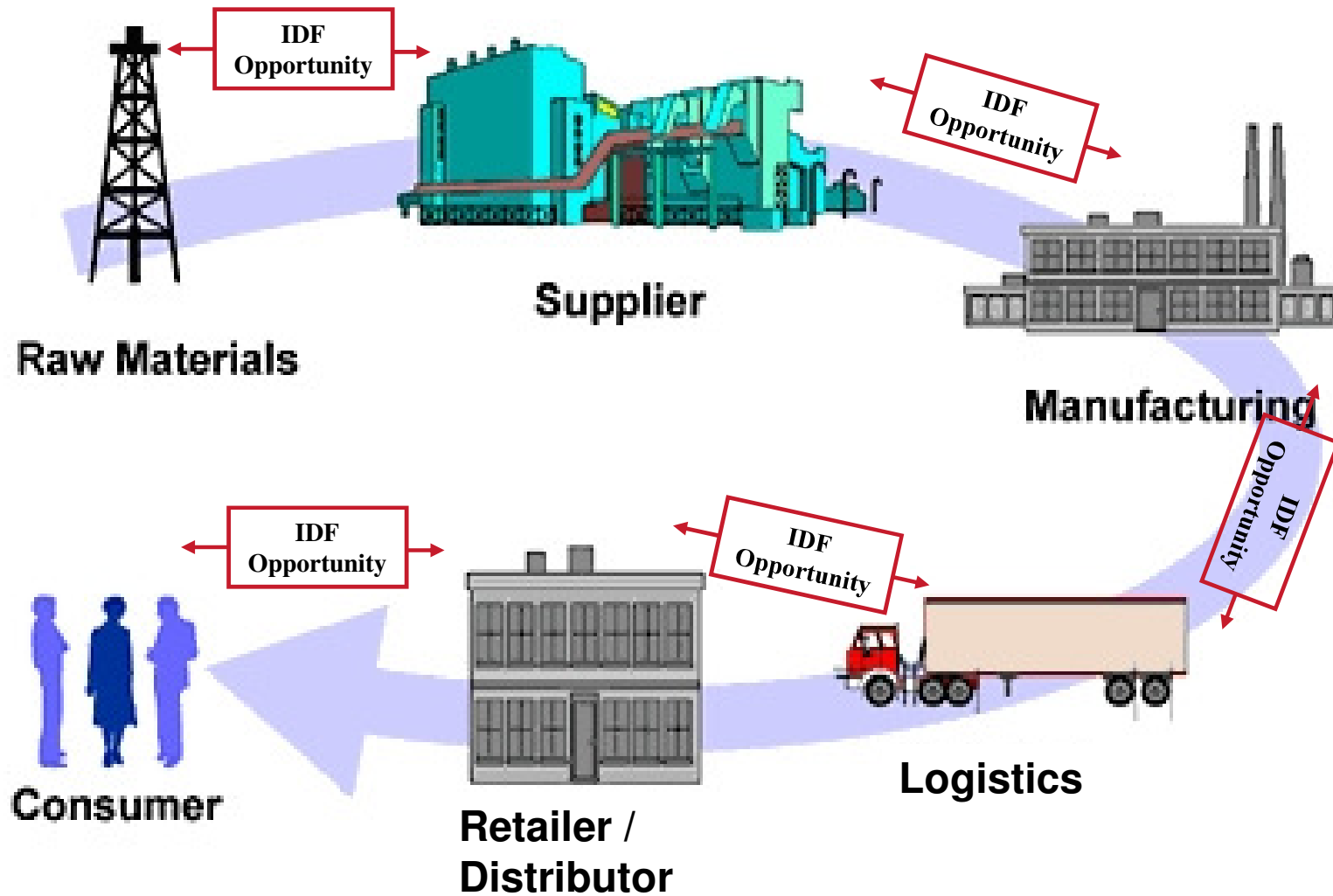
Invoice Discounting

	No Invoice Discounting	With Invoice Discounting
Raw Material Purchase	3 Days	3 Days
Manufacturing Cycle	25 Days	25 Days
Finished Goods Delivery	2 Days	2 Days
Payment Receipt	30 Days	2 Days
Total Cycle	60 Days	33 Days
No. of Churns in a Year	6 Churns	11 Churns
Total Turnover	6 * 100 = 600	11 * 98 = 1078

Thus we see that Invoice Discounting allows for this business to improve its throughput by ~ 80%



IDF Opportunities are present at all ends of the Ecosystem





Listing at SME Exchange is an option which is still in early days

Benefits

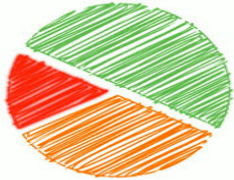




Crowd Funding



Borrowers apply for funding
Investors open an account



Borrowers get funded
Investors build a portfolio



Borrowers repay automatically
Investors earn & reinvest

Crowdfunding

Social Lending/Donation Crowdfunding

Reward Crowdfunding

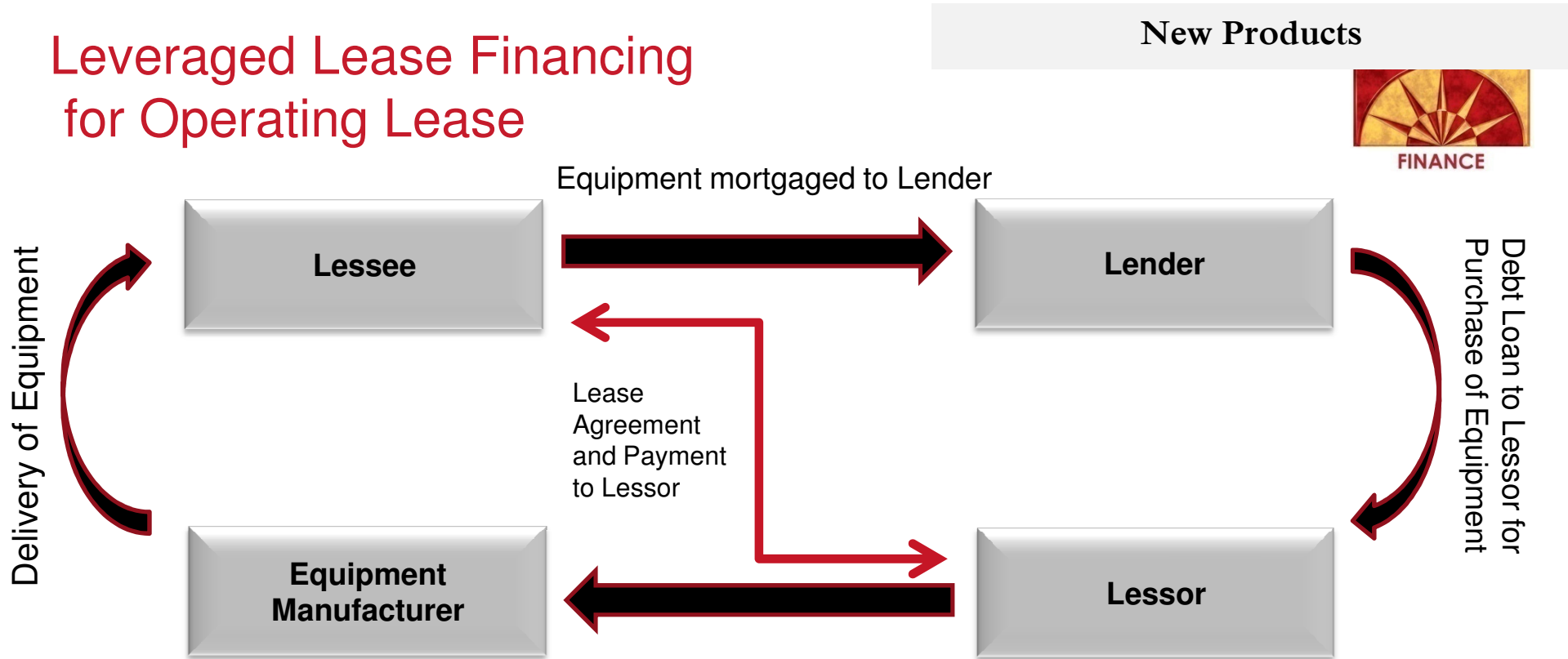
Peer-to-Peer Lending

Equity Crowdfunding

Community Crowdfunding

Financial Return Crowdfunding

Leveraged Lease Financing for Operating Lease



Operating Lease is most beneficial to SMEs when :

- Equipment will not be used long-term.
- Your equipment will become outdated quickly.
- Cash flow is tight.
- You want to protect your balance sheet.
- You want the tax benefits of leasing

Benefits to Lessor :

Funding for purchase of new assets for deploying on operating lease to SMEs

Benefits to the Lender:

Another opportunity to fund SMEs with security as the equipment



Specific Need / End Use Variants

Loan Against IPR



Franchisee Financing

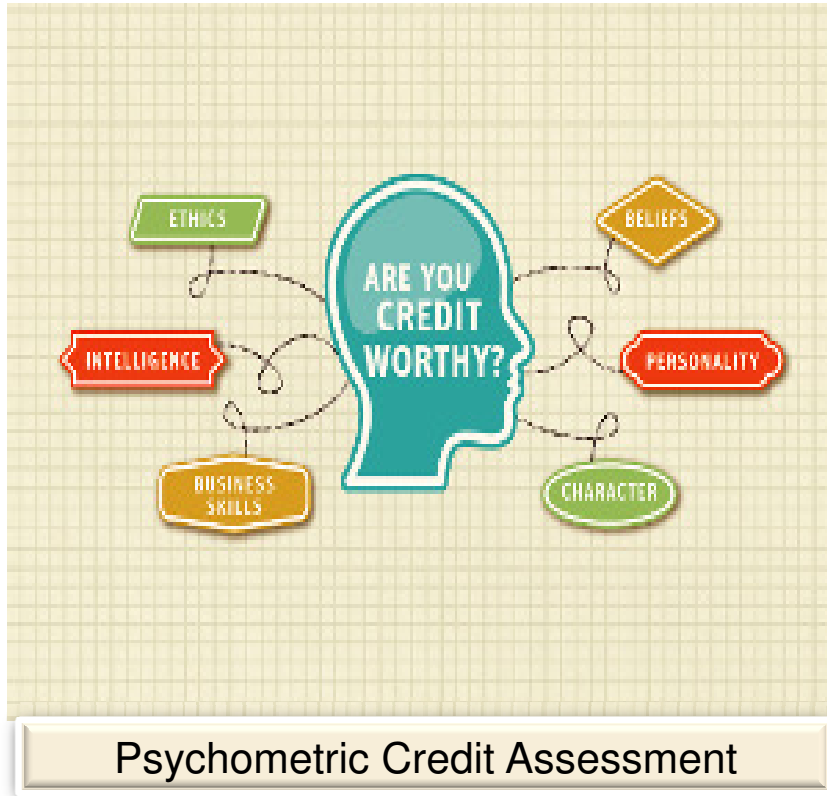
- Franchise finance may be provided for:
- New Start-Up Businesses
 - Business Expansions & Acquisitions
 - Equipment Upgrades & Store Remodels
 - Working Capital Needs
 - Debt Refinances

Auction Finance

SME interested in purchasing business related asset (Plant and Machinery, Factory, etc.) via auction will approach bank with asset and event details and the bank sanctions the borrower a limit before auction and helps him acquire the asset in the auction

Underwriting methods need to adapt to change and technology as well to mitigate the lack of Credit data for SMEs

Innovative Ways of Credit Assessment for Unbanked Sector



Social Credit Assessment

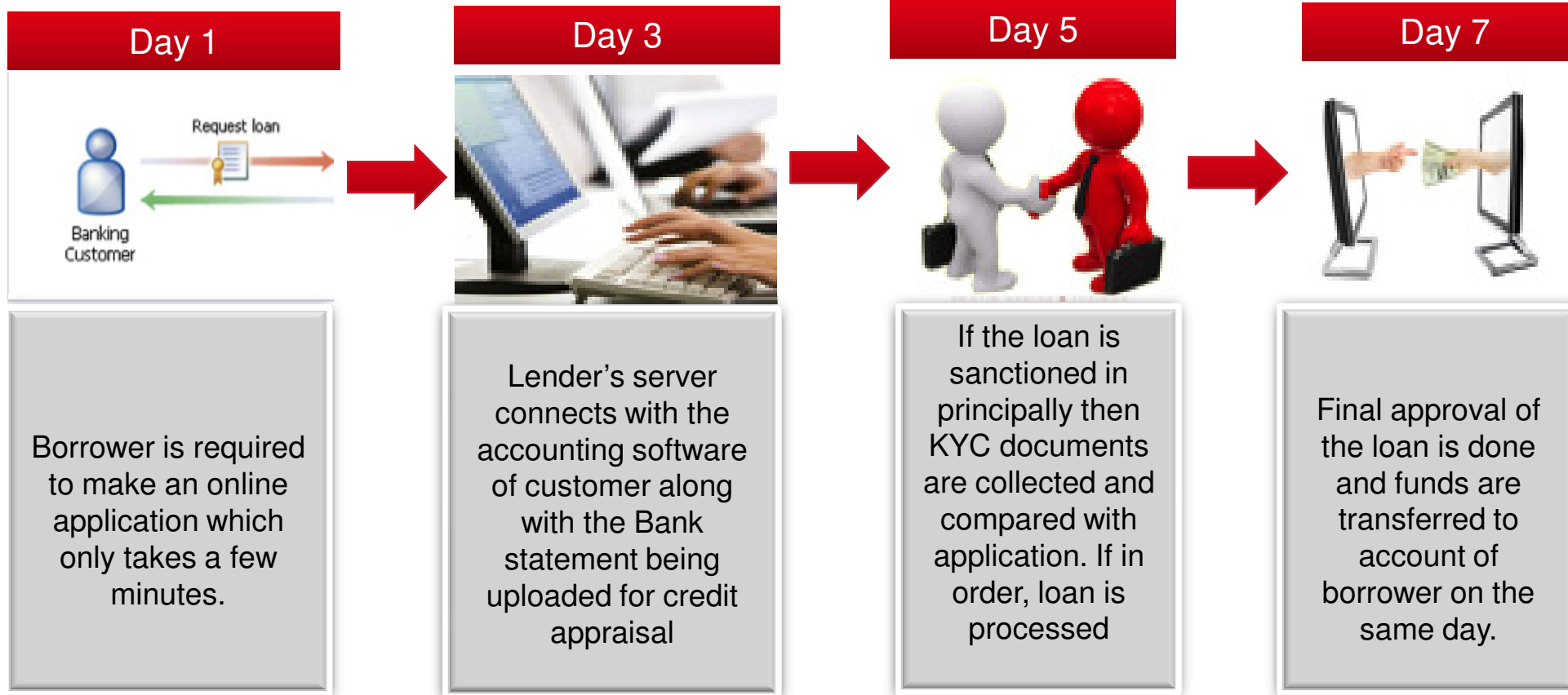


Algorithm Credit Scoring

Score is calculated based on

- Location-based information (GPS),
- Social networking information (likes, friends, locations and posts),
- Hardware data (operating system, browser, etc.), online shopping behavior
- General online behavior

7 day Online Loans



Loan in 7 mins to E-commerce Vendors



Financial companies provide working capital to E-Commerce vendors based on their real-time data and social profiles.

Financial health is assessed in minutes through data analysis done from various sources :

- Selling history on E-commerce Website
- Reviews on E-commerce website
- Financial data analysis by connecting through the server to the online accounting software
- Social Credit Assessment profiles on Facebook and Twitter – How active is the promoter ?
- Courier shipping information



Thank You