

MSME PULSE

FEBRUARY 2024



Mr. Sivasubramanian Ramann

Chairman and MD,
SIDBI

Lending to the MSME sector continued in H1:FY2024, despite the conclusion of the Emergency Credit Line Guarantee Scheme (ECLGS) scheme, indicating underlying growth momentum of the sector. Technology is aiding in lending to the MSME sector. Facilitating wider adoption of online loan applications, financial management tools, digital payment platforms along with utilization of robust analytics, can enhance the lending to the MSMEs and help fortify India's businesses for sustained growth. SIDBI is working on the above lines and is leveraging technology, utilising the Digital Public Infrastructure of the Government of India, to augment credit flow to the sector with faster turnaround.



Mr. Rajesh Kumar

MD and CEO,
TransUnion CIBIL Ltd.

MSME portfolio performance improved across all borrower segments as delinquency rates declined. In the quarter ending September 2023, we saw the lowest delinquency rate in the last two years. With promising economic growth prospects reflected through strong demand, stable portfolio growth and improved credit performance, now is a good time for lenders to expand their MSME lending book. The sectoral study covered in this MSME Pulse report showcases the unique nuances of each sector within the MSME segment. The wide spectrum of occupations covered by MSMEs has the potential of catalysing social development through economic empowerment.



TRANSUNION CIBIL

Sharada Patil

Sharada.Patil@transunion.com

Shruti Tiwari

Shruti.Tiwari@transunion.com

Vipul Mahajan

Vipul.Mahajan@transunion.com

Annie Nishank

Annie.Nishank@transunion.com

Namrata Parashar

Namrata.Parashar@transunion.com

ANALYTICAL CONTACTS

Venugopal Rao Yalangi

Chand Kureel

Hangzo Ginsuanmung

Manasi Swamy

Soham Nag

Vandita Srivastava

erdav@sidbi.in



SIDBI

EXECUTIVE SUMMARY

Credit flow to MSMEs continues to grow catalysed by technology and data-analytics oriented lending. This credit growth is broad-based, marked expansion is seen amongst semi-urban and rural MSMEs, as per the findings of the latest edition of MSME Pulse Report based on data as of quarter ending Sep 2023:

- Commercial credit growth momentum continues:** Commercial credit portfolio grew at 11% year-over-year (YOY) and credit exposure stood at INR 28.2 Lakh Crores at end of period Sep 2023.

Mapping India's MSME credit sector Demand (Commercial Credit Inquiry Volumes) Indexed to: Jul-Sep 2021 = 100		
Jul-Sep 2022	Jul-Sep 2023	YoY Growth (%)
132	170	29%
Supply (MSME Disbursement Volumes - In Lakh)		
Jul-Sep 2022	Jul-Sep 2023	YoY Growth (%)
9.3	11.2	20 %
Growth (Balance-Sheet MSME Credit Exposure - In ₹ Lakh Crore) upto 720 days		
Sep 22	Sep 23	YoY Growth (%)
23.0	25.7	12%
Performance (Delinquency Rates)# 90-720 dpd (incl Sub-standard)*		
Sep 22	Sep 23	YoY Change (bps)
3.0%	2.3%	-0.7%

The MSME portfolio excludes ~ ₹ 2.5 lakh crores of default cases beyond 720 days past due (DPD) /loss /doubtful category. Delinquency rate definition excludes legacy accounts with DPD beyond 720 days or reported as loss/doubtful.

- 29% growth in demand for commercial loans:** Increased economic activity has spurred the demand for commercial loans which grew 29% in the Jul-Sep 2023 quarter as compared to the same period in 2022. MSME credit demand at NBFCs (14% share of credit demand) grew fastest at 39% during this quarter.
- 20% growth in credit supply:** Credit supply to MSMEs grew by 20% YoY by volumes in quarter Jul-Sep 2023 indicating improved lender confidence. Commercial credit lending still continues to maintain its overall growth post initial boost provided by ECLGS Scheme(launched by Government of India to support credit to MSME sector). Availability of enriched and timely credit data and rapid implementation of digital lending infrastructure has contributed significantly towards enhancing lender confidence. 7% YoY growth is seen in borrowers who availed sub-INR 1 Crore loans (Micro segment) while growth of borrowers seeking greater than INR 10 Crores (Medium) has decreased by value.
- Robust portfolio growth supported by improved performance:** During quarter Jul-Sep 2023, overall balance-level delinquencies measured as 90 days-past-due to 720 days-past-due and those reported as “Sub-standard”, have improved, and stands at 2.3%. This is the lowest delinquency rate in the last 2 years.
- Manufacturing sector accounts for highest credit originations:** As per the latest information released by the Ministry of Statistics and Programme Implementation in December 2023, output in MSME manufacturing accounted for 40.83% of output in all India manufacturing during the year 2021-22. This is also reflected in TransUnion CIBIL Commercial bureau data where the Manufacturing sector accounts for 37% of value originated and has the largest share, followed by the Trades sector with a 28% share. Professional Services and Other Sectors together account for the remaining 35% share (of the data considered for this report).



- **Textiles is the highest contributing sub-sector within Manufacturing sector originations:** The majority of originations within sub-sectors are led by the Medium segment (10 Crores to 50 Crores) and catered for by private banks. The geographical distribution of originations across sub-sectors is concentrated in three top-contributing states: Gujarat, Tamil Nadu, and Maharashtra. While the manufacturing sector accounts for 37% of origination value it has only 25% share of the volumes originated. However, the Manufacturing sector experienced an increased share in originations by value within the Micro segment (less than one Crore) compared to the previous year. The Trade sector accounts for the highest share of origination volumes with 39% of loans originated; 41% of these disbursements are from NTC MSMEs.

Table 3: Trade Sector: Top 3 MSME loan originating states of FY 24-Q1 and Q2

Sub-Sector	Highest	Second Highest	Third Highest
Retail Trade	Maharashtra	Uttar Pradesh	Delhi
Wholesale Trade	Maharashtra	Gujarat	Tamil Nadu

As the borrower profile and credit behaviour of each sector is different, credit performance of these borrowers is also differently influenced by intrinsic sectoral impact. Leveraging data and analytics to understand borrower behaviour is essential to continue sustainable growth across sectors.

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Disclaimer:

- 1. All numbers mentioned in this MSME pulse report are in INR (Indian National Rupee)
- 2. Sep 2023 values are provisional and subject to revision as additional data is reported to the TransUnion CIBIL credit bureau.

RAPID IMPLEMENTATION OF DIGITAL INFRASTRUCTURE AND CREDIT INFORMATION ANALYTICS HAS IMPROVED LENDER CONFIDENCE FOR MSME CREDIT EXPANSION

CREDIT GROWTH MOMENTUM CONTINUES WITHIN INDIA'S MSME CREDIT MARKET

Increased economic activity has spurred the demand for commercial loans, which grew 29% in the quarter of Jul-Sep 2023, compared to the same quarter previous year. Private banks hold 43% share of MSME credit demand, however growth in demand was 23% in the Jul-Sep 2023 quarter. Credit demand at NBFCs (14% share of credit demand) grew fastest at 39% during this quarter.

Credit supply to MSMEs grew by 20% YoY volume growth in Jul-Sep 2023 over previous year, indicating improved lender confidence. Availability of enriched and timely credit data and rapid implementation of digital lending infrastructure has contributed significantly towards enhancing lender confidence. Insights in this edition of MSME Pulse show 7% YoY growth in origination value for borrowers who availed sub-INR 1 Crore loans (Micro segment). Origination in volume as well as value declined in quarter ending Sep 2023 for borrowers seeking greater than INR 10 Crore loans (Medium segment). New to Credit (NTC) borrowers continue to hold majority share of origination at 46% of MSME loan origination volumes.

MSME Credit Originations Growth (Jul-Sep 2023 YoY)		
Borrower Segment	Value	Volume
Micro	7%	28%
Small	3%	7%
Medium	-9%	-8%

Micro Exposure upto INR 1 cr; Small: Exposure between INR 1 cr and INR 10 crs; Medium Exposure between INR 10 crs and INR 50 crs

RAPID CREDIT EXPANSION ACROSS SEMI-URBAN AND RURAL GEOGRAPHIES

In the Jul-Sep 2023 quarter, 46% of MSME originations were from semi-urban and rural region. Almost half (49%) of the Micro segments' origination comes from the semi-urban and rural areas while it is 39% in the Small segment (INR 1 to 10 Crores). One of the key factors towards this expansion is the improvement in credit profiles of MSMEs. Share of high risk (CMR 7-10) MSMEs has reduced to 13% in Jul-Sep 2023 quarter from 15% during the same period previous year. Although Medium (CMR 4-6) risk continues to have high share with 55% of MSMEs in this risk segment.

Share of Origination Volume – (Jul-Sep 2023 YoY)				
Borrower Characteristics	Overall	Micro	Small	Medium
Semi-urban and Rural	46%	49%	39%	34%
Medium risk (CMR 4-6)	55%	61%	41%	20%
New to Credit	46%	61%	5%	1%

Micro Exposure upto INR 1 cr; Shares are standalone only and need not add up; Small: Exposure between INR 1 cr and INR 10 crs; Medium Exposure between INR 10 crs and INR 50 crs | *Medium Risk: CMR 4-6 (Share of Borrowers) | Risk% is based on the origination data where risk score is available

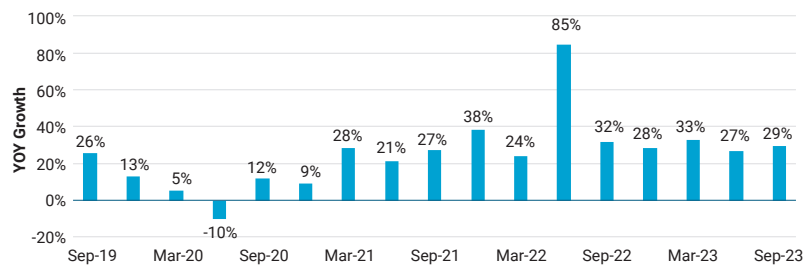
MAHARASHTRA, GUJARAT, DELHI, TAMIL NADU, AND UTTAR PRADESH TOP ORIGINATIONS

According to India Brand Equity Foundation, as of August 20, 2023, Maharashtra state has the maximum Udyam registrations with 32.76 lakh units, followed by states, Tamil Nadu, Uttar Pradesh, Gujarat and Rajasthan. This is clearly reflected in the origination trends. Originations continue to be higher from the large states with Maharashtra, Gujarat, Delhi, Tamil Nadu, and Uttar Pradesh account for 47.2% of the origination value. However, we are also seeing higher growth rate especially in Uttar Pradesh and Tamil Nadu in the quarter ending Sep 2023.

These top states also account for approximately 42% of NTC originations in the Micro MSME segment further driving the credit inclusion initiative. Within the Micro MSME segment Maharashtra has high share in the low-ticket sized Very Small segment (<INR 10 Lakhs) and Micro1 segment (INR 10 Lakhs to 50 Lakhs), while Gujarat has high share in Micro2 segment (INR 50 Lakhs & 1 Crore).

DEMAND

Growth in Enquiry Volumes (3 month ended period)



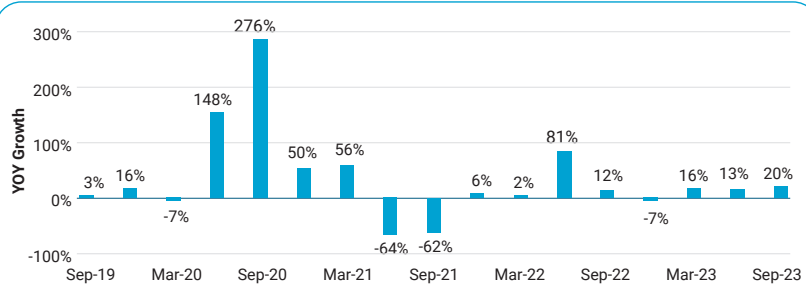
All MSME fund-based (WC-TL) products

Source: TransUnion CIBIL commercial credit database

CREDIT DEMAND CONTINUES TO GROW ON THE FOUNDATION OF ROBUST ECONOMIC ACTIVITIES

SUPPLY

Growth in Origination Volumes (3 month ended period)

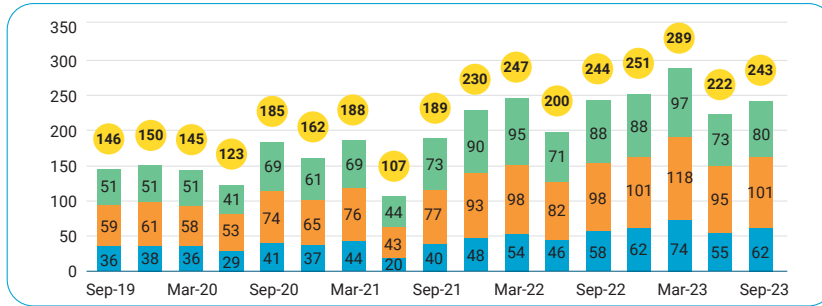


All MSME fund-based (WC-TL) Originations considered excluding Renewals

Source: TransUnion CIBIL commercial credit database

STRONG ECONOMIC MOMENTUM IS DRIVING LENDING GROWTH WITH DOUBLE-DIGIT YEAR-ON-YEAR GROWTH IN 2023

MSME Disbursement Amount (in Thousand Cr)

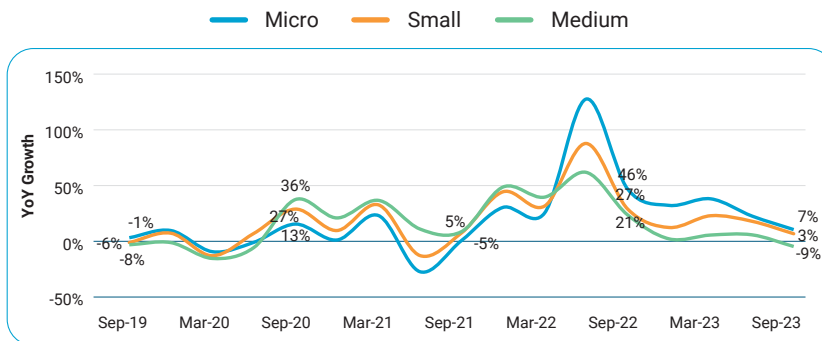


All MSME fund-based (WC-TL) Originations considered excluding Renewals | Micro Exposure upto INR 1 cr; Small: Exposure between INR 1 cr and INR 10 crs; Medium Exposure between INR 10 crs and INR 50 crs

Source: TransUnion CIBIL commercial credit database

SUSTAINED YEAR-ON-YEAR GROWTH IN SUPPLY AS COMPARED WITH GROWTH IN DEMAND

Growth in Originations Value by MSME Segment (3 month ended period)



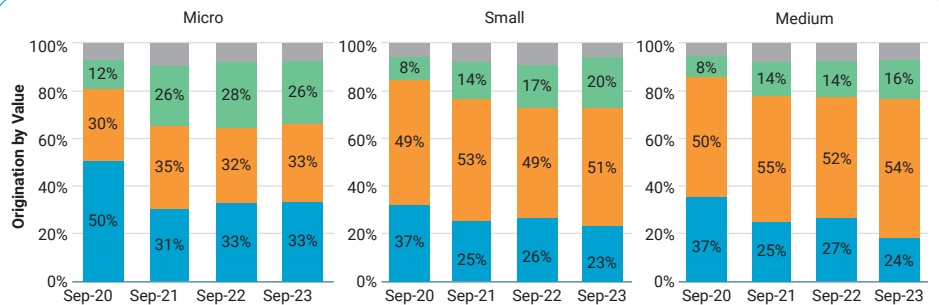
All MSME fund-based (WC-TL) Originations considered excluding Renewals | Micro Exposure upto INR 1 cr; Small: Exposure between INR 1 cr and INR 10 crs; Medium Exposure between INR 10 crs and INR 50 crs

Source: TransUnion CIBIL commercial credit database

MICRO MSME BORROWER SEGMENT CONTINUES TO DRIVE GROWTH IN ORIGINATION

Originations by Lenders across MSME Segment

PSB Private NBFC Others



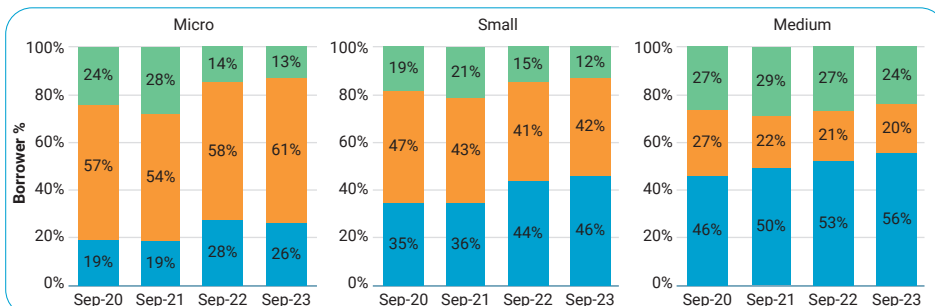
All MSME fund-based (WC-TL) Originations considered excluding Renewals Micro Exposure upto INR 1 cr; Small: Exposure between INR 1 cr and INR 10 crs; Medium Exposure between INR 10 crs and INR 50 crs

Source: TransUnion CIBIL commercial credit database

PRIVATE BANKS HAVE A LARGE SHARE OF ORIGINATIONS AND CONTINUE TO GROW; NBFC GROWING ITS SHARE IN SMALL AND MEDIUM SEGMENT

Borrower distribution by MSME segment


Low Risk Medium Risk High Risk



Low Risk is CMR 1-3, Medium Risk is CMR 4-6, High Risk is CMR 7-10
All MSME fund based (WC-TL) Originations considered excluding Renewals
Micro Exposure upto INR 1 cr; Small: Exposure between INR 1 cr and INR 10 crs; Medium Exposure between INR 10 crs and INR 50 crs

Source: TransUnion CIBIL commercial credit database

INCREASE IN SHARE OF LOW-RISK SEGMENT SIGNIFIES IMPROVED BORROWER PROFILE AT ORIGINATION



In quarter Jul-Sep 2023, total amount on new MSME credit originations was INR 243K Crores, with largest concentration from 'small' (INR 1 to 10 Crores) enterprise at 42%. Commercial credit portfolio stood at INR 28.2 Lakh Crores at end of Sep 2023, exhibiting 11% year-on-year growth across 80 Lakh MSME entities. However, a portion of this book—approximately 9% amounting to INR 2.4 Lakh Crores consists of legacy accounts with DPD (Days Past Due) beyond 720 days or accounts reported as loss/doubtful. For the purpose of this MSME Pulse analysis, our focus will be on accounts with less than 720 DPD and Sub-standard, which amounts to a substantial INR 25.7 Lakh Crores as of FY23-Q4.

During Jul-Sep 2023 quarter, overall balance-level delinquencies measured as 90 days-past-due to 720 days-past-due and those reported as "Sub-standard" have improved, and stand at 2.3%. This is the lowest delinquency rate in the last two years. Portfolio performance improved across all borrower segments as delinquency rate declined.

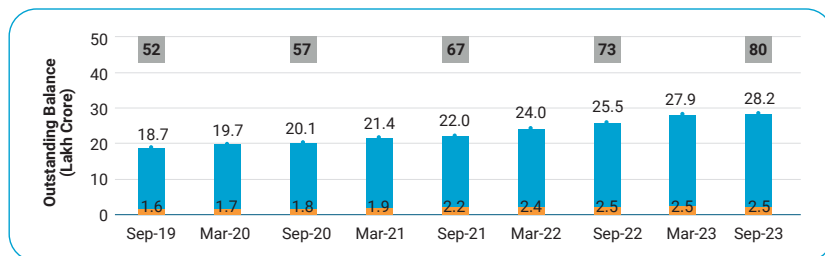
Further sub-segment wide break-up shows highest delinquency rates of 5.8% in the 'very small' segment (<INR 10 Lakhs) within the 'micro' segment (upto INR 1 Crores) of MSME. Private banks have least delinquent portfolio across all lenders at 1.5%, while that of Public Sector Banks stands at 3.2%.

To provide deeper insights on the performance of recent originations, early (vintage) delinquency trends with same age on book was analysed. Early (vintage) delinquency with same age on book has reduced and is at pre-COVID levels of 4.3%, indicating improvement in overall quality of loans that originated in Jul-Sep 2022.

With promising economic growth prospects as reflected through strong demand, stable portfolio growth and improved credit performance, time is conducive for lenders to expand their MSME credit portfolios. Micro, Small and Medium Enterprises (MSMEs) are critical to the industrial ecosystem in India. Broad spectrum of occupations covered by MSMEs makes them imperative for furthering India's economic growth. Each sector within the MSME segment requires focus as it has the potential of catalysing social development through economic empowerment.

Total Entities and Outstanding Balance

■ Outstanding Balance Legacy accounts ■ Outstanding Balance ■ No. of Entities (Lakhs)



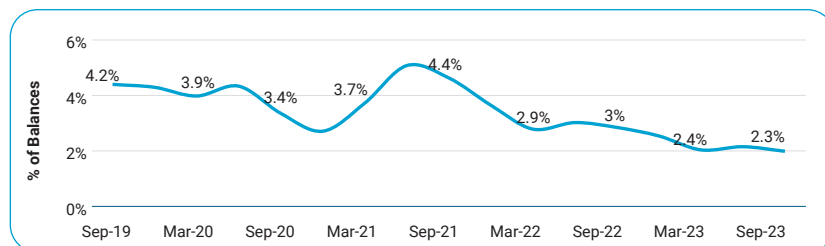
All MSME (WC-TL)

Source: TransUnion CIBIL commercial credit database

STRONG GROWTH IN CREDIT SUPPLY HAS LED TO ROBUST PORTFOLIO BALANCES

Balance-Level Delinquencies

— 90-720 & Sub-standard



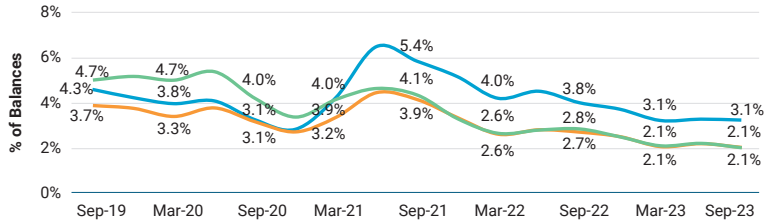
All MSME (WC-TL)

Source: TransUnion CIBIL commercial credit database

CREDIT PERFORMANCE HAS REMAINED STRONG, WITH BALANCE-LEVEL DELINQUENCIES REDUCING

Balance-Level Delinquencies: 90-720 DPD and Sub-standard

Micro Small Medium



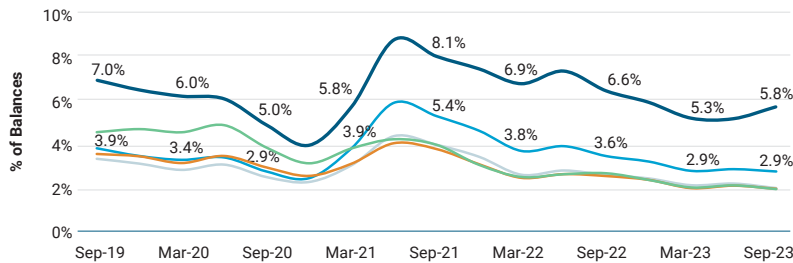
All MSME (WC-TL) Micro Exposure upto INR 1 cr;
Small: Exposure between INR 1 cr and INR 10 crs;
Medium Exposure between INR 10 crs and INR 50 crs

Source: TransUnion CIBIL commercial credit database

IMPROVEMENT IN
DELINQUENCIES WAS
OBSERVED ACROSS
MSME SEGMENTS

Balance-Level Delinquencies : 90-720 DPD and Sub-standard

Very Small Micro 1 Micro 2 Small Medium



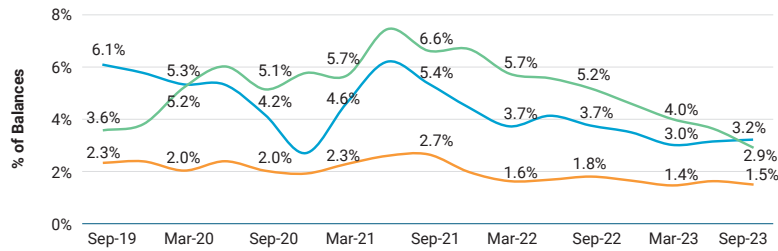
All MSME (WC-TL) Very Small: < INR 10 lakhs;
Micro1: Exposure between INR 10 lakhs and INR 50 lakhs;
Micro2: Exposure between INR 50 lakhs and INR 1 cr;
Small: Exposure between INR 1 cr and INR 10 crs;
Medium Exposure between INR 10 crs and INR 50 crs

Source: TransUnion CIBIL commercial credit database

IMPROVED DELINQUENCY
HAS BEEN OBSERVED ACROSS
MOST BORROWER SEGMENTS
WITH THE EXCEPTION OF THE
VERY SMALL SEGMENT

Balance-Level Delinquencies : 90-720 DPD and Sub-standard

PSB Private NBFC



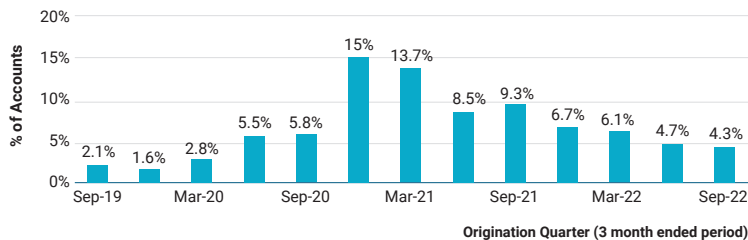
All MSME (WC-TL)

Source: TransUnion CIBIL commercial credit database

IMPROVED DELINQUENCIES OBSERVED YEAR-ON-YEAR ACROSS LENDERS, PSBS AND PRIVATE BANKS HAVE SEEN SLIGHT INCREASE IN THE LATEST QUARTER

VINTAGE DELINQUENCY

Vintage Delinquencies Ever 90+ DPD in 12 months

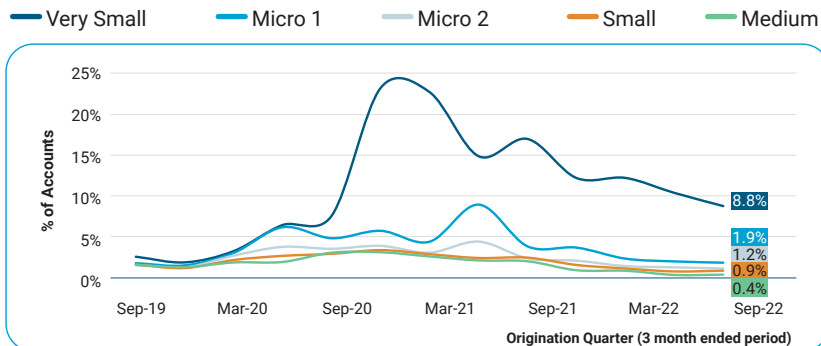


All MSME fund based (WC-TL) Originations considered excluding Renewals

Source: TransUnion CIBIL commercial credit database

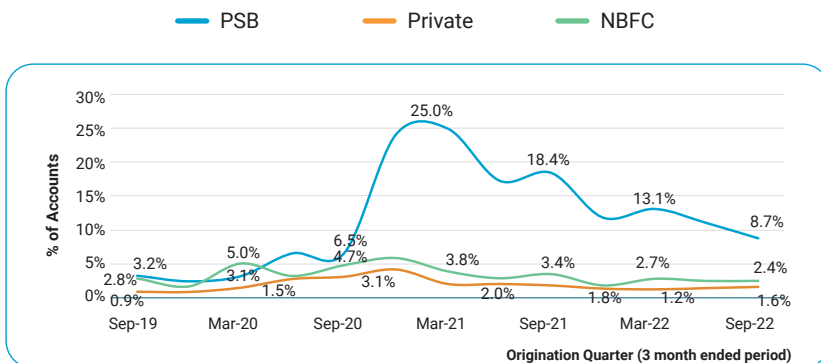
VINTAGE DELINQUENCY IS IMPROVING FOR RECENT ORIGINATIONS

Vintage Delinquencies by MSME segments: Ever 90+ DPD in 12 months



VINTAGE DELINQUENCY IS IMPROVING, SIGNIFYING A STRONG RECOVERY IN MSME INDUSTRY PERFORMANCE

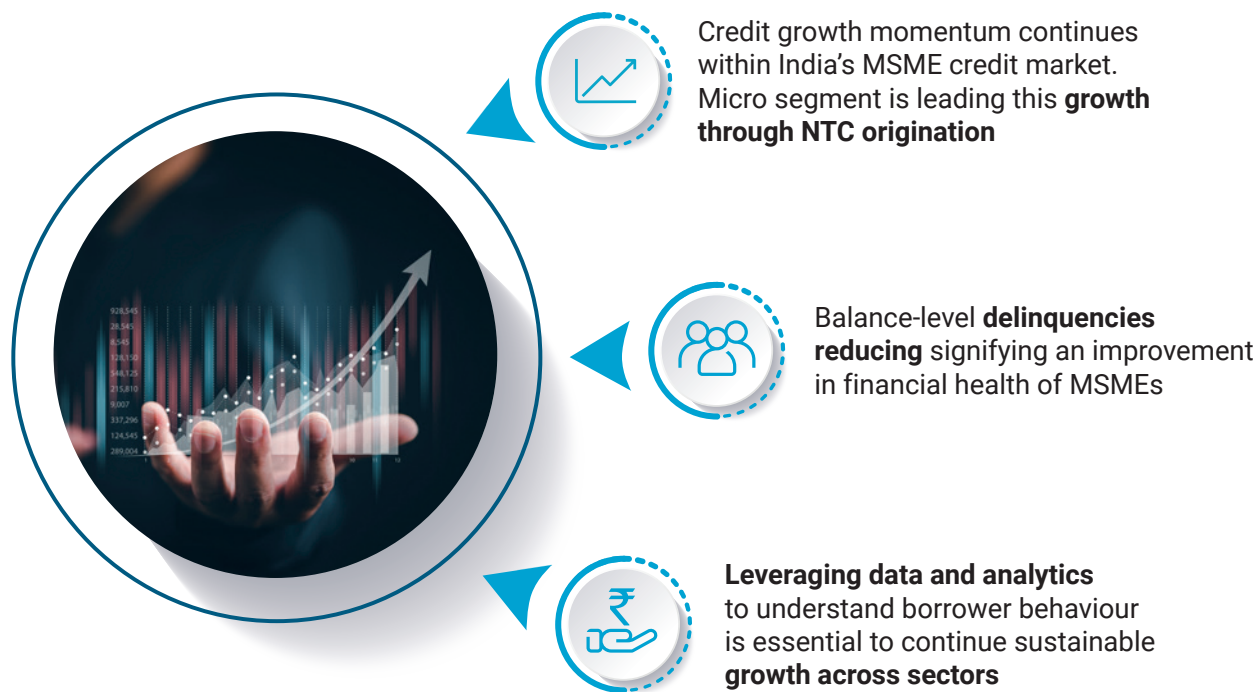
Vintage Delinquencies by Lender Category: Ever 90+ DPD in 12 months



VINTAGE DELINQUENCY FOR PUBLIC SECTOR BANKS DECREASED OVER THE LAST ONE YEAR HOWEVER, REMAINS COMPARATIVELY HIGH



TO SUMMARIZE THE OUTLOOK FOR THE MSME CREDIT:



FOCUS AREA: MSME SECTORAL ANALYSIS

In this Section, we will answer the following questions:

- How are the credit profiles different and how are they leading to growth in each sector?
- Understanding Borrower Segments across sectors which is driving growth
- Which Lenders are catering to their credit needs in each sector?
- What are the Risk profiles of the borrowers originating more loans?

ROLE OF SECTORAL GROWTH IN MSME

Of the 630 Lakh MSME corporates in India, only 250 Lakhs are included in the formal credit ecosystem. Lenders must bridge this gap and tap into this vast segment by identifying deserving MSMEs, connecting with them and customising credit products for their requirements.

In this section of the report, we will deep dive into sectors dominated by MSMEs to understand the growth drivers of each sector and decode the borrower profiles. The section shall provide insights to lenders through which sectoral lending implications can be derived.

Lending institutions report information to TransUnion CIBIL commercial bureau which also includes a field on sector of the MSME borrower. Approximately 83% of the originated loan value has the sector reported in the field on TransUnion CIBIL commercial bureau. The sectors reported are Textiles, Food Processing, Vehicles, Basic Metals, Machinery, Retail trade, Wholesale trade, Professional Services, Education, Hotel and Tourism, Other Services, Transport, Repair Maintenance and Recreation services, Constuction, Agriculture and allied activities, Financial intermediation and loan activities.

We have excluded the sectors which are not relevant for this report, namely – Financial Intermediation and Loan Activities. For this report, we have further clubbed the sectors into four broad categories-

- i. Manufacturing which includes Textiles, Food Processing, Basic Metals, Vehicles etc.
- ii. Trade which includes Retail trade and Wholesale trade
- iii. Professional and Other Services includes Professional Services, Hotel Tourism etc.
- iv. Other Sectors includes Transport, Construction, Agriculture and allied activities.

Together these four segments capture 92% of the MSME portfolio (where sector is reported to TransUnion CIBIL Commercial Bureau)





METHODOLOGY

The analysis is done on sectoral data reported to TransUnion CIBIL

83%

Of value reported has Sector code

92%*

Of 83% is used for study

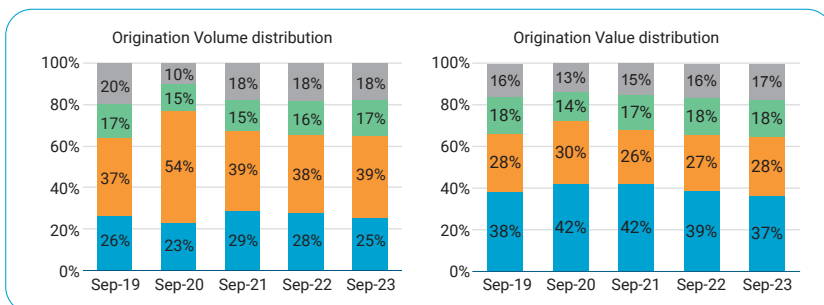
Sectors considered are:

- Manufacturing includes Textiles, Food Processing, Basic Metals, Vehicles, etc.
- Trade includes Retail trade and Wholesale trade
- Professional and Other Services includes Professional Services, Hotel Tourism, etc.
- Other Sectors includes Transport, Construction, Agriculture and allied activities

**We have excluded the sectors which are not relevant for this analysis, namely - Financial Intermediation and Loan Activities*

Origination Distribution across Sectors (6 month ended period)

■ Manufacturing ■ Trade ■ Professional & Other Services ■ Other Sectors



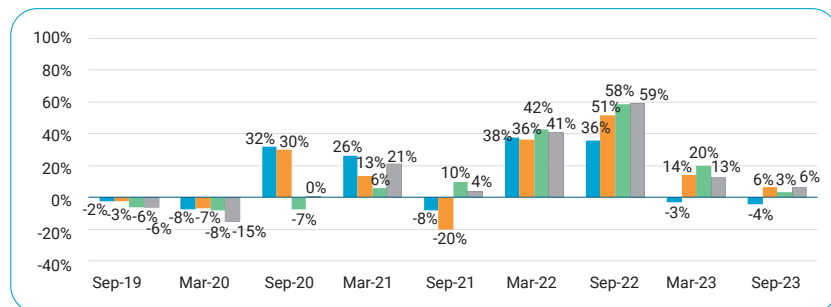
Time period: Month 6M Ended Period.
All MSME fund based (WC-TL) originations.
Other includes Transport Operators, Agriculture and allied activities and construction.

Source: TransUnion CIBIL commercial credit database

MANUFACTURING AND TRADE
SECTORS ARE DRIVING THE
GROWTH IN ORIGINATIONS

YoY growth across sectors (6 Month ended period)

■ Manufacturing ■ Trade ■ Professional & Other Services ■ Other Sectors



Time period: Month 6M Ended Period
All MSME fund based (WC-TL) originations
Other includes Transport Operators, Agriculture and allied activities and construction

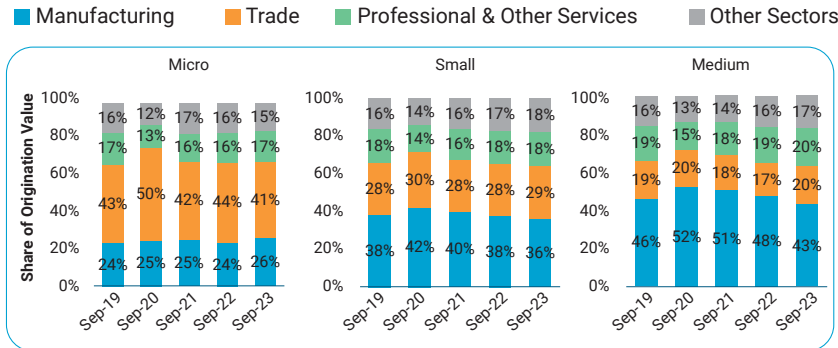
Source: TransUnion CIBIL commercial credit database

WE ARE SEEING DEGROWTH IN MANUFACTURING ORIGINATION COMPARED TO PREVIOUS YEARS WHICH WAS SUPPORTED BY GOVERNMENT INITIATIVES

As per the latest information released by Ministry of Statistics and Programme Implementation, in Dec 2023- share of MSME manufacturing output in all India Manufacturing output during the year 2021-22 was 40.83%. This is also reflected in the TransUnion CIBIL Commercial bureau data where Manufacturing sector accounts for 37% of value originated and has the largest share followed by Trades with 28% share. Professional Services and Other Sectors together account for the remaining 35% share (of the data considered for this report).



Origination distribution by MSME and Sectors (6 Month ended period)

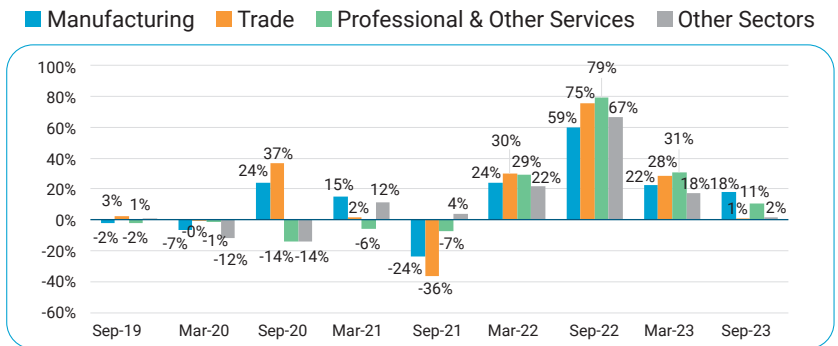


Time period: Month 6M Ended Period
All MSME fund based (WC-TL) originations
Other includes Transport Operators, Agriculture and allied activities and construction

Source: TransUnion CIBIL commercial credit database

SHARE OF MANUFACTURING IS INCREASING IN MICRO SEGMENT WHILE TRADE SECTOR IS GROWING SHARE IN MEDIUM SEGMENT

Micro segment: YoY growth in origination value across sectors



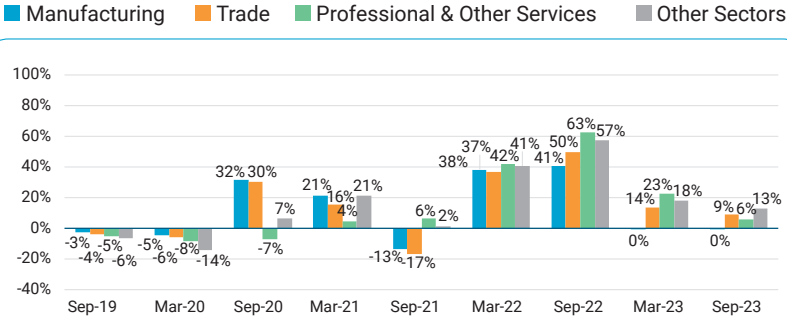
Time period: Month 6M Ended Period
All MSME fund based (WC-TL) originations
Other includes Transport Operators, Agriculture and allied activities and construction

Source: TransUnion CIBIL commercial credit database

GROWTH IN MANUFACTURING IS HIGHER WITHIN MICRO SEGMENT AS COMPARED TO ALL OTHER SECTORS

SECTORAL ANALYSIS

Small segment: YoY growth in origination value across sectors

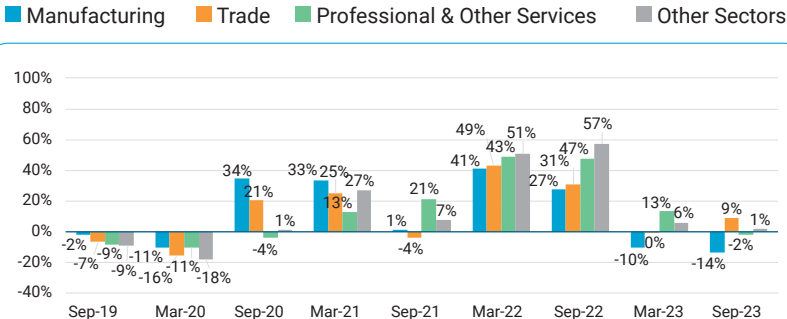


Time period: Month 6M Ended Period
All MSME fund based (WC-TL) originations
Other includes Transport Operators,
Agriculture and allied activities and construction

Source: TransUnion CIBIL commercial credit database

ALL SECTORS ARE SEEING A GOOD GROWTH IN ORIGINATIONS WITHIN SMALL SEGMENT, EXCEPT FOR MANUFACTURING

Medium segment: YoY growth origination value across sectors



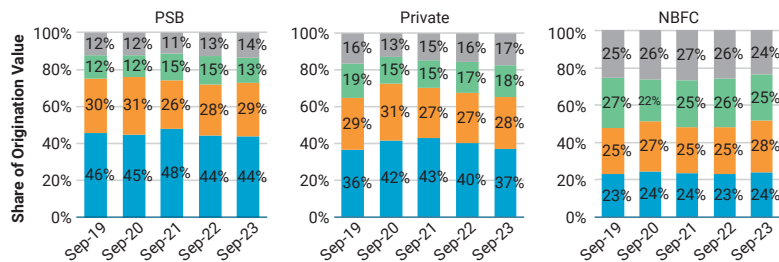
Time period: Month 6M Ended Period.
All MSME fund based (WC-TL) originations.
Other includes Transport Operators,
Agriculture and allied activities and construction

Source: TransUnion CIBIL commercial credit database

GROWTH IN TRADE IS HIGHER WITHIN MEDIUM SEGMENT AS COMPARED TO ALL OTHER SECTORS

Origination distribution by lenders and Sectors (6 Month ended period)

■ Manufacturing ■ Trade ■ Professional & Other Services ■ Other Sectors



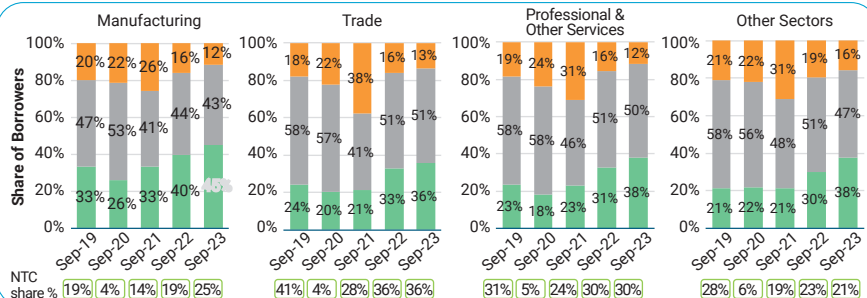
Time period: Month 6M Ended Period
All MSME fund based (WC-TL) originations
Other includes Transport Operators,
Agriculture and allied activities and construction

Source: TransUnion CIBIL commercial credit database

WHILE PSBS ARE MAINLY LENDING TO MANUFACTURING, PRIVATE BANKS ARE GROWING THE SHARE IN PROFESSIONAL SERVICES AND OTHER SECTORS

Origination Risk distribution by Sectors (6 Month ended period)

■ CMR 1-3 ■ CMR 4-6 ■ CMR 7-10

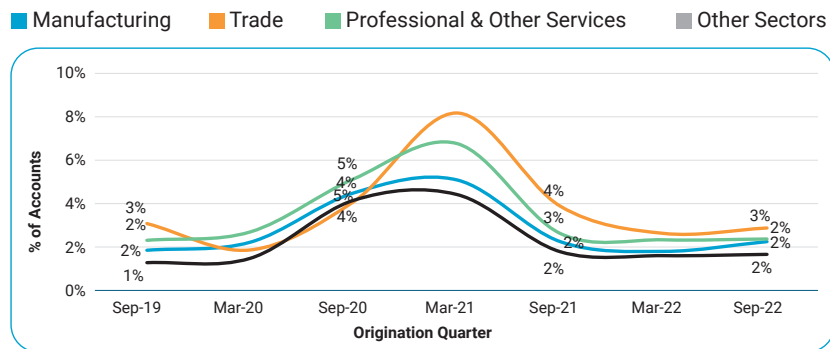


Time period: Month 6M Ended Period.
All MSME fund based (WC-TL) originations.
Other includes Transport Operators, Agriculture
and allied activities and construction

Source: TransUnion CIBIL commercial credit database

INCREASE IN ORIGINATION IN LOW-RISK SEGMENT SIGNIFIES IMPROVED BORROWER PROFILE AT ORIGINATION

Vintage Delinquencies by Micro MSME and Medium Risk (CMR 4-6)

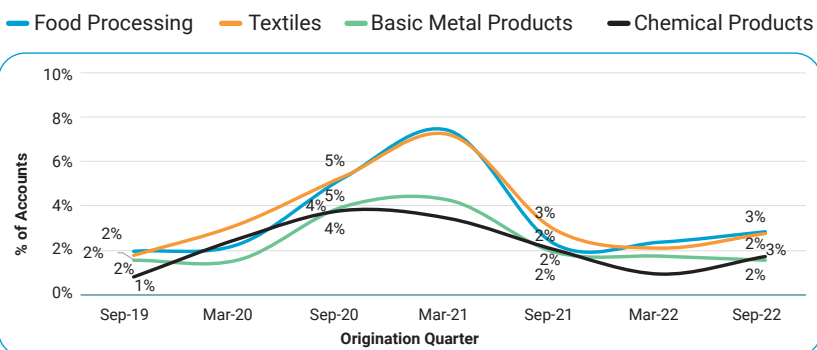


Time period: Month 6M Ended Period. All MSME fund based (WC-TL) originations Other includes Transport Operators, Agriculture and allied activities and construction

Source: TransUnion CIBIL commercial credit database

VINTAGE DELINQUENCIES ARE REDUCING ACROSS SECTORS; TRADE SECTORS CONTINUES TO HAVE SLIGHTLY HIGHER DELINQUENCIES

Manufacturing: Vintage Delinquencies by Micro MSME and Medium Risk (CMR 4-6)

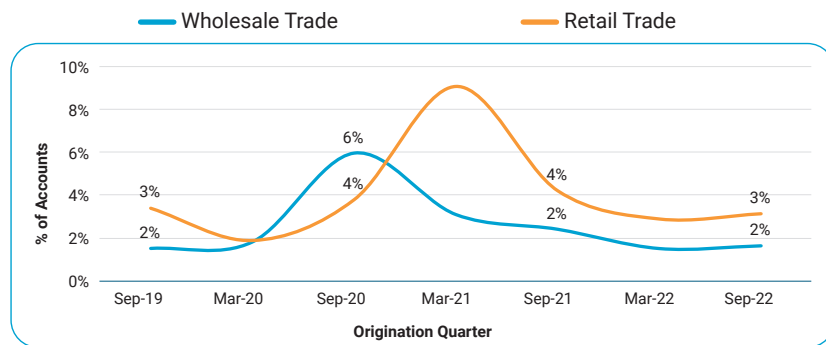


Time period: Month 6M Ended Period. All MSME fund based (WC-TL) originations.

Source: TransUnion CIBIL commercial credit database

FOOD PROCESSING AND TEXTILE IN THE MANUFACTURING SECTOR, HAS RELATIVELY HIGHER DELINQUENCY, WHILE OVERALL DELINQUENCY IS REDUCING

Trade: Vintage Delinquencies by Micro MSME and Medium Risk (CMR 4-6)



Time period: Month 3M Ended Period
All MSME fund based (WC-TL) originations
Vintage Delinquency: Ever 90+ in 12MOB

Source: TransUnion CIBIL commercial credit database

RETAIL TRADE SEGMENT HAS
VINTAGE DELINQUENCY HIGHER
THAN WHOLESALE TRADE



In this Section, we will discuss:

- The characteristics of sub-sectors in each sector
- The different credit profiles of borrowers across sub-sectors

As the borrower profile and credit behaviour of each sector is different, credit performance of these borrowers is also different influenced by intrinsic sectoral impact. Leveraging data and analytics to understand borrower behaviour is essential to continue sustainable growth across sectors.

A deep dive into businesses that come under the MSME Sectors

- i. **Manufacturing Sector:** Manufacturing sector undertakes creation or production of goods. Within Manufacturing, few of the larger sub-sectors are -
- Textiles which are primarily concerned with the design, production, and or distribution of textiles: yarn, cloth, and clothing
 - Food Processing which transforms agricultural products into food, or of one form of food into other forms
 - Basic Metals which manufactures iron, steel, aluminum, and other intermediate metal goods

Textiles is the highest contributing sub-sector within manufacturing sector originations. Majority of the originations within sub-sectors are led by 'medium' segment (10 Crores to 50 Crores) and catered by private banks. Geographical distribution of originations across subsectors is concentrated in top 3 contributing states across sub- sectors Gujarat, Tamil Nadu, and Maharashtra. Other top contributing regions within sub-sectors are Haryana that leads in food processing, plastic vehicles and transport equipment and Delhi in rubber plastic products, Telangana in chemical products and Uttar Pradesh in paper products.

Sub Sector	Top 3 Originating States of FY 24-Q1 & Q2		
	Highest	Second Highest	Third Highest
Textiles	Tamil Nadu	Gujarat	Maharashtra
Food Processing	Maharashtra	Haryana	Gujarat
Basic Metal Product	Gujarat	Maharashtra	Tamil Nadu
Chemical Products	Maharashtra	Gujarat	Telangana
Rubber Plastic Products	Gujarat	Maharashtra	Delhi
Paper Products	Gujarat	Maharashtra	Uttar Pradesh
Vehicles and Transport Equipment	Maharashtra	Haryana	Tamil Nadu

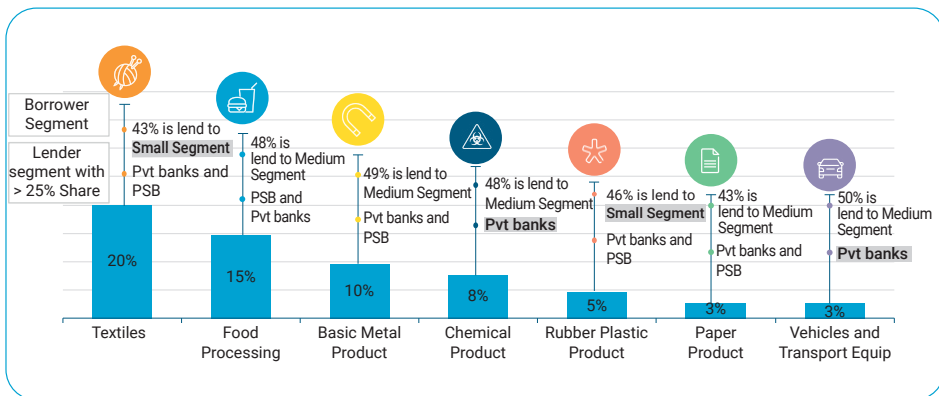
Others (All Engineering, Gems Jewellery, Wood products, Leather products, Cement products, Printing, publishing activities, Glassware, Other Manufacturing) excluded. Contributes to 38% of the data.

While Manufacturing sector accounts for 37% of origination value it has only 25% share of the volumes originated. Having said that, Manufacturing sector experienced increased share in originations by value within 'micro' segment (less than 1 Crore) compared to previous year to YoY as on Sep 2023.

Originations in Manufacturing sector have degrown in two subsequent quarters. During this period there is a slowdown in the overall manufacturing sector PMI.

Manufacturing Origination Value distribution – Apr-Sep 2023

Others excluded amounts to 38% of the data

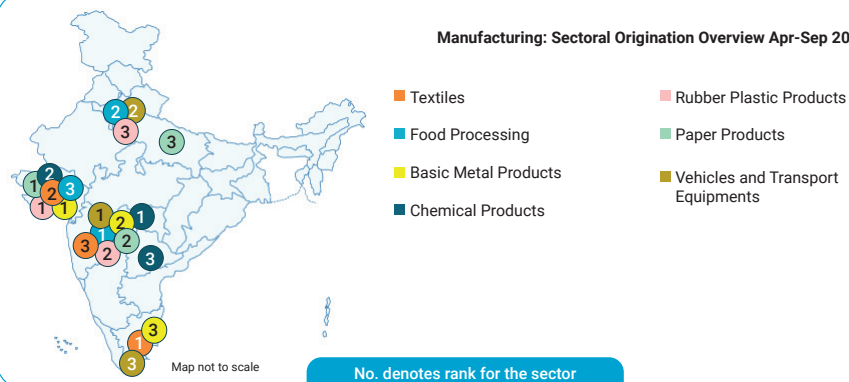


Origination Value for Apr-Sep 2023. All MSME fund based (WC-TL) originations
Other includes All Engineering, Gems_Jewellery, Wood products, Leather products, Cement products, Printing, publishing activities, Glassware, Other Manufacturing

Source: TransUnion CIBIL commercial credit database

MANUFACTURING SECTOR HAS HIGH SHARE OF MEDIUM MSME BORROWERS ACROSS SUB SECTORS WITH LENDING DRIVEN BY PRIVATE BANKS

Manufacturing: Sectoral Origination Overview Apr-Sep 2023



Origination Value for Apr-Sep 2023. All MSME fund based (WC-TL) originations
Other includes All Engineering, Gems_Jewellery, Wood products, Leather products, Cement products, Printing, publishing activities, Glassware, Other Manufacturing

Source: TransUnion CIBIL commercial credit database

MAHARASHTRA AND GUJARAT HAVE LARGE SHARE OF ORIGINATION ACROSS SUB SECTORS IN MANUFACTURING

ii. **Trade sector:** The earlier definition of MSMEs included manufacturing and service enterprises whereas retail and wholesale trade were not classified under the same. Since July 2021, in the revised guidelines, retail and wholesale trade got included under the MSME definition and got the benefit of priority sector lending under the Reserve Bank of India (RBI) guidelines.

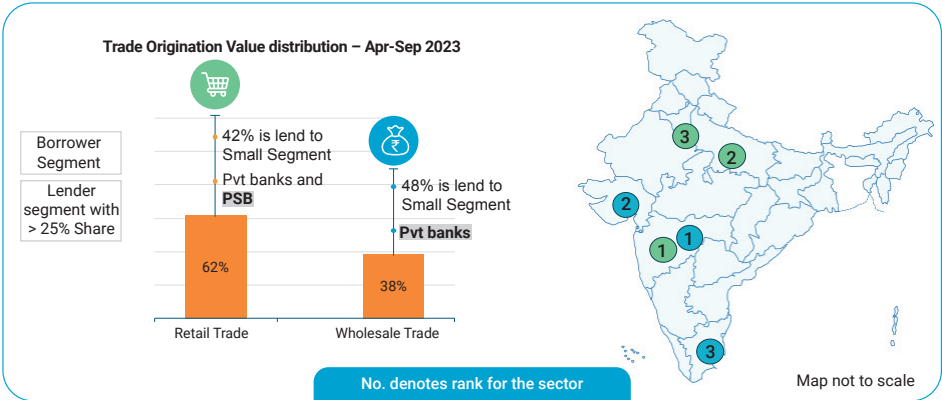
Within the Trade sector, Retail Trade accounts for majority of the originations at 62% of value disbursed. Most origination

in Trade Sector is done to MSMEs in the ‘Small’ segment (1 Crore to 10 Crores). Majority of lending to the Trade Sector MSMEs is done by Private Sector Banks.

Trade sector accounts for highest share of origination volumes with 39% of loans originated. 36% of these are from new-to-credit MSMEs. Trade sector has high share of ‘Micro’ MSME segment (less than 1 Crore) originations.

Top 3 contributing states across sub sectors Maharashtra, Uttar Pradesh, and Tamil Nadu.

Sub Sector	Top 3 Originating States of FY 24-Q1 and Q2		
	Highest	Second Highest	Third Highest
Retail Trade	Maharashtra	Uttar Pradesh	Delhi
Wholesale Trade	Maharashtra	Gujarat	Tamil Nadu



Origination Value for Apr-Sep 2023
All MSME fund based (WC-TL) originations

Source: TransUnion CIBIL commercial credit database

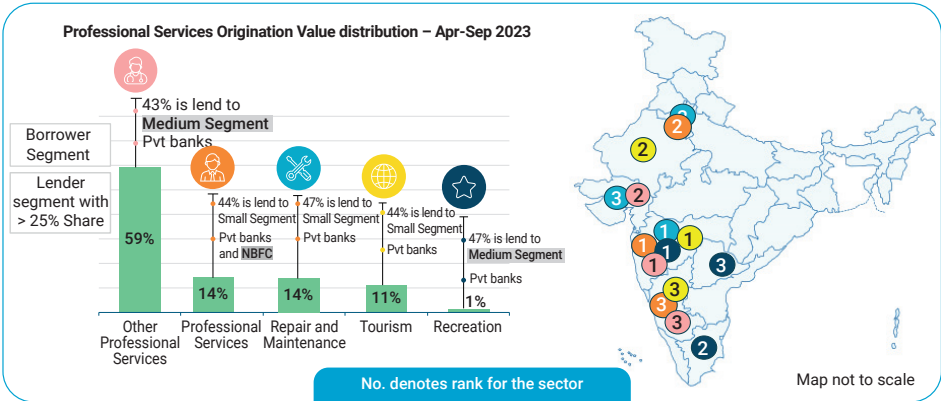
TRADE SECTOR HAS HIGH SHARE OF SMALL MSME BORROWERS ACROSS SUB SECTORS WITH SPREAD ACROSS GEOGRAPHY

iii. **Professional and Other Services:** Professional and Other Services encompass a plethora of occupations that extend support to businesses in the form of consulting, advice, or by performing other tertiary roles. It also includes Hotel and Tourism sector that which includes all the economic activities that directly or

indirectly contribute to, or depend upon, travel and tourism. Other professional services are the highest contributing sub sector within professional services sector originations. Majority of the originations within sub sectors are led by 'medium' segment (10 Crore to 50 Crores) and catered by private banks.

Sub Sector	Top 3 Originating States of FY 24-Q1 and Q2		
	Highest	Second Highest	Third Highest
Other Professional Servies	Maharashtra	Gujarat	Karnataka
Professional Services	Maharashtra	Delhi	Karnataka
Repair and Maintenance	Maharashtra	Delhi	Gujarat
Tourism	Maharashtra	Rajasthan	Karnataka
Recreation	Maharashtra	Tamil Nadu	Telangana

Geographical distribution of originations: Top 3 contributing states across sub sectors are Maharashtra, Karnataka, and Delhi. Other top contributing regions within sub sectors are Gujarat in Other Professional Services and Repair and Maintenance, Rajasthan in Tourism, Telangana, and Tamil Nadu in Recreation.



Origination Value for Apr-Sep 2023
All MSME fund based (WC-TL) originations

Source: TransUnion CIBIL commercial credit database

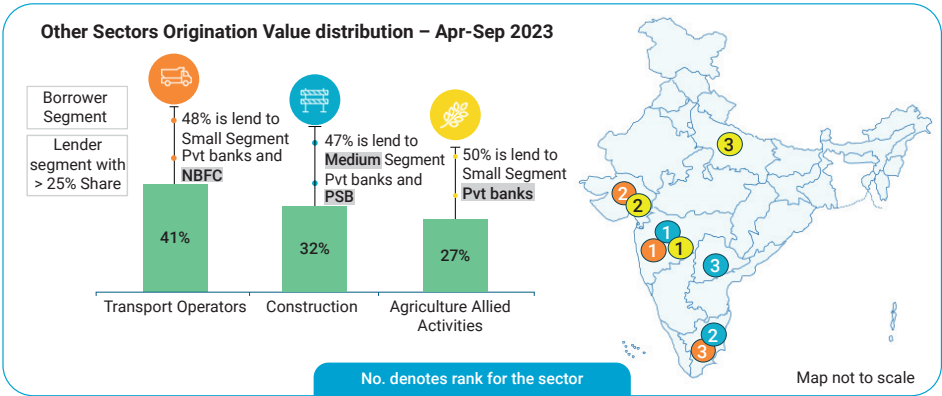
PROFESSIONAL SERVICES SECTOR HAS HIGH SHARE OF MEDIUM MSME BORROWERS ACROSS SUB SECTORS WITH LENDING DRIVEN BY PRIVATE BANKS



iv. Other Sectors which include Transport Operator, Construction and Agricultural Activities: Transport Operators are the highest contributing sub-sector within other services sector originations. Majority of the originations within sub-sectors are led by ‘small’ segment (1 Crore to 10 Crores) and catered by private banks.

Sub Sector	Top 3 Originating States of FY 24-Q1 and Q2		
	Highest	Second Highest	Third Highest
Transport Operators	Maharashtra	Gujarat	Tamil Nadu
Construction	Maharashtra	Tamil Nadu	Telangana
Agriculture & Allied Activities	Maharashtra	Gujarat	Uttar Pradesh

Geographical distribution of originations: Top 3 contributing states across sub sectors are Maharashtra, Gujarat, and Tamil Nadu. Other top contributing regions within sub sectors are Telangana in Construction, Uttar Pradesh in Agriculture and Allied Activities.



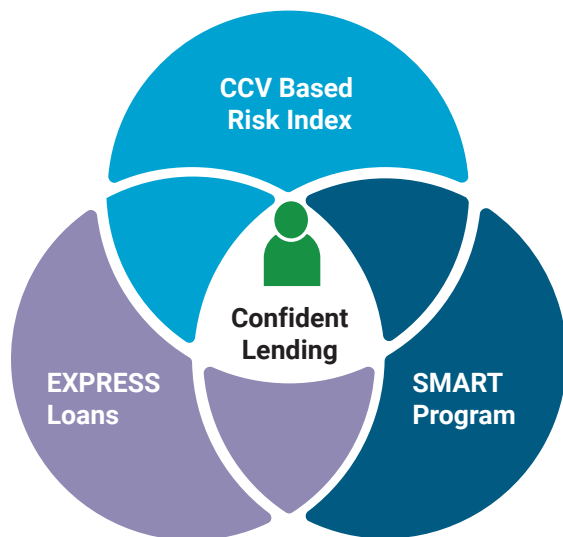
Origination Value for Apr-Sep 2023
All MSME fund based (WC-TL) originations

Source: TransUnion CIBIL commercial credit database

The core advantage of sector wide growth is the vast geographical expanse it covers-spreading through areas where urbanization and multiple employment opportunities have not yet percolated. The sectors however continue to face several challenges include physical infrastructure bottlenecks, inertia to technology adoption, lack of access to credit and risk capital.

CONSTRUCTION, TRANSPORT OPERATORS AND AGRICULTURE ALLIED ACTIVITIES HAVE LENDING DRIVEN BY PRIVATE BANKS

LEVERAGE DATA AND TECHNOLOGY TO OPTIMIZE LENDING STRATEGIES FOR IMPROVED PROFITABILITY AND BETTER CREDIT PENETRATION



TransUnion and SIDBI have enhanced strategies that enable lenders to provide greater credit access to MSMEs

To improve credit penetration in overall MSME sector, TransUnion CIBIL and SIDBI recommend potential strategies that can help lenders achieve sustained MSME credit growth, profitability and financial inclusion of MSMEs:

Risk Index - Leverage borrower's trended credit attributes to optimize lending strategies for improved profitability and better credit penetration

EXPRESS Loans – Digital Machinery Loans upto ₹1 Crore with Immediate In-Principal Approval

SMART Programs – MSME Loans upto ₹7.5 Crore

Origination Value for Apr-Sep 2023
All MSME fund based (WC-TL) originations

Source: TransUnion CIBIL commercial credit database

I. Risk Index Leverage borrower’s trended credit attributes to optimize lending strategies for improved profitability and better credit penetration

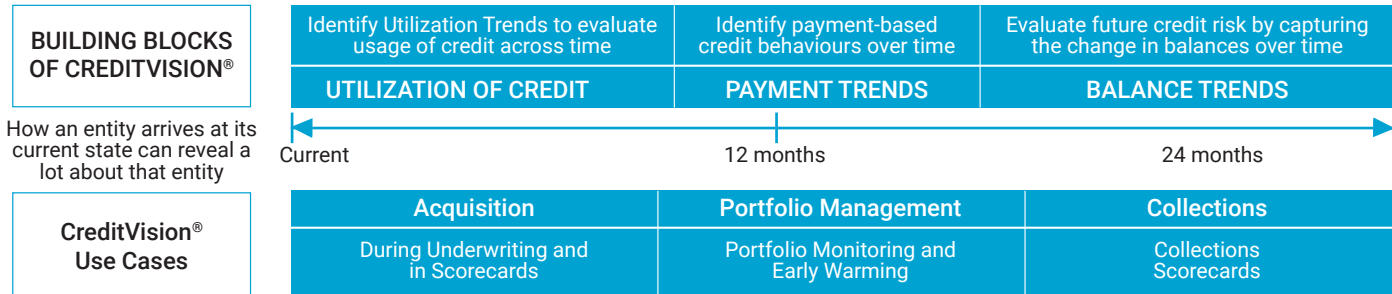
TransUnion CIBIL’s Commercial CreditVision is a combination of Trended Algorithms and Credit Attributes which strengthen the decision-making process by bringing in more actionable insights. Based on up to 36 months of trended historical data, Commercial CreditVision helps identify specific borrower behavioural characteristics that can be used by lenders to make better informed decisions with more precision.

- Unravel consumer behaviour for better decisions: Commercial CreditVision helps to understand how a borrower has arrived at its current risk level thereby revealing a lot about the borrower’s ability of meeting the debt obligations.
- Extensive coverage of borrower characteristics: With a robust library of over 2100 algorithms and attributes spanning across loan types, lender types, industry, business

types, Commercial CreditVision® is best suited for the Indian commercial lending scenario.

- Lending strategy for the growing (Micro, Small, Medium Enterprises) MSME segment: Commercial CreditVision captures the intrinsic behavioural characteristics of the borrower like credit hungriness, ability to repay, headroom available, liquidity profile, vintage amongst many other insights.
- Efficient and effective loan lifecycle management: Given the exhaustive coverage of Commercial CreditVision across commercial loan types and lenders, credit institutions can make the processes of Acquisition, Portfolio Management and Monitoring, Recovery and Collection better, efficient and more effective.
- Commercial CreditVision adds finer nuances to key credit risk pillars and thus helps to uncover the ‘iceberg’ – potential opportunities and unrevealed risk

Trended variables to further differentiate within the “Good” borrowers



RICH LIBRARY OF 2100 TRENDED CREDITVISION ALGORITHMS AVAILABLE IN BOTH BATCH AND ONLINE DELIVERY CHANNELS

II. EXPRESS Loans – Digital Machinery Loans upto ₹1 Crore with Immediate In-Principal Approval

EXPRESS loan build by SIDBI provides term loan assistance of upto ₹1 Crore to MSMEs - both in Manufacturing and Service sector, for purchase of machinery/equipment. Scheme offers seamless online loan application journey, digital loan processing with immediate in-principle offer, quick sanction and disbursement and upto 100% financing.

The basic eligibility for an MSME unit to apply for this loan is that it should be GST registered, should have a valid Udyam Registration and should be in operation for the last 3 years and filed income tax returns. SIDBI uses an online loans application platform which was developed in-house. This platform uses digital data points from GSTN, ITR, bank statements, MCA and information utilities and combines it with a business rule engine to issue in-principal approval immediately.

FIT Rank (Financial, Income and Trade Based Rank) and CIBIL MSME Rank (CMR) are used as gating criteria in Express Loans Credit policy. The steps for completing an application and receiving an In-Principal Application are as follows:-



Once in-principal decision is conveyed, the final sanction and disbursement can be completed within 48 hours. As of Dec '23, total sanction value of ~₹510 Crore to ~1000 customers with Nil 90+ DPD accounts.

III. SMART Programs – MSME Loans upto ₹ 7.5 Crore

SIDBI Multifunctional Appraisal and Rating Tool (SMART) is used for loan exposures upto ₹7.50 Crores meeting pre-defined eligibility criteria and covers all type of assistances including Project finance, Term loans and Working capital assistances.

The SMART journey is done digitally through the SIDBI online loan application portal like Express Loans as depicted earlier (without in-principal Approval). It fetches ITR, GST, Bank statement, MCA data and uses credit solutions from CIBIL like FIT Rank and CMR to improve objectivity in the rating process and provide 3600 risk assessment of the borrowers. FIT Rank is used as part of the scoring mechanism in SMART Model. Additionally, inputs like sales concentration, geographic analysis, payment propensity etc. are also incorporated in the rating model. As of Dec '23, total sanction value of ~₹2810 Crore to ~1,500 borrowers with Nil 90+ DPD accounts

By building an online lending journey with digital public infrastructure and adding objective credit risk assessment tools like FIT Rank and CMR, SIDBI has been able to achieve improved operational efficiencies and has reduced turnaround times significantly. The credit assessment tools used like FIT Rank offers high risk differentiation and has helped SIDBI build a good quality loan book with lower delinquencies.

India's credit landscape is undergoing rapid transformation with digital innovations, emerging borrower profiles and economic expansion fuelling the growth engine. The uncertain market conditions could lead to a gradual slowdown in credit growth while also indicating future risks. Thus it is imperative to leverage data driven lending strategy towards balancing profitability and stability to lend with confidence to further credit empowerment and financial inclusion.

ABOUT SIDBI

Small Industries Development Bank of India (SIDBI), is the Principal Financial Institution for the Promotion, Financing and Development of the MSME sector and for co-ordination of the functions of the institutions engaged in similar activities. The business domain of SIDBI consists of MSMEs, which contribute significantly to the national economy in terms of production, employment and exports. SIDBI meets the financial and developmental needs of the MSME sector with a Credit+ approach to make it strong, vibrant and globally competitive.

For more information visit: www.sidbi.in

ABOUT TRANSUNION CIBIL

TransUnion CIBIL is India's leading credit information company and maintains one of the largest repositories of credit information globally. We have over 3000 members-including all leading banks, financial institutions, non-banking financial companies and housing finance companies and maintain more than 900 million credit records of individuals and businesses.

Our mission is to create information solutions that enable businesses to grow and give consumers faster, cheaper access to credit and other services. We create value for our members by helping them manage risk and devise appropriate lending strategies to reduce costs and increase portfolio profitability. With comprehensive, reliable information on consumer and commercial borrowers, they are able to make sound credit decisions about individuals and businesses. Through the power of information, TransUnion CIBIL is working to support our members drive credit penetration and financial inclusion for building a stronger economy.

We call this Information for Good.

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TRANSUNION CIBIL LIMITED

One World Center, Tower 2A-2B, 19th Floor, Senapati Bapat Marg, Lower Parel, Mumbai - 400 013