

Total loans to MSMEs grew at 3.5% QoQ

INR t	2Q FY21	YoY Gr.%	QoQ Gr.%
Very small (<INR1m)	0.9	5.6	1.1
Micro 1 (INR1-5m)	2.3	6.4	3.1
Micro 2 (INR5-10m)	1.6	6.8	4.0
Small (INR10m-100m)	7.7	5.9	3.9
Medium 1 (INR100m-250m)	3.7	6.1	3.7
Medium 2 (INR125m-500m)	2.9	4.0	3.2
Large (>500mn)	52.2	1.3	-2.4
Total commercial credit	71.3	2.1	-0.9
- of which total MSME	19.1	5.7	3.5

MSME credit grows by 3.5% QoQ

MSME originations in Private Banks back to pre-COVID levels

- As per the latest *MSME Pulse report* by TransUnion CIBIL, total MSME credit grew 5.7% YoY (3.5% QoQ) to INR19.1t as of Sep'20, aided by ECLGS disbursements, with better trends witnessed in the Micro segment (8-9% YoY). Inquiry trends in Commercial credit touched pre-COVID levels (13% YoY as of Dec'20) after witnessing a sharp drop in Apr'20.
- PSBs have taken a lead in MSME loan originations since Apr'20 and gained market share. However, recent inquiry trends suggest that Private Banks are inching back to pre-COVID levels, with 22% YoY growth in inquiries v/s 9% growth for PSBs in Dec'20.
- Approval rates have increased with the announcement of the ECLG scheme. The highest beneficiaries of the rise in approval rates are high risks MSME borrowers with a CIBIL rank of 7-10, signaling increasing risk in this segment. However, the NPA ratio declined to 12.1% as of Sep'20 (v/s 13% as of Jun'20) due to the Supreme Court order of not declaring NPAs till further notice.
- As per the latest finance ministry release, total loans sanctioned under ECLGS stand ~INR2.1t, of which INR1.65t has already been disbursed. Among lenders, PSBs disbursed INR612b and Private Banks INR808b.

MSME credit growth recovers; Commercial credit inquiries back to pre-COVID levels

Total MSME credit grew 5.7% YoY (3.5% QoQ) to INR19.1t as of Sep'20, aided by ECLGS disbursements, with better trends witnessed in the Micro segment (8-9% YoY). Total Commercial credit grew at 2% YoY to INR71.2t as of Sep'20. Inquiries for Commercial credit had seen a sharp drop during Apr'20 (60% YoY decline). The same has now rebounded sharply, with inquiries surging to 58% YoY as of Jun'20. It is now stable at 13% YoY as of Dec'20 (similar to pre-COVID levels).

Private Banks gain back lost share in MSME lending; inquiry trend improves further

After the announcement of the ECLG scheme in Apr'20, PSBs had taken a lead in MSME loan originations and gained market share from both NBFCs and Private Banks. However, recent inquiry trends suggest that Private Banks are inching back to pre-COVID levels, with 22% YoY growth in inquiries v/s 9% growth for PSBs in Dec'20.

Higher downgrades in the risk profile of borrowers; credit inquiries spike in the high-risk borrower category

The CIBIL MSME rank indicator suggests deterioration in the borrower's credit profile, with 36% of borrowers, who were in the low risk category (CMR 1-3) as of Sep'19, downgraded to high risk category borrowers during Sep'20 (v/s 24% during the period Sep'18 to Sep'19). A similar increase in downgrades was observed in the medium risk segment (CMR 4-5). Among segments, the highest borrower downgrades have been witnessed in the Micro segment.

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Approval rates have increased by 1.5x in Jun'20 v/s pre-COVID levels with the announcement of the ECLG scheme. The beneficiaries are high risks MSME borrowers with a CIBIL rank of 7-10, signaling increasing risk in this segment.

NPA rates declined to 12.1% as of Sep'20 v/s 13% in Jun'20

The NPA ratio in the MSME segment declined to 12.1% as of Sep'20 (v/s 13% as of Jun'20). The ratio fell across lenders, with the same for Private Banks/PSBs declining 60bp/~130bp QoQ to 5.8%/16.7% as of Sep'20. NBFCs showed broadly similar NPAs at 9.2% (v/s 9.4% as of Jun'20). Within the MSME segment, NPA ratios are higher in Large ticket sizes v/s Small and Micro segments. The reduction in the NPA ratio was due to the Supreme Court order of not declaring NPAs till further notice.

Our view

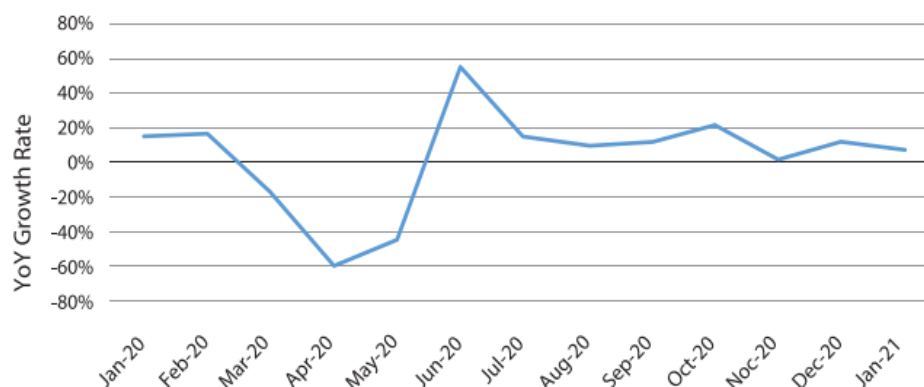
Large Private Banks are well placed to accelerate market share gains given their strong capital position, robust liability franchise, and high provisioning coverage on stressed assets. During 9MFY21, ~57% of incremental loan growth was driven by SBI, HDFCB, and ICICIBC, with most large Private Banks reporting 3-7% QoQ growth supported by ECLGS disbursements. We expect the growth momentum to remain strong as we project FY22E/FY23E systemic loan growth at 11%/13%, with the same for Private Banks at 15%/19%. We prefer large Banks.

Exhibit 1: Total loans to MSMEs grew at 3.5% QoQ aided by ECLGS disbursement during 2QFY21

INR t	2QFY20	3QFY20	FY20	1QFY21	2QFY21	YoY gr. (%)	QoQ gr. (%)
Very small (sub-INR1m)	0.9	0.9	0.9	0.9	0.9	5.6	1.1
Micro 1 (INR1-5m)	2.2	2.2	2.2	2.3	2.3	6.4	3.1
Micro 2 (INR5-10m)	1.5	1.5	1.5	1.5	1.6	6.8	4.0
Small (INR10m-100m)	7.3	7.3	7.0	7.4	7.7	5.9	3.9
Medium 1 (INR100m-250m)	3.5	3.5	3.3	3.6	3.7	6.1	3.7
Medium 2 (INR1250m-500m)	2.8	2.8	2.6	2.8	2.9	4.0	3.2
Large (over INR500m)	51.5	51.5	52.0	53.5	52.2	1.3	-2.4
Total commercial credit	69.6	69.7	69.6	71.9	71.3	2.1	-0.9
- of which total MSME	18.1	18.2	17.5	18.5	19.1	5.7	3.5

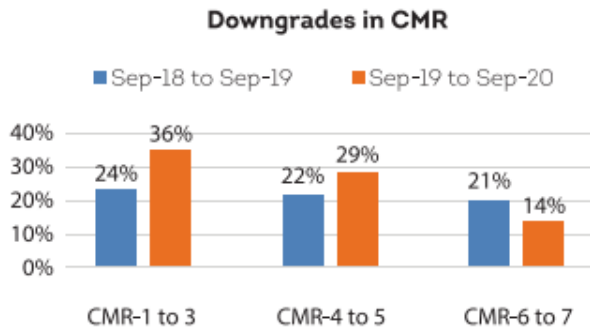
Source: MOSL

Exhibit 2: Commercial credit inquiry volumes back to pre-COVID levels



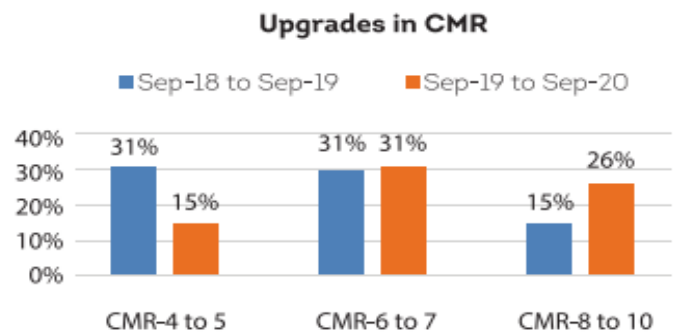
Source: MOFSL, TransUnion CIBIL

Exhibit 3: CMR downgrade trends over the last two years



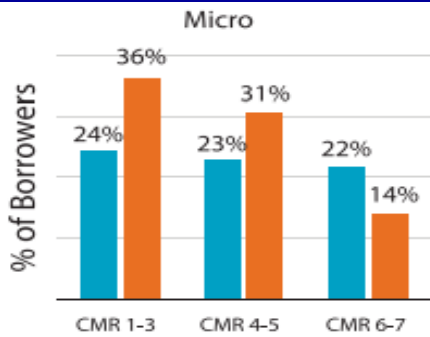
Source: MOFSL, TransUnion CIBIL

Exhibit 4: CMR upgrade trends over the last two years



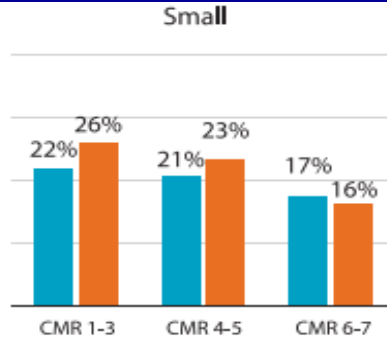
Source: MOFSL, TransUnion CIBIL

Exhibit 5: CMR downgrades trends



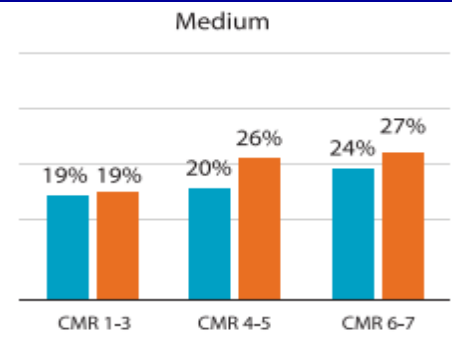
Source: MOFSL, TransUnion CIBIL

Exhibit 6: CMR downgrades trends



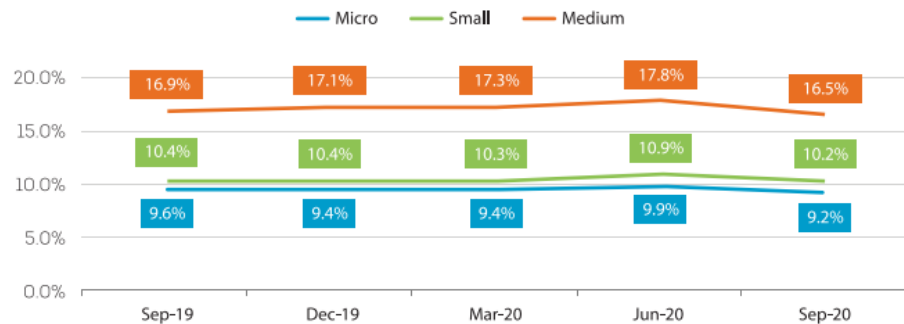
Source: MOFSL, TransUnion CIBIL

Exhibit 7: CMR downgrades trends



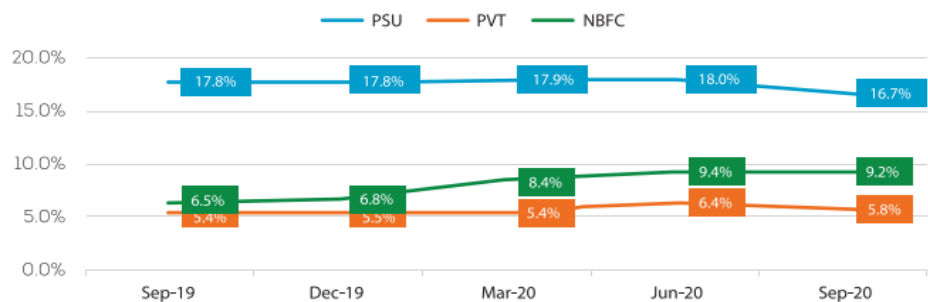
Source: MOFSL, TransUnion CIBIL

Exhibit 8: NPA ratio trends in the MSME segment



Source: MOFSL, TransUnion CIBIL

Exhibit 9: NPA ratio trends by lender group in the MSME segment



Source: MOFSL, TransUnion CIBIL

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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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