

## INDIA

## BFSI



## MSME credit: Gauging the demand, origination and credit behaviour pulse

Gauging MSME credit pulse (Source: TransUnion CIBIL and SIDBI) suggests: i) MSME credit demand has gathered pace to 1.6-1.7x of pre-covid levels; ii) MSME disbursements were up 32% in FY22 and private banks market share has increased across segments; iii) 55% of new originations in FY22 were in CMR4 to CMR6 (medium risk) and 24% in the CMR1 to CMR3 (low risk) category. 60% of new MSMEs loans originated in FY22 had >78% utilisation levels (high utilisation category); iv) Private banks NPA from MSME sector was stable at 5.5% in Q4FY22, it increased for NBFC to 9.6% and for PSU banks to 20.8%; v) trend of missed payments has moderated from pre-covid levels; vi) restructuring was contained on overall pool; and vii) ATS has seen an overall uptick.

### Key highlights:

- Credit demand was at 1.6x and 1.7x of pre-covid levels for PSU and private banks respectively. NBFCs seem to be on the recovery path.
- MSME disbursements were up 32% in FY22 led by 19%, 33% and 38% YoY growth in micro, small and medium segment respectively. Private banks market share in total disbursements has increased across segments.
- Share of originations from high-risk tier has gone up by 2%, 3% and 4% for PSU, private banks and NBFCs respectively between Q4FY20 and Q4Y22. On approval rates, it has remained largely stable in the past 12 months for private banks, while those for PSU banks and NBFCs have dropped indicating tightening of customer selection criteria.
- 55% of new originations in FY22 are in the medium risk category (CMR4 to CMR6) and 24% of the new originations are in the low risk category (CMR1 to CMR3).
- 60% of new MSMEs loans originated in FY22 had >78% utilisation levels (high utilisation category) compared to 50% in FY'20 for medium-risk category of MSMEs.
- While comparing missed payments of CMR-4 to CMR-6 (medium-risk) borrowers prior to origination, share of lenders with no missed payments has fallen to 39% in FY22 (post-pandemic) from 46% in FY20 (pre-pandemic)
- Impact of pandemic in terms of delinquencies can be gauged from the fact that 7% of MSMEs were with a 30+dpd beyond 12 months in FY22 vs. 3% in FY20 originations.
- 36% of the total borrower who were in CMR 1-3 in Mar'21 downgraded to lower rank buckets by Mar'22 and 9% of the total borrowers who were CMR 4-6 in Mar'21 upgraded to low risk bucket by Mar'22.
- In terms of restructuring, 2.3% of accounts and 1.5% of MSME outstanding portfolio were under restructuring as of FY22-end. 7% of restructured loans reported till Sep'21 has been classified as 90+ as of Mar'22 and standard book as of Mar'22 constitutes 71% (vs. 70% in Sep'21) of the portfolio.
- ▶ **Given the contained asset quality in private banks and higher disbursements, we believe mid-size regional banks like CUBK, Federal, DCB and large banks like SBI, HDFC Bank, Axis with MSME focus would be beneficiaries from the same.**

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- ▶ **Credit inquiry volumes bounce back from covid lows:** Demand for MSME loans (measured as number of commercial credit enquiries) has grown. to 1.6 times of pre-pandemic phase owing to recovery in business activity. Credit inquiry volumes have risen 25% in FY22 over and above 29% in FY21. Considering pre-pandemic phase (with Q4FY20 as base equal to 100), volumes in Q1FY21 (covid first wave) plunged to 64 and bounced to 129 by Q4FY21. Again, volumes contracted to 73 in Q1FY22 (covid second wave) just to bounce back to 161 by Q4FY22. This reflects that credit inquiry volumes that contracted during covid phases, bounced back strongly as sentiments revived.

Credit demand was at 1.6x and 1.7x of pre-COVID levels for PSU and private banks respectively. NBFCs seem to be on the recovery path after second wave in Q1FY22. Launch of ECLGS scheme, enriched credit data availability and adoption for digital lending has enabled sustained increase in credit demand for MSMEs.

- ▶ **MSME disbursements almost doubled from pre-covid levels in eight quarters:** Compared to pre-covid phase (Q4FY20), MSMEs disbursements for all three segments namely micro, small and medium have almost doubled by Q4FY22. MSME disbursements grew 32% to Rs10.6trn in FY22 led by 19% growth for micro, 33% for small and 38% for medium segment. Disbursements by PSU and private banks have increased by 5% and 14% YoY respectively while it has declined by 16% YoY for NBFCs in Q4FY22. Private Banks have gained market share in disbursements across segments.

Overall, MSME loan book stood at Rs 23.1trn, up 6% in FY22 over and above 8% in FY21. This includes Rs 9.4trn (up 13%) towards private banks, Rs9.0trn towards PSU (up 6%) and Rs 2.7trn (up 7%) towards NBFCs. Of the total MSME borrower base, 88% belong to micro segment, 10% towards small segment and rest 2% towards medium segment.

- ▶ **Originations trend has been different across micro, small and medium enterprises:** Share of origination from high risk tier (CMR 7-10) has increased to 19% in Q4FY22 vs. 14% in Q4FY20 while it has fallen to 62% in Q4FY22 vs. 66% in Q4FY20 for micro enterprises. In terms of lender category, risk appetite has increased across lender categories. Share of originations from high-risk category tier has gone up by 200bp, 300bp and 400bp for PSU, private and NBFCs respectively between Q4FY20 to Q4FY22.

55% (55% in FY20) of new originations in FY22 are in the medium risk category (CMR4 to CMR6) and 24% (27% in FY20) of the new originations are in the low risk category (CMR1 to CMR3).

- ▶ **Approval rates stable for private players:** Approval rates in the medium risk segment has been largely stable over the past 12 months for private banks. However, approval rates have fallen for PSU banks and NBFCs which suggest that they would have tightened customer selection criteria.
- ▶ **Utilisation levels have inched up considerably post pandemic:** 60% of new MSMEs loans originated in FY22 had >78% utilisation levels (high utilisation category) compared to 50% in FY'20 for medium-risk category of MSMEs. There was also a spike in utilisation levels in Q1FY22 (during covid wave 2 period).

- ▶ **Restructuring at 2.3% of overall MSME portfolio:** 270k MSME accounts (aggregate outstanding of <Rs500mn) have been restructured due to COVID-19 as of Mar'22, constituting ~2.3% of the total live accounts. In quantum, it translates to Rs0.35trn, which is ~1.5% of FY22 MSME balance outstanding. Of the restructured pool, 86% was done by PSU banks, 6% was by private banks, 5% by NBFCs and rest was by others. Also, PSU banks saw the highest restructuring at 3.3% (of MSME borrowers) followed by 0.8% for NBFCs, 0.4% for others and marginal 0.2% for private banks.

72% of restructuring was towards customers which were standard while only 9% of loans were towards customers which were in 61-90 dpd bucket. It was observed that 7% of the restructured loans reported till Sep'21 has been classified as 90+ as of Mar'22. However, for the overall portfolio, there is a slight improvement with standard book increasing to 71% vs. 70% in Sep'21. Furthermore, roll forward to 90+ was highest from 61-90 bucket and roll back to standard was maximum from 1-30 bucket.

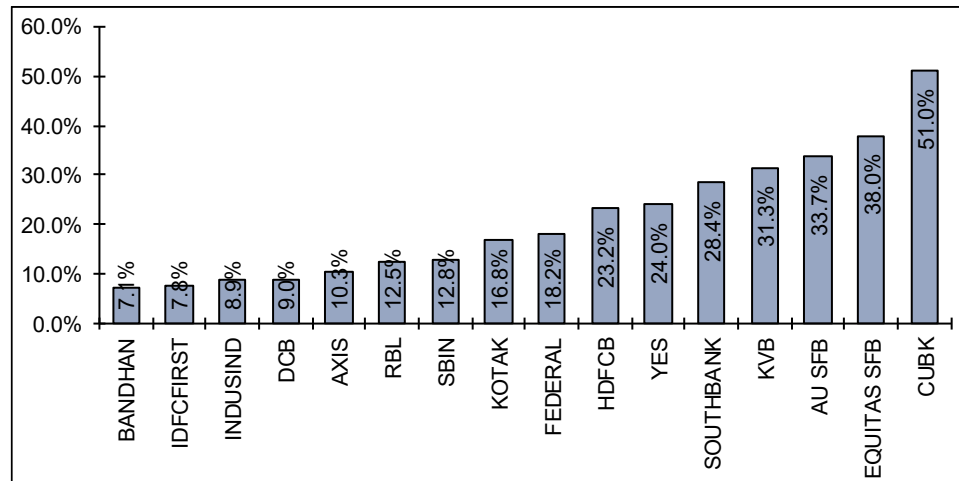
In terms of risk profile, 57% of loans were towards high risk borrowers i.e. those falling in CMR 7-10 category. In terms of borrower type, 76% was towards micro and small, while rest was towards medium category borrowers.

- ▶ **NPA rates relatively stable for private banks, while it rose for NBFC and PSU banks vs. pre-covid levels:** Private banks NPA from MSME sector was stable at 5.5% in Q4FY22 vs. 5.6% in Q4FY20, it increased for NBFC to 9.6% in Q4FY22 vs. 8.2% pre-covid (Q4FY20) and it rose for PSU banks as well to 20.8% from 17.8% in Q4FY20.
- ▶ **Customers with no missed payments decline vs. pre-covid levels:** Missed Payments calculates the number of payments missed out of the required payments i.e., the number of payments due in the last 12 months. While comparing missed payments of medium-risk borrowers prior to origination, it is seen that missed payments trends have significantly increased amongst the medium risk customers and MSMEs with clean payment track record has come down. MSME with missed payments which were at 46% in FY20 have fallen to 39% in FY22.
- ▶ **Trend in number of months since last delinquency has improved in FY22 vs. FY20:** While comparing the no. of months since the last delinquency for medium-risk borrowers prior to origination, it indicates that there were 7% of MSMEs with a 30+ dpd beyond 12 months in FY22 as against the 3% of MSMEs with a 30+ dpd beyond 12 months in FY20 Originations. This shows that there was a fell in 30+ delinquencies among MSMEs post-covid vs. pre-covid which could be due to better liquidity levels.
- ▶ **Moderation in risk profile for borrowers:** It is observed that 36% of the totals borrower who were in CMR 1-3 in Mar'21 were downgraded to lower rank buckets by Mar'22 and 9% of the total borrowers who were CMR 4-6 in Mar'21 were upgraded to low risk bucket by Mar'22. Consequently, the proportion of Medium-Risk entities which was ~53% of total live entities as on Q1FY22 has fallen to 40% in Q4FY22 which led to rise in proportion of high-risk entities from 30% to 44% for the same time frame.

In terms of borrower profile, 15% are in CMR 1-3 category, 40% are in CMR 4-6 category and 44% are in CMR 7-10 category.

- ▶ **ATS has improved considerably from pre-covid levels:** Average ticket size has improved across all segments in the last one year attributed to increasing need for credit, drop in interest rates and increased risk appetite of banks. Increase was more prominent for small and medium segments due to ECLGS. Overall, ticket size has improved 50% for small, 18% for small and 22% for medium vs. pre-covid levels (Q4FY20).

**Chart 1: Most of the bank have MSME exposure in the range of 10-30%**



Note:  
 % exposure refers to SME/MSME/Business Banking  
 SBI is as a proportion of domestic credit  
 IDFC FB represents commercial finance  
 IndusInd represents business banking and loan to small business  
 Kotak represents Consumer bank WC and SME  
 Kotak is as a proportion of advances ex-substitutes  
 HDFCB MSME share is calculated as per disclosure in FY21, FY22 annual report  
 Source: Company data, I-Sec research.

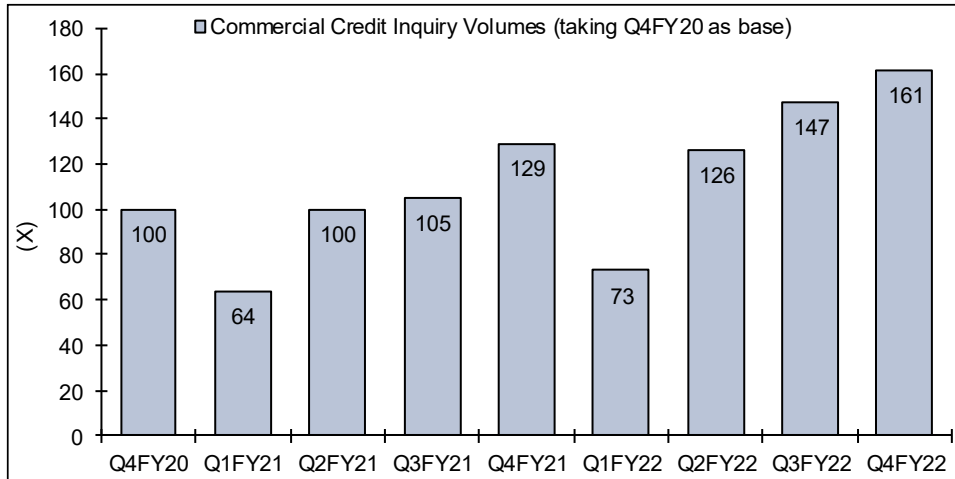
**Table 1: MSME loan growth YoY has been robust due to revived demand and ECLGS lending**

MSME (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	QoQ %	YoY %	% of total
AU SFB	1,28,680	1,43,306	1,42,726	1,43,780	1,52,830	1,65,240	1,69,120	2.3%	18.5%	33.7%
AXIS	6,39,690	6,98,500	5,85,370	6,24,710	6,79,090	7,41,960	7,19,720	-3.0%	23.0%	10.3%
BANDHAN	38,100	45,900	43,000	44,200	51,400	67,200	68,400	1.8%	59.1%	7.1%
CUBK	1,78,942	1,98,875	1,90,786	1,97,428	1,98,424	2,09,935	2,08,594	-0.6%	9.3%	51.0%
DCB	27,830	25,959	25,496	26,850	27,659	26,186	26,833	2.5%	5.2%	9.0%
EQUITAS SFB	58,900	62,290	62,270	66,290	68,240	70,880	82,340	16.2%	32.2%	38.0%
FEDERAL	246390	251520	238090	254700	264020	271800	281480	3.6%	18.2%	18.2%
HDFCB	22,02,484	26,26,790	27,54,876	28,82,963	30,11,049	31,39,135	32,60,863	3.9%	18.4%	23.2%
IDFCFIRST	90,720	1,01,040	94,350	98,650	1,04,960	1,16,370	1,06,790	-8.2%	13.2%	7.8%
INDUSIND	1,57,950	1,80,690	1,52,670	1,52,480	1,62,920	2,08,100	2,21,000	6.2%	44.8%	8.9%
KOTAK	3,92,500	3,85,210	3,74,510	4,12,840	4,30,740	4,68,880	4,70,160	0.3%	25.5%	16.8%
KVB	1,67,550	1,66,870	1,65,040	1,72,310	1,80,390	1,80,940	1,86,770	3.2%	13.2%	31.3%
RBL	1,08,520	1,07,650	1,01,030	93,330	86,760	80,580	75,470	-6.3%	-25.3%	12.5%
SBIN	29,36,540	27,89,490	28,43,180	27,98,200	30,71,680	30,55,170	31,27,740	2.4%	10.0%	12.8%
SOUTHBANK	2,06,210	1,94,560	1,89,100	1,87,540	1,83,650	1,83,490	1,83,710	0.1%	-2.9%	28.4%
YES	3,39,442	3,73,031	3,43,673	3,62,962	4,17,691	4,32,714	4,47,281	3.4%	30.1%	24.0%

Source: Company data, I-Sec research.

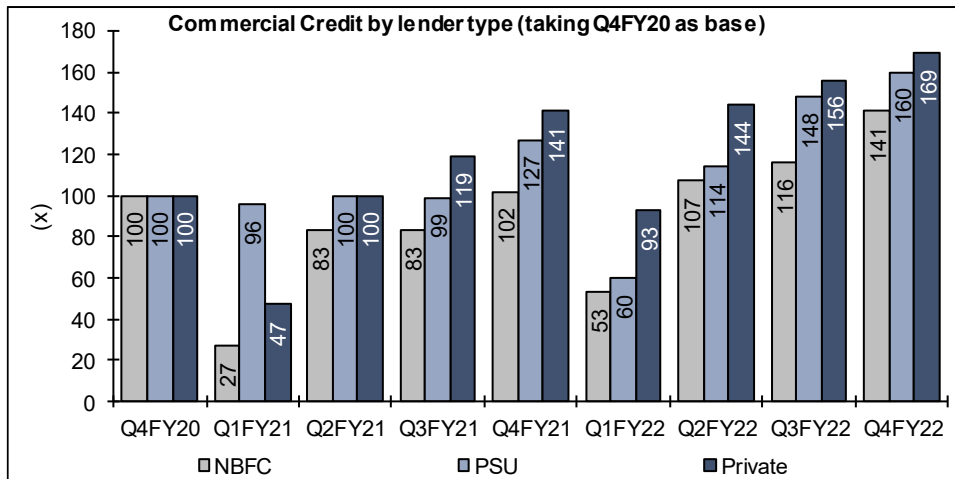
## Trends in credit demand and inquiries

**Chart 2: Commercial credit inquiry volumes up 1.6x from pre-covid levels**



Source: TransUnion CIBIL, SIDBI, I-Sec Research.

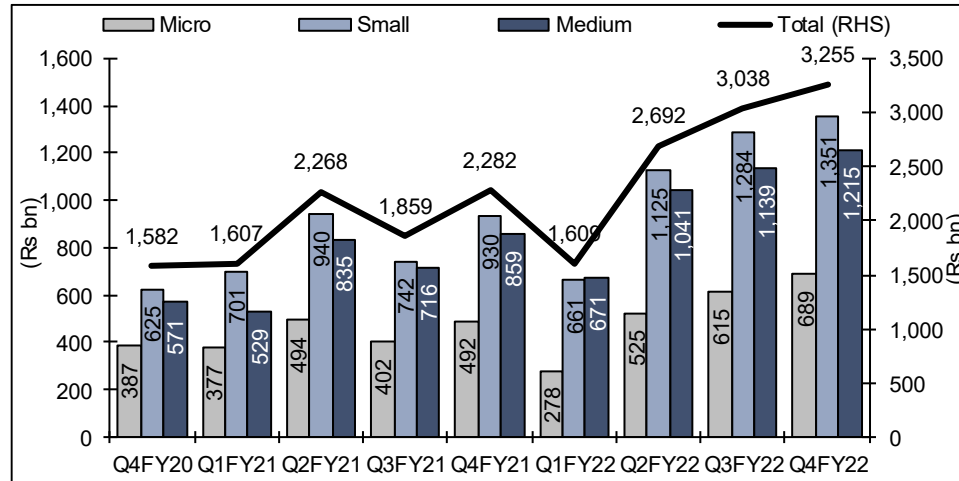
**Chart 3: Credit demand was at 1.6x and 1.7x of pre-COVID levels for PSU and private banks respectively**



Source: TransUnion CIBIL, SIDBI, I-Sec Research.

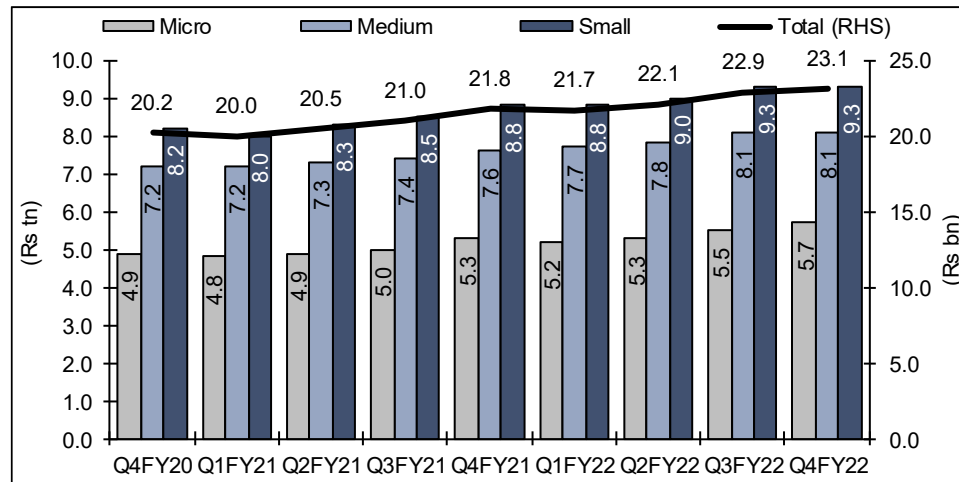
## FY22 MSME disbursements grew 32% YoY

**Chart 4: MSME disbursements almost doubled from pre-covid levels**



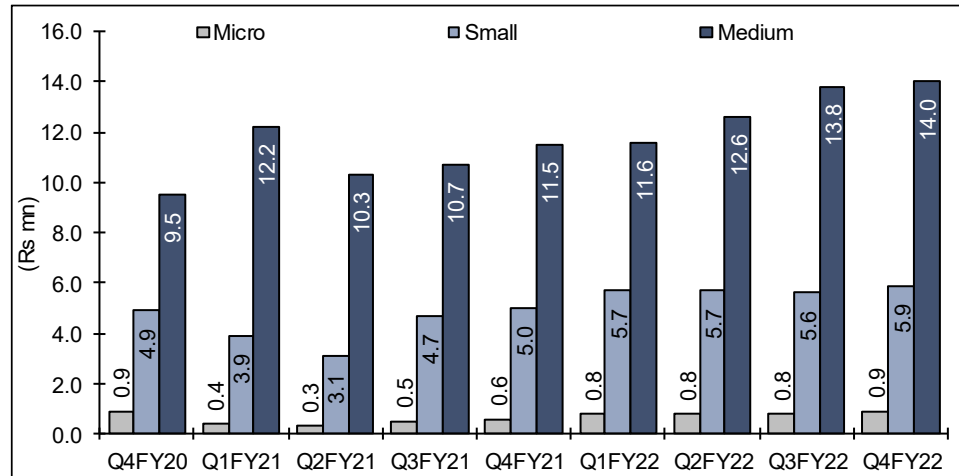
Source: TransUnion CIBIL, SIDBI, I-Sec Research.

**Chart 5: MSME loan book stood at Rs 23.1trn, up 6% in FY22 and 8% in FY21**



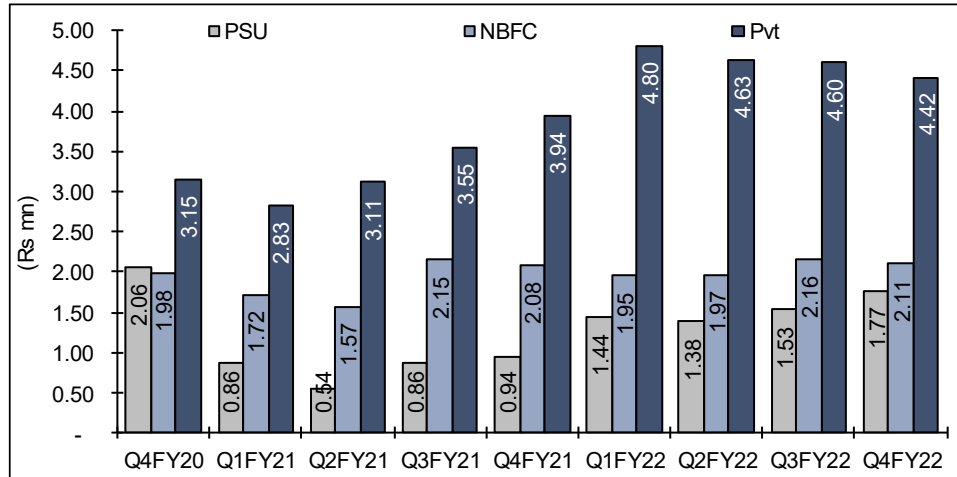
Source: TransUnion CIBIL, SIDBI, I-Sec Research.

**Chart 6: ATS has improved considerably from pre-covid levels**



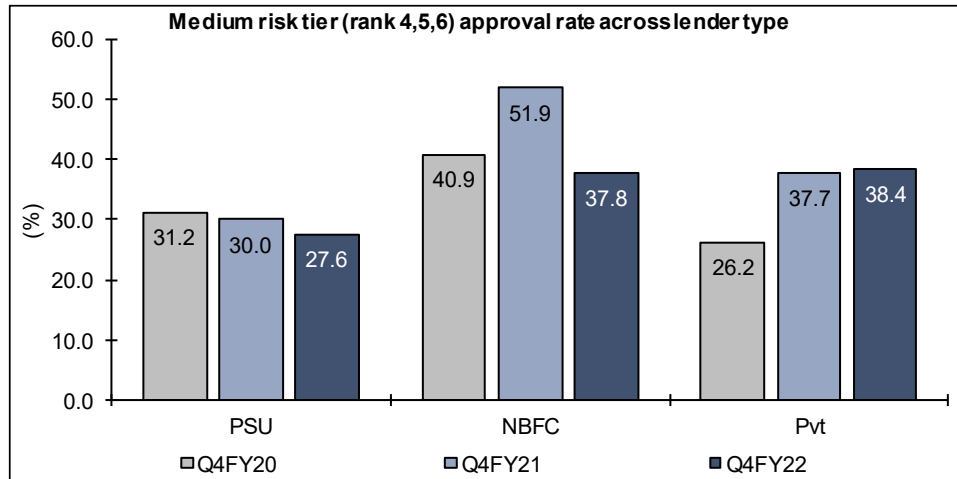
Source: TransUnion CIBIL, SIDBI, I-Sec Research.

**Chart 7: Private banks ticket size higher compared to peers**



Source: TransUnion CIBIL, SIDBI, I-Sec Research.

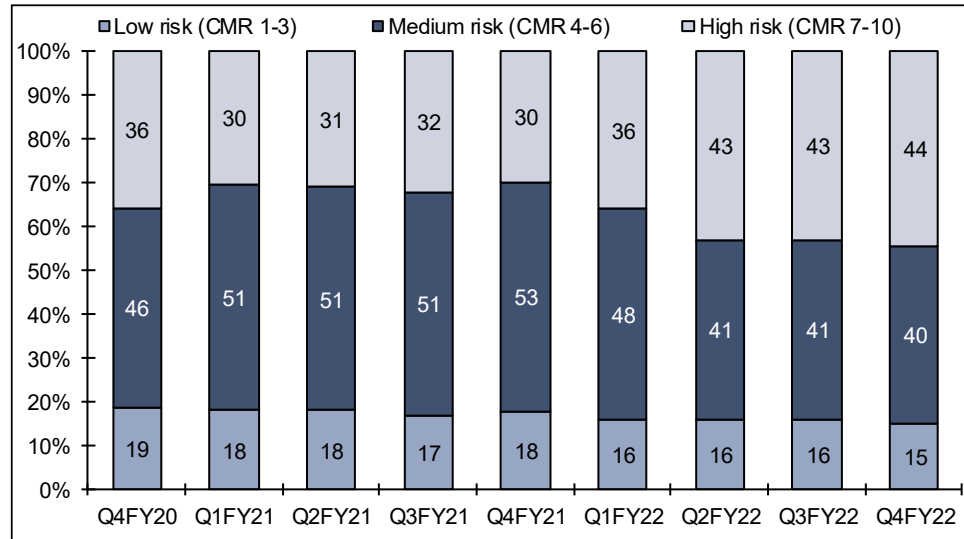
**Chart 8: Approval rates have fallen from FY21 levels for PSU banks and NBFCs**



Source: TransUnion CIBIL, SIDBI, I-Sec Research.

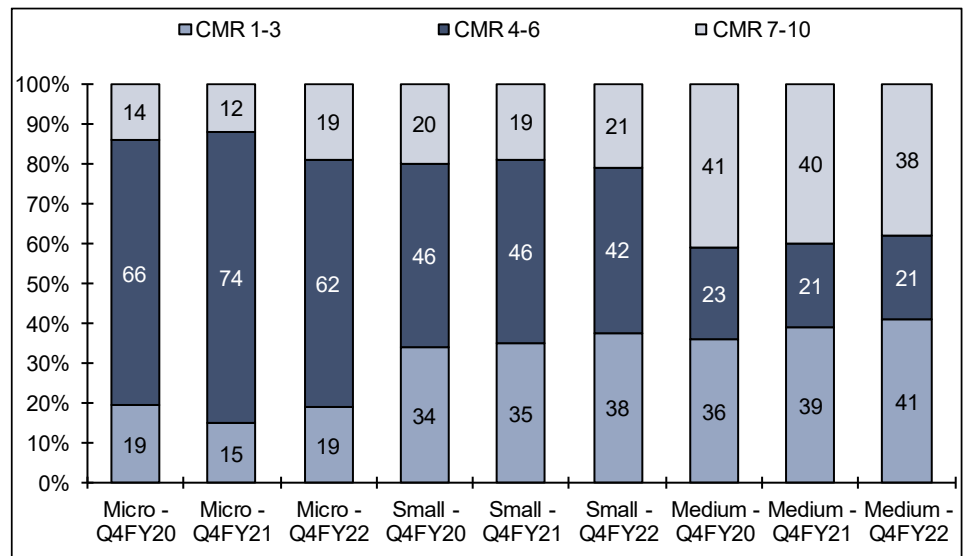
## Trend in originations and missed payments

**Chart 9: Credit to customers in high risk category has risen**



Source: TransUnion CIBIL, SIDBI, I-Sec Research.

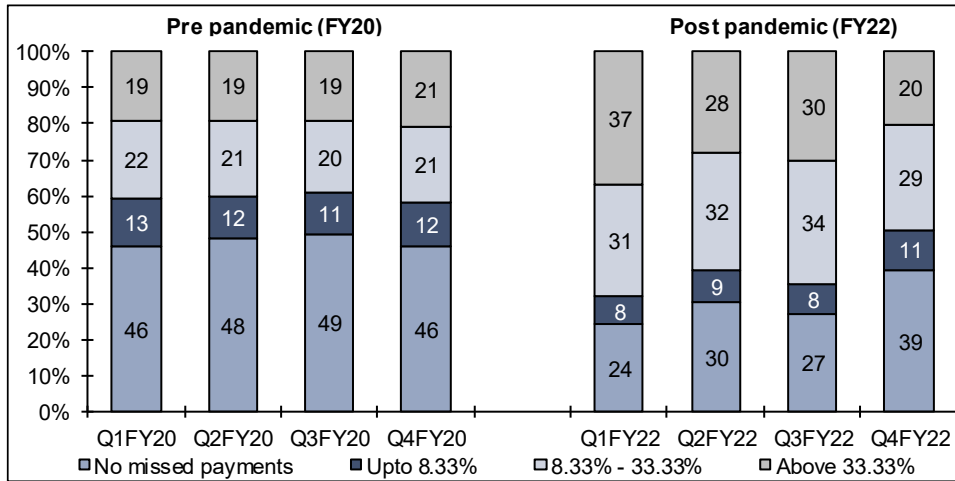
**Chart 10: ...particularly in small and medium segments**



Source: TransUnion CIBIL, SIDBI, I-Sec Research.

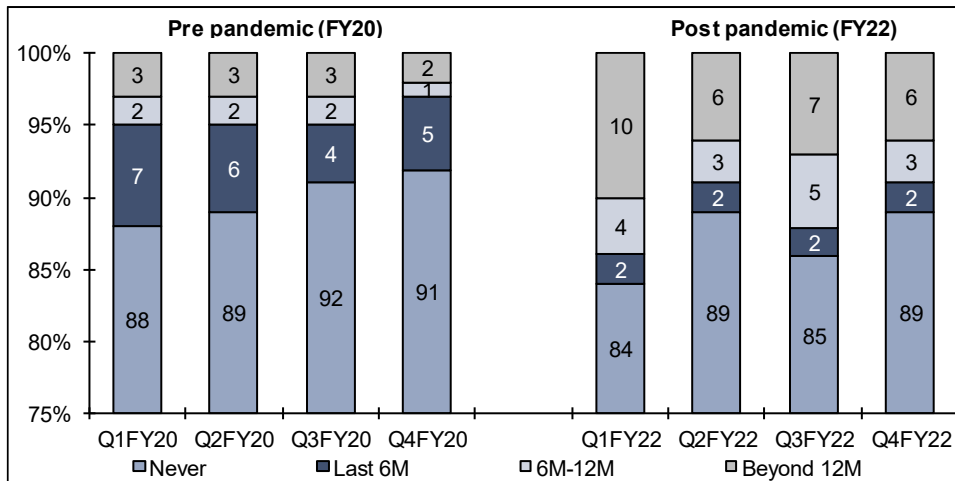


**Chart 11: Missed payments ratio of new CMR-4 to CMR-6 originations (excluding renewals and GECL)**



Source: TransUnion CIBIL, SIDBI, I-Sec Research.

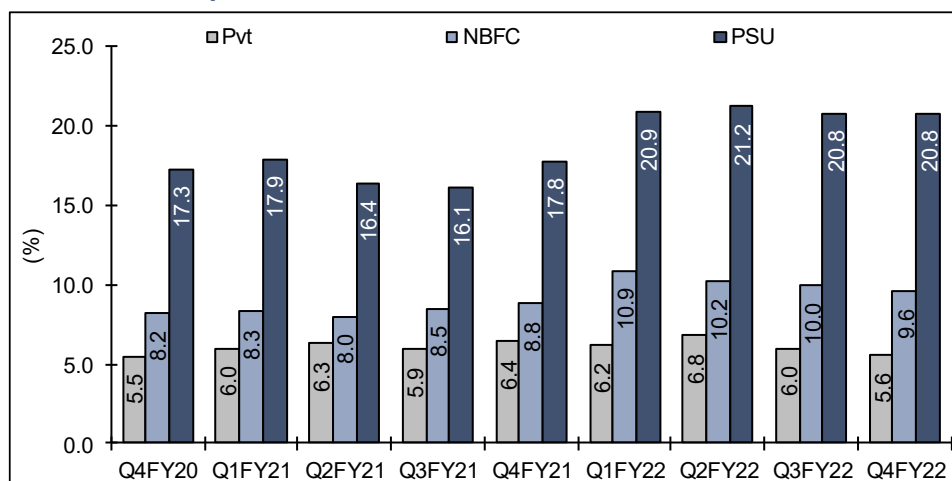
**Chart 12: Months since most recent delinquency (30+dpd) of new CMR-4 to CMR-6 originations (excluding renewals and GECL)**



Source: TransUnion CIBIL, SIDBI, I-Sec Research.

## NPA rates and restructuring

**Chart 13: NPA rates relatively stable for private banks, while it rose for NBFC and PSU banks vs. pre-covid levels**



Source: TransUnion CIBIL, SIDBI, I-Sec Research.

**Table 2: Majority of restructuring was done by PSU banks and for small and micro units**

Particulars	Restructured balance %	% of total
<b>Lender category</b>		
PSU	3.3	86
Pvt	0.2	6
NBFC	0.8	5
Others	0.4	4
<b>Credit facility</b>		
Term loan	2.1	53
Working capital	1.1	47
<b>Borrower type</b>		
Micro (upto Rs10mn)	2.1	36
Small (Rs10mn-Rs100mn)	1.5	40
Medium (Rs100mn-Rs500mn)	1.0	24
<b>DPD bucket</b>		
Standard (0 dpd)	1.0	72
1-30 dpd	5.0	13
31-60 dpd	6.0	5
61-90 dpd	20.0	9
<b>Risk tier</b>		
Low risk	0.8	16
Medium risk	1.4	28
High risk	2.6	57

Source: TransUnion CIBIL, SIDBI, I-Sec Research

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