

The rise of the prodigal: How the MSME Sector is charting a new story post pandemic and simultaneously getting bigger.. Udyam Portal could usher in a comprehensive ease of doing business & credit revolution for the Micro Units in MSME sector...a boost for mass employment... need for further tweaks in CGTMSE scheme

23-January-2023

- ❑ The MSME sector is charting a new story post pandemic. In the post-COVID period, credit growth to MSMEs has been distinctly and consistently higher on both, YoY basis as well as in comparison with credit growth to large industries
 - State wise and Industry wise data on SME sector reveals that credit growth is evident across the board post 2021 after a pandemic induced slowdown in 2020

- ❑ Incentives provided by the Emergency Credit Line Guarantee Scheme (ECLGS), have helped in boosting credit flow to MSMEs
 - As per our analysis, at least 14.6 lakh MSMEs accounts were saved due to ECLG Scheme
 - In absolute terms, MSME loan accounts worth Rs 2.2 lakh crore improved since inception of ECLGS for entire banking industry. This means that around 12% of the outstanding MSME credit has been saved from slipping into NPA because of the ECLG scheme
 - Saving livelihood of ~6.6 crores

- ❑ **There is clear evidence MSME units are becoming larger** with several units crossing the threshold of Rs 250 crores turnover and turning mid sized corporates by the new definition of MSME units. This reveals integration of MSME units with larger value chain as PLI activity is getting momentum

- ❑ With the change in MSME definition, in 2020 the Government mandated all the MSMEs to register under the Udyam portal. The number of GST registration in India is about 1.40 crore whereas the current MSME units registered under Udyam Certification is about 1.33 crore

- ❑ In a significant move....Government has recently launched Udyam Assist Platform (UAP), developed by SIDBI, to bring all the Informal Micro Enterprises (IMEs) into the formal ambit, which constitute around 99% of the MSMEs in the country, without complex & complicated paperwork
 - The UAP platform will enable informal micro businesses who aren't registered under GST, to get a registration certificate from the government based on their information available with banks/NBFCs

- ❑ **We expect this could benefit up to 5 crore IMEs (Informal Micro Enterprises) if we go by the 2015-16 survey...** States like West Bengal, Uttar Pradesh, Tamil Nadu, Karnataka and Andhra Pradesh could benefit with 2.6 crore registrations of IMEs...
- ❑ Nudging IMEs into the ambit of formalization will result in smaller firms that are mostly self-employed to get registered....will boost employment...ensure credit expansion.... lay forth architecture for formal credit mechanism
- ❑ India has less than half the number of MSMEs when compared to China (~64 million against ~140 million Chinese enterprises)... more than 99% are in micro category and would need substantial hand-holding to grow organically.. **This could result in a MSME revolution in India...**
- ❑ The cluster-based approach of MSME financing is enabling scaling up of MSME sector through technology upgradation among other things
- ❑ There is an urgent need to revamp the Credit Guarantee Scheme for the MSME sector (building on the positive momentum post recent rationalization of Standard Rates slab, enhancement of maximum extent of Guarantee Coverage especially for Women, vulnerable groups and aspirational districts / North East region, ensuring Retail/Wholesale trade coverage is at par with other activities & making UDYAM registration certificate mandatory for guarantee coverage etc.)The U.S. Small Business Administration (US-SBA) could be the template for evolving CGTMSE as a friend-philosopher-guide-mentor for MSMEs proliferation, credit linkage, scaling and integration into the value chain...
 - Phase-out / reducing the Annual Guarantee fees to 0.50% of the Loan amount across all the slabs and making CGTMSE coverage **mandatory** for all SME loans up to Rs 2 crore
 - Abolishing the tiered Risk Premium being charged to individual Banks based on specific portfolio delinquency levels (but borne by enterprises) which might have been a major deterrent in sufficient penetration of scheme in two decades
 - The maximum loan amount for coverage under CGTMSE may be increased from **Rs 2 crore to Rs 5 crore** for all activities under manufacturing, services and trade sector
 - Guarantee coverage for the units having **women promoters** to be increased to **100%** to give fillip to women entrepreneurship
 - Increasing claims settlement to the extent of 10x of the guarantee fee paid by the Banks
 - Complete end-to-end digital platform to ensure real time sanction, disbursement and claim settlement for the guaranteed portfolio

Section I

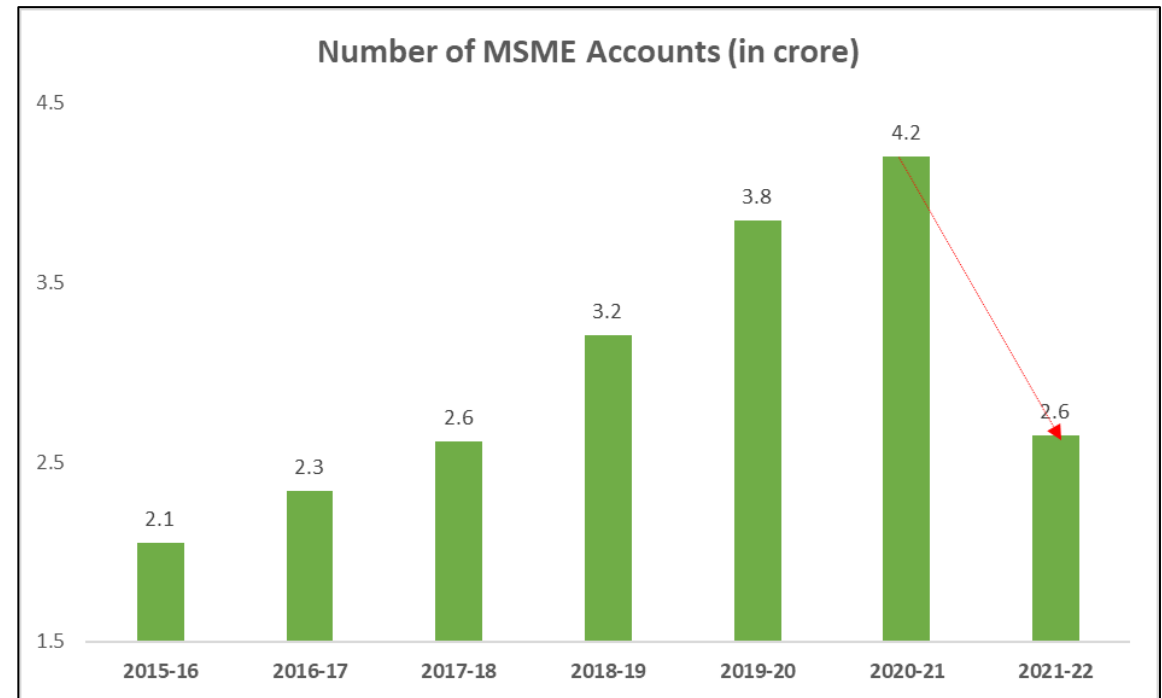
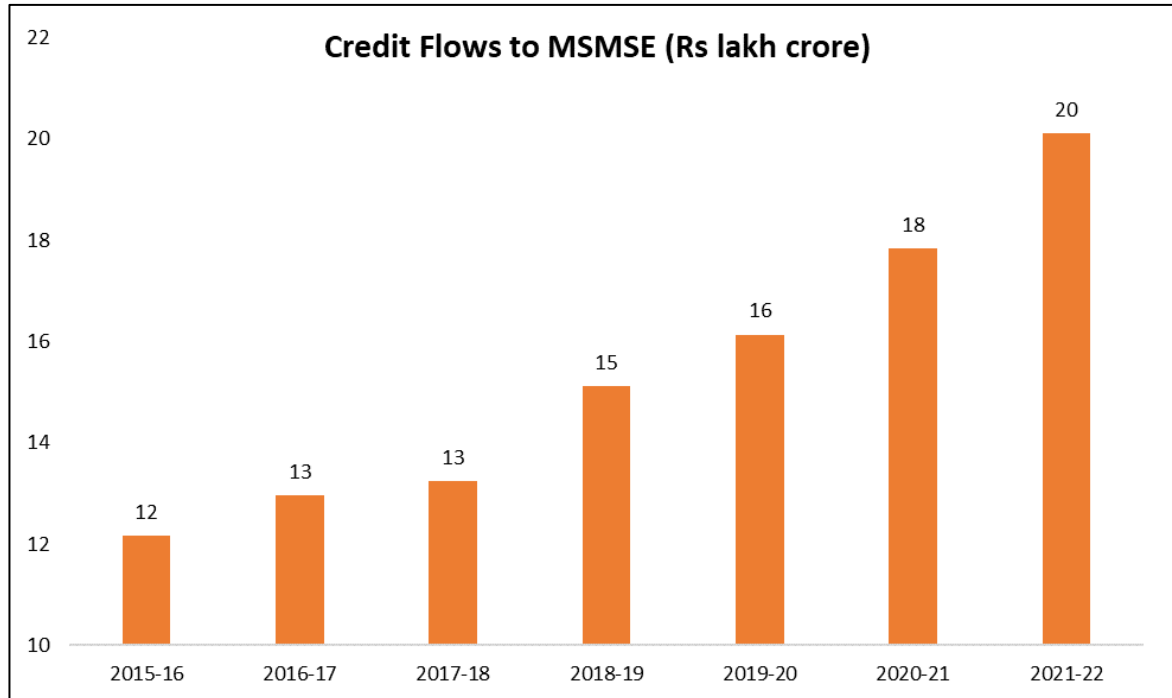
Impact of Definitional Change on MSME Portfolio

Change in MSME Definition: Old vs New... Upto Rs 250 crore is the new normal...

- ❑ Govt has notified the revised criteria for classification of MSMEs with effect from 01.07.2020: Shifted from Investment in Plant & Machinery to Investment & Turnover, No distinction between Manufacturing & Services
- ❑ As per NSS 73rd Round Survey (2015-16) on MSME, there are **~6.34 crore MSMEs in India**, of which
 - Micro: 6.30 crore enterprises (99.47% of total MSMEs);
 - Small: 3.3 lakh enterprises (0.52% of total MSMEs);
 - Medium 0.01 lakh enterprises (0.01% of total MSMEs)
- ❑ Rural areas: 3.25 crore enterprises (52.3% of total MSMEs); Urban: 3.09 crore enterprises (48.8%)

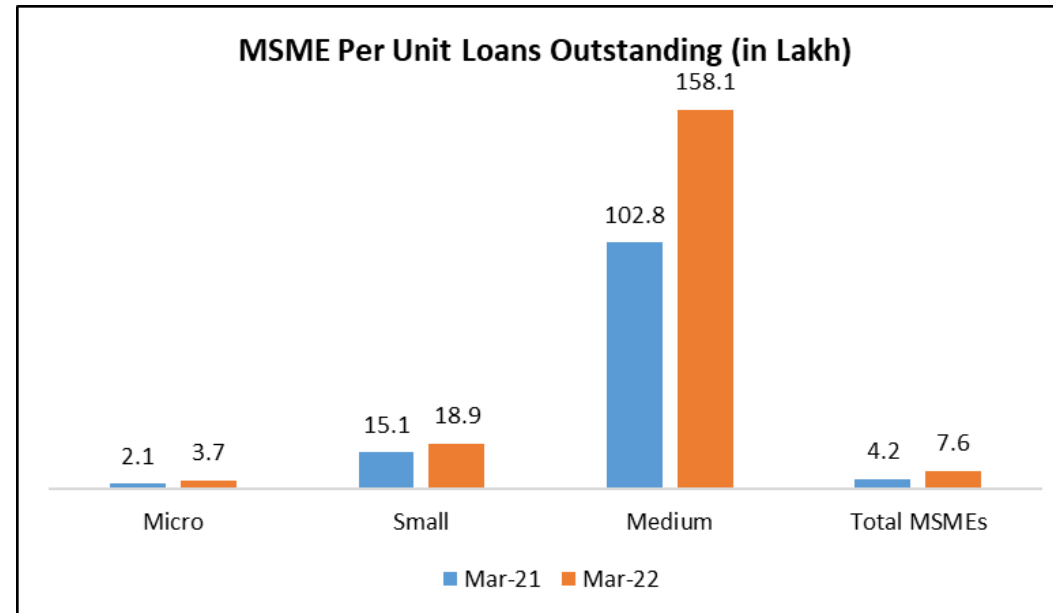
MSME Definitions				
In Rupees	Old definition (Inv.)		New definition (mfg & ser.)	
	Criteria: Investment in Plant & Machinery or Equipment		Criteria: Both Investment & Turnover	
	Mfg	Services	Investment	Turnover
Micro	25 Lakh	10 Lakh	1 Crore	5 Crore
Small	5 Crore	2 Crore	10 crore	50 Crore
Medium	10 crore	5 Crore	50 crore	250 Crore
Source: Ministry of MSME				

- ❑ In the post-COVID period, credit growth to MSMEs in the industrial sector was distinctly higher on both, YoY basis as well as in comparison with credit growth to large industries
- ❑ Incentives provided by the Emergency Credit Line Guarantee Scheme (ECLGS), coupled with lower GNPA ratios have helped in boosting credit to MSMEs
- ❑ Additionally, beginning FY22, there is evidence of MSME units getting bigger with several units crossing the threshold of Rs 250 crores turnover and turning mid sized corporates by the new definition of MSME units



...Per unit Loan outstanding has jumped for all MSME units since pandemic including Micro enterprises... further evidence of MSME units getting bigger...

- ❑ Interestingly, the data indicates that all the **SME units are becoming larger with the rise in economic activity**
- ❑ This will increase the ability of MSME units to raise capital through (non-bank) debt markets. Currently, only 410 companies have till date listed on the BSE SME platform but nearly 40% of them have moved up to mainstream platform, indicating capital market listing helps in gaining further scale much quickly
- ❑ This also raises the question that how many MSME units are in India
- ❑ **The recent initiative by the Government of creating an Udyam Portal for MSME units could just answer this pertinent question....**



Section II

How the Udyam Portal is redefining and rejuvenating the MSME sector in India

- ❑ With the change in MSME definition, Government mandated all the MSMEs to register under the Udyam portal
- ❑ **The number of GST registration in India is about 1.40 crore whereas the current MSME units registered under Udyam Certification is about 1.33 crore**
- ❑ Ideally, the number of MSME units registered under Udyam portal should be equivalent to 1.40 crores, but in reality, it is not...
- ❑ ... as many micro units may not have been able to register as MSME due to paperwork involved and thus remained out of the MSME ambit. In a move that should have significant ramifications, Government has recently launched Udyam Assist Platform (UAP), developed by SIDBI, to bring all the Informal Micro Enterprises (IMEs) into the formal ambit, which constitute around 99% of the MSMEs in the country, without complex & complicated paperwork

Gap in Estimated Micro Units and Registered Micro Units in Udyam (in lakh)			
Andhra Pradesh	30.0	Odisha	17.1
Arunachal Pradesh	0.2	Punjab	9.9
Assam	10.4	Rajasthan	16.8
Bihar	29.2	Sikkim	0.2
Chhattisgarh	6.7	Tamil Nadu	35.7
Goa	0.4	Telangana	21.8
Gujarat	22.9	Tripura	1.9
Haryana	5.2	Uttar Pradesh	78.7
Himachal Pradesh	3.1	Uttarakhand	2.9
Jharkhand	13.6	West Bengal	84.3
Karnataka	30.7	A & N	0.1
Kerala	20.5	Chandigarh	0.3
Madhya Pradesh	20.4	Dadra & Nagar Haveli	0.1
Maharashtra	22.9	Daman & Diu	0.0
Manipur	1.4	Delhi	5.9
Meghalaya	1.1	Jammu & Kashmir	5.4
Mizoram	0.3	Lakshadweep	0.0
Nagaland	0.8	Puducherry	0.8
Total		501.6	
Source: Ministry of MSME, SBI Research			

Udyam Assist Platform (UAP) has the potential to bring ~5 crore Informal Micro Enterprises (IME) into the formal ambit and priority sector lending by Banks....

- ❑ The UAP will enable Informal Micro Enterprises (IMEs) who aren't registered under GST to get a registration certificate based on information with Banks/NBFCs
- ❑ UAP registration would be treated at par with Udyam Registration certificate for IMEs for availing benefits of PSL
- ❑ UAP will thus be digital platform, which requires FIs/Banks to share data of their informal micro enterprise customers required for registration, validate the data, register enterprises on the Udyam registration portal and generate the registration number
- ❑ We expect this could benefit up to 5 crore IME enterprises, if we go by the 2015-16 survey... States like West Bengal, Uttar Pradesh, Tamil Nadu, Karnataka and Andhra Pradesh could benefit with ~2.6 crore registrations of IMEs...
- ❑ Nudging IMEs into the ambit of formal credit mechanism will result in smaller firms that are mostly self-employed to get registered....will boost employment...
- ❑ India has less than half the number of MSMEs when compared to China (~64 million against ~140 million Chinese enterprises)..... more than 99% are in micro category and would need substantial hand-holding to grow organically... This could result in a MSME revolution in India.....

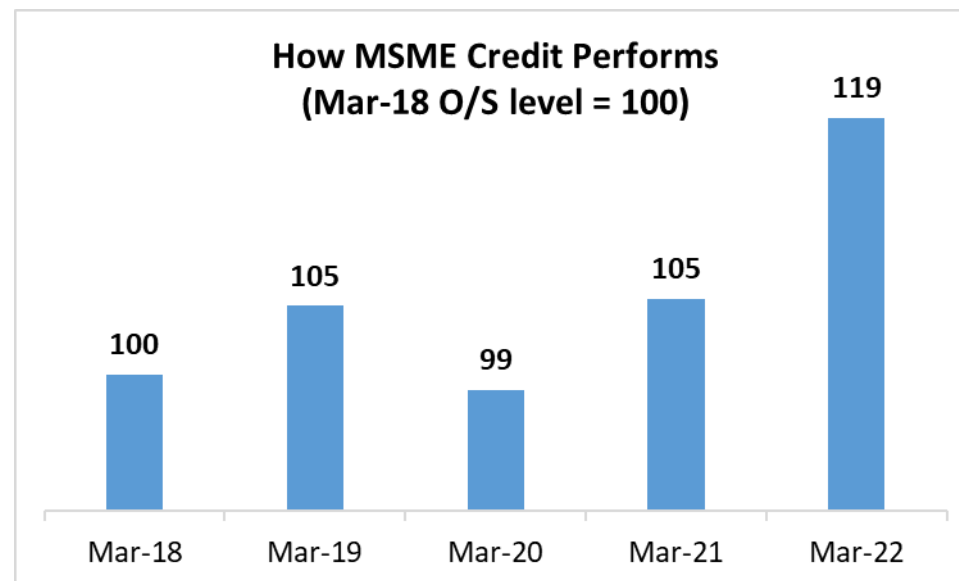
- ❑ The process for Udyam Registration is fully digitalized and Paperless. There is no need to upload any document. Registration Process is totally free. No Costs or Fees are to be paid to/by anyone
- ❑ It will be a permanent registration and basic identification number for an enterprise
- ❑ No need for renewal of Registration
- ❑ Any number of activities including manufacturing or service or both may be specified or added in one Registration. Along with the Udyam Registration, Enterprises may register themselves on GeM (Government e-Portal (a portal to address issues relating to delay in payments) and simultaneously MSMEs themselves can also onboard on TReDS Platform
- ❑ The Udyam Registration may also help MSMEs in availing the benefits of multiple Schemes of Ministry of MSMEs such as Credit Guarantee Scheme, Public Procurement Policy, additional edge in Government Tenders & Protection against delayed payments by corporates, etc.
- ❑ Becomes eligible for priority sector lending (PSL) from Banks
- ❑ Collateral free loans from Banks, Ease of getting licenses, approvals and registrations

Section III

How States & Industries Performed Pre & Post Pandemic

MSME credit is higher by 19% relative to March 2018 levels....

- ❑ While the overall MSME credit outstanding was impacted very little during the pandemic, the impact varies across industries and states
- ❑ We have analysed 60 industries and all major States of MSME Universe and based on our results, we have listed industries/States into three categories, namely:
 - ❑ List #1: Industries/States which **remain unscathed** from the pandemic
 - ❑ List #2: Industries/States which **remain impacted from the pandemic but recovered after that**
 - ❑ List #3: Industries/States which **remain impacted from the pandemic but almost recovered**



Industries NOT IMPACTED from the pandemic

- There are several MSME units having credit outstanding expanding significantly by as much as 3 times from March 2018 levels
- The sectors includes contact intensive, hospitality, construction, NBFCs, power, metals and so on..
- In some of the industries, the outstanding level of Mar-22 was almost 2-3x as compared to Mar-18 level

Industries NOT IMPACTED from the pandemic					
Industry	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Iron & Steel	100	132	112	101	131
Engineering Others	100	114	101	112	124
Power	100	127	168	183	210
NBFC	100	113	151	175	249
Construction	100	140	156	199	229
Hotel	100	110	110	125	144
Plastic Processing	100	111	102	117	140
Hospitals	100	122	125	135	222
Readymade Textiles	100	144	131	138	154
Paper & Paper Products	100	122	126	133	146
Auto Ancillary	100	136	128	134	158
Real Estate	100	102	111	106	102
Leather	100	115	108	125	121
Aluminium	100	156	134	133	195
Packaging	100	102	133	115	117
IT	100	129	144	104	121
Coal	100	164	119	270	233
Tea & Coffee	100	125	127	148	222
Plywood	100	110	125	141	117
Glass	100	103	108	109	138
Paints & Dyes	100	121	124	100	117
Merchant Exporter	100	163	159	203	297

Industries IMPACTED BUT RECOVERED from the pandemic

- MSME units that had staged a smart recovery post pandemic are Edible Oil, Printing, Consumer Durables, Pharmaceuticals, Jute, Aviation, etc
- Some of these industries were impacted heavily during pandemic with credit expansion in March 2021 even lower than March 2018 levels
- However, the good news is that all these industries have recovered significantly in Mar-22

Industries IMPACTED BUT RECOVERED from the pandemic					
Industry	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Trading	100	102	97	108	121
Food Processing	100	107	97	113	127
Textiles	100	110	95	101	111
Transport	100	107	94	111	117
Metals Others	100	122	91	101	127
Edible Oil	100	96	79	93	103
Chemicals Others	100	106	93	106	135
Granites	100	107	93	100	117
Consumer Durables	100	100	83	87	101
Printing & Publishing	100	93	77	97	108
Power Cables	100	97	99	114	127
Jute	100	89	90	105	107
Tyres & Tubes	100	118	99	104	127
Agrochemicals	100	113	98	163	146
Aviation	100	83	76	93	133
Pharmaceuticals	100	101	102	97	113
Hydrocarbon	100	110	104	83	106
Power Cables	100	97	99	114	127

- Increasing formalisation may be acting as a deterrent for informal enterprises to operate in niche segments...
- .. The efforts to integrate the Informal Micro Enterprises could give a boost to operate in niche segments like Financial Institutions & Educational Institutions

Industries IMPACTED AND ALMOST RECOVERED from the pandemic					
Industry	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
CRE	100	85	77	90	90
Mining	100	87	102	87	96
Sugar	100	133	98	84	92
Jewellery	100	92	91	81	62
Infra Others	100	69	62	76	78
Ceramics	100	113	102	37	47
Roads	100	106	82	74	80
Educational Institutions	100	95	87	77	64
Cement	100	98	78	71	69
Petrochemicals	100	84	86	61	55
Rubber & Rubber Products	100	95	82	77	65
Financial Inst.	100	55	21	21	26
Fertilisers	100	234	177	64	76
Automobiles	100	72	59	69	87
Telecom	100	112	92	97	85
Steel Forging	100	100	75	69	60
Tobacco	100	101	79	82	79
FMCG	100	84	89	146	75
Diamond	100	82	75	85	72
Ports	100	104	88	102	69

States NOT IMPACTED from the pandemic

- ❑ The list of states where MSME credit outstanding had not declined as compared to Mar-18 level are significant.....
- ❑ While the MSME credit outstanding got impacted in some of the states, but their outstanding level did not fall below the Mar-18 level (like AP, Bihar, etc.)
- ❑ Except for Telangana, the outstanding level of Mar-22 was almost 1.5x as compared to Mar-18 level

States NOT IMPACTED from the pandemic					
State	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Andhra Pradesh	100	108	104	115	122
Arunachal Pradesh	100	105	100	109	121
Bihar	100	114	101	115	136
Jammu And Kashmir	100	121	116	149	165
Jharkhand	100	115	115	111	132
Kerala	100	113	119	132	145
Manipur	100	120	113	131	150
Meghalaya	100	92	107	108	134
Nagaland	100	102	104	108	121
Odisha	100	141	141	123	138
Telangana	100	231	211	232	256
Uttar Pradesh	100	124	129	146	169
Uttarakhand	100	119	115	126	139
West Bengal	100	125	122	135	147

States IMPACTED BUT RECOVERED from the pandemic

- ❑ The list of states where MSME credit outstanding had declined in Mar-20 or Mar-21 as compared to Mar-18 level but recovered after that
- ❑ These are mostly the states where prevalence of Covid case was very high (only four states, Maharashtra, TN, Karnataka and Delhi accounted for 44% of total covid cases in FY21)
- ❑ However, the good news is that MSMEs of all these states have recovered significantly in Mar-22

States IMPACTED BUT RECOVERED from the pandemic					
State	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Delhi	100	110	94	104	126
Goa	100	101	76	97	112
Gujarat	100	112	107	98	110
Haryana	100	107	90	95	103
Himachal Pradesh	100	100	94	103	117
Karnataka	100	89	83	92	102
Maharashtra	100	103	89	101	116
Mizoram	100	94	82	102	126
Rajasthan	100	100	84	92	105
Tamil Nadu	100	92	87	93	105
Tripura	100	108	85	98	111

States IMPACTED AND ALMOST RECOVERED from the pandemic

- ❑ These are the states where MSME credit outstanding had declined in Mar-20 or Mar-21 as compared to Mar-18 level but recovered after that
- ❑ The crucial observation is that these are the states (except Assam) where the MSME credit outstanding was already lower than Mar-18 level before the pandemic hit
- ❑ However, almost all states are on path of recovery and will soon cross the pre-pandemic level (i.e., Mar-18) by Mar-23

States IMPACTED AND ALMOST RECOVERED from the pandemic					
State	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Assam	100	103	91	78	96
Chattisgarh	100	65	60	72	90
Madhya Pradesh	100	76	78	87	91
Punjab	100	95	90	90	97

Section IV

An Update on ECLG Scheme

- ❑ In our Jan'22 report, we did a comprehensive study on how ECLGS had impacted the NPA and employment in the country. Employing the same methodology, we herewith provide the latest update on ECLGS
- ❑ As per our analysis, **at least 14.6 lakh MSMEs accounts were saved due to ECLG scheme**
- ❑ In absolute terms, **MSME loan accounts worth Rs 2.2 lakh crore improved since inception of ECLGS for entire banking industry**. This means that **around 12% of the outstanding MSME credit has been saved from slipping into NPA** because of the ECLG scheme
- ❑ Of 14.6 lakh MSMEs accounts that are saved due to ECLG scheme, **almost 93.8% were in Micro and Small category**
- ❑ As per our analysis, if such units slipped into NPA, then **1.65 crore workers would have become unemployed**. Thus, the ECLG scheme has **saved the livelihood for 6.6 crores** (assuming four family members per worker including herself/himself)
- ❑ The analysis shows that **trading sector (Kirana shops, etc.) has benefitted the most** followed by food processing, textiles and commercial real estate
- ❑ Private Ltd companies have benefitted the most followed by proprietorship firms
- ❑ Amongst the States, Gujarat has been the biggest beneficiary, followed by Maharashtra, Tamil Nadu and Uttar Pradesh

ECLGS: What RBI's Financial Stability Report (Dec-22) Says

- ❑ The ECLGS was pivotal in providing support and additional liquidity for business entities to tide over COVID-19. Under the ECLGS, an amount of Rs 2.82 lakh crore has been disbursed till Sep 30, 2022, of which SCBs have disbursed Rs 2.46 lakh crore, with predominant share of disbursements under the ECLGS 1.0. The major sectors availing the ECLGS were services and traders, which were among the most impacted by the pandemic
- ❑ Disaggregated analysis of borrowers availing the ECLGS indicates that majority of the smaller borrowers belonged to the micro enterprises category. On the other hand, in terms of quantum of disbursement, about a third was availed by businesses other than micro, small and medium enterprises, indicating the broad nature of stress related to the pandemic
- ❑ The Sep-22 position of the ECLGS lending indicates that one-sixth of accounts that availed funds under the ECLGS remain stressed
- ❑ Even though the micro enterprises segment availed a quarter of loans disbursed under the ECLGS, their share in overall NPAs are higher

Section V

How Cluster Financing Enhance SME Credit

- ❑ A cluster-based approach to SME financing can have a multiplier impact on creating adequate infrastructure, ensuring availability of raw material (on J-I-T basis), furthering incremental market demand, channeling knowledge spillovers, creating pools of skilled labor, enhancing informal networking and transactions based on trust, all happening in one place. All this could promote collective efficiency for the MSME units as a whole
- ❑ For example, SBI has launched “CLUSTER APNAO” Campaign for sourcing of MSME businesses across India
 - To support the sustainability and growth of MSEs by addressing common issues such as improvement of technology, skills & quality, market access, etc.
 - To build capacity of MSEs for common supportive action through formation of self-help groups (SHGs), consortia approach, upgradation of associations, etc.
 - To create/upgrade infrastructural facilities in the new/existing Industrial Areas/Clusters of MSEs

Section VI

CGTMSE

- ❑ Multitude of Credit Guarantee Schemes currently are in vogue resulting in somewhat avoidable complexities directly concerning MSMEs. For example, both CGTMSE and NCGTC offer the credit guarantee product for MSMEs, though the guarantee structure and features are different
- ❑ The primary difference being that the CGTMSE is a *loan level* guarantee scheme while CGFMU for MUDRA loans, run by NCGTC, is a portfolio level guarantee scheme. This means that pay-outs happen under CGTMSE upon individual guaranteed loans being categorized as *in default*. In contrast, pay-outs happen in CGFMU only when the threshold NPA level of the portfolio is breached for the MLI
- ❑ Under the CGTMSE scheme, close to ~10% of the eligible SME loans are covered at present, which are collateral free. Rest of the ~90% loans in banking system are collateral backed. **This may be due to multitude of issues like higher premium outflows borne by enterprises, opportunity cost vis-à-vis deploying existing collateral, non digital nature of CGTMSE, comfort of operating functionaries in granting asset backed loans of bigger ticket size etc.**
- ❑ As per the latest available data, the year-wise guarantee cover provided by CGTMSE has been increasing substantially since FY18 (Rs 19,066 crore) to Rs 45,851 crore in FY20 and **Rs 56,172 crore in FY22**. However, if we take the cumulative figures, the ticket size of guaranteed loan by CGTMSE is still abysmally small at close to Rs 8 lakh only (*per CGTMSE annual report 2022*)

- ❑ Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGS-I Scheme) came into force from August 1, 2000, covering eligible credit facilities extended by the lending institutions to eligible borrowers effective from June 1, 2000
- ❑ CGTMSE scheme has an annual guarantee fee and risk-based premium payment which are absent for ECLGS cover
- ❑ Though both CGTMSE & ECLGS are Guarantee Schemes by Government, but the major difference is : ECLGS is 100% guarantee given by the Government, while it varies from 75-85% depending on the category and loan amount under recently revamped CGTMSE scheme
- ❑ ECLGS was extended as a top-up loan, while CGTMSE covers the primary loan ranging between Rs 10 lakh to Rs 2 crore
- ❑ Our study shows that ECLGS, a government backed scheme, has been much more successful in assuaging hardships to the MSME sector

Difference in CGTMSE & ECLGS		
Features	CGTMSE (REVISED)#	ECLGS
Guarantee Coverage (% of loan)	75% - 85%	100%
Annual Guarantee Fees on outstanding amount	Standard Rate (SR) 0.75-1.2% + risk premium of up to 70% of SR + GST	Nil
Eligible Borrower	All micro and small enterprises (except SHGs)	Rs 50 crore (Fund based outstanding as on 29, Feb 20)
Guarantee cover	Upto Rs 2 crore (including retail/WS trade)	Up to 20% of outstanding as on 29, Feb'20
Interest rate	Card Rate (no separate rates recommended)	9.25% for banks and 14% for NBFC
Tenure	Term Loan upto 10 years	4 - 5 years
Nodal Institute	CGTMSE	NCGTC

revised guidelines by CGTMSE effective w.e.f. 1st December'2022...Fee rate for MLIs in highest bucket of risk premium (credit 50-200 lakh) comes to ~2.41% of guaranteed amount.

The U.S. Small Business Administration (USSBA) ensures that America’s 30 million plus small business owners, who are the engine of job creation and economic growth in the country, have the requisite tools and resources they need **to start and expand** their operations and **create good jobs** that support an ever growing economy and strong middle class. The SBA has a proven track record of successfully assisting America’s small businesses by **increasing and improving** their **access to capital, federal contracting opportunities, entrepreneurial development, and disaster assistance**. The Agency also boosts USA’s **long-term competitiveness** by improving the entrepreneurial ecosystem to ensure small business owners and entrepreneurs are well positioned to take advantage of **new opportunities and new markets**

Strategies adopted by SBA (US)

- Increasing capital provided to small businesses and emerging markets when conventional credit is not available.
- Supplementing investment capital to small businesses that have inadequate supply. The Small Business Investment Company (SBIC) program
- Strengthening and expanding the network of lenders offering SBA products
- Expanding knowledge of SBA loans through its network of resource partners and field offices
- Enhancing oversight and risk management of lenders and SBICs and improve recovery of taxpayer assets
- Facilitating capacity building

- Enhancing the scope and role of CGTMSE along similar lines, wherein it metamorphose into an umbrella organisation ensuring a robust ecosystem for growth and development of SMEs by connecting the dots across multiple pivots like access to capital, ease of securing adequate lending through aggregation of network of lenders, pass-through of multiple sovereign guarantee schemes’ benefits, end-to-end solutions from procurement to marketing / realisation and adoption of best risk management practices while aligning with global supply chain management competitively can ensure our 6.34 crore plus SMEs (with substantial addition post 2015-16 NSS survey, we believe) emerge as the lifeline of a resurgent and resilient **Aatmanirbhar Bharat** while giving a fillip to our ambitious export competitiveness as a force du jour.....

CGTMSE COVERED LOANS		COLLATERAL BACKED LOANS (CGTMSE ELIGIBLE)	
<p>Risk Weighted Assets & Capital: Capital required would be <i>Less</i> for guarantee covered loans as it would take into account only the uncovered portion of exposure</p>	<p>LOW</p> <p>A loan limit of Rs 100 with 75% coverage will require capital only for uninsured portion of Rs 25 (75% RWA of Rs 25 effectively @11.50%) i.e. total capital requirement would be Rs.2.16</p>	<p>Risk Weighted Assets & Capital: Capital required for collateral backed loans would be High as in most cases, the collaterals obtained by FIs are non-cash type / fixed assets</p>	<p>HIGH</p> <p>A loan limit of Rs 100 with seemingly adequate usual collateral would attract capital at 75% RWA of limit sanctioned i.e. (11.50% for Rs 100x75%) i.e. Rs 8.63</p>
<p>Default Probability (in relative terms, based on analysis of industry-wise portfolio, wherein credit guarantee backed loans have slightly higher delinquency ratio)</p>	<p>HIGH</p> <p>6-7%</p>	<p>Default Probability: in relative terms, based on analysis of industry-wise portfolio, wherein collateral backed loans have slightly lower delinquency ratio)</p>	<p>LOW</p> <p>3-4%</p>
<p>Loss Given Default (75% of guaranteed amount is paid upon claim lodgement, with balance amount being paid in around 3 years post completion of required legal proceedings)</p>	<p>LOW</p> <p>A loan limit of Rs 100 with 75% guarantee coverage, upon turning delinquent, would receive Rs.56.25 as upfront payment from CGTMSE <i>immediately</i> post lodgement of claim by FI, with remaining payment of Rs 18.75 coming after following due legal procedures for recovery. Amount recovered over and above will be shared by FI and CGTMSE proportionately.</p>	<p>Loss Given Default Recovery, often partial, can take many years due to multiple legal issues involved and complexities embedded in system as also inept adoption by operating functionaries to align with evolving changes</p>	<p>HIGH</p> <p>A loan limit of Rs 100, even with supposedly adequate collateral coverage may not yield much cushion to the lending institution once the connection turns delinquent in view of complex, multi-layered legal proceedings that often linger for years, inadequate know-hows and follow-up by lender's staff members and defects/decay in securities furnished, with average historical recovery hovering close to 25-30% for FIs.</p>

- ❑ CGTMSE portfolio have a 56% initial recovery rate, low portfolio delinquency, low capital requirement but remain still an unpopular product. Conversely, the non CGTMSE portfolio has a ~25% recovery rate, high portfolio delinquency, high capital requirement but still a popular portfolio. We need to change the rules of the game to perk up credit flow to MSMEs

CGTMSE: The Way Forward (Some Recommendations).....

- ❑ Reduction or phase-out of the Annual Guarantee / Service fees to 0.50% of the Loan amount across all the slabs and making CGTMSE coverage mandatory for all SME loans up to Rs 2 crore
- ❑ Abolishing the tiered Risk Premium being charged to individual MLIs (Banks/NBFCs) based on specific portfolio delinquency levels (but borne by enterprises) which might have been a major deterrent in sufficient penetration of scheme in two decades
- ❑ Allocating annual targets to FIs to mandatorily cover a sufficient percentage of new loans under CGTMSE scheme
- ❑ The maximum loan amount for coverage under CGTMSE may be increased from Rs 2 crore to Rs 5 crore for all activities under manufacturing, services and trade sector
- ❑ Guarantee coverage for the units having women promoters to be increased to 100% to give fillip to women entrepreneurship
- ❑ Presently, the claims will be settled by CGTMSE to the extent of 2x of the guarantee fee paid by the Bank including the recovery remitted during the previous financial year. We recommend for increase of the claims settlement to the extent of 10x of the guarantee fee paid by the Banks. In the event of phaseout of the guarantee fee, the claim settlement for a particular year may be specified at a certain percentage (say 15%) of the CGTMSE covered portfolio. Further, there is a need to reduce the lock-in period to 12 months from the current stipulation of 18 months, to instill confidence at sanctioning levels
- ❑ Complete end-to-end digital platform to ensure real time sanction, disbursement and claim settlement for the guaranteed portfolio
- ❑ With the increased thrust on cash flow-based lending, CGTMSE should develop a suitable model for covering such loans based on cash flows, and not based on mere ratios as per Balance Sheet method, heavy on past performance

thank
you

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Contact Details:

Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India, Corporate Centre
Nariman Point, Mumbai - 400021
Email: soumya.ghosh@sbi.co.in
gcea.erd@sbi.co.in
Phone:022-22742440
🐦:@kantisoumya

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