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State of Micro Enterprise Financing Report 2022



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State of Micro Enterprise Financing Report 2022

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FOREWORD

Micro, Small and Medium Enterprise sector has been recognized as the backbone of the Indian economy for the past several decades expected to drive the country's growth and employment generation. The government envisages MSMEs to contribute USD 2 trillion to the target of becoming USD 5 trillion economy by 2024. In August 2021, MSME Ministry announced a target to boost MSME contribution to the GDP to 50% by 2025.

India has approximately 6.3 crore MSMEs and the number of registered MSMEs stood at 80.16 lakh units as on March 31, 2022, indicating that 88% of enterprises still exist in the informal sector. Micro sector accounts for more than 99% of total estimated number of MSMEs and around 97% of total employment in the sector, while Small and Medium sectors accounted for 0.52% and 0.01% of total estimated MSMEs, respectively (National Sample Survey (NSS) 73rd round conducted during 2015-16).

Lack of managerial, entrepreneurial, and marketing avenues and skills, access to and integration of advanced technology etc. are major bottlenecks for micro enterprises for growing and sustaining their businesses; however, access to affordable, adequate and timely credit is often cited as the predominant concern. Microenterprises were badly impacted by the pandemic related restrictions and the economic slow-down with significant reduction in demand for products and services. While the market demand has improved now, it will still take a long time for these enterprises to overcome the impact of the pandemic on their business and personal finances and revert to normalcy. Access to credit plays an important role in helping the enterprises recoup. While several government schemes are available for these businesses for supporting their credit, marketing and technology related requirements, there is still a huge gap in awareness of and access to the schemes and benefits.

A large number of viable and resilient tiny enterprises – with turnover of say between INR 50 lakhs - 1 crore – within the microenterprise segment, have the potential to provide employment and self-employment to a large number of people. These typically serve customers in close geographic proximity and cater to hyper local needs with their products and services. These enterprises however can

build their viability and grow with access to affordable credit. This is a segment of microenterprises that need loans of value higher than provided through the microfinance channel, and are not catered to by banks and other formal financial institutions through other products due to high risk, lack of past credit record and other associated challenges.

Over the years, Equifax - one of the leading credit information companies, has worked with Indian lenders to help maintain high levels of underwriting standards. ACCESS has partnered with Equifax since 2020 to bring out an annual trend report titled Status of Microenterprise Lending. This Report tracks the performance metrics of portfolio of business loans up to ₹25 lakhs as a proxy for reporting on loans to the 'tiny enterprises', in order to draw out gaps in lending to this segment, and advocate for necessary attention from financial service providers and policy to address this important sub-segment of microenterprises. The Report is fully based on commercial loans and retail (business) loans data from Equifax India.

I thank K M Nanaiah, Managing Director, Equifax Credit Information Services Private Limited and Country Leader - India & MEA, Equifax for agreeing to this continued partnership and for sharing his perspectives and thoughts covered in the CEO Speak section in the Report. I place on record my appreciation for his team led by Manu Sehgal and Shruti for providing the required data on various dimensions for the report. A special word for thanks to Dr R Bhaskaran (who authored the last year's report) for providing invaluable guidance and support to the team this year. I appreciate Praveen Khedale's efforts in bringing together the data analysis and authoring the report.

With the third edition of the Report, it is now possible to present useful trends in the data covering portfolio growth and quality by loan sizes, geographical trends and performance by institutional types. The Report will be released at the 19th Inclusive Finance India Summit on January 17, 2023.

Radhika Agashe

Executive Director

ACCESS Development Services



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1. INTRODUCTION

There are estimated 26 million micro and small enterprises in the country providing employment to an estimated 60 million persons. They contribute about 45% of manufacturing sector output and 40% of nation's export. Credit is one of the most important factors for MSMEs affecting various aspects, from running day to day business to achieving growth. A timely and adequate credit at reasonable interest rate is one of the most important challenges faced by them. MSMEs are categorised based on their turnover but it is imperative that majority of MSME's credit falls under ₹25 Lakh ticket size. This analysis would be able to bring out various challenges, trends and issues of MSME Credit.

Definition of Micro-Enterprise

In June 2020, the Government of India revised the criteria for classification of micro, small and medium enterprises. Micro-enterprises now refer to businesses that have investments in plant and machinery or equipment of less than ₹1 crore and turnover of less than ₹5 crores. This report uses enterprise loans up to ₹20 lakhs as a proxy for micro-businesses. A micro-enterprise is unlikely to have a single loan of more than ₹20 lakhs. Some larger micro-businesses (say, with a turnover of ₹4 to ₹5 crore) may have more than one loan from different lenders, they are however unlikely to have individual loans of value of more than ₹20 lakhs.

About the Report

This report analyses data provided by Equifax for three categories of credit to MSME sector- Business Loans, Business Loans Agriculture and MUDRA loans up to ₹25 Lakhs. Some fields in the records provided to Equifax were blank for ticket sizes/ Rural urban classification presented as ND (Not Defined) in the tables. Since Cumulative data of ND is minuscule, no explanation is given for them in the report. The report analyses portfolio and repayment status data as of June'22 with corresponding date from June'21 and June'20. Sourcing of credit or loan sanction from July 21 to June'22 is analysed with corresponding figures from the previous

two years. To ensure simplicity and avoid repetitiveness, the nomenclature used for sourcing data is as follows:

Year represented as	Year
Y1	July 2019 to June 2020
Y2	July 2020 to June 2021
Y3	July 2021 to June 2022

Partnership with Equifax

The report is fully based on data from Equifax India, one of the leading Credit Information Companies in the country. The credit bureau records all categories of loans taken by all classes of borrowers – microfinance loans, individual loans, business loans, and commercial loans. Data from Equifax has been used to understand how micro-enterprises have raised and repaid loans in the twelve months up to June 30, 2022 vis-à-vis in the previous two years. The document also features a Q&A with K M Nanaiah of Equifax (Annexure 1) on various implications of credit rating and credit score on MSME enterprises.

2. BUSINESS LOANS

Business loans are made to institutions or individuals for commercial activities. The analysis presented in the report shows trend and progress of credit to micro entrepreneurs and performance of this portfolio.

Size Wise Analysis

Table 1 shows the breakup of the business loan portfolio as of June in the last three years. Number of business loans were 78.6 Lakhs with a portfolio of ₹1,52,931 crores as of June'22. Loans up to ₹3 Lakh makes up the largest chunk (71%) of number of accounts whereas it is only 20% of portfolio outstanding. Loans up to ₹3 Lakh credit have an average loan of ₹54,378 for June'22 [Table 2] similar to the microfinance sector. Total number of accounts as of June'22 shows a decline of 7% over June data of preceding year, whereas outstanding portfolio shows growth of 4%. Number of loans as well as POS decreased in the loan of up to ₹5 Lakh ticket size. All other loan size segments show growth over previous year. During June'21 and June'20 data, this trend is reversed and loans up to ₹10 Lakh shows growth both in number of loans and loan outstanding and in higher ticket sizes, it shows a decline in both. The major reason being loan restructuring and moratorium due to COVID. The trend indicates smaller enterprises were impacted more and opted for relief provided by the government than larger enterprises. Another underlying reason is that the enterprises chose to take lesser credit during the pandemic due to instability and an uncertain business potential. As various [pandemic] restrictions were lifted, businesses recovered and paid their loans thereby reducing the number of loans and outstanding in loans up to ₹5 lakhs. For larger businesses, a recovering market provided a hope for businesses increasing their demand and uptake of credit. The largest growth in loan outstanding is shown by the loan size category of ₹20 to 25 Lakh (26%) followed by ₹10 to 15 Lakh category (21%)

Table 1: Business Loans, Ticket Size Wise

Ticket size ₹	Jun'20		Jun'21		Jun'22	
	A/c	Amt.	A/c	Amt.	A/c	Amt.
Up to 3 lakh	44.51	28,201	62.77	36,084	56.04	30,473
3 to 5 lakh	6.02	17,445	6.70	19,261	6.21	17,851
5 to 7 Lakh	2.56	10,467	2.90	12,266	3.27	13,815
7 to 10 lakh	3.75	22,329	3.94	23,254	4.44	27,278
10 to 15 lakh	2.54	20,693	2.23	18,829	2.57	22,789
15 to 20 lakh	1.78	20,009	1.47	16,637	1.63	19,651
20 to 25 lakh	1.18	16,965	0.97	13,760	1.12	17,349
ND	3.30	11,842	3.43	7,426	3.34	3,726
Grand Total	65.65	1,47,951	84.41	1,47,518	78.63	1,52,931

A/c- Number of accounts in '000, Amt. – POS in ₹ Crore

Table 2 provides interesting insights into under 25 Lakh loan segment. The average loan size reducing in loans up to ₹5 Lakh shows the effects of less disbursement, and impact of measures by government during the pandemic period. Average loan size for other loan size categories decreased from June'20 to June'21 and increased during the next year period showing recovery in credit markets. Average POS business Loan is lower than the ticket size bucket due to reduction in POS by repayment of loans still.

Table 2: Average POS Business Loan in ₹

Ticket Size ₹	Jun'20	Jun'21	Jun'22
Up to 3 lakh	63,355	57,484	54,378
3 to 5 lakh	2,89,686	2,87,622	2,87,523
5 to 7 Lakh	4,08,710	4,22,535	4,22,021
7 to 10 lakh	5,95,784	5,89,801	6,13,712
10 to 15 lakh	8,14,303	8,43,976	8,85,731
15 to 20 lakh	11,27,101	11,31,196	12,05,598
20 to 25 lakh	14,36,763	14,15,498	15,55,550
ND	3,58,367	2,16,803	1,11,512

State Wise Performance

Figure 1 represents the percentage share of states in business loans. Tamil Nadu has the highest number of loans and portfolio outstanding. Some of the major states like Maharashtra, Karnataka, Gujrat show higher share in loan outstanding compared to the number of loans, indicating higher average loan size in these states.

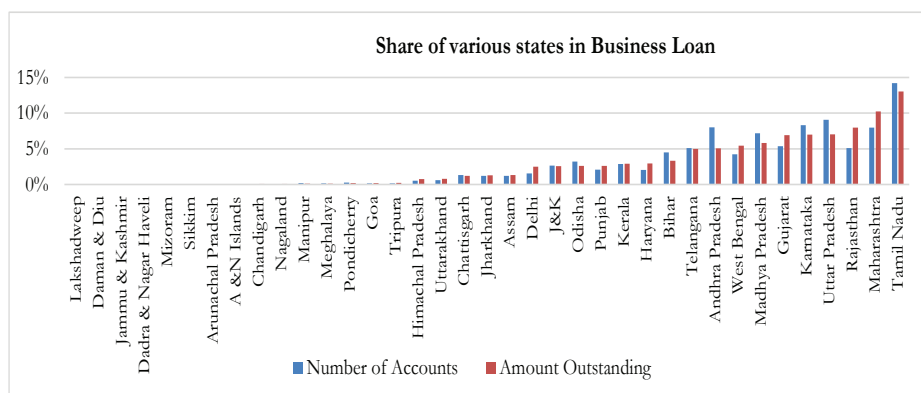


Figure 1: Percentage share of states in POS and number of accounts

Lenders and Location

Business loans by type of lending agency and rural/urban distribution is given in table 3. The rural/urban categorization is done on the basis of PIN code data of loan. There are some loans where PIN code was not provided/available, represented as Not-Defined (ND) in the table. PSU banks are the largest lenders with 33.2% of loan portfolio and 46.5% share in number of loans indicating smaller loan sizes than the industry average. The three-year trend for PSU banks indicates that there is growth in business loans however their share in overall lending is reducing. The second largest lender for business loans are NBFC with more than 28% share in portfolio outstanding and 20% share in number of loans showing higher loan sizes than the average for Business loan category. Their portfolio growth from June'21 to June'22 is 17%, showing a very good recovery from the pandemic which shocked the sector. The major contributor to this growth in NBFC portfolio is their business loans in urban and semi-urban areas. Private banks contribute 20% in portfolio and 13.6% in number of loans. Their growth over June'21 is very small (1%) in POS, however the number of loans show growth of 11% indicating disbursement in lower average loan sizes than the industry. Rest of Industry (ROI) includes SFBs and RRBs among others, contributing 18% and 20% in POS and number of loans respectively. ROI have reduced their POS and number of loans from June'21 figures.

Table 3: Business loan Lending Agencies and Population group

Lender	Rural Urban	Jun'20		Jun'21		Jun'22	
		No. of A/c	POS	No. of A/c	POS	No. of A/c	POS
Foreign bank	ND	1	50	0	34	0	4
	Rural	5	339	4	190	0	13
	Semi Urban	13	828	10	472	1	163
	Urban	10	792	9	576	5	513
	Total	29	2,009	23	1,271	6	693
NBFC	ND	15	410	16	350	13	450
	Rural	358	6,057	552	8,578	450	9,094
	Semi Urban	625	14,839	886	16,564	730	19,302
	Urban	401	14,168	406	11,368	378	14,284
	Total	1399	35,473	1859	36,860	1571	43,131
PSU Bank	ND	39	749	47	618	42	577
	Rural	868	12,560	1116	12,188	1110	12,648
	Semi Urban	1379	28,723	1909	24,778	1832	25,721
	Urban	517	15,141	677	12,068	673	11,827
	Total	2803	57,172	3749	49,652	3656	50,773
Pvt. Bank	ND	10	300	12	297	11	312
	Rural	138	4,112	183	4,676	215	5,553
	Semi Urban	376	13,007	460	13,425	519	14,465
	Urban	300	14,255	303	11,835	321	10,349
	Total	824	31,675	958	30,233	1066	30,679
Rest of Industry	ND	27	254	41	347	30	241
	Rural	612	65,31	784	9,649	478	8,345
	Semi Urban	668	10,953	834	14,771	752	14,353
	Urban	202	3,883	194	4,734	302	4,718
	Total	1509	21,621	1853	29,502	1563	27,656
Grand Total		6565	1,47,951	8441	1,47,518	7863	1,52,931

The Rural-Urban Distribution

As of June'22, credit to Semi-urban contributed almost half of total Business loans, both in POS and number of loans. Urban areas contribute nearly 27% in POS and 21% number of loans indicating average loans to urban MSME are higher than the average in the category. Rural areas contribute 23% in POS and 29% in the number of loans showing lower average loans in rural areas. POS of both rural and semi-urban areas shows growth in preceding two years, whereas it reduced by 16% from June'20 to June'21 in urban areas, recovering by 3% from June'21 to

June'22. Significant migration of small business owners to their native areas during pandemic restrictions have affected business loans to MSME in urban areas.

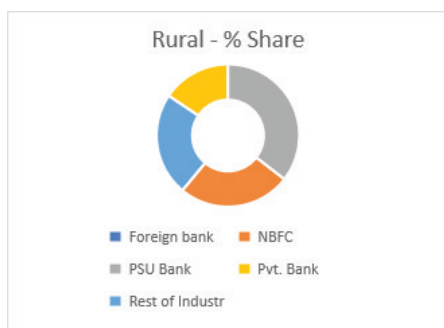


Figure 2: Share of Lenders in Rural POS

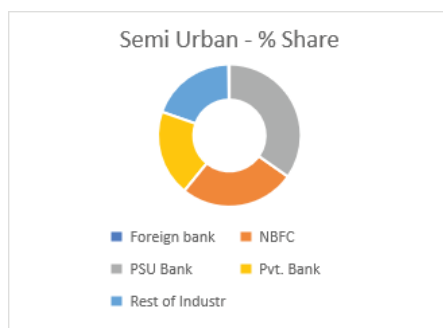


Figure 3: Share of Lenders in Semi Urban POS

PSUs are the largest creditor to rural MSME contributing nearly 35% of total POS in rural areas, followed by NBFC contributing nearly 26% of total POS of Business loans in Rural areas. Private Banks Contribute 20% to POS in rural areas.

For Semi-urban MSMEs similar trend is there, PSUs having a share of nearly 35% of total POS and NBFC contrib-

uting 26% of Total POS in semi urban areas. Private banks contribute nearly 20% of total POS or semi urban. Urban POS in MSME sector has a somewhat different case, with NBFCs taking the lead with 34% share in urban POS followed by PSU banks 29% and private banks, 25%. Here ROI share is only 11 %, relatively lower compared to rural and semi-urban Areas.

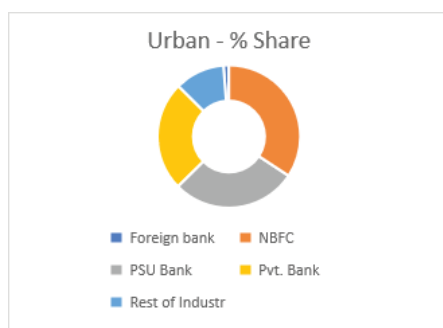


Figure 4: Share of Lenders in Urban POS

REPAYMENT

Equifax as a credit bureau has detailed data on the repayment of each loan, which is reported in different “buckets” of Days Past Dues or DPD. According to the RBI guidelines, loans whose instalments are 90 days past due, are to be identified as Non-Performing Assets or NPA. The following section analyses 90+ DPD bucket loans reported to Equifax for Business loans up to ₹25 Lakh.

The MSME sector is a risky proposition for credit, specifically during a stress period. There are 11.41 lakh accounts with a total POS of ₹14,340 Crore which fall under 90+ DPD bucket. This is 15% to total loan count and 9% of total POS.

Overdue by Ticket Size

Loans up to ₹3 Lakh shows the highest portfolio, ₹4940 Crore under 90+ DPD. Loans with ticket size 3-5 Lakh have ₹2121 Crore or 12% of portfolio under 90+ DPD bucket. Loans up to ₹5 Lakh are 32% of total POS however their contribution is 49% in 90+ DPD portfolio indicating higher risk in the segment.

Table 4: 90+ DPD June 2022

Ticket size	Number of Loans in '000	%	POS ₹ Crore	%	Average POS
Up to 3 lakh	960	17%	4,940	16%	51,479
3 to 5 lakh	63	10%	2,121	12%	3,34,819
5 to 7 Lakh	23	7%	1,084	8%	4,63,045
7 to 10 lakh	24	5%	1,822	7%	7,49,809
10 to 15 lakh	15	6%	1,541	7%	10,08,000
15 to 20 lakh	9	5%	1,182	6%	13,54,770
20 to 25 lakh	5	5%	1,024	6%	18,87,831
ND	41	12%	626	17%	1,53,675
Grand Total	1141	15%	14,340	9%	1,25,697

Overdue by Location of Borrower

Rural and semi urban borrowers are in a similar risk category with 9% of POS under 90+ DPD. Urban clients pose higher risk with 11% POS under 90+ DPD bucket. Rural clients contribute 22%, semi urban clients are the highest at 46 % and urban clients contribute 31% to overall POS under 90+ DPD.

Table 5: 90+ DPD portfolio by location June 2022

Rural - Urban	Number of Loans in '000	%	POS ₹ Crore	%	Average POS
ND	18	19%	19,633	12%	1,06,387
Rural	274	12%	3,10,995	9%	1,13,564
Semi Urban	590	15%	6,57,881	9%	1,11,443
Urban	258	15%	4,45,457	11%	1,72,541
Grand Total	1141	15%	14,33,964	9%	1,25,697

Overdue - Lending Institutions Wise

Industry's recovery from the impact of the pandemic can be seen with 90+ DPD percentages, increasing to 12%, June'21, from 8% as of June'20 and reducing to

9% by June'22. This shows improvement in portfolio quality over previous year. However, the recovery is not much in NBFC and PSU banks with both reducing their 90+ DPD by merely 1%. Private banks performed much better, even during the pandemic and reported only 5% of their POS under 90+ DPD. As of June'22, PSU banks contributed the most, having more than 41% share in 90+ DPD POS whereas they have only 33% share in overall POS. Similarly, NBFCs have 28% share in overall POS whereas their POS under 90+ DPD is 36%. More time and effort are required for these two categories to recover from the impacts of pandemic.

Table 6: 90+ DPD portfolio by lender

Sector	Jun'20		Jun'21		Jun'22	
	POS ₹ Crore	%	POS ₹ Crore	%	POS ₹ Crore	%
Foreign bank	105	5%	102	8%	1545	2%
NBFC	2,788	8%	4,952	13%	5,21,820	12%
PSU Bank	5,050	9%	6,444	13%	5,88,441	12%
Pvt. Bank	768	2%	1,466	5%	1,00,124	3%
ROI	2,978	14%	4,243	14%	2,22,034	8%
Grand Total	11,689	8%	17,208	12%	14,33,964	9%

Performance of States in 90+ DPD Portfolio

Tamil Nadu even with 10% of total POS under 90+ DPD, contributes more than 14% to overall POS under 90+ DPD. Tamil Nadu, Maharashtra, Uttar Pradesh, Karnataka and West Bengal states contribute more than 50% of POS under 90+ DPD whereas their contribution to overall POS is nearly 43%. Kerala, Arunachal Pradesh and Tripura have more than 15% POS under 90+ DPD, showing very poor credit discipline in Business loans.

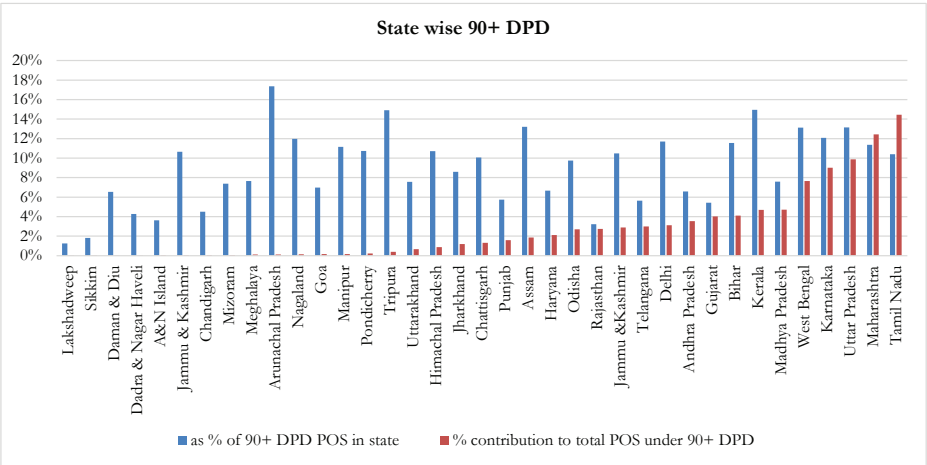


Figure 5: States performance 90+ DPD

BUSINESS LOAN SOURCING

In the following section data from July'19 to June'22 is reported for three corresponding years.

Loan Sanction According to Ticket Size

The following table shows business loans sanctioned during the three-year period according to different ticket sizes. The reduction in the sanction amount from June'20 to June'21 is about 5% mainly due to the pandemic. The corresponding amount from July'21 to June'22 saw a massive jump of 33% reaching ₹99,084 Crore- contributing to high growth in sanction amount from Y2 to Y3, 20L to 25L ticket size (51%), 7L to 10L ticket size (43%) and 10L to 15L ticket size (41%). Y1 to Y2 saw growth in sanction amount of only up to 3L [13%], and 5L to 7L[2%] ticket size buckets. During the same period, the largest reduction can be seen in 15L to 25L ticket size loans [16%]. In the year Y3, loans of up to 3 lakh ticket size have the largest contribution of 28% followed by loans under 7 Lakh to 10 Lakh bucket [16%].

Y1 - July 2019 to June 2020,
Y2 - July 2020 to June 2021,
Y3 - July 2021 to June 2022

Table 7: Business loan sanction – Ticket size basis

	Y1	Y2-		Y3		
Ticket Size	A/c	Amt.	A/c	Amt.	A/c	Amt.
Up to 3 lakh	2644	20,498	5077	23,264	4166	27,966
3 to 5 lakh	244	10,311	218	9,131	277	11,652
5 to 7 Lakh	106	6,282	110	6,432	146	8,573
7 to 10 lakh	137	12,022	124	10,792	177	15,438
10 to 15 lakh	83	10,488	74	9,294	104	13,074
15 to 20 lakh	57	10,132	48	8,456	64	11,455
20 to 25 lakh	38	8,570	32	7,220	48	10,927
Grand Total	3376	78,303	5821	74,589	5186	99,084

A/c- Number of accounts in '000, Amt. – Sanction Amount in ₹ Crore

The Missing Middle

Missing middle segment has been a burning topic in financing MSME for the last few years. The missing middle is the segment of enterprises which have moved up from the bottom of pyramid where Microfinance is able to serve the requirement, and not yet reached to the borrower category which can provide required documents and guarantees and prove their creditworthiness.

When we look at the sourcing data for business loans for Y3 as represented in the following graph, the blue bars are the sanctioned amounts for different ticket sizes. If all the enterprise categories by sizes are served, the relationship should have been linear. Loans with ticket sizes above ₹7 Lakh show that linear trend, gradually lowering loan sanctions as ticket sizes are increased. This segment has become a part of formal financing. The ticket size buckets from ₹3 to 5 Lakh and ₹5 to 7 Lakh show that they are not able to reach to become part of that linear relationship. This is the missing middle segment in MSME that needs attention from policymakers to lende Rough estimate for the potential funding to this missing middle segment is ₹21,000 to ₹25,000 thousand crores which is not coming from the formal sector as of now as Business loans. It is very well possible that a significant portion of entrepreneurs are getting credit from the formal sector as personal credit.

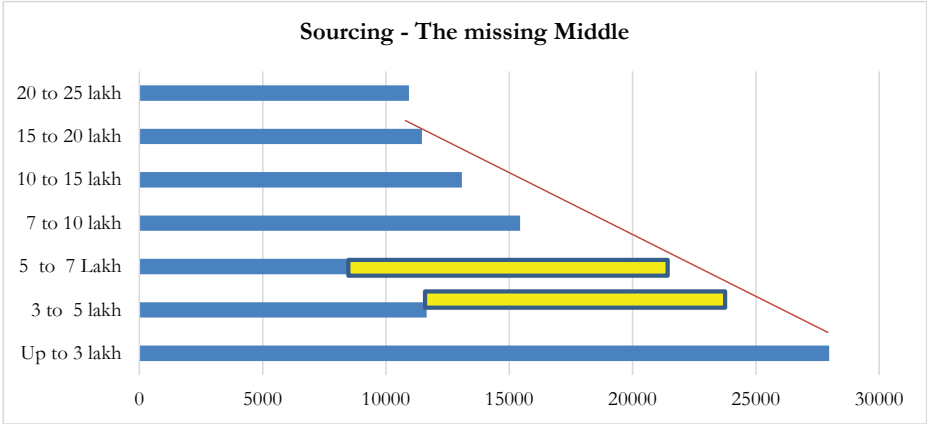


Figure 6: The Missing Middle

Place of Businesses and Lending Institution

NBFCs led sourcing with 36% share of sanction amount in Y3 followed by PSU banks with 25% share and private banks with 23% share. The growth in sanction amount for NBFC from Y2 to Y3 is also impressive at 47%. Interesting thing to note here is that PSU banks and ROI have increased their sanction amount in Y2 compared to Y1 by 2% and 26% respectively, whereas NBFCs reduced it by 14% during the same period.

Table 8: Lender and place of business-wise sanction of business loan

Sector	Rural/ Urban	Y1	Y2	Y3
Foreign bank	ND	27	2	4
	Rural	147	4	18
	Semi Urban	359	39	151
	Urban	616	104	392
	Total	1,150	149	565
NBFC	ND	270	191	391
	Rural	5,218	5,037	8,079
	Semi Urban	11,977	10,381	15,916
	Urban	10,376	8,464	10,920
	Total	27,841	24,073	35,306
PSU Bank	ND	262	245	233
	Rural	5,631	5,938	6,639
	Semi Urban	10,838	10,938	12,054
	Urban	5,304	5,311	6,210
	Total	22,035	22,432	25,136
Pvt. Bank	ND	170	156	207
	Rural	2,626	2,538	3,960
	Semi Urban	7,486	7,192	10,477
	Urban	7,626	6,210	7,881
	Total	17,908	16,095	22,524
Rest of In- dustry	ND	90	140	140
	Rural	2,837	3,683	5,022
	Semi Urban	4,773	6,164	8,129
	Urban	1,669	1,852	2,263
	Total	9,369	11,839	15,553
Grand Total		78,303	74,589	99,084

Under the Business Loan category, Semi-urban clients enjoy the largest share [47%], almost half of total sanction during Y3, NBFCs contributed nearly one-third of this. Sanction to Urban clients is 28% and 24% of total sanction went to rural Clients.

Impact of the pandemic is most visible for urban sanction amount, reduced by 14% from Y1 to Y2, Semi-urban sanction saw reduction of only 2% during the same period. Contrastingly, loan sanction in rural areas saw a jump of 5%. Number of loans sanctioned saw growth for all categories from Y1 to Y2 indicating that the average loan sanction amount was reduced during this period. Trend for sanction amount from Y2 to Y3 shows growth for all population groups, led by rural sanctions showing growth of 38%, Semi urban 35% and urban 26%.

“A significant portion of borrowers in urban areas went back to their native places during COVID restrictions. Various state and central government programs were started to provide livelihood options for them, mostly for self-employment. The shock of having no livelihood and feeling of helplessness during restriction may have motivated many of these to stay back. Various government programs also helped them in having confidence of generating livelihood at their native place. Higher growth in rural and semi urban areas and relatively lower growth in urban areas for sanctioned amount can be credited to this”

Table 9: Location-wise sanction of business loan

Population Group	Y1		Y2		Y3		Avg. Y3 ₹
	A/c	Amt.	A/c	Amt.	A/c	Amt.	
ND	36	819	75	733	48	974	2,04,936
Rural	1023	16,459	1805	17,200	1548	23,718	1,53,174
Semi Urban	1598	35,434	2951	34,714	2493	46,726	1,87,403
Urban	718	25,591	989	21,942	1096	27,665	2,52,338
Grand Total	3376	78,303	5821	74,589	5186	99,084	1,91,071

A/c- Number of accounts in '000, Amt. – Sanction Amount in ₹ Crore

State Wise Sanction

Tamil Nadu leads in both number of loans and Sanction amount for Y3 contributing 14% to overall sanction amount under Business loan category. Top 5 states in terms of sanctioned amount in Y3 are- Tamil Nadu, Maharashtra (11%), Karnataka (8%), Gujarat (7%) and Uttar Pradesh (7%). Entry of Uttar Pradesh

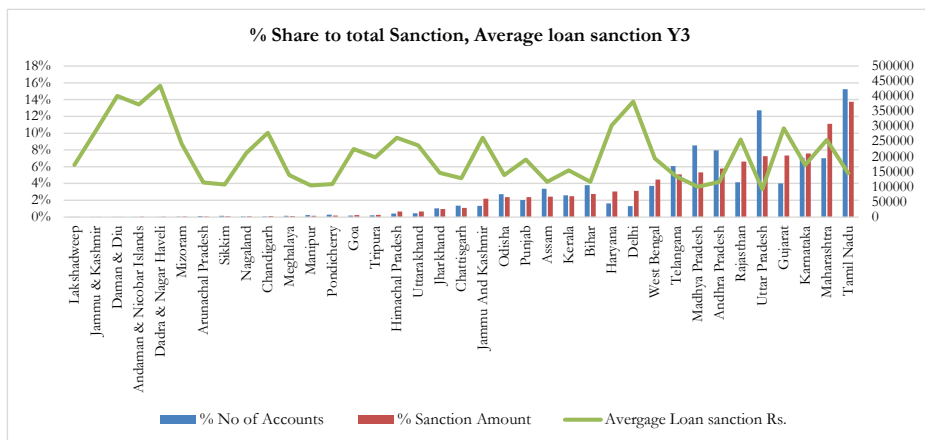


Figure 7: State-wise sanction of business loan

in top 5 states in sanction amount can be attributed majorly to various self-employment support programs for people returned to their native places during the pandemic along with the result of government initiatives for improving “ease of doing business” in the state.

Major states with higher share in sanction amount than in number of loans sanctioned showing higher than average loan sizes in these states. Among these major states Delhi has the highest average loans of ₹3.8 lakh, Haryana ₹3 lakh, Gujarat 2.94 Lakh. Highest average loan sanction is in Dadra & Nagar Haveli of 4.34 lakh. Major states with lower average loan sizes are Uttar Pradesh, ₹0.91 lakh, Madhya Pradesh, ₹1 lakh, Assam, Bihar and Andhra Pradesh with ₹1.1 Lakh Average Loan sanction.

CONCLUSION ON BUSINESS LOANS

- a. Under this loan category, a large chunk (71%) of loans fall under ₹3 Lakh ticket size bucket whereas POS is only 20% for this ticket size.
- b. POS in loan buckets above ₹7 lakh shows a gradual decrease making an economic sense. Loan buckets to be concerned about are loans between ₹5 to ₹7 Lakh bucket having share of 9% and loans from ₹3L to 5 L bucket with 12% POS. A gradual decline in percentage share in total POS should be targeted for healthy MSME sector.
- c. Having a 16% of total POS of ₹0 to 3 Lakh bucket in 90+ DPD bucket is a very serious concern and its underlying causes need to be studied and addressed.
- d. NBFCs leading the sanction with nearly 36% share in total sanction amount during Y3 signals that the loan category is a good business and does not sustain on government policy and directives only.

3. BUSINESS LOAN AGRICULTURE

Business Loan Agriculture are made to institutions or individuals for commercial activities related to agriculture like, trading of agriculture products and dairy. The analysis presented in the report shows trend and progress of credit to Agriculture MSME and performance of this portfolio.

Size Wise Analysis

The following table shows the breakup of Business Loan Agriculture portfolio as of June for the last three years. As of June'22, the number of Agriculture Business Loans were 138.47 lakhs with a portfolio of ₹1,73,173 Crore. Loans up to ₹3 Lakh make up the largest chunk of 83% in terms of number of accounts and 60% of portfolio outstanding indicating a large number of small businesses enterprises involved in Agricultural related commercial activities. Loans up to ₹5 Lakh cover neatly 75% in loan amount and 88% in number of loans.

Table 10: Agriculture Business Loans, ticket size wise

Ticket size	Jun'20		Jun'21		Jun'22	
	A/c	Amt.	A/c	Amt.	A/c	Amt.
Up to 3 lakh	11261	88,644	11979	1,02,750	11549	1,04,462
3 to 5 lakh	623	18,500	765	24,829	742	24,784
5 to 7 Lakh	195	8,727	225	10,789	219	10,855
7 to 10 lakh	169	10,402	186	11,936	187	12,540
10 to 15 lakh	60	5,890	64	6,585	65	6,752
15 to 20 lakh	29	4,013	31	4,301	32	4,650
20 to 25 lakh	14	2,420	15	2,609	15	2,763
ND	1058	5,816	1244	7,491	1037	6,367
Grand Total	13410	1,44,413	14508	1,71,289	13847	1,73,173

A/c- Number of accounts in '000, Amt. – POS in ₹ Crore

Total number of accounts as of June'22 shows decline of 5% over June data of preceding year, however outstanding portfolio shows growth of 1%. The loan size category of up to ₹3 Lakh loan grew by only 2% in POS while reducing the

number of loans by nearly 4%. There is reduction in POS as well as the number of loans in ₹3 Lakh to 5 Lakh bucket. Growth is observed in loans above ₹5 Lakh category and POS of ₹15 Lakh to 20 Lakh bucket grew by 8% and ₹20 Lakh to 25 lakh bucket grew by 6%.

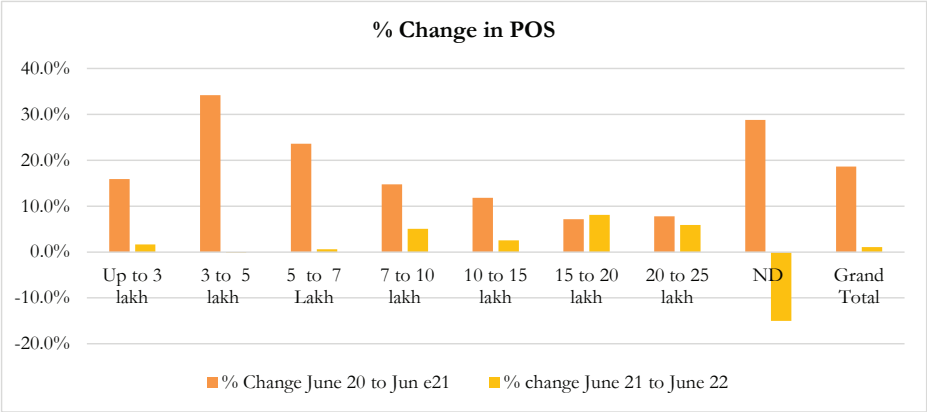


Figure 8: % Change in POS

Comparing June’21 data with June’20 data, overall POS grew by 19% while number of loans grew by 8%. Main contributors to this growth were Loans from ₹3 Lakh to 5 Lakh, which grew POS by highest 34% and number of loans by 24%. Loans in ₹5 Lakh to 7 Lakh bucket grew POS by 24% and number of loans by 15%. Agriculture businesses are the only category which saw growth in credit during the pandemic when all other enterprises suffered reduction in business along with credit supply.

Average loan POS increased during the three-year period in all the loan categories as shown in the following graph. The growth was more from June’20 to June’21 probably because of the moratorium announced by government which reduced the repayment. Average POS in loans up to ₹3 Lakh category grew by 9% from June’20 to June’21 and by 5% from June’21 to June’22.

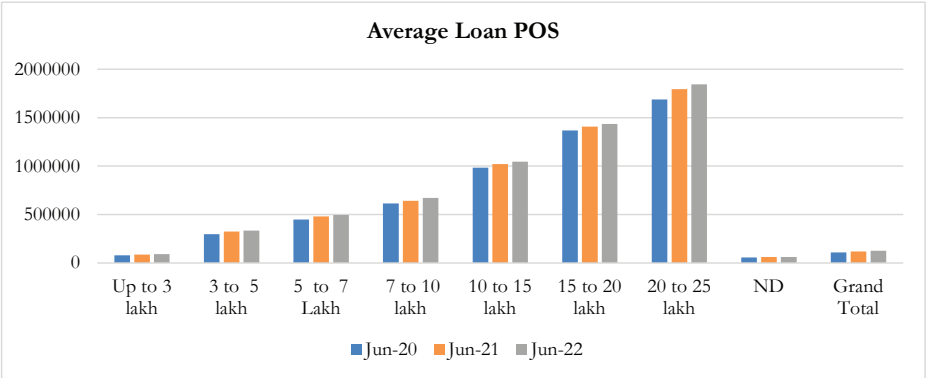


Figure 9: Average POS - Business Loan Agriculture

State Wise Performance

Tamil Nadu has 21% share in POS and 22% in number of loans in Business Loans Agri and has an average loan size of ₹1.1 Lakh, lower than the overall average of ₹1.25 lakh. Comparing this with the second largest state in terms of POS is Karnataka having only 10% of POS, nearly half of Tamil Nadu and 7% in number of loans, nearly one-third. Southern region states Tamil Nadu, Karnataka, Kerala, Andhra Pradesh and Telangana have more than half of total POS under Business loans Agriculture Reasons for a very high share of the southern states, especially Tamil Nadu, in this loan category need to be studied. Punjab has 9% share in POS and 4.4% number of loans. Average loan size is also the highest at ₹2.64 Lakh in Punjab. Average POS is the highest in Chandigarh UT at 2.71 lakh. Uttar Pradesh has the third rank in terms of number of loans with more than 12% share whereas it is only 4.3% in terms of POS. Average Loan POS is the least in the state, only ₹43,330.

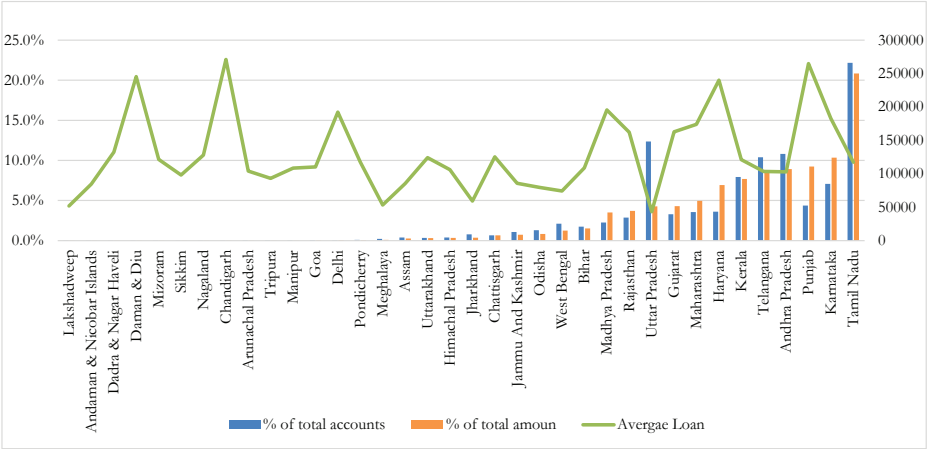


Figure 10: States % share in POS and Average POS in June'22

Lenders and Location

The following graph shows a three-year distribution of POS as of June for different lender categories and population groups for Business loan Agriculture PSU banks have consistently been the largest lender to this category with nearly 80% share in POS for June'22. Rest of Industry (ROI) which includes RRBs and SFBs have 15 % share in POS for June'22, reduced from 23% as of June'21. Compared to June'20 data, share of ROI increased significantly from 9% as of June'20 to 23% as of June'21.

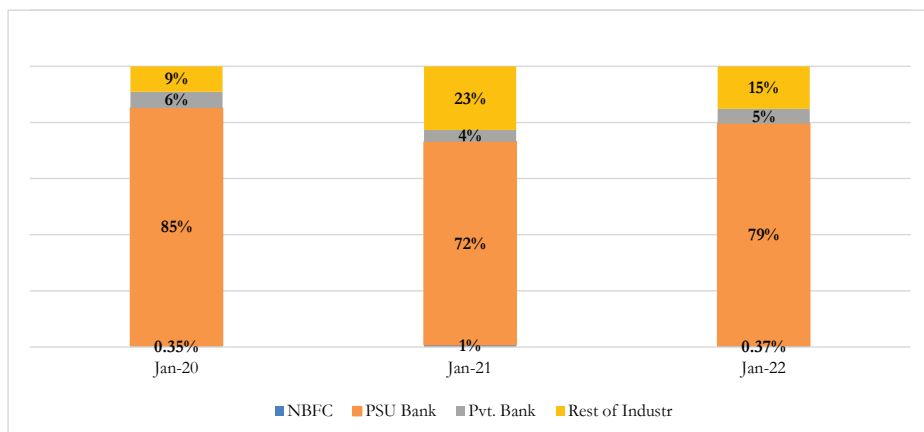


Figure 11: Lenders Contribution in total POS

NBFC's and private banks' POS share is almost consistent in these three years with a very small share of .5% and 5% respectively. As seen in the previous section, the majority of loans fall under ₹3 Lakh for business loan Agriculture category. Serving these customers is relatively costlier for the banks, that's why NBFCs dominate this segment in other categories of MSME credit. Near absence of NBFC and a very small share of private banks in Business loan Agri indicate that it is driven mostly by government initiatives/push. Apart from this the subsidy component for this category of loans under various schemes is routed through PSU banks only. As these business loans are given to agriculture related enterprises, their presence is mainly marked in rural areas with 44% share in POS and Semi-urban area with 46% share. This share has remained nearly consistent for 3 years in the consideration.

Table 11: Business Loan Agriculture Lending Agencies and Population group

Lender	Rural Urban	Jun'20		Jun'21		Jun'22	
		No. of A/c	POS	No. of A/c	POS	No. of A/c	POS
NBFC	ND	0	2	0	2	1	2
	Rural	56	291	60	311	74	335
	Semi Urban	34	199	44	265	57	275
	Urban	3	18	5	32	5	32
	Total	93	510	109	609	136	644
PSU Bank	ND	223	2,728	223	3,015	194	2,808
	Rural	4467	48,145	4720	56,394	4526	56,663
	Semi Urban	4765	59,737	4699	66,298	4463	65923
	Urban	1027	11,763	863	12,180	798	11904
	Total	10482	1,22,372	10505	1,37,887	9982	1,37,299

Lender	Rural Urban	Jun'20		Jun'21		Jun'22	
		No. of A/c	POS	No. of A/c	POS	No. of A/c	POS
Private Banks	ND	15	163	12	121	15	278
	Rural	267	3,326	252	3,309	256	3,657
	Semi Urban	351	3,988	305	3,842	296	4,035
	Urban	80	982	35	716	42	940
	Total	712	8,458	604	7,988	610	8,909
Rest of Indus- try	ND	32	423	140	-49	126	-83
	Rural	942	7,405	1679	15,197	1631	16,081
	Semi Urban	1117	4,708	1433	9,034	1331	9,719
	Urban	31	535	37	622	32	604
	Total	2122	13,072	3290	24,805	3119	26,321
Grand Total		13410	1,44,413	14508	1,71,289	13847	1,73,173

A/c- Number of accounts in '000, Amt. – POS in ₹ Crore

The period between June'20 and June'21 saw a tremendous growth, mostly in rural and semi-urban areas. POS grew by 27% in Rural areas and by 16% in semi-urban areas during this period while it grew by only 2% in urban areas. Growth in the number of loans during this period is not that high indicating increase in average loan POS. Number of loans grew by 17% in rural areas, 3% in Semi urban areas and reduced by 18% in urban areas. The moratorium announced by the government appears to be one of the reasons for this.

The growth visible in the next year between June'21 and June'22, is relatively on the lower side, when compared. Total POS grew by only 1%. Rural and Semi urban portfolio grew by 2% and 0.6% only respectively while there is a reduction of urban portfolio by 0.5%. Number of loans reduced in all the categories. After the restrictions were removed and moratorium ended, enterprises repaid their loans thus reduction in number of loans as well as low growth in POS can be related.

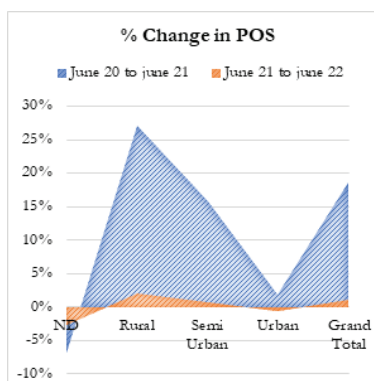


Figure 12: % Change in POS

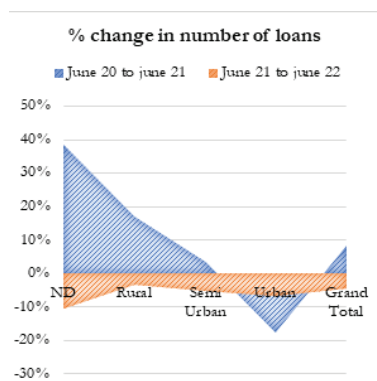


Figure 13: % Change in number of loans

REPAYMENT

Equifax as a credit bureau has detailed data on the repayment of each loan, which is reported in different “buckets” of Days Past Dues or DPD. According to the RBI guidelines, loans whose instalments are 90 days past due, are to be identified as Non-Performing Assets or NPA. The following section analyses 90+ DPD bucket loans reported to Equifax for Agriculture Business Loans up to ₹25 Lakh.

Overdue by Ticket Size

The portfolio under 90+ DPD bucket as of June’22 was ₹25,525 Crore with 14.62 Lakh Accounts making it nearly 15% of total POS and slightly less in percentages and absolute terms from June’21 figures. Loans up to ₹3 Lakh bucket have better portfolio quality than rest of the buckets. It has 12,873 Crore POS under 90+ DPD contributing 50% to total POS under 90+ DPD whereas total portfolio in this bucket is 60% of total portfolio.

Table 12: 90+ DPD - According to ticket size

	Jun’20		Jun’21		Jun’22	
	No. of A/c	POS	No. of A/c	POS	No. of A/c	POS
Up to 3 lakh	1150	9,653	1504	13,655	1253	12,873
3 to 5 lakh	98	4,159	107	5,047	101	4,964
5 to 7 Lakh	31	2,020	33	2,296	32	2,305
7 to 10 lakh	23	2,109	25	2,247	25	2,331
10 to 15 lakh	9	1,233	10	1,330	10	1,348
15 to 20 lakh	4	777	5	826	5	818
20 to 25 lakh	2	506	3	584	3	652
ND	26	273	33	297	34	235
Grand Total	1345	20,730	1720	26,282	1462	25,525

A/c - Number of accounts in ‘000, Amt. – POS in ₹ Crore

The following graph (Figure 14) shows trend of 90+ DPD POS percentage in different ticket size buckets for three years. From June’20 to June’21 there is decrease in 90 + DPD in all loan sizes except in loans up to ₹3 lakh and loans from ₹20 to ₹25 Lakh bucket.

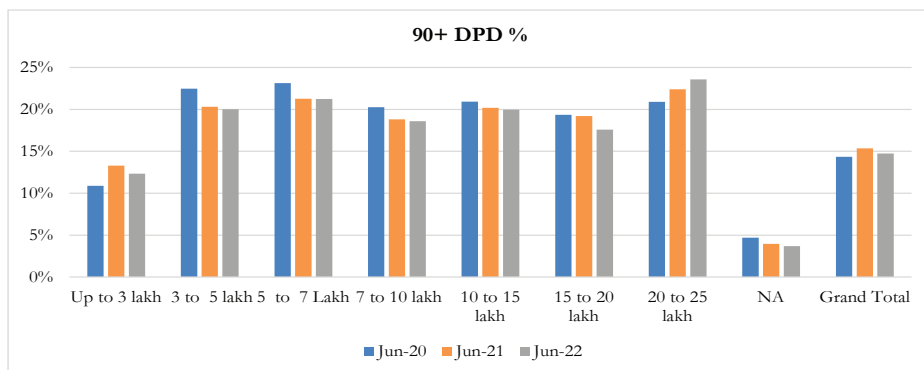


Figure 14: 90+ DPD % - Ticket Size basis

Portfolio quality improved from June'21 to June'22 in all loan sizes except in ₹20 to ₹25 Lakh bucket. Overall the portfolio quality changes are very small and remain in high risk categories.

Overdue by Location of Borrower

Semi-urban borrowers prove to be the riskiest category to lend Business loans agriculture with 17% of POS under 90+ DPD category followed by 13% of rural clients. Urban borrowers are in much lower risk with only 8% POS under 90+ DPD bucket. As mentioned in the previous section, the trend over the three years is consistent with a very small change in portfolio quality.

Table 13: Overdue by location - BL AGRI

Rural - Urban	Jun'20	Jun'21	Jun'22
ND	19%	27%	26%
Rural	14%	14%	13%
Semi Urban	16%	17%	17%
Urban	7%	8%	8%
Grand Total	14%	15%	15%

Overdue - Lending Institutions Wise

NBFC's lower participation in this category of loans can be understood from the following graph. Their % POS under 90+ DPD bucket is 48% more than the industry average and three times riskier. The higher risk perception can be the reason for their least participation in the category. Interestingly, portfolio quality improved for ROI during the three-year period whereas it deteriorated from June'20 to June'21 and then improved slightly by June'22 for others. Private banks POS under 90+ DPD bucket jumped from 9% to 21% from June'20 to June'21 recovering to 14% by June'22.

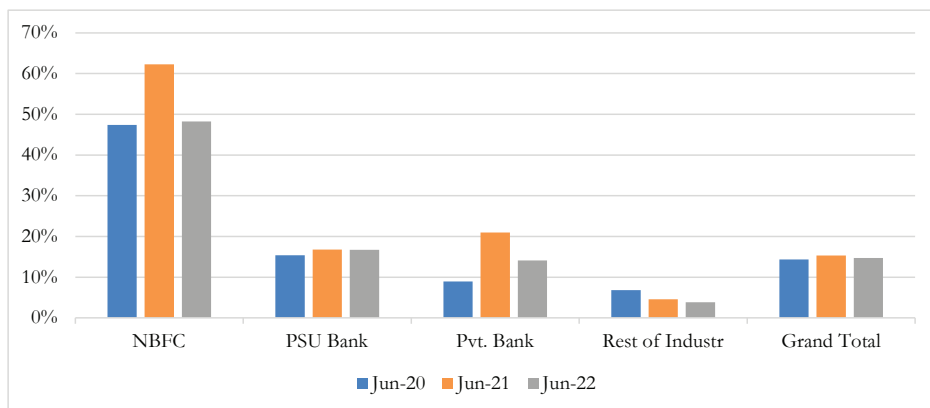


Figure 15: 90+DPD % - Lending Institutions

Performance of States in 90+ DPD Portfolio

Major states with a very high share of 90+ DPD portfolio in June'22 are Bihar with 60%, Uttar Pradesh 52%, and Maharashtra 39%. However, their share in total POS is on lower side except Karnataka having 10% share in total POS. Larger states with better portfolio quality are Gujrat with 2%, Andhra Pradesh 5% and Tamil Nadu 6% of POS under 90+ DPD bucket. States having the largest contribution to total POS under 90+ DPD bucket are Karnataka 20%, Uttar Pradesh 15%, Maharashtra 13% and Punjab 9%. These states contribute more than 57% to risky portfolio. Uttar Pradesh with less than 5% of total portfolio contribute 15% to POS under 90+ DPD category. Challenges faced by the major states of having a very poor quality portfolio need to be understood and addressed as it hinders credit flow to a very critical segment which has a possibility to affect a very large population.

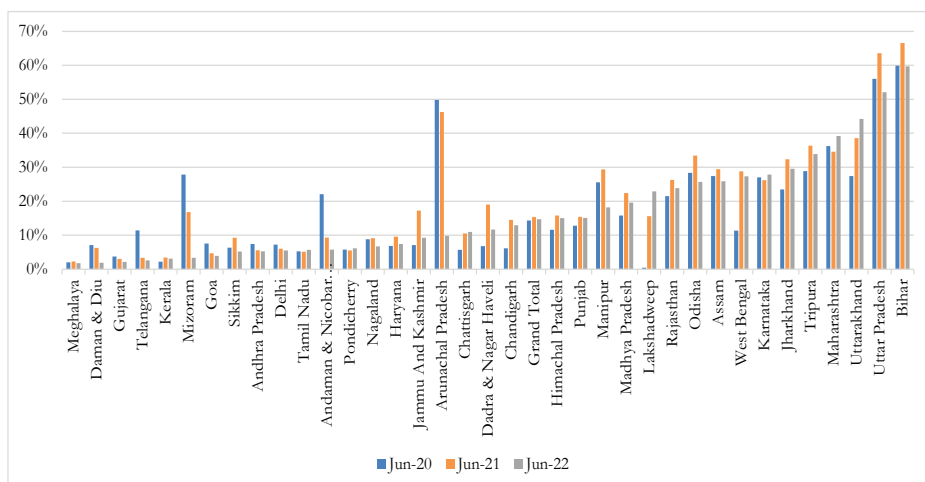


Figure 16: States performance in 90+DPD portfolio

BUSINESS LOAN AGRICULTURE SOURCING

In the following section, data from July to June is reported for three corresponding years. During year Y3, 92.21 lakh loans were sanctioned with ₹1,14,549 Crore as sanction amount. Total sanction amount grew by 2% whereas number of loans reduced by 5%. Y1 to Y2 saw growth of 10% in sanctioned amount whereas number of loans decreased by 9% indicating increased loan sizes compared to previous year. During year Y3, loans up to ₹3 Lakh have the largest share of 74% in sanctioned amount and 93% in number of loans. Loans with ticket size between ₹3 Lakh to ₹5 Lakh have 12% share in sanctioned amount and 4% in number of loans. Loans above ₹5 Lakh ticket have 14% share in sanctioned amount and only 2% in number of loans.

Y1 - July 2019 to June 2020,
Y2 - July 2020 to June 2021,
Y3 - July 2021 to June 2022

Growth from Y1 to Y2 can be observed in all the categories in terms of loan amount whereas number of loans decreased in loans below ₹3 Lakh bucket. Maximum growth is observed in loans with ticket size ₹3 Lakh to 5 Lakh in which sanctioned amount grew by 77% and number of loans grew by 80% from Y1 to Y2. From Y2 to Y3, loans in up to ₹3 Lakh bucket decreased sanctioned amount by 1% and number of loans decreased by 5%. Maximum growth is observed in ₹15 Lakh to 20 Lakh ticket size in which sanctioned amount grew by 38%.

Table 14: BL Agriculture Sanction - Ticket Size Basis

	Y1 -July'19- June'20	Y2- July'20-June'21		Y3 -July'21-June'22		
Ticket Size	A/c	Amt.	A/c	Amt.	A/c	Amt.
0-3L	9872	83,086	9041	84,682	8604	84,209
3L-5L	189	7,608	340	13,472	353	14,002
5L-7L	50	3,051	77	4,577	85	5,067
7L-10L	41	3,578	54	4,670	63	5,571
10L-15L	15	1,974	17	2,128	20	2,519
15L-20L	7	1,235	8	1,455	11	2,008
20L-25L	4	881	4	963	5	1,171
Grand Total	10673	1,01,414	9705	1,11,947	9221	1,14,549

A/c- Number of accounts in '000, Amt. – Sanction Amount in ₹ Crore

Place of Businesses and Lending Institute

Among lending institutions, PSU banks sanctioned 85% of total sanctioned amount and 89% of total loans during Y3. Private banks and ROI share in sanction amount is 8% and 7% respectively and they sanctioned 5% each of number of loans. NBFCs grew their portfolio with nearly 300% growth, mainly in Rural and semi-urban areas but their contribution to total sanction is very small.

Table 15: Lender and place of business-wise sanction of BL Agriculture

Sanction Amount in ₹ Crore					
Sector	Rural/ Urban	Y1	Y2	Y3	Avg. Y3, ₹
NBFC	ND	1	1	4	73,890
	Rural	79	100	290	69,159
	Semi Urban	93	83	273	71,220
	Urban	12	13	80	2,00,653
	Total	185	196	647	76,304
PSU banks	ND	1589	1744	1452	1,15,146
	Rural	32801	39827	40773	1,10,426
	Semi Urban	36831	43097	42322	1,25,029
	Urban	12660	12980	13002	1,34,946
	Total	83880	97648	97549	1,19,444
Pvt. banks	ND	169	251	405	2,80,709
	Rural	2338	2538	3216	1,67,835
	Semi Urban	3502	3098	3743	1,68,752
	Urban	989	835	1304	2,28,485
	Total	6997	6722	8668	1,78,750
Rest of Industry	ND	373	259	107	1,41,178
	Rural	4608	3327	3532	1,40,466
	Semi Urban	5118	3525	3732	1,81,929
	Urban	253	269	313	1,58,319
	Total	10351	7381	7685	1,58,783
Grand Total		101414	101414	114549	1,24,232

Average loans across lenders and location range from ₹69,159 in rural areas by NBFCs to ₹2.28 Lakh in urban areas by Pvt. Banks. Overall average sanction amount is ₹1.24 Lakh, indicating majority of loans are under ₹3 Lakh bucket. If we look at Agriculture businesses presence and potential in the country, it appears that these loans might be able to cater to needs of very small trader/ input supplier. Whether all credit that goes for Agriculture business loans are classified under this

category needs to be understood. The sheer size of agriculture-based businesses in the country would benefit from good supply of credit and average loan size, indicating that upper layers of pyramid may not be getting the required credit supply. Efforts need to be put to understand gaps in demand and supply and further to fill those gaps. Under the Business Loan Agriculture Category, Semi-urban clients enjoy the largest share [44%] followed by rural clients with 42% share in sanctioned amount and 42% and 45% share in number of loans sanctioned during Y3.

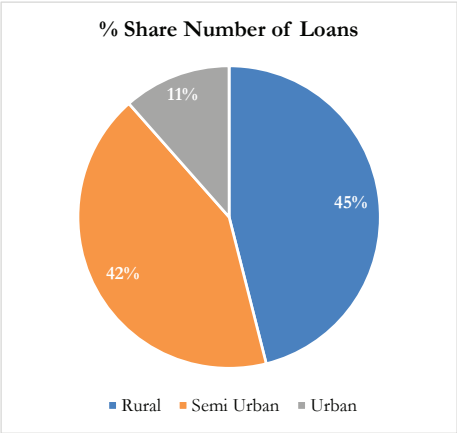


Figure 17: % Share in number of loans

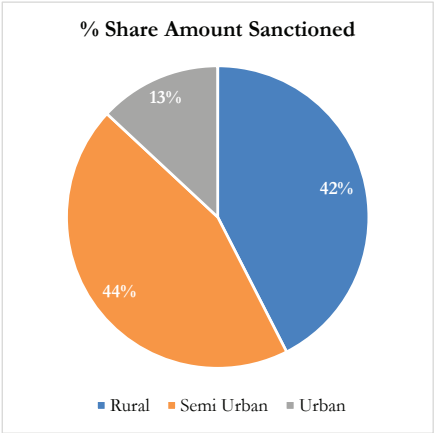


Figure 18: % Share in amount sanctioned

State Wise Sanction

Tamil Nadu leads in both number of loans and Sanction amount for Y3 contributing 38% to overall sanction amount and 42% in number of loans under Business Loan Agriculture category. Top 5 states in terms of sanctioned amount in Y3 are Tamil Nadu, Andhra Pradesh (14%), Kerala (14%), Karnataka (8%) and Telangana (4%). These 5 southern region states have 78% share in loan sanction amount for Y3. Average loan amount sanctioned for these states ranges from ₹1.09 Lakh to ₹1.4 Lakh. More than three-fourth of total sanction going to southern region for this loan category needs to be studied further. The rest of India getting only 22% of sanction would definitely not be able to cater to the requirements of Agri businesses.

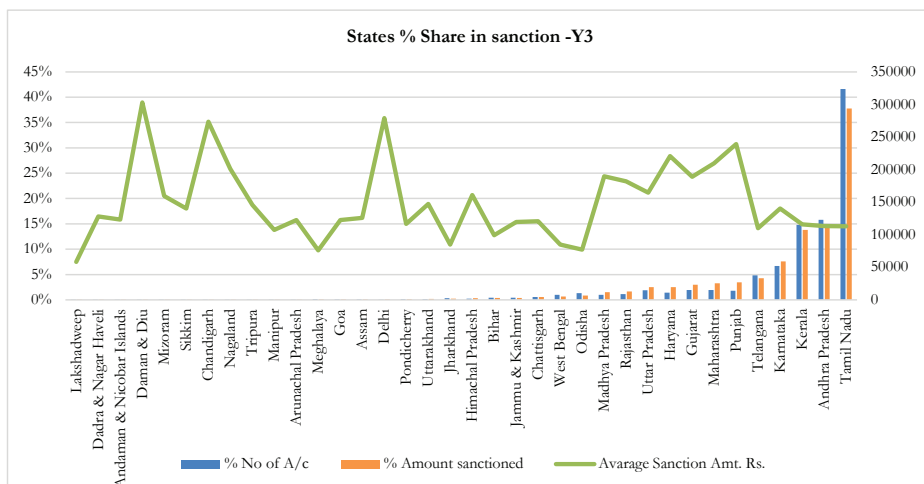


Figure 19: States % share in sanction - Y3

CONCLUSION ON BL AGRICULTURE

Some of the points that emerge in this analysis about loans up to `25 lakh are:

- States in southern region have more than 50% share in POS and nearly 80% share in sanction amount during Y3.
- PSU banks are the largest lender in this category with nearly 80% share in POS and 85% in sanctioned amount during Y3.
- Business Loan Agri has an even distribution in rural and semi-urban areas both in sanction amount and POS covering nearly 90% in both.
- Loans up to ₹3 Lakh makes up the largest portion of total credit, having share of 60% in POS and 74% in sanctioned amount.
- Looking at low average loan size (₹1.25 Lakh) and small share of loans above ₹5 Lakh, there is serious apprehension about adequacy of BL Agriculture loans for requirements of agri enterprises.

4. MUDRA

The Pradhan Mantri Mudra Yojana (PMMY) was launched with the objective of ‘funding the unfunded’ and ‘poverty alleviation’ by providing collateral-free loans.

The focus of Mudra is on the unfunded segments of micro enterprises, across the country engaged in manufacturing, processing, trading, service sector activities and activities allied to agriculture etc., which contribute significantly to the nation’s GDP. Mudra loans are of three sizes. These are Shishu (loans up to ₹50000), Kishore (loans above ₹50000 and up to ₹5 lakh) and Tarun (Loans above ₹5 lakh and up to ₹10 lakh). These are the loans aimed at financial inclusion, issued to persons with income generating small business enterprises and yet outside the formal financial system. The programme is being implemented across the country by all types of financial institutions like Banks, MFIs & NBFCs. To facilitate hassle-free and flexible working capital to the borrowers, MUDRA has also introduced the MUDRA card, a debit card on RuPay platform. All banking and financial institutions participate in the MUDRA scheme. These loans also qualify under priority sector loans.

Size Wise Analysis

Table 16 shows the breakup of the MUDRA loan portfolio as of June for the last three years. As of June’22, number of Mudra loans were 16.18 lakhs with a portfolio of ₹22358 Crore. Loans up to ₹3 Lakh make up the largest chunk of 81% in terms of number of accounts whereas it is only 36% of portfolio outstanding. The second largest share is taken up by loans from ₹7 Lakh to ₹10 Lakh with a share of 6% in the number of loans and 29% in terms of POS. Corresponding data from Y1 and Y2 shows a similar trend in terms of ranking, however the share of loans up to ₹3 Lakh reduced from 45% of POS in Y1 to 44% in Y2, it has come down to 36% in June’22. Portfolio in absolute terms for up to ₹3 Lakh category was reduced by 13% from Y1 to Y2, it remained stable from Y2 to Y3 but due to growth in overall POS, its share reduced to 36% from 44%. POS in ₹7L to 10L saw a huge jump of 68% and increased to ₹6,513 Crore in Y3 compared to ₹3,878 Crore in Y2. POS in ₹5-7L bucket in Y3, also showed a significant jump of 50% over Y2. Total POS decreased from ₹21,038 Crore to ₹18,419 Crore from Y1 to

Y2, decrease of 12% whereas number of loans increased by 2% during the same period. During the next period, recovery from the impact of COVID restrictions is visible and Overall POS increased by 21% reaching ₹22,358 Crore, however the number of loans decreased by 4% during the same period indicating the increase in average POS as can be seen in table 16.

Table 16: Mudra Loans, ticket size wise

Ticket size	Jun'20		Jun'21		Jun'22	
	A/c	Amt	A/c	Amt	A/c	Amt
Up to 3 lakh	1361	9,402	1447	8,170	1318	8,155
3 to 5 lakh	116	3,707	103	3,282	131	4,372
5 to 7 Lakh	41	1,943	38	1,794	54	2,694
7 to 10 lakh	63	4,234	57	3,878	91	6,513
Not Defined	62	1751	37	1295	23	624
Grand Total	1644	21,038	1682	18,419	1618	22,358

A/c- number of accounts in '000, Amt. - POS in ₹ Crore

Table 17 provides interesting insights into Mudra loans. Sharp decline from Y1 to Y2 is observed only in loans up to ₹3 Lakh where it reduced by 18% and. For other categories it remained nearly the same.

From Y2 to Y3, average POS growth is highest in loans up to ₹3 Lakh where it increased by more than 10% but still below the Y1 levels.

Table 17: Average POS MUDRA Loan in ₹

Ticket_size	Average POS ₹		
	Jun'20	Jun'21	Jun'22
Up to 3 lakh	69,062	56,451	61,869
3 to 5 lakh	3,19,522	3,17,625	3,32,746
5 to 7 Lakh	4,71,427	4,73,687	4,98,825
7 to 10 lakh	6,69,553	6,84,817	7,16,509
Not Defined	282419	350000	271304
Total	1,27,995	1,09,505	1,38,210

State Wise Performance

The following table shows performance of states under MUDRA Loans. Uttar Pradesh have maintained the top position in terms of POS during the three-year period (Y1 to Y3) and have 16% share in POS. Important thing to note here is POS jumped by more than 40% from Y2 to Y3 for Uttar Pradesh and the number

of loans actually reduced by 4% in the same period indicating increased average loan size in the state by nearly 50%. Other major states like West Bengal, Bihar, Madhya Pradesh, Odisha and Rajasthan have increased their POS while Maharashtra and Karnataka reduced their POS during Y2 to Y3.

Some of the states with high growth in their POS from Y2 to Y3 in percentage terms are Jammu and Kashmir (79%), Delhi (82%) and Rajasthan (53%). Andhra Pradesh has the least average POS of ₹35,485 indicating a majority of loans being in Shishu Category. As the Average POS increases, share of Tarun and Kishore loans increase indicating larger businesses under MSME are availing the credit facility. Dadra and Nagar Haveli and Daman and Diu are two UTs which enjoy the highest average POS of ₹3.41 Lakh and ₹3.56 lakhs respectively. Being union territories with better taxation and regulatory conditions attracts more enterprises here. Among large states, Maharashtra has the highest average POS of ₹2 Lakh followed by Karnataka ₹1.89 Lakh.

Table 18: State wise MUDRA Loan POS

State	Y1		Y2		Y3		
	A/c	Amt	A/c	Amt	A/c	Amt	Avg Y3
Lakshadweep	0.0	0	0.0	0.1	0.0	0.1	1,38,271
Daman & Diu	0.2	4	0.1	2.8	0.1	5.1	3,56,602
A&N Island	0.3	5	0.2	4.5	0.3	6.0	2,30,016
Dadra & Nagar Haveli	0.2	5	0.2	3.0	0.2	7.1	3,41,409
Arunachal Pradesh	0.9	19	0.8	21	1.0	22	2,17,845
Nagaland	0.9	16	1.1	21	1.2	26	2,21,064
Mizoram	0.9	18	0.8	18	0.9	27	2,93,497
Meghalaya	2.0	28	1.9	26	1.8	29	1,62,034
Pondicherry	6.2	42	5.0	34	3.8	30	77,716
Chandigarh	2.0	36	2.2	19	2.2	33	1,49,009
Sikkim	1.3	27	1.2	29	1.2	33	2,79,248
Goa	2.8	47	2.6	41	2.4	47	1,97,237
Manipur	5.2	56	4.9	59	4.8	69	1,44,780
Jammu & Kashmir	6.6	98.7	6.6	85.4	8.2	153.2	1,86,360
Tripura	10	121	11	133	11	172	1,50,272
Delhi	15	243	18	135	15	245	1,58,342
Telangana	27	258	29	216	29	298	1,03,606
Kerala	28	385	26	337	25	394	1,56,777
Chhattisgarh	28	354	27	297	26	409	1,55,910
Uttarakhand	28	408	27	336	27	463	1,71,010

	Y1		Y2		Y3		
State	A/c	Amt	A/c	Amt	A/c	Amt	Avg Y3
Gujarat	37	530	39	400	34	510	1,49,928
Himachal Pradesh	33	439	31	423	32	555	1,71,846
Haryana	52	605	50	485	51	631	1,23,336
Andhra Pradesh	73	580	143	528	181	641	35,485
Jharkhand	54	730	50	640	44	692	1,58,081
Assam	56	632	43	525	49	706	1,44,136
Punjab	92	827	89	649	83	864	1,03,612
Rajasthan	92	911	78	665	75	1017	1,35,527
Odisha	85	950	77	897	75	1114	1,48,379
Tamil Nadu	134	1493	115	1235	98	1241	1,26,130
Madhya Pradesh	85	1353	125	1153	115	1245	1,08,092
Bihar	84	1150	72	999	71	1314	1,84,524
Karnataka	91	1652	89	1763	84	1590	1,89,132
Maharashtra	121	2278	127	2162	101	2059	2,02,928
West Bengal	185	1911	141	1490	127	2070	1,62,861
Uttar Pradesh	204	2828	245	2591	234	3641	1,55,844
Grand Total	1644	21038	1682	18419	1618	22358	1,38,210

A/c- number of accounts in '000, Amt. - POS in ₹ Crore, Avg. – Average POS in ₹ For Y3
Y1- Data as of June 2020, Y2- Data as of June 2021, Y3- Data as of June 22

Lenders and Place of Business

MUDRA Loans by type of lending agency and rural/urban distribution is shown in table 4. The rural/urban categorization is done on the basis of PIN code data of loan. There are some loans where PIN code was not provided/available, represented as Not-Defined (ND) in the table. PSU banks have almost the entire POS for MUDRA loans with 97% share. Private Banks and Rest of Industry (ROI) share the remaining 1% and 2% POS respectively. The underlying causes for the same need to be understood to increase the reach of MUDRA loans to larger population. Some of the possible reasons for this imbalance are that PSU banks do it due to government pressure and underlying fundamentals like cost of the fund, cost of delivery, risk coverage etc. for this scheme is not as per the needs of the industry (funders). PSU banks do not have the resources to reach out to all potential beneficiaries of the MUDRA Scheme. To make the scheme more inclusive it should be able to meet the expectations of lenders without diluting its objectives. Credit to rural borrowers constitute 30% of total whereas it is 52% of total for semi-urban clients. Share of Rural in overall credit has reduced when compared with Semi-urban POS from Y2 to Y3. Urban POS grew by more than 42% over Y2. Rural POS observed least growth of 12% whereas Semi-urban credit under MUDRA grew by 23% during Y2 to Y3.

Table 19: MUDRA Loan Lending Agencies and Population group

		Y1		Y2		Y3		
Sector	Rural Urban	A/c	Amt	A/c	Amt	A/c	Amt	Avg Y3
PSU Bank	ND	26	326	27	275	25	325	1,29,668
	Rural	523	6,275	513	5,965	509	6,683	1,31,178
	Semi Urban	827	10,866	865	9,491	814	11,643	1,43,006
	Urban	200	2,973	226	2,159	206	3,058	1,48,379
	Total	1577	20,440	1630	17,890	1555	21,710	1,39,627
Pvt. Bank	ND	0	0	0	0	0	1	2,65,032
	Rural	2	29	2	38	2	62	2,52,317
	Semi Urban	2	53	3	65	4	97	2,37,188
	Urban	1	45	2	51	3	76	2,95,034
	Total	5	127	6	155	9	237	2,57,596
Rest of Industry	ND	2	13	1	9	1	10	75,348
	Rural	29	211	22	167	23	179	76,439
	Semi Urban	25	193	19	152	25	176	70,958
	Urban	5	53	4	44	4	46	1,14,167
	Total	61	471	46	373	54	411	76,682
Grand Total		1644	21,038	1682	18,419	1618	22,358	1,38,210

REPAYMENT

Equifax as a credit bureau has detailed data on the repayment of each loan, which is reported in different “buckets” of Days Past Dues or DPD. According to the RBI guidelines, loans whose instalments are 90 days past due, are to be identified as Non-Performing Assets or NPA. The following section analyses 90+ DPD bucket loans reported to Equifax for MUDRA Loans up to ₹25 Lakh.

MSME sector is a risky proposition for credit, specifically during a stress period. Mudra being a government scheme, there are always possibilities that borrowers take them for granted and take loan without intention of repaying. The terms and conditions for MUDRA loans are also relatively lenient and attract riskier customers. There are 3.45 lakh accounts with total POS of ₹4599 Crore which fall under 90+ DPD bucket under MUDRA as reported to Equifax. This is 20% to total loan count and 21% of total POS. Looking at the trend of 90+ DPD POS as % of total for 3 years (Y1, Y2, Y3) indicates that the POS under 90+ DPD increased

to 21% [Y2] from 12% [Y1] and reduced by a very low percentage to 20% by Y3. However, looking at industry standards, 12% during Y1 is still relatively higher.

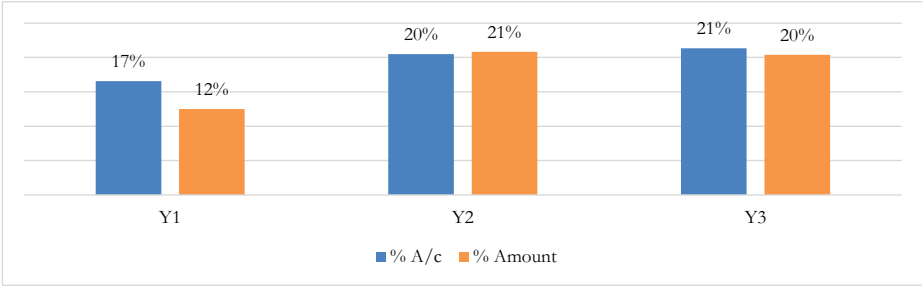


Figure 20: 90+ DPD as % of total Portfolio

Overdue by Ticket Size

Loans up to ₹3 Lakh show the highest portfolio, ₹2379 Crore or 29% of POS under 90+ DPD. Loans with ticket size 3-5 lakh have ₹903 Crore or 21% of portfolio under 90+ DPD bucket. Loans up to ₹5 Lakh are 56% of total POS whereas their contribution is 72% in 90+ DPD portfolio indicating higher risk in the segment.

Table 20: 90+ DPD by Ticket Size- June 22

Ticket size	Number of Loans in '000	%	POS ₹ Crore	%	Average POS
Up to 3 lakh	305	23%	2,379	29%	78,031
3 to 5 lakh	22	17%	903	21%	4,02,971
5 to 7 Lakh	7	13%	389	14%	5,60,731
7 to 10 lakh	10	11%	882	14%	8,98,956
Grand Total	345	21%	4,559	20%	1,32,167

Overdue by Location of Borrower

Not much difference in % of POS under 90+ DPD in Rural, Urban or Semi Urban clients with 19%, 18% and 22% of POS. Average POS under 90+ DPD is the highest amongst urban borrowers in line with overall POS in urban.

Table 21: 90+ DPD by location June 22

Rural-Urban	Number of Loans in '000	%	POS ₹ Crore	%	Average POS
ND	7	25%	89	26%	1,35,250
Rural	113	21%	1,290	19%	1,14,078
Semi Urban	192	23%	2,610	22%	1,36,132
Urban	34	16%	570	18%	1,69,825
Grand Total	345	21%	4,559	20%	1,32,167

Performance of States in 90+ DPD Portfolio

Uttar Pradesh contributes 21% to total POS under 90+ DPD while having only 16% of total portfolio share indicating higher credit risk in the state. Overall 90 + DPD is 16% while it is 26% in the state. Some of the better performing large states are Karnataka [9%], Tamil Nadu [11%], and Andhra Pradesh [13%]. Worst performing large states are Madhya Pradesh [27%], Uttar Pradesh [26%], West Bengal [25%], Maharashtra [25%]

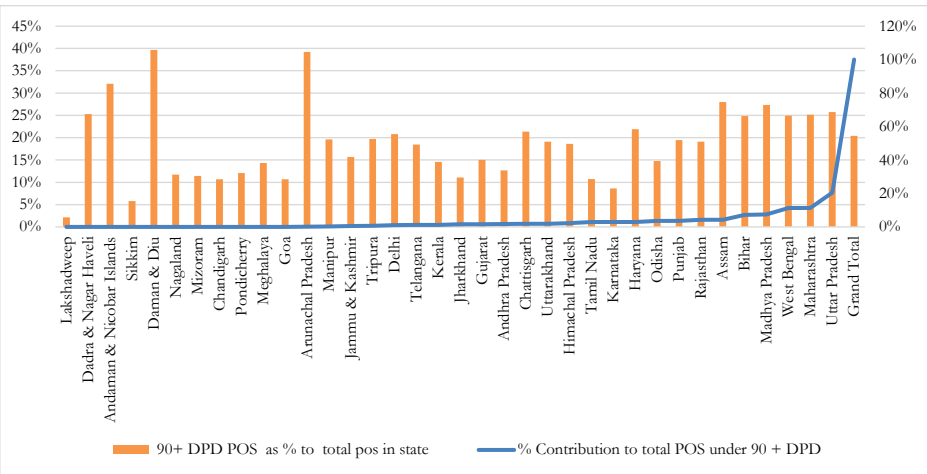


Figure 21: State wise 90+ DPD -% POS

MUDRA LOAN SOURCING

In the following section, data from July to June is reported for three corresponding years. The reduction in the sanction amount from Y1 to Y2 is about 6% mainly due to the pandemic. The corresponding sanction from Y2 to Y3 saw a massive jump of 50% reaching ₹13,687 Crore.

Ticket Size Wise Sanction

The major contributor to high growth in sanction amount from Y2 to Y3, 5L to 7L ticket size, 76% growth, 7L to 10L ticket size, 61% growth and 3L to 5L ticket size, 50%. Y1 to Y2 saw growth in sanction amount only in 5L to 7L [1%], and 7L to 10L [5%] ticket size bucket despite having pandemic related restrictions in place at that time. During the same period, the largest reduction can be seen in loans up to 3 L ticket size loans [12%]. In the year Y3, loans of up to 3 lakh ticket size have the largest contribution of 35% followed by loans under 7 Lakh to 10 Lakh bucket [31%].

Table 22: Ticket size wise sanction

Ticket Size	Y1		Y2		Y3	
	A/c	Amt	A/c	Amt	A/c	Amt
Up to 3 lakh	396	4,056	815	3,573	679	4,739
3 to 5 lakh	44	1,939	39	1,735	58	2,600
5 to 7 Lakh	18	1,142	18	1,159	32	2,041
7 to 10 lakh	28	2,542	30	2,662	48	4,279
Grand Total	502	9,746	921	9,143	822	13,687

A/c – Number of Accounts in '000, Amt. Sanctioned amount in ₹ Crore

Place of Businesses

Semi-urban areas are the largest contributor to credit by MUDRA having 51% share of total sanction in Y3 followed by rural areas with 33% share. Trend from Y1 to Y3 is contributed by 16% reduction in sanction amount in rural areas, 14% in urban areas and 6% in Semi Urban areas. However, during the same period number of loans jumped at 84% overall. All population segments saw good growth in sanction amount from Y2 to Y3. Sanction in Urban areas saw growth of 52%, Rural areas 51% and Semi-Urban areas 48%, nearly the same. However, Number of loans increased by 1% in rural, decreased by 16% in Semi-urban and 13% in urban areas, indicating increase in average loan sanction amount.

Table 23: Place of business wise sanction

Rural Urban	Y1		Y2		Y3	
	A/c	Amt	A/c	Amt	A/c	Amt
ND	7	136	16	115	13	169
Rural	177	3,096	257	3,038	259	4,584
Semi Urban	253	4,999	495	4,694	417	6,958
Urban	65	1,514	153	1,296	133	1,975
Grand Total	502	9,746	921	9,143	822	13,687

Lending Agency

As seen in the previous section on POS, MUDRA credit is done basically by PSU banks contributing nearly 98% of total sanction during Y3.

Table 24: Lender wise sanction

Lending Institutions	Y1		Y2		Y3	
	A/c	Amt	A/c	Amt	A/c	Amt
PSU Bank	479	9,428	870	8,796	794	13,362
Pvt. Bank	2	63	3	73	3	77
Rest of Industry	21	254	48	274	25	247
Grand Total	502	9,746	921	9,143	822	13,687

State Wise Sanction

Uttar Pradesh leads the sanction of Mudra Loans with 14% share both in number of loans and sanctioned amount, followed by Maharashtra having 12% share in loan sanction and 7% share in number of loans indicating higher than average loans sanctioned. States with major share in number of loans are Uttar Pradesh with 14%, Andhra Pradesh 19% and Madhya Pradesh with 12% share in number of loans sanctioned under MUDRA during Y3. The highest average loan sanction amount is ₹4.15 Lakh in Sikkim. Other major states with high average loan sanction amounts are Karnataka with ₹3.2 Lakh, Maharashtra ₹2.8 Lakh. Andhra Pradesh has the lowest average loan sanction amount at ₹44,738. It appears that the majority of loans in the state fall in the Shishu loan category. One possibility is Categorization of SHG/JLG loans under MUDRA loan.

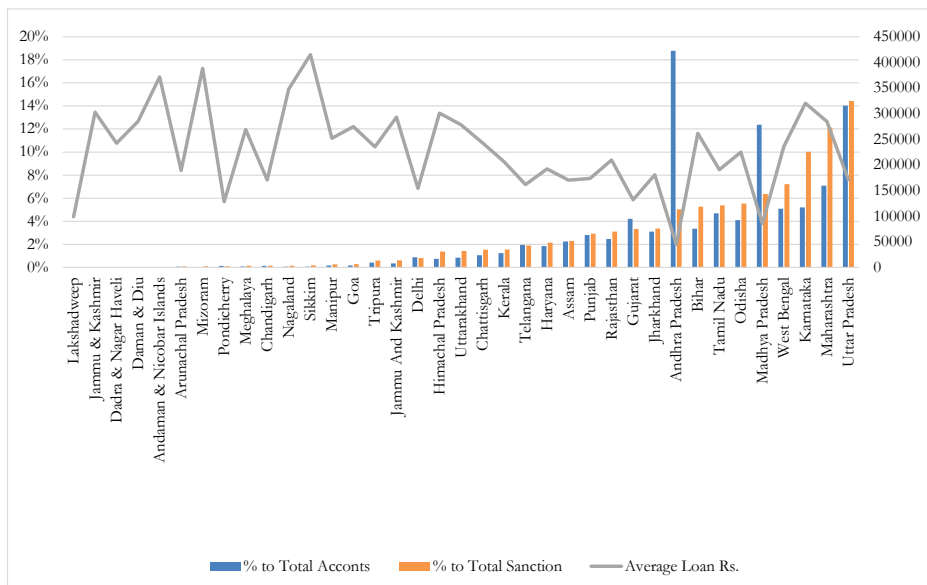


Figure 22: MUDRA- % Share of Total Loan Sanction, Average Loan Size in ₹

CONCLUSION ON MUDRA LOANS

- a. PSU banks account for 97% of the MUDRA (PMMY) scheme. Participation from private banks and ROI is miniscule.
- b. Ticket size brackets have nearly equal distribution in rural/semi-urban and urban location, as can be seen with average loan sizes.
- c. This is the only category where a northern state (UP) leads with highest POS and number of loans.
- d. Very high portfolio share under 90+ DPD bucket.
- e. Loans under ₹3 Lakh ticket size have 29% of POS under 90+ DPD bucket.
- f. Andhra Pradesh has the highest number of loans sanctioned under MUDRA, having an average loan size of only ₹44,738.

ANNEXURE



Interview with K M Nanaiah

Managing Director, Equifax Credit Information Services
& Country Leader - India & MEA, Equifax

Q One of the components of financial inclusion is extending an OD of ₹5000 to ₹15000 per household which can be given in the Basic Savings Bank Deposit account opened under the scheme. For this it has been stipulated that the customer should have the account for more than 6 months with a satisfactory turnover and credit history. These are first time accounts, low value accounts. The account holders might have borrowed in the past or taken loans from money lenders. If some credit score could be developed for the account holders (nearly 63 Crore accounts currently, some of them have 10 years transactions) it will help banks to extend them overdraft facilities. Credit information companies have information about the area, cluster etc. where these accounts have been opened and there exists transaction data. Is it possible to develop a credit score?

Yes, Banks can use Combined Credit Report (CCR) at the first level to check if the customer has any credit history in retail or MFI credit bureaus. A custom credit score can be built for the saving account holder for OD using the savings account data based on consent and Bureau lookalike information. The score would be applicable for both NTC and ETC customer and would enable lenders to extend the OD facility and help in financial credit inclusion.

Q MSME financing happens in clusters where the infrastructure, supply chain efficiency etc. are well established. The credit information companies have overall and individual data on asset quality in these areas. For arriving at an individual credit score, the area, cluster

and other information are also used. Given this, if credit information agencies were to combine this information and give some indicative credit performance number for the clusters, then banks will use this cluster score and the individual score to extend credit. This combined score will be useful for the enterprises which are new to credit and nursing of accounts. Banks would be able to increase their credit sanctions in that area. Is this feasible?

Yes, Custom scores can be developed by Equifax considering location data. Location based scores are useful in establishing the linkages for cluster-based credit, this can be effectively done as we have data segregated up to a pin code level.

Q This is the 3rd year of the Equifax MSME report. It is seen that, consistently, nearly 90% of the loans are for less than ₹3 lakh. In all these cases, credit score is taken. Yet the amount of loan is low. I understand the credit score currently amounts to neutral and individual credit information bureau uses different algorithms, given this and to encourage higher loans for MSME, can credit scores be graded and indicated for range of credit? For example, a bank may seek credit score for Loans above ₹10 lakh and below ₹10 lakh?

Yes, Equifax Commercial Credit score is available for all segments and loan amounts including below 10 lakhs and above 10 lacs. Credit score is one of the inputs that banks use to determine the borrower's eligibility and credit limit. Banks should understand their MSME portfolios risk better in line with their risk policies which can help them underwrite higher ticket loans to MSMEs. Equifax's Credit Insights platform can aid banks to understand the industry level portfolio trends / DPD's by location and ticket size.

Q Is a sole proprietor's credit rating different from an individual's credit rating as more transaction information could be available for Sole proprietors? Would you recommend a credit rating for MSME enterprises and not a credit score?

Equifax commercial credit report provides Commercial rank along with related party individual credit score. For proprietor company, the individual credit score of related members is an important parameter for credit evaluation. Hence Equifax encourages to use both Commercial rank and Individual credit score par of the commercial CIR to be used for the credit underwriting. Credit rating,

as assigned by Rating agencies. Credit report / history and rank for MSME is issued by credit bureau. There is a role for both the rating and ranking in comprehensive underwriting of the MSMEs.

Q Does crowding impact credit score?

Q Shopping for credit or applying for credit at multiple lenders will possibly have an impact on credit score.

Q During Covid pandemic, some customers despite cash flow problems and relaxations in IRACP paid the instalments regularly. How is this reckoned in credit score?

Credit score is based on the information submitted by the lenders. In the moratorium period announced during Covid, lenders did not report customers as delinquent even if they have missed the instalments. So all those customers who could pay and those who could not pay instalments, were expected to be reported as standard by the lenders to credit bureaus and hence were treated at par.

Q Credit scores have been in use for about a decade (or more?) now. People are more aware of credit score and its use. Has this brought about a better credit culture, in other words is there a trend of general improvement in credit scores?

Yes, certainly. There is more awareness about the lending institutions looking at either credit history and score or both in making credit decisions. We also see significant increase in individuals seeking their own credit scores, approach credit bureaus proactively in case of any discrepancy in the credit history.

Q Default in MSME loan could be due to many reasons. One of these is stipulation of a high EMI, particularly with those new to credit, with reference to the income. In a standard approach to lending and with the period of a fixed loan, say three years or 36 months EMI is arrived at in a routine fashion. This is particularly the case with LAP and retail loans for vehicles for use in taxi services. If such business loans were to default, the credit score gets impacted. How do you take care of such issues in credit score or rating? Will collecting EMI to net income ratio help in a more realistic score?

EMI obligation and income are already a part of standard data submission format to bureaus, though these fields are not mandatory. EMI information along with Income data, certainly helps in arriving at FOIR (Fixed Obligation to Income Ratio) calculation, a parameter extensively used by lenders to underwrite the loans based on their risk appetite. The credit score would be adversely impacted due to default loan and in this case due to higher exposure. Hence limiting the exposure by using the FOIR or EMI to net income ratio would reduce the probability of delinquency.

Q Equifax and IFC had implemented a project wherein the SHG borrower data was made available to Equifax. It was expected to result in increased credit flow to SHGs. Based on your experience in this project, would you say a similar exercise is possible for Micro and Small industries and Enterprises, maybe with UDYAM support?

Equifax always looks forward to opportunities to partner with industry and govt. organizations to enrich the data in the credit bureau as permitted within the framework of CICRA. UDYAM data can also be explored.

Q The terms of credit of PSU banks are kind of soft in comparison to Private banks. Terms of credit of NBFC and Fintech could be different. At the same time, collection processes in PSU banks are rather soft compared to focused to aggressive levels with others. How are these issues factored in arriving at credit score?

Credit score is arrived from the data submitted by the lenders and loan performance/delinquency is one of the parameters that is used as an input. Different collection/underwriting approaches may lead to different loan performance and hence will affect the score.



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