

NBFCs: Diverse Approaches, Single Purpose

At Indian Merchants Chambers' Banking & Finance Conference, several CEOs of NBFCs spoke on the topic 'Digital Lending - Bridging the credit gap & creating a financial landscape that includes everyone'. Edited excerpts:

PANELISTS:

K.V. Srinivasan

Whole Time Director & CEO, Profectus Capital

Shachindra Nath

Vice Chairman & Managing Director,
U Gro Capital

Sudipta Roy

MD & CEO, L&T Finance

Govind Sankaranarayanan

Co-Founder, MD & CEO, Ecofy

Raman Aggarwal

Director, Finance Industry Development
Council (FIDC)

Subhasri Narayanan

Director, CRISIL

Pooja Bharwani

Executive Director, Deloitte (Moderator)



K.V. Srinivasan firmly believes in the need for spreading awareness and has driven many such campaigns



Shachindra Nath believes that in a few years, SME lending will rise to reach the same level as consumer financing

K.V. Srinivasan: MSMEs face problem of more than just money. Their challenge is how do they maintain financial discipline. Their traditional attitude is to stay out of the taxman's eye. That is changing, especially with the newer generation taking over the business reins. There is a generational change in attitude. This has stepped forward with the prevalence of GST. Progressive people are understanding the skills of going from starting a business to scaling a business, such as raising capital. Raising equity calls for governance, which is becoming increasingly important. Gone are the days where NBFCs offered templated products. Now the products are customized for industry, customers, geography, needs, etc. Capital subsidy scheme was a reasonable success, but awareness was very low. In north east, 90% of amount was subsidized, but how many people know about this? Capabilities of banks and NBFCs are focused on lending, not on creating awareness. In my previous organization, I had done 300 seminars over 3 years for SMEs. That sort of awareness creation is so critical.

Shachindra Nath: Two decades ago, there were no lenders for TVs, ACs, etc. It was too hard for lenders to figure out repayment ability for loans for such goods. After the combination of demonetization, GST, democratization of banking data and consumer behavior bureaus, it became possible to determine customer repayment ability. The accuracy is still only 30-40%, but in 3-5 years, SME financing can reach the same level as consumer financing, offering loans on tap. U GRO Capital has financed more than 2 lakh customers in last 2 years. Term loan against collateral is no longer a good product for SMEs. In 10 years, SME credit will be as big as consumer credit. Regulators are also constraining consumer

credit. There is general belief that NBFCs have poor credit quality, poor collection mechanism, etc. What is required is a level playing field and an institutional framework of providing liability to NBFCs. Our capital adequacy is higher than that of banks. There is a need for mindset change. Most credit officers fear machine underwriting because they don't understand. They know how property can be sold but not machines – that must change.

Sudipta Roy: We are the largest in microfinance in rural areas. The penetration of online applications in rural areas is not so great; it is still mostly touch based. The SME underwriting process is driven by bank statements, P&L, BS, etc. The process

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