In Partnership with EQUIFAX

# State of Micro Enterprise Financing Report 2020

AN ACCESS PUBLICATION

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# STATE OF MICRO ENTERPRISE FINANCING IN INDIA

By Harsh Shrivastava

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# FOREWORD

In an emerging economy like India, the micro, small and medium enterprise (MSME) sector has tremendous potential to drive growth and employment generation and catalyse socio-economic transformation of the country. The government envisions MSMEs to contribute $2 trillion to the country's target of becoming a $5 trillion economy by 2024. There were 63.4 million unincorporated non-agriculture MSMEs (2015-16) in the country engaged in different economic activities, of which 99 percent were micro-enterprises, providing employment to 107.6 million people. The own account enterprises - that did not hire external labour on a regular basis - were 53.3 million, of which around 69% of the enterprises did not have any form of registration.

The microenterprise sector faces several challenges in sustaining and growing businesses, of which access to adequate, affordable finance is cited as the primary concern. The requirements of formal documentation and credit assessment of financial institutions are key roadblocks, particularly for micro enterprises, towards accessing formal finance. The recent revision in criteria for classification of MSMEs is a step towards addressing the issues of the sector. It is however unclear how the classification will impact the large number of extremely small enterprises in the informal sector. There are apprehensions of their getting crowded out due to inclusion of a large number of 'not so small' enterprises into the category of microenterprise. The policy push and trend in recent years has also been towards promoting formalization of the enterprises for availing various benefits including finance from banks, which may lead to further exclusion of the smaller, informal microenterprises.

Microenterprises were probably the worst affected by the lockdown and economic recession caused due to the pandemic with a significant drop in demand for products and services. The government was quick to announce several measures to support the sector, including increased liquidity, guarantee mechanism, setting up of equity fund and moratorium on existing loans. While the moratorium provided relief to borrowers in the short term, the impact of the stimulus will be visible only in the years to come.

Financing to the 'missing middle' segment has been an important agenda within the financial inclusion effort for a few years. This is the segment of microenterprises that need loans of higher value than provided by microfinance institutions, and are not catered to effectively by the formal financial institutions due to various impediments. This report is a new effort of ACCESS, being institutionalised in partnership with Equifax India, for tracking business loans outside of microfinance lending, using the credit bureau data for loans in the range of INR 0.1 to 2 million as a proxy for lending to this segment.

This report predominantly uses data for the FY April 2019-March 2020; and therefore does not reflect the implications of the pandemic on the portfolio. This will be evident in the next year's edition, and from the following year onwards the report will trace trends with data for 3 years and more, allowing for more nuanced analysis. It is hoped that the reporting to credit bureaus will also evolve with more disaggregated data which will further enrich this analysis. Our ambitions is that in future this annual document will become one of the key tools to advocate for dedicated policy framework for 'smaller micro-enterprises' to help them receive support and financing, as distinct from the MSMEs.

I thank Mr Nanaiah, India Country Leader for Equifax for agreeing to our request for this partnership, and to his team ably led by Manu Sehgal for providing the data on various cuts and dimensions. Harsh Shrivastava has helped to bring together the data into the report with his deft analysis and critical observations.

We hope that the State of Micro Enterprise Financing Report will, over the next few years, become a key reference for trends and insights on lending to the missing middle and provide critical inputs for policy formulation for promoting financing to this segment.

Radhika Agashe
Executive Director
ACCESS ASSIST

# INTRODUCTION

Millions of Indians are creating prosperity for themselves by starting and growing small businesses. The micro, small and medium enterprise sector in India plays is critical role by generating jobs and livelihoods opportunities with low capital investment As per the National Sample Survey (NSS) 73rd round (2015-16), there were 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic activities Micro-enterprise sector with 630.52 lakh estimated enterprises accounts for more than 99% of total estimated number of MSMEs, providing employment to 1076 lakh persons that in turn accounts for around 97% of total employment in the sector. The hard work and determination of these striving entrepreneurs to create wealth are significant drivers of India's economy.

## 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 Rs. 1 crore and turnover of less than Rs. 5 crores. This report uses enterprise loans up to Rs. 20 lakhs as a proxy for micro-businesses. A micro-enterprise is unlikely to have a single loan of more than Rs. 20 lakhs. Some larger micro-businesses (say, with a turnover of Rs. 4 to Rs. 5 crore) may have more than one loan from different lenders, they are however unlikely to have individual loans of value of more than Rs. 20 lakhs.

## About the Report

This report covers nuances of financing to micro-enterprises. It attempts to understand where such businesses borrowed from; how they repaid their loans; how these loans are distributed across India's states and Union Territories; what these loans are being used for; what are the issues that lenders faced during the last few months; and what are the recommendations to improve the financing for these businesses.

This is the first time that such analysis is being done of financing to India's micro-entrepreneurs. This report excludes microfinance loans. These are loans in the range of Rs. 30,000 to Rs. 35,000 for a period of two years or less, given to women borrowers who have an annual income of up to Rs. 2 lakhs (in cities) or Rs. 1.2 lakh (in villages), for investment or consumption purposes. Microfinance borrowers are studied more frequently, with many reports devoted to them, along with more regulations to support lending to microfinance borrowers. This report covers analysis of business loans that are just above the microfinance range - these borrowers are more likely to be registered under the Goods & Services Tax (GST); more likely to be paying taxes; more likely to be employing a few persons; and more likely to be competing with other businesses. This report also excludes consumer loans and loans for housing/home improvement.

ACCESS envisages that the report will supply critical & policy-relevant information to policy-makers, practitioners and industry players for them to ensure the micro-enterprises do not stay credit-deprived and under-served.

## 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 March 31, 2020 - using their commercial loans and retail (business) loans data. Because Equifax records the details of all loans disbursed every month, this report uses some coverage of micro-enterprise loans from April to June 2020 as well. The document also features an article from K M Nanaiah of Equifax (Annexure 1) that points to changes expected in 2021 post the shock to lending because of the pandemic.

# “MISSING MIDDLE” AND BEYOND

While there is reasonable articulation of loan segment of less than Rs. 1 lakh (largely micro-finance loans), details of loans between Rs 1 - 5 lakhs, are much less understood, both from supply and demand side. The lower ticket size, inherently risky customer, lack of collateral, lack of understanding of credit and risk drivers for the portfolio, and higher operating expenditure does not offer great unit-economics and makes it less likely for financial institutions to roll-out products. This “missing middle” segment needs to be well-understood from data-led trends and insights.

These loans are availed by those who are still relatively poor, exhibit low level of capital investment, usually employ low-paid labour and mostly follow a family organisational pattern. This range has been dubbed the “missing middle”. This report will look at this “missing middle” along with a slightly bigger category - up to Rs. 20 lakhs, so that it covers the entire category of micro-enterprises, as defined by the government.

## Commercial Loans and Retail (business) Loans – The Missing Middle

Commercial loans are made to an institution and not to an individual and are used for commercial activities. The institution can be a sole proprietorship, a partnership, a self-help group or a company. Retail loans given to individuals may be for business purposes (and not for consumption). Here the business is registered solely in the name of the individual. Both types of loans—commercial and retail business loans are covered in this report to give a complete view of how India's micro-entrepreneurs are financed and how they repay those loans.

As on March 31, 2020 the combined number of commercial and retail (business) loans was close to 4.7 crore with total outstanding amount (principal) of Rs. 16.27 crore.

Tables 1.1 and 1.2 show the breakup of commercial and retail (business) loans as of March 31, 2020.

**Table 1.1 Break-up of Commercial Loans as of March 2020**

| Loan Size | Number of Loans | | Value of loans | |
|---|---|---|---|---|
| | Number | Percentage | Amount (Rs. crore) | Percentage |
| 0 to 3 lakh | 2,35,50,120 | 64% | 7,66,699 | 54% |
| 3 to 5 lakh | 47,82,269 | 13% | 1,18,434 | 8% |
| 5 to 7 lakh | 21,13,756 | 6% | 72,780 | 5% |
| 7 to 10 lakh | 30,32,147 | 8% | 1,62,488 | 11% |
| 10 to 15 lakh | 20,09,480 | 5% | 1,48,877 | 10% |
| 15 to 20 lakh | 15,00,571 | 4% | 1,57,132 | 11% |
| **Total** | **3,69,88,343** | **100%** | **14,26,413** | **100%** |

The missing middle of loan segment of up to Rs. 5 lakh covers 77 percent of the total number and 62 percent of the total amount of commercial on similar lines, this loan segment accounts for 84 percent of the total number and 52 percent of the total amount of retail (business) loans, indicating that the smallest businesses in the micro-enterprises category, perhaps with turnover of less than Rs. 50 lakhs (and loans of less than Rs. 5 lakh) represent the largest category of Indian entrepreneurs. Such entrepreneurs are most likely to run tiny businesses, employing self and family members and perhaps one or two more persons.

The data for larger loan sizes indicates that not many businesses are growing in size from Rs. 50 lakhs to say Rs. 1.5 crore turnover (depicting businesses that may borrow in the range of Rs. 5 to 10 lakh) and could be classified as the middle category of micro-entrepreneurs. The large category among micro-enterprises would be businesses with turnover of Rs. 1.5 to Rs. 5 crores and borrowing of Rs. 10 to Rs. 20 lakhs. Only 14 percent of the number of commercial loans (and 16 percent by value) belong to this segment, with corresponding number of retail (business) loans being 8 percent of total number of loans and 22 percent of total value of loan.

This shows that this middle-large category of borrowers within the micro-enterprise segment is relatively smaller. Such businesses represent the true "missing middle" in India's economy. For a growing economy, a healthy mix of micro and small-enterprises is critical to ensure employment of unskilled or semi-skilled workforce and better productivity. It is also businesses above Rs. 50 lakhs in turnover that are more likely to register and pay GST as well as income tax.

**Table 1.2 Retail (business) Loans as of March 2020**

| Loan Size | Number of Loans | | Value of loans | |
|---|---|---|---|---|
| | Number | Percentage | Amount (Rs. crore) | Percentage |
| 0 to 3 lakh | 75,79,848 | 76% | 79,237 | 39% |
| 3 to 5 lakh | 8,40,992 | 8% | 25,220 | 13% |
| 5 to 7 lakh | 3,35,773 | 3% | 14,402 | 7% |
| 7 to 10 lakh | 4,87,846 | 5% | 30,143 | 15% |
| 10 to 15 lakh | 2,88,735 | 3% | 24,507 | 12% |
| 15 to 20 lakh | 1,99,259 | 2% | 23,112 | 12% |
| Unknown | 1,90,022 | 2% | 4,142 | 2% |
| **Total** | **99,22,475** | **100%** | **2,00,765** | **100%** |

Governments, industry bodies and development institutions should brainstorm on incremental regulatory, policy and financial support needed to help businesses to grow from a borrowing of Rs. 5 lakhs to Rs. 10 - 20 lakh. It is these enterprises that are more likely to survive business and economic challenges and evolve into larger entities.

## Types of Commercial Borrowers

It is important to understand the nature of business entities classified under Commercial borrowers.

**Table 2: Classification of Commercial Borrowers (March 2020)**

| Institution Type | No. of accounts | % | OS balance in Rs. Cr | % | Average loan (Rs) |
|---|---|---|---|---|---|
| Association of Persons | 13,75,724 | 3.7% | 18,242 | 1.3% | 1,32,601 |
| Business Entities Created by Statute | 52,970 | 0.1% | 1,659 | 0.1% | 3,13,240 |
| Co-operative Society | 2,79,982 | 0.8% | 5,887 | 0.4% | 2,10,287 |
| Government | 4,65,196 | 1.3% | 26,103 | 1.8% | 5,61,133 |
| Hindu Undivided Family | 91,525 | 0.2% | 2,585 | 0.2% | 2,82,543 |
| Not classified | 1,64,41,442 | 44.5% | 3,00,881 | 21.1% | 1,83,002 |
| Partnership | 22,77,847 | 6.2% | 92,972 | 6.5% | 4,08,159 |
| Private Limited | 29,42,390 | 8.0% | 3,64,912 | 25.6% | 12,40,191 |
| Proprietorship | 94,84,826 | 25.6% | 3,02,225 | 21.2% | 3,18,641 |
| Public Limited | 9,30,424 | 2.5% | 2,73,228 | 19.2% | 29,36,606 |
| Self Help Group | 24,56,760 | 6.6% | 30,395 | 2.1% | 1,23,720 |
| Trust | 1,89,257 | 0.5% | 7,318 | 0.5% | 3,86,700 |
| **Total** | **3,69,88,343** | **100.0%** | **14,26,413** | **100.0%** | **3,85,639** |

There are three categories that can be excluded from the analysis - Public Limited Companies, Government Entities and Business Entities Created by Statute - since these do not represent micro-enterprises. There is also a large proportion of "Not Classified", which is likely to belong to all the remaining categories—especially since it comprises 44.5 percent of all borrowers.

Private Limited Companies, who are likely to be micro-entrepreneurs (turnover less than Rs. 5 crore) have the largest average loan of Rs. 12.4 lakh. This reinforces the belief that organised, incorporated entities are likely to be larger than proprietorships, partnerships, associations of persons, and others. Partnerships are likely to be larger than proprietorships, which is evident from their average loan amounts of Rs. 4.1 lakh and Rs. 3.2 lakh respectively. Self Help Groups comprise 6.6 percent of all borrowers and have the smallest average loan size of Rs. 1.2 lakh.

**Policy and other support is needed to help successful SHGs to become bigger and more "commercial" in their business operations.**

## Lending Institutions

All classes of lenders are active in lending to micro-enterprises. The following table provides the breakup of lenders of commercial loans as of March 31, 2020.

**Table 3.1 Categories of Lending Institutions - Commercial loans**

| Category | Number of Loans | % | Loan Outstanding in Rs. Cr | % | Average Loan (Rs) |
|---|---|---|---|---|---|
| PSU Banks | 2,79,61,081 | 76% | 9,03,177 | 63% | 3,23,000 |
| Pvt Banks | 55,11,195 | 15% | 2,83,578 | 20% | 5,14,000 |
| NBFCs | 19,24,455 | 5% | 66,426 | 5% | 3,45,000 |
| RRBs | 4,58,004 | 1% | 3,299 | 0.2% | 72,000 |
| Others | 11,33,608 | 3% | 1,69,931 | 12% | 14,99,000 |
| **Total** | **3,69,88,343** | **100%** | **14,26,413** | **100%** | **3,85,639** |

The credit bureau does not separately report data of Small Finance Banks (SFBs) for commercial loans.

**Table 3.2 Categories of Lending Institutions - Retail (business) loans (March 2020)**

| Sector | No. of accounts | % | Balance in Rs. Cr | % | Average Loan (Rs) |
|---|---|---|---|---|---|
| NBFCs | 20,23,611 | 20.4% | 42,544 | 21.2% | 2,10,240 |
| PSU Banks | 44,20,559 | 44.6% | 1,00,439 | 50.0% | 2,27,209 |
| Pvt. Banks | 8,75,211 | 8.8% | 27,688 | 13.8% | 3,16,363 |
| RRBs | 17,39,676 | 17.5% | 12,327 | 6.1% | 70,859 |
| SFBs | 4,93,354 | 5.0% | 9,964 | 5.0% | 2,01,962 |
| Others | 3,70,064 | 3.7% | 7,802 | 3.9% | 2,10,832 |
| **Total** | **99,22,475** | **100%** | **2,00,765** | **100%** | **2,02,334** |

Within commercial loans, the dominance of public sector banks is clearly visible, accounting for 76 percent of loans; they however have the lowest average loan size of Rs. 3.23 lakh. A possible explanation is that Public Sector Banks are disbursing more low value MUDRA loans compared to other lenders. SFBs are a new differentiated banking category created with the objective of promoting financial inclusion which includes focus on lending to micro-enterprises (half their lending has to be loans of less than Rs. 25 lakh). The performance of these banks on enterprise lending will be evident in the next couple of years.

NBFCs have a small share (5 percent) of loan accounts and loan value (the same as Public Sector Banks) which is surprising. NBFCs should have been able to reach out to more micro-enterprise borrowers and perhaps give them higher value loans. Private Banks expectedly have the highest average loans, even among relatively small micro-enterprise borrowers. They are to be commended for this and other lenders (PSBs and SFBs) can learn from Private Banks.

In the segment of retail (business) borrowers, Public Sector Banks, while still the largest (44.6 percent), are not as dominant as in commercial loans (76 percent). NBFCs are the second highest (20.4 percent) compared to commercial loans (5 percent). This shows that NBFCs, who may often be charging higher interest rates than Public Sector Banks, are able to attract borrowers in this category. Regional Rural Banks comprise 17.5 percent of all retail (business) loans compared to only 1 percent of all commercial loans. It is encouraging to see Small Finance Banks being categorised separately with a healthy share of 5 percent of all loans. Private Banks though, with only 8.8 percent of loans, could definitely do better.

Average size of the loans for RRBs across commercial and retail (business) are the smallest in both categories and the Private Banks have the largest average loan. Across SFBs, PSBs, NBFCs, and other institutions though, the average size of loan seems roughly the same, with Public Sector Banks surprisingly being the largest among the three.

## What do Borrowers do?

Table 4 provides the breakup of commercial loans across agriculture, manufacturing, and services for the year ended March 31, 2020.

The share of Agriculture in 2019-20 GDP is 17.8 percent; Manufacturing is 19.9 percent; and Services is 62.3 percent.

This data shows that there are disproportionately fewer number of micro-enterprises in agriculture sector than their share of the economy and their average loan is a very small at Rs. 1.81 lakh. **There is a lot that could be done to improve the number of micro-enterprises in agriculture, forestry, and fishery, and this requires more support from the Union and State governments.**

## Lender Speak - Hardika Shah, Founder & CEO, Kinara Capital

Kinara Capital (www.kinaracapital.com) is a NBFC that provides small business loans in the range of Rs. 2-25 lakhs to the manufacturing sector in India. Average loans size of the company's portfolio is Rs. 4 lakh. These loans are unsecured and are given out on interest rates ranging from 22 to 30 percent, determined based on the credit scoring algorithm of the company. 85 percent of the loans are given for working capital with term ranging from 3-36 months, and 15 percent for purchase of equipment, for a term of up to four years.

In 2019-20, Kinara's Turn Around Time for processing and disbursement of loan was 7-8 days. In 2020-21 this has been reduced to 24 hours. Kinara estimates that 75 percent of its borrowers availed of the first moratorium till May 2020 and 55 percent availed of the second moratorium till August 2020. Majority of these were borrowers in urban and semi-urban areas faced with uncertain economic situation.

Hardika welcomes the many measures taken by the Union government to support MSME borrowers. She opines that these steps have increased the flow of money into the sector. What would help her borrowers more is steps by the government to improve the demand for goods and services produced/offered by small businesses, either directly or as part of a supply chain. Resumption and growth of business will enable repayment of existing loans and demand for fresh loans.

She hopes that in 2021, the government will encourage Public Sector Banks (who have the lowest cost of funds) to more easily refinance NBFCs and allow NBFCs to be eligible for refinance from MUDRA.

**Table 4 Category of loans - Commercial**

| Category | Number of Accounts | | Loan outstanding | | Average Loan Amount (INR) |
|---|---|---|---|---|---|
| | Number | % | Amount (INR crore) | % | |
| Agriculture | 31,62,124 | 9% | 57,359 | 4% | 1,81,000 |
| Manufacturing | 23,61,025 | 6% | 3,48,368 | 24% | 14,75,000 |
| Services | 3,14,65,194 | 85% | 10,20,684 | 72% | 3,24,000 |
| **Total** | **3,69,88,343** | **100%** | **14,26,411** | **100%** | **3,86,000** |

### How did a micro-entrepreneur borrower fare in the last few months?

Ms. Allabi A. Burburi, owner of a Steel Furniture Fabrication Unit in Hubli, Dharwad, Karnataka, mentioned that with slowing down of business, she does not wish to take fresh loans. With few fresh orders, she needed funds for paying wages for her two workers and suppliers. While she applied for a MUDRA loan, she was asked to deposit multiple documents and her case got lost in formalities and now she has stopped following up. Earlier, she had taken loans from Kinara Capital for purchase of equipment. Last year she registered a turnover of Rs. 6 to 7 lakh.

Interestingly, the share of loans to enterprises in Services is higher (85%) than the share Services sector in the economy. This is reassuring. Starting a Services business seems easy and they do seem to be of a reasonable size. Manufacturing requires more capital and that can be seen by the much larger average loan of Rs. 14.75 lakh. However, the number of micro-enterprises availing loans for manufacturing is only 6 percent. Hopefully, given the government's desire to increase manufacturing in India, under AtmaNirbhar and other schemes, this ratio may rise in medium-long term.

## Breakup of Services

83.5 percent of the loans reported under Services are in the generic "others/not known" category, and these comprise 71.6 percent of the value of the loans. This may be because the database in which all lenders fill out the details of loans do not have disaggregated fields such as "restaurants", "taxis", "shops", etc. **The RBI could work with the four credit bureaus and update the database to better capture the many different types of services that micro-entrepreneurs are involved in, considering that this is the largest sector.**

Micro-enterprises involved in Distribution have the largest average loan at Rs. 16 lakhs (higher than Manufacturing at Rs. 14 lakh). That may be because of holding large inventories. Similarly, brokers, exporters, and service providers have larger-than-average loans, since these businesses have a requirement of large amount of working capital. It is however unclear why Service Providers, who are the second largest category by number of accounts, have an average loan size of Rs. 7.6 lakh. **Business promotion agencies like SIDBI, and state government entities tasked with entrepreneurship development can understand more about "service providers" sub-category and provide specific support to help them grow.**

Table 5 Category of Services

| Category | Number of accounts | | Loan outstanding | | Average Loan Amount (INR) |
|---|---|---|---|---|---|
| | Number | % | Amount (INR Cr) | % | |
| Broking | 4,095 | 0.0% | 337 | 0.0% | 8,24,563 |
| Dealers | 63,332 | 0.2% | 2,567 | 0.3% | 4,05,326 |
| Distribution | 92,004 | 0.3% | 14,813 | 1.5% | 16,10,034 |
| Exporting | 1,22,680 | 0.4% | 6,391 | 0.6% | 5,20,948 |
| Importing | 2,65,245 | 0.8% | 5,263 | 0.5% | 1,98,420 |
| Not known | 11,48,977 | 3.7% | 43,260 | 4.2% | 3,76,508 |
| Others | 2,51,11,083 | 79.8% | 6,87,638 | 67.4% | 2,73,839 |
| Service Provider | 20,57,071 | 6.5% | 1,55,633 | 15.2% | 7,56,577 |
| Trading | 18,13,979 | 5.8% | 59,713 | 5.9% | 3,29,184 |
| Wholesale | 7,86,728 | 2.5% | 45,068 | 4.4% | 5,72,855 |
| **Total** | **3,14,65,194** | **100.0%** | **10,20,684** | **100.0%** | **3,24,385** |

## Where are Microenterprise Borrowers Located?

Equifax classifies loans given into rural, semi-urban, urban (Table 6.1 and 6.2). Unfortunately, there is a large proportion of "not known", which slightly reduces the usefulness of this data.

Table 6.1 Location of Borrowers - Commercial Loans

| Category | Number of Accounts | % | Amount Outstanding in Rs. Cr | % | Average Loan (Rs) |
|---|---|---|---|---|---|
| **Rural** | 71,72,457 | 19.4% | 1,83,004 | 12.8% | 2,55,149 |
| **Semi Urban** | 1,20,64,862 | 32.6% | 3,07,266 | 21.5% | 2,54,678 |
| **Urban** | 89,42,226 | 24.2% | 4,80,999 | 33.7% | 5,37,896 |
| **Not known** | 88,08,798 | 23.8% | 4,55,144 | 31.9% | 5,16,693 |
| **Total** | 3,69,88,343 | 100.0% | 14,26,413 | 100.0% | 3,85,639 |

This data confirms the economic hypothesis that India's cities are more productive than its rural areas - the average size of a loan in an urban area is more than double the average size of a loan in rural. It is however surprising that micro-entrepreneurs in semi-urban areas take even smaller loans than those in rural areas, even though the number of these loans is the highest. This may imply that semi-urban areas are fertile places for businesses to start with demand for both agricultural and service businesses.

The large "not known" category can skew the data slightly, but this establishes the primacy of cities and the potential of semi-urban areas as engines of India's prosperity.

**Table 6.2: Where are Micro-enterprise Borrowers Located? - Retail (Business) Loans**

| Catagory | Number of Accounts | % | in Rs. Cr | % | Average Loan (INR) |
|---|---|---|---|---|---|
| Rural | 31,07,421 | 31.3% | 41,710 | 20.8% | 1,34,228 |
| Semi Urban | 47,73,622 | 48.1% | 87,512 | 43.6% | 1,83,325 |
| Urban | 18,65,714 | 18.8% | 68,870 | 34.3% | 3,69,132 |
| Not known | 1,75,178 | 1.8% | 2,673 | 1.3% | 1,52,579 |
| **Total** | **99,21,935** | **100.0%** | **2,00,765** | **100.0%** | **1,99,651** |

Like in commercial loans, most micro-entrepreneurs who avail retail (business) loans are located in semi-urban areas and urban borrowers of retail (business) loans have largest average loan among urban, semi-urban, and rural areas.

Both sets of data confirm that India's semi-urban areas are seeing a lot of entrepreneurial activity. **State governments could provide a supportive and facilitative business environment, especially in semi-urban areas. On the lines of ranking of states according to ease of doing business at country level, it may be useful if each state government ranks its districts on the ease of starting and growing a business**.

## State-wise Distribution

Tables 7.1 and 7.2 provide state-wise break-up of loans. Unfortunately, a large portion is the "not known" category, accounting for 22 percent by number and 30.4 percent by value of the loans. The table does not segregate the new Union Territories of Jammu and Kashmir and Ladakh and Leh, which were established in November 2019.

Table 7.1: Breakup of loans across states and Union Territories - Commercial Loans

| State | No. of Accounts | % | Loan OS in Rs. Cr | % | Average Loan (Rs) |
|---|---|---|---|---|---|
| Andaman & Nicobar Islands | 32,697 | 0.1% | 792 | 0.1% | 2,42,269 |
| Andhra Pradesh | 29,31,337 | 7.9% | 58,364 | 4.1% | 1,99,104 |
| Arunachal Pradesh | 35,379 | 0.1% | 558 | 0.0% | 1,57,736 |
| Assam | 5,33,715 | 1.4% | 6,157 | 0.4% | 1,15,368 |
| Bihar | 7,16,831 | 1.9% | 13,032 | 0.9% | 1,81,801 |
| Chandigarh | 57,732 | 0.2% | 2,081 | 0.1% | 3,60,592 |
| Chhattisgarh | 4,66,103 | 1.3% | 8,670 | 0.6% | 1,86,021 |
| Dadra & Nagar Haveli | 8,727 | 0.0% | 912 | 0.1% | 10,45,076 |
| Daman & Diu | 7,643 | 0.0% | 2,668 | 0.2% | 3,49,084 |
| Delhi+New Delhi | 10,14,788 | 2.7% | 1,02,069 | 7.2% | 10,05,821 |
| Goa | 79,407 | 0.2% | 2,333 | 0.2% | 2,93,824 |
| Gujarat | 14,27,356 | 3.9% | 70,296 | 4.9% | 4,92,497 |
| Haryana | 7,67,068 | 2.1% | 35,628 | 2.5% | 4,64,476 |
| Himachal Pradesh | 2,18,819 | 0.6% | 5,505 | 0.4% | 2,51,583 |
| Jammu & Kashmir | 4,56,422 | 1.2% | 8,170 | 0.6% | 1,79,006 |
| Jharkhand | 4,92,155 | 1.3% | 10,093 | 0.7% | 2,05,087 |
| Karnataka | 24,20,863 | 6.5% | 65,319 | 4.6% | 2,69,820 |
| Kerala | 13,10,809 | 3.5% | 28,847 | 2.0% | 2,20,077 |
| Lakshadweep | 6,577 | 0.0% | 622 | 0.0% | 94,602 |
| Madhya Pradesh | 12,27,378 | 3.3% | 33,643 | 2.4% | 2,74,109 |
| Maharashtra | 31,69,905 | 8.6% | 1,61,696 | 11.3% | 5,10,098 |
| Manipur | 38,488 | 0.1% | 646 | 0.0% | 1,68,037 |
| Meghalaya | 65,652 | 0.2% | 868 | 0.1% | 1,32,223 |
| Mizoram | 27,094 | 0.1% | 462 | 0.0% | 1,70,754 |
| Nagaland | 42,392 | 0.1% | 642 | 0.0% | 1,51,614 |
| Odisha | 10,88,443 | 2.9% | 17,787 | 1.2% | 1,63,426 |
| Pondicherry | 32,748 | 0.1% | 689 | 0.0% | 2,10,490 |
| Punjab | 6,91,384 | 1.9% | 22,273 | 1.6% | 3,22,163 |

| State | No. of Accounts | % | Loan OS in Rs. Cr | % | Average Loan (Rs) |
|---|---|---|---|---|---|
| Rajasthan | 11,71,428 | 3.2% | 33,688 | 2.4% | 2,87,581 |
| Sikkim | 15,636 | 0.0% | 228 | 0.0% | 1,46,211 |
| Tamil Nadu | 25,20,845 | 6.8% | 1,40,208 | 9.8% | 5,56,195 |
| Telangana | 18,50,185 | 5.0% | 52,097 | 3.7% | 2,81,579 |
| Tripura | 69,801 | 0.2% | 1,084 | 0.1% | 1,55,412 |
| Uttar Pradesh | 18,24,542 | 4.9% | 53,261 | 3.7% | 2,91,918 |
| Uttarakhand | 3,36,496 | 0.9% | 6,835 | 0.5% | 2,03,140 |
| West Bengal | 16,89,877 | 4.6% | 47,545 | 3.3% | 2,81,356 |
| Not known | 81,41,621 | 22.0% | 4,33,590 | 30.4% | 5,32,561 |
| **Grand Total** | **3,69,88,343** | **100.0%** | **14,26,413** | **100.0%** | **3,85,639** |

This presents a detailed picture of the spread of micro-business loans across our country. Dadra & Nagar Haveli has the highest average loan of Rs. 10.4 lakh, which can be attributed to the presence of several light manufacturing units. Delhi (combined with New Delhi, which is otherwise separately listed in the Equifax data) has the second highest average loan. That is expected since Delhi has the highest per capita income in the country and is a hub for manufacturing and wholesale trading—both of which have a higher average loan.

The number of loans across states shows some interesting details. Both Andhra Pradesh with 7.9 percent and Telangana with 5 percent of all loans show that citizens in these states are able to start and grow many businesses. Maharashtra, whose population which is much higher than Andhra Pradesh, has only a few more loans. Tamil Nadu and Karnataka, which are also larger than Andhra Pradesh have fewer loans. West Bengal has almost as many loans as Uttar Pradesh and more than Gujarat, which is considered a more enterprising state.

Tamil Nadu may have fewer loans, but the average loan size is higher than that of Maharashtra or Gujarat—and this may reflect the prosperity of the state and its potential for business growth. Haryana and Punjab have loans larger than the national average, indicating that micro-entrepreneurs can grow their businesses in these states, thanks perhaps to the ease of doing business. Rajasthan, Telangana, Uttar Pradesh, and West Bengal are other states where entrepreneurs manage to take large loans, albeit less than the national average, which has been skewed upwards because of the "not known" category.

Table 7.2: Breakup of loans across States and Union Territories - Retail (business) Loans

| State | No. of Accounts | % | Amount outstanding in Rs. Cr | % | Average Loan (Rs) |
|---|---|---|---|---|---|
| Andaman & Nicobar Islands | 2,212 | 0.0% | 90 | 0.0% | 4,04,897 |
| Andhra Pradesh | 5,96,948 | 6.0% | 9,175 | 4.6% | 1,53,707 |
| Arunachal Pradesh | 2,731 | 0.0% | 84 | 0.0% | 3,06,458 |
| Assam | 5,02,099 | 5.1% | 4,685 | 2.3% | 93,315 |
| Bihar | 4,78,979 | 4.8% | 6,354 | 3.2% | 1,32,648 |
| Chandigarh | 7,717 | 0.1% | 1,366 | 0.7% | 17,70,070 |
| Chhattisgarh | 1,16,819 | 1.2% | 1,953 | 1.0% | 1,67,199 |
| Dadra & Nagar Haveli | 1,771 | 0.0% | 64 | 0.0% | 3,63,097 |
| Daman & Diu | 1,034 | 0.0% | 30 | 0.0% | 2,91,522 |
| Delhi | 1,46,953 | 1.5% | 7,660 | 3.8% | 5,21,251 |
| Goa | 11,622 | 0.1% | 349 | 0.2% | 3,00,335 |
| Gujarat | 3,90,708 | 3.9% | 11,561 | 5.8% | 2,95,900 |
| Haryana | 2,48,785 | 2.5% | 5,647 | 2.8% | 2,26,977 |
| Himachal Pradesh | 91,402 | 0.9% | 1,865 | 0.9% | 2,04,046 |
| Jammu & Kashmir | 1,98,143 | 2.0% | 2,900 | 1.4% | 1,46,339 |
| Jharkhand | 1,70,618 | 1.7% | 3,129 | 1.6% | 1,83,402 |
| Karnataka | 9,15,684 | 9.2% | 13,856 | 6.9% | 1,51,317 |
| Kerala | 2,38,557 | 2.4% | 4,544 | 2.3% | 1,90,469 |
| Lakshadweep | 87 | 0.0% | 1.25 | 0.0% | 1,43,582 |
| Madhya Pradesh | 5,35,382 | 5.4% | 9,913 | 4.9% | 1,85,154 |
| Maharashtra | 7,18,653 | 7.2% | 20,866 | 10.4% | 2,90,353 |
| Manipur | 9,981 | 0.1% | 217 | 0.1% | 2,17,378 |
| Meghalaya | 17,873 | 0.2% | 274 | 0.1% | 1,53,293 |
| Mizoram | 2,628 | 0.0% | 71 | 0.0% | 2,70,219 |
| Nagaland | 5,916 | 0.1% | 205 | 0.1% | 3,45,736 |
| Odisha | 3,26,081 | 3.3% | 4,905 | 2.4% | 1,50,424 |

| State | No. of Accounts | % | Amount outstand-ing in Rs. Cr | % | Average Loan (Rs) |
|---|---|---|---|---|---|
| Pondicherry | 19,524 | 0.2% | 424 | 0.2% | 2,17,185 |
| Punjab | 2,89,790 | 2.9% | 6,649 | 3.3% | 2,29,459 |
| Rajasthan | 3,92,464 | 4.0% | 10,700 | 5.3% | 2,72,626 |
| Sikkim | 3,297 | 0.0% | 97 | 0.0% | 2,95,416 |
| Tamil Nadu | 9,53,130 | 9.6% | 20,955 | 10.4% | 2,19,850 |
| Telangana | 4,02,256 | 4.1% | 9,380 | 4.7% | 2,33,183 |
| Tripura | 20,958 | 0.2% | 369 | 0.2% | 1,76,124 |
| Uttar Pradesh | 10,64,535 | 10.7% | 19,127 | 9.5% | 1,79,672 |
| Uttarakhand | 1,09,878 | 1.1% | 2,225 | 1.1% | 2,02,497 |
| West Bengal | 9,27,260 | 9.3% | 19,076 | 9.5% | 2,05,720 |
| **Total** | **99,22,475** | **100.0%** | **2,00,766** | **100.0%** | **2,02,334** |

Table 7.2 showing the spread of retail (business) loans indicates slightly different trend compared to that for commercial loans. Table 8.1 compares the per capita income of states with the average loan size that was used in the previous table. Surprisingly, West Bengal has the second-highest number of loans, after Uttar Pradesh, which has a much higher population, followed by Tamil Nadu and Karnataka, all of which are ahead of Maharashtra and Madhya Pradesh. Maharashtra leads in terms the number of commercial loans.

Chandigarh has the highest average loan size of retail (business) loans, but in commercial loans, its average size is less than the national average. Delhi has a higher average size for retail business loans as well as for commercial loans. The average retail (business) loan in North Eastern states is close to the national average. In particular for Assam, while the number of borrowers is high, the state also has high overdue loans (details of NPA in later section).

The data for per capita income is sourced from the Ministry of Statistics and Program Implementation. This shows that the poorest states of Uttar Pradesh and Bihar have average commercial loan sizes much higher than their per capita income (415 percent and 390 percent respectively). Relatively poorer states like MP, Rajasthan, and Jharkhand also have relatively higher commercial loans than their per capita income.

**Table 8.1: Comparison with Per Capita Net State Domestic Product - Commercial loans**
*(At current prices; Base Year 2011-12)*

| State/UT | Per Capita Income (PCI) INR 2019-20 | Average Loan Size (INR) March 31, 2020 | Average Loan/ Per Capita Income |
|---|---|---|---|
| Andaman & Nicobar Islands | 1,59,664 | 2,42,269 | 152% |
| Andhra Pradesh | 1,69,519 | 1,99,104 | 117% |
| Arunachal Pradesh | 1,39,588 | 1,57,736 | 113% |
| Assam | 82,837 | 1,15,368 | 139% |
| Bihar | 46,664 | 1,81,801 | 390% |
| Chandigarh | 3,20,300 | 3,60,592 | 113% |
| Chhattisgarh | 98,281 | 1,86,021 | 189% |
| Dadra & Nagar Haveli | - | - | - |
| Daman & Diu | - | - | - |
| Delhi | 3,89,143 | 10,05,821 | 258% |
| Goa | 4,30,081 | 2,93,824 | 68% |
| Gujarat | 1,95,845 | 4,92,497 | 251% |
| Haryana | 2,64,207 | 4,64,476 | 176% |
| Himachal Pradesh | 1,95,255 | 2,51,583 | 129% |
| Jammu & Kashmir | 92,347 | 1,79,006 | 194% |
| Jharkhand | 79,873 | 2,05,087 | 257% |
| Karnataka | 2,31,246 | 2,69,820 | 117% |
| Kerala | 2,04,105 | 2,20,077 | 108% |
| Lakshadweep | - | - | - |
| Madhya Pradesh | 99,763 | 2,74,109 | 275% |
| Maharashtra | 1,91,736 | 5,10,098 | 266% |
| Manipur | 75,226 | 1,68,037 | 223% |
| Meghalaya | 92,174 | 1,32,223 | 143% |
| Mizoram | 1,47,602 | 1,70,754 | 116% |
| Nagaland | 1,16,882 | 1,51,614 | 130% |
| Odisha | 1,06,804 | 1,63,426 | 153% |
| Puducherry | 2,37,279 | 2,10,490 | 89% |

| State/UT | Per Capita Income (PCI) INR 2019-20 | Average Loan Size (INR) March 31, 2020 | Average Loan/ Per Capita Income |
|---|---|---|---|
| Punjab | 1,66,830 | 3,22,163 | 193% |
| Rajasthan | 1,18,159 | 2,87,581 | 243% |
| Sikkim | 4,25,656 | 1,46,211 | 34% |
| Tamil Nadu | 2,18,599 | 5,56,195 | 254% |
| Telangana | 2,28,216 | 2,81,579 | 123% |
| Tripura | 1,23,630 | 1,55,412 | 126% |
| Uttar Pradesh | 70,419 | 2,91,918 | 415% |
| Uttarakhand | 1,98,738 | 2,03,140 | 102% |
| West Bengal | 1,15,748 | 2,81,356 | 243% |
| All-India average | 1,30,505 | 3,85,639 | 295% |

The richer states of Delhi, Gujarat, Maharashtra, and Tamil Nadu also have an average commercial micro-enterprise loan that is about 2.5 times. However, Karnataka has an average loan only 1.16 times its per capita income. This is a signal to Karnataka's government to take more pro-active steps to support small businesses in that state.

Surprisingly, the two most prosperous states, Goa and Sikkim, have the lowest multiple of average commercial loans at 0.68 and 0.34. Both governments need to do more to foster local micro-entrepreneurs.

**Table 8.2: Comparison with Per Capita Net State Domestic Product - Retail (business) loans** *(At current prices; Base Year 2011-12)*

**PER CAPITA NET STATE DOMESTIC PRODUCT AT CURRENT PRICES; BASE YEAR 2011-12**

| State/UT | Per Capita Income (PCI) INR 2019-20 | Average Retail (business) Loan size (INR) March 31, 2020 | Average Loan/ Per Capita Income |
|---|---|---|---|
| Andaman & Nicobar Islands | 1,59,664 | 4,04,897 | 254% |
| Andhra Pradesh | 1,69,519 | 1,53,707 | 91% |
| Arunachal Pradesh | 1,39,588 | 3,06,458 | 220% |
| Assam | 82,837 | 93,315 | 113% |
| Bihar | 46,664 | 1,32,648 | 284% |
| Chandigarh | 3,20,300 | 17,70,070 | 553% |
| Chhattisgarh | 98,281 | 1,67,199 | 170% |
| Dadra & Nagar Haveli | - | - | - |
| Daman & Diu# | - | - | - |
| Delhi | 5,21,251 | 10,05,821 | 193% |
| Goa | 3,00,335 | 2,93,824 | 98% |
| Gujarat | 2,95,900 | 4,92,497 | 166% |
| Haryana | 2,26,977 | 4,64,476 | 205% |
| Himachal Pradesh | 2,04,046 | 2,51,583 | 123% |
| Jammu & Kashmir | 1,46,339 | 1,79,006 | 122% |
| Jharkhand | 1,83,402 | 2,05,087 | 112% |
| Karnataka | 1,51,317 | 2,69,820 | 178% |
| Kerala | 1,90,469 | 2,20,077 | 116% |
| Lakshadweep | - | - | - |
| Madhya Pradesh | 1,85,154 | 2,74,109 | 148% |
| Maharashtra | 2,90,353 | 5,10,098 | 176% |
| Manipur | 2,17,378 | 1,68,037 | 77% |

| State/UT | Per Capita Income (PCI) INR 2019-20 | Average Retail (business) Loan size (INR) March 31, 2020 | Average Loan/ Per Capita Income |
|---|---|---|---|
| Meghalaya | 1,53,293 | 1,32,223 | 86% |
| Mizoram | 2,70,219 | 1,70,754 | 63% |
| Nagaland | 3,45,736 | 1,51,614 | 44% |
| Odisha | 1,50,424 | 1,63,426 | 109% |
| Puducherry | 2,17,185 | 2,10,490 | 97% |
| Punjab | 2,29,459 | 3,22,163 | 140% |
| Rajasthan | 2,72,626 | 2,87,581 | 105% |
| Sikkim | 2,95,416 | 1,46,211 | 49% |
| Tamil Nadu | 2,19,850 | 5,56,195 | 253% |
| Telangana | 2,33,183 | 2,81,579 | 121% |
| Tripura | 1,76,124 | 1,55,412 | 88% |
| Uttar Pradesh | 1,79,672 | 2,91,918 | 162% |
| Uttarakhand | 2,02,497 | 2,03,140 | 100% |
| West Bengal | 2,05,720 | 2,81,356 | 137% |
| **All-India average** | **2,02,334** | **3,85,639** | **191%** |

In commercial loans, Uttar Pradesh had a higher average loan as compared to its per capita income, and Bihar was second. In retail (business) loans, micro-entrepreneurs of Bihar are confident in borrowing larger loans, relative to their per-capita income, followed by Tamil Nadu. Among Union Territories, Chandigarh has the top spot.

## Repayments

Equifax as a credit bureau has detailed data on the repayment of each loan, which is reported in different "buckets". According to the RBI guidelines, loans whose instalments are 181 days past due (dpd)[1], have to be provided for in their financial results. Instalments that are thirty days[2] or sixty days[2] overdue

1. When an instalment is not paid for more than thirty or sixty or ninety days, that loan portfolio is considered at risk of non-payment. Days past due is the term used by Equifax which is same as Portfolio at Risk. In subsequent tables, the amount outstanding, refers to the principal outstanding of that loan whose instalments are more than 180 dpd or whose PAR is more than 180.

could be because of temporary reasons—floods and other natural disasters, lockdowns, temporary cash flow challenges etc. Lenders take such loans that are overdue by 30 or 60 days seriously and often the borrowers repay these loans, if they have the intention and ability. Loans that are ninety days overdue are an alarm signal. This report will look at loans that are 181 plus dpd. The data refers to the principal value of the loans that are overdue by 180 days.

## Total Overdue Loans

Micro-entrepreneurs are a risky category to lend to. Combining commercial loans with retail (business) loans, there are 31.2 lakh loans 180 plus dpd, which is **6.7** percent of total number of total loans of 4.69 crore commercial and retail (business) loans as on March 31, 2020. In terms of the amount of default, Rs. 94,003 crore of the principal amount is overdue by 180 days. This is **5.8** percent of the Rs. 16,27,178 crore of commercial and retail (business) loans under Rs. 20 lakh that are outstanding as of March 31, 2020.

## Overdue by Size of Loans

**Table 9.1 Overdue Loans by Size - Commercial Loans (as of March 31, 2020)**

| Loans overdue by 180 days | | | | |
|---|---|---|---|---|
| Size of Loan | Number of Loans | Percentage (compared with Table 1.1) | Amount in Rs. Cr | Percentage (compared with Table 1.1) |
| 0 to 3 lakh | 20,05,554 | 8.5% | 68,451 | 8.9% |
| 3 to 5 lakh | 1,73,706 | 3.6% | 4,502 | 3.8% |
| 5 to 7 lakh | 60,514 | 2.9% | 2,302 | 3.2% |
| 7 to 10 lakh | 62,481 | 2.1% | 3,833 | 2.4% |
| 10 to 15 lakh | 37,957 | 1.9% | 2,804 | 1.9% |
| 15 to 20 lakh | 26,289 | 1.8% | 2,789 | 1.8% |
| **Total** | **23,66,501** | **6.4%** | **84,681** | **5.9%** |

Borrowers with the smallest size loans (up to Rs. 3 lakh) are the most unlikely to pay as indicated by 8.5 percent of the loans being overdue accounting for 8.9 percent of the loan value in the category.

Microfinance loans, by contrast have much lower dpd rates, even though microfinance borrowers may be paying a higher interest rate than the borrowers of loans up to Rs. 3 lakhs. There is something for commercial lenders to learn from microfinance lenders.

Table 9.2: Overdue Loans by Size - Commercial Loans (as of March 31, 2020)

| | Loans 180 plus dpd as on March 31, 2020 | | | |
|---|---|---|---|---|
| Size of Loan | Number of Loans | Percentage (compared with Table 1.2) | Rs. in Crore | Percentage (compared with Table 1.2) |
| 0 to 3 lakh | 6,54,972 | 8.6% | 4,778 | 6.0% |
| 3 to 5 lakh | 37,963 | 4.5% | 1,372 | 5.4% |
| 5 to 7 lakh | 11,093 | 3.3% | 520 | 3.6% |
| 7 to 10 lakh | 14,731 | 3.0% | 1,090 | 3.6% |
| 10 to 15 lakh | 8,915 | 3.1% | 727 | 3.0% |
| 15 to 20 lakh | 6,025 | 3.0% | 652 | 2.8% |
| Unknown | 21,585 | 11.4% | 182 | 4.4% |
| **Total** | **7,55,284** | **7.6%** | **9,321** | **4.6%** |

In this group too, the smallest size of borrower is the most unlikely to pay. However, commercial loans of larger sizes are less likely to be overdue (2 percent) than retail (business) loans (3 percent)

## Overdue Loans by Types of Borrowers

Table 10 shows that Public Limited Companies are the largest defaulters with the largest loans overdue. Interestingly, Hindu Undivided Families are larger in the number of overdue loans, but their average size of overdue loans is small. Self Help Groups are also riskier than many other classes of borrowers like partnerships, associations of persons, cooperative societies, and trusts. However, since their average borrowings are less, so also are their average dues outstanding. Partnerships though, need to be watched carefully. Their average loan that is overdue at Rs. 12.07 lakh, is 2.96 percent of the average loan taken by a partnership (Rs. 4.08 lakh - Table 2).

Table 10 - Loans Overdue by Lenders

| Institution Type | Number of Accounts | Percentage (compared with Table 2) | Amount in Rs. Cr | % | Average Loan (Rs) (compared with Table 2) |
|---|---|---|---|---|---|
| Association of Persons | 24,124 | 1.8% | 216 | 1.2% | 89,516 |
| Business Entities Created by Statute | 794 | 1.5% | 58 | 3.5% | 7,35,400 |
| Co-operative Society | 6,535 | 2.3% | 90 | 1.5% | 1,37,300 |
| Government | 2,334 | 0.5% | 119 | 0.5% | 5,10,100 |
| Hindu Undivided Family | 6,894 | 7.5% | 116 | 4.5% | 1,68,800 |
| Not classified | 14,25,055 | 8.7% | 17,505 | 5.8% | 1,22,800 |
| Partnership | 61,243 | 2.7% | 7,393 | 8.0% | 12,07,100 |
| Private Limited | 1,45,244 | 4.9% | 15,917 | 4.4% | 10,95,900 |
| Proprietorship | 5,10,510 | 5.4% | 14,939 | 4.9% | 2,92,600 |
| Public Limited | 1,11,140 | 11.9% | 27,394 | 10.0% | 24,64,900 |
| Self Help Group | 68,734 | 2.8% | 831 | 2.7% | 1,21,000 |
| Trust | 3,894 | 2.1% | 101 | 1.4% | 2,60,200 |
| **Total** | **23,66,501** | **6.4%** | **84,682** | **5.9%** | **3,57,800** |

## Overdue Loans by Category of Lender

Table 11.1 - Loans Overdue (180 days) by Lenders - Commercial Loans

| Sector | No. of accounts | Percentage (compared with Table 3.1) | Amount in Rs. Cr | Percentage (compared with Table 3.1) | Average Loan (Rs) |
|---|---|---|---|---|---|
| PSU Bank | 19,87,970 | 7.1% | 72,961 | 8.1% | 3,67,000 |
| Pvt Bank | 2,89,706 | 5.3% | 10,013 | 3.5% | 3,46,000 |
| NBFC | 84,503 | 4.4% | 1,540 | 2.3% | 1,82,000 |
| ROI | 4,322 | 0.4% | 166 | 0.1% | 3,84,000 |
| **Total** | **23,66,501** | **6.4%** | **84,681** | **5.9%** | **3,58,000** |

Public Sector Banks, who are the largest lenders, also seem to be facing the biggest challenges in repayment. They have a higher share of overdue commercial loans than the national average. The average size of the overdue loan at Rs. 3.67 lakh is slightly worse than the national average of Rs. 3.58 lakh and is 114 percent of the size of the average loan that they extend (Table 2). Private Banks seem better than Public Sector Banks in managing bad loans, but the average size of their overdue loan is not much worse than a PSU bank. However, NBFCs seem the best in this category, especially in the average size of their loans that are overdue, which are the lowest at Rs. 1.82 lakh, and this amount is only 53 percent of the average loan given by an NBFC (Table 3). **Public sector banks could learn from NBFCs on how to be more persistent with their borrowers and ensure repayments.**

Table 11.2 - Overdue Loans by Lenders - Retail (business) Loans

| Sector | No. of accounts | Percentage (compared with Table 3.2) | Balance in Rs. Cr | Percentage (compared with Table 3.2) | Average Loan (Rs) |
|---|---|---|---|---|---|
| NBFC | 1,16,118 | 5.7% | 2,288 | 5.4% | 1,97,060 |
| PSU Bank | 3,21,965 | 7.3% | 3,963 | 3.9% | 1,23,072 |
| Pvt. Bank | 25,336 | 2.9% | 448 | 1.6% | 1,76,853 |
| RRB | 2,29,661 | 13.2% | 1,779 | 14.4% | 77,456 |
| SFB | 50,803 | 10.3% | 523 | 5.2% | 1,02,923 |
| Rest of Institutions | 11,401 | 3.1% | 20 | 4.1% | 2,81,076 |
| **Total** | **7,55,284** | **7.6%** | **9,321** | **100.0%** | **1,23,410** |

In the retail (business) loans, the category of lenders most badly affected by overdue are Regional Rural Banks, who have 13.2 percent of their loan accounts overdue. Each overdue account of an average size of Rs. 77,456 is 109 percent of the average loan outstanding of Rs. 70,859 (see Table 3.2). Surprisingly, Small Finance Banks have 10.3 percent of their loans accounts overdue, but this seems to be concentrated among their smaller borrowers, with average overdue loan of Rs. 1.03 lakh, which is only 51 percent of the average loan outstanding of Rs. 2.02 lakh.

## Overdue Loans Categorised Enterprise Sectors

Table 12 - Loan Instalments Overdue by 180 Days Plus

| Sector | Accounts | Percentage (compared with Table 4) | Amount in Rs. Cr | Percentage (compared with Table 4) | Average Loan (Rs) |
|---|---|---|---|---|---|
| Agriculture | 63,532 | 2% | 3,689 | 6.4% | 5,80,000 |
| Manufacturing | 71,767 | 3% | 11,009 | 3.2% | 15,33,000 |
| Services | 22,31,202 | 7.1% | 69,983 | 6.9% | 3,13,000 |
| **Total** | **23,66,501** | **6.4%** | **84,681** | **5.9%** | **3,58,000** |

Services sector, which has the largest number of borrowers, also has disproportionately more overdue loans. This may reflect the slightly precarious nature of Services businesses in the year 2019-20, which saw a slowdown in the economy. Manufacturing sector borrowers managed to stay afloat. Losses in commercial loans to agribusiness micro-entrepreneurs seem more concentrated - fewer loans are bad but these have much larger average of Rs. 5.8 lakh compared to average loan of Rs. 1.81 lakh for the category ((Table 4). The average overdue for Manufacturing loans have an average size of Rs. 15.3 lakh and this is also slightly more than the average Manufacturing loan of Rs. 14.75 lakh.

In Table 5, services had been categorized into different types. Equifax has provided data for loans overdue by micro-entrepreneurs for the same categories (Table 13).

**Table 13 - Loan Instalments Overdue in Services Sector (180 days plus dpd)**

| Type of Services Provider | Accounts Number | Percentage (compared with Table 5) | Amount in Rs. Cr | Percentage (compared with Table 5) | Average Loan (Rs) |
|---|---|---|---|---|---|
| Broking | 24 | 0.6% | 0.75 | 0.2% | 3,12,000 |
| Dealers | 1,286 | 2.0% | 55.24 | 2.2% | 4,29,000 |
| Distribution | 3,235 | 3.5% | 5,586 | 37.7% | 1,72,67,400 |
| Exporting | 413 | 0.3% | 707 | 11.1% | 1,71,18,600 |
| Importing | 161 | 0.1% | 58.26 | 1.1% | 36,18,600 |
| Not known | | | | | |
| Others | 19,95,707 | 7.9% | 49,103 | 7.1% | 2,46,000 |
| Service Provider | 88,186 | 4.3% | 8,726 | 5.6% | 9,89,500 |
| Trading | 78,253 | 4.3% | 2,604 | 4.4% | 3,32,800 |
| Wholesale | 63,937 | 8.1% | 3,143 | 7.0% | 4,91,600 |
| **Total** | **22,31,202** | **7.1%** | **69,983** | **6.9%** | **3,13,000** |

Defaulting Service Providers have an average amount outstanding of Rs. 9.89 lakh, which is more than the average loan size of Rs. 7.56 lakh (Table 5). Lenders have thus to watch this category of borrowers more carefully. Brokers with overdue loans on the other hand are only 0.6 percent of borrowers and the average amount overdue of Rs. 3.12 lakh is only 38 percent of the average loan of Rs. 8.24 lakh.

## Where are the stressed borrowers located?

**Table 14.1 - Commercial Loans Overdue by Location (180 days plus dpd)**

| Location | Accounts | Percentage (compared with Table 6) | Amount in Rs. Cr | Percentage (compared with Table 6) | Average Loan (Rs) |
|---|---|---|---|---|---|
| Rural | 5,52,287 | 7.7% | 6,758 | 3.7% | 1,22,365 |
| Semi Urban | 9,34,108 | 7.7% | 23,512 | 7.7% | 2,51,709 |
| Urban | 5,34,638 | 6.0% | 42,758 | 8.9% | 7,99,758 |
| Not known | 3,45,468 | 3.9% | 11,653 | 2.6% | 3,37,316 |
| **Total** | **23,66,501** | **6.4%** | **84,681** | **5.9%** | **3,57,835** |

This shows two contrasting aspects. Commercial borrowers in urban areas (6 percent) are less likely to default in number than rural and semi-urban areas (7.7 percent). But in terms of the value of the loans, only 3.7 percent of rural loans are overdue, compared to 8.9 percent of urban loans. That is because the average overdue loan in an urban area at Rs. 7.99 lakh is 149 percent of the average urban loan (Table 6.1) of Rs. 5.38 lakh. Surprisingly, the average overdue loan in a rural area of Rs. 1.22 lakh is only 48 percent of the average loan outstanding in a rural area of Rs. 2.55 lakh (Table 6.1). Stressed borrowers in rural areas seem more careful in repaying their loans compared to urban areas. This also aligns with the trend of higher willingness to pay among microfinance borrowers in rural compared to urban. in rural compared to urban.

**Table 14.2 - Retail (Business) Loans Overdue by Location (180 days plus dpd)**

| Location | Accounts | % | Amount in Rs. Cr | % | Average Loan (Rs) |
|---|---|---|---|---|---|
| Rural | 2,42,036 | 7.8% | 2,344 | 5.6% | 96,846 |
| Semi Urban | 3,66,792 | 7.7% | 4,514 | 5.2% | 1,23,053 |
| Urban | 1,26,157 | 6.8% | 2,263 | 3.3% | 1,79,403 |
| Not known | 20,299 | 11.6% | 200 | 7.5% | 98,613 |
| **Total** | **7,55,284** | **7.6%** | **9,321** | **4.6%** | **1,23,410** |

Table 14.2 also confirms that rural areas are most likely to see distress and borrowers being overdue in their loans. The difference from commercial loans is that the average overdue retail (business) loan in rural areas is also the highest as compared to the average outstanding - 72 percent compared to 49 percent in urban (Table 6.2). But the differences are too small to matter. **For policy makers, both sets of data show that there is more economic distress in rural areas, causing higher over dues.**

## Stressed Borrowers Across States

**Table 15.1 – State-wise Loans overdue by 180 days plus on March 31, 2020 - Commercial Loans**

| State | Accounts | Percentage (compared with Table 7) | Amount in Rs. Cr | Percentage (compared with Table 7) | Average Loan (Rs) |
|---|---|---|---|---|---|
| Andaman & Nicobar Islands | 2,159 | 6.6% | 23 | 2.9% | 1,07,281 |
| Andhra Pradesh | 1,61,689 | 5.5% | 2,206 | 3.8% | 1,36,458 |
| Arunachal Pradesh | 6,958 | 19.7% | 112 | 20.1% | 1,60,747 |
| Assam | 47,372 | 8.9% | 635 | 10.3% | 1,34,054 |
| Bihar | 56,183 | 7.8% | 1,029 | 7.9% | 1,83,227 |
| Chandigarh | 3,691 | 6.4% | 398 | 19.1% | 10,78,264 |
| Chhattisgarh | 44,220 | 9.5% | 498 | 5.7% | 1,12,521 |
| Dadra & Nagar Haveli | 202 | 2.3% | 47 | 5.2% | 23,50,964 |
| Daman & Diu | 258 | 3.4% | 28 | 1.0% | 10,79,824 |
| Delhi+New Delhi | 29,615 | 2.9% | 5,141 | 5.0% | 17,35,998 |
| Goa | 6,107 | 7.7% | 224 | 9.6% | 3,67,167 |
| Gujarat | 67,859 | 4.8% | 6,977 | 9.9% | 10,28,205 |
| Haryana | 33,168 | 4.3% | 2,441 | 6.9% | 7,36,076 |
| Himachal Pradesh | 16,095 | 7.4% | 485 | 8.8% | 3,01,048 |
| Jammu & Kashmir | 11,687 | 2.6% | 226 | 2.8% | 1,93,569 |
| Jharkhand | 40,982 | 8.3% | 66 | 0.7% | 1,62,586 |
| Karnataka | 2,01,992 | 8.3% | 4,380 | 6.7% | 2,16,860 |
| Kerala | 91,214 | 7.0% | 2,952 | 10.2% | 3,23,638 |
| Lakshadweep | 324 | 4.9% | 2 | 0.3% | 72,628 |

| State | Accounts | Percentage (compared with Table 7) | Amount in Rs. Cr | Percentage (compared with Table 7) | Average Loan (Rs) |
|---|---|---|---|---|---|
| Madhya Pradesh | 1,35,548 | 11.0% | 1,719 | 5.1% | 1,26,812 |
| Maharashtra | 1,82,658 | 5.8% | 21,948 | 13.6% | 12,01,607 |
| Manipur | 6,879 | 17.9% | 88 | 13.6% | 1,27,766 |
| Meghalaya | 6,006 | 9.1% | 76 | 8.8% | 1,26,334 |
| Mizoram | 3,356 | 12.4% | 71 | 15.4% | 2,12,448 |
| Nagaland | 4,626 | 10.9% | 79 | 12.3% | 1,71,805 |
| Odisha | 90,228 | 8.3% | 1,590 | 8.9% | 1,76,264 |
| Pondicherry | 2,536 | 7.7% | 46 | 6.7% | 1,81,678 |
| Punjab | 50,666 | 7.3% | 246 | 1.1% | 5,02,480 |
| Rajasthan | 1,17,274 | 10.0% | 1,625 | 4.8% | 1,38,531 |
| Sikkim | 1,513 | 9.7% | 18 | 7.9% | 1,20,872 |
| Tamil Nadu | 1,38,297 | 5.5% | 7,877 | 5.6% | 5,69,562 |
| Telangana | 2,41,446 | 13.0% | 2,773 | 5.3% | 1,14,844 |
| Tripura | 8,066 | 11.6% | 96 | 8.9% | 1,18,928 |
| Uttar Pradesh | 1,21,041 | 6.6% | 2,562 | 4.8% | 2,11,650 |
| Uttarakhand | 21,899 | 6.5% | 356 | 5.2% | 1,62,531 |
| West Bengal | 1,09,354 | 6.5% | 2,795 | 5.9% | 2,55,601 |
| Not known | 3,03,333 | 3.7% | 9,943 | 2.3% | 3,27,806 |
| **Grand Total** | **23,66,501** | **6.4%** | **84,682** | **5.9%** | **3,57,835** |

The small, North-Eastern states of Arunachal Pradesh, Manipur, Mizoram, Nagaland, and Tripura have extremely high default rates. This may reflect a poor credit culture or low economic prospects in the states. It is surprising that the larger states of Madhya Pradesh, Rajasthan, and Telangana also have double-digit default rates for the number of loan accounts. However, in all these states, the stressed amount outstanding as a percentage of the total outstanding is much lower. That means many of the smallest borrowers in these states are facing stress.

Comparing the average size of the commercial loan that is stressed (overdue by 180 days plus) with the average size of the loan (Table 7) provides some more insights. Stressed loans in the Union Territories of Chandigarh, Daman & Diu, and Dadra & Nagar Haveli have average stressed loans of 299 percent, 305 percent, and 225 percent of the average loan respectively, implying that the larger of the micro-entrepreneurs in these UTs are facing stress. Gujarat at 209 percent and Maharashtra at 236 percent (average stressed loan as a percentage of average loan) are also extremely high. Maharashtra, in particular has 13.6 percent of its total loans being stressed, which is the second highest among all states (after Arunachal Pradesh) indicating poor economic prospects for micro-entrepreneurs in the state.

**Table 15.2 - Loans overdue by 180 days as on March 31, 2020 across States and Union Territories Retail (Business) Loans**

| State | Accounts | % | Amount in Rs. Cr | % | Average Loan (Rs) |
|---|---|---|---|---|---|
| Andaman & Nicobar Islands | 67 | 3.0% | 1.18 | 1.3% | 1,75,775 |
| Andhra Pradesh | 25,257 | 4.2% | 268 | 2.9% | 1,06,258 |
| Arunachal Pradesh | 389 | 14.2% | 8.79 | 10.5% | 2,26,100 |
| Assam | 72,542 | 14.4% | 833 | 17.8% | 1,14,809 |
| Bihar | 74,323 | 15.5% | 549 | 8.6% | 73,834 |
| Chandigarh | 375 | 4.9% | 7.53 | 0.6% | 2,00,695 |
| Chhattisgarh | 8,778 | 7.5% | 106 | 5.4% | 1,20,865 |
| Dadra & Nagar Haveli | 79 | 4.5% | 1.57 | 2.5% | 1,99,161 |
| Daman & Diu | 60 | 5.8% | 0.96 | 3.2% | 1,59,869 |
| Delhi | 9,349 | 6.4% | 250 | 3.3% | 2,67,380 |
| Goa | 307 | 2.6% | 7.64 | 2.2% | 2,48,788 |
| Gujarat | 25,862 | 6.6% | 388 | 3.4% | 1,50,207 |
| Haryana | 12,064 | 4.8% | 171 | 3.0% | 1,41,617 |

| State | Accounts | % | Amount in Rs. Cr | % | Average Loan (Rs) |
|---|---|---|---|---|---|
| Himachal Pradesh | 5,425 | 5.9% | 119 | 6.4% | 2,19,004 |
| Jammu & Kashmir | 14,622 | 7.4% | 143 | 4.9% | 97,925 |
| Jharkhand | 8,044 | 4.7% | 93.1 | 3.0% | 1,15,801 |
| Karnataka | 35,214 | 3.8% | 713 | 5.1% | 2,02,447 |
| Kerala | 7,648 | 3.2% | 131 | 2.9% | 1,71,540 |
| Lakshwadeep | 3 | 3.4% | 0.12 | 9.6% | 3,94,629 |
| Madhya Pradesh | 26,279 | 4.9% | 362 | 3.7% | 1,37,591 |
| Maharashtra | 42,341 | 5.9% | 846 | 4.1% | 1,99,748 |
| Manipur | 958 | 9.6% | 20.3 | 9.4% | 2,12,507 |
| Meghalaya | 152 | 0.9% | 3.43 | 1.3% | 2,25,943 |
| Mizoram | 287 | 10.9% | 7.49 | 10.5% | 2,61,096 |
| Nagaland | 532 | 9.0% | 17.8 | 8.7% | 3,35,538 |
| Odisha | 46,657 | 14.3% | 474 | 9.7% | 1,01,600 |
| Pondicherry | 1,173 | 6.0% | 18.2 | 4.3% | 1,55,485 |
| Punjab | 17,098 | 5.9% | 184 | 2.8% | 1,07,468 |
| Rajasthan | 16,481 | 4.2% | 223 | 2.1% | 1,35,018 |
| Sikkim | 144 | 4.4% | 3.54 | 3.6% | 2,45,943 |
| Tamil Nadu | 42,001 | 4.4% | 860 | 4.1% | 2,04,825 |
| Telangana | 17,663 | 4.4% | 201 | 2.1% | 1,13,905 |
| Tripura | 2,217 | 10.6% | 29.3 | 7.9% | 1,32,106 |
| Uttar Pradesh | 94,521 | 8.9% | 1,082 | 5.7% | 1,14,433 |
| Uttarakhand | 5,486 | 5.0% | 72.5 | 3.3% | 1,32,216 |
| West Bengal | 1,40,886 | 15.2% | 1,125 | 5.9% | 79,858 |
| **Total** | **7,55,284** | **7.6%** | **9,321** | **4.6%** | **1,23,410** |

Andhra Pradesh, Jammu & Kashmir (un-divided), Rajasthan, Punjab, and Uttar Pradesh have relatively lower overdue commercial loans as a percentage of loans outstanding. Perhaps, their economies are doing relatively better.

Assam is the most worrisome state. At 17.8 percent, it has the highest overdue retail (business) loans as compared to the total loans outstanding. The average overdue loan is 123 percent of the average loan (Table 7.2) and 14.4 percent of loans are overdue. This needs policy attention by the state government for supporting micro enterprises and providing them with an enabling ecosystem for growth.

West Bengal and Bihar also have more than 15 percent of their retail (business) loans overdue—double the national average. Odisha too has an extremely high rate of overdue loans. The saving grace in these three states is that the average overdue loan is small. In West Bengal, it is 39 percent of the average loan (Table 7.2); in Bihar, it is 56 percent; and in Odisha it is 68 percent. This implies that the smallest micro-entrepreneurs in these states are more stressed than the larger ones.

Andhra Pradesh, Kerala, Punjab, and Telangana have low rates of default of retail (business) loans. This is a welcome sign.

The state- wise data captured in Tables 7.1 and 7.2; 8.1 and 8.2; and 15.1 and 15.2 gives a rich picture of where India's micro-entrepreneurs are and how they are doing. State governments and state level bankers' committee of poorer states should examine this data carefully and devise regulatory and economic improvements to promote enterprise lending in this segment.

**Also, state governments with high default rates may need to provide credit guarantees and other support to ensure that lenders in their state continue to fund micro-entrepreneurs. Another suggestion would be to have a media campaign in targeted states/regions for financial awareness and borrower education.**

# CONCLUSION

This report confirms the importance of financing to micro-entrepreneurs in India. These businesses exist across the country and are borrowing from a diversity of lenders—there seems to be a competitive market to lend. Their default rates in 2019-20 seem within control. But the economic recession caused due to the pandemic this year may increase defaults (despite various government support) and reduce demand for loans in FY 20-21. Next year's report should give a much better sense of how the current year has affected borrowers. It will also allow the year-on-year analysis making it more useful for readers.

## Suggestions for Governments

Some states, especially in the East and the North-East may need to support businesses better by nurturing and supporting entrepreneurs to set up and expand businesses, encouraging financial institutions to lend by offering incentives; and, educating borrowers to repay on time. The registration of loans in credit bureaux builds the credit history of borrowers. National e-governance Services (www.nesl.co.in), an information utility promoted by the government has created a process for borrowers to authenticate their loans. This is a good step and as more loans are registered and authenticated, it will make lenders more confident to scale up lending to this segment.

In the last few months, the Union Government has announced many schemes to make it easier for micro-entrepreneurs to borrow. These have helped at the margin, but the bigger challenge for borrowers will always be demand for their products and services. Other issues that they face are timely payment of their dues, especially from bigger companies; appropriate insurance; better marketing and design; better trained staff; lower cost of power and other infrastructure. All these need support not just from governments, but also from lenders, academic institutions, mentors, civil society organizations and large corporates.

This report (intended to be an annual feature) will document the journey of India's micro-entrepreneurs by tracking their borrowings. Their own stories and passion to succeed is what matters the most in this journey of business expansion and wealth creation.

# ANNEXURE

## Lending in the Time of Pandemic

**Insights from Mr. Nanaiah Kalengada, MD & India Country Leader, Equifax India**

### Significant Shift to Digital Lending

While Lenders used the term "Digital" frequently in their communications, most of this "Digital" used to sit at the backhand. Many of the client facing processes still were manual/physical with little digital intervention. Covid has brought about a significant change to the way lenders used to function on a day-to-day basis. The ones who were digitally capable quickly sprang into action and shifted processes online, while the ones who were not technologically adept had to struggle a bit. It showed that being digital was not just a thought, but had more to do with having real processes to drive things online with the set of inherent limitations at place.

This shift would continue to be a strategic focus for the lenders going into 2021. While it makes things easy for the end consumers, it increases the concerns around proper credit checks, portfolio reviews, collections and other facets of lending for Financial Institutions. This then becomes a huge responsibility for Credit Bureaus like Equifax to assist lending institutions along the way as they chart their roadmap for 2021.

### Re-Imagining Credit Decision Making

Credit decision making post COVID is one of the major focuses of lending institutions. The approach to growth and managing portfolios will require recalibration. Historical data would cause noise in predictive risk models and overall customer segmentation. However, the customer characteristics, which are macro driven are valuable information if used in the correct way. The restructuring and moratorium impact on data has to be carefully addressed in all credit decisioning solutions.

The credit decisioning for new-to-bank and existing-to-bank should be done in a much more differentiated manner post COVID. The trend data of customer usage and payment behavior should be incorporated in scorecards and strategies. Further, normalizing the trend data under different scenarios would reflect more accurately the future credit risk of a customer.

The new-to-bank customer characteristics during COVID would be a shortfall for a lending institution. This could be bridged using the industry level data from bureau and alternate data sources. A customer 360-degree approach would make models more robust and predictive.

A constant monitoring and validation of models and strategies using data science techniques, automation, and quick feedback from business has to be prioritized. Preparing these decisioning models to respond to frequent changing regulatory and macro scenario would make lending institutions manage the portfolio better post COVID. These would also help in taping the unexpected credit opportunity by these institutions

## Lending Outlook for Rural & Semi Urban

As the economy has started to open up, there has been good resilience to counter the challenges Covid has presented us with. Rural and semi urban regions have been at the forefront of this fight-back, where we have seen healthy growth in the lending behaviour. Among rural, semi urban and urban region, the share of disbursements among rural saw an increase of 14 percent YoY at the end of September 2020 as compared to September 2019.

On the other hand, the share of disbursements for urban fell by 15 percent YoY. The substantial performance for rural & semi urban with a promising credit uptake will be vital for the current and future lending environment. It would not be unwise to believe that this will play a pivotal role in the coming months.

## Tussle of Low Interest Rates

Responding to the current situation, many lending institutions have been providing attractive interest rates to entice customers. Almost every other lender is following suite as a tactic for customer retention and new customer acquisition. Given this, it will be interesting to see if customers would opt for balance transfers from one institution to another to avail lower interest rates on their existing loans. This will also pique the interest of lenders as they will get the opportunity to enhance the health of their credit book. Additionally, this will be more intriguing for customers with high ticket loan sizes who would expect to save on paying higher interest amounts in the future.

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