

MSME Credit Health Index

March 15, 2021

About the Index

- **Launched by:** TransUnion CIBIL in partnership with the Ministry of Statistics & Programme Implementation (MoSPI) has launched MSME Credit Health Index.
- **Aim:** To provide a measure of the growth and strength of the MSME sector in India
- The Index was built using credit data submitted by lending institutions to TransUnion CIBIL
- The first version of the index is based on data from March 2018 to June 2020.
- **Two Parameters:** It measures the credit health of India's MSME industry on two parameters: growth and strength.
 - **Growth** is measured by plotting increase in exposure value (outstanding balances) over time and
 - **Strength** is measured by decrease/increase in credit risk in terms of non-performing assets
- Both indices follow the principle of higher the better i.e. an increasing Growth Index indicates improvement in credit growth; and an increasing Strength Index implies better asset quality and therefore denotes an improvement in the structural strength of the sector.

Key highlights of the Index

- **The Growth Index** reflects muted growth in June 2020 owing to limited credit activity due to COVID-19 measures
- The MSME sector has seen an increased level of NPAs in the last two years consequent to a slower rate of economic growth. Cash flows of MSMEs have been impacted over a period of time thereby limiting their ability to

service debts.

- This has resulted in the **Strength Index** reflecting a decreasing trend.
- **Sub-segment level:** The momentum of growth, when compared to the benchmark for each sub-segment of MSME, is highest for the Micro segment (exposure less than Rs 1 crore)
- A view on the Strength Index by MSME size reveals that the Index values across all segments have reached the same level in June 2020, while following a different trajectory in the last two years.
- But in the pre-Covid-19 quarter of December 2019, the strength was the lowest for the Medium segment
- In the ledger category level, NBFC & Private banks have shown a higher growth momentum.
- Private banks have contributed to over 50% of incremental credit to the MSME sector over the last two years. NBFCs were the fastest growing category in 2018.
- The liquidity crisis towards the end of 2018 limited the ability of NBFCs to extend credit.
- The Strength Index by lender category reflects a relatively faster decline for private banks driven by few players experiencing higher stress in their portfolio compared to others.
- But the NPA rates of Private banks continue to be at much lower level compared to NBFCs & PSU banks
- The Index indicates that credit growth has accelerated, as the overall growth index inched up to 114 points, which is a three-point increase from 111 in June.
- The overall Strength Index also improved to 89 from 83 over the same period

Note:

The emergency credit line guarantee scheme (ECGLS) has helped in the credit growth for small businesses, aiding an index of growth in loans for the crucial sector ending a notch higher

at the end of the September quarter.

Significance

- This Index will provide government, policy makers, lenders and MSME market participants, a numeric indicator for benchmarking the health of the MSME sector.
- This measurement model will facilitate better MSME credit risk management, formulation of strategies and policies to support the revival and resurgence of the MSME sector and the economy.

Emergency Credit Line Guarantee Scheme (ECLGS)

It was announced as part of the Aatma Nirbhar Bharat Package (ANBP) to provide fully guaranteed and collateral-free additional credit to MSMEs, business enterprises, individual loans for business purposes, and MUDRA borrowers, to the extent of 20 percent of their credit outstanding as on 29.2.2020.