

# 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.