

MSMEs finance: Look who's eating away banks' share

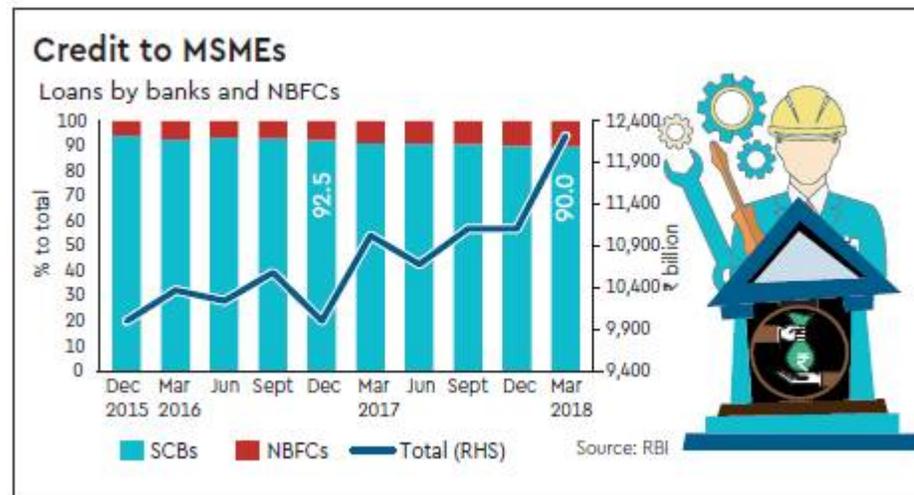
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Banks lost share to NBFCs in MSME credit

The share of credit provided by banks to micro, small and medium enterprises (MSMEs) has declined since September 2016, even as the share of loans by non-banking financial companies (NBFCs) nearly doubled to 10% between December 2015 and March 2018, shows research by analysts at the Reserve Bank of India.

According to a Mint Street Memo titled 'How have MSME Sector Credit and Exports Fared' on the [RBI's](#) website, scheduled commercial banks' (SCB) share in MSME credit has fallen from nearly 95% in December 2015 to 90% in March 2018. Between 2014 and 2016, the deceleration in bank credit growth to MSMEs was as a result of an overall slowdown in economic activity, rising bank NPAs and reclassification of food and agro-processing units from the MSME category to the agriculture sector, the paper said.



A significant fall in MSME credit growth in late 2016 was attributed to demonetisation. "Credit growth fell significantly and turned negative during November 2016-February 2017. Therefore, it seems that demonetisation accentuated the slowdown in credit growth, particularly to industrial sector," analysts at the central bank wrote, adding that growth in credit to the MSME sector recovered after February 2017 to reach an average of 8.5% during January-May 2018.

Loans extended by NBFCs to MSMEs grew rapidly – at an annual average rate of 35% – between December 2015 and March 2018. The divergent experiences of banks and NBFCs in terms of asset quality explains the difference in credit growth, the paper said. “Lower NPAs of NBFCs in MSME credit compared to banks might have helped them in extending credit to the sector.”

The share of credit extended to MSMEs in overall bank credit fell steadily to around 14% by the end of March 2018 from about 17% in 2007. The paper attributed this phenomenon to over-lending to large corporates in the second half of 2000s.

“Additionally, within the credit to industrial sector, the share of credit to medium enterprises has dropped significantly compared to the share of micro and small enterprises,” the paper noted.

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