

'MSME financing presents a unique and scalable funding opportunity'

Religare Finvest Limited (RFL), a subsidiary of Religare Enterprises Limited (REL), is a SME- and MSME-focused lender having a loan book size of ₹13,000 crore built organically over the last three years and targeting ₹25,000 crore in the next two years. In an e-mail interaction with Pravda Godbole, Kavi Arora, RFL's CEO, dwells on the issue of finance for MSMEs and the company's decision to focus on this sector.

How did you decide to focus exclusively on providing finance to MSMEs?

Well, it is the backbone of India's economy. We believe REL's experience in the financial services sector allows us to understand market trends and mechanics and helps us to design products that suit the requirements of our target customers as well as address opportunities that arise out of changes in market trends.

The relationships we have developed with our customers provide us with opportunities for repeat business and for cross-selling our other products and services. For instance, a relationship with our MSME customer base can be leveraged to serve individual needs of proprietors.

Does this offer a more lucrative and secure growth opportunity for lenders at a time when the economy has slowed down?

While there might be a slowdown in the overall economy, the potential for increasing lending to the under-banked MSME segment remains significant. Although MSMEs have been growing in size and importance, they often lack access to timely and adequate credit to meet working capital needs, incur high cost of credit, are technologically backward and also lack infrastructure and skilled manpower. MSME financing hence presents a



unique and scalable funding opportunity which RFL continues to build on.

How has the increase in the number of MSMEs being rated by credit rating agencies

helped your business?

With MSMEs increasingly getting rated by credit rating agencies, the confidence of the financing community in these entities has slowly increased. While it is still very important to assess the true cash flows of MSMEs at the time of underwriting, rating by credit rating agen-

cies acts as a validation of the credit quality of these companies. We also partner with leading rating agencies to help our existing SME customers to get a rating.

credit risks and maintain asset quality and have developed robust recovery processes. Our senior management's extensive experience in lending, banking and finance companies has helped strengthen our credit appraisal and risk management systems.

What steps do you take to effectively manage your portfolio?

We have put in place a centralised analytics team that publishes credit and portfolio performance reports for management review. In addition, periodic collection reviews are conducted on delinquent customers to evaluate problem areas and drive collection efficiencies.

What is the scope for Indian MSMEs taking to non-debt sources of funding?

While bank and NBFC lending has been able to satisfy the demands of this sector to a certain extent, there is a significant gap between the demand and supply of risk capital for MSMEs. There are initiatives by various institutions to address this gap in risk capital but these are not enough.

The main issues with MSME financing are universal — lack of exit options for early-stage investors, potentially high risk involved in investment, asymmetrical information, and unsuitable established legal and regulatory frameworks, which are important considerations when evaluating the overall profitability of a business.

Scheduled commercial banks worry about MSME loan portfolios turning into NPAs. Are you similarly worried?

No, that is not a worry factor for us. In our MSME financing we are driving to build a robust loan portfolio while minimising credit risks. A key to our portfolio is our underwriting and our relationship with our customers. We employ strict risk management standards to reduce



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