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Enabling MSME's Acquire Finance



NIMBLE

Facilitating Growth Through Processes

Why Financing is Critical for MSME's?

The Micro, Small & Medium Enterprises (MSME's) are the backbone of the Indian Economy. The number of MSME's in INDIA has increased over the last couple of decades. However, not many of them have grown beyond the Medium scale or their growth has reached a plateau. This has largely been due to lack of availability of finance for working capital and funding expansion.

Capital Expenditure Needs: MSMEs often have major financing needs. Financing is necessary to set up and expand operations, develop new products, invest in new staff, production facilities, technology, R&D and automation. Many small businesses start out as an idea from one or two people, who invest their own money and probably turn to family and friends for financial help in return for a share in the business. But when they are successful, there comes a time for all developing MSME's when they need new investment to expand or innovate further. That is where they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, capital markets or other suppliers of credit.

Working Capital Needs: In contrast with capital expenditure, the funds required for the day-to-day running of a business tend to fluctuate with levels of activity and short-term performance. As a result, they are more difficult to predict and are often inadequately planned and financed. It is needed to pay wages, suppliers and for other expenses before sales revenue is received from customers. Failure to plan for increasing working capital needs can lead to serious cash flow problems. Indeed businesses that grow too rapidly, even if they appear to be profitable, may risk business failure by overtrading without adequate financing.

These financing needs are usually satisfied through Private Equity Funds & Investors. However for entrepreneurs who do not wish to part with equity, approaching a bank for financing needs has always been considered the best option. Banks on their part are always willing to help these entrepreneurs. In spite of an overwhelming demand for financing needs banks often face a number of issues in lending.

MSMEs Contribute to 40% of the entire output of the Country.

Over 11 million MSMEs units are producing more than 8,000 Products.

90% of the Industrial Units in India belong to the SME sector.

SME units contribute to 30% of the Indian Industrial Export.

Enable Banks to Understand Your Business

There is scope for banks to increase their lending to Micro, Small and Medium Enterprises (MSME's) by INR 50,000 Crores (Crisil, 2011). Yet, there is a huge demand supply gap. Although willing, banks cannot cater to this demand due to number of issues they face during the lending process.

Indian Banks funded an average of 60% of the incremental working capital between years 2006 to 2009 against the common banking practice of financing up to 75% of an entity's working capital requirement.

Some of the major Issues that arise during the lending process are:

Ambiguity in Information: Clarity and completeness of information about a borrowing MSME is one of the most critical factors when it comes to decision making by banks during the lending process. In a situation where any ambiguity arises, banks would counter it by increasing the lending rate, at times, disproportionate to the risk or, resort to curtailment of the lending amount.

No work flow systems or processes: MSME's are mostly unorganised & do not have efficient and well documented workflow systems and processes. Banks often struggle to assess the work flow within the Organization. In this situation Banks cannot ascertain the efficiency of a MSME unit. This often leads to curtailment of the lending amount or outright rejection.

No Succession Planning: Most of the MSME units are solely dependent on the founder of the business. MSME's often do not have a clear succession plan. In this scenario, banks would be extra cautious as there is no individual accountable for repayment in case of an eventuality with the founder of the company.

Lack of awareness: One of the most common reasons for inability to get financing from the bank is that the entrepreneurs are not aware of the schemes available to them. Most of the banks have a dedicated unit for MSME loans & financing. Also, some banks have better schemes for a particular industry segment depending on their comfort factor with the industry segment. This is where entrepreneurs are not able to leverage on their proposal submitted to the bank.

The above list of issues is illustrative & not exhaustive. Different MSME's have different issues that affect bank's understanding of the business. All these Issues need to be picked up promptly and corrective measures have to be initiated to acquire better credit terms with the banks.

How Can Nimble Assist Your Business



Nimble assists MSME's by:

- Informing MSME's on parameters banks look into while assessing the credibility of an MSME unit.
- Performing an objective internal analysis.
- Suggest Areas of Improvement.
- Helping MSME's prepare document dossier which helps banks understand the MSME unit by properly.
- Informing which banks to approach for better financing options.

The primary areas where an entrepreneur needs assistance are:

- a. Objective Internal analysis of the business.
- b. Understanding the Loan Process.
- c. Proper documentation for loan application.
- d. Credit rating assistance if required.

Commercials:

The entire exercise generally takes around 4 to 6 weeks, depending on the data availability and ease of access.

- Identifying current problems which might lead to bad credit terms with Bank & Propose solutions to ensure the above identified problems are rectified - INR 50,000
- Commercials for further level of involvement of Nimble can be discussed.