NORTHERN ARC

Impact of Covid 2.0 on
MSME NBFCs

Impact Note

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IFMR Capital

Disclaimer:

No solicitation or Investment Advice

Covid-1.0 Vs Covid 2.0

NBFC Operations	Covid 1.0	Covid 2.0
Lockdown Impact on Businesses	Lockdown was nation-wide, sudden and complete resulting in taking people by surprise	Taking lessons from Covid 1.0, the lockdown was differentiated, decided by local administration with most business segments being open for restricted hours (manufacturing, transport and other essential services) reducing the impact of the clamp-down
Rural Economy	The infection had largely left rural India untouched	Covid 2.0 impacted rural India but given the lower population density and partial opening allowed for essential services, earnings was impacted more by fear of venturing out than closing of businesses
Collection Trend	Was deeply impacted because of strict lockdown and also on account of regulatory moratorium	Has been impacted, but the partial operations allowed even during lock-down has helped stem the drop in collections; NBFCs with multi state operations (North-South divide of covid wave) have been able to rely on the opening in Southern India when Northern India was closed and vice-versa currently
Disbursement Trend	NBFC operations were in disarray trying to cope with moratorium requests, lockdown related inability to reach customers and sharp reduction in disbursements given the newness of the first wave.	NBFCs have been better prepared in Covid 2.0 with staff operating till 2:00PM initially in April / May and now till 5:00PM in many regions in central and northern India with incremental relaxation in lockdown except some geographies (TN, Karnataka, AP) ; Disbursements have not come to a halt;
Moratorium and Restructuring	End borrowers were offered moratorium option during Mar’20-Aug’20 followed by restructuring post Aug’20.	Since there is no moratorium, restructuring is the only option available for the end borrowers.

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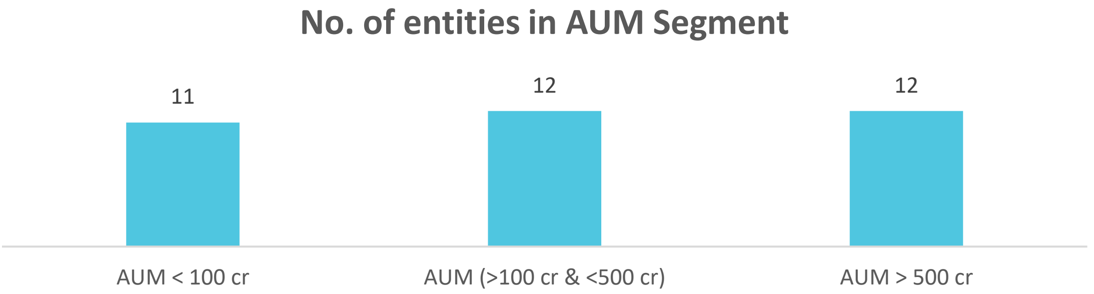
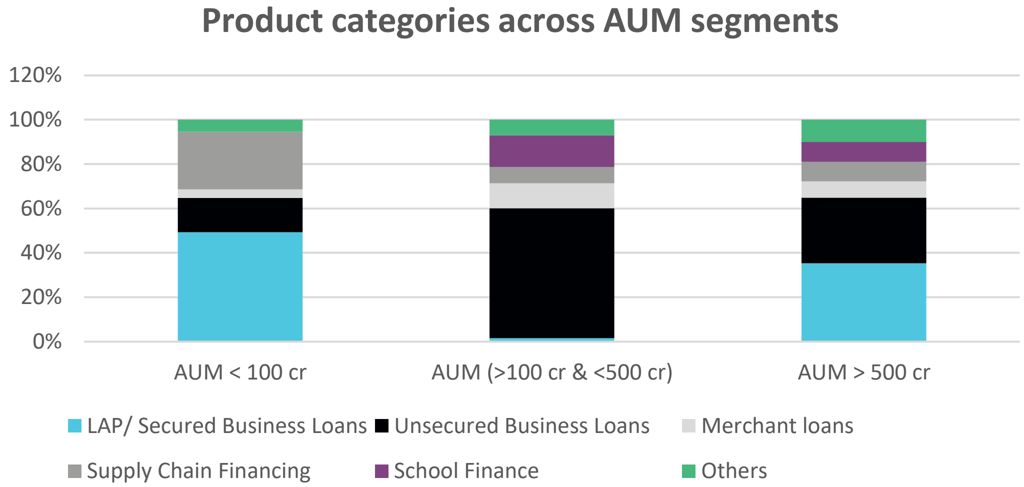
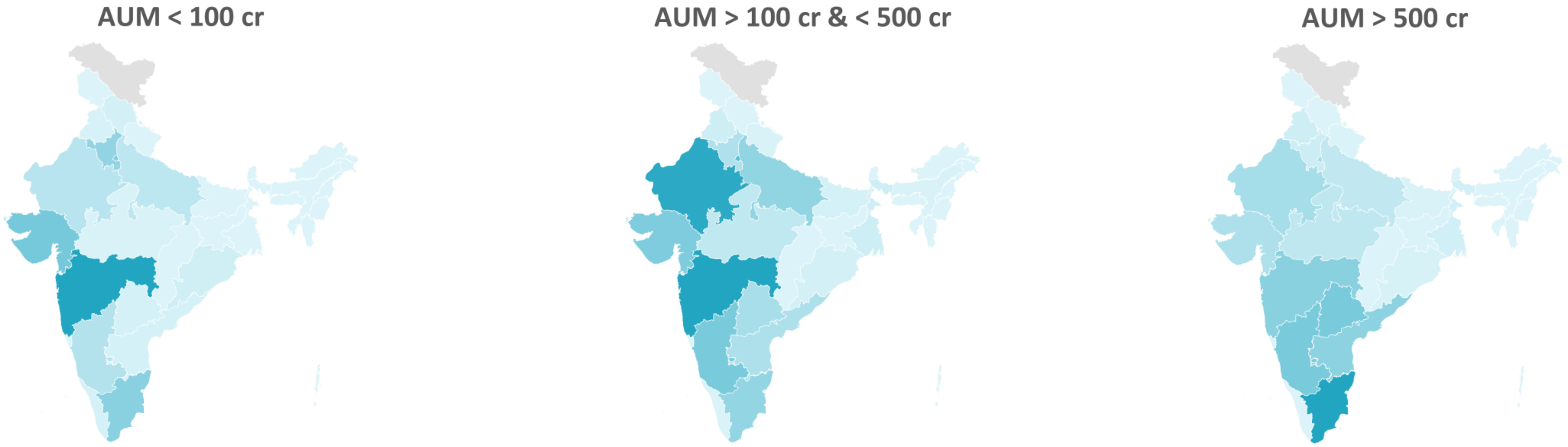
MSME NBFCs

- Represents **35 MSME NBFCs**
- Includes traditional brick & mortar lenders (25) and new age Fintechs (10)







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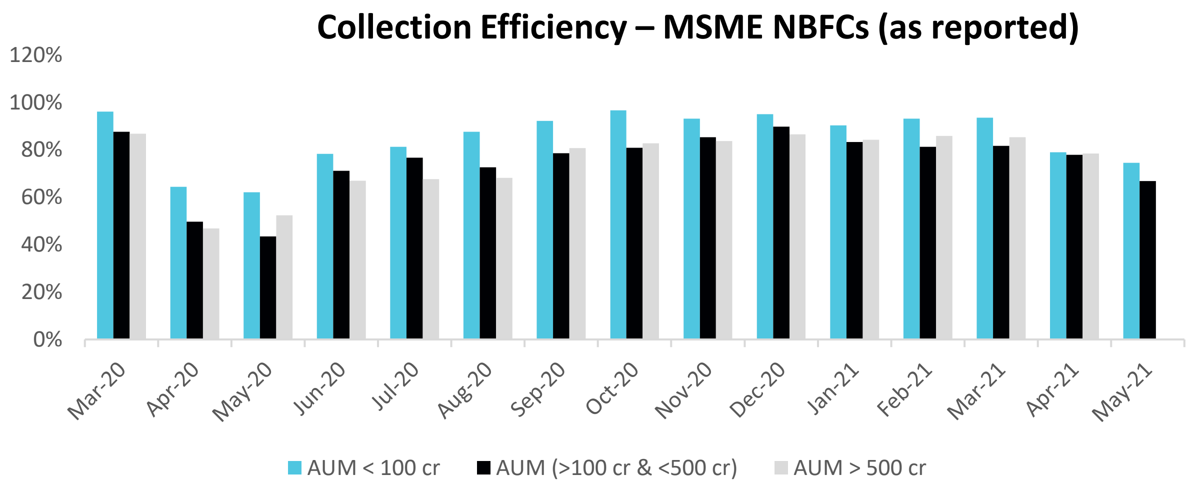
Three maps have been represented above to show how the geographic coverage changes from a small AUM entity (<100crs) to a mid sized AUM entity (>100crs & <500crs) and to a large Aum entity(INR >500crs). It is depicted in the form of gradient - darker the shade, higher the portfolio concentration in that State. Portfolio consists of entities such as Fintechs which could be present in >15 states as well as brick & mortar NBFC with low vintage that is focused on 1-2 states.

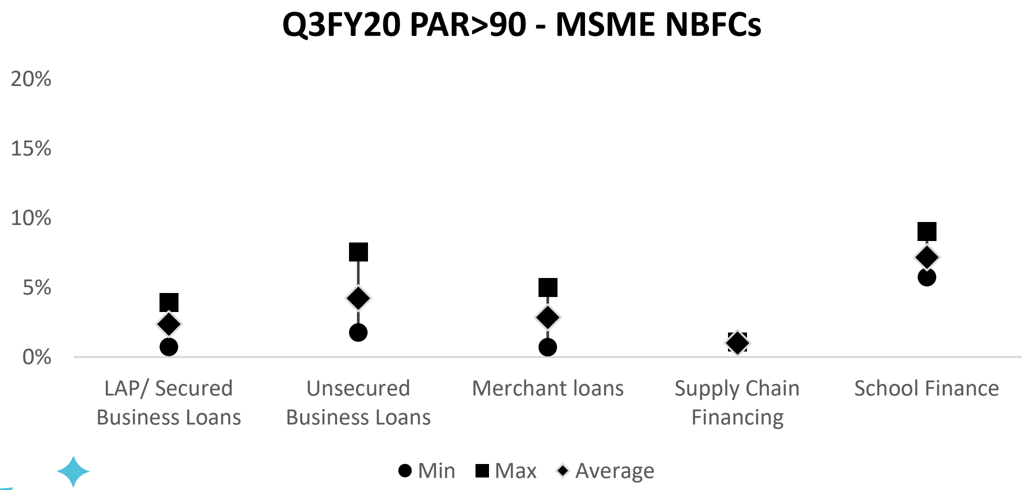
Small Business Loans – COVID 2.0 impact on MSME NBFCs with rural operations

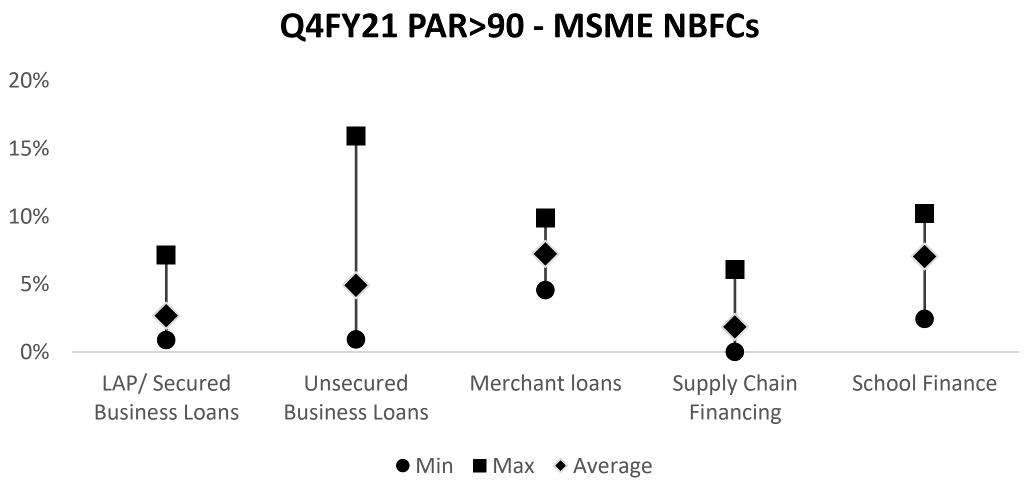
Operations	- Most of the NBFCs reported apprehensions from field staffs for field collections and operations. Few NBFCs reported that as high as 10% of their customers or their family members were infected. - NBFCs managed to reach customers for collections in time slots allowed for services. Digital means like UPI were adopted for collection in urban/semi-urban areas. Cash collections was also resorted to in rural areas. - Maharashtra lockdown was imminent by end-Mar and NBFCs were better prepared for lockdown across States. Uncertainty was lower as compared to last time.
Liquidity	- Disbursements were stopped in May and resumed in Jun with few entities disbursing ~40% of Mar-21 levels. - Funding revived in Q3/Q4FY21. Few of the NBFCs continue to hold undrawn lines. - May collections were closer to the minimum levels required to maintain positive cumulative ALM for smaller NBFCs while larger and well funded NBFCs had sufficient buffer. Smaller NBFCs will be able to manage with slight improvement in CE levels and revival of funding.
Asset Quality	- Maintained good portfolio quality till Mar-21 with lower restructuring for traditional MSME financiers; Largely due to better control on collections at small scale of operation and tight process. Unsecured Financiers have seen relatively more restructuring in relation to discretionary segments - Collection efficiencies dipped over last 2 months, with May being more severe as most of the States imposed restrictions. Collection numbers in Jun are better and companies are expecting to return to March levels as early as Jul/Aug. - Non-essentials were impacted the most from the restrictions. However, NBFCs reduced disbursements to this segment post previous wave.
Capitalization	- NBFCs with rural operations typically have low leverage and the ones with relatively higher leverage were in the process of raising equity. - Equity raise conversations that restarted post 1st wave have slowed down. Investors are assessing the impact on portfolio. NBFCs are confident that conversations in advanced stage would go through.

Recovery in Collection takes a hit with Covid 2.0; But more resilient than Covid 1.0



- NBFCs offering supply chain financing fared better throughout the Lockdown.
- Collection improved post Sep-20 for all products, partly on account of restructuring and liquidity support.
- Sectors like hospitality, restaurants, textile and education are most impacted.
- NBFCs tightened their credit policy with fresh originations showing better performance. Few changes in parameters include – restrictions on sectors, reduction in tenor, higher Bureau threshold.





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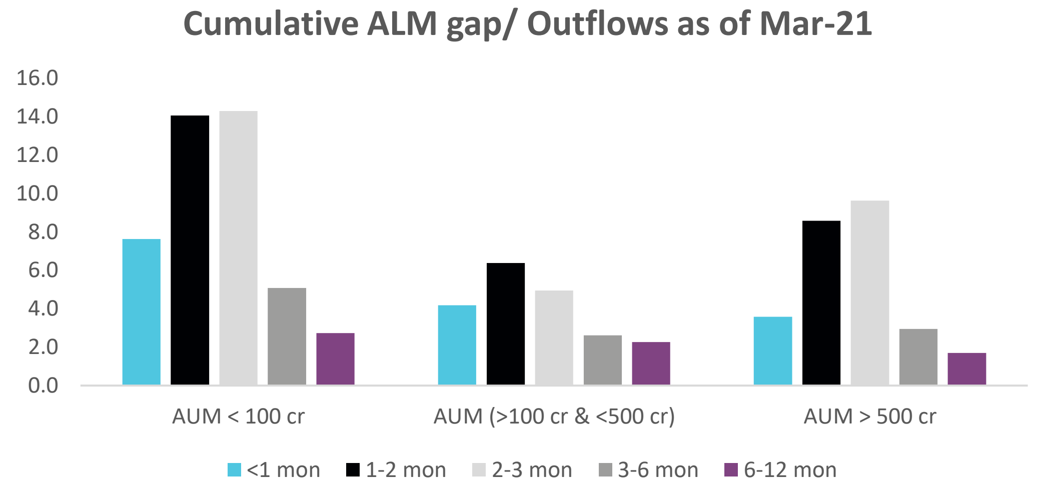
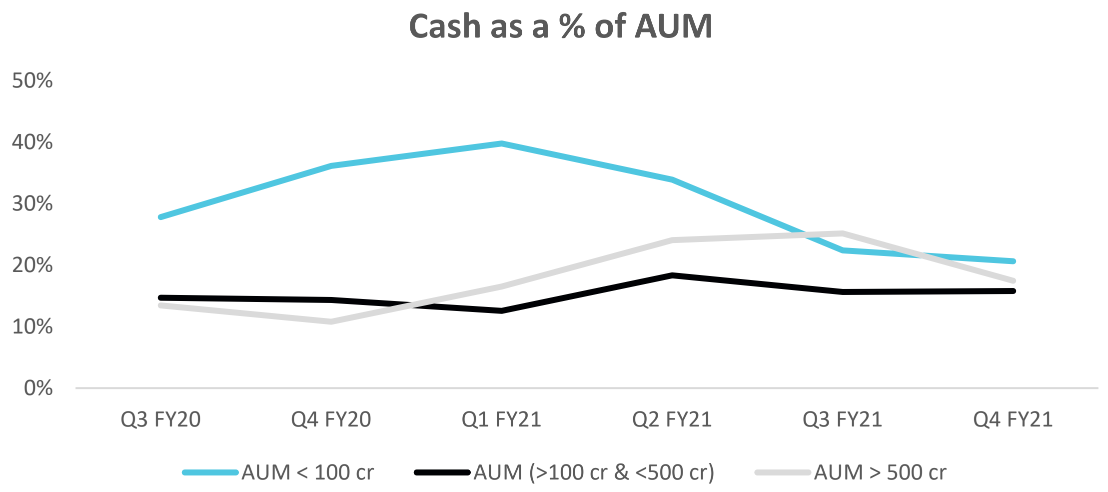
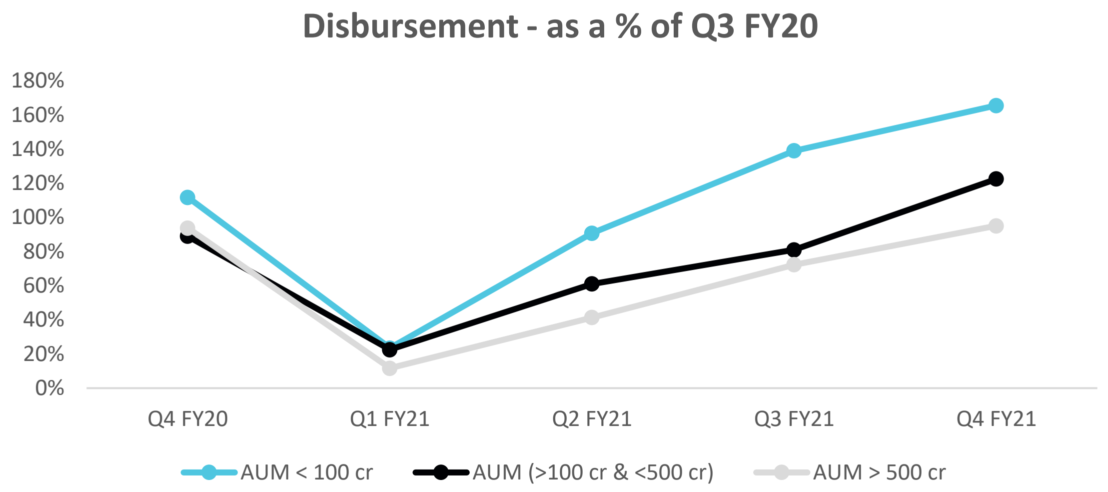
*PAR 90 for Q4 FY21 is after adjusting for restructured portfolio which is reported under 'Current' bucket immediately post restructuring.

Better liquidity resulted in uptick in disbursements till Q4FY21

- Smaller NBFCs have maintained sufficient liquidity in Mar-20 which helped them during the lockdown phase.
- Large NBFCs availed funding through liquidity schemes announced by the government. Some of them raised equity in FY21.
- Mid-sized NBFCs benefited through a mix of fresh funding as well as moratorium on their liabilities.
- In Q3, while smaller NBFCs with better collections were involved in actively sourcing new customers, disbursements of some of the mid level NBFCs were to existing customers to provide liquidity support.







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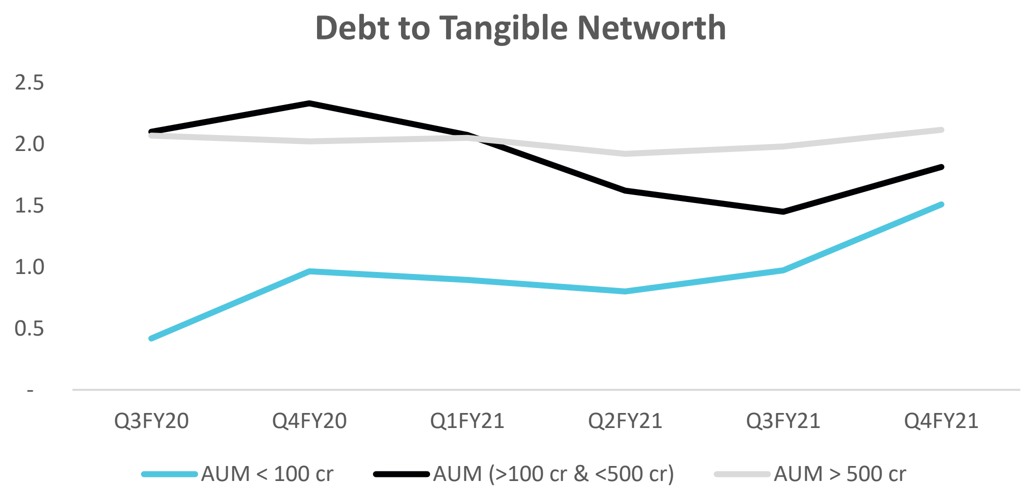
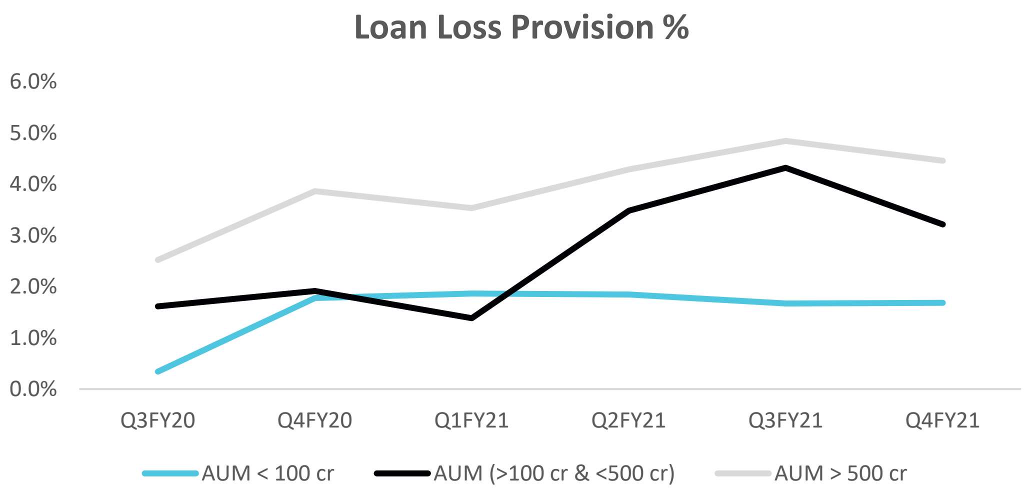
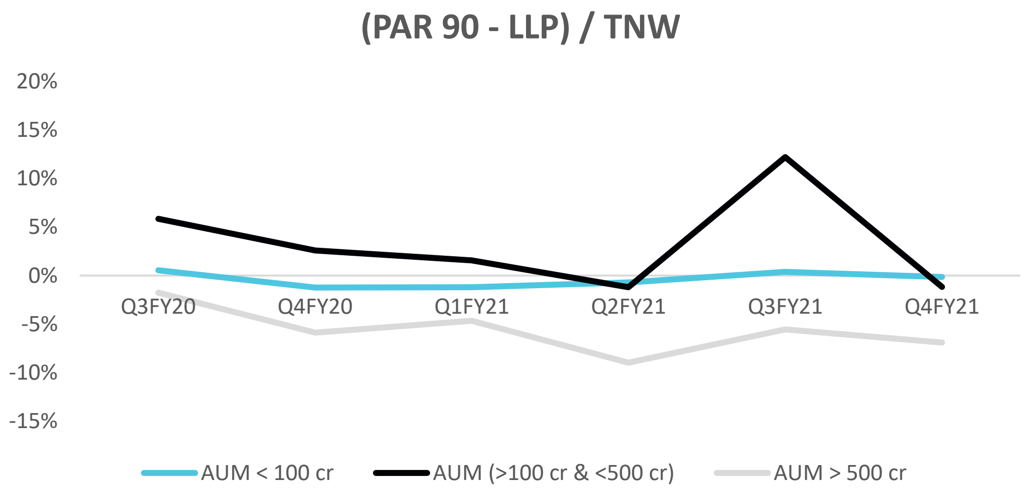
Most MSME NBFCs have maintained manageable leverage

- Most of the MSME focused NBFCs continued to have leverage <2x levels. Debt funding to these NBFCs increased towards end of FY21
- Large NBFCs (>500 cr AUM) made higher provisions due to Ind AS requirement
- Few NBFCs have restructured 10-20% of their portfolio in the discretionary segments







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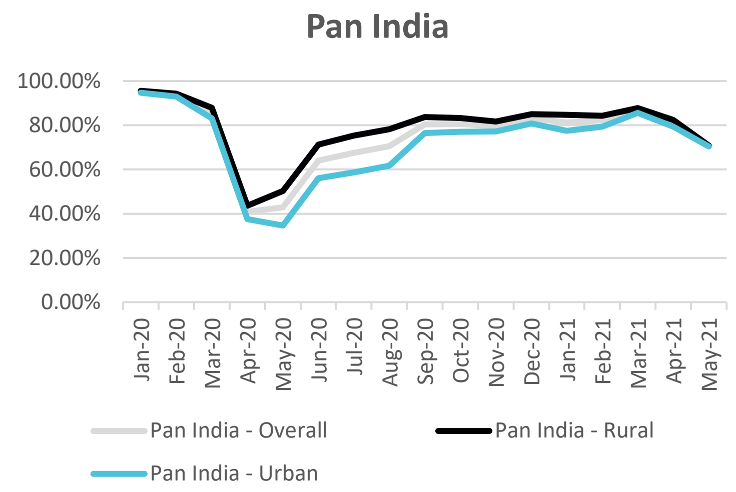
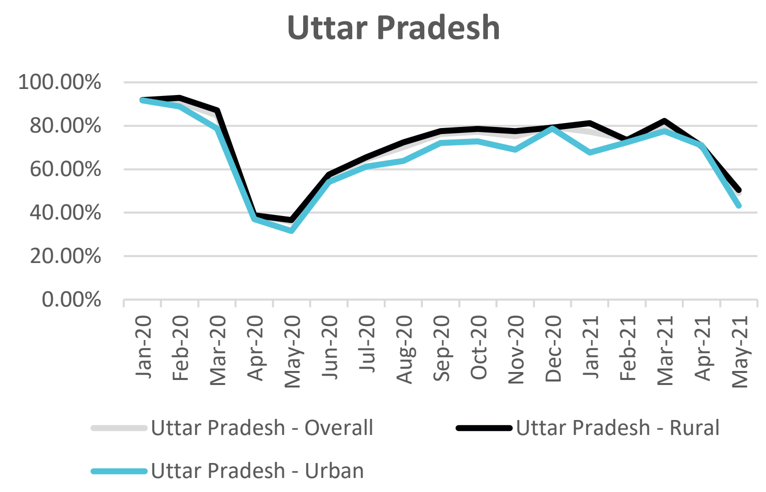
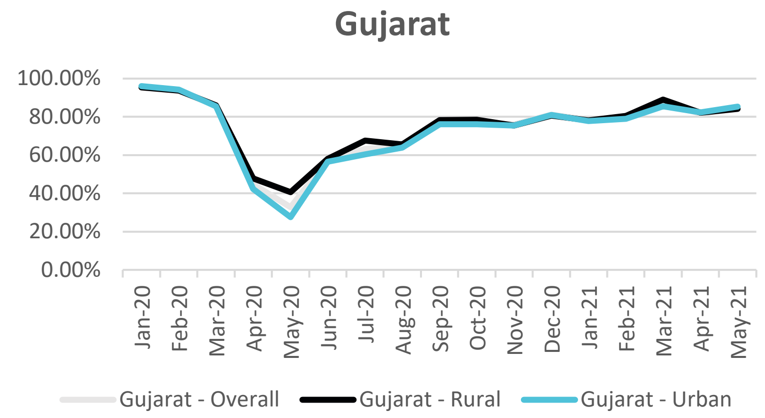
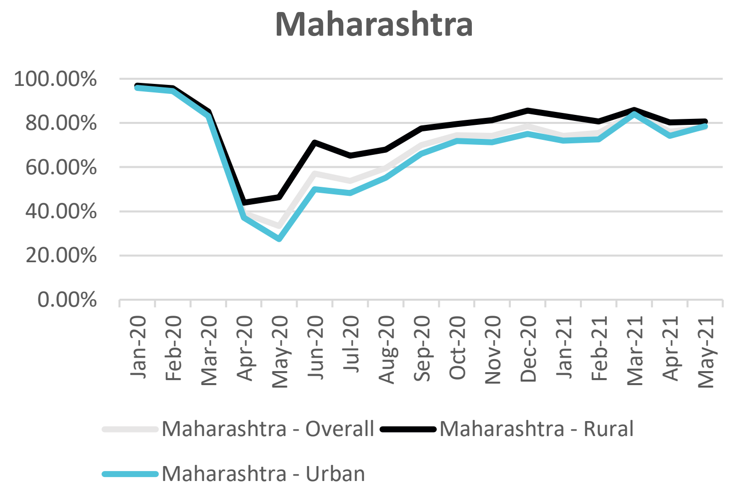
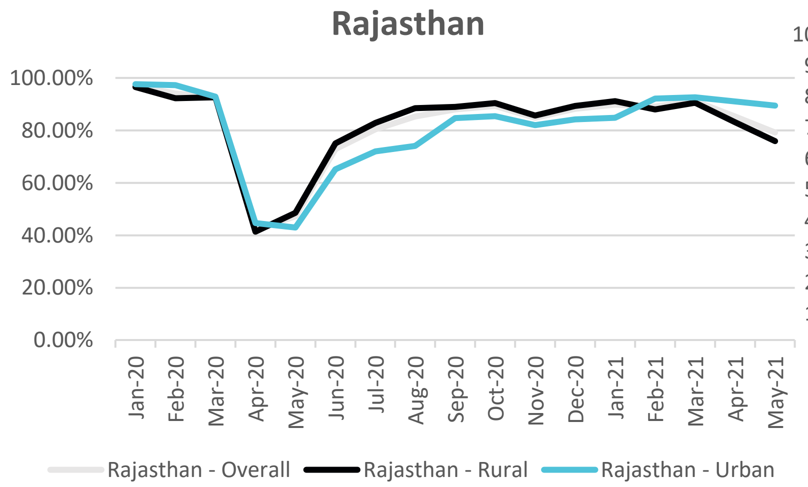
NBFC – Business Loans: Rural portfolio largely in line with Urban portfolio

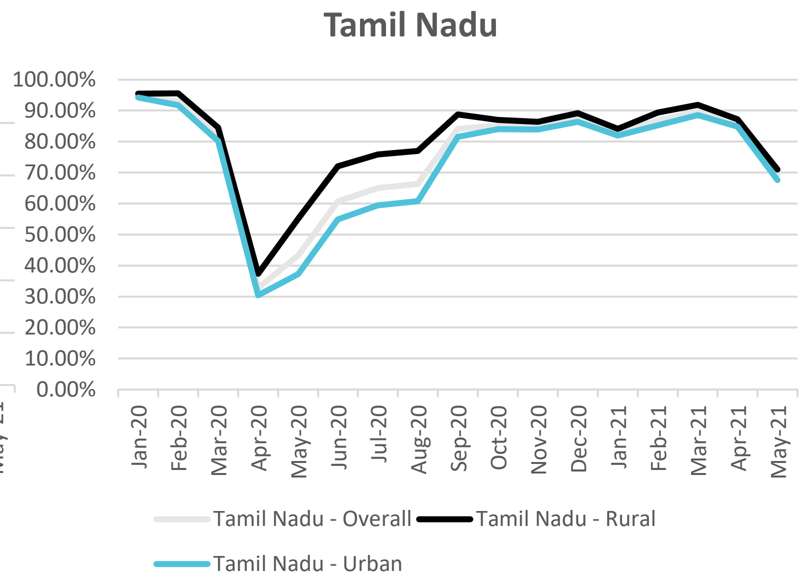












Collection of loans in Securitization Transactions Arranged by Northern Arc as of May-21

Thank you.

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