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Partaking the digital transformation

Non-banking financial companies have a major role to play in helping MSMEs realise their dreams

AJAY SRINIVASAN

E-commerce is not just the flavour of the year but is here to stay, given the reach, convenience and the changing consumer habits in India. Recent government announcements also stress the importance of the digital ecosystem. At the launch of Digital India Week, the government has laid out an ambitious plan to build broadband highways, universal access to mobile connectivity and public Internet access, thereby estimating to enhance Internet penetration from 300 million to 500 million, within two-and-a-half years. A direct outcome of this will be seen on the Indian e-commerce industry.

Recent industry reports pegged the Indian e-commerce market at $13.6 billion in 2014 and forecasts that by the end of 2015, it will cross the $16 billion mark. These reports estimate that the e-commerce market has been growing at a CAGR of 37 per cent since 2011 and, within the next five years, it will be worth $100 billion, contributing 4 per cent to the country's GDP.

A look at the e-commerce ecosystem throws up interesting insights. The thriving e-commerce market place is being fuelled by a large and growing pool of micro, small and medium enterprise (MSME) players, who are retailing through the larger market-place platforms like Snapdeal, Flipkart and Amazon. These MSMEs, which would have had challenges in building their own distribution networks, have found huge benefits in the reach of the e-commerce players. In fact, according to a recent report, Snapdeal has 100,000 SME retailers, Flipkart 30,000 and Amazon 25,000. The e-commerce industry, on an average it is said, sees 30,000-50,000 new sellers joining the platform monthly.

Despite the acknowledged contribution of the SME sector to the economy, a recent statistic states that only about 33 per cent of MSMEs have access to funding from banks and financial institutions. This problem further compounds, given the significant drive by e-aggregators and market places to allow more of such vendors online. Deprived of funds, these MSMEs have depended on other sources for liquidity at very high rates that bleed their margins, setting a vicious cycle in process. A report by the International Finance Corporation (IFC) estimates that the total finance requirement of the MSME sector is $650 billion, comprising demands of $520 billion as debt and $130 billion in equity. Evidently, there is a strong need for somebody to fund these MSME's dreams.

Non-banking financial companies (NBFCs) have been playing this part for some time now and the role of these institutions and their importance in funding such segments has been increasing. In the e-commerce space, NBFCs have started exploring ways and products using technology to develop and assess credit filters like social credit score, integration with net banking and accounting software for immediate reconciliation of realisations, integration with logistics partner, online psychometric tests, online de-dupe checks across various databases of the promoter and borrowing institution. The reliance on non-financial credit parameters will be critical for lending the much needed unsecured liquidity to this segment.

Trends support this and there are now examples of e-commerce players realising that critical to their growth is the growth of such vendors and likewise the growth of their funding options. As an example, e-commerce major Snapdeal it is believed runs a special targeted programme, which facilitates its own sellers receiving loans from a panel of several NBFCs.

If India is to grow at 8 per cent plus, the question that needs to be asked is where will the funding come from. The domestic banking sector is dominated by the PSUs, which are still undercapitalised and unable to expand their book significantly without additional capital. India's e-commerce journey promises to be powered by its small businesses and finding the right financing partner for these businesses is critical. NBFCs potentially are the suitable answer to this but the key to success is developing a robust seamless model on the back of technology developed credit filters. ♦

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The author is CEO financial services Aditya Birla group