



PARITY TRUSTONE
DIGITISED PLATFORM FOR BUSINESS LENDING
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GDP @ USD 5 TRILLION BY 2025 – CHALLENGES ON CREDIT GROWTH

- Ambitious but achievable target
- Current run rate is lagging
- GDP growth lag concurrent with NBFC meltdown since Oct 18
- Set-back to credit engine with negative multipliers for GDP growth

1

Banks have liquidity but are selective in lending; Debt Capital market is not evolved

2

NBFCs, with exception of a few, are constrained by liquidity

3

Domestic credit growth had slowed down to less than 10%

4

Credit growth had averaged 1.6 times GDP growth during 2000 - 2015

- Credit Assessment, Monitoring and Risk Management need a significant step-up which could be facilitated by emerging digital processes / digital platforms.
- Digitization is transforming business models across verticals and the same is expected in lending industry as well.



DIGITIZATION IN RETAIL LENDING – INDICATORS / EXPERIENCE

- Digitization of KYC processes
- Cloud based data support by credit bureaus; involvement in credit monitoring
- Credit assessment is more efficient, transparent and speedier
- Lenders have invested in IT for learnings from past loan records

1

Growth at CAGR of 28% with reduction in NPA rate during last 3 years

2

Average loan approval time reduced from 8 days to 3.5 days during last 3 years

3

Enquiries to credit bureau for rural lending increased to 35% from 25% in last 5 years

4

Demonstrated performance of Bajaj Finserv and Capital First

5

RBI warning last month on over reliance of banks on retail loans

The momentum and credit health in retail lending may not be sustainable if overall economy is not doing well. Need to address issues relating to business lending as well



DIGITAL TRANSFORMATION IN BUSINESS LENDING TO FOLLOW?

For lenders

- Credit enhancement with better visibility towards underlying assets, cashflows, revenue generation activities
- Lower cost of origination and processing

For borrowers

- Shift from collateral based lending to data or cashflow driven lending
- alternate source of credit

1

Emergence of Digital Invoice finance Platforms ... just a beginning

2

Purchase order financing / service order financing

3

Distribution / channel financing

4

Sector specific initiatives with domain partners

5

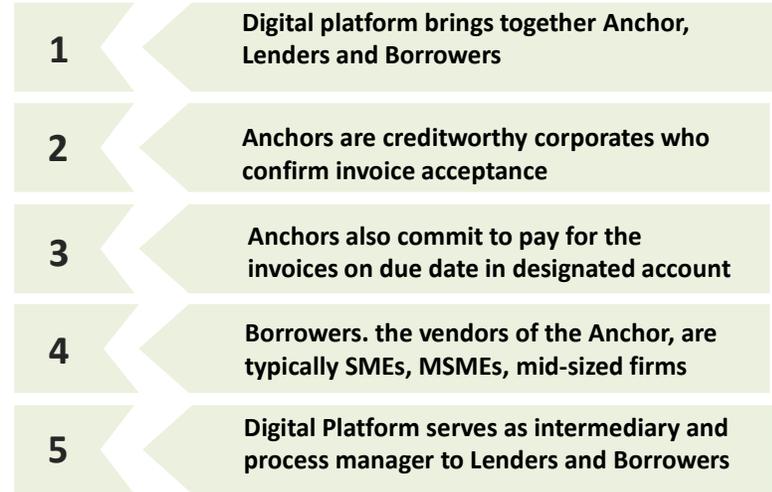
Confluence of fintech and logistics tech

Early initiatives will be in short term / working capital finance of SMEs, mid sized firms based on their linkages with credit worthy Anchor corporates



ILLUSTRATIVE PROCESSES – INVOICE FINANCING

- Invoice finance – one of the easier working capital financing processes to be managed digitally
- GST, e-way bill portals, apart from linkages / APIs with Anchor's EPR facilitate confirmation of underlying events such as dispatch, good receipts, quality inspection and invoice acceptance and payment
- Scope for credit insurance after data and volume based intelligence



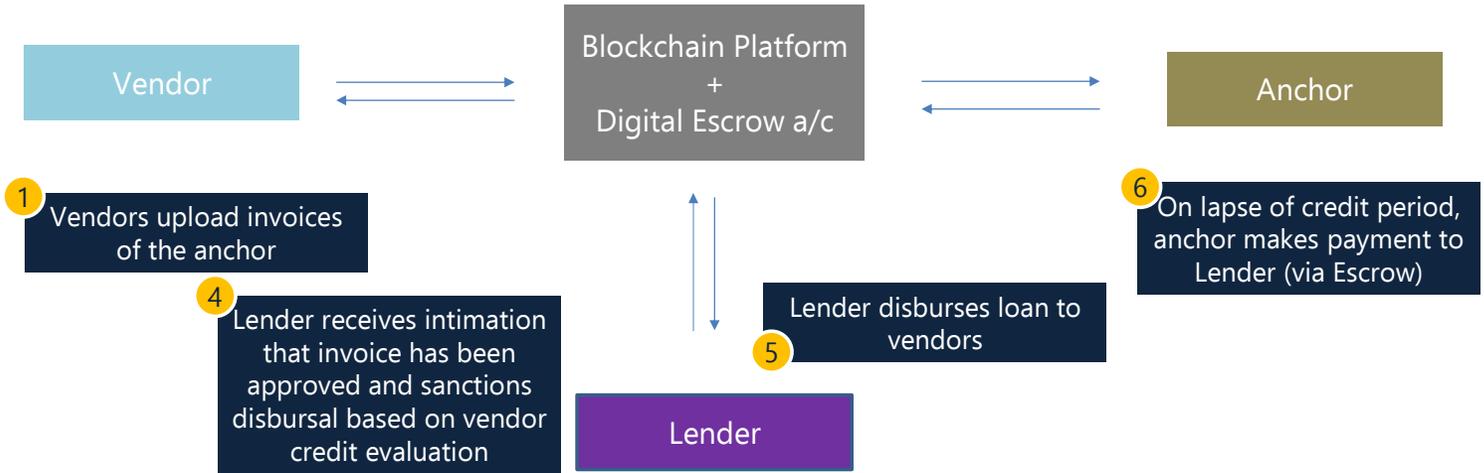
Works fairly well for manufacturing vertical; processes to be finetuned for services industries (e.g. logistics) and other supply chain finance products (e.g. PO finance)



ILLUSTRATIVE INVOICE FINANCE PROCESSES

- ✓ Onboarding of anchor and its vendor
- ✓ Invoice confirmation with feed from Anchor's ERP system
- ✓ Lender(s) are mapped as per pre-approved financing offer for a definitive period

- Anchor affirms goods have been received with due quality checks and approves the invoice
- Anchor will have option to use cash surplus to pay invoices at a discount





FINANCING OF ROAD TRANSPORTATION SERVICES

- Road Transportation accounts for ~5% of GDP but saddled with inefficiencies due to fragmented fleet ownership and working capital financing associated with multi-layered intermediation
- Supply Chain Finance processes will be complemented by supply management solutions

1

Fleet owners / drivers at the bottom of pyramid need partial financing while loading of vehicles

2

Transportation Service Managers are mid sized firms taking onus of service fulfilment

3

3PL logistics contractors or large corporates as recipient of services to serve as anchors

4

Credit assessment process requires to look into execution risk linked to the first 2 layers

5

Hence, need to involve domain partner having appreciation of relevant execution risks

This financing could be scaled up if an aggregation platform for the first two layers is established without bias towards any service provider.



DISTRIBUTION / CHANNEL FINANCE

- Pharma distribution is Rs. 10 k crore / month market on pan India basis
- Offers higher margins as compared to FMCG and many other sectors
- Poised for consolidation; inventory management, logistics and working capital financing are 3 key areas
- ERPs are evolved to track SKUs at a strip level; thereby provide real time update on inventory and receivables

1

Anchors are pharma formulation companies

2

Distributor has cloud based ERP for verifiable real time update on inventory and receivables

3

The distributor may have 100+ pharma companies (anchors)

4

It may be catering to 1000+ retailers and a few direct clients

5

Scale up is typically constrained by working capital financing

There is a scope to work with 4PL service providers in Pharma, FMCG verticals.



FINANCING OF PURCHASE / WORK ORDERS

- Framework for borrowers in capital goods manufacturing, engineering services, construction or EPC services
- If the approval, clearance, dispute, litigation risks are not under control, the framework may not help.
- Self development projects in Mumbai, capital goods orders from credit worthy private sector corporates to competent vendors are potential cases for carrying out PoC.

1

The credit worthiness of Anchor, execution capabilities of vendor are key considerations

2

The payments are typically linked to milestones subject to technical specifications

3

The assessment of purchase value to deliver on the order may require domain expertise

4

Need to involve domain partner as project management and / or engineering consultant

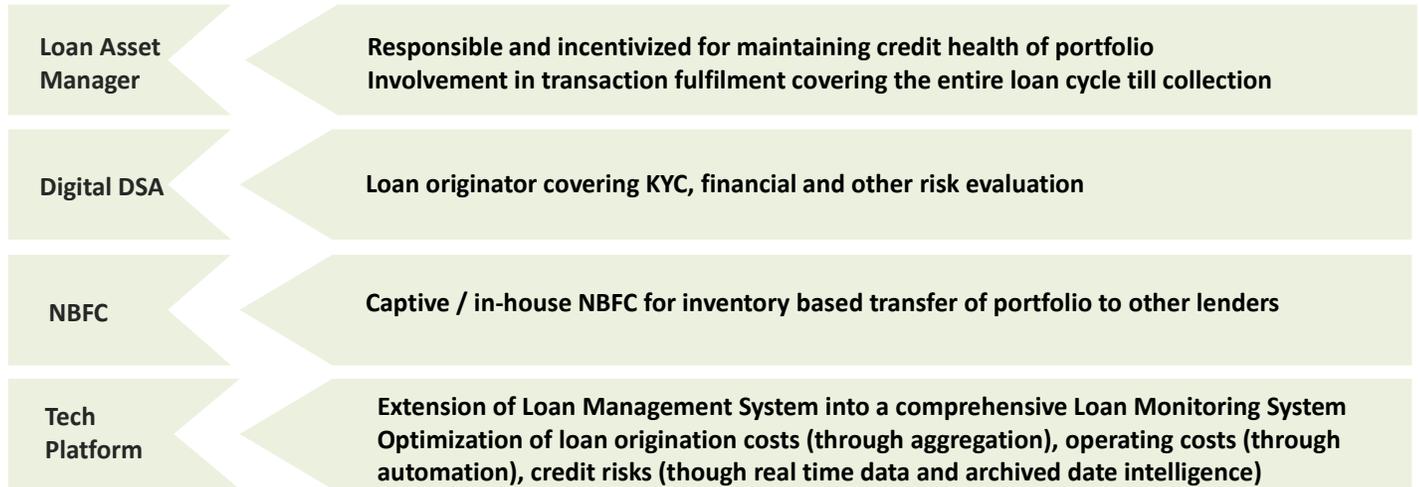
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PMC / engineering consultant has its skin in the game with incentives and partial recourse

It is prudent to start with simple projects and then gradually expand coverage to include processes for projects of higher complexities.



POSITIONING OF DIGITAL PLATFORM FOR BUSINESS LENDING



- Origination, technology, process outsourcing partner for lenders.
- Feeder to debt capital market in future (when it develops and hopefully, it will be soon) .
- Unlike traditional NBFCs, it will thrive on operating leverage and not on financial leverage.



THANK YOU