The Hindu Business Line

'Our digital offerings to SMEs will help expand the customer base'

Many small enterprises still find it difficult to come within the formal banking system, says HDFC Bank's Aseem Dhru

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By design, small and medium enterprise (SME) customers have higher reliance on banks than large corporate customers. And, because of their size they are generally dependent on one bank, unlike large corporates which have a consortium of banks lending to them, said Aseem Dhru, Group Head - Business Banking, Commodity Finance, Rural Banking and Agriculture Lending at HDFC Bank, in an interaction with *BusinessLine*. Excerpts:

Tell us about your recently launched digital initiatives for SME banking customers?

Over the last two years, HDFC Bank has been on a journey to make the entire bank digital. We started withoff with retail, moving our customers online. Taking this forward, we are now looking at providing similar digital offerings to our SME bank customers.

SME customers, by design, have higher reliance on the banking sector than corporate customers. This is because corporates (large) have stronger balance sheets, good amount of equity and also access to various other sources of financing.

SMEs, aside from their own equity, have only banks to rely on for their funding needs. But any new SME in need of a loan is hesitant to approach a bank because the experience is not that good — unaware of whom to approach, the procedure for applying for a loan, documents required, etc.

Why should an SME have to go to a branch at all to apply for a loan? Any business should be able to apply online, which is what we are now facilitating through our digital initiatives. There is a simple online form that needs to be filled and the last six months' bank statement (in pdf) need to be uploaded along with this. Within 24 hours, we decide whether we can go ahead with the proposal or not.

How has the experience changed for existing customers?

For existing customers too, a lot of paperwork happens between the client and the bank. For instance, at the end of each month the SME customer has to submit the stock statement and various other financial statements and undertakings. Now with our new digital offering, the client can directly upload the statements.

Also, if the client is in need of additional credit limit or funding, with our data analytics having already analysed the credit profile, it can be sanctioned instantaneously.

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All other transactions, aside from loan, which an SME client has to do on a daily basis, such as issuance of letter of credit or bank guarantee, can also be done more efficiently.

Under the digital platform, the customer can now upload the documents from his office and any discrepancies can be pointed out then and there.

From a bank's perspective does this not peg the risk higher, particularly when you are sanctioning a loan online for an SME?

When a bank lends to an SME, there are two or three ways in which it assesses the creditworthiness of the client. The bank account statement provides a clear view of the client's working capital cycle, movement of funds, etc. If the client is an HDFC Bank customer, then we already have past data to analyse his credit profile.

So far we had been restricting credit to our own bank customers, as we only had information pertaining to our own customers. Now, with the digital initiative, it is possible to crunch data of other clients' one-year financial statements and hence our analytics team can easily assess the risk profiles. This, in turn, helps us to expand our customer base.

How are the financing needs of SMEs different from those of large corporate borrowers?

Typically, SMEs commence business with small funds raised by entrepreneurs, and as the company grows, the amount of equity in the business does not keep pace. This is why you see many small businesses with very low net worth and weak balance sheets. Because of this they do not get good ratings from rating agencies.

Also, because of their size they are dependent on one bank, unlike large corporates that have a consortium of banks lending to them.

The need for financing is even more acute in case of SMEs with low ratings as they do not have access to bond markets too. How will this gap be filled?

Historically, there have been two segments within SMEs that find it easier to raise funds. One is where the financials are weak but the collateral is strong. The other is where the financials are strong but the collateral is weak.

The real challenge lies for SMEs in the middle — financials of which are yet to gain strength and at the same time are stretched in terms of offering more collateral as they are growing.

Banks find it difficult to lend to such SMEs as they do not see promoter's money in the business as much as they would like. Therefore SME lending is tricky and each bank is careful in lending to this segment given the risk.

But over a period of time SME borrowers have become a lot more disciplined and we have seen much improvement in their financials and ratings. However it is true that many SMEs still find it difficult to come within the formal banking system and hence a large market lies outside which lends to these SMEs at a higher rate.

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