IFMR Capital To Foray Into SME Lending

In keeping with its mission of providing efficient and reliable access to debt capital for under served sectors, IFMR Capital, with support from both the NEF and ITHC has started its search for an effective and replicable model for lending to the Micro, Small and Medium Enterprises (MSMEs) so that all the existing gaps in finance are plugged. The rationale, of course, is that this is a segment which can prove to be vital and pivotal for our economic future considering its large size and huge met and unmet potential for employment. The SME segment has been a tough one for conventional lending models. Banks have been ridden with high SME NPAs and what is needed is a model that'll work.

Currently the plan of action is to study enterprises in geographies served by the branches of (KGFS') Kshetriya Gramin Financial Services' as well as sectors like Food Processing which seem needy of SME finance. The former approach aims at using the close interaction that the KGFS' have with the surrounding community to identify and create supply chain and market linkages through financial support to SMEs operating there; while the latter approach looks at sectors independently to see if their sector-specific needs can be met by the provision of timely finance. Methodologies like cluster development to efficiently meet funding needs are also being explored. The idea is to combine the two approaches. Identifying SMEs in a specific sector, starting with looking at NE/PE investees, and developing a lending model for them, and identifying supply chain gaps in KGFS-area served SMEs and innovatively bridging them with finance. Enterprises in sectors such as the dairy, rural tourism, cashew and kewra industry seem to be interesting starting points for the KGFS-linked, finance driven supply chain development while the sector identified for the sector specific lending model is the Food Processing/agro SME sector.

Financing against receivables, through post-sales financing or by trapping cash flows has been chosen as the broad framework within which the advances would be made, but the objective ultimately is that we make a tangible mark in terms of reaching close to a workable SME financing model that other financial institutions can follow. Thus, the goal really is to launch the dramatic potential that the SMEs have for doing the 'greatest good for the greatest number'.
