
Nimble NBFCs poised to capitalize on a USD 120 Bn+ funding deficit in the MSME sector with a deal flow potential of ~USD 15 Bn over the next decade: Aventus

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Aventus Capital, India's largest Investment Banking franchise, launched a thought paper on the deal flow and profitability potential that NBFCs (Non-Banking Financial Companies) in the MSME (Micro, Small and Medium Enterprises) lending space present, today. According to the study, there exists a whitespace in the form of a USD 120 Bn+ funding deficit in the small ticket MSME lending segment. Given the strong tailwinds, standalone, small ticket lenders have a deal flow potential of ~USD 15 Bn over the next 10 years, which is a 10x increase over the last decade.

The study highlights the urgent need for more financing options for the MSME sector, despite the sector playing a crucial role in the country's economy, accounting for around 30% of the national GDP and employing over a fifth of the population. As the nation strives to become a USD 10 Tn GDP economy, the success of the MSME sector becomes even more vital.

Unveiling the report, **Anshul Agarwal, Managing Director and Co-Head, Consumer, Financial Institutions Group (FIG) & Business Services Investment Banking, Aventus Capital** said, "The small ticket MSME lending segment suffers from a credit deficit of USD 120 Bn+. This credit gap is being addressed by high quality specialized NBFCs who are agile and nimble. We reckon that this segment is headed for a virtuous cycle. As the market matures and balance sheets become stronger, cost of funds will rationalize and operating expenditure will lower. This will allow lenders to pass on these benefits to borrowers, leading to customer delight and loyalty, which will, in-turn, fuel sustained long-term secular growth in this sector. We also have a deep conviction, given the favorable tailwinds and process improvements, that marquee lenders will deliver a 20% ROE on a sustainable basis."

Over the past few years, policy initiatives, especially India Stack and JAM have enabled MSMEs to have a verifiable identity, paving the way for lenders to address their credit demand. These lenders are mostly nimble NBFCs, whose deep, well-entrenched branch networks, feet on street presence, and bespoke underwriting make them thrive in this space. Earlier this month, Aventus held an MSME Lending Conclave to discuss the road ahead for these high-quality specialized lenders who have successfully carved out a name for themselves in the space.

"These specialized NBFCs have a widespread branch network across urban, rural, and semi-urban areas. They have proprietary underwriting mechanisms driven by deep understanding of regional credit dynamics and customers with limited documentation. They have dedicated in-house infrastructure for sourcing and collections, and their products are tailored for the informal segment, including flexible collateral structures and collateral-free working capital loans. With robust balance sheets backed by continuous equity infusions, this segment is poised to witness a deal flow of ~USD 15 Bn in the next decade which is ~10x of what we have seen in the last 10 years." said **Snigdha Khemka, Director, Consumer, Financial Institutions Group (FIG) & Business Services Investment Banking, Aventus Capital**.

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Avendus Capital, the investment banking arm, is consistently ranked among the top investment banks in the country on the back of its in-depth domain understanding and a best in the class track record of domestic and cross-border transactions. Avendus' wide range of clients is testimony to its ability to serve its corporates throughout their life cycle – from growth stage funding to large-sized transactions, and M&A advisory.

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