Creating a digital platform for lending to under-served SMEs in India
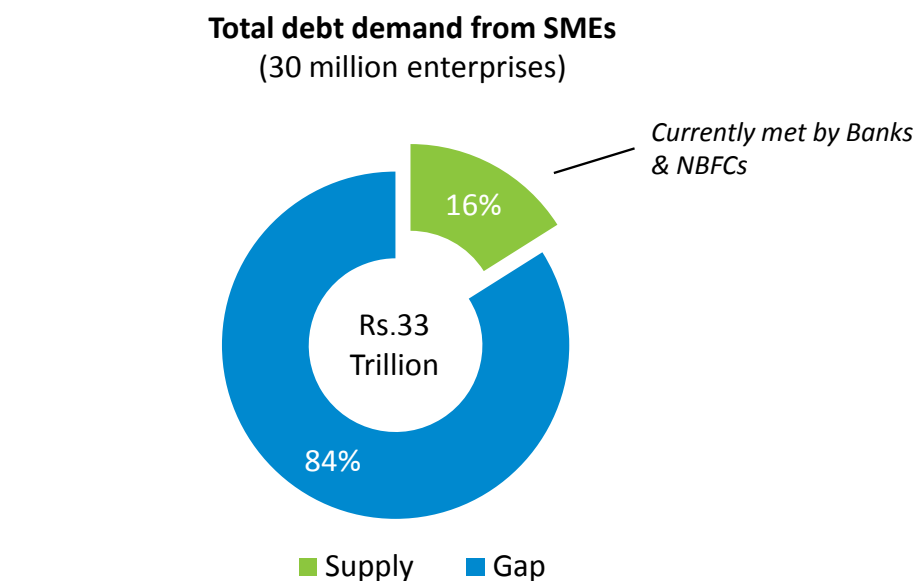
SME FINANCE IN INDIA: THE PROBLEM

Drivers for SME growth in India have never been stronger…

Manufacturing

"Make in India"

Digital Ecosystems

Shift to organized retail and e-commerce; taxi aggregators etc.

Digital penetration

Smart-phones and faster internet

Financial inclusion

Penetration of banking and payment services
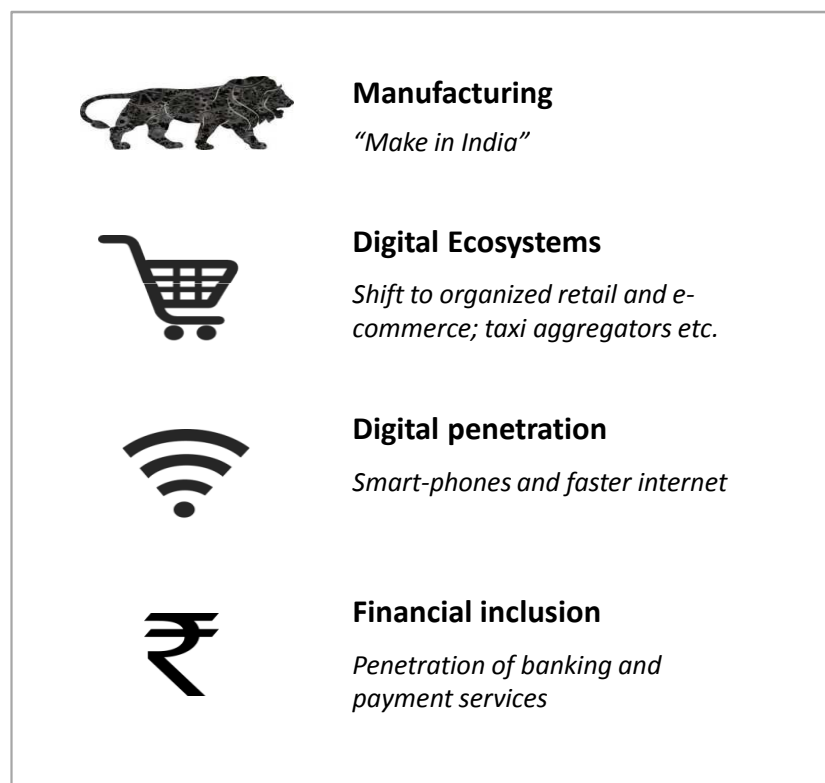
… But access to finance for SMEs remains woefully inadequate

Total debt demand from SMEs
(30 million enterprises)

Currently met by Banks & NBFCs

16%

Rs.33
Trillion

84%

■ Supply   ■ Gap

Rs.26.5 Tr (~$400 Bn) of SME debt demand unmet by formal channels

WHY TRADITIONAL LENDERS ARE STRUGGLING WITH MSME'S

Lack of focus

Inherent bias against small-ticket lending. MSME business secondary to mid-corporate

One-size-fits-all approach

Limited product innovation and customization for what is a highly heterogeneous segment
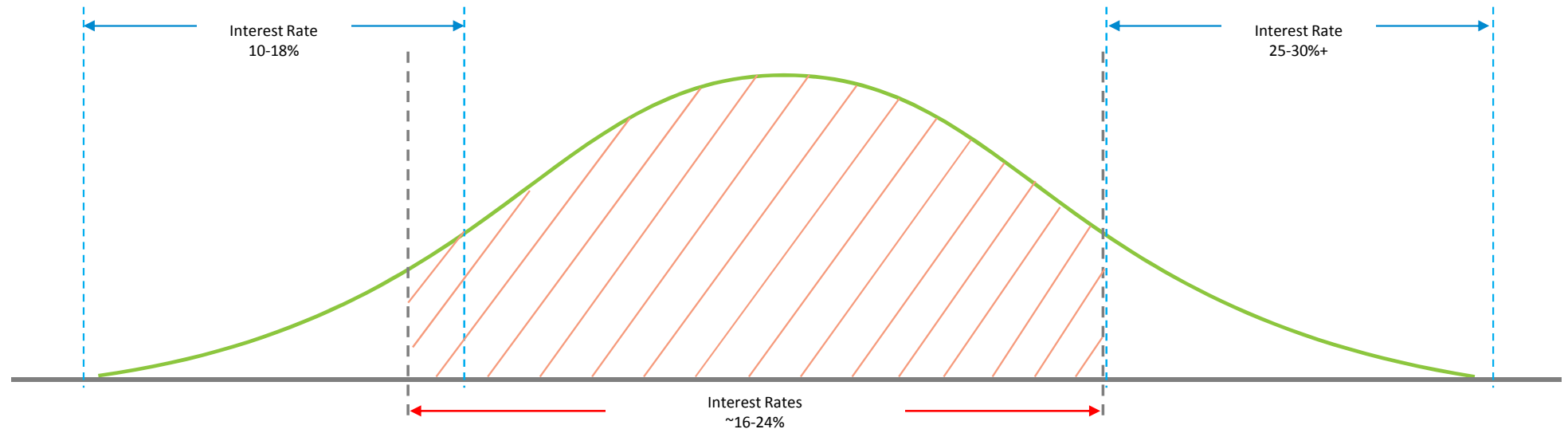
Slow processing

Cumbersome, time consuming processes. SMEs need fast and convenient access to credit

Outmoded underwriting

Largely manual, vanilla risk assessment approach with rigid credit and collateral parameters

LARGE UNADDRESSED MARKET

Interest Rate
10-18%

Interest Rate
25-30%+

Interest Rates
~16-24%

Banks & NBFCs

1. Typically with credit scores above 700
2. Can get pricing of 10-18% from banks
3. Existing business & credit history
4. Larger companies with available collateral

Able / Willing to address <5% of the market

Unaddressed Market

1. Scores 600-700 – careful but quick evaluation needed
2. Varied product needs - Short term & Long Term
3. Pricing Precipice: 16-24%
4. Large Geographical spread
5. >60% not regular internet users
6. Lack of understanding of financial products (handholding) / Documentation gaps

~90% market unaddressed by existing financiers

Niche / Informal Lending

1. Credit scores below 600 or non-existent
2. Get pricing of >25-30% from niche/local lenders
3. Typically need short term loans

Able to address <5% of the market

THE CAPITAL FLOAT SOLUTION

Only player addressing the 90% ..

Customer Characteristics / Needs

1. Scores 600-700 – careful but quick evaluation needed

2. Varied product needs - Short term & Long Term

3. Pricing Precipice: 16-24%

4. Large Geographical spread

5. >60% not regular internet users (not possible to target online only)

6. Lack of understanding of financial products (handholding) / Documentation gaps

Wide Reach

- **Innovative products** for varied SME customer needs

- **Partners** – to reach all 'online' SMEs & open new market segments

- **Customer Service/ UX model**

Efficiency

- **Low delinquencies** enabled by hybrid human-machine underwriting

- **Efficient processing** via automation of business processes

- **Low acquisition cost** with targeted lead generation & conversion

Funding Scalability

- **Rapid book building via well reputed partners**

Technology Platform

Capital Float's robust technology platform enables a scalable SME lending model

ECOSYSTEM LENDING APPROACH

Initial focus on high-growth, SME-centric ecosystems with 3 key features

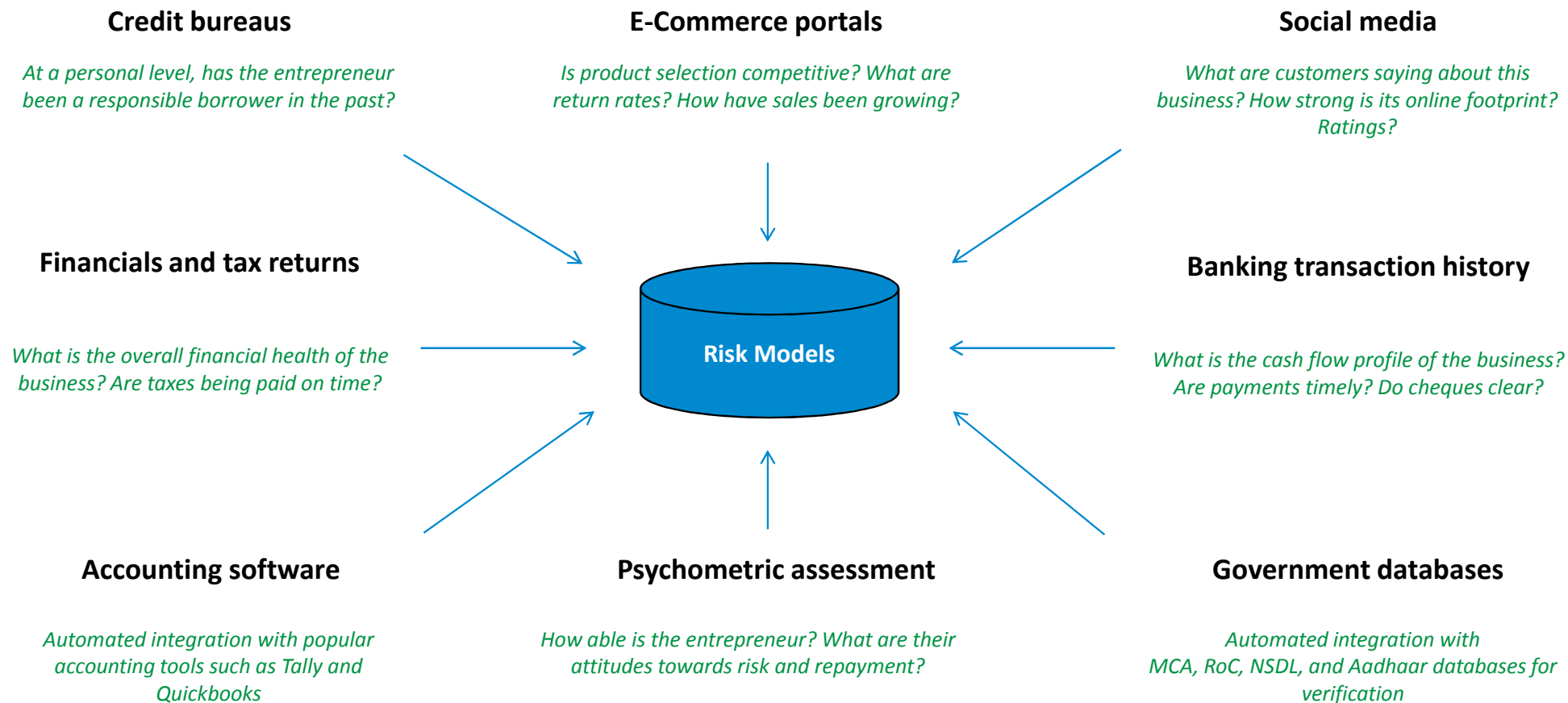**I. Aggregators to build scale with**

II. Differentiated data sources

III. Cash flow visibility / control
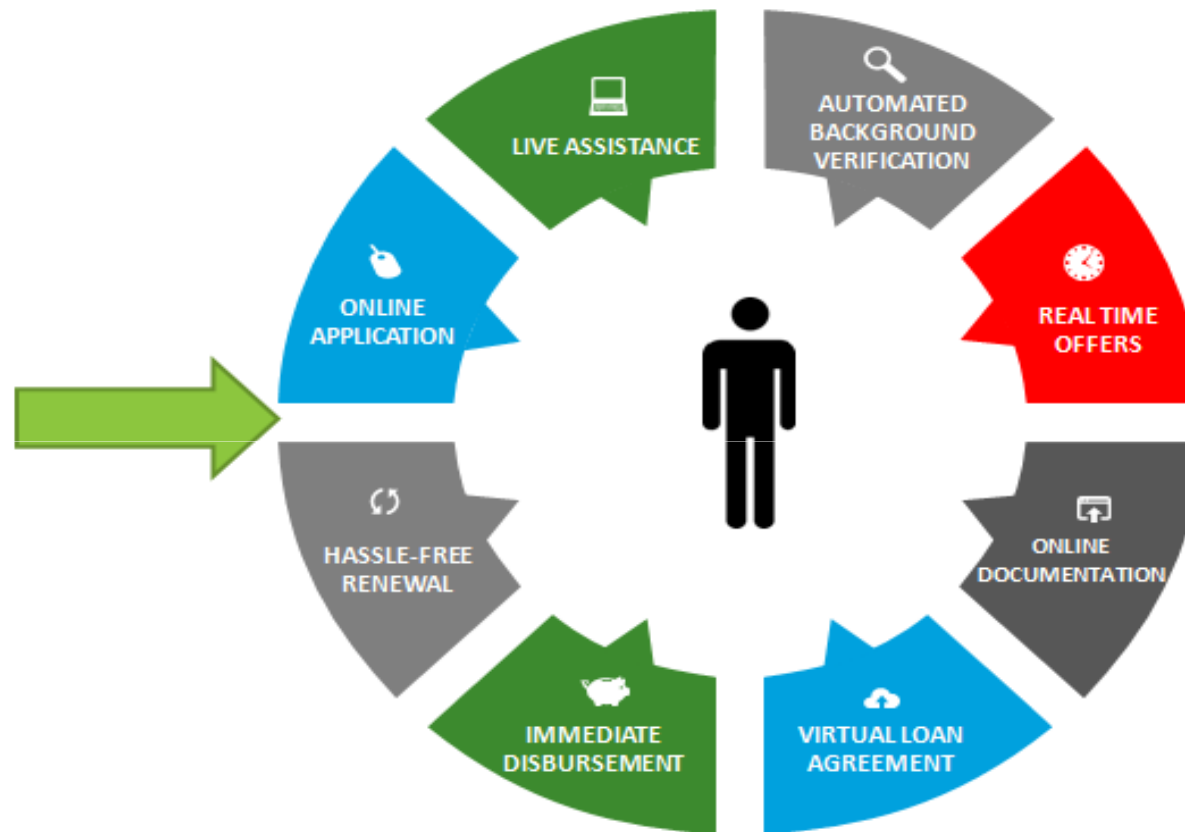
Current focus areas

- B2C E-Commerce

- Transportation

- Payments / POS

- Industry Buying

- Travel & hospitality

- SME services

UNDERWRITING: DATA SOURCES

Credit bureaus

At a personal level, has the entrepreneur been a responsible borrower in the past?

E-Commerce portals

Is product selection competitive? What are return rates? How have sales been growing?

Social media

What are customers saying about this business? How strong is its online footprint? Ratings?

Financials and tax returns

What is the overall financial health of the business? Are taxes being paid on time?

Risk Models

Banking transaction history

What is the cash flow profile of the business? Are payments timely? Do cheques clear?

Accounting software

Automated integration with popular accounting tools such as Tally and Quickbooks

Psychometric assessment

How able is the entrepreneur? What are their attitudes towards risk and repayment?

Government databases

Automated integration with MCA, RoC, NSDL, and Aadhaar databases for verification

CUSTOMER EXPERIENCE: BORROWER

*Our objective is to enable execution of Loan Agreements in a paperless manner (Virtual Loan Agreement) – this is subject to appropriate acceptability in an Indian context

BUSINESS MODEL DRIVING LOWER COSTS

Traditional Lender
Operating Expense: 5-7%

Technology Overhang

Branch Infrastructure

Customer Acquisition

Underwriting

Origination

Servicing

CAPITAL FLOAT ™

Operating Expense: ~2%

Technology and business model drive cost down

Customer Acquisition

Underwriting

Origination

Servicing

LEADERSHIP TEAM

Key Team Members

Gaurav Hinduja
Co-Founder
(Ex: COO, Gokaldas Exports; Stanford GSB)

Sashank Rishyasringa
Co-Founder
(Ex: Sr. Manager, McKinsey; Princeton; Stanford GSB)

Rohan Angrish
CTO
(Ex: Chief Architect, Open Table; Oracle; IIT; Stanford)

Tushar Garimala
Decision Sciences
(Ex: Sr. Manager, Capital One U.S.; HSBC; IIT)

Ankit Satsangi
Credit
(Ex: SVP Unsecured Loans, Fullerton; Barclays; Citi)

Utham Reddy
Product
(Ex: Product Manager, Excellere; Wipro; LSE)

Kumanan Rajgopal
Sales - E-Commerce
(Ex: Head of Merchant Acquisition, AMEX; ICICI)

R.N. Murthy
Sales - Retail
(Ex.: Head of MSME Sales, Janalakshmi; Indiabulls)

Kshitij Shrivastava
Marketing
(Ex: Brand Marketing Head, Mattel Inc.; P&G)

Aman Bhargava
Capital Markets
(Ex: Director, Grant Thornton; E&Y; KPMG)

G.R. Prasad
Operations
(Ex: Head of Operations, Vistaar Finance; Fullerton India)

Vaibhav Singh
Business Development
(Ex: Sr. Manager, Deutsche Bank Asia-Pac; CFA; IIT)

JOURNEY THUS FAR

~INR 200cr loans originated nationwide, partnerships with leading marketplaces

Key business metrics

- **~INR 200cr in loans originated till-date**

- **500+ SME borrowers across 40 locations in India** (Tier 1, 2, 3 cities)

- **Currently adding 100 new customers per month (INR 30cr new originations)**

- **< 0.1% NPAon current portfolio**

- **Target - INR 50 cr new originations per month (run-rate) by April 2016**

Ecosystem partners

E-Commerce finance:

snapdeal.com   paytm   flipkart.com   ebay.in
MYNTRA.com   amazon.in   ShopClues.com   ZOVI   FASHION AND YOU

Auto loans: *Other SME financing tie-ups:*

UBER   OYO ROOMS   indiamart.com   Pine Labs
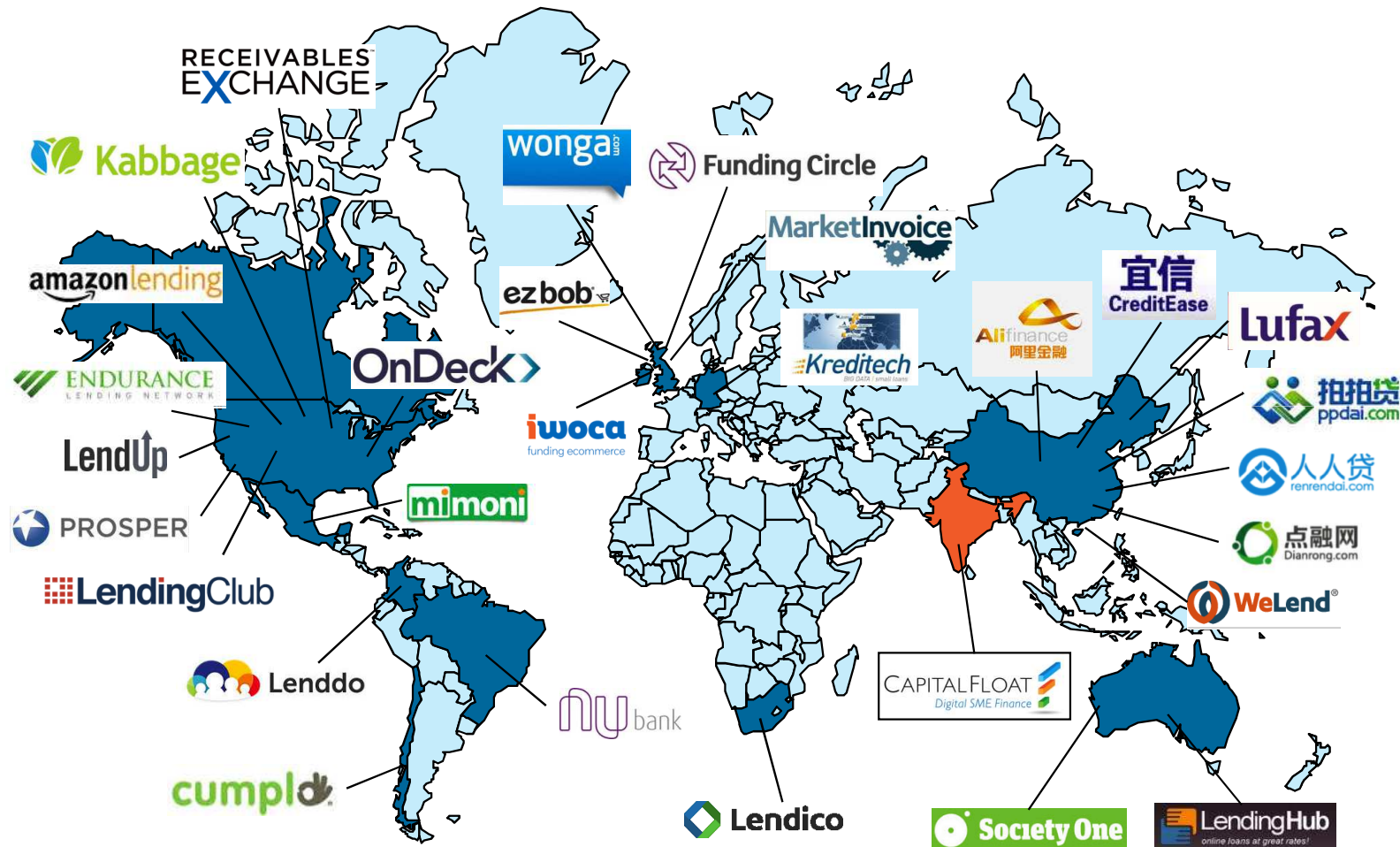
Investors

SAIFPartners
SEQUOIA CAPITAL
Aspada

$17 million raised till-date (Seed + Series A rounds)

DIGITAL LENDING LANDSCAPE

Thank You