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NRUPS 
Experience, Expertise, Execution

NRUPS NEWSLETTER



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TOPIC: ONLINE LENDING INDUSTRY

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The SME lending market in India is worth about \$300 billion today, and digital finance is expected to constitute at least 10 percent of it.
(Source: www.techstory.in)

Over 90% lenders in P2P lending earn gross returns of 18-26% pa.
(Source: www.economictimes.indiatimes.com)

According to tracxn total US \$ 512 mn has been pumped into the fintech sector from that US \$ 199 mn accounted for lending sector.
(Source: www.tracxn.com)

Online lending startup LoanTap has raised \$4 million from Kae Capital, India Quotient, IFMR and MAS Finance along with other angel investors.
(Source: economictimes.indiatimes.com)



Editorial

Dear Friends,

Hello Everybody!

India is considered to be one of the largest market for the consumer finance in the world, behind only to the US and China. It is also one of the most underpenetrated markets for lending, with close to 70 percent of the market being served by institutional lenders. Traditionally lending activity in India was either carried out by brick and mortar financial institutions like banks or by local money lenders, both catering to different borrower segments. Banks depend on their branch network for all of their lending. They were restricted in the scale of operation because of high costs and the dependence on feet on street to acquire borrowers. Huge portion of lending backed by guarantor, collateral. So many of borrowers diverted their borrowings from Banks/NBFSs to either microfinance or private lenders. Off late, Microfinance institutions have emerged to serve unnerved group of people with no security and collateral but with a high interest rates. This covered and served Self Help Group, Joint Liability Group in the remote area where people require daily cash flow to run the business.

Emergence and evolution of Fintech companies changed how the whole mechanism of lending and borrowing from banks/FIs and other lending institutions works. Financial technology transforms the process for lending and minimizes the cost, time and process to disburse the amount to the borrower. Off late, many online lending companies started this activity with various lending models such as Business Loans, Students Loans, Purchase

Lending, Personal Loans, Peer-to-Peer Lending, Pay Day Loans and many more. Online Lending is a unique concept emerged due to lack of focus and ability by Banks/ FIs to serve the small businesses and individuals with various reasons like CIBIL score, stringent regulations and processes, unaffordable interest rates, need for collateral and securities against credit, small tenures etc.

Many start-ups jumped into this sector to tap the underserved credit market. Business loans through Online lending and peer-to-peer lending has gained a lot of traction in the market because of its ability to provide loans in less time with no security, affordable interest rates and various other terms which are not offered by private sector Banks, PSU banks and NBFC's.

Online lending theme becomes favorable amongst PE/VC and other HNI category of investors. Many investments have been made into this sector. Capital float raised US \$ 45 Mn, Neogrowth raised US \$ 43.62 Mn, Lendingkart raised US \$ 42 Mn etc. These investments have been mainly utilized in development of infrastructure & Services and advancement of technology to make the process more economical and quicker.

In this month's newsletter, we have shared some insights on Online lending, how it differs from traditional lending, its benefits and drawbacks and how it can play an important role in catering to credit requirement of the mass. We hope you will enjoy reading this.

-Team Nrups



Online Lending Industry: Overview

India has a long tradition of community-based financing and lending in the forms of chit funds, thrift societies, community associations, and co-operative societies extending credit to its members and participants. These unorganized sectors have been necessitated by the lack of easy access to bank credit. The online loan market is a recent phenomena that has emerged as one of the fastest growing industry in India. This industry has been majorly driven by factors such as growing internet user base, thriving upper middle class aspirations, rising awareness among the users and increasing number of banks and fintech companies who offer online services. Financial technology businesses are disrupting traditional banking channels by making financial products and services more accessible and convenient to consumers who have been left out by traditional banking.

What is Online Consumer Lending?

It is a platform which provides loans to individuals for financing their personal needs, loans to businesses, especially SME, for short term which can be used to purchase inventory, service new orders or optimize cash cycles.

It is estimated that India may be one of the biggest offline peer-to-peer (P2P) lending markets in the world, as nearly 50 per cent of all credit is circulated amongst friends, families, and communities. Hence there is a huge scope for online lending to prosper in India. Today, different transaction models have been rolled out in India where borrowers are assessed with broader prospective. However, most popular amongst all online model is Peer-to-Peer (P2P) lending. Due to the emergence of pioneering technology, various P2P lending platforms have emerged. Let's take a closure look on P2P lending.

What is Peer-to-Peer (P2P) Lending?

It is market place which brings the lenders and the borrowers to the common platform and provides an opportunity to interact directly, negotiate better interest rates and provide investors an opportunity to earn lucrative returns.

P2P Lending : Impact for India:

In India, technology-enabled P2P lending is at a nascent stage. Many companies entered into this arena only in the last few years.

In the coming years India requires huge investments to ramp up its infrastructure projects. So, if lenders and borrowers synchronize well in terms of lending and borrowing funds under through this avenue then the traditional banks and FIs can concentrate on Big industries, infra projects and other nation building activities where huge funds are require. P2P lending is a transformative new technology that could simultaneously reduce cost and increase access to capital. This would be a boon in a capital-starved country like India.

Recent reports have said that India has emerged as the third-largest alternate lending sector in the world, followed by the US and China. There are close to 100 fin-tech startups in India operating in online lending space. These firms either operate as NBFCs, intermediaries for banks/NBFCs or serve as a P2P lending marketplace. India Lends, Lendbox, Loancircle, Loanmeet, Faircent, and Cashkumar are some of the major players in the market today.

Status of RBI Guideline on P2P Lending:

The RBI had floated a consultation paper in April 2016 on the Indian P2P Lending that has been taking roots in India. The guidelines are expected by June or July'17 but delayed due to demonetization, early budget and elections in few states.

At present, Consultation Paper is gone from RBI to Ministry of Finance. The Ministry of Finance has put it out to Ministry of Corporate Affairs and department is yet to revert on the subject matter.

Online Lending Industry: Business Model

Consumer Lending Business Model:

The online lending companies aim to transform small business lending by making it convenient for SMEs to access credit easily. The Company uses technology and analytics tools, analyzing thousands of data points from various data sources to assess the creditworthiness of small businesses rapidly and accurately.

Reasons why Online Lending for small businesses:

1. The application process is 100% online – takes just 15-20 minutes
2. Requires minimum documentation (for e-commerce vendors we only take bank statements and VAT returns)
3. Does not require any Collateral or Net Worth details.
4. Disburses money in just 3 days at fair interest rates.

Unlike banks and other NBFCs these companies do not focus on vendor's old records (Past Financial Statements & Income Tax returns) to evaluate the credit risk profile of a potential client. The NBFC focuses on the client's current year's cash flows and business growth. The objective is to make capital funds available at finger tips so that entrepreneurs can focus on business instead of worrying about gaps in their cash-flows.

Following is the comparison of online lending players with PSU Banks, Private Banks, Traditional NBFCs and other Money Lenders.

Particulars	Online Lending Player	PSU Banks	Private Banks	Traditional NBFCs	Money Lenders
Loan Tenure	1-12 Months	Not Less than 1 Year	Not Less than 1 Year	Not Less than 1 Year	< 1 Year
Interest Rates	18% - 24%	14% - 16%	14% - 22%	16% -24%	24% - 120%
Processing Fees	Up to 2%	2%	2% - 3%	2% - 3%	2%
Hidden Charges	None	Varies	2% Insurance	2% Insurance	None
Pre closure Penalties	None	5% of loan	5% of loan	0-5% of loan	Varies
Repayment Options	Flexible	EMI Only	EMI Only	EMI Only	Weekly, Monthly
Zero Collateral	Yes	No	May be	May be	Yes
Minimum years in Business	1 Year	3-5 Years	3-5 Years	3-5 Years	Varies
Time to get funds	< 1 Week	4-6 Weeks	1-2 Weeks	1-2 Weeks	< 5 Days
Hassle free Documentation and processing	10 minute online application	3 Months	1 Week	Doc Intensive	Unregulated

Peer to Peer Lending Business Model:

- The P2P business model is starkly different than traditional banks.
- P2P platforms don't lend their own funds- they act as a platform to match borrowers who are seeking a loan with "Investors" who purchase notes or securities backed by notes issued by P2P platforms.
- P2P platforms generate revenue from origination fees charged to borrowers and from a portion of the interest charged to investors as servicing fees, as well as additional charges as late fees.
- Investors generate revenue from the remaining portion of the interest that borrowers pay on the loan.
- Borrowers benefit from streamlined application process, quick funding decisions, and 24/7 access to the status of their loan.

Type of Loans on P2P Platform:

- Home Improvement Loan
- Loan for Social Event
- Other Loan
- Travel Loan
- Education/Medical Loan
- Mini Loan
- Small Biz Loan
- Personal Loan
- Short Term Loan
- Debt Consolidation Loan
- Bad Credit Loan

How it works



Criteria for Borrowers and Lenders:

Particulars	Faircent	i2i Funding	India Money Mart	Lend Box	i-Lend
FOR BORROWER					
Ticket Size of Loan					
For personal Requirement	Rs. 30,000 to Rs. 5,00,000/-	Rs. 25,000/- to Rs. 5,00,000/-	Rs. 25,000/- to Rs. 30,000/-	Rs. 25,000/- to Rs. 5,00,000/-	Rs. 25,000/- to Rs. 5,00,000/-
For Business Requirement	Up to Rs. 10,00,000/-	NA	NA	NA	NA
Rate of Interest	12% to 28%	12% to 36%	12% to 24%	16% to 28%	Starts from 12%
Tenure	6 -36 Months	3 - 24 Months	3 - 24 Months	6 - 36 Months	6 - 36 Months
Pre-Payment Charge	Lock in period - Only 3 Months	No Penalty	No Penalty	No Charge	2% of outstanding Principal if 12 months loan is pre paid in 3 months 3% of outstanding principal if 24 months loan is pre paid in 6 months 3% of outstanding principal if 36 months loan is pre paid in 6 months
FOR LENDER					
Who can lend?	Any Indian Resident, Age 25, Min Annual Income Rs. 10 Lacs with valid Bank Account Number & PAN Card and Address Proof	Any Indian Resident, Age 21, Valid Bank Account Number , PAN Card & Address Proof , Not more than 30% of his/her gross income should derive from lending to Individual	Any Indian Resident, Age 25, Valid Bank Account Number, PAN Card & Address Proof, Do not have interest exceeding 30% of Gross Income	Any Indian Resident, Age 21, Valid Bank Account Number, PAN Card & Address Proof	Any Indian Resident, Age 21, Valid Bank Account Number, PAN Card & Address Proof

		borrower			
Up front Registration fees	Yes	Yes	Yes	Yes	Yes
Min Investment	Starts from Rs. 10,000/-	Starts from Rs. 10,000/-	Starts from Rs. 10,000/-	Starts from Rs. 25,000/-	Starts from Rs. 20,000/-
Max lending Amount	% of Loan Amt can Lend Individual – Up to 20% HNI – Up to 50% Institutional Lender – Up to 100%	No limit	Rs. 3,00,000/-	Rs. 10,00,000/-	Rs. 5,00,000/-
Lending Period	6 Months to 36 Months	3 Months to 24 Months	3 Months to 24 Months	6 Months to 36 Months	6 Months to 36 Months
Late payment / Delayed or Non Payment of Loan	Get Penal Interest from borrower of Rs. 100/- for 10 days delays and Rs. 250/- for delays of more than 10 days	All EMIs will be presented on 7th working day of the month and late payment charges 24% p.a. on the overdue amount, subject to a minimum amount of Rs. 100	Penal interest will be as per loan agreement if EMI is not paid within due date on the amount due and for the time period lapsed after the due date	Penal interest of 2% pm will be applied if EMI is not paid on due date or delayed + Collection Charges Rs. 500 by lendbox	NA

Pros & Cons of Online Lending Industry

Despite the commendable contribution to the nation's economy, the SME (Small and Medium Enterprise) Sector had long been neglected by government departments, corporate, as well as banks and other financial institutions. The biggest hurdle that small businesses face in their day-to-day operations is shortage of funds and immediate requirements to keep the short term working capital cycle running. Off late, the government has been proactive in injecting various types of financial aid to small businesses. Many of the government initiatives aided this sector from its grass roots such as Micro finance, license of Small Bank Finance, Payment Banks, vision of financial Inclusion by 2021 etc.

Although government has put lot of efforts to channel funds to the small and vulnerable businesses in the country, there is still a vacuum left by traditional banks when it comes to extending easy credit. These loans are subject to cumbersome process, unaffordable interest rates, need for collateral and securities against credit, small tenures etc. making it anything but 'easy' for those in need of funds. Traditional banks have not been able to fully meet customer needs which have led to the rise of micro financing start ups in the country. Financial technology businesses have targeted the segments ignore by traditional banks so far. Considering facts of online industry following are the benefits and risk involved for lenders in P2P lending.

Benefits:

- 1) High Risk adjusted returns
- 2) Asset class with returns more stable compare to Stock Market
- 3) Steady Cash Flow
- 4) Hassle Free Process
- 5) Paper less work
- 6) In Process regulatory framework

Risks:

- 1) High Interest Rate for borrowers
- 2) Default risk and creditworthiness of the borrower over time
- 3) Concentration Risk
- 4) Risk of recovery
- 3) Credit Policy Risk
- 4) No Insurance Risk
- 5) Macro Risk
- 6) Liquidity Risk
- 7) Foreclosure early repayment risk

P2P lending is one of the most revolutionary and disruptive financial innovations of our times. Modern technology, lifestyle, and the way we earn, spend, and invest are the lifeline of P2P lending. It provides many left behind a chance towards financial inclusion. With borrowers well rated and mostly paying on time, with the promise of decent returns and the simplicity of asset class, with a conducive regulatory framework, and greater data-transparency in the system, P2P lending may become one of the most profitable investment classes in coming years.

Traditional Bank Lending Vs. Online Lending

Although traditional banking has been an integral part of the economy for years, online lending has evolved considering the challenges to the traditional banking from the borrower's point of view. Banks and FIs have their requirements such as perfect personal credit, a potential collateral agreement for up to 100% of the loan amount, financial statements, a business plan, and cash-flow projections with often unrealistic standards. It also takes several weeks and months in approving loans. Whereas in online lending, process is handled virtually. Online lenders tend to have simple and quick application processes compared to banks, and they can also provide funding much faster.






Online lenders also tend to be more permissive when it comes to a business owner's personal credit history. However, because these types of lenders are taking on more of a risk in lending to business owners with less than stellar personal credit, they may pass that risk back onto the business owner, via higher interest rates than what banks may offer. Considering in mind that online lending is not regulated yet as traditional banks so research and diligence is required to find good lending institutions.

Let us look at the following pros and cons of traditional and online lending.






	Traditional Banks	Online Lending
Pros:	Costs less via better interest rates	Simpler process
	Industry is heavy-regulated, providing more peace of mind (Comparatively)	Convenient-can be done anywhere with internet access
	Bigger the business, better the rate	More accessible if personal credit is flawed/imperfect
	Breadth of business lines means better terms on add-on services	Funding cycles can be more
Cons:	Tedious process	Higher interest rates (in some cases, much higher)
	Response time can take weeks or even months	Industry not as regulated - predatory brokers and lenders do exist
	Requires good personal credit	No physical branches to speak to someone in person
	May require collateral	
	Less innovative solutions	

Key Players & Investments in Online Lending Industry

For Business Loans

Particulars	 IndiaLends	 Instakash	 Capital Float	 Lendingkart <small>Think Cash, Think Lendingkart Group!</small>	 NeoGroth <small>NeoGroth Credit Pvt. Ltd.</small>
Type of Business	Online Credit Underwriting and analytics platform that provides personal loans, home loans and loans for SMEs	An Online Market Place connecting lenders and customers for personal and business loans	An Online platform that provides working capital finance to SMEs	An online platform provides working capital finance for entrepreneurs.	An online platform provides Business Loans for MSMEs.
Operations	60, 000 Unique Monthly Visits, 10,000 monthly loan applications, Disbursed loans of Rs. 4 crores so far	250 Applications	Offered loans to 3000 borrowers, Presence in more than 80 cities and plans to reach 100	Disbursed loans to over 12000 borrowers and Rs. 500 Crores of loan portfolio	Has been operational since last 5 years. Provided business loans more than 7000 customers. Partnered with 7000+ business merchants
Funding Raised	Raised US \$ 4 mn in Series A funding from American Express Ventures, DSG Consumer partners, Cyber Carrier VC and AdvantEdge Partners	Incubated by Aditya Birla Group and funding raised by US \$ 1 mn	Raised US \$ 45 mn in NCDs by George Soros's Aspada Investment Co., SAIF Partners, Sequoia Capital, US \$ 4.8 Mn by IFMR Capital, M&M Financial Services	Raised US \$ 42 mn in Series A and Series B funding by Saama Capital, Mayfield Fund, Bertelsmann India Investments (BII), Darrin Capital Management and India Quotient, US \$ 4.6 Mn by Anicut Capital LLP	Raised US \$ 43.62 Mn by IIFL Wealth Management, Seed Venture Fund, Omidyar Network, Aspada Investment Co

For Peer-to-Peer Lending:

Particulars	 Faircent <small>EVERY % COUNTS</small>	 i2i Funding <small>i2i Funding.com</small>	 Rupaiya Exchange <small>BETA</small>	 Lend Box <small>Lendbox</small>	 i-Lend <small>A unit of Dipamkara Web Ventures</small>
Founded In	2013	2016	2015	2015	2011
Loan Disbursed Since Inception	17 Crores approx	8.4 Crores Approx	6 Crores Approx	Rs. 75 Lacs	Rs. 90 Lacs
Fund Raised	Raised US \$ 8.25 Mn by Aarin Capital, Brand Capital, JM Financial, M&N Capital Partners, Ad-for-equity investment arm of Bennett Coleman and Co, Mohan Das Pai, Arun Tadanki, Doreswany Nandkishore and Kshitij Jain.	Raised Rs. 2 Crore by an angel group of investors.	Raised US \$ 200 K from HNIs and group of professionals.	Bootstrapped	Raised funding by 50K ventures for undisclosed amount

Following are the other investments in the online lending industry:

- Mumbai-based fintech startup CreditMate raised US \$ 500K from VC fund India Quotient
- Mumbai-based peer-to-peer lending platform LenDenClub has raised an undisclosed amount of angel investment through Venture Catalysts, a seed investment and innovation platform.

Investments raised in online lending industry since Jan'17

Company	Fund Raise	PE/VC Firm / Investors
ZestMoney	US \$ 6.5 Mn	PayU
PaySense	US \$ 5.3 Mn	Jungle Ventures, Naspers, Nexus Venture Partners
Capital Float	US \$ 4.8 Mn	IFMR Capital, M&M Financial Services
Lendiigkart	US \$ 4.6 Mn	Anicut Capital LLP
EarlySalary	US \$ 4 Mn	IDG Ventures India, Dewan Housing Fin Corp,
IncredFinance	US \$ 3.75 Mn	Paragon Partners
Seynse Technologies	US \$ 3.5 Mn	Bharti Airtel
RedCarpet	US \$ 2.5 Mn	Lightspeed Ventures Partners
Loan Frame	US \$ 2.25 Mn	Vedanta Capital
EzCred	US \$ 1 Mn	Nutanix CEO Dheeraj Pandey, Uber's director of engineering Akash Garg
SmartCoin	US \$ 5,00,000	Unicorn India Ventures, Myntra founder Mukesh Bansal
SMECorner	US \$ 4,00,000	Dutch Good Growth Fund
i-Lend	Undisclosed	50 K Ventures
SimpliLend	Undisclosed	Undisclosed

Conclusion:

Online lending platform has a big potential to grow in India. There are still some challenges in this sector which needs to be considered. The biggest of all is to manage risk with minimum regulation. As the industry adopts improved risk infrastructure, new investment vehicles become possible. The secondary market can take off and the industry as a whole will attract more capital. There is huge opportunity for online lending platforms to partner with financial institutions- synergizing the platform's technology and data analytics capabilities. Financial institutions can expand operations and scale of lending with the help of emerging platforms. Companies can build robust financial inclusion initiatives and truly expand the market to increase lending penetration in India.

Due to the absolute transparency provided by online loans, customers can compare the services of various banks easily. The market has evolved over the years, with metropolitan cities such as Delhi/NCR, Mumbai, Chennai, Pune and Bangalore driving growth in the market. However, low awareness with respect to online loans continues to deter consumers from using online loans.

About NRUPS

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 - Transaction Advisory
 - Debt Syndication

CSR Activity at Nrups:

NRUPS in association with YUVA Unstoppable had organized an event to aid scholar and needy students. . NRUPS has funded almost 250+ students under the Project Udaan. At a recent event at AMA, 54 unprivileged and needy students who have scored distinction and above marks were extended scholarship and financial aid. It was very inspiring event where the students narrated their struggle to overcome the hurdles and score high percentage. Many trade and industry leaders, professionals and entrepreneurs also attended the event to motivate these school children. Following are the few of the memories of this event:



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