

# StanChart to go slow on unsecured loans to SMEs

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Standard Chartered Bank has decided to go slow in disbursing unsecured loans to small and medium enterprises (SMEs), after witnessing a rise of about 40 per cent in non-performing assets (NPAs) in the unsecured SME loan portfolio in the last six months.

“On account of rising delinquencies, we will be going slow in disbursing unsecured loans to the SMEs this year, and will be more disciplined in our approach. However, other segments – such as trade working capital and transaction accounts – will continue to grow,” said Rakesh Singh, general manager for SME banking, Standard Chartered Bank.

The bank plans to reduce the share of unsecured loans in the SME portfolio from 30 per cent in the last calendar year to about 20 per cent by December 2009.

The bank has about 15,000 borrowers in the unsecured SME segment. Overall, SME accounts comprise one-third of the total asset portfolio of the bank’s consumer banking division.

The bank has set an overall growth target of 30 per cent in SME lending on a year-on-year basis, as against 50 per cent last year. It has also initiated restructuring of several SME accounts by increasing the tenure of repayment and reducing interest rates.

The bank is now targeting areas like health, education, infrastructure and food processing for SME lending, especially with regard to equipment finance. This is because

there have been marked defaults in other sectors, such as textiles, gems & jewellery and engineering goods, in the last few months.

“We have adopted an industry-focused approach, whereby we have identified certain sectors as having good growth potential. We have identified certain products, like business equipment loans, which will act as enablers to augment the SME portfolio in certain segments. Standard Chartered has been doing equipment financing in the corporate banking segment. We are now trying to add this in the SME segment as well,” said Singh.

This year, the bank hopes to disburse \$100 million through equipment financing.

“We see good potential in equipment financing for sectors like health and education, which includes lending for printing presses or medical equipment purchases. We will be consolidating the business this year and, by next year, it will account for significant lending in the SME segment,” said Singh.

Apart from unsecured loans, trade working capital accounts for 30 per cent and liabilities from transaction accounts amount to 40 per cent of the bank’s SME portfolio. The net NPA in the SME segment for the bank is less than 1 per cent at present.

“Standard Chartered would also leverage its global branch network in key international destinations having good business links with India – like the UAE, Singapore, China and Bangladesh – for simplifying bank transactions for SMEs,” said Singh.