

Based on
2 surveys across
300,000+
respondents



BHARAT BOL RAHA HAI

A nationwide survey of how small retail customers
addressed by NBFCs are countering the 2020 pandemic



MAGMA FINCORP LIMITED | AUGUST 2020



Magma Fincorp reached out to more than

300,000

NBFC customers across India in the last few months.

The company engaged, empathised and heard what these first-generation entrepreneurs at the bottom of India's economic pyramid had to say – about the effect of the pandemic on their business, repayment capability, cash flows and outlook.

This is the report of the two landmark engagements – the first of their kind across the broad sweep of India's NBFC industry.



INTRODUCTION

Our activities made it possible to provide a voice to India's voiceless that can now be amplified to the country's decision-makers and policy makers.



Deepak Patkar
Chief Executive Officer, Asset Backed Financing

Overview

The onset of Covid-19 pandemic of 2020 was unprecedented in speed and impact.

As the Indian economy went into a complete lockdown from 24 March 2020 and thereafter into a partial lockdown a couple of months later, the most affected segment was the one at the grassroots.

A large part of this grassroots economy comprises new-to-credit customers (NTC). These entrepreneurs had not too long ago been individuals with relatively low education and social standing. They had been employees and assistants to entrepreneurs or drivers; over the years, they had mustered the confidence to venture out and seek financing assistance from organised non-banking finance companies to get into business.

For a number of people, the engagement with these NBFC customers would have been nothing more than a transaction. At Magma Fincorp, committed to the motto of 'Investing in the smallest dream', we believe that the act of a small first generation entrepreneur seeking financing for buying into a productive economic asset, represents the very soul of financial inclusion – it is thousands of such initiatives that are helping build a modern India from the grassroots upwards.

As a responsible organisation, our principal concern was to ensure the safety of this ecosystem – employees, customers and other stakeholders – during the lockdown.

Engagement

At Magma, we took a landmark decision to go deep and wide by reaching out to a majority of our customers who belong largely to the informal and NTC segment.

We engaged with them to ascertain their (and their family's) safety. We endeavoured to understand their concerns, business viability and cash flows.

We did this out of a sense of sectorial responsibility and recorded their observations. We guided and counselled wherever necessary. We aggregated their observations into a report which provides an insight about the sectorial behaviour which could constitute a referral document for external consumption.

We have done so twice in the last few months – through April 2020 when the lockdown was complete, culminating in our maiden survey in May 2020, followed by our second engagement in July 2020, when the lockdown had been partially lifted, which culminated in a survey that very month.

This document represents an aggregation of these exercises, providing a comparison and trend line of how India's NBFC customers – largely rural – are strategizing their way out of the pandemic-induced slowdown.

Unique

This engagement was unique for a number of reasons.

It was possibly the first ever time that an extensive survey of this magnitude was conducted across a large spectrum of customers across the country.

It was possibly the first ever time that India's erstwhile undocumented, unbanked and under-served customers were engaged with.

It was possibly the first time that a sample set of those spoken to across the NBFC sector comprised 300,000+ pan-India (second survey), making the representation broad and dispersed.

It was possibly the first ever time that more than 5000 trained professionals with an experience of working within the NBFC sector were deployed to conduct the engagement in the local language of their survey subjects.

It was possibly the largest 'virtual' survey within India's NBFC sector; the first round was completed entirely through remote telephonic engagement in line with the government's guideline on social distancing.

Overview

At Magma, we believe that this Voice of Customer engagement – conducted every quarter – represents good governance, enhancing business stability and visibility.

Such an exercise provides us with a near-real time understanding of the business health of India's large rural NBFC customer family.

Such a periodic survey will provide a perspective of the health and mood of India from the grassroots upwards.

Such a bottom-up nationwide perspective will empower the sector to correlate conversations with repayments for the benefit of the sector and country.

More importantly, such an exercise will make it possible to provide a voice to the voiceless that can be amplified to the country's decision-makers and policy makers.

Sincerely

Deepak Patkar

Chief Executive Officer, Asset Backed Financing

METHODOLOGY

How the surveys were conducted

PART TWO

- 1 Period**
 The survey was conducted in April-May 2020 and July 2020.
- 2 Sample size**
 The first round of the exercise was conducted across a sample size of 3.08 lacs respondents; the second round was conducted across 3 lac respondents
- 3 Interviewers**
 The interviewers comprised more than 5000 Magma field officers, trained to conduct the survey and possessing the necessary sectorial insights to engage with NBFC customers
- 4 Tenure**
 It was conducted in 15 days
- 5 Footprint**
 It was conducted right down to the taluka level across rural India
- 6 Questions**
 The survey comprised a standardised questionnaire with 46 questions in the first round and 22 questions in the second round covering all businesses; the common 'core' questions were 13.

The footprint of our pan-India engagement exercise



| → EAST | → NORTH | → SOUTH | → WEST |
|--------------|------------|----------------|----------------|
| BIHAR | DELHI/NCR | ANDHRA PRADESH | GUJARAT |
| CHHATTISGARH | UP EASTERN | KARNATAKA | MADHYA PRADESH |
| ORISSA | UP Western | KERALA | MAHARASHTRA |
| WEST BENGAL | HARYANA | TAMILNADU | |
| JHARKHAND | PUNJAB | | |
| | RAJASTHAN | | |

Capturing the voice of the voiceless

PART THREE

1

Rationale

'Why was such an outreach necessary?'

We were asked this question a number of times in the last few months.

The pan-India outreach was necessary because it wasn't just an outreach.

It was an engagement to deepen a relationship with the markets we address .

It served the purpose of sending out a message that the world cares.

It was done to articulate the fears, realities and aspirations of the voiceless.

2

Target subject

So who is this 'voiceless' customer?

Someone who is a first-generation entrepreneur.

Someone who needed financing support to buy a livelihood-generating asset.

Someone who did not have any income-validating documentation to get financing.

Someone who could well be illiterate.

Someone who values his zubaan (verbal agreement) and izzat (respect).

Someone who is fundamentally honourable and industrious.

3

The engagement

When the pandemic broke, these NBFC customers feared the possibility of a default on account of low asset deployment on the one hand and instalment repayment pressure on the other.

Being simple people, these customers feared the worst: "What if I lose my community respect following default?" The point is that most of their fears are neither misplaced nor exaggerated; that these fears do exist is important .

An NBFC like Magma chose to go and listen to these customers. There was no marketing, no focus on 'When will you pay your loan instalment?' but simply the act of listening, empathising, guiding and sending out a message that 'Whenever you need us, we are there.'

For customers who have been outside the radar of financial inclusion for decades, the very act of engagement represented a landmark.

FINDINGS

Principal take-homes from our two-step engagement

PART FOUR

The objectives

May 2020 survey

To assess the physical and financial well-being of customers during the complete pandemic lockdown, gauging the risk to prospective NBFC cash flows.

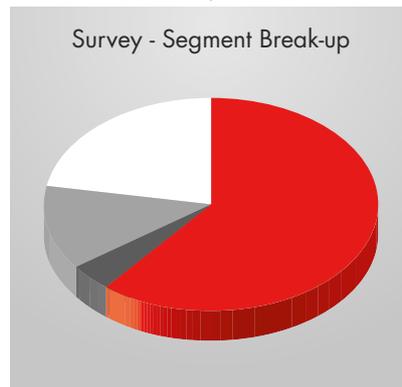
July 2020 survey

To assess changes in the economic situation of customers by gauging the deployment status of their vehicles following lockdown relaxation.

A comparative study of the surveys

THE FIRST SURVEY, MAY 2020

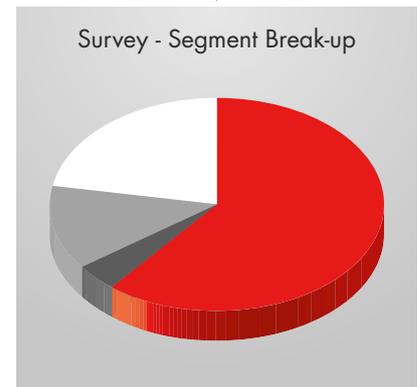
We reached out to a total of 3.08 lac customers; the segmentwise break-up is as follows



| | |
|--------------------------|-----|
| ■ Car | 61% |
| ■ Construction Equipment | 4% |
| ■ Commercial Vehicle | 13% |
| □ Tractor | 22% |

THE SECOND SURVEY, JULY 2020

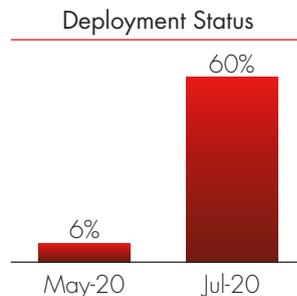
We reached out to a total of 3.00 lac customers; the segmentwise break-up is as follows



| | |
|--------------------------|-----|
| ■ Car | 63% |
| ■ Construction Equipment | 4% |
| ■ Commercial Vehicle | 11% |
| □ Tractor | 22% |

Commercial Vehicles / Construction Equipment

There was a ten-fold increase in vehicle deployment between the time of the two interactions.



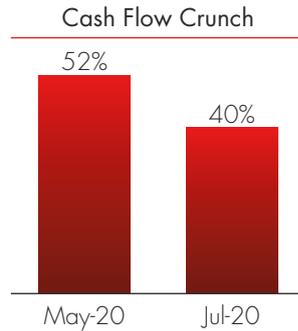
KEY TAKEAWAYS

1. Out of the 60% asset deployment in the second engagement, load utilization was 50%.
2. The period was marked by deployment issues due to non-availability of market load, labourers and drivers.
3. Reverse migration impacted the availability of labourers & drivers.

Personal Cars

The Personal Car segment comprised SENP customers whose cash flows are largely dependent on their businesses.

There has been an improvement in the cash flow situation as the graph illustrates

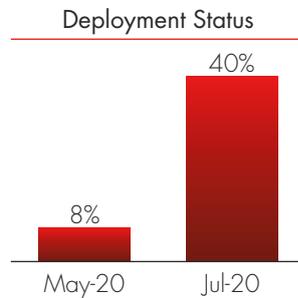


KEY TAKEAWAYS

1. Customers who have largely been in addressing downstream customers from essential goods, agri-based & FMCG sectors are showing positive trends vis-à-vis downstream customers in sectors such as garments, gems & jewellery etc. that are not doing particularly well.
2. 60% of the segment do not suffer severe cash flow issues any longer.

Commercial Cars

Taxi segment - includes Ola, Uber & tour operators

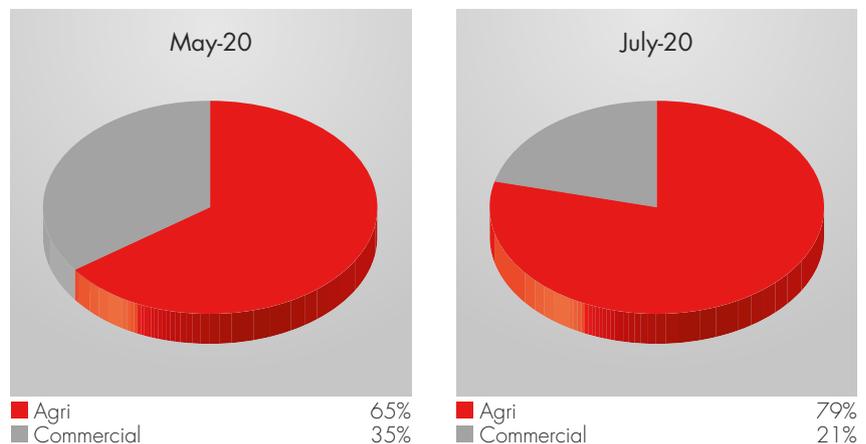


KEY TAKEAWAYS

1. Low commercial deployment.
2. Since most people are avoiding public transport, deployment is not picking up.

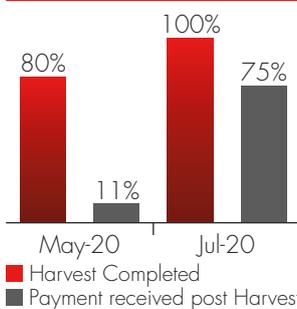
Tractors segment

The surveys indicated the break-up of the segment based on the usage pattern



Agri-based usage

Deployment Status

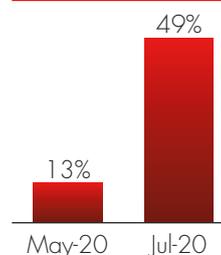


KEY TAKEAWAYS

1. Bumper Rabi crop harvest and timely government interventions enabled farmers to improve crop sale and cash flows during challenging times
2. 70% of the customers were able to make their payments on time.
3. Even with the segment having no cash flow issues some are conserving cash due to a lack of immediate future visibility.

Commercial usage

Deployment Status



KEY TAKEAWAYS

1. Significant use in haulage purposes.
2. Though there is improvement yet cash flow crunch persists due to deployment issues.

A comparative summary

| → | → | → | → |
|--------|---|--|--|
| Sl. No | Particulars | Survey 1 | Survey 2 |
| 1 | Customer health and well-being including their family members | All are safe and no major concerns on health reported | |
| 2 | Deployment: CV & CE | Deployment constrained due to a complete lockdown. | Deployment started in essential goods and agri sector products due to a partial relaxation in the lockdown. |
| 3 | Reasons for non-deployment | Non-availability of market load, drivers and helpers in CV/CE. | |
| 4 | Cash flow status : CE/CV & commercial cars | Unable to generate cash flows due to non-deployment during lockdown. | Improved cash flows due to increased deployment especially in essential goods transportation, food and agri sectors. |
| 5 | Tractor segment - Harvest | Harvest not fully complete, crop not completely sold. | Harvest completed, crop sold in market and the NBFC customer started realising payments. |
| 6 | Tractor segment – factors affecting crop sales | Lockdown, labour non-availability & closed Mandis. | Labour non-availability, mandi operational issues and low price realisations. |



The optimism

There was a visible improvement in the CV segment largely because of the increased transportation of essential goods within the economy.

There was a partial lifting of the lockdown that translated into enhanced economic activity.

A favourable rabi crop, government incentives, superior crop sale and a rapid release of funds to farmers enhanced optimism.

The monsoons are expected to be normal; a bountiful crop is expected to revive the rural economy.

Economic activity is expected to revive following the lifting of the lockdown in a phased manner.

The government's intervention through moratorium schemes and other financial support to the rural population and the agri sector have kickstarted generated an economic push.



Our summary

The definitive conclusion that one can make from the two surveys conducted by Magma is there is a positive sentiment with visible green shoots.

As the lockdown eased after July 2020, the payments cycle improved, which indicates that much of payments integrity is linked to optimism.

There was a sharp decline in the number of moratoriums sought.

There is an increase in tractor demand on account of robust farm earnings and the anticipation of a good monsoon. Most NBFC customers were living close to the bone and did not have cash reserves to fall back on

There was a growing awareness among NBFC customers for the need to create a financial buffer to address the foreseeable future

There was a growing need for a knowledge pool that would indicate freight rates and loading across routes

There was a sharp increase in online repayments for what was not more than six months ago a cash-based payment system

There was the emergence of an active pre-used vehicle market, a development with exciting possibilities

A number of NBFC customers adapted to capture whatever opportunities emerged as long as they could cover their variable costs

The conversation shifted from 'munaafa' or profit to 'haath me paisa' or cash flow

An increased number of unorganised truckers showed a willingness to ply their vehicles within their own state

Food and diary transporters emerged as a dependable 'low beta' segment within the transportation sector

There is a greater awareness among NBFC customers to factor in the unthinkable and the unforeseen into their medium-term business planning

Bharat bol raha hain

The feedback from our interviewers from across rural India

"All those entrepreneurs who would have wanted to take four financed vehicles in the past will probably only take one now, see how that has been deployed, then take another one and only gradually scale their requirements over time. Business expansions will become far more cautious than ever."

"Based on our grassroots experience, more people are saying 'Kitne din ghar me haath pe haath dharey baith sakte hain?' We believe that this shift in perspective will be the engine that drives the country forward and provide more income enhancing opportunities to NBFC customers."

"By June, a fatigue had set in: rather than mope about how bad things were, commercial vehicle owners were willing to keep their assets moving even if it meant that they would be paid in four months."

"Customers had generally assumed that the moratorium would provide complete relief from EMIs; following our engagement most realised that this was not a 'free ka offer' and opted out of the moratorium. Most told us: 'Koi samjhaaney wala hi nahi tha pehley.'"

"During our discussions with a number of people one of the things they kept referring to was 'Aisa kabhi socha hi nahi tha.' This is a defining line and we believe that, going ahead, the business planning of all those NBFC customers will factor in the unthinkable and the unforeseen."

"Following Magma's survey we believe that those already engaged in small businesses, there is a clear focus on the need for better financial planning, marketing and superior customer service. Virtually every NBFC customer we engaged with asked: 'Saab, dhandhaa kaisey badhaayein?' This was refreshing."

"Food and diary transporters have emerged as a 'low beta' segment within the transportation sector – the movement of their vehicles remained virtually uninterrupted during the lockdown. They repaid on schedule and did not seek any moratorium."

"In May 2020, when the country was passing through a complete lockdown, a number of customers we engaged with would not take our calls or would not provide us with the necessary details. During the second interaction two months later, when the lockdown had been partially relaxed, they were more willing to discuss their personal position and strategy. This increase in confidence was the result of their having recovered their receivables from the mandis and agricultural clusters and also deployed their vehicles."

"In the Delhi region where I am based, my engagement with NBFC customers indicates that most have returned to around 75 per cent of the pre-Covid business level."

"In the past, Indians generally had an aversion to buying things second-hand. Following the lockdown, this aversion will be history for some good reasons: one, people have less liquid cash to go around; two, freight rates have declined so payback periods have lengthened; three, new vehicles have become more expensive from 1 April following BS VI coming into effect which has been compensated by an increase in freight realisations. On the other hand, there is a growing recognition that pre-used vehicle owners can generate equivalent or superior returns from their business with a lower entry cost. The result is that the needle has begun to shift and the market of pre-used assets is likely to grow faster. This is a watershed moment for pre-used vehicles."

"In the regions of our presence, most NBFC customers in our region had got to around 60 per cent of their pre-Covid business level by July 2020. This was still below their break-even level but enough for them to cover their domestic expenses (food, rent and children's education)."

"Most ex-drivers who had got into business by seeking financing assistance from an NBFC were largely living close to the bone. Jo kamaaya woh khaaya (after leaving aside some money for repayment). Most of them did not have cash reserves to fall back on.

It was quite ironic: the same customer who was servicing his loan on schedule until early March 2020 was virtually bankrupt (except for the ownership of a vehicle) in a couple of months. Most first generation NBFC customers don't just need timely financing; they need timely financing education on how to create a business that stays liquid and profitable across market cycles."

"Most of those we engaged with said they would not venture to grow their business without possessing financial reserves to last them at least 12 zero-revenue months. Most indicated the need for a knowledge pool that would indicate rates and loading across routes that could empower them to switch their route allocation, resulting in higher asset utilisation."

"NBFC customers began to pay even small amounts like Rs 2000 to keep their payment cycle running, which may not have transpired after just one visit. The result: customers with overdrafts were now more willing to regularize their payments to strengthen their credit rating. NBFC customers driving their own vehicle emerged more liquid than transporters reliant on drivers. As soon as cash flows resumed, NBFC customers immediately started liquidating the EMIs, which is the sign of a new networked India where everyone wants their personal credit rating to remain impeccable."

"One of the most remarkable things that I have seen in the last few months is the sharp decline in the number of moratoriums. Of nearly 8000 people we engaged with in Rajasthan, the proportion of those seeking moratoriums declined from 90% in April-May 2020 to only 35% by July 2020."

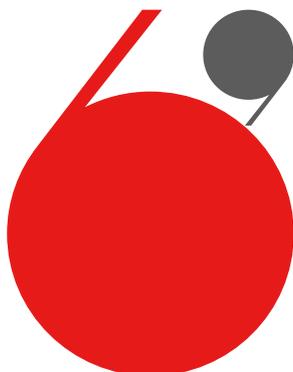
"The bottomline of Magma's pioneering engagement with the bottom of India's economic pyramid was that what is in the mind of the NBFC customer is more important than what is in his or her pocket. As an extension of this belief, spending time with the customer in his or her environment to understand where he or she comes from and life aspiration is more important than sending a whatsapp saying 'Your instalment falls due on 23 July 2020'."

"There was an increase in tractor demand. NBFC portfolios that serviced agricultural tractors encountered lower moratorium requests."

"The words 'pre-used' will become more acceptable in India across the coming months resulting in a watershed moment. Besides, all those seeking to shift from one vehicle model to another in five years are likely to use their vehicles much longer."

"Thousands of NBFC customers are using words they never used earlier: the conversation has shifted from 'munaafa' or profit to 'haath me paisa' or cash flow. Most customers are telling us that they wish to sleep better at night even if it means 'Do paisa kum kamaayenge'. What does this mean? It means smaller but quality businesses; it indicates the need to lead happy well-rounded lives; it implies robust Balance Sheets over stretched financials."

"The sharp increase in online repayment (for what was not more than six months ago a cash-based payment system) could accelerate digitalisation across first generation unorganised entrepreneurs who were drivers and driver assistants not too long ago."



“The positives to emerge from the lockdown: a decline in the cost of debt and business procurement will translate into a lower cost for the customer, which could widen the market; there is a greater respect for safety buffers when appraising the viability of the commercial transportation business; the pre-used vehicle financing market that was largely unorganised (90%) could evolve into 60% organised, structured and branded; the pre-used car market is likely to emerge as one of the fastest growing on account of a growing need for secure personal mobility.”

“The NBFC customers we engaged with did not need someone who would say ‘When will you pay your pending instalment?’ but someone who would say ‘Tell me your pain points.’”

“There was a gradual movement towards ‘paying whatever we can’ as opposed to a commitment to meeting the full amount of the repayment instalment, which indicated the integrity of NBFC customers in protecting their reputation.”

“Where Magma engaged with its own customers it provided a subvention benefit faster than probably any other NBFC in the country. The benefit of that subvention provided adequate savings for the individual to address his/her EMI for that month, which was immediately credited to the account. The result was the demonstration of a system that worked, enhancing confidence for NBFC customers. We believe that this intervention enhanced faith in the effectiveness of the country’s NBFC sector on the one hand and customer-centricity on the other.”



Venkata Sudhakar Bhavaraju
National Credit Head – ABF,
Magma Fincorp



Gurinder Singh Sehmbey
Chief Business Officer – ABF,
Magma Fincorp



Srinivas Prasad Panda
Chief Strategy Officer-ABF,
Magma Fincorp



Mahender Bagrodia
Chief Credit Officer – ABF,
Magma Fincorp