

Banking on small-town enterprises

Lendingkart has made the lending process easy for SMEs, but lack of adequate quality data will be a challenge, writes Gireesh Babu

If you run a small business in a remote village what are your options for raising working capital? The nearest bank or non-banking financial company (NBFC), perhaps. Now, with a smartphone and a credible transaction history, a loan of up to ₹10 lakh could come to you wherever in the country you are.

That is the service offered by Lendingkart, an online lending start-up to small and medium enterprises (SMEs). Started in 2014 by Harshvardhan Lunia and Mukul Sachan, the company has issued about 3,000 loans in 135 cities in 22 states.

Every 30 seconds its website is connected to an SME for a loan, every five minutes it evaluates a loan, and every 20 minutes it disburses a loan. Lendingkart is witnessing 20 per cent growth, month over month, in loan origination.

The company has raised ₹260 crore (\$41 million) so far, with the latest Series-B funding of \$32 million (₹205 crore). Of this, \$20 million was raised as equity and \$12 million as debt from investors Bertelsmann India Investments, Darrin Capital Management, Mayfield India, Saama Capital and India Quotient.

It had raised about ₹4 crore from Saama Capital, India Quotient and Ashish Goenka in early 2015 and a Series-A funding of \$10 million from Saama Capital and Mayfield Fund.

Lunia, a banking professional, and Sachan, a scientist at Indian Space Research Organisation, came together to launch Lendingkart in April 2014, to address challenges SMEs face in securing loans.

"We realised lending in the range of ₹50,000 to ₹10 lakh was not being tapped by banks and NBFCs because the unit economics did not make sense," says Lunia. Banks and NBFCs reach 300-350 of the country's 5,000 towns. Lunia says there is scope for at least another 50 Lendingkarts.

The company started by offering its services to online businesses and extended operations offline from September 2015.

According to a recent report by VCCEdge, online platforms offering wealth management and credit services are increasingly attracting investors. In 2015, such platforms drew \$344 million



Lendingkart founders Mukul Sachan (left) and Harshvardhan Lunia

in funding, up from \$41 million in 2014. In 2016, there have been 13 deals amounting to \$81 million.

Lendingkart's working capital loan is

₹5-6 lakh for 12 months, with interest rates depending upon the customer's risk profile of the customer. Customers fill online applications on the website,

upload scanned documents, and analysts check these with machine-learning algorithms. The loans are collateral-free.

EXPERT TAKE



There is a substantial funding gap for micro, small and medium enterprises (MSMEs) financing in India.

Around 60 per cent of the unmet

requirements relate to working capital. Inability to provide audited financial statements, well-articulated business plans and well-documented cash flows, as well as acceptable assets to pledge, are why they are underserved by the formal financial sector.

Using technology, alternate data to

enable underwriting and key anchor partnerships, LendingKart has been able to cater to the needs of many of these MSMEs for their short-term working capital requirements. Its technology-backed online model will help unearth untapped client segments and geographies. Serving such clients with quick turnaround times and a seamless customer experience result in lower operational costs (sourcing, underwriting, collections) vis-à-vis traditional financial institutions, and establish small-size short-term working capital loans as a viable

business opportunity if well-implemented.

The key is to retain control on the portfolio quality across diversified locations. While the focus is currently on origination, collections and portfolio performance will be critical factors in ensuring long-term business growth. Technology should be seen as an enabler and not an alternative or replacement for fundamental credit evaluation.

Kshama Fernandes is managing director and CEO, IFMR Capital

FACT BOX

Launch date: April 2014

Area of business: Online lending to SMEs

Founders: Harshvardhan Lunia and Mukul Sachan

Target: To reach out to almost 350 cities and lend to 15,000 SMEs this year

Funding: ₹260 crore (\$41 mn) so far. Seed funding of ₹4 crore from Saama Capital, India Quotient and a high net worth individual, Ashish Goenka, in early 2015. Series-A funding of \$10 million from Saama Capital and Mayfield Fund, Series-B funding of \$32 million (₹205 crore) from Bertelsmann India Investments (BII), Darrin Capital Management and existing investors

Lendingkart has lent ₹225 crore since July 2014. The company earns interest and processing fees. It disburses loans at 17-25 per cent, based on the transaction data and risk profile of the customer.

The challenges include lack of quality data, inadequate hardware reach, absence of a common language, and Internet connectivity in rural India. Hardware reach issues are addressed by smartphones and internet availability is being worked upon by the government and telecom service providers. Lendingkart is planning to offer services in Hindi, Telugu and Tamil.

Lendingkart is planning to reach 350 cities this year and develop more mobile capability. "We are trying to reach 15,000 SMEs this year. We aim to disburse a new loan every five minutes," says Lunia.

It will not seek fresh funds till the end of next year because the money raised so far is sufficient for expansion plans.

LAUNCH PAD

A platform for small retailers



Today, many traditional small retailers wonder if they would be able to compete with the big boys in e-commerce.

A Bengaluru-based start-up is offering an app, ShopX, to aggregate demand from small retailers, giving them access to products and prices they would otherwise struggle to match.

"It brings the traditional, small retailers to the same level in technology, logistics, sophistication and supply which e-commerce or organised retail gives," Nandan Nilekani, Infosys co-founder-turned-angel investor, recently said after investing in the company, his 12th investment in start-ups so far.

Last week, Nilekani invested ₹25-30 crore in 10i Commerce Services, the company behind ShopX, for a minority stake. The company has tie-ups with local retailers. They use the app to showcase products to customers and help them select. The model allows a retailer to sell a variety of products without keeping these in stock.

Founded by Amit Sharma and Apoorva Jois in May 2015, ShopX offers a wide range of products like clothes, electronics, furniture and services such as direct-to-home and mobile recharges. The app is also available in six local languages.

The company charges a commission from vendors and brands which is shared between the retailers and the company. Brands can also use the ShopX platform for promotions, which would help the company generate a second stream of revenue. Initially, a retailer has to pay a minimal amount to avail the app, which is refundable. It has about 16,000 retailers on its platform and it expects to touch 100,000s by the end of the year.

—ABHISHEK JEJANI