



Inspiring Excellence

Internship Report

On

Credit Risk Management; A comprehensive study of SME sector

of

IDLC Finance Limited

Course Code: BUS 400

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Submitted to

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LETTER OF TRANSMITTAL

December 29th, 2016

Ms. Asphia Habib

Lecturer

BRAC Business School

BRAC University

Subject: Submission of Internship Report.

Dear Madam,

Please find herewith my internship report titled “**Credit Risk Management; A comprehensive study of SME sector of IDLC Finance Limited**” I have prepared this report as part of my internship program. The report has been compiled as per your requirements and those set by the host organization. This internship project has given me the opportunity to explore one of the most important aspects of the financial institution – Credit Risk Management and the business model of SME financing and expand my knowledge thereby.

The report starts with an inclusive overview of Credit risk management and its practices. It contains detailed description of risk monitoring, risk assessment, understanding risk management of credit risk management and observed in IDLC for SME financing. I passionately hope that this paper will live up to your expectation and you will appreciate my efforts.

With kind regards,

Samiul Alam

ID: 12204042

BRAC Business School

BRAC University

ACKNOWLEDGEMENT

First of all I am grateful to almighty Allah for blessing me in completing the report, No noble achievement can be achieved by an individual without help of others. I am indebted to a number of people for their kind recommendation, submission, direction, cooperation, and their collaboration.

It gives me immense pleasure to thank my organizational supervisor Mr. Adnan Rasid (AGM & Head of Credit, SEF) for his cordial cooperation and encouragement in preparing this paper. He helped me directly and indirectly in completing my internship in IDLC Finance Limited.

Shahnaz Sharmin Deeba, Rafika Khondoker and Faria Biswas Prima who teach me about overall credit risk Management in IDLC Finance Limited with significant, vital, imperative, and essential information during face-to-face speech, by providing some papers etc. They helped me from core of their heart as like as a younger brother in learning credit procedures, Risk Management, Appraisal making and Loan Origination Module in Flexcube.

I also thank to all the staff of this branch for their cooperation without which it would be impossible for me to complete my study and to make this report.

I am also thankful to my supervisor Ms. Asphia Habib for his cooperation and help to make this report.

And finally, I would like to say that I have tried heart and soul to prepare this report accurately. However there might be some errors and mistakes so I seek your kind consideration as I am in the process of learning.

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Executive Summery

Financial sector of any country plays a critical role in transmitting monetary policy impulses to the entire economic system. Financing is a business based on risk. However, it is basic to manage and minimize that hazard. The paper will describe about some basic issues required in dealing with those dangers with unique concentrate on the loaning or credit risk of SME (Small and Medium Enterprise) financing in Bangladesh.

Risk is the component of vulnerability or probability of misfortune that prevail in any business exchange, in any mode or time. In the monetary field, undertaking risks can be extensively sorted as Credit Risk, Operational Risk, Market Risk and Other Risk. Credit risk is the likelihood that a borrower or counter gathering will neglect to meet concurred commitments. All around, more than half of aggregate risk components in banks and FIs are Credit Risk alone. Along these lines overseeing credit risk for proficient administration of a Financial Institution has slowly turned into the most significant errand. Credit risk administration in SME includes identification, estimation, coordinating alleviations, observing and control of the credit risks.

Small and Medium Enterprise (SME) assumes a crucial part in the monetary development and improvement of a nation. SME fills in as the stage for job creation, wage era, improvement of forward and in reverse mechanical linkages and satisfaction of nearby social needs. SMEs possess a one of a kind position in the economy of Bangladesh. For the most part private segment improvement relies on upon them.

The research findings of “National Private Sector Survey of Enterprises in Bangladesh” (a study conducted by USAID, DFID and CIDA) indicates that SMEs contribute to the extent of 25% of the GDP in Bangladesh, about 40% of the Gross Manufacturing Output, 80% of Industrial Jobs

and around 25% of the total Labor Force and the total number of SME Entrepreneur is about 06 Million. Among other findings, the study concludes that SME sector is significantly a rapid growth oriented sector to flourish in Bangladesh.

SMEs are an exceptionally heterogeneous group in Bangladesh, containing a wide assortment of firms of handicraft creators, small machine shops, eateries, printing, bicycle rickshaw assembly, cartwheels, electrical merchandise, designing workshops, footwear, plastic items, plastic display outlines, print shops, silk weaving, fitting shops possessed by ladies, building material supply, nourishment arrangement, small supermarkets, squander paper accumulation, and so forth. Along with that a part of readymade pieces of clothing endeavors additionally falls under SME division.

The report has two principle parts to be specific hierarchical part and research part. In the association part, IDLC's administration, operation and execution have been highlighted. The examination part of the report has been partitioned into two areas. The primary segment comprises of an investigating rule, which has been created for the best possible execution of SME Managing an account in Bangladesh. In the second part, unique operational part of SME Saving money directed by the concerned association has been depicted.

In the research portion of the report, a policy and strategy guideline for the proper execution of SME banking has been given for review. The Financial Institutions who are intended to commence the SME operation can use this guideline. At the later part of the report, the description of the Retail SME product and in-depth credit risk management procedure of IDLC has been discussed.

Chapter-1

Company Profile

Background of IDLC

IDLC was initially established in Bangladesh in 1985 through the collaboration of International Finance Corporation (IFC) of the World Bank, German Investment and Development Company (DEG), Kookmin Bank and Korean Development Leasing Corporation of South Korea, the Aga Khan Fund for Economic Development, the City Bank Limited, IPDC of Bangladesh Limited, and Sadharan Bima Corporation. As the company evolved, initial foreign shareholding of 49% was gradually withdrawn and the last foreign shareholding was bought out by local sponsors in 2009.

Although we initially started with Lease Financing as our core product, IDLC has grown to become the largest multi-product Non-Bank Financial Institution of Bangladesh, with almost equal focus in Corporate, Retail and SME sectors. Moreover, IDLC has a significant presence in the Capital Markets. Our merchant banking arm, IDLC Investments Limited, a wholly-owned subsidiary of IDLC is a premier brand for investment banking in the country. Our stock brokerage arm, IDLC Securities Limited, another wholly-owned subsidiary of IDLC is also amongst the top five brokers in the country.

Over the years, IDLC has attained a significant presence in the corporate sector of Bangladesh. IDLC is highly respected by our clients, peers, employees and regulators for our strong corporate governance, statutory compliance, high ethical standards, a progressive and enabling working environment, and strong commitment to environmental and social development.

IDLC continues to play a pioneering role in introducing and popularizing a variety of financial instruments suiting ever-changing requirements of its fast-growing clients. We are continuously expanding our presence to ensure the best quality of service to our clients at all times.

Vision of IDLC

We will be the best financial brand in the country.

Mission of IDLC

We will focus on quality growth, superior customer experience and sustainable business practices.

Strategic Objectives

- Grow and develop our talent pool
- Fully leverage new core banking platform
- Optimize distribution points
- Grow and diversify funding sources
- Grow sales and service capabilities in Consumer Division
- Aggressively grow SME portfolio
- Focus on top-tier clients in Corporate
- Consolidate capital market operations and enhance capabilities
- Embrace internationally accepted corporate governance and sustainable business practices

Values:



Key Milestones:

23-May-85	Industrial Development Leasing Company of Bangladesh Limited is incorporated
22-Feb-86	Commencement of leasing business
18-May-86	The first Lease Agreement is signed
01-Oct-90	A branch is established in Chittagong, the main port city of Bangladesh
20-Mar-93	Listed on the Dhaka Stock Exchange
07-Feb-95	Licensed as a Financial Institution under the Financial Institutions Act, 1993

25-Nov-96	Listed on the Chittagong Stock Exchange
27-May-97	Commencement of Home Finance and Short Term Finance operations
22-Jan-98	Licensed as a Merchant Banker by the Securities and Exchange Commission
15-Jan-99	Commencement of Corporate Finance and Merchant Banking operations
29-Jan-04	First retail-focused branch is opened at Dhanmondi
29-Jun-04	Gulshan Branch is opened
22-Nov-04	Investment Management Services "Cap Invest" is launched
07-Feb-05	Securitized Zero Coupon Bonds are issued by IDLC Securitisation Trust 2005
27-Feb-05	An MoU for strategic alliance is signed between IDLC and SBI Capital Markets Limited, India
18-Sep-05	Local Enterprise Investment Centre (LEIC) is launched with the objective of SME development, with contribution from the Canadian International Development Agency (CIDA) of the Government of Canada
02-Jan-06	SME-focused branch is opened at Bogra
06-Apr-06	Uttara branch is opened
18-May-06	Merchant Banking branch is opened in the port city of Chittagong
01-Jul-06	Company's Registered and Corporate Head Office is relocated at its own premises at 57, Gulshan Avenue, Dhaka-1212
18-Sep-06	IDLC Securities Limited, a wholly-owned subsidiary of IDLC, commences operations
14-Mar-07	Discretionary Portfolio Management Services "Managed Cap Invest" is launched
05-Aug-07	Company name is changed to IDLC Finance Limited from the previous Industrial Development Leasing Company of Bangladesh Limited

03-Dec-07	Chittagong Branch of IDLC Securities Limited commences operations
18-Dec-07	IDLC Securities Limited DOHS Dhaka Branch is opened
18-Aug-08	Dilkusha Branch is relocated at Eunoos Trade Centre, Level 13, 52-53 Dilkusha Commercial Area, Dhaka-1000
23-Nov-08	Dhanmondi Branch is relocated at House No. 39 A, Road No. 14 A, Dhanmondi, Dhaka 1209
06-Jan-09	IDLC Finance Limited and IDLC Securities Limited open branches in Sylhet
26-Aug-09	Gazipur SME Booth is opened
09-Sep-09	Imamgonj SME Booth is opened
03-Feb-10	Narayangonj Branch is opened
24-Feb-10	Savar Branch is opened
08-Jul-10	Merchant banking Division is relocated at Eunoos Trade Centre, Level 21, 52-53 Dilkusha Commercial Area, Dhaka-1000
08-Aug-10	Nandankanon Branch is opened
27-Oct-10	Comilla Branch is opened
Dec-10	Narshingdi Branch is opened
Dec-10	Keraniganj Branch is opened
15-Jun-11	Opening of branch at Mirpur
09-Aug-11	Opening of branch at Tongi
16-Aug-11	IDLC Investments Limited, a wholly-owned subsidiary of IDLC, commences operations
18-Jan-12	Opening of branch at Jessore

SHAREHOLDING COMPOSITION OF IDLC FINANCE LIMITED

As on November 30, 2016

SL. NO.	NAME OF SHAREHOLDERS	NO. OF SHARES	AS A % OF TOTAL
1	Sponsors/Directors:		
	The City Bank Limited (CBL) and its subsidiaries:	60,854,056	24.21
	- The City Bank Limited (CBL)	25,137,225	10
	- City Bank Capital Resources Limited (CBCRL)	24,885,352	9.9
	- City Brokerage Limited	10,831,479	4.31
	Transcom Group:	33,515,443	13.33
	- Eskayef Bangladesh Limited	20,109,375	8
	- Transcraft Limited	10,088,022	4.01
	- Bangladesh Lamps Limited	3,318,046	1.32
	Sadharan Bima Corporation	19,151,663	7.62
	Mercantile Bank Limited	18,852,538	7.5
	Reliance Insurance Limited	17,595,702	7
	Sub-Total	149,969,402	59.66
2	GENERAL:		
	Institutions:		
	Investment Corporation of Bangladesh (ICB)	10,744,986	4.27
	Bangladesh Fund	8,040,750	3.2
	EBL Securities Limited	6,697,601	2.66
	Eastern Bank Limited (EBL)	6,275,418	2.5
	LR Global Bangladesh Asset Management Company Limited	3,936,961	1.57
	ICB Managed Funds	2,838,341	1.13
	Marina Apparels Limited	2,513,671	1
	Other Institutions	16,805,666	6.69
	Sub-Total	57,853,394	23.02
	Individuals:		
	General Public (Individuals)	31,788,747	12.65
	Sub-Total	31,788,747	12.65
	Foreign:		
	Institutions & Individuals	11,755,644	4.67
	Sub-Total	11,755,644	4.67
	Total	251,367,187	100

Product Lines

IDLC is the biggest financial organization (non-banking) and one of the main investment and merchant NBFIs of Bangladesh. IDLC offers a wide cluster of financial services for both corporate and retail clients. IDLC is the biggest multi-item Non-Bank Financial Institution of Bangladesh; with practically rise to center in Corporate, Consumer, SME areas and Capital Market.

Small and Medium Enterprise (SME)

► Small Enterprise Finance

- Small Enterprise Loan/ Lease
- Seasonal Loan
- Women Entrepreneur Loan
- SME Shachal Loan
- SME Surakkha
- SME Deposit

► Medium Enterprise Finance

- Medium Enterprise Lease/ Loan
- Commercial Vehicle Finance
- Machinery Lease
- Healthcare Finance
- Revolving Short Term Loan
- SME Deposit

► **Supplier & Distributor Finance**

- Factoring of Accounts Receivable
- Bill/Invoice Discounting
- Work Order Financing
- Distributor Financing

Consumer finance

- Home Loan
- Flexible Term Deposit Package
- Car Loan
- Regular Earner Package
- Personal Loan
- Loan Against Deposit

Corporate Division

► **Corporate finance**

- Lease Financing
- Term Loan Financing
- Working Capital Arrangement
- Project Financing Appraisal
- Specialized Products

► **Structured finance solutions**

- Loan/ Lease Syndication
- Private Placement of Equity
- Preference Shares
- Project/ Infrastructure Finance
- Bond
- Foreign Currency Loan
- Refinancing of Special Funds
- Mergers & Acquisitions
- Joint Venture Matchmaking
- Balance Sheet Restructuring
- Feasibility Study
- Securitization of Assets
- Structured Solutions

Capital markets

► **IDLC Securities Limited**

- Brokerage Service
- CDBL Service

► **IDLC Investments Limited**

- Margin Loan Operations (Cap Invest)
- Discretionary Portfolio Management (MAXCAP)

- Corporate Advisory
- Issue Management
- Underwriting
- Research

Business Volume

IDLC has developed as a spearheading multi-product NBFIs in Bangladesh with 29 branches and more than 642 colleagues. Especially, as IDLC changed the Company from the year back period, the association recorded a respectable 32% development in term stores and 26% development in advances, kept the NPL (non-performing credits) firmly under control to 1.63% of the general advances (2.09% NPL in 2012) and, in particular, based on the market-lending abilities to serve the customers' and clients' center budgetary administration's needs, thus reporting a solid 15% development in the operating income to BDT 2,763 million, up 28% from the year prior period. Also, IDLC fixed the cost structures in the offer to make a culture of 'more from less and less' with the outcome that the operating income expanded 13% to BDT 1,518 million, a noteworthy accomplishment in a testing monetary situation. As a judicious and preservationist money related measure, IDLC likewise made arrangements to the degree of BDT 1,044 million in the consolidated Balance Sheet.

Chapter-2

Introduction

Introduction of the Study

In spite of the fact that the organization at first began with Lease Financing as its center item, IDLC has developed to wind up distinctly the biggest multi-product Non-Bank Financial Institution of Bangladesh, with practically equal focus in Corporate, Retail and SME segments. In addition, IDLC has a worthy presence in the Capital Markets. Its trader and merchant managing arm, IDLC Investments Limited, a completely claimed auxiliary of IDLC is a chief brand for speculation saving money in the nation. The stock business arm, IDLC Securities Limited, another completely possessed auxiliary of IDLC is additionally among the main five dealers in the nation.

Credit Risk Management of the SME Sector: Credit risk management, is the act of relieving those misfortunes by comprehension the amplexness of both a bank's capital and loan loss reserves at any given time. It is a procedure that has for some time been a test for financial organizations. The worldwide financial crisis and the credit crunch that took after put credit risk management into the administrative spotlight. Therefore, controllers started to request more straightforwardness. They needed to realize that a bank has exhaustive information of clients and their related credit risk, and new Basel III directions will make a significantly greater administrative weight for banks.

To consent to the more stringent administrative prerequisites and assimilate the higher capital cost for credit risk, many banks are upgrading their ways to deal with credit chance. Be that as it may, banks who see this as entirely a consistence practice are affected. Better credit risk management additionally displays a chance to extraordinarily enhance general execution and overall performance.

Origin of the Study

The study of **“Credit Risk Management; A comprehensive study of SME sector of IDLC Finance Limited”** is a part of my Internship of Bachelor of Business Administration (BBA). I have select this topic since Small and Medium Enterprise (SME) plays a crucial part in the financial development and improvement of a nation. SME functions as the stage for employment creation, income generation, and development of forward and backward industrial linkages and fulfillment of local social needs. SMEs involve an exceptional position in the economy of Bangladesh. Primarily private area advancement relies on upon them.

The books conveys a great deal in regards to the financial organizations however the genuine situation is very unique in relation to what is composed in the book. The essential motivation behind the review was to relate the genuine situation and mindfulness about the different financial establishment’s ideas. All through the review and making of this temporary job report I have run over different circumstances and states of business which was particularly not the same as what we realize in the classroom. A brief situation has been provided about the SME issue.

Objectives of the Study

Primary (or Academic) Objective: The primary objective of the study is to complete the partial requirement of the awarding of the BBA degree from BRAC Business School, BRAC University.

Secondary (or study) Objective: The objective of the study is to investigate the information of how the financial institutes and organizations dispense their SME credits and if there is any inclination of loaning cash more to a particular sector or fragment. Additionally, the data will prompt to reach the determination for IDLC Financing Ltd with regards to Bangladesh.

A portion of alternate objective are:

- Studying the financial concepts of real company.
- Evaluating real life business & traditional management methods.
- Analyzing their efficiency.
- Finding inference.
- Suggestion regarding the problems.

Methodology of the Study

The primary information for the report was gathered from the IDLC's database (Internal Records), IIDLC's in-house banking software, (Icons Integrated Software Application for Finance) IISAF and (Electronic Data Management System) EDMS, contain each odds and ends of data under SME loaning. Some other data of IDLC Financing Limited was gathered from site, PDF records and handouts of IDLC Finance Limited and from different sources. Additionally, some specific data was assembled from a few diaries from our University library and obviously the web.

The data analysis of this report was for the most part spoken to on subjective way. It has been specified before that the information gathered was through inside wellspring of IDLC Finance Ltd so the vast majority of the study will be subjective. In any case, there will be a couple of quantitative arrangements. For effective study and legitimate presentation of information, application like Microsoft Office 2010 (Microsoft Word, Microsoft Excel) was utilized.

Primary sources: Existing employees, IDLC's database (Internal Records), IIDLC's in-house banking software, IISAF, EDMS.

Secondary sources: IDLC Financing Limited Bangladesh Official Website, PDF records, Journals, University Library.

Limitations of the Study

There were lot of problems raised to complete this internship proposal. Collecting information from corporate level is very much tough, not only that I spent most of my time to prepare this internship proposal so that, it looks better and also error free.

Moreover, extensive data and practices cannot be shown in the report for the sake of confidentiality. The information given was insufficient for business undergraduate students. Some of their information really puzzled me. Yet I hope and believe that I have succeeded in making standard proposal for my internship report.

Chapter-3

Job Responsibilities

My job responsibilities at IDLC

I finished my courses without internship in August. From 16th August I started my internship at IDLC Finance Ltd. At Dilkusha branch. My first choice was IDLC because I completed my graduation in finance and accounting. So as a student of finance and accounting everyone has a dream to start his or her initial career at NBFIs or in a Bank. Because through working in NBFIs or in a Bank one can know and gather more knowledge about the financial sector of our country. My internship period is over but I am still continuing here as there is an opportunity for me to get a job as a credit analyst. So it's my dream to start my career at IDLC.

We all know that IDLC is one of the leading NBFIs in our country. I am doing lots of work there like making appraisal, visiting client's business, loan origination etc. IDLC has three parts like Corporate, Consumer and SME division. I am continuing my work at SME division. SME division is one of the flourish sides for IDLC. They make almost 78 percent of their profit from SME. If I get chance to start my career as a credit analyst it will be helpful for me to work frequently because in last three months I worked hard and can make loan processing appraisal, loan origination and visit client's business like a professional analyst. I am confident about my work because some credit analyst of SME division helped me to learn how to make an appraisal, how to make a balance sheet, how to talk with a client etc. Working as a credit analyst is not an easy task.

The marketing department of IDLC sell the loan to their client. Credit analyst responsibility is to ensure that the client is capable to take the burden or not. Before making the appraisal my responsibility is to visit the client's business how much stock, cash, receivable, payable he has. After visit I make the appraisal for the client. Finishing all the work like Credit control, IS BS, ERM, Behavioral score in the appraisal if DSCR (Debt security coverage ratio) is 1.75 then the

client is capable to take the business loan. Along with that for the Abashan loan if the DSCR is 1.5 then we can offer them for the loan. IDLC provide Abashan loan in the industrial area like Tongi, Gazipur, Narayangonj. If the client fails to repay the EMI (Equity Monthly Installment) then the marketer and the credit analyst will be responsible for that. So I make the appraisal sincerely. IDLC give chance to new fresh graduates to start their career. As a new graduate it will be dream comes true for me if they recruit me permanently. After gathering experience of three months one thing is sure that IDLC has one the best friendly environment than any other organization.

As the presenter of this report, I have tried my level best to get together as much information as possible to enrich the report while working at SME division of IDLC Finance Limited. I believe that it was a fascinating experience to work in the non-banking sector. It has enriched both my knowledge and experience.

Chapter-4

Project Analysis

Business review of SME Segment

IDLC's SME division is a priority business portion for the Company. Sound business techniques, centered client securing endeavors, astounding administration and a predominant risk balanced hunger empowered SME portfolio CAGR of 40% in the course of the most recent five years, learily one of the fastest growth rates in the industry. Huge investments in HR and foundation – the two most basic building pieces – have brought about the making of a strong structure that will encourage practical development, going ahead.

In a standout amongst the most spearheading activities in the area, the SME division propelled a pilot under the computerized credit examination framework, a system that won't just fortify the nature of our administrations additionally spare paper and add to ecological safeguarding. The framework will be matched up with an information warehousing framework and front end client relationship administration which will encourage lead administration, prospect administration and help in data driven business choices.

At the SME division, our vision is to be the best SME financier in the nation. The firm will proceed to improve and dispatch more up to date items and administrations to serve the SME showcase, which is both underserved and un-served in numerous territories. They trust that innovation is at the cutting edge of our needs and before the end of 2016, it plans to incorporate online evaluation framework into cell phones to be utilized by all our relationship managers for speedier and more exact basic leadership. It will keep on focusing on expanding the ambit of non-money related managers and put essentially in the limit improvement of the talent pool.

Description about SME Finance Products of IDLC

Effective SME financing strategy is a key achievement figure for IDLC. For encouraging SME financing, IDLC had prior set up a different division, to be specific 'Rising Corporate Division', in mid-2003. Essentially under this division, IDLC has for the most part financed littler corporate customers. In 2006, this division was renamed to SME Division to connect with tiny fragment of the market.

So as to tap the lower segment of the market and fortify the SME financing, IDLC has propelled Retail SME Finance Products. In this specialty, IDLC has possessed the capacity to work with a higher spread, and the accessibility of shabby wellspring of assets through renegotiating from Bangladesh Bank has added to more prominent productivity.

Around 78% of IDLC's clients belong to SME segment based on fixed capital investment size, and SME client share 56% of IDLC's total loan portfolio. Moreover, in late 2005, IDLC established branches at Bogra, Gazipur, Narshigdi, Imamgonj, Keraniganj, and Narayanganj, specially focused to SME financing.

At present, IDLC is selling five Retail SME Schemes, besides its regular SME lease financing facility, Machinery Loan.

Business Loan

Business loan is provided in the form of term loan or working capital loan. This loan is ranged from BDT 500,000/- to BDT 150,00000/-. Track record of at least one year of successful operation is a must for availing this financing facility. This loan has been provided for the tenure of 12 to 36 months with repayment mode of monthly installments. This facility is devised to groom small

entrepreneurs to future leaders in the industry. Upto BDT 1,500,000/- financing can be provided with no collateral under this scheme. Hypothecation of Inventory and machineries, and personal guarantee from two acceptable persons and any other security as deemed fit is taken as security under this scheme.

Business Loan (Cash security backed)

Under this product, loan facility is provided with 30% FDR of the loan amount if the business is found to be feasible, that further security may not be insisted on. This loan is also provided in the form of term financing, and the range of financing is same as business loan. The scheme provide financing for the maximum tenure of 48 months, and generally two years of successful business operation is required to be eligible to attain it. The security requirement is same as business loan.

Women Entrepreneurs Loan

This scheme is specially devised to finance the successful businesses of women entrepreneurs, and to contribute in the emancipation of women in the society. Any woman entrepreneur with at least two years of successful business operation can avail this loan, where no collateral is needed upto BDT 1,500,000/-. All the specification of this scheme is the same as business loan. Bangladesh Bank provides special refinancing facility for this scheme, making the borrowing rate significantly low.

Machinery Loan (Lease)

This is actually lease financing facility for SME clients. IDLC offers the most competitive and flexible lease financing for all types of manufacturing and service equipment. In Machinery Loan, the client has the full liberty to select the equipment and supplier and also to fix terms and conditions, including price. Lease rental is determined on the basis of acquisition cost and lease

term. Lease term usually ranges from 1 to 4 years. Other conditions are same as business loan. Client is required to arrange for the insurance coverage on the leased equipment for the entire lease period. He is required to maintain the leased equipment in good operating condition, though insurance shall cover most of the abnormal risks.

Commercial Vehicle Loan

IDLC offers Commercial Vehicle Loan as a lease facility for the purpose of purchasing new or reconditioned vehicles for your business use. This is a lease financing facility for SME clients. Both new and recondition vehicles can be financed under this scheme. Loan limit starts from BDT 500,000 to BDT 1 crore. Truck, Trailer, Pickup Van, Covered Van, Microbus, Sedan etc. that are required for commercial purposes of businesses are financed under the scheme.

Supplier Finance

Supplier Finance is a revolving financing facility offered against receivables created due to supply of goods or delivery of services on credit. This short-term facility enables the suppliers/service providers to realize the maximum portion of the payment soon after the delivery has been made to the buyer.

Abashan Term Loan

ABASHAN is a loan facility extended to small businesses that will construct or already have permanent structure for commercial rent (popularly known as mess rent), that are located in places surrounding the industrial areas and EPZs across the country.

Understanding risk and risk management

Risk management is the distinguishing proof, evaluation, and prioritization of dangers (characterized in ISO 31000 as the impact of vulnerability on destinations, whether positive or negative) trailed by composed and efficient use of assets to minimize, screen, and control the likelihood and additionally effect of appalling occasions or to amplify the acknowledgment of chances. Dangers can originate from vulnerability in monetary markets, extend disappointments (at any stage in outline, improvement, creation, or sustainment life-cycles), legitimate liabilities, credit chance, mishaps, normal causes and fiascos and also ponder assault from a foe, or occasions of indeterminate or flighty underlying driver. A few Risk management benchmarks have been created including the Project Management Institute, the National Institute of Standards and Technology, actuarial social orders, and ISO gauges. Techniques, definitions and objectives change generally as per whether the hazard administration strategy is with regards to venture administration, security, designing, mechanical procedures, budgetary portfolios, actuarial appraisals, or general well-being and security. Chance administration as a specialized train has been available in money related organizations for over 50 years; nonetheless, its partition from protection and corporate back is a later wonder (Butterworth, 2001). Fuelled by controllers' and market members' for some time held requests for "good administration," since the late 1990s, hazard administration has been supported as a corporate administration and administration control hone material over all ventures (COSO, 2004; ISO, 2009). Reports of practice and rising experimental research in fact uncover hazard administration as a more obvious and unmistakable practice in numerous associations.

Risk Identification

The Risk Identification prepares distinguishes and reports chances that may influence the venture. Extend director, colleagues, topic specialists, clients, end clients, other venture supervisors, partners, and risk management specialists are included in risk recognizable proof. It is the way toward deciding dangers that could conceivably keep the program, undertaking, or speculation from accomplishing its destinations. It incorporates reporting and conveying the worry.

Risk assessment and analysis

An intensive credit and risk evaluation ought to be led before the allowing of an office, and in any event yearly from that point for all offices. The aftereffects of this evaluation ought to be displayed in a Credit Application that starts from the relationship supervisor/account officer ("RM"), and is looked into by Credit Risk Management (CRM) for recognizable proof and likely relief of risks. The RM ought to be the proprietor of the client relationship, and must be considered capable to guarantee the precision of the whole credit application submitted for endorsement. RMs must be acquainted with the FI's Lending Guidelines and ought to direct due industriousness on new borrowers, principals, and underwriters.

It is basic that RMs know their clients and lead due industriousness on new borrowers, principals, and underwriters to guarantee such gatherings are in actuality who they speak to themselves to be. All FIs ought to have built up Know Your Customer (KYC) and Money Laundering rules which ought to be clung to at all circumstances.

Credit Applications ought to synopses the consequences of the RMs chance appraisal and incorporate, at least, the accompanying subtle elements:

- Economic Risks

- Government and Regulatory Policies
- Security Arrangements
- Facility Structure (Tenor, Covenants, Repayment Schedule, Interest)
- Purpose of facilities
- Amount and type of facility(s) proposed

Risk monitoring

It is a progressing proactive method to watch the aftereffects of risk taking care of and distinguish new risks. Risks change as the venture develops, new risks create, or expected risks vanish. To minimize credit losses, checking methodology and frameworks ought to be set up that gives an early sign of the crumbling money related soundness of a borrower. At any rate, frameworks ought to be set up to report the accompanying exemptions to important administrators in CRM and RM group:

- Action not taken on time for findings of any internal, external audit.
- Non-receipts of financial statements on a regular basis and any covenant breaches or exceptions made.
- Past due principal or interest payments, past due trade bills, account excesses, and breach of facility covenants.

Computer system frameworks must have the capacity to deliver the above data for central/head office and additionally nearby audit. Where computerized frameworks are not accessible, a manual procedure ought to have the ability to deliver exact special case reports. Special cases have to be followed up and remedial move made in an opportune way before the record weakens promote.

Credit Risk Analysis

Each FI ought to have a credit risk strategy archive that ought to incorporate risk identification, risk estimation, risk evaluating/total systems, reporting and risk control/alleviation strategies, documentation, lawful issues and administration of issue offices. The senior administration of the FI ought to create and set up credit arrangements and acknowledge organization systems as a piece of general credit hazard administration structure and get those affirmed from Board. Such approaches and methods might give direction to the staff on different sorts of loaning including Corporate, SME, Consumer, Housing, and so forth. Credit risk approaches should:

- Provide itemized and formalized credit assessment/evaluation structure.
- Provide risk recognition, estimation, observing and control.
- Characterize target markets, risk acknowledgment criteria, credit endorsement power, credit beginning/support techniques and rules for portfolio administration.
- Be imparted to branches/controlling workplaces. All managing authorities ought to plainly comprehend the FI's approach for credit endorse and ought to be considered responsible for agreeing to build up strategies and techniques.
- Unmistakably spell out parts and obligations of units/staff required in start and administration of credit.

Keeping in mind the end goal to be successful, these arrangements must be clear and conveyed down the line. Facilitate any critical deviation/special case to these approaches must be imparted to the top administration/Board and remedial measures must be taken. It is the duty of senior administration to guarantee viable usage of these strategies appropriately affirmed by the Board.

Attractiveness of SME Loan

The part of Small and Medium Enterprises (SMEs) is essential for general financial advancement of a nation especially to develop nations like Bangladesh. As per Fourastié, nations with a low for every capita salary are in an early phase of advancement; the fundamental piece of their national wage is accomplished through engenderment in the exchanging division. Nations in a more propelled condition of advancement, with a medium national salary, induce their pay generally in the assembling part. In profoundly created nations with a high salary, the administration part rules the aggregate yield of the economy.

Nevertheless, as a creating nation Bangladesh generally produce their salary in exchanging segment not in assembling area as Fourastié expressed that a creating nation ought to put more in that part. Bangladesh contribute the second most noteworthy sum on assembling segment and the nation contribute the minimum on administration industry as the business is not that abundantly settled. The national bank reported that the Small and Medium Enterprise (SME) advance producing of BDT 853.23 billion was offered out to 744,228 SME business visionaries in the year 2013. Around, out of the aggregate advances dispensed BDT 567,040 million or 66.45% was loaned to the exchanging area a year ago, fabricating segment got just BDT 240,160 million or 28.16% as creation was hampered because of political turmoil, while the administrations segment got under 5.39% or BDT 46,030 million in 2013.

SMEs experience the ill effects of ordinary requirements, for example, absence of capital, challenges in securing crude materials, absence of access to applicable business data, low innovative abilities, problems brought on by unwieldy and exorbitant bureaucratic methods, and strategies and controls that cause showcase bends.

In any case, with fitting local strategy bolster from the administration, and a visual perceiver towards worldwide market patterns, SMEs can fabricate limit and receive the benefits of globalization. The outcome in the review bolster the speculation as SME assumes a vital part in the financial amplification and advancement of a nation.

SME functions as the stage for occupation engenderment, wage era, and improvement of forward and rearward mechanical linkages and satisfaction of neighborhood gregarious needs. SMEs possess an exceptional position in the economy of Bangladesh. Basically private segment improvement relies on upon them.

The monetary highlights that will center the allure of the SME part if there should be an occurrence of getting the business advances from the Non-Bank Financial Institutions. In spite of the fact that it is simpler to get the credit from the banks however NBFIs are likewise in the focused territory. The significant variables are Financial Performance, Operational Performance, Financial Ratios and Equity Statistics.



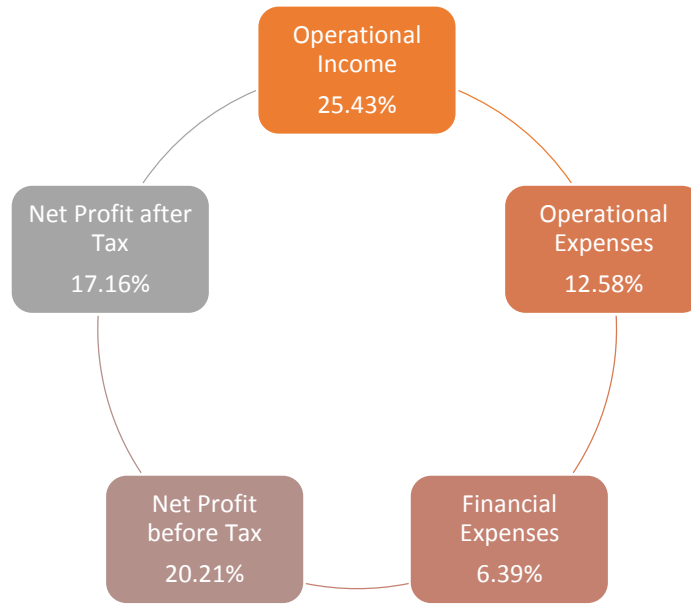
Financial Performance:

The financial performance of a firm can be measured from the development in a few measurements. Increment in absolute resources, diminish in long haul liabilities, increment in term store adjust. In the course of the most recent couple of years the development in the aggregate resources is 24.62%, the long haul liabilities' development has been made to 24.88% and last yet not the minimum the term store has been expanded to 30.64%.

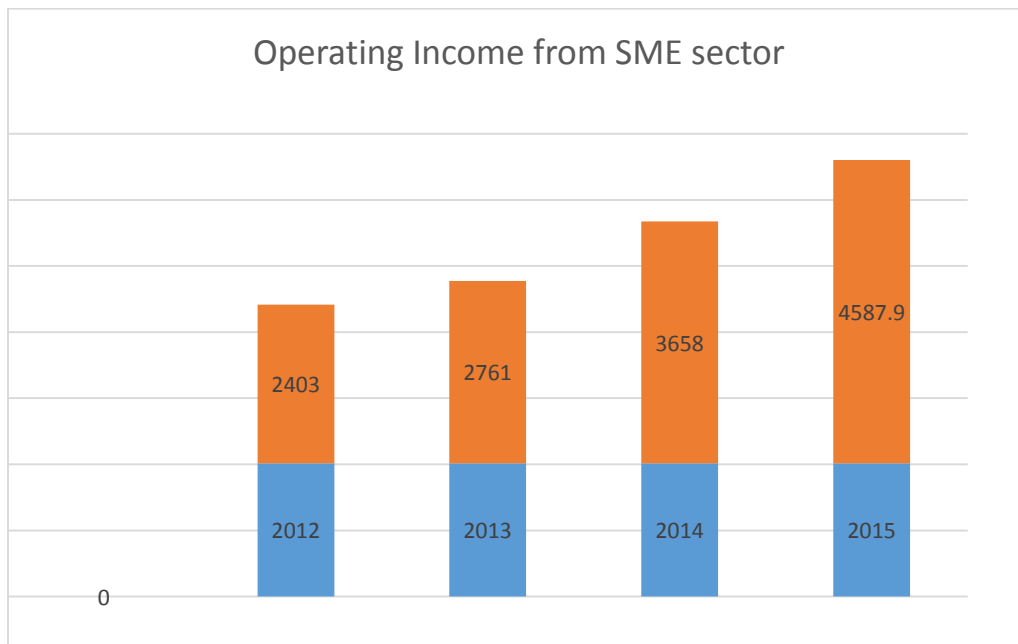


Operational Performance:

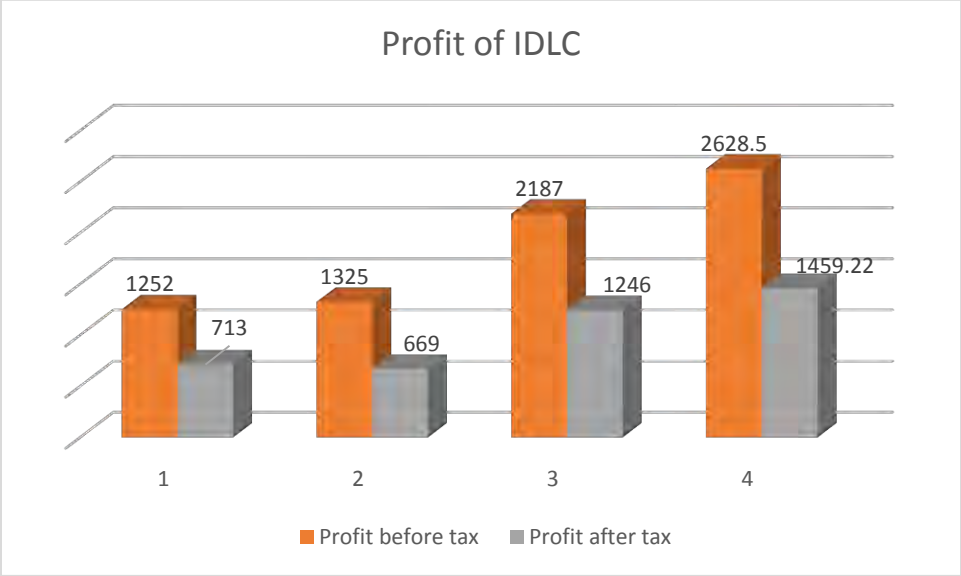
Over the quantity of years the operational execution of IDLC can be distinguished from the parts of operational wage, operational costs, money related costs, net benefit before duty and net benefit after expense. The development has been measured with the information of most recent five years.



Operating profit from SME of IDLC: From the diagram we can see that consistently Operating wage of IDLC is expanding. In 2012 the Operating income of IDLC was BDT 2403 Million and in 2013 it was 2761 Million. That is inside 1 year it expanded by 69 % But in the event that we consider 4 year then we found that working salary increments 3658 million to 4587.9 million.

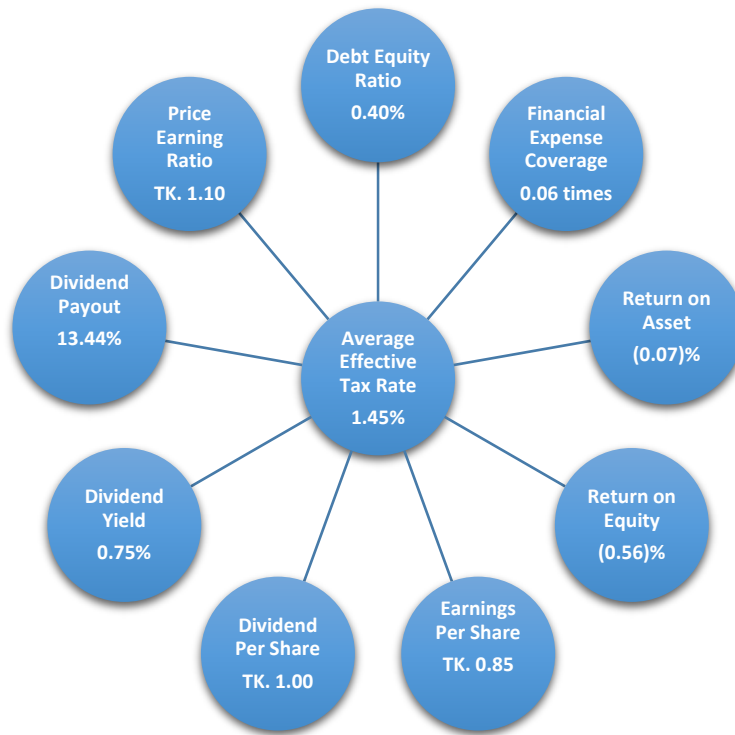


Profit from SME: From the diagram we can see that consistently Operating Profit of IDLCSL is expanding. In 2013 the Operating Income after assessment of IDLC was BDT 669 Million from SME division and in 2014 it was 1246 Million. Also, in the year 2015 the benefit after expense had come to BDT 1459.22 million.

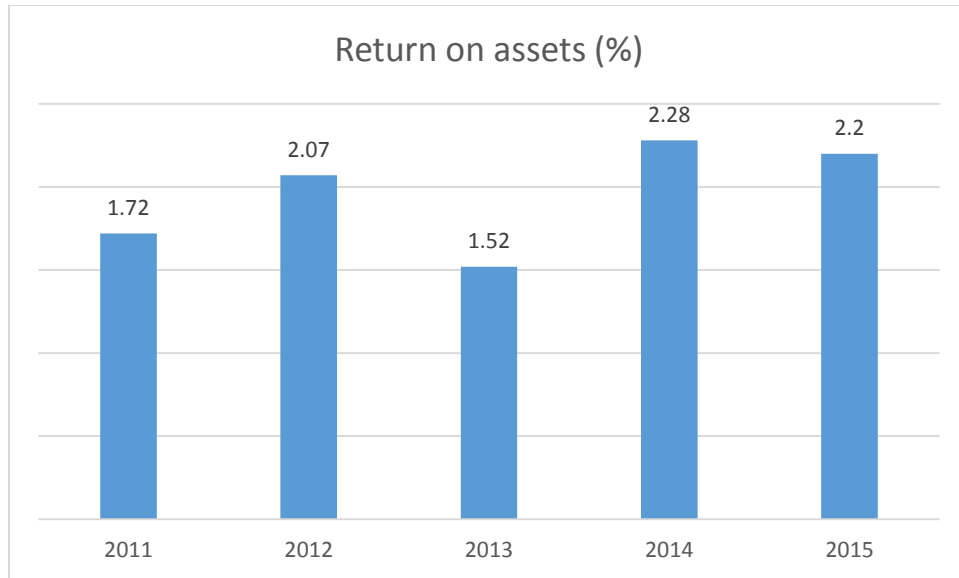


Financial Ratios:

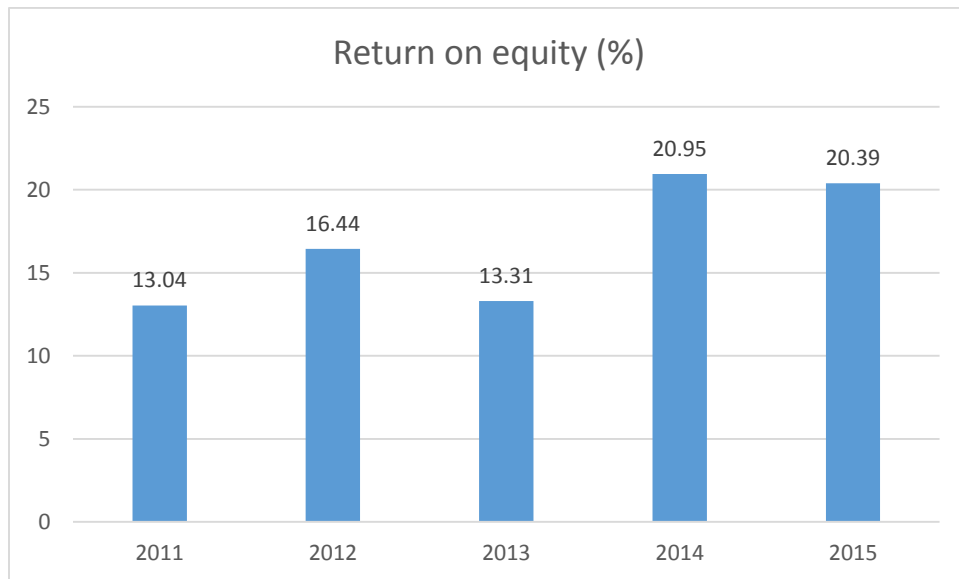
Here the main considerable factors are debt-equity ratio, financial expense coverage ratio, return on assets, return on equity, and earnings per share, dividend per share, dividend yield, dividend payout ratio, and average effective tax rate.



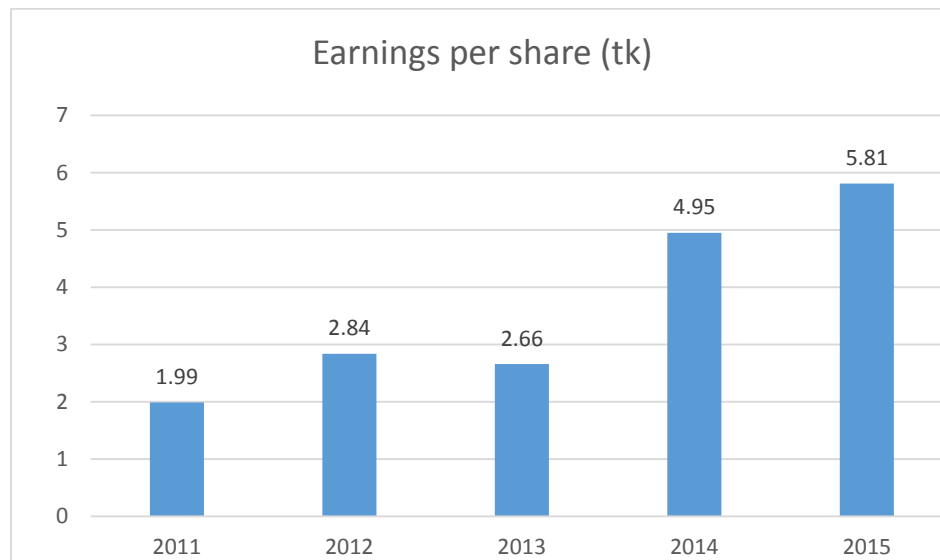
Return on total asset (ROA): It measures the overall effectiveness of management to generate profit with its assets Here in 2013 return on total was 1.52% and 2014 return on total asset increases to 2.28%. In the year of 2015 there was a negative growth of 2.2%, but looking forward to overcome this negativity in the year of 2016.



Return on equity (ROE): This ratio measures profitability of the firm. In 2013 the ratio is 13.31% whereas in the next year it has become 20.95%. Because of the political crisis in the year 2015 the percentage was little lower than the previous year and that is 20.39%.

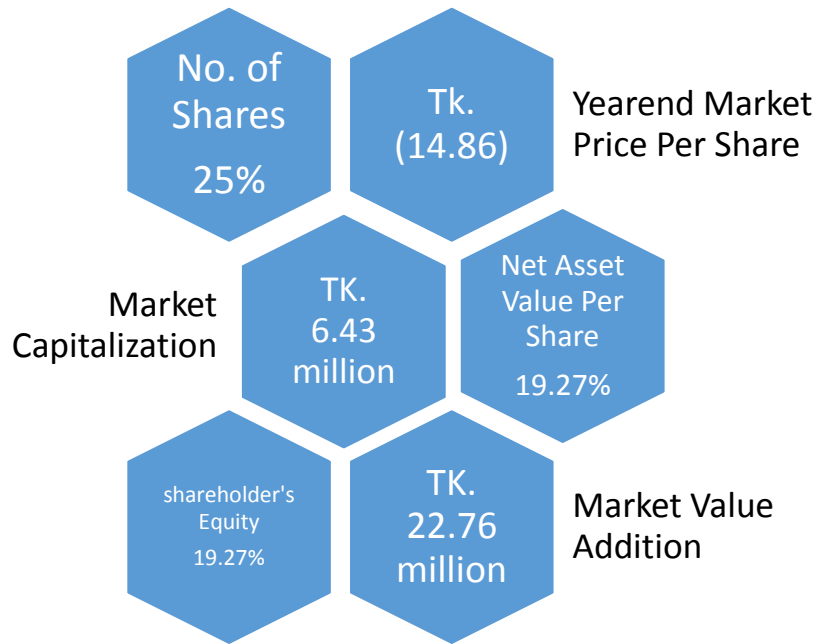


Earnings Per Share: Here we can see that in 2013 profit for each share (EPS) of IDLC was 2.66 taka for every share where as in 2014 it increments to 4.95 taka for every share. That implies from 2013 to 2014 EPS increments 61%. It is a decent image for the organization. In the next year the EPS had expanded to TK. 5.81 for every share.



Equity Statistics:

Number of shares, yearend market price per share, net asset value per share, market capitalization, market value addition, shareholder's equity are the prime focus in this regard.



Plans regarding SME sector in 2016

On the back of the political stability witnessed in the country for last few months of 2015 and the expansionary monetary policy adopted by the Central Bank, 2016 promises to be a significant year in terms of economic growth in Bangladesh. Both private and public sector investments are expected to flourish, positively impacting the SME entrepreneurs spread throughout the country. IDLC is well positioned to support these SME businesses with quick and hassle free financing. To better enable us to provide the SMEs with world class service, below are some of the initiatives to be taken in 2016:

- Focus on business growth along with maintaining asset quality and strengthening the IDLC SME brand in SME financing.
- Strengthen human capital to increase productivity to optimal levels through extensive training and coaching.
- Expand our footprint by establishing new branches and exploring new business opportunities in markets of our existing presence.
- Implement online credit appraisal across all our branches which will not only hasten decision making but also reduce the loan turnaround time.
- Launch new products and modify the existing basket to align with market demand.
- Implement web/ app-based client service tool to better serve our customers as well as create an institutional memory.
- Tie-up with local and multi-lateral agencies to work towards the development of marginal sectors with significant embedded growth potential.
- Establish an objective-based performance evaluation model for all SME sales staff.

Chapter-5

Recommendation & Conclusion

Recommendation

From Financial Institution's point of view, some major recommendations involved in the SME sector are described below:

- As a developing country, Bangladesh should invest more in export oriented manufacturing activities rather than the trading industry for better development of the country.
- More experienced personnel to eliminate the risk factors substantially and thus make a new ground for profitable investment.
- In terms of huge business opportunity and high recovery rate, the government, central banks should continue to ease the rules to take loans as SME sector is quite a promising sector for financial institutions to make the investment profitable.
- The amount of SME loans will increase if all the regulatory bodies' services like registration of the enterprises, getting trade licenses, certificates of Bangladesh Standards and Testing Institution (BSTI), patents and trademarks are easily accessible.

In Bangladesh, SME consists of almost 90% of the total industrial setup. SME contributes almost 80% to 85% industrial employment, which is the 25% of the total employment of Bangladesh. SME accounts for 25% to 30% of total GDP. In terms of value addition, SME contributes 45% to 50% of the total value addition of a year's total production. (Source: IDLC database).

The banking system which constitutes the core of the financial sector of any country plays a critical role in transmitting monetary policy impulses to the entire economic system. Banking is a business built on risk. Yet, it is essential to manage and minimize that risk.

From Financial Institution's point of view, all the risk factor involved in the SME sector are described below

- Inadequate asset base of the owner.
- Inadequate business knowledge of the owner.
- Absence of formal accounting system in case of maintaining financials.
- High seasonality in the business.
- High competition in the business.
- Inadequate security coverage from the borrower.

In terms of huge business opportunity and high recovery rate, SME sector is quite a promising sector for financial institutions to make the investment. To eliminate the risk factors substantially and thus make a new ground for profitable investment, government, central banks, and financial institutions should consider the following propositions.

Conclusion

The trend of SME loan disbursement in context of IDLC Financing is highest at trading sector, followed by manufacturing sector and then service sector. The trend of the segment-wise disbursement is same for IDLC. The tendency of sectorial SME loan disbursement in IDLC is uppermost in Housing & Real Estate, Food & Beverage, Home Appliances and House Hold Items, and Apparels & Accessories. IDLC distributes more than half of their SME portfolio in trading industry because collecting data in the trading sector is easily available and sales verification is simpler than other sectors. The manufacturing industry receive less than trading as the sector is highly risky and is basically export oriented, even though, as a developing country manufacturing sector should highly emphasize in Bangladesh. While, the service industry receive the least amount from the SME portfolio since the sector is not that much established in our country.

From the view point of SMEs' importance to the overall economic growth and the opportunities that the financial institutions have in developing this segment, our central bank, other regulator as well as the policy makers should review the whole process in holistic approach as it is closely correlated with the economic emancipation of the general people of the country.

Still there are lot of potentials are there to be covered up with the highest combination of resources and the output. Proper capitalization is very important to boost the sector of SME and enrich our economy with its profitability. Necessary steps can mitigate the limitations and help to move forward, so that IDLC gets more preference over the competitive banks.

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