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## **INTERNSHIP REPORT**

*On*

*SME Financing and Loan Comparison Among NBFIs*

*(A Study on IDLC Finance Limited)*

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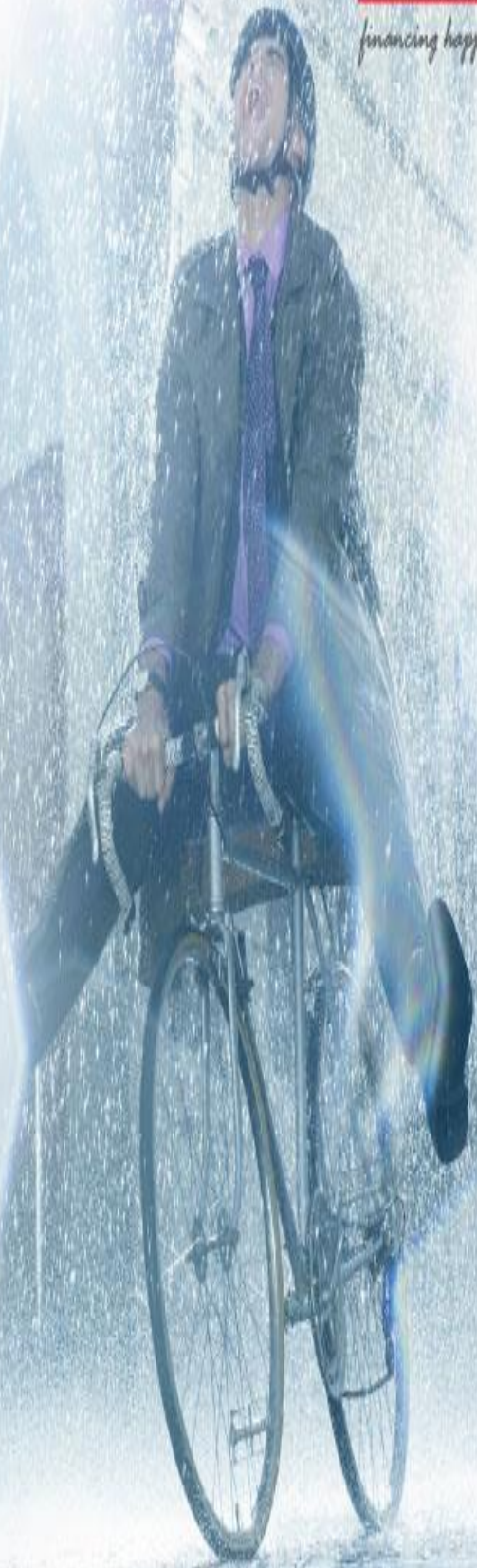
***Submission Date: 31<sup>st</sup> August, 2016***



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## Letter of Transmittal

21<sup>st</sup> August, 2016

To

Md. Fazla Mohiuddin

Lecturer

BRAC Business School

BRAC University

**Subject:** Submission of Internship Report on SME Financing and Loan Comparison among NBFI's (A Study on IDLC Finance Limited)

Dear Sir,

It is my great pleasure to submit the internship report on "SME Financing and Loan Comparison among NBFI's (A Study on IDLC Finance Limited)" as the requirement of BBA Program to you for your consideration. I completed my Internship from IDLC Finance Limited, a renowned Non-Banking Financial Institution in Bangladesh. My main inducement was to prepare this term paper according to your directions while considering the guidelines of the BBA Program.

I made earnest efforts to study related materials, documents, observe operations performed in IDLC Finance Limited and I hope that I have been able to relate the fundamental things with realistic applications considering my level of experience and competency.

Hence, I am submitting my internship report, hoping that you will appreciate my instructive and comprehensive approach. Your kind feedback will be highly appreciated and in case of any further clarification or elaboration or any kind of queries about the report, I will be glad to assist you.

Sincerely yours,

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**Upama Sarkar Borna**

ID: 12104034

BRAC Business School

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## **Acknowledgement**

The successful completion of my Internship Report is the outcome of the contribution and engrossment of a number of people, without their helpful guidance and suggestions the accomplishment of the report was almost impossible. I am extremely grateful to each one of those individuals who have guided me throughout my internship journey and provided me with all the obligatory information about the SME Division of IDLC Finance limited which helped me to organize this research project.

First of all, I would like to thank my honorable internship supervisor Mr. Md. Fazla Mohiuddin, Lecturer, BRAC Business School, BRAC University for providing me such an excellent opportunity to prepare an Internship Report on “SME Financing Loan Comparison among NBFIs (A Study on IDLC Finance Limited)”. I am really grateful to you for your endless support and proper guidance without which the completion of the report would not be possible. I am also thankful to you for contributing some of your valuable time while viewing my report and making all the necessary corrections.

Secondly, I would like to show my gratitude to the HR of IDLC Finance Limited, Mr. Masum Billah to enable me to complete my internship journey in their well-regarded organization. A very special thanks goes to Mr. Aatur Rahman Chowdhury, Deputy General Manager & Head of Operations, Md. Masud Sajjad, Assistant General Manager, Branch in Charge Dilkusha, Ahmed Rashid, Head of SME Division for helping me in all stage of the internship process. I would like to express my heartiest gratitude to my direct supervisor Mr. Dewan Ishtiaq Ahmed, Senior Manager, Special Asset Management & Sultana Razia, Manager, Special Asset Management. In the course of my preparation of the project work their overwhelming support inspired me to do a better report.

Finally, I am really indebted to my family and friends for their continuous support and faith on me which kept me inspired and increased my motivation level.

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## **Executive Summary**

SME stands for small and medium enterprise which is very crucial for the overall economic growth of our country. Small and Medium Enterprises plays an important role for the development of our country and also contributes to the diversification of industrial sector. Hence, the importance and contribution of SME sector in the growth and development of our economy is immense. Moreover, SME contributes a large amount of invested capital in the financial market. As a result, the banks and many Non-Banking Financial Institutions are now dynamically contributing to this sector in order to develop themselves as well as to improve the financial condition of the country.

IDLC finance Limited is holding the second largest SME financing portfolio over the country, so it is undoubtedly obvious that the financial institution has a huge contribution for the expansion and advancement of this sector. The SME Division of IDLC Finance Limited always prioritize and recognize the customer needs and actively participates toward the progress and advancement of the SME sector of Bangladesh.

In this report, I tried to find out the actual definition and operation of SME from the perspective of Bangladesh, challenges and risks of SME financing by IDLC and other Non-Banking financial institutions and the present scenario of the SME financing in our country. Here, I focused on the contribution of IDLC Finance Limited in our SME sector as a Non-Banking Financial Institution. This report also includes a statistical representation of the performance of SME financing by IDLC. The main purpose of this report is to show a comparison of SME loan among the topmost NBFIs of our country. For this reason, I considered Lanka Bangla Finance limited and IPDC (Industrial Promotion and Development Company) as the main competitors of IDLC and showed the competitive position of IDLC in terms of the two other competitors. This study will be really helpful for any further research regarding this topic.

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# Chapter-1

## 1.1 Introduction:

The rapid growth of financial market plays an important role in the economic development of our country. The fundamental shift of private sector has emerged as an engine of economic growth and development along with the public sector. As a consequence, IDLC Finance Ltd, the largest Non-banking financial institution in Bangladesh has achieved significant growth in all areas of business as a multi-product financial institution. It is one of the blue chip companies on the local stock market and expanded into Consumer, SME, Corporate, Retail and Capital market segments. The company also launched a subsidiary named IDLC Securities Limited which has fortified its existence in the countries growing stock market.

In this modern age of industrialization, the subsidization of small and medium industries has been receiving heightened attention. Because of the extensive market competition those small and medium industries find it really difficult to compete and survive in the market. Here, SME which stands for Small and Medium Enterprises provides financial help to those small and medium industries to compete against the monopolistic market and thus ensures a more rational and stable economic condition. In Bangladesh, many Bank and Non-banking financial institution provides SME loan but IDLC Finance Limited has established itself as the top ranked SME portfolio holder among the existing Non-banking financial institutions. Thus, it offers a great opportunity to develop the industry through SME loan and hereby contributing to the overall GDP growth of the country.

## **1.2 Origin of the Report:**

The completion of internship is an integral part of the BBA Program and it serves the purpose of practical orientation in the related field. I was lucky enough to complete my internship from IDLC Finance Limited. Since, it is the largest Non-Banking Financial Institution it provided me with a real life exposure of the activities of a financial institution. During my internship period I have encountered a variety of functions of the company. Among them I have decided to work in the arena of SME (Small and Medium Enterprise). This report has been originated as a course requirement of the BBA Program. Throughout the report I tried to find out the actual definition and operation of SME from the perspective of Bangladesh, challenges and risks of SME financing by IDLC and other Non-Banking financial institutions, present condition of SME financing in our country and a comparison of SME loan among IDLC and other Non-Banking financial institutions. I tried to make the report more informative and logical in order to represent the present scenario of SME financing in Bangladesh.

## **1.3 Objective of the report:**

The general objective of the report is to identify the present condition of SME Financing, its importance and contribution in our economy. In this report I tried to find out the SME operation in our country, the present scenario of SME financing, the definition of small and medium enterprises from the viewpoint of Bangladesh and SME financing by IDLC and two other Non-Banking Financial Institutions namely Lanka Bangla Finance and IPDC.

The main objective of the report is to show a loan comparison among the Non-Banking Financial Institutions in terms of SME financing. Here, in this report I showed a comparison of SME loan among IDLC, Lanka Bangla and IPDC while considering the same type of loan offered by three different financial institutions. In the analysis part I have identified the current position of IDLC in terms of the two other competitors. This report will be really beneficial to get a clear idea about the present performance of the SME Division of IDLC Finance Limited in consideration with two other financial institutions from the similar industry.

This report is also an integral part of a whole course (BUS: 400) which is very important part for the completion of my BBA program. So, for the successful accomplishment of the course, I had to come up with the report. I tried to make the report more informative and competitive so that I can easily convey the message through the report.

### **1.4 Methodology:**

The selection of an effective and efficient methodology is an important part in order to do a successful research. While doing the report I used both primary and secondary data for the successful accomplishment of the report. After analyzing and combining all those data and information I have come up with this report.

The two ways in which I have collected information are presented below:

#### **• Primary Data:**

I have collected primary data with the help of my direct supervisor, I also discussed with the SME team of Dilkusha Branch. However, I talked directly with the consumers to get their valuable opinion about IDLC and other Non-Banking Financial Institutions.

#### **• Secondary Data:**

I have collected secondary data from different sources. The sources includes:

1. Annual reports of IDLC finance limited (Year-2014, 2015)
2. The official website of IDLC, Lanka Bangla and IPDC
3. Different journals, reports, books and newspapers.

## **1.5 Limitations of the Report:**

SME financing is a new concept in our country and the SME sector is developing gradually. So, most of the organization that are dealing with SME loans are still in their primary stage. As a result it was really hard to accumulate the necessary data. While doing the report I have encountered a few obstacles since no direct information was available regarding SME financing.

Following are the list of some problem that I confronted while doing the report:

- Non-availability of former and most recent information
- Restriction on some research data
- The information is not classified
- Have to depend mostly on the primary data
- The time period was not sufficient to come up with the necessary information
- Organizational restriction to disclose some confidential information
- Appropriate journals and publications are not available

However, in spite of all of those limitations I tried my level best to come up with the relevant information in order to make the report more informative and analytical. I believe that, the information that I accumulated in this report will be really helpful for any further research regarding this topic.

## **Chapter-2**

### **2.1 Company Overview:**

#### **2.1.1 Historical Background:**

IDLC Finance Limited is the first leasing company of Bangladesh which commenced its journey in 1985. Its establishment was the collaboration and lead sponsorship of different local and multinational financial institutions namely Finance Corporation (IFC) of the World Bank, German Investment and Development Company (DEG), the Aga Khan Fund for Economic Development, the City Bank Limited, IPDC of Bangladesh Limited, Kookmin Bank, Korean Development Leasing Corporation of South Korea and Sadharan Bima Corporation. Korean Development Leasing Corporation (KDLC), the largest leasing company of the Republic of South Korea provided technical assistance for the establishment of the company. The constant development of the company was ensured by the exclusive organizational structure involving many financial institutions. IDLC was licensed as a Financial Institution by the country's central bank in 1995. Along with the progression of the company, the initial foreign shareholding of 49% was gradually being withdrawn. Finally, in 2009 the remaining foreign shareholding was bought out by the local sponsors. In the last two decades, the company achieved a significant growth along with the country's growing economy.

#### **2.1.2 About the company:**

IDLC Finance Limited started its operation in 1985, as the first leasing company of the country with multinational alliance and funding of the International Finance Corporation (IFC) of the World Bank Group. IDLC group has become the biggest multi-product multi segment Non-banking financial institution in Bangladesh and established itself as one of the topnotch companies on local stock markets. At the start, the foreign shareholders altogether hold 47.3% of the company's shares. On the other hand, the remaining 52.7% shares were hold by five Bangladeshi financial institutions including The City Bank Ltd, Sadharan Bima Corporation, Mercantile Bank Ltd, Eskayef Bangladesh Ltd, Reliance insurance Ltd and the general public. IDLC spread out its operation by

launching 31 branches and booths in 15 cities with over 1,200 employees. Even though IDLC Finance Ltd initially started with Lease Financing as their basic product, gradually it became the largest multi-product Non-Bank Financial Institution of the country while giving equal emphasis in Corporate, Retail and SME sectors. Additionally, IDLC has a significant presence in the Capital Markets and it is the listed member of Dhaka Stock Exchange. IDLC offers a variety of financial services and solutions to institutional and individual clients to meet their diverse and exclusive requirements. The product offerings include Lease Finance, Term Finance, Real Estate Finance, Short Term Finance, Corporate Finance, Merchant Banking, Term Deposit Schemes, Debentures and Corporate Advisory Services. IDLC has also established two wholly owned subsidiaries, IDLC Securities Limited which offers full-fledged international standard brokerage services for both retail and institutional clients. IDLC investments, a leading brand for investment banking in the country. The Company is devoted to viable business practices and durable financial performance. The company is committed to maintain the utmost standards of ethics and compliance by its employees. Employees are required to follow the Company's code of conduct. It is also associated with a variety of CSR activities. In order to fulfill the customers requirement IDLC continues to play a leading role in introducing different types of financial instruments. They are constantly expending their operations by providing the best quality of products to the customers. IDLC has been constantly recognized by independent bodies and it has achieved a significant presence in the corporate sector of Bangladesh.

**Vision:**

- To become the best financial brand in the country.

**Mission:**

- Concentrating on quality growth, superior customer experience and sustainable business practices.

**Strategic Objectives:**

- Grow and develop their 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

### **Core values:**

- Integrity
- Simplicity
- Equal Opportunity
- Customer Focus
- Trust and Respect
- Eco-friendly
- Passion

## **2.2 Business Overview:**

IDLC Finance Limited offers a wide range of financial solutions through its four business weapons which includes SME, Consumer, Corporate and Capital Markets.

1. **SME Division:** SME Division is considered as the priority business segment of IDLC Finance Limited. The SME segment of IDLC is also the fastest growing segment among other Non-Banking Financial Institutions. This division is dedicated to provide specialist lending facilities to small and medium-sized businesses through a broad range of industries including steel, cement, light engineering, plastics and textiles, among others, geographically spread across Bangladesh. This division operates their services through term loans, working capital loans and lease financing in order to satisfy diversified customer requirements. However, this division provides customized financial services if necessary. This division also considers the importance of women entrepreneurship. So, it supports and encourages women entrepreneurship by providing loans with attractive schemes and lower interest rate.

SME Division offers the following financial facilities:

- **Small Enterprise Finance:** IDLC considers the importance of small-scale enterprises and offers financial facilities to those enterprises so that they can carry out their trading,

manufacturing or business activities. However, the small entrepreneurs can also avail this financial facility for developing commercial real estate.

- **Medium Enterprise finance:** The medium enterprise segment of SME Division offers mid and long term financial solutions to a broad range of clients. It creates a strong support for those entrepreneurs and help them to establish their own corporate houses.
  - **Supplier Finance:** Supplier Finance is another financial facility offered by the SME Division. The financing depends on the supply of goods or delivery of services.
  - **Commercial Vehicle Loan:** Commercial Vehicle Loan is a lease facility offered by the SME Division of IDLC. The main purpose is to provide financial support so that the clients can purchase vehicle for commercial use.
2. **Consumer Division:** Consumer Division deals with the retail financial services and it offers a broad range of financial products which includes Car Loan, Home Loan and a small percentage of Personal Loan and Loans against deposits. Currently, this division has the highest market share and growth rates within the Home Loan industry of Bangladesh. By offering retail savings products with variable interest rates and maturities this division serves as a mobilizing arm of the company.

**Deposit Schemes:** IDLC offers different Deposit Schemes with attractive interest rates and maturities.



Deposit interest rate Matrix is shown below:

<b>IDLC Regular term Deposits</b>		
Term	Individual (any amount)	Institutional (any amount)
3-15 months	8.25%	8.00%
2 years	8.50%	8.25%
3,4 & 5 years	8.75%	8.50%

<b>IDLC 500 Days Term Deposit</b>		
Term	Individual (Any amount)	Institutional (Any amount)
500 Days	8.25%	8.00%

*Figure 1: Regular and 500 Days Term Deposits*

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2014)

IDLC Monthly earner Deposit (Individual)		IDLC Quarterly Deposit (individual)	
Term	Int. Amnt. Per month/ lac (Any amount)	Term	Int. A mnt. Per quarter/lac (any amount)
1 years	BDT 730 (8.76%)	1 year	BDT 2,250 (9.00%)
2 years	BDT 750 (9.00%)	2 years	BDT 2,350 (9.40%)
3-5 years	BDT 800 (9.60%)	3-5 years	BDT 2,450 (9.80%)

**Figure 2: IDLC Monthly and Quarterly Deposit**

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2014)

IDLC Double money Deposit	IDLC triple Money Deposit
Term	Term
7 years 6 months (9.6825%)	11 years (10.5032%)

**Figure 3: IDLC Double and Triple Deposit Matrix**

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2014)

For individual accounts, woman clients will enjoy 0.10% higher interest rate on regular term deposits and regular earner products. If the client have e-tin certificate, then 10% tax will be deducted from the interest rate. But if the client don't have any e-tin certificate in that case 15% tax will be deducted from interest rate. If the consumers want to withdraw the money at that point he/she need to submit a permission paper from Bangladesh bank. However, interest rates can change at any time without any previous notice. Moreover, advance income tax and excise duties are applicable according to the government laws.

**Car Loan:** In this modern age, car is no longer considered as a luxury product rather it has become a necessity of our daily life. IDLC classified their consumers into four different segments. The segments are A, B, C & D. Segment A&B consumer includes salaried executives of large local/international/ multinational organization, foreign NGOs agencies, UN organizations, embassies, high commission, banks and financial institution. Multilateral bodies having 3 years of operation, local corporate, prominent NGOs. Officials serving in government and semi government organization. Independent/salaried professionals comprising accounting professional, physicians, dentist, marine engineer, faculty members of renowned universities/School, teacher Professional/executive NRB, businessmen. Segment C & D consumer includes salaried executives of NGOs having 10 years of operation in the country (except those mentioned in segment A& B). Local corporates (small segment) non-executives, the landlord having rental income, NRB businessmen, businessmen etc.

Interest rates for different segments are given below:

Segments	Interest Rate
Segment A	13%
Segment B	13.25%
Segment C	13.75%
Segment D	14%

*Figure 4: Interest rates for different segments*

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2014)

IDLC offers loan for new cars, recondition cars and also for register cars. They provide car loans only for those models which are above 2010. For brand new car loan the highest term is 6 years and in case of recondition cars the maximum term is 5 years. IDLC offers up to 70% of the total car loan and the consumers have to pay 1.5% processing fee.

**Home Loan:** IDLC is one of the prominent Home Loan provider in the country. It offers attractive and convenient Home Loan facilities in order to meet the expectation and requirement of the clients.

Home loan interest rate matrix is given below:

Amount	Segment A			Segment B		
	Upto 10 years	10-15 years	Above 15 years	Upto 10 years	10-15 years	Above 15 years
Upto 10 M	11.79%	11.89%	12.25%	11.99%	12.49%	12.79%
10-20 M	11.99%	12.49%	12.79%	12.49%	12.99%	13.25%
20-30 M	12.25%	12.79%	12.99%	12.79%	13.25%	13.49%
Above 30 M	12.79%	13.25%	13.49%	13.25%	13.79%	13.99%

**Figure 5: Home loan Interest Rate Matrix (Segment A&B)**

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2014)

Amount	Segment C			Segment D		
	Upto 10 years	10-15 years	Above 15 years	Upto 10 years	10-15 years	Above 15 years
Upto 10 M	12.49%	12.99%	13.25%	12.79%	13.25%	13.49%
10-20 M	12.99%	13.49%	13.79%	13.25%	13.79%	13.99%
20-30 M	13.25%	13.79%	13.99%	13.49%	13.99%	14.25%
Above 30 M	13.79%	14.25%	14.49%	13.99%	14.49%	14.79%

**Figure 6: Home Loan Interest Rate Matrix (Segment C&D)**

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2014)

IDLC offers 0.25% lower interest rate if a consumer takes life insurance coverage with home loans. However, processing fee, documentation fee and other relevant fees will be applicable while taking the loan. The highest maturity term for variable interest rate is 20 years.

**Personal Loan:** IDLC also offers Personal Loan in order to improve the quality of life of their clients. They provide a lucrative interest rate which influence the consumers to accumulate their savings.

**3. Corporate Division:** The basic function of corporate division is to ensure extensive and quality service for the financial institutions. It also provides term loans, lease financing, working capital financing, project financing and other financial facilities for the corporate clients throughout the country. Moreover, this division also offers corporate bond issuance and debt syndication which belongs to the “Structured Finance” solution.

Corporate division provides the following services:

- **Lease Financing:** It is basically asset backed financing or lease provided to the lessee against office equipment’s, industrial machinery, commercial equipment’s, vehicles, engines etc.
- **Working Capital Financing:** IDLC offers working capital financing in order to help the companies to carry out their day-to-day business activities.
- **Term Loan Financing:** IDLC offers term loans for a set time period with regular payments.
- **Project Financing:** Corporate division offers project financing for the Joint venture of an existing company, new product lines of an existing company, setting up a new strategic business unit etc.

**4. Capital Markets:** IDLC Finance Ltd. established two of its wholly-owned subsidiaries namely IDLC Securities Ltd. and IDLC Investments Ltd. with which it runs its capital market operations. These two subsidiaries provide all types of trading and financial services to its clients. They provide the best infrastructural and execution experience to their diversified client base through their robust trading facilities. Their services also includes underwriting, primary issuance and merchant banking. The division has recently introduced Discretionary Portfolio Management services. They are paying special attention in order to grow this portfolio with their Consumer Division while considering interdivisional synergistic opportunities.

### 2.3 Organogram of IDLC Finance Limited:

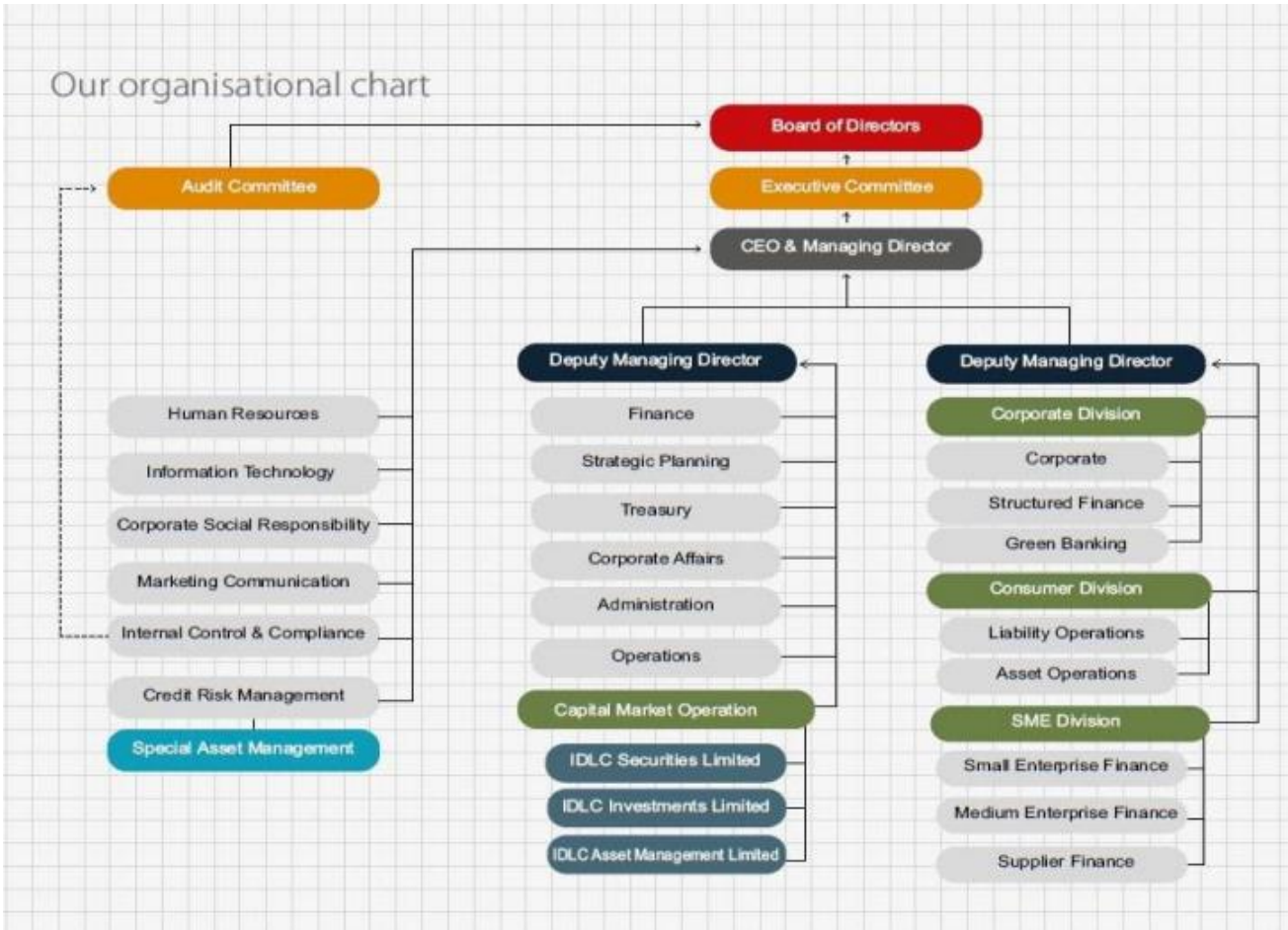
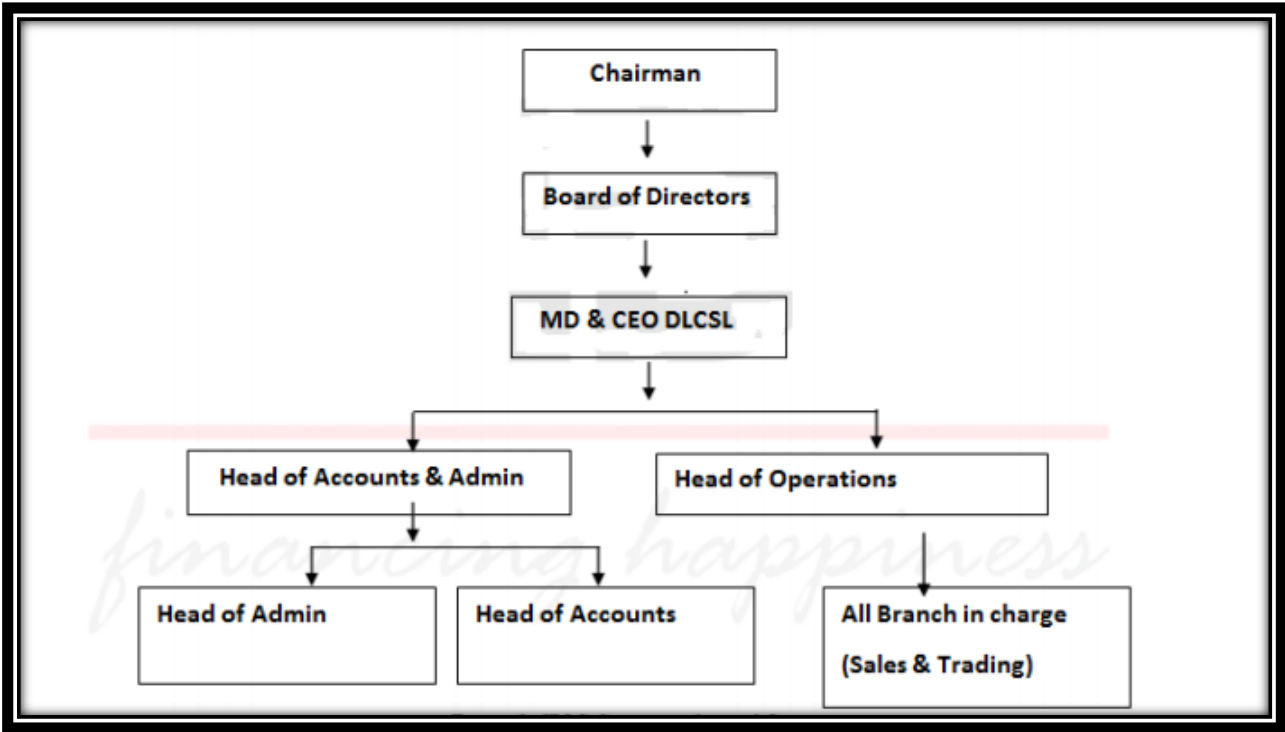


Figure 7: Organogram of IDLC Finance Limited

Source: Author’s constructed: Adapted from (IDLC Annual Report 2015)

The Board of Directors of IDLC segmented the Board into two sub-panels which are Executive Committee and Audit Committee. The Executive Committee deals with conventional business operations of the Company and the approval of the Board of Directors. However, the Audit Committee is responsible for identifying the money related issues, internal control frameworks and techniques, assessment programs, compliance requirements etc.

Organogram of IDLC Securities Limited:

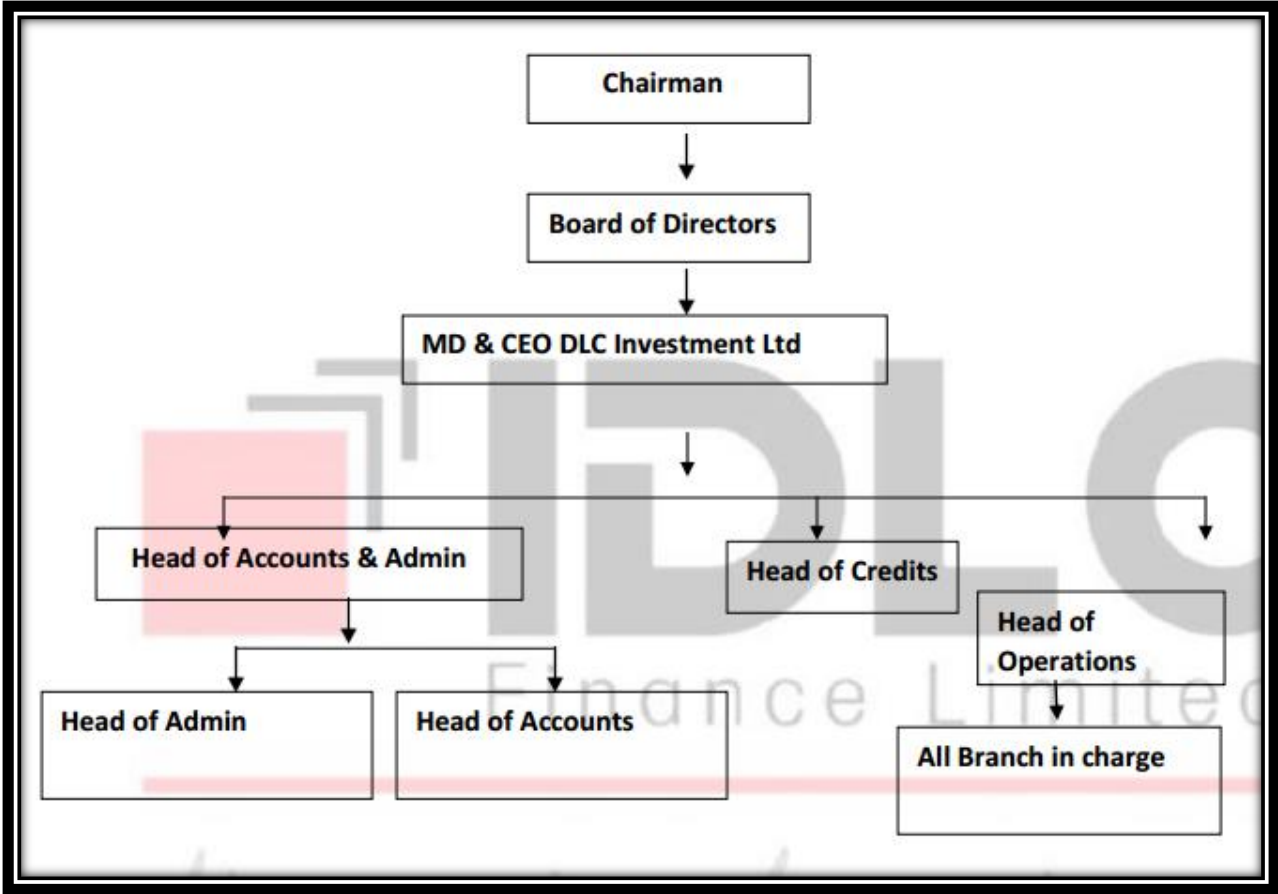


*Figure 8: Organogram of IDLC Securities Limited*

**Source:** Author’s constructed: Adapted from (IDLC Annual Report 2015)

IDLC securities is a subsidiary of IDLC Finance Limited. The administrative Board of Directors are same as IDLC Financing. The MD has the capability to control the chain of command through Head of Admin and Head of operations. Here Head of Operations primarily deals with exchange related issues. They are the in charge of all branches specially sales and trading.

Organogram of IDLC Investment Limited:



*Figure 9: Organogram of IDLC Investment Limited*

**Source:** Author’s constructed: Adapted from (IDLC Annual Report 2015)

IDLC Investment Limited is a completely owned subsidiary of IDLC. Here, the MD & CEO controls the operational hierarchy. The Head of Accounts and Admin are essentially engaged in financial related exchange administrative issues. Head of operation monitors the record opening.



## 2.4 IDLC Code of Conduct and Ethics:



*Figure 10: Code of Conduct and Ethics*

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2015)

### According to the Code of Conduct of IDLC:

- Employees shall act with integrity, competence, dignity while dealing with customers, prospects, colleagues, agencies and the public
- Employees should represent themselves in a more professional and ethical manner which will have a positive impact on IDLC employees, their profession and on IDLC at large
- Try to preserve and improve the competence of the business
- Practice reasonable care and exercise independent professional judgment
- They should not confine others from performing their professional obligations
- They should obey all the applicable laws, rules and regulations
- Reveal all conflicts of interest
- Their professional services should comply with IDLC policies and relevant technical and professional standards
- They should respect the confidential issues and privacy of customers
- They should not engage themselves in any kind of dishonesty, fraud, deceit or other unethical issues.

## 2.5 Shareholding Structure:

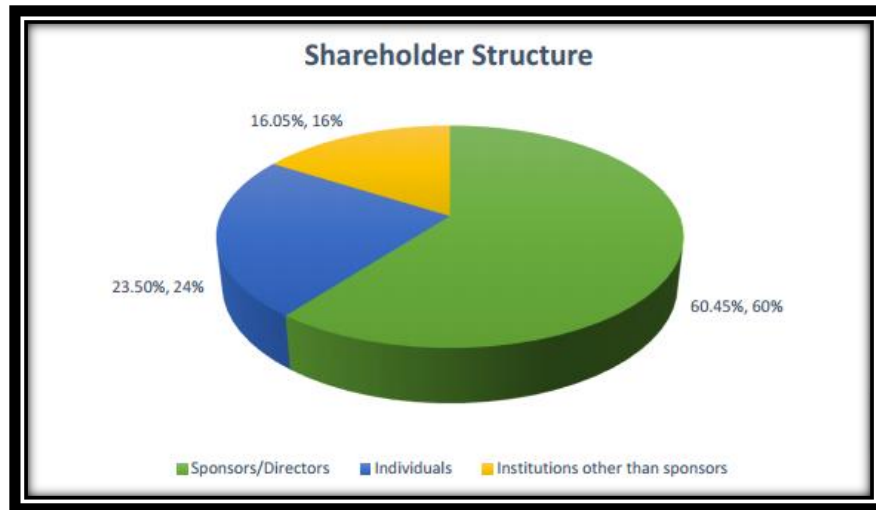
The shareholders of IDLC Finance Ltd. can be separated into two broad categories namely Sponsors/Directors and General Investors. General Investors can also be subdivided into two different categories which are Institutional Investors and Individual Investors.

**Our shareholding composition**  
As on December 31, 2015

SLNo	Name of Shareholders	Number of Shares	% of total Shares
<b>1</b>	<b>Sponsors/Directors:</b>		
	The City Bank Limited (CBL)	60,854,056	24.21
	<b>Transcom Group</b>	33,515,443	13.33
	Eskayef Bangladesh Limited	20,109,375	8.00
	Transcraft Limited	10,088,022	4.01
	Bangladesh Lamps Limited	3,318,046	1.32
	Sadharan Bima Corporation (SBC)	19,151,663	7.62
	Mercantile Bank Limited	18,852,538	7.50
	Reliance Insurance Co. Limited	17,595,702	7.00
	<b>Sub-Total</b>	<b>149,969,402</b>	<b>59.66</b>
<b>2</b>	<b>General</b>		
	<b>Institutions other than Sponsors/Directors:</b>		
	Bangladesh Fund	8,040,750	3.20
	ICB	5,813,612	2.31
	LR Global	2,873,900	1.14
	Other Institutions/Corporates	34,291,599	13.64
	<b>Sub total</b>	<b>51,019,861</b>	<b>20.30</b>
	<b>Individuals :</b>		
	General Public (Individuals)	50,377,924	20.04
	<b>Sub total</b>	<b>50,377,924</b>	<b>20.04</b>
	<b>Total Holdings</b>	<b>251,367,187</b>	<b>100</b>

*Figure 11: Shareholding Composition of IDLC Finance Limited*

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2015)

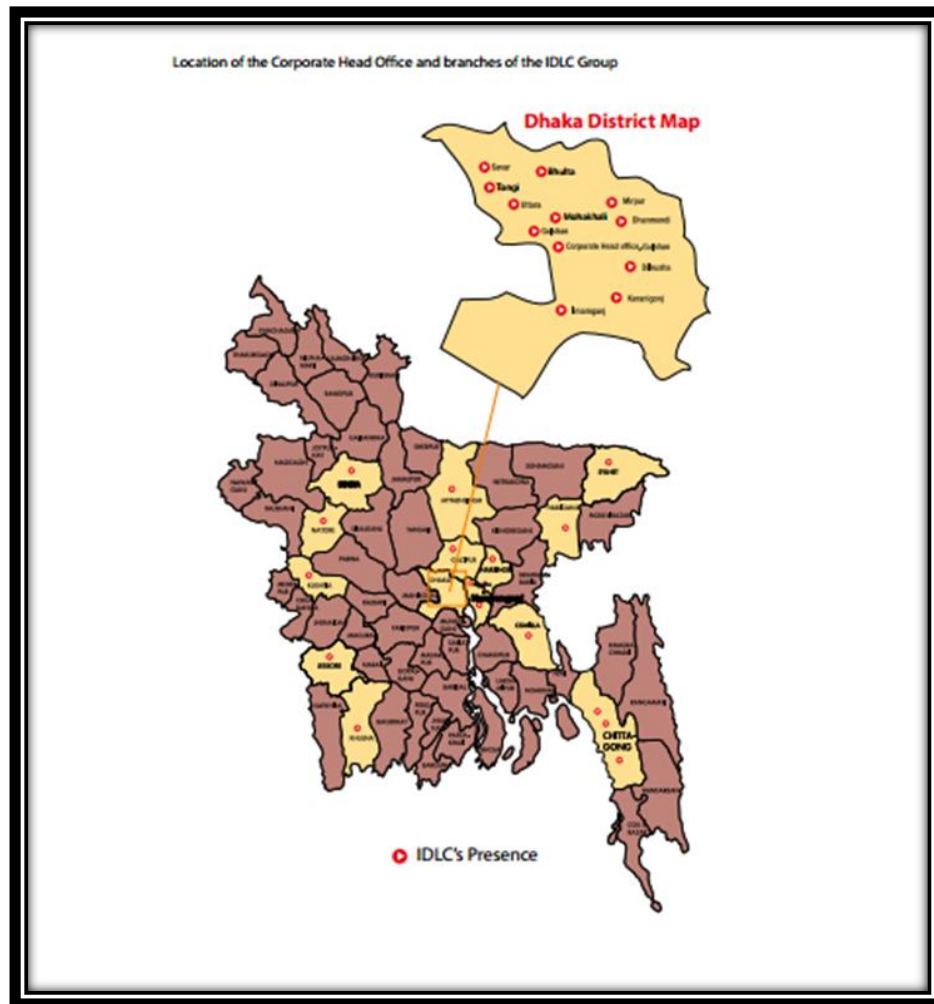


*Figure 12: Shareholding Composition Percentage*

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2015)

## 2.6 Location of Corporate Head Office and Branches:

IDLC is the largest Non-Banking Financial Institution which serve the local people with financial facilities. It provides world-class products and exclusive customer service. As a result, they already have 34 branches and 2 booths and thus they established a strong branch network which covers the major points of Bangladesh.



*Figure 13: Map of IDLC's Corporate Head Office and Branches*

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2015)

## 2.7 Key Corporate Milestones:

<b>Date</b>	<b>Company Chronicle</b>
1985, 23 May	Incorporation of the Company
1986, 22 Feb	Commencement of the leasing business
1990, 1 Oct	Establishment of a branch in Chittagong, the main port city of Bangladesh
1993, 20 Mar	Listed on the Dhaka Stock Exchange Limited
1995, 7 Feb	Licensed as a Non-Banking Financial Institution under the Financial Institutions Act, 1993
1996, 25 Nov	Listed on the Chittagong Stock Exchange Limited
1997, 27 May	Commencement of home finance and short term finance operations
1998, 22 Jan	Licensed as a merchant banker by the Bangladesh Securities and Exchange Commission
1999, 15 Jan	Commencement of corporate finance and merchant banking operations
2004, 29 Jan	Opening of the first retail focused branch at Dhanmond
2004, 29 Jan	Opening of the Gulshan Branch
2004, 22 Nov	Launched investment management services, 'Cap Invest
2006, 2 Jan	Opening of the first SME-focused branch at Bogra
2006, 6 Apr	Opening of the Uttara branch
2006, 1 July	Relocation of the Company's Registered and Corporate Head Office at own premises at 57, Gulshan Avenue
2006, 18 Sep	Commencement of operations of IDLC Securities Limited, a wholly-owned subsidiary of IDLC

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2015)

Date	Company Chronicle
2007, 14 Mar	Launching of discretionary portfolio management services under 'Managed Cap Invest'
2007, 5 Aug	Company name changed to 'IDLC Finance Limited' from 'Industrial Development Leasing Company of Bangladesh Limited'
2009, 6 Jan	Opening of the Sylhet branch
2009, 26 Aug	Opening of the Gazipur SME booth
2010, 3 Feb	Commencement of operations at Narayanganj
2010, 24 Feb	Inauguration of the Savar branch
2010, 8 Aug	Inauguration of a second branch in Chittagong at Nandankanon
2010, 27 Oct	IDLC entered Comilla
2010, 23 Dec	IDLC inaugurated its Narsingdi branch
2010, 27 Dec	Opening of the Keraniganj branch
2011, 15 Jun	IDLC started operations at Mirpur
2011, 9 Aug	Opening of the Tongi branch
2011, 16 Aug	Commencement of operations of IDLC Investments Limited, a wholly-owned subsidiary of IDLC
2012, 18 Jan	Opening of the Jessore branch
2012, 11 Mar	Change of logo and rebranding of IDLC
2014, 8 Jun	Opening of the Khulna Branch
2014, 18 Oct	Opening of the Bhulta Branch
2014, 10 Nov	Opening of the Natore Branch
2015, 21 Dec	Soft opening of Kushtia Branch
2015, 28 Dec	Soft opening of Mymensingh Branch
2015, 29 Dec	Soft opening of Habiganj Branch

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2015)

## **Chapter-3**

### **3.1 Literature Review:**

A literature review is considered as critical analysis of a selected area of study. It includes current knowledge and findings as well as background information on a particular research topic. The purpose of literature review is to provide relevant information on the research topic so that the readers can easily understand the importance and purpose of the readers.

A number of studies had been conducted in order to represent the importance of SME Financing. Here, in this chapter, I will systematically present different data and analysis which I collected from various secondary sources in order to support the base of my research topic. At this point, the main research topic is “Competitive Analysis of SME Financing: A Study on IDLC Finance Limited”. This chapter will represent the current state of SME financing, the role of Banks and other financial institutions for SME financing and the dynamics of Competitive Analysis. The research and findings of different authors will also be represented so that the readers will be able to understand the aim of this topic.

Since, literature review basically provides secondary information so most of the data and information presented in this chapter will be secondary in nature. Appropriate references and citations will be used for further clarification regarding this topic.

## **Study 1**

Title: The Role of the Banker in Financing Medium Sized Firms in Belgium: Lender or Advisor

Author: Thomas Janssen (Janssen T. , 2005)

Extract: This research study mainly focused on analyzing the role of banks that finances medium enterprises in Belgium. It represents that, like many small businesses, the medium size firms also have a preference for their own financing. Debt or borrowing money is considered as the main source of funding. However, the debt ratio or percentage is very smaller as compared to the large firms. Since, they have a lower contribution to the banks resources, banks usually pay minimum attention to their financial function. So, it shows that as an advisor a banker doesn't pay an important role for the medium enterprises.

## **Study 2**

Title: Bank involvement with SMEs: Beyond relationship lending

Author: Augusto de la Torre, María Soledad Martínez Pería, Sergio L. Schmukler (Torre, Peria, & Schmukler, 2010)

Extract: This research paper identified that the foreign banks and large financial institutions are generally not interested to serve the SMEs. So, it is a great advantage for small and niche banks to serve this sector in order to overcome SME opacity through relationship lending. This research paper shows that there is a huge gap between this generic view and what the banks actually do. Banks consider SMEs as fundamental and strategic business units and they are interested to expand their links with SMEs. This paper represents the greater involvement of banks with SMEs which is neither led by relationship lending nor by the small or niche banks. However, all types of banks and financial institutions are catering the needs of SME financing. Because, they have a competitive advantage in offering a wide range of products and services through modern technologies and business models.



### **Study 3**

Title: Shopping for a Mortgage

Author: John Kerin (Kerin, 2016)

Extract: This article shows the importance of loan comparison while taking different types of loans. According to this article the borrowers should always consider the cost, fees, interest rates, eligibility and other associated information in order to get the best financial deal. The loan features, offers and schemes always differs from one institution to another. So, this article focuses on the necessity of comparing loans which will assist them to take the most appropriate borrowing decision.

### **Study 4**

Title: NBFIs shift focus to SME financing

Author: Nazmul Ahsan (Ahsan, 2015)

Extract: This article shows the strategic shift in the landing portfolio of NBFIs from corporate landing to SME financing. However, in Bangladesh almost 25% of SME financing is done by the Non-Banking financial Institutions. It indicates that the NBFIs have already diverted their concentration from corporate banking to small and medium enterprises. Previously, the NBFIs were largely depended on banks for collecting deposits and lending purposes. But recently they have lowered the rate of dependence from 90% to 30%. Even though the NBFIs have a greater contribution in the capital and growth of the economy this sector has been unfairly targeted by a few regulatory agencies.

# Chapter-4

## 4.1 Internship Experience:

### 4.1.1 Job Responsibilities as an Intern:

The completion of internship is vital part of the BBA Program because it provides a great opportunity to get a real life experience while performing the work. I have finished my internship from IDLC finance Limited. I consider myself very fortunate since I was in Dilkusha Branch which is the largest branch of IDLC Finance Limited. Basically, I was assigned in the SAM (Special Asset Management) Division but later on I was shifted into the SME Division. SME is the largest division of IDLC and SAM Division collects cheque from the clients and deals with Non-Performing Loans. I had been hired along with two other interns in order to help the employees to carry out their daily activities. The internship program of IDLC Finance Limited is quite challenging and it creates a learning platform for the beginners. In the internship program I learned a lot and also contributed by assisting the regular activities with hands on support. As an intern I had to perform different types of works and most of those activities were kind of support activities. However, I also had to do some important and critical tasks as well but I did those under the supervision of my direct supervisor

**Specific Responsibilities of the job:** As an intern I was assigned the following job responsibilities:

- Operating PDC Oracle Software
- Following up customers on a daily basis for cheque collection
- Handling customer calls and cheque return issues
- Providing customer support
- Ensuring cheque collection within the specific time limit
- Maintaining PDC General Folder
- Maintaining the files, accounts and portfolio of the clients
- Calling the potential clients and telling them the update
- Collecting important documents from the employees and managing those in their personal files.

- Scanning important documents and mailing those to the particular personnel.
- Assigning CIF (Customer Identification Number) in the files.

So, basically these are the basic and regular activities that I had to perform as an intern. However, I was exposed to some other activities which are minor to mention here. At the beginning they showed me how to do the task and next time they used to ask me to perform the task by myself. So, in this process I learned how to perform the tasks more effectively and efficiently. I also faced different types of difficulties and problems while performing my appointed task. In such a situation I got a lot of support from my supervisor, colleagues and the other co-interns.

# Chapter-5

## 5.1 Definition of SME in the context of Bangladesh

Small and Medium Enterprises or (SMEs) are independent and non-subsidary business units which employ a lower number of employees. Like the large firms and companies they don't have strong financial support.

According to the industrial policy of 2010, the central bank of Bangladesh has come up with a new definition for small and medium enterprises. Under this definition, an individual will be considered as an SME entrepreneur by Bangladesh Bank if the person is an owner of a private company or owns at least 51% share in a joint venture. The micro enterprises and cottage industries are also included in the SME loan policy (Ahmed, 2016).

According to the new definition:

### **In Manufacturing:**

#### **Small-size industries/enterprises**

Assets Value: Worth BDT 50 lakh to BDT 10 crore (excluding land and factory building, but including

replacement value)

Number of Employees: 25 to 99 workers.

#### **Medium-size industry/enterprise**

Assets Value: Worth BDT 10 crore to BDT 30 crore (excluding land and factory building, but including

replacement value)

Number of Employees: 100 to 250 workers.

#### **Micro industry/enterprise**

Assets Value: Worth BDT 5 lakh to BDT 50 lakh (excluding land and factory building, but including

replacement value)

Number of Employees: 10 to 24 or less

**In both services Industry and Businesses:**

**The small-size enterprises**

Assets Value: Worth BDT 5 lakh to BDT 1 crore.

Number of Employees: 10 to 25 workers

**The medium-size enterprises**

Assets Value: Worth BDT 1 crore to BDT 15 crore (excluding land and factory building)

Number of Employees: 50 to 100 workers

**Micro-enterprises:**

Assets Value: worth BDT 5 lakh or less (excluding land and factory building, but including replacement

value)

Number of Employees: 10 or less.

**Cottage industries/enterprises:**

Assets Value: Worth BDT 5 lakh to BDT 50 lakh (excluding land and factory building, but including

replacement value)

Number of Employees: 10 to 24 workers or less.

**Classification of SME:**

The government of Bangladesh classified SME into two segments and they are:

- Manufacturing enterprise
- Non-manufacturing enterprise.

Manufacturing enterprise are also divided into two sections and they are:

- Small enterprise
- Medium enterprise

Non-manufacturing enterprise are also divided in to two parts and they are:

- Small enterprise
- Medium enterprise.

According to the Bureau of statistics, different enterprise in terms of the number of employees:

<b>Enterprise</b>	<b>No. of employees</b>
<b>Micro</b>	<b>0-9</b>
<b>Small</b>	<b>10-49</b>
<b>Medium</b>	<b>50-99</b>
<b>Large</b>	<b>Above 99</b>

*Table 1: Number of enterprises in terms of employees*

**Source:** Author's constructed: Adapted from (Statistics and Information Division, 2016)

## 5.2 Current State of SME Financing in Bangladesh

Small and Medium Enterprises (SMEs) plays an important role for the development of a country and also contributes to the diversification of industrial sector. It creates employment, women empowerment with lower infrastructure facilities and thus contributes to the alleviation of poverty. In recent years, there is a rapid growth in the SME sector of Bangladesh which in turn contributes to the economic development of the country.

The key contributions of SME sector are given below:

- The contribution of SME sector in the growth of GDP is around 4.5%
- Over the last five years 0.35 million new jobs are created in this sector
- This sector creates 25% job opportunity out of the total labor force
- It encourages entrepreneurship which reflects in the increasing percentage of small and medium enterprises
- About 20% new enterprises are created over the last 5 years
- It creates a strong base for large industries by providing necessary materials and inputs
- It reduces unemployment and creates more employment opportunities

Government banks like Janata Bank funded a significant amount in order to promote SME financing in our country. The programs includes Self-help credit program, Small Enterprise development project and Special Investment Program for small Entrepreneurs. The private sector also have a significant contribution in the development of SME sector. The banks include Standard Chartered Bank, BRAC Bank, Pubali Bank, Eastern Bank Ltd. (EBL), Dutch Bangla Bank, Dhaka Bank Ltd, Mercantile Bank Ltd, Islami Bank Bangladesh Ltd, IFIC Bank Ltd. etc. They are providing small, medium, short term and long term loan opportunity for the small scale entrepreneurs. The investment of private sector banks in financing SMEs remains significant in Bangladesh. Among all the private sector banks like Pubali Bank, Standard Chartered Bank, Agrani Bank, BRAC Bank, Eastern Bank Ltd. (EBL), Prime Bank Ltd, Dhaka Bank Ltd, Mercantile Bank Ltd, DutchBangla Bank Ltd, Islami Bank Bangladesh Ltd, IFIC Bank Ltd etc provides the best financial support (Massey, 2016)

Here this table represents the contribution of SME in the different financial and business aspects in Bangladesh in the development of economy.

Aspects	Role of SMS's
<b>National Gross Domestic Products</b>	<b>25%</b>
<b>Gross Manufacturing Output</b>	<b>40%</b>
<b>Industrial Job</b>	<b>85%</b>
<b>Total Labor Force</b>	<b>25%</b>
<b>Total Exporting Earning</b>	<b>89%</b>
<b>Percent of Business</b>	<b>over 95%</b>
<b>Absorbed Industrial Workers</b>	<b>70% to 80%</b>

*Table 2: Contribution of SME in Financial and Business Sector*

**Source:** Author's constructed: Adapted from (Statistics and Information Division, 2016)

There is a strategic shift in the landing portfolio of NBFIs from corporate landing to SME financing. Non-Banking Financial Institutions also play a significant role by providing financial support and credit facilities to the Small and Medium Enterprises and thus contributes to the growth and development of SME sector of Bangladesh. However, in Bangladesh almost 25% of SME financing is done by the Non-Banking financial Institutions. It indicates that, the NBFIs have already diverted their concentration from corporate banking to small and medium enterprises. The blue chips of financial institutions like IDLC Finance Limited, Lanka Bangla Finance and IPDC offers different types of SME loans in recognition of the role of SME sector in Bangladesh. Even though the NBFIs have a greater contribution in the capital and growth of the economy this sector has been unfairly targeted by a few regulatory agencies (Ahsan, 2015)



## Chapter-6

### 6.1 SME Financing by IDLC

Small and Medium Enterprises (SMEs) plays an important role for the development of a country and also contributes to the diversification of industrial sector. It creates employment, women empowerment with lower infrastructure facilities and thus contributes to the alleviation of poverty.

The financial institutions can play significant role by providing financial support and credit facilities to those Small and Medium Enterprises and thus contributes to the growth and development of SME sector of Bangladesh.

IDLC Finance Limited is considered as a blue chip among the existing financial institutions in Bangladesh. The SME Division of this institution is offering different types of SME loans in recognition of the role of SME sector in Bangladesh.



*Figure 14: SME Financing by IDLC*

**Source:** Adapted from (IDLC Finance Limited, 2016)

**SME Loan:** The SME Division of IDLC Finance Limited always prioritize and recognize the customer needs and actively participates toward the progress and advancement of the SME sector of Bangladesh. The SME loan is specially designed for the small or minor trading, manufacturing and service companies. It provides them with short-term credit facilities which aids the entrepreneurs to fill the fund-flow gap.

### **Loan Limit:**

- Minimum BDT 5 lakh to maximum BDT 1.5 crore

### **Key Features:**

- Collateral is not required for loan up to BDT 15 Lakh
- Offers partial cash-secured loan up to BDT 70 Lakh
- Loan term is usually 60 months
- Loan facility is available for Working Capital Finance and/or Lease finance
- The debtors who have loan in other financial institutions can also avail this loan facility
- Repayment options are offered in terms of Equal monthly installments and/or customized repayment schedule
- Provides fast and quality service for the customers convenience

### **Eligibility:**

- The entrepreneurs must have minimum 2 years of experience in the same business unit
- The business must be a running business with 2 years of operational experience

### **Required Documents:**

- Recent passport size photograph, Photocopy of National ID Card, TIN certificate
- Bank statement of last 1 year
- Applicants must provide trade license of last 1 year
- Statement of assets with proper evidence

**ABASHAN Loan:** IDLC provides "ABASHAN Loan" which is a loan facility designed specifically for small businesses. They usually extend their facility to those entrepreneurs who will construct or already have permanent structure for commercial rent basically known as mess rent. The construction areas are generally located in places adjacent to the industrial areas and EPZs across the country.

### **Key Features:**

- The loan limit is minimum Taka 3 lacs to maximum Taka 40 Lacs
- Loan is offered without any collateral for up to Taka 15 Lacs
- Applicants who have loan with other financial institutions can also avail this loan facility
- Repayment system is quite convenient with Equated Monthly Installments (EMI)
- Provides fast and quality service

### **Eligibility:**

- Entrepreneurs must have minimum 1 year experience in the same business line.
- It must be a running business with at least 1 year of operational experience.
- Entrepreneur's income from rental and other sources should be at least 60,000 Taka per month

## **6.2 Medium Enterprise Finance**

The medium enterprise segment of SME Division offers mid and long term financial solutions to a broad range of clients. It creates a strong support for those entrepreneurs and help them to establish their own corporate houses. The portfolio of IDLC is consists of various Limited, Partnership and Proprietorship concerns from a broad range of potential business sectors.

### **Lease Financing:**

- This is basically asset backed financing against industrial machineries, commercial equipment's, office equipment's, generators, vehicles, vessels, engines, etc.
- IDLC offers extended financial facility up to 100% of the cost
- Flexible terms are offered in case of security/collateral to avail the facility
- Financing term is usually between 2 to 5 years
- Payment can be made through Equal monthly installments or structured payment
- Throughout the lease period the legal ownership remains in the name of IDLC. However, at the end of the term the ownership is transferred back to the client

### **Sale and Lease Back:**

- Offers financing against current assets of a company which includes industrial machineries, commercial equipment's, office equipment's, generators, vehicles, vessels, engines, etc.
- During the financing period, the ownership of the asset is transferred to IDLC. However, at the end of the term the ownership is transferred back to the client
- IDLC offers extended financial facility up to 100% depending on the condition of the asset
- Financing term is usually between 2 to 5 years which depends on the original date of purchase and current condition of the asset
- Payment can be made through Equal monthly installments or structured payment

## **6.3 Specialized Products:**

### **Refinancing of Existing Liabilities:**

- IDLC offers refinancing facility against existing liabilities in order to match the repayments with cash flows and thus allowing some more time for repayment.
- The facilities are usually offered against good quality liabilities.
- Repayments structures and Financing terms has a similarity with Term Loan.

### **Bridge Financing:**

- Bridge Financing facilities are usually offered to meet short-term fund requirements of clients
- Financing terms depends on the nature of the facility
- Repayment mode is generally bullet payments
- Based on the financial product overdue repayment structure is available

### **Long Term Finance for Real Estate Developers:**

- IDLC provides financial support for the Real Estate Developers so that they can meet capital expenditures or construction costs which is required for their Real Estate projects.
- The loan is offered for both residential and commercial purposes.
- It offers a convenient debt to equity ratio
- Payments are usually made in terms depending on the progress of the construction work
- Maximum term of financing is 6 years depending on the nature of the project
- Payment can be made monthly or quarterly through Equal or Structured installments

### **Loan to Corporate:**

- The loan is designed for the corporate clients so that they can procure commercial or office space
- Based on the feasibility of the project the maximum loan term can be up to 6 years
- Payment can be made monthly or quarterly through Equal or Structured installments

## **Project Financing:**

Project Financing is financial facility which is offered to the clients for setting up a new business unit in addition to their existing product line. A new Joint Venture or a new concern of an existing group can also avail this facility.

- It offers a convenient debt to equity ratio
- A comprehensive financial solution is provided which is combined with various services
- Financing terms usually depends on the product type. In case of fixed cost financing, the maximum term is up to 6 years
- They different repayment structure which depends on the financial product

## **Unique Loans:**

- 1) IDLC Udbhabon
- 2) IDLC Purnota

## **IDLC Udbhabon:**

In this modern age, ICT has become the most important and the fastest growing sector in Bangladesh. Since the sector is unique in nature, it often gets deprived of the financial facilities. In order to foster the improvement and growth of ICT sector IDLC has partnered with BASIS. As a result, IDLC has recently introduced “IDLC Udbhabon” which is particularly designed to satisfy the unique needs of ICT enterprises. The main purpose is to offer financial and non-financial loan facilities to the ICT entrepreneurs.

## **Financial Services:**

- Working Capital Loan
- Fixed Asset Financing
- Lease Financing
- Women Entrepreneurs Loan
- Commercial Vehicle Loan
- Commercial Space Loan
- Startup Business Loan

- Supplier Finance (Factoring)
- Work Order Finance
- Loan offering for the customers of BASIS members

### **Term Loan**

#### **Purpose:**

- Working Capital
- Fixed Asset Purchase
- Lease Financing
- Commercial Vehicle Purchase
- Commercial Space Purchase

#### **Key Features:**

- Fastest processing while prioritizing service delivery
- The minimum loan amount is BDT 0.50 million and the maximum loan limit is determined by the purpose of financing and the business volume
- Loan limit is BDT 2.0 million for unsecured loan
- Offers partially secured loan up to BDT 5.0 million which is backed by FDR of 30% of loan amount
- Minimum loan term is 13 months and the maximum 60 months. In case of commercial space purchase the maximum loan term is 96 months.
- Repayment method is usually equal monthly installment or structured payment
- BASIS Members gets a special discount of 0.5%
- For women entrepreneurs interest rate is only 10% up to BDT 5.0 million
- They have a committed product team for faster processing of loan

#### **Eligibility:**

- The entrepreneur age must be between 20 years to 60 years
- The entrepreneur should have minimum 2 years of continuous business operation. However, for women entrepreneurs only 1 year of experience is required.

### **Required Documents:**

- Recent passport size photograph, Photocopy of National ID Card, TIN certificate
- Bank statement of last 1 year
- Applicants must provide trade license of last 1 year
- Statement of assets with proper evidence

### **Working Capital Loan of IDLC:**

#### **Purpose:**

- It provides financial solutions which is intended to meet immediate business needs

#### **Product**

- Supplier Finance
- Work Order Finance

### **Key features of Supplier Finance (Factoring):**

- It offers straight financing for Supplier Finance. That means after accepting the bill from the buyer's office, up to 80% of the bill amount is immediately credited from the supplier's bank account.
- This service ensures regular bill submission and collection of payment on behalf of the supplier. In order to ensure timely collection of payment, IDLC submits bill to the buyers and makes proper follow-up for payment collection.
- They also have a Supplier Finance SMS Alert service which actually notify the suppliers of each transaction through SMS
- The company properly maintains supplier's sales ledger in their software and also keep a regular account statement which is sent monthly or as per the supplier's request.

### **Working Order Loan:**

- Under this scheme Supplier Financing is free of collateral up to a certain limit

### **Key features of Work Order Finance:**

- The maximum credit limit is 50% of the work order value
- They offer credit limit based on the present and the expected future work orders on hand
- Maximum credit term is usually 180 days
- It requires cash or registered mortgages in the form of security or collateral.

### **Eligibility:**

- The entrepreneur's age must be between 20 years to 60 years
- It must be a running business with minimum 2 years of business operation
- The business must sell to a credit-worthy buyer or debtor
- Receivable/Invoice/Bill should be produced in such a way that it can be verified and accepted by the institutional buyer or debtor
- The Business that deals with multiple institutional buyers or debtors will get a preference.

### **Startup Loan**

#### **Purpose:**

- Provide financial facility to start a new business
- To speed up a newly started business

#### **Key features:**

- Fastest loan processing while prioritized service delivery
- Maximum loan limit is BDT 25 lacs.
- Loan term is maximum 60 months
- Offers 10% interest rate
- Repayment mode is usually equal monthly installment or structured payment
- Provides a grace period of 3 to 6 months
- Committed product team for ensuring faster processing



### **Eligibility:**

- It should be a recently started ICT business
- The applicant must not borrow loan from any other financial institution
- Entrepreneur's age must be between 18 years to 45 years
- The entrepreneur must be fully involved in the business line

### **IDLC (Purnota Loan)**

IDLC provides Purnota Loan in order to financially assist the women entrepreneurs of the country. The loan is applicable irrespective of the size of the business like small or medium. Purnota Loan offers credit access, skill training and a comprehensive solution which helps the women entrepreneur to achieve the necessary acceleration that their business require.



Figure 15: Purnota Loan of IDLC

**Source:** Adapted from (IDLC Finance Limited, 2016)

### **Key Features:**

- It provides Working Capital and Long term Financing Facility for Women Entrepreneurs
- Maximum Loan Amount – Depends on the Nature and Condition of the Business and unsecured Loan up to BDT 25 lakh
- Minimum Loan Amount – BDT 3 lakh
- Payment Structure depends on the Cash Flow
- 10% Interest is applicable for loans up to BDT 50 lakh

- 3 to 6 months grace period for new schemes in manufacturing or service sector
- Loan term is 48 months

**Eligibility:**

- The applicant must have minimum 1 year of Business Experience (Supported by Trade License)
- Age of the Applicant – 20 to 60 years

**Required Documents:**

- Recent passport size photograph, Photocopy of National ID Card, TIN certificate
- Bank statement of last 1 year
- Applicants must provide trade license of last 1 year
- Statement of assets with proper evidence

**Other Features of IDLC Purnota:**

- **Business Facilitation Service**-The main purpose of this service is to assist the women entrepreneurs to obtain the regulatory documents and licenses without any hassle. The documents or licenses includes Trade License, Tax Identification Number (TIN) Certificate, Environmental Certificate (ECC), Import Realization Certificate (IRC), Export Realization Certificate (ERC) and other necessary documents.
- **Purnota Helpline**- Purnota Helpline is an Information Services for Women Entrepreneurs which helps them to receive information and direction on wide variety of topics. They includes Purnota related information, deposit related information, personal and business loan related information, information about basic banking rules and regulation information on various training facilities etc.
- **Purnota Insurance**–Purnota Insurance allows women entrepreneurs to protect themselves, their business and family members from several risks like accidental death, disability, physical injury, natural disasters etc.
- **Purnota Club** – It creates a unique platform for the women entrepreneurs to build strong network and communication among each other by sharing their skills, ideas and experiences.

## Chapter-7

### 7.1 Statistical View of SME Financing by IDLC

In this part of the report I incorporated some data and charts in order to show the statistical view of IDLC Finance Limited. This figures will represent the performance of SME financing over the flow of time.

The following table represents the portfolio of SME financing over the years:

Year	Amount in Million
2009	1758
2010	2712
2011	4485
2012	7498
2013	10392

*Table 3: SME Financing Portfolio*

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2013)



*Figure 15: SME Financing Portfolio*

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2013)

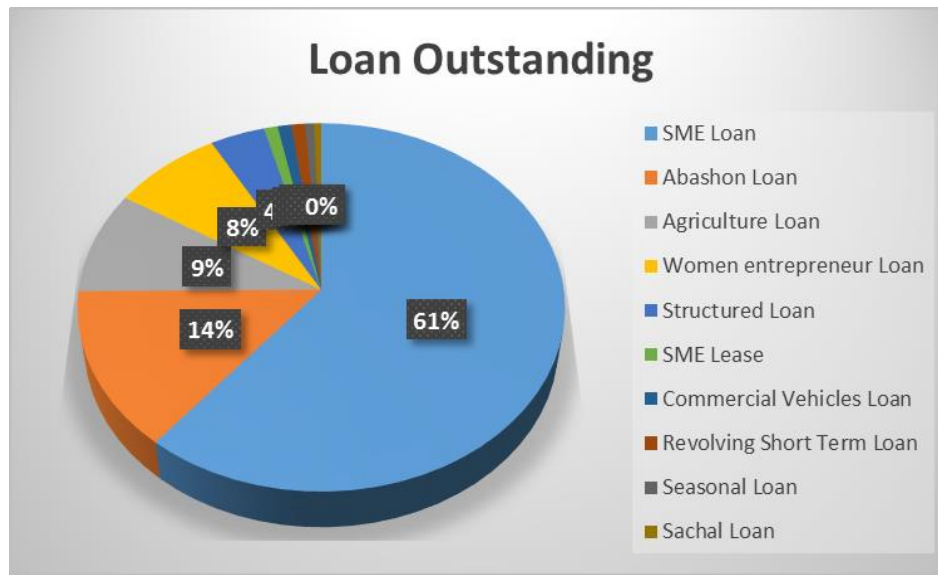
The figure above represents the portfolio of SME financing from Year 2009 to 2013. From the figure we can identify that the portfolio is getting larger day by day. In year 2009 the worth of the portfolio was only 1758 million. However, by the end of year 2013 the amount increased by 8634 million. So, from this figure we can say that there is a rising trend in the portfolio of SME financing.

This table represents product wise outstanding of SME Financing:

<b>Product</b>	<b>Percentage</b>
<b>SME Loan</b>	<b>61</b>
<b>Abashon Loan</b>	<b>14</b>
<b>Agriculture Loan</b>	<b>9</b>
<b>Women entrepreneur Loan</b>	<b>8</b>
<b>Structured Loan</b>	<b>4</b>
<b>SME Lease</b>	<b>1</b>
<b>Commercial Vehicles Loan</b>	<b>1</b>
<b>Revolving Short Term Loan</b>	<b>1</b>
<b>Seasonal Loan</b>	<b>0.65</b>
<b>Sachal Loan</b>	<b>0.52</b>

*Table 4: Product wise Loan Outstanding*

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2013)



**Figure 16: Product wise Loan Outstanding**

**Source:** Author’s constructed: Adapted from (IDLC Annual Report 2013)

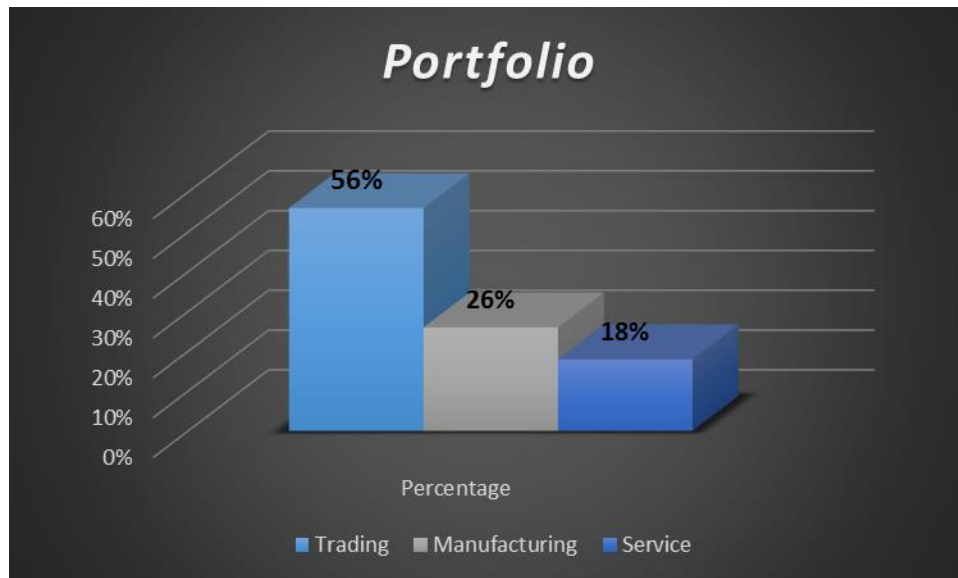
This chart shows product wise loan outstanding of SME Division. This pie chart represents a bigger portion for SME loan which is 61%. After that, Abashon loan contributes 16% of the total SME financing. It indicates that there are more clients for SME and Abashon loan in comparison with other loans offered by the SME Division of IDLC. However, the Seasonal loan and Sachal loan contributes 0.65% and 0.52% of the total financing. So, the SME division should consider this issue in order to increase the percentage of lower performing loans.

This table shows sector wise portfolio of IDLC finance Limited:

Sector	Percentage
Trading	56%
Manufacturing	26%
Service	18%

**Table 5: Sector wise Portfolio**

**Source:** Author’s constructed: Adapted from (IDLC Annual Report 2014)



**Figure 17: Sector wise Portfolio**

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2014)

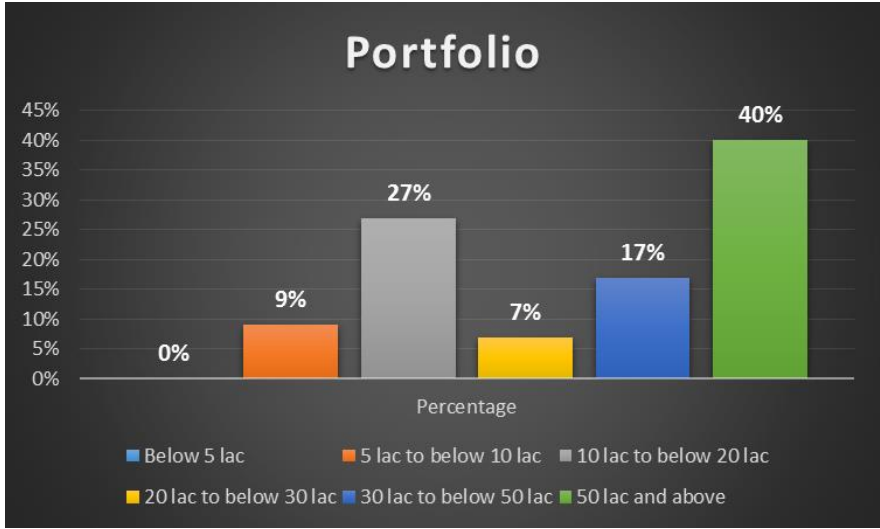
If we consider this chart, we can see that it represents sector wise portfolio of IDLC Finance Limited. Here, the Trading sector has the largest contribution with a percentage of 56%. After that the manufacturing sector contributes 26% which is the second largest portion. Finally, Service sector contributes 18% of the total portfolio. That means trading sector has a better performance in terms of the two other sectors.

This table shows the percentage of the portfolio in terms of loan size:

Loan Size	Percentage
Below 5 lac	0%
5 lac to below 10 lac	9%
10 lac to below 20 lac	27%
20 lac to below 30 lac	7%
30 lac to below 50 lac	17%
50 lac and above	40%

*Table 6: Portfolio According to Loan Size*

**Source:** Author’s constructed: Adapted from (IDLC Annual Report 2014)



*Figure 18: Portfolio According to Loan Size*

**Source:** Author’s constructed: Adapted from (IDLC Annual Report 2014)

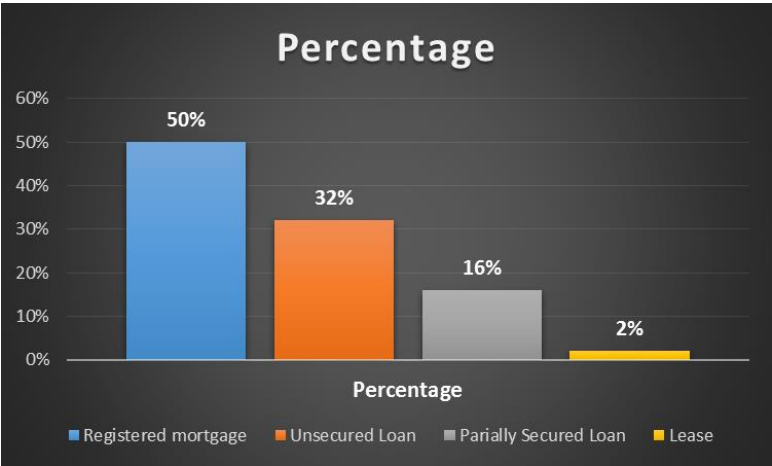
This chart represents the percentage of portfolio according to loan size. The highest loan amount that means 50 lac or above has the highest percentage which is 40%. So, it indicates that most of the clients or borrowers takes huge amount of loan from IDLC. The second largest percentage is 27% where the loan amount is 10 lac to below 20 lac. Therefore, we can conclude that the maximum loan amount is responsible for the major portion of the portfolio.

This table represents the percentage of loan in terms of Security:

Types of Loan	Percentage
Registered mortgage	50%
Unsecured Loan	32%
Parially Secured Loan	16%
Lease	2%

*Table 7: Percentage in terms of Security*

**Source:** Author’s constructed: Adapted from (IDLC Annual Report 2014)



*Figure 19: Percentage in terms of Security*

**Source:** Author’s constructed: Adapted from (IDLC Annual Report 2014)

Here, this chart shows the percentage of loan types in terms of their security. Registered mortgage has the highest percentage which is 50%. That means, most of the clients reserve their registered mortgage as security or collateral. The contribution of unsecured and partially secured loan is 32% and 16% respectively. The unsecured loan has a greater percentage in terms of partially secured loan because the borrowers can avail this loan without the use of any property as collateral.

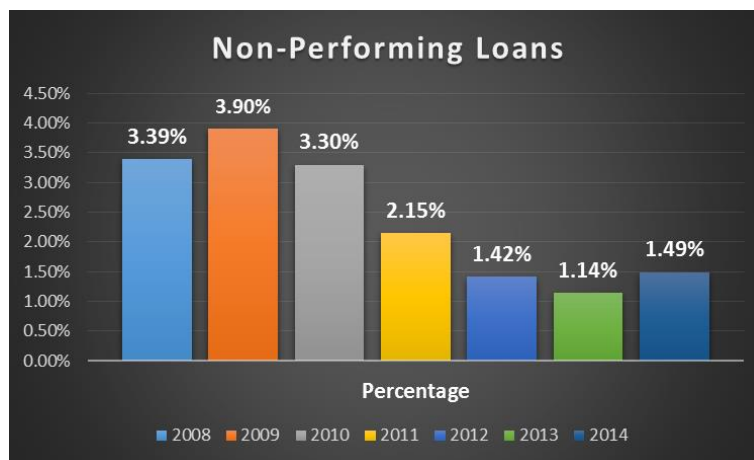
This table shows the NPL (Non-Performing Loan) trend of IDLC from 2008 to 2014:



Year	Percentage
2008	3.39%
2009	3.90%
2010	3.30%
2011	2.15%
2012	1.42%
2013	1.14%
2014	1.49%

*Table 8: Non-Performing Loans*

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2014)



*Figure 20: Non-Performing Loans*

**Source:** Author's constructed: Adapted from (IDLC Annual Report 2014)

This chart shows the percentage of Non-Performing loans of IDLC. Non-performing loan is a type of loan which is near to default. That means, the borrower is not making any interest payment or repaying the loan amount. So, here we can see that there is a decreasing trend over the years. It indicates that IDLC is working over this type of loan in order to minimize their risk.

# **Chapter-8**

## **8.1 Loan Comparison among NBFI's** **(A Comparison among IDLC, Lanka Bangla and IPDC)**

### **Loan comparison:**

Loan comparison means comparing different types of loans which are offered by different institutions from the similar industry. Loan comparison is considered as a very important criteria while taking a specific type of loan offered by different financial institutions. Since, the loan schemes, features and benefits vary from one institution to another, the borrowers should consider the associated cost, fees and interest rates while taking the loan. After comparing the loans offered by different financial institutions the borrowers will be able to decide the appropriate loan offerings for them (Kerin, 2016)

### **The Purpose of Loan Comparison:**

- It assists the borrowers to take the best financial decision
- The borrowers can easily compare the cost associated with the loans
- The borrowers can evaluate the features and benefits of different financial institutions
- It helps to identify the competitive position of each financial institution
- The debtors can compare the security and collateral terms and they can negotiate for the best deal
- A financial institution can also evaluate the loan performance in terms of the other competitors from the similar industry.
- It serves as an indicator for rating the strength of a financial or non-banking financial institution

## **8.2 Loan Comparison of SME Division**

As a financial institution, IDLC is exposed to several risks both internally as well as externally. In Bangladesh the financial service industry is exposed to high level of competition with 56 banks and 33 Non-Banking Financial Institutions. The customers usually face a lower switching cost due to a high concentration of quality service providers. Customer loyalty is quite high since IDLC provides the best quality and service with a minimum cost. Although, IDLC is a top ranking service provider still there are few Non-Banking Financial Institutions that are comparable in terms of service quality.

SME Division is considered as the largest and priority business segment of IDLC Finance Limited. Therefore, I decided to do a comparison of SME loans among the Non-Banking Financial Institutions in order to identify the current market position of IDLC in terms of other Non-Banking Financial Institution. Here, I considered Lanka Bangla Finance Limited and IPDC (Industrial Promotion and Development Company) as the potential competitor from the similar industry. This analysis will help me to identify the performance of SME Division in terms of their different loans and schemes, what makes their products and services unique in comparison of their competitors, how to respond to the existing strategies of the competitors and what could be the possible opportunities and threats in this segment.

## **8.3 A Comparison among IDLC, Lanka Bangla and IPDC**

In a developing country like Bangladesh women belongs to the most disadvantaged group in the society. But the traditional view towards women has been changing. In recent years, Bangladesh like other developing countries, has been focusing heightened attention for the development of this sector. Bangladeshi women are moving forward with their innovative ideas and approaches which helped them to establish themselves as successful women entrepreneur of the country. But to become a successful entrepreneur they have to face a lot of obstacles and challenges throughout the journey. In order to flourish women entrepreneurship, the Non-Banking Financial Institutions like IDLC, Lanka Bangla and IPDC provides loans to the women entrepreneurs of the country. IDLC offers Purnota Loan, Lanka Bangla offers Annonya Loan and IPDC offers Shompurna Loan. By giving

financial assistance these financial institutions help them to become successful entrepreneur of the country which in turn contributes to the socio-economic development of the country.

### **IDLC (Purnota Loan)**

IDLC provides Purnota Loan in order to financially assist the women entrepreneurs of the country. The loan is applicable irrespective of the size of the business like small or medium. Purnota Loan offers credit access, skill training and a comprehensive solution which helps the women entrepreneur to achieve the necessary acceleration that their business require.



*Fig- Purnota Loan of IDLC*

**Source:** Adapted from (IDLC Finance Limited, 2016)

### **Key Features:**

- It provides Working Capital and Long term Financing Facility for Women Entrepreneurs
- Maximum Loan Amount – Depends on the Nature and Condition of the Business and unsecured Loan up to BDT 25 lakh
- Minimum Loan Amount – BDT 3 lakh
- Payment Structure depends on the Cash Flow
- 10% Interest is applicable for loans up to BDT 50 lakh
- 3 to 6 months grace period for new schemes in manufacturing or service sector
- Loan term 48 months

### **Eligibility:**

- The applicant must have minimum 1 year of Business Experience (Supported by Trade License)
- Age of the Applicant – 20 to 60 years

### **Required Documents:**

- Recent passport size photograph, Photocopy of National ID Card, TIN certificate
- Bank statement of last 1 year
- Applicants must provide trade license of last 1 year
- Statement of assets with proper evidence

### **Other Features of IDLC Purnota:**

- **Business Facilitation Service**-The main purpose of this service is to assist the women entrepreneurs to obtain the regulatory documents and licenses without any hassle. The documents or licenses includes Trade License, Tax Identification Number (TIN) Certificate, Environmental Certificate (ECC), Import Realization Certificate (IRC), Export Realization Certificate (ERC) and other necessary documents.
- **Purnota Helpline**- Purnota Helpline is an Information Services for Women Entrepreneurs which helps them to receive information and direction on wide variety of topics. They includes Purnota related information, deposit related information, personal and business loan related information, information about basic banking rules and regulation information on various training facilities etc.
- **Purnota Insurance**–Purnota Insurance allows women entrepreneurs to protect themselves, their business and family members from several risks like accidental death, disability, physical injury, natural disasters etc.
- **Purnota Club** – It creates a unique platform for the women entrepreneurs to build strong network and communication among each other by sharing their skills, ideas and experiences.

**Lanka Bangla (Anonnya Loan):** Lanka Bangla Finance Limited offers financial services and loan facilities in order to support women entrepreneurs in Bangladesh. Anonnya is a SME installment loan which is specially designed for the women entrepreneurs. The company offers this loan for different types of business including Printing & packaging, Boutique house, Beauty Parlor, manufacturing concern and trading house etc. This loan is usually used by the women entrepreneurs to invest in their business' fixed assets, usually machinery and equipment, fixed cost, etc.



*Figure 21: Anonnya Loan of Lanka Bangla*

**Source:** Adapted from (LonkaBangla Finance, 2016)

**Key Features:**

- Maximum Loan Amount up to BDT 5.0 million.
  - a) Unsecured up to BDT 2.5 million
  - b) Partial secured/Fully secured above BDT 2.5 million
- The loan term is usually up to 60 months.
- It offers a lower rate of interest.
- Equal monthly installment payment in case of Term Loan
- Different types of advisory services are provided.
- Dedicated Desk is available at each branch to support the products

**Eligibility:**

- The applicant must have minimum of 2 years' experience in the same business
- Applicant must have an age limit of 21 to 60 years old
- The applicant must be actively involved in business activities

**Required Documents:**

- Application Form which is appropriately filled in and signed by the applicant
- Photographs of applicant and guarantor(s) attested respectively by Relationship Officer and the applicant.
- Valid NID/Passport/Driving License of Applicant and Guarantor(s) Trade License, E-TIN
- Last 12 months bank statement
- Photocopy of Utility bill
- Copy of Rental deed
- Land Documents (if applicable)

**IPDC (Shompurna Loan):** The SME Division of IPDC offers an interesting loan scheme which is exclusively customized for the women entrepreneurs of Bangladesh. The aim of this loan is to provide an additional advantage for the women entrepreneurs so that they will be able to run a successful business. This loan is appropriate for the common business that requires loan in order to support its working capital requirement for factory expansion or to carry out the expenditure of the fixed assets.



*Figure 22: Shompurna Loan of IPDC*

**Source:** Adapted from (IPDCBD, 2016)

### **Key Features:**

- Offers partial cash-secured loan amount up to BDT 50 lakh
- Maximum loan amount up to 30 lakh
- Applicants who have loans in other banks or financial institution can also enjoy the loan facility
- Repayment options are quite convenient (equal monthly installments/short term loan)
- Interest rate is lower than the conventional rate

### **Eligibility:**

- Applicants with 1 year of experience are eligible to apply for the loan
- Monthly cash flow/income of the applicant must support the proposed installment amount

### **Required Documents:**

- Trade License of last 1 year
- Need to provide special license (if applicable)
- Partnership Business applicants are required to provide certified partnership deed
- Private Limited Company must provide Memorandum and Articles of Association
- Passport/National ID/ward commissioner/UP chairman certificate of the proprietor/partner/directors
- Bank statement of last 12 months

### **Security/ Collateral**

- The applicant is required to provide registered mortgage of property
- Hypothecation of machineries, equipment, vehicles, inventories
- Ownership of vehicle
- Lien of cash collateral or FDR



<i>Characteristics</i>	<i>Purnota (IDLC)</i>	<i>Anonnya (Lanka Bangla)</i>	<i>Shompurna (IPDC)</i>
Loan amount	Minimum 3 lakh, unsecured loan maximum 25 lakh	Maximum 50 lakh, unsecured 25 lakh, partial/fully secured above 25 lakh	Maximum 30 lakh, partial cah secured above 25 lakh
Interest rate	10% upto 50 lakh	Lower	Lower than conventional rate
Eligibility	Minimum 1 year experience	Minimum 2 years experience	Minimum 1 year experience
Age	20-60 years	Min-21 years to Max-60 years	N/A
Loan Term	3-6 months grace period	60 months	36 months

**Figure 23: Loan Comparison Matrix of Purnota, Anonnya and Shompurna**

**Source:** Author's constructed

**Analysis:** This figure represents a comparison of women entrepreneurship loan namely Purnota, Anonnya and Shompurna which are offered respectively by IDLC, Lanka Bangla and IPDC.

From the table, we can identify that although the maximum loan amount of IDLC is 25 lakh, which is 5 lakh less than that of IPDC and half the amount that Lanka Bangla is offering, but IDLC has put the eligibility to a minimum of one year and the age limit is also low (20 years). This enables more startup entrepreneurs to get eligible for the loan and thus making the customer segmentation larger for IDLC in comparison to the other two competitors, i.e. Lanka Bangla and IPDC. IDLC differentiates its service by providing a 3-6 months grace period that none of the mentioned competitors are doing. This is a significant offer for the entrepreneurs which allows them to enjoy the benefit of zero interest rate for up to six months. It is like a cherry on the cake for startup women entrepreneurs who enjoys the interest cut for startup costs. However, interest on loan is an added cost that the entrepreneurs need to be worried about. IDLC offers only 10% interest rate up to BDT 50 lakh which is huge amount. This might be a great opportunity for IDLC because they can increase

their client base with that loan offering. So, looking at the above interpretations it is clear that for women entrepreneurship loan, IDLC is in a better position in terms of the two other competitors.

**Small and Medium Enterprises (SMEs)** plays an important role for the development of a country and also contributes to the diversification of industrial sector. It creates employment, women empowerment with lower infrastructure facilities and thus contributes to the alleviation of poverty.

The financial institutions can play significant role by providing financial support and credit facilities to those Small and Medium Enterprises and thus contributes to the growth and development of SME sector of Bangladesh.

The blue chips of financial institutions like IDLC Finance Limited, Lanka Bangla Finance and IPDC are now offering different types of SME loans in recognition of the role of SME sector in Bangladesh.

**SME Loan of IDLC:** The SME Division of IDLC Finance Limited always prioritize and recognize the customer needs and actively participates toward the progress and advancement of the SME sector of Bangladesh. The SME loan is specially designed for the small or minor trading, manufacturing and service companies. It provides them with short-term credit facilities which aids the entrepreneurs to fill the fund-flow gap.

#### **Loan Limit**

- Minimum BDT 5 lacs to maximum BDT 1.5 crore

#### **Key Features:**

- Collateral is not required for loan up to BDT 15 Lakh
- Offers partial cash-secured loan up to BDT 70 Lakh
- Loan term is usually 60 months
- Loan facility is available for Working Capital Finance and/or Lease finance
- The debtors who have loan in other financial institutions can also avail this loan facility
- Repayment options are offered in terms of Equal monthly installments and/or customized repayment schedule
- Provides fast and quality service for the customers convenience

**Eligibility:**

- The entrepreneurs must have minimum 2 years of experience in the same business unit
- The business must be a running business with 2 years of operational experience

**Required Documents:**

- Recent passport size photograph, Photocopy of National ID Card, TIN certificate
- Bank statement of last 1 year
- Applicants must provide trade license of last 1 year
- Statement of assets with proper evidence

**Ahona Loan of Lanka Bangla:** Ahona loan is a type of unsecured loan facility which is exclusively customized for the small entrepreneurs of our country. The loan facility is basically offered for entrepreneurs who are involved in small trading, manufacturing, service, agriculture, non-farm rural activities, agro-based industries and other business units. The loan scheme includes term loan or single payment loan facility which contributes to working capital finance, business expansion, fixed asset purchase and agricultural trading.

**Loan Amount:**

- Maximum loan amount up to BDT 1.50 million

**Key Features:**

- Loan Term is usually up to 36 months
- Equal monthly installment payment in case of Term Loan
- Security or collateral is not required depending on client's profile

**Eligibility:**

- The applicant must have minimum 2 years 'of experience in the same business line
- Applicant must have an age limit of 21 to 60 years old

**Required Documents:**

- Application Form which is appropriately filled in and signed by the applicant

- Photographs of applicant and guarantor(s) attested respectively by Relationship Officer and the applicant.
- Valid NID/Passport/Driving License of Applicant and Guarantor(s) Trade License, E-TIN
- Last 12 months bank statement
- Photocopy of Utility bill
- Copy of Rental deed

<b>Characteristics</b>	<b>SME Loan (IDLC)</b>	<b>Ahona (Lanka Bangla)</b>
<b>Loan Limit</b>	<b>Minimum 5 lakh, maximum 1.5 crore</b>	<b>Maximum 15 lakh</b>
<b>Loan Term</b>	<b>60 months</b>	<b>36 months</b>
<b>Security/Collateral</b>	<b>Not required for loan up to BDT 15 Lakh</b>	<b>Not required depending on the client's profile</b>
<b>Partial Cash</b>	<b>Limit up to 70 lakh</b>	<b>N/A</b>
<b>Payment Mode</b>	<b>Equal monthly installments or customized repayment schedule</b>	<b>Equal monthly installments</b>
<b>Eligibility</b>	<b>Minimum 2 years of experience</b>	<b>Minimum 2 years of experience</b>
<b>Age</b>	<b>N/A</b>	<b>21 to 60 years</b>

*Figure 24: Comparative Matrix of SME Loan and Ahona*

**Source:** Author's constructed

**Analysis:** This figure represents a comparison of small enterprise loan namely SME loan and Ahona which are offered respectively by IDLC and Lanka Bangla Finance Limited.

Small enterprises usually struggle to provide enough security documents while taking the loan and if it is a comparatively smaller amount, preparing security documents is more of a hassle for the enterprise. In IDLC, these small enterprises enjoys loan approval of up to 15 Lakh without showing

any security/collateral whereas that's the maximum loan amount they can take from Lanka Bangla whatsoever. Lanka Bangla considers the applicants' profile strength while deciding either security/collaterals are needed or not. This sometimes is a drawback for small enterprises if the applicants do not have a strong profile and is just dedicated enough to establish their own small enterprise. IDLC allows a maximum limit of 1.5 cr, which is significantly higher than that of Lanka Bangla's offering. If we consider the payment mode, both the companies offer equal monthly installments. But in case of IDLC, they also kept customized payment schedule as an optional payment mode. This makes IDLC a preferred choice for SME loans since the service offering and benefits are higher in IDLC as compared to Lanka Bangla. This is one of the most important reasons why IDLC's SME loan is dominant in the current market.

### **IDLC Udhbhabon**

In this modern age, ICT has become the most important and the fastest growing sector in Bangladesh. Since the sector is unique in nature, it often gets deprived of the financial facilities. In order to foster the improvement and growth of ICT sector IDLC has recently partnered with BASIS. As a result, IDLC has recently introduced "IDLC Udhbhabon" which is particularly designed to satisfy the unique needs of ICT enterprises. The main purpose is to offer financial and non-financial loan facilities to the ICT entrepreneurs.

### **Financial Services**

- Working Capital Loan
- Fixed Asset Financing
- Lease Financing
- Women Entrepreneurs Loan
- Commercial Vehicle Loan
- Commercial Space Loan
- Startup Business Loan
- Supplier Finance (Factoring)
- Work Order Finance
- Loan offering for the customers of BASIS members

## **Term Loan**

### **Purpose**

- Working Capital
- Fixed Asset Purchase
- Lease Financing
- Commercial Vehicle Purchase
- Commercial Space Purchase

### **Key Features**

- Fastest processing while prioritizing service delivery
- The minimum loan amount is BDT 0.50 million and the maximum loan limit is determined by the purpose of financing and the business volume
- Loan limit is BDT 2.0 million for unsecured loan
- Offers partially secured loan up to BDT 5.0 million which is backed by FDR of 30% of loan amount
- Minimum loan term is 13 months and the maximum 60 months. In case of commercial space purchase the maximum loan term is 96 months.
- Repayment method is usually equal monthly installment or structured payment
- BASIS Members gets a special discount of 0.5%
- For women entrepreneurs interest rate is only 10% up to BDT 5.0 million
- They have a committed product team for faster processing of loan

### **Eligibility:**

- The entrepreneur age must be between 20 years to 60 years
- The entrepreneur should have minimum 2 years of continuous business operation. However, for women entrepreneurs only 1 year of experience is required.

### **Required Documents:**

- Recent passport size photograph, Photocopy of National ID Card, TIN certificate
- Bank statement of last 1 year

- Applicants must provide trade license of last 1 year
- Statement of assets with proper evidence

### **Astha Loan of Lanka Bangla:**

Lanka Bangla finance limited offers “Astha Loan” for the SME entrepreneurs of Bangladesh. It is a fully or partial secured debt or loan which is pledged against assets. So, basically it is a kind of asset backed loan where a property or Term Deposit Receipt serves as a collateral of the loan.

### **For Small business:**

- Offers partial secured loan up to BDT 1.50 million to 10.00 million
- Offers fully secured loan above BDT 1.50 million to 20.00 million

### **For Medium business:**

- Provides fully secured loan above BDT 30.00 million to 200.00 million

### **Eligibility**

- Applicant must have minimum 2 years’ experience in the same line of business
- Age limit is minimum 21 years & maximum 60 years
- Client must provide either TDR or Mortgage Property as security or collateral

### **Key Features**

- Minimum loan amount is above BDT 1.50 million to BDT 200.0 million
- Loan term is up to 60 months
- Payment mode is basically equal monthly installment in case of Term Loan
- Security :
  1. Offers partial secured loan up to BDT 1.50 million to BDT 10.00 million
  2. For fully secured loan the amount is above BDT 10.00 million

### **Required Documents:**

- Application Form which is appropriately filled in and signed by the applicant
- Photographs of applicant and guarantor(s) attested respectively by Relationship Officer and the applicant.
- Valid NID/Passport/Driving License of Applicant and Guarantor(s) Trade License, E-TIN
- Last 12 months bank statement
- Photocopy of Utility bill
- Copy of Rental deed
- Land Documents (if applicable)

### **Term Loan Financing Overview (IPDC):**

IPDC offers Term Financing facility for the small and medium business entrepreneurs. The loan is specifically designed to furnish capital to fixed expenditure needs such as procurement of machineries, renovation or extension of factory space etc.

### **Key Features:**

- Loan limit is minimum BDT 5 million to maximum BDT 50 million
- Loan term is usually 1 to 5 years
- Repayment mode is usually equal monthly installments or EMI
- The loan must be secured against collateral

### **Eligibility**

- The business must have more than 1 year of operational experience



<i>Characteristics</i>	<i>IDLC</i>	<i>Astha (Lanka Bangla)</i>	<i>IPDC</i>
<b>Loan amount</b>	Minimum 0.5 million, maximum amount is determined by the purpose and business volume	Minimum-above 1.5 million, Maximum-200 million	Minimum-5 million, Maximum-50 million
<b>Unsecured Loan</b>	Loan limit is up to 2 million	N/A	N/A
<b>Partailly Secured Loan</b>	5 million which is baked by 30% of the loan amount	1.5 million to 10 million	N/A
<b>Loan Term</b>	Min-13 months, Max-60 months,For commercial space purchase-96 months	60 months	Min-12 months, Max-60 months
<b>Repayment method</b>	Equal Monthly Installments or Structured payment	Equal Monthly Installments	Equal Monthly Installments
<b>Special Discount</b>	0.5% for BASIS members	N/A	N/A
<b>Women Entrepreneurs</b>	Interest rate is 10% up to BDT 5 million	N/A	N/A

*Figure 25: Term Loan Comparison Matrix*

**Source:** Author's constructed

**Analysis:** This figure represents a comparison of Term Loan which are offered respectively by IDLC, Lanka Bangla and IPDC.

From the table, we can identify that the minimum loan amount of IDLC is 0.5 million whereas in case of Lanka Bangla the amount is 1.5 million and for IPDC the lowest amount is 5 million. It shows that IDLC keeps the loan limit to the minimum in comparison with the two other competitors. It creates a scope for the small entrepreneurs to take loans with minimum interest rate because the loan amount is minimum. However, IDLC offers unsecured loan up to 2 million which is unique because this facility is not offered by the other competitors. IDLC also provides partially secured loan up to 5 million which is baked by 30% of the loan amount. But Lanka Bangla offers 1.5 to 10

million loan without any condition. So, the borrowers will be more influenced to take partially secured loan from Lanka Bangla considering this unique offer. We can also figure out that, IDLC offers minimum 13 months and maximum 60 months loan term which is somehow similar to the other competitors. But IDLC reserved a facility of 96 months for commercial space purchase. This facility shifts IDLC into a distinctive position. In addition, IDLC offers special discount of 0.5% for BASIS members and for women entrepreneurs the interest rate is 10% up to BDT 5 million. These are two most exclusive competency offered under the scheme. IDLC prefers 2 years of experience in general but for women it's only 1 year. Here, IPDC asks for only 1 year of experience which is a very important criteria to consider. In case of, Lanka Bangla or IPDC, cash or mortgage property is required as security or collateral. But, no security or collateral is required in case of IDLC. Finally, considering all the characteristics it's already clear that IDLC is in a superior position because of the additional facilities and superior service quality which is not offered by the other competitors.

### **Working Capital Loan of IDLC:**

#### **Purpose**

- It provides financial solutions which is intended to meet immediate business needs

#### **Product**

- Supplier Finance
- Work Order Finance

#### **Key features of Supplier Finance (Factoring)**

- It offers straight financing for Supplier Finance. That means after accepting the bill from the buyer's office, up to 80% of the bill amount is immediately credited from the supplier's bank account.
- This service ensures regular bill submission and collection of payment on behalf of the supplier. In order to ensure timely collection of payment, IDLC submits bill to the buyers and makes proper follow-up for payment collection.
- They also have a Supplier Finance SMS Alert service which actually notify the suppliers of each transaction through SMS

- The company properly maintains supplier's sales ledger in their software and also keep a regular account statement which is sent monthly or as per the supplier's request.

### **Working Order Loan:**

- Under this scheme Supplier Financing is free of collateral up to a certain limit

### **Key features of Work Order Finance**

- The maximum credit limit is 50% of the work order value
- They offer credit limit based on the present and the expected future work orders on hand
- Maximum credit term is usually 180 days
- It requires cash or registered mortgages in the form of security or collateral.

### **Eligibility**

- The entrepreneur's age must be between 20 years to 60 years
- It must be a running business with minimum 2 years of business operation
- The business must sell to a credit-worthy buyer or debtor
- Receivable/Invoice/Bill should be produced in such a way that it can be verified and accepted by the institutional buyer or debtor
- The Business that deals with multiple institutional buyers or debtors will get a preference.

### **Factoring Overview (IPDC):**

IPDC Factoring is a financial facility which offers advance cash against invoice or bill. The clients don't have to wait 90 days with their accounts receivables under IPDC factoring.

### **Key Features**

- It offers instant and more flexible advance finance supports
- It offers up-to 90% advance
- Monthly and Bi-Weekly Reporting facility
- Automatic Turning Line
- It provides superior and quality service with the lowest facility setup time
- Improved cash flow service
- Better knowledge about the industry

### Fees and charges

- Provides the most competitive rate in the market.
- They charge the interest rate on a daily basis
- Lowest factoring charge on total invoice value
- Clients are required to provide management fee
- No hidden charges

### Working Order Financing Overview:

IPDC is now providing financial facility against Working Order (WO). It serves as a connecting bridge in order to fill the gap between time of processing the order and receipt of payment.

### Key Features

- Provides working order financing up to 70% of the total operation
- Both Term Loan and short term Working Capital can be used for financing based on the requirement. But the life of the order cannot be extended.
- Offers competitive interest rates
- Maximum credit term is usually 120 days
- Collateral or security is not required

<i>Characteristics</i>	<i>IDLC</i>	<i>IPDC</i>
<b>Credit Limit</b>	<b>50% of the work order value</b>	<b>70% of the total operation</b>
<b>Credit Term</b>	<b>Maximum 180 days</b>	<b>Maximum 120 days</b>
<b>Security/Collateral</b>	<b>Cash/Registered mortgages</b>	<b>Not required</b>
<b>Experience</b>	<b>Minimum 2 years</b>	<b>Minimum 1 year</b>
<b>Age</b>	<b>20-60 years</b>	<b>N/A</b>

Figure 26: Work Order Financing Loan Comparison

Source: Author's constructed

**Analysis:** This figure represents a comparison of Work Order Financing between IDLC and IPDC.

From the table, we can figure out that the credit limit is 50% of the work order value in case of IDLC while the credit limit is 70% for IPDC. Since, IPDC offers a higher credit limit it should be more preferable by the borrowers. If we consider the credit term, IDLC offers maximum 180 days whereas IPDC offers 120 days. So, here IDLC is in a competitive position. However, IDLC requires cash or registered mortgages in terms of security or collateral. But, IPDC offers Work order facility without any security. It is very unique criteria which placed IPDC in a superior position. Furthermore, IPDC requires minimum 1 year of experience but in case of IDLC the applicants must have 2 years of experience. It remains as a barrier for those entrepreneurs who have recently started their business. So, after analyzing all the criteria we can say that IPDC is in a superior position in comparison with IDLC.

# Chapter-9

## 9.1 Recommendation:

In recent years, SME is considered as the most important sector of the total industry setup. SME contributes nearly 30% of the total GDP in Bangladesh which is a huge contribution from a single sector. It also creates 30% of employment opportunity throughout the nation. In short, the importance of SME financing in our economy is immense.

As a Non-Banking Financial Institution, IDLC has a significant contribution towards the growth and development of SME sector. Even though the organization is successfully running its operation, it has some limitations as well. There are still some areas where improvements are required.

After doing the SME loan comparison I have come up with the following solutions:

- IDLC should arrange different workshops, seminars and orientation programs at district level in order to provide latest information about SME finance and their various financial schemes. As a result, it will increase their customer base into district level.
- They should be engaged in continuous market research in order to come up with the suitable or matching products according to the customer requirements.
- In case of “Purnota Loan” they should maximize the loan amount since Lanka Bangla is offering a better loan amount in comparison to IDLC.
- The Partially Secured Term Loan of IDLC is to be backed by 30% of the loan amount. But Lanka Bangla offers 1.5 to 10 million loan without any condition. So, they should consider this issue in order to minimize the risk.
- IDLC requires cash or registered mortgages in terms of security or collateral while providing work order loan. But, IPDC offers Work order facility without any security. So, they should revise their policy in order to be more customer friendly.
- Lanka Bangla Finance Limited offers “Swarnali Loan” in order to promote Agro Financing all over the country. IDLC should design a particular loan scheme for the Agro Processing Industries as well which will expand their customer base and also retain their position in the competitive market.

- They should develop new credit products in order to handle the unexpected and short-term requirements of the SME customers in a hassle free manner.
- The appraisal system should be more realistic and transparent. They should develop credit rating system in order to highlight the strength and weakness of clients. As a result, it will be easier for them to make any lending decision.
- They should run educational program to make their customers understand the requirements they require while taking a loan. It will minimize the rate of misunderstanding and errors.
- They should capitalize on electronic payment and settlement systems such as ECS (Electronic Clearing System), EFT (Electronic Funds Transfer) etc. So, that they can provide a cost effective retail payment service for their SME customers.

By taking all the above mentioned initiatives, IDLC will be able to provide a more customized and effective financing solutions to their valuable clients.

## **9.2 Conclusion:**

The importance and contribution of SME sector in the growth and development of our economy is immense. However, it has huge power to change the economic flow of our country. As a result, the demand for this sector is raising rapidly. Since, the economy of Bangladesh is labor concerned, SME can play a significant role for the future progress of our economy. In addition, it reduces unemployment rate by creating more job opportunities in the small and medium industries.

So, considering the importance of this sector, all the financial institutions of our country like the central bank, all the public and private banks and also the Non-Banking Financial Institutions should come forward and enlarge their efforts for the successful establishment of SME sector in our country. While making any important decision regarding the SME sector, the regulatory agencies as well as policy makers should review the whole process in holistic approach. SME sector creates a strong base for large industries and thus making the industrial sector more strong, active and competitive.

Since, IDLC finance Limited is holding the second largest SME financing portfolio over the country, so it is undoubtedly obvious that the financial institution has a huge contribution for the expansion and advancement of this sector. The loan comparison also shows an excellent performance of IDLC in terms of the other Non-Banking Financial Institutions. So, they should continue their efforts to become the topmost influencer of SME financing of our country.



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