**CREDIT RISK MANAGEMENT IN SME FINANCING**

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**This report is submitted to the School Of Business and Economics, United International University as a partial requirement for the degree fulfillment of Bachelor of Business Administration.**

**CREDIT RISK MANAGEMENT IN SME FINANCING:**

**A Study on**

**IDLC Finance Limited**

**Submitted to**

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October 30, 2019

**Letter of Transmittal**

October 30, 2019

Eliza Huq

Assistant Professor, School of Business & Economics

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Subject: Submission of Internship Report

Dear madam

I am submitting my internship report on Credit Risk Management on SME Financing, a study on IDLC finance Ltd, Dhanmondi Branch under your co-operative supervision. This topic was assigned to me as a partial requirement to complete my BBA Program. I have observed the activities of this department, Relationship management and Credit Risk Management Department. I have enjoyed working there to complete my requirement of study. In my IDLC journey, I tried to collect the necessary information to prepare my internship report. I sincerely believe it will satisfy your requirements. Along with it will also serve the purpose of my internship report.

Consequently I am submitting my internship report for your concern. Hopefully you will be able to recognize my hard work, well researched informative approach. Moreover, I will be happy to express my experience about working here with you if I find an opportunity. I express my heartiest gratitude to you.

Thanking You

With Best Regards

Tamanna Islam

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**Declaration of the student**

I, Tamanna Islam, here I’m declaring that the report I have presented based on my internship titled “Credit Risk Management In SME Financing” of IDLC Ltd is only prepared by me based on my internship work at Dhanmondi Branch of IDLC Ltd.

I’m also confirming that the report is not for any other purpose, it’s only for my educational purpose. It will not be used to satisfy opposite party of the cooperation.

…………………………………..

Tamanna Islam

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BBA, Department of Business Administration

United International University, Bangladesh.

**Acknowledgement**

At first I would like to start my acknowledgement by appreciating the Almighty. Then of course I would like to thank the organization for giving me the opportunity, which helped me to work hard. Now,I want to give a big thank you to my honorable course Instructor, **Eliza Huq** for her patience guidance and immense support. So I want to take this opportunity to express my deep gratitude to her. My project is on “Credit Risk Management In SME Financing” which would not have taken the present form without the support and help of the invaluable guidance, inspiration and cooperation from her.

**Executive Summary**

Financial Leasing companies deal with tangible assets. Leasing companies are the legal owner but on the other hand ownership is effectively conveyed to the lessee. SME stands for Small and Medium size organization which plays a vital role in the business field now a day. Financing in SME is a pleasure for leasing companies and at the same time this is an advantage for entrepreneurs. In this report many things related to credit risk management and SME financing has been described. First of all, the organization IDLC’s introduction has been given with the analysis of porter’s five forces model and the SWOT Analysis. Then the part of tasks and responsibilities what I did there has been explained with an observations and experience. After that the offered SME loan products by IDLC has been mentioned as the report belong with SME. How the SME team of IDLC choose proper client and what are the things they investigate before sanctioning a loan are also in this report which I gathered by interviewing two employees of IDLC. Also some financial analysis has been given to compare IDLC with another top ranking leasing company United Finance. The overall scenario of leasing companies in Bangladesh has been explained in this report. According to the objective the recommendation has been stated.

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**List of Abbreviations**

IDLC: Industrial Development Leasing Company

NBFI: Non-Banking Financial Institution

CIF: Customer Information File

CIB: Credit Information Bureau

CRM: Credit Risk Management

CAD: Credit Administrations Department

RM: Relationship Manager

SME: Small and Medium Sized Enterprises

OCAS: Online Credit Appraisal System

NID: National Identification Number

# 

# CHAPTER I: INTRODUCTION

**1.1Background of the report:**

I have prepared this report on the topic of Credit Risk Management in SME Financing and Credit Information Bureau under Credit Risk Management department. This report has been made as a requirement for the completion of the BSS program under the supervision. In IDLC, I was placed in the Customer Experience Department for my internship. Undoubtedly, the journey was so enjoyable for me. I started my internship program on 9th September. The working experience will help me a lot in building my future career. Here, I was able to make some practical information, which I have learned from my daily works in the company. My main focus was on the performance and major business affairs, analysis of activities of the company in my report. This report has been made as the course requirement of the BBA program. Hopefully, I will be able to provide a clear view about the activities and role of Credit Risk Management in SME financing and Credit Information Bureau in dropping the risk associated with the lease and loan.

**1.2 Objectives of the report:**

**General Objective:** To analyse the Credit Risk Management process of SME Financing, by IDLC finance Ltd, Dhanmondi Branch.

**Primary Objective:**

* To fulfill the partial requirement of BSS program for carrying out the BBA degree.
* To present my internship experience in IDLC Finance Ltd. through a formal report.
* To gain real life experience and apply the theoretical knowledge in the actual corporate world.

**Secondary Objective:**

The secondary objective of this study is to find out the area of investments of IDLC in SME sector and most importantly the secondary objective of this study is, to find out the scope where IDLC can invest more in SME sector to enhance their SME attractiveness. My supervisor of IDLC wants something that they may utilize later on for improving their SME sector’s activities.

## Some other Objectives are:

* To translate the theoretical concept into real life experience
* Learn to analyze the financial concepts practically
* To make difference between real life business method and theoretical study
* Stand in a position by finding the problems of SME sector in terms of investing and how can an organization improve that.

**1.3 Motivation of the report:**

The motivation of doing this report was primarily an interest in undertaking a challenging topic in an interesting area. The opportunity to learn about a new area, to learn how they work, to learn how they solve organizational issues and of course to gather new experiences and knowledge.

**1.4 Scope and limitations of the report:**

**Scope of the Report**

This report which starts with illustrating focus on the company’s mission, vision, core values historical background, its shareholding structure, organizational structure etc. I have also provided Porter’s Five Forces analysis to find out the present situation of IDLC Finance Limited.

In second part all sectors are presented based on my findings and time, viewpoint, observations. The report is accomplished after giving some possible ideas for enhancing the quality of the department’s activities.

**Limitations of the report**

Though I got many advantages, help, and support from many sources but at the same time there were many boundaries of restrictions and limitations while preparing this report which has postponed my works. These limitations has written below:

* + 1. Difficulties to get information on its inward operations.
    2. Some former and most recent information were not available.
    3. Few data were held back for holding the classification of the association.
  1. **Definition of key terms**

Leasing companies provide physical asset or service for use by a commercial client or individual for an established period of time in return for regular payments, known as financial [leasing](https://firstforsustainability.org/risk-management/understanding-environmental-and-social-risk/environmental-and-social-risk-for-financial-institutions/risk-in-leasing/). The lessee is known as the receiver of the assets or services under the lease contract and on the other hand lessor is the owner of the assets or provider of services. Leasing assets include passenger vehicles, light duty trucks, furniture, office equipment, appliances, and cases, a leasing company both owns and services the leased physical asset and that is responsible for the installment and operation of the asset, that is known as operational leasing.

A leasing company’s disclosure to environmental and social risks will be considered more significant for transactions that involve specialized or heavy equipment and machinery for the use of certain industry sectors, and liability or reputational risk may be a matter of concern. A leasing company which provides operational leases may be considered directly responsible for environmental and social impacts such as land contamination and worker safety arising from use of the physical asset.

The leasing company can handle these risks by gathering environmental and social risk management procedures into its overall risk management framework.

# 

# CHAPTER II: COMPANY AND INDUSTRY PREVIEW

**2.1 Company Analysis**

**2.1.1 Overview**

IDLC is known as the Non-banking financial institution in Bangladesh. In 1986, IDLC has started its journey with only five employees which have today turned into $750 million multi product business such as corporate, SME, Retail and capital market segments. It is today representing 43 branches and booths in 20 cities with over 1,400 staff. The Company provides loan to sustainable practices and gives strong financial performance. IDLC is creating their specific recognition by providing valuable services to its customers and is proud to be a standard bearer for the Bangladesh financial sector. The IDLC devoted to continue the highest standards of honesty and obedience by its employees. Each employee those are working in the Company, they follow the code of conduct that is highly appreciable and also it plays all the CSR activities.

****

IDLC Finance Limited, which is known as Industrial Development Leasing Company of Bangladesh Limited, it was established in Bangladesh in 1985 with the collaboration of International Finance Corporation (IFC), German investment and develop company (DEG), The City Bank Limited and some others organization.

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

IDLC plays a important role in introducing the financial techniques based on the requirements of its customers. They are continuously growing their presence to serve the best quality of service to satisfy their customers. The interesting fact about the company is that, it has been got“A+” rating given by Credit Rating and Information Services Ltd. Which is the highest rating for any financial institution.

IDLC operates all their activities through its 38 branches all over the Bangladesh. The branches are, Dilkusha, Uttara, Gulshan, Nandankanan, Dhanmondi, Mirpur, Agrabad, Narshingdi, Narayanganj, Savar, Keraniganj, Bogra, Sylhet, Kushtia, Jessore, Khulna Natore, Bhulta, Habiganj, Tongi, Imamganj, Comilla, Joydebpur, Natore, Mymensingh, Rangpur, Chowmuhani, Elephant Road, Rajshahi, Barishal, Faridpur.

**History of the IDLC Finance Ltd**

# Historical Background

In 1984, IDLC was formed by the launch of IFC of the World Bank. This company was created via association of International Finance Corporation, Aga Khan Fund for Economic Development, Kookmin Bank, German Investment and Development Company, Korea Development Finance Corporation, The City Bank Limited, Bangladesh Limited and Sadharan Bima Corporation. Industrial Development Leasing Company (IDLC) is the prime Non-Banking Financial Institution (NBFI) in Bangladesh. It offers financial services in the variety of small and medium enterprise (SME) finance products, Retail finance and also Deposits and Treasury products, Supplier and Distributor Finance, Corporate and structured finance solutions. The IDLC group offers stock broker and asset management services via its three subsidiaries such as merchant banking, IDLC Investments Limited, IDLC Securities Limited and IDLC Asset Management Limited.

# Vision

We will prove our self as the best financial brand in Bangladesh.

**Mission**

We will highlight on quality expansion, sustainable business practices, and superior customer experience and so on to prove us superior.

**IDLC Executives**

There are approximately 1400 employees working in IDLC.

Mohammad Mahbubur Rahman, FCA, Director

Monower Uddin Ahmed, Independent Director

Arif Khan

CEO,

Manging Director

M. Jamal Uddin, Deputy Managing Director

R A Howlader, Director

Aziz Al Mahmood, Chairperson

# Porter’s Five Forces Model

**2.1.2 Trend and growth**

Leasing industry is one of the growing sector of Bangladesh. The leasing companies are doing pretty well in this country. Leasing has gained its popularity for various reasons. The first reason is that leasing can be considered as an alternative source of fund which is the most important reason and for the companies which don’t have a high credit rating, this can be main source of financing. Lease is an alternative to investment.

The leasing market is still very small in Bangladesh and the actual potential market is highly untapped. Since people are not still aware about the different type of lease products, they look for alternative before leasing.

The first equipment leasing company now known as Industrial Development Leasing Company of Bangladesh Limited (IDLC) was set up in 1984. They started operation in February 1986. It is considered the pioneer of leasing company in Bangladesh. It is a joint venture public limited company with the multinational collaboration of international development finance institutions, commercial banks, insurance company, and foreign leasing corporation. During the past 18 years of its operation, IDLC has provided alternative source of term and capital asset financing to the private sector. IDLC’s primary focus has been in the area of 3-5 year term financial leasing with particular emphasis on Balancing, Modernization, Replacement, and Expansion (BMRE) of existing units.

Now people are more aware and knowledgeable about non banking financial institutions, and they are interested to take loan from them. The number of customers are growing everyday in IDLC. Today lease financing has grown to be an Industry of BDT 4.5 billion per annum.

IDLC and other financial industries are growing in a good speed today, in future the growth will be at a superior stage.

# Key Milestones of IDLC Finance Limited

|  |  |
| --- | --- |
| **Year** | **Achievements** |
| 2018 | * First Position achieved in Overall Category and Winner of SAFA Award, among 8 countries in the SAARC region. * In Non-Banking Financial Institution Category, Winner of ICMAB Best Corporate Award-2016 (First Position). |
| 2017 | * Opening of Barishal branch * Under the NBFI’s category, Winner of the 4th ICSB National Award for Corporate Governance Excellence, 2016 * Opening of Elephant Road Branch * Winner of the 17th ICAB Natioanl Award for Best Presented Annual Report and Integrated Reporting 2016 * Opening of Noakhali (Chowmuhani) Branch * Opening of Rajshahi Branch * “Khushir Kheya” the first ever volunteer based CSR initiative by a corporate entity launched by IDLC * IDLC’s first Open End Mutual Fund-IDLC Balanced Fund launched in 2017 * IDLC was the Winner for Best Presented Annual Report 2015 by SAFA * They have paid Highest Tax in Non-Bnaking Financial Institutions Category for 2016-2017 |
| 2016 | * IDLC Asset Management Limited was established in 2016 |
| 2014 | * Khulna and Bhulta Branch was opened in 2014 * Initiative taken for opening Kushtia Branch in 2014 |
| 2012 | * IDLC’slogo changing and rebranding happened in 2012 * Jessore branch was opened |
| 2011 | * Mirpur and Tongi branch was opened * A wholly-owned subsidiary of IDLC and IDLC investment limited, commences operations |
| 2010 | * Narayanganj, Savar, Nandankanon, Comilla, Narshingdi and Keraniganj branch was opened * Relocation of Merchant bankingdivision at Eunoos Trade Centre |
| 2009 | * Branches was opened in Sylhet by IDLC * Gazipur and Imamgonj SME Booth was opened |
| 2008 | * Relocation of Dilkusha Branch at Eunnos Trade Centre * Relocation of Dhanmondi Branch |
| 2007 | * “Managed Cap Invest” was launched which is known as Discretionary Portfolio Management Services * From the previous Industrial Development Leasing Company of Bangladesh limited the was named to IDLC * IDLC Securities Limited Chittagong branch commences operations |
| 2006 | * At Bogra SME-focused branch was opened, Uttara branch was opened * In the port city of Chittagong Merchant Banking branch was opened * At its own premises at 57, Gulshan Avenue, Dhaka-1212Company’s Registered and Corporate Head Office was relocated |
| 2005 | * Between IDLC and SBI Capital Markets Limited, India an MoU for strategic alliance was signed * With the objective of SME development, with contribution from the Canadian International Development Agency (CIDA) of the Government of Canada Local Enterprise Investment Centre (LEIC) |

2.1.3 Customer Mix

Customer mix which is known as the sales driven by a specific type of customer segment that is expressed as a percentage of business's overall sale. The customer mix of IDLC is mass customer. Their customers are from low to high income. They target different segment of clients for different deposit, products and loan schemes. The customer mix is written below-

* Corporate clients
* Small and Medium Enterprises
* Bank individual/Retail clients
* Institutional clients
* Government and Non-Government Organization

# 2.1.4 Product / Service mix

There are different types of products and services in the Consumer Division, corporate division, SME Division and the Capital Market where they propose their products. They have controlled Finance, under this there are Advisory Services, Fund raising, Securitization of Assets and also Fees and Charges. But in the Corporate Division, they have Corporate Finance like Lease Financing, Term Loan Financing, Working Capital Financing, Project Financing and other Specialized products.

**2.1.5 Operations**

IDLChas some operational activities which are most sorts of banking services such as-

* SME Banking
* ATM service
* Investment Service
* Loans and credit facilities
* Private education funding
* Retirement planning
* Trading in money markets
* Underwriting stocks and shares
* Term finance certificate

**SWOT Analysis of IDLC**

## Strengths:

**1. Reputation and the brand image:** IDLC is considered a well reputed leasing company and already earned a good brand image for the customer acceptance. This has established in 1985. Since 1985 IDLC is introducing very new and innovative services and made the ability to meet up the demands of a large corporate client.

**2. Board of director:** IDLC has a strong board of director, who has a very good image in corporate world and also has strong background around this country. They have contribution in many sectors like decision making, setting objective.

**3. Product portfolio:** IDLC offers various and amazing product portfolios for their customers.

**4. Human Resources:** This is one of the major strengths of IDLC. The Company has competent management team. The overall work force of IDLC is considered their key resource.

IDLC personnel are motivated, competent, and creative.

**5. Training:** IDLC gives effective training to their employee. In a year they arrange five or six training session to make sure the skilled performance of their employee.

**6. Service:** IDLC finance Limited is increasing their performance each year because of their unique services. IDLC provides hassle free service and also here is no hidden cost, all the costs are visible so that customers can have the idea about their cost.

**7. Operational Efficiency:** IDLC Finance Limited provides customer friendly solutions to meet their demand, so that the sanction and disbursement of the loans can be hassle-free.

**8. Employee Empowerment:** Every employee has their individual opinion for every task and the organization has equal level of acceptance for their employee.

**9. Working Environment:** IDLC Finance Ltd has a friendly working environment. Everyone is very co-operative and helpful.

## Weaknesses:

**1. Cost of fund:** IDLC has a bit higher cost for operating the activities compare to the banks because of being an NBFI.

**2. Management:** In recent times there is a huge change in management. As a result, there will be some changes in the organization too. As a result of this employees take time to adopt the tasks and the environment.

**3. Volume:** IDLC has Credit Risk Management department that monitor the asset quality of the company, but still the company provides loans to customer for the sake of extra profit.

**4. Diversification:** IDLC has extreme diversifie product and services, which can be a great threat to the central part of the organization.

**5. Liability Marketing:** For the aggressive liability marketing they hire lower number of workforces in comparison to banks and NBFI.

* **Opportunities:**

**1. Liberalization:** The liberalization has a positive impact on economy and for the NBFI.

**2. Foreign Investment:** There are a lot of foreign investments in various sectors the NBFI also have a good chance to get into it.

**3. Local banks Inefficiency:** It’s a major reason for growing of leasing company in our country. This illusion still insists. Local banks are unable to fulfill the demand of consumers. This is good for NBFI because it’s creating an opportunity.

**4. Geographic Areas:** There is a huge prospect for this organization as day by day consumers are increasing as well as their demands. Expanding the business will create an opportunity for this organization. IDLC already started their process and started planning how to expand their business.

**5. Consumers Demands:** Now-a-days people are more interested to take loan such as apartment loan, car loan etc. As the demands of taking loans are increasing rapidly it creates a big opportunity for IDLC.

## Threats:

**1. Banks and other NBFI:** The competition between banks and NBFI is getting higher than before as now a day’s banks are also involved in handling leasing stuffs.

**2. Regularity control of the government:** The legal framework which is somehow not very friendly all the time which may create unexpected obstacle in regular operations in Bangladesh.

**3. Payment overdue:** This can be a big threat for any organization. This happens when clients do not pay their EMI in a regular basis.

**4. Intend to switch:** If a customer has intention to switch from IDLC to any other NBFI that could be obviously a threat for IDLC Finance Limited.

**5. Fake documents:** There are many cases where customers provide fake documents which may cause serious problem to this organization.

# Subsidiaries

There is some Subsidiaries of IDLC Finance Limited. They are:

* IDLC Securities Limited:

IDLC Securities Limited is a stock broking company with headquarters in Dhaka. The company is fully owned by IDLC Finance Limited which was formed by a joint initiative of some international and local institutions.

* IDLC Investments Limited:

IDLC Investments Limited is known as merchant bank; this is also wholly owned subsidiary of IDLC Finance Limited. It has started as the merchant banking division of IDLC in 1999. As being a separate company based on the requirement of Bangladesh Securities and exchange Commission it emerged in 2010 later on. The firm provides Investment Banking, Portfolio Management, Margin loans and Securities Research services to its clients which include both corporations and individuals.

* IDLC Asset management Limited:

This is also wholly owned subsidiary of IDLC Finance Limited. Consists of mutual funds offered under asset management services offered to individuals and institutions.

**2.2 Industry Analysis**

### **2.2.1**Specification of the industry

### IDLC is a non banking financial institution, which does not provide a [full banking license](https://en.wikipedia.org/wiki/Banking_license). NBFI (Non Banking Financial Institution)provides bank-related [financial services](https://en.wikipedia.org/wiki/Financial_services), that include [investment](https://en.wikipedia.org/wiki/Investment), [risk pooling](https://en.wikipedia.org/wiki/Risk_pool), [contractual savings](https://en.wikipedia.org/wiki/Collective_investment_scheme), and [market brokering](https://en.wikipedia.org/wiki/Stockbroker). This include [insurance firms](https://en.wikipedia.org/wiki/Insurance), [pawn shops](https://en.wikipedia.org/wiki/Pawn_shop), [cashier's check](https://en.wikipedia.org/wiki/Cashier%27s_check) issuers, [check cashing](https://en.wikipedia.org/wiki/Cheque) locations, [payday lending](https://en.wikipedia.org/wiki/Payday_loan), [currency exchanges](https://en.wikipedia.org/wiki/Bureau_de_change), and [microloan organizations](https://en.wikipedia.org/wiki/Microfinancing).

It’s proved that the role of NBFI helps in strengthening an economy, because they provide various alternatives to transform an economy’s savings into capital investment.

Operations of non banking financial institutions are still covered under a country’s banking regulations.

**2.2.2 Size, trend, and maturity of the industry**

Different countries have different types of size, trend and maturity. Bangladesh is also different from others, those are written below-

**Size:** The market size of financial institution is not very wide still now. The total number of Non banking financial institutions are limited. The size can be measured by Total Revenue, Volume of production, number of customers and so on.

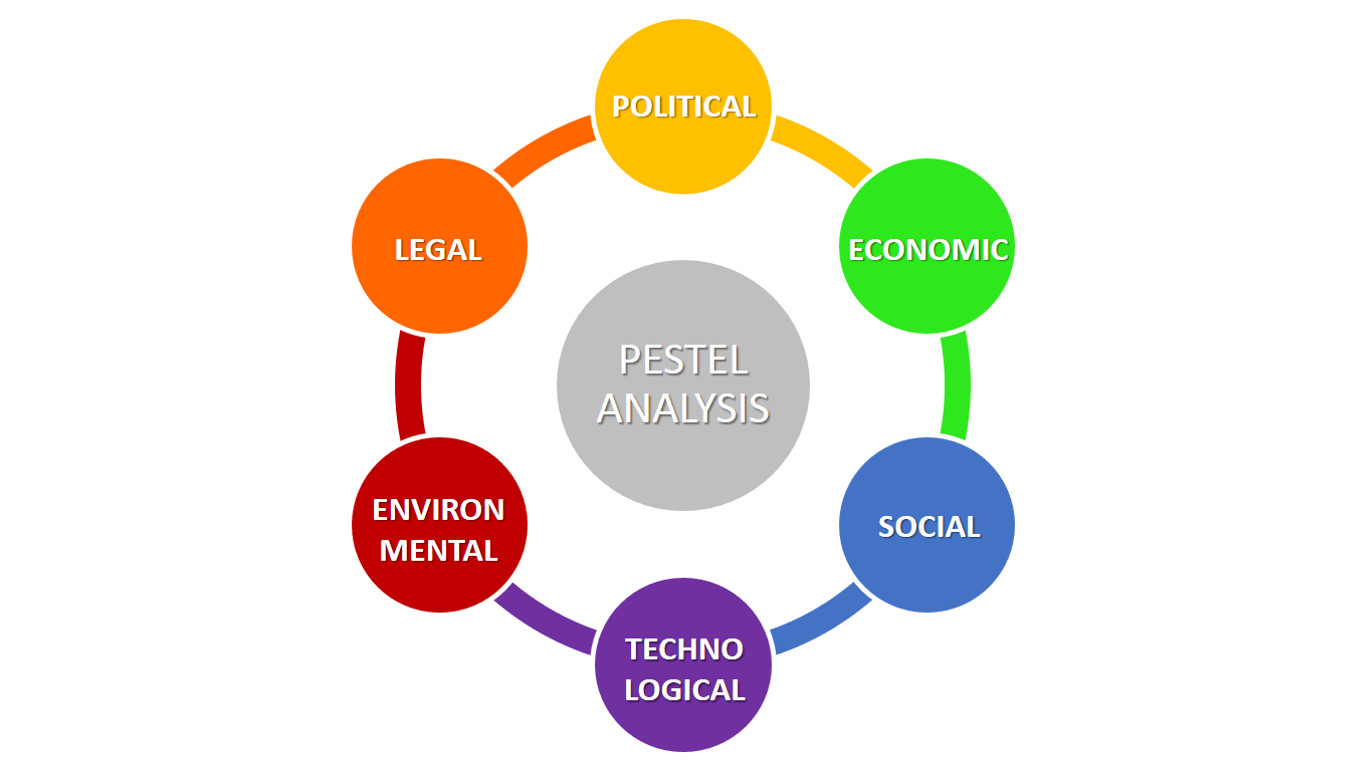
**Trend:** In the recent trend, the system of managing account has changed a lot. Earlier the institutions used to keep all the records manually. But nowadays they use computers and online system to keep data. They keep all the records of customers by using various softwares. During my internship I’ve noticed that in IDLC they have log in system for their employees to keep their records. They have other softwares for keeping customers data like their name, address, account number, branches, number of accounts and so on. They are following the current trend.

**Maturity:** Talking to the officers I have found that the non banking financial institutions is now in growth stage. From the industry life cycle I’ve found that non banking industry is in growth stage although shake out stage does not seem too far. Because some characteristics of shake out stage have noticed. But it can be said that the demand of non banking services has increased past few years in Bangladesh which I have noticed in IDLC.

Non bank financial intermediaries play an important role in promoting savings in the country. The NBFC is also increase the growth of the nation.

**2.2.3 External economic factors**

In my strategic management course I studied PESTEL analysis where it was given how external economic factor effects financial industry. PESTLE analysis is a framework or tool used to analyse and monitor the macro-environmental factors that may have a profound impact on an organisation’s performance.



Financial Institutions and economy are tied. We all know that a growing economy is good for financial sector which is good for the regional economy. Economy’s health depends on the financial condition of any region.

If inflation heats up, then purchasing power for the money people saved will be less because inflation makes money less valuable. Again, interest rate will rise in savings accounts, certificates of deposits and other products. Then institutions tend to pay less interest today but the annual percentage yield (APY) will be attractive.

**2.2.4 Technological factors**

We can’t think our daily life without technology. Technology has made our busy life easy. In financial industry technology uses are also high. Without this industry is nothing. As I already said that I’ve seen how IDLC keeps their client’s record through technology. Now they do their work fully online. In IDLC I saw that when a client wants to know his/her account balance how easily officers find their account from computer and told their balance. On the other hand, when a client come to order or taking his cheque book how easily they are easily recording them on computer.

These technological changes make it easier to take the service of the financial industry and they utilize the technology to compete with each other effectively.

**2.2.5 Barriers to entry:** Low

* Requirements for licensing: The licensing requirements is not that tough compared to the banks.
* Alternatives: The consumers now have lots of options to choose for achieving credit.
* Larger number of NBFI’s: Consumer have large spectrum for choosing from.

### 2.2.6 Supplier power: Which is High

* Many Alternatives: The suppliers in this case are basically the depositor’s to the NBFI’s fund. Nowadays the suppliers have got many alternatives.

**2.2.7 Buyer Power:** High

* As buyer can switch if they find better interest rate, their buying power is high. So, organization needs to be careful in terms of offering interest rate.

**2.2.8 Threat of substitutes:** Moderate

* Banks: NBFI is made from the concept of helping each and everybody even who cannot have an access to the banks, whoever the person is; poor or underprivileged.
* Money lenders who are unorganized: They have a strong presence in the rural markets that is the reason that they are considered as big threat to the NBFIs in the rural areas.

**2.2.9 Industry rivalry:** High

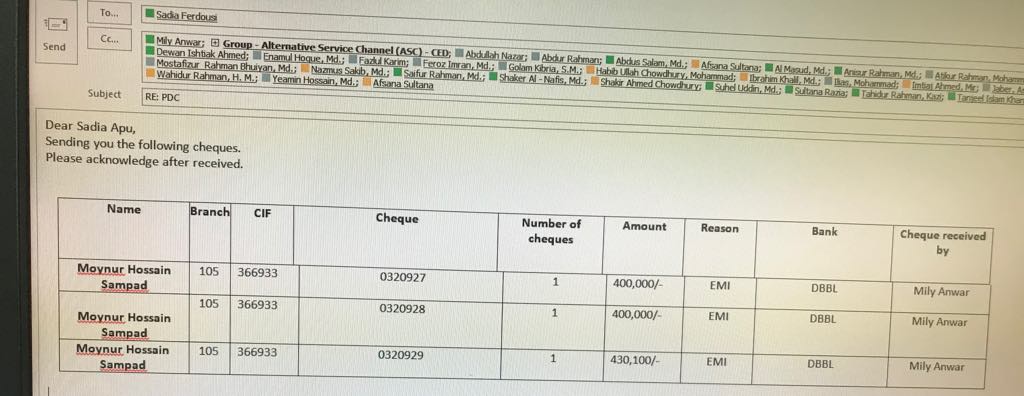
* Unconditioned Service: This service is defined by the NBFIs are almost same as banks but there is a low level of differentiation.
* Marketing Strategies: Due to the increased rivalry among the NBFIs there has been use of aggressive selling and intensive marketing strategies by the company to get market share.

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# CHAPTER III: INTERNSHIP EXPERIECNE

**3.1 Position, duties and responsibilities**

My internship program started at Customer Experience Department (CED) in IDLC Finance Limited, in Dhanmondi Branch. All my activities were conducted under the Supervision of Mily Anwar and Fatema Nasreen. My main task was to provide ready documents and information to customers, cheque drafting, saving new information of customers in a folder.

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**3.2 Training**

IDLC is one of the leading non banking financial institutions in market. I was lucky to get the opportunity to do my internship there. From the very first day of my internship I have experienced so many new things and learned a lot from them. Although I didn’t get any formal training but they answered me every single question of mine and cleared my all confusions. They gave me all the information I needed and with that they taught me the things I should know. All the departments were individually helpful. It can be called informal training whatever I learned from them and now I can say that I have a good knowledge about the activities of non banking institutions.

Throughout my whole internship period I got the chance to know so many people and learned how to deal with different people and how to handle different situations. So, I can say that my internship period was like a training session for me. All the time it was like training program for me, facing new problems and new work was making like an officer.

**3.3 Contribution to departmental functions**

From the very first day I have tried my level best to give my proper contribution. They are discussed below-

* **Front desk:** I’ve performed front desk activities. If any client came and my supervisors were involved with other clients, then I’ve given the clients their required information, documents or some other papers. I also gave cheques to customers with proper serial numbers and amounts of money.
* **Clearance:** I helped in the whole processing of cheque as per requirements. In terms of writing the cheques, giving entry, organize them based on serial number and dates.
  1. **Evaluation**

While working at IDLC as regular employee sometimes I worked perfectly but sometimes I made some mistakes. I gave my full to concentrate on my work and my work has been praised by all. They always motivate me, although I have made some mistakes.

Starting from the basic activities of IDLC they have given me idea about others departments activities to give me experience. They praised my work as I worked there like a regular employee and helped them to make their task swift. I have always tried to make their work faster which they liked a lot. Specially the Branch manager (Molla Abu Sufian) praised me a lot.

* 1. **Skills applied**

As an intern I observed their works for a certain time after that I was capable enough to deal with the clients in absence of the officers. I’m a quick learner so I can say that it’s one kind of my skill for which I didn’t face much difficulties in learning new things. Sometimes they got surprised when I did something but they didn’t teach me then they used to praise this kind of habit of mine.

* 1. **New skills developed**

Through my internship I’ve developed so many new skills. The first thing that I’ve developed is talking with new people and senior officials. I had the fear of dealing with new people, behaving in a corporate way. First time I was so confused about some things like which one is deposit slip, cash slip and cheque book as I never used them so I had zero knowledge and now I know them very well. Then there are some forms like AOF(Account Opening Form), CIF(Customer Information Form), Mailing address or address form, CAF form, BEFTN form etc, which I had to give to the customers when they asked for it but in the beginning I didn’t know which form is what and which purposes I have to give them. Then step by step I got that and I didn’t need to ask my colleagues which form I have to provide to the customers.

I got the opportunity to work on my weakness practically that will help me in future. The officers of dhanmondi branch helped me in this case.

**3.7 Application of academic knowledge**

Internship somehow connects the corporate life with academic life. During the internship period the academic knowledge of a student helps a lot.

So, how I applied my academic knowledge is given below-

* **General activities:** These are basic or main activities. Clients can have any information related to the organization. At the front desk I used my academic knowledge while sometimes I used to do DPS and FDR. There is a need of Calculating interest rates for a specific person at a specific time period. It can be 3 months, 6 months, 1 year or 5 years. Sometimes I had to calculate the interest rate they are going to get when the FDR will be matured. So, I’ve used these things in their general activities.
* **Credit Department:** In credit department they basically give loans such as home loan, car loan others loan. I didn’t work directly there as it’s very critical section but I always went there and took ideas as I already have little bit idea from my academic knowledge. In IDLC they have different rates and scheme for different loans. As I have some academic knowledge so, whenever any customers asked me about any particular loan I was capable to give then basic idea about that loan such as, which loan is what, what is interest rate and how to pay them.

# Topic: Credit Risk Management in SME financing

**Importance of this topic**

The topic is credit risk management in SME financing. It is important to know separately what is credit risk management and what is SME financing before explaining the importance of it. Credit risk is the uncertainty of not getting back the money that has been given to the client or failing to meet its obligations on agreed term now about the SME financing. As we know SME stands for Small and Medium sized Enterprise; financing in this sector is being encouraged now a day because of some extra advantages like this is easy to commence, easy to finance, easy to focus, large turnover, large profit margin and so many. This is a field where improvement will work a lot. If the acceptance of working in this sector once gets the acknowledgement broadly then this can be one of the comfortable area to work in. There are many more advantages those must be stated here like in this sector faster decision can be made, fewer employees is needed for this operations, better access of loan is the most attractive advantage and also the country’s unemployment can be removed by this whatever that is a low percentage. The people of SME take this unemployment as an advantage, as they do not need skilled people from the beginning. The SME team trained the employees as they want and fit for separate work. By this, the SME team can make the best use of the unemployed people. The purpose for which SME loan has been demanded can be closely monitored in some cases, for example the lender can visit their places to look at how actually they are using the money for. In most cases the money has been given for the purchasing of raw materials or for establishing a mini business like grocery shop or a restaurant or a boutique shop and so on. Another thing is SME does not need any critical business structure to operate their business. These are the things why this topic is important and SME is important for an organization as well. This is a best fitted job for them who does not want to work in a routine job again does not want to be in a big business and that is why this will be a best suited and mostly wanted field to everybody in near future. The contribution of SME is not negligible though. SME provides a lot to the economy. Compare to the large industry the contribution of small industry is not that bad.

My organization IDLC wanted me to work on this topic as they think they have scopes to improve in SME sector. They want to go in extra miles in SME financing field. Through my report the organization wants to see the real condition of leasing industry in Bangladesh and the condition of SME financing and the comparison by analyzing some ratios. I have accepted this topic and understood the importance of this topic and finally working on it. For the above mention reasons the topic is important to be discussed. The findings of the report may help my organization by providing the desired information. Similarly, I will be benefitted by learning the analysis of the organizations performance, condition and so on.

# Offered SME loan from IDLC:

# Small Business:

**SME term loan:**

Loan is limited up to BDT 2 crore

Loan Tenure: Which is from 13 months to 60 months

Loan without any parallel for more than 25 lac

* Eligibility to get the loan: Business must be a going concern with minimum operational experience of 2 years and age must be between 20 to 60 years

## PURNOTA (Women Entrepreneur Loan):

Minimum Loan amount starts from BDT 3 lacs

Unsecured loan amount is considered maximum up to BDT 25 lac

Loan tenure: starts from 13 to 60 months

Flexible repayment is based on cash flow of business

Loans those are up to BDT 50 lac at 9% interest rate

* Eligibility to get the loan: Minimum 1 year of business experience and age is between 20 to 60 years.

## Supplier Finance:

## Factoring:

There is more than 80% of financing against demonstrated invoices

Client cash flow cycle’s period is credit (at least180 days)

Payment is transferred from the buyers

Loan Limit: Any amount which is defensible with sales

Loan tenure: Which is approximately 1 year from the approval date

* Eligibility to get the loan: Must have frequent sales on credit to corporate buyers; at most 2 years of constant business operation and experience; age should be between 22 to 60 years

* Distributor Finance: The credit limit which is based on sales volume and IDLC management approval

Corporates are paid 100% advance payment. on behalf of the distributor

Credit period is considered maximum 180 days

Above BDT 2.00 Million credit limit is required for security

Standard charge and fees apply

Loan is limited based on suppliers of the corporate and sales of the distributor

Loan tenure is considered from 1 year of the sanction date

Eligibility to get the loan: Must receive recurring lifting orders from corporate entities

Minimum 3 years of continuous business operation and experience

Maintain minimum 1 year of uninterrupted business relation for approved suppliers

Age is acceptable from 21 to 60 years

## Work Order Loan:

The credit limit is based on sales quantity and IDLC management approval

At least 60% of advance financing against verified work orders

Client cash flow cycle’s period is credit (at least180 days)

There is above 1.00 million Credit Limit for security requisite.

Fees and charges are regular

Loan limit: That is any amount acceptable with sales

Loan tenure: 1 year from the approval date

* Eligibility: Must have revolved sales based on credit to corporate buyers; with Minimum 2 years of continuous business operation and 3 years of business experience; age is considered between 21 years to 60 years; Business is within service range of IDLC branches.

## Revolving Short Term Loan:

Limitation of loan: The load limitation is more than BDT one Crore.

Loan tenure: Which is more than 1 year

Repayment structure is flexible according to the cash flow of the business

For specific needs some flexible method are used.

Flexible drawdown used for the whole contract period

* Eligibility: Minimum 3 years of business experience; age is between 30 to 60 years.

## Loan which are partially secured:

Limitation of the loan is Up to BDT one crore

13 to 60 months is considered as loan tenure

Repayment flexibility are given based on the cash flow of any business

* Eligibility: 2 Years of continuous business operation (Supported by Trade License); Age should be between 20 to 60 years.

## Seasonal Loan

Highest BDT 75 lacs loan amount

1-year loan tenure

Payment mode available in EMI and seasonal payments

Eligibility: Business should be for minimum 2 years and the age should be from 20 to 60 years.

## ABASHAN (Commercial Housing Loan):

Loan amount: Highest 2 Crores

up to 15 years for loan tenure

Repayment method through EMI

* Eligibility: Rental business with at least 1 year of continuous operation

## Commercial Vehicle Financing: Limitation for loan:

Price of the vehicle is upto 80%

Up to 5 Years for loan tenure

* Eligibility: The time of the business should be minimum 2 years; age should be from 20 to 60 years.

## IDLC Startup Loan:

Loan Limit: More than 25 lacs

Loan tenure: more than 5 years

Repayment system: EMI

* Eligibility: Business must be less than 3 years old; age within 18 to 45 years; had no previous ownership experience in any preceding business.

## UDBHABON:

BDT 5 lacs is the minimum loan amount

Up to BDT 25 lacs is unsecured loan

BDT 1 crore is partially secures loan

Minimum 13 months to 60 months is considered as loan tenure

Through EMI easy payments are done

Facilities enjoyed by members of BASIS

* Eligibility: Age is between 20 to 60 years; minimum 2 years of continuous business operation (1 year for women entrepreneur)

# Medium Business Loan

## Medium Business Term Loan:

Loan limitation is based on business requirement

Loan which is flexible for tenure

Flexible repayment mode

Competitive rate of interest

## Lease Finance:

Loan tenure: At least for five years

They do both local and foreign system for financing

Pricing system is competitive

Tranquil guaranteed

For loan tenure ownership lies with IDLC

Ownership is transferable to you until there is full and final resolution for competence

## Commercial Vehicle Financing:

Exposure of broad range of PASSENGER VEHICLE and CARGO VEHICLE

Single Vehicle Finance, Fleet Finance & Finance under guarantee

Minimum Documentation

Flexible Financing Tenure Ranging from 12 to 60 months

Competitive pricing & no additional Collateral requirement

## Commercial Space Loan:

Loan Limit as per contribution of debt equity share

Stretched loan tenure

Structured repayment mode

Competitive rate of interest

## Working Capital Loan (Short term Loan):

Renewable loan limit

Loan tenure at most 360 days according to business cash cycle

Structured repayment form

Several drawdown and adjustment ability within the loan limit

Competitive pricing & guaranteed requirement

No premature payment charge

## IDLC project financing:

Stretched loan tenure

Structured repayment mode

Competitive rate of interest

Bundle product offerings to ensure full finding of project

# Checklist of activities before sanctioning a loan

* Report: The SME team can check the CIB report of last 1 year, where they see if the client has other loans in other banks or not. If the client has other loans how is he/she performing to repay the loan amounts.
* Trade License: The trade license is being checked to ensure that at least 2 years has passed after issuing the trade license.
* Feedback: Before sanctioning a loan the team also gather market feedback whether the applicant has any bad report in the market or not. For example, already IDLC has given a loan to a cosmetics seller in Bashundhara City and the other applicant is also conducted his/her business in Bashundhara city in the same floor. So, the team will hear from the cosmetics seller about the new applicant’s characteristics and some other thing.
* Defaulter: If a person has been announced as a loan defaulter from any other bank the person will suffer to get loan.
* Loan hider: If the applicant hides about his/her another loan, the person will be in trouble later on.
* Income and Expenses: The income and the expenses should be in a balanced way of the applicant. If the expenses are more than the applicant’s income, then the loan can be declined.
* Application: Any sales person from any business applies for this kind of loans and there is a high chance to be declined the loan as this does not fulfill the criteria of getting SME loan.
* Mismatch: If the loan amount mismatches in any documents has a chance to be declined the loan.
* Bank Statement: The bank statement should be as per the requirement of the organization. Otherwise, it has a chance not to be approved the loan.
* Permanent Residence: If the applicant has permanent residence in Dhaka he/she will get the preference in terms of getting loans.
* Guarantor: The most important criteria to be checked is the guarantor. A person who has active loan in other financial institutions will be the appropriate guarantor for any loans.

# Reasons for loan default:

* Willful Defaulter: I came to know the reasons why any loan become default loan by taking interview from 2 employees of IDLC and they stated that the percentage of willful defaulter are more in many case.
* Over leveraged: If the team of SME invests in any over leveraged business they don’t get the repayment of the loan. In most cases it happens when the team choose wrong client for giving the money.
* Nonproductive Investment: A business that will never produce anything is not a suitable area to invest. If investment occurs there, then loan amount will not be repaid.
* Business/Product type: The type of business or the product on which investment will be occurred matters in terms of getting loan. In a same way, when an organization will give loan the business type or the product type also matters.
* Situational: Sometimes it is situational problem not to repay the interest of loan amount timely.
* Improper Supply System: When supply system is not properly working for those business where the supply of raw materials matters most the businessmen remain in problem and unable to repay the interest amount on time.
* Government Intervention: This is an action carried out by the government or the public entity that affects the market economy with the direct objective of having an impact in the economy. At that time the problem of not getting the interest amount of loan occurs.

# Methodology of the Study

There are many sources those have been used for the whole study. Information has been collected from the website which is known as online source and the accessible employees of IDLC. I found some hardcopies from my organization from where I found the financial reports to get the financial analysis more precisely. I have collected some preceding internship report to have the practical knowledge of writing the report from my University library. So, the report has shown more in the prejudiced way.

## Primary Sources:

The primary data sources are the employees of IDLC and the inside database they use for their day to day purposes.

## Secondary Sources:

IDLC Finance Limited official website, PDF records, journals, articles and university’s library.

I interviewed two employees of IDLC Finance Limited and gathered required information. It was an unstructured interview for us. I faced some problem as the topic is not directly related to my department, when I started meeting information related to my study. My work was related to Credit Information Bureau and the topic is related to Credit Risk Management and SME department. When asking random people about my queries, I was in trouble. After that one of our senior Sir sent me to the CRM department for asking all my questions. I went to them and two of them helped me by answering all my questions. I had brief conversation regarding topic related issues. The people of IDLC were very ready to lend a hand and friendly to gather genuine information.

**Scope of the Report**

I have started the report by highlighting the company’s mission, vision, core values historical background, its shareholding structure, organizational structure etc. I have also provided Porter’s Five Forces analysis for understanding the current industry situation of IDLC.

In second part sectors are presented from the findings, viewpoint and observations. Report has accomplished after providing recommendations to enhance the effectiveness of the department’s activities.

**Limitations of the report**

Though I got many advantages, help, and support from many sources but at the same time there were many boundaries of restrictions and limitations while preparing this report which has postponed my works. These limitations has written below:

1. Struggle in getting to information on its inward operations.
2. Non-availability of some former and most recent information.
3. Some data were withheld to hold the classification of the association.

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# CHAPTER IV: CONCLUSIONS AND KEY FACTS

**4.1 Recommendations for improving departmental Operations:**

To develop strategy of SME and to fulfill the objective of this study there are some recommendations which mentions where SME can invest more/ what are the scopes to make improvement in this field. Here are some recommendations which may follow the leasing companies.

* Hire skilled personnel to avoid the risk factors and make the ground more profitable.
* Bangladesh Bank should continue the refinancing system to encourage the entrepreneur in the business field.
* If the system of getting trade license, registration of enterprises, getting patents or trademark become easier than the number of taking loan will increase which will eventually help SME to reach into a standard level.
* A separate organization can be built by the participation of public and private banking industries for small business investment and lending money in SME field.
* Another amazing work can be done to encourage and improve the SME sector. Public fund can be made under some regulations from where businesses will get money directly and the further formalities will be done accordingly.
* Disaster or seasonal loans can be provided.
* Seeking for international funds.
* The sector of special SME loan like Women Entrepreneur loan in IDLC which is known as “PURNOTA” another one is “UDBHABON” can be increased to enhance SMEs beauty.

**4.2 Key Understanding:**

In the early 1980s in Bangladesh leasing company was first introduced. (IDLC) is the first leasing company in Bangladesh. Lease financing determines the direction of financial behavior of a company. Now a day’s lease financing is so well known for developing a company’s financial resources and obviously for profit maximization or maximization or owner’s equity. Lease financing is so central to a company’s management as it explains why it is better for an organization for financial solvency for lease financing. First Lease Finance Investment Limited (FLFIL), Apex Investment, Bay Leasing and Investment Limited, Industrial Development Leasing Company (IDLC), Phoenix Finance and Investments Limited, United Leasing Company Limited (ULCL), Lanka Bangla Finance Limited, Investment Credit are the first ranking players in Bangladesh based on the performance in leasing industry.

Though Bangladesh is small but it is a densely populated country where people mostly depends on agriculture or farming for leading life. Globalization and liberalization are the reason for which country is shifting towards industrialization and business. So, this is a very positive turn for the leasing industry in Bangladesh. The scenario in Bangladesh is better than before. Commercial banks and Non-Banking Financial Institutions (leasing companies) are known as the traditional lending institutions in Bangladesh. The leasing companies can aware the entrepreneurs very well about the loan products and the importance of it than any other institutions. There are many writings about how the foreign countries are managing their financial system in terms of lending and borrowing both. On those writing there was a vital point to note that people of many countries are still depending on their relatives for taking money for starting their business or running their existing business. From this point of view Bangladeshi leasing companies are doing so great by holding people’s trust and letting them run their business in a decent way. For example, leasing companies are very keen to give the finance for their client, even there are many special loan products only for Women entrepreneur or for many specific fields like IT or Agriculture and so on. Under leasing companies there are so many advantages to take like saving time, scope of profit maximization which makes the leasing industry more attractive now a day. The payment system is also very flexible for the clients as the down payments are not high and the loan tenure are for a long time. So, overall the scenario of leasing industry is good and seems sustainable in Bangladesh based on their performance. People started relying on them as well as the companies are able to make commitment for their work. This is an easy solution for entrepreneur and also for the existing businessmen.

Main Research Question:

The main research question is “Credit Risk Management in SME Financing”. If only the study is about credit risk then there is a lot to write, discuss and analyze. The study will be specifically focused on SME financing. SME adds extra value in country’s economy both in public and private sector.

**4.3 Conclusion:**

Businesses operated by taking huge amount of loan from banks or from relatives. Before establishing the loan system of SME, people who didn’t want to run big businesses; used to run businesses in different form for the need of money. After the establishment of SME loan people are more interested to run businesses and the amazing businesses started running in a very good way. If the strategy of lending money can be hold there are lot more amazing things to come. To hold this, first of all the leasing companies or the related companies have to aware the borrower about the competitive challenges they have to face. Secondly, the companies can help SMEs to meet challenges by understanding the strength and weaknesses and also help them to overcome the challenges. They need to learn some inputs to upgrade their themselves. Inputs like market information, finance, training infrastructure development, R&D, technical skills as well as skills and links with institutions for support services.

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