BLinC

ENABLING ENTREPRENEURS
ACCELERATING GROWTH

India MSME Lending Landscape 2022

BLinC Insights

About BLinC Invest

BLinC Invest is a venture capital firm with a co-founder approach to investing in emerging businesses and creating long term value

Co-founder Approach

Being entrepreneurs ourselves, we work through trust and collaboration with the founding teams.

Sector Focus

We only focus on high impact and exponential growth sectors coupled with our own expertise, namely Education and Financial Services.

Value Builders

We provide strong support platforms and an influential global network to help build significant value in the business.

Technology As A Key Enabler

We believe in Tech! Businesses must leverage the power of technology to overcome challenges through innovation.

India Focus With Global Outlook

We invest in businesses that harness opportunities to provide products and solutions to the Indian market, which can be leveraged to scale globally.

Defining MSME

MSME stands for Micro, Small, and Medium Enterprises. As per MSMED (Micro, Small, and Medium Enterprises Development) Act of 2006, MSMEs are the enterprises involved in the processing, production, and preservation of goods and commodities.

MSME criterion based on the Investment Amount and Turnover of the enterprise

Criteria	Parameters	
	Turnover Limit**	Investment*
Micro	Less than INR 5 crore (US$ 0.63 million)	Less than INR 1 crore (US$ 0.13 million)
Small	More than INR 5 crore (US$ 0.63 million) but less than INR 50 crore (US$ 6.26 million)	More than INR 1 crore (US$ 0.13 million) but less than INR 10 crore (US$ 1.25 million)
Medium	More than INR 50 crore (US$ 6.26 million) but less than INR 250 crore (US$ 31.3 million)	More than INR 10 crore (US$ 1.25 million) but less than INR 50 crore (US$ 6.26 million)

*Investment is counted for plant and machinery or equipment
**While computing turnover for MSMEs, it is provisioned to exclude Exports turnover

There are a total of 63.4 million MSMEs in India, out of which around 63.05 million are micro enterprises accounting for more than 99% of all MSMEs. Small and medium enterprises amount to ~3.3 lakhs and ~ 0.05 lakhs respectively.

MSME by numbers

India: Market Size

Number of MSMEs in India
63.4 million

People employed in the segment
111 million
comprises **25%** of the working population

Contribution to India GDP
30%

Global Landscape

Share of businesses categorized as MSME worldwide
90%

People employed worldwide in MSMEs
50%

Contribution of MSMEs to Emerging Economies GDP
40%

Credit Gap

Share of MSMEs in developing countries with unmet financial needs
40%

India: Overall debt demand by MSMEs
INR 69.3 Trillion
Growing at 11.5% CAGR

India: Overall credit gap in the MSME sector
INR 25 Tn

Approach towards our research

BLinC

Secondary Research

- Secondary data sources include IFC Report - 2018, MSME ministry annual reports, World Bank reports, various news reports, Tracxn, RBI website etc.

Primary Research

- We have gathered insights on the MSME space by conducting on-ground visits as well as telephonic interviews with various shops in the following categories: Kirana stores, electronic stores, pharmacist, dairy, tailor, saloon etc.
- We have conducted on-ground visits and telephonic calls across 15 states such as Maharashtra, Rajasthan, Uttar Pradesh, West Bengal, Tamil Nadu, Haryana, Delhi-NCR etc.

Interviews

- Insights gathered from industry leaders in the SME banking, supply chain finance, NBFC and fintech space
- Gathered insights from senior leaders in organizations such as
  - Senior MD of a large foreign bank,
  - CEO of a large NBFC
  - CEO of a large neobank in Indonesia
  - Multiple fintech entrepreneurs and founders
  - SME Heads of large Indian banks

Business Model-first approach

- We have taken a business model-first approach to our research instead of a financing vehicle approach or a product approach such as secured loan, unsecured loan etc.
- The rationale for this on account of the fact that a financing vehicle is focused only a particular lending product and/or target segment whereas business model focus is more broad-based covering a range of target segments and the value chain

Executive Summary

1 India: Large market opportunity

- With more than **63.4 million MSMEs** in the country, the MSME sector contributes to **~30% of the GDP** of the country employing ~111 Mn people amounting to ~25% of the working population
- While quarterly MSME disbursements have grown 2x over the last 2 years, majority of the growth has happened on account of increased penetration in Tier 3/4 cities and not due to an improvement in underwriting mechanism indicating that a sizeable segment is yet to be catered to
- The sector has a total demand of ~INR 69.3 Tn with only a fraction of the demand being catered to by the formal lending segment. The sector is expected to witness increased participation from private sector banks and NBFCs.

2 Government initiatives

- Proactive government initiatives such as MUDRA, TReDS, AEPS, Account Aggregator, Open Network for Digital Commerce (ONDC) and Open Credit Enablement Network (OCEN) have helped increase formalization of the MSME segment
- These initiatives will play a major role in fast tracking growth of lending to MSMEs in the country by ensuring technology and underwriting improvements
- The launch of OCEN in 2020 was a step towards setting up a simplified and inter-operable digital marketplace for credit
- OCEN's set of open APIs will facilitate various aspects of the lending value chain as loan-providing entities will only need to plug into the OCEN network to access loan products offered by various financial institutions

3 Business model best suited to offer specific lending product(s) to MSMEs

- Payment Gateway/QR Code, POS financing, Embedded finance, Anchor-led supply chain finance business models are best suited to offer **working capital loans**.
- P2M lending and online marketplace lending are best suited to offer **unsecured business loans and working capital loans**
- Neobanks, Business Correspondent model and NBFC with branch network are best suited to offer **business loans (secured and unsecured) and working capital loans**

4 BLinC Invest view – White Spaces

- **Anchor-based supply chain finance –** Large opportunity since currently the product offered to majority of the MSMEs is term loan whereas their requirement is a working capital loan for financing their inventory purchases
- **POS financing –** Adoption of POS terminals is expected to be further improved by offering MSMEs value-added services such as receivables and payments management helping them increase footfall with targeted services to customers
- **NBFC with branch network –** Segment is seeing increased participating in recent years and is expected to grow further catering to the underserved credit demand in the semi-urban and rural pockets of the country
- **Embedded Finance** is expected to enhance credit approval process by looking at transactional data built over a period of time and understand the heterogeneity of the segment and offer tailored financial products

Insights on MSMEs in India

Under-penetrated market with huge credit gap

Total MSME Debt Demand
INR 69.3 Tn

Manufacturing Enterprises Debt Demand
INR 32.8 Tn

- **Micro** INR 14.4 Tn
- **Small** INR 15.1 Tn
- **Medium** INR 3.3 Tn

Addressable Demand

- **Micro** INR 5.6 Tn
- **Small** INR 9.7 Tn
- **Medium** INR 2.1 Tn

Services Enterprise Debt Demand
INR 36.5 Tn

- **Micro** INR 16.0 Tn
- **Small** INR 18.7 Tn
- **Medium** INR 1.7 Tn

Addressable Demand

- **Micro** INR 6.2 Tn
- **Small** INR 12.0 Tn
- **Medium** INR 1.1 Tn

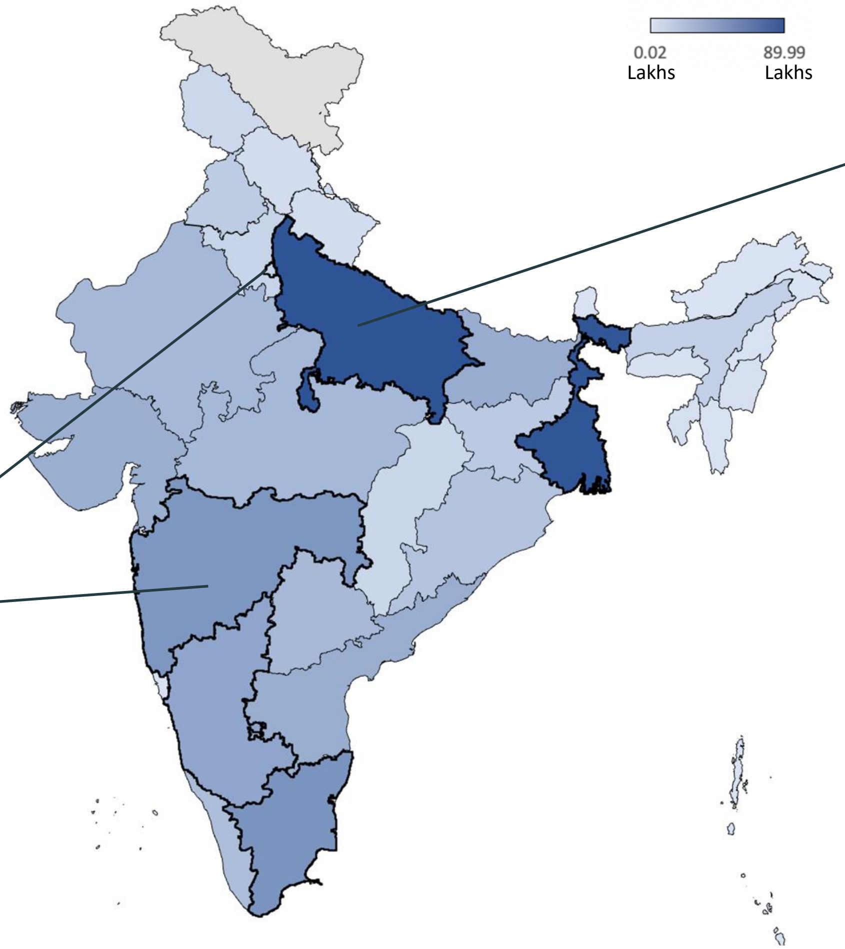
Overall Addressable Debt Demand: INR 36.7 Tn

Out of this, ~INR 10.9 Tn is currently being catered to by formal sources

Geographical demographics of MSMEs in India

Top 5 states (by number of MSMEs):
Uttar Pradesh
West Bengal
Tamil Nadu
Maharashtra
Karnataka
account for almost **50%** of the total MSMEs in the country

Maharashtra and **Delhi** account for the highest MSME debt demand with **20%** and **18%** share respectively



Heatmap: Number of MSMEs in India State-wise

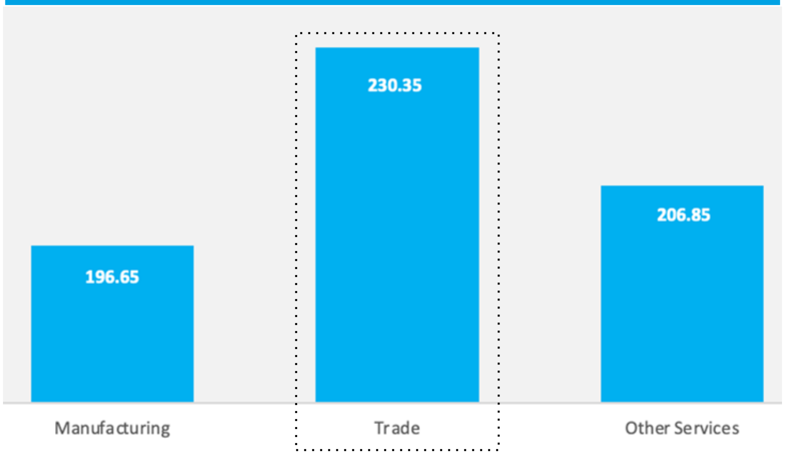
Uttar Pradesh has the highest number of MSMEs in the country: **~9M** and employs around **15%** (highest) of all people working in the sector in India

	# of MSMEs	Share of MSME contri. to GDP
LIS	23.6 million	34%
NES	1.9 million	3%
ROI	30.3 million	63%

LIS - Low Income States (Rajasthan, Madhya Pradesh, Uttar Pradesh, Bihar, Jharkhand, Chhattisgarh, Odisha, West Bengal)
NIS - North Eastern States (Assam, Arunachal Pradesh, Nagaland, Manipur, Meghalaya, Mizoram, Tripura)
ROI - Rest of India (all other states)

MSMEs in India as per business type

Share of enterprises by business type (# of MSMEs)



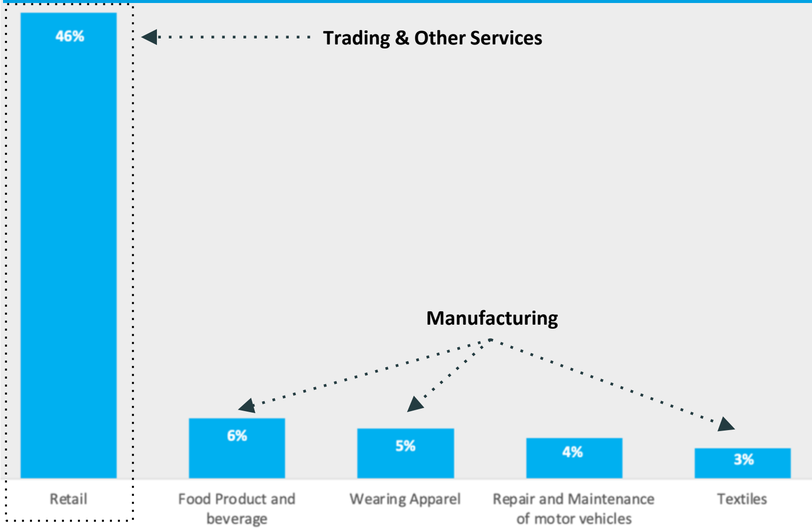
Trading MSMEs constitutes around **36%** of all MSMEs in India while manufacturing and other services take **33%** and **31%** share respectively.

Manufacturing
Predominantly food products and beverages, apparels and textiles businesses, among others.

Trading
Mostly kirana stores and medical stores.

Other services
includes tourism, hotel management, consultancies among others.

Top five Industry by Operations (% of total MSMEs)



Key industries dominating the MSME sector in India are consumer facing services like retail businesses (kirana stores) and manufacturing businesses like food products and wearing apparel businesses.

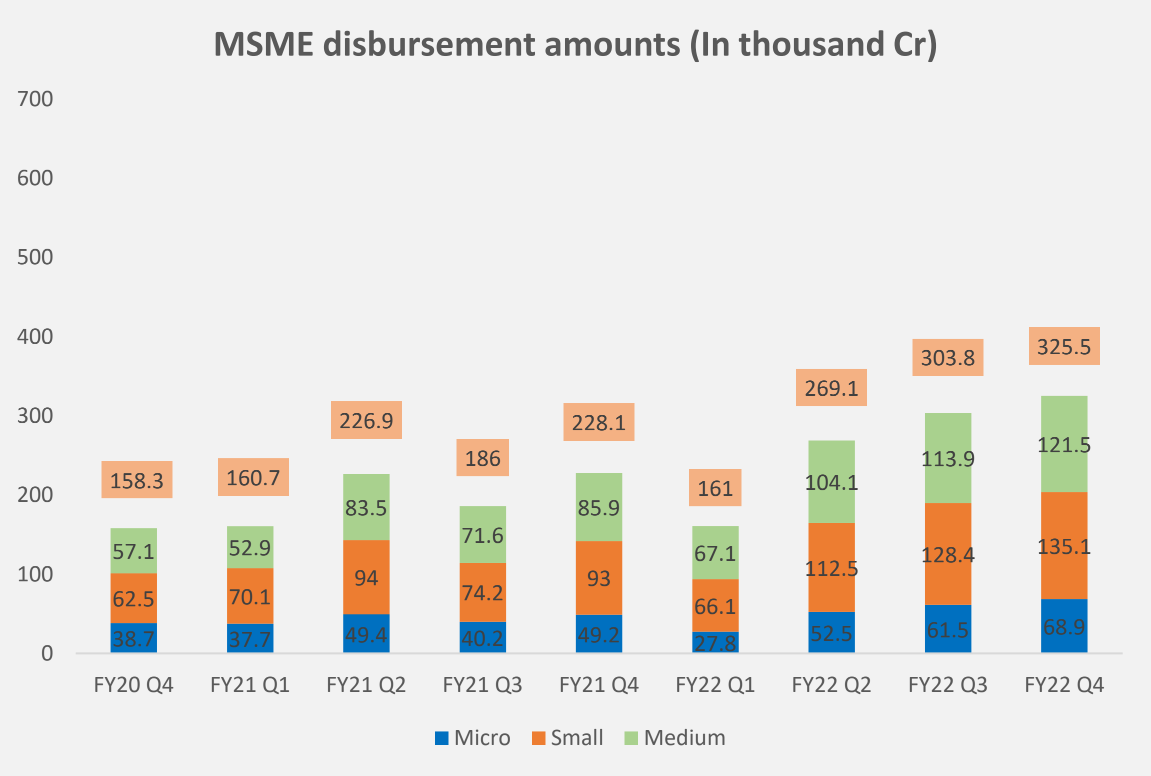
Micro and Small Enterprises

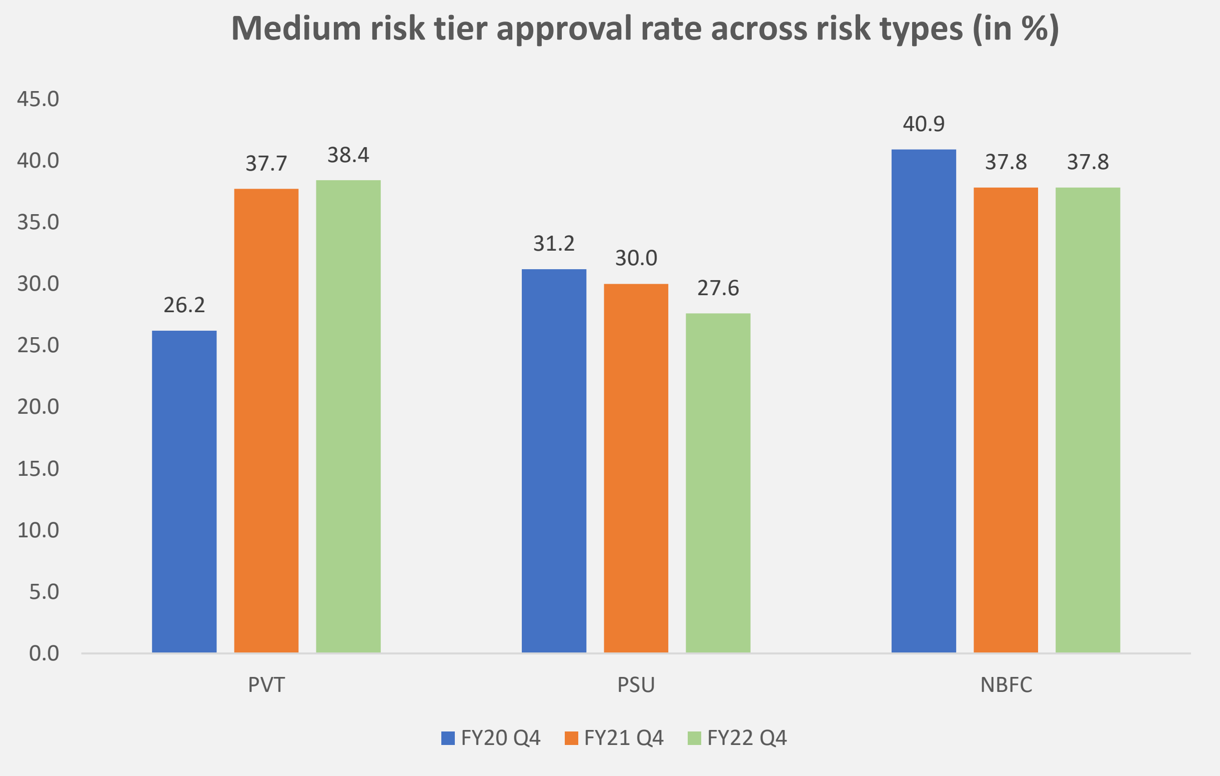
contribute to around **95% of the overall credit gap** as most of these businesses lack adequate documents for credit underwriting or immovable collateral that can be provided as security

Medium Enterprises

are **most well served among MSMEs** by financial institutions because of their formalized operations, stable cash flows and qualified management leading to higher creditworthiness

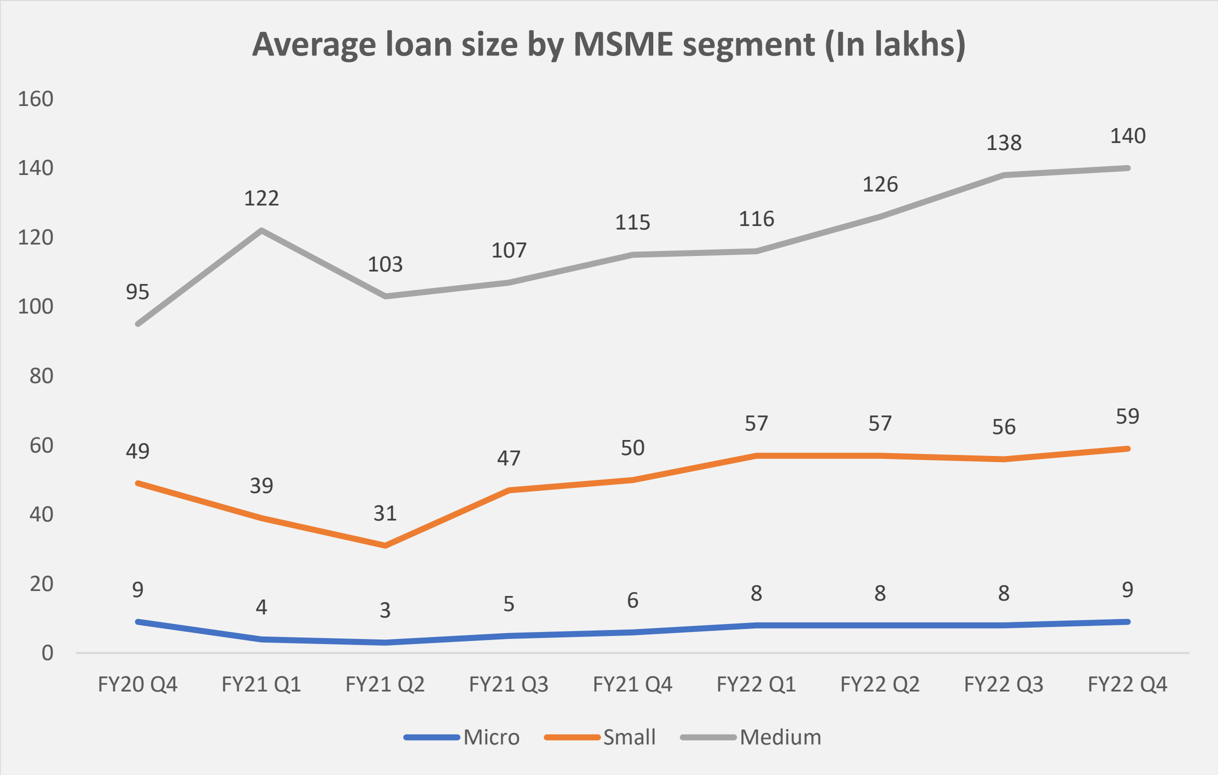
MSME Disbursements and Loan Approval Statistics

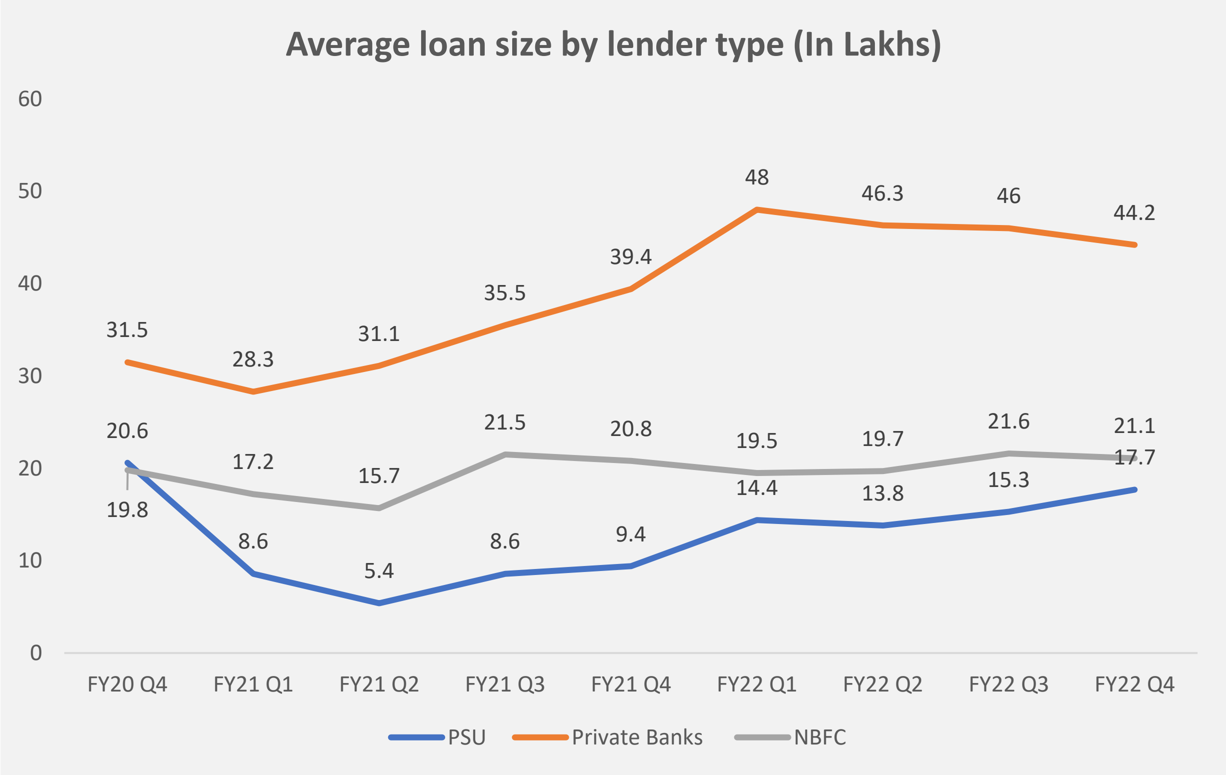




- While quarterly MSME disbursements have grown 2x over the last 2 years, this is primarily on account of increased credit penetration and not on account of additional risk taken by the financial institutions in terms of loan approvals. This is indicated by the fact that approval rates for the medium risk tier segment has remained unchanged for private banks in the last one year and has decreased for PSUs and NBFC over the last 2 years
- Improvement in underwriting mechanism for MSMEs by evaluating alternative data will significantly boost the approval rates and in turn overall lending to the segment

MSME: Average Loan Size Statistics





While the average loan ticket size has seen a growth for the small and medium enterprises, it remains flat for the micro segment indicating the skewed allocation between micro and small & medium MSMEs

Private banks have been at the forefront of lending to MSMEs followed by NBFCs. PSUs with their branch network and NBFCs with their Feet-on-Street network can help further drive financial inclusion in Tier 3/4 towns and villages in the country

Current challenges and solutions to access formal credit

Constraints to accessing Formal Credit in India

Access to Capital

Expensive Access to Capital
Banks and NBFCs lend to MSMEs at higher interest rates due to lack of availability of adequate data for credit underwriting and the limited availability of capital

Penetration & Acquisition

Lack of awareness
Most MSME's are unaware of the benefits of financing or the streamlining in documentation

High Acquisition Cost
Inefficient use of technology has led to deployment of Business Correspondent agents / Direct Selling Agents which increases acquisition costs per customer for financial institutions

Highly Fragmented Market
MSME's have many different needs and there is a need for tailor-made product offerings for specific business requirements/segments.

Underwriting & Disbursement

Lack of Documents
Due to lack of formal bookkeeping systems, MSMEs are not able to produce necessary documents especially when there are large number of small value transactions.

Outdated Underwriting Processes
Outdated credit evaluation processes are putting too much emphasis on collateral requirements (which the MSMEs are not able to produce), with inflexible tenure and payment terms.

Low Risk Appetite
Financial institutions classify MSMEs as high-risk considering the heterogeneity of the borrower segment. Unpredictable & unstable cash-flows make MSMEs fall in this category.

Collection

High Cost of Collection
Due to high bounce rates resulting in extended repayment dates, collection agents physically visit the MSME borrowers for collections, leading to a high collection cost and lower margins.

Disconnected Rural Regions
Sometimes the MSME borrowers are located in remote areas with no financial institution branches nearby, leading to difficulty in collecting repayments due to the distance.

Business Models – Market Size and Funding Overview

	Market Size				Total Funding (2016-2021)
Payment Gateway / QR Code	41.0 (**FY21**)	UPI transaction value (in INR Tn)	CAGR 58%	255.0 (**FY25**)	$722.5Mn
POS Financing *	6.0 (**2022**)	No of POS terminals(In Mn)	CAGR 7.2%	7.4 (**2025**)	$339.9Mn
Neobanks	3.4 (**2022**)	Market Size (USD Bn.)	CAGR 50.5%	11.6 (**2025**)	$1.4Bn
Business Correspondents / Direct Selling Agents	6,37,029 (**2016**)	Number of BCs (In Nos.)	CAGR 13.1%	11,76,284 (**2021**)	$260.1Mn
Embedded Finance	4,801.0 (**2022**)	Revenues in embedded finance (USD Mn)	CAGR 30.4%	21,127.0 (**2029**)	$795Mn

* Refers to POS (Point-of-sale) financing wherein POS machine transaction data can be leveraged to provide credit to MSMEs

Business Models – Market Size and Funding Overview

	Market Size	Total Funding (2016-2021)
P2M Lending	Transaction Value (USD Bn.): 3.95 (2021) → 10.50 (2026); CAGR 21.60%	$334.6Mn
NBFC with branch network	NBFC AUM (INR Bn): 11,607.0 (FY22) → 13,000.0 (FY23); CAGR 12%	$1.08Bn
Through Anchor (Supply Chain Finance)	SCF Volumes in Asia (USD Bn): 55.0 (2015) → 324.0 (2021); CAGR 34%	$432Mn
Online marketplace	Transaction Value (Mn USD): 731.2 (2022) → 2,507.5 (2025); CAGR 27.95%	$197.3Mn

Business Models solving parts of value chain and products offered (1/3)

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Business Model best suited for?

Payment Gateway / QR Code

Access to capital	Penetration & Acquisition	Underwriting & Disbursement	Collection
Through Bank and NBFC Partnerships	Installing QR codes	Using QR code transaction history	Blocking the QR Code

Working Capital Loans

POS Financing

Access to capital	Penetration & Acquisition	Underwriting & Disbursement	Collection
Through Bank and NBFC Partnerships	Installing POS Terminal	Using POS Terminal history	Blocking the POS terminal

Working Capital Loans

Neobanks

Access to capital	Penetration & Acquisition	Underwriting & Disbursement	Collection
Through Bank and NBFC Partnerships	Convenient and easy online bank services	NA – Done by Bank/NBFC partners	NA – Done by Bank/NBFC partners

Business Loans (Secured & Unsecured) and Working Capital Loans

High | Medium | Low

*Extent of problem being solved
Source: BLinC Insights

Business Models solving parts of value chain and products offered (2/3)

Business Correspondents / Direct Selling Agents

Access to capital → Penetration & Acquisition → Underwriting & Disbursement → Collection

Access to capital	Penetration & Acquisition	Underwriting & Disbursement	Collection
Through Bank and NBFC Partnerships	Financial services through agent network or Feet-on-street with localized efforts	Only physical collection of documents; no underwriting done	No responsibility of collections from the borrower

Embedded Finance

Access to capital → Penetration & Acquisition → Underwriting & Disbursement → Collection

Access to capital	Penetration & Acquisition	Underwriting & Disbursement	Collection
Through Bank and NBFC Partnerships	Offer non-financial services first	Use information of the service offered to underwrite the loan	Blacklist the merchant

P2M Lending

Access to capital → Penetration & Acquisition → Underwriting & Disbursement → Collection

Access to capital	Penetration & Acquisition	Underwriting & Disbursement	Collection
Through HNI and/or retail investors	Through digital channels	Limited underwriting data available and lack of authentic data	Limited reach as everything is online and with no recourse

Business Model best suited for?

- Business Correspondents / Direct Selling Agents: **Business Loans (Secured & Unsecured) and Working Capital Loans**
- Embedded Finance: **Working Capital Loans**
- P2M Lending: **Business Loans (Unsecured) and Working Capital Loans**

Business Models solving parts of value chain and products offered (3/3)

Business Model best suited for?

NBFC with Branch Network

Access to capital	Penetration & Acquisition	Underwriting & Disbursement	Collection
Own Balance Sheet	By opening bank accounts	Various documents, collateral, CIBIL etc.	Collection agents, CIBIL impact, Confiscation of collateral

Business Loans (Secured & Unsecured) and Working Capital Loans

Through Anchor (Supply chain finance)

Access to capital	Penetration & Acquisition	Underwriting & Disbursement	Collection
Through Bank and NBFC Partnerships; and PE/VC funding	Collaboration with the anchor	Underwriting based on transaction history with the anchor, GST Data	Stop supply from the anchor

Working Capital Loans

Online Marketplace

Access to capital	Penetration & Acquisition	Underwriting & Disbursement	Collection
Through Bank and NBFC Partnerships; and PE/VC funding	Through online advertising by providing a marketplace for loan products	NA – Done by Bank/NBFC partners	NA – Done by Bank/NBFC partners

Business Loans (Unsecured) and Working Capital Loans

Geographical penetration of different Business Models

	Urban	Semi-Urban	Rural
Payment Gateway / QR Code	High	High	Low
POS Financing	Medium	Low	Low
Neo Banks	Low	Low	Low
Business Correspondents/DSA	Medium	Medium	High
Embedded Finance	Low	Low	Low
P2M Lending	Medium	Medium	Low
NBFC with Branch Network	High	High	Medium
Through Anchor (Supply chain finance)	Medium	Low	Low
Online Marketplace	Medium	Medium	Low

Note: While the penetration is low in rural areas, there are practical challenges involved in setting up and scaling each of the business models in these areas such as remote location, fragmented market, low connectivity etc.

High Medium Low

*Geographical Penetration
Source: BLinC Insights

White Spaces and why?

White space and Why?

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	POS Financing	Through Anchor (Supply Chain Finance)
Penetration and Growth	▪ POS Terminals 6 Mn in 2022 10% penetration of MSMEs mainly urban and semi-urban. ▪ The number of POS terminals are expected to grow to 7.5 Mn by 2025	▪ In India, the supply chain finance gap is estimated to be INR 60,000 Cr. with current penetration being less than 1% of GDP. ▪ The SCF market is expected to grow at a CAGR of 17%.
VC/PE Activity	Funding in the last 5 years has been ~USD 350 Mn. In 2021, the funding was mainly across Series B & larger rounds	Funding in the last 5 years has been ~ USD 300 Mn spread across various funding stages
Maturity (H/M/L)	Low	Low
White Spaces?	Medium	High
BLinC Insights	▪ POS terminals have seen a stellar growth over the last few years providing greater ease and convenience to MSME customers ▪ Adoption of POS terminals among merchants can be improved by offering them a integrated POS with features such as payables and receivables management and CRM which could help automate payments and collections and increase footfall with targeted services to customers	▪ While sourcing goods, most of the merchants have to pay within 7-15 days as their suppliers don't provide them enough credit, specially after Covid. The requirement of MSMEs is working capital whereas the product offered is term loan which does not cover their short-term needs. ▪ Supply chain finance helps them optimize their working capital cycle and also avail cash discount on early payment

White space and Why?

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NBFC with Branch Network

Penetration and Growth	▪ Disruptions in business and economic activity amid Covid-19 has constrained NBFC's AUM growth to 2-5% in fiscal 2020 to 2022 ▪ Riding on macroeconomic tailwinds, the AUM is expected to reach a 4-year high of INR 13 Lakh Cr by this fiscal
VC/PE Activity	Multiple listed companies exist in this space with significant investments by leading PE/VC players
Maturity (H/M/L)	Medium
White Spaces?	High
BLinC Insights	▪ Currently, majority of the NBFCs are focused on the northern states (Rajasthan, Haryana, Delhi-NCR, UP) ▪ There is a large market opportunity for NBFCs to penetrate the eastern states (WB, Bihar, Jharkhand, Orissa) and the North-Eastern states which are typically not catered to ▪ In terms of products, MSME prefer unsecured loan product viz-a-viz the secured loan product due to the shorter loan tenure enabling them to borrow again in the future as per their business requirements

Embedded Finance

Penetration and Growth	▪ The industry reached a size of USD 4.8 Bn in 2022 and is expected to reach USD 21.1 Bn by 2029
VC/PE Activity	Funding received in 2021 was ~USD 400 Mn. primarily across Series B / Series C & larger rounds
Maturity (H/M/L)	Low
White Spaces?	High
BLinC Insights	▪ Embedded Finance helps make credit decisions by looking at alternate data as well as platform transactional data. ▪ Additionally, they leverage the rich historical and demographic data about MSMEs to understand the heterogeneity of the segment and offer tailored financial products

Annexures

Global Landscape

SME Landscape in China

China adds **16000-18000** new enterprises every day for the past 5 years growing at a y-o-y rate of almost **10%.**

38 million
Number of SMEs in China in 2022

60%
Contribution of SMEs to GDP of China

58%
Share of all 11 million formal SMEs which are financially constrained

80%
233 million people employed accounting to ~80% of all jobs in China

17% of GDP **2018
Finance gap in lending to SMEs

***Definition of SME in China:** Small and micro enterprises have annual taxable income of up to 3 million yuan (US$464,000) and no more than 300 employees.

Major Success Factors for growth of lending to SMEs in China

Favorable Lending rates

The People's bank of China has been taking critical steps for growth of SMEs in the past years such as lowering the lending rate for SMEs in 2020s
Recently, in August of 2022,China cuts down its benchmark rate from 3.7% to 3.65% which is below its last year lending rate of 3.85% and long run average rate of 3.87% enabling SMEs to avail loans at a lower rate to boost their growth

Transaction fees and collateral based loans

The average transaction fees for loans were reduced to facilitate loan growth. Further, the share of collateral backed loans for SMEs has decreased to 53.2% in 2019 indicating a shift towards unsecured lending product

Small Business Landscape in the USA

32.5 million
Number of SMBs in USA as of 2021

44%
Contribution of SMBs to economic activity in USA

⅔
of net new jobs created since 2000 are in SMBs

48%
of all people employed in USA work in small businesses

USD 3.4 trillion
Estimated SME funding gap in unmet trade finance

Definition of Small Business in the US: independent businesses having fewer than 500 employees.

Major Success Factors for growth of lending to SMBs in USA

Fintechs taking the lead

Post the 2008 crisis, the banks reduced lending while non-bank institutions stepped in to offset the “missing” lending which was primarily driven by fintech lenders. Regions with high dependence on banks before 2008 saw a greater drop and were catered to by the fintechs. Non banker institutions provided ~60% of new loans by 2016.

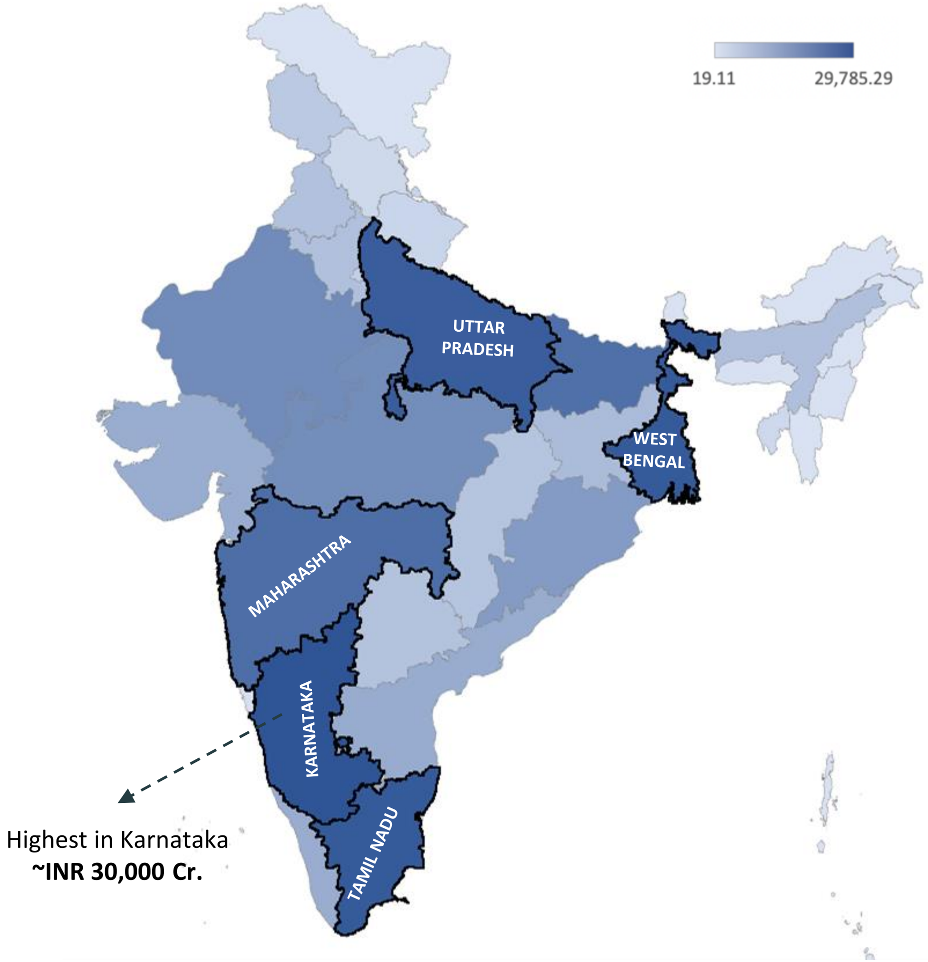
Government initiatives

- **Small Business Lending fund-**Established by the Small Business Jobs Act of 2010 (the Act), the Small Business Lending Fund (SBLF) is a dedicated fund designed to provide capital to qualified community banks and community development loan funds (CDLFs) in order to encourage small business lending.
- **Paycheck protection program-**The Paycheck Protection Program was launched by the trump government in 2020 for covid-19 relief allows entities to apply for low-interest private loans to pay for their payroll and certain other costs.

Government Initiatives

MUDRA - Micro Units Development & Refinance Agency Ltd.

Amount of MUDRA Loans disbursed in FY21 (in INR Cr.)



MUDRA Loan

A financial aid **upto INR 10 lakh** providing funding to the non-corporate small business sector through various **last-mile financial institutions** like Banks, Non-Banking Financial Companies (NBFCs), Micro Finance Institutions (MFIs), Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs) and Co-operative societies.

Around **200+ last mile financiers** have collaborated with **MUDRA Bank** to disburse around **INR 3 lakh crore** worth of MUDRA Loans every year since last 3 years.

Pradhan Mantri Mudra Yojana (PMMY)

By May 2021, more than **28.68 crore loans** for an amount of **INR 14.96 lakh crore** had been sanctioned by banks, NBFCs and MFIs since the launch of this scheme.

Top 5 States

INR 3.11 lakh crore worth of MUDRA loans were disbursed in FY21 with top 5 states accounting to almost **45%** of the amount.

Karnataka
Tamil Nadu
West Bengal
Uttar Pradesh
Maharashtra

Emergency Credit Line Guarantee Scheme (ECLGS)

The scheme was launched to provide fully guaranteed and collateral free additional credit to MSMEs, business enterprises, MUDRA borrowers and individual loans for business purposes to the extent of 20% of their credit outstanding as on 29th February, 2020.

13.5 Lakh

Number of MSME units saved

1.5 Cr.

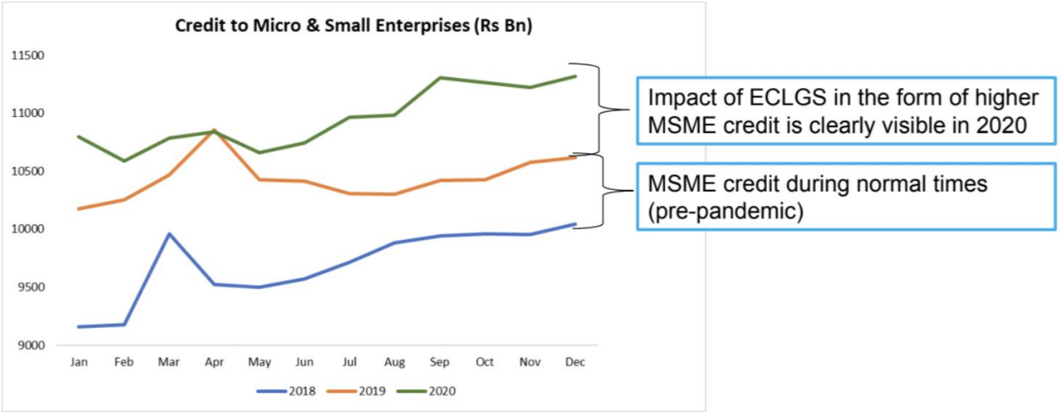
Number of jobs saved

14%

Share of outstanding MSME credit saved from NPA

2X

Approval rates of public banks from pre-covid levels



Banks had deployed **Rs 13.12 lakh crore** in March 2022, up 10.6 per cent from **Rs 11.86 lakh crore** in March 2021

A survey report by TransUnion CIBIL found out that **51%** of the people had 2 or higher enquiries in past 12 months as of Feb’20; and these people availed the ECLGS facility at a rate of **12.42%** which is higher than people with 0 enquiries (**5.26%**) and people with 1 enquiry (**9.42%**). This and the above data is suggestive of the huge credit demand for MSMEs and hence could be an indicator for the success of a lot of Fintech companies in the same segment.

TReDS – enabling trade receivables financing for MSMEs

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- Trade Receivables Discounting System (TReDS) is an electronic platform for facilitating the financing / discounting of trade receivables of Micro, Small and Medium Enterprises (MSMEs) through multiple financiers. TReDS platform enables both receivables factoring and reverse factoring.
- These receivables can be due from corporates and other buyers, including Government Departments and Public Sector Undertakings (PSUs).
- The participants on the platform include:
  - Seller: Only MSMEs are allowed to register as sellers
  - Buyer: Corporates, Government Departments, PSUs and other entities
  - Financier: Banks, NBFC - Factors and other financial institutions as permitted by the Reserve Bank of India (RBI)

To push adoption, the government has mandated all companies with a turnover more than INR 500 Cr and all Central Public Sector Enterprises, to get themselves onboarded on the TReDS platform.

M1 TOMORROW'S MONEY TODAY | INVOICEMART | RXIL NSE-SIDBI JV

RBI authorized TReDS platforms in India

24,000+	1,650+	₹75,000+ Cr
Registered MSMEs	Registered Corporates	Total bill discounting facilitated

INVOICE

Invoice upload & approval by buyer/seller → Conversion of invoice into Factoring Units → Bidding by financiers against Factoring Units → Acceptance of the most favorable bid by buyer/seller (T day) → Settlement instructions and funds transfer (T+1 day)

AEPS – aimed at financial inclusion

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AADHAAR ENABLED PAYMENT SYSTEM

- Bank led model which allows interoperable financial transaction at PoS and Micro ATM of any bank using the Aadhaar authentication
- The only inputs required are Bank name, Aadhaar number and fingerprint captured during enrolment
- Has massively served Indian govt in furthering financial inclusion

No transaction cost to customer

Only 1-2 mins post Aadhaar seeding

No transaction limit from RBI

135
Service provider banks

INR 4.3 Bn
Approved transaction FY22

2.3 Bn
Approved offus transaction

INR 403.5 Mn
Approved transaction in Aug-22 month

Services Offered:

- ❑ Balance Enquiry
- ❑ Cash Withdrawal
- ❑ Cash Deposit
- ❑ Aadhaar to Aadhaar funds transfer
- ❑ Payment Transactions (C2B, C2G Transactions)

Visit any bank or business correspondent → Enter 12-digit Aadhaar number → Select transaction type - services

Select bank name & enter transaction amount

Authenticate using biometrics

Receive cash

India Stack – Technology for 1.3 Bn Indians

IndiaStack

Collection of open APIs which allows government, businesses, and developers to build digital solution around a uniquely identifiable individual powered by Aadhaar as the foundational layer

IndiaStack 4 Core Principles

Presenceless Layer
Authenticate service from anywhere in the country

AADHAAR eKYC Signature

Paperless Layer
Reliance on digital records for individual's identity

eKYC DigiLocker Signature

Cashless Layer
Democratizing Payments

AePS AADHAAR ENABLED PAYMENT SYSTEM UPI UNIFIED PAYMENTS INTERFACE

Consent Layer
Secure movement of data

eKYC DigiLocker Signature

1.3 Bn
Individuals enrolled with Aadhaar

13 Bn
eKYC done till date

127.1 Mn
Registered Users in DigiLocker

Use cases

Providing credit without friction
Build a credit marketplace for credit accessibility and scalability for financial inclusion

Accessible Investments
Low cost, high volume, low ticket size

Skills marketplace
Enhance trust and scalability of skills

eSign & UPI – paperless & cashless layer of API

BLinC

- eSign allows applications to replace manual paper-based sign
- Integrates API for Aadhaar holder to sign a document from anywhere
- Easy access to legally valid digital sign service enabling digital audit trail

Use Cases:

- Self attestation through digilocker
- E-filing of tax, applying for license, passport & telecom

UNIFIED PAYMENTS INTERFACE

- Enables all bank account holders in India to transact instantly from smartphones without entering bank information
- Users need to create Virtual Payment Address (VPA) and link to bank account which acts as the financial address
- Can be used for P2P, B2B and Peer-Merchant transactions

UPI 2.0 enables users to link their Overdraft accounts to a UPI handle and pre-authorize transactions by issuing a mandate for specific merchant

358
Live banks

99.9977%
NPCI uptime for UPI

NPCI partners Yes Bank to launch contactless solutions '**RuPay On-the-Go**'.

ONDC (Open Network for Digital Commerce)

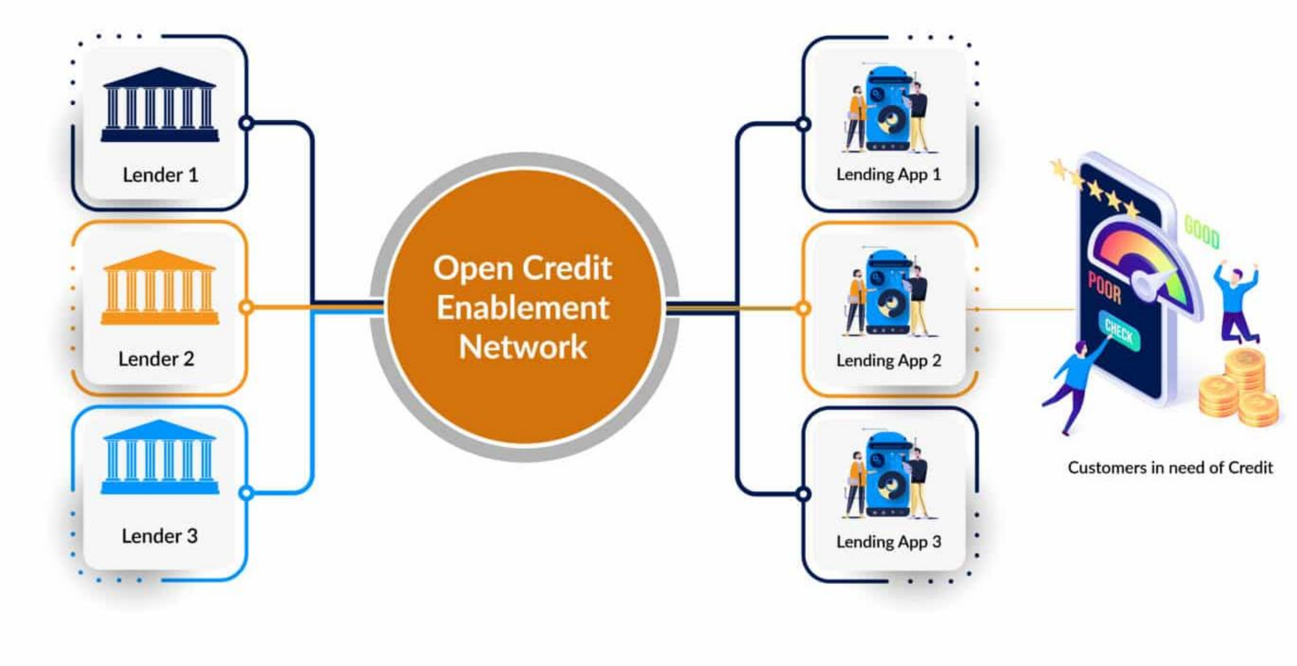
- Access to more buyers and thus greater opportunity for growth
- Significantly higher discoverability of business & products at very low cost
- Autonomy on terms due to multiple choices for being digitally visible
- Lower cost of doing business (better prices and margins in the long term)
- Wider options for value chain services (e.g., logistics) to support business growth

Open Network: Open Network is akin to protocols used for e-mails. A Gmail user can e-mail an Outlook account with ease. The sender and receiver are not on the same platform, but the protocol enables seamless integration. The protocol will act as the common language that different entities fulfilling each of the granular activities use to communicate with each other.

- Access to more sellers and therefore more choices (sustainable and improved price discovery in the long term)
- Enhanced service levels and faster deliveries due to access from hyper-local retailers
- Better customer experience with enhanced scope for innovation

The ONDC project has plans to onboard 3 Cr. sellers and 1 Cr. merchants. In the next 6 months, the ONDC project will expand to 100 cities.
Currently, 7 companies have adopted ONDC protocols and are building their ONDC-compatible applications. (have onboarded the ONDC platform)
The platform plans to add 150 retailers in five cities during the pilot phase.[22]

OCEN (Open Credit Enablement Network)



OCEN is an initiative to unbundle lending and enable the creation of specialized entities (focused on sourcing or distribution, identity verification, underwriting, capital arrangement, collections). The entities are like marketplaces that have a high degree of business connections with their customers. They can embed credit offerings in their current product offerings and thus increase the reach and lower the acquisition costs

OCEN addresses the following challenges:

- Identification of creditworthy borrowers
- High cost of borrower acquisition
- Costly and time-consuming custom integrations and manual processes to connect customers with lenders, especially for marketplaces
- High turnaround time to get loans deposited into customers' accounts
- Implementation challenges that restrict launch of custom financial products
- Limited reach of credit to MSMEs in India. Only 11% of the 63 million MSMEs have access to formal credit.

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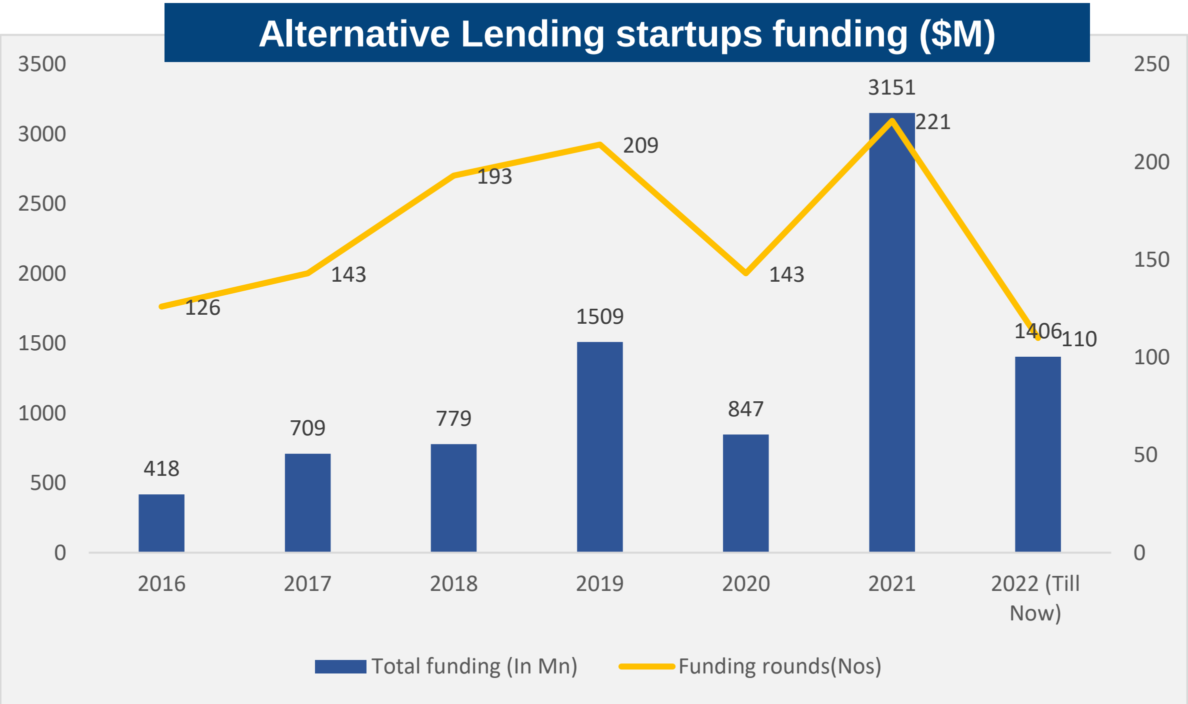
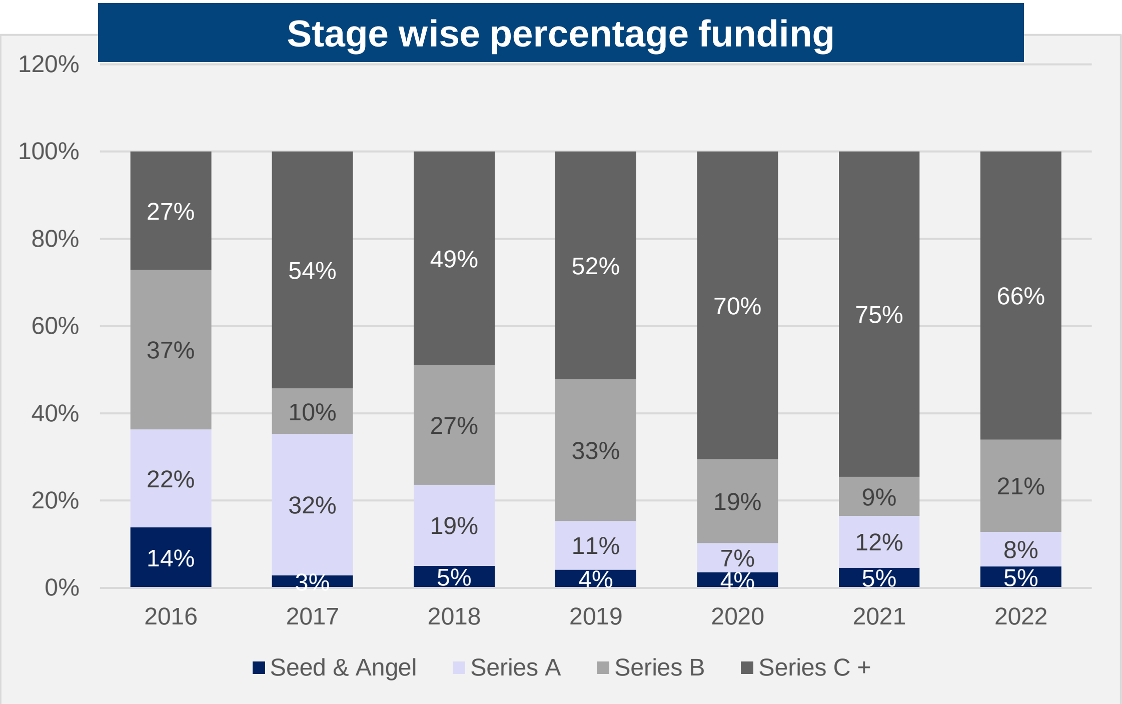
Business model – growth metrics & PE/VC Activity

India – Funding Landscape





Top Investors by Funding Round

Seed Stage

Y Combinator

Early Stage

SEQUOIA

BEENEXT

Late Stage

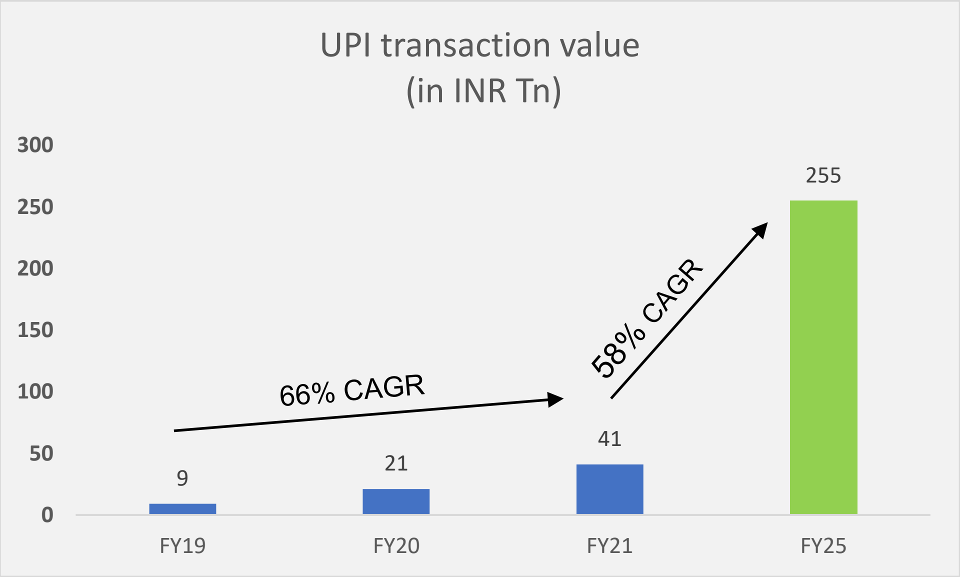
TIGERGLOBAL

Rib

SoftBank Vision Fund

Payment Gateway/QR Code and POS Financing

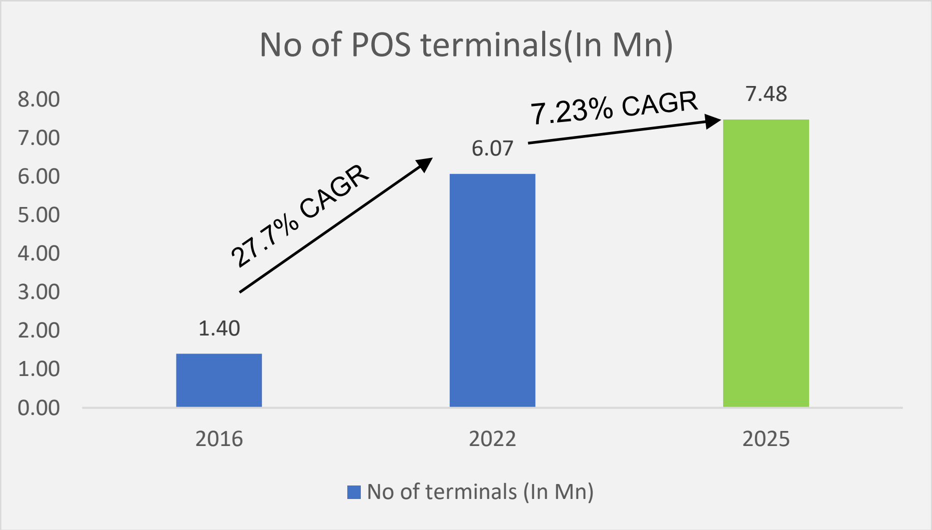
Payment Gateway/QR Code



Total Funding in 2021- $564.2 Mn

UPI has propelled India's transition to digital payments specially in low-value merchant transactions and P2P fund transfers. Further, the launch of UPI Lite will further boost the adoption of digital payments in the rural parts of the country where cash continues to be a preferred option.

POS Financing



Total Funding in 2021- $144.1Mn

Adoption of POS terminals among merchants can be improved by offering them a integrated POS with features such as payables and receivables management and CRM which could help automate payments and collections and increase footfall with targeted services to customers

Neobanks and Business Correspondent

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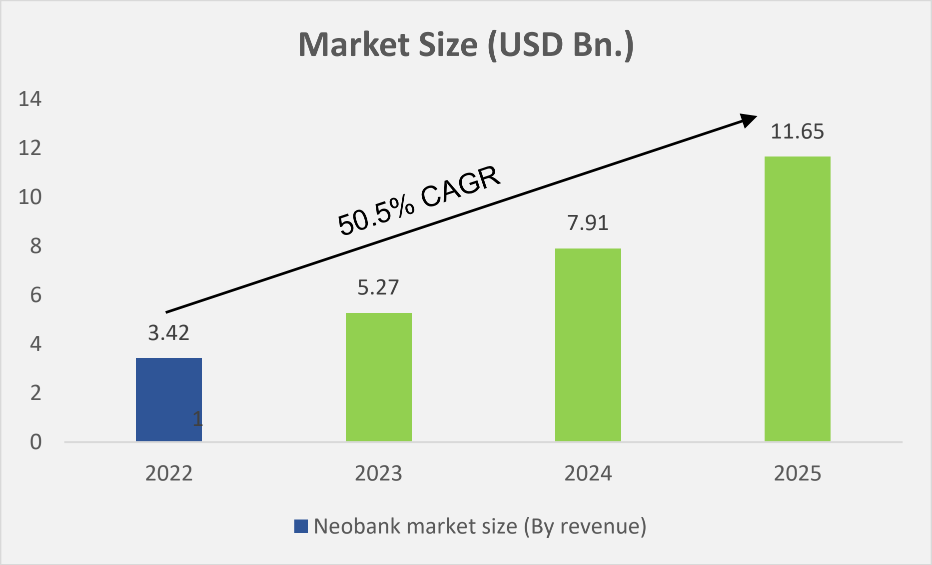
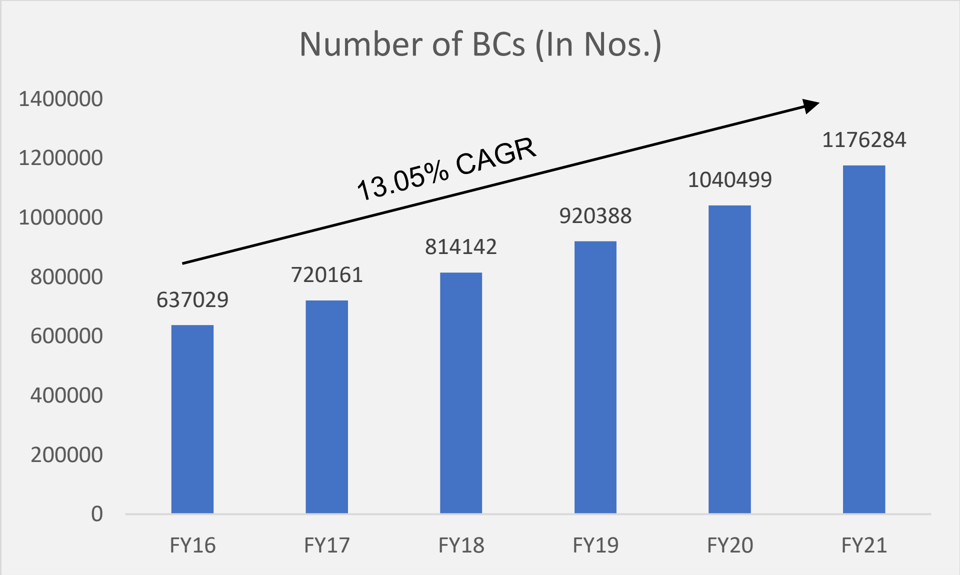
Neo banks



Total Funding in 2021- $466Mn

The Indian neobanking industry is set for rapid expansion driven by the outreach to customers from the SME segment. This will be supported by micro-segmentation of customers and targeting them with multiple value-added and tailor-made propositions. In addition to banking products such as bookkeeping, invoicing and reconciliations

Business Correspondents/DSA

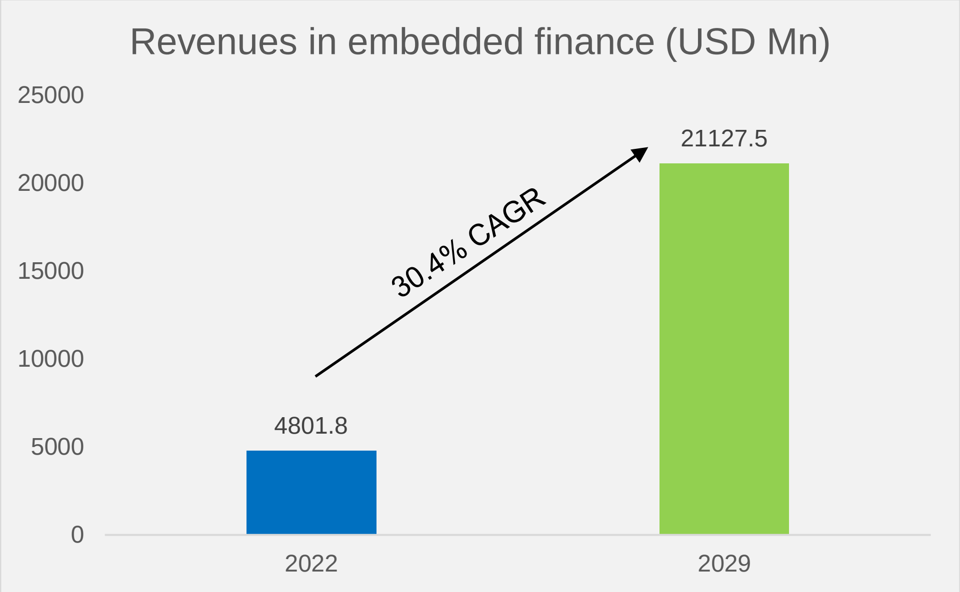


Total Funding in 2021- $45.9Mn

A large part of the underserved population based in semi-rural and rural areas prefer a phygital model for digital products and services. Further, all mainstream financial institutions rely on the business correspondent model for last mile delivery at minimal cost to augment financial inclusion

Embedded Finance and P2M Lending

Embedded finance



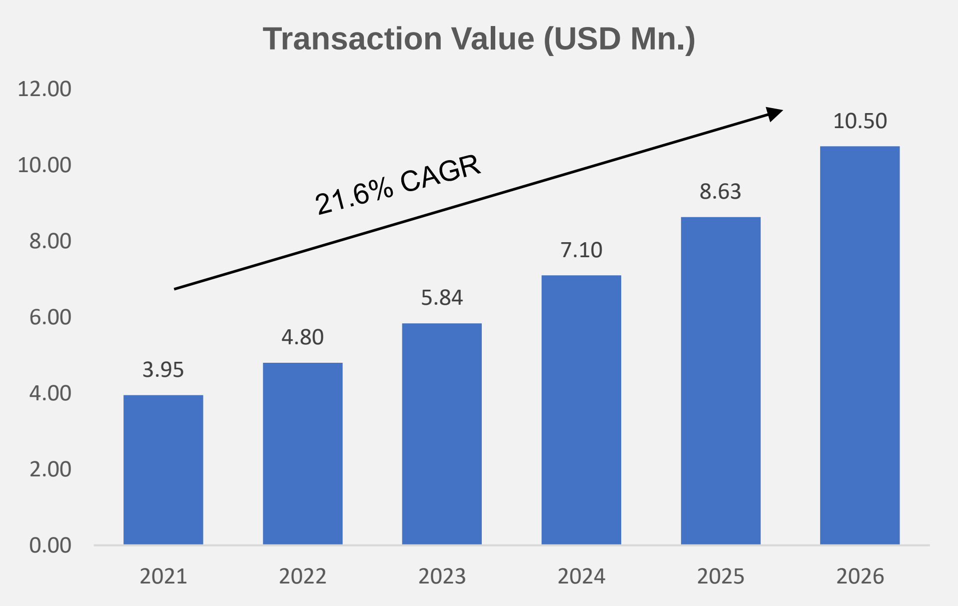
Total Funding in 2021- 400Mn

Embedded finance can potentially disrupt the MSME segment by allowing them to dynamically adopt the latest infrastructure pre-approved by their partner bank. This will help to digitalize the traditionally offline channels such as kirana stores.

OkCredit Simple | Solid | Paperless

KhataBook

P2M Lending



Total Funding in 2021- $231.2 Mn

P2M has emerged as a strong alternative asset class for retail and HNI investors. Further, the RBI regulations in 2017 have helped regularize the overall P2P industry. With the significant credit gap in India, the P2P segment is expected to play an important role in bridging this gap

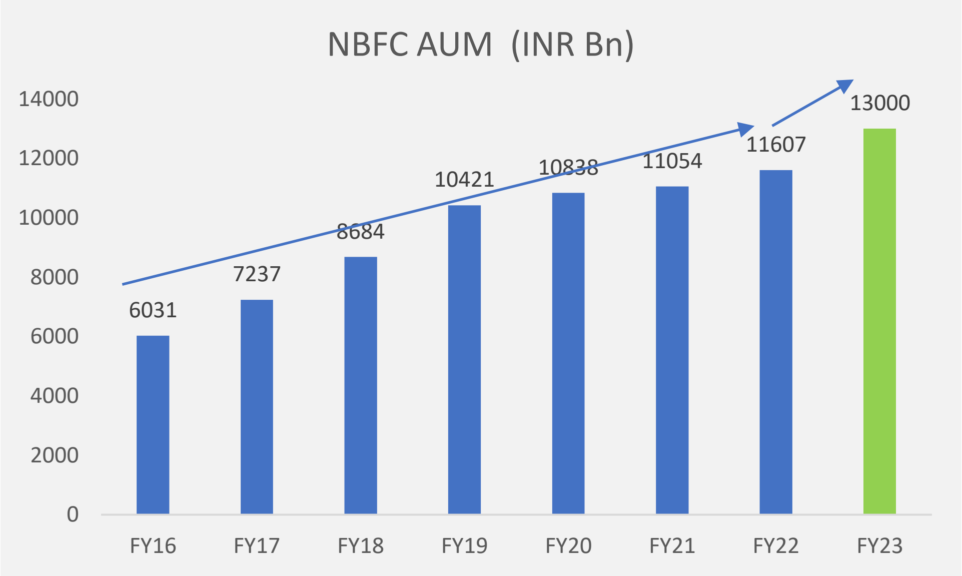
Lendbox

FAIRCENT.com EVERY % COUNTS

LenDen club

NBFC with branch network and Online Marketplace

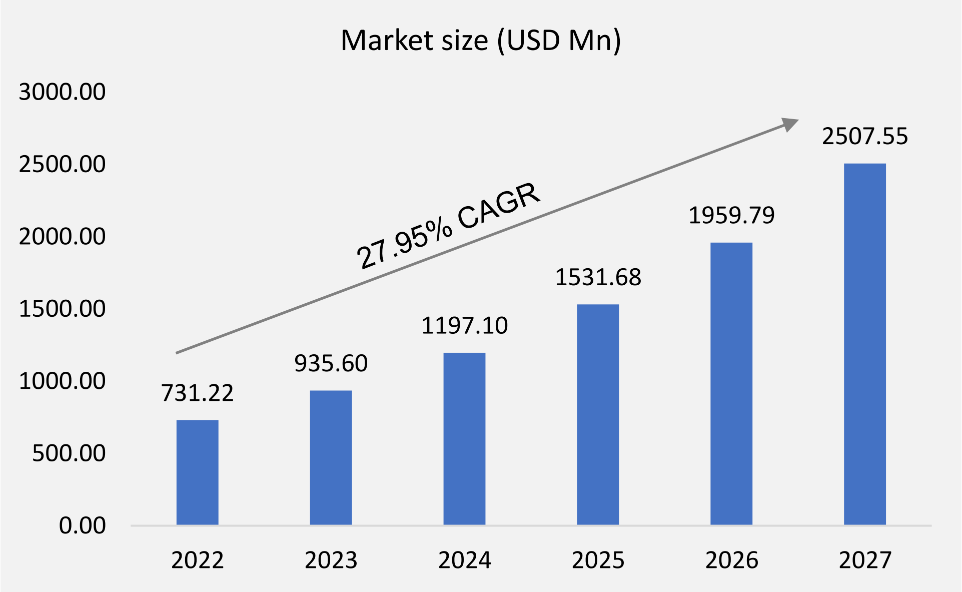
NBFC with branch network



Total Funding in 2021- $107Mn

The financial services sector was severely impacted amid Covid-19 restricting the growth of credit. The green shoots are now visible for this segment riding on macroeconomic tailwinds. Further, the sector is laying greater emphasis on providing improved services and technology infrastructure to their clients to enhance overall customer experience.

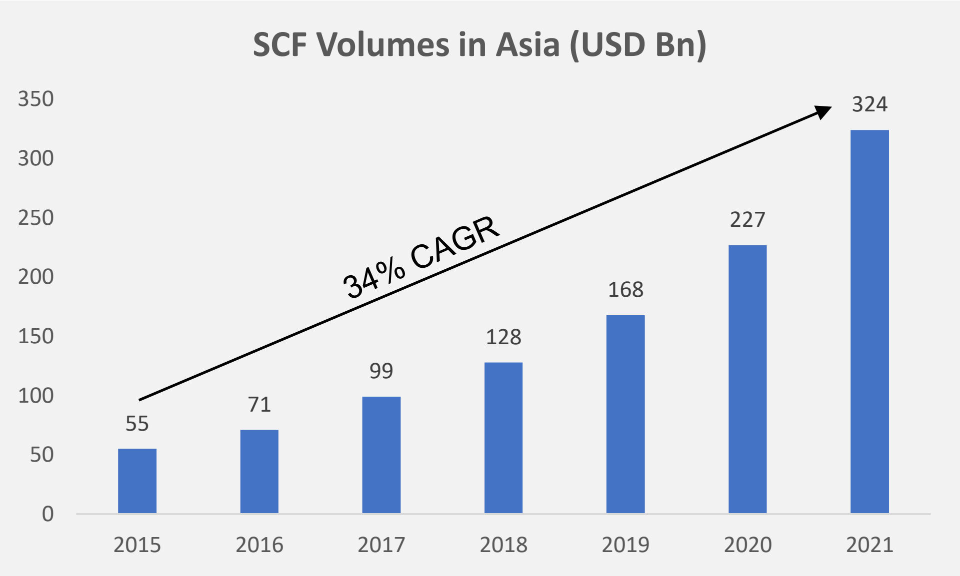
Online marketplace



Total Funding in 2021- $100.2Mn

As embedded finance, POS financing and QR codes continue to mushroom, the online marketplaces may experience challenges in acquiring customers in a cost-effective manner

Through Anchor (Supply Chain Finance)



Total Funding in 2021- $300Mn

In terms of the current product offering, most banks and NBFCs offer a term loan, whereas the need of the hour is a 5-to-45 day credit product, which will meet the MSMEs' working capital needs. Fin-techs offering a technology solution using a corporate anchor on-boarding platform will be a key emerging trend as it solves problems for multiple stakeholders, be it the anchor itself, distributor/retailer/MSME who can access working capital funding with ease, and banks and NBFCs who are now able to access a large underbanked market.

Case studies

Emerging Indian and Global Business Models

MSME ECOSYSTEM OVERVIEW

Multiple government initiatives coupled with innovative business models and products pave a way for bright future of MSMEs.

Government Initiatives

e-KYC

Open network
For credit
enablement

MSMEs

Products

Tax and Legal Filing Apps
Neo Banks
Social networks
Accounting and Khata APPS
Agri tech
Kirana Tech
Payment gateways
Supply chain financing
Loan selection platforms

India: Payment Gateway Models (1/9)

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Paytm

Founded	Location	Funding	Stage
2009	Noida (India)	$4.64B	Public

Business Model
App-based wallet for individuals and businesses

Microloans

PayTM offers instant microloans to businesses that are unable to access financial services from traditional banking players

$568M

Amount of loans disbursed

Investors (82)

- Series H - $1.1B
- Series G - $1B
- Series F - $358M
- Series F - $1.4B
- Series E - $60M

BlackRock, Ant Financial, Alibaba.com, SoftBank Vision Fund, Berkshire Hathaway Inc., MediaTek

PhonePe

Founded	Location	Funding	Stage
2015	Bangalore (India)	$700M	Acquired

Business Model
App-based and card-linked wallet for consumers

PhonePe for Business App

Meet business goals faster with simple and secure online payments through QR code; go cashless

165M+	2.5B+	100M+
Monthly Active Users	Monthly transactions	Daily Average Transactions

Investors (16)

- Series D - $700M
- Angel - $43.5K
- Angel - $50.1K

Walmart Save money. Live better., Tiger Global, Tencent 腾讯

Source: Tracxn, Crunchbase, Company Websites

India: POS Financing Models (2/9)

mswipe

Founded	Location	Funding	Stage
2011	Mumbai (India)	$106M	Series E

Business Model
Payment processing solutions for businesses and merchants

MSwipe Retail Merchant Loans

Collateral free retailer loans
Low-interest rate
Quick approval and flexible repayment options

Investors (24)

- Series E - $31.2M
- Series D - undisclosed
- Series D - $11.3M
- Series D - 31.9M
- Series C - $25M

Pine Labs

Founded	Location	Funding	Stage
1998	Noida (India)	$1.61B	Series E

Business Model
Diversified payment solutions for businesses and merchants

Sell from anywhere | **Easy Setup** | **Easy Integration**

Investors (187)

- Series E - $50M
- Series E - $150M
- Series E - $20M
- Series E - $100M
- Series E - $600M

Source: Tracxn, Crunchbase, Company Websites

India: Neobanking Models (3/9)

BLinC

Jupiter

Founded	Location	Funding	Stage
2019	**Mumbai (India)**	**$164M**	**Series C**

Business Model

Digital Bank: Partnership with the Federal Bank to provide savings pots, salary account and other banking services. The company also has its own debit card and provides rewards on transactions through it.

100%
Digital

1%
1% reward on purchases

5,000+
Hospital network for health insurance

Investors (64)

- Series C - $87M
- Series B - $50.9M
- Series A - 2.01M
- Series A - $24M

TIGERGLOBAL QED INVESTORS SEQUOIA matrix PARTNERS nu

Fi

Founded	Location	Funding	Stage
2019	**Bangalore (India)**	**$137M**	**Series C**

Business Model

Offers savings bank account in partnership with the Federal Bank. The company also helps invest in mutual funds & integrates all the bank accounts at one place.

Connected Accounts

View, track & analyze your spends and savings of all your bank accounts on the Fi App.

Investors (24)

- Series C - $62M
- Series B - $50M
- Series A - $12M
- Series A - $226K
- Series A - 13.2M

ALPHA WAVE FALCON EDGE CAPITAL B Capital Group Ribbit Capital SEQUOIA

Source: Tracxn, Crunchbase, Company Websites

India: Business Correspondent Models (4/9)

ROINET

Founded	Location	Funding	Stage
2012	Gurgaon (India)	$2.2M	Seed

Business Model

Roinet is an agent-based financial services company that specialises in access of banking and other financial services like doorstep banking, bill pay and travel services, digital banking, remittance services and more.

~2L+ Customer Service Points (CSP)

4,004+ Cities across 678 districts

22K Cr+ Gross Transaction Volume (GTV)

Investors (5)

- Seed - $753K
- Seed - $744K
- Angel - $706K

SOUTHFIELD GROUP, LLC

Spice money

Founded	Location	Funding	Stage
2018	Noida (India)	$15.4M	Series B

Business Model

Spice Money through its Spice Money Digital Dukaan and a network of Adhikaris (agents) offers financial services for rural India to make them self reliant in meeting their basic banking needs and digital financial services.

10L+ Spice Money Adhikari network

400 Cr+ Govt. money disbursed through Adhikari network

6,000 Cr+ Transaction value in month of May'21

Investors (53)

- Series A - $15M
- Series B - $406K

LEHMAN BROTHERS MEDIATEK OMNIA Ventures

Source: Tracxn, Crunchbase, Company Websites

India: Embedded Finance Models (5/9)

OkCredit

Founded	Location	Funding	Stage
2017	**Bangalore (India)**	**$84.9M**	**Series B**

Business Model

App-based bookkeeping and accounting solutions for small businesses with multi-language support and collection reminders

10M+	10+	2,800
App downloads	Local languages	Cities

Investors (6)

- Seed - $300K
- Seed - $2M
- Series A - $15.6M
- Series B - $67M

KhataBook

Founded	Location	Funding	Stage
2018	**Bangalore (India)**	**$187M**	**Series C**

Business Model

Digital bookkeeping management solutions with a digital ledger app to help simply merchant day-to-day operations

Investors (37)

- Seed - $120K
- Seed - $1.5M
- Series A - $25M
- Angel - Undisclosed
- Series B - $60M
- Series C - $100M

Source: Tracxn, Crunchbase, Company Websites

India: P2P Lending Models (6/9)

Lendbox

Founded	Location	Funding	Stage
2015	Delhi (India)	$1.51M	Seed

Business Model
P2P marketplace for consumer loans

700 Cr+
Assets Under Management

14.1%
Average risk-adjusted return

100%
Withdrawals honored in 24 hrs.

Investors (4)

- Seed - $536K
- Seed - $133K
- Seed - $836K

IvyCap Ventures

FAIRCENT.com

EVERY % COUNTS

Founded	Location	Funding	Stage
2013	Gurgaon (India)	$12.1M	Series C

Business Model
P2P platform for personal loans

1,000+
Loan requests received weekly

~10,000
Investment proposals

4.35 Cr+
Worth loans approved weekly

Investors (28)

- Series C - $2.79M
- Series B - $422K
- Series B - $405K
- Series B - $3.92M
- Series A - $1.5M
- Series A - $2.47M

Gunosy
DasCapital
EIP Elevate Innovation Partners
3one4 Capital
incofin Investment Management
Brand Capital Leapfrog Ambition

Source: Tracxn, Crunchbase, Company Websites

India: NBFC Models (7/9)

UGRO Capital

Founded	Location	M Cap	Stage
1993	Mumbai(India)	Rs 1347 Cr	Public

Business Model

Ugro Capital is an NBFC in India that provides loans to MSMEs in The company provides loans for 8 specific sectors namely Healthcare, Education, Chemicals, Food Processing / FMCG, Hospitality, Electrical Equipment and Components, Auto Components, Light Engineering.

Fast Processing	Minimal Documentation	Smart business credit card
90+ Branches	**2,969 Cr+** AUM (in INR)	**13,000+** Customers

Investors (Public)

ClearSky, NewQuest Capital Partners

Five Star Business Finance Limited

Founded	Location	Funding	Stage
1984	Chennai (India)	$500M	Series D

Business Model

An Indian NBFC providing small loans from 1 lakh to 10 lakhs for business and other purposes for a period upto 7 years for businesses and housing loans upto 15 years.

262	4,500 Cr+	185K
Branches	Portfolio Size	Customer Base

Investors (63)

- Conventional - $20M
- Series D - $234M
- Series C - $3.37M
- Series C - $38.5M
- Series C - $50M
- Series C - $100M

Swedfund, Sequoia, TVS Capital Funds (P) Limited, Norwest Venture Partners, Morgan Stanley, Matrix Partners

Source: Tracxn, Crunchbase, Company Websites

India: Anchor-Based Financing (8/9)

KredX

Founded	Location	Funding	Stage
2015	**Bangalore (India)**	**$33.3M**	**Series B**

Business Model

Focussed on fast supply chain finance solutions. Offers products like B2B payments cashback card, BNPL for B2B payments, export financing, etc. for businesses.

5,000 Cr+	1 Lakh+	1,000+
Invoices discounted	Accounts payable invoices	Vendors onboarded

Investors (3)

- Seed - $759K
- Series A - $6.28M
- Series B - $26M

TIGERGLOBAL, SEQUOIA, PRIME VENTURE PARTNERS

FinAgg

Quick Cash Flow

Founded	Location	Funding	Stage
2019	**Noida (India)**	**$4.26M**	**Seed**

Business Model

Developer of an AI-based platform for supply chain financing

Convenience	Certainty	Capital
10+	**80%**	**100%**
Industries served	PIN codes covered	Digitized Operations

Investors (2)

- Seed - $3M
- Seed - $1.26M

BLinC, PRIME VENTURE PARTNERS

Source: Tracxn, Crunchbase, Company Websites

India: Online Marketplace Lending Models (9/9)

ziploan

Founded	Location	Funding	Stage
2015	Delhi (India)	$19.1M	Series B

Business Model
App-based lending platform for business loans

6+ Cities

10,000+ Businesses empowered

70+ Business verticals funded

Investors (23)

- Series B - $2.72M
- Venture Debt - $2.01M
- Series B - $12.4M
- Series A - $3.13M
- Seed - $539K
- Seed - $300K

ELEVATION
matrix PARTNERS
Whiteboard CAPITAL
grow
WATERBRIDGE VENTURES

FLEXI LOANS

Founded	Location	Funding	Stage
2015	Mumbai (India)	$62.3M	Series B

Business Model
Online marketplace for business loans. Solve the problems that small businesses face in accessing quick, flexible and adequate funds for growing their businesses.

1,000+ Cities served

100+ Partners

10,000+ Loans Disbursed

Investors (9)

- Series B - $27M
- Conventional - $62.9M
- Conventional - Undisclosed
- Series B - $20.3M
- Conventional - $7M
- Angel - $15M

MAJ INVEST
FASANARA CAPITAL

Source: Tracxn, Crunchbase, Company Websites

Disclaimer

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BLinC

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