IN PARTNERSHIP WITH

State of Micro Enterprise Financing Report 2024

AN ACCESS PUBLICATION

State of Micro Enterprise Financing Report 2024

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Published by
ACCESS Development Services
22, Hauz Khas Village
New Delhi 110016
www.accessdev.org

Printed and Designed by
Purple Communications
D-253, Ground Floor,
Sector-10, Noida, Gautam Budh Nagar
Uttar Pradesh Pin-201301, India

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MSME Finance in India

1

1.1 Introduction

Micro, Small, and Medium Enterprises (MSMEs) are integral to the Indian economy, functioning as key drivers of entrepreneurship, job creation, and economic growth. These enterprises form the backbone of the country's economic framework, contributing to both domestic development and international trade. This study aims to offer a comprehensive and detailed analysis of MSME finance in India, delving into the current financial landscape of the sector, the challenges it faces, and the potential opportunities for improvement. By focusing on the crucial financial issues related to MSMEs, this study will explore various aspects, ranging from the historical development of the sector to its future prospects. Additionally, it will address policy reforms, technological advancements, and the impact of government initiatives in shaping the future of MSME finance in India.

In 2020, a significant revision was made to the definition of MSMEs to better align with the evolving economic environment. The updated classification, introduced under the Micro, Small, and Medium Enterprises Development (Amendment) Act of 2020, brought about a more inclusive and transparent system for categorizing MSMEs. According to this revision,[1] MSMEs are now classified based on their investment in plant and machinery or equipment and their annual turnover. Micro enterprises are defined as those with an investment of up to ₹1 crore and an annual turnover not exceeding ₹5 crore. Small enterprises are those with an investment up to ₹10 crore and a turnover of up to ₹50 crore. Medium enterprises are classified as businesses with an investment up to ₹50 crore and an annual turnover of up to ₹250 crore. This new definition has significantly broadened the scope of enterprises that can qualify as MSMEs, allowing more businesses to access the benefits provided under MSME policies. The revised criteria provide the flexibility for enterprises to grow and scale up while continuing to avail themselves of the financial incentives and support offered to MSMEs. MSMEs play a vital role in the Indian economy for several reasons. Firstly, the sector is a significant contributor to employment generation. As of October 21, 2024, MSMEs directly employ around 198.02 million[2] individuals, making them the second-largest employment provider in the country after agriculture. The ability of MSMEs to create jobs, particularly in labor-intensive industries, is critical in addressing India's ongoing challenges with unemployment. Furthermore, MSMEs account for approximately 30% of India's Gross Domestic Product (GDP),[3]

1 Ministry of Micro, Small and Medium Enterprises (M/o MSMEs), 'What is the definition of MSME',https://msme.gov.in/faqs/q1-what-definition-msme, as of November 4th, 2024, 10.41, IST.

2 Ministry of Micro, Small and Medium Enterprises (M/o MSMEs), 'Factsheet of MSME (Udyam) Registration', https://udyamregistration.gov.in/Government-India/Ministry-MSME-registration.htm, as of October 21st, 2024, 10.30, IST.

3 Press Information Bureau (PIB), 'Contribution Of MSMEs To The GDP', July 22, 2024,https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2035073, as of November 4th, 2024, 10.41, IST.

Table 1.1: Factsheet of MSME (Udyam) Registration as of October 21, 2024*

Details	Enterprises Registration	Enterprises Classified	Micro Enterprises	Small Enterprises	Medium Enterprises	Unregistered Enterprises	Total Employment
Factsheet of MSME (Udyam) Registration	3,02,59,007 (100.00)	3,02,02,112	2,94,09,642 (97.19)	7,24,034 (2.40)	68,436 (0.23)	56,895 (0.19)	19,80,27,190
Factsheet of Udyam Assist Platform (UAP) - For Informal Micro Enterprises		2,21,73,477	2,21,73,477	-	-	-	2,61,73,151
Factsheet of MSME (Udyam) Registration Including Udyam Assist Platform (UAP)	5,24,32,484 (100.00)	5,23,75,589	5,15,83,119 (98.38)	7,24,034 (1.38)	68,436 (0.13)	56,895 (0.19)	22,42,00,341

Note: Figures in the parentheses indicate percentages of each component to total enterprise registration

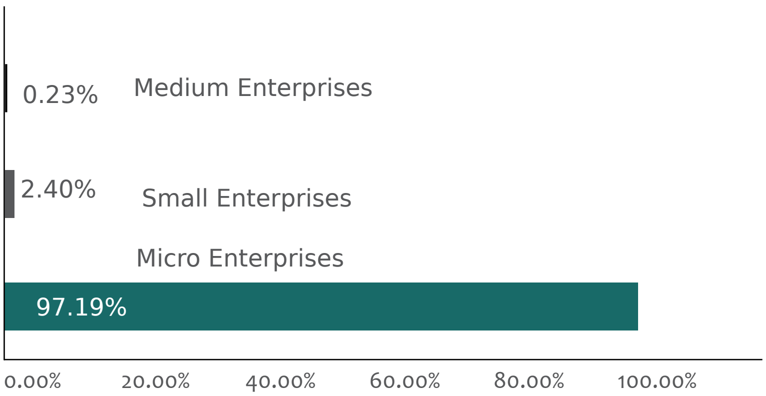


Figure 1.1: Percentage of MSMEs Registered and Classified in India, October 21, 2024

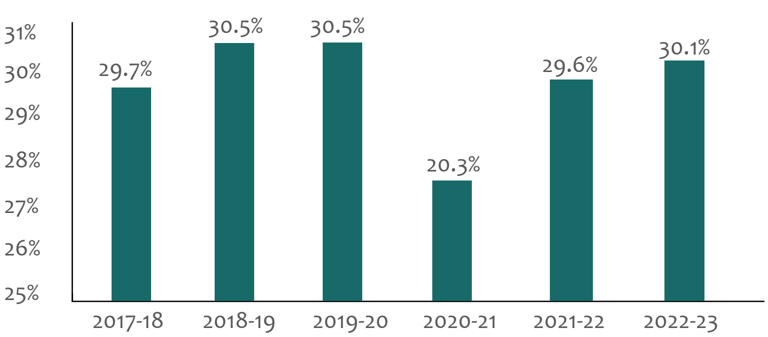


Figure 1.2: Percentage Share of MSME GVA in All India GDP (in Percentage)*

highlighting their importance in driving national economic growth. They contribute not only to domestic production but also to consumption and investment, reinforcing their pivotal role in the broader economic ecosystem.Additionally, MSMEs are crucial players in India's international trade landscape. These enterprises contribute nearly 45.79% of India's total exports,[4] underscoring their importance in boosting the country's global trade presence. MSMEs are often involved in producing niche products and providing specialized services that meet global demand, particularly in sectors like textiles, handicrafts, manufacturing, and agro-based products. This contribution to exports showcases the competitiveness and innovation inherent in the MSME sector, which helps position India as a significant player in global markets.

The importance of MSMEs also extends to fostering inclusive growth, particularly in rural and underdeveloped regions. With approximately 51%[5] of MSMEs located in rural areas, the sector serves as a crucial bridge between urban and rural economies. By generating employment and encouraging entrepreneurship in less-developed regions, MSMEs play a vital role in promoting balanced regional development. This, in turn, helps reduce the economic disparities between urban and rural areas, curbing migration to cities and fostering sustainable local economies.

4. As of May 2024
5. Confederation of Indian Industry (CII), 'Micro, Medium & Small Scale Industry', as of November 4th, 2024, 10.41, IST.

* Ministry of Micro, Small and Medium Enterprises (M/o MSMEs), https://udyamregistration.gov.in/Government-India/Ministry-MSME-registration.htm, as of October 21st, 2024, 10.41, IST.

** PIB, 'Contribution of MSMEs To The GDP, July 22, 2024, https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2035073, as of November

Furthermore, MSMEs encourage innovation and entrepreneurship, providing a platform for individuals to develop new business ideas and models. They often serve as incubators for innovation, particularly in industries where new products, services, and processes are critical to competitiveness and growth.

In addition to their role in job creation and regional development, MSMEs complement larger industries by acting as essential suppliers and service providers. MSMEs often provide raw materials, semi-finished goods, and other services to large industries, creating a mutually beneficial relationship. This interdependence allows larger firms to focus on their core operations while relying on MSMEs for flexibility and adaptability in responding to market changes. The contribution of MSMEs to larger industries further cements their role as a critical component of the Indian industrial ecosystem.

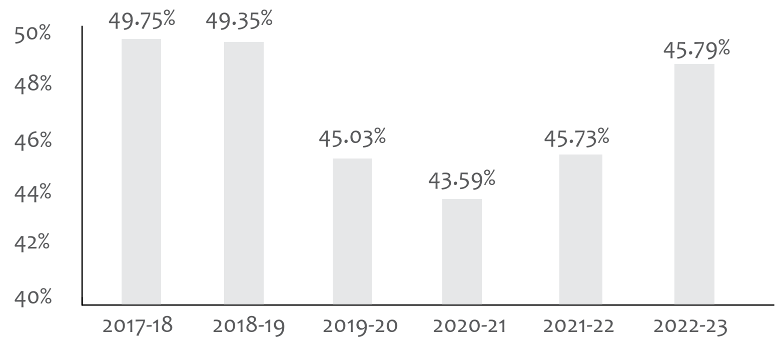


Figure 1.3: Percentage Share of Export of MSME Related Products in All India Exports*

1.2 Historical Context of MSME Finance in India

The evolution of the Micro, Small, and Medium Enterprises (MSME) sector in India is a testament to its resilience and adaptability amid the nation's socio-economic changes. From its origins in traditional village and cottage industries during the pre-independence period, the sector has transformed into a vital component of India's industrial economy. Understanding this evolution helps contextualize how MSMEs have grown in importance, especially as their financing needs have changed alongside India's shifting economic priorities.

Prior to India's independence in 1947, small-scale industries were mostly informal village and cottage enterprises. These businesses were the lifeblood of rural communities, but they lacked access to formal financial support, relying instead on informal lending networks and local moneylenders. With limited access to capital, these enterprises were confined to small-scale, localized production and were unable to expand or modernize their operations. The colonial government's economic policies did little to foster the growth of such enterprises, leaving them unorganized and largely unsupported.

The post-independence period (1947–1991) marked the first formal push by the Indian government to incorporate small-scale industries into the broader industrialization agenda. Key policy interventions during this era, such as the establishment of the Small Industries Development Organization (SIDO) in 1954 and the inclusion of small-scale industry promotion in India's First Five-Year Plan (1951–1956), provided foundational support for MSMEs. The government viewed these enterprises as crucial for addressing employment and regional development, especially in underdeveloped areas. However, even though MSMEs began to receive institutional attention, they still faced significant challenges in accessing finance, with government financial institutions and cooperatives being their primary sources of support. These early efforts laid the groundwork for more structured support systems that would emerge in later decades.

The period from 1991 to 2006, following India's economic liberalization, brought new opportunities and challenges for MSMEs. The economic reforms of 1991 opened the Indian economy to global markets, leading to increased competition from international players. MSMEs, which had been somewhat insulated from external competition, now needed to modernize, innovate, and embrace new technologies to remain competitive. The Indian government responded by introducing policies that promoted technological upgrades and helped MSMEs access capital. For the first time, during the Ninth Five-Year Plan (1997–2002), Micro and Small Enterprises (MSEs) were formally defined,

* PIB, 'Contribution Of MSMEs To The GDP, July 22, 2024, https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2035073, as of November 4th, 2024, 10.41, IST.

allowing for more targeted policies and financial interventions. This was a critical period of transition for MSMEs, as they adapted to the new economic realities and sought ways to compete in an increasingly globalized market.

The enactment of the Micro, Small, and Medium Enterprises Development (MSMED) Act in 2006[6] marked a pivotal moment in the sector's evolution. This legislation provided the first statutory definition of MSMEs and introduced a comprehensive framework for their promotion and development. The MSMED Act aimed to enhance the competitiveness of MSMEs, enabling them to integrate more fully into the national and global economy. The act also recognized the need for a structured financial ecosystem to support MSMEs, acknowledging that access to finance was one of the most significant barriers to their growth.

The period following the 2020 revision of the MSME definition has seen significant advancements in the sector, particularly in terms of digital transformation and integration with global value chains. This revision expanded the scope of MSMEs, allowing more enterprises to qualify for the benefits associated with MSME classification. In light of the global challenges posed by the COVID-19 pandemic, the post-2020 era has emphasized the need for MSMEs to adapt rapidly, with a strong focus on digitalization, e-commerce, and technological innovation. As MSMEs increasingly leverage technology to overcome challenges, their ability to access finance has improved, particularly through digital lending platforms and FinTech innovations.

1.3 Key Policy Initiatives and Reforms

The development of MSME finance in India has been shaped by a series of landmark policy initiatives and reforms, each designed to address the specific challenges faced by the sector. One of the earliest policy interventions was the Industrial Policy Resolution of 1956, which underscored the importance of small-scale industries in driving regional development and employment generation. This policy reserved certain products for exclusive manufacture by small-scale industries, ensuring that these enterprises had a protected space within which to grow.

A turning point came in 2000 with the launch of the Credit Guarantee Fund Scheme. This initiative aimed to make collateral-free credit accessible to micro and small enterprises, addressing one of the most significant barriers faced by MSMEs in accessing formal finance. The introduction of this scheme marked the beginning of a new era of financial inclusion for MSMEs, as it incentivized banks to lend to small enterprises by providing them with credit guarantees.

The enactment of the MSMED Act in 2006 was another landmark reform, providing the first statutory definition of MSMEs and introducing a range of measures to promote their development. This act established the Micro and Small Enterprises Facilitation Council, which played a crucial role in resolving disputes and facilitating the growth of MSMEs.

Yet another significant policy reform was the introduction of the Public Procurement Policy in 2012, which mandated that 20% of annual government procurement should come from MSMEs. This policy opened up new opportunities for MSMEs to secure contracts with central ministries, departments, and public sector undertakings (PSUs), providing a stable revenue stream for these enterprises.

In 2015, the Pradhan Mantri MUDRA Yojana was launched, further enhancing the accessibility of finance for MSMEs. This scheme[7] provides loans of up to ₹10 lakh to non-corporate, non-farm small and micro enterprises, with a particular focus on underserved segments of the population.

The introduction of the Goods and Services Tax (GST)[8] in 2017 marked a major shift in the MSME landscape. While initially challenging, GST helped formalize many MSMEs, improving their access to formal credit and integrating them into

6.https://www.dcmsme.gov.in/MSMED2006.pdf, as of November 4th, 2024, 10.41, IST.

7.MUDRA offerings, https://www.mudra.org.in/offerings, as of November 4th, 2024, 10.41, IST.

8.https://www.gst.gov.in/, as of November 4th, 2024, 10.41, IST.

the formal economy. The digital record-keeping necessitated by GST implementation also helped MSMEs build a credit history, which in turn facilitated easier access to financial institutions. In response to the economic disruptions caused by the COVID-19 pandemic, the Indian government announced the 'Atmanirbhar Bharat'[9] package in 2020, which included several measures to support MSMEs. This package focused on providing liquidity to struggling enterprises, offering credit guarantees, and encouraging digitalization. The revised MSME definition introduced in 2020 was also a crucial part of this package, as it expanded the eligibility criteria for MSMEs, allowing more businesses to benefit from government schemes and incentives.

1.4 Changing Landscape of MSME Finance (2014–2024)

The last decade, from 2014 to 2024, has seen a dramatic transformation in the MSME finance landscape in India, driven by technological advancements, policy reforms, and the growing influence of FinTech. The changes in this period have been crucial in addressing some of the most persistent challenges faced by MSMEs, particularly the lack of access to formal finance, high collateral requirements, and the need for technological upgradation. In the early 2010s, the financial ecosystem for MSMEs was still largely dependent on traditional banking systems, with limited penetration of non-banking financial institutions and FinTech solutions. However, with the rise of digital lending platforms and the increasing adoption of financial technology, MSMEs have gained unprecedented access to finance. Fintech companies have emerged as game-changers, offering faster, more efficient credit assessment processes through the use of data analytics and alternative credit scoring models. This shift has allowed even small enterprises with limited credit histories to secure funding, which was previously a significant obstacle. The implementation of the Goods and Services Tax (GST) in 2017 was a pivotal moment in the formalization of MSMEs. By creating a transparent, nationwide tax system, GST helped many MSMEs enter the formal economy, making it easier for them to access credit from banks and financial institutions. Additionally, GST records have provided financial institutions with a reliable way to assess the creditworthiness of MSMEs, further enhancing their ability to obtain loans.

The COVID-19 pandemic in 2020 dealt a severe blow to the MSME sector, but it also accelerated the adoption of digital solutions. As physical operations were disrupted, many MSMEs turned to digital platforms to continue their business, opening new channels for financing through e-commerce and digital payments. The Indian government's 'Atmanirbhar Bharat' package, announced in response to the pandemic, included measures to provide immediate financial relief to MSMEs through credit guarantees and liquidity support. The post-pandemic period has seen a renewed focus on digital transformation, with many MSMEs increasingly adopting technology to improve their operations and financial management. The last few years, particularly from 2020 to 2024, have been characterized by the growing role of supply chain financing and cluster-based lending approaches. Supply chain financing has become a popular tool for MSMEs, allowing them to access credit based on their participation in larger industrial ecosystems. Cluster-based lending, where financial institutions lend to groups of MSMEs within the same industry or region, has also gained traction as a way to reduce risk and improve the flow of credit to small enterprises.

Thus, the historical context of MSME finance in India illustrates the sector's journey from its informal, unorganized beginnings to its current position as a vital pillar of the Indian economy. Over the past 10 years, significant strides have been made in improving access to finance for MSMEs, driven by technological innovations, government reforms, and the rise of FinTech. These changes have positioned the MSME sector to play an even more prominent role in the future of India's economy, contributing to

9.https://www.indiabudget.gov.in/anbp/, as of November 4th, 2024, 10.41, IST.

growth, employment, and regional development. Understanding this evolution is crucial for identifying the strategies needed to ensure continued growth and sustainability for MSME finance in the years to come.

1.5 Financial Needs of MSMEs

The financial requirements of MSMEs are multifaceted and vary based on the size, sector, and stage of development of the business. Working capital remains the most pressing need for MSMEs, as it covers day-to-day operational expenses such as inventory management, employee wages, and raw material procurement. Working capital financing constitutes around 70-80% of the total financing needs of MSMEs. With the average working capital cycle for MSMEs ranging between 60 to 90 days, these businesses often face liquidity shortages, which can disrupt their operations and impede growth. For micro and small enterprises, which typically have limited cash reserves, timely access to working capital finance is essential for business continuity.

Term loans account for 20-30% of MSME financing requirements. These loans are typically used for capital expenditures such as purchasing machinery, expanding production capacity, or upgrading technology. The loan sizes vary significantly based on the business's scale: for small enterprises, term loans usually range between ₹1 million to ₹5 million, while medium enterprises may require ₹5 million to ₹5000 million. However, despite the need for long-term financing to support expansion and modernization, MSMEs often struggle to meet the collateral requirements of traditional financial institutions. This challenge is particularly acute for micro-enterprises, which often lack tangible assets to pledge as security, thereby limiting their ability to access term loans. Trade finance is another critical area for MSMEs, particularly those engaged in import-export activities. Trade finance instruments such as letters of credit, bank guarantees, and pre-shipment and post-shipment credit play a vital role in facilitating international trade. Trade finance is essential for managing the risks associated with international transactions, such as currency fluctuations and payment delays, and ensuring that MSMEs have the liquidity needed to fulfill export orders.

As MSMEs seek to remain competitive in a rapidly evolving business environment, technology adoption financing has become increasingly important. The adoption of new technologies is critical for MSMEs to improve productivity, enhance product quality, and remain competitive in both domestic and international markets. However, many MSMEs, particularly smaller ones, struggle to secure the necessary financing to invest in technology due to the high costs and perceived risks associated with these investments. In times of economic uncertainty or crises, crisis financing becomes essential for MSMEs. The COVID-19 pandemic brought this issue to the forefront, as many MSMEs faced unprecedented disruptions to their operations. The Indian government's Emergency Credit Line Guarantee Scheme (ECLGS) was a lifeline for MSMEs during the pandemic, providing liquidity at a time when many businesses were on the verge of collapse. Crisis financing products that are specifically designed to address short-term cash flow needs during economic shocks are critical for ensuring the resilience of MSMEs in the face of future challenges.

While debt financing remains the predominant source of capital for MSMEs, there is a growing demand for equity financing, particularly among innovative, high-growth businesses. Venture capital and angel investments are becoming increasingly important for MSMEs that require large infusions of capital to scale. Equity financing offers a viable alternative for businesses that may not have the collateral needed for traditional debt financing but still require significant capital to grow.

1.6 Sources of Finance for MSMEs

In India, Micro, Small, and Medium Enterprises (MSMEs) access a range of financial resources to meet their funding needs, drawing on both formal and informal channels. Although the formal financial ecosystem (see Figure 1.4)—which includes commercial banks, Non-Banking

Financial Companies (NBFCs), Small Finance Banks (SFBs), FinTechs and government-backed initiatives—has become more accessible, many MSMEs still rely on informal sources due to obstacles in obtaining formal credit. An overview of formal financial sources is given below:

i. **Commercial Banks:** Scheduled commercial banks are the primary formal credit source for MSMEs, serving as the largest institutional lenders to this sector. These banks offer diverse loan products, though many MSMEs face challenges meeting the collateral and documentation requirements.

ii. **Non-Banking Financial Companies (NBFCs):** NBFCs have become essential in financing MSMEs, particularly in areas where traditional banking services are less accessible. Known for their flexible lending practices, faster processing times, and readiness to work with borrowers who have limited credit histories, NBFCs are often a preferred choice for small enterprises in need of quick access to funds.

iii. **Small Finance Banks (SFBs):** Established to support underserved and unbanked populations, SFBs play a significant role in extending credit to micro-enterprises and rural MSMEs. By offering tailored financial products to businesses that might otherwise lack access to banking services, SFBs help bridge a critical gap in financial inclusion for MSMEs.

iv. **Microfinance Institutions (MFIs):** MFIs remain a vital source of finance for micro-businesses, especially in rural and semi-urban regions. Catering to enterprises too small to qualify for standard bank loans, MFIs provide smaller loans that are accessible to micro-entrepreneurs. However, the high-interest rates associated with MFI loans often present a financial strain for these smaller businesses.

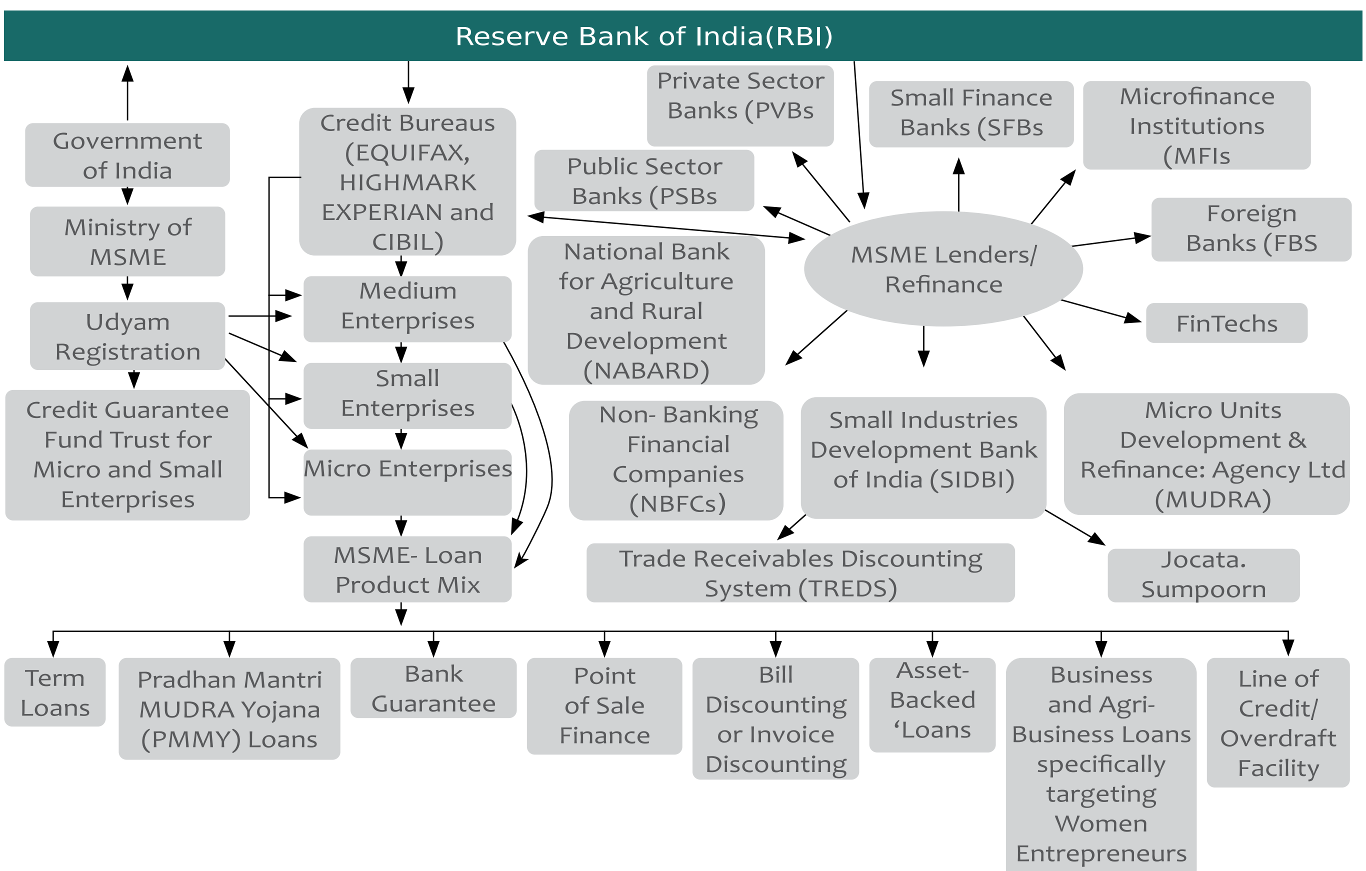


Figure 1.4: Strategic Context of MSMEs

v. **FinTechs:** Recently, FinTechs have started to become a transformative force for MSMEs in India, providing innovative financial solutions that address longstanding challenges in accessing credit and financial services. By leveraging technology, they offer faster, more flexible lending options tailored to the unique needs of MSMEs, including streamlined loan approvals, digital payment systems, and credit assessments based on alternative data sources. This has significantly improved access to funding for MSMEs, especially those underserved by traditional financial institutions. Additionally, FinTech platforms facilitate smoother cash flow management, efficient invoicing, and inventory financing, empowering MSMEs to manage their operations more effectively. FinTech innovations thus play a vital role in bridging the financial gap for MSMEs, enabling growth and competitiveness in an increasingly digital economy.

vi. **Pradhan Mantri MUDRA Yojana (PMMY):** Launched in 2015, the PMMY scheme supports non-corporate, non-farm small and micro enterprises through various loan options, facilitating access to credit for MSMEs that are often overlooked by traditional banking systems.

Despite the diversification of formal financing options, the MSME sector still faces challenges, particularly in obtaining adequate credit at affordable rates. Expanding access to affordable financing is crucial to empowering MSMEs to grow, innovate, and contribute more robustly to India's economy.

1.7 Emerging Forms of Financing for MSMEs

In addition to traditional sources of finance, new and innovative forms of financing have emerged to meet the evolving needs of MSMEs (see Figure 1.4). These alternative financing options, such as **factoring, supply chain financing, and invoice discounting,** offer flexible and efficient ways for MSMEs to manage their cash flow and access working capital.

Factoring: Factoring is a financial transaction in which a business sells its accounts receivable (invoices) to a third party, known as a factor, at a discount in exchange for immediate cash. This provides MSMEs with the working capital they need to continue operations while waiting for their customers to pay. The factoring market in India has grown steadily, with both banks and NBFCs offering factoring services to MSMEs. Factoring allows MSMEs to improve cash flow without taking on additional debt, making it an attractive alternative for businesses that face long payment cycles from buyers.

Supply Chain Financing: Supply chain financing (SCF) involves financing the purchase of goods or services at various stages in the supply chain. SCF has become increasingly popular among MSMEs that are part of larger supply chains, as it allows them to access credit based on their business relationships with buyers or suppliers. SCF is typically facilitated by banks, NBFCs, or FinTech companies, which provide financing based on the creditworthiness of the MSME's trading partners. SCF is particularly beneficial for MSMEs that face delays in receiving payments from larger buyers, as it provides them with immediate liquidity.

Invoice Discounting: Similar to factoring, invoice discounting allows MSMEs to sell their unpaid invoices to a financier at a discount. However, unlike factoring, the business retains control over its customer relationships. Invoice discounting platforms, many of which are operated by FinTech companies, have grown rapidly in India. These platforms use technology to match MSMEs with potential financiers, allowing businesses to access working capital quickly and at competitive rates. The growth of invoice discounting has been fueled by digital lending platforms that streamline the financing process, making it more accessible to MSMEs.

Peer-to-Peer (P2P) Lending: P2P lending platforms connect individual borrowers with investors willing to lend money, often without the involvement of traditional financial institutions. P2P lending has gained traction in India, particularly for micro and small enterprises that may not qualify for traditional loans.

P2P platforms use technology to assess the creditworthiness of borrowers and offer loans at competitive interest rates. The RBI has regulated P2P lending, creating a framework that protects both lenders and borrowers, thereby promoting the growth of this alternative financing model.

Revenue-Based Financing (RBF): RBF is an emerging financing model in which businesses receive capital in exchange for a percentage of their future revenue. This model is particularly popular among startups and MSMEs in the tech and e-commerce sectors, where revenue can fluctuate significantly. RBF offers MSMEs flexible financing, as repayments are tied to the business's actual revenue performance rather than fixed monthly payments. Several FinTech companies in India have begun offering RBF solutions to MSMEs, providing them with an alternative to traditional loans and equity financing.

1.8 Discussion and Outline of the Study

Thus, the current landscape of MSME finance in India reveals both promising potential and notable challenges. With over 52.43 million enterprises, the MSME sector is vital to India's economy, contributing significantly to GDP, employment, and exports. However, despite the sector's scale, access to formal finance remains a key hurdle, especially for micro-enterprises that form the majority. Traditional financing sources, such as commercial banks, NBFCs, SFBs, and government initiatives like PMMY and ECLGS, have expanded financial access but still leave gaps, particularly for the most vulnerable segments of MSMEs.

Emerging financing options, including factoring, supply chain financing, invoice discounting, and peer-to-peer lending, have introduced flexibility and innovation, often through fintech platforms that facilitate streamlined, efficient access to working capital. These models hold the potential to redefine MSME liquidity and growth management. However, the rise in Non-Performing Assets (NPAs), exacerbated by the COVID-19 pandemic, continues to challenge the sector, posing risks to lenders and highlighting the financial fragility of many MSMEs. While interventions like ECLGS have offered crucial support, addressing structural causes of financial strain remains essential for long-term resilience.

Looking forward, the future of MSME finance in India hinges on integrating technology-driven solutions, enhancing risk management, and fostering policy innovations that align with the sector's evolving needs. With a collaborative approach involving government, financial institutions, and industry stakeholders—focused on breaking down financial barriers, simplifying regulations, and embracing technological advancement—India's MSMEs can become more competitive, resilient, and sustainable, driving growth in both domestic and global markets.

It is with the above objective in mind that this publication is being brought out by ACCESS Development Services in collaboration with Equifax. The remainder of this report is structured into several chapters[10] as follows:

Chapter 2: The Role of Pradhan Mantri MUDRA Yojana (PMMY) - Exploring the implementation and impact of PMMY, this chapter examines the roles of various financing institutions, including banks, NBFCs, SFBs, PSBs, PVBs, and MFIs. It reviews refinancing mechanisms and trends up to 2024, with a granular analysis of loan distributions under the Shishu, Kishore, and Tarun categories. Particular attention is paid to the years 2023 and 2024, pinpointing recent shifts and trends. Each section concludes with strategic takeaways from the analyzed data.

Chapter 3: Focus on Scheduled Commercial Banks in MSME Financing - Utilizing detailed RBI data, this chapter delves into the evolving role of scheduled commercial banks in financing MSMEs. It offers an analytical review of RBI (granular) data spanning several years, with an intensive focus on 2023 to 2024. The analysis assesses the strategies and impacts of public sector banks, private banks, foreign banks, and

10.Each chapter is equipped with detailed graphs, tables, and concise endnotes to ensure clarity and enhance understanding of the data, enabling a comprehensive and focused exploration of each sub-topic, with a strong emphasis on the latest developments.

small finance banks, emphasizing how their approaches have recently shaped the MSME sector. The chapter ends with key takeaways, emphasizing the strategic insights gained.

Chapter 4: Agri-Business (Loans) -This chapter is dedicated exclusively to a detailed examination of Equifax data for the years 2023-2024. It undertakes a comprehensive exploration of both portfolio and source data, revealing significant developments and extracting strategic insights from the most up-to-date information available. Throughout this analysis, a series of strategic insights are identified, providing key takeaways that highlight the essential findings from this recent data.

Chapter 5: Business (Loans) -Concentrating solely on the period of 2023-2024, this chapter conducts a thorough analysis of loan data from Equifax. It extensively explores both the portfolio and source data, illuminating key developments and strategic insights gathered from the latest available information. Throughout the chapter, numerous strategic insights are highlighted, with specific takeaways that underscore the critical observations made from this recent data.

Chapter 6: MUDRA (Loans) - Focused exclusively on the years 2023-2024, this chapter provides an in-depth analysis of loan data from Equifax. This section delves into the portfolio and source data, showcasing significant developments and strategic insights derived from the most recent data. The chapter has several takeaways, emphasizing the strategic insights gained.

Chapter 7: Discussion and Lessons Learned -The concluding chapter integrates the insights gleaned from extensive data analyses presented in the previous chapters, with a particular emphasis on the transformative years of 2023 and 2024. This section discusses critical findings and emerging strategic trends, distilling essential lessons learned throughout the study. More than just outlining challenges and implications, it proffers substantive recommendations for future strategies to enhance MSME financing in India, aiming to guide policymakers and stakeholders in shaping a resilient financial ecosystem for small and medium enterprises.

The Pradhan Mantri Mudra Yojana

2

2.1 The Pradhan Mantri Mudra Yojana – An Introduction

The Pradhan Mantri Mudra Yojana (PMMY),[1] led by the Micro Units Development & Refinance Agency Ltd. (MUDRA), has been instrumental in shaping the MSME financing landscape in India, offering valuable insights into the sector's financial trends and preferences over the past four years. An agency-wise performance analysis from 2018 to 2023 underscores the resilience and dynamic evolution of MSME refinancing.

During this period, annual sanctioned amounts consistently surpassed ₹3000 billion, demonstrating strong and steady demand for refinancing. Public Sector Banks (PSBs) and Private Sector Banks (PVBs) emerged as major players. Although PSBs held the highest targets, they experienced slight underperformance in 2021-22, with a recovery in 2022-23 that, while promising, still fell short of meeting MUDRA targets. In contrast, PVBs exceeded their targets, indicating growing appeal among MSMEs, likely due to attractive loan terms and faster service delivery.

Small Finance Banks (SFBs) and Micro Finance Institutions (MFIs) also performed impressively, consistently meeting or surpassing their targets. MFIs, in particular, played a crucial role in reaching grassroots enterprises in areas where traditional banking services have limited penetration. Non-Banking Financial Companies (NBFCs), once central to the MSME financing landscape, saw a modest increase in sanctioned amounts in 2022-23 compared to the previous year, though they, too, did not meet their MUDRA targets. This evolving landscape highlights PMMY's adaptability in catering to the varied needs of MSMEs across India, ensuring continued growth and support for this critical sector.

The table and graphs below provide a comprehensive view of nationwide trends, drawing insights from data sourced from MUDRA, SIDBI, and the RBI. This detailed analysis illuminates key patterns in MSME financing across India, revealing sectoral growth, regional variances, and evolving lending dynamics. One important consideration here is that while the Equifax data provides segmentation across various MSME loan sizes, the data from MUDRA, RBI, and SIDBI is presented in an aggregated format. This distinction offers a unique opportunity to view the sector from both detailed and holistic perspectives. We will first address the aggregated data, followed by an examination of the segmented details.

2.2 Aggregated Data from MUDRA Triangulated with SIDBI and RBI Data

Table 2.1 presents aggregated data from MUDRA, cross-referenced with insights from SIDBI and RBI.

1.The MUDRA Annual Report for 23-24 is not available as of 6th November, 2024. See https://www.mudra.org.in/

Table 2.1a. PMMY Agency-Wise Performance - Sanction and Target Amounts (in ₹ Billion)

Category	Sanction Amount 2018-19	Sanction Amount 2019-20	Sanction Amount 2020-21	Sanction Amount 2021-22	Sanction Amount 2022-23	Target (2022-23)
PSBs (incl. Regional Rural Banks)	1,172.82	1,177.29	1,301.86	1,172.60	1,711.18	1,854.6
PVBs (incl. Foreign Banks)	640.37	917.80	933.42	1,174.06	1,411.16	1,287.00
Small Finance Banks (SFB)	297.94	295.01	196.47	291.89	382.97	289.30
Micro Finance Institutions (MFIs)	634.71	579.67	466.01	488.47	668.30	602.60
Non-Banking Finance Companies (NBFCs)	471.37	405.18	319.83	186.97	330.61	366.50
State Co-operative Banks(SCBs)	0.00	0.00	0.004	0.0036	0	0
Total	3,217.21	3,374.95	3,217.59	3,313.99	4,504.22	4,400.00

Source: MUDRA Annual Report 2019-20, 2020-21, 2021-22 and 2022-23

2.2.1 Takeaways on PMMY Agency-Wise Performance (Absolute Numbers)

There are several takeaways discernible from the comparative assessment of agency-wise performance data under the Pradhan Mantri Mudra Yojana (PMMY) from 2018 to 2023. By examining sanction amounts, target achievements, and trends across key financial institutions—including Public Sector Banks, Private Sector Banks, Small Finance Banks, Micro Finance Institutions, and Non-Banking Financial Companies—these takeaways reveal significant patterns in MSME financing preferences and the shifting roles of each lender. Derived from a careful comparative assessment of sanctioned amounts against annual targets, these insights offer valuable guidance for policymakers, financial institutions, and industry stakeholders aiming to bolster MSME growth and advance financial inclusivity across India.

Takeaway #1: *Public Sector Banks Drive Consistent High Sanctions but Fall Just Short of Targets*

Public Sector Banks (PSBs), which include Regional Rural Banks, have consistently held the largest share in MSME financing under the PMMY, reaching a sanction amount of ₹1,711.18 billion in 2022-23. While this figure marks a significant increase from the ₹1,172.60 billion sanctioned in 2021-22, it falls slightly short of the target of ₹1,854.6 billion. This performance reflects a steady demand for refinancing through public banking channels, with the 2022-23 rebound indicating a renewed push after a slight decline the previous year. This trend suggests that PSBs remain a critical pillar in MSME financing, although they face some challenges in fully meeting their MUDRA targets.

Takeaway #2: *Private Sector Banks See Steady Growth and Exceed Targets*

Private Sector Banks (PVBs), including foreign banks, have shown robust growth over the period, reflecting their increasing appeal among MSMEs. In 2018-19, PVBs sanctioned ₹640.37 billion, which steadily rose to ₹1,411.16 billion by 2022-23. Notably, PVBs exceeded their 2022-23 target of ₹1,287 billion, highlighting their competitive edge, likely driven by more attractive loan terms and faster service. This steady upward trajectory underscores MSMEs' growing reliance on private sector banks for refinancing, positioning PVBs as formidable players in the MSME financing space.

Takeaway #3: *Small Finance Banks Gain Traction with Consistent Performance*

Small Finance Banks (SFBs) demonstrated consistent performance, maintaining steady sanction levels until a notable increase in 2022-23 when they reached ₹382.97 billion, surpassing their target of ₹289.3 billion. This achievement represents a nearly 31.5% increase in sanctioned amounts compared to 2021-22. SFBs' steady rise in MSME financing suggests their increasing role in meeting the financing needs of smaller enterprises, particularly in regions underserved by larger banking institutions.

Takeaway #4: *Micro Finance Institutions Excel in Reaching Grassroots Enterprises*

Micro Finance Institutions (MFIs) maintained a strong presence, with sanction amounts fluctuating slightly across the period but showing a significant increase to ₹668.3 billion in 2022-23, well above the target of ₹602.6 billion. This level is an impressive recovery from the previous year's sanction amount of ₹488.47 billion. MFIs' performance underscores their effectiveness in reaching grassroots and smaller businesses, especially in regions with limited access to traditional banking, and highlights their importance in promoting financial inclusion for MSMEs.

Takeaway #5: *NBFCs Show Signs of Recovery but Struggle to Meet Targets*

Non-Banking Financial Companies (NBFCs) have faced challenges in sustaining high sanction amounts, with a sharp decline from ₹471.37 billion in 2018-19 to a low of ₹186.97 billion in 2021-22. However, a recovery was observed in 2022-23, with sanctions rising to ₹330.61 billion. Despite this increase, NBFCs fell short of their 2022-23 target of ₹366.5 billion. This trend suggests that while NBFCs are beginning to regain ground, they may still be impacted by regulatory and liquidity constraints, which have limited their ability to meet MUDRA targets.

Takeaway #6: *State Cooperative Banks Remain Inactive in PMMY Financing*

State Cooperative Banks (SCBs) have remained effectively inactive in PMMY financing, with no significant sanctions recorded from 2018-19 through 2022-23. Their lack of participation contrasts with other institutions actively involved in MSME refinancing, indicating that SCBs may play a minimal role in the current PMMY structure and signaling an opportunity to explore ways to involve them more fully.

Takeaway #7: *Strong Overall Growth in Sanction Amounts Reflects Sector Resilience*

The cumulative PMMY sanction amounts consistently exceeded ₹3,000 billion from 2018-19 through 2021-22 and saw a remarkable increase in 2022-23, reaching ₹4,504.22 billion. This figure surpasses the year's target of ₹4,400 billion and reflects a robust 35.9% increase over the previous year's total of ₹3,313.99 billion. This overall growth illustrates the resilience of the PMMY scheme and its ability to adapt to the evolving financial demands of MSMEs across India, even amid changing economic conditions.

2.2.2 Takeaways on PMMY Agency-Wise Performance (Percentages)

Figure 2.1[2] illustrates the agency-wise performance of the Pradhan Mantri Mudra Yojana (PMMY) from 2018-19 to 2022-23, capturing the year-wise percentage distribution of sanction amounts across various financial institutions. Based on data from MUDRA's Annual Reports, this chart provides a detailed view of the evolving roles of Public Sector Banks (including Regional Rural Banks), Private Sector Banks (including foreign banks), Small Finance Banks, Micro Finance Institutions (NBFC-MFIs), and Non-Banking Financial Companies (NBFCs) in MSME financing. By showcasing changes in market share among these institutions, the chart offers valuable insights into shifting preferences within the MSME sector, as well as the adaptability and performance of each financial category in meeting the financing needs of small and micro-enterprises in India.

Several takeaways are discernible from the agency-wise analysis of PMMY's performance from 2018 to 2023, highlighting trends in market

2. Based on analysis from data in the following report-MUDRA, 'Annual Reports 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23', https://www.mudra.org.in/, as of November 4th, 2024, 10.41, IST

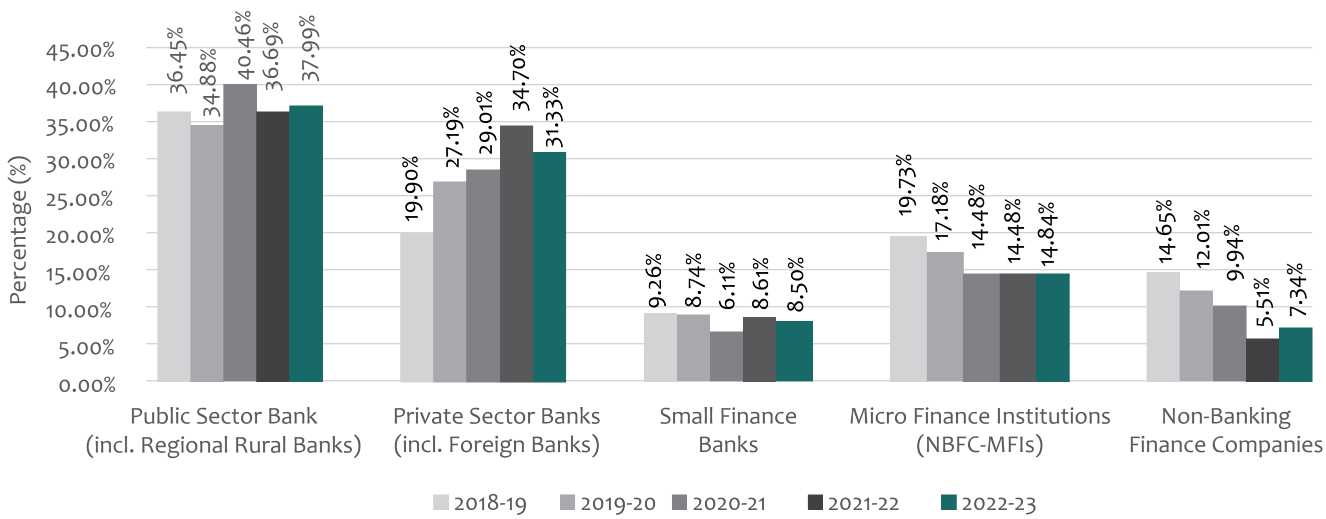


Figure 2.1: PMMY Agency-Wise Performance (Year-Wise Percentages of Sanctions)

share, competitive strategies, and financial deepening within the MSME sector. Each category of financial institution—Public Sector Banks, Private Sector Banks, Small Finance Banks, Micro Finance Institutions, and Non-Banking Financial Companies—demonstrates a unique blend of competitive strategies, from cost leadership to differentiated offerings. This analysis reflects not only the evolving market share dynamics but also strategic adjustments made by institutions to attract MSMEs and deepen financial inclusion across India. The following takeaways illustrate how each institution's approach to market positioning, cost efficiency, and service differentiation contributes to its role in expanding financial access within the PMMY framework.

Takeaway 8: *Public Sector Banks' Market Share Dominance with a Cost Leadership Strategy*

Public Sector Banks (PSBs), including Regional Rural Banks, have consistently commanded the largest market share in PMMY-sanctioned amounts, underscoring their extensive reach and established presence in MSME financing. Their peak share of 40.46% in 2020-21 reflects a stronghold supported by their cost leadership strategy, leveraging economies of scale and broad infrastructure to provide affordable loans. However, a slight dip to 37.99% by 2022-23 indicates emerging competitive pressures from private and specialized banks that offer more differentiated services. To maintain their dominance and deepen financial inclusion, PSBs may need to adopt a more agile strategy, integrating digital services and enhancing customer experience to retain MSMEs increasingly drawn to the convenience and personalization offered by private sector options.

Takeaway 9: *Private Sector Banks' Expanding Market Share Through Differentiated Competitive Strategy*

Private Sector Banks (PVBs), including foreign banks, have seen substantial growth in market share within the PMMY framework, climbing from 19.90% in 2018-19 to a high of 34.70% in 2021-22, before stabilizing at 31.33% in 2022-23. This growth trajectory highlights PVBs' effective use of a differentiated strategy, characterized by faster loan processing, customer-centric services, and flexible loan terms that appeal to MSMEs seeking efficiency and convenience. Their success in capturing a larger share points to MSMEs' preference for these tailored offerings. To sustain this competitive edge and deepen their reach, PVBs may continue to innovate in digital financial services and customization, positioning themselves as agile, client-focused alternatives to traditional banking options.

Takeaway 10: *Small Finance Banks' Stable Market Share with a Niche Focus on Financial Deepening*

Small Finance Banks (SFBs) have maintained a steady, albeit modest, market share within PMMY, fluctuating between 6% and 9% over the five-year period. Their share, which began at 9.26% in 2018-19, briefly dipped to 6.11% in 2020-21 before rebounding to 8.50% by 2022-23. This pattern reflects SFBs' focused strategy on financial deepening, where they target underserved rural and small urban markets with specialized, community-centric products. Although SFBs lack the volume of larger institutions, their niche approach addresses the unique needs of local MSMEs. Expanding their reach in underserved regions and further customizing their services could enhance SFBs' market position, reinforcing their role in promoting financial inclusion.

Takeaway 11: *Micro Finance Institutions' Consistent Market Share with a Grassroots Financial Inclusion Strategy*

Micro Finance Institutions (MFIs) have maintained a stable market share, ranging between 14% and 19%, indicating their continued focus on grassroots financial deepening. Starting with a market share of 19.73% in 2018-19, MFIs experienced a slight drop to 14.48% between 2020-21 and 2021-22, recovering marginally to 14.84% in 2022-23. Their competitive strategy is highly specialized, centered on providing small, accessible loans to dispersed and lower-income MSMEs in areas underserved by traditional banks. This grassroots approach makes MFIs integral to financial inclusion, as they cater to clients overlooked by larger institutions. To enhance market share, MFIs could strengthen outreach initiatives and partnerships, deepening their impact in remote and rural communities.

Takeaway 12: *Non-Banking Financial Companies' Market Share Decline and Adaptive Recovery Strategy*

Non-Banking Financial Companies (NBFCs) have seen a marked decline in market share within PMMY, dropping from 14.65% in 2018-19 to a low of 5.51% in 2021-22. This significant decrease likely stems from regulatory challenges and liquidity issues that limited their lending capabilities. However, a modest recovery to 7.34% in 2022-23 suggests a shift in their competitive strategy, as NBFCs pivot to stabilize and potentially regain market share. As they adapt, NBFCs may focus on diversifying funding sources, leveraging technology for credit assessment, and targeting specific MSME segments underserved by banks. By focusing on speed and flexibility, NBFCs can capitalize on their unique value proposition to remain relevantand competitive within the PMMY framework.

2.3 Category-Wise Analysis of MUDRA Loans

Table 2.2 provides a comprehensive overview of the sub-categories of borrowers under the Pradhan Mantri Mudra Yojana (PMMY) for the fiscal year 2022-23, detailing the distribution of sanctioned loan amounts across various borrower categories. The table categorizes borrowers into three main loan types—Shishu, Kishor, and Tarun—based on loan sizes, ranging from micro-loans for nascent businesses to larger loans supporting MSMEs at advanced stages. It also breaks down the data by borrower demographics, including General, SC, ST, OBC, and highlights segments such as Women Entrepreneurs, New Entrepreneurs, and Minority borrowers. This granular view, aggregating data from MUDRA's annual report, provides insight into the program's reach and impact across diverse social and economic groups, underscoring PMMY's role in advancing financial inclusion and fostering entrepreneurship across India's MSME landscape.

Takeaways on Category-Wise Analysis of MUDRA Loans.

Takeaway 13: *Shishu Loans Dominate in Terms of Volume, Highlighting Financial Inclusion at the Grassroots—*

In FY 2022-23, Shishu loans (up to ₹50,000) constituted the majority of PMMY accounts, indicating a strategic focus on financial deepening

Table 2.2: Shishu, Kishor and Tarun: General, SC/ST and OBC Categories of Borrowers -No of Accounts and Sanctioned Amount with Percentages (FY 2022-23)

Category	Shishu (Loans up to 50,000)		Kishor (Loans from 50,001 to 5 Lakh)		Tarun (Loans from 5 Lakh to 10 Lakh)		Total	
	No. of A/Cs	Sanctioned Amount	No. of A/Cs	Sanctioned Amount	No. of A/Cs	Sanctioned Amount	No. of A/Cs	Sanctioned Amount
General	19.67	647.81	10.08	1,295.13	1.10	921.52	30.86 (49.52%)	2,864.46 (63.59%)
SC	8.03	260.58	2.27	186.12	0.04	26.02	10.34 (16.59%)	472.72 (10.59%)
ST	2.77	86.89	0.74	67.42	0.03	18.63	3.54 (5.68%)	172.94 (3.84%)
OBC	12.61	420.81	4.82	460.70	0.15	112.60	17.58 (28.22%)	994.12 (22.07%)
Total	43.08	1,416.10	17.92	2,009.37	1.32	1,078.77	62.31	4,504.23
Out of the Above								
Women Entrepreneurs	32.81	1,122.28	11.29	916.91	0.15	111.15	44.26 (71.03%)	2,150.35 (47.74%)
New Accounts Entrepreneurs/	7.25	258.25	2.36	482.68	0.45	553.29	10.07 (16.16%)	1,294.23 (28.73%)
Minority	5.29	166.01	2.14	223.48	0.08	63.80	7.52 (12.06%)	453.29 (10.06%)

Note: Figures in parenthesis indicate the share in percentage, no of accounts are million and sanctioned amounts are ₹ in billion
Source: MUDRA Annual Report 2022-23

at the grassroots level. With 43.08 million accounts, Shishu loans made up 69.1% of the total borrower base across all sub-categories. These loans totalled ₹1,416 billion, accounting for 31.4% of the total sanctioned amount under PMMY. This distribution suggests that the program effectively reaches micro-enterprises and individual entrepreneurs, particularly those needing small, easily accessible credit. Shishu loans play a critical role in extending formal financial services to previously underserved segments, thereby promoting inclusive growth and supporting cost-sensitive borrowers in their early business stages.

Takeaway 14: *Kishor Loans Capture the Highest Sanction Amount, Reflecting Demand for Growth Capital—*

Kishor loans (₹50,001 to ₹5 lakh) reflect the highest sanctioned amount among the categories, amounting to ₹2009 billion, which constitutes 44.6% of the total PMMY sanction amount for 2022-23. With 17.92 million accounts, Kishor loans represent 28.7% of the total accounts, a significant share indicating that MSMEs are actively seeking medium-sized loans to fuel growth. This category serves businesses at a more advanced stage than those in Shishu, offering them the working capital necessary for expansion. The larger sanctioned amount also suggests that institutions see these borrowers as lower risk and capable of absorbing more substantial loans, given their business maturity.

Takeaway 15: *Tarun Loans Represent Higher Value but Lower Volume, Targeting Advanced MSMEs—*

Tarun loans, covering amounts between ₹5 lakh and ₹10 lakh, reflect the smallest number of accounts but a high sanctioned amount relative to volume, indicating their appeal to more established MSMEs needing substantial capital. With 1.32 million accounts, Tarun loans make up only 2.1% of the total PMMY accounts but contribute ₹1,078.77 billion, or 24% of the total sanctioned amount. This differential points to a selective approach, targeting advanced MSMEs with higher credit requirements, which is in line with a competitive strategy focused on lower volumes but high-value financing. Tarun loans reflect the PMMY's role in supporting MSMEs ready to scale operations or invest in more capital-intensive projects, thus catering to the sector's diverse needs.

Takeaway 16: *General Category Dominates, Representing Half of Total Sanctions—*

The General category of borrowers stands out, with 30.86 million accounts (49.52%) and a sanctioned amount of ₹2,864.46 billion (63.59%), making it the largest demographic within PMMY. This category's dominance suggests that PMMY is widely accessible, providing significant support across various segments without targeted demographic requirements. Serving nearly half of the accounts with more than 60% of the funding indicates a broad-based approach to economic empowerment, allowing MSMEs from various backgrounds to access credit and contribute to the formal economy. This distribution highlights the impact of PMMY on general MSME financing and its role in deepening financial inclusion for diverse business segments.

Takeaway 17: *Significant Representation of SC, ST, and OBC Entrepreneurs in PMMY Financing—*

PMMY financing shows a substantial representation from socially marginalized groups, with Scheduled Castes (SC) accounting for 16.59% of accounts and 10.59% of total sanctions, Scheduled Tribes (ST) representing 5.68% of accounts and 3.84% of sanctions, and Other Backward Classes (OBC) making up 28.22% of accounts and 22.07% of sanctions. This demographic spread underscores the PMMY's commitment to financial inclusion, particularly for disadvantaged communities. The focus on SC, ST, and OBC entrepreneurs contributes to social equity by offering credit opportunities for segments traditionally excluded from formal financing. By enhancing access for these groups, PMMY supports a differentiated competitive strategy that deepens market reach and supports inclusive growth.

Takeaway 18: *Women Entrepreneurs Are Key Beneficiaries, Highlighting Gender-Inclusive Financial Deepening—*

Women entrepreneurs accounted for 71.03% of all PMMY accounts in 2022-23, with 44.26 million accounts sanctioned a total of ₹2,150.35 billion, or 47.74% of the total sanction amount. This high share indicates PMMY's success in promoting gender-inclusive financial deepening by providing substantial support to women-owned enterprises. Prioritizing women entrepreneurs aligns with both social and economic objectives, fostering inclusive growth and empowering women to participate in the MSME sector. This gender-focused approach reflects a competitive differentiation, positioning PMMY as a program that actively bridges gender gaps in entrepreneurship and contributes to women's economic independence.

Takeaway 19: *New Entrepreneurs Reflecting Strong Demand for First-Time Business Financing—*

New entrepreneurs account for 16.16% of total PMMY accounts, with 10.07 million accounts sanctioned a total of ₹1,294.23 billion, representing 28.73% of the total amount sanctioned. This data underscores PMMY's role as an entry point for first-time entrepreneurs, providing the initial capital needed to establish a business. The strong demand from new entrants reflects the program's effectiveness in encouraging entrepreneurship and supporting economic growth by fostering business creation at the grassroots level. Through a competitive strategy of offering accessible finance to newcomers, PMMY helps diversify and deepen the MSME sector by encouraging a continual influx of new businesses.

Takeaway 20: *Minority Borrowers Benefit Significantly, Contributing to Financial Inclusion—*

Minority communities accounted for 12.06% of PMMY accounts and received 10.06% of the total sanction amount, with 7.52 million accounts and

₹453.29 billion sanctioned in 2022-23. This focus on minority borrowers demonstrates PMMY's commitment to financial inclusion, providing opportunities to segments that have historically faced barriers in accessing formal credit. By supporting minority entrepreneurs, PMMY fosters diversity within the MSME sector, contributing to a more inclusive economy. This aligns with a competitive strategy aimed at deepening financial access and empowering underrepresented groups to participate fully in the business landscape. Table 2.3 provides a detailed breakdown of loan categories under the PMMY from FY 2018-19 to FY 2022-23, showcasing trends across three distinct loan segments: Shishu, Kishor, and Tarun. These categories, organized by loan size, reflect PMMY's support for MSMEs at different stages of growth—from micro-enterprises requiring minimal capital to larger, more established businesses with higher funding needs. The table highlights not only the number of loan accounts but also the sanctioned amounts, allowing for a comparative view of each category's role in MSME financing over five years. This comprehensive data enables an analysis of changing financing demands within the MSME sector, illustrating how PMMY adapts its strategy to meet the evolving needs of India's diverse business landscape.

Takeaways on Year-Wise Category-Wise Analysis of PMMY, 2018-2023

Takeaway 21: *Shishu Loans Remain Dominant but Lose Share in Both Account Volume and Sanctioned Amount—*

Shishu loans (up to ₹50,000) have consistently held the largest share in PMMY by volume, underscoring their role in providing small-scale financial support to micro-enterprises and individual entrepreneurs at the grassroots level (See Table 2.3). In FY 2018-19, Shishu loans accounted for 86% of all PMMY loan accounts, with 51.51 million accounts and a sanctioned amount of ₹1,423.45 billion (44% of the total). However, by FY 2022-23, Shishu loan accounts decreased to 43.08 million, making up 69.13% of total accounts. Their share of the total sanctioned amount also declined, dropping to ₹1,416.10 billion, or just 31.44% of the total.

This reduction in both volume and sanctioned amount share suggests a shift within the MSME landscape, as more businesses seek larger loans to support expansion and growth. While Shishu loans continue to play a crucial role in promoting financial inclusion, especially for early-stage and low-capital businesses, the decreasing share reflects a rebalancing within PMMY. The program appears to be adapting to meet the evolving needs of MSMEs by supporting them through larger Kishor and Tarun loans as they progress in scale and financial requirements. This shift highlights the PMMY's role in facilitating MSME growth beyond initial capital needs, illustrating an increasing emphasis on growth financing within the MSME ecosystem.

Takeaway 22: *Kishor Loans Show Robust Growth in Sanctioned Amount, Despite Decline in Volume Share—*

Kishor loans (₹50,001 to ₹5 lakh) have shown the most dynamic growth in sanctioned amounts, even as their volume share has slightly decreased. In FY 2018-19, Kishor loans comprised 11% of total PMMY loan accounts, with 6.61 million accounts and a sanctioned amount of ₹1,043.87 billion (32% of the total). By FY 2022-23, the number of Kishor accounts rose to 17.92 million, but their share of total accounts decreased to 28.75%. Meanwhile, the sanctioned amount surged by 50.64%, reaching ₹2,009.37 billion, representing 44.61% of the total sanctioned amount. This indicates that MSMEs within this category are seeking larger loans to fuel growth, suggesting PMMY's adaptability in supporting businesses transitioning from startup to growth stages. The increase in sanctioned amounts, despite a decline in volume share, highlights a reallocation of funds to accommodate more substantial financing needs as MSMEs expand their operations.

Takeaway 23: *Tarun Loans Maintain Low Volume but Increase Share in Sanctioned Amount, Targeting Established MSMEs—*

Tarun loans (₹5 lakh to ₹10 lakh), which serve more established MSMEs, maintain a

Table 2.3:Year-Wise Category-Wise Analysis of PMMY, 2018-2023

Category	FY 2018-19		FY 2019-20		FY 2020-21		FY 2021-22		FY 2022-23		% change
	No. of loan accounts	Sanction Amount	No. of loan accounts	Sanction Amount	No. of loan accounts	Sanction Amount	No. of loan accounts	Sanction Amount	No. of loan accounts	Sanction Amount	(Sanction amount)
	Share		Share		Share		Share		Share		
Shishu	51.51 (86%)	1,423.45 (44%)	54.49 (88%)	1,635.59 (48%)	40.18 (79%)	1,099.53 (34%)	41.72 (77.56%)	1,239.69 (37.41%)	43.08 (69.13%)	1,416.09 (31.44%)	14.23%
Kishor	6.61 (11%)	1,043.87 (32%)	6.47 (10%)	955.78 (28%)	9.49 (19%)	1,325.16 (41%)	11.09 (20.61%)	1,333.89 (40.25%)	17.92 (28.75%)	2,009.37 (44.61%)	50.64%
Tarun	1.76 (3%)	749.91 (23%)	1.29 (2%)	783.58 (24%)	1.07 (2%)	792.90 (25%)	0.99 (1.80%)	740.44 (22.34%)	1.32 (2.12%)	1,078.77 (23.95%)	45.69%
Total	59.80	3,217.23	62.25	3,374.95	50.74	3,217.59	53.80	3,314.02	62.31	4,504.24	35.91%

Note: Figures in parenthesis indicate the share in percentage, no of accounts are million and sanctioned amounts are ₹ in billion
Source: MUDRA Annual Report 2019-20, 2020-21, 2021-22 and 2022-23

relatively low volume but have steadily increased their share in total sanctioned amounts. In FY 2018-19, Tarun loans accounted for 3% of total PMMY accounts, with 1.76 million accounts and a sanctioned amount of ₹749.91 billion (23% of the total). By FY 2022-23, the number of Tarun accounts decreased to 1.32 million, representing just 2.12% of the total accounts, yet the sanctioned amount rose by 45.69% to ₹1,078.77 billion, making up 23.95% of total sanctions. This growth in sanctioned amounts, despite a decrease in volume share, points to a targeted approach within PMMY to support larger, more capital-intensive projects for MSMEs in advanced stages. Tarun loans illustrate PMMY's focus on fewer but higher-value loans, catering to well-established businesses with more substantial financing requirements.

Takeaway 24: *Total Sanctioned Amount Grows Significantly, Reflecting Increased MSME Demand for Larger Loans—*

The overall sanctioned amount under PMMY has seen a robust increase of 35.91% from FY 2018-19 to FY 2022-23, rising from ₹3,217.23 billion to ₹4,504.23 billion. This increase has occurred even with fluctuating numbers of loan accounts, which ranged from 59.87 million in FY 2018-19 to 62.31 million in FY 2022-23. The rise in total sanctioned amounts reflects an increasing demand for larger loans, as indicated by the growth in Kishor and Tarun loans. This trend suggests that the MSME sector's needs are evolving, with enterprises requiring greater capital as they scale. PMMY's ability to meet this rising demand across loan categories underscores its role as a flexible financing instrument, catering to the expanding capital requirements of MSMEs and supporting deeper financial integration across business stages.

Takeaway 25: *Decline in Shishu Loan Share Signals a Shift Towards Growth-Stage Financing—*

The declining share of Shishu loans, both in terms of account volume and sanctioned amounts, points to a strategic shift within PMMY toward supporting growth-stage financing. The share of Shishu accounts dropped from 86% in FY 2018-19 to 69.13% in FY 2022-23, while their sanctioned amount share fell from 44% to 31.44%. This trend suggests that the program is gradually pivoting from a focus on early-stage, microloans to supporting MSMEs in growth phases with Kishor and Tarun loans. This reallocation reflects PMMY's responsiveness to changing MSME demands, offering financial backing for expansion rather than solely for initial business setup.

Takeaway 26: *Kishor Loans Meet Demand for Middle-Stage Financing, Balancing Accessibility and Growth—*

The growing demand for Kishor loans, which saw their share of sanctioned amounts rise from 32% in FY 2018-19 to 44.61% in FY 2022-23, reflects MSMEs' preference for medium-sized loans that balance accessibility with growth potential. While Kishor loans make up 28.75% of total accounts by FY 2022-23, they offer MSMEs access to significant capital without the requirements of larger, more complex financing structures. This strategic positioning makes Kishor loans a vital part of PMMY's support structure for MSMEs that have moved beyond microloans but still seek manageable financing options, enabling steady business growth without overstretching financial commitments.

Takeaway 27: *Tarun Loans Increase Share in Sanctioned Amounts, Supporting MSMEs Ready for Scaling—*

Although representing only a small fraction of PMMY accounts, Tarun loans have significantly increased their share of the total sanctioned amount, reaching 23.95% in FY 2022-23, up from 23% in FY 2018-19. This growth underscores PMMY's focus on fostering scaling within the MSME sector by supporting businesses ready to take on substantial capital for expansion. The targeted approach of fewer but high-value loans within the Tarun category reflects PMMY's adaptability in meeting the needs of well-established MSMEs that are positioned for large-scale investments, promoting economic growth through support for capital-intensive projects.

2.4 Institution and Category-Wise Analysis of MUDRA Loans

2.4.1 Shishu Loans

Tables 2.4, 2.5, and 2.6 present an in-depth analysis of the Shishu Loan disbursement trends within the Pradhan Mantri Mudra Yojana (PMMY), offering insight into the performance of various financial institutions from FY 2018-19 to FY 2023-24. Table 2.4 examines Shishu loan disbursements by major banking categories—SBI and Associates, Public Sector Commercial Banks, Private Sector Commercial Banks, Regional Rural Banks, Microfinance Institutions, NBFC-MFIs, Non-Banking Financial Companies, and Small Finance Banks—detailing both the number of accounts and corresponding sanctioned and disbursement amounts in rupees. This data illuminates how different financial institutions have responded to the demand for Shishu loans, particularly among MSMEs and small entrepreneurs. Complementing Table 2.4, Table 2.5 displays Shishu loan distributions in percentage terms, illustrating each institution's market share across years and emphasizing shifts in dominance or market position within the PMMY framework. Table 2.6 further refines this analysis by categorizing borrowers—General, SC, ST, OBC, Women Entrepreneurs, and New Entrepreneurs—thereby exploring the inclusivity and reach of the PMMY across demographic groups. This multi-table analysis provides a comprehensive view of Shishu loan performance, shedding light on institutional strategies, demographic targeting, and lending patterns essential for understanding the role of Shishu loans in financial inclusion and economic empowerment.

Table 2.4: Shishu Loan (Loans up to Rs. 50,000) Sanctions, Disbursement and Outstanding by Type of Institutions (Absolute Numbers), FY 2023-24 to FY 2018-19

Bank Type Name	Financial Year 2018-19			Financial Year 2019-20			Financial Year 2020-21		
	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount
SBI and Associates	2.11	61.50	61.13	3.07	93.25	93.23	0.74	11.31	11.26
Public Sector Commercial Banks	2.08	47.63	42.55	2.55	49.21	44.59	4.41	81.42	72.61
Private Sector Commercial Banks	11.23	343.31	342.81	18.78	578.73	577.98	15.77	396.69	396.19
Regional Rural Banks	0.77	27.30	26.51	0.72	23.82	23.36	0.72	20.59	19.50
MicroFinance Institutions	1.88	23.57	23.57	2.06	30.01	30.01	0.91	20.32	20.32
NBFC-MicroFinance Institutions	22.56	587.31	567.34	16.82	500.52	499.51	12.01	369.59	367.44
Non-Banking Financial Companies	4.46	132.85	132.81	4.63	170.71	170.70	1.93	75.83	75.83
Small Finance Banks	6.41	199.97	199.78	5.85	189.02	188.45	3.70	123.79	123.23
Grand Total	51.51	1,423.44	1,396.51	54.48	1,635.28	1,627.83	40.18	1,099.53	1,086.37

Bank Type Name	Financial Year 2021-22			Financial Year 2022-23			Financial Year 2023-24		
	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount
SBI and Associates	0.51	11.83	11.72	0.84	21.61	18.59	1.00	19.01	19.01
Public Sector Commercial Banks	3.02	54.32	50.30	3.47	91.08	89.05	4.24	98.32	95.44
Private Sector Commercial Banks	18.89	534.46	534.13	19.06	600.31	599.48	17.27	618.37	617.18
Regional Rural Banks	0.55	18.78	17.76	0.82	28.79	27.44	1.07	31.27	29.98
MicroFinance Institutions	1.25	18.06	18.06	0.27	5.14	5.14	0.26	8.83	8.83
NBFC-MicroFinance Institutions	11.21	372.04	369.83	12.01	429.94	425.61	11.31	445.88	440.63
Non-Banking Financial Companies	1.29	59.62	59.62	1.93	74.62	74.62	1.49	65.72	64.82
Small Finance Banks	5.01	178.34	178.25	4.67	176.17	176.17	4.99	201.97	201.96
Grand Total	41.72	1,247.47	1,239.69	43.08	1,427.66	1,416.10	41.63	1,489.37	1,477.85

Note: No. of accounts are millions and amounts are ₹ in billion
Source: PMMY Bank Wise Performance 2023-24, 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19

Table 2.5: Shishu Loan (Loans up to Rs. 50,000), Sanctions, Disbursement and Outstanding by Type of Institution (in %), FY 2023-24 to FY 2018-19

Bank Type Name	Financial Year 2018-19			Financial Year 2019-20			Financial Year 2020-21		
	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount
SBI and Associates	4.10%	4.32%	4.38%	5.64%	5.70%	5.73%	1.85%	1.03%	1.04%
Public Sector Commercial Banks	4.05%	3.35%	3.05%	4.67%	3.01%	2.74%	10.96%	7.40%	6.68%
Private Sector Commercial Banks	21.81%	24.12%	24.55%	34.47%	35.39%	35.51%	39.24%	36.08%	36.47%
Regional Rural Banks	1.49%	1.92%	1.90%	1.32%	1.46%	1.44%	1.79%	1.87%	1.79%
Micro-Finance Institutions	3.65%	1.66%	1.69%	3.78%	1.84%	1.84%	2.26%	1.85%	1.87%
NBFC-Micro-Finance Institutions	43.79%	41.26%	40.63%	30.88%	30.61%	30.69%	29.88%	33.61%	33.82%
Non Banking Financial Companies	8.67%	9.33%	9.51%	8.50%	10.44%	10.49%	4.81%	6.90%	6.98%
Small Finance Banks	12.45%	14.05%	14.31%	10.74%	11.56%	11.58%	9.20%	11.26%	11.34%
Grand Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Bank Type Name	Financial Year 2021-22			Financial Year 2022-23			Financial Year 2023-24		
	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount
SBI and Associates	1.21%	0.95%	0.95%	1.96%	1.51%	1.31%	2.40%	1.28%	0.08%
Public Sector Commercial Banks	7.23%	4.35%	4.06%	8.06%	6.38%	6.29%	10.18%	6.60%	0.41%
Private Sector Commercial Banks	45.27%	42.84%	43.09%	44.24%	42.05%	42.33%	41.49%	41.52%	2.67%
Regional Rural Banks	1.33%	1.51%	1.43%	1.91%	2.02%	1.94%	2.57%	2.10%	0.13%
Micro-Finance Institutions	3.00%	1.45%	1.46%	0.64%	0.36%	0.36%	0.63%	0.59%	0.04%
NBFC-Micro-Finance Institutions	26.86%	29.82%	29.83%	27.88%	30.12%	30.05%	27.17%	29.94%	1.90%
Non Banking Financial Companies	3.09%	4.78%	4.81%	4.48%	5.23%	5.27%	3.59%	4.41%	4.39%
Small Finance Banks	12.01%	14.30%	14.38%	10.84%	12.34%	12.44%	11.98%	13.56%	0.87%
Grand Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Table 2.6: Sub-Categories of Borrowers: Sanctions, Disbursement and Outstanding for General, SC/ST, OBC, Women and New Entrepreneurs (FY 2023-24, 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19)

Shishu Loan (Loans from Rs. 5.00 to Rs. 10.00 lakhs)												
Category	Financial Year 2018-19				Financial Year 2019-20				Financial Year 2020-21			
	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount
General	25.99	748.16	739.85	543.83	27.61	866.25	862.37	619.81	19.11	521.64	513.94	499.78
SC	8.77	232.53	225.57	163.77	9.53	273.25	271.91	197.73	7.33	197.14	195.21	155.56
ST	3.01	76.98	74.21	52.80	3.58	100.87	100.54	72.16	2.66	72.18	71.62	56.62
OBC	13.74	365.78	356.88	267.24	13.76	394.92	393.01	292.98	11.07	308.57	305.60	249.76
Women Entrepreneurs	33.40	962.53	939.77	674.38	35.72	1,096.60	1,092.22	785.49	27.75	744.90	738.72	609.02
New Entrepreneurs/ Accounts	10.94	291.33	287.69	212.39	9.66	282.30	279.84	211.00	5.62	134.39	128.98	105.13

Shishu Loan (Loans from Rs. 5.00 to Rs. 10.00 lakhs)												
Category	Financial Year 2021-22				Financial Year 2022-23				Financial Year 2023-24			
	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount
General	19.19	593.82	589.70	787.55	19.67	653.72	647.81	645.06	19.95	711.00	705.18	558.19
SC	7.86	226.33	224.92	168.64	8.03	262.80	260.58	198.18	7.41	269.13	266.77	204.59
ST	2.94	80.86	80.50	60.02	2.77	87.40	86.89	64.68	2.37	83.27	82.77	63.37
OBC	11.74	346.46	344.57	260.89	12.61	423.74	420.81	325.81	11.90	425.96	423.13	332.35
Women Entrepreneurs	30.44	896.22	892.34	683.90	32.82	1,128.57	1,122.28	938.49	30.19	1,093.55	1,084.73	859.56
New Entrepreneurs/ Accounts	4.68	130.25	126.50	110.15	7.25	263.30	258.25	207.96	8.85	294.45	288.40	237.98

Note: No. of accounts are million and amounts are ₹ in billion
Source: PMMY Bank Wise Performance 2023-24, 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19

2.4.2 Takeaways on Shishu Loans

Takeaway 28: SBI and Associates – A Balanced Growth Strategy in Shishu Loan Distribution—

Over the years from FY 2018-19 to FY 2023-24, SBI and Associates showed a moderate but focused approach to Shishu loans, indicative of their risk-managed strategy in the microfinance sector. Beginning with 2.11 million accounts and a sanctioned amount of ₹61.50 billion in FY 2018-19, SBI steadily grew its loan portfolio. By FY 2023-24, the number of accounts reached 1 million, and the sanctioned amount stood at ₹19.01 billion, nearly doubling over five years. The high disbursement rate, almost matching the sanctioned figures each year, reflects SBI's effective loan disbursement management, with a focus on responsible lending. This gradual growth trend is likely a part of SBI's strategy to balance high-impact financial inclusion while maintaining a controlled risk environment within the institution.

Takeaway 29: Public Sector Commercial Banks – Expanding Outreach in Financial Inclusion—

Public Sector Commercial Banks exhibited an extensive outreach in Shishu loans over these years. The number of accounts grew from 2.08 million in FY 2018-19 to 4.24 million in FY 2023-24, representing a substantial commitment to inclusive finance. Sanctioned amounts saw a similar rise from ₹47.63 billion in FY 2018-19 to ₹98.32 billion in FY 2023-24, achieving a nearly 100% disbursement-to-sanction ratio each year. This steady increase reflects the efforts of public sector banks to deepen their penetration in underserved areas, staying true to their role in furthering national financial inclusion goals. The steady increase in accounts and amounts also indicates these banks' adaptive strategies, utilizing digital channels and simplified lending protocols to reach a broader customer base.

Takeaway 30: Private Sector Commercial Banks – Aggressive Growth and Market Penetration—

Private Sector Commercial Banks stand out with a remarkable increase in both sanctioned amounts and accounts in Shishu loan distribution. From 11.23 million accounts and ₹343.31 billion in sanctioned loans in FY 2018-19, these numbers surged to 17.27 million accounts and ₹618.37 billion in FY 2023-24. This rapid increase indicates an aggressive market penetration strategy, as private banks worked to capture a significant portion of the Shishu loan market. The high disbursement rates in each financial year underscore their operational efficiency and customer-centric approach. The private sector's extensive use of digital lending platforms has contributed to this growth, making financial services more accessible to low-income groups, thus supporting the financial inclusion agenda on a large scale.

Takeaway 31: Regional Rural Banks – Steady Expansion in Rural Micro-enterprise Finance—

Regional Rural Banks (RRBs) have taken a more moderate approach, focusing on rural and semi-urban areas. Accounts grew from 0.77 million in FY 2018-19 to 1.07 million in FY 2023-24, while sanctioned amounts rose from ₹27.30 billion to ₹31.27 billion over the same period. RRBs' disbursement-to-sanction ratio was consistently high, often near 95%, reflecting a disciplined approach to loan management. RRBs focus on financing for small-scale entrepreneurs and rural borrowers, acting as a critical vehicle for financial inclusion in areas where traditional banking infrastructure may be limited. Their steady growth suggests a cautious, sustainable approach that balances outreach with financial prudence, fostering grassroots economic empowerment.

Takeaway 32: Microfinance Institutions – Controlled Growth and High Disbursement Accuracy—

Microfinance Institutions (MFIs) witnessed controlled growth in their Shishu loan portfolio.

While the number of accounts dropped from 1.88 million in FY 2018-19 to just 0.26 million in FY 2023-24, sanctioned amounts remained consistently close to disbursement figures each year. For instance, the sanctioned and disbursed amounts in FY 2023-24 were both ₹8.83 billion, ensuring high disbursement accuracy. This decrease in accounts suggests a shift toward quality lending rather than quantity, with MFIs focusing on sustainable lending practices in response to evolving market conditions and risk assessments. Their niche approach underlines the importance of MFIs in serving low-income clients effectively, prioritizing consistent, localized support within financially underserved segments.

Takeaway 33: *NBFC-Microfinance Institutions: Dominant Market Position with Sustainable Lending Practices—*

NBFC-Microfinance Institutions (NBFC-MFIs) maintain a prominent position in Shishu loan disbursement, reflecting their role in supporting financial inclusion with scale. The data reveals a strategic pivot from rapid account growth in the initial years (22.56 million accounts in FY 2018-19) to a more stabilized figure of 11.31 million in FY 2023-24. Meanwhile, the sanctioned amounts decreased from ₹587.31 billion to ₹445.88 billion in FY 2023-24, underscoring a cautious, risk-sensitive approach to loan distribution. Their high disbursement rates, often at par with sanctioned amounts, indicate NBFC-MFIs' operational efficiency and commitment to delivering value in a controlled, sustainable manner. This trend highlights NBFC-MFIs' adaptability to market fluctuations, making them a critical part of India's microfinance ecosystem by offering tailored financial products that empower underserved borrowers.

Takeaway 34: *Non-Banking Financial Companies – Selective Lending to Specialized Borrower Segments—*

Non-Banking Financial Companies (NBFCs) have shown a targeted approach to Shishu loans, with steady decreases in sanctioned amounts from ₹132.85 billion in FY 2018-19 to ₹64.82 billion in FY 2023-24. By focusing on niche borrower segments that traditional banks may overlook, NBFCs support a diverse set of micro-entrepreneurs and contribute to economic inclusivity through specialized financial services. This targeted strategy helps address specific market needs while maintaining portfolio quality, positioning NBFCs as a valuable player in the inclusive finance space.

Takeaway 35: *Small Finance Banks – Persistent Commitment to Microfinance and Inclusive Outreach—*

Small Finance Banks (SFBs) have shown a strong commitment to the Shishu loan category, growing from 6.41 million accounts and a sanctioned amount of ₹199.97 billion in FY 2018-19 to 4.99 million accounts and ₹201.97 billion in FY 2023-24. This sustained focus on small-ticket loans highlights SFBs' role in reaching low-income and geographically diverse segments. With consistently high disbursement rates, SFBs have established a reliable lending process that extends microcredit to underserved areas. The data reflects SFBs' mission of providing inclusive, sustainable finance that aligns with national goals of financial empowerment for small businesses and individuals in need of credit.

Takeaway 36: *Insights from Borrower Categories: Inclusive Strategies for Diverse Populations—*

Examining the borrower categories in Table 2.6, targeted lending efforts emerge, especially toward women and marginalized communities, underscoring a crucial facet of the inclusive finance strategy:

i. **Women Entrepreneurs** received significant funding, with sanctioned amounts growing from ₹962.53 billion in FY 2018-19 to ₹1,093.55 billion by FY 2023-24. This reflects a 13.6% growth over five years, showcasing the focused effort to support women-led businesses and boost female economic participation.
ii. **Scheduled Caste (SC) Borrowers** saw funding grow from `232.53 billion in FY 2018-19 to `269.13 billion in FY 2023-24,

with a stable account volume. This segment's consistent support aligns with national goals to uplift marginalized communities through equitable financial access.

iii. **Scheduled Tribe (ST) Borrowers** also experienced gradual increases in sanctioned amounts, reaching `83.27 billion in FY 2023-24 from `76.98 billion in FY 2018-19. The focus on ST borrowers highlights a targeted approach to extending credit to some of India's most financially vulnerable groups.

iv. **OBC Borrowers** were sanctioned increasing amounts from `365.78 billion in FY 2018-19 to `425.96 billion in FY 2023-24, signaling an inclusive approach that strengthens the economic fabric through credit to underrepresented communities.

v. **New Entrepreneurs** represent a promising category, with sanctioned amounts starting at `291.33 billion in FY 2018-19, indicating the government's intent to nurture fresh entrepreneurial ventures, providing credit to early-stage businesses with the potential to drive economic growth.

Together, these tables underline a multifaceted approach to financial inclusion, supported by diverse financial institutions and tailored products that meet the needs of various borrower segments. This holistic strategy enhances economic empowerment across demographics, regions, and income groups, strengthening the foundation for equitable growth and broad-based development. The data reinforces that financial inclusion efforts in India are evolving beyond basic access to more nuanced strategies that recognize the unique needs and contributions of different communities.

2.4.3 Kishore Loans

Tables 2.7, 2.8, and 2.9 provide a comprehensive breakdown of the Kishore loan segment (loans between ₹50,001 and ₹5 lakh), illustrating lending patterns, bank type-wise distribution, and borrower demographics from FY 2018-19 to FY 2023-24. Together, they depict key trends in sanctioned amounts, disbursements, and the scope of financial inclusion in this middle-tier loan segment. Table 2.7 presents data on the number of accounts, sanctioned loan amounts, and disbursement totals by various bank types, including SBI and Associates, public and private sector commercial banks, regional rural banks, and non-banking financial institutions (NBFCs and MicroFinance Institutions). This table highlights the evolution of sanctioned amounts and disbursements across the six years, showing the involvement of different financial entities in scaling mid-tier financing. Table 2.8 illustrates the same Kishore loan data in percentages, offering a proportional view of each bank type's contribution to total loans and sanctioned/disbursed amounts. This format underscores shifts in market share, showing how each institution has strategically positioned itself in the Kishore loan landscape, enabling clearer analysis of market trends and the relative emphasis on financial inclusion efforts by each institution type. Table 2.9 focuses on borrower demographics by sub-categories, such as general category, SC, ST, OBC, women entrepreneurs, and new accounts, detailing sanctions, disbursements, and outstanding amounts. This table reveals the diversity of borrowers and the prioritization of underrepresented groups in the Kishore loan category. By tracking these trends, Table 2.9 provides insights into the inclusivity of the Kishore loan program and its impact on various societal segments, showing how financial resources are being allocated to support economic growth among traditionally underserved communities. These tables together paint a dynamic picture of the Kishore loan landscape, showcasing the strategic roles played by various financial entities and the impact on diverse borrower groups, all of which contribute to India's inclusive finance mission.

2.4.4 Takeaways on Kishore Loans

Takeaway 37: *SBI and Associates: Moderated Growth Reflecting Consistent Market Position in Kishore Loans—*

State Bank of India (SBI) and its associates demonstrated steady growth in the Kishore loan segment, with their share in sanctioned amounts initially robust at 10.35% in FY 2018-19, but tapering to 4.96% by FY 2023-24. The bank maintained a commitment to serving mid-tier borrowers, adjusting their market share and strategic outreach to align with evolving borrower needs and competition. This consistent yet moderated approach in sanctioned amounts highlights a balance between expansion and risk management, adapting to the competitive landscape as private sector and other commercial banks increased their market presence. In disbursement trends, SBI's initial disbursement share of 10.69% in FY 2018-19 saw a gradual decline, reaching 5.05% by FY 2023-24. This indicates SBI's strategy of steady disbursement control relative to sanctioned amounts, supporting sustainable borrower engagement without aggressive expansion. This approach ensures that SBI remains a reliable source of mid-tier loans while balancing risk and prioritizing targeted outreach, particularly in rural and semi-urban areas.

Takeaway 38: *Public Sector Commercial Banks: Maintaining a Strong Role in Financial Inclusion—*

Public sector commercial banks, excluding SBI, have played a prominent role in the Kishore loan market, initially capturing 30.89% of sanctioned amounts in FY 2018-19, though this share declined to 19.68% by FY 2023-24. The decline reflects increased competition from private and NBFC sectors rather than reduced performance, as public banks continued to expand the number of accounts and maintain stability in sanctioning larger loan amounts. Their share in disbursements similarly fell from 29.34% in FY 2018-19 to 19.32% by FY 2023-24. This suggests that while public sector banks remain a major player in disbursing loans, they have moderated their outreach in the face of competition, focusing instead on retaining creditworthy borrowers. This positioning supports broader financial inclusion initiatives by providing accessible loans to underserved and rural populations, cementing their role as a bridge between traditional finance and emerging credit needs.

Takeaway 39: *Private Sector Commercial Banks: Aggressive Expansion with a Dominant Market Share—*

Private sector commercial banks showed an aggressive approach in expanding their Kishore loan portfolios. Their share of sanctioned amounts grew substantially, from 19.09% in FY 2018-19 to a significant 35.39% by FY 2023-24. This growth trajectory highlights their strategic focus on capitalizing on high-demand mid-tier loans, particularly through technological innovation and fast credit disbursement systems to appeal to small and medium-sized entrepreneurs. In disbursements, private banks similarly scaled their market share, from 19.80% in FY 2018-19 to 36.04% by FY 2023-24, reflecting efficient loan processing and alignment with sanctioned amounts. This growth strategy showcases their emphasis on rapid response to borrower needs, supported by digital infrastructure, allowing them to capture a large share of the mid-tier credit market and drive inclusive financial growth in urban and peri-urban areas.

Takeaway 40: *Regional Rural Banks: Reliable Support for Rural Borrowers with Steady Market Position—*

Regional Rural Banks (RRBs) have consistently targeted rural borrowers, initially accounting for 12.30% of sanctioned amounts in FY 2018-19, which adjusted slightly to 10.41% by FY 2023-24. Despite this marginal decline in market share, RRBs remain a key financial resource in rural communities, maintaining a close alignment between sanctioned and disbursed amounts, with disbursements decreasing from 11.65% to 9.45% in the same period. RRBs' role in extending accessible credit to rural borrowers is reflected in this steady presence, as they prioritize stable loan issuance over rapid expansion. By emphasizing the quality of loan processing, RRBs contribute to rural economic stability, focusing on farmers, small businesses, and first-time borrowers who benefit from localized support.

Takeaway 41: *Non-Banking Financial Companies (NBFCs): Targeted Growth with Strategic Portfolio Adjustments—*

NBFCs displayed a strategic approach in the Kishore loan market, starting with a 20.09% share of sanctioned amounts in FY 2018-19, which decreased to 9.18% by FY 2023-24. This decline highlights a shift in NBFC strategies, likely influenced by increased competition and a focus on optimizing portfolio quality. Despite a lower share in sanctions, NBFCs' careful alignment between sanctioned and disbursed loans points to disciplined risk management practices. Disbursements followed a similar trend, falling from 20.91% in FY 2018-19 to 9.36% by FY 2023-24. This aligns with NBFCs' selective growth approach, focusing on meeting the needs of mid-tier borrowers while minimizing exposure to high-risk segments, particularly in semi-urban regions. Their conservative expansion underscores a prioritization of sustainable growth and prudent borrower assessment.

Table 2.7: Kishore Loan (Loans from Rs. 50,001 to Rs.5.00 lakhs), Sanction, Disbursement and Number of Accounts, by Type of Institution (Absolute Numbers), FY 2023-24 to FY 2018-19

Bank Type Name	Financial Year 2018-19			Financial Year 2019-20			Financial Year 2020-21		
	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount
SBI and Associates	0.41	108.08	106.76	0.40	97.72	96.71	0.44	128.98	128.42
Public Sector Commercial Banks	1.50	322.39	292.98	1.41	308.96	281.41	1.82	356.38	320.48
Private Sector Commercial Banks	1.90	199.27	197.76	1.91	217.66	216.27	4.10	433.16	432.25
Regional Rural Banks	0.71	128.37	116.36	0.76	123.72	113.32	0.84	140.80	125.83
MicroFinance Institutions	-	-	-	-	-	-	0.04	3.23	3.23
NBFC-MicroFinance Institutions	0.29	20.55	20.55	0.73	46.17	46.17	1.07	72.37	72.37
Non Banking Financial Companies	1.19	209.69	208.77	0.28	83.06	81.90	0.51	132.52	132.34
Small Finance Banks	0.60	55.43	55.40	0.99	78.47	78.46	0.67	57.73	57.47
Grand Total	6.61	1,043.78	998.59	6.47	955.75	914.23	9.49	1,325.16	1,272.39

Bank Type Name	Financial Year 2021-22			Financial Year 2022-23			Financial Year 2023-24		
	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount
SBI and Associates	0.27	81.48	80.58	0.51	115.58	113.20	0.59	129.98	129.86
Public Sector Commercial Banks	1.69	354.11	327.27	2.14	460.04	445.54	2.48	516.12	496.64
Private Sector Commercial Banks	5.48	526.52	525.61	6.84	635.93	634.82	9.71	928.17	926.70
Regional Rural Banks	0.69	142.57	129.01	1.43	229.62	217.66	1.59	273.02	242.90
MicroFinance Institutions	-	-	-	0.05	3.98	3.98	0.06	5.47	5.47
NBFC-MicroFinance Institutions	1.51	100.77	100.45	3.24	229.82	229.07	4.36	308.78	308.06
Non Banking Financial Companies	0.26	74.53	74.52	1.44	182.73	182.73	2.17	240.75	240.75
Small Finance Banks	1.18	96.47	96.44	2.26	182.37	182.36	2.66	220.56	220.56
Grand Total	11.09	1,376.44	1,333.89	17.92	2,040.07	2,009.37	23.63	2,622.85	2,570.94

Note: No. of accounts are million and amounts are ₹ in billion
Source: PMMY Bank Wise Performance 2023-24, 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19

Table 2.8: Kishore Loan (Loans from Rs. 50,001 to Rs.5.00 lakhs), Sanction, Disbursement and Number of Accounts, by Type of Institution (in %), FY 2023-24 to FY 2018-19

Bank Type Name	Financial Year 2018-19			Financial Year 2019-20			Financial Year 2020-21		
	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount
SBI and Associates	6.15%	10.35%	10.69%	6.16%	10.22%	10.58%	4.65%	9.73%	10.09%
Public Sector Commercial Banks	22.67%	30.89%	29.34%	21.79%	32.33%	30.78%	19.14%	26.89%	25.19%
Private Sector Commercial Banks	28.79%	19.09%	19.80%	29.46%	22.77%	23.66%	43.19%	32.69%	33.97%
Regional Rural Banks	10.77%	12.30%	11.65%	11.76%	12.94%	12.39%	8.85%	10.62%	9.89%
MicroFinance Institutions	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.45%	0.24%	0.25%
NBFC-MicroFinance Institutions	4.45%	1.97%	2.06%	11.26%	4.83%	5.05%	11.31%	5.46%	5.69%
Non Banking Financial Companies	18.05%	20.09%	20.91%	4.25%	8.69%	8.96%	5.33%	10.00%	10.40%
Small Finance Banks	9.12%	5.31%	5.55%	15.33%	8.21%	8.58%	7.08%	4.36%	4.52%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Bank Type Name	Financial Year 2021-22			Financial Year 2022-23			Financial Year 2023-24		
	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount
SBI and Associates	2.46%	5.92%	6.04%	2.84%	5.67%	5.63%	2.48%	4.96%	5.05%
Public Sector Commercial Banks	15.25%	25.73%	24.54%	11.94%	22.55%	22.17%	10.50%	19.68%	19.32%
Private Sector Commercial Banks	49.46%	38.25%	39.40%	38.20%	31.17%	31.59%	41.10%	35.39%	36.04%
Regional Rural Banks	6.25%	10.36%	9.67%	7.97%	11.26%	10.83%	6.75%	10.41%	9.45%
MicroFinance Institutions	0.00%	0.00%	0.00%	0.27%	0.20%	0.20%	0.24%	0.21%	0.21%
NBFC-MicroFinance Institutions	13.65%	7.32%	7.53%	18.10%	11.27%	11.40%	18.46%	11.77%	11.98%
Non Banking Financial Companies	2.32%	5.41%	5.59%	8.06%	8.96%	9.09%	9.19%	9.18%	9.36%
Small Finance Banks	10.61%	7.01%	7.23%	12.62%	8.94%	9.08%	11.28%	8.41%	8.58%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Table 2.9: Sub-Categories of Borrowers: Sanctions, Disbursement and Outstanding for General, SC/ST, OBC, Women and New Entrepreneurs (FY 2023-24, 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19)

Kishore Loan (Loans from Rs. 5.00 to Rs. 10.00 lakhs)												
Category	Financial Year 2018-19				Financial Year 2019-20				Financial Year 2020-21			
	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount
General	4.44	789.48	758.18	669.89	3.78	673.32	643.42	572.34	5.83	944.26	905.64	825.13
SC	0.55	52.92	50.70	46.19	0.72	60.64	58.96	53.31	1.04	94.30	92.17	84.70
ST	0.20	23.53	21.96	20.92	0.28	28.28	27.09	25.19	0.44	43.44	42.04	40.10
OBC	1.41	177.94	167.84	149.51	1.70	193.54	184.80	173.19	2.17	243.17	232.54	230.50
Women Entrepreneurs	2.88	267.41	256.67	250.34	2.99	264.77	251.60	220.01	5.47	507.31	488.18	439.05
New Entrepreneurs/ Accounts	2.02	433.38	401.95	362.29	1.83	387.10	362.06	313.61	1.65	345.62	324.06	288.60

Kishore Loan (Loans from Rs. 5.00 to Rs. 10.00 lakhs)												
Category	Financial Year 2021-22				Financial Year 2022-23				Financial Year 2023-24			
	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount
General	5.98	882.34	851.48	754.21	10.08	1,314.77	1,295.13	1,046.43	14.27	1,705.51	1,674.51	1,425.53
SC	1.48	129.49	127.62	109.31	2.27	188.22	186.12	156.86	2.91	260.43	257.18	216.57
ST	0.56	52.41	51.45	45.84	0.74	68.36	67.42	58.56	0.96	92.30	90.37	77.36
OBC	3.07	312.20	303.33	274.53	4.82	468.72	460.70	404.64	5.50	564.60	548.88	474.98
Women Entrepreneurs	7.89	700.28	686.61	579.16	11.29	927.57	916.91	712.14	12.10	1,026.78	1,003.70	874.73
New Entrepreneurs/ Accounts	1.46	282.31	261.83	228.31	2.36	498.60	482.68	404.11	3.41	622.91	604.07	509.97

Note: No. of accounts are million and amounts are ₹ in billion
Source: PMMY Bank Wise Performance 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19

Takeaway 42: *Small Finance Banks: Marked Increase in Market Presence and Targeted Expansion—*

Small Finance Banks (SFBs) have rapidly increased their reach in the Kishore loan category, with their share in sanctioned amounts rising from 5.31% in FY 2018-19 to 8.41% by FY 2023-24. This represents a targeted expansion strategy aimed at smaller borrowers and entrepreneurs, positioning SFBs as a vital option for those needing accessible, mid-tier financing. Similarly, disbursement shares for SFBs rose from 5.55% to 8.58% over the period, reflecting the institution's efficient disbursement processes. SFBs' targeted outreach aligns with their mission to serve the financially underserved, especially in semi-urban areas, contributing to economic development and creating new opportunities for micro-entrepreneurs and small business owners.

Takeaway 43: *NBFC-Microfinance Institutions: Exceptional Growth and Expanded Role in Mid-Tier Financing—*

NBFC-Microfinance Institutions have expanded their footprint considerably in the Kishore loan segment. Their share of sanctioned amounts rose from a modest 1.97% in FY 2018-19 to 11.77% in FY 2023-24, indicating an aggressive growth strategy aimed at borrowers moving up from microloans to Kishore loans. This increase highlights NBFC-MFIs' role in bridging the gap between traditional microfinance and larger institutional loans, offering a stepping stone for borrowers seeking to expand their financial footprint. Their disbursement share increased from 2.06% to 11.98%, closely aligned with the rise in sanctioned amounts. NBFC-MFIs' reliable disbursement practices, coupled with their expanding reach, demonstrate a commitment to providing stable financing solutions for borrowers in need of mid-tier loans, fostering growth in financially underserved sectors.

Takeaway 44: *Microfinance Institutions: Gradual Expansion into Kishore Loans—*

Microfinance Institutions (MFIs) have entered the Kishore loan market more recently, with their share in sanctioned amounts rising to 0.21% in FY 2023-24. Although their presence is small, it marks a diversification from traditional microloans, catering to clients ready for the next level of financing. Their focus on disbursing 100% of sanctioned amounts indicates operational efficiency and a commitment to client retention as they progress to higher loan brackets. This development represents a strategic shift for MFIs, contributing to the financial stability of borrowers by supporting their journey from microfinance dependency to self-sufficiency in mid-tier financing. This move aids in expanding MFIs' impact, providing essential growth capital to borrowers transitioning toward larger business operations.

Takeaway 45: *Segment Analysis by Borrower Category: Increasing Inclusivity Across Various Social Groups—*

The analysis of borrower categories within Kishore loans reveals a strong trend toward inclusivity. Loans to the General category retained a significant portion of the market, while SC, ST, and OBC categories also showed considerable growth. Notably, SC and ST borrowers' share in sanctioned loans rose markedly, indicating increased access and outreach efforts by financial institutions to these traditionally underserved groups. Women entrepreneurs' share in disbursements also climbed, reflecting ongoing initiatives to empower female entrepreneurs through accessible financing. The continued increase in new entrepreneurs highlights the sector's adaptability and responsiveness to the needs of emerging businesses, reinforcing the role of Kishore loans as a driver of grassroots economic development and financial empowerment.

The Kishore loan segment (₹50,001 to ₹5 lakh) presents a rich tapestry of insights into India's evolving financial inclusion strategies across a range of institutions. From FY 2018-19 to FY 2023-24, major players like SBI, public sector commercial banks, and private sector banks showed diverse approaches to serving mid-tier borrowers. SBI and public sector banks maintained steady yet moderate growth, focusing on consistent market engagement and controlled risk, while private sector banks aggressively expanded their market share, reaching 35.39% in sanctioned amounts by FY 2023-24, leveraging technology to capture a broad borrower base. Regional Rural Banks sustained their commitment to rural communities, showing stability in both sanctioned and disbursed amounts, thus reinforcing rural access to finance. NBFCs and NBFC-MFIs adapted strategic growth, with NBFC-MFIs expanding significantly to support borrowers transitioning from microloans to larger financing. Small Finance Banks also played a key role in targeting underserved segments, particularly entrepreneurs and small business owners. Category-wise, Kishore loans demonstrated increased inclusivity, particularly among SC, ST, and OBC borrowers, reflecting concerted efforts to address traditionally underserved groups. Women entrepreneurs and new business entrants benefited substantially, indicating a positive trend toward gender inclusivity and support for emerging enterprises. The Kishore loan data reflects an inclusive finance landscape that adapts to meet the diverse needs of India's economic sectors, contributing to economic growth and development at grassroots levels. This segment underscores the role of varied institutions in advancing financial inclusion, highlighting both the potential for growth and the imperative of sustainable, strategic lending practices.

2.4.5Tarun Loans

The Tarun loan category is part of the Pradhan Mantri Mudra Yojana (PMMY), aimed at supporting small businesses and entrepreneurs by offering unsecured loans. Tarun loans specifically cater to financial needs between ₹5 lakh and ₹10 lakh, allowing more established micro and small enterprises to expand or modernize operations without collateral constraints. These loans are intended for businesses that are no longer in the nascent stage but need significant funding to scale up their operations, purchase equipment, or invest in capital improvements. Through Tarun loans, financial institutions encourage the growth of small businesses, bridging the gap between basic micro-financing and larger, secured loans, thus making this category pivotal for fostering economic growth and job creation in the micro, small, and medium enterprises (MSME) sector.

Table 2.10: Tarun Loan (Loans from Rs. 5.00 to Rs. 10.00 lakhs), Sanction, Disbursement and Number of Accounts, by Type of Institution (Absolute Numbers), FY 2023-24 to FY 2018-19

Bank Type Name	Financial Year 2018-19			Financial Year 2019-20			Financial Year 2020-21		
	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount
SBI and Associates	0.22	168.68	168.23	0.21	160.28	159.84	0.30	239.44	239.16
Public Sector Commercial Banks	0.35	284.08	262.01	0.35	288.45	266.01	0.35	287.79	257.58
Private Sector Commercial Banks	0.14	97.49	95.67	0.18	121.34	119.37	0.18	103.57	102.42
Regional Rural Banks	0.03	24.80	23.99	0.04	31.87	30.85	0.04	35.15	33.79
MicroFinance Institutions	-	-	-	-	-	-	-	-	-
NBFC-MicroFinance Institutions	0.11	3.27	3.27	0.00	2.66	2.66	0.00	0.51	0.51
Non Banking Financial Companies	0.20	128.82	127.06	0.19	151.41	148.49	0.17	111.48	110.40
Small Finance Banks	0.71	42.54	42.45	0.32	27.53	27.49	0.02	14.96	14.93
Grand Total	1.76	749.69	722.70	1.29	783.55	754.71	1.07	792.90	758.78

Bank Type Name	Financial Year 2021-22			Financial Year 2022-23			Financial Year 2023-24		
	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount
SBI and Associates	0.21	191.80	191.23	0.19	227.19	224.22	0.22	289.20	288.27
Public Sector Commercial Banks	0.43	347.28	324.46	0.63	518.58	505.65	0.71	594.20	581.54
Private Sector Commercial Banks	0.18	115.81	114.32	0.25	177.76	176.86	0.29	206.24	205.23
Regional Rural Banks	0.06	42.07	40.28	0.09	71.91	69.83	0.13	92.26	83.74
MicroFinance Institutions	-	-	-	-	-	-	-	-	-
NBFC-MicroFinance Institutions	0.00	0.13	0.13	0.01	4.51	4.51	0.00	3.06	3.06
Non Banking Financial Companies	0.09	52.82	52.82	0.12	73.26	73.26	0.13	83.57	83.57
Small Finance Banks	0.03	17.27	17.20	0.03	24.44	24.44	0.04	29.37	29.37
Grand Total	0.99	767.19	740.44	1.32	1,097.65	1,078.77	1.52	1,297.91	1,274.79

Note: No. of accounts are million and amounts are ₹ in billion
Source: PMMY Bank Wise Performance 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19

Table 2.11: Tarun Loan (Loans from Rs. 5.00 to Rs. 10.00 lakhs), Sanction, Disbursement and Number of Accounts, by Type of Institution (in %), FY 2023-24 to FY 2018-19

Bank Type Name	Financial Year 2018-19			Financial Year 2019-20			Financial Year 2020-21		
	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount
SBI and Associates	12.34%	22.50%	23.28%	15.99%	20.46%	21.18%	28.19%	30.20%	31.52%
Public Sector Commercial Banks	19.71%	37.89%	36.25%	27.10%	36.81%	35.25%	33.10%	36.30%	33.95%
Private Sector Commercial Banks	8.10%	13.00%	13.24%	13.96%	15.49%	15.82%	16.39%	13.06%	13.50%
Regional Rural Banks	1.80%	3.31%	3.32%	3.14%	4.07%	4.09%	4.08%	4.43%	4.45%
MicroFinance Institutions	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
NBFC-MicroFinance Institutions	6.51%	0.44%	0.45%	0.13%	0.34%	0.35%	0.07%	0.06%	0.07%
Non Banking Financial Companies	11.24%	17.18%	17.58%	14.89%	19.32%	19.67%	16.13%	14.06%	14.55%
Small Finance Banks	40.31%	5.67%	5.87%	24.79%	3.51%	3.64%	2.05%	1.89%	1.97%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Bank Type Name	Financial Year 2021-22			Financial Year 2022-23			Financial Year 2023-24		
	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	No. of A/Cs	Sanction Amount	Disbursement Amount
SBI and Associates	21.12%	25.00%	25.83%	14.30%	20.70%	20.79%	14.17%	22.28%	22.61%
Public Sector Commercial Banks	43.41%	45.27%	43.82%	48.14%	47.24%	46.87%	46.74%	45.78%	45.62%
Private Sector Commercial Banks	18.08%	15.10%	15.44%	18.76%	16.19%	16.39%	18.88%	15.89%	16.10%
Regional Rural Banks	6.19%	5.48%	5.44%	6.88%	6.55%	6.47%	8.47%	7.11%	6.57%
MicroFinance Institutions	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
NBFC-MicroFinance Institutions	0.02%	0.02%	0.02%	0.44%	0.41%	0.42%	0.26%	0.24%	0.24%
Non Banking Financial Companies	8.63%	6.89%	7.13%	8.88%	6.67%	6.79%	8.79%	6.44%	6.56%
Small Finance Banks	2.55%	2.25%	2.32%	2.60%	2.23%	2.27%	2.70%	2.26%	2.30%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Table 2.12: Sub-Categories of Borrowers: Sanctions, Disbursement and Outstanding for General, SC/ST, OBC, Women and New Entrepreneurs (FY 2023-24, 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19)

Tarun Loan (Loans from Rs. 5.00 to Rs. 10.00 lakhs)												
Category	Financial Year 2018-19				Financial Year 2019-20				Financial Year 2020-21			
	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount
General	1.30	663.65	639.85	587.06	1.11	696.20	670.72	584.07	0.92	693.53	663.48	604.79
SC	0.13	14.12	13.63	18.90	0.03	12.72	12.15	11.48	0.02	16.80	16.22	14.91
ST	0.13	10.03	9.73	10.44	0.03	8.79	8.48	8.25	0.02	11.68	11.16	11.13
OBC	0.19	62.10	59.71	70.73	0.12	65.88	63.40	62.66	0.11	70.89	67.92	72.49
Women Entrepreneurs	0.78	100.39	95.09	102.14	0.40	90.45	84.64	78.92	0.08	60.82	56.80	53.08
New Entrepreneurs/ Accounts	0.44	335.62	319.61	308.34	0.43	323.23	307.05	273.59	0.47	353.36	342.01	314.73

Tarun Loan (Loans from Rs. 5.00 to Rs. 10.00 lakhs)												
Category	Financial Year 2021-22				Financial Year 2022-23				Financial Year 2023-24			
	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount	No. of A/Cs	Sanction Amount	Disbursement Amount	Outstanding Amount
General	0.83	662.68	638.75	550.94	1.10	937.34	921.52	772.91	1.21	1,072.20	1,053.02	885.68
SC	0.03	17.21	16.70	15.75	0.04	26.51	26.02	23.68	0.07	50.95	50.38	42.00
ST	0.02	11.25	10.80	10.91	0.03	18.92	18.63	17.49	0.04	26.31	25.81	23.09
OBC	0.11	76.04	74.20	78.48	0.15	114.88	112.60	112.45	0.20	148.45	145.58	135.79
Women Entrepreneurs	0.09	67.73	65.47	60.68	0.15	113.41	111.15	90.05	0.19	138.54	134.54	114.20
New Entrepreneurs/ Accounts	0.39	314.29	301.67	266.82	0.46	565.04	553.29	454.61	0.76	702.94	688.61	578.55

Note: No. of accounts are million and amounts are ₹ in billion
Source: PMMY Bank Wise Performance 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19

2.4.6 Takeaways on Tarun Loans

Takeaway 46: *Strategic Dominance of Public Sector Banks in Tarun Loans—*

Public Sector Commercial Banks have consistently led the Tarun loan segment, particularly notable in their sanction amounts, which rose from ₹284.08 billion in FY 2018-19 to ₹594.20 billion in FY 2023-24. Their share of the total sanction amounts increased from 36.25% to 45.62% over this period, showing their integral role in funding larger loans under the ₹5 lakh to ₹10 lakh range. This growth emphasizes public sector banks' commitment to meeting the credit needs of mid-sized businesses and supporting financial inclusion at scale, particularly within urban and semi-urban markets. As these banks reinforce their presence in larger loan segments, their strategic contributions align with broader economic goals to bolster small and medium enterprises (SMEs) that drive job creation and economic activity across India.

Takeaway 47: *Private Sector Banks and Their Flexible Growth in Tarun Loans—*

Private Sector Commercial Banks demonstrated adaptive growth in the Tarun loan segment, with sanctions increasing from ₹97.49 billion in FY 2018-19 to ₹206.24 billion in FY 2023-24. Their share rose from 13.24% to a steady 16.10% in FY 2023-24, reflecting the private sector's role in catering to growing demands from businesses needing medium-sized loans. This share growth and strategic increase in loan amounts showcase these banks' efforts to capture market share within this essential credit segment. By meeting the demands of a dynamic customer base, private banks not only contribute to SME expansion but also stimulate entrepreneurship by offering flexible terms and innovative loan products.

Takeaway 48: *Regional Rural Banks' Increasing Role in Rural Finance via Tarun Loans—*

Regional Rural Banks (RRBs) saw their participation in Tarun loans expand substantially, with sanctioned amounts growing from ₹24.80 billion in FY 2018-19 to ₹92.26 billion in FY 2023-24. Their share of the total sanction amount also increased, moving from 3.31% to 6.57% over the same period. RRBs play a critical role in rural financial inclusion by providing larger loans to rural enterprises, contributing to local development and bridging the credit gap for rural entrepreneurs. This growth reflects RRBs' mission-driven approach to uplifting regional economies through targeted financing and aligns with national financial inclusion goals.

Takeaway 49: *Minimal Involvement of NBFC-Micro-Finance Institutions in the Tarun Segment—*

NBFC-Micro-Finance Institutions have shown limited engagement in the Tarun loan category, with sanctioned amounts marginally declining from ₹3.27 billion in FY 2018-19 to ₹3.06 billion in FY 2023-24. Their share of total Tarun sanctions was minor, ending at 0.24% in FY 2023-24. This modest role aligns with their core focus on microloans, revealing a strategic choice to maintain specialization in smaller loan segments where their impact is more concentrated. For NBFC-MFIs, the decision to stay largely out of the Tarun segment underscores their continued commitment to low-income and rural customers with specific microfinancing needs.

Takeaway 50: *Fluctuating Engagement of Non-Banking Financial Companies in Tarun Loans—*

Non-Banking Financial Companies (NBFCs) held a considerable but inconsistent share in the Tarun loan market. Sanction amounts started at ₹128.82 billion in FY 2018-19, fluctuating in subsequent years to end at ₹83.57 billion in FY 2023-24, resulting in a market share decrease from 17.58% to 6.56%. This trend suggests that NBFCs faced strategic or competitive challenges in consistently scaling mid-sized loans, despite their flexibility in catering to various customer segments. Their reduced participation highlights potential regulatory or operational adjustments aimed at reallocating resources toward other financial products, leaving room for banks to capture a larger share of the Tarun market.

Takeaway 51: *Targeted Participation of Small Finance Banks in Tarun Loans—*

Small Finance Banks (SFBs) demonstrated selective participation in the Tarun segment, with sanction amounts peaking at ₹29.37 billion in FY 2023-24. Their market share began at 5.87% in FY 2018-19 and settled at 2.30% in FY 2023-24, indicating a cautious approach to scaling within this larger loan category. This trend suggests that SFBs may prioritize smaller loans more aligned with their core customer base. Their controlled participation in Tarun loans reflects strategic resource allocation, catering primarily to micro and small enterprises while offering limited exposure to larger loan segments.

Takeaway 52: *SBI and Associates' Steady Growth in Tarun Loans—*

SBI and Associates showed strong growth in the Tarun loan segment, with sanctioned amounts increasing from ₹168.68 billion in FY 2018-19 to ₹289.20 billion in FY 2023-24. Their market share climbed from 23.28% to 22.61%, reflecting a consistent commitment to larger loan categories for businesses requiring substantial credit. SBI's scale, reach, and reliability have allowed it to serve a diverse customer base while ensuring significant contributions to economic sectors that drive growth and innovation.

Takeaway 53: *Empowering Women Entrepreneurs and Key Demographic Segments through Targeted Tarun Loan Financing—*

The Tarun loan segment highlights an increasing commitment to providing substantial support to specific borrower groups, such as Women Entrepreneurs, SC/ST borrowers, and New Entrepreneurs. Notably, the sanction amounts for women entrepreneurs grew from ₹100.39 billion in FY 2018-19 to₹ 138.54 billion in FY 2023-24, showcasing a focused effort to drive financial empowerment among women-led enterprises. Other key demographics, such as SC and ST entrepreneurs, also saw steady growth, reflecting a targeted approach to enabling historically underserved groups with access to significant credit. SC category sanctions grew from ₹14.12 billion in FY 2018-19 to ₹50.95 billion in FY 2023-24, and the ST category saw an increase from ₹10.03 billion to ₹26.31 billion over the same period. With sanction amounts for new entrepreneurs rising as well, from ₹335.62 billion to ₹702.94 billion, the banks' focus on expanding credit access aligns closely with national objectives for inclusive finance. By addressing the financing needs of women and marginalized groups within the larger loan categories, Tarun loans are empowering a broad spectrum of entrepreneurs to contribute to economic growth, innovation, and job creation.

The Tarun loan segment (₹5 lakh to ₹10 lakh loans) showcases a comprehensive picture of the diverse and evolving landscape of institutional financing in India. Public Sector Commercial Banks lead the way in the segment, holding the highest market share, followed by notable contributions from private sector banks and SBI and Associates. Regional Rural Banks (RRBs) have consistently increased their share, indicating a deepening commitment to rural credit access, while Non-Banking Financial Companies (NBFCs) and Small Finance Banks (SFBs) reflect a more selective approach. The data also underscores a strong trend in targeted financing, with women entrepreneurs, SC/ST, and new entrepreneurs receiving enhanced support through Tarun loans. Overall, the Tarun loan segment embodies the banks' strategic efforts to broaden access to finance, particularly for businesses and entrepreneurs needing substantial credit to expand. This focused, inclusive approach within the Tarun category aligns with India's larger financial inclusion goals, facilitating economic empowerment, growth, and diversity across the nation's entrepreneurial landscape.

2.5 Discussion

The Pradhan Mantri Mudra Yojana (PMMY), initiated by the Micro Units Development & Refinance Agency Ltd. (MUDRA), currently shapes the MSME financing landscape in India, providing accessible credit to micro and small enterprises. Key financial players, including Public Sector Banks (PSBs), Private Sector Banks (PVBs), Small Finance Banks (SFBs), Non-Banking Finance Companies (NBFCs) and Microfinance Institutions (MFIs), continue to drive growth in annual sanctioned loan amounts, which consistently exceed ₹3,000 billion. While PSBs secure the largest share, they occasionally fall short of meeting targets, in contrast to PVBs, which frequently surpass them. This suggests a strong demand among MSMEs for the flexible and swift services that PVBs offer. Small Finance Banks and MFIs play a crucial role in grassroots financing, often exceeding targets and improving reach in underserved regions. Meanwhile, NBFCs are gradually recovering from past challenges, reflecting a complex yet adaptive MSME financing environment supported by PMMY. Overall, PMMY's sustained growth highlights the scheme's flexibility and its pivotal role in advancing financial inclusion for MSMEs across India as they meet evolving financial needs. Aggregated data from MUDRA, SIDBI, and RBI reveals insights into MSME financing trends, showcasing sectoral growth patterns and regional variations. This analysis given in this chapter distinguishes data granularity across loan sizes and financial institutions, providing a nuanced view of financing trends among India's MSMEs. PSBs maintain a substantial share of MSME financing, showing steady growth in sanctioned amounts. However, their challenges in consistently meeting targets indicate a potential need for increased agility. On the other hand, PVBs demonstrate rapid growth, often exceeding targets, pointing to MSMEs' preference for faster, more flexible solutions provided by these banks. MFIs remain committed to financial inclusion by consistently supporting micro-enterprises, especially in regions underserved by traditional banks. With a strong grassroots presence, MFIs surpass targets, underscoring their role in expanding the MSME finance reach. SFBs also maintain stable progress in MSME financing under PMMY, contributing to financial inclusion efforts.

Loan segmentation within PMMY highlights inclusive strategies through three loan categories—Shishu, Kishor, and Tarun—each catering to MSMEs at various growth stages. Shishu loans (up to ₹50,000) dominate in volume, supporting grassroots financial inclusion, while Kishor loans (₹50,001 to ₹5 lakh) capture the highest sanction amounts, reflecting strong demand for growth capital. Tarun loans (₹5 lakh to₹10 lakh), though fewer in volume, serve more established MSMEs, helping them scale operations. A borrower category analysis under PMMY emphasizes a focused approach to inclusion, particularly for socially marginalized groups. General category borrowers hold over half of PMMY's total sanctions, benefiting from broad financial access. Additionally, substantial loan segments support SC, ST, and OBC entrepreneurs, fostering social equity by encouraging entrepreneurship among underserved communities. Women entrepreneurs stand out as prominent beneficiaries, holding a 71.03% share of PMMY accounts in 2022-23. This reflects PMMY's gender-inclusive strategy aimed at empowering women through financial support. Likewise, new entrepreneurs represent a significant portion of sanctions, showcasing PMMY's success in promoting first-time business ownership in alignment with national economic goals. A category-wise analysis also reveals PMMY's adaptability to shifting financing needs. While Shishu loans maintain dominance, there is a gradual shift toward larger Kishor and Tarun loans as MSMEs seek capital for growth. This trend reflects PMMY's evolving support as MSMEs progress from microcredit to growth-stage financing.

Institutional performance by loan type shows PSBs remaining dominant in Shishu loans but facing increasing competition from PVBs and NBFC-MFIs, which leverage digital platforms and flexible terms to attract borrowers. NBFCs focus on selective lending for niche segments, while SFBs sustain steady support for micro-entrepreneurs, furthering financial inclusion efforts. The Kishor loan segment demonstrates adaptive institutional strategies to serve mid-tier

MSMEs. The rapid growth of PVBs within this segment highlights their competitive advantage in speed and customer-oriented service, while PSBs maintain a substantial share, balancing outreach with risk management. Regional Rural Banks (RRBs) play a crucial role in rural inclusion, offering consistent support to regional MSMEs. In the Tarun loan category, which targets substantial MSME growth capital, public sector and private banks are the primary drivers, supporting medium-sized businesses aiming to scale. This segment shows increasing support for women, SC, ST, and new entrepreneurs, highlighting a targeted approach to underserved demographics and fostering a diverse entrepreneurial landscape. In summary, PMMY's strategic loan structuring, multi-tiered institutional support, and focus on marginalized groups affirm its central role in MSME development. By balancing growth financing with financial inclusion, PMMY continues to serve as a pillar of India's financial empowerment and entrepreneurial support framework, promoting sustainable economic development across urban and rural regions.

MSME Financing by Scheduled Commercial Banks

3

3.1 Introduction

This chapter will provide a comprehensive analysis of MSME (Micro, Small, and Medium Enterprise) lending trends across various Scheduled Commercial Banks (SCBs), including Public Sector Banks (PSBs), Private Sector Banks (PVBs), Foreign Banks (FBs), and Small Finance Banks (SFBs). By examining data patterns, lending volumes, asset quality indicators, and strategic shifts, the chapter will aim to shed light on the evolving role SCBs are expected to play in supporting MSME growth and stability within India's dynamic economic landscape. The analysis will explore essential areas such as the projected number of MSME accounts, anticipated outstanding loan amounts, and expected asset quality metrics among these institutions. This approach will offer a multi-dimensional view of future lending behaviors, highlighting the distinct strategies and priorities each bank type will likely adopt in response to changing economic conditions and regulatory guidance. Additionally, the chapter will examine expected trends in asset quality within the MSME portfolio, including potential shifts in the Gross Non-Performing Asset (GNPA) ratios and related metrics. Through this analysis, the chapter will highlight how banks are projected to respond to regulatory support measures and economic pressures, particularly with adaptive risk management strategies and enhanced credit assessment techniques. Furthermore, Small Finance Banks (SFBs), a relatively new entrant in

Table 3.1: Credit Flow to the MSME Sector by SCBs (Absolute Numbers)(number of accounts in millions, the amount outstanding in ₹ billion)*

Bank Groups	Items	2018-19	2019-20	2020-21	2021-22*	2022-23
Public Sector Banks (PSBs)	No. of accounts	11.30 (1.76)	11.08 (-1.90)	15.08 (36.05)	15.00 (-0.7)	13.90 (-7.4)
	Amount Outstanding	8800.33 (1.79)	8933.15 (1.51)	9086.59 (1.72)	9558.60 (5.2)	10849.53 (13.5)
Private Sector Banks (PVBs)	No. of accounts	20.53(38.42)	27.06(31.81)	26.68(-1.41)	11.30 (-57.7)	7.30 (-35.2)
	Amount Outstanding	5636.78 (37.23)	6469.88 (14.78)	7920.42 (22.42)	9698.44 (22.4)	10898.33 (12.4)
Foreign Banks (FBs)	No. of accounts	0.24(9.14)	0.27(14.17)	0.26(-5.11)	0.21(-19.0)	0.20 (-26.3)
	Amount Outstanding	669.39 (36.94)	732.79 (9.47)	832.24 (13.57)	853.52 (2.6)	853.49 (0.0)
All Scheduled Commercial Banks (SCBs)	No. of accounts	32.07(22.61)	38.42(19.80)	42.02(9.37)	26.50 (-37.0)	21.30 (-19.4)
	Amount Outstanding	15106.51 (14.08)	16135.82 (6.81)	17839.25 (10.56)	20110.57 (12.7)	22601.35 (12.4)

Note: Figures in the parentheses indicate y-o-y growth rates.
* Source: RBI, 'Report on Trend and Progress of Banking in India 2022-23

the SCB landscape, will also be examined for their unique approach to MSME financing. Overall, this analysis will attempt to offer vital insights for banks, policymakers, and industry stakeholders.

3.2 Credit Flow to The MSME Sector by Scheduled Commercial Banks (SCBs)

3.3 Takeaways on Credit Flow to MSMEs by SCBs (Public Sector, Private and Foreign)

Takeaway 1: *Public Sector Banks (PSBs) – A Moderate Growth Path with Strategic Adjustments—*

Public Sector Banks (PSBs) show steady growth in the amount outstanding, albeit with fluctuations in account numbers, reflecting strategic targeting in their lending approach. From FY 2018-19 to FY 2022-23, the total amount outstanding rose from ₹8,800.33 billion to ₹10,849.53 billion, showing a cumulative growth of over 23%. In FY 2022-23 alone, PSBs marked a significant 13.5% increase in outstanding credit, indicating strengthened support for the MSME sector post-pandemic. This was despite a 7.4% decline in account numbers, indicating larger loans to a more focused borrower segment. The selective approach suggests PSBs may be targeting MSMEs with stronger financial credentials, aiming to balance risk and impact while maintaining growth in the sector.

Takeaway 2: *Private Sector Banks (PVBs) – Rapid Growth Paired with Strategic Retraction in Recent Years—*

Private Sector Banks (PVBs) demonstrated a high initial growth trajectory in lending, with accounts increasing from 20.53 million in FY 2018-19 to a peak of 27.06 million in FY 2019-20, and then a notable shift. In FY 2020-21, PVBs saw a slight 1.41% decline in accounts, but the amount outstanding continued to climb, reaching ₹10,898.33 billion by FY 2022-23. The year FY 2021-22 marked a sharp 57.7% reduction in accounts, reflecting a recalibration as PVBs adopted a more selective lending strategy, focusing on fewer accounts while increasing the credit amount. In FY 2022-23, the amount outstanding grew by 12.4%, suggesting that PVBs concentrated on extending higher-value loans, possibly to larger MSMEs or those with more robust repayment histories. This evolution reflects an adaptive strategy aligning with risk assessments and portfolio optimization.

Takeaway 3: *Foreign Banks (FBs) – Consistent Growth with Small Portfolio Adjustments—*

Foreign Banks (FBs), representing a niche within the MSME lending landscape, maintained a steady but relatively small credit flow compared to domestic banks. Account numbers grew modestly from 0.24 million in FY 2018-19 to 0.27 million in FY 2019-20, but declined consistently thereafter, reaching 0.20 million in FY 2022-23, a 26.3% year-on-year decrease. However, the outstanding credit amount experienced steady growth, rising from ₹669.39 billion in FY 2018-19 to ₹853.49 billion by FY 2022-23, with a slight flattening in growth at 0% in the last year. This consistent increase in outstanding amounts, despite the reduced accounts, suggests that FBs focus on maintaining relationships with high-value clients within the MSME segment, likely those with established creditworthiness and international business potential, balancing portfolio size with quality.

Takeaway 4: *Overall SCB Credit to MSMEs – Sustained Growth with a Shift in Account Composition—*

Across all Scheduled Commercial Banks (SCBs), credit to the MSME sector shows sustained growth in outstanding credit, with notable changes in account dynamics. The overall number of accounts peaked at 42.02 million in FY 2020-21, followed by a sharp decline to 21.3 million in FY 2022-23, indicating a more targeted lending approach across the board. However, the amount outstanding rose from ₹15,106.51 billion in FY 2018-19 to ₹22,601.35 billion in FY 2022-23, a robust growth of approximately 50% over five years. The strategy appears to be focused on optimizing credit risk by lending higher amounts to fewer accounts, emphasizing financial stability and scalability within the MSME sector.

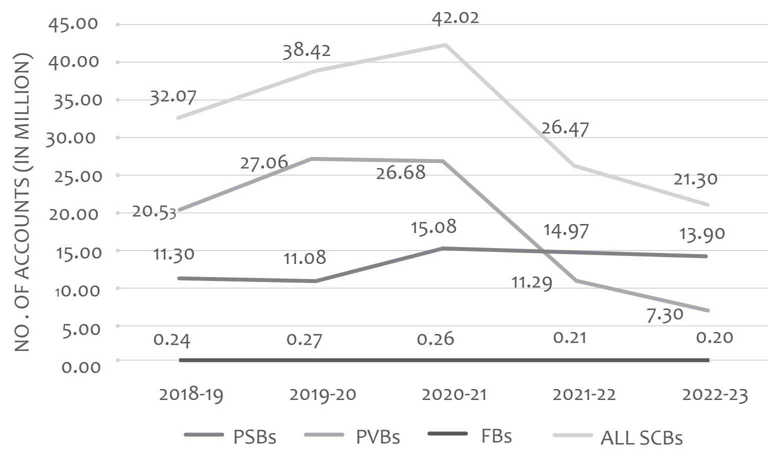


Figure 3.1: Credit Flow to the MSME Sector by SCBs-Number of Accounts (in millions) *

* Source: RBI, 'Report on Trend and Progress of Banking in India 2022-23'.

Takeaway 5: *Insights into Year-on-Year Growth Patterns and Implications for Inclusive Finance—*

The year-on-year (y-o-y) growth rates reflect a dynamic adaptation of the MSME lending strategies in response to economic conditions. PSBs showed moderate but steady growth, with outstanding credit increasing each year, peaking in FY 2022-23 with a 13.5% rise, indicating resilience and a gradual shift toward larger, more stable MSMEs. PVBs, on the other hand, showed more volatility in account numbers, particularly a dramatic reduction of 57.7% in FY 2021-22. This decline coincided with a focus on larger loans, aligning with a trend toward quality lending over quantity. FBs demonstrated consistency, with modest annual increases in outstanding credit, and prioritized client quality over portfolio expansion. SCBs as a whole maintained double-digit growth in outstanding credit, peaking at 14.08% in FY 2018-19 and sustaining a stable rate around 12.4% in FY 2022-23. This consistent focus on credit quality and risk-adjusted returns aligns with inclusive finance goals, as the lending strategies focus on stable, growing MSMEs to create a resilient foundation for economic expansion.

Table 3.1 highlights how Public Sector Banks, Private Sector Banks, and Foreign Banks have tailored their credit strategies for MSMEs, each adapting to shifting economic conditions and credit demands. Over five years, PSBs consistently grew their loan amounts, indicating a preference for expanding existing account credit lines. PVBs displayed a dynamic yet selective approach, focusing on high-quality, high-value accounts. Foreign Banks remained stable, serving a niche market. The combined efforts of SCBs have enhanced financial inclusion and stability across MSMEs, supporting enterprise growth, job creation, and economic resilience.

Figure 3.1 presents a comprehensive overview of the credit flow dynamics in the MSME sector, focusing on the number of accounts serviced by Scheduled Commercial Banks (SCBs) in India, segmented by Public Sector Banks (PSBs), Private Sector Banks (PVBs), and Foreign Banks (FBs) from FY 2018-19 to FY 2022-23. The trend reveals shifts in each bank group's approach towards MSME lending, with significant fluctuations, especially in the last three fiscal years. The overall decline in account numbers, particularly among PVBs and SCBs as a whole, suggests a realignment of credit portfolios as banks increasingly prioritize loan quality and risk management over volume. This trend offers insights into the changing strategies within the financial sector in response to broader economic factors, regulatory adjustments, and evolving MSME creditworthiness post-pandemic.

Takeaway 6: *A Volatile Growth Trajectory for SCBs Reflects Strategic Shifts in MSME Lending—*

The total number of MSME credit accounts with SCBs experienced fluctuating growth, peaking in FY 2020-21 at 42.02 million accounts, followed by a significant drop to 21.3 million in FY 2022-23. This 49.3% decline over two years reflects a strategic shift towards a smaller, higher-quality portfolio, potentially indicating that SCBs, in general, are moving towards credit risk mitigation by focusing on larger loans to fewer MSME accounts. The drastic reduction post-FY 2020-21 could be attributed to tightened credit conditions, more stringent lending criteria, or a response to the pandemic's impact on the financial stability of MSMEs, as banks reassess lending policies for the sector.

Takeaway 7: Public Sector Banks' Steady Approach to Account Growth with Limited Volatility—

PSBs maintained a relatively stable trend in the number of MSME accounts, starting from 11.30 million in FY 2018-19, slightly decreasing in FY 2019-20, and eventually stabilizing around 15 million in FY 2021-22 before a gradual decline to 13.9 million in FY 2022-23. This minor fluctuation indicates that PSBs opted for a conservative approach, with only a 7.4% reduction in FY 2022-23. The steadiness of this trend suggests that PSBs, while adjusting for risk, continue to maintain their role in ensuring financial inclusion for MSMEs. Their relatively stable account base, in contrast to PVBs, aligns with a mandate to support underserved sectors while cautiously managing credit quality.

Takeaway 8: Private Sector Banks' Rapid Expansion Followed by Sharp Retraction Reflects Strategic Realignment—

Private Sector Banks (PVBs) show an aggressive initial expansion, growing from 20.53 million accounts in FY 2018-19 to a high of 27.06 million in FY 2019-20, a 31.8% year-on-year increase. However, from FY 2020-21 onwards, PVBs implemented a stark reduction in MSME credit accounts, declining to just 7.3 million by FY 2022-23—a 73% decrease in three years. This sharp contraction likely reflects a shift from quantity to quality as PVBs refined their risk criteria. The pandemic's economic impact on MSMEs and PVBs' pivot towards high-value, lower-risk accounts may have contributed to this downsizing. This realignment highlights the PVBs' agility in modifying strategies to safeguard portfolio health.

Takeaway 9: Foreign Banks Maintain a Limited but Steady Role in MSME Lending—

Foreign Banks (FBs), though representing a minor share, demonstrated a consistent approach, with account numbers rising slightly from 0.24 million in FY 2018-19 to 0.27 million in FY 2019-20, before gradually reducing to 0.20 million by FY 2022-23. The drop in FB accounts indicates a highly selective strategy, prioritizing fewer, higher-quality MSMEs, consistent with FBs' typical focus on niche and financially stable clients. The gradual decline suggests a calculated retrenchment, potentially as FBs reassess the profitability and risk dynamics of the MSME sector amidst economic uncertainties, especially in a post-pandemic environment.

Takeaway 10: Implications for Inclusive Finance and MSME Credit Accessibility—

The trends observed across SCBs highlight the evolving nature of MSME finance, where banks increasingly weigh credit risk against inclusive finance goals. The reduction in MSME accounts, particularly in the private sector, implies that many MSMEs may face access challenges due to heightened scrutiny and eligibility requirements. Public Sector Banks continue to play a stabilizing role, maintaining a relatively consistent account base to support MSME credit needs. Meanwhile, the drastic reduction by Private Sector Banks underscores an industry-wide pivot to risk-managed growth, potentially limiting financing options for newer or smaller MSMEs without strong credit histories. The overall trend reflects a delicate balancing act as banks strive to support MSMEs while maintaining resilient portfolios amid evolving economic challenges.

Figure 3.2 illustrates the outstanding loan amounts (in billions of rupees) provided to the MSME sector by various bank categories, including Public Sector Banks (PSBs), Private Sector Banks (PVBs), Foreign Banks (FBs), and All Scheduled Commercial Banks (SCBs) as a consolidated group, from FY 2018-19 to

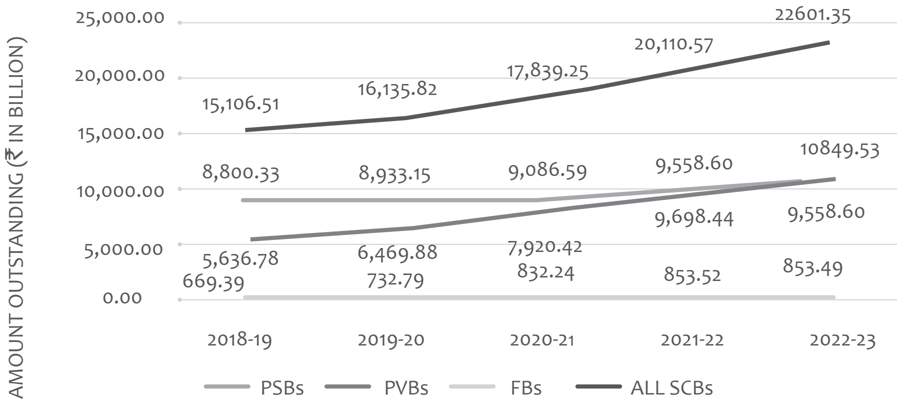


Figure 3.2: Credit Flow to the MSME Sector by SCBs-Amount Outstanding (₹ in billion) *

* Source: RBI, 'Report on Trend and Progress of Banking in India 2022-23'.

FY 2022-23. This visual representation reflects the growth trajectory in the outstanding credit amount for MSMEs across these bank categories, highlighting annual changes and the cumulative impact on MSME financing. The chart shows that while all categories of banks increased their loan exposure to MSMEs over the years, the pace and scale of these increments varied significantly, with notable expansions in particular bank categories at different points. This upward trend in credit outflow emphasizes the banking sector's strategic emphasis on supporting MSME growth, reflecting banks' responsiveness to the sector's financing needs amid evolving economic conditions.

Takeaway 11: *Robust Growth in Overall MSME Credit Outstanding Reflects Strong Sectoral Support by SCBs—*

The outstanding amount for MSME credit across all Scheduled Commercial Banks (SCBs) rose significantly, from ₹15,106.51 billion in FY 2018-19 to ₹22,601.35 billion in FY 2022-23. This steady increase, totaling a 49.6% rise over five years, underscores the financial sector's commitment to the MSME sector. Year-on-year growth accelerated, with FY 2021-22 and FY 2022-23 alone witnessing growth rates of 12.7% and 12.4%, respectively. This trend suggests a clear recognition by SCBs of MSMEs as a critical economic driver, especially as they adapted to the needs of a post-pandemic economy. Such consistent support positions SCBs as a key pillar in the MSME ecosystem, enhancing the sector's resilience and inclusive growth prospects.

Takeaway 12: *Public Sector Banks' Consistent Growth in MSME Lending Reinforces Their Development Mandate—*

Public Sector Banks (PSBs) demonstrated consistent year-on-year growth in outstanding MSME credit, increasing from ₹8,800.33 billion in FY 2018-19 to ₹10,849.53 billion in FY 2022-23, marking a 23.3% growth over the period. The largest annual growth rate of 13.5% was seen in FY 2022-23, indicative of PSBs' strengthened role in stabilizing the sector amidst economic fluctuations. This sustained expansion aligns with PSBs' mandate to promote economic development through inclusive finance, particularly in underserved sectors like MSMEs. The steady, moderate growth reflects a cautious yet supportive approach, where PSBs balance risk management with the broader agenda of financial inclusion.

Takeaway 13: Private Sector Banks Exhibit Accelerated Growth, Expanding Their MSME Lending Focus—

Private Sector Banks (PVBs) showed an aggressive expansion in MSME credit outstanding, from ₹5,636.78 billion in FY 2018-19 to ₹10,898.33 billion in FY 2022-23—a

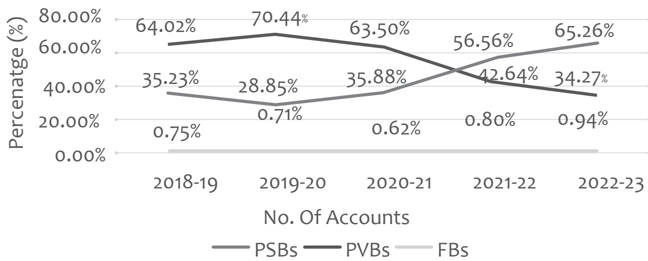


Figure 3.3: SCB Lending to MSMEs in India across Years - No. of Accounts (all figures are year-wise percentages) *

* Source: RBI, 'Report on Trend and Progress of Banking in India 2022-23'.

substantial 93.3% increase over five years. The sharpest growth occurred in FY 2020-21 with a 22.42% rise, followed by a 22.4% increase in FY 2021-22, indicating a strong focus on capturing the MSME market. This robust growth suggests that PVBs view MSMEs as a lucrative and strategic segment, deploying a competitive approach to increase their market share. The focus on expanding credit to MSMEs is likely driven by PVBs' risk assessment capabilities and advanced credit-scoring technologies, enabling them to selectively target high-potential MSMEs.

Takeaway 14: Limited but Steady Engagement of Foreign Banks in MSME Lending—

Foreign Banks (FBs) maintained a limited but stable presence in the MSME credit space, with outstanding credit increasing modestly from ₹669.39 billion in FY 2018-19 to ₹853.49 billion in FY 2022-23, marking a 27.5% increase over five years. The growth rate for FBs fluctuated, peaking at 13.57% in FY 2020-21 before stabilizing to zero growth in FY 2022-23. This stability suggests that FBs remain selective in their MSME exposure, likely focusing on established, export-oriented, or creditworthy MSMEs with strong financials. FBs' cautious approach reflects their niche positioning within the MSME sector, where they cater primarily to low-risk segments that align with their global lending standards.

Takeaway 15: Strategic Implications for Inclusive Finance and MSME Growth—

The overall increase in MSME credit by SCBs indicates a strong commitment to supporting the sector, vital for economic resilience and job creation. The differentiated growth rates among PSBs, PVBs, and FBs suggest varied strategies and risk appetites, reflecting each bank category's operational focus and risk management approach. PSBs remain pivotal for inclusive finance, providing a stable credit flow, while PVBs drive competitive growth, expanding MSME financing options. Meanwhile, FBs' limited but focused involvement indicates an emphasis on quality over volume. Together, these trends underline a multi-pronged approach to MSME financing, enhancing financial inclusivity while balancing risk across the sector. The data suggest that targeted strategies by each bank type contribute to a resilient MSME credit ecosystem, critical for long-term sectoral growth and economic inclusivity.

Figure 3.3 provides a year-wise breakdown of the distribution of MSME accounts across three types of Scheduled Commercial Banks (SCBs) in India: Public Sector Banks (PSBs), Private Sector Banks (PVBs), and Foreign Banks (FBs), spanning from FY 2018-19 to FY 2022-23. The data illustrates the evolving market share of each banking segment in terms of the number of MSME accounts, expressed as a percentage of the total accounts across all SCBs each year. Notably, the figure reveals shifting trends in MSME lending strategies, where the dominance of PVBs diminished over the years as PSBs increased their presence, especially noticeable from FY 2020-21 onward. The role of FBs remained relatively minor, with a consistent presence under 1% throughout the period. This distribution highlights the strategic adjustments of PSBs and PVBs in targeting the MSME sector, reflecting broader trends in financial inclusion, risk management, and banking policies.

***Takeaway 16:** Public Sector Banks' Ascendance in MSME Accounts Reflects Renewed Focus on Financial Inclusion—*

The proportion of MSME accounts held by Public Sector Banks (PSBs) rose from 35.23% in FY 2018-19 to 65.26% in FY 2022-23. This marked shift suggests a deliberate strategy by PSBs to prioritize MSME lending, especially as they expanded their share significantly post-FY 2020-21. This shift aligns with government-led initiatives aimed at boosting credit flow to MSMEs, particularly in underserved regions where PSBs have a strong footprint. PSBs' rising dominance underscores their role in advancing financial inclusion, likely driven by lower risk aversion and greater flexibility in addressing the credit needs of MSMEs, particularly in semi-urban and rural areas.

Takeaway 17: *Decline in Private Sector Banks' Market Share Highlights Strategic Reallocation—*

Private Sector Banks (PVBs) saw a considerable reduction in their share of MSME accounts, dropping from a peak of 70.44% in FY 2019-20 to 34.27% in FY 2022-23. This contraction indicates a strategic shift by PVBs, possibly reallocating resources toward higher-value segments or reducing exposure to MSMEs due to perceived risk factors. The reduction in MSME account share also suggests a recalibration of risk tolerance among PVBs, where they may be more selective in their MSME portfolio, focusing on established or higher-earning MSMEs. This trend could imply a divergence in PVBs' approach to MSME financing compared to PSBs, emphasizing risk management over expansive outreach.

Takeaway 18: *Minimal Role of Foreign Banks in MSME Lending Points to Niche Market Focus—*

Foreign Banks (FBs) consistently maintained a minor presence in MSME lending, with their share of accounts fluctuating around 0.7% to 0.94% over the years. This steady yet minimal involvement reflects FBs' cautious approach and selective engagement in the MSME sector. Given their typically stringent risk assessment criteria and focus on higher-income segments, FBs' low penetration in MSME accounts aligns with their strategic preference for niche, low-risk customers. Their minimal impact on the MSME sector highlights the limited role FBs play in advancing broad-based financial inclusion for smaller enterprises in India.

Takeaway 19: Implications of the Shift toward PSBs for Financial Inclusion and MSME Sector Resilience—

The substantial increase in PSBs' share of MSME accounts represents a crucial development for financial inclusion in India. By capturing a larger portion of MSME accounts, PSBs are better positioned to serve small businesses that may not meet the more stringent lending criteria of PVBs and FBs. This shift implies that a significant segment of MSMEs is likely relying on PSBs for their credit needs, especially as PSBs may offer more accessible terms and a willingness to lend to a broader range of enterprises. Consequently, PSBs' dominance could enhance resilience within the MSME sector by ensuring a stable and inclusive credit flow that mitigates the impacts of economic volatility on smaller businesses.

Takeaway 20: *Strategic Balance between Risk Management and Inclusion by Bank Categories—*

The contrasting trends between PSBs and PVBs reveal a nuanced balance between risk management and financial inclusion in MSME lending. PSBs' increasing focus on MSMEs suggests a high tolerance for inclusive growth, potentially spurred by governmental backing and policy support. In contrast, PVBs' declining share may reflect a calculated decision to limit exposure to smaller, potentially higher-risk accounts, favoring profitability and stability. This divergence points to a broader strategic positioning among bank categories, where PSBs act as key drivers of inclusive finance while PVBs prioritize risk-adjusted growth. This dynamic offers MSMEs a varied financing landscape, catering to diverse credit needs and risk profiles.

Figure 3.4 presents the year-wise percentage distribution of outstanding credit to the Micro, Small, and Medium Enterprises (MSME) sector by various Scheduled Commercial Banks (SCBs) in India, covering Public Sector Banks (PSBs), Private Sector Banks (PVBs), and Foreign Banks (FBs) from FY 2018-19 to FY 2022-23. This figure

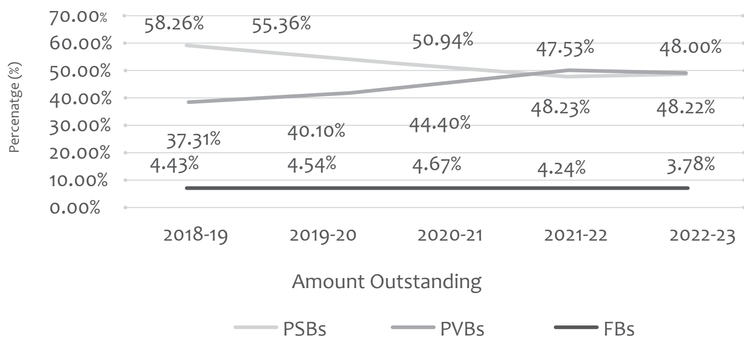


Figure 3.4: SCB lending to MSMEs in India across Years - Amount Outstanding (all figures are year-wise percentages) *

* Source: RBI, 'Report on Trend and Progress of Banking in India 2022-23'.

illustrates shifts in the relative contributions of each banking segment to the MSME credit pool, reflecting changes in lending strategies, sector focus, and institutional dynamics. PSBs held the majority share at the beginning of the period but saw a gradual decrease, converging with PVBs by FY 2021-22, after which their shares stabilized. Meanwhile, PVBs showed a steady increase in their share, eventually overtaking PSBs in FY 2022-23, while FBs maintained a minor but consistent presence, with marginal reductions over the years. This distribution underscores the evolving roles of these banks in supporting MSME financing and highlights strategic shifts driven by both policy incentives and market dynamics.

Takeaway 21: *Public Sector Banks' Declining Share in MSME Credit Reflects Strategic Diversification—*

Public Sector Banks (PSBs) began with a dominant 58.26% of MSME credit in FY 2018-19, but this share gradually declined to 47.53% by FY 2021-22, eventually stabilizing at 48.00% in FY 2022-23. This reduction aligns with a broader strategic shift within PSBs, possibly toward balancing risk exposure and diversifying their loan portfolios. While PSBs continue to play a substantial role in MSME financing, their reduced share suggests a focus on curating a more stable portfolio by emphasizing sectors with lower risk and high growth potential, likely in response to pressures for profitability and asset quality improvements.

Takeaway 22: *Private Sector Banks' Ascending Role Signals Increased Competition in MSME Lending—*

Private Sector Banks (PVBs) increased their share in MSME outstanding credit from 37.31% in FY 2018-19 to nearly match PSBs at 48.23% in FY 2021-22, eventually surpassing them slightly to reach 48.22% in FY 2022-23. This growth indicates a proactive strategy by PVBs to capture a larger share of the MSME segment, leveraging digital lending platforms, targeted loan products, and quicker processing times. The steady increase also reflects PVBs' confidence in the resilience of the MSME sector, positioning themselves as a viable alternative for MSMEs seeking credit beyond traditional PSBs. This shift is likely driven by the competitive advantage PVBs have in personalized service and risk-based pricing models.

Takeaway 23: *Foreign Banks' Marginal Role Highlights Niche Focus in the MSME Sector—*

Foreign Banks (FBs) consistently held a minor share in MSME credit, ranging from 4.43% in FY 2018-19 to a slight decline to 3.78% in FY 2022-23. This limited involvement suggests a niche, selective approach to MSME lending by FBs, likely focusing on specific, low-risk segments within the MSME sector. Given their limited regional reach and stringent lending standards, FBs are less integrated into the inclusive finance goals of MSME development in India. The gradual reduction of their share indicates a cautious approach, prioritizing profitability and risk control over market expansion in the MSME sector.

Takeaway 24: *The Convergence of PSBs and PVBs Reflects a Shift in MSME Lending Dynamics—*

The convergence of PSB and PVB shares around FY 2021-22 highlights a competitive shift within MSME lending. With PVBs intensifying their focus on MSMEs, the traditional dominance of PSBs in this segment is being challenged. This competitive parity suggests an evolving landscape where both public and private players are equally committed to MSME growth. However, this parity may also indicate different risk profiles, with PVBs potentially capturing more creditworthy MSMEs while PSBs cater to broader, inclusive goals. The trend also signifies a critical juncture in MSME financing, where diverse funding sources contribute to sector resilience and sustainable growth.

Takeaway 25: *Strategic Implications for MSME Sector Growth and Financial Inclusion—*

The observed trends in MSME lending shares have profound implications for financial inclusion and sectoral growth. PSBs' continuing stronghold, despite a reduction, supports a significant portion of MSMEs that rely on accessible and government-backed financing options. Conversely, the growth of PVBs' share reflects a shift toward efficiency-driven lending models, promoting access to faster and often tech-enabled credit. The divergent approaches by these banks enrich the financial ecosystem, offering MSMEs a choice between expansive public funding and efficient private alternatives. This balanced distribution between PSBs and PVBs is crucial for meeting diverse MSME needs across geographic and economic spectrums, fostering an inclusive financing environment conducive to MSME sector expansion.

3.3 Bank Credit to MSMEs Segments

Table 3.2 provides a comprehensive overview of the credit flow to the Micro, Small, and Medium Enterprises (MSME) sector in India, breaking down data by enterprise category and examining both the number of accounts and the outstanding loan amounts from FY 2018-19 through December 2023. This dataset offers critical insights into how banks have responded to the needs of the MSME sector over recent years, capturing fluctuations influenced by economic challenges, such as the COVID-19 pandemic, and policy shifts aimed at bolstering financial inclusion. Notably, while the number of accounts has shown volatility, the outstanding amounts have increased steadily, indicating higher credit absorption per account across the MSME sector. This analysis allows us to assess the effectiveness of banking strategies, risk adjustments, and the impact of regulatory interventions on the accessibility and depth of credit for MSMEs.

Table 3.2: Bank Credit to MSMEs (number in million, amount in ₹ billion)

Financial Years	Micro Enterprises		Small Enterprises		Medium Enterprises		Total	
	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding
2018-19	25.56	6,591.02	2.30	6,380.31	0.26	1,974.19	28.12	15,106.50
December 2020	39.45	7,631.09	2.32	6,522.92	0.53	2,709.24	42.30	16,863.25
2020-21	38.79	8,210.28	2.78	6,629.98	0.44	2,998.98	42.02	17,839.25
2021-22	23.96	8,826.94	2.19	7,222.74	0.32	4,060.89	26.47	20,110.57
2022-23	19.44	1,050,000	1.57	7,500.00	0.32	4,600.00	21.33	22,600.00
2023-24** (As at end-December 2023)	24.26	12,600	1.56	8,300	0.35	5,000	26.17	25,900

* The RBI annual report states this data as December 2020, and it reportedly starts from Dec 2019. FY 2019-20 data does not appear to be available. This is presumably because of COVID-19.
** Data are provisional.
Source: RBI, 'Annual Reports 2019-20, 2020-21, 2021-22, 2022-23 and 2023-24'.

3.4 Takeaways on Bank Credit to MSME Segments

Takeaway 26: *The Surge in Micro Enterprise Credit Reflects a Strategic Focus on the Foundation of the MSME Sector—*

From FY 2018-19 to December 2023, Micro Enterprises saw an increase in the outstanding amount from ₹6,591.02 billion to ₹12,600 billion, almost doubling in less than six years. This growth illustrates a strategic focus on supporting the smallest businesses, which are essential for grassroots economic development and job creation. Despite the volatility in the number of accounts, which dipped from 39.45 million in December 2020 to 19.44 million in FY 2022-23 before rebounding to 24.26 million by December 2023, the consistent rise in outstanding amounts suggests that banks are prioritizing larger loan sizes or more credit-intensive micro enterprises. This trend aligns with government initiatives to enhance credit access for micro businesses, including schemes like the Pradhan Mantri Mudra Yojana (PMMY), which are designed to empower the informal sector and encourage financial inclusion.

Takeaway 27: *Small Enterprises' Steady Credit Uptake Signals Stability and Resilience Amid Economic Turmoil—*

The outstanding credit for Small Enterprises grew modestly from ₹6,380.31 billion in FY 2018-19 to ₹8,300 billion by December 2023. Unlike Micro Enterprises, the number of accounts for Small Enterprises has declined steadily from 2.30 million to 1.56 million over the same period, indicating a consolidation or rationalization within this segment. This trend may reflect banks' cautious approach toward lending to small enterprises, which could be seen as slightly higher-risk compared to micro enterprises. Nevertheless, the increase in average credit per account indicates that banks are willing to commit higher amounts to fewer, perhaps more stable, small enterprises. This approach may reflect a risk-management strategy while still supporting viable small businesses, reinforcing their capacity to withstand economic challenges and contribute to sustained growth in the MSME sector.

Takeaway 28: *Credit Expansion in Medium Enterprises Shows a Strategic Shift Towards High-Value MSME Lending—*

Outstanding credit to Medium Enterprises expanded significantly from ₹1,974.19 billion in FY 2018-19 to ₹5,000 billion by December 2023, a remarkable 153% increase over five years. This growth aligns with the relatively stable number of accounts, which fluctuated around 0.3 million. The relatively small number of accounts but high credit values underscore a targeted strategy by banks to support medium enterprises that have the potential for higher credit absorption and scalability. By enabling medium enterprises to access substantial credit, banks are facilitating growth for businesses that are positioned to contribute significantly to the economy and have the potential to move into the large enterprise segment. This strategic allocation indicates that banks view medium enterprises as crucial drivers of economic expansion and job creation.

Takeaway 29: *The COVID-19 Impact on MSME Credit Distribution Highlights the Sector's Vulnerability and Adaptability—*

The COVID-19 pandemic had a pronounced impact on MSME lending patterns. The data from December 2020 shows an initial surge in the number of accounts for Micro Enterprises, peaking at 39.45 million, likely due to emergency credit needs during the pandemic. However, this was followed by a significant contraction in FY 2021-22, with accounts for Micro Enterprises dropping to 23.96 million, reflecting either loan closures, consolidations, or tightened eligibility as the immediate crisis abated. This fluctuation reveals the vulnerability of the MSME sector to economic disruptions but also its adaptability, as demonstrated by the recovery in credit flow by December 2023. These dynamics highlight the importance of resilient financial frameworks and targeted interventions, such as emergency credit lines, to support MSMEs during economic shocks.

Takeaway 30: *Aggregate MSME Credit Growth Reflects Increasing Banking Sector Commitment to Financial Inclusion—*

The total outstanding credit to MSMEs rose from ₹15,106.50 billion in FY 2018-19 to ₹25,900 billion by December 2023. This substantial increase reflects an enhanced commitment by banks to support the MSME sector, fueled by regulatory mandates and financial inclusion goals. The steady growth in total outstanding amounts, despite fluctuations in the number of accounts, suggests that banks are increasingly focused on providing larger loans and supporting high-value MSMEs with scalable business models. The rise in aggregate credit signals banks' alignment with inclusive finance objectives, viewing MSMEs not just as high-risk small entities but as integral contributors to economic growth.

Takeaway 31: *The Consolidation of MSME Accounts Across Categories Reflects a More Selective and Risk-Based Lending Approach—*

A notable trend in Table 3.2 is the decline in the total number of MSME accounts from 42.30 million in December 2020 to 21.33 million in FY 2022-23, before partially rebounding to 26.17 million by December 2023. This reduction, coupled with a consistent increase in outstanding credit, suggests a shift towards fewer but higher-value loans. Banks appear to be adopting a more risk-sensitive approach, possibly driven by regulatory guidance or internal risk assessments. By focusing on creditworthy and potentially scalable MSMEs, banks are likely aiming to reduce loan defaults while maintaining a substantial footprint in the MSME sector. This trend indicates a balancing act between reaching a broad base of MSMEs and ensuring credit quality.

Takeaway 32: *MSME Credit Depth Reflects Enhanced Capacity-Building Efforts and Government Support Schemes—*

The growth in average credit per MSME account across Micro, Small, and Medium categories suggests that MSMEs are gaining greater access to capital, potentially due to government support schemes and credit guarantee programs that reduce the risk for banks. This deepening of credit indicates banks' recognition of the growth potential within the MSME sector and an alignment with the government's objective of financial empowerment. Programs such as the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) likely play a role here, encouraging banks to lend more confidently to MSMEs. As MSMEs gain access to larger funds, their ability to invest in technology, expand operations, and enhance productivity increases, contributing to broader economic development.

Takeaway 33: *Implications for Future MSME Lending and Inclusive Financial Policies—*

The insights from Table 3.2 highlight key areas for policymakers and banks aiming to expand MSME access to credit sustainably. The patterns reveal a need for continuous support to ensure financial inclusion across MSME categories, particularly for smaller enterprises that still face significant credit gaps. Banks may consider expanding targeted financial products, such as low-cost loans and tailored credit packages for MSMEs, to address the sector's diverse needs. Additionally, the reliance on high-value MSME lending by banks underscores the importance of scalable enterprises in driving economic impact. Future policies should continue fostering a balanced approach that promotes access to finance across all MSME tiers, ensuring that micro and small enterprises, in particular, remain integral to the nation's economic growth trajectory.

3.5 Analysis Of MSME Asset Quality Profile

Given below is the compilation of the MSME asset quality profile from March 2021 to September 2023:

Table 3.3 provides an in-depth overview of the MSME asset quality among Scheduled Commercial Banks (SCBs), covering the period from March 2021 to September 2023. This table categorizes MSME loan accounts based on their payment status: 0 Days Past Due (current or performing loans), Special Mention Account (SMA) 0, SMA 1, and SMA 2 (indicating accounts with overdue payments of varying degrees), and Gross Non-Performing Assets (GNPA). The table reflects the effectiveness of banks' credit management practices and targeting strategies for MSMEs—a sector essential for economic growth and financial inclusion. Notably, GNPA trends provide insights into the sector's vulnerability to default, while the stages of SMA highlight areas where intervention may prevent further deterioration. This breakdown offers a lens through which to evaluate the effectiveness of targeted lending practices and banks' proactive risk management strategies.

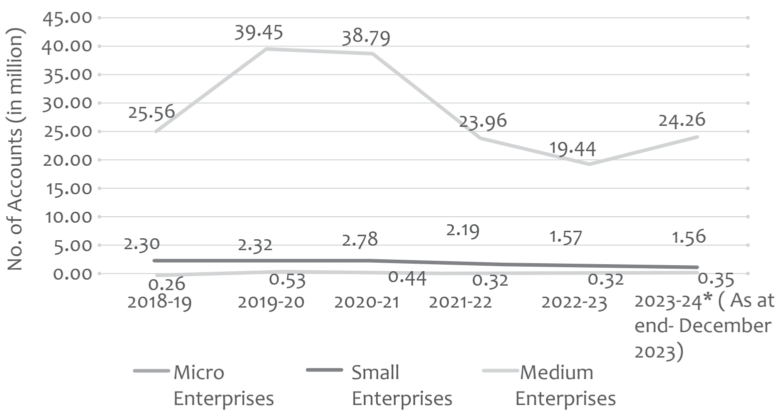


Figure 3.5: Bank Credit to MSME Segments for Number of Accounts (in millions) *

* Source: RBI, 'Annual Reports 2019-20, 2020-21, 2021-22, 2022-23 and 2023-24'.

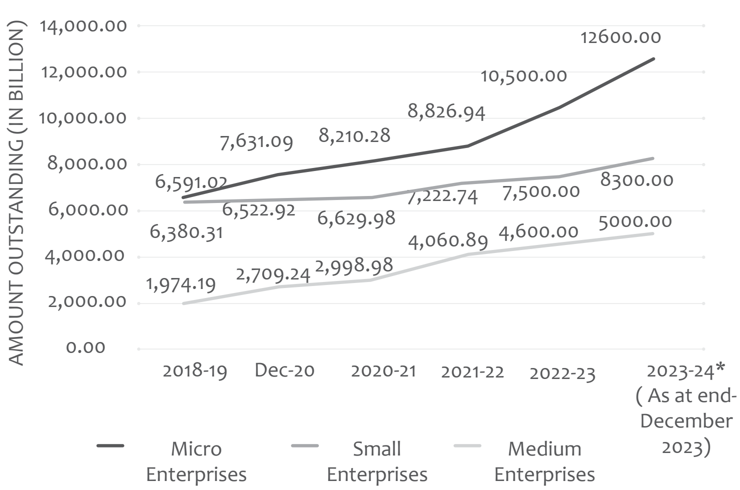


Figure 3.6: Bank Credit to MSME Segments for Amount Outstanding (₹ in billions)

* Source: RBI, 'Annual Reports 2019-20, 2020-21, 2021-22, 2022-23 and 2023-24'.

3.6 Takeaways on MSME Asset Quality Profile

Takeaway 34: *Enhanced Targeting Leads to Increased 0 Days Past Due Accounts, Reflecting Healthier MSME Portfolios—*

The proportion of MSME accounts with 0 Days Past Due has increased from 74.0% in March 2021 to 84.6% in March 2023, underscoring banks' success in better targeting high-quality borrowers. This upward trend of over 10 percentage points reflects banks' more strategic lending practices, which have prioritized MSMEs with stable cash flows and strong repayment capabilities. By refining credit risk models and using better data insights, banks have been able to reduce the likelihood of defaults. This improvement in loan performance is pivotal for inclusive finance, as healthier MSME portfolios enable banks to extend credit more sustainably to this sector, which is vital for economic growth and employment.

Takeaway 35: Decline in SMA 0 and SMA 1 Accounts Shows Early Intervention and Risk Mitigation—

The SMA 0 and SMA 1 categories have shown a notable decrease, with SMA 0 accounts reducing

Table 3.3: MSME Asset Quality Profile of SCBs (Percentages)

	PSBs + PVBs				
	0 Days Past Due	Special Mention Account (SMA) 0	SMA 1	SMA 2	GNPA
March 2021	74.0	7.3	5.7	2.2	10.8
June 2021	72.4	8.6	3.8	3.4	11.9
September 2021	76.3	6.6	2.6	3.1	11.3
December 2021	75.4	8.8	3.1	2.3	10.4
March 2022	79.7	6.4	3.5	1.1	9.3
June 2022	79.6	6.4	3.5	2.2	9.8
September 2022	81.6	6.7	1.9	2.1	7.7
December 2022	82.2	6.3	2.0	2.0	7.4
March 2023	84.6	5.1	2.6	0.9	6.8
September 2023	-	-	-	1.7	4.7

Source: RBI, 'Financial Stability Report (Issue No. 25) June 2022, (Issue No. 27) June 2023 and (Issue No. 28) December 2023'.

from 7.3% in March 2021 to 5.1% in March 2023, and SMA 1 accounts dropping from 5.7% to 2.6% over the same period. This decline highlights banks' proactive approach to early intervention and risk mitigation. By monitoring and managing these accounts more closely, banks have been able to address signs of distress early on, preventing these accounts from progressing to higher-risk stages. This targeted intervention approach is crucial for stabilizing MSME portfolios and aligns with better targeting practices that aim to support financially viable businesses while minimizing exposure to credit risk.

Takeaway 36: *Consistent SMA 2 Levels Indicate the Need for Strengthened Support for Mid-Stage Risk Accounts—*

SMA 2 accounts, representing loans overdue by 60–90 days, have remained relatively stable, decreasing only slightly from 2.2% in March 2021 to 1.7% by September 2023. While banks have succeeded in early-stage risk reduction, the stability in SMA 2 levels suggests that more focused support is needed for MSMEs in this category to prevent further slippage into GNPA. These mid-stage delinquencies highlight a critical area for banks to refine their credit support structures, including potential restructuring options for viable but stressed accounts. Addressing SMA 2 risks effectively could enhance asset quality further and support the broader objectives of inclusive finance.

Takeaway 37: *Substantial Reduction in GNPA Reflects Impact of Better Targeting and Risk-*

Based Lending Practices—GNPA levels for MSMEs have declined dramatically, from 10.8% in March 2021 to 4.7% by September 2023. This reduction underscores the role of better targeting and risk-based lending practices in improving MSME asset quality. By leveraging data analytics, banks have been able to assess the creditworthiness of MSMEs more accurately, avoiding lending to high-risk segments while supporting those with growth potential. This targeted approach not only improves portfolio health but also aligns with the goals of financial inclusion, as it ensures sustainable access to credit for MSMEs with a lower likelihood of default. As a result, banks are able to manage risk more effectively, allowing for greater stability within the MSME credit ecosystem.

Takeaway 38: *Inclusive Finance and Targeted Lending Strategies for Long-Term MSME Stability—*

The trends highlighted in Table 3.3 emphasize the importance of inclusive finance strategies that focus on precision lending—extending credit to MSMEs that demonstrate resilience and repayment capacity. By doing so, banks can support financially sound MSMEs while minimizing their exposure to potential NPAs. This precision lending strategy is central to achieving a balance between credit growth and asset quality in the MSME sector, a key goal for sustainable financial inclusion. Continued efforts to target credit effectively and support viable MSMEs will help fortify the sector against economic downturns and promote financial resilience.

Takeaway 39: Role of Policy Support and Targeted Credit in Enhancing Asset Quality—

The improvement in asset quality is also a testament to the alignment of banking strategies with government and regulatory policies aimed at stabilizing MSMEs. Measures like the Emergency Credit Line Guarantee Scheme (ECLGS) have provided liquidity support to MSMEs, allowing banks to engage in targeted lending while mitigating some of the inherent risks. This synergy between policy support and targeted credit allocation has contributed significantly to the reduction in GNPAs, indicating a collaborative effort to promote sustainable growth in the MSME sector.

Takeaway 40: *Sustaining Low GNPA Levels Through Targeted Credit and Proactive Risk Management—*

Looking ahead, sustaining low GNPA levels will require banks to continue refining their targeting and risk assessment practices. With the use of advanced data analytics and machine learning models, banks can enhance their understanding of MSME borrower profiles, identifying high-potential, low-risk MSMEs. This proactive risk management approach will enable banks to maintain portfolio health, further contributing to inclusive finance by ensuring that credit reaches financially robust MSMEs. As economic conditions evolve, adapting these strategies will be key to maintaining resilience within the sector and supporting the broader economy.

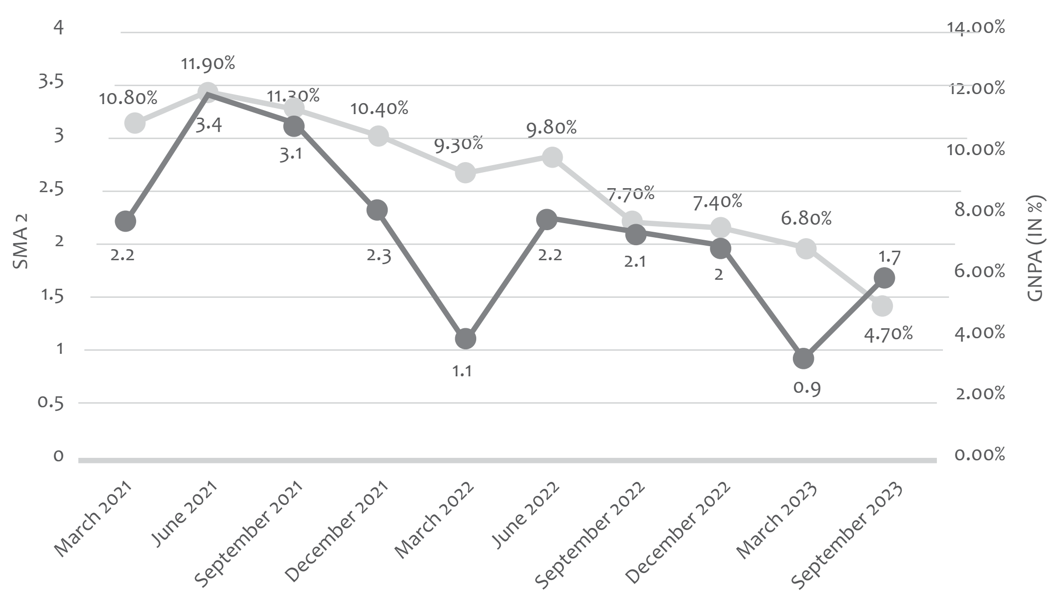
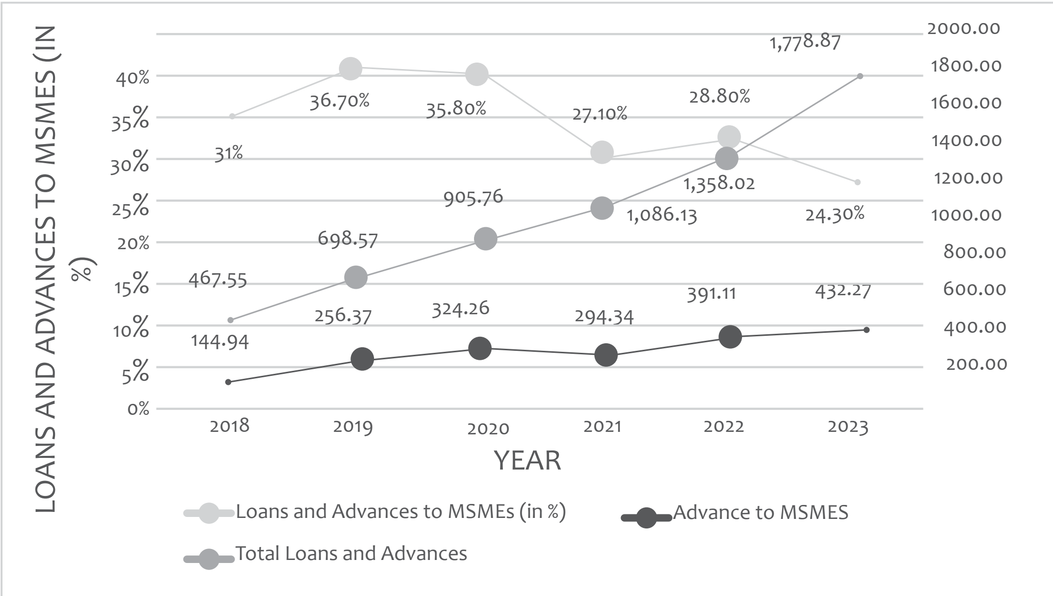


Figure 3.7: MSME Asset Quality Profile March 2021 to September 2023

* Source: RBI, 'Financial Stability Report (Issue No. 25) June 2022, (Issue No. 27) June 2023 and (Issue No. 28) December 2023'.

Figure 3.8: Loans and Advances to MSMEs (all figures are % of total SFB advance) and Total Loans and Advances and Advance to MSMEs by SFBs (in ₹ billion)



* Source: RBI, 'Financial Stability Report (Issue No. 25) June 2022, (Issue No. 27) June 2023 and (Issue No. 28) December 2023'.

3.7 Analysis Of MSME Financing by SFBs

Figure 3.8 offers a comprehensive view of the trends in MSME financing by Small Finance Banks (SFBs) from 2018 to 2023. It highlights three primary metrics: (1) the percentage of total SFB advances directed towards MSMEs, (2) the overall loans and advances by SFBs in ₹ billion, and (3) the specific advances allocated to MSMEs in ₹ billion. This visualization captures the dynamic shifts in SFB lending strategies, reflecting both macroeconomic influences and regulatory frameworks that shaped SFB lending patterns over these years. The data provides critical insights into SFBs' role in promoting MSME financing, showcasing variations in percentage allocations, and illustrating the growth trajectory in absolute loan volumes. These elements together give a nuanced understanding of how SFBs have balanced inclusive finance objectives with sustainable growth.

3.8 Takeaways on Analysis of MSME Financing by SFBs

Takeaway 41: *Declining MSME Share in Total Advances Despite Growth in Absolute Lending—*

The data reveals a significant decline in the percentage of total advances to MSMEs by SFBs, from 36.7% in 2019 to 24.3% in 2023. Despite this, the absolute advances to MSMEs (in ₹ billion) have risen steadily, from ₹144.94 billion in 2018 to ₹432.27 billion in 2023. This dual trend suggests that while SFBs have expanded their loan portfolios, the share allocated to MSMEs has been diluted by increased diversification. This shift may reflect SFBs' strategic adaptation to broader lending opportunities, possibly influenced by heightened regulatory expectations for financial stability and diversification beyond MSME sectors.

Takeaway 42: *Rapid Growth in Total Advances Indicates Strong SFB Expansion—*

From ₹467.55 billion in 2018 to ₹1,778.87 billion in 2023, SFBs have displayed rapid growth in total loans and advances, marking a nearly fourfold increase over five years. This robust expansion showcases SFBs' ability to scale operations and deepen penetration across various segments. The sharp rise in total lending emphasizes SFBs' role in bridging the financial inclusion gap, especially in semi-urban and rural areas. However, the fact that MSME-specific lending has not kept pace in percentage terms suggests a nuanced strategy that balances MSME support with other growth opportunities, possibly to mitigate sector-specific risks.

Takeaway 43: *Volatility in MSME Lending Ratios Reflects Adaptive Risk Management—*

The percentage of advances to MSMEs as part of total SFB advances fluctuated significantly, peaking at 36.7% in 2019 before dropping to 24.3% in 2023. This volatility highlights SFBs' adaptive risk management strategies, possibly reacting to economic disruptions and sector-specific challenges within the MSME segment. The decrease from 36.7% to 27.1% between 2019 and 2021 likely reflects the impact of the COVID-19 pandemic, which disproportionately affected MSMEs. By recalibrating their portfolios, SFBs were able to balance their exposure to MSMEs with lending to other, potentially less-volatile segments.

Takeaway 44: *Increasing Absolute Advances to MSMEs Reaffirms Commitment to Inclusive Finance—*

Despite the percentage decline, SFBs' absolute lending to MSMEs has increased each year, growing from ₹144.94 billion in 2018 to ₹432.27 billion in 2023. This steady increase underscores SFBs' commitment to inclusive finance, providing essential credit to MSMEs to fuel growth and stability in this vital economic segment. This trend also indicates SFBs' ongoing alignment with government objectives to strengthen the MSME sector, despite the challenges associated with lending to smaller, often riskier enterprises. It reflects a carefully managed balance between risk and inclusive growth objectives.

Takeaway 45: *Decline in MSME Lending Ratio Signals Need for Policy Support—*

The decline in the MSME share of SFB total advances from 36.7% to 24.3% over five years may signal the need for additional policy interventions to support MSME lending. Factors such as higher default risks and the COVID-19 impact may have prompted SFBs to reduce the relative emphasis on MSMEs in favor of more diversified lending. Policy measures, such as enhanced credit guarantees or sector-specific stimulus packages, could be critical to incentivize SFBs to maintain or increase their MSME lending ratios. Such support would ensure that MSMEs remain a central focus for SFBs amidst broader portfolio growth.

Takeaway 46: *Strong Growth in MSME Lending Volume Despite Sectoral Headwinds—*

The substantial increase in MSME loan volumes, from ₹144.94 billion in 2018 to ₹432.27 billion in 2023, reflects SFBs' resilience and ability to support MSMEs despite sectoral headwinds. This growth is commendable, considering the challenges MSMEs face, including limited collateral, high sensitivity to economic downturns, and cash flow volatility. By consistently increasing the volume of MSME loans, SFBs underscore their essential role in driving financial inclusion and economic resilience in underserved areas, even if the sector requires higher monitoring and risk management capabilities.

Takeaway 47: *Broader Lending Base by SFBs Promotes Portfolio Resilience—*

The diversification of the SFB loan book, as seen in the reduced MSME percentage of total advances, suggests an attempt to build portfolio resilience. By allocating a larger share of loans to non-MSME segments, SFBs can manage risk exposure more effectively and create a stable foundation for sustained growth. This diversification is likely a strategic response to the high-risk profile associated with MSMEs, which are prone to default during economic downturns. This shift does not imply reduced support for MSMEs but rather indicates a more balanced, risk-aware approach to lending.

Takeaway 48: *Implications for Inclusive Finance—Balancing Growth and Stability—*

The trajectory of SFBs' MSME lending highlights a critical balance between growth and stability in promoting inclusive finance. While SFBs have grown rapidly in absolute terms, the declining MSME share suggests a recalibrated approach to inclusive finance. This shift may reflect a maturing understanding of sustainable finance, where supporting MSMEs remains essential, but without compromising overall portfolio stability. Policymakers and SFBs alike need to consider this dynamic to ensure that financial inclusion remains robust, especially for MSMEs, which are a cornerstone of economic vitality.

Takeaway 49: *Policy Implications and Potential for Targeted Incentives—*

The trends observed in SFB MSME lending raise potential implications for policymakers. The reduced emphasis on MSME financing in relative terms suggests that SFBs may benefit from targeted incentives to prioritize this sector without sacrificing portfolio health. Measures such as interest subvention schemes, increased credit guarantees, or sector-specific financial literacy programs could encourage SFBs to expand MSME financing proportionally, aligning with broader national objectives for economic development and resilience among smaller businesses.

Takeaway 50: *MSME Lending as a Strategic Pillar for SFBs' Long-Term Role in Financial Inclusion—*

While the percentage of advances directed towards MSMEs by SFBs has decreased, the growing absolute value of loans underlines MSME lending as a strategic pillar of SFBs' long-term financial inclusion mandate. This highlights the dual objectives of supporting the MSME ecosystem while simultaneously building a diversified, resilient lending portfolio. As SFBs continue to expand, reinforcing MSME support could position these banks as vital players in the inclusive finance landscape, particularly in underserved regions where MSMEs often serve as the backbone of local economies.

3.9 Discussion

The data provides an in-depth look at how MSME lending has evolved across different types of Scheduled Commercial Banks (SCBs), especially Public Sector Banks (PSBs), Private Sector Banks (PVBs), and Foreign Banks (FBs). One of the key trends observed is the fluctuating number of accounts and outstanding loan amounts across these banks, reflecting changing strategies, economic conditions, and the impact of COVID-19. Public Sector Banks have generally maintained a steady, though recently declining, number of MSME accounts, while Private Sector Banks showed initial growth in MSME outreach, only to reduce significantly post-2021. Foreign Banks, though small players in terms of MSME credit, have maintained stable account numbers. The shifts in lending highlight banks' risk-adjusted strategies, where private banks recalibrated exposure after initial aggressive growth, while public banks continued with cautious, stable lending strategies. Additionally, the credit flow to MSMEs has increased in absolute terms, with a consistent rise in the outstanding loan amount across all banks, underscoring the essential role of MSME financing in driving economic growth.

Another critical area examined is the asset quality within the MSME portfolio. There is a clear trend of improving asset quality, evidenced by the decreasing Gross Non-Performing Asset (GNPA) ratios. This improvement can be attributed to better targeting by banks, regulatory support, and adaptive risk management strategies that banks have increasingly adopted. Notably, the GNPA ratio saw a decline from over 10% in early 2021 to below 5% by 2023, illustrating the positive effects of both tighter credit assessment mechanisms and regulatory interventions like the restructuring schemes introduced by the Reserve Bank of India (RBI). Additionally, the share of accounts in "0 Days Past Due" has grown, reflecting stronger asset health, while categories like SMA-1 and SMA-2 have shown mixed trends, indicating areas where financial vigilance is necessary.

Lastly, the analysis also reveals the dynamics between total loans and advances by Small Finance Banks (SFBs) and their share directed toward MSMEs. While SFBs expanded their total loan book, the proportion allocated to MSMEs has declined, showing a strategic shift towards a more diversified loan portfolio. Despite the declining percentage, the absolute loan value to MSMEs increased, highlighting SFBs' commitment to this segment while managing risks in a volatile sector. These insights underscore the need for a balanced approach that supports MSMEs' growth while managing credit risk effectively. This 50-takeaway analysis serves as a roadmap for banks and policymakers to optimize MSME credit flows, focusing on sustainable and inclusive growth strategies that bolster economic resilience.

Agri-Business Loans for MSMEs

4

4.1 Introduction

Business loans specifically tailored for the agricultural sector are instrumental in strengthening the rural economy, acting as a critical support system for a broad spectrum of commercial activities essential to rural livelihoods. These credit facilities are strategically designed to address the unique financing needs of agricultural ventures, enabling smoother operations and growth for businesses involved in trading agricultural products, dairy operations, and a host of other agri-businesses. By facilitating access to capital, these loans empower agricultural micro, small, and medium enterprises (MSMEs), which are often the primary drivers of economic activity and employment in rural areas. Agricultural MSMEs rely heavily on such financing to manage seasonal variations, invest in productivity-enhancing technology, and expand their operational capacity. The availability of these loans plays a decisive role in fostering economic resilience by ensuring that these enterprises have the financial resources to adapt to market demands, modernize processes, and compete more effectively. Consequently, tailored business loans enable these enterprises not only to survive but also thrive in the competitive agricultural business landscape. This chapter comprehensively delves deeply into the trends, progress, and performance metrics surrounding these specialized loans, offering valuable insights into how they impact the sustainability and growth of Agri-MSMEs. The accompanying takeaways serve to break down this analysis further, uncovering the dynamic role that business loans play in enhancing financial inclusion, supporting economic development, and strengthening the foundations of the (rural/quasi-rural) economy. By examining these key indicators, the analysis provides a nuanced understanding of the strategic alignment between financial products and the specific needs of the agri-business sector, underscoring the essential role of targeted financing in advancing rural economic stability and growth.

4.2 Analysis of Portfolio Outstanding for Agri-Business Loans

The figures above, based on Equifax data,[1] provide a comprehensive view of the financial dynamics observed over five quarters (Q1 - Q5) regarding the agri-business loans facilitated by different financial institutions. They depict the total outstanding loan amounts, the distribution of market share among institutions, and the growth rate of these outstanding balances.

Portfolio Outstanding Volumes Across Quarters: The data (figure 4.1) illustrate a

1.Data provided by Equifax on Business Loans, Agri-Business Loans and MUDRA Loans. The data was provided for five quarters Q1 to Q5, Q1 is January, February, and March 2023, Q2 is April, May, and June 2023, Q3 is July, August, and September 2023, Q4 is October, November and December 2023 and Q5 is January, February and March 2024.

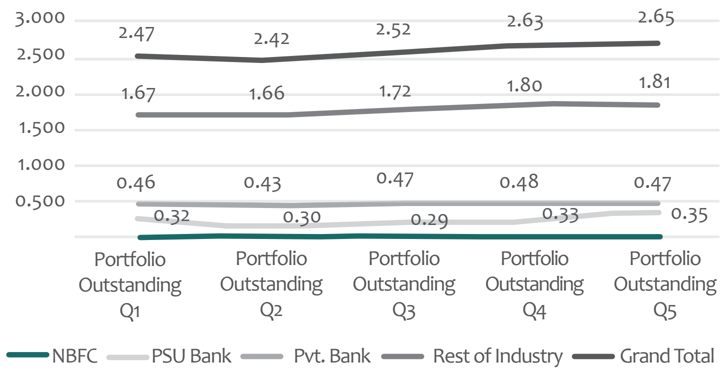


Figure 4.1: Overall Portfolio Outstanding for Agri-Business Loans, Q1 - Q5 (in ₹ trillion)

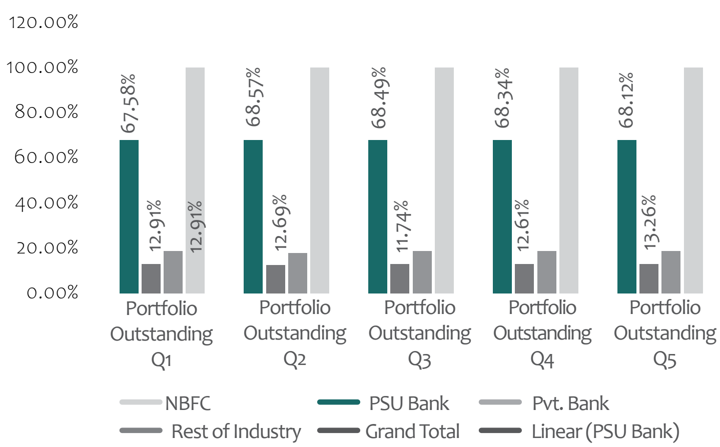


Figure 4.2: % Change in Portfolio Outstanding Share by Institution Across Quarters

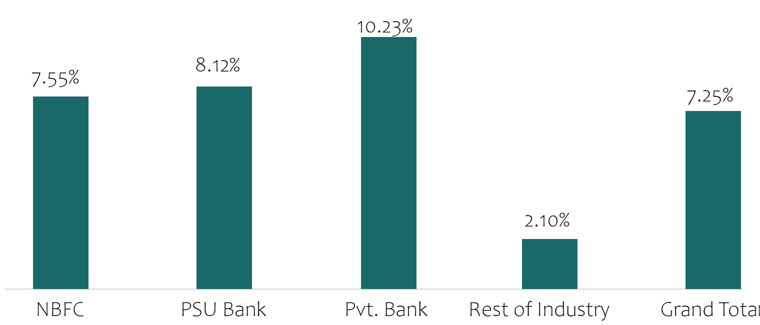


Figure 4.3: % Change in Portfolio Outstanding, Q1 - Q5

consistent increase in the grand total of portfolio outstanding from Q1 to Q5, signifying growth in the agri-business sector's demand for loans. Among the institutions, Non-Banking Financial Companies (NBFCs) consistently represent the smallest share of the portfolio outstanding, although they also show gradual increases. Public Sector Banks (PSUs) and Private Banks command more significant volumes, with PSUs consistently outpacing Private Banks. This trend underscores a robust growth trajectory in the agri-business lending arena, with all sectors demonstrating an upward movement, particularly noticeable in PSU Banks. For instance, PSU Banks expanded their portfolio from ₹1.674 trillion in Q1 to ₹1.810 trillion in Q5, while Private Banks experienced minimal growth, maintaining around ₹0.320 to ₹0.352 trillion across the period. Overall, the total portfolio outstanding grew from ₹2.477 trillion in Q1 to ₹2.656 trillion in Q5. See Figure 4.1.

Percentage Change in Portfolio Share by Institution Across Quarters: In terms of market share within a quarter across Q1 through 5Q, PSU Banks have seen a slight increase in their percentage of the total portfolio, reinforcing their dominant role in financing agri-business. The shares of NBFCs and Private Banks remained relatively steady across the quarters, suggesting a stable market presence without significant shifts in lending strategies or market capture. The slight but consistent increase in the share for PSU Banks from 67.58% in Q1 to 68.12% in Q5 is depicted linearly, highlighting their growth and critical role in the sector. Likewise, Private Banks saw a slight increase in their market share, rising from 12.91% in Q1 to 13.26% in Q5, whereas the Rest of the Industry held a steady share of about 17-18%. See Figure 4.2.

Overall Percentage Change in Portfolio Outstanding from Q1 to Q5: The overall growth rates in the outstanding portfolio indicate modest yet noticeable increases for all types of institutions, with Private Banks registering the highest growth rate across quarters. This points to a growing reliance on these financial entities by the agri-business sector for securing loans. Interestingly, the 'Rest of Industry' category showed minimal growth, which might suggest market saturation or a preference shift towards more established banking entities. Private Banks exhibited the most substantial growth at approximately 10.23%, followed by PSU Banks and NBFCs at about 8.12% and 7.55%, respectively, with the industry's overall growth standing at 7.25%. See Figure 4.3.

4.3 Detailed Analysis of Account Dynamics Across Quarters for Agri-Business Loans

Building on the previously discussed loan portfolio outstanding trends across financial institutions, we now delve into the dynamics of account numbers associated with these loans from Q1 to Q5. The provided figures shed light on the total number of accounts, changes in account holdings by institution type, and the overall trends in account growth or decline over the specified period.

Trend in Number of Accounts Across Quarters: Figure 4.4 presents a sequential growth in the number of accounts held by each type of financial institution across five quarters. Notably, the Public Sector Undertaking (PSU) Banks dominate in terms of the number of accounts but, however, exhibit a marginal downward trajectory in loan accounts outstanding by Q5. This trend, when aligned with their increasing loan portfolio, indicates a possibly enhanced and selective customer targeting strategy and enhancement of loan sizes, ceterus paribus. The grand total of accounts came down from Q1 (1,31,56,925) to Q5 (1,29,13,468) by almost 1.85%, with the most significant number of accounts consistently maintained by PSU Banks, followed by Private Banks and NBFCs. PSU Banks continue to dominate in the agri-business sector.

Percentage Change in Number of Accounts by Institution Across Quarters: Figure 4.5 elaborates on the percentage changes in account numbers, offering a comparative perspective on how each institution type's account holdings evolved over the quarters. PSU Banks consistently hold a significant majority of the accounts, while Private Banks and NBFCs share smaller and relatively

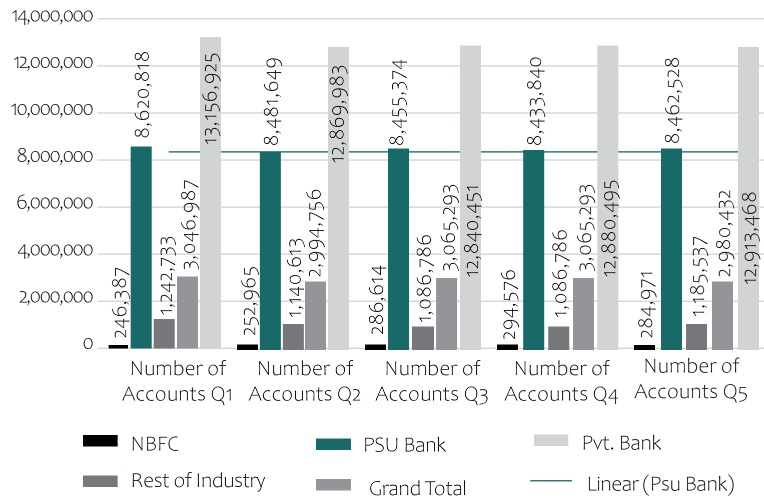


Figure 4.4: Number of Accounts By Institution Across Quarters, Q1 to Q5

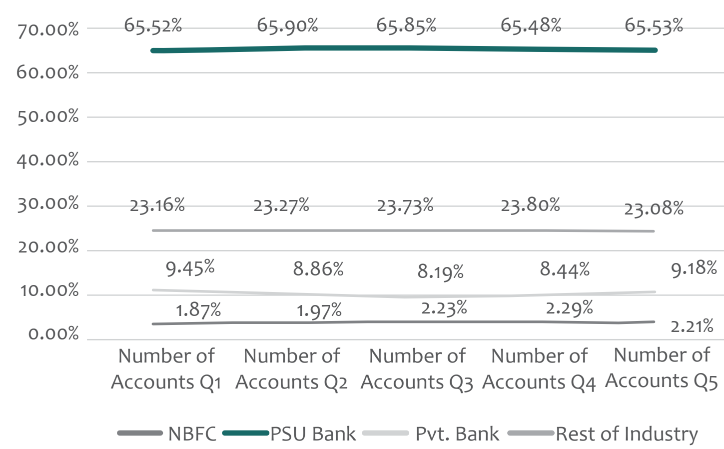


Figure 4.5: % Change in Number of Accounts Across Institutions, Q1 - Q5

stable percentages. The graph shows PSU Banks' share slightly increasing and decreasing over time but still maintaining a dominant position.

Overall Percentage Change in Number of Accounts from Q1 to Q5: Figure 4.6 provides a succinct overview of the total percentage change in account numbers from Q1 to Q5, highlighting growth or contraction within each financial institution type. This perspective is crucial for assessing the market dynamics and potential shifts in customer preferences or financial health of the sectors. NBFCs exhibit a significant increase in the number of accounts, which is the highest among all types at 15.66%, suggesting aggressive

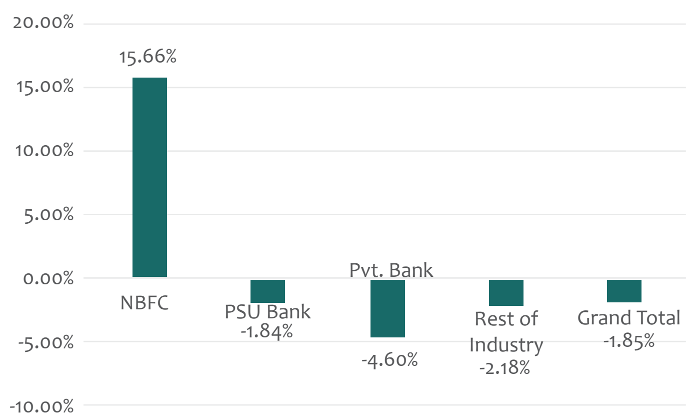


Figure 4.6: % Change in Number of Accounts Q1 - Q5

market penetration and perhaps more flexible or attractive loan products. Conversely, Private Banks show a decrease of 1.84%, possibly indicating a strategic shift or customer migration to other institutions.

The analysis of account dynamics offers a deeper understanding of customer behavior and institutional performance in the agri-business loan sector. The data suggests a strong and continued preference for PSU Banks, possibly due to their perceived stability and favorable loan conditions. The significant growth in NBFC accounts could indicate a successful targeting of niche markets or underserved customers. In contrast, the contraction in Private Bank accounts might suggest selective targeting by them. This account analysis complements the loan portfolio trends, providing a holistic view of the agri-business financial landscape over the observed quarters. These insights could guide strategic decisions for stakeholders looking to enhance market presence, customer base, and overall competitiveness in the agri-finance sector.

Here are the key takeaways from the above analysis:

Takeaway #1: *NBFCs Show Consistent Growth, Reflecting Demand for Alternative Financing—*

The NBFC sector displayed consistent and robust growth, with current balances rising approximately 10% over the year—from ₹ 0.0183 trillion in March 2023 to over ₹0.020 trillion by March 2024. Account numbers in this sector also increased from 246,387 to 284,971, signaling expansion in both balance and customer reach. This steady growth reflects a growing market demand for alternative financial products, particularly among demographics traditionally underserved by formal banking. Positioned to cater to semi-urban and rural populations, NBFCs play a significant role in broadening financial access outside the realm of traditional banking, emphasizing their strategic role in enhancing financial inclusivity.

Takeaway #2: *Incremental Account Growth in NBFCs Indicates Effective Customer Acquisition Strategy—*

The NBFC sector's steady increase in account numbers highlights an effective customer acquisition strategy that appears well-targeted toward individuals and communities not typically served by conventional banks. The sector's growth in accounts, though moderate, suggests that NBFCs are expanding their reach to meet the needs of a diverse customer base. This upward trend in account numbers reinforces NBFCs' role in extending financial services to the financially excluded, emphasizing their contribution to financial inclusivity and expanded market coverage through accessible financial solutions.

Takeaway #3: *PSU Banks See Steady Balance Growth but Declining Account Numbers Indicating Market Saturation—*

PSU Banks, with the highest values in current balances, grew from ₹1.674 trillion in March 2023 to ₹1.810 trillion by March 2024. However, despite this growth in balances, the total number of accounts declined from 8.62 million to 8.46 million. This trend suggests a strategic focus on consolidating higher-value accounts rather than expanding the customer base. The reduction in accounts points to a possible market saturation, where PSU banks may be shifting their focus from mass-market customer acquisition to retaining fewer but higher-value clients, potentially indicating a pivot towards more value-driven (financially deepened) customer relationships over volume.

Takeaway #4: *PSU Banks' Account Decline Suggests Reduced Engagement in Financial Inclusion—*

The decline in accounts within PSU banks raises questions about their role in promoting financial inclusion. While they continue to dominate in total balances, the decrease in account numbers suggests a reduced focus on acquiring new, smaller accounts. This trend points to a potential shift in strategic priorities, as PSU banks may be prioritizing (relatively) high-value accounts over expanding their reach among underserved segments. This shift could lead to missed opportunities to enhance financial access, particularly as NBFCs and private banks actively target and serve broader demographics.

Takeaway #5: *Private Banks' Growth Driven by Digital Innovation and Customer Acquisition—*

Private banks demonstrated a reasonable growth pattern, with current balances rising from ₹0.320 trillion in March 2023 to ₹0.352 trillion by March 2024. Their account numbers also saw consistent growth, ending the year with over 1.19 million accounts. Private banks' focus on digital channels and customer-centric innovations has enabled them to capture a wide customer base, particularly among tech-savvy and urban populations. Their growth trajectory indicates an emphasis on customer experience, suggesting that private banks are well-positioned to continue acquiring new accounts and market share by prioritizing digital accessibility and tailored financial services.

Takeaway #6: *Private Banks as Leaders in Tech-Enabled Financial Inclusion—*

The growth in both balances and account numbers within the private banking sector underscores their strong emphasis on customer acquisition and digital innovation. Through digital banking solutions, private banks are able to attract a diverse demographic, including younger and tech-savvy customers who may seek more flexibility in banking services. This trend reinforces their contribution to financial inclusion by making financial services more accessible, convenient, and customizable, allowing private banks to expand financial inclusion through strategic, tech-driven engagement.

Takeaway #7: *Stability in 'Rest of Industry' Reflects Niche Market Focus and Mature Segments—*

The "Rest of Industry" category demonstrated minor fluctuations but overall stable performance, with current balances rising modestly from ₹0.465 trillion in March 2023 to ₹0.475 trillion by March 2024. The account numbers remained steady, averaging around 3.0-3.1 million, which suggests that institutions within this segment are focusing on niche markets rather than broad-scale expansion. This stability implies that these institutions serve a mature market segment, offering specialized products and targeting specific demographics, contributing to the broader ecosystem's balance and diversity.

Takeaway #8: *'Rest of Industry' Stability Enhances Sector Resilience—*

The stability seen in the "Rest of Industry" category indicates a mature sector focused on niche markets, adding stability to the broader financial ecosystem. Unlike the growth-oriented strategies of other sectors, this segment's stability contributes resilience to the industry, with these institutions providing unique and specialized offerings. By targeting specific markets, these institutions foster a balanced financial system, adding diversity that complements the competitive growth seen in other segments.

Takeaway #9: *Cross-Sector Collaboration is Key for Broader Financial Inclusion—*

Each sector demonstrates specific strengths that, if leveraged collaboratively, could significantly improve financial inclusion. NBFCs excel in reaching underserved areas; PSU banks have a vast infrastructure; private banks lead in digital engagement; and the Rest of Industry focuses on niche segments. By combining their unique strengths, these sectors could address current gaps in financial access more effectively. Such a collaborative approach could facilitate inclusive growth across urban and rural areas, enhancing financial accessibility across diverse demographics.

***Takeaway #10:** Sector-Specific Strategies Drive Competitive Market Dynamics—*

The dataset reveals unique sector-specific strategies that collectively shape a competitive market landscape. PSU banks appear to consolidate their customer base, private banks aggressively target new customers through digital channels, NBFCs emphasize accessible financing in underserved areas, and the Rest of the Industry maintains stability through niche offerings. Together, these approaches foster a dynamic financial ecosystem with diverse services that cater to a broad range of customer needs. This competitive environment, driven by tailored sector strategies, enhances customer choice and promotes tailored solutions across different demographics, strengthening overall financial accessibility.

These detailed takeaways outline each sector's performance and strategy, emphasizing the potential for collaborative efforts to enhance financial inclusion while fostering a competitive, well-balanced financial ecosystem. Each sector's unique attributes contribute to a holistic market that serves varied customer needs across demographics and regions.

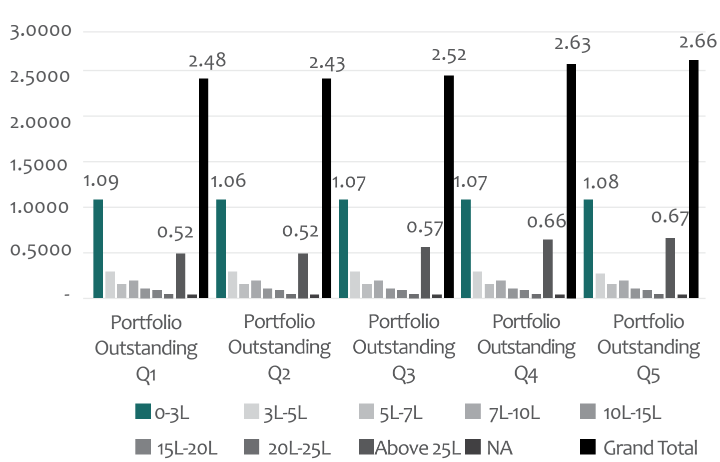


Figure 4.7: Portfolio Outstanding in ₹Trillions Across Quarters for Different Loan Sizes

4.4 Detailed Analysis of Portfolio Outstanding by Loan Sizes Across Quarters

This analysis takes a closer look at the distribution of portfolio outstanding in rupees trillions, segmented by various loan sizes across five consecutive quarters. By scrutinizing the financial shifts within these segments, we gain insights into how lending preferences and strategic focuses are evolving over time in response to market demands or institutional strategies.

4.4.1 Distribution and Trends of Portfolio Outstanding Across Loan Sizes

The distribution graph (figure 4.7) reveals a robust volume of smaller loans (0-3L range), dominating the total portfolio outstanding across all quarters. This indicates a strong preference or requirement for smaller loans within the agri-business sector, likely serving a broad customer base that includes micro-enterprises and small agri-business operators:

i. **Dominance of Smaller Loans:** Loans in the 0-3L category consistently hold the largest share of the portfolio, illustrating the critical role these loans play in supporting the foundational financial needs of numerous small-scale borrowers.

ii. **Increasing Focus on Larger Loans:** While smaller loans dominate in volume, there is a noticeable increase in loans above ₹25 lakh in Q4 and Q5. This shift suggests a growing strategic emphasis on larger, more capital-intensive projects or enterprises that can potentially drive more substantial returns.

Table 4.1: Change in % Share of Portfolio Outstanding of Different Loan Sizes Across Quarters

Ticket Size	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
0-3L	44.05%	43.82%	42.34%	40.57%	40.90%
3L-5L	11.79%	11.73%	11.34%	10.84%	10.61%
5L-7L	5.91%	5.86%	5.80%	5.65%	5.60%
7L-10L	7.09%	7.12%	7.28%	7.34%	7.34%
10L-15L	3.82%	3.70%	3.90%	3.86%	3.82%
15L-20L	2.85%	2.83%	3.13%	3.17%	3.26%
20L-25L	1.79%	1.73%	1.93%	2.02%	2.21%
Above 25L	20.90%	21.47%	22.70%	25.14%	25.12%
NA	1.79%	1.73%	1.57%	1.43%	1.14%
Grand Total	100.00%	100.00%	100.00%	100.00%	100.00%

iii. **Growth in Mid-Range Loans:** The mid-range loan categories (₹15-20L and ₹20-25L) also show a trend of increasing uptake, indicative of a middle-tier of borrowers who are possibly scaling up operations or are in need of more substantial financial support than what micro-loans can offer.

4.4.2 Percentage Change in Portfolio Outstanding Across Loan Sizes

The percentage change table 4.1 below highlights the growth dynamics within different loan categories from Q1 to Q5, providing a comparative view of which loan sizes are expanding or contracting: (a) Stable Demand for Smallest Loans: The smallest loan category (0-3L) shows a stable presence in the portfolio, with minor fluctuations but no significant decline, indicating a steady demand; and (b) Significant Growth in Largest Loans: Loans exceeding ₹25 lakh demonstrate the highest growth rate, nearly 29%[2] (see Figure 4.8 given later), underscoring an increasing market shift/institutional focus towards financing larger agricultural business initiatives.

4.4.3 Detailed Examination of Portfolio Shares by Loan Size Across Quarters

This table deepens the understanding of how each loan size's share within the total portfolio has shifted, providing insight into evolving lending patterns: (a) Gradual Decrease in Smallest Loans Share: Despite their dominance, the share of 0-3L loans has slightly decreased from 44.05% in Q1 to 40.90% in Q5. This decrease is subtle yet significant, suggesting that while they remain a staple of the lending portfolio, there is a relative shift towards larger loan sizes; (b) Rise in Larger Loans Share: The most considerable change is seen in the loans above ₹25 lakh, which have grown from 20.90% to 25.12% of the portfolio by Q5. This change represents a clear strategic shift towards supporting more substantial ventures, likely influenced by the potential for higher profitability or the development of larger-scale agricultural projects; and (c) Consistent Increment in Mid-Range Loans: The consistent incremental growth in mid-range loans, especially in the ₹15-20L and ₹20-25L categories, indicates a growing reliance on these loan sizes, which may bridge the gap between micro-loans and large-scale financing.

2. It is 28.89%. It is Rs. 0.67 trillion minus Rs 0.52 trillion divided by Rs 0.52 trillion.

The above comprehensive analysis underscores a significant reliance on smaller loans (0-3L), which form the backbone of the portfolio, catering extensively to a wide array of small borrowers. However, the increasing trend towards larger loans, particularly those above Rs 25 lakh, highlights a strategic pivot towards more substantial, potentially more lucrative agricultural or business projects. This trend suggests a dual strategy where institutions continue to support small-scale operations while increasingly engaging with larger enterprises that offer higher returns and may drive future growth in the lending portfolio. This balance is crucial for sustaining broad-based financial support across the agri-business sector while capitalizing on larger market opportunities.

4.5 Analysis of Percentage Change in Outstanding Portfolio Across Loan Sizes (Q5 - Q1)

The bar chart provides a clear visualization of how the outstanding portfolio has changed percentage-wise for various loan sizes from Q1 to Q5. A striking observation is a significant increase in loans above ₹20-25 Lakhs and > 25 Lakhs, which have seen a growth of 32.26% and 28.89%, respectively (Figure 4.8). This considerable uptick reflects a robust expansion in the upper end of the loan market, likely driven by an increase in such scale agricultural business projects that require higher funding. The financial institutions appear to be increasingly willing to service larger loan requests, which might indicate a strategic focus on larger, potentially more profitable projects as well as a response to emerging market demand from larger SMEs seeking significant capital injections.

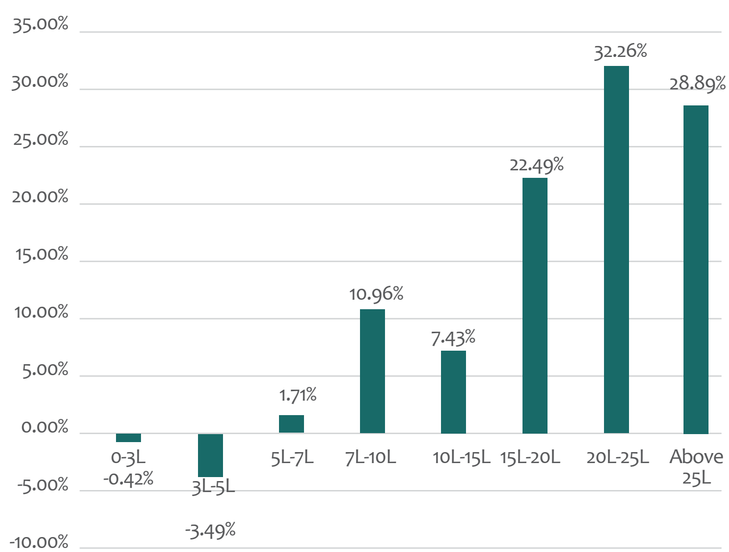


Figure 4.8: Percentage Change in Outstanding Portfolio Across 5 Quarters for Different Loan Sizes (Q5 - Q1)

Conversely, the smaller loan segments, particularly those under ₹3 lakh, have experienced a small decline, shrinking by 0.42%. This downturn might suggest a slight shift in lender focus away from smaller loans, which could be due to various factors such as lower profit margins as well as a strategic withdrawal from this segment in favor of medium to large loans which offer better risk-adjusted returns. The mid-range loan sizes (₹7 – 15 L) mostly show marginal changes, indicating stability in these segments. The increases in loan categories from ₹15-25 lakh signify a steady upward growth, aligning with an overall (somewhat cautious) expansion strategy in these ranges, potentially balancing the portfolio risk while still capturing growth opportunities in the market.

4.6 In-Depth Analysis of Account Distribution Across Loan Sizes from Q1 to Q5

The two figures (4.9 and 4.10) provided offer a detailed view of how the number of accounts distributed across various loan sizes has evolved from Q1 to Q5. This analysis integrates the percentage changes in account numbers with the distribution shifts over the period to give a comprehensive insight into lending trends and borrower preferences within the financial landscape.

4.6.1 Trends in Number of Accounts by Loan Size

Figure 4.9 delineates the raw numbers of accounts across loan sizes over five quarters. The largest segment by far is the 0-3L loans, which consistently dominates the account numbers throughout the periods observed:

i. **Dominance of Small Loans:** Accounts in the 0-3L range constitute the vast majority of total accounts, with minimal fluctuations from quarter to quarter. Despite a slight decline from 11.40 million in Q1 to 11.11 million in Q4, they rebound slightly to 11.16 million by Q5.

ii. **Stability in Mid to Large Loans:** The accounts in larger loan segments (above 3L) show much lower numbers but demonstrate relative stability or slight growth, which is indicative of a stable demand for larger loans among a smaller set of borrowers.

iii. **Gradual Growth in Higher Categories:** Particularly noteworthy is the slight decrease in the number of accounts for loans above 25L, showing selective targeting.

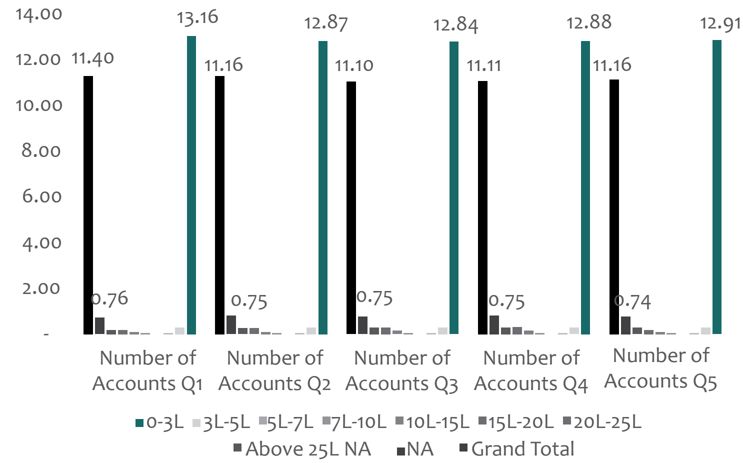


Figure 4.9: Number of Accounts Across Loan Sizes, Q1 to Q 5

4.6.2 Percentage Change in Number of Accounts Across Loan Sizes

Figure 4.10 and Table 4.2, showing the percentage change in account numbers from Q1 to Q5, highlights subtle yet important trends:

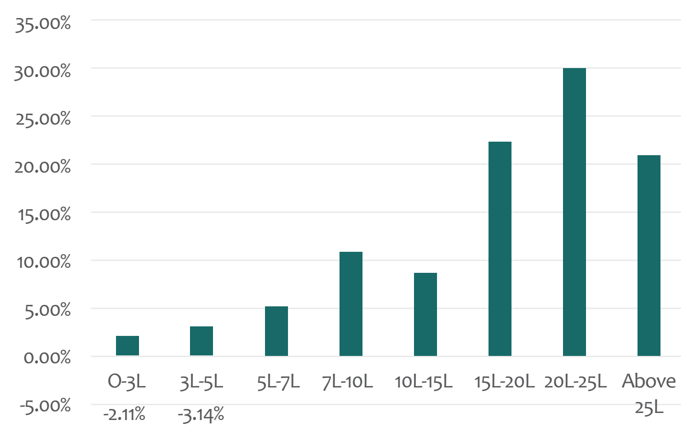


Figure 4.10: Percentage Change, Number of Accounts, (Q5 - Q1)

i. Decrease in Smallest Loan Accounts: The 0-3L category saw a decline of 2.11%, which, while small, indicates a shift away from the smallest loans.

ii. Increase in Mid-Larger Loan Accounts:

Table 4.2: Percentage Number of Accounts Across Loan Sizes, Q1 to Q 5

Ticket Size	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
0-3L	86.63%	86.71%	86.45%	86.25%	86.40%
3L-5L	5.81%	5.81%	5.81%	5.83%	5.73%
5L-7L	2.02%	2.03%	2.08%	2.12%	2.17%
7L-10L	1.78%	1.80%	1.90%	2.00%	2.01%
10L-15L	0.65%	0.64%	0.70%	0.72%	0.72%
15L-20L	0.35%	0.35%	0.40%	0.42%	0.44%
20L-25L	0.17%	0.16%	0.19%	0.21%	0.22%
Above 25L	0.48%	0.46%	0.53%	0.58%	0.60%
NA	2.11%	2.04%	1.94%	1.88%	1.71%
Grand Total	100.00%	100.00%	100.00%	100.00%	100.00%

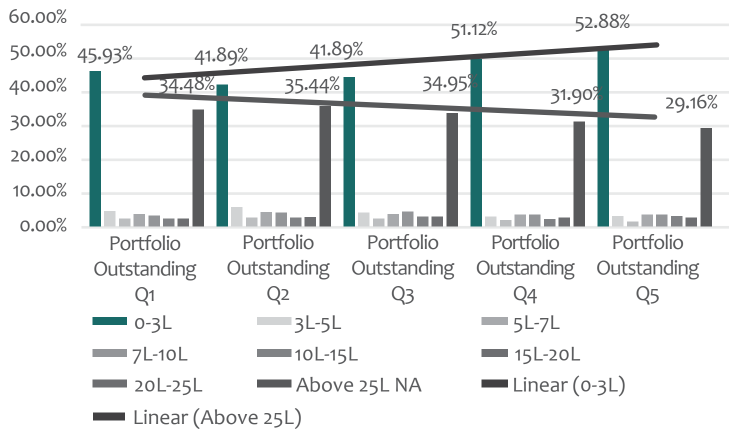


Figure 4.11: Quarter-wise and Ticket Size-wise Performance for NBFCs, Q1 - Q5

Notably, the loan categories from 5L-7L and above witnessed more substantial percentage increases. While loans in the 7L-10L range increased by 10.87%, those between 15L-20L grew by 22.77%. Likewise, loans in the 20-25L range grew by a whopping 30.46% and above 25L by 21.24%. These changes, are especially significant in the context of the overall stability of account numbers across other segments.

4.6.3 Consolidation of Account Shares by Loan Size

The aforementioned Table 4.2 data elaborates on the proportion of accounts by loan size over the five quarters, providing a clearer picture of market dynamics:

i. **Steady Share of Small Loans:** The 0-3L loans maintain an overwhelmingly dominant share, slightly decreasing from 86.63% in Q1 to 86.40% in Q5. This marginal decline could be reflective of a broader diversification in the types of loans being taken out.

ii. **Emerging Growth in Larger Loans:** There is a clear upward trend in the share of accounts for larger loans, particularly noticeable from 5L upwards. The 5L-7L category, for example, increased from 2.02% to 2.17%. This shift points towards an increasing borrower base that is venturing into higher loan brackets, possibly indicative of larger project financing needs.

Thus, the detailed examination of account numbers across various loan sizes reveals a significant and continued preference for smaller loans, with a notable shift towards larger loan categories over the quarters. This shift reflect changes in the economic landscape, borrower confidence, as well as lending practices. Financial institutions may need to adjust their strategies to cater to this evolving demand pattern, potentially focusing on diversifying their loan products to accommodate both the high volume of small loans and the increasing interest in larger loans. A segmented and differentiated loan sanctioning strategy seems to be the order of the day. Here are the key takeaways from this:

Takeaway #11: *Increasing Ticket Size in NBFCs Indicates Upmarket Shift—*

The analysis of NBFCs reveals a consistent focus on ticket sizes, particularly in the above 10L (₹) plus segments, which have a substantial balance from Q1 to Q5. Account numbers in this bracket remained fairly stable, with marginal changes. This trend suggests that NBFCs are capturing a segment of higher-value customers, expanding beyond small-ticket loans traditionally associated with NBFCs. This shift aligns with their strategy of diversifying loan portfolios to mitigate risk while tapping into more affluent demographics, likely driven by rising demand from mid-market and business clients. See Figure 4.11 and Tables 4.3 and 4.4.

Takeaway #12: *Demand for Small-Ticket Loans Persists in NBFCs Despite Broader Upmarket Trend—*

In the NBFC sector, the 0-3L segment remains dominant, with current balances totalling ₹8.38 billion in March 2023 and rising steadily to ₹10.38 billion by March 2024. The number of accounts in this bracket increased correspondingly from 0.2395 million to 0.2792 million. This steady growth reflects the sustained demand for small-ticket products, which are crucial for inclusive finance. NBFCs continue to fulfill a pivotal role in providing accessible financial solutions to underserved populations who require lower loan amounts, affirming their position as drivers of financial inclusion in low-income and rural

Table 4.3: NBFC Number of Accounts, Loan Sizes, Q1 to Q5 (in Millions)

Ticket Size	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
0-3L	0.2395	0.2454	0.2801	0.2886	0.2792
3L-5L	0.0028	0.0032	0.0023	0.0020	0.0019
5L-7L	0.0009	0.0009	0.0008	0.0008	0.0007
7L-10L	0.0010	0.0011	0.0011	0.0010	0.0010
10L-15L	0.0007	0.0008	0.0008	0.0007	0.0007
15L-20L	0.0003	0.0003	0.0003	0.0003	0.0004
20L-25L	0.0002	0.0003	0.0003	0.0002	0.0003
Above 25L	0.0009	0.0009	0.0009	0.0009	0.0008
NA	0.0000	0.0000	0.0000	0.0000	0.0000
NBFC Total	0.2464	0.2530	0.2866	0.2946	0.2850

markets.

Takeaway #13: *Medium Ticket Size Loans Show Volatile Growth Across Periods in NBFCs—*

The 3L-10L brackets within NBFCs exhibit noticeable volatility, with the 3L-5L bracket peaking in June 2023 at ₹1.13 billion but dropping to ₹0.60 billion by March 2024. Account numbers similarly fluctuate, peaking in June and gradually declining thereafter. This volatility suggests potential seasonality or shifts in demand for medium-sized loans, possibly impacted by macroeconomic conditions or competitive pressures from other financial sectors. The instability highlights a possible gap in NBFC strategies for this loan category, suggesting the need for more consistent product offerings to retain mid-segment customers.

Takeaway #14: *Large-Ticket Loan Growth in PSU Banks Reflects Focus on High-Value Clients—*

In PSU banks, the above 25L bracket experienced significant growth in both current balance and account numbers, rising from ₹382.53 billion in March 2023 to ₹515.10 billion in March 2024, with accounts increasing from 40,949 to 53,726 (an increase of 31.20%). This rise illustrates a strategic emphasis on high-value

Table 4.4: NBFC Portfolio Outstanding of Different Loan Sizes (₹ in Billions) Across Quarters

Ticket Size	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
0-3L	8.38	7.84	8.30	9.83	10.38
3L-5L	0.89	1.13	0.77	0.64	0.60
5L-7L	0.42	0.48	0.42	0.39	0.34
7L-10L	0.71	0.81	0.80	0.66	0.71
10L-15L	0.65	0.77	0.82	0.66	0.69
15L-20L	0.44	0.51	0.53	0.44	0.61
20L-25L	0.47	0.54	0.58	0.48	0.55
Above 25L	6.29	6.63	6.57	6.13	5.72
NA	0.00	0.00	0.00	0.00	0.00
Grand Total	18.24	18.71	18.81	19.23	19.62

clients and large-ticket loans, aligning with PSU banks' shift towards more substantial, stable returns from fewer, high-balance accounts. This shift may reduce engagement with lower-income demographics but strengthen their foothold

Takeaway #12: *Demand for Small-Ticket Loans Persists in NBFCs Despite Broader Upmarket Trend—*

In the NBFC sector, the 0-3L segment remains dominant, with current balances totalling ₹8.38 billion in March 2023 and rising steadily to ₹10.38 billion by March 2024. The number of accounts in this bracket increased correspondingly from 0.2395 million to 0.2792 million. This steady growth reflects the sustained demand for small-ticket products, which are crucial for inclusive finance. NBFCs continue to fulfill a pivotal role in providing accessible financial solutions to underserved populations who require lower loan amounts, affirming their position as drivers of financial inclusion in low-income and rural markets.

Takeaway #13: *Medium Ticket Size Loans Show Volatile Growth Across Periods in NBFCs—*

The 3L-10L brackets within NBFCs exhibit noticeable volatility, with the 3L-5L bracket peaking in June 2023 at ₹1.13 billion but dropping to ₹0.60 billion by March 2024. Account numbers similarly fluctuate, peaking in June and gradually declining thereafter. This volatility suggests potential seasonality or shifts in demand for medium-sized loans, possibly impacted by macroeconomic conditions or competitive pressures from other financial sectors. The instability highlights a possible gap in NBFC strategies for this loan category, suggesting the need for more consistent product offerings to retain mid-segment customers.

Takeaway #14: *Large-Ticket Loan Growth in PSU Banks Reflects Focus on High-Value Clients—*

In PSU banks, the above 25L bracket experienced significant growth in both current balance and account numbers, rising from ₹382.53 billion in March 2023 to ₹515.10 billion in March 2024, with accounts increasing from 40,949 to 53,726 (an increase of 31.20%). This rise illustrates a strategic emphasis on high-value clients and large-ticket loans, aligning with PSU banks' shift towards more substantial, stable returns from fewer, high-balance accounts. This shift may reduce engagement with lower-income demographics but strengthen their foothold among corporate and affluent customers, contributing to a more consolidated asset base.

Table 4.5: PSU Banks Portfolio Outstanding of Different Loan Sizes (₹ in Billions) Across Quarters

Ticket Size	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
0-3L	709.14	688.51	689.99	685.99	693.03
3L-5L	193.83	188.14	186.98	182.49	181.77
5L-7L	97.42	95.00	96.32	96.04	97.33
7L-10L	120.42	121.22	127.17	130.81	132.09
10L-15L	61.40	61.08	64.48	66.88	67.53
15L-20L	44.27	45.96	50.61	54.03	56.75
20L-25L	26.17	27.30	30.41	33.24	38.04
Above 25L	382.53	398.29	443.98	515.50	515.10
NA	38.53	37.78	36.53	34.82	27.91
Grand Total	1,673.71	1,663.28	1,726.46	1,799.81	1,809.56

See Tables 4.5 and 4.6.

Takeaway #15: *Small and Medium Ticket Loans in PSU Banks Remain Strong, Supporting Inclusive Finance—*

PSU banks continue to maintain high engagement in the 0-3L segment, although there's a slight decline in numbers over time. However, these loans remain a key component of PSU banks' financial inclusion efforts. Their commitment to small-ticket loans helps them serve rural and low-income customers, sustaining a core mission of providing accessible banking services to all segments, despite their strategic shift toward higher-value accounts. See Figure 4.12.

Takeaway #16: *Private Banks Maintain High Growth in Mid-Ticket Segments with Stable Customer Acquisition—*

Private banks have shown strong and stable growth in the 5L-10L loan segments. Balances in the 7L-10L bracket, for instance, increased from ₹25.87 billion in March 2023 to ₹32.87 billion by March 2024, with accounts rising proportionally. This growth highlights a successful customer acquisition strategy, with private banks likely attracting middle-income customers through digital innovations and personalized loan offerings. Their ability to attract and retain this mid-segment reinforces private banks'

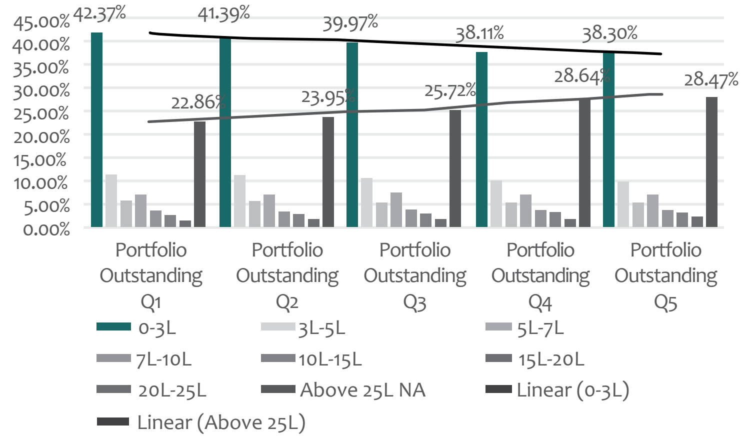


Figure 4.12: PSU Banks Percentage Change in Outstanding Portfolio Across 5 Quarters for Different Loan Sizes (Q5 - Q1)

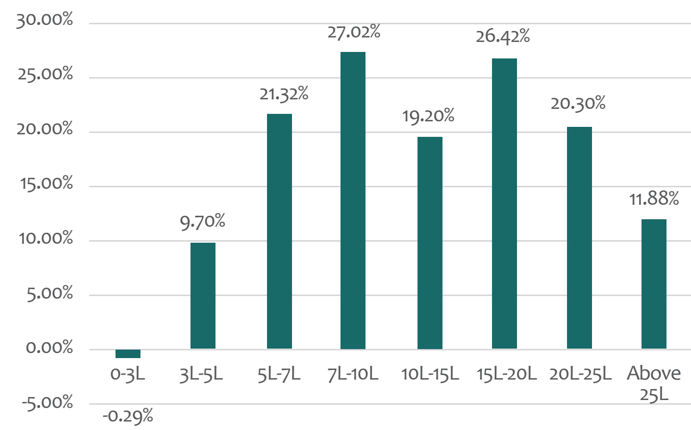


Figure 4.13: % Change in Portfolio Outstanding by Ticket Size, Private Banks (Q5 - Q1)

Table 4.6: PSU Banks Number of Accounts Loan Sizes, Q1 to Q5 (₹ in Million)

Ticket Size	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
0-3L	7.41	7.29	7.25	7.23	7.27
3L-5L	0.49	0.48	0.48	0.47	0.47
5L-7L	0.18	0.17	0.17	0.17	0.18
7L-10L	0.16	0.16	0.17	0.17	0.18
10L-15L	0.06	0.06	0.06	0.06	0.06
15L-20L	0.03	0.03	0.03	0.04	0.04
20L-25L	0.01	0.01	0.02	0.02	0.02
Above 25L	0.04*	0.04	0.05	0.05	0.05**
NA	0.24	0.23	0.23	0.22	0.20
Grand Total	8.62	8.48	8.46	8.43	8.46

* This is 40,949.
** This is 53,726.

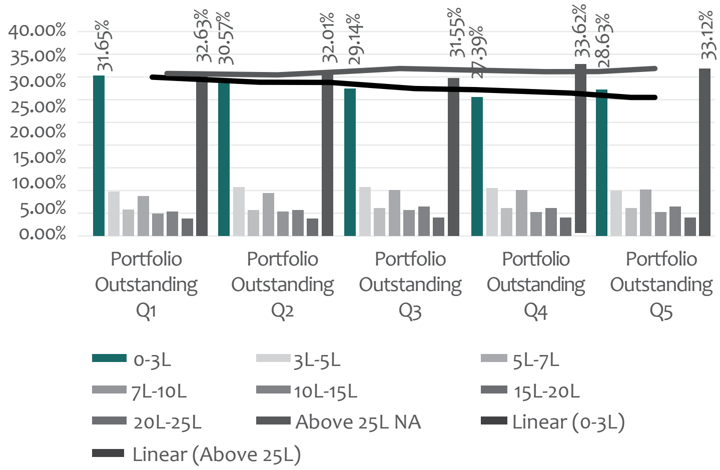


Figure 4.14: Private Banks Percentage Change in Outstanding Portfolio Across 5 Quarters for Different Loan Sizes (Q5 - Q1)

position as agile, customer-focused institutions catering to financially secure, upwardly mobile demographics. See Table 4.7 and 4.8 and Figure 4.13 and Figure 4.14. They clearly show that the portfolio outstanding by private banks has increased for all ticket sizes except ₹0-3L.

Takeaway #17: *Private Banks Capitalize on Technology to Expand High-Ticket Lending—*

Growth in the above 25L segment for private banks is notable, with balances increasing from ₹104.30 billion in March 2023 to ₹116.69 billion by March 2024 (Table 4.8). Private banks' focus on high-ticket lending reflects their ability to capture relatively high-net-worth individuals (RHNWIs) and commercial clients, likely through digital platforms that streamline application processes and enhance customer experiences. This growth aligns with private banks' digital-first strategies, allowing them to efficiently serve the high-value market segment while supporting business lending and wealth management.

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Takeaway #18: *Rest of Industry's Consistency in Small-Ticket Loans Supports Low-Income Demographics—*

Table 4.7: Private Banks Portfolio Outstanding of Different Loan Sizes (₹ in Billion) Across Quarters

Ticket Size	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
0-3L	101.16	94.14	86.25	90.94	100.87
3L-5L	28.82	29.10	28.83	31.80	31.62
5L-7L	15.98	16.36	16.63	18.71	19.39
7L-10L	25.87	26.57	26.82	30.98	32.87
10L-15L	14.36	14.50	14.65	15.78	17.11
15L-20L	16.06	16.17	17.48	18.84	20.30
20L-25L	10.32	10.27	10.29	11.89	12.41
Above 25L	104.30	98.56	93.38	111.61	116.69
NA	2.76	2.25	1.68	1.40	1.06
Grand Total	319.63	307.93	296.01	331.96	352.32

Table 4.8: Private Banks Number of Accounts Loan Sizes, Q to Q5 (₹ in Million)

Ticket Size	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
0-3L	1.045	0.944	0.854	0.869	0.968
3L-5L	0.081	0.082	0.081	0.089	0.086
5L-7L	0.030	0.031	0.032	0.035	0.036
7L-10L	0.035	0.037	0.037	0.043	0.043
10L-15L	0.013	0.013	0.014	0.015	0.016
15L-20L	0.010	0.010	0.011	0.012	0.013
20L-25L	0.005	0.005	0.005	0.005	0.006
Above 25L	0.015	0.012	0.013	0.014	0.015
NA	0.008	0.007	0.006	0.004	0.004
Grand Total	1.243	1.141	1.051	1.087	1.186

Table 4.9: Rest of Industry Portfolio Outstanding of Different Loan Sizes (₹ in Billion) Across Quarters

Ticket Size	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
0-3L	272.33	272.42	282.79	281.51	282.20
3L-5L	68.56	66.17	69.31	70.46	67.90
5L-7L	32.57	30.31	32.79	33.53	31.82
7L-10L	28.61	24.16	28.61	30.73	29.18
10L-15L	18.14	13.38	18.35	18.37	16.22
15L-20L	9.92	6.08	10.24	10.12	8.92
20L-25L	7.38	3.91	7.44	7.64	7.63
Above 25L	24.49	17.39	28.36	28.73	29.66
NA	3.04	2.02	1.41	1.38	1.26
Grand Total	465.04	435.84	479.30	482.47	474.80

Table 4.10: Rest of Industry Number of Accounts Loan Sizes, Q to Q5 (in Million)

Ticket Size	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
0-3L	2.69	2.68	2.71	2.72	2.64
3L-5L	0.18	0.17	0.18	0.190	0.185
5L-7L	0.06	0.05	0.06	0.062	0.067
7L-10L	0.03	0.03	0.03	0.041	0.040
10L-15L	0.01	0.01	0.01	0.017	0.016
15L-20L	0.00	0.00	0.00	0.007	0.006
20L-25L	0.00	0.00	0.00	0.004	0.004
Above 25L	0.00	0.00	0.00	0.008	0.007
NA	0.03	0.02	0.01	0.014	0.013
Grand Total	3.04	2.99	3.047	3.065	2.980

The "Rest of Industry" shows considerable stability in the 0-3L segment, maintaining balances around ₹270-280 billion across the analyzed periods. Account numbers in this segment remain high, reaching nearly 2.642 million in March 2024. This stability suggests a focus on low-income demographics and small-ticket loans, reinforcing the Rest of Industry's role in providing accessible financial products. This segment's steadiness indicates effective penetration and loyalty within low-income demographics, essential for financial inclusion in economically vulnerable regions. See Table 4.9 and 4.10.

Takeaway #19: *Volatility in Mid-Sized Loans for the Rest of Industry Indicates Need for Product Alignment—*

Mid-sized loans in the Rest of Industry exhibit fluctuations, especially in the 5L-10L segments. For instance, balances in the 5L-7L bracket varied between ₹30.31 billion in June 2023 and ₹33.53 billion in December 2023. This volatility may indicate inconsistent demand or shifts in product alignment with customer needs. Addressing this instability through targeted marketing and product customization could help the Rest of Industry maintain a steady customer base, improving retention and ensuring consistent revenue from this mid-market segment.

Takeaway #20: *Broader Market Dynamics Show Shift Toward Consolidation and High-Value Lending Across Sectors—*

Across all sectors, a pattern emerges of shifting focus toward high-ticket lending, with NBFCs, PSU banks, and private banks increasing their activity in high-value loan segments. This move towards larger loan sizes aligns with broader market dynamics where institutions prioritize revenue stability through high-value, low-volume accounts over expansive customer acquisition. The industry's move toward consolidation is evident, reflecting an alignment with global banking trends that favor strategic, high-value (differentiated) relationships over mass-market lending, which may challenge inclusivity efforts without careful segmentation and targeted low-income product offerings.

This series of takeaways provides a thorough analysis of sectoral trends, ticket size performance, and broader strategic implications for the financial services industry. By examining growth across different ticket sizes and sectors, these insights underscore the balance of inclusivity and high-value focus needed to sustain a dynamic, accessible financial ecosystem.

4.7 In-Depth Analysis of Delinquency and Other Aspects for Agri-Business Loans

Takeaway #21: *Increased Delinquency in NBFCs Reflects Higher Risk in Short-Term Loan Segments—*

NBFCs have shown an increase in delinquent loans, particularly in the early delinquency stages (1-29 days past due), which rose significantly from

Table 4.11: NBFC Number of Accounts Across Quarters

Status of Account	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
1-29 days past due	3,663	6,630	6,760	7,868	5,490

Table 4.12: NBFC Current Delinquent Balance (₹ in Million) Across Quarters

Status of Account	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
1-29 days past due	306.40	538.31	486.17	222.92	194.26

₹306.40 million with 3,663 accounts in March 2023 to ₹538.31 million with 6,630 accounts by June 2023. This trend indicates heightened risk in short-term loan segments, likely due to economic volatility affecting borrowers' ability to make timely payments. The rising delinquency in these segments highlights the need for NBFCs to implement better risk assessment and monitoring for short-term lending to maintain asset quality and manage potential defaults. It, however, must be noted that by the end of Q5, this 1-29 days delinquency has come down to ₹194.26 million. See Tables 4.11 and 4.12.

Takeaway #22: *PSU Banks' Long-Term Delinquencies Indicate Persistent Structural Challenges—*

PSU banks face a persistent issue with long-term delinquencies, particularly in loans 720+ days past due, with balances remaining high at ₹0.110 trillion and growing to ₹0.134 trillion by December 2023, with account numbers consistently above 0.48 million. This data suggests that PSU banks are dealing with entrenched defaults, potentially due to structural challenges in recovery processes. Addressing these long-term delinquencies is crucial for PSU banks to improve balance sheet quality and reduce the financial strain of non-performing assets (NPAs) over time. See Tables 4.13 and 4.14.

Table 4.13: PSU Banks Number of Accounts (in Million) Across Quarters

Status of Account	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
720+ days past due	0.48	0.48	0.48	0.53	0.46

Table 4.14: PSU Banks Current Delinquent Balance (₹ in Trillion) Across Quarters

Status of Account	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
720+ days past due	0.110	0.110	0.115	0.134	0.110

Table 4.15: Private Banks Number of Accounts Across Quarters

Status of Account	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
1-29 days past due	18,403	24,254	40,302	24,167	29,841

Table 4.16: Private Banks Current Delinquent Balance (₹ in Billion) Across Quarters

Status of Account	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
1-29 days past due	6.60	7.90	9.34	9.88	12.41

Table 4.17: PSU Banks Number of Accounts (in Million) Across Quarters

Status of Account	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
Current Accounts (Not Past Due)	4.62	4.75	4.70	4.85	5.21

Table 4.18: PSU Banks Current Delinquent Balance (₹ in Trillion) Across Quarters

Status of Account	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Accounts That are Current (Not Past Due)	0.884	0.912	0.944	1.039	1.106

Takeaway #23: *Private Banks' Increased Early-Stage Delinquencies Highlight Need for Enhanced Credit Controls—*

Private banks reported a notable rise in early-stage delinquencies (1-29 days past due), increasing from ₹6.60 billion in March 2023 with 18,403 accounts to ₹12.41 billion with 29,841 accounts by March 2024. This trend suggests that private banks might be experiencing issues with credit risk assessment or the effects of macroeconomic factors impacting borrowers' repayment capacity. Strengthening credit control measures and borrower evaluation criteria could help mitigate these early-stage risks and maintain portfolio quality.

Takeaway #24: *Resilient Performance in 'Current Accounts' Among All Sectors (Institutions) Reflects Core Stability—*

Across all sectors, 'Current Accounts' exhibit resilience, with consistent growth in balances and account numbers, underscoring core operational stability. For instance, PSU banks saw growth in current accounts from ₹0.884 trillion with 4.62 million accounts in March 2023 to ₹1.106 trillion with 5.21 million accounts by March 2024. This stability indicates a solid customer base maintaining regular financial activity, reinforcing the sectors' reliance on stable deposits and current accounts as foundational assets in their portfolios.

Table 4.19: NBFC Current Delinquent Balance (₹ in Million) Across Quarters

Status of Account	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Written Off	0.71	0.14	0.18	0.19	27.49

Takeaway #25: *NBFCs' High Proportion of 'Written-Off' Accounts Indicates Need for Stronger Recovery Mechanisms—*

NBFCs have a notable volume of written-off accounts, totaling ₹0.71 million in March 2023 and rising to ₹27.49 million by March 2024, with account numbers also fluctuating. This high level of write-offs could point to challenges in recovery processes or limitations in collection practices. Strengthening recovery mechanisms and refining credit scoring models may help NBFCs reduce future write-offs and improve financial sustainability by managing defaulted loans more effectively. While writing-off loans enhances transparency, a write-off is a mere accounting entry and efforts at collections should never stop.

Takeaway #26: *Growth in 'Sub-Standard' and 'Doubtful' Accounts for PSU Banks Signals Underlying Credit Quality Concerns—*

PSU banks show an increase in sub-standard and doubtful accounts, with 'Sub-Standard' balances rising from ₹0.050 trillion in March 2023 to over ₹0.051 trillion by March 2024. This growth in risk-laden accounts underscores potential issues in credit quality and borrower repayment capacity. Addressing these concerns through stricter lending criteria and post-loan monitoring could help PSU banks mitigate risk exposure and improve overall portfolio health.

Table 4.20: PSU Banks Current Delinquent Balance (₹ in Trillion) Across Quarters

Status of Account	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Sub-standard	0.050	0.048	0.046	0.047	0.051

Table 4.21: Rest of Industry Number of Accounts Across Quarters

Status of Account	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
Special Mention	34,661	24,233	21,433	20,684	19,603

Table 4.22: Rest of Industry Current Delinquent Balance (₹ in Billion) Across Quarters

Status of Account	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Special Mention	5.58	3.11	2.64	2.65	2.56

Takeaway #27: *'Special Mention' Loans in Rest of Industry Indicate High Attention to Monitoring Potential Risks—*

The Rest of Industry category reported a substantial volume of 'Special Mention' loans, which reflect accounts requiring close monitoring due to potential risk factors. Balances for this category were consistently high, reaching ₹5.58 billion in March 2023 with 34,661 accounts and stabilizing around ₹2.56 billion by March 2024. This trend highlights proactive efforts within the industry to identify and manage early signs of risk, aiming to prevent potential defaults and ensure greater portfolio stability.

Takeaway #28: *Low Delinquency in 'Standard Delinquent Accounts' in Private Banks Signals Controlled Risk Management—*

Private banks reported relatively low balances and account numbers in 'Standard Delinquent Accounts' across the analyzed periods, indicating strong risk management practices. Balances remained stable, with account numbers around 10,000. This control over standard delinquencies suggests that private banks may be effectively managing lower-risk accounts through timely follow-ups and intervention, reducing the likelihood of these accounts transitioning to higher-risk categories and maintaining portfolio quality.

Table 4.23: Private Banks Number of Accounts Across Quarters

Status of Account	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
Standard Delinquent Account	9,258	9,456	10,489	10,418	10,442

Table 4.24: NBFC Current Delinquent Balance (₹ in Million) Across Quarters

Status of Account	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
Doubtful	5.14	3.42	3.65	9.99	13.12
Loss	1,705.19	1,703.58	1,703.59	1,678.14	1,694.72

Takeaway #29: *NBFCs' Increase in 'Doubtful' and 'Loss' Categories Highlights Growing Risks in Asset Quality—*

NBFCs saw increases in the 'Doubtful' category, with balances in 'Doubtful' rising from ₹5.14 million in March 2023 to ₹13.12 million by March 2024, and 'Loss' maintaining high balances at ₹1,705.19 million and showing very marginal improvement. This trend signals heightened risk exposure and potential weaknesses in asset quality. To ensure portfolio health, NBFCs may need to refine credit assessment practices and consider restructuring or enhanced recovery processes to reduce the burden of these risk-laden accounts.

These takeaways provide a focused analysis on delinquency trends, account stability, and sector-specific risk management practices across NBFCs, PSU banks, private banks, and the broader industry. Together, they highlight the importance of credit quality, proactive risk management, and effective account monitoring to ensure financial stability and strategic growth across diverse financial institutions.

4.8 Institution-Wise Lending for Agri Business Loans

Takeaway #30: *NBFCs Exhibit Robust Growth in Rural Lending, Supporting Financial Inclusion Goals—*

NBFCs demonstrated a strong presence in rural lending, with current balances increasing steadily across reporting periods. Rural loan balances for NBFCs grew from ₹7.37 billion in March 2023 to ₹9.13 billion by March 2024, with account numbers reaching over 0.166 million. This growth in rural regions underlines NBFCs' commitment to financial inclusion by meeting the credit needs of underbanked rural populations, often underserved by traditional banks. As NBFCs expand rural outreach, they enhance accessibility to finance, contributing positively to financial inclusivity and economic growth in these areas.

Table 4.25: NBFC Rural, Semi Urban and Urban Number of Accounts (₹ in Million) Across Quarters

Rural/Urban	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
Rural	0.130	0.132	0.154	0.166	0.166
Semi Urban	0.109	0.113	0.125	0.121	0.114
Urban	0.006	0.007	0.007	0.005	0.004
NBFC Total	0.245	0.252	0.285	0.293	0.284

Table 4.26: NBFC Rural, Semi Urban and Urban Current Balance (₹ in Billion) Across Quarters

Rural/Urban	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Rural	7.37	7.36	7.66	8.43	9.13
Semi Urban	8.45	8.72	8.66	8.61	8.86
Urban	2.36	2.56	2.41	2.13	1.57
NBFC Total	18.18	18.64	18.74	19.17	19.56

Table 4.27: PSU Banks Rural, Semi Urban and Urban Number of Accounts (in Million) Across Quarters

Rural/Urban	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
Rural	4.09	3.98	3.95	3.93	3.93
Semi Urban	3.99	3.97	3.98	3.98	4.00
Urban	0.37	0.36	0.36	0.35	0.36
PSU Banks Total	8.45	8.31	8.29	8.26	8.29

Table 4.28: PSU Banks Rural, Semi Urban and Urban Current Balance (₹ in Billion) Across Quarters

Rural/Urban	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Rural	632.29	621.93	636.57	651.44	652.06
Semi Urban	853.04	852.11	886.81	931.08	937.62
Urban	158.71	160.15	173.56	187.95	190.03
PSU Banks Total	1,644.04	1,634.19	1,696.94	1,770.47	1,779.70

Table 4.29: Private Banks Rural, Semi Urban and Urban Number of Accounts (in Million) Across Quarters

Rural/Urban	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
Rural	0.47	0.44	0.41	0.41	0.44
Semi Urban	0.64	0.58	0.53	0.55	0.61
Urban	0.12	0.11	0.10	0.11	0.12
Private Banks Total	1.23	1.13	1.04	1.07	1.17

Table 4.30: Private Banks Rural, Semi Urban and Urban Current Balance (₹ in Billion) Across Quarters

Rural/Urban	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Rural	113.94	110.61	105.16	116.40	122.05
Semi Urban	143.35	138.55	134.65	148.66	159.25
Urban	58.39	54.89	53.27	62.76	66.86
Private Banks Total	315.68	304.05	293.08	327.82	348.16

Takeaway #31: *PSU Banks' Stability in Semi-Urban Regions Reflects a Balanced Approach to Expanding Coverage—*

PSU banks maintain a stable presence in semi-urban regions, with steady growth in balances from ₹853.04 billion in March 2023 to ₹937.62 billion by March 2024, covering over 4 million accounts. This consistent performance suggests that PSU banks are effectively meeting semi-urban demand for banking services while maintaining a balanced distribution between rural and urban markets. This strategic focus ensures that PSU banks provide essential banking services to developing areas, facilitating economic growth and catering to emerging financial needs as these regions develop.

Table 4.31: Rest of Industry Rural, Semi Urban and Urban Number of Accounts (₹ in Million) Across Quarters

Rural/Urban	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
Rural	1.66	1.64	1.66	1.69	1.65
Semi Urban	1.21	1.19	1.21	1.21	1.19
Urban	0.08	0.07	0.08	0.07	0.06
Rest of Industry Total	2.95	2.90	2.95	2.97	2.89

Table 4.32: Rest of Industry Rural, Semi Urban and Urban Current Balance (₹ in Billion) Across Quarters

Rural/Urban	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Rural	238.22	221.52	237.99	243.48	241.36
Semi Urban	195.28	182.52	206.48	206.12	203.73
Urban	20.02	19.55	21.15	20.14	17.55
Rest of Industry Total	453.52	423.59	465.62	469.74	462.65

Takeaway #32: *Private Banks' Urban Focus Shows Targeted Growth in Affluent, High-Demand Areas—*

Private banks exhibit concentrated growth in urban areas, with current balances rising from ₹58.39 billion in March 2023 to ₹66.86 billion by March 2024 and account numbers staying at 0.12 million. This urban focus reflects private banks' strategy of targeting affluent customers and businesses, who often seek advanced banking services and larger credit amounts. By prioritizing urban markets, private banks are capturing high-value clients and increasing profitability, though this may imply limited rural penetration, which could impact financial inclusivity outside metropolitan areas.

Takeaway #33: *Rest of Industry's Strong Rural Footprint Highlights Importance in Serving Underserved Areas—*

The "Rest of Industry" sector has a pronounced rural focus, with loan balances in rural regions growing from ₹238.22 billion in March 2023 to ₹241.36 billion in March 2024, covering a significant 1.65 million accounts. This broad rural reach emphasizes the sector's critical role in extending credit and banking services to underserved populations, especially in regions where mainstream banking options may be limited. By focusing on rural areas, these institutions enhance financial inclusion and stimulate local economic activities, thereby reinforcing the sector's role in supporting rural development.

Takeaway #34: *Urban Loan Growth Across All Institutions Reflects Rising Demand for Urban Financial Services—*

Growth in urban loan balances across sectors highlights the increasing demand for financial services in metropolitan areas. For instance, PSU banks' urban balances rose from ₹158.71 billion in March 2023 to ₹190.03 billion by March 2024, with account numbers remaining fairly stable at 0.36 million. This trend across sectors points to the expanding urban economic landscape and increased consumer needs for credit and other financial (deepening) products. It underscores the importance for banks and financial institutions to continuously innovate and offer competitive and financial deepening products to capture and retain urban clients in a rapidly urbanizing society.

Takeaway #35: *NBFCs' Semi-Urban Lending Growth Suggests Strategic Diversification Beyond Rural Focus—*

NBFCs also displayed significant growth in semi-urban lending, with balances increasing from `8.45 billion in March 2023 to `8.86 billion by March 2024. With account numbers over 0.114 million, this growth indicates a strategic effort by NBFCs to diversify beyond rural markets and tap into semi-urban regions where financial demand is rising. By extending their reach into these areas, NBFCs are positioning themselves to meet the needs of semi-urban clients, who often require microfinance and small business loans, thus supporting economic transitions in these developing areas.

Takeaway #36: *PSU Banks' Significant Rural Presence Reinforces Financial Stability and Inclusivity—*

PSU banks maintain a dominant position in rural regions, with balances growing from ₹632.29 billion in March 2023 to ₹652.06 billion by March 2024, covering around 3.93 million accounts. This large rural footprint underscores the critical role PSU banks play in promoting financial stability and inclusivity in less accessible areas. Their reach across rural communities ensures access to basic banking services and credit, which is essential for the financial empowerment of these regions. This continued rural presence by PSU banks contributes to balanced economic development and helps bridge the rural-urban divide in access to finance. One other point to note here is that while loan balances have increased, the number of accounts has decreased, and this again indicates a growing trend towards selective targeting and deepening relationships with existing clients.

Takeaway #37: *Private Banks' Semi-Urban Growth Points to Expanding Reach into Emerging Markets—*

Private banks showed growth in semi-urban areas, with current balances rising from ₹143.35 billion in March 2023 to ₹159.25 billion by March 2024, covering over 0.61 million accounts. This expansion indicates that private banks are increasingly recognizing the potential of semi-urban markets, which are characterized by growing consumer needs and economic development. By expanding into these regions, private banks are enhancing accessibility to financial products and services, allowing them to build a customer base in rapidly developing areas while contributing to economic inclusivity. It's worth noting that, while loan balances have risen, the number of accounts has marginally declined. This highlights a clear trend toward more selective targeting and a strategic focus on strengthening relationships with existing clients.

Takeaway #38: *Low Urban Concentration in 'Rest of Industry' Shows Strategic Choice in Delivering Financial Services—*

The "Rest of Industry" sector's decreasing urban presence, with balances in urban areas reaching ₹17.55 billion by March 2024 and covering nearly 0.06 million accounts, highlights a reduced niche focus on urban clientele. This segment's positioning in metropolitan financial services suggests a strategic choice not to meet the specific needs of urban consumers who may seek alternative financial products as compared to rural customers

Takeaway #39: *Cross-Sector Collaboration Needed to Achieve Financial Inclusion—*

Maximizing financial inclusion requires a collaborative approach that leverages the unique strengths of each sector to serve underserved populations across all areas. Public Sector Banks (PSUs) dominate rural and semi-urban regions, playing a pivotal role in addressing the financial needs of these areas while also supporting urban MSME financing. Non-Banking Financial Companies (NBFCs) and other industry players excel in providing flexible credit solutions, particularly in (rural) areas where traditional banking is limited. Meanwhile, private banks are steadily expanding into semi-urban regions, broadening their reach and capabilities. By

Table 4.33: State Wise PSU Banks Current Balance (₹ in Billion) Across Quarters

State	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Maharashtra	157.17	158.55	162.99	171.04	170.01
Tamil Nadu	144.59	136.59	131.73	127.07	127.28
Gujarat	97.48	101.09	106.25	117.77	122.85
PSU Banks Total	1,673.71	1,663.28	1,726.46	1,799.81	1,809.56

Table 4.34: State Wise Private Banks Current Balance (₹ in Billion) Across Quarters

State	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Maharashtra	40.49	37.48	41.23	45.18	46.44
Tamil Nadu	49.85	44.41	35.08	34.27	43.40
Gujarat	12.08	11.69	12.51	12.86	13.13
Private Banks Total	319.63	307.93	296.01	331.96	352.32

Table 4.35: State Wise NBFC Current Balance (₹in Billion) Across Quarters

State	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Andhra Pradesh	0.53	0.77	0.65	0.73	0.77
Karnataka	1.64	1.44	1.58	2.06	2.17
NBFC Total	18.24	18.71	18.81	19.23	19.62

Table 4.36: State Wise PSU Banks Current Balance (₹ in Billion) Across Quarters

State	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Andhra Pradesh	140.56	124.06	114.40	107.36	102.50
Karnataka	173.92	174.04	178.15	175.31	170.41
PSU Banks Total	1,673.71	1,663.28	1,726.46	1,799.81	1,809.56

Table 4.37: State Wise Private Banks Current Balance (₹ in Billion) Across Quarters

State	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Andhra Pradesh	30.13	28.25	18.71	30.27	32.49
Karnataka	45.14	46.85	50.60	54.53	58.22
Private Banks Total	319.63	307.93	296.01	331.96	352.32

working together, these sectors can enhance service delivery, create tailored financial products, and bridge gaps in financial access for underserved communities across rural, semi-urban, and urban areas. Such collaboration would foster more comprehensive financial inclusion, ensuring that no population is left behind in the effort to expand access to essential financial services.

This analysis underscores the distinct regional strengths and growth strategies across financial sectors. By focusing on urban, semi-urban, and rural regions with targeted approaches, each sector contributes uniquely to the broader financial ecosystem, supporting both business growth and financial inclusion across diverse geographic landscapes.

4.9 State-Wise Analysis for Agri-Business Loans

Takeaway #40: *Maharashtra, Tamil Nadu, and Gujarat – Growth Anchored by Diverse Economic Engines—*

Maharashtra, Tamil Nadu, and Gujarat continue to serve as financial powerhouses due to their diversified economies spanning manufacturing, agriculture, and services. Maharashtra's consistent increase in PSU and private bank balances, exceeding ₹170.01 billion in PSU banks and ₹46.44 billion in private banks by March 2024, underscores its role as an industrial and commercial hub. Tamil Nadu's demand for credit services, evident in its ₹43.40 billion private bank balances, reflects its booming automotive and textile sectors. That said, it needs to be noted that there has been an overall reduction in the portfolio balances in Tamil Nadu for PSU and Private Banks, and it may be because these MSMEs are getting funds from FinTechs that are relatively active in Tamilnadu given that it is a highly urbanized state. Gujarat's robust growth in private bank balances, reaching ₹13.13 billion, signals a rise in financial activity driven by industrial and trade expansion. Collectively, these states attract significant financial inflows as institutions tap into high local demand, strengthening economic resilience and supporting both traditional and new-age industries.

Takeaway #41: *Andhra Pradesh and Karnataka – Financial Inclusion Expands Alongside IT and Agricultural Sectors—*

Andhra Pradesh and Karnataka's rise in financial inclusion highlights the combined influence of agriculture and the technology sector on these states' economies. In Andhra Pradesh, NBFC balances rose from ₹526.10 million in March 2023 to ₹770.04 million in March 2024, while PSU banks saw balances of over ₹100 billion (although down from Q1 to Q5), still supporting the state's extensive agricultural economy. Karnataka's surge, particularly in private bank balances, which reached ₹58.22 billion, reflects the influence of the state's IT sector and growing urbanization. PSU banks in Karnataka had a steady presence of over ₹170 billion, while NBFCs enhanced their outstanding balance by almost 32%. Financial institutions have strategically expanded their services here, increasing credit availability in both urban centers and rural communities, which is essential for sustained growth across these pivotal economic sectors.

Takeaway #42: *Bihar, Rajasthan, and Uttar Pradesh – Bridging Financial Gaps in Traditionally Underserved Regions—*

Bihar, Rajasthan, and Uttar Pradesh demonstrate increased financial inclusion as institutions work to bridge regional disparities. Bihar's PSU bank balances grew from ₹46.64 billion to ₹54.46 billion over the year, reflecting efforts to expand financial services in rural areas, where farming remains dominant. Rajasthan and Uttar Pradesh are similarly expanding financial

Table 4.38: State Wise PSU Banks Current Balance (₹ in Billion) Across Quarters

State	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Bihar	46.64	47.17	49.71	52.33	54.46
Rajasthan	80.93	83.42	91.35	99.87	101.22
Uttar Pradesh	265.45	266.86	273.44	283.83	294.26
PSU Banks Total	**1,673.71**	**1,663.28**	**1,726.46**	**1,799.81**	**1,809.56**

Table 4.39: State Wise PSU Banks Current Balance (₹ in Billion) Across Quarters

State	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Punjab	80.57	81.02	91.04	100.46	103.95
Haryana	71.94	70.62	78.63	85.47	79.28
Delhi	7.69	7.88	11.34	12.07	12.03
PSU Banks Total	**1,673.71**	**1,663.28**	**1,726.46**	**1,799.81**	**1,809.56**

access, with Rajasthan's PSU balances crossing ₹101.22 billion by March 2024 and Uttar Pradesh reaching ₹294.26 billion. These gains indicate successful outreach in underbanked regions, where increased access to credit fosters small business development, supports agriculture, and empowers local communities, aligning with a broader national push for equitable economic growth.

Takeaway #43: *Punjab, Haryana, and Delhi – Financial Institutions Drive Economic Mobility in Northern India—*

In Punjab, Haryana, and Delhi, financial growth aligns with robust industrial and agricultural bases, driving economic mobility. Punjab's PSU bank balances reached ₹103.95 billion, and Haryana's total PSU balances hit ₹79.28 billion by March 2024, reflecting strong agricultural economies that demand substantial capital for crop production and allied services. Delhi's high account balances indicate a thriving urban economy with demand for consumer credit and investment products. Financial institutions' expanded services in these states reflect targeted support for businesses and consumers, enabling stable economic growth across diverse sectors, from agriculture to services, thereby reinforcing Northern India's economic momentum.

Takeaway #44: *Kerala – Diverse Financial Needs Driven by Local Economic Characteristics—*

Kerala's growth in financial balances highlights the unique economic profiles (from spice plantations to IT/tourism along with remittances) that make it an attractive market. Kerala's PSU bank balances rose from ₹51.19 billion to ₹63.67 billion by March 2024 (almost a 24% increase), with financial institutions catering to a mix of small-scale industries, remittance income, and consumer demands. Financial growth here demonstrates how banks have successfully tailored their services to local

Table 4.40: State Wise PSU Banks Current Balance (₹ in Billion) Across Quarters

State	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Kerala	51.19	53.83	59.37	63.57	63.67
PSU Banks Total	1,673.71	1,663.28	1,726.46	1,799.81	1,809.56

Table 4.41: State Wise PSU Banks Current Balance (₹ in Billion) Across Quarters

State	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Assam	14.00	14.81	15.96	16.82	18.76
West Bengal	50.42	53.08	56.93	62.13	63.86
Odisha	25.03	25.19	27.02	29.90	28.38
PSU Banks Total	**1,673.71**	**1,663.28**	**1,726.46**	**1,799.81**	**1,809.56**

demand, supporting economic activities that range from traditional industries to consumer spending, aligning with the states' socioeconomic diversity.

Takeaway #45: *Assam, West Bengal, and Odisha – Financial Expansion Supports Eastern India's Economic Development—*

Assam, West Bengal, and Odisha showcase significant growth in financial access, essential for their emerging economic landscapes. Assam's PSU bank balances, which rose to ₹18.76 billion by March 2024, reflect expanding financial services catering to agriculture and local non-farm sector industries. West Bengal's rise to ₹63.86 billion in PSU balances suggests increased demand driven by urbanization and small-business growth, while Odisha's ₹28.38 billion highlights investments in both rural financial services and industrial expansion. Financial institutions' focus on these regions helps bridge economic gaps and promotes stability, supporting small businesses and fostering more inclusive economic development across Eastern India.

Takeaway #46: *Madhya Pradesh and Chhattisgarh – Financial Access Fuels Growth in Central India—*

Madhya Pradesh and Chhattisgarh exhibit a growing demand for financial services, underscored by an increased focus on rural and agricultural credit. Madhya Pradesh's PSU balances reached ₹149.40 billion by March 2024, with rising demand from agriculture, mining, and small businesses. Chhattisgarh's PSU balances similarly grew to ₹26.88 billion, reflecting an economy anchored by agriculture and mineral resources. These patterns illustrate how financial institutions are expanding credit to meet diverse local needs, enabling regional economic growth and resilience in both rural and semi-urban areas, particularly through increased access to affordable credit.

Table 4.42: State Wise PSU Banks Current Balance (₹ in Billion) Across Quarters

State	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Madhya Pradesh	127.31	127.82	134.42	142.31	149.40
Chhattisgarh	20.83	21.70	23.89	27.37	26.88
PSU Banks Total	1,673.71	1,663.28	1,726.46	1,799.81	1,809.56

Table 4.43: State Wise PSU Banks Current Balance (₹ in Billion) Across Quarters

State	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Jammu & Kashmir	2.18	2.38	2.60	2.96	2.56
Himachal Pradesh	6.84	7.17	7.61	8.14	8.45
PSU Banks Total	1,673.71	1,663.28	1,726.46	1,799.81	1,809.56

Takeaway #47: *Jammu & Kashmir and Himachal Pradesh – Financial Institutions Support Economic Stability in Northern Hill States—*

Jammu & Kashmir and Himachal Pradesh demonstrate steady financial growth, reflecting efforts to strengthen economic stability in regions with unique geographic challenges. Jammu & Kashmir's PSU balances rose to over ₹2.56 billion by March 2024, with a notable increase in account numbers in both rural and urban areas, fostering economic resilience amid political shifts. Himachal Pradesh saw a similar increase, with PSU balances reaching ₹8.45 billion. These trends highlight financial institutions' role in stabilizing these regions, facilitating infrastructure development, and enhancing local economic

Table 4.44: State Wise Private Banks Current Balance (in Billion) Across Quarters

State	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Goa	0.82	0.83	0.90	1.01	1.04
Puducherry	0.32	0.25	0.18	0.18	0.23
Private Banks Total	319.63	307.93	296.01	331.96	352.32

Table 4.45: State Wise PSU Banks Current Balance (in Billion) Across Quarters

State	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Goa	1.09	1.06	1.24	1.35	1.44
Puducherry	2.00	2.09	1.99	1.85	1.83
PSU Banks Total	1,673.71	1,663.28	1,726.46	1,799.81	1,809.56

opportunities, contributing to greater stability and inclusion.

Takeaway #48: *Goa and Puducherry – Tourism and Service Sector-Driven Growth Boosts Financial Demand—*

Goa and Puducherry display reasonably strong financial growth fueled by tourism and service sector demand. Goa's private bank balances exceeded ₹1.04 billion by March 2024, indicating high demand for consumer credit in the tourism-driven economy. Financial institutions have strategically met the needs of consumers and businesses in these regions, fostering economic vibrancy and resilience by supporting cash flow in the service-oriented economy, especially critical during peak tourism periods.

Takeaway #49: *North-Eastern States (Manipur, Meghalaya, Nagaland) – Focused Efforts in Expanding Financial Inclusion Amid Local Challenges—*

Manipur, Meghalaya, and Nagaland have seen gradual financial growth as institutions focus on expanding access in these unique regions. Manipur's PSU balances grew to ₹1.16 billion, with over 5,400 accounts, reflecting targeted efforts to address gaps in financial services. Similarly, Meghalaya and Nagaland witnessed rising financial access, with banks adapting to local economic structures that are often community-oriented and depend on agriculture and small-scale enterprises. These trends reveal the positive impact of increased banking outreach, which is

Table 4.46: State Wise PSU Banks Current Balance (₹ in Billion) Across Quarters

State	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Manipur	1.12	1.13	1.14	1.19	1.16
Meghalaya	0.44	0.63	0.63	0.64	0.74
Nagaland	0.94	1.07	1.30	1.47	1.50
PSU Banks Total	1,673.71	1,663.28	1,726.46	1,799.81	1,809.56

crucial for financial resilience and development in North-Eastern India, contributing to national efforts to address regional financial disparities.

The above analysis clusters the states and analyses their performance on various aspects pertaining to agri-business financing across states.

4.10 Discussion

The agricultural business loans sector is crucial for empowering MSMEs and supporting the rural economy. Tailored loan products specifically designed for agri-businesses enable micro, small, and medium enterprises to manage seasonal cash flow challenges, invest in new technology,

Table 4.47: Agri-Business Loans Critical Insights, Implications and Recommendations

Insights	Implications	Recommendations
NBFCs exhibit strong growth in rural lending, supporting financial inclusion.	Demonstrates the role of NBFCs in serving underserved rural populations.	Strengthen rural outreach and develop more targeted loan products to meet local needs.
PSU banks show stability in semi-urban markets, balancing regional coverage.	Reflects the strategic focus on semi-urban financial accessibility.	Enhance service delivery to sustain competitive advantage in semi-urban areas.
Private banks display targeted growth in urban centers, capturing high-value clients.	Highlights private banks' focus on affluent, tech-savvy urban customers.	Expand digital innovations to attract a wider urban client base and diversify portfolios.
The "Rest of Industry" segment maintains a steady rural footprint, serving low-income demographics.	Ensures continued support for small-scale rural enterprises.	Invest in specialized services to deepen relationships with rural customers.
Increased lending for large-ticket loans in PSU banks emphasizes a shift toward high-value clients.	Indicates a pivot to higher-value, lower-volume accounts for more stable returns.	Maintain inclusive finance by balancing high-value and small-ticket lending.
NBFCs' growth in the 0-3L segment shows continued demand for small-ticket loans.	Reflects financial inclusion efforts for micro-enterprises.	Scale digital platforms to enhance loan processing and reduce operational costs.
Private banks maintain robust growth in mid-ticket loan segments, leveraging digital strategies.	Reinforces private banks' ability to attract middle-income borrowers.	Continue developing mid-range financial products tailored to SMEs' needs.
Private banks' focus on high-ticket loans signals strategic alignment with affluent clients.	Highlights efforts to capture HNWIs and corporate clients through tech-driven solutions.	Enhance digital offerings to streamline loan approvals and customer experience.
NBFCs show an upmarket shift with a growing share in 10L+ loans.	Indicates strategic diversification to manage risk and tap higher-value markets.	Diversify loan products and refine risk assessment frameworks for larger loans.
PSU banks' decrease in account numbers suggests a shift from volume to high-value accounts.	Points to market saturation and a focus on consolidating value-driven relationships.	Implement targeted outreach to retain smaller, high-potential clients.
The "Rest of Industry" faces fluctuations in mid-sized loans, indicating inconsistent demand.	Highlights potential mismatches between loan offerings and customer needs.	Align product strategies with market expectations to stabilize mid-sized loan segments.
Early-stage delinquencies in NBFCs point to higher risks in short-term loans.	Suggests potential credit risk issues impacting portfolio quality.	Enhance early-stage risk monitoring and strengthen repayment tracking mechanisms.
Long-term delinquencies in PSU banks underline structural recovery challenges.	Indicates systemic issues with non-performing loans.	Invest in more efficient recovery processes and enhance support for distressed borrowers.
Private banks show controlled risk management in standard delinquent accounts.	Reflects effective portfolio management and proactive credit assessment.	Maintain stringent follow-ups and credit quality monitoring to limit delinquency rates.
Increasing delinquency in high-value NBFC accounts signals potential asset quality deterioration.	Highlights the need for improved credit risk practices.	Implement targeted risk management strategies and improve loan restructuring processes.
Consistent growth in 'Current Accounts' across all sectors reflects stable financial health.	Indicates a strong and loyal customer base across institutions.	Focus on nurturing customer relationships to maintain operational stability.

Insights	Implications	Recommendations
NBFCs face a high volume of 'written-off' accounts, impacting overall profitability.	Points to challenges in recovery and collection practices.	Strengthen collection mechanisms and refine credit scoring models for better outcomes.
PSU banks show steady support for 0-3L loans, maintaining financial inclusivity.	Reinforces their role in accessible banking for lower-income segments.	Sustain efforts in small-ticket lending to support financial inclusion initiatives.
Urban-centric strategies by private banks emphasize profit-driven market focus.	Highlights a potential gap in reaching non-urban clients.	Broaden outreach to semi-urban areas to diversify client bases and revenue streams.
Rural loan growth in PSU banks supports long-term economic stability.	Shows a commitment to financing in rural communities for balanced development.	Continue scaling rural-focused services and products tailored to local economies.
NBFCs' strategic expansion in semi-urban areas points to diversified growth.	Indicates an effort to balance rural and urban market demands.	Invest in semi-urban financial literacy programs to bolster client engagement.
Regional disparities show varied financial access.	Reflects unequal distribution of financial resources.	Implement regional incentives to encourage broader financial inclusion across underbanked states.
Growth in high-ticket lending across sectors suggests a focus on large-scale agri-projects.	Points to a trend towards supporting more substantial, capital-intensive business ventures.	Balance high-ticket and small-ticket lending to maintain inclusivity and profit stability.
Steady growth in mid-sized loans shows an expanding SME confidence.	Indicates SMEs' readiness to scale operations.	Enhance mid-sized loan products to support sustainable SME growth and reduce risk.
Cross-sector collaboration is essential for maximizing rural financial inclusion.	Demonstrates potential for joint efforts to improve financial access.	Foster partnerships between sectors to leverage strengths and close financial gaps.

and expand operational capabilities. This analysis outlines several critical insights, their implications, and recommendations related to trends in agri-business loans for MSMEs. It delves into account growth, portfolio distribution, and performance across different financial institutions, providing a comprehensive view of how these loans contribute to financial inclusion and economic resilience in rural and semi-urban areas.

The analysis of agri-business loans across financial sectors highlights distinct growth patterns, strategic adjustments, and regional impacts. NBFCs demonstrate substantial growth in rural and semi-urban areas, advancing financial inclusion with small-ticket loans and a range of tailored products. PSU banks maintain a balanced focus on stability and support rural economic growth, though they face ongoing challenges with long-term delinquency recovery. Private banks focus on urban markets, leveraging digital innovation to attract high-value and middle-income clients, alongside strong risk management practices. The "Rest of Industry" sector supports low-income demographics with steady lending, bringing stability to niche markets.

While each sector exhibits unique strengths—such as NBFCs' reach in rural areas and private banks' technology-driven growth—challenges remain. Regional disparities persist, with states like Maharashtra and Tamil Nadu leading in loan volumes while others fall behind. Early delinquencies in NBFCs and structural recovery issues in PSU banks indicate areas that need targeted improvements. Enhanced cross-sector collaboration could improve financial inclusion by combining the infrastructure of PSU banks, the digital agility of private banks, and the flexibility of NBFC lending models.

Overall, the agricultural business loan sector for MSMEs is complex and dynamic, shaped by the diverse priorities of different financial institutions. Each sector contributes valuable strengths, from rural outreach and tech-enabled urban client acquisition to serving low-income groups. Addressing strategic challenges like regional inequalities, asset quality issues, and inconsistent account growth will require a balanced focus on both inclusivity and sustainable profits. By adopting collaborative strategies that leverage the strengths of each sector, financial institutions can expand their market reach, improve client engagement, and build a more inclusive and resilient financial ecosystem. This comprehensive approach will empower agri-MSMEs, strengthen rural economies, and support sustainable growth across the financial landscape.

Business Loans for MSMEs

5

5.1 Business Loans

As noted earlier, Micro, Small, and Medium Enterprises (MSMEs) are central to economic development, fostering industrial growth, job creation, and community advancement. Yet, these enterprises face significant challenges in securing the capital needed for expansion, innovation, and resilience. MSME business loans, particularly those with funding levels up to ₹25 lakhs, are strategically designed to bridge this gap, offering accessible financial lifelines tailored to meet the unique needs of MSMEs.

This chapter embarks on an exploration of MSME business loans as essential catalysts, empowering businesses to move from concept to commercialization. Using data from Equifax[1], it delves into the dynamics of various loan types, examining how targeted financing has the potential to support everything from working capital to technological upgrades. By scrutinizing lending patterns, regional variations, and the evolving landscape of MSME financing, it unravels how these financial products help firms sustain operations and pursue growth strategies.

MSME business loans have a far-reaching impact, not only within individual enterprises but across industries and local economies. These funds enable MSMEs to hire skilled labor, invest in advanced machinery, and scale their operations—all of which contribute to a more resilient economic fabric. In this regard, MSME business loans serve as the financial backbone for entrepreneurial ventures that propel innovation, create employment, and generate long-term value. The chapter is organized into practical takeaways, supported by tables and figures, to provide a detailed overview of MSME financing based on Equifax data. It demonstrates how accessible capital strengthens underrepresented regions and industries, equipping entrepreneurs to enter new markets and contribute to a diversified, sustainable economy.

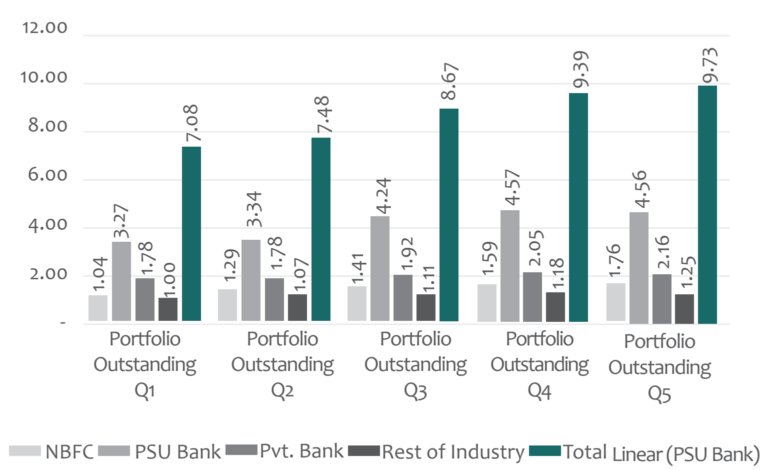


Figure 5.1: Growth in Portfolio Outstanding by Type of Institution and Total - Q1 to Q5 in ₹ Trillion

1 Data provided by Equifax on Business Loans, Agri-Business Loans and MUDRA Loans. The data was provided for five quarters Q1 to Q5, Q1 is January, February, and March 2023, Q2 is April, May, and June 2023, Q3 is July, August, and September 2023, Q4 is October, November and December 2023 and Q5 is January, February and March 2024.

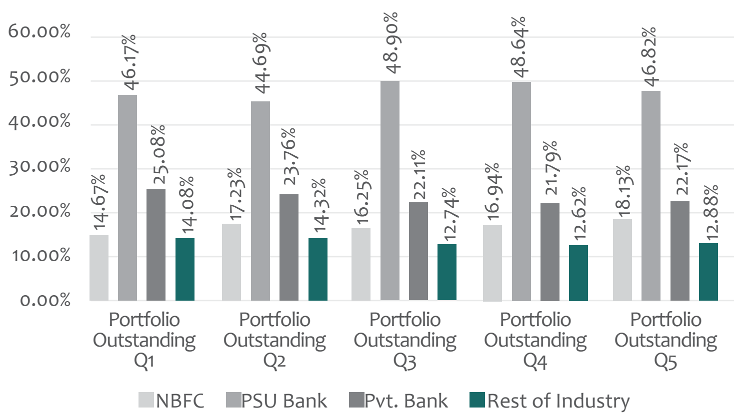


Figure 5.2: Percentage Growth in Portfolio Outstanding by Type of Institution - Q1 to Q5

5.2 Who are the Lenders, and How is their Portfolio Growth?

The following charts and associated table highlight the key lenders and their performance in terms of portfolio outstanding and the number of accounts. Figures 5.1 and 5.2 highlight the growth patterns in portfolio outstanding by type of financial institution over five quarters (Q1 to Q5). Figure 5.1 presents absolute growth in portfolio outstanding in trillions of rupees. It shows that PSU Banks lead in substantial volume growth, reaching ₹4.56 trillion by Q5, followed by Private Banks and NBFCs, which display moderate yet consistent increases. Notably, the total outstanding portfolio rose significantly from ₹7.08 trillion in Q1 to ₹9.73 trillion in Q5, indicating an overall healthy expansion in lending across all sectors. Figure 5.2 illustrates the percentage growth, where PSU Banks show remarkable spikes in growth, peaking at 48.90% in Q3 and maintaining robust growth rates in other quarters. NBFCs and Private Banks exhibit steady but lower percentage growth compared to PSU Banks. The "Rest of Industry" shows varied growth rates. This combination of data underscores that while absolute volumes grew substantially across all institution types, PSU Banks maintained the most aggressive percentage increase, highlighting their expansive lending strategies throughout the period.

5.3 What are the Key Takeaways?

Takeaway 1: NBFCs' Growing Market Share in Business Loans: Need for Balancing Expansion with Prudent Risk Management—

The substantial growth of Non-Banking Financial Companies (NBFCs) in the business loans segment between Q1 2023 and Q1 2024 (Q5) underscores their increasing importance in the lending landscape. This growth is evident from the rise in outstanding balances, which increased from ₹1.04 trillion to ₹1.76 trillion, coupled with a 1.72 million increase in active accounts. This marked a nearly 4% increase in NBFCs' market share within the total business loan segment, rising from 14.67% in Q1 to 18.13% in Q5. Meanwhile, their share of the total number of accounts increased to approximately 22%. This trend suggests that NBFCs are not only strengthening relationships with existing clients but are also effectively meeting demands

Table 5.1: Number of Active Loan Accounts Across Five Quarters by Institution and Total

Institution	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
NBFC	27,60,422	32,30,217	35,96,086	38,93,095	44,84,970
PSU Bank	62,33,745	62,83,213	70,39,187	73,50,791	74,08,924
Pvt. Bank	26,22,108	28,59,564	31,00,109	32,17,468	32,59,144
Rest of Industry	32,64,834	34,14,929	36,60,140	45,68,668	49,39,638
Grand Total	1,48,81,109	1,57,87,923	1,73,95,522	1,90,30,022	2,00,92,676

in areas that traditional banks may not fully cover. Their flexibility, faster processes, and accessibility to underserved borrower groups likely contribute to this expanding role in the business loan market. However, this rapid scaling and financial deepening come with potential risks. While NBFCs are meeting a high demand, such swift growth can pressure institutions to relax underwriting standards, potentially leading to increased credit risks. In fact, if you look at the early delinquency for business loans for NBFCs, 1-29 days past due increased by almost 204% over the 5 quarters, whereas 30-59 days past due burgeoned by almost 1048% across the five quarters. Therefore, to sustain this growth responsibly, NBFCs must strengthen their risk management frameworks, ensuring that credit quality is preserved as they broaden their market share. By maintaining robust lending standards and monitoring portfolio health, NBFCs can continue their upward trajectory without compromising financial stability. Thus, the evolving role of NBFCs in business lending reflects their capacity to meet market demands innovatively. However, a focus on balanced growth through prudent risk management will be critical for sustained success and resilience in the business loans segment.

Takeaway 2: *Public Sector Banks (PSU Banks) as Steady but Dominant Players—*

PSU Banks continue to dominate the market, holding the highest outstanding loan balance, which grew from ₹3.27 trillion in Q1 to ₹4.56 trillion by the final quarter (almost 39% growth across 5 quarters). The steady increase in account numbers, from 6.23 million to over 7.41 million (about 18.94% growth over 5 quarters), indicates a stable growth pattern in lending, emphasizing PSU Banks' role in offering dependable, widespread credit access. This growth trajectory reflects a calculated expansion, possibly aligned with tighter risk control mechanisms typical of state-backed institutions. The primary challenge for PSU banks, given their large scale, is to enhance operational efficiency and customer service while managing administrative overheads. A recommendation for PSU banks would be to prioritize digital initiatives that streamline operations and improve borrower experiences without increasing risk exposure.

Takeaway 3: *Expansion of Private Banks in Business Lending is by Selective Targeting and Differentiated Approach—*

Private banks have shown robust growth in both outstanding portfolio and account numbers, with outstanding loans rising from ₹1.78 trillion in Q1 to over ₹2.16 trillion by Q5 (21.3% growth in portfolio outstanding over 5 quarters). Account numbers have also seen a significant uptick (24% growth across 5 quarters), indicating a deliberate strategy by private banks to expand their market share in business lending. This approach suggests that private banks are effectively targeting a borrower segment perceived as lower risk and with higher loan demands. The average loan size for private banks ranged from ₹678,843 in Q1 to ₹662,750 in Q5—significantly higher than the industry-wide average, which grew from ₹475,770 to ₹484,079 over the same period. This trend likely reflects their competitive rates and user-friendly digital processes, which make them attractive to larger borrowers. However, this selective strategy also increases concentration risk and consequent exposure to credit risk, particularly in the face of potential economic volatility. To mitigate this risk, private banks should enhance their credit risk assessment and monitoring practices, ensuring that their growth trajectory remains both responsible and sustainable in the long term.

Takeaway 4: *Gradual Expansion in the Rest of the Industry Meeting Niche Lending Needs—*

The "Rest of Industry" category, which includes other financial institutions, has also shown growth in loan portfolio outstanding, increasing from ₹1.00 trillion in Q1 to approximately ₹1.25 trillion by the fifth quarter. Account numbers have risen from 3.26 million to 4.94 million, reflecting a steady expansion. This indicates that these smaller institutions—maintaining around 21-24% of total business loan accounts and 12-14% of portfolio outstanding across the five quarters—serve an essential role in supporting businesses that may not qualify under the stringent lending criteria of larger banks or that favor the accessibility of local businesses. While this steady growth is positive, these smaller institutions may face challenges with capital adequacy and maintaining liquidity as their loan portfolios grow. Strategic partnerships with larger financial entities could provide these institutions with additional resources to sustain their lending operations.

Takeaway 5: *Overall Market Expansion and the Demand for Enhanced Credit Quality Oversight—*

The cumulative growth across all institutions, with the total outstanding portfolio rising from ₹7.08 trillion to ₹9.73 trillion over five quarters (37.4%), signifies a broad expansion in business lending. The growth in account numbers is roughly 34% across the same five quarters. This robust growth reflects increased demand for credit, likely spurred by economic activity and business investment. However, such rapid expansion heightens the need for enhanced credit quality oversight to prevent potential risks associated with over-leveraging. Without diligent monitoring, there's a risk of defaults rising if economic conditions change. Financial institutions must strengthen their credit assessment and monitoring systems by adopting advanced analytics and other strategies to ensure

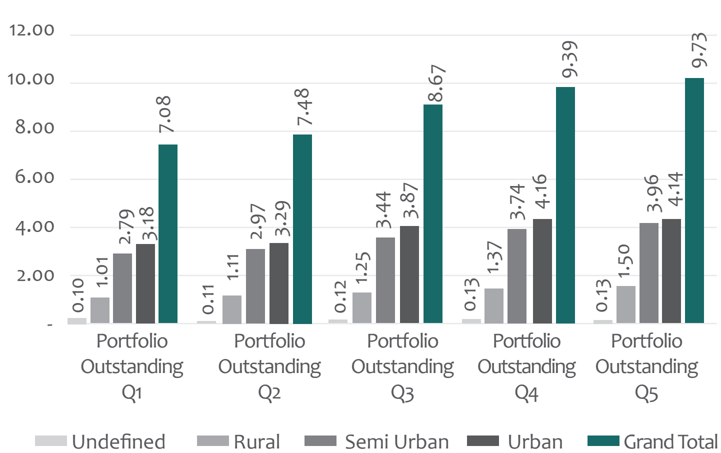


Figure 5.3: Growth in Portfolio Outstanding by Segment - Q1 to Q5 in ₹ Trillion

early detection of risks, allowing for proactive management of credit quality in a rapidly growing market.

5.4 Are these Growth Patterns Different in Urban, Semi-Urban and Rural Markets? START HERE

The graph below, **"Growth in Portfolio Outstanding by Segment – Q1 to Q5 in ₹ Trillion,"** reveals that urban areas have led the way in expanding outstanding loan portfolios over the five quarters. By Q5, the urban segment peaked at ₹4.14 trillion, showcasing robust lending activity and strong financial growth. Semi-urban areas followed closely, with consistent increases reaching ₹3.96 trillion by Q5, demonstrating a steady rise in loan disbursement.

The chart below, **"% Growth in Portfolio Outstanding Across Segments, Q1 – Q5,"** underscores the expansion rates of these segments. Urban areas recorded growth at 30.30%, reflecting their increasing significance in the lending landscape. The rural segment had a notable 48.08% growth, highlighting continued efforts to penetrate deeper into these regions. Semi-urban areas, with a 42.07% increase, maintained a steady upward trajectory.

The graph below, **"Percentage Change in Within Segment Share for Rural, Semi-Urban, and Urban Across Quarters,"** provides a view of how each segment's share has evolved. Urban areas saw a continual increase in their share, culminating at 42.54% by Q5, underlining their rising importance in the loan portfolio landscape. Semi-urban regions sustained their share, fluctuating slightly between 39.36% and 39.81% and touching 40% in Q5, reflecting consistent performance. The rural segment held steady between 14.33% and 15.45%, showing moderate but stable growth.

Table 5.2, titled "Number of Active Loan Accounts Across Five Quarters by Segment and Total," aligns with these insights by illustrating the increase in active loan accounts. The semi-urban segment recorded the highest number of active accounts, growing from 73,07,791 in Q1 to 98,76,723 in Q5. The rural segment also showed substantial growth, increasing from 43,40,934 in Q1 to 58,67,804 in Q5, underscoring the expansion of financial services into rural regions. Urban areas maintained steady growth, with active accounts rising from 30,50,485 in Q1 to 40,70,450 by Q5. Altogether, the total number of active accounts reached 2,00,92,676 by Q5, illustrating a broad and sustained growth across all segments.

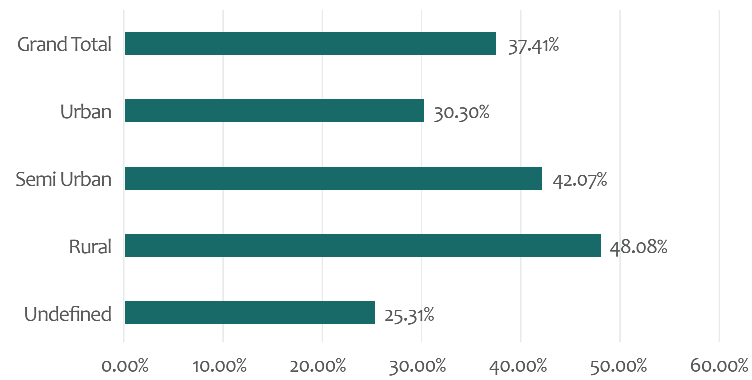


Figure 5.4: % Growth in Portfolio Outstanding Across Segments, Q1 - Q5

5.5 What are the Key Takeaways in Urban, Semi-Urban and Rural Markets?

Takeaway 6: *Distinct Growth Patterns in Urban, Semi-Urban, and Rural Markets—*

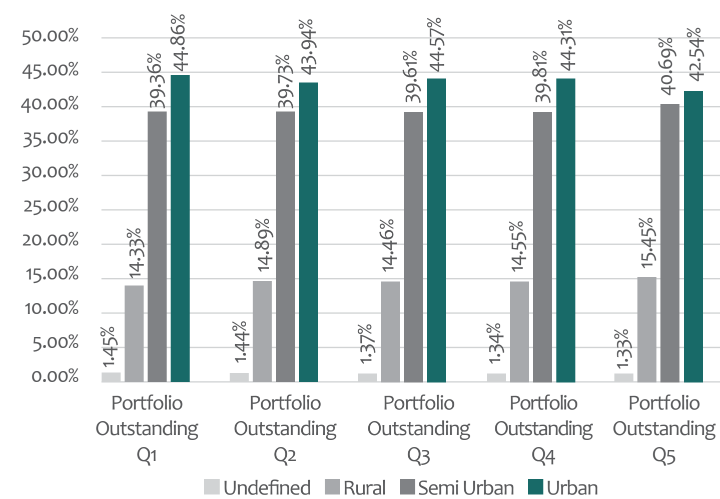


Figure 5.5: Percentage Change in Within Segment Share for Rural, Semi-Urban and Urban Across Quarters

The data reflects significant growth across urban, semi-urban, and rural areas, with semi-urban regions experiencing the largest increase in outstanding balances across all lender types. For instance, in PSU banks, semi-urban loan portfolio increased from ₹1.25 trillion to ₹1.79 trillion, while in private banks, it grew from ₹0.68 trillion to ₹0.87 trillion in the same segment. This suggests a rising demand for business financing in semi-urban areas, likely due to industrial expansion and emerging business activities. The implications point to a shift in economic activity beyond urban centers, which could indicate opportunities for financial inclusion in these areas. However, lending institutions face the challenge of developing tailored products for these markets, where borrower profiles and financial needs differ from urban counterparts. Financial institutions should focus on understanding the specific needs of these semi-urban and rural segments, potentially developing smaller, short-term loans and flexible repayment plans to cater to diverse borrowers.

Table 5.2: Number of Active Loan Accounts Across Five Quarters by Segment and Total

Segmentw	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
Undefined	1,81,899	1,93,217	2,10,859	2,24,850	2,77,699
Rural	43,40,934	46,51,175	50,63,543	54,70,915	58,67,804
Semi-Urban	73,07,791	77,44,230	85,67,902	93,75,390	98,76,723
Urban	30,50,485	31,99,301	35,53,218	39,58,867	40,70,450
Grand Total	1,48,81,109	1,57,87,923	1,73,95,522	1,90,30,022	2,00,92,676

5.3: Sector-wise Rural, Semi-Urban and Urban Portfolio Outstanding (₹ in Trillions) Across Quarters

Details	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
NBFC	1.04	1.29	1.41	1.59	1.76
Undefined	0.01	0.01	0.02	0.02	0.02
Rural	0.18	0.24	0.27	0.31	0.37
Semi-Urban	0.43	0.53	0.58	0.66	0.75
Urban	0.42	0.51	0.55	0.60	0.63
PSU Banks	3.27	3.34	4.24	4.57	4.56
Undefined	0.06	0.06	0.07	0.07	0.07
Rural	0.39	0.40	0.49	0.52	0.55
Semi-Urban	1.25	1.28	1.60	1.73	1.79
Urban	1.57	1.60	2.08	2.24	2.15
Pvt. Banks	1.78	1.78	1.92	2.05	2.16
Undefined	0.02	0.02	0.02	0.02	0.02
Rural	0.23	0.24	0.26	0.28	0.29
Semi-Urban	0.68	0.71	0.77	0.82	0.87
Urban	0.85	0.81	0.87	0.93	0.97
Rest of Industry	1.00	1.07	1.11	1.18	1.25
Undefined	0.01	0.01	0.01	0.01	0.02
Rural	0.21	0.23	0.24	0.26	0.29
Semi-Urban	0.43	0.46	0.48	0.52	0.55
Urban	0.34	0.37	0.37	0.39	0.39
Grand Total	7.08	7.48	8.67	9.39	9.73

Takeaway 7: Urban Markets Drive High-Value Loan Demand—

Urban areas continue to represent a substantial portion of high-value loans across all lender categories, indicating ongoing demand from businesses in established metropolitan markets. This trend is particularly evident in the private banking sector, where urban loans grew from ₹0.85 trillion to ₹0.97 trillion, suggesting that private banks are capturing significant market share in high-value, urban-based business loans. The implication is that urban centers continue to offer fertile ground for lending, driven by established businesses with higher capital requirements. The challenge here is that high-value loans, while profitable, carry higher risk if concentrated within economically sensitive sectors. Institutions should prioritize rigorous risk management practices, including robust credit assessment and sectoral risk evaluation, especially in urban markets where economic shifts can quickly impact businesses.

Takeaway 8: The Role of Rural Lending in Supporting Small and Medium Enterprises (SMEs)

The data reveals steady growth in rural lending, especially for PSU and private banks. PSU bank rural loans increased from ₹0.39 trillion to ₹0.55 trillion, and private banks saw growth from ₹0.23 trillion to ₹0.29 trillion. This expansion indicates that rural lending is a strategic focus area, likely due to increasing SME activity in rural regions and government incentives for rural

Table 5.4: Sector-wise Total and Urban Portfolio Outstanding (₹ in Trillions) Across Quarters

Details	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
NBFC Total	1.04	1.29	1.41	1.59	1.76
NBFC Urban	0.42	0.51	0.55	0.60	0.63
PSU Banks Total	3.27	3.34	4.24	4.57	4.56
PSU Banks Urban	1.57	1.60	2.08	2.24	2.15
Pvt. Banks Total	1.78	1.78	1.92	2.05	2.16
Pvt. Banks Urban	0.85	0.81	0.87	0.93	0.97
Rest of the Industry Total	1.00	1.07	1.11	1.18	1.25
Rest of Industry Urban	0.34	0.37	0.37	0.39	0.39
Grand Total	7.08	7.48	8.67	9.39	9.73
Grand Total Urban	3.18	3.29	3.87	4.16	4.14

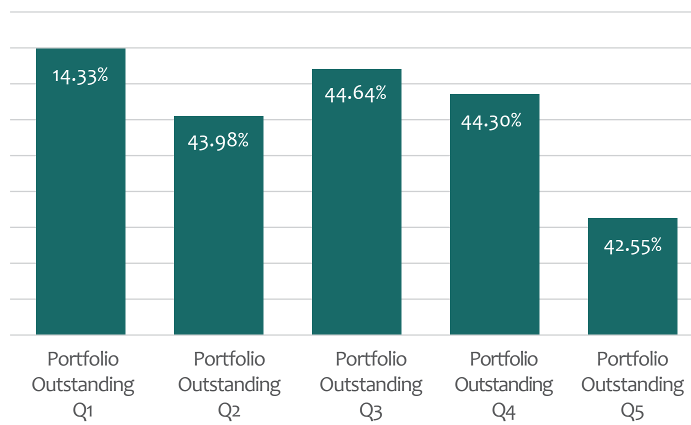


Figure 5.6: Urban to Total Portfolio Outstanding (%)

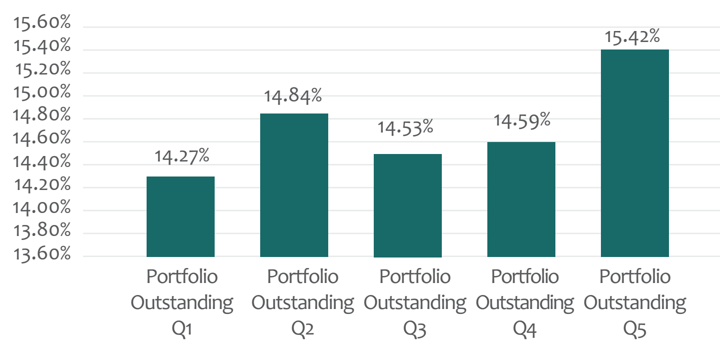


Figure 5.7: % of Rural to Total Portfolio Outstanding

economic development. The implication is that rural areas are increasingly viewed as viable for credit extension, signaling progress in financial inclusion. However, rural markets present challenges related to credit risk, as incomes and cash flows in these areas can be volatile due to agricultural dependency. Financial institutions should consider designing products that align with the income cycles of rural borrowers, incorporating flexible repayment terms to accommodate seasonal income variations.

Takeaway 9: *Private Banks' Rising Focus on Semi-Urban and Rural Markets—*

Private banks have exhibited rapid growth in semi-urban and rural segments, where outstanding balances rose from ₹0.68 trillion to ₹0.87 trillion and ₹0.23 trillion to ₹0.29 trillion, respectively. This trend indicates that private banks are actively seeking market penetration in these areas, likely due to the maturity of urban lending markets and competitive pressures. This shift implies that private banks see semi-urban and rural areas as key to sustaining growth. The main challenge for private banks in these regions will be competing against established public sector banks and NBFCs while managing operational costs and maintaining credit quality. Recommendations for private banks include leveraging digital lending models to reach remote borrowers cost-effectively and creating partnerships with local entities to enhance outreach and brand trust.

Table 5.5: Sector-wise Total and Rural Portfolio Outstanding (₹ in Trillion) Across Quarters

Details	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
NBFC Total	1.04	1.29	1.41	1.59	1.76
Rural Areas	0.18	0.24	0.27	0.31	0.37
PSU Banks Total	3.27	3.34	4.24	4.57	4.56
Rural Areas	0.39	0.40	0.49	0.52	0.55
Pvt. Banks Total	1.78	1.78	1.92	2.05	2.16
Rural Areas	0.23	0.24	0.26	0.28	0.29
Rest of Industry Total	1.00	1.07	1.11	1.18	1.25
Rural Areas	0.21	0.23	0.24	0.26	0.29
Grand Total	7.08	7.48	8.67	9.39	9.73
Rural Total	1.01	1.11	1.26	1.37	1.50

Table 5.6: Private Banks Urban, Rural Plus Semi Urban Number of Accounts Across Quarters

	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
Pvt. Bank	26,22,108	28,59,564	31,00,109	32,17,468	32,59,144
Urban	6,92,713	7,15,546	7,51,341	7,63,319	7,58,248
Rural plus Semi Urban	19,03,230	21,15,855	23,18,550	24,23,442	24,70,508

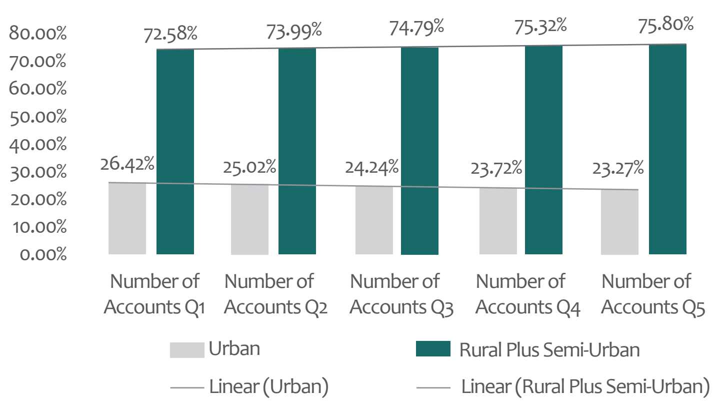


Figure 5.8: Private Banks, % of Urban, Rural Plus Semi Urban Number of Accounts Across Quarters

Takeaway 10: *The Role of NBFCs in Capturing Niche Markets across Geographic Segments—*

NBFCs have shown consistent growth across urban, semi-urban, and rural areas, with a notable jump in rural loans from ₹0.18 trillion to ₹0.37 trillion. This growth across various geographic segments suggests that NBFCs are effectively catering to niche markets and underserved borrowers, positioning themselves as flexible and accessible alternatives to traditional banks. The implication here is that NBFCs have successfully differentiated their offerings, making inroads into regions where conventional banks may have limited reach. However, the challenge for NBFCs lies in maintaining credit quality while expanding into diverse and potentially high-risk markets. NBFCs should focus on developing strong credit assessment frameworks and localized underwriting practices that align with the financial realities of each geographic segment, ensuring they manage risks while continuing their expansion.

Takeaway 11: *The Strategic Expansion of Public Sector Banks in Urban and Semi-Urban Areas—*

Public sector banks demonstrate substantial growth in urban and semi-urban lending, with outstanding balances in semi-urban areas rising from ₹1.25 trillion to ₹1.79 trillion. This trend suggests that PSU banks are capitalizing on the demand in these regions, which may be due to urbanization and industrial development in semi-urban areas. The implication here is that PSU banks continue to support economic growth beyond traditional city centers, playing a crucial role in fostering regional business activity. The challenge for PSU banks in urban and semi-urban expansion is to maintain competitiveness amid agile private banks and NBFCs, which may offer more streamlined processes and faster turnaround times. PSU banks could consider modernizing their lending operations, investing in technology for faster approvals, and enhancing customer service to retain their strong market position.

Takeaway 12: *Overall Market Expansion Necessitates Stronger Portfolio Diversification and Risk Management—*

The combined growth across all segments, with total outstanding business loans increasing from ₹7.08 trillion to ₹9.73 trillion, highlights a robust expansion in the business lending market. This growth is diversified across regions, implying broad-based demand and widespread access to credit. However, this market-wide expansion poses challenges related to risk concentration, as institutions may become heavily invested in specific geographic or industry segments. Financial institutions must adopt more advanced risk management practices, such as sector-based risk analytics and geographic diversification, to mitigate potential vulnerabilities from over-exposure. Additionally, as portfolios grow, institutions should regularly assess and adjust their lending criteria, ensuring they remain aligned with shifting economic conditions and borrower capabilities, ultimately sustaining long-term portfolio health and stability.

Takeaway 13: *High Growth in Small-Ticket Loans for NBFCs and Shifting Market Shares—*

NBFCs, though holding less than 1% of the market share in the small-ticket loan segment (₹0-3 lakh), are steadily expanding their presence

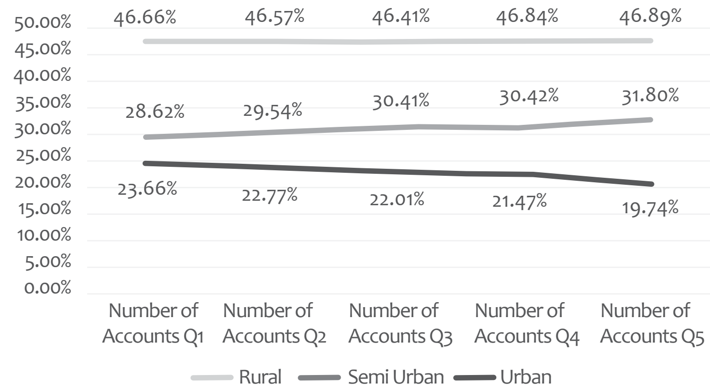


Figure 5.9: NBFCs: Percentage Change in Rural, Urban and Semi-Urban Number of Accounts, Q1 - Q5

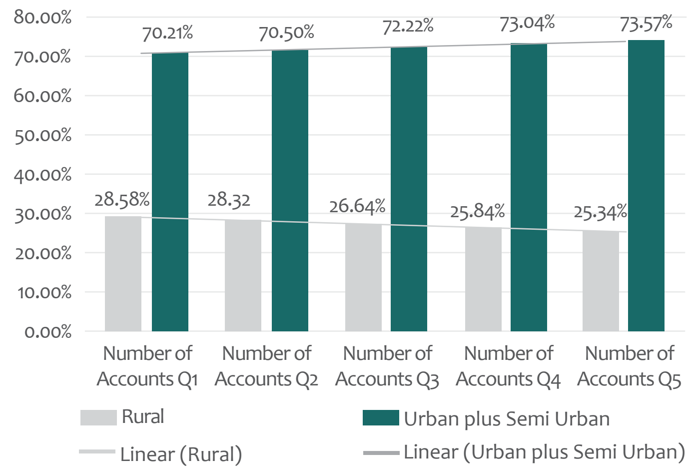


Figure 5.10: PSU Banks: % Change in Rural Vs Semi-Urban Plus Urban, Number of Accounts, Q1 to Q5

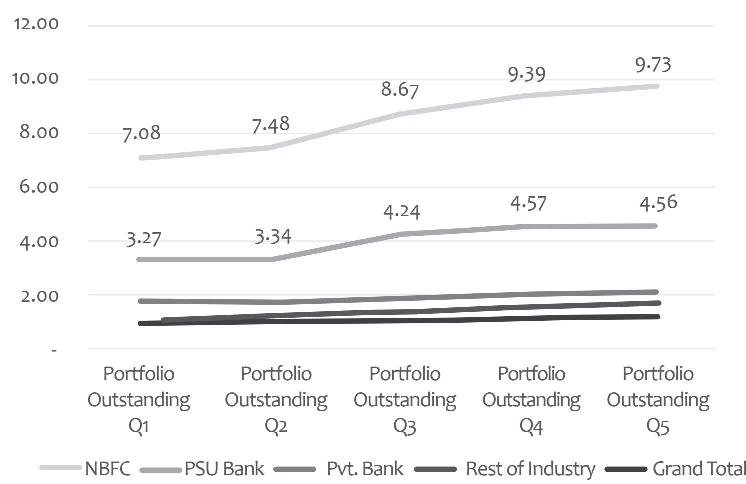


Figure 5.11: Portfolio Growth, Q1 to Q5 ₹ Trillion, All Institutions

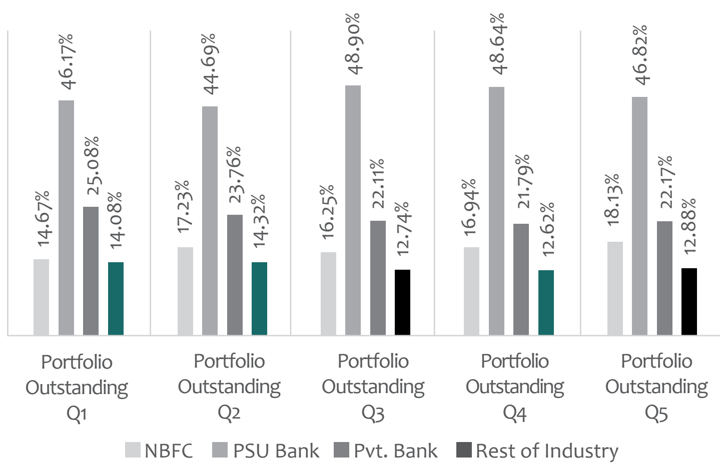


Figure 5.12: Portfolio Growth, Q1 to Q5, All Institutions

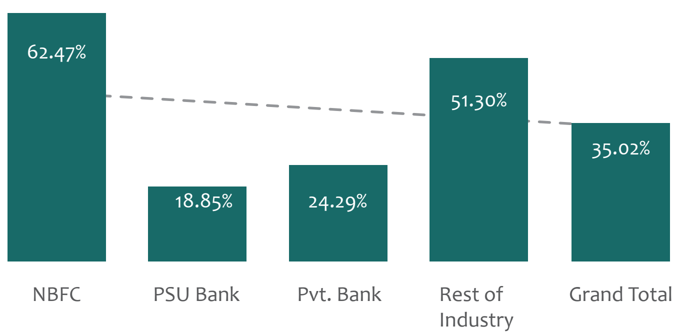


Figure 5.13: % Growth, Q1 to Q5, Number of Accounts

and reinforcing their position, albeit gradually. On the other hand, Public Sector Banks, which command a dominant 63-65% of the market, are experiencing a slight but consistent decline, hinting at a subtle shift in their lending focus. Private Banks, with a stable 8-10% market share, have shown minimal fluctuations, maintaining their steady role in this space. Meanwhile, the Rest of the Industry, accounting for 24-26% of the market, has demonstrated modest yet consistent growth, underscoring its increasing significance in small-ticket lending. These trends reflect the evolving dynamics of the segment, with each sector carving out its distinct role.

Takeaway 14: *Rising Demand for Mid-Sized Loans in the ₹ 7-10 Lakh Segment—*

The ₹7-10 lakh loan segment is witnessing notable growth, particularly among Public Sector Banks (PSBs) and Private Banks. Private Banks have recorded impressive quarter-on-quarter growth of approximately 27% in this category, while PSBs have shown steady growth at around 10%. Overall, the segment has grown by 11% from Q1 to Q5, reflecting increasing demand for mid-sized business loans. This trend highlights the growing financing needs of established small and medium enterprises (SMEs) seeking capital injections to expand their operations. In contrast, NBFCs and the rest of the industry have experienced relatively lower demand for loans in this category, maintaining a lesser focus on mid-sized loans compared to smaller ticket sizes.- This trend underscores SMEs' confidence in scaling their businesses, signaling strong growth prospects in this segment. However, mid-sized loans typically come with higher risk compared to microloans, presenting a challenge for lenders to maintain credit quality. To navigate this, lenders should consider enhancing their risk assessment frameworks by integrating sector-specific data and tailoring models to evaluate the unique risk profiles of SMEs, ensuring sustainable growth in this growing loan category.

Takeaway 15: *Strong Uptake in High-Value Loans (Above 25 Lakh) Driven by Larger and Mature MSMEs—*

The highest loan bracket, comprising loans above ₹25 lakh, has seen robust growth across financial institutions, with the exception of NBFCs. Public Sector Banks (PSBs) dominate this segment (74-77% market share), gaining significant growth (around 35% growth from Q1 to Q5), while Private Banks, though continuing their selective targeting approach, have experienced a slight decline in market share. In contrast, the "Rest of the Industry" has shown a steady increase in market share, contributing to the overall growth in this category. Despite the focus on selective targeting, the demand for high-value loans remains strong (Q1 to Q5 growth is 28%), driven by mature and larger MSMEs seeking substantial capital for expansion, modernization, or large-scale projects. This trend underscores the importance of high-value loans as a major revenue driver for financial institutions.

Table 5.7: NBFC, PSU Bank, PVT. Bank and Rest of Industry Total Portfolio Outstanding (₹ in Trillion) and Total Number of Accounts for Rural, Semi Urban and Urban Across Quarters

Details	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Undefined	0.10	0.11	0.12	0.13	0.13
Rural	1.01	1.11	1.25	1.37	1.50
Semi Urban	2.79	2.97	3.44	3.74	3.96
Urban	3.18	3.29	3.87	4.16	4.14
Grand Total	7.08	7.48	8.67	9.39	9.73
Percentages	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Undefined	1.45%	1.44%	1.37%	1.34%	1.33%
Rural	14.33%	14.89%	14.46%	14.55%	15.45%
Semi Urban	39.36%	39.73%	39.61%	39.81%	40.69%
Urban	44.86%	43.94%	44.57%	44.31%	42.54%
Grand Total	100%	100%	100%	100%	100%
Number of Accounts	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
Undefined	1,81,899	1,93,217	2,10,859	2,24,850	2,77,699
Rural	43,40,934	46,51,175	50,63,543	54,70,915	58,67,804
Semi Urban	73,07,791	77,44,230	85,67,902	93,75,390	98,76,723
Urban	30,50,485	31,99,301	35,53,218	39,58,867	40,70,450
Grand Total	1,48,81,109	1,57,87,923	1,73,95,522	1,90,30,022	2,00,92,676
Details	Number of Accounts, Q1	Number of Accounts, Q2	Number of Accounts, Q3	Number of Accounts, Q4	Number of Accounts, Q5
Undefined	1.22%	1.22%	1.21%	1.18%	1.38%
Rural	29.17%	29.46%	29.11%	28.75%	29.20%
Semi Urban	49.11%	49.05%	49.25%	49.27%	49.16%
Urban	20.50%	20.26%	20.43%	20.80%	20.26%
Grand Total	100.00%	100.00%	100.00%	100.00%	100.00%

However, these loans also present heightened credit risks due to their size and concentration. A few large defaults could significantly impact lenders' portfolios, making concentration risk a critical challenge in this segment. To mitigate these risks, financial institutions should prioritize comprehensive due diligence, implement robust credit monitoring systems, and leverage advanced financial modeling techniques to identify and address potential vulnerabilities proactively.

Takeaway 16: *Moderate Growth in the 10-15 Lakh Segment Reflecting Stability Among Expanding SMEs—*

The loan bracket between 10 and 15 lakh has demonstrated steady growth, suggesting that SMEs within this range are likely pursuing stable expansion plans. This trend indicates a moderate but sustainable demand for financing among SMEs that are moving from early-stage growth to more mature expansion. The implication is that these loans are a stable component within the lending portfolio, with relatively predictable repayment behavior. The challenge, however, is in maintaining this segment's low-risk profile as it grows. Banks should continue to nurture this segment with tailored loan products that align with the predictable cash flows of these more mature SMEs, thus balancing growth with risk management.

Takeaway 17: *Dominance and Growth in the 10-15 Lakh Loan Segment by PSU and Private Banks—*

While the ₹10-15 lakh loan segment has emerged as a significant area of growth, with Public Sector Banks (PSUs) firmly establishing themselves as the dominant players. PSUs hold the largest market share in this segment, and their portfolios have shown consistent growth from Q1 to Q5, reflecting their strong focus on mid-tier lending. This growth underscores the critical role PSUs play in providing financing to small and medium enterprises (SMEs) and individuals seeking loans within this bracket, often for business expansion, capital investment, or other critical financial needs. Private Banks, though secondary to PSUs in terms of market share, have also exhibited decent growth in this category. Their focus remains on selective targeting, catering to creditworthy borrowers and maintaining a quality portfolio. The combination of PSU dominance and steady private bank participation has driven the overall expansion of the ₹10-15 lakh loan segment, highlighting the increasing demand for mid-sized loans across different borrower profiles. This segment's growth is indicative of a shift in borrower preference toward higher loan amounts for mid-sized needs, likely driven by SMEs aiming for business expansion and larger working capital requirements. It also aligns with the broader trend of businesses scaling up operations or individuals seeking higher-value credit. For lenders, this segment offers significant opportunities but also comes with challenges. Maintaining credit quality is essential, as this segment involves slightly higher risk compared to smaller-ticket loans. Banks must employ robust credit risk assessment models and personalized loan products to cater to this demand effectively. Additionally, ongoing monitoring and proactive risk management are vital to sustaining growth while ensuring the long-term stability of their portfolios in this high-demand bracket. An intriguing observation from Q1 to Q5 is the growing participation of NBFCs in the ₹10-15 lakh loan segment. While their involvement remains in its early stages, this nascent trend signals a gradual shift, with NBFCs beginning to explore opportunities in mid-sized lending. This enhanced participation, though still modest, indicates their interest in diversifying beyond smaller-ticket loans and tapping into the evolving needs of borrowers in this bracket.

Takeaway 18: *Rising Participation of Rural Borrowers in Lower Loan Brackets—*

Across loan brackets, rural borrowers demonstrate increased participation, especially for loans under 3 lakh and in the 3-5 lakh range. NBFCs, for example, have expanded in rural areas within these brackets, suggesting that rural businesses or individuals are increasingly utilizing financial services for business purposes. This trend points to greater financial inclusion in rural markets, fostering regional economic development. The challenge in rural lending lies in managing credit risk, as rural borrowers often face income volatility due to factors like agricultural dependency. Financial institutions should consider integrating flexible repayment terms that match the income cycles of rural borrowers, helping mitigate risk while supporting rural business growth.

Takeaway 19: *Increased Growth in Semi-Urban Lending Points to Expanding Regional Economies—*

Semi-urban regions show considerable growth in lending, especially for PSU banks and NBFCs, where semi-urban loan balances increased significantly across most brackets. This trend suggests that semi-urban areas are emerging as economic hubs, possibly due to industrial development and urban sprawl from nearby cities. The implication is that financial institutions have a valuable opportunity to tap into these growing markets by tailoring loan products to regional needs. However, the challenge is in assessing and managing the credit risk profile of semi-urban borrowers, which may differ from both urban and rural profiles. To effectively capture this market, institutions should enhance credit assessment practices that reflect the unique financial profiles of semi-urban businesses, such as seasonal fluctuations and sectoral dependencies.

Takeaway 20: *Growth in Medium-Size Loan Brackets Reflects Demand from Emerging Businesses—*

Loan segments between 3-10 lakh have shown steady increases across institutions, reflecting demand from businesses that are likely beyond the initial startup phase and moving into growth mode. This bracket's expansion implies that many businesses are seeking financing for working capital, modest expansion, or capital equipment, suggesting overall confidence among growing enterprises. The challenge is ensuring that these mid-sized loans do not face default risks due to insufficient cash flow or over-leveraging. Financial institutions should consider developing financial advisory services to support businesses in understanding optimal loan utilization and debt management, reducing potential defaults and promoting sustainable growth within this critical segment.

These takeaways highlight diverse growth patterns across loan sizes, geographic segments, and borrower profiles, reflecting an evolving lending landscape driven by SMEs, rural borrowers, and large enterprises. Each takeaway underscores the importance of tailored approaches to lending, balancing growth opportunities with risk management to ensure long-term portfolio health across financial institutions.

5.6 Discussion

The following table summarizes critical insights derived with regard to MSME business loans. These insights shed light on the strengths, weaknesses, and evolving dynamics in the lending landscape. By understanding these insights, stakeholders can identify growth opportunities, potential risks, and areas for improvement in financial services catering to MSMEs.

Table 5.8: Business Loans Critical Insights, Implications and Recommendations

Insights	Implications	Recommendations
NBFCs have rapidly expanded their market share, doubling loan balances and accounts.	Reflects NBFCs' critical role in meeting unmet demands.	Enhance risk management frameworks to handle growth responsibly.
PSU banks dominate with stable loan growth and a leading market share.	Shows dependable credit access but slower innovation.	Invest in digital tools to improve efficiency and borrower experience.
Private banks selectively target higher-value loans, maintaining growth in urban centers.	Indicates a focus on low-risk, high-value clients.	Diversify to reduce concentration risk and expand client base.
Rural lending has shown consistent growth, supported by PSU and private banks.	Reflects increased financial inclusion in rural areas.	Tailor products to rural cash flow patterns to manage credit risk.
Semi-urban areas lead in growth, highlighting economic expansion beyond city centers.	Shows increasing business activities in semi-urban areas.	Develop market-specific products for semi-urban borrowers.
High-value loans (above ₹25 lakhs) drive revenue but pose higher credit risks.	Indicates reliance on large MSMEs for profitability.	Maintain strict due diligence and diversify portfolio to mitigate risk.
Small-ticket loans (up to ₹3 lakhs) dominate demand, especially among micro-enterprises.	Highlights grassroots reliance on accessible capital.	Use streamlined digital platforms to manage small accounts efficiently.
The 7-10 lakh loan segment is growing, showing SME confidence in expansion.	Indicates mid-level business investment activities.	Strengthen risk assessment to support sustainable lending.
Regional disparities exist, with high loan concentration in some states.	Suggests uneven development and access to credit.	Implement targeted credit programs for underserved states.

Insights	Implications	Recommendations
Rural borrowers increasingly participate in small and mid-size loan segments.	Reflects broader financial access but potential credit risk.	Create flexible repayment plans aligned with rural income cycles.
Private banks exhibit strong growth in semi-urban and rural areas as urban markets saturate.	Suggests strategic market penetration.	Leverage digital solutions to reach new borrowers cost-effectively.
Overall loan portfolio expansion across all institutions raises credit quality oversight concerns.	Indicates potential future default risks.	Enhance credit monitoring and use predictive analytics.
Urban markets sustain high-value loan demand, driven by established businesses.	Reflects strong economic activity but higher risk exposure.	Focus on robust credit assessment and sectoral risk analysis.
NBFCs effectively capture niche markets, including underserved regions.	Demonstrates flexibility in lending strategies.	Strengthen localized underwriting practices for sustainable growth.
PSU banks' steady lending growth supports regional economic stability.	Highlights PSU banks' role in fostering broad-based development.	Improve operational scalability for peak periods.
High demand for 0-3 lakh loans underscores micro-enterprise reliance on small capital.	Shows essential support for early-stage businesses.	Use digital platforms to minimize servicing costs.
The 10-15 lakh segment shows stable demand, suggesting mature SME growth.	Indicates predictable repayment behavior in this range.	Offer tailored products that align with stable cash flows.
The increase in sanctioned amounts in the 3-5 lakh range reflects steady mid-level demand.	Points to scaling businesses needing working capital.	Monitor risk to avoid over-leveraging borrowers.
Significant urban lending by PSU banks suggests their key role in city-centric funding.	Highlights their continued relevance in large-scale funding.	Modernize digital processes to compete with private banks.
Semi-urban lending, focused on manufacturing and services, supports regional growth.	Indicates sector-specific lending needs in these areas.	Enhance due diligence to adapt to local economic shifts.
NBFCs' urban and rural expansion shows balanced growth but faces high-risk challenges.	Demonstrates strategic market targeting.	Ensure robust credit checks and risk management tools.
Private banks maintain strong urban loan portfolios but risk sectoral concentration.	Implies potential exposure to economic downturns.	Diversify sectoral lending and expand into new geographic areas.
Strong demand across various loan segments points to a dynamic MSME landscape.	Reflects overall confidence and economic activity.	Financial institutions should innovate with customized products.

MUDRA Loans for MSMEs

6

6.1 Strategic Context of MUDRA Loans

Small and micro-businesses form the backbone of our economy, driving growth, fostering innovation, and generating employment opportunities. These enterprises require consistent financial support. As noted in chapter 2, MUDRA loans serve as a critical enabler in this landscape, offering tailored financial solutions for Micro, Small, and Medium Enterprises (MSMEs).

This chapter provides a comprehensive examination of MUDRA loans, specifically structured to support MSMEs with loan sizes of up to ₹10 lakhs. By analyzing the EQUIFAX MUDRA loan portfolio,[1] it uncovers lending trends and evolving patterns that are instrumental in empowering these enterprises. The chapter also provides an in-depth analysis of the quarterly performance across key financial segments in India—PSU banks, private banks, and other industry players—over five quarters from JFM (Q1) 2023 through to JFM (Q5) 2024. By examining account balances and account volumes over these quarters, it uncovers strategic trends and patterns that reveal the financial sector's role in inclusive finance and responses to market dynamics.

6.2 Takeaways by MUDRA Loan Portfolio Across Institutional Types

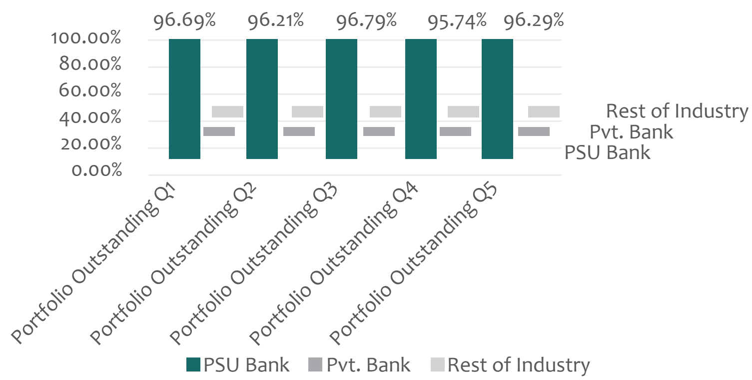


Figure 6.1: Portfolio Outstanding, % of Total, Q1 - Q5, Mudra Loan, Institution-Wise

The following are the key takeaways from the MUDRA Loan data set:

Takeaway 1: *PSU Banks Exhibit Strong Presence—*

Beginning in JFM 2023 (Q1) and right until Q5, PSU banks have held over 90% of the share of MUDRA outstanding loans and number of accounts. They are the dominant leaders.

1 Data provided by Equifax on Business Loans, Agri-Business Loans and MUDRA Loans. The data was provided for five quarters Q1 to Q5, Q1 is January, February, and March 2023, Q2 is April, May, and June 2023, Q3 is July, August, and September 2023, Q4 is October, November and December 2023 and Q5 is January, February and March 2024.

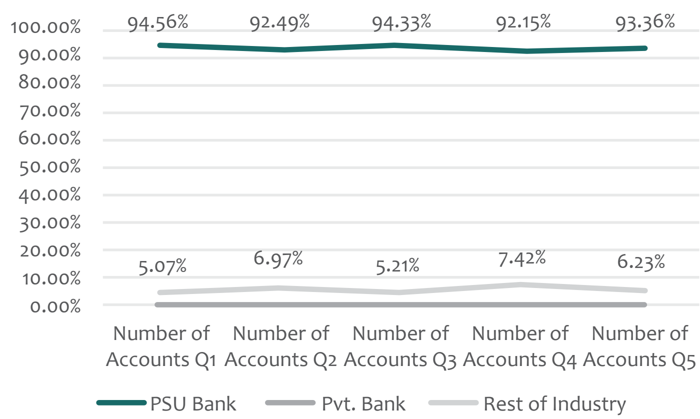


Figure 6.2: Number of Accounts, % of Total, Q1 - Q5, Mudra Loan, Institution-Wise

Takeaway 2: *Private Banks Show Targeted Cautious Expansion—*

Despite quarterly fluctuations, private banks reflect a selective approach toward growth in the outstanding portfolio as well as a number of accounts. This selective customer engagement aligns with private banks' focus on high-value accounts, balancing risk while enhancing profitability.

Takeaway 3: *The 'Rest of Industry' Maintains Consistent Account Growth and Balance Expansion—*

The 'Rest of Industry' segment has shown steady growth across all quarters, except the fifth quarter. This indicates that the sector is prioritizing financial inclusivity, particularly in rural and semi-urban areas, effectively supporting broader inclusion goals.

Takeaway 4: *PSU Banks Reinforce Financial System Stability with a Robust Balance Base Across All Quarters of FY 2023-24—*

Over five quarters, PSU banks maintained a fairly high outstanding portfolio, reinforcing their critical role in financial stability. This substantial balance base, coupled with stable (but somewhat volatile) account numbers, demonstrates their strategic commitment to, by and large, providing dependable credit and banking services to a broad spectrum of customers.

Takeaway 5: *'Rest of Industry' Expands Financial Reach in Rural and Semi-Urban Markets Across All Five Quarters—*

Consistent growth (except in the fifth quarter) in account volumes and portfolio within the 'Rest of Industry,' showcases the sector's dedication to reaching rural and semi-urban customers. This sector continues to support financial inclusion initiatives, supplementing PSU bank efforts in underserved regions.

Takeaway 6: *Risk Management Reflected in Private Banks' Urban Portfolio Adjustments—*

Urban balances for private banks began at ₹1.87 billion in Q1 across 5,647 accounts, reaching a peak of ₹2.24 billion in Q3 with 8,830 accounts. However, in Q4, urban accounts fell to 5,488, with balances down to ₹888.62 million. This retreat shows private banks' cautious approach to

Table 6.1: Portfolio Outstanding and Number of Accounts Across Institutions, MUDRA Loan, Q1 to Q5

Type of Institution	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
PSU Bank	8,02,04,67,54,711	7,73,43,08,43,431	12,25,81,58,86,829	8,91,42,05,13,493	8,82,75,01,52,195
Pvt. Bank	6,13,34,99,284	6,45,05,05,475	7,57,79,16,071	3,46,34,31,437	5,09,22,48,831
Rest of Industry	21,29,83,23,152	24,00,51,19,084	33,06,02,39,608	36,20,04,06,053	28,95,19,85,759
Grand Total	8,29,47,85,77,147	8,03,95,74,47,714	12,66,67,18,18,920	9,31,21,66,42,219	9,16,90,74,85,805
Type of Institution	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
PSU Bank	50,63,115	43,38,909	69,14,022	49,86,150	51,54,302
Pvt. Bank	19,870	25,643	34,409	23,512	22,358
Rest of Industry	2,71,540	3,26,837	3,81,540	4,01,473	3,44,171
Grand Total	53,54,525	46,91,389	73,29,971	54,11,135	55,20,831

high-risk segments, favouring portfolio stability over aggressive expansion. By Q5, urban balances rebounded to ₹1.61 billion with 7,563 accounts, indicating strategic re-entry into urban markets.

Table 6.2: Private Banks, Urban Portfolio Outstanding (▯ in Billion) Accounts Across Quarters

Details	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio OutstandingQ5
Urban	1.878	1.924	2.244	0.889	1.612

Table 6.3: Private Banks, Number of Accounts Across Quarters

Details	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
Urban	5,647	6,106	8,830	5,488	7,563

Takeaway 7: *Consistent Rural and Semi-Urban Account Expansion in 'Rest of Industry' Sector—*

The 'Rest of Industry' segment consistently increased its rural balances, which rose from ₹8.83 billion in Q1 across 0.12 million accounts to ₹12.22 billion by Q5 with 0.17 million accounts. In semi-urban areas, balances grew from ₹10.53 billion to ₹13.30 billion over the same period. This pattern, underscores the sector's focus on deepening financial inclusion and providing vital support for regional economic empowerment.

Takeaway 8: *Adaptive Responses to Market Conditions Across Financial Sectors—*

Each financial segment displayed distinct strategies aligned with their business goals and market conditions. PSU banks maintained a steady expansion approach, while private banks and the 'Rest of Industry' demonstrated more adaptive growth, especially in urban and semi-urban segments. By actively adjusting to economic demands, these sectors showcase flexibility and a commitment to sustainable, inclusive growth.

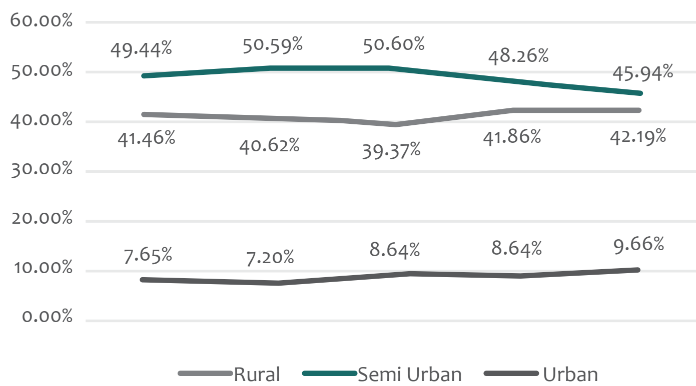
Table 6.4: Rest of Industry Rural and Semi-Urban Portfolio Outstanding (₹ in Billion) and Across Quarters

Details	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Rural	8.83	9.75	13.01	15.15	12.22
Semi Urban	10.53	12.14	16.73	17.47	13.30

Takeaway 9: *Semi-Urban Regions as Core Growth Markets for 'Rest of Industry'—*

Over the five-quarter period, semi-urban balances consistently made up 45-50% of the portfolio for the Rest of the Industry. This substantial presence in semi-urban regions highlights their critical role in advancing financial inclusion in areas often underserved by mainstream banks. By maintaining a strong foothold in these regions, the Rest of the Industry ensures that economic growth reaches these communities, fostering more inclusive development. The accompanying figure illustrates this steady engagement, with semi-urban markets accounting for nearly half of the portfolio outstanding for the Rest of the Industry.

Figure 6.3: Portfolio Outstanding, Rest of Industry, % of Total, Q1 - Q5



Takeaway 10: *Rural Market Demand Drives PSU Bank's Strategic Expansion—*

PSU banks consistently saw their rural balance rise, from ₹0.256 trillion in Q1 to ₹0.271 trillion in Q5, capturing significant demand in rural areas. Thus, the PSU banks demonstrate their vital role in providing credit and economic support to rural markets, fostering socioeconomic stability across India's vast rural landscape.

Takeaway 11: *Urban Growth Signals Stability in 'Rest of Industry' Sector—*

The 'Rest of Industry' sector maintained a gradual urban expansion, with balances increasing from ₹1.63 billion in Q1 to ₹3.13 billion in Q4, before slightly dipping to ₹2.80 billion in Q5. This measured growth approach allows these institutions to stabilize their urban engagement while supporting enhancing inclusivity and accessibility in urban centers.

Takeaway 12: *Differentiated Market Responses Across Financial Segments—*

PSU banks' steady, expansive approach contrasts with private banks' selective growth and the 'Rest of Industry's adaptive strategies. PSU banks' continuous rural and semi-urban expansion ensures economic stability in these areas, while private banks and the 'Rest of Industry' tailor their growth based on urban demand and risk, underscoring each sector's unique role in promoting inclusive finance.

This analysis provides a layered understanding of the distinct approaches across PSU banks, private banks, and the 'Rest of Industry.' Each takeaway integrates specific data points, supporting a comprehensive view of how these sectors navigate regional demands, pursue inclusive finance, and manage market dynamics for sustainable growth across diverse areas. Each observation reflects the adaptive strategies in place, contributing to a stable, inclusive financial ecosystem in India

6.3 Takeaways by Ticket Sizes Across Institutions and Other Factors

Takeaway 13: *PSU Banks' Play a Predominant Role in Small Loans Under ₹3 Lakh Across Five Quarters—*

PSU Banks, by and large, exhibited dominance in small loans under ₹3 lakh. This underscores a strategic emphasis on accessible financing for micro-entrepreneurs and lower-

Table 6.5: Rest of Industry Urban Portfolio Outstanding (₹ in Billion) & Number of Accounts Across Quarters

Segment	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
Urban	1.63	1.73	2.86	3.13	2.80
Segment	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
Urban	14,663	17,459	20,876	20,538	18,648

income borrowers, predominantly in rural and semi-urban areas. The substantial proportion of accounts in 0-3L category indicates a high demand for micro-loans in these areas, reflecting PSU Banks' commitment to broadening financial inclusion through extensive credit distribution.

Takeaway 14: *Expanding Mid-Sized Loan Portfolio of ₹3-5 Lakh Highlights PSU Banks' Focus on Scaling MSMEs—*

The balance in the ₹3-5 lakh segment surged from ₹0.163 trillion across 4,78,918 accounts in Q1 to a cumulative total of ₹0.183 trillion over 5,28,805 accounts by Q5. This growth trajectory in mid-sized loans points to PSU Banks' efforts to support small businesses as they scale, particularly MSMEs needing greater capital than micro-loans but still within reach for small enterprises. This segment's expansion emphasizes PSU Banks' strategic role in fostering employment and economic growth by addressing MSME financing gaps.

Takeaway 15: *Significant Shift in PSU Banks' Focus Toward Higher Loan Sizes Between ₹5-7 Lakh—*

PSU Banks saw substantial growth in their ₹5-7 lakh loan segment, with cumulative balances reaching ₹0.100 trillion across 0.20 million accounts by Q5, up from ₹85.08 billion in Q1 with 1,74,069 accounts. This increase reflects a strategic pivot towards medium-value lending aimed at more established small businesses. This shift also indicates responsiveness to demand from enterprises looking to expand their operational capacities, positioning PSU Banks as key partners in enabling regional business growth.

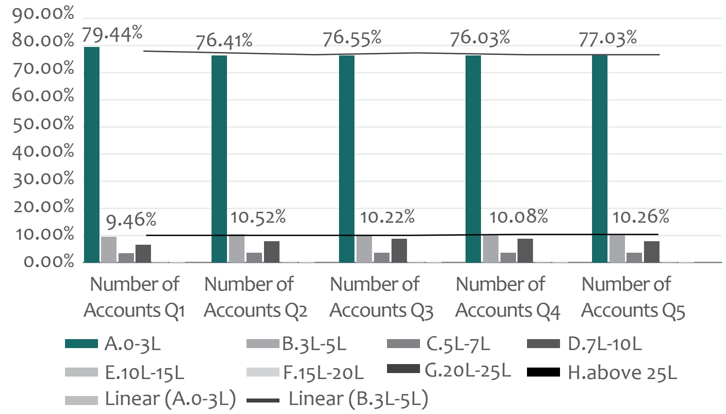


Figure 6.4: Number of Accounts Across Ticket Sizes, % of Total, Q1 - Q5

Takeaway 16: *PSU Banks' Sustained Increase in ₹7-10 Lakh Loans Indicates Support for Business Expansion—*

In the ₹7-10 lakh range, PSU Banks grew their cumulative balance to ₹0.322 trillion across 0.43 million accounts by Q5, up from ₹0.254 trillion and 3,43,163 accounts in Q1. This consistent increase highlights PSU Banks' approach to catering to established MSMEs that require substantial capital. This segment's expansion is crucial for supporting businesses with growth ambitions, enabling them to scale sustainably and enhance their market presence, particularly in emerging markets.

Table 6.6: PSU Banks Portfolio Outstanding (₹ in Trillion) and Number of Accounts (₹ in Million) Across Quarters for ₹5L-7L Ticket Sizes

Ticket size	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
5L-7L	0.085	0.079	0.132	0.101	0.100
Ticket size	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
5L-7L	0.17	0.16	0.26	0.20	0.20

Table 6.7: PSU Banks Portfolio Outstanding (₹ in Trillion) and Number of Accounts (₹ in Million) Across Quarters for ₹7L-10L Ticket Sizes

Ticket size	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
7L-10L	0.254	0.252	0.441	0.327	0.322
Ticket size	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
7L-10L	0.34	0.34	0.59	0.44	0.43

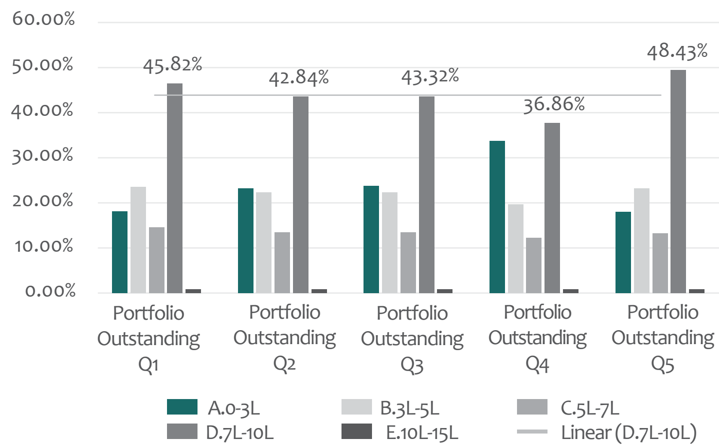


Figure 6.5: Private Bank Portfolio Outstanding Across Ticket Sizes, % of Total, Q1 - Q5

Takeaway 17: *Private Banks' Strong Engagement in High-Value Segments Over ₹7 Lakh to Support Growth-Oriented MSMEs—*

Private banks growth in the over ₹7 Lakh demonstrates private banks' strategic alignment with high-value accounts, where greater capital allocation supports medium-sized businesses' expansion plans. This focus also signifies confidence in the creditworthiness of growth-oriented businesses, especially in urban markets with higher revenue potential

Takeaway 18: *'Rest of Industry' Segment's Comprehensive Focus on Small Loans Under ₹3 Lakh Indicates Emphasis on Financial Inclusion—*

The 'Rest of Industry' segment concentrated on the ₹0-3 lakh category, reaching a balance of ₹21.56 billion across 0.33 million accounts by Q5. Starting with ₹17.73 billion in Q1, this growth signals a dedicated approach to financial inclusion, targeting underserved borrowers and fostering grassroots economic development. This trend highlights the industry's essential role in expanding access to credit among small entrepreneurs and rural businesses.

Takeaway 19: *Expanding Mid-Range Loan Portfolio in the 'Rest of Industry' Reflects Support for Growing Enterprises—*

The balance in the ₹3-5 lakh segment within the 'Rest of Industry' reached ₹2.24 billion across 6,277 accounts by Q5. This increase from ₹1.30 billion in Q 1 shows that the industry segment strategically targets growing businesses that require capital beyond micro-loans. This trend highlights their emphasis on nurturing small enterprises' growth and supporting local job creation. Q4 seems to be an exception to the by and large increasing trend, which nonetheless shows stability in portfolio and accounts across the quarters

Table 6.8: Rest of Industry Portfolio Outstanding (₹ in Billion) and Number of Accounts (in million) of under ₹3 lakh Across Quarters

Ticket size	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
0-3L	17.73	19.64	25.85	27.11	21.56
Ticket size	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
0-3L	0.26	0.31	0.37	0.38	0.33

Table 6.9: Rest of Industry Portfolio Outstanding (₹ in Billion) and Number of Accounts of ₹ 3-5 lakh Across Quarters

Ticket size	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
3L-5L	1.30	1.60	2.17	2.99	2.24
Ticket size	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
3L-5L	4,225	5,272	6,546	8,522	6,277

Takeaway 20: *Increasing Semi-Urban Lending Across Institutions Reflects Market Shifts and Growth Potential—*

The semi-urban segment saw significant growth across all institutions, especially within the Rest of Industry. This broad-based expansion in semi-urban markets suggests that lenders see growth potential in these areas, where demand for loans is rising as businesses expand beyond rural regions. This trend highlights a shift in focus towards semi-urban areas as hubs of economic activity.

This analysis provides nuanced insights into the evolving strategies of each sector, revealing distinct approaches to segment-specific growth, inclusive finance, and regional development trends

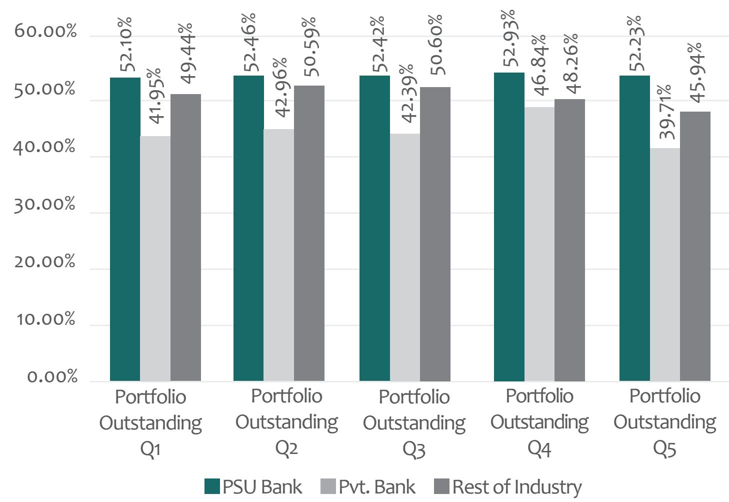


Figure 6.6: Semi-Urban Portfolio Outstanding Across Institution Type, % of Total, Q1 - Q5

Table 6.10: MUDRA Loans (All), Current and > 1 Day Past Due Loans Across Quarters Based on Portfolio Outstanding

Ticket Size	Current or Days Past Due	Portfolio Outstanding Q1	Portfolio Outstanding Q2	Portfolio Outstanding Q3	Portfolio Outstanding Q4	Portfolio Outstanding Q5
0 - 3 Lakhs	Current	19.36%	26.76%	47.78%	49.07%	60.91%
	> 1 day Past Due	80.64%	73.24%	52.22%	50.93%	39.09%
3L - 5L	Current	20.90%	32.77%	55.53%	56.43%	65.67%
	> 1 day Past Due	79.10%	67.23%	44.47%	43.57%	34.33%
5L-7L	Current	18.61%	33.20%	52.04%	55.66%	61.71%
	> 1 day Past Due	81.39%	66.80%	47.96%	44.34%	38.29%
7-10L	Current	74.18%	58.61%	34.49%	32.77%	25.26%
	> 1 day Past Due	25.82%	41.39%	65.51%	67.23%	74.74%

Table 6.11: MUDRA Loans (All), Current and > 1 Day Past Due Loans Across Quarters Based on Number of Accounts

Ticket Size	Current or Days Past Due	Number of Accounts Q1	Number of Accounts Q2	Number of Accounts Q3	Number of Accounts Q4	Number of Accounts Q5
0 - 3 Lakhs	Current	26.45%	33.02%	54.31%	59.40%	64.15%
	> 1 day Past Due	73.55%	66.98%	45.69%	40.60%	35.85%
3L - 5L	Current	24.97%	35.68%	57.58%	58.28%	66.56%
	> 1 day Past Due	75.03%	64.32%	42.42%	41.72%	33.44%
5L-7L	Current	21.99%	35.69%	53.49%	56.50%	62.04%
	> 1 day Past Due	78.01%	64.31%	46.51%	43.50%	37.96%
7-10L	Current	70.49%	56.16%	32.46%	31.86%	24.68%
	> 1 day Past Due	29.51%	43.84%	67.54%	68.14%	75.32%

Takeaway 21: *Strong Improvement in Repayment for Smaller Loans—*

Loans in the 0-3 lakh and 3-5 lakh categories showed a consistent improvement in both current status and reduced delinquency rates over time. By Q5, more than 60% of these smaller loans were current, indicating positive repayment behavior and lower risk for smaller loan segments.

Takeaway 22: *Rising Delinquency in Larger Loans (7-10 Lakhs)—*

In contrast to smaller loans, larger loans (7-10 lakh range) experienced a sharp decline in current accounts, dropping from 74.18% in Q1 to 25.26% in Q5. Delinquency rates for this segment rose to 74.74% in Q5, suggesting that larger loan amounts carry significantly higher repayment challenges and risk.

Takeaway 23: *Consistent Patterns in Both Portfolio Outstanding and Number of Accounts—*

Across both the portfolio outstanding and number of accounts, smaller ticket sizes (0-3 lakh and 3-5 lakh) showed improving trends, while larger loans (7-10 lakh) faced deteriorating repayment behavior. This consistent trend highlights the need for enhanced risk management and support for larger loan segments.

Takeaway 24: *Increase in Delinquent Accounts in PSU Banks Reflects Financial Stress in Early-Stage Payments—*

By Q5, PSU Banks reported ₹0.041 trillion in balances across 0.295 million accounts in the 1-29 days past due category, slightly down from ₹0.054 trillion in Q1. The high volume of these early-stage delinquencies reflects liquidity pressures among borrowers, indicating potential economic challenges for certain customer segments. Although an improvement over the year, the consistency in these short-term arrears suggests the need for targeted assistance and timely intervention strategies. This trend in early-stage delinquency warrants strategic adjustments to improve borrower support and mitigate risks across this high-volume category.

Takeaway 25: *High Loss Balances in PSU Banks Point to Elevated Risks in Rural Lending—*

The loss balance in PSU Banks rose to ₹0.032 trillion across 0.24 million accounts by Q5 from ₹0.030 trillion across 0.27 million accounts in Q1. Predominantly impacting rural and semi-urban borrowers, this increase signals a need for enhanced risk assessment and mitigation strategies within underserved markets. A focus on stronger credit evaluation procedures in rural lending could help address these losses and support sustainable growth in high-risk, high-need areas.

Takeaway 26: *Write-Offs in the Rest of Industry Segment Signal an Intent to Improve Asset Quality—*

The Rest of Industry segment significantly increased its write-offs by Q5 from Q1. This trend underscores a strategic move to offload non-performing assets and improve the overall health of the portfolio. This action aligns with a proactive approach to maintain quality assets, enhance financial sustainability, and reduce exposure to risky loans.

Takeaway 27: *New Accounts Surge in Rest of Industry, Signaling Aggressive Market Expansion—*

The Rest of Industry reported a sharp rise in new accounts by Q5, both in terms of portfolio and number of accounts, from Q1. This increase reflects an aggressive push to attract new customers, particularly in untapped markets. The rapid expansion emphasizes the sector's efforts in driving financial inclusion, reaching underserved populations, and supporting entrepreneurial activity, all of which are crucial for sustainable economic growth.

6.5 Takeaways Across States, Q1 to Q5

This analysis reviews the outstanding portfolio across PSU Banks, Private Banks, and regions from Q1 to Q5. The objective is to understand the distribution and growth of credit exposure across different geographies and segments, identify key drivers of outstanding balance growth, and assess implications for credit risk and inclusive finance. Observing this portfolio data will reveal how credit flows are distributed and concentrated, lending trends in high-growth regions, and broader strategic directions in the banking sector.

Takeaway 28: *Rapid Portfolio Growth in Bihar and Uttar Pradesh Points to Expanding Credit Penetration—*

The increase in outstanding balances in Bihar and Uttar Pradesh, suggests an aggressive credit expansion. These increases point to targeted credit penetration efforts in historically underserved states, aligning with financial inclusion initiatives and enabling broader economic participation. However, rapid portfolio expansion also raises potential credit risk concerns, emphasizing the need for close monitoring of asset quality in these growing portfolios.

Takeaway 29: *High Outstanding Balances in Western India Highlight Concentrated Economic Activity—*

States in Western India, specifically Maharashtra and Gujarat reflect high levels of outstanding portfolios, reinforcing the region's status as a concentration of economic wealth and business activity. Maharashtra's position, with one of the largest balances among all states, underscores its critical role in India's lending ecosystem, while also representing potential risk due to concentrated credit exposure in this economically pivotal region. This trend suggests a regional reliance on urban, industrial economies and implies that downturns in these sectors could substantially impact bank portfolios.

Takeaway 30: *Northeast India's Minimal Outstanding Balances Reflect Persistent Challenges in Credit Outreach—*

Outstanding portfolios in northeastern states, such as Nagaland and Mizoram, are among the lowest, highlighting the ongoing challenges in expanding credit access in these regions. Despite slight increases in account numbers, the overall portfolio outstanding remains limited, underscoring the need for innovative lending solutions, potential government-backed guarantees, and improved infrastructure to promote credit inclusion in the Northeast.

These low outstanding balances are indicative of economic limitations and limited banking penetration, suggesting untapped potential if inclusion strategies are refined.

6.6 Overall Strategy

The above analysis underscores each banking segment's unique approach to portfolio distribution, emphasizing how PSU Banks prioritize financial inclusivity, Private Banks maintain a profit-centric, selective lending model, and the rest of the industry bridges underserved segments. Together, these strategies create a robust and multifaceted financial ecosystem that meets diverse market needs, from rural micro-enterprises to urban small businesses, driving forward India's inclusive financial agenda.

Takeaway 31: *Public Sector Banks Dominate Rural and Semi-Urban Markets (Strategic Direction for PSU Banks)—*

The analysis highlights that public sector banks (PSUs) have established a significant presence in rural and semi-urban areas, driving a considerable share of financial inclusion efforts. PSU banks are pivotal to rural financial access, particularly in high-volume states like Uttar Pradesh and Bihar.

i. What It Reveals: PSU banks' large account volumes and sanctioned amounts in rural and semi-urban regions affirm their role as a primary financial provider in underserved areas.
ii. Historical Comparison: This trend has remained consistent over recent quarters, showing resilience and focus on rural outreach.
iii. Implications for Inclusive Finance: PSUs' emphasis on rural banking supports financial inclusion goals but also highlights potential growth areas for digital and mobile banking services.
iv. Broader Strategy: PSU banks could enhance outreach by expanding branch and digital services in high-performing regions, potentially increasing inclusivity and market share in rural India.

Takeaway 32: *Rising Demand in Urban Regions Reflects Increased Financial Inclusion Needs—*

By and large urban centers have shown a marked increase in financial activities, evidenced by both the volume of accounts and sanctioned amounts.

i. What It Reveals: The growing financial activity in urban regions may indicate a shifting focus toward urban expansion or possibly a saturation of rural market growth.
ii. Comparison to Past Periods: This urban-centric growth trend aligns with observed patterns over recent quarters, demonstrating sustained urban demand.
iii. Implications for Inclusive Finance: The focus on urban areas risks creating a disparity between urban and rural financial access, which could hinder balanced financial inclusion.
iv. Strategic Consideration: Developing balanced growth policies that cater to both urban and rural areas, potentially through digital channels, would help financial institutions bridge this emerging divide.

Takeaway 33: *High-Growth Regions as Financial Investment Hubs –*

Uttar Pradesh, Maharashtra and few other states have emerged as major financial hubs, with high demand for financial products.

i. What It Reveals: These states have high demand and growth potential, particularly for institutions looking to expand market share and diversify portfolios.
ii. Historical Trends: These states have consistently shown high figures over time, affirming their status as financial strongholds.
iii. Implications for Inclusive Finance: By leveraging demand in these high-growth areas, financial institutions can enhance accessibility, especially in semi-urban regions where potential remains untapped.
iv. Strategic Action: Institutions could focus on tailored product development for SME and consumer lending to better serve these high-potential regions and capture larger market shares.

Takeaway 34: *Regional Specialization Trends Shape Product Diversity –*

A Focus on Private and Public Banks' Strategies—Geographic specialization is evident, with public sector banks dominating rural and semi-urban areas, while private banks concentrate in urban centers. Private banks, have a strong urban presence, suggesting a targeted approach toward high-value markets.

i. What It Reveals: Geographic specialization allows banks to focus on core areas but may limit financial inclusion in underserved regions.
ii. Historical Comparison: This strategic divergence has remained stable, with PSUs consistently serving rural markets and private banks focusing on urban growth.
iii. Implications for Inclusive Finance: Such specialization can enhance service delivery in targeted regions but also risks leaving some segments underserved.
iv. Strategic Opportunity: Expanding regional product portfolios could allow banks to leverage their strengths while diversifying in underserved markets, such as extending micro-enterprise finance in semi-urban areas for PSUs or SME loans in urban areas for private banks.

This analysis has explored trends across India, examining the roles of PSU and private banks in enhancing financial inclusion across diverse regions. PSU banks show a strong presence in rural and semi-urban areas, addressing the financial needs of underrepresented communities through high sanctioned amounts and account volumes. This trend highlights PSUs' commitment to financial inclusion, supporting government policies aimed at empowering rural areas and underserved populations. Meanwhile, private banks focus on urban markets, leveraging high-value lending to capitalize on demand in economically advanced regions.

6.7 Discussion

Micro, Small, and Medium Enterprises (MSMEs) are essential to the economic fabric of a nation, contributing significantly to job creation, innovation, and overall economic resilience. These enterprises, however, often face barriers to growth due to limited access to financial resources. MUDRA loans have emerged as a critical financial instrument tailored specifically to the needs of MSMEs, offering credit facilities up to ₹10 lakhs. This analysis has delved into the strategies employed by Public Sector Undertaking (PSU) banks, private banks, and other financial institutions over five quarters from JFM (Q1) 2023 to JFM (Q5) 2024. The findings highlight their approaches to lending, inclusive finance, and the nuances of supporting MSMEs in various geographic and market segments.

The analysis of MUDRA loans and MSME lending trends highlights the varied approaches of financial institutions in meeting market needs. Public sector banks (PSUs) lead in rural and semi-urban lending, actively supporting financial inclusion by providing micro and small enterprises with essential credit access. Their extensive reach aligns with national economic goals and plays a crucial role in supporting MSME growth in underserved areas. Through a focus on small and mid-sized loans and effective delinquency management, PSUs demonstrate their commitment to sustaining financial access for smaller enterprises.

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Table 6.10: Summary of Critical Insights, Implications, and Recommendations for MUDRA Loans

Insight	Implication	Recommendation	Strategic Relevance
PSU Banks' Dominance in Rural Lending	Highlights their role as a primary source of financial access in rural and semi-urban areas.	Expand digital platforms and mobile banking services to reach more rural clients efficiently.	Reinforces the government's financial inclusion initiatives and supports rural development.
Private Banks' Urban-Centric Focus	Indicates a selective approach that prioritizes profitability and risk management in high-value urban segments.	Expand service offerings to semi-urban and emerging urban markets to capture new opportunities.	Balances profit optimization with potential growth in semi-urban areas.
'Rest of Industry' Focus on Low-Ticket Loans	Shows a commitment to broadening access for micro-entrepreneurs and small business owners.	Enhance partnerships with fintech firms for better distribution and scalable solutions.	Increases the reach and efficiency of financial inclusion efforts.
Consistent Demand for Small-Ticket Loans	Demonstrates a significant need for easy access to small-value credit among MSMEs.	Simplify the loan application process and improve turnaround times for small-ticket loans.	Strengthens the financial support structure for emerging MSMEs and individual entrepreneurs.
Significant Growth in Semi-Urban Loans by PSU Banks	Shows a strategic pivot to cater to semi-urban business growth.	Invest in training programs for local banking staff to understand the needs of semi-urban entrepreneurs better.	Supports sustainable growth in less-served but high-potential markets.
Private Banks' Risk-Averse Lending	Reflects a focus on high-value, lower-risk accounts, limiting their role in mass-scale financial inclusion.	Diversify the loan portfolio to include mid-tier MSMEs and semi-urban areas with high growth potential.	Enhances the risk-reward balance and broadens the bank's market reach.
Expansion of Low-Value Loans in the 'Rest of Industry'	Demonstrates dedication to underserved segments and grassroots development.	Introduce targeted micro-loan products for specific sectors such as agriculture and local crafts.	Boosts financial access for micro-businesses and supports regional economic activities.
Growth in Mid-Sized Loan Segments by PSU Banks	Reflects support for MSMEs that are scaling and require moderate capital.	Develop additional advisory and consultancy services to support business growth and management.	Fosters job creation and stabilizes small enterprises transitioning into medium-sized businesses.
Urban Loan Sanction Increases in PSU Banks	Shows a commitment to expanding credit facilities in metropolitan areas.	Create tailored credit products catering to urban industries like technology, retail, and services.	Promotes diversified urban economic development.
Semi-Urban Lending as a Key Growth Driver	Highlights the potential for business expansion in semi-urban regions.	Deploy mobile and agent-based banking solutions for better financial inclusion.	Bridges the urban-rural divide and enhances MSME accessibility to financial resources.
Private Banks' High-Value Account Strategy	Prioritizes client portfolios that deliver high profitability and lower default risk.	Introduce loyalty programs for high-value clients and explore new product offerings for them.	Retains and grows the bank's most profitable customer base.
Consistent Expansion in 'Rest of Industry' Accounts	Indicates a focus on serving niche markets and smaller, underserved communities.	Launch region-specific credit initiatives for agriculture and small-scale industries.	Strengthens the financial ecosystem in less developed areas.
PSU Banks' Move Towards High-Value Loans	Signifies a strategic alignment with larger-scale projects and growth-oriented businesses.	Enhance collaborative initiatives with government projects for infrastructure and industrial growth.	Supports large-scale economic development and job creation.
Delinquency Management Success in PSU Banks	Shows the effectiveness of their risk management strategies.	Strengthen pre-loan counseling and repayment support initiatives to maintain low delinquency rates.	Maintains financial stability and ensures continued support for MSMEs.
Asset Quality Improvement Through Write-Offs	Highlights strategic efforts to clean up the balance sheet and manage risk.	Implement quarterly portfolio reviews and performance audits.	Enhances long-term bank stability and prepares for future lending opportunities.
'Rest of Industry' Growth in Urban Accounts	Reflects adaptation to meet rising demand for credit in city centers.	Expand digital tools and partnerships with urban micro-enterprises.	Diversifies the segment's portfolio and captures growth opportunities in urban markets.
Strong Customer Retention in PSU Banks	Indicates high customer trust and satisfaction.	Continue to improve service delivery and introduce more customer-centric banking options.	Strengthens the bank's position and supports long-term customer loyalty.
High-Performing States as Strategic Hubs	States like Maharashtra and Uttar Pradesh show high demand and opportunity for loan growth.	Develop state-specific financial products and marketing campaigns.	Leverages regional strengths to maximize loan uptake and economic development.
Importance of Digital Transformation	Essential for extending the reach of financial services in remote areas.	Invest in digital banking infrastructure and mobile-first strategies.	Drives efficiency and accessibility in financial service delivery.

Digital transformation is also a significant factor in expanding financial inclusion. Leveraging technology enables institutions to scale operations and reach clients in underbanked areas. Digital and mobile banking solutions bridge accessibility gaps, streamline processes, and make banking more efficient and inclusive.

In summary, different banking segments play complementary roles in India's financial ecosystem. PSU banks support broad-based lending to foster grassroots financial inclusion, while private banks emphasize profitability through urban, high-value accounts. The 'Rest of Industry' bridges service gaps by offering flexible, small loans for niche markets. For sustainable growth, institutions should continue utilizing digital technology, offering region-specific loan products, and balancing risk management with inclusive outreach. Private banks can expand into semi-urban and rural areas using mobile banking and partnerships, diversifying their portfolios and client base. The adaptive strategies of the 'Rest of Industry'—focusing on niche and underserved markets—should also be further leveraged, with partnerships with local businesses, cooperatives, and FinTechs amplifying their impact and reach in remote regions.

Conclusion—Strategic Insights for Strengthening Business, Agri-Business, and MUDRA Loans for MSMEs

7

The MSME financing landscape, encompassing business loans, agri-business loans, and MUDRA loans, serves as a vital pillar of India's economic framework. These financial segments address the varied needs of India's micro, small, and medium enterprises (MSMEs), fueling local economies, enhancing financial inclusion, and strengthening the resilience of the national economy. To succeed in this dynamic and competitive sector, financial institutions must balance growth potential with robust risk management, regional adaptability, and ongoing innovation. Drawing on Michael Porter's strategic principles and Richard Rumelt's actionable insights, this study reveals that the future of MSME financing lies in clear competitive positioning and cohesive strategies. These strategies are essential not only to serve MSMEs effectively but also to promote sustainable growth in business loans, agri-business loans, and MUDRA loans, supporting India's broader economic objectives. The various themes emanating from this study are discussed below:

7.1 NBFCs: Expanding Access and Strengthening Risk Management in Business, Agri-Business, and MUDRA Loans

Non-Banking Financial Companies (NBFCs) have become pivotal in expanding access to MSME financing, especially in underserved rural and semi-urban regions of India. Focusing on business loans, agri-business loans, and MUDRA loans, NBFCs offer flexibility and a deep understanding of niche markets, providing financing to MSMEs that traditional banks often overlook. This approach aligns with Michael Porter's differentiation strategy, as NBFCs meet specific market needs with tailored financial products and personalized service models, setting themselves apart in the competitive financial landscape.

However, as NBFCs continue to grow and extend their reach, they also face rising risks associated with their expanding and diverse loan portfolios. Ensuring sustainable growth in business, agri-business, and MUDRA loans demands that NBFCs build robust risk management frameworks to anticipate and manage potential challenges. Following Richard Rumelt's concept of a "good strategy"—one that directly addresses critical challenges—NBFCs can and must strengthen their resilience by implementing advanced, causality-driven credit assessment frameworks.

Leveraging Technology for Enhanced Risk Management: To effectively manage risk, NBFCs can harness a suite of technological tools and partnerships. By collaborating with fintech companies, NBFCs can streamline processes and leverage innovative financial products that provide more precise insights into borrower risk profiles. Additionally, integrating AI-driven analytics will enable them to perform deeper analyses of customer data, identify patterns, and predict potential defaults more accurately. Predictive credit assessment models, powered by machine and deep learning, will allow NBFCs to go beyond traditional credit scoring by factoring in a range of variables—such as cash flow trends, seasonal business fluctuations, customer behavior patterns and much more—that affect an MSME's ability to repay loans. With these insights, NBFCs can assess risk with greater precision, identify early signs of financial distress, and adjust credit terms accordingly to protect their loan portfolios.

Dynamic Portfolio Monitoring and Adaptability: To manage an evolving loan portfolio effectively, NBFCs should employ real-time portfolio monitoring systems that allow them to track borrower behavior dynamically. Using advanced analytics, they can monitor loan performance, detect early warning signs of default, and respond swiftly to changing conditions. This adaptability is particularly crucial in agri-business value chains, where external factors such as weather, crop cycles, commodity prices, and more can significantly impact a borrower's repayment capacity. By adopting these technology-driven approaches to risk management, NBFCs can mitigate the inherent risks associated with MSME financing while enhancing their competitive edge in the market. As they expand their focus on larger-sized business loans, agri-business loans, and MUDRA loans, NBFCs that embrace these strategies will be better positioned to support sustainable growth in India's MSME sector, fostering economic inclusion and stability in underserved communities.

7.2 Public Sector Banks (PSBs): Enhancing Efficiency and Inclusivity in MSME Financing

Public Sector Banks (PSBs) have long been the backbone of MSME financing in India. With a unique role as facilitators of government initiatives like the MUDRA scheme, PSBs are committed to driving financial inclusion by providing accessible loans, especially in rural and semi-urban areas. However, as competition grows from agile private banks and tech-driven NBFCs, PSBs face an increasing need to modernize to keep pace and continue serving India's evolving MSME sector effectively. In a landscape that is changing rapidly, the adoption of digital transformation and a focus on operational efficiency has become essential for PSBs to remain competitive in business loans, agri-business loans, and MUDRA loans. In the terminology of Richard Rumelt's "strategic kernel" framework—diagnosing challenges, setting guiding policies, and executing targeted actions—PSBs can build a pathway toward modernization that streamlines processes, enhances customer engagement, and ultimately better serves the needs of India's small and medium enterprises.

Leveraging Conversational AI for a Better Customer Experience: One powerful tool in PSBs' digital transformation toolkit is conversational AI. By implementing AI-driven voice assistants in local languages, PSBs can offer round-the-clock support to MSME borrowers, addressing queries in different local languages, guiding them through loan application processes, and providing account information. Imagine an agri-MSME needing information about an agri-business loan: a virtual assistant can instantly answer questions, explain loan terms, and even offer tailored product recommendations, all without the customer needing to visit a branch. That is what will provide digital and process literacy on the go to MSMEs. Conversational AI will not only improve customer satisfaction by providing instant responses but also reduce the workload on branch staff, allowing them to focus on more complex cases. This kind of automation aligns well with PSBs' goals to improve operational efficiency and better serve high-volume loan categories, like MUDRA loans, by accelerating the loan inquiry and application process.

Streamlining Loan Processes with Automation: Beyond customer engagement, automating loan processing—especially for high-demand products like MUDRA loans and seasonally-sensitive agri-business loans—can significantly boost PSBs' efficiency. Automated loan processing will minimize paperwork, reduce human error, and speed up approval times. This will allow MSME borrowers to receive timely support, which is particularly crucial for agri-businesses that depend on seasonal cycles. By reducing processing times, PSBs can ensure that entrepreneurs and small businesses get the funds they need when they need them most. Automation will also enable PSBs to scale their operations, managing a higher volume of applications without compromising service quality. This improvement is especially relevant in the MUDRA loan segment, where demand is consistently high. By implementing automation, PSBs not only serve more customers but also reduce operational costs, making it easier to sustain and expand their role in MSME financing.

Enhancing Customer Insight Through AI-Driven Analytics: With the integration of conversational AI, PSBs can also gather valuable data about customer needs, preferences, and behaviors. Every interaction with a virtual assistant generates insights that can help PSBs understand MSME customer profiles more accurately. For example, AI-driven analytics can identify common loan inquiries, track frequently requested loan products, and highlight areas where borrowers might need more financial education. This data can be used to customize products and services, making offerings more relevant to different MSME segments. If the data shows that agri-business borrowers often inquire about seasonal repayment options, PSBs can adapt by offering flexible loan products tailored to cash flow cycles. This customer-centric approach will not only strengthen the relationship between PSBs and MSME customers but also align with PSBs' broader mission of financial inclusion.

Real-Time Portfolio Monitoring and Adaptive Risk Management: Another area where conversational AI can make a difference is in risk management. By using predictive analytics and real-time monitoring, PSBs can proactively track borrower behaviors and identify early signs of potential defaults. Conversational AI can even be used to engage borrowers who might be showing signs of financial distress, offering them personalized advice or alternative repayment options to help them stay on track. This approach will particularly be effective for season-sensitive agri-business loans, where external factors like weather or market conditions can impact repayment capabilities. By proactively managing risk and offering support, PSBs can improve loan recovery rates and reduce the likelihood of defaults, thereby strengthening their loan portfolios while also supporting MSMEs through challenging times.

Building a Sustainable Future in MSME Financing: As PSBs continue to evolve, investing in conversational AI and digital transformation will position them to meet the changing needs of India's MSMEs. Through strategic modernization, PSBs can sustain their leadership in MSME financing while also enhancing the inclusivity and accessibility of their services. By embracing these technologies, PSBs will become better equipped to navigate the competitive landscape, fulfilling their dual role of driving economic growth and fostering financial inclusion.In conclusion, to thrive in MSME financing, PSBs must balance operational efficiency with a commitment to serving diverse customer needs. By leveraging conversational AI, automation, and data-driven insights, PSBs can continue supporting India's MSMEs effectively and responsibly, contributing to a resilient and inclusive financial ecosystem. Through these targeted efforts, PSBs can remain integral to India's economic fabric, empowering MSMEs and supporting sustainable, long-term growth across the country.

7.3 Private Banks: Expanding and Diversifying Business, Agri-Business, and MUDRA Loans Across Urban, Semi-Urban, and Rural Markets

Private banks in India have traditionally concentrated on high-value business loans in urban markets, capitalizing on the steady demand from established MSMEs. This focus has enabled private banks to grow and build profitable portfolios but has also created higher exposure risks, especially during economic fluctuations when urban markets may experience sharper downturns. To create a more balanced and resilient portfolio, private banks are increasingly recognizing the value of expanding their reach to semi-urban and rural areas. By offering tailored financial products—particularly agri-business and MUDRA loans—private banks can access new growth opportunities and reduce concentration risks, aligning with Richard Rumelt's framework of strategic realignment and Michael Porter's idea of broadening competitive scope.

Reducing Risks and Unlocking Growth in Rural and Semi-Urban Markets through Strategic Realignment: Diversifying their loan offerings and geographic focus will allow private banks to reduce the risks associated with concentrated urban lending and access new, underserved markets. In India, rural and semi-urban regions are experiencing rapid growth, driven by government initiatives in agriculture, rural infrastructure, and financial inclusion. Expanding into these areas will not only help private banks mitigate economic risks tied to urban volatility but will also align with India's larger development goals. By following Rumelt's concept of strategic realignment, private banks can adjust their focus to include semi-urban and rural markets, adopting strategies and loan products that cater to the unique needs of MSMEs in these areas. This realignment requires an understanding of the specific challenges and opportunities present in remote rural regions.

Tailoring Financial Products for Rural and Agri-Business Needs: For private banks to succeed in rural markets, they must develop products that address the unique financial needs of rural MSMEs. Customized agri-business loans that consider seasonal cash flow fluctuations, such as loans with flexible repayment schedules or interest rates, are essential. These tailored products will enable rural business owners to access credit on terms that support their income patterns, which can be highly variable due to various environmental and market factors. Additionally, offering MUDRA loans designed specifically for grassroots entrepreneurs—who may be starting small businesses in trades, crafts, or rural services—will enable private banks to support a wider range of MSMEs in rural areas. These MUDRA loans, aimed at empowering small-scale entrepreneurs, can include simplified application processes and accessible terms, making it easier for borrowers to secure funds for business growth and job creation. By embracing these specialized loan offerings, private banks can support the diverse needs of rural entrepreneurs, contributing to economic development and financial inclusion.

Building Resilience Through Diversification: Expanding into semi-urban and rural markets also aligns with Porter's idea of broadening competitive scope, enabling private banks to reduce reliance on traditional urban markets and build a more resilient business model. By cultivating a diversified loan portfolio, private banks can buffer against market-specific risks and strengthen their overall financial stability. Diversification also offers private banks a competitive edge, as the rural economy in India is becoming an increasingly valuable segment, driven by rising incomes, digital penetration, and growing demand for financial services. In addition to risk mitigation, this expanded focus will allow private banks to gain a foothold in the rapidly growing rural economy, positioning themselves as critical players in the MSME lending landscape. As rural MSMEs continue to grow and contribute more significantly to India's economy, private banks with established relationships in these areas will be well-positioned to support the sector's long-term needs, driving their own sustainable growth in the process.

Leveraging Technology to Serve Rural Markets Effectively: To expand successfully into rural and semi-urban areas, private banks must leverage technology to overcome geographical and logistical barriers. Digital banking solutions—such as mobile banking apps with conversational AI, AI-driven credit scoring, remote verification processes and more—can help private banks reach rural customers more efficiently. By incorporating such digital tools, private banks can streamline loan applications, assess creditworthiness remotely, and offer convenient repayment options that minimize the need for rural customers to travel to nearby branches. Partnerships with fintech companies also provide private banks with access to innovative technology that enhances loan processing, customer engagement, and risk assessment. Fintech solutions tailored to rural market needs, like SME-loan disbursements through AI-powered platforms that also analyze alternative data for credit assessment, will enable private banks to offer faster and more flexible services. This conversational AI-led digital approach will not only improve the customer experience but also ensure private banks can scale their rural lending operations in a cost-effective manner.

Building a Sustainable, Long-Term Growth Strategy: In conclusion, by diversifying their loan offerings to include rural and semi-urban MSMEs, private banks can reduce market concentration risks, tap into new growth areas, and build a sustainable foundation for long-term growth. This strategic expansion aligns with the evolving needs of India's economy, as MSMEs continue to drive local and national development. Through this approach, private banks can solidify their role as key players in the MSME lending market, supporting financial inclusion, building resilience, and fostering a diversified portfolio that contributes to both their own stability and India's economic prosperity.

7.4 Other Critical Issues

Addressing Regional Disparities in Business, Agri-Business, and MUDRA Loans: Regional disparities in MSME loan distribution highlight the importance of a geographically tailored lending approach. While certain states like Maharashtra and Tamil Nadu benefit from higher loan volumes, many underdeveloped regions struggle with limited access to financing. Porter's approach to exploring new market opportunities encourages financial institutions to focus on these underserved regions, enabling balanced growth in MSME lending. Regional lending incentives, financial literacy programs, and expanded outreach efforts can close the gap, ensuring that business, agri-business, and MUDRA loans reach MSMEs in all regions. Addressing these disparities will not only promote balanced economic development but also ensure that MSMEs across India have the financial support they need to thrive.

Tailored Financial Solutions for Every MSME Stage and Growth Trajectory: MSMEs have varied financing requirements based on their stage, cash flow, and growth trajectory. Financial institutions that design products for each segment—whether it be entry-level MUDRA loans, agri-business loans tailored to seasonal needs, or high-value business loans—will remain competitive and responsive to MSME dynamics. Adopting Porter's differentiation strategy, institutions can create targeted solutions that deepen market penetration and encourage customer loyalty. Tailoring products for specific MSME needs reinforces financial institutions' roles as trusted partners in the MSME journey, helping the sector to remain resilient and adaptable in a changing economic environment.

7.5 In Summary: A Unified Strategy for Sustainable Growth in MSME Lending

In summary, the study suggests an integrated strategy that includes risk management, operational efficiency, diversified loan offerings, and tailored solutions as essential for sustained growth in MSME financing. Financial institutions must continue to evolve, balancing the immediate needs of MSMEs with strategic foresight. By embracing conversational AI-led digital transformation, expanding services to underserved regions, and leveraging each sector's strengths, financial institutions can build a balanced, inclusive financial ecosystem that empowers MSMEs across India. Through dedicated efforts in expanding and further customizing business loans, agri-business loans, and MUDRA loans, financial institutions can ensure that MSMEs remain vital contributors to India's economy. By committing to innovation, resilience, and inclusion, the path forward promises not only growth for lenders but also long-lasting financial stability and opportunity for the MSME sector.

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