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MSME Trends, Behavior and Forecast - An opportunity for Fintech in India

Naga Siva Kumar Kotha
LIUTEBM University, Lusaka, Republic of Zambia

Abstract: The COVID 19 problem has hit the MSME industry hard. MSME includes many sectors under primary sector lending (Micro, Small and Macro) enterprises. Many of the financial institutions have actually looked at this as an opportunity to boost Indian economy but identifying opportunities and lending. The MSME sector itself found some good opportunities in multiple sectors such as home furnishing, rural penetration, online payments, different type of health instrument and some more. Due to expanding coverage, efficiency and increased spending by both public and private sectors, the sector is expanding at the lightning speed. In future increase different type of revenues and market types will increase the opportunity in the revenue growth which is in the prediction.

I. INTRODUCTION

MSME (Micro Small and Medium Enterprise) customers in India do have hunger for money and the volume size in India is 6.3 Crores MSMEs' (IBEF, Indian MSME Industry Analysis, 2021). The loan size of MSME stood at Rs. 9.5 trillion in FY 21 an increase of 40% with Rs. 6.8 trillion in FY 20. Indian government also has more than doubled the budget to support the MSME customers.

With COVID around the corner, many of the MSMEs' are getting impacted and their loan cycles are getting renewed and rebooked for the betterment of the business. With the opportunity which is around the corner the lending companies and government is cascading all the processes that are required to improve on the business volumes.

II. LITERATURE REVIEW

A. Micro, Small and Medium Enterprise Loans

Market, 2021 reports that the overall Indian MSME required 490$ billion demand by the end of June, 2021. However, as per the reports in 2019 Indian banks, NBFC and other institutes were able to only cater to 110$ billion and the same is expected to grow to 350$ billion in 2023. The digital acceleration is expected till 2025.

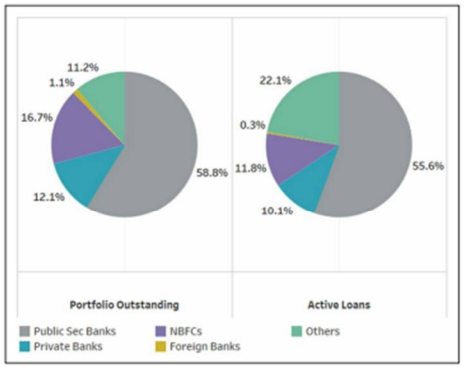
Overall Business Loans

	Mar-19	Mar-20	Mar-21
Portfolio Outstanding (₹ K Cr)	387.1	474.1	549.2
YoY Growth%		22.48%	15.83%
Active Loans (Lakh)	112.4	101.8	132.2
Y-o-Y Growth%		-9.45%	29.87%
PAR 31-90%	3.4%	2.7%	2.8%
PAR 91-180%	2.8%	3.0%	2.4%
PAR 180+%	11.3%	14.0%	15.6%

Portfolio Outstanding

Business Loans has Portfolio outstanding of ₹ 5.49 Lakh cr as of Mar'21, with 16% Y-o-Y growth by value and 30% by volume

Overall Business Loans – Lender Mix



Public Sector Banks & NBFCs

Public Sector Banks and NBFCs dominate Business Loans (by value). Private banks and Others also have good presence

CRIF report on FY 21. (CRIF, 2021)

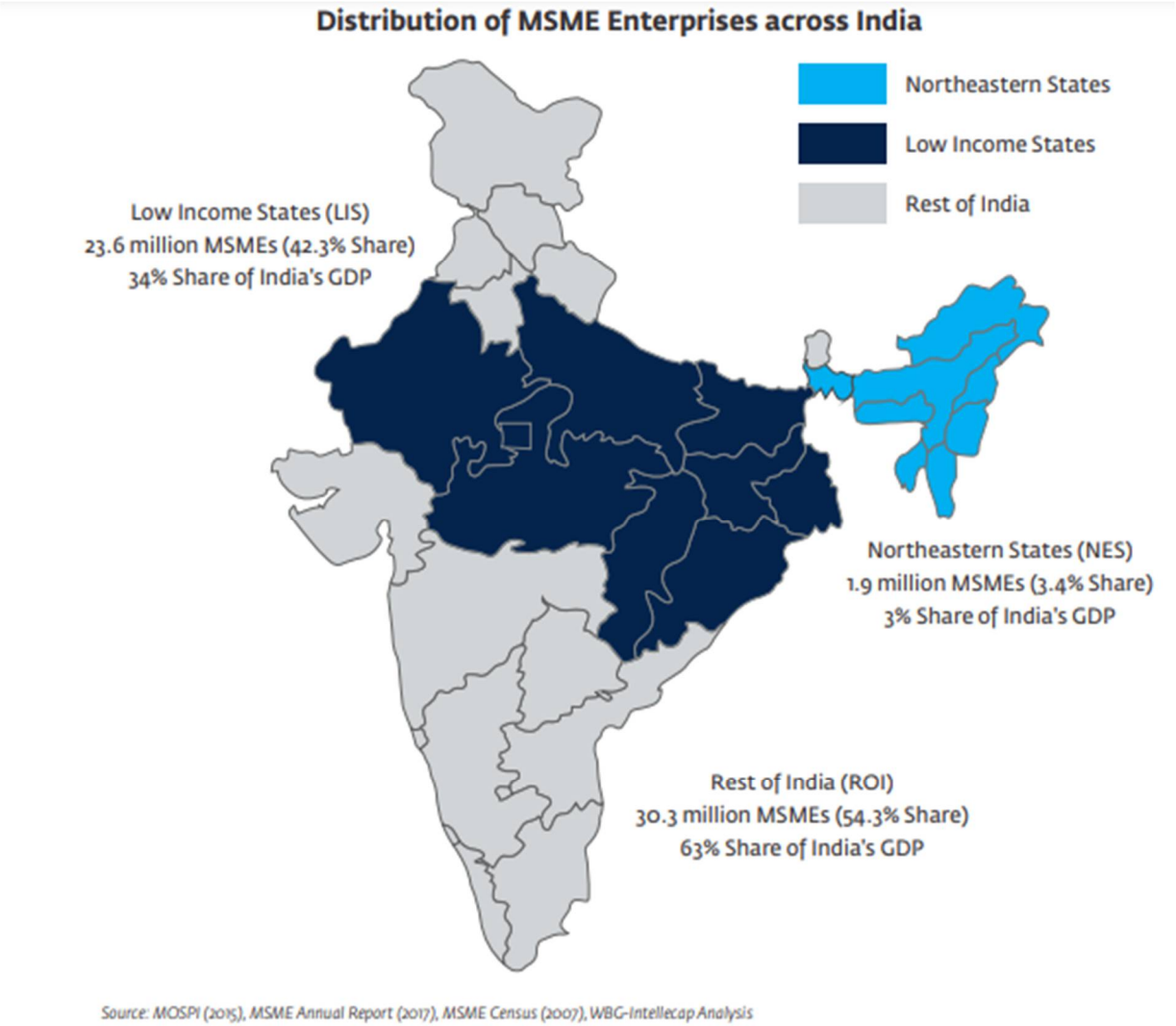
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Under MSME loans to cater multiple sectors and initiatives across multiple regions below are some products which are suggested to cater various segments as per risk categories:

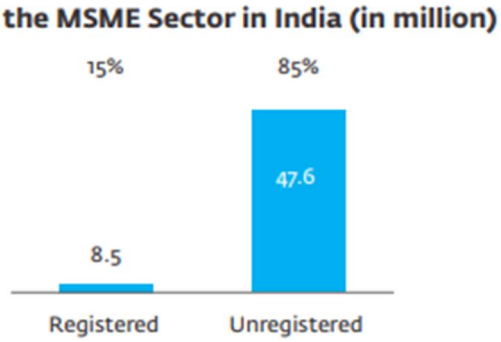
1) Working Capital Loan
2) Term Loan
3) Letter of Credit
4) Bill/Invoice Discounting
5) Overdraft facility
6) Equipment finance or Machinery loan
7) Loans under multiple govt. schemes
8) POS Loans

Some of the risk factors that are impacting this process are:

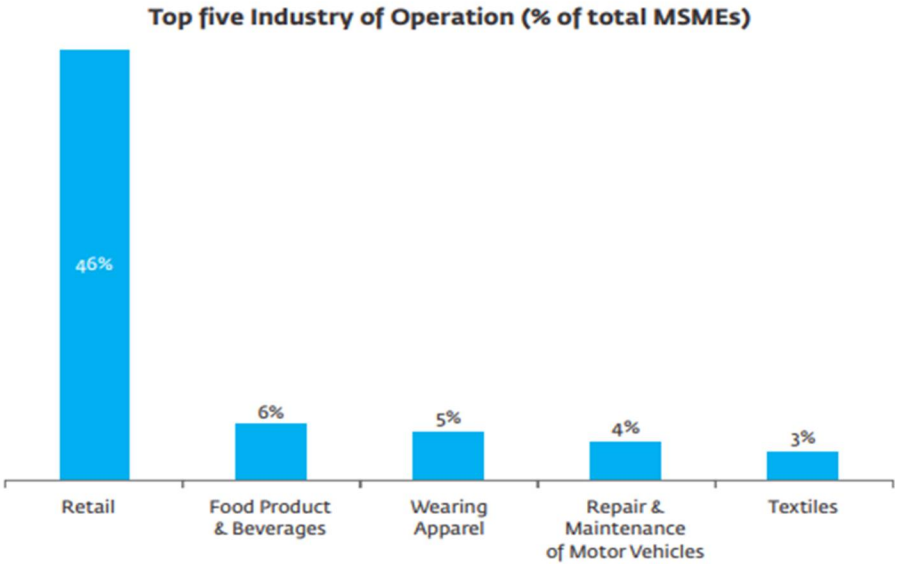
a) Availability of Formal financial data
b) Variations and product suite as per requirement
c) Turnaround Time
d) Collateral requirements and guarantors
e) High interest rates
f) Documentation process



This map is from (Tandon) which explains the kind of risk or economic growth that is spread across India in 2018. This helps in understanding the kind of growth and prospects that is expected and cautions that are required to be taken to get the money back with the safest lending process.

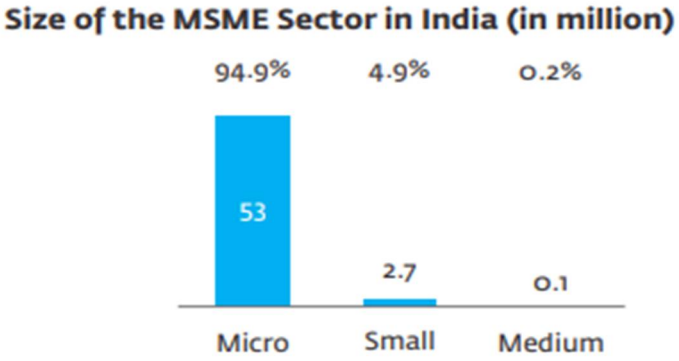


This speaks about the size of MSME in millions in India and the opportunity of digitization for these unregistered and registered sectors.



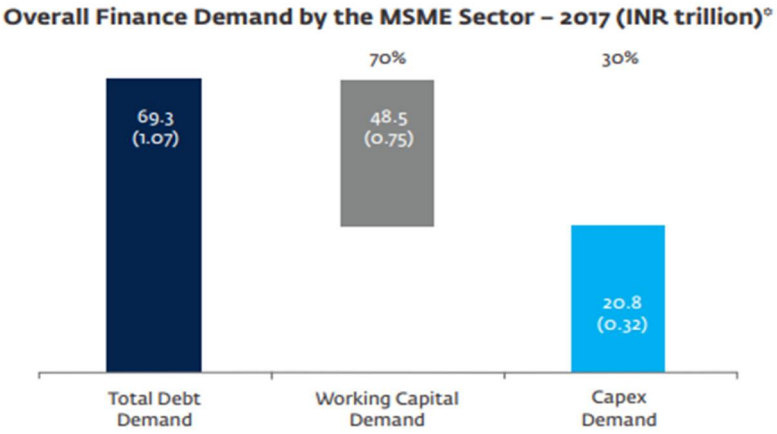
Source: IFC

Under these registered and unregistered the maximum numbers that are serving across India are spread across like the above. 52% of the overall business is Retail and Food Products.



Source: IFC

A spread across India by sector type.



Also the kind of money used after funding the business. Many people are using the money to fill the working capital demand and around 30% are filling the capex demands. This will clearly narrow down on the opportunity and risk to cater across India.
As we can basis the projections and the demand which is generated as per the current requirement we have an opportunity of 26 Lakh crore rupees in India to be funded with the proper measurements.
In the similar way many products can be explored and come up with a number on the stages.

III. RESEARCH METHODOLOGY

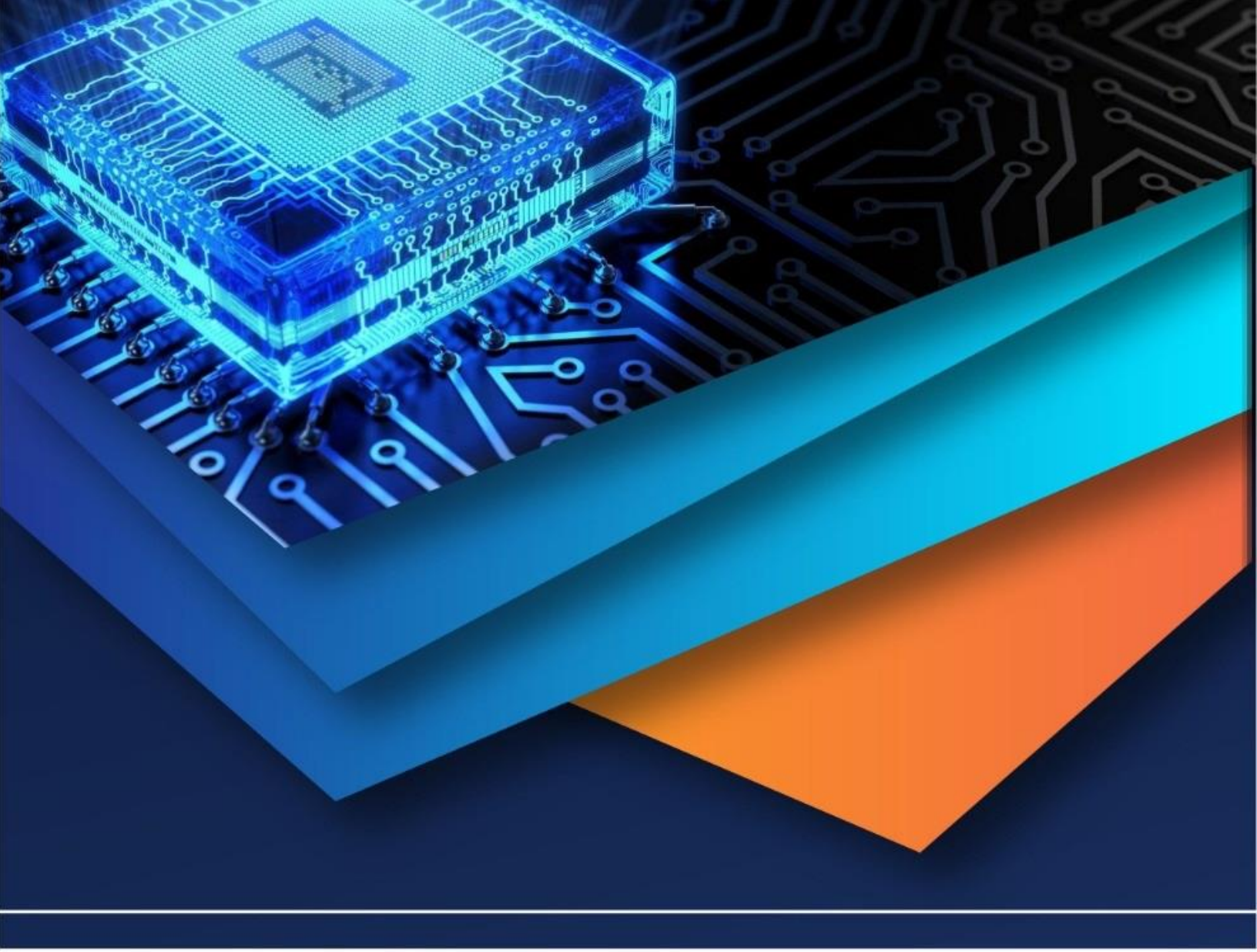
To address the key research objectives, this research has adopted qualitative method conducted by observing and analyzing already present information. This research framework constitutes of a combination of previous research and associated work explaining the impact of MSME on the Indian business and lending sector. This study employs a descriptive research design to understand the categorization, growth drivers, trends, and strategies and understand the implementation and usage.

IV. DISCUSSION

With the opportunity of Trillion of dollars in India and with the BFSI sector growing with the opportunity of over years for the next recent 5 to 10 years from 2021. For this opportunity Indian NBFC and Banks' for the next 10 years, the number of people hiring and the technology that is required will be immense. Even the government is supporting and giving away the incentives for improving business both the Urban and Rural. Many NBFC and Banks are concentrating on credit worthy customers only, and trying a very minimal on new to credit worth. Now since the many solutions would need testing, government should be able to even more incentivize the banks and NBFCs' and relax some rules with the new technologies for the similar kind of growth that is expected in the future. With overall trend of lending and support to industries increasing the funds inflow and gathering of funds should also increase. This includes Lifestyle also where currently lifestyle being the one of the primary things for many people (ANI, 2020).
Many organizations are conducting different types of credit models and trying to understand the situations of the MSME in the new era. Post COVID the learnings of all the organizations also has increased and are coming up with the better management models in which they are conducting the solutions in such a way that the models don't wear off later during the pandemic type situations.

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