

India Micro Lending Market Assessment, By Provider [Banks, Microfinance Institutes (MFIs), Non-Banking Financial Institutions (NBFCs), NBFC-MFIs], By End-user [Solo Entrepreneurs, Micro Enterprises, Small Enterprises], By Region, Opportunities and Forecast, FY2018-FY2032F

Market Report | 2024-11-27 | 135 pages | Market Xcel - Markets and Data

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Report description:

India micro lending market is projected to witness a CAGR of 12.21% during the forecast period FY2025-FY2032, growing from USD 18.32 billion in FY2024 to USD 46.04 billion in FY2032. Several key factors contribute to the growth of the market, including government initiatives focused on financial inclusion that significantly expand access to credit among unbanked populations and rapidly rising smartphone penetration that makes access much more accessible for digital lending platforms. Demand for quick and accessible credit by individuals and small businesses continues to grow due to advanced technology and streamlining loan applications and approvals. Similarly, better data analytics and new credit scoring models have facilitated the assessment of clients with fewer credit histories. A conducive regulatory setting coming from the Reserve Bank of India helps to encourage healthy lending practices, going one step further to boost the sector. More SMEs stimulate strong demand for microloans in terms of supporting working capital needs and enhancing growth. As a result, most of the micro lenders tend to focus on social impact to attract impact investors. Their product offerings diversify as they offer insurance and savings, increasing the engagement of their customers.

Micro lending provides small loans to individuals or business operatives unaware of the mainstream banking systems. It empowers the underprivileged by financing personal needs or a small business venture. Thus, with the advent of innovative technologies and alternative assessment methods, micro lenders provide instant access to finance, which catalyzes financial inclusion toward economic growth. In July 2023, a Fintech lender, Aye Finance Private Limited, announced that it had set aside around USD 12 million for its Shakti Loan initiative in 2023 and hoped to provide credit for 10,000 women running micro-enterprises. The Shakti Loan was developed in partnership with Consultative Group to Assist the Poor (CGAP), a global alliance of more than 30 prominent development organizations such as the World Bank, United Nations Development Programme (UNDP), and Mastercard Foundation

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striving to improve financial inclusion and empower the marginalized, mainly the female population.

Increase in Small and Medium Enterprises (SMEs) to Enhance Market Growth

The expansion of SMEs has been one of the prime factors leading to the growth of the micro lending market in India. SMEs form a sizeable part of the country's economy in terms of job availability and gross domestic product. Increasingly, the demand for micro-loans has been propelled due to expanding industries, investing in new technologies, or managing cash flow. Traditional banks hold back from giving loans to small-scale businesses due to a lack of adequate collateral. This gap has been positioned to be filled by micro lenders, such as micro finance institutions (MFIs). Indeed, it has distinguished them as they can provide customized loans and flex repayment terms that apply specifically to the needs of small or medium enterprises to grow their businesses in such a competitive business world. The Budget 2024 documents indicate that the MSME Ministry has been allocated USD 2.65 billion, which is the same as last year's allocation. Meanwhile, the budget for central sector schemes supporting MSMEs has seen a slight increase, reaching USD 2.62 billion.

In addition, many micro lending portals rely on sophisticated data analytics to check the borrowers' creditworthiness, enabling them to close loan applications faster. Such time and ease factors suit small-scale entrepreneurs who seek loans urgently. Additionally, government policies toward SMEs, such as offering incentive schemes of various types, make them more viable and increase the scope of micro-lending as a viable source of funding. It generally promotes the scale of SMEs. The growing SMEs would increase the demand for microloans. This has the effect of promoting quick economic growth, generally incorporating SMEs into the micro-lending landscape in India.

Technological Advancements to Drive Market Growth

Technological upgradations are fueling the growth of the micro lending market in India. Fintech companies have upset traditional loan sourcing, processing, and disbursement models. They enable borrowers to have easy access to microloans through myriad digital platforms, such as web portals and mobile applications, cutting both the time and efforts required while easing the time-consuming traditional methods of borrowing loans. Moreover, with better analytical capabilities and AI-based systems, the assessment of creditworthiness has largely improved so that lenders can accept the views of alternative data sources, such as transaction history and social behavior, rather than traditional credit scores. This benefits lenders from expanding their customer base to include those with limited or no credit history. In June 2024, Arthan Finance Private Limited, an NBFC company focused on micro loans, raised around USD 6 million in funding from a host of notable investors, including the Incofin India Progress Fund and returning backer, the Michael & Susan Dell Foundation. This new capital injection will further fuel growth for the company and its technological developments, serving to help further its mission of enabling small business owners.

However, automation in loan origination and underwriting processes reduces operational costs and greatly shortens the decision time cycle seamlessly for the borrowers. This, in turn, allows microlenders to offer competitive interest rates and flexible repayment options. Moreover, improvements in blockchain technology are expected to enhance the transparency and security of transactions as trust builds with lenders and borrowers. These technological inventions, therefore, contribute to the efficiency and accessibility of micro-lending and even empower once-closed, underserved populations with the acceleration of financial inclusion and economic growth across the country.

NBFC-MFIs Segment to Dominate India Micro Lending Market Share

The trend in micro lending in India is expected to be dominated by the NBFC-MFIs as these entities particularly focus on financial inclusion among targeted populations. To that extent, the small loans supplied to segments, especially underprivileged women and rural entrepreneurs, helped place NBFC-MFIs in an extremely strategic position for economic development. These institutions can lend to borrowers who may not qualify for a traditional bank loan due to their ability to assess the borrower's creditworthiness using alternative data and community-based methodologies. Demand for microfinance products has been enormous since entrepreneurial activity and the demand for readily available credit for low-income groups have been on the rise. Government support and regulatory frameworks play an important role in enhancing the operational capacities of NBFC-MFI to reach a wider clientele and for diversified products.

Technology, including digital lending platforms, continues to improve such processes and facilitate funds to borrowers through easy means. Improving financial literacy and spreading awareness about the benefits of microfinance will position the NBFC-MFI segment well in the micro-lending market in India, fostering economic development and enabling marginalized communities across the country. In FY2022-FY2023, NBFC-MFIs had a total number of active loan accounts at USD 6.1 million and a total unique

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borrower standing at USD 3.5 million.

Southern India to Dominate the Micro Lending Market Share

Southern India is likely to be the leader in the micro-lending market as it has a robust infrastructure and a high concentration of microfinance institutions. Tamil Nadu, Karnataka, and Andhra Pradesh are those states where the micro lending ecosystem seems strong due to self-help groups (SHGs), a network that empowers local communities. The region's proactive approach toward financial inclusion and supporting government policies have made it more accessible for the underprivileged to procure credit. Moreover, cooperative banks and the surging fintech companies enhance the number of microloan products and their variety in the region, thereby encouraging the south, which had hitherto been in the lead. With traditional and innovative financing models, the southern region can reasonably make an impact on financial inclusion efforts and boost economic growth through micro-lending initiatives.

The western region of India is rapidly gaining momentum in the micro-lending market, propelled mainly by Maharashtra, Gujarat, and Rajasthan. These three states are primarily influenced by the resurgence of entrepreneurial activity and a growing demand for financial services among smaller businesses and rural communities. The Pradhan Mantri MUDRA Yojana (PMMY) provides up to approximately USD 12,000 loans to micro and small non-corporate, non-farm enterprises. MUDRA loans are provided to such micro-enterprises by commercial banks, regional rural banks, small finance banks, microfinance institutions, and non-banking financial companies. It is through PMMY that the Indian government's focus and emphasis have provided immense progress in the financial inclusion of small and micro-enterprises across India for FY2023-FY2024. A total number of 66,777,013 loans have been sanctioned. The amount sanctioned would roughly work out to approximately USD 65.5 billion. So far, around USD 64.4 billion has already touched the eligible borrowers' hands.

Future Market Scenario (FY2025 □ FY2032F)

□□The micro lenders can be reasonably presumed to offer diversified financial products that would respond to the diverse needs of the customers, for instance, insurance and savings accounts.

□□Further research in fintech, including AI and blockchain, will improve the efficiency of processes, update creditworthiness assessment, and further increase the transparency of transactions.

□□Northern technological banks and original banks could increasingly form alliances with the fintech firms to gain and strengthen technology and increase access to the area of microcredit.

Key Players Landscape and Outlook

Traditional banks, NBFCs, and fintech startups highly integrate competition among Indian micro lending. Via this competition, key players across the market have developed a few strategies that will make them stand out from each other. Most importantly, they focus a lot on integrating technology, particularly through AI and machine learning, to perfect credit assessments and easy loan processing. Other expansions focus on product lines, such as providing insurance and savings accounts to cater to the diverse needs of clients. Associations with fintech companies boost the quality of service provision and business operations by positioning the customer at the center through a more consumerist electronic portal and bespoke services. It focuses on financial education to enlighten loan customers on prudent lending practices. Targeted marketing strategies have applied data analytics to reach specific customer segments, and geographical expansion into rural areas has helped them spread their reach. With such players focusing on sustainability and dynamic pricing models, they can maneuver competition well and match the varying needs of this micro lending market.

In March 2024, Aye Finance Private Limited, a non-banking financial lender, raised debt funding worth around USD 16.5 million from a Germany-based company, Invest in Visions GmbH, to finance the micro and small enterprises of India. The company aims to promote financial inclusion by empowering MSMEs across the country. Aye Finance has provided customized loan products and, so far, has disbursed more than USD 1.2 billion to grassroots ventures.

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*Companies mentioned above DO NOT hold any order as per market share and can be changed as per information available during research work.

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