

MSME loan approval rates muted despite 2-fold increase in funding: Report

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MSMEs face a credit gap of ₹25 lakh crore as formal lenders meet less than 15 per cent of the sector's requirements

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Quarterly MSME loan disbursements have increased over two-fold in the last two years, but the approval rate for medium-risk MSMEs has seen no improvement — a reflection of the lender's low risk appetite, according to venture capital firm BLinC Invest.

The increase in disbursements has been made possible by increased credit penetration and not due to additional risks taken by financial institutions. This is reflected in the approval rate for private banks being around 30-35 per cent over the last year, and for PSU banks and NBFCs actually falling over the last 2 years.

Pvt banks lead

As such, private banks have been at the forefront of lending to MSMEs with an average loan ticket size of ₹44.2 lakh as of Q4FY22. They were followed by NBFCs with an average loan ticket of ₹21.1 lakh and PSU banks of ₹17.7 lakh.

The findings were part of 'BLinC Invest MSME Lending Report 2022', which stated that MSMEs face a credit gap of ₹25 lakh crore as formal lenders meet less than 15 per cent of the sector's requirements.

The MSME sector, comprising 6.34 crore MSMEs, contributes 30 per cent to India's GDP and has a total credit demand of ₹69.3 lakh crore. Of these, 50 per

cent of MSMEs are concentrated in Uttar Pradesh, West Bengal, Tamil Nadu, Maharashtra and Karnataka.

Access to capital continues to be expensive due to low awareness, outdated underwriting processes and low penetration of credit, BLinC Invest said. On the other hand, lenders face challenges such as high acquisition cost, market fragmentation, lack of credit evaluation data, low risk appetite and high cost of collections.

Gap in funding

It added that the four major areas of gap in funding are PoS (point-of-sale) financing, anchor-led supply chain finance, NBFC (with branch network), and embedded finance. "Improvement in underwriting mechanism for MSMEs by evaluating alternative data will significantly boost the approval rates and in turn overall lending to the segment," the report said.

MSMEs garnered \$5.5 billion during 2016-2021, a majority of which was for neobanks, NBFCs with branch networks and payment gateway or QR-code business models.