PSBs okay ₹28k cr in MSME loans via new digital model

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New Delhi, 25 December

Public-sector banks (PSBs) have sanctioned ₹28,724 crore for micro, small and medium enterprises (MSMEs) under the government's new digital footprint–based credit assessment model during the April to October period of FY26, reflecting early traction of the new technology-driven lending framework.

According to the data sourced by *Business Standard*, PSBs processed a total of 560,655 MSME loan applications during the seven-month period, out of which 261,281 proposals were passed and ₹23,541 crore was disbursed. The rest of the amount has been sanctioned, but yet to be disbursed. Around 188,999 applications are still under process, indicating a sustained pipeline of activity under the scheme.

Under the framework, banks assess loan proposals using digitally verifiable data such as goods and services tax filings, income-tax returns, bank account statements accessed through account aggregators, and other authenticated electronic records. The aim is to replace lengthy paperwork and subjective appraisals with data-driven credit scoring, allowing faster and more transparent loan decisions.

The model was announced in the Union Budget 2024-25 as part of the government's broader push to improve access to formal credit for MSMEs and reduce reliance on collateral-based lending. It was formally launched by Finance Minister Nirmala Sitharaman in March 2025, with PSBs mandated to develop in-house digital lending systems tailored for MSME borrowers.

The overall rejection rate across banks stood at about 20 per cent, with variation across institutions depending on credit profiles and digital data availability. PSBs such as Bank of Maharashtra reported relatively low rejection rates, while lenders like Bank of India and UCO Bank saw higher rejection ratios. Officials said the rejection levels reflect objective risk assessment driven by digital data rather than discretionary lending decisions. "The benefits to MSMEs by use of this model includes submission of application from anywhere through online mode, reduced paperwork and branch visit, instant in-principle sanction through digital mode, seamless processing of credit proposals, end-to-end straight through process (STP), reduced turnaround time (TAT), credit decision based on objective

Digital footprint–based MSME lending

PSBs: Consolidated data

Particulars	PSBs total
MSME loan applications received	5,60,655
Loans sanctioned (number)	2,61,281
Amount sanctioned	₹28,724 cr
Amount disbursed	₹23,541 cr
Applications under process	1,88,999
Applications rejected	1,10,375
Rejection rate	20%

Data as of April 1–October 31, 2025
Source: Government data

data/transactional behaviour and credit history, no physical collateral securities for loans covered under CGTMSE, among others," said a finance ministry statement in March 2025.

State Bank of India (SBI) emerged as the largest contributor in terms of value, receiving 169,888 applications and sanctioning 86,389 loans. Of this, loans worth ₹21,290 crore were sanctioned and ₹16,909 crore disbursed. Union Bank of India recorded the highest number of applications at 192,110, sanctioning 71,990 proposals with total sanctions of ₹2,810 crore and disbursements of ₹2,700 crore. Other lenders such as Bank of Baroda, Bank of India, Punjab National Bank, Bank of Maharashtra and Canara Bank also reported steady sanction and disbursement activity under the digital credit framework.

Officials said this approach is beneficial for small businesses and first-time borrowers, who may not have traditional balance sheets or collateral, but have a verifiable digital transaction trail.

"It has reduced turnaround time for MSME loans, with proposals receiving in-principle approvals within a short span. The system also enables lenders to identify "new-to-bank" and "new-to-credit" borrowers more effectively.