

# Public Sector Banks Eye Fintech Tie-ups for MSME Loans

**ON TARGET** Move follows a government push in the budget for accelerating credit flow to the MSME sector and priority sector loans

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Bengaluru: Large public sector banks are exploring stronger partnerships with fintech startups as they seek to step up loans to micro, small and medium enterprises (MSME). This follows a government push in the budget for accelerating credit flow to the MSME sector and priority sector loans.

Also, a slowdown in unsecured consumer lending, which saw the most fintech partnerships, has led to a sharpened focus by these banks on supply chain finance, loan against property, and term loans for businesses, industry insiders said.

"MSME and business-generating loans have a more significant impact on the economy than consumer lending. There is strong momentum

from regulators, policymakers, and industry stakeholders to scale PSB-fintech co-lending partnerships," said Pallavi Shrivastava, co-founder, ProgCap—a supply chain finance startup. "Fintechs can play

a crucial role in sourcing customers, providing the much-needed digital in-

frastructure, and managing these loans effectively."

Startups such as PayU-backed Mintifi, Vayana, and Peak XV Partners-backed

ProgCap operate in the supply chain financing and trade financing segment, catering to small businesses. These could be suppliers of large brands, equipment manufacturers, retailers, or even distributors.

## A SHIFT IN APPROACH

Small businesses have historically faced challenges in accessing banking services, leading them to rely on distributors and local moneylenders for credit. However, with fintechs building capabilities of underwriting small businesses through the account aggregator framework or through GST data, banks are opening up to working with them.

Most banks are evaluating co-lending partnerships with fintechs, a process approved by the Reserve Bank of India. This allows a bank to take 80% of a loan on its books, while the fintech partner sourcing the loan can underwrite the customer and take the remaining 20%.

"Banks do not want to do a lot of FLDG (first loss default guarantee). They prefer to get into co-lending arrangements these days," said the fo-

under of a supply chain financing startup, on condition of anonymity.

Startups such as Knight Fintech and Yubi are helping banks build capabilities where they can work closely with fintechs and also ensure that the entire loan is managed digitally.

"Within the co-lending programmes in the MSME space, there is significant business being done by banks for commercial vehicles, agricultural loans, and loans against property," said Kushal Rastogi, chief executive officer, Knight Fintech. "Supply chain finance is a smaller segment right now, but there is enough interest among lenders who are trying to expand in this space."

Rastogi said the co-lending market in the MSME space is at around Rs 1 lakh crore, and the specific supply chain financing appetite among banks at ₹5,000-8,000 crore.

## A Win-win Deal

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