

SME Credit Puzzle

Strategic Analysis & Execution

Vaibhav Bansal
Team- VAANIK

SME Lending Landscape & Scenario Models

Situation

- Indian SME lending market TAM: **₹28.04 lakh crore** (FY24)
- 20.09M** MSMEs registered on Udyam portal
- Average loan size: **₹10-15 lakh**
- Typical tenure: **12-36 months**

Complication

- 13,290** Udyam-registered MSMEs closed in FY23
- GNPA ratio for MSME loans: **4.5%** (March 2024)
- Rapid digital adoption amid high segment vulnerabilities

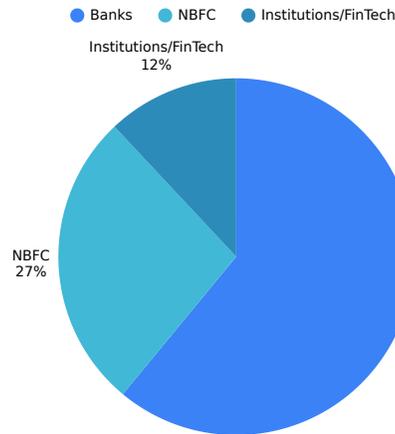
Question

How is the current landscape evolving, and what are the growth and risk levers?

Competitor Landscape

Player	Funding	Loan Book	Growth	Moat
Paytm	VC-backed	₹5,000 Cr	35% YoY	Digital wallet + lending network
Razorpay	VC-backed	₹1,200 Cr	40% YoY	Payment gateway + analytics
Lendingkart	VC-backed	₹2,500 Cr	30% YoY	Fast disbursement + risk scoring
Indifi	Bootstrapped	₹800 Cr	25%YOY	SME-focused partnerships

Lending Provider's



Market Size (FY24)

TAM
₹28.04 L Cr

SAM
₹15 L Cr

SOM
₹1.2 L Cr

SME Landscape

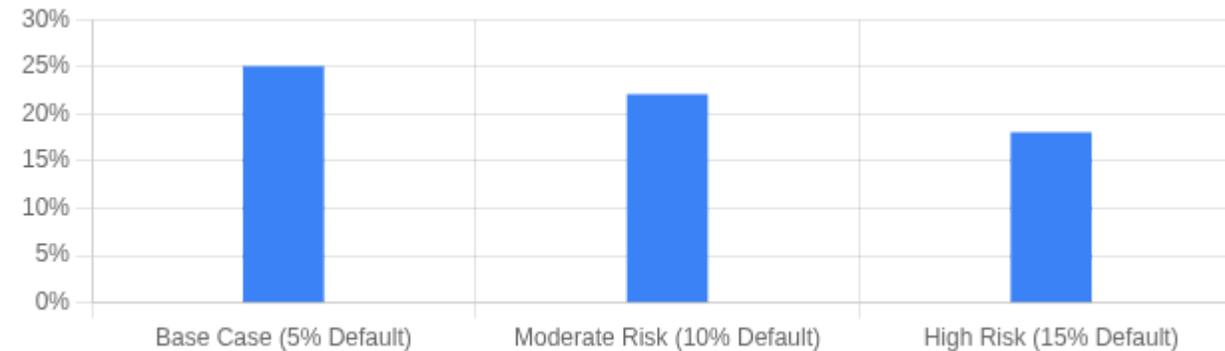
Registered MSMEs **20.09M**

MSME closure (FY23) **13,290**

MSME shutdown (FY24) **35,000**

Digital lending adoption **15%**

Loan Book CAGR & Default Scenarios



Customer Acquisition Metrics

CAC per SME
₹5,000

Payback Period
12-14 months

Key Takeaways:

- SME lending market projected at ₹19.5 lakh crore by 2024
- Digital adoption rising, >13,300 crore transactions FY23-24
- Tailored lending solutions essential to mitigate defaults

Strategic Recommendations: Beyond Lending

Situation

- SME fintech lending market attractive but increasingly commoditized
- Intense competition driving margin compression

Complication

- Stickiness, differentiation, and ecosystem lock-in are challenging
- Traditional lenders entering digital space with larger capital bases

Question

How to create a differentiated proposition for SMEs beyond just capital access?

Fintech Lending - Extra Process Benefits

Benefit	Borrower Experience	Non-Borrower Experience
GST & Taxation	Automated filing, reminders	Manual errors, time-consuming
Compliance	KYC reuse, updates	Repetitive KYC processes
Future Loans	Pre-approved, fast access	Conventional delays
Analytics & Payments	Data-driven insights	Limited visibility



FINTECH LOAN
Your Passport to the Ecosystem

The "Passport" Metaphor

✕ ✕ ✕ ✕

- Verified Identity:** One-time KYC unlocks multiple services
- Access Control:** Entry to premium financial services
- Travel Benefits:** Seamless transitions between financial tools
- Recognition:** Preferred status for responsible borrowers

Bundled Offerings



LOAN
Capital Access



GST
Tax Automation



COMPLIANCE
Regulatory Updates



ANALYTICS
Business Insights

Funding Path Comparison

✕ VC -Backed	✕ Bootstrapped	✕ Hybrid
+ Rapid scaling + Market dominance - Diluted ownership - External pressures	+ Full control + Profitability focus - Slower growth - Resource constraints	+ Initial validation + Proof then scale - Transition challenges - Timing complexities

Key Takeaways:

- Position fintech loan as an ecosystem "passport"
- Bundle offerings beyond capital (GST, compliance, analytics)
- Match funding path to market ambition and risk appetite

Execution Plan: VC vs Bootstrapped

Situation

- Two archetypal paths exist in SME lending: venture-backed vs bootstrapped
- Each path implies different scaling approaches, resources and timeline

Complication

- Scaling requirements, compliance needs, and operational approaches differ fundamentally
- Success factors vary significantly between rapid scaling vs. sustainable growth

Question

What must be mastered for each execution route to succeed in the SME lending market?

VC-Backed Path - Must-Win Battles

Battle	Why Critical	Key Actions
Credit Controls & Risk	High scaling = higher default risk	AI risk scoring, dynamic limits, NPA monitoring
Regulatory Readiness	Non-compliance risk	In-house legal, compliance automation
AI/Analytics	Data-driven growth & risk mitigation	Predictive analytics, SME segmentation

Key Takeaways:

- VC: Scale fast, master credit controls, compliance, and AI analytics

Bootstrapped Path - Defend & Outmaneuver

Operational Efficiency

- ☒ Optimize CAC (₹5,000/SME)
- ☒ Automate GST & compliance

Sustain profitability with limited capital

Hyper-Niche Targeting

- ☒ Focus on Tier-II/III SMEs
- ☒ Target specific sectors

Deep relationships, less competition

Customer Lock-In / Ecosystem

- ☒ Bundled services (fintech passport)
- ☒ Loyalty programs & rewards

Switching costs, loyal customer base

Strategic Partnerships

- ☒ Partner with NBFCs, payment gateways
- ☒ Leverage existing customer bases

Expand reach without heavy capital

Hybrid Path: Validate Then Scale

Stage 1: Bootstrap
Validate Niche

Stage 2: Initial Traction
12-18 months

Stage 3: Seed Funding
Product-Market Fit

Stage 4: Series A/B
Rapid Scale

Execution Comparison

Dimension	VC -Backed	Bootstrapped	Notes
Speed	☒ Very High	☒ Moderate	VC = rapid dominance
Focus	☒ Broad Market	☒ Deep Niche	Different market strategies
Tech Investment	☒ Upfront Heavy	☒ Incremental	Cost structure differences

- Bootstrapped: Defend niche, create process advantages, maximize efficiency

- Hybrid: Validate with a bootstrapped approach, then scale with VC funding

Trade-Off & Risk Analysis: VC vs Bootstrapped

Situation

- Execution choices create distinct 3-year risk/reward curves
- Two fundamentally different approaches with unique risk profiles

Complication

- Short-term survival vs long-term market dominance
- Risk exposure vs runway sustainability
- Control and culture trade-offs with rapid scaling

Question

What are the key risks, trade-offs, and time-based outcomes for each approach?

3-Year Risk Analysis

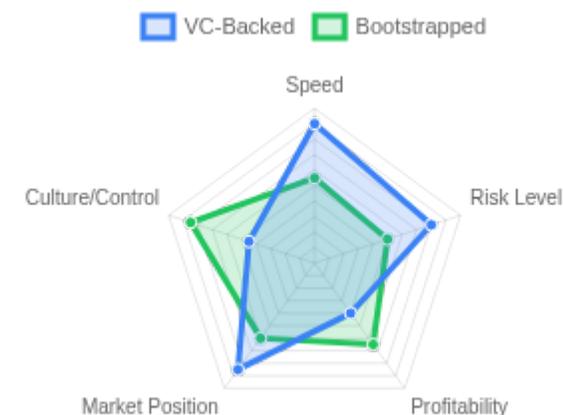
VC-Backed Path Risks

Category	Risk	Mitigation
Operational	Rapid onboarding strains processes	Scalable tech, AI scoring, support
Financial	High burn, funding dependency	Stage-gated spending, CAC monitoring
Cultural	Fast hiring dilutes culture	Onboarding, culture programs
Regulatory	Rapid expansion scrutiny	Compliance automation, audits

Bootstrapped Path Risks

Category	Risk	Mitigation
Operational	Limited resources slow upgrades	Prioritize core segments, incremental tech
Financial	Restricted growth, competitor poaching	Cash-positive units, strong economics
Cultural	Small team dependent on key personnel	Retention, multi-skilling
Regulatory	Limited legal/compliance	Outsourced solutions, partnerships

Comparative Path Analysis



3-Year Timeline & Risk Milestones

Y1

VC Path

Build infrastructure, invest in AI/analytics, high CAC

⊠ High burn rate risk

Bootstrapped

Establish efficient operating model, focus on profitable niche

⊠ Limited growth risk

Y2

VC Path

Scale rapidly, expand loan book, optimize acquisition

⊠ Credit quality risk

Bootstrapped

Expand niche, deepen customer relationships

⊠ Competitor encroachment risk

Y3

VC Path

Dominate market, network effects, economies of scale

⊠ Regulatory scrutiny risk

Bootstrapped

Defend profitable turf, sustainable economics

⊠ Innovation lag risk

Strategic Recommendations:

- Match execution approach to market ambition and risk appetite
- VC: Focus on robust credit controls and compliance systems
- Bootstrapped: Create operational efficiencies and deep customer relationships