

FINTECH PLATFORMS BRINGING GROWTH ENGINE FOR INDIAN MSME FINANCING

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Abstract:

Fintech solutions are fundamentally changing how Micro, Small, and Medium Enterprises (MSMEs) and startups access capital in 2026 by replacing traditional, slow-moving banking with data-driven, instant, and embedded financial services. Fintech platforms are revolutionizing Indian MSMEs by bridging a massive credit gap, formalizing operations, and enabling digital adoption. The aim of this paper is to evaluate the financial technology models bringing growth revolution in Indian MSMEs. The MSME sector and the Indian banking ecosystem have seen significant changes as a result of fintech, including better financial inclusion opportunities, entrepreneurship culture motivation, technology-assisted credit assessment, enhanced customer satisfaction with loan approval and disbursement, rapid and simple money transfers, create job opportunities, reduced turnaround time, increased in Indian GDP, growth in production etc.

Key-words: *Neobanking; Razorpay; MobiKwik; Crowdfunding Account Agregator.*

Introduction

P.C.Mahalanobis, the father of second five-year plan in India, which assigned a special role to small scale sector, advocated a transitional phase in which preference should be given to the small scale and household industries, and visualised the need for such preference to decrease over time. According to him, “It was envisaged that eventually a gradual and steady changeover would be made to move to efficient forms of production by increasing use of machinery driven by power”. Exemptions/incentives to corporate sector (both large and small medium) have been an integral feature of India’s fiscal policy. In order to undo the setbacks suffered during British colonial period by craftsman and rural artisans who constituted the backbone of India’s traditional and self-sufficient economy, after independence, the policymakers’ task was to make them once again stand on their own feet. The rationale for protection of small-scale sector, first articulated in the Industrial policy, 1948 stating that “the aim of the policy will be to ensure that the decentralize sector acquire sufficient vitality to be self-supporting”. The policy was designed to focus on promotion of employment and wide dispersal of industrial growth avoiding urban congestion as also the Gandhian philosophy of supporting village economy.

MSMEs are the backbone and more flexible sector of the Indian economy. In the era of the last stage of industry revolution 4.0 and the initial stage of industry revolution 5.0, MSME rapidly adapted the day –to – day inferences of Fintech in their business which helps to increase productivity and smoother demand for their product. Finance plays a crucial part in the success of MSMEs without finance, the success of MSMEs can’t imagine and in this era, MSMEs assimilated finance with technology. And this assimilation of finance with technology knows as Fintech. Fintech consists of two words one is “finance” and another is “technology” so we can easily be defined it that a firm with new technology assimilated with existing and old financial methods in the providing of financial products for instance UPI (Unified Payment Interface) payment system and application based finance instrument trading. In the last 15 years, fintech penetration in the economy increases very rapidly, especially demonization in 2016.

Brief History of Fintech

The history of fintech, or financial technology, spans over 150 years, evolving from telegraph-based infrastructure in the 1860s to modern AI and blockchain solutions. Key eras include the infrastructure-building "Fintech 1.0" (1866–1967), the digitization of banking via ATMs and NASDAQ (1967–2008), and the post-2008 rise of startups (Stripe, Paytm) transforming mobile payments and lending.

Key Eras in Fintech Evolution

- **Fintech 1.0 (1866–1967): Infrastructure Foundations.** The era began with the first transatlantic cable in 1866, facilitating international financial communication. This period also saw the introduction of the first credit cards by Diner's Club (1950) and American Express (1958).
- **Fintech 2.0 (1967–2008): The Digitalization of Banking.** This era saw a shift from analog to digital, led by traditional banks. Key milestones included the first ATM installed by Barclays in 1967, the launch of NASDAQ (the first digital stock exchange) in 1971, and the rise of online banking in the 1990s.
- **Fintech 3.0 (2008–Present): The Rise of Startups.** The 2008 financial crisis created a vacuum for new, innovative, and user-centric financial services. This era is characterized by:
- **Mobile Banking & Payments:** Widespread Smartphone adoption fueled services like Apple Pay and peer-to-peer apps.
- **Unicorns and Disruption:** Companies like Stripe (2011) and specialized lenders revolutionized payments and fintech operations.
- **Global Impact:** In emerging markets, fintech has driven financial inclusion, notably through the India Stack (Aadhaar, UPI), China's super apps (Alipay, WeChat Pay), and Kenya's M-Pesa.

Future Trends

Fintech is moving toward further automation, including the widespread use of artificial intelligence for personalized finance, decentralized finance (DeFi) using blockchain, and tighter integration of services within daily-use apps.

Objective of The Paper

The objective of the present paper is to Fintech lenders evaluate MSMEs differently from traditional banks. Instead of focusing mainly on collateral or long credit histories, they look at how the business actually operates, cash inflows, transaction patterns, and digital records like GST filings and bank statements.

Methodology

This study is purely based on secondary sources of data such as articles, books, journals, research papers, websites and other sources.

Definition Of Msme

Businesses in India are categorized as MSMEs (Micro, Small, and Medium Enterprises) according to their yearly turnover and the amount of money they invest in machinery and equipment. These are essential for industrial development, job creation and economic expansion. A. MSMEs in India are categorized according to the MSME Act of 2006 further amended in 2020:

The following lines provide an Understanding of how MSMEs are classified:

- Micro Enterprise: Up to ₹5 crore in yearly revenue and up to ₹1 crore in investments.
- Small business: up to ₹50 crore in annual turnover and up to ₹10 crore in investments.

➤ Medium-Sized Business: Up to ₹50 crore in investments and up to ₹250 crore in yearly revenue.

B. Importance of MSMEs:

The Importance of MSMEs is increasing day by day in India due to following:

- ✓ These contribute to the creation of job possibilities.
- ✓ These promote business ownership.
- ✓ These are boosting India's exports and GDP.
- ✓ These aid in advancing industrialization in semi-urban and rural regions
- ✓ Technology has also reduced turnaround time.

Financial Technology (Fintech.)

The uses of technology to enhance, automate, and reinvent financial services and procedures are known as financial technology, or fintech. Mobile banking, digital payments, blockchain, crypto currencies, robo-advisors, peer-to-peer lending, and financial management tools are just a few of the many uses it covers. Fintech seeks to increase the effectiveness, affordability, and accessibility of financial services for both consumers and enterprises.

Fintech and MSMES

Fintech (Financial Technology) has revolutionized the way Micro, Small, and Medium Enterprises (MSMEs) operate by providing innovative financial solutions. Here's how fintech is impacting MSMEs:

A. Easier Access to Credit: Traditional banks often require collateral and lengthy paperwork for loans, which many MSMEs struggle with. Fintech lenders use alternative data (e.g., transaction history, social media activity) to assess creditworthiness and offer quick, collateral-free loans.

B. Digital Payments & Transactions: Mobile wallets, UPI, and digital banking allow MSMEs to accept payments instantly, reducing reliance on cash. Buy Now, Pay Later (BNPL) and digital invoicing solutions help improve cash flow management.

C. Financial Management & Accounting: Cloud-based fintech platforms provide automated bookkeeping, tax filing, and expense tracking. AI-driven analytics help MSMEs make informed financial decisions.

D. Supply Chain Financing: Fintech platforms connect MSMEs with investors and financial institutions, helping them secure working capital based on invoices or purchase orders. Blockchain-based trade financing enhances security and reduces fraud risks.

E. Market Access & Growth: Fintech-powered e-commerce and lending platforms allow MSMEs to scale by providing access to a broader customer base and funding for expansion. Cross-border payment solutions enable MSMEs to engage in international trade with lower transaction costs.

Advanced Lending Models For Msmes

- **Digital Invoice Financing:** MSMEs can now access immediate cash by borrowing against unpaid invoices, helping bridge the gap between sales and payments.
- **Cash-Flow-Based Lending:** Algorithms analyze real-time business data—like UPI flows and e-commerce sales—to assess creditworthiness, removing the need for traditional physical collateral.
- **Microloans & Line of Credit:** Specialized platforms like Lendingkart and FlexiLoans offer unsecured, short-term loans with digital-only approvals, often within 24-48 hours.
- **P2P & Crowdfunding:** Direct connection between small businesses and individual investors through platforms like LenDenClub provides an alternative to institutional debt.

Specialized Startup Financing

- **Revenue-Based Financing (RBF):** A major trend for 2026, RBF allows startups to get upfront capital in exchange for a percentage of future sales. This model is non-dilutive, meaning founders retain full ownership.
- **Venture Debt Marketplaces:** Platforms like Recur Club connect startups with a wide network of banks and NBFCs, matching debt structures to their specific recurring revenue models.

Strategic Digital Infrastructure

- **Embedded Finance:** Financial services are increasingly integrated directly into the software MSMEs already use such as ERPs, accounting tools, and e-commerce dashboards.
- **Neobanking:** Platforms like Razorpay and MobiKwik offer unified dashboards for banking, payroll, and automated tax compliance, which are more cost-effective than traditional business accounts.
- **Account Aggregator (AA) Framework:** This allows secure, digital sharing of financial data across institutions, speeding up loan underwriting and increasing transparency.

Key 2026 Trends & Policy Support

- **AI-Driven Operations:** Artificial Intelligence is now the backbone for real-time fraud detection and instant credit scoring.
- **Government Growth Funds:** Budget 2026 initiatives, such as the ₹10,000 crore SME Growth Fund, are designed to provide long-term equity-based capital for R&D and scaling.
- **Virtualization:** Lenders are moving away from broad portfolios to build specialized products for specific sectors like logistics, healthcare, or e-commerce.

Key Fintech Actions on Indian MSMEs:

- **Alternative Lending & Credit Scoring:** Fintech provide rapid access to business loans, overcoming traditional bank limitations by using data points beyond traditional credit history (like utility bills, supply chain data) to underwrite loans.
- **Digital Payment Adoption:** Widespread use of UPI and digital wallets has enhanced cash flow management and digitized transactions for MSMEs.
- **Invoice Financing & Digital Platforms:** Digital platforms facilitate supply chain finance (SCF) and invoice discounting, allowing MSMEs to convert invoices into cash instantly to solve liquidity issues.
- **Regulatory Support (AA Framework):** The Account Aggregator (AA) framework allows MSMEs to share financial data securely for faster, paperless loan approvals.
- **Risk Management & Insurance:** AI/ML tools are deployed to monitor transactions, detect fraud, and offer customized insurance to mitigate financial shocks.

Key Impacts of Fintech On Indian MSMEs:

Accessible Financing: Fintech lenders provide collateral-free, data-driven loans with faster approvals compared to traditional banks, assisting MSMEs in overcoming capital constraints.

Digital Payments & Efficiency: Widespread adoption of UPI and digital wallets has streamlined transactions, reduced manual errors, and lowered operational costs for MSMEs.

Financial Inclusion & Formalization: Fintech connects rural and small enterprises to formal banking channels, facilitating greater tax compliance and financial literacy.

Reduced Credit Gap: By utilizing alternative data for risk assessment, fintech firms have helped decrease reliance on informal lenders, with many MSMEs adopting these technologies for better cash flow management.

Growth and Performance: Studies show that fintech adoption significantly impacts MSME performance, increasing profitability, turnover, and market share.

Conclusion

Fintech platforms are revolutionizing Indian MSMEs by bridging a ₹ 25.8 trillion credit gap through AI-driven, collateral-free lending and instant digital payments. By leveraging alternative data (GST, bank statements) and reducing processing times from weeks to hours, platforms like CredAble, Mintifi and Razorpay empower small businesses with tailored, swift working capital. The performance of MSMEs was not substantially impacted by the usage of financial technology. In the meantime, MSMEs' performance is impacted by financial technology funding, cash back, or promotions on sold goods. The MSME sector and the Indian banking ecosystem have seen significant changes as a result of fintech, including better financial inclusion opportunities, entrepreneurship culture motivation, technology-assisted credit assessment, enhanced customer satisfaction with loan approval and disbursement, rapid and simple money transfers, create job opportunities, reduced turnaround time, increased in Indian GDP, growth in production etc.

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