

Report

on

**Market Analysis on Co-Lending & Direct Assignment in India:**

**Competitor Analysis, Benchmarking, and Financial Overview**

Written by

Revat Mehra

Kathryn Pritika George

## Executive Summary

India’s lending ecosystem is evolving rapidly with the rise of Co-Lending and Direct Assignment (DA) models, designed to address the nation’s $330 billion credit gap—particularly in underserved sectors like MSMEs, agriculture, and affordable housing. Co-lending combines banks’ low-cost capital with NBFCs’ last-mile distribution, while DA facilitates liquidity and balance sheet optimization. Regulatory reforms such as the Co-Lending Model (CLM) framework, revised PSL norms, and risk weight adjustments have further enabled growth, with co-lending disbursements surging 134% year-on-year in FY24.

This growth has been powered by technology-led process innovations. Tech stacks involving API integrations, digital documentation, and AI/ML risk engines have made CLM 2 (disburse-first model) viable and scalable. Additionally, the ability to leverage behavioural and alternate data sources (e.g., UPI, GST, app usage) has made it possible to underwrite thin-file borrowers, improving inclusion and reducing default risk. Automation has shortened reconciliation timelines from quarterly to weekly/monthly, enabling real-time portfolio visibility, improved decision-making, and tighter risk controls.

Strategic Recommendations: Fintech middleware providers should focus on (1) expanding API-based integrations and adopting the Account Aggregator framework to enable real-time credit insights, (2) offering modular, regulation-compliant platforms to unify fragmented ecosystems, and (3) building an institutional-grade structuring layer to attract global capital and serve large-ticket investors. This approach will future-proof platforms in an increasingly digital and compliance-driven lending landscape.

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## Introduction to Co-lending and Direct Assignment

India’s financial ecosystem has undergone transformative changes in recent years, driven by innovative lending models such as co-lending and direct assignment (DA). These frameworks have emerged as critical mechanisms to address the country’s $330 billion credit gap, particularly in priority sectors like MSMEs, agriculture, and affordable housing. Co-lending fosters collaboration between banks, Non-Banking Financial Companies (NBFCs), and fintechs, combining banks’ low-cost funds with NBFCs’ distribution reach to extend credit to underserved borrowers. Meanwhile, DA enables NBFCs to sell loan portfolios directly to banks, providing liquidity for originators while helping banks meet their Priority Sector Lending (PSL) obligations.

The Reserve Bank of India (RBI) introduced the Co-Lending Model (CLM) in 2020 to replace the earlier co-origination framework. This model allows banks and NBFCs to share risks and rewards on an 80:20 basis, respectively, while leveraging technology-driven platforms for seamless execution. DA transactions, on the other hand, focus primarily on secured loans such as housing or MSME credit, simplifying portfolio transfers without requiring Special Purpose Vehicles (SPVs).

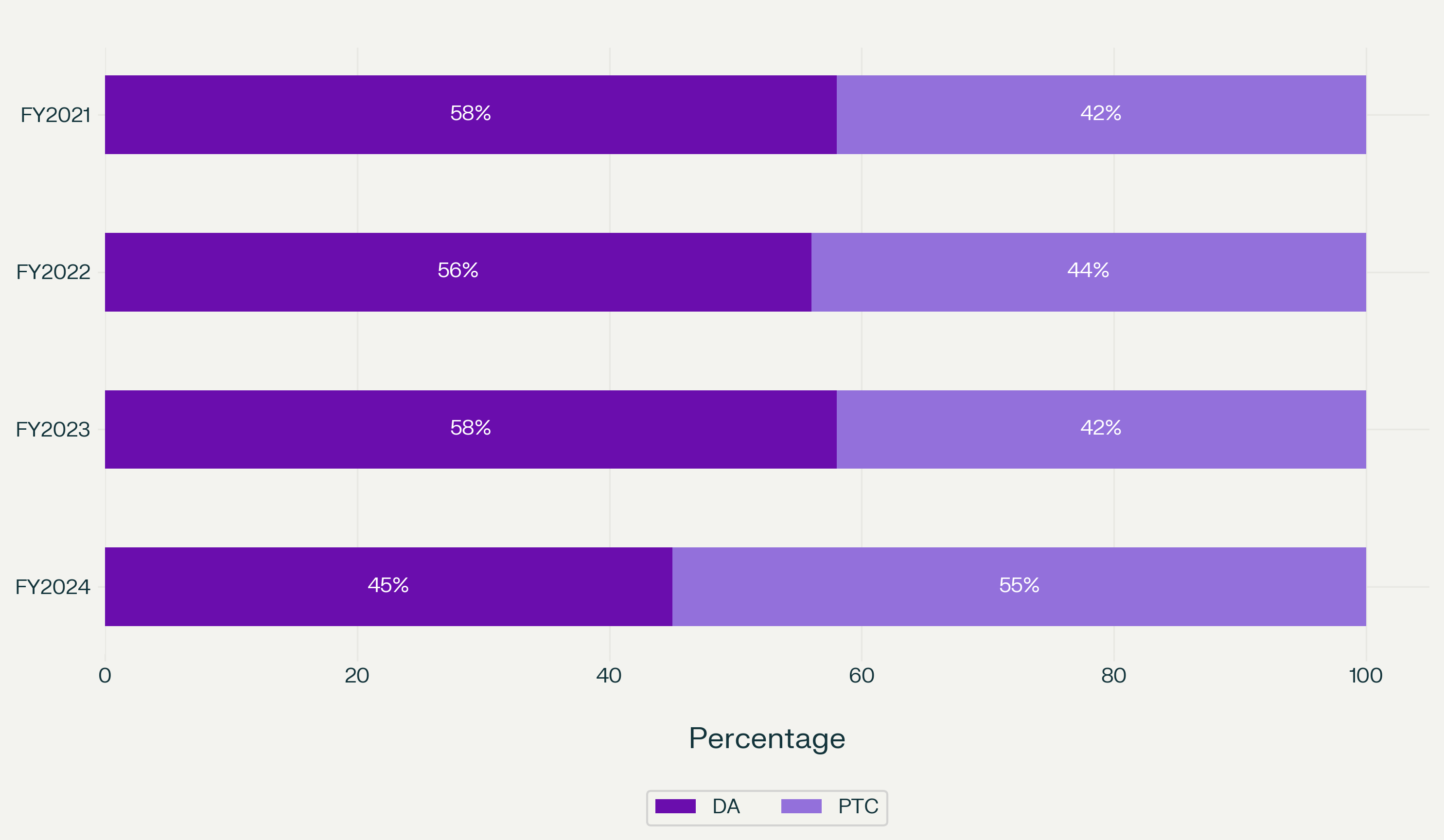
Both co-lending and DA have gained significant traction due to their ability to expand financial inclusion and optimize operational efficiency. As India’s lending landscape evolves, these models are expected to play a pivotal role in bridging credit gaps and driving sustainable economic growth.

## Market Scenario Analysis

Co-lending disbursements surged by 134% year-on-year in FY24, with public sector banks like State Bank of India (SBI) and Bank of Baroda (BoB) channeling over ₹25,000 crore through partnerships [1]. CRISIL projects a 35–40% CAGR for co-lending, driven by rising demand in MSME and home loan segments [2]. Direct assignment volumes, however, plateaued at ₹2–2.5 lakh crore post-FY20 due to regulatory scrutiny and shifting lender preferences toward unsecured credit. Sectorally, co-lending has diversified beyond personal loans (34% share) into agriculture (25%) and MSMEs (18%), reflecting aligned policy incentives and risk diversification strategies.

### Recent Trends

1. **Priority Sector Lending (PSL) Focus:** Co-lending portfolios are increasingly prioritizing MSMEs and affordable housing, with public sector banks directing ₹11,497 crore toward MSME credit in 2024 [2]. Despite personal loans dominating 65–75% of co-lending AUM, strategic shifts toward PSL-compliant sectors are accelerating, driven by economic imperatives and risk diversification [3]. Direct assignments, particularly in secured retail loans, reached ₹2–2.5 lakh crore by FY23, reflecting demand for scalable credit solutions.
2. **Hyperlocal Penetration in Tier-2/3 Cities:** NBFCs’ localized distribution networks are unlocking credit access in tier-2/3 regions, where 74% of co-lending disbursements target underserved micro-enterprises and agri-borrowers. Digital infrastructure, including 97 crore internet users and FASTag adoption, enables seamless loan processing in these geographies.
3. **Shift in Securitization Preferences**: India’s securitisation market has undergone a structural shift, with the share of Direct Assignments (DAs) declining over the past few years as Pass-Through Certificates (PTCs) gain prominence. In FY2024, DAs accounted for 45% of total securitisation volumes, down from 58% in FY2023. This decline is attributed to the growing preference for PTCs, which offer greater flexibility, credit enhancements, and tradability in secondary markets.



*Source: CRISIL Research*

1. **Technological Integration:** AI-driven underwriting, blockchain-based documentation, and UPI-enabled disbursements are reducing operational costs.

### Growth Drivers

1. **Economic Expansion and Infrastructure Investments:** India’s GDP growth (6.4% projected for FY25) and initiatives like PM Gati Shakti are fuelling credit demand in logistics, MSMEs, and rural markets. The Urban Infrastructure Development Fund (₹10,000 crore annually) is catalyzing tier-2 and tier-3 city development, creating new lending opportunities.
2. **Cost Efficiency and Liquidity Management:** Co-lending combines banks’ low-cost funds (3–7% interest) with NBFCs’ distribution reach, reducing dependency on high-cost NBFC liquidity. Direct assignments allow banks to acquire pre-vetted portfolios swiftly, optimizing capital deployment.
3. **Digital Public Infrastructure (DPI):** The JAM Trinity (Jan Dhan, Aadhaar, Mobile) and e-KYC systems have slashed onboarding costs by 40%, enabling faster loan approvals for 74% of tier-2/3 borrowers. AI-powered risk models enhance credit scoring accuracy, particularly for new-to-credit (NTC) customers.

### Emerging Market Segments

1. **MSME Financing:** Co-lending AUM for MSMEs is projected to grow at 35–40% annually, targeting a $300 billion SME market by 2025 [3]. Banks like SBI are forming committees to streamline MSME credit bottlenecks, emphasizing secured and unsecured loans.
2. **Affordable Housing:** Housing loans constitute 20% of co-lending portfolios, supported by partnerships with housing finance companies (HFCs) and government subsidies. Direct assignments in this segment are rising due to stable collateral-backed returns.
3. **Green Financing:** Emerging collaborations focus on renewable energy and EV projects, aligning with India’s net-zero goals. Co-lending models are channelling funds into solar installations and electric vehicle fleets, though this segment remains nascent.
4. **Agri-Value Chain Financing:** Partnerships between banks and agri-focused NBFCs are improving credit access for small farmers, leveraging IoT and satellite data for crop yield assessments.

### Recent Regulations

1. **Expanded Co-Lending Model (CLM) Framework (2020):** The RBI replaced the co-origination model with CLM, allowing all NBFCs (including HFCs) to partner with banks for priority sector lending (PSL). This broadened participation, enabling banks to leverage NBFCs’ distribution networks while sharing risks in an 80:20 ratio.
2. **Risk Weight Adjustments (2025):** The RBI reduced risk weights on bank loans to NBFCs from 125% to 100%, lowering capital costs for banks and incentivizing co-lending partnerships [4].
3. **Revised Priority Sector Lending (PSL) Norms (2025):**
   1. Increased loan limits for affordable housing, education, and renewable energy.
   2. Removal of interest rate caps on securitized loans, enhancing liquidity in direct assignments [5].
4. **Scrutiny on NBFC Practices (2025):** The RBI directed large NBFCs to halt new lines of credit due to concerns over disguised stress, emphasizing stricter due diligence in partnerships [6].
5. **Guidelines on Co-Lending Structures (2025):** Increased oversight of **CLM 2** (post-disbursement bank reimbursement) to prevent higher borrower interest rates and ensure underwriting quality [7].

### Challenges and Risks

1. **Regulatory Arbitrage Concerns:**

Ambiguity in CLM 2 structures and NBFC-to-NBFC co-lending has led to uneven risk distribution, prompting RBI scrutiny.

1. **Margin Pressures:**

Stricter FLDG norms and risk-weight adjustments compress yields for NBFCs, particularly in unsecured personal loans.

1. **Data Security Risks:**

Increased data sharing between banks and fintechs raises cybersecurity concerns, necessitating investments in encryption and fraud detection.

## Porter’s 5 Forces Analysis for Co-lending and DA Industry in India

**1. Competitive Rivalry (High)**

* **Increasing Participation**: Major banks (SBI, RBL Bank), NBFCs (UGRO Capital, Piramal Finance), and fintechs (Yubi, Knight Fintech) are competing to expand their co-lending portfolios.
* **Regulatory Push**: The RBI’s 2020 Co-Lending Model (CLM) and government initiatives like the **PM Gati Shakti** scheme have intensified competition to serve priority sectors (MSMEs, agriculture).
* **Operational Challenges**: Differences in risk perception between banks and NBFCs, coupled with slow tech integration, heighten rivalry for reliable partnerships.

**2. Threat of New Entrants (Moderate)**

* **Barriers**:
  + **Regulatory Compliance**: RBI guidelines (e.g., 20% risk retention for banks, FLDG caps) create entry hurdles for smaller players.
  + **Tech Infrastructure**: Established platforms like YubiCo.Lend and Knight Utopia dominate with AI/API-driven solutions, raising capital and expertise requirements for new entrants.
* **Opportunities**:
  + **Niche Segments**: Green financing and agri-tech startups (e.g., Namdev Finvest) can exploit gaps in underserved markets.
  + **Government Support**: Schemes like the **Urban Infrastructure Development Fund** incentivize new NBFC-fintech collaborations.

**3. Threat of Substitutes (Moderate)**

* **Key Substitutes**:
  + **Informal Lending**: Still prevalent in rural areas, accounting for ~30% of MSME credit.
  + **Digital Lending Apps**: Fintechs like Paytm and BharatPe offer unsecured loans, diverting demand from co-lending models.
* **Mitigating Factors**: Regulatory focus on PSL mandates and collaborative risk-sharing reduces substitution risks over time

**4. Bargaining Power of Suppliers (High)**

* **Suppliers (Banks)**:
  + Banks control **low-cost funds** (3–7% interest rates) and dictate terms in co-lending agreements (e.g., 80% exposure in CLM1)
  + Public sector banks (e.g., SBI, PNB) drive PSL targets, forcing NBFCs to align with their risk policies.
* **Fintechs/NBFCs**:
  + Tech-driven NBFCs (e.g., UGRO Capital) leverage hyperlocal distribution networks to negotiate better terms in tier-2/3 markets.

**5. Bargaining Power of Buyers (Low)**

* **Buyers (Borrowers)**:
  + **Underserved Segments**: MSMEs and rural borrowers have limited alternatives, reducing their negotiating power.
  + **Price Sensitivity**: Despite higher interest rates in co-lending (12–18%), borrowers prioritize accessibility over terms.
* **Institutional Buyers (DA)**:
  + Banks purchasing DA portfolios demand strict due diligence, forcing NBFCs to absorb losses via FLDG.

The co-lending and DA industry faces **high competitive rivalry** and **supplier power**, balanced by **moderate threats** from new entrants and substitutes. While regulatory support and tech innovation drive growth, challenges like risk misalignment and borrower dependency on institutional lenders shape the sector’s dynamics. Strategic collaborations and niche market targeting will be critical for sustained competitiveness.

## Competitor Analysis

**Banks:**

* **State Bank of India (SBI)**: India's largest lender with 22,230 branches and 64,122 ATMs/CDMs.
* **Bank of Baroda (BoB)**: Major PSU bank actively expanding co-lending operations.
* **Union Bank of India**: Established partnerships with NBFCs like Capri Global Capital.
* **RBL Bank**: Private sector bank focusing on underserved segments.
* **Central Bank of India**: Participating in co-lending with various NBFCs.

**NBFCs:**

* **Adani Capital**: Small NBFC partnered with SBI for farmer loans.
* **U GRO Capital**: MSME-focused lender with significant co-lending portfolio.
* **Capri Global Capital Ltd (CGCL)**: Partners with Union Bank for MSME loans.
* **Vedika Credit Capital Ltd (VCCL)**: Co-lending focus on priority sectors.
* **Paisalo Digital Ltd**: Digital NBFC partnering with multiple banks.

**Fintech Enablers:**

* **Yubi (formerly CredAvenue)**: Leading co-lending marketplace platform, facilitating CLM1, CLM2, and DA with blockchain and AI-driven risk assessment.
* **Knight Fintech**: Provides middleware (Knight Utopia Co-Lend) for seamless collaboration between banks and NBFCs, focusing on CLM1/CLM2.
* **Aumnee (Saison Omni)**: Specializes in CLM2 partnerships for urban MSMEs, digitizing and streamlining co-lending processes.

### **Business Models & Strategies**

**1. Banks (e.g., SBI, BoB)**

* **Business Model**: Provide low-cost funds (80% of loans) while leveraging NBFCs' distribution networks.
* **Strategic Initiatives**: Established master agreements with multiple NBFCs to expand reach.
* **Market Share**: SBI and BoB recorded combined co-lending of ₹25,000 crores in FY23, up from ₹5,000 crores in FY22 [1].
* **Competitive Advantage**: Extensive branch networks and lower cost of funds (3-7% interest rates).

**2. NBFCs (e.g., Adani Capital, U GRO Capital)**

* **Business Model**: Contribute 20% of loan value while providing distribution and origination expertise.
* **Strategic Initiatives**: Focusing on niche segments (agriculture, MSMEs) with specialized underwriting.
* **Market Share**: Smaller individual footprints (e.g., Adani Capital's ₹1,000 crore portfolio) but growing rapidly through bank partnerships.
* **Competitive Advantage**: Hyperlocal presence and expertise in underserved markets beyond tier-2 centers.

**3. Technology Platforms (e.g., Yubi, Aumnee)**

* **Business Model**: Facilitate discovery and seamless integration between co-lenders.
* **Strategic Initiatives**: Developing blockchain and AI-enabled platforms for co-lending.
* **Market Share**: Yubi platform facilitated ₹3,000 crores in co-lending transactions in FY22 [1].
* **Competitive Advantage**: Technology-driven processes reducing operational costs and enabling faster loan approvals.

### **SWOT Analysis**

**State Bank of India (SBI)**

* **Strengths**:
  + Largest banking network (22,230 branches, 70,786 BC outlets)[3].
  + Low-cost funds enabling competitive lending rates.
  + Strong government backing and customer trust.
* **Weaknesses**:
  + Bureaucratic processes slowing loan approvals.
  + Limited expertise in specialized segments like agriculture.
  + Conservative risk assessment potentially limiting reach.
* **Opportunities**:
  + Expanding into underserved rural markets via NBFC partnerships.
  + Meeting priority sector lending targets efficiently.
  + Leveraging technology for process optimization.
* **Threats**:
  + 80% risk exposure in co-lending arrangements.
  + Potential for higher NPAs if NBFC underwriting is weak.
  + Regulatory changes affecting co-lending models.

**UGRO Capital (NBFC)**

* **Strengths**:
  + Specialized MSME lending expertise.
  + Digital-first approach to loan origination.
* **Weaknesses**:
  + Higher cost of funds compared to banks.
  + Limited balance sheet capacity.
  + Must retain 20% of loans on books.
* **Opportunities**:
  + Access to cheaper funds through bank partnerships.
  + Scaling operations beyond current capacity.
  + Credit enhancement options to increase bank confidence.
* **Threats**:
  + Banks' tendency to "cherry-pick" loans in post-disbursal models.
  + Regulatory scrutiny increasing compliance costs.
  + Competition from other NBFCs in the same space.

**Yubi (Fintech Platform)**

* **Strengths**:
  + Technology-driven processes reducing operational costs.
  + Ability to handle complex integration between lenders.
  + Data analytics for improved risk assessment.
* **Weaknesses**:
  + Dependent on partnerships with established players.
  + Relatively new business model in Indian context.
* **Opportunities**:
  + Integration with blockchain for transparent co-lending.
  + AI and advanced analytics for refining credit scoring.
  + Creating unified digital platforms for seamless operations.
* **Threats**:
  + Regulatory uncertainty for technology platforms.
  + Competition from banks developing in-house solutions.
  + Potential cybersecurity concerns with data sharing.

## Deep Dive into Fintech Enablers

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Company** | **CLM1** | **CLM2** | **DA** | **Technology Differentiation** | **Key Features** |
| **Aumnee (Saison Omni)** | ❌ | ✅ | ✅ | Proprietary platform for NBFC-led origination and digitized workflows. | Streamlines CLM2 partnerships. Advanced underwriting for high-risk borrowers. |
| **Yubi (YubiCo.Lend)** | ✅ | ✅ | ✅ | Largest marketplace (500+ lenders), AI-driven risk assessment. | End-to-end automation for CLM1/CLM2/DA. Real-time portfolio monitoring. |
| **Knight Fintech** | ✅ | ✅ | ❌ | Middleware with AI/ML underwriting, API integrations for bank-NBFC collaboration. | Rapid go-live for co-lending. Compliance automation. |
| **CloudBankin** | ✅ | ✅ | ❌ | Low-code LOS/LMS, customizable workflows, API-driven integrations. | Reduces TTM to 5–7 days. Compliance-focused architecture. |
| **Craft Silicon** | ✅ | ✅ | ❌ | API/FTP integrations, dynamic reporting for multi-partner management. | Supports both CLM1/CLM2. Scalable for large portfolios. |
| **Lentra** | ✅ | ✅ | ❌ | Modular architecture, AI-driven credit scoring for underserved segments. | Customizable workflows. 10x faster disbursals via API integrations. |
| **Synoriq** | ✅ | ✅ | ❌ | Triple repayment schedules, handles complex day-count conventions. | Manages edge cases (e.g., short/excess payments). Escrow/reimbursement flexibility. |
| **Corestrat** | ✅ | ✅ | ❌ | AI-powered BRE for real-time risk assessment, customizable APIs. | Predictive risk modelling. Alternative data integration (e.g., social media). |
| **Navi Lending Cloud** | ✅ | ✅ | ✅ | Cloud-native platform, real-time settlement, automated portfolio tracking. | Unified platform for CLM1/CLM2/DA. Escrow management. |
| **SimSmart (Simsol)** | ❌ | ❌ | ✅ | DA-specific automation, 99% fraud detection, standardized data formats. | Near-instant portfolio evaluation. Compliance automation for DA. |
| **Cashfree Payments** | ❌ | ✅ | ❌ | Lending-as-a-Service (LaaS), embedded finance solutions for CLM2. | Escrow management. Rapid integration with third-party apps. |

## Key Performance Indicators (KPIs)

Co-lending platform providers need robust metrics to evaluate operational efficiency, financial performance, and strategic impact. Below are the most critical KPIs that can help monitor and optimize co-lending operations.

### Operational Efficiency Metrics

1. **Average Cycle Time:** The time taken from loan application submission to disbursement is a critical indicator of operational efficiency. Shorter cycle times indicate streamlined processes and better customer experience.
2. **Pull-Through Rate:** This measures the percentage of loan applications that successfully convert to disbursements, reflecting the maturity and efficiency of the loan origination system.
3. **Cycle Stage Length:** Breaking down the loan process into specific stages helps identify bottlenecks in the co-lending workflow between banks and NBFCs. This metric enables targeted process improvements.
4. **Incomplete Application Rate:** Tracking applications abandoned during various stages highlights friction points in the customer journey, especially important in co-lending where multiple lenders are involved.

### Risk Management Metrics

1. **Loan Approval Rate:** The proportion of applications approved provides insights into underwriting efficiency and the effectiveness of AI/ML risk assessment tools used in co-lending.
2. **Fraud Detection Rate:** For co-lending platforms, measuring the percentage of fraudulent transactions identified before disbursement is crucial for maintaining trust between lending partners.
3. **Portfolio Diversification:** Tracking the distribution of loans across different priority sectors (MSMEs, agriculture, housing) helps manage concentration risk in co-lending partnerships.

### Financial Performance Metrics

1. **Cost Per Unit Originated:** This metric evaluates the efficiency of the lending process at an individual level, crucial for measuring the cost-effectiveness of the co-lending platform.
2. **Profit Per Loan:** Analyzing revenue against expenses per loan disbursed helps optimize pricing strategies and operational costs in co-lending arrangements.

### Platform Adoption Metrics

1. **API Integration Efficiency:** Measures how effectively the platform facilitates data exchange between co-lending partners through API connections, reducing manual processes.
2. **Partner Onboarding Time:** The time taken to integrate new lending partners onto the platform reflects scalability and ease of implementation.

### Customer Experience Metrics

1. **Abandoned Loan Rate:** The percentage of approved loans not disbursed helps identify issues in the final stages of the loan journey, crucial for co-lending where multiple parties are involved.
2. **Customer Acquisition Cost (CAC):** The total cost to acquire a new customer relative to their lifetime value helps optimize marketing strategies for co-lending platforms.

### Best Practices

1. **AI/ML-Driven Underwriting**
   1. Using alternative data (GST records, cash flows) for real-time credit scoring, reducing approval times.
   2. Using AI-powered BRE analyzes borrower data for risk assessment and loan allocation.
2. **API Integrations**
   1. Enable seamless data sharing between banks and NBFCs via APIs, reducing TTM to 1–3 days.
3. **Automated Compliance**
   1. **SimSmart** automate KYC/AML checks and regulatory reporting for DA portfolios.
4. **Priority Sector Focus**
   1. Prioritize rural MSMEs and agri-loans, aligning with RBI’s PSL mandates.

### Performance Gaps

1. **Legacy System Integration**
   1. Public sector banks face delays due to incompatible legacy LOS/LMS systems, increasing TTM to7–10 days.
2. **Underwriting Inconsistencies**
   1. Companies face 20–25% loan rejections due to misaligned risk models between banks and NBFCs.
3. **Overexposure to Personal Loans**
   1. Company portfolios are dominated by personal loans (50–60%), deviating from PSL goals.

## Financial Overview of Co-Lending and Direct Assignment (DA) Players

### Banks (e.g., SBI, RBL Bank, Bank of Baroda)

**Financial Health**:

* **Revenue Streams**: Interest income from co-lending portfolios (CLM1/CLM2) and DA transactions. Fee-based income from partnerships with NBFCs/fintechs.
* **Profitability**: Net Interest Margins (NIMs) range from 2.5–3.5% due to low-cost funds (3–7% interest rates). Co-lending contributes ~15–20% of retail loan AUM.
* **Cost Structures**: High operational costs (~50–60% cost-to-income ratio) due to legacy system integration and compliance overheads.
* **Balance Sheet Strengths**: Strong liquidity (LCR >120%) and capital adequacy (CRAR >14%) supported by RBI mandates.

**Risk Assessment**:

* **NPAs**: Gross NPA ratio for co-lending portfolios is 3–4% (lower than industry average due to secured loans).
* **Key Risks**:
  + **Regulatory Arbitrage**: Scrutiny over CLM2 structures leading to higher borrower interest rates.
  + **Asset-Liability Mismatch**: Long-tenure MSME loans vs. short-term deposits.

### NBFCs (e.g., UGRO Capital, Piramal Finance, Shriram Housing Finance)

**Financial Health**:

* **Revenue Streams**: Interest income (12–18% yields) and fee income from co-lending partnerships. DA transactions contribute ~20–30% of AUM.
* **Profitability**: Return on Assets (RoA) of 1.5–2.5%, constrained by higher funding costs (8–12% for NBFCs).
* **Cost Structures**: ~55–65% cost-to-income ratio due to hyperlocal distribution networks and tech investments.
* **Balance Sheet Strengths**: Improved capital adequacy (CRAR ~20–25%) post-RBI’s risk-weight adjustments.

**Risk Assessment**:

* **NPAs**: Gross NPA ratio of **4–6%** (higher in unsecured personal loans).
* **Key Risks**:
  + **Liquidity Crunch**: FLDG capital lock-in (5%) strains smaller NBFCs.
  + **Borrower Overleveraging**: Rural borrowers’ liabilities grew 220% vs. income growth of 10–15%.

### Fintechs (e.g., Yubi, Aumnee, Knight Fintech, SimSmart)

**Financial Health**:

* **Revenue Streams**:
  + **SaaS Fees**: Platforms like Yubi charge some percentage of transaction value.
  + **Subscription Models**: Lentra and CloudBankin offer tiered pricing for LOS/LMS access.
* **Profitability**: Early-stage fintechs (Aumnee) operate at losses.
* **Cost Structures**: ~40–50% cost-to-income ratio due to R&D and API integration costs.
* **Balance Sheet Strengths**: Low debt; funded by venture capital (e.g., Yubi raised $120M in 2024).

**Risk Assessment**:

* **NPAs**: Minimal direct exposure (tech enablers don’t hold loans).
* **Key Risks**:
  + **Regulatory Scrutiny**: RBI’s concerns about tech integration and data security in CLM2.
  + **Scalability Challenges**: Tier-2/3 adoption lags at 60–65% digital penetration.

### **Comparative Financial Metrics**

|  |  |  |  |
| --- | --- | --- | --- |
| **Metric** | **Banks** | **NBFCs** | **Fintechs** |
| **Revenue Growth (YoY)** | 12–15% | 18–22% | 35–40% |
| **NIM** | 2.5–3.5% | 5–7% | N/A |
| **Cost-to-Income Ratio** | 50–60% | 55–65% | 40–50% |
| **Gross NPA Ratio** | 3–4% | 4–6% | N/A |
| **Capital Adequacy** | CRAR >14% | CRAR ~20–25% | Equity-funded |

### **Risk Mitigation Strategies**

1. **Banks**:
   1. Diversify co-lending portfolios toward secured MSME loans (reduces NPA risk).
2. **NBFCs**:
   1. Use AI-driven early warning systems to flag delinquencies.
   2. Partner with fintechs for automated underwriting to cut approval times to 2–3 days.
3. **Fintechs**:
   1. Leverage UPI and Aadhaar for rural onboarding, targeting 85–90% digital adoption.

## Customer Behaviour and Market Segmentation

The Indian co-lending ecosystem largely caters to underserved segments including rural MSMEs, informal sector workers, and first-time borrowers with sparse credit histories.

### *Segmentation:*

Borrowers can be categorised on various characteristics – Type of loan they need (vehicle loan, home loan, business loan etc.), demographics (age, gender, geography), occupation (farmer, first-time business owner, student) and so on. However, this information is often inter-linked and can serve as indicators for other information which may not be readily available or formally accessible. For instance, a student of age 23 is likely to be a first-time borrower and be currently residing in an urban to semi-urban area with the need for an education loan. This would necessitate advanced underwriting techniques for a thin credit file and the use of alternative data to assess creditworthiness. This high risk/thin file type group would also determine the loan pathway as DA instead of co-lending due to the use of alternative data and the lack of any formal income.

Thus, multidimensional layering is useful to apply several layers of segmentation simultaneously to form customer segments to gain actionable insights about the market. Multidimensional segmentation helps middleware platforms align borrower needs with regulatory incentive such as PSL mandates to meet the demand of the players in the market.

#### Sample Borrower Profiles:

A group of people with text

AI-generated content may be incorrect.

### Targeting:

#### **For Banks:**

Based on existing penetration by NBFCs into rural markets, regulatory demands, such as the demand for PSL lending criteria to be fulfilled, and the bank’s own differentiating behaviour, banks must target NBFCs and middleware to partner with, which aligns with their long term.

**Public Sector Banks:** (SBI, Bank of Baroda) aim to fulfill the RBI’s PSL mandates while maintaining asset quality and minimising risk exposure. NBFCs well suited to be targeted are those operating in Tier 2, Tier 3 and Tier 4 regions to borrowers with thin credit files from priority sectors who have a strong history on-time repayment behaviour.

**Private Sector Banks:** (Axis, ICICI, Kotak) may be looking to expand the market pie by looking into new borrower segments and are willing to take more risks than public banks. These banks are suited to co-lend or buy loan pools from NBFCs specialising in unsecured MSME loans, education finance or BNPL-type products.

#### **For NBFCs:**

Borrower profiles highlight the diversity in demand, and NBFCs, HFI, and other financial institutions can choose a target group based on thematic interests (green financing, social impact financing) or geographic locations of the NBFC and its penetration capabilities.

**Rural-focused NBFCs:** (Svatantra, Annapurna) usually tend to target thin credit file such as farmers with small land-holdings, female borrowers from SHGs, and rural businesses operating in the informal sector. These NBFCs specialize in group-based and small-ticket income-generating loans with a high degree of field-level sourcing and collection. Their loan books are highly aligned with the RBI’s PSL mandates, which makes them attractive for public sector

**Urban and MSME-focused NBFCs:** (Lendingkart, UGRO Capital) focus on small businesses, digital merchants, and semi-formal traders operating in urban regions. These NBFCs rely on alternate data sources to assess creditworthiness such as cash flow-based underwriting using GST data, digital bank statements, and POS transaction histories. They primarily offer unsecured MSME loans and working capital products. Their credit products are suited for co-lending partnerships with private banks looking to expand into the semi-formal MSME credit segment.

**Thematic NBFCs:** (GrayQuest, Revfin) target new-to-credit borrowers in emerging sectors. Their focus is on students, first-time EV users, gig economy workers, and climate-conscious entrepreneurs. These NBFCs leverage partnerships with vertical platforms like edtechs, mobility players, or clean-tech enablers, and use alternate data sources such as psychometric assessments, course enrollments, or real-time earnings data to underwrite borrowers. Given the thin-file nature of their customer base and the short-tenor nature of their loans, these NBFCs are better suited for Direct Assignment rather than risk-sharing models like co-lending. Their appeal also lies in their alignment with ESG goals and impact investors.

#### **For Fintech Middleware:**

Platforms companies can make use of the pattern that in the Indian co-lending and DA space, it is usually NBFCs who want to form long-lasting partnership with banks to gain access to cheap capital and to stay liquid. Thus, by partnering with Banks first, the middleware can take advantage of word-of-mouth recommendations from the banks to NBFCs and rely on the wheel to spin and build the network.

#### Targeting Strategy for Fintech Middleware

A diagram of a network

AI-generated content may be incorrect.

The Middleware Growth Wheel

### Positioning:

**Banks**: Must position themselves as trusted capital providers with rigorous risk frameworks, looking to expand into underserved markets through structured partnerships. Public sector banks can emphasize their role in fulfilling national credit priorities via PSL-compliant DA and co-lending, while private sector banks can focus on technology-led expansion through digital-first partnerships and customized co-lending models.

**NBFCs**: Can position themselves as niche market specialists penetrating underserved markets and having agile underwriting capabilities. Whether rural, urban, or thematic in focus, NBFCs must highlight their borrower intimacy, sectoral expertise, and credit performance to attract capital partnerships from banks and middleware platforms.

**Middleware**: Must position themselves adeptly to appeal to both classes of client bases

To Banks:

A middleware should position itself as a compliant, regulatory-aligned infrastructure partner reduces the risk associated with co-lending and DA operations through secure, rule-based workflows, real-time reconciliation, and full audit trails.

To NBFCs:

A middleware should position itself as a gateway to long-term capital partnerships by enabling NBFCs to easily access and collaborate with large banks, thereby reducing time-to-market and expanding their lending reach.

## Technology as an Enabler

In an increasingly competitive space, technology can offer several pillars of innovation to aid clients with compliance, faster approvals and disbursements, reduce the risk of default through live data dashboards and reduce turnaround time, thus increasing customer satisfaction and increasing customer conversion rates.

#### Technological Product Offerings

These pillars include technological offerings such as seamless API integration across traditional and digital lenders, enabling frictionless KYC, document capture, and credit decisioning. Digital documentation processes—including CKYC, DigiLocker, and eNACH—are now hygiene expectations. Furthermore, the integration of AI/ML models to assess alternate data sources such as cash flows, spending behaviour, SMS parsing, GST returns, and device metadata allows for nuanced credit profiling, especially where bureau data is insufficient. The ability to assess psychometric patterns, social behaviour, and digital footprints at scale helps lenders identify creditworthy borrowers while minimizing defaults. AI/ML assists middleware in supporting real-time underwriting, dynamic risk pricing, and contextual credit delivery. Additionally, credit line management, disbursement APIs, and repayment orchestration with NBFCs and banks are vital to maintain borrower-level transparency and operational control across the loan lifecycle.

#### Process Innovations

Tech Innovation can open up a myriad of possible innovation in operational efficiency, business models and offerings to end-user borrowers. Below are 3 examples of process innovations which resulted from an advancement of technology in the digital co-lending and Direct Assignment space in India.

##### Co-Lending Model 2 becomes Practical and Scalable

In traditional co-lending, disbursement occurs only after a partnership is established between an NBFC and a bank. Co-Lending Model 2 (CLM 2) flips this model—the NBFC disburses the loan first, and the partnership is formed post-disbursement. This significantly reduces turnaround time, leading to higher customer satisfaction and improved conversion rates. This model, however, is only practical and scalable due to technological innovation:

* **API Integrations**
  + **Role**: Enables real-time data sharing between NBFCs, banks, credit bureaus, and compliance systems.
  + **Impact**: Automates post-disbursement partner matching, credit sharing, and reconciliation, making high-volume execution seamless.
* **Digital Documentation (eKYC, eSign, eMandates)**
  + **Role**: Replaces paper-based processes with instant, digital compliance workflows.
  + **Impact**: Ensures disbursements are fast and fully compliant, allowing loans to be seamlessly assigned to co-lenders later.
* **AI/ML Risk Engines**
  + **Role**: Evaluates borrower risk in real-time using credit, behavioral, and alternative data.
  + **Impact**: Ensures only loans that meet pre-agreed risk criteria are disbursed, enabling smoother post-disbursement assignment to partners.

These innovations together make CLM 2 not just viable, but practical and scalable, reducing manual dependencies and enabling faster credit delivery at scale.

##### Behavioural Data can be analysed At Scale increasing ways to assess Creditworthiness

* Tech has unlocked new, digital sources of creditworthiness, including alternate data sources such as:
  + Banking data via account aggregators or APIs (transaction patterns, balances)
  + UPI and digital payment history
  + GST returns (for small businesses and self-employed)

These sources are accessed, processed, and scored instantly and securely using API infrastructure and consent-driven data sharing frameworks (like India’s Account Aggregator system).

* An especially useful source of alternate data is behavioural data which includes insights derived from a user’s digital habits and interaction patterns. Key elements include:
  + App usage: frequency, time of day, features accessed
  + Navigation patterns: time spent on offers, application drop-offs
  + Repayment behaviour: timeliness, early closures, EMI skipping
* None of this would be feasible without modern digital infrastructure:
  + API stacks allow real-time access to data sources (e.g., bank accounts, telecom records)
  + AI/ML engines can make sense of high-dimensional behavioural data, spotting subtle credit signals
  + Cloud computing ensures scalability, speed, and security for processing large data volumes
  + Mobile-first platforms ensure behavioural insights are captured naturally as users engage with lending apps
* Outcomes of tech enabled assessment of behavioural and alternate sources of data include:
  + Inclusion of thin-file / new-to-credit borrowers
  + Faster, more accurate credit decisions
  + Lower default rates through intelligent risk profiling
  + Scalable models for small-ticket, high-volume lending

Ultimately, this shift is reshaping financial access in India, turning underserved segments into viable borrowers—not by lowering standards, but by measuring creditworthiness differently.

##### Visual Representation of how Behavioural Analysis is made possible through Tech Innovation

##### A diagram of a data flow AI-generated content may be incorrect.A close-up of several different colored squares AI-generated content may be incorrect.A questionnaire with a purple arrow AI-generated content may be incorrect.

##### Process Shift in Reconciliation Timelines due to Automation

In traditional co-lending, reconciliation of interest, principal, and capitalisation between NBFCs and banks was manual and infrequent—often done quarterly. This created delays, mismatches, and exposure to operational and financial risks.

With tech-driven automation, this process has shifted to weekly or monthly reconciliation, making it faster, more accurate, and scalable.

Several pillars of technology enable this such as:

* API Integrations - Enable real-time syncing of disbursal, repayment, and interest data across NBFC and bank systems.
* Smart Loan Management Systems (LMS) - Support dual booking, rule-based interest allocation, and automated partner tagging.
* Automated Rule Engines - Apply pre-agreed interest-sharing and capitalisation logic at defined intervals without manual intervention.
* Live Dashboards - Provide real-time visibility into contributions, receivables, and yield for all lending partners.

Impact and Benefits

* Reduced counterparty and reconciliation risk through faster settlements
* Improved decision-making via real-time data and portfolio health tracking
* Stronger compliance and audit readiness with clear digital trails
* Better cash flow and revenue planning, especially with configurable capitalisation cycles

## Strategic Partnerships

The co-lending market in India has gained traction due to regulatory pushes by the RBI, especially after the introduction of guidelines for digital lending and co-lending partnerships. As per PwC and Grant Thornton, the current ecosystem is expected to grow at a CAGR of over 15% in the next five years, primarily driven by partnerships between large banks and nimble NBFCs or fintechs. However, challenges persist—most notably in the fragmentation of data, lack of standardized tech protocols, and onboarding complexities across different lending partners. Middleware debt marketplace platforms can position themselves as a unifier by offering modular, white-labeled solutions that are pre-integrated with multiple banks, NBFCs, and third-party data providers. Competitively, differentiation can occur on several parameters such as on the strength of partner networks, speed of deployment, and ability to offer deep integration with bank systems via secure and compliant APIs. The competitive advantage lies in enabling interoperability across platforms while enhancing underwriting intelligence using real-time insights from both structured and unstructured data.

## Future Trends

The co-lending space is structurally evolving into a regulated architecture, driven by ESG compliance, alternate credit assessments, and sector-specific needs. Emerging use cases include credit for renewable assets, women entrepreneurs, gig workers, and informal micro-retailers. The system is moving from a one-size-fits-all model to one where lender alignment, borrower impact, and sectoral priorities define success. Future trends point towards embedded finance, green financing, real-time lending via account aggregators, and the increasing role of middleware in ESG tracking. Middleware companies are strategically placed to align borrower profiles with suitable lender mandates—whether those involve priority sector lending (PSL) goals, ESG impact funding, or bank-specific credit risk thresholds. New asset classes, such as used vehicle finance, affordable housing, and education loans, can be unlocked by building intelligent match-making layers powered by borrower profiling and transaction behaviour.

## Strategic Recommendations for Middleware Success

To deepen value propositions and expand market leadership, we recommend two possible pathways. First, would be to further integrate clients using APIs while also adopting an Account Aggregator (AA) framework to enable real-time access to borrower cash flows, GST data, and banking behaviour. This empowers lenders to underwrite thin-file borrowers while reducing reliance on traditional bureau data. Aumnee must expect regulatory updates from the RBI and be prepared to continuously modify the system to stay up to date on compliance. This will require continuous model training and integration. Third, the system must support flexible repayment options, co-branded loan management dashboards, and embedded ESG tracking to ensure transparent credit lifecycle management for all stakeholders.

## Opportunities for International Expansion

As digital lending maturity rises in India, there is growing interest in exporting the co-lending model to allow international investors to invest in India’s debt market. Current middleware platforms operating in India’s credit ecosystem (such as those facilitating co-lending, securitization, and direct assignment) are optimized for speed, scale, and standardization — enabling NBFCs and mid-sized funds to transact with minimal friction. However, these models fall short of the nuanced legal, operational, and governance requirements of large global investors such as BlackRock, Temasek, GIC, and major DFIs. This presents a powerful opportunity: middleware platforms can expand their client base by creating a parallel, institutional-grade layer tailored for these global players.

Such investors seek more than plug-and-play access — they demand bespoke structuring, raw data transparency, audit-compliant legal documentation, and governance control over underwriting, asset performance, and risk participation to match and clear their internal auditing systems. Their internal fiduciary, regulatory, and ESG obligations necessitate infrastructure that goes well beyond a matchmaking function. A BlackRock, for example, would expect access to borrower-level data, the ability to influence pool composition, veto rights, and legal structuring that supports cross-border flows, tax efficiency, and asset governance — none of which are currently supported in a standardized format.

By introducing a modular “institutional structuring layer,” middleware platforms could serve as trusted execution agents for large-ticket, fully customized deals, co-developed with anchor LPs or DFIs. This model could include flexible tranching, enhanced monitoring protocols, legal opinion layering (for FPI/ECB flows), and access to preferred servicers or custodians. Importantly, this would enable global investors to scale participation in India’s private credit and financial inclusion ecosystem — without setting up full on-ground operations or building their own sourcing infrastructure.

Such an offering not only unlocks significantly higher capital inflows but also future-proofs the platform in a rapidly institutionalizing debt market. For middleware players looking to scale intelligently and defensibly, this expansion represents the most credible path toward becoming indispensable in India’s next phase of credit intermediation.

## Conclusion

India’s co-lending and digital credit ecosystem is at an inflection point. As traditional and new-age lenders seek to scale outreach while managing risks, a robust, intelligent middleware platform becomes the backbone of inclusive credit delivery. By prioritizing borrower-centric design, API-first infrastructure, and real-time credit intelligence, we can position ourselves as the trusted enabler for the next generation of co-lending in India—and beyond. The opportunity is massive, the market need is real, and the timing is now.

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