

ICAI MSME MAHOTSAV — FROM SURVIVAL TO SCALE — PUNE

Funding Options for MSMEs

Equity, Quasi-Equity & Alternative Pathways
Gaurav Shukla

Partner & MD — Vanja Business Advisors

25 Years in Finance & Credit Advisory

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Understanding MSMEs

India's growth backbone - classified under the MSMED Act, 2006

MSME CLASSIFICATION (Effective 1 April 2025)		
Category	Investment in Plant & Machinery	Annual Turnover
Micro Enterprise	Does not exceed ₹2.5 Crore	Does not exceed ₹10 Crore
Small Enterprise	Does not exceed ₹25 Crore	Does not exceed ₹100 Crore
Medium Enterprise	Does not exceed ₹125 Crore	Does not exceed ₹500 Crore

Plant and Machinery as defined under Income Tax Act and its Rules; turnover linked to ITR and GST. Exports excluded from turnover calculation.

7.86 Cr

Registered MSMEs
(Feb 2026, Udyam)

31.1%

Contribution
to GDP

48.6%

Share of
India's Exports

32.8 Cr

People
Employed

Current Developments in the MSME Sector



Formalisation Surge

Udyam registrations tripled from 2.5 Cr (Mar 2024) to 7.86 Cr (Feb 2026). Maharashtra leads with 1.01 Cr units — 13% of national total.



Digital-First Ecosystem

72% of MSME transactions are now digital. UPI crossed 20 billion monthly transactions in Aug 2025. GeM onboarded 22 lakh+ sellers by Feb 2025.



Credit Expansion

MSME credit portfolio reached ₹35.2 lakh crore (Mar 2025) at 13% CAGR over 5 years. Credit-active entities surged 65% in same period.



IP & Innovation Momentum

FY25 saw 33,504 patents and 3.83 lakh trademarks granted. RAMP scheme impacted 10 lakh+ MSMEs across all 36 States/UTs.

Government Schemes for MSME Funding



CGTMSE

Collateral-free credit guarantee up to ₹5 Cr for micro & small enterprises. Guarantee cover 50–85% of default risk. Over 92 lakh guarantees approved cumulatively.



PMMY (MUDRA)

Collateral-free loans up to ₹20 lakh in 4 tiers: Shishu (₹50K), Kishore (₹5L), Tarun (₹10L), Tarun Plus (₹20L). Over ₹33.65 lakh Cr sanctioned under 52 Cr+ loans.



PMEGP

Credit-linked subsidy (up to 35% for rural/SC/ST) for new manufacturing and service units. 10.71 lakh enterprises supported; 87 lakh+ jobs created.



SRI Fund + SME Growth Fund

₹50,000 Cr Fund of Funds for equity in growth-stage MSMEs. Budget 2026 added ₹10,000 Cr SME Growth Fund + ₹2,000 Cr SRI top-up.



Export Promotion Mission

₹25,060 Cr outlay (FY26–31) for trade finance, credit guarantees, logistics assistance, overseas warehousing to boost MSME exports.

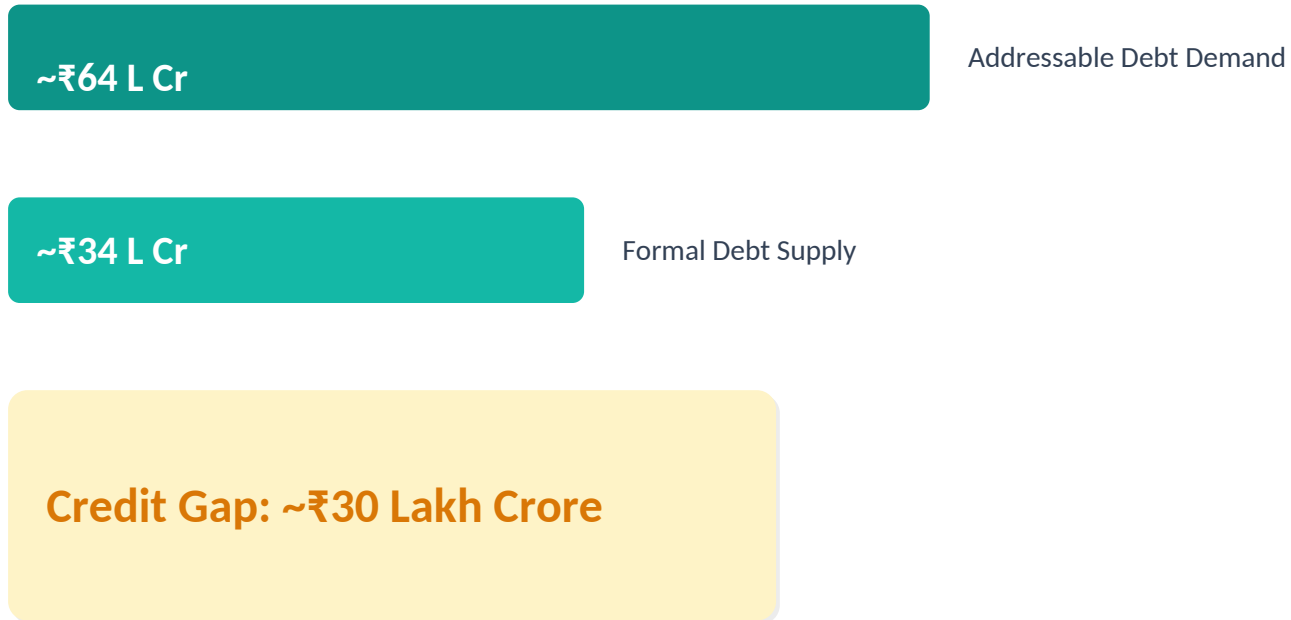


PM Vishwakarma

Skill training + collateral-free loans at 5% interest for traditional artisans & craftspeople. 30 lakh registered, 23 lakh trained by Dec 2025.

The ₹30 Lakh Crore Question

Despite policy momentum, a massive financing gap persists



Why the Gap Persists

Structural barriers that keep MSMEs locked out of formal finance



Collateral Deficit

Traditional banking demands secured lending. Micro and service-sector firms simply don't have assets to pledge. CGTMSE helps but guarantee fees of 0.37–1.35% add cost.



Weak Credit History

New businesses and informal-to-formal transitions lack bureau records. Lenders assign higher risk — even when the business is viable.



High Cost of Informal Credit

Denied formal loans, MSMEs turn to informal lenders at high interest rates. This creates a debt trap that destroys profitability.



Rejection Rates

Apr–Oct FY26: PSBs processed 5.6L applications, sanctioned only 2.6L. ~20% rejection rate persists despite digital underwriting.

Traditional Financing: A Quick Look

The instruments MSMEs know — and their limitations

Instrument	Typical Cost	Ticket Size	Key Limitation
Cash Credit / OD	9–16% p.a.	₹5L – ₹25 Cr	Limits tied to stock statements; shrink when stock falls
Secured Term Loans	8.5–20% p.a.	₹1L – ₹50 Cr	Collateral required beyond ₹10L unless CGTMSE-backed
Invoice / Bill Discounting	12–36% (disc.)	Per invoice	With-recourse: credit risk stays on MSME balance sheet
Export Finance (Pre/Post)	5–12% p.a.	₹5L – ₹50 Cr	Only for documented exporters with IEC + confirmed orders
Bank Guarantees / LCs	0.25–2% comm.	₹5L – ₹100 Cr	10–25% cash margin deposit blocks working capital

Common thread: collateral dependency, fixed repayment burden, and inaccessibility for asset-light or informal MSMEs.

Beyond Traditional Debt

The shift from survival financing to growth capital

TRADITIONAL DEBT FINANCING

- × Fixed repayment from Day 1
- × Collateral-dependent
- × Does not fund R&D
- × Growth ceiling via debt-service ratio
- × No strategic partnership

BEYOND TRADITIONAL FINANCING

- ✓ Flexible repayment depending on customized structure
- ✓ Funds R&D, tech adoption, expansion
- ✓ Investor brings networks & credibility
- ✓ Enables bold, long-term bets
- ✓ Aligns investor success with growth

Equity & Quasi-Equity: Toolkit for Growth Capital

Instruments that fund growth without the burden of fixed repayment



CCDs

Compulsory Convertible
Debentures

Debt today, equity
tomorrow.
Mandatory conversion.



OCDs

Optionally Convertible
Debentures

Investor chooses:
convert or redeem.



SME IPO

BSE SME / NSE Emerge

Public listing. Raise
₹10–200 Cr from markets.



PE / VC

Private Equity &
Venture Capital

Institutional equity for
high-growth MSMEs.

Compulsory Convertible Debentures (CCDs)

The bridge between debt comfort and equity ambition

ISSUANCE

Company issues debentures.
Terms fixed: conversion ratio,
interest rate, tenure.

INTEREST PERIOD

Investor earns fixed interest.
Company retains full
ownership & control.

CONVERSION

Debentures mandatorily
convert to equity. No cash
repayment. Investor = shareholder.

Why CCDs Work for MSMEs

- ✓ **Delayed Dilution** Founder retains control during growth phase
- ✓ **FDI-Eligible** Classified as 'capital instrument' under FEMA — attracts foreign investors
- ✓ **Flexible Tenure** 3-5 years for DPIIT-recognised startups (extended 2022)
- ✓ **Valuation Deferral** Conversion terms agreed later, when business is valued fairly

Optionally Convertible Debentures (OCDs)

Giving the investor option to convert or redeem

PARAMETER	CCDs	OCDs
Conversion	Mandatory at maturity	At investor's option
FEMA Classification	Equity (FDI eligible)	Debt (ECB route only)
Investor Exit Options	Equity upside, put option	Downside protection via redemption
Founder Control	Dilution deferred but certain	Dilution uncertain until decision
Best For	Growth-stage, FDI rounds	Conservative investors, bridge rounds
Tax Treatment	Interest deductible until conversion	Interest deductible; redemption = repayment

CCDs attract foreign equity investors (FDI route). OCDs suit domestic risk-averse investors who want an exit option.

The SME IPO Pathway

BSE SME & NSE Emerge

 258

SME IPOs in FY2025

 ₹11,035 Cr

Raised in FY2025

 371

Total IPOs (MB + SME)

ELIGIBILITY (SEBI ICDR Amendments, March 2025)

- ✓ Post-issue paid-up capital \leq ₹25 Crore
- ✓ Minimum 3-year operating track record
- ✓ EBITDA \geq ₹1 Crore in 2 of last 3 years
- ✓ Net worth \geq ₹1.5 Cr; tangible assets \geq ₹3 Cr
- ✓ OFS capped at 20% of issue size
- ✓ Promoter lock-in: 3 yrs (min. contribution)

PROCESS OVERVIEW

1

IPO Readiness
Audit

2

DRHP Filing &
SEBI Review

3

Roadshow &
Subscription

4

Allotment
& Listing

Private Equity & Venture Capital

Institutional growth capital for MSMEs ready to scale

Angel / Seed

₹25L – ₹2 Cr

Early-stage from HNIs and angel networks. Typically via CCDs or equity.

Best Fit: Revenue < ₹5 Cr

Venture Capital

₹2 Cr – ₹50 Cr

Growth capital for proven models. Focus on unit economics and scale.

Best Fit: Revenue ₹5–100 Cr

Growth PE

₹50 Cr – ₹500 Cr+

Expansion capital for market leaders. Enables acquisitions, new geographies, IPO prep.

Best Fit: Revenue ₹100 Cr+

Budget 2026: ₹10,000 Cr SME Growth Fund + ₹2,000 Cr SRI Fund top-up. Dedicated govt equity for high-potential MSMEs

Alternative Financing Instruments

Non-traditional mechanisms designed to bypass collateral and lengthy approvals

Instrument	Typical Cost	Ticket Size	Best Suited For
 Private Credit / Debt AIFs	14-22%	₹10-200 Cr	Mid-market MSMEs (₹50-500 Cr revenue)
 Venture Debt	13-15% + warrants	₹1-100 Cr	VC-backed startups & growth-stage MSMEs
 Fintech / Digital Lending	15-25%	₹50K - ₹50 lakhs	New-to-credit MSMEs with GST/UPI data
 Equipment Leasing	9-21%	₹5L - ₹50 Cr	Capex-heavy mfg, logistics, food proc.
 Revenue-Based Financing	1.2-2.5× repay cap	₹5L - ₹30 Cr	D2C, e-commerce, SaaS with digital rev.

India's private credit market: ~\$25-30B AUM in FY26 | \$12.4B deployed in CY2025 (EY, Feb 2026) | Venture debt: \$1.3B across 187 startups in 2025

Private Credit / Debt AIFs

Institutional non-bank capital for mid-market MSMEs seeking growth financing



What Are Debt AIFs?

SEBI-registered Category II Alternative Investment Funds that pool capital from institutional investors (banks, family offices, insurance cos) to extend structured credit to mid-market corporates.

Unlike banks, Debt AIFs can offer flexible structures: unitranche, mezzanine, acquisition finance, and promoter funding often with bespoke covenants.

MARKET SNAPSHOT

\$25–30B

AUM in FY26

\$12.4B

Deployed CY25

1800+

Active AIFs

Private credit grew 5x in 5 years. India is now Asia's 3rd-largest private credit market.

KEY FEATURES FOR MSMEs



Ticket Size: ₹10–200 Cr

Ideal for mid-market MSMEs with ₹50–500 Cr revenue that fall between bank lending limits and PE thresholds.



Flexible Structures

NCDs, CCDs, mezzanine, unitranche. Customized to cash flow profile. Fixed or variable IRR of 14–22%.



Security: Asset + Cash Flow

First/second charge on fixed assets, escrow over receivables, share pledge. Less reliance on promoter personal guarantee.



Speed & Certainty

45–90 day closure vs 4–6 months for banks. Single decision-maker. No consortium delays.



Covenant-Light Options

Bespoke financial covenants. Moratorium periods available. Prepayment flexibility negotiable.

Venture Debt

Non-dilutive institutional debt for startups and growth-stage MSMEs

WHAT IS VENTURE DEBT?

Term debt provided to equity-backed startups and growth-stage companies typically alongside or between equity rounds. Structured as secured NCDs with warrants. Complements equity, does not replace it. The borrower retains ownership while accessing institutional capital for growth capex, acquisitions, or runway extension.

INDIA MARKET SNAPSHOT (CY2025)

\$1.38B	Deployed (12% YoY growth)
\$3.5M	Avg ticket size
187	Deals completed

KEY FEATURES FOR MSMEs



Structure & Cost

Senior Secured at 15–17% net IRR + equity warrants. Tenor 12–36 months with moratorium options.



Non-Dilutive

No board seat, no governance changes. Warrants give investor small upside without diluting promoter control.



Speed & Flexibility

30–60 day closure. Debt covenants negotiated via revenue growth, existing venture capital backing and scalable business model.

Alternative Financing Instruments

Digital lending, equipment leasing and revenue-based financing



Fintech / Digital Lending

Fintech/digital lending, is the process of getting a loan entirely online through websites or mobile apps. It replaces traditional paper-heavy bank visits with automated applications, real-time risk assessment, and quick digital fund disbursements. RBI's 2025 Digital Lending Directions provide regulatory guardrails. Loan applications up 50% YoY. Disbursal in minutes, not weeks.



Equipment Leasing

Lessor owns the asset; MSME pays periodic rentals (operating lease) or rent-to-own (finance lease). Preserves working capital — no large upfront capex. 100% financing with no collateral beyond the equipment itself. Lease rentals are tax-deductible as business expense.



Revenue-Based Financing

Upfront capital repaid as a fixed percentage of monthly revenue over 6–24 months. No equity dilution, no fixed EMI — repayments flex with revenue cycles. Underwritten on digital revenue data (payment gateway, marketplace sales). Total repayment capped at 1.2–2.5× the principal.

Which Instrument Fits Your MSME?

Matching the right funding to the right stage and profile

Micro unit, no credit history,
need ₹50K–₹20L



Fintech
PMEGP subsidy + CGTMSE guarantee

Small manufacturer, ₹5–25 Cr
revenue, need growth capital



CCD/OCD issuance to HNIs/Angels
CGTMSE-backed term loan
Equipment leasing for capex

VC-backed tech/D2C startup
extending runway



Venture Debt
Revenue-Based Financing
Digital/fintech lending

Mid-market MSME, ₹50–500 Cr
revenue, asset-light



Private Credit / Debt AIF (₹10–200 Cr)
CCD round with PE investors
Bridge-to-IPO structured debt

Established MSME, ₹100 Cr+
revenue, profitable



SME IPO on BSE SME / NSE Emerge
Growth PE (₹50–500 Cr)
Main board migration post-listing

The Pune MSME Opportunity

Maharashtra leads the nation, and Pune is its engine room

MAHARASHTRA SNAPSHOT

Udyam Registrations

1.01 Crore (~13% of India)

National Rank

#1 in India

Key Sectors

Auto, Engineering, IT, Pharma

Pune Clusters

PCMC, Chakan, Ranjangaon, Hinjewadi

Credit Concentration

Top 5 states = 48% of MSME credit

CONSTRAINTS

- Over-reliance on bank debt & collateral lending
- Low awareness of equity instruments
- Governance gaps and unaudited financials

OPPORTUNITIES

- Pune's auto & engineering MSMEs are IPO-ready
- Bridging governance: virtual CFO, audit, compliance
- Mumbai advisory ecosystem is 2 hours away
- Budget 2026 targets manufacturing MSMEs

Growth Catalyst

Role of a strategic capital advisor



IPO Readiness Audit

Evaluate financials, identify gaps, certify DRHP-ready numbers.



Valuation & Structuring

CCD/OCD pricing, conversion ratios, FEMA compliance for FDI rounds.



Virtual CFO Services

Monthly MIS, cash flow, investor reporting for growth-stage MSMEs.



Governance & Compliance

Board composition, LODR requirements post-listing.



Due Diligence Support

Financial DD for PE/VC investors. Tax structuring for equity.



Debt Advisory

Credit profile improvement. CGTMSE, TReDS navigation.

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DEAL SHOWCASE

Bringing It All Together

Three transactions that illustrate how alternative financing solves real problems for real companies.

Case Study: Wow! Momo Foods

How venture debt enabled non-dilutive growth financing



DEAL OVERVIEW

Transaction	Strategic Debt Raise
Size	₹195 Crore (INR 1.95 Bn)
Instrument	Non-Convertible Debentures (NCDs)
Investors	Consortium of 3 Venture Debt Firms
Advisor	Vanja Business Advisors (Sole & Exclusive)
Year	FY 2025



Growth capex financing + refinancing of existing debt at a lower cost of capital

WHY VENTURE DEBT?

The company was EBITDA-negative and on a path to positive EBITDA with this growth financing. Traditional bank lending was not viable. Venture debt provided the bridge.

KEY HIGHLIGHTS

- ✓ One of India's largest venture debt transactions for the country's leading QSR chain
- ✓ Non-dilutive funding: no equity given up for growth capex
- ✓ Fixed IRR structure with longer moratorium and tenor
- ✓ Refinancing at a lower yield compared to existing company debt
- ✓ Secured via first charge on fixed & current assets + escrow over online delivery platform cash flows

MSME Takeaway: Even EBITDA-negative MSMEs with strong unit economics can access institutional debt through venture debt, a viable alternative to premature equity dilution.

Case Study: Recycled-materials Manufacturer

Structured debt to refinance development finance and bridge project cost overruns



DEAL OVERVIEW

Transaction	Secured Debt Raise
Size	₹350 Crore
Sector	Recycled Plastics (rPET Manufacturing)
Purpose	Refinance USDFC debt + fund cost overrun
Project	Plant expansion (10–11x capacity)

PROJECT ECONOMICS

₹600 Cr

Revised
Project Capex

₹410 Cr

Capex Incurred
(till Dec 2025)

26%

Promoter Equity
Committed

WHY REFINANCING WAS CRITICAL

- Original project cost ₹400 Cr escalated to ₹600 Cr due to scope changes, equipment upgrades, and civil infrastructure additions
- Existing USDFC lender unlikely to fund cost overrun or provide NOC for shared security with a new lender
- Complete refinancing of ₹264 Cr DFC debt was the only viable path to unlock fresh capital for project completion
- rPET flakes and resin facilities already commissioned and operational. Strong asset base for secured lending

MSME Takeaway: When development finance institutions cannot support cost overruns, private credit offers a complete refinancing solution, unlocking fresh capital while simplifying the lender structure. Promoter skin-in-the-game (₹100 Cr equity commitment) is key to investor confidence.

Case Study: Solar Manufacturing Company

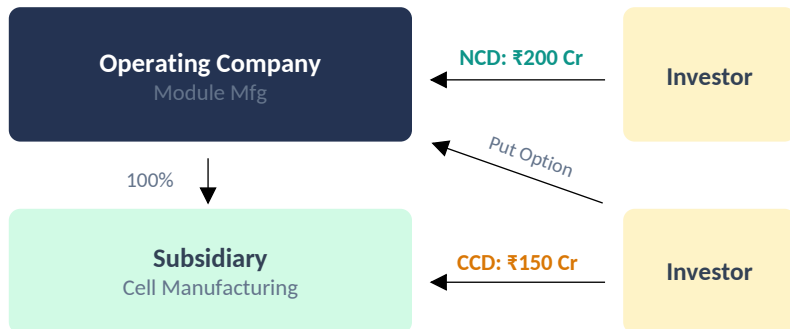
Multi-tranche structured debt across HoldCo-SubCo for integrated solar capacity expansion



DEAL OVERVIEW

Transaction	Multi-Tranche Structured Debt
Size	₹350 Crore
Sector	Solar Module & Cell Manufacturing
Status	Deal Under Execution

TRANSACTION STRUCTURE



STRUCTURAL HIGHLIGHTS



Financing Rationale

Total investment of ₹1,050 Cr to set up a new manufacturing facility raised through a mix of senior debt and equity/structured debt.



NCD at OpCo (₹200 Cr)

Secured debt to the module manufacturing entity with established revenue streams.



CCD at SubCo (₹150 Cr)

Compulsory convertible debentures for cell manufacturing subsidiary provides equity-like upside with downside protection.



Put Option Protection

Investor holds a put option on the subsidiary, ensuring exit protection in the event of underperformance.

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Thank You

Gaurav Shukla

Partner & MD — Vanja Business Advisors

gaurav.shukla@vanja.in

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