Financing Small Schools: An Untapped MSME Segment

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With over 26 crore employees and a nearly 30% GDP contribution, India's Micro, Small, and Medium Enterprises (MSMEs) sector is a vital component of the national economy. Small private schools operating as MSMEs constitute a sizable yet frequently disregarded portion of these enterprises, particularly in semi-urban and rural areas. These educational MSMEs are essential to increasing access to quality education but face particular challenges in obtaining adequate funding for operational, technological, and infrastructural needs.

India's Small School Environment

India boasts one of the world's largest school networks, with approximately 1.49 million schools, according to the UDISEPlus 2021–22 report. Of these, around 31.3% are private schools, many of which are modest establishments functioning as MSMEs. Although the exact number of "small schools" is not distinctly categorized, roughly 4.5 lakh private unaided and aided schools exist, many of which align with the profile of educational MSMEs.

The number of private schools increased by 5.5% in 2021–2022 compared to the previous year, indicating steady growth. The primary driver behind this expansion is the rising demand for affordable, high-quality education, particularly in semi-urban and rural regions. Regional trends also highlight this shift, with notable private school growth in states like Gujarat (+1.8%), Assam (+2.4%), Haryana (+1.9%), and the Andaman & Nicobar Islands (+37.5%).

Private schools cater to approximately 120 million students—nearly half of India's 265 million school-age population. These schools not only impart education but also generate local employment, contributing substantially to socioeconomic development.

Financial Difficulties for MSMEs in Small Schools

Despite their critical role, small schools continue to face challenges in accessing formal credit. Irregular fee collection cycles, a lack of formal financial records, and limited collateral make it difficult for these schools to meet the stringent requirements of traditional banks. Consequently, many rely on informal or high-cost credit sources, limiting their ability to invest in skilled faculty, digital tools, and infrastructure improvements.

India faces a formal MSME credit gap estimated at ₹100 lakh crore. Small school MSMEs are part of this underserved segment, lacking access to flexible and affordable financing options tailored to their specific requirements.

The Reasons School Finance Is a High-Opportunity Sector

1. Increasing Demand for Quality Education: Rising incomes and aspirations, especially in underserved areas, are driving demand for private education where public schools often fall short.
2. Huge Untapped Market: NBFCs have a significant opportunity to provide customized loans to millions of small schools currently excluded from formal credit access.
3. Superior Asset Quality: Education loans issued by NBFCs show high asset quality with 90+ days past due at just 0.2%, compared to 2.0% for private banks (CRISIL Education Loan Report 2024).
4. Government Support: Policies such as Udyam Registration, revised MSME classifications, and credit guarantee schemes (CGTMSE) reduce lending risks and encourage institutional financing.
5. Technology-Enabled Lending: AI-powered underwriting, alternative data sources, and digital platforms facilitate faster and more accurate loan approvals, reducing operational costs and expanding access.
6. Socioeconomic Impact: Financing small school MSMEs improves education quality, enrollment rates, employment, and regional development—aligning with national priorities.

Growth Forecasts and Market Potential

According to the CRISIL Education Loan Report 2024, the demand for higher education and international studies is expected to drive NBFC education loan assets to grow by 40–45% in FY25, surpassing ₹60,000 crore.

- The global MSME financing market is expected to grow at 6.4% CAGR from 2024 to 2030, reaching $5.8 trillion (ResearchAndMarkets MSME Financing Global Report 2025).
- India's MSME loan portfolio rose 17.8% in FY24 to ₹64.1 trillion, with loans to individual entrepreneurs increasing by 28.9% (CRIF Highmark Report).
- Education loans have the lowest GNPA and credit costs among NBFC asset classes.
- Private school growth is particularly pronounced in Andaman & Nicobar Islands (+37.5%), Assam (+2.4%), Haryana (+1.9%), and Gujarat (+1.8%).

Challenges in Funding Small Schools

- Many small schools are governed under structures such as trusts or societies, often perceived as complex or high-risk by traditional lenders.
- Informal financial documentation necessitates specialized underwriting expertise.
- Fee collection cycles require lenders to offer flexible repayment options.
- Societal and regulatory complexities—like fee

caps and governance norms—add another layer of difficulty.

Datatech and Digital Lending's Expanding Role

Datatech-driven NBFCs are using AI models and alternative data sources (e.g., GST returns, digital payment histories) to quickly and accurately assess creditworthiness. Digital platforms further democratize credit access by simplifying documentation, speeding up approvals, and enabling remote monitoring. Fintech–NBFC collaborations are extending affordable school financing to Tier II and Tier III cities beyond metro areas.

Community Impact of School Financing

Access to NBFC funding allows small schools to:

- Upgrade physical infrastructure to ensure safer, better learning environments.
- Adopt hybrid and digital education models that improve engagement and outcomes.
- Expand capacity to accommodate increasing student populations.
- Recruit and retain skilled educators and administrative staff to enhance operations.

These outcomes translate to increased enrollment, improved academic results, and enhanced local employment opportunities, contributing to broader goals of educational equity, financial inclusion, and regional growth.

The Role of NBFCs like UGRO Capital in Bridging the Credit Gap

NBFCs have become pivotal in narrowing the MSME credit gap by offering quicker, more flexible, and tech-enabled lending solutions. Between FY21 and FY24, the NBFCs' MSME loan book expanded at a 32% CAGR. By H1 FY25, MSME loans accounted for 9.1% of their total portfolios. NBFCs dominate the micro–loan against property (LAP) segment with a 45% market share and a 38.6% CAGR in LAP lending from FY20 to FY24—critical for small MSMEs, including schools.

Founded in 2018 by Mr. Shachindra Nath, UGRO Capital Limited is a leading DataTech NBFC specializing in MSME financing with a strong focus on education. Its proprietary AI-powered underwriting platform, GRO Score 3.0, evaluates credit bureau data, banking behavior, and GST filings to make precise credit decisions. This enables UGRO to offer tailored loans with faster approvals and minimal documentation.

As of March 31, 2025, UGRO Capital's Assets Under Management (AUM) stood at ₹12,003 crore. With over 300 branches across 12 states, the company targets underserved MSMEs and emerging markets.

UGRO's Educational Institutes (EDI) Loan provides up to ₹5 crore for working capital, digital classrooms, and infrastructure development—designed specifically to match the seasonal cash flows of schools. In June 2025, UGRO acquired Mumbai-based Profectus Capital, an MSME and school-financing NBFC with an AUM of ₹3,500 crore. The acquisition is expected to expand school lending by ₹2,000 crore, further strengthening UGRO's position in educational MSME financing.