



THE ROLE OF UPI IN ENHANCING FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMES) IN INDIA

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ABSTRACT-----

The rapid growth of digital payment systems has transformed the financial ecosystem of India. Among these innovations, the Unified Payments Interface (UPI), introduced by the National Payments Corporation of India (NPCI) in 2016, has emerged as the most widely used real-time payment platform. UPI has significantly influenced the operations of Small and Medium Enterprises (SMEs) by enabling instant, low-cost, secure, and interoperable digital transactions. This study examines the role of UPI in enhancing the financial performance of SMEs in India. The research explores how UPI contributes to increased sales, improved cash flow management, reduced transaction costs, enhanced customer satisfaction, financial transparency, and business formalization. Secondary data from RBI, NPCI, Ministry of Finance reports, industry publications, and recent scholarly studies have been utilized. The findings indicate that UPI has become a critical driver of digital transformation among SMEs by improving operational efficiency, accelerating payment cycles, and expanding market access. Despite challenges such as cybersecurity risks, digital literacy gaps, and technological dependence, UPI continues to strengthen the financial sustainability and competitiveness of Indian SMEs.

KEYWORDS: UPI, Digital Economy, Financial Inclusion, FinTech-----

1. INTRODUCTION

The Indian economy is witnessing a significant digital transformation driven by technological advancements and government initiatives such as Digital India, Startup India, and financial inclusion programs. Small and Medium Enterprises (SMEs), which contribute approximately 30% to India's GDP, 45% of manufacturing output, and employ more than 110 million people, form the backbone of the Indian economy.

Traditionally, SMEs relied heavily on cash transactions, leading to issues such as:

- Delayed payments
- Revenue leakages
- Poor financial record maintenance
- Limited access to formal credit
- High transaction costs

The introduction of the Unified Payments Interface (UPI) by NPCI revolutionized digital payments by enabling instant bank-to-bank transfers through smartphones. Since its launch, UPI has become the world's largest real-time payment system.

According to NPCI and Ministry of Finance data, UPI processed more than **24,161 crore transactions worth ₹314 lakh crore during FY 2025–26**, demonstrating its unprecedented adoption across businesses and consumers. UPI now accounts for approximately **85% of India's digital payment volume**.

The increasing acceptance of QR-code payments among SMEs, retailers, service providers, and micro-enterprises has transformed business operations. UPI has reduced dependence on cash, improved transaction transparency, and facilitated better financial management.

This study investigates how UPI contributes to the financial performance and growth of SMEs in India.

2. REVIEW OF LITERATURE

Table 1: Review of Literature

Author(s) & Year	Findings
Dev et al. (2024)	Found that UPI significantly increased digital transaction convenience and changed spending behavior among users. The study highlighted the role of UPI in promoting digital financial ecosystems.
Lee (2024)	Examined digital financial platforms and concluded that digital payment systems improve financial inclusion and access to formal financial services.
BCG & NPCI Report (2025)	Reported that UPI enables micro-enterprises and SMEs to reduce transaction friction and improve customer acquisition. UPI facilitates over 20 billion transactions monthly.



RBI Annual Report (2025)	Highlighted that UPI accounted for 83.4% of digital payment volumes in FY25, indicating its dominance in retail payments.
Worldline India Report (2025)	Found merchant payments growing faster than peer-to-peer transactions, indicating increasing business adoption of UPI.
Ministry of Finance Report (2026)	Revealed that UPI crossed ₹314 lakh crore transaction value and significantly improved digital business transactions across India.
Recent Industry Studies (2026)	Indicate that SMEs using UPI experience faster cash flow cycles, better financial documentation, and improved creditworthiness due to digital transaction records.

Research Gap

Most studies focus on digital payment adoption and consumer behavior. Limited research specifically examines the direct relationship between UPI adoption and financial performance indicators such as profitability, liquidity, operational efficiency, and credit access among SMEs.

3. OBJECTIVES OF THE STUDY

1. To understand the concept and growth of UPI in India.
2. To analyze the adoption of UPI among SMEs.
3. To examine the impact of UPI on the financial performance of SMEs.
4. To suggest measures for improving UPI effectiveness among SMEs.

4. RESEARCH DESIGN

Particulars	Description
Research Type	Descriptive and Analytical
Data Source	Secondary Data
Sources	RBI Reports, NPCI Reports, Ministry of Finance Reports, Research Journals, Industry Reports
Period Covered	2022–2026
Methodology	Qualitative and Quantitative Analysis
Analytical Tools	Tables, Trend Analysis, Comparative Analysis

5. SCOPE OF THE STUDY

The study focuses on:

- UPI adoption among Indian SMEs.
- Financial performance indicators influenced by UPI.
- Digital payment transformation in India.
- Impact on business efficiency and profitability.
- Financial inclusion and credit accessibility.

6. LIMITATIONS OF THE STUDY

1. The study is based primarily on secondary data.
2. Financial performance varies across industries.
3. Rapid technological changes may alter future outcomes.
4. Some recent data may not fully capture rural SME adoption.
5. Sector-specific variations are not extensively analyzed.

7. GROWTH OF UPI IN INDIA

Table 2: Growth of UPI Transactions

Year	Transaction Volume (Billion)	Transaction Value
2022	74.0	₹126 Trillion
2023	117.6	₹183 Trillion
2024	172.2	₹246.8 Trillion
2025	228.0+	₹300 Trillion
FY 2025–26	241.6+	₹314 Lakh Crore

Source: NPCI, RBI, Ministry of Finance Reports.

Interpretation

The data demonstrates exponential growth in UPI transactions. The consistent increase in transaction volume and value indicates strong acceptance among consumers and businesses, including SMEs.



8. THE ROLE OF UPI IN ENHANCING FINANCIAL PERFORMANCE OF SMES IN INDIA

8.1 Reduction in Transaction Costs

Traditional payment methods involve:

- POS machine costs
- Bank processing fees
- Cash handling expenses
- Administrative costs

UPI enables:

- Zero or minimal merchant transaction charges.
- Lower operational costs.
- Cost-efficient payment collection.

Example

A small retail store conducting 1,000 transactions monthly can save significant payment processing expenses by shifting from card-based systems to UPI.

8.2 Improved Cash Flow Management

UPI enables:

- Instant settlement
- Real-time payments
- Faster receivables collection

Financial Impact

Before UPI	After UPI
Payment delays	Instant payments
Cash dependency	Digital collections
Delayed working capital	Improved liquidity

Interpretation

Improved cash flow enables SMEs to meet working capital requirements efficiently.

8.3 Increased Sales Revenue

UPI improves customer convenience by:

- Eliminating cash dependency.
- Supporting QR-code payments.
- Facilitating quick checkout experiences.

Research indicates that digital payment acceptance increases purchase frequency and impulse buying.

Example

A grocery store accepting UPI can serve customers who carry no cash, thereby preventing lost sales opportunities.

8.4 Enhanced Financial Transparency

UPI creates automatic transaction records.

Benefits include:

- Better accounting.
- Accurate bookkeeping.
- Reduced tax evasion.
- Improved compliance.

Impact

Digitally recorded transactions create auditable business histories.

8.5 Improved Access to Credit

One major challenge faced by SMEs is obtaining formal loans.

UPI transaction histories help financial institutions evaluate:

- Cash flows.
- Revenue consistency.
- Business stability.

Example

Fintech lenders increasingly use digital transaction data to assess SME creditworthiness.



8.6 Business Formalization

UPI encourages:

- Digital record keeping.
- GST compliance.
- Financial transparency.

As businesses formalize, they become eligible for:

- Government schemes.
- Institutional finance.
- Venture funding.

8.7 Expansion into E-Commerce

UPI facilitates:

- Online payments.
- Social commerce.
- Digital marketplaces.

SMEs can easily integrate UPI into:

- Websites.
- Mobile apps.
- Online stores.

8.8 Increased Customer Satisfaction

Benefits include:

- Faster transactions.
- 24×7 availability.
- Secure payments.
- No need for change.

Customer convenience directly influences repeat purchases.

8.9 Financial Inclusion

UPI has expanded access to digital finance across rural and semi-urban India.

Benefits for SMEs include:

- Broader customer base.
- Greater banking penetration.
- Digital ecosystem participation.

8.10 Data-Driven Decision Making

Digital transaction records enable SMEs to analyze:

- Sales trends.
- Peak business hours.
- Customer behavior.
- Revenue patterns.

This helps in strategic planning and inventory management.

9. IMPACT OF UPI ON KEY FINANCIAL PERFORMANCE INDICATORS

Table 3: UPI and Financial Performance Indicators

Financial Indicator	Impact of UPI
Revenue Growth	Positive
Cash Flow	Significant Improvement
Operating Cost	Reduction
Customer Retention	Improvement
Profitability	Increase
Financial Transparency	High Improvement
Credit Access	Improved
Market Expansion	Enhanced

Interpretation

UPI positively affects multiple dimensions of SME financial performance, contributing to sustainable business growth.



10. CASE EXAMPLES

Case 1: Kirana Stores

Small neighbourhood stores widely adopted QR-based UPI payments.

Benefits:

- Faster collections.
- Reduced cash management.
- Better inventory planning.

Case 2: Food Vendors

Street food vendors increasingly use UPI.

Benefits:

- Increased customer convenience.
- Reduced cash theft.
- Improved transaction records.

Case 3: Service-Based SMEs

Beauty salons, repair shops, consultants, and tuition centres use UPI for instant collections and appointment payments.

Benefits:

- Better receivable management.
- Reduced payment defaults.

11. EMERGING TRENDS RELATED TO UPI AND SMES

UPI Lite

Facilitates low-value transactions without banking delays.

UPI Credit Line

Allows SMEs to access pre-approved credit through UPI infrastructure.

Cross-Border UPI

Expansion into international markets will support SME exports and tourism-related businesses. RBI and government initiatives are actively exploring cross-border payment integration.

AI-Based Financial Analytics

Future integration of UPI transaction data with AI tools can help SMEs forecast revenues and manage finances more effectively.

12. CHALLENGES FACED BY SMES IN UPI ADOPTION

Challenge	Impact
Cybersecurity Risks	Fraud and scams
Digital Literacy Gap	Adoption barriers
Internet Connectivity Issues	Transaction disruptions
Technical Failures	Operational delays
Data Privacy Concerns	Trust issues

Suggested Solutions

- Cybersecurity awareness programs.
- Digital literacy training.
- Stronger fraud protection mechanisms.
- Improved digital infrastructure.

13. CONCLUSION

The Unified Payments Interface has emerged as one of the most transformative innovations in India's financial ecosystem. For SMEs, UPI is more than a payment mechanism; it serves as a catalyst for business growth, operational efficiency, financial inclusion, and digital transformation. Through instant payments, lower transaction costs, enhanced transparency, improved liquidity, and access to formal credit, UPI significantly strengthens the financial performance of SMEs.

The continuous growth of UPI transactions, increasing merchant adoption, and integration with advanced financial technologies indicate that UPI will remain a key enabler of India's digital economy. Policymakers, financial institutions, and technology providers should continue supporting SME adoption through infrastructure development, digital literacy initiatives, and cybersecurity enhancements.



Overall, UPI has substantially improved the financial sustainability, competitiveness, and growth prospects of SMEs in India.

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