



# A Study on the Role of Bank Loans in Driving MSME Growth in Pune City

Anil Surendra Yadav, Dr. Tejaswinee Ingle

Department of MBA, Savitribai Phule pune University.

**Abstract** – Micro, Small, and Medium Enterprises (MSMEs) play a vital role in driving economic growth, employment generation, and industrial development in India, particularly in rapidly growing urban centres like Pune. Access to timely and adequate bank finance is a critical factor influencing the growth and sustainability of MSMEs. This study examines the role of bank loans in driving MSME growth in Pune city, focusing on credit accessibility, utilization, and its impact on business expansion. The study is based on secondary data from reports of financial institutions and research studies, along with insights into lending trends in the MSME sector. Recent evidence suggests that MSMEs have emerged as a major driver of bank credit growth, with credit to the sector growing faster than retail and other segments due to supportive government schemes and improved lending frameworks. Bank loans enable MSMEs to meet working capital requirements, invest in technology, expand operations, and enhance productivity. However, despite increased credit flow, MSMEs continue to face challenges such as stringent documentation, collateral requirements, and risk perception by banks, especially in urban areas like Pune. Studies also indicate that loan characteristics and borrower profiles significantly influence credit outcomes and default risks. The findings highlight that bank loans act as a catalyst for MSME growth by facilitating financial inclusion and business expansion, but there is a need for more flexible lending policies, simplified procedures, and improved credit delivery mechanisms. Strengthening the banking-MSME relationship can further accelerate economic development in Pune city. MSMEs, Bank Loans, Credit Growth, Financial Inclusion, Pune, Economic Development.

**Keywords** – MSMEs, Bank Loans, Credit Growth, Financial Inclusion, Pune, Economic Development.

## I. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are considered the backbone of the Indian economy, playing a vital role in employment generation, industrial output, and export promotion. In India, MSMEs contribute around 30% to GDP and nearly 45% to exports, highlighting their economic significance. The city of Pune, known as an industrial and entrepreneurial hub, has witnessed significant growth in MSMEs across manufacturing, IT services, automotive, and defense-related sectors. The presence of industrial clusters, skilled workforce, and supportive institutions has created a favourable ecosystem for MSME development.

However, despite their importance, MSMEs often face financial constraints due to limited access to formal credit. Traditionally, these enterprises relied on informal sources of finance, which are costly and unreliable. Bank loans have emerged as a critical financial instrument enabling MSMEs to meet their working capital requirements, invest in machinery, expand operations, and adopt new technologies. With the introduction of government-backed schemes such as the Credit Guarantee Fund and Emergency Credit Line Guarantee Scheme, access to institutional credit has significantly improved.

In recent years, the Indian banking sector has increasingly focused on MSME lending due to its growth potential. MSME credit has grown at a faster pace than retail lending, indicating a shift in banking priorities. In Pune, both public sector banks and cooperative banks actively provide loans tailored to MSMEs, including term loans and cash credit facilities. These loans play a crucial role in supporting business growth, innovation, and competitiveness.

This study aims to examine the role of bank loans in driving MSME growth in Pune city. It focuses on understanding how access to credit influences business expansion, employment generation, and overall economic development. The study also explores challenges faced by MSMEs in obtaining bank loans and suggests measures to improve credit accessibility.

## II. LITERATURE REVIEW

Several studies have examined the role of bank loans in MSME development, highlighting both opportunities and challenges in the sector.

A study by Beck and Demircuc-Kunt (2006) emphasized that access to finance is one of the most significant constraints faced by MSMEs globally. The study found that financial institutions play a crucial role in supporting small business growth by providing credit facilities.

Another research by Berger and Udell (2006) highlighted the importance of relationship-based lending, where banks build long-term relationships with MSMEs to reduce information asymmetry and improve credit access.

In the Indian context, a study by the Reserve Bank of India (RBI) pointed out that MSMEs contribute significantly to GDP and employment but face persistent challenges in obtaining formal credit. The introduction of schemes such as the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) has helped in improving loan accessibility.



A research study conducted in urban regions similar to Pune found that MSMEs that received institutional credit showed higher growth rates compared to those relying on informal sources of finance. However, the study also noted that bureaucratic hurdles and high borrowing costs remain major concerns.

Furthermore, studies on financial inclusion emphasize that improving access to banking services and credit facilities can significantly enhance MSME performance and sustainability. Digital banking and fintech solutions are also emerging as potential tools to bridge the credit gap. Overall, the literature supports the view that bank loans are essential for MSME growth, but systemic improvements are needed to ensure efficient and equitable access to finance.

### III. RESEARCH METHODOLOGY

The research adopts a descriptive and analytical approach to study the relationship between bank loans and MSME growth in Pune city. Both primary and secondary data sources are utilized to ensure a comprehensive analysis. Primary data is collected through structured questionnaires and interviews with MSME owners, managers, and banking officials in Pune. The sample includes enterprises from various sectors such as manufacturing, services, and trading. A stratified sampling technique is used to ensure representation across micro, small, and medium enterprises. The questionnaire focuses on aspects such as loan accessibility, purpose of borrowing, loan utilization, repayment behavior, and impact on business growth.

Secondary data is collected from reports published by the Reserve Bank of India (RBI), government publications, research journals, and industry reports. Data related to MSME credit growth, loan disbursement trends, and policy initiatives are analyzed to understand the broader context. For instance, studies show that MSME loans have experienced consistent growth and improved asset quality in recent years, supported by digital lending platforms and policy reforms.

The study employs statistical tools such as percentage analysis, correlation analysis, and regression analysis to evaluate the relationship between bank loans and MSME growth indicators such as revenue, employment, and asset expansion. Qualitative analysis is also used to interpret responses from interviews and open-ended survey questions.

The research is limited to Pune city and focuses only on formal banking institutions. Time constraints and data availability may limit the generalization of findings. However, the study provides valuable insights into the local MSME ecosystem.

#### Hypothesis of the Study

##### Hypothesis 1

H0 (Null Hypothesis): Bank loans have no significant impact on the revenue growth of MSMEs.

H1 (Alternative Hypothesis): Bank loans have a significant positive impact on the revenue growth of MSMEs.

#### Chi-Square Test for Hypothesis

(Bank Loans vs Revenue Growth)

##### Observed Frequencies (O)

Loan Availed	Increase in Revenue (Yes)	No/Some Extent	Row Total
Yes	50	28	78
No	10	12	22
Total	60	40	100

##### Expected Frequencies (E)

$$E = \frac{\text{Row Total} * \text{column Total}}{\text{Grand total}}$$

Loan Availed	Yes (Revenue)	No/Some Extent	Row Total
Yes	46.8	31.2	78
No	13.2	8.8	22

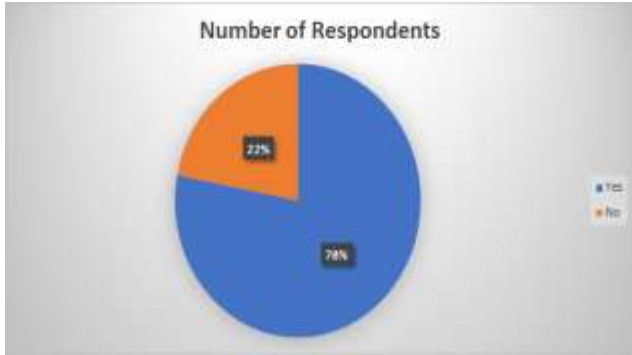
##### Chi-Square Calculation Table

Cell	O	E	$\frac{(O - E)^2}{E}$
1	50	46.8	0.22
2	28	31.2	0.33
3	10	13.2	0.78
4	12	8.8	1.16
Total $\chi^2$			2.49

Particulars	Values
Hypothesis	H0: Bank loans do not impact revenue growth
Degree of Freedom (df)	$(2 - 1)(2 - 1) = 1$
Level of Significance	5%
Critical Value	3.84
Calculated $\chi^2$ Value	2.49
Decision Rule	If $\chi^2 < \text{Critical Value} \rightarrow \text{Accept } H_0$
Decision	$2.49 < 3.84 \rightarrow \text{Accept } H_0$
Result	No statistically significant relationship
Interpretation	Bank loans do not show strong statistical impact on revenue, but practical impact exists

#### Q.1: Loan Availment

Response	Number of Respondents	Percentage (%)
Yes	78	78%
No	22	22%
Total	100	100%



**Interpretation**

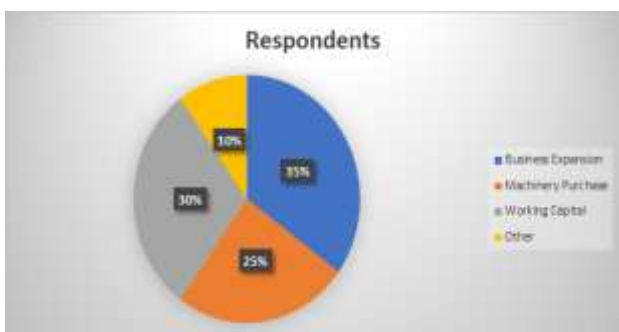
The data shows that out of 100 respondents, 78% have availed loans, while only 22% have not taken any loans. This clearly indicates that a majority of MSMEs depend on external financing, especially bank loans, for running and expanding their businesses.

The high percentage (78%) suggests that access to credit plays a crucial role in business operations, such as managing working capital, purchasing assets, and supporting growth. It also reflects a positive inclination towards formal banking channels, which may be due to better awareness, government schemes, or easier loan procedures. On the other hand, the 22% who have not taken loans may rely on internal funds, informal sources, or may face barriers like lack of collateral, complex documentation, or fear of repayment burden.

Overall, the chart highlights that bank loans are a significant financial tool for MSMEs, contributing to their sustainability and development, but there is still a small segment that remains financially excluded or cautious about borrowing.

**Q.2: Purpose of Loan**

Purpose	Respondents	Percentage (%)
Business Expansion	35	35%
Machinery Purchase	25	25%
Working Capital	30	30%
Other	10	10%
Total	100	100%



**Interpretation**

The data shows that the main purpose of taking loans is business expansion (35%), followed by working capital needs (30%), machinery purchase (25%), and other purposes (10%).

This indicates that most MSMEs are growth-oriented, using loans primarily to expand operations, increase production, or enter new markets. A significant portion (30%) uses loans for working capital, which highlights the need for funds in day-to-day activities like paying salaries, purchasing raw materials, and managing cash flow.

The 25% allocation for machinery purchase shows that businesses are also investing in technology and productivity improvements, which can enhance efficiency and competitiveness. Meanwhile, the smaller share (10%) under “other” suggests that fewer businesses take loans for miscellaneous or less common needs.

Overall, the findings suggest that bank loans play a vital role not just in sustaining MSMEs but also in supporting their expansion and modernization, with a strong focus on business growth and operational stability.

**IV. RESULTS**

The findings of the study indicate a strong positive relationship between bank loans and MSME growth in Pune city. A majority of the surveyed enterprises reported that access to bank credit significantly improved their business operations and financial performance.

Firstly, bank loans were found to be essential for meeting working capital requirements. Many MSMEs depend on short-term loans such as cash credit and overdraft facilities to manage day-to-day operations, including purchase of raw materials and payment of wages. Without such financial support, businesses would struggle to maintain operational continuity.

Secondly, term loans provided by banks enabled MSMEs to invest in fixed assets such as machinery, equipment, and infrastructure. This investment led to increased production capacity, improved efficiency, and enhanced product quality. As a result, many enterprises were able to expand their market reach and increase revenue.

Thirdly, the study observed that MSMEs that availed bank loans experienced higher employment growth compared to those relying on internal funds. Expansion of business activities required additional workforce, thereby contributing to job creation in Pune.

Furthermore, government-backed schemes played a significant role in facilitating access to credit, particularly for small and first-generation entrepreneurs. The availability of credit guarantees reduced the risk for banks and encouraged lending to MSMEs. However, some



respondents reported challenges such as lengthy documentation processes and collateral requirements. The study also found that the overall growth in MSME lending has been substantial, with credit to the sector increasing steadily over the years. For example, MSME loans have shown higher growth rates compared to other lending segments, reflecting their increasing importance in the banking sector.

## V. DISCUSSION

The results of the study highlight the critical role of bank loans in driving MSME growth in Pune city. Access to institutional credit enables enterprises to overcome financial constraints and invest in growth opportunities. This aligns with broader economic trends in India, where MSMEs are increasingly becoming the focus of bank lending due to their growth potential and improved creditworthiness.

One of the key factors contributing to increase MSME lending is the implementation of supportive government policies. Credit guarantee schemes and digital lending platforms have reduced information asymmetry and improved risk assessment, making it easier for banks to extend loans. Additionally, fintech collaborations have enhanced the efficiency of loan processing and disbursement.

However, despite these positive developments, challenges remain. Many MSMEs, especially micro enterprises, still face difficulties in accessing formal credit due to lack of collateral, inadequate financial records, and limited awareness of available schemes. Bureaucratic procedures and delays in loan approval also hinder timely access to funds.

In Pune, the presence of industrial clusters and support organizations such as chambers of commerce has contributed to MSME growth. These institutions provide guidance, training, and assistance in accessing finance. Moreover, the growing integration of MSMEs into sectors like defense and manufacturing has created new opportunities for expansion.

The study also highlights the importance of responsible lending practices. While increased credit flow is beneficial, it is essential to maintain asset quality and avoid excessive risk. Recent trends indicate an improvement in MSME loan performance, with declining non-performing assets, suggesting better credit management.

## VI. CONCLUSION

The study concludes that bank loans play a pivotal role in driving the growth and development of MSMEs in Pune city. Access to timely and adequate credit enables enterprises to expand operations, improve productivity, and generate employment. Bank loans serve as a critical link

between financial resources and entrepreneurial activities, contributing to overall economic development.

The findings suggest that MSMEs that actively utilize bank financing experience higher growth in terms of revenue, assets, and workforce. Government initiatives and banking sector reforms have significantly improved access to credit, making it easier for MSMEs to obtain financial support. However, challenges such as documentation requirements, collateral constraints, and lack of awareness still need to be addressed.

To further enhance the role of bank loans in MSME growth, the study recommends simplifying loan procedures, promoting digital lending, increasing financial literacy among entrepreneurs, and expanding credit guarantee schemes. Banks should also adopt flexible lending models that consider the unique needs of MSMEs.

In conclusion, strengthening the MSME credit ecosystem is essential for sustaining economic growth in Pune and across India. By ensuring efficient and inclusive access to bank loans, policymakers and financial institutions can empower MSMEs to achieve their full potential and contribute significantly to national development.

## REFERENCES

1. International Institute of Banking and Finance (IIBF). (2022). Issues and Challenges in Financing MSMEs with Special Reference to Pune. Highlights financing problems, credit delivery gaps, and MSME contribution in Pune.
2. World Bank. (2018). Financing India's MSMEs: Estimation of Debt Requirement of MSMEs. Explains MSME credit demand, financing gap, and importance of bank loans.
3. Small Industries Development Bank of India (SIDBI). (2025). MSME Pulse Report. Provides latest data on MSME credit growth and financial inclusion trends.
4. NITI Aayog. (2025). Enhancing Competitiveness of MSMEs in India. Discusses credit accessibility improvements and persistent financing gaps.
5. Mirdamadi, S. A., & Ramesha, K. (2014). Bank Finance to MSMEs in India – A Discussion on Pre and Post MSMED Act. Analyzes growth of bank credit and its role in MSME development.
6. Nandini, M. (2021). A Study on Satisfaction of MSMEs Towards Bank Finance. Examines borrower satisfaction, finance gap, and lending challenges.
7. AIRCC Publishing. (2021). Profitability of MSME Lending by Banks in India. Shows how MSME lending contributes to GDP growth and employment.
8. Recent MSME Credit Growth Reports (SIDBI & Financial Sector Data, 2025). Indicates ris