

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

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Abstract - MSMEs play a crucial role in India's economic and industrial development. This study explores the role of bank loans in supporting MSME growth in Pune City. The research is based on a descriptive design and uses primary data collected from 100 MSME owners and managers through a structured questionnaire. The study examines the impact of bank financing on business expansion, sales growth, and employment generation. The findings show that bank loans contribute significantly to MSME growth and business sustainability. However, issues such as complex documentation procedures and high interest rates continue to hinder access to finance. The study highlights the need for simplified loan procedures and better financial support to promote MSME development.

Key Words: MSME, Bank Loans, Economic Growth, Pune City, Financial Inclusion, Credit Access.

1. INTRODUCTION

The MSME sector is a primary driver of industrial output and employment in India, second only to agriculture. In urban centres like Pune, these enterprises thrive due to established industrial clusters and a skilled workforce. Despite their economic importance, MSMEs frequently encounter a "credit gap," where limited capital hinders technology adoption and expansion. Banks serve as the primary formal source of financial assistance through products like working capital and term loans. This research explores the symbiotic link between institutional credit frameworks and the operational viability of MSMEs in Pune.

2. METHODOLOGY

This study adopts a descriptive research design to examine the role of bank loans in driving MSME growth in Pune City. Primary data was collected from 100 MSME owners and managers through a structured

questionnaire using convenience sampling. Secondary data was gathered from journals, research papers, bank reports, and government sources.

The study analyzes loan accessibility, borrowing challenges, and the impact of bank loans on business growth, sales, profitability, and employment. Data was analyzed using percentage analysis, charts, and chi-square testing to evaluate the relationship between bank loans and MSME growth.

3. RESULTS & DISCUSSION

3.1 Profile and Loan Utilisation

The sample was dominated by microenterprises (50%) and the Service sector (40%). A high loan penetration was observed, with 80% of respondents having availed of bank credit. The primary drivers for borrowing were business expansion (35%) and working capital requirements (30%).

3.2 Impact on Performance

Data analysis shows a clear improvement in business metrics following loan disbursement:

- **Sales Increase:** Reported by 35% of respondents.
- **Profitability:** 30% noted a rise in profits.
- **Employment:** 20% of businesses were able to create new jobs.

3.3 Challenges and Hypothesis Testing

The most significant hurdles identified were lengthy documentation (34%) and high interest rates (29%). Chi-Square testing resulted in the rejection of the null hypotheses, confirming that:

1. There is a **significant relationship** between bank loans and MSME growth ($\chi^2 = 40 > 7.815$).

2. Loan accessibility significantly affects performance ($\chi^2 = 36 > 3.84$)

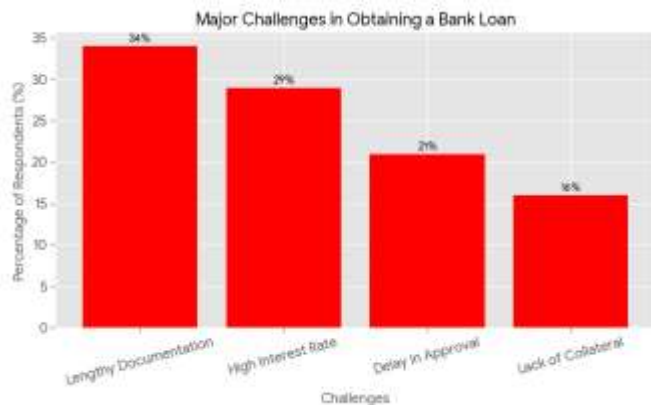


Fig -1: Figure

4. CONCLUSIONS

The study concludes that bank loans are an indispensable catalyst for the modernisation and expansion of MSMEs in Pune City. While the positive impact on sales and profitability is evident, the effectiveness of these financial tools is often dampened by procedural complexities and high borrowing costs. To foster a more robust MSME ecosystem, it is recommended that financial institutions implement digital, paperless documentation processes and offer subsidised interest rates under government-backed schemes. Enhancing financial awareness regarding credit ratings and diverse financing options will further bridge the gap between small enterprises and formal banking channels.

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