



MICRO SMALL MEDIUM ENTERPRISES (MSME) BANK LOAN: AN OVERVIEW

Dr. S. DHIVYA BHARATHI, MBA, Ph.D., Assistant Professor, Sathyabama Institute of Science and Technology, Chennai.

Dr. K. SEETHAL, M.com, Ph.D., Assistant Professor, Sathyabama Institute of Science and Technology, Chennai.

Ms. G. NIKKATH FATHIMA, M.com., Assistant Professor, Sathyabama Institute of Science and Technology, Chennai.

ABSTRACT

MSME sector has suddenly witnessed a boom in its expansion. Now, it has become the first choice of the common man of India. In the times of unpredictability, these enterprises are working as the support stick for the faltering state of the Indian economy. Today, it is contributing approximately 30 percent to the GDP because it has become straightforward to operate an MSME in terms of legal paperwork, risk, and especially funding. Arrangement of funds has become much easier as several banks are providing business loans at a cheaper interest rate. Moreover, numerous government schemes have been launched to help budding enterprises. However, this is not the full picture; there is the other side to this cheap funding as well. There are concepts that are also associated with the loans provided to such businesses or industries. These concepts are raising a question as to the usefulness of the loans provided by different organizations. To conclude, this paper is an attempt to understand the overview of MSME bank loans and to evaluate both sides and then decide whether the loans should be granted or not in the current scenario.

Keywords: Bank Loans, MSME, Business, Schemes, Enterprises.

INTRODUCTION

An MSME loan is a type of business loan that is provided to micro, small, and medium enterprises for starting a business establishment, expanding business, or meeting other business expenses. MSME loans are unsecured in nature and availing them is often a hassle-free process. However, you must meet specific eligibility criteria in order to avail of this type of loan. MSME loans are defined by the Government of India and RBI as “loans for business enterprises for support in terms of finance, infrastructure, and other areas.” Financial institutions offer these loans under several government schemes like Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). This was set up by the Government of India, Ministry of MSME and SIDBI with a view to facilitating the flow of credit to the MSME sector without the need for collaterals. Under this scheme the lender should:

- Give importance to project viability, and
- Secure the credit purely on the primary security of the assets financed.

If an MSME unit fails to repay the loan, then the Credit Guarantee Scheme (CGS) would make good the loss incurred by the lender up to 85% of the outstanding amount in default. Businesses must



meet specific eligibility criteria mentioned under the schemes to enjoy the benefits extended by an MSME loan. India has established itself as an emerging market in the world attracting investors from various countries. India owes a huge part of this growth to the micro, small and medium enterprises (MSMEs) sector. The MSME sector contributes over 40% of the total GDP and remains a critical source of employment. MSMEs are the backbone of the economic development in India. These enterprises contribute significantly to the growth of the nation via innovation. The Government of India has classified MSMEs into two types: Manufacturing enterprise and Service enterprise. This is how they are classified:

	Micro enterprise	Small enterprise	Medium enterprise
Manufacturing Enterprises	Less than Rs. 25 lakhs	Rs. 25 lakhs to Rs. 5 crores	Rs. 5 crores to Rs. 10 crores
Service Enterprises	Less than Rs. 10 lakhs	Rs. 10 lakhs to Rs. 2 crores	Rs. 2 crores Rs. 5 crores

There is a reason why MSME loans are so popular among small businesses in India.

MSMEs, or Micro, Small, and Medium Enterprises, contribute about 29% of the country's GDP in India. These small to medium scale enterprises often require financial aid to continue their business operations. This is where an MSME loan can prove to be quite helpful. With advancements in technology, digital MSME loans now make it even more easy for business owners to borrow capital. Plus, there are a lot of benefits of procuring a digital MSME loan.

MSME BUSINESS LOAN

The MSME loan scheme helps individuals, small to medium business owners, and start-ups to avail of finance that can help to support their business operations. MSME loans are usually an unsecured type of debt and, therefore, one of the best ways to expand your business with improved cash flow. The funds can be used for various purposes such as expansion of business operations, fixing cash flow problems or for the purchase of new production machinery.

The tenure of these MSME loans is usually around 12 months; however, it can vary depending on the lender's annual review. Most lenders usually offer an MSME loan amount between Rs 10 lakh and Rs 5 crore. The maximum loan amount that you can avail of through the MSME loan depends on your creditworthiness, financial stability, business size, and repayment capability. Furthermore, only businesses that fulfil the following MSME loan eligibility criteria can procure this loan:

- **Micro enterprises:** Micro enterprises are those businesses that have a maximum investment threshold of Rs 1 crore and a maximum turnover of Rs 5 crore.
- **Small enterprises:** small enterprises have a maximum investment threshold of Rs 10 crore and a maximum turnover of Rs 50 crore.



- **Medium enterprises:** These businesses have a maximum investment threshold of Rs 50 crore and a maximum turnover of Rs 250 crore.

BENEFITS OF MSME LOAN

- MSME loans are for the most part collateral-free
- Quick online approval and disbursal of the loan amount
- An extended tenure that ranges from 12 months to 60 months
- Reduced interest rates
- Nominal documents for MSME loan application
- Manage your loan easily from the net banking website of your financial provider
- Pre-approved offers

FEATURES OF AN MSME LOAN

Accessibility

Availing start-up capital, capital for sustaining an already established business, or funds for expansion can be one of the most challenging things you can do while running a business. An MSME loan is easy to avail and the whole process is hassle-free. Documentation is minimal, and the loan amount is disbursed quickly. This can come in handy when you are in urgent need of funds.

Reduced Interest Rates

Every penny saved is a penny earned. No one wants to spend a fortune in paying exorbitant amounts of interest. MSME loans come with reduced interest rates, which makes it a popular financial product.

Collateral-free loans

MSME loans are collateral-free, meaning you don't need to pledge security in order to avail it. MSME loans are designed to help small businesses and boost their productivity, hence they do not require collateral from companies to be eligible for it. This makes MSME loans an ideal source of funds.

Flexibility

MSME loans are mostly used for short-term requirements by businesses. It is flexible, as there is no long-term commitment. Having a short-term commitment means you can manage the cash flow efficiently and allocate available resources accordingly. Since MSME loans are designed to meet the short-term requirements of small businesses when there might be a dire need, it is an excellent source of funds for entrepreneurs who want to avoid liquidation of control under such circumstances. This allows them to take full charge of their own business.

DIGITAL SMALL BUSINESS LOANS

Previously, one would have to physically visit the lender's office to procure an MSME loan. However, with the increasing adoption of technology by the banking sector, many lenders have



digitised this process of borrowing for their customers. As a result, you can now apply for an MSME loan from the comfort of your home. There are many benefits of applying for a digital business loan online. Some of them are:

Reduced turnaround time

Turnaround time is the period between the loan application and its sanction. During the initial stages of the loan application process, the lender has to collect and verify your information. This can take a lot of time in a paper-based loan application process. The turnaround time can be further delayed if you bring the wrong set of papers to the lender's office. However, with the help of a digital MSME loan, you do not have to worry about submitting the wrong set of documents, as all the required information is made available to you on one portal. Furthermore, the digital loan application makes it easy for the lender to go through the information you have submitted and automates many internal processes. As a business owner, every minute counts. The time you save in lengthy loan application processes can be put to use elsewhere.

Convenient loan application process

One of the major digital MSME loan benefits is that you are not required to physically visit the lender's office to start your loan application process. All you need to apply for a digital business loan is your phone and a stable internet connection. The online application process is quite easy and can be completed in just a few clicks. Furthermore, contrary to the paper-based loan application process, you can apply for a digital MSME loan from anywhere and at any time that is desirable for you. Prominent loan providers like the Bank of Baroda offer an intuitively designed website that is equipped with all the information that you may need to get started with your digital MSME loan application process.

No need to frequently visit the lender's office

In a paper-based loan application process, you may need to visit the lender's office to submit the required documents, correct any documentation errors, or complete your KYC. However, in an online MSME loan application process, you can submit the documents and complete your KYC directly on the lender's website. Additionally, many internal processes that the lender follows are automated, like the verification of the information submitted by you. Consequently, this reduces the number of times you need to meet the lender physically and saves you a lot of effort.

Paperless loan application process

Procuring any loan requires you to submit many different documents to the lender. However, one of the major benefits of digital loans is that you can complete the entire application process without going through a tedious paperwork process. This is because, in a digital loan application process, you can submit all the required documents to the lender through their offered website. This removes the need for you to maintain a complicated paper trail and makes the loan application process quite easy and swift. Alternatively, if you do not have soft copies of the required documents, you can simply scan the papers and upload the same on the lender's website in pdf format or the jpeg format. Furthermore, to avoid any unwanted hiccups in the application process, ensure that the documents you upload are clear and can be easily read by the lender.

Relatively lower interest rates

The Indian MSME sector is a major contributor to the country's economy. Hence, the government has taken several steps to further develop the MSME sector in India. MSME loans are one of the most affordable start-up business loans that are available in the market today. Many reputed lenders like the Bank of Baroda charge low interest rates on MSME loans. This significantly reduces your cost of procuring the debt. Lenders usually charge an interest rate between 7% and 12% on MSME loans. As a result, MSME loans are one of the cheapest forms of debt that are available in the market today for business owners.

Unsecured form of debt

Unlike most business loans, MSME loans are an unsecured form of debt. This means that you do not need to provide collateral to the lender to receive credit. Due to this, MSME loans are one of the most accessible business loans in India. However, many lenders provide secured MSME loans as well if that is the type you seek. So, you can offer collateral to possibly reduce the cost of procuring the loan. The right type of MSME loan for you depends on the terms and conditions of the lender and your ability to repay the debt.

CONCLUSION



After having a thorough evaluation of the advantages and disadvantages, it can be seen that the advantages weigh more than the disadvantages. Easy procurement of funds is more important than the procurement of a partial amount. Similarly, a low-interest rate is more advantageous than the piling of interest. Here, what can be noticed is that most of the disadvantages are about lack of planning. Interest accumulation and detailed documentation can be eradicated with the means of proper planning and discipline by planning for each instalment in advance.

A high credit score can be maintained with the help of adequate consultation with the personal finance expert. This will not be useful for not only availing of loans but also increase the trust of the other business parties as well. Therefore, we can conclude that the loans may not be the best option but an optimum choice for small business owners. As nothing comes for free, the cons mentioned above must be considered just like the cost for which one needs to take certain precautions

REFERENCES

- Ambrose, J. 2012. Venture Capital (VC): The All Important MSMEs Financing Strategy under Neglect in Kenya. International Journal of Business and Social Science. 3(21). pp. 234–240.



- Asian Development Bank. 2014. ADB–OECD Study on Enhancing Financial Accessibility for MSMEs: Lessons from Recent Crises. Manila.
- Banerjee, A. A. 2006. Capital Market Access to SMEs in India. Paper presented at the 10th Indian Institute of Capital Markets (IICM) Conference, 18–19 December, Mumbai, India.
- Biswas, A. 2014. Financing Constraints for MSME Sector. *International Journal of Interdisciplinary and Multidisciplinary Studies*. 1(5). pp. 60–68.
- Government of India. 2015a. MSME at a Glance. Ministry of Micro, Small and Medium Enterprises. New Delhi.
- Grant Thornton India and FICCI. 2011. Vision 2020: Implications for MSMEs. New Delhi.
- International Finance Corporation. 2012. Micro, Small and Medium Enterprise Finance in India. New Delhi.
- Irwin, D., and J. M. Scott. 2010. Barriers Faced by SMEs in Raising Bank Finance. *International Journal of Entrepreneurial Behavior and Research*. 16(3). pp. 245–259.
- Lahiri, R. 2012. Problems and Prospects for Micro, Small and Medium Enterprises (MSMEs) in India in the Era of Globalization. Paper presented at the International Conference on the Interplay of Economics, Politics, and Society for Inclusive Growth, 15–16 October, Thimphu, Bhutan.
- Mallick, S. K., A. Sarkar, K. Roy, T. Duttachaudhuri, and A. Chakrabarti. 2010. Dynamics of Emerging India's Banking Sector Assets: A Simple Model. *Journal of Asset Management*. 11(1). pp. 62–70.
- Prasad, C. S. 2006. Micro, Small and Medium Enterprises Financing in India—Issues and Concerns. *CAB Calling*. July–Sept, 35–40.
- Reserve Bank of India. 2005. Policy Package for Stepping Up Credit to Small and Medium Enterprises. Mumbai.
- Reynolds, P. D., and R. T. Curtin. 2009. New Firm Creation in the United States: Initial Explorations II Data Set. *International Studies in Entrepreneurship*. 23. pp. 2–5.
- Dr. D. Yamuna, Dr. S. Krishnakumari, Dr. S. Dhivya Bharathi, (2023). An Empirical Study on Fundamental Analysis of Pharmaceutical Sector in India. *International Journal For Innovative Research In Multi - Disciplinary Field*, ISSN 0455-0620, Vol: 9, Issue 2, (227-230).
- Dr. D. Yamuna, Dr. S. Krishnakumari (2023), Reforms In Commerce Education Challenges And Opportunities. *Industrial Engineering Journal*, ISSN 0970-2555, Vol: 52, Issue 4, (1406-1412).