

Reassessing Business Loan Practices and Growth Outcomes among Small Enterprises: Evidence from Private Commercial Banks in Urban Tamil Nadu

A.Usha Lakshmi¹, Dr.K.Selvavinayagam²
^{1,2}Periyar University

Abstract- Small enterprises remain central to urban economic development in Tamil Nadu, yet their growth is often constrained by limited access to appropriate financial support. This study investigates the range of business loans offered by leading private commercial banks and evaluates how lending practices, approval criteria, and loan sizes influence the performance of small enterprises. Using a mixed-methods approach, data was collected from 100 small business owners and 10 bank managers across Chennai, Coimbatore, Madurai, and Trichy. Quantitative data captured loan amounts, repayment experiences, and growth outcomes, while qualitative interviews explored approval processes and borrower challenges. Results show that term loans and working capital loans constitute the most widely offered products, with collateral, creditworthiness, and business plans forming the dominant approval criteria. Regression and correlation analyses indicate that stricter approval mechanisms are linked to lower default rates, while higher loan amounts demonstrate a positive—though context-dependent—impact on business expansion. Insufficient collateral, documentation delays, and weak financial records continue to hinder loan accessibility for many enterprises. The study recommends simplifying loan procedures, providing tailored financial products, and strengthening financial literacy initiatives to support sustainable small business growth.

Key Words: *Small Enterprises; Business Loans; Private Commercial Banks; Loan Approval Criteria; Repayment Experiences; Financial Accessibility and SME Growth.*

I. INTRODUCTION

Small enterprises form the backbone of economic development in emerging markets, contributing significantly to employment, regional growth, and innovation. In Tamil Nadu's urban centres—Chennai, Coimbatore, Madurai, and Trichy—these enterprises

operate in diverse sectors including retail, manufacturing, services, and agriculture-linked activities. Despite their importance, many small enterprises struggle to secure adequate financing necessary for business expansion, modernisation, and operational stability.

Private commercial banks play a crucial role in supporting small enterprise financing by offering structured loan products. However, access to these loans is shaped by factors such as collateral availability, loan approval criteria, interest rates, and stringent documentation requirements. Previous studies highlight that loan accessibility is influenced by banks' risk assessment models, borrowers' financial literacy, and the broader regulatory environment. The study's objectives include identifying loan types, approval criteria, loan impact on growth, repayment experiences, and challenges, along with providing recommendations.

The study's objectives include:

1. Identifying the types of business loans offered by private commercial banks.
2. Examining approval criteria and lending practices.
3. Offering recommendations for strengthening small enterprise financing.

II. REVIEW OF LITERATURE

The review of literature provides a comprehensive understanding of the theoretical foundations and practical insights surrounding small enterprise financing, loan accessibility, and banking behaviour. Several scholars emphasize that financial literacy is a decisive factor influencing entrepreneurs' ability to

navigate formal banking systems. According to Al-Awlaqi and Aamer, financially aware business owners are more capable of understanding loan terms, preparing accurate documents, and improving creditworthiness. Similarly, access to sustainable and green lending is increasingly relevant, as noted by Al-Qudah et al., who highlight the role of environmentally focused credit systems in shaping lending practices. Bank lending behaviour is also extensively discussed in academic studies, with Bhat et al. explaining that private banks often exercise caution due to high default risks associated with small businesses. Technology-driven financial inclusion is another growing theme, with Bouteraa et al. arguing that digital tools have the potential to streamline documentation processes and reduce information asymmetry. Policy frameworks such as government-backed guarantee schemes further shape SMEs' access to credit by reducing lender risk. Collectively, the literature reveals a strong need for an integrated approach combining flexible loan structures, enhanced financial literacy, and technology-driven processes.

Loan Accessibility and Financial Literacy

Loan accessibility is often determined by borrowers' financial knowledge and the ability to navigate complex documentation (Al-Awlaqi & Aamer, 2022). SMEs with strong financial records and credit histories have better access to formal loans.

Sustainable and Green Lending Practices

Green lending has emerged as a strategy that aligns financial support with environmental performance (Al-Qudah et al., 2023). Sustainability-linked loans (Auzepy et al., 2023) incentivise borrowers to meet ESG standards while accessing favourable loan terms.

Bank Lending Behaviour

Studies show that private banks remain cautious in lending to SMEs due to the high risk of loan defaults (Bhat et al., 2020; Ogunmokun et al., 2024). Approval criteria such as collateral, business plans, credit scores, and turnover remain significant.

Technology and Financial Inclusion

Technological innovation in banking enhances access to financial services (Bouteraa et al., 2023). SMEs adopting digital tools experience easier loan monitoring and reduced documentation delays.

Policy-Level Support for SMEs

Government support programs, loan guarantees, and subsidies (Crawford et al., 2024) help reduce lending risks and improve SMEs' access to loans.

The literature thus emphasises the need for a balanced approach combining flexible financing models, technological adoption, and financial education for SMEs.

III. METHODS AND MATERIALS

The study employed a mixed-methods research design to obtain a holistic understanding of loan practices and their impact on small enterprises in urban Tamil Nadu. A descriptive research approach was chosen to examine the types of business loans, approval criteria, and repayment experiences of entrepreneurs. The study population consisted of small business owners and bank managers from Chennai, Coimbatore, Madurai, and Trichy. Quantitative data were collected using structured questionnaires administered to 100 small business owners. These questionnaires included Likert-scale questions capturing perceptions about loan accessibility, approval ease, repayment challenges, and satisfaction with loan terms. Qualitative methods included in-depth interviews and Focus Group Discussions (FGDs) with selected business owners and 10 bank managers. Interviews explored challenges in accessing loans, documentation difficulties, and perceptions of bank policies. FGDs provided deeper insights into shared borrower experiences. Data triangulation validated findings by comparing quantitative and qualitative insights. Statistical tools supported quantitative interpretation, while thematic analysis uncovered recurring qualitative issues. This blended methodology ensured a comprehensive and reliable assessment of lending dynamics.

Study Area

Research was conducted across Chennai, Coimbatore, Madurai, and Trichy—cities selected for their economic diversity and strong SME presence.

Research Design

A descriptive research design was adopted to analyse loan products, approval criteria, borrower experiences, and business growth outcomes.

Qualitative Methods

In-depth interviews were conducted with small business owners and bank managers. Focus Group Discussions (FGDs) provided insights into shared challenges regarding loan access.

scales captured perceptions of loan impact, satisfaction, and repayment experiences.

Mixed-Methods Integration

Findings from both qualitative and quantitative data were synthesised to present a comprehensive understanding of lending dynamics.

Quantitative Methods

Structured questionnaires were administered to 100 small business owners and 10 bank managers. Likert

Data Tables for SME Loan Study

Table 1: Summary of Loan Characteristics and Business Outcomes

Variable	Categories / Units	Frequency / Mean	Percentage / SD
Type of Loan Availed	Term Loan	48	48%
	Working Capital Loan	37	37%
	Machinery Loan	10	10%
	Other Loans	5	5%
Average Loan Amount (₹ Lakhs)	Mean	8.6	SD = 4.1
Approval Time	Less than 15 days	22	22%
	15–30 days	46	46%
	More than 30 days	32	32%
Key Approval Criteria	Collateral Adequacy	72	72%
	Credit Score	68	68%
	Business Plan Strength	56	56%
Repayment Status	Regular Repayment	71	71%
	Occasional Delay	19	19%
	Chronic Delay / Default	10	10%

Source: Primary Data

Table 2: Correlation Between Loan Variables and Business Growth Outcomes

Variables	Revenue Growth (r)	Employment Growth (r)	p-Value
Loan Amount	0.62	0.54	< 0.01
Approval Strictness	-0.41	-0.33	< 0.05
Repayment Regularity	0.47	0.39	< 0.01
Financial Record Quality	0.59	0.51	< 0.01

Source: Primary Data

Table 3: Loan Accessibility Barriers Reported by SMEs

Barrier	Number of SMEs	Percentage
Insufficient Collateral	64	64%
Documentation Delays	52	52%
High Interest Rates	46	46%
Lack of Credit History	40	40%
Limited Banking Support	28	28%

Source: Primary Data

Table 4: Bank Manager Perspectives on SME Lending (N = 10)

Aspect	Observation	Details
Preferred Loan Type	Working Capital Loans	Chosen by 7/10 managers
Main Risk Factor	Collateral Issues	Reported by 9/10 managers
Default Rate	6.8%	Lower for secured loans (3.1%)
Most Common Rejection Reason	Poor Documentation	8/10 managers agreed
Key Recommendation	Financial Literacy Support	Supported by all managers

Source: Primary Data

IV. RESULTS AND DISCUSSION

Findings reveal that private commercial banks in Tamil Nadu offer a variety of loan products designed to support small enterprises, with term loans and working capital loans being the most frequently accessed. Borrowers expressed that these loans significantly contributed to business expansion, inventory procurement, and operational continuity. Despite these benefits, the study uncovered consistent challenges such as insufficient collateral, inconsistent financial records, and lengthy documentation processes. Interviews highlighted limited financial literacy as a key factor hindering borrowers' ability to meet banking requirements. Bank perspectives emphasized the importance of credit history, turnover, and business plans in risk mitigation. Additionally, microfinance loans—though more accessible—were reported to impose heavier repayment burdens due to shorter repayment cycles. Synthesizing qualitative and quantitative findings showed that stricter approval criteria reduce loan defaults but create barriers for new or informal businesses. The discussion underscores the importance of balanced loan policies that maintain financial discipline while promoting accessibility.

Loan Products Offered

All surveyed banks provided term loans and working capital loans. Overdrafts (80%) and microfinance loans (60%) were available to niche sectors.

Loan Approval Criteria

Collateral and credit history were mandatory across all banks. Business plans, turnover, and previous loan records were significant secondary criteria.

Challenges Faced by Borrowers

Borrowers faced obstacles such as:

- Insufficient collateral (40%)
- Unorganised financial data (33%)
- High-risk business profile (27%)
- Documentation delays

Loan Impact on Business Growth

Loans significantly enhanced business expansion, working capital stability, employment generation, and productivity. Term loans and working capital loans had a greater

Inferential Statistics

The inferential statistical analysis in this study provides deeper insights into how loan structures and approval mechanisms influence the growth trajectories of small enterprises in urban Tamil Nadu. Using correlation and regression models, the study examined the relationships between loan size, repayment behaviour, approval criteria, and business performance indicators such as revenue growth, asset expansion, and employment generation. The correlation analysis revealed a moderate positive relationship between loan amount and enterprise growth, suggesting that higher capital infusion generally supports expansion—though the strength of this impact varies depending on sector, managerial capacity, and market stability. Regression models further demonstrated that stringent approval criteria—particularly related to collateral adequacy and credit score validation—significantly reduce default rates. However, these mechanisms also restrict access for financially weaker but potentially viable enterprises. The analysis also found that repayment challenges were more common among businesses receiving smaller working capital loans compared to those with structured term loans. Overall, the inferential results emphasize the dual role of bank policies: while safeguarding financial institutions, they also shape the growth opportunities available to small enterprises.

V. RECOMMENDATIONS

Based on the findings, several strategic recommendations are proposed to strengthen business loan practices and enhance the growth prospects of small enterprises in urban Tamil Nadu. First, banks should consider simplifying documentation and collateral requirements, especially for micro and first-generation entrepreneurs who may possess limited formal financial records. Introducing graded loan products with flexible eligibility norms can support enterprises at different stages of maturity. Second, banks may adopt alternative credit assessment tools, such as cash-flow-based evaluations and digital transaction histories, to complement traditional collateral-based assessments. Strengthening partnerships with business development centres and industry associations can enable banks to provide targeted financial literacy and advisory services, helping entrepreneurs manage capital effectively.

Further, incorporating periodic monitoring and post-loan support can reduce repayment defaults while fostering long-term banking relationships. Policymakers should also incentivize private banks to expand their SME loan portfolios through credit guarantees and risk-sharing schemes. Collectively, these recommendations aim to balance financial prudence with inclusive lending practices that promote sustainable enterprise growth.

VI. CONCLUSION

This study concludes that private commercial banks play a crucial role in shaping the financial accessibility and growth outcomes of small enterprises across urban regions of Tamil Nadu. While a variety of loan products—mainly term loans and working capital loans—are available, the effectiveness of these facilities depends heavily on approval criteria and procedural efficiency. The findings clearly reveal that stringent lending practices contribute to lower default rates; however, they also limit access for many promising small businesses facing collateral shortages or documentation barriers. The positive association between higher loan amounts and enterprise growth underscores the importance of adequate financing for business expansion. At the same time, borrower interviews highlight persistent challenges such as delays, rigid procedures, and limited financial awareness. To foster an enabling ecosystem, banks must adopt more inclusive credit assessment approaches, while entrepreneurs require improved financial literacy and support systems. Ultimately, enhancing loan accessibility and tailoring financial products to enterprise needs can significantly contribute to sustainable small business development in Tamil Nadu.

REFERENCES

- [1] Beck, T., Demirgüç-Kunt, A., & Maksimovic, V. (2005). *Financial and legal constraints to firm growth*. *Journal of Finance*, 60(1), 137–177.
- [2] Berger, A. N., & Udell, G. F. (2006). *A more complete conceptual framework for SME finance*. *Journal of Banking & Finance*, 30(11), 2945–2966.
- [3] Reserve Bank of India (RBI). (2020). *Report of the Committee on MSMEs*. RBI Publications.
- [4] OECD. (2019). *Financing SMEs and Entrepreneurs: An OECD Scoreboard*. OECD Publishing.
- [5] World Bank. (2020). *Doing Business Report: Getting Credit Indicator*. World Bank Group.
- [6] Tamil Nadu Industrial Investment Corporation (TIIC). (2021). *Annual Report*. Government of Tamil Nadu.
- [7] International Finance Corporation (IFC). (2017). *MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small & Medium Enterprises*. IFC.
- [8] Nair, T. S., & Das, L. (2019). *Financing small enterprises in India: The role of banks and SHGs*. *Economic and Political Weekly*, 54(12), 45–53.
- [9] Ghosh, S. (2013). *Banking-sector reforms and constraints to SME financing in India*. *Journal of Asian Economics*, 24, 5–26.
- [10] Subramanian, S. (2018). *Challenges of MSME financing in Tamil Nadu: A bank-level analysis*. *Indian Journal of Finance*, 12(4), 31–42.
- [11] Kamath, R. (2008). *Loan evaluation practices in Indian banks*. *Vikalpa*, 33(3), 13–26.
- [12] Sahu, A. K., & Maharana, R. K. (2019). *Financial inclusion and SME credit accessibility*. *Journal of Small Business Management*, 57(2), 547–563.
- [13] Kumar, S., & Rao, P. (2015). *Drivers of SME growth in India: A financial perspective*. *Journal of Entrepreneurship and Innovation in Emerging Economies*, 1(2), 123–138.
- [14] Gupta, P. K. (2016). *Working capital financing: A study among small enterprises*. *International Journal of Economics and Management*, 10(1), 55–68.
- [15] Mazzarol, T., & Reboud, S. (2020). *Small Business Management and Entrepreneurship*. Springer.
- [16] Shrivastava, P., & Jaiswal, A. (2017). *Collateral and credit constraints faced by MSMEs in India*. *South Asian Journal of Business Studies*, 6(3), 321–341.
- [17] Prasad, C. S., & Kant, R. (2013). *Entrepreneurial finance and SME development in India*. *Journal of Entrepreneurship*, 22(2), 213–232.
- [18] Ministry of MSME, Government of India. (2021). *MSME Annual Report*.
- [19] Chakrabarty, K. C. (2011). *Financial inclusion and the role of banks*. *RBI Bulletin*, 65(3), 243–256.

- [20] Sinha, D., & Dube, S. (2019). *Determinants of loan defaults among MSMEs in India*. Journal of Credit Risk, 15(4), 1–24.
- [21] Ranjani, K. (2012). *Credit accessibility issues among micro-enterprises in South India*. Journal of Development Studies, 48(7), 1012–1027.
- [22] Latha, K., & Shanthi, R. (2018). *Impact of bank loan products on SME growth in Tamil Nadu*. International Journal of Commerce and Management Research, 4(5), 95–100.
- [23] Ayyagari, M., Beck, T., & Demirgüç-Kunt, A. (2007). *Small and medium enterprises across the globe*. Small Business Economics, 29(4), 415–434.
- [24] Hussain, J., Millman, C., & Matlay, H. (2006). *SME financing in emerging economies*. International Journal of Entrepreneurial Behaviour & Research, 12(2), 92–113.
- [25] Raj, R., & Rathinam, F. (2018). *Loan approval behaviour of private banks in India: A study of SME lending*. Journal of Indian Business Research, 10(3), 256–273.