



Study on Challenges Faced by Micro, Small, and Medium Enterprises in Creditworthiness with Reference to Coimbatore

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Abstract - The MSME sector in Coimbatore, a global manufacturing hub, faces a systemic credit accessibility crisis despite high liquidity and ambitious lending targets. This study investigates the transition from traditional asset-backed lending to modern cash-flow-based underwriting. It identifies four critical dimensions of creditworthiness: information asymmetry, the collateral conundrum, revenue volatility due to order migration, and the "survival credit" trap. Utilizing a Triangulated Risk Assessment Model (T-RAM), the research analyzes how digital footprints, cluster-specific risks, and policy moderators influence credit access in the 2025-2026 industrial landscape. Findings suggest that digital formalization is no longer optional but a prerequisite for competitive interest rates.

Keywords: MSME, Creditworthiness, Coimbatore, Digital Hygiene, AI Underwriting, Cash-Flow Lending.

Introduction

The Micro, Small, and Medium Enterprises (MSME) sector serves as the backbone of the Indian economy, contributing significantly to industrial production, exports, and employment generation. In a manufacturing-intensive region like Coimbatore, often referred to as the "Manchester of South India," MSMEs play a pivotal role in the global supply chain, particularly in the pump, motor, and textile machinery sectors. Despite their economic importance, these enterprises consistently encounter systemic barriers in accessing formal credit, which restricts their ability to scale and modernize. Creditworthiness the perceived ability of a borrower to repay a debt—remains the primary gatekeeper for MSME financing. Traditional credit appraisal models often rely heavily on historical financial statements and tangible collateral. However, many MSMEs in Coimbatore operate within informal frameworks or face volatile cash flows, making them appear "high-risk" under conventional banking metrics. This study examines the multifaceted challenges faced by Coimbatore-based MSMEs in establishing and maintaining creditworthiness. By analyzing the shift from asset-backed lending to modern cash-flow-based underwriting, this research

investigates how information asymmetry and documentation gaps contribute to financial exclusion. Furthermore, the study explores the impact of recent economic shifts and the increasing role of digital footprints in shaping the credit landscape for small-scale industrialists in the 2025-2026 period. The objective of this research is to identify specific pain points in the credit application process and propose a framework that bridges the gap between institutional lending requirements and the operational realities of MSMEs.

Statement of problem

The MSME sector in Coimbatore, despite being a primary driver of industrial growth and regional employment, continues to struggle with a significant credit gap that threatens its long-term viability. While financial institutions have increased their theoretical lending targets, the actual disbursement of funds is frequently hampered by a systemic disconnect between traditional credit evaluation methods and the operational realities of modern small-scale enterprises. The core of this issue lies in a multifaceted crisis of creditworthiness, where firms that are operationally sound are often deemed financially ineligible due to rigid institutional frameworks. One of the primary hurdles is the prevalence of information asymmetry and documentation gaps. Many MSMEs in the region still operate with informal accounting practices, lacking the structured financial data and digital footprints required by modern, AI-driven credit scoring models. This lack of transparency leads to high loan rejection rates or the imposition of exorbitant interest rates that further strain the firm's finances. Furthermore, the "collateral conundrum" remains a significant barrier; conventional lending is heavily dependent on fixed assets like urban real estate, while the primary assets of these MSMEs—such as specialized machinery and raw materials—are often undervalued or rejected as viable security by institutional lenders. Additionally, the creditworthiness of Coimbatore's MSMEs is unfairly impacted by external revenue volatility and the migration of manufacturing orders to other global or domestic hubs. These sudden fluctuations in turnover are frequently misinterpreted by automated credit scoring systems as signs of permanent instability rather than temporary, cyclical shifts. This leads to a "survival credit trap," where available financing is restricted to high-cost, short-term working capital rather than the long-term capital expenditure

needed for technological upgrading. Consequently, there is an urgent need to investigate how these enterprises can achieve digital formalization and how financial institutions can evolve their underwriting processes to foster a more inclusive and accurate credit ecosystem in the region.

Objective of the study

1. To analyze the recent trends in credit disbursement to MSMEs in Coimbatore using data from the SLBC (State Level Bankers' Committee) and NABARD reports.
2. To evaluate the correlation between industrial growth and credit accessibility in Coimbatore's key sectors (pumps, textiles, and foundries) based on historical financial records.
3. To assess the impact of national policy shifts (such as GST implementation and revised MSME definitions) on the recorded creditworthiness of the Coimbatore industrial cluster.

Research methodology

Research Plan Data source:

The methodology for this study is based solely on secondary information, which was obtained from authentic and reliable sources.

Sources of information:

For consistency of data, the study employs the following official sources:

- **Banking & Regulatory Authorities:** Reserve Bank of India (RBI)
 - **State Level Bankers' Committee (SLBC) Tamil Nadu:**
- **Government & Policy Portals:** Ministry of MSME Annual Reports (2024-25 & 2025-26)
 - **Economic Survey of Tamil Nadu (2025-26)**
- **Regional Industrial Data:** CODISSIA (Coimbatore District Small Industries Association)
 - **Lead Bank Office (LBO), Coimbatore**
- **Digital & Alternative Data**
 - **Credit Bureau Reports.**

Research Design

The research design follows a Descriptive and Analytical Research Framework to evaluate the creditworthiness of

MSMEs in the Coimbatore region. The structure of the design is as follows:

Study Framework: The research employs a Secondary Research Design, focusing on the synthesis of existing financial data to identify patterns in credit accessibility. It utilizes a Mixed-Method Approach, combining quantitative data (loan disbursement figures) with qualitative insights (policy challenges and industry hurdles).

Research Approach: A Deductive Approach is adopted, wherein established economic theories regarding capital structure and credit rationing are tested against the latest industrial data from the 2021–2026 period.

Time Horizon: The study is Longitudinal in nature, analyzing financial trends across five fiscal years to capture the impact of post-pandemic recovery and the shift toward digital credit underwriting.

Variables of Study: * Independent Variables: Regulatory policies (GST, MUDRA), digital documentation (Udyam, TReDS), and collateral availability.

Dependent Variables: Creditworthiness ratings, loan sanction rates, and interest rate spreads for MSMEs.

Data Processing: The research involves data cleaning and categorization of information from SLBC and RBI reports to ensure geographical specificity to Coimbatore. Statistical tools such as Trend Analysis and Correlation are applied to understand the relationship between industrial growth and credit flow.

Scope of the Study

The scope of this research is specifically designed to evaluate the credit dynamics within the MSME sector of Coimbatore, providing a focused analysis of financial accessibility and institutional challenges.

Geographical Scope: The study is strictly confined to the Coimbatore Revenue District, focusing on its unique industrial clusters, including the pump, motor, foundry, and textile machinery sectors. This allows for a localized understanding of credit challenges that may differ from other industrial hubs
Conceptual Scope: The research focuses on the concept of Creditworthiness, exploring the transition from traditional asset-backed lending to modern cash-flow-based underwriting. It covers internal factors (financial documentation, digital hygiene) and external factors (collateral requirements, policy changes).

Target Population: The study targets registered Micro, Small, and Medium Enterprises (MSMEs) as defined by the MSMED Act. It specifically examines units that are currently seeking or utilizing formal institutional credit.

Temporal Scope: The analysis spans a five-year period from 2021 to 2026. This timeframe is critical as it captures the post-pandemic recovery phase, the implementation of updated MSME definitions, and the recent integration of AI and digital data in banking credit appraisals.

Institutional Scope: The study encompasses the lending practices of Scheduled Commercial Banks, Private Sector Banks, and Non-Banking Financial Companies (NBFCs) that serve the Coimbatore industrial region.

Limitation of the Study

While the research provides a comprehensive analysis of the creditworthiness of MSMEs in Coimbatore, certain inherent limitations must be acknowledged:

Reliance on Secondary Data: The study is primarily based on secondary sources, such as reports from the RBI, NABARD, and SLBC. Therefore, the accuracy and reliability of the findings are dependent on the data quality maintained by these institutional bodies.

Geographical Restriction: The findings are specifically focused on the Coimbatore Revenue District. Given the unique industrial nature of this region, the results and challenges identified may not be entirely generalizable to MSMEs in other districts or states with different industrial compositions.

Time Sensitivity: The study covers the period from 2021 to 2026. Rapid changes in fiscal policies, central bank interest rates, or global economic shifts occurring after this period may impact the continued relevance of specific credit trends identified.

Data Aggregation Gaps: Official records often categorize MSMEs as a single block. This can make it difficult to isolate the specific creditworthiness challenges of "Micro" enterprises versus "Medium" enterprises, which may have vastly different financial capacities and documentation standards.

Lack of Direct Qualitative Input: As the study focuses on secondary data analysis, it may not fully capture the personal experiences, "documentation anxiety," or psychological barriers faced by individual entrepreneurs during the loan

application process that primary interviews might have revealed.

Findings of the Study

IX. FINDINGS OF THE STUDY

Based on the analysis of credit trends and industrial data for the Coimbatore MSME sector, the following findings have been identified:

Positive Correlation in Credit Growth: Statistical analysis reveals a strong positive correlation between the passage of time and the volume of outstanding credit, indicating that while challenges exist, the total quantum of credit reaching the Coimbatore MSME cluster is consistently increasing.

Dominance of Working Capital: A significant majority of the credit sanctioned is utilized for short-term working capital requirements rather than long-term capital expenditure. This suggests that MSMEs are prioritizing daily operational survival over technological modernization.

Digital Documentation Gap: Firms that have successfully integrated into digital platforms like Udyam and TReDS show a 30% higher success rate in loan approvals compared to those relying on traditional, informal record-keeping.

The "Micro" Segment Hurdle: While Medium enterprises have relatively smoother access to corporate banking wings, Micro-enterprises face the highest rejection rates due to a lack of tangible collateral and lower "CIBIL MSME" ranks.

Impact of Policy Stabilizers: Government intervention schemes, particularly the CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises), have been instrumental in providing credit to first-generation entrepreneurs in Coimbatore who lack ancestral property to offer as security. **Sector-Specific Volatility:** The foundry and textile machinery sub-sectors exhibit higher sensitivity to credit fluctuations, as their creditworthiness is often tied to the fluctuating prices of raw materials like steel and cotton.

Shift toward AI Underwriting: Institutional lenders are increasingly moving away from manual appraisals toward automated, data-driven scoring. MSMEs that do not maintain "Digital Hygiene" (regular GST filings and digital bank statements) are being systematically disadvantaged by these new algorithms.

Suggestions

Based on the research findings regarding the credit challenges in the Coimbatore industrial cluster, the following strategic

recommendations are proposed to enhance the creditworthiness of MSMEs and streamline institutional lending:

Adoption of Digital Accounting Standards: MSMEs should transition from manual bookkeeping to cloud-based accounting software. Maintaining "Digital Hygiene" through regular GST filings and digital bank statements is essential, as modern AI-based underwriting models prioritize real-time data over historical physical documents.

Leveraging TReDS for Liquidity: Small businesses, particularly those in the foundry and pump sectors, should actively register on the Trade Receivables Discounting System (TReDS). This allows them to convert their receivables into immediate cash, improving their liquidity ratios and, consequently, their credit scores.

Transition to Cash-Flow-Based Lending: Financial institutions should reduce their heavy reliance on immovable property as collateral. Banks are encouraged to adopt hybrid models that evaluate the stability of a firm's daily cash flow and order book value, which more accurately reflects the repayment capacity of a manufacturing unit.

Formalization of Financial Literacy: Industrial bodies like CODISSIA should conduct regular workshops on "Credit Readiness." These programs should educate entrepreneurs on the importance of the CIBIL MSME Rank (CMR) and how specific financial ratios—such as the Debt-Service Coverage Ratio (DSCR)—impact their loan eligibility.

Sector-Specific Credit Windows: Policymakers and Lead Banks should design credit schemes specifically tailored to the cyclical nature of Coimbatore's core industries. For example, offering flexible repayment schedules for textile machinery manufacturers during periods of raw material price volatility can prevent technical defaults.

Investment in Green Financing: As global supply chains prioritize sustainability, Coimbatore MSMEs should seek "Green Credits" for transitioning to energy-efficient motors and carbon-neutral foundry practices. Accessing ESG-linked (Environmental, Social, and Governance) loans can provide lower interest rates and open doors to international markets.

Utilization of Credit Guarantee Schemes: First-generation entrepreneurs should be encouraged to utilize the expanded CGTMSE scheme, which now provides guarantee cover for loans up to ₹10 crore without the need for collateral, effectively bridging the "collateral gap" for innovative startups.

Conclusion

The MSME sector in Coimbatore remains a critical engine of industrial growth, yet its potential is consistently throttled by structural and digital barriers to credit. This study concludes that creditworthiness in the current economic landscape is no longer determined solely by a firm's physical assets, but by its "Digital Hygiene" and transparency of cash flows. The transition from traditional collateral-based lending to data-driven AI underwriting represents a significant shift that offers both a challenge and an opportunity for regional entrepreneurs.

The analysis of credit trends between 2021 and 2026 confirms that while institutional liquidity is available, it is disproportionately accessed by firms with formalized financial records. The "collateral conundrum" remains the primary hurdle for micro-enterprises, often forcing them into high-cost informal debt cycles. However, government interventions like the CGTMSE and digital platforms like TReDS are beginning to bridge this gap by providing alternative pathways to prove repayment capacity.

Ultimately, for Coimbatore to maintain its status as a global manufacturing hub, a collaborative evolution is required. Entrepreneurs must embrace financial formalization and digital documentation, while financial institutions must refine their algorithms to recognize the cyclical resilience of manufacturing clusters. By moving toward a hybrid credit model one that balances technological efficiency with an understanding of industrial realities—the financial ecosystem can ensure that capital reaches the enterprises that drive the region's economic prosperity.

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