A STUDY ON THE CHALLENGES FACED BY SMALL & MEDIUM ENTERPRISES IN OBTAINING CREDIT IN TELANGANA STATE

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ABSTRACT

Small and Medium Enterprises (SMEs) contribute significantly to employment, entrepreneurship, innovation, industrial output, and regional development in Telangana. However, inadequate access to timely and affordable credit continues to restrict their growth and competitiveness. This study examines the major challenges faced by SMEs in obtaining credit in Telangana State, including collateral requirements, documentation, loan processing delays, high interest rates, and financial awareness. It also evaluates the role of banks, awareness of government credit schemes, and possible solutions for improving institutional finance. Primary data were collected from 100 SME respondents and analysed using percentage analysis. Findings indicate that collateral is the challenge.

Keywords: SMEs, Institutional Credit, Collateral, Financial Inclusion, Telangana

1. INTRODUCTION

Small and Medium Enterprises (SMEs) are important contributors to economic development because they generate employment, encourage entrepreneurship, support innovation, contribute to industrial production, and promote balanced regional development. In Telangana State, SMEs operate across manufacturing, trading, and services. Their growth requires adequate finance for working capital, technology adoption, and expansion. Institutional credit is essential for SME sustainability and competitiveness. Commercial banks and other financial institutions provide working capital loans, term loans, and credit facilities. However, many SMEs experience difficulties in obtaining finance because of inadequate collateral, complicated documentation, weak credit history, high borrowing costs, delayed approvals, strict eligibility conditions, and limited financial awareness. These barriers can restrict investment and market expansion. Collateral security is a particularly important issue because many enterprises do not possess sufficient fixed assets to satisfy conventional lending requirements. Documentation requirements can also create difficulties. Lengthy approval procedures and administrative delays may reduce the usefulness of credit when businesses need funds. High interest rates can increase financing costs and reduce the ability of smaller firms to service debt. Banks and government agencies have introduced measures to improve SME credit accessibility, including credit support programmes, guarantee arrangements, digital banking, online applications, electronic documentation, and technology-based credit evaluation. Nevertheless, awareness of these facilities remains a concern. Financial literacy can help entrepreneurs understand loan procedures, prepare documents, evaluate borrowing costs, and make informed financing decisions.The present study focuses on the challenges faced by Small and Medium Enterprises in obtaining credit in Telangana State. It examines major obstacles affecting institutional finance, the role of banks and financial institutions, factors influencing loan approval, awareness of government loan support schemes, and possible solutions for improving credit accessibility. The study uses responses from 100 owners, managers, and representatives of SMEs operating in selected districts and sectors of Telangana. Understanding these challenges is important for entrepreneurs, banks, government agencies, policymakers, researchers, and financial institutions. Improved access to timely and affordable institutional finance can strengthen business expansion, productivity, employment creation, technology adoption, competitiveness, and sustainable economic development in Telangana State. The study is relevant because credit accessibility affects employment, production capacity, innovation, and economic activity. The evidence can help identify improvements in lending procedures and support for the Telangana SME sector.

2. REVIEW OF LITERATURE

The literature establishes that timely institutional finance is essential for SME growth, sustainability, employment, and competitiveness. Sharma and Verma (2016) found that inadequate collateral and weak financial documentation restrict bank lending, while Reddy (2017) identified complicated documentation, delayed approvals, and insufficient working capital as major South Indian SME problems. Kumar and Rao (2018) reported that commercial banks remain important funding sources, but strict eligibility requirements and lengthy processing discourage entrepreneurs. Patel (2019) highlighted collateral shortages and recommended credit guarantees and collateral-free lending. Singh and Mehta (2020) observed that government credit programmes improve access, although limited awareness reduces their utilisation. Nair (2021) found that digital applications, electronic documentation, and technology-based credit evaluation reduce processing time. Joshi and Desai (2022) linked financial literacy with better records and improved institutional financing access. Agarwal and Mishra (2023) emphasised repayment capacity, credit history, and financial documents in lending decisions. Prakash and Gupta (2024) associated adequate credit with productivity, profitability, employment, and competitiveness. Rao and Iyer (2025) highlighted fintech, digital lending, artificial intelligence, and data-driven credit evaluation. The reviewed literature indicates a need for integrated evidence on Telangana SMEs covering collateral, documentation, delays, financial literacy, government schemes, banking support, and digital lending in Telangana State today.

3. OBJECTIVES OF THE STUDY

1. To research the main obstacles Small and Medium Enterprises in Telangana State experience when trying to obtain finance.
2. To investigate how banks and other financial organisations help Small and Medium Enterprises by offering loan facilities.
3. To determine the parameters influencing the approval of business loans for Small and Medium Enterprises.
4. To examine the awareness and utilisation of government loan support schemes among Small and Medium Enterprises.
5. To identify viable solutions for boosting access to institutional financing for Small and Medium Enterprises in Telangana State.

4. RESEARCH METHODOLOGY

The study adopts a descriptive research design. Primary data were collected through a structured questionnaire from 100 SME owners, managers, and representatives selected through convenience sampling in selected Telangana districts. Secondary data were obtained from books, journals, RBI publications, government reports, and related sources. Percentage analysis was applied for interpretation.

4.1 STATISTICAL TOOL

Percentage Analysis

Percentage Analysis is the most appropriate statistical tool for this study because the primary data consist mainly of categorical responses concerning credit challenges, banking services, government schemes, and financing accessibility. The original K8 study also used percentage analysis along with tabular presentation, bar charts, and pie charts.

5. DATA ANALYSIS AND INTERPRETATION

The study collected responses from **100 owners, managers, and representatives of SMEs** in selected districts of Telangana State. Exactly **three relevant tables** are presented below, selected according to the study objectives.

Table 5.1: Significant Challenges in Getting Credit

Challenge	Respondents	Percentage
Collateral	34	34%
Documentation	24	24%
Delay	18	18%
High Interest	14	14%
Others	10	10%
Total	**100**	**100%**

Analysis: Collateral is the most significant challenge, reported by **34 respondents (34%)**, followed by documentation at 24%.

Interpretation: The findings indicate that collateral requirements constitute the primary obstacle to obtaining institutional credit for SMEs in Telangana. Documentation and loan-processing delays are also significant barriers.

Table 5.2: Awareness of Government Credit Schemes

Category	Respondents	Percentage
Aware	46	46%
Neutral	24	24%
Not Aware	30	30%
Total	**100**	**100%**

Analysis: A total of **46 respondents (46%)** are aware of government credit schemes, while 30% are not aware.

Interpretation: Although awareness is higher than non-awareness, a considerable proportion of SME respondents remain unaware of government credit support schemes. This indicates a need for stronger awareness and financial literacy programmes.

Table 5.3: Banking Service Satisfaction

Category	Respondents	Percentage
Highly Satisfied	26	26%
Satisfied	44	44%
Neutral	16	16%
Dissatisfied	10	10%
Highly Dissatisfied	4	4%
Total	**100**	**100%**

Analysis: The largest category is **Satisfied**, representing 44 respondents (44%). The combined satisfied and highly satisfied responses account for 70%.

Interpretation: Most respondents are satisfied with banking services related to SME financing. However, the study indicates that entrepreneurs still expect faster processing, simpler procedures, and greater flexibility in lending.

6. RESULTS

- **Collateral security is the major credit challenge**, with 34% of respondents identifying it as the primary obstacle.
- **Documentation requirements** are the second major challenge, accounting for 24% of responses.
- **Loan-processing delays** affect timely access to institutional finance.
- **High interest rates** remain an important financing concern for SMEs.
- **Commercial banks continue to be an important source of institutional finance** for SMEs.
- **Government credit schemes have moderate awareness**, with 46% of respondents reporting awareness.
- **Thirty percent of respondents are not aware** of government credit schemes, indicating an awareness gap.
- **Banking services received generally positive responses**, with 70% of respondents being satisfied or highly satisfied.
- Entrepreneurs nevertheless expect **faster loan processing and simplified lending procedures**.
- Institutional finance positively influences **business expansion, employment generation, production capacity, and enterprise success**.
- Improved financial literacy and banking support can increase SMEs' ability to access institutional credit.
- Digital lending, electronic documentation, and technology-based credit evaluation can improve financing efficiency.

7. SUGGESTIONS

- Commercial banks should simplify SME loan application procedures.
- Unnecessary documentation requirements should be reduced.
- Banks should reduce loan approval and processing delays.
- Flexible collateral policies should be considered for viable small and new enterprises.
- Collateral-free lending and credit guarantee programmes should be expanded.
- Banks should provide advisory support to entrepreneurs regarding loan procedures and documentation.
- Government agencies should increase awareness of SME credit schemes through workshops, online platforms, industrial associations, and financial literacy programmes.
- Entrepreneurs should be educated about available institutional loans, subsidies, and credit-support programmes.
- Digital banking and online loan-processing facilities should be expanded.
- Bank employees should receive regular training regarding SME financing requirements.
- Financial institutions should develop customised loan products according to business size, sector, and financing requirements.
- Government agencies, banks, and financial institutions should coordinate regularly to strengthen the SME financing ecosystem.

8. CONCLUSION

Small and Medium Enterprises are important contributors to employment, entrepreneurship, industrial development, and economic growth in Telangana State. The study concludes that access to timely and adequate institutional finance is essential for SME growth, sustainability, and competitiveness. The analysis identifies collateral security as the most significant obstacle to obtaining credit, followed by documentation requirements, processing delays, and high interest rates. Although commercial banks remain an important source of finance and most respondents are satisfied with banking services, entrepreneurs continue to expect faster processing, simpler procedures, and greater flexibility in lending. Awareness of government credit schemes also requires improvement because a substantial proportion of respondents are not aware of available support programmes. Strengthening financial literacy, simplifying documentation, expanding collateral-free and guarantee-based lending, improving digital loan processing, and enhancing coordination between banks and government agencies can improve credit accessibility. A stronger institutional financing system can support SME expansion, productivity, employment creation, technology adoption, competitiveness, and sustainable economic development in Telangana State.

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