International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Financing Preferences in MSMEs: A Secondary Data Perspective from Maharashtra

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Abstract
This study draws on secondary empirical data (2017–2025) to explore financing preferences among MSMEs in Maharashtra, India's leading industrial state. It analyzes the dominance of internal funds and short-term debt, sectoral variations, and the impact of government schemes such as CGTMSE on formal credit access. Trends indicate 60–70% reliance on internal sources, with fintech and scheme-driven growth improving urban access by 15–25%. The paper discusses how balanced financing mixes reduce leverage risks while highlighting rural-urban and owner-demographic disparities. Recommendations include streamlined approvals and expanded fintech outreach to support sustainable growth in Maharashtra's diverse MSME ecosystem.

Keywords: Financing preferences, MSMEs Maharashtra, internal financing, short-term debt

Introduction

Financing decisions are central to MSME operations, determining how these firms fund growth amid capital constraints. In Maharashtra, India's leading industrial state with over 4.8 million MSMEs as per the 2024 Economic Survey, preferences often lean toward internal sources like retained earnings to avoid high interest rates from banks, which average 10-12% for small loans. This reflects broader challenges like collateral shortages, where only 15-20% of MSMEs secure formal credit, and bureaucratic hurdles in loan processing.

Empirical evidence suggests that financing mixes influence risk and returns, with equity avoidance common due to owners' desire to retain control. Schemes like the Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE), which approved over 129,000 guarantees in Maharashtra in FY 2024 (12% of national total), have eased some barriers by covering up to 85% of defaults. Yet, uptake varies: urban areas like Mumbai and Pune show higher utilization due to better banking infrastructure, while rural districts lag.

This review uses secondary sources to explore these preferences and their outcomes, focusing on how they shape growth trajectories in Maharashtra's diverse sectors, from textiles in Solapur to IT in Pune. Post-pandemic shifts have seen a rise in alternative financing like peer-to-peer lending, driven by digital platforms, but risks of over-leverage persist.

Understanding these patterns aids in crafting targeted support, as MSMEs contribute over 35% to Maharashtra's GSDP. The paper synthesizes data to highlight evolving trends, including the role of owner demographics in choices, and implications for policy to enhance inclusivity.

By addressing gaps in formal financing, this analysis contributes to strategies for sustainable development, aligning with state goals for a $1 trillion economy by 2028 through empowered MSMEs.

Objectives

- To review secondary data on financing sources preferred by Maharashtra MSMEs.
- To assess how these preferences impact growth and risk levels.
- To explore sectoral differences in financing strategies.
- To recommend enhancements for MSME financial access.

Literature Review

Financing studies in MSMEs reveal a tilt toward short-term options. Baker et al. (2017) surveyed northwest Indian SMEs and noted internal funds as primary, with short-term debt secondary, shaped by owner traits like education and experience.

Verma et al. (2025) analyzed listed Indian MSMEs and found current liabilities dominant, linking to better profitability when balanced with reserves to avoid high leverage.

A Pune district study examined financial accounting in MSMEs, showing a preference for bank loans despite delays, which affects expansion in industrial clusters (Financial Accounting Practices of Micro, Small, and Medium Enterprises (MSMEs) in Maharashtra, India: A Case Study, 2024).

Scholarship @ Claremont (2024) focused on Maharashtra microenterprises and highlighted inclusion schemes like Stand-Up India improving credit for underserved groups, with regional variations in access.

ResearchGate (2025) discussed small-scale industries in Maharashtra, identifying challenges like high costs from informal sources and proposing strategic mixes of debt and equity for sustainability.

Research Methodology

Synthesis of secondary empirical data from journals and theses (2017–2025), focusing on Maharashtra. Selection based on regression and survey methods; thematic analysis grouped preferences and impacts.

Data Findings and Discussion

Data from the studies shows that 60–70% of Maharashtra MSMEs rely on internal financing, with short-term debt covering 20–30%, leading to lower leverage ratios (average 0.5-0.7) but constraining rapid growth in capital-intensive sectors. Manufacturing MSMEs prefer term loans for machinery upgrades, while service firms lean on trade credit, which accounts for 15-25% of funding but increases dependency risks.

Sectoral differences are evident: Pune's IT MSMEs access venture debt more readily due to investor ecosystems, boosting growth rates by 10-15%, whereas rural agro-MSMEs stick to informal sources, facing higher interest (18-24%). Inclusion schemes have increased formal loans by 15% for marginalized owners, as per survey data, reducing exclusion but highlighting persistent gaps in awareness.

The table below compiles secondary trends on financing sources in Maharashtra MSMEs, based on SIDBI reports, Maharashtra Economic Survey (2020–2024), and CGTMSE data, highlighting preferences and access rates.

Financing Source	Preference Rate (%)	Average Interest Rate (%)	Access Growth (2020–2024) (%)	Key Trend in Maharashtra
Internal Funds (Retained Earnings)	60–70	N/A	Stable at 65%	Dominant in rural districts; increased 5% post-pandemic
Short-Term Bank Debt	20–25	10–12	15	Urban rise in Pune/Mumbai due to schemes
Trade Credit	10–15	12–15	10	Common in manufacturing; delays up 8%
Informal Sources (Moneylenders)	5–10	18–24	Declined 12	Reduced with CGTMSE uptake (12% national share)
Fintech/Venture Debt	5–10	9–11	25	Surged in IT sectors like Pune

Trends show heavy reliance on internal funds to avoid high costs, with fintech growth at 25% in urban areas like Pune, lowering rates. CGTMSE has driven formal access up 15%, but informal sources persist in rural Maharashtra. In discussion, this implies diversified mixes reduce risks, with policies needed to boost fintech in underserved areas for inclusive growth.

Discussion of these findings emphasizes the need for streamlined approvals under CGTMSE to further lower barriers, with digital platforms like fintech lenders emerging as enablers for quicker access. However, risks of over-indebtedness in volatile markets call for better financial literacy programs. Policy recommendations include subsidies for credit assessments, particularly in underserved rural areas, to diversify preferences and enhance overall MSME resilience.

Conclusion

MSMEs in Maharashtra benefit from diversified financing but need easier formal options. Owners should explore schemes; policies focus on streamlining approvals. Further studies on fintech roles are warranted.

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