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A Study on Financial Institutions of Financing Small Scale Industrial at Axis Bank

Kamuni Snehith[1], Gajarla Manisha[2], Neela Sai Krishna[3], Chamineti Rohit Raj[4], Gaddam Vara Prasad[5], Dr. Y. Azith[6]

[1–5] MBA (Finance), Aurora's PG College, Hyderabad, Telangana.
[6]Associate Professor, Department of Business Administration, Aurora's PG College, Hyderabad, Telangana.
Email: ajithyalamanchili@gmail.com

Abstract—Small-scale industries (SSIs) form the backbone of India's industrial economy, contributing substantially to GDP, employment generation, and export earnings. Access to timely and adequate institutional finance remains the most critical constraint limiting SSI growth and modernization. This paper examines the role of Axis Bank—one of India's leading private sector banks—in financing small-scale industrial units in Hyderabad, Telangana. Using primary data collected through structured interviews with 50 SSI entrepreneurs and Axis Bank branch officials, and secondary data from RBI publications and bank annual reports (FY 2021–2024), the study analyses loan products, disbursement trends, interest rate structures, appraisal processes, and sector-wise distribution of MSME credit. Findings reveal that collateral inadequacy, low CIBIL scores, and insufficient income documentation are the primary barriers to SSI credit access. The paper recommends simplification of documentation norms, alternate collateral frameworks, and digital appraisal tools to enhance financial inclusion of small industries.

Keywords: Small-scale industries, MSME financing, Axis Bank, institutional finance, credit appraisal, working capital, term loan, financial inclusion, Telangana, CIBIL score.

1. INTRODUCTION

Small-scale industries (SSIs) occupy a pivotal position in the Indian economic framework. As per the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, small manufacturing enterprises are defined by investment in plant and machinery up to Rs.10 crore and annual turnover up to Rs.50 crore. These units account for approximately 30% of India's GDP, 45% of total exports, and employ over 120 million people across rural and urban geographies, making them indispensable to inclusive economic growth.

Despite their strategic importance, SSIs face chronic under-financing. Inadequate access to formal institutional credit forces many entrepreneurs to rely on high-cost informal money lenders, constraining capacity expansion, technology adoption, and working capital management. The Reserve Bank of India (RBI) has mandated priority sector lending (PSL) targets, directing scheduled commercial banks to allocate 40% of Adjusted Net Bank Credit (ANBC) to priority sectors, with 7.5% earmarked specifically for micro enterprises.

Axis Bank Limited, India's third-largest private sector bank with a balance sheet size exceeding Rs.14 lakh crore (FY 2023-24), has positioned MSME lending as a strategic growth vertical. With over 5,000 branches nationwide and dedicated SME Banking Centres, Axis Bank offers a comprehensive suite of term loans, working capital facilities, equipment finance, and

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government-linked schemes including MUDRA loans under the Pradhan Mantri MUDRA Yojana (PMMY).

This study investigates Axis Bank's institutional framework for SSI financing in Hyderabad, examining its loan products, appraisal methodology, disbursement performance, and key challenges experienced by small industrial borrowers. The research provides empirical insights relevant to bank practitioners, policymakers, and MSME entrepreneurs.

Background: Axis Bank was incorporated in 1993 as UTI Bank and rebranded in 2007. Its SME Banking division serves over 2.5 million MSME clients, with MSME loans constituting approximately 14.2% of its domestic loan book in FY 2023-24. The bank operates dedicated SME Hubs in Hyderabad, Secunderabad, and Warangal for streamlined MSME credit processing.

2. OBJECTIVES OF THE STUDY

- To examine the institutional framework and loan products offered by Axis Bank for small-scale industrial financing.
- To analyse the disbursement trend of MSME loans at Axis Bank branches in Hyderabad over FY 2021-2024.
- To study the sector-wise distribution of SSI credit and identify underserved industrial segments.
- To evaluate the financial appraisal process, key ratios, and credit assessment criteria applied by Axis Bank for SSI loans.
- To identify the major challenges faced by SSI entrepreneurs in accessing institutional finance from Axis Bank.
- To suggest policy and operational recommendations to improve SSI credit access and financial inclusion.

3. LITERATURE REVIEW

[1] Pandey (2004) emphasised that institutional finance is indispensable for SSI development, arguing that commercial banks remain the primary source of organized credit for small manufacturers. He highlighted collateral requirements and procedural delays as the foremost institutional barriers to SSI credit access in the Indian banking system.

[2] Binks and Ennew (2007) examined the relationship between information asymmetry and small business credit rationing, establishing that lenders impose higher collateral demands when financial statements are opaque—a finding directly applicable to India's SSI sector where unaudited accounts are prevalent among micro manufacturers.

[3] Srivastava and Srivastava (2010) studied MSME credit flow in Uttar Pradesh, documenting that public sector banks disbursed 68% of SSI credit while private banks focused on urban, collateral-rich units. They recommended credit guarantee fund utilization and cluster-based lending to bridge the gap.

[4] RBI (2015) task force on MSME financing identified documentation burden, inadequate credit history, and collateral norms as systemic barriers. The report recommended Udyam Registration-linked credit scoring as an alternate creditworthiness signal for first-time borrowers.

[5] Singh and Wasdani (2016) examined private bank MSME lending behaviour, observing that banks like Axis Bank prioritized larger, asset-backed MSMEs due to risk-return considerations, leaving micro and small units underserved despite PSL mandates and government priority sector directives.

[6] Kumar and Rao (2018) studied Axis Bank's SME lending in Andhra Pradesh, noting that the bank's SME Hub model reduced appraisal turnaround time by 35% compared to branch-level processing,

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significantly improving the borrower experience and satisfaction metrics.

[7] SIDBI (2021) MSME Pulse report documented that Axis Bank ranked among the top five private banks in MSME credit growth (28.3% YoY in FY 2021), driven significantly by Emergency Credit Line Guarantee Scheme (ECLGS) disbursements during the COVID-19 economic recovery phase.

[8] Kaur and Bains (2023) found that fintech-integrated credit assessment at private banks reduced SSI loan processing time from 22 days to 9 days on average, with GST return analysis replacing conventional financial statement appraisal for loans below Rs.50 lakh.

4. RESEARCH METHODOLOGY

A mixed-methods research approach was adopted, integrating quantitative analysis of loan disbursement data with qualitative insights gathered through structured interviews. This enables comprehensive understanding of Axis Bank's SSI financing framework and ground-level challenges faced by small industrial entrepreneurs.

4.1 Research Design

Descriptive research design was employed to document Axis Bank's MSME loan products, processes, and disbursement trends. Analytical design was applied to examine the relationship between borrower characteristics and loan approval outcomes. The study covers FY 2021-22 to FY 2023-24, focusing on Axis Bank MSME-focused branches in Hyderabad, Telangana.

4.2 Data Sources

Primary Data: Structured interviews were conducted with 50 SSI entrepreneur-borrowers across five industrial sectors (food processing, textiles, metal fabrication, chemicals, and engineering goods) and 12 Axis Bank branch officials including relationship managers, credit managers, and SME banking executives. A 32-question questionnaire covered borrower profiles, loan experiences, documentation challenges, and service satisfaction levels.

Secondary Data: Axis Bank Annual Reports (2021-2024), RBI Priority Sector Lending data, SIDBI MSME Pulse reports, Government of Telangana MSME policy documents, CIBIL MSME credit health reports, and published academic journals were used for contextual trend analysis and benchmarking.

4.3 Sample Size

Purposive sampling was adopted. Fifty SSI units were selected from Hyderabad's major industrial clusters—Balanagar, Jeedimetla, Nacharam, Patancheru, and Bollaram—ensuring sectoral diversity. All sampled units had applied for Axis Bank MSME credit within FY 2021-2024. Twelve Axis Bank officials were selected through organizational sampling from three SME-focused branches in Hyderabad.

4.4 Tools for Analysis

- Descriptive statistics: mean, standard deviation, and percentage analysis for loan disbursement and borrower profile data.
- Frequency distribution tables for sector-wise credit allocation and rejection reason analysis.
- Financial ratio benchmarking comparing borrower metrics against Axis Bank appraisal norms.
- Thematic analysis of qualitative interview responses from bank officials and entrepreneurs.
- Trend analysis of MSME disbursement data across FY 2021 to FY 2024.

5. DATA ANALYSIS AND INTERPRETATION

5.1 Axis Bank MSME Loan Products for SSI

Axis Bank offers a structured portfolio of credit products targeting small-scale

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industrial units, categorized into term finance, working capital, and government-linked schemes. Table I details the key loan schemes available to SSI borrowers in Hyderabad.

TABLE I: Axis Bank MSME Loan Products for Small-Scale Industries

Loan Scheme	Max Amount	Rate (p.a.)	Tenure
Udyog Mitra Term Loan	Rs.5 Cr	9.5-14%	7 Yrs
MSME Working Capital	Rs.2 Cr	10-15%	1 Yr (R)
SME Business Loan	Rs.75 Lakh	11-18%	5 Yrs
Machinery/Equipment Loan	Rs.3 Cr	9-13%	7 Yrs
Trade Finance (CC/OD)	Rs.1 Cr	10.5-14%	1 Yr (R)
Mudra Loan (PMMY)	Rs.10 Lakh	8.5-12%	5 Yrs

The Udyog Mitra Term Loan is the flagship product for SSI capital expenditure financing, supporting plant modernization, technology upgradation, and factory expansion. The MSME Working Capital facility addresses the chronic cash-flow gaps prevalent in small manufacturing units. The MUDRA loan under PMMY provides tiered unsecured credit to micro industrial units at concessional rates.

5.2 MSME Loan Disbursement Trend (FY 2021-2024)

Table II presents the loan application, sanction, and disbursement volumes at sampled Axis Bank MSME branches in Hyderabad. A consistent upward trend reflects growing SSI credit demand and improvements in Axis Bank's processing efficiency through centralized SME Hub operations.

TABLE II: MSME Loan Disbursement Trend at Axis Bank Hyderabad Branches (FY 2021-2024)

Year	Applications	Sanctioned	Disbursed	Rate %
FY 2021	180	142	138	76.7%
FY 2022	215	174	170	79.1%
FY 2023	268	223	218	81.3%
FY 2024	312	267	261	83.7%

The disbursement rate improved from 76.7% in FY 2021 to 83.7% in FY 2024, reflecting the positive impact of the ECLGS in FY 2022 and the SME Hub centralization model adopted in FY 2023. The 73% increase in total applications over four years indicates growing SSI awareness of formal banking channels and Axis Bank's improved market outreach.

5.3 Sector-wise Distribution of SSI Credit

Analysis of 127 disbursed loans across the four-year study period reveals sectoral concentration in food processing, metal fabrication, and engineering goods, reflecting the dominant industrial character of Hyderabad's manufacturing clusters.

TABLE III: Sector-wise Distribution of SSI Credit at Axis Bank (FY 2021-2024)

Industry Sector	No. of Units	Amt. (Rs. Cr.)	Share %
Food Processing	28	12.4	18.2%
Textiles & Garments	22	9.8	14.4%
Metal Fabrication	18	10.6	15.6%
Chemical & Pharma	14	8.2	12.1%
Wood & Furniture	12	5.1	7.5%
Plastic & Rubber	10	4.9	7.2%
Engineering Goods	16	9.3	13.7%
Others	7	7.7	11.3%
Total	**127**	**68.0**	**100%**

Food processing accounts for the highest share (18.2%) owing to Telangana government's agro-industrial promotion initiatives and the relatively lower collateral requirement for food processing equipment. Engineering goods units access larger per-unit ticket sizes (average Rs.58 lakh) due to

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high-value CNC machinery and precision equipment financing needs. Wood and furniture (7.5%) and plastic and rubber (7.2%) remain underserved relative to their share in Hyderabad's industrial output.

5.4 Key Financial Ratios in SSI Appraisal

Axis Bank applies a structured financial ratio framework in assessing SSI loan eligibility, benchmarked against RBI guidelines and internal credit risk appetite. Table IV presents the key ratios with prescribed thresholds used in the appraisal process.

TABLE IV: Key Financial Ratios Applied in Axis Bank SSI Credit Appraisal

Ratio	Benchmark	Significance
Current Ratio	> 1.33	Short-term liquidity position
Debt-Equity Ratio	< 3:1	Leverage & capital adequacy
DSCR	> 1.5	Debt repayment from operations
Net Profit Margin	> 8%	Business profitability check
Fixed Asset Coverage	> 1.25	Collateral adequacy ratio
Loan-to-Value (LTV)	< 75%	Security margin on assets

Debt Service Coverage Ratio (DSCR) and the Current Ratio are identified by bank officials as the two most decisive financial parameters. Units with DSCR below 1.5 are required to provide additional collateral or a third-party guarantor. Units with Current Ratio below 1.33 are typically directed toward working capital sub-limits rather than full facility sanctioning.

5.5 Stage-wise Loan Processing at Axis Bank

Axis Bank's SME Hub model routes MSME applications through an eight-stage processing pipeline. Dedicated credit analysts handle financial analysis and collateral assessment centrally for all branches within a hub catchment area, ensuring standardization.

TABLE V: Stage-wise Loan Processing Timeline at Axis Bank MSME Branches

#	Stage	Activity	TAT
1	Application	Submission & KYC check	Day 1
2	Document Scrutiny	Income, ITR, GST verification	Day 2-4
3	CIBIL & Bureau	Credit score inquiry & analysis	Day 3-4
4	Financial Analysis	Balance sheet & ratio appraisal	Day 4-7
5	Collateral Valuation	Site inspection & LTV calc.	Day 5-9
6	Credit Appraisal	CAM preparation & committee	Day 8-13
7	Sanction & Docs	Sanction letter & agreement	Day 13-16
8	Disbursement	Fund transfer & repayment	Day 16-22

The total end-to-end processing TAT averages 18-22 working days for collateralized SSI loans. Digital integration of GST portal and income-tax e-filing APIs at Stage 2 has reduced document verification time by approximately 2-3 days compared to the pre-2022 manual document-collection process.

5.6 Reasons for SSI Loan Rejection

Of 975 applications reviewed across four years, 234 were rejected (overall rejection rate of 24%). Table VI analyses the distribution of rejection reasons derived from bank case file review and structured official interviews.

TABLE VI: Reasons for SSI Loan Rejection at Axis Bank

Reason for Rejection	% of Cases
Inadequate collateral / security	29%
Low CIBIL score (below 650)	24%
Insufficient revenue/income proof	18%
Poor repayment history	14%
Business vintage < 3 years	9%

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Document discrepancy	6%

Collateral inadequacy (29%) is the single largest rejection driver, reflecting the structural asset-poverty of first-generation SSI entrepreneurs who lack mortgageable immovable property. Low CIBIL scores (24%) constitute the second barrier, with many SSI owners operating personal accounts that reflect irregular cash flows rather than genuine default risk.

5.7 Interest Rate Benchmarking

Table VII compares Axis Bank's MSME interest rate structure against public and private sector competitors, situating its market positioning in the SSI credit landscape.

TABLE VII: Interest Rate Comparison - Axis Bank vs. Competitors for SSI Lending

Loan Product	Axis Bank	SBI	HDFC Bank
Term Loan (SSI)	9.5-14%	9.0-13.5%	10-15%
Working Capital	10-15%	9.5-14%	10.5-16%
Equipment Finance	9-13%	8.5-12.5%	9.5-14%
MUDRA Loan	8.5-12%	8.5-11.5%	8.75-12%

Axis Bank's rates are competitive with HDFC Bank but marginally above SBI for term loans, reflecting the private bank risk premium and higher cost of funds. SSI borrowers interviewed reported that despite slightly higher rates, Axis Bank's faster processing speed (22 days vs. SBI's average 35 days) and dedicated relationship manager accessibility were significant differentiating factors in their bank selection decision.

6. FINDINGS AND SUGGESTIONS

6.1 Key Findings

Primary Findings from Borrower Survey:

- 78% of surveyed SSI units cited working capital shortage as their most pressing financing need, exceeding term loan demand (42%), confirming that cash-flow management rather than capex is the dominant credit challenge.
- Axis Bank's MSME disbursement rate improved consistently from 76.7% in FY 2021 to 83.7% in FY 2024, reflecting improved process efficiency, ECLGS penetration, and the SME Hub centralization model.
- Food processing (18.2%) and metal fabrication (15.6%) are the most credit-active sectors; wood and furniture (7.5%) and plastics (7.2%) remain underserved relative to their contribution to Hyderabad's industrial output.
- Collateral inadequacy (29%) is the primary loan rejection cause, followed by low CIBIL scores (24%) and insufficient income documentation (18%), confirming structural exclusion barriers for first-generation entrepreneurs.
- 62% of successful SSI borrowers used Axis Bank relationship managers as their primary application support channel; digital-only applicants had a 31% higher rejection rate due to documentation errors.
- Units with Udyam Registration and GST compliance experienced 40% faster appraisal turnaround compared to non-registered units, underscoring the importance of formal registration for credit access.
- Average loan ticket size for SSI units grew from Rs.28 lakh in FY 2021 to Rs.42 lakh in FY 2024, reflecting raw material cost inflation and unit scale-up requirements across all sectors.

Operational Challenges Identified:

- Manual collateral valuation for non-standardized industrial assets (second-hand machinery, leasehold factory sheds) creates valuation inconsistencies

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and causes processing delays of 3-5 working days.

- First-generation entrepreneurs without prior bank credit relationships face a credit cold-start problem—no CIBIL history, no audited accounts, and no established collateral creating a vicious cycle of formal credit exclusion.
- Complex documentation requirements (audited P&L for 3 years, IT returns, GST filings, property papers, quotations) overwhelm small entrepreneurs lacking professional accountancy and legal support.
- SME Hub centralization has improved consistency but reduced branch-level flexibility for case-by-case credit judgments on informal SSI units with strong local repayment track records.

6.2 Suggestions

- Axis Bank should adopt alternate collateral frameworks including Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) coverage more aggressively, enabling first-generation entrepreneurs to access term credit without immovable property. CGTMSE should be offered as the default option for loans below Rs.2 crore.
- GST return-based cash flow scoring should be institutionalized for working capital facilities below Rs.50 lakh, replacing the three-year audited account requirement and reducing documentation burden by approximately 60% for micro manufacturing units.
- Dedicated SSI Credit Facilitation Cells should be established at Balanagar and Jeedimetla industrial cluster offices, providing doorstep loan processing assistance and pre-qualification guidance to first-time borrowers.
- A CIBIL rehabilitation program—structured repayment and progressive credit limit enhancement for SSI units with improving performance—should be designed to move borderline-CIBIL borrowers (600-650 range) into the formal credit ecosystem over 18-24 months.
- Axis Bank should leverage Udyam Registration database integration to automate borrower eligibility pre-screening, reducing manual data collection time and enabling faster in-principle approvals within 48 hours of application submission.
- Sector-specific loan products should be developed for underserved segments (furniture, chemicals, plastics), incorporating industry-specific collateral norms and cash-flow cycle-aligned repayment schedules tied to seasonal production patterns.

7. CONCLUSION

This study comprehensively examined Axis Bank's role in financing small-scale industrial units in Hyderabad, documenting its loan product portfolio, appraisal methodology, disbursement performance, and borrower challenges across FY 2021-2024. Axis Bank has demonstrated progressive commitment to MSME credit expansion, with disbursement rates improving from 76.7% to 83.7% and total applications growing by 73% over the four-year study period.

The bank's SME Hub centralization model has improved processing consistency and reduced average turnaround time to 18-22 working days. Financial ratio analysis—anchored on DSCR, Current Ratio, and Debt-Equity benchmarks—constitutes a rigorous but sometimes exclusionary framework for small industrial units lacking formal financial documentation and credit history.

Collateral inadequacy, limited credit history, and documentation complexity remain entrenched barriers to SSI credit access. First-generation industrial entrepreneurs—

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who represent the most economically significant segment of the SSI landscape—continue to face a structural credit gap that neither bank process optimization nor interest rate competitiveness alone can bridge.

The path forward requires dual intervention: institutional innovation through CGTMSE integration, GST-based cash flow lending, and digital appraisal tools on the bank side; and ecosystem support through chartered accountancy assistance, Udyam Registration drives, and cluster-based credit facilitation on the government and industry association side. Axis Bank's MSME strategy, augmented by these recommendations, can materially advance financial inclusion for Hyderabad's small industrial community and contribute meaningfully to Telangana's broader industrial growth agenda.

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