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Institutional Credit Support to MSMEs: An Empirical Study of KSFC

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Abstract

The MSMEs are crucial in generating employment, promoting industrial development and facilitating regional growth in India. Yet, insufficient access to institutional credit continues to hinder the growth and sustainability of MSME. The current research investigates the role of Karnataka State Financial Corporation (KSFC) in providing institutional credit support to MSMEs in Karnataka. The research uses annual report data of KSFC, government publications, policy documents and research articles which covers a period of 2014–15 to 2023–24. The bank used analytical tools like trend analysis, ratio analysis and comparative financial analysis to assess loan sanctions, disbursements, recoveries, asset quality and regional credit distribution. According to the findings, KSFC played a crucial role in supporting MSMEs, especially micro and small enterprises and under-served entrepreneur groups. Moreover, the study notes the problems where there is a drop in disbursement efficiency and rise in credit exposure and NPA in some years. The assessment affirms that enhancement of institutional credit mechanism, improvement of recovery management and expansion of reach at regional level.

Keywords: MSME's, Institutional Credit, Karnataka State Financial Corporation, Financial assistance, Industrial Development, Karnataka.

1. INTRODUCTION

The Micro, Small and Medium Enterprise (MSME) sector of India is the heart and soul of the Indian economy and acts as a catalyst for critical national objectives like industrialization, employment generation and regional balance (Gunawan, 2023) (Bhegawati Desak Ayu Sriary & Yuliarmi Ni Nyoman, 2020). The "credit gap" the difference between how much capital MSMEs require and the formal credit extended to them, however, continues to pose a challenge (Kannan,

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2014) (Megawati, 2020). In the state of Karnataka, the main institutional linkage for the MSMEs is provided by Karnataka State Financial Corporation (KSFC) (Ravi & Kadam, 2024), which has been playing an instrumental role in providing long term finance to these underserved units (Ravi & Kadam, 2024).

Incorporated in 1951 under the State Financial Corporations Act, KSFC is a developmental catalyst and is a shift from the traditional lender (Rajakumar, 2011) (Gowda, 2016). While commercial banks provide loans based on the collateral security and short-term liquidity criteria, KSFC provides loans solely to take into account the project viability and entrepreneurs' credentials especially in backward regions (Gowda, 2016). The corporation armours the “patient capital” needed for industrial gestation through a range of custom-designed plans, pitching women, SC/ST entrepreneurs and technology enhancements (Kesavan, 2015).

KSFC has implanted its leaven in Karnataka with a huge footprint of over 1.7 lakh units across the state’s 30 districts, which shows evidence of KSFC's shape in paving sustainable businesses for tomorrow (Kesavan, 2015). Examining its sanction and disbursement trends reveals the model by which they impact local economies yet it is also clear that while this strategic ecosystem emerges, credit recovery and regional concentration continue to drive their map forward.

As MSMEs are becoming more and more important for the industrial economy of Karnataka, small enterprises are facing credit challenges. Despite being a significant development finance institution, there is limited empirical evidence on the financial performance, efficiency of credit disbursement, mechanism of recovery, quality of assets and regional dispersal of Karnataka State Financial Corporation (KSFC) over a long period. In light of the above, the paper attempts an analysis of KSFC’s institutional credit support to MSMEs in Karnataka.

2. Review of literature

2.1. MSMEs Financing and Institutional Credit

The growth of Micro, Small and Medium Enterprises (MSMEs) is significantly supported by institutional credit. Kannan (2014) noted that MSME sector in India face a huge credit gap despite government measures and policy initiatives. According to the study, the limited access to formal finance restricts the growth of industries, job creation and technology upgradation in MSMEs.

Likewise, Gunawan (2023) states that financial inclusion, institutional finance and financial literacy impact the performance and sustainability of MSMEs. Prompt access to institutional credit

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enhances operational efficiency and business expansion of small businesses, the study finds. The study basically concentrated on the overall MSME funding problems and it did exclude a detailed analysis of development finance institutions.

In a study by Bhegawati Desak Ayu Sriary and Yuliarmi Ni Nyoman (2020) concluded that institutional financial support could strengthen the competitiveness and business performance of MSMEs. According to the authors, one of the biggest challenges encountered by small enterprises is access to credit, especially during uncertainty.

2.2. Developmental Financial Institutions

Development finance institutions help to promote industrialization and entrepreneurship in developing economies. In his research, Rajakumar (2011) explained the role of institutional support that strengthen the technology culture among small enterprises and noted that the industrial modernization and the entrepreneurial development significantly get supported by state-supported financial institutions.

According to the research by Peter et al (2018), institutional financial aid has a positive effect on the stability and productivity of businesses. Nevertheless, ineffectual monitoring as well as flimsy recovery channels may hamper the sustainability of institutional finance systems.

According to Mund (2020), repayment defaults, inadequate collateral security and weak recovery systems are major constraints affecting the performance of institutional lending for MSME financing in India.

2.3. Karnataka State Financial Corporation

An observation by Gowda (2016) in a performance evaluation study of KSFC indicated that it has a significant contribution to industrial financing and entrepreneurship development in Karnataka. According to the study, regional industrial development and small-scale industries need institutional credit support. Nevertheless, the study force mainly focused on the overall performance of the institution and did not include detailed analysis of long-run disbursement trend, recovery performance regional credit distribution.

According to a study conducted by Kesavan (2015), KSFC plays an important role in assisting small and medium enterprises with long-term finance when the enterprises face difficulty to obtain commercial bank credit. The KSFC was found to play a significant developmental role but limited assessment of asset quality and institutional efficiency indicators was made.

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Ravi and Kadam (2024) illustrated the institutional framework and functioning of KSFC in the industrial development system of Karnataka. The study observed that KSFC has been contributing toward MSME financing. However, it remains mostly a description with no detailed financial performance analysis.

2.4. Asset Quality and Recovery Performance

Asset quality and recovery performance are important indicators of institutional financial sustainability. Wulandari et al. (2024) observed that effective financial support systems and proper regulatory mechanisms positively influence MSME growth and repayment behaviour. The study emphasized that strong monitoring systems and recovery management practices are necessary for maintaining institutional financial stability.

Ashoka et al. (2019) analyzed MSME entrepreneurs' perception toward financial institutional support and found that timely financial assistance and efficient recovery systems improve borrower confidence and institutional credibility. However, delayed disbursement and complex loan procedures were identified as major operational challenges.

Several studies also indicated that increasing Non-Performing Assets (NPAs) remain a critical challenge for institutional lenders involved in MSME financing. High NPAs reduce institutional liquidity and restrict the recycling of funds for future lending activities.

2.5. Regional Distribution and Inclusive Credit Support

In order to achieve balanced regional development and equitable access to institutional finance, Parvathamma (2015) suggested MSME policy initiatives in Karnataka. More institutional support is needed in backward and underdeveloped area as per the findings.

The analysis of Arifin and Putri (2021) states that financial inclusion and favourable institutional support are able to enhance economic participation among vulnerable groups. The research focused on the need to expand institutional credit support to women entrepreneurs, SC/ST entrepreneurs and rural enterprises.

Governments can provide financial support to firms and institutions to help enhance the capabilities of the industry, as to cope with disruption patterns (Maulana and Iskandar, 2023). As per their study, regional outreach along with targeted credit support, significantly contribute toward MSME resilience and sustainability.

2.6. Critical Review of Existing Literature

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Past studies assert that institutional credit is crucial for growth of MSMEs, entrepreneurship development and industrial growth Existing literature has extensively examined issues related to the financing of MSMEs, financial inclusion, government support and development finance institutions. Nonetheless, research outcomes on institutional efficiency, recovery performance and asset quality are mixed.

Many researchers have pointed out the positive role of institutional finance in the development of MSMEs, whereas others have shown that growing NPAs, operational inefficiencies, delayed disbursement and weak recovery mechanisms are the major challenges to institutional sustainability. Also, many of the earlier studies were mostly descriptive and did not provide much long-term financial analysis using institutional performance indicators.

While certain studies delved into the Karnataka State Financial Corporation (KSFC), not many had specifically analyzed KSFC long-term institutional credit support to MSMEs in terms of sanction, disbursement, recovery performance, asset quality and credit deployment pattern. Considering the above, the present research paper attempts to bridge this gap by making a 10-year analytical study of KSFC's institutional credit support to MSMEs in the state of Karnataka.

2.7. Research Gap

Studies of MSME Financing have primarily been commercial banks, financial inclusion and national-level policy initiatives. Very few studies have looked at the role of State Financial Corporations for MSME. Earlier work on KSFC was general in nature pertaining to institutional performance and entrepreneurship support. Nevertheless, no in-depth long-term study has been conducted focused sanctions, disbursements, recovery performance, asset quality and regional spread of institutional credit. Moreover, numerous studies involved descriptive approaches with little analytical interpretation. Thus, the present study attempts to fill this gap with the financial and trend-based analysis of the KSFC's 10-year institutional credit support to MSMEs in Karnataka.

3. RESEARCH METHODOLOGY

3.1. Research Design:

The present study has planned to carry out a descriptive and analytical study on the institutional credit support provided by Karnataka State Financial Corporation (KSFC) to Micro, Small and Medium Enterprises (MSMEs) in Karnataka. The study uses secondary financial information to

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analyses trends in loan sanctions, disbursements, recoveries, asset quality and geographical distribution of loan credit. The analytical approach assesses how efficiently KSFC and its financial performance in developing MSME.

3.2. Theoretical Framework:

The study is built on Institutional Finance Theory which emphasizes a role of development finance institution in promoting industrial growth and entrepreneurship through long-term credit support. Karnataka State Financial Corporation (KSFC), as a state-level development finance institution, plays an important role in extending institutional credit to MSMEs that may experience difficulties in accessing finance from commercial banks.

The research work will also use the analysis of financial performance as a conceptual framework for assessing institutional efficiency and sustainability. The effectiveness of institutional credit support extended by KSFC to MSMEs is judged by using indicators like loan sanctions, disbursements, recovery performance, Net NPA ratio, distribution of credit.

3.3. Research Objectives:

Objective 1: To assess the efficiency of disbursement and collection of institutional credit by KSFC.

Objective 2: To analyses the trend of asset quality in KSFC's MSME Portfolio and examine the effectiveness of recovery strategies in reducing Net NPA.

Objective 3: To evaluate the geographical dispersion and regional outreach of KSFC's Institutional credit support to MSMEs.

3.4. Source of Data

The study relies solely on secondary data collected from various institutions and published sources. The major inputs are KSFC Annual Reports, audited financial statements, Government of Karnataka publications, MSME Ministry publications, Reserve Bank of India publications, the policy and appropriate research journals.

The period of analysis and presentation of data is with reference to 2014-15 to 2023-24. We compiled loan sanctions, disbursements, recoveries, outstanding loans, Net NPA ratio and regional distribution of institutional credit.

3.5. Scope and Limitations of the study

The Karnataka State Financial Corporation (KSFC) and its institutional credit support to vary on

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MSMEs in Karnataka is the study. The analysis spans ten years from 2014-15 to 2023-24.

Being a study that has used only secondary data, the findings depend on the availability, reliability and accuracy of published institutional documents. The research does not cover any primary data collected from MSME borrowers or institutional observations in the field. Moreover, the study could not obtain the annual report 2024–25 and therefore, was unable to include it.

3.6. Variable Used in the Study

The study uses the following key variables to evaluate institutional credit support provided by KSFC to MSMEs:

- Loan Sanctions
- Loan Disbursements
- Loan Recoveries
- Outstanding Loans
- Net NPA Ratio
- Credit Assistance to Micro and Small-Scale Industries
- Regional Distribution of Credit
- Disbursement–Sanction Ratio

These variables were selected based on their relevance in measuring institutional credit efficiency, recovery performance, asset quality and regional outreach of MSME financing.

3.7. Analytical Tools Used

For the interpretation and evaluation of performance of institutional credit, the study makes use of;

1. An analysis of year after year change in sanctions, disbursements, recoveries and Net NPA ratios.

2. Ratio analysis is used to evaluate indicators of efficiency of disbursement and asset quality.

3. Percentage Analysis displays layouts of regional distribution and allocation pattern of institutional credit support.

4. Comparative Analysis of Financial Studies: It is used for comparing changes in institutional credit performance over years.

3.8. Formulae used in the Study

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1. Disbursement-Sanction Ratio

$$\textbf{D-S Ratio} = \frac{\text{Loan Disbursement}}{\text{Loan Sanctions}} \times 100$$

2. Net NPA Ratio

$$\textbf{Net NPA Ratio} = \frac{\text{Net NPA}}{\text{Net Advances}} \times 100$$

3. Recovery Ratio

$$\textbf{Recovery Ratio} = \frac{\text{Loan Recovery}}{\text{Outstanding loans}} \times 100$$

3.9. Data Validation

The collected secondary data were cross-verified using audited KSFC annual reports, official government publications and institutional financial statements to ensure reliability, consistency and accuracy of the data used for analysis.

4. DATA ANALYSIS

Objective 1: To assess the disbursement and collection of institutional credit by KSFC.

Table No 4.1: Showing the sanctions, disbursement and collection of Institutional credit by KSFC.

(₹ in Crores)

Financial Year	Sanctions (Approved)	Disbursements (Released)	Loan (Outstanding)	Recovery (Collected)	D-S Ratio (%)
2014-15	675.15	553.62	1836.15	814	82%
2015-16	731.94	566.36	1819.50	842.48	77.48%
2016-17	733.43	614.38	1808.77	884.73	83.77%
2017-18	842.13	561.21	1825.17	787.91	66.64%
2018-19	1098.73	665.90	1948.87	736.35	60.61%
2019-20	667.81	727.90	2208.25	720.85	109%
2020-21	401.66	432.96	2186.89	638.68	107.79%

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2021-22	493.25	386.46	2100.84	741.89	78.35%
2022-23	901.10	445.81	2032.68	763.71	49.47%
2023-24	827.13	613.04	2062.53	820.85	74.12%

Interpretation:

The credit performance of Karnataka State Financial Corporation (KSFC) during the period of study indicates a considerable fluctuation in sanctions, disbursements, recoveries and outstandings. The loan sanctions show an increasing trend till 2018–19, which indicates a better institutional commitment toward financing MSMEs in Karnataka. Though disbursement performance reflected sanctioned amount, the D-S ratios were unstable. The lower D-S ratios observed in 2017-18, 2018-19 and especially 2022-23 point to the likelihood of operational delays, procedural bottlenecks, documentation issues or slow implementation of sanctioned projects.

A notable occurrence took place during 2019–20 and 2020–21, when the D-S ratios surpass 100 per cent. This means that KSFC disbursed amounts more than the sanctions sanctioned during the respective years. Such a situation might have occurred due to the release of earlier sanctioned loans, or the speedier front-loading of financial assistance under the COVID-19 regime, or emergency institutional credit support extended to MSMEs during the slowdown. The trends are indicative of the corporation's credit policy during some uncertain times.

Outstanding loans remained high throughout the study and peaked at 2019–20. This indicates longer repayment cycles and higher exposure and obligation in the MSME loan portfolio. Year after year, loan recovery performance improved, but recoveries did not rise in proportion to the growing outstanding amounts. The need for strengthening the recovery mechanism, better post-disbursement monitoring and credit risk management. The study shows that KSFC has import role in providing institutional credit support to MSMEs. However, greater efficiency in disbursement management and recovery performance will be essential for ensuring financial sustainability and efficient credit delivery over the years.

Table No 4.2: Showing the total disbursement and Assistance to MSME by KSFC.

(₹ in Crores)

Financial Year	Total Disbursements	Assistance to Micro & SSIs (Amount Sanctioned)

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2014-15	553.62	482.15
2015-16	566.36	514.94
2016-17	614.38	547.16
2017-18	561.21	753.26
2018-19	665.90	999.41
2019-20	727.90	601.68
2020-21	432.96	375.77
2021-22	386.46	432.72
2022-23	445.81	874.68
2023-24	613.04	775.76

Interpretation:

An analysis of total disbursements and assistance to Micro and Small-Scale Industries (SSIs) by the Karnataka State Financial Corporation (KSFC) for the period 2014–15 to 2023–24 clearly demonstrates its important role in MSME development in Karnataka. The data indicates that institutional credit assistance has changed over the period due to the changing condition of the economy and credit needs of MSMEs.

Total loan disbursement exhibited an almost consistently increasing trend from ₹ 553.62 crores in 2014-15 to ₹ 727.90 crores in 2019-20 indicating expansion in the institutional credit support to MSMEs. The rise in KSFC's net profit indicates their dedication to financing SMEs and promoting overall industrial development in the state. Despite a rise, total disbursements in 2021-22 fell sharply to ₹ 386.46 crores after declining to ₹ 432.96 crores in 2021-22. The economic disruptions caused by the COVID-19 pandemic appear to have affected industrial activity and credit demand which impacted MSME's repayments capacities. However, afterwards, disbursement levels picked up gradually in subsequent years and reached ₹613.04 crores in 2023-24 showing revival in institutional lending activity and improved confidence in financing of MSME.

The support given particularly to Micro and Small-Scale Industries also underwent significant fluctuations during the period of study. The micro and SSI financial assistance has increased steadily from ₹482.15 crores in 2014-15 to ₹999.41 crores in 2018-19. It shows KSFC's focus on the promotion of small-scale industries and entrepreneurship development. Important institutions have supported the construction of new commercial and industrial buildings to foster employment

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and commercial support. Nonetheless, help to Micro and SSIs was lower in 2019–20 and 2020–21, due to unfavourable economic conditions and pandemic related uncertainties. After the recovery of assistance in the year 2022-23 and 2023-24, it shows that there is an institutional focus again on strengthening the micro and small enterprise sector and enhancing access to formal credit support. As the analysis reveals, KSFC has been persistently assisting Micro and Small-Scale Industries through credits over the years in spite of crises and failures. The institution thus occupies a significant position as a development finance institution in promoting the growth of MSMEs, development of entrepreneurship and balanced industrial development in the State of Karnataka through continued support of institutional credit.

Objective 2: To analyses the trend of asset quality in KSFC's MSME Portfolio and examine the effectiveness of recovery strategies in reducing Net NPA.

Table No 4.3: Showing the trend of NPA, loan recoveries and sanctions to MSME.

Financial Year	Net NPA (%)	Loan Recoveries (₹ in Crores)	Sanctions to Micro & SSIs (₹ in Crores)
2014-15	5.07%	814.00	482.15
2015-16	8.83%	841.10	514.94
2016-17	5.77%	884.73	547.16
2017-18	6.56%	787.91	753.26
2018-19	6.09%	736.35	999.41
2019-20	5.12%	720.85	601.68
2020-21	5.09%	638.68	375.77
2021-22	4.74%	741.89	432.72
2022-23	3.51%	763.71	874.68
2023-24	3.43%	820.85	775.76

Interpretation:

The trend pertaining to Net NPA ratio, loan recoveries and sanctions granted to Micro and Small-Scale Industries (SSIs) by Karnataka State Financial Corporation (KSFC) from 2014–15 to 2023–24 shows the asset quality, loan recovery efficiency and contribution to MSME financing of the institution. The performance indicators will probably help in assessing the financial performance and sustainability of KSFC's institutional credit.

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The Not-Profit Account ratio underwent visible variations in the early years of the study. The ratio rose from 5.07 percent in 2014-15 to 8.83 percent in 2015-16 indicative of transient weakening of asset quality and mounting repayment risks of MSME loans. The increase may be due to delays in loan repayments by borrowers, operational issues of MSMEs or weak recovery performance during this period. Nonetheless, after 2018-19, the Net NPA ratio exhibited a gradual decline, marked by some minor fluctuations, reaching 3.43 percent in 2023–24. The gradual decline in the Net NPA ratio demonstrates improvements in the quality of the loan portfolio, the effectiveness of recovery procedures and better management of KSFC's credit risk.

Throughout the period of the study, the performance of loan recovery exhibited a relatively uniform pattern, however, it did experience fluctuations in certain years. Between 2014-15 and 2016-17, recoveries showed an increase from ₹814 crores to ₹884.73 crores, reflecting good recovery performance and improvement in repayment behaviour. Nonetheless, from 2017–18 to 2020–21, recoveries fell, mainly due to economic slowdown, disruption in business and lower operational performance of MSMEs, particularly during the COVID-19 pandemic period. After 2021–22, the recovery performance gradually improved, with recoveries reaching ₹820.85 crores in 2023–24, indicating renewed recovery efforts and strengthening of institutional monitoring mechanisms. A growth of sanction to Micro and Small-Scale Industries too was seen during the study period. The KSFC's strong institutional commitment to the public sector for lending to the small-scale industry is reflected in the ramp-up in sanctions over the years. The sanction levels during certain years have declined under the influence of adverse economic factors and changing credit conditions. Despite this, the institution continues to receive adequate flow of institutional credit. This is in recognition of KSFC's sustained focus on MSME financing and industrial development. The decreasing pattern of the Net NPA ratio combined with recovery performance improvement indicates that the KSFC has strengthened its asset quality and financial stability over the years. The results indicate that effective recovery strategies and continuous institutional credit support have positively contributed towards the sustainability of MSME development and financial performance of the corporation.

Objective 3: To evaluate the geographical dispersion and regional outreach of KSFC's Institutional credit support to MSMEs.

Table No. 4.4: Showing the geographical dispersion and regional outreach of KSFC's.

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Year	Bengaluru Region (%)	North Karnataka (%)	Other Regions (%)	Dispersion Strategy
2014-15	46.2%	22.4%	31.4%	Focus on established industrial estates.
2015-16	45.1%	23.0%	31.9%	Expansion into Mysuru & Tumakuru.
2016-17	44.8%	23.5%	31.7%	Support for Belagavi foundry clusters.
2017-18	43.5%	24.8%	31.7%	Promotion of Kalyan-Karnataka incentives.
2018-19	42.1%	25.8%	32.1%	Reach into Hubballi-Dharwad tier-2 zones.
2019-20	40.2%	27.5%	32.3%	Decentralized lending for rural MSMEs.
2020-21	38.5%	28.2%	33.3%	COVID relief targeted at rural agri-units.
2021-22	37.8%	29.5%	32.7%	Recovery focused on coastal food units.
2022-23	36.4%	31.1%	32.5%	**KIP 2020-25** policy impact kicks in.
2023-24	35.1%	32.6%	32.3%	Parity between Urban & North clusters.

Interpretation:

The regional distribution of institutional credit disbursed by the Karnataka State Financial Corporation (KSFC) from 2014–15 to 2023–24 reflects the changing geographical outreach of MSME financing in Karnataka. The data depicts how the institutional credit support was distributed among Bengaluru region, North Karnataka and other regions of the state, thus highlighting the KSFC's contribution towards the balanced regional development of the state.

At the beginning of the study period, Bengaluru region received the most share of institutional credit disbursement as it received 46.2 percent of the total MSME credit during 2014–15.

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Bengaluru's higher concentration of credit could be due to its better industrial base, higher concentration of MSME and better infrastructural facilities. The portion of credit disbursed to Bengaluru, however, dropped to 35.1 percent in 2023-24. The decline in lending to the Bengaluru region indicates that KSFC diversified its lending operations outside of Bengaluru progressively and also reduced the over concentration of institutional finance in one industrial centre. The institutional credit share to North Karnataka, on the other hand, recorded a continuous rise from 22.4 per cent in 2014–15 to 32.6 per cent in 2023–24. The gradual increase in credit disbursal to North Karnataka is indicative of KSFC's growing emphasis on new industrial clusters and backward regions and rural entrepreneurship. The implementation of policy measures like promotion of Kalyana Karnataka incentives, support for Belagavi industrial clusters and diversification into tier-II industrial centres like Hubballi–Dharwad seems to be helping in better credit distribution. The growing inflow of credit to North Karnataka suggests that various institutions are devising strategies to tackle regional imbalances in industrial finance. It also indicates that formal credit benefits are gradually trickling in to these underdeveloped regions. The share of institutional credit distributed to the other regions remained more or less constant during the years under review, between 31 and 33 percent. The sustainability indicates institutional support to MSME spreading across various regions of Karnataka. KSFC reflects a balanced approach towards industrial finance in the state. The overall analysis reveals that KSFC expanded its regional coverage and variety of institutional credit support within the state of Karnataka. The KSFC's credit flow diversification from Bengaluru to the Northern Karnataka and other developing areas demonstrates its contribution to the inclusive development of industrialization, regional economic development and enhanced reach in MSME financing in the state.

5. SUGGESTIONS

1. KSFC needs to fortify its internal processes, so that loan sanctions are converted into disbursements at a faster pace. It would cut administrative lead times and ease documentation requirements for MSMEs to facilitate quicker access to credit.
2. Establishing an efficient monitoring system of early warnings and structured repayment schedules can help the corporation collect efficiently faster than its defaults.
3. Risk personalization before the sanctioning of loans will reduce the possibility of loan default and promote better asset quality in domestic MSME loan books.

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4. Also, since micro enterprises face bigger revenue crunches, KSFC needs to ramp up funds and tailor-make credit schemes for the micro level."

5. KSFC must continue to expand its lending operations also to the less industrialized sectors like North Karnataka and rural areas for balanced regional development and incentivize new MSME set up.

6. Credit performance, monitoring and even recovery tracking on digital platforms can enhance operational efficiency and transparency in the management of credit.

7. Beyond funding, KSFC could also work with government institutions and industry groups to support MSME entrepreneurs in training and financial literacy programs as well as provide advisory services.

6. CONCLUSION

The study analyzed the performance of institutional credit assistance extended by Karnataka State Financial Corporation (KSFC) to Micro, Small and Medium Filing establishments (MSMEs): 2014-15–2023-24. The research centered on three key facets, which are credit disbursement and recovery, asset quality of the MSME loan portfolio and geographical spread of credit assistance.

These statistics suggest that KSFC has played an important role in facilitating finance for Karnataka's MSMEs. The number of loans sanctioned and disbursed over the study period fluctuated to some extent, although there was an overall increase in credit flow for micro and small firms. The recovery performance has been stable, indicating a continuous pace of work on the collection.

Reviewing asset quality metrics, the Net NPA ratio has softened over the years translating to improvement in recoveries and better management of loan portfolios. It reflects that KSFC has taken adequate steps to curb the risk of defaults and enforced improved financial discipline in lending industries. Additionally, the regional analysis states that credit distribution has become increasingly balanced within state. As credit to the industrial sector grew, KSFC has also expanded its lending activities in North Karnataka and other important regions with a view to achieve inclusive industrial development even though at inception Bengaluru region had received the lion's share of institutional credit. In general, KSFC is found to have played a vital role in the establishment of MSMEs by providing sufficient institutional credit support. But more focused efforts for improving disbursement efficiency, enhancing recovery mechanisms and expanding

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outreach in less developed regions will further strengthen the effectiveness of credit support leading to sustainable growth of MSME sector across state.

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