

A Study on Digital Lending Platform and their Effect on MSME's with Special Reference to Tirunelveli City

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Abstract: *Digital lending platforms have emerged as a transformative force in India's financial landscape, offering innovative credit solutions to Micro, Small, and Medium Enterprises (MSMEs). This study examines the impact of these platforms on MSMEs in Tirunelveli city, where traditional banking systems often fall short in meeting the dynamic financial needs of small businesses. With the rise of fintech, MSMEs now have access to faster, more flexible, and less documentation-heavy financing options. The research adopts a mixed-method approach, combining surveys of MSME owners with interviews of fintech providers and financial experts. It explores key factors such as loan accessibility, turnaround time, repayment flexibility, digital literacy, and trust in technology. The findings reveal that digital lending has significantly improved access to working capital, especially for first-time borrowers and underserved segments. Entrepreneurs report enhanced business operations and reduced reliance on informal credit sources. However, the study also identifies challenges including limited awareness, data privacy concerns, and lack of regulatory clarity. Many MSMEs in Tirunelveli still hesitate to adopt digital platforms due to unfamiliarity with digital processes and fear of fraud. The paper emphasizes the need for financial education, stronger cybersecurity measures, and supportive government policies to foster responsible digital lending. By focusing on Tirunelveli, the study provides localized insights into how digital lending can empower MSMEs in semi-urban regions. It concludes that while digital platforms hold great promise for inclusive financial growth, their success depends on building trust, improving digital infrastructure, and ensuring regulatory safeguards.*

Keywords: Digital Lending, MSMEs (Micro, Small, and Medium Enterprises), Fintech, Credit Access, Financial Inclusion

I. INTRODUCTION

Digital lending platforms use AI, cloud, and data analytics to offer fast, paperless loans to MSMEs. They reduce costs, speed up approvals, and expand access—especially in rural areas. By analysing alternative data like mobile usage and transactions, these platforms enable unsecured loans without collateral. MSMEs benefit through improved cash flow, business expansion, and quick market response. The digital ecosystem also supports compliance and boosts reach via e-commerce. Despite concerns around defaults and data security, digital lending drives inclusion, efficiency, and global competitiveness.

1.1 STATEMENT OF PROBLEM:

Despite fintech advances, MSMEs still face hurdles in accessing timely, affordable credit. Key barriers include lack of formal financial data, limited collateral, high risk perception, and low digital literacy. Many platforms offer complex, costly, and poorly tailored products, excluding informal enterprises. This sustains reliance on informal lenders and perpetuates the “missing middle,” where micro-enterprises struggle to scale.



1.2 OBJECTIVES OF THE STUDY:

- To assess the accessibility and adoption of digital lending platforms among MSMEs in Tirunelveli district.
- To evaluate the impact of digital lending on financial performance and business growth of MSMEs.
- To identify challenges and risks faced by MSMEs in Tirunelveli when using digital lending platforms.
- To analyse the role of fintech innovations in reshaping MSME credit delivery.

II. REVIEW OF LITERATURE

Suryanto, Rusdin, and Meisa Dai (2020) entitled research on the topic “Fintech as a Catalyst for Growth of Micro, Small and Medium Enterprises in Indonesia” explore how fintech drives MSME growth by offering efficient, inclusive financial services through digital payments, P2P lending, crowdfunding, and more. Fintech reduces costs, improves service quality, and expands access. MSMEs, vital to Indonesia’s GDP and poverty reduction, are legally classified by asset and revenue size under Law No. 20 of 2008.

Rajamani, N. Akbar Jan, A. K. Subramani and A. Nirmal Raj (2022) entitled research on the topic research on the topic “Access to Finance: Challenges Faced by Micro, Small, and Medium Enterprises in India” examine the financial challenges faced by Indian MSMEs, despite their economic significance. Classified under the MSMED Act 2006, these enterprises struggle with limited formal financial access due to factors like size, age, ownership, collateral demands, and high interest rates. Decision-making is shaped by rational choice and bounded rationality theories. While banks dominate debt financing, MSMEs face hurdles in securing equity and government support. Access to finance remains vital for their growth and poverty reduction.

Mohammed Sameer M and Sahana M (2025) entitled “Assessing the Transmission of Lending Rate Changes to MSME’s Sustainability During Recession” This study analyzes RBI’s monetary tools—repo rate, CRR, SLR—and their impact on liquidity and credit flow. It highlights how rising NPAs and the COVID-19 pandemic exposed MSME vulnerabilities. Post-pandemic interventions helped stabilize markets, but interest rate transmission remains limited due to structural inefficiencies and policy delays in developing economies.

III. METHODOLOGY

Both primary and secondary data were used for the study. Primary data was collected through a structured questionnaire, designed using a four-point Likert scale to assess various factors. Secondary data was sourced from published articles, journals, books, magazines, newspapers, and reputable websites.

TOOLS FOR ANALYSIS:

Various statistical tools are used to analyse the data collected from respondents. Some of the tools are percentage analysis, Likert scale analysis.

IV. ANALYSIS AND INTERPRETATION

OCCUPATION WISE CLASSIFICATION:

Occupation plays an important role in understanding how MSME stakeholders perceive and adopt digital lending platform. To analyses the effect of digital lending on MSME in Tirunelveli city respondents were classified based on their occupation.

TABLE 1: OCCUPATION WISE CLASSIFICATION

S. No	OCCUPATION	No. OF RESPONDENTS	PERCENTAGE
1	MSME Entrepreneurs	45	40
2	Traders /Shopkeepers	38	34
3	Others	30	26
	Total	113	100

Source: Primary data



Interpretation:

From the above table 1, it clears that out of 113 respondents, 40 percentage of the respondents are MSME Entrepreneurs, 34 percentage of the respondents are Traders and shopkeepers, 26 percentage of the respondents are come under the category of others (Students, consultants etc). Hence, we conclude that the majority of the respondents MSME Entrepreneur.

CHART 1: OCCUPATION WISE CLASSIFICATION



TYPES OF DIGITAL LENDING PLATFORM WISE CLASSIFICATION:

Studying the types of platforms used by respondents and it helps to understand their preferences, trust and awareness of different financial technologies.

TABLE 2: DIGITAL LENDING PLATFORM WISE CLASSIFICATION

S. No	DIGITAL LENDING PLATFORM	No. OF RESPONDENTS	PERCENTAGE
1	Paytm	37	32
2	Amazon	35	30
3	Lending kart	13	11
4	Others	28	25
	Total	113	100

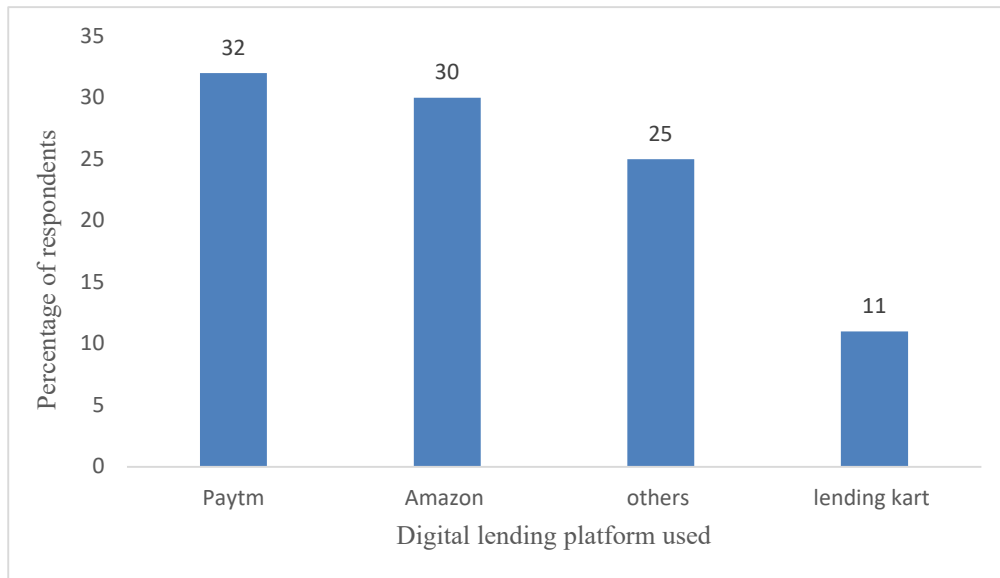
Source: Primary data

Interpretation:

From the above table 2, it explains that out of 113 respondents, 32 percentage of the respondents are using Paytm, 30 percentage of the respondents are using Amazon, 11 percentage of the respondents are using Lending Kart and 25 percentage of the respondents are using other platforms like Razor pay etc. Hence, we conclude that majority of the respondents are using Paytm as a digital lending platform.



CHART 2: DIGITAL LENDING PLATFORM USED



DIGITAL LENDING PLATFORMS IN ACCESSING THE LOANS FOR MSME:

This analysis explores their growing role in improving loan accessibility for MSMEs.

TABLE 3: FACTORS TO ACCESS LOAN

S. No	STATEMENT	SA	A	N	DA	SDA	TOTAL	RANK
1	Faster loan approval	29 (145)	21 (84)	20 (60)	22 (44)	21 (21)	354	I
2	Easy application	19 (95)	25 (100)	21 (63)	26 (52)	22 (22)	332	IV
3	Online access	21 (105)	24 (96)	23 (69)	22 (44)	23 (23)	337	III
4	Quick updates	24 (120)	22 (88)	25 (75)	20 (40)	22 (22)	345	II
5	Flexible options	20 (100)	21 (84)	24 (72)	23 (46)	25 (25)	327	V

Source: Primary data

Interpretation

From the above table 3, it reveals that factors accessing loans for MSME, out of 113 respondents faster loan approval was ranked first with the mean score value of 354, quick updates in second rank with the mean score value of 345, online access got the third rank with the mean score value of 337, easy application got the fourth rank with the mean score value of 332 and Flexible options got the fifth rank with the mean score of 327. Majority of respondents states that fast loan approval as a major factor in accessing the loan in digital lending platform for MSME.

V. FINDINGS

- According to the occupation wise classification, majority of the respondents are MSME entrepreneurs.
- According to the types of digital lending platform wise classification, Paytm is the majorly used by most of the respondents.
- Using Likert scale analysis for the analyses of the factor to access loan majority of the respondents are stating that faster loan approval as a factor.



- According to the main reason for choosing the digital lending platform is majority of the respondents are stating that simpler documentation as a main reason for choosing digital lending platform.
- According to the purpose for which the loan obtained majority of the respondents are stating working capital as a major purpose.
- According to the classification on the benefits gained by digital lending platform majority of the respondents are benefited by less paper work.
- According to the challenges wise classification faced while using digital lending platforms majority of the respondents faced lack of digital literacy as a challenge.

SUGGESTIONS

Since lack of digital literacy is a major challenge, propose digital literacy workshops for MSME owners, especially women and young entrepreneurs.

Collaborate with local colleges, NGOs, and banks to host hands-on training sessions on using digital lending apps.

Highlight Paytm's dominance and recommend that other platforms study its user interface and onboarding process.

Suggest improvements like multilingual support, simplified documentation, and chatbot assistance to reduce friction.

Advocate for better regulation and transparency in digital lending, especially around hidden charges and data protection.

Recommend mandatory disclosures and standardized terms across platforms to build trust.

VI. CONCLUSION

Digital lending has transformed MSME financing with fast, paperless approvals, boosting growth and inclusion—especially in semi-urban areas like Tirunelveli. While challenges like digital literacy, hidden charges, and data security persist, platforms like Paytm offer accessible solutions. Support from banks and initiatives like Digital India strengthen the ecosystem, empowering underserved entrepreneurs and advancing inclusive economic development. This study highlights MSME perceptions, offering insights to enhance financial access and regional growth.

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