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WORKING PAPER

# Credit Constraint and the Limitation of the Industrial Financing Architecture in India

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February 2026

# **Credit Constraint and the Limitation of the Industrial Financing Architecture in India**

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**February 2026**

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# Credit Constraint and the Limitation of the Industrial Financing Architecture in India

*Santosh Kumar Das\**

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*Abstract: A sizeable number of manufacturing firms in India are either fully or partially credit-constrained. As per the recent World Enterprise Survey data (2022), more than one-fifth of manufacturing firms in India perceive access to finance as their single most significant obstacle. Given that a sizeable number of firms are either fully or partially credit-constrained, the paper explores the supply-side factors that have contributed to credit constraint in India's industrial sector. We found that there are several structural bottlenecks with respect to the industrial financing landscape that has contributed to the prevalence of credit constraint. With the demise of the Development Financial Institutions (DFIs), there are not many institutions left to cater to the term lending needs of the industrial sector. The responsibility of undertaking term lending fell primarily on the PSBs, which resulted in high NPAs, mainly due to loan defaults by the corporates. While in the one hand, the specialised industrial credit institutions were closed down, on the other hand, the stock market did not mobilise the required resources for the industrial sector as expected. The corporate bond market lacks depth and very limited in size. The equity market didn't perform as per the expectation. The initial public offerings (IPOs) dried up since late-1990s.*

*Keywords: Credit Constraint, Industrial Finance, DFIs, Industrial Financing Architecture*

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*For the complete working paper, please contact the author at [santosh@isid.org.in](mailto:santosh@isid.org.in)*

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Policy Research to Foster India's Industrial Transformation

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