International Journal of Environmental Sciences
ISSN: 2229-7359
Vol. 11 No. 5s (2025)
https://www.theaspd.com/ijes.php

Critical Success Factors And Warning Signals In Bank Loan Restructuring For Financially Distressed Msmes: A Qualitative Study Of Indian Manufacturing Enterprises

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ABSTRACT
Micro, Small, and Medium Enterprises (MSMEs) constitute a crucial element of India's economic framework, significantly contributing to GDP, employment generation, and inclusive growth. Despite their strategic significance, MSMEs encounter persistent challenges in accessing institutional finance, particularly during financial distress. This study examines the effectiveness of bank loan restructuring as a recovery mechanism for financially stressed manufacturing MSMEs in India. Employing a qualitative multiple case study approach, the research investigates both successful and unsuccessful restructuring cases to identify critical success factors, behavioural warning signals, and systemic barriers. The findings highlight the importance of non-financial variables—such as promoter credibility, the quality of the bank-MSME relationship, and management capability—in influencing restructuring outcomes. The study further identifies early warning signals, including fund diversion, fraudulent accounting practices, and the disengagement of key personnel. Drawing from interviews with promoters, CFOs, and bankers, a conceptual framework is developed, integrating financial and behavioural dimensions to assess restructuring viability. The study addresses gaps in existing restructuring literature, which predominantly focuses on large corporations and emphasizes financial metrics over qualitative variables. It contributes to theory by reinforcing relationship banking and signalling theories. Practically, the research offers policy recommendations for more holistic restructuring frameworks that integrate behavioural assessments alongside financial analysis. The findings call for proactive engagement from banks and policymakers to ensure timely, transparent, and context-sensitive support to distressed MSMEs, thereby preventing premature closures and enhancing sectoral resilience. Future research may adopt quantitative or cross-sectoral approaches to validate and extend the propositions generated in this study.

Keywords: *MSMEs, Bank Lending, Restructuring, Banking sector*

I.Introduction
Micro, Small, and Medium Enterprises (MSMEs) are integral to the economic framework of emerging economies, acting as pivotal agents for employment creation, economic advancement, and poverty reduction (Beck & Demirgüç-Kunt, 2006). In India, the strategic significance of the MSME sector is underscored by its substantial contribution to the GDP and its role as a primary source of employment. The Government of India's amendment to the MSME classification criteria, effective from July 1, 2020, introduces a composite framework that considers both investment in plant and machinery and annual turnover. This framework categorizes enterprises into micro (up to ₹1 crore investment and ₹5 crore turnover), small (up to ₹10 crore investment and ₹50 crore turnover), and medium (up to ₹50 crore investment and ₹250 crore turnover) segments.
Despite their economic importance, MSMEs encounter significant challenges in securing adequate financial resources, with limited access to finance identified as a critical constraint to their growth and sustainability (Alamelu & Baskaran, 2011; Biswas, 2014; Singh & Wasdani, 2016). This financing gap is particularly pronounced during periods of financial distress, when traditional support mechanisms often prove insufficient, potentially resulting in business closures and substantial economic losses.

The Financial Distress Challenge

Financial distress in Micro, Small, and Medium Enterprises (MSMEs) is evidenced by various indicators, with the Reserve Bank of India (RBI) having established a systematic classification framework through Special Mention Accounts (SMA) categories. This regulatory framework categorizes accounts as SMA-0 (up to 30 days overdue), SMA-1 (30-60 days overdue), and SMA-2 (60-90 days overdue), thereby providing early warning signals for potential defaults. Although predictive models such as the Altman Z-score have proven effective in forecasting financial distress across various sectors, including Public Sector Undertakings (PSUs) (Agarwal & Patni, 2019), their specific applicability to Indian MSMEs remains insufficiently explored.

The COVID-19 pandemic exacerbated financial stress within the MSME sector, prompting unprecedented government intervention through measures such as the Emergency Credit Line Guarantee Scheme (ECLGS), loan moratoriums, and comprehensive restructuring frameworks. Nonetheless, the effectiveness of these restructuring initiatives in ensuring the survival and revival of MSMEs remains a critical question that necessitates empirical investigation.

Bank Loan Restructuring and survival of MSMEs

Loan restructuring has emerged as a pivotal tool for their survival, particularly for financially distressed MSMEs (Sengupta & Sharma, 2016). International research suggests that effective restructuring requires a multifaceted approach encompassing management changes, market reorientation, cost reduction, and strategic retrenchment (Collett et al., 2014). Mayr and Lixl (2019) emphasize that successful restructuring in SMEs predominantly requires engagement from both banks and entrepreneurs, highlighting the collaborative nature of the process.

However, the existing literature on MSME loan restructuring presents several critical gaps. First, most restructuring studies focus predominantly on large corporations, leaving MSME-specific dynamics inadequately understood. Second, quantitative approaches dominate the research landscape, potentially overlooking crucial non-financial factors that influence restructuring outcomes. Third, while financial metrics receive extensive attention, the impact of relationship banking, management capability, and other qualitative factors remains underexplored. Finally, despite India's substantial MSME sector, limited research examines loan restructuring within this specific context from both lender and borrower perspectives.

Research Focus and Contribution

This study seeks to address existing knowledge gaps through a comprehensive qualitative investigation of bank loan restructuring for financially distressed Indian manufacturing MSMEs. By analysing both successful and unsuccessful restructuring cases, this research aims to identify critical success factors that determine the effectiveness of restructuring, while also highlighting warning signals that may indicate potential misuse of restructuring provisions.

The significance of this study extends beyond its academic contribution to encompass practical policy implications. Given the MSME sector's crucial role in India's economic development, understanding the mechanisms that facilitate successful restructuring can inform policy frameworks, banking practices, and regulatory guidelines. This research contributes to the growing body of literature on relationship banking, financial intermediation, and crisis management within emerging market contexts.

Research Objectives

This investigation pursues two primary research objectives:

1. To examine and analyse the financial and non-financial factors that contribute to successful bank loan restructuring of financially distressed MSMEs in the Indian manufacturing sector.
2. To identify key warning signals and establish safeguards that can prevent misutilization of restructuring provisions while ensuring genuine distressed enterprises receive appropriate support.

Through an in-depth case study analysis of four Indian manufacturing MSMEs, encompassing both successful and unsuccessful restructuring outcomes, this study employs a qualitative methodology to elucidate the intricate dynamics of bank-borrower relationships during periods of financial distress. The research derives insights from a diverse range of stakeholder perspectives, including promoters, chief financial officers, and banking professionals, to offer a comprehensive understanding of restructuring processes.

This investigation contributes to both theoretical knowledge and practical application by formulating propositions that can guide future restructuring decisions, inform regulatory frameworks, and enhance the efficacy of financial recovery mechanisms for MSMEs. The findings hold significant implications for banking professionals, policymakers, and MSME entrepreneurs navigating financial distress situations.

The remainder of this paper proceeds as follows: Section II reviews the existing literature on MSME financing and loan restructuring; Section III discusses the qualitative methodology employed; Section IV presents detailed findings from the case studies; Section V discusses theoretical and managerial implications; and Section VI provides conclusions and recommendations for future research.

II. Literature Review

MSME Financing Challenges

The financing landscape for Micro, Small and Medium Enterprises (MSMEs) is characterized by significant systemic barriers that impede their growth and sustainability. Banerjee et al. (2017) identified information asymmetry between lenders and borrowers as a fundamental obstacle, resulting in constrained access to finance for MSMEs. This challenge is frequently exacerbated by the absence of adequate financial records and insufficient collateral among smaller enterprises (Ayyagari et al., 2017).

The structural disadvantages faced by MSMEs in accessing financial resources are further compounded by economic considerations from the lending perspective. De la Torre et al. (2010) highlighted that the relatively high transaction costs compared to loan sizes make MSME lending less attractive for financial institutions. This cost-benefit disparity is particularly pronounced in larger banking institutions, where Berger and Black (2011) found that these banks tend to be less inclined to provide loans to MSMEs, primarily due to their challenges in incorporating soft information into standardized lending procedures.

Within the Indian context, Rao et al. (2017) identified several specific barriers that compound the general financing challenges faced by MSMEs. These include intricate loan application procedures, prohibitively high interest rates, and stringent collateral requirements that often exceed the capacity of smaller enterprises. The magnitude of this financing challenge is substantial, with the MSME sector in India facing an estimated financial gap of 56% of total demand, influenced by multiple interconnected factors.

Loan Restructuring as a Financial Recovery Mechanism

Given the inherent financial vulnerabilities of MSMEs, loan restructuring has emerged as a crucial mechanism for managing financial distress effectively. However, the existing body of research on loan restructuring demonstrates a significant bias toward large corporations, with minimal emphasis on MSME-specific dynamics. This research gap is particularly concerning given the unique characteristics and challenges that distinguish MSME restructuring from corporate restructuring processes.

Gilson et al. (1990) established foundational understanding by demonstrating that the effectiveness of debt restructuring depends fundamentally on creditors' willingness to engage in renegotiation, which is significantly influenced by their perception of the business's long-term viability. This finding has particular relevance for MSMEs, where information asymmetries and limited financial transparency can negatively impact creditor confidence.

Building on this foundation, Gupta et al. (2018) made a significant contribution to MSME-specific restructuring literature by establishing that restructuring success for MSMEs is strongly correlated with the quality of the bank-borrower relationship. This finding highlights the importance of relationship banking in the MSME sector and suggests that successful restructuring extends beyond purely financial considerations to encompass relational and trust-based factors.

Regulatory Framework and Restructuring Effectiveness

The role of regulatory frameworks in facilitating effective restructuring has received considerable attention, particularly in the Indian context. Sengupta and Sharma (2016) conducted a comprehensive analysis of the Reserve Bank of India's guidelines on MSME debt restructuring, revealing mixed outcomes in terms of default prevention. Their findings suggest that while regulatory frameworks provide necessary structure and guidelines, their effectiveness depends heavily on implementation quality and the specific circumstances of individual cases. The regulatory approach to MSME restructuring has evolved significantly, particularly in response to economic disruptions. International research provides valuable insights into effective restructuring strategies

Predictive Models and Early Warning Systems

The identification of financial distress at early stages has received considerable attention in the literature, with various predictive models being developed and tested across different contexts. The Altman Z-score has emerged as one of the most widely applied predictive tools, with researchers testing its applicability across various sectors and contexts. International validation of the Altman Z-score has been provided through cross-country analysis by Altman et al. (2017), who confirmed its effectiveness in predicting defaults across different economic contexts. Some researchers have enhanced the model's predictive power by combining it with additional variables, such as cash flow metrics, to improve default prediction accuracy (Almamy et al., 2016). Additionally, innovative applications have extended beyond default prediction to broader business model assessment (Łęgowik-Świącik, 2017). Despite these applications, the specific effectiveness of the Altman Z-score for predicting financial distress in Indian MSMEs remains underexplored, representing a significant gap in the literature.

Alternative Risk Assessment Approaches

Credit rating systems provide an alternative approach to risk assessment and default prediction. SME-specific ratings are already operational in India, offering specialized assessment frameworks tailored to smaller enterprises. However, these systems face inherent limitations and potential biases. Blöchlinger and Leippold (2018) highlighted the potential for bias in credit ratings. A fundamental limitation of traditional rating approaches is their predominant reliance on financial ratios while failing to incorporate borrower intentions and qualitative factors that may significantly influence repayment capacity and willingness.

Regulatory Classification and Early Warning Systems

The Reserve Bank of India has established a systematic approach to financial distress identification through the Special Mention Account (SMA) classification system. This framework provides structured categories based on payment delays: SMA-0 (up to 30 days overdue), SMA-1 (30-60 days overdue), and SMA-2 (60-90 days overdue). This classification system serves as an early warning mechanism, enabling proactive intervention before accounts transition to non-performing asset (NPA) status.

COVID-19 Impact and Policy Response

The COVID-19 pandemic created unprecedented challenges for the MSME sector, prompting extensive government and regulatory intervention. The Government of India and Reserve Bank of India implemented comprehensive support measures including the Emergency Credit Line Guarantee Scheme (ECLGS), loan moratoriums, and specialized MSME loan restructuring schemes. However, the effectiveness of these restructuring initiatives in ensuring MSME survival and revival remains an empirical question requiring systematic investigation.

Identified Literature Gaps

The thorough examination of the existing literature identifies several significant gaps that this study seeks to address:

1. Research on restructuring predominantly focuses on large corporations, thereby limiting the understanding of the unique dynamics involved in the restructuring processes of MSME loans.
2. Contemporary research predominantly utilizes quantitative methodologies, which may inadvertently neglect the valuable insights obtainable through comprehensive qualitative analyses.
3. While financial metrics are extensively scrutinized, there is a paucity of research examining the influence of non-financial factors, such as management capability, bank-borrower relationships, and operational considerations, on the success of restructuring efforts.

4. Although India's Micro, Small, and Medium Enterprises (MSME) sector is substantial and economically significant, there is a paucity of research focusing on loan restructuring within this context, particularly from an integrated lender-borrower perspective.
5. Many existing studies predominantly employ a lender-centric perspective, thereby neglecting a thorough examination of borrower experiences, expectations, and viewpoints concerning loan restructuring processes.

This study seeks to address the identified gaps by employing a qualitative methodology to examine loan restructuring for financially distressed Indian manufacturing MSMEs through real-world case studies. By integrating perspectives from both lenders and borrowers, this research aims to offer a comprehensive understanding of the factors contributing to successful restructuring while identifying measures necessary to prevent the misuse of restructuring provisions.

III. Research Methodology

Research Design and Philosophical Approach

This study employs a qualitative research design utilizing a multiple case study methodology to examine the critical success factors and warning signals in the restructuring of bank loans for financially distressed MSMEs. The selection of a qualitative methodology is based on the interpretive research paradigm, which acknowledges that comprehending complex organizational phenomena necessitates an in-depth exploration of participants' experiences, perceptions, and contextual factors that quantitative approaches may not sufficiently capture (Creswell & Poth, 2018).

The adoption of a qualitative approach is particularly warranted in this research context due to several methodological considerations. Firstly, loan restructuring processes entail complex interactions among multiple stakeholders, including borrowers, lenders, and regulatory bodies, where relationship dynamics and contextual factors play crucial roles that are challenging to quantify. Secondly, the identification of "success factors" and "warning signals" necessitates an understanding of the nuanced decision-making processes, behavioral patterns, and subjective assessments that emerge through detailed narrative exploration. Thirdly, the limited existing literature on MSME-specific loan restructuring necessitates an exploratory approach that can generate theoretical insights and propositions for future empirical testing.

Case Study Methodology

This research utilizes a multiple case study design in accordance with Yin's (1981) framework for case study research. The case study methodology is particularly suitable for this investigation as it facilitates a comprehensive examination of contemporary phenomena within their real-life contexts, especially when the boundaries between the phenomenon and context are not clearly delineated. The restructuring of financially distressed MSMEs exemplifies such a complex, context-dependent phenomenon where multiple variables interact in ways that cannot be easily isolated or controlled.

The multiple case study approach presents several methodological advantages compared to single case designs. It facilitates the identification of cross-case patterns, enhances analytical generalization, and yields more robust findings through replication logic (Eisenhardt, 1989). Additionally, multiple cases permit the examination of both successful and unsuccessful restructuring outcomes, thereby aiding in the identification of contrasting patterns that highlight critical success factors and warning signals.

Case Selection and Sampling Strategy

This study utilizes purposive sampling to select cases that offer maximum information pertinent to the research objectives. Purposive sampling is particularly suitable for exploratory qualitative research, where the aim is to achieve theoretical understanding rather than statistical generalization (Patton, 2015). The sampling strategy specifically targets manufacturing MSMEs that have experienced bank loan restructuring processes, thereby ensuring direct relevance to the research questions.

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Data Collection
The data collection process utilized semi-structured interviews with various stakeholders involved in each case, thereby ensuring the triangulation of perspectives and a comprehensive understanding of the restructuring processes. Interviews were conducted for each case study, with all sessions being audio-recorded with the consent of the participants and subsequently transcribed for analysis. Field notes were systematically maintained throughout the data collection process to document contextual observations and non-verbal communications.

Data Analysis
This study utilizes thematic analysis, incorporating both within-case and cross-case analysis stages. The within-case analysis involved a detailed examination of each individual case to comprehend the specific context, circumstances, and outcomes. Subsequently, cross-case analysis identified patterns, similarities, and differences across cases to develop theoretical propositions and insights. Coding was conducted inductively, allowing themes to emerge from the data rather than imposing predetermined categories. These codes were then organized into broader categories. Pattern matching was employed to establish causal relationships between identified factors and restructuring outcomes. Cross-case analysis facilitated the identification of consistent patterns, thereby strengthening internal validity. While statistical generalization is not the objective of qualitative case study research, analytical generalization to theoretical propositions is enabled through the multiple case design. The findings contribute to theoretical understanding that may be applicable to similar contexts.

IV. Findings from Case Studies
This section presents the comprehensive findings from the qualitative analysis of four manufacturing MSME case studies that underwent bank loan restructuring processes. The analysis reveals distinct patterns across successful and unsuccessful restructuring outcomes, leading to the identification of critical success factors and warning signals.

Overview of Case Studies
A brief description of case studies is as follows:
BFPL: The company specialized in the production of automobile camshafts utilized in two-wheelers, four-wheelers, tractors, and railway vehicles. Additionally, it exported its products to Germany and Arab countries. Established in 1996, the company had its registered office in Punjab. Case study 1 indicates that the restructuring was successful. (C1/ S)
MOL: The company, established in 1989, was involved in the production of yarn, knitted fabrics, processed fabrics, and ready-made garments, with its manufacturing facilities located in Uttar Pradesh (U.P.) and Madhya Pradesh (M.P.). Case study 2 indicates that the restructuring efforts were successful. (C2/ S)
SBL: The company specialized in the production of plywood and laminates, including both regular and reconstructed plywood. It was established in 1994 and was headquartered in Delhi. Case study 3, Restructuring failed. (C3/ F)
GSML: Incorporated in 1979 and located in Gujrat, GSML is a vertically integrated enterprise within the synthetic textile industry. The company specializes in the production of Polyester Chips, Polyester Filament Yarn (PFY), Preparatory Yarn, Woven (Grey) Cloth, as well as Dyed and Printed Sarees and Dress Materials. Case study 4, Restructuring failed. (C4/ F)
Table 1 summarizes the key themes and propositions that emerged from our analysis of the case studies. These themes represent the main factors influencing the success of bank loan restructuring for financially stressed MSMEs, as well as important warning signals to consider during the restructuring process.

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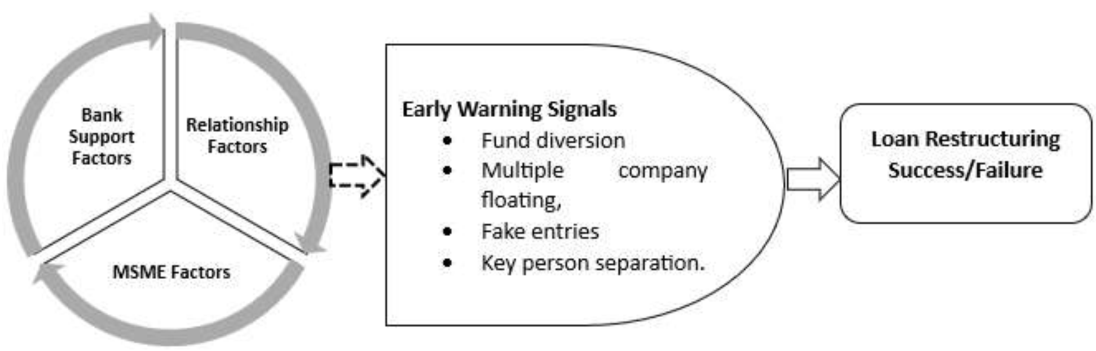
Table 1 – Key themes and proposition

Theme	Propositions
Support expected by MSMEs from Banks	P1: Solving Liquidity mismatch contributes positively towards survival of financially stressed MSMEs in India.
	P2: Reducing rate of interest on loan facilities contributes positively towards survival of financially stressed MSMEs in India.
	P3: Providing additional funding contributes positively towards survival of financially stressed MSMEs in India.
	P4: Confidence shown by banker in Firm's management contributes positively towards survival of financially stressed MSMEs in India.
	P5: Timely support given by bank contributes positively towards survival of financially stressed MSMEs in India.
Confidence building in bankers for restructuring of loan to financially stressed MSMEs	P6: Track record of promoters contributes positively towards survival of financially stressed MSMEs in India.
	P7: Relationship with the bank contributes positively towards survival of financially stressed MSMEs in India.
	P8: Infusion of capital into business contributes positively towards survival of financially stressed MSMEs in India.
	P9: Concrete revival plan contributes positively towards survival of financially stressed MSMEs in India.
Warning signals for restructuring of loan to financially stressed MSMEs	P10: Diversion of fund contributes negatively towards survival of financially stressed MSMEs in India.
	P11: Floating multiple companies in same activity contributes negatively towards survival of financially stressed MSMEs in India.
	P12: Fake entries in accounts contribute negatively towards survival of financially stressed MSMEs in India.
	P13: Separation of key person from company contributes negatively towards survival of financially stressed MSMEs in India.

Based on the case study findings, a conceptual framework emerges for assessing restructuring viability and monitoring restructuring progress.

Figure 1 – Conceptual Framework



The framework delineates the multifaceted and interconnected factors that influence the outcomes of loan restructuring, culminating in either success or failure. Central to the model is the quality and commitment of management, which exerts a significant influence on other factors, including financial performance, stakeholder relationships, and operational efficiency. Financial elements such as realistic projections, effective working capital management, and diversified revenue streams interact with non-financial components, including transparent communication, operational enhancements, and robust bank-borrower relationships, to determine the success of restructuring efforts. The framework also integrates early warning signals indicative of potential failure, such as financial inconsistencies, managerial resistance to oversight, and behavioural indicators, thereby facilitating proactive intervention before restructuring efforts become ineffective. This framework offers practitioners a systematic approach to assess the viability of restructuring by considering both traditional financial metrics and critical non-financial factors, thereby enabling more informed decision-making and enhancing restructuring success rates within the MSME sector.

V. Discussion

This section analyses the findings of the case study within the broader framework of existing literature on MSME financing, loan restructuring, and financial distress management. The discussion evaluates both theoretical contributions and practical implications, while addressing the research objectives and identified gaps in the literature.

MSME Restructuring Theory

The findings substantially enhance the theoretical comprehension of MSME loan restructuring by highlighting the predominance of non-financial factors over traditional financial metrics in determining the success of restructuring efforts. This insight challenges the conventional focus on financial ratios and quantitative assessments that is prevalent in existing literature. Although financial models such as the Altman Z-score have proven effective in predicting financial distress across various sectors, this study demonstrates that predictive accuracy alone is insufficient for comprehending the dynamics of restructuring within the MSME context.

The theoretical assertion that the quality and commitment of management are the primary determinants of successful restructuring extends the existing literature by offering empirical evidence from the MSME sector. This finding aligns with Mayr and Lixl's (2019) focus on entrepreneurial engagement, while providing deeper insights into the specific management characteristics that influence outcomes. The study's identification of transparency, operational competence, and stakeholder relationship management as critical success factors contributes to a more nuanced understanding of management effectiveness in crisis situations.

Relationship Banking Theory

The findings of the study offer substantial support for and an extension of relationship banking theory within the context of MSMEs. The empirical evidence indicates that robust pre-existing bank-borrower relationships significantly enhance the probability of successful restructuring. This supports the findings of Gupta et al. (2014) while providing deeper insights into the mechanisms through which these relationships influence outcomes.

The identification of trust, transparency, and collaborative problem-solving as essential dimensions of relationships advances relationship banking theory by delineating the qualitative attributes that characterize effective banking relationships. This contribution is particularly noteworthy given the limited focus on relationship quality dimensions in the existing literature on MSMEs. The finding that banks exhibit greater flexibility and support for enterprises with robust relationships offers empirical validation of the advantages of relationship banking in crisis situations.

Information Asymmetry and Signalling Theory

The findings of the study regarding transparency and proactive communication offer novel insights into the challenges of information asymmetry in MSME lending. The evidence indicating that successful restructuring cases maintained open communication channels and proactively shared both positive and negative information suggests that effective signalling can mitigate the information asymmetry issues identified by Banerjee et al. (2017).

The behavioural warning signals identified in the study, such as management's resistance to oversight and inconsistent financial reporting, contribute to signalling theory by illustrating how borrower behaviour functions as informational signals for lenders. These findings indicate that lenders can utilize behavioural monitoring as a supplement to traditional financial monitoring, potentially enhancing the accuracy of risk assessment.

Crisis Management and Organizational Resilience Theory

This study advances crisis management theory by identifying specific factors that facilitate the resilience of micro, small, and medium enterprises (MSMEs) during periods of financial distress. The observation that successful cases implemented operational enhancements, sustained customer relationships, and exhibited adaptability is consistent with the literature on organizational resilience, while also offering insights specific to MSMEs.

The identification of diverse revenue streams and operational efficiency as critical success factors aligns with diversification theory, underscoring its particular significance for small enterprises experiencing resource constraints. This finding indicates that micro, small, and medium enterprises (MSMEs) can enhance their resilience through strategic diversification, despite their limited resources.

Managerial Implications

The findings offer clear guidance for principal stakeholders within the MSME ecosystem. For MSME entrepreneurs, the evidence underscores the importance of establishing robust banking relationships through transparent communication and regular engagement prior to the onset of financial difficulties, rather than deferring until crisis situations arise. Entrepreneurs should prioritize the development of management capabilities in financial planning, operational efficiency, and stakeholder relationship management, as these factors have proven more critical to restructuring success than purely financial metrics. The study strongly advocates for MSMEs to invest in operational excellence, including the implementation of robust financial controls and efficient working capital management, as both performance drivers and risk mitigation strategies.

Banking institutions are encouraged to implement comprehensive relationship banking strategies that extend beyond conventional financial evaluation methods. The findings suggest that banks gain advantages by investing in dedicated relationship managers capable of assessing both financial and behavioural indicators of potential distress. It is recommended that banks develop monitoring systems that capture levels of management cooperation, transparency in reporting, and operational performance, in addition to traditional financial metrics. The evidence indicates that integrating assessments of relationship quality and management capability into credit and restructuring decisions can substantially enhance outcomes.

For policymakers and regulators, the study suggests that effective support for micro, small, and medium enterprises (MSMEs) necessitates comprehensive frameworks that address both financial and non-financial dimensions. Government programs should integrate management development and operational improvement support with financial assistance, acknowledging that successful restructuring is significantly contingent upon management quality and operational capabilities. Regulatory guidelines for loan restructuring should incorporate the behavioural warning signals and success factors identified in this study, thereby enabling more effective assessment and monitoring of restructuring cases. The development of early warning systems that combine financial indicators with behavioural and operational metrics can facilitate proactive intervention and prevent the misuse of restructuring provisions.

VI Conclusion

This study elucidates the factors contributing to the successful restructuring of bank loans for financially distressed MSMEs and underscores the necessary precautions to be observed during the restructuring process. The findings and recommendations offer a more nuanced comprehension of MSME loan restructuring in India. By addressing both financial and non-financial elements, banks and policymakers can enhance the efficacy of restructuring initiatives, potentially mitigating MSME failures and fostering economic growth. Future research could focus on quantitatively testing the propositions developed in this study across a larger sample of MSMEs, as well as investigating sector-specific challenges in restructuring.

This research offers substantial theoretical and practical contributions to the literature on MSME finance. Theoretically, it enhances the understanding of financial distress management by highlighting the predominance of management quality over financial metrics in determining the success of restructuring efforts. The findings further develop relationship banking theory by identifying specific relational dimensions that affect outcomes and contribute to signaling theory through the identification of behavioral warning signals.

The research offers practical frameworks for restructuring assessments that integrate both financial and non-financial considerations. It provides specific recommendations for entrepreneurs, banks, and policymakers to enhance the effectiveness of restructuring efforts while mitigating the potential for misuse of restructuring provisions. Furthermore, the identification of early warning signals facilitates proactive intervention strategies, which can avert business failures and safeguard the stability of the banking sector.

While this study offers valuable insights, it is important to acknowledge several limitations. The research is concentrated on manufacturing MSMEs within specific geographic regions, which may restrict the generalizability of the findings to other sectors or contexts. Although the qualitative methodology provides rich insights, it limits the capacity for statistical generalization. Furthermore, the cross-sectional design captures restructuring experiences at specific points in time, potentially overlooking variations in long-term outcomes.

Future research should incorporate longitudinal studies to evaluate the long-term sustainability of restructuring measures. Comparative analyses across various industry sectors could elucidate sector-specific determinants of restructuring success. Additionally, cross-country studies would enhance comprehension of how diverse regulatory frameworks and cultural contexts influence restructuring dynamics. Large-scale quantitative research could serve to test and validate the theoretical propositions developed through this qualitative inquiry.

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