



Analysis of comparative study on sick enterprises and bank credit in India

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Abstract

The research paper an attempt has been made to explore the quantum of sickness MSMEs and bank credit in India. For this purpose secondary source of data collected from Reserve Bank of India during the period from 2001 to 2017. The Micro, Small and Medium Enterprises in India has been increased extremely fast in recent year. The Sick MSMEs has been growing continuously due to lack of managerial skills, competition and lack of credit availability. The result of the study show that the number of sick units in MSMEs sector has increased from 3,04,235 units in 2001-2002 to 4,80,280 lakh in 2016-17 and outstanding bank credit increased from 46.08 billion to 326.74 billion respectively. It is clear that lack of demand for the product and shortage of working capital are the main reasons for MSMEs sickness in India. MSMEs sickness affect significant towards production and employment opportunity as well as economic development in India.

Keywords: sick micro, small and medium enterprises

Introduction

There are a number of socio-economic issues which are of serious concern to an emerging developing country like India, which has the 2nd largest population in the world of over 130 crores. India faces major socio-economic problems such as unemployment, poverty and low investment which has serious impact on the micro and macro economy of the country. There are several other areas of concern such as, imbalance in regional development, under developed infrastructure in rural villages and underutilization of natural and human resources. MSMEs facing a number of odds during its implementation and operation stage because of number of factors in the environment internal and external. The sick industries are unable to utilize the production capacity or produced goods and services. The sickness has been acute and adversely affecting production and employment in the country besides other social- economic factors, so there is need to identify sickness in the initial stage and to initiate the process of correctness measures and revive/ rehabilitation before the sickness assumes as serious proportion. Any MSMEs units are considered sick when its financial position is not satisfactory and it become worse year after year. It incurs losses and its capital reserves may be stretched out in course of times. The increased trend in Industries sickness touched all types of MSMEs including manufacturing and services sector (Micro, small and medium enterprises) especially small enterprises affect easily become sick because of small capital and high risk of investment return.

These deep rooted problems hinder the economic development in the country. To overcome such socio-economic issues, developed and developing countries around the world consider promoting Micro, Small and Medium Enterprises (MSMEs) for their sustained economic growth. As India's GDP growth is expected to touch 8 percent plus again and the country likely to emerge as a USD 5 trillion economy by 2025, MSMEs could significantly increase their contribution to GDP from the current 37.54 percent to 50 percent by 2020¹. The MSMEs

are recognized worldwide for the fact that they make up the largest business sector in every economy (Mugbo, 2013). The government in different parts of the world increasingly promoting and supporting the growth of MSMEs as force for the promotion of an economy and they contribute immensely to economic development (Turyahewa, Sunday and Sekajugo, 2013.) The major contribution of the small enterprises in the form of manufacturing MSME is basically on their potential to create employment to thousands of people in the county. The global scenario, women entrepreneurship has emerged in the forefront. According to the global Entrepreneurship Monitor, one in eleven 8.9 (percent) women is involved in entrepreneurship across globe and India occupies the second position among the 22 countries were 14. Percent of women have ventured into entrepreneurship. MSMEs tend to employ a largest share for the vulnerable sectors of the workforce, such as youth and people from poorest households. MSMEs as a main source of employment in rural areas in India.

Micro and small enterprises cannot be overemphasized when it come to the contribution of the sector to the economic development of nation. So, the development of MSMEs is extremely critical to meet the national imperatives of financial inclusion and generation of significant levels of employment in urban and rural areas across the country. The continuous initiatives are taken by the ministry to promote MSMEs in all areas of agriculture, manufacturing and services sectors because each of these sector will continue to be every relevant to the overall GDP growth as well as employment generation.

Micro, Small and Medium Enterprises in India

India has started recognizing the importance of small enterprises. *Prof. K.T. Sash* was the first Indian economist, who realized the importance of Small Scale Industries (SSI) in India and he stated that a small scale or cottage industry may be defined as an enterprise or series of operations carried on by a workman skilled in the craft on his responsibility, the finished product of which, he markets

himself. *Rethnam N.V.*, in his study entitled, “Rural Industrialization and IRDP” opined that infrastructure development for industrialization in the rural areas and investment on basic services, designed to realize full potential of human resources in the rural areas should receive high priority. The small enterprises are generally artisan based, located mostly in rural and semi-rural areas. These enterprises use local skills and resources and sell their products locally and involve lower levels of investment in machinery and provide large employment opportunities. These types of enterprises are located throughout the country in activities such as handlooms, khadi, sericulture, coir, embroidery, knitting, wood-carving and other handicrafts etc. Small businesses use power-driven machines and possess some sophisticated technology. Their products include: hosier goods, readymade garments, motor-parts, electronics, sports goods, rubber goods and engineering goods.

MSME’s contribution to economic and social development of a country is well established. After the liberalization, privatization and globalization (LPG) of India’s economy, this sector is facing several challenges in the areas of technology, access to credit and equity capital, and intense competition in marketing. Recognizing the potential of MSME sector in employment generation, the Government has started emphasizing on its growth and development.

Definition of micro, small and medium enterprises in India

In India, the definition of Small Scale Industries has undergone changes over the years in terms of investment limits. The main criterion for the definition is the investment level. Definitions of what constitutes Micro, Small Medium enterprises vary quite widely from country to country and even within a country, depending on the business sector concerned. The Ministry of Agro and Rural Industries and Ministry of Small Scale Industries (SSI’s) have been merged into a single ministry namely, Ministry of Micro, Small and Medium Enterprises. The below Table # 1 shows the periodical revision in defining SSI’s in India.

Table 1: Periodical revision of Investment limits for Small Scale Industries in India

Year	Investment Limit (₹)
1950	Up to ₹ 5.0 lakhs in fixed assets
1966	Up to ₹ 7.5 lakhs in Plant & Machinery
1975	Up to ₹ 10 lakhs in Plant & Machinery
1980	Up to ₹ 20 lakhs in Plant & Machinery
1985	Up to ₹ 35 lakhs in Plant & Machinery
1991	Up to ₹ 60 lakhs in Plant & Machinery
1997	Up to ₹ 300 lakhs in Plant & Machinery
1999	Up to ₹ 100 lakhs in Plant & Machinery
2001	Up to ₹ 100 lakhs in Plant & Machinery

Sources: Ministry of Micro, Small and Medium Enterprises)

The Small Scale Industries (SSI) has been renamed as Micro, Small and Medium Enterprises with the introduction of MSMED Act, 2006. Prior to the enactment of this Act, small industries in India comprised tiny, cottage, traditional, village and modern small enterprises. These enterprises were fragmented across various Ministries/ Departments in India. Major sector covered by MSEs in India include handloom, power looms, handicrafts, khadi, coir, and other manufacturing and services based enterprises. In order to

correct these discrepancies and neglect, Micro, Small and Medium Enterprises Development Act was enacted on June 16, 2006. This Act provides the first ever legal framework recognizing the concept of enterprise (comprising both enterprises and integrating the three tiers of these enterprises namely Micro, Small and Medium). A major change took place in 2006 with the enactment of MSME Development Act, 2006. As per the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, MSMEs are classified into two categories such as manufacture and services enterprises which are generally defined in terms of the investment in the plant, machinery and/or equipment, the number of people employed and annual turnover. MSMEs in India are defined according to the amount of investment ceiling for plant, machinery or equipment. The definition of MSMEs based on the fourth All India MSMEs survey 2006 is given below.

Table 2: Classification of Micro, Small and Medium Enterprises based on investment

Type	Manufacturing (Investment limit in Plant and Machinery) (Rupees in lakhs)	Service (Investment limit in equipment) (Rupees in lakhs)
Micro	Up to ₹ 25 lakhs	Up to ₹ 10 lakhs
Small	₹ 5 crore	₹ 2 crore
Medium	₹ 10 crore	₹ 5 Crore

Source: MSMEs Annual Report 2016-17)

The above Table # 2 shows the classification of Micro, Small and Medium Enterprises based on investment in plant and machinery. It is further broadly divided into two classes according to the provisions of the MSME development (MSMED) Act, 2006. They are as; a) Manufacturing Enterprises engaged in the manufacturing or production of goods pertaining to any industry, defined in terms of investment in plant and machinery. b) Service Enterprises engaged in providing or rendering of services defined in terms of investment in equipment.

Review of Literature

1. Junjie Wu Jining Song Catherine Zeng, (2008) ^[1] examined evidences concerning small business financing in China and problems faced by small to medium-sized enterprises (SMEs) in developing their businesses. The study used primary source of data by collecting sample of 60 small businesses in three cities of China. The capital structure of SMEs at start-up, the types and extent of funding shortage, the preference of financial resources as enterprises grow, the significant factors, which help enterprises secure bank loans and the influence of a firm’s size, age. The findings by and large back the previous financial theories and studies about small and medium enterprises but also offer the basis for new arguments about financing SMEs in China.
2. Suwastika Naidu Anand Chand (2012) ^[3] investigated the financial obstacles faced by MSMEs in the manufacturing sector of Fiji and Tonga. The study is based on primary sources of data collected from 200 manufacturing enterprises units out of which 86 are micro, 94 small and 20 medium enterprises. The study analyzed the importance of 19 financial obstacles owners/ managers of MSMEs. They found that financial problems faced by the MSMEs could be divided into

three broad categories financing problem; operational and administrative problems and sales and debtors problems.

3. Agnes W. Njeru, Gregory S. Namusonge and John M. Kihoro (2012) ^[1] studied the influence of firm size as a determinant of choice of source of entrepreneurial finance for small and medium sized enterprises. Their study is adopted stratified random sampling with a sample size of 259 firms in Thika district of Kenya. Their result revealed that there was no association of firm size with the source and choice of entrepreneurial finance. SMEs were not constrained by size in their ability to access their choice of source of entrepreneurial finance, debt or equity. The profitability did have an influence on lenders perception, so it would help if the firms could enhance their profitability to tap into this link with source of financing. In this way, small and medium enterprise, irrespective of size, are able to optimize their financial and operating ratios which enable them to support higher levels of debt and equity funding.
4. P. Nayak (2014) ^[2] examined the role of financial institutions in the promotion of small industries in Assam state of North East India. This study used secondary source of data collected from 1996 to 2003. The micro credit finance sanctioned and distributed to benefit agriculture, fishery, animal husbandry, horticulture and rural industries. The large number of organization like North Eastern Industries and Technical consultancy Organization and North Eastern Industrial Consultants Ltd. These financial institutions play a role in promoting small scale and tiny industries in term of growth of entrepreneurs, enterprises and its contribution to State Domestic Products increased. The findings of the study show that supporting institutes actively supporting for entrepreneurship development activities in North East region in India.
5. Patrick Kwashie Akorsu and Daniel Agyapong. (2012) focused on developing an alternative model for raising funds and advancing credit to SMEs in Ghana. His study is based on secondary source of data collected in Ghana from small and medium enterprises. The findings of the paper show that in appropriate risk management, moral hazard and possible adverse selection restrict their access to sources of credit from financial institutions. They found that as financial institutions are not granting adequate credit to enterprises until collateral is provided, therefore there is a need for alternative model for the funding of SMEs.

Objective of the study

The research study objective is based on sick enterprises and bank credit in India. The following specific objectives of the research study are as follows.

1. To understand the institutional credit support to MSMEs in India
2. To Analysis of comparative study of sick enterprises and bank credit in India
3. To suggest suitable policies for financial institution to support MSMEs

Methodology

This section of the study gives detailed information relating to the methodology adopted in the present study towards fulfilling the objectives stated above. The present study is based on secondary sources of data collected from Reserve Bank of India, MSME Reports, e-books and e- journal. The secondary sources of data were collected for the period from the year 2000 to 2017. This study use graphical and percentage of growth.

Analysis and Discussion

In this section, an attempt is made to analyze the data and information collected for the study to expose the ‘sick enterprises and bank credit’ in India. For data analysis, the collected data were systematically processed, tabulated and made suitable for analysis and interpretations. The results obtained were classified and tabulated. The following analyses were performed to fulfill the objectives of the study.

Institutional Credit Support to MSMEs in India

The MSMEs are essential for achieving the target GDP growth of our country. This sector nurture budding enterprises and incubates innovation it most rudimentary level. Growth of MSMEs not only ensures industrialization in backward areas, but also indicates a more equitable development across the country. Hence, to develop MSMEs, the central and state governments have rolled out several schemes besides schemes by various banks and financial institutions. The Small Industries Development Agency provided unique single window services for SSI units. The RBI’s rural planning and credit department provided refinance facility to nationalized banks and financial institutions to cater to the financial needs of MSME. The below Table # 3 depicts the names of institutions which supports MSMEs in India.

Table 3: Institutional Credit Support to MSMEs in India

Government Bureaus	Domestic Agencies	Banks	Industry Associations	SME associations	International Agencies
RBI	SIDBI	Banker’s industry Associations	FICCI	Indian Industries Association	World bank/IFC
Ministry of MSME	NABARD	ICICI	ASSOCHAM	Federation of Indian MSMEs	Asian Development bank
Ministry of Technology	National Small Industry Corporation	Urban State Cooperation	PHD Chamber of Commerce & Industry	-	UL’s Dept. of Development
Ministry of Finance	-	-	Confederation of Indian Industry	-	UNIDO

Source: Finance Sector Development and Financial Services for Small and Medium Enterprises

The above Table # 3 shows the details of institutional credit support to MSMEs in India. These agencies make investment in desired areas to achieve desired growth results in developing MSMEs. They fund for the development of infrastructure, skill, technology, innovation, global market access, indigenization, public procurement and vendor development, traditional and heritage industry development. These credit support agencies form part of government, domestic agencies, banks, industry associations, MSEs associations and international agencies. There exists a large body of evidence finding a strong, positive relationship between financial sector development and MSME growth in India. A well-developed and inclusive financial system also has positive impacts on equality by providing poorer individuals with savings opportunities and much-needed credit. Without inclusive financial systems, poor people must rely on their own limited savings to invest in their education or become entrepreneurs and small enterprises must rely on their limited earnings to pursue promising growth opportunities (Fadun, 2014). As the MSMEs played a significant role through innovation, diversification, and

employment generation, this sector should be ensured with access to finance for creating more economic opportunities.

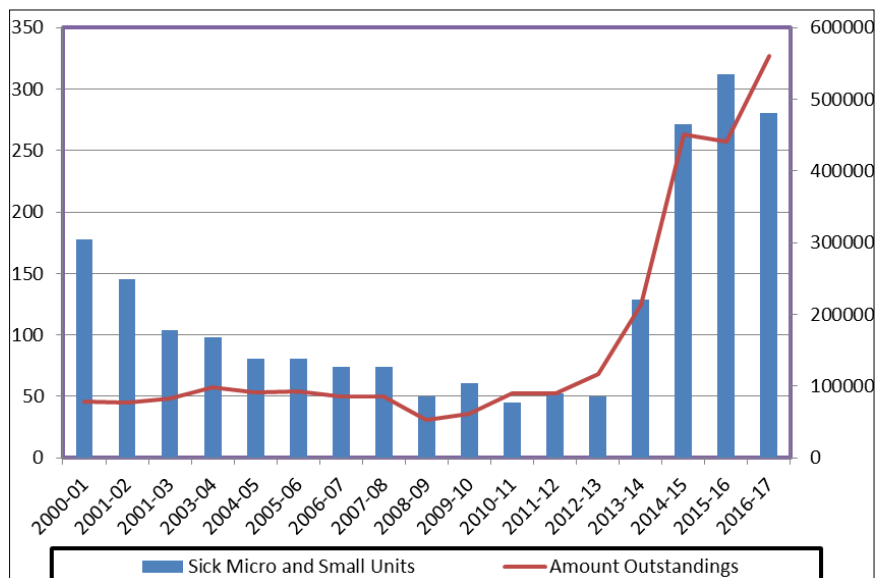
MSME: Sick units and outstanding bank credit in India

Despite excellent performance of MSME sector and its significant contribution to the India economy, the problem of industrial sickness is persisting in this sector. Financing has always been a major problem for MSMEs in India. The MSMEs mostly depend on internal sources such as personal savings, loan from family members and relatives etc., and external sources of institutional financing from banks. Bank credit is the prime input for sustained growth of enterprises and its availability is thus a matter of great importance. The main objective of bank credit has been to provide short term credit / working capital to small enterprises for its day to day requirement for purchasing raw material and other inputs and for payment of wages and salaries. Long term credit is used for procuring fixed assets like land, building, plant and machinery etc. The number of sick units in MSME sector and their outstanding bank credit are given below.

Table 4: MSME: Sick units and outstanding bank credit in India

Year	Sick Units	Growth (%)	Outstanding Bank Credit (Rs. Billions)	Growth (%)
2000-01	304235	-	46.08	-
2001-02	249630	(-)17.95	45.06	(-)2.21
2001-03	177336	(-)28.96	48.19	(+)6.95
2003-04	167980	(-)5.28	57.06	(+)18.41
2004-05	138811	(-)17.36	52.85	(-)7.38
2005-06	138041	(-)0.55	53.82	(+)1.84
2006-07	126824	(-)8.13	49.81	(-)7.45
2007-08	126824	0	49.82	(+)0.02
2008-09	85187	(-)32.83	30.82	(-)38.14
2009-10	103996	(+)22.08	36.19	(+)17.42
2010-11	77723	(-)25.26	52.33	(+)44.60
2011-12	90141	(+)15.98	52.11	(-)0.42
2012-13	85591	(-)5.05	67.9	(+)30.30
2013-14	220492	(+)157.61	124.42	(+)83.24
2014-15	465492	(+)111.12	263.11	(+)111.47
2015-16	534844	(+)14.90	257.14	(-)2.27
2016-17	480280	(-)10.20	326.74	(+)27.07

Source: Reserve Bank of India, 2016-17



Source: Reserve Bank of India 2016-17

Fig 1: MSME: Outstanding bank credit and sick enterprises in India

The above Table # 4 and FIG # 1 represent the details of outstanding bank credit and sick MSM enterprises in India for the period from 2000-01 to 2016-17. It is observed that there has been constant growth in outstanding credit and sick enterprises in India. The above table shows that there are 3,04,235 sick units against ` 46.08 billion outstanding credit in the financial year 2000-01. After declassification of enterprises in 2006, there was a considerable reduction in sick units. There were 85,187 sick units against an outstanding credit of ` 30.82 billion during the year 2008-09. As per the report on Moderate Deployment of Credit to Industries (2013-14), the gross bank credit deployment to medium and large industries has been comparatively lower in 2013-14. The credit flow to micro and small enterprises has, however, shown robust growth. Overall credit flow to industry increased by 14.9 percent in 2013-14, through lower in comparison with the 20.9 percent growth achieved in 2011-12 and 17.8 percent in 2012-13. The outstanding bank credit has consistently increased in financial year 2016-17 and reached ` 326.74 billion against 4,80,280 sick enterprises in India. It is also found from the above table that the sickness of MSEs had greatly influenced the outstanding credit. Therefore, it is important to note that enterprises performance greatly influence outstanding of credit of enterprises. The above data also shows that outstanding credit was fluctuating during the study period. It is clear that lack of demand and shortage of working capital are the main reasons for MSME's sickness.

Reasons of cause sickness in MSMEs

The causes of sickness are basically related to the disorder in any one or more of the function system within the enterprises, viz. Production, finance, marketing and personal skill etc. The various causes of industrial sickness are classified into both internal and external. The internal causes are concerned with choice of location under estimation of cost of capital, overestimation of demand, mismanagement and failure to introduce proper control techniques and tools, poor maintenance of machinery and equipments and poor public relations. The external factors related to the environment in which the industrial works and over which the industry has no control, for example government policy regarding production, prices and distribution, inadequate supply of essential inputs like raw, power and transport etc. Sickness cannot be attributed to a singly alone. In fact, it is the ultimately result of the cumulative effect of many factors/ causes working simultaneously which may be closely inter-related or even independent of each other. In this view of the origin of the causes of industrial sickness those are broadly classified into two categories. a) Internal; Internal or endogenous causes are those which are within the control of the unit. These causes arise due to some internal deficiencies in various factors like finance, production, marketing and personal managerial skill etc. b) External causes; the external or exogenous causes which are beyond the control of the industry usually affect the industry group as a whole. There may be several external factors causing a unit sick and which may vary from time to time for industry to industry and even from point to time to another for the same industry. The important external factors causing sickness such as industrial policies of government, inadequate and untimely available of necessary

inputs like raw material, power, transportation and skilled labour, lack of demand for the product, recessionary trend in the economy, frequent industrial strikes and labour unrest, shortage of financial resources of working capital and natural calamities like drought, flood etc. In this regard, the necessary remedies measures to detect the fast spreading disease of sickness in industries possible through

Conclusion

The research paper discussed on MSMEs sickness affect significant towards production and employment opportunity as well as economic development in India. The Sick MSMEs has been growing continuously due to lack of managerial skills, competition and lack of credit availability. The above data also shows that outstanding credit was fluctuating during the study period. It is clear that lack of demand and shortage of working capital are the main reasons for MSME's sickness. It is observed that there has been constant growth in outstanding bank credit and sick enterprises in India. The small enterprises face great threat and competitions due to liberalized policies in Indian economy. Therefore it is suggested that financial institute prioritized to support to small enterprises. The study also recommends that majority of micro and small enterprises play important role for developed countries. In this way, SMEs irrespective of size are able to optimize their financial and operation ration which enable them to support higher level of debt and equity funding of MSME.

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