



Industrial Financing and the MSME Development in Kerala: The role & efficacy of Kerala Financial Corporation (KFC)

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Abstract

Kerala, with its availability of competitive natural and skilled human resources, world-class industrial infrastructure, and excellent connectivity and communication networks, is best suited for the growth of the micro, small, and medium enterprises. The Government encourages MSMEs as an engine of growth as it contributes much to the process of economic growth, employment generation and balanced and equitable regional development. In its march towards a hasty and progressive industrial development, some sort of customised and industry-specific policy measures that could endeavour in reaching its objectives through state-of-the-art industrial infrastructure, encouraging eco-friendly enterprises, strengthening the MSMEs, inculcating entrepreneurship development, enhancing skills, simplification of rules and procedures, etc. must be initiated with a clear cut vision, objectives, and strategy so as to transform the State into a world-class business hub. It is in the context, the paper attempts to explore the prospects of industrial financing and the MSME development of Kerala with particular reference to the operational performance of the Kerala Financial Corporation (KFC).

Keywords: industrial development, industrial finance, Kerala industry, Kerala financial corporation, MSMES

1. Introduction

Having been recognised the importance of industrial development; Kerala has evolved various strategies to initiate an element of dynamism in the growth process so as to make the State a leading industrial destination in India. The Government has come forward with many structured and well-defined policies and pioneering initiatives to transform the State into a vibrant entrepreneurial society with faster, inclusive, and sustainable economic growth. It attempts to energise the industrial sector of Kerala through reviving the traditional industries, restructuring public sector undertakings, and providing an impetus to the MSME sector through sufficing investments, technology upgradation, diversification and modernisation. The MSME sector in Kerala has the potential to emerge as a strong, vibrant, and globally competitive sector in the State's economy. The sector is diverse in terms of its size, levels of technology employed, and range of products and services produced. They play a pivotal role in issues such as sustainability, inclusiveness, innovation, value addition, and access to global markets. The State has identified about 75 SME Clusters which are at different stages of their development.

2. Major Agencies for Industrial Promotion in Kerala- An overview

The tempo of industrial activity of any economy owes much to the promotional activities of the Government. Industrial promotion agencies are the institutions formed for the purpose of initiating, promoting and developing industrial enterprises with the avowed objective of achieving faster socio-economic development through rapid and responsible industrialisation. They act as an interface between the Government and industrial entrepreneurs. In order to revitalise and to give a fillip to the industrial growth of the State, the industrial promotion agencies offers multifaceted

services including provision of developed land, ready to use infrastructure and amenities, provision of raw materials, technical assistance, single window clearance, financial assistance, feasibility studies, support services, and attractive incentives and opportunities for the high and sustained growth, expansion and diversification of the industrial sector of the State. The galaxy of major promotional agencies boosting Kerala's industrial development include: (i) The Department of Industries and Commerce, Government of Kerala, (ii) Kerala State Industrial Development Corporation (KSIDC), (iii) Kerala Industrial Infrastructure Development Corporation (KINFRA), (iv) Kerala Bureau of Industrial Promotion (K-BIP), (v) Kerala Small Industries Development Corporation (KSIDCO) and the (vi) Kerala Financial Corporation (KFC).

3. Industrial Financing and the Kerala Financial Corporation (KFC)

The Kerala Financial Corporation (KFC), incorporated under the State Financial Corporations Act of 1951, is a trend setter and path breaker in the field of long term industrial finance and thus plays a significant role in the development and industrialisation of Kerala. It was established as the Travancore Cochin Financial Corporation in the year 1953. Consequent to the reorganisation of States on linguistic basis in November 1956, Kerala State was formed and the Travancore Cochin Financial Corporation was renamed as Kerala Financial Corporation. Now KFC has 16 branch offices with its headquarters at Thiruvananthapuram and zonal offices at Kozhikode, Ernakulam and Thiruvananthapuram. The Corporation has celebrated its diamond jubilee in 2013. For the Corporation, it has been a long and eventful journey, supporting about 55000 enterprises in the MSME sector across Kerala during the last 60 years and continuously improving the industrial

activity and economic scenario of the State.

KFC is a government owned non-banking financial company, playing a significant role in promoting rapid industrialisation of the State, especially by providing financial assistance to the micro, small and medium enterprises (MSMEs) in the manufacturing and service sectors. Financial assistance is provided in the form of term loans, working capital loans and special schemes for the identified industrial sectors. It is a member of the Credit Guarantee Fund Trust for Micro and Small Enterprises. The major activities of the Corporation are as follows:

1. Sanction of term loans to new micro, small and medium enterprises in the manufacturing and service sectors.
2. Sanction of term loans to existing industrial concerns and services sector units for their expansion, diversification and modernisation.
3. Sanction of working capital loans to meet working capital requirements of the industrial and service enterprises under special schemes.
4. Special schemes for financial assistance to civil contractors.
5. Special schemes for financial assistance for producing feature films and television serials.
6. Special schemes for the modernisation, upgradation and expansion of existing cinema theatres and establishment of new multiplexes.
7. Special schemes for the purchase of lab equipments or waste management.
8. Schemes for funding venture debt for IT hardware and software enterprises.
9. Schemes for financing working capital requirements of start-ups for executing purchase orders.

The Corporation has now emerged as a 'financial supermarket' giving the customers a wide range of products and services. The ultimate objective of KFC is the rapid industrialisation of the state by extending financial assistance to Micro, Small and Medium Enterprises (MSME) in the manufacturing and service sectors. The provisions of SFCs Act 1951, as amended in 2000, control and guide the functions of the Corporation.

4. Business Strategy and Innovative Initiatives of KFC

KFC is committed to capitalise growth opportunities and enhance customer experience by developing a responsible corporate governance framework in adherence to highest ethical standards and without compromising regulatory compliance. The Corporation is striving to deliver even better performance in the coming years by repositioning itself as a partner of choice for MSME entrepreneurs through a focused strategy. In the year 2018-2019, KFC has adopted a three pronged strategy to drive its strategic transformation through focused interventions, namely: (i) strengthening the credit mechanism, (ii) reducing cost of funds and (iii) clean up the balance sheet to recover maximum bad loans. Taking into consideration the emerging and evolving customer needs and trend, the Corporation constantly launched new products and services and also fine-tuned the existing array of products, services

and processes to remain competitive. Thus, underlying its strategic initiatives, KFC continues to remain committed towards its customers with a number of customer-centric initiatives as listed below:

1. Switch over from the existing PLR regime to Base Rate regime.
2. Setting up of new marketing vertical.
3. Setting up of centralised business review mechanism.
4. Setting up of new project appraising hubs.
5. Setting up of new rating and risk management department.
6. Strengthening of the audit and inspection wing.
7. Strengthening of the asset management department.
8. Constitution of an advisory committee.
9. Strengthening the human resource.
10. Introducing of the performance based variable incentive system.
11. Introducing of new and differentiated loan schemes.
12. Contractor loan automation and monitoring system.
13. Interest subvention scheme for innovative projects.
14. Clean up the balance sheet to recover maximum bad loans.
15. Settlement Adalaths.
16. Online KFC portal and online payment gateway.
17. Digitisation of disbursement and collections.
18. Upgradation of hardware/software for Core Financial Solutions.
19. Business continuity management policy.
20. Kerala State Entrepreneurs Development Mission (KSEDM).

The aim of introducing all these kind of innovative initiatives is to strengthen the Corporation to transform itself as a major development financing institution of the State and there by handholding the industrial units as well as new entrepreneurs in addition to extending low cost finance and better service delivery.

5. Operational Performance of KFC

KFC is a trend setter and path breaker in the field of long term finance, playing a major role in the development and industrialisation of Kerala extending financial assistance to micro, small and medium enterprises (MSMEs). Since inception KFC has nurtured more than 60,000 projects, spread over the length and breadth of the State. It has witnessed a complete transformation during the year 2018-2019. Not only has its lending business tripled over this one year period, KFC has also become much more client focused and competitive with a focused business strategy and vigorous marketing efforts. As a result of these far reaching changes, today KFC has acquired a new image in the MSME sector as a partner of choice. The Corporation could reduce its net NPA levels to 1.82%, which is an industry leading performance. When compared to the previous years, it has achieved substantial growth in terms of sanction, disbursement and recovery of financial assistance with the operational profit making a significant leap crossing the 100 crore mark for the first time in the history of the Corporation. The operational performance of KFC for the last five years is given in Table-1.

Table 1: Operational Performance of KFC (As on 31st March, 2019) (Rs. Crore)

Parameters	2018-2019	2017-2018	2016-2017	2015-2016	2014-2015
Portfolio Size	2684.01	2451.79	2474.11	2400.19	2038.18
Sanctions	1644.95	723.93	385.31	1025.99	947.45
Disbursements	815.79	600.23	655.27	838.36	657.09
Recovery	900.00	944.67	874.28	758.26	684.27
Interest Income	292.20	319.50	305.16	272.06	245.27
Total Income	428.26	376.88	364.73	308.47	287.06
Total Expenditure	397.27	356.69	356.86	261.21	218.26
Operating Profit	31.00	20.19	7.87	47.27	68.81
Net Profit	17.70	8.30	5.69	5.33	14.37
Net Worth	457.41	441.08	435.45	429.16	424.28
Capital Adequacy Ratio (%)	19.24	17.26	17.03	17.65	20.47
Gross NPA (%)	5.77	6.37	8.51	10.57	7.85
Net NPA (%)	1.82	2.03	4.25	5.93	3.71

Source: KFC Annual Reports (2019, 2018, 2017, 2016 & 2015)

In 2018-2019, the operating profit of KFC increased from Rs. 20.19 crore to Rs. 31 crore and the net profit increased from Rs. 8.3 crore to 17.7 crore. KFC sanctioned financial assistance amounting to Rs. 1644.95 crore in 2018-2019 as against Rs. 723.93 crore in the previous year. An amount of Rs. 815.79 crore has been disbursed in the year 2018-2019 as against Rs. 600.23 crore in 2017-2018. The metric that best captures performance is the loan portfolio growth which stood at about 9.47%. The other key performance indicators are sanctions (up by 127.23%), disbursements (up by 35.91%), net profit (up by 113.25%) and Gross NPA (down by 9.42%). With the tremendous success of new base rate structure implemented by the Corporation coupled with launch of new products like contractor's loans, bill discounting, etc, KFC's portfolio is set to double in next two years. This together with further reduction in NPAs is bound to lead to an enhanced rating for KFC, thereby yielding a lower cost of funds. These benefits would allow KFC to serve its clients better for the overall development of MSMEs in the state.

6. MSME Sector in Kerala-Potential and Prospects

The micro, small and medium enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the industrial economy of Kerala. They are widely dispersed across the regional economy, producing diverse range of products and services to meet the demands of local as well as global markets and thus, have been contributing to the expansion of business innovations. The MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialisation of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. In Kerala, the State Government is providing special support to the MSMEs due to its enormous potential of development in its industrial economy. The sector contributes greatly towards domestic needs, export, and foreign exchange earnings by producing variety of products ranging from traditional agricultural products to high-tech microprocessors.

The MSME sector has the potential to spread industrial growth across the country and can be a major partner in the process of inclusive growth. The Kerala Perspective Plan 2030, a vision document of the State Planning Board, Government of Kerala acknowledges the economic imperative of the micro, small, and medium enterprises in the regional economy. It observes the MSME sector as emerging into a knowledge-driven competitive economy with a high spirit of innovation, entrepreneurship, social inclusion, and diversity in its march towards a more sustainable, strong, and vibrant industrial economy. Contribution of MSMEs to the economy in terms of employment generation, containing regional disparities, fostering equitable economic growth and enhancing export potential of the country has been quite phenomenal. An overview of the MSME units with Udyog Aadhar Number, operating in Kerala is shown in Table-2.

Table 2: MSME Units with Udyog Aadhar Number in Kerala (As on 31st March, 2018)

District(s)	MSME Units		
	Manufacturing	Services	Total
Thiruvananthapuram	5411	5338	10749
Kollam	3104	1017	4121
Pathanamthitta	1152	494	1646
Alappuzha	3310	1004	4314
Kottayam	2118	1073	3191
Idukki	826	326	1152
Eranakulam	6701	4389	11090
Thrissur	3968	1792	5760
Palakkad	2049	902	2951
Malappuram	2141	577	2718
Kozhikode	2363	800	3163
Wayanad	506	141	647
Kannur	1845	625	2470
Kasargod	756	362	1118
Total	36250	18840	55090

Source: Directorate of Industries and Commerce, Government of Kerala

The importance and contribution of the MSME sector to the economic growth and prosperity of the State is well

established in terms of their role in employment generation, fostering of competitiveness, and upholding of the entrepreneurial spirit and innovation in the economy. They encourage self-sufficiency, self-reliance, and coordinated industrial development and are vital for ensuring equitable, inclusive, and employment-friendly economic growth.

7. KFC and the MSME Development in Kerala

The MSMEs constitute the backbone of the industrial economy of any country in maintaining an appreciable growth rate and in generating employment opportunities. This sector has been regarded as engine of economic growth and social development in many developed and developing countries. The major schemes or programmes undertaken by the Ministry of MSMEs and its organisations throughout the country seek to facilitate the MSMEs: (i) adequate flow of credit from financial institutions or banks, (ii) support for technology upgradation and modernisation, (iii) integrated infrastructure facilities, (iv) modern testing facilities and quality certification, (v) access to modern management practices, (vi) entrepreneurship development and skill upgradation through appropriate training facilities, (vii) support for product development, design intervention and packaging, (viii) welfare of artisans and workers, (ix) assistance for better access to domestic and export markets and (x) cluster-wise measures to promote capacity-building and empowerment of the units and their collectives.

Within the ambit of realising these objectives for the overall development of the MSME sector and the consequent industrial development of the regional economy of Kerala, KFC provides financial assistance to the micro, small and medium enterprises in the form of term loans as well as working capital loans to meet their varied needs. A snapshot of the total amount of sanction of loans by the KFC to the MSME sector of Kerala is given in Table-3.

Table 3: Sanction of Loans to MSMEs by the KFC (As on 31st March, 2019) (Rs. Crore)

Segment(s)	2018-2019	2017-2018	2016-2017	2015-2016	2014-2015
Micro Enterprises	1633.11	717.33	372.08	959.99	741.78
Small Enterprises	8.65	5.60	6.14	27.89	46.04
Medium Enterprises	3.25	1.00	7.09	14.79	32.32
Total	1645.01	723.93	385.31	1002.67	820.14

Source: KFC Annual Reports (2019, 2018, 2017, 2016 & 2015).

As far as sanction of loans to MSMEs is concerned, the total volume of loans has increased from Rs. 820.14 crore in 2014-2015 to Rs. 1645.01 crore in 2018-2019. Being one of the best State Financial Corporations in the country with a competent tech savvy team of professional at the core of services, KFC provides financial assistance for the setting up of new units and for the expansion/modernisation/diversification of existing units in both manufacturing and service sectors. The branch-wise break-up of total applications received is given in Table-4.

Table 4: Branch-wise Breakup of Applications Received (As on 31st March, 2019) (For Rs. Lakh)

Branch	Number of Applications Received			
	Micro	Small	Medium	Total
Thiruvananthapuram	28257	696	300	29253
Kollam	18991	310	332	19633
Pathanamthitta	3586	0	0	3586
Alappuzha	4228	0	0	4228
Kottayam	2780	289	0	3069
Kattappana	2789	0	0	2789
Thodupuzha	1586	0	0	1586
Eranakulam	18356	578	128	19062
Perumbavoor	5529	59	0	5588
Thrissur	10583	0	0	10583
Palakkad	7988	0	0	7988
Malappuram	11438	380	135	11953
Kozhikode	16046	0	0	16046
Wayanad	6859	452	0	7311
Kannur	6862	0	0	6862
Kasargod	23407	610	500	24517
Total	169285	3374	1395	174054

Source: KFC Annual Report 2019

KFC has received applications for a total of Rs. 174054 lakh as on 31st of March, 2019, spreading Rs. 169285 lakh to the ‘micro’, Rs. 3374 lakh to the ‘small’ and Rs. 1395 lakh to the ‘medium’ enterprises. The branch-wise break-up of total applications received is given in Table-5.

Table 5: Branch-wise Breakup of Effective Loan Sanctions (As on 31st March, 2019) (Rs. Lakh)

Branch	Effective Loan Sanctions			
	Micro	Small	Medium	Total
Thiruvananthapuram	27357	96	125	27578
Kollam	18141	110	0	18251
Pathanamthitta	3586	0	0	3586
Alappuzha	4228	0	0	4228
Kottayam	2780	89	0	2869
Kattappana	2789	0	0	2789
Thodupuzha	1586	0	0	1586
Eranakulam	17806	78	0	17884
Perumbavoor	5529	59	0	5588
Thrissur	10133	0	0	10133
Palakkad	7588	0	0	7588
Malappuram	10438	80	0	10518
Kozhikode	15446	0	0	15446
Wayanad	6859	52	0	6911
Kannur	6666	0	0	6666
Kasargod	22379	301	200	22880
Total	163311	865	325	164501

Source: KFC Annual Report 2019

Out of the total applications received by the KFC as on 31st of March, 2019, the total volume of effective sanction is amounting to Rs. 164501 lakh, spreading Rs. 163311 lakh to the ‘micro’, Rs. 865 lakh to the ‘small’ and Rs. 325 lakh to the ‘medium’ enterprises. As a part of its comprehensive

turnaround strategy, KFC has been, at present, working towards realignment of its business mix in favour of high rated and good customers lending business while limiting the exposure to low-rated corporate clients and other risky sectors. Details regarding the amount of loans actually disbursed by the KFC are given in Table-6.

Table 6: Branch-wise Breakup of Loans Disbursed (As on 31st March, 2019) (Rs. Lakh)

Branch	Effective Loan Sanctions			
	Micro	Small	Medium	Total
Thiruvananthapuram	11969	125	195	12289
Kollam	8204	180	180	8564
Pathanamthitta	1580	75	0	1655
Alappuzha	1699	0	0	1699
Kottayam	1894	85	0	1979
Kattappana	2157	0	0	2157
Thodupuzha	967	110	0	1077
Eranakulam	8204	130	150	8484
Perumbavoor	2540	59	0	2599
Thrissur	5423	75	25	5523
Palakkad	2617	0	0	2617
Malappuram	4614	35	195	4844
Kozhikode	4272	0	0	4272
Wayanad	3069	52	0	3121
Kannur	4429	0	0	4429
Kasargod	15790	280	200	16270
Total	79428	1206	945	81579

Source: KFC Annual Report 2019

Conclusion

In its march towards progressive industrial financing, the Kerala Financial Corporation (KFC) has emerged as one of the best performing public sector undertaking in Kerala. It would also rank No.1 amongst all State Financial Corporations (SFCs) in the country in terms of profitability and low level of NPA. It provides working capital finance and short term finance also apart from schemes focused at the weaker sections of the society. Modernisation schemes for SSIs, special schemes for resorts, hospitals, TV serial production etc. are some of the innovative schemes introduced by the KFC to suit the changing customer requirements. KFC is the first PSU in Kerala and first SFC in India to initiate Corporate Social Responsibility (CSR) activity called 'KFC Care' and it has also set up a 'KFC Consultancy Division' with a view to render excellent consultancy services to its clients as a 'Total Solution Provider.'

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