

CHAPTER – 1

INTRODUCTION

“Small Businesses are the Backbone of our Economy and the Cornerstones of Our Communities”

-Mahatma Gandhi

1.1 INTRODUCTION

“India is the fourth largest economy in the world (in terms of Purchasing Power Parity mode, and the second largest in developing Asia) which accounts for 22% of GDP, 33.8% population and 32.5% of the potential workforce in developing Asia.”¹ The prevalence of development is visible from the augmented investment in infrastructure, copious job opportunities, surfacing private sector with small and big companies/ corporate houses and high rise in consumerism. This has also reflected in the small scale sector. The MSME sector substantiates growth of Indian economy and small sector -friendly policy framework by the Indian government and adequate infrastructural support can make SMEs prominent contributor for the growing Indian economy.²

“Last five decades is evident of effervescent and strong growth of Micro, Small and Medium Enterprises (MSME) sector is as high as our developing growth of India. Generating large opportunities in employment is handled by SME sector in India. Considering its low cost investment, it is a great boon for the Indian economy.

This provides a accelerated push to rural area for industrialization, which will further eliminate regional imbalances, maximum equitable distribution of national income and wealth. Socio economic development of the country has been enormously aided by MSME as it plays an imperative role of being subsidiary to the bigger industries.”

1.1.1 Background of MSME

Micro, small and Medium Enterprises are broadly classified into two categories;

- i. Manufacturing.
- ii. Those engaged in rendering services.

Small and medium enterprises have unique definitions globally. The number of employees is also a base to segregate the establishments in Micro, small, medium in some countries.

In some other countries, Small and Medium enterprise is definition is depending upon the annual turnover of the company .The concept of size is also a relative fact with reference to the local economies, further it depends on the economy of countries as large company can be small in large economy and small economy can be large in small economy.

1.1.2 The Small Scale Industries (SSI) Sector in India

According to Dr B Yerram Raju, Dean of Studies & Senior Faculty Member at Administrative Staff College of India at Hyderabad states “the encouraging and promoting policies of the small-scale sector are always on foot front in India since independence, the priorities of each five year plan have changed as per dynamic environment.”

“The Six Industrial Policy Resolutions which have been framed since 1948 have set out the guidelines for the country's industrial development with different degrees of emphasis on the main objectives.” Post independence, industrialization strategy was based on ‘The Industries Development and Regulation Act of 1951.’³

“As per planning commission the model for industrialization in the 1950s was based on capital-intensive heavy industries. Throng consumption-good producing, labour oriented, evenly dispersed small and medium enterprises are the paramount foundation for employment creation.”⁴ As the process of dynamic economic environment led to varying priorities, the policy focus shifted to regional inequality (1977), promoting ancillary (1980), major concentration in rural areas and promotion of exports (1990) and then to Small, Tiny and Village Industries (1991). During all these years the definition of SSIs in India was kept changing based on the changing ecosystem and the progress of the economy as compiled in the Table1.1 below.

Table – 1.1 :Official definition of SSIs in India from 1950 to 2001.

YEAR	Investment Limits
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1950	Upto Rs.5Lakh in Fixed assets
1960	Upto Rs.5Lakh in Fixed assets
1966	Upto Rs.7.5 Lakh in Plant and Machinery
1975	Upto Rs.10 Lakh in Plant and Machinery
1980	Upto Rs.20 Lakh in Plant and Machinery
1985	Upto Rs.35 Lakh in Plant and Machinery
1991	Upto Rs.60 Lakh in Plant and Machinery
1997	Upto Rs.300 Lakh in Plant and Machinery
1998	Upto Rs.1 crore in Plant and Machinery
1999	Upto Rs.100 Lakh in Plant and Machinery
2001	Upto Rs.100 Lakh in Plant and Machinery

Source: Compiled from the statistics released by Small Scale Industries in India, Office the Development Commissioner, Ministry of SSI, Govt. of India 2002.

1.1.3 Government policies and support measures for MSMEs

Brief History

The evolution of the policy framework and support measures of the government can be broadly grouped into following three periods:

1. 1948-1991 —

The policy resolutions from 1948 to 1991 were focused on the credit provided to the small and medium enterprises. These policy measures aimed at mobilizing the capital and skill of private sector and thereby reducing inequality in distribution of national income.

“The Small Industries Development Organization (SIDO) was setup in 1954 as an apex body for sustained and organized growth of small enterprises. This is now known as the Micro Small and Medium Enterprises Development Organization.”⁵

In 1956, the National Small Industries Corporation (NSIC), The Khadi and Village Industries Commission (KVIC) and the Coir Board were also setup. The era provided the helpful process that were required to nurture the small enterprises in the form of reservation of items

for their exclusive manufacture, access to bank credit on priority through the priority sector lending program of commercial banks, excise exemption, reservation under the government purchase program and 15% preference in purchases, infrastructure development and establishment of institutes for entrepreneurial and skill development.

“The Small Industries Service Institutes (SISI) now known as MSME Development Institutes were setup all over India to train youth in skills, and the tool rooms were established with German and Danish assistance for providing technical services essential to small enterprises for skilled training.”⁶ District Industry Centers (DIC) was setup at the state level all over the country.

2. 1991-1999 —

“A new policy related to Small, tiny and village enterprises was launched in August 1991. This policy laid by government in the context of liberalization which required to replace the protection with competitiveness to impart more strength and growth to small enterprises in the face of foreign competition and open market.

Improving infrastructure, technology and quality was the primary focus of policies. The Small Industry Development Bank of India (SIDBI) was established to enhance the small sector industries. And a technology development modernization fund was produced to accelerate technical and financial services to the sector.

3. 1999 onwards —

The ministry of MSME (earlier known as ministry of SSI and Agro and Rural Industries) came into being from for concentrating on development and promotion of MSME. The new policy package announced in Aug 2000 directed to assist in eliminating the problems of credit, infrastructure, technology and marketing.

To encourage technology up gradation in the MSME sector a credit linked capital subsidy scheme was the only source for credit financing scheme to provide guarantee free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs. The exemption limit for relief from payment of Central Excise duty was raised to Rs 1 crore (\$0.25 million) and a Market Development Assistance Scheme for MSMEs was introduced. At the same time, meetings were held with all the stakeholders and the list of products reserved for

production in the MSME sector was slowly reduced each year. In 2006, the long awaited enactment for this sector finally became a reality with the passage of the Micro, Small and Medium Enterprises Act.”

However the new definition is that India still does not take into account the number of people employed. Globally, the two most important elements used to define MSMEs remain turnover and employment. This decision of new definition of not including the employment criterion may be because of inability of the system to cross check employment figures in a transparent manner. The practice of underreporting number of people employed is widespread especially in smaller units to remain below the threshold of 10 employees to save on very high social security and compliance costs. Lack of labour reforms has exacerbated the situation.”⁷

“In March 2007, a third troll for the enhancement of Small and medium Enterprises was launched which comprises the facilities having direct impact on the promotion and development of the micro and small enterprises, especially in view of dynamic economic environment, wherein survival of the fittest was the only option.”⁸

After 2007, the government was interested in

- i. Creating jobs, careers, and new products/services.
- ii. Economic growth, productivity improvement, and innovation.
- iii. Poverty alleviation and social opportunities.
- iv. Create new customers and open up new markets.

There has been a shift toward encouraging greater "social entrepreneurship" particularly in rural areas. Awareness of the potential which entrepreneurship may offer for promoting social inclusion is growing worldwide. Much of this emphasis placed by Governments is focused on assisting target groups to start up micro enterprises, usually by means of the provision of low cost micro finance.

In 2015, the Micro Units Development & Refinance Agency Ltd (MUDRA) was set up by the Government of India (GOI). MUDRA has been initially formed as a wholly owned

subsidiary of Small Industries Development bank of India (SIDBI) with 100% capital being contributed by it.

This Agency would be responsible for developing and refinancing all Micro-enterprises sector by supporting the finance Institutions which are in the business of lending to micro / small business entities engaged in manufacturing, trading and service activities. MUDRA would partner with Banks, MFIs and other lending institutions at state level / regional level to provide micro finance support to the micro enterprise sector in the country.

1.1.4 Definitions of MSME:

“MSMEs are enterprises involved either in manufacturing or service activities on a commercial basis with the following limits on financial investments. The SMEs in the Manufacturing and Service sectors as defined by the Micro, Small & Medium Enterprises Development Act, 2006 are presented below in Tables 1.2 and 1.3 respectively.

Table – 1.2 :Small Medium Enterprises in Manufacturing Sector

Manufacturing – Investment in Plant & Machinery		
Description	INR	USD(\$)
Micro Enterprises	Upto Rs. 25Lakh	Upto \$ 62,500
Small Enterprises	Above Rs. 25 Lakh & Upto Rs. 5 Crores	Above \$62,500& Upto \$1.25 million
Medium Enterprises	Above Rs. 5 Crores & Upto Rs. 10 Crores	Above \$ 1.25 million & Upto \$ 2.5 million

Source-Micro, Small & Medium Enterprises Development Act 2006

Table – 1.3 :Small Medium Enterprises in service Sector

Service – Investment in Equipments		
Description	INR	USD(\$)
Micro Enterprises	Upto Rs. 10 Lakhs	Upto \$ 25,000
Small Enterprises	Above Rs. 10 Lakhs& Upto Rs. 2 Crores	Above \$ 25,000& Up to \$ 0.5 million
Medium Enterprises	Above Rs. 2 Crores & Upto Rs. 5 Crores	Above \$ 0.5 million & Up to \$ 1.5million

Source - Micro, Small & Medium Enterprises Development Act, 2006

Small and Medium Sector consists of enterprises which are usually run under proprietorship, either by a Hindu undivided family, an association of persons, a co-operative society, a partnership or an undertaking or any other legal entity.”

1.1.5 Role of Micro Small and Medium Enterprises

Production cost of SME is less as compared to large scale industries. SMEs have smaller capital investments and are labor intensive in India. This is why small and medium enterprises are very significant as for countries like India where more output at lower cost and more employment are equally important. Countries like Japan and China are on this track especially in the rural areas.

Nanda⁹ (January, 2016) in his paper states “MSMEs have contributed to economic development in several ways, like generating employment openings for both rural as well as urban people, supplying goods and rendering services at reasonable costs by innovating solutions, improvising material for sustainable development of national economy. SMEs in India face a variety of problems – scarcity of sufficient and timely banking, avenues to raise finance, non-accessibility of appropriate technology, lack of proper marketing strategies, and shortage of skilled manpower.” Globalization and domestic reforms have major emphasis on SME sector in India. SMEs had felt pain on many counts like growth, employment,

performance, exports and issues arising out of these. Subrahmanya (2004)¹⁰ SME sector friendly government policies have opened doors to new opportunities for development for SMEs. SMEs have faced the challenges of newer technology, lack of financial facilities and infrastructure Government's pro Small and Medium enterprise policies assist SME to be more competitive at the domestic as well as international level. Country has achieved remarkable export earnings and is characterized by low investment requirements. It offers operational flexibility, ease of mobility, lesser imports, ability to manufacture home grown technology, and improvisation which impacts cost reduction. All these are making India highly competitive in domestic as well as global markets. This has given an impetus to the entrepreneurship and in turn to the SME sector, which is now responsible for nearly 45 percent of national industrial output and contributes to 40 percent of exports As per MSME annual report 2017-18. Although a large number of SMEs are unregistered, they are significantly contributing to national wealth. It is growing regularly at 11.5% per year as per MSME annual report 2017-18. This count to be greater than the total GDP growth which is at the rate of 8 percent¹¹The SME sector has impacted Indian economy to a great extent. It has kindled hopes in the minds of young entrepreneurs and motivated them to develop indigenous alternatives and technologies..

SMEs have demonstrated development in the last few years. However, the sector has quite a few constraints faced which have resulted into wasteful resource management. It culminates into hampering



steady years. faced which the

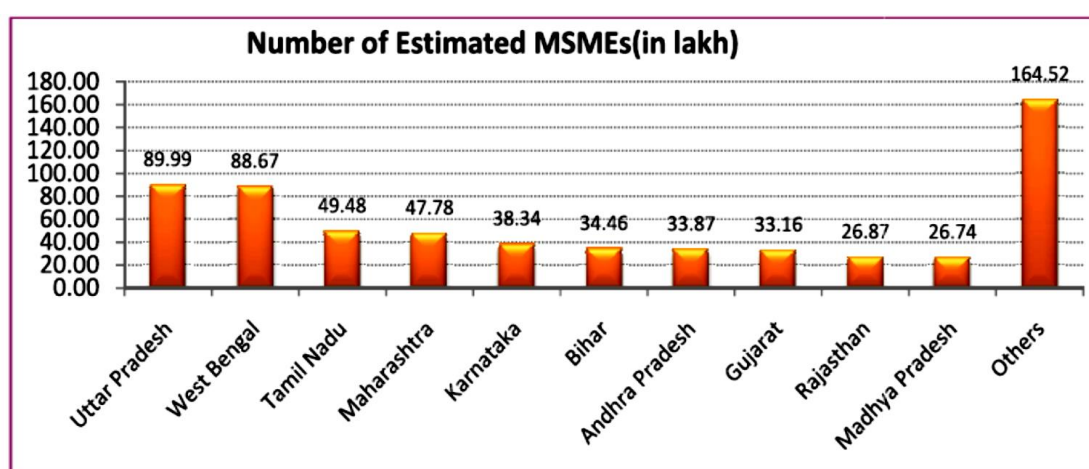
growth and development of SMEs. The enterprises become vulnerable and result into economic slowdown mainly due to scarce financial management, which is the major blockage to their development.

India has a strong network of SMEs, which produce material for the consumption of the large industries as raw or ancillary products or services. This provision of subsidiary support system ranges from agriculture to aviation. Developed countries have long been dependent on products and services of SMEs for their survival. They provide processed products to the large scale industries. It thus becomes a tool of sustenance.

1.1.6 State-wise Distribution of estimated MSMEs

“State of Uttar Pradesh had the largest number of estimated MSMEs with a share of 14.20% of MSMEs in the country. West Bengal comes as close second with a share of 14% again. The top 10 States together accounted for a share of 74.05% of the total estimated number of MSMEs in the country.”¹² Figure 1.1 and Table 1.4 shows the distribution of estimated enterprises in top ten States.

Figure 1.1 :Number of estimated MSMEs (in lakh)



Source- District Council report MSME –annual report MSME 2017-18

Table – 1.4 :State-wise Distribution of estimated MSMEs

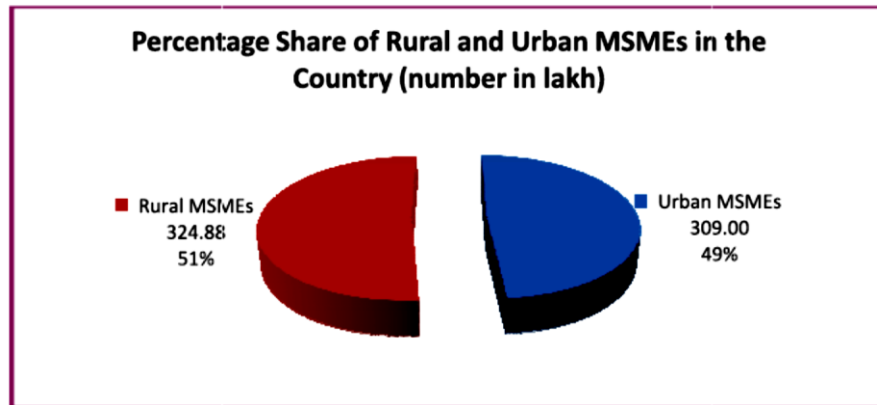
Sl. No.	State/UT	Estimated number of enterprises (Number in lakh)			
		Micro	Small	Medium	MSME
1	Andhra Pradesh	33.74	0.13	0.00	33.87
2	Arunachal Pradesh	0.22	0.00	0.00	0.23
3	Assam	12.10	0.04	0.00	12.14
4	Bihar	34.41	0.04	0.00	34.46
5	Chhattisgarh	8.45	0.03	0.00	8.48
6	Delhi	9.25	0.11	0.00	9.36
7	Goa	0.70	0.00	0.00	0.70
8	Gujarat	32.67	0.50	0.00	33.16
9	Haryana	9.53	0.17	0.00	9.70
10	Himachal Pradesh	3.86	0.06	0.00	3.92
11	Jammu & Kashmir	7.06	0.03	0.00	7.09
12	Jharkhand	15.78	0.10	0.00	15.88
13	Karnataka	38.25	0.09	0.00	38.34
14	Kerala	23.58	0.21	0.00	23.79
15	Madhya Pradesh	26.42	0.31	0.01	26.74
16	Maharashtra	47.60	0.17	0.00	47.78
17	Manipur	1.80	0.00	0.00	1.80
18	Meghalaya	1.12	0.00	0.00	1.12
19	Mizoram	0.35	0.00	0.00	0.35
20	Nagaland	0.91	0.00	0.00	0.91
21	Odisha	19.80	0.04	0.00	19.84
22	Punjab	14.56	0.09	0.00	14.65
23	Rajasthan	26.66	0.20	0.01	26.87
24	Sikkim	0.26	0.00	0.00	0.26
25	Tamil Nadu	49.27	0.21	0.00	49.48
26	Telangana	25.94	0.10	0.01	26.05
27	Tripura	2.10	0.01	0.00	2.11
28	Uttar Pradesh	89.64	0.36	0.00	89.99
29	Uttarakhand	4.14	0.02	0.00	4.17
30	West Bengal	88.41	0.26	0.01	88.67
31	A & N Islands	0.19	0.00	0.00	0.19
32	Chandigarh	0.56	0.00	0.00	0.56
33	Dadra & Nagar Haveli	0.15	0.01	0.00	0.16
34	Daman & Diu	0.08	0.00	0.00	0.08
35	Lakshadweep	0.02	0.00	0.00	0.02
36	Puducherry	0.96	0.00	0.00	0.96
ALL		630.52	3.31	0.05	633.88

Source- Annual report MSME 2017-18

Many SMEs provide final and finished products to the consumers, thus becoming self-sufficient from raw material to the supply of the finished products.. This gives SMEs to innovate and improve their products on a continuous basis. And also reenergizes the SME sector to a great extent and propels the economy onto the path of development.

Figure 1.2 represents the composition of MSMEs in rural and urban area in India. It is noted that MSMEs are more concentrated in rural sector.

Figure 1.2 :Percentage share of rural and urban MSMEs in the country



Source- Annual report MSME 2017-18

1.1.7 The Performance of MSMEs in India

Governmental as well as non-governmental organizations are trying their best to make SMEs enhance their presence and output. With skill enhancement, better networking, and using ever innovative technology are the main reasons for the successful development of SMEs in India. The sector has ventured in all the realms of business from handicraft to homemade products to large machines. All these products have successfully captured domestic as well as global markets.

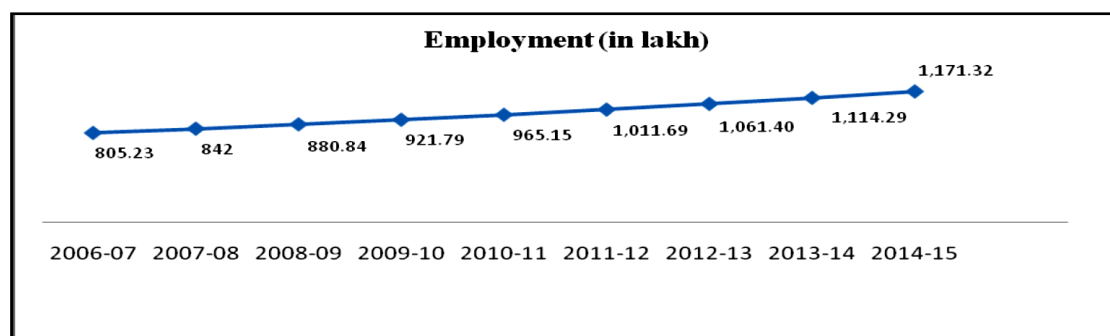
Table – 1.5 : Performance of SSI sector

PERFORMANCE OF SSI SECTOR							
Year	Units (Million nos.)	Production (Rs Billion)		Employment (Million nos.)	Production per Employee (Rs thousand)	SSI Export	
		At constant prices	At current prices		At constant prices	Rs. Billion	US \$ Million
1	2	3	4	5	6	7	8
1981-82	0.96	783.00	326.00	7.50	104	21.00	2309
1982-83	1.06	847.00	350.00	7.90	107	20.00	2116
1983-84	1.16	935.00	416.00	8.42	111	22.00	2093
1984-85	1.24	1046.00	505.00	9.00	116	25.00	2137
1985-86	1.35	1181.00	612.00	9.60	123	28.00	2263
1986-87	1.46	1336.00	723.00	10.14	132	36.00	2851
1987-88	1.58	1505.00	873.00	10.70	141	44.00	3372
1988-89	1.71	1699.00	1064.00	11.30	150	55.00	3790
1989-90	1.82	1899.00	1323.00	11.96	159	76.00	4579
1990-91	6.79	847.28	788.02	15.83	54	96.64	5386
1991-92	7.06	873.55	806.15	16.60	53	138.83	5632
1992-93	7.35	922.46	844.13	17.48	53	177.84	6140
1993-94	7.65	987.96	987.96	18.26	54	253.07	8068
1994-95	7.96	1087.74	1221.54	19.14	57	290.68	9258
1995-96	8.28	1211.75	1477.12	19.79	61	364.70	10903
1996-97	8.62	1348.92	1678.05	20.59	66	392.48	11056
1997-98	8.97	1462.63	1872.17	21.32	69	444.42	11958
1998-99	9.34	1575.25	2104.54	22.06	71	489.79	11642
1999-00	9.72	1703.79	2337.60	22.91	74	542.00	12508
2000-01	10.11	1844.01	2612.97	24.09	77	697.97	15278
2001-02	10.52	2822.70	2822.70	24.93	112	712.44	14938
2002-03	10.95	3067.71	3148.50	26.02	116	860.13	17773
2003-04	11.40	3363.44	3645.47	27.14	122	976.44	21249
2004-05	11.86	3729.38	4297.96	28.26	130	1244.17	27690
2005-06	12.34	4188.84	4978.42	29.49	140	1502.42	33935
2006-07	36.18	11988.18	135.14	80.52	149	1825.38	40309
2007-08	37.74	13227.77	14351.79	84.20	157	2020.17	50202
2008-09	39.37	13755.89	15242.35	88.08	156	-	-
2009-10	41.08	14883.52	16193.56	92.18	161	3911.59	82494
2010-11	42.87	16536.22	17215.53	96.52	171	5077.39	111403
2011-12	44.76	17885.84	18343.32	101.17	177	6301.05	131483
2012-13	46.75	18099.76	-	106.14	171	6981.66	128316
2013-14	48.86	-	-	111.43	-	8068.78	133364
2014-15	51.06	-	-	117.13	-	8492.48	138894
2015-16	-	-	-	-	-	8553.52	130651

Source :Ministry of Micro, Small & Medium Enterprises, Government of India.

“Ministry of MSMEs has reported that during FY07 – FY11, there is a phenomenal growth at the rate of 4.5 per cent in the development of SMEs and at the end of FY 2011 it stood at 31.2 million(Rs.).”¹³ The aggregate investments in SMEs rose to Compound Annual Growth Rate of 11.5 percent during the same time. Robust progress in total investments in SMEs points out their increasing imprint and emerging prominence. SMEs are gradually becoming more responsible for generation in employment in India.¹⁴During FY year 2014-15 employment in SMEs rose to 73.2 million and it has reached 1471912.94 crores.

Figure 1.3 :Employment in SMEs.



Source- Annual report of MSME chamber

As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.82 lakh in Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country.

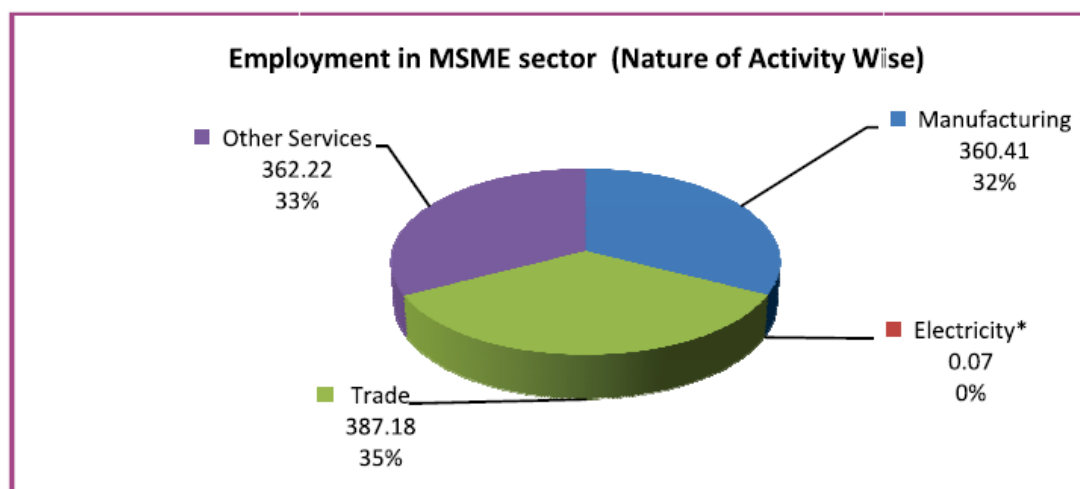
Table – 1.6 : Distribution of MSMEs activity wise

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
Electricity*	0.06	0.02	0.07	0
All	497.78	612.10	1109.89	100

Source- Annual report of MSME chamber

*Non-captive electricity generation and transmission

Figure 1.4 : Distribution of MSMEs activity wise



Source- Annual report of MSME chamber

*Non-captive electricity generation and transmission

“The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets.”As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country’s Gross Value Added (GVA) and Gross Domestic Product (GDP), at current prices for the last five years is as below:

Table – 1.7 :Growth of MSME in Gross Value Added

(Figures in Rs. Crores adjusted for FISIM ³ at current prices)						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2583263	-	8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

Source: RBI reports 2016-17

“Comparative Analysis between Fourth All India MSME Census (2006-07) and NSS 73rd Round (2015-16) Comprehensive information on the MSME Sector can be obtained from both Fourth all India MSME Census was held in 2006-07 and the NSS 73rd Round (2015-16). Being held almost 10 years time gap, a comparison of the two sets of results can capture the growth of the basic parameters of the MSME Sector over a decade.”¹⁵

Table - 1.8 :Growth of MSME

Parameter	NSS 73rd Round*, 2015-16	Fourth All India Census of MSMEs, 2006-07	Annual Compound Growth Rate (%)
No. of MSMEs (Total)	633.88	361.76	6.43
Manufacturing	196.65	115.00	6.14
Services	437.23	246.76	6.56
Employment (Total)	1109.89	805.24	3.63
Manufacturing	360.42	320.03	1.33
Services	749.47	485.21	4.95

* Service includes Trade, Electricity & Other Services.

Source: Fourth all India MSME Census,RBI Report

“MSMEs have shown consistent growth in terms of number of Entrepreneurs Memorandum (Part II) / [EM-II] filed every year. Number shows that MSME sector registered consistent growth in terms of number of EM-II filed every year. Number of EM-II filed during 2007-08 in the DICs across the country was 1.73 lakh. This has increased continuously during 2007-08 to 2014-15 periods, which shows that even in adverse environment, both internal and external, the entrepreneurs have shown their courage and had firm belief in the economic fundamentals of the economy.”¹⁶ Thus, year wise numbers of EM-II filed during 2007-08 to 2014-15 EM-II has shown continuously rising bars in the below bar diagram:

Figure 1.5 :Number of EM-II Filed during 2007-08 to 2014-15



Source-Development commissioner report

1.2 NEED AND IMPORTANCE OF THE STUDY

Small and Medium Enterprises (SMEs) have played a crucial role in India's economic growth. In the year 2014-15 more than 30 million units manufacturing SMEs contributed towards 6.11 per cent of the country's GDP. The service sector's contribution to GDP was 23.28 percent, and totally SMEs as a sector's contribution to the GDP was 29.39%.

Small & Medium Business Development Chamber of India projects the share of SMEs in the expansion of the Indian economy to increase to 40 per cent of the GDP in 2017. This assessment is supported by its supposition that by 2016 - 17 approximately 15 million additional people would be joining the SME sector. SME units have currently employed 1,117.32 lakhs people in the year 2014-15. As per All India census of MSMEs, share of MSME manufacturing output in total manufacturing output is 33.40% in 2014-15.¹⁷

SMEs play significant role in the economy of many developed and developing countries across the globe.

Table – 1.9 :State-Wise Distribution of Registered Functioning SMEs

Geography	Noof Enterprises (In lakhs)	Employment (In lakhs)	Original value of plant & machinery (in Rs. crore)	Market value of fixed investment (in Rs. crore)
Maharashtra	47.78	48	12384.89	54365.37
India	510.6.	1173	105024.61	449138.40

Source- MSME District council report

“Maharashtra contributes approximately 6 percent of total registered functioning SMEs in India. However, SMEs suffer from major challenge of high rate of devastation and many enterprises may not even progress beyond infancy. Sustenance and success to grow into a big enterprise is, though a dream for all enterprises, is achieved by only a very few.

Table - 1.10 : State/Union Territory-wise number of sick MSEs (at the end of March)

Geography	2011	2012	2013	2014	2015	2016
Maharashtra	9,992	10136	31,322	40,365	49,293	46,549
India	90141	85,591	2,47,289	4,65,492	4,65,226	4,80,280

Source: RBI Reports

The causes of failures are attributed to many factors, which impede on the progress and cause sluggishness. These are difficulty in accessing the credit, regulatory framework, management issues, market barriers and education and training. Therefore present study is aimed at investigating the factors affecting the performance of SMEs enterprises within Maharashtra in India. Such research gaps has necessitated to study on the subject.

The developmental process of liberalization and global market integration has opened up enormous prospects for the sector, along with new challenges. The new ambitious National Manufacturing Policy (2016), which aims to make India a manufacturing pivot and upsurge the sectoral stake to 25 per cent in the next decade from the present level of 15-16 per cent, necessitates extensive backing from SME sector and significant hike in the growth rate of MSME sector from the existing level of 12-13 % per annum.”¹⁸

This demands merging of hard work and resources. MSMEs are going through an evolutionary phase including redesigning of policies, strategies and amenities since the announcement of new policies in 1991 and thereafter reformist implementation of liberalized and globalized policies in India. The change in the Government’s approach of looking at the MSME sector and regulatory facilitation should reflect in reducing the hurdles.

“Internal factors like financial parameters, viz., working capital, capital structure, cash flows etc also plays an important role for the growth of SMEs. Financial performance analysis helps in identifying the financial strong points and weaknesses of the firm by properly studying the relationship between the items of balance sheet and profit and loss account.

The main objective of conducting this study was to obtain the in depth details of financial factors affecting the performance of SMEs in Maharashtra. The research targeted SMEs enterprises in Maharashtra and the unit of analysis comprised owners-managers of various sectors manufacturing businesses, training, healthcare, consultants, hospitals, hotels, jeweller, trading and finance. It is helpful in short-term and long-term prediction of the trajectory of

growth by means of financial performance analysis. The relationship between the items in the balance sheet and profit and loss account are analyzed for determining the financial strong and weak areas of the SMEs in Manufacturing sector and Service sector. This study includes the scanning of the financial statements to judge profitability, solvency, stability, growth and prosperity of a SME.”

1.3 RESEARCH PROBLEM

“An analysis of financial factors affecting the performance of selected SMEs with special reference to Maharashtra state.”

1.4 OBJECTIVES OF THE STUDY

1. To study the financial position and performance of SMEs in the state of Maharashtra.
2. To analyze the sustainability and performance of selected SMEs.
3. To analyze the efficiency of financial management in selected SMEs.
4. To undertake intra and inter sector comparison of manufacturing sector and service sector of selected SMEs.
5. To present summary of the key findings of the study and to make suitable suggestions for the improvement of further successful survival of SMEs in the competitive world.

1.5 FINANCIAL PARAMETERS USED IN THE STUDY

Financial performance analysis is the process of analyzing and determining the operating and financial characteristics of a firm based on accounting and financial statements¹⁹ in the study Financial performance is assessed using following parameters of SMEs:-

- 1 Solvency Analysis

- 2 Liquidity Analysis
- 3 Working Capital Analysis,
- 4 Profitability Analysis
- 5 Capital Structure analysis

1.6 RESEARCH DESIGN

The present research is a study of the financial performance of the SMEs in Maharashtra. It has attempted to evaluate the financial stability and operational health of different sectors. The present position of financial performance of SMEs, their operational efficiency, the challenges they face can best be studied using descriptive research. Hence the researcher has used descriptive design for this research. SMEs preserve the Authentic financial data for limited years hence using five years accounting year in depth study have been conducted to understand overall picture of selected SMEs.

1.6.1 Data Collection

The research is based on Secondary data from SMEs. This study is mainly based on the annual audited balance sheets, profit and loss account, cash flow statements, official records of the SMEs and annual reports and other records published by the company.

Further data is also collected from the report of Comptroller and Auditor General of India, RBI Reports, Economic Survey of India and Centre for Monetary Indian Economy (CMIE), various websites of Government of Maharashtra and Government of India

1.6.2 Period of Study

The time frame of the study is five years i.e. from 2010 – 2011 to 2014 – 2015.

1.6.3 Sampling Frame

Number of SMEs listed in BSE SME Exchange are maximum in number from Gujarat (76) followed by Maharashtra (70) and Delhi (33). 19 SMEs are from West Bengal and 17 from Rajasthan; Telangan, Andhra Pradesh and Chattisgarh have also contributed. The total number of listed SMEs over BSE SME Exchange of Maharashtra are 70 SMEs.

1.6.4 Sampling Technique

The list of all the registered SMEs on the website was used to decide upon the total population. The researcher identified 12 SMEs using simple random method. Out of 70 of total population sample of 12 was identified by lottery method. These 12 selected SMEs were further divided in Manufacturing and service sector for in depth understanding of SMEs and inter sector comparison. The main reason of selecting this technique was its feasibility with reference to time and cost and as it is concern with financial status of the SME as the biggest constrain is to gather the financial declarations from SMEs.

1.6.5 Sampling Size

Sample is an objective representation of the population, which is used for generalizing about the entire population having similar traits. 12 SMEs were identified for the present study comprising of 5 SMEs are of Manufacturing sector and 7 SMEs are of Service sector.

1.6.6 List of selected SMEs

Sample is taken from SMEs situated in the region of Maharashtra state. The selected industrial companies for the purpose of the present study are given as follows:-

Manufacturing Sector

- 1 Bajaj Healthcare Ltd
- 2 Filtra consultants & engineers ltd
- 3 Ganga pharmaceuticals ltd

- 4 Valiant organic ltd
- 5 Patdiam jewellery ltd

Service sector

- 1 DRA Consultants Pvt Ltd
- 2 Suyog Telematics ltd
- 3 Comfort Commotrade ltd
- 4 Jupiter info media ltd
- 5 Cawasji Behramji Catering services Ltd
- 6 Mitcon Consultancy &Engineering Services Ltd
- 7 Creative Peripherals and Distribution Limited

1.6.7 Techniques Used for Data Analysis

This research study has attempted to analyse and interpret the financial performance and operations by employing ratio analysis techniques along with other the financial tools.

The statistical tools like mean, percentages standard deviation, correlation and regression analysis has been used to analyze the data, the map, graphs, column charts are also used for some supportive and meaningful interpretation.

Comprehensive Index is used for further statistical analysis. Rational behind to create Comprehensive Index is to bring all the ratios on similar platform to carry out further investigation using advance statistical technique.

Comprehensive Index has been created using following formula:

$$CI = 1 - (\max x(i) - x(i)) / \max x(i)$$

Where X(i) is Particular Ratio, max X(i) is maximum ratio of particular ratio

Logic of Comprehensive Index is convert maximum value of particular ratio into 1 and relative value subsequently using above formula.

Kruskal Wallis test is applied which is the non parametric equivalent to the omnibus F test in a one way ANOVA (which is used with matrix dependent variable).Correlation and regression analysis were applied to examine data and draw conclusions about the financial relationships among existing variables. Correlation analysis was used to measure the degree of association between two financial variables.

Application-specific computer software has been used for graphical presentation of data wherever found appropriate. For the purpose of evaluating the performance of SMEs under study, Annual Financial Reports of the units were of great importance, which give host of financial information.

1.6.8 Hypothesis

Following Hypothesis have been framed for the purpose of this study

I) Hypothesis Testing Using Kruskal Wallis test

1 Solvency Analysis

A) Manufacturing Sector

Ho- Average Fixed Asset to long term funds ratio across SMEs within manufacturing sector of Maharashtra are alike.

Ho- Average Debt to Asset ratio across SMEs within manufacturing sector of Maharashtra are alike.

Ho- Average Degree of financial leverage across SMEs within manufacturing sector of Maharashtra are alike.

Ho- Average overall solvency of SMEs within manufacturing sector of Maharashtra is alike.

B) Service Sector

Ho- Average Fixed Asset to long term funds ratio across SMEs within service sector of Maharashtra are alike.

Ho- Average Long Debt to Total Asset ratios across SMEs within service sector of Maharashtra are alike.

Ho- Average Degree of Financial leverage across SMEs within service sector of Maharashtra are alike.

Ho- Overall solvency across SMEs within service sector of Maharashtra are alike.

2 Liquidity Analysis

A) Manufacturing Sector

Ho- Average current ratio across SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average quick ratio SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average cash to current asset ratio SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average current asset to total asset ratio SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average current asset to total asset ratio SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average overall liquidity SMEs within manufacturing sector of Maharashtra is alike.

B) Service Sector

Ho- Average Current ratio across SMEs within service sector of Maharashtra are alike.

Ho- Average Quick ratio across SMEs of Service sector in Maharashtra are alike.

Ho- Average Cash to current asset ratio across SMEs of Service sector in Maharashtra are alike.

Ho- Average Current asset to total asset across SMEs of Service sector in Maharashtra are alike.

Ho- Average Liquid asset to current asset across SMEs of Service sector in Maharashtra are alike.

Ho- Average Liquidity ratio across SMEs of Service sector in Maharashtra are alike.

3 Working capital Analysis

A) Manufacturing sector

Ho- Average working capital Turnover ratio SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average Sales to current asset ratio SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average Debtors turnover ratio SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average Credit strength ratio SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average Working capital SMEs within manufacturing sector of Maharashtra is alike.

B) Service Sector

Ho- Average Working Capital Turnover ratio across SMEs of Service sector in Maharashtra are alike.

Ho- Average Sales to current asset ratio across SMEs of Service sector in Maharashtra are alike.

Ho- Average Debtors Turnover Ratio across SMEs of Service sector in Maharashtra are alike.

Ho- Average Credit Strength Ratio across SMEs of Service sector in Maharashtra are alike.

Ho- Average Working capital across SMEs of Service sector in Maharashtra are alike.

4 Profitability Analysis

A) Manufacturing Sector

Ho- Average Net profit ratio SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average Return on capital employed SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average Return on assets SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average Return on Net worth SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average Return on asset ratio SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average Profitability SMEs within manufacturing sector of Maharashtra is alike.

B)Service Sector

Ho- Average Degree of Net Profit Ratio across SMEs of Service sector in Maharashtra are alike.

Ho- Average Return on capital employed across SMEs of Service sector in Maharashtra are alike.

Ho- Average Return on Asset across SMEs of Service sector in Maharashtra are alike.

Ho- Average Degree of Return on net worth across SMEs of Service sector in Maharashtra are alike.

Ho- Average Return on Asset ratio across SMEs of Service sector in Maharashtra are alike.

Ho- Average Degree of Profitability across SMEs of Service sector in Maharashtra are alike.

5 Capital structure

Ho- Average Debt equity ratio SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average Proprietary ratio SMEs within manufacturing sector of Maharashtra is alike.

Ho- Average Total debt to asset ratio SMEs within manufacturing sector of Maharashtra is alike.

Ho- overall capital structure of SMEs within manufacturing sector of Maharashtra is alike.

Service Sector

Ho- Average Debt Equity Ratio across SMEs of Service sector in Maharashtra are alike.

Ho- Average Proprietary Ratio across SMEs of Service sector in Maharashtra are alike.

Ho- Average Debt to Asset Ratio across SMEs of Service sector in Maharashtra are alike.

Ho- Average Capital structure Ratio across SMEs of Service sector in Maharashtra are alike.

II) Hypothesis testing using t test

Ho- There is no significant difference in average of financial parameters viz. solvency, Liquidity, Working capital, Profitability, capital structure across manufacturing sector and service sector of SMEs in Maharashtra.

Ho- Average of ratios across the service and manufacturing are alike.

III) Hypothesis testing using Correlation

Manufacturing Sector

Ho - There is no significant correlation between Solvency and Profitability.

Ho- There is no significant correlation between Liquidity and Profitability.

Ho -There is no significant correlation between Working Capital ratio and Profitability of SMEs of Manufacturing sector in Maharashtra.

Ho- There is no significant correlation between Capital Structure and Profitability of SMEs of Manufacturing sector in Maharashtra.

Service Sector

Ho -There is no significant correlation between Solvency and Profitability of Service sector in Maharashtra.

Ho- There is no significant correlation between Liquidity and Profitability of Service sector in Maharashtra.

Ho -There is no significant correlation between Working Capital ratio and Profitability of SMEs of Service sector in Maharashtra.

Ho- There is no significant correlation between Capital Structure and Profitability of SMEs of Service sector in Maharashtra.

1.6.9 Scope of the study

The present study has covered SMEs for both the manufacturing and service sectors in the state of Maharashtra. The sample has been selected from various sectors. To sustain in the competitive market SMEs will have to be viable and profitable, which will help the national economy grow and further develop. To be profitable and sustainable they have to earn the profit at least equal to the rate of interest on their borrowings from all the sources. The study has covered the challenges faced by the SMEs and measured the financial performance of the same. The results of the study are generalizable to the SMEs in Maharashtra.

1.6.10 Significance of the study

The results of the study will be useful to the SMEs for improving their financial performance. It will provide Government to frame appropriate guidelines for the growth and development of SMEs. The present study deals with the financial appraisal of the SMEs, which evaluates past, current and projected performance and, thus, is intended to give a picture of the overall growth of financial performance of the SMEs in Maharashtra. Financial factors are most important as far as challenges are concerned. It has become important to study the challenges faced by SMEs and also the factors that drive their financial performance. The present study has planned to study the same.

1.6.11 Limitations of the study

- 1 The sample size and the period of study are limited.
- 2 This study hasn't considered the non financial factors that can influence the performance of SMEs.
- 3 SMEs are mostly working as ancillary units and more often they deal in seasonal goods. This can pose huge variability in their income.
- 4 Exact correlation and effect of various factors in financial Management on the profitability is not recognized.
- 5 The majority of the financial management practices studies are related to large companies which may not be practically applicable to small units.

1.6.12 Organization of Study

The study has been divided in seven chapters.

Chapter I: Introduction:

First Chapter deals with a brief introduction of the MSMEs and its economic significance in the Indian context. This chapter also includes a brief explanation about the objectives of the study, methodology, need for the study followed by scope and limitations of the study.

Chapter II: Literature Review:

This Chapter discusses the past studies in the field of performance of Small and Medium Enterprises. A literature review is designed to identify the past research, to understand the scope of current research within a past records and theoretical understanding. It contains in-depth study of prior research on the subject.

Chapter III: Profile of the Maharashtra State SMEs:

This Chapter presents overall Industrial outlook of Maharashtra state with special reference to the SMEs.

Chapter IV: Conceptual framework of Financial Performance:

This chapter emphasizes on explanation of the financial performance, which includes four broad concepts, viz.

- (1) Financial Strength and Capital Structure - covering capital structure, theory of capital structure, its determinants, leverages and cost of capital;
- (2) Working Capital Management - this includes working capital policy, profit criterion of working capital, operating cycle analysis, cash management, receivables management, inventory management and determination of working capital finance mix; and
- (3) Financial Appraisal Tools - this covers financial statements analysis
- (4) Financial Strength Model i.e. Springate model which analyses the financial creditability of company

Chapter V: Profile of Selected Small and Medium Enterprises

This chapter discusses the growth and development of selected Small and Medium Enterprises.

Chapter VI: Analysis of Financial Factors of Small and medium enterprises:

This chapter deals with the analysis of Financial Performance of Selected SMEs. Certain financial tools and statistical tools are used in interpretation of the financial results of selected SMEs.

Chapter VII: Conclusion and Suggestion:

This chapter covers the summary of earlier chapters in the form of conclusion and suggestions in improving the financial performance of Small and Medium Enterprises and further recommends the areas for further research.

1.7 CONCLUSION

This chapter has provided the basis of research study undertaken in the area of financial performance of SMEs in the state of Maharashtra. In order to understand the earlier research work carried out in this area, the researcher has provided the review of related literature in the next Chapter.

