



A Study on the Financial Performance of Micro, Small and Medium Enterprises (MSMEs) in India

Dr. Vasa prabhakar, Associate Professor of Commerce
Government Degree College, Khairatabad, Hyd.

Abstract: The MSMEs sector in India has a huge potential to employ thousands of people. The main aim of the MSMEs sector is provide self-employment for the people; it is directly or indirectly helping with the development of the nation. The MSMEs sector is creating income and wealth for the nation, producing a variety of products which are being exported to foreign countries, generating foreign income and lessening burden on imports. This sector is showing an impressive growth, but the problems like marketing, financing, lack of infrastructure and lack of technology have a negative impact on the business. Primarily, financing problems are becoming a cause for all other problems; these are putting a lot of burden on MSMEs, so the MSMEs are unable to sustain the market.

If the “Make in India slogan” were to succeed, the government and financial institutions and MSMEs development institutions, development organizations must support this enterprise. The government has to educate MSME entrepreneurs and the ministry has to conduct more EDPs, and campaign credit support opportunities for this sector. The financial institutions have to give hassle-free loans to this sector so that it can contribute profusely to the GDP growth. Eventually, the country will develop; many people will get self-employment; and they will, in turn, provide jobs for many other people.

Keywords: Financing Problems, MSMEs, Financial Sustainability, Enterprises, Employment, India and Self-Employment.

INTRODUCTION

MSMEs sector provides employment for many people, encouraging young entrepreneurs to start a venture with only a small investment. Many studies found that MSMEs are an important vehicle for developing economies, contribute in a remarkable way to the development and create many benefits to their respective economies. The following advantages accrue to the nation.

A huge network of over 32 million enterprises, Creating employment for more than 70 million people, Low capital to start a business, Manufacturing a variety of more than 6000 products, Do not require a costly infrastructure, MSMEs do not require a high level of technology, Creating income and wealth for higher standards of living, Containing the migration of people from one place to another place, Reducing regional imbalances and increasing a balanced growth, Proper use of local raw materials, Contributing significantly to the GDP for the national development, Export promotion, Source for foreign exchange and Lessening burden of imports.

The Major MSMEs in Telangana State

The Telangana State has a huge scope for MSMEs sector. Many people depend on this sector, and this sector is creating more self-employment in this state. The following are major MSMEs in Telangana State. Textile, Food Processing, Mineral, Wood, Engineering, Chemical, Jewelry, Plastic and Rubber, Electronics and Electricals, Paper works and Printing.

Micro Small and Medium Enterprises' (MSMEs) Financing Problems

Finance is the key input for running any business, and it is a lifeblood that lubricates every organ and every functional area of the business and maintains the proper health of the business. As the moment the blood circulation in a human body stops, the person collapses, the business also comes to a standstill the moment the finance exhausts, ultimately leading to the fall of an organization. Finance is the lifeline of any business. Business needs finance to continue activities for its expansion and growth, some business plans, efficient production and marketing needs depend on funding.

Purpose of Finance for MSMEs

MSMEs need funding for The smooth running of the business. Production, Creating demand for goods, Better infrastructure development for running a business, Up to date technology upgradation, Modernization, creativity and innovation.

Financing Problems of MSMEs

Finance is the necessity for every business at all stages of continuous running the business, getting finance is the most severe difficulties for MSMEs. The financing problems are the cause of all other problems many business transactions are depending on finance, so finance is the engine for running the business. The study is primarily focused on MSMEs' financing problem show they are affect MSMEs financial Sustainability. The financing problems of MSMEs are Lack of availability of adequate and timely credit, Limited access to equity capital, Collateral requirement, The exorbitant rate of interest, Increasing raw materials price, Shortage of working capital, Hike power charges, Hike labor rates, The decline in sales volume and Increasing bad debts, Increasing transportation expenses, Increasing rent, Value-added tax (VAT), Govt tax and Customs duty, Volatile petrol/diesel prices, Increasing insurance costs and Delay in account receivables.

Statement of the Problem

MSMEs are considered the backbone of the Indian economy. However, the lack of finance is the biggest obstacle to develop this sector. Finance is the key input for every stage of the business lifecycle. Adequate financing sources are a prime requirement for the MSMEs. Progress is not satisfactory due to different problems, especially financing problems. Financing issues are creating a burden to running the business recently an economic survey found that sources of funding are the biggest task for both registered and unregistered sector. Except for Hyderabad, the districts are backwards districts in Telangana state. There is a need study for developing the new state.

Thus, financing problems are putting much burden on MSMEs business as the finance is the lifeblood of MSMEs business and basic need of all MSMEs' business activities. MSMEs need more finance to maintain better financial sustainability because all the business activities depend on financing. The financing problems of MSMEs may be debt or equity financing problems. The MSMEs timely access finance from various source is very difficult for their better finance so, accessing finance is a most challenging task in Telangana state for MSMEs that's why the researcher focused on MSMEs' financing problems in Telangana state. All the reports suggested that MSMEs face financing problems but what are the financing problems facing by MSMEs here the researcher targeted to find each financing problems how they are impacting on MSMEs' sustainability so there is a need to study the financing problems of MSMEs and how they are creating Burdon on their business.

Significance of the Study

In India, the MSME sector is a significant contributor to industrial output, providing employment and a key contributor to the GDP. Finance is an important vehicle for growth MSMEs business. Lack of adequate finance is the cause of all other problems and necessary for early and late growth. According to the MSMEs third (the year 2001-2002) and fourth (the year 2006-07) censuses & DICs Telangana State, MSMEs in the three districts, namely, namely Adilabad, Karimnagar, and Khammam, are facing financing problems. Financial institutions have the limited concentration on this sector due to the higher risk. Overall, finance gap in the MSMEs sector is estimated to be 650 Billion (Found by IFC analysis 2012). The Government and other financing institutions should take initiative to grant loans for this

sector, only then will the sector develop, and create more employment and wealth. Hence there is a need for a study into the financing problems and opportunities of MSMEs.

Telangana State being newly born state, the growth of MSMEs is key to the development of the state. MSMEs require timely and adequate finance to resolve working capital problems, particularly at the start-up and growth stages. Because finance is necessary to boost the development of the MSMEs sector in India.

Scope of the Study

The study is focused only on MSMEs sector's financing problems and opportunities in Telangana State for the period of ten years (2006 – 17).

The study focused only on three districts such as Aliabad, Karimnagar, and Khammam in Telangana State. It focused on only MSMEs manufacturing sector; that too on three sectors, namely textile, mineral, and wood enterprise, based on surveys. It took into account both Registered and Unregistered Micro, Small, and Medium Enterprises. It dealt with the MSMEs' financing problems and their influence on MSMEs' financial sustainability.

Literature review

The MSMEs sector is popular among many nations like Japan, Singapore, Germany, USA, China and many countries. This sector is building a strong economy to its respective nation. Micro small and medium enterprises are playing a key role globally. These enterprises vary from country to country based on their investment. The enterprises are the base for the self-employment. The main aim of the MSMEs is to provide self-employment for many people with low capital.

- **Birch (1979):** Small firms are the predominantly significant creator of employment.
- **Norton. E(1991):** Small and Medium Enterprises (SMEs) play a key role in the development process of any country. They are a vital source of employment creation and output growth in the developing countries as well as in the developed countries.
- **Levy et al., (2005):** SMEs play a significant role towards the development of the country's economy.
- **Shambhu Chatak (2010):** In India, SMEs play a vital role in the process of industrial development and economic growth creating employment, generating income and catalysing growth in urban and rural areas.
- **Economic Survey (2009-10):** The India's MSMEs sector contributes 8% of Gross Domestic Product, 45% of manufacturing and 40% of its exports.
- **Bouri et al., (2011):** Discussed in their study that SMEs are contributing immensely in terms of the business establishment and gross domestic product (GDP) transversely.
- **Eneh, Ogechukwu (2011):** Small and medium enterprises have been recognized globally as an engine of growth and development.
- **GSudha Venkatesh and Muthaiah (2012):** Discussed that MSMEs are playing an important role in India. MSMEs can create employment. They explained financial sources of MSMEs. The main objective of the study is understanding the importance and contribution of MSMEs in India. The authors used the secondary data only from a different source.
- **Maunganidze (2013):** It is universally accepted and acknowledged that Small and Medium Enterprises (SMEs) effective instruments of employment creation, economic growth, poverty alleviation.
- **Pallab & Dr. Munish (2013):** In their article, they mentioned that MSME is the backbone of the Indian economy.
- **Dr.P.Uma (2013):** MSME sector is the solution for the reduction of poverty, employment generation, and higher GDP growth. The paper highlighted significance SMEs in the economic development of India. She explained about the rural MSMEs and discussed the strengths and weaknesses of MSMEs such as Flexibility of Owner Management, Inexpensive Labor. The author used the secondary data only.

- **Roopda Kundra, CEO CRISIL (2013):** India's MSMEs will be an enormous growth in future.
- **Hashim (2015):** The MSMEs were Identified as a significant contributor to India's economy in particular and emerging economies in general.

Financing Problems of MSMEs

The financing problems cause the difficulties for running the business. Finance is the life blood of every business; the business needs finance for every business life cycle, but then when the adequate finance is not available the business may not run properly. Like that the financing problems are the root cause of all other problems these problems will cause the wind up the business. The MSMEs sector is also facing many financing problems which are affecting on their day to day business many MSMEs are unable to run their business because of financing problems.

Research Methodology

Objectives of the Study

- To find out the various financing problems of MSMEs and how they are affect MSMEs' financial sustainability;
- To identify the indirect effect of lack of working capital on financing problems and MSMEs' financial sustainability and
- To identify the indirect effect of difficulty in funding on financing problems and MSMEs' financial sustainability.

Research Hypotheses

- H1: The source of finance has a positively influences lack of working capital.
- H2: The source of finance has a positively influences MSMEs' financial sustainability.
- H3: The source of finance has a positively influences difficulty in funding.
- H4: Financial institutions' practices positively influence lack of working capital.
- H5: Financial institutions' practices positively influence MSMEs' financial sustainability.
- H6: Financial institutions' practices positively influence difficulty in funding.

Sample Frame

In this study, the sample frame was determined based on the population of MSMEs enterprises who are engaging their business with textile, Mineral and wooden furniture in the Adilabad Karimnagar and Khammam district. Based on the DICs reports, the researcher selected 5% sample from each sector for registered enterprises and for unregistered ones, the researcher targeted in each district a minimum 100 sample.

Sampling Technique

In this study, as for registered enterprises, the data obtained from the DICs of each district and for the unregistered one's data cannot be determined. Based on this the researcher used non-probability method purposive sampling technique for the study.

Sample Size Determination and Justification

The sample size for both registered and unregistered enterprises has been considered. The registered enterprise sample has been taken from each district industries center enterprises. And unregistered MSMEs are unknown so a target of above hundred samples has been made in each of the three districts.

Data Analysis: Methods/Techniques

In this study, the data analysis methods were used with the help of the software of Microsoft Office 2017, SPSS 21.0 version, AMOS 20.0 version and the statistical techniques such as Descriptive Statistics, Exploratory Factor Analysis (EFA), Confirmatory Factor Analysis(CFA) and Structural Equation Modelling (SEM) were used. The total valid sample is 558. The sample collected from the MSMEs respondents from Adilabad, Karimnagar and Khammam district consists of the businesses which are textile-Based, mineral-based, and Wood-based in Telangana State.

Findings of the Study

The study revealed that there is a significant impact of the source finance on lack of working capital, financial sustainability, difficulty in funding in MSMEs business, this helps to understand the source of finance is an important factor in the financial requirement of any business.

However, though the financial institutions' practice influences lack of working capital and financial sustainability insignificant, the impact on the difficulty in funding was found to be significant.

The effect of the financial status for sanctioning a loan on lack of working capital, financial sustainability and difficulty in funding was found to be significant. This denotes that maintaining annual reports collateral etc. impact the overall financial sustainability of the business.

Further, in this study the lack of government support system on, financial sustainability and difficulty in funding were found that significant and the relationship between government assistance system on working capital found that insignificant.

Conclusion

MSMEs aim to provide self-employment to unemployed people and this sector is the base for self-employment. The government's concern is that it may not be able to provide hundred percent employment to all people. Therefore, every person cannot get a job and many people are looking for self-employment; the best self-employment avenue could be the MSMEs sector. The India's MSMEs sector has a great future, but many problems are crippling it, especially financing problems, which are the prime factor affecting its sustainability. The present study is focused on three districts, namely, Adilabad, Karimnagar and Khammam in Telangana State and the enterprises related to textile, mineral and wood. These enterprises are found to face financing problems. There are many schemes and funding sources for MSMEs, but still, problems persist. If the financial institutions are unable to grant to this sector in time, they may be lost. The Indian government's target of enhancing GDP by 25 percent by 2025 and its "Make in India" slogan's success will be realized if the Government and Financial Institutions encourage the MSMEs. For the survival of MSMEs, the MSME entrepreneurs also need to attend more EDPs which are enabled to get better financial assistance from financial institutions. The Reserve Bank of India needs to encourage banks to grant loans immediately to MSMEs sector. These initiatives are very helpful for the growth and survival of MSMEs.

References

- Aganga O. (2013), Government's Drive towards MSMEs Development in Nigeria.
- Bayai, I. (2017). Financing structure and financial sustainability: Evidence from selected Southern Africa development community microfinance institutions.
- Central institute for economic and Management (CIEM), the bank for foreign trade of Vietnam "Survey on SMEs access to formal financing, ABA journal, vol,xxx11, no,2,2007.
- Cerny, C.A., & Kaiser, H.F. (1977). A study of a measure of sampling adequacy for factor-analytic correlation matrices. *Multivariate Behavioral Research*, 12(1), 43-47. Kaiser, H. 1974. An index of factor simplicity. *Psychometrika* 39: 31-36.
- Dias, S. (1990). *Developing Rural Entrepreneurship*, New Delhi, Intermediate Technology Publication.
- Dr A. Shiralashetti(2011) "Prospects and Problems of MSMEs in India – A Study", Shiv Shakti, International Journal of Multidisciplinary and Academic Research (SSIJMAR), Volume.1, July-August, ISSN 2278-5973.
- Eneh, O. C., & Okezie, Y. C. (2009). Developing and growing sustainable micro, small and medium enterprises-Global template. *Sustainable Human Development Review*, 1(4), 67-92.
- Fan, X., B. Thompson, and L. Wang (1999). Effects of sample size, estimation method, and model specification on structural equation modelling fit indexes. *Structural Equation Modeling*, 6, 56-83.
- Gbandi, E.C., Amisshah, G., (2014). Financing options for small and medium enterprises (SMEs) in Nigeria. *Eur. Sci. J.* 10, 1.

- Hall, B.H. (1992) 'Investment and research and development: does the source of financing matter?', Working Paper No. 92-194, Department of Economics, University of California, USA.
- Inmyxai, S., & Takahashi, Y. (2010). The effect of firm resources on business performance of male-and female-headed firms in the case of Lao micro-, small-, and medium-sized enterprises (MSMEs). *International Journal of Business and Information*, 5(1), 63.
- Jaccard, J., & Wan, C. K. (1996). *LISREL approaches to interaction effects in multiple regression*. Thousand Oaks, CA: Sage Publications.
- Jain, A.I. & Chen, B. 2013. Reinvigorating global economic growth. Unleashing small and medium-sized businesses may be the answer.
- K.T Srinivas (2013), "Role of Micro, Small and Medium Enterprises in Inclusive Growth", *International Journal of Engineering and Management Research* Vol, 3, Issue 4, ISSN No 2250-0758, Page No 57-61.
- Kamesam, V. (2003, September). Financing for Entrepreneurship and SME: An Indian Perspective'. In *OECD Workshop on 'Entrepreneurship in a Global Economy: Strategic Issues and Policies*.
- Lateh, M., Hussain, M. D., & Halim, M. S. A. Micro Enterprise Development and Income Sustainability for Poverty Reduction: A Literature Investigation.
- Lokhande, M. A. (2011). Financial Inclusion: Options for Micro, Small and Medium Enterprises. *Synergy (0973-8819)*, 9(2).
- Mahembe, E. (2011). Literature Review on Small and Medium Enterprises' Access to Credit and Support in South Africa.
- Malhotra, M., Chen, Y., Criscuolo, A., Fan, Q., & Savchenko, Y. (2007). *Expanding access to finance: Good practices and policies for micro, small, and medium enterprises*. Washington, DC: World Bank.
- Naidu, S., & Chand, A. (2012). A comparative study of the financial problems faced by micro, small and medium enterprises in the manufacturing sector of Fiji and Tonga. *International Journal of Emerging Markets*, 7 (3), 245 - 262.
- Nassr, I. K., & Wehinger, G. (2014). Non-bank Debt Financing for SMEs: The Role of Securitization, Private Placements and Bonds. *OECD Journal: Financial Market Trends*, 2014(1), 139-159.
- Ogechukwu AD. (2011) The Role of Small Scale Industry in National Development in Nigeria. *Universal Journal of Management and Social Sciences*; 1(1): 1–11.
- Parimalam. M (2006), "Commercial Banks performance towards SSI sectors in Erode District", M.Phil. Dissertation, Periyar University, p.108.
- Raheman, A., & Nasr, M. (2007). Working Capital Management and Profitability: Case of Pakistani Firms. *International Review of Business Research Papers*, (3), 279-300.
- S.Rajamohan and Durairaj.(2012), "Empowering SMEs through priority sector advances," *International Journal of Business and General Management*.
- Todd, H. (2006). *SME at the centre: Grameen Bank Borrowers after one decade*: New York. Westview press.
- United Nations Industrial Development Organization (UNIDO). (2006). *Productivity Enhancement and Equitable Development: Challenges for SME Development*.
- Venkateswarlu p and Ravindra (2012). "Economic problems in Micro, Small and Medium Enterprises (MSMEs) in India, case study, *Advances in Management*, Vol.5(9), Sep, (2012)
- Wattanapruttipaisan, T. (2003a). Four Proposals for Improved Financing of SME Development in ASEAN. *Asian Development Review*, 20(2), 1-45.
- Yartey, C.A. (2011) 'Small business finance in Sub-Saharan Africa: the case of Ghana', *Management Research Review*, Vol. 34, No. 2, pp.172–185.

- Zaidi, L. (2013, March). Problems affecting the growth of small and Medium Enterprises (SMEs) in India. In *International conference on Technology and business management* (Vol. 3, No. 2).

Related Websites

- www.business.gov.in.
- www.cgtmse.in.
- www.cii.in.
- www.dcmse.gov.in.
- www.kvic.org.in
- www.msme.gov.in.

Related Reports

- All India Institute of Micro Small and Medium Enterprises Association(AIMA) Report 2003.
- CGTMSE Circular 36/2007-08, Date 2.7.2007.
- CGTMSE Circular 50/2008-09, Date 7.1.2009.

