

A Research on the Opportunities Available for SMEs in Tamil Nadu in Procuring Funds for their Business Operations

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Abstract— SME, synonym for the Small & Medium Scale Industries, considered as backbone for our Country for the simple reason that it contributes to the tune of 40% of the overall industrial production and of course 34% of national exports, to the Indian economy. The Indian Economy's annual rate shall grow up to 7.8% in 2019 and 8 % in 2020. SMEs play an important and dynamic role in developing the Indian Economy. As per MSMED Act 2006, SMEs are classified as Manufacturing Enterprises according to their investments in plant as well as machinery and service enterprises according to their investments in equipment respectively. Any enterprise engaged in manufacturing of goods by employing plant and machinery comes under manufacturing enterprises category whereas enterprise which is engaged in rendering services comes under service enterprise. Manufacturing enterprises are categorized as micro firms, small firms and medium scale enterprises according to their investments in plant as well as machinery. Similarly, service enterprises are also classified as above based on investments in equipment. Since 2007, registered units under SME have risen to 217981 from 27209 units in Tamil Nadu offering employment opportunities to 1378544 as against 242855 during 2006-07. The SME industries are enjoying various subsidy schemes namely Generator subsidy, Capital subsidy, LT power tariff subsidy, back ended interest subsidy, etc. As per the Govt. of Tamil Nadu notification, there is a credit flow of 46.57% exclusively to MSME industries out of the total disbursements by the banks during the period between April 2017 and December 2017. Their role in Indian Economy is very vital as they provide huge employment opportunities. In fact, India is a country facing unemployment problems for which SME industries have become a great boon as they provide 9 times of employment opportunities in comparison to large industries. SMEs have all merits on their side like adding significant GDP in the manufacturing sector, mitigating imbalance in balance of payment problem in case of exports, increasing the capable entrepreneurs, helping equal distribution of income and wealth etc., However, on the other side, lack of adequate finance is a major issue for SMEs for various reasons attributed like lack of cash flow consistency, inadequate collaterals, non-availability of timely and sufficient credit, huge credit costs, restricted access to equity Capital etc. This article is trying to analyze the blockage of getting adequate finance for SMEs since its inception.

Keywords: SME; MSMED; Cash flow adequacy; Indian Economy;

I. INTRODUCTION

In 1997 Abid Hussain Committee and in 2000 a Study team under the leadership of Dr.S.P.Gupta designed a legal

frame work for small enterprises to give a relief to them from cumbersome and complicated multiple rules and regulations and to ensure easy mobility of small enterprises to medium ones. A composite sector consisting of small scale industries and services put together was recognized worldwide [1].

In terms of GOI notification, the MSME is narrated as any enterprise involved in developing or manufacturing, processing and / or conservation of goods with the investments in Plant and also Machinery on its original (capital) cost leaving behind the land cost and building cost. Further, the investment in P & M is restricted to not exceeding Rs.25.00 lacs in case of Micro enterprises, not exceeding Rs.500.00 lacs in case of small enterprises and not exceeding Rs.1000.00 lacs for medium enterprises. In the service enterprises, the ceiling is restricted to Rs.10.00 lacs in case of micro, Rs.200.00 lacs in case of small and Rs.500.00 lacs in case of medium enterprises [2].

However, the act is proposed to be amended for a new definition of MSME not based on investment in P & M but based on turnover. In terms of the new proposed definition, a micro enterprise whose annual turnover not exceeding Rs.5.00 Crores, a small firm whose annual turnover not more than Rs.75.00 Crores and a medium firm whose annual turnover not more than Rs.250.00 Crores shall be MSME units [3].

After introduction of MSMED Act in 2006, there were 26.1 million units of MSME in 2006-07, with a classification of manufacturing enterprises at 7.3 million units and service enterprises at 18.8 million units. In 2016-17, there were 63.388 million units in 2015-16, with a bifurcation of 19.655 million units under manufacturing activity, 23.035 million units under Trade activity and 20.685 million units under other services [4].

As a dedication to youths every 27th June is celebrated as MSME day with objectives to educate the importance of MSMEs in youth employment, to give awareness around the skills required for the youth and to raise awareness around youth entrepreneurship [5].

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Source: Make in India MSME sector Achievement Report 2017

MSME units in the country are close to 51 million employing 117 million people which is 40% of the total work force. According to ICSB (International Council of Small Business), formal and informal MSMEs make up over 90% of all firms, accounting an average of 60-70% of overall employment and 50% of GDP (Gross Domestic Product). In rural areas, the main income provider is MSME [6].

II. LITERATURE REVIEW

Omar [7] says that the small firms are facing problems related to external environments like market place, power, the factors related to customers etc.

N. Aruna [8] explains that MSME are facing problems regarding suitable technology availability, timely banking facilities, access of limited resources, marketing problems, non-availability of skilled man power etc. Prasad [9] reported that the expression of bank credit is necessary for the development of a country's economy. Suresh [10] suggests that MSMEs are facing serious issues related to access to finance for technology, R&D (Research and Development), marketing and infrastructure etc.

CARE Rating

CARE rating introduced SME rating in 2006 in association with National Small Industries Corporation which is intended entirely for Small and Medium Scale Enterprises [11].

SME and Technology

There are five important ways in which technology will induce the growth in SME sector namely Creating digital business, Hiring the right talented people, Information management to increase productivity, Understanding the customer outreach and Lower Capex with cloud [12].

III. SUSTAINABLE ECONOMIC DEVELOPMENT

Sustainable Economic Development deliberates the development of the economy without destroying the present environment and without compromising the needs of the future generations. Huge production volume, accelerating exports, creating employment opportunities, increasing exports, introducing innovation in skills are the indicators for healthy MSME sector [13]. In India it is stated that around 12 million young people enter into the labour market. At the close of Fifth Five-year plan, the number of registered MSME were 7544 units with an investment of Rs.325.74 Crores and offered employment to 22164 numbers. The same has risen to 760269 units with an investment of Rs. 39438.13 Crores employed 52, 99,785 numbers at the close of Eleventh Five-year plan as described in table 1.

Table 1. Contribution of MSME in Country's Economy at the end of 12th Five-year plan

| Year | MSME GVA | GROWTH % | TOTAL GVA | SHARE OF MSME IN GVA % | TOTAL GDP | SHARE OF MSME IN GDP % |
|---------|----------|----------|-----------|------------------------|-----------|------------------------|
| 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 | 29.37 |
| 2015-16 | 3936788 | 7.62 | 12458642 | 31.60 | 13682035 | 28.77 |

Source: Central Statistics Office (CSO), Ministry of Statistics & Program Implementation

When you buy goods and services, the amount you pay is called the selling price. For a company to be profitable, this price has to cover all its costs like raw material prices, employee salaries and so on. The difference between the selling price and the cost price is the company's profit. But what if technology makes it cheaper for the company to produce these goods; at the same time, demand is so high that consumers are willing to pay a slightly higher price. This means, the goods' value has suddenly increased [14].

The Gross Value Added (GVA) measures this rise in value on a nationwide scale [15].

GVA= GDP (Gross Domestic Product) + Subsidies on Products – Taxes on Products.

IV. SWOT ANALYSIS ON MSME

| | |
|---|---|
| <p>Strength:</p> <p>Low investment, Location convenience, Low infrastructure requirement Low Capital base Less Overheads</p> | <p>Weakness:</p> <p>Low technology intervention, Poor Credit flow, Poor R & D support, Poor marketing and branding</p> |
| <p>Opportunities:</p> <p>Good avenue for exports, Government supports, Relief in Excise, Ancillarisation to Large business</p> | <p>Weakness:</p> <p>Lack of financial strength, Lack of trained workers, Lack of planning, Lack of focus for future</p> |

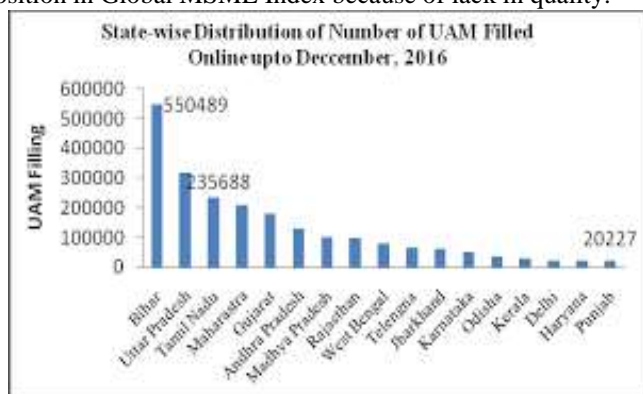
V. OPPORTUNITIES FOR MSMEs & RESULTS

5.1 Opportunities in India

Though MSME contributes 45% of manufacturing output, more than 40% of exports and 8% of the Country’s GDP, it is believed that MSME can do a lot more still, as India ranks low in World Bank’s Ease of Doing Business Index.

The latest announcement of new start up and innovation policy by the Government of Tamil Nadu has given boost to create 1 lac jobs and 5000 startup firms including 10 high growth firms by 2023 [16]. Because of this implementation, the Tamil Nadu State shall emerge as the “Knowledge Capital” and “Innovation Hub” of the Country. This policy shall be helpful to foster investment in R & D and infrastructure, innovation, technological development and skilled labour so as to result in high growth entrepreneurial ventures in areas like agriculture, manufacturing, education, health and logistics with a thrust in areas including electrical and electronics, transportation and logistics, healthcare and biotech, textile, agriculture renewable energy, information technology, etc. The startup hubs shall be established in Chennai, Coimbatore, Erode, Salem, Madurai, Trichy, Tirunelveli and Tanjavur.

It is reported that Tamil Nadu has the maximum number of MSMEs and entrepreneurs. Because of lack in quality we could not achieve a better position. We were at 69th position in Global MSME Index because of lack in quality.



Source: iosjournal.org

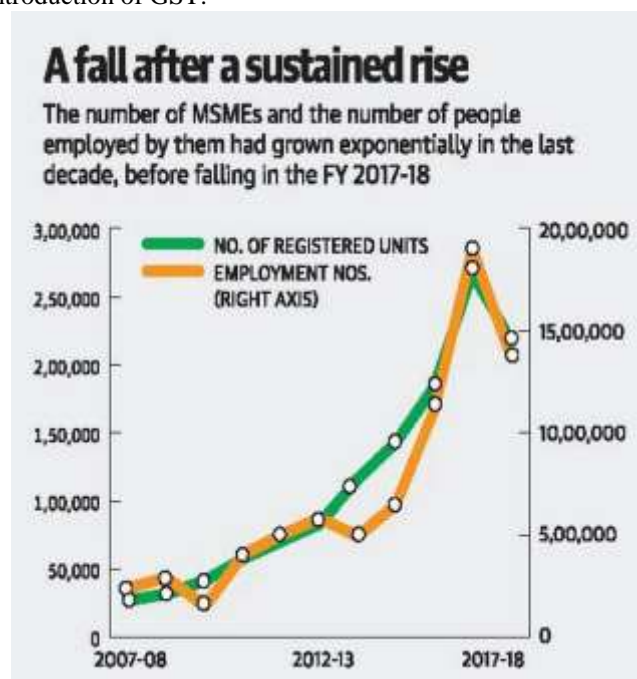
5.2 Opportunity for finance

There are some challenges which are the major obstacles in getting the funds like outdated technology, lack of skilled labour, access to credit and Government policies [17]. Outdated production technology prevents them from growing or expansion of the units which ends up with lack of finance. Lack of skilled labour is another hurdle which becomes major reason for incompetence. Staff needs adequate training for updating their skills. Cumbersome loan procedure, paper work, delayed disbursals, huge requirement of collaterals and, of course, unaffordable interest rates may also delay the units to approach the lenders. MSME Service sector is facing four major problems to survive namely lack of sustainable work, lack of capital, lack of affordable marketing via media, stringent regulations.

Though the challenges are many in getting finance from lenders, many opportunities also have emerged for smooth lending to the MSME units. RBI has classified the lending to MSME sectors as Priority Segment lending as per which 40% of the entire lending should be for Priority Segment by all the public as well as private sector banks. The same is 32% of the total lending in case of foreign banks.

Hon’ble Finance Minister, Government of India, has launched a new portal to track out the loans for MSMEs as the Government promised that banks will approve funding upto Rs.1.00 Crore in 59 minutes without entrepreneurs having to visit branches [18].

RBI has recently allowed lenders to recast loans of stressed MSMEs, provided the total fund and non-fund based exposure not exceeding Rs.25.00 Crores without downgrading the asset classification [19]. This is one time restructuring of existing loans to MSMEs that are in default but “standard” as on 01/01/2019. This is a major relief to MSME borrowers in view of the recent demonetization and introduction of GST.



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5.3 Opportunities in Tamil Nadu

In the recent GO notification of Government of Tamil Nadu in 2018 a NEW ENTREPRENEUR – CUM – ENTERPRISE DEVELOPMENT SCHEME (NEEDS), was devised and formulated as a special scheme to extend support to educated unemployed youth to become first generation entrepreneurs. This is aiming to offer training to young first generation entrepreneurs [20]. The training is for conceiving, planning, initiating and launching a manufacturing or service enterprises. On completion of the training the entrepreneurs shall get term loan from or TIIC (Tamil Nadu Industrial Investment Corporation) / Banks to set up units. This scheme is proposed to be implemented in 13th 5 Year Plan (2017-22).

Opportunities available in sectors like Food processing, Inputs for Agriculture, Electro medical equipment, Pharmaceuticals, Chemicals, Engineering, Textiles, Leather and Goods made of leather, Bio engineering, , Meat products, Plastic products, Goods for sports, Computer Software, etc.,

VI. CONCLUSION

MSME sector has induced the economic activity in India and all over the world apart from providing self-reliance, sustainable economic development, eradicating poverty by providing employment opportunity to youths. Indian Government and Tamil Nadu Government have taken various efforts to improve the economy by providing relief measures to the MSME units to increase their number vis-à-vis improving employment opportunity, exports and Country's GDP. This is to be continued in the 13th Five-year plan too as proposed.

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