SUMMARY, FINDINGS, CONCLUSIONS AND SUGGESTIONS

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CHAPTER VII

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The economic prosperity of a country to a large extent depends on the rate of industrialisation. The people of Kerala look upon the rapid industrialisation of Kerala as a lasting solution to the problem of unemployment which paves the way for much of the social unrest. But the position of Kerala in the industrial map of India is almost insignificant. The ranking of different states based on the outcome of the study of Confederation of Indian Industry (CII) on industrial attractiveness done in 2002 has brought out Kerala and Maharashtra as the top scorers with A grade and with a score of 2.8. Still the investment made in the industrial sector of Kerala is less. The central sector investment to Kerala industries had been nominal. Both in absolute and relative term the financial assistance given by AIFIs to Kerala industries has been very low. Therefore financial institutions have to play a greater role in the industrialisation of Kerala. In this study, the role of these financial institutions KFC, KSIDC and banks is studied. The following objectives were setup.

1. To study the growth of advances year-wise and institution-wise over a period of years.

2. To study the performance of units assisted by KFC, KSIDC and commercial banks.
3. To assess the role of these institutions based on these performances.

4. To assess the inter-institutional, inter-district, inter-product variations in industrial finance.

5. To study the major problems faced by the industrial units of Kerala.

6. To make suitable suggestions and recommendations on the basis of the findings of the study.

On the basis of the above objectives the following hypotheses have been formulated and tested

H₁: Financial institutions to be effective should be more customer friendly.

H₂: Judged by the performance of units aided the state sponsored agencies have a positive role in the industrialisation of Kerala.

Various sub-hypotheses have been formulated which are as follows:

a) KFC aided units perform better than banks aided units
b) KSIDC aided units perform better than banks aided units
c) KFC aided units perform better than KSIDC aided units
d) There is no significant difference in the performance of the selected units district-wise
e) There is no significant difference in the performance of the selected units product-wise.

The study has been designed as an empirical one based on survey method. Data have been collected from both secondary and primary sources.
Multi-stage stratified sampling was adopted. Samples were taken from 4 districts and the study was conducted.

**Summary of Findings**

The major policy changes initiated in the industrial sector since July 1991, has forced the industries of India to incur more on indirect expenses, may be to face the cut-throat competition due to liberalisation. During the nineties the range and quality of manufactured products, improved. Items that were hitherto considered luxury became common. The standard of living of the Indian population rose during nineties.

Over the period from 1992-2001, the IIP of Kerala industries rose from 216.21 to 360.20 which records a growth rate of 66.6 percent over ten years. During the year 2001-02 it has come down to 302.29 over the period from 1992-2002, the number of industries increased by 205 percent, investment by 260 percent and employment by 120 percent. The employment opportunities created by the industrial sector of Kerala is not increasing significantly. The industrial atmosphere and the industrial relations in the State have improved which is evidenced by reduced number of disputes handled, reduced number of strikes and lock-outs, reduced number of workers affected reduced number of man-days lost over the years from 1992 to 2002. The poor performance of the public sector industries affected the growth of industrial sector in general in the State.

Kerala industries had been enjoying around 3 percent of central government's investment in the seventies and in nineties it was less than two percent. From 2001 onwards central sector investment is more than 2 percent.
Most of the industrial units of Kerala avail of the financial assistance from commercial banks, KFC or KSIDC.

The Proportion of rural branches is decreasing and that of semi-urban, urban and metropolitan are increasing. This is due to the fact that more rural areas are urbanised and more new branches are started in semi-urban and urban areas. With regard to Kerala, C-D Ratio, I-D Ratio and C+I-D Ratio of 1992 to 2002 are less than the national average. The C-D ratio in Kerala had always been above 60 percent level till as late as 1990-91 when it marginally dropped to 59 percent. Afterwards it never came above 60 percent. The commercial banks of Kerala has achieved only 73 percentage of credit and 93 percentage of deposits thus leading to a C-D Ratio of 43.06 percentage which is only 78 percentage of the C-D Ratio estimated by the Avari Committee for 1998-99. Similarly the commercial banks of Kerala were able to achieve only 71 percent (42.77%) of the estimated C-D Ratio of 60 percent for the year 2000-01. The latest data available pertaining to September 2003 reveals that C-D Ratio in the State increased by 2.7% over six months which indicates a pick-up in credit disbursement following a revival in the State economy.

The percentage NPAs to total advances is coming down year after year. The Non-Resident External (NRE) deposits of Kerala form nearly 50 percent of the total deposits. The latest data available indicates that both NRE deposits and domestic deposits are increasing very slowly at 1.1 percent and 4.6 percent for the half year ending September 2003. Such a decline may lead to problems in the working of commercial banks.
On the basis of loans sanctioned KFC ranks 7\textsuperscript{th} among the SFCs. KFC is one among the 3 SFCs which were able to meet the 9 percent stipulated Capital Adequacy Ratio out of the 18 SFCs. KFC's losses is increasing, but it has reduced its loss in 2002-03. The NPA of KFC is increasing absolutely and relatively. It has reached 64.37 percent of the loans.

KSIDC took the lead in conducting Global Investor Meet (GIM). While KFC disburses on an average, 79.77 percent of the loan amount sanctioned, KSIDC disburses 63 percent of the sanctioned amount. The NPA has reached 66 percent of the loans in 2002-03. KSIDC is making profit and during 2002-'03 the growth in net profit is 40 percent.

The study reveals the fact that KSIDC finance more of companies while KFC and banks finance more number of proprietary concerns and firms. Out of the 76 loanees selected 45 percent were proprietary concerns, 21 percent were firms and 33 percent were companies. It is found out that while KFC and banks are ready to finance new as well as acquired units, KSIDC finance mainly new enterprises. All the entrepreneurs or the top officials of the selected enterprises were technically trained or experienced in business either as an employee or as an owner. Among the entrepreneurs selected, more of technically qualified persons are found among the entrepreneurs of Thrissur and Ernakulam district. The most important motivational factor for starting the units is found to be individual determination and motives. While sanctioning loans all the three financial institutions give almost equal importance to three factors viz, entrepreneurship, project report and collateral security. Eighty five percent of the sample units have an opinion that the
interest rate is very high or high. Seventy five percent of the entrepreneurs obtained the full amount of loan for which they had applied. KFC takes lesser time than KSIDC and commercial banks to sanction the loans. KSIDC charges lesser processing charge than banks and KFC. All the KSIDC units under study enjoyed a gestation period more than six months. More units of Ernakulam enjoyed a gestation period more than six months compared to other districts viz., Thrissur, Alappuzha and Idukki. Most of the loanees were satisfied with the gestation period. The average increase in cost due to cost overruns is the lowest in the case of KFC aided units and the highest in KSIDC aided units. Seventy four percent of the units had a schedule of monthly repayment of loans.

**Conclusions**

Out of the seven hypotheses formulated and tested three were accepted and four were rejected and the following conclusions were made.

1. The financial institutions should be more customer-friendly to play an effective role.

2. The state sponsored agencies have a positive role in the industrialisation of Kerala.

3. Among the three financial institutions banks aided units stand first, KFC aided units stand second and KSIDC aided units stand third.
4. There is significant difference in the performance of units district-wise. The units of Ernakulam district perform the best and those of Alappuzha district perform the worst.

5. There is significant difference in the performance of units product-wise. The units of general engineering group rank first rubber and plastic group and hosiery group rank the worst.

Suggestions

On the basis of the study suggestions are made to the financial institutions, government, entrepreneurs and to the public.

Financial Institutions

If the projects are proved to be viable and feasible all the financial institution are ready to finance the full amount of loan. Inform the loanees about the potential entrepreneurial areas in Kerala viz., IT, Biotechnology, agro-processing industries and tourism industry. Evolve new schemes which would enable them to support investors in these sectors.

Eighty five percent of the respondents have a complaint that interest rate is high. The rate of interest during 1996-97 was really high. All the financial institutions have reduced the interest rates. Still it has not come down to the international level. So, if the products of Kerala industries are to compete with other products, interest rate should be further reduced.

On an average, all the financial institutions take more than 3 months to sanction a loan. If properly attempted this time can be reduced.
A conducive credit culture can be achieved in letter and spirit only if a fool-proof arrangement is made to monitor the credit delivery system among the FIs. Loan monitoring should be done more efficiently as NPA norms have been made stricter. FIs should initiate steps on detecting even one-month default.

As the commercial banks are having a good network of branches it is easy for them to have a personal contact with each entrepreneur in their specified area. Therefore the banks should evolve new schemes suiting the customer. If the staff and customers in all branches work as a joint venture for local prosperity, bankers will no longer be labelled as deposit mobilisers only and development will acquire a new meaning and significance in the growth of national economy. It is suggested that bank managers should be given proper information about industries.

Banks are flush with loanable funds and should not hesitate in expanding advances out of volatile Non-Resident Indian (NRI) deposits. Banks will have to be more outgoing in search of new clients and new avenues for lending.

Banks should reduce the period taken for the collection of cheques. Network banking would be very helpful in reducing the time for collection of cheques.

KSIDC is suggested to take more care in project evaluation as some of its projects have failed due to the inefficiency in the evaluation of project report.
KFC can become more customer-friendly by simplifying the complicated procedure. It is welcoming on the part of KFC to give a list beforehand of requirements to be furnished at the time of submission of the proposal.

**Government**

In order to solve the problem of power supply two suggestions can be made to the Government. Firstly, the 14 places identified by Agency for Non- Conventional Energy and Rural Technology (ANERT) and Ministry of Non-Conventional Energy Sources (MNES) for the generation of wind energy should be developed by the State Government on its own. Even though wind energy is seasonal and it cannot be substituted for hydel power, it can be utilised in such a way that the pressure on hydel power can be reduced in the peak demand period. Secondly, the State has an abundant supply of biomass which can also be used for the generation of power. The use of biomass for power generation has several other advantages, viz., reduction of emission, diversity and employment generation.

To attain the targeted growth rate of Xth plan, the investment required is estimated at Rs. 1,53,760 crore. The Government contribution towards this could be only of Rs. 42,278 crores. So there should be a private investment of Rs. 1,11,482 crores. Therefore, the Government should take measures to attract the private investors. CII has ranked Kerala first with 'A' grade in the case of industrial attractiveness. That fact itself can be taken as a tool to attract private investors. The Government should see that foreign investors who come to India are influenced and brought to Kerala.
One of the difficulties faced by the entrepreneurs was found in the study as lack of government support and the harassment from the part of Government departments. The policies of changing governments should not affect the industries adversely. When the Governments change some of the benefits given to the industries are discontinued and some other benefits are implemented. But the difficulty is only to the individual units. The Government should see that the promises given to the industrial units are kept. Again, many of the entrepreneurs have complaints about one or the other of the Government departments. The Government should be able to create a feeling among the entrepreneurs that they are for the industrialists. Harassment should be replaced by whole-hearted co-operation. Things should be made more smooth by implementing effectively the single window scheme.

To change the risk-averse mindset of Keralites awareness of the possibilities of industrial growth should be created right from the school level. It may be because of this that many vocational schools and engineering courses are sanctioned in the State by the Government.

Increasing NPA is found to be an important problem of the three financial institutions. The government should take strict measures so that these financial institutions would be able to collect the NPAs soon. Merely passing of Securitizaion Act is not sufficient, speedy acquisition and disposal of assets should be made possible without any further intervention of the court.
Entrepreneurs

For Kerala industries to survive and prosper amidst rapid globalisation of the economy, it must limit the extent of help sought from the Government and learn to initiate a self-help and self-regulation approach. The entrepreneurs mission should be zero-defect units. Industry associations must restructure themselves to play an active role in transmitting this change.

India is now an open economy. An Indian product has to compete with the best in the world even for a share in the domestic market. In the study, lack of demand was found to be an important problem. To get a share of the consumers mind, price alone is not a differentiator. The entrepreneur should see that the quality of the product is upgraded. The units need to acquire a good image apart from building strong brands. The industrial units should keep faith by their creditors, suppliers, employees and customers.

Financial institutions alone should not be blamed for not granting advances because, sometimes, due to non-payment of loan instalments in time, they may come to the wrong notion that a particular group of enterprises are not viable. Therefore the researcher has to suggest the entrepreneurs to service the debt as agreed by them and the financial institution.

The entrepreneurs should see that the funds are used for the purposes for which it is granted.

Public

Finally, the public is suggested to co-operate with the financial institutions by being aware of the new schemes and technology adopted by
them so that their services can be made use of at their necessity. The public should also understand that Kerala state can develop only through industrialisation and therefore should co-operate with the industrial concerns.

In Kerala, a lot of investment is necessary for stepping up the industrialisation. Direct investment by government is less likely to come and experience suggests that private initiative using own capital is not showing any favourable trend. Thus the role of financial institutions becomes vital. The study focused on the major financial institutions and their role in industrial development. In general, the performance is satisfactory, but much more is expected from these institutions. The conclusions derived and the suggestions made, it is hoped, will be of use for policy decisions in future.

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