Chapter 6

Critical Analysis of Data
6.1 Critical Analysis of Data and Findings of Primary Research

As discussed in Chapter 2, Indian SMEs and Investment Banks are independently very well-known area and lot of research is already done, so enormous information is present. But at the same time emerging services of Investment Banks with the respect to its use for Indian SMEs are undiscovered and/or underutilized, so role of primary research becomes vital. With this note a questionnaire is designed with 14 different questions to broadly collect below data / information from Indian SMEs:

- Investment Bank's services which can help Indian SME's to grow faster
- Identification of existing challenges of Indian SMEs, that can be overcome using Investment Bank's services
- Most critical factor with regards to Indian SMEs' access to credit
- Assuming Indian SMEs are taking suitable services of Investment Bank:
  - Estimated additional growth percentage in revenue, profit, production, productivity, export and employment over the next 2 years?
  - Is technological expansion possible over the next 2 years?

The study is done for pharmaceutical and plastic industries, taking 50 samples from each industry. Analysis of data / information and findings of research is provided in this chapter.

6.1.1 Identification of Investment Bank’s Services that can help SME’s to Grow Faster

(Question for reference: Which of the following Investment Bank services do you think can help your organization to grow faster? (Choose Maximum Three))

We have discussed this extensively in the study, that SMEs are vital for double digit growth for India Inc.; this is realized by the Government and other large Private Financial institutions as well. There are many parties helping SMEs to grow faster by various means. But still SMEs are part of unorganized sector and facing lot of
challenges not just to grow but to survive also! More and more innovative and unexplored ways should be identified and focused; an effort is made here to study how investment bank's services can be utilized for Indian SMEs.

A brief about various investment banks services was given to selected SMEs from pharmaceutical and plastic industries and then asked to choose services that can be helpful to overcome the existing challenges, Respondents have voted for below services:

1. Private Placement of Equity
2. Business Advisory Services
3. Financial Restructuring Advisory
4. Project Finance
5. Mergers and Acquisitions Advisory

Table 6.1, Figure 6.1 and 6.2 provides the summary and analysis of the responses from pharmaceutical and plastic industries on Investment Bank's services that can help SME's to grow faster.

<table>
<thead>
<tr>
<th>Investment Bank's Services</th>
<th>Response of Pharmaceutical SME's</th>
<th>Ranking - Preferred Services of Pharmaceutical</th>
<th>Response of Plastic SME's</th>
<th>Ranking - Preferred Services of Plastic</th>
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<tbody>
<tr>
<td>Private Placement of Equity</td>
<td>41</td>
<td>1</td>
<td>45</td>
<td>1</td>
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<tr>
<td>Business Advisory Services</td>
<td>36</td>
<td>2</td>
<td>30</td>
<td>2</td>
</tr>
<tr>
<td>Financial Restructuring Advisory</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Project Finance</td>
<td>5</td>
<td>4</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>Mergers and Acquisitions Advisory</td>
<td>28</td>
<td>3</td>
<td>14</td>
<td>3</td>
</tr>
<tr>
<td>Initial Public Offers (IPO)</td>
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<td>5</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Right Issue</td>
<td>0</td>
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<td>6</td>
</tr>
<tr>
<td>Public Offers of Debt Securities</td>
<td>0</td>
<td>5</td>
<td>0</td>
<td>6</td>
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<td>Overseas Capital Market Issues</td>
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<td>6</td>
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<tr>
<td>Exist Offers</td>
<td>0</td>
<td>5</td>
<td>0</td>
<td>6</td>
</tr>
</tbody>
</table>
Private Placement of Equity

Private Placement of Equity is the most voted service both from pharmaceutical and plastic industries’ respondents, which account for 41 and 45 votes respectively from pharmaceutical and plastic industries. With this very first point, it clearly indicates importance of private placement of equity as well as investment banks for SMEs.
This response increases curiosity to study more on investment bank’s services, details about these are discussed at length in Chapter 5, but it is worthwhile to touch upon important aspects of private placement of equity again.

Most companies, both in the listed and unlisted categories make issues of equity shares to different shareholders without making a public offer. Such issues can be clubbed under the term ‘private issue of equity’. The term ‘private issue of equity’ has to be interpreted in terms of issue of equity shares in the non-public route either through a private offering or by other means. The various issues of equity that are possible in the non-public offering route are depicted in Figure 6.3.

**Figure 6.3: Overview of Private Placements of Equity**

![Diagram of private placements of equity]

Private Issues through preferential allotments / private placements:
- d) Preferential offers to promoters and their group of investors
- e) To Institutional Investors
- f) To non-intuitional investors.

Bonus Issues to shareholders by capitalisation

Issues to employees / promoters and working directors:
- d) Employees Stock Option Scheme
- e) Employee Share Purchase Scheme
- f) Sweat Equity


**Venture Capital Finance**

The only category of investors that is exclusive to unlisted and to be listed companies is that of venture capital investors. Under the present investment guidelines for venture capital, even later stage financing as private equity can also be made by venture capital investors as long as the company is unlisted or is to be listed.
In the area of private equity financing, the role is more transaction oriented than in venture capital fund raising. This is because, the business model of the company is more established, the organisation is fully in place and the cash flow model is proven. Therefore, the value addition of the investment banker in such deals is in valuation and transaction advisory. However, there are certain caveats that the investment banker has to be fully aware of while raising private equity for listed companies. These primarily relate to the disclosure of information to potential investors. Some of which can be classified as price sensitive information. While SEBI guidelines on disclosure of price sensitive information of a listed company are quite stringent, these are more in the context of insider trading or fraudulent manipulation of market price. However, in a private equity deal, the disclosure is for the purpose of enabling the potential investor to take an informed investment decision. In this context, the whole process has to be handled with extreme confidentiality and through suitable documentation by way of non-disclosure agreements so that none of the connected parties are put to hardship at a later date. However, there being no specific SEBI guidelines on private equity investment in listed companies, information disclosure in connection with it is largely a grey area at this point of time. The investment banker has to structure the offer literature including the information memorandum keeping this issue in mind. Secondly, the offer literature has to captures the true value proposition of the company and provides an investor friendly offer structure. While the value capture helps the company to get an appropriate valuation for the deal, the offer structure helps in striking the right chord with the investors.

Usually, the mandate letter for an investment banker spells out the scope of the 'engagement' in detail so that there are no exclusions or lack of understanding. The 'engagement' in connection with a private equity transaction can be summarized in the words of an investment banker as follows:
• Identify and initiate contact with prospective investors, including arranging road shows, and following up as necessary.
• Represent or accompany the company in meetings, presentations and ensuring negotiations with prospective investors.
• Review the outcome of such meetings with the company, and recommend to the company further action as may be required.
• Assist the company in coordinating information dissemination and due diligence program.
• Review and advice on proposals/offers from prospective investors.
• Oversee the orderly and timely execution of each financial transaction, in cooperation and coordination with other professional parties appointed by the company and/or the investors, and the various regulatory authorities including the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI).
• Provide such other services deemed necessary to ensure a successful outcome to this engagement.

Current Investment Banking Services for Raising Venture Capital [1]

The investment banker plays a key advisory role in formulating the business of a start-up company and also helps it to raise its finances. The key area wherein the investment banker plays an important role in transaction services, in the context to a start-up is essentially in fund raising and allied functions. Broadly, the following services can be delivered by the investment banker to a start-up company:

• Strategy and business advisory services in formulating the business model for the company’s stated business objective.
• Perform a study of the industry landscape and competitor analysis, product pricing strategy and SWOT analysis.
• Conduct a preliminary due diligence and advice the company on the necessary steps to be taken to make the business model credit worthy and
investors friendly. These aspects relate to the business and financial structuring of the company.

- Formulate the investment offering to be made by the company, which comprises of valuation and deal structuring.
- Prepare the business plan and the Information Memorandum or the Project Report as the case may be for the company’s fund raising including the detailed financial modelling and other promotional materials for the purposes of dissemination to prospective debt financiers and investors.
- Act as the arranger for the company’s debt or equity financing as per the financial plan that includes representation and negotiations.
- Raise financing for the company in the most efficient way possible.

**Business Advisory and Merger & Acquisition Services**

Private placement of equity is a very logical choice, but very interestingly respondents from both industries have given sizeable votes to Business Advisory and Merger & Acquisitions services. 36 respondents from pharmaceutical industry have selected business advisory services while 30 respondents from plastic industry have selected this service. Merger and acquisitions got 28 selections from pharmaceutical while 14 from plastic. At the same time Financial Restructuring Advisory, Project Finance, Initial Public Offers (IPO), Right Issue, Public Offers of Debt Securities, Overseas Capital Market Issues and Exist Offers got limited or no votes.

Let’s touch upon some details about Business Advisory and Merger & Acquisition Services.
Business Advisory Services

Business advisory services relate to advising a company on its present and future businesses from a strategic and financial perspective. Such services can encompass the areas as given below:

- **Entry Strategy Plans**: Entry strategy advice is required when a company plans to start a new business initiative either in a new area of business or in a new market whether geographically or otherwise. The entry strategy could be in terms of a corporate structure or a product and pricing strategy, target market segment, strategic alliance or in other such definitions. For e.g. a company wanting to set up shop in Gujarat could require an entry strategy to be formulated for the roll out of its business. The entry strategy recommendation in terms of corporate structure for such a company can be a decision between establishing a wholly owned subsidiary in Gujarat vis-a-vis a joint venture. Generally formulation of entry strategy plans requires looking at the business and financial aspects, regulatory and tax aspects of an envisaged business keeping in mind the existing corporate and business structure.

- **Project Feasibility Plans**: These relate to setting up of new businesses wherein the viability of the proposed business from a business, technology and financial perspective needs to be examined. Unless the commercial feasibility and financial viability is well established beyond doubt, projects normally do not go for fund raising. Therefore, a feasibility study is often being undertaken before proceeding along with other steps in implementing a project. Investment banks are ideally placed to conduct such feasibility studies from a business and financial perspective since they have in-depth information on each industry space. In some cases wherein a market survey needs to be done or a specialised technology needs to be assessed, the investment bank teams up with the relevant specialists concerned.
• **Corporate Plans:** Companies require formulating medium to long-term corporate plans that define their expansion and business strategy. While many established companies have in-house corporate planning departments, they also believe in getting the same formulated or vetted by an external agency such as an investment bank or a consulting firm. Formulation of corporate plans requires in-depth examination of the industry and business of the client, identification of growth drivers, market positioning, product policies, diversification strategies, corporate and group structure and other parameters. At the same time, the strategic financial aspects relating to fund requirement for future growth and financing there-of, the long-term holding structures and shareholding pattern, scope for further fund raising from the capital market, shareholder value creation and investor perspective, spinning off subsidiaries, entering into new business alliances, cross-border investments or acquisitions, etc need to be explored and incorporated into such corporate plans. Investment banks are competent to handle such assignments due to the fact that they are well versed in strategic financial issues.

• **Business Alliances:** Business alliances relate to joint ventures, collaborations and other such strategic relationships between two corporate entities that are brought about due to business compulsions or for harnessing synergies and complementary strengths. Business alliances form an important service area for investment banks as they involve transaction support in terms of identification of partners with complementary strengths or synergies. Such deal also involves due diligence and valuation aspects apart from negotiation and deal making. Usually, if an investment bank is representing a client, it does not perform the support services in due diligence or valuation as that would amount to a conflict of interests. In such deals, therefore, more than one advisor will be involved to handle different aspects of the assignment. In addition, the legal due diligence and documentation or certification of financial statements, etc may also need to be outsourced from various professional firms.
• **Cross-Border Investments**: Cross-border investments are made by a corporate in one country across other countries. Strategic business investments could be made in foreign entities owned or controlled by the investing corporate in the parent country or in other foreign entities. Cross-border investments may also be made without creation of a separate legal entity in the foreign country. As far as India is concerned, foreign investments in India are governed by the FDI policy of the Government of India from time to time. Similarly, overseas investments by Indian companies are also governed by government policy. Investment banks may advice either the investing company or the investee company depending upon whom they represent in the transaction. In providing such advice, an in-depth examination of the financial and regulatory issues is necessary to arrive at the optimum size of the investment, valuation methodology, investment structure and taking necessary regulatory clearances.

**Merger & Acquisition Advisory**

Corporate re-organizations consisting of restructuring, mergers, acquisition and amalgamations. Following are the key reasons behind organizations adopting for merger & acquisition:

- To create long term holding structures
- To grow at a rate faster than an organic growth rate
- To enter a new market or grow beyond a saturated market
- To capture forward and backward linkages in the value chain
- To attain control on a larger fund/manufacturing base
- To attain or better utilise tax covers
- To facilitate distribution of assets and family settlements
- Achieve synergies of operations
- To exit non-core businesses
• Bail-out mergers and acquisitions are common when a company is in trouble and seeks financial strength
• Strategic divestitures
• To facilitate the entry or exit of business partners

Role of Investment Banker in Corporate Re-organization

As may be appreciated from discussion on corporate re-organization here, the importance of the role played by the investment banker cannot be over-emphasized. It has already been indicated that this area forms a key segment in their business portfolio. In all corporate re-organizations, the investment banker performs the pivotal role of transaction service, acting as a catalyst for the entire deal. In a corporate restructuring involving a split-up or a divestiture by a company or disinvestment by the promoters, the investment banker prepares the entire feasibility plan, deal structure, prepares the necessary deal specific literature, identifies the buyers of the sellers as the case may be, conducts the valuation and due diligence and negotiations for arriving at the term sheet. The investment banker also works closely with other professionals such as accountants and legal advisors in order to look at the legal, accounting and tax issues involving such corporate reorganizations. Based on the deal structure arrived at, the scheme is prepared by the lawyers to be presented to the shareholders and the High Court under Sections 391-394 of the Companies Act. With the powers of the High Court now being shifted to the Tribunal, this function may also be performed by other professionals.

In transactions involving mergers and acquisitions, the task is even more onerous. In a merger, the key function of an investment banker is the search and identification of the other party to the deal. Thereafter, there are critical functions relating to preparation and circulation of information memoranda, deal structuring and negotiations apart from ancillary functions of valuation and due diligence that could be done by third party investment bankers. Since a merger involves statutory compliance and petitioning the Court, it involves teamwork with other professionals.
such as accountants, lawyers or company secretaries. It is worthwhile to note that it is only after the deal structure is firmed up that the scheme of the merger is drawn up to draft it in a legal language. Therefore, the deal structure is critical as it has financial and strategic implications for both parties. From this point of view, the investment banker's function has utmost significance.

The structure of the post-merger balance sheet is critical since it impacts the distributable reserves, the fund raising capability and book value of the share. This could have market repercussions as well. The investment banker has to have a clear view of these implications and advise the client suitably in arriving at the optimum strategy for the merger and post-merger balance sheet. Discussion with accounting professionals working on the balance sheet would help in this respect to come out with creative ideas. Similarly the tax implications also determine the rights strategy, especially in split-ups. As may be appreciated, a group restructuring could be quite a complicated assignment that could involve a combination of a split-up, merger and an acquisition. The investment banker should work closely with accounting, legal and tax experts in such cases to bring out a holistic solution.

In acquisitions and takeovers involving open offers, the investment banker plays the dual role of an investment bank as well as a merchant bank. The merchant banking role is in managing the public offer and ensuring compliance with the SEBI Takeover Code. The Takeover Code places onerous responsibility on the merchant banker for the purpose of the open offer in terms of the public announcement and disclosures in the offer letters. The other critical functions are in valuation and deal advisory based on the strategic and financial issues.

In transactions related to M&A, the investment banker has to represent a client either from the buy side or the sell side. This would mean that in each such deal, there would be least be two investment bankers representing either party to the transaction. Usually, an acquisition leads to spin-off transactions, which provide
additional work for the investment banker such as raising finance for the takeover through debt or equity offerings.

If we translate key benefits of these services in simple terms, it would be as follows:

- Private placement of equity – To generate fund
- Business advisory service – To formulate entry strategy, help in project feasibility study and business alliance
- Merger and acquisition advisory – Fast track growth (and not the organic one)

SMEs should explore these services to realize above benefits, but at the same time it becomes very critical that investment banks take SMEs segment very seriously and modify their current offering to suit the requirements of the segment.

6.1.2 Marking existing Challenges of SMEs, that can be conquer using Investment Bank’s Services

(Question for Reference: Would your organization be able to overcome any of the following (present) challenges, with the help of above selected Investment Bank services? (Choose Maximum Three))

SMEs play a vital role in the development of Indian economy. This growth has to be sustained, since it contributes substantial revenues to the Central exchequer. Let's recall some of the data mentioned in earlier chapters, currently there are 26.1 million SMEs in India. This includes 7.3 million manufacturing enterprises and 18.8 million service enterprises. Out of this, 2.1 million enterprises are managed by women, and rural enterprises account for 14.2 million. The total employment generation is 60 million and per unit employment are 6.24. The fixed investment per unit is Rs. 33.78 lakh, per unit original value of plant and machinery is Rs. 9.66 lakh. However, Indian SMEs are still a part of the unorganized sector. They face problems related to finance, infrastructure, consulting, marketing, research, export promotion, adequate water supply and power. Without this support Indian SMEs won’t be able to achieve the targeted growth of 10-12% in 2012-2013. [2]
Government and various private institutions have taken several measures to improve the capacity and global competitiveness of SMEs. But fact is in front of all us, the measures are not sufficient. A study is done here, to mark below (existing) challenges of SMEs that can be overcome using Investment Bank’s services:

1. Non-availability of adequate infrastructure support
2. Non-availability of adequate and timely credit
3. Inability to upgrade technology and production facilities to achieve cost competitiveness
4. Lack of adequate knowledge about government schemes and facilities
5. Non-availability of skilled personnel
6. Constraints in adopting energy efficiency in production process
7. Lack of proper means and support for brand building
8. Inadequacy of requisite R&D support

Table 6.2, Figure 6.4 and 6.5 provides the summary and analysis of the responses from pharmaceutical and plastic industries on marking existing challenges of SMEs, that can be conquer using Investment Bank’s services.

<table>
<thead>
<tr>
<th>Investment Bank’s Services</th>
<th>Response of Pharmaceutical SME’s</th>
<th>Ranking on Pharmaceutical Selection</th>
<th>Response of Plastic SME’s</th>
<th>Ranking on Plastic Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-availability of adequate and timely credit</td>
<td>43</td>
<td>1</td>
<td>45</td>
<td>1</td>
</tr>
<tr>
<td>Non-availability of skilled personnel</td>
<td>27</td>
<td>4</td>
<td>24</td>
<td>4</td>
</tr>
<tr>
<td>Inadequacy of requisite R&amp;D support</td>
<td>45</td>
<td>2</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Lack of proper means and support for brand building</td>
<td>33</td>
<td>3</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Inability to upgrade production facilities to achieve cost competitiveness</td>
<td>0</td>
<td>5</td>
<td>32</td>
<td>3</td>
</tr>
<tr>
<td>Constraints in adopting Energy Efficiency in production process</td>
<td>0</td>
<td>5</td>
<td>39</td>
<td>2</td>
</tr>
<tr>
<td>Non-availability of adequate infrastructure support</td>
<td>0</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Lack of adequate knowledge about government schemes and facilities</td>
<td>0</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>
This is good news that most painful challenge of SMEs called 'Non-availability of adequate and timely credit can be overcome using Investment Bank’s services. This is said by in total 88 respondents combined from pharmaceutical and plastic
industries, which account for 43 responses from pharmaceutical and 45 responses from plastic. If investment banks can make this outcome of study as reality, it would be a great achievement and solid platform for Indian SMEs to grow and compete strongly in the global market.

Observations for other challenges responses are as below:

- 27 respondents from pharmaceutical industry believe that they can overcome 'Non-availability of skilled personnel' challenge, while 24 from plastic believe so.
- As far as 'Inadequacy of requisite R&D support' is concerned 45 respondents from pharmaceutical has voted that they can overcome this particular challenge using Investment Bank's services. While no one from the plastic industry has voted for this challenge, as it seems to be not related challenge for the industry.
- 33 respondents from pharmaceutical industry said that they can overcome 'Lack of proper means and support for brand building' challenge while no one from plastic industry has marked this challenge.
- 32 respondents from plastic industry said that they can overcome 'Inability to upgrade production facilities to achieve cost competitiveness' while no one from pharmaceutical has marked this challenge.
- As far as 'Constraints in adopting Energy Efficiency in production process' is concerned 39 respondents from plastic industry has voted that they can overcome this particular challenge using Investment Bank's services. While no one from pharmaceutical industry has voted for this challenge.

The study shows positive sign that Investment Banks can contribute and help Indian SMEs to overcome some of their key challenges. With this note, one can say without doubt that Indian SMEs can find ways to conquer existing challenges. They are bound to flourish like they are doing in China, Taiwan, Malaysia, Thailand, Korea and other European and Western countries. They will be able to generate, enhance, and sustain the demand for their products to maintain growth and stay competitive.
But it won't be enough to overcome existing challenges and maintain existing growth; rather SMEs requires to grow more. Let's study more in the subsequent part of this chapter how investment bank's services can influence additional growth of SMEs in terms of revenue, profit, production, productivity, export and employment.

6.1.3 Determination of most Critical Factor with regards to SMEs Access of Credit

(Question for reference: In your view, what is most critical with regards to SMEs' access to credit? (Choose One))

For any organization be it 'Small' or 'Big', 'Profit Making' or 'Non-Profit Making', 'Manufacturing' or 'Service' timely availability of credit plays an important role in day to day functioning and long term growth. Lack of availability of funds is one of the critical factors, which restricts the formation and growth of SMEs. In spite of many good and laudable programmes of the central and state governments and also RBIs diktat to lend money as part of the priority sector to SMEs, still at the ground level SMEs face a huge challenge in terms of approaching financial institutions including banks for availing credit facilities. The number of documents and other paperwork required act as a deterrent. Many times, SMEs have to borrow from market sources at much higher interest rates and with lot of stringent conditions attached to it. Thus, there is a constant pressure on the SME in terms of managing their day-to-day / month-to-month cash situation.

There are several factors which influence the availability of funds. Out of these factors focused is made on below in this study:

1. Adequacy of funds
2. Time/speed for sanction and disbursal
3. Cost interest rates
Table 6.3, Figure 6.6 and 6.7 provides the summary and analysis of the responses from pharmaceutical and plastic industries on Determination of most Critical Factor with regards to SMEs Access of Credit.

### Table 6.3: Critical Factor for SMEs’ Access to Credit

<table>
<thead>
<tr>
<th>Sr No</th>
<th>Factors</th>
<th>Response of Pharmaceutical SMEs</th>
<th>Response of Plastic SMES</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Out of 50</td>
<td>In %</td>
<td>Out of 50</td>
</tr>
<tr>
<td>1</td>
<td>Adequacy of funds</td>
<td>31</td>
<td>62</td>
<td>36</td>
</tr>
<tr>
<td>2</td>
<td>Time/ speed for sanction and disbursal</td>
<td>14</td>
<td>28</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>Cost/ interest rates</td>
<td>5</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

**Figure 6.6: Critical Factor for Access to Credit - Pharmaceutical Industry**

- Adequacy of funds, 31
- Time/ speed for sanction and disbursal, 14
- Cost/ interest rates, 5
Both pharmaceutical and plastic industries respondents have emphasized on ‘Adequacy of funds’ as the most critical factor with regards to their (SMEs) access to credit. Total 62% respondents of pharmaceutical and 72% respondents of plastic industries have emphasized on this issue. In total 67% respondents have considered this factor as the most critical factor, and which falls under highest proportion.

The pattern is different for 2\textsuperscript{nd} and 3\textsuperscript{rd} factors, 28% respondents of pharmaceutical industry considered Time/ speed for sanction and disbursal as the barrier to get credit while 8% from plastic industry has considered this as the barrier. Remaining 10% respondents of pharmaceutical industry said that Cost / interest rate is the critical factor for them, while 20% respondents of plastic industry considered this as the critical factor. So, in total 18% respondents of both industries have considered Time/ speed for sanction and disbursal as the most critical factor while 15% respondents of both industries have considered Cost/ interest rates as the most critical factor.

**How Investment Banks can help SMEs to get adequate funds?**

Most critical factor with regards to SMEs access of credit is identified, now the question is how to overcome it? Here, study is done on how Investment Banks can
help SMEs to overcome their existing challenges, the result is already described in point 6.1.1 and 6.1.2 of this chapter.

But to give straight answer to above question, 'Private Placement of Equity' is the ideal choice. Observe below typical characteristics of private equity, which are highly suitable to SMEs:

- High risk asset class
- Long-term time horizon
- Illiquid asset class
- Risk and illiquidity are compensated by a higher expected return

As per Business Standards, Edition Friday, 02 Nov 2012 Private equity players are ready to look at SMEs. It further says that, conservativeness of investing in the secular sector has faded and private equity players are ready to put their money in emerging areas with high growth rates. This is real solid sign that SMEs should look for private equity via Investment Banks.

6.1.4 Estimated growth in terms of Revenue, Profit, Production, Productivity, Export and Employment of SMEs after taking suitable Investment Bank's Services

(Questions for Reference:
- *How much additional growth in the Revenue would you estimate over the next 2 years?*
- *How much additional growth in the Profit would you estimate over the next 2 years?*
- *(For Manufacturing Unit only) How much additional growth in the Production would you estimate over the next 2 years?*
- *How much additional growth in the Productivity would you estimate over the next 2 years?*
• How much additional growth in the Export would you estimate over the next 2 years? (Answer only if applicable)
• What will be the strength of your manpower over the next 2 years?
• Is technological expansion possible over the next 2 years?)

It was nice to conclude in the last point that with the help of Investment Bank’s services SMEs can overcome some of their challenges, grow and compete in global market. But it is essential to go in to more details and study it from different dimensions; SMEs of pharmaceutical and plastic industries were requested to estimate their growth in terms of revenue, profit, production, productivity, export and employment over the next 2 years assuming they will take suitable investment bank’s services. Responses for same are mentioned below.

6.1.4.1 Estimated Average additional Growth of SMEs after taking Suitable Investment Bank’s Services

Respondents from both pharmaceutical and plastic industries have estimated their additional growth in revenue, profit, production, productivity and export assuming they are going to take suitable investment bank’s services, all collected responses were average out and the summery and analysis is presented below in Table 6.4, Figure 6.8 and 6.9.

Table 6.4: Estimated Average additional Growth of SMEs after taking Suitable Investment Bank’s Services

<table>
<thead>
<tr>
<th>Average estimated additional Growth over Next 2 Years</th>
<th>% of Pharmaceutical SMEs</th>
<th>% of Plastic SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Revenue</td>
<td>14.06%</td>
<td>12.12%</td>
</tr>
<tr>
<td>In Profit</td>
<td>15.64%</td>
<td>5.07%</td>
</tr>
<tr>
<td>In Production</td>
<td>13.28%</td>
<td>10.01%</td>
</tr>
<tr>
<td>In Productivity</td>
<td>11.26%</td>
<td>14.15%</td>
</tr>
<tr>
<td>In Export</td>
<td>8.5%</td>
<td>10%</td>
</tr>
</tbody>
</table>
Respondents from pharmaceutical industry have estimated that on an average they can get additional 14.06% growth in revenue and 15.64% growth in profit over the next 2 years after taking suitable investment bank’s services, while respondents from plastic industry has estimated that they can get 12.12% additional growth in revenue and 5.07% in profit. For production, productivity and export, respondents from
pharmaceutical have estimated average additional growth as 13.28%, 11.26% and 8.5% respectively and respondents from plastic have estimated 10.01%, 14.15% and 10% respectively. Numbers received here looks very impressive and make the point more strong that Investment Banks can play significant role in development of Indian SMEs. Let’s evaluate more.

6.1.4.2 Estimated Maximum additional Growth of SMEs after taking Suitable Investment Bank’s Services

Respondents from both pharmaceutical and plastic industries have estimated their additional growth in revenue, profit, production, productivity and export assuming they are going to take suitable investment bank’s services, out of all responses maximum % is marked and the summery and analysis is presented below in Table 6.5, Figure 6.10 and 6.11.

Table 6.5: Estimated Maximum additional Growth of SMEs after taking Suitable Investment Bank’s Services

<table>
<thead>
<tr>
<th>Maximum estimated additional Growth over Next 2 Years</th>
<th>% of Pharmaceutical SMEs</th>
<th>% of Plastic of SMES</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Revenue</td>
<td>35%</td>
<td>28%</td>
</tr>
<tr>
<td>In Profit</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>In Production</td>
<td>35%</td>
<td>25%</td>
</tr>
<tr>
<td>In Productivity</td>
<td>35%</td>
<td>28%</td>
</tr>
<tr>
<td>In Export</td>
<td>25%</td>
<td>15%</td>
</tr>
</tbody>
</table>
The greatest asset of any business is the mind, the passion and the hunger of an entrepreneur. It is very exciting that some of the respondents from pharmaceutical industry have said that they can grow more than 30% (additional) in terms of revenue, profit and production while some of the respondents from plastic said they can grow more than 20% (additional) in this aspect after taking suitable services of
Investment Banks. Such numbers increases the confidence that Investment Banks can definitely contribute well in growth of SMEs. This ingenuity of an entrepreneur will create new products, open new markets and sometimes even break down industry structures.

6.1.4.3 Estimated Minimum additional Growth of SMEs after taking Suitable Investment Bank’s Services

Respondents from both pharmaceutical and plastic industries have estimated their additional growth in revenue, profit, production, productivity and export assuming they are going to take suitable investment bank’s services, out of all responses minimum % is marked and the summery and analysis is presented below in Table 6.6, Figure 6.12 and 6.13.

Table 6.6: Estimated Minimum additional Growth of SMEs after taking Suitable Investment Bank’s Services

<table>
<thead>
<tr>
<th>Minimum estimated additional Growth over Next 2 Years</th>
<th>% of Pharmaceutical SMEs</th>
<th>% of Plastic SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Revenue</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>In Profit</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>In Production</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>In Productivity</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>In Export</td>
<td>2%</td>
<td>5%</td>
</tr>
</tbody>
</table>
In order to do a critical analysis and understand real perception of entrepreneur of SMEs towards benefit realization from investment banks service, minimum additional growth % are identified from all collected responses. Only 3% respondents from pharmaceutical said that they will get equal to or less than 5% growth in revenue, profit and production if they opt for investment bank services.
while only 4% respondents from plastic said that they will get growth for these factors equal to or less than 6%. It shows that majority of respondents are seeing investment banks as valuable partner in their journey to become Big.

6.1.4.4 Estimated additional Categorized Growth in Revenue of SMEs after taking Suitable Investment Bank’s Services

Respondents from both pharmaceutical and plastic industries have estimated their additional growth in revenue over the next 2 years assuming they are going to take suitable investment bank’s services; the responses are categorized in various bands. The summery and analysis is presented below in Table 6.7, Figure 6.14 and 6.15.

Table 6.7: Estimated additional Categorized Growth in Revenue of SMEs after taking Suitable Investment Bank’s Services

<table>
<thead>
<tr>
<th>Categorized additional Growth in Revenue Over Next 2 Years</th>
<th>Response of Pharmaceutical SME’s</th>
<th>Response of Plastic SME’s</th>
<th>Average Total Response in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 5% to 10%</td>
<td>28</td>
<td>22</td>
<td>50</td>
</tr>
<tr>
<td>Between 11% to 20%</td>
<td>12</td>
<td>16</td>
<td>28</td>
</tr>
<tr>
<td>21% and above</td>
<td>10</td>
<td>12</td>
<td>22</td>
</tr>
</tbody>
</table>

Figure 6.14: Estimated additional Categorized Growth in Revenue of SMEs after taking Suitable Investment Bank’s Services - Pharmaceutical Industry
Half (50% in total) of responses from pharmaceutical and plastic industries falls between the range of 5% to 10% and other responses are almost equally divided between 11% to 20% and 21% and above ranges. The pie shows below two positive factors:

- Half of the respondents believe that they can get 11% or more additional growth in revenue, if they take suitable investment banks services. This is commendable result.
- No respondent feels that they will get less than 5% growth if they take suitable investment banks services.

6.1.4.5 Estimated additional Categorized Growth in Profit of SMEs after taking Suitable Investment Bank’s Services

Respondents from both pharmaceutical and plastic industries have estimated their additional growth in profit over the next 2 years assuming they are going to take suitable investment bank’s services; the responses are categorized in various bands. The summery and analysis is presented below in Table 6.8, Figure 6.16 and 6.17.
Table 6.8: Estimated additional Categorized Growth in Profit of SMEs after taking Suitable Investment Bank’s Services

<table>
<thead>
<tr>
<th>Categorized additional Growth in Profit Over Next 2 Years</th>
<th>Response of Pharmaceutical SME’s</th>
<th>Response of Plastic SME’s</th>
<th>Average Total Response in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 1% to 4%</td>
<td>1</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Between 5% to 10%</td>
<td>16</td>
<td>17</td>
<td>33</td>
</tr>
<tr>
<td>Between 11% to 20%</td>
<td>23</td>
<td>13</td>
<td>36</td>
</tr>
<tr>
<td>21% and above</td>
<td>10</td>
<td>NA</td>
<td>10</td>
</tr>
</tbody>
</table>

Figure 6.16: Estimated additional Categorized Growth in Profit on SMEs after taking Suitable Investment Bank’s Services - Pharmaceutical Industry
The categorized analysis shows that all respondents from both pharmaceutical and plastic industries believe that they will make some additional profit after taking suitable investment banks services. At the same time around 80% of total respondents said that they can make 5% or more additional profit after taking suitable investment bank’s services.

6.1.4.6 Estimated additional Categorized Growth in Production of SMEs after taking Suitable Investment Bank’s Services

Respondents from both pharmaceutical and plastic industries have estimated their additional growth in production over the next 2 years assuming they are going to take suitable investment bank’s services; the responses are categorized in various bands. The summery and analysis is presented below in Table 6.9, Figure 6.18 and 6.19.
Table 6.9: Estimated additional Categorized Growth in Production of SMEs after taking Suitable Investment Bank’s Services

<table>
<thead>
<tr>
<th>Categorized additional Growth in Production Over Next 2 Years</th>
<th>Response of Pharmaceutical SME’s</th>
<th>Response of Plastic SME’s</th>
<th>Average Total Response in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 5% to 10%</td>
<td>29</td>
<td>32</td>
<td>61</td>
</tr>
<tr>
<td>Between 11% to 20%</td>
<td>11</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>21% and above</td>
<td>10</td>
<td>2</td>
<td>12</td>
</tr>
</tbody>
</table>

Figure 6.18: Estimated additional Categorized Growth in Production on SMEs after taking Suitable Investment Bank’s Services - Pharmaceutical Industry

Figure 6.19: Estimated additional Categorized Growth in Production on SMEs after taking Suitable Investment Bank’s Services - Plastic Industry
As per Yes Bank report, *Indian Pharmaceutical Industry: Vision 2015*, Indian Pharmaceutical industry should touch the mark of $50 bn by year 2014-16. Presently, the Indian SME Pharma companies are lagging in production facilities due to a shortage of fund. Setting up modern research labs equipped with the state-of-the-art technology is a costly affair, which only big players can afford. Here, in the study 58% respondents from pharmaceutical industry said that they can grow in terms of production from 5% to 10% after taking suitable investment banks services, 22% said that they can grow between 11% to 20% and 20% said that they can even grow more than 21%. Result shows, it is possible to use advance technology in manufacturing if SMEs choose right approach to overcome their existing challenges.

As per Businessword, *SME Whitebook* the next two decades is expected to offer unprecedented opportunities for the plastic industry in India. This would mandate industry to increase investments, grow the market, improve quality standards, enhance global participation, and encourage Indian industry to adopt world-class technology and manufacturing practices. In this study 64% respondent of plastic industry said that they can grow from 5% to 10% in production after taking suitable investment banks services, 27% said that they can grow between 11% to 20% and 12% said that they can grow beyond 21%. The numbers clearly state that respondents (SMEs) believes that they can upgrade their manufacturing facilities with the help investment banks services.

6.1.4.7 Estimated additional Categorized Growth in Productivity of SMEs after taking Suitable Investment Bank’s Services

Respondents from both pharmaceutical and plastic industries have estimated their additional growth in productivity over the next 2 years assuming they are going to take suitable investment bank’s services; the responses are categorized in various bands. The summery and analysis is presented below in Table 6.10, Figure 6.20 and 6.21.
Table 6.10: Estimated additional Categorized Growth in Production of SMEs after taking Suitable Investment Bank's Services

<table>
<thead>
<tr>
<th>Categorized additional Growth in Productivity Over Next 2 Years</th>
<th>Response of Pharmaceutical SME's</th>
<th>Response of Plastic SME's</th>
<th>Average Total Response in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 1% to 4%</td>
<td>7</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Between 5% to 10%</td>
<td>30</td>
<td>35</td>
<td>65</td>
</tr>
<tr>
<td>Between 11% to 20%</td>
<td>5</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>21% and above</td>
<td>8</td>
<td>3</td>
<td>11</td>
</tr>
</tbody>
</table>

Figure 6.20: Estimated additional Categorized Growth in Production of SMEs after taking Suitable Investment Bank’s Services - Pharmaceutical Industry

Figure 6.21: Estimated additional Categorized Growth in Production of SMEs after taking Suitable Investment Bank’s Services - Plastic Industry
Due to swift global competition SMEs are forced to improve their standards by any mean, in this scenario enhancing overall productivity becomes very important factor. In this study overall 12% of respondents said that they can grow in term of productivity between 1% to 4% after taking suitable investment banks services, 65% said that they can growth between 5% to 10%, 12% said that they can growth between 11% to 20% and rest 11% said that they can grow more than 21%. This indication shows that SMEs believe to improve their overall functioning by taking suitable investment banks services.

6.1.4.8 Estimated additional Categorized Growth in Export of SMEs after taking Suitable Investment Bank’s Services

Respondents from both pharmaceutical and plastic industries have estimated their additional growth in export over the next 2 years assuming they are going to take suitable investment bank’s services; the responses are categorized in various bands. The summery and analysis is presented below in Table 6.11, Figure 6.22 and 6.23.

<table>
<thead>
<tr>
<th>Categorized additional Growth in Export Over Next 2 Years</th>
<th>Response of Pharmaceutical SME’s</th>
<th>Response of Plastic SME’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 1% to 4%</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Between 5% to 10%</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Between 11% to 20%</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>21% and above</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>
Figure 6.22: Estimated additional Categorized Growth in Export on SMEs after taking Suitable Investment Bank’s Services - Pharmaceutical Industry

Between 5% to 10%, 6
Between 11% to 20%, 3
21% and above, 1
Between 1% to 4%, 2

Figure 6.23: Estimated additional Categorized Growth in Export on SMEs after taking Suitable Investment Bank’s Services - Plastic Industry

Between 5% to 10%, 2
Between 11% to 20%, 3
SMEs requires to bring up their quality standard to maximum to sell their product in foreign market, at the same to due to heavy competition cost should be competitive as well. Unfortunately, fewer companies from selected sample are doing export. So, the number of responses received is very limited. But still received responses shows positive sing from SMEs to improve export after taking suitable investment banks service.

6.1.4.9 Estimated Growth in Employment after taking Suitable Investment Bank’s Services

Respondents from both pharmaceutical and plastic industries have estimated their additional growth in employment over the next 2 years assuming they are going to take suitable investment bank’s services. The summary and analysis is presented below in Table 6.12, Figure 6.24 and 6.25.

<table>
<thead>
<tr>
<th>Growth in Employment Over Next 2 Years</th>
<th>Response of Pharmaceutical SME’s</th>
<th>Response of Plastic SME’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total current employee strength</td>
<td>1117</td>
<td>550</td>
</tr>
<tr>
<td>Predicted employee strength over 3 years</td>
<td>1773</td>
<td>800</td>
</tr>
<tr>
<td>Total number of additional employments</td>
<td>656</td>
<td>250</td>
</tr>
<tr>
<td>Average number of additional employments per organization</td>
<td>13</td>
<td>5</td>
</tr>
</tbody>
</table>
If SMEs could manage to overcome some of the existing challenges, they have potential to create millions of employment opportunities year-on-year; till the word 'unemployment' remains in a dictionary and not on the landscape of India. As we all know, growth of employment is directly linked with overall growth of the organization. In this study respondent from pharmaceutical industry said that on an
average they can provide additional employment to 13 people after taking suitable investment bank’s service and that to from plastic said that the number would 5.

If we recall some of the facts mentioned in earlier chapter, currently there are 26.1 million SMEs in India. This includes 7.3 million manufacturing enterprises and 18.8 million service enterprises. Now, out of this if only 20% SMEs takes investment banks services and grow, you can assume how much additional employment they can generate!

6.1.4.10 Is Technological Expansion Possible after taking Suitable Investment Bank’s Services?

Respondents from both pharmaceutical and plastic industries have asked to work out whether technological expansions possible over the next 2 years assuming they are going to take suitable investment bank’s services? The summery and analysis is presented below in Table 6.13, Figure 6.26 and 6.27.

Table 6.13: Is Technological Expansion Possible after taking Suitable Investment Bank’s Services?

<table>
<thead>
<tr>
<th>Technological Expansion Possible Over Next 2 Years</th>
<th>Response of Pharmaceutical SME’s</th>
<th>Response of Plastic SME’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>86%</td>
<td>91%</td>
</tr>
<tr>
<td>No</td>
<td>14%</td>
<td>9%</td>
</tr>
</tbody>
</table>
Technology carries high importance for the growth of SMEs. It is not surprising that large companies have the advantage as they can finance the access to advanced technology. SMEs fall behind on this score mainly because of credit. Access to technology does not mean access only to manufacturing technologies. It is
imperative for SMEs to adopt information and communication technology (ICT) applications. The numbers from this study are very exciting, 86% respondents from pharmaceutical said that they can expand their technology with the help of investment banks service while 91% respondents from plastic industry said that they can expand their technology. The technological expansion would greatly help SMEs to improve their products, services, offering and overall efficiency of their functioning. [2]

There is an unmistakable sense of sanguine expectations in India today in relation to economic growth. This becomes even more palpable in the case of SMEs. Even though they face lot of challenges and operate in difficult situations, if they choose right path, they have full capacity to fulfill all the expectations and even do more!

This study put forward that with the help of suitable investment bank's services SMEs (belongs to pharmaceutical and plastic industries) can achieve substantial additional growth in production, export, productivity, revenue, profit and employment. With this note, SMEs will have full capacity to contribute greatly to achieve double digit GDP growth to India in near future.

At the same time out of the study, one cannot denies the fact that Investment Banks have to focus more on SME segment and mold their services that can be absolutely suitable to SMEs.

To bring to a close, Chapter 6 has covered analysis of primary research data for both Pharmaceutical and Plastic industries. Conclusion on the study is covered in next the chapter.
6.2 Bibliography
