CHAPTER VII

SUMMARY OF FINDINGS AND SUGGESTIONS

1. Introduction

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1. INTRODUCTION

Small scale industries in India play a predominant role by way of providing larger employment opportunities and increased contribution to the total production and exports. The Government of India has been taking several measures to improve the significance of the small scale industries.

Finance has remained as one of the important problems to the small scale industries. In India finance is provided to small scale industries by commercial banks and financial institutions. In addition to that, small scale industrial units borrow from the indigenous sources also.

Utilisation of finance from these sources by the small scale industries are influenced by a variety of factors. A study has been carried out in this direction in order (i) to study the concepts of small scale units and to review the progress of small scale units in India and Tamil Nadu, (ii) to examine the Government measures and the role of various agencies in assisting and promoting small scale industries, (iii) to measure the extent of financial assistance extended by the organised sector to small scale industries with special reference to Coimbatore District, (iv) to evaluate the financial performance of the selected small scale units and (v) to analyse the
level of utilisation of various sources of finance by the selected units and to identify the factors associated with the level of utilisation of such sources.

A sample of fifty small scale engineering units has been chosen for the purpose of the study. The data required have been collected through questionnaire. The statistical tools employed for analysing the data include (i) Simple Average (ii) Compound Growth Rate (iii) Simple Correlation (iv) Simple Regression (v) Multiple Correlation (vi) Multiple Regression and (vii) Analysis of Variance. The results of the analysis are briefly presented in this chapter.

2. FINDINGS OF THE STUDY

I. Extent of Financial Assistance to Small Scale Industries by the Organised Sector

Financial assistance to the small scale industries in Coimbatore district by the organised sector such as SBI Group, Commercial Banks, Co-operative Banks and the TIIC reveals the following aspects.

The assistance to SSIs by the various agencies constitutes 34% of the priority sector's assistance. There is a significant positive association between the financial assistance to priority sector and small scale industries. The regression analysis indicates that an increase in the
value of assistance to priority sector by a rupee leads to an increase in the allocation to SSIs by 35 paise.

During the study period the average actual financial assistance to small scale industries by the various agencies has exceeded the target by 5%. There is a significant positive relationship between the target and achievement. The regression analysis suggests that on an average 100% of the increase in target is achieved.

During the study period the average financial assistance to small scale industries by the SBI group has exceeded the target by 35%. This indicates that the SBI group has significantly assisted the small scale industries.

During the study period the commercial banks and co-operative banks have collectively made a significant contribution in assisting the small scale industries by exceeding the target by 6%.

Tamil Nadu Industrial Investment Corporation has not played a significant role in assisting the small scale industries since the average actual financial assistance is only 62% of the target.

A comparative analysis of the financial assistance to small scale industries by the nationalised, non-nationalised and co-operative banks reveals that the
nationalised banks have more significantly assisted the small scale industries than the non-nationalised banks. The co-operative banks' performance is not satisfactory since its achievement is less than the target.

A comparative analysis of the financial assistance to small scale industries by the SBI group, Banks and TIIC reveals that the performance of the SBI group is better than the banks. The performance of the TIIC is not satisfactory since the achievement is far below the target.

II. Financial Performance of the Sample Units.

The financial analysis of the sample units reveals the following facts:

(i) Profitability

The average gross profit of the sample units is 15.87 %. It has registered an increase of 5 % over the years.

The average gross profit to total assets is 22.25% and it has increased by 10 % over the years.

The average net profit ratio is 2.62% and it has registered an increase of 3% over the years. In the view of the bankers, the ratio is low.
The average net profit to total assets is 4.31% and it has increased by 5% over the year.

The return on net worth on an average is 13.57% and the ratio has registered an increase of 3% over the years. In the opinion of the bankers the profitability of the sample units is not satisfactory.

ii) Liquidity

The sample units' average current ratio is 1.08 which is less than the satisfactory ratio (1.33) prescribed by the banks. Over the years the ratio has registered an increase of one percent.

The average quick ratio of the sample units is 0.67 and it has not recorded any increase over the years.

The average ratio of bank finance to working capital gap is 106.62% and it has increased by 11% over the years.

In the opinion of the bankers the liquidity position of the units is not satisfactory.

iii) Leverage

The average debt-equity ratio of the sample units is two. It has registered an increase of two percent over the years.
The average ratio of total debts to total assets is 0.70 and it has not recorded any increase over the years.

In the opinion of the bankers the leverage position of the sample units is satisfactory.

iv) Operating Efficiency

The fixed assets turnover ratio on an average is 6.38. It has registered an increase of 5% over the years.

The average assets turnover ratio of the sample units is 1.44 and it has increased by 5% over the years.

The average stock turnover ratio of the sample units is 6.13 and it has recorded an increase of 9% over the years.

The turnover ratios indicate that the operating efficiency of the units, in general, is satisfactory.

III. Factors Associated With The Level of Utilisation of Commercial Bank Finance

The analysis of the factors associated with the level of utilisation of bank finance discloses the following:

(i) The units which have expressed the opinion that the conditions imposed are normal have the average utilisation index higher than the units which have
expressed the opinion that the conditions imposed are rigid. There is significant variation in the average utilisation index of these two groups of units. Further, correlation analysis reveals that conditions imposed for sanctioning the loan are significantly associated with the level of utilisation. The coefficient of determination indicates that this factor accounts for the variations in the level of utilisation to the extent of 42%.

(ii) The average utilisation index is higher in respect of the units which feel that the sanctioning procedure is simple than the units which feel that the sanctioning procedure is complicated. Further there is significant variation in the average utilisation index of these two groups of units. The correlation analysis discloses that the sanctioning procedure is significantly correlated with the level of utilisation. The coefficient of determination explains that 43% of the variation in the level of utilisation is accounted for by the sanctioning procedure.

(iii) The units which have expressed the opinion that the time taken for sanctioning the loan is short have the average utilisation index higher than the units which have expressed the opinion that the time taken for sanctioning the loan is long. There is also significant variation in average utilisation index of these two groups of units. Further, correlation analysis reveals that the
time taken for sanctioning the loan is closely associated with the level of utilisation. The coefficient of determination indicates that the time taken for sanctioning the loan contributes for 20% of the variation in the level of utilisation.

(iv) The average utilisation index is higher in respect of the units which have expressed the opinion that the amount sanctioned is adequate than the units which have expressed the opinion that the amount sanctioned is inadequate. It is also found that there is significant variation in the average utilisation index of the two groups of units. The correlation analysis discloses that there is a close relationship between the adequacy of the amount sanctioned and the level of utilisation. The coefficient of determination explains that the adequacy of the amount sanctioned accounts for 28% of the variation in the level of utilisation.

(v) The units which feel that the attitude of the officials is courteous have the average utilisation index higher than the units which feel that the attitude of the officials is indifferent. Further there is significant variation in the average utilisation index of these two groups of units. The correlation analysis reveals that the attitude of the officials is significantly associated with the level of utilisation. The coefficient of determination discloses that the attitude of the
officials accounts for the variation in the level of utilisation to the extent of 36%.

(vi) The units which have expressed the opinion that the expenses of borrowing are low have the average utilisation index higher than the units which have expressed the opinion that the expenses of borrowing are normal. There is no significant variation in the average utilisation index of the two groups of units. The correlation analysis also reveals that the expenses of borrowing is not significantly associated with the level of utilisation.

(vii) Though the average utilisation index is higher in respect of the units which feel that the rate of interest is low than the units which feel that the rate of interest is high, there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis also indicates that the rate of interest is not significantly associated with the level of utilisation.

(viii) The units which have expressed the opinion that the enhancement conceded is adequate have the average utilisation index higher than the units which have expressed the opinion that the enhancement conceded is inadequate. Further there is significant variation in the average utilisation index of these two groups of units. The
correlation analysis discloses that the enhancement conceded is closely correlated with the level of utilisation. The coefficient of determination explains that the enhancement conceded contributes for 43% of the variation in the level of utilisation.

(ix) The average utilisation index is higher in respect of the units whose entrepreneurs possess technical qualification than the units whose entrepreneurs possess non-technical qualification. However, there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis indicates that the educational qualification of the entrepreneurs is not significantly associated with the level of utilisation.

(x) The units whose entrepreneurs have less than five years of previous experience have marginally higher level of average utilisation index than the units whose entrepreneurs have more than five years of previous experience. However, there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis reveals that the previous experience of the entrepreneurs is not significantly associated with the level of utilisation.
(xi) The groups of units which have the total assets more than Rs.10 lakhs have the average utilisation index higher than the group of units which have the total assets less than Rs.10 lakhs. However, there is no significant variation in the average utilisation index of the two groups of units. The correlation analysis also discloses that there exists no significant relationship between the size of the unit and the level of utilisation.

(xii) Though the average utilisation index is higher in respect of the units which have the capacity utilisation less than 75% than the units which have the variation in the average utilisation index of these two groups of units. Further, the correlation analysis discloses that there exists no significant relationship between capacity utilisation and level of utilisation.

(xiii) The average utilisation index is higher in respect of the groups of units which have the annual sales value more than Rs.10 lakhs than the units which have the annual sales value less than Rs. 10 lakhs. However, there is no significant variation in the average utilisation index of these two groups of units. Further, the correlation analysis indicates that the sales value is not significantly associated with the level of utilisation.

(xiv) There is no significant variation in the average utilisation index of the two groups of units which have the net profit ratio below and above the average.
Further, the correlation analysis reveals that there is no significant relationship between profitability and level of utilisation.

(xv) The units which have the stock turnover ratio less than the average (six) have higher level of average utilisation index than the units which have the stock turnover ratio more than the average. However, there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis also reveals that the stock turnover ratio is not significantly associated with the level of utilisation.

(xvi) The group of units which have the assets turnover ratio more than the average have higher level of average utilisation index than the group of units which have the assets turnover ratio less than the average. However, there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis also reveals that there exists no significant relationship between the assets turnover ratio and the level of utilisation.

(xvii) The units which have the current ratio below unity have the average utilisation index higher than the units which have the current ratio above unity. However, there is no significant variation in the average utilisation index of these two groups of units. Further, the
correlation analysis reveals that there is no significant relationship between liquidity and level of utilisation.

(xviii) The units which have the debt-equity ratio more than two have marginally higher average utilisation index than the units which have the debt equity ratio less than two. Further, there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis also indicates that leverage is not significantly associated with level of utilisation.

(xix) The units which have the fixed assets to total assets ratio above the average (0.42) have the average utilisation index higher than the units which have the fixed assets to total assets ratio below the average. But there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis also discloses that the fixed assets to total assets ratio is not closely associated with the level of utilisation.

Multiple correlation analysis indicates that six factors namely (i) conditions imposed, (ii) sanctioning procedure, (iii) time taken for sanctioning, (iv) adequacy of the amount sanctioned, (v) attitude of the officials and (vi) enhancement conceded considerably contribute for the variation in the level of utilisation. It is found that around 65% of the variation in the level of utilisation is due to these factors.
Multiple regression analysis reveals that only one factor namely attitude of the officials is found to be significantly related with the level of utilisation. The analysis has suggested that the level of utilisation (LU) can be explained through the following equation:

\[
LU = -21.051 + 18.723 \text{ CI} + 4.689 \text{ SP} - 10.766 \text{ TT} \\
\quad (-10.564) (0.932) (0.234) (-1.105) \\
- 0.026 \text{ AA} + 30.294 \text{ AO} \ast + 12.772 \text{ EC} + e \\
\quad (-0.003) (3.974) (1.475)
\]

'F' test shows that the regression equation framed is significant in explaining the variation in the level of utilisation.

IV. Factors Associated With The Level of Utilisation of Institutional Finance

The analysis of the factors associated with the level of utilisation of Institutional Finance reveals the following facts:

(i) The average utilisation index is higher in respect of the units which have expressed the opinion that the conditions imposed are normal than the units which have expressed the opinion that the conditions imposed are rigid. However, there is no significant variation in the average utilisation index of these two groups of units.
(ii) The groups of units which have stated that the sanctioning procedure is simple have a higher level of average utilisation than the groups of units which have stated that the sanctioning procedure is complicated. Further there is a significant variation in the average utilisation index of these two groups of units. The correlation analysis indicates that there exists a significant relationship between the sanctioning procedure and the level of utilisation. The coefficient of determination discloses that the sanctioning procedure accounts for 23% of the variation in the level of utilisation.

(iii) The groups of units which have expressed the opinion that the time taken for sanctioning the loan is short have a higher average utilisation index than the units which have expressed the opinion that the time taken for sanctioning the loan is long. There is also significant variation in the average utilisation index of these two groups of units. Further, the correlation analysis discloses that the time taken for sanctioning the loan is significantly associated with the level of utilisation. The coefficient of determination indicates that 23% of the variation in the level of utilisation is accounted for by the time taken for sanctioning the loan.
(iv) The units which have stated that the amount sanctioned is adequate have higher average utilisation index than the units which have stated that the amount sanctioned is inadequate. There is also significant variation in the average utilisation index of these two groups of units. Further, the correlation analysis reveals that there is a close relationship between the amount sanctioned and the level of utilisation. The coefficient of determination shows that the adequacy of the amount sanctioned accounts for 23% of the variation in the level of utilisation.

(v) The groups of units which feel that the attitude of officials is courteous have the average utilisation index higher than the units which feel that the attitude of officials is indifferent. There is a significant variation in the average utilisation index of these two groups of units. The correlation analysis indicates that there exists a significant association between the attitude of the officials and the level of utilisation. Further, the coefficient of determination reveals that 16% of the variation in the level of utilisation is contributed by the attitude of the officials.

(vi) The units which have expressed the opinion that the expenses of borrowing are low have the average utilisation index higher than the units which have expressed the opinion that the expenses of borrowing are
high. There exists no significant variation in the average utilisation index of these two groups of units. However, the correlation analysis reveals that there is a significant relationship between the expenses of borrowing and the level of utilisation. Further, the coefficient of determination indicates that 13% of the variation in the level of utilisation is on account of the expenses of borrowing.

(vii) The average utilisation index is higher in respect of the units which have stated that the rate of interest is low than the units which have stated that the rate of interest is high. However, there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis also reveals that the rate of interest is not significantly associated with the level of utilisation.

(viii) The average utilisation index is higher in respect of the units whose entrepreneurs possess non-technical qualification than the units whose entrepreneurs possess technical qualification. However, there is no significant variation in the average utilisation index of these two groups of units. Further, the correlation analysis also indicates that there exists no significant association between the educational qualification of entrepreneurs and the level of utilisation.
(ix) The units whose entrepreneurs have more than five years of previous experience have a higher average utilisation index than the units whose entrepreneurs have less than five years of previous experience. However there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis reveals that there is no significant relationship between the previous experience of the entrepreneurs and the level of utilisation.

(x) The average utilisation index is higher in respect of the group of units which have the total assets less than Rs.10 lakhs. However there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis discloses that there is no significant association between size of the unit and level of utilisation.

(xi) The units which have the capacity utilisation more than 75% have the average utilisation index higher than the units which have the capacity utilisation less than 75%. However there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis discloses that there is a significant relationship between capacity utilisation and level of utilisation. The coefficient of determination reveals that capacity utilisation accounts for 13% of the variation in the level of utilisation.
(xii) The group of units which have the annual sales value less than Rs.10 lakhs have the average utilisation index higher than the units which have the annual sales value more than Rs.10 lakhs. Further, there is a significant variation in the average utilisation index of these two groups of units. The correlation analysis indicates that the annual sales value and the level of utilisation are not significantly associated.

(xiii) The group of units which have the net profit ratio above the average have the average (2.62%) utilisation index higher than the units which have the net profit ratio below the average. However, there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis indicates that there is no significant relationship between profitability and level of utilisation.

(xiv) The group of units which have the stock turnover ratio below the average (six) have the average utilisation index higher than the units which have the stock turnover ratio above the average. However there is no significant variation in the average utilisation index of these two groups of units. Correlation analysis also indicates that there is no significant relationship between stock turnover ratio and level of utilisation.
(xv) The average utilisation index is higher in respect of the units which have the assets turnover ratio less than the average as compared to the units which have the assets turnover ratio more than the average. Further there is a significant variation in the average utilisation index of these two groups of units. The correlation analysis discloses that there is significant negative association between the assets turnover ratio and the level of utilisation. Further the coefficient of determination reveals that the assets turnover ratio accounts for 53% of the variation in the level of utilisation.

(xvi) The average utilisation index is marginally higher in respect of the units which have lower liquidity (current ratio less than the unity) than the units which have higher liquidity. However there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis also indicates that there exists no significant association between liquidity and level of utilisation.

(xvii) The units which have the debt-equity ratio more than two have the average utilisation index higher than the units which have the debt-equity ratio less than two. However there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis reveals that there exists a significant association between leverage and level of
utilisation. Further, the coefficient of determination discloses that the leverage accounts for 19% of the variation in the level of utilisation.

(xviii) The units which have the fixed assets to total assets ratio more than the average have the utilisation index higher than the units which have the fixed assets to total assets less than the average. There is also significant variation in the average utilisation index of these two groups of units. Further, the correlation analysis discloses that there is a close relationship between the fixed assets to total assets ratio and the level of utilisation. The coefficient of determination indicates that 31% of the variation in the level of utilisation is contributed by the fixed assets to total assets ratio.

Multiple correlation analysis discloses that nine factors namely (i) sanctioning procedure, (ii) time taken for sanctioning, (iii) adequacy of amount sanctioned, (iv) attitude of the officials, (v) expenses of borrowing, (vi) capacity utilisation, (vii) leverage, (viii) assets turnover ratio and (ix) fixed assets to total assets considerably contribute for the variation in the level of utilisation. It is found that 81% of the variation in the level of utilisation is on account of these factors.
Multiple regression analysis reveals that (i) the attitude of the officials and (ii) the assets turnover ratio are the two factors that are closely associated with the level of utilisation. The level of utilisation (LU) can be described in terms of the nine factors as follows:

\[
LU = 9.564 + 11.170 \text{SP} - 16.525 \text{TT} + 13.517 \text{AA} \\
\hspace{1cm} (21.078) \hspace{1cm} (1.060) \hspace{1cm} (-1.669) \hspace{1cm} (1.323)
\]

\[
12.728 \text{AO}^* + 8.678 \text{EB} + 0.300 \text{CU} \\
\hspace{1cm} (2.042) \hspace{1cm} (1.634) \hspace{1cm} (1.307)
\]

\[
1.445 \text{LE} - 21.562 \text{AT}^* + 9.822 \text{FT} + e \\
\hspace{1cm} (-0.785) \hspace{1cm} (-4.632) \hspace{1cm} (0.595)
\]

'F' test shows that the regression equation framed is significant in explaining the level of utilisation.

V. Factors Associated with the Level of Utilisation

Indigenous Source of Finance

The analysis of the factors associated with the level of utilisation of indigenous source of finance discloses the following:

(i) The units which have expressed the opinion that the conditions imposed are normal have the average utilisation index higher than the units which have expressed the opinion that the conditions imposed are rigid. However,
there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis also reveals that there is no significant relationship between the conditions imposed and the level of utilisation.

(ii) The average utilisation index is marginally higher in respect of the units which have stated that the expenses of borrowing are high than the units which have stated that the expenses of borrowing are less. However there is no significant variation in the average utilisation index of these two groups of units. Further the correlation analysis indicates that there exists no significant association between expenses of borrowing and level of utilisation.

(iii) The units which feel that the rate of interest is low have the average utilisation index higher than the units which feel that the rate of interest is high. The average utilisation index of these two groups of units does not differ significantly. Further the correlation analysis discloses that there is no significant relationship between rate of interest and level of utilisation.

(iv) The units whose entrepreneurs possess technical qualification have the average utilisation index higher than the units whose entrepreneurs possess non-technical qualification. However, there is no significant
variation in the average utilisation index of these two groups of units. The correlation analysis also indicates that there is no significant relationship between educational qualification of the entrepreneurs and level of utilisation.

(v) The average utilisation index is higher in respect of the units whose entrepreneurs have less than five years of previous experience than the units whose entrepreneurs have more than five years of previous experience. There is also no significant variation in the average utilisation index of these two groups of units. The correlation analysis discloses that there exists no significant association between previous experience of the entrepreneurs and level of utilisation.

(vi) The units which have assets more than Rs.10 lakhs have the average utilisation index marginally higher than the units which have assets less than Rs.10 lakhs. However the average utilisation index of these two groups of units does not differ significantly. Further the correlation analysis explains that there is no significant relationship between size of the unit and level of utilisation.
(vii) The units which have the capacity utilisation more than 75% have the average utilisation index higher than the units which have the capacity utilisation less than 75%. The average utilisation index of these two groups of units does not differ significantly. Further the correlation analysis reveals that there is no significant relationship between capacity utilisation and level of utilisation.

(viii) The units which have the annual sales value less than Rs.10 lakhs have the average utilisation index higher than the units which have the sales value more than Rs.10 lakhs. There exists no significant variation in the average utilisation index of these two groups of units. Further the correlation analysis indicates that there is no significant association between annual sales value and level of utilisation.

(ix) The average utilisation index is higher in respect of the units which have the net profit ratio more than the average than the units which have the net profit ratio less than the average. There is no significant variation in the average utilisation index of these two groups of units. Further, the correlation analysis also reveals that there is no significant association between profitability and level of utilisation.
(x) The units which have the stock turnover ratio above the average have the average utilisation index marginally higher than the units which have the stock turnover ratio below the average. However there is no significant variation in the average utilisation index of these two groups of units. The correlation analysis indicates that there is no significant relationship between stock turnover ratio and level of utilisation.

(xi) The units which have the assets turnover ratio above the average have the average utilisation index higher than the units which have the assets turnover ratio less than the average. The average utilisation index of these two groups of units does not differ significantly. The correlation analysis discloses that there is no significant relationship between assets turnover ratio and level of utilisation.

(xii) The average utilisation index is higher in respect of the units which have the current ratio less than unity than the units which have the current ratio more than unity. There is no significant variation in the average utilisation index of these two groups of units. The correlation analysis discloses that there is no significant relationship between liquidity and level of utilisation.

(xiii) The units which have the debt-equity ratio less than two have the average utilisation index higher than the units which have the debt-equity ratio more than
two. The average utilisation index of these two groups of units does not vary significantly. The correlation analysis explains that there is no significant relationship between leverage and level of utilisation.

(xiv) The average utilisation index is higher in respect of the units which have the fixed assets to total assets ratio below the average than the units which have the fixed assets to total assets ratio above the average. There is no significant difference in the average utilisation index between the two groups of units. Further correlation analysis reveals that there is no significant association between fixed assets to total assets ratio and level of utilisation.
3. SUGGESTIONS

Based on the findings of the study and the opinions expressed by the entrepreneurs of the sample units and the officials of the banks and financial institutions the following suggestions are made for greater financial assistance and better utilisation of finance. They are classified as

I) Suggestions to Banks
II) Suggestions to Financial Institutions
III) Suggestions to Government and
IV) Suggestions to Small Scale Industrial Units

I) Suggestions to Banks

(i) Inadeqacy of working capital and delayed finance are the perennial problems for the small scale industries. Hence SSI units should be on the priority list of the banking system for adequate, timely and concessional credit with least procedural formalities and without much insistence on collateral security.

(ii) Loans for viable projects should be sanctioned quickly. The branch managers are to be given more powers for sanctioning loans so that delay can be avoided.
(iii) The banks should have a flexible and positive approach for adhoc sanctioning and enhancement of working capital limits. For this adequate discretionary powers be delegated at bank branch levels. Further, the need for working capital may be worked out considering the stocks and debtors rather than stock alone. The bank can exercise control on the use of working capital by calling and insisting the limit of receivables classified age-wise.

(iv) Successful operation and higher utilisation of capacity of the units depend on adequate availability of credit. Sample units which have under utilisation of capacity have stated that inadequate enhancement is the reason for their under utilisation of capacity. In this context, it is suggested that enhancement of credit facility may be in proportion to the turnover. Due consideration may be given to good performance and increase in the raw material price.

(v) Banks do not grant loans for the purchase of second-hand plant and machinery. Small scale industrial units with their limited resources are affected by this policy. Hence the banks may grant loans for the purchase of secondhand machinery after inspection and certification by the Registered Valuer. This will facilitate small capital based small scale industries to acquire the machinery at reduced rates.
(vi) The SSI units have also stated that some bank managers seek deposits from them as well as from their friends and relatives whenever they approach the bank for additional loans and enhancement. The Reserve Bank of India recently directed that the banks shall desist from the practice of deposits as 'quid pro quo' for loans. The banks may follow the RBI directive in letter and spirit.

(vii) Banks should make pre-sanction, postsanction and periodical inspections on regular basis in order to ensure the proper utilisation of the assets acquired so as to see that the expected income generation is there for prompt repayment of instalments.

(viii) Frequent transfer of officials is likely to hamper the relationship created between the SSI unit and the banker. The new incumbent will have to start from the scratch to understand the existing SSI account. Hence for a continued better service by the banks, the officials shall not be transferred frequently.

(ix) Some of the sample units have voiced their concern about the indifferent attitude of the bank staff. It is essential that the bank staff be given an orientation programme in human relation. The banks should also improve their services to the SSI customers. This will lead to increased utilisation of bank finance, since it is found that attitude of the officials is positively associated with level of utilisation.
Some of the units have expressed the opinion that the bank officials lack technical knowledge. Further the managers are hesitant to take risk and hence they do not grant loans. Therefore, it is essential that the bank officials may be given training about the technical aspects of financing SSIs.

A consultancy cell may be constituted by the banks at the branch level or at the regional level exclusively for the SSIs, wherein the SSIs can express their practical difficulties and seek the guidance and expert advice for their financial planning. The cell shall also educate the SSI units about the various schemes under which they can obtain financial assistance from banks.

As per the RBI directives the banks shall establish separate branches to cater to the financial needs of the SSI units. In this direction the banks may take great efforts to see that banks exclusively meant for SSIs are opened in adequate number. The "SSI Bank Branches" opened by the Canara Bank and The Federal Bank Limited recently are welcome measures.

One of the main problems faced by the SSI units is the collection of accounts receivable. To alleviate this problem the Government has introduced the concept of 'Factoring'. The SSIs feel that the factoring
charges are high. Therefore in order to facilitate the small scale industries to make use of this facility a nominal charge may be collected.

II) Suggestions to Financial Institutions

(i) The study has revealed that the attitude of officials is an important factor which is significantly associated with the level of utilisation. Hence, it is suggested that the officials of the TIIC, NSIC and SIDCO should not be indifferent towards the entrepreneurs of SSI units. The officials should explain to the entrepreneurs the various new schemes under which they can obtain the financial assistance, the concessions and the incentives which can be availed of by them. Practical difficulties expressed by the entrepreneurs may also be given due consideration.

(ii) Entrepreneurs have expressed the opinion that delay in sanctioning is mainly due to the branch sending the loan application for processing to the Head Office (Madras). Therefore it is suggested that (a) the regional and branch managers may be delegated with additional powers and (b) a time frame may be fixed within which the loan application may be disposed of.
III) Suggestions to Government

(i) It may be seen that the financial assistance to the new programmes announced by the Government from time to time does not affect the flow of assistance to small scale industries.

(ii) Though the financial assistance to small scale industries is included under the priority sector advances, no fixed percentage of the net bank credit is allocated to the SSIs as in the case of agricultural credit. Since the SSIs play a significant role in the economy, it is high time that a fixed percentage of the net bank credit is allocated to the SSIs.

(iii) Small scale industries are not able to absorb the shock treatment of periodical changes in the credit policy and interest rates. Hence, the RBI should exempt the SSIs from the purview of the credit squeeze as in the case of agriculture.

(iv) Provision of securities separately to the banks and the financial institutions is found to be an impediment in obtaining finance. Hence the on going system of co-ordination between banks and state level financial institutions for joint appraisal and sharing of securities needs strengthening.
(v) To educate the entrepreneurs about the new schemes of financial assistance, concessions and incentives available, wide publicity may be given by the Government.

(vi) At present the Deposit Insurance and Credit Guarantee Corporation (DICGC) provides insurance cover to the banks against the loans and advances granted to small scale units upto 50% of the outstanding liability of the SSI unit or Rs.10 lakhs whichever is less. This cover is insufficient considering the risks associated with extending loans to SSIs. In this direction the DICGC may provide full insurance cover against loans extended to SSIs by banks. To extend this cover additional premium may be charged. Further, this insurance coverage may also be provided to the loans extended by the other financial institutions.

(vii) As in the case of company form of organisation, the SSI units which are in partnership form of organisation may also be permitted to accept deposits from the public and to issue debentures. The Government may frame the necessary rules in this regard.

IV) Suggestions to SSI Units

(i) Entrepreneurs of the sample units lack knowledge of accounting and finance. They depend on their auditors for the preparation of profit and loss account and
balance sheet. Often the statements submitted by the SSI units to the banks for additional loans and enhancement of working capital are defective and not based on realistic approach. Hence their applications are often returned or turned down by the bankers. It is essential that the entrepreneurs equip themselves with the knowledge of accounting and finance. Small scale industries associations may conduct courses in financial management and in marketing management to the SSI entrepreneurs which will equip them with necessary skills in these areas.

(ii) Lack of financial planning is one of the reasons for the low profitability and poor liquidity position of the sample units. It is imperative that the SSI units follow proper financial planning which will help them to achieve better financial performance. The SSI units can form themselves into groups and can take the services of Chartered Accountants and Cost Accountants for effective financial management of their units.

(iii) The units have stated that the bankers demand stock statements and the operating results for every quarter. In their view it results in enormous paper work and waste of time which could otherwise be spent on production activities. The above statement of the entrepreneurs cannot be endorsed. Banks which lend money are much concerned that the amount granted is properly
utilised and repayments are made as per schedule. Hence for better financial assistance from the banks the units should furnish all the relevant particulars required by the banks.

(iv) Though the SSI units operate under a competitive environment, they have to be selective in choosing the customers. This will benefit them in the long run without locking of funds in debtors.

(v) The SSI units may form a consortium and sell their products under a common brand name. The SSI units may establish industrial co-operatives industry wise or area wise. These measures will help them to overcome their financial difficulties.

(vi) Though the SSI units claim that they have low profit margin it is essential they have to improve their operating efficiency. The SSI units should not permanently seek funds from the banks. A part of their earnings should be ploughed back into the units. In the long run the SSI units should be self-supporting by generating funds.