CHAPTER I

INTRODUCTION AND RESEARCH DESIGN

OF THE STUDY

1.1 INTRODUCTION

Development Finance Institutions (DFIs) or development banks starting with the Industrial Finance Corporation of India and the State Financial Corporations to assist the promotion and financing of fixed assets of industrial units have been in existence since 1948. Now, at All India level, there are three Industrial Development Banks namely Industrial Investment Bank of India, Industrial Finance Corporation of India Ltd., and Small Industries Development Bank of India.\(^1\) Industrial Development Bank of India (IDBI) played a catalytic role in the industrialization of the country for about four decades, as one of the All India development banks and also as the apex banking institution in the field of long-term industrial financing till September, 2004. It provided assistance as direct finance to medium and large enterprises and indirect finance through other financial institutions. IDBI had also shown special interest in the development of small-scale industries.\(^2\)

Small-scale industries play a key role in the industrialization of a developing country. This is because they provide immediate large-scale employment and have a comparatively higher labour-capital ratio; they need a shorter gestation period and relatively small markets to be economic; they need lower investments, offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized and they stimulate the growth of industrial
entrepreneurship and promote, a more diffused pattern of ownership and location. As such in a developing economy it is the small-scale industry that constitutes the backbone of its economic structure.\(^3\)

To sustain the pace of industrial growth, it is necessary to create a conducive environment and industrial climate. Hence it is felt that new institution to be created, infrastructure to be developed and technical and financial support to be provided on an ongoing basis. Truly, entrepreneurial training should also receive attention. The programmes and policies progressively broadened the very notion of industrial development, till it becomes synonymous with the ‘development of a better life’. As such, policies and programmes form the crux of development process and the Small-Scale Industries (SSI) sector, which has emerged as an important engine of economic growth, has been receiving special attention in terms of policies of the Central and State Governments. A number of policy statements on industrial development have been announced by the Government of India after independence, starting with the Industrial Policy Resolution, 1948. Although the Industrial Policy Resolution of 1948 laid stress on the importance of small enterprises, Industrial Policy Resolution of 1956 laid down the role to be assigned to the approach of the Government towards the small-scale industries in the country. The Industrial Policy Resolution of 1956 has also entrusted the following role to small-scale industries:

“...heavy industries in public sector may obtain some of their requirements of the lighter components from the private sector, while the private sector in turn would rely for many of its need on the public sector. The same principle would apply even with greater force to the relationship between large-scale and small-scale industries.”\(^4\)

In the subsequent policy statements, the States followed a policy of supporting small enterprises in the country. The Government of India built up a
network of specialized financial institutions such as Small Scale Industries Board, Department of SSI and Agro and Rural Industries and Small Industries Development Organisation to provide financial assistance to all types of industries, including small-scale industries. Over the years, the small enterprises have emerged as the leaders in the industrial sector in India. Hence in response to the long-standing demand of the small-scale sector, the Government set up Small Industries Development Bank of India (SIDBI), under an Act of Parliament for coordinating the functions of the institutions engaged in the development of SSI sector. Beforehand, an inter institutional committee with the representatives of IDBI, NABARD, RBI, Small Industries Development Department and the Government of India coordinated the activities of the IDBI and NABARD in the promotion of small and village industries.\(^5\)

The decision to set-up SIDBI was announced by the Finance Minister while presenting the Union Budget for 1989-90 and the Bill for setting up the Bank as a wholly–owned subsidiary of the Industrial Development Bank of India (IDBI) was introduced in the Parliament in May, 1989 and passed in October, 1989. SIDBI became operational on April 2, 1990 with an initial capital of Rs.250 crores and taking over the outstanding portfolio of IDBI relating to the small-scale sector held under the Small Industries Development Fund (SIDF) and National Equity Fund as on March 31, 1990 amounting to Rs.4200 crores.\(^6\)

SIDBI was set up at the time, when the Indian economy was passing through the difficult phase, necessitating the launching of structural reforms process and stabilization programme through multi-disciplinary measures in the areas of industrial policy, public sector, fiscal policy, foreign investment, trade policy, monetary and credit policies. Though the relative importance of small-scale sector
tends to vary inversely, with the level of development its contribution remains significant in the country. The small-scale enterprises have also been playing a more significant role in creating balanced economic and social development in the country. In recognition of their significance and status, the Government of India announced its policy measures for promoting and strengthening of small, tiny and village enterprises on August 6, 1991 for the first time in the post-independence period. The new policy on tiny, small and village enterprises envisages almost a U-turn in policy stimulants and structure of micro and small enterprises in the country.7

The set of measures initiated by the Government of India in August 1991, aimed at harnessing the potential of the small-scale sector by removing the impediments affecting their growth and consolidating their strengths in the emerging economic order. These have helped the SSI sector both in quantitative and qualitative terms. This sector has generally exhibited higher growth than the growth in the industrial and manufacturing sectors even when there was a general slowdown in the economy and thereby contributed significantly in accelerating the process of economic development. From manufacturing predominantly traditional products, the SSI sector has made substantial forays in producing high precision / customized items and the knowledge-based industries such as information technology and bio-technology.

SIDBI in tandem with the overall policy measures of the Government of India and keeping in view the expectations of the sector, has been refining its strategies and putting in place new policies and programmes for the development of small-scale sector. During the course of the first decade of its operations, the Bank has been fairly successful in facing the challenges while assisting the sector and in the process, has emerged as a strong and vibrant institution. The overall economic impact
of SIDBI’s operations during the first 10 years has been in terms of cumulative investment catalysed the order of Rs.34,380 crores and fresh employment opportunities for about 86 lakh persons.\(^8\) While the number of units has grown at a compound rate of 5.7 per cent per annum during the period 1990-2000, the exports in rupee terms have grown at a rate of 21.8 per cent per annum, thus increasing the share of SSI sector in India’s exports from 29.7 per cent in the year 1990-91 to 34.9 per cent in the year 1999-2000. After being completed 10 years of such dedicated services to small-scale sector to enable SIDBI to play its apex role in SSI credit provisioning more efficiently, the Union Budget 1998-99 proposed the delinking of SIDBI from IDBI and transferring of IDBI shareholding in SFCs to SIDBI.\(^9\) Subsequently, SIDBI was de-linked from IDBI with effect from March 27, 2000 after the enforcement of SIDBI (Amendment) Act, 2000.

The enactment of Micro, Small and Medium Enterprises (MSMEs) Development Act, 2006 brought about a paradigm shift from industry to enterprises. The Act also defines Micro, Small and Medium Enterprises in the manufacturing and service sector. Under this Act, the registration of the intending entrepreneurs is discretionary and not mandatory. As such, the total number of MSMEs (26.05 millions) functioning in the country as per the results of the Fourth All India Census (2006-07) in the registered and unregistered segments were 1.5 million (5.94%) and 24.55 million (94.06%) respectively.\(^{10}\)

The Bank continued to maintain the growth in its credit disbursement to the MSME sector and the cumulative disbursement by the Bank to the MSME sector since its inception in 1990 to 2012 stood at Rs.2,44,286 crores which has benefitted around 325 lakh persons. SIDBI, primarily a refinancing institution has recorded its outstanding under indirect operation as on March 31, 2012 registered a growth of
21 per cent and stood at Rs.42,323 crores. The Bank’s direct finance to MSMEs is targeted at niche areas to address various financial gaps through specially designed products like risk capital, sustainable financing, factoring, invoice discounting, service sector financing and the like.

SIDBI plays a significant role in promotion, financing and development of MSMEs and coordinating the functions of institutions engaged in similar activities. Its sphere of activities include direct finance operations to MSMEs and service sectors besides infrastructure; indirect finance by way of resource support to banks, NBFCs, SFCs, and other Central Financing / Development Agencies, Rating Agency, Credit Guarantee Fund, Asset Reconstruction Company and so on. SIDBI provides Nodal Agency services for the implementation of Government of India’s MSME Schemes like Technology Upgradation Fund Scheme (TUFS), Credit Linked Capital Subsidy Scheme (CLCSS), Integrated Development of Leather Sector Scheme, Development of Infrastructure Development Projects and the like. Since the efficiency of the Bank depends upon its area of operations, profile and status of the bank, geographical spread, its target groups and historical achievements, an in depth analysis is made to know the efficiency of SIDBI. As the apex bank of MSME sector, SIDBI’s focus is on development of manufacturing, service and infrastructure sectors by providing financial and promotional assistance. Hence it is decided to assess the lending performance of SIDBI. The lending performance will have the effect on financial performance. Therefore, the researcher has decided to study the financial performance of SIDBI.
1.2 STATEMENT OF THE PROBLEM

SIDBI was started with the motto of refinancing as the sole business. The Reserve Bank of India considers SIDBI and NABARD as the two refinancing institutions. As the main focus always has been this rather than direct financing, the brand image of SIDBI has not changed in so many years. In the banking sector as a whole, there are so many middle level banks that come in direct contact with the customers and this has been the main reason for SIDBI being considered the last resort for lending. SIDBI almost had a monopoly in refinancing the small-scale units but now it is facing competition from other commercial banks like Industrial Credit Investment Corporation of India (ICICI) and State Bank of India (SBI) that have started initializing the SME finance. SIDBI has also started tying up with other nationalized commercial banks in this regard that can help it gain some more visibility and selling the products that need aggressive marketing.

SIDBI has a special corporate status and has been an agent in Government schemes and finance is provided considering all expenses related to the project from conceptualization of the project to the successful execution of the project. It targets the SME sector, and is serving the niche market. It is also synonym to development banking as they have soft corner for the SMEs and for this section of industry, they have liberal policies to promote and develop small-scale industries. Helping entrepreneur is also one of the functions and duties of SIDBI. SIDBI was established on April 2, 1990. The charter establishing the Small Industries Development Bank of India Act, 1989 envisaged SIDBI to be “the principal financial institution for the promotion, financing and development of industries in the small-scale sector and coordinate the functions of other institutions engaged in promotion, financing or
developing industry in the small-scale sector and for matters connected therewith or incidental thereto\textsuperscript{13}.

The business domain of SIDBI consists of small-scale industrial units which contribute significantly to the national economy in terms of production, employment and exports. Small-Scale Industries are the industrial units in which the investment in the plant and machinery does not exceed Rs.10 millions. About 3.1 million such units, employing 17.2 millions of persons, account for a share of 36 per cent of the India’s exports and 40 per cent of the industrial manufacture\textsuperscript{14}. In addition, SIDBI’s assistance flows to the transport, health care and tourism sectors and also to the professional and self-employed persons setting up small-sized professional ventures.

SIDBI’s objective was to help the masses and the industry that is the base of all development, i.e. small industries. Thus the idea of financing these industries directly and on selective basis came up. As such, it was decided to introduce direct assistance schemes to supplement the other available channels of credit flow to the small industries sector. Since then, SIDBI has evolved itself into a supplier of a wide range of products and services to the Small and Medium Enterprises (SME) Sector.

Considering the level of competition in banking business due to globalised environment, SIDBI has now started spreading its wings either by way of diversifying its product portfolio or entering into the strategic alliance with other lending private sector banks, public sector banks and Non Banking Financial Institutions (NBFI) in order to achieve market development of its existing portfolio of services. It aims to provide all the needed services of Small and Medium Enterprises under one roof. Secondly, with the adoption of cluster development as the key strategy to develop manufacturing sector’s competitiveness, SIDBI has envisaged to adopt the cluster
financing method to assist SMEs. Finally, the Bank is planning to get into the business of commercial banking in a bid to serve the banking needs of the existing customers since they have to approach commercial banks for daily routine transactions. However, considering the quantum of competitions in commercial banking business in India, SIDBI is not aiming at entering into commercial banking business in haste.

Any bank’s operational excellence is measured by the aggregate sanctions, subsequent disbursement of the sanctioned amount, the amount of revenue generated from the difference in spread over the loan taken and advances granted, higher amount of fees based income and the last and the most important timely recovery of dues. Hence the researcher has decided to analyse the lending performance of SIDBI. The bank’s assistance towards promotional and developmental efforts in the form of loans and advances for project financing as well as its overall utilization of available resources lying with the bank under study is another significant indicator of operational effectiveness. Hence the researcher has made an attempt to analyse the operational performance of SIDBI.

Banks provide the infrastructure on which the agriculture, industries and trade of a nation depend. They can allocate the available resources by mobilizing deposits and advancing credit into best possible uses according to the national priorities. By opening branches in the areas without banks and with a few banks, the banks can spread magnetization, thereby introducing a larger market economy in the place of rural economy. By providing loans to agriculture and small-scale sector they can solve the acute problems of unemployment and under-employment. Hence the banks can rightly be called as a nation’s agent of economic development. But in developing countries like India, the role of SIDBI is not confined to accepting
deposits and advancing loans. It accepts the accelerating flow of credit in accordance with the needs of SSI development. The Government of India and the State Government have been pursuing a policy of protecting and promoting small-scale industries for a long time. SIDBI being an important nerve of modern organized society plays an important role in the SSIs transformation. It has shifted from the restricted old conservative policies to modern banking with lots of new techniques, which brings dynamism and innovations in their functioning. In this regard, the effectiveness of services rendered by SIDBI as perceived by its customers was also assessed.

1.3 OBJECTIVES OF THE STUDY

The main objectives of the study are:

1. To critically analyse the growth of SIDBI.
2. To examine the lending operations of SIDBI.
3. To evaluate the financial performance of SIDBI.
4. To make a comparative analysis of growth of SIDBI in its pre and post-delink period.
5. To study the customers’ perception towards the services of SIDBI and
6. To offer suitable suggestions for the improvement of the performance of SIDBI on the basis of the findings of the present study.

1.4 REVIEW OF LITERATURE

A review of the previous studies on “Small Industries Development Bank of India” is essential to understand the implications of the different concepts and also to identify the areas already investigated, so that new areas so far unexplored may be studied in depth. Hence, some of the related previous works about Small Industries
Development Bank of India have been studied by the researcher. There are many studies relating to Financial Institutions. Though they are not directly related to SIDBI, they are methodologically useful. The various studies are grouped under two headings viz.,

- Studies relating to Financial Institutions
- Studies relating to Small Industries Development Bank of India

(A) Studies Relating to Financial Institutions

S.K. Basu \(^{15}\) (1957) in his study, “Place and Problems of SSI, Calcutta” made an attempt to examine the financial problems of small-scale industries and assess their place in the country’s Second Five Year Plan. The study highlighted the role of SFC in financing small-scale industries.

Suresh Chandra Jain\(^{16}\) (1971) in his work, “Industrial Finance for Small-scale Industries in Uttar Pradesh” analysed in detail the problems of institutional finance for small-scale industries in the State of Uttar Pradesh.

M.L.Sharma\(^{17}\) (1973) in his study, “Role of Institutional Finance in the Industrial Development of Bihar” explained industrial financing by national level financial institutions. He also discussed the role of the state financial institutions in financing industries of Bihar. He suggested that the financial institution should act as a guide, philosopher and promoter of industries and recommended the setting up of Small Industries Bank.

Jit Singh Chandan\(^{18}\) (1976) in his study, “Development of Small-scale Industry in India and the Role of Foreign Assistance” observed that there were very little efforts on research and development in industries for traditional items.
The glaring needs in management were in respect of training in capital, investment, costing and budgetary control.

H.S.Pareek\(^9\) (1978) in his study, “The Financing of Small-scale Industries in the Development Economy of Rajasthan”, examined the problems of small-scale industries with particular reference to finance and capital structure of 181 small-scale units.

K.S.V.Menon\(^{10}\) (1979) in his pioneer work, “Development of Backward Areas Through Incentives – An Indian Experiment” examined the impact of various incentives offered by the Government of India on the development of backward areas. Apart from discussing in detail the basic ideas, he devoted one chapter to the role of Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI), State Financial Corporations (SFCs) and the State Industrial Development Corporations (SIDCs) in developing backward areas of the country. The study of different states tended to suggest that the benefits of various incentives had been disproportionately distributed and most important beneficiaries were found to be the developed states as they absorbed about 70 per cent of the total amount sanctioned by the All-India Financial Institutions during the period 1970 -71.

R. Natarajan\(^{21}\) (1983) in his study, “Institutional Finance for Small-scale Industries in Andhra Pradesh” examined the trends in institutional financing to SSI units in Andhra Pradesh for a period of decade commencing from the year 1970.

J.S. Uppal\textsuperscript{23} (1984) in his article, “Public Financial Institutions and Regional Development in India” analysed the financial assistance given by the public financial institutions, both at All India and State levels, to industrial enterprises established in designated backward areas and to industrially backward states for promoting the goal of regional economic development.

M.N.A. Ansari and Vimal Shankar Singh\textsuperscript{24} (1984) in their article, “IDBI’s Role in Backward Areas Development” examined the financial and promotional assistance provided by IDBI to industrial units located in the specified backward districts in the country during 1970-83. They concluded that the bank’s performance in the promotional field had been commendable. IDBI’s efforts in backward area development however suffered from certain serious drawbacks. There was thus, an urgent need for a definite and clear-cut policy and guidelines so that all concerned including IDBI, might put their concerted efforts in the fulfillment of the common task of promoting a balanced regional development.

V. Lakshmana Rao\textsuperscript{25} (1985) in his article, “Debt-Equity Ratio of Development Banks” based on a study of capital structure and the trends in the pattern of resource mobilization of selected development banks, has concluded that the increase in the proportion of their internal resources is encouraging. However, he noted that there was an alarming increase in their Debt-Equity ratios, particularly of the national level development banks.

H. Sadhak\textsuperscript{26} (1985) in his paper, “For a Backward Area Finance Corporation” concluded that the prime objective of development banks in assisting the process of removing regional imbalance by promoting industrial growth in backward regions was not fulfilled. The flow of institutional finance to the backward areas could be increased by attracting industries to the backward areas, the
development of industrial infrastructure and the availability of suitable and sufficient subsidy would induce the industries to go to the backward areas.

N.C. Kar\textsuperscript{27} (1986) in his article, “A Study of the Industrial Development Corporation of Orissa Limited as a State Enterprise” studied the operating performances and financial aspects of IDCOL.

J.P. Joshipura\textsuperscript{28} (1986) in his article, “Performance Evaluation of State Financial Corporations”, suggested that SFCs, would need substantial re-orientation and streaming of their operations to meet the new challenges.

Radhey Shyam Singh\textsuperscript{29} (1986) in his study, “Financing of SSI in India” made an analytical survey of the institutional sources of finance to the SSI and other small / tiny units, after critically examining the various aspects of the functioning of the financial institutions for the growth of the small-scale sector.

Ram Dawar\textsuperscript{30} (1986) in his work, “Institutional Finance to small-scale Industries – Hire Purchase Finance for Plant and Machinery” has made an attempt to examine and appraise the operation of the hire purchase schemes of the National Small Industries Corporation and the State Small Industries Corporation, particularly Andhra Pradesh small-scale Industrial Development Corporation.

K.R. Sharma\textsuperscript{31} (1986) in his book, “Financial Institutions and Regional Development in India” evaluated the role of Financial Institutions such as IDBI, IFCI, ICICI, SIDCs and SFCs in the reduction of regional disparities in the country. He highlighted the problem of regional inequalities in India and the various schemes and measures taken up by the All Indian Institutions particularly the apex institution namely IDBI. His empirical analysis showed how the institutional assistance had flown to a few developed states and to a few backward areas of developed states.
At the micro-level, the study analysed the flow of assistance of IDBI to a few districts of Andhra Pradesh.

Vijay Kapur\textsuperscript{32} (1986) in his article, “Financial Assistance from All India Financial Institutions” found that the dependence of the corporate sector for financial assistance from the national level financial institutions was increasing. For the benefit of the junior professionals required to deal with such institutions, he has outlined the procedure generally followed in applying and obtaining loans from the all India financial institutions.

M.S. Agarwal\textsuperscript{33} (1987) in his research work, “Bank Financing of Small-scale Industries in India” reported that Indian banking system has failed to extent appropriate amount of loan to SSI. He was of the opinion that the lending institutions should be more practical and flexible in their attitude rather than strictly legal with a view to enabling the borrowing units to overcome any temporary difficulties.

A.D. Rama Rao\textsuperscript{34} (1988) in his article, “Institutional Finance and Rural Industrialisation – A Case Study” presented a brief account of the industrial finance made available by the various institutions in Nizamabad district in Andhra Pradesh and its impact on the economy of the district through increase in employment and income generation.

Kanhaiya Sinha\textsuperscript{35} (1990) in his study, “Financial Institutions and Industrial Development” analysed the performance of various financial institutions and emerging trends in the direction of industrial growth. He opined that the financial system in the country had shown major structural changes. The traditional approach for financing had to be reshaped and realigned in tune with the increased demand for
financial assistance. He felt that to meet the foreseeable challenges, the financial institutions should give a new thrust to their operations.

Raghurama\textsuperscript{36}(1991) in his study, “Role of Commercial Banks in Financing SSI – A Case Study, Dakshine, Kannada Dt.” tried to analyse the problems faced by the small-scale units while availing themselves of bank finance. The problems faced by the bankers and the procedures adopted by the banks in extending finance were also examined.

Jaganath Panda and R.K. Dash\textsuperscript{37} (1991) in their book, “Development Banking in India” made an attempt to evaluate the importance of institutional financing and the performance of the Orissa State Financial corporation as a leading financial institution in providing financial assistance to small and medium-scale industrial units.

R.K. Gupta\textsuperscript{38} (1992) in his research paper entitled, “Financial Services of Development Banks in India” stated that development banks were doing a commendable task in the field of merchant banking services specially for medium and large sized units. The coverage of rural areas and small business were the present day needs of the environment which required the shift in demand for merchant banking services. Development banks should also actively contribute towards venture capital facilities for accelerating economic activity, particularly by the small corporate firms having assessed prospects for their growth potential.


Ganesh Kumar\textsuperscript{40} (1993) in his study, “The Role of SFCs in Financing Small Industries” observed that Kerala Financial Corporation (KFC) has disbursed
more amount of loans and all the loans were of long term nature. The cost and terms of the loan from KFC were found to be more attractive. In addition, obtaining loan from KFC was found to be less difficult process. Despite all these positive factors, it was observed that KFC has made less impact on the development of SSI in Kerala.

N.Sriram and Indranil Ghosh\textsuperscript{41} (1994) in their article, “Financial Institutions Gearing for Change” concluded that IFCI, ICICI and IDBI, the three major development finance institutions, had been forced by financial sector reforms to redefine their objectives and rules for survival.

Om Prakash Kajipatin\textsuperscript{42} (1998) in his book, “Financial Institutions in India – A Regional Perspective” made an intensive study of various aspects of State Financial Corporations in general and the Andhra State Financial Corporation in particular. He also analysed the problems of SFCs and had given suggestions to solve them.


Erich. A. Helfert\textsuperscript{44} (2001) in his book, “Financial Analysis Tools and Techniques: A Guide for Managers” described the important financial tools which can be used for financial planning in an organisation.

Holmes et.al.,\textsuperscript{45} (2003) in their study, “Small Enterprise Finance” stated that aspiring entrepreneurs as well as existing SMEs, may face difficulties in obtaining loan finance from commercial banking organizations due to high interest rate charges, lack of collateral or security for loans and risk factors which were the
components of ‘supply gap’. There was also a ‘knowledge gap’ on the part of SME owners concerning their awareness of sources and availability of funding.

Y. Srinivas\(^4\) (2005) in his article, “Bank Finance and the SME Sector-Issues and Perspectives” said that the pool of savings available for lending in developing nations was more limited and in the context of funding SMEs, the transaction cost associated with micro financing can present barriers both for lenders and borrowers. Lenders profit little from small loans and both venture risk and likelihood of default can be high. Borrowers have few financial resources of their own to commit to a business venture and lack collateral to secure financing. Collectively, these factors produce information asymmetries, moral hazard issues, high switching costs and a range of other problems which are more pronounced in the SME financing context.

R. Dosani and A. Desai\(^4\) (2006) in their study “Accessing Early-stage Risk Capital in India” have opined that in developing nations, the contribution of SMEs, particularly those which shape and diversify the industrial structure, is critical to national and regional economic development. However, in such countries and particularly in India and for Indian SME start ups, the extent of finance gap is often quiet profound.

R.S. Ragavan\(^4\) (2006) in his article, “Micro Finance – uplifting Rural Economy” viewed that in India a vibrant and developed micro finance sector would impact economic development across the country and help in the distribution of wealth among the populous for ultimately narrowing down the gap between the haves and have-nots.
A. Gowthaman and T.Srinivasan\textsuperscript{49} (2011) in their paper, “Performance Appraisal of DCCBs (District Co-operative Central Bank) in Tamil Nadu”, appraised the performance of DCCBs in Tamil Nadu by considering the number of banks, number of branches, number of members and number of employees as the physical performance indicators while share capital, reserve fund, total deposits, working capital, investment, total loan and overdue were considered as financial indicators.

Sudha Venkatesh and Krishnaveni Muthiah \textsuperscript{50} (2012) in their article, “SMEs in India: Importance and Contribution” focused on the supporting agencies of SMEs, contributions and problems of SMEs. They concluded that the support given by the National and State Governments to SMEs was not adequate enough to solve their problems. However for the sector to fully utilize its potential, it is essential that the entrepreneurs along with the Government support take necessary steps for their development.

**(B) Studies relating to Small Industries Development Bank of India**

Dr. R. Neelamegam and R. Maria Inigo\textsuperscript{51} (1997) in their article, “SIDBI and the Small Industry” concluded that SIDBI had exerted its full effort, not only in the financial areas but also in the non-financial areas through a comprehensive package of extension activities.

Tarak Shah and Anshu Khedkar\textsuperscript{52} (2006) in their case study, “SIDBI – A Successful Financial Institution in SME Financing” concluded that the Bank has been generating lower revenue with higher investment from indirect financing and more return from direct financing with relatively lower capital employed in this segment. So, it must start focussing on direct financing since it is more rewarding as
well as socially viable than refinancing where processing is more due to intermediation of different types of banking entities.

D.Saralia Jaydeep⁵³ (2006) in his study, “Role of Small Industries Development Bank of India (SIDBI) in Industrial Development, Gujarat State” suggested that SIDBI has shown an imbalanced assistance to various regions, states and industries which must be minimized. Also, an aggressive policy is to be adopted with regard to Development Banking and bring co-ordination between small and medium industries in India.

Bisman. Jayne and Goela. Neelam⁵⁴ (2010) in their paper, “Small Industries Development Bank of India: A Retrospective to SME Financing” examined the quantum of state-wise assistance provided by SIDBI to assess the distribution of finance support to SMEs on a comparative basis, across the more developed and less developed states of India. The results revealed statistically significant differences in SIDBI financing on a state-wise basis, to the detriment of the less developed regions. They explored a range of possible explanations for the apparent inability of SIDBI to correct regional imbalances in the financing of Indian SMEs.

Gobinda Deka and Jatindra Nath Saika⁵⁵ (2011) in their paper, “Green Finance Green Entrepreneurship: Role of SIDBI in North Eastern Region of India” specified that the continuing conflict between the economic development and environment consists of many issues as the Green Entrepreneurs are driven not only to make a profit but also to improve the environment. Further they discussed about the importance of green entrepreneurship in the present context and also highlighted the financial and other assistances provided by SIDBI particularly in NER of India.

Jai Prakash and Sudhir Kumar Gupta⁵⁶ (2011) in their paper, “Dismal Performance of MSME: Remedial Measures” examined the growth of MSME units,
production and employment in India in general and the coir sector in particular and stressed that while making policies for the betterment and growth of MSMEs, it should be kept in mind that implementation part should dominate over the functioning of the schemes and programs.

H.V. Nagaraja and G.S. Girish\(^{57}\) (2011) in their article, “Micro Finance Programs in India” narrated the role of NABARD and SIDBI as the apex level institutions in promoting, supporting and financing micro finance programs in the country and concluded that micro finance programs extend small loans to people especially in rural areas to qualify for traditional bank loans and hence is the popular measure in the ongoing struggle against poverty.

Anand Chakravarthi\(^{58}\) (2012) in his paper, “The Role of SIDBI in Developing the MSMEs in India” described the significant role of SIDBI and its sphere of activities in the promotion, financing and development of MSMEs.

V.K. Killare\(^{59}\) (2012) in his article, “Performance Evaluation and Role of Rural Banks in Rural Development: Special Reference to SIDBI” examined the role of SIDBI in poverty alleviation and women empowerment and specified that there is a lack of synergy between technology seekers and technology developers and hence SSIs do not have the technical or financial resources to develop new technological products.

M. Vijayaragunathan\(^{60}\) (2012) in his study, “Performance Evaluation of SIDBI” evaluated the lending and financial performance of SIDBI and suggested that SIDBI should diversify its lending operations to new lines of business such as setting up of Information Technology Industry Centres.

Kh. Dhiren Meetei and Somasundari Oirangrehm\(^{61}\) (2012) in their paper, “SIDBI’s Promotional and Developmental Activities in North Eastern Region (NER)”
mentioned that SIDBI’s endeavour towards the promotional and developmental support to MSME sector has always been an integral part of the bank activities. In order to impart competitive advantage to MSMEs, SIDBI is engaged in promotional and developmental activities to achieve the twin objectives of enterprises promotion and enterprises development programmes. Also they have attempted to give a comprehensive overview of all aspects related to the promotional and developmental activities provided by SIDBI in North Eastern Region.

George Mathew62 (2013) in his study, “Efficacy of Small Industries Development in Kerala” found that the indicators namely the investment in fixed capital, new units registered, total number of units, investments, production, total employment and the number of sick units had a low position as compared to its population base in the country.

Antima Agarwal and Surender Kumar Gupta63 (2013) in their study, “Performance Evaluation of SIDBI: A Study from 2007-08 to 2011-12” suggested that SIDBI can allocate available resources by mobilizing deposits and advancing credit into the best possible uses according to national priorities. By opening branches in un-banked and under-banked areas, the banks can spread magnetization, thereby introducing a larger market economy in place of natural economy. By providing loans to agriculture and small-scale sector, they can solve the acute problems of unemployment and under-employment.

Even though there are numerous studies on financial institutions, there are only limited studies on SIDBI. Hence it is decided to study in depth the working of SIDBI. Further, there is no study analyzing the performance of SIDBI during pre and post-delink period. In the present study, an attempt is also made to analyse the performance of SIDBI in the pre and post-delink period.
1.5 SCOPE OF THE STUDY

The study evaluates the performance of SIDBI in terms of deployment of funds. Further, an attempt is made to analyse its financial performance from the year 2000-01 to the year 2011-12. Also a comparative analysis is carried on with regard to its performance before and after being delinked from the Industrial Development Bank of India. In addition, an attempt is also made to study the customers’ perception towards the services of SIDBI, with the help of primary data. The collection of primary data is confined to Tamil Nadu.

1.6 REFERENCE PERIOD

The study covers a period of twelve years from the financial year 2000-01 to 2011-12 (post-delink period). To compare the growth of SIDBI in the pre and post-delink period, the pre-delink period of ten years from 1990-91 to 1999-2000 is also considered.

1.7 HYPOTHESES

The hypotheses framed are:

1. The sanctions and disbursements do not significantly predict the outstanding of the Bank.

2. The growth rate of gross income does not depend upon the growth rate of total assets.

3. The expansion of gross income does not depend upon the expansion of total assets.

4. The business profile of the respondents namely the form of organization, the size of the enterprise, nature of the business, locality of the business and annual
earnings of the business do not significantly affect their perception towards the factor ‘reliability and effectiveness’.

5. The business profile of the respondents namely the form of organization, the size of the enterprise, nature of the business, locality of the business and annual earnings of the business do not significantly affect their perception towards the factor ‘assurance’.

6. The business profile of the respondents namely the form of organization, the size of the enterprise, nature of the business, locality of the business and annual earnings of the business do not significantly affect their perception towards the factor ‘service portfolio’.

7. The business profile of the respondents namely the form of organization, the size of the enterprise, nature of the business, locality of the business and annual earnings of the business do not significantly affect their perception towards the factor ‘access’.

8. The business profile of the respondents namely the form of organization, the size of the enterprise, nature of the business, locality of the business and annual earnings of the business do not significantly affect their perception towards the factor ‘price’.

9. The business profile of the respondents namely the form of organization, the size of the enterprise, nature of the business, locality of the business and annual earnings of the business do not significantly affect their perception towards the factor ‘tangibles’.
1.8 OPERATIONAL DEFINITIONS

1.8.1 Micro Enterprises

Enterprises whose investment is upto Rs.25 lakhs in case of manufacturing concerns and upto Rs.10 lakhs for service concerns.

1.8.2 Small Enterprises

Enterprises whose investment is Rs.25 lakhs to Rs.5 crores in case of manufacturing concerns and Rs.10 lakhs to Rs.2 crores for service concerns.

1.8.3 Medium Enterprises

Enterprises whose investment is Rs.5 crores to Rs.10 crores in case of manufacturing concerns and Rs.2 crores to Rs.5 crores for service concerns.

1.8.4 Pre-delink Period

The period of 10 years (from 1990-91 to 1999-2000) prior to the separation of the administration of SIDBI from IDBI during which SIDBI served as the subsidiary of IDBI.

1.8.5 Post-delink Period

The period of 12 years (from 2000-01 to 2011-12) which is after the separation of the administration of SIDBI from IDBI to provide greater functional autonomy and operational flexibility.

1.8.6 Direct Credit

The assistance through SIDBI’s own offices by means of several tailor-made schemes to reach the assistance to specific target groups.

1.8.7 Refinance Assistance

Extension of financial assistance to other financial intermediaries and banks against their industrial loans.
1.8.8 Term Loan

A loan for a specific amount that has a specific repayment schedule and a floating interest rate.

1.8.9 Venture Capital

Equity support to start-up firms and small businesses with perceived long-term growth potential with above-average returns.

1.8.10 Capacity Building

Planned development of knowledge, output rate, management, skills and other capabilities of an organization through acquisition, incentives, technology and/or training.

1.8.11 Transformation Loan

Assistance entailing to buy harder-to-sell assets.

1.8.12 Micro Finance

A type of banking service to unemployed low income groups who otherwise have no other means of gaining financial services.

1.8.13 Micro Credit

An extremely small loan given to impoverished people to help them become self employed.

1.8.14 Promotional and Developmental Activities

Promotion of MSMEs through various programmes organized by professional agencies.

1.8.15 Receivable Financing

A type of financial arrangement in which the assistance is provided by accepting the receivables as collateral.
1.8.16 Non-Fund Based Facility

Facilities extended by the banks which do not involve outgoing of funds from the bank when the customer avails the facilities.

1.8.17 Outstanding

The amount of net outstanding in respect of loans and advances.

1.8.18 Spread

The difference between the interest earned on the investment portfolio and interest paid on deposits and borrowings.

1.8.19 Performance Indicators

The key factors which are used to measure the performance of the bank.

1.8.20 Business Profile

Information related to the sample enterprises.

1.9 METHODOLOGY AND TOOLS

This section describes the nature and sources of data, construction of tools for data collection, sampling design, field work and tools of analysis.

1.9.1 NATURE AND SOURCES OF DATA

This study is based on both primary and secondary data. Secondary data were collected from ‘Annual Reports’ of SIDBI from the year 1990-91 to 2011-12 and ‘SIDBI Report on MSME Sector’ for the year 2010-11 published by the Small Industries Development Bank of India. Apart from these, books, journals, reports of the RBI and websites were consulted for collecting relevant information.

The primary data for the study were collected from the concerns that are the customers of SIDBI with the help of a structured Questionnaire (Vide Appendix).
1.9.2. CONSTRUCTION OF QUESTIONNAIRE

The researcher has structured a questionnaire for the present study. Primary data required for the study have been collected from customers by using a structured questionnaire. Relevant information has been collected by holding discussions with various officials of SIDBI. A drafted questionnaire designed for the purpose, was pre-tested by conducting a survey among the sample of 10 concerns being customers who had availed themselves of financial assistance from SIDBI. The questionnaire was restructured and finalized after making necessary alterations on the basis of the experience and feedback obtained from pre-testing.

1.9.3 SAMPLING DESIGN

Tamil Nadu is an important State in India. It is a developed State. As per the Zonal office of SIDBI in Tamil Nadu, SIDBI has 1488 customers. Hence Tamil Nadu is taken for the present study. Since this study is concerned with the operations of SIDBI, 74 concerns accounting five per cent of the customers were selected by simple random sampling by applying lottery method. Out of the 74, only 65 questionnaires were considered as complete in all aspects. Hence the sample size of the study is confined to 65 concerns only.

1.9.4 FIELD WORK

The researcher herself carried out the fieldwork for this study. It was conducted during the period from May 2013 to December 2013.
1.9.5 TOOLS OF ANALYSIS

- **KARL PEARSON’S CO-EFFICIENT OF CORRELATION (γ).**

  The correlation co-efficient (γ) has been used to compute the correlation between the growth of profits and the assets of SIDBI. The correlation co-efficient (γ) is given by

  \[
  \gamma = \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}}
  \]

  where,
  \[
  x = X - \bar{X}
  \]

  \[
  y = Y - \bar{Y}
  \]

  - \( X \) = growth rate of gross income.
  - \( Y \) = growth rate of total assets.

- **MULTIPLE REGRESSION ANALYSIS**

  To establish the relationship of sanctions and disbursements with outstanding, Multiple Regression Equation was set up. The equation for multiple predictions will be:

  \[
  X_3 = a + b_{12,3} X_1 + b_{13,2} X_2
  \]

  where, \( X_3 \) = the predicted or dependent variable

  - \( b \)- co-efficient = the multiplying constant
  - \( a \)- co-efficient = a constant to be added.

  \( b \)- co-efficients are

  \[
  b_{12,3} = \frac{\sigma_1}{\sigma_2} \beta_{12,3}
  \]

  \[
  b_{13,2} = \frac{\sigma_1}{\sigma_2} \beta_{13,2}
  \]
in which $\sigma_1, \sigma_2, \sigma_3$ are the standard deviations of variables $X_1, X_2$ and $X_3; \beta_{12.3},\beta_{13.2}$ are standard partial regression co-efficients. The betas $\beta_{12.3}, \beta_{13.2}$ are found as below:

$$\beta_{12.3} = \frac{r_{12} - r_{13} r_{23}}{1 - r_{23}^2}$$

$$\beta_{13.2} = \frac{r_{13} - r_{12} r_{23}}{1 - r_{23}^2}$$

a- coefficient $(a_{1.23}) = M_1 - b_{12.3} M_2 - b_{13.2} M_3$

in which $M_1, M_2, M_3$ are the means of the variables $X_1, X_2, X_3$.

- **'F' TEST**

  'F' test was used to assess the validity of the regression equation. The formula used is

$$F = \frac{R^2/(K-1)}{(1-R^2)/(N-K)}$$

where, $R$ – Multiple co-efficient of correlation ($R_{12.3}^2 = \beta_{12.3} r_{12} + \beta_{13.2} r_{13}$)

- $K$ - No. of variables involved
- $N$ - No. of paired observations
- $K-1$ - Degrees of freedom for variance in numerator
- $N-K$ - Degrees of freedom for variance in denominator
• ‘t’ TEST

TEST FOR SIGNIFICANCE OF CORRELATION CO-EFFICIENT

Student’s ‘t’ test was used for testing the significance of the Pearson’s Correlation Co-efficient between growth of profits and the assets of SIDBI. The ‘t’ statistic is defined as

\[ t = \frac{r}{\sqrt{1-r^2}} \sqrt{n - 2} \]

where, \( r \) = the correlation coefficient

\( (n - 2) = \) degrees of freedom

• TREND ANALYSIS

The growth rates of performance indicators were analysed with the help of annual growth rates. The annual growth rate was computed by fitting simple linear equation

\[ Y = a + bx \]

where, \( Y \) = dependent variable (performance indicator)

\( x \) = time

\( a \) = intercept

\( b \) = annual growth rate

• ROOF MODEL OF PROFITABILITY

To study the profitability of SIDBI, a model called “ROOF Model of Profitability” has been used. It can be expressed as follows

\[ \text{ROOF} = \text{PM} \times \text{AU} \times \text{EM} \]

where, \( \text{PM} \) = Profit Margin

\( \text{AU} \) = Asset Utilization
EM = Equity Multiplier

ROOF = Return On Owned Funds.

Profit Margin is measured by dividing the amount of net profit after tax by
the amount of gross total income Asset Utilisation Index (AUT) is generally measured
in terms of amount of turnover achieved or income generated from the utilization of
the assets. AUI is expressed as follows.

\[ AUI = \frac{Ia_1}{A_1} \cdot Wa_1 + \frac{Ia_2}{A_2} \cdot Wa_2 + \ldots + \frac{Oi}{oA} \cdot Woa \]

where, \( Ia \) = Income generated from an asset
\( A \) = Value of an asset
\( Wa \) = Weightage given to an asset being in proportion to total
value of assets
\( OI \) = Other Income and
\( OA \) = Value of other assets.

Equity Multiplier (EM) is an index of efficiency used to examine efficiency of the
bank in resource mobilisation. It is measured in the following manner.

\[ EM = \frac{TOA}{E} \]

where, \( TOA \) = Total Operating Assets
\( E \) = Equity (or) Net worth

EM = Equity multiplier

In addition to these statistical tools, simple percentage, growth percentage,
mean, standard deviation, co-efficient of variation, index and ratios and the like were
also followed in the appropriate places.
1.10 CHAPTER SCHEME

Considering the objectives of the study, the thesis has been organized into seven chapters. The content of these chapters are briefed below:

The first chapter is introductory in nature and it covers aspects such as introduction, statement of the problem, hypotheses, scope of the study, reference period, objectives of the study, review of literature, nature and sources of data, construction of questionnaire, sampling design, field work, tools of analysis and the chapter scheme.

The second chapter deals with the origin and growth of Small Industries Development Bank of India. It covers the origin and functions, capital structure, management and corporate governance, subsidiaries/associates and evolution of various schemes of assistance of SIDBI.

The third chapter examines the lending operations of SIDBI on various schemes of assistance, its net outstanding portfolio and the analysis of relationship between its sanctions and disbursements with outstanding.

The fourth chapter evaluates the financial performance of SIDBI with the help of ratio analysis covering profitability, liquidity, leverage, diversification, efficiency, capital adequacy and non-performing assets ratios.

The fifth chapter makes a comparative analysis of growth of SIDBI in its pre and post-delink periods in terms of physical and financial performance indicators.

The sixth chapter studies the customers’ perception towards the services rendered by SIDBI and the assessment of the relationship between the business profile of the respondents and their perception towards the services of the Bank.

The seventh chapter summarises the findings and offers suggestions for the betterment of the performance of SIDBI.
FOOT NOTES


4. Ibid., pp.78-79.


