This chapter throws a light on the various constraints with which the units have to work and their effect on the production, sales, and profits.

(a) Output per rupee of capital invested

Table 1 shows the output per unit of productive capital invested. The gross output per rupee invested in productive capital varied from as high as Rs.3.36 in Light engineering industry to as low as Rs.1.77 in Chemical industry. The relevant figures for the remaining units are as follows: - Others Rs.3.19, Electrical and Electronics Rs.2.72 and Printing Press Rs.1.87 respectively.

(b) Capacity utilization

The above figures indicate that the performance of the units depended much on the utilization of the machine capacity in each industry. But the basic idea of capacity is a difficult task to define in many cases, since each unit is different from the other and produces items which are not exactly similar in nature. However, an attempt was made to
find out the machine capacity utilized by the selected units and reasons for not working to the full capacity were ascertained. A chart showing such details is given in Table No.2 and 3.

From the Tables it is seen that only 6 units (12%) of the total units taken together operate at full capacity (100%) while 44 units (88%) work below the full capacity level. Industrywise all the 10 units (100%) in case of Light engineering units work below full capacity level. 90% of the units in case of Chemical (9 units) and Others (9 units) work below full capacity level, while (80%) of the units in Electrical and Electronics (8 units) as well as Printing Press (8 units) work below the full capacity level.

The various reasons for underutilization of machine capacity are given in Table No.4.

(c) Power failure -

Classification of the reasons for underutilization of capacity shows that 21 units (42%) out of 50 units surveyed complained that power failure was the major problem which caused bottleneck in the production. The units expressed that this problem is so acute that whatever may be the help or assistance given by the banks or other governmental
agencies to the Small Scale Industrial units, it goes futile if production cannot go on due to power failures. They complained that lethargy on the part of Maharashtra State Electricity Board employees to attend to the complaints promptly is the main cause for the bottleneck in production.

(d) Restrictions on power consumption -

Another factor is that as per the Pune Municipal Corporation Act, in the Poona City area, power consumption is restricted to 12 hours only i.e. from 7.00 a.m. to 7.00 p.m. daily. Hence the units cannot go in for 2nd or 3rd shifts even though there is excess capacity available with the units.

(e) Inadequate orders -

The next hurdle was the lack of orders. 8 units (16%) stated that full utilisation of machine capacity could not be made due to lack of orders. This again depended upon many factors as given below :-

1) Seasonal demand -

Some units e.g. Printing press units have more rush of orders during the marriage season or before the schools and colleges reopen after the vacations when the students require text books exercise books etc. Hence more demand in a particular season.
11) **New Products** -

In case of new products, the Small Scale Industrial units could not launch necessary advertisement campaigns to popularise their products which resulted in lack of demand for their products.

iii) **Manufacture of Quality products** -

Another aspect which reduces the demand for the product is the quality of the products manufactured. Since the Small Scale Industrial units cannot have "Statistical Quality Control" system of controlling the quality of their products, the customers do not wish to go in for the products which are not standardized.

iv) **Tastes and fashions** -

Tastes and fashions go on changing. Hence the Small Scale Industrial units are required to keep pace with the changing situations and change the designs, get-up and improve upon the products to satisfy the customers. For this purpose, the Small Scale Industrial units require constant research and development of the products which they cannot afford. Hence the units cannot work at full capacity due to lack of demand for the products.
v) Recessionary trend in general -

The units which depend solely on the medium and big units for their products have to work below capacity when the medium or big units do not have markets for their products themselves.

vi) New Entrants -

New entrants especially medium or big units when enter the market and produce similar articles or near substitutes to those produced by the Small Scale Industrial units, these Small Scale Industrial units suffer and lose the market as the medium or big units can sell their products at a lower price due to economies of scale because their products are presumed to be of superior quality due to their having sophisticated machinery, technology and aggressive advertising.

(f) Inadequate Finance -

The next major problem was that of Finance. 7 units (14%) indicated that the banks were responsible for the units working below their full capacity level. In good number of cases the banks altogether turned down the proposals of the Small Scale Industrial units on flimsy grounds or did not sanction the working capital loans to the full extent as demanded by the units which resulted into inadequacy of
finance. Over and above, the delayed payments made by the customers (big industrial units) resulted into bottlenecks in production as the credit period enjoyed by the medium and big units sometimes goes up to more than a year. Hence the Small Scale Industrial units do not get their money needed for further working capital which is so necessary to execute the future orders, thus compelling small units to work below full capacity level.

The present survey revealed that though the units complained that banks were responsible for under-utilization of capacity, it was ascertained that the banks cannot be blamed alone. It was found that the banks went out of the way many a time and have accommodated the parties for the short term credit requirements of these units. The units themselves should be blamed for not having a proper and sound system of recovery of their dues from their customers. They lacked in financial discipline and hence optimum utilization of funds could not be made by them for working at full capacity.

(g) Machine Break-down -

The next factor responsible for under-utilization of capacity was the machine break-down. 5 units (10%) complained that their production suffered due to machine break-
down. The reason given by them was that the units used old or second hand machines which sometimes were obsolete and their depreciated value was 'NIL'. This resulted in frequent break-downs. On asking the units about the feasibility of going in for new machines it was revealed that the banks did not entertain their proposal since the units could not show the bank officials sufficient orders on hand. The demand for commercial banking facility for fixed capital investment is quite unreasonable. The units on the contrary complained that unless the banks financed loans and new machinery was bought and items produced, there could not be orders from the customers.

(h) NON-AVAILABILITY OF RAW MATERIALS / DELAY IN SECURING RAW MATERIALS :-

Non-availability of raw materials constituted 10% (5 units) of the total units (50) surveyed. Raw materials which are supplied by the District Industrial Centre were not of much use to the Small Scale Industrial Units. The units complained that the District Industries Centre supplied materials in bulk quantities while the units required them in small quantities. Again the specifications of materials required by the Small Scale Industrial units could not be met by the District Industries Centre e.g. if the units required M.S.Round Bars of say 2 c.m. diameter, District Industries Centre would not have in
stock this particular size. Sometimes these units buy different specification of materials from the District Industries Centre and then get them cut into sizes according to their requirements which added to the cost of production and ultimately affected the sales price. Untimely receipt of materials also creates severe bottlenecks in the production schedule. Another difficulty experienced by the Electrical and Electronics industry was that they require certain imported goods in their manufacture. Granting of import licence takes not less than 6-12 months by which time the units have to sit idle. Moreover, the foreign suppliers do not supply in small quantities and the units cannot lock-up their funds in buying huge quantities for the fear of the materials being obsolete due to change in designs of products or due to technological improvements in the product or due to market demand being reduced.

Here again the question of bank's finance is involved. No amount of bank's finance can help a unit to secure the imported goods in time or allow the units to pile up raw materials stock in anticipation of demand for the products. The banks help the units in bringing in contact with the foreign suppliers, suggest ways and means to get the formalities completed for obtaining the import licences and try to bring the units out of their difficulties.
Another startling fact brought to light during the course of interview with the units was that they did not get their quota of raw materials from the Governmental agencies due to the fact that a large number of "ghost units" existed who had registered themselves with the District Industries Centre but physically did not exist at all. These units lifted the raw materials from the District Industries Centre at concessional rates and sold the materials to the running units at high prices. This has become a regular feature and needs to be checked immediately. These "ghost units" create artificial shortages in the markets for the raw materials like iron and steel, cement, coal, aluminium, printing paper, etc. Certain electronic parts used in sophisticated machinery especially by the Electrical and Electronics Industries which are imported items are also secured by the "ghost units" and they make money by selling them in the black market to the good units who are really in need of these items.

It was seen that the "other" units did not face this trouble of shortages of Raw Materials as "other" units consisted of leather goods manufacturers, plastic or polythene bags manufacturers, food products manufacturers, furniture manufacturers and steel containers manufacturers.
Another difficulty experienced by the units interviewed brought to notice the fact that there was no stability in the raw material prices whatsoever. Hence production cost differed practically every month, which made difficult the comparison of the present results of the units with their past performances. Also, inter-firm and intra-firm comparisons cannot be made in case of Small Scale Industrial units because of the fact that some units who can manage to get raw materials through the Government quota regularly can have reduced cost of production and thereby reduced selling price. These units compete with other units who have high cost of production and higher selling price due to buying the raw materials in the black market by paying higher prices. Hence if the Government wants to encourage the Small Scale Industrial units and add to the economy of the nation, prices of all basic raw materials should be checked immediately without allowing to rise further. The "Ghost units" should also be traced-out and punished under the law. It was revealed in the last census of Small Scale Industries conducted by Small Industries Development Organisation through the Small Industries Service Institutes and State Directorate of Industries that around 40% - 60% "ghost units" existed in the books of the District Industries Centre in the various States. Thus shortage of raw materials is one
of the major factors which creates hindrance for regular production and much of the time of the small entrepreneur is wasted in arranging for the raw materials to keep the production going thus resulting into sickness of the units in many cases.

(i) STRIKES AND HIGH LABOUR TURNOVER :-

All the 50 units were asked about the labour problems leading to strikes and lockouts and labour turnover. 4 units (8%) out of total 50 units stated that due to strike of the employees in the unit or labour turnover they had to suffer by way of under utilization of productive capacity. All other 46 units (92%) stated that since labour problem was a sensitive one the units saw that labour was retained by them even by paying highest wages than they deserved.

The problem of labour turnover was much felt in the Light Engineering Industry. As most of the units stated that their units had become "Training Centres" for the unskilled workers who joined them initially on lower wages and after gaining experience for about six months switched over to the big companies like the TELCO, Bajaj, Sandvik Asia, since these companies can pay very high wages. The Small Scale Industrial units have to bear the "cost of training" these workers. They stated
that during the initial stages when the workers are new there is more wastage of raw materials by way of breakages etc. which was a loss to the units and which added to the cost of production and hence production suffered.

A break-up of the reasons for labour turnover and strikes by labourers is given below:

**UNDERUTILIZATION OF CAPACITY DUE TO**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Labour Turnover Nos.</th>
<th>Strike by workers (Nos.)</th>
<th>Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light Engineering</td>
<td>2</td>
<td></td>
<td>Better prospects in big companies.</td>
</tr>
<tr>
<td>Electrical and Electronics</td>
<td>1</td>
<td></td>
<td>----- do-----</td>
</tr>
<tr>
<td>Chemical</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Printing Press</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>-</td>
<td>1</td>
<td>Union trouble for higher wages and better service conditions.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3</strong></td>
<td><strong>1</strong></td>
<td></td>
</tr>
</tbody>
</table>
It is interesting to see that even in other Asian countries, labour problem is acute as compared to the other problems such as finance, marketability of products, shortage of factory premises etc.

In a case study of the Small Scale Industries made in Hong Kong it was stated that according to the subjective views of small entrepreneurs, labour was the most conspicuous problem, followed by market, finance and factory premises. Small entrepreneurs who were generally self-reliant and hardworking tended to find solutions within their own means and relied little on outside assistance. Thus high labour turnover is the major cause of production stoppages and underutilisation of capacity.

(3) SUPERVISORY PROBLEMS

No unit under the survey stated that due to want of instructions to workers from supervisors there was underutilisation of production capacity.

1 Small Scale Industry in a Laissez Faire Economy A Hong Kong Case Study - Report of the Hong Kong Team Victor Fung - Shuen Sit - Siu Lun Wong - Tsin - Sing Kiang, (Centre of Asian Studies, University of Hong Kong, 1979) Page 407.
Now it is proposed to study the financial aspect in details which affect the production directly or indirectly in case of the selected units.

Apparently it was felt that inadequate credit facilities was responsible for the low productivity in the selected units. The credit needs of the Small Scale Industrial units comprised of 2 factors -

1. Long term needs for purchase of machinery and equipments, land and buildings and other fixed assets.
2. Short term finance or working capital needs.

The long term needs are generally to be arranged from the own resources in the initial stages and many a time assistance was also sought for from the term lending institutions. All the selected units stated that they were fully aware of the facilities offered by the various term lending institutions. But all the units complained that the unusual delay in sanctioning the loans and too many procedural formalities led to frustration among the units and hence they were hesitating to approach these institutions. In one case it was stated that it took more than 2 years to get a loan sanctioned. This affected the future plans of the units and by the time the loan
was sanctioned costs increased by manifold. Hence the units had to pay higher price for the same machinery and equipments booked by them 2 years earlier.

The other problem faced by the units was that of repayment of the long term finance granted. The repayment of the principal amount generally started one or two years after the grant of the loan in certain cases e.g. the M.S.F.C. The complaint made by the units was that it took over 9-10 months for the units to instal the machinery, procure raw materials, select labourers, make the trial run and finally start the production and then effect sales. Hence, they found it very difficult to repay the loan instalments immediately after one or two years of sanction. Thus where the gestation period is long problem gets aggravated. The term lending institutions also do not conduct regular inspection of the units to find out whether the loan sanctioned has been properly utilized for the purpose for which it is granted. Hence they do not realise the difficulties experienced by the Small Scale Industrial units in running their units. The units, therefore, feel that it is better to avail loans from the commercial banks in which case they can have close relations with the bank officials so that they will understand the difficulties experienced by the units and solve them. The Small Scale Industrial units do not mind paying higher rates of interest to the banks.
Since the units did not have enough surplus ploughing back of profits is not possible. The other alternative is to approach the banks for the working capital needs since 58% of the units interviewed stated that their entire products were sold on credit and the payments were received anytime between 15 days and over 360 days as given in Table No.5.

From the table it will be seen that 21 units (42%) received payment within 15 days, 4 units (8%) within 15-30 days, 1 unit (2%) between 30-45 days, 4 units (8%) between 45-60 days, 10 units (20%) between 60-90 days, 8 units (16%) between 90-180 days, 1 unit (2%) between 180-360 days and 1 unit (2%) received payment after 360 days i.e. more than a year.

**DELAY BY BANKS IN SANCTIONING/ENHANCING CREDIT LIMITS**

Complaints were received from the units as regards delay in sanctioning/enhancing/renewing credit limits to the Small Scale Industrial units by the banks, the details of which are shown in Table No.6.

It will be seen from the table, that 31 units (62%) received sanction within 15 days, 3 units (6%) within 30-60 days, 5 units (10%) within 60-90 days, 3 units (6%) within 90-120 days, 5 units (10%) within 120-180 days and 3 units (6%) over 180 days.
Speaking industrywise, Chemical and "Others" received sanction after 180 days and 1 unit in "Others" stated that it took nearly 1 year for the bank to sanction loan proposal. The delay is due to many reasons as stated by the units:

(1) Lethargy on the part of the bank officials to move the papers forward.
(2) Too many formalities and unnecessary documents called for.
(3) All documents are not called for at one time, but in piecemeal, thus resulting into undue delay.
(4) By the time the proposals are considered for sanction, six months are already over in certain cases, whereby banks call for fresh documents viz. Balance Sheet, Profit and Loss Account and Project Report etc.
(5) Lengthy internal procedures of banks i.e. the papers have to go from the Branch to the Divisional Office, from Divisional Office to Regional Office and from Regional Office to Head Office if the proposals do not fall within the discretionary powers upto the Regional Office level. This causes undue delay.

But the complaints made by the Small Scale Industrial units cannot be taken as fully true though in a few cases the reasons stated may be genuine. There is much exaggeration by the units as it could be seen that some units
within the same industry could get their loans sanctioned immediately and as much as they wanted by completing the various formalities and submitting all the documents called for by the bank.

In this connection the bank officials of various banks were consulted and it was the opinion of all of them that the units did not supply the information called for by the banks. Even the certified copies of the Balance Sheet and Profit & Loss Account could not be furnished to the bank which formed the basis for sanctioning any loan. The usual statements required by the banks periodically (e.g. the stock statements) also are not furnished to the banks. They are also useful to the units themselves in knowing their standing and stake in the business.

It was revealed during the study that in certain cases even though all the formalities were complete and documents submitted to the bank, the bank did not sanction the loan. The reason was ascertained and it was found out that banks wished to remain on the safer side by not granting the loans as they were not sure whether the units would be able to carry on the business with profits. Technical feasibility and economic viability which was ascertained on the basis of Project Report was doubtful.

But one cannot make a general statement on the working of the banks since much depended on the merit
of each case and the relationship the units maintained with the Bank officials. But it could be noted that much depended on the whims of the Branch Managers who could make a non-feasible proposal feasible by putting up the case with their strong recommendations and getting sanctions from their higher authorities as was stated by a plastic unit during the course of the interview.

Majority of the units (80%) complained that the banks valued the stock at the prices and advanced loans only on the basis of the stocks maintained by the units, while the units were required to pay higher prices for the raw materials (50% - 60% higher) by buying them in the open market. Thus the units had to face shortage of working capital. One light engineering unit stated that the banks did not include in the stocks the values of dies or moulds and special tools required for production, for arriving at the drawing power of the unit. This caused hardship to the units as the cost of these items formed a part of the production cost.

The general complaint made by the units was that they did not get all the facilities from their present bankers. Other banks were willing to give the facilities required by the units. But the problem was that the units were not allowed to avail the loan facilities from more than one nationalised bank at a time as per the directives of the Reserve Bank of India.
Thus the other alternative left for the units was to approach the non-financial institutions viz. the private money-lenders at higher rates of interest or resort to borrowing from the friends and relatives or the partners (Table No.7).

**Expansion of Units:**

90% of the units interviewed stated that they required additional finance (working capital and fixed capital) for their expansion to the tune of Rs. 34,62,500 i.e. 29.51% increase over the present availments of Rs. 1,17,32,500/- as per Table No.8.

Industrywise, Light engineering required Rs. 5,76,000/- (100.35%) as additional capital followed by Others - Rs. 10,00,000/- (92.17%), Printing Press-Rs. 3,20,000/- (27.83%), Chemical - Rs. 14,90,500/- (19.91%) and Electrical & Electronics - Rs. 76,000/- (5.28%).

From the table it will be seen that the additional fixed capital required was to the tune of Rs. 60,00,000/- while the working capital requirement was Rs. 91,95,000/-.

Speaking industrywise requirements of working capital were as follows: Chemical Industry required the highest amount of working capital - Rs. 61,00,000/-, followed by Others - Rs. 14,00,000/-, Electrical & Electronics - Rs. 7,85,000/-, Light Engineering - Rs. 5,50,000/- and Printing Press - Rs. 3,60,000/-. 
Thus it can be seen that Chemical Industry requires more working capital than term loan while Printing Press requires least working capital but high fixed capital. Others also require more working capital as compared to fixed capital. The percentage of working capital and fixed capital to total requirement of capital (working capital + fixed capital) is given below:

**REQUIREMENT OF WORKING CAPITAL AND TERM LOANS**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total Capital Required (Working Capital + Term Loan)</th>
<th>Working Capital Required</th>
<th>% to Total Capital Required</th>
<th>Term Loan Required</th>
<th>% to Total Capital Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light Engineering</td>
<td>11,50,000</td>
<td>5,50,000</td>
<td>47.8</td>
<td>6,00,000</td>
<td>52.2</td>
</tr>
<tr>
<td>Electrical and Electronics</td>
<td>15,15,000</td>
<td>7,85,000</td>
<td>51.8</td>
<td>7,30,000</td>
<td>48.2</td>
</tr>
<tr>
<td>Chemical</td>
<td>89,75,000</td>
<td>61,00,000</td>
<td>66.0</td>
<td>28,75,000</td>
<td>32.0</td>
</tr>
<tr>
<td>Printing Press</td>
<td>14,70,000</td>
<td>3,60,000</td>
<td>24.5</td>
<td>11,10,000</td>
<td>75.5</td>
</tr>
<tr>
<td>Others</td>
<td>20,85,000</td>
<td>14,00,000</td>
<td>67.1</td>
<td>6,85,000</td>
<td>32.9</td>
</tr>
<tr>
<td><strong>All Total</strong></td>
<td>1,51,95,000</td>
<td>91,95,000</td>
<td>60.5</td>
<td>60,00,000</td>
<td>39.5</td>
</tr>
</tbody>
</table>

The requirement of Fixed and Working capital in case of small scale units is difficult to assess and it has rightly been pointed out by the American Institute of
Certified Public Accountants that the determination of short and long term financial requirements of the smaller, growing business, the choice it elects as to type of organisation of its capital structure are as important and often as complex as that of a company listed on the New York Stock Exchange.

A table showing the requirement of Bank's finance classified according to their constitution is shown in Table No. 9.

It appears that the Partnership concerns require more fixed capital for expansion more than the Proprietorship concerns or Private Ltd. concern. Their relative share in the proposed investment is the highest which is Rs.33,13,500, as compared to Rs.23,99,000 and Rs.2,87,500 of Sole Proprietorship concern and the Private Ltd. concern respectively.

Speaking industrywise the amount of Fixed Capital required is the highest in case of Chemical industry (Rs.28,75,000) followed by Printing Press industry (Rs.11,10,000) Electrical and Electronics industry (Rs.7,30,000); Others (Rs.6,85,000) and Light Engineering industry (Rs.6,00,000). An enquiry made revealed that all the industries required fixed capital for either renovation of their existing Plant and Machinery or for modernisation of their units. No unit stated that they required the fixed capital for the purchase of land and buildings.

The amount of Fixed Capital was either to be raised from internal sources or the external sources. The internal sources include:

(1) ploughing back of profits
(2) loans from partners in the firm
(3) asking for loans from their parent units.

The external sources include:

(1) Institutional finance
(2) Non-Institutional finance

Again Institutional finance is obtained from:

(1) Government agencies
(2) Commercial Banks
(3) Co-operative/Banks

Non Institutional finance is obtained from:

(1) Indigenous bankers
(2) Private money lenders
(3) Friends and Relatives
(4) Financial companies who grant such loans.

The units were asked about their preferences in borrowing from the various agencies/bodies. All the 50 units (100%) stated that they would borrow from the
commercial banks as they already enjoyed credit facilities from their existing bankers. But the general feeling was that the units get immediate finance from their friends and relatives or from the private money lenders. Private money lenders gave money without asking for various documents or legal formalities and the money asked for is received immediately only on the personal security of the borrower. The units did not mind paying interest at exhorbitant rates to these money lenders as they stated that by the time the banks sanction the loans the demand is lost in the market or the prices increase manifold. Also, the banks do not sanction the entire amount of loan asked for. One Chemical unit was bold enough to state that the commercial banks should be denationalised and given in private hands as they were functioning previously so that the units will get better service from these banks. This chemical unit was having average annual sales to the tune of Rs.14 lakhs and was also having limits to the tune of Rs.4 lakhs. But still this unit borrowed from private money lenders in case of immediate requirement of funds.
From the table No.10, "Assessment of Banks' services made by the Small Scale entrepreneurs" it is observed that 21 units (42%) out of the total of 50 units surveyed stated that they did not get need based finance according to the scale of operations. However 29 units (58%) said that they got need based finance from the bank. The next question was whether the Bank's finance was adequate to meet the requirements (Short Term + Long Term). The answer to this question was 50-50. 25 (50%) of the units said "YES" while the other 25 (50%) said "NO". The third question was whether timely help was received in case of difficulties (for short periods) 19 (38%) units said in the negative while 31 (62%) unit's answer was in the positive. The question of any guidance/counselling received from the bank for preparation of various statements, project reports, etc. was asked to the units to which 28 (56%) of the units said that the banks did not give any guidance or counselling to the Small Scale Industrial Units. While 22 (44%) units said that they got atleast some guidance from the banks.

The next question was whether the units were satisfied with their present bankers and whether they were contemplating of shifting to other banks or financial institutions. 15 (30%) units gave negative reply while 35 (70%) units said that they were satisfied with their present bankers.
2 units (4%) of Others were thinking of shifting to State Bank of India and 1 (2%) Electronic unit also thought of approaching State Bank of India. Since these units were dissatisfied with the services of the nationalised banks, 2 (4%) units under Chemical industry were shifting from their present bankers to other Nationalised Banks, due to the non cooperation given by their present bankers to accommodate them. On enquiry from the concerned banks, the bank officials stated that the units were in the habit of borrowing from the banks without putting in their own efforts to increase sales or reduce costs so that ploughing back of profits was not possible. They further stated that the units solely depended on the banks for their credit requirements and if once they were refused any facility, they exaggerated the facts and made an issue of it. It was found that the Light Engineering industry and the Printing Press industry were not thinking of shifting to other banks as they stated that they would get the same treatment from all the Nationalised banks or State Bank of India. Therefore, they felt that it was better to continue with their present bankers who know their past history and the units need not repeat it as will be the case if they shift to another bank/branch.

An assessment was made from the units to find out as to whether the units were totally refused credit
facilities when approached or enhancement in their present availments were not granted by the banks. It was revealed from the Table No.11 that 3 units (30%) in the Light Engineering units applied for fresh loans out of which 2 units (20%) were refused while 6 units (60%) applied for enhancement of their present limits, out of which 2 units (20%) were refused sanction, 1 unit (10%) did not ask for either fresh limits or enhancement of present limits.

In the case of Electrical & Electronics industry 4 units (40%) applied for fresh limits and 1 unit (10%) was refused sanction while 3 units (30%) applied for enhancement of present limits, all of whom were granted the loans. 3 units (30%) did not apply for any loan.

In the case of Chemical concerns 6 units (60%) applied for fresh limits and 2 units (20%) were refused sanction. 4 units (40%) applied for enhancement of present limits while 1 unit (10%) was refused sanction.

3 units (30%) of the Printing Press industry applied for fresh limits and all the 3 units (30%) were sanctioned the limits. 2 units (20%) applied for enhancement of loans and 1 unit (10%) was refused sanction. 5 units (50%) did not apply for any loan at all.
Others applied for fresh limits were 5 in number (50%) and 2 units (20%) were refused loans and another 5 (50%) units applied for enhancement of present limits and 1 unit (10%) did not receive sanction. (A chart showing the detailed reasons given to the units by the banks for rejection of their proposals is given in Table No. 13.)

On the whole it was observed that out of 50 units interviewed 21 units (42%) applied for fresh limits and 7 units (14%) were refused sanction. 20 units (40%) applied for enhancement of limits and 5 units (10%) did not receive sanction. Thus 9 units (18%) did not apply for any loan to the banks at all and managed from either internal or external sources. It was interesting to note that the Printing Press industry did not rely on the banks for their financial needs as 5 units (50%) did not apply for any loan, while the Chemical and other industries heavily relied on the banks for their financial needs. Electrical and Electronics Industry also did not rely much on the bank's loans. 3 units (30%) did not apply for any loan from the banks and managed internally.

Table No. 12 shows the limits applied for by the units, sanctioned or refused by the Banks:

(A) From the table it is seen that out of the total fresh working capital of Rs. 42,30,000 applied for by the
units Rs. 46,00,000 was sanctioned by the Banks and Rs. 2,30,000 was rejected i.e. 95.2% was sanctioned by the banks.

(B) The enhancement of working capital limits applied for by the units was to the tune of Rs. 34,30,000 and the Banks sanctioned Rs. 31,87,000, thus rejecting Rs. 2,43,000. The sanctioned amount to total limits applied comes to 92.9%.

(C) The fresh fixed capital applied for was Rs. 21,40,000 and the limits sanctioned were Rs. 19,64,000, thus rejecting Rs. 1,76,000. The percentage of total sanction to total limits applied for comes to 91.8%.

(D) The additional fixed capital limits applied for by the units was Rs. 20,50,000 and the Banks sanctioned Rs. 19,81,500 thus rejecting Rs. 68,500. The percentage of total sanction to total limits applied for comes to 96.7%.

(E) Out of the total limits applied for i.e. working capital + fixed capital (Rs. 1,24,50,000), limits to the tune of Rs. 1,17,32,500 were sanctioned which gives a percentage of 94.2% and amount rejected was Rs. 7,17,500 which gives a percentage of 5.8%.

Thus it can be observed that the banks were not conservative in sanctioning loans to the Small Scale Sector.
The amount rejected is only 5.8% which is due to the various reasons as ascertained from the bank officials and given in table No. 13.

(F) Speaking industrywise it is observed that in case of Light Engineering industry, out of total limits of Rs. 6,50,000 applied for, Rs. 5,74,000 was sanctioned i.e. 88.3%.

(G) Electrical and Electronics units applied for total limits of Rs. 17,15,000, out of which Rs. 14,39,000 was sanctioned i.e. 83.9%.

(H) Chemical units applied for total limits of Rs. 77,00,000 and banks sanctioned Rs. 74,84,500. Percentagewise it comes to 97.2%.

(I) Printing Press units applied for total limits of Rs. 12,35,000 and to them Rs. 11,50,000 were sanctioned by the banks bringing the percentage to 93.1%.

(J) Others applied for total limits of Rs. 11,50,000 and banks sanctioned Rs. 10,85,000. Percentagewise it comes to 94.3%.

(K) Thus Chemical industry was sanctioned maximum loan (97.2%) followed by Others (94.3%), Printing Press (93.1%), Light Engineering industry (88.3%), Electrical and Electronics (83.9%).
The various types of securities offered by the different units for Fixed and Working capital were:

1. Mortgage of Land and Buildings,
2. Mortgage of Plant and Machinery,
3. Hypothecation of Stocks,
4. Hypothecation of Movable Properties viz. vehicles, etc.,
5. Guarantees offered by the borrowers, or
6. Any combination of the above securities.

Impact of Bank Credit on Productivity and Profits:

It is now proposed to analyse the effect of bank credit on productivity and profitability of the units.

A borrower requires money for investing in his business to increase the productivity and profitability. Thus before sanctioning any loan the banker should judge as to how the credit to be availed of would be utilized by the intending borrower and how far it would have a positive effect on his productivity and profitability. For this purpose the banker should investigate as to:

1. the purpose of the loan applied for,
2. the present and the future level of profitability,
3. By how much the production would be increased by increasing the utilization of the present capacity after borrowing from the Bank or by installing additional capacity.
The funds borrowed should be utilized in improving the efficiency in production or for increasing the production capacity thereby increasing the volume of production. The funds for this will be required as given below:

(1) Fixed Capital
(2) Working Capital
(3) Both together

Particulars showing the requirement of Working Capital and Fixed Capital are already given in Table No. 8 on page No. 105.

The utilization of Bank's Credit by the units is discussed below:

The capital output ratio is given in Table No. 14. It indicates that for one unit of output the capital requirement is Rs. 1.48 (148%) of all the industries taken together. Industrywise it is seen that the capital output ratio is the highest 0.57 in case of Chemical industry, while it is lowest in Light Engineering industry i.e. 0.30. It is 0.54 in the case of Printing Press industry and 0.37 in Electrical and Electronics industry and 0.31 in case of Others.

A further analysis is made in Table No. 15 wherein the ratio between Bank's Finance and Cost of Production is given in details i.e.
(1) Ratio between Working Capital and Cost of Production,
(2) Ratio between Fixed Capital and Cost of Production, AND
(3) Ratio between total Finance obtained from Bank and Cost of Production.

From the table it is observed that the ratio of Working Capital to Cost of Production is the highest in Chemical industry which is 0.41 followed by Others 0.27, Electrical and Electronics 0.26, Light Engineering 0.14 and Printing Press 0.11. The ratio of Fixed Capital to Cost of Production works out to 0.43 in case of Printing Press Industry followed by Light Engineering and Chemical industries - 0.16, Electrical and Electronics 0.11 and it is lowest in Others which is 0.04.

Thus it is seen from the above figures that Chemical units require highest amount of Working Capital (Re 0.41) per unit of output while Printing Press industry requires the lowest (Re 0.11). While Printing Press requires the highest amount of Fixed Capital (Re 0.43) Others require the least (Re 0.04).

It is now proposed to study the effect of utilization of Bank's finance on Investment, Production and Employment by the selected Small Scale Industrial units, as given in Table No.16.
From the above table it is seen that the Total Investment i.e. from Bank's loan and borrowing from other sources at the time of grant of loan by the banks was to the tune of Rs. 23,94,400 for all the industries taken together, while the total investment at the time of survey was to the tune of Rs. 1,25,66,500. Thus the additional investment was to the tune of Rs. 1,01,72,100 in all the industries taken together which reveals that there is an increase of 424.8% in the total investment after availing Bank's finance. Industrywise the percentage increase is as follows: Light Engineering 65.0%, Electrical and Electronics 140.4%, Chemical 1057.7%, Printing Press 1223.9%, Others 207.0%.

The total production increased by 423.7% after availing bank's finance in case of all the industries taken together. Industrywise corresponding percentages are Light Engineering 125.7%, Electrical and Electronics 168.3%, Chemical 949.1%, Printing Press 1121.0%, Others 260.1%.

The additional persons employed increased by 188.2% for all the industries taken together. Industrywise the percentages are Light Engineering 196.2%, Electrical and Electronics 150.0%, Chemical 187.0%, Printing Press 151.1%, and Others 263.6%.
A statement showing the percentage increase in investment, production and employment for each industry is given below:

<table>
<thead>
<tr>
<th>Industry</th>
<th>% increase after availing bank’s finance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment %</td>
</tr>
<tr>
<td>Light Engineering</td>
<td>55.0</td>
</tr>
<tr>
<td>Electrical and Electronics</td>
<td>140.4</td>
</tr>
<tr>
<td>Chemical</td>
<td>1057.7</td>
</tr>
<tr>
<td>Printing Press</td>
<td>1223.9</td>
</tr>
<tr>
<td>Others</td>
<td>207.0</td>
</tr>
<tr>
<td>All Industries</td>
<td>424.8</td>
</tr>
</tbody>
</table>

From the above table it can be observed that the Printing Press industry availed maximum bank’s finance for investment-1223.9%, while the production is also increased by 1121.0% (maximum) amongst all the industries, but ranked 4th in terms of employment of persons i.e. only 151.1% as compared to other industries.
Chemical industry availed Bank's finance which increased investment by 1057.7% while production increased by 949.1%. Hence Chemical industry stood second as regards additional investment and additional production, but stood 3rd in terms of employment of persons which increased by 187.0% when compared with other industries.

Others availed Bank's finance for investment to the tune of 207.0% while the production increased by 260.1% and employment increased by 263.6%. Thus Others stood 3rd amongst all industries as regards Investment and Production, but stood 1st in employment.

Electrical and Electronics industry stood 4th as regards both the Investment (140.4%) and Production (168.3%) are concerned, but stood 5th as (150.0%) as regards employment amongst all the industries.

Light Engineering industry was last amongst all industries as regards investment (55.0%) and Production (125.7%) are concerned and stood 2nd (196.2%) as regards employment.

Ratio of additional investment to additional production showed that Chemical industry ranked first, Printing Press ranked 2nd, Electrical and Electronics 3rd, Others 4th and Light Engineering 5th amongst all the industries.
Ratio of additional investment to additional persons employed was highest in case of Chemical industry 160616:1 followed by Electrical and Electronics 27722:1, Printing Press 15859:1, Others 9789:1 and lastly Light Engineering industry 5686:1.

RELATION BETWEEN GROSS PROFIT, NET PROFIT AND BANKS FINANCE

The relation between Gross Profit, Net Profit and Banks finance is worked out in Table 17.

From the table it can be seen that (a) the Gross Profit per rupee invested in working capital comes to Re 1.08 (107.8%) for all the industries taken together while the Net Profit per rupee invested in working capital comes to Re 0.51 (60.8%). Similarly the Gross Profit per rupee invested in Fixed Capital comes to Rs.2.13 (212.8%) while the Net Profit per rupee invested in Fixed Capital comes to Re 1.20 (120.1%). The Gross Profit to total finance from the Bank and Net Profit to total finance from the Bank comes to Re 0.72 (71.6%) and Re 0.40 (40.4%) respectively for all the industries taken together.

(b) Industrywise Gross Profit per rupee invested in working capital is the highest in case of Printing Press industry Rs.2.34 (233.8%) while it is lowest in the Chemical
industry which is only Re 0.95 (95.5%). The Net Profit per rupee invested in working capital is the highest in case of Printing Press Industry Re 1.76 (176.0%) and lowest in case of Light Engineering industry Re 0.22 (22.4%).

(c) Similarly, the Gross Profit per rupee invested in Fixed Capital is the highest in case of Others Rs.6.14 (614.0%) while it is the lowest in case of Printing Press Re 0.57 (56.9%). The Net Profit per rupee invested in Fixed Capital is the highest in case of Others Rs.4.43 (443.2%) while it is the lowest in case of Light Engineering industry which is Re 0.19 (18.6%).

The return on capital employed is shown in Table 18. Capital employed is taken as the total of working capital plus fixed capital. The Return on Capital employed is worked out by dividing the Net Profit by the Capital employed, which gives the net profit per rupee invested in the business. From the table it is seen that 'Others' have the highest return i.e. Re 0.61 while Light Engineering has the lowest which is Re 0.10. Electrical and Electronics has Re 0.58, followed by Chemical Re 0.37 and Printing Press Re 0.34. The Return on Capital employed for all the industries taken together comes to Re 0.40.

A chart showing various factors which affect Return on Investment is given below :-
CHART SHOWING VARIOUS FACTORS WHICH AFFECT RETURN ON INVESTMENT

Sales

Minus

M.C. + A.C. + S.& D.C. ----> Cost of Sales ----> Earnings

divided by

Inventories + Debtors + Cash ----> Working Capital

Add

Sales ----> Earnings as % of Sales

divided by

Multiplied by

Term Loan for
fixed Assets ----> Total

Investment ----> Turnover ----> Return on
Investment

M.C. - Manufacturing Cost
A.C. - Administrative Cost
S.& D.C. - Selling & Distribution Cost.
Table 19 shows the relationship between the cost of production and Bank’s finance utilized in the business. From the table we can find that for every rupee invested in working capital by all the industries the cost of production comes to Rs.3.17 (316.7%) while the cost of production per rupee invested in fixed capital comes to Rs.6.25 (625.1%). The cost of production to total finance (working capital + fixed capital) for all the industries taken together comes to Rs.2.10 (210.2%) Industrywise cost of production to working capital is the highest Rs.9.55 (955.1%) in case of Printing Press industry while it is lowest Rs.2.46 (246.4%) in case of Chemical industry.

The cost of production to fixed capital is the highest in Other industries Rs.23.05 (2304.7%) while it is lowest in Printing Press industry Rs.2.32 (232.3%). The Cost of Production to total finance (working capital + fixed capital) is the highest in case of Light Engineering industry Rs.3.36 (335.8%) while it is the lowest in case of chemical industry Rs.1.77 (176.6%)

It is interesting to see that the bank’s credit has helped 100% of the total units surveyed in utilizing their present capacity in a better way or by increasing their
present capacity. The units surveyed (50) stated that their cost of production could be reduced by availing Bank's credit in 5 ways which are given below:

1. by increasing the capacity (30%)  
2. by having the advantages of mass scale production, the economies of scale achieved (35%)  
3. by using high grade raw materials, less quantity is required (20%)  
4. lesser storage cost due to less material handling as also lesser investment in inventory (10%)  
5. by giving incentive to workers, lesser time in operation is spent and also rejections reduced (5%).

Thus the bank's credit has helped all the industries in increasing their volume of production by increasing the efficiency in production, which had a positive effect on their profitability, though other factors also contributed to efficiency in production viz. high market demand, rise in prices of the products, high profit margin etc.

BANK FINANCE AND PROFIT OR LOSS POSITION:

From Table 20 we find that the average profit of all the industries increased by Rs. 27,61,975 i.e. 139.8% over
the period before availing bank's finance. Industrywise -

Light Engineering units' profits increased by Rs.36,250
(164.8%) over the period before availing of bank's finance,
while that of Electrical and Electronics units' profits
increased by Rs.6,81,950 (454.6%), Chemical units' profits
increased by Rs.12,86,000 (85.7%), Printing Press units'
profits increased by Rs.3,43,000 (647.2%) and that of
Others increased by Rs.4,14,775 (165.9%). Thus from the
above, it is found that the quantumwise profits of the
Chemical units increased maximum by Rs.12,86,000, followed
by Electrical and Electronics Rs.6,81,950, Others Rs.
4,14,775, Printing Press Rs.3,43,000 and Light Engineering
Rs.36,250. This shows that Light Engineering industry was
fully dependent on the medium and big industries and was in
the stage of "hand to mouth" situation. The borrowing
capacity from the banks was also poor as it was the least
Rs.5,74,000 as compared to the Chemical industry, which
showed banks' borrowings as high as Rs.74,84,500.

REPAYMENT OF THE BANKS' LOANS BY THE
SMALL SCALE INDUSTRIAL UNITS :-

Out of the total sanctioned limits of Rs.1,17,32,500/-
which was availed by the selected units, the total amount
outstanding as on the date of survey was to the tune of Rs.
94,76,000 i.e. (80.8%). The percentage of total outstanding
(working capital) to total working capital availed/sanctioned of all the industries taken together is 91.4% while that of fixed capital is to the tune of 59.8%.

The credit utilization ratio (i.e. ratio of outstanding to sanction) of each industry as also the details of loans availed/sanctioned and amount outstanding for each industry is shown in Table No. 21. From the table, we find that the credit utilization ratio is the highest in case of Chemical industry (85.5%) while it is the lowest in case of Printing Press industry (52.7%) followed by Others (75.1%), Light Engineering (79.3%) and Electrical and Electronics (83.4%).

The amount of loan overdue (in respect of fixed capital) to amount outstanding (fixed capital) in Table 21, shows that the Light Engineering industry has the highest percentage (19.6%) followed by Chemical industry (9.2%) and Electrical and Electronics industry (7.1%). In case of Printing Press and Others it was reported that the overdue as regards fixed capital was "NIL" and that only regular instalments were due as on the date of survey.

A detailed enquiry was made to find out the reasons for not paying the instalments due to the banks on the due dates when the units were making profits. The reason given
by them was that the banks were not very strict in getting back their loans and only they issued regular reminders and finally a legal notice for which the units were not bothered. 50% of the units themselves admitted that the bank’s follow up system for recovery of advances was faulty and stated that once the loan was sanctioned, they did not bother to visit the units and find out the progress made by the units. The banks only relied on paper work and figures submitted by the units e.g. the Project Report, Cash Flow statements etc, while sanctioning the loans. But whether the implementation of the project has been successfully carried out or whether any difficulties are experienced by the units in implementing the projects is not thought of by the banks.

In this regard the bank officials when contacted stated that it was the moral duty of the units borrowing loans from the banks to repay the instalments on the due dates. They said that the units did not mind visiting the banks as many times in a day as required before the loans are sanctioned. But once the loans are granted, they did not bother to come to the bank and explain their difficulties for not implementing the projects or other factors which influenced in delaying the repayment of the loans.

Out of the 10 Light Engineering units, 3 units (30%) stated
that their net surplus (Below Rs.2000/-) was not enough to maintain their own families, hence the question of repayment of bank's loan did not arise. 2 Chemical units (20%) expressed their inability to repay the loans as they did not have any surplus from their business, but were maintaining their families from the funds borrowed from the private money lenders or Friends and Relatives by paying higher rates of interest in the hope of getting orders from the customers and increasing their business.

It was also stated by 2 units (20%) out of the 50 units surveyed that they diverted their surplus to their sister concerns but did not repay the banks' instalments in time. This they said was necessary because their present product was not much in demand and hence diversion of product was necessary in order to remain in the business. They also were bold enough to state that a part of their working capital of the present business was diverted to the sister concern for building up the assets. On enquiry made as to whether the banks were aware of this fact, the units said that the banks were aware that the sister concerns existed but the banks were not concerned much about the activities of the sister concern. Moreover, the units who diverted their funds maintained very good relations with the Branch Managers of the banks and hence the integrity of the
unit holders were not questioned by the banks, but the facts stated by them were relied upon.

It was also revealed that 70% of the units surveyed were trying their best to remain in business and prosper by availing the bank's finance and at the same time repay the banks' dues in time.

In order to have a proper check on the activities of the borrower, the banks stated that they scrutinized the loan applications very minutely and granted loans judiciously keeping in view the resources of the owner, the ability to run and operate the business, the demand for the proposed product, the units which are already in business in similar types of goods and their location besides other factors which are taken into consideration while sanctioning a fresh proposal. This only does not serve the purpose. The banks should have a constant follow up with the units to ensure end-use of the funds granted by them by maintaining close contact with the units as well as with other units in that area who may inform the bank of the activity of the units who divert their funds elsewhere, misutilize their funds or show losses purposely. The banks should have periodical get togethers of the various units and sort out their difficulties and maintain cordial
relations with all their units so that there is fear in the minds of the units that their secrets may be leaked out by someone and the bank will stop operation in the accounts or close the account. This will undermine the reputation of the owner and his business may have to be closed down.

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