CHAPTER VII

SUMMARY OF FINDINGS AND SUGGESTIONS
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An attempt is made in this chapter to recapitulate the major conclusions arrived at in the course of the study. The importance of this type of study pertaining to an analysis of the institutional finance to SSIs in Salem District arises from the fact that such industries play a vital role in the national and regional economy. In a capital scarce and labour abundant country like India, wedded to the twin objectives of growth and social justice, SSIs have come to occupy a pivotal role in the industrialisation of the economy.

A small-scale industry is defined as “an industrial undertaking in which the investment in fixed assets in plant and machinery, whether held in ownership terms or on lease or by hire-purchase, does not exceed Rs.100 lakhs”.

Realising the importance of SSIs, both Central and State Governments have taken several measures to encourage this sector. As a result of these policies, the SSI sector has emerged as an important segment of the industrial structure of the country providing employment to 283 lakhs of people, earning foreign exchange to the tune of Rs.97644 crores and contributing Rs.418263 crores (at current prices) to national output. It has been found that Tamilnadu has been one of the pioneering states in India in encouraging SSIs. At present, 4.89 lakh SSI units are located in Tamilnadu.
Since the different Action Plans for credit as well as developmental schemes in India have had a focus on the district as the regional unit for purposes of implementation, Salem District in Tamilnadu was selected to analyse the problem. Salem District ranked third in the state with 35,921 registered SSIs as on March 2005 with an investment growing at an average annual rate of 21.9 percent.

The SSI units are generally classified into eight categories, among them only five types of industries viz., Agro based, Chemical based, Textile based, Mineral based and Engineering and allied industries which are dominant in the district, are taken up for the study.

The major channels, which could be identified for institutional support to SSIs, were Commercial Banks, District Industries Centre, Tamilnadu Industrial Investment Corporation (TIIC) and Small Industries Development Corporation (SIDCO).

7.1. FINDINGS

It is found from the performance trend of the commercial banks that the Credit Deposit Ratio (CD ratio) for Salem District is higher than the stipulated level of 60 percent. The priority sector advances formed more than 45 percent of the total advances, which is higher than the prescribed norm of 40 percent while the share of SSI advances in the net bank credit declined from 16.8 percent to 11.2 percent. At the same time, the share of other priority sector advances
in the net bank credit has increased from 11.0 percent to 20.0 percent.

The risk of the commercial banks in extending finance to SSIs is estimated using Value-at-Risk (VaR) measure. The analysis reveals that with a probability of one percent, the commercial banks would expect the maximum loss of 90.62 percent of its value of loan portfolios for one year and 99.86 percent of its value of loan portfolios over a period of ten years by extending financial assistance to SSIs. This has brought out the hard reality of higher incidence of risk involved in lending to SSIs. Hence, the commercial banks divert funds to other sectors that yield higher returns with minimum risks. This has been well corroborated by the fact that commercial banks have reduced the percentage of SSI credit in their gross bank credit from 14 percent in the year 1996 to 7 percent in the year 2005.

District Industries centre (DIC) is empowered to issue Registration Certificates of the proposed industrial activities: The online provisional SSI certificates were launched on September 2002. As on March 2005, DIC in Salem District has issued 11071 online provisional certificates.

Low Tension Power Tariff Subsidy has been disbursed to 1403 beneficiaries to the tune of Rs.159.98 lakhs, State Capital Investment Subsidy has been granted to 211 beneficiaries amounting to Rs.234.69 lakhs and Generator Subsidy has been disbursed to 44 SSI
units with an amount of Rs.17.35 lakhs. At present all these subsidies have been merged with New Anna Marumalarchi Thittam.

Using multiple linear regression model, it is traced that even though the number of SSI units registered with DIC are positively correlated with employment generation, the level of investment does not contribute significantly to employment generation.

An analysis of the performance of Prime Minister's Rozgar Yojana Scheme (PMRY) has revealed the fact that out of 6071 number of SSIs recommended by DIC, 2652 SSIs (43.7 percent) have been sanctioned financial assistance by the Nationalised Commercial Banks. Out of this only 2125 cases (35 percent) have been disbursed with assistance. Hence, from the point of view of banks, most of the SSIs do not seem to be attractive and viable at all.

There are 32 beneficiaries under the New Anna Marumalarchi Thittam, which was implemented in the year 2002. Food product, agro based projects, herbal products and herbal medicines received assistance under this scheme.

The performance of Entrepreneurial Development Programme in the district has exposed the fact that out of 4297 trained women candidates, 1241 have started their own SSI units. The hidden entrepreneurial potentials of women are exposed, as they are now confident of starting their own industrial units and have become economically independent.
The Tamilnadu Industrial and Investment Corporation (TIIC) have emerged as the premier state level financial institution. Coimbatore District is the major recipient of financial assistance, followed by Chennai and Kanchipuram Districts. Salem District occupied fourth place with a cumulative sanctioned amount of Rs.286.95 crores for 5414 industrial undertakings upto 2004 – 05. The industrial undertakings included medium scale industries, transport and other servicing sectors other than SSIs.

The percentage share of Salem District in terms of the number of SSIs as well as quantum of assistance granted by TIIC is less than the average performance index of 3.3. Out of Rs.16672.42 lakhs sanctioned, SSIs have received only Rs.3359.76 (20.2 percent) during the period of study.

The non-linear regression model result shows that the decreasing rate of growth between the year and the assistance sanctioned by TIIC to number of SSI units, is 0.29 percent on an average.

The multiple linear regression model highlights the fact that the amount of loan sanctioned has shown a decreasing trend from the period 1996-97 to 2002-03. However, signs of revival are visible from 2003 – 04 onwards.
The linear regression model brings out the positive correlation between the amounts of assistance sanctioned by TIIC and employment generated. The standardised regression coefficient is positive at 5 percent level of significance. Hence, the amount of assistance has necessarily helped to generate employment opportunities in the SSI sector.

Salem Taluk has obtained a maximum assistance from TTIC to the tune of Rs.2148.67 lakhs amounting to 63.9 percent; Attur Taluk has received Rs.583.84 lakhs followed by Mettur Taluk to the extent of Rs.235.79 lakhs. Remaining Taluks have obtained only a meagre amount of assistance from TIIC.

During the period of study, the Engineering and allied industries have continued to bag the highest share of assistance from TIIC i.e., 26.67 percent out of the total sanction of Rs.3359.76 lakhs followed by Textile based industries (22.56 percent) and Chemical based industries (16.12 percent). Even though Agro based industries dominate the industrial scenario of the study area, it has received just 15.98 percent of the total assistance.

It is observed that the assistance to the tune of Rs.2892.66 lakhs has been sanctioned under the General Scheme. 97.9 percent of TIIC’s assistance has gone to the new undertakings. The percentage share of assistance for expansion and modernisation seems to be very negligible.
The role played by both institutional and non-institutional sources of finance in the development of SSIs in the Salem District with reference to 350 sample units have helped to establish certain inferences.

96 percent of the SSIs are run by male and only 4 percent by female entrepreneurs in the district. It is clear that women participation in SSI affair is considerably meagre.

Entrepreneurs, bearing the age between 30 and 40 years constituting 34 percent of the total sample units, are showing keen interest in the establishment of SSIs in the Salem District. Entrepreneurs in the age group of 40 to 50 years constitute 30.3 percent. The persons in the age group of 60 to 70 years constitute only 7.4 percent who have less motivation to bear the risk.

59.1 percent of the entrepreneurs have business background to enter into SSI field and only 4 percent of them are emerging from cooli category.

52.6 percent of the entrepreneurs after their school education and 47.4 percent after their college education have taken up self-employment. It is inferred that literacy has helped the entrepreneurs to know about the procedure of applying and obtaining financial assistance from various institutions.
Training is given less importance by the entrepreneurs of SSIs in the Salem District. 26.9 percent of the entrepreneurs are managing the units without training. 50 percent of them are managing their units with past experience in the same business.

The variation among the motivating factors, namely possessing technical qualification, availability of government subsidy, encouragement from friends and relatives, inspiration from forefathers and self employment in selecting the industrial units, are statistically identified as insignificant. Thus all the motivating factors of the sample entrepreneurs are equally important in the selection of SSIs.

During the survey, it has been found that in the Salem District, the present owners have started 48.6 percent of the units, 24.9 percent of the units are purchased by the present owners and 20.2 percent of them are inherited. Only 6.3 percent of the units are taken on lease.

The ownership pattern has revealed that sole proprietorship is the popular form of business organisation in the study area. 67.2 percent of the units are sole trading concerns, out of which 40 percent belongs to the period of existence of less than 5 years and the same is the case with 5 to 10 years. In this group, Textile based industries followed by Agro based industries are dominant. Partnership form of organisation accounts for 29.4 percent of the total sample units. This form of organisation exists mostly in Textile based industries. More
than 50 percent of the units belong to the period of 5 to 10 years of existence. Private limited company forms only 3.4 percent of the total sample units.

44.9 percent of the sample units are in the group of 5 to 10 years of existence. 40.3 percent are newer units having a standing of less than 5 years. Therefore there is expansion of industrial activity in the district in recent years due to institutional assistance provided by the State and Central Governments.

Out of the total sample units, 45.1 percent are operating in their own premises while the rest are in rented premises. Out of 82 units functioning in industrial estates, 16 units seem to have been let out to the allottees' favour.

It has been identified by using 'F' test that there is significant variation with respect to the extent of capacity utilisation among the different groups of SSIs. The Chemical based and Textile based industries have been identified as highly significant in relation to other industries in terms of capacity utilisation.

It is statistically identified that the factors, namely dearth of raw material, lack of skilled labour, inadequate finance, uncertain order, lack of adequate marketing facility, are not playing equal role in the under-utilisation of capacity. With the help of critical difference device, it is found that inadequate finance is highly significant when compared to other factors in the under-utilisation of capacity of SSIs.
The composition of the productive capital shows that 44.9 percent consists of fixed capital and the remaining 55.1 percent constitutes the working capital. The requirement of the fixed capital is the highest in the case of Engineering and allied industries and lowest in Mineral based industries. The average requirement of fixed capital per unit has been worked out as Rs.24.50 lakhs. The working capital varies between the lowest of Rs.11.90 lakhs in Mineral based industries and the highest of Rs.41.50 lakhs in Engineering and allied industries. The working capital requirement exceeds those of fixed capital in respect of all types of industries except Mineral based industries. The productive capital required per unit on an average has been worked out as Rs.54.60 lakhs. The maximum amount of Rs.69.40 lakhs has been invested by Engineering and allied industries and the minimum of Rs.28.10 lakhs by Mineral based industries.

The share of institutional sources in meeting the working capital requirements of SSIs accounts for 64 percent and that of non-institutional sources is 14.9 percent. The balance is managed by the own funds of the entrepreneurs, which accounts for 21.1 percent. On the whole the SSIs in Salem District depend mainly on the institutional sources and own funds to meet their working capital requirements. It is interesting to note that only Textile based industries have received the lowest share of 27.4 percent from Nationalised Banks and State Bank of India (SBI) while other industries have received above 45 percent.
65 percent of the total working capital requirement is fulfilled by Nationalised Banks including SBI and 21.8 percent by the TIIC. Proprietary concerns to the tune of 69.8 percent and partnership firms to the extent of 54.4 percent have availed the working capital assistance from Banks and SBI. Partnership firms have the privilege of getting maximum assistance from the TIIC.

With respect to the size of credit, it has been found that 33.2 percent of the total SSIs has received credit ranging between Rs.5 lakhs and 10 lakhs. Out of this, 75.9 percent is proprietary concerns and 24.1 percent is partnership concerns. The size of credit availed by partnership concerns and private limited companies are higher compared to proprietorship form of organisation.

In Salem District, Nationalised Banks and SBI have played a limited role in granting term loans. Textile based industries have obtained maximum amount and Chemical based industries have received only a meagre share of term loans.

An analysis of the overall picture of the disbursement of credit with reference to the quantum of credit and age of the unit revealed that only those units which are in existence for less than 10 years have obtained credit either to start the unit or for modernisation.

The ratio of total borrowing from institutional sources to total investment is the highest in Engineering and allied industries and lowest in Textile based industries.
80.6 percent of the SSIs have pledged securities in the form of immovable properties like land and building.

On an average employment generated per unit is worked out to be 10 persons. Agro based, Textile based and Engineering and allied industries are more labour intensive compared to Chemical and Mineral based industries. It is found that though capital employed per worker is lowest, the employment generation is the highest in the case of Engineering and allied industries.

The share of hired labour in total employment generated by the SSIs is 96.96 percent. There is complete absence of family labour in the case of Chemical and Mineral based industry.

All the types of industries are either managed by entrepreneurs themselves or by managing partners or by paid managers. Only in mineral based industries paid managers are not appointed.

Sale by direct contact is the popular method of marketing. The next popular method is sale by quotation. Chemical and Engineering and allied industries resort to dealers to market their products.

Most of the SSIs in the district are heavily oriented to the local market. These units sell either to ultimate consumers or to local dealers. Only one unit, out of the total units surveyed, exports its product.
The average tentative profit per unit is worked out to be Rs.6.83 lakhs. The profit per unit is the highest in the case of Chemical based industry and lowest in the case of Mineral based industry.

Using two-way ANOVA, it is found that in spite of significant variation among the products of SSIs, there is no significant difference among the difficulties viz., complicated questions, cumbersome procedures, high margin money, formalities leading to delay, security stipulations, rules and regulations of lending institutions in obtaining financial assistance by the entrepreneurs.

Regarding the expectations of the entrepreneur for the betterment of SSIs, 50.6 percent of them have assigned highest score to stable government policies and have ranked this as their prime expectation. 48.4 percent of them have ranked financial assistance as their next expectation.

The application of discriminant analysis to distinguish between two forms of organisation (namely sole proprietorship and partnership concern) has concluded that the partnership concern has a positive group mean of 57.68 percent and the sole proprietor concern has a negative group mean of 42.32 percent. This shows that partnership concern is a better performing unit than sole proprietor concern in the study area.
Using Factor analysis, fixed capital, working capital, own fund, volume of production, turn over and value of security are the favourably identified variables that add to the strength; the variable borrowed fund is associated with the weakness of the SSIs. Forms of organisation and capacity utilisation are the factors that can be attributed as internal opportunities, which in turn diverts the external opportunities in favour of the industrial units thereby enhancing the performance of the SSIs.

In Salem District, mineral crushing unit produce three varieties of products namely rough type powder, nice powder and fine nice powder. Using LPP model, it is found that the SSIs reaped the maximum profit by producing the third variety of fine nice powder.

7.2. SUGGESTIONS

As empirical studies have proved that partnership concerns are better suited to face risk and uncertainties, the establishment of such organisations by pooling the skills and spreading the risks may be encouraged in the case of SSIs with an eye over company type of organisation.

A small entrepreneur has to be a jack of all trades. He has to be a key factor in organising production, arranging finance, market related activities besides maintaining a positive public relations. All these traits require constant and continuous ability enhancement, which may be effectively nurtured by providing necessary training and
orientation programmes. Establishing district training centres at all district head quarters may very well facilitate this.

As these are the days of globalisation, leading to ever increasing competition in economic environment, there is an urgent need to update technology. As technology is the engine of progress, the concern may be made more competitive through constant introduction of technology in expansion and diversification activities. It is found from the study that the lending institutions are more interested in new projects. So, they may be directed and encouraged to extend their assistance to suit the diverse credit requirements of SSIs. This will go a long way not only in modernisation process but also in enhancing their competitiveness.

As the Salem District has got potentials for developing various types of industries such as agro, textile and mineral, a certain sort of cluster based development programmes may be initiated. Specialised industrial estates with common facilities that will suit every cluster can be developed so that all industrial units can harness the benefit of external economies.

As modern industries rely on borrowed funds, the SSIs in Salem District may be made to rely more on funds from organised financial institutions such as Commercial and Development Banks, with the aim to attain a reasonable debt equity ratio of 2:1 in order to enhance their profitability at desired levels.
It has been observed that some large and medium units have floated small units with the intention of availing benefits pertaining to small-scale units such as tax holidays, availing the permissible raw material quota at concessional rates etc., which deprive the genuine SSIs of their rightful and legitimate dues. To sustain the SSIs there is an urgent need to curb these tendencies and encourage a united approach of all SSI entrepreneurs along with due support from the government.

More modifications and simplifications of the procedural formatives and formalities regarding the issue of loan may render immense help to the not much educated small entrepreneurs.

There is difficulty in employing separate accountants for maintaining stock registers and day books in most of the SSIs due to financial constraints and so a single set of such employees for a few or a group of SSIs in the same line of activities, doing business in the same vicinity may be economical and more beneficial.

The system of keeping the stocks, in the form of finished, semi-finished and raw material, under lock and key system by lending institutions as a collateral against their loans, affects the business interest of SSIs by restraining these units in the path of their instant decision making. Ultimately, this will affect the effective production with reduced cost and rational use of the positive market conditions. So this system shall be done away with and substituted with a central
warehouse, accessible to both the lender and the borrower and the receipt issued by the warehouse may be taken to be an instrument of guarantee for both the parties.

The Delayed Payments Act of 1993 to facilitate the smooth running of the SSIs, has not yielded the desired results. As such, with a view to facilitate availability of working capital for the smooth functioning of SSIs, the banks may be advised to provide the much needed working capital assistance against bills due for collection.

As the first generation entrepreneurs are not in a position to substantiate their loan claims with collateral assets that are desired by lending authorities, it is suggested that the factors such as the technical soundness of the project, integrity of the entrepreneur, social and economic value of the project etc., may be taken into account with positive sanctions at the earliest which is needed for the overall development of the economy and ultimately of the society. Again, the quantum of margin money required may either be set aside or at least be reduced considerably as it is beyond their financial capacity to meet it out.

In order to encourage the smooth and healthy functioning of SSIs, branch level decision-making shall be made more autonomous and the Heads at the concerned level must make instant decisions by using their discretion. Further, the long wait for sanction may be eliminated and cost escalation if any in instituting an SSI, may be
avoided and the new entrepreneur may be directed to harness economy to avoid accelerated inflationary tendencies.

There is a practice on the part of a few unscrupulous entrepreneurs to sublet the industrial sheds allotted to them which hampers the interest of genuine entrepreneurs. Care should be taken to ensure that allotments are made only to actual and interested entrepreneurs and misuse should be discouraged and prevented.

The preferential purchase scheme as pronounced by the Government to prefer products of SSI units for their purchase is all the more praiseworthy. But there seem to be practical bottlenecks in implementing these proceedings effectively. Ultimately the SSI units are the sufferers. Hence, the need of the hour is to give due thought to the practical difficulties of both the parties and a smooth sailing shall be ensured to the satisfaction of both. This will in fact go a long way in furthering the well-being of SSIs.

In addition to the present on going women empowerment and encouragement to women entrepreneurs in different ways, marketing assistance to them should be provided through preferential exposure for their products in Exhibitions and Buyers-Sellers Meets to reap supplementary effects.
In order to face stiff competition, the superiority of the quality of the product must be ensured through Quality Certification measures. This measure will help the SSIs to boost up their standards besides an urge to maintain their quality.

Both the SSIs and financial institutions rely on the other for achieving a certain amount of success in their respective field of activity on their part. However, the lending institutions are constrained to extend financial assistance as required by SSIs at the existing framework. Inspite of their scrupulous efforts, the lending institutions are forced to encounter an alarming situation due to mounting Non-Performing Assets of SSIs. This goes against their principle of constant liquidity which is a must for judging their performance. As they are doing business in other peoples money they are also answerable. Assessment of the qualitative aspects of lending in future may help them contain and check non-performing assets. Thus, they cannot only safeguard their interest but also help SSIs to be on their rails. In doing so they may be provided with instruments of additional safeguards to prevent diversion of funds to all and sundry purposes which are in vogue currently. This attempt will help smoothen their attitude in providing much needed on the spot credit requirements of SSIs then and there without delay of any sort.
No doubt the SSIs deserve wholehearted sympathy and co-operation for their active and efficient performance with an eye not only on their well-being but also on that of Nation building as a whole. Anyhow, they cannot be exonerated of all their lapses in the matter of responding to repayment schedules as prescribed by the financial institutions. As they are supposed to plough back the funds, any neglect of repayment by SSIs will not only hamper the financial health of the lending institutions but also of the general tempo of all-round development. Furthermore, there must be a certain amount of integrity and honesty in utilising the funds borrowed for the purpose for which they are lent.

Hence, there is an urgent need to incorporate and synthesise individual and social interest for a value based economic advancement. Moral values shall not be sacrificed for economic reasons.

The financial institutions and SSIs are supposed to be the pillars of development in a developing economy like India. They shall complement each other in such a way that each can supplement the inadequacies of the other and ultimately benefiting both and the nation. They may strive to understand the predicament of the other and work in cohesion in the interest of all concerned. It is no doubt that the suggestions given in the study will be of more help and guidance to the policy-makers in this field and other personalities concerned if adopted in the future policy formulations.
7.3. SCOPE FOR FURTHER RESEARCH

In the present study, despite the limitation of time, resources etc., every attempt has been made to make it a comprehensive one. Of course, there is immense scope for further research as suggested below.

1. An analysis of the causes for sickness in SSIs along with ameliorating measures can be taken up.

2. A study on the impact of globalisation on the development of SSIs may be attempted.