CHAPTER:-VIII
DATA ANALYSIS OF BANKERS & IBE’s

I
Experiences of Bankers While Financing

- Introduction
- Finances to Medium and Small IBEs
- Types of Loans and Advances by Bank
- Help from Bank in emergency
- Duration for Disposal of IBE’s Proposal
- Financial Discipline
- Purchase and Discounting of Bills of Exchange:
- Diversion of Money
- Time lag Reduction in Loan sanction
- Reduction in Paperwork
- Are Educated IBEs Cooperative?
- Speedy Realization of Bills
- Sources of Working Capital
- Preference to Overdraft
- Current Ratio Improvement
- Determining Creditworthiness
- Sources of Credit Information
- Overdraft:

II
IBEs’ Feedback about banking services

- Introduction
- Facilities from Bank
- Preference for Cash Credit
- Difficulties Faced in availing of Facilities
- Bankers’ willingness to help the customers
- Customer Friendliness
8. 2

- Simplification of Procedures
- Are the bankers liberal in Sanctioning of Loans (?)
- Adequacy of loan amount (?)
- Gap in Loan demanded and sanctioned
- Time Reduction in Loan procurement
- Purpose to Use Increased Borrowings
- IBEs Satisfaction Over Bank Services
- Alternate to Bank Borrowing
Chapter:-vii
Data Analysis of Bankers & IBE’s

I
Experiences of Bankers While Financing

Introduction
One of the primary functions of a bank is to grant loans. Whatever money the bank receives by way of deposits, it lends a major part of it to its customers by way of loans, advances, cash credit and overdraft. Interest received on such loans and advances is the major source of its income. The banks have a major contribution to the economic development of the country by granting loans to the industrial and agricultural sectors. The banks make loans and advances out of deposits, received from their customers. Most of these deposits are payable on demand. As such the bank owes a greater responsibility to the depositors. Hence he should be extremely careful while granting loans. The following are the forms of loans and advances:

i. Loans: - LT/MT
ii. Cash credit
iii. Overdraft
iv. Purchase and discounting of bills of exchange.

This chapter is divided into two parts. The first part delineates the Experiences of Bankers, while Financing and the second part deals with IBEs’ Feedback about banking services. 26 commercial / cooperative branches out of 263 i.e. 10 % of the aggregate branches from the Beed district were visited. All these branches were located either in the Beed city or at the talukas places of the district. It was a conscious decision of the researcher to visit only those branches which were engaged in financing IBEs during the last five years. The required information through questionnaire was collected with the help of duly selected respondents /bankers. All the questions were asked to the sampled respondents by using the experience survey technique and have been analyzed in the same order
as they appear in the questionnaire. Researcher has endorsed his observations at the end of every question based on the information provided by the respondents.

**Finances to Medium and Small IBEs**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: - Field Survey

- 92% of the branches which responded confirmed having many small and medium units on their loan portfolio.
- 8% of the branches told that they do not have many small and medium industries on their loan portfolio. However they are having more non industrial finance like personal loans, consumer loans etc.

**Types of Loans and Advances by Bank**

Loans and advances are of different types. It is found that all the bank branches under survey have been releasing the loans in different forms as classified ahead.

**A. On the Basis of Object or Purpose:** For which purpose a loan is being taken? It may be for the following purposes:

- Commercial Loans: This loan is taken to meet short term requirement of capital e.g., working capital.
- Consumer Loan: This loan is taken to finance household goods like fridge, T.V., scooter etc.
- Agricultural Loan: Such a loan is taken by the farmers to meet their short term requirements like buying seeds, fertilizers, insecticides etc.

**B. On the Basis of Time**

- Short Term Loan: Such a loan is taken for a period of less than one year. For example, to meet working capital requirements.
- Medium Term Loan: Such a loan is taken for a period ranging from 1 year to 3 years. For example, to purchase equipments for professionals or furniture etc.
- Long Term Loan: Such a loan is taken to meet long-term requirements from 3 years to 20 years or more. For example, loans to purchase land, building, plant and machinery etc. However, banks provide long-term loans to a very limited extent only.
8. 5

**On the Basis of Security**

- **Secured Loan**: Such a loan is granted on the security of tangible assets. Sec. 5 (a) of the Banking Regulation Act, 1949, defines a ‘secured loan or advance’ as a loan or advance, made on the security of assets, the market value of which is not at any time less than the amount of such loan or advance.

- **Unsecured Loans**: Such a loan is granted without any security. According to Sec. 5 (a) of the above Act an unsecured loan or advance means a loan or advance not so secured.

**D. On the Basis of Form**

- Loan,
- Cash credit, and
- Overdraft.

**Help from Bank in emergency**

| Help from Bank on Emergency Basis (N=26) |
|---|---|---|---|
| Yes | No | Sometimes | Not Responded |
| 20  | 2  | 2         | 2           |

Source: - Field Survey

- Seventy six percent of the bankers felt that they are meeting the emergency needs of the IBEs on emergency basis.
- Eight percent of the bankers did not respond to this question.
- Eight percent do not respond to IBE’s urgent needs on emergency basis.
- Eight percent were candid to admit that sometimes they do meet the needs of the IBEs on emergency basis. It is not always possible to meet all the needs of all the IBEs on emergency basis.

It is not possible to meet all the needs of all the IBEs all the times. Banks’ guidelines do not confer unlimited powers to branch managers. They have their limitations. Still majority of them were found willing to help their IBEs even at the expense of exceeding their power. It is better that the banks define what constitutes an emergency and what actions can be taken by branch managers, so that they exercise prudence while exceeding their prescribed authority.
In order to meet the emergency needs the banks sanctions a cash credit to IBEs. Cash credit is the most popular method of lending by the banks in the Beed district. It accounts for more than two third of total bank credit. Under cash credit system, a limit, called the credit limit is specified by the bank. A borrower is entitled to borrow up to that limit. It is granted against the security of tangible assets or guarantee. The borrower can withdraw money, any number of times up to that limit. He can also deposit any amount of surplus funds with him from time to time. He is charged interest on the actual amount withdrawn and for the period such amount is drawn.

*Commitment Charges:* To discourage the borrower from keeping large funds idle within the sanctioned limit bank levies commitment charges. This also helps the bank in two ways. Firstly, it compensates him for the loss on idle funds kept by him within the credit limit sanctioned. Secondly, it facilitates better credit funds management. It will be applicable to borrower having a working capital limit of Rs. one crore or more. The rate of commitment charges is 1% per annum on the unutilized portion of cash credit limit sanctioned. However, no such charges will be levied, if the unutilized quarterly operating limit is up to 15%. Again, it will not be applicable to sick units, export credit or export incentives, inland bills and credit limits granted to commercial banks, cooperative banks and financial institutions.

**Duration for Disposal of IBE’s Proposal**

Table 8.3

<table>
<thead>
<tr>
<th>Week</th>
<th>Fortnight</th>
<th>Month</th>
<th>&gt; A month</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>16</td>
<td>10</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: - Field Survey

- No bank informed that they dispose of a loan proposal within a week.
- 62% bankers informed that they are able to dear an IBE’s proposal within a fortnight.
- 38% took about a month to decide on an IBE’s proposal.
- 0% bankers took more than a month to sanction a proposal.
This analysis shows that, the banks are in a position to dispose of IBE’s proposal within a reasonable period. They also, do not show undue haste in sanctioning the proposal. The fact that 62% bankers are able to clear proposals within a fortnight speaks well of banks’ efficiency. However, this should match with the customers’ point of view. The banker need longer time in sanctioning the loans since he has to observe the following general principles while sanctioning the loans to IBEs

A banker uses his third eye and third ear (although the God has given him only two eyes and two ears) while granting loans. In other words, he is extra careful while granting loans; he observes the Principles of Sound Lending

1. Safety
2. Liquidity
3. Profitability
4. Diversification
5. Object of loan
6. Security
7. Margin Money
8. National Interest
9. Character of the borrower

**Financial Discipline**

An IBE may be considered to observe financial discipline if he meets some or all of the following criteria:

(i) There is no over drawl in the account.

(ii) Balance sheet is healthy i.e. liquidity, profitability and equity is comfortable.

(iii) Submission of information is in time.

(iv) There is a steady growth in sales and operations etc.

(v) There is no diversion of funds from the business
Table 8.4
Financial Discipline among IBEs: Percentage of Disciplined IBEs (N=26)

<table>
<thead>
<tr>
<th></th>
<th>&lt; 25%</th>
<th>25-50%</th>
<th>50-75%</th>
<th>&gt; 75%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6</td>
<td>6</td>
<td>8</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: - Field Survey

- 23% bankers felt that only less than twenty five percent of their borrower IBEs are observing financial discipline.
- 23% felt that between 25-50% of the borrowers observe financial discipline.
- 31% felt that between 50-75% of their IBEs are having financial discipline.
- 23% felt more than 75% of the borrowers maintain financial discipline.

It is observed from above that, there is no consensus among the Bankers about financial discipline being observed by their IBEs. There is no standard yardstick to define what exactly constitutes financial discipline. Each banker may have his own judgment about this.

**Purchase and Discounting of Bills of Exchange:**

The bank provides the customers with the facility of purchasing and discounting their bills receivable. This is a method of financial accommodation offered by the banker to the customer. The bank permits the customer to discount his bills receivable and have the value of the bills credited to his account. The bank charges discounting charges on the face value of the bills. It waits till the maturity of the bill and presents it on the due date to the drawee for payment. After collection, the proceeds of the bill are appropriated towards the loan and interest due by the customer. If the bill is discounted, the amount will be recovered from the customer.

Table 8.5
Preference to Use Bill Finance (N=26)

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: - Field Survey
8. 9

- About 69% bankers were in favor of their IBEs using bill finance for their sales finance requirement.
- 31% were in favor of allowing cash credit or overdraft facilities to their IBEs.

This shows that majority of bankers are convinced about the virtue of facilitating the bill finance. Almost all the committees set up for suggesting a scientific way to sanction working capital finance have suggested the use of more bill finance, mainly to ensure and utilization of funds and self liquidating character of this finance. Of course, the bankers who are yet to sharpen the idea of using bill finance are probably suspicious of administrative burden involve in bill financing at the branch level. The work involved is more if there are large numbers of bills of small amounts.

Diversion of Money

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Some</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversion of Money</td>
<td>14</td>
<td>10</td>
<td>2</td>
</tr>
</tbody>
</table>

Table 8.6
Diversion of Money (N=26)

Source: - Field Survey

- 54% of bankers were apprehensive that small and medium industries have an inclination to divert funds from business to either acquire fixed assets or to use funds for other domestic and personal purpose. This leads to enlarge the difficulties in recoveries of loans
- 38% of bankers did not think that their IBEs are in a habit of diverting funds from the business.
- 8% of bankers felt that some borrowers have a tendency to divert funds causing late loan repayment.

Diversion of funds from business is a serious matter. This deprives an industrial unit the life and blood of their business. This means that unit will face shortage of funds for its production needs. This affects the functioning of a unit adversely and as a result leads to a situation where borrower approaches his bank frequently for more money and over drawls.

Time lag Reduction in Loan sanction
8. 10

Table 8.7  
Time lag Reduction in Submission and Sanction of Proposal (N=26)

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: - Field Survey

- 100% bankers felt that is an improvement in timely sanction of working or fixed capital facilities to the borrowers.
- No banker thought otherwise.

A unit can become sick if there is delay in sanctioning the facilities. It is akin to old axiom that ‘justice delayed is justice denied’. It is a healthy sign that all bankers are now aware of the importance of timely sanction and release of funds to the units. This may be due to the fact that now day’s bank managers enjoy more sanctioning power than in the past. This eliminates or reduces some channels of decision making. Since the needs of small and medium units are low, there may be quick disposal of IBE’s proposals at the branch level. The early release of loans, however, may not bring about the timely recovery of loan, as reported by the many bankers.

**Reduction in Paperwork**

Table 8.8  
Reduction in Paperwork (N=26)

<table>
<thead>
<tr>
<th>Not Much</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>19</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: - Field Survey

- 69% confirmed that there is reduction in paperwork.
- 23% bankers felt that there is hardly any reduction in paperwork.
- 8% bankers informed that though there is reduction in paperwork but more could be done to improve the situation.

Completions of papers at the time of considering requests lead to a Lot of delay in assessing the credit request. Loan documentation is another area that causes lot of delay in releasing the funds. It is apparent that most of the banks have taken steps to reduce and simply paperwork. A discussion with some of the
branch managers reveals that now-a-days banks have reduced their requirements of information from the borrowers. Even the committees set up by Reserve Bank to address the problems of small and medium industries have been suggesting progressive simplification of bank’s procedures. The decision about granting credit to this sector is now based on certain percentage of projected turnover. This reduces the detailed analysis of borrower’s application.

Banks have undergone tremendous changes in the last decade. They have now educated workforce and most of the old guards without much formal education have retired. Indian banking has also performed its systems and paperwork over the time. They are now reaping the benefits of ‘learning curve’. This could be the reason for reduction in paperwork.

Many times the lessening in the paperwork may show the way to escape the defaulters from the loan obligations in want of documents that had to be collected by the bankers while sanctioning the loans.

**Are Educated IBES Cooperative?**

<table>
<thead>
<tr>
<th>Table 8.9 Educated IBEs are Cooperative (N=26)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>-----</td>
</tr>
<tr>
<td>24</td>
</tr>
</tbody>
</table>

Source: - Field Survey

- 92% bankers think that educated IBEs are more cooperative and easy to deal with. There was no banker who was otherwise on disagreement
- Only 8% bankers felt that educated IBEs are location specific. In small towns, educated IBEs are less in number.

Most of bank managers and bank official are educated and Hindi, Marathi and English speaking. It appears that communication gap gets reduced considerably when people interact in the same language. They can interact with IBEs more freely. In our country bank official are transferable throughout the country. In a country like ours, where language changes after every 150 or 200
kilometers, developing rapport with an IBE becomes difficult if one does not communicate in his language.

Bank authorities may look into this aspect and restrict transfer of bank officials in the same language speaking area to improve IBE interaction.

**Speedy Realization of Bills**

**Table 8.10**

<table>
<thead>
<tr>
<th>Fast Realization of Bills (N=26)</th>
<th></th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>24</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: - Field Survey

- 92% bankers informed that bill realization has become fast. Fast realization of bills is crucial to effective utilization of bill limit.
- Only 8% bankers were of the opinion that there has not been any improvement in this area.

Due to advancement in communication technology and availability of courier services there has been improvement in realization of bills. Banks have also become more efficient in bill realization by imposing self discipline. Banks have to pay interest on the bills if realization is delayed beyond a particular time.

Since bill finance is self liquidating, a faster realization of bills increases the velocity of money for borrowers. They can either utilize existing limits for more sales financing or they can manage existing level of sales with less bill discounting facilities. Its net implication is improved liquidity and profitability for borrowers. This results into timely repayment of loan installments.

**Sources of Working Capital as per Bankers’ perception**

**Table 8.11**

<table>
<thead>
<tr>
<th>Number of Bankers envisaging Sources of Working Capital Finance to IBEs other than Bank (N=26)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money lenders/ Private financers</td>
</tr>
<tr>
<td>NBFCs</td>
</tr>
<tr>
<td>Trade credit</td>
</tr>
<tr>
<td>Friends and relatives</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>Not responded</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>14</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>8</td>
</tr>
<tr>
<td>6</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>54%</td>
</tr>
<tr>
<td>38%</td>
</tr>
<tr>
<td>31%</td>
</tr>
<tr>
<td>23%</td>
</tr>
<tr>
<td>38%</td>
</tr>
<tr>
<td>15%</td>
</tr>
</tbody>
</table>

Source: - Field Survey
In our sample size of 26 respondents (Bankers), the researcher, however, obtained more than 26 responses. This was due to some respondents suggesting more than one alternate source of finance. The researcher has assigned equal weights to all the responses. The fact that a respondent suggested more than one alternative does not dilute the importance of that factor. Total of each response is then divided by total number of respondents. This makes the total of all percentages of all alternatives more than 100. This analysis highlights the relative importance of those factors which are mentioned by majority of respondents.

- Money lenders / Private financier emerged as the most popular alternate choice of bankers, notwithstanding high rate of interest being charged by them. 54% banker made this suggestion.
- 38% bankers suggested NBFC finance as next best alternate choice. This again is a very costly proposition.
- 31% bankers suggested recourse to trade credit.
- 23% bankers suggested borrowings from friends and relatives as an alternate.
- 15% bankers did not make any suggestion.
- 38% bankers made other suggestion, all of which are not applicable to small and medium industries.

The above analysis shows that the following source of finance other than banks are perceived as the most functional to the business needs of IBEs:

- Money lenders / Private financiers
- NBFCs
- Trade Credit
- Borrowings from friends and relatives

The other alternatives suggested were:

- Commercial paper
- Call money market
- Repot transaction
- Advance from buyers
- Prompt realization of sundry debtors.

Except for prompt realization of sundry debtors none of other alternates are applicable to small and medium industry. Access to commercial paper, call money market and repot transactions is out of bound from small borrowers. Advance from buyers can be a source of finance only for well established firms with brand equity. Small and medium scale industries struggle to create a niche for themselves. Prompt realization is a good suggestion but it is doubtful if these
units are in a position to change their credit terms to effect an early realization of their dues. There is a minimum credit period below which no person would buy from them. They have to fall in line with trade and industry norms. The problem is more so if these units are dealing with large industries / Public sector undertakings / Government departments. The problem was highlighted by Chore committee way back in early eighties. The fact that even today bankers mention about it is a sad commentary about delayed payments by large enterprises to small-scale industries.

Factoring has not been advocated as an alternate source by any one of the learned bankers in the sample. This can be an alternate source of finance especially for those units who are supplying goods to large undertakings / enterprises.

**Preference to Overdraft**

<table>
<thead>
<tr>
<th>Preference for Overdraft Facility (N=26)</th>
</tr>
</thead>
<tbody>
<tr>
<td>**</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>12</td>
</tr>
</tbody>
</table>

Source: - Field Survey

- 46% bankers were in favor of granting overdraft facility to borrowers.
- 46% respondents were in favor of giving demand loan facilities to their borrowers.
- 8% bankers did not respond to this question.

If one banker who did not respond to this question is ignored, the Bankers were divided equally for their preference for giving overdraft and demand loan facilities to their borrowers. Overdraft is an excellent facility from the point of view of IBEs because he can utilize the funds according to his need and requirement. Surplus if any is used to reduce balance in the overdraft account to reduce his cost of borrowing. A borrower is free to use excess funds according to his wish. This offers him an excellent opportunity to divert funds for purposes
other than genuine business requirements. The problems of funds management and planning are passed on to bankers.

The use of loans by IBEs instead of overdraft is good from banker’s point of view because the borrower would be careful in planning his funds requirement, since It is a profitable proposition for banks because besides earning interest on full loan amount any excess cash with the borrower will be routed through his current account, which is another cheap source of funds for the banks. This reduces the overall costs of funds for the bank and hence the bank insists more for loans than the overdraft.

**Current Ratio Improvement**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Not Responded</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>8</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: - Field Survey

- 61% bankers informed that liquidity of the IBEs’ business dealing with them is improving.
- 31% bankers did not feel any perceptible improvement in the liquidity position of their borrower’s accounts.
- 8% banks did not express opinion about this aspect.

Improvement in liquidity can be brought about either by inducing fresh capital or by ploughing back profits in the business. On the whole situation seems to be improving.

**Determining Creditworthiness**

A banker has to be very careful while granting loans. There is a greater risk in unsecured loans. Even in the case of secured loans; the banker should carefully examine the creditworthiness of the borrower. The following factors are kept in mind by all the sampled bankers while determining the creditworthiness of the borrower:

- Character: The most important factor to be carefully examined is the character of the borrower. Character is the sum total of honesty, integrity, credit-worthiness, capacity to repay, sense of responsibility, good habits
and reputation enjoyed by the customer. If he possesses these qualities he bears a good character and can be considered creditworthy for the loan.

- **Ability to Run the Enterprise:** If the borrower is fully capable of running the enterprise and has necessary skill and experience, his chances of success are high. As such there is little or no risk in granting loans.

- **Adequate Capital:** An entrepreneur should have an adequate capital of his own. If his capital is inadequate there are greater chances of failure of his business. As such, the banker will not be able to recover his loan in such a situation.

- **Soundness of the Project:** The banker should carefully examine the project report to ascertain its viability and soundness. If the project is sound and viable the banker will be able to recover his debt. On the other hand, if the project is unsound the project will fail. The banker will not be able to recover his loan.

**Sources of Credit Information**

A banker needs credit information about a customer, his enterprise, industry etc., in order to assess his creditworthiness. He should cross check the information collected by him from different sources. In India there are no specialised agencies which can provide the necessary information. In western countries there are specialised agencies which supply credit information. However, a beginning has been made by the Reserve Bank of India in the field of credit information collection by establishing a Credit Information Bureau. Therefore, the banks have to make their own arrangement for collecting credit information. Credit information can be collected from the following sources:

- **The Borrower:** The starting point is the borrower himself. He is asked to fill up an application form. The form should be carefully devised to elicit full information from the customer. The form should be as detailed as possible. Besides, his account books pass book and references from his friends and relations should be carefully examined and cross checked.

- **Credit Information Bureau:** As pointed out earlier the Reserve Bank has established a Credit Information Bureau. The Reserve Bank is empowered to collect credit information from the banks under Section 45-C (i) of the Reserve Bank of India Act, 1934. Such credit information is collected in respect of credit limit of Rs. 5 lakhs and over in case of secured advances.
8.17

Such limit for unsecured advances is Rs. one lakh. This information is available in consolidated form specifying nature of facility, security, charge and outstanding balance. The information will enable the bank to know the extent of borrowing by the applicant. However, this information is of little or no use. It is available in respect of big customers only and is very scanty.

- **Exchange of Credit Information:** This is the most important source of credit information and is based on the customary usage and practice prevalent in the banking industry. However, exchange of credit information amongst banks is of limited use. Because of fear of losing legal protection, banks are reluctant to exchange free and fair credit information. The Reserve Bank of India (Amendment) Act, 1974 has granted statutory protection to exchange freely credit information by the banks amongst themselves. Moreover, the scope of the term ‘credit information’ has been enlarged to include information relating to the means, antecedents, history of financial transactions and the creditworthiness of the borrower.

- **Enquiries from Traders and Businessmen in the Same Trade:** Credit information can be collected through enquiries made, from the fellow businessmen and traders. However, these too will be of limited use. A businessman will be reluctant to give fair and frank credit information about his fellow trader or businessman. However, such information may be useful, if it is cross-checked.

From the above discussion, the government, the banks and all concerned seriously consider the situation and necessary steps to be taken before granting loans and advances. The bank dues should be treated at par with any other government dues. Every bank manager is given adequate powers to take possession of the securities before the borrower has any chance to dispose of the same. The general feeling that one need not repay the bank loan and can get away with it should be erased from the minds of the people.

**Overdraft:**

One of the main advantages of a current account is that, its holder can avail of the facility of overdraft. An overdraft facility is granted to a customer on a written request. Sometimes, it may be implied where a customer overdraws his account and the bank honors his cheques. [*Bank of Maharashtra Vs M/s United Construction Co. and Others (1985) Bom. 432 A.I.R.*] The bank should obtain a written request from the customer. He should also settle the terms and conditions
and the rate of interest chargeable. It is usual to obtain a promissory note from the customer to cover the overdraft.

Almost all the IBEs from the Beed district prefer to the overdraft rather than cash credit facilities due to its unique features as mentioned ahead.

Ordinarily, in practice no distinction is made between cash credit and overdraft. The reason is that their purpose and nature is almost the same. In spite of this there are the following points of distinction between them:

i. **Period:** The main difference between cash credit and overdraft is that the former is granted comparatively, for a longer period, whereas overdraft is a temporary facility.

ii. **Opening Separate Account:** For granting cash credit it is necessary to open a new account. No new account is necessary for overdraft.

iii. **Current Account:** Overdraft facility is granted to a current account holder only. It is not necessary to be a current account holder, to avail of the facility of cash credit.

iv. **Control of Central Government:** The Central Government exercises strict control over cash credit. There is no such control on overdraft.

v. **Commitment Charges:** In case of under-utilization of cash credit a customer has to pay commitment charges. No commitment charges are payable in case of overdraft.

vi. **Form of Security:** Cash credit is ordinarily granted on the security of goods by way of pledge or hypothecation. Overdraft is granted on the personal security of the borrower or financial securities viz., shares, bonds etc.

II

**IBEs’ Feedback about banking services**

**Introduction**

After consultation with bankers from the Beed City, 20 IBEs having a good or “A” Grade Record with bankers of repayment for more than five years were selected under the purposive sampling technique for the field investigation and the necessary questions were asked to know their experiences while transacting with the banks. The information elicited from these 20 sampled IBEs provides the good side of the entrepreneurs and their relations with the banks on one hand and other hand the same information helps to visualize the status of
other entrepreneurs confronting the pessimistic environment including failures.

It may be understandable from the fact sheet following this paragraph that all the units of IBEs visited by the researcher fall under the category of small-scale industries. Comments, observations and conclusions that are drawn from the study are associated with this sector only. All questions have been analyzed in the same order as they appear in the questionnaire. Observations of the researcher are made at the end of every question based on the details available

Facilities from Bank

Table 8.14
Type of Facilities Being Enjoyed (N=26)

<table>
<thead>
<tr>
<th>Type of Facilities Being Enjoyed</th>
<th>N=26</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>14</td>
<td>70%</td>
</tr>
<tr>
<td>Overdrafts/cash credit</td>
<td>14</td>
<td>70%</td>
</tr>
<tr>
<td>Bills / Cheques discounting</td>
<td>8</td>
<td>40%</td>
</tr>
<tr>
<td>Letter of credit/Bank Guarantee</td>
<td>6</td>
<td>30%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>42</td>
<td></td>
</tr>
</tbody>
</table>

Source: - Field Survey

The number of responses is more than the size of the sample. This is due to the fact that many borrowers enjoy more than one facility from the banks. Percentage has been calculated facility wise on the basis of total of responses. Total of percentage do not add up to one.

- 70% of the respondents are enjoying loan facilities for their units.
- 70% of the respondents enjoy overdraft /cash credit facility for working capital requirements.
- 40% borrowers are also enjoying bills and cheque discounting facilities for their sales finance.
- 30% borrowers are utilizing non fund based facility of letter of credit and bank guarantee for their operations.
Bank loans are a versatile source of funding for business. These loans can be structured as short term or long term, fixed or floating rate, demand or with a fixed maturity. Normally banks finance loans with a maturity of less than one year. These loans constitute more than half of all commercial loans. These are used for financing working capital needs which may be for building up of inventory and / or receivable.

A borrower requires combination of all the above facilities. Within the broad structure of facilities suggested in the question different banks have different nomenclature for the facilities offered.

In Indian context loans are generally given to acquire fixed assets. Repayments are spread over long period and principal amount is recovered in affordable installments.

Overdraft or cash credit is the most prevalent system of credit delivery for working capital finance. Bills and Cheque discounting facilities are offered to support the sales or to manage receivables.

Letter of credit/Bank Guarantees are specialized credit products. A letter of credit represents a conditional promise to pay. It substitutes the bank’s credit for that of its customers by providing a guarantee of payment to the third party upon the satisfaction of certain conditions.

**Preference for Cash Credit**

<table>
<thead>
<tr>
<th>Preference for Cash Credit to Loan or Bill Discounting (N=26)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>26</td>
</tr>
<tr>
<td>No</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: - Field Survey

100% borrowers showed preference for cash credit facility when compared with loan or bill discounting facility for working capital financing. No borrower showed inclination to avail loan or bill discounting facilities.

The system of cash credit permits the borrowers to keep his surplus funds in the bank and also enables him to draw funds when required. It relieves him of the responsibility of making any conscious efforts to manage his cash resources. On account of stress on the security aspect, there has not been a conscious effort
on the part of banks to verify the end use of funds. This facilities diversion of funds for unapproved purposes and the lending banker becomes aware of it after considerable lapse of time.

The limits under cash credit system are revised on an annual basis. Even annual reviews are delayed. In the case of loans a review is in built into the system. In respect of bill finance there is less need for such a review as the retirement or return of the bill itself is known in a short period.

Cash credit system offers lot of flexibility. It enables the borrowers to recycle the funds quite efficiently, and they do not have to keep surplus idle funds. This system is also operationally convenient for the customers as well as banks. It operates satisfactorily, during normal times.

Considering all the advantages of cash credit system it is no wonder to observe that 100% borrowers preferred cash credit system to either short term loan or bill financing system.

Even though both bankers and borrowers prefer to use cash credit system over any other system of credit delivery but committees after committees have been recommending switch over to loan or bill financing system since early seventies because it becomes difficult for banks to control the credit portfolio. This system results in fixing higher limits than is required for most part of the year. This offers an opportunity to borrower for miss-utilization of the unutilized gap.

The above discussion on cash credit may be summarized as

Merits of Cash Credit

A. Flexibility
The greatest advantage of cash credit method is that it is flexible. A customer can withdraw and deposit money any number of times.

B. Economical
The scheme is economical. A borrower has to pay interest only on the amount borrowed and that too for the period the amount is actually withdrawn. Unlike a loan he is not required to pay interest on the entire amounts of the loan.

C. Less Formalities
As compared to the loan method, there are less formalities, and frequent documentation is avoided. Moreover, documentation in this method is less complicated.

Demerits
Cash credit method is not without demerits.

A. Over Borrowing
Credit limits are fixed one in a year. It gives rise to the tendency of fixing higher limits to cover contingencies. Thus it encourages over-borrowing.

B. Division of Funds
The bank has control over the amount of credit sanctioned. It does not have any control over the use of such funds. Consequently the borrower diverts the funds, without the knowledge of the bank, for unapproved purposes.

C. Non-utilization of Funds
In practice a large amount of sanctioned cash credit limit remains unutilized. Levy of commitment charges has failed to put an end to this weakness because it is levied on cash credit limit of Rs. one crore or more.

Difficulties Faced in availing of Facilities

<table>
<thead>
<tr>
<th>Types of Difficulties Faced in availing of Facilities (N=26)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
</tr>
<tr>
<td>B</td>
</tr>
<tr>
<td>C</td>
</tr>
<tr>
<td>D</td>
</tr>
<tr>
<td>E</td>
</tr>
<tr>
<td>F</td>
</tr>
</tbody>
</table>

Source: - Field Survey

Some respondents have expressed more than one difficulty. This makes the total of percentage of all the alternatives exceed one. Each response is equally important even if a person has given multiple reasons.
60% borrowers face the maximum difficulty in fulfilling the paper requirement of the banks.
40% bankers feel that delay in sanction is an irritant in availing bank finance.
15% borrowers express no difficulty in availing bank finance.
10% borrowers found the attitude of bankers uncooperative.
5% units only spoke about expectation of any illegal gratification.
0% units thought that banks interfere in their working.

Bankers and borrowers have to work hand in hand to ensure safety to the assets. Both of them should appreciate each others’ role in their business. However, expectations of the two are different. Credit consumers require fast delivery at low rate of interest with minimum intervention from credit provider. They do not want to share much information, want credit application and legal documents to be simple. On the other hand credit providers want to earn high interest at minimum risk. In order to minimize risk they expect borrowers to provide maximum information, bind them legally and want to ensure and utilization of funds.

Banks analyze the creditworthiness of the prospective borrowers based on qualitative and quantitative factors. To achieve this end, banks expect borrowers to provide sufficient information to arrive at an objective decision. In order to understand borrowers, plant visit, trade checks and interview with the borrowers competitor, suppliers, customers and employees are a must.

In order to reduce the risk of non-payment, banks set covenants to ensure minimum standards for a borrower’s future conduct and performance. These restrictions are intended to prevent management decisions that might impair the borrower’s liquidity or solvency.

All the above stated actions involve lot of time and paper work. The responses to the question highlight that the two prominent difficulties which borrowers face are:

(1) Lot of paper work &
(2) Delay in sanction.
The other difficulties expressed as trivial or of not much consequence.

In the earlier questionnaire of bankers, the findings were that there has been perceptible improvement in both these areas. It may be possible that banks have been trying to simplify loan procedure but they are still not able to meet customers’ expectations.

**Bankers’ willingness to help the customers**

<table>
<thead>
<tr>
<th>How willing are the Bankers to help their IBE (N=26)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very sympathetic</td>
</tr>
<tr>
<td>Eager to help</td>
</tr>
<tr>
<td>Behave normally</td>
</tr>
<tr>
<td>Indifferent</td>
</tr>
</tbody>
</table>

Source: - Field Survey

Only one respondent has given two choices. He opted for ‘very sympathetic’ and ‘eager to help you’. The researcher has clubbed the response under the category ‘eager to help you’. Once this moderation is made the analysis is as below:

- 40% IBEs felt that bankers respond to the needs of the IBEs very sympathetically.
- 30% borrowers said that the bankers may not be very sympathetic; nevertheless they are eager to help you.
- 20% borrowers did not observe any eagerness on the part of their bankers to help them. They find their behavior quite normal.
- Only 10% bankers felt that bankers are indifferent to their needs.

The above analysis goes against an old saying “banker is a person who lends you an umbrella but withdraws it when it starts raining”.

Banks do finance increase in current assets resulting from unusual or unexpected circumstances. Funding is based on the borrowers estimated needs. Banks may agree to fund the needs fully or partly. The term for such credit facility is usually fixed. It is important for the bank to ascertain the source and timing of repayment at the time of funding. The researcher believes that bankers
are aware that if they do not support a IBE at the right moment, his inaction may jeopardize the health of his assets. He can ill afford to do it especially in today’s circumstances, when every banker is busy in reducing his ‘Non-performing assets’.

Customer Friendliness

Table 8.18
More Customer Friendliness (N=26)

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>0</td>
</tr>
<tr>
<td>100%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source:-Field Survey.

- 100% borrowers replied that bankers have become more customers friendly.
- 0% IBEs thought otherwise.

Simplification of Procedures

Table 8.19
Simplification of Procedures (N=26)

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td>4</td>
</tr>
<tr>
<td>85%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source:-Field Survey.

- 85% borrowers replied that banks’ PROCEDURE has become simpler.
- 15% IBEs thought otherwise.

Financial sector reforms have brought bank operations under competitive pressures. Banks are now required to offer new products which are not only competitive in price but also in terms of service. Lending is an important function of commercial banks and will remain the most profitable way of utilizing funds.
Banks will have to pay attention to market segmentation and greater specialization in different niches of the market.

New private sector banks are coming up with a lean structure, limited branches, and specific products. Non-banking financial sector is also shaping well. Marketing has been a concept which has not been widely accepted so far by Indian banks. They have been in a ‘sellers market’ and in a resource scarce country like ours bankers felt no need to market their services, specially selling of assets or loan products.

A lot of work is required to be done regarding organizational structures of various banks. The structural changes have to take care of various customer segments. The markets compulsions will make banks reorient their work culture, restructure their organizational framework and upgrade their skills to a greater extent so as to respond quickly to the emerging demands and survive the onslaught of market compulsions. Attentive and courteous service to customers will play a vital role in sustaining and garnering additional business. In urban and metropolitan centers, the competition will be very keen because most of the upcoming private sector banks will have a base in these areas and the foreign banks operating in India will strengthen their market foothold in these markets.

The future performance of banks will depend upon how they perceive the customer’s needs, both, present and future. The banking environment would inevitably force the banks to perform at their optimal level so as to survive and grow with profits.

Skills have to be reoriented and banks have to invest in retraining of human resources in the new areas. Besides upgradation of skills, simplification of procedures, organizational restructuring, introduction of new technology, the attitudes of front line managers has to be changed to fulfill the aspirations and expectations of their customers. Marketing would be the key strategy in banks’ business plans to retain good customers and to anticipate their demands. It is heartening to observe that 100% of the customers in the survey feel that bankers have become more customers friendly. This augurs well for Indian banking.
It is also good to note that 85% customers perceive that banks sanctioning procedures have become simpler over the years.

**Are the bankers liberal in Sanctioning of Loans (?)**

### Table 8.20
**Banks have become More Liberal in Sanctioning of Loans (N=26)**

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Varies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>18</td>
<td>7</td>
<td>1</td>
</tr>
</tbody>
</table>

Source:- Field Survey.

- 70% borrowers felt that banks have become more liberal in sanctioning of loans.
- 25% IBEs thought that there is no change in their bankers’ thinking.
- 5% replied that liberal attitude varies from person to person. It cannot be generalized.

Banks have been under compulsion to improve the quality of their services. Nayak committee as well as S. L. Kapoor committee about financing of small-scale industries have recommended increasing the power of branch managers to meet the demand of majority of customers at branch level to ensure quick disposal of credit proposals. Banks are flush with funds and there is an overhang of liquidity in the banking system. Banks are finding it difficult to lend their funds to creditworthy customers. This means that banks are more than willing to meet their good customer’s demand readily since most of the customers in the sample were introduced by the managers to the researcher it may be possible that they were banks’ valuable IBEs. Hence, 70% of them found that banks have become more liberal in meeting their credit requirements. A bank earns maximum profit by lending to direct borrowers.
Adequacy of loan amount (?)

Table 8.21
Sanction Amount is less Than Requested Amount (N=26)

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>18</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Field Survey.

- 70% borrowers replied that banks always sanction fewer amounts than what is requested by them.
- 30% experienced that banks do not always sanction less amount than what is requested by them.

Banks have been operating in an environment where lendable resources were scarce and demand for credit was more. There has been a tendency on the part of borrowers to ask for more credit facilities than warranted by their business needs because they wanted to have sanctioned facilities to meet any contingency. The norms for keeping current assets introduced by Tandon Committee brought down their bank facilities considerably.

To overcome this situation the borrowers used to inflate their projected turnover so that they can get higher sanctions. However, subsequent analysis of their credit proposals on scientific norms and their inability to provide higher margins from long term sources brought down the requested facilities substantially. This has created a situation where borrowers feel that asking for more is better.

70% of the customers still feel that banks always sanction them less amount than what is requested by them. Only 30% customers felt that banks are open to consider the requested facilities if they are able to convince them about genuineness of their requirements.
8. 29

Gap in Loan demanded and sanctioned

Table 8.22
Gap between Requested Amount and Sanctioned Amount Getting Narrower (N=26)

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>No Reply</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>75</td>
<td>15</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Field Survey.
- 75% borrowers replied that the gap between requested and sanctioned amount is getting narrower.
- 15% borrowers thought that there is no change in the scenario.
- 10% IBES did not express any opinion.

There could be several reasons for the above situation.

- The fact that 75% customers feel positive about the issue means that Banks are awakening to the changes taking place in the environment and they would like to meet genuine demands of the customers.

- Only 15% of the customers had a feeling that there is no marked improvement in the situation. It may be possible that they may be marginal customers from the banks point of view. No bank would like to increase its exposure to weak customers.

Time Reduction in Loan procurement

Table No. 8.23:-
Reduction in Sanctioning Time Getting Less (N=26)

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>No Reply</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>21</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Field Survey.
- 80% borrowers informed that the time lag between submission and sanction of proposal has reduced.
- 10% customers did not think that any improvement has taken place in the area.
- 10% customers did not reply to this question.
Organizational restructuring and more empowerment of the managers could be a reason for this positive development. Organizational restructuring streamlines the decision making process in the organization. There has been a conscious effort on the part of all the banks to streamline processing of proposal at different levels. Earlier the same proposal used to be processed at different levels of decision making. Now a detailed process note is prepared at the branch level and only remarks of senior officers are incorporated on the original note. This has reduced the processing time considerably. Some banks have introduced a system whereby the proposal after initial processing at branch level would go directly to the final decision making authority.

Also branch managers have been given more powers over the time. Since the needs of small and medium IBEs are moderate in size, majority of the decisions are taken at lower levels of decision making.

Both these factors may be responsible for reduction in time taken to sanction a proposal.

**Purpose to Use Increased Borrowings**

<table>
<thead>
<tr>
<th>Purpose to Use Increased Borrowings (N=26)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>To repay Private Borrowings</td>
<td>3</td>
</tr>
<tr>
<td>To Increase Inventory</td>
<td>16</td>
</tr>
<tr>
<td>To Increase Credit in Market</td>
<td>14</td>
</tr>
<tr>
<td>To pay Sundry Creditors</td>
<td>9</td>
</tr>
<tr>
<td>For Personal use</td>
<td>0</td>
</tr>
<tr>
<td>Others</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Field Survey.

This question was designed with a suitable undertone to judge the basic purpose for which borrowers use bank finance. The other objective was to know if borrowers have a tendency to divert bank money for unproductive purpose.

A respondent was encouraged to give multiple purposes for which he would like to use bank finance. Since some respondents have given more than one
choice, the total number of responses is more than the sample size. Since funds can be used for multiple purposes, no prioritization was asked for. The total number of responses for each factor is divided by the total number of respondents, to arrive at the percentage. This is the reason that total percentages do not add up to one.

- 60% of the borrowers informed that they would like to use additional borrowings to increase inventory.
- 55% borrowers preferred to grant more credit in the market.
- 35% borrowers would prefer to pay off sundry creditors.
- 10% borrowers would prefer to use increased banks borrowing to repay private borrowings.
- 10% borrowers informed other purposes which were:
  - Introducing new technology in the unit
  - To repay financial institutions.

**IBEs Satisfaction Over Bank Services**

IBEs satisfaction can be measured in terms of their impression about lending policy of Bank especially urban cooperative banks. During the course of survey more than 60% concerns have reported their total displeasure about the following matters.

1. The Bank does not have supervision and advisory cell to guide the borrowers and help them in their difficulty.

2. The Bank lacks in internal resources and hence, it could not evolve its own financing scheme looking the needs of people in the district. It is only reduced to dismal link between borrowers and apex co-operative Bank for execution of state level loaning policies.
3. Linking of credit with marketing is not properly managed by Bank and its poor management deprives borrowers to accept this scheme.

4. Banking, Services offered to depositors or borrowers are below standard.

5. The loan policies based on false business reports and credit status report are abstracting the businessmen to borrow adequately at right time.

6. Loans in kind, when given are found useless due to inferiority of kind component.

7. Delay in sanction loan may extend more than six months for LT loans while for ST loans it may more than 10 to 15 weeks.

8. Individual loans are given only to friends and relatives of the BoDs /members of staff from managerial cadre.

9. Manipulated repayments and book adjustment are common. This may likely to conceal the real position of Bank.

10. Rising amount of overdues on the name of political lenders, relatives of board of members or officers, etc. demoralizes the Bank staff and members.

11. Despite the overdues accumulation to particular borrower, the BANK sanctions the loans.
12. Investment policy locks up the funds which can be used for lending.

13. Some of the IBEs are given loans under the pressure of influential director or political leaders.

14. Loans are given processing units without first ascertaining the economic and technical feasibility of the project.

15. Inadequate planning of loans disturbs the Bank viability and the business of borrowers.

**Alternate to Bank Borrowing**

Banks are quick to point out that alternative to bank finance could be found in borrowers approaching ‘money lenders’ ‘NBFC’ or ‘private borrowings’. All these are costly sources of finance.

The irony of financial system is that a ‘weak credit’ is required to pay more for funds than ‘healthy borrowers’. A ‘weak credit’ cannot transform into a ‘healthy credit’ for NBFCs or money-lenders. Why do these agencies give credit to ‘weak borrowers’ or borrowers not accepted by banks? This is more due to confidence in their recovery mechanism. None of the bankers mentioned new instruments or products like factoring, forfeiting, commercial paper etc.

It gives a feeling that awareness of new products is less among banks or these instruments have not found desired level of acceptance in the market as yet.

There has been an atmosphere of mistrust between banks and their IBEs. Even from the days of late sixties there has been a feeling among banks that bank finance given to industries by way of cash credit system is vulnerable to misuse i.e. it can be diverted from the business either for unproductive purposes or for acquisition of fixed assets. This feeling is still persisting among banks. Now-a-
days bankers are divided in their opinion and substantial number of them feels that borrowers are observing financial discipline. Bankers are still having perception that borrowers have a tendency to divert funds from the business but borrowers as a class do not agree to diversion of funds from the business.

Researcher is of the view that with the opening of financial sector this tendency of borrowers to divert funds from business should have been arrested. Banks are flush with funds. Borrowers can avail finance from them to meet their other personal needs. Given a proper environment there is every reason for borrowers to follow financial discipline and to nurse their business with adequate supply of funds.

Beed District borrowers had poor liquidity. This was reflected in their poor current ratio. In this study, banks and borrowers have expressed that their current ratio is improving over the last few years. A high current ratio has been advocated all along for efficient working of a unit and a low current ratio is looked upon as an indicator of poor financial performance.

All the borrowers in the study were having current ratio of more than one. The fact that bankers as a group feel that current ratio of their industrial borrowers is improving is a positive development in the management of industrial finance.

Borrowers in small-scale sector follow a moderate working capital management policy. They prefer to keep more current assets in their business that means they prefer low business risk. However, given a chance they would not mind adopting an aggressive working capital financing policy. They prefer to deploy more borrowed funds in their business.

Average inventory level is of about 60 days. Borrowers from small-scale sector give maximum consideration to ‘order in hand’ while deciding on inventory level. Probable shortage of stock is another important reason. The other factor that is given due consideration is seasonality in availability of raw material and marketing of finished goods. In general, borrowers from this sector are less educated. There is a low awareness of modern techniques of inventory control methods among them. The only way to control inventory in their units is by
convention or rule of thumb. They do not employ any scientific method to control inventory.

Receivables are also of about 60 day's level. In extending credit, borrowers rely more on past dealings of the debtors. This emerged as number one factor that is instrumental in taking a credit granting decision. Market forces or trade practices emerged as other important factors, these are beyond their control and they have to fall in line. ‘Trade Reference’ and ‘Size of Order’ are also considered while giving credit to their IBEs.

There are no instances of cash surpluses in this segment. Since there is no surplus hence question of its management does not arise. Otherwise also, there are very few products which are available to Indian investors to part their temporary cash surpluses. Besides, borrowers had very little knowledge about them.

A lot seems to be happening in the area of IBE service. Banks and borrowers seem to agree that their survival depends on the well being of each other. Banks extend a helping hand to borrowers in case of need. The fact that more than two third of borrowers agree is an indication of things moving in right direction. Delay in sanction of credit proposal is one of the major irritant in improving IBE services. Banks have made progress in this direction but their efforts require more punch. However, banks are yet to match the expectation of IBEs in this direction.

IBEs feel that banks ask for lot of information from them, which naturally result in lot of paper work. This has emerged as number one major irritant in their relations. IBEs do agree that paperwork has been simplified but all of them feel that banks can still reduce lot of paperwork. Most of the information called for is repetitive in nature. Bankers feel that it is easy to deal with educated IBEs. Situation may improve if IBEs are educated properly about the requirements of a bank from a borrower IBE. This formal education may help in removing some of the misunderstanding about role of a banker. Education alone can help in providing timely information thereby reducing delay in sanction.
Compared to past bills are realized more promptly. This helps borrowers to utilize their facilities more efficiently.

There has been one positive development. IBEs feel that bankers are friendlier than ever before. ‘Smile costs you nothing’ but it makes relations between give and taker rich. Growing competition cannot allow the bankers to operate from closed cabins. They have to move out to the IBEs and attend to their requirements.

Generally, IBEs find that banks have become more liberal while accepting their request for credit. Increased liquidity in banking system could be a reason for that. IBEs also feel that gap between requested amount and sanctioned amount has come down.

It is not only IBEs but also many bank managers are in favor of giving credit by way of overdraft accounts. Some bankers did favor giving working capital finance by demand loan. Bankers favor use of bill finance by their IBEs.

There is hardly any alternate to bank finance in the organized financial sector. Most of the banks point to ‘money lender’ or ‘private borrowings’ as the other source. New instruments of finance are either beyond the reach of small borrowers or they are too complicated to adopt.

To sum up, one concludes that things are improving all around albeit at a slower pace. However, so long as change is taking place in the right direction, we need only to introduce reforms in an accelerated manner.

**Table No. 7.25 (N-26)**

<table>
<thead>
<tr>
<th>Bankers</th>
<th>Prop. Of Working Capital</th>
<th>Faculty WCM Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>07</td>
<td>19</td>
</tr>
</tbody>
</table>

From the above table it shows that nearly 75% of units are sick due to faculty use of working capital. They are unable to supply financial in time,
hence the sickness is due to defective policy of using working capital in the enterprise.

References