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Sources of Finance of Selected Small Scale Industries in Dombivli MIDC Area of Thane District Maharashtra

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Abstract:

Small Scale Industries play a vital role in the economic development of the country. It provides a platform to the entrepreneurs to demonstrate their skills and thereby contribute to social and economic development of the region. The small scale sector will remain handicapped if its financial requirements are not fulfilled by the various contributors. Traditionally, the nationalized banks and the financial institutions set up by the government are expected to play a major role in financial contribution to SSis. However, their contribution is not satisfactory due various reasons such as lack of knowledge on the part of entrepreneurs and unfavorable policies. The governments of India in recent years decided to rejuvenate the small scale sector and hence the nationalized banks contribution increased in the funding to the small scale sector.

Introduction

Small Scale Industries are capital light and make use of local resources hence they play a vital role in the economy. Its growth rate reflects the economic potential of a country. It helps a country to achieve great feats of development such as to eradicate unemployed youth, poverty etc. as more job opportunities are created, export levels are increased as more raw material is turned into finished products, avoid foreign debt and currency gains much value over other countries

According to MSME Act 2006 The definition of small scale industries in India is based on the criterion of capital investment "**the Small Enterprise is one in which the investment in plant and machinery is more than twenty five lakhs rupees but does not exceed five crores.**"

SMEs have a strategic importance for each nation's economic development due to wide range of reasons. Thereby, the Government shows a major interest in supporting entrepreneurship. As this is one of the means through which new jobs could be created, which can lead to increase in GDP and raising standard of masses. Every surviving and successful business means new jobs and growth of GDP.The government at both central and state level established various financial institutions to provide non-financial and financial assistances to small-scale industries. As the small-scale industries are weak financial structure, they require non-financial assistances also so that, they could compete with large scale industries. The government established various institutions to provide non-financial assistances exclusively to the small-scale industries. (SIDBI, DIC, MSSIDC) In the same way there are institutions in addition such as commercial banks which cater to the financial requirements of small scale industries. In this paper an attempt has been made to present the various institutions involved in providing financial assistances to small-scale industries.

Objective of Study

The objective of this paper is to study and understand the various sources of finance utilized by the selected fifteen units each of Small Scale industries involved in Food Products and Processing, Chemical Manufacturing and Engineering goods.in Dombivli M I D C area of Thane district of Maharashtra. For the period 2010-11 to 2015-16.as the data published by the ministry of MSME government of India and DIC Thane.

Review of Literature:

The following literature have been reviewed to understand the concept and present the data

Selvaraj N, 2015, observed that during 1970 the inadequacy of institutional credit that only 5.1 per cent of the borrowers were financed by institutional finance.

Inderjit Singh and Gupta, in their book on "Financing of small industry". Characterizes excess capacity remaining unutilized in small firms was due to the lack of adequate finance.

Kopardekar mentions that the lack of adequate finance especially in meeting working capital requirement leads to inefficient utilization of the installed capacity, which in turn leads to inconsistent operation of the units. Many units are not in a position to apportion funds to fixed and working capitals. During 1980 the problems encountered by the small enterprises were becoming increasingly complex, and the small entrepreneurs were often baffled by a maze of regulatory measures. A common view shared by the entrepreneurs and those who were promoters of the growth of small-scale sector was that as long as there was no change in the attitude of policy makers the problems would remain unresolved focused by Rajula Devi A. K.

Choudhuri, in his study entitled "Capital Structure Planning in Small-Scale Industries", stated that the recent years had witnessed a democratic expansion of the small business sector in almost all parts of the world. A greater degree of awareness to produce goods and services confirming to national and international standards would be created among the SSIs units. He also observed that the finance was the crucial problem for the survival of SSIs sector. He suggested that adequate institutional credit to SSI should be made available on priority basis. Prompt processing of working capital applications and extension of overdraft facilities were the other recommendations made by him.

According to Ravindra Gowda and Shivakanth Shetty, SSIs being one of the major growth drivers of the economy, the biggest challenge before the SMEs in the emerging market scenario is not only to survive but to grow on a sustainable development through either technology transfer or innovations or inter-firm linkages should be emphasized in the light of global competition. Financial infrastructure needed to be broad and adequate inflow of credit to the consideration the growing investment demand. In the context of economic reforms and globalization the small-scale industries must be competitive for their survival and growth otherwise they will perish resulting in colossal waste of scarce resources, and will create unemployment and retard the process of industrialization.

Research Methodology

To assess the financial utility by the small scale sector, the secondary data was taken from the publications by the Ministry of MSME and DIC Thane.

Analysis of data

The collected data is tabulated and presented as under:

1) Food Products and Processing:

Table 1. Different sources of finance utilized by selected Food Products & processing SSI units in Dombivli MIDC. Dist – Thane. (Figures in Lakhs)

Food Products & processing						
Financial Year	Private Banks	Owned capital	Nationalized Banks	UCBs	Private Finance	Total
2010-11	281.03	549.14	414.96	462.59	517.64	2225.36
2011-12	184.67	740.92	544.46	347.09	347.09	2164.24
2012-13	156.57	963.39	461.64	833.03	1492.51	3907.13
2013-14	1329.50	361.64	3919.86	1388.38	1110.70	8110.07
2014-15	1489.04	448.43	4433.36	1513.33	1266.20	18371.14
2015-16	1280.57	497.76	5275.69	1876.53	1532.10	10462.66
Total	4721.37	3561.28	15049.96	6420.96	6266.25	45240.60

UCBs: Urban Cooperative Banks.
Source: Annual Report 2015-16 (2016) Government of India Ministry of SSIs.

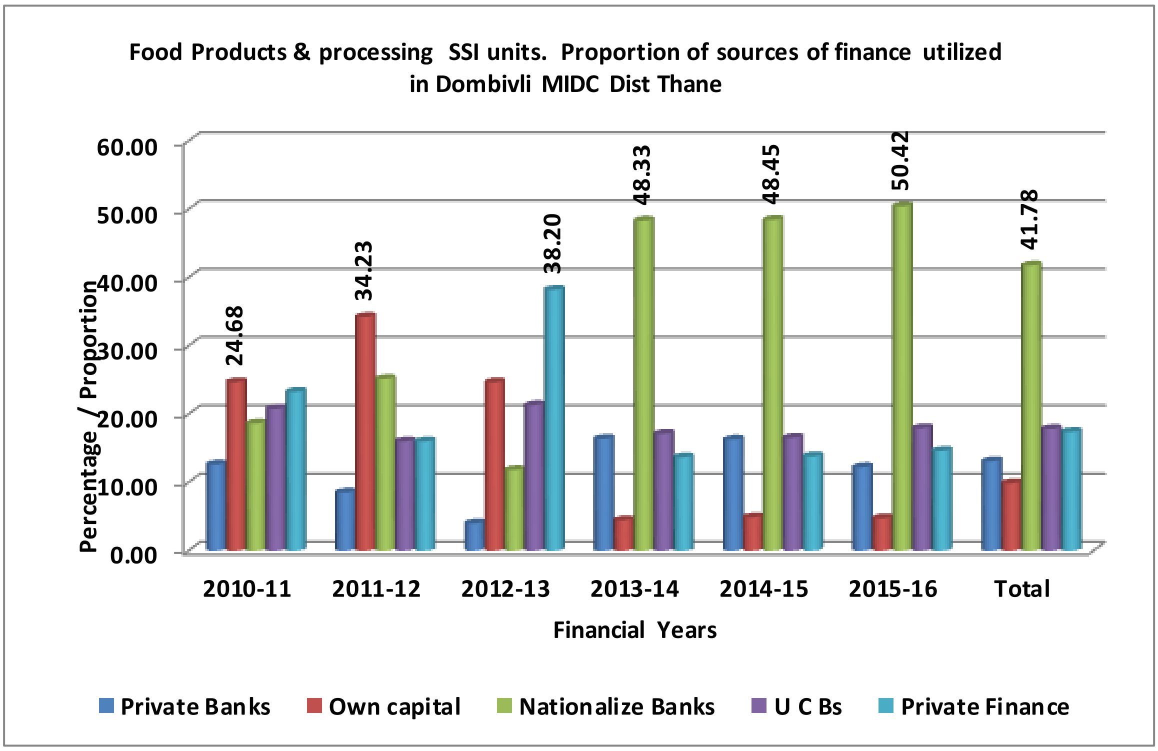
The table 1 shows that in 2010-11 private banks contributed less in total funding which was Rs281.03 lakhs it increased to Rs1280.57 lakhs in 2015-16. The contribution of owned capital was Rs549.14 lakhs in 2010-11 which declined to Rs497.76 lakhs in 2015-16. The contribution of nationalized banks was Rs 414.96 lakhs which increased to Rs5275.69 lakhs in 2015-16. The UCBs contribution was Rs462.59 lakhs in 2010-11 which increased to Rs1876.53 lakhs. The contribution of private finance increased from Rs517.64 lakhs to Rs1532.10 lakhs during the same period. The private finances played a greater role in total funding to the selected SSI sector under the study. The private sector banks didn't show much interest in SSI sector, the contribution of private finance is greater in turn would mean that the cost of finance would escalate and would impact the profitability. This is so because private finance means the financing by money lenders etc who charge a very high rate of interest. In the subsequent years, the contribution of owned sources of finance is decreasing whereas the contribution of private banks, nationalized banks, UCBs and private finance is increasing which indicates that the various sources are being available to SSI sector. The proportion/percentage of different sources of finance utilized by the SSIs is shown in the following Table 2.

Table 2. Proportion different sources of finance utilized by selected Food Products & processing SSI units in Dombivili MIDC Dist Thane.

Financial Year	Private Banks	Owned capital	Nationalized Banks	UCBs	Private Finance	Total
2010-11	12.63	24.68	18.65	20.79	23.26	100.00
2011-12	8.53	34.23	25.16	16.04	16.04	100.00
2012-13	4.01	24.66	11.82	21.32	38.20	100.00
2013-14	16.39	4.46	48.33	17.12	13.70	100.00
2014-15	16.27	4.90	48.45	16.54	13.84	100.00
2015-16	12.24	4.76	50.42	17.94	14.64	100.00
Total	13.11	9.89	41.78	17.83	17.40	100.00

The above table 2 shows that in 2010-11, the contribution of private banks was 12.63% and in 2015-16 it is 12.24% the contribution showed initial decline to 8.53% in 2011-12 to further 4.01% in 2012-13. then increase to 16.39% in 2013-14 but slight decline to 16.27% in 2014-15. Owned capital is maximum viz 24.68% in 2010-11 which consistently declined to 4.76% in 2015-16. The contribution of nationalized banks was 18.65% in 2010-11 which increased to 25.16% in 2011-12 then declined to 11.82% in 2012-13 but drastically increases to 48.33% in 2013-14, 48.45% in 2014-15 and finally to 50.42% in 2015-16. The UCBs contribution was 20.79% in 2010-11 then declined to 16.04% in 2011-12 then increased to 21.32% in 2012-13 then declined to 17.12% in 2013-14 then further declined to 16.54% in 2014-15 but marginally increasing to 17.94% in 2015-16. So the contribution is fluctuating it can on account of inconsistent policies of UCBs. The contribution of private finance was 23.26% in 2010-11 which declined to 16.04% in 2011-12 then became maximum to 38.20% in 2012-12 then declining consistently for two years to 13.84% in 2014-15 and finally showing slight upward trend to 14.64% in 2015-16. So the importance of private finance is on decline which can improve the bottom line of the enterprises.

It is depicted by the following figure.



The figure reflects that the bar (blue color) showing contribution of private banks is getting shorter in the first three years means the contribution is declining and thereafter its length has increased in 2013-14 means the contribution increased but it is not consistent, the length reduces means the contribution is declining. The bar (red color) shows that the length is getting longer in the first two years but gradually getting shorter means the contribution initially increased but thereafter declined . The bar(green color) shows that the length initially increased then decreased in 2012-13 but thereafter increased considerably which shows that the government policy is becoming favorable to SSIs. The bar (Purple color) shows that the length initially reduced then increased and thereafter slight increase means the contribution of UCBs extended support initially but after 2013-14 the financial contribution is not as per the requirements. Finally the bar (light blue color) shows that the length getting shorter in 2011-12 then longer in 2012-13 but again becoming shorter in 2013-14 and remaining the same with minor increase indicating that the private finance was crucial initially and thereafter becoming lesser important to SSIs.

2) Engineering Units

Table 3 Different sources of finance utilized by selected Engineering SSI units in Dombivili MIDC Dist Thane.
(Figures in Lakhs)

Engineering units						
Financial Year	Private Banks	Owned capital	Nationalized Banks	UCBs	Private Finance	Total
2010-11	229.58	427.06	328.32	367.72	411.85	1764.53
2011-12	151.25	584.18	432.61	275.79	275.79	1719.63
2012-13	128.24	761.63	366.80	661.89	1185.89	3104.47
2013-14	1088.96	254.76	3114.58	1103.16	882.53	6443.98
2014-15	1214.62	277.69	3472.76	1334.82	767.80	7067.69
2015-16	1322.72	304.35	3799.19	1495.00	606.56	7527.82
Total	4135.38	2609.68	11514.26	5238.38	4130.41	27628.11

UCBs: Urban Cooperative Banks.
Source: Annual Report 2015-16 (2016) Government of India Ministry of SSIs.

The table 3 shows that in 2010-11 private banks contributed less in total funding which was Rs229.58 lakhs it further increased to Rs1322.72 lakhs in 2015-16. The contribution of owned capital was Rs427.06 lakhs in 2010-11 which declined to Rs304.35 lakhs in 2015-16. The contribution of nationalized banks was Rs 328.32 lakhs which increased to Rs3799.19 lakhs in 2015-16. The UCBs contribution was Rs367.72 lakhs in 2010-11 which increased to Rs1495 lakhs. The contribution of private finance increased from Rs411.85 lakhs to Rs606.56 lakhs during the same period. The private finances played a greater role in total funding to the selected SSI sector under the study. The private sector banks didn't show much interest in SSI sector initially but later on after 2013-14 the contribution increased considerably , the contribution of private finance is greater in turn would mean that the cost of finance would escalate and would impact the profitability. In the subsequent years, the contribution of owned sources of finance is decreasing whereas the contribution of private banks, nationalized banks, UCBs and private finance is increasing which indicates that the various sources are being utilized by SSI sector. The proportion is shown in the following Table 4

Table 4 Proportion different sources of finance utilized by selected Engineering SSI units in Dombivili MIDC Dist Thane.

Financial Year	Private Banks	Own capital	Nationalize Banks	UCBs	Private Finance	Total
2010-11	13.01	24.20	18.61	20.84	23.34	100.00
2011-12	8.80	33.97	25.16	16.04	16.04	100.00
2012-13	4.13	24.53	11.82	21.32	38.20	100.00
2013-14	16.90	3.95	48.33	17.12	13.70	100.00
2014-15	17.19	3.93	49.14	18.89	10.86	100.00
2015-16	17.57	4.04	50.47	19.86	8.06	100.00
Total	14.97	9.45	41.68	18.96	14.95	100.00

The above table 4 shows that in 2010-11, the contribution of private banks was 13.01% and in 2015-16 it is 17.57% the contribution showed initial decline to 8.80% in 2011-12 to further 4.13% in 2012-13. And then increased to 16.90% in 2013-14 but more than fourfold increase to 17.57% in 2015-16. Owned capital is maximum viz 24.20% in 2010-11 which consistently declined to 4.04% in 2015-16. The contribution of nationalized banks was 18.61% in 2010-11 which increased to 25.16% in 2011-12 then declined to 11.82% in 2012-13 but drastically increased to 48.33% in 2013-14, 49.14% in 2014-15 and finally to 50.47% in 2015-16. The UCBs contribution was 20.84% in 2010-11 then declined to 16.04% in 2011-12 then increased to 21.32% in 2012-13 then declined to 17.12% in 2013-14 thereafter increased to 18.89% in 2014-15 but marginally increasing to 19.86% in 2015-16. So the contribution is fluctuating it can on account of inconsistent policies of UCBs. The contribution of private finance was 23.34% in 2010-11 which declined to 16.04% in 2011-12 then became maximum to 38.20% in 2012-12 then declining consistently for later three years to 8.06% in 2015-16.So the importance of private finance is on decline which can improve the profitability of the enterprises.

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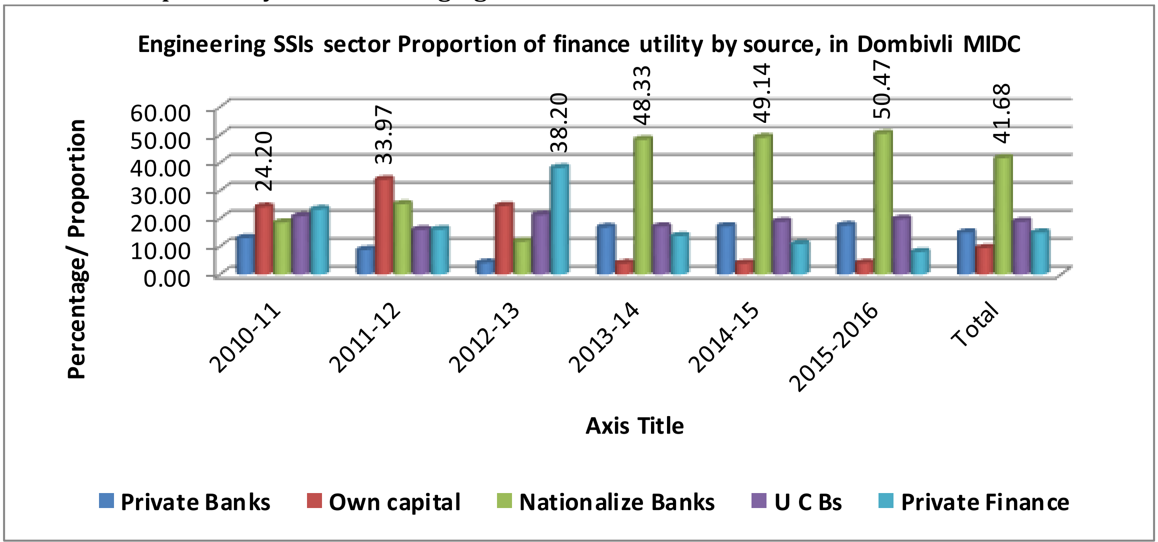

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3) Chemical Units

Table 5 Different sources of finance utilized by selected Chemical SSI units in Dombivili MIDC Dist Thane. (Figures in Lakhs)

Food Products & processing						
Financial Year	Private Banks	Owned capital	Nationalized Banks	UCBs	Private Finance	Total
2010-11	178.20	316.42	247.31	276.99	310.23	1329.15
2011-12	117.41	436.57	325.87	207.74	207.74	1295.33
2012-13	99.55	570.77	276.30	498.58	893.29	2338.48
2013-14	845.26	166.91	2346.10	830.97	664.77	4854.01
2014-15	942.80	181.93	2615.90	1005.47	578.35	5324.46
2015-16	1026.71	199.40	2861.79	1126.13	456.90	5670.93
Total	3209.93	1872.00	8673.26	3945.87	3111.28	20812.35

UCBs: Urban Cooperative Banks.
Source: Annual Report 2015-16 (2016) Government of India Ministry of SSIs.

The table 5 shows that in 2010-11 private banks contributed less in total funding which was Rs178.20 lakhs it further increased to Rs1026.71 lakhs in 2015-16. The contribution of owned capital was Rs316.42 lakhs in 2010-11 which declined to Rs199.40 lakhs in 2015-16. The contribution of nationalized banks was Rs 247.31 lakhs which increased to Rs2861.79 lakhs in 2015-16. The UCBs contribution was Rs276.99 lakhs in 2010-11 which increased to Rs1126.13 lakhs. The contribution of private finance increased from Rs310.23 lakhs to Rs456.90 lakhs during the same period. The private finances played a greater role in total funding to the selected SSI sector under the study. The private sector banks didn't show much interest in SSI sector initially but later on after 2013-14 the contribution increased considerably, the contribution of private finance is greater in turn would mean that the cost of finance would escalate and would impact the profitability. This is so because private finance means the finance carrying high interest cost. In the subsequent years, the contribution of owned sources of finance is decreasing whereas the contribution of private banks, nationalized banks, UCBs and private finance is increasing which indicates that the various sources are being available to SSI sector.
The proportionate presentation is shown by the following table 6

Table 6 Proportion different sources of finance utilized by selected Chemical SSI units in Dombivili MIDC. Dist Thane.

Financial Year	Private Banks	Owned capital	Nationalized Banks	UCBs	Private Finance	Total
2010-11	13.41	23.81	18.61	20.84	23.34	100.00
2011-12	9.06	33.70	25.16	16.04	16.04	100.00
2012-13	4.26	24.41	11.82	21.32	38.20	100.00
2013-14	17.41	3.44	48.33	17.12	13.70	100.00
2014-15	17.71	3.42	49.13	18.88	10.86	100.00
2015-16	18.10	3.52	50.46	19.86	8.06	100.00
Total	15.42	8.99	41.67	18.96	14.95	100.00

The above table 6 shows that in 2010-11, the contribution of private banks was 13.41% and in 2015-16 it is 18.10% the contribution showed initial decline to 9.06% in 2011-12 to further 4.26% in 2012-13. and then increased to 17.41% in 2013-14 but more than fourfold increase to 18.10% in 2015-16 in comparison with 2012-13. Owned capital is maximum viz 23.81% in 2010-11 which consistently declined to 3.52% in 2015-16. The contribution of nationalized banks was 18.61% in 2010-11 which increased to 25.16% in 2011-12 then declined to 11.82% in 2012-13 but drastically increases to 48.33% in 2013-14, 49.13% in 2014-15 and finally to 50.46% in 2015-16. The UCBs contribution was 20.84% in 2010-11 then declined to 16.04% in 2011-12 then increased to 21.32% in 2012-13 then declined to 17.12% in 2013-14 thereafter increased to 18.88% in 2014-15 but marginally increasing to 19.86% in 2015-16. So the contribution is fluctuating it can be on account of inconsistent policies of UCBs. The contribution of private finance was 23.34% in 2010-11 which declined to 16.04% in 2011-12 then became maximum to 38.20% in 2012-12 then declining consistently for later three years to 8.06% in 2015-16.So the importance of private finance is on decline which can improve the profitability of the enterprises.

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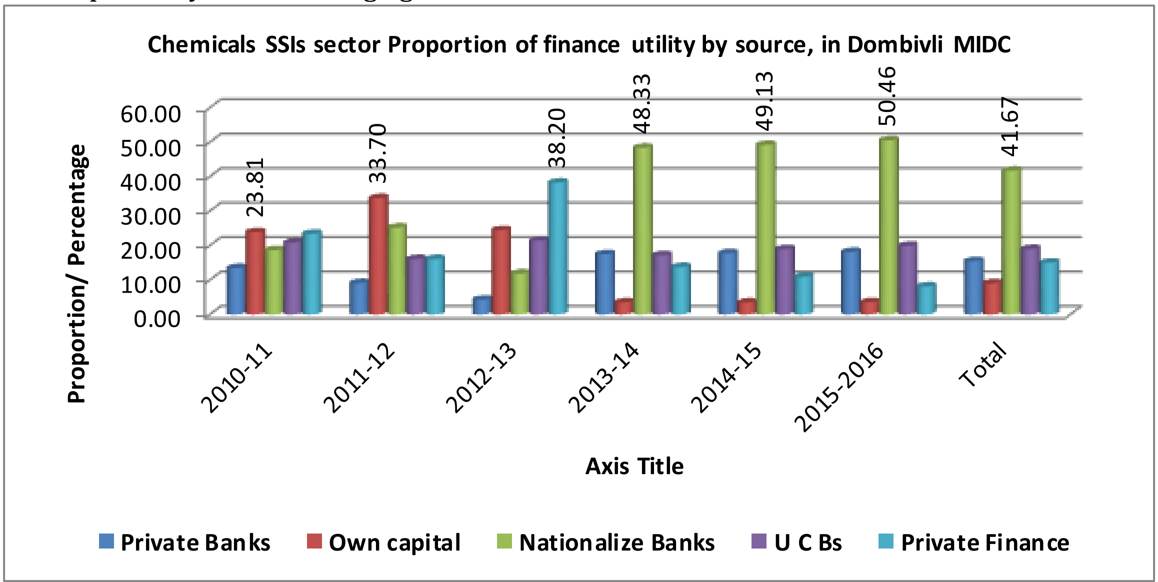

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2012-13 but again becoming shorter in 2013-14 and 2014-15 and 2015-16 indicating that the private finance was crucial initially and thereafter becoming lesser important to SSIs.

Summary and Conclusion

Table: 7 Summarized sources of finance to SSIs

	Food products and processing units		Engineering units		Chemical units	
Sources	Finance Utilization	Proportion	Finance Utilization	Proportion	Finance Utilization	Proportion
Private Banks	4721.371	13.11	4135.385	14.97	3209.933	15.42321
Owned capital	3561.282	9.89	2609.677	9.45	1872.003	8.994675
Nationalized Banks	15049.96	41.78	11514.26	41.68	8673.258	41.67361
UCBs	6420.958	17.83	5238.377	18.96	3945.872	18.95928
Private Finance	6266.253	17.40	4130.41	14.95	3111.282	14.94921
Total	36019.82	100	27628.11	100	20812.35	100

Table 7 shows that private banks contributed Rs 4721.371 lakhs means 13.11% of financial requirements of food products and processing units, Rs4135.385 lakhs means 14.97% of financial requirements of engineering units and Rs3209.933 means 15.43% of financial requirements of chemical units. Owned capital contributed Rs 3561.282 lakhs means 9.89% of financial requirements of food products and processing units, Rs2609.677 lakhs means 9.45% of financial requirements of engineering units and Rs1872.003 means 8.99% of financial requirements of chemical units. The contribution of nationalized banks is Rs 15049.96 lakhs means 41.78% of financial requirements of food products and processing units, Rs11514.26 lakhs means 41.68% of financial requirements of engineering units and Rs8673.258 means 41.67% of financial requirements of chemical units. The UCBs contribution Rs 6420.958 lakhs means 17.83% of financial requirements of food products and processing units, Rs5238.377 lakhs means 18.96% of financial requirements of engineering units and Rs3945.872 means 18.96% of financial requirements of chemical units. Finally, private finance contributed Rs 6266.253 lakhs means 17.40% of financial requirements of food products and processing units, Rs4130.41 lakhs means 14.95% of financial requirements of engineering units and Rs3111.282 means 14.95% of financial requirements of chemical units.It shows that nationalized banks are now major contributors to all the three sectors which is in line with make in India concept launched by the present government but still private finance is contributing to the almost to the extent of 18% which underlines its importance and hence can affect the bottom-line of the enterprises.

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