

**GROWTH OF MSME SECTOR AND INDUSTRIAL STRUCTURE IN TELANGANA
REGION: AN OVERVIEW****Dr. J. Venkatesh¹**

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Abstract

Industrialization will be the key strategy followed for economic growth and development of Telangana state. The vision for industrialization of Telangana is “Research to Innovation; Innovation to Industry; Industry to Prosperity”. The industrial policy framework recently approved by the Telangana Legislature is intended to be driven by the slogan - Innovate, Incubate, Incorporate”. Innovation and technology will drive the industries of the Telangana State. The paper highlights growth of MSME and also the industrial structure where as MSME’s provides supplementary income to rural folks who provide gainful employment and facilitate processing of primary commodities. In Telangana, the districts around Hyderabad provide good prospects for MSMEs especially in IT sector and other sophisticated industries.

KEYWORDS: CAGR, GSDP, IT/ITes, MSMEs and SEZ’s

Introduction

Industrialisation holds the key for achieving higher growth trajectory and employment generation. Realising this, the new Government has laid adequate emphasis on rapid industrialisation in the State. The State is already the favoured destination for many investors from India and abroad due to its natural resources, availability of skilled manpower and technological base. In order to capitalize on these advantages, the new leadership is taking several steps to improve the investment climate in the State. The newly formed state of Telangana has a big task of making its mark in the field of exports. It is a state enriched with huge potential of Industries & Natural Resources which can be a catalyst in promoting exports from it. The state has large amounts of land available as well as clusters which cater to the production of auto components and spare parts as well as textiles. Telangana region has rich natural resources. Telangana region is having large amount of forest area and 20 per cent of the country's coal deposits in the country. Telangana is also rich in limestone deposits that cater to cement factories. Telangana has other mineral resources like Granite, bauxite and mica. Telangana has a significant amount of Software exports in India. While majority of the Industry is concentrated over Hyderabad, the other cities are also becoming significant IT destinations in the state. Hyderabad's IT exports exceeded \$7 billion in 2014. There have been extensive investments in digital infrastructure.

The new Telangana State Industrial Policy will strive to provide a framework which will not only stabilize and make existing industries more competitive, but also attract and realize new international and national investments in the industrial sector. The focus will be on core manufacturing sectors, with the creation of employment for urban and rural youth and adding value to existing skills emphasized at all stages. It is expected that the most significant outcome of this approach will be the production of high quality goods at the most competitive price, which establishes “Made in Telangana- Made in India” as a brand with high global recognition. It is determined to create an ecosystem in which the ease of doing business in the state matches and even exceeds the best global standards. Telangana State Government is aware that offering a hassle-free system is considered to be of the highest priority by the industrialists, and accordingly the government will implement a very effective industrial clearance system that will go beyond the traditional single window system. This system, called the Telangana State Industrial Project Approval and Self-certification System (TS-iPASS), will be strengthened by way of legislation.

INDUSTRIAL SCENARIO OF TELANGANA

INDUSTRY	STRENGTHS
IT and ITES	<ul style="list-style-type: none"> • Availability of infrastructure and manpower
Precision Engineering, Aviation and Defense	<ul style="list-style-type: none"> • Presence of anchor industries such as BHEL, HAL, DRDO, DRDL, DMRL, BEL • Houses exclusive Aerospace SEZ
Pharmaceuticals and allied chemical	<ul style="list-style-type: none"> • Presence of premium research institutions • Strong clustering of pharma
Biotechnology	<ul style="list-style-type: none"> • Genome Valley – the first largest organized Life Sciences cluster in India with an extent of 600 sq.kms
Renewable energy – solar	<ul style="list-style-type: none"> • Blessed with high solar potential. • Sothern Telangana (Mahboobnagar) is having higher solar insolation as compared other locations in the state.

TRENDS IN ECONOMIC INDICATORS AND INDUSTRIALIZATION

- The GSDP at constant (base: 2004-05) prices for FY15 (advance estimates) is estimated at Rs.2, 17,432 crore as against Rs.2, 06,427 crore for 2013-14 indicating a growth of 5.3%. The State has grown at a compounded annual growth rate (CAGR) of 9.23% during the period 2004-05 to 2014-15. The Y-o-Y growth of 5.3% in FY15 marks further revival in growth of state post a dip for two consecutive years i.e. FY12 and FY13. Since FY14, the State has grown steadily.
- During FY15, the services sector recorded the highest growth in GSDP at 9.7%, followed by Industry sector at 4.1%. However, the overall growth was marred by agriculture sector, with estimated de-growth of 10.3%. The agriculture sector was affected by adverse seasonal conditions. Telangana is predominantly a service-driven economy with services sector estimated to contribute 62.9% of the GSDP at constant prices for FY15 as compared to 53.8% in FY05. The structural composition of the Telangana's economy has undergone a notable change in the last decade with high growth witnessed in services sector in comparison to agriculture and industry.
- The primary sector² in the GSDP has been witnessing a steady declining from 17.9% in FY05 to 12.8% in FY15. The Industry sector, however, has not varied much.

In the Agriculture sector, the livestock segment has performed well and shown a positive growth, while other subsectors i.e. agriculture, forestry, and fisheries have registered a mixed growth. However despite a falling share of agriculture and dip in growth, the sector would remain a priority sector for the State to maintain and enhance potential for inclusive growth. Nearly, 55.7% of the workforce is dependent directly or indirectly on agriculture in Telangana.

TABLE 1: SECTORAL GROWTH RATE OF GSDP (AT CONSTANT PRICES)

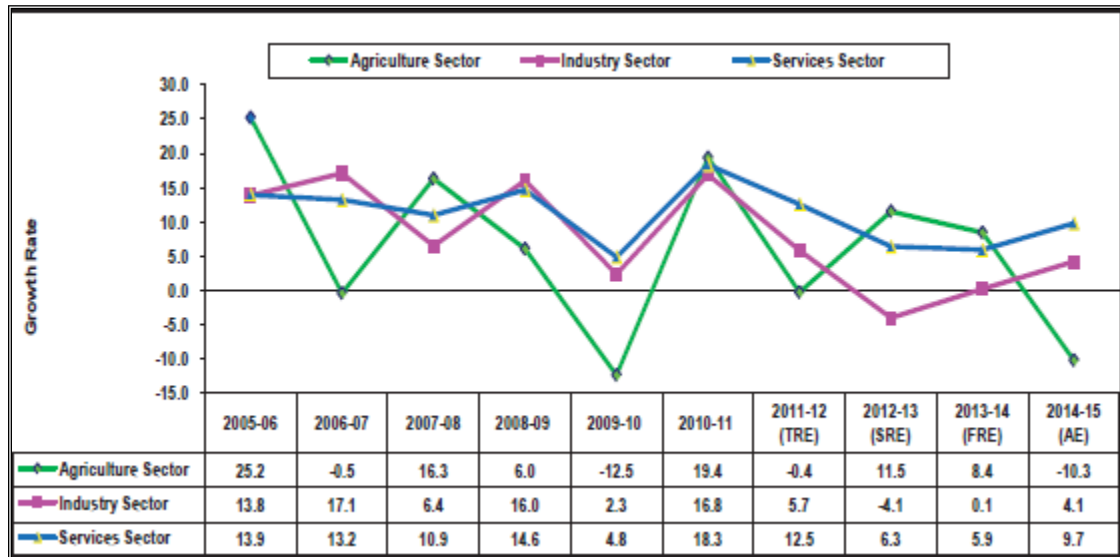
Year	Current Prices		Constant (2004-05) Prices	
	GSDP (Rs.Crore)	Percentage variation over previous year	GSDP (Rs.Crore)	Percentage variation over previous year
2004-05	89,946	-	89,946	-
2005-06	1,08,335	20.4	1,04,233	15.9
2006-07	1,26,971	17.2	1,16,343	11.6
2007-08	1,52,452	20.1	1,28,618	10.6
2008-09	1,89,382	24.2	1,45,902	13.4
2009-10	2,03,508	7.5	1,47,577	1.1
2010-11	2,63,898	29.7	1,74,185	18.0
2011-12(TRE)	3,05,622	15.8	1,89,269	8.7
2012-13(SRE)	3,47,082	13.6	1,97,056	4.1
2013-14(FRE)	3,91,751	12.9	2,06,427	4.8
2014-15(AE)	4,30,599	9.9	2,17,432	5.3

Source: Socio Economic Outlook 2015

The above table indicates that the state GSDP at constant (2004-05) prices recorded double digit growth from 2005-06 to 2008-09 and 2010-11, there after it is experiencing steep downward trend in subsequent years with a low growth of 1.1 percent in 2009-10. The GSDP at current prices for the year 2014-15 is estimated at Rs. 4, 30,599 crore as against Rs. 3, 91,751 crore for 2013-14 with a growth rate of 9.9 per cent. The structural composition of the state economy witnessed significant changes during the last decade. During the period form 2005-06 to 2014-15, Agriculture sector recorded highest growth rate of 25.2% in 2005-06, the Services sectors with 18.3 percent in 2010-11 and Industry sector with 17.1 percent in 2006-07. Within in the Agriculture sector, the only Livestock sector show positive growth rate, while other three subsectors have registered a mixed growth over the years.

Within the services sector, transport by other means and storage; communications; banking and insurance; real estate, ownership of dwellings and business services and other services , have registered a positive growth, while trade, hotels and restaurants; railways and public administration has shown mixed growth over the years. Within the industry sector also, all the sub-sectors have registered mixed trend of growth during the period 2005-06 to 2014-15. The sector wise growth rates of GSDP at constant (2004-05) prices from 2005-06 to 2014-15 are shown in the chart given below:

Figure 1: SECTOR-WISE GROWTH RATES OF GSDP AT CONSTANT (2004-05) PRICES



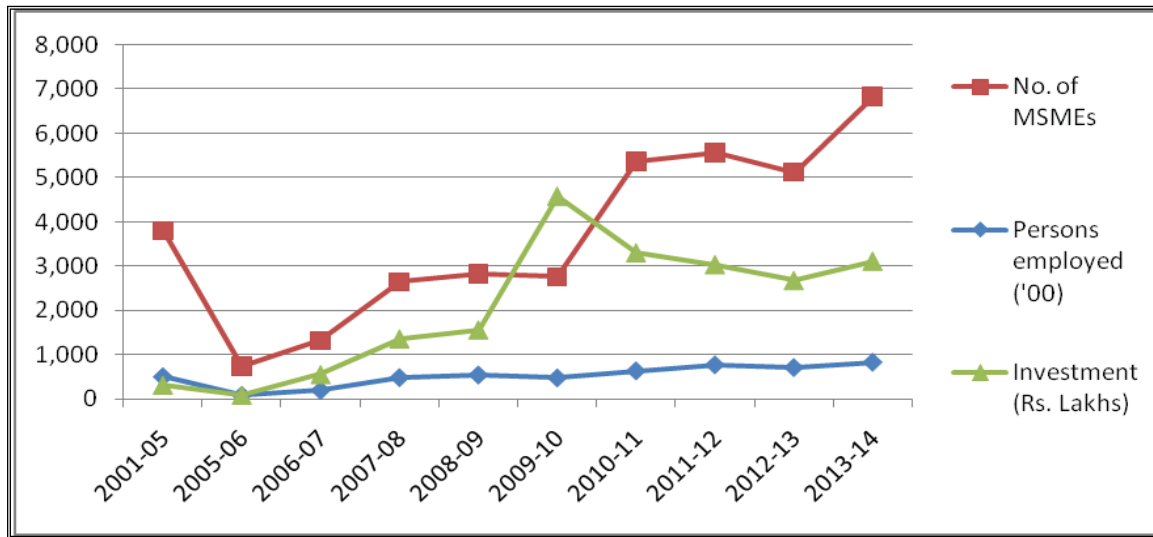
Majority of the investments and industrialization has taken place in the Ranga Reddy district, which is located in the outskirts of Hyderabad and is in close vicinity of Hyderabad. The enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. Government of India has unveiled a policy best suited for Micro and Small enterprises with the objectives of achieving 15% annual growth rate; increasing employment generation; creating congenial and hassle-free environment; helping the Small Scale Industries (SSI) sector to acquire new technologies and skills; improving export performance; promoting linkage between large and small sectors; and promoting appropriate institutional mechanisms to revive sick industries.

During the period 2001 to 2015 (up to January, 2015), 40,894 MSMEs were established in Telangana with an investment of Rs.22520.63 crores, providing employment to 5, 65,496 persons.

Table2: MSME Trends in Number of units, employment and investment in Telangana

	2001-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
No. of MSMEs	3,807	731	1,319	2,645	2,828	2,759	5,374	5,561	5,125	6,844
Persons employed ('00)	499	75	190	481	538	474	635	773	712	832
Investment (Rs. Lakhs)	311	84	553	1,358	1,559	4,576	3,301	3,033	2,674	3,111

The number of MSMEs and the number of persons employed in them in Telangana has witnessed an impressive growth between 2001-05 and 2013-14. Investment into the sector has also grown impressively. These details are depicted in the figure below:

Figure 2: TRENDS OF MSME SECTOR IN TELANGANA

Telangana houses some of the largest global information technology conglomerates, global and renowned Indian pharma and biotechnology majors, engineering and defence component manufactures. However, the growth has to a large extent centered around Hyderabad or Ranga Reddy and Medak district. Hence the policy initiatives and specific strategies are being drawn by the Government of Telangana to capitalize on the strengths of each district, as indicated above, to achieve a balanced growth.

- The government of Telangana has introduced a new industrial policy framework to develop 6 industrial corridors with focus on core manufacturing sectors with life sciences, IT and hardware being the major benefactors. Again, the policy focuses on the competitive advantages of districts in Telangana.
- SEZs in the fields of IT/ITeS, formulation, biotech and aerospace have been developed in Telangana. As a part of developing Tier-II districts, the Telangana State Industrial Infrastructure Corporation has developed SEZ at Madikonda (village) in Warangal District.

2.3. MICRO, SMALL AND MEDIUM ENTERPRISES

The Micro, Small & Medium Enterprises Development Institute (MSME-DI), Hyderabad offers a wide range of services for the Micro, Small and Medium Industrial sector in the State of Telangana. During the period 2001 to 2015 (up to January, 2015), 40,894 MSMEs were established in Telangana with an investment of Rs.22520.63 crores, providing employment to 5, 65,496 persons.

POLICIES AND SUPPORT FOR MSME SEGMENT BY TELANGANA GOVERNMENT

Telangana State has set-up District Industries Centers (DIC), the nodal agencies to provide all required approvals/ clearances for setting up industries under the Single Window System, implement the Micro Small and Medium Enterprises (MSME) Development Act, 2006 and issue Entrepreneur Memorandum (EM) for MSME besides maintaining effective liaison with various financial institutions in facilitating the required credit. The Government of Telangana announced the new industrial incentive scheme T-IDEA, 2014 (Telangana State Industrial Development and

Entrepreneur Advancement for the General category entrepreneurs and T-PRIDE (Telangana State Program for Rapid Incubation of Dalit Entrepreneurs) of 2014 for Scheduled Caste / Scheduled Tribe entrepreneurs, extending various incentives for MSME and Large Industries Sectors.

INFRASTRUCTURE SUPPORT FOR MSME'S:

- Reservation of 30-40% of the land for MSME's in the upcoming industrial estates developed by Telangana Industrial Infrastructure Corporation (TSIIC).
- "Open access" power restrictions will be removed to enable all types of industries, including MSMEs to access the power exchange.

INDUSTRIAL CLUSTERS:

Availability of free land plays major role for development of industrial clusters. As part of initiatives to promote industries Telangana Government has identified 2.5lakh acres of land for industrial use. The land bank will be developed with the assistance of Telangana State Industrial Infrastructure Corporation (TSIIC). The Government of Telangana is planning to develop industrial clusters based on the parameters like demand and the availability of the products in the surrounding areas of the cluster locations by availing Government of India grant under MSE-CDP scheme for the newly developing clusters and up gradation of existing Industrial Parks. Telangana state is under TSIIC filed the applications with Development Commissioner – MSME for the following 10 Industrial clusters for in principle approval / Govt of India grant.

NEW INDUSTRIAL POLICY 2014: KEY ASPECTS

Recent policies formulated by the Government of Telangana to fructify economic development in the State are listed below:

A. TS-iPASS Act 2014:

The TS-iPASS was introduced on November, 2014 by the Government of Telangana to provide speedy processing for issue of various licenses, clearances and certificates required for setting up of industrial undertakings for the promotion of industrial development and also to provide an investor friendly environment in the state of Telangana. With the enactment of TS-iPASS, the Andhra Pradesh Industrial Single Window Clearance Act 2002 was repealed. Incentives for setting up of New Industrial Enterprises in Telangana State- T-IDEA (Telangana State Industrial Development and Entrepreneur Advancement)

A. Incentives for Mega Projects:

- The Government will extend tailor-made benefits to Mega Projects to suit to a particular investment requirements on case to case basis, based on the investment, technology, economic impact, employment and strategic importance to the State of Telangana

B. Incentives for Micro, Small enterprises, women entrepreneurs and Medium & Large Industries

- 100% reimbursement of stamp duty and transfer duty paid by the industry on purchase of land meant for industrial use.

- 100% reimbursement of stamp duty for lease of land/shed/ buildings and also mortgages and hypothecations.
- 25% rebate in land cost limited to Rs.10.00 Lakhs in industrial estates/ industrial parks.
- 25% Land conversion charges for industrial use limited to Rs.10.0 lakhs
- Fixed power cost reimbursement @ Rs.1.00 per unit for 5 years from the date of commencement of commercial production.
- 50% reimbursement of cost involved in skill upgradation and training the local manpower limited to Rs.2000 per person.

C. Additional incentives to Medium and Large Industries

- Reimbursement of 75% net VAT/CST or State Goods and Services Tax (SGST) for a period of 7 years from the date of commencement of commercial production for Medium Scale Enterprises or up to realization of 100% fixed capital investment, whichever is earlier.
- Reimbursement of 50% net VAT/CST or State Goods and Services Tax (SGST) for a period of 7 years from the date of commencement of commercial production for Large Scale Industries or up to realization of 100% fixed capital investment, whichever is earlier.
- Infrastructure like roads, power and water will be provided at door step of the industry for standalone units by contributing 50% of the cost of infrastructure from Industrial Infrastructure Development Fund (IIDF) with a ceiling of Rs.1.00 Crore, subject to (a) the location should be beyond 10 kms from the existing Industrial Estates/ Industrial Development Areas (IDAs) having vacant land/shed for allotment and (b) cost of the infrastructure limited to 15% of the eligible fixed capital investment made in the industry.

D. Additional incentives to Micro, Small enterprises and women entrepreneurs

- 15% investment subsidy on fixed capital investment subject to a maximum of Rs.20.00 lakhs
- Reimbursement of 100% net VAT/CST or State Goods and Services Tax (SGST) for a period of 5 years from the date of commencement of commercial production.
- Interest subsidy under Pavala Vaddi Scheme on the term loan taken on the fixed capital investment by New Micro and Small Enterprises in excess of 3% per annum subject to a maximum reimbursement of 9% per annum for a period of 5 years from the date of commencement of commercial production.
- Seed capital assistance to First Generation Entrepreneurs to set-up Micro Enterprises @10% of the Machinery cost, which will be deducted from the eligible investment subsidy.
- To extend investment subsidy to the identified service activities related to industries setup in all Municipal Corporation limits in the state
- For women entrepreneurs, additional 10% investment subsidy on fixed capital investment subject to a maximum of Rs. 10.00 lakhs to MSE's.

SPECIAL FOCUS ON SMEs/MICRO INDUSTRIES

The SMEs and Micro-industries are expected to play a significant role in the new state of Telangana, both in terms of value addition and also in creating employment opportunities. The new Telangana State Industrial Policy will make special provisions for the SME and Micro sectors, as follows:

- Adequate number of smaller plots in Industrial parks for SMEs; developed sheds for Micro units
- Special fund for addressing Incipient Sickness
- Special fund for IP registrations assistance

- Special fund for anti-pirating assistance
- Special fund for technology transfer and modernization to MSME sector
- Reimbursement of land conversion charges for units in own land, subject to an upper limit
- Marketing assistance to participate in national and international trade shows and buyer-seller meets
- Consultant panel to respond to MSME entrepreneur needs
- Separate State Level Bankers Committee (SLBC) for industries, particularly SMEs
- Decentralized procedure for issue of licences and permissions to Micro enterprises at the level of Industrial Promotion Officers (IPOs)

ANCILLARY/VENDOR DEVELOPMENT

Within each of the core sectors, Telangana State Government is interested in the promotion of the ecosystem covering the entire value chain. An important component of the value chain is the primary suppliers who provide the raw material or the component parts to the anchor manufacturing industry, or provide basic inputs to a service industry. The Telangana State Government will plan each Industrial park in such a way that along with anchor units, enough plots are available for setting up Suppliers/Vendors Park. Since the ancillary units are usually in the SME category, these plots will be smaller in size. Mega projects will have to compulsorily set up a Suppliers/Vendors park to encourage growth of local ancillaries.

PREVENTING INCIPIENT SICKNESS AMONG SMEs

The Telangana State Government intends to create a corpus fund jointly with the industries and their associations which will act as a safety net for SMEs that face any crisis and run the risk of imminent sickness. Telangana State Government will also work closely with the RBI constituted State Level Inter-Institutional Committee (SLIIC) to coordinate revival plans of sick and incipient SMEs.

MARKETING BRAND TELANGANA

Telangana is the 29th and newest State of the Union of India. There is a need to create awareness about the State of Telangana and its brand image. To this end, Telangana State will participate extensively in a large number of national and international trade fairs, conferences and exhibitions so that the strengths and opportunities of the State can be show-cased. The industrial policy of Telangana State has also to be publicised widely. In addition to promoting the brand image of the state, it is also essential to promote the SMEs of the state. The State will actively promote the participation of Telangana SMEs in trade fairs, expositions, buyer seller meets and other such events. The State will also leverage all funds available from Government of India schemes under the MSME, Commerce, Textiles, and Pharmaceutical Departments and sector specific Export Promotion Councils to promote State SMEs. Adequate budget support will be provided for marketing the State and the industrial and craft products of the State.

CLASSIFICATION OF PROJECTS

The classification of projects into large, medium, small and micro sectors will be based on the Government of India MSME Ministry definitions as amended from time to time. The definition of a mega project is a Telangana State determined one. Government of India has proposed to raise the investment limits under each category and the classification for now is as follows.

- Mega Projects: Those having investment of above Rs. 200 crores in plant and machinery or providing employment to more than 1000 persons
- Other Large Projects: Those having investment between Rs 10 to 200 crores in plant and machinery.
- Medium Industries: Those having investment between Rs 5 and 10 crores in plant and machinery
- Small Industries: Those having investment between Rs 25 lakhs to Rs 5 crores in plant and machinery
- Micro Enterprises: Those having investment of less than Rs 25 lakhs in plant and machinery

CONCLUSIONS

The performance of Telangana MSMEs is with good pace. The MSME sector has maintained a higher growth rate vis-à-vis the overall industrial sector during the past decade and exports from these enterprises have been on the rise. At present, the sector produces a broad variety of products, from simple consumer goods to high-precision, sophisticated finished products. At the same time it is threaten by sickness, which causes to hamper of MSMEs growth. MSMEs are highly vulnerable to any kind of disruption and their ability to withstand them is quite low.

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