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A study of financial management in small scale industries in India

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Abstract
India was famous all over the world in ancient times for goods Manufactured in small scale industries. It was a symbol of Indian Culture and Civilization. But up to nineteenth century the small industries had lost their utility. After independence, the government started paying attention towards these industries. Today, small scale industries are as important as large industries.
Small Scale industries encompass vast scope covering activities like manufacturing, servicing, financing, construction, infrastructure etc. In view of Government of India’s ever increasing importance given to the small scale industries in the national economy more & more small scale industries are to be set up in the years to come. By contributing it’s increasing share to the national production, employment & exports, small scale industries also contribute to the economic development of the country. However, these industries are also plagued by the problems of raw material, finance, marketing, underutilization of capacity, etc. cash has become a big problem for small & even big businesses today. Lack of finance has driven many small business units into bankruptcy. Unfortunately many small businesses will become bankrupt because their owners have neglected the principal of cash management which normally determines their successes or failure. Cash is like oxygen to a business. Small scale enterprises, given their small resources find it difficult to have these own. Finance has been the important resource to start & run an enterprise4because it facilitates the entrepreneur to procure land, labour, material, machine& so on from different parties to run his/her enterprise. Report of third all India censuses also clearly indicate that lack of demand& shortage of working capital are the main reasons behind sickness/ incipient sickness of registered & unregistered small scale industries. Developing cash forecast is essential for new business because early sales do not generate enough cash to keep the company afloat. Better financial management can lead the company ahead in competition as well as it will help the entrepreneur to avoid the situation of bankruptcy & industrial sickness. This paper is an attempt to understand various financial techniques to help the entrepreneurs to avoid the situation of industrial sickness.

Keywords: Cash management, small scale entrepreneurs, industrial sickness

Introduction
Finance is the life blood of modern industrial economy. We cannot think of any establishment coming into being nor successfully carried on and developed without finance. Finance is the key input of production distribution& development. It is therefore aptly described as the “life- blood” of industry& is prerequisite for accelerating the process of industrial development. Especially in case of small scale industries, finance is the key input in growth & development. The financial investment of these small units comes mainly from within; most of them invest their own funds or borrowed funds. Much less comes from banks & government channels. Small scale entrepreneurs face a lot of problem while availing loan facility form commercial banks as well as Government agencies. Financial institutions ask for a lot of information& data, state financial corporation takes several months to take decision on extending term loans small scale sector are not in a position to offer guarantee required by the banking sector. Even when small loans can be raised from Government agencies the procedure is so cumbersome that most of the entrepreneurs, who either are illiterate or semiliterate, hesitate to make use of these facilities. This makes matter very difficult for the small industrialist, particularly when he is new to this way of life, & he has to deal with both state financial corporation as well as banks. Quite often few get fed up at this stage & give up.

The importance of Cash Management to the success of Small Business

Managing cash flow which is a struggle for many business owners involves-

Forecasting

Collecting

Disbursing

Investing & planning for the cash a company needs to operate smoothly. A business must have enough cash to meet it's obligations as they come due or it will experience bankruptcy.

Creditors, employees & lenders expected to be paid on time, which require cash. Proper cash management permeates entrepreneurs to adequately meet their cash demands of their businesses avoid unnecessarily large cash balances & stretch the profit-generating power of each credit or dollar their companies own. Entrepreneurs must have the discipline to manage cash flow from the first day of its operation. Although cash problem affect all companies young businesses are more prone to suffer cash shortages because all the available cash is used for their productive activities& their cash generating activities have not reached the level to generate enough cash to cover rapidly growing expenses.

Cash Management Role of the Entrepreneur

The five key cash management roles every entrepreneur must fulfill are-

1) Cash finder: This is the entrepreneurs first & the foremost responsibility. Must make sure there is enough capital to meet present as well as future bills. This is not a one time task but an ongoing job.

2) Cash planner: As a cash planner an Entrepreneur makes sure the companies cash used properly & efficiently. Must keep track of its cash make sure that it is available to pay bills & plan for it's future use. Planning requires ones to forecast the company's inflows & outflows for the month ahead with the help of a cash budget.

3) Cash Distributor: The role require entrepreneur to control the cash needed to pay the companies bills &the priority & the timing to those payments. Forecasting cash disbursements accurately & making sure the cash is available when payments come due are essential to keep the business solvent.

4) Cash collector: The role require entrepreneur to make sure customers pay their bills on time. Too often entrepreneurs focus on pumping of sales while neglecting to collect the cash from these sales. Uncollected accounts drain a small company's pool of cash very quickly.

5) Cash conserver: The role require entrepreneur to make sure the company gain maximum value for the dollar it spends. Avoiding unnecessary expenditure is an important part of this task. The goal is to spend cash so it will produce a return for the company.

Type of industrial Finance

Depending upon the type of activity entrepreneur require three type of Finance

1. Short term finance- For the period of less than one year. It is usually required to meet variable, seasonal or temporary working capital needs.
2. Medium Term finance-The period of 1-5 years. Medium term finance is usually required for permanent working capital, small expansions, replacements, modifications etc.
3. Long Term Finance- Period exceeding 5 years. Long term finance is usually required for procuring fixed assets, for the establishment of a new business, for substantial expansion of existing business, modernization.

Scheme of integrated infrastructure development for small industries to facilitate location of industries in rural and backward areas and to promote stronger coordination between industry and agriculture. The scheme was formally launched in March 1994 and integrated infrastructure development centres (IIDCs) set up.

Comprehensive Policy Package 2000 and Recent Policy Measures

A comprehensive policy package for the small scale sector was announced by the Prime Minister on August 30, 2000. The main elements of this package were: (1) Conducting the third census of small scale industries; (2) Raising the exemption for excise duty limit for Rs 50 lakh to Rs 1 crore to improve the competitiveness of small scale sector; (3) Providing credit linked capital subsidy of 12 percent against loans for technology upgradation in specified industries; (4) Raising the limit of investment in industry related service and business enterprises fro Rs lakh to Rs 10 lakh; (5) Raising the limit of composite laons from Rs 10 lakh to 25 lakh; etc.

As sated earlier, the third census of the small scale sector (covering both registered and unregistered units) was conducted during the year 2001-02. This has provided valuable information regarding the SSI sector.

The investment limit for the SSI sector which was Rs 1 crore prior to 2006 has been raised to Rs 5 crore in MSMED Act, 2006. This has been done to facilitate technological upgradation of this sector so that it is able to compete effectively in the new global competitive industrial environment.

The government launched the Credit Guarantee Fund Scheme for small industries (now renamed as credit guarantee fund scheme for Micro and small enterprises) in August 2000 with the objective of making available credit to SSI units, particulary tiny units, for laons up to Rs 100 lakh without collateral/third party guarantees. For making the scheme more attractive to both lenders as well as borrowers, several modifications have been undertaken in recent years.

To encourage technology upgradation, a Credit Linked Capital Subsidy Scheme for technology upgrasation has been launched. Under this scheme, 15 percent capital subsidy is admissible on loans upto Rs 1 crore, advanced by scheduled commercial banks/State Finance Corporations / National Small Industries Corporation to small scale industries for technology upgradation.

The integrated infrastructure development (IID) scheme has been extended to cover the entire country with 50 percent reservation for rural areas.

A flexible growth stimulating and artisan-centric scheme named market development assistance (MDA) to promote production and sales of Khadi and Polyvastra has been introduced from 2010-11. The scheme provided for assistance up to 20 percent for the value of production to be shared among artisans, producing institutions, and selling institutions in the ratio 25:30:45.

In recent years, the government has been foolowing the policy of deservation as it believes that this will help the SSIs units to upgrade their technology and improve the quality for their products. As a result of this policy, the number of items reserved for the SSI sector came down from 836 in July 1989 to 114 in March 2007 and subsequently to only 20 items. Vide notification dated April 10, 20151 the government announced the scrapping of the reservation list. Thus, all items have now been dereserved.

To ensure credit delivery to the SSI sector, a number of steps have been undertaken in recent years; (i) the composite loan limit has been raised from Rs 50 lakh to Rs 1 crore; (ii) the limit of collateral free laons has been raised from 15 lakh to 25 lakh in case of SSI units with a good track record; (iii) Langhu Udyami Credit Card (LUCC) scheme has been liberalished by enhancing the credit limit from Rs 2 lakh to Rs 10 lakh, for borrowers having a satisfactory track record; (iv) the small and medium enterprises (SME) fund of Rs 10,000 crore was operationalised by the SIDBI (Small Industries Development Bank of India) since April 2004. Eighty percent of the lending from this fund will be for SSI units, at intrest rate of 2 percent below the prevealing PLR (prime lending rate) of the SIDBI. The government has also announced a policy for during of credit flow to the small and medium enterprises sector in a period of five years.

As a result of all these efforts, these has been a considerable expansion of bank credit to the small scale sector in recent years. As at the end of March 2015, the industries in the case of public sector banks was Rs 6,479 billion which was 13.8 percent of ANBC (adjusted net bank credit) of Rs 46,895 billion. As a proportion of total prority sector advances, credit outstanding against micro and small industries as at end March 2015 was 37.0 percent.

Prime Minister launched Micro Unit Development and Refinance Agency or MUDRA on April 8, 2015 to fund and promote microfinance institutions (MFIs), which would, in turn, rovide loans to small and vulnerable sections of the business. MUDRA will have an initial corpus of Rs 20,000 crore and a credit guarantee corpus of Rs 3,000 crore. The initial corpus would be provided by banks from their priority sector lending shortfall. Small businesses can avail loans upto Rs 50,000; businesses that are a little bigger could avail loan of upto Rs 5 lakh; the highest bracket of loans available to the MSME sector would be uptp Rs 10 lakh. For further funding, the MSME sector affiliated entrepreneurs would be given a 'MUDRA Card' which could provide further credit of upto Rs 20,000. MUDRA would also partner wih state, regional level coordinators to provide finance to the last mile financiers of small and micro business enterprises. To be an non-banking financial company (NBFC) and a part of SIDBI, MUDRA will later take the from of a bank trough a Bill to be presented in the Parliament.

Micro, small and medium enterprises development (MSMED) act was enacted in 2006. It provides the first ever legal framework for recognition of the concept of 'enterprises' (comprising both manufacturing and services) and integrating the three tiers of these enterprises, viz., micro, small and medium. It also provides for a statutory consultative mechanism at the national level with wide representation of all sections of stakeholders, particularly the three classes of enterprises. Other important provisions of the Act are: (i) establishment of specific funds for the promotion, development and enhancement of competitiveness of these enterprises; (ii) notification of scheme/programmes for the purpose; (iii) progressive credit policies and practices; (iv) preference in Government procurements to products and services of the micro and small enterprises; (v) more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises; and (vi) simplification of the process of closure of business by all three categories of enterprises.

The government has launched National Manufacturing Competitiveness Programme (NMCP) for MSMEs, which has specific components that are aimed at enhancing the competitiveness and productivity of the enterprises in this sector so as to withstand global and organized competition and to thrive through better technologies and skills. The ten components of the NMCP seek to the MSME sector, which has been often unable to afford such practices and techniques.

The government has notified a public procurement policy for goods product and services rendered by Micro and small enterprises (MSE) order, 2012 effective from April 1, 2012. The policy mandates that all the Central Ministries/Department/Central Public Sector Undertakings (CPSUs) shall procure a minimum of 20 percent of their annual value of goods/services required by them from MSEs. Further, policy has earmarked a sub-target of 4 percent procurement out of this 20 percent from MSEs owned by scheduled caste/scheduled tribe (SC/ST) entrepreneurs.

The UAM scheme was notified in September 2015 with the objective of promoting ease of business for MSMEs. Under the scheme, MSME entrepreneurs just need to file an online entrepreneurs' memorandum to instantly get a unique Udyog Aadhaar Number (UAN). The information sought is on self-certification basis and no supporting documents are required. This is expected to make a significant improvement over the earlier complex and cumbersome procedure.

ASPIRE was launched on March 16, 2015 with the objective of setting up a network of technology centres and incubation centres to accelerate entrepreneurship and promote start-ups for innovation and entrepreneurship in rural and agriculture based industry.

Eleventh Five Year Plan provided an outlay of Rs 11,500 crore for MSME (Micro, Small and Medium enterprises) sector was targeted to increase at a compound annual rate of 15.4 percent while employment was targeted to increase at a compound annual rate of 4.0 percent? Outlay for the MSME sector has been kept at Rs 26,014 crore in the Twelfth Plan are as follows: (i) promoting competitiveness and productivity in the MSME space; (ii) making the MSME sector innovative, improving technology and depth; (iii) enabling environment for promotion and development of MSMEs; (iv) strong presence in exports; and (v) improved managerial processes in MSMEs.

Conclusion

For entrepreneurs, small business financial management is a vital aspect of growing a rofitable company. Implementing sound economic principles and keeping a close watch on cash flow will help lay a solid financial foundation for the new venture. Monetary policies and procedures for effective cash management need to be part of the entrepreneur's business plan. Though it may be more exciting for the entrepreneur to dream about the actual services or products that the company will provide, a business cannot thrive, and may not survive, if the financing aspects are left to chance. In order to arrest sickness at the incipient stage banks & financial institutions should periodically review the accounts of the small scale industr8ies borrowers to identify units which are becoming sick or are prone to sickness. The Government of India & the RBI should be requested to direct commercial banks & financial institutions to provide information on sickness to the agencies like BIFR implementing the rehabilitation programme to facilitate them to take up appropriate action. It is also suggested that Government should conduct special EDP’s for training the entrepreneurs in financial aspects.

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