

A Dissertation Report on

Preferential modernization and source of financing for MSME's in Rourkela

Submitted in partial fulfillment of the requirements for the degree of

Master of Business Administration (MBA)

by

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Under the Guidance

Of

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## DECLARATION

**"I, Abhishek Prajapati, hereby declare that this project report entitled " Preferential modernization and source of financing for MSME's in Rourkela." submitted by me, under the guidance of Dr. Shigufta Hena Uzma, Assistant Professor, School of Management, NIT Rourkela. Is my own creation and has not been submitted to any other University or Institute or published earlier.**

Place:

Abhishek Prajapati

Date :

## **CERTIFICATE**

I, hereby certify that **Abhishek Prajapati**, a student of Masters of Business Administration at School of Management, NIT Rourkela, has completed the project report on “Preferential modernization and source of financing for MSME’s in Rourkela”, under my guidance.

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Thanking You  
Abhishek Prajapati

# **CHAPTER 1**

## **Introduction of the study**

- 1.1** Rationale of the study.
- 1.2** Introduction to MSME in India.
- 1.3** Modernization for MSME in India.
- 1.4** Access to Financial credit available to MSME in India.
- 1.5** Government facilities available to MSME in India.

## **1.1 Rational of the Study**

The fundamental reason of the project was to determine the preference of micro small and medium scale industries towards modernization of their existing business and to determine the most preferable source of finance for their project. The objective was to determine all important nodes involved in modernization of a firm and also to analyze if there is any particular preferences in modernization and the source of financing.

It was also intended to determine, out of high rate of interest and deposit of securities, which is more preferable.

The project intended to determine the most critical nodes in financing MSME in Rourkela, like the amount of funds needed, speed of sanction and disbursal, cost and interest rates, the types of mortgage demanded by banks or any other financing company or any other problems in regards to MSME in accessing to credit.

## **1.2 Introduction to MSME in India.**

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socioeconomic development of the country. The most important factor in the growth of any economy is the development of micro small and medium enterprises of the country. The MSME section of the country provides maximum growth to the economy in terms of labour employment, cash distribution to the general people and export import of the country. Government pays special care to MSME in the economic growth of the country. During the initial days of industrialization the prime sources were bank but in recent development it has been observed that there is a diversification in the financing option of MSME for long term and short term financing. New enterprenres are choosing other option like internal funding, trade credit and loans from other informal source. Despite being a big contributor to the growth of the country economy it faced a huge problem either at the begging of the company or at the middle of its operation. Some of the

difficulties faced by MSME in India are like unavailability of the adequate source of fund, high cost of credit that is the interest rate, requirement of submission of collateral against the issued capital, improper access to the capital market to raise fund, no support for the rehabilitation of sick enterprises. At present there is no literature review available to determine the credit gap for MSME however as per the report of national commission on enterprises in unorganized sector (NCEUS) it says that there is a credit gap for the micro enterprises which is about 73%.

#### Importance of the Sector:

Thus far, Small Scale Industries (SSI) sector is being talked about. With the recent enactment of Micro, Small and Medium Enterprises and Development (MSMED) Act, 2006 Small and Medium Enterprises (SMEs) sector has emerged which will replace the SSI sector. Like in any other developing countries, in India SMEs play a very significant role in terms of their balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings

#### Official Definitions:

In the Indian context, the definition of the SME sector is largely framed in terms of cumulative investment in plant and machinery. Most of the countries adopt the level of employment as the criterion for defining the SME sector. According to the official definition adopted in India till recently, the investment limit up to Rs.10 million in plant and machinery is treated as Small Scale Industries (SSI) unit. However, in respect of certain specified items such as hosiery, hand-tools, drugs & pharmaceuticals and stationary items, the above investment limit in plant and machinery has been enhanced up to Rs.50 million. But under MSMED Act, new official definitions are available separately for Manufacturing and Service rendering enterprises. Accordingly for manufacturing enterprises, the criteria is investment in plant and machinery i.e. micro – up to Rs 25 lakhs; small – above Rs 25 lakhs and up to Rs 5 crores and medium – above Rs 5 crores and up to Rs 10 crores. Regarding service enterprises, the criteria is investment in equipment i.e. micro – up to Rs 10 lakhs; small – above Rs 10 lakhs and up to Rs 2 crores and medium - above Rs 2 crores and up to Rs 5 crores. Today, SMEs are widely used in place of SSIs but data are available for the SSI sector only. Medium enterprises are new in this regard.

Performance of Micro, Small & Medium Enterprises (MSME) sector is assessed by conduct of periodic All India Census of the Sector. The latest census conducted was Fourth All India Census of MSME. The Census was conducted with reference year 2006- 07, wherein the data was collected till 2009 and results published in 2011-12. Fourth All India Census of MSME is the first census conducted post implementation of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. Prior to implementation of MSMED Act, 2006, the sector was defined as per the provision of Industrial Development and Regulation Act, 1951 as Small Scale Industries (SSI) sector and its constituent, tiny and auxiliary units as per periodic revision of criteria for defining such units. The Third All India Census of SSI was conducted with coverage and concepts as prevailing during 2001-02. The scope and coverage of the MSME sector were broadened significantly under the MSMED Act, 2006, which recognised the concept of “enterprise” and to include both manufacturing and services sector, besides defining the medium enterprises under the MSME sector. Thus, the entire non-agricultural sector of the economy was brought under the coverage of MSME sector subject to the revised criteria prescribed for defining Micro, Small and Medium Enterprises separately for manufacturing and services sectors.

#### Performance and valuation of MSME over the year

No.	Year	Total Working Enterprises (in Lakh)	Employment (in Lakh)	Market Value of Fixed Assets (Rs. in Crore)
1.	008	377.36	842.00	920,459.84
2.	009	393.70	880.84	977,114.72
3.	010	410.80	921.79	1,038,546.08
4.	011	428.73	965.15	1,105,934.09
5.	012	447.66	1,011.80	1,183,332.00
6.	013	467.56	1,061.52	1,269,338.02

#### Contribution of MSME in India towards GDP of India

Year	Gross Value of Output (Rs. in Crore)	Percentage Share of MSME	
		Total Manufacturing Output	Gross Domestic Product (GDP)
2006-07	1198817.55	42.02	7.73
2007-08	1322960.41	41.98	7.81
2008-09	1375698.60	40.79	7.52
2009-10	1488390.23	39.63	7.49
2010-11	1655580.60	38.48	7.42
2011-12*	1790804.67	37.52	7.28

Note: \* - Provisional.

Source: 1. Fourth All India Census of MSMEs 2006-07,  
2. National Account Statistics 2013, CSO, M/O SPI and  
3. Annual Survey of Industries, CSO, M/O SPI

### 1.3 Modernization for MSME in India.

Modernization has different meaning for different business and it depends on the internal and external factors that affect business like product demand, countries economy, availability of fund and source of financing, and others.

Modernization of a firm can be in terms of fixed assets like land and buildings, machineries used in production.

Other area of developing or expanding a MSME are like investing money in marketing of the product or the brand name of the project, increasing the production quantity and quality of the product establishing research and development unit for the firm or taking help of other firms to perform R&D for it, upgrading the information technology of the firm like installation of automated machines and cctv for security purpose. Modernization can be in terms of supply chain management both in forward and backward integration. Even increasing the number of work force of firm is a modernizing for MSME in India. Modernization is growth of the firm and it comes with a cost. When it is a cost then it needs finance. The loan can be of long term or short term depending on the type of modernization.

### 1.4 Access to Financial credit available to MSME in India.

The provision of finance to the Small and Medium Enterprise (SME) segment is a topic of crucial policy importance. In Ireland, over two-thirds of private sector employment is accounted

for by these firms (Lawless et al., 2012), with their prospects more closely linked to that of the domestic economy than is the case for larger firms. The post-

crisis debate in Ireland has focused almost exclusively on the provision of bank credit to SMEs.

While banks are generally thought of as the chief provider of external finance to SMEs (Beck et al., 2008), their importance in the financing of Irish SMEs has not been empirically assessed. This Letter uses three independent survey data sets to shed light on the issue, both by comparing Irish SME financing to other European countries, and by highlighting changes in Irish SMEs' funding mix since the onset of the financial crisis.

Firstly, we use data from 2005 and 2012 to compare the importance of banks in funding Irish SMEs' working capital and investment relative to SMEs across Europe. Evidence is provided that Irish SMEs are either the most, or second most, reliant in our European sample on bank borrowing, whether measured by the share of SMEs that use bank borrowing, or by the percentage of firms working capital or investment financed by bank borrowing. That these findings hold in both pre and post-crisis surveys suggests the patterns are structural characteristics of the Irish economy. Secondly, comparable data on the funding mix of Irish SMEs in 2005 and 2012 are created to highlight changes occurring since the onset of the financial crisis. The data reveal a striking pattern whereby, *among firms with a demand for financing*, the share of firms using bank borrowing for either working capital or investment purposes has fallen by one half between 2005 and 2012. Internal funding (for investment), along with trade credit and equity (for both investment and working capital) are being used more intensively by Irish SMEs in 2012 than in 2005, suggesting that a substitution from bank to alternative financing has taken place. It is likely that SMEs in countries with a heavy reliance on banks for funding will be disproportionately impacted by difficulties in the banking sector. While banks, with a comparative advantage in credit information processing and intermediation, must continue to play an important role in funding the SME segment, a more diversified mix of funding options than those currently available would represent a more sustainable long-run Irish SME financing environment. At both national<sup>1</sup> and European level, a range of policy actions have been put in place which aim to create a more diversified set of viable funding options for SMEs. The findings of this Letter provide support for such policies.

## Source of funding for MSME in India

- Internal funds/Retained earnings
- Equity (i.e. issue new shares)
- Borrowing from local private commercial banks
- Borrowing from foreign banks
- Borrowing from state-owned banks, including state development banks
- Loans from family/friends
- Money lenders or other informal sources(other than family/friends)
- Trade credit from suppliers
- Trade credit from customers
- Credit cards
- Leasing arrangement
- The government (other than state-owned banks)
- Other

### 1.5 Government support to MSME in India

MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES SME Division

Scheme for 'Providing financial assistance on International Cooperation' Related Scheme International Cooperation Scheme Description The scheme covers the following activities: (a) Deputation of MSME business delegations to other countries for exploring new areas of technology infusion/upgradation, facilitating joint ventures, improving market of MSMEs products, foreign collaborations, etc. (b) Participation by Indian MSMEs in international exhibitions, trade fairs and buyer-seller meets in foreign countries as well as in India, in which there is international participation. (c) Holding international conferences and seminars on topics and themes of interest to the MSME. Nature of assistance IC scheme provides financial assistance of up to 95% of airfare and space rent of entrepreneurs. Assistance is provided on the basis of size and type of the enterprise. It also provides assistance for common expenses of delegation like

freight & insurance, local transport, secretarial/communication services, printing of common catalogue, etc.

Scheme for providing establishment of new institutions (EDIs), strengthening the infrastructure for EDIs under ATI scheme Related Scheme Assistance to Training Institutions scheme Description The assistance shall be provided to training institutions in the form of capital grant for creation/strengthening of infrastructure and programme support for conducting entrepreneurship development and skill development programmes. Nature of assistance Maximum assistance for creation or strengthening of infrastructure will be Rs.150 lakhs on matching basis, not exceeding 50% of project cost. However, for the North Eastern region (including Sikkim), Andaman & Nicobar and Lakshadweep, maximum assistance on matching basis would be Rs.270 lakhs or 90% of 2 project cost, whichever is less. Maximum assistance per trainee per hour for entrepreneurship development and skill development programmes is Rs.50 (Rs.60 for NER, A&N and Lakshadweep) Who can apply? Any State/Union Territory Government, Training Institutions, NGOs and other development agencies can apply for assistance for creation or strengthening of infrastructure. Training institutions who wish to conduct training programmes under the scheme will have to enroll themselves with any of the three national level EDIs of the Ministry viz, NIESBUD, Noida; IIE Guwahati and ni-msme, Hyderabad. How to apply? Organizations who wish to apply for assistance for creation or strengthening of infrastructure may send their applications to the Director (EDI), Ministry of Micro, Small and Medium Enterprises, Udyog Bhawan, Rafi Marg, New Delhi - 110 107. Training institutions who wish to conduct training programmes or persons who wish to enroll for training programmes under the scheme may visit <http://msmetraining.gov.in/> approach any of the three EDIs mentioned above 3. Marketing support under the Marketing Assistance scheme Related Scheme Marketing Assistance Scheme Description The assistance is provided for following activities: A. Organizing exhibitions abroad and participation in international exhibitions/trade fairs B. Co-sponsoring of exhibitions organized by other organizations/industry associations/agencies C. Organizing buyer-seller meets, intensive campaigns and marketing promotion events Nature of assistance Financial assistance of up to 95% of the airfare and space rent of entrepreneurs. Assistance is provided on the basis of size and type of the enterprise. Financial assistance for co-sponsoring would be limited to 40% of the net expenditure, subject to a maximum amount of Rs.5 lakh. Who can apply? MSMEs, Industry Associations and other organizations related to the MSME sector How to apply? The

applications/proposals for seeking assistance under the scheme shall be submitted to the nearest office of National Small Industries Corporation, with full details and justification.

#### **Development Commissioner (Dc-MSME) Related Scheme:**

Credit Guarantee Scheme Description Ministry of Micro, Small and Medium Enterprises, and Small Industries Development Bank of India (SIDBI), established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement Credit Guarantee Fund Scheme for Micro and Small Enterprises. The corpus of CGTMSE is being contributed by GoI and SIDBI. Nature of assistance For individuals: Collateral free loans up to a limit of Rs.50 lakhs - for individual MSEs. Who can apply? Both existing and new enterprises are eligible to be covered under the scheme. How to apply? Candidates meeting eligibility criteria may approach Banks/Financial Institutions, which are eligible under the scheme, are scheduled commercial banks and select Regional Rural Banks. Related Scheme: 2. Credit Linked Capital Subsidy Scheme for Technology Up gradation Description Technology up-gradation would ordinarily mean induction of state-of-the-art or near state-of-the-art technology. In varying mosaic of technology obtaining in more than 7,500 products in Indian small scale sector, technology up-gradation would mean a significant step up from present technology level to a substantially higher one involving improved productivity, and/or improvement in quality of products and/or improved environmental conditions including work environment for the unit. It includes installation of improved packaging techniques as well as anti-pollution measures and energy conservation machinery. Further, units in need of introducing facilities for in-house testing and on-line quality control would qualify for assistance, as the same is a case of technology up gradation. Replacement of existing equipment/technology with same equipment/technology will not qualify for subsidy under this scheme, nor would scheme be applicable to units upgrading with second hand machinery. Nature of assistance The revised scheme aims at facilitating technology up-gradation by providing 15% up-front capital subsidy to SSI units, including tiny, khadi, village and coir industrial units, on institutional finance availed of by them for induction of well established and improved technologies in specified sub-sectors/products approved under the scheme.

#### **Revised CLCSS has been amended as follows:**

(a) Ceiling on loans under scheme has been raised from Rs.40 lakh to Rs.1 crore (b) Rate of subsidy has been enhanced from 12% to 15% (c) Admissible capital subsidy is calculated with

reference to purchase price of plant and machinery, instead of term loan disbursed to beneficiary unit (d) Practice of categorization of SSI units in different slabs on the basis of their present investment for determining eligible subsidy has been done away with; and (e) Operation of scheme has been extended up to 31st March, 2007. The above revisions/amendments are effective from September 29, 2005. Who can apply? Eligible beneficiaries include sole proprietorships, partnerships, cooperative societies, and private and public limited companies in the SSI sector. Priority shall be given to women entrepreneurs. How to apply? Candidates meeting eligibility criteria may all scheduled commercial banks, scheduled cooperative banks [including urban cooperative banks co-opted by SIDBI under Technological Up gradation Fund Scheme (TUFS) of Ministry of Textiles], Regional Rural Banks (RRBs), State Financial Corporation's (SFCs) and North Eastern Development Financial Institution (NEDFI) are eligible as PLI under this scheme after they execute a General Agreement (GA) with any of nodal agencies, i.e., Small Industries Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD).

## ISO 9000/ISO 14001 Certification Reimbursement Scheme

### Description:

Small scale sector has emerged as dynamic and vibrant and making significant contribution to industrial production, export and employment generation. The process of economic liberalization and market reforms has opened up Indian small scale sector to global competition. In order to enhance the competitive strength of small scale sector, Government introduced an incentive scheme for their technological up-gradation/ quality improvement and environment management. The scheme provides incentive to those small scale/ancillary undertaking who have acquired ISO 9000/ISO 14001/HACCP certifications. The scheme enlarged so as to include reimbursement of expenses for acquiring ISO 14001 certification

### Micro & Small Enterprises Cluster Development Program (MSE-CDP) Description:

Ministry of Micro, Small and Medium Enterprises (MSME), Government of India (GoI) has adopted cluster development approach as a key strategy for enhancing productivity and competitiveness as well as capacity building of Micro and Small Enterprises (MSEs) and their collectives in the country. Clustering of units also enables providers of various services to them, including banks and credit agencies, to provide their services more economically, thus reducing

costs and improving availability of services for these enterprises. Objectives of the scheme: i. Support sustainability and growth of MSEs by addressing common issues such as improvement of technology, skills and quality, market access, access to capital, etc. ii. Build capacity of MSEs for common supportive action through formation of self help groups, consortia, up gradation of associations, etc. iii. To create/upgrade infrastructural facilities in the new/existing industrial areas/clusters of MSMEs. iv. To set up common facility centers (for testing, training centre, raw material depot, effluent treatment, complementing production processes, etc).

### **MSME Market Development Assistance (MDA)**

#### **Description:**

As part of comprehensive policy package for MSMEs, MSMEMDA scheme has been announced with a view to increase participation of representatives of participating units, the provision of MSME-MDA scheme has been modified recently. MDA is offered in three forms as mentioned below: Participation in the international exhibitions/fairs - For registered small & micro manufacturing enterprises with DI/DIC. Financial assistance for using Global Standards (GS1) in bar-coding - Recognized importance of bar-coding and avail financial assistance through Office of DC (MSME). Purchase and Price Preference Policy. This is administered through Single Point Registration Scheme of NSIC. Under this, 358 items are reserved for exclusive purchase from MSME by Central Government. Other facilities include tender documents free of cost, exemption from earnest money and security deposit and 15% price preference in Central Government purchases for individual MSMEs.

## **CHAPTER 2**

### **Company and product profile**

## **Chapter 3**

### **Review of literature**

#### **3.1 Review of Literature**

#### **3.2 Gap Analysis**

### 3.1 Review of Literature:

As per the definition of MSME's according to official record

Classification	Manufacturing	Service Enterprises
Micro	Up to Rs.25 Lakh (\$50 Thousand)	Up to Rs.10 Lakh (\$20 Thousand)
Small	Above Rs.25 Lakh & Less Than 5 Crore	10 Lakhs To 2 Crore
Medium	Above 5 Crore And Less Than 10 Crore	2 Crore To 5 Crore

\* Value based on investment in fixed assets like pant, machineries, etc.

In 2007 a studies conducted by Ayyagari et al, indicate that in both advanced economies and developing countries SMEs contribute on average 60 percent of total formal employment in the manufacturing sector.

Studies have shown that financing is a greater obstacle for SMEs than it is for large firms, particularly in the developing world, and that access to finance adversely affect the growth of the SME sector more than that of large companies (Schiffer and Weder, 2001; Beck et al, 2005; Beck et al, 2006). It is, therefore, unsurprising that the international development community has listed SME access to finance as an important policy priority.

In 2010 De la Torre et al presented a report in which he investigate banks' approaching to SMEs in terms of business models and risk management systems. On the basis of the surveys from 48 banks and one leasing company in 12 countries, the authors find that all banks in the sample are interested in serving the SME segment. To do so, almost all have separate organizational units and offer a wide range of products, applying different transactional technologies such as credit scoring or risk-rating systems. The authors conclude that the conventional wisdom according to which large banks are not attracted by SMEs and that this business is dominated by small banks and based on relationship lending does not hold in practice.

In 2008Stephanou and Rodriguez analyze the trend and structure of the SME financing market in Colombia and found that banks in the country regard the SME segment as an attractive business opportunity though their level of sophistication in terms of business models and risk management tools remains modest. The authors conclude that the market is

characterized by a number of institutional and policy constraints, which inhibits further growth of SME lending.

In 2009 YAN SHEN and MINGGAO SHEN found that the difficulty of SME financing has attracted great attention from both the government and the academia because it has important implications for long-term economic development. Many scholars in China have suggested addressing the problem through establishing small- and medium-sized banks. However, the literature has not reached consensus with regard to the relationship between bank size and small business lending, and a comprehensive evaluation of factors affecting SME lending in China is absent.

Davila *et al.* (2006) organized reasons why enterprises undertake innovation:

- Improved quality
- Creation of new markets
- Extension of the product range
- Reduced labour costs
- Improved production processes
- Reduced materials
- Reduced environmental damage
- Replacement of products/services
- Reduced energy consumption
- Conformance to regulations.

In 1996 in a research Vaux et al. found that MSMEs have an interest in developing a partnership with innovation process and know- how development based on the real needs of the region in order to improve and gain better orientation of research and training programs. He presented a model which focused on companies which have links with universities, and argued that even these companies seem to need to construct a boundary between themselves and the world of the universities and advanced research.

In 2005 Sudan, F. K., in his research described the challenges in Micro and Small Scale Enterprises Development and policy issues by arising different questions related to Micro and Small Enterprises. The study explained the meaning, advantages, problems and policy options of MSE sector. The study concluded that all the policies which were opted by Government of India, were the efforts to form a dynamic MSE sector and a diversified economy providing expanded employment opportunities to absorb all new labor force and offer exciting career opportunities.

In 2002, Saxena.H.M., Studied the factors underlying the growth of marketing system as a result historic economic reforms and is linked to the growth of human civilization, specifically to the economic development population growth and inactive for urbanization. The study emphasized on understanding the behavior of the market participants and the behavior of market participants due to market dynamics and concluded with a suggestion as to how the development of markets and their efficiency could be strategized.

In 1936 J.M.Keynes identifies the forces that influence formulation of employment policy during industrialization. He propounds the theory of entrepreneurship. According to the theory it will offer the quantum of employment that can be created to maximize the output and profitability. He further, stresses that the productivity of labors determinant factor of the level of employment.

### 3.2 Gap Analysis

The literature review shows that MSME's development has a significant role in the development of the country's economy. But MSME's are facing problems related to accessing the financial market for loan.

Since no study has been conducted related to this topics in the geographical regions like Rourkela, Orissa so this research is conducted to find the followings for the Geographical regions

## **Chapter 4**

### **Objectives and Scope of the project**

**4.1 Objective of the project**

**4.2 Scope of the project**

## 4.1 Objective of the project

The project intended to determine the preference of MSME in Rourkela about modernizing of their firm. Which factor of modernization is having the highest preference? What are the available sources of finance available for MSME in Rourkela? The project also intended to determine the preference to this firm towards paying high rate of interest or going for mortgage system while taking loans from bank or other source of financing. It is also intended to find out any other source of finance available for MSME.

- To determine how importance do this existing MSME of Rourkela give to modernization.
- Which all area of modernization has high importance which contributes maximum to modernization?
- Which is the preferable source of financing for long term as well as short term for modernization?
- What is the preferable amount and duration of taking loans?
- To determine the preference of firms towards paying high rate of interest or go for mortgage system while procuring loans.
- What are the problems faced by MSME while procuring loan from banks?

## 4.2 Scope of the project

The project starts with collection of list of registered firm under Government of India. The data was collected from NSIC office, Rourkela. Manufacturing sector was taken into consideration for the research. Factors of modernization were determined and classified from different research paper. These factors were further divided in to sub parts for analysis. The available source of financing available in Rourkela was taken from research paper and problems faced by entrepreneurs while accessing to financial source for loan were identified.

Government provides facility for development and all literature review is available for research purpose. The official definition of MSME is defined and it makes easy to categorize firm on the basis of the

The interest of this project is for banks who can determine the loop holes in their service and can be implemented for the betterment of the business. The project can also help in determining the important factors of modernization and can use it for the development of the MSME sector of INDIA.

## **CHAPTRE 5**

### **RESEARCH METHODOLOGY**

5.1 Objectives of the project

5.2 Type of research.

5.3 Method of data collection

5.4 Analytical tools used

5.5 Limitation of the project

## 5.1 Objectives of the project

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## 5.2 Type of research carried out.

As discussed above, there is a gap between demand for and supply of the bank credit to the SSIs. Over the years, this gap is widening. Consequently, there are numerous challenges before the banks to meet the recent expectation of the government to double the credit flow to SSIs during the next five years. In other words, the average annual growth in bank credit to SSIs is expected to be 20% in the coming five years. In addition, banks have to provide the minimum credit of 20% of the projected sales which is found to be difficult to achieve considering the performance. During the last few years, the growth rate in bank credit to the SSI sector is less than 20%p.a. And, the credit gap is widening at a time when the sector has proposed to grow more than 12% during the Tenth Five Year Plan. Hence, there is an urgent need to examine

various issues relating to this credit gap and suggest appropriate strategies. In this backdrop, the present study is undertaken

### 5.3 Methods of data collection.

There are two types of data:

#### **Primary Data:**

The data was gathered through interaction and discussions with the executives working in the division. Some important information has been gathered through couple of unstructured interviews of executive.

#### **Secondary Data:**

The secondary data, on the other hand are those which have already been collected by someone else and which have already been passed through the statistical process.

As per my research the data were primary data. It was collected by means of questionnaire given to samples as selected by me. The responses were recorded by me and in some cases by the by the responder.

### 5.4 Analytical tools used

For analysis purpose regression analysis was used. Regression analysis was used because it was intended to determine which factor has high weighted in the process of modernization. Also this weighted were further broken down into sub part. And by means of regression analysis there sub weight were determine.

Graph and percentage analysis was also used to analysis some responses of the responders.

### 5.5 Limitation of the project

The limitation of the project is

- The project does not speak about any new factor of modernization or it does not identify any new dimension of modernization.
- The sample selected was not of any particular cluster, due to which it has diversified result in the modernization choice.
- The position and financial status of the firm were not equivalent and so they have different modernization choice as per the present firm condition.
- It is found that the unorganized source of finance has a big role to play when it comes to source of financing. The project did not pay any focus to this unorganized source of finance.
- The counter party story, the BANK's, has not taken in consideration in deriving any conclusion on the dissatisfaction of the firm in procuring loans.

## **CHAPTER 6**

### **Data Analysis and Interpretation**

- 6.1 Reliability of the data
- 6.2 Regression analysis of modernization
- 6.3 Regression analysis of modernization factor
- 6.4 Graphical analysis of financial preference

## 6.1 Reliability of the data

**Reliability:** It has been found that Cronbach's alpha is 0.879, which indicates strong internal consistency among factors. This means that 87% of the variability in composite score is considered to be internally reliable variance.

### Reliability Statistics

Cronbach's Alpha	No. of Items
.879	24

## 6.2 Regression analysis of modernization

**Regression analysis** it is a statistical process for estimating the relationships among variables. It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables. More specifically, regression analysis helps one understand how the typical value of the dependent variable (or 'criterion variable') changes when any one of the independent variables is varied, while the other independent variables are held fixed. Most commonly, regression analysis estimates the conditional expectation of the dependent variable given the independent variables – that is, the average value of the dependent variable when the independent variables are fixed. Less commonly, the focus is on a quantile, or other location parameter of the conditional distribution of the dependent variable given the independent variables. In all cases, the estimation target is a function of the independent variables called the **regression function**. In regression analysis, it is also of interest to characterize the variation of the dependent variable around the regression function which can be described by a probability distribution.

Generalized regression model

$$Y = C + aX_1 + bX_2 + cX_3 + \dots$$

Y is the dependent variable and X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub>..... are independent variables.

My regression model for modernization with its independent variables A, B, C, D, E is

$$Y = 1.699 + .078A + .546B - .035C + .022D - .049E$$

Where Y= Preference of MSME towards Modernization

A= Increasing the production capacity of your firm

B= Expanding your market orientation of your firm

C= Expanding your workforce of your firm

D= Modernizing your firm in terms of Information and Technology

E= Expanding the supply chain unit of your firm

R	R Square	Adjusted R Square
.676	.457	.314

R square of the equation is .457 while adjusted R square is .314.

The above equation shows that MSME's in Rourkela are more interested in increasing the market orientation of their existing business.

The least weighted among all the option is expanding the supply chain unit of firm. Its shows the MSME's are least concerned about the backward and forward integration of the business.

### 6.3 Regression analysis of modernization factor

#### Dividing each segment of modernization for MSME's

#### **Regression model for production capacity**

$$A = .15 + .485A_1 + .352A_2 + .003A_3$$

Where A= Increasing the production capacity of your firm (dependent variable)

A<sub>1</sub> = Preference to increase the number of machineries in the plant

A<sub>2</sub>= Preference to increase the production quantity of the firm by replacing the old machines to advanced one

A<sub>3</sub> = Preference to establish a new production unit

R	R Square	Adjusted R Square
.644 <sup>a</sup>	.414	.331

### Regression model for expanding market orientation

$$B = 1.542 + .314B_1 + .274B_2 + .037B_3$$

Where B= expanding market orientation

B<sub>1</sub>= preference of expanding my business to new markets geographically

B<sub>2</sub>= prefer to produce different types of new products besides my existing products

B<sub>3</sub>= prefer to diversify my business

R	R Square	Adjusted R Square
.472	.222	.111

### Regression model for expanding workforce of the firm

$$C = 2.059 + 0.481C_1 + 0.096C_2 - 0.16C_3$$

Where C= expanding market orientation

C<sub>1</sub>= preference to hire more labours for the existing firm

C<sub>2</sub>= prefer to hire more supervisor, accountant or other supporting staff

C<sub>3</sub>= prefer to provide skill development training to the workforce

R	R Square	Adjusted R Square
.382 <sup>a</sup>	.146	.024

### Regression model for expanding in terms of Information and Technology

$$D = 1.621 + 0.131D1 + 0.062D2$$

Where D= expanding in terms of Information and Technology

D1= preference of installing computers and other automated system in the firm

D2= preference of installing CCTV, biometric machines, accounting software and other IT related services in my firm

R	R Square	Adjusted R Square
.261	.068	-.017

### Regression model for expanding in terms

$$E = 1.435 - 0.038E1 + 0.040E2 + 0.72E3$$

Where E= expanding in terms of supply chain unit

E1= Preference to produce raw materials for own use

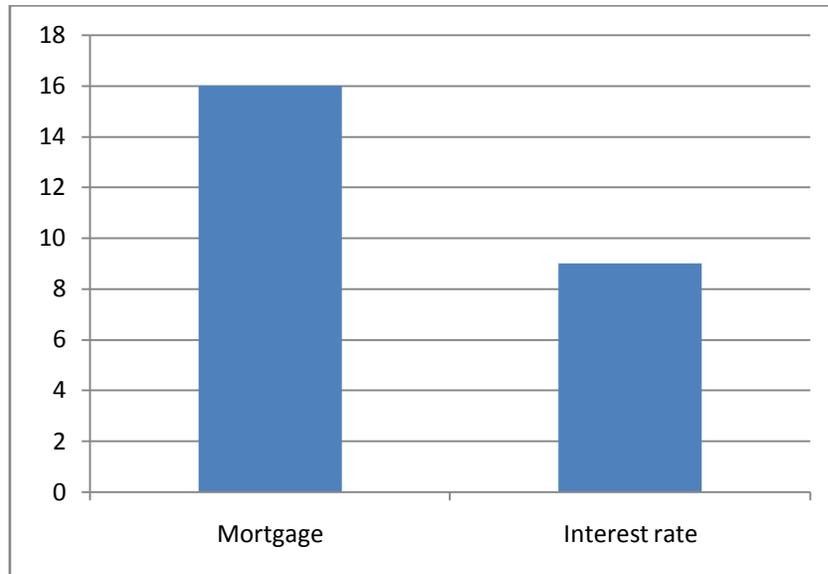
E2= Preference to strengthen and increase the size of distribution channel

E3= Preference towards increasing the inventory size.

R	R Square	Adjusted R Square
.761	.580	.520

## 6.4 Graphical analysis of financial preference

### Preference of MSME's in depositing mortgage against paying high interest



The data shows that 64% of the sample preferred for Mortgage system of taking loan rather than paying higher Interest in the loan amount.

Only 36% of the sample will go for high rest of interest.

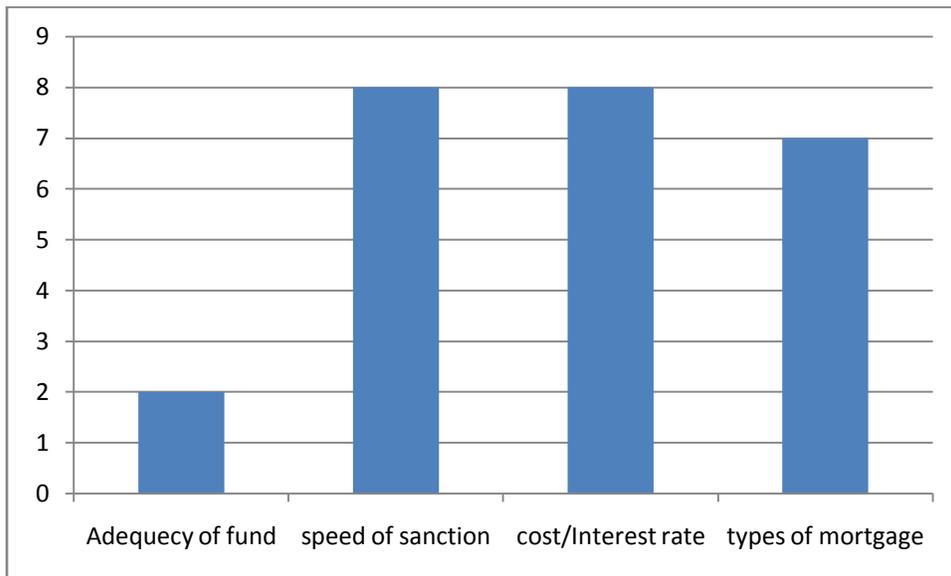
In case of mortgage system of loan, the loan Secker has to provide an asset against the loan amount. Generally banks have their own sets of rule to classify the type of mortgage and different process of evaluating the present value of the assets.

Banks only accept assets which have present value more than the loan amount and it must be liquidated easily. It is done, in case if the loan Secker failed to pay the loan amount than the bank can get back its money by selling the assets in the mortgage.

### Important criteria in sanction of loan as per the respondent

As per the data speed of sanction of the loan and cost/ interest rate is the most important criteria as per the respondent as specified 32% of sample believe in speed of sanction as the most important while accessing to loan while 32% of sample believes in low rate of interest as most Important for MSME's.

The types of mortgage the banks are asking is also an important criteria while accessing to loan for MSME's. 28% of the respondent believes in the type of mortgage the banks are asking for.



### Preferred source of finance for MSME's in Rourkela.

From the data collected, it is found that the most preferred source of finance for MSME's is personal finance, and then come Banks. In the categories of bank, they have different choice like, PRIVATE BANK, GOVERNMENT BANK and CO-OPERATIVE BANK's. It is seen that not many MSME's are associated with co-operative banks. Financing for capital building from VENTURE CAPITAL is not very common in Rourkela.

Funds from relative are a preferred idea for business. However unorganized source of funding is a common practice. In general MSME's preferred unorganized source for short term, which is for short period of time that is one year or less than that. They don't prefer this unorganized sector for long term financing. Unorganized financing does not required paper work and it depends on the

goodwill associated with the person or the firm. It carries high rate of interest, but the processing time and the complexity of mortgage system is less or equal to none.

## **Chapter 7**

### **Conclusion**

7.1 Observations

7.2 Findings

7.3 Conclusion

## 7.1 Observations

It was observed that many respondents were not willing to provide data. It also seems that the data provided by them related to the financial performance like company turnover and annual profit after tax are not reliable. However it is seen that they have high willingness in expanding the business or have interested in modernizing their existing firm operation.

It was also observed that businesses are running in minimum manpower. It means unskilled labors were more in numbers as compared to that of skilled labour.

Entrepreneurs or the business owners don't believe in training the newly appointed workforce. They preferred to hire workforce from the same field with experience in the related field.

Many of the business were family owned business and so they have similar business practices as in the past or running with old traditional business principles and equipments.

## 7.2 Findings

From the above research and analysis it is found that,

- On an average all MSME's residing in Rourkela have a strong preference in modernizing their existing firm in different dimension of expansion of the business.
- Among the different dimension of firm expansion, increasing the market orientation of the firm is most preferred and second most preferred is increasing the production capacity of the firm
- While increasing the workforce and supply chain of the firm is least preferred.
- MSME's preferred to expand their market territories while they don't preferred to diversify from their original business.
- In case of HR development they are list concerned. They don't find it preferable to invest in training the unskilled labour.
- The most preferred source of financing for this MSME's in Rourkela are self Financing banks, and co-operative society.

- Unorganized financing is preferred only when they want loan for short duration of time that is less than one year.
- 64% of the sample preferred mortgage system of Loan rather than going for high amount of interest payment.
- Speed of sanction of the loan amount and the interest rate are two most important problems as identified by MSME's of Rourkela. This two have equal weighted of 32%.

## 7.4 Conclusion

It is to be concluded that MSME's of Rourkela have high preference of expanding their business but modernization comes with a cost. For this cost, they either preferred to go for loan or self financing. In case of loan MSME's faces difficulties in accessing the financial market. MSME's of Rourkela don't believe in equity type of financing as because of the family business type structure they don't preferred to have outsider in the business and to dilute their business.

MSME's play a big role in the development of the country's economy and so Government should promote this sector by availing easy axis to fund for growth.

**Annexure**  
**QUESTIONNAIRE**



Dear Madam / Sir,

You are invited to take part in a brief survey on financial preference for modernization or expansion of MSMEs. This would only take approximately 10 minutes to complete. This study is being undertaken towards the partial fulfilment of my MBA degree at School of Management, National Institute of Technology (NIT), Rourkela, India.

Please note that there are no right or wrong / good or bad answers to any questions / statements in this survey. I assure you that the responses provided by you will only be used for academic purpose. Your participation in this study is voluntary and you are free to withdraw at any time. Thank you for participating in this study.

Sincerely

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School of Management, NIT Rourkela, India.  
[Abhishek01prajapati@gmail.com](mailto:Abhishek01prajapati@gmail.com), MOB: 9437439787

1. Please rate your preference to modernize or expand your existing firm? (Please tick mark your choice from the 1-5 point scale as given below)

1st Preferred						5th Preferred
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2. Please give your importance towards the following factors in modernizing or expanding your firm. (Please tick  $\surd$  marks your choice from the 1-5 point scale as given below where.....)

	Factors					
A	Increasing the production capacity of your firm					
B	Expanding your market orientation of your firm					
C	Expanding your workforce of your firm					
D	Modernizing your firm in terms of Information and Technology					
E	Expanding the supply chain unit of your firm					

3. Please rate your agreement on about the following statements which you feel to be important in modernizing or expanding your firm. (Kindly refer the below given scale)

ongly Disagree	ightly Disagree	ther Disagree Nor ee	ightly Agree	ongly Agree

	Statements						
	creasing the production capacity of your firm						
	ll prefer to increase the number of machineries in my plant						
	ll prefer to increase the production quantity of my firm by replacing the machines to advanced one						
	ll prefer to establish a new production unit						
	anding your market orientation of your firm						
	ll prefer to expand my business to new markets geographically						
	ll prefer to produce different types of new products besides my existing ducts						
	ll prefer to diversify my business						
	anding your workforce of your firm						
	ll prefer to hire more labours for my existing firm						
	ll prefer to hire more supervisor, accountant or other staff						
	ll prefer to provide skill development training to the workforce of my l.						
	ernizing your firm in terms of Information and Technology						
	ll prefer to install computers and other automated system in my firm						
	ll prefer to install CCTV, biometric machines, accounting software and er IT related services in my firm						
	anding the supply chain unit of your firm						
	ll prefer to produce raw materials for own use						
	ll prefer to strengthen and increase the size of my distribution channel						
	ll prefer to increase the inventory size (for both raw material and shed goods of my firm)						

4. For modernizing or expanding your existing firm, how would you prefer to get the monetary resources?

(Please indicate your preferences by putting a Tick mark from the following options. You can give your multiple options)

*Preference for long term loan, (loan for more than one year)*

Preference	Long term	For Short term
Public Sector banks		
Private banks		
Government institution (NABARD, CII etc.)		
Co-operative society		

From relatives		
Self funding		
Others (Pls. Mention: _____)		

5. If interested for loan, then, please indicate your average forecasted amount of loans (Long & Short Term) for modernizing or expanding your existing firm. Otherwise skip to question no-7

Amount	Expected duration to recover					
less than 1 lac	Year	5 Year	10 Year	5 Years	10 Years	More than 20 Years
1~5 lac	Year	5 Year	10 Year	5 Years	10 Years	More than 20 Years
5~10 lac	Year	5 Year	10 Year	5 Years	10 Years	More than 20 Years
10~25 lac	Year	5 Year	10 Year	5 Years	10 Years	More than 20 Years
25 lac~1 cr	Year	5 Year	10 Year	5 Years	10 Years	More than 20 Years
1~5 cr	Year	5 Year	10 Year	5 Years	10 Years	More than 20 Years
above 5 cr	Year	5 Year	10 Year	5 Years	10 Years	More than 20 Years
Rather Not Say	Year	5 Year	10 Year	5 Years	10 Years	More than 20 Years
Not Required	Year	5 Year	10 Year	5 Years	10 Years	More than 20 Years

6. How would you prefer to take the above mentioned loan towards the modernization or expansion of your firm? (Please tick your appropriate choice )

By giving mortgage/ Collateral

By paying high interest rate

**7. Prior to this, if you have availed such loan facility/ies, kindly share your experience. (whether for new project or for expansion)**

8. Number for banks/other financial institutions approached for loan:

1       2       3       more than 3

9. Processing Time taken up to sanction:

1-3 month's       4-6 months       7-12moths       Above

1 year

**10. In your view, which of the following/s is/are the most critical factors with regards to MSMEs' in accessing to credit?**

- Adequacy of fund**  Speed for sanction and disbursal  Cost/ interest rates  
 Type of collateral/Mor..  Others (please specify) \_\_\_\_\_

**The last section of the survey includes some demographics-related questions.**

- a) Since how many years you are in this business?  
 Less than 1 year  1 year -2 year  3 year-5 year  5 year – 10 year  
 more than 10 year  rather not say
- b) Which of the following categories shows average no. of manpower in your firm?  
 0-10  11-20  21-30  30-50  
 50-100  101-200  More than 200  Rather not say
- c) What is your designation in the firm? : \_\_\_\_\_
- d) Which of the following categories include your average **annual turnover** of your firm?  
 Less than 1 lakh  1-5 lakh  6-10 lakh  10-20 lakh  
 20-50 lakh  50-100 lakh  1-5 Crore  More than 5 Crore  
 Rather not to say
- e) Which of the following categories include your average **annual profit after tax** of your firm?  
 Less than 1 Lakh  1-3 Lakh  4-6 Lakh  
 7-9 Lakh  10-12 lakh  12-14 Lakh  
 15-17 Lakh  18-20 Lakh  21-30 Lakh  
 31 lakh and above  Rather not say
- f) Which industries do you belong to?  
 Agriculture Industries  Automobile Industries  Cement Industries  
 Construction Industries  Cottage Industries  Dairy Industries  
 Electronics Industries  Garment Industries  Furniture Industries  
 Others (Pls. Mention) \_\_\_\_\_  Rather not say

g) If you would like to receive a copy of this report based on this study, please enter your name and email address below.

Name: \_\_\_\_\_

Email: \_\_\_\_\_

**We have reached the end of the survey.  
Thank you once again for your time and cooperation.**

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