

# Financial Analysis on the Bank Finances to Small Scale Industries in Erode District in Tamil Nadu

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**Abstract:** Finance is an important input for an industry. For a small scale industry the need for finance is very essential due to its limited resources. The sources of finance for small scale industries are of two types-internal and external. The role of commercial banks in the process of economic development is well recognized. The year 1969 was a major turning point in Indian financial systems when 14 major banks were nationalized. Different national and state level institutions operating in the country for meeting the credit requirements of the SSIs sector include Small Industries Development Bank of India, Commercial Banks, Regional Rural Banks, Co-operative Banks (State, Central and Primary), State Financial Corporations/ State Industrial Investment Corporations, State Small Industries Development Corporation, National Bank for Agriculture and Rural Development, statutory bodies (KVIC, COIR Board, Handloom Board and Handicraft Boards), National Small Industries Corporations Limited and the like. The State bank of India lending to the small-scale industries in Erode district, compared to the public sector and the priority sector lending. The trend values showed that the target has increased faster than the actual number of advances. The recovery rate of the SSI advances is a maximum of 72% in Erode district.

**Keyword:** Role of commercial banks in the process of economic development and small-scale industry the need for finance is very essential due to its limited resources

## INTRODUCTION

Finance is an important input for an industry. For a small-scale industry, the need for finance is very essential due to its limited resources. The sources of finance for small scale industries are of two types-internal and external. The internal sources consist of initial capital and profits reinvested. The external sources consist of loans and other assistance from the institutional and the non-institutional sources. This paper attempts to study the extent of bank finance made available to small-scale industries at National level, Tamil Nadu level and Erode district.

In spite of the thrust accorded through the administrative machinery of the government and financial assistance extended by financial institutions and commercial banks, the growth of the SSIs sector has been much below the expected level. At the end of the Tenth Plan, (March 2007), the small-scale industries produced goods worth Rs. 790759 crores against the target of Rs. 880805 crores. They exported goods valued at Rs. 202017 crores against the Tenth Plan target of Rs.233079 crores. Though the SSIs sector contributed significantly to the economy of the country, it has not emerged as an engine of exponential growth and rapid economic transformation of the semi-urban, rural and backward areas.

The liberalization and reform process initiated in India since, 1991 has enlarged the problem areas of the SSIs sector. While notable advances were made in exports and use of high technologies the general state of many small units continues to be critical. The role of commercial banks in the process of economic development is well recognized. The year 1969 was a major turning point in Indian financial systems when 14 major banks were nationalized. Thereafter there was re-orientation of credit flows, so as to benefit the till then neglected sectors such as agriculture, small scale industries and small borrowers. The Government has constituted several committees from time to time to improve the credit delivery system of commercial banks towards SSIs. Accordingly, at present SSIs have been recognized as a priority sector by commercial banks and they lend liberally to SSIs units.

## **HISTORICAL DEVELOPMENT OF THE PRESIDENCY BANKS**

The SBI has about 200 years of experience in banking business. The Bank of Calcutta began its operation in 1806, the Bank of Bombay in 1840 and the Bank of Madras in 1843. All these banks were formed at the initiative of the British in the three presidency towns, Calcutta, Bombay and Madras. The names of the presidency towns were changed into Kolkata, Mumbai and Chennai respectively in recent times. The modern type of banking however was developed by the agency houses of Calcutta and Bombay after the establishment of rule by the East India Company in the 18th and the 19th centuries. One-fifth of its total initial capital of Rs. 50 lakhs, was subscribed by the state government, which also appointed three out of the total nine directors.

In 1840, the Bank of Bombay and in 1843 the State Bank of Madras also set up their capital of Rs. 52 lakhs and Rs. 30 lakhs respectively. Moreover, East India Company contributed Rs. 3 lakhs in respect of each bank. The banks came into existence either as the result of the compulsions of the imperial finance or by the felt needs of the local European commerce. Their evolution was however, shaped by ideas on the analogy of similar developments in Europe and England. This was influenced by changes occurring in the structure of both the local trading environment and those developments in the Indian economy and the economy of Europe. The position of the presidency banks was thus “similar to the ladies of the Janana of the India prince. They had high status, they were protected, but they were not allowed out of the boundaries of their Janana walls. Although these three banks performed banking functions, they have been termed as ‘apex’ banking in India. But India did not have a portal banking till 1935. Before the formation of the Imperial Bank of India in 1921, there was a need for amalgamating the three presidency banks.

## **OBJECTIVES**

- To examine the growth of small-scale industries through bank finance made available to small-scale industries at National level, Tamil Nadu level.
- To analyse the financial performance of small-scale industries.

## **STATEMENT OF THE PROBLEM**

Different national and state level institutions operating in the country for meeting the credit requirements of the SSIs sector include Small Industries Development Bank of India, Commercial Banks, Regional Rural Banks, Co-operative Banks (State, Central and Primary), State Financial Corporations/State Industrial Investment Corporations, State Small Industries Development Corporation, National Bank for Agriculture and Rural Development, statutory bodies (KVIC, COIR Board, Handloom Board and Handicraft Boards), National Small Industries Corporations Limited and the like In Erode district there are several financial institutions and commercial banks which provide all sorts of financial assistance to the SSI units. Of these the State bank of India, a leading government owned bank is playing a predominant role. Hence the present study, “Bank Credit to Small Scale Industries in Erode district– A study with reference to State bank of India”.

## **RESEARCH METHODOLOGY**

The present study has based on only secondary data. The secondary data is collected from the website of the Ministry of Small and Medium Enterprises, the government of India and other published material.

## **CONCEPT OF SMALL-SCALE INDUSTRIES**

The concept of 'small scale industry' is not only new to India but also practicing in the age-old traditional systems in the ancient period. The definition of small-scale industries is changing its central idea and have been shaped in the planning period. Since then, it was maintained till the year 2016. These units have been merged with “Micro, small and Medium Enterprises” (MSME). The act clearly dived into two categories of industries; one is enterprises engaged in the manufacturing of production of goods pertaining to any industry, also another is, in the case of enterprises engaged in providing or rendering of services.

The MSMEs of manufacturing enterprises have been classified into micro, small and medium enterprises based on the amount of investment in plant and machinery as follows.

**Manufacturing Enterprises – Investment in Plant and Machinery**

DESCRIPTION	AMOUNT
Micro	Up to Rs. 25 Lakhs
Small Enterprises	Above Rs. 25 Lakhs & Up to Rs. 5 Crores
Medium Enterprises	Above Rs. 5 Crores & Up to Rs.10 Crores

The MSMEs of service enterprises have been classified into micro, small and medium enterprises based on the amount of investment in equipments as follows:

**Service Enterprises – Investment in Equipments**

DESCRIPTION	AMOUNT
Micro	Up to Rs. 10 Lakhs
Small Enterprises	Above Rs. 10 Lakhs & Up to Rs. 2 Crores
Medium Enterprises	Above Rs. 2 Crores & Up to Rs.5 Crores

**SSI Advances by the State Bank of India in India**

In this section, an attempt is made to analyze the advances to the small-scale industrial sector by the State bank of India in comparison to public sector banks.

**Share of public sector banks and the state bank of India in the SSI finance**

The SSIs are financed by all banks. It is logical at this stage to analyze the share of the State bank of India to the total credit extended to the SSI units by the public sector banks. Hence, the relevant information is furnished in Table 1

Year	State Bank of India	Public Sector Banks	% of Credit by SBI to Public Sector Banks
2003 - 2004	43690	105838	41.28
2004 - 2005	46045	127477	36.12
2005 - 2006	48400	149116	32.45
2006 - 2007	49743	171185	29.06
2007 - 2008	52988	203097	26.08
2008 - 2009	58278	245582	23.74
2009 - 2010	67634	310670	21.77
2010 - 2011	82492	409791	20.13
2011 - 2012	104703	521181	20.08
2012 - 2013	148651	610450	24.35
2013 - 2014	185208	720083	25.72
2014 - 2015	221765	864564	25.65
2015 - 2016	258322	1009045	25.60
2016 - 2017	331436	1153526	28.73
2017 - 2018	404550	1298007	31.17
2018 - 2019	477664	1442488	33.11

Sources: 1. Reserve Bank of India, Annual Report 2018 to 2019.

It is observed from Table 1 that the amount of financing to SSI's by public sector banks and State bank of India are increasing year by year. Amount of financing to SSI's by public sector banks has been steadily increased from Rs. 105838 crores in 1998-1999 to Rs. 1442488 crores in 2018-2019. Mean while amount of financing by State bank of India's to SSI's also increasing from Rs. 43690 crores in 1998-99 to Rs. 477664 crores in 2018-19. However, it is also inferred that the share of SBI financing to total amount financed by the public sector banks is decreasing year by year. It is concluded from above Table that State bank of India reduced their share of financing to SSI's compared with all public sector banks during the study period.

#### Share of SSI in priority sector credit by the SBI

The credit to the priority sector and the SSI units by the State bank of India from 2003-2004 to 2018-2019, are presented in the Table 2.

Year	Total Credit	Priority Sector Credit	Percentage of Priority Credit to Total	SSI Credit	Percentage of SSI Credit to Total Credit
2003-2004	80200	36510	45.52	43690	54.48
2004-2005	90523	44478	49.13	46045	50.86
2005-2006	100846	52446	52	48400	47.99
2006-2007	108406	58663	54.11	49743	45.88
2007-2008	117535	64548	54.92	52988	45.08
2008-2009	136229	77919	57.2	58278	42.80
2009-2010	164065	96431	58.78	67634	41.22
2010-2011	210961	128469	60.89	82492	39.10
2011-2012	249252	144549	57.99	104703	42.00
2012-2013	312719	164068	52.46	148651	47.53
2013-2014	375415	190207	50.66	185208	49.33
2014-2015	437317	215552	49.28	221765	50.71
2015-2016	499219	266242	53.33	294879	59.07
2016-2017	561121	316932	56.48	367993	65.58
2017-2018	623023	367622	59.01	441107	70.80
2018-2019	684925	418312	61.07	514221	75.08

**Share of SSI in priority sector credit by the state bank of India from 2003- 2004 to 2018-2019 (Rs. In Crores).**

Table 2 shows the total credit extended to the priority sector and the SSI units by the State bank of India at all India level. It is observed that the total credit increased from Rs.80200 crores in 2003-2004 to Rs.684925crores in 2018-2019. The credit extended to the priority sector other than SSI has been increased from Rs. 36510 crores in 2003-2004 to Rs. 418312 crores in 2018-2019. The percentage share of the priority sector other than SSI to the total credit ranged from 45.52% in 2003-2004 to 61.07% in 2018-2019. The credit to the SSIs alone also increased from Rs. 43690 crores in 2003–2004 to Rs.514221 crores in 2018-2019. Even though amount of financing to SSIs by State bank of India has shown increasing trend the share of SSI credit to total credit showed

**Loan outstanding to state bank of India by SSI and priority sectors**

Table 3 explains the loan outstanding of SSI and priority sectors to the State bank of India during the period from 2003-2004 to 2018-2019. It is clear from Table 3 that the total advance of the State Bank increased form Rs. 312568 thousand in 2003-2004 to Rs. 8902600 thousand in 2018-2019. In the total advances made by the SBI priority sector outstanding amount has increased from Rs. 29635 thousand in 2003-2004 to Rs. 2281428 thousand in 2018-2019. The amount of outstanding from priority sector to total advances was the lowest (7.57%) in the year of 2013-14 and it was the highest (28.58%) in the year 2010-2011. Outstanding credit from the SSI units increased from Rs. 6895 thousand in 2003-2004 to Rs.352630 thousands in 2018-2019.

Year	Total Advances	Priority Sector Outstanding	Percentage of Priority Sector Outstanding to Total Credit	SSI Sector Outstanding	Percentage of SSIs Credit to Total Credit
2003 - 2004	312568	29635	9.48	68951	22.06
2004 - 2005	346859	38628	11.14	76852	22.16
2005 - 2006	382658	48106	12.57	86955	22.72
2006 - 2007	453373	63109	13.92	99932	22.04
2007 - 2008	648809	96045	14.80	18208	16.68
2008 - 2009	842321	159154	18.89	115637	13.73
2009 - 2010	937757	247791	26.42	124005	13.22
2010 - 2011	1080525	308856	28.58	107537	9.95
2011 - 2012	1275961	204823	16.05	99169	7.77
2012 - 2013	1832634	167142	9.12	132281	7.22
2013 - 2014	3390192	2566807	7.57	149685	4.41
2014 - 2015	4572684	798334	17.46	169902	3.71
2015 - 2016	5880000	1029200	17.58	202700	3.45
2016 - 2017	7370000	1298300	17.62	250000	3.39
2017 - 2018	8429800	2012328	23.87	305330	3.62
2018 - 2019	8902600	2281428	25.62	352630	3.96

**Outstanding loan amount of priority and SSI sector to the state bank of India in Erode district (Rs. in Thousands)**

The total credit outstanding of the SSI units increased from 22.72% in 2005-2006 to 3.96% in 2018-2019. From the Table, it can be concluded that the outstanding position for the SSIs is only marginal and hence it is hoped that the lending institution will pay more attention to the SSI units among the other



segments of the priority sector. The average and stability of the total advances, priority sector and the SSI advances over the priority are given in Table 3.

**Recovery of outstanding loan of SSI sector position by the SBI in Erode**

Year	Demand	Collection	Balance	Percentage of Recovery
2003 - 2004	494172	296855	75104	60
2004 - 2005	428404	275293	83380	64
2005 - 2006	452636	282104	91656	62
2006 - 2007	176868	110278	99932	62
2007 - 2008	101100	653000	108208	64
2008 - 2009	203300	123900	115637	61
2009 - 2010	129500	712000	124005	55
2010 - 2011	219634	135860	107537	60
2011 - 2012	201220	124075	99169	61
2012 - 2013	125300	703000	132281	56
2013 - 2014	423100	274900	149685	65
2014 - 2015	592058	392096	169902	65
2015 - 2016	199200	137400	202700	69
2016 - 2017	220500	143300	250000	65
2017 - 2018	234800	167200	291430	66
2018 - 2019	254000	199900	-	66

**Recovery performance of state bank of India towards SSI units lending in Erode district during 2003 to 2019 (Rs. in Thousands).**

The details about the demand, collection and balance percentage of recovery are presented in Table 4. It is understood from Table 4 that the demand has ranged from Rs.494172 thousands to Rs. 254000 thousands in 2003 to 2019, whereas in collection it has ranged from Rs. 296855 thousands in 2003 to Rs. 199900 thousands in 2019. The balance amount in the SSI unit’s credit ranged from Rs. 75104 thousands in 2003 and Rs. 291430 thousands in 2018. It is inferred that the steady increase in the balance amount was found during the period under study. The rate of recovery ranged from 60% in 2003 to 66% in 2019. The rate of recovery is more than 65% in six years out of the 13 years. It shows that debt recovery rate is moderate in the case of SSI units lending by the State bank of India in the study area. The average and stability in the demand, collection and balance over the period are given in Table 4.

**SUGGESTIONS**

- ✓ SBI financing to total amount financed by the public sector banks is decreasing year by year. It is concluded from the Table 2 that State bank of India reduced their share of financing to SSI’s compared with all public sector banks during the study period.
- ✓ The credit to the SSIs alone also increased from Rs. 43690 crores in 2003–2004 to Rs.514221 crores in 2018-2019. Even though amount of financing to SSIs by State bank of India has shown increasing trend the share of SSI credit to total credit showed
- ✓ The outstanding position for the SSIs is only marginal and hence it is hoped that the lending institution will pay more attention to the SSI units among the other segments of the priority sector. The average and stability of the total advances, priority sector and the SSI advances over the priority are given in Table 3.
- ✓ The rate of recovery is more than 65% in six years out of the 13 years. It shows that debt recovery rate is moderate in the case of SSI units lending by the State bank of India in the study area. The average and stability in the demand, collection and balance over the period are given in Table 4.

### CONCLUSION

The Bank under study may have specialized branches in each district to the loan requirements of the small-scale industries. If the State bank of India does not have exclusive branches for SSI units, the bank may provide separate cells in all branches to deal exclusively with small-scale industries. Such cells could monitor the disbursement and utilization of loans to SSI units. Adequate delegation of power at the branch level may be given so as to avoid several layers of hierarchy in granting loans to SSI units. The regular repayment of loans by SSI units may be rewarded by the bank under study with increase in the loan amount and reduction in the rate of interest for further loans. The lead banks in all districts may have periodical meetings with the DICs and the Association of the SSI units to assess the nature, type and amount of loans required by SSI units. A monthly newsletter on the SSI sector may be circulated among the staff at the specialized branches. The newsletter should project the latest developments in the SSI sector which will sensitize the bank staff and reorient them regarding the working of the SSI sector.

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