

## Analysis of Bank Credit to Micro, Small and Medium Enterprises in India

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### Abstract:

*The Micro, Small and medium Enterprises (MSMEs) sector has been known as a significant contributor to the inclusive growth and economic development of any country. The Indian MSMEs sector is an important segment of the economy over the last few decades. With more than 46.7 million enterprises, this sector contributes 45 per cent in manufacturing output, 40 per cent in exports, 8.72 per cent in GDP and provides employment to more than 106 million people in the country. Despite its contribution in the Indian economy this sector faces number of problems. Out of which adequate and timely credit at reasonable cost is the biggest obstacle in their survival and further growth. Therefore, the present study is carried out with the main objective of analyzing the supply of bank credit to MSE sector. Further an attempt has been made to study the deployment of non-food gross bank credit to MSMEs and position of sick SSI units financed by scheduled commercial banks. The time period of the study undertaken is 2005-06 to 2013-14. Simple average, simple growth rate, compound annual growth rate, and two-way ANOVA have been used for analyzing the data. The results of the two-way ANOVA indicated that there is no significant difference in bank credit to MSEs units over the period of time but there is significant difference among various banking segment in providing credit to MSEs. But the problem of sickness is increasing at an alarming rate of 107 percent in numbers and outstanding amount by 122 per cent in just last one year.*

**Keywords:** MSMEs, Economic Development, Bank credit and Sickness.

### Introduction

Across the world, Micro, Small and Medium Enterprises (MSMEs) sector has been recognized as an important vehicle of inclusive growth and economic development of the country. India has a strong and vibrant MSMEs sector and its contribution to the Indian economy is really appreciable over the last few decades. Indian MSMEs sector immensely contributed to the economic growth, industrial & entrepreneurship development, reducing regional imbalances, assuring more equitable distribution of income and wealth and employment generation. With more than 46.7 million enterprises and providing employment to more than 106 million people in the country became the second largest job provider sector after agriculture. It also contributes 8.72 per cent in GDP, 45 per cent in the manufacturing output and 40 per cent in total exports. There are over 6000 products ranging from traditional to high-tech items which are being manufactured by the MSMEs sector in addition to provide wide range of services. Despite its contribution in the economy, it faces number of problems like lack of adequate and timely credit, high cost of credit, limited access to equity capital, inadequate infrastructure facilities, low technology level, lack of skilled manpower and revival of sick units. But out of these problems, the most critical problem is availability of adequate and timely credit at reasonable cost. Generally this sector runs on very limited resources mainly financed from their own funds, funds from friends and their relatives. Out of external sources of funds, bank credit is the main source of their financing. Government of India and Reserve Bank of India (RBI) has undertaken number of favorable measures to promote the growth and competitiveness in Indian MSMEs sector. But still this sector faces main problem of access and use of finance which poses threat to their survival

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and hinders their future growth. Though Reserve Bank of India (RBI) has classify the bank credit to this sector under priority sector lending even then it proves a big obstacle in the sustainable development of Indian MSMEs sector.

**Definitions of Micro, Small and Medium Enterprises**

The Micro, Small and Medium Enterprises Development (MSMED) Act was passed in 2006 to facilitate the development of this sector and also to enhance their competitiveness. This act provides the first ever legal framework for defining the term 'Enterprises' which comprises both manufacturing and services enterprises.

In India, MSMEs are broadly classified in two categories: - Manufacturing enterprises and services enterprises. Both are defined in terms of investment in plant and machinery (in case of manufacturing enterprises) and investment in equipments (in case of services enterprises) further, segregated into Micro, Small and Medium Enterprises.

Manufacturing Enterprises: - Those enterprises which are engaged in the manufacturing or production of goods related to any industry specified in the first schedule of the Industries Development and Regulation Act 1951 or employing plant and machinery in the process of value addition in the final product having distinct name.

Services Enterprises: - Those enterprises which are engaged in providing or rendering of services.

**Table No. 1 Categories of enterprises**

Enterprises	Investment in plant & machinery (Manufacturing Enterprises)	Investment in Equipments (Service Enterprises)
Micro Enterprises	Does not exceed twenty five Lakh Rupees.	Does not exceed ten Lakh Rupees.
Small Enterprises	More than twenty five lakh Rupees but does not exceed five Crore Rupees.	More than ten lakh Rupees but does not exceed two Crore Rupees.
Medium Enterprises	More than five Crore Rupees but does not exceed ten Crore Rupees.	More than two Crore Rupees but does not exceed five Crore Rupees.

**Review of Literature**

**Nishanth and Zakkariya (2014)** revealed that only a small percentage of MSMEs firms out of 200 selected firms in Kozhikode district of Kerala availed the credit schemes offered by banks because of lot of paper formalities and delay in sanction and disbursement of loans. **Veni and Asfaw (2014)** resulted that there was strong positive correlation between the annual growth rate of bank credit flow and MSMEs while weak positive correlation with annual agricultural growth. They concluded that bank credit has great effect on the growth of MSMEs while less for agricultural growth. **Rao and Noorinasab (2013)** revealed that MSMEs sector has neglected by banks and financial institutions by not achieving the target of 40 per cent priority sector lending. They concluded that SIDBI as a nodal agency have taken various development initiatives to promote the MSMEs sector by addressing the financial and non-financial gaps through innovative solutions. **Garg and Walia (2012)** confirmed that there was significant growth of MSMEs during 2001-02 to 2010-11 and emerged as a major donor to gross domestic product (GDP), employment and exports in post reforms Indian economy. **Ghatak (2012)** found that bank respondents have mixed preference for SMEs financing and considered profit earning, legal formation, stage of development, number of defaults in earlier loans, availability of collateral security, financial statements and feasibility of the project as main drivers of SMEs financing. They concluded that financing to SMEs was highly risk associated. **Kapoor (2012)** found out that most of the SMEs raised funds from the informal sources because of easy and flexible option. Other SMEs raised funds from both the formal and informal sources by striking a balance between the two. **Kaur (2012)** concluded that public and private sector banks achieved the overall target of 40 per cent in priority sector lending while foreign banks achieved the small scale industries, export credit and overall target during 1997-98 to 2008-09. **Uppal (2009)** analyzed that public sector banks have

not achieved the target of 40 per cent in priority sector advances while private sector banks achieved the overall target but have not able to achieve the sub-target of 10 per cent lending to weaker section. Foreign banks achieved the SSI target, export credit and overall target.

**Objectives of the study**

The main objectives of the study are:

- To assess the deployment of non-food gross bank credit to Micro, Small and Medium Enterprises (MSMEs).
  - To analyze the supply of bank credit to Micro and Small Enterprises (MSEs).
  - To examine the position of sick Micro and Small Enterprises (MSEs) financed by scheduled commercial banks (SCB).

**Hypotheses of the study**

**H<sub>0</sub>:** There is no significant difference in the outstanding bank credit to Micro and small enterprises over the period of time.

**H<sub>a</sub>:** There is significant difference in the outstanding bank credit to Micro and small enterprises over the period of time.

**H<sub>0</sub>:** There is no significant difference in the outstanding bank credit to Micro and small enterprises among the various segments of the banking industry.

**H<sub>a</sub>:** There is significant difference in the outstanding bank credit to Micro and small enterprises among the various segments of the banking industry.

**Research Methodology**

The time period of the study is taken from 2005-06 to 2013-14. The data is secondary in nature. It has been obtained from Handbook of Statistics on the Indian Economy, various issues of annual reports of the Micro, Small and Medium Enterprise (MSMEs), various reports and websites. For the analysis and interpretation arithmetic mean, percentage annual growth rate, compound annual growth rate (CAGR), two-way ANOVA (Calculated in Excel) have been used.

**Results and Discussions**

Table No. 2 presents the data of non-food gross bank credit supplied to Micro, small and medium enterprises (MSMEs). Total credit to MSMEs has been increased from 2434.98 billion in 2007-08 to 4791.11 billion at CAGR of 11.94 per cent. Year-on-year growth in total credit to MSMEs was highest in 2008-09 (19.57%), negative in 2010-11 (-3.17%) and improved further and increased to 17.13% in 2013-14. The coefficient of variation in total credit to MSMEs is 22.02 per cent during the study period. But the percentage share of credit to MSMEs units in non-food gross bank credit has been declined from 11.04 per cent in 2007-08 to 8.61 per cent in 2013-14.

The segmented data shows that credit to micro and small enterprises (MSEs) has been increased from 1326.98 billion in 2007-08 to 3517.03 billion in 2013-14 and registered a CAGR of 17.64 per cent over the study period. Percentage change was highest in 2008-09 (27.35%), lowest in 2010-11 (2.36%) and increased further in 2013-14 (23.69%). Coefficient of variation in MSE credit is 32.04 per cent which is much higher as compared to P medium enterprises. But the percentage share of credit to MSEs units in non-food gross bank credit has been improved marginally from 6.02 per cent in 2007-08 to 6.32 per cent in 2013-14.

On the other hand in case of medium enterprises the picture is entirely different. Credit to medium enterprises has increased marginally from 1108.00 billion in 2007-08 to 1274.08 billion in 2013-14 and recorded a meager CAGR of 2.36 per cent. Percentage change in credit to medium enterprises is highest in 2008-09 (10.25%), negative in 2010-11 and 2012-13 (-11.78% and -0.07% respectively) and slightly improved to 2.29 per cent in 2013-14. The coefficient of variation is just 5.79 per cent in

case of medium enterprises over the study period. But there is steep decline in percentage share of medium enterprises in non-food gross bank credit from 5.03 per cent in 2007-08 to 2.29 per cent in 2013-14.

**Table No. 2 Deployment of Non-food Gross Bank Credit Outstanding to Micro, Small and Medium Enterprises (MSMEs)**

(Amount in Billion)								
Years	MSEs	% Change	Medium	% Change	Total credit to MSMEs	% Change	Non-food Gross Bank Credit	% Change
2007-08	1326.98 (6.02)	-	1108.00 (5.03)	-	2434.98 (11.04)	-	22048.01 (100)	-
2008-09	1689.97 (6.5)	27.35	1221.55 (4.69)	10.25	2911.52 (11.19)	19.57	26018.25 (100)	18.01
2009-10	2064.01 (6.79)	22.13	1326.36 (4.36)	8.58	3390.37 (11.15)	16.45	30400.07 (100)	16.84
2010-11	2112.74 (5.73)	2.36	1170.11 (3.17)	-11.78	3282.85 (8.90)	-3.17	36870.87 (100)	21.29
2011-12	2366.57 (5.52)	12.01	1247.89 (2.91)	6.65	3614.46 (8.43)	10.10	42897.45 (100)	16.35
2012-13	2843.48 (5.84)	20.15	1247.04 (2.56)	-0.07	4090.52 (8.40)	13.17	48695.63 (100)	13.52
2013-14	3517.03 (6.32)	23.69	1274.08 (2.29)	2.17	4791.11 (8.61)	17.13	55660.08 (100)	14.3
Mean	2274.4		1227.86		3502.26		37512.91	
C.V.	32.04		5.79		22.02		32.75	
CAGR	17.64		2.36		11.94		16.69	

*Note: Figures in brackets are percentage to total non-food gross bank credit*

*Source: Handbook of Statistics on the Indian Economy (2013-14) published by Reserve Bank of India.*

#### Segment-wise and time-wise effect of outstanding bank credit to MSEs

**Table No. 3 Outstanding Bank Credit to Micro and Small Enterprises (MSEs)**

Year	Public Sector	% Change	Private Sector	% Change	Foreign Banks	% Change	All Scheduled Commercial Banks
2005	67800 (8.23)	-	8591 (10.3)	-	6907 (8.19)	-	81789 (100)
2006	82434 (8.33)	21.35	20427 (10.23)	21.25	5030 (3.32)	22.55	121393 (100)
2007	1,02,330 (8.75)	24.40	25,335 (10.33)	26.03	11,837 (1.7)	38.34	1,27,322 (100)
2008	1,57,147 (10.73)	53.34	46,513 (21.97)	35.13	15,483 (3.23)	43.70	2,17,538 (100)
2009	1,91,498 (14.73)	28.63	46,838 (10.22)	0.33	13,262 (3.58)	16.82	2,36,127 (100)
2010	2,74,396 (17.15)	43.45	54,334 (17.73)	38.22	21,267 (5.79)	16.34	3,49,993 (100)
2011	3,75,674 (17.14)	37.34	87,467 (18.08)	56.14	21,854 (14.5)	5.31	4,46,513 (100)
2012	5,95,343 (14.93)	52.4	1,10,514 (20.9)	25.75	21,762 (14.2)	1.04	5,28,517 (100)
2013-14	7,01,250 (13.05)	18.32	57,555 (22.25)	38.04	31,893 (14.87)	47.35	6,47,393 (100)

*Note: Figures in brackets indicate percentage share in total outstanding bank credit by all scheduled commercial banks to MSEs.*

**Source: Annual Report 2013-14 of MSME, GOI, Ministry of Micro, Small and Medium Enterprises**

Anova: Two-Factor Without Replication						
Source of Variation	SS	df	MS	F	P-value	F crit
Rows (Year-wise)	1.20787E+11	8	1.5098306446	2.53783231	0.05371257	2.59109618
Columns (Segment-wise)	2.47649E+11	2	1.23824E+11	20.8131882	3.5317E-05	3.63372347
Error (Residual)	95189245771	16	5949327861			
Total	4.63625E+11	26				

There are two null hypotheses: one for the rows (Year-wise) and the other for the columns (Segments-wise). The null hypothesis of the rows is:

**H<sub>0</sub>.** There is no significant difference in the outstanding bank credit to Micro and small enterprises over the period of time.

Since the P value for the rows (year-wise) is = 0.053 > 0.05 (or F value = 2.53 < 2.59 = F-crit value). So we accept the null hypothesis at the 95% level of significance and concluded that there is no significant difference in the outstanding bank credit to Micro and small enterprises over the period of time.

The null hypothesis for the columns is:

**H<sub>0</sub>.** There is no significant difference in the outstanding bank credit to Micro and small enterprises among the various segments of the banking industry.

Since the P value for the columns (segments-wise) is = 0.00 < 0.05 (or F value = 20.81 > 3.63 = F-crit value). So we reject the null hypothesis at the 95% level of significance and concluded that there is significant difference in the outstanding bank credit to Micro and small enterprises among the various segments of the banking industry.

#### **Position of sick MSEs**

Industrial sickness is a matter of great concern for any country. Micro and small units are more prone to sickness as compared to large and medium enterprises. In India, MSE sector has been improving its sickness over the period of time but since last two years the growth in the sick MSEs units and increase in the amount due to them is a matter of great concern. Though the RBI has issued guidelines from time to time for early detection of sick MSEs units but latest guidelines by the RBI issued on 1<sup>st</sup> November, 2012 does not show any impact on the sickness of MSEs units.

A MSEs is considered sick when (a) any of the borrowal account of the enterprise remains NPAs for three months or more OR (b) there is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth. The stipulation that the unit should have been in commercial production for at least two years has been removed.

**Table No.4 Position on Sick and potentially viable Units financed by Scheduled Commercial Banks**

(Amount outstanding in crores)

As at end of March	Total Sick MSEs		Potentially viable		Viable Enterprises	
	Number	Amount	Number	Amount	Number	Amount
2005	138041	5380	3922	435	2080	260
2006	126824 (-8.12)	4981 (-7.42)	4594 (17.13)	498 (14.48)	915 (-56.01)	234 (-10)
2007	114132 (-10.01)	5267 (5.74)	4287 (-6.68)	427 (-14.26)	588 (-35.74)	269 (14.96)
2008	85187 (-25.36)	3083 (-41.47)	4210 (-1.80)	247 (-42.15)	1262 (114.63)	127 (-52.79)
2009	103996 (22.08)	3620 (17.42)	8168 (94.01)	732 (196.36)	2330 (84.63)	424 (233.86)
2010	77723 (-25.26)	5233 (44.56)	9160 (12.14)	965 (31.83)	2360 (1.29)	479 (12.97)
2011	90141 (15.98)	5211 (-0.42)	7118 (-22.29)	1113 (15.34)	4698 (99.07)	518 (8.14)
2012	85591 (-5.05)	6790 (30.30)	10315 (44.91)	1721 (54.63)	6648 (41.51)	468 (-9.65)
2013 *	220492 (157.61)	12442 (83.24)	12779 (23.89)	3926 (128.12)	4599 (-30.82)	3224 (588.89)
2014(P)	456771 (107.16)	27622 (122.01)	N.A.	N.A.	N.A.	N.A.

*Note: The figures in brackets show the percentage growth over the previous year.*

*\*The definition of sickness was revised with effect from November 01, 2012.*

**Source: Report of the inter-Ministerial Committee for Accelerating Manufacturing in MSME Sector**

**Handbook of Statistics on the Indian Economy (2013-14) published by Reserve Bank of India.**

Table No. 4 shows that the total number of sick MSEs units gradually declined from 1,38,041 units in 2005 to 85,591 units in 2012 but further increased significantly to 2,20,492 units and 4,56,771 units in 2013 and 2014 respectively. There is a sharp increase in the number of sick units by 157.61 per cent in 2013 and 107.16 per cent in 2014. The amount outstanding to these sick MSEs units has been increased sharply by 83.24 per cent and 122.01 per cent in 2013 and 2014 respectively. The number of potentially viable MSEs units increased from 3922 units in 2005 to 12779 units in 2013 and there is also increase in amount outstanding to these potentially viable units by 128.12 per cent in 2013 over the previous year. The number of viable MSEs units though increases from 2080 units in 2005 to 4599 units in 2013. But the percentage change in viable MSEs units goes negative by 30.82% in 2013 over the previous year but amount outstanding to these units recorded a very high percentage change of 588.89 per cent over the previous year.

### Conclusion

Thus the role of the Indian MSMEs sector in the social-economic development of the country is momentous. In spite of policy initiatives undertaken by Government of India and Reserve Bank of

India, this sector faces the critical problem of access and use of adequate and timely availability of credit. So the present paper analyzed the bank financing to micro, small and medium enterprises. The main findings of the research paper is that the percentage share of credit to MSMEs units in non-food gross bank credit has been sharply declined from 11.4 per cent in 2007-08 to 8.61 per cent in 2013-14. Further the results of the two-way ANOVA indicated that there is no significant difference in the outstanding bank credit to micro and small enterprises during the study period but there exists a significant difference in the outstanding bank credit to micro and small enterprises among the various segments of the banking industry. In the total outstanding bank credit provided by all scheduled commercial banks, public sector banks has the largest share (73.05%), followed by private sector banks (22.28%) and lowest share of foreign banks (4.67%) in 2013. The problem of sickness is a matter of immediate apprehension because it has been significantly increased by 158 per cent and 107 per cent in numbers and 83 per cent and 122 per cent increase in outstanding amount to these sick units in just last two years. There is an urgent need to assess the credit gap and should increase the credit inflow to the MSMEs sector through scheduled commercial banks. Therefore, Government of India, Reserve Bank of India and various facilitating institutional agencies should play an active role in the sustainable development of the MSMEs sector by undertaking favorable policy measures.

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