A STUDY ON PERFORMANCE OF SMALL SCALE INDUSTRIES IN THOOTHUKUDI DISTRICT

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Abstract

The small and Medium Enterprises in Tamil Nadu today comprise of automobile ancillaries, textiles and food processing. There is a growth in the automobile ancillaries industry because companies like Ford and Hyundai have come to Tamil Nadu. The food-processing sector again is growing, as there is a demand for processed and packaged food. Entrepreneurs are setting up cold storages and exporting frozen vegetables and fruits. On the other hand, the demand for bank credit has also undergone substantial increase. Factors such as, large growth in the number of industrial units, diversification of existing units, increase in industrial and agricultural production.

Introduction

In India, Small and Medium Enterprises (SME) is a generic term used to describe Small Scale Industrial (SSI) units and medium-scale industrial units. "Any industrial unit with a total investment in its fixed assets or leased assets or hire-purchase asset up to Rs.10 million is considered as a SSI unit and investment up to Rs.100 million is considered as a medium unit"1. In addition, an SSI unit should neither be a subsidiary of any other industrial unit nor can it be owned or controlled by any other industrial unit.

The SSI sector produces a wide range of industrial products such as food products, beverage, tobacco and tobacco products, cotton textiles, wool, silk, synthetic products, jute, hemp & jute products, wood & wood products, furniture and fixtures, paper & paper products, printing publishing and allied industries, machinery, machines, appliances and electrical machinery. SSI sector also has a large number of service industries. The small-scale sector in India comprises of a diverse range of units from traditional crafts to high-tech industries. The number of SSI working units (registered & unregistered) in India totalled 11.4 million in 2003-04-80.5 percent of which are proprietary concerns and 16.8 percent are partnership firms and private limited companies.

Statement of the Problems

SSI is one of the most important factors are in economic development in general and rapid industrialization in particular. SSI development becomes a vital issue. The main barriers to small-scale sector lending are diverse. Some of them are as follows

Objectives of Study
- To study the relationship between the Social, Cultural and Economic factors and SSI Management in the study area.
- To analyses the financial requirements with special, reference to SSI (Small Scale Industry) units at various levels.
- To understand the role of financial institutions in assistance to extending financial performance.
- To examine the problems faced by the beneficiaries in relating to financial and marketing activities.
- To analyses the performance of Small Scale Industry in terms of capital, investment, production, capacity utilization, turnover, profit and employment.

High-Risk Perception

High-risk perception with small-scale sector stems from a number of factors such as weak financial strength, inability to provide adequate collateral another factors. Inability to proper appraise the new projects, new firms and new activities by bankers often results in banks shunning a small borrower.

Insistence on Collateral

Because of asymmetric information and high-risk perception, banks primarily prefer collateral-based lending rather than cash-flow analysis while working with small-scale sector borrowers. Although there is a threshold up to which bankers should not insist on collateral, they seldom assume the risk involved in non-collateralized lending. The surveys conducted by Reserve Bank revealed that many bank branches are insisting on collaterals even for loans up to Rs.5 lakh.

High Transaction Costs

Due to the small amounts of each loan, the aggregate costs of information gathering, due diligence, loan processing and monitoring are much higher than for loans to large corporate borrowers.

Interest Rates

The financial institutions charge relatively higher interest rates to small-scale sector than to larger companies in order to compensate for the higher costs of information collection, the smaller volume of external financing and perceived greater credit risk. Strengthening the provisions of "Interest on Delayed Payment to Small Scale and Ancillary Industrial Undertakings Act" Though the "Interest on Delayed Payment to Small Scale and Ancillary Industrial Undertakings Act" was enacted in 1993 and further amended in 1998.

The main objective is to ensure prompt and timely receipt of payments by the small-scale units from the large corporate, implementation of the provisions of the Act

remains ineffective. Ministry of SSI, Government of India is proposing certain amendments in the provisions of the said Act. Under the proposed amendments, active role for State Governments in the implementation of the provisions of the Act and a proactive role for the Industry Facilitation Councils (IFCs) for settlement of disputes with the buyers in regard to delay in payment etc.

Miscellaneous

Other reasons stated by banks for the weak growth of SSI credit are (i) the large number of unregistered enterprises, which require different lending and risk management techniques, processes, and skills; (ii) lack of a secured transactions law to regulate assignment and registry of movables; and (iii) the difficulty and high cost of registering property and enforcing contracts. The surveys conducted by Reserve Bank revealed that majority of the banks are not having any periodical meetings with local SSI/SSI Associations to sort out credit related issues. Regarding delayed payments to SSI and ME by large corporate, no information is available with the bank branches. Some of the banks have suggested for relaxation in NPA norms for SSI sector and enhancement in limit for coverage under CGTSI scheme. During the survey, some of the borrowers suggested for setting up monitoring cell at controlling offices of banks to monitor credit flow to the sector. They also suggested for reduction in guarantee fee under CGTSI scheme. The issues confronted by the SSI sector are indeed diverse, and credit related issues, no doubt, are significant. The multifarious problems of the SSI sector call for an integrated and multi-pronged approach from all concerned with the SSI sector's development.

Hypothesis

- The social background of small-scale entrepreneurs is more heterogeneous than that of the small-scale entrepreneurs who happen to hail mainly from socially forward communities with trade and industrial background.
- There is a significant different between the mean performance of entrepreneurs based on their form of organization, community, education and Experience.
- The performance of small scale entrepreneurs in terms of capacity utilization, growth of employment, and rate of return per capital and labour employed is relatively better than the Medium and Large Scale Industries.
- The factors influencing the performance of small-scale entrepreneurs are likely to be different from those factors influencing the performance of medium and large-scale entrepreneurs

Methodology and Database

The secondary data was collected mainly from RBI Regional Office, State Planning Board, Bureau of Economics and Statistics, Financial Institutions, the publications and

reports of various banks and other financial institutions and from Department of Economics and statistics, and DIC Perambalur.

Selection of the Sample

The sample is taken based on list prepared. Stratified random sampling is followed for the purpose of the study. Total units were divided into two namely (a) Priority Sector and (b) Non-Priority Sector and size is sixty each.

Statistical tools

The following tools are utilized for the purpose of this study in i. Ratio ii Percentage iii. Mean iv. Standard Deviation v. Co-efficient of variation vi. Trend Analysis vii. Index Number viii Z test ix. Chi-square test x. Rank order scale method and Linker's Five Point Scaling Technique.

Findings

A sample consists among the Priority sector 57 percent are in industrial side peoples, 20 percent are in retailers, 13 percent are in fresh peoples, 10 percent are in all above three. A sample consists among the Non- Priority sector 12 percent are in industrial side peoples, 38 percent are in retailers, 42 percent are in fresh peoples, 8 percent are in all above three. A sample consists among the Priority and Non- Priority sector 41 respondents are in industrial side peoples, 35 respondents are in retailers, 33 respondents are in fresh peoples, 11 respondents are in all above three.

Ho = Type of customer of priority sector and non-priority sector units does not significantly differ.

It is inferred that the details of sample and the area from which they have been selected in Thoothukudi district. The priority sector and Non-Priority sector belongs to area of the marketing such as District, State, National, all above three areas. A sample consists among the Priority sector 45 percent are in district level, 38 percent are in state level, 10 percent are in national level, 7 percent are in all above three. A sample consists among the Non- Priority sector 53 percent are in district level, 30 percent are in state level, 12 percent are in national level, 5 percent are in all above three. A sample consists among the Priority and Non- Priority sector 59 respondents are in district level, 41 respondents are in state level, 13 respondents are in national level, 7 respondents are in all above three.

Ho = Marketing Area of priority sector and non-priority sector units does not significantly differ.

It reveals that the details of sample's opinion about the channels of the distribution related to wholesaler, retailer, direct selling and all three methods. The area from which they have been selected in Thoothukudi district. The priority sector and Non-Priority sector belongs to area of the marketing such as District, State, National, all above three areas. A sample consists among the Priority sector 25 percent are in wholesale level, 48 percent are

in retail level, 17 percent are in direct selling method, 10 percent are in all above three. A sample consists among the Non- Priority sector 33 percent are in wholesale level, 15 percent are in retail level, 30 percent are in direct selling level, 21 percent are in all above three. A sample consists among the Priority and Non- Priority sector 35 respondents are in wholesale level, 38 respondents are in retail level, 28 respondents are in direct selling method, 19 respondents are in all above three.

During the study period, the overall average fixed asset utlized by the priority sector is Rs.11.22 lakh; the standard deviation is Rs.512.97 lakh and the coefficient of variation is 45.71 percent. In Non-Priority sector is Rs.40.21 lakh; the standard deviation is Rs8.98 lakh and the coefficient of variation is 22.34 percent. It is estimated that the average fixed asset in 012 will be Rs.28.91 lakh and that of Non-Priority sector will be Rs.66.00 lakh in 2012. The overall average total asset account balance in priority sector will be Rs.11.06 lakh and that of in non-priority sector firms will be Rs.10.63 lakh

Suggestions

Based on the above conclusions the various suggestions have been made here in this section. The government and their related agencies like District Industrial Center, SISI, and financial institutions were help to issue loan and training programme in time.

The commercial bank's operations should be improved and to ensure an effective use of bank finance for the following suggestions may by considered. It is a vital for the bank to maintain proper coordination with the government agencies, as they are distributing subsidy and loan components of government program to targeted group of people and weaker sections in rural areas.

There should be made to reduce the layers of middleman in procuring raw materials for SSI units. The government should give more training through EDP to young / fresh graduates. The government should give more subsidies for women entrepreneurs to start the enterprises. There is need to have a consultancy services for SSI sector. The entrepreneurs require expert advices for solving their day-to-day problems.

The government should collect information about present and prospective markets for various products and disseminate it to the units at the earliest possible. Under this method, collect information through Department of Industries by Marketing Information System should be strengthened.

Conclusion

Small Scale Industry plays a key role in the industrialization of a developing country. This is they provide immediate large scale employment and have a comparatively high labour, capital ratio, they need a shorter gestation period and relatively smaller market to be economic, they are need a lower investments, offer a method of ensuring a more resources and utilization of national income .In India, the promotion of SSI has

continued to be an important element in national development strategy particularly employment and output ratio. The promotion of suitable industries in rural areas will be accelerated to generate higher employment, per capital income for the villagers without disturbing the ecological balance. The key to success for SSI would lie in looking at global market.

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