

A Study on Contribution of Private Sector And Public Sector Banks Towards The Small Scale Industries in Kozhikode District

¹Mr. Faisal C , ²Dr. S Nagasanthi M.Com, MBA, PhD

¹PhD Scholar J J college of arts and sciences Pudukkottai – Tamilnadu
Asst. Professor and Research Advisor

²Department of Commerce J J college of arts and sciences Pudukkottai – Tamilnadu
Corresponding Author: ¹Mr. Faisal C

Abstract: Small Scale industries are very important towards the state as well as national economy. The economic development of the nation is always depends upon such segments even though in an extent. The government of India and Kerala has implemented numerous programmes and policies in order to uplift the small scale industries all over the state. The tremendous increase in the small scale industries are really a positive sign of stable economy. However the development of such small scale industries is not so easy as far as their purview in concerned.

The financial avenues for starting up a small scale venture are the biggest hindrance facing by all new entrepreneurs. Not only for new comers, but also the existing entrepreneurs are struggling a lot to withstand in the scenario. This study intends to identify the contribution of private sector and public sector banks towards the small scale industries in the Kozhikode district in Kerala state. The study also tries to identify whether any disparity is there in the both sectors in the banking for such assistance.

Keywords: Small Scale Industry, SMSE, Private sector banks, Public sector banks, District Industrial Centre

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I. Introduction

The Small Scale Enterprise is a vibrant sector in the Indian economy. The growth of GDP and PCI are having direct linkage between the revenue generating segments like small scale industries. The improvement in standard of living of peoples in the country due to effective SMSE is really fabulous. The employment opportunities generating through this sector is also remarkable. However the growth and development of Small Scale Industry sector is in dilemma. The government of India as well as respective state governments is taking numerous remedial measures to encourage small scale sector in the country whereas due to certain hindrances the objectives are not effectively achieving.

Small Scale Industries which are considered as the dominant players in achieving a balanced economy is suffering from economical imbalances. The basic problem is finance. New comers are hesitated to enter into the sector due to lack of finance. As the production law says land, labour, capital and organization are the factors of production, they are the crux in starting a new venture also. Capital is the most crucial factor among the four to run a business. All other factors are dependants of this independent factor. The peoples who are having high potential and ideas are lagging behind due to this capital.

The financial institutions in the country, especially banks are playing vital role in financing the small scale industry segments. Generally poor industries who don't have sufficient funds are funding at cheapest rate of interest is the best that the banks are doing to small scale industries in India. The financial needs like technological installation, technology up gradation, procurement of heavy raw materials, heavy marketing expenses etc.. are funding by banks as on the situation by the demand of enterprises. The process and formalities for getting such funds are comparatively less for the small scale industry sector after the intervention of the government. However after the mass nationalization of commercial banks by the government of India, the importance given by such banks to SMSE sector are reduced tremendously. But the private sector banks are doing some remarkable jobs to an extent in the sector since few years.

The study tries to explore the difference between contribution of private sector and public sector banks towards small scale industries in the district of Kozhikode in Kerala state. Kozhikode is considered as the second industrial city in the state of Kerala. The district is having a geographical area of 234641 hectares of land and having the population of 3089543 as per the census in 2011. The district consists of 423 commercial banks in operation. The total numbers of registered small scale enterprises are 8560 and total of registered and unregistered are 18623. The turnover from all these enterprises are amounted to Rs. 1841206.08 lakhs. A summary of last 5 year data of small scale industrial units in Kozhikode district is given below.

Table No: 01 Statistics of Small Scale Industry in Kozhikode District

SI No	Year	Number of registered Units	Employment generated	Total Investments (in lakhs)
1	2011-12	817	5082	581574896
2	2012-13	1067	6790	815768109
3	2013-14	948	6097	661341405
4	2014-15	1053	5884	740932303
5	2015-16	1156	36824	372106544

(Source: Brief industrial profile by the Govt. of Kerala)

The above statistics shows the relevance of the study undoubtedly as the contribution and investments of small scale industry in Kozhikode district is really remarkable.

II. Objectives Of The Study

- ❖ To identify the role of banks in the growth of Small Scale Industries.
- ❖ To compare the performance of private sector and public sector banks in contribution of assistance to Small Scale Industry in Kozhikode district.
- ❖ To understand the role of Small Scale Industries to the economy.

II. Research Methodology

This study used both primary as well as secondary data. The primary data were used to identify the opinion about the banks among entrepreneurs. 60 samples were collected from Kozhikode district to perform primary data analysis. However secondary data were extensively used to establish the conceptual frame work of the study. A detailed field study was conducted in the selected enterprises which are registered under District Industrial Centre (DIC) as Small Scale Enterprise. Thorough study was conducted in some selective commercial banks also to identify the offers provided to Small Scale Industries in Kozhikode district.

Hypothesis

H₀: There is no significant relationship between factors affecting loan and effectiveness of loan.

H₁: There is a significant relationship between factors affecting loan and effectiveness of loan.

Brief: Performance of Small Scale Industries in Kozhikode

According to MSMED act 2006, Micro Small and Medium Enterprises are classified into two categories. Manufacturing sector and service sector. An enterprise engaged in the manufacturing of products and having a total investment in machinery 2.5 million to 5 crore rupees are said to be manufacturing enterprises in Small Scale Industries. The enterprises engaged in providing services and having a total investment in machinery 1 million to 2 crore rupees are said to be manufacturing enterprises in Small Scale Industries.

The SSI (Small Scale Industries) units in Kozhikode district are doing really well and the contribution of this industry towards the financial structure is inevitable. The SSI units in the district consists of Agro based industry, soda water, cotton textile, woolen, silk clothes based, rubber based, plastic based, mineral based, metal based etc.. These sector wise SSI units are providing around thirty thousand employment opportunities and having an investment of 38399.24 lakhs of rupees as per the information on March of 2016. The major exporting products from SSI units of Kozhikode are footwear based products, marine based products, food products, soaps, Umbrella etc...

The contribution of SSI units towards the economic development of the district can be understood by the following points.

- Promotion of export
- Employment generation
- Helps to distribute income equitably
- Improve the standard of living
- Provide platform for the technological advancement
- Quality products with competitive price

Finance: the real hurdle of SSI units

The industrial sickness is an accepted phenomenon in the process of growth and development of any industrialized economy. The progression of SSI units is not up to expectation due to these problems. The basic problems are lack of skilled workers, finance problem, raw material availability problem, unstructured marketing problems, lack of advancement in technology, infrastructure problems etc... However the crux problem is finance. The inadequate and untimely finance as well as credit facilities is the crucial factors for SSI units. The small enterprises may not have credit worthiness is the lagging problem behind lack of credit

assistance. The problem of introducing some huge capital is another problem. These financial problems should be solved or curtailed to an extent to improve the progression of SSI units in Kozhikode district. With the purview of this objective, the district, state and national governments are doing a lot of policy measures and the banks have to consider the credit to SSI units as part of the priority sector lending.

Role of banks to uplift SSI units from financial sickness

There are 423 commercial banks in the Kozhikode district. The primary functions of banks are lending money as loans and accepting money as deposits. The process of lending money can further be explained as giving credit to the needy peoples with sufficient criteria prescribed by banks. The criteria prescribed generally includes the credit worthiness of the loan applied person and his repayment capacity. Banks will give loans only to the peoples having good credit worthiness and properties for the purpose of mortgages. Here the problem arises once it comes to the SSI units. Because the SSI units may not have sufficient track records of revenue or sufficient credit worthiness. Sometimes they may not have even own properties. Here comes the intervention of government bodies. The government has introduced many policies and acts to help the SSI units to avail loans from the commercial banks.

The banks used to give numerous numbers of loans to SSI units without any costs. They issued many loans to meet special purposes like starting SSI units, for procurement of raw materials, marketing of products, technological advancements, machinery installation etc... But the mass nationalization of banks in 1967 has made again some problems in lending the loans. The bankers reduced their importance to the unorganized SSI units. The introduction of IDBI and SIDBI was milestone in the SSI segments in the nation. These banks were established with a view to develop SSI units all over the country. The state of Kerala and Kozhikode districts was also part of the benefit obtain from this movement.

Many number of nationalized and private sector banks are providing loans and financial assistance to the SSI units in Kozhikode. However the private sector banks are lagging behind while compared to public sector banks. This is due to the problem of security. Private sector banks are hesitated to give personal loans to unorganized SSI units. The huge loss incurred from the NPA is the biggest headache for the banks now a day. Public sector banks are providing much number of loans to assist the SSI units in Kozhikode. The loans include both short term loans and long term loans. The term loans lasting a period up to 10 years were provided by banks like SBI. The public sector banks are also providing scheme loans rather than term loans to the SSI units. The entrepreneur's scheme loan providing by SBI is an example for such loans. The scheme loans are mainly providing with a memorandum with the state as well as the central governments and they are providing through the public sector banks. There are private sector banks providing scheme loans with an agreement with the respective governments, however, the number is very less while compared with public sector banks. The loans providing by public banks for artisans and craftsman are also good example to show the importance of public sector banks than private sector banks in financial assistance to SSI units.

Testing of Hypothesis

A linear regression equation is used to identify the relationship between factors affecting loan and the effectiveness of loan taken by SSI entrepreneurs in Kozhikode district.

Regression is the measure of the average relationship between two or more variables in terms of the original units of the data. In this study the effectiveness of loan is taken as the dependent variable and factors are taken as independent variables.

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.301708
R Square	0.091028
Adjusted R Square	0.075356
Standard Error	1.421031
Observations	60

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	11.72896	11.72896	5.808347	0.019143
Residual	58	117.121	2.019328		
Total	59	128.85			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	8.881222	0.984534	9.020733	1.23E-12	6.910462	10.85198	6.910462	10.85198
X Variable 1	-0.36425	0.151139	-2.41005	0.019143	-0.66679	-0.06172	-0.66679	-0.06172

As seen in the summary of regression analysis the P value is less than 0.05. Hence H_0 is rejected. Therefore there exist a significant relationship between the factors affecting loan and the effectiveness of loan. The adjusted R square value is 0.075, which means 7.5% of variation of the dependent variable is due to the independent variable.

III. Conclusion

The SSI units are playing a significant role in the financial structure of the nation, state and even in district level. The governments are effectively trying to protect and encourage the SSI units extensively by understanding the potentiality of this segment. The financial contribution as well as the social benefits like employment generation is notable one. However the working condition of SSI units is not much pleasant as they are suffering from too many industrial sicknesses. Financial sickness is the biggest problem facing by SSI units in the India. The financial institutions are doing some effective measures to protect SSI units with the help of governments. Both public sector and private sector banks are doing favorable financial assistance. But by scrutinizing thoroughly all the factors and public opinion, public sector banks are more participant in giving financial assistance to SSI units than private sector banks.

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