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IMPACT OF INCULCATING FINANCIAL DISCIPLINE AMONG MSMES: SPECIAL FOCUS ON KEY AREAS OF GUJRAT AND RAJASTHAN

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INTRODUCTION:

MSME includes Micro Small and Medium enterprises which are classified distinctly on the basis of investment in Plant & machinery and Turnover. Subject classification is as under:

	Sector	Definition
A	Micro Enterprises	Investment in Plant & Machinery or Equipment does not exceed 1 crore rupees and turnover does not exceed 5 crores rupees.
B	Small Enterprises	Investment in Plant 10 ten crore rupees and turnover does not exceed 50 crore rupees.
C	Medium Enterprises	Investment in Plant and Machinery or Equipment does not exceed 50 crore rupees and turnover does not exceed 250 crore rupees

Fig no. 1: Classification of MSME

It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. Various Govt. initiatives are encouraging like Mudra loan focused to unorganized Micro sector growth, Standup India mainly focused on encouragement of Green field projects of women entrepreneurs and people from reserved social categories. Out of total MSMEs 31 % are manufacturing sector, 36 % are traders and remaining 33 % are other services as per latest Annual MSME report of Govt. of India for fiscal 23-24. Distribution of MSMEs are as follows:

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Table no. 1: MSME distribution in Rural & Urban India (Data in Lakh)

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
All	630.52	3.31	0.05	633.88	100

Above findings prove that to build MSME, we need more focused approach on various segments of MSME especially Micro sector especially in rural areas where financial discipline is the biggest stigma unlike the large Medium sectors & corporates where they have professional financial analytic tools and literacy. This brings the relevance of my research topic of " IMPACT OF INCULCATING FINANCIAL DISCIPLINE AMONG MSMES" so that the pertinent problem of formulation of financial discipline among MSME may be achieved. The topic also has social relevance as it will lead to development of MSMEs which are more focused in rural areas leading to holistic development of business in India where major portion still lies in rural areas thereby boosting GDP and also improving export of indigenous products manufactured by these MSMEs. Further strengthened MSMEs would also help government in its pivotal dream of " Aatma Nirbharta" bringing scope and encouragement to young entrepreneurs especially woman including divorcees & widows and people of rural area who have lack of capital , experience, access to bank and minimal knowledge of financial discipline as major constraints .

OBJECTIVE:

J To study means of financial discipline among MSME

J Study on impact of higher business models for MSME for improving capital position to boost sufficiency of finance.

J Bind MSME with banks for working capital loans assistance apart from project term loans to boost liquidity.

REVIEW OF LITERATURE:

Dr. P. Mari Selvam(2021)has stated that MSMEs have been contributing significantly to the expansion of entrepreneurial endeavors through business innovations, economy , helped to meet demands of domestic as well as global market. The subject research inferred that major MSMEs are Traders; manufacturing sectors are comparatively less; MSMEs are mainly under MICRO sectors only and urban areas has more MSME flourishment.Dr. M. Kanagarathinam, and A. Vijayakumar (2023) have further sited that majority of the respondents (45 %) of units are small scale units and more than half 62 % of the units are located in urban areas of which major 68% are manufacturing units. Rosa

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Patricia Larios-Francia (2022) has informed impact of innovation investment and growth of MSME unit especially in context of wearing apparel sector (WAS) in Peru and Colombia. As per his research among business entities Micro units generate major employments.On basis of technology , MSME classified as three technology categories: medium-high and high technology (MHT), medium technology (MT) and low technology (LT) based on investment in technology. In developed nation there is approportionate relation in introduction of multiple innotive products and firm;s performance & growth in context to OSLO MANUAL 2018. Subject research states that good way to enhance technology investment is collaborations like partnership, Govt collaboration, supply chain. Rajamani K & NIRMAL RAJ (2020) stated that MSME performance depends on Firm attributes like firm size, resorting to financial issues like financial obstacles like insufficient capital, inability to raise funds from stock exchange, high operating expenses,low profit margin,lack of access to outside funds. It also elaborated about internal & external sources of finance and the 4 stages of MSME life cycle i.e. conception & development (here mainly informal sources of funds) ;commercialization & survival(firm reaches above breakeven); growth (profit is in increasing trend ; stability (firm reaches close to saturation. introduction of new innovative products is solution to this impediment). Subject research stated that access to finance pivotal role in firm growth.small firm have more demand and less supply of credit.

Hence research gap to address subject financial issues acting as stepping stone to upliftment of MSMEs mainly Micro & Small sector is a major concern and has scope of further research which gave more relevance to my topic.

RESEARCH METHODOLOGY:

Various sources like questionnaire, personal & telephonic interview were used for Primary data collection. Secondary data like Audited balance sheets, data from MCA portal, Annual report for MSME ,etc have been used.

"Random sampling technique" was used for collection of data. However few instances of "judgmental sampling" was also used for more even sample collection from pool so that various varieties of MSMEs are covered in terms of micro, small and medium units both with organized and unorganized setup. Few instances of "cluster based sampling" was also used to select industries of different line of activity & business models.Sample size considered is for 100 samples.

Type of research done is mainly experimental research, analytical and applied research to see the outcomes of the analysis.

Chi-square method has been used as a means of checking & testing attributes for independence of variables.

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RESULTS:

I had done an initial step 1 survey in Jaipur, Jodhpur, Ahmedabad, Gandhinagar, Mehsana region which are major hotspots of MSMEs of Rajasthan & Gujrat. Details of survey and responses obtained as per questionnaires are as under:

Table no.2: Survey of financial assistances to MSMEs

City of Survey	JAIPUR			AHMEDABAD/ GANDHINAGAR			MEHSANA		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
Sufficiency of Bank credit	No	Min.	Good	Min	Avg	Good	Avg	Good	Good
Understanding of Long term &short term funds	No	No	Min	No	No	Good	No	Avg	Good
Financial Forward & Backward Integration of business units	No	No	Min.	No	No	Avg	No	No	Min
Dependency on private money lenders more than PSU and large private Banks	***Good***	***Avg***	No	Min	No	No	Min	No	No
Availability of liquid funds as reserve money	No	No	Min	Min	Avg	Good	Min	Avg	Good

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6 scales have been opted:

Nomenclature	Meaning
NA	Not applicable in major cases out of total sample space of the category
No	None
Min	At very minimal & negligible level
Avg	Average levels.Just ok.
GOOD	Above avg. still scope is there
Max	Fully satisfying

Above survey brings a clear picture and following observations to light:

- J Even capital city Jaipur of Rajasthan does not have Small scale (Micro & Small) enterprises properly uprisen financially as they still depend at countable levels upon "private money lenders" who charge high ROI there by reducing profit margins.
- J Jaipur despite being famous for Blue pottery, handicraft, wood related activities, Bagru print textiles still suffers from disbalance of financial discipline among small and large(Medium enterprise) industries.
- J Govt. has been successfully in focusing on more incentives & subsidy access to Micro & Small enterprises in comparison to larger Medium sectors.

Few hypothesis which came out of the survey based on suggestions of MSME units, Banks, SLBC (State Level Banker's committee) data and based on my practical field experience of 11 years as MSME credit manager in bank are follows:

- J Encouragement of professional working capital loans from Banks to MSME for bridging up liquidity gap rather than depending on sundry creditors (raw material providers) or loans from market or by unsecured loans from outside sources which increase debt load.
- J More organised business units like corporates,LLP, PPP, joint ventures(JV) based business models lead to better raising of funds from internal sources there by improving financial leverage position .Special incentives and subsidy for remodelling to be higher business model may be adopted.
- J Forward -backward- integration is to be encouraged for better business stability especially in a given industrial zone.

To test the above hypothesis following testing was done.

1. Testing impact of availing WC limit from bank on an MSME unit:

Survey was done on units which needed WC assistance and were availing WC limit from banks and for those who did not avail any WC limit and used miscellaneous sources

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for day to day business needs. Following table has the data collected by me in this regards:

Table no. 3 : Data on current ratio above benchmark for units availing WC limit from banks

Current Ratio	No. of MSME units		TOTAL
	Availed CC limit	No CC limit	
Above bench mark	40	28	68
Below benchmark	10	22	32
TOTAL	50	50	100

Variables collected from company was current assets and current liability as per latest audited balance sheets (or unaudited balance sheet where audited was not applicable). Later current ratio was computed from current assets and current liability using basic formula CR=CA/CL.

Testing was done by usingChi Square method for verifying whether current ratio of a firm and availment of CC limit by the firm are independent or dependent. We assume null hypothesis that both are independent.

)(2 =∑(Oij-Eij)2 /Eij

Table no.4: Chi Square Analysis

oij	Eij	oij-eij	(oij-eij)2	[(oij-eij)2]/eij
40	34	6	36	1.058823529
28	34	-6	36	1.058823529
10	16	-6	36	2.25
22	16	6	36	2.25
			∑	6.617647059

Hence (^2= 6.61

Degree of freedom=(c-1)(r-1) [C is no. of column & r no. of rows of table); df = 1

Critical Value of)(^2 [Chi square] as per table considering 5% level of significance is 3.841.

Critical value of chi square is much lower than calculated data. Hence the null hypothesis is rejected. Hence current ratio of a firm is dependent on the fact whether the firm has availed CC limit or not. Actually if a firm avails WC limit from professional banks where ROI is also lower, this may seem to reduce profit margin for shortsighted entrepreneurs but actually if the cash credit bank is not diverted to long term uses and used strictly for

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bridging working capital gap of firm for day to day business, the same will result in better liquidity there by improving current ratio. Better current ratio reflects healthy state of business where proper production process can be carried out and may help to build up and boost the "top line of the business". This will also reduce dependency on credit from suppliers (i.e. sundry creditors) and private money lenders which take advantage of liquidity crunch of firm by lending at higher rate.

Survey on more organised business units like corporates and less organized proprietorship /partnership firm business models:

As discussed above sample of 100 industries were taken up of which 50 were proprietorship firms and 20 were Pvt ltd and Public Ltd companies. Survey includes comparison of only company [complex business structure] & proprietorship firm [simple business structure] to study impact of business model on financial leverage position.

A survey on their financial leverage position was done to check strength of their capital structure which is the backbone of any unit to meet networking capital (current asset-current liability) requirement which is fetched from long term sources(mainly capital). Details of survey are as follows:

Table no. 5: Data on Financial leverage positions of various business models

Debt equity ratio	No. of MSME units		Partnership firm x3	TOTAL
	company x1	prop. Firms x2		
Above bench mark	18	22	24	64
Below benchmark	2	28	6	36
TOTAL	20	50	30	100

Using Chi square method dependency among financial leverage and different organisational structures like company, partnership firm and proprietorship firm is studied which is as follows:

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Table no. 6: Chi Suare Analysis

Debt equity ratio	No. of MSME units			
	company x1	prop. Firms x2	partnership firm x3	TOTAL
Above bench mark	18	22	24	40
Below benchmark	2	28	6	30
TOTAL	20	50	30	100

*sample size of 100

oij	Eij	oij-eij	(oij-eij)2	[(oij-eij)2]/eij
18	8	10	100	12.5
22	20	2	4	0.2
24	12	12	144	12
2	6	-4	16	2.666667
28	15	13	169	11.26667
6	9	-3	9	1
			∑	39.63333

Hence)(^2= 39.63

Degree of freedom=(c-1)(r-1) [C is no. of column & r no. of rows of table)

df = (3-1)(2-1)=2

Critical Value of) (^2 [Chi square] as per table considering 5%level of significance is 5.991.

Critical value of chi square is much lower than calculated data. Hence the null hypothesis is rejected. Hence debt equity level is dependent on type of corporate structure. The same is also understood as based on survey it was informed by organized corporates like Pvt ltd company and public limited company & listed companies that it is easier to raise capital from diverse share holders and at any point old promoters can be easily be replaced by new promoters.

DISCUSSION:

Based on survey & interview of sample of MSMEs & based on literature review various suggestions and remedies are as under:

1. Popularizing concept of CC limit from Banks will help to fund the working capital gap

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and debtor-creditor holding period mismatch. This may in turn help to keep up day to day operations of business to meet requisite production level as per demand to boost top line of business.

2. Abstinence from diversion of short term funds towards capital investment creating liquidity crunch to run the business

   RESOLUTION: MSME generally use funds from sale to purchase funds. However, Long term fund utilization should be planned such that it is always less than long term fund sources as NWC is always financed by capital. WC /CC limit from bank is often diverted to purchase machinery. Bank should impose penalty for such diversions so that MSMEs initially may find it difficult but this will eventually teach them proper utilization of funds. They will have knowledge to take right type of loan for correct purpose (eg. TL for purchase of machinery & CC limit for day to day business needs). Mandatory Intermittent trainings to be kept for MSMEs from time to time.

3. Encouraging more organized organisational structures like JV, Pvt ltd companies, Public ltd companies, Public-private partnership(PPP), LLP,etc. which will help in better management structure and sound financial leverage with more diverse and versatile means of capital investments .

4. Encouraging investment from FDI(Gov. should formulate some scheme for mandatory investment in MSME up to some percentage of their investment or attractive benefits to those FDI who invest in MSME)

   RESOLUTION: Joint ventures of local MSMEs & multinational may be encouraged like MARUTI SUZUKI. This will help Indian company to get capital; monitory resources & technology and in turn multinational can get benefit of local brand penetration in market; low cost labour. Special schemes can be formulated. Secondarily; individual FDIO investment (with upper cap limitation) will give financial resources)

5. Holistic development of all related & forward-backward integrated enterprises of a business chain which may bring holistic financial strength to all enterprises involved in a particular business chain thereby improving WC cycle of entire business & hence improving liquidity positions.

   Explanation: High creditor period level (i.e. long time in repayment of raw materials purchased on credit) leads to financial crunch of supplier firm which may in long run slowly impact business [position of our supplier company and in turn impact current company as well by delayed supply of raw materials for production or by increasing price of raw material to remain above Breakeven point. Similarly, large debtor period will impact Subject Company by impacting delayed realization of payment of credit sales thereby impacting liquidity position of Subject Company and result in lower

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sales which will again in long run ultimately impact the debtor company in terms of higher price of their raw material or less availability of their raw material. Hence in long run entire business cycle & ultimately that business setup will be in chaos. Hence holistic coordinated growth of all business entities of a business cycle is the need of the hour.

6. Boosting confidence of MSME entrepreneur's to deal with bank. Need to popularize concept of "Business Correspondents"(BCs) as they are the banking people on contract from local folk/village of customer which share same language ,similar cultural ethics & have better understanding of that particular village/region. Bank should more &more higher them in rural area which good packages.

7. Combating competition from multinationals in similar product lines.

   RESOLUTIONS: After liberalizations we have welcomed multinationals which has also increased employment & GDP but has impacted small scale industries. To address this GOVT. may divide it to "Segmented Liberalization". Avenues which can invest in INDIA may ber categorized into segments like A,B,C…,etc.

   J A: Those segments in which we need more multinationals as we are scare of technology & need multinationals to step in.

   J B: Those segments for which India is capable to self sufficiently produce & unnecessary multinationals in such field is creating unwanted /over competition there by impacting MSME adversely & on grass root level actually impacting GDP.

   J C: Moderate segment where India on limited basis can produce yet there is cope of Multination to give high end products. Moderate benefit scheme to be organized more focussed on Indian company upliftment. Eg. Garment Industry- India has its brands like Peter England, Mufti,Biba . They need more thrust than foreign brands like Levi's; Wrangler ; Lee

8. Reducing dependency on import for raw materials which expensive.eg. Pharma companies and Aluminium sheet processing companies depend on CHINA for raw material Considering the world scenario & relations of India & China the same is becoming expensive

   RESOLUTION: Govt. should subsidize or give benefits to such industry setup which act as source of raw material to existing MSMEs to reduce dependency on foreign multi nations or import for raw material. This will also increase profit margin & reduce uncertainity; foreign exchange risks. Bank may formulate scheme for backward integration loan to two companies - One which provides raw material(B to B) & one to firm depending on that raw material to give end consumer necessity goods(B to C)- Finance scheme for " Supply Chain Management"

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CONCLUSION:

Financial discipline is the need of the hour for MSMEs to have sustainable growth not only in early stage of setup but also during entire business cycle which requires collaborated support of MSME enterprise, Government bodies and Banks. Govt. initiatives like Mudra Yojna, Stand Up India , Atmanirbharat are to be properly harnessed by banks and norms for the same to be setup so that micro enterprise customers get mapped more and more to banks for credit support apart from mere holding CASA accounts. New business models like LLP, Joint ventures, forward backward integrated credit support, consortium & Multiple Banking related arrangements to be more and more popularized even among smaller enterprises as they are presently in reach of only few large corporates. Export is major thrust for GDP upliftment and hence apart from subsidy and liberalized trade policy focus on hedging and derivative products also to be given so that major havoc created among mass for foreign exchange related risk may be reduced & more and more export oriented motivated entrepreneurs may flourish.

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