



Financial Management of MSMEs – A Study on Select Districts of Telangana State

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Abstract: As per the study, it has been shown that of the overall finance demand of is either self-financed or from the informal sources. Formal sources provide services to a small portion of the total debt financing of the MSMEs. Under the formal sector of finance, bank accounts of a greater percent of the supply of debt to these sectors comprised of the data like with Commercial Banks. The non-banking companies dealing in finance and the smaller banks like the Urban Cooperative Banks (UCBs), Regional Rural Banks (RRBs) and various other government financial institutions like the State Industrial Development Corporations and State Financial Corporation; consists of the remaining formal debt flow of the MSMEs.

Keywords: Regional Rural Banks, formal sector, Micro, Small and Medium Enterprises

Introduction

The Micro, Small and Medium Enterprises (MSMEs) division is crucial to the economy of India. With a huge number of ventures in different businesses, it utilizes a tremendous populace of a few people. The SMEs part incorporates significant ladies guided endeavors and different country ventures. In totality, the MSME division adds to around 45 percent of the Indian modern creation and the fares. Albeit more noteworthy bit of the MSMEs is unregistered, the job of the MSMEs area to India's GDP has been rising quickly every year at a higher rate than the general GDP development. Deficient market associations and poor foundation can be considered as the main elements

to bring about an obliged development of this segment. The nonattendance of legitimate and planned access to budgetary assets has been another significant test. The financing necessities of the MSME segment depend on variables like activity size, industry, portion of the clients, and the phase of advancement. Account is the soul of business association. It needs to meet the necessity of the business concern. Every single business concern must keep up sufficient measure of money for their smooth running of the business concern and furthermore keep up the business cautiously to accomplish the objective of the business concern. The business objective can be accomplished uniquely with the assistance of viable administration of account.



Flow of Finance to the MSME Sector

As per the study, it has been shown that of the overall finance demand of is either self-financed or from the informal sources. Formal sources provide services to a small portion of the total debt financing of the MSMEs. Under the formal sector of finance, bank accounts of a greater percent of the supply of debt to these sectors comprised of the data like with Commercial Banks. The non-banking companies dealing in finance and the smaller banks like the Urban Cooperative Banks (UCBs), Regional Rural Banks (RRBs) and various other government financial institutions like the State Industrial Development Corporations and State Financial Corporation; consists of the remaining formal debt flow of the MSMEs.

Providing Environment for Development of Finance in the MSME Sector

- The main pillars of the financial environment include:
- legal and regulatory framework
- government support
- Financial infrastructure support.

MSMEs operate in a super competitive environment and thus require an environment to enable for sustaining growth. Proper fiscal support, incentives promoting innovation, and a durable framework of policy by the financial centers can increase the inflow of financial services to the MSME sector significantly.

Increased Access to MSME Finance: There are various potential interferences

that are needed to increase the access to MSME finance in India through enabling infrastructure, risk management, and liquidity management. Some of the potential interventions include:

Enabling infrastructure: Promoting the institutions to enhance finance and providing advisory support to rural and semi-urban MSMEs. Formulation of new ventures related to MSME-specific funds by enabling the existing government equity funds to allow investment.

Liquidity management

- Improving the access of debt to non-banking finance companies.
- Development of an online platform for tracking the MSMEs.
- Provision of credit guarantees to support the MSMEs finance.

Risk management

- Development of a better knowledge of the financing terms of service this sector.
 - Expansion of the scope of MSME's credit information of the transaction data.
 - Strengthening of the current connections with other financial infrastructure.
- Debt access to the various non-banking finance companies

MSMEs Funding - Need for Alternative Financing

Finance is the lifeline of any enterprise. India has one of most extensive banking networks in the world. Despite, a considerable expansion of the banking infrastructure during the recent years, the provision of finance to grassroots level businesses, scattered across the nation, still remains an enormous challenge. Going ahead, it is also observed that Indian MSMEs have



limited access to finance. Majority of the MSMEs operates on the funds of its promoters, thus limiting its growth. The limited or non-availability of institutional finance at affordable terms is also hindering innovation in the Indian MSMEs. In India, the preferred mode of finance is either self or other sources. This further complicates the situation, as with these sources an enterprise cannot challenge the increasing competition. On account of globalization; MSMEs are beginning to opt for other specialized financial services and options.

The Government has taken various initiatives from time to time to address the problems faced by the MSME sector. It has set up numerous, organizations, boards, corporations and training centres have been set up to provide technological, entrepreneurial, managerial and financial assistance to these units. Likewise, several committees and study groups set up by the Government, the Reserve Bank of India and Small Industries Development Bank of India (SIDBI) have studied the problems faced by MSMEs and suggested various measures to address these issues. This have significantly contributed and set up a favourable environment for setting up and nurturing small industrial units. However, high incidence of sickness and subdued credit off-take in this sector indicates that the results have not been as desired. This necessitates a paradigm shift in the approach of banks towards the segment. In this background, there is, thus, a need for formulating of a new business model for financing the MSMEs.

The traditional approach to MSMEs financing which is based on rigid credit appraisal systems that revolve around financials, single delivery channel,

involvement of various hierarchies in processing and decision making, limited focus on cross selling opportunities, difficult and inflexible system of accessing transaction history, limited and pre-structured credit products, etc. has to be replaced with a new business model for financing MSMEs. SIDBI is the principal financial institution for the promotion, financing and development of industry in the MSME sector in the country. SIDBI also provides appropriate support in the form of promotional and developmental services. In order to improve the credit flow to the MSME sector, it has tied-up with public sector banks in the country. With these tie-ups, it has covered 150 MSME clusters, out of the total 388 clusters identified across the country.

Indian Government Allotted Rs 6552.61 Crore in 2018-19 to MSME Ministry

MSME Minister, Mr. Nitin Gadkari stated that for Financial Year 2018-19, Government allocated Rs. 6552.61 Crore to the Ministry of MSME. The allocation for Prime Minister's Employment Generation Programme (PMEGP), which is a credit-related subsidy program aimed toward producing self-employment possibilities via the establishment of micro-firms within the non-farm sector by assisting conventional artisans and unemployed youth, was multiplied from Rs. 1072.90 Crore in 2017-18 to Rs. 2118.80 Crore in 2018-19.

Ministry of Micro, Small and Medium Enterprises (MSMEs) implements numerous schemes for the advantage of MSMEs i/n all parts of India. These include Prime Minister's Employment Generation Programme (PMEGP), Micro and Small Enterprises- Cluster



Development Programme (MSE-CDP), Scheme for Promotion of MSMEs in North Eastern Region and Sikkim, Tool Rooms and Technology Centers, Mission Solar Charkha (MSC), Scheme of Fund for Regeneration of Traditional Industries (SFURTI), Procurement and Marketing Support Scheme, Entrepreneurship Skill Development Programme (ESDP), Credit Guarantee Scheme for Micro, Small and Medium Enterprises (MSMEs) and Credit Linked Capital Subsidy and Technology Upgradation Scheme (CLCS-TUS).

This fact became given with the aid of Mr. Nitin Gadkari, Union Minister for Micro, Small and Medium Enterprises in a written reply to a query in Rajya Sabha.

In addition, elaborated, that for Financial Year 2018-19, Government allocated Rs. 6552.61 Crore to the Ministry of MSME. The allocation for Prime Minister's Employment Generation Programme (PMEGP), that is a credit-related subsidy program geared toward producing self-employment opportunities via the establishment of micro-businesses in the non-farm zone with the aid of supporting traditional artisans and unemployed teens, was multiplied from Rs. 1072. Crore (Actual Expenditure) in 2017-18 to Rs. 2118.80 Crore in 2018-19. A new scheme, Interest Subvention for Incremental Credit to MSMEs, was also introduced inside the Budget 2018-19 for which allocation of Rs. 275 Crore turned into made.

During the economic yr 2018-19: (i) 72,427 initiatives had been supported below the PMEGP; (ii) 17 Common Facility Centres and 11 Infrastructure Development Projects were finished beneath Cluster Development Programme; (iii) 14,155 gadgets had been

benefitted with a subsidy of Rs.980.44 Crore beneath the Credit Linked Capital Subsidy Scheme; (iv) 4,35,520 Credit Guarantee Proposals were authorized underneath the Credit Guarantee Scheme for Micro, Small and Medium Enterprises (MSMEs) and (v) 1,26,902 MSMEs were benefitted below Public Procurement Policy.

1. Say no to under-financing:

Under-financing is often counterproductive to an MSME's interest. It is a reflection of bad financial judgement and is a poor business decision that must be avoided. Under-financing usually starts when an organisation takes up an assignment. The proprietors hope that when the work or assignment is operational, they will have access to more lines of credit, and only then more investments will pour in. Thus, they tend to reduce investments initially and put in lower-than-essential money.

2. Always repay debts on time:

If your organisation owns large sums of money to many creditors, it is best to clear them before you seek further loans from financial institutions. If an MSME defaults in payments, it reduces its credit ratings. Besides, on prolonged non-payments of dues, proceedings under the debt recovery tribunal (DRT) may be initiated. If debts remain unpaid even after issuing a notice period, legal steps under Section 13(4) of the 'SARFAESI' Act (including physical possession of assets) may be taken by creditors.

3. **Take financial assistance from renowned institutions:** Almost all MSME need loan to aid in cash flow and day-to-day business operations. The



business loan industry, however, has many fraudulent lenders.

It is important that you conduct adequate research and look for the best lenders offering attractive features and benefits. Consider aspects like reasonable MSME loan interest rate, nominal processing fee, convenient repayment tenor, foreclosure facility, etc. Established lending institutions including NBFCs are ideal reliable sources for such business loans.

4. Cut unnecessary costs:

Most MSMEs are troubled by huge and unnecessary overheads. These consume a lot of the available funds and offer little revenue or growth in return. Such overheads might include NPAs, overly-complicated processes, too many employees with similar skill sets, other redundant costs like too many printers and coffee machines, etc. A business may even consider shifting to smaller and newer premises until its growth is sustainable.

5. Always keep your account books in order:

Many small businesses tend to manipulate their accounts to showcase how their enterprises are doing perfectly fine, even though the picture may actually be different. If account books contain such false information, it harms a company's reputation during external audits. They are also barred from taking advantage of many RBI circulars which are issued periodically to help the MSME sector.

FINANCIAL SOURCES OF MSMEs
:Usually the commercial banks provide

short term credit to SSIs. Some times co-operative banks and regional rural banks also provide short. The institutions like State Financial Corporations (SFCs), Small Industries Development Corporations (SIDCs), National Small Industries Corporation (NSIC) and National Bank for Agriculture and Rural Development (NABARD) provide term loans. The financial assistance in the form of supply of machinery on hire purchase basis, from NSIC and to some extent from SIDCs is available. The Small sized units and tiny units also get some term loans from commercial banks along with working capital in the form of composite loans. The Small Industries Development Bank of India (SIDBI) provides refinance to these institutions. This kind of refinance includes, assistance provided to State Financial Corporation Bills, Finance Scheme, Special Capital/Seed Capital Scheme, new debt instruments and to National Small Industries Corporation. To the smalls scale industrial units, long term loans are provided by SFCs mainly through Single Window Scheme and National Equity Fund and also direct assistance provided to State Financial Corporations in the form of refinance. State Financial Corporations provide some part of working capital for pre-operative expenses to Small Scale Industrial Units under the Single Window Scheme.

Incentives offered by Telangana Government: Telangana State has setup district Industries Centres (DIC), the nodal agencies to provide all required approval / clearance for setting up industries under the single window system, implement the Micro Small and Medium Enterprises Development Act, 2006 and issue Entrepreneur



Memorandum (EM) for MSME besides maintaining effective liaison with various financial institutions in facilitating the required credit. The government of Telangana announce the new industrial incentive scheme TIDEA in 2014 Telangana State Industrial Development and Entrepreneur Advancement for the general category entrepreneur and T-PRIDE (Telangana State Program for Rapid Incubation of Dalit Entrepreneurs) of 2014 for Scheduled Caste and Scheduled Tribes entrepreneurs extending various incentives for MSME.

Infrastructure at door step of the industry for standalone units by contributing 50% of the cost of infrastructure from IIDF with a ceiling of Rs.1.00 Crore Additional 10% investment subsidy on fixed capital investment limited to Rs.} 10.00 lakhs to MSME's, solely owned by women Tailor-made benefits to Megaprojects on case-to-case basis. Creation of Investment Promotion Cell in Commissionerate of Industries to provide pre investment services 27% of incentive amount shall be earmarked for Backward Classes and 12% for Minorities.

The Government of Telangana has taken the path of "Innovation and Entrepreneurship" to make Telangana the most preferred investment destination in India. As a part of this effort, the govt. is collaborating with industry and premier educational institutes to set up T-Hub as the largest facility for innovation and entrepreneurship in the country.

The government intends to bank on the strong talent pool in the state to nurture the next generation of entrepreneurs. To aid tech start-ups that need financial support, the state is planning to set up a

US\$ 100-million fund. In addition, the government has conceptualised and initiated Telangana Academy of Skill and Knowledge (TASK) to equip graduates with the required skills to reach their goals.

The Government of Telangana is collaborating with the central government to further propel entrepreneurial activity in the state by providing additional incentives. Hyderabad, with excellent infrastructure, both physical and regulatory, and financial support is a truly world class city. The government is, hence, striving towards making it the innovation capital of the country.

Conclusion

For entrepreneurs, small business financial management is a vital aspect of growing a profitable company. Implementing sound economic principles and keeping a close watch on cash flow will help lay a solid financial foundation for the new venture. Monetary policies and procedures for effective cash management need to be part of the entrepreneur's business plan. Though it may be more exciting for the entrepreneur to dream about the actual services or products that the company will provide, a business cannot thrive, and may not survive, if the financing aspects are left to chance. In order to arrest sickness at the incipient stage banks & financial institutions should periodically review the accounts of the small scale industries borrowers to identify units which are becoming sick or are prone to sickness. The Government of India & the RBI should be requested to direct commercial banks & financial



institutions to provide information on sickness to the agencies like BIFR implementing the rehabilitation programme to facilitate them to take up appropriate action. It is also suggested that Government should conduct special EDP's for training the entrepreneurs in financial aspects. The financial and social advancement over the globe is incredibly affected by the part played by the Micro, Small and Medium Enterprises (MSMEs). The MSMEs assume a key job being developed of the economy with their successful, productive, adaptable and imaginative enterprising soul. All together to keep the force of development and all encompassing improvement, it is basic that the MSME segment is engaged to address difficulties that can compromise their endurance and development. The writing discoveries located administrative wastefulness as an underlying driver and poor budgetary administration as a transcendent explanation in charge of MSMEs disappointment. Subsequently study infers that the money related abilities furthermore, learning of MSMEs proprietor director should be improved so that with the utilization of present day logical money related instruments and systems better monetary administration choices can be taken which are basic for endurance, development and benefit organizations.

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