

A STUDY OF FINANCIAL ANALYSIS FOR MSME SECTOR

Nikita Saxena , Dr Rajinder singh

DESIGNATION- RESEARCH SCHOLAR SUNRISE UNIVERSITY ALWAR RAJASTHAN

DESIGNATION- Professor SUNRISE UNIVERSITY ALWAR RAJASTHAN

ABSTRACT

Small and medium-sized enterprises (SME) are a vital part of the economy in both advanced and developing nations. The sector is crucial to the industrial output, job creation, and exports of the Indian economy. Small and medium-sized companies (or MSMEs) make up more than 90 percent of all businesses in most countries throughout the world. They are responsible for creating the most new jobs and exporting more goods than any other business type. The significance of micro, small, and medium-sized enterprises (MSMEs) in India's industrial sector is crucial. After agriculture, this industry accounts for the majority of India's labor force. Despite this, the industry is beset with difficulties in the areas of finance, marketing, people, infrastructure, technology, etc., as well as intense rivalry in both the domestic and international markets.

KEYWORDS: Financial Analysis, MSME Sector, India's labor force, domestic and international markets.

INTRODUCTION:

The term "micro, small, and medium-sized enterprise" (MSME) refers to businesses with less than 500 employees. This industry is widely recognized as a driver of economic growth and technological innovation. The main benefit of the industry is the cheap capital investment required to create jobs. Small and medium-sized businesses have substantially greater labor intensity than huge corporations. Most economies recognized with producing the greatest rates of job growth and accounting for a significant part of industrial output and exports are dominated by MSMEs (Dun & Bradstreet, 2013), which make up more than 90% of total firms. Businesses in the micro, small, and medium enterprise (MSME) sector may be as small as single artisan making agricultural equipment for the local market, or as large as a medium-sized company supplying car components to a multinational automaker for use in both domestic and international markets. The owners come from a wide economic and social background. The companies are active everywhere from local bazaars to major cities (OECD, 2004). There has been a micro, small, and medium-sized enterprise (MSME) sector in India



since the Harappan period. The Indian spirit of enterprise was almost extinguished under the British administration, which lasted for more than 15 years. Early in the twentieth century, the average annual rate of increase in GDP was 0.9% (Kishore, 2010). However, during the last half century, this industry has grown into a significant part of the economy. The industry is quite diverse in terms of the sizes of businesses operating within it, the types of goods and services it offers, and the sophistication of the technology it uses. After agriculture, the micro, small, and medium-sized enterprise (MSME) sector in India accounts for the country's second largest share of job growth. By providing employment at a lower capital cost than large industries, MSME enterprises aid in the industrialization of India's rural, semi urban, and urban masses, mitigate regional disparities, and guarantee a more equitable distribution of the country's income and wealth.

State of the World's Small and Medium-Sized Businesses:

When it comes to the number of businesses and the number of people they employ, SMEs are unrivaled. They're responsible for more than 95% of all apartments and provide almost 60% of all jobs. In Japan, they make up 99% of all units, in South Africa 91%, in India 80%, and in 27 nations throughout the EU, 99.8%. The small and medium-sized enterprises (SMEs) are essential to the European economy. More than 75 million people are employed by the over 23 million businesses that make up the European Union. The United States has procurement regulations designed to encourage small firms owned by veterans, minorities, and women to bid on government contracts. The Small Business Act mandates that any contracts between \$25,000 and \$100,000 be set aside for small firms. Small and medium-sized enterprises (SMEs) play a significant role in economic growth and development in countries such as Jordan, Tanzania, Malaysia, and others in the developing world. In Jordan, 80% of the workforce and 8.5% of the GDP come from small and medium-sized enterprises (SMEs). More over half of Tanzania's industrial production comes from small and medium-sized businesses, while SMEs in Malaysia provide 21% of GDP. Over 60% of China's industrial production, 40% of industrial profit, 73% of total employment, and 60% of exports come from the country's over 10 million SMEs. They make up 99 percent of all businesses with official status in the nation. Some of the world's top performing economies—including Taiwan, Japan, and Hong Kong—can credit their success to their thriving small and medium-sized enterprise (SME) sectors. While 99.7 percent of the businesses in this field are located in Japan, Hong Kong is home to 2.7 million businesses, which in turn employ 1.2 million people. For businesses who want to start up in rural regions, Taiwan has given tax advantages

and lowered interest on loans. Small and medium-sized enterprises (SMEs) have been a key source of new jobs across the world. Nearly half of the United States private labor is engaged in this industry. While 78% of Japanese are engaged in this field, just 69% of Koreans are. So, it's important to stress that MSMEs should play a crucial role in any country's plan to boost employment. Therefore, changes would need to be made to various policies and programs to provide a level playing field, easy access to financing, support in R&D and technology, enhance product quality, foster healthy competition, and guarantee higher quality employment opportunities (Vision 2020, Planning Commission, 2002).

The Role of Micro, Small, and Medium-Sized Businesses in India's Economy:-

The MSMEs sector is crucial to the economic growth of both developed and developing countries. Foreign exchange earnings for the country are prioritized, as are contributions to domestic production, export earnings, capital investment, job creation, and effective foreign exchange earnings (Uma, 2013). Because of India's enormous population and limited resources, micro, small, and medium enterprises (MSME) thrive there. Mahatma Gandhi, our nation's "Father," envisioned a country in which rural residents had the same standard of living as their urban counterparts. The establishment of a small manufacturing unit that would not only create jobs but also aid the impoverished people of India to rise might accomplish his vision of the poor people rising up economically and socially (Kanrar,2012). The micro, small, and medium-sized enterprise sector in India has consistently outpaced the industrial sector as a whole in terms of annual growth. The sector is vital because it helps to industrialize rural and backward areas, reduces regional imbalances, and ensures a more equitable distribution of national income and wealth, all at a lower capital cost than large industries. Small and medium-sized businesses (SMBs) play an important role in national economic growth by supporting and competing with larger sectors (Dun & Bradstreet, 2013). According to the country's annual report for 2015–16, this industry was responsible for 40% of all exports and accounted for 37% of industrial production in terms of value. There are an estimated 1171.32 lakh people working in this industry over 510.57 lakh businesses, according to the most recent available figures (Annual report 2015-16). According to the Annual Report 2011-12, more than 6,000 goods, ranging from the familiar to the cutting edge, are manufactured by the nation's micro, little, and medium-sized companies (MSME). According to Dr. Manmohan Singh (India's former prime minister), the industry has not only thrived in the face of competition but has grown faster than the total manufacturing sector since liberalization. More than 94% of MSMEs are unregistered, with a considerable majority

created in the informal or unorganized sector (Report of Prime Minister task group, 2010). However, at one extreme of the MSME spectrum are highly inventive and high growth firms. Therefore, in order to realize their economic goals, all political parties have kept micro, small, and medium firms at the forefront of their economic agendas. MSME's suffer from several issues, mostly depending on the degree of social and economic development of the country, despite their outstanding contribution to the national economy. Several studies show that businesses have become ill and shut down. According to the MSME registered sector report, out of the 22.48 million businesses examined in India, 4.96 million are closed permanently, and 1.88 million units cannot be located. When discussing the state of Rajasthan specifically, its percentages for ill and closed units, as well as non-traceable, are 5.25 percent, 3.49 percent, and 2.53 percent, respectively.

Impact of Micro, Small, and Medium-Sized Enterprises on Economic Activity:

There was a dramatic uptick of operational businesses once the MSMED legislation of 2006 was put into effect. The number of operational businesses rose from 361.76 million in 2006–07 to 377.37 million in 2007–08, an increase of 4.32 percent. By 2008-09, the number of businesses had grown to 393.70 million, an increase of around 4.33 percent; by 2009-10, it had grown to 410.82 million, and by 2010-11, it had grown to 428.77 million. The number of businesses is expected to grow by 4.37 percent by 2010-2011. The total number of units increased by 4.42 percent, reaching 447.73 million in the 2011–12 fiscal year. The industry has been steadily expanding, as seen by the rising trend in 2012–13, 2013–14, and 2014–15. Annual Report of Micro, Small, and Medium-Sized Enterprises, 2015–2016. State-wise, Uttar Pradesh has the most MSMEs with 44.03 million, while Rajasthan has the fewest with 16.64 million (MSME Annual Report, 2014-2015).

Impact of Micro, Small, and Medium-Sized Enterprises on Job Creation:

Employment in the micro, small, and medium enterprise (MSME) sector rose from 805.23 lakh in 2006-07 to 842.23 lakh in 2007-08, an increase of 4.59%. In 2008-09, this industry accounted for 881.14 million jobs, an increase of around 4.62%; in 2009-10, it accounted for 922.19 million jobs, and in 2010-11, it accounted for 965.69 million jobs. The overall number of jobs has grown by 4.37 percent from 2009-2010 to 2010-2011. This number increased from 4.86 percent to 5.12 percent between 2011–12 and 2012–13, 1061.4 million and 2013–14, and 1114.29 million and 2014–15 (MSME Annual Report, 2015–16). Again, at 92.36 million, Uttar Pradesh is the most populous state in the country. According to the MSME

Annual Report, 2014–15, 30.79 lakh people were employed in the MSME industry in Rajasthan. The entire capital utilized in the MSME sector in 2006-2007 amounted to 8.68 lakh crore, or the market value of fixed assets. It grew to Rs. 9.17 lakh crore and kept rising in the years that followed. There was a 25.06-percent rise from 2011-12 to 2014-15 in the total capital employed in the MSME sector, which stood at over Rs. 11.77 lakh crore. Growth was regularly over 5.5%, with the largest growth at 7.93% in 2014–15 (MSME Annual Report, 2015–16), demonstrating the act's success and investors' faith in the policymakers' actions. Statistics show that in 2011–12, the MSME manufacturing sector contributed 33.12% of the total manufacturing gross output of 21,67,110 crore. This contributed significantly to the overall manufacturing sector's contribution to GDP. MSME manufacturing contributed 6.16 percent of overall GDP growth. The total GDP contribution from the MSME sector was 29.97%. The contribution of the MSME manufacturing sector rose to 33.40% of total national manufacturing output, bringing it to a total of 27,83,433 crore. In total, the MSME sector contributed 30.74 percent to GDP, with the MSME manufacturing sector contributing an additional 6.11%.

DIFFICULTIES AND OBSTACLES ENCOUNTERED BY SMALL AND MEDIUM-SIZED BUSINESSES IN INDIA

Although MSMEs have had a significant impact on the national economy, many of them fail due to a variety of challenges. According to a number of sources, a number of businesses have become ill and shut down. In a study of 22.48 million firms, the MSME registered sector report found that 4.96 million were closed for good and 1.88 million were untraceable. In particular, Rajasthan accounts for 5.25 percent of all ill units and 3.49 percent of all closed units. According to a global study of 80 nations and 10,000 CEOs (Schiffer and Weder, 2001), small businesses reported more growth barriers than bigger businesses. The causes for the industry's decline are laid out in the preceding table, and they include a lack of demand, a lack of working capital, inadequate power storage, an inadequate supply of raw materials, and difficulties with marketing and recruiting workers, ineffective management, and out-dated machinery. We've laid down some of the biggest issues plaguing India's small and medium-sized enterprises (MSME) below: All companies have a similar problem in that they need money to function and expand. It is crucial to the functioning of the economy as a whole, and a robust industrial base cannot be established or revitalized without access to sufficient financial resources. Despite the prevalence of commercial banks and their branches in India, they are unable to meet the country's manufacturing sector's need for capital (Patra & Misra,

2003). When compared to both medium and big businesses, small businesses often have more challenging access to capital (Beck T. et al., 2006). Improving India's economic development requires ensuring that micro, small, and medium-sized enterprises (MSMEs) have easier access to capital. Due to a lack of access to capital, India's small firms are unable to expand to their full capacity. Both forced and self-imposed seclusion contribute to the problem. Small borrowers are involuntarily excluded when the costs, terms, and conditions of conventional financial services are prohibitive. However, financial illiteracy may lead some small businesses to actively forego the use of traditional banking services (Parada et al., 2010). According to the Fourth Census of the MSME Sector (September 2009), only 5.18% of the units had availed of financing through institutional sources, 2.05% of the units had financing from non-institutional sources, and the vast majority of the units (92.77%) had either no financing at all (deprived) or relied on self-financing. According to a 2012 survey conducted by IFC (International Finance Corporation, World Bank Group) in collaboration with the government of Japan, the total demand for finance in India's micro, small, and medium-sized enterprise (MSME) sector is estimated to be INR 32.5 trillion (\$650 billion). This estimate is based on the premise that the MSME sector's demand for finance is met entirely by formal and informal channels. The report finds that the Indian micro, small, and medium-sized enterprise (MSME) sector faces a significant shortage of funding, with a gap of INR 20.9 trillion between the amount of money that is needed and the amount that is available.

CONCLUSION

All companies need money in order to function, and expanding firms need it even more. It is crucial to the functioning of the economy as a whole, and a robust industrial base cannot be established or revitalized without access to sufficient financial resources. When there is enough money to go around, a company may try new things across the board and acquire the finest people and tools it needs to succeed. Money is needed to make sure everything in an organization runs properly. Given the importance of having access to finances in running the unit, the researcher looked at what influences the capacity of units in the MSME sector to get their hands on money when they need it. This study will aid in elucidating the causes of MSMEs' financial difficulties and pinpointing solutions that have been missed by both the government and the sector at large. This research is also useful for identifying potential causes of financial difficulties for small and medium-sized enterprises (SMEs) when trying to access formal sources of credit, such as banks and other financial organizations. The study



also looks at MSME unit owners' and promoters' familiarity with government financial schemes to gain insight into the current state of MSMEs and encourage the government and financial institutions, especially banks, to create an environment conducive to the growth of MSMEs.

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