

A STUDY ON ADVANCE TO SME SECTOR AND BANK FINANCE IN SME'S PERSPECTIVE

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ABSTRACT

A major bottleneck to the growth of the vital Indian small and medium sized sector is its lack of access to finance. SME Finance is the funding of small and medium sized enterprises (SMEs) has been a subject of great interest both to policy-makers and researchers because of the significance of SMEs in private sectors and represents a major function of the general business finance market in which capital for firms of types is supplied, acquired, and cost/priced. In developed and developing countries, on average, SMEs account for close to 60% of manufacturing employment. More importantly, a number of studies using firm-level survey data have shown that SMEs not only perceive access to finance and the cost of credit to be greater obstacles than large firms, but these factors constrain SMEs more than large firms. Banks are the main source of external finance for SMEs. Furthermore small banks are more engaged in relationship lending whereas the large banks have a comparative advantage at financing SMEs through arms-length lending technologies instead of relationship lending. Capital is supplied through the business finance market in the form of bank loans and overdrafts; leasing and hire-purchase arrangements; equity/corporate bond issues; venture capital or private equity ; and asset- based finance such as factoring and invoice discounting. Early studies on SMEs financing shows that bank credit is the major source of external finance for the SME. Both small and large banks play a vital role in financing SMEs. This project is all about the study on Advance that is given to the industries that fall under the SME sector and if and how well that Public banks and Private banks out there are providing various credit facilities to the industries that fall under the same category. It also examines the major issues faced by the entrepreneurs while accessing finance in the Indian context. This study contains the preferences of the industrial owners in regard to the credit facilities and options provided by the banking sector. The whole idea with which this project is done is that, whether the banks provide proper credit facilities and whether the beneficiaries are satisfied with those given facilities. It also contains suggestions given by the beneficiaries of the banks to improve it functions.

KEYWORDS: Finance, SMEs, Capital, Entrepreneurs

INTRODUCTION

The small and medium enterprises are the backbone of the Indian economy. There is a growing recognition worldwide that small and medium enterprises have an important role to play in the present context given their greater resource-use efficiency, capacity for employment regulation, technology innovation, promoting intern-sectoral linkages, raising exports and developing entrepreneurial skills. Small and medium enterprises, both in size and shape, are not uniform across the

globe. Small and medium enterprises play a major role in global economic growth in terms of their contribution to industrial employment, output and exports. In general, SME generates more jobs per unit of capital investment than a large enterprise. In recent years, while the Indian economy has been growing at over 6%, the production from small and medium enterprises (SME) has been growing at over 11 % between 2002–2003 and 2019–2020.

In India, banks are the governing channel for providing funds to enterprises. However their importance in funding smaller firms is even more noticeable since most small and medium enterprises (SMEs) are not able to access the capital market for funds. In recent times, governments and policy makers have been giving considerable attention to ease the development of the SME sector, as a strong and vibrant SME sector provides a good sub-structure for entrepreneurship and innovation in the economy.

STATEMENT OF THE PROBLEM

A major bottleneck to the growth of vital Indian Small and Medium scale enterprises (SME) sector is its lack of adequate access to finance. The most obvious problems of bank is how to provide or produce efficient financial resources, technical assistance, security on loan given out to customer (SME). On the part of small and medium scale enterprises (SME) how effectively are they utilizing the services rendered to them by the bank. This research focuses on loans provided by banks to small scale industries like working capital loans, machinery and equipment finance, loans for manufacturers, traders and even service entrepreneurs and their rate of interest. This paper examines on issues faced by the people while raising finance, securing loans from banks. It focuses on which bank (either public or private) is faster and better for securing loans. To analyze The relationship between the series, simple percentage analysis is the best method for expressing the relative frequency of survey responses. This study attempts to give an opinion on bank's performance in granting credit based on responses.

SCOPE OF THE STUDY

- The analysis covers the present scenario on the interest rates of small scale business loans in India.
- It aims to analyze the difficulties faced by borrowers.
- The significant difference in the ease of getting business loans comparing private and public banks

OBJECTIVES OF THE STUDY

The Major Objectives of the Present Research Are the Following:-

- To assess different interest rate provided by the bank.
- To find out the reasons for using of loans.
- To know customer opinion and level of satisfaction with regards to loans

RESEARCH METHODOLOGY

To achieve the given objectives, data have been gathered from different sources

Primary Data

The primary data has been collected with the help of questionnaire.

Secondary Data

Personal observation, book, magazine; journals have been referred for secondary data.

TOOLS USED FOR ANALYSIS

Simple Percentage Analysis

It refers to a special kind of ratio, percentages are used in making comparison between two or more series of data and percentages are used to describe the relation.

Chi-Square Test:

A family of probability distribution differentiated by their degree of freedom used to test a number of different hypotheses about variance, proportion and distributional goodness of fit.

$$\text{Chi-square Test} = \sum \frac{(O-E)^2}{E}$$

$$\text{Degree of freedom} = (R-1) \times C$$

REVIEW OF THE LITERATURE

Deshpande (1984)¹ conducted a detailed survey of 90 small-scale industrial units in Maharashtra. The study focused on the socio-economic background of the entrepreneurs and the major problems surrounding them at the different stages of their career. His study revealed that the socio-economic factors are critical and the caste, family occupation father's occupational status plays a significant role for the entry into the manufacturing business. The author pointed out that the government support system is necessary to foster the growth of entrepreneurial activities in the country. He further stated that there is need to broaden the government support system so that its benefits can reach to the lower strata of the society effectively.

Yadav (2012)² in his study reports that bank finance has been observed as the most preferable source of funding by SMEs with the highest weight age of 94 per cent followed by retained earnings at 81 per cent. It was also found in the study that 79 per cent of SMEs reported bankers were unwilling to provide loans where as out of bankers' 21 percent were observed to be indifferent to help SME firms. Data analysis of information collected from medium-sized French enterprises indicates that they have more leverage than the small ones. Some findings indicate that SMEs with high growth opportunities have more debt, particularly long-term debt.

Singh and Singh (2014)³ observed that small-scale entrepreneurs face a lot of problems availing loan facility from commercial banks and Government agencies. Financial institutions ask for a lot of information and data, State Financial Corporation takes several months to take decision on extending term loans and small-scale sector is not in a position to offer guarantee required by the banking sector. Even when small loans are raised from Government agencies, the procedure is so cumbersome that most of the entrepreneurs who are either illiterate or semiliterate, hesitate to make use of these facilities.

ANALYSIS AND INTERPRETATION

Source of Capital Borrowings

Table 1

S. No	Source of Capital Borrowing	No of Respondents	Percentage %
1	Private banks	42	42%
2	Public banks	38	38%
3	Both	20	20%
	Total	100	100%

INTERPRETATION

42 % of the respondents borrow their loans from private banks and about 38 respondents borrow their loan from Public banks. 20 respondents borrow loans from both the private and public banks. Majority of the respondents borrow loans from the private banks.

WHICH BANK IS FAST IN GRANTING CREDITS

Table 2

S. No	Bank Sector	No of Respondents	Percentage %
1.	Private banks	52	52%
2.	Public banks	48	48%
	Total	100	100%

INTERPRETATION

According to the responses, Private Banks are fast in granting loans to the SME organizations. Majority of the respondents say that private banks grants loan faster

BUSINESS TENURE AND PROBLEMS OF THE RESPONDENTS

Table 3

Business Tenure	Delay in Sanction	Security Problem & Incidental Expenses	No. of Visits Paid Up and Followed Up	Total
1 – 5 years	12	11	19	42
5 – 10 years	15	7	18	40
More than 10 years	5	6	7	18
Total	32	24	44	100

INTERPRETATION

The above table states the business tenure under the problems of the respondents while securing loan, majority of the respondent's business tenure comes under the group 1-5 years.

BUSINESS TENURE AND PROBLEMS OF THE RESPONDENTS

In order to find out the relationship between the level of business tenure and level of problems faced, chi-square test is used and the results are given below with the help of hypothesis.

H0: The level of business tenure and level of problems faced are independent.

H1: The level of business tenure and level of problems faced are dependent.

CHI-SQUARE TEST

Table 4

Factor	Computed Value	Table Value	Degree of Freedom	Significant Value
Business tenure	20.06	11.070	5	55

Since is computed value is greater than the table value at 5%, the null hypothesis is rejected.

FINDINGS

- Majority of the respondents have borrowed loan for the working capital of the enterprise.
- Majority of the respondent's interest rate on loan is 10 %.
- Majority of the respondents face delay in process while obtaining credit.
- The chi-square shows that the relationship between business turnover and level of problems of the respondents is not significant at 5 % level.
- The chi-square test shows that the relationship between the business tenure and the level of problem of the respondents is not significant at 5% level.

SUGGESTIONS

- Banks should take steps to improve their process in providing credit. Banks can minimize the paper works, cost involvement and number of visits paid up by borrowers.
- Faster and easier mode of acquiring credit helps to reach out more customers.
- Banks should intensify their advertisement campaign in order to make people aware of the new schemes available to them.

CONCLUSIONS

A major concern for the SMEs is the availability of an adequate amount of finances. One of the prominent measures used to ensure adequate flow of funds to the SME sector is through regulation requiring banks to provide at least 40 % of loans to targeted areas which include the small and medium enterprises and measures such as credit scoring for SMEs should improve the quality of financial information and enable greater funding for the sector.

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