

Financial problems of small and medium Enterprises in Telangana

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Abstract:

The report focuses on the state of Telangana's funding issues for small and medium businesses (SMEs). It was done to see how SMEs' financial sustainability is affected by funding issues. The fundamental goal of the SMEs sector is to give people with self-employment opportunities; it also contributes to the nation's development, either directly or indirectly. The SMEs sector generates cash and wealth for the country by manufacturing a wide range of items that are sold to other nations, earning foreign revenue and reducing the country's reliance on imports. This industry is growing rapidly, yet issues such as marketing, funding, infrastructure, and technology have a detrimental impact.

Keywords:

SMEs, Telangana State, Financial Sustainability, GDP, Self-Employment, Financing Issues

INTRODUCTION:

Despite several legislative initiatives adopted by governments since independence, the majority of SMEs' challenges continue to plague the industry. Many nations around the world have created special programmes and support groups to help SMEs thrive and grow, owing to their significant contribution to job creation and the role they play in sustainable development. However, funding issues persist; SMEs enterprises often have limited access to capital. As a result, they are forced to borrow from unregulated loan markets or from their own dealers, where they pay substantially higher interest rates. This not only leads to product overpricing, but it also limits SME entrepreneurs' capacity to add value, upgrade technology, improve quality, and implement current management approaches. As a result, access to funding at a reasonable cost is critical for Indian SMEs. The goal of this study was to uncover the various problems and challenges experienced by SMEs who, although having access to capital, face a variety of difficulties in their operations.

By the enactment of small and medium enterprises development Act, 2006 the small and medium sector has been defined as small and medium enterprises with effect from OCTOBER 2006.

The classification has been done on the basis of investment in Plant and Machinery in case of manufacturing enterprises and investment in equipments in case of services.

Small Enterprises: These are those Enterprises where the investment in plant and machinery is more than Rs.25 lakh but does not exceed Rs.5 crore. Where the investment in equipment is more than Rs. 10 lakh but does not exceed Rs. 2 crore

Medium Enterprises: These are those where the investment in plant and machinery is more than Rs. 5 crore but does not exceed 10 crore. Where the investment in equipment is more than Rs.2 crore but does not exceed Rs.5 crore.

WHY ONE SHOULD INVEST IN TELANGANA?

Telangana is the fastest growing State in India recording 14.9% Gross State Domestic product (GSDP) growth in 2018-19. Our state Industrial policy TS i-PASS is rated amongst the best in the country.

Category	No.Of Units	Investment Value (in INR Cr)	Employment Generated
Small	4,923	11,865	1,31,942
Medium	362	4,000	30,493
TOTAL	5285	15865	162435

The Importance of Small & Medium Enterprises in Telangana:

Small and Medium Businesses (SME) play a vital role in any economy because they are capable of creating jobs and driving GDP growth (GDP). For a competitive and efficient market, small and medium businesses are critical.

Poverty Reduction Requires Small and Medium Enterprises

The Opportunities of Growth in the small & medium enterprises Sector:

- Government Reservation for Exclusive Manufacturing by Small Scale Sector
- Project Profiles
- Funding – Finance
- Subsidies Raw Material Procurement
- Growth in domestic market size owing to overall economic growth

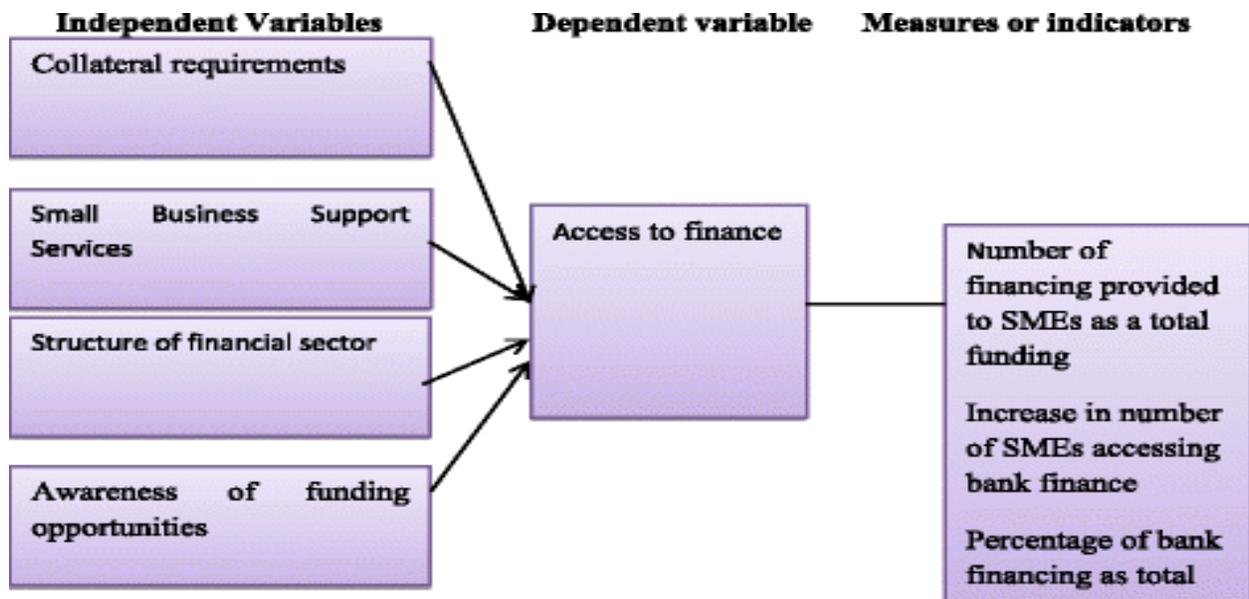
CHALLENGES OF SMALL & MEDIUM ENTERPRISES:

- Inability to obtain appropriate and timely credit
- Unavailability / insufficient working capital
- Recovery from creditors
- Diversion of working capital funds for acquisition of fixed assets
- Excessive paper work while obtaining a loan from a financial institution

Objectives of the Research

- To learn about SMEs' varied financing issues and how they effect their financial viability.
- To assess the indirect impact of a lack of working capital on financing issues and the financial viability of SMEs.
- To determine the indirect impact of funding difficulties on financing issues and SMEs' financial viability.

Conceptual Framework of the Study



Scope of the study:

- Several ways have an impact on efficient performance by assisting businesses in achieving their goals. The majority of financial investigations in Telangana are required for efficient performance by small and medium-sized businesses. The study focuses on the following financial issues: collateral requirements, small company support services, financial sector structure, financing opportunities awareness, and access to finance.
- Because these businesses are in the management stage, the study is exclusively for small and medium-sized businesses in Telangana. Questionnaires have been designed and are being utilized to collect data. The phrase "performance" means "restricted performance."

Review of Literature:

- Boot and Thakor (1994) believe that SMEs lack sufficient collateral security and hence have difficulty obtaining money, even at higher interest rates.
- Okaru, F.D., and Croffie (1997) discovered that in their study, SMEs mostly rely on personal savings, as well as family and friends for funds. They have little or no access to external financing from financial institutions.
- Dasanayaka (2009) believes that MSMEs' funding issues may be divided into four categories: lack of finance, access to finance, excessive borrowing costs, and financial management.
- Siddiqui, (2015) The various problems of financing are high credit cost, insufficient working capital, unable to recover money from debtors, adequate and timely credit is not available, lack of collateral requirement. For availing loan paper work is excessive used in financial institutions.
- Noorinasab, Seifabad&Zarei, (2016) Entrepreneurs face problems like for startup how to raise capital, inadequate fund. Many entrepreneurs are unable to access external funds because of inadequate security and credit in market. The process of loan availing facility is time consuming .Other problems is decrease in profit because of competition, financial statements are not properly maintained by entrepreneurs of MSMEs, inadequate guarantees for raising loans, through equity problem in raising capital, dependent on money lenders for loans which are high cost.
- Siddiqui, (2018) during early growth stages micro, small and medium enterprises need timely and sufficient capital. MSMEs rely on various sources of finance. Various financial problems are inadequate and non-timely credit, limited knowledge and capital, collateral security requirement, not sufficient working capital, recovery from debtors, for availing loan from financial institutions excessive paper work is required
- .Nanjappa (2000) pointed out that small scale industry is a golden mean which can bring the benefits of modern technology and economies of production. It can emerge as an important plank to tackle the problems of unemployment, under employment, regional disparities and economic backwardness.

- National Knowledge Commission (2008) in their study report states that access to finance is one of the biggest limiting factors in achieving significantly higher levels of entrepreneurial growth in India. Indian entrepreneurs continue to be largely self funded (with help from family and friends) and prefer debt/bank finance over equity finance/ venture capital.

Instrument for Data Collection

- The nature of the research will be descriptive and cross-sectional. The study was conducted using a mixed approach method, which included both qualitative and quantitative data.
- The primary data was gathered from small and medium-sized business owners who were doing business with selected businesses based on the reports previously mentioned, face-to-face interviews, and structured questionnaires.

Methodology:

Area of Study:

The survey was done in Telangana.

Sample Selection:

To conduct the study, 112 SMEs were surveyed pertaining to eight different sectors namely food, chemical, pharmaceutical, engineering, and service, plastic, printing and miscellaneous industry.

Collection of Data

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Data Analysis

Data analysis methods will be used in this study with the use of computer tools such as Microsoft Excel, SPSS, and AMOS. The researcher will employ Descriptive Techniques, Bivariate instruments, and Structural Equation Modeling (SEM) Techniques to conduct the data analysis.

Financing Problems of SMEs:

Credit is a necessary for every firm at all phases of its operation, and obtaining finance is one of the most challenging challenges for SMEs. Finance issues are the root of all other issues, as many corporate transactions rely on it, making finance the engine that drives the business. The study focuses particularly on SMEs' financing issues, which reveal that they have an impact on MSMEs' financial sustainability. SME financing issues include:

- A lack of appropriate and timely lending; and
- Limited access to equity capital.
- The high interest rate.
- The cost of raw materials is rising.
- Inadequate working capital.
- Hike to recharge your batteries.
- Increase the minimum wage.
- A decrease in the volume of sales.
- Bad debts are increasing.
- Expenses for transportation are rising.
- Rent increases.
- VAT (Value Added Tax) (VAT).
- Taxes and customs duties levied by the government.
- Price fluctuations in gasoline and diesel.
- Rising insurance premiums

For SMEs, finance could be the start of a vicious cycle. The most significant factor affecting SME growth has been found as financial restrictions. This has resulted in the employment of obsolete technology, inadequate production facilities, a lack of quality control, and a lack of market orientation, all of which have resulted in relatively low profitability. Four types of financial issues can be distinguished. 1) Finance is unavailable, 2) Finance is difficult to obtain, 3) Borrowing costs are high, and 4) Finance is difficult to manage. Dasanayake is the name of a Buddhist monk who lives in (2009).

The most essential factor that impacts the survival and growth of SMEs is the timely availability of enough financing. SMEs normally have a very limited capital basis. SMEs have a weak capital basis because their early

investments are mostly made with their own money or borrowed money from disorganized sources such as friends, relatives, and money lenders.

Table 1 Finance problems of Small and Medium Enterprises						
FACTORS	VERY LOW	LOW	MODERATE	HIGH	VERY HIGH	TOTAL
Unavailability / insufficient credit	8(7.14)	23(20.54)	9(8.04)	20(17.86)	52(46.43)	112(100.0)
High cost of credit	1(0.89)	15(13.39)	11(9.82)	57(50.89)	28(25.0)	112(100.0)
Shortage of Working Capital	0(0.00)	1(0.89)	4(3.57)	59(52.68)	48(42.86)	112(100.0)
Difficulty in getting amount from debtors	2(1.79)	9(8.04)	13(11.61)	54(48.21)	34(30.36)	112(100.0)

Organized sectors such as banks, financial institutions, and government channels provide a much smaller share of the required investment; credit is obtained at a high rate of interest, which increases their working capital requirements. Working finance arrangements for sample SMEs are fulfilled to a greater extent from informal than official sources, as illustrated in Table 1. As a result, the profit they earn is insufficient for working capital.

Government initiatives and various schemes for SME sector

1. Capital subsidy schemes
2. Cluster development programme
3. National equity fund scheme
4. LaghuUdhami Credit Card Scheme
5. Credit guarantee fund scheme (Lama, 2013)

Conclusion:

The purpose of this study is to examine the various issues that impede the functioning of SMEs that have received funding from various sources. The key issues faced by the sample SMEs may be summarized as a lack of operating capital, a lack of managerial skills, severe competition, raw material price fluctuation, skilled labour availability, and low quality of items delivered to market. This research aids the reader in understanding the problems and challenges that SMEs in Telangana confront. It lays forth a structured and definite system for comprehending the pressures that SMEs face in their day-to-day operations and existence, so that more study may be done to find effective answers to the crisis. The study emphasizes critical aspects such as the importance of finance in the industry. It claims that while finance availability may not be as much of a problem now that several banks and financial organizations have stepped in to assist this industry, other issues continue to jeopardize the sector's viability.

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