

INDIAN MSME's: PAST AND PRESENT PERFORMANCE SCENARIO

Shripad Marathe*

ABSTRACT

India is world second populated country here the demand for product always varies area to area. To fulfillment of those needs some times big business houses failed and then Micro small and medium enterprises comes into the picture. Micro, Small & Medium Enterprises are very much important sector of Indian economy it contributes around 90% of industrial growth and contributed around 21% of employment. The present paper focuses on Performance of Indian MSMEs past and present scenario and also tries to find out is there effect of financial crises of 2007-08 on MSME by using structural break modal chow test, Graphical representation and results shows that MSMEs has contributed to the economic development of India and also Financial crises has affected the MSMEs in India.

KEYWORDS: MSMEs, Micro, Small & Medium Enterprises, Industrial Growth, Chow Test.

Introduction

For all developing countries poverty, unemployment is the major problem and same scenario can be seen in Indian context as well. To overcome from all this problems the country has to promote the businesses. India is world second populated country here the demand for product always varies area to area to fulfillment of those needs some times big business houses failed and then Micro small and medium enterprises comes into the picture. MSME contributes around 90% for industrial growth and 50% for employment globally. This sector requires small investment and also has large potential to grow in the future. In India there were 217854 MSME units were opened contributed which generate around 21% of employment with 8% of GDP contribution in 2016. The Government of India is wanted to improve the social and economic conditions of rural people and non-agricultural sector through the measures including creating employment opportunities based on optimal use of local raw materials and skills as well as enhancing skills; upgrading technology. MSME is helping directly or indirectly to achieve this objectives. Those units are mostly situated in village area so intern it is helping to generate employment in village areas. This sector has large potential to grow because it is increasing at 9.40% of CAGR (compounded annual Growth Rate). MSME sector produces around 8000 types product which includes traditional and handicraft to high tech items. Indian MSME has occupied significant market share in service sector, food industry, textile, auto sector, hospitality etc. MSME offers special advantage as well as innovative ideas to provide high quality of product with minimal cost of production. Confederation of Indian Industry (CII) has predicted that up to 2024 MSME will contribute 50% to the GDP. The socio-economic policies adopted by India since the Industries (Development and Regulation) Act, 1951 have laid stress on MSMEs as a means to improve the country's economic conditions. The present paper studies the performance of MSME in India and also focuses on opportunities and challenges faced by MSME in India and tries to fill the research gap.

Definition and History of MSME in India

Industrial development and Regulation Act 1951 was defining MSME prior to Micro small and medium enterprises development Act 2006. MSME act 2006 have broadened the definition as well as coverage of the micro and small enterprises. According to this act MSME is divided into two I) Manufacturing sector II) Service sector.

* Assistant Professor, Department of Commerce, Dnyanprasarak Mandal's College and Research Centre, Assagao Goa, India.

	Manufacturing Sector (Investment in Plant and Machinery)	Service Sector (Investment in Equipment)
Micro	Does not exceed INR 25 lakhs	Does not exceed INR 10 lakhs
Small	More than INR 25 lakhs but does not exceed INR 5 crores	More than INR 10 lakhs but does not exceed INR 2 crores.
Medium	More than INR 5 crore but does not exceed INR 10 crores.	More than INR 2 crores but does not exceed INR 5 cores.

Micro Small and Medium enterprises got momentum in 1990's after introduction of LPG (Liberalization Privatization and Globalization) policy in 1991. In 1991 there were around 67.87 lakhs MSME units were opened which was providing employment to 153.34 lakhs people and in the same year MSME has exported the products and generated 9664 cr in the economy. At the time of global financial crises 2009-2010 there were 881.14 lakhs units which were providing employment to 393.7 lakhs people in the country. From 1991 MSME has showing the average growth rate of 1.02% increases in each year. In 2015 there were 1171.32 lakhs working MSME which was providing employment to 510.57 lakhs people. So, MSME has large potential to generate employment and develop the economy.

Study of Literature

There were many studies which have taken place in this area and to fulfill the objective of present study, a brief literature review has been done. Few of them have been presented following literature has been reviewed:

- **(Satpathy, SailajaRani, & Nagajyoth, 2017)** Studied the growth and contribution of MSME in Indian economy as well as to highlight the various policy measures adopted by the government of India for up gradation of MSMEs sector using data from 2001 to 2012 yearly data had been collected from annual report of MSME. After analyzing the data stated that Small and Medium Enterprises (SMEs) is a key to economic development by its remarkable contribution in manufacturing output, employment, export, rural industrialization and, providing goods & services at affordable costs by offering innovative solutions and sustainable development to the economy as a whole.
- **(Rakesh, 2014)** Examined the role of PEST for the sustainability of SMEs using data from 2003 to 2011 and presented with an objective of finding out the measure reasons which influence the MSME in India and found that for growth continuity, there should be a need of proper techniques to evaluate the factors which are going to affect the business of SMEs. PEST factor analysis helps the MSMEs to list out the number of opportunities available to meet and the threats which causes major damages to their business units.
- **(Siddiqui, 2015)** Analysed Growth and Performance of Indian MSMEs using data from 1991 to 2007 and presented with an objective of finding out the problems faced by MSME and also the present scenario of MSME sector in India and found that biggest problem of Indian MSME sector is lack of adequate finance resulting in large scale sickness. The government must initiate more steps for encouragement and development of the MSME sector, as they are labour intensive and their gestation period is short.
- **(D. , Prasad, & Rao, 2013)** Studied Trends and Policies of MSME in Indian economy using data from 2001 to 2011 from MSME annual report and presented with an objective of identifying problem, programs, assistance and policies of MSME and found that MSMEs sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification. If government policies towards MSMEs are closer towards its various problems and prospect it can be nearer contributors with agriculture in all respect in future.
- **(Srinivasa, 2013)** Examined Role of Micro, Small and Medium Enterprises in Inclusive Growth using data from 2001 to 2011 and presented with an objective of performance, products and contribution of MSME in Indian economy and found that The support given by the national and the state governments to the MSMEs is not adequate enough to solve their problems. However for the sector to fully utilize its potential, it is essential that the entrepreneurs along with the government support take necessary steps for further development. It is quite evident that, nurturing this sector is essential for the economic well-being of the nation.
- **(Singh & Singh, 2014)** Analyzed MSMEs challenges and opportunities using data from 2007 to 2011 and presented with an objective of analyze the growth of SMEs sector in India and role of entrepreneur and found that the future will see the growth of SMEs as a result of the growing

economy and continuous efforts of entrepreneur. If these small fledging businesses need to survive alongside the big giants they will need to retain their key people and ensure that they are shown a clear vision, goal and career prospect in order to keep contributing to the organization for a long time.

- **(Ali & Husain, 2014)** Studied problems, solutions and prospectus in present scenario of MSME in India using data from 2006 to 2012 with an objective of finding problems and prospects of MSME and find out the foreign banks are not taking so much interest in sanctioning loan to the MSME sector. The outstanding bank credit is less than 50% of total fixed assets employed in MSME'S while the owners invest their own fund in working capital.

Research Methodology

The present study is descriptive by nature and mainly based on secondary data. Most of the data has been collected from the several Annual Reports on MSMEs and Handbook of Statistics on the Indian Economy published by Ministry of MSMEs and Reserve Bank of India (RBI), various journals, newspapers and articles on Micro, Small and Medium Enterprises respectively. The research uses data from 1991 to 2015 and further data has processed analyzed using E-views and Gretl. For the research technique used Chow test and graphical representation of data for satisfying are objectives of study. The objectives of the studies are as follows:-

- To highlights the contribution of MSMEs with respect to Total Employment, Total Working MSMEs, Total Bank credit flow and Market value of fixed assets of MSMEs in Indian Economy.
- To Analysed the effect of financial crisis on Indian MSMEs

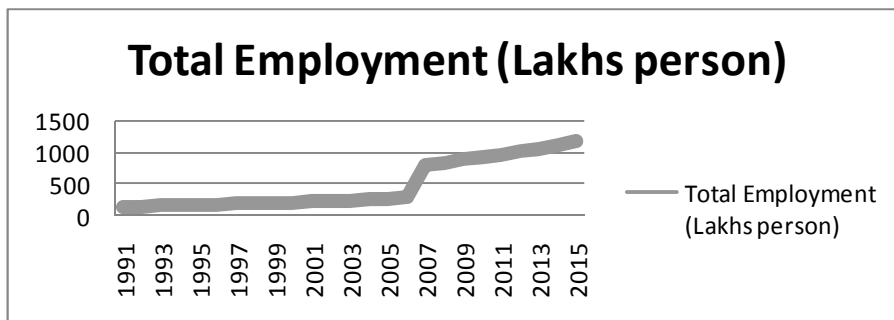
Scope of the Study

This study focuses on MSMEs contribution to Indian Economy in terms of Employment, Total working MSMEs etc. and also try to study the effect of financial crises on Indian Economy. The data used for study is from 1991 to 2015 and present paper focuses only on India. So other areas like GDP, Import etc. has not been taken for study.

Analysis of the Study

To highlights the contribution of MSMEs with respect to Total Employment, Total Working MSMEs, Total Bank credit flow and Market value of fixed assets of MSMEs in Indian Economy. MSME is the sector which helps the country to grow in all aspect. Currently India is facing lots of problem related to Fiscal Deficit, reduce in Export and increase in Import and with this employment generation is also slowing down. In 2016 MSME has contributed around 28% of employment and also around 8% of GDP. So Government has to provide some incentives to the MSMEs to increase the Share in Indian Economy. Following are the analysis of contribution of MSMEs towards Employment, Total Bank credit flow, presently working MSMEs and Export made by this Sector.

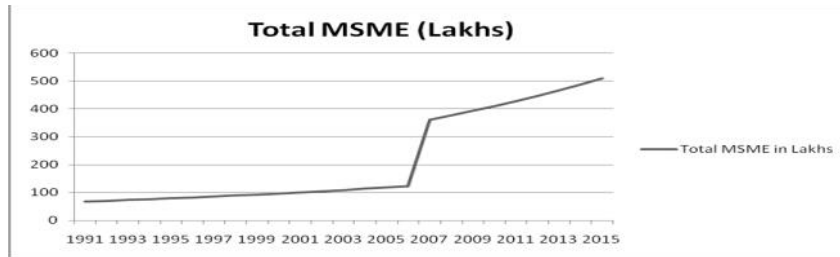
Figure 1: Contribution of MSMEs with respect to Total Employment



Source- Compiled from MSME annual reports 2006-07, 2015-16

Figure 1 explains contribution of MSMEs with respect to Employment. In 1991 after LPG (Liberalisation Privatization Globalisation) The MSMEs has created job opportunity for around 153.34 Lakhs people and it was gradually increased in 1992 by Annual Growth Rate(AGR) of 0.706% i.e.169.99 Lakhs people in the Financial Crises period 2007-2008 it has shown some growth. In 2007 the Employment has increased by 0.926% but it has gradually decreased in 2008 by 0.130% because of Crises.in the recent year it has contributed around 0.094% compare to 2014. Employment contribution increasing with a CAGR(Compounded Annual Growth Rate) of 8.77% every year.

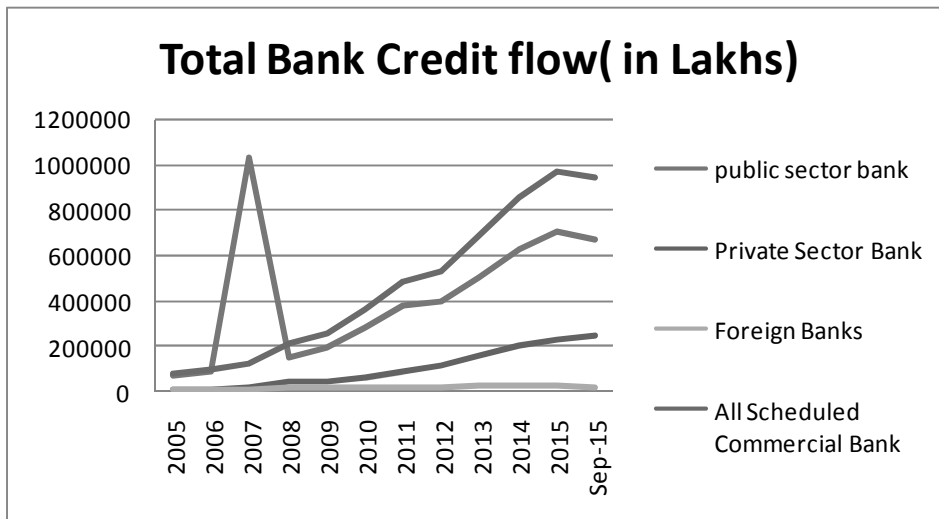
Figure 2: Total MSMEs in India



Source- Compiled from MSME annual reports 2006-07, 2015-16

Figure 2 explains Total MSMEs established in India from 1991 to 2015. In 1991 after LPG there were 67.87 lakhs MSMEs which has shown Growth Rate of 1.533% in 1991-92 and in 1992 the MSMEs are increased by 70.63 lakhs. After 1992 it has shown the growth with 8.77% CAGR. In the period of financial crises 2008-2009 it has seen the Annual growth rate has decreased to 0.29%. but after this period MSMEs has not crossed 1% annual growth rate figure.

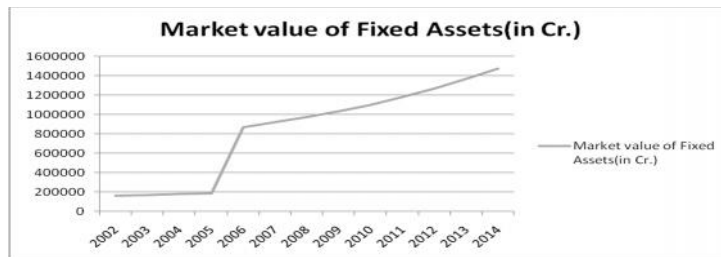
Figure 3: Total Bank Credit Flow (In Lakhs)



Source- Compiled from MSME annual reports 2006-07, 2015-16

Figure 3 Explains the Total credit flow from bank to MSMEs. Public sector gives a highest loan in 2005 with Rs.67800 lakhs, private sector landed Rs.8529 lakhs and foreign banks Rs.6907 lakhs. In the period of 2006-2008 public sector has landed highest loan to MSMEs. In these years the Annual growth rate has decreased 0.0013% to 0.0006% but we can see in the figure the bank credit is increasing but not in increasing trend. Till September 2015 public bank has landed highest loan to MSMEs sector and but annual growth rate of lending loan has been decreasing year by year.

Figure 4: Market Value of Fixed Assets (In Crores)



Source- Compiled from MSME annual reports 2006-07, 2015-16

Figure 4 explains the Market value of fixed assets of MSMEs in India. From 2002-05 market value of fixed assets was steady which is growing in 5.268% growth rate but from 2006 the market value is grown up at around 300 % and up to 2014 it was increasing at rate of 7.935%. In 2002 the Market value of fixed assets held by MSMEs was Rs.154349 and it has grown in 2014 to Rs.1471912.9 Cr.

To Analyzed the effect of financial crisis on Indian MSMEs

Financial Crises of 2008 has shown short term as well as long term effect on Indian economy. While the initial effect of the crisis found on the US financial institutions and to a lesser extent on European institutions, the effect on emerging economies was less serious. In this period growth rate of India has decreased from 7.8 % to 5.8 % in 2008-09 financial year. The consumption of private and public is also drastically decreased from 6.5% to 3.3 % in that financial year. So in this we have tried to solve the question of Is there any effect of Financial crisis on Indian MSMEs? To study this objective we have used Chow Breakpoint Test with the help of E-views as econometric software and used data of 25 years from 1991 to 2015 with the variables Total MSMEs, Total Employment, Export by MSMEs in India. Statistical Tools and Techniques used are as follows:

Chow Test:

When we are using time series data, it may happen that there may be structural change in relationship between the regress and Y and the repressors. In order to test for a structural break, we often use the Chow test, this is Chow' first test (the second test relates to predictions). The model in effect uses an F-test to determine whether a single regression is more efficient than two separate regressions involving splitting the data into two sub-samples.

We have used following possible regression:

Time period 1991-1992 to 2007-2008: $Y_t = \alpha + \beta X_{t+} + u_{1t} \quad n_1=17$

Time period 2008-2009 to 2015-2016: $Y_t = \alpha + \beta X_{t+} + u_{2t} \quad n_2=8$

Time Period 1991-1992 to 2015-2016: $Y_t = \alpha + \beta X_{t+} + u_{t} \quad n = (n_1 + n_2) = 25$

Table Showing Regression of Time Period 1991- 2007

Dependent Variable: Year

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1987.907	2.51226	791.2824	0.000
Export by MSMEs	0.0000727	2.25E-05	3.224614	0.0066
Total Employment	0.354176	0.148417	2.386358	0.0329
Total working MSME	-0.771293	0.314187	-2.454888	0.0289
R-squared	0.935461		Sum squared resid	26.33199
Adjusted R-squared	0.920567		DF	14

Table Showing Regression of Time Period 2008-15

Dependent Variable: Year

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1980.8	2.51226	791.2824	0.000
Export by MSMEs	0.00	2.25E-05	3.224614	0.0066
Total Employment	-0.082349	0.148417	2.386358	0.0329
Total working MSME	0.257	0.314187	-2.454888	0.0289
R-squared	0.999906		Sum squared resid	0.003956
Adjusted R-squared	0.999835		DF	5

Chow Test

The Chow test, proposed by econometrician Gregory Chow in 1960, is a test of whether the true coefficients in two linear regressions on different data sets are equal. In econometrics, it is most commonly used in time series analysis to test for the presence of a structural break at a period which can be assumed to be known *a priori* (for instance, a major historical event such as a war). In program evaluation, the Chow test is often used to determine whether the independent variables have different impacts on different subgroups of the population (Wooldridge, 2009).

$$F = \frac{(RSS_p - (RSS_1 + RSS_2)) / k}{(RSS_1 + RSS_2) / (N_1 + N_2 - 2K)}$$

- RSS_p = pooled (combined) regression line.
- RSS_1 = regression line before break.
- RSS_2 = regression line after break.
- K = Total No. of Years
- N_1 = First break Years
- N_2 = Second break Years

$$F = \frac{(181.7581 - (26.33199 + 0.003956)) / 25}{(26.33199 + 0.003956) / (17+8 - 2*25)}$$

$$F = - 0.01053 < 0.05$$

Null Hypothesis (Ho): Parameter is structurally stable

From above it shows that F value is less than 0.05 so we reject null hypothesis and accept that there is a structural break effect. So, Financial crisis 2007-08 has affected the MSMEs performance in terms of Working units, employment etc.

Conclusion

Micro Small and Medium Enterprises (MSMEs) is a key to economic development by its remarkable contribution in manufacturing output, employment, export, providing goods & services at affordable costs by offering innovated products and development to the economy as a whole. For any economy MSMEs are contributing larger role for economic development. India is the populated country but MSMEs are helping India to grow as whole. Government is also came up with various idea to promote this industry for accelerate the industrial growth. MSMEs are also helping the "Make in India" initiative taken by Government. This sector provides larger number of employment in rural areas and also has the potential to generate the export of the country. MSMEs are very much vibrant to economic events. Financial crisis has marked some effect in the growth of MSMEs in India. In terms of finance public sector bank has lended lots of money to this industry from 1991-2015. To face the competition in the long run MSMEs must have strong base to deal with large business houses. It is imperative to take care of MSME sector to enable it to take care of the Indian economy.

References

- ⇒ Ali, A., & Husain, F. (2014). MSME'S in India: Problems, Solutions and Prospectus in Present Scenario. *International Journal of Engineering and Management Sciences*, 109-115.
- ⇒ D. , S., Prasad, K. V., & Rao, S. P. (2013). Sustainable Trends and Policies of MSME in Economic Development in India: An Empirical Study. *International Journal of Management & Business Studies*, 106-111.
- ⇒ MSME India Annual Report 2006-07, 2015-16
- ⇒ Rakesh, C. (2014). PEST Analysis for Micro Small Medium Enterprises Sustainability. *MSRUAS-JMC*, 18-22.
- ⇒ Satpathy, S., SailajaRani, P., & Nagajyoth, M. L. (2017). A Study of Micro, Small and Medium Enterprises; the Backbone for Economic Development of Indian Economy. *International Journal of Research and Scientific Innovation*, 75-82.
- ⇒ Singh, A., & Singh, K. (2014). MSMEs Challenges and Opportunities: The Key to Entrepreneurship Development In India. *International journal of Engeneering and manahement sciences*, 22-28.
- ⇒ Srinivasa, K. (2013). Role of Micro, Small and Medium Enterprises in Inclusive Growth. *International Journal of Engineering and Management Research*, 56-71.
- ⇒ Wooldridge, J. M. (2009). Introduction to Econometrics: A Modern Approach (Fourth ed.). *Mason: South-Western*, 243-246.