

Study on Financial Strength of MSME in Kollam District (Kerala)

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ABSTRACT

This study examines financial stability and different financial aspects of MSME firms in the Kollam District of Kerala, which means this shows what these MSME firms have in their hands and what they need from banks to uplift their company operation.

This paper shows what cashew industry is lacking now in Kerala and what actually happened to them, what is their actual exporting and how much covid 19 effected the Cashew exports.

Kollam district is rich with all type of MSME firms which include Cashew industry, Handloom, Wood industry, concrete product industry, Food industry etc. In this project I had taken data from all type of industry in the location and analysed all together which include problems faced by cashew industry, average working capital of firms, average salary paid to workers, type of transaction used by the MSME firms, Type of finance they used, Usage of payment apps or Wallets, Usage of invoice discounting.

Working capital of cashew industry is higher than other industries because cashew industry have more number of workers than others and the cost and quantity of raw materials are high. There are large number of hollow brick industry or concrete product industry in this area some of industry have large number of workers and some have very low number of workers, Cash transaction is done by most of the firms and long term finance is used by majority firms. Some Industries took short term loans from local bankers and it is very risky for firms as this type of finance have heavy interest rate. Payment wallets are used by almost every industry except cashew industry, as Cashew industry deals more in international transaction.

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I. INTRODUCTION

Finance is the life blood of any business. This study aims to provide an evaluation of the Micro, Small and Medium Enterprise Sector (MSME) finance in Kollam Kerala. The study comprises of highlighting the key characteristics of the MSME sector and assess the demand for and the flow of finance into the sector. This study also shows the overall demand for the finance in MSME sector. We also tried to highlight the possible interventions to increase the access to MSME finance. We have used certain key turnover and output ratios are considered to estimate the demand and supply of finance for the MSMEs. This report will form a guideline for the bank to do further research on areas such as, if there can be a possibility of other securities acting as a source of finance for MSMEs in India. Demand and supply always go hand to hand. So does the demand for and flow of finance does and it is not anomalous in case of MSMEs. In this study we wanted to highlight the key characteristics of the MSME sector and assess the demand for and the flow of finance into the sector. The significance of MSMEs is worth noticeable, since its emergence it lead to capacity employment generation, low capital and technology requirement, usage of traditional or inherited skill, use of local resources, mobilization of resources and exportability of products. Some key initiatives taken by the government of India. Most of the industrial and commercial establishments in Kerala are concentrated in the coastal zone. Among the coastal districts, Ernakulam and Trivandrum have fairly large number of industries along the coast, followed by Alappuzha, Kollam, Kozhikode, Kannur, Kasargod and Malapuram. Eloor- Edayar- Ambalamugal area is the major industrial area located in the coastal zone in the city of Kochi in Ernakulam District along the banks of the Cochin backwaters.

II. REVIEW OF LITERATURE

One of the main constraint that MSMEs face today is getting timely access to finance. The availability of both long term and short term source of finance are the main challenges for MSMEs. Hallberg (2001) argued that financing for the SME sector has emerged popularly in the recent few years and it has become a debatable topic for the economists as well as policymakers. This has become immensely important because SMEs account for the majority of De Haas and Van Horen (2010) analyzed the syndicated loan market and how banks adjust their

lending behaviour during a financial crisis and found that the reduction in bank lending during the crisis can at least partly be attributed to banks' increased monitoring and screening efforts. Jimenez, Ongena, Peydro and Saurina (2012) found for their sample of Spanish firms that bank balance-sheet strength determines loan approval in crisis times. Firm balance-sheet strength determines loan granting in good as well as in crisis times but matters more during the latter. Puri, Rocholl and Steffen (2010) studied the effects of the financial crisis on retail lending at German savings banks and found a general decrease of loan demand after the beginning of the crisis. units of a country and play a key role in employment generation. Patten, Rosengard and Johnston (2001) found nearly no effects on repayment behaviour in the microfinance portfolio, while non performance rates increased considerably in the SME portfolio suggesting that micro loans are less risky in times of crises compared to SME loans. Di Bella (2011) argued that banks' lending to micro, small and medium enterprises in emerging countries and their customers were mostly resilient to the effects of previous financial crises, whereas they are more likely to be affected by the recent crisis because they have also become more globally integrated in the past decade. Rajan (1992) studied the impact of financial crises on the loan portfolio of MSME banks. Banks facing liquidity shortages may be forced to cut down lending. At the same time banks might be reluctant to reject loan applications of existing borrowers even in times of crisis because they have invested in costly information acquisition. Ayadi & Fanelli (2011) argued that the constraints in access to finance are an impediment to MSME development, which rests on the combination of three pillars: enhanced capacities, an enabling environment and appropriate financing conditions. Stiglitz & Weiss (1981) stated that the exclusion of MSMEs from credit markets in the region is chiefly due to three sets of factors. First, their inherent lack of transparency, suitable collateral and track record exacerbate information asymmetries, resulting in acute credit rationing. Biswas, A. (2014) Banks face several problems at their end while granting loans to the MSME sector. As most of MSMEs work in the unorganized sector, so they do not maintain any proper accounts or balance sheets. Without the presence of proper balance sheets, Banks find it really difficult to lend credit to MSMEs. Banks do not have that much of trust on newly setup enterprises or the start-ups. They consider MSME projects risky and are scared of NPAs while granting credit to start ups. So, Banks generally lend only the prescribed amount to this sector as mentioned under priority sector lending obligations.

III. METHODOLOGY OF THE STUDY

Primary data is used although this project and the sampling method used is cluster sampling, Details of MSME firms is collected from DIC Kollam (District industries corporation) and had telephonic interview with MSME firms in Kollam district.

Percentage frequency analysis is used in this project because it shows all results very effectively and it is easy to understand, Covid 19 restrictions backed me from having direct industry visit and collecting data directly from industries.

Details of cashew exporting company is taken from cashew development corporation. The study is based on intensive field research among cashew industrialists and related stakeholders from Kollam using a questionnaire-based sample survey. The sampling is drawn from the latest directory of cashew processors and exporters, published by the Cashew Export Promotion Council of India. The survey locations were chosen randomly based on the directory of the processors from the Kollam region. We prepared two questionnaires for the study. The first questionnaire was used for the pilot stage to gather detailed inputs to prepare for the formal interviews with industrialists.

IV. ANALYSIS AND INTERPRETATION

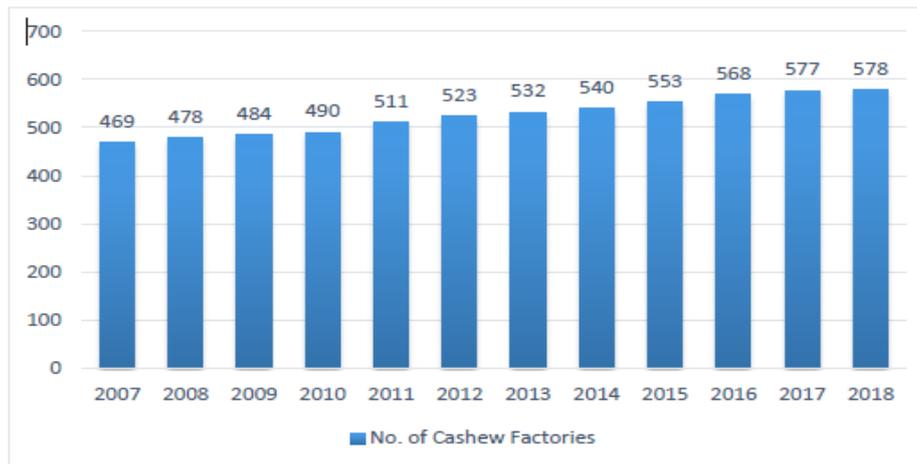
Cashew Industry and Cashew exporters

Estimation rather than an actual count. As per industry observation, there are approximately 800 processing units in Kollam, but there are no official or reliable documents to substantiate these statistics. To estimate the size of the cashew processing units in Kerala, I aggregated data from CEPCI and the Department of Factories and Boilers (DFB).

According to CEPCI statistics, there are 225 cashew processing units in the private sector and 94 % of these firms are clustered around Kollam region. Next to Kollam, the neighboring district Pathanamthitta has more cashew units in Kerala. The districts like Alapuzha, Ernakulam, Kasaragod, Kottayam, Thiruvananthapuram and Thrissur also have a few cashew processing units. This estimation is based on the

statistics of registered cashew processing units under the CEPCI. This would be underestimated statistics due to many factories work under informal setups.

The statistics of DFB are relatively reliable because the operative cashew factories need to renew their licenses every year as per the legality of the DFB. We aggregated these statistics from different divisions of the DFB in Kollam. According to the DFB records, there are 578 cashew processing units in Kollam region and recorded 2% of average annual growth in terms of the number of factories newly registered during the period 2007-2018.



The Size of the Cashew Industry in Kerala

The propagating cashew industry size in Kerala is a vague estimation rather than an actual count. As per industry observation, there are approximately 800 processing units in Kollam, but there are no official or reliable documents to substantiate these statistics. To estimate the size of the cashew processing units in Kerala, we aggregated data from CEPCI and the Department of Factories and Boilers (DFB).

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Inadequacy of Working Capital and Unavailability of Credit

Efficient access to capital is important for companies to make the long-term investments needed to raise productivity. The cashew processing factories in the region mainly come under the category of micro and small enterprises. Therefore, the working capital is important for them to execute the international consignments. Access to working capital for cashew processing enterprises in the region is not liberal due to the high frequency of their defaults in repayments. Banks hesitate to give loans to cashew processors due to factors like lack of consistent cash flow, insufficient collateral, unprofessional management, and the weakening industry. Industrialists say that the majority of the processors in the region pledge their assets like land and houses for getting loans from the banks. This takes them to severe financial crisis and mental stress if anything ad

The exogenous cause of the crisis in the cashew industry is mainly related to regional trade agreements like the ASEAN Free Trade Agreement (AFTA). The CEPCI reports that the import of low-quality cashew kernels from Vietnam adversely affects the domestic market of cashew kernels. According to cashew exporters, the cashew industry in the region was surviving from the international competition mainly due to the expanding domestic market for cashew kernels. They report that 20-30% yield of the kernels are of broken varieties which were enjoying good domestic demand. However, low quality broken kernels and testaare finding their entry in one form or the other into the domestic markets as part of India's participation in the AFTA. Traders mix broken kernels in the husk and import to India. It affected the domestic market for locally produced broken kernels.

The globalization and free trade agreements (FTAs) upraised the competitiveness of global trade in agricultural commodities like cashew nuts. It adversely affected the cashew industry in Kerala in terms of the importation of raw cashews and the exportation of kernels. As part of the trade competition, countries like Vietnam increased their economies of scale in cashew production and started to trade the low-priced processed nuts worldwide. The export price of kernels from India is above Vietnam's price due to the higher costs of production, and the price gap between Vietnam and India is widening after 2011 versely affects the industry .

Deficient Market Innovation

The international trade in cashew kernel is working within a buyer-driven value chain (Harilal, *et al.*, 2006). This is called ‘directed network’ in value chain literature. In ‘directed network’, firms from networks tend to be controlled by certain leading firms. The lead firms specify what is to be produced by whom, and they monitor the performance of the producing firms (McCormick and Schmitz, 2002). In the cashew processing industry, the market of cashew kernel is controlled by importers, roasters and salters, wholesalers, and retailer chains from the European and American markets. Therefore, the marketing capability of the processors in the region at international level is very weak. The international food quality standards also make major constraints in the industry to explore the global consumer markets. To produce and pack the kernels as per the global food quality standards, firms need a higher level of investment and technological capacity. Firms with an informal working arrangements may not meet these conditions.

However, certain factors contribute to the relative autonomy of processors and exporters from the region. The growth of the domestic demand for processing cashew nuts helps in decreasing the dependence on international importers and consumer markets. In addition, the emergence of alternative markets in the Middle East and China, lessened the power of European and American importers. In fact, this opened a tremendous opportunity to the processors in the region for positioning their value added products in national and western Asian markets. Furthermore, according to the opinion of the entrepreneurs, the processed nuts from the Kollam region are much more superior quality wise than nuts which were produced in mechanized units. The traditional reputation of the region in producing superior quality of cashew nuts (geographic branding) is also a valuable input for marketing the cashew nuts from Kerala. However, the cashew industry in the region failed to explore the full benefits of such market innovations over the time period.

Quality Standards and Market Regulation

Food markets in the developed countries undergo strict regulatory measures and quality certifications. The Sanitary and Phytosanitary Measures (SPS) of the World Trade Organization (WTO) also impact the cashew processing industry adversely in Kerala due to their labor intensive informal production practices

Kernel Export from Kerala

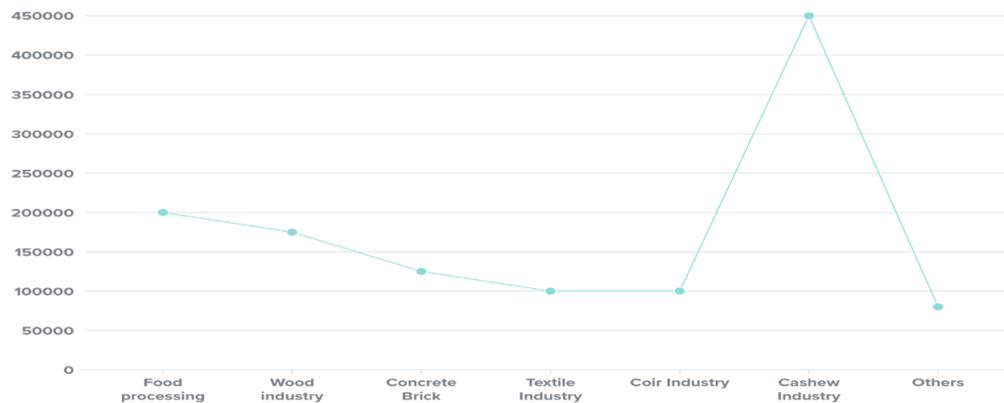
According to the SPB statistics, Kerala exported an average of 54,535 metric tons kernels per year during 2011-2017. This comes around 52% of the total kernel exports from India. shows that the trend in Kerala’s share in kernel export has declined since 2014. This may be due to the factors like declining industry size, migration of factories from Kerala to other states, and emerging cashew industries in other states.

WORKING CAPITAL

Working capital is the backbone of every organisation, day to day operation of every firm works with working capital, here in this study cashew industry need the higher amount of working capital because of high number of workers , every cashew industry has 50 and above workers and cost of raw materials are also higher .

S.no	Type of Industry	Working capital required per month
1	Cashew	4,50,0000 - 500000
2	Food processing	200000 - 250000
3	Wood Industry	175000 - 200000
4	Concrete brick	125000 - 150000
5	Textiles	100000 - 125000
6	Coir	100000 - 150000
7	Others	75000 - 100000

Average working capital per Month

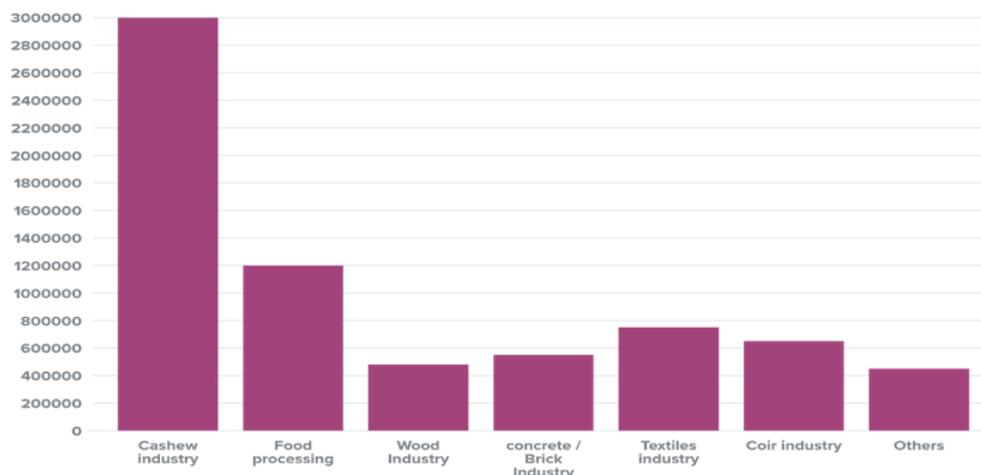


SALARY PAID TO WORKERS

Salary paid to workers is the main expense faced by MSME firms salary pay out increases as the number of workers increases . In this project it is shown that cashew industry in this locality pays high amount of salary . The details of the average salary paid to workers is showbelow

S.no	Type of industry	Average Salary paid to workers
1	Cashew Industry	300000
2	Food processing	120000
3	Wood industry	50000
4	Concrete brick Industry	70000
5	Textile industry	90000
6	Coir industry	50000

Salary payout per year to workers



TYPE OF FINANCE USED BY THE FIRM

Finance is the blood of every organisation so it is very important to know about what type of finance long term or short term finance is used by the company for its daily running of the firm . Normally banks offer loans to MSME firms in long term aspect by giving collateral and other small finance institutions give short term finance for meeting the urgent requirements for a year but as compared to long term finance the interest rate is much more higher .In our survey out of 75 respondents 9 %firms are running in short term loan , 55 %firms are running in support of long term finance and 11% firms are running under both of them .

75 respondents

Long term / short term	Number of response	percentage
Long term finance	55	73.33
Short term finance	9	12
Both long term and short term	11	14.66

TYPE OF FINANCE USED BY MSME FIRMS



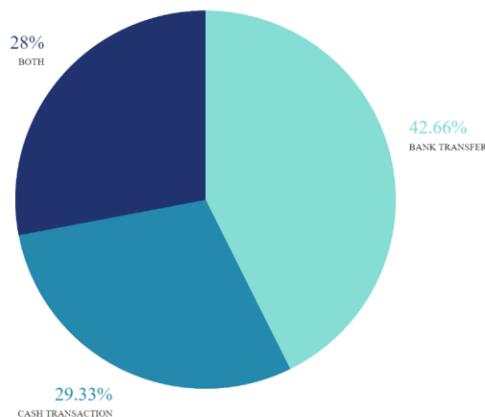
TYPE OF TRANSACTION

Modern banking is very different from past there are so many new innovations and technology update which bring banking facilities to an another level . The introduction of online banking and wallets bring banking much easier . Now the government of India and reserve bank of India and all regulatory are promoting online banking so the number of money transfer apps by the banks and other is increasing day by day .In this project I took the data regarding the transactions done by the MSME owners for meeting different activities such as salary pay out , purchase of raw materials and all and the use of payment wallets among them .

Type of transaction	No of respondents	Percentage
Bank Transfer	32	42.66
Cash transaction	22	29.33
Both	21	28

Respondents – 75

Type of Transaction used by the firm regularly

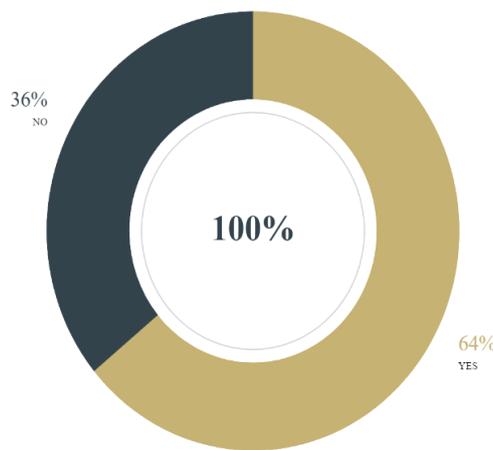


USAGE OF PAYMENT APPLICATION AND WALLETS AMONG MSME SECTOR

Usage of payment wallets and payment apps are growing now and the study also shows MSME sector also use these method to sent and receive money. They are using these to receive money from customers or shop owners .Cashew Exporters do not have much usage of Payment apps or wallets because they normally do international transaction but other firms such as food processing and another small industries uses

PAYMENT APP USAGE	NUMBER OF RESPONDENTS	PERCENTAGE
YES	48	64%
NO	27	36%

Do you use any payment Application or wallets



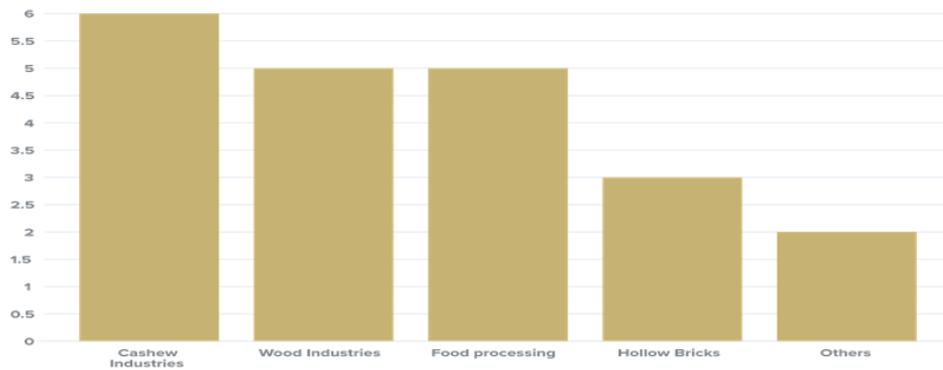
NEED OF FUTURE CAPITAL

It is very important for a bank to know about the usage of finance given by the bank to the firm .Banks only gives loans when the want of money is genuine and also bank ensures the payback of loan . Pandemic has effected every industry in a drastic manner so it is very important for every firm to come back stronger along with pandemic and post pandemic period. The workshop industry in Kollam as a result of the study is lacking technical update , They need to update their machinery and infrastructure . Cashew industry in Kollam is well known they also requires additional capital to increase their production and exports.

Type of Industry and number of firms requires capital in next one year

Type of Industry Needs capital	Number of industries
Cashew Industries	6
Wood industry	5
Food processing	5
Hollow brick / Concrete industries	3
Others	2

Number of Industries Need financial assistance in Next one year

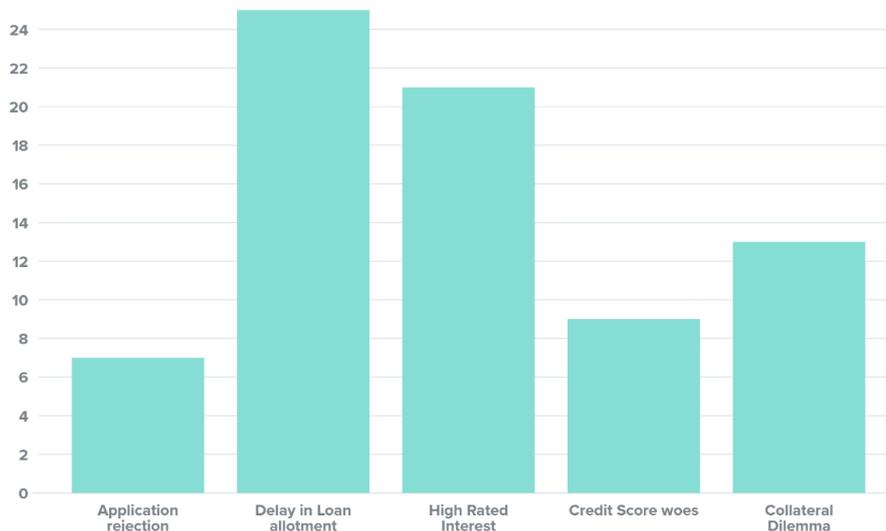


What all are the constricts faced when you get in touch with banks for loan ?

While big and established firms find it relatively easy to raise fund / finance for their activities, MSME find it very difficult to get loan and there are so many constricts they face when they are looking for loan such as credit score , Application rejection , Collateral dilemma.

S.NO	Constraints	No of respondents for each
1	Application rejection	7
2	Delay in Loan allotment	25
3	High interest rate	21
4	Credit score woes	9

CONSTRAINTS YOU FACE WHEN YOU GET IN TOUCH WITH BANK FOR LOAN



Preparation and use of financial capital

Decision making is one of the most important functions of management. The preparation and use of various financial statements will help the firm to take appropriate decisions. From the analysis relating to the preparation and use of various financial statements presented in Table shows that out of 75 units only 30 units (40 per cent) are preparing and using Trading and Profit and Loss Account (Income Statement), 17units are using Balance Sheet, 2 units are using fund flow statement, 11 units are using working capital statement, 6 firms are using ratio analysis, 9 firms are using budget and budgetary control and no firm is using standard costing

S.NO	TYPE	No of respondents	Total Number of respondents	%
1	Trading P/L	30	75	40
2	Balance Sheet	17	75	22.67
3	Fund flow statement	2	75	2.6
4	Working capitals statement	11	75	14.66
5	Ratio Analysis	6	75	8
6	Budgetary control	9	75	12
7	Standard costing	0	75	0

The respondents were asked to give their suggestions for improving the financial management practices of micro enterprises. They have given many suggestions. The important among them are providing specialized training to the entrepreneurs in the area of accounting and financial management, providing customized software solutions suitable for micro enterprises for accounting and financial management and make available the advice and support of experts in the area of accounting and financial management to these micro enterprises .

USAGE OF ACCOUNTING / FINANCIAL SOFTWARE

Computerization of accounting and financial management activities will help the firm to make their activities efficient. Out of the 75 sample units only 43 units are using some software support for accounting and financial management, while the other 32 units are not using any computer support for accounting and financial management and they are manually doing all accounting work.

Usage	Number of respondents	Total Number of respondents	%
YES	43	75	57.33
NO	32	75	42.67

AWARENESS AND USAGE OF INVOICE DISCOUNTING

Awareness about invoice discount and usage of invoice discount is very less , In this study out of 75 firms only 9 firms are aware or using invoice to discount their bills .

Respondents

Uses Invoice discount	Number of people responded	Percentage
Yes	9	12
No	66	88

V. CONCLUSION

The micro and small enterprises have a great role in the economic development of the state of Kerala. They are creating a lot of employment opportunities with limited amount of capital by using the domestically available resources. They are the training ground for the new and innovative entrepreneurs. The success of these enterprises mainly depends on efficient financial management. Besides experience, theoretical knowledge is also essential for proper financial management. But many of the entrepreneurs of micro and small enterprises lack formal educational background in financial management and are not financially capable enough to appoint qualified persons as financial managers. Therefore, in this study an effort has been taken to evaluate the financial management practices of micro and small enterprises in Kollam.

For the purpose of the study a sample of 70 micro and small enterprises have been selected at random .

The data were collected from these sample units by using a structured interview schedule. These data were analysed by keeping in view the objectives of the study with the help of statistical software. From the results of the analysis it is found that majority of the micro enterprises in Kerala are not properly following the financial management practices. Their financial management practices are firefighting in nature and are learned basically through experience. Therefore, the entrepreneurs and owner managers of the micro and small enterprises have to be educated properly in the areas of financial planning, project evaluation, working capital management consisting of inventory management, receivables management and cash management, budgeting and profit management for improving their financial management practices. Better and improved financial management practices of these enterprises may lead to their successful functioning and contribute for the development of the nation.

VI. RECOMMENDATIONS / SUGGESTIONS

1. Cashew Industry needs more financial help from banks to come back on track .
2. Cashew export from Vietnam and other African countries decreased the demand for Indian cashew .
3. Covid 19 restricts on exports and working of firms impacted the working and financial stability of all firms
4. Long term finance from public banks is used by majority of firms/ 73.33 %of firms uses long term finance .
5. Short term loans from local bankers is taken by some firms with high percentage of interest .
6. Payment apps or Wallets are used by majority of firms , least used by cashew industries as they deal more in international transactions .
7. Computerised accounting / financial software is used by 57.33 % of the firms .
8. Delay in Loan allotment is the main constraints used by firms when they approaches bank for finance .
9. Majority of the firms are not using invoice discounting .
10. Immediate financial help is needed for cashew industries
11. Speeding up loan allotment will help MSME firms to become more efficient and make their activities fast .
12. Spreading awareness about short term loans from local bankers will help MSME firms from giving high interest rate .
13. Cashew industries should be given immediate priority as majority off firms are in immediate need of finance .
14. If promotion of banks payment application it will help to create more users , Majority of users are using third party payment apps / Wallets like google pay .
15. Banks should give more awareness to customers the importance of cash less transactions, Most of the firms are using cash transactions to meet their needs .

LIMITATIONS OF THE STUDY

- The data is collected by telephonic interview from 100 MSME firms and the number of sample used is 75 . The data given by the Firm may not 100% accurate .
- Some Firms were Not ready to give their financial data

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ANNEXURE

Financial analysis of MSME in Kollam district (Kerala)

Financial Analysis

Thank you for participating and contributing towards my humble internship programme with IDBI Bank.

Your answers will dearly help me formulate my research on analysing overall financial operations of a company.

Owing to the pandemic situation, I am unable to visit your firm. Hence request you to fill the questionnaire below:

1 Name of the Company

Your answer

2 Year of establishment

3 Address of the firm

4 What is this firm's current legal status? :

Sole proprietorship

Partnership

Private

public

5 Type of Business

6 Whether it's a Export oriented company

Yes /no

7 Number of workers in the company and average amount need your salary and wages

- 8 Average annual revenue of the company (Last 3 years)
- 9 Average profit margin of the company (Last T3 Years)
- 10 Any Short term finance
1. Yes
 2. No
- Amount
- Maturity
- 11 Any Long term finance
1. Yes
 2. No
- Amount
- Maturity
- 12 Do you have Banking relation With IDBI
1. YES
 2. No
- 13 Other Banks you have banking relation
- 14 Type of account maintained by the company
1. savings Account
 2. Current Account
 3. Overdraft accounts
 4. Cash Credit
- 15 Does your company have any future funding requirement (within 1 year)
- Yes /no
- Amount needed
- Purpose
- 16 What all constraints you face when you get in touch with bank for loan ?
- Application rejection
- Delay in loan allotment
- High interest rate
- Credit score woes
- 17 Are you aware of the following schemes for MSME by IDBI
- MSME Loan for Wholesale and Retail Traders, Dealers and Distributors
 - MSME Loan for Small Road and Water Transport Operators
 - Loan SME Against Commercial and Residential Properties
 - IDBI Bank Vendor Finance Program
 - General Credit Card Loan (IDBI-GCC Loan)
 - Laghu Udyami Credit Cards (LUCC)
 - Stand Up India Scheme
 - IDBI Mudra Loans
- 18 Which Type of transaction is frequently used by the company?
1. Bank Transfer
 2. Cash transaction
 3. Both
- 19 Do you use Payment Apps / Wallets
- Yes / no
- 20 Are you aware of invoice discounting
- Yes / No.
- If Yes – Do you Use Invoice discounting
- 21 Does your firms uses accounting software
- Yes /No