

**Working Capital Financing in Indian Micro Small and Medium Enterprises (MSME) in the Backdrop of Privatization, Liberalization & Globalization**

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**Abstract:**

Working capital is required for the smooth functioning of routine operations of a business. Business organizations that is having ample amount of working capital can confidently claim for long-term success of business. Then on the other hand working capital also provides a basis for meeting the objectives of all the respective stakeholders of business like wealth creation, management of cash, etc. Rather working capital is a kind of assurance for long term success of the organization. This present study evaluates the stature of working capital in case of MSME and the area of study is Madhya Pradesh.

The researcher has considered 50 organizations registered under MSME in all the three modes i.e. Micro, Small and medium. The study includes both the primary and secondary data. Considering a broader view, companies do need working capital to manage the current assets and liabilities and maintaining the equilibrium between the two. Likely the management of working capital is in close contact with the current assets and liabilities. In another sense it can be stated that adequate working capital is required i.e. not more than or less than the requirement. For any of the given firm, the policy followed in terms of working capital is very important because the amount endorsed as the part of working capital is having its impact on the liquidity, profitability and overall health of the organization.

**Keywords:** MSME, Working Capital, Financial Management

**Introduction:**

Any of the given organization requires funds for two basic reasons, at the initial level funds are required to incorporate the business and at the end level funds are required to meet the regular operations. Apart from this the companies are also looking forward to different sources of funds to acquire some fixed assets like equipment, machinery, land, fixtures, etc. apparently the money which is used to acquire such fixed kind of assets is the part of fixed capital and this can be recovered in small parts only when the company is abandoned. Now here it is important to mention that once the company is incorporated, short term funds are needed to meet the payments for raw material, salaries or wages, basic operations, etc. and the amount required or acquired to meet such expenses is named as Working Capital. Nature of working capital can be understood on three different denominations; at the first level it is the basis of policy framework used maintaining profitability and liquidity of the firm, at the second level the flow of working capital is going to affect the accumulation of current assets and at the third level it will directly or indirectly affect the deliverance of current liabilities.

As stated above, after the incorporation of a business, next step is to start the manufacturing operation and for this funds are required, as per the process raw material is converted into semi-finished goods and semi-finished goods are converted into final products. Even in the case of services, working capital is required to arrange all the resources and deliver the final service to the customer. Other than this, process of sales is also included, because via this process revenue is expected to reach the account books. Here it is important to mention that whatever a business produces is not sold instantly, rather there is time gap between the production of goods and sales of goods and in this gap company cannot stop the operation so working capital is the solution. Now the amount of working capital is dependent on the above mentioned gap i.e. longer the gap more working capital is required and shorter the gap less working capital is required.

**Micro Small and Medium Enterprises (MSME)**

There are a number of companies that are working at different levels and there are people who have some or the other kind of skills and are able to establish a business of their own but they were either overpowered by the big companies in the same domain or the intermediaries take most of the

profit from them. In the beginning of 21<sup>st</sup> century central government of India identified the scope for developing micro, small and medium enterprise and in the year 2006 the

MSMED (*Micro, Small and Medium Enterprises Development*) Act was laid down and according to the act all types of Micro, Small and Medium Enterprises were defined. Details of the same are given below:

If any given concern is registered as MSME and basic operation is related to manufacturing then:

- a) *Micro Enterprise*: Any enterprise that has invested not more than 25 lakhs in plant and machinery
- b) *Small Enterprise*: Any enterprise that has invested above 25 lakhs and up to 5 crores
- c) *Medium Enterprise*: any enterprise that has invested above 5 cr. Up to 10 crore

If the given concern is registered as MSME and basic operation is providing servicesthen:

- d) *Micro Enterprise*:any enterprise that has invested up to 10 lakhs
- e) *Small Enterprise*: any enterprise that has invested more than 10 lakhs and up to 2 crores
- f) *Medium Enterprise*: any enterprise that has invested more than 2 cr. and up to 5 crores

### **Importance of MSME in Indian Economy**

After the formation of MSMED Act (2006) and Micro, Small and medium enterprises are an integral part of the economy. As of now the companies registered under MSME are able to generate employment at the rate of 14.7% per annum and the CAGR of the same is 5.02% considering 2008 as a base year. It has emerged as a new sector that is able to employ less skilled and unskilled labor and provide them with regular employment. Still the potential of MSME in the country is in the stage of infancy and is expected to grow by 37% in the next 10 years, i.e. 2028. It is not so that the previous industrial policies have not considered these type of establishments but the stature was limited to only Micro and Small enterprise.

MSME Ministry Overview (2013), in the present scenario there are 40 million such establishments in the country and more that 11 million people were engaged in one or the other employment till the year 2013 and now more than 150 million people are employed in this sector. Then on the other hand, out of these 150 million people more than 60% are engaged in agriculture and related

enterprises.

MSMEs across the country are liable to produce around 6500 products and created a stand on competition for the big brands prevailing in the market. In order to produce these products a large amount of raw material is being secured from agricultural sector, this again provides an opportunity to the farmers who are not having enough resources to produce and sell on their own. MSMEs are contributing around 35% in retail business, 11% in apparel industry and around 10% in FMCG goods MSME Insight (2016).

### **Literature Review:**

EXIM Bank of India, 2012 is in the process of conducting studies on the working and development of MSME and also compare the scenario with that of other countries like Europe, USA, China, etc. Till 1999 the main objective was to properly establish MSME in the country and increase its competitive position in the market. Then after privatization and liberalization the focus was to promote the sector in areas like credit, infrastructure, marketing and technology. The current reports of the agency stated that MSME contribution to the GDP of the country is in better condition as compared to countries like China, Japan, Malaysia, Thailand, Mexico, Philippines, etc and is expected to grow by leaps and bounds in the years to come.

Poblete et al (2015) conducted study on the growth of MSME in the country, this study was conducted in Thailand and the objective was to identify the internal and external factors that are liable for slowing down of the growth of MSME. The findings of the study stated that the respective MSMEs of the country are producing cheaper and labor intensive products and in lieu of the same it is becoming problematic to arrange for finance and skilled labor as a result the MSMEs are not able to beat the market competition and losing business to market giants.

Ministry of MSME(2017) An inter-ministerial Committee was constituted to find ways and means to fuel the growth of MSME in the country and as per the report of the committee stated that from 2009 to 2014 the overall Indian economy has experienced a dramatic slow-down and MSME has also been affected by the same. After 2015 the sector is able to generate high rate of employment and even the manufacturing cycles have shortened. At the next level there is an increase in the number of registered MSME since 2015, as a matter of fact most of MSMEs are based on

agricultural and related items. The committee also suggested to bring about certain changes in the prevailing labor laws in order to prevent the exploitation of labor in the sector.

Naser(2013) conducted a study on the evaluation of growth prospects of MSME and contribution of the same in the economic development of the country. Findings of the study stated that more than 50% of the MSMEs are based on agriculture based business and this scenario is fruitful for the regional development and integrity. Then on the other hand more than 6500 products are being produced by all the process and manufacturing oriented MSMEs this is again inviting unidentified skills in the country and also developing market for such products at international level.

### **Objectives:**

- (i) The main objective of the study is to evaluate the management of working capital financing in MSMEs of Madhya Pradesh.
- (ii) The study will also evaluate the factors that are affecting the liquidity position of the selected companies.

### **Research Methodology :**

Population and sample selection :

This study is a blend of primary and secondary data. As the researcher has considered the various types of data for the financial records of he selected MSMEs and primary data from the different internal stakeholders of the selected MSMEs.

The universe of the study is all the MSMEs registered in Madhya Pradesh and the researcher has considered 50 MSMEs as a sample. The bifurcation of the sample is as follows:

Micro organizations : 20

Small organizations : 15

Medium organisations: 15

The researcher has considered cluster sampling method Malhotra (2014) for selecting the sample and the respective respondents of the study were the managers of selected MSMEs.

Selected MSMEs are as follows:

S.No.	Name of MSME	S.No.	Name of MSME
1	AakashNamkeensP.Ltd.	26	Ultimate Forms P.Ltd
2	Neptune Packaging P.Ltd	27	Bhansali Wire Industries
3	Scholar Art	28	Cherry Paints And Polymers Pvt. Ltd.
4	Impetus Infotech (I) Pvt. Ltd.	29	PragyaEquipments Pvt. Ltd
5	Indore Biotech Inputs and Research pvt. Ltd	30	Webdunia.com (India) Pvt. Ltd
6	Modi Aqua	31	Jal Instruments
7	Sangam Pumps P.Ltd	32	Arya Filaments
8	Parakh Point	33	Surya International
9	Laxmi Industries	34	Esskay Iron Works
10	Instrument Transformers	35	Bioline India
11	Vishakha Construction Services	36	Leather Handicrafts
12	Manish Steel Works	37	Zoological Art Gallery
13	Central Equipments Suppliers P. Ltd.	38	Pragati Systems
14	Kanan Weighing Systems	39	S.S. Combines
15	Sunny Paints & Tar Products	40	Neon InfotechPvt Ltd
16	United Power	41	Metal Weld Engineering Pvt. Ltd.
17	ACE Engineerings& Chemicals	42	Hi-Tech Butterfly Valves India P. Ltd.
18	Cosmos Electrodes P.Ltd,	43	Vasant Switchgears Pvt. Ltd.
19	H.D.WiresP.Ltd,	44	Malwa Electric & Engineering Company,
20	Flex Tubes	45	Genius Engineering P.Ltd.
21	Apoorva Electricals	46	Valiant Electricals P.Ltd
22	Bharat Exim N Handicrafts Pvt. Ltd.	47	Delta Seals & Electricals
23	Sontex Rolled Bandage Works	48	Ellar Steel Industries
24	Aleen Machine Tools	49	Hi-Tech Metal Formings
25	Yashas FRP Manufacturing P.Ltd.	50	Darling Pumps P.Ltd.

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Interview method was adopted to communicate with the respondents and almost similar questions were asked to all the respondents.

Sources of Data :

Most of the studies based on primary data are based on the pillars of secondary data, in this present study as well secondary data is used to frame to objectives and understand the application of working capital in MSME. Some of the sources of secondary data areas follows:

Reports

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- (i) MSME Insights (2010-18 Issues)
- (ii) Ministry of MSME (website)
- (iii) Banks Today, 2018
- (iv) MSME, Center for Civil society, 2016

Tools of study: Percentages, Averages, trends, etc.

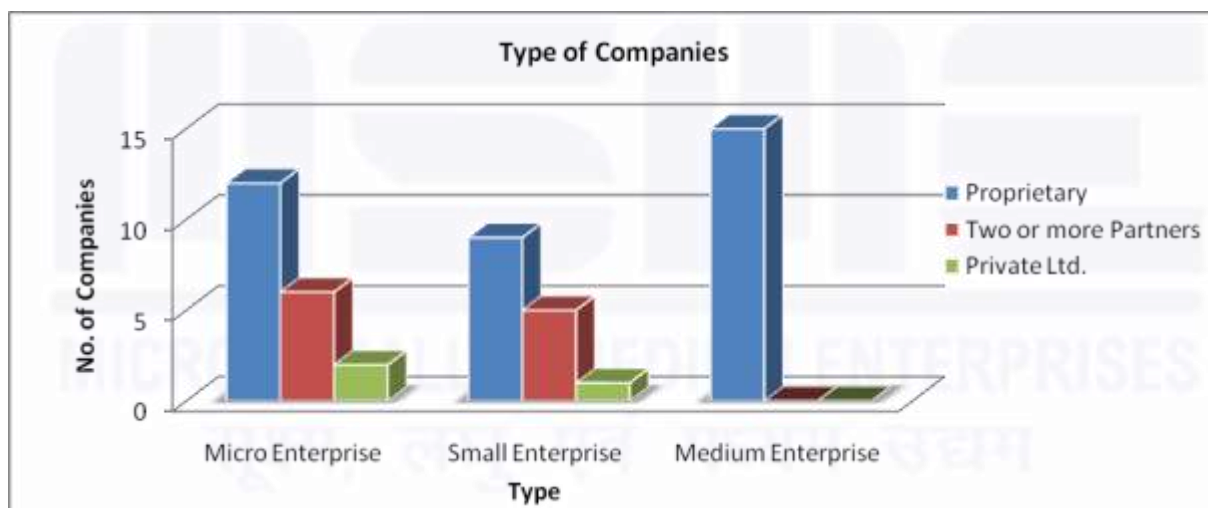
Software used : MS Excel

**Data Analysis and Interpretation:**

Nature of Incorporation

**Table 1: Type of Companies**

Type	Micro Enterprise	Small Enterprise	Medium Enterprise	Total
Proprietary	12	9	15	36
Two or more Partners	6	5	0	11
Private Ltd.	2	1	0	3
<b>Total</b>	<b>20</b>	<b>15</b>	<b>15</b>	<b>50</b>

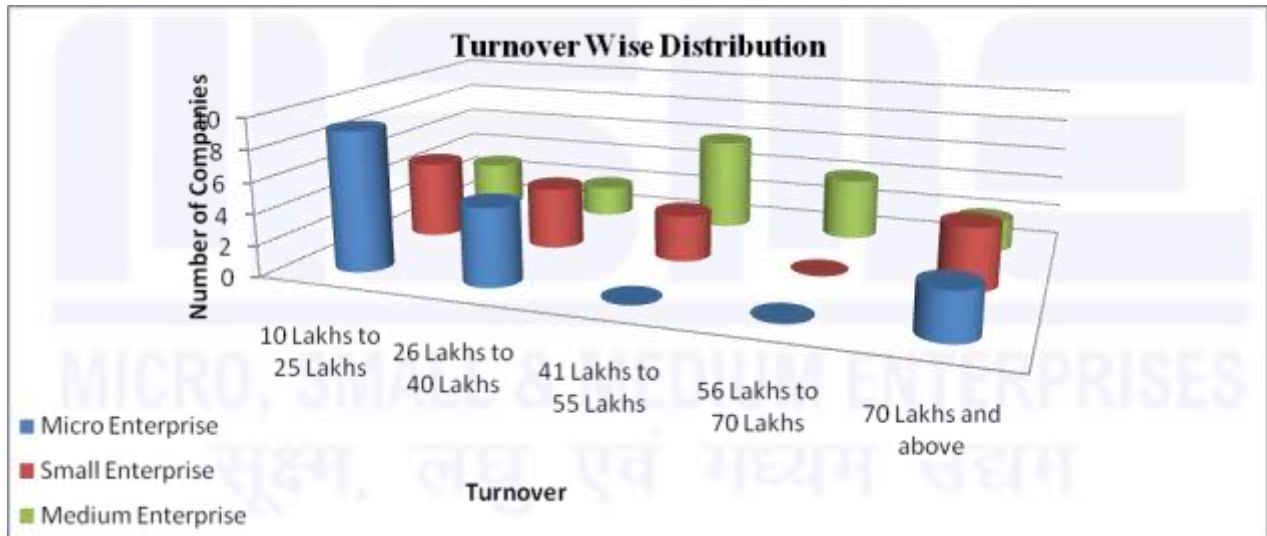


**Interpretation**

As given in the above table and chart, most of the selected companies are registered as micro enterprise and the number of small and medium enterprise is equal i.e. 15 each. Then on the other hand among all the type of companies, maximum i.e. 36 companies are registered as proprietary and partnership, minimum number of companies are registered as private ltd.

**Table 2: Annual Turnover**

<b>Annual Turnover</b>	<b>Micro Enterprise</b>	<b>Small Enterprise</b>	<b>Medium Enterprise</b>	<b>Total</b>
10 Lakhs to 25 Lakhs	9	5	3	<b>17</b>
26 Lakhs to 40 Lakhs	5	4	2	<b>11</b>
41 Lakhs to 55 Lakhs	0	3	6	<b>9</b>
56 Lakhs to 70 Lakhs	0	0	4	<b>4</b>
70 Lakhs and above	3	4	2	<b>9</b>
<b>Total</b>	<b>17</b>	<b>16</b>	<b>17</b>	<b>50</b>

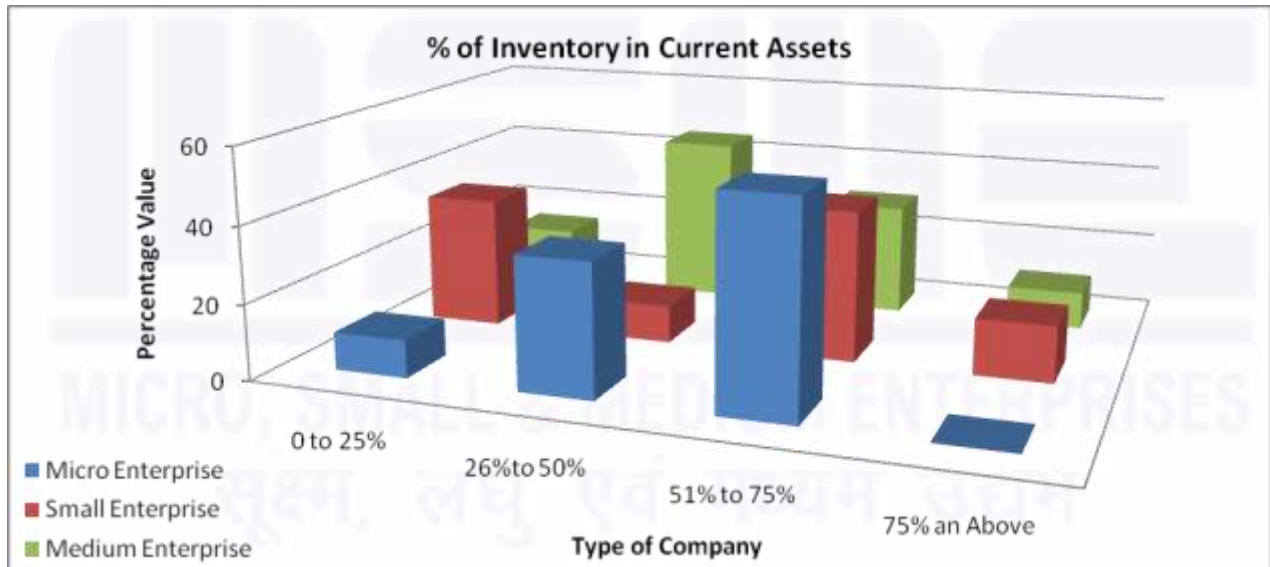


**Interpretation**

In the process of study the researcher found that most of the companies are new and the period of incorporation is within 5 years. The same can be seen from the above given chart and table, 17 out of 50 MSME were having the turnover of around 25 lakhs and only 9 companies are ranging between the annual turnover of 41 lakhs to 70 lakhs or more. This trend shows that most of the MSME are registered in last few years and they are in the process of growth, it might happen that the start to contribute in the state GDP in coming years.

**Table 3: Percentage of Inventory in Current assets**

Percentage of Inventory	Micro Enterprise (%)	Small Enterprise (%)	Medium Enterprise (%)
0 to 25%	10	35	15
26% to 50%	35	10	45
51% to 75%	55	40	30
75% and Above	0	15	10
<b>Total (%)</b>	<b>100</b>	<b>100</b>	<b>100</b>

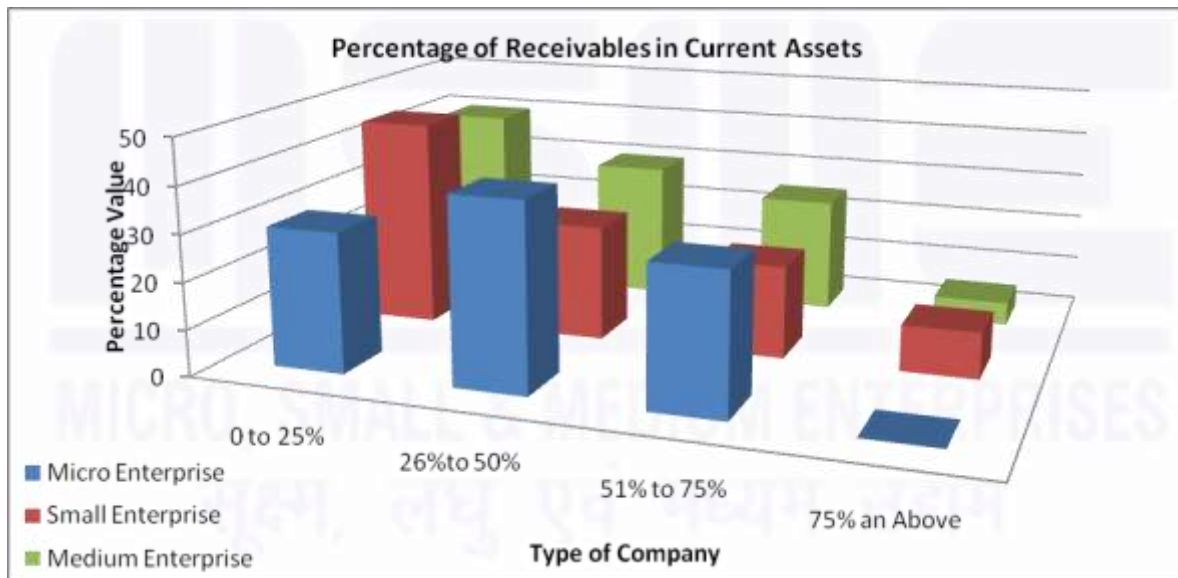


**Interpretation**

Inventory is the integral part of working capital and is having three forms i.e. raw material, semi-finished and finished goods, as can be seen from the above given evaluation most of the companies are considering inventory as an integral part and the respective contribution is around 75% as a matter of fact this is the preference of maximum number of companies. rest of the companies are either intermediaries or service based.

**Table 4: Percentage of Receivables in Current Assets**

Percentage of Receivables	Micro Enterprise (%)	Small Enterprise (%)	Medium Enterprise (%)
0 to 25%	30	45	40
26% to 50%	40	25	30
51% to 75%	30	20	25
75% and Above	0	10	5
<b>Total (%)</b>	<b>100</b>	<b>100</b>	<b>100</b>

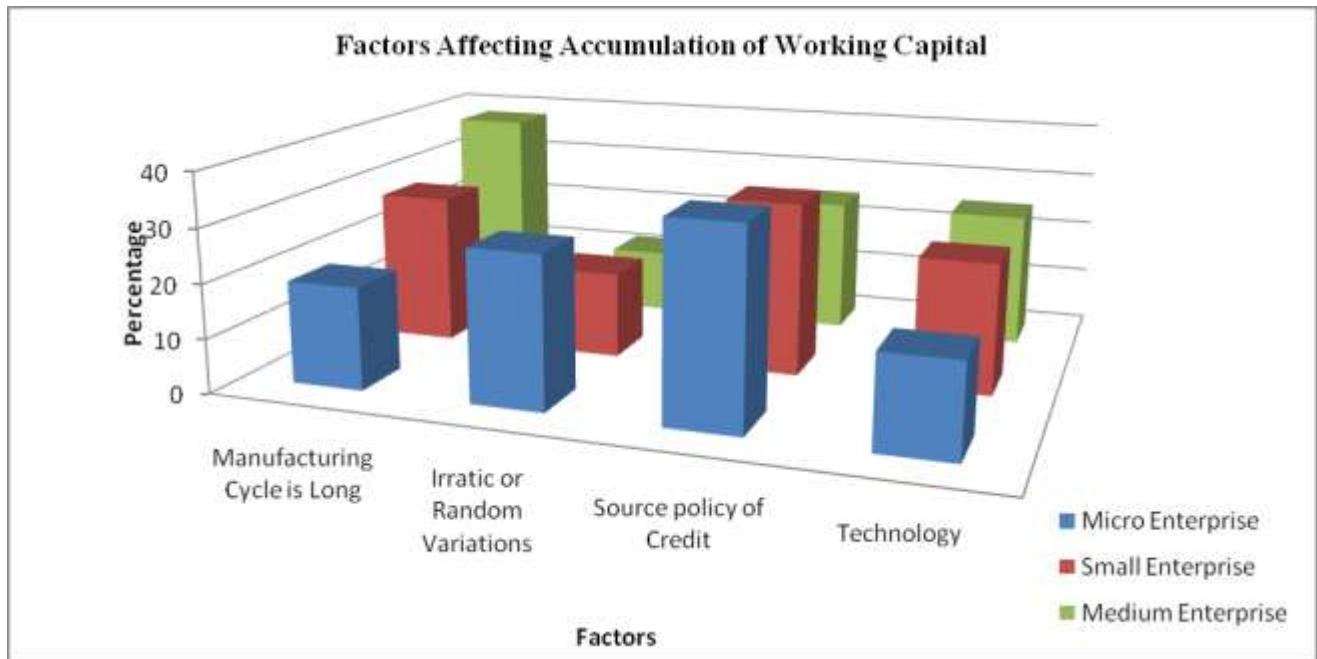


**Interpretation**

Receivables are the integral part of working capital like inventory and as they contribute directly to the formation of current assets. As can be seen from the above table that micro enterprises are considering up to 70% of receivables as the part of current assets and small and medium enterprises are considering that 75%.

**Table 5: Factors Affecting Accumulation of Working Capital**

Factors	Micro Enterprise (%)	Small Enterprise (%)	Medium Enterprise (%)
Manufacturing Cycle is Long	19	28	38
Irratic or Random Variations	28	16	12
Source policy of Credit	36	32	25
Technology	17	24	25
<b>Total (%)</b>	<b>100</b>	<b>100</b>	<b>100</b>



**Interpretation**

Any type of commercial establishment is not free from the effect of internal and external factors, likewise MSME also face some or the other kind of issues in the due course of business. As mentioned in the above given table and chart, technology and credit policy are the biggest factors and most of the MSMEs are facing these issues in the due course of their business. Other factors affecting the business are length of manufacturing cycle and random or irratic (calamities).

**Conclusion:**

For any of the given business including MSME, working capital is just like a life line that is providing boost to the business on daily basis. It is more important in case of MSME because the process of sales and marketing activities are not at par with those of market giants and it takes time to sell the products or render the services then on the other hand the MSME cannot stop or hold the regular manufacturing process, so there is a gap in the flow of funds in upward direction, in such a case, to cover the gap working capital is required. As far as Madhya Pradesh is concerned, most of the MSMEs are agriculture based hence there is always a fear of natural calamities and crop based hurdles and other kind of random variations like season, rainfall, distribution, etc. all these factors collectively impact the flow and availability of working capital

in the business. Then on the other hand, it is clear from the analysis that the number of Micro

enterprises is maximum, this is because of the reason that in Madhya Pradesh the establishment of MSME has not reached its maturity stage and is still in growth stage. After the announcement of government schemes related to MSME, every year, a new set of MSMEs is registered.



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