

## **Financial Distress in Micro Small & Medium Enterprises: Special Reference to Indian Tour & Travel Companies**

**AMAR SINGH**

Asst. Professor, Commerce, Graphic Era Hill University, Dehradun Uttarakhand  
India 248002, [asingh@gehu.ac.in](mailto:asingh@gehu.ac.in)

### **Abstract**

In India Tourism related MSMEs are liable to get the facilities like friendly banking services, easy finances, wide coverage of insurance, erosion of financial intermediaries, etc. This will help the tourism related MSMEs to flourish and prosper in the country. As of now, there are a number of facilities provided to new MSMEs but still there is a scope to facilitate the existing MSMEs in the country, like providing them with appropriate credit facilities, tax holidays, etc. so that they can directly contribute to the economic development of the country.

This present study will evaluate the finance and credit related issues of MSMEs, especially in case of the tourism. This study is based on primary data and the researcher has used ANOVA test to verify the hypothesis.

**Keywords:** MSME, Credit and Financial Issue

### **Introduction :**

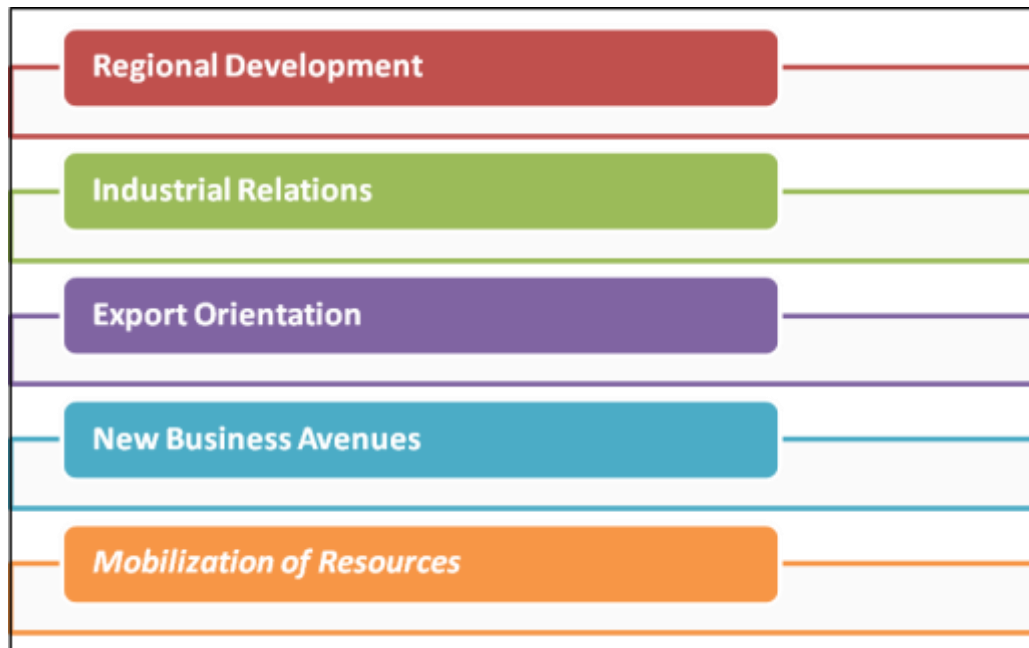
There are a number of companies that are working at different levels and many people who have some or the other kind of skills and are able to establish a business of their own but they were either overpowered by the big companies in the same domain or the intermediaries take most of the profit from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

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 than 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.

**Some Related Roles are as follows:**

***Role in Regional development***

Most of the MSME in India are in the process of using locally available resources and by this way many of the local vendors and suppliers get an opportunity of business and in turn this process also give a boost to the overall development of the region.



**Figure 1: Role of MSME**

### ***Improved Industrial Relation***

In any corner of the world, if there are industries then there is an industrial dispute, but in case of MSME instances of industrial disputes are minimum. Then whatever disputes arises are well settled by the MSMEs, as a matter of fact there are no such cases where collective bargaining has taken place.

### ***Export Orientation***

MSMEs are able to bring a lot of foreign exchange to India and contribute to the overall capital of the country. The decorum of free economy has given all the liberties to MSMEs, that they can expand their markets to international fronts.

### ***New Business Avenues***

Today the MSMEs are doing business in a new style as they use to registered for new business lines in the form to innovative products and services. The products and services rose at this level use to boost the morale of entrepreneurs and the employees that are working along.

### ***Mobilization of Resources***

In order to mobilize the capital, government agencies are giving all types of permissions and assistance to the respective MSMEs in all parts of the country and motivating the entrepreneurs with schemes of easy credit and tax holidays.

## **Literature Review**

**Report on Financial Architecture of MSMEs (2017)** depicted that the MSMEs are still in the infancy stage, as far as India is concerned and they are liable to get the facilities like friendly banking services, easy finances, wide coverage of insurance, erosion of financial intermediaries, etc. This will help the MSMEs to flourish and prosper in the country. As of now, there are a number of facilities provided to new MSMEs but still there is a scope to facilitate the existing MSMEs in the country so that they can directly contribute to the economic development of the country.

**MSME Annual Report (2015)** depicted that as far as MSMEs are concerned, they incorporate in clusters i.e. like carpet business, software development, tourism service, etc. and the respective growth is also evaluated in clusters. In some of the agriculture rich states on India i.e. Uttar Pradesh, Punjab, Madhya Pradesh, Karnatka, etc., growth of MSME can be seen in multifold manner and in other states the related MSMEs are still thriving growth options. MSMEs are also affected by finance related issues and even global financial crisis. Then the report also states that the growth of MSMEs in India is slow due to the governance structure of the same.

**Andy R et al (2014)** conducted a study on the development of MSME in the country and also evaluated the respective problems of the same. The findings of the study stated that finance is one of the biggest problems in development of MSMEs in the country. Rather there are some internal problems as well like, governance issues, skill and viability related issues, etc. The government and regulating agencies should keep the track of the same and review their policies in conjugation of the same.

**Mathur et al (2013)** conducted a study on the challenges of MSMEs in the country and the findings of the study stated that the policy framework is the key to success of overall MSME sector in the country. If certain changes are brought about in the governing bodies, regulation

steps and cluster formation then the growth of MSMEs in the country can be ensured. The present growth rate of 21% per annum can be raised to 35% in the next five years.

**Objective**

The objective this study is to evaluate the finance related problems of MSMES in the country with special reference to tourism sector. This study will also suggest ways and means to deal with the emerging issues.

**Research Methodology**

The secondary data is imperative for the formation of research objectives and hypothesis, in this present study secondary data is used in the same manner and rest of the progress is based on primary data. The universe of the study is all the MSMEs registered as tourism and travel operators in India and the focus is Madhya Pradesh. The researcher has considered 20 such tourism related MSMEs and contacted them personally by using a detailed questionnaire. The researcher has tried to contact all the tourism related MSMEs in the state but some of them are either not willing to involve in the study or are not available at the moment.

**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.

**Tools of study**

Percentages, Averages, trends, etc.

**Software used**

MS Excel

SPSS Ver. 20.0

**Data Analysis and Interpretation**

**Results of ANOVA (One Way) Test**

<b>On the basis of Incorporation</b>	F	Sign
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Appropriate amount of credit is not available as and when required	4.227	<b>3.826</b>
Margin money is a big issue	2.573	<b>1.029</b>
Private financial institutions are not supportive	7.882	<b>6.409</b>
Security of business is diminishing due to high competition	.465	.078
Interest rates are high	1.784	.647
Re-payment schedule is not favorable	3.548	<b>2.661</b>
Generally the disbursement is delayed	1.261	<b>.917</b>
MSMEs are not considered favorable for credit worthiness	2.016	.814
Capital from equity is far reaching objective	1.595	.004
Working Capital management is weak	2.371	.070
Sources of fixed capital are limited	4.337	<b>1.621</b>
<b>On the basis of turnover</b>		
Appropriate amount of credit is not available as and when required	2.194	.815
Margin money is a big issue	.234	<b>.011</b>
Private financial institutions are not supportive	.380	.017
Security of business is diminishing due to high competition	1.520	.202
Interest rates are high	2.117	3.183
Re-payment schedule is not favorable	.943	.219
Generally the disbursement is delayed	2.345	.017
MSMEs are not considered favorable for credit worthiness	.316	1.814
Capital from equity is far reaching objective	1.901	.052
Working Capital management is weak	4.071	3.153
Sources of fixed capital are limited	2.301	1.301
<b>On the Basis of credit requirement</b>		
Appropriate amount of credit is not available as and when required	3.417	.083
Margin money is a big issue	2.043	1.269
Private financial institutions are not supportive	1.045	.716
Security of business is diminishing due to high competition	1.006	.614
Interest rates are high	.801	.052
Re-payment schedule is not favorable	2.547	2.072
Generally the disbursement is delayed	0.987	0.019
MSMEs are not considered favorable for credit worthiness	1.784	.647
Capital from equity is far reaching objective	.548	<b>.661</b>
Working Capital management is weak	1.261	<b>.917</b>
Sources of fixed capital are limited	2.016	.814
<b>On the Basis of Market Competition</b>		

Appropriate amount of credit is not available as and when required	1.082	.970
Margin money is a big issue	2.360	.782
Private financial institutions are not supportive	1.355	.956
Security of business is diminishing due to high competition	2.660	<b>3.077</b>
Interest rates are high	3.313	2.516
Re-payment schedule is not favorable	.503	<b>.080</b>
Generally the disbursement is delayed	.445	1.017
MSMEs are not considered favorable for credit worthiness	.316	.814
Capital from equity is far reaching objective	1.021	.071
Working Capital management is weak	2.173	1.070
Sources of fixed capital are limited	1.459	.562

### Interpretation

The researcher has considered four demographic variable related to selected MSMEs and tested them against some of the independent variables related to financial components, these variables are as follows:

- Time of Incorporation of the firm
- Years of market operation
- Turnover of the MSME
- Credit requirement
- Market scenario of competition

The ANOVA test results stated that in most of the cases the respondents were favorable to the point in question and stated that the credit related situation in the field of tourism is not good enough, as they have to thrive for small credits and generally they have to take to obligation of local money lender and that too on high interest rates. Then again on the basis of turnover of business, some of the respondents stated that most of the MSMEs are not considered as credit worthy as their turnover is not favorable, most of the financial institutions are favoring the MSMEs that are having turnover of 5 crores or more.

Then on the basis of market competition, some of the respondents stated that there is fierce competition in the market and in order to remain stable in the market it is required that the



agency should have proper monetary resources to meet the competition, then on the other hand cost related benefits are eradicated as most of the operators are playing on low cost. This scenario is not favorable for new entrants, it is not so that the market is saturated but then again entry cost is high and in order to remain in the market one has to keep the costs low and meet the credit related requirements.

Then on the basis of turnover and years of incorporation, it can be seen that the level of variation is not high so it can be said that market conditions are favorable for the respondents who operating in the market for more than 5 years, as per the credit agencies this much time period is sufficient for the evaluation of credit worthiness and even they receive certain benefits from the side of government regulating agencies.

### **Result**

On the basis of above discussion and analysis it can be said that the tourism and travel related MSMEs are facing finance and credit related problems and the respective reasons behind these problems are not only external but some of the issues of internal as well.

### **Conclusion**

In the present scenario, MSMEs are considered as the growth engines of Indian economy and the respective government agencies are taking all the precautions to appraise the growth of MSMEs in the country. The regulatory and functional framework of MSMEs is very user friendly and the respective agencies are more than interested to invite private capital in this concern. As far as MSMEs related to tourism are concerned, government is considering them as the drivers of credit creation, Forex, market sustainability, etc. then on the other hand the picture is different at the level operations. The researcher has conducted this present study in Madhya Pradesh and tried to normalize the result with all the tourism related MSMEs in the country. As per the findings of the study it is clear that most of the selected MSMEs are facing the finance and credit related issues. Credit worthiness and cost related problem are major issues in the process. As per the operators, after 2006 the scenario has changed a bit and the consecutive reforms have

appreciated the business performance for MSMEs but still there is a large scope for correction and amendments in this area.

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