

An Analysis of Indian Overseas Bank's Case Study on the Conceptual Framework of Lending Technologies for Financing Small and Medium-Sized Businesses

Abstract:

This study is to examine the Indian Overseas Bank's credit facilities to MSMEs with various financing options available and also examine the constraints in credit facilities. The total size of sample respondents was 90, which comprised of seventy-one manufacturing enterprises and nineteen service enterprise respondents. Statistical tools such as Percentage analysis, Chi-square Test, factor analysis was used to analyse the data. The study revealed that, among manufacturing enterprise and service enterprise respondents, majority (67.60 per cent and 57.89 per cent) of them were small entrepreneurs. Most of them were in middle age group (37.78 per cent). About 40 per cent of them were graduates and 78.89 per cent of them were sole proprietors. There was a significant association between type of business and age group, form of organization and business experience. About 98 per cent of respondents were aware about term loan of which 65.90 per cent of them availed loan. About 91 per cent of the respondents were aware of working capital finance of which 70.73 per cent of them availed loan. For most of the respondents bank officers (67.77 per cent) were main source of information. For many of them, the source of finance (64.44 per cent) was IOB loan. They were willing to avail loan amount of Rs. 1-10 lakhs for two years. Maximum respondents repaid 25-50 per cent of loan. Difficulties faced by the customers in availing credit facilities were grouped under seven factors. Top five ranks were given to the statements such as; network of bank branches is not good, no wide range of services, non-availability of timely rehabilitation finance, lack of dissemination of information and lack of MSME loan processing centres at key locations. Majority of the respondents suggested for specialized branches of MSMEs (40 per cent).

Key words : Bank credit facilities, entrepreneurship, micro enterprise, small enterprise medium enterprise.

1.Introduction

The banking sector is the most important segment of the financial system in developing countries like India. A well-functioning and efficient financial system is important for promoting rapid industrial development in a market economy. The provision of bank loan stimulates demand for industrial goods. The banking sector in India has remained regulated after nationalisation of the banks in 1969. It helped to provide an initiate thrust on the development of banking, especially in rural areas and increased access to credit to agriculture, small scale industries and weaker sections of the society. Finally, it directed to priority lending at concessional rate of interest to the most important segments of the society, accelerate demand for bank loan from potential borrowers. Thus the more efficient financial system of an economy, the higher would be the investment, output, employment and growth of the economy.

Banks play an important role in the modern economy by providing necessary credit to different sectors of the economy. In recent years, banks have been assigned the responsibility of financial inclusion otherwise called priority sectors. The word priority sector is used for those segments of the Indian economy, whose development is considered essential for the economic growth; without providing necessary assistance to these sectors, it will not be possible to accelerate the growth of the economy. In India, agriculture, small scale industries and exports are identified as the priority sectors. This lending implies priority in the allocation of funds at concessional rate of interest, margins etc., as units identified as priority sectors (Reddy, 2006).

Micro, Small and Medium Enterprise (MSME)

MSME plays a pivotal role in the economic and social development of the country. The MSME is a sector that nurtures entrepreneurship, often driven by individual creativity and innovation. This sector contributes eight per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of exports. The MSMEs are providing employment to about 60 million persons through 26 million enterprises. The labour to capital ratio in MSMEs and the overall growth in

the MSME sector is much higher than large scale industries. The geographic distribution of the MSMEs is also more even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion.

The MSME sector in India is highly heterogeneous in nature in terms of the size of the enterprises, variety of products, services and the levels of technology. While one end of the MSME spectrum is highly innovative and high growth enterprises, more than 94 per cent of MSMEs are unregistered, with a large number of established enterprises in the informal or unorganised sector. Besides, the growth potential of the sector and its critical role in the manufacturing and value chains, heterogeneity and unorganised nature of the Indian MSMEs are important aspects that need to be factorised into policy making and programme implementation (Annual report of MSME, 2008-09).

The Indian MSME Sector: An Overview

As per the quick estimates of 4th All-India Census of MSMEs (2006-07), the number of enterprises was estimated to be about 26 million entrepreneurs, of this 1.5 million are in the registered segment and the remaining are in the unregistered segment. The state-wise distribution of MSMEs show that more than 55 per cent of these enterprises are in six states, viz., Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka. Further, about 7 per cent of MSMEs are owned by women and more than 94 per cent of the MSMEs are proprietorships or partnerships.

MSMEs in the country manufacture over 6,000 products. Some of the major sub-sectors in terms of manufacturing output are food products (18.97 per cent), textiles and readymade garments (14.05 per cent), basic metals (8.81 per cent) chemical and its products (7.55 per cent), metal products (7.52 per cent), machinery and equipments (6.35 per cent), transport equipments (4.5 per cent), rubber and plastic products (3.9 per cent), furniture (2.62 per cent), paper and paper products (2.03 per cent) and leather and leather products (1.98 per cent) (Report of Prime Minister's Task Force on Micro, Small and Medium enterprises, 2010).

In view of the MSME sector's role in the economic and social development of the country, the Government has emphasized importance on its growth and

development. It has taken various initiatives from time to time which has facilitated the sector's growth. Some of the recent measures include enactment of the Micro, Small and Medium Enterprises Development Act, 2006, amendments to the Khadi and Village Industries Commission Act, and announcement of a package for promotion of Micro and Small Enterprises (MSEs). Government is also launching innovative schemes under National Manufacturing Competitiveness Programme (NMCP) and Prime Minister's Employment Generation Programme (PMEGP). Of all the constraints faced by the MSMEs, non-availability of timely and adequate credit at reasonable interest rates are the most critical problems. One of the major causes for low availability of bank finance to this sector is the high-risk perception of the banks in lending to MSMEs and consequent insistence on collaterals which are not easily available with these enterprises. The problem is more serious for micro enterprises requiring small loans and the first-generation entrepreneurs. In spite of these problems public sector banks are financing liberally compared to private and other foreign banks. Since IOB has a significant proportion of MSMEs in Kuruchi and Ganapathy branch of Coimbatore, they were in need of a survey to analyse and improve their credit facilities to MSMEs. Hence this study is to know how a public sector bank offers credit facilities to MSMEs.

2. MATERIALS AND METHODS

An appropriate research design is essential to analyze the problems systematically and to find the solutions for the same. A brief description of the research methodology adopted in selection of study area, sample respondents, method of collection of data and tools of analysis used are discussed and presented below.

Indian Overseas Bank is a leading public sector bank and it is successfully financing MSMEs, through credit support for business restructuring, modernization, expansion, diversification and technological upgradation as may be required from time to time. The present study was conducted to examine the Indian Overseas Bank's activities to approach MSMEs with various financing options available and also to examine the constraints in credit facilities to them.

Sampling

Random sampling from a finite population refers to that method of sample selection which gives each possible sample combination an equal probability of being picked up and each item in the entire population to have an equal chance of being included in the sample (Kothari, 2004).

Random sampling technique was used to select the sample MSMEs from the list of existing MSME customers of Indian Overseas Bank (IOB).

Selection of Sample Respondents

Indian Overseas Bank, Coimbatore district, identified list of MSME customers from the Ganapathy and Kuruchi branches. For the present study, area and sample size was suggested by the IOB. Considering the objectives of the study, totally 90 customers were selected in the study area.

Method of Data Collection

For the purpose of research, data were collected from the customers of the two IOB branches considered for the study by personal interview method. The survey schedule (questionnaire) used for interviewing the respondents contains details on the basic characteristics of sample customers and also questions related to enterprise status, credit facilities, credit constraints and their suggestions. The secondary data was collected from the records of the Indian Overseas Bank regarding the different credit facilities and schemes implemented over years and also from government institutes, government publications, annual reports, books, journals and websites etc.

Tools

The data collected was coded, processed, classified and organized into tables in order to facilitate easy and accurate analysis and from which meaningful inferences could be drawn. The tools used for the study were

- a) Conventional Analysis
- b) Chi-Square Test
- c) Factor Analysis

If the calculated value was greater than the table value, it was concluded that there had been a significant association between the attributes.

3.RESULTS AND DISCUSSION

Demographic Characteristics of Respondents

In the study area, majority of the respondents (37.78 per cent) belonged to the age group of 31-40 years followed by 31.11 per cent in the age group of 41-50 years and 20 per cent of respondents of age group 30 years and below.

Table 1 Age distribution of the respondents

S.No	Age (in years)	Number of Respondents	Percentage
1	Less than or equal to 30	18	20.00
2	31 – 40	34	37.78
3	41 – 50	28	31.11
4	More than or equal to 50	10	11.11
Total		90	100.00

Among the total respondents, 95.55 per cent were male and in which 86 per cent were married. Out of 90 respondents 40 per cent of them were graduates followed by 23 per cent were diploma holders, 20 per cent of them completed their higher secondary education. Almost all respondents were well educated and the possibilities of exposing them to the credit formalities of the bank would be easy.

Among 90 respondents, 78.89 per cent of them were having sole proprietorship form of organization, followed by 18.89 per cent of respondents having partnership firm and 2.22 per cent having private limited forms of business which were registered under Companies Act. Hence it is obvious that most of the respondents were under sole proprietorship and independent in taking decision about their credit requirements.

Among 71 manufacturing enterprises, 67.60 per cent were small followed by 16.90 per cent micro level-I, 8.45 per cent micro level-II and 7.05 per cent medium enterprise respondents. Out of 19 service enterprises about 58 per cent of them

were small followed by 21.06 per cent micro level-I, 15.78 per cent micro level-II and

5.27 per cent medium enterprise respondents. It is clear that most of the respondents were having small business enterprises. Many of the respondents started business 2-5 years ago (40 per cent) with 2-5 years' experience followed by 5-10 years of business establishment and experience in business. This shows that respondents were experienced and well known about the business requirements.

Table 2. Type of business

S.No	Type of Business	Manufacturing	Service
1	Micro level – I	6 (8.45)	4 (21.06)
2	Micro Level – II	12 (16.90)	3 (15.78)
3	Small Enterprise	48 (67.60)	11 (57.89)
4	Medium Enterprise	5 (7.05)	1 (5.27)
Total		71 (100.00)	19 (100.00)

(Figures in parentheses are percentage to the total)

An appreciable number of the respondents were availing loan only once (67.77 per cent) followed by 12.23 per cent of the respondents availed loan for more than once, which shows that most of the respondents are new to the bank in availing credit facilities.

About 37 per cent of the respondents had account in other banks and of which only 6.06 per cent availed loan from other banks but all of them have repaid the loan promptly.

Association between Demographic Characteristics

Maximum number of micro level-I enterprise respondents (50 per cent) were of the age group of 30 years and below. Majority of micro level-II and small enterprise respondents (40 per cent and 41 per cent) belonged to the age group of 31-40 years.

Medium enterprise respondents were evenly distributed below 30 years and above 50 years age groups. High proportion of micro level-I, micro level-II, small and medium enterprise respondents had UG degree education and they were sole proprietors having experience of 2-5 years in their business.

There was association between type of business and age group, form of organization and business experience which were having chi-square values of 20.11, 32.78, and 21.37 respectively. But there was no association between nature of business and educational status.

Table 3. Type of business and age group

S.No	Type of Business	Age Group				Total
		Less than or Equal to 30	31-40	41-50	More than or Equal to 50	
1	Micro level-I	5 (50.00)	3 (30.00)	0 (0)	2 (20.00)	10
2	Micro level-II	5 (33.33)	6 (40.00)	4 (26.67)	0 (0)	15
3	Small Enterprise	6 (10.17)	24 (40.67)	23 (38.99)	6 (10.17)	59
4	Medium Enterprise	2 (33.34)	1 (16.66)	1 (16.66)	2 (33.34)	6

(Figures in parenthesis are percentage to the total)

Awareness about Various Business Credit Facilities

Out of total 90 respondents, majority of them were aware about term loans (97.77 per cent), of which 65.90 per cent of them availed the loan. Among the respondents, 91 per cent were aware of working capital finance of which only 71 per cent availed loan. For most of the respondents, bank officers (67.77 per cent) were the main source of information followed by newspaper (14.44 per cent). DIC was also one of the sources of information for the respondents who were under the PMRY scheme. Through this scheme 6.67 per cent of the respondents became aware of business credit facilities in IOB.

Credit Requirements of the Respondents

For majority of the respondents, source of finance for initial investment and working capital was IOB. Most of them availed loan upto Rs. 10 lakhs for initial investment (79.32 per cent) as well as Rs. 10 lakhs for working capital (43.10 per cent), 1-2 years back. Of this 25-50 per cent of the respondents repaid both initial investment and working capital amount. It shows that they were sincere in repaying the loans and after repaying they were also interested in availing additional credit facilities from IOB.

Table 4. Amount of loan availed by the beneficiaries

S.No	Amount of Loan (in Rs)	Initial Investment	Working Capital
1	Less than 1 lakh	4 (6.89)	6 (10.35)
2	1 – 10 lakhs	46 (79.32)	25 (43.10)
3	10 – 50 lakhs	8 (13.79)	20 (34.48)
4	More than 50 lakhs	0 (0)	7 (12.07)
Total		58 (100.00)	58 (100.00)

(Figures in parentheses are percentage to total)

In manufacturing enterprises, 100 per cent of micro level-I, 83.33 per cent of micro level-II, 83.33 per cent of small and 60 per cent of medium enterprise respondents were willing to expand their business. Among these respondents, most of them were willing to avail loan. Majority of them were willing to avail working capital loan. In service enterprises, 100 per cent of micro level-I, 60.66 per cent of micro level-II, 90.90 per cent of small and 100 per cent of medium enterprise respondents were willing to expand their business. Among these respondents, most of them were willing to avail loan except one from small enterprise. Whereas most of small enterprise respondents of manufacturing enterprise were willing to avail Rs. 10-50 lakhs (61.53 per cent) amount of loan.

Difficulties Faced by MSME Respondents

The factor analysis of 25 key issues on difficulties in availing credit facilities was reduced to seven factors. Among these factors, ranks were given to 13 statements.

Top five ranks were given to the statements such as network of bank branches is not good, no wide range of services, non-availability of timely rehabilitation finance, lack of dissemination of information and lack of MSME loan processing centres at key locations with the component loadings of 0.854, 0.745, 0.740 and 0.799 respectively. From this analysis it was clear that respondents were not satisfied with bank branches in getting proper information about MSME credit facilities.

Table 5. Rotated component matrix

S.No	Notations	Factor							Communalities
		1	2	3	4	5	6	7	
1	NTRF	0.745	0.315	0.121	-0.010	0.295	-0.125	-0.097	0.782
2	NWRS	0.820	-0.118	0.163	0.259	-0.069	0.163	0.071	0.816
3	LDI	0.740	0.053	0.192	0.310	-0.005	0.043	0.352	0.808
4	NBNG	0.854	0.025	0.110	0.046	0.092	-0.045	-0.033	0.755
5	ABMC	-0.013	0.747	-0.054	0.133	0.240	0.127	-0.001	0.653
6	LSBM	-0.006	0.563	0.466	-0.089	0.077	-0.049	0.062	0.554
7	CHMA	0.018	0.723	0.339	0.212	-0.123	-0.026	0.057	0.702
8	LMLPK	0.088	0.799	-0.073	0.081	-0.102	-0.180	0.151	0.724
9	DMCS	0.136	0.006	0.849	-0.145	0.040	0.252	-0.044	0.827
10	HIR	0.471	0.362	0.448	0.092	-0.016	0.007	-0.134	0.580
11	LDP	0.152	0.030	0.819	0.199	0.139	-0.161	0.132	0.796
12	HSC	0.204	0.328	0.349	0.528	-0.162	0.316	-0.100	0.686
13	DCS5	0.156	0.123	-0.081	0.830	0.139	-0.012	0.196	0.792
14	ACHP	-0.058	0.421	0.108	-0.034	0.413	0.565	0.210	0.727
15	FTLB	0.605	0.020	0.047	-0.238	0.457	0.015	-0.066	0.638

16	LATS	0.055	-0.125	0.313	0.127	0.747	-0.037	0.029	0.693
S.No	Notations	Factor							Communalities
		1	2	3	4	5	6	7	
17	PRCR	0.315	-0.046	-0.142	0.050	0.043	0.442	0.458	0.531
18	PCUM	0.011	0.458	-0.057	0.107	0.608	0.147	0.152	0.639
19	LGFXS	0.169	0.451	0.254	0.557	0.270	0.065	-0.196	0.728
20	LAT	0.640	-0.093	0.015	0.252	-0.091	0.237	-0.424	0.726
21	DASL	0.138	0.159	0.671	0.109	0.175	0.188	0.321	0.676
22	ICSR	0.105	-0.129	0.147	0.091	-0.052	0.847	-0.035	0.778
23	VSRP	0.556	0.101	0.069	0.446	-0.062	0.116	0.384	0.687
24	RMVD	0.673	-0.032	-0.018	-0.037	-0.435	0.237	0.118	0.715
25	NISBPC	-0.054	0.155	0.249	0.100	0.053	0.011	0.721	0.621

Suggestions Given by the Respondents

Large number of the respondents suggested for specialized branches of MSMEs (40 per cent) and 12.22 per cent of them had given following suggestions for improvement. Those suggestions are extension of repayment period, quick sanctioning of loans, reduction in margin amount, information on foreign exchange service etc. Nearly 23 per cent of the respondents were satisfied with IOB credit facilities.

4. Conclusion

In the present study an appreciate number of respondents in manufacturing (67.60 per cent) and service enterprises (57.89) were small entrepreneurs. This shows that investment in plant and machinery in study area was significantly higher. There was a significant association between type of business and age, form of organization and business experience because investment was high in middle aged, sole proprietors who were having good experience in business. The maximum number of respondents were aware about term loan (97.77 per cent) and working capital finance (91.11 per cent). Recent times technology is moving forward and customers are willing to expand their business. Among the total respondents 56 per cent of them were willing to expand and avail loan amount of Rs. 1-10 lakhs for two

years. In difficulties faced while availing credit facilities, no proper networking of MSME bank branches has been ranked first followed by no wide range of services, non-availability of timely rehabilitation finance, lack of dissemination of information and lack of MSME loan processing centres at key locations. Respondents suggested that there should be specialized branches for MSME entrepreneurs for easy accessibility.

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