A Study on the Health of Micro & Small units

TELANGANA INDUSTRIAL HEALTH CLINIC LTD

T+HC

PARTNERING INSTITUTIONS

Telangana Industrial Health Clinic Ltd.

Centre for Economic and Social Studies

SECTION -1

FOREWORD

This joint research study of Telangana Industrial Health Clinic Ltd and Centre for Economic & Social Studies reflects the urge on the part of the former to test its waters in their five-year journey of revival and restructuring of manufacturing micro and small enterprises in the state.

The area chosen, namely, Cherlapally Industrial Area has five phases in its spread and they are the quint essence of manufacturing in Telangana, save exceptions. The period chosen for the study (2019-22) reflects the years of growth, pandemic, and the post-pandemic revival. This period also saw a change in the definition of the MSMEs, effective June 2020, introducing the twin criteria of investment and turnover.

The focus of the study is naturally on the factors impacting the supply chain management of these fledgeling enterprises in manufacturing sector where their dependency levels are uniquely placed in terms of low levels of investment, capacity utilization, coping mechanisms with the everchanging market requirements, inadequate and untimely access to formal credit, and manpower issues.

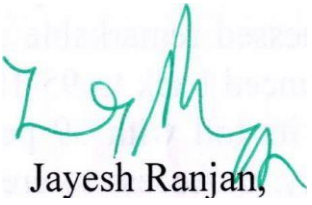
The Key Take-Aways of the Study

The key take-aways of the study, as I could see, are: l. The manufacturing micro enterprises suffered issues more from the supply side than from the demand side. 2. Shortage of working capital to an extent of Rs.130cr led the units to cut their labour costs and this led to manpower shortage of the order of 1533 persons. 3. While several states in the country have been voicing against severe shortages and outages in energy sector, Telangana industrialists had no grievance either on power shortages or outages or labour unrest. 4. It is also surprising that some of the government schemes like Atma Nirbhar Bharat Abhiyan and Credit Guarantee Trust for MSEs had poor offtake and in the case of the later, one-third of the enterprises expressed ignorance of the scheme. 5. Post pandemic witnessed remarkable recovery in 27 percent of the surveyed enterprises bounced back to 95-100 percent capacity utilization although pandemic had its toll with 59 percent enterprises utilizing less than 50 percent capacity. 6. Access to credit continues to be an issue as most of the units preferred high-cost and timely credit from the private sector banks and NBFCs instead of public sector banks citing procedural delays and collateral insistence as main reasons.

It is heartening to note that entrepreneurs having a greater number of years of experience doubled their investment. (Entrepreneurs with 2-5 years of experience increased investment by 38.5 percent while above 3 Oyears of experience increased by 60 percent, post-pandemic).

Among the prominent recommendations, closer to implementation are: 1. Shop-floor training (peripatetic training) in preference to the institutional training; 2. Re-skilling and up-skilling the labour at 2-3 days of local level workshops at the District Industries Centres or the nearest Polytechnic Colleges; 3. Industry Associations at the district, industrial park, and cluster levels to actively promote the government schemes through awareness workshops; 4. TIHCL should be more proactive in addressing the shortage of working capital through innovative schemes and co-lending approaches; and 5. Industry pilgrimages to be funded by the state government to institutions like the T-Works, TASK, RICH and IllTs that would help innovation and productivity. Depending on the response, such pilgrimages can be extended to other states for crossfertilization of ideas and enhance the competitiveness of MSEs.

While Telangana State is in the front in creating a specialised institution like the Telangana Industrial Health Clinic Ltd (TIHCL), the support from the other financial institutions, other stakeholders, and the District Industries Centers, servicing institutions in the energy and revenue sectors plays an important part as financial support is just one of the aspects that contribute to the stress. Like Palle Dawakhanas and Basti Dawakhanas (primary health centres in villages and towns), TIHCL should be spreading its wings to the other districts and industrial estates/parks/IALAs, if adequate equity and grant support becomes available through budgetary sources or through social equity funding. Such studies in industry-intensive districts periodically done have potential to come up with useful policy suggestions. I must compliment both the TIHCL and CESS for taking up this study at a crucial juncture, when large investments queuing into the state increasingly look for stable front-enders in their supply chains, namely, the MSMEs.



Jayesh Ranjan,

Principal Secretary (Industries & Commerce)

PREFACE

After a five-year journey, Telangana Industrial Health Clinic Ltd., (TIHCL) thought of looking in the mirror to re-envision itself on the strategic front. The Company started off primarily for revival and restructuring. The time has come to see the perceptions of the MSEs in the manufacturing sector and focus more on preventive and curative strategies as an aftermath to the release of stress. Change in gear happens when the car wants either to speed up or slow down its journey. TIHCL, notwithstanding the resource-crunch, decided to take the right gear after a sample study of the health of such industrial enterprises in Telangana.

The seeds for this study of industrial health of manufacturing sector in Telangana in a reflective sample area were, of course, sown in the first meeting in April 2022 between the Centre for Economic & Social Studies and Telangana Industrial Health Clinic, in which Professor E. Revathi - Director, Alivelu Kasturi, Pradeep Kamble – Centre for Economic and Social Studies (CESS), D. Suresh Kumar, the outgoing Managing Director, S. Venkateswarlu, Managing Director, B. Yerram Raju, Founder Director, U.V.V.L. Prasad – Chief Operating Officer, and M. Sukruthi Reddy, Vice President, Telangana Industrial Health Clinic Ltd., (TIHCL) participated. The actual proposal to the CESS is attached in Annexure -1.

The discussions considered Jeedimetla, Cherlapalli, Malkapur, Uppal industrial estate areas as possible candidates for the sample study, subject to availability of the number of investigators and internees forthe study and the cooperation of the respective Industry Associations. It has also been decided that a draft schedule would be sent by the TIHCL to CESS for consideration and modification and that the CESS would train the investigators on the contents and methodology to be followed by the investigating team.

After securing the letter of introduction for the conduct of the study with appropriate assurances regarding the confidentiality of the data and information collected, from the Commissioner of Industries, the field study commenced in March 2023 in Cherlapalli Industrial Estate Area, where there has been willing cooperation to introduce the micro and small enterprises.

While 500 was the original size of the sample, willing response came forth only from 309 micro and small manufacturing enterprises in different sectors as described in the chapter on Methodology.

After the data has been collected, CESS, under the direction of Alivelu Kasturi, did the preliminary analysis. After the joint review of the outcome of the field study, the fields for analysis were decided between the three meetings that took place between the TIHCL and CESS. Both the institutions felt happy at the responses, analysis and outcomes of the study that form the essence of this Report. TIHCL, on its part, made a relentless pursuit with the industry association and the sample enterprises to ensurethe desired output.

We owe our gratitude in no small measure to the Commissioner of Industries, Government of Telangana for permitting us to carry out the Study and to the Cherlapally Industries Association office bearers who, despite their busy routine, introduced us to the sample industrial enterprises.

TIHCL acknowledges with grateful thanks, Prof. E. Revathi, Director, Associate Professor G. Alivelu, Project Director, CESS, and Assistant Professor, Pradeep Kamble for their excellent support against great odds amidst the pressures arising from a number of other studies they had to do in regard to the ICSSR, state, national, and international projects.

We owe a deep sense of gratitude to Jayesh Ranjan, I.A.S., Principal Secretary (Industries & Commerce and IT), Government of Telangana for agreeing to script the Foreword for the Report amidst intense official commitments. The staff of both the organizations have extended full support for the completion of the study and we are indeed thankful to them.

TIHCL thanks the following internees pursuing second year MBA at NALSAR University, Hyderabad for developing the case studies as part of this Report at very short notice after a visit to the respective units and detailed interviews with the entrepreneurs: 1. E. Rajat Krishna, 2. Emmadi Manish, 3. K. Sai Naveen Abhiram, and 4. Shivam Tarange.

The profiles of both the partnering institutions are provided in Annexure – 2.

S. Venkateswarlu	Dr. E. Revathi	Dr. B. Yerram Raju	Dr. Alivelu Kasturi
Managing Director, TIHCL	Director, CESS	Project Leader	Project Leader

Executive Summary

1. In the manufacturing supply chains, micro and small enterprises (MSEs) play a critical role. At the time of formation of Telangana nine years ago, the state inherited a system of shortages in power, water, and labour unrest. Main factors of production, land labour, capital and organisation in the enterprise ecosystem were craving for attention. Reserve Bank of India (RBI) and the Ministry of Micro, Small, and Medium Enterprises have time and again emphasised on the restructuring, revival, and recovery as the tripod on which the health of the enterprise system rested, the financial system did not match the requirements. Government of Telangana is the only state to realize that a robust investment climate required a healthy foundation in the micro and small enterprises front-ending the sustainable supply chains in manufacturing and that it required an alternate institutional mechanism resulting in the formation of Telangana Industrial Health Clinic Ltd., as non-deposit taking, non-systemic Non-Banking Finance Corporation under the RBI regulations in 2017. One of the mandates of the organisation is to periodically assess the health of the MSEs to ensure that no viable enterprise shuts its doors due to some stress or other. Following this mandate, it collaborated with the leading research organisation in the state, Centre for Economic and Social Studies (CESS) to investigate into the health of MSEs in Cherlapally Industrial Area.

2. Just like individuals, enterprises also face stress. If such stress is not diagnosed in time, it is very likely that the stress reflected in headache could end up in cancer. In a 2014 address to an Industry Chambers, the then RBI Governor Raghuram Rajan has succinctly summarised a few cardinal principles for dealing with stressed assets

   "1. Viability does not depend on the debt outstanding, but on economic value. Debt may have to be written down to correspond to what is viable.

   2. Complete projects that are viable even if it requires additional funds infusion.

   3. Don't throw good money after bad money simply because there is unreliable promise that debt becomes serviceable."

   3. The acknowledged problems common to small enterprises as a whole persisting for over four decades include: lack of demand, lack of access to finance, non-availability of raw material, inadequate and high-cost infrastructure, low capability for technological up-gradation – again for want of financial support, marketing, and meeting international quality standards and lack of information about several of these aspects. Information asymmetry and adverse selection stare at both the bankers and entrepreneurs in equal measure.

   4. The broad focus of present study is on the status of recovery of Small and Micro enterprises after witnessing severe shock during pandemic, current status of their business operation in terms of capacity utilization, challenges faced, delays in receivables and its implications, sources of finances and challenges in accessing formal finance, and government intervention like Atma Nirbhar Bharat Abhiyan Scheme.

5. Entrepreneur and Enterprise Characteristics

5.1 Education: About 67 per cent of the entrepreneurs have completed graduation and are above level of education, whereas about 32 per cent have attained below 12^{th} class level. About 48 per cent of entrepreneurs have obtained technical education like B. Tech, ITI, Diploma, BE, and so on.

In case of age of the enterprise (Table 2), about one fourth of them are below 5 years and 5 to 10 years of operation. About 48 per cent of enterprises have been in business for more than 10 years. Further, 95 per cent of enterprises have GST registration, about 81 per cent of them have registered under UAM and about 19 per cent under Udyam.

It has been noticed that the younger the entrepreneur, the more resilient (s)he is to stress and is most likely to improve their turnover, irrespective of their educational attainment (about 90 per cent). The proportion tends to reduce as the age of entrepreneurs increases (from 90 per cent to 58.3 per cent for age above 60 years). However, in the case of the age group of 35 to 45 years, 45 to 60 years, and above 60 years, entrepreneurs having post-graduation level of education tend to improve better than otherwise.

5.2 Turnover: 6.1% have an annual turnover of less than Rs.10lakhs. 23.3% have a turnover of Rs.10-50lakhs. 39.5% have a turnover of Rs.100-500 lakhs. 5.5% of enterprises have an annual turnover of Rs.500-1000 lakhs.

5.3 Employment Generation: On average, per enterprise full-time employment is 14 people. Within the manufacturing sector, Electrical sector has provided largest employment (27 workers) followed by Pharma (24 workers), Printing (17 workers), Textile and Solar (15 to 16 workers).

6. Issues and Challenges

6.1 Capacity Utilization

During 2019, only about 29 per cent of enterprises managed to utilize 95 to 100 per cent of installed production capacity. The situation became worse during 2020 due to adverse effects of the pandemic. About 59 per cent of enterprises utilized installed production capacity at and below 50 per cent. During 2021, there was a strong recovery reported wherein about 27 per cent of enterprises reported utilization to the tune of 95 to 100 per cent of installed production capacity.

Although during 2022, the capacity utilization is higher than the crisis period of 2020, it is still extremely low as only about 27 per cent of enterprises utilize 95 to 100 per cent of installed capacity.

The major reasons for under-utilization in the year 2022 are the pandemic effect (24.8 per cent), lack of demand (24.1 per cent), increased cost of raw material (116.7 per cent), and lack of finance (9.9 per cent). It is also important to note that 8 percent reported shortage of skilled manpower.

Entrepreneurs having a greater number of years of experience tend to improve their investment more than double (38.5 per cent of entrepreneurs in 2 to 5 years of experience as compared to 60.6 per cent in above 30 years of experience).

6.2 Recovery from the adverse shock caused by the pandemic

The study has considered average turnover for three pre-pandemic years (2017 to 2019) and compared it with pandemic and post-pandemic years (2020 to 2022).

During 2020, which is in the middle of the pandemic, the turnover of enterprises declined. About 44 per cent of enterprises reported lower turnover than the pre-pandemic level. About 56 per cent only managed to keep their business on par with the previous years. The industries that reported the major hit include Solar (66.7 per cent reported lower turnover than the pre-pandemic years), Agriculture (62.5 per cent), Engineering (53 per cent), and Construction (50 per cent).

During the year 2021, about 73 per cent of industries reported higher turnover than the pre-pandemic years. During 2022, the proportion reached 77 per cent. This indicates that although there is an increasing number of enterprises that recovered from the pandemic crisis, there are still about 23 per cent enterprises operating at below pre-pandemic level of turnover.

While 30% are yet to recover, construction and health sectors reported 100% recovery. Agriculture, Plastic, and Pharma enterprises reported more than 80 per cent of recovery in 2022.

6.3 Changes in investment over the period

22.3% of enterprises are operating at investment of less than Rs.10lakhs. 48.9 percent of enterprises mostly employ investment in the range of Rs. 10 lakhs to Rs. 1 crore. Only 8.1 percent of enterprises operate with above Rs. 5 crores of investment.

While all the units surveyed have been in operation for the last three years, about 6 per cent of enterprises have reduced their investment, and a similar proportion remained at the same level, 57% of them have more than doubled their initial investment. This implies that the majority of enterprises are doing well in business.

6.4 Delayed Payments

It has been noticed that in all cases where the turnover crossed Rs.100 lakhs, the delays ranged from 60 to 120 days. These delays occurred more from the public as well as private firms. Enterprises with low turnover used to manage through rotation of debt for periods ranging from 15 to 30 days. About 38 per cent of them resorted to borrowings from the informal sources and about 18 per cent from the formal sources.

The entrepreneurs have adopted various coping strategies to deal with delays in payments for running the business. About 38 per cent of them resorted to borrowings from the informal sources and about 18 per cent from the formal sources.

The study has further investigated the job loss due to shortage of working capital due to delayed payments and increased prices of raw materials. The total shortage of working capital faced by these enterprises is estimated at Rs. 130.08 crores. The entrepreneurs reported that they would have employed 1,533 additional workers had they got additional working capital.

Banks were reported to be unhelpful in meeting the working capital requirements in 32 percent of the enterprises and even where they provided, it was fraught with delays. This factor also led to underselling their products (less than the cost of production as the cost of storage is felt higher than disposing at the lower price). Duplicate brands and new enterprises with the same brand of products has increased unhealthy competition.

While 68% of the enterprises had formal finance, it is more from the private sector banks and NBFCs than PSBs. Those that were with the PSBs also shifted to the private sector banks because of the procedural delays in sanctioning the credit facility and delays in disbursement, even where it was sanctioned within a reasonable time.

While only 6% (19 enterprises) were declared NPAs, 17 were proceeded against under the SARFAESI Act. At SMA-2 level, another 6% were settled under the one-time settlement process.

6.5 Atma Nirbhar Bharat Abhiyan Scheme

Only 27% of the enterprises were provided the facility of which 89% were provided moratorium of one year while 84% had the additional 20% working capital. 54% of those who did not avail expressed ignorance of the scheme. This situation indicates that enough awareness was not created both by the banks and industry associations.

6.6 CGTMSE

While only 7% of the enterprises availed the scheme, 33 percent expressed ignorance of the scheme.

6.7 Principal Recommendations – Category-wise

6.7.1 Enterprises/Entrepreneurs

1.1. Enterprises should form into clusters either geographically or product-wise to gain advantages of agglomeration. This would enable them to order for raw materials in bulk and for participation in tenders that limit either investment or turnover as a binding criterion. (4.3)
1.2. Digitization of enterprises help in efficient supply chain management. (4.5.2)
1.3. Enterprises should strive to diversify their customer-base spatially on a continual basis. (6)
1.4. Competition helps enterprises to enhance their product quality and employ cost reduction strategies. (7)
1.5. Co-branding is a worthwhile pursuit to combat brand competition effectively. (7.2)
1.6. Diversification of markets and changing their product mix would drive away their fear of competition. (7.3)

6.7.2 Skilled manpower

2.1 Mismatch between enterprise requirement and supply of trained labour can be overcome in (a) through engaging peripatetic teams; (b) Common Facility Centres should conduct short 2-3 day certification courses for welders, plumbers, carpenters, machining, etc., with the help of both the state

government institutions – polytechnics, ITIs, Skill Development Centres etc., and government of India institutions like ni-msme, MSME-DFO, NSIC, CITD etc. (4)

6.7.3 State Government

6.7.3.1 Most enterprises expressed the need for coordination in the entire ecosystem of MSMEs: Discoms, GST authorities, Municipal Authorities, Industry Associations, IALAs etc. Hence, they should be brought to a single table to discuss the issues at the district level, industrial park level, and industrial estate level. (5.1)

6.7.3.2 Capital incentive structure should be linked to employment creation and sustainability. (5.2)

6.7.3.3 Production based incentives help working capital efficiency and hence should be released at frequent intervals as a cash-back system to enhance cost competitiveness. (5.2.2)

6.7.3.4 State Government should sponsor industrial pilgrimages to T-Works, TASK, RICH, IIITs on a monthly basis from the districts and DICs may coordinate such effort. (8.1)

6.7.3.5. State Government should provide annual grants to institutions like the TIHCL so that they would be enabled to establish diagnostic and preventive industrial health clinics like Palle Dawakhanas and Basti Dawakhanas to release the stress of manufacturing enterprises helping them to relieve from their continuing stress on account of one reason or other. 9)

6.7.4 Reserve Bank of India (RBI)

RBI is requested to review its mandatory guidelines for revival and restructuring of MSMEs in view of the tardy implementation noticed in the field. 1. It may allow non-NPA enterprises to switch over to their preferred Bank, no more than three times during their enterprise journey. 2. It may also subject the decision of the lending banker on NPA-declaration to a state government approved entity, for a reasoned review. (4.4)

6.7.5 Industry Associations

6.7.5.1 Industry Associations – whether product-based or process-based – should conduct awareness camps in close coordination with the DICs and other central training establishments on all the government schemes. Part of the expenditure can come from the state government in a transparent manner. (8.1)

6.7.5.2 Industry Associations should enrol the new enterprises as their members on a regular basis and handhold them in solving their problems periodically.

Finally, while this study attempted descriptive analytics, we do hope that our next study will be able to do predictive analytics.

SECTION – 2

1. Introduction

1.1 In the manufacturing supply chains, micro and small enterprises (MSEs) play a critical role. At the time of formation of Telangana nine years ago, the state inherited a system of shortages in power, water, and labour unrest. Main factors of production, land labour, capital and organisation in the enterprise ecosystem were craving for attention. While the Reserve Bank of India (RBI) and the Ministry of Micro, Small, and Medium Enterprises have time and again emphasised on the restructuring, revival, and recovery as the tripod on which the health of the enterprise system rested, the financial system did not match the requirements.

Government of Telangana is the only state to realize that a robust investment climate required a healthy foundation in the micro and small enterprises front-ending the sustainable supply chains in manufacturing and that it required an alternate institutional mechanism resulting in the formation of Telangana Industrial Health Clinic Ltd., (See Annexure 1) as non-deposit taking, non-systemic Non-Banking Finance Corporation under the RBI regulations in 2017. One of the mandates of the organisation is to periodically assess the health of the MSEs to ensure that no viable enterprise shuts its doors due to some stress or other. Following this mandate, it collaborated with the leading research organisation in the state, Centre for Economic and Social Studies to investigate into the health of MSEs in Cherlapally Industrial Area.

1.2 There have been a surfeit of studies of incipient sickness and sickness of the small-scale industries in India. It has lately been realised that it is not this traditional thinking of categorizing a small enterprise as sick or incipient sick, but it is the stress the manufacturing enterprises face due to a variety of reasons. Differentiating stress from sickness in industry is extremely important to take effective measures to address the preventive care measures rather than curative measures.

1.3 Just like individuals, enterprises also face stress. If such stress is not diagnosed in time, it is very likely that the stress reflected in headache could end up in cancer. In a 2014 address to an Industry Chambers, the then RBI Governor Raghuram Rajan said, “A Banker who lends with the intent of never experiencing a default is probably over-conservative and will lend to too few projects, thus hurting the growth.” In the same vein he added, “Indeed, sometimes banks signed up to lend based on project reports by the promoters’ investment bank (in the case of MSMEs chartered accountants),without doing their due diligence.”

1.4 Rajan has succinctly summarised a few cardinal principles for dealing with stressed assets:

"1. Viability does not depend on the debt outstanding, but on economic value. Debt may have to be written down to correspond to what is viable.

***2.** Complete projects that are viable even if it requires additional funds infusion.*

***3.** Don't throw good money after bad money simply because there is unreliable promise that debt becomes serviceable."*

1.5. The pandemic added fuel to fire. While GoI announced a relief package – Emergency Credit Guarantee Loan Scheme for the MSMEs in June 2020, (See Annexure -2), several field studies revealed a pathetic situation of the MSMEs particularly in the manufacturing sector. The complexion of Indian enterprises is different from the rest of the world. Data on turnover is partial, that too thanks to the GST; data on labour engagement is least known except for those that pay ESI; suppliers including government agencies delay payments routinely; there is no exit plan for them. Firms can enter but can't exit easily. Power dues, payments to labour – both the skilled, unskilled, and contracted, rents and local taxes are all in arrears from January 2020. Interest payments and instalments to the banks are also overdue, save those that got relief under the recently released moratorium for 3 months. Ind-Ra predicts that even the health sector in the short term will be hit on cash flows.

1.6 In a Chennai-based survey involving 11500 enterprises, 87% expressed enormous delays and most even do not say 'yes' or 'no' to the proposals for as long as eight weeks by Banks. 92% sign loan documents even without reading them. Still, they feel happy in dealing with PSBs compared with private sector banks or NBFCs. 64% prefer partial lifting of the survey. MSME Crisis Survey – INCLUSION – Skoch Foundation, in May 2020 revealed that 64% of the enterprises did not have money to pay salaries; 69% had to cut the jobs, while 82% had to cut salaries, and there was no help from SIDBI, and 80% said that they had no benefit from any government floated scheme. 77% of the enterprises mentioned that they would not survive without government help.

1.7 The acknowledged problems common to small enterprises as a whole persisting for over four decades include: lack of demand, lack of access to finance, non-availability of raw material, inadequate and high-cost infrastructure, low capability for technological up-gradation – again for want of financial support, marketing, and meeting international quality standards and lack of information about several of these aspects. Information asymmetry and adverse selection stare at both the bankers and entrepreneurs in equal measure.

1.8. The direct intervention in the credit market did some good, no doubt. But it has also engendered the growth of unhealthy species due to the banks bee lining for lending to some sectors leading to avoidable risks in the portfolio. Banks carry the heavy baggage of as much as 30-35 percent in the unacknowledged sick industries portfolio. RBI Annual Reports on sickness and rehabilitation, despite redefining sickness and reformulating guidelines for rehabilitation, indicate that the Banks are averse to taking the task of rehabilitation. While there were number of studies in the past and limited attempts on the part of the RBI resulting in formulation of certain guidelines for reviving the sick but potentially viable enterprises, they all remained largely on paper. The Banks, in the meantime, as part of the reform process have moved to revised asset classification according to which the units that fall in arrears of payment of either principal or interest for 90 days or more will be treated as NPAs. Sickness of small-scale industries as defined by Kohli Committee (1966), Chakraborty Committee (2007) and MoMSME, GoI (2015) had relevance at the material time.

1.9 Post Pandemic in 2022, the perspective of financial institutions has undergone sea change. NBFCs and FINTECHs contributed their own pie to the system. Access to finance, always felt as the Achilles Heel could accelerate to 23 percent of the MSME firms in 2022 from 17% in 2016 (IMF Study, 2018).

1.10 TIHCL that has provided financial and non-financial support to nearly 1000 stressed enterprises during the last five years, felt that a micro level study of the health of the MSEs could unfold several aspects relating to their stress and help relevant policy interventions. The area chosen is Cherlapally Industrial Area, Phase III, that has a large number of micro and small manufacturing enterprises. 309 of such enterprises responded to our schedules canvassed in person by a team of well-trained investigators.

2. Methodology

2.1 The study deals with the Health of Micro Small enterprises (MSEs) in Telangana State, and the main objective of the study is to understand the performance of the MSEs in terms of turnover, capacity utilization, receivables, and payables, challenges and constraints faced by them, access to finance and policy initiatives of the government. The study also probes into the pandemic and how it has affected the health of the MSEs in Telangana State.

2.2 Data on the above issues is collected from the micro and small entrepreneurs of Cherlapally Industrial area. CESS and TIHCL had brainstorming sessions on developing the schedule/questionnaire in December 2022 at Centre for Economic and Social Studies, Hyderabad. The schedule focused on the personal profile of the entrepreneur and enterprise, production-related details, turnover and gross profit, and financial details of the enterprise.

(i) Personal profile of entrepreneur and enterprise – the unit's name and the promoter's name, along with the entrepreneur's age, education, and relevant experience, are collected. The other details that are collected are the nature of the products, registration of the unit, and employment details of the enterprise.

(ii) Under production-related details –production capacity, additional workers to be employed, type of technology upgradation, power consumption, turnover, and gross profit details were collected.

(iii) Turn-over and gross profit details – gross profit as a percentage of turnover and reasons for increase or decrease in the profit was collected here.

(iv) Financial details of the enterprise – Investment and bank loan, current borrowing status of enterprise from the banks, working capital requirement, challenges in getting finance from the bank, delays in sanction of term loans affecting the business, restructuring of the loans by the banks, NPA status, borrowing from informal sources, payables and receivables, finance, market, product-related difficulties, major buyers of the enterprise, the impact of COVID-19 on the performance of micro, small enterprises, government initiatives and the challenges in availing the central and state schemes were culled out in this section.

2.3 The production related details were collected from 2019 onwards till the time of survey, power consumption was collected for the year 2022, turnover and gross profit details from 2017 to 2022, borrowing status of the enterprise from the banks at the time of the survey, information on type of difficulties faced was collected for the period 2019-2022.

2.4 A manual was prepared to make the investigators understand the concepts and terms involved in the schedule.

2.5 Once the schedule was prepared, two-day training was given to the field investigators at the Centre for Economic and Social Studies. A pilot survey followed the training in the nearby industrial area. In the pilot survey, the schedule was canvassed, and not much difficulty was found in canvassing the same. Following this input, TIHCL took permission from the Cherlapally Industrial Area to conduct the field survey and forwarded it to CESS in January, February 2023.

2.5 When we went to the field survey to canvas the schedules, we realized that it is very difficult to elicit data and information from the micro and small enterprises. Basically, they suspect that their data may be used for unintended purposes, even though we assured them it will be strictly used for research purposes and no individual unit's data will be shared with any institution. Second, they were afraid that their suppliers would hurry them for payments. Third, they were equally afraid that their buyers, who are accustomed to delay payments on one score or other, would further delay and hurt their business cycle. Fourth, they were also apprehensive of the tax authorities wasting their time through unnecessary enquiries.

2.6 Initially, it was thought that information from around 350 micro and small enterprises was to be collected from the industrial area. But owing to some of the difficulties mentioned above in the field, information could be collected from 309 enterprises/entrepreneurs. Cherlapally has five industrial phases, and the field investigators interacted with the entrepreneurs in these phases. The survey started in second phase and then was conducted in other phases.

2.7 The sample was selected randomly; in other words, the investigators canvassed the schedule to those entrepreneurs who were ready to share the information. In other words, it was a responsive sample.

The sample thus collected had enterprises/entrepreneurs from different sectors (Table 1)

Table 1: Details of enterprises surveyed.

Sector	Number of Enterprises	Sector	Number of Enterprises
Agriculture	8	Solar	3
Chemical	5	Medical	2
Construction	2	Pharma	10
Electrical	29	Plastic	50
Engineering	134	Textile	6
Food	15	Printing	18
Furniture	13	Others	10
Contd		Total	309

2.8 After 45 days of field survey, the data was cleaned up and entered by the investigators, and the tables were generated to understand the health of the micro and small enterprises. Descriptive analytics were used to analyse the data. Graphic presentation was made where necessary.

2(a) Project Team

Telangana Industrial Health Clinic Limited (TIHCL):

Dr. B.Yerram Raju, Founder Director, Project Joint Director

Shri S. Venkateswarlu, Managing Director

Ms. M. Sukruthi Reddy, Vice President

Centre for Economic & Social Studies (CESS):

Dr. Alivelu Kasturi, Associate Professor, CESS – Project Leader

Dr. Pradeep S. Kamble, Assistant Professor, Member, Project Team

Brief CVs are attached:

TIHCL

Dr. B. Yerram Raju:

Dr.Yerram Raju B is a PhD (1984) in Commerce and Management Studies from Andhra University and a Post-graduate in Economics (1962) from Sri Venkateshwara University. After a couple of years of corporate experience in textile industry, he joined the State Bank of India as a Probationary Officer (1966) where he took retirement in 1994 as Assistant General Manager. He joined Administrative Staff College of India (1994) where he retired in December 2001 as Dean of Studies. He went on deputation from the SBI to the LBS National Academy of Administration, Mussoorie during 1990,1991, as Professor and Head, Economics Department. He was Head of Institute of Public Enterprise, 1999 on deputation from ASCI and was also the Director, Indian Institute of Economics, and Editor, Asian Economic Review in 2005-06. He was Regional Director, Professional Risk Managers' International Association, Wilmington (De), Hyderabad Chapter from 2006-13.

Dr. Raju was short term consultant on Agriculture, Cooperatives, SME sector, Governance and Risk Management with several state governments and Union Government, UNIDO, and World Bank during the last twenty-eight years. He is Adviser and Founder-Director, Telangana Industrial Health Clinic ltd (2017-22). He is author of fifteen books, of which, four are on small enterprises, over 2500 articles in popular financial dailies, and twenty-five research papers. He was International Man of the Year from International Biographical Centre, Cambridge and won the Teacher of Teachers' Award, 2008. His academic and sponsored talks on SMEs, Financial Risk Management, and Cooperatives included visits to Bonn (Germany), Switzerland, Singapore, Philippines, UK, and Canada.

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Shri. Venkateswarlu Sistla

Venkateswarlu Sistla who retired as Chief General Manager from State Bank of India started his career with Syndicate Bank. He was later associated with State Bank of Hyderabad, State Bank of Travancore, State Bank of Mysore in various capacities and Life Insurance Corporation of India in different capacities. Hailing from commerce background he is a Certified Associate of the Indian Institute of Bankers (CAIIB).

During his tenure, he worked in different capacities in Branches, Regional and Zonal Offices and Head Offices of different banks in the areas of Operations, Final Accounts, Priority Sector Banking including Rural Banking, Financial Inclusion, and International Banking. He also went on deputation to Life Insurance Corporation of India as Chief Vigilance Officer. He also served as a member of the Board of Directors of Kaveri Grameen Bank.

His core experience in Credit, Balance Sheet Analysis, and deep interest in MSME sector has given him an opportunity to associate with Telangana Industrial Health Clinic Limited (TIHCL), a Govt owned NBFC, as Managing Director and CEO since May 2022.

Ms. M. Sukruthi Reddy

A dynamic finance and technology professional with 8+ years' experience in a Non-Banking Financial Company (NBFC) specializing in the MSME segment. Her ability encompasses various responsibilities, such as assessing creditworthiness, managing loan portfolios, developing customer relationships, and leveraging technology to enhance operational efficiency and customer service.
Working closely with micro and small enterprises (MSEs) during her time at Telangana Industrial Health Clinic Ltd. Has provided her with valuable insights into the MSE manufacturing ecosystem. This understanding of the challenges, opportunities, and specific needs of MSEs positions her as a valuable resource within the NBFC-MSME sector.
Further, she has a keen interest in Technology and experiential learning of Software Development Life Cycle (SDLC). She has been involved in different stages of application development by adopting agile practices and collaborating effectively with cross-functional teams to deliver software projects. She is also a member of the Technology Committee of the TIHCL.

Centre for Economic and Social Studies

Dr. Alivelu Kasturi

Dr. Alivelu Kasturi is Associate Professor of Economics at the Centre for Economic and Social Studies (CESS) Hyderabad. She joined CESS as Assistant Professor in 2007. She obtained PhD (Development Studies with specialisation in Economics) from Ambedkar Open University in collaboration with CESS, Hyderabad, in 2007 and M.A. (Economics) from the University of Hyderabad. Currently, she is Dean, Division for Graduate Studies, overseeing the Ph.D programme at the CESS.

She was Registrar, CESS for two tenures- January-June 2014 and 2016-2019. Till now, she has published one book, one edited volume, two articles in international journals (Journal of Transportation Research, Zagreb International Review of Business and Economics), ten articles in

National Journals, eight articles in edited volumes, one book, one discussion paper, one briefing paper, one monograph and eight working papers, 13 research projects, 32 paper presentations (national and international). She participated in various international (Stockholm, The Hague, German Development Institute, Bonn, Germany, UNIDO, Vienna, Austria)/National Seminars and workshops and presented 20 papers.

She was in Bonn, Germany, from June – December 2014 and 2018 to participate in the "Managing Global Governance" programme hosted by the Federal Ministry of Germany in collaboration with the German Development Institute (GIZ and DIE). She also participated in the training programme on 'International Futures' in Berlin, Germany in August 2014. She was at United Nations Industrial Development Organisation (Vienna) as an International Expert in the unit of ISID from September to November 2014. Email: *galivelu@cess.ac.in*

Pradeep S. Kamble

Pradeep S Kamble has been working as an Assistant Professor in Centre for Economic and Social Studies, Hyderabad since January 2018. He obtained his M.A. in Economics from Gokhale Institute of Politics and Economics and M. PhiL and Ph. D in Economics from the School of Economics, University of Hyderabad. His primary work has been in the areas of Public Finance, Industry, and Econometrics. He has participated in projects in the areas of public finance, industry, and energy undertaken by CESS. Along with research projects, since 2019-20, he has been involved in teaching Ph. D Course Work, two papers Applied Econometrics Paper-VI and Development Statistics Paper-II. He also participated and presented papers in various national conferences and published papers in edited books and journals. Email: *kamblepradeep25@gmail.com*

3. Analysis of the Study

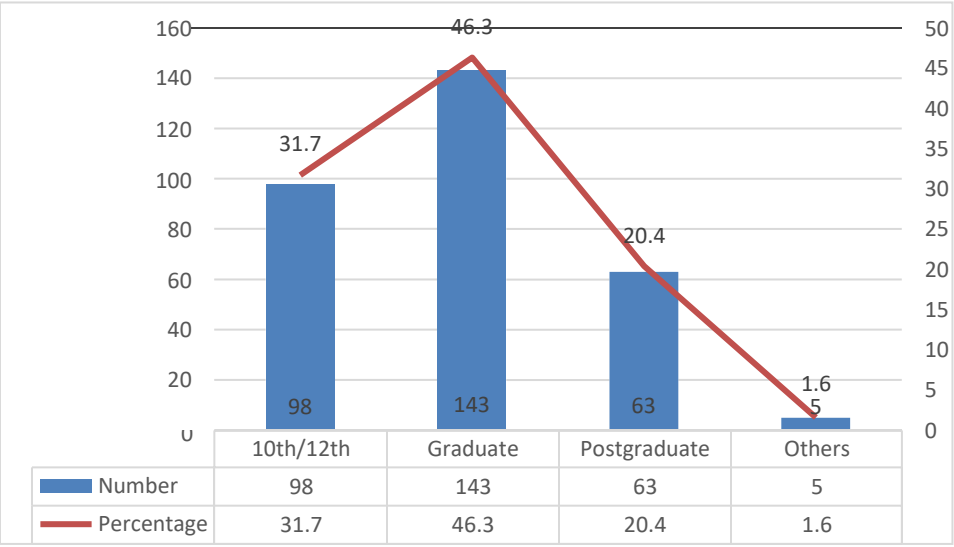
3.1 The Medium Small and Micro Enterprises' (MSMEs) contribution to the Indian Economy is widely recognized in terms of growth enhancement, employment generation, poverty alleviation and so on. The MSMEs are also believed to be catalysts in the efforts made towards overcoming COVID-19 crisis by creating jobs at relatively lower capital requirements, reducing the supply constraints of necessary goods and services, and contribute to the economy in its recovery.

3.2 The broad focus of present study is on the status of recovery of Small and Micro enterprises after witnessing severe shocks during pandemic, current status of their business operation in terms of capacity utilization, challenges faced, delays in receivables and its implications, sources of finances and challenges in accessing formal finance, and government intervention like Atma Nirbhar Bharat Abhiyan Scheme.

3.3 Entrepreneur and Enterprise Characteristics

It can be seen from Table 1, that about 67 per cent of the entrepreneurs have completed graduation and are above the level of secondary education, whereas about 32 per cent were below the 12th class level. About 48 per cent of entrepreneurs have obtained technical education like B. Tech, ITI, Diploma, BE, and so on. Moreover, all the entrepreneurs have experience in similar fields implying that after gaining relevant experience they opted to become entrepreneurs.

Table 1 & Figure1: Educational attainment of entrepreneurs



	10th/12th	Graduate	Postgraduate	Others
Number	98	143	63	5
Percentage	31.7	46.3	20.4	1.6

Source: Primary data collected by the study

3.3.2 In the case of age of the enterprise (Table 2), about one fourth of them are below 5 years and 5 to 10 years of operation. About 48 per cent of enterprises have been in business for more than 10 years. Further, 95 per cent of enterprises have GST registration, about 81 per cent of them have registered under Udyog Aadhar Memorandum (UAM), and about 19 per cent under Udyam registration (Table 3).

Table 2: Age of Enterprise (in years)

Age Group	Number	Percentage
<5	108	25.2
5 to 10	62	26.5
10 to 20	86	29.4
20 to 30	37	12.9
30 to 40	16	5.8
Total	309	100

Source: Primary data collected by the study

Table 3: GST and UAM Registration

Registration	Number	Percentage
GST Registration	294	95.1
UAM	249	80.6
Udyam	60	19.4

Source: Primary data collected by the study

3.3.3 Size of enterprise in terms of turnover varies across enterprises. As depicted in Table 4, there are very few enterprises that are below Rs. 10 lakhs (6.1 per cent), between Rs. 5 crores and 10 crores (5.5 per cent), and above Rs. 10 crores (6.5 per cent). Relatively higher percentages of enterprises are operating from Rs. 10 to 50 lakhs (23.3 per cent) and from Rs. 1 crore to 5 crores (39.5 per cent) of annual turnover.

Table 4: Annual Turnover (in Rs. Lakhs)

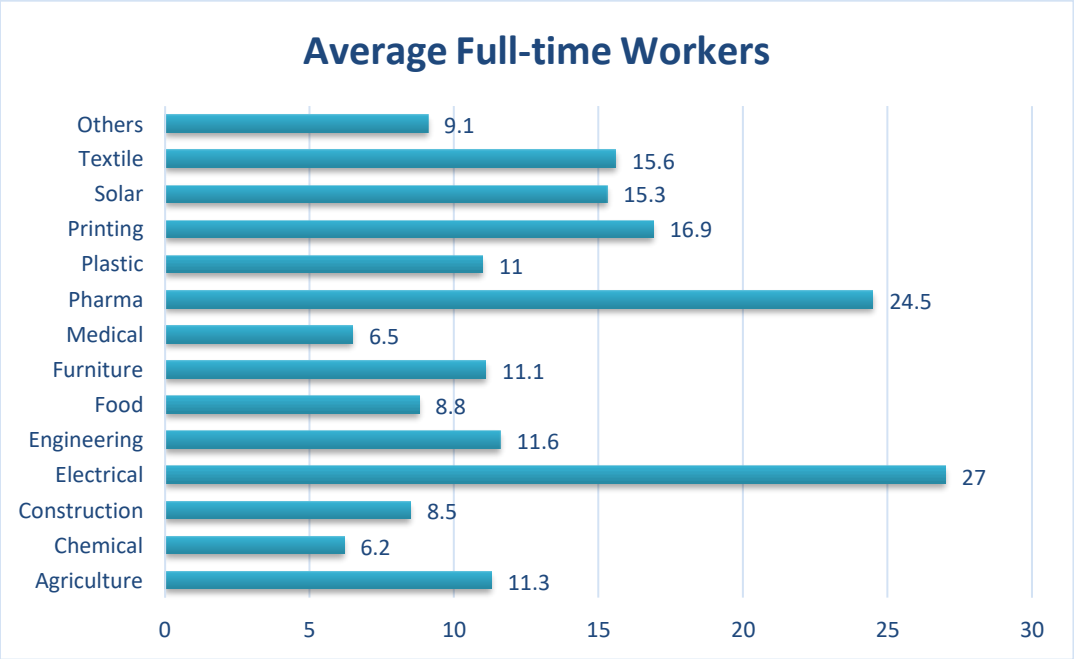
Annual Turnover (in lakhs)	Number	Percentage
<10	19	6.1
10 to 50	72	23.3
50 to 100	59	19.1
100 to 500	122	39.5
500 to 1000	17	5.5
>1000	20	6.5
Total	309	100

Source: Primary data collected by the study

3.3.4 Regarding employment generation, on average, these enterprises have employed about 14 full-time workers indicating vast potential in creating jobs in the manufacturing sector (Table 5). Full-time workers are those that were employed for 183 days in a year as per Census 1981.

3.3.5 Within the manufacturing sector, Electrical sector has provided large employment (on average 27 workers) followed by Pharma (on average 24 workers), Printing (on average 17 workers), Textile and Solar (each on average 15 to 16 workers), etc.

Table 5 & Figure 2: Average Employment generation across the sector



Source: Primary data collected by the study

3.4 Issues and Challenges faced by Enterprises.

3.4.1 Capacity Utilization

Full utilization of the installed production capacity is one of the important indicators of extracting full benefits of investment made. It is also an indicator of the investment potential of the enterprise. Default risk is often measured by the under-utilization of capacity. It is not just the default on loans but also the payment of salaries to employees and workers and sovereign dues. It also adversely affects their inventory and production management. The enterprise falls into vicious circle of under-utilization, shortage of working capital, reduced

production, delays in repayment of loans, difficulty in mobilizing credit for technology upgradation, expansion, or diversification of production, and in turn further under-utilization.

3.4.2 The present study collected information of utilization of installed production capacity for the years 2019, 2020, and 2021. It can be seen from Table 6 that the under-utilization of installed production capacity is widespread among the enterprises. During 2019, only about 29 per cent of enterprises managed to utilize 95 to 100 per cent of installed production capacity.

3.4.3 The situation became worse during 2020 due to adverse effects of the pandemic. About 59 per cent of enterprises utilized installed production capacity at and below 50 per cent. During 2021, there was a strong recovery reported wherein about 27 per cent of enterprises reported utilization to the tune of 95 to 100 per cent of installed production capacity.

3.4.4 Although during 2022, the capacity utilization is higher than the crisis period of 2020, it is still extremely low as only about 27 per cent of enterprises utilize 95 to 100 per cent of installed capacity.

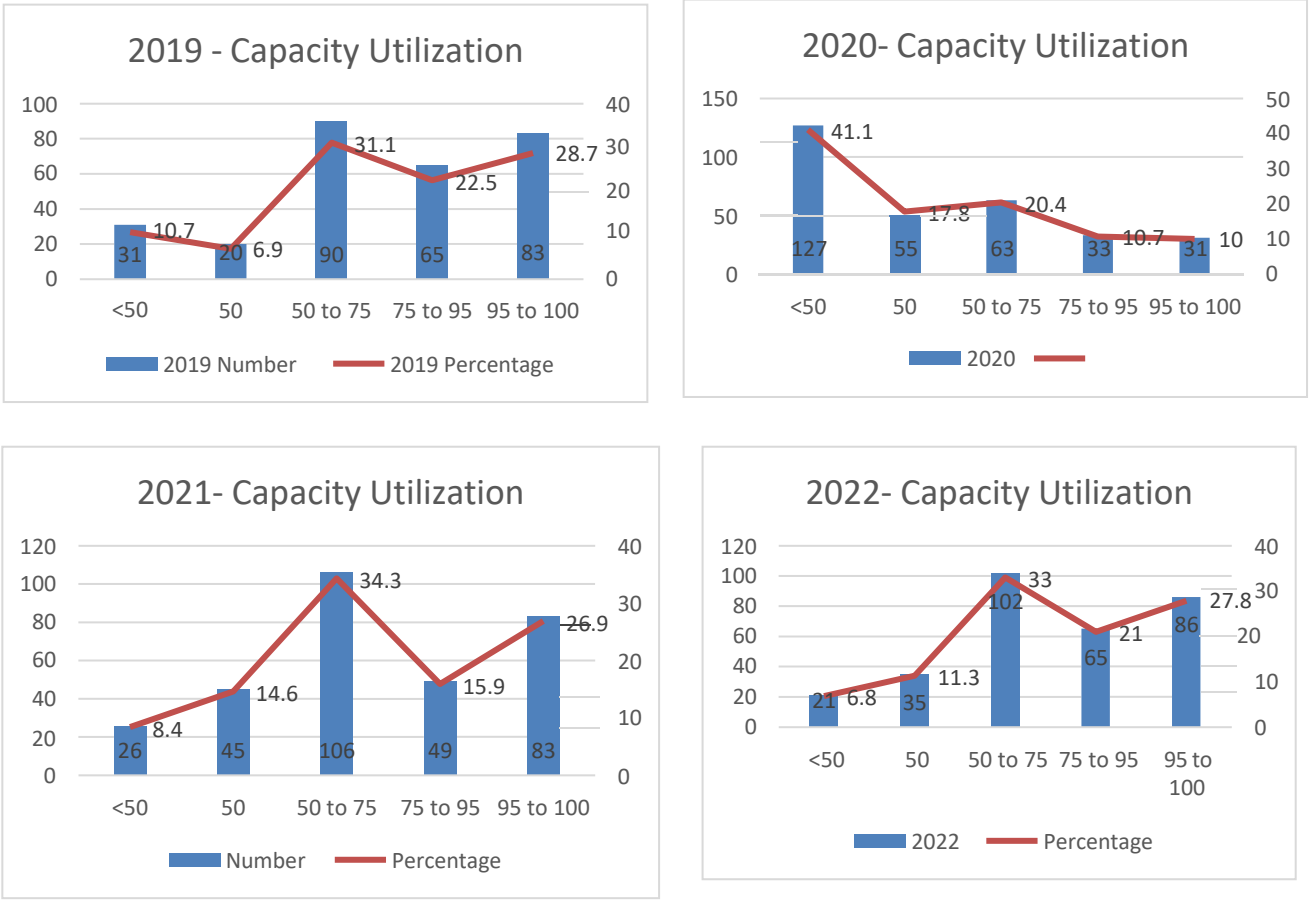
3.4.7 The above analysis indicates that historically Micro and Small enterprises have been facing capacity utilization issues. About 70 per cent of enterprises utilize less than 95 per cent of installed production capacity. This data reflects the continuance of some type of stress or the other.

Table 6: Year-wise Capacity Utilization (in per cent)

Year	Capacity Utilisation	<50	50	50 to 75	75 to 95	95 to 100	Total
2022	Number	21	35	102	65	86	309
	Percentage	6.8	11.3	33.0	21.0	27.8	100
2021	Number	26	45	106	49	83	309
	Percentage	8.4	14.6	34.3	15.9	26.9	100
2020	Number	127	55	63	33	31	309
	Percentage	41.1	17.8	20.4	10.7	10.0	100
2019	Number	31	20	90	65	83	289
	Percentage	10.7	6.9	31.1	22.5	28.7	100

Source: Primary data collected by the study

Figure 3: year wise number and percentage capacity utilization



3.4.8. The entrepreneurs have reported various reasons for under-utilization of installed production capacity. For the year 2022, the reasons are depicted in Table 7. The study indicates that the enterprises are still facing adverse implications of pandemic even after over year of normalcy in the economy as whole.

3.4.9. The major reasons for under-utilization in the year 2022 are pandemic effect (52.1 per cent of total entrepreneurs reported), lack of demand (39.2 per cent), increased cost of raw material (30.1 per cent), and lack of finance (23.3 per cent). It is also important to note that a considerable proportion of enterprises reported that they face a shortage of skilled labour (22.7 per cent). The study clearly reflects that manufacturing of MSEs are close to reaching the pre-pandemic level. While only 309 enterprises were surveyed, the enterprises surveyed reported stress in more than one area, on account of which, the total under the Reasons exceeded 309 and the percentage calculation is to the total number of the reported reasons.

Table 7: Reasons for Under-Utilisation of Installed Capacity in the year 2022

Reasons	Number	Percentage
Pandemic Effect	157	52.1
Lack of Demand	153	39.2
Increased Cost of Raw Material	106	30.1
Lack of Finance	63	23.3
Labour Problem	51	22.7
Market Competition	45	18.4
Single Shift	21	18.1
Power Charges Increased	16	6.8
Low Margin	5	5.2
Due To Heavy Rains	4	3.9
GST Increased	3	2.3
Machine Breakdown	3	1.6
Duplicate Brands Enter the Market	2	1.6
Seasonal Variation	2	0.6
Because Of New Machines	1	0.6
New Brand	1	0.3
Transport costs Increased	1	0.3
Total	634	-

Source: Primary data collected by the study

3.4.10 Table 8 shows reasons for under-utilization of installed production capacity in the year 2019. The enterprises reported multiple reasons for under-utilisation. The reasons indicate that the enterprises persistently facing the issues of lack of demand (43.7 per cent of entrepreneurs reported), increased cost of raw material (31.1 per cent), lack of finance (17.8 per cent), skilled labour problem (14.2 per cent), and market competition (13.6 per cent).

Table 8: Reasons for Under-Utilisation of Installed Capacity in the year 2019

Reasons	Number	Percentage
Lack of Demand	135	43.7
Increased Cost of Raw Material	96	31.1
Lack of Finance	55	17.8
Labour Problem	44	14.2
Market Competition	42	13.6
Single Shift	21	6.8
Power Charges Increased	10	3.2
Low Margin	5	1.6
Due To Heavy Rains	4	1.3
GST Increased	4	1.3
Machine Breakdown	3	1.0
Duplicate Brands Entered the Market	1	0.3
Seasonal Variation	1	0.3
Transport costs Increased	1	0.3
Total	422	-

Source: Primary data collected by the study

3.5 Recovery from the adverse shock caused by pandemic.

3.5.1 The pandemic caused serious and abrupt disruption in the business operation of enterprises. The present study analyzed the extent of recovery after normalcy as compared to the pre-pandemic level. For the said purpose, the study has taken average turnover for three pre-pandemic years (2017 to 2019) and compared it with pandemic and post-pandemic years (2020 to 2022) among those which were operational.

3.5.2 The results are reported in Table 9. During 2020, which is in the middle of the pandemic, the enterprises were badly hit in turnover. About 48 per cent of enterprises reported lower than or equal turnover to the pre-pandemic level. About 52 per cent only managed to keep their business on par with previous years and managed to increase their turnover. The industries that reported the major hit include Solar and construction (100 per cent reported lower than or equal to turnover than pre-pandemic years), Agriculture (62.5 per cent), and Engineering (55.9 per cent).

3.5.3 During the year 2021, about 70 per cent of industries reported higher turnover than the pre-pandemic years. During 2022, the proportion reached 75 per cent. This indicates that although there is an increasing number of enterprises recovered from the pandemic crisis, there are still about 25 per cent enterprises operating at below pre-pandemic level of turnover.

3.5.4 There are hundred percent recoveries in industries like Construction and Medical. Agriculture, Plastic, Textile, and Furniture reported more than 80 per cent of enterprises recovered from the pandemic in the year 2022. Industries like Food, Solar, Engineering the pace of recovered enterprises is relatively lower.

3.5.5 Table 9 A represents age group and educational level-wise entrepreneurs who managed to improve their turnover in the year 2022 above pre-covid level. It can be seen from the table that younger entrepreneurs could improve their turnover, irrespective of their educational attainment (about 90 per cent). The proportion tends to reduce as the age of entrepreneurs increases (from 90 per cent to 58.3 per cent for age above 60 years). However, in the case of the age groups of 35 to 45 years, 45 to 60 years, and above 60 years, entrepreneurs having post-graduation level of education tend to improve better than otherwise.

Table 9: Sector and Year-wise recovery of turnover from pre-covid level

Sector	Total Enterprises	2020				2021				2022			
		Number		Percentage		Number		Percentage		Number		Percentage	
		Below precovid	Above precovid	Below precovid	Above precovid	Below precovid	Above precovid	Below precovid	Above precovid	Below precovid	Above precovid	Below precovid	Above precovid
Agriculture	8	5	3	62.5	37.5	2	6	25.0	75.0	1	7	12.5	87.5
Chemical	5	2	2	50.0	50.0	1	3	25.0	75.0	1	3	25.0	75.0
Construction	2	1		100	0.0	1		100.0	0.0		1	0.0	100
Electrical	29	12	15	44.4	55.6	7	20	25.9	74.1	6	21	22.2	77.8
Engineering	134	71	56	55.9	44.1	44	83	34.6	65.4	40	87	31.5	68.5
Food	15	5	7	41.7	58.3	4	8	33.3	66.7	5	7	41.7	58.3
Furniture	13	5	7	41.7	58.3	3	9	25.0	75.0	2	10	16.7	83.3
Medical	2		2	0.0	100		2	0.0	100		2	0.0	100
Others	10	5	5	50.0	50.0	3	7	30.0	70.0		10	0.0	100
Pharma	14	1	8	11.1	88.9	2	7	22.2	77.8	2	7	22.2	77.8
Plastic	50	18	29	38.3	61.7	9	38	19.1	80.9	7	40	14.9	85.1
Printing	18	8	9	47.1	52.9	6	11	35.3	64.7	4	13	23.5	76.5
Solar	3	2		100	0.0	1	1	50.0	50.0	1	1	50.0	50.0
Textile	6	2	4	33.3	66.7	1	5	16.7	83.3	1	5	16.7	83.3
Total	309	137	147	48.2	51.8	84	200	29.6	70.4	70	214	24.6	75.4

Source: Primary data collected by the study

THE UNSTOPPABLE POLYMER

KVR Polymers and Chemicals

Introduction:

Kunta Balarama Reddy, a postgraduate in Industrial chemistry, inspired by his paternal uncle working in IICT, and with his experience of five years gained in Dubai, established a proprietary micro enterprise in 2018 with his own investment supplementing the resources by his family and friends, to produce water treatment chemicals. His is an inspirational journey growing from strength to strength and catching up with the demand generated during the period of pandemic.

Background: Mr. Kunta Balaram Reddy, M.Sc., in Industrial Chemistry, is a first-generation entrepreneur. He was inspired by his paternal uncle working in Indian Institute of Chemical Technology, and established KVR Polymers and Chemicals in 2018, as a micro enterprise investing his own capital Rs.7 Lakhs, after a five-year experience in Dubai, in water treatment of chemicals. Fuelled by his passion for entrepreneurship and motivated by the desire to maximize profits with low volumes, he began manufacturing various high-margin chemical products, including reverse osmosis chemicals, water treatment chemicals, dispersing agents, foaming agents, concrete additives, anti-foaming agents. *Choosing a modest 220 sq. yards of land and maintaining a lean team of 5-6 workers helped him to keep costs in check while facilitating efficient operations.*

Pandemic Challenges and Strategic Expansion:

KVR Polymers and Chemicals, like many other businesses, saw a considerable drop in revenue due to the pandemic's declining market demand. However, the unit's versatility and the proprietor's competence as a chemist stood out. *Recognizing sanitizer's necessity, he extended his product portfolio quickly to satisfy the increased demand. He supplied prominent companies such as APSRTC&TSRTC and educational institutions with sanitizers in larger quantities by hiring 15-20 more personnel for a limited time.* Sanitizers were introduced as a new product line, considerably increasing the firm's revenues while leveraging higher profit margins than the unit's earlier portfolio. Before the pandemic, its annual revenue was around Rs.80 Lakhs, which increased to Rs.150 Lakhs during the pandemic and then skyrocketed to fantastic Rs.250 Lakhs.

Financial Management and Growth Aspirations:

KVR Polymers and Chemicals managed its finances responsibly, with most profits reinvested into the business to promote faster expansion. While the unit had large receivables of Rs.50 lakhs, their payables were relatively low at Rs.20 lakhs. *Notably, the unit was able to succeed without the assistance of government subsidies or bank loans, instead relying on financial support from friends and family. Kunta Balaram Reddy hopes to expand the company due to the above accomplishments.*

He developed a novel product employing geopolymer and CLC foaming processes, leveraging his knowledge. These cement-free bricks are now being tested. If successful, these bricks might open the way for further expansion of KVR Polymers and Chemicals' product offering, placing the firm as a distinctive and innovative player.

Conclusion: Innovation holds the key for growth: Mr. Kunta Balaram Reddy's KVR Polymers and Chemicals exemplifies the spirit of entrepreneurship, adaptability, and innovation. Another important feature is its least dependence either on incentives from the government or institutional debt. However, while depending on family for equity and working capital, his dependence on friends would in all likelihood take the route to converting their contribution as equity partners lest he might run into risky terrain in financial management. During the pandemic, the unit displayed resilience and capitalization on emerging opportunities by proactively extending its product line and releasing high-demand sanitizers. KVR Polymers and Chemicals is prepared for future growth and success in the chemical business through innovative financial management and pursuing revolutionary products such as lightweight bricks.

The unit has potential to scale up to small category erelong with efficient financial management and employing state-of-the-art technology in every step of his growth. The firm is digitized and registered on Udyam portal.

Table 9 A: Age and education level-wise percentage of entrepreneurs reported improvement in turnover above pre-covid level.

Age Group	10th/12th	Graduate	Postgraduate	Others	Total
	Number of entrepreneurs reported improvement in turnover above pre-covid level				
26 to 35	9	22	9	0	40
35 to 45	21	27	14	2	64
45 to 60	26	50	20	0	96
Above 60	7	4	3	0	14
Total	63	103	46	2	214
	Total number of entrepreneurs				
26 to 35	10	24	10	0	44
35 to 45	28	32	16	2	78
45 to 60	42	69	26	1	138
Above 60	11	9	4	0	24
Total	91	134	56	3	284
	Percentage				
26 to 35	90.0	91.7	90.0	-	90.9
35 to 45	75.0	84.4	87.5	100	82.1
45 to 60	61.9	72.5	76.9	0.0	69.6
Above 60	63.6	44.4	75.0	-	58.3
Total	69.2	76.9	82.1	66.7	75.4

Source: Primary data collected by the study

3.6 Changes in investment over the period

3.6.1 Another important measure of the current status of profitably running the business is the improvement in investment as compared to the initial investment. Table 10 reports the current level of investment in enterprises.

3.6.2 There is a considerable proportion of enterprises operating with less than Rs. 10 lakhs of investment (22.3 per cent). These enterprises mostly employ investment in the range of Rs. 10 lakhs to Rs. 1 crore (48.9 per cent). Enterprises with above Rs. 5 crore investment is extremely low in proportion (8.1 per cent).

Table 10: Current Investment (in Rs. Lakhs)

Current Investment (in Lakhs)	Number	Percentage
<10	69	22.3
10 to 50	84	27.2
50 to 100	67	21.7
100 to 500	64	20.7
>500	25	8.1
Total	309	100

Source: Primary data collected by the study

3.6.3 As shown in Table 11, about 6 per cent of enterprises have reduced their investment, and a similar proportion of them has remained the same (Note that all the surveyed enterprises have been in operation for more than three years). It is important to note that about 57 per cent of enterprises have more than doubled their initial investment. This implies that the majority of enterprises are doing well in business. However, as pointed out earlier, low capacity utilization is the major issue faced by them.

Table 11: Change in current investment as compared to initial investment (in per cent)

Change in investment	Number	Percentage
Reduced investment	19	6.1
Not Changed	19	6.1
Up to 25 %	19	6.1
25 to 50	32	10.4
50 to 75	14	4.5
75 to 100	30	9.7
Above 100	176	57.0
Total	309	100

Source: Primary data collected by the study

3.6.4 Further, Table 11 A represents year of experience group-wise improvement in investment over the period. Entrepreneurs having a greater number of years of experience tend to improve their investment more than double (38.5 per cent of entrepreneurs in 2 to 5 years of experience as compared to 60.6 per cent in above 30 years of experience).

Table 11 A: Experience group-wise change in current investment as compared to initial investment.

Experience in years	Reduced investment	Not Changed	Up to 25	25 to 50	50 to 75	75 to 100	Above 100	Total No of Entrepreneurs
	Number							
2 to 5	1	4	5	6	3	5	15	39
5 to 10	1	3	5	5	2	8	24	48
10 to 20	4	8	3	12	5	11	59	102
20 to 30	10	2	2	6	3	6	58	87
Above 30	3	2	4	3	1	0	20	33
Total	19	19	19	32	14	30	176	309
								Percentage
2 to 5	2.6	10.3	12.8	15.4	7.7	12.8	38.5	100
5 to 10	2.1	6.3	10.4	10.4	4.2	16.7	50.0	100
10 to 20	3.9	7.8	2.9	11.8	4.9	10.8	57.8	100
20 to 30	11.5	2.3	2.3	6.9	3.4	6.9	66.7	100
Above 30	9.1	6.1	12.1	9.1	3.0	0.0	60.6	100
Total	6.1	6.1	6.1	10.4	4.5	9.7	57.0	100

Source: Primary data collected by the study

3.6.5 Table 11 B indicates the experience group-wise up-gradation of technology of machineries. It is only a small percent of entrepreneurs did not upgrade technology though required. Among the entrepreneurs who have not upgraded the technology even though it is required, the proportion is lower among the less experienced entrepreneurs and vice versa.

Table 11 B: Experience group-wise up-gradation of technology of machineries

Experience	Number				Percentage			
	Yes	No	No Need	Total	Yes	No	No Need	Total
2 to 5	25	1	13	39	64.1	2.6	33.3	100
5 to 10	40	2	6	48	83.3	4.2	12.5	100
10 to 20	78	3	21	102	76.5	2.9	20.6	100
20 to 30	64	5	18	87	73.6	5.7	20.7	100
Above 30	20	2	11	33	60.6	6.1	33.3	100
Total	227	13	69	309	73.5	4.2	22.3	100

Source: Primary data collected by the study

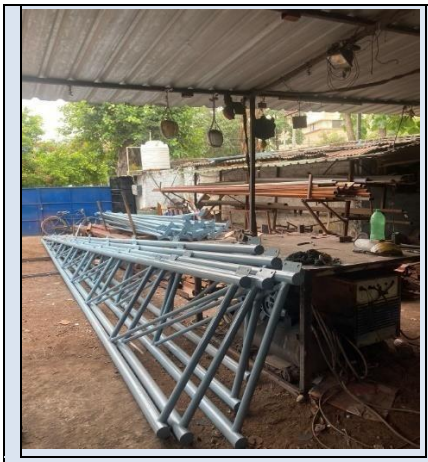
FORGING SUCCESS

A Case Study on Prasad Rao's Fabrication Business

Introduction: Mr. Prasad Rao, a 7th standard pass with over 10 years of experience in fabrication work, established his firm at Cherlapally in 2010 with an initial investment of Rs.4 lakhs. It is a microenterprise. His operations specialize in fabrication, erection of trusses and sheds, and have witnessed remarkable growth over the years, achieving an annual turnover of Rs.45 lakhs, post-covid crossing his pre-covid turnover by 50 percent. However, the COVID-19 pandemic presented unforeseen challenges that impacted his business adversely, but his journey demonstrates how he turned adversity into opportunity.

Impact of Pandemic & sustainability: The sudden onset of the COVID-19 pandemic severely affected businesses across the economy, including Prasad Rao's fabrication firm. The business was forced to shut down for four months due to lockdown measures. After reopening, the business took an additional six months to regain its normal operations. The pandemic also resulted in fluctuating raw material prices, with the cost of iron rising from Rs.44/kg precovid to Rs.65/kg post-covid. Despite the setbacks caused by COVID-19, Promoter demonstrated resilience and adaptability. He availed Emergency Credit Guarantee Loan (ECGL) of Rs.1.5 lakhs from Union Bank of India to mitigate the financial impact of the pandemic. However, he faced a shortage of labour, which added further complexity to his operations. To overcome this obstacle, he explored ways to enhance efficiency and reduce time-consuming manual work.

Turnover in INR		
Before Covid (2019-20)	During Covid (2020-21)	Post Covid (2021-22)
30 lakhs	15 lakhs	45 lakhs



Expansion and Technological Upgrades: Recognizing the need to modernize his operations, Prasad Rao decided to expand his business and invest in new machinery. He aimed to streamline processes, reduce production time, and enhance overall efficiency by integrating advanced technology. This strategic move enabled him to meet increasing customer demands and to stay competitive in the market.

Government Schemes and Support: While various government schemes and supports were available, he opted not to pursue them due to the time-consuming process required to avail these benefits. Instead, he focused on quick decision-making and relied on his own business acumen to drive growth.

Conclusion: Prasad Rao's fabrication business faced significant challenges due to the COVID-19 pandemic and increased competition. However, with his determination, astute financial management, and proactive approach, he successfully navigated through the crisis and adapted his business to changing circumstances.

By investing in new machinery and leveraging his expertise, Prasad Rao positioned his firm to overcome labour shortages, reduce manual work, and enhance operational efficiency. This case study demonstrates the importance of resilience, adaptability, and strategic decision-making in overcoming business challenges and maintaining long-term success in a competitive market. This case demonstrates that being small, he is not at disadvantage, because he has will to grow and adopt strategies that suit the times.

3.7 Delays in Receivables

2.7.1 Receivables constitute an important component of the working capital that impacts on the efficient functioning of an enterprise. It has been noticed that several micro and small enterprises run on live book debts or rotational credit. This helps them manage their day-to-day financial requirements of the business. These types of short-term adjustments indicate only inefficient financial management. This simply means that they just rotate the delays and not wipe them out at any point in time.

3.7.2 Table 12 represents the average receivable amount as per group of turnovers. For the enterprises with less than Rs. 10 lakhs of turnover, the average amount receivable is Rs. 12.3 lakhs and it is delayed for less than 30 days. The average amount receivable is higher for 60 to 90 days of delay (Rs. 18 lakhs).

3.7.3 For the enterprises which have a turnover between Rs. 10 lakhs to Rs. 100 lakhs the number of delays is comparatively not high. Enterprises with turnover of Rs. 1 crore to Rs. 5 crore, the average amount delayed is Rs. 19 lakh for more than 120 days. Similarly, for the turnover categories of Rs. 5 crores to 10 crores, the average amount delayed is Rs.

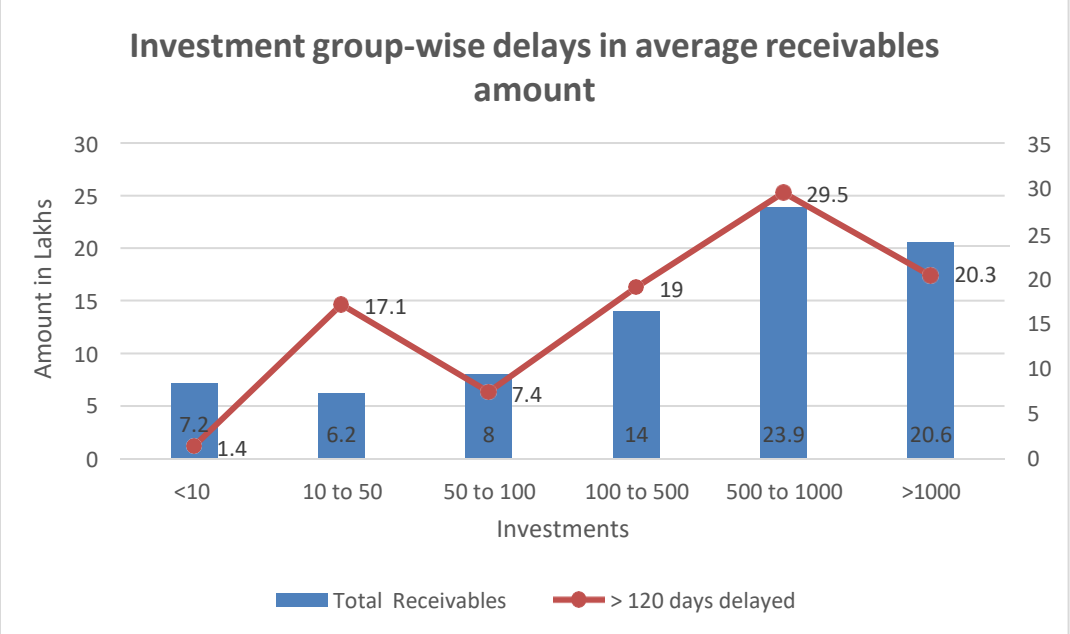
38.9 lakhs for 60 to 90 days and Rs. 29.5 lakhs for more than 120 days. For the highest turnover category (more than Rs. 10 crores), the amount of delay and days of delays are comparatively higher than other categories. This data leads us to the conclusion that the resilience of the enterprises with higher turnover is greater than for the really micro and small firms that sustained because of periodical rotation of the dues.

Table 12: Investment group-wise delays in average receivables amount (in Rs. lakhs)

Delays in receivables	<30 days	30 to 60 days	60 to 90 days	90 to 120 days	> 120 days	Total
<10	12.3	0.0	18.0	0.0	1.4	7.2
10 to 50	4.2	7.2	13.3	3.7	17.1	6.2
50 to 100	9.1	4.8	9.1	7.0	7.4	8.0
100 to 500	10.1	19.7	13.0	9.3	19.0	14.0
500 to 1000	17.8	15.3	38.9	0.0	29.5	23.9
>1000	12.5	27.2	27.2	51.1	20.3	20.6
Total	9.6	18.8	22.2	29.8	17.5	14.5

Source: Primary data collected by the study

Figure 4: Investment group-wise delays in average receivables amount (in Rs. lakhs)



3.7.4 The effect of delays in payment of receivables is reported in Table 13. About 45 per cent of enterprises (out of 285 enterprises that reported delays in payment) have reported that there is no effect of delays in receivable due to rotation system.

About 26 per cent of enterprises have reported that they had to reduce production due to delays in receivables. As a result, they purchased a smaller quantity of raw material than they would otherwise engage in, and have taken only selected orders from the buyers reducing even the number of workers. The overall efficiency of firms thus has steep decline.

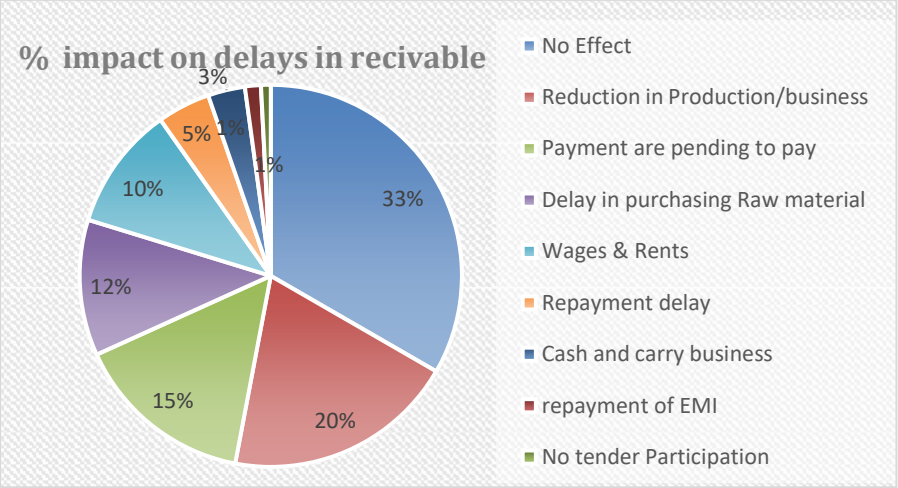
3.7.5 About 20 per cent of them reported delays in their payment to raw material supplier, salaries to workers and rent, and repayment of informal loans. Further, about 15 percent have reported delays in purchase of raw material. They have reduced the quantity of raw material purchased due to a rise in prices with no institutional credit support for the working capital and also reduced the stock of raw material. About 14 per cent have reported that they are facing delays in payment of salaries and rent. They have even reduced the number of workers and are facing problems in conducting minimum maintenance of their machinery.

Table 13: Effect of delays in payment of receivables

Effects	Number	Percentage
No Effect	127	44.6
Reduction in Production/business	75	26.3
Payment is pending to pay	58	20.4
Delay in purchasing Raw material	44	15.4
Wages & Rents	40	14.0
Repayment delay	17	6.0
Cash and carry business	12	4.2
repayment of EMI	5	1.8
No tender participations	3	1.1
Due to non-reach of advance technology	1	0.4
Total	382	-

Source: Primary data collected by the study

Figure 5: Delays in payments of receivables



3.7.6 The entrepreneurs have adopted various coping strategies to deal with delays in payments for running the business. The most preferred coping strategy is resorting to informal borrowings. About 43 per cent of enterprises (out of 285) resorted to borrowings from the informal sources and about 18 per cent from the formal sources (Table 14). The formal and non-formal borrowings are mainly used for purchase of raw material, payment of wages to workers, and payment of rent. Falling back on their personal savings is also one of the major strategies adopted by the entrepreneurs (36.5 per cent) and also savings from their cohorts. About 20 per cent have managed to get a loan from the formal sources.

3.7.7 Some entrepreneurs also took raw material on credit, taking advance from dealers, and taking credit from dealer and paying half of the amount without interest and remaining half with interest. There are also instances where the entrepreneurs have sold their agriculture land and house to run the company.

Table 14: Coping strategies adopted by entrepreneurs in case of delays in receivables.

Manage	Number	Percentage
Informal borrowing	124	43.5
Own savings	104	36.5
Formal borrowing	58	20.4
Taking raw material on credit	23	8.1
Payments' delay (wages, rent, raw material purchase)	8	2.8
Sell assets	5	1.8
Delay in Repayment of loan	3	1.1
Total	325	-

Source: Primary data collected by the study

3.7.8 Shortage of working capital due to delays in receivables has further forced entrepreneurs to reduce the number of workers. The study has further investigated the job loss due to shortage of working capital. The study inquired regarding the additional employment if the total required working capital is provided. The results are presented in Table 15.

3.7.9 The total shortage of working capital faced by these enterprises is estimated at Rs. 130.08 crores. The entrepreneurs reported that they would have employed 1,533 additional workers had they got additional working capital.

3.7.10 The above analysis indicates that with the mere provision of working capital these enterprises have potential to generate huge employment. To generate a similar level of employment by way of equity investment, it would require much higher resources than just working capital. The study indicates that provision of about Rs. 9 lakhs as working capital, would employ one worker.

Table 15: Total amount of shortage of working capital (in Rs. Lakh) and Additional employment generation if shortage is filled.

Item	Sum
Shortage of working capital	13008
No of Additional Employment generation	1533
Average per unit	8.5

Source: Primary data collected by the study

3.8 Types of difficulties faced by entrepreneurs.

3.8.1 The study further investigated the difficulties faced by entrepreneurs during 2022. The findings indicate that the entrepreneurs faced a wide array of difficulties. The major difficulty faced is fluctuations in input prices (79 per cent of total entrepreneurs) (Table 16). The entrepreneurs reported that post-COVID input prices have been fluctuating at regular intervals. Some of the entrepreneurs also attributed such wide fluctuations due to the Ukraine-Russia war and the dealers forming syndicate to control supply and price of raw material (cartelization).

3.8.2 Further, inadequacy of working capital continues to be the major difficulty faced by the entrepreneurs (67.6 per cent). Banks were reported unhelpful in meeting the working capital requirements and even where they provided, it was fraught with delays. This factor also led to underselling their products (less than the cost of production as the cost of storage is felt higher than disposing at the lower price).

3.8.3 The adverse effects of pandemic still continue on the functioning of enterprises (66.7 per cent). The adverse effects include workers not returning to work, fewer orders, less production, stagnation of stock, expiration of stock, and delays in repayment from buyers.

3.8.4 The entrepreneurs are not receiving payment from buyers on time (54 per cent). As a result, the entrepreneurs are forced to take raw material on credit and cut down on their purchases (Cutting the coat according to the cloth).

3.8.5 Severe competition compounded the working capital shortage, adding fuel to fire. The high competition in the market forced them to reduce the prices in order to survive the competition. By reducing prices, they are able to get some working capital to make payments of salaries, rent, and repayment of loan taken from informal sources.

3.8.6 Many new enterprises entered the same brand, and some entered with duplicate brands accentuating the intense pressure caused by the pandemic.

3.8.7 The price of the product invariably was far below even the cost of production. The present study indicates that about 37 per cent of entrepreneurs have suppressed their prices (Table 17). There is severe erosion in the profit margin and even lower revenues than anticipated in their project.

3.8.8 63.2 per cent cited intense competition as the major reason. (63.2 per cent of 114 entrepreneurs that have suppressed the prices) (Table 18). About 22 per cent of entrepreneurs reported that inadequate finance led to their disposing at the best available price instead of the price it should command in the market. Retaining skilled workers is directly proportional to the adequacy of working capital. 13.2 percent of enterprises reported that they undersold the product just to stay in the market. About 11 percent of the enterprises reported wages at less than the market price just to pay wages to the workers.

3.8.9 This implies that the price of the product is not determined by the demand and supply conditions but the shortage of working capital. 14.0 percent reported the reason for such forced sales due to poor bargaining power.

Table 16: Types of difficulties faced by entrepreneurs during 2022.

Type of Difficulties	Number	Percentage
Input price fluctuations	245	79.3
Inadequate working capital	209	67.6
Pandemic	206	66.7
High dues form buyers	167	54.0
Low Margin	155	50.2
Decline of market demand	110	35.6
Increased competitive pressure on the firm	93	30.1
Price stagnation	42	13.6
Poor marketing and distribution	38	12.3
Involved in loss making products	20	6.5
Increase in low margin or loss-making unit	11	3.6
Lack of financial control	10	3.2
Low contacts /networking	10	3.2
Poor after wages service	8	2.6
lower market share	7	2.3
Ineffective advertising and promotion	6	1.9
Short-term borrowing for long term need	6	1.9
Involved in loss making customers	4	1.3
High unit costs relative to competitors	3	1.0
Lower retention of profit for reinvestment	3	1.0
High market entry costs	2	0.6
Under-estimated costs and over-estimated revenue	2	0.6
Diversion of funds	1	0.3
Management issues	1	0.3
Total	1359	-

Source: Primary data collected by the study

Figure 6:

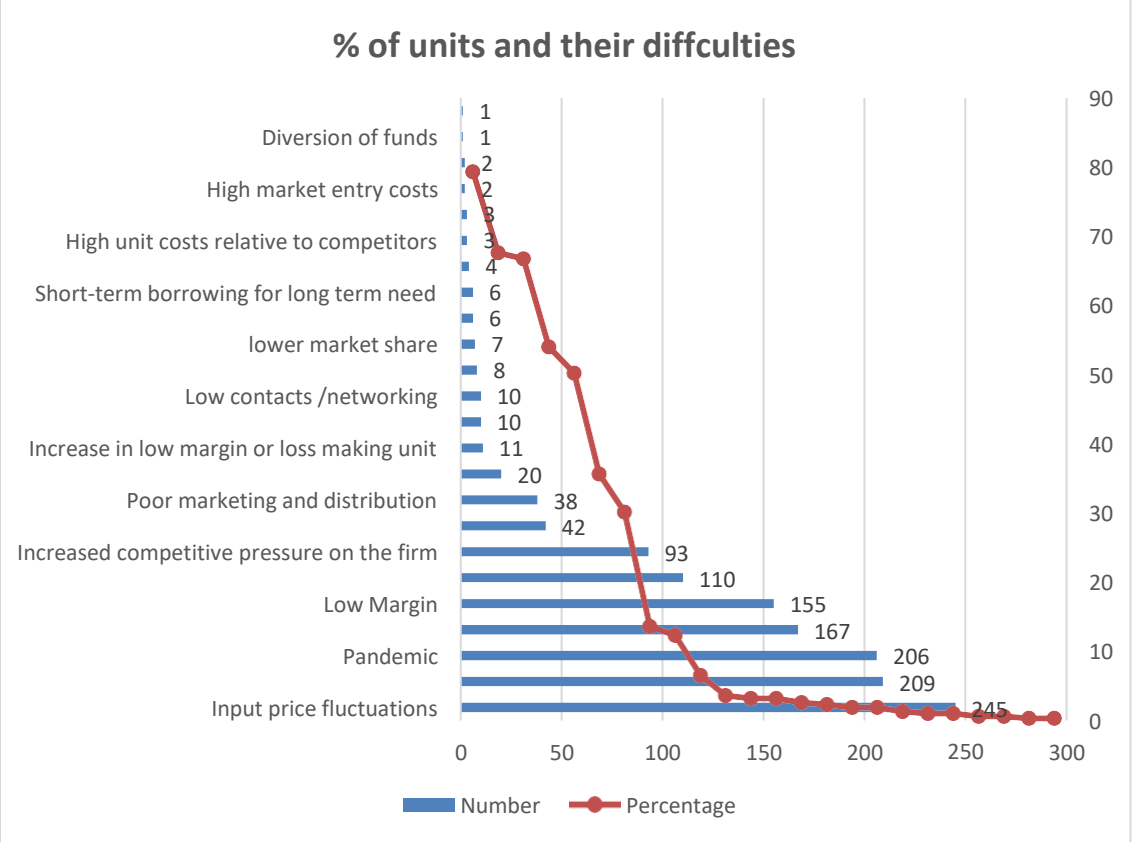


Table 17: Proportion of entrepreneurs suppressed their price of products.

Suppressed Price	Number	Percentage
Yes	114	36.9
No	195	63.1
Total	309	100

Source: Primary data collected by the study

Table 18: Reasons for reducing price.

Reasons for Lowering Price	Number	Percentage
Market Competition	72	63.2
To run a business	25	21.9
To improve the wages	12	13.2
To pay the salaries of the workers	15	11.4
Don't lose the customers	13	14.0
Due to lockdown	5	4.4
Increased Raw material cost	4	3.5
Repayment of loans	3	0.0
It is a new type of product therefore selling at low price	3	2.6
Duplicate brands enter into the market	1	2.6
Total	157	-

Figure 7

Source: Primary data collected by the study

TASTY SPICE

RUCHI FOODS

Ruchi Foods, a local spice manufacturer based in the Cherlapally Industrial Area of Hyderabad, Telangana, has been operating since 1995. Ruchi Foods specializes in manufacturing three products Red Chilli Powder, Turmeric Powder, and Coriander Seeds (*Dhania)* Powder and unit is constituted as partnership firm. Due to the high competition with established brands such as Ashirwad, MTR, Everest, and MDH. These bigger brands leverage their large-scale machinery for high-volume production, making it challenging for smaller local brands like Ruchi Foods to compete.

Since 1995, unit has shown gradual growth with a turnover of Rs.540 Lakhs per annum in the year 2019-20. Ruchi Foods faced a significant setback due to the impact of the COVID-19 pandemic. Pre-COVID, the unit generated approximately Rs. 40 lakhs in monthly revenue with a 15% profit margin. However, post-COVID, the revenue has drastically reduced to Rs.4 lakhs per month. Pandemic also resulted in the separation of the partners. Currently, Ruchi Foods is a sole proprietorship, with its product line named "Chetan Gold."

The unit's accounting process is manual, lacking digitization, which indicates a lag in adopting technological advancements compared to other units. Additionally, Ruchi Foods experienced a decline in the number of employees, reducing from 20 to 3. The unit faces several financial challenges. It has a term loan from Union Bank, with a significant portion yet to be paid.

The major financial issue arises from the need to market the products effectively. Ruchi Foods has hired a marketing and sales department, but the pending receivables from sales amount to Rs.40-50 lakhs, making it increasingly difficult to recover them. The payment collection period is 15 days, whereas the receivables take up to a month. Additionally, the payables amount to around Rs.60 lakhs, further impacting cash flow. They require efficient receivables management to turn around.

In terms of market presence, Ruchi Foods is predominantly localized in Hyderabad and its surrounding areas. The unit relies on old and trustworthy customers, with major clients including Krishna Kiranam at Nagole and PR Kirana stores at LB Nagar. However, Ruchi Foods has minimal market share and struggles to compete against the larger brands. The absence of a proper distribution network and the reliance on personal contacts limit the company's reach and hinder its ability to expand its customer base.

To overcome these challenges, Ruchi Foods needs to address its financing, operational, and marketing issues. Implementing effective receivables management strategies, seeking alternative financing options, and improving financial planning can help stabilize the company's cash flow. Streamlining internal processes, investing in technology, and exploring new market segments can enhance operational efficiency and unlock growth opportunities. Developing a comprehensive marketing strategy, including brand differentiation, and expanding the distribution network through partnerships and online platforms, can help Ruchi Foods establish a stronger market presence.

In conclusion, Ruchi Foods, a local spice manufacturer, faces significant challenges in financing, operations, and marketing. By addressing these challenges through strategic measures and adopting a proactive approach, Ruchi Foods can overcome obstacles, achieve sustainable growth, and compete more effectively in the highly competitive spice manufacturing industry, provided digitize his operations, develop accounting competency, and improve accounting and packaging.

3.9 Access to formal sources of finance for working capital.

3.9.1 The study indicates that 68 per cent of entrepreneurs have received credit for working capital from formal sources like banks and Financial Institutions (Table 19). However, 59 per cent of them have reported that the credit they received is not inadequate as compared to their working capital requirements. Moreover, about 75 per cent of them received standing instructions for repayment, implying that they promptly repaid their committed borrowing.

Table 19: Proportion of entrepreneurs received working capital credit from bank/FIs.

	Working capital credit from bank/FI		Sufficient credit from bank		Standing instruction for repayment	
	Number	Percentage	Number	Percentage	Number	Percentage
Yes	210	68.0	86	41.0	177	74.7
No	99	32.0	124	59.0	60	25.3
Total	309	100	210	100	237	100

Source: Primary data collected by the study

3.9.2 The study has also investigated the challenge faced by entrepreneurs in accessing formal credit. About 44 per cent of entrepreneurs reported that they have not faced any issue or challenges in accessing formal credit (Table 20). The entrepreneurs reported the long-standing issue of procedural delays. About 30 per cent of entrepreneurs reported they have to make frequent visits to the banks to get the loan sanctioned. Similarly, about 27 per cent reported that the banks are demanding collateral which the entrepreneurs find difficult to provide.

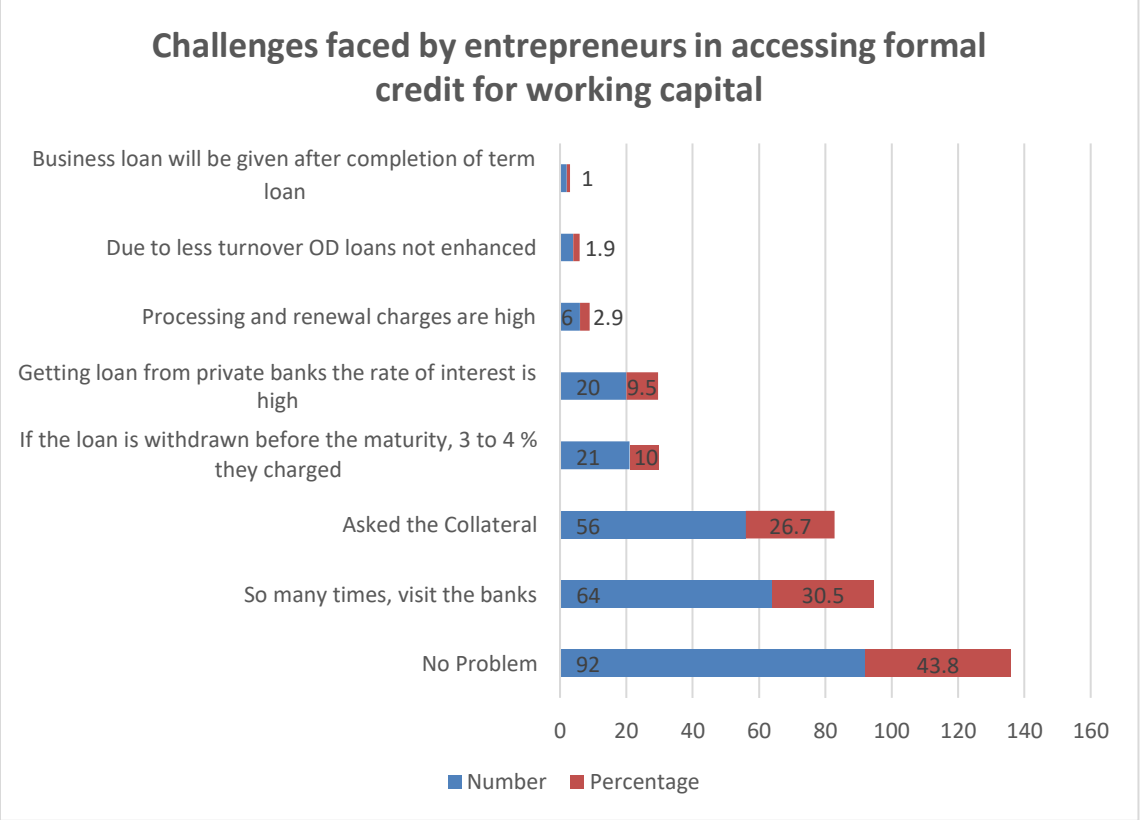
3.9.3. 7.5 per cent of entrepreneurs have also reported that the processing of public sector banks is cumbersome and therefore they shifted to private banks despite having to pay a higher rate of interest.

Table 20: Challenges faced by entrepreneurs in accessing formal credit for working capital.

Challenges	Number	Percentage
No Problem	92	43.8
So many times, visit the banks	64	30.5
Asked the Collateral	56	26.7
If the loan is withdrawn before the maturity, 3 to 4 % theycharged	21	10.0
Getting loan from private banks the rate of interest is high	20	9.5
Processing and renewal charges are high	6	2.9
Due to less turnover OD loans not enhanced	4	1.9
Business loan will be given after completion of term loan	2	1.0
Total	265	-

Source: Primary data collected by the study

Figure:8



3.9.4. Further, about 17 per cent of entrepreneurs have availed term loans from the banks indicating the majority of them have used other sources of finance (Table 21). As reported in Table 22, about 40 per cent of entrepreneurs use their own resources to finance their fixed capital requirements. This implies that access to formal credit for investment is still an issue faced by the MSEs.

3.9.5 Further, among those who availed term loan from formal sources, about 28 per cent reported that there are delays in sanction and about 13 per cent reported that there are delays in release of amount (Table 23). Moreover, about 6 per cent of total entrepreneurs have declared NPA by the banks. Out of 19, banks have restructured loan accounts of 11 enterprises. All the 19 have come out of NPA status. Total of 17 were served notice under SARFAESI Act. All the 19 have given one-time settlement facility by the Bank/NBFC.

Triumph Over Adversity

The Inspiring Journey of Spoorthi Labelling Solutions

Spoorthi Labelling Solutions (Categorised as a *small* enterprise), a privately-owned enterprise established in 2012 by brothers Manmohan and Raghunandan, has emerged as a testament to the power of determination and resilience. This case study explores their remarkable journey from humble beginnings to becoming a thriving Labelling business in Hyderabad, despite facing numerous challenges and setbacks.

The Early Days: Challenges and Initial Success

In their early days, Manmohan and Raghunandan focused on providing Sales & Service to Barcode printers. Recognizing the market demand, they transitioned into manufacturing plain labels from a leased premises and achieved a monthly revenue of Rs.5-10 lakhs. However, their attempts to secure loans from banks failed due to the lack of collateral and owner's resistance to enter into a long-term agreement with mortgageable rights for the lender.

Expanding Horizons: Investing in Growth

Undeterred by the loan rejections, Spoorthi Labelling Solutions invested in the latest machinery, including digital press and various Labelling equipment. These strategic moves led to a significant increase in turnover, reaching 40-50 lakhs per month. Despite the funding challenges, the brothers remained resourceful and relied on informal sources of credit to support their expansion.

Overcoming Loan Challenges: Persistence and Determination

As their business continued to grow, Manmohan and Raghunandan needed additional machinery worth Rs.1.2 Crores to meet the rising demand. They approached nationalized banks, presenting a purchase order worth Rupees two crores from prestigious clients such as Dr. Reddy's Laboratories and ICRISAT. However, the banks were unable to sanction the loan, leaving the brothers disappointed. Nevertheless, they refused to give up and secured the required funds once again through informal sources, enabling them to expand further.

Steadfast Growth and Recognition

The enterprise experienced rapid growth with the new machinery in place, with monthly turnover scaling to Rs.80 lakhs. The enterprise employs 15-25 people, of which 60% of women workers are hired in the packaging department. Leveraging platforms like India Mart and Justdial, they enhanced their visibility and received orders from prominent companies. Their preference for sensor-based machinery over mechanical systems resulted in improved productivity and reduced maintenance costs. The enterprise has optimised space by locating the required machines in a manner that they could work with limited number of workers.

Building Credibility and Resilience Spoorthi Labelling Solutions earned the trust of renowned clients such as ICRISAT and Dr. Reddy laboratories. These clients would visit the enterprise's premises to assess their production capacity and check whether they own any backup machinery to sustain in case of contingencies. Despite the challenges of managing receivables and payables, the enterprise maintained a favourable receivables period of 30-45 days and payments within 15-20 days.

Navigating the Pandemic: Like many businesses, Spoorthi Labelling Solutions faced difficulties during the COVID-19 pandemic. The enterprise had to endure temporary closure and adjust to the changing market conditions. However, their hardiness and pliability allowed them to weather the storm, and they are currently recovering and reestablishing their operations.

Reflection and Potential

While Spoorthi Labelling Solutions' journey exemplifies its tireless determination and persistence, its growth potential has been hindered by the challenges it faced in securing loans and subsidies from banks and the government. Despite their success, greater support from financial institutions and the government could have propelled them even further.

Conclusion: Spoorthi Labelling Solutions' inspiring journey showcases the power of perseverance in the face of adversity. From their modest beginnings to their current success, Manmohan and Raghunandan have demonstrated that they can overcome any challenge with determination, resourcefulness, and unwavering belief in their vision. Their story inspires aspiring entrepreneurs and highlights the crucial role that external support plays in unlocking the full potential of businesses like Spoorthi Labelling Solutions

Table 21: Availing Term Loan from formal sources

Availed Term Loan	Number	Percentage
Yes	53	17.2
No	256	82.8
Total	309	100

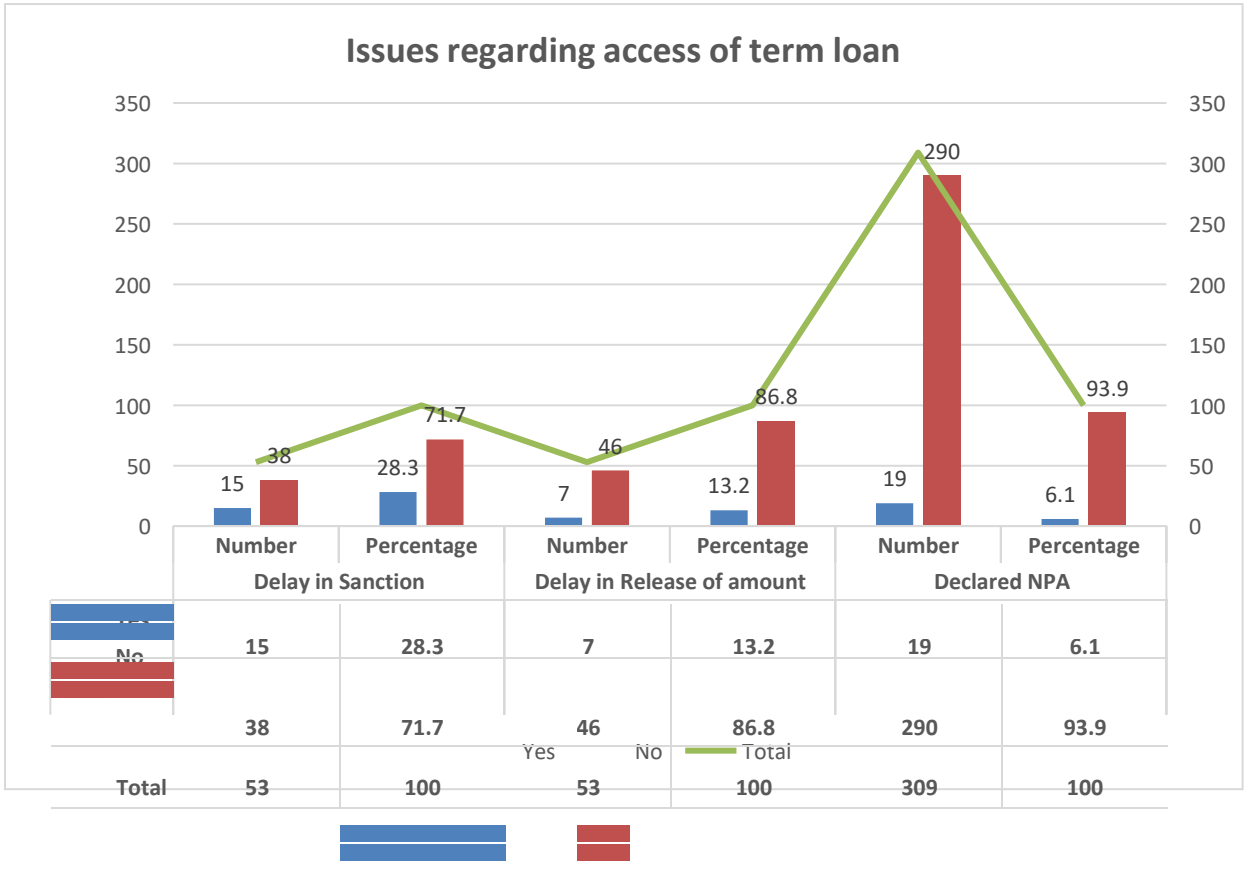
Source: Primary data collected by the study

Table 22: Proportion of own investment to total investment

Proportion	Number	Percentage
Up to 25 %	17	5.5
25 to 50	65	21.0
50 to 75	67	21.7
75 to 95	36	11.7
100	124	40.1
Total	309	100

Source: Primary data collected by the study

Table 23 & Figure 9: Issues regarding access of term loan



Source: Primary data collected by the study

3.10 Government Initiatives

3.10.1. About 27 per cent of entrepreneurs only received relief under Atma Nirbhar Bharat Abhiyan Scheme (Table 24). The relief was mainly in the form of Moratorium of one year (89.2 per cent) and additional working capital of 20 per cent (84.3 per cent). However, only about 16 per cent received equity under Sub-ordinated Debt.

Table 24: Relief under Atma Nirbhar Bharat Abhiyan Scheme

Relief under Atma Nirbhar Bharat Abhiyan Scheme	Number	Percentage
Yes	83	26.9
No	226	73.1
Total	309	100
Moratorium of one year given i.e., out of 83	74	89.2
Additional working capital of 20% given i.e., out of 83	70	84.3
Equity under Sub-ordinated Debt given	13	15.7

Source: Primary data collected by the study

3.10.2 Among those who have not availed the scheme, about 54 per cent of entrepreneurs are not aware of Atma Nirbhar Bharat Abhiyan Scheme and about 19 per cent did not require the assistance under this scheme (Table 25). Other difficulties faced by the entrepreneurs include unresponsiveness of banks (11.9 per cent), non-availability of loan due to low turnovers (5.3 per cent), requirement of two years of experience (2.7 per cent) and having an account in a private bank is not eligible for this scheme (2.7 per cent).

Table 25: Reasons of denial by Bank

Reasons	Number	Percentage
Not aware	123	54.4
No need	42	18.6
No response from bankers	27	11.9
Non-availability of loan due to less turnover	12	5.3
Bankers want two years of experience to give loan	6	2.7
Having an account in a private bank is not eligible for this scheme	6	2.7
Unable to get loan due to lack of collateral	5	2.2
High rate of interest	3	1.3
Do not give overdraft loan due to other loans	2	0.9
Total	226	100

Source: Primary data collected by the study

3.10.3. In case of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMS), about 33 per cent of entrepreneurs are aware of the scheme (Table 26). However, only about 7 per cent of entrepreneurs have availed the scheme.

Table 26: Particulars of CGTMS Scheme

	Aware of CGTMS Scheme		Availed any loan under CGTMS Scheme	
	Number	Percentage	Number	Percentage
Yes	103	33.3	22	7.1
No	206	66.7	287	92.9
Total	309	100	309	100

Source: Primary data collected by the study

4. RECOMMENDATIONS

4.1 The Study covers the period 2019-22. Analysis of the survey reveals that the basic reason for stress in the MSE units is under-utilisation of Installed Capacity in around 72% of the units during 2022 while during the pandemic (2020), the same was 90%.

4.2 As per the survey, if we further drill down to the root causes contributing for under-utilisation of installed capacity, following four factors are major contributors:

(i) Lack of Demand (39.2%),
(ii) Increased Cost of Raw Materials (30.1%),
(iii) Lack of Finance (23.3%) and
(iv) Labour Problems (22.7%)

4.2.1 Lack of Demand – Reasons for the lack of demand falls under two categories: – on account of (a) outdated product, and/or (b) reduction in purchasing power in the economy.

(a) Product update should be tried with the help of the existing ecosystem and not by going in for heavy capital investments for which both equity and debt would be difficult to secure when the enterprise in downturn. Here the guidance from research institutes, NSIC, etc. will help the units to change the product line with minimum additional capital investment, if necessary and available. Since the reach to such institutions would be difficult for stand-alone enterprises, the enterprises should learn to work in cluster and share the information relating to product and processes so that the best possible can be churned out These units may be in a geographically contiguous area or scattered also. The eco system should ensure that all SME units are linked to one or other Cluster and the Cluster management should be like an administrative office of any company having units at various places (Ex: Regional Offices in banks). District Industries Centres may be entrusted with the task of linking all MSME units to the Clusters.

(b) If the lack of demand is on account of reduced purchasing power in the economy, the issue needs to be addressed at macro level, creating favourable conditions for consumption which will augment buying power of the consumers at large.

4.3 Increased Cost of Raw Materials:

Procurement in bulk can happen only when the units producing related products come together. This can happen either through clusters or with the help of Industry Associations. Industry Associations can pool the requirements of raw materials of their members and arrange for placing orders with the principal suppliers instead of in retail. If all such enterprises bank with a single bank, the units producing related products, can request the bank for pooling their limits for supplier credit (letters of credit). Such arrangement was done in Peenya Industrial Estate in Bengaluru in the distant past by Canara Bank. Industry Associations should pool the MSEs' requirements for arranging bulk supply of raw materials either through National Small Industries Corporation or the MSME-DFO. In such cases smaller units will have the advantage of buying the raw material at low cost to become competitive at the production point. Though NSIC / MSME-DFO (Development & Facilitation Office), GoI place bulk orders for raw materials with bigger manufacturers, smaller units will not have wherewithal to participate in such procurements. It is suggested that such organizations should encourage the small units to form clusters even where they are not geographically contiguous.

4.4. Lack of Finance / Inadequate Finance:

4.4.1 This is one of the major impediments for utilisation of installed capacity. Though the study indicates this problem at 23.3%, its impact is much higher since many of other issues are also related to finance.

4.4.2 Here we notice a peculiar dichotomy in the market. On one hand, many banks /FIs / NBFCs compete vigorously for market share in financing to MSMEs, but on the other hand more than 50% of SMEs suffer on account of lack of institutional finance, forcing them to go to money lenders and other unorganised markets.

4.4.3 If the increase in cost of raw materials is associated with inadequate or untimely release of working capital, as noticed in the study, one option is to switch over to a bank/NBFC other than the one they are currently associated provided they are not NPAs (RBI rules do not allow NPAs to switch over to other institutions). The other option is to seek interim finance from a pliable financial organization. The third option is to seek critical amount finance from organisations like the TIHCL.

4.4.4 We also strongly recommend to the RBI that they may review their guidelines/mandates to help the distressed MSEs that have sunk their personal money and other resources, as long as they are non-wilful defaulters, to switch over to a financial institution of their choice and such switch over may happen in no more than three times in their long enterprise journey.

RBI is requested to review its mandatory guidelines for revival and restructuring of MSMEs in view of the tardy implementation noticed in the field. 1. It may allow non-NPA enterprises to switch over to their preferred Bank, no more than three times during their enterprise journey. 2. It may also subject the decision of the lending banker on NPA-declaration to a state government approved entity, for a reasoned review.

In this regard, we may recall the observations made by Sri Raghuram Rajan, ex-Governor of RBI as under:

"*A Banker who lends with the intent of never experiencing a default is probably over-conservative and will lend to too few projects, thus hurting the growth*."

4.4.5 Further, we may also quote here the observation made by NITI Ayog in it's one of the reports as under:

"…… *that being regulated entities and as fiduciaries of public trust in that they issue retail deposits and are critical Payment Service Providers (PSPs), the compliance requirements of applying for a bank loan are onerous for an unincorporated micro and small enterprise owner ("MSE").* "

"The other stakeholder here are the NBFCs. NBFCs are regulated moderately relative to banks and have leveraged that autonomy to develop distribution, underwriting and product expertise in niche areas that are not serviced by banks. This is especially true of the modern NBFCs that have digitized all elements of their value chain, giving them greater reach as evidenced by a larger market share than banks in MSME funding. However, lacking the ability to take deposits, they rely on funding from bank loans and debt capital markets themselves. This translates into higher cost of capital for the NBFCs with corollary consequences for the MSMEs relying on them."

4.4.6. In this background the role to be played by special innovative institutions established with a noble cause of helping the stressed manufacturing MSE units like Telangana Industrial Health Clinic is very vital in survival of the stressed MSEs.

4.4.7 MSEs facing stress is a recurring phenomenon. It is also a fact that neither the Banks that lend directed credit to the enterprises nor the NBFCs and FINTECHs that lend at commercially viable rates of interest, will be willing to lend further to such stressed enterprises, for a variety of reasons. It is to fill such a void that specialised institutions like the ones created by Government of Telangana (TIHCL) become relevant and necessary. But such institutions can indulge in soft lending only when the state government gives suitable annual budgetary grants as a necessary process.

a) The present study has established that shortage of working capital to the extent of Rs.130 crore has resulted in shortage of workforce (employment) to the extent of 1533 persons (at an average of Rs.8.50 lakh per person).
b) While the Banks / FIs assess the working capital requirement at yearly intervals, the temporary requirements are met with a lot of difficulty, though overdrawing to the extent of ten percent is permitted. The specialised institution like TICHL may develop products to meet such contingencies.
c) Industry Associations are encouraged to bring to the notice of the TIHCL the requirements of such units with shortage of temporary working capital for appropriate remedy in time.

4.5. Labour Problems (22.7%): Here also, we see a dichotomy of huge unemployment on one side and severe labour shortage on other side. However, the labour shortage during pandemic period is totally for varied reasons.

4.5.1 Generally, the problem being faced by many MSEs is shortage of skilled workers suitable for their industry. Though there are many technical educational institutions, like Polytechnics and ITIs, many a time there is a mismatch between the institutional learning and the requirement of industry. While the Government of Telangana and GoI have established several skill development centres, it is desirable to develop peripatetic teams of trainers for on-the-shopfloor-training as most owner-led micro and small enterprises do not have the luxury of seeking institutional learning mechanisms. Here ni-msme, NSIC / MSME DFO etc. that provide technical research and training, should improve their scale, and reach through such peripatetic trainers, in coordination with the District Industrial Centres.

4.5.2 Since such a change cannot happen in the near future, it is suggested that two days of tailor-made training at the Common Facility Centres (CFC) in clusters may be organised

in different disciplines like welding, machining, electrification, plumbing etc., once in every fortnight. The costs can come partly from budgetary resources and minimally from the enterprises. This will also help gaining internal strength and scaling up. The startup ecosystem for manufacturing MSEs is noticeably different from that obtaining in the Information Technology stream. It is also recommended that after six months, the same set of enterprises should be invited for a refresher-cum-evaluation course of one day to gauge the effectiveness of the initial training provided. Digitization of enterprise is no longer an option but an imperative to convert their supply chain into value chain management.

4.5.3 Enterprises should view expenditure on training their labour as investment and not cost as they add to productivity.

4.5.4 As Technology is always on constant innovation, today's requirement may become obsolete in a few months / years. This may be coordinated by respective DICs.

5. Other Recommendations:

5.1 Establishment of a Comprehensive Eco-system: A Comprehensive eco-system should be established with an objective to identify the stressed units at an incipient stage, with an integrated approach. In this eco-system, all the stakeholders, including DISCOMS, GST Authorities, Municipal Authorities, Industry Associations, Industrial Estate Administrators, etc., should be made partners. Information from all these stakeholders has to be collected on a continuous basis, with or without a fixed periodicity, to analyse the same, identify the stressed units to initiate required remedial measures, much before the situation goes out of control. At the level of Districts, the District Collector may hold such coordination meetings once a month while in the industrial parks (Park Administrators) and industrial local area authorities (IALAs), the industry associations should take the lead in holding such coordination meetings. The proceedings should be appropriately recorded and sent to the Commissioner of Industries for appropriate direction and action.

5.2 Capital Incentive structure should be different, based on the employment potential: According to the Ministry of MSMEs, these enterprises contribute approximately 30% of the GDP and employ around 110 million people. MSMEs have the potential to

generate more jobs in comparison to larger industries as they require low capital investment and have a higher employment intensity. Hence, Investment Subsidy Scheme should be revamped, apart from the capital invested, to give more weightage to those units that are creating more employment opportunities. The study revealed that for each enterprise employing one person, Rs.8.5 lakhs is the investment in the industry both by way of working capital and investment capital.

5.2.1 To ensure that the MSEs which commenced operations and got incentives, do not close their operations on account of lack of expertise both technical and financial, the Industry Associations represented that incentives should be sanctioned to the MSEs whose proprietor / partners receive technical training in their line of operation and also in financial management. These short duration trainings may be given by the institutions to be set up in all Districts with the help of DICs.

5.2.2 Timely Sanction / Release of Incentives: Incentives, viz., Power Subsidy, Sales Tax Subsidy, Pavala Vaddi, etc., will be considered and sanctioned based on the actuals incurred by the Units.

All these incentives are meant to relieve the stress in working capital requirements of the enterprise. Majority of the MSEs are facing cash flow mismatches and resultant working capital shortage. Hence, the enterprises suggest that these incentives should be released at frequent intervals or should introduce immediate cash back system, so that it will enable them to meet the cash flow mismatches / availability of required working capital funds and thereby improved capacity utilization and regularity in the working capital cycle.

6. Attracting new Customers:

6.1 The biggest challenge faced by MSEs is attracting new customers. It is easier for larger companies to attract new customers due to their strong branding and effective marketing arrangements. But the same is not true with the MSEs.

6.2 The point here is, attracting new customers doesn't happen overnight and with a single solution. However, the first thing to be ensured is to offer quality products and services. Next, their messaging has to be top-notch. Each Unit should have their unique mechanism, which has to be shown forth in their marketing in the language of the market.

6.3 To attract new customers, the units should be able to relate to a broad mix of customers. Other ways to attract new customers will be to have customer-referral mechanism,

incentivize existing customers, explore different sales channels and different pricing models, network, etc. Banks and NBFCs should sanction special term loan repayable in convenient instalments for brand acquisition, promotion of the product through digital marketing and other media and IPR.

7. Coping with Market Competition:

7.1 One issue that the study has unfolded is the incapacity of the MSEs to face competition. Many enterprises in the study complained of internal competition, brand competition and co-branding as some of the key reasons for their failure. Enterprises should be encouraged to digitize their operations irrespective of their size and agglomerate for digital marketing through the existing well-spread dependable networks.

7.2 Competitors help MSEs to be on their toes. MSEs should take cognizance of their competitors to be always in the forefront. They should know their innovative marketing strategies, their execution, and the services or products they are pushing to the market. This is not to replicate them; rather, understand what their prospects are being exposed to.

7.3 One way to deal with the competition will be to market their products or services to other markets. This doesn't mean switching industries but introducing new and relevant products and extending dependable after-sales service. How much they diversify and welcome new buyers without leaving their industry and how better, they can embrace change and get ahead of the competition, is critical to the survival / expansion of the business. Facilitation has to come from the Industry Associations in large measure and the DICs.

8. In fine, the study has unfolded critical issues that the MSEs face in their day-to-day operations and the need for the ecosystem to be more responsive to them. The above set of recommendations are restricted to the issues focused on the study. Removing the stress of the manufacturing MSEs like the individuals need regular diagnostic tests and preventive solutions institutionally. Some institutional measures recommended are:

1. Shop-floor training (peripatetic training) in preference to the institutional training; 2. Re-skilling and up-skilling the labour at 2-3 days of local level workshops at the District Industries Centres or the nearest Polytechnic Colleges; 3. Industry Associations at the district, industrial park, and cluster levels to actively promote the government schemes through awareness workshops; and 4. Industry pilgrimages to be funded by the state government to institutions like the T-Works, TASK, RICH and IIITs that would help innovation and productivity. Depending on the response, such pilgrimages can be

extended to other states for cross-fertilization of ideas and enhance the competitiveness of MSEs.

9. While Telangana State is in the front in creating a specialised institution like the Telangana Industrial Health Clinic Ltd (TIHCL), the support from the other financial institutions, other stakeholders, and the District Industries Centers, servicing institutions in the energy and revenue sectors plays an important part as financial support is just one of the aspects that contribute to the stress. Like Palle Dawakhanas and Basti Dawakhanas (primary health centres in villages and towns), TIHCL should be spreading its wings to the other districts and industrial estates/parks/IALAs, if adequate equity and grant support becomes available through budgetary sources or through social equity funding. TIHCL would in such cases be able to address the shortage of working capital through innovative schemes and co-lending approaches.

Annexure 1

ABOUT THE PARTNERING INSTITUTIONS

1. Centre for Economic and Social Studies

The Centre for Economic and Social Studies (CESS) was established as an autonomous research centre in 1980. The Indian Council of Social Science Research (ICSSR, Ministry of Human Resource Development, Government of India) recognized it as a national institute in the year 1986 and included the centre in its network of institutions.

The Centre has been registered under Section 6(1) (a) of the Foreign Contribution (Regulation) Act 1976 which enables the Centre to accept contributions from the external agencies for carrying out research work. The CESS has also been approved by the Department of Scientific and Industrial Research, Ministry of Science and Technology and the Director General of Income Tax (Exemptions), Calcutta under the rule 6 of the Income Tax Rules Section 35(1) (iii) of the Income Tax Act 1961.

Thrust Areas of Research

Thrust areas of research are Agriculture and Allied Agriculture, Industry, Intellectual Property Rights, Service Sector, Poverty, Food Security, Employment and Unemployment, District Planning, Resettlement and Rehabilitation, Public Finance, State and Local Finances, Social Sector-Education and Health, Migration, Solid Waste Management, Environment and Sustainable Development, Gender Studies, Urban Studies, Decentralized Governance, WASH, Child Studies, International Trade and Services, Tribal Studies and Social Inclusion.

What they Do

1. Conduct inter disciplinary research in analytical and applied areas of social sciences.

2. Assist the Central and State Government by conducting various policy related studies.

3. Organize seminars, workshops and lectures and conduct training courses and programmes.

4.Establish contacts with other institutions and scholars through collaborative research programmes.

5.Organise Regular PhD Programme in Development Studies to impart research skills.

Their Expertise

Research is the primary activity of the Centre. Problem orientation and relevance have been the priority in the formulation of the Centre's research perspectives. Research problems and gaps are found based on the existing knowledge, trends, and behavioural parameters. The Centre's research focuses more on the economic and social problems of India, Telangana, and other States in the country.

The Centre conducted longitudinal studies like Andhra Pradesh Rural Poverty Reduction Programme (APRPRP), Young Lives spanning over a lengthy period. The Centre has ability in conducting large primary survey-based studies. The Centre has also prepared the Human Development Reports (HDR) for united Andhra Pradesh in 2007. After the bifurcation of the State, HDRs were prepared for the States of Telangana and Andhra Pradesh in 2017. The Report on the Millennium Development Goals is another milestone in the research activity of the Centre. CESS conducted the mid-term appraisal of the 11th Plan of AP for the Planning Commission. It also helped the then State Government in the preparation of the 12th Plan Approach Paper which involved analysis of sectoral growth targets, identification of growth engines, investment pattern, public-private partnership, resource mobilization, assessment, and redesign of programmes for inclusive and sustainable growth. The Centre also carried out studies on tribal agriculture in seven states, baseline survey of WASH in 30 districts of Telangana before the implementation of Mission Bhagiratha – A flagship programme on drinking water. (Source: https://www.cess.ac.in)

CESS entered Memorandum of Understanding with Telangana Industrial Health Clinic Ltd., for undertaking periodical studies (sector-wise and district/area-wise) that would help the former in gauging the health of the micro and small manufacturing enterprises, and in the formulation of industrial policy as and when required by the Government of Telangana.

2. Telangana Industrial Health Clinic Ltd.

Telangana State had to tackle the legacy issues in the sector with large number of enterprises hit with power shortages, labour unrest, statehood agitation that resulted in large number of Sick MSMEs. Hence, we conceived this innovative institution, a NBFC registered with RBI in 2018 – TIHCL. We were acutely conscious that such intervention should work in close coordination with the primary lender where the problem originated.

We have seen that the TEV studies by certain accredited individuals and institutions are orchestrated in accordance with the desire of the lending agency for revival and not so much on the viability of the manufacturing MSEs post revival.

Any change in terms of sanction has been treated as equal to restructuring that lead to the Banks postponing an instalment or rescheduling a loan as equal to revival. Last two years of TIHCL only confirmed NL Abhijit Banerjee's study on Credit Access in India (July 2003):
Term Loan sanctioned with reduced moratorium period.
Term Loan Sanctioned but not to the extent required.
Term Loan sanctioned but working capital either not sanctioned or where sanctioned, interest on term loan was being debited to that account leading to erosion of working capital margins or turning it to NPA even on the day of commencement of commercial production.
Working capital was inadequate and untimely in most cases and in good number of cases was limited to the discretion of the Manager and not what the working capital cycle demanded.
Subordinate Debt Scheme under Atma Nirbhar Bharat Abhiyan floated during the pandemic with a guarantee cover from the National Credit Guarantee Scheme, had limited success going by the assessment of the Ministries of Finance and MSME. The reasons are not far to seek: 1. The NPAs were moved to Stressed Asset Management branches of the banks and recalling them to the fold of operating branches was a herculean task. 2. Revival decision has to be taken by the operating units functioning under a different Controlling Office from the SAM branches. **3.** Revival requires better monitoring and supervision as banks cannot afford to risk the asset again falling into the NPA fold. 4. Decision to revive also involves a committee to decide after the techno-economic evaluation is done by the banks' approved institution.
Manufacturing enterprises, on their part, have erred in compliance of terms and conditions of sanction of credit in a few cases. They have also defaulted on instalments. They have created excess capacities over and above the sanctioned investment loans eating upfront the margin on working capital starting on stress from the very first day of commercial operations. Their product lines and processing are with sub-optimal technologies. Packaging the products was not in accordance with market and regulatory expectations. Guidance on pricing of products, marketing and technologies was available at a huge unaffordable cost or just not available making several units incipient sick/sick.
It is the foresight and vision of the government in the very first few years of its creation that led to setting up the Telangana Industrial Health Clinic Ltd, one of its kind in the entire nation till now targeting the revival and restructuring of micro and small manufacturing enterprises as one of its principal objectives. To the extent it prevented closure of viable manufacturing micro and small enterprises both through strategic supports and financial support where required to track them back to health, it helped sustaining employment in those enterprises.

This institution which removed stress of 612 enterprises during the last two years compared to 111 enterprises considered as potentially viable by the SLBC during this period. The details for the last quarter ending March 2023 indicate 7309 enterprises were under stress while barely 6 enterprises were resolved with an outlay of Rs.3.56 Cr. The data includes both manufacturing and services.

Social impact measured in terms of employment sustainability involves around 4700 persons approximately while the machinery worth around Rs.195 Cr has been restored to near full capacity measured in terms of average of six persons and Rs.25 lakhs machinery value per enterprise. (https://www.tihcl.telangana.gov.in/)

TIHCL proved that it can provide process consultancy services like handholding, mentoring and counselling to ensure that the solutions provided are actually in place during the period of revival with periodic monitoring reports. Periodical sectoral and district studies to gauge the stress of the enterprises and help evolving suitable policy instruments are part of its essential mandate.

Annexture 2

Proposal for a Study of the Industrial Health of the Micro and Small Enterprises (MSEs) in Telangana

Micro, Small and Medium Enterprises (MSMEs) constitute an important segment of the economy in terms of production (30 percent of GDP), employment (63.39 mn persons as per 2017-18 NSSO data) and exports (39 percent). These are governed by the regulations framed under the MSME Development Act (2006) as amended in June 2020 in terms of the definition. Of these, MSEs face major challenges in accessing credit, sustainability, and growth.

India's vision of becoming a global power is undoubtedly possible only when the MSME sector can contribute further to the economy. Nitin Gadkari, the then Union Minister for MSMEs rightly pointed out that 'India's vision of becoming a USD 5 Trillion economy is possible when the MSME sector contributes 50 percent of GDP'. Such a contribution has the prospect of becoming a reality only when the sector is healthy and stress free.

Besides contributing to economic growth, the MSME sector is considered as a catalyst for socio-economic transformation in India. It largely contributes to various national objectives like employment generation, poverty eradication, and resistance to rural-urban migration.

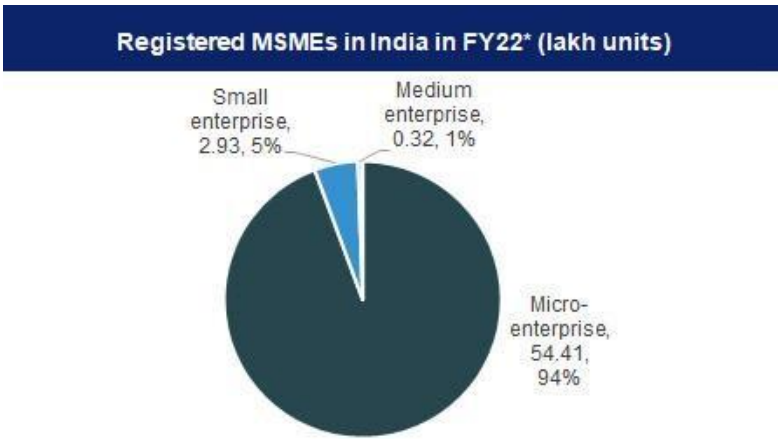
In view of the significance and role of the sector, the government is expected to provide adequate support to ensure MSMEs' growth by protecting them from internal and external shocks and ensure smooth flow of finance and other supplies. The global slowdown that started before the onset of pandemic and the pandemic from early 2020 had hit the small industries and are still struggling to recover and optimize the production levels.

Definition:

Source: MSME Development Act 2006, as amended in June 2020.

MSME Definition

Type of enterprise	Investment	Turnover
Micro	Rs 1 crore	Rs 5 crore
Small	Rs 10 crore	Rs 50 crore
Medium	Rs 50 crore	Rs 250 crore



Access to Finance:

Supply-side Issues:

One of the biggest challenges that MSMEs face in India is the low access to finance from organized institutions such as public sector banks, private sector banks, NBFCs and other financial corporations. There are number of reasons for the scenario and one of the significant reasons behind financial challenges is the lack of financial literacy.

The majority of MSME owners are from education-deprived and poverty-hit regions and are unaware of the special financial privileges given to them by the government. Apart from financial illiteracy, other major challenges faced by the MSME sector in accessing finance are:

1) Priority Sector Lending:

Government of India and Reserve Bank of India considered the sectors that are important for the development of the basic needs of the country and are put under priority sectors. The banks are mandated to encourage the growth of these sectors with adequate and timely credit by earmarking a certain percentage of net bank credit. These sectors include:

- Agriculture
- Micro, Small and Medium Enterprises
- Export Credit
- Education
- Housing
- Social Infrastructure
- Renewable Energy
- Others

Till November 2013, only agriculture, micro and small manufacturing units, education, transport sectors were included under priority sector lending, but the RBI decided to include incremental bank loans to medium scale enterprises (as defined in the MSMED Act of 2006), extended after November 13, 2013, as priority sector advances. With the inclusion of medium scale service enterprises under priority sector lending, the share of lending to these industries is on rise as they are preferable over micro and small units due to risk factor.

The prescriptions relating to priority sector lending have been modified and several new areas included from time to time. After the inclusion of medium enterprises, in July 2021, the RBI included retail and wholesale trade within the ambit of MSMEs, thus bringing them under priority sector lending (PSL).

Thus, now there is an enlargement of areas under priority sector lending, and this has affected the lending to micro and small manufacturing enterprises.

2) *Finance to MSMEs- Working Capital and Term Loans:*

Different banks are following different standards in collateral securities and are not following guidelines laid down for issuance of loans – term loans / working capital loans. A common complaint from the majority of industry members is that -banks often insist on

collateral security at much higher value than prescribed, putting the entrepreneurs at risk as they are forced to approach private funding agencies.

Also, the value of plants and machinery is not considered as an asset of the enterprises. This is limiting the collaterals to only land and buildings and entrepreneurs are more often than not pledging the personal properties as security to get even working capital finance. This, we believe, is the main reason for low entrepreneurial qualities in the country, as any loss directly affects the life of the family members.

3) Credit Rating and CIBIL Scores

Finance is one of the major challenges and at the same time rise in nonperforming assets (NPAs) among the MSME loans has become a matter of concern for banks forcing them to be more and more restrictive in funding small industries. This cycle is vitiating the lending process for SME sector.

To overcome the challenge and improve the credit worthiness of medium enterprises, the government initiated the Performance and Credit Rating Scheme. Agencies enrolled under SEBI and enlisted as External Credit Assessment Institute by RBI can carry out the rating. The credit rating agency will investigate the establishment that involves a site visit and provide a credit rating. Accordingly, this report will cover the performance of the unit along with the creditworthiness of the establishment. Further, it would encompass the unit's operations, finances, extent of business, and the risks in the management. This external assessment mechanism was not applied to the MSEs.

Rating is paid for by the borrower. Rating technically should help both borrower through better terms of credit and lender through rectifying information asymmetry and avoiding adverse selection. But both are not happening, save exceptions. The rating agencies are arm twisting the entrepreneurs for their selfish ends and manipulations are high. The purpose for which the rating system is introduced is not served, on the other hand, the agencies are creating lot of troubles to the entrepreneurs who do renew or continue with the agency.

Thus, the government may review the performance of rating agencies, authenticity of the rating given, style of functioning, how far the ratings are taken and approved by the Banks and what benefit the enterprises are getting out of the ratings given by the agencies.

Since 98 percent of the MSEs are either proprietary or partnerships, banks look at the CIBIL ratings which invariably include all the borrowings of the entrepreneurs and updating of records has a lag of six months, even good borrowers are denied the genuine credit requirements.

RBI Definition of Sick Unit:

A MSE is considered ‘sick’ when –

a) any of the borrowed accounts of the enterprise remains NPA for three months or more

OR

b) There is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth.

The causes of sickness of a unit can be classified into two divisions:

INTERNAL CAUSES:

- Management issues in the unit like disputes between partners
- Excessive dependence on unsecured creditors
- Poor use of available finance
- Issues in production due to labor distress, outdated technology, poor quality of raw materials
- Personal issues running the family of the entrepreneur.
- Dependence only on few markets and buyers
- Product Process Packaging – Inadequacies

EXTERNAL CAUSES:

- Power shortage and frequent power cuts.
- Statutory policies amendments
- Concentrated markets leading to lack of anticipated demand.
- Delay in receiving the finance and lack of adequate funds.
- Supply chain failure to delay in receiving of the raw material inputs.
- Natural calamities

4) Stress factors:

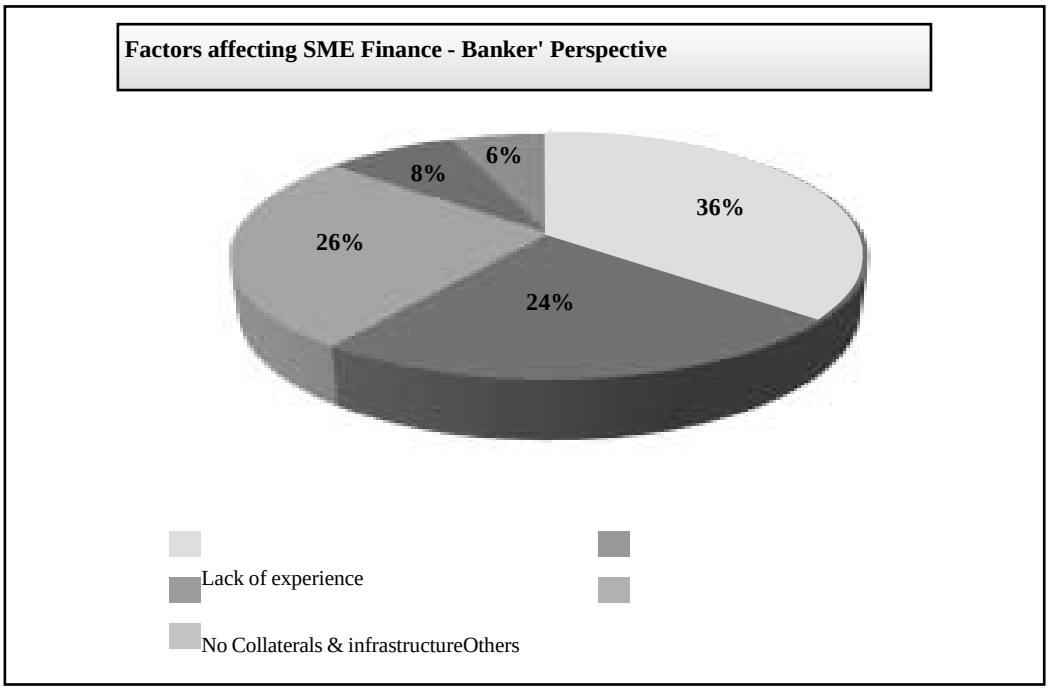
There is no incentive for the staff rehabilitating sick units to the same degree as adding new numbers-of course, even the track record of adding new units is bad enough during the preceding five years. Revamping them would also require them to cross many hurdles in terms of the paperwork, disclosure rules, etc. Putting the unit back on track is simply not worth their personal effort. As if this were not enough, even where the units settled their dues to the Banks through one time settlement, the electricity dues, sales tax dues, provident fund dues to the labor that are not traceable (they may have found alternate employment since the closure) prevent the unit to exit. The units' debtors from the public sector undertakings, State and Central Government departments would have been down the drain. The claims become unsustainable on the closure. The sale of the vacant spaces and sheds is a long hurdle race.

The RBI guidelines although do not prevent an NPA account considered viable for takeover, the Bank that takes over has to create provisions from the day of takeover such outstanding in the directed proportions in its Books of Account. Similarly, an account settled under OTS with one Bank is ineligible for rehabilitation by any other Bank even if the OTS treatment turns the unit viable. To take the devil's argument, it is not unlikely that some entrepreneurs skillfully manipulate for failures to gain a pecuniary advantage from the existing system and make reentry to secure incentives under rehabilitation. Therefore, the units that are identified for rehabilitation should be of the entrepreneurs whose integrity is not in doubt but who failed on account of sheer market forces. But who should decide? And how they should be nursed back to health?

5. Demand-side risks:

According to a study by Dr. Ram Jass Yadav (2018), on the 'Issues in SME Financing',

Banks perceive financing SMEs as risky due to the reasons specified in the chart.



High cost of doing business, inadequate equity, cumbersome regulations, lack of knowledge both of the production activities and financial aspects, high dependence on debt, inadequate marketing skills, delays in payment of receivables from the governments, PSUs and large corporate borrowers, delays in debt resolution processes and lack of training onsite are the major aspects that make the MSEs in manufacturing non-performing. These are the stress factors to be specific for the manufacturing MSEs.

PMO Task Force (2010), Government of India identified the following issues faced by the MSEs in India:

Major issues concerning the MSME sector.

Although Indian MSMEs are a diverse and heterogeneous group, they face some common problems, which are briefly indicated below:

- Lack of availability of adequate and timely credit.
- High cost of credit.
- Collateral requirements.
- Limited access to equity capital.
- Problems in supply to government departments and agencies.
- Procurement of raw materials at a competitive cost.

- Problems of storage, design, packaging and product display.
- Lack of access to global markets.
- Inadequate infrastructure facilities, including power, water, roads, etc.
- Low technology levels and lack of access to modern technology.
- Lack of skilled manpower for manufacturing, services, marketing, etc.
- Multiplicity of labour laws and complicated procedures associated with compliance of such laws.
- Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily; and
- Issues relating to taxation, both direct and indirect, and procedures thereof.

Telangana

At the dawn of Telangana State, industry had a bleak future and was severely hurt both in production and productivity due to severe power outages, labour unrest and lack of capital. The State carved out an industrial policy that provided for innovation, research, and revival of MSEs as key factors for further growth.

The institutional mechanisms included setting up of Telangana Industrial Health Clinic Ltd., as non-deposit NBFC under the RBI regulations. The mandate of TIHCL included conduct of sectoral studies and studies relating to the incipient sickness and sickness of the MSEs. During the year 2017-18, it has conducted a study of TSiPASS that provided the data relating to the MSEs in the state.

Telangana State is investors' darling in the country because of the progressive policies and facilitation for establishment and sustainable growth of enterprises. This context requires healthy growth of enterprises. Experience of the TIHCL during the last four years revealed that MSEs are the least preferred by the financial institutions due to the perceived risks accentuated by the slow growth of the economy in 2018-19 followed by Covid-19 for 2020-22. As on 31st March 2021, according to SLBC data, 131549 MSEs are categorized as NPAs involving Rs.53330 mn (9,89%) while the overdue amount is 17.75 percent. The stand-alone effort of TIHCL could revive only 334 MSEs.

This is the context in which this study is commissioned with the participation of Centre for Economic and Social Studies (CESS).

Choice of the area for the study:

Rangareddy (RR), Medchal-Malkajgiri (MM) districts constitute a near 48 percent of the total MSEs in the state.

Type	No. of units	Investment (Rs. mn)	Employment
Micro (RR)	2182	6419	25213
Micro (MM)	4080	5960	24060
Small (RR)	1094	22478	31884
Small (MM)	2744	22250	37098

Source: RR- https://rangareddy.telangana.gov.in/industries

MM – https://medchal-malkajgiri.telangana.gov.in/industries

Product profile in RR and MM Districts: Fans and fan components; welding electrodes. Air conditioners, drugs and pharmaceuticals, engineering items, castings, wooden furniture, steel re-rolling products, M.S. Ingots, oil extraction, corrugated boxes, battery equipment, mineral water, plastic products, printing, textile printing greases and dyeing, slab and granite cutting, polishing etc. precision components, biscuits, bakery and confectionary products, pickles, computer stationery, packing and packaging, fine chemicals, readymade garments, food processing and cold storage, electricals and electronics, defence and aerospace components, plastic moulded articles, LED plants and solar panels and seed processing units.

Duration of the Study: 3 months from the date of commencement

Material period of study: 2017-22

Purpose:

1. To assess the reasons for the frequent failure in production and consequential sickness in the unit
2. To assess the role of stakeholders in providing timely relief
3. The extent to which, Atma Nirbhar Bharat Abhiyan Schemes could help them come out of the sickness.
4. To assess the knowledge of various schemes introduced by the Government of Telangana and Government of India (MSME)

5. To study the reasons for the units either not registering under the TSiPASS or Udyam portal
6. To study the reasons for tardy digitization of the units.
7. To arrive at various alternative solutions within the guidelines of the RBI regarding restructuring and revival.
8. To arrive at alternative solutions outside the purview of existing institutional mechanisms.

TIHCL Role:

- Project direction and coordination; will also identify the areas for the study and coordinate with the Industrial Associations at Cherlapalli /Jeedimetla.
- TIHCL will provide the survey schedule: We expect 500 schedules to be canvassed during the two months in both the industrial areas by the investigators with a default sample of ten percent.
- TIHCL will provide the domain knowledge and assist the CESS in providing the needed skills to the investigators.
- TIHCL will support through two internees.

CESS Role:

- Centre for Economic and Social Studies (CESS): Will provide Two Resource persons – 1 Professor and 1 Assistant Professor and six investigators.
- Will help organising stakeholder meetings for sharing the contents of the draft report and finalising the report thereafter.
- CESS and TIHCL will be mutually consulting on modalities of training and scheduling the visits of the investigators and ensure smooth conduct of the study.
- All the units contacted shall be assured of data confidentiality. No Aadhar Card information is envisaged. The rest of the details of the enterprises should be collected in a non-threatening and non-intrusive mode.
- CESS will help generating periodical reports as part of the output of the study.
- Data Analysis, Draft Report formulation and Final Report in coordination with the TIHCL
- Number of Investigators: 8 including the two interns from TIHCL