MICRO AND SMALL ENTERPRISES : POLICY PLANNING AND FINANCING
(WITH CASE STUDIES)

BY

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FOREWORD BY

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FOREWORD

It gives me immense pleasure to pen this Foreword for a book that is very topical and user-friendly. It is indeed thoughtful of the author to make it as part of Telangana Industrial Health Clinic Ltd., initiative. Our Telangana State that has stood first in Ease of Doing Business is not resting on the laurels but striving incessantly to provide leadership to the entire nation.

All industrially developed nations have created special space for the MSMEs to operate with ease and comfort. China, Japan, Germany, Korea, Taiwan, US, UK and several European nations have held SMEs as their strongest forte in their growth journey. For decades, India has been no less virtuous in its policy formulation. However, state policies have glaring gaps both in dispensation of incentives and implementation.

Acutely concerned with such lackadaisical approach, the newly borne state of Telangana has distinguished itself with the world acclaimed Industrial Policy resulting in setting up TSiPASS for fast clearances with specific accountable timelines, T-PRIDE, T-Hub, WeHub as attendant institutional mechanisms. The foothold that MSMEs could gain through this policy did not rest with mere incentives. Its desire to create healthy industrial climate for MSMEs as imperative for making the state as the most preferred destination resulted in creating the most innovative institution for tackling the endemic sickness in the sector through Telangana Industrial Health Clinic Ltd.

TIHCL has been directed to be a responsible and responsive consulting and facilitating arm at least cost to the entrepreneur. In its endeavor to do so, it has created a knowledge centre with E-Book and E-Learning for the entrepreneurs. The comprehensive treatment of policy, regulation, implementation management, financial literacy and the role of Business Development Providers would help the State reaching new contours in industrial growth. Its commitment to entrepreneurship development as a *sin quo non* of industrial growth is enhanced through this initiative.

I have no hesitation that TIHCL’s realization of the need for financial literacy as insurance for its operations at the beginning through these publications on its website would promote digital learning and would also lead to strong interdependency among the large and MSMEs to make the State as least NPA MSME state in the country.

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Minister for IT, Industry & Commerce,
29th March 2018
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Chapter 1 Policy Environment

MSME SECTOR: POLICY ENVIRONMENT

1. INTRODUCTION

If public policy till the beginning of this century is based on imagination and aspiration, it is now based on information and competition. Destiny is decided not just by past actions so much as the demands of the future. This may sound axiomatic but would be guiding our policy for the MSME sector, a daunting task indeed. MSME development, seen as integral element is not sui generis subject matter. The sector can prosper in a healthy climate and conducive policy environment.

THE NATION ON THE RISE:

Jamie Dimon, Chairman, J.P. Morgan in an interview to the Economic Times[1] said: "India is growing at 7% plus, the deficit has gone down quite a bit and the government has made changes which are conducive to future growth." It is now an acknowledged fact that the next decade would see India as the driving force of global economic growth. Such attestation demands that all the policies that drive growth should be in sync with each other. Micro, Small and Medium Enterprises have acquired the niche as engine of industrial growth and enable exports look northwards.

MSMEs in India continue to draw the attention of both the Union and State Governments due to their ability to contribute to the job-enhancing growth of the economy and export potential with their presence in more than 6000 products. These products cover 58.5 million establishments of which about 77.6% are engaged in non-agricultural activities (excluding public administration, defense and compulsory social security activities) with 89.8% as own enterprises (with only owner as employee)[2] and 11-12 percent contribution to the GDP.

This is what that makes the policy formulation indeed daunting. Policies for the subsectors like pharmaceuticals, biotechnology, plastics, defense, electronics, electricity, solar energy, environment, to cite a few are bound to have their critical impact on the sector. Size of the enterprises in the sector, vendor-vendee relationships, and technologies, domestic and global markets would all cast their shadow on the MSME Policy. Less resource intensive newer technologies are emerging as the face of new technologies. Continuing fiscal stress due to

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[1] 'Not an Exaggeration to Call India Sole Bright Spot', Economic Times, Mumbai, India, 19th September 2016,page 1.

[2] Sixth Economic Census, Ministry of Statistics and Programme Implementation, Government of India, 2016

competing demands on the Nation State from several sectors, particularly, infrastructure and minimal government restrict the ability of the nation to give subsidies and concessions however much the sector deserves both for sustenance and growth.

NDA government in its maiden budget made very hopeful announcements that are swinging into concrete actions.[3] This context necessitates effective policies for the Micro, Small and Medium Enterprises.

This is the time for a critical evaluation of the major episodes in India's MSME domain over the past half a decade. The enhanced deregulation and the alternative systems that replaced it need a closer look. The function role as envisaged from the so-called 'development finance' also needs a further look, especially in a context where institutional structures such as SIDBI are likely to undergo major changes, and where micro finance has ended in a temporary crisis. "Finding business" in MSMEs and envisaging their 'inclusive development' role should go hand in hand. It is such a perspective that is relevant to the context of micro small and medium enterprises today.

This chapter intends to provide a brief review of the MSME sector policies thus far in terms of where we are, where we intend to go and what should be done to realize our intentions, particularly in the global environment.

"India's manufacturing sector contributes about 16% to the GDP, and India's share in world manufacturing is only 1.8%. This is in stark contrast to China; where manufacturing contributes 34% to the GDP with a 13.7% share in world manufacturing – up from 2.9% in 1991." (Planning Commission, 2012). With changing global realities, the manufacturing sector will need to be the bulwark of employment creation over the next decade, in contrast to current employment of only 9% of India's working population. India's demographic dividend can only then be sufficiently exploited through the systematic growth of this sector.
World Economic Forum in its latest Report has ranked India 39 among 138 nations that responded to the survey of Global Competitiveness Report 2016-17.[4]

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[3] A few important announcements relating to the sector are: 1. Fund of Funds with a corpus of INR 10,000crore for providing equity through venture capital funds, quasi-equity, soft loans and other risk capital will facilitate startup companies.
2. Initial sum of INR 100crore for "Startup Village Entrepreneurship Programme" for encouraging rural youth to take up local entrepreneurship programmes. Read with the support for producer companies, this is a big shot in the arm.
2. Corpus of INR 200crore to be set up to establish Technology Centre Network. Successful execution of all these promises will give a significant boost for entrepreneurs and SME's and facilitate the promotion and development and enhancing the economic growth of the country.
3. Promised to develop an entrepreneur-friendly legal bankruptcy framework for SMEs that will enable easy exit.
4. To incentivize small entrepreneurs in the manufacturing sector, the government has also proposed to provide investment allowance at the rate of 15 percent to a manufacturing company that invests more than INR 25crores in any year in new plant and machinery for investments up to 2016-17.
5. Definition of SMEs would be modified.
6. A nationwide "District level Incubation and Accelerator Programme" to be taken up for incubation of new ideas and necessary support for accelerating entrepreneurship." (NDA Manifesto)

[4] Global Competitiveness Report 2016-17.pdf/page 204/World Economic Forum

Business Confidence Index[5] in India increased to 57.20 in the second quarter of 2016 from 54.10 in the first quarter of 2016. Business Confidence in India averaged 57.95 from 2005 until 2016, reaching an all-time high of 71.80 in the first quarter of 2007 and a record low of 45.70 in the third quarter of 2013. A score above 50 indicates positive confidence while a score above 75 would indicate strong positive confidence.

Doing Business in India 2016 Report of the World Bank places India at 134 rank among 189 nations a couple of ranks above the previous ranking due to the following reasons:

'India made starting a business easier (i) by eliminating the minimum capital requirement and the need to obtain a certificate to commence business operations (2016); (ii) by considerably reducing the registration fees accompanied by a declaration to be filed before the commencement of business operations; (iii) through online VAT registration system (2011).[6]

During the 12th Five Year Plan, the Integrated Skill Development Scheme targeted to train 26.75 persons in all the sub-sectors of the textile sector, such as textiles-both technical and traditional, apparel, handlooms, jute, silk and designs. The Government of India had also set up a Rs.100 crore venture capital fund to provide equity support to start-ups in the textile sector in order to encourage innovation in this export intensive sector. It has also allotted Rs. 700 crore for the development of technical textiles where the annual growth is likely to be around 3.5%. Buoyed by both domestic consumption and export markets, the future for the textile industry in India looks very promising. Japan, Germany, Italy and France have been evincing interest in increasing their presence in the textile industry in India.

India Inc. in its interaction with Prime Minister on 'Make in India' campaign highlighted a few important factors to be addressed with a sense of urgency that include building up of critical infrastructure across the country supported by stable policies, a transparent and competitive tax and duty structure, efficient and time-bound administration through e-governance, cost-effective and reliable energy coupled with logistics in order that India becomes globally competitive in the manufacturing arena. "India is the only country which has democracy, demographic dividend and demand, although it currently ranks very low in the ease of doing business. In order that investments accelerate, it is necessary that

[5] Business Confidence in India is reported by the Confederation of Indian Industry (CII).[5] In India, the Business Confidence Index (BCI) is based on a sample size of around 300 companies covering all industry sectors, including small, medium and large enterprises from different regions. BCI is calculated as a weighted average of the Current Situation Index (CSI) and the Expectation Index (EI), with greater weight given to EI as compared to CSI. These indices are based on three questions on the performance of the economy, respondent's industry and respondent's company.

[6] http://www.doingbusiness.org/reforms/overview/topic/starting-a-business#india

people have trust in the government and that the government will intervene only if it sees any deficiency. In the words of the prime minister, 'FDI means First Develop India'."[i]

Innovation in manufacturing

Innovation in manufacturing fosters economic development and creates employment. But it needs to be channeled, encouraged and protected. The way forward for the country is to encourage investments in research and development, protection of intellectual property rights and financing of incubation centers. The eco-system of innovation requires certain essentialities to be in place: a strong scientific and technological base; investment from both public and private sectors and innovation. While cost arbitrage has formed the lynchpin of outsourcing in this area for long time, it is time for the paradigm shift to 'strategic innovation' where talent development takes the front seat. Innovation inevitably carries with it the risk that not every creative idea will be commercially viable, and therefore incentivisation through fiscal relief is required as is being done in China, South Korea, Japan etc.

Seedbeds of entrepreneurship

Micro, Small and medium enterprises and the small manufacturing enterprises have been the seedbeds of entrepreneurship in this country. Several *technopreneurs* sprang up with the forward and backward linkages provided by the large manufacturing sector both in the public sector and private sector. The MSME sector has also provided the large enterprises trained and skilled manpower on their shop-floors. The distorted incentive systems that came in the way of small growing to medium and the medium growing to large are in the process of correction. By introducing systems and automation in clearances followed by accountability for delays, several state governments have moved to facilitation from controls and unnecessary regulations. Trade distortions at the domestic and global levels that have also contributed to the disconnect in the global markets apart from low level skill sets are also in the process of correction, although the market access issues are still being debated in the WTO Forum.

Heterogeneity

The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced and the levels of technology employed. While at one end of the MSME spectrum there are highly innovative and high growth enterprises, around 94% of MSMEs are unregistered, with a large number functioning in the informal or unorganized sector but contributing to 40% of exports. Besides the growth potential of the sector and its critical role in the manufacturing and value chains, the heterogeneity and the unorganised nature of the Indian MSMEs are important aspects that need to be factored into policy making and programme implementation.[ii] However, the small enterprise optimism is at its lowest level with the continuous decline in the growth of the manufacturing and infrastructure sectors, its springboard for growth.

The risks in MSME sector are multi-fold: We can broadly classify them as: Enterprise Risks, Entrepreneur Risks; Policy Risks; Operational Risks; Financial Risks or Credit Risks; Environmental Risks. Several of these risks overlap. In the context of globalization, defining an enterprise as belonging to a particular category becomes important to access various services and facilities announced from time to time and networking arrangements.

Global environment for SMEs is influenced by growth seen in employment generation, innovation and technology. The word Micro unlike in India is not part of the SME policy syndrome. Compatibility issues naturally arise viewed in the context of competitiveness of the sector. Knowledge driven global enterprises are devoting their attention to innovation, research and development as key to their sustainability and growth.

‘However, given the definitional and conceptual problems involved, the contribution of MSME sector to the GDP in different countries is not on comparable parameters. Still, in both developed and developing economies, they were accorded special status, specific dispensations and particular attention. In general, the policy emphasis in the ASEAN and OECD has been on technology and investment in physical and human capital. The aim is to make the MSME sector more economically viable and competitive to adjust to the changing economic environment.

Distressed assets

Distressed assets in the manufacturing sector have become a cause of concern. MSME Ministry vide its circular dated 2nd June 2015 issued guidelines on revival and restructuring of sick but viable enterprises and incipient sick enterprises to all the Banks and state governments for compliance. Recognizing the need for improving the environment for the revival of the assets or sale of such assets to Asset Reconstruction Companies (ARCs) foreign investments have been allowed. The ‘going concern’ concept is yet to sink in the minds of the financial institutions in order that the prevailing sickness in manufacturing sector does not stand in the way of welcoming new units of size and scalability.

Institutional Framework

Agencies and institutions for the development of MSME sector have been designed to suit the specific policies. NGOs are also active in promoting MSME growth, with Japan having the largest number of such NGOs. These organizations include cooperatives, industry associations, Chambers of commerce and industry and similar bodies. They are active mainly in providing much needed information on marketing and technological change. District Industries Centres constitute an important component of the Governments’ institutional framework at the grassroots level.

MSMEs in India: CURRENT POLICIES

Large units tend to break up into smaller units." (Schumacher, 1973; 52). But, today, the mergers, acquisitions and joint ventures are only an effort to demonstrate the urge for becoming big/gigantic to gain what economists call 'economies of scale.' Yet, as soon as great size has been created, there is often a tendency - rather a "strenuous attempt to attain smallness within bigness" (Ibid; 53). British National Coal Board, once a monolith, was transformed into "well-coordinated assembly of lively, semi-autonomous units, each with its own drive and sense of achievement."[7] The foot loose characteristic of the micro and small enterprises gives the enormous scope for their spread to backward areas.

Evolutionary Process:

Policy Framework

Pre-independent Indian economy had a wide spread presence of rural and cottage industries and artisans. These were dependent mostly on local resources and local markets. The skills in most cases were inherited. It was only during the 1950-70 that the growth of small industry sector occurred.

The promotion of the small-scale sector in India has been an important thrust of **industrial policy** since independence though the focus of concern changed with the priorities of each five year plan. The six Industrial Policy Resolutions, which have been framed since 1948 have set out the guidelines for the country's industrial development with different degrees of emphasis on the main objectives. The Industries Development and Regulation Act of 1951, as mentioned earlier, provided the basic framework for the post-independence industrialization strategy. Since the model for industrialization in the 1950s was based on capital-intensive heavy industries, the priority of employment generation required the development of widely dispersed, mass consumption-good producing, labour-intensive, small-scale industries.

As the process of economic development led to changing priorities, the policy focus shifted to regional imbalances (1977), ancillarisation (1980), exports and dispersal in rural areas (1990) and then to Small, Tiny and Village Industries (1991). However, the entire industrial activity was controlled by the industrial licensing system; trade and foreign investments also had similar controls at the entry point. In order to encourage growth of small industries as supportive to large public enterprises in general, and to correct regional imbalances in industrial growth, subsidies, concessions, and government support started flowing in. Therefore, the so-called protective policies of the Government of India in favour of small industries were a consequence and not a cause of their growth. As could be observed from the analysis that follows, the SSI sector has grown to a stage of substantial presence in the economy. Anachronistically, even when

[7] Yerram Raju B (2004), Small Industries in India – Policies and perspectives in the Emerging Economic Context, Gitam –Excel Publishers, New Delhi, p.

there was deceleration in the large industry, the small industry is reported to have registered a comparatively higher growth. This is perhaps the most compelling reason for the Expert Committee on Small Enterprises to state: “Small scale enterprises will continue to need exceptional support in terms of financial resources, technological development and infrastructure.” (Abid Hussain Committee Report,1997; 21) These types of supports, it is to be noted, are compatible with the provisions of the WTO agreement.

Industrial Policy of 2000 ushered in a major paradigm shift. Recognising that the policy of protectionism and reservation prevented vertical growth of small industries and that global integration required classification of the sector as enterprises, industries and services were brought in the sphere of continuum. Reservation for the MSMEs has been done away with measures to promote competitivism and efficiency in the sector were put in place to a degree. Such measures however fell short of cleaning up the institutions that were set up under the erstwhile policy regime. Spurred by the success of Italian model of clusters and seeing the growth impulses of natural clusters like those in Muradabad, Aligarh, Coimbatore, Tirupur, Panipat etc., Cluster development received the policy impetus through investment subsidies.

Current MSME Policy – Nation

The Policy aims to take all measures required to keep up the vibrancy and dynamism of the MSMEs in their contribution to the overall growth of the economy. Its complementary role to the large industries is targeted for strengthening. Khadi and Village Industries as a legacy of freedom struggle and coir with its wide presence in more than eight states and eco-friendly nature get special attention and promotional effort.

MSME Development Act 2006 provides the legal support to the policy framework. ‘The Act seeks to facilitate the development of these enterprises as also enhance their competitiveness. It also provides for a statutory consultative mechanism at the national level with balanced representation level of all the stakeholders with a wide range of advisory services as mentioned in the Ministry’s website. MSME Ministry will play a supplementary role with project support for employment promotion, entrepreneurship development, and livelihood promotion. The project and support system as a policy offshoot is detailed out in annexure-1.

Promotional programs for MSMEs

Studies showed that not many MSMEs still recognise the existence of MSME-DC. With a budget of less than Rs.100million, it can be gauged that this program (of earlier SISIs, tool rooms, product cum process development centres etc.) is very thinly spread. In this new era, there seems to be a need for examining the need for the government providing such programs when there are many private players that can deliver them either on their own or through partnerships.

The whole complex system in MSME-DCs that was the creation of a controlled economy is complex, where it had to:

- Provide help in setting up industrial estates
- Give subsidies i.e. exempt from sales tax, power consumption etc.

Some well-intentioned initiatives like the setting up of State Finance Corporations, State Industrial Investment Corporations, State Small Industries Development Corporations have faced the risk of decay and even closure after a two and half decade of existence. Protecting the institutions that were meant to support the small enterprises has taken precedence over protecting the small enterprises that suffered at their hands. Institutions had to be reengineered to hedge the risks of institutional failures through budgetary flows from Government of India, particularly in the post-liberalisation period (post 1990s). The captive markets that fostered the growth of small industries waned out with the inefficiencies and losses sustained by the public sector undertakings and many small industries started turning sick and quite a few even exited.

The present NDA government setting its sights high, creating defining moments of growth to take advantage of the population dividend, announced start-up, stand-up, digital India. This has necessitated a fresh look at the MSME Policy.

This sector is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced and the levels of technology employed. While at one end of the MSME spectrum there are highly innovative and high growth enterprises, more than 94% of MSMEs are unregistered, with a large number functioning in the informal or unorganized sector. Besides the growth potential of the sector and its critical role in the manufacturing and value chains, the heterogeneity and the unorganised nature of the Indian MSMEs are important aspects that need to be factored into policy making and programme implementation.[iii] However, the small enterprise optimism is at its lowest level with the continuous decline in the growth of the manufacturing and infrastructure sectors, its springboard for growth.

A specialized institution set up for meeting the requirements of this sector, viz., Small Industries Development Bank of India (SIDBI) did not also go far enough to redress the grievances of the small industries in this regard. Therefore, all the efforts put in for reducing the supply side constraints have been limping. It is but necessary to look at these supply side constraints, as we have to seek solutions in the problem arena and not elsewhere.

The MSME sector has also provided the large enterprises trained and skilled manpower on their shop-floors. The distorted incentive systems that came in the way of small growing to medium and the medium growing to large are in the process of correction. Start-up and Stand-up initiatives demand sustainability to avoid the bubble-like growth and these are linked to employment potential and skill development relative to size as intrinsic components.

MSME Development Act 2006, the first ever concerning the sector, a game changer for the sector, defining the enterprise and classifying into micro, small and medium marked the beginning of a new era of regulation of the MSMEs. Such a redefinition has in fact become a bane instead of boon to the micro and small enterprises as medium and large enterprises crowded them out both in terms of benefits and finance. The other challenge is to define the SMEs in a manner that would put them on par with their global counterparts as micro enterprises would be only domestic players. Striking a balance is the inflexion point.

DEFINITION:

The revised definition provided for two distinct categories in MSMEs: Manufacturing and Services.

Table 1.1 Definition of MSMEs:

Enterprises	Type	Investment in Plant, Machinery and equipment
Micro	Manufacturing	Does not exceed Rs.25lakh
	Services	Does not exceed Rs.10lakh
Small	Manufacturing	>Rs.25lakhs but <Rs.5crore
	Services	>Rs.10lakhs but <Rs.2crore
Medium	Manufacturing	>Rs.5crores but < Rs.10crore
	Services	>Rs.2crore but <Rs.5crore

This definition linked to investment in plant and machinery seems to have been conditioned by the mindset of regulating rather than facilitating the sector as it becomes easier for a supervising official of the Department to verify the status of the size of the enterprise. Incentives to industries should not be size neutral if they were to ensure the level playing field. Globally such a size is a combination of number of employees and turnover or investment and number of employees. (See Annexure – 2) When the economic growth is looking northwards and poised to global standards, the definition of small and medium enterprises should be tending to global standards and also compatible to the approaches of the financial sector. Micro Enterprises will also accordingly move into a more practical ecosphere in the manufacturing zone. This is one policy issue that needs to be debated.

After a lot of debate and deliberation, Union Ministry of MSME realizing the need for making definition more pragmatic and to move in tandem with global counterparts, it has been modified to change the parameter to turnover.

Accordingly, the modification will take effect once the MSME Development Act undergoes modification in the Parliament:

Proposed Definition

Definition of MSMEs	
	Manufacturing Sector
Micro enterprises	Annual turnover does not exceed Rs. 5 cr.
Small Enterprises	Annual turnover b/w Rs. 5 cr. To Rs. 75 cr.
Medium Enterprises	Annual turnover b/w Rs. 75 cr. To Rs. 250 cr.
	Service Sector
Micro Enterprises	Annual turnover does not exceed Rs. 5 cr.
Small Enterprises	Annual turnover b/w Rs. 5 cr. To Rs. 75 cr.
Medium Enterprises	Annual turnover b/w Rs. 75 cr. To Rs. 250 cr.

Twelfth Five Year Plan prepared in the backdrop of global recession and India's ballpark growth of 8% per annum recognized the criticality of the growth of the secondary sector as its driving force for reaching a growth rate of 11-12 percent. Complementarities between the large, medium and small across the subsectors that 1) generate large employment: textiles and garments, gems and jewelry, leather and footwear, food processing, 2) deepen technological capabilities: biotechnology, machine tools, IT hardware and electronics; 3) provide strategic security: telecom equipment; aerospace; shipping; defense equipment; 4) builds capital equipment for infrastructure growth through heavy capital equipment, heavy transport and earth-moving equipment; 5) focus on sectors with global competitive advantage: automotive, pharmaceuticals and medical equipment and 6) MSMEs: innovation, employment and enterprise generation. Industry associations and the concerned ministries were involved in the preparation of sectoral plans.

Major issues that centre round providing comfort for the manufacturing start-ups for reducing regulatory delays through single window clearances have been addressed by several States and the Ministry of MSMEs has introduced Udyog Aadhar for online free registration of enterprises with ease. However, access to venture capital and private equity, differential treatment in labour welfare laws, supply of power uniformly and at affordable tariffs, credit at the right time in right measure, better payments and settlements between vendors and vendees and easy exit route remain problems to contend with.

While Public Policy in India has accorded high priority to this sector in order to achieve balanced, sustainable, more equitable and inclusive growth in the country, credit markets have not moved closer to the MSEs. Most banks opened up their schemes only to the small and medium enterprises with their larger exposure in the medium enterprises whose ability to provide strong collaterals are high. In other words **banks have only their marginal presence in the sector in spite of the policy thrust and incentive structure specific to micro enterprises. A policy correction seems necessary.**

Policy risk or sovereign risk haunts the MSE sector as even several well-meaning policies have been formulated. For example, there exists a gap in perception of the lenders and MSE borrowers towards availability of finance. While the lenders felt that credit to the sector is expanding, the MSE borrowers felt that the lenders are not doing enough for the MSEs and are catering more to the needs of the large corporate and medium enterprises. As only 7 % MSEs are covered by institutional funding given that approx 95 % of villages are not covered by banks, there is need to bridge this gap through enabling policies. MSE Facilitation Councils that are meant to address the delayed payments for goods and services supplied by the MSEs are effective only in 4 of the ten states that have chosen to set them up. Even here the rules of the council framed in the year 2006 when the norm for declaring NPAs was 120 days require change in the present context of financial regulations.

Policies of the State Governments:

State Governments have the primary responsibility to the development of MSMEs. Each State depending upon its own endowment and strengths has carved out a policy for the sector that largely defined the infrastructure and incentive boundaries related to all the factors of production – land, labour, capital and organization. Most states have a shared vision of creating a vibrant MSME sector with a view to compete for spreading red carpet to the investors. Cooperative Federalism also requires effective coordination and cooperation between the Union and the States, particularly in regard to subjects that are on the concurrent list of the Constitution of India.

In this section we deal with a few States that have made difference from others and improved ease of doing business for the MSMEs. The State policies that deserve a close look are: Andhra Pradesh, Chattisgarh, Gujarat, Haryana, Punjab, Karnataka, Kerala, Madhya Pradesh, Rajasthan, Tamil Nadu and Telangana. These nine states have 72 percent of MSME investments in the country according to the 4th Census of SSIs. However, we are documenting a brief of AP, Gujarat, Chattisgarh, Madhya Pradesh, Kerala and Telangana that have demonstrated success in ease of doing business for MSMEs. We have also provided a comparative picture of the policy incentives for rehabilitation and restructuring of a few States.

Telangana

Telangana, the 29th and newest State of India has formulated a dynamic industrial policy acclaimed as the best in the country distancing itself from several legacy issues. It's Vision: Research to Innovation, Innovation to Industry and Industry to Prosperity". Its core values are:

- Regulatory framework shall facilitate Industrial growth
- Industrialisation shall be inclusive and facilitate social equality
- Entrepreneurs will thrive in a peaceful, secure and progressive business regulatory environment
- Industrial development should lead to massive job creation benefitting local youth
- Environment shall be protected.

It has mandated **minimum inspection and maximum facilitation.**
Instruments:

TSiPASS: Telangana State Industrial Project Approval and Self certification System
The system has legislative sanction and has acquired the status of a Right – a right to information, beyond the normal single window system.
TS-PRIDE (Telangana State Programme for Rapid Incubation for Dalit Entrepreneurs) for dalit enterepreneurs has been put in place.
Brand Image of Telangana with active promotion of MSMEs of Telangana in trade fairs, exposures, buyer-seller meets and other such events is the focus area of the State.
RICH (Research And innovation Circle of Hyderabad) – Recognising the gap in the innovation-entrepreneurship-investment ecosystem, the State intends to create a platform in the RICH linking a host of research institutions, academia and industry through a SPV and a Research to Market Fund (RMF) to fund entrepreneurship activity is proposed in the Policy.

INDUSTRIAL HEALTH CLINIC:

Government proposes to set up a SPV – Industrial Health Clinic (a not-for-profit NBFC) under the umbrella of Telangana State Industrial Development Corporation as an independent autonomous entity with an initial stakeholder-participated corpus fund of Rs.100crores.

Briefly put, the objectives of setting up the IHC Corpus Fund are:

- Promoting a Comprehensive Financial Service Team with Accredited Consultants providing
    - diagnostic assistance,
    - consulting services in finance, marketing, branding, co-branding, technology through a team of accredited consultants with pre-decided tariffs with transparence and accountability.
- Helps manufacturing start-ups & Incubation Centres ;
- Help preparation of operating plans prior to submission to the FIs/Banks;
- Expand the financing channel available to MSEs to resolve issues relating to working capital;
- Help conducting Techno-economic Valuation studies when the viability of the functioning of MSE faces the threat;
- Help the MSEs in revival and rehabilitation through effective guidance and timely supplementation of financial resources
- Identify the strategic partnership firms for creating a comfort zone to the banks to revive the MSEs so that the units come out of the NPA status.

Revamping the District Industries Centres

Capacity building efforts commenced. Industry Promotion Officers placed at the DICs are exposed to a two-day training programme with monthly review online on the eight parameters of their functioning ordained by a specific G.O. The programme among other things envisages active interface with the financial institutions and banks at the local level to build bridges of understanding between the entrepreneurs and banks. IPOs will also prepare a shelf of implementable projects and provide guidance to the Micro and Small Enterprises.

Strengthening the Interface with the Banks:

Making the existing interactive mechanisms like the Empowered Committee of State Level Inter-institutional Committee deliver results has been one of the key initiatives. RBI and Government of Telangana are moving in tandem in this regard. This is the first ever State where the Minister of Industry & Commerce has approached the Governor, RBI twice to ensure responsible review mechanism of the sector through dependable statistics, timely support, appropriate modifications to the guidelines for reviving the sick and incipient sick MSMEs and recognizing the investments made in TIHCL as part of priority sector commitments by Banks in the State.

It is but a surprise that with such progressive policies enveloping the states and Union MSMEs should continue to be a depressed lot warranting special attention time and again. Policy delivery needs to be cleaned up and this would mean cleaning up old institutions and setting up new institutions where necessary with specific focus. Second, one important aspect we noticed is that most of the States did not provide budget outlays consistent with the plethora of announced policy incentives and even where the budgets are announced they were not released in time. Budgets and releases are still in the British ordained Treasury Code and the technology innovations in the financial sector are yet to influence the age-old financial system in the country. A beginning has been made at budget reforms with the merger of Railway Budget with the General Budget and the schedules for Financial Act to pass in the Parliament.

A holistic view needs to be taken to ensure that the policy instruments and delivery systems should be in sync with intent and there should be a regulatory review annually for taking midcourse corrections.

We are more concerned with the removal of constraints for the growth of the sector than with extending special privileges or temporary palliatives. Therefore, alternate and efficient resource management holds the key to reform the principal growth engine of the economy, viz., the MSME sector.

Andhra Pradesh:

Andhra Pradesh Industrial Development Policy, 2015-20 aims to establish state-of-the-art infrastructure, promote manufacturing, enhance inclusivity, foster innovation and create employment opportunities across sectors. The state intends to be the most preferred destination for investors by providing favorable business climate, excellent infrastructure, good law and order and peaceful industrial relations. The new industrial policy focuses on creating a conducive eco-system which makes industries based in Andhra Pradesh innovative and globally competitive. Government of Andhra Pradesh (GoAP) lays utmost emphasis on sustainable industrial development anchored by capacity building at the grassroots level.

Vision

“To make Andhra Pradesh a progressive and highly industrialized state… a State that is a centre of technology and innovation...And, a joyous population confident of its bright future...”

The State’s policy objectives include ensuring sustainable and inclusive industrial growth to be among the top three states in the country in terms of industrial investments by 2022. It has set its sights high to be the most preferred logistics hub and India’s gateway to East and Southeast Asia by 2029 through quantitative and qualitative skilled manpower. It also aims to create significant employment opportunities.

The State has targeted 25% of GSDP for the Industries sector by 2020 and to create employment opportunities for additional 10lakh persons by the end of 2020.

Instruments are: Single Desk Clearance with e-platform facilitating all necessary clearances for starting and operating an industry within 21 working days through online filing and tracking of pre-operation stage clearances. Applicable laws and regulations governing processes and compliances will all be reviewed through a parallel process for the **single desk clearance system**.

Spot approvals, deemed approvals on self-certification basis, assignment of inspection to competent private technical experts are other integral parts of the policy

Gujarat:

“Gujarat Industrial Policy 2015 is more a **framework** than a detailed blueprint.”
Vision: By making Gujarat as an attractive "Total Business Destination", expedite the overall country 's economic growth, thereby increasing the standard of living and Prosperity among the people of Gujarat by giving them the opportunity for skilled employment and nurtured enterprises. Main objectives of the policy:

- To create employment opportunities for both skilled and unskilled workforce;
- To become a Global hub for manufacturing;
- To promote Ease of Doing Business to create business friendly environment;
- To provide pro-active support to micro, small and medium enterprises;
- To promote the spirit of innovation and incentivize entrepreneurship among youth by providing specific sector skills and seed capital.

Gujarat has witnessed strong growth in M SM Es and wishes to strengthen the sector by making it more technology-driven. This support will come by way of interest subsidy for manufacturing and service sector, venture capital assistance, quality certification, technology acquisition fund, patent assistance for national and international, energy and water conservation audit, market development assistance and support, MSMEs for credit rating, raising capital through SME exchange, reimbursement of CGTSME scheme for collateral free loan, State awards under MSMEs and skill development etc. Support would also be extended for development of ancillary and auxiliary enterprises for labour intensive industries.

Technology support

The industrial sector, these days, suffers from lack of sophistication in technology. Upgradation of the existing technology is a requirement of modern industrialisation process to ensure supreme quality. The policy intends to build a technology acquisition fund to be able to extend financial assistance to industrial enterprises intending to upgrade their technological setup. The policy encourages adoption of new and innovative technologies for introducing greater efficiency in operations.

Financial support will be provided to each cluster for every innovative technology they adopt and introduce in the manufacturing process

Market Development initiatives

Gujarat government is taking adequate steps with the intention of giving enhanced visibility to local produce from large industries and specifically from MSMEs. Cognizant of the efforts required to make global distribution of local products a reality, in accordance with the national "Make In India" policy, Government of Gujarat stresses on "Zero Defect" to produce globally-competitive, locally manufactured goods. It is necessary that these products be marketed aggressively and their promotion facilitated by the Government.

One of the expansive marketing practices around the globe is participation in international and domestic trade fairs to showcase one's products or wares. This gives the product its much- needed visibility and brings buyers and sellers on a common platform. Spot purchases as well as long-term partnerships are formed in such places besides helping create a worldview of prevailing market trends.

Gujarat thus has provided enhanced support systems for technology upgradation and marketing that we do not see in other states.

Chhattisgarh:

While this state has also formulated like the other progressive states its policy objectives on the same lines, for purposes of industrial promotion, it has classified industries into saturated, priority sector, core sector and general category.

Its interest subsidy scheme is different from the other States while the capital subsidy scheme for MSEs has a ceiling of Rs.60 lacs for priority category and Rs.30 lacs for general category with a ceiling of 30% of the total investment. Medium enterprises and SC/ST entrepreneurs have different levels of incentive systems. The policy for incentives thus is on equity considerations keeping in view the need for high level of growth of industrial sector.

Interest subsidy that is provided to the MSEs on risk optimization model worthy of emulation by the other states.

Madhya Pradesh

The state's policy provides for level playing field for all investors, a single window system – MPTRIFAC, fiscal and financial incentives, concessions and exemptions, supportive land allocation for industrial projects, upgradation of industrial infrastructure, promotion of ancillarisation to promote local vendors, enhancing employability of youth through skill development efforts, ensuring harmony between private investors and **local citizens through Dispute Resolution mechanism, s**pecific sector promotion policies establishing a broadband, and promoting industrial parks for new clusters of MSEs in different parts of the State.

It has built an inventory of legal and regulatory procedures for better compliance and to ensure ease of doing business.

MP Investment Act 2008 is proposed to be strengthened.

Eighteen services automated for delivery through the single window system. **SMS alert to investors is built into the process.**

Investor Relationship Managers, Investor Monitoring and Facilitation System, Single Window System are modified to serve as a repository of information regarding state's infrastructure, investor application processing, and grievance redress.

District Trade and Industry Centres strengthened by modern technology and capacity building of staff.

District level committees are empowered to decide on issues of sanction and disbursal of incentives under approved policies.

MP Laghu Udyog Nigam is provided with resources for conducting the vendor development programmes and buyer-seller meets.

Pollution Control Board has to review the certification once in every 3 years for all the categories that have been issued PCB clearances. It has introduced capital subsidy for green industrialization. List of ineligible industries reduced from 52 to 19.

It has established a Corpus Fund of Rs.100cr in September 2016 to provide equity support for the MSMEs.

Kerala

The State's physical quality of life, high level of out-migration, high share of foreign remittances in the State income implies a peculiar pattern of development and policies. It is one of the high wage islands in the country. Even amidst crisis and political sensitivities the State attained a growth rate of 9.51 percent in 2014 compared to the national average of 6.2 percent. The MSME sector is heavily weighed towards the micro enterprises and therefore the policies of this State become important. (ISED MSME Development Report 2014, p.161)

Industrial and Commercial Policy 2011 laid special emphasis on MSMEs. The major objective of the policy is development of more enterprises by fortifying the skilled human capital and promoting investments, including domestic a well as foreign in all the sectors.

While laying emphasis on industrial infrastructure and cluster development it laid emphasis on the following:
An MSME Equity participation fund for encouraging startups will be created in Kerala State Industrial Development Corporation and Kerala Financial Corporation.

- “Exemption for payment of EMD and security deposit and price preference to MSME may be continued for a period of 5 years. **Purchase preference for SMEs in the State for PSU’s / LSG procurement will be institutionalized.**
- **Industrial Adalats will be organised regularly at District / State level with a view to understand the problems of MSMEs and to settle pending issues**.
- **Skilled workers to industrial units will be facilitated through Employability Centers under the Labour and Skills department.**
- **To encourage Women to take up entrepreneurship as a career the industries set up by them will be treated under the thrust industry category enabling them to avail 30% investment subsidy**.”

It is this backdrop that made the government to take a holistic view of MSME sector. ‘
1.6: Guiding Factors for the Future Policy Direction:
Policy Formulation is bounded by political feasibility, economic efficiency, and acceptability to a broad coalition between different players. Cooperative Federalism will broadly guide the destiny of future.

The Drivers:

1. **Expanding ecosystem for easy start-up an*d market exit***

- **Expanding the basis for growth of start-up enterprises**
- **Reforming start-up related regulations and procedure**
- **Conducting business conversion and restructuring**

2. ***Fostering creative innovation ability***

- **Developing new technology and facilitating commercialization**
- **Fostering market-friendly venture business environment**
- **Strengthening capacity for management innovation**

3. ***Expanding basis for competition and growth***

- **Providing policy finance based on future value**
- **Thorough overhaul of the financial regulations and institutions with specific orientation to MSEs**
- **Rural Enterprise Promotion with focus on preventing out-migration and promote local employment and local skills and local resources**
- **Expanding consumer market and promoting exports**
- **Upgrading manpower structure and improving demand and supply**

4. ***Alleviating polarization through mutual growth***

- **Strengthening practical cooperation between large and small business**
- **Enhanced Role for the Business Development Services**
- **Ensuring competitive micro-enterprises**
- **Assisting local, women-owned, handicapped-run business Practical Service for SMEs**
- **Comprehensive counseling system; Quality control of zero-defect policy**
- **Reduction of paperwork by on-LINE Customized policy information.**

Chapter – II

PLANNING THE GROWTH AND FINANCING OF MSES

This chapter would focus on planning the growth of SMEs and the art of financing the growth initiatives of enterprises. The chapter would also unfold the options available with the Banks and the products currently being made available.

Planning the growth

Every business will have different problems, different products and different markets. It is outside the scope of this book to examine every aspects of planning for each specific business. However, there are many topics related to managing growth that are common to all businesses.

The following chapters seek to highlight and discuss these areas:

- The owner/manager must now decide on his own or her own objectives for planning growth. Make a list of the benefits you are seeking for yourself, your staff, and your business. Refine this list by removing those aspirations which are unlikely, incompatible or probably unachievable.

- As a team, decide on the broad objectives of the enterprise. They should be based on what you know about the firm's needs and the market's needs.

- Spend considerable time refining these objectives and creating sub-objectives, until it is possible to express many of them in quantifiable terms

- Take each objective and decide on the best ways in which you might achieve it

- Design detailed plans for the changes indicated. This must inevitably lead to planning resource needs, sales forecasting, cash flow and projected profit and loss account.

In deciding promotional activity, you have to devote your attention to the following:

- Create awareness of the product or service
- Try to develop a 'brand' or create customer loyalty
- Inform customers of the benefits of the product
- Launch a new product and /or enlarge the customer base
- Create a company image, or improve the company's credibility
- Deter the competition, i.e. defensive promotion

For all communication decisions it is important to consider the following set of questions.

- What are we trying to achieve?
- What is the target audience?
- What is the message?
- Which media should be used?
- What will it cost?
- How can we get feedback?

The promotional budget

How much should you spend on advertising and promotion? The cash flow will dictate this to some extent. Many enterprises decide in advance on how much they can afford, and this is often based on allocating a fixed percentage of sales income, say 3 to 5 percent of last year's turnover. This method does have its drawbacks: (a) the lower the turnover the less there is to spend and (b) it promotes the attitude that advertising and promotion is an expense rather than an investment in the future of the enterprise. It is far better to work out the promotional effort needed to fulfill your objectives and then cost it out, rather than work on the basis of what you can afford. You will be constrained ultimately by the cash flow, but at least you will have allowed space for some strategic thinking. Look upon your promotion as an investment which will pay off in sales, and budget for it as you would for any other financial commitments. As such you will expect and look for a return on that investment.

To some extent the amount spent must be related to your specific objectives. The larger the desired increase in turnover the further you may have to spread your message. If you wish to export for the first time then you will experience high initial promotion costs. Also, costs will vary according to the industry you are in and whether you are selling to an industry consisting of a small number of large firms or a highly fragmented market. In some consumer markets, e.g. cosmetics, promotion is among the most significant of all costs, but your business promotion costs should not be high proportion of the turnover.

The budget must be apportioned between those promotional activities which have been chosen as the most appropriate for the enterprise. Every rupee spent on advertising is a rupee less for some other aspect of promotion, thus, like all other costs, they must be monitored so that the budget and its apportionment can be kept under review. With the support of a good information system the business should ultimately be able to move to a situation where the optimum promotional budget can be determined and its allocation can be fine tuned. It is useful to establish a budget policy, and in order to do this you will need to et as much of the information system as possible in place before the promotional effort is launched.

A business cannot afford to spend money on an advertisement campaign without knowing how effective it is. Test the campaign over a short period and look at the results. Try various media to find the most cost-effective in terms of expense and effort. Involve your staff n monitoring the results, make sure they give customers a good reception and have them ask for feedback; this applies to the switchboard, enquiry desk sales people and other staff who have contact with customers. Optimization of costs at all times shall be the guiding consideration.

Planning the promotional mix

The action plan will consist of some combination of the wide range of activities open to you even as small firm. This means deciding on how to get the message to the carefully chosen destination group. All means available to the business for achieving this deserve close attention, but here we concentrate on those means that are capable of being widely used by all small firms.

Advertising

Most small businesses are familiar with placing advertisements in their local newspaper, but how many consider whether this is the right medium, or even consider other local media for the purpose? Advertising helps keep your name and the advantages of the products or service in fronts of the customers, and need not be a hit or miss affair. One question you will ask is, ‘Will it work’? The answer is very much defined by how you judge its success. If there is a direct increase in sales then the advertisement can be said to have worked. On the other hand, in a highly competitive situation advertisement may work by maintaining sales levels which may otherwise have declined due to promotion by the competition. If your product is in a declining market then advertising may help slow down the decline.

The level of success in the two latter examples is not easy to measure, but your market research will have highlighted the prevailing conditions and it may be possible to predict what would have happened had you not defended your position or prolonged the life-cycle. Advertising will also make others aware who were not so previously, and the outcome of this, hopefully increased sales, may not occur until sometime after the event, which means that there is probably un measurable element of success.

Market research is aimed at discovering the size of the targeted market segment and the characteristics of the customers within that segment. It is also concerned with the characteristics of the products, how they are perceived, and how well they meet customer needs. For example, in taking a new product into the market, or an existing product into a new market segment, the objective will be to raise awareness of both the company and the product in the first instance.

The advertising will be based on taking the customers through a process in stages, starting from being unaware of the product and the company name. The next stage is to promote the product so that the potential customer understands its uses, likes its appearance and the begins to appreciate all the product differentials, until finally the desire to buy moves the customer to actually purchase. If we look at this as a set of steps then the aim is to move potential customers from their current stance to a step higher up the ladder. As they reach the decision they weigh up the information provided, and finally (hopefully) decide to buy. On the other hand, the advertising objective may be to promote an existing product in an existing market, that is, to aim at the current users of our product, users of other similar products, or past users of the product. There will also be non-users in this category. The message would carry a number of objectives, such as:

- Informing non-users
- Persuading all users that our product has better characteristics
- Reminding past customers of its uses
- Congratulating current users of our products (helps create a 'brand')
- Giving it a specific identity which relates to the user group.

Launching a new product or opening a new outlet often calls for advertising that creates an impact. This may mean large displays and/or advertisements, backed up by radio or direct mail, over a short period. Your budget is not going to enable you to sustain this effort. It may mean that you should consider how you spread your promotion allowance over the budget period. To make the necessary impact, 'front-loading' may be necessary. Once the company name or that of the product has been circulated, low cost but frequent advertising can follow. For some products increasing sales may simply mean stepping up the frequency of low cost advertising only. Sometimes 'little and often' beat the occasional big splash.

Designing the advertisement

In writing your own copy, consider the following;

- Make your advertisement different, even unconventional
- Keep the copy to a minimum
- Make use of space and do not overload the advertisement with too much detail
- State the message clearly, sticking to one theme that is consistent with the overall promotion plan
- Promote the benefits of your product or service rather than you corporate identity (which is something that may follow at a later stage).
-

Sales Promotion

The term ‘sales promotion’ embraces a number of short-term activities aimed at achieving specific tasks. For example, a company which has slow moving stock may undertake promotional exercise for the purpose of releasing cash and making space available for new stock. Most sales promotion activities are concerned with time and time-limits, i.e. buying now, sooner, faster, before certain dates. They will offer benefits other than those classes as product differentials. The benefits could include gifts, commissions, extended guarantees, etc.

The type of promotion undertaken must be strictly in line with the overall objectives sought. Rather than offering a one-off gimmick, make the exercise fit the strategy for developing company image, so that it helps form the bond with the customer. Promotional schemes can and should be used as flexible and effective marketing tools, in both consumer and industrial markets.

There are many kinds of sales promotion. For example, in the consumer market there are cash incentives such as special purchases, price reductions, or 'money-off' vouchers. Often the benefit is related to free goods, 'buy one, get one free', gifts and trade-ins. In the service industry the promotion can take the form of exhibitions and displays, offering extra guarantees, inviting people to join in, and special events. In the industrial and trade markets, companies have developed schemes which include delayed invoicing, training schemes, gifts, competitions, free trials, trade-in offers, extended credit, etc.

Exhibitions provide another sales promotion opportunity. The cost of a major national or trade exhibition can be high, but if it draws in the buyers and decision-makers it could still be cost effective for small firms. The Importance of making those contacts, all within a short period of time, and having the chance to show all of the products to a buyer who has come especially to see them, can be weighed against how much it would costs to make the same contacts by alternative means. Exhibitions may be an important first step if you wish to export. There are also localized and lower cost exhibition opportunities such as those arranged by small business clubs, local authorities' economic development units, etc. Those who exhibit need to make sure that they invite the right people to visit. The promise of hospitality usually helps. Watch the local press and trade publications for exhibition opportunities, and learn something of the track records of these events from others. Your local college or Chamber of Commerce will also have information on short training courses for exhibitors. It is worth attending such a course with key staff, so that you can all assess the value of exhibitions and how to prepare for them.

A word of caution: Let the product speak of your enterprise rather than the enterprise speaks of the product because the latter is very costly. Many a time a good ‘PR’ does a better job than huge costly ‘Ad’ expenditure.

Public relations

The Institute of Public Relations describes PR as 'the deliberate, planned and sustained effort to establish and maintain understanding between an organization and its public'. In other words public relations are an ongoing publicity effort which is based around building up a company image. It is a two-way communications process between the company and the recipients, who might include the public, shareholders, staff and suppliers. The techniques used will vary to match different situations and must be closely monitored.

Many small firms make effective use of calendars, diaries, beer mats, coasters, pens and other promotion gifts. The hope is that the recipient will keep the gift on his or her desk or close at hand, so that the company name and telephone number is readily obvious at an opportune moment.

Hospitality events coupled with a new product launch or 'celebrations' can always be used to good advantage. Invitations sent out to key customers and suppliers, an to prominent members of the business community, will help to promote the company image and will provide an opportunity to display and demonstrate the product.

Press Relations

Your plans for growth may present an opportunity for you to cultivate good press relations. Newspapers are still the most important source of local news, and a well-written story about some aspect of your business is of interest to local readers, especially if 'people' are highly featured. . Journalists and editors are always in the market for a good story. Story lines should not be difficult to find. Perhaps growth for your company means a new invention, an increased labour force, new premises, or a significant new contract or export order. When writing the press release keep in mind that articles are often only scanned and many stories are not read beyond the first paragraph, so try to summarize the entire story at the Start.

An example of taking an opportunity: a local company had a young salesman in need of a second-hand bicycle so that he could deliver the firm's products more easily. A small 'wanted' advertisement was inserted in the local paper with the employer's name attached. The editor was persuaded by the business owner to make a story-line out of the salesman's dilemma. When the response for a bicycle came in, the newspaper was delighted to use the story as an example that their advertising worked they even had a photographer on hand when the bicycle was handed over.

Channels of distribution

Does reaching a wider market mean changing or extending your channels of distribution? The last stage in the marketing process is distribution, (which in terms of the 'four P's' is Place). Unfortunately, too many firms think of this merely in terms of delivery, when the real aim is to get the products in the right form to the right place at the right time.

Sadly, small firms, overjoyed at receiving the order, may promise unrealistic delivery dates. It is better to provide a margin of safety and acquire a reputation for living up to delivery dates. If you promise six weeks and deliver in six, you will be thought more of than if you had promised four and delivered in six weeks. Despite all your precautions however, there may be occasions when things go wrong. Sometimes, for instance, the business is let down by its own suppliers. In such a case the waiting customer should be informed immediately. Avoid the temptation of labeling everything as urgent in order to drive the staff. Such a label will quickly become meaningless. It is all too easy to blame late delivery on the rail or other transport system you chosen to use. It is little consolation to the customer or middleman that you are not very good at selecting the right form of transport to help meet the requirement.

The choice of transport is quite wide. Your own drivers are a part of our marketing package, and this has implications in terms of their reliability, courtesy, tact and appearance. They are also valuable sources of information. Perhaps by discreet observation they will be able to tell which of your competitors are delivering to your customers. They may also learn something of how the customer perceives your image *and* that of your competitors.

The success story of Hyundai into the Indian small car segment offers many a lesson to the small enterprise segment. Distributor has been permitted to add his brand to Hyundai for the first time in India: like Laxmi Hyundai or Kun Hyundai etc. Similarly the company made sure that the retail dealers had with them all colours and all spares on the most usual days that are considered auspicious for delivery: like Thursday, Friday in a week or a festival day in the month etc.

Pricing for profits

Trying to decide on the price for a new product is one of the most important and difficult tasks facing the owner/ manager. At this point you may need to review your general pricing policies in the light of your proposed expansion. Your pricing decisions will become part of the plan designed for achieving the objectives you have outlined, e.g. target profits, launching new products, gaining a bigger share of the market. In theory, pricing procedure is aimed at finding the 'right price' which will satisfy the customers' needs for value, and provide an acceptable contribution to the

business. It is therefore a vital element of the marketing mix. There are several approaches used for deciding on price.

Cost-plus pricing

This is one of the most commonly used methods. Basically it means finding the costs for materials and labour, then adding a share of the overheads and a further percentage for profit.

For a single-product firm which has easily identifiable costs this may seem very logical. The fixed overheads are simply shared over the number of units produced, and the variable costs (labour and materials) are added. The more units there are produced the cheaper the cost per unit. The graph in Fig. 7.1 illustrates this.

However, in a business where there are a number of products the headache starts when you try to find a basis for allocating fixed costs to units produced, because there are at least six 'costing' methods which can be used, and each one will provide a different answer. For example, labour hours may be the criteria for allocation: product A uses three labour hours, and product B uses two labour hours, so fixed costs are allocated on a ratio of 3:2. Alternatively machine hours could be the base: product A uses two machine hours and product B uses three machine hours, so the fixed costs are allocated on a ratio of 2:3. There are now two different sets of costs for the same products.

The results achieved by applying different methods of cost spreading to a bigger range of products are even more unsatisfactory. Nevertheless this approach to costing and pricing is widely practiced, and because it involves meticulous fact gathering and calculations it is considered by many to be scientifically correct, this is especially so in manufacturing industries. However, there are a number of other flaws in this method of pricing:

- It is a common mistake to assume that you can sell enough units at cost plus price to give the required rate of return. Overheads are divided across the number of units produced, and if all the units are not sold within the trading period the amount of overheads recovered from sales will be insufficient to cover the bills.
- In a period when production is reduced each unit will be allocated higher overheads thus pushing up the price. This could happen in a period of recession.
- Very often the product is underpriced. Costing takes account of factors inside the firm such as costs, capacity and cash flow. They are not matched with factors outside the firm, such as market growth, market shares and competitor's reactions.
- Perhaps the biggest drawback is that because prices are set without

reference to the market place they tend to be rigidly fixed once the sums are completed. This allows very little flexibility for making strategic decisions.

Market-based pricing

There will be typical margins for your industry, and on your range of products and services. You can start by looking at competitors' prices. Identify which brands are the market leaders. Can you sell at a price which is just below, or can you put your product at a higher price because you are offering something which distinguishes it in some way? On the other hand perhaps the product can be directly compared with the competition, i.e. it is a 'me-too' product, in which case a lower price will win.

For every product or service there is a range of prices at which customers will buy. In a typical demand situation, at the top end of the price range margins are high but sales volume drops, and at the lower end margins are low and demand increases. Somewhere within the range is the 'ideal' price which will not only cover costs but which will maximize profits and retain the goodwill of the customer.

For some items customers will have strong associations between price, quality and image. If they are buying items in the luxury range, such as perfumes, designer clothes and furniture, works of art, etc., they expect to pay a high price in return for exclusive design, high quality workmanship, or a share in the Rolls Royce image. One cosmetics company, having launched a large bottle of perfume in its spring catalogue, found that sales were not reaching targets. As a result the product was withdrawn for a season and then reintroduced in the following year. This time the product was halved in size and doubled in price. As a result sales increased dramatically, thus showing that in the perfume market customers equate 'expensive' with 'value' and 'exclusivity'.

When a product or service is notably different in an advantageous way or if the product itself is unique, customers will be prepared to pay a high price. However obvious, high margins will attract competition and the market will be sensitive both to competitor response and to different forms of the product. Nevertheless, if your product is one which can be changed and adjusted on an individual basis, you are probably in a position to charge what the market will bear, more especially if your customers do not have contact with one another.

Many small businesses under-price in the belief that a low price strategy would attract customers and distance them from the competition. Low price means lower margins, unless output can be increased significantly, thereby reducing unit costs and increasing total sales. The small firm is rarely in a position to increase output greatly; consequently you can be working at full capacity only to find that you are not generating enough profits for replacement and growth. On the whole, low price strategy is the weakest approach to product differentiation. Getting the price right is a difficult task. Successful companies will match prices to markets while weaker companies will base their prices on costs, and set them without regard to the market.

Pricing should be determined after taking into account:

- Product differentials
- Customer attitudes
- Potential and existing competitor response
- Promotional activities
- Costs.

The product's position on the product life cycle will also affect your pricing policy.

- New products launched at high prices will attract competitors who may take away the market by launching similar product at lower prices.
- New products launched at lower prices may make it difficult for competitors to enter the market profitably.
- Price is not a primary consideration to the customer when a new product is at a high growth stage. This presents profit opportunities.
- If the product is at a mature position on the product life cycle then a reduction may help maintain market share, and continue to provide profit contribution.

Figure 6.2 illustrates the strategies employed by applying different combinations of price and product quality to the market.

Product quality \ Price			
High	Premium	Market penetration	Super bargain
Medium	Overpricing	Average quality	Bargain
Low	Hit & run	Shoddy goods	Cheap goods

Fig. 6.2 Different strategies using a combination of price and quality

Once you have decided on the right price for the market it is crucial to assess your margins and the effects they will have on overall profitability and cash requirements. It was seen earlier that using costs as a basis for pricing was less effective than market-based pricing. However, costs must be a consideration and should be used as a measure to test the viability of a price.

The World is full of opportunities: Just Discover Them

All enterprises, regardless of their sizes, enter businesses for legitimate profit from day one, they have to initiate certain actions that lead to reaching their business goals.

Managing Finances	**Managing Finances:** In times when your enterprise is doing well, you should create financial reserves and capacities for action, so that you can actively manage the financial development of your enterprise
Boosting PERFORMANCE	**Boosting Performance:** Always strive to outdo yourself
Satisfying CUSTOMERS	**Satisfying Customers:** Develop an interesting and future-oriented customer base and ensure that your customers are satisfied with you!
Building the FUTURE	**Building the future:** Set realistic goals for yourself, and develop new business ideas for the future!

You can now work your way through the following chapters in sequence, or in whatever order you prefer. In either case, you should devote several days to this task.

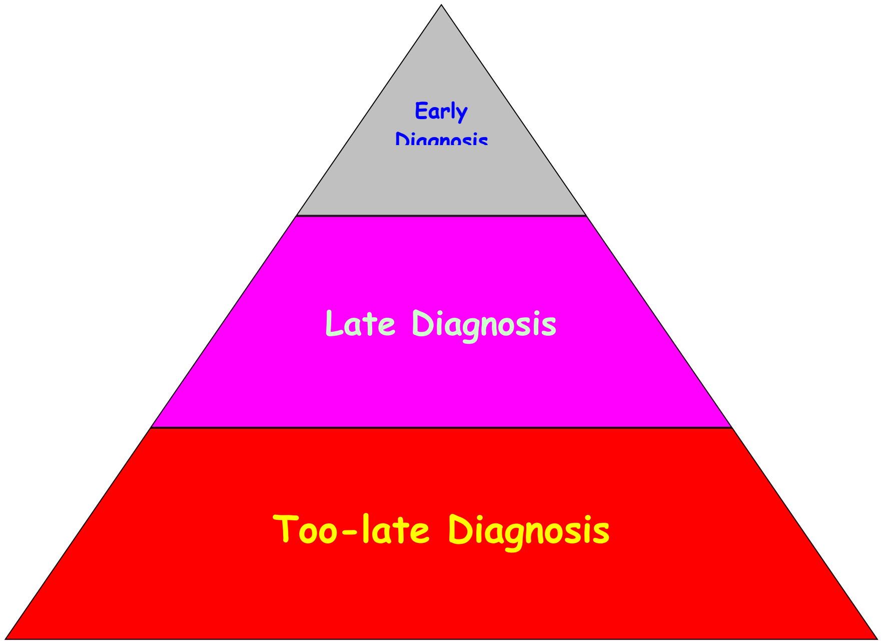
Hint: You should actually work with and through this book, and write down all important insights and thought. This will make you become better aware of them

Discovering New Opportunities

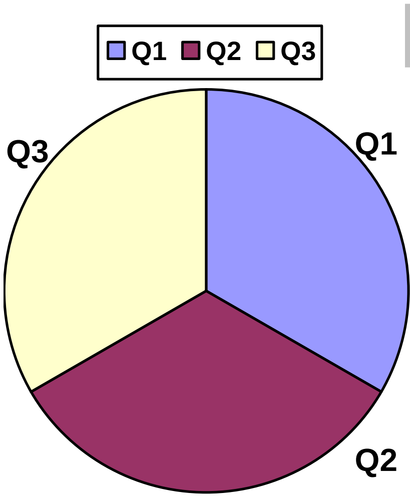
Important: Answer the questions from bottom to top and tick the respective box. Only honest answers will get you ahead. Don't cheat yourself!

Gray:	If you have a "no" response in this area, the topic is important, but you still have sufficient time to think and act
Pink:	If you have a "no" response in this area, the topic is important, but you must act and make improvements quickly.
Red:	If you have a "no" response in this area, the topic is absolutely critical. The existence of your enterprise is threatened!

HINT: If you already have "no" answer in the red zone, things are serious, but there's no need to panic. Keep cool and get in-depth advice from an expert (e.g. your chamber or sector association).



Early Diagnosis



Q1 : Do you have new business ideas ? (Yes / No)

Q2 : Do you have new products and / or services ? (Yes / No)

Q3 : Are you attracting enough new customers ? (Yes / No)

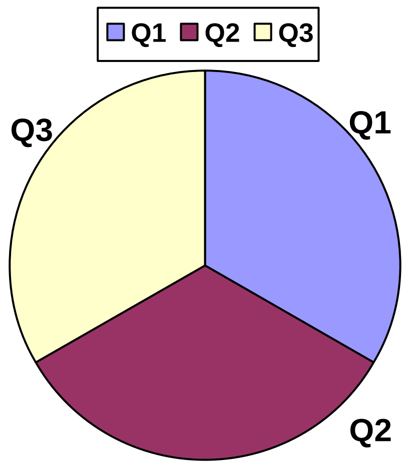
If Yes : You are on the right track !

If No : The topic is important, but you still have sufficient time to think and

How to manage your finances successfully

(1)	(2)	(3)	(4)	(5)
Ensure that all your financial figures are corr	Check financial management	Take short-term measures	Plan your financial future	Create the right pre-conditions

Late Diagnosis



Q1 : Are your net results truly good ? (Yes / No)

Q2 : Are your sales increasing? (Yes / No)

Q3 : Do you have your costs under control ? (Yes / No)

If Yes : You are on the right track !

If No : The topic is very important, you must act and make improvements quickly.

Important: Even a profitable enterprise can become illiquid, i.e. unable to pay its bills. All that needs to happen is that a few customers pay later than expected, for this reason, always follow the motto **"Liquidity must go before profit!"**

Area	Financial indicator*
Liquidity	good ⟷ poor Liquid reserve

It is important that you capture information on all the costs of your business. These costs can be broken down into two categories: *fixed costs and variable* *costs*. Fixed costs are those which must be paid regardless of production and sales. Variable costs are those costs, such as materials, which increase with production.

Examples of fixed costs:

- Rent and rates
- Depreciation (an important element which is often forgotten) . Promotion, selling and distribution costs
- Finance costs
- Heat and light
- Administration costs, salaries, etc.

Examples of variable costs:

- Raw materials
- Direct labour
- Power used for production

Some costs are difficult to allocate. For instance, electricity will have a fixed element for heating and lighting, and a variable element for the power used in production.

What is contribution?

Selling price 5 Variable cost 3 Contribution 2	Used initially to cover Fixed cost Contribution to profits once fixed costs are covered

If production stopped before the break-even the cash flowing out would be greater than the cash flowing in and the business would make a loss. It would be highly impractical to draw a graph every time you wanted to assess profits or break-even at different prices or at different production levels. Graphs are rarely so accurate that exact data can be taken from them, but they serve to provide an excellent visual presentation for facts and figures.

We can quickly work *out* profits and break-even using the following simple formulae:

1. Contribution per unit = Selling price - Variable cost

2. Break-even = $\dfrac{\text{Total Fixed costs}}{\text{Contribution per cost}}$ = No. of Units

1. Profit = Total contribution - Fixed costs

Contribution is the key to assessing viability of price. Each of your products will provide a contribution. If this is expressed as a percentage of Price - in the example it is a 40% margin - you can quickly calculate the gross margin you can expect at any forecast level of sales.

Example

Forecast

Product	No. of Units	Contribution Margin %	Total Sales Rs.	Contribution Rs.
A	3,000	30	18,000	5,400
B	2,000	35	14,000	4,900
C	1,000	40	5,000	2,000
			37,000	12,300

Gross Margin on forecast sales = $\dfrac{\text{Rs. } 12{,}300}{\text{Rs. } 37{,}000} \times 100 = 33.24\%$

In the above example a producer might wish to increase the overall margin by changing the product mix. There will be a number of areas for consideration; these will include asking the following questions.

- Is it possible to increase sales for anyone of the products?
- Are there any limitations on skills or materials availability which might affect any proposed changes?
- Is there sufficient capacity?
- Is it necessary to maintain the present mix in order to satisfy customer needs? Should this be a priority?
- Does the present product mix, and resulting margins, meet the overall objectives of the company?

Contribution analysis can prove useful in making decisions about pricing, product range and type of market. It can also be used to great effect 10 assessing contribution from departments, a section of floor space, a geographical area, a type of outlet, etc., thus assisting your management team in planning exercises

The consequences of growth

Business expansion usually involves further investment. New premises, or extensions and alterations to the existing premises, and the purchase of capital items can cause a sudden rise in fixed costs. Higher levels of working capital will be needed for staffing, extra stocks and other increased activity. Profits will be absorbed into all of these areas, and if further finance has to be obtained then the cost of borrowing will increase fixed costs still further.
Expansion may take place in incremental steps over a period of time, or in one large initial step, which could be brought about by moving premises, followed by gradual stages. The effect of a step in overheads is a sudden reduction in profits. We are expecting sales to increase, but the actual results will be in the form of an upward tilt in the sales curve, rather than a sudden jump to match costs. Consequently if expansion takes place during a profitable period the business is likely to find that the margin of safety (i.e. the period of time during which all contribution is profit) has been eroded.

Controlling Working Capital

The balance sheet lists the current value of the assets of the business and tells you how they were funded. It is simply a snapshot of the situation at a given data. In the example given in Fig.8.1 funding, provided by the shareholders and by retained profits, has been used to fund fixed assets and working capital.

Balance Sheet

	Rs.	Rs.
FIXED ASSETS		190,000
CURRENT ASSETS:		
Stocks	130,000	
Debtors	90,000	
Bank	8,000	
	228,000	
LESS CURRENT LIABILITIES:		
Creditors	115,000	

WORKING CAPITAL (Net Current Assets)
113,000

NET ASSETS
303,000

FINANCED BY:

Share Capital	200,000	
Profit & Loss account	103,000	303,000

Fig. 6.2 Example of a balance sheet

How much working capital?

Working capital is the amount of money available for financing all the running costs of the business, including purchase of stocks and raw materials. It is the money which will be used to generate profits and is therefore vital to the success of the business. In the balance sheet in Fig. 6.2 there is Rs. 8,000 in the bank, but this is only part of the working capital. The true working capital figure at the date of the balance sheet is Rs. 113,000. This is worked out by subtracting *current liabilities,* i.e. creditors, from *current assets,* i.e. stock + debtors + cash. The remainder of the funding is tied up in fixed assets of Rs. 90,000.

The diagram in Fig. 6.3 represents a small toy manufacturing company and Rs. 113,000 has been invested in working capital. The arrows represents the cycle of the working capital through a period of time.

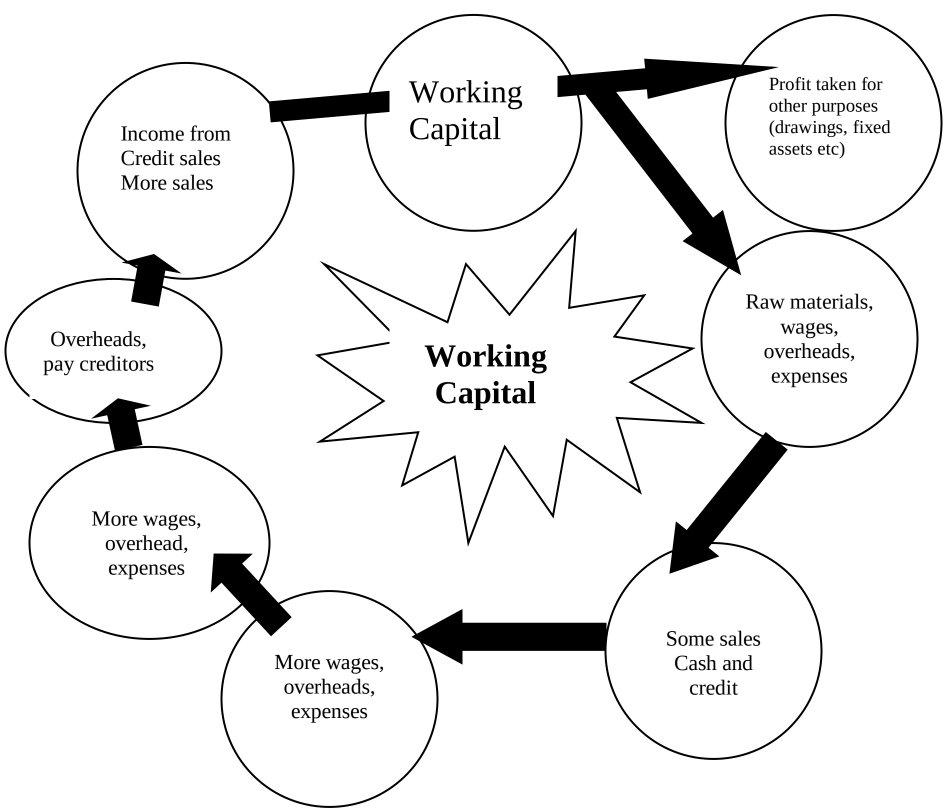


Fig. 6.3 The Working Capital cycle

Once activity begins, money starts to flow out. Raw materials are purchased (some on credit), wages have to be paid weekly, and there are regular payments for general overheads and expenses. Sooner or later the raw materials are turned into stocks of finished goods, but before these are all sold, more raw materials must be purchased for the next round of manufacturing. There will be further labour and overhead payments, and on top of this, suppliers are starting to demand payment for the raw materials purchased earlier on credit.

So far the cash has been flowing out. However, some cash will eventually start to flow in from the customers (who wisely will have taken the maximum credit period allowed). Once the cycle is established the inflows and outflows will each develop their own regular patterns. However, there is one important difference, the money flowing in should be greater than the money flowing out, because it has profits attached to it. The profits are drawn off for other purposes, but the working capital should remain in the business at the same level.

The most important element in this money cycle is time. **The more often you can turn over the working capital then the more efficiently it is working for you**. The ratio of working capital to profits is greatly enhanced. For example, two identical companies earn profits of Rs.10,000 each. One company has working capital of Rs.5,000, and the other has Rs.2500. The working capital of the first company has a ratio of 2 : 1, the other has a ratio of 4: 1, in other words the second firm is twice as efficient.

When a business undergoes a period of growth there is a need for increased levels of working capital for funding the increase in stock purchase and overheads. A great number of small firms run their businesses with insufficient funds and as a consequence they are always struggling to keep up with cash flow. On paper the profit and loss account is showing profits, but in reality there is no cash. Often profits have been drawn into the working capital cycle in order to reduce prohibitive overdraft levels. Consequently a growth opportunity can create very real cash flow problems. This reason alone causes many businesses to fail.

On the other hand many firms choose to borrow some or all of the working capital, and are also very successful and efficient. The difference lies in the preparation. They have borrowed enough, at a known rate of interest, and over a planned period of time. Their planning has taken interest charges and overdraft reduction into account, and they have thus known what minimum sales targets they must achieve. In deciding on working capital needs the following points need to be considered

- Anticipated activity levels - this will require forecasting sales and working from this to estimate all the costs involved, and the anticipated income.

- Expansion or growth plans for the future, and the time scales for each step. All the costs need to be worked out.
- Allowing for possible problems such as hold-ups and inefficiencies which may delay- keeping in mind that time is money
- The cost of borrowing, and repayment periods.

Your firm will need an increased investment in working capital so that you can fund stocks, staff and other overheads. The key to knowing how much you need in working capital is to draft a cash flow forecast.

The cash flow forecast is a simple document in layout, but tedious and time-consuming to draw up. Consequently many owner/ managers engage people outside the business to carry out this enormously important exercise in planning. Worse still, some put the finished document in a filing cabinet and forget about it until the next year. The cash flow forecast is basically an expression of all your previous planning. You have all the facts and information relative to the plan's interpretation into figures, and therefore you will need to be influential in its design. It is *an essential planning document.*

The document can be laid out in a number of styles; all of the clearing banks are happy to supply their own forms to clients. A simpler approach is to use a computer spreadsheet which serves two purposes: first the computer does all the calculations, and secondly it is very easy to change and move items around so that you can test 'what if' situations.

A Measure of Liquidity

A cash flow forecast looks at the future. However, it does *not* measure profit. The 'bottom line' of a cash flow is a measure of liquidity, i.e. cash available or not available at a particular time. Properly drawn up, it shows where cash is coming from, how it is spent and, more important, when these inflows and outflows will take place. It is designed to draw attention to the future need for an overdraft, loan or capital injection, and will thus assist in forward financial planning. More simply, the cash flow is the money cycle. 'Cash' means all sums deposited and drawn on the bank account.

The problems of Controlling Working Capital

Small firms are frequently undercapitalized. As previously stated many get into trouble because of cash flow, even when the order book is full. The following list outlines some of the causes.

Overstocking

Every time you purchase stock you are putting some of your Working capital on the shelf. The longer it stays there the longer it is unable to 'work', i.e. generate profits.

Obviously you will need to keep sufficient stock, and certainly for the retailer it is important to stock a shop so that it creates an illusion of ‘choice' for the customer. You will also need to stock enough to cover suppliers' lead times, and a little more for emergency cover. However, kleptomania rules in some warehouses. There are those who feel they are not in business unless they can see boxes piled up to ceiling height, and shop-owners who believe that they must keep every item in a range, and in every size and colour.

Giving lengthy Credit

If debtors are taking too long to pay the result is that you are financing your customers' businesses by putting working capital on their shelves. At the same time the actual cost of the working capital is increasing and therefore your profit margin on the sale is being eroded. You lose on two counts: (a) the money is not available to work for you, and (b) the cost of borrowing.

Credit control is an aspect of your administration which needs to be carefully monitored. Disciplining customers to pay on time by setting credit periods, offering discount incentives, prompt invoicing, sending statements and chasing them is a priority. A good system will keep track of debtors and should regularly produce aged debtors lists, i.e. information on who owes, how much, for how long.

Another important aspect of credit control is the evaluation of your customers' creditworthiness. One large bad debt is often sufficient to cripple a small firm. Ask for trade references from other suppliers, and take up bank references. If potential customers are limited companies you can refer to the financial accounts of the business; however, these are not always up to date. Set ceilings on the amount of credit a customer can have, and regularly check that it is not being exceeded. Be extra careful of the levels of credit given to new customers, and be wary of the customer who suddenly places a very large order.

A small company will often be delighted to get an order from a very large company. **Unfortunately one of the biggest problems is that many large companies are extremely slow payers.** The author has had dealing with large firms who have taken up to six months to pay, and have helped themselves to discounts as well. The blame is almost always placed on their computer systems, and of course they realize that you are unlikely to take them to court for 2%, especially if you want more orders. How can you deal with this problem?

First of all decide whether or not your small firm can afford to finance a large company for that amount and for that period of time - in other words do you really need them? Most small firms are reluctant to part with their larger clients, partly because they feel that a large company is capable of greatly increasing their fortunes, and because they feel some sense of security in knowing that they will get paid eventually. On the other side, if all of your dealings are on a regular basis with large firms, then once the cash starts to flow in it will come in at regular intervals. You only need to finance the first time lag.

If you are going to trade with a large company then make sure you get the name of the person who is responsible for writing the cheques, so that you can bombard him with telephone calls and letters if necessary. Ensure that the prices you offer are sufficient to cover some of the costs, should you have to wait for payment.

Many owner/managers are fearful of upsetting customers by chasing them for payment, some even feel that it is 'ungentlemanly', and will result in a loss of business. However, most businesses have respect for companies who appear efficient in chasing outstanding debts, the assumption being that they are efficient in all aspects of the business.

Pushing creditors too far

Trade credit is an excellent short-term means of financing a business. Creditors supply goods and allow payment within a fixed period of time. Often they add an incentive to pay by offering a cash discount. If you are in the happy position of being able to sell the goods before having to pay for them then the whole transaction has been financed by the supplier; such a situation might occur in the fresh food trade, or a flower shop. Overall, the credit period allows time to move production and marketing processes a stage forward. 'Leaning on the trade', i.e. helping yourself to longer credit periods than suppliers have offered, is a useful way of helping overcome cash flow problems. Unfortunately there are a few obvious and hidden costs attached to this;

- By stretching the credit period you will lose the cash discount. For large orders this may be significant. However, this is not always relevant if money has to be borrowed in order to pay the bill.
- The growing business needs to consider very carefully the goodwill of its suppliers. By building up a good reputation of prompt and early payments the owner/manager of a small firm will have little difficulty in getting bigger credit limits when the need arises.
- When your firm reaches a point where it is able to place substantial orders, your reputation for quick settlement will provide the edge for negotiating better trade and cash discounts, because you are now an extremely valued customer.

In general, the advice is to take cash discounts if cash flow allows, otherwise simply pay on time. In a situation where you are unable to pay on time, talk to the supplier.

High living habits

Earlier it was stated that when working capital turns over in the business it generates profits which can be taken out for other purposes. Once all running costs have been covered profits can be used in a number of ways:

- For replacing or reducing the overdraft
- The reduction of long-term loans
- The purchase of capital items
- For taking by the owner as drawings.

Decisions on drawings and expenditure on capital items are made prior to the start of the financial year; these amounts are drawn off during the trading year. This means there is a need of advance planning of profits as well as cash levels. The younger the business the harder it is to forecast sales and plan profits. Consequently mistakes often occur, such as when owners decide on a personal life-style which the business cannot afford, i.e. they develop the 'BMW syndrome'.

If drawings are in excess of profits then working capital becomes depleted. **Borrowing increases, until eventually you are running the business for the benefit of the lenders.** If this is added to other forms of inefficient management - and it usually is - it becomes difficult to keep the lenders happy, and a whole vicious circle develops.

Buying costly assets

This is similar to the previous example, and the two often go together. In this case working capital is removed from the working situation and turned into capital items (machines etc.).

The first rule is never to use the allocated working capital for buying fixed assets. The decision to buy fixed assets should be made at the planning stage, which is well in advance of the date of purchase. Separate provision should be made to cover the cost, this can be in the form of borrowing by fixed term loan, putting in more owner’s capital, or planning to use profits. The second rule is to assess the cost of the asset against the needs of the business. Is it needed? Can we afford this model? Will a cheaper one do?

Overstaffing

Staff time represents outflow of funds. Each hour uses up a fraction of working capital. We have noted that idle stock is cash sitting on the shelves with some costs attached; however, idle man-hours represent an actual loss of cash, i.e. it depletes the working capital significantly. For example, in one organization four people were engaged in food preparation. They worked in a small area using specialist equipment. It was also noted that only two people at a time could work because of lack of space, so they took it in turns. In effect the labour content had doubled, but this was not costed into the product, and as a result it was not recouped in sales.

Costs can be controlled by keeping staff levels to a sensible minimum, so that each person has a reasonable workload, and by providing the right working conditions so that they can perform their tasks efficiently. Part time staff normally provide good value in some areas of the firm. Someone who is employed for four hours in a day is likely to have less 'down time' pro rata than a person who works a seven hour day.

Overtrading

Getting bigger usually involves an increase in sales activities. The order book is looking healthy and the organization engages in expanding premises, machines, staff, etc. One problem often associated with businesses which expand too rapidly is that of overtrading. In this case more orders have been accepted than the company's resources can cope with. Extra stocks are purchased, staff are overstretched and cannot meet time scales, extra staff ate taken on, overtime rates are paid, and lack of space and machinery creates immediate problems.

Frequently customers are let down, and if they in turn are working to tight schedules the goodwill factor is seriously damaged. Cash flow becomes a problem because no provision has bee_ made for extra working capital, and therefore it is difficult to pay suppliers and staff. Suppliers threaten to cut off supply of materials before work is completed, and the relationship is soured. Banks and other investors tend to be unsympathetic too, because this type of crisis management usually recurs in the same firms time and again.

What should a company do if a large number of orders come in at once? It is very difficult to turn away a lucrative deal, and there is always the possibility of losing that customer. However, you have to balance the *loss* of an order against the loss of a company. Diplomatic handling is important in order to keep customer goodwill. It might be feasible to offer a future date, or even to arrange a subcontract with a competitor.

Financing Growth

Classically, small businesses have started with personal funds or loans from members of the family, and possibly a bank overdraft or loan borrowed against personal security. Successful growth brings with it the need for additional funding. Profits will be ploughed back into assets and stock, but if your planning is geared towards any significant expansion, which may include buying major capital items and recruiting extra staff, then your resources may be overstretched, and growth will have to be financed to some extent by new funds injected into the business.

The Right Financial Mix

So far we have looked at ways of evaluating the business risk by assessing the opportunities for the products and services you are providing, and we have established the need for planning and forecasting. The other ingredient required is financial planning. One important aspect of your forward plan is identifying the right mix of funds needed, the actual amount required and the time scales involved. Following this is the decision on the methods to be used in seeking funds at interest rates which are not too onerous.

Sound growth plans depend on a proper financial mix, matching the type of finance to the purpose for which it is to be used. Short-term finance is needed for working capital, i.e. it finances stock, work-in-progress (W-I-P), debtors. Medium-term finance, say one to six years, is needed for the Purchase of machines and vehicles; and long term finance is used for buildings, heavy plant and machinery, and land.

The Right Financial Mix

Type	Use	Source
Short-term finance	Stock, W-I-P Debtors Running cost	Bank overdraft, Partly from long-term sources, Trade creditors
Medium-term finance 1-6 years	Vehicles, Machinery, Fixtures and fittings	Medium term loans, Hire Purchase, Leasing
Long –term finance – more than 5/10 years	Goodwill, Land, Buildings, Heavy plant & machinery	Share Capital, Retained profits, Mortgages, Long-term loans

Gearing up for expansion

Your business should have a desirable equity base, i.e. sufficient owner's funding. In a small company borrowings usually range between 50 and 100 per cent of the owner's equity. A healthy balance sheet might show a 'gearing ratio' of 1:2 (or 50 per cent), i.e. one Rupee borrowed for every two Rupees of equity. However, when a business is growing it can build up a considerable burden of debt which may ultimately equal or outweigh the owner's equity. The highly geared firm, where loans are far in excess of owner's equity, will need to generate greater gross margins than a low geared business in order to cover interest on borrowings, and at the same time sustain the relationship of net profit to capital employed (capital employed is owner's equity plus borrowings and is explored later in this chapter). Firms having to provide for huge loan-repayments run a very high risk of insolvency. One business owner was so successful in expanding her business that after three years hard labour she suddenly realized that was actually working for the bank!

Banks may impose a gearing limit of 1:1 so that there is a reasonable buffer of equity for absorbing any losses that may arise. In addition, business owners who have put less finance into the business than the lenders stand to gain from its success, but will lose little if the business fails. This creates a 'moral hazard' in that the business owner may be tempted to take excessive commercial risks which will affect the bank, and also the business's employees, suppliers and customers.

Banks follow a rule of thumb approach that gearing should not exceed 1:1, however, there are always exceptions where they will accept higher gearing where turnover is rapid and stocks are easily realizable. For a business which is efficiently run, and where prospects are good, the gearing ratio is less crucial. A high return on capital employed will mean that interest charges, etc., can be covered and still leave a healthy amount in the business. For a limited company, a useful measure is that net profit before interest and tax should cover interest charges at least twice. For the sole trader or partnership, deduct a sensible amount for drawings from the net profit before measuring against interest.

Finding the Finance

At this point it is worth reminding you that your bank manager and your accountant ought to be closely involved in helping you plan the best sources, the amount required and the tax implications. If you have consulted your advisers regularly, i.e. kept them on your team, they will have a good understanding of your business and should respond with the best advice. Consulting your bank manager does not necessarily mean you must use the bank as your source of finance. Note, too, that this is not a responsibility which should be delegated to your advisers.

Planning finance for growth is best undertaken well in advance. At the time you set your growth objectives and start to develop a detailed marketing plan, you will progress to planning, costing and budgeting for each activity. Your plans will include a cash flow forecast, a projected profit and loss account and a balance sheet. Profit projections have no measure of certainty; therefore you ought to prepare borrowing facilities in excess of the predicted need so that, if necessary, there is a cushion available. Broadly, your finance for growth is likely to come from:

- Your firm's cash flow.
- Your bank.
- Off-balance sheet' finance, such as leasing and hire purchase.
- Additional capital that you, or others, introduce to the business'
- The public sector.

Can you improve your firm's cash flow?

Before looking externally for finance you should work out the extent to which your growth could be financed by improved cash flow. The principal areas of your business requiring scrutiny are your stock levels and ordering procedures, credit control, payments to suppliers, calling-in of cash Investments, cost-cutting in general and disposing of unwanted assets and obsolete stocks. You can eliminate non-essential outgoings which you have maintained for old times' sake rather than for what they contribute to the business (e.g. subscribing to an association that has outlived its usefulness).

Often the biggest single problem is that of slow payers, especially your large firm customers. Can you renegotiate with them? They now know you and might be more sympathetic than when you first contracted with them. Depending on your business you may make greater use of customer-financing where cash for the total final sum (or a percentage of it) is paid with the order. With long contracts, stage payments are desirable.

Factoring and invoice discounting

If slow payers are a problem then factoring or invoice discounting are means of keeping the cash flowing inwards. The major banks have specialist subsidiaries which are among the institutions providing this type of service. With factoring you sell your claims on debtors to the factoring company. The debtors then normally deal direct with the factor, thus reducing your administrative burden. The factoring company pays the firm on an agreed schedule and, under many schemes, carries the risk of bad debts. The factor will require a service fee in the range of 0.5 to 2.5 per cent of turnover. In addition you will incur, for payments on account, a charge slightly above the cost of your overdraft.

With invoice discounting you turn your debtors' obligations into cash at less than face value. The debtors know nothing of the arrangement because you still collect the money and, usually, carry the risk of bad debts. This may appeal to you if you are satisfied with the administration of your sales ledger and wish to maintain your normal relationship with customers while improving your cash flow. You may be able to cover the whole of your sales ledger or a selection from it based on your larger clients. The cost of the service is expressed as a discount on the finance used and is calculated for each day's use. The interest rates are comparable with hire purchase charges.

Factoring and invoice discounting schemes both normally allow you to withdraw up to 80 per cent of total approved invoice value immediately. When assessing the cost/benefit equation of factoring you will have to take account of the direct savings in management time, fewer bad debts, and either the greater availability of funds or a reduction in the costs of financing debtors by alternative means. Your turnover must exceed Rs.20,00,000 per year before factoring companies are interested in you. Invoice discounting is normally available only to established firms. Responsibility for debt collection remains with the firm. Subject to these requirements the avenues are there for you to explore. Some schemes extend to export services with multi-currency accounting.

The government also helps exporters through the Export Credit Guarantee Corporation. The ECGC insures businesses against the risk of bad debts and helps them by giving guarantees to banks under which finance can be obtained, often at a favourable rate of interest. Any improvement in cash flow will reduce the need to raise additional short-term finance. ECGC helps the SMEs through special schemes and advisory services. www.ecgc.org

Can you get further assistance from the bank?

Overdraft facility

Your first port of call for additional finance should be the bank. The bank's advice in helping you to match financial obligations to your planned expansion will be important. You will have established, or be in the process of establishing, your need for fixed interest capital. In considering your request for funds the bank will be influenced by a mixture of:

- The commercial viability of the proposal,
- The quality of your management,
- Your financial soundness, and
- The availability of security.

You should not be seeking to finance long-term plans on an overdraft or any other short-term facility. Given its flexibility and cheapness the overdraft is the most commonly used source of outside finance in small businesses. A carefully prepared business plan, which identifies working capital requirements, will help you secure any additional overdraft you may require. Once this has been obtained it must be controlled within the limit allowed. If it transpires subsequently that the limit of the overdraft is insufficient, then approach the bank and keep them fully informed. Businesses are ill-advised to stretch this facility by purchasing the odd fixed asset - overdrafts should be self-liquidating.

If you have previously demonstrated to the bank that your business can be relied upon to control the overdraft then your prospects will be enhanced. If the purpose is specific, such as the purchase of a short-lived asset (e.g. a vehicle) then the bank's short loan facility with its formalized repayment system will be appropriate.

Term Loans

Given the limitations of overdraft finance, banks offer other types of loans that are more appropriate for financing expenditure of a capital nature. Term loans repayable over periods ranging from 1 to 20 years provide a significant outlet for bank funds. Such loans, which can be tailored to your own circumstances, are very suitable for the purchase of fixed assets where the repayments are scheduled to match the stream of revenues that the assets will generate.

In time-scale terms this type of finance is either short-, medium- or long-term. These loans will normally be secured and the rates of interest may be fixed or variable. Even when there is an increase in a variable rate of interest the actual monthly repayments may remain unchanged as banks are prepared to lengthen the term of the loan to accommodate the higher charges. The converse is also true when the rate falls. Not surprisingly these schemes are popular among small firms.

Banks actively promote some interesting and novel term lending schemes for the small firms sector. At one end of the spectrum a small business can borrow up to Rs. 25lakhs on a fixed rate basis for up to 10 years.

Financing SMEs: The Way Banks Assess and Assist
In the previous chapters, the reader must have observed that the SMEs are going to be the engines of economic growth and therefore there is a policy emphasis in their favour, more specifically than before. Access to finance in time and in adequate measure has been made out as a key factor affecting the healthy growth of the sector by several studies and several committees appointed by the Reserve Bank of India and Government of India (Nayak, Kapoor, High Level Committee, Abid Hussain, S P Gupta, etc.) at different points of time, despite including them under the priority sector category. SMEs are going to be the center of financing activities of all commercial banks in the years to come.

While this being so, some of the concerns and anxieties that found expression in several committee reports as also the directions for financing in future are summarized for easy understanding as follows:

- Large corporates can and do approach capital markets for finance having regard to the lower costs involved-bank lending to corporates and particularly the well reputed ones will obviously drop and there is a limit to retail lending and hence the gravitation to SME by banks
- Lack of financial data, intrinsic weakness of the financial structures and slender resources of the promoters in terms of money and /or knowledge of markets add to challenges in risk management while lending to SMEs
- For SMEs, availability is more important than cost of credit- this factor has been mindlessly exploited by the banks and SFCs in the past to their own detriment as evidenced by preponderance of NPAs in the SME portfolio of most banks
- An innovative approach is called for on the part of the banks/SFCs in their own interests and as a means to sustain a major employment generating sector of the economy
- Analysis of balance sheets, working out ratios and assessing credit based on arbitrary norms was relevant in era of credit rationing .Though these are not irrelevant, today, when quality of credit is as important as growth it is necessary that the traditional approach to credit analysis and assessment is modified
- Financing a unit on the basis of cash flow statements to the extent of deficits suggests itself as a method to meet the needs of SMEs fairly adequately without too many demands on the limited knowledge and financial resources of the promoter.
- The suggested approach assumes a well thought-out business plan from the SME, willingness on the part of the promoters to maintain proper books of accounts to record sales, purchases and expenses as also an open mind on the part of bankers to finance the cash deficits and refrain from over controlling the activities of the SME. There should be clear recognition on the part of the bank and the SME that they are partners with a shared goal of profitable operations

OPTIONS FOR FINANCING SMEs:
Start-up venture has to submit the application in bank's or FI's prescribed application form with supporting evidence for each item that the bank/FI specifies. The officer in-charge of the portfolio would verify the details, which is generally known as 'due diligence' and submits his/her Report qualifying whether the applicant's details are genuine and dependable. If you have done your project report well as outlined in Chapter 2 to 4 of this book, you would have convinced your bank in the very first attempt that you are the most wanted client for it.

There are many ways to raise start-up finance for the SMEs: Simply put, they include:

- Personal savings and assets;
- Personal loans – Banks will often lend up to specified limits without security

- Life Insurance Policies – It may be possible to get loans up to 60 percent of the paid up value of the policy
- Credit Cards – Although interest rates are very high, it offers a smart window to raise funds in the short term
- Supplier sources: The unit can have supply of raw materials on credit for certain agreed period; many a time this would be concurrent finance facility.
- Friends and relatives – It is of course desirable to draw up certain written arrangements to avoid legal complications when the unit picks up business.

DEBT FINANCING:

Smaller firms often find it more difficult in accessing debt financing than larger firms for the simple reason that they do not have acceptable collateral of adequate value. Some of the common difficulties associated with lending to SMEs include:

- Low levels of equity
- Under capitalization and lack of financial strength
- Insufficient plough-back of profits
- Poor financial management and reporting systems
- No business plan or financial projections
- Nature of security and its valuation on the balance sheet
- Management quality and depth
- Poor reporting systems
- Poor understanding of financial data
- Diversion of funds into non-core activities
- Diversion of funds into life-style activities

A firm that addresses these aspects while submitting a proposal to a financing institution would secure advantage in accessing the required loan. In fact, if you had followed all that has been explained in Section I of this Chapter, you would not be the one that would fall into these adverse risk perception of the bank.

International Trade Finance:

Importers:

- Banks offer finance on liberal terms to SMEs involved in international trade and they are usually in the shape of loans, and overdrafts covering the shipment of goods covered by approved documents of sale and realization within the stipulated time.

- ❖ Banks offer finance to SMEs to cover contingencies such as when overseas supplier requires payment before shipment or immediately upon delivery by way of pre-shipment finance by way of Letters of Credit;

Exporters **– Packing credit facility is provided. Banks and Financing institutions provide a range of short or long trade finance products to fund export transactions.**
ECGC and Exim Bank of India complement the efforts of the Banks and FIs in financing exports: Some of the products include:

- ❖ Post-shipment finance; Export Credit under guarantee arrangement from the Export Credit Guarantee Corporation.
- ❖ Export working capital guarantees
- ❖ Advanced payment and performance Bonds
- ❖ Document Credit Guarantees and Finance
- ❖ Medium Term Payment Insurance

Banks' derivative instruments on offer are double-edged swords. Consult an independent financial advisor of competence before accepting any derivative product to hedge your currency or foreign exchange risks. Next Chapter would deal in detail about these aspects.

CREDIT PROCESSES:
SME credit process has five principle stages: 1. appraisal; 2. assessment; 3.sanction; 4. documentation; 5.disbursement.

APPRAISAL:
Appraisal means verification and validation of the data and information that the intending entrepreneur submits to the bank or financing institution.

- Credit Appraisal Technology for SMEs:
- Main tools for credit appraisal
  - Portfolio Approach
  - Program Lending
  - Credit Scoring Methodology
- Credit analysis to develop competencies other than
  - Balance sheets
  - Audited Financial Statements
  - Value of Collaterals
- Do sensitivity analysis

<u>THE CREDIT ASSESSMENT:</u>

- Banks use two basic methods for determining credit-worthiness- or – assessing the bank's risk level: Judgmental or Credit Scoring Method. On the basis of training & personal experience, the loan officer attempts to predict the likelihood that the applicants will be good or bad credit customers. For "Mass Credit" programs, where volumes are material for profitability & revenues, Credit Scoring is to objectively distinguish between applicants who are expressed to be good accounts and applicants who are likely to be bad accounts. The scoring method draws profiles from the bank's lending experience using statistical techniques. Credit scoring again, can be used in a manual or automated environment. High volume operations typically process and score applications with automated systems. This is part of "Template Lending" wherein, with "benchmark" scores and predefined limits (exposure, industry, occupation) etc. credit decisions can be taken swiftly. After defining delinquency cut-off limits (say >60 days) as an example of a definition, data bases are identified for statistical analysis and for creating profiles. These data bases include financial and other personal information and information from the original credit bureau reports. Thus, samples are taken from sets of both rejected and approved applications or charged off accounts. Next, all the financial, personal and credit bureau (bank/NBFC) track records, histories available on every account in the sample is analyzed. The purpose is to determine the predictive value of individual elements of financial information and predictive value of interrelationships among various individual elements. The predictive values are then weighted according to their elements and interrelationships. By statistically expressing the estimated level of risk of each applicant, this score predicts the likelihood of the account becoming good or bad over time.

- Banks that receive many applications typically process and score them with automated systems, with the help of data entry terminals. A preliminary score may decide whether a Credit Bureau report is required. Some banks use automated processing for handling applications but use a judgmental method for the final credit decision. Approvals are followed by Credit Review functions including, Credit Extension, Customer Service, Security and Collections.

Risk Rating

Due to higher risk awareness of the **finance sector and the needs of Basel II,** many SMEs will be confronted with the internal rating procedures or credit scoring systems by their banks. The bank will require more and better quality information from their clients and will assess them in a new way. Both up-coming developments tend to cause increasing uncertainty among the SMEs. In order to avoid such uncertainty, Banks should communicate the relevant criteria affecting the rating of SMEs. The Banks should also inform the SME clients about their assessment in order to allow them to improve.

Given the contribution of SMEs to total industrial production, exports, employment and equitable distribution of income in India, the need for increasing the credit flow to SME sector has been emphasized in the previous chapter. With the margins on lending to large sector declining, Banks would find increasingly attractive to move to SME sector. However, their higher risk perception of this sector still haunts them and is looking to Rating agencies to bridge this gap. Rating would promote quality SME exposure under Basel II as SME exposures with better external ratings under standardized approach attract a lower risk weight. Financing highly rated SMEs would result in lowering of capital requirements of banks and the capital freed thus could enhance lending to SMEs. Information asymmetry, the main hindering factor for SME credit flow would be appropriately addressed through rating mechanism.

Other bank Services

Banks are suppliers, through their subsidiaries, of installment credit (i.e. industrial hire purchase) and leasing. (See ‘off the balance sheet’ finance below)

If your expansion is based on exporting for the first time then you can ask your bank to arrange to draw upon documentary credits established by the importer's bank. Also the bank can provide direct finance by advances or by discounting the bills that you draw on shipments.

Off the balance sheet' finance

If you lease a lorry you will acquire use of the vehicle, but ownership remains with the finance house. This means it appears on their balance sheet but not your own, i.e. it is 'off your balance sheet'. Strictly speaking, leasing is not a method of financing but it is a means whereby you can reduce your need for capital. Sensibly used leasing can increase your options and may enable you to bring forward profitable schemes that would otherwise have to wait.

Leasing is most attractive when you can use scarce cash profitably in the mainstream business rather than on peripherals like fork-lift trucks and vehicles. Also, if you are faced with gearing limits on your medium-term borrowing, leasing might be the solution. You will also have the advantage of knowing from the outset where you are in terms of known payments for a known period. Leases can run for up to 10 or 15 years but are generally much shorter. Often at the end of the lease, you will be able to retain the asset at a greatly reduced rent. You will need to check exactly what is on offer from the banks, who offer extensive leasing arrangements, and others who also arrange leasing. With a 'finance' lease you will probably be responsible for maintenance and insurance. If you have an 'operating lease' on equipment, such as photocopiers, you are purchasing not only the use of the equipment but also the care and maintenance. This will be useful if heavy maintenance costs are likely to arise in regard to equipment with which you are unfamiliar.

Hire Purchase

Hire purchase and other credit installments operate for businesses in much the same way as in the retail trade. It can be set up quickly without legal fees. The payment installments can be matched to the income flow generated from having the use of the asset which is the subject of the agreement.

The purchase of a capital item by hire purchase or bank loan will favourably affect your taxation position. The cost of the asset, whether or not it is paid for by the end of the financial year, will attract the normal capital allowances. In addition, the HP or bank interest paid in any tax period is charged against profits. An extra advantage is that all the VAT can be reclaimed at the end of the first quarter following purchase, thus helping cash flow. However, hire purchase often has one significant drawback, the rate of interest charged by the finance company over the period of the purchase. Frequently, the total cost of the asset can be more' than doubled, therefore it is important to examine and compare the APR (Annual Percentage Rate) offered by different finance companies, and to work out the total cost of the asset. A bank loan is likely to be cheaper, but may not be an option if the company gearing is too high.

By contrast, total lease payments can be charged against profits and VAT can be reclaimed, but there are no capital allowances. The asset does not belong to the company, and the cost of leasing is high (which adds significantly to fixed overheads). As you seek to acquire new equipment you will have to consider, preferably with the advice of your accountant, which of these alternative methods of outside finance is best for you.

Sale and lease back

One potential source of long-term capital that we have not yet considered is sale and lease back of your business premises. If you own them you could possibly sell them to an institution like an insurance company or pension fund who would grant you a long lease. In this way you get capital and the use of the premises. Transactions of this type have to be carefully investigated as they are not advantageous to all firms, partly because of the taxation situation and other borrowing arrangements. Professional advice here is an absolute must.

Equity Finance

Can you raise additional capital from your own funds or from outside sources?

Small firms are often limited in their ability to plough adequate profits back into the business to finance growth, especially when the plans are of a more ambitious nature. In the existence and survival stages of business owner-managers have often been able to rely on their own funds, those from family and friends, and the bank. The 'success' or 'growth' stage for many small firm owners may mean broadening the base from which capital, particularly equity, is subscribed. Owner-managers are often cautious, unduly so, about seeking equity from outsiders as it means a dilution in their stake in the business. However, your business will grow more rapidly when you are less dependent on your own resources, and that may be your overriding objective. Seeking equity from outsiders may be a matter of necessity if further loan capital would push your gearing to an unacceptably high level.

In any event there are large numbers of organizations prepared to take a minority shareholding in a small business. Moreover, the advent of the Share Buy Back Scheme (Companies Act as Amended in 2005) has increased the prospect of the investor taking his or her money back out of the business at a later date, while giving you the chance to regain a greater share of the equity. If you are not already a company your first step will be to incorporate.

Selling shares to outsiders

By selling shares to outsiders you broaden the capital base without the immediate financial impositions that arise from loans. This, as noted, is at the expense of a dilution of your stake. However, you can retain control. You may also benefit by establishing a market value for your company, making it easier to attract funds later and even creating an exit route in the longer term.

Advice on the 'equity' package is important. The shares in the package may be ordinary, deferred, or redeemable. Preference shares may also be issued but they are more akin to loan capital as they have priority over ordinary shares in respect of dividends and repayment of capital in the event of liquidation. On the other hand, preference shares do not normally attract voting rights.

Presenting your case for Finance

No matter which institutions or individuals back your proposed expansion they will need to be persuaded that the venture will be profitable and that the risks are controllable. Profitability is important because it paves the way for you to repay borrowed funds and the interest. Those who provide equity will be looking for capital growth and a dividend, although the former may be more important to some investors. The method by which you approach your sources for finance depends on the type, amount and structure of finance sought. Lenders of short-term secured loans are generally less demanding than lenders of long-term unsecured loans, or that providing equity finance. In deciding how to present your case try putting yourself in the position of the money provider.

You will need a detailed plan that enables the lender to assess the viability of your proposal. Most financial organizations are likely to want information in the following areas:

- Your specific reasons for seeking finance. Is it to enable you to expand your trading base? Launch new products? Reduce your dependence on short-term finance?
- The amount of finance sought and the form in which it is requested. Time-scales are important, too, and details of security available.
- Details of existing borrowing and indebtedness.
- A history of the business. The current products and services and proposed changes should be disclosed. Details of numbers employed in each area of activity and the profitability thereof.
- Details of directors and others in the management team so that their experience, qualifications, and ages are shown. Also give the names of your professional advisers, e.g. accountant, solicitor, and bank. Many financiers back the management team rather than the ideas. It is their best safeguard against the risks of the venture.
- A description of the buildings and details of whether the tenure is freehold or leasehold.
- A description of the plant and equipment (whether it is owned or leased) and details of its age and condition.
- A description of how the firm is run. Your proposed bankers will be interested in knowing what accounting, management information, and budgetary control systems you have in place.
- An outline of the main risks of your venture and how you have in place thought through those risks.
- Detailed accounts covering the past three years, plus your projections for the future, covering up to three years. Make details of your calculations available.

Finally, allow adequate time for your bankers to study your proposal. You and your advisers must in turn scrutinize any proposals made to you. Check that you have the right financial mixture and that you can comply with any condition imposed e.g. the prohibition on the creation of further charges on the assets of the business.

Insurance and growth

How 'pure' are your 'growth' risks?

All businesses face speculative risks where the outcome ranges from loss to gain. Businesses should respond to these risks (e.g. overstocking, being eased out by competitors) by adopting appropriate business practices. Many of these practices, e.g. stock control, market research, etc., have been described in this book. One response not available in connection with such risks is insurance. Instead business owners must rely on sound management. Otherwise insurance against business failure would be just a method whereby well-managed efficient firms would subsidize the poorly managed. In any event efficient firms would not be drawn into such a scheme.

However, there are other risks known as pure risks where there is no prospect of gain and the position is either status quo or loss. These risks, (e.g. fire) strike at random and are as likely to hit the well-managed developing firm as any other.

Can you identify any 'new' risks?

Insurance is a common response to such risks. It should be seen by you as a part of your risk and financial management to be reviewed in the light of your growth plans. The nature of your proposed expansion will affect the ways in which the insurance programme needs to be updated. Increased activities will increase your risk exposure. The following examples are intended to help focus your attention on some matters of importance.

Expansion may necessitate increased investment in fixed and Current assets

Sum insured on property will have to represent the full values at ns 1 the penalties for underinsurance are to be avoided. New forms of property and property at new locations should be brought within the policy description.

Increase in the number of Staff

The size of the payroll is particularly important to your liability insurers and increases (or decreases) are generally communicated by means of annual declarations at the end of each period of insurance. 'New' categories of employee should be notified immediately to liability insurers. Also, if not previously introduced, consideration should be given to setting up a pension scheme.

New Activities

If these affect the business description, as currently shown by the insurers, then updating is necessary. If these activities introduce higher risk exposures it may be necessary to seek the removal or modification of restrictive conditions or endorsements. These may arise under a variety of policies. In employers' liability insurance, for example, you might find, if you are in the construction industry, a clause excluding work above a certain height, e.g. 25 feet. Your new activities may result in work now being undertaken at greater heights.

New Products

It will be particularly important to ensure that your product range, as described in your products liability policy, is suitably amended. Also such policies often require you to notify, at any time, changes in risk. Consequently, even if there is no change in the product, changes in production methods will have to be notified.

New Markets

Some policies contain geographical restrictions, e.g. products liability policies may exclude exports to the USA. Check all of your liability policies carefully and compare the cover given with your exposure to overseas risks. It will be important not only to have cover on products going abroad, but account should be taken of business trips and employment of personnel, temporary or otherwise, in foreign locations.

New Contracts

These should be vetted to see how, if at all, responsibility for certain kinds of losses and liabilities is shifted. Look also to see if any obligation to insure arises. Such matters will be important not only in trading contracts but also hire purchase and leasing agreements.

The value of insurance to the growing small firm

Whatever the nature of your expansion give your broker full details and keep a record of the information supplied. It is unlikely that you could embark on growth without insurance which enables you to convert losses (potentially large ones) unknown in amount and timing into the certainty of smaller but fixed annual costs incurred at a known time. This risk transfer facility gives you the advantages in the following areas:

(a) Cash flow forecasting. Premiums can be built into cash flow forecasts whereas losses uncertain in amount and timing cannot.
(b) Pricing and costing. The known cost of insurance can be taken into account. Without insurance, potential losses from pure risk may be ignored or become the subject of a crude estimate. If the latter is excessive, your competitive position could suffer.

The value of insurance lies in the fact that it often minimizes the cost of reaction to the risks associated with growth. After all, the alternative to the stream of revenues that may arise from new premises, new products or new markets might be to avoid the opportunities. For example, the expansion might be based on exports to the USA where the liability for injury caused by defective products is of enormous potential. The insurance premium, if at an acceptable level, opens the door to a profitable market. In all cases you have to weigh the cost of extra insurance against the extra benefits. Unfortunately many small firms evaluate their insurance only by comparing premiums with claims.

How much insurance should you buy?

Like all costs, the cost of insurance needs to be controlled. Large concerns are able to carry some risks themselves. Fewer such opportunities arise for small firms, especially as insurance, a system of risk transfer, is unique and not easily substituted. However, a small firm should consider its potential losses, identifying those where there is a spread of risk and where the maximum loss is small. These are capable of being carried by the small firm provided that such losses can be met out of working capital without impairing the efficiency of the firm.

It is difficult to achieve the necessary spread of risk, but suppose growth means increasing the vehicle fleet from five to ten. In such circumstances special fleet rating might be available from a motor insurer and some small firms have been known to reduce cover on goods vehicles from comprehensive to third party fire and theft on such occasions. In any event you may decide under a comprehensive policy to carry the first Rs.1lac of accidental damage to your vehicle in return for a premium saving.

A managing director with a permanent health insurance policy may feel that the saving achieved by a policy providing no benefit for the first thirteen weeks of disablement from working but insuring all subsequent disablement up to a predetermined age (e.g. 65) is worthwhile. The premium saving is significant and the director has to accept 'small' losses but the really damaging 'losses' are covered.

Risk prevention and improvement can be independent of, or combined with, insurance. Despite the sophistication of modern banking methods there are still employers who pay in cash. The risk of theft in transit is removed by changing the method of payment and, if growth means a bigger payroll, the change assumes greater importance. Insurers can often give credit for good risk prevention.

How should you buy Insurance?

- Purchase insurance through an insurance broker. Brokers have to be registered, follow a code of conduct and carry professional indemnity insurance. No other intermediaries are controlled in this way.

- Choose the right broker, one who values your custom and understands your business. Your trade association's broker may have negotiated favourable terms.

- Check the accuracy of any proposal form that you sign as you 'warrant' the accuracy of your statements.

- Keep copies of all proposal forms that you sign and all other means whereby you communicate information to your insurer or broker. Review the proposals each time you renew the policies and advise the insurers of changes that have occurred.

- Ensure that sums insured and limits of indemnity are adequate.

- If expansion means acquiring another firm keep details of their insurance records, especially liability policies, as 'late claims' (e.g. asbestosis and other latent diseases) sometimes occur. If records are' incomplete ask your broker to arrange retrospective cover.

- Remember that certain insurances are compulsory by statute (third party injury/damage caused by motor vehicles and employers' liability). Others may be imposed by contract or leases but prudence usually calls for much more. Work through a comprehensive checklist with your broker.

- Establish a good internal information system to ensure that you can comply with the notification and disclosure requirements of the insurer.

Most of the leading banks started selling Insurance products along with their finance products. Weigh your options carefully before you sign up for covering your risks.

Life assurance

Small business owners can secure life assurance benefits for their dependants in the event of death in service by taking options available under insured pension schemes. In effect group life assurance benefits can be grafted on to pension schemes for staff, subject to Inland Revenue rules. Group life assurance is not generally expensive and will help the employer to fulfill any moral obligations to the families of staff dying in service. The small business owner will undoubtedly be key to the growth plans, and his or her premature death will put the growth and the business at risk. In the early days of growth the life assurance emphasis is more likely to be on protection than investment. If expansion takes place by taking on new partners then you will need advice on partnership assurance. If a partner dies money will be withdrawn from the business and this may mean having to sell off assets of the business or rushing to find a new partner. The only certain way of getting money into the right hands at the right time is partnership assurance, a matter upon which, as with other life assurance aspects, your insurance broker should be consulted.

It could be that your financing Bank may be having a subsidiary or associate to cover the general and life insurance risks. Check with them and seek better terms than independent insurers.

Does growth mean that you will now be giving consumer credit?

If you already have a company, do you need to increase the authorized share capital and/or amend the memorandum of association?

If you wish to increase the authorized share capital you will need to pass an ordinary resolution (i.e. 50% of the votes or more) but remember to follow the correct procedures. Your solicitor or accountant will be able to advise you. Your company's memorandum of association sets out the company's objectives and if your proposed expansion, perhaps based on diversification, goes outside the range of activities described in the objects clause then you will need a special resolution (75% of the votes or more) at a shareholders meeting. Much will depend on the breadth of your current memorandum and the nature of the proposed changes. Life will be complicated for you if you make contracts beyond the powers of the company and so it becomes important to follow the correct legal procedures.

Will growth change the nature or form of contracts that you enter into?

Expansion may bring new customers and / or suppliers and even a change in the strength of your bargaining position. You may already be accustomed to trading on the standard contract terms of your suppliers and customers. Smaller firms often find themselves in a 'take it or leave it' situation with no opportunity to negotiate the terms but that is not to say that even very small firms do not sometimes issue their own terms. This is most likely to arise when they are dealing with consumers.

Will expansion be based on increased sales through selling techniques new to the firm?

If this is so ensure that your proposed selling methods do not attract the disapproval of the law. You should avoid 'inertia selling' (unsolicited goods). Pyramid selling is also unacceptable. It is direct selling through a pyramid of distributors, each of whom sells to someone at a lower tier. Eventually those at the bottom are saddled with high prices and unwanted goods.

Will expansion be based on some form of mail order?

Commercially you must have good target marketing, good image and reputation and good service. All of this needs to be underpinned by a mechanism that avoids legal pitfalls. Your advertisements and mail shots should be so drawn that they fall short of being an offer, i.e. a statement that will commit you to a contract when the 'customer' responds. It is better for you if these responses carry the status of 'invitation to treat' and this can be achieved by careful wording including statements such as 'subject to availability when the reply is received'. This becomes a safeguard so that where a supplier lets you down you do not become involved in contracts you cannot fulfill or the problems of the responses going astray in the post. You need to check out what rights customers might acquire against you under the Consumer Protection Act. Otherwise - and it may be the preferred style on some occasions - the advertisement could invite enquiry to which the response would be the issue of a catalogue or brochure.

Will growth be achieved by purchasing an existing business?

In this instance it is especially important to have a good 'business' solicitor on your side. Most small business acquisitions involve a direct contract between the firm and the vendors, in the case of a limited company its shareholders. The purchase may be of the assets or the shares. The latter is appropriate if you are seeking the entire business and there is no potentially large tax liability. If the acquired company has valuable long term contracts, these will continue and provide the basis of the planned expansion. It may also give you the size you require to assemble the right management structure and team. If instead you purchase the assets only you leave the liabilities to the vendors.

Goodwill is an important asset and you must, through the sale agreement, prevent this from being eroded by the vendors setting up in competition against you. These so-called 'contracts in restraint of trade' (or non-competition agreements) must be reasonable otherwise they become unenforceable. In a similar way you may, once again subject to legal advice, seek to prevent former employees from competing with you after leaving your service, but remember to be reasonable.

Will your growth be based on a new product, process, material or mechanism?

Patents

Although growth is frequently based on being 'different', or having new approaches, a small firm may be well placed to base expansion on patents or imaginative switches in convention. If the new product or process is novel, involves an inventive step and is capable of industrial application a patent could be sought. However, the Indian Patents Act 2000 makes no provision for scientific theories, literary, dramatic and artistic works, mathematical methods or computer programs. Advice on the application can be obtained from a registered legal practitioner dealing in Patents.

If the application succeeds the patent continues for 20 years from the date of filing the application but it will lapse if the annual renewal fee is not paid. The 20 years allows you, as the innovator, to reap the rewards of your innovation but the extent of your 'monopoly' power will be limited if there are close substitutes. Inventions by employees during their employment may belong to you but rules exist to cover these situations and every case turns on its own facts.

Your biggest problem as a small firm will be the cost of enforcing your patent, especially when the challenge comes from a large firm. Incidentally, one way of increasing your income, especially where your resources are limited, is to sell or license your patent or manufacturing expertise to foreigners. You will, however, need a carefully worded licence agreement.

Registered designs

This is a means whereby you can protect the appearance or style of your product against those seeking to imitate you. For this purpose, the method or principle of construction is irrelevant as these issues are 'judged solely by the eye'. If your production runs using anyone design do not exceed 50 you can secure no protection in this way, but if on expansion your production runs exceed 50 then you may register your designs. Registration will give you exclusive use of the designs. The Register of Designs is available for public inspection.

Trade marks

If the firm's expansion is linked to the creation of a corporate image or house style then you should register the logo, sign, mark or word that gives the product/ service or firm its identity. You will be less unobtrusive as you grow, possibly into new territories, and registration is something that you may not have thought about or considered appropriate at the start-up stage. Large concerns have been known to spend millions promoting five letter words (e.g. Gleem).

The growing firm should inspect the register before beginning to nurture goodwill around a name or a logo which has to be abandoned when the registered holder learns of the situation. Apart from the wasted effort damages and costs may have to be paid.

The early registration of your trade mark is advised if you plan growth. Not only will you get the commercial value resulting from selling your product or service, but once you own a trade mark you can sell it. The goodwill value of your business may be increased greatly as a result.

Banks offer loans at lower rates of interest than others but they tend to be conservative on that score. There are several government promoted schemes to set up enterprises: e.g., PM's Rojgar Yojana; CM's Rojgar Yojana; Self-employment ventures promoted by youth and trade associations etc. Most of these schemes have low investment base of less than Rs.2lakhs. These loans are offered without any collateral security. The advantages of these loans are quick and there are no extra stipulations

for funding – excepting that they need to be sponsored by the Government agency.

All other ventures, say those that have investments of over Rs.2lakhs each, irrespective of any rules or stipulations from either the Government or the Reserve Bank of India, have to honour the terms and conditions stipulated by the financing bank. Small enterprises have very lean equity capital structures and therefore have very little options for debt finance if the enterprise is unwilling or unable to meet the security norms stipulated by the financier. With debt finance the borrower largely bears the risk, in that, if the venture fails due to circumstances beyond its control, such as market failure, the entrepreneur has to cough up the loan with interests and all charges applicable; the only saving grace could be through the insurance mechanism, if the assets are appropriately insured in the event of fire or natural calamity or burglary or the death of the entrepreneur. The consequences of defaulting on loan obligation would be severe in that the Banks would exercise their right to proceed against the sale of the assets pledged/mortgaged to them in either private sale or public auction as per the provisions of the SAFRAESI Act.

Several Banks both in the public and private sector have created finance products to assist SMEs. The state bank group has a large range of such products that find a description in the following pages.

Existing SME Loan Products and their nature:

Banks have simplified their project appraisal system for speedy sanctions to SMEs. No collateral security is required for loans upto Rs.5 lakhs. No collateral security requirements for SME units for loans above Rs.5 lakhs and up to Rs.25 lakhs based on good track record. The working capital limits are sanctioned according to the Nayak committee recommendation, which is 20% of sales turnover or in line with the traditional method.

SME Special Loans – General Purpose Term Loans

Purpose	To meet expenditures such as: • Shoring up of net working capital • Capital expenditure • Substitution of high cost debt • Research and development expenditure • Quality upgradation such as to ISO standards
Eligibility Criteria	All SSIs that have: • Good track record • Good credit rating • Pre-tax profits for proceeding three years

Amount of finance	Up to Rs.50 lakhs
Repayment Period	3 to 5 years
Margin	25%
Rate of interest	According to the credit rating if loan amount is above Rs.25 lakhs

KVIC Margin Money Scheme (Khadi & Village Industries Commission)

Eligibility	All individuals for project costs up to Rs.25 lakhs Institutional and co-operative societies or trusts registered with KVIC/KVIB for project costs up to Rs.25 lakhs
Margin	25% of project cost as margin money by way of subsidy for project costs up to Rs.10 lakhs For project costs above Rs.10 lakhs: Up to Rs.10 lakhs: 25% Balance: 10%
Borrower's contribution	10% of the project cost 5% of the project cost for weaker sections
Amount of finance	90% of the project cost 95% of the project cost for weaker sections
Type of Credit	Medium-term loan
Facility	Cash credit and composite loans
Rate of interest	As per SSI borrower

Capital Subsidy Scheme For Technology Upgrades Of SSIs
Quite a few public sector banks like those in the State Bank group offer the Credit-linked Capital Subsidy scheme to assist both existing and new SSIs in their technology upgradation efforts. Technology upgradation initiatives include efforts to improve:

- Productivity
- Quality of products
- Environment

SSIs that produce the following products are eligible for this scheme:

- Leather and leather products including footwear and garments
- Food processing & ice cream manufacturing
- Information Technology (Hardware and Software)
- Drugs and pharmaceuticals

- Auto parts and components
- Electronic industry relating to design and measuring
- Glass and ceramic items including tiles
- Dyes and intermediates
- Toys and hard case maker
- Tyres
- Hand tools
- Bicycle parts
- Ferrous and cast iron foundries
- Stone and marble mining industry
- Ceiling on the loan under the scheme is upto Rs.1.00 crore
- The rate of subsidy is 15% of loans sanctioned for SSI unit

Laghu Udhyami Credit Card

Some Banks offer hassle-free credit to small borrowers by way of the Laghu Udhyami credit card. You need not submit stock statements or financial statements. The card is valid for three years.

ELGIBILITY: For limit upto Rs 5.00 lakhs satisfactory dealing with bank for a period of one year. For limits above Rs 5.00 lakhs and upto Rs 10.00 lakhs satisfactory dealing with the bank for two years

Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE)

Credit Guarantee Fund Trust Scheme (CGTS) – Credit Guarantee Fund Trust has been set up since May 2000 by the Government of India and SIDBI with a contribution of Rs.125crores in the ratio of 4:1 to be raised to Rs.2500crores depending on the requirement. Inability to provide adequate collateral security to lenders has been the basic problem facing the Small Scale Enterprises especially the first generation ones. The CGTS is a significant step forwarding making available collateral free credit to the SSI section by guaranteeing 75% of the credit risk of eligible rendering Bank/Institution which are referred to as Member Lending Institution (MLI). The scheme has low cap of Rs.25lakhs and guarantee cap of Rs.18.75lakhs per borrower. Rehabilitation assistance for a sick unit is also covered under the scheme provided the over all assistance is within the credit cap.

The lender covers the eligible credit facilities within 90 days from the date of sanction of credit facility. Guarantee commences from the date of payment of guarantee fee (a one time fee of 2.5 per cent of the credit facilities sanctioned) and runs through the agreed tenure of term credit in case of term loan/ composite loan and for a period 5 years when working capital facilities alone are extended to borrower.

Since the implementation of the scheme, a major share of units (57 per cent) have availed loan below Rs.50000/- while 38% of units availed loan of over Rs.50,000/- and below Rs.1.00lakh

The state-wise sanction of approvals under the credit guarantee scheme shows that the largest number of proposals up to 2001 was from U.P. (515) followed by Madhya Pradesh (122). These two states by far accounted for 50% of the total number of approvals in the country. However in terms the amount of credit, Tamil Nadu ranked second after (UP) with Rs.140.06lakhs credit compared to Rs.225.46lakhs in UP.

Liberalization of CGTMSE guidelines by way of reduction in one-time guarantee fee from 2.5% to 1.5% for all (i) loans up to Rs.2lakhs; (ii) eligible women entrepreneurs; and (iii) eligible borrowers located in the North Eastern Regions (Sikkim) and Jammu and Kashmir. Public sector banks are encouraged to absorb the annual service fee in excess of 0.25% in respect of guarantee for these categories. CGTMSE is available for all loans up to Rs.50lakhs.

SME Smart Score

(Above Rs.5lacs & up to Rs.25lacs)

The SME Smart Score scheme reduces delays and simplifies the approval process based on the score for small and medium industrial and trading enterprises, such as single proprietorship or partnership and closely held private or public limited companies. The borrower should get a minimum score of 60 out of 100

Amount of finance	From Rs.5.00lacs to Rs.25.00lacs
Working capital	20% of the projected sales (according to Nayak Committee)
Medium term loan	67% of project cost

SME Credit Plus

Purpose	To meet expenditure such as: • Repairs to plant and machinery • Payments to labour • Tax payments Additional purchases of raw materials for execution of Bulk Order
Eligibility	Good rating Existing customers: Standard assets as on 31st March for the preceding two years New Customers: At the discretion of the sanctioning authority
Amount of finance	20% of aggregate fund-based working capital limits

	or a maximum of Rs.25 lakhs, whichever is less
Interest rate	Based on aggregate finance

Small Business Finance (SBF) / SBF Advances (Mortgage Loan)

Purpose	To provide hassle free working capital / contingency finance to borrowers in Trade, Services and SSI sector who are willing to furnish mortgage of property of adequate value.
Nature of Facility	Overdraft
Eligibility	• Retail Traders / Wholesale traders • Small Business Enterprises • Professionals and self employed • Individuals • SSI units
Quantum of Loan	Up to Rs.10.00 Lakhs
Assessment of Limits	50% of realizable value of property.
Repayment	Repayable on demand
Validity	Sanctioned limit will be valid for a period of 3 years. 1.50% of the limit should be serviced every month.
Security	Tangible collateral security of a minimum of 200% of the loan amount in the form of Equitable / Registered Mortgage of land and building.
Insurance	Waived

SME Car Loans

Purpose	To provide term loan to the promoter/ partner of the SME units having borrowing arrangements with the Bank or their family members either in their own name or in the unit's name for purchase of passenger cars, jeeps, multi utility vehicles (MUVs) and sports utility vehicles (SUVs) etc.
Target Group	Extended to as many promoters/ partners and even their family members* either on their own name or unit's name based on

	their individual net worth and repayment capabilities. (* Family for this purpose is spouse and children)
Eligibility	An individual / joint applicant must have a net annual income of Rs.75000/- and above for the last year as per IT return.
Security	Only hypothecation of the vehicle(s) purchased will be taken as a security. This hypothecation charge must be mentioned in the books of the RTO. No additional security including the charge on the existing collateral will be asked from SME clients.
Loan Amount	• 2½ times the net annual income (i.e., income as per latest income tax return filed less taxes payable). • Regular income from all sources can be considered. • The income of spouse can be included provided the spouse guarantees the loan. • For new vehicles, there is no ceiling in loan amount. • For used vehicles subject to a maximum of Rs.15 lakhs. • In any case the EMI/NMI* percentage should not exceed 50%. *(EMI – Equated Monthly Installment)(NMI – Net Monthly Income)*
Margin	• For Loans upto Rs.6.00 lakhs – 15% • For Loans above Rs.6.00 lakhs – 30%
Repayment	To be repaid in suitable monthly/ quarterly installments within a period of 7 years.
Rate of Interest	Depending on quantum of loan, location, repayment period and option of floating or fixed rate.

Small Business Finance (SBF)

Retail Traders

Purpose	Purchase of stocks and fixed assets
Ceiling	Rs.10 lakhs
Margin	25% for term loan 20% for working capital
Repayment	Maximum 5 years for term loans
Working Capital	Renewed every year

Fin Bowl Trade

Purpose	To meet all the needs of a Small & Medium Business Enterprises
Eligibility	The borrower(s) should be local resident for over 3 years. The borrower can be an individual or sole proprietorship or partnership firm or private limited companies Should be earning profits for the last 3 years (Not applicable in case of new ventures)
Eligible Activities	1. Interior decoration / renovating / repairing of the business premises 2. Acquiring the business premises 3. Purchasing of necessary equipments like Air Conditioner, Refrigerator, Water Cooler, Generator, etc. 4. Purchasing of business equipments, office equipments, furniture computers, etc., 5. Liquidating high cost borrowings taken from other banks. 6. Purchase of vehicle for business (Two wheelers / Three wheelers – Tempos /Four wheelers trucks) 7. Installation of advertising hoardings, equipments etc. 8. Working Capital requirements 9. Personal Loan
Repayment Period	Composite loan - 3 to 7 years
Concessions	If the borrower takes finance for any two items or more, stated in the list of nine eligible activities, the following concessions will be provided. • 50% of normal exchange / commission will be charged on remittances / SC/LSC Cheque / Bill etc. · ½ % reduction in applicable rate of interest will be provided.
NO PROCESSING CHARGES	

Small Business Enterprises (Other than professional services)

Purpose	Finance to individuals and firms that provide services other than professional services
Amount of finance	Aggregate of term loan and working capital limits: Rs.20 lakhs and working capital limits not exceeding: Rs.10 lakhs
Margin	Term loans: 25% Working capital: 20%
Repayment	Term loans: Maximum 5 years Working capital: One year subject to renewal

Doc-Fin (Medical Practitioners)

Purpose	To meet expenses related to: • Setting up clinic, clinic cum residence • Buying medical equipment • Purchase of vehicle, ambulance, computers etc. • Drug stores • X-ray lab, Nursing Homes, Pathological laboratory, Polyclinic etc. • Expansion, modernization / renovation of existing premises. • Any other activity related to medical profession working capital.
Eligibility	All qualified medical practitioners in the age group 25 to 60 years including dentists with one-year experience. Should hold a degree or P.G.Diploma from a Government-aided or recognized institution.
Amount of finance	In rural & semi-urban areas: Ceiling of Rs.15 lakhs and a sub ceiling for working capital of Rs.3 lakhs In urban & metropolitan areas: Ceiling of Rs.10 lakhs and a sub ceiling for working capital of Rs.2 lakhs
Margin	25%
Repayment	Maximum 5 years

Scheme for Qualified Professionals

Purpose	To meet expenditure related to: • Setting up professional practice or consultancy venture • Acquiring additional equipment including personal computers for professional use • Working capital needs
Eligibility	All professionals such as Engineers, Chartered Accountants, Cost Accountants, Company Secretaries, Management Consultants, Lawyers, Architects, Surveyors, and Construction Contractors with an annual income of Rs.80,000/- and above and in the age group of 21 years and above
Amount of finance	Ceiling of Rs.10 lakhs and a sub ceiling of Rs.2 lakhs for working capital
Margin	25%
Repayment	Term loans: Maximum 5 years Working capital: Renewed every year

Other Loans

Purpose	To provide hassle free working capital / contingency finance to borrowers in Trade, Services and Agriculture sector who are willing to furnish mortgage of property of adequate value.
Nature of Facility	Overdraft
Eligibility	• Retail Traders / Wholesale traders • Small Business Enterprises • Professionals and self employed • Individuals • Agriculturists
Quantum of Loan	Up to Rs.10.00 Lakhs
Assessment of Limits	50% of realizable value of property, decided on the basis of the valuation report of an approved valuer. The immovable property offered as security shall be exclusive for the mortgage loan and no charge, whatsoever, shall be extended on the property for any other loan.
Repayment	Repayable on demand
Validity	Sanctioned limit will be valid for a period of 3 years. 1.50% of the

	limit should be serviced by the borrower, every month towards interest and incidental charges. In respect of agriculturist, repayment of interest to coincide with the agricultural income.
Review	Quarterly by the Branch Manager to ensure that the account is being properly serviced.
Interest Rate	(PLR) 11.0%
Processing Charges	As applicable
Security	Tangible collateral security of a minimum of 200% of the loan amount in the form of Equitable / Registered Mortgage of land and building.
Documentation	As applicable to Overdraft
Insurance	Waived off

Small Business Finance / Tourism

Purpose	• Construction / renovation / modernisation / addition to Hotels / Yatri Nivas / Dharamshalas, etc. • Construction of office premises / purchase of computers and office equipments by Travel agents / Tourist agents. • Purchase of luxury buses / coaches, cars, Tata Sumo, Qualis, Vans, etc. (at tourist sites). • House boats / luxury boats. • Restaurants, Fast Food Centre, Coffee houses, Ice Cream Parlours etc. • Health Club and Health SPAs.
Eligibility	Individual (Proprietorship), Partnership Firm, Limited Company, Trust.
QUANTUM OF LOAN	a) Loans of Rs.2.00 lakhs for tourism related activities will be sanctioned under normal Small Business Schemes. However, loans beyond Rs.2.00 lakhs will be sanctioned under Tourism Fin Scheme b) For luxury coaches' upto 10 vehicles irrespective of loan amount can be sanctioned under Transport Operator Scheme. c) For tourism related activities involving limit over Rs.20.00 lakhs and advances for purchase of more than 10 vehicles would be classified under C & I segment.
Margin	20%
Repayment	The term loan would be recovered between 3 years and 7

	years including appropriate start up period not exceeding 18 months.

Small Road And Water Transport Operators (SRWTO)
A Small Road and Water Transport Operator is one who owns a fleet of vehicles not exceeding ten in number including the one proposed to be financed. The vehicles are hired to carry passengers or goods.

SBI offers the SRWTO scheme to meet expenditure related to the purchase and repair of new or used vehicles, boats, steamers, launches, animal-drawn carts and hand-drawn rickshaws.

The margin for term loans is:
• Up to Rs.10 lakhs: 25%
• Above Rs.10 lakhs: 331/3 %

In all the Banking organizations systems are devised and formats prescribed to carry out the credit delivery and monitoring functions. High value advances are monitored at a periodicity, which is more frequent. Highly sophisticated field like software specialist consultants help the bankers to undertake this monitoring task. These measures apart from protecting Bankers interest also will help in tackling customer complaints if any.

Banks' time, effort, expense and expertise will be well rewarded by a healthy well performing SME portfolio. RBI should permit the Banks through specific guideline that a NPA entrepreneur coming up with a viable investment proposal in the emerging market scenario can be considered for financing afresh either by the same Bank or by another Bank as long as he or she is not classified as a willful defaulter while settling the dues one-time under the OTS scheme.

Entrepreneurs, on their part should get tuned to doing businesses in a way that establish their credibility; invest in a soft ware; with web-enabled access as a feature; should learn to spend at least a week in a six-month period in e-based or institutional learning to fill up their gaps in knowledge and skills; should submit regularly age-wise position of debtors and creditors to Banks; should review marketing strategies and should continuously review cost-reduction strategies and new technologies. They should understand the new rules of the game and play well. The eroded mutual trust among the Banks and SME s, will get rebuilt in the process ere long. The projected growth of 10% p.a. would not then be difficult to reach for the government. The reader should always check on any amendments that could come about from the Reserve Bank of India (www.rbi.org.in).

It is highly desirable to get your enterprise rated by a Rating Agency acceptable to the lending banker and the rating by SMERA/CRISIL carries an incentive both by way of subsidy from the NSIC and softer rate of interest than they normally get from the ban

Chapter III
Fostering Business Development Services

6.0. General

6.0.1. This is the age of networking where businesses, big and small increasingly look to strategic alliances and cooperative relationships as a source of competitive advantage. Such alliances and partnerships among competing businesses in the name of *'co-opetition'* are only illustrative of the deepening interdependence among business enterprises, howsoever large and resourceful. MSME units that by definition are endowed with limited resources stand to benefit immensely from such alliances and partnerships as the literature on SMEs research worldwide suggests.

6.0.2. Well-networked MSMEs find it easier to gain new competencies, conserve resources and share risks, develop new products and move more quickly into new markets, and create attractive options for future investments. The growing popularity of a cluster-based approach to planning MSME development in both developing and developed economies also supports the value addition that both formal and informal networks can add.

6.0.3. Extending the logic of inter-firm alliances and small informal networks to larger, homogenous or common interest formal networks, one does not find it difficult to appreciate the very laudable role that associations of small industries have been playing the world over, in the growth of the small business sector. Unfortunately, in the tradition of small enterprise research in India, the role and relevance of small industry associations in building up the sector has remained a much-neglected area.

6.1. Changing Role of Industry Associations

6.1.1. One possible reason for this could have been the poor visibility of the associations themselves in a regulated business environment of licenses and controls that the country witnessed in the pre-reform era. Till early nineties, before the economic reforms gained momentum, proximity of individual firms and their promoters to the powers that dispensed the licenses and exercised controls, was important for survival and growth.

6.1.2. In the emerging scenario of deregulation and transparency of governance, it will be increasingly difficult for seeking as well as providing firm-specific favours. Rather, firms, both big and small, would be looking for government's support in creating and sustaining industry-related competitive advantage. This trend is obvious from the manner in which the Confederation of Indian Industry (CII), Federation of Indian Chamber of Commerce and Industry (FICCI), Associated Chamber of Commerce and Industry (ASSOCHAM), All India Manufacturers Organization (AIMO) and others have been voicing the common concerns of Indian businesses and contributing to the Government policy.

6.2. MSME Associations in India

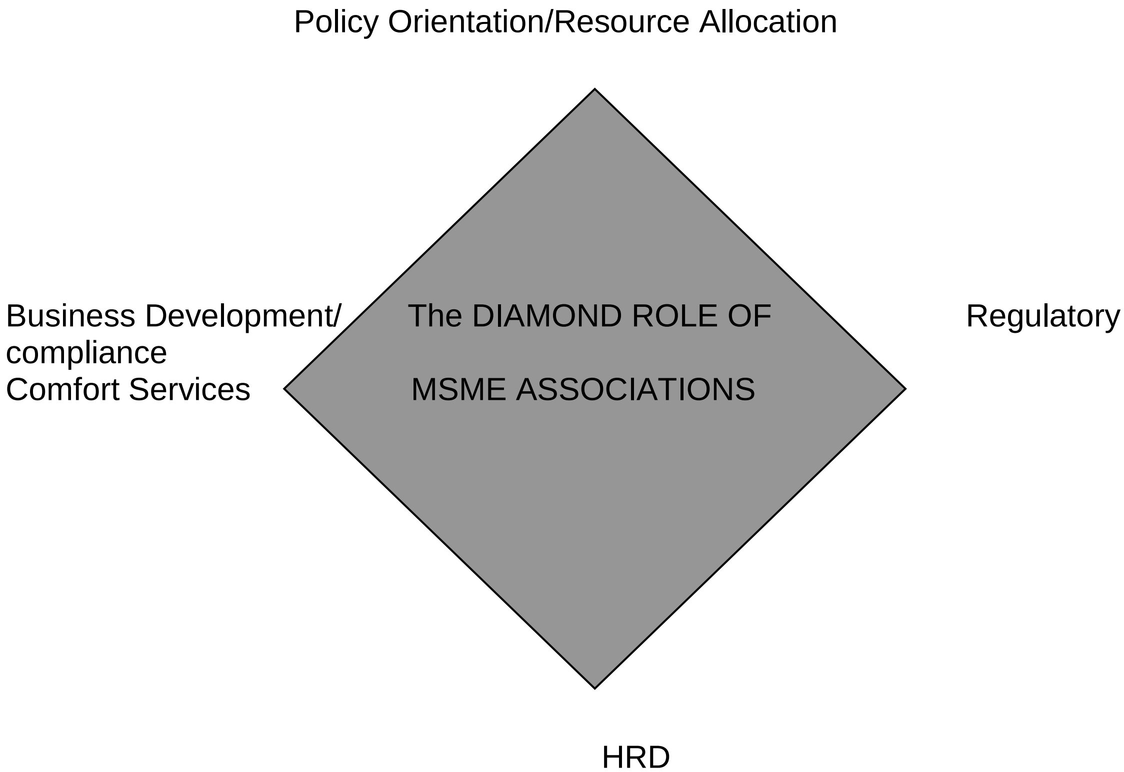
6.2.1. It is in this context that the role of associations and chambers of MSMEs and commerce and their federations would have to be viewed as potentially growing in terms of scope as well as importance. A large number of associations of erstwhile MSMEs have been very active in recent years and their impact on the individual firms on one hand and Government machinery on the other hand, has been fairly serious.

6.2.2.At the national level, The Federation of Associations of Small Industries of India (FASII) which claims a nationwide constituent membership of some four thousand smaller associations, the Chamber of Small Industry Associations (COSIA) and the Laghu Udyog Bharati have been quite vibrant in their influence on the policy environment for the MSME sector. In addition to the geographically organized associations, there are product-based and industry-based associations representing the interests of garment-makers, plastic manufacturers, chemicals and drugs manufacturers etc. Where such products are manufactured for intensive exports, product based associations of exporters are also active.

6.3. MSME Associations – Focus Areas for Value Addition

6.3.1. In the light of the relevance that associations of industries and commerce have been able to demonstrate, particularly in the post- liberalization era in India, there are four broad areas (Fig 6.1) where such associations can add value to the Small Scale Industries Sector.

Fig.6.1. MSME Associations - THE DIAMOND ROLE



(A) Policy Orientation and Resource Allocation

6.3.2. As is the practice and in many cases, the very rationale for organizing the associations all over the world, in matters of policy making in the Government, both Central and State, the voice of the associations assumes great significance. Notwithstanding the best intentions that national and local Governments may have in matters of extending policy support and concessions to Small Scale Industries, there often arises a need for an objective understanding of the actual needs of the entrepreneurs and management of MSMEs units, to ensure efficient utilization of the scarce resources. It is here that the associations could help in mobilizing more resources in favour of the MSME sector as well as in ensuring a balanced prioritization of MSME needs for utilization of the assistance from the Government. Some of the vital needs of MSME units in India relate to the following:

(a) Infrastructure.

6.3.3. Both under plan as well as non-plan schemes for development of Industries, the Government have been providing support for development of Industrial estates and Industrial districts. Very often, the agencies involved in implementing these projects work independent of other departments that are responsible for regulating Industrial development with the consequence that after such projects are completed, Industrial occupants or allottees of Industrial sheds/Common Effluent Treatment Plants find that the facilities are not in tune with the structural requirements under the Factories Act or The Pollution Control Laws. Such instances of misfit between the industry needs and the Government supported infrastructure could be avoided through active involvement of Small Industry Associations. The role of the Tirupur Exporters Association (TEA) in infrastructure development at Tirupur in TamilNadu has been widely appreciated.

(b) Technology.

6.3.4. This would be an area of decisive intervention for MSME associations in guiding the initiatives of both Government and Industry in up gradation of existing technology; induction of innovative technologies; lab to shop floor integration of new packages for design, tooling, equipment and product testing and other major issues of technological relevance. Most importantly, associations need to serve as a bridge between Research and Development Institutions and individual firms, an area where the MSME associations in Ambattur, Coimbatore, Madurai in TamilNadu, KASSIA in Karnataka, Thane in Maharashtra, FISME in Delhi have taken great interest to the benefit of its members.

(c) Fiscal and Market Support.

6.3.5.In recent months, most notable developments have taken place in the applicability of fiscal laws and schemes of credit support for the MSME sector, thanks to the role played by MSME associations. For instance, the limit for exemption from Central Excise Duty has been raised to Rs.100 lakhs from Rs.50 lakhs applicable till late 90s. Similarly to provide MSMEs greater access to the credit delivery system, the limit for composite loans comprising both term loan and working capital limit has been increased from Rs.10 lakhs to Rs.25 lakhs.

6.3.6.In the context of the new credit guarantee scheme, capital subsidy scheme and other forms of financial support to the MSME units, the associations need to constantly review, research and evaluate their effectiveness to enable the garment and other sponsoring institutions to appropriately amend their schemes from time to time. On the marketing front, associations of MSMEs would need to develop brand building capabilities and assist their members affected by dumped imports in to the country in launching necessary investigations and seeking remedial action at the national and international levels.

6.4.Regulatory Compliance

6.4.1.With the realization that conventional ways of inspection-based means of checking compliance with various laws and rules by industrialists must give way to a more simple and industrialist-friendly regime, Governments at the Centre and in the States, are looking at all possible ways of mitigating the burden of regulation on the industry. Self-Certification of compliance with relevant laws and submission of Common Consolidated Statutory Returns in lieu of separate accountability to different regulators are some new concepts being examined as viable alternatives to the vagaries of inspection. In this context, the MSME associations have a ‘never before opportunity’ to guide their members in taking the best advantage of the above while at the same time inspiring confidence in the regulators.

6.5. Human Resource Development

6.5.1.In search for competitive advantage, MSME units in the country would increasingly realize that management of their human resources would present the most serious challenge. It is obvious from the global experience of IT companies, big and small, that professional man power cannot be hired and retained entirely on the basis of the ‘employer-employee’ relationship.

6.5.2. While infrastructure, technology, finances etc., may continue to bother the entrepreneur, managing entrepreneurs within an entrepreneurial venture would call for drastic change in the mind set of entrepreneurs. Managing such a change through typical EDP/MDP type training programmes organized by professional institutions would have serious limitations and hence the role of associations in designing and delivering human resource development programmes for entrepreneurs and professional managers of MSME units, would assume critical importance. Tamil Nadu Association of Small Industries Association (TANSIA) has launched many HR development programs in collaboration with the Friedrich Neumann Stiftung.

6.5.3 Partnerships for Infrastructure development: Under PPP arrangements, the Associations can venture into developing rural industrial estates, improve infrastructure in the existing industrial areas and clusters, develop brand image for the niche enterprises, set up quality testing laboratories and make Make-in-India reach the global markets.

6.6 Comfort Services

6.6.1.Associations of SME units globally have been providing a wide range of comfort services, within and outside the business domain to release the entrepreneurs from the burden of having to attend to administrative and personal chores. The typical range of such services including travel, leisure, health care, tax management, communication campaigns etc. provided by an American Small Business Association may be seen from the ANNEXURE. MSME associations in India could also consider ways of reaching out such services to the members which would also help them expand the membership base.

6.7: Role of the State:

6.7.1 In view of the number of associations formed either area wise or industry wise, it would become necessary to develop certain rules and regulations to bind the relationship between them and the Government lest credibility of interventions do not become a subject of needless controversy. Since partnerships and collaborations succeed when the Associations are strong both organizationally, financially and with dependable networks, the Ministry of MSME may earmark budget adequate enough to partner with the State Governments as well.

6.7.2 Regulatory Regime:

Associations worthy of recognition should be having financial discipline and good governance.

Governments – both Union and State – may recognize only those Associations that federate to afford convenience in negotiation of projects and develop communications. The Federations and Associations should be conducting elections for the office bearers as provided for in their byelaws regularly; should be keeping their membership record online; should be in digital communication with their members through a periodical journal; should be auditing their accounts annually through a Chartered Accountant; and should be rotating their office bearers periodically in line with the principles of good governance. MSME Department may prescribe a format to comply with these regulations online and post the required affidavits in this regard to become eligible for assistance and partnership with the governments in execution of the projects benefitting the members and community oriented projects.

It is important that the MSME Ministry recognizes only those national federations whose constituency is in majority the MSMEs (say 80% of the Members) so that the powerful lobby groups hold seize of the limited resources for the purpose of networking and collaborations.

6.8. In conclusion, the role of associations of MSMEs would be significant and even different from that of their counter parts representing big business, for several reasons. Most important being that the voice of the smallest can be heard only when several small entities speak both loudly and in unison. Therefore, in a large country like India with its inherent diversity, multiple associations may be inevitable but just as they expect their members to present a picture of unity, the associations themselves would need to relearn new ways of collaborating and networking for the greater benefit of the MSME sector.

Members who regularly subscribe to their Associations would be expecting several services. In fact such miscellaneous services actually earn better revenues for the Association. Information and communication technologies hold the key for such services. Federations can also log space on some of the TV channels for periodical debates on issues of relevance to the Members regularly.

Chapter IV

CLUSTERS & CLUSTER DEVELOPMENT

Clusters & Cluster Development:

“United we stand. Divided we fall” – the age old adage applies in every sphere of life in family, warfare, business, education, entertainment and collective approach. Small and medium enterprises considering the complex situation in which they are placed have an option in forming clusters as risk mitigation strategy.

What is a cluster?

Different countries in the world have defined clusters in their own way keeping in mind the policy frame work, nature of products, technology used, ethnic and demographical factors. However, we may understand the concept as under –

1) A cluster is a geographically bound concentration of similar related or complementary business with active channels for business transaction, communication and dialogue that share specialized infrastructure, labour markets and services that are faced with common opportunities and threats.
2) A cluster is a sector and geographical concentration of MSMEs faced with common opportunities and threats.
3) The product category, product range, market opportunities and identical factors like location, process, and trade practices also can be building factors for the enterprises to come together as a cluster.

Cluster approach:

6.3.1.SME enterprises similarly placed as mentioned above come together, work together, produce together goods and services and finally share together the benefits and profits.

6.3.2 We have seen in the earlier chapters how SME enterprises operate. To recapitulate, the following broad operating factors can be noticed:

1) While on one hand, world economic structure is undergoing rapid changes with globalization of production and increasing competition, on the other hand, de-licensing, privatization, encouragement for investment in trade result in greater employment, increased exports and higher profits.
2) SME enterprises work on low cost labour, traditional skills, technological obsolescence, change in techniques, leaving the enterprises far behind

and firms who isolate themselves will not be able to cope with these problems individually.

3) Research findings in the trend of development in the field of SME have recognized the importance of social and inter-organizational linkages with which a small firm is linked. These linkages help to provide various types of technical, commercial and legal services. This enables the SMEs to overcome some of their inherent disadvantages like economies of scale, sourcing and acquisition of technology and specialized production functions.
4) Industrial districts functioning on somewhat similar lines have shown marked improvement in economic competitiveness. The pattern of inter-firm collaboration both at horizontal and vertical levels raise technical know how, accelerate innovation and improve the ability of small producers to respond to external market developments.
5) Where large number of industrial units are located producing somewhat similar products with varying degrees of quality levels can not be defined as cluster groups because of the following deficiencies:

- These are promoted by the initiative of some institutions like SIDBI and are mainly industries enterprises;
- The efforts are mainly on technology and integration of various other factors are not in their agenda;
- The limited initiatives in technology are in isolation, and
- The involvement of all the beneficiary firms in all the initiatives is quite limited.

CLUSTER APPROACH – WHAT IT CAN DO?

The two main challenges of an SME are: 1. to upgrade themselves from local, national to global markets; 2. meet competition through superior quality and technology upgradation. The SMEs in this approach can –

1) Access information, knowledge skills and finance
2) Have Linkage with markets and suppliers
3) Correct inadequate strategies and improve organization\
4) Overcome inefficient regulations and take advantage of the existing incentives

The cluster approach can lead to

1) Inter-firm cooperation culture
2) Cooperation + competition
3) Combines flexibility and efficiency
4) Continuous upgradation of production, markets, skills and technology
5) Increases innovation joint learning and collective efficiency.

Box.6: Enhancing SME Competitiveness through Cluster Development	
Nature of deficiencies in SMEs	Remedies sought through Cluster initiative
Individualistic & Non sharing	Awareness and Trust building interactions among the cluster participants
Lack of collective thinking	Industry Associations are associated to bring about effective idealization and participation; networking both within and outside the cluster
High Costs	Consortium approach in procurement of raw materials, contracts and financing; sharing of costs of common services
Low Quality	Common testing and R & D facilities; Awareness programmes on quality management; bench marking
Low Market penetration	Product innovation; product diversification; market information and market diversification strategies& market research
Lack of or poor Brand image	Brand building; Brand imaging; co-branding; and brand management
Low capital, low debt and poor financial management	Improved access to debt markets; skill building in financial and accounting management; Build bridges of understanding between the financing institution and entrepreneurs for better facilitation; Innovation of new financial products to suit the specific products and markets.
Lack of institutional supports	Institution building and building strong public-private partner-ship in building product specific and general infrastructure
Lack of enthusiasm and disinterested second generation entrepreneurs	Entrepreneurship Development programmes specifically designed for the cluster

Selection of a Cluster – Cluster Development Approach

Selection of a cluster for launching a Cluster Development Project involves the following steps:

1) Identification of a cluster in a country
2) Creation of a country cluster table and map
3) Preliminary selection and short list of cluster
4) Formulation of final selection criteria
5) Final selection of cluster(s)

Identification of Clusters:

Since Cluster Development is relatively a new approach in the field of MSME Development, an inventory of clusters in the country with the information required for proper cluster selection is not available. Hence, cluster selection can be done only with secondary sources combined with expert opinion.

However, a broad guideline for selection of a potential cluster would contain elements such as location and product growth factor, whether vertical or horizontal.

Sources of Information:

Statistical parameters have been used in countries like Italy and UK to build proper data base. Details such as indices of concentration, stage of cluster development, depth, variety of cluster share holders, dynamics (growing or declining), economics of significance, regional/national or international information are gathered in addition to statistics. As different from this approach, we have case study or expert opinion approach. Those who are familiar with MSMEs in the region or an agency working in the field of MSME development are entrusted with the task of cluster identification. MSME support institutions can play a useful role in assisting these teams.

The following aspects occupy a significant position in the Cluster Development frame work.
Skills Upgradation:

1 Technical Training of trainees
2 Training in basic drawing and designing skills of artisans
3 Training of second level Managers in information technology
4 Training in Product diversification

Strengthening of linkages:

Participation in local/national/international Trade Fairs, Organization of exhibition-cum-sales; Showrooms' renovation; selection criteria of Directors; designers; documentation and preservation of traditional art form.

Innovative Product Development:

Introduction of new technologies, innovations to indigenous technologies; adaptive and appropriate technologies could all contribute to innovative product development.

Institutional Capacity Building

Creation of specialized consortia; regular meetings of Local Associations
Specialized skills in upgrading the programmes of the rural artisans;
Specialized Buyer-seller Meetings,
Joint participation in trade fairs with other countries.
UNIDO with its worldwide experience and demonstrated success in Italy engaged the Governments in these countries (initiated in the year 1996) for modernizing the natural clusters through customized global strategies. The project aims at developing capabilities at both the local and national levels so as to promote networking and development through a series of steps:

- Mapping the competitiveness
- Assisting the Clusters' actors for the most efficient supply chain management both in the individual units and cluster as a whole
- Capacity building to realize the vision of the Cluster and
- Providing the advisory services at the policy level.

There are more than 400 SME-clusters in India. These clusters are overwhelmingly dominated by small units and the share of medium enterprises in production, turnover, and employment is nominal. Some of the clusters produce 70-80 percent of the total volume of that product manufactured in India. Planning Commission has included this as a major initiative in SME Development strategy and Employment – oriented strategy. Two parallel initiatives are currently on stream – one, through the Ministry of Industry and Commerce that provides funds for infrastructure development in clusters through SPVs promoted by private or public-private partnerships and incentivises export oriented clusters located in SEZs and AEZs and the other through the Ministry of MSME with the DCMSME as the nodal officer, which implements cluster initiatives through State Governments and Industry Associations. Several institutions that included export houses, common service centres, non-governmental organizations/Associations, have been revitalized and several government officials and promoting institutions have been sensitized to the Cluster development initiatives. SIDBI is also playing a major role in the development of textile clusters initiated by the Textiles Committee in its countrywide effort. Seven State Governments (Andhra Pradesh, Tamilnadu, Karnataka, Kerala, Orissa, Madhya Pradesh and Rajasthan have adopted cluster development within the framework of their State industrial policies with UNIDO support. Numerous nation-wide support institutions joined, most prominent among them the State Bank of India, Development Commissioners--Handicrafts and Handlooms and the Chambers of Commerce. Innovative financial practices in the Consortia (Bangalore Machine tool cluster), Entrepreneurial development programme in Bagru (Jaipur), introduction of ICT in Ludhiana, building bridges of understanding between the regulators and the entrepreneurs in food processing sector in Pune on quality stipulations and legal requirements are some worthy interventions so far.

Panipat produces 75 percent of the country's total blanket output. Similarly, Ludhiana produces 95 percent of the country's woolen knitwear, 85 percent of the country's sewing machines and 60 percent of the nation's bicycle and bicycle parts.

SMEs' wide range spread over 7500 products offer enough scope for clusterization and agglomerate initiatives.

Box.2: <u>UNIDO cluster development project in India</u>

UNIDO implemented a development initiative in the knitwear cluster of Ludhiana, whose products represent 95% of the Indian woollen market. An initial diagnostic study that identified lack of skilled workers, limited product range, poor market information, and weak infrastructure as the key challenges facing the cluster formed the basis for intervention.

A group of six exporters were helped creating a focused network the Apparel Exporters' Association of Ludhiana (APPEAL) to demonstrate the effect of a private initiative. Over the years, APPEAL grew to associate 54 exporters, representing 80% of exports from the cluster. Subsequently, Knitwear Club (the local association of knitwear manufacturers) was supported in the implementation of developmental activities. Federation of Knitwear and Allied Industries Associations (FEKTAA) formed at the end of the initiative ushered in a new era of governance.
Towards the close of 2001, the project activities through APPEAL and Knitwear Club benefited directly 150 firms and many more indirectly. Cost-cutting and productivity improvement interventions generated savings in excess of Ind Rs 45 million with energy-saving and store-management techniques introduced in the cluster. New market ventures, both domestic and abroad, led to increased sale of INR180mn by around 25 firms. Joint participation in trade fairs and Buyers-Sellers Meet were initiated, which have now become feature in the cluster. Additional investment worth INR360mn was triggered with forty-five new yarns introduced in the cluster. Five innovative training programs were designed in collaboration with the industry leading to the training of 400 people (300 women), 70% of which gained new employment.

After the completion of the project, several institutions have actively taken up the challenge of cluster development. The State Bank of India launched its own cluster project in March 2001 and Textiles Committee of India (again in partnership with UNIDO) in June 2002. In the meantime, Knitwear Club, APPEAL and FEKTAA were helped to forge strong linkages with central and local policy makers and with various support institutions. As a result, the International Yarn Fair (organised by APPEAL with the China Chamber for Promotion of Import and Export of Textiles) displayed the capacity of the industry to manage large-scale events. A very large Buyer-Seller Meet was then organised by APPEAL to promote exports. Knitwear Club conducted a workshop on "technical textiles" and organized a major exhibition on yarns, accessories and machinery. All the exhibitions have been fully sustainable and have earned profits for both the associations. On the marketing front, a brand "Made in Ludhiana" is being promoted by FEKTAA to build consumers' confidence in Ludhiana products. A key challenge still under way is the Apparel Park, though central government has endorsed the capability of the cluster stakeholders to undertake a project worth over INR45mn.

FINANCIAL LEVERAGE:
A network of entrepreneurs, not enterprises – Kottayam Network

Members may hold shares in their individual names and not in the names of companies (who already have working capital limits-though inadequate). Since the share are held in individual names, the bankers will not raise the issue of double-financing' to enterprise.

Sanction particulars of a purchase network funded by a bank
In the case of the network at Kottayam, a pre-sanction inspection report was prepared by a manager from the State Bank of Travancore (SBT). The banker was impressed by other co-operative initiatives of consortium members and sanctioned what was perhaps the first such raw material 'bank' option in the country. The sanction was unique as many member enterprises already availed of working capital facilities from banks. The critical objective of the network was to synergise bulk purchase inputs from manufacturers. The enterprises were relatively underfinanced and could not pursue this initiative without additional funds.

As per the sanction received to their loan application in 2002, the consortium received a cash credit (hypothecation) facility with a limit of Rs. 60lakh. The purpose of the advance was to procure natural rubber, synthetic rubber, chemicals, titanium-di-oxide etc. and sale of the same. The interest charged was 2.5%.Primary security was stock, and collateral security was in terms of land 9valued at over Rs. 40 lakh) offered by two of the directors of the consortia. Eight directors also offered personal guarantees. Stock statements are submitted every month and withdrawals are monitored based on stock statements. The authorized official of the bank is permitted to carry out periodical inspection at monthly intervals.

Not so evident 'uniqueness' !

With regard to Darjeeling tea (and perhaps Virudhunagar chillies), agro-climate conditions lends outright distinctiveness to the product. In some clusters, however, uniqueness is not so easily evident. In the case of Kottayam rubber, for instance, Kottayam rubber has reputation (a recognition) that may be evident from the Govt. Gazetteer as also from various historical records, reports in the print media, and other such secondary material available with the Rubber Board.

The fact that prices of rubber sheets from Kottayam are always on the higher side also indicates some premium in the Indian context. A scan of commodity market prices in the newspaper validates the premise. A paper recently manufacturing process is considerably lower in Kottayam. This in turn, lends its products premium quality and prices. But, does this make Kottayam not a significant player in most rubber products, or in terms of share in global rubber and rubber product trade? An option in this context may be to narrow down claim to geographical indications (GI) on to particular product trade..… rubber mats and mattings, for instance, wherein market share leadership may also be established.

Creation of a guarantee fund

In Alleppey, member enterprises of the first network supported under the Member Enterprises Credit Guarantee Fund (MCGF) were making semi-finished coir mats and had an average annual turnover of about Rs. 5lakh each.

Enterprises in the group, on an average, spend Rs. 2lakh a year on purchase of raw materials. Of this, about Rs. 1lakh is for credit purchase. The operating cycle of business is about a 2 months period (average lot size). Hence, each unit requires approximately Rs.40,000 as working capital for the cycle of 2 months. Of this Rs.20,000 is credit purchase. Input suppliers offer credit @ 4% per month to enterprise. If credit purchase is avoided, the profit margin of enterprises can be increased by about 20%. Therefore returns will be about Rs.5,600 per month per enterprise.

Financial Support

Financial assistance in the form of working capital loan may be extended by any commercial bank. In Coimbatore, a multiplier of 2 over the corpus fund was offered by Vijaya bank and SBI Alleppey sanctioned support to a similar extent.

Evaluation and recommendation committee

An evaluation committee that represented 2 members of the group President, COWMA, and Manager, Bank, were to scrutinize proposals of the members and make recommendations. In effect, the account could be operated only upon the joint signatures of the President COWMA and the entrepreneur. Although the bank will be primarily responsible for appraisal of loan proposals and recovery of debt, the implementing agency would co-ordinate with the bank to ensure recovery of loans.

Amount of loan, margin money, security, and invocation of guarantee:

Amount of loan to each member of the group shall be need-based and depend on the recommendations by the committee. Loan may also be taken on a group basis, if necessary. In the Coimbatore case, the account could be operated jointly by two leaders/partners and a nominee of the COWMA, who offered a personal guarantee. In the case of Alleppey, all members opened individual accounts at the local SBI.

The bank may require margin money deposit for loan proposals in excess of Rs.50,000/-

Security

Hypothecation of assets created out of the loan constitutes primary security to banks for assistance they provide to the borrower. The corpus fund will be used as collateral security by way of interest-bearing fixed deposit. This is in lieu of collateral security to be offered by individual borrower to cover part of the outstanding facility offered. Funds placed with the leading banks in the form of guarantee for extending credit to member beneficiaries shall not be invoked till the borrower account is classified as doubtful, and all recovery efforts by bank in the normal course of business have been exhausted.

Invocation of guarantee

The invocation of guarantee shall be limited to the extent of 75% of the principal loan amount outstanding in the defaulted case. This option is largely in cases (such as in Jaipur) where members were to utilize funds independently. Bank shall have first charge on the deposit of corpus fund so made, and cede second charge in favour of SIDBI.

Interest rate and payment

The rate of interest charged was bank PLR plus 2.5% in Coimbatore while it was only 8% in Alleppey. The working capital facility was extended in the form of a cash credit.

Global sourcing for value addition of exports

A study of trends in global trade from information available with the concerned like Export Promotion Council (EPC) or Commodity Board could indicate sourcing options. The leaders in world trade for specific product categories are invariable the most competitive.

Agencies such as the National Small Industries Corporation (NSIC) and concerned commodity boards may facilitate in financing and providing information on options respectively. So also, chambers of commerce in India (Indo-ASEAN chamber for instance), and industry association abroad could be useful points of contact. In order to source products from China, for instance, the Indo-China Chambers of Commerce and Industry, Mumbai, as also the China Council for Promotion of international Trade (CCPIT) could be of use.

In fact, these institutions organized an exhibition at the World Trade Centre, Mumbai, in 2004. Information on the list of exhibitors and main products offered could easily facilitate sourcing of inputs. Trade desks such as the Korea Trades Centre with their offices in Chennai, Delhi and Mumbai proactively support such options. In fact, the Chennai office had recently facilitated a catalogue show and video conferencing of Korean machinery and suppliers in Tirupur. A fabric resource centre has also been established at Tirupur. Great competitiveness was evident in sourcing certain machinery and equipment from that part of the world as pat of the upgradation and expansion schemes of textile SMEs in India.

Availing the services of PSPs over sourcing visits

Exporters from Surat and Tirupur took the option of global sourcing using the services of the Korean Trade Authority (Chennai) in 2004. KOTRA also provides free video conferencing facilities with translator support to facilitate sourcing by Indian SMEs. Ready-made garment manufacturers in Salem are regularly sourcing accessories from Hong Kong. Foreign embassies in India may therefore facilitate sourcing options. The website of the Export Credit Guarantee Corporation of India (indianexportregister.com) offers leads to contact points as also to an agency closely associated with them on credit-rating suppliers and buyers.

Drawing up proposals

Consideration of proposals and chanelisation of funds

The funds are normally routed through a state-level nodal agency – KINFRA in the case of Kerala. A State Level Export Promotion Committee (SLEPC) headed by the Chief Secretary of the state and including Secretaries of concerned departments as also representative of a state cell of the Dept. of Commerce and Joint DGFT considers proposals for state government support, which is up to 80% of the project outlay. The convener of the SLEPC is an export commissioner. For balance 20% outlay under the central component, there is an empowered committee in the department of commerce that considers a sanction such proposals.

Criteria for approval of projects

Information on the scheme is available on the website of the Ministry of Commerce (www.commerce.nic.in). The proposals need show direct linkage to exports. The SLEPC/empowered committee may consider full funding of projects though cost-sharing basis is preferred with non-government agencies (associations etc).

Eligible agencies and structure of proposal

Eligible agencies for funds include public sector undertakings of central/state governments, other agencies of central/state governments, Export Promotion Councils/Commodity Boards, apex trade bodies, and even individual export oriented units. A proposal should include the following details: executive summary, name and contact of proposing organization, implementing organization and its status (trade body or government agency etc), total cost of project and financing pattern, sources of finance and land, project implementation schedule, type of facilities required and benefits of the project. Proposals have to contain detailed cost-benefit analysis, details of cost of each component of the project, along with quantitative and qualitative benefits of the project.

Indicators of sincerity and resolve strengthen proposals

The milling cluster had already acquired 29 acres of land for their project when they submitted their proposal for assistance under the IIUS. The indicated the resolve of the SPV to implement the project. Like earlier co-operative initiatives, this initiative indicates commitment to implement the project for which fiscal assistance is being sought.

A bridge-finance corporation of physical infrastructure and Common Facility Centre CFC project implementation in a PPP mode.

A facilitating and bridge-financing corporation was evolved under the Department of Commerce's critical infrastructure balancing scheme. MIDCON (Marine Products Infrastructure Development Corporation) was established with a share capital of Rs.5crore of which Rs.2.5crore was under CIB and Rs.2.5crore was funded by the state government agency, viz. KINFRA, MIDCON in their initiatives to upgrade infrastructure. A company named 'Seafood Infrastructure Facilities (Kerala) Pvt. Ltd' was promoted for the purpose. As one initiative, MIDCON offered a term loan @ 7% repayable in 30 quarterly installments upon one year of moratorium to the seafood park at Aroor.

6.9.4.1 Some of the facilities in the park and expected benefit

Facility	Benefit
Cold storage	Facilitate stocking of raw material
Weigh bridge	Convenient weighing of trucks carrying input and output
Drying yard	Facilitate solar drying of spices and pulses
ETP	Treat liquid waste generated
Quality control lab	Test raw material and finished products
Developed plots	To facilitate establishment of enterprises within the park

A comparative picture of the seafood park and park at Virudhunagar

	IFP (Virudhunagar)	Seafood park (Aroor)
Park conception	Indian Food Park, Virudhunagar, was promoted had an ideal profile as to have conceptualized, developed and promoted. However, there does not seem any specific 'market-driven' incentive for local enterprises in the Virudhunagar-Madurai region to locate themselves in the part. Government concessions as offered by some sates in terms of holidays on various fiscal levies seem critical to have possibly encouraged plot off-take.	The park was market driven in terms of its being implemented by SME stakeholders/potential 'cluster' tenants. The importance of the facility or park at Aroor is given the circumstance of the ban imposed by the EU on marine product exports from India. The park therefore was a 'market-driven' model of backward integration pre-processing plants adhering to international quality standards.

Illustrations on identified gaps

SMEs in various locations across the country have been aggressively attempting to leverage support under the scheme.

- The Seafood Exporter's Association of India (SEAI), Kochi, for example, recently submitted a proposal seeking support under the IIUS for a water desalination plant amongst other critical common facilities. Availability of good quality water is critical for processing produce in a manner that meets stringent international quality norms.
- The cereals, pulses and staples (CPS) milling cluster enterprises of Madurai which are into milling and splitting of gram into dal as also manufacture of rice/wheat flour, gingili and groundnut oil (and cake) identified the following critical gaps (amongst others) in their own context:

i) Insufficient /improper storage facility for inputs and output as they incurred losses when their produce was stored in small godowns or open yards.

ii) Also, shelf-life of finished products stored in poor and resulted in lower price realization. Distress sale and capacity under-utilisation has been observed.

Their project under the IIUS included godowns and warehouses, equipment to clean and grade their output, auction centre, product display facilities, testing laboratory, cold storage, packaging and pre-processing equipment, etc.

- Similarly, upon detailed study of the coir industry at Alleppey, the Coir Board with inputs from the Coir Department and Worker Welfare Department of the Government of Kerala identified problem areas with regard to:

i) Collection of husk (from within Kerala) which is a basic raw material through women self-help groups. A recent Government Order to allow for import of coil was not of much use as import was not a viable option.

ii) Design improvement through value-addition at different stages of the manufacturing process.

iii) Gaps in marketing and popularizing initiatives of certain products (geo-textiles)

iv) Measures to reduce adverse impact on the environment (a pith-processing system to utilize the pith waste for export markets, and appropriate dyeing facilities) were also identified.

Product display centres, an R&D centre, de-fibre units, coir yarn spinning equipment fitted with motors, power-loom coir matting units, coir pith (block and manure) processing units, as also CFC dyeing units were all offered support under the scheme.

Revenue model for sustainability

The revenue model prepared in most proposals indicates the sustainable mechanism of operating the facilities. As a revenue model, SPVs may levy ‘user’ charges and secure income from, say, (in the case of the Madurai illustration) marketing shed/s as monthly lease charge, income from input storage warehouses as storage/maintenance and income from grading centres as maintenance/service charge. Such income may be used to meet operational expenditures as also capital expenditure.

The IIUS is but one of several schemes offered by the government to develop infrastructure on a PPP mode. The scheme has received widespread interest due to the sheer volume of support (Rs.50crore per cluster) that it offers.
Many infrastructure development agencies such as the IL & FS Infrastructure Development Finance Corporation (IDFC), SIDBI, IDBI and commercial bonks have been earnestly assisting industry in preparing proposals for government assistance. They also offer their services as stakeholders to finance debt as well as equity.

Jaipur: the Calico cluster

Activities at the Calico Printers Co-operative Society (Calico) Ltd., Jaipur started with the organization of a fair-cum-exhibition at Jaipur. Although this was not a major event with respect to results that flowed immediately, it proved a major venture after Calico lay defunct for several years without initiatives and development activity.

Therefore, the President of the Society was given adequate credit in the presence of his fellow members, representatives of his society and various important public figures for taking the lead in this initiative. This gave him the confidence and motivated him to take lead in some major initiatives at a later point of time. These included participation of a 20-member Calico-sponsored delegation to an international Fair in Osaka, and participation in fair in major cities of India.

This also motivated his fellow members and some of them also took lead in certain other initiatives-like group formation for credit guarantee consortium, bank loan syndication, renovation of common showroom, etc.

The Calico consortium in Jaipur decided to organize by themselves the participation of its members in a fir at Delhi. Previously, for a similar fair, a specialized agency had been hired. Inadvertently, a critical element of marketing, the newspaper advertisement was neglected. The result was significantly poor attendance during the initial days of the exhibition.

The CDA however did not interfere. The printers discussed among themselves, located the mechanism of releasing an advertisement, contributed for the advertisements, and extended the duration of the exhibition on their own. The results improved. The experience helped them to strengthen Calico and other similar groups in planning and implementing more coherently from the very beginning.

The action plan for the Hand Block Printed Textile cluster of Jaipur placed a great deal of emphasis upon increasing the marketing capacity of the artisans located in the village of Bagru. For this purpose, a number of activity plans were drafted and implemented; these aimed at finding new designs, at increasing product quality, and at increasing the abilities of artisans to market the product they make.

It was estimated by the Bagru printers as well as by their institutional partners within the cluster, that total sales of about Rs.3lakhs could be achieved. Unfortunately, the hand block printers in this cluster could close sales for only a third of that amount. This shortfall created a great deal of concern and disappointment within the artisan community.

It is here that the CDA intervened and emphasized the importance of fixing realistic targets, and not chiding them from low performance. This situation was discussed among the cluster artisans, and it was realized that the shortfall was related to inadequate retailing strategy.

With the help of the CDA, a wide cross-section of experts were consulted and they were asked to find solutions to the problem. Their study revealed that customers were not used to purchasing only bedspreads but also accessories such as cushion covers, table linen etc. as well. They identified the need to diversify the product range to include all household items, and dress materials. As a consequence, the Bagru artisans were richer in terms of experience and diversified their product range. The lessons they learnt were gainfully utilized in fairs in which they subsequently participated.

In the cluster of Jaipur, the printers from the village of Sanganer displayed a far greater determination to co-operate then the printers from the village of Bagru. Relatively early in the life time of the project, the former agreed to resurrect a previously dormant consortium (Calico), while the latter repeatedly refused to form a similar umbrella organization. On the contrary, the Bagru printers agreed only to team up only to form smaller networks.

The CDA repeatedly tried to convince the Bagru printers about the need for such an umbrella organization. All subsequent attempts however hailed. The CDA then introduced a new strategy during any major workshop/ seminar; he started inviting Calico as a representative of the Sanganer printers.

The Bagru printers, on the contrary, were represented indirectly by a single local institution (rather than through their own network.) Initially, the Bagru Printers reacted negatively, resenting their inability to express their views. Rapidly, however, they acknowledged that their unwillingness to join hands within a single umbrella organization was depriving them of a powerful instrument of social action. Subsequently, talks started in Bagru about forming a large society to represent their views directly to the concerned authorities.

International Experiences:

Developing networks: Scottish Food and Drink

The Scottish Food & Drink Cluster is a good example of a whole industry pulling together to help itself. Each of its individual companies aims to develop themselves through shared experiences and innovation. With help from Scottish Enterprise and Highlands and Islands Enterprise Scottish Food and Drink has helped Scottish food and drink companies to.

- Access key market information
- Gain new listings with UK retailers
- Build the sills of their workforce; and
- Develop new products.

Scottish Food and Drink is now a recognizable brand, is supported through the public agencies and has a strong information based website. It has a published strategy developed with food and drink companies and organizes a series of regional forums offering an opportunity for related companies to meet and make contact.

Developing new institutional structures

In some cases a whole host of networks and other institutions have been established as clusters. This has developed often as a natural phenomenon in maturing clusters.
In Cambridge, for example:

The Cambridge Network was established by local business leaders to increase net working between local IT firms and to raise their international profile;

- An academic – business alliance, Cambridge Future has also been established, with private sector funding, to explore different scenarios for accommodating anticipated growth in the Cambridgeshire area; and
- The Greater Cambridgeshire Partnership was established in 1998 between local businesses, government and the university for a similar purpose.

Bringing firms together:

The state of Oregon, like other US states, built upon earlier experience in Denmark to develop a network programme. This was designed to encourage firms to join together into networks. The elements of the network programme were.

- Network brokers-the key to each network, brokers acted as facilitators for networking events, as well as acting to bring firms together. To support the scheme Oregan also designed a broker training programme.
- Multipliers-well placed individuals familiar with local firms that can pass on information of opportunities for collaboration to network brokers.
- Incentives-support to compensate small firms for some of the costs of network participation.
- Information campaigns – the use of media, brochures and newsletters to publicise the potential value of networks.

Developing international networks

Officials of the Carolian Hosiery Association, along with community college technology centre staff, the director of the North Carolina technology agency and the Governor's economic advisor traveled to Castel Goffredo and Carpi in northern Italy. Not only did the trip lead to the establishment of links to machine builders in Brescia and the development of export networks it also led to a revamp of the local technological centre, through offering additional research and training activities and the formation of an R& D network between hosiery firms and North Carolina State University.

Engaging firms

There are many ways of engaging firms in networks. Scottish Enterprise used the following means of engaging business in its identified tourism cluster:

1. A 'Leadership Group' comprised of industry champions and key stakeholders, was established.
2. Facilitators then worked with firms to undertake some background profiling and scoping of the sector.
3. Meetings with undertaken to discuss potential strategic objectives and also to prioritise actions. At this stage painting a compelling 'vision' of shared understanding for the cluster was important.
4. These actions were used to develop 'Action Groups' that drew up action and business plans for the sector. One of the responsibilities of the leadership group was to review and support the process as a whole.

Developing a physical focal point

In England, South East England Development Agency (SEEDA) has developed its Enterprise Hub network party to assist in networking between firms. A prominent Business Champion, supported by a group of ambitious entrepreneurs, leads each Hub. University and network Brokers support the Hub, with a team of experts to advise small businesses on innovation, product design business finance, IT & e-commerce.

The Enterprise Hub Network aims to set up 30 new Hubs across the South East of England, Each Hub will provide:

- Incubator space for new businesses.
- Strong links with venture capitalists.
- An affiliated university research department.
- A Business Club for networking
- Web based tax and accounts advice
- Business mentoring

Institutional arrangement for promoting innovation

Many successful clusters are supported by a range of institutional organizations; some are focused on that cluster, other have a more general remit. Analytical Biotechnology Clusters in Massachusetts identified the following as amongst the key agents.

- Massachusetts Biotechnology Council: trade association representing biotechnology firms.
- Massachusetts Department of Economic Development: has a key role in business and trade development improving the business climate (R&D tax credits, investment tax credits).
- Massachusetts Technology Collaborative state –founded independent body to foster technology-intensive enterprises.
- Massachusetts Institute of Technology: leading centre for biotechnology research and commercialization campus incubators and technology park; MIT Entrepreneurship Centre trains scientists in entrepreneurship; MIT Technology Licensing Office, identifies technologies suitable for start-ups, introduces technology to potential investor (usually venture capitalists.)
- Whitehead Institute of Biomedical Research: an independent research and teaching institution.

Automotive and Pharmaceutical Cluster Training:

Partnership for Learning (PFL) Merseyside

Partnership for Learning operates as a registered charity and with partnership from private, public and community. It is a self-sustaining, commercial business that aims to help regenerate Merseyside by helping to provide a route to highly skilled, well paid employment for local people and success in business for their employers. It provides vocational training for 40 major clients in the Northwest including companies such as Jaguar, Evans Vaccines; Ell Lilly and Glaxo Smith Kline.

The aim of the centre is (a) to deliver training that enhances the education and skills opportunities of the local communities, and (b) to support business with demand-led training solutions. To this end it provides community based and SME focused training for re-skilling and up-skilling. The centre was established under the premise that employers and local economies cannot thrive if they act in isolation from each other.

Improving Higher – Level Skills

The Bio Pharma Skills Task Force was funded by SEEDA and aimed at the continuing education needs for scientists and managers in industry. The programme is aimed at employees within the biopharma industries who are encouraged to broaden their education. It comprises of three main elements:

- Investment in resource centres to provide information, up-skilling, retraining, careers advice and teaching.
- Benchmarking of opportunities to attract the right people.
- The establishment of a Bio Pharma Skills Unit dealing directly with individual companies to analyse skills needs and source appropriate providers and work with training providers to develop their capacity (to train).

Public or private research institutes as key drivers of cluster development

The role of research institutes as drivers of cluster development has been emphasized by the experienced of places like Silicon Valley in the USA and Cambridge in the UK where universities have been important components in the development of the cluster. In the Cambridge cluster estimates of the proportion of new firms that have spun out of the university are up to 31% of new firms. 42 out of 50 firms in one survey reported free technological advice from University based staff through formal or informal networks, with 14 reporting these as critical to the success of the firm

Innovation where a university base is not present

Universities need not be present for the development of successful clusters. The centre of the US furniture industry is located in Mississippi. This has developed over time from spin offs from Futorian Furniture; the original furniture making firm located in the area. There are now more than 200 companies based within the cluster, plus suppliers and support services and companies complete fiercely in terms of designs and innovations. Yet the social fabric of the community is very strong and ideas travel quickly through social contacts and worker mobility.

Supply chain development in France

Mechanic Valley in Midi Pyrenees is structured around the aerospace, automotive and machine tools sectors in Aveyron, Correze and Lot and comprised of some 210 businesses and 14,000 employees. The area is one of DATARs' 11 cluster development projects in the region. The policy in this instance has been developed to encourage diversification and restructuring through supply chain development. Large firms (such as the Aerospace company Ratier in Figeac) have been encouraged to develop within industrial district and rely on the local skills base of SMEs. The French experience shows that in addition to spatial planning strategies can be used to help foster inter firms links and to embed firms into the local economy. Particularly successful policies designed to encourage cluster development in the Midi Pyreness has included.

- The development of business incubators (pepinieres) providing logistical services (such as fax photocopying and high speed network connections) and low cost office and workshop space;
- Exoneration from property tax fro three years, which frees now businesses from one element of the tax burden;
- Low levels of (local authority) property tax, which make one commune more attractive to businesses than another;
- The establishment of an 'Economic Development Service', which can range from simple information provision to companies wanting to move to the area to the organization of meetings and networks with outside companies and potential finance providers; and
- Partial financing of development and information units in certain areas. These units have different objectives (assistance, putting together projects proposals or grant aid bids, market potential studies, communication tools to promote the advantages and skill base of the local area).

India probably provides the richest experience in cluster development due to a large number of diverse and active clusters supported by UNIDO, NGOs, Service providers, banks and financing institutions. Employing 7.5mn persons, industrial clusters in India contribute Rs.1600bn (US $3.8bn) per annum to the economy. Close to 400 SME clusters cover an estimated 500,000 firms with an average industrial cluster contributing more than Rs.40bn (US$ 10mn) output per annum. Another micro enterprise and artisan clusters provide a major source of income and employment for estimated 12.5mn persons. (MSME Draft Policy Paper by Foundation for MSME Clusters) Clusters would in a nutshell provide opportunity for harnessing collective efficiency of enterprises.

Chapter V CASE STUDIES

1.1 DULL PAINTS TURN BRIGHT ON THE EAST COAST

(Success comes the hard way)

East India Paints Co. (EIPC), Calcutta, in 1971 bought a sick unit from the Andhra Pradesh State Small Industries Development Corporation (APSSIDC). The unit located in Visakhapatnam, AP, was licensed to manufacture tiles. On taking over the land and building, EIPC scrapped the tile manufacturing machinery and installed a paint manufacturing unit with four ball-mills. In 1973, the unit was rechristened as Andhra Asphalt, and started manufacturing blown bitumen and roofing-felt. However the strategy of product change-over did not yield the expected results. The reason attributed for the failure is that the cost of bitumen from the canalized sources was more than that of the grey market.

1.1.1 In 1975, some entrepreneurs having with a background in marketing fertilizers in the most fertile districts of Andhra Pradesh, evinced in taking over the unit from EIPC. The original strategy of EIPC in locating the unit at Vizag was due to labour unrest in West Bengal; moreover its plant at Calcutta was not in operation. By 1975, normalcy returned to the unit at Calcutta and the pressure to relocate the unit reduced considerably. Besides, the family members of EIPC, well settled in the U.S., were not keen on coming to Vizag. Thus the unit was taken over in 1975 for Rs.30 lakhs by Mr.Satayanarayana and Mr.Rama Rao. It was once again rechristened as Coramandel Paints Pvt. Ltd. (CPPL). The renamed unit started manufacturing asphalt based paints for about three years, but again without much success.

1.1.2 In 1978, the British Paints (now Berger Paints) under the leadership of its first Indian MD, faced a lockout of the plant at Calcutta. At the same time, the construction, and ship building activity was facing a boom; hence the British Paints was on the lookout for some idle capacity. Vizag being close to Calcutta, where the British Paints has its headquarters chosen CPPL as its franchiser.

The MD, then visited CPPL and suggested that the facilities must be upgraded, for which the British Paints was prepared to provide the technology. The cost of up gradation needed infusion of capital to the tune of Rs.40 lakhs. CPPL accordingly invested Rs.40 lakhs and the total production of cement paints was contracted by the British Paints. For about two years, this arrangement continued. Even today, 90 percent of cement paint production is consumed by the British Paints.

1.1.3 In 1978, CPPL decided to directly enter the market. Towards this, it appointed marketing professionals and opened branches in Hyderabad and Madras. The volume of sales went up, but the margins available were ridiculously low. Thus, own marketing operations did not sustain even after a decade of existence. Cement being a consumer item, it needed a strong brand equity, and the sales are controlled through strong distribution network. During the ten years of experiment, brand image could not be built, and consequently, CPPL had to retrace its steps - back to the distributor circle.

1.1.4 However, 1988, proved to be an epoch-making year in the history of CPPL. It bagged contracts from Godless Nerolac, Asian Paints, and ICI for manufacturing auto primers, enamel paints, and synthetic enamels. Also, exports to USSR boosted the operations. In the first year of the export contract, in 1988, 100 tons of paint was exported and, in 1989, 200 tones was exported. There was a contract for exporting 600 tons in 1990. Based on this, CPPL imported Titanium dioxide at a cost of US $ 2,700. Following fragmentation of USSR, and the formation of CIS, the contracts were frozen and shipments could not be effected.

1.1.5 When the most important and expensive ingredient, titanium dioxide, which was imported at a cost of US $ 2,700 per ton was found to be no longer required due to the cancellation of the export contract to USSR, CPPL decided to salvage the debts. However, the international prices of titanium dioxide crashed to an all-time low of US $ 1,300 per ton. This has resulted in a loss of Rs.1.3 crores. In 1990, the accumulated losses were of the order of Rs.2.5 crores, while the turnover was Rs.2.17 crores only.

1.1.6 The original equity of CPPL was only Rs.20 lakhs. In 1991, when the banks insisted on the increase in equity for enhancing the credit limits, the equity base was enhanced to Rs.20 lakhs. Presently, the equity of CPPL stands at Rs.92 lakhs and it is proposed that by end March 1997, it would further be increased to Rs.1 Crore. The turnaround of CPPL is thus gradual, as seen from table.

Table 1: The Turnaround

Year	**Turnover Rest. crores**
1990	2.17
1993	5.00
1994	7.00
1996	16.25
1997	20.00 (estimated)

1.1.8 By 1994, all the outstanding to the bankers were cleared and today, the composition of sales are Rs.6 crores of own-brand, and Rs.14 crores of franchise sales. At present, there is a workforce of 200 persons. The management at this stage, has the following objectives

I) Increase the capacity from 300 tons to 600 tons per month

ii) Build a sustainable brand image.

1.1.9 To operationalize these objectives, the management plans to appoint professionals, both at the technical and marketing levels.

2.1 THE CASE OF A MISGUIDED ENTREPRENEUR

2.1.1 Mr.Chandrahas worked for 18 years with Sundaram Industries engaged in tyre retreading. Having gained a lot of practical experience in the retreading, he decided to start his own unit at Vijayawada. He belongs to the scheduled caste and having come to know of the incentives to this particular section of the society, he approached the Andhra Pradesh State Finance Corporation (APSFC).

2.1.2 APSFC has special schemes to advance loans upto Rs.10 lakhs to the prospective entrepreneurs belonging to the scheduled castes without corresponding guarantees. Having been convinced of the capital formation, Chandrahas forwarded an application to APSFC for an advance of Rs.10 lakhs in the first week of June 1987. Immediately within a week, APSFC responded to this application. In order to release the loan amount, the applicant was asked to submit competitive quotations for plant and machinery. First-generation entrepreneur as he is, and not having sufficient commercial knowledge, Chandrahas went to Kerala, and obtained quotation from a reputed machinery supplier. But APSFC insisted that there must be a minimum of three competitive quotations, and, therefore, he again made a trip to Kerala where a large number of tyre retreading manufacturers operate. APSFC, however, refused to accept the three quotations obtained by him from Kerala, and insisted that he should explore suppliers from the local market from Vijayawada.

2.1.3 After considerable effort, he secured the quotations from local parties. In October 1988, APSFC sanctioned Rs.7, 27,000 as term loan, and Rs.1, 00,000 as soft loan, subject to the entrepreneur producing a collateral guarantee of Rs.4, 85,000. Chandrahas pleaded with APSFC Vijayawada branch that being an entrepreneur from the socially and economically backward section of the society, he could not raise such guarantees or securities. At this juncture, the Vijayawada branch of APSFC directed him to deal with its corporate headquarters at Hyderabad.

2.1.4 On 4 March 1989, APSFC, Hyderabad, issued a sanction order for Rs.7, 74,700 as term loan, and Rs.1, 17,400 as soft loan, subject to the entrepreneur depositing a sum Rs.1, 22,600. Chandrahas discussed this matter with APSFC office at Vijayawada, and he explained that he did not have such an amount to satisfy the demands of the loans. He was then advised that he should change the scheme of loans. However, he was also told that he will not be eligible for loan facility for the existing proposal. He had to change the project report, quotations, plans, and appraisals of factories inspectors.

2.1.5 He was also advised that the selected boiler could not be obtained due to several procedural bottlenecks in commissioning the same, and therefore, he should obtain a baby boiler. Eventually, this baby boiler did not function properly due to which production downtime increased considerably. The boiler inspector, thereafter issued notices to obtain proper licenses contrary to the expert advice given to him while discarding the originally selected boiler of right capacity.

2.1.6 On submission of the application in the new scheme, finally, the entrepreneur was sanctioned Rs.5, 38,700 as term loan and Rs.1, 40,600 as soft loan (vide APSFC's order dated 10 December, 1989). The actual disbursements took place as per the following schedule:

Date	**Amount (Rest.)**
18.06.90	68,924.00
07.09.90	53,241.50
16.10.90	90,600.00
28.11.90	24,808.00

08.01.91	15,467.00
04.06.91	11,630.00
10.07.91	7,607.00
21.08.91	750.00
12.10.91	15,000.00
	2,88,027.50

2.1.6 For a critical machinery, SFC paid an advance of Rs.90, 000, but refused to give a commitment letter to the machinery supplier. Therefore, the supply of the machinery was inordinately delayed. In August 1995, the unit was served a recall-cum-sale notice by APSFC, citing non-performance. In October 1996, the entrepreneur approached the Small Industry Association for intervention and requested that the balance loan amount be disbursed and waive the penal interest on the previous amounts.

2.1.7 The unit's request for the completion of the scheme was set aside on the grounds of lack of viability, and the entrepreneur's own financial fragility. This is a case of misguiding the entrepreneur by the financing institution, and the boiler inspector. Presently, the unit's owner is said to be on the brink of starvation carrying out tyre repairs for survival. This is a case where SFC can give a fresh look at viability. In the event of sale, the loss will be more to SFC than to the unit.

2.2 RUBBER MELTS UNDER THE FEET

2.2.1 Mr. Vazeer belongs to a family which owns a fleet of trucks and their family have been in the business of goods transport for a few decades. Vazeer has thus a good knowledge of truck maintenance. Tyres being the vital component for trucks, he struck upon the idea of recycling the used tyres through valcunising rubber to provide more life to tyres. In 1990 he started the unit in SSI sector under the name Leader Rubber Industries Ltd., in Auto nagar, Vijayawada. The primary purpose is to produce tread rubber and allied materials used for tyre retreading. The motivation for starting the unit at Vijayawada is due to locational advantage in processing the raw materials, availability of electric power, water, transportation, infrastructure, trained labour force, large number of retreading facilities etc. But the most important factor is the marketing expertise obtained through the fleet operations. The unit since inception faced several problems which are beyond the control of the management, though, it had enjoyed intermittently good times. Some of the events that led to the unit's sickness are described below.

2.2.2 **Starting Operations** : The unit started its commercial production on 4 May 1990. Immediately after that, the A.P. State Government came out with a new industrial policy which provided various incentives to units being set up in areas other than the Vijayawada municipal zonal limits. The major incentive among them is the sales tax

2.2.3 exemption or deferment to the tune of 13.5 percent of the total fixed capital investment for a period of seven years or the same limit deferred for payment for 14 years. Since the unit was set up in Autonagar industrial area, it was not eligible for availing the facility. Thus, at the commencement of production itself, the unit lost the edge of competitiveness in price, due to high incidence of sales tax on its products.

2.2.4 Added to this, within a week of starting production, the unit suffered damages to its fixed assets like asbestos roof of the shed due to the cyclone that hit the area on 9 May 1990. The heavy rain and the damaged roof spoiled the stored chemicals and rubber completely, beyond salvage. Although the materials were insured against natural calamities, insurance company took a long time to process its claims for settlement.

2.2.5 The unit has a HT power line, and the power rebate available for units outside VMC zonal limits was not available to Leader Rubber as it is located within the municipal limits. In the same year, in September, one of the critical machineries, mill-roller broke down due to a manufacturing defect. The Leader Rubber approached the machinery supplier for rectification under warranty but the machinery supplier's plant was under lockout during that period. Since the supplier did not permit repairs by any other party, LR had to wait for three months to get the machinery repaired by the original equipment supplier. During this period, the unit suffered heavy financial losses on account of the fixed expenses, the major chunk of which is the HT connection charges which amounted to Rs.12,000 per month.

2.2.6 **Strategies :** The setbacks in the first year of operations, forced the management to work out several alternatives, the inevitable alternative being increasing the turnover to cover up losses. A strong drive for marketing was taken up; in this exercise, it was realized that the company is not competitive in the domestic market due to high differential sales tax on components in comparison with its competitors, and also the grey market was thriving due to large difference in the tax components between Kerala and Andhra Pradesh. Therefore, the company concentrated on sales outside the State to avail CST benefit. This step met with success, and the company had an agreement with Haryana Roadways Corporation (HRC). To make supplies to HRC the company was required to furnish a bank guarantee for Rs.10 lakhs before starting the supplies. The turnover increased, and 1994-95 saw the turnaround and ended with a profit of Rs.7.74 lakhs.

2.2.7 However, the success story proved to be short lived. During the year that followed (1996), it achieved a similar turnover, but ended with losses of Rs.19.27 lakhs the major reason for such a large amount of loss in spite of the turnover being the same was due to an increase in variable expenses, to be specific due to 250 percent increase in cost of raw materials. In 1996 the cost of natural rubber increased from Rs.28 per Kg. to Rs.76 per Kg... Since the contract with HRC was on firm price without price escalation clauses, Leader Rubber had no choice but to supply and thus incur losses. In the following year, LRPL could not get orders from HRC due to the Haryana State Government's changed policy to encourage local SSI in preference to units from outside the State.

2.2.8 **Present Status:** Leader Rubber approached APSFC to settle the account under the one-time settlement scheme (OTS). APSFC made a claim of Rs.4.00 lakhs which was paid, but, subsequently, APSFC rejected the OTS request reportedly due to policy decision at the Board level for not entertaining such requests.

2.3 CASE STUDY OF FLOWCHEM

Brief History

2.3.1 Flowchem was established in 1983-84, as a private limited company for manufacturing Flow Improver/Pour Point Depressant (PPD), an additive to improve the flow of crude oil in pipes, by lowering its viscosity. The manufacturing unit was set up at Patencheru, in Medak Distict, AP, with a capacity of 500 tones per anuum, on a single-shift basis. The unit went into commercial production in 1986.

2.3.2 Product: Flow improver is a polymerized chemical manufactured with indigenous and imported raw materials and is used as an additive in the pumping of crude oil. Both the indigenous crude oil producers, Oil India Limited (OIL), and Oil and Natural Gas Commission (ONGC) procure the chemical by global tenders, annually.

2.3.3 The annual requirement of OIL for this chemical, is estimated at approximately 400tonnes, and that of ONGC, 6,000 to 9,000 tones. As in all other upstream and downstream petroleum products, multinationals such as EXXON, and SHELL dominate the additives field. Hence, it is difficult for small-scale industries to enter this field and

establish as regular manufacturers and suppliers. In fact, it took Flowchem almost a decade to establish as a regular manufacturer and supplier.

The product was approved in 1989, and orders started coming.

2.3.4 Banking

P S Bank sanctioned both MTL and the working capital limits during September 1984, the MTL limits being Rs.22.75 lakhs and the working capital limits at Rs.10 lakhs.

2.3.5 **Sickness**

As it took a long time to convince the crude oil producers of its capability to manufacture this product, the bank interest mounted and the account became bad. However, after the orders started, the company paid off the CC account, and only the current account was in operation leaving only the MTL balance.

2.3.6 **Rehabilitation**

In view of the prospect of regular orders, the company requested the bank for rehabilitation during Jan 1991. This application was rejected, and the company was asked to pay the outstanding in MTL account, amounting to Rs.33 Lakhs.

2.3.7 As no interest was being added to the account since April 1990, the unit has requested for a waiver of this unapplied interest. The Bank suggested that the unit offer at least 50 percent of the unapplied interest treating the request as a compromise proposal. On acceptance, the Bank asked for an improvement on this offer. Flowchem offered Rs.5 lakhs by way of improvement. The Bank allowed the compromise proposal and fixed the outstanding at Rs.38 lakhs.

2.3.8 The total outstanding amount in their account at that time was Rs.21.195 lakhs which was paid off in time that is by Feb 96. The interest outstanding of Rs.18.62 lakhs was paid 3 months later i.e., by May'96.

2.3.9 Non return of Hypothecated documents:

As the entire amount has been paid, a no-dues certificate and counter signature on satisfaction of charge form (of ROC) were obtained. They have also requested P S Bank to release their Hypothecated documents of factory Plant, Building and Machinery valued around Rs.70 lakhs.

The bank refused, saying that though the unit's loan is cleared, the loans of other units in which the Directors had interest, are still outstanding and hence the documents cannot be returned.

2.3.10 **Result:**

Ever since the receipt of firm orders in 1990, the Bank has never allowed the unit any working capital limits and the unit have worked all these years on own resources and outside private borrowings at high rates of interest eating into the profitability. They have recently received a letter from the Bank asking them to pay a penal interest of Rs.80, 000 for delaying the payment of unapplied interest by 3 months. There is still no mention of return of hypothecated documents.

2.4 A CASE OF MISJUDGED CAPACITIES

2.4.1 M/s Pinto Rubber Industries is a partnership concern started in 1974 with an objective of manufacturing bunker and M.C. sheets. The unit's problems started with the change in Kerala Government's policy relating to purchase tax in 1988. For any purchase of natural rubber from outside the State. This made its products costlier by 21percent, thus losing out in the market. As a consequence the unit shifted its products to the manufacture of PVC, and PU soles. While all the chapal-making industries in the small-scale sector shifted to States where there is no tax, this unit remained in its original position. It has a workforce of 35 workers.

2.4.2 The P S Bank, which sanctioned originally Rs.6 lakhs in 1988 as working capital, could not reconcile to its becoming irregular since 1990, and, therefore, chose to take recourse to the debt recovery tribunal in June 1996. The principal plus the interest accumulation of Rs.14.27 lakhs, made the outstanding to touch Rs.20.27 lakhs. The unit had, however, repaid all the term-loans sanctioned to it in full. The present securities that are held with the Bank are valued at around Rs.7.26 lakhs. The efforts of the unit to sell the fixed assets, in particular, land and buildings, did not fructify and the unit's compromise offer to the Bank of Rs.8 lakhs was rejected by the Bank. The unit's capability to continue manufacturing at economically viable level does not appear to exist and, therefore, the Bank was left with no other recourse. It is, however, doubtful whether the Bank would be able to realize even 1/3 of its dues in spite of the debit recovery tribunal awarding the suit in its favor. This a clear case of misjudging the capabilities of the unit, and the incapacity of the unit to adjust to the changing environment.

2.5 THE SILK SLIPS

2.5.1 Introduction:

'Goodfella Textiles' a partnership firm, was established in May 1994 for the purpose of setting up silk weaving unit in Hyderabad as a small-scale unit. The firm comprises two partners. The Managing Partner is Mr.Veeru, M.Sc., ACA. As per agreement between the partners, the managing partner is authorised to take any decision, in the interest of the firm, with regard to any matter relating to the business. The managing partner had worked for some time as a consultant and later as an internal auditor with a large-scale silk manufacturing unit. When it was decided by the partners to start a business venture, the idea of establishing a silk weaving unit took a concrete shape.

2.5.2Location, Machinery and Production Aspects

Location of the unit: The unit is situated in a village near Ghatkesar, Ranga Reddy District, A.P. It is about 10 kms from outskirts of Hyderabad, on the Hyderabad - Warangal Highway.

Silk weaving as power looms is almost confined to Karnataka State only. In this sense, the unit is located away from the main manufacturing and trading centre. But it was thought that the disadvantage need not be a hindrance to the profitable functioning of the unit because

(i) Good transport facilities exist between Hyderabad and Bangalore, and materials reach over night at the other end.

(ii) whether it is yarn or fabric, they are in compact form, and packing is easy.

(iii) the cost of to and fro transport of silk yarn and fabrics (including additional transport in that, yarn will be sent to Bangalore for bleaching and dyeing and received back) works out to Rs.1.50 to Rs.4 per metre depending upon the weight of the fabric. In other words, the cost of transport will be 1 to 2 percent of the sale value or about 5percent of the cost of production.

(iv) Establishment costs like rent, rent deposit, are comparatively cheaper in the State.

(v) The place where the unit is located is about 25 Kms. from pochampalli (famous for silk sarees), and about 25 Kms. from Bhuvanagiri, a place where there are thousands of powerlooms manufacturing polyster cloth.

(vi) The objective of the unit is to make dress material in pure silk (and not sarees) for export market, and Banglore is the trading centre for mainly local market.

2.5.3 Machinery

It is a compact and self supportive unit wherein the raw silk yarn will be processed, and woven under one roof (except that in the case of yarn dyed fabrics, the yarn will be sent to Bangalore for bleaching and dyeing). The unit comprises of "Preparatory section", and "Weaving section".

(2a) Preparatory Section consists of the following machinery:

1 Hank-winding M/C :-	Supplied by Surya Machines, Bangalore Capacity - 60 Hanks Run by 0.5 HP motor.
2. Doubling M/C -	Supplied by Surya Machines; capacity: 60 points Run by 0.5 HP motor.
3. Reeling Machine -	Supplied by Surya Machines; capacity : 30 Hanks Run by 0.5 HP motor
4. Pirnwinding M/C -	Supplied by Surya Machines; capacity : 24 Pirns
5. Warping Machine -	Supplied by Surya Machines; capacity : 1000Mtr

warp Run by 0.5 HP motor

6. Twisting Machines -	Supplied by 'Ceepeerm Engineering Works, Surat 2 machines - one of 280 spindles other of 240 spindles Run by 4 motors of 3HP each.

7. Steam Ager - Supplied by Bluemoon Co; at a time, can steam set 300 bobbins; 8 HP

Power availability: Electricity : 30 HP Disel Power : 15 KVA

(2 b) Weaving section

Consists of six semi-automatic push button looms. These Palod-Kukjee looms are supplied by Palod Machines Ltd. Surat. Fitted with 0.75 Hp motors; electrically controlled warp and weft stop motions to eliminate weaving defects. Each loom 60” width with 2x1 draw-box facility. There is an option to convert these looms into fully-automatic looms. Looms can run at speed ranging from 150 RPM to 200 RPM. Central lubrication system and all points in the loom can be lubricated in 5 minutes. People can be trained easily and operation of loom by push button system.

Production capacity varies according to speed of the loom and no. of picks per inch in fabric. At a speed of 160 RPM and average 100 picks per inch of fabric, at 75percent efficiency, each loom can produce 1.8 mtrs/Hour. On the basis of 24 hours working on 2 shifts and 25 days a month, 4,800 mtrs. can be produced per month.

2.5.4 Shed

All the machinery is arranged under one roof in a big hall (25’ x 100’). The constructed area is 4000 sq.ft. This shed, and the open land of equal measurement form the lease-hold premises for the unit. The lease period is 10 years under the Memorandum of Understanding, and the lease deposit is Rs.50,000 refundable.

2.5.5. Workforce

There are 24 workers (14 female). These workers were given sufficient training and each worker in the preparatory section can handle any machine. The overall supervision is entrusted to a person from Bangalore, who has a good knowledge in silk weaving and processing.

2.5.6 Technical Assistance

The unit was set up with the technical assistance provided by Powerloom Service Centre, Banglore, a semi government organisation. For ensuring quality production, efficient running of machinery, for any improvements in production operations, the assistance of this service centre is readily available.

2.5.7 Varieties of Fabrics

Fabrics in plain varieties, checks and stripes can be produced presently. 'Dobby' can be fitted to these looms as and when desired, and the weaving design fabrics is possible. Fabrics up to 56" width can be produced. Fabrics from light to very heavy weight can be woven. Presently, varieties like soft silk, Tufetta, Habuthae, Crepe Chiffon, Dupion furnishings can be produced. When 'Dobby' is fixed to the loom, satin varieties and design fabrics can also be produced.

2.5.8 Power

The unit is provided with 30 HP connected load by State Electricity Board. In addition, a generator (15 KVA capacity) was installed. So, the unit can run 24 hrs. a day.

2.5.9 Schedule of Implementation

1.	Partnership firm established and Registered	May 1994
2.	SSI Provisional registration	May 1994
3.	Advance for machinery supplies paid	Oct. 1994
4.	Premises taken on lease	June 1995
5.	Arrival of Machinery	August 1995
6.	Erection of machinery completed	Nov. 1995 & Dec. 1995
7.	Test running and trail production	Up to Mar 1996
8.	Term loan released by SBI	August 1995
9.	Working Capital released by SBI	Nov. 1995
10.	Commercial production started	April 1996
11.	First sale	June 1996

2.5.10 Routine Operations of the Unit.

(1) Purchase of raw silk from Bangalore

(2) After processing the yarn, send back to Bangalore for bleaching and dyeing

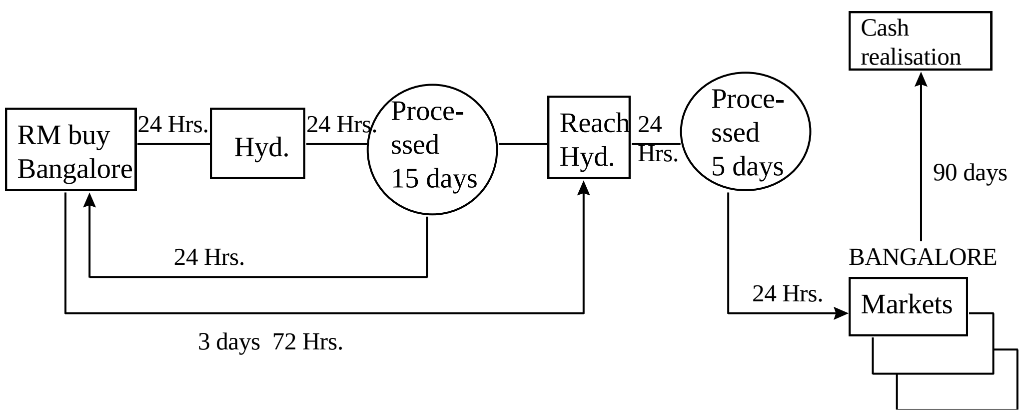
(3) Receive back dyed yarn and weave it

(4) Dispatch of fabrics to Banglore

(5) Technical people from Powerloom Service Centre, Bangalore, visit factory now and then as required

(6) Salaries paid monthly

(7) Electricity charges paid monthly



B Financial Aspects

1.Project cost and Bank's finance :

The cost of the project is Rs.25 lakhs. The State Bank of India, suburb Branch, has sanctioned term loan and working capital.

Term loan sanctioned :	Rs.9.4 lakhs	
Working capital sanctioned:	Cash credit	: Rs.8.5 lakhs
	(Hypothecating stocks)	
	bill discounting	: Rs.8.00 lakhs

Security offered

Residential house in Hyderabad valued at Rs.15 lakhs

2. Operation Results and assets and liabilities

(1) up to 31 March 1996: No commercial production. whatever produced and sold was out of test running of machines

Production : 800 Mtrs.

Sale value : Rs.1.00 lakhs

Loss : Rs.1.40 lakhs

Depreciation (not charged) Rs1.00 lakhs

Interest on Term Loan Rs.1.22 lakhs

<u>Assets & Liabilities as on 31.3.96</u>

Fixed Assets gross	Rs.14.25 lakhs	
less depreciation	1.00 lakhs0000	Rs.13.25 lakhs
Lease Deposit		Rs.0.50 lakhs
Current Assets		Rs.7.45 lakhs
		Rs.21.20 lakhs

less : liabilities		
Term loan outstanding	Rs.10.62 lakhs	
Cash Credit	Rs.6.43 lakhs	17.05 lakhs
	Capital (Networth)	**4.15 lakhs**

(b) For the Period (year) 1.4.96 to 31.3.97

Production : 8000 Mtrs

Sales : Rs.12.64 lakhs

Loss : Rs.6.00 lakhs

Depreciation not charged Rs.3.40 lakhs

Interest on Term loan Rs.3.09 lakhs

Interest on working capital Rs.2.10 lakhs

Assets and Liabilities as on 31.3.97

Fixed Assets Gross Value	Rs.14.25 lakhs		
less Depreciation	Rest.	4.25	Rs.10.00

	lakhs	lakhs
Lease Deposit		Rs.0.50 lakhs
Current Assets		Rs.1.50 lakhs
		Rs.12.00 lakhs
Term loan outstanding	Rs.9.50 lakhs	
Cash Credit account	Rs.8.50 lakhs	
Bills liability	Rs.6.50 lakhs	Rs.24.50 lakhs
		-12.50 lakhs

2.5.11 **Reasons for Poor performance**

2.5.11.1 Delayed erection of Twisting Machine :Even though all other machines were erected by the end of Oct. 1995, the Twisting machines were supplied in parts and the last consignment of essential parts delivered in the first week of Dec. 1995. Also some parts were damaged in transit and it took another month to repair them. Consequently, production process was delayed.

2.5.11.2 Workers efficiency :It took longer time to train a worker in silk processing. There were substantial wastages of yarn and process delays. As it happens usually in textile mills, mishandling of materials resulted in oil stains on fabric and the fabric was disposed for a price less than yarn cost.

2.5.11.3 In silk market, the buyers are choosy about the variety and quality. Being new entrant to the market, it took the long time to convince the buyer about the quality and the ability to produce according to specifications.

2.5.11.4 While executing an order, problem faced related to colour matching and also non-availability of yarn which resulted in stoppage of loom for nearly two months. Added to this, the price of yarn had gone up by Rs.300 per Kg. All these factors resulted in heavy losses.

2.5.11.5 Generally, the silk industry and market had gone through a lean period from August 1996 to April 1997.

All these factors resulted in considerable slowing down of the production process, and resulted in the erosion of the working capital and margin.

2.5.12 **Present Position and Potential of the unit**

2.5.12.1 The market conditions are improving. After one year in the business, the unit is in a position to convince its buyers regarding the quality and the capacity to manufacture the required quantity on time. But inadequacy of funds is hampering the conduct of business.

2.5.12.2 In spite of poor financial performance, so far the unit proved that it can meet the demands of export market by supplying quality fabrics. Apart from delays in production and the high rate of yarn affecting the profitability of operations, the unit was able to command a higher price for its fabrics (Rs.56 as conversion costs) because of its quality, compared to any unit in Bangalore. Also, during this period, the efficiency of machines was fully tested to satisfaction. The performance of the workers improved considerably.

2.5.12.3 Now that the initial handicaps, generally associated with new establishment were surmounted, induction of additional capital would help the unit to run profitably.

2.5.13 Potential of the Unit to Earn 2.5.13.1 Based on the capacity and the previous performance of the machinery, on a 24 hr. shift working basis, 25 days in a month (Generally all textile units work on 2 shift basis, 24 hrs. a day, 25 days in a month), at 75 percent efficiency, 4,800 meters of cloth can be produced per month

Contribution towards expenses and interest etc. by sale of 4,800 Mtrs.	Rs.2.4 lakhs
(Sale price - yarn cost) 4,800 x	

Rs.50

Factory and Admin. Expenses	Rs.1.20 lakhs
Interest on Term and working capital	Rs.0.35 lakhs
Loan installment	Rs.0.16 lakhs
Surplus after above items	Rs.0.69 lakhs

2.5.13.2 Sale of Twisted yarn:

A handloom warping machine was installed and for the last two months, twisted yarn was supplied to the handloom weavers and merchants in Pochampalli, and its surrounding areas. The item was accepted by them. On an average, there will be value addition of Rs.250 per kg. While doing the main activity of weaving, 150 kgs. of yarn can be processed on spare capacity available on twisting machine.

The contribution from the sale of 150 kgs. of yarn will be (150 x 250) = Rs.37,500 per month.

2.5.13.3 There is scope to increase production (by 300 kgs.) and supply of twisted yarn, by installing a Hankwinding, Doubling and Twisting machine at an additional cost of Rest. 2.50 lakhs

300 kgs. Per kg. Rs.200 = Rs.60,000 p.m. (within five months this can be recovered).

2.13.3.4 The value addition to the fabrics can also be increased by fixing dobby to the looms. Fixing a local dobby to each loom would require an investment of Rs.20,000 (Rs.1.20 lakhs).

2.13.3.5 These looms can be used to weave polyesters and synthetic fabrics also.

Additional machinery can easily be accommodated in the existing shed without any further alterations.

3.1 THE UNIT ON THE ROCKS

3.1.1 Mr Stonewall , a proprietor of small unit, wanted to set up a granite industry closer to the raw material supply centre in the rural area of Chittoor district, AP in the year 1992. The proprietor had to visit APSFC as many times as a Hindu Brahmin chant the mantras for invocation of God viz., namely 108 times, during the five and half months APSFC took for sanctioning the loan. Meanwhile, there were cost escalations which the State Finance Corporation did not consider.

3.1.2 In fact, it has not released even 100 percent of the term loan sanctioned by Rs.6.55 lakhs; it has released only Rs.5.18 lakhs. Machinery erection did not take place for three months after their arrival because of the supplier's delay; and the suppliers were approved by the AP State Finance Corporation, presently adopt water-cutting device while ice-frozen cutting is more economical. Its working capital requirements were inadequately met by the Deep Sea Bank. By the time the unit started working, the State Finance Corporation started mounting pressure for payment of interest.

3.1.3 The inopportune release of money for investment and working capital, leading to the delay in grounding the project were compounded by the marketing problem faced the granite industry, in mid-1995. The unit does not seem to have any chance of coming out of sickness whatever rehabilitation package that gets administered. The proprietor's hard earned money own equity Rs.2.5 lakhs is down the drain.

3.1.4 The moral of the case is that the funding agency can frustrate an entrepreneur, and if the circumstances were not congenial in that the markets also erode, the owner- entrepreneur had no option but to quit. The costs that got lost in the deal are the owner's equity, interest, and the funded capital, the loss of revenue to the State Government by virtue of the entrepreneur losing sales, and the loss of electrical energy locked up in the connected load.

3.2 GAYATRI PLASTICS

3.2.1 Mr. Murthy, with a nearly three decade sales and marketing experience in a leading fast moving consumer goods company, ventured into setting up a small enterprise in 1987 under the name and style Noaka Plastics, in his own house at Visakhapatnam. The items manufactured included polypropylene film tubes and bags. Raw material was procured from the Hindustan Polymers Ltd., and the Reliance Petrochemicals Ltd. There were no problems anticipated either in the procurement of raw materials or sale of the finished goods.

3.2.2 The AP State Finance Corporation had sanctioned a term loan of Rs.7.5 lakhs for purchase of machinery. The unit did not implement the project in full and availed only Rs.4.5 lakhs out of the sanctioned amount. But the entrepreneur has not informed the SFC of the changes in the project, and did not seek reduction in the loan amount. The result was that SFC demanded the originally stipulated instalments.

3.2.3 The unit thought of starting an associated concern at Anandapuram as a partnership concern (a family holding unit) at a distance of 15 km. from Visakhapatnam, to avail the various incentives offered by the State Government. It has purchased a unit that had come up for sale because of the real estate value. For the new unit in 1990, it has approached the P S Bank for a term loan of Rs.2.55 lakhs for the purchase of a PVC injection moulding machine, van and a car, which were sanctioned within 15 days of the application. As per the projections, the unit was assessed to have a capacity to sell Rs.60 lakhs per annum. The unit was sanctioned a working capital limits of Rs.5 lakhs as cash credit, and a bank guarantee of Rs.2.00 lakhs. It has pitched its sales mostly to the government departments.

3.2.4 At the beginning of 1993 itself, the unit ran into problems. The machinery designed was capable of working on electric power, and the electricity supply became eratic. The process demands that the PVC granules must be heated for a continuos 6 hour period before putting them to a subsequent process. Provision for diesel generation set was not made, considering the cash involved and its impact on the viability of operations. As a result, the unit had to operate only night shift when power could be available continuously. This involved additional labour costs through overtime wages and lower productivity.

3.2.5 Simultaneously, another shock it had received was the holding up of an order worth Rest 3 lakhs from the Forest Department of Govt. of AP and that of AP Paper Mills worth around Rs.2 lakhs due to a departmental enquiry. All the custom-made material was lying in packed condition unlifted. Dependence on government orders led to an accumulated stock-piling. The financing bank served a notice of irregularity in the accounts, giving the status of irregularity, as follows:

1.	Cash Credit	:	Rs.2.76 lakhs
2.	Medium-Term Loan (1)	:	Rs.0.05 lakhs
3.	Medium-Term Loan (2)	:	Rs.0.02 lakhs.

3.2.6 The units while remitting Rs.36,000 in Sept. 1993, requested the Bank to credit Rs.7,000 into both the term loans, and close these accounts, which the bank did not accede to for reasons best known to itself. The value of stocks as per records and in the premises were Rs.10 lakhs and cover the full amount of outstanding balance in the Cash Credit account. The entire advances were fully secured by additional collateral security of unencumbered immovable property of Rs.10.50 lakhs value.

3.2.7 Primary and collateral securities not withstanding, the bank was unrelenting and froze the accounts. The unit is still negotiating with the financing bank. As against the Rs.2.3 lakhs term loan of APSFC, the unit paid into that account Rs.5.2 lakhs within four years. On 14 September 1994, the bank filed a civil suit for recovery of the dues.

3.3 STABILISERS DESTABILISED

3.3.1 Technocrat Electronics Ltd.

Technocrat Electronics Ltd., hereinafter referred as TEL, is a private limited company. The company, started in 1963 as a proprietary concern with a small turnover of Rs.10 lakhs per annum, was converted into a private Ltd. company in 1974. The company was promoted by Dr. S.S.R. a Senior Scientific Officer of the Department of Atomic Energy, Bombay, who resigned to set up the first electronics industry in Andhra Pradesh, in 1963. The sales of the company had been increasing from year to year.

3.3.2 The company has been engaged in research, development, designing, and manufacture of various power electronics systems. The company has also been recognised as R&D laboratory by the Ministry of Science and Technology, Government of India. The company primarily manufactures power electronic and conditioning equipment, digital, analytical, and electric systems for different applications. The products are

3.3.2.1 **Power Electronic Equipment**: Servo Stabilisers, Power Supplies, Uninterrupted Power Supplies, Isolation Transformers.

3.3.2.2 **Digital Instruments**: Digital Panel Meters, Digital Multimeters, Digital OHM Meters, Digital Volt Meters, Digital Temperature Indicators and Controllers.

3.3.2.3 **Analytical Instruments**: PH Meters, Conductivity Meters etc.

3.3.3 Though the electronic industry goes through a rapid obsolescence, yet the products manufactured by the company have very long product life cycle especially power electronic and conditioning equipment, due to the applications for which they are meant.

This unit, however, turned sick on account of the following reasons:

3.3.4 There were flash floods in July 1989 which damaged the components and sub-assemblies. The Bank did not insure against flood risk, and, therefore, the unit had to suffer heavy losses.

3.3.5 This was compounded by the labour problem in 1991-92 and the company could not carry on the heavy overheads. It negotiated for a voluntary retirement of workers at a cost of about Rest. 14.00 lakhs eroding the company's networth further between 1991-1993.

3.3.6 The company had to build another workshed and shift its usable machinery and equipment at a cost of Rs.15.06 lakhs in 1994, following the repeat attack of floods (insurance claim in respect of this flood is still under finalisation with the insurance company). 3,005 sq.ft. pinth area of work space in leased premises of the Balanagar plant has been rendered ineffective.

3.3.7 These factors, which are fully within the knowledge of the bank, led to accumulated losses of Rs.44 lakhs even by 31.3.1995.

3.3.8 **TEL COMPUTERS**

TEL Computers was floated as an associated concern to manufacture floppy diskettes. This is one of the 25 units that came up in the country.

3.3.9 APIDC seized the machinery without even informing the Bank and so far, it did not take any action in realising its dues and paying the balance to the creditors.

The reasons for this unit turning sick are :

3.3.10 Firstly, the Government of India's Industrial Policy in the late 80s turning a Nelson's eye to the licensing capacity (even this was indiscriminately permitted) for the manufacture of floppy diskette.

Secondly, there were severe financial crunches.

3.3.11 Thirdly, the unit's revival package, addressed to the bank a letter dated 30 March 1991, was not acted upon by the bank in good time.

3.3.12 With the negative tangible networth, erosion in primary security due to the seizure by APIDC without involving the financial bank, the unit had no scope for revival. It is a great lapse on the part of APIDC in not handing over the stocks and raw-materials worth about Rs.30 lakhs to the bank in spite of several requests made by the bank. No FIR was lodged with police, about the theft of materials and there has been no response till date to the several letters written by the bank, and the unit on this matter.

3.3.13 **S.S. ELECTRONICS**

In order to make TEL Computers meeting the minimum running costs, products from S.S.Electronics, were sold by TEL Computers and the margin used by it. In this process, the debt of TEL Computers has accumulated and is left unpaid. Apart from this, there are outstanding creditors and statutory liabilities of more than Rs.3.50 lakhs

3.3.14 Under these critical circumstances, a one time settlement of Rs.2 lakhs which is the principal amount was sought for by the unit, with its bankers.

3.3.15 REVIVAL PACKAGE FOR TEL :

The Bank's revival package approved in June 1995, has not resulted in any additional working capital limits and the unit could not therefore, revive the working of the unit till date. It has segregated irregularity and funded interest. In a working capital-intensive unit like this, which had suffered on account of floods, and labour unrest, the Bank's inability to consider additional release of a working capital as a package of revival has only further increased the losses, and eroded the networth of the unit still further. Even so, during this period of 1992-96 and until June 1996, the company has paid to the bank an interest amount of Rs.31.84 lakhs which has been recovered from the additional working capital pumped in by borrowing Rs.29.53 lakhs from outside.

3.3.16 The State Level Inter Institutional Committee was told by the Bank that a revival package was sanctioned. This package was nothing but a recovery package of the bank dues, an amount of Rs.44.59 lakhs as against Rs.10 lakhs the bank wanted the unit to infuse into the industry without any additional matching working capital from the Bank's side.

3.3.17 The unit had submitted a rehabilitation package to the bank in November 1996, as depicted in the enclosure.

STATEMENT OF REHABILITATION PACKAGE OF INVESTMENT TECHNIQUES PVT. LTD. AS PER THE RBI PROVISIONS.

I. Interest charged @ normal rate inclusive of
penal interest of Rs.4,17,894 since 1.4.1991
(the date company was sick as identified b y the bank)
to 30.9.1996 Rs.85lakhs
Outstandings
as on 1.4.91 OD(BCC) Rs.15.50 lakhs

as on 1.4.91 CC(HYP) Rs.26.25 lakhs

Total Rs.41.75 lakhs

Interest calculated @ 15% P.A.(1.5% less than MLR) at simple rate on Rs.41.75 lakhs for 5 ½ years (i.e. 1.4.91 to 30.9.96) Rs.34.45 lakhs Interest calculated at 15% pre annum for 5 ½ years at simple rate as above to be converted into FITL to be rapid in 3 years equal instalments and the balance interest debited by the bank is to be waived.

II The unit has pumped in Rs.24 lakhs towards payment of interest alone. Also, the unit has brought in additional money for meeting margin on working capital to the extent of Rs.8 lakhs which was adjusted in OD BCC during March, 1995 March -96.

III Term loan (CTL(1)) for Rs.14 lakhs towards labour rationalisation at the rate of 10% per annum interest. (refinance eligible from IRBI if required) repayable in five years to be sanctioned.

IV Term loan (CTL(2)) for payment of statutory dues and pressing creditors of Rs.31 lakhs at the rate of 10% per annum repayable in five years, to be sanctioned.

V Term loan (CTL(3)) for Rs.10.00 lakhs towards the future cash losses (in years 1997-98 and 1998-99 as per the projections) to be funded at the rate of 10% per annum interest which will be repayable in the next three years.

IRBI may also be approached for extending this sanction to the unit, by the Bank if the Bank by itself has some constraints in this regard, for the above term loans.

VI Total repayment schedule will be as follows:-

	1997-98	1998-99	1999-2000	2000-01	2001-02
I. FICTL					

	Rs.34.45 lakhs	11.5	11.5	11.45	-	-
ii.	Term Loan (1)					
	Rs.14 lakhs	2.80	2.80	2.80	2.80	2.80
iii	Term Loan (2)					
	Rs.31 lakhs	6.20	6.20	6.20	6.20	6.20
iv	Term Loan (3)					
	Rs.10 lakhs (if required)	-	-	-	5.00	5.00
	Total Repayments	20.50	20.50	20.45	14.00	14.00

VI Working capital requirements at the projected turnover level :

Rs.45 lakhs Rs.25 lakhs CC(HYP)
Rs.20 lakhs OD(BCC)

Rs.40 lakhs

The a) Projected cost and profitability statement and
b) Fund flow statement and projections justify the unit's request.

VIABILITY OF THE PACKAGE :

1. The projected cashflows indicate that during the current year, although the unit so far reached a turnover of Rs.75 lakhs (30.9.96), it may not be possible to reach the economic turnover by the year end (1996-97). Hence, the current year is likely to end up with loss of Rs.1.30 lakhs

2. During the year 1997-98, i.e., the first year in which rehabilitation package becomes effective, it is ending up with operating profit of Rs.12.70 lakhs No Income Tax would be payable due to accumulated losses in the previous years.

3. From the second year of rehabilitation, there would be no looking back.

4. The market for the product lines is quite strong as the brand image has not eroded. The order book is full.

5. Even in a situation of change in government policy in the years 1998-2000, the unit does not expect to face any problem in marketing because of (a) Diverse product range (b) Technology upgradation planned with its own accumulated profits by 1999-2000.

The Bank is not in a position to grant the full rehabilitation package for the following reasons :

(a) The TEL computers, seized by APIDC, has no prospect of recovery.

(b) The collateral securities for the existing and future liabilities of all the units were just around Rs.40 lakhs

(c) The Bank's suggestion to proceed against APIDC is acceded, it cannot segregate that huge liability independent of other units.

This is the case of a highly competent entrepreneur committing the blunder of getting into a product that was import-intensive due to reliance on <u>government policy</u> on manufacturing electronics. This was compounded by the funding agency's seizure without involving the financing bank. The third mistake was not properly insuring the stocks. The fourth mistake was the sanction of improper rehabilitation package by the bank.

Annexure I

Position of Accounts of all Associated Units of ITP Ltd. as on 30.09.1996.

	Name of the Unit	Date of Estt.	Limits Nature	Enjoyed Quantum	Year of Sanction	Outstanding	
1.	Instrument Techniques Pvt. Ltd.	1963 (proprietary)	CC(HYP) OD(BCC) MTL (C)	12.00 20.00 5.00	27.7.90	12.7 6 19.6	as on 31-8-

			MTL (TE)	2.00		8	90
		1974	MTL (Build)	9.50			2.00
		(as Pvt. Ltd.)	BG	2.00		5.00	
			CC(HYP)	25.00	25.3.91	4.54	
			OD(BCC)	20.00		0.76	as on
							31-3-
			CC(HYP)	25.00		23.5	91
			OD(BCC)	20.00		2	
						15.6	as on
						1	30-9-
							96
						87.1	
						9	
						08.4	
						6	
2.	ITL Computers	1986	CC	25.00	Feb'87	75.9	as on
	Pvt. Ltd.		OD(BCC)	6.00		9	7-9-93
3.	Swamy	1990	CC(HYP)		26.10.90	5.80	as on
	Electronics Pvt.		OD(BCC)				30-6-
	Ltd.						96
4.	Sarat Electronics	1979	CC(HYP)		June'91	10.5	
			OD(BCC)			3	
						5.03	
5.	Ravi Electronics						
	Pvt. Ltd.	Since 2-5-1994 Closed after clearing outstandings in full					
6.	Lakshmi						
	Engineering Co.	Since 23-5-1994 Closed after clearing outstandings in full					

All these units employed the technical expertise of Dr. S.S.R.L.Swamy, a Doctorate in Electronics, whose technical competence is a proven fact with the brand name of I T L capable of selling hot even today. This fact is well within every ones knowledge. Unit by unit position is as follows expecting M/s. Sarat Electronics which will be dealt with separately when required.

ANNEXURE - II

Projected Cost and Profitability Statement (Year-Wise Rest. in Lakhs)

Particulars		**1996-97**	**1997-98**	**1998-99**	**1999-2000**	**2000 - 01**	**2001 - 02**
	Sales	160.00	200.00	240.00	260.00	280.00	300.00
	Other income / Second sale	3.60	12.00	15.00	18.00	21.00	24.00
A.	**Total Income**	163.60	212.00	255.00	278.00	301.00	324.00
	Raw-materials consumed	114.00	140.00	156.00	169.00	182.00	195.00
	Power & Fuel	1.50	2.00	2.50	3.00	4.00	5.00
	Other mfg. expenses	8.00	10.00	12.00	14.00	18.00	21.00
	Wage cost	24.00	26.50	28.00	30.00	34.00	38.00
B.	**Cost of Production**	147.50	178.50	198.50	216.00	238.00	259.00
C.	**Gross profit**	16.10	33.50	56.50	62.00	63.00	65.00
	General & Admn. expenses	9.00	10.00	12.00	14.00	18.00	20.00
	Depreciation	1.00	1.00	1.00	1.00	1.00	1.00
	INTEREST :						
	on proposed	6.30	6.30	8.30	8.30	8.30	8.30

	working capital (1.5% less than minimum lending rate i.e.14% upto 1997-98)						
	on proposed term loan 31.00 @10%	0.35	1.40	1.12	0.84	0.56	0.62
	on proposed term loan 10.00 @10%	-	-	-	1.00	0.50	-
D.	**Total cost of production**	17.40	21.80	24.90	27.00	29.60	30.20
E.	Net profit(loss) (before taxation)	(1.30)	11.70	31.60	35.00	33.40	34.80
F.	provision for taxation	-	-	14.00	16.00	16.00	16.00
G.	Non cash exp. add back	1.00	1.00	1.00	1.00	1.00	1.00
H.	Net cash accruals	(0.30)	12.70	18.60	20.00	18.40	19.80
I.	Repayment of Term Loans	-	20.50*	20.50	20.45	14.00	14.00
J.	Surplus	(0.30)	(7.80)	(1.90)	(0.45)	4.40	5.80

FICTL	11.50	CTL(1)	2.80
CTL(1)	2.80	CTL(2)	6.20
CTL(2)	6.80	CTL(3)	5.00
	20.50*		14.00**

Annexure III

Fund Flow Statement

(Rest. in lakhs)

Particulars	**1996-**	**1997-**	**1989-**	**1999-**	**2000-**	**2001-**

		97	98	90	2000	01	02
A.	**Sources of Funds:**						
1.	Cash accruals (net profit before taxation)	(0.20)	16.20	35.20	38.70	35.70	35.70
2.	Increase in share capital	-	-	-	-	-	-
3.	Non-cash expenditure	1.00	1.00	1.00	1.00	1.00	1.00
4.	State subsidy	-	-	-	-	-	-
5.	Increase in long term loan (bank)	45.00	-	10.00	-	-	-
6.	Decrease in non-current assets	-	-	-	-	-	-
7.	Decrease in current assets	-	-	-	-	-	-
8.	Increase in unsecured loans	-	-	-	-	-	-
9.	Increase in (for working capital) bank borrowings	45.00	-	-	-	-	-
10.	Reserves	-	-	-	-	-	-
11.	Sundry Creditors & statutory obligations	(31.00)	-	-	-	-	-
	Total sources (A)	63.20	17.20	46.20	39.70	39.70	36.70
B.	**DEPOSITION OF FUNDS**						
1.	Preliminary & pre-operative exp.	-	-	-	-	-	-
2.	Int. on capital exp.	-	-	-	-	-	-

	3.	Increase in current assets	45.00	-	-	-	-	-
	4.	Decrease in long term liabilities	14.00	-	-	-	-	-
	5.	Decrease in term loans (bank)	-	20.50	20.50	20.45	14.00	14.00
	6.	Decrease in non-current assets	-	-	-	-	-	-
	7.	Int. on proposed term loans	1.10	4.50	3.60	3.70	2.30	0.90
	8.	Taxation	-	-	14.00	16.00	16.00	16.00
	9.	Others	-	-	-	-	4.00*	4.00*
		Total disposition (B)	63.50	25.00	38.10	40.15	36.30	34.90
C.		Opening balance	-	(0.30)	(8.10)	-	(0.45)	(0.05)
D.		Net surplus (A-B)	(0.30)	(7.80)	8.10	(0.45)	(0.40)	1.80
E.		Closing balance	(0.30)	(8.10)	-	(0.45)	(0.05)	1.75

Rest. 10 lakhs proposed CTL on projected losses in the year 1998-99 which will be repaid in two instalments i.e. in 2000-01 and 2001-02 for Rs.5 lakhs per annum.

* Cost of equipments for new Technology Development, Technology upgradation will become immenent which will be met from the plough-back of additional profits from 2000-01

3.4 STEEL PLANT REFRACTORIES

3.4.1M/s Steel Plant Refractories (SPR) was established in the year 1984 as a partnership firm for manufacturing of refractory and insulating bricks. SPR is headed by Mr. Anjaiah as Managing partner. Mr. Anjaiah is a qualified ceramic engineer and has a lot of accumulated knowledge in ceramics. This unit was set up to manufacture value added refractory bricks which are not being manufactured by other SSI units in the state. The manufacturing facilities are at Tadikalapudi, West Godavari district with an installed capacity of 5000 MT per Annum.

3.4.2The motivation for setting up SPR in Tadikalapudi was Government incentives for setting up industry in rural areas. Besides, the availability of land at cheaper rates was another factor that motivated the entrepreneur to set up the unit at this location. SPR was constructed in the year 1986 and commercial production started in the beginning of the year 1987. The management decision of locating the unit in the said location resulted in obtaining the due subsidy from the Government of Andhra Pradesh amounting to Rs.2.35 lacs. but, this decision proved to be wrong with respect to operating the unit. Power cuts in the rural areas is the bane of the problems. SPR was receiving power for 3 to 4 hours a day during the day time. During the night time also there were unscheduled power cuts. Due to the power shortage, SPR could never make use of its manufacturing capacity in full since inception.

3.4.3The management of the SPR obtained term loan of Rs.14.28 lacs and working capital limits of Rs.6.8 lacs from Seagul Bank, Eluru branch for setting up the unit. Equity was Rs.11.00 lacs. The working capital limits sanctioned by the bank were not enough to run the unit at its peak capacity. Repeated requests by the management to enhance the limits did not yield favour from the banks.

3.4.4 In the year 1989 and 1990 the unit was inundated by floods. All the communication links were disrupted including the road network. Due to this, business could not be transacted for about 4 months after the floods. Several firm orders from reputed customers were cancelled since they were not prepared to wait and accept delays.

3.4.5 Market Analysis :-

3.4.6 The Iron and Steel industry accounts for major chunk of consumption of refractories followed by cement and other industries. Refractories are required for both in new projects and old ones. In new projects Kilns and furnaces are lined with new refractories. Since the efficiency to insulate heat deteriorates over usage and time, replacement of refractories takes place in existing plants. It is estimated that Visakhapatnam Steel Plant alone consumes Rs.50 crores worth of refractories per annum. Considering the growth of these core sectors envisaged in the plans, it is expected that the demand for refractories are also will grow simultaneously.

3.4.7 The product manufactured by SPR are value added products in the aluminum silicate

3.4.8 group of refractories. Although there are several small scale units in the state producing the refractories, they are all common fireclay varieties conforming to IS-6 or IS-8. Further, none of the other existing units have testing facilities and the product range of this unit is superior to the existing competitors.

3.4.9 SPR has earned reputation for quality products by supplying to major consumers in the state and else where like Midani, Sunflag Iron and Steel, Powmex Steels, KCP Cements etc.

3.4.10 Production Processes

3.4.11SPR has a land admeasuring 2.63 acres. Building area is 7200 sq.ft. comprising of workshed, laboratory and office cum stores. Besides, 300 sq. ft. area of built up shed is available for storage of processed raw material like Bauxite and living quarters for workmen which can accommodate 20 families.

3.4.12Generally prevalent method of manufacture of refractories is hand moulding process. Although this process of manufacturing refractories is economical for lower grade quality of refractories, it is not suitable for usage in severe conditions like steel melting and cement processing. Also, the complicated shapes required for different processes is not possible in the hand moulding process. SPR has adopted machine pressing for manufacture of refractories. SPR has also incorporated proper pre-pressing processes like pre-calcination, blending and granulation techniques. However, this unit is employing hand-moulding process for some intricate/irregular shapes of products. SPR has 5000 MT per annum capacity but it could never reach even quarter of the utilisation in the past. The details of production and capacity utilisation for three consecutive years is given in Table-1.

Table-1 **Production-capacity utilisation**

Year	**Production in MT**	**Production capacity utilization**
1989-90	1200	24
1990-91	500	10
1991-92	650	13

3.4.13 The production organisation in SPR is not organised at all. All the technical and production affairs on day to day basis are supervised by the managing partner himself with the assistance of another partner who is not technically qualified. With this organisational structure, it may not be feasible to operate on a larger scale. Therefore it may be necessary to examine the needs of the organisation for supervision to maintain production logistics, quality levels and improvement efforts.

3.4.14 Financial History

SPR was provided with financial assistance by a single financial institution, namely, Seagul Bank, Eluru branch for term loan and working capital requirements. SPR availed term loan of Rs.14.28 lacs and other equity and the equity invested was Rs.11 lacs.

3.4.15 In the Project report it was estimated that Rs.10.58 lacs will be required as working capital. The sanctioned amount is Rs.6.8 lacs of which 4.9 lacs was towards OCC and 1.9 lacs towards ID & DB. SPR could only utilise Rs.4.9 lacs of OCC accounts and the Rs.1.9 lacs on ID & DB account remained unutilised. SPR made several requests to enhance the working capital limits and conversion of ID&DB limits to OCC limits. These requests were not considered favourably by the Seagul Bank.

3.4.16 SPR was given investment subsidy of Rs.2.25 lacs by Govt. of A.P. This was adjusted by the Seagul Bank towards the term loan payment. Further SPR made payment of Rs.1.5 lacs towards interest on term loan. SPR regularly paid interest on working capital loan and there are no outstanding dues in this account.

3.4.17 SPR since inception could not achieve the scales of operation beyond 25% of its capacity due to various reasons as described earlier like power shortage, natural calamities, shortage of working capital fund etc. Consequent to this, the unit incurred losses which are evident from Table-2.

Table-2 Sales Turnover & Profit/(loss) Statement

Year	**Turnover in Rest.**	**Profit/(loss)**
1988-89	6,04,000	(25000)
1989-90	9,99,000	(1,50,000)
1990-91	4,92,000	(4,75,000)
1991-92	7,49,000	(4,20,000)

3.4.18 SPR due to continuos losses could not meet its obligations towards term loan repayment to Seagul Bank. Seagul Bank imposed a penal interest @ 4.75%. The total outstanding dues of SPR including the penal interest as on 30-6-92 was Rs.23.35 lacs. SPR outstanding liabilities according to the provisional balance sheet as on 31-3-92 were as follows:

To Seagul Bank(including penel interest)		Rs.29.24 lacs.
To others		Rest. 4.02 lacs.
	Total	Rs.34.06 lacs.

3.4.19 The blank loan documents obtained were filled up in such a fashion that 90 percent of the term loan was pitched as first instalment out of the fourteen half-yearly instalments and the total of all instalments was also wrong.

3.4.20 Because of the high value of collateral securities, despite all the institutional lapses, the Seagul Bank filed a recovery suit with the Debt Recovery Tribunal. The Seagul still got the award of the suit as the unit could not engage a competent advocate.

Appendix-I

Trading and Profit and Loss Account for the year ended 31-3-1990

To Opening Stock	683120.00	By closing Stock	685900.00
To Raw materials	197805.55	“ Sales	92139.51
Coal	289237.26	“ Sales (central)	906973.78
Wages & Labour charges	161817.00		
Electricity charges	25490.40		
Gross Profit	327633.08		
	1685103.29		1685103.29
To Bank charges	1170.00	By Gross Profit	327633.08

To Postage	23.00	" Net Loss	150319.00
To outward freight	16521.00		
To Maintenance	25399.39		
To Telephone & Telegraph charges	3352.00		
To travelling charges	5790.00		
To Stationery	470.00		
To Sales tax	88026.01		
To publicity	465.00		
To licences	976.00		
To Insurance	2286.00		
To Interest	331786.00		
	1686.75		
	477952.08		477952.08

Balance Sheet as on 31-3-1990

Liabilities		Assets	
Creditors	396589.59	Land	35290.00
Commercial Taxes	142804.94	Dies	50246.76
Loans From :		Plant and machinery	1610564.49
Seagul Bank	2273010.11	Building	812344.70
Others	402000.00	Vehicles	12430.80
Partners' Capital		Furnitures	1477.00
N.Anjaiah	119917.42	Preliminary and	
N.Venketa	71069.27	Preoperative	
Subbamma	50318.74	expenses	380807.98
N.Kavita			
C.M.Salelkar	118456.05	Debtors	380958.63
G.M.N.V.Prasad	102279.45	Closing Stock	685990.00
P.Devika Rani	79659.37	Cash on hand	2962.45

M.Sambasiva Rao	78547.45	Diff. In T.B.	126.45
N.Krishna Kumari	90165.95	Deposits	4660.00
M.Ratnakara Rao	53040.92		
Total :	3977859.26	Total :	3977859.26

Appendix-II

Trading and Profit and Loss Account for the year ended 31-3-1991

To Opening Stock	685990.00	By closing Stock	790000.00
To Raw materials	181350.75	" Sales	327811.52
Coal	254689.32	" Sales (central)	164143.88
Wages & Labour charges	134246.00	" Gross Loss	1321.72
Electricity charges	27001.05		
	1283277.12		1283277.12
Gross Loss	1321.72	By Net Loss	475538.93
To Bank charges	485.00		
To Postage	49.00		
To outward freight	450.00		
To Maintenance	25064.08		
Workmen compensation	2000.00		
To Telephone & Telegraph charges	3585.00		
To Travelling charges	10230.00		
To Stationery	1628.00		
To Sales tax	45169.13		
To publicity	1300.00		
To licences	800.00		
To Insurance	4686.00		

To Interest	378770.00		
	1686.75		
	475538.93		475538.93

Balance Sheet as on 31-3-1990

Liabilities		Assets	
Sundry Creditors	440886.40	Land	35290.00
Outstanding Taxes	187974.07	Dies	50746.56
Loans From :		Plant and machinery	1610564.49
Seagul Bank	2548873.84	Building	813485.65
Others	462000.00	Vehicles	12430.80
Partners' Capital		Furnitures	1477.00
N.Anjaiah	10543.47	Preliminary and Preoperative expenses	380087.98
N.V. Subbamma	33026.16		
C.M.Salelkar	32859.05	Sundry Debtors	218340.60
G.M.N.V.Prasad	73747.11	Closing Stock	790000.00
P.D. Rani	46371.65	Cash on hand	10566.88
M.S.Rao	50015.11	Deposits	4660.00
N.K.Kumari	61633.61	Partners' capital	
		N.Kavitha	16256.71
		M.Ratnakara Rao	4023.75
Tortal :	3947930.47	Total :	3947930.47

APPENDIX - III

Trading and Profit and Loss Account for the period 1.4.91 to 31.3.92

	Rest. ps.		Rest. ps.
To opening Stock	790000.00	By Closing	876732.00

		Stock	
To Raw Materials	334500.00	“ Sales	562893.90
To coal	176637.00	“ Sales	186330.00
To Wages	95783.95		
To Electricity charges	27813.50		
Gross Profit	201220.90		
	1625955.90		1625955.90

To Bank Charges	393.00	Gross Profit	2,91,220.90
To Postage	473.00	Net Loss	4,19,610.34
To Outward Freight	4,135.70		
To Maintenance	7,533.84		
To Bonus	10,503.00		
To Workmen Compensation	6,400.00		
To Telephone	3,078.00		
To Stationery	3,686.70		
To Travelling Expenses	9,100.00		
To publicity	2,685.10		
To Licenses	100.00		
To Insurance	4,367.00		
To Interest	5,65,225.20		
To Testing Charges	482.00		
To Commission	2,700.00		
	6,20,831.24		6,20,831.24

APPENDIX - IV

Provisional Balance Sheet as on 31.3.1992

Liabilities		**Assets**	
	Rest. ps.		Rest. ps.
Creditors	630200.31	Land	35290.00
Loans from :		Plant and machinery	1610564.49
Seagul Bank	2923894.00	Dies	51324.61
Others	482000.00	Building	813485.70
Incentives	235500.00	Vehicles	12430.80
Capitals		Furniture	1477.00
M.Smabasiva Rao	24838.49	Preliminary & Preoperative expenses	380087.98
G.M.K.V.Prasad	48570.49	Advances	154954.33
N.Krishna Kumari	36456.99	Debtors	201610.72
P.Devika Rani	16998.93	Capitals	
		N.Kavitha	75002.16
		N.Venkatasubbamma	542.67
		N.Anjaiah	75966.91
		C.M.Salelkar	42670.81
		M.Ratnakara Rao	54376.99
Total :	4398459.60	Total :	4398459.60

3.5 PIGMY ELECTRICAL - DAZED IN SHOCK

M/s Pigmy Electricals Private Limited, banking with PS Bank, Industrial Estate branch, Visakhapatnam, is engaged in the manufacturing of Miniature Close Circuit Brakers (MCCB) since 1988. It s Managing Director, Mr P Ganga Rao is engineering graduate in technology and he is exposed to higher level technology in the manufacturing of MCCB. The unit has technology incentive where moulds and dies alone cost Rs.50 lakhs, which will depreciate faster depending on their usage. The Unit entered into a collaboration arrangement with South Korean firm Gold Star Instrument and Electric company Ltd initially. The APIDC and APSFC sanctioned Rs.54 .8 lakhs and Rs.61 lakhs respectively. The Unit went into trial production in 1991 when the import policies underwent change, the Unit had to look for indiginisation of the project which was funded by the APSFC in June 1994. The units equity contribution was of the order of Rs.49.95 lakhs.

3.5.1 It is interesting to note that its application for term loan made in 1987 was sanctioned in November 1989 and further delays in fulfilling other formalities led to using the limits in 1990 from the IDC. The unit was granted working capital limit by SBI to the extent of Rs.18 lakhs against the actual requirement of Rs.48 lakhs. The unit's first lot was marketed on trial basis through Batliboi & Co. For the second lot of imported raw material the Bank insisted on 200% margin for issuing a letter of credit in 1991 and did not also grant the additional working capital limit of Rs.30 lakhs in the name of credit squeeze. In order to open a loan credit worth Rs.8 lakhs the unit had to deposit Rs.16 lakhs instead the just Rs.80,000/-.

3.5.2 Their decision to indiginise the technology and take up research and development activity yielded the desired result when their test products confirmed to ISI standard. The MD won the national award from President of India in the year 1993 for the indiginisation effort. During this period of indiginisation and its diversion of attention to domestic collaborators, the unit had lost heavily. The total cash loss during the past three years was of the order of Rs.150 lakhs, despite the potential for exports to Gulf and African countries. The unit which was set up on account of high technical know-how and assured marketing suffered heavily on account of inadequate working capital and insistence by the Bank for additional collateral securities. The multinational Company M/s GEC gave undertaking to lift the entire production under its brand name after satisfying itself with the standard of production in the unit. Although the Bank asked for a meeting with the said multinational, which was arranged on a pre-appointed date but higher level functionaries who were to hold the discussions did not choose to attend the meeting for reasons best known to them. The Small Industries Service Institute, Hyderabad went into the whole issue as a member of State Level Inter Institutional Committee to tackle sickness in small industries and recommend the request of the Company on the basis of independent consultancy study done by Industrial Technology Consultancy Company . During the past one and half to two years, the unit has been untiringly going round the Banks, Zonal office, Head office, SISI, Government and other agencies like sinking man trying to hold on to a small straw for reaching the shore.

3.5.3 This is fit case for rehabilitation by the bank offering **all** the facilitations provided by the RBI in their rehabilitation package as the unit **does not suffer** either from production capabilities or from mark

3.6 ALCHEMY OF MATHEMATICS

(Functioning Unit thrown with the Bath Tub by the Bankers)

3.6.1 M/s Ploy Products Ltd, located in the Industrial Development Area, Uppal, Hyderabad, is engaged in the manufacture of polythene bags, polythene sheets, and shrink film. The unit had availed a term loan of Rs.5.9 lakhs from APSFC and repaid it in full. The unit has been found to be constantly on the high growth path , despite frequent fluctuations in raw material prices.

3.6.2 The unit's banker sanctioned Rs.5 lakhs as a working capital in 1993, and the unit has attained a turnover of Rs.74..5 lakhs in 1995-96, with no increase in the working capital finances in between. The unit applied for an enhancement of working capital limits to the tune of Rs.16.5 lakhs against the anticipated turnover of Rs.114.5 lakhs during 1996-97. The bank appeared to have done its arithmetic exercises of linking the turnover of Rs.74.5 lakhs to the working capital limit of Rs.5 lakhs, and wanted the unit to give an undertaking of achieving a turnover of Rs.200 lakhs if it were to be granted a working capital of Rs.16.5 lakhs. This speaks of the total disregard of the Nayak committee recommendations in granting the working capital limits to the units, and also the total lack of understanding of how the industry works. Accounting mathematics does not make an industry!

3.7 RISK AVERSION

STANDS IN BALANCE

3.7.1 Mr P K Engineer. B.E. started as technocrat a small industry in the year 1971 in the Technocrat Industrial Estate of Balanagar. He was manufacturing electromagnetic clutches (1971-76), electrical control panels (76-86) and now Arm Knuckle (L.S &R.S) and Knuckle spindles for Mahindra and Mahindra. During the period 1986-89, the unit's proprietor fell ill and therefore, the unit ceased to function during that period. During this three year period, there were interest accumulations in the blocked accounts.

3.7.2 During the period 1991-93, M/s Mahindra and Mahindra which has specifically ordered for components manufacture did not lift the material due to recession in the automobile industry. Finished goods specific to that industry piled up and there were no cash flows. Both the financing Bank and the vendors acknowledge the quality standards of the products of M/S.Engineer. When he surpassed the problem of stock piling, the interest accumulations in the accounts (of both term loan and working capital) did not stop. Therefore, the unit had approached the bank for rehabilitation package which was acceded under pressure from authorities. The package was, however, conditioned by the unit providing additional collateral security and converting the proprietary concern into partnership concern. The second condition was necessitated by the previous experience of the bank with the unit; the unit was closed when the proprietor became ill. The bank naturally felt that there must be somebody to run the unit, which was the first condition to cover the additional financial package to be permitted under rehabilitation.

3.7.3 The unit's proprietor has a different tale to tell, duly supported by the documents. Mrs Engineer as guarantor to the existing and fresh limits under rehabilitation package had an overdue account with the P S Bank . On a letter from this Bank , the P S Bank , as unit's Banker wanted M/S

Engineer to close the account before releasing the rehabilitation package. Mrs. Engineer would appear to have mentioned that it was an independent account dealt with by the P S Bank shabbily and therefore, was in the process of negotiation. That account with outstanding of just Rest. 70,000 need not govern the release of rehabilitation package to Mr.Engineer's unit.

3.7.4 Further, the PS Bank on the promise of release of rehabilitation package in 1995 (the actual sanction was in 1993) asked for collateral security. When the title deeds were presented encumbrance certificate was not asked. One month after presenting the title deeds they asked for the E.C by which time the sub-registrar's office got shifted. They took two weeks to issue the E.C for ten years. Thereafter, the documents were sent for legal verification. The Bank's advocate went on a three week holiday. After the legal opinion was received on his return, the bank created equitable mortgage by filing the signed blank documents given for rehabilitation package and inflating the interest figures to arrive at the total debt accumulation beyond Rs.10 lakhs. Thereafter, within a week's time, they proceeded against the unit in Debt Recovery Tribunal before whom the case is presently resting.

3.7.5 The unit avers that the Bank committed a fraud on him in not releasing the Rehabilitation package after his fulfilling all the required formalities. The unit is functioning with outside borrowings and creditor stocks.

3.7.6 Bank's manipulations in interest applications, not releasing the sanctioned rehabilitation package for two years on flimsy grounds and choosing to proceed in court for recovery of outstandings from a unit whose viability is not in doubt or who has not refused his obligation, speak volumes o f the adverse shift in Bank's attitude towards small industry.

3.8 HEALTH PRODUCTS UNIT UNHEALTHY

3.8.1 M/s Health Products (p) Ltd., was a unit started in 1994 by two chartered accountants in the closest proximity of raw material, in East Godavari District, AP. It turned sick by the end of the second year itself on account of the inadequate working capital . Copra and coconut-shell powder, the main products, command a wide and stable market. The unit had an equity of Rest. 9.20 lakhs, and a debt of Rest. 22.7 lakhs (Rs.14 lakhs as term loan, out of the sanctioned limit of Rs.17.lakhs, and Rs.8.lakhs, as working capital). The unit justified the initial grant of working capital by attaining a turnover of Rs.40 lakhs by working on a single shift. But its project overrun and time overrun came in the way of remitting the first instalment on term loan as per schedule.

3.8.2 Its application to the bank dated 3 February, 1995, for an enhancement in its working capital limits and for increasing the gestation period did not get any favourable response. The unit was in arrears of only one instalment, and interest for two quarters. It was incurring cash losses right from the first year; the losses being Rs.8 lakhs in the first year, Rs.6.50 lakhs in the second year and Rs.12 lakhs in the third year. Even after a lapse of 18 months, the application for the enhancement was neither approved nor rejected.

3.8.3 The unit represented to the team that the problems started with the concerned Assistant General Manager's visit to the unit when he expected the Managing Director of the unit waiting on him. Since the Managing Director was not informed of the visit, he had left for Hyderabad for getting his accounts audited. The non- availability of books of accounts added to the anger of the Assistant General Manager. On return from Hyderabad, the Managing Director took the books of accounts to the Zonal office of the Bank, and the concerned Assistant General Manager poured out his anger for the absence of the Managing Director during his visit. He seemed to have taken a vow that as long as he was in the bank, the unit's requirements would not be met. Later, the unit's M.D visited the Zonal office ten times. However, no letter rejecting the application, was received by the unit. The Managing Director's appeals to the higher authorities evoked only unhelpful response. Having seen the attitude of the higher authorities, even the branch which was otherwise helpful started giving problems.

3.8.4 During the entire period, there was not a single observation by the bank regarding irregularities in the management of the existing working capital limit. There were no shortages of stocks; no diversions.

3.8.5 To add to the woes, the unit received the worst shock, in the form of the cyclone that lashed the place on 6, November 1996, which turned the sheds into a rubble compelling the closure of the unit for five months, thereafter. In 1996 the financing bank, which was insured the shed and stocks as part of its responsibility since 1994 failed to renew the insurance policy covering the sheds and machinery. The stocks, for which insurance was available, could be rebuilt with the insurance company entertaining the claim. But the loss for sheds and machinery valued at around Rs.6 lakhs seemed to have compounded the difficulties. As the unit chose to make the bank accountable for the lapse of insurance of fixed assets, the bank which did not reply to any of its earlier letters seeking enhancements in the working capital, chose to call up the advances. The unit is pushed to the court from the manufacturing place. Even in 1996-97, during the first seven months, it had a turnover of Rs.40 lakhs. It has used the capital subsidy of Rs.2.87 lakhs released on 19.12.95 for the working capital purposes within the knowledge of the operating branch, but the bank took exception that it should have credited into the term loan irregularity.

3.8.6 The documentary evidence with the unit amply justified its request, still, the bank could review the situation and provide compensation for its own lapses, and can grant a rehabilitation package within the existing framework of RBI as the viability of the unit is not in doubt.

3.9 THIRUMANI - RELEASING THE CLUTCH

Over the last decade (1986-96), the Thirumani Group took a big leap from the brink of destruction to its current status as one of the most admired small enterprises in India. Headquartered at Hyderabad, Andhra Pradesh, India, Thirumani (040-887373) is now going round the globe to become a major player in clutch-disc manufacture for twowheelers, and triwheelers. It is an Original Equipment Manufacturers (OEM) to Bajaj Auto Ltd., Pune, and Aurangabad (India), world's second largest scooter manufacturers, outside Japan, since 1990. Thirumani which enjoys 100 per cent vendor rating by Bajaj Auto Ltd. for both its OEM and SPD requirements, got ISO-9000 by July 1996, and the inspection and documentation are on the targetted date. Thirmani's vision is "to become a global player by manufacturing clutch discs for new generation-Japanese Motor Vehicles", and "to become one of the leading global manufacturers in "Drive Transmission Components" by 2001 A.D." Mr Venkatesan, Managing Director, Thirumani Group, presently running as a closed-group has ambitious plans to go for public issue, take up diversification and expansion and right now the unit is over-burdened with heavy and disproportionate inventory. The MD’s individual attention is on total quality management, marketing and human resource management. But how does he go about it?

3.9.1 Thirumani's story began in 1985 when Mr Thirumani Venkatesan, an AMIE (Mechanical) from the Institution of Engineers (India), promoted a small industrial unit Thirmani Auto Ancillaries Pvt Ltd., at Bonthapally village, about 50 Km from Hyderabad (Andha Pradesh, India). He actually started his career as machine shop supervisor in Sundaram Clayton Ltd., Madras, and after twelve years, left the company to join IAEC Pumps Ltd., Madras, as Head of Works Division where he served for six years. Later, he chose to become a freelance consultant to LPG cyclinder manufacturers in Hyderabad. But an advertisement in the

Indian Express one fine morning gave stirred the entrepreneurship in him for setting up an ancillary unit to the Hyderabad Allwyn's AP Scooters Ltd. (APSL), for the supply of clutch assembly for its Piaggo-100 cc biwheeler as its OEM. Agreement between the two provided for access to information, technology and collaboration, and training of labour by the Principals for a period of five years. He started off with an equity of just Rs3.8 lakhs in land, buildings, plant, and machinery.

The Collapse

3.9.2 Mr Venkatesan's initial enthusiasm received a severe blow when the principal APSL pulled down the shutters due to market hostility. But Venkatesan jerked himself out, with tremendous confidence in his production capabilities. He knocked at the doors of Gujarat Narmada Auto Manufacturing Ltd (GNAL) seeking 100 percent OME. The opinion report of APSL prompted GNAL to place an order with Thirumani for 0.1 mm clutch assemblies. As ill luck would have it, GNAL itself got into problems within just six months of their relationship. The unnerved Thirumani tried for new tie-ups with Majestic Auto (Hero Puch), Ghaziabad (Uttar Pradesh), and with Escorts Ltd (Rajdoot 175 cc). Another six months passed off to put Thirumani back in search of markets.

A Ray of Hope and Revival

3.9.3 There appeared a ray of hope when the branch manager of his bank at Gummadidala encouraged him for a OE tie-up with Bajaj for clutch discs and clutch assembly. The top management of the bank as a team was quite responsive in evolving a rehabilitation package. The bank has sanctioned a working capital term loan, to cover the unsecured portion of the working capital (Rs.8.4 lakhs) and a Funded Interest Term Loan (Rs5.4 lakhs) with repayment packages. Based on the initial work order from Bajaj, which was procured, thanks to Confederation of Indian Industry (CII) that had put him to Mr Rahul Bajaj at a conference at Delhi, the bank released a modest working capital limit of Rs.2 lakhs. Mr. Venkatesan says: "There was no looking back, thereafter".

3.9.4 "What about conforming to quality? Venkatesan replies: “Yes, we did have a problem. The new material supplied by the Nagarjuna Steel Ltd when we were given the rehabilitation package by the Bank, was unsuitable. It led to lot of rejections even at the shop floor level. We just could not afford rejections with the new Principals". In December 1989, he came across Pennar Steels Ltd which was able to supply the raw material - a special quality stainless steel - that too on the required credit terms.

3.9.5 The supplies to Bajaj increased to Rest. 5 lakhs value per month (Approximately 0.1 mm clutch discs).

Growth Period

3.9.6 "Since the factory is located in Bonthapalli in Medak District, closer to the forests than to civilization, Naxals or Peoples' War Group, started creating disturbances in the area in 1991. I suddenly realised that the industry being labour intensive, the disturbance can be ignited even from within through a veiled interference”.

3.9.7 “As an alternative, I thought of starting another unit in Ranga Reddy District - to be more precise, in Kukatpalli Industrial Area", Mr Venkatesan said. "But my delivery schedules as OEM to Bajaj, if get affected at a time when I am just recovering, it would mean a total collapse". Shri Venkatesan visaulised the possibilities of future demand in the context of liberalisation of the Indian economy, and, therefore, started another unit in 1993, - Thirumani Enterprises - with a capacity of just 50,000 discs. Thirumani Enterprises (TE) could take advantage of the sales tax releif of Rs.5 lakhs. In December 1995, in Gandhinagar Industrial Area of Ranga Reddy District, a readily built up unit was put up for sale. His bank came up readily with the sanction of the requisite term loan, and working capital out of the total investment of Rs.6 lakhs, for starting the third unit.

3.9.8 Both the units are closer to the Registered office in Hyderabad, and have a capacity of 5 lakhs clutch discs per month. The unit has availed the following incentives from the government Rs.2.5 lakhs Central Subsidy for Bonthapalli unit Rs.0.5 mn sales tax relief in Kukutpally Rs.3.5 lakhs Sales tax relief Rs5 lakhs travel grant from ICICI to explore the export markets.

3.9.9 These incentives certainly helped the unit to raise resources for expansion. But the road to Bajaj was not also smooth. The recession in the scooter market in 1991, the gulf crisis of 1992, the excise raid on Bajaj Auto leading to the closure of its factory for five months, have put the unit to continuing stress.

Entry into Export Markets

3.9.10 In these years of turbulence, he went in search of export markets. In one of the meetings of the Engineering Export Promotion Council he was introduced to an agent of an auto component supplier in Indonesia. The initial sample order was accepted and an order that started off with just Rs.8 lakhs worth of clutch discs annually, now reached Rs.25 lakhs per annum to the manufacturer in Indonesia direct. The Auto component Manufacturers Association (ACMA), of which Mr. Venkatesan is a member, and the CII, have helped his introduction to Sri Lankan market. But, “what I noticed was, in export markets, the Indian auto component manufacturers could not establish credibility. When I have enquired with the Italian embassy for a market opportunity, the embassy was responsive, but the Italian manufacturer did not care to reply my enquiries. When I went into the reasons, the manufacturers told me that the Indian suppliers do not conform to the samples and quality specifications leading to upsetting their own delivery schedules. After a lot of persuasion, M/s Adler in Italy responded positively". He noticed that the Japanese firms are in the art of selling Rs.100 billion value of clutch discs. There are a number of firms in the selling in the range of Rs.50-60 billion per annum. "The Japanese are hard nuts to crack, and they are not willing to transfer technology" he says.

3.9.11 Undeterred by the initial negative response in Italy, Venkatesan tried to establish contact with Adler through opinion-building. He requested the Government of Andhra Pradesh and his bankers to furnish opinions on his units' capacities and capabilities as also track-records - "My banker's Frankfurt office gave an excellent opinion of me and that made the Chairman of Adler & Co to come to the airport to receive me. We held discussions extensively and Adler today has agreed for collaborating with me", Mr. Venkatesan said with pride.

3.9.12

3.9.13 The Group started its exports through deemed exports in 1992, and gradually moved over to direct exports. Venkatesan happened to meet the chief representative of Messrs. Omar Khayyam of Indonesia in one of his regular visits to Madras who agreed to represent Tharman in Indonesia. This became the gateway for direct exports.

3.9.14 Initially the Group agreed for a price of US$ 0.60 per set of clutch disc, while the local market sale price was US $1.00 to 1.50. The negotiations over price put on hold the exports in 1994 for a while. But latter it picked up.

3.9.15 The Group's penetration into export markets did not stop with Indonesia. It went on exploring with Singapore, and Sri Lanka. Seeing the immense potential, the group has inducted into its board, a member of the Engineering Export Promotion Council, Madras Chapter, as a Director and adviser on marketing. (See Exhibit IV regarding to country-wise, year-wise export performance.)

Financial Performance

3.9.16 "How did you manage your finances?" Venkatesan tells me that the bank's insistence on the working capital margins at a time when he was trying to rehabilitate, and when they were busy clearing the past overdoes put him in real difficulty. But, it has also made him go in search of alternatives. One is equity route, the other setting up of a new shop; the third and most important is to reduce the sundry debtors to the barest minimum (See graphs annexed). "As long as you are in the expansion spree and going in search of new markets, you have to be on the run", he said

3.9.17 When asked about as to how you improved the production capacity from a few thousand clutch discs to a million a month now, Venketesan replied: “by value engineering”. When he was manufacturing 3 lakhs numbers, there were 82 employees, and now there are 70 employees, manufacturing 7 lakh discs. The depletion in the strength is not by retrenchment, as he did not replace the labour who left on their own - either by marriage (because 60 percent are female labour) or in search of better opportunities. The average age of the employees is 35 years. There was a process change initiated that led to a reduction of delays and speeding up the operations - six machines which were engaged in grinding operations were disbanded, and that led to stopping the pollution. A hydraulic pressing machine was locally manufactured to introduce change in the disc.

3.9.18 In one of the visits to Italy, he noticed that there was no need for slits in the discs. When the sample was shown to Bajaj, it was convinced and the clutch disc pattern changed. Component cleaning which was done manually earlier employing 12 people is now mechanized, employing only 2 persons.

Cost Reduction

3.9.19 Thirumani of Bonthapalli was getting a few job works done in the neighboring Press Shop of Mr. V.B. Shankar, who is on the Board of

Thirumani. In 1993, the Thirumani Auto Ancillaries Ltd., found it economical to buy a mechanical press through a loan from a private non-banking finance company at 16 percent rate of interest.

Domestic Markets

3.9.20 Thirumani found it very dicey to enter the spares market without a strategic alliance with a company that has a retail network. It adopted a two-pronged strategy in 1996: (I) while entering the market with the brand name, Thirumani, on its own, (ii) a tie up with MICO and SPIC which have a vast retail network throughout the country.

3.9.21 Just when I took up the study, I went to the factory to see the production process and talked to the workers. I noticed that in the factory premises placards all over were hanging on the wall "Our goal is ISO - 9000 - by July 1996", Venketesan said.

3.9.22 There was a consultant talking in vernacular to the groups of workers explaining TQM. The day long coaching in TQM helped the workers participate in quality improvement packages voluntarily. In January 1996, Bajaj wanted the supply of clutch assemblies, apart from clutch discs. The switch over was effected to the satisfaction of the principals.

3.9.23 Mrs. Venkatesan and the Dy. General Managers look after the production and routine. The policy decisions on the recruitment, cost and customer, are looked after by the Managing Director. The MD says that when he was away from the place, the workers did better. He gives gifts to the workers on birth days, wedding anniversaries and social functions. Venkatesan would like to hit the global markets on the one hand and go for diversification, on the other. He is planning to set up a gear manufacturing unit at Sholapur almost mid-way between Hyderabad - Pune, because of the environment for industrial promotion available in Maharashtra (India). The infrastructure like uninterrupted power supply, water, transport are available just for the asking.

3.9.24 **INDEX OF EXHIBITS**

EXHIBIT - I Rest. In Million.

Company's Financials (TAL)

	Company's Financials (TAL)				
Item	**1987**	**1989**	**1991**	**1993**	**1995**
Sales:	0.668	1.279	5.479	21.256	22.845
Net Profit	(-) 0.732	(-) 1.025	(-) .300	0.922	0.335
Sundry Creditors	0.139	0.265	1.114	2.650	6.717
Sundry Debtors	0.363	0.527	1.075	0.639	3.240
Cost of Funds	0.174	0.348	0.433	0.645	1.040
Operating Expenses	0.560	0.604	0.974	1.325	1.441
Current Ratio (CA/CL)	0.293	0.232	0.216	0.163	0.130
Net Block	1.420	1.578	1.237	1.158	1.215
Gross Block	1.896	2.165	2.397	2.475	3.803

Exhibit - II

Rest. In Million.

	Nature of limits enjoyed from the Bank						
Year	**TL**	**CC(HYP)**	**WCTL**	**F1 TL**	**PC**	**Seed Capital**	**SFC**
1985	-	-	-	-	-	-	-
1987	-	0.118 (Bills) 0.354 (Hip)	-	-	-	0.200 (IDBI)	0.200 (Soft Loan) 1.358
1989	-	0.236 (Bills)	-	-	-	0.180 (IDBI)	0.200 (Soft Loan) 1.589
1991	-	1.081	0.840	0.225	-	0.20	.200 (Soft Loan) 2.208
1993	-	1.287	0.364	-	0.159	0.030	1.547
1995	-	1.546	-	-	-	-	0.699
1996	-	1.793	-	-	-	-	0.195

Exhibit - III

Financial Performance

	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
1. Current Ratio	3.30	4.49	2.31	1.66	2.72	2.11	1.64	1.32	1.29
Inventories Rest. Million	0.46	0.608	0.377	0.523	0.919	1.776	3.393	1.359	5.296
Debtors	0.036	0.806	0.527	0.686	1.075	1.160	0.639	1.876	3.240

Rest. Million									
No. of months carrying over as inventories	15	9.5	6	10	4.8	3.7	2.8	3.9	4.8
3. Debt Equity	3.51	5.49	5.73	6.18	6.05	5.49	3.43	2.71	0.98
4. TOL /TNN Ratio (Times)	3.9	4.8	5.8	6.2	6.0	5.2	3.8	2.5	1.5
5. Working Capital as % of sales	85	110	152	1400	25	10	10	10	9.5

Exhibit-IV

Export Performance

Rest. In Million.

Year / Country	**Singapore**		**Indonesia**		**Srilanka**		**Total**	**Average Price**	
	Nos.	**Amt.**	**Nos.**	**Amt.**	**Nos.**	**Amt.**		**Amt.**	**Rest.**
1992	85,800	0.791	40,800	0.312	-	-	1,26,600	1.108	8.71
1993	-	-	1,59,000	1.098	-	-	1,59,000	1.098	6.91
1994	91,500	0.737	93,000	0.462	9,000	0.091	1,93,500	1.290	6.67
1995	1,47,000	1.178	-	-	9,000	0.094	1,56,000	1.271	8.15

4.1 <u>ALL METAL SPRAY INDUSTRIES</u>

4.1.1 Introduction

Mr. Murali, a qualified engineer having served in the industry for more than ten years, started Arc Metal Spray I under self-employment scheme. All Metal Spray Industries (AMSI) was registered as SSI in 1979. AMSI activity was to malaise anti-corrosion coating with oxygen-acetylene flame for LPG cylinders. The financial assistance was obtained from APSFC, Hyderabad. The equipment was erected in the premises of HAL, in 1979, as part of the manufacturing process, and logistically it is not economical to send the equipment out and bring it back. AMSI has been given orders, and materials like gases and zinc, and the orders were executed with help of AMSI's labour.

4.1.2 Technology

In 1978, Hyderabad Allyn Ltd. an invited entrepreneurs for empanelment of ancillary units. AMSI applied for the same, and was interviewed on 20 June 1980. In the interview, AMSI was given a conditional offer for being recognized as ancillary. The stipulated conditions were:

4.1.2.1 Oxy-acetylene flame process must be replaced with electric arc process.

4.1.2.2 The suggested process being a new technology, it must be demonstrated in the premises of HAL.

4.1.2.3 The equipment must be erected in the premises of HAL to carry out the activity considering the logistics constraint.

4.1.3 The name of the manufacturer of the electric arc spraying was suggested by HAL to AMSI. The supplier of the machinery refused to demonstrate at HAL premises but, however, sent a quotation for the same. HAL, in turn, requested Standard Alloy Steel Industries, Indore, for personal discussions. The discussions were held for two days between the M.D. of Standard Alloy Steel Industries, and E.D. and his team of HAL regarding electric arc spray equipment. A letter of intent to get the work done by

AMSI was issued, and the cost was worked assuming the cost of equipment as Rs, 50,000.

4.1.4 AMSI placed an order for the equipment with Standard Alloy Steel Industries, Indore, and the cost of the machinery worked out to Rs.80, 454. Costs, such as transport, insurance, cartage, and erection were incurred, and the total landed cost of the equipment was Rs.1, 00,000. PS Bank, Bakampet, provided the financial assistance, and the order was

placed on 7 January 1981 with Standard Alloy by paying an advance of 30 percent of proforma invoice value. The machine was dispatched on 7 July 1981, and the same was commissioned in HAL premises on 21 July 1981.

4.1.5 The machine was found to be defective on account of throughput, and both AMSI as well as HAL corresponded with the supplier, but in vain. The machine was found to be of no use, and it is lying idle from the beginning. These facts were explained to the bank, and it offered an additional loan of Rs.75,750 on 26 November 1982. An order for new machinery was placed with the Indian Oxygen Ltd., and the Metallizing Equipment Co, Jodhpur. The machinery was received on 10 December 1982 and was commissioned by 15 December 1982 in the HAL premises.

Since 1982 the production performance vis-à-vis the demand by HAL are given in Table

Table-1 Production performance

Year	Turnover (Rest.)	No.of cylinders metalised by AMSI	No. of LPG cylinders produced by HAL
1982-83	4888	5431	388051
1983-84	131358	145953	519000
1984-85	125316	139240	319050
1985-86	84116	125546	334440
1986-87	25792	38497	50,000
1987-88	49800	49167	194300
1988-89	82048	100059	308000
1989-90	90287	106220	231500
1990-91	117571	138319	317300

4.1.6 While considering the new equipment, discussions on cost benefit analysis of adopting such a process was considered. It was estimated that 25 percent savings is possible due to the elimination of gas consumption. The electric arc spray equipment cost was assumed to be Rs.50,000, and arrived at Rs.0.62 per unit. However, the actual cost of acquiring and commissioning the machinery was Rs.1,00,000. AMSI submitted a fresh quotation at Rs.1.30 per unit which was reassessed by HAL and was finalised at Rs.0.90 per unit. AMSI claimed that it should be given a preferential treatment, and as discussed 25 percent savings on account of gas consumption should be paid to it. HAL did not consider the claim as tenable for the following reasons.

1. The change of process was discussed in May' 1980, while the order was released in Jan 1983 and it is quite evident that the new price was considered.

2. Sharing of benefit consequent to a change in process does not arise as it was neither a part of the contract nor the contractor holds any patent for the sale.
3. No claim is tenable towards cos- benefits since the contracts was awarded after due consideration of business principle, and, finally
4. The contractor was helped on several counts by sourcing, developing, and training on the new process by HAL.

4.1.7 Another dispute arise between AMSI and HAL regarding the deductions made by HAL for PF and ESI contributions. AMSI contested that it is not covered under PF Act, and filed a writ petition, in 1991, and on the direction of the court, 90 percent of the PF amounts were settled, and ESI deductions were not paid back.

4.1.8 In December 1991, HAL terminated the contract by giving 15 days' notice. The present financial status of AMSI is summerised as below :

The total outstanding amount is approximately Rs.4.20 lakhs the breakup of which is as follows:

a) APSFC term loan for purchase of oxy-acetelene : Principal : Rs.27,000

flame spray equipment Interest : Rs.60,000

Total : Rs.87,000

b) PSB term loan : Rs.2,61,000

Working capital loan : Rs.72,000

Total : Rs.3,33,000

Finally, AMSI requested BIFR that in the event of HAL being sold, provision may be made for Rs.15,75,235 towards the cost-benefit accruals of the work carried out since 1983-1990.

4.2 SESHASAI PLASTIC INDUSTRIES

4.2.1 Introduction

Seshasai Plastic Industries (SPI) was incorporated in 1981 for the manufacture of plastic components for various applications, such as electrical, electronics and automotive engineering. SPI started production in 1982.

4.2.2 Hyderabad Allwyn Ltd. (HAL) with 90 percent share holding by the Government of A.P. as part of diversification, set up a watch project in collaboration with SIECO, Japan, at Patancheru for the manufacture of wrist-watches, and assemblies. In 1980, HAL set up a plant level committee for the promotion of small-scale industry ancillaries as per the government policy with an assured purchase commitment. HAL invited prospective entrepreneurs from SSI sector to become ancillaries for specified component through an advertisement. SPI was selected and was offered a letter of intent for supply of

1) Plastic Presentation Boxes (PPWB),
2) Stainless Steel Watch Straps (SSWS), and
3) Dial / Movement Holder Rings (DHR/MHR)

4.2.3 Business Development : Having been selected as a supplier for the three components during 1982 by HAL, and a letter of intent to that effect was issued, to SPI, SPI undertook a major expansion of manufacturing facilities involving Rest. 16.50 lakhs during 1984.

APSFC extended term loan assistance after having been convinced that SPI has a captive market for the components. The evidence for the belief was HAL's LOI stating that 50 percent of its requirements of watch boxes and steel straps will be purchased from the SPI. SPI, having commissioned its expanded production facilities, started supplying the materials ordered by HAL since 9 December 1984. The installed capacity of SPI (operating on single shift) is

S.No.	Item Description	Installed capacity per annum
1.	Plastic Presentation Watch Boxes	600,000 units.
2.	Stainless Steel Watch Straps	300,000 units.
3.	Dial Movement Rings	300,000 units.

4.2.5 During the period 1982-1991, SPI supplied 12,14,320 plastic presentation boxes, and 90,000 stainless steel watch straps to HAL.

4.2.6 Dispute :- The main dispute is that SPI claims that it is an ancillary unit of HAL. As an ancillary unit, SPI claims that it is entitled to the treatment applicable to an ancillary unit in accordance with BPE guidelines. It also contends that the guidelines were violated, particularly in the matter of giving ancillary treatment, as a result of which the unit has become sick. SPI filed a writ petition in 1987 which was decided on 19 January 1988. A counter unit appeal was filed by HAL against the single judge's judgment, in which the previous direction was set aside, and in its place a different direction was given which resulted in the constitution of a committee. This was decided on 13 March 1991.

4.2.7 In respect of every ancillary, the requirement of APSFC is that an agreement to that effect should be entered by the ancillary and the mother unit. Although SPI came forward with an agreement, no such agreement was entered into by HAL, but based on the LOI issued by HAL, APSFC advanced the term loans. SPI was given an order for plastic presentation boxes to the extent of 50 percent of HAL's requirements for 1986-87.

4.2.8 So far as the dial holding rings (DHR) and movement holding rings (MHR) are concerned, SPI developed the components indigenously which otherwise would be imported from the collaborator of HAL. SPI was given an advance of Rs.100,000 against a bank guarantee for development of DHR/MHRs. In the first instance, ladies watch DHRs were developed and samples were supplied. The samples passed the incoming quality control tests and were approved and at the same time HAL commended the performance of SPI.

4.2.9 In one of the plant level meetings held on 12.2.1988, where the MD of HAL was present, it was reviewed that SPI is an ancillary for DHR besides PPWBs and SSWSs.

4.2.10 <u>BPE Guidelines for Ancillary units</u>:- AS required by BPE guidelines No.1 HAL has not passed a resolution stating that SPI is an ancillary. The contention was that BPE guidelines were not binding on HAL since it is a corporate body registered under Company's Act and governed by its Board of Directors. Its Board of Directors has not passed a resolution as contemplated by the guideline No.1.

4.2.11 As per the guideline No.6 mother unit is required to setup a plant level committee and it was confirmed that this guideline was violated by HAL. As per the guideline No.8 mother unit is not allowed to set up in-house capacity for the items specified for ancillarisation so that SSI units should not fall into difficulty regrading utilisation of available capacities with them.

4.2.12 HAL imported six injection moulding machines for manufacture of DHR/MHRs. This was pointed out in 1989, in a high level meeting and the secretary directed HAL as below :-

4.2.13 " The six imported injection moulding machines to be allotted to the existing ancillaries either on outright sale bands or on lease bands along with the imported dies, placing additional workload to supplement the incurred losses during the past three years".

4.2.14 In response to the recommendation as above, HAL stated that the imported injection moulding machines are highly sophisticated atherefo the items produced by them are high-technology items like DHR/DMRs. Small scale units do not have the required expertise to handle such sophisticated machinery as well as technology.

4.2.15 As per guideline No.14, an agreement has to be extended between the mother unit and the ancillary unit in order to establish a legal relationship. No such agreement has been entered into by SPI and HAL.

4.2.16 Guideline No.14 also stipulates a guarantee of atleast 50% off-take of the annual production of the ancillary unit to be given by the mother unit for a reasonable period to cover the development phase and more, as mutually agreed upon. The guideline applies for purchase contracts made by mother unit with the ancillary unit.

4.2.17 Keeping in view of the above, HAL issued a letter of intent in July 1981 for the supply of assorted PPWBs upto a capacity of 100,000 per annum. A similar letter of intent was issued in March 1983 was issued for supply of SSWs upto a capacity of 100,000 per annum. The statement showing HAL's purchases of PPWBs and SSWs from different vendors during the period 1983-1991 are given Table-1 and Table-2 respectively.

Table-1 Purchases made by HAL for PPWBs from 1983-1991.

S.No.	**Name of the vendor**	**Purchases by HAL**
1.	Seshasai Plastic Industries	12,14,320
2.	Shakti Plastic Industries	8,08,000
3.	Gold plastic Industries	50,000
4.	Diamond Plastic Industries	10,45,000
5.	Nagarjuna Plastics	4,80,000
6.	Sri Kakatiya Industries	1,70,000
7.	Swamy plastics(P) Ltd.	2,70,000
8.	Outside the State	11,60,000
9.	purchases made in 1991	7,77,000

59,66,320

Table-2 Purchase made by HAL for SSWs from 1983-91

S.No.	Name of the Vendor	Purchases by HAL
1.	Seshasai Plastics	90,000
2.	Hyderabad Straps	4,19,000
3.	Noble Metal Finishers	2,36,000
4.	Indl. Metal Finishers	3,41,000
5.	Amareshwari	8,02,000
6.	Maharashtra Agencies	48,000
7.	Sandeep Corporation	9,25,000
8.	Uog & Co.	1,61,000
9.	Ciemen India	1,21,000
10.	Desai Trading Corporation	2,71,000
11.	Swiss Trading Corporation	15,000
12.	Kiran Enterprises	30,000
13.	Sound International	1,82,000
14.	STELCO	3,60,000
15.	Time Design	3,31,000
16.	Purchases made in 1991	6,88,000
	Total	**50,20,000**

4.2.19 Pricing of supplies:- Three items were supplied by SPI to HAL at various periods. Therefore, it is convenient to deal with the three items separately.

4.2.19.1 Plastic Presentation Watch Box:-

SPI supplied PPWB at Rs.2.00 and Rest. 2.10 each unit during the year 1985-86. In the minutes of the meeting held on 9-7-1986 the following points were recorded.

I) HAL requested SPI to supply 3,00,000 PPWBs @Rs.2.00 each. SPI felt that Rest. 2.00 each box is not competititve and Rs.2.35 each could be reasonable. After negotiations, it was mutually agreed to fix the price at Rs.2.10 each unit with no change in the other terms and conditions.

ii) SPI, however, requested for consideration of more reasonable price in the future.

Subsequently, a meeting was held with the director of Industries to resolve the dispute on price account. It was observed as follows:

4.2.19.2 " Regarding the PPWB, it is observed by the members of HAL that orders were placed at Rs.2.65 per piece in July 1985. By March 1986, the prices were reduced to Rs.2.00 per piece. In view of the fact that there is no reduction in prices of raw materials, the committee felt that fair price should be aimed at as per the guidelines given by Bureau of Industrial Costs. The arguments of HAL that the competitive tender bids were lower and cannot be accepted.

In case of ancillary agreement, tenders should not be called. The Director, Industries desired that HAL should work out the cost of PPWBs keeping in view the inputs that go into the production and allow a reasonable profit margin of 15 to 20 percent. SPI agreed for the price of Rs.2.10 each unit under duress. HAL agreed to submit the cost calculations which would be verified by SISI and Commissionorate of Industries. Pending finalisation of costing, the orders that are already on hand with SPI will be executed @ Rs.2.10 each unit. The differential amount will be paid with effect from 1-9-86 after the committee approves the same."

4.2.19.3 SISI observed in July 1987 as follows:

"It may be seen from the report that SPI was encouraged by HAL for manufacturing of PPWBs, SSWs and DHR/MHRs as an ancillary unit. The grievance advanced by SPI was that HAL has not been placing sufficient orders and also was not paying remunerative rates for the items supplied. An effort was made by the Team to arrive at the cost of PPWs taking into consideration the costs on present raw materials, packing materials, screen printing dies and other consumables @ Rs.3.43 each unit as against which SPI was offered only Rs.2.10 each unit. The cost offered by HAL is less than the actual raw material cost and the off-take is not sufficient to cover overheads………….. It is, therefore, required to accept the recommendations of the team…………. thus helping the small scale ancillary unit to overcome the problem and threat of closure of due to un-economical working."

4.2.19.4 But, HAL in their letter to Commissioner of Industries on 20.10.1987 requested for setting of another joint inspection team including a representative from HAL. This request was, however, turned down by the Government of India on the ground that the matter was subjudice.

4.2.19.5 Stainless Steel Watch Strap:- There is no specific agreement on price with regard to watch straps. No costing appears to have been done for this item. However, the company has supplied only 9,130 units for which SPI is claiming the difference of Rs.1.50 per unit. Joint inspection team report dealt with this issue in detail and recommended a rate of Rs.11.00 each strap.

4.2.19.6 Dial /Movement Holding Rings: This is an import substitution item. BPE guidelines 14(iii) are applicable to such item. BPE guidelines 14(iii) reads as follows:

1. Usually prices should be fixed mutually by the parties with in the ceiling of the landed cost provided such prices would cover the cost of production and would allow a reasonable rate of return (from 15% to 20% on capital employed)
2. If the prices with in the ceiling of the landed cost would not cover the total cost of production and /or allow a reasonable rate of return referred to(a) above, it may be necessary to give a price preference upto 15%

over the landed cost for a period of three years during which time the price preference would be generally tapered down in stages as the production picked up.

4.2.20 SPI supplied against three orders at rates of Rs.1.25, Rs.1.48 and Rs.1.48 each respectively. In all three orders, the reference to quotation by SPI was not quoted. SPI accepted the orders subject to price fixation as per BPE guidelines 14(iii).

4.2.21 HAL in their letter of 25-11-1991 resisted the price preference of landed cost + 15% for the following reasons:

1. There is no ancillary agreement nor letter of intent nor any such other purchase commitments from HAL to SPI for DHRs or MHRs.
2. Prices were fixed based on the quotations from SPI and negotiations there on.
3. HAL placed orders on SPI for DHRs @ Rs.1.25 each while a competitive bidder precision moulding quoted Rs.0.95 each.
4. An advance of Rs.1,00,000 was paid to SPI against a bank guarantee and on acceptance of purchase order dated 30.09.1986.
5. SPI requested for a price increase to Rs.1.50 each and the order was placed @ Rs.1.48 each after negotiations.

4.2.22 HAL however, could not produce the documentary evidence that SPI formally accepted the purchase order. Precision Moulds never delivered a single piece of DHRs or MHRs. Further HAL confirmed no other indigenous source affected the supplies of DHR/MHRs so far. The joint committee constituted to decide the price gave the following recommendations.

4.2.23 " As per the BPE guidelines, a small scale unit who developed an import substitute item, as an ancillary, is eligible for price preference upto 15% over the landed cost towards development changes for a period of 3 years. ……….. The team therefore, recommends that SPI may be given 15% over the landed cost of imported dial/movement holding rings for first three years."

4.2.24 HAL argued that customs duty should not be considered for price equation. FOB price should be taken for comparison. They confirmed Rs.1.25 each FOB in the year 1986. But in the year 1989, it went upto Rs.2.89 each FOB. The escalation is mainly on account of exchange rate fluctuation. Further, SPI was still in the early stages of development and rejections were to the tune of 90%. SPI did not yet arrange tooling and the entire order remained to be executed.

4.2.25 Supplies : Following tables provide the data regarding the periods and the quotations supplied.

Plastic Presentation Watch Boxes

Year	Quantity supplied Nos.	Price paid Rest. per unit	Value Rest.
1986	1,02,000	2.00	2,04,000
1986	3,10,000	2.10	6,51,000

Stainless Steel Watch Straps

Year	Quantity supplied Nos.	Price paid Rest. per unit	Value Rest.
1986-87	7,850	9.50	74,575
1986-87	1,280	9.50	11,560

Dial Holding Rings

Year	Quantity supplied Nos.	Price paid Rest. per unit	Value Rest.
1989-90	4,00,000	1.25	5,00,000
1990-91	6,85,000	1.48	1013800

4.2.26 This is a case where the Mother unit could not go beyond a point in supporting its ancillary, particularly when the farmer's competitiveness was getting eroded. The SPI's ancillary status would also appear to have built complacence in the unit instead of making efforts to be competitive.

4.2.27 The proprietor moved into selling education from watch spares, abandoning the unit, but not forsaking any claims.

S.No.	Item Description	Installed capacity per annum
1.	Plastic Presentation Watch Boxes	600,000 units.
2.	Stainless Steel Watch Straps	300,000 units.
3.	Dial Movement Rings	300,000 units.

4.3 AUTO ENGINEERS LTD.

4.3.1 Auto Engineers Ltd. started operations as a supplier of automotive components to AP Scooters Ltd. Since AP Scoters became sick so did Auto Engineers become sick along with scores of other small industry dependent on AP Scooters. As a result, they took recourse to service activity, AUTO ENGINEERS applied their general purpose machinery and their engineering skills to seek markets from outside.

4.3.2 Credit Limits : AUTO ENGINEERS became sick due to AP Scooters as they did not lift the stocks after its closure. The machinery was valued at less than Rs.4,00,000 and the book liability and interest upto 1995 mounted to RS.8 lakhs. Thus the securities cover in the form of fragile assets is less than half. Inspite of the set back, AUTO ENGINEERS has been operating the unit and paid up Rs.2,27,000 towards reducing liability since 1989. Auto Engineers' balance sheet as on 31.3.1994 shows negative net worth mainly because of carried forward losses. The turnover booked for 1994 was Rest. 9.81lakhs and they hope to raise it to 20 laks. by 1996. The major portion (70%) of the turnover constitutes job order receipts indicated in cash generation. In the light of the above background several rounds of negotiations took place between the unit and the banker. The chronological order of the events are described as under:

4.3.3 On 15 April, 1995, a meeting was held between AUTO ENGINEERS's Directors and The AGM of Nakhra Bank where in the party offered to settle the loan under one time settlement scheme. The party pleaded the bank to change a simple rate of interest on the outstandings when worked out to be Rs.4.31lakhs.

On 2nd April 1995 bank replied requesting the unit to improve upon their offer.

4.3.4 On 2nd May 1995 AUTO ENGINEERS again reiterated that they could not persuade their financial partners to provide more than Rs.4lakhs and hence requested for a speedy disposal of the case.

4.3.5 Since no reply was received till 7th May 1995, AUTO ENGINEERS again wrote to the banker reminding that the financial partners may withdraw their support and the chances of survival may reduce due to the delay by the Bankers.

4.3.6 On 20th July 1995 the bankers visited AUTO ENGINEERS and found that the financial partner withdrew due to inordinate delays by the banker's decision. However, they requested AUTO ENGINEERS to submit revival plans.

4.3.7 **Revival Plans**

On 24th July 1995, AUTO ENGINEERS worked out two alternative proposals for reviving the ailing unit which are as follows:

4.3.8 Proposal 1 : Bank to fund the total liability of Rs.3.33lakhs as on 31-3-1989 with 13.5%, simple rate of interest till 30-6-1995 as a working capital term loan which will be repaid over a period of 4 years in monthly instalments of not less than Rs.20,000/-. AUTO ENGINEERS agreed to pay lump sum amount of Rs.1lakh within one and half months from the date of conveying the decision and to pay Rs.20,000/- per month from the next month onwards. The working capital will carry an interest of 13.5 percent per annum.

4.3.9 In addition to the above working capital term loan ,the Bank has to consider fresh working capital of Rs.1.50lakhs for bills and OCC to execute orders on hand to the tune of Rs,14lakhs, which are repetitive in nature. Against the above limits, AUTO ENGINEERS offered second charge of land and building of their sister concern M/s AROGEN INDIA who are clients of SBI holding first change. At present the account with SBI is irregular and hence abd change cannot be created. Arogen India is hopeful of clearing the overdue liability with the SBI within the next 4 months after which the 2nd change could be created. The fresh working capital sought could be released only after the creation of second charge over the asset of M/s Arogen India, a sister concern of AUTO ENGINEERS. The assets over which 2nd change will be created is worth over Rs..25lakhs..

4.3.10 Proposal 2 : AUTO ENGINEERS requested Nakhra Bank to take over the liability of around Rs.7lakhs existing with SBI of their sister concern M/s Arogen India so that Nakhra Bank gets the 1st change over the fixed assets which are worth over Rs.25lakhs. The existing liability of Rs.7lakhs with SBI will be compromised at Rs.5.50lakhs as a one time settlement. The loan, if taken over, will be repaid out of surplus generated by executing a pending order worth Rs.8.50lakhs of M/s Bharat Dynamics Ltd.

4.3.11 **Present Position of Accounts in the Books of Banks**

4.3.11.1 The total liability under ML, OCC and KCC account along with the interest upto 31-3-1995 was Rs.8.28lakhs which was proposed to be repaid with one time payment of Rs.5lakhs. The present proposal is to fund the following liability under the three accounts as on 31-3-1989.

OCC	Rest. 1.46lakhs
KCC	Rest. 0.64lakhs
ML	Rest. 1.21lakhs

Total	Rest. 3.31lakhs

4.3.12 The simple interest @ 13.5 percent per annum on the above total liability works out to about Rs.2.78lakhs. Hence, the total amount to be funded will be Rs.6.11lakhs. Out of this AUTO ENGINEERS agreed to pay Rs.1lakh within one and half months of the bank agreeing to consider one of the proposals. The balance will be repaid in monthly instalments of Rs.20,000/-.

Till date i.e. during the survey period March, April 1997 no decision has come from the Bank.

4.3.13 Tempted by indigenous technology and vast market, a proprietary unit was set up to manufacture cement pipes and joints in the year 1984 with an investment of around Rs.7 lakhs. Today the building is worth Rs.1.94lakhs and the machinery at Rs.1.4lakhs. The stock of finished goods is around Rs.3 lakhs. The unit had its hay days during its first six years. Since 1990, the market for PVC pipes and high density poly proplyn pipes has expanded vastly, eroding the market for cement pipes substantially. While the unit is trying to market in the interior rural areas the transportation loss, breakages and the interest costs into the accumulated stocks have acted as hindrance to realise them through the market driven prices . The bankers were left with very little option and have classified the account as a bad asset. The rehabilitation project is extemely remote as the existing machinery is unsuitable for shifting to manufacture of HDP pipes.

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5.1 FENCE EATING THE CROP

THE CASE OF PRAGATI CHEMICAL

5.1.1 Pragati chemicals Private Ltd. was set up in the Nacharam Industrial Area of Hyderabad to manufacture laboratory and fine chemicals in the year 1977. The company registered itself with the A.P. Small Scale Industries Development Corporation APSSIDC for marketing its products under their Marketing Assistance scheme. According to the scheme the APSSIDC agreed to act as the Agent of the company to market its products to Government Departments and Public Sector Undertakings on commission of 5% of the order or at such rates as are mutually agreed from time to time. The agreement prohibits the company from dealing directly with Central/State Government departments/undertakings and any such order has to be received through the APSSIDC only.

5.1.2 As per the scheme, the APSSIDC was to release 90% of value of the order as payment, on satisfactory delivery of the order evidenced through a letter/acknowledgment of acceptance of goods in good condition. The APSSIDC also collects 90% of invoice value of goods from the buyer along with their firm purchase order and releases the amount after deducting service charges on satisfactory delivery.

5.1.3 In accordance with such arrangements, the unit order from the A.P. Social Welfare Residential Educational Institutions Society, Telugu Samkshema Bhavan, Hyderabad, through APSSIDC. The order dated 05-07-1996 valued at Rs.10.20 lacs and the latter received Rs.9.18 lacs representing 90% of the order from the former in June 1996 itself. Despite the APSSIDC not conceding to the request for release of an advance of Rs.3.50 lacs. in July'96, the unit executed the order in August'96 and completed the supplies on 8th August'96. The unit requested for release of entire payment of the supplied order. The APSSIDC replied to the request on 06.09.1996 assuring payment. The unit requested the corporation to effect payment into their account with the Indian Bank form whom they borrowed money for executing the order in the absence of advan

5.1.4 ce payment from the corporation.

5.1.5 So far (even by the date of study) the unit has not received payment of the supplies and all the supplies are evidenced by 57 delivery challans by the recipients of the goods. The unit's appeals to the good sense of APSSIDC fell in deaf ears. With no option left, the unit approached High Court. In the meantime, the liquidity crunch, interest accumulations in the borrowed account, is making the unit and the enterprise sick.

5.1.6 A corporation of the government established for assisting the SSI ha made the SSI units in its captive portfolio, sick. This is nothing but fence eating the crop. This is a fit case for the government to act quickly; release the entire bill amount along with interest at the lending rate by the Bank; and also punish the executives responsible for this raw deal meted out to the SSI units.

6. JAYA ELECTRICAL - DAZED IN SHOCK

M/s Jaya Electricals Private Limited, banking with State Bank of India, Industrial Estate branch, Visakhapatnam, is engaged in the manufacturing of Miniature Close Circuit Brakers (MCCB) since 1988. It s Managing Director, Mr P Ganga Rao is engineering graduate in technology and he is exposed to higher level technology in the manufacturing of MCCB.

The unit has technology incentive where moulds and dies alone cost Rs.50 lakhs, which will depreciate faster depending on their usage. The Unit entered into a collaboration arrangement with South Korean firm Gold Star Instrument and Electric company Ltd initially. The APIDC and APSFC sanctioned Rs.54 .8 lakhs and Rs.61 lakhs respectively. The Unit went into trial production in 1991 when the import policies underwent change, the Unit had to look for indiginisation of the project which was funded by the APSFC in June 1994. The units equity contribution was of the order of Rs.49.95 lakhs.

It is interesting to note that its application for term loan made in 1987 was sanctioned in November 1989 and further …………… formalities had started using the limits in 1990 from the APIDC. The unit was granted working capital limit by SBI to the extent of Rs.18 lakhs against the actual requirement of Rs.48 lakhs. The units first lot was marketed on trial basis through Batliboi & Co. For the second lot of imported raw material the Bank insisted on 200% margin for issuing a letter of credit in 1991 and did not also grant the additional working capital limit of Rs.30 lakhs in the name of credit squeeze. In order to open a loan credit worth Rs.8 lakhs the unit had to deposit Rs.16 lakhs instead the just Rs.80,000/-.

Their decision to indiginise the technology and take up research and development activity yielded the desired result when their test products confirmed to ISI standard. The MD won the national award from President of India in the year 1993 for the indiginisation effort. During this period of indiginisation and its diversion of atttention to domestic collaborators, the unit had lost heavily. The total cash loss during the past three years were of the order of Rs.150 lakhs, despite the potential for exports to Gulf and African countries. The unit which was set up on account of high technical know-how and assured marketing suffered heavily on account of inadequate working capital and insistence by the Bank for additional colateral securities.

The multinational Company M/s GES Alsthom India Limited, Bangalore gave undertaking to lift the entire production under its brand name after satisfying itself with the standard of production in the unit. Although the Bank asked for a meeting with the said multinational, which was arranged on a pre-appointed date but higher level functionaries who were to hold the discussions did not choose to attend the meeting for reasons best known to them. The Small Industries Service Institute, Hyderabad went into the whole issue as a member of State Level Inter Institutional Committee to tackle sickness in small industries and recommend the request of the Company on the basis of independent consultancy study done by Andhra Pradesh Industrial Technology Consultancy Company (APITCO). During the past one and half to two years, the unit has been untiringly going round the Banks, Zonal office, Head office, SISI, Government and other agencies like sinking man trying to hold on to a small straw for reaching the shore.

This is fit case for rehabilitation by the bank offering **<u>all</u>** the facilitations provided by the RBI in their rehabilitation package as the unit **<u>does not suffer</u>** either from production capabilities or from market.

M/s Ashok Rubber Industries is a partnership concern started in the year 1974 with an intention to manuf Bunwer and M.C. sheets . The units's problems started with the change in the Government policy relating to purchase tax in 1988 by Kerala Government, for all the units which purchased natural rubber from outside the State. This made its products costlier by 21% loosing out in the market. As a consequence the unit shifted to manufacture of PVC and PU soles. While all chapal making industries in small scale sector shifted to states where there is not tax this unit remained in its original position. It is engaing 35 workers in the production.

The State Bank which sanctioned originally Rs.6 lakhs in 1988 as working capital could not reconcile to a unit becoming irrregular since 1990 and therefore choose to recourse to the debt recovery tribunal in June 1996. The principle plus interest accumulation of Rs.14.27 lakhs took the outstanding to Rs.20.27 lakhs. The unit had repaid all the term loanssanctioned to it in full. The The present securities that are held with the Bank are valued at around Rs.7.26 lakhs. The efforts of the unit to sell fixed assets in particular land and buildings did not fortify and unit's comprimise offer to the Bank of Rs.8 lakhs was rejected by the Bank. The units capability to continue manufacturing at economical viable level does not appear t to exist and therefore the Bank was left with no other recourse. It is, however, doubtful whether the Bank would be able to release even 1/3 of its dues inspite of debit recovery tribunal awarding the suit in its favour. This a clear case of misjudgement of the capabilities of the unit and incapacity of the unit to adjust to the changing environment.

RISK AVERSION

7.STANDS IN BALANCE

Mr P K Ittop. B.E. started as technocrat a small industry in the year 1971 in the Technocrat Industrial Estate of Balanagar. He was manufacturing electromagnetic clutches (1971-76), electrical control panels (76-86) and now Arm Knuckle (L.S &R.S) and Knuckle spindles for Mahindra and Mahindra. During the period 1986-89, the unit's proprietor fell ill and therefore, the unit ceased to function during that period. During this three year period, there were interest accumulations in the blocked accounts.

During the period 1991-93, M/s Mahindra and Mahindra which has specifically ordered for components manufacture did not lift the material due to recession in the automobile industry. Finished goods specific to that industry of acceptability piled up and there were no cash flows. Both the financing Bank and the vendors acknowledge the quality standards of the products of M/S.Ittoop. When he surpassed the problem of stock piling, the interest accumulations in the accounts (of both term loan and working capital) did not stop. Therefore, the unit had approached the bank for rehabilitation package which was acceeded under pressure from authorities. The package was, however, conditioned by the unit providing additional collateral security and converting the proprietory concern into partnership concern. The second condition was necessitated by the previous experience of the bank with the unit; the unit was closed when the proprietor became ill. The bank naturally felt that there must be somebody to run the unit, which was the first condition to cover the additional financial package to be permitted under rehabilitation.

The unit's proprietor has a different tale to tell, duly supported by the documents. Mrs Ittoop as guarantor to the existing and fresh limits under rehabilitation package had an overdue account with the Bank of India. On a letter from Bank of India, the State Bank of India, as unit's Banker wanted M/S Ittoop to close the account before releasing the rehabilitation package. Mrs. Ittoop would appear to have mentioned that it was an independent account dealt with by Bank of India shabbily and therefore, was in the process of negotiation. That account with outstanding of just Rs. 70,000 need not govern the release of rehabilitation package to Mr.Ittoop's unit.

Further, the SBI on the promise of release of rehabilitation package in 1995 (the actual sanction was in 1993) asked for collateral security. When the title deeds were presented encumbrance certificate was not asked. One month after presenting the title deeds they asked for the E.C by which time the sub-registrar's office got shifted. They took two weeks to issue the E.C for ten years. Thereafter, the documents were sent for legal verification. The Bank's advocate went on a three week holiday. After the legal opinion was received on his return, the bank created equitable mortgage by filing the signed blank documents given for rehabilitation package and inflating the interest figures to arrive at the total debt accumulation beyond Rs.10 lakhs. Thereafter, within a week's time, they proceeded against the unit in Debt Recovery Tribunal before whom the case is presently resting.

The unit avers that the Bank committed a fraud on him in not releasing the Rehabilitation package after his fulfilling all the required formalities. The unit is functioning with outside borrowings and creditor stocks.

Bank's manipulations in interest applications, not releasing the sanctioned rehabilitation package for two years on flimsy grounds and choosing to proceed in court for recovery of outstandings from a unit whose viability is not in doubt or who has not refused his obligation speak volumes o f the adverse shift in Bank's attitude towards small industry.

8. UNIQUE HEALTH PRODUCTS UNHEALTHY

M/s UNIQUE HEALTH PRODUCTS (p) LTD., a unit was started by two Chartered Accountants in the closest proximity of raw material, viz., Amalapuram of East Godavari District, in the year 1994. It turned sick by the end of second year itself on account of the inadequate working capital . Copra and coconut shell powder, the main products command a wide and stable, market. The unit had an equity of Rs. 9.20 lakhs and debt of Rs. 22.7 lakhs (Rs. 14 lakhs as term loan out of the sanctioned limit of Rs.17.43 lakhs and Rs. 8.70 lakhs as working capital). The unit justified the initial grant of working capital by attaining a turnover of Rs.4 lakhs by working on a single shift. But it's project overrun and time overrun did not enable it to remit the first instalment on term loan as per schedule.

It's application dated 3rd February, 95 for enhancement in working capital limits and for elongating the gestation period did not get any response. The unit was in arrerars of only one instalment and interest for two quarters. The unit was incurring cash losses right from the first year; 1 st year Rs.8 lakhs, 2nd year Rs. 6.50 lakhs and 3rd year Rs.12 lakhs. Even after a lapse of 18 months, the application for enhancement was neither approved nor rejected.

The unit represented to the team that the problems started with the concerned Assistant General Manager's visit to the unit when he expected the Managing Director of the unit to stand in waiting for him. Since the Managing Director was not informed of the visit he had left to Hyderabad for getting his accounts audited. Non availability of books of accounts added to the anger of the Assistant General Manager. On return from Hyderabad, the Managing Director took the books of accounts to the Zonal office of the Bank. But the concerned Assistant General Manager would appear to have poured out only his anger for the absence of the Managing Director during his visit. He would also appear to have taken vow that as long as he was in the bank the unit's requirements would not be met. Later the unit's M.D visited Zonal office 10 times with his request. But, no letter rejecting the application, whatever grounds be, was also received by the unit. The

Managing Director 's appeals to higher authorities evoked only unhelpful response. Having seen the attitude of the higher authorities, even the branch which was otherwise helpful started giving problems.

During the entire period, there was not a single observation by the bank regarding irregularities in the management of existing working capital limit. There were no shortages of stocks; no diversions.

The unit received the worst shock, atop all, with the cyclone that lashed the place on November 6,1996, which turned the sheds into a rubble compelling closure of the unit for five months, thereafter. The financing Bank, which was misusing shed and stocks as aprtr of its responsibility since 1994 failed to renew the insurance policy covering sheds and machinery. The stocks, for which insurance was available, could be rebuilt with the Insurance Company entertaining the claim. But the loss for sheds and machinery valued at around Rs.6 lacs seemed to have compounded the difficulties. As the unit close to make the Bank accountable

for the lapse of insurance of fixed assets, the Bank which did not reply to any of its earlier letters seeking enhancements in working capital chose to call up the advances. The unit is pushed into the court from the manufacturing place. Even in the year 1996-97 during the first seven months it had a turnover of Rs.40 lacs. It has used the capital subsidy of Rs.2.87 lacs released on 19.12.95 for working capital purposes within knowledge of the operating branch but the bank took exception that it should have credited into the term loan irregularity.

The documentary evidence with the unit amply justified the situation described above. Still, if the bank could review the situation and provide compensation for its own lapses, can grant a rehabilitation package within existing framework of RBI as the viability of the unit is not in doubt.

10. LEADER RUBBER INDUSTRIES LTD.

Background

Mr. Vazeer belong to a family which owns fleet of trucks and they have been in the business of goods haulage for a few decades. Due to the knowledge of business of truck maintenance, and tyres being vital components for trucks they struck upon the idea of regenerating the used tyres through valcunising rubber to provide release of life of tyres. They started the unit in SSI sector under the name Leader Rubber Industries Ltd. in Auto nagar, Vijayawada in the year 1990. The primary purpose is to produce tread rubber and allied materials used for tyre retreading. The motivation for starting the unit in Vijayawada is due to locational advantage in processing the raw materials, availability of electric power, water, transportation, infrastructure, trained labour force, large number of retreading facilities etc. But the most important factor is the marketing expertise obtained from being in the fleet operations. The unit since inception faced several problems which are beyond the control of the management and also it had enjoyed intermittently good times too. Some of the events are described below which led to the unit's sickness.

Starting Operations : The unit started its commercial production on 4th May, 1990. Immediately after that the A.P. State Government came out with a new industrial policy by providing various incentives to units set up in areas other than Vijayawada municipal zonal limits. The major incentives among them is the sales tax exemption or deferment to the tune of 13.5% of the total fixed capital investment for a period of 7 years or the same limit deferred for payment for 14 years. Since the unit was set up in Autonagar industrial area, it could not avail the facility. Therefore at the startup of the production itself, the unit lost competitiveness in price due to high incidence of sales tax on its produce.

Added to this within a week of starting of production, the unit suffered damages to the fixed assets like asbestos roof of the shed due to the cyclone that hit the area on 9th May 1990. Due to heavy downpour and the roofing having been damaged, the chemicals and rubber in the storage were damaged completely beyond salvage. Although, the materials were insured against natural calamities, the claims processing took a long time for settlement.

The unit is connected with HT power line. For the same reason as explained above, the power rebate available for units outside VMC zonal limits was not available to Leader Rubber. In the same year in the month of September, one of the critical machinery, mill roller broke down due to manufacturing defect. Leader Rubber approached the machinery supplier for rectification under warranty but the machinery supplier's plant was under lockout at the same time. Since the supplier did not permit repairs by any other party LRPL had to wait for 3 months to get the machinery repaired by the original equipment supplier. During this period, the unit suffered heavy damages on account of fixed expenses, major chunk of which is the HT connection charges which amount to the tune of Rs.12,000 per month.

Strategies : Having suffered the set backs in the first year of operations the management worked out several alternatives and arrived at the inevitable alternative of increasing the turnover to cover up losses. A strong drive for marketing was done and they realised that they are not competitive in the domestic market due to high differential in sales tax components in comparison with their competitors and also the grey market was thriving due to large difference in the tax components between Kerala and Andhra Pradesh States. Therefore, they concentrated on sales outside the State to avail CST benefit. They struck success with M/s. Haryana Roadways Corporation(HRC). To make supplies to the HRC they were required to furnish a bank guarantee for Rs. 10.00 lacs. and start supplies. The turnover increased and the year 1994-95 saw the turnaround and they booked a profit of 7.74 lacs.

However, the success story is short lived. The next year, 1996, they achieved a similar turnover but booked losses of Rs.19.27 lacs. The major reason for such a large amount of loss inspite of the turnover being the same was due to increase in variable expenses, specifically in materials cost. The cost of natural rubber increased from Rs.28 per Kg. to Rs.76 per Kg. in the year 1996. Since the contract with HRC was on firm price without price escalation clauses, LRPL had no choice but to supply and make losses. In the following year, LRPL could not get orders from HRC due to Haryana State Government's changed policy to encourage local SSI in preference to units from outside the State.

Present Status : LRPL approached the APSFC to settle the account under one time settlement scheme. APSFC made a claim of Rs.4.00 lacs. LRPL paid up Rs.4.00 lacs but subsequently APSFC rejected the OTS request due to policy decision at the board level for not entertaining such requests.

11. **Seshasai Plastic Industries**

Introduction

M/s. Seshasai Plastic Industries (SPI) was incorporated in the year 1981 for manufacture of plastic components for various applications viz., Electrical, Electronics and Automotive engineering. SPI started production in year 1982.

Hyderabad Allwyn Limited (HAL) with 90% share holding by Government of A.P. as part of diversification, set up watch project in collaboration with SIECO, Japan at Patancheru for manufacture of Wrist Watches and assemblies. In the year 1980, HAL set up plant level committee for promotion of small scale industry ancillaries as per Government Policy with an assured purchase commitment. HAL invited prospective entrepreneurs from SSI section to become ancillaries for specified component through an advertisement. SPI was selected and was offered latter of intent for supply of

a) plastic presentation boxes.
b) Stainless Steel watch straps and

c) Dial / Movement Holder Rings.

Business Development : Having been selected as supplier for the three components during 1982 by HAL and a letter of intent to that effect was issued to SPI. SPI undertook a major expansion of manufacturing facilities involving Rs. 16.50 lacs. during 1984.

APSFC extended term loan assistance after having been convinced that SPI has a capital market for the components. The evidence for the belief was HALs LOI stating that 50% of its requirements of watch boxes and steel straps. SPI having commissioned its expanded production facilities started supplying the materials ordered by HAL since 9.12.1984. The installed capacity of SPI (operating on single shift).

S.No.	Item Description	Installed capacity per annum
1.	Plastic Presentation Watch Boxes	600,000 units.
2.	Stainless Steel Watch Straps	300,000 units.
3.	Dial Movement Rings	300,000 units.

During the period 1982-1991 SPI supplied 1214,320 plastic presentation boxes and 90,000 stainless steel watch straps to HAL.

Dispute :- The main dispute is that SPI claims that it is an ancillary unit of HAL. AS an ancillary unit SPI claims that it is entitled to the treatment applicable to an ancillary unit in accordance with BPE guidelines. SPI contends that the guidelines were violated particularly in the matter of giving ancillary treatment as a result of which the unit has become sick. SPI filed a unit petition in 1987 which was decided on 19.1.1988. A counter unit appeal was filed by HAL against the single judge's judgment in which the previous direction was set aside and in its place a different direction was given which resulted in constitution of a committee. This was decided on 13.3.91.

In respect of every ancillary the requirement of APSFC is that an agreement to that effect should be entered by the ancillary and the mother unit. Although SPI came forward with an agreement, so such agreement was entered into by HAL but based on the LOI issued by HAL, APSFC advanced the term loans. SPI was given order for plastic presentation boxes to the intent of 50% of HAL's requirements for the year 86-87.

So far as the dial holding rings and movement holding rings are concerned, SPI developed the components indigenously which otherwise would be imported from the collaborator of HAL. SPI was given an advance of Rs.100,000 against a bank guarantee for development of the DHR/MHR's. In the first instance, ladies watch DHR's were developed and samples were supplied. The samples passed the incoming quality control tests and were approved and at the same time HAL commended the performance of SPI.

In one of the plant level meetings, held on 12.2.1988, where the MD of HAL was present, it was reviewed that SPI is an ancillary for DHR besides PPWBs and SSWSs.

BPE Guidelines for Ancillary units:- AS required by BPE guidelines No.1 HAL has not passed a resolution stating that SPI is an ancillary. The contention was that BPE guidelines were not binding on HAL since it is a corporate body registered under Company's Act and governed by its Board of Directors. Its Board of Directors has not passed a resolution as contemplated by the guideline No.1.

As per the guideline No.6 mother unit is required to setup a plant level committee and it was confirmed that this guideline was violated by HAL. As per the guideline No.8 mother unit is not allowed to set up in-house capacity for the items specified for ancillarisation so that SSI units should not fall into difficulty regrading utilisation of available capacities with them.

HAL imported six injection moulding machines for manufacture of DHR/MHRs. This was pointed out in 1989, in a high level meeting and the secretary directed HAL as below :-

" The six imported injection moulding machines to be allotted to the existing ancillaries either on outright sale bans or on lease bans along with the imported dies, placing additional worload to supplement the incurred losses during the past three years".

In response to the recommendation as above, HAL stated that the imported injection moulding machines are highly sophisticated and therefore the items produced by them are high-technology items like DHR/DMRs. Small scale units do not have the required expertise to handle such sophisticated machinery as well as technology.

As per guideline No.14, an agreement has to be extended between the mother unit and the ancillary unit in order to establish a legal relationship. No such agreement has been entered into by SPI and HAL.

Guideline No.14 also stipulates a guarantee of atleast 50% off-take of the annual production of the ancillary unit to be given by the mother unit for a reasonable period to cover the development phase and more as mutually agreed upon. The guideline applies for purchase contracts made by mother unit with the ancillary unit.

Keeping in view of the above HAL issued a letter of intent in July, 1981 for the supply of assorted PPWBs upto a capacity of 100,000 per annum. A similar letter of intent was issued in March 1983 was issued for supply of SSWs upto a capacity of 100,000 per annum. The statement showing HAL's purchases of PPWBs and SSWs from different vendors during the period 1983-1991 are given Table-2 and Table-3 respectively

Table-1 Purchases made by HAL for PPWBs from 1983-1991.

S.No.	**Name of the vendor**	**Purchases by HAL**
1.	Seshasai Plastic Industries	12,14,320
2.	Shakti Plastic Industries	8,08,000
3.	Gold plastic Industries	50,000
4.	Diamond Plastic Industries	10,45,000
5.	Nagarjuna Plastics	4,80,000
6.	Sri Kakatiya Industries	1,70,000
7.	Swamy plastics(P) Ltd.	2,70,000
8.	Outside the State	11,60,000
9.	purchases made in 1991	7,77,000
		59,66,320

Table-2 Purchase made by HAL for SSWs from 1983-91

S.No.	Name of the Vendor	Purchases by HAL
1.	Seshasai Plastics	90,000
2.	Hyderabad Straps	4,19,000
3.	Noble Metal Finishers	2,36,000
4.	Indl. Metal Finishers	3,41,000
5.	Amareshwari	8,02,000
6.	Maharashtra Agencies	48,000
7.	Sandeep Corporation	9,25,000
8.	Uog & Co.	1,61,000
9.	Ciemen India	1,21,000
10.	Desai Trading Corporation	2,71,000
11.	Swiss Trading Corporation	15,000
12.	Kiran Enterprises	30,000
13.	Sound International	1,82,000
14.	STELCO	3,60,000
15.	Time Design	3,31,000
16.	Purchases made in 1991	6,88,000
	Total	**50,20,000**

Pricing of supplies:- Three items are supplied by SPI to HAL at various periods. Therefore, it is convinent to deal with the three items separately.

a) Plastic Presentation Watch Box:-

SPI supplied PPWB at Rs.2.00 and Rs. 2.10 each unit during the year 1985-86. In the minutes of the meeting held on 9-7-1986 the following points were recorded.

i) HAL requested SPI to supply 3,00,000 PPWBs @Rs.2.00 each SPI felt that Rs. 2.00 each box is not competititve and Rs.2.35 each could be reasonable. After negotiations it was mutually agreed to fix the price at Rs.2.10 each unit. While the remaining terms and conditions of supply being the same.

ii) SPI however, requested for consideration of more reasonable price in the future.

Subsequently, a meeting was held with the director of Industries to resolve the dispute on price account. It was observed as below:

" Regarding the PPWB, it is observed by the members of HAL that orders placed at Rs.2.65 per piece in July 1985. By March 1986, the prices were reduced to Rs.2.00 per piece. In view of the fact that there is no reduction in prices of raw materials, the committee felt that fair price should be aimed at as per the guidelines given by Bureau of Industrial Costs. The arguments of HAL that the competitive tender bids were lower and cannot be accepted. In case of ancillary agreement, tenders should not be called. The Director, Industries desired that HAL should work out the cost of PPWBs keeping in view of the inputs that go into the production and allow a reasonable profit margin of 15 to 20 percent. SPI agreed for the price of Rs.2.10 each unit under duress. HAL agreed to submit the cost calculations which would be verified by SISI and Commissionorate of Industries. Pending finalisation of costing, the orders that are already on hand with SPI will be executed @ Rs.2.10 each unit. The differential amount will be paid with effect from 1-9-86 after the committee approves the same."

SISI observed in July 1987 as follows:

"It may be seen from the report that SPI was encouraged by HAL for manufacturing of PPWBs, SSWs and DHR/MHRs as an ancillary unit. The grievance advanced by SPI was that HAL has not been placing sufficient orders and also was not paying remunerative rates for the items supplied. An effort was made by the Team to arrive at the cost of PPWs taking into consideration the costs on present raw materials, packing materials, screen printing dies and other consumables @ Rs.3.43 each unit as against which SPI was offered only Rs.2.10 each unit. The cost offered by HAL is less than the actual raw material cost and the off-take is not sufficient to cover overheads………….. It is therefore required to accept the recommendations of the team…………. thus helping the small scale ancillary unit to overcome the problem and threat of closure of due to un-economical working."

But, HAL in their letter to Commissioner of Industries on 20.10.1987 requested for setting of another joint inspection team including a representative from HAL. This request was however, turn down by the Government of India on the ground that the matter was subjudice.

b) Stainless Steel Watch Strap:- There is no specific agreement on price with regard to watch straps. No costing appears to have been done for this item. However, the company has supplied only 9,130 units for which SPI is claiming the difference of Rs.1.50 per unit. Joint inspection team report dealt with this issue in detail and recommended a rate of Rs.11.00 each strap.

c) Dial /Movement Holding Rings: This is an import substitution item. BPE guidelines 14(iii) are applicable to such item. BPE guidelines 14(iii) reads as follows:

1. Usually prices should be fixed mutually by the parties with in the ceiling of the landed cost provided such prices would cover the cost of production and would allow a reasonable rate of return (from 15% to 20% on capital employed)
2. If the prices with in the ceiling of the landed cost would not cover the total cost of production and /or allow a reasonable rate of return referred to(a) above, it may be necessary to give a price preference upto 15% over the landed cost for a period of three years during which time the price preference would be generally tapered down in stages as the production picked up.

SPI supplied against three orders at rates of Rs.1.25, Rs.1.48 and Rs.1.48 each respectively. In all three orders, the reference to quotation by SPI has not quoted. SPI accepted the orders subject to price fixation as per BPE guidelines 14(iii).

HAL in their letter of 25-11-1991 resisted the price preference of landed cost + 15% for the following reasons:

1. There is no ancillary agreement nor letter of intent nor any such other purchase commitments from HAL to SPI for DHRs or MHRs.
2. Prices were fixed based on the quotations from SPI and negotiations there on.
3. HAL placed orders on SPI for DHRs @ Rs.1.25 each while a competitive bidder precision moulding quoted Rs.0.95 each.
4. An advance of Rs.1,00,000 was paid to SPI against a bank guarantee and on acceptance of purchase order dated 30.09.1986.
5. SPI requested for a price increase to Rs.1.50 each and the order was placed @ Rs.1.48 each after negotiations.

HAL however, could not produce the documentary evidence that SPI formally accepted the purchase order. Precision Moulds never delivered a single piece of DHRs or MHRs. Further HAL confirmed no other indigenous source affected the supplies of DHR/MHRs so far. The joint committee constituted to decide the price gave the following recommendations.

“ As per the BPE guidelines, a small scale unit who developed an import substitute item, as an ancillary, is eligible for price preference upto 15% over the landed cost towards development changes for a period of 3 years. ……….. The team therefore, recommends that SPI may be given 15% over the landed cost of imported dial/movement holding rings for first three years.”

HAL argued that customs duty should not be considered for price equation. FOB price should be taken for comparison. They confirmed Rs.1.25 each FOB in the year 1986. But in the year 1989, it went upto Rs.2.89 each FOB. The escalation is mainly on account of exchange rate fluctuation. Further, SPI is still in the early stages of development and rejections are to the tune of 90%. SPI did not yet arrange tooling and the entire order remains to be executed.

Supplies : Following tables provide the data regarding the periods and the quotations supplied.

Plastic Presentation Watch Boxes

Year	Quantity supplied Nos.	Price paid Rs. per unit	Value Rs.
1986	1,02,000	2.00	2,04,000
1986	3,10,000	2.10	6,51,000

Stainless Steel Watch Straps

Year	Quantity supplied Nos.	Price paid Rs. per unit	Value Rs.
1986-87	7,850	9.50	74,575
1986-87	1,280	9.50	11,560

Dial Holding Rings

Year	Quantity supplied Nos.	Price paid Rs. per unit	Value Rs.
1989-90	4,00,000	1.25	5,00,000
1990-91	6,85,000	1.48	1013800

1. Whether SPI is an ancillary to HAL in respect of each item supplied and consequently if it is entitled to receiv ancillary treatment?
2. If so, whether HAL violated the fuidelines given for the development and growth of ancillary industries.
3. Whether HAL placed orders in respect of 50% of their requirements and if so in respect of what items and whether HAL dishonoured the purchase committments and procured the same from outside?
4. What is the price payable to each component supplied keeping in view BPE guidelines and what are the arrears of amounts due from HAL by way of both principal and interest.
5. Whether HAL should pay any compensation to SPI and what are the reliefs SPI is entitled in the circumstances.

12. V.R. Precision Engineering (p) Ltd.

VR Precision engineers (p) Ltd. (VRPEPL) started operations as a supplier of automotive components to AP Scooters Ltd. Since AP Scoters became sick so as VRPEPL became sick along with scores of other small industry department on AP Scooters. As a recourse to service, VRPEL applied their general purpose machinery and their engineering skills to seek markets from outside.

Credit Limits : VRPEL became sick due to AP Scooters did not lift the stocks since it was closed. The machinery was valued at less than Rs.4,00,000 and the book liability and interest upto 1995 mounted to RS.8,28,610.00. Thus the securities cover in the form of fragile assets is less than half. Inspite of the set back, VRPEL has been operating the unit and paid up Rs.2,27,000 towards reducing liability since 1989. VRPEPL's balance sheet as on 31.3.1994 shows negative net worth mainly because of carried forward losses. The turnover booked for 1994 was Rs. 981,000 and the y hope to raise it to 20 laks. by 1996. The major portion (70%) of the turnover constitutes of job order reciets indicating bills cashed generation. In the light of the above background several rounds of negotiations took place between the unit and the banker. The cronolopgical order of the events are described as under:

1. On 15 April, 1995, a meeting was held between VRPEL's Directors and The AGM of Canara Bank whereinthe party offered to settle the loan about as one time settlement scheme. The party pleaded the bank tochange a simple rate of interest onthe outstandings when worked out to be Rs.4,31,000/-.
2. On 2nd April 1995 bank replied requesting the unit to improve upon their offer.
3. On 2nd May 1995 VRPEL again reiterated that they could not persuade their financial partners to provide more than Rs.4,00,000 and hence requested for a speedy disposal of the case.
4. Since no reply was received till 7th May 1995, VRPEL again wrote to the banker reminding that the financial partners may withdraw their support and the changes of survival may reduce due to the delay by the Bankers.

5. On 20th July 1995 the bankers visited VRPEL and found that the financial partner withdrew due to inordinate delays by the bankers decision. However, they requested VRPEL to submit revival plans.

Revival Plans

On 24th July 1995, VRPEL worked out two alternative proposals for reviving the ailing unit which are as follows:

Proposal 1

a) Bank to fund the total liability of Rs.3,33,000 as on 31-3-1989 with 13.57, simple rate of interest till 30-6-1995 as a working capital term loan which will be repaid over a period of 4 years in monthly instalments of not less than Rs.20,000/-. VRPEL agreed to pay lumpsum amount of Rs.1,00,000 within one half months from the date of conveying the decision and to pay Rs.20,000/- per month fromthe next month onwards. The working capital Will carry as interest of 131/2 percent per amnnum.

b) In addigon to the above working capital, to consider fresh working capital of Rs.1,50,000 for bills and OCC to execute orders on hand to the tune of Rs,14,00,000, which are repetated in nature. Against the above limits VRPEL offered second change of land and building of their sister concern M/s AGROGEN INDIA who are clients of SBI holding first change. At present the account with SBI is irregular and hence abd change cannot be created. Arogen India is hopeful of clearing the overdue liability with the SBI within the next 4 months after which the 2nd change could be created. The fresh working capital sought could be released only after the creation of and change over the asset of M/s Agrogen India, a sister concern of VRPEL. The assets over which 2nd change will be created is worth over Rs..25,00,000-.

Proposal 2

VRPEL requested Canara Bank to take over the liability of around Rs.7,00,000 existing with SBI of their sistern concern M/s Agrogen India so thart Canara Bank gets the 1st change over the fixed assets which are worth over Rs.25,00,000. The existing liability of Rs.7,00,000 with SBI will be compromised at Rs.5,50,000 as a one time settlement. The loan if taken over will be repaid out of surplus generated by executing a pending order worth Rs.8,50,000/- of M/s Bharat Dynamics Ltd.

Present Position of Accounts in the Books of Banks

The total liability under ML, OCC and KCC account along with the interest upto 31-3-1995 was Rs.8,28,610.00 which was proposed to be repaid with one time payment of Rs.5,00,000. The present proposal is to fund the following liability undeer the three accounts as on 31-3-1989.

OCC	Rs.	146,712.39
KCC	Rs.	64,000.00
ML	Rs.	121,033.80
Total	Rs.	332,718.19

The simple interest @ 13.5 percent per annum on the above total liability works out to about Rs.278,000. Hence the total amount to be funded will be Rs.611,000. Out of this VRPEL agreed to pay Rs.100,000 within one and half months of the bank agreeing to consider one of the porposals. The balance will be repaid in monthly instalments of Rs.20,000/-.

Till datei.e. during the survey period March, April 1997 no decison has come from the Bank.

13. PICKLES HECKLE

Vaman Agro Products Private Limited.

The Company Vaman Agro was started as cottage industry by the wife of the promoter Mr.M.K.D. Prasad. Later, Mr. Prasad, sensing business opportunity joined the business leaving his full time job with Hindusthan Cables Ltd. Due to growth in the business the company was converted into partnership firm and subsequently into a Pvt. Ltd company with an investment of Rs.68lakhs (Rs.14lakhs equity and Rs.54lakhs debt).

In 1999-2000, during the flash floods in twin cities the entire stock in the factory premises was destroyed. Added to this the negligence of the bank in insuring the stock (The Bank usually takes an authorization from the Unit for paying the annual premium by debit to the Unit's account) plunged the company in red. (The losses accumulated to Rs.5.33lakhs).

The unit had good demand both from domestic and foreign markets (US). Most of his former friends heckle him for having got into pickles business. The promoter was of the opinion that necessary infrastructure in the industrial areas is essential for the smooth functioning of firm.

14. FOOD PROCESSING

Laxmi (Siddharth) Flour Mills Pvt. Ltd

Vijay Kumar Gupta, a graduate with no technical qualification was working for his family business before starting the unit in1984. A Chartered Accountant prepared the project report for the unit.

The promoter, a second generation entrepreneur, started the business in 1984. But closed the unit in 1987 reportedly due to tax burden imposed by AP Govt. The unit was again opened in 2002 and erstwhile Lakshmi Flour Mills (a Partnership firm) was renamed as Siddharth Flour Mills Pvt. Ltd. As the earlier unit was sick none of the Commercial banks offered to support the unit. Even if they agreed to support, it was based on stringent conditions like 300% Collateral. AP Govt. has sent him a notice to pay Rs.198000 as property tax for seven years during which period, the unit was closed. He did not find any use in approaching APSSIRS as its verdict was unacceptable to the participating Government and financing institutions.

This is a typical case that looked like gaining by showing losses, as the unit did not actually stop functioning.

15. THE SCALES TILT

Hyderabad Tulaman Ltd.

Mr. Narne Prabhakar, a graduate in Mechanical Engineering is a trained tool room engineer. Prior to starting the unit he worked with Hyderabad Allwyn, Hindustan Motors and Republic Forge. He worked for some years in France before starting the unit. Being a technocrat the project report for the unit was prepared with his own expertise. The unit started its commercial production in 1968 and it was the first unit to start production of weighing machines in India. With an investment of Rs11crores, this does not qualify for being defined as SSI. The unit's accumulated cash losses as on 31-03-2003 were Rs.10crores. There was inordinate delay in accounts receivables from Bhilai Steel Company and the Prompt Payments Act did not come to his rescue, he bemoans. He is fully knowledgeable and has enough business acumen.

As a result, the unit plunged into sickness during late 1980's. This is a medium sized industry. Further mistrust of commercial banks on sick units and bureaucracy interfering in the day-to-day activities of the business are further leading to inefficient working of the SSI, he avers.

16. COOLERS TOO HOT

Air Control Systems

Mrs. Mary Kuriakose, a post-graduate in electronics and diploma holder in management worked for an electronics company in Bombay before starting the unit. The unit was started in 1987 for manufacturing air conditioners and coolers with a Total Investment in Business:Rs.70lakhs (Rs18lakhs equity and Rs.62lakhs debt).

The promoter due to her background in education (a post-graduate in Electronics) and due to family support (husband a mechanical engineer) started the unit with the distinction as the only SSI unit in South India to manufacture Water Coolers. But during the late 1990's due to the increasing competition from the MNC players the firm went in for in-house R&D to make necessary changes in products. It was during this crucial period that the firm needed the financial assistance and as usual lax attitude of banks led to sickness of the firm. No assistance for carrying out in-house R & D or to incur the much required advertisement and marketing expenditure has put the unit in streets. The entrepreneur did not also receive any guidance from the Industry Department officials who used to collect information and returns annually.

17. SUN REFUSES TO SHINE ON SUNNY NEEM

Sunny Neem Extracts Pvt. Ltd.

Sunny Neem Industries was set up by an IIT-graduate with nearly three decades of experience in supplying equipment to the Railways as a small-scale venture. He and his family members together own about 150 acres of land – about 32 kms. from Hyderabad where a mango orchard of nearly 30 acres exist. He saw an opportunity in Neem as a bio-pesticide applicant in 1995. SIDBI processed a Term Loan of Rs. 92lakhs against the collateral securities of all his land and appurtenances. The value of hypothecated Moveables and Machinery that extracts Neem Oil and Cake is Rs.1.25crores. The value of Buildings thereon would approximately be Rs.1crore. The lands being on the approach road to the new international airport of Hyderabad could conservatively be valued at atleast another Rs.2crores. All these securities have been taken as collateral by SIDBI with a second charge by the SBI that has granted Working Capital of Rs.95lakhs in 1995. Market rate for Neem Oil took a beating in the year 1998 from Rs.40 to Rs.15 per kg. due to liberalization of tariffs and consequent imports. SIDBI has sanctioned the Term Loan in September 1995 at 19% p.a. with the condition that the first installment should commence 18 months after the first date of disbursement. Usually a development Bank, that too meant for small industries should have started recovery of installments 18 months after the completion of the project or the date of final disbursement, whichever is earlier. Thus, the onerous condition of repayment fixation coupled with high interest-rate left no gestation for this industry.

The industry is working capital-intensive as it has to collect seeds of the Neem tree during a short period of two months, and store these combustible Neem seeds safely for the rest of the year to make the factory produce Neem oil. The SBI has sanctioned working capital at 18.5% p.a. against the second charge of the properties mortgaged to SIDBI.

When the market for Neem oil and Neem cake started eroding in 1998 due to the *policy of liberalization, the unit had to quickly shift to alternate lines of production producing (i) emulsifiable Neem oil for pesticide (ii) urea coating agent and (iii) azu-directin extraction from Neem oil for export. It has sought a Term Loan from SIDBI for the additional Investment to the tune of Rs.50lakhs. SIDBI took six months to appraise it, during which time the entrepreneur chipped in additional investments as he had to use the combustible raw material for alternate production. SIDBI, after sanction of the two Term Loans, insisted on conversion of the agricultural land where the plant is running into non-agricultural land. The pleadings of the entrepreneur and the confirmation from the Commissioner of Industries that such conversion was not required for Agro-based industry, fell on the deaf ears of SIDBI. The entrepreneur, with no option went round the Ranga Reddy District Administration for two years to get the Conversion Certificate. After he got the Conversion Certificate, SIDBI refused to release the second Term Loan on the ground that the unit fell in arrears of interest payment and that the Term Loan itself lapsed and therefore required re-appraisal. In the interim, the SBI also classified the industry as NPA. At a level when interest payments for two quarters became overdue, the SBI filed suit in DRT during the year 2002, followed by SIDBI in 2003.*

SIDBI's claim is as follows:

	(in lakhs)
Amount sanctioned	Rs.92.00
Principal amount due	Rs.74.96
Interest @ 23.5% p.a.	Rs.74.26
Plus other Legal expenses, etc.	

The unit had put in equity of Rs.75lakhs and share deposit of Rs.160lakhs. Therefore, the unit is loaded now with a debt burden filed with DRT (SIDBI Rs.149lakhs plus SBI Rs.126lakhs) for a total of Rs.275lakhs which is Rs.40lakhs more than its own investment. The case came up for hearing in APSSIRS. Both the Financing Institutions refused to restructure the debt and SIDBI was very hostile in not agreeing for releasing the second Term Loan and, on top of it, slapping a rate of interest of 19.5% p.a. with effect from 2001 when the Outstandings were frozen plus a penal interest of 2% p.a. plus 2% as liquidated damages and compounding them at monthly intervals. The unit is left with no option but to survive on eating its fruits and vegetables in the garden.

This is a typical case where a development financing Institution caused a grievous injury irretrievably to a small-scale industry. Therefore, even the Sun God refuses to shine on the Sunny Neem.

18. PETROL SPILLS

Sri Vigneshwar Petro Products Pvt Ltd

The unit's proprietor Mr. Ramanand Agarwal is into manufacturing and distribution of oils and other petroleum products. He is also distributor of major engine oil brands like Servo, Laal Ghoda etc. He completed his higher secondary and entered into business. His forefathers have started this business and being a family business he did not undergo any professional training. As a result of this there is lack of professionalism in the management. He employs around 50 workers and the business is carried on entirely based on the family expertise in the domain and with indigenous technology. The business was going well until the MNCs started giving tough competition. Lack of brand image for the products of Vigneshwar Petro coupled with the company's inability to advertise their products had resulted in loss of markets. The company therefore has to lower its prices because of which the profit margins got lowered drastically and the company became sick.

This is a unit with

	Rs.lakhs
Paid-up Capital	49.54
Term Loan	40.79
Other Institutional Liabilities	7.32
Sales Tax Liability	3.15

The unit has gone into problems because of intense competition from MNCs in the post-liberalization period which did not have resources to fight back the competition by investing in advertising and brand-building. The unit approached the APSSIRS with the promise to repay debts: (i) by using on-hand rate contract with APSRTC for re-procuring used lubricating engine oils from various depots (ii) by concentrating on wholesale markets and by diverting attention to bulk buyers/institutional customers. After discussions with SBI, the

Commissioner of Industries gave the Rehabilitation package on 28-10-2002, whereat, the unit agreed to give post-dated cheques for repayment of interest and also agreed to pay arrears within 5 years. The Banker was required to give six months time to the unit and to watch the performance. Having agreed to do so, the Banker committed a breach of understanding by filing a case against the unit in the DRT. The unit had to down its shutters. Banks have given up the habit of acknowledging the letters received even to the top brass leave alone informing action taken on the complaint. If it is a complaint on e-mail a standard reply acknowledgement – system driven- appears that the matter would be attended in 24/8 hours as the case may be.

19. **SUSPICIOUS MOVING MACHINES**

Tirumala Engineering Company

This unit is situated at Auto Nagar, Visakhapatnam and is engaged in fabrication and erection works of heavy Structural Steels, Piping, Tankage Equipments, Hull repairs for ships and Submarines since 1976 as an Unregistered firm. The unit got SSI Permanent Registration in October 1997. They also registered themselves with NSIC in 2000. After the were registered as a Small Scale Industry, their Asset position was: Land & Buildings: Rs.25lakhs; Machinery including Tools : Rs.8.57lakhs.

The Receivables held up for the works satisfactorily done by the Company are as follows:

	Fell due from	Rs.lakhs
Richardson & Crudders	2002	63.00
BHPV	2002	2.00
HPCL	2001	4.00
NICCO	2001	1.00
Andhra Organics Ltd.	1998	18.00 (plus interest)
HSCL	1992	19.00
ABG Heavy Industries (P) Ltd.	1998	19.00
	Total	Rs. 1crore 32lakhs

The Unit had its credit facility with Global Trust Bank Ltd. (Working Capital) with Outstandings of around Rs.23lakhs and the Bank agreed to square up the dues at Rs.20lakhs in the month of October 2003 by selling its collateral securities. The unit was granted Sales Tax deferral facility of Rs.23lakhs by the Government of Andhra Pradesh as part of Target 2000 package. The State Government authorities, during their inspection of the unit, did not

find the Machinery & Equipment in the shed and, therefore, recommended for withdrawal of the Sales Tax deferral facility and called upon the unit to pay up Rs.23lakhs. The unit was carrying out fabrication works at the site by taking its mobile machinery and, therefore,

pleaded with the Government that they should continue to extend the incentive Scheme to the Unit. This plea was rejected by the State level Incentives Committee. The Unit requested for at least restricting the claim on Sales Tax refund to the actual sale done by them and not for the prospective commitment. This amount reportedly comes to about Rs.8lakhs. This request is under consideration of the Government.

This is again a typical case where Delayed Payments of the vendees coupled with inadequate appreciation of the nature of work done by the unit, led to sickness. Neither is there a managerial lapse nor are there inappropriate technologies nor lack of markets. A breather from the Government would help the unit for revival. The Unit started putting its efforts for recovering its dues from various leading Public Sector Undertakings.

20. PUMPS SINK

Sumanth Enginneering (Pvt) Ltd.

This is a Diesel Pump manufacturing unit located in Nellore district. It is a closely held Company among the family members. The Managing Director – Mr. Prashant Kumar Reddy- is a self-motivated entrepreneur and has refined his production capabilities through his frequent visits to Coimbatore – the hub of machinery manufacturing activity. His market was mostly restricted to Nellore & Prakasam districts. As was wont with the nature of such business activity, the unit went on giving credit facilities to the dealers.

The pumps manufactured by the unit had ISI Certification and accreditation from the Government of Andhra Pradesh for supply to farmers under various Government-sponsored projects. They have contracted Term Loan from SFC and Working Capital from SBI. Their account got blocked in the post-1999 cyclone and the SBI has settled the dues in 2002-03 under OTS of RBI. It has approached the APSSIRS for settlement of dues with the APSFC. The APSFC refused for such a settlement.

But, when the industry later approached the SFC authorities, they have agreed for a settlement but failed to communicate to the District Office. The District Office of the SFC announced in the Press, that along with some other units, this unit also was due for auction. This announcement has not merely damaged the negotiated settlement process but has also depressed the sale price of the asset he wanted to sell for honouring his commitment to SFC. The entrepreneur frowned on the unwarranted act of indiscretion. He has groomed his two sons into Engineering and Accounts careers for becoming the second generation entrepreneurs. His ambitious future plan for succession is set at naught successfully by the APSFC. He is now the President of Federation of SMEs India, Hyderabad fighting the cause of sick enterprises.

21. THE CASE OF A FORBIDDEN ENTREPRENEUR: RE-ROLLING MILL NEVER ROLLED BACK

Mahalaxmi Re-Rolling Mills Ltd.

Mr.Devara, Managing Director of Mahalaxmi Re-Rolling Mills Ltd. started 27 years back at Nedadavole, West Godavari district, unable to bear the recessionary upset of the steel industry had to sell off his property and settle with his bankers, namely SBI, under OTS. The Bank's Bank Manager mentioned that the promoters are of good integrity. Actually, three decades back he started an OEM-II venture manufacturing bicycle gear cases for major cycle manufacturers. This industry is still running but more as a unit catering to reparation and servicing for the local market consequent on major manufacturers like Hero, Atlas, Rallis, etc. changing their technology on par with global standards.

The same promoters have established another unit by name Vijaya Hi-Tech for manufacturing coconut shell powder used in mosquito coil manufacturing units. This unit is energy-intensive. The major input is Power in manufacturing processes. The Bank has refused financing for the latter two units as the unit's MD came under the OTS umbrella. This is yet another instance where the Banks treat OTS borrowers as equivalent to criminals (even criminals are getting rehabilitated at the instance of the Government) because the RBI restrained all Commercial Banks from financing any NPA account settled under OTS. The same RBI has also mentioned that the OTS facility cannot be extended to willful defaulters. Identify issues involved and suggest ways for remedying the institutional mechanisms.

22. Cast Alloys

Dr.G.V.K.Subba Rao, a highly qualified US-returned Engineer-cum-Management Graduate, engaged in manufacture of Steel Strips, Special Alloy Steel & Iron Castings, by name **Cast Alloys** since January 1983 became defunct by 19th September. With limits of around

Rs.65lakhs, he is anxious to down his shutters mainly because of the frustration with Government officials.

There is a subsisting dispute with Sales Tax Authorities on categorization of these products. The unit's contention is that the wrong categorization is responsible for raising a demand on him for Rs.50lakhs. He is also sore with the Electricity Department for the highest Power tariff that exists nowhere in the world. He mentioned that he did not have any problem with his Bankers.

23. STORAGES COOLING HEELS

Srikakulam, Vizianagaram and Visakhapatnam districts have put in Cold Storage capacities of around 70,000 tonnes against a maximum intake of just around 25,000 tonnes. There are 12 units of which 6 belong to the pre-1999 era. They are :

1. **Vedamata Cold Storage, Srikakulam**
2. **Bangaramma Cold Storage, Vizianagaram**
3. **Sai Cold Storage, Vizianagaram**
4. **Vizag Cold Storage, Visakhapatnam**
5. **Konnathala Cold Storage, Visakhapatnam**
6. **J.K.Cold Storage, Visakhapatnam**

These six units are running to optimum capacities storing tamarind, jaggery, potatoes, etc. The other six Cold Storages which bee-lined in these investments in the wake of Subsidies and Grants announced by Government for Cold Storage plants, went bust. They are NPAs with their Bankers like Central Bank of India, Andhra Bank and State Bank of India. The Power tariff is under Category III B at Rs.3.90. They feel that lower Power tariff, excessive patronage from Girijan Cooperative Corporation, Sub-PLR loan from Banks (that is, by re-scheduling their existing debt) could bring them back to survival. Approximately, Rs.12-15crores are sunk in this activity.

These are typical cases where neither the entrepreneurs nor the Government agencies and financing institutions looked at the viability of the capacities getting created in these districts in the highly competitive regime. **Such risks are bound to recur if the financing institutions continue to go by collateral securities rather than viability of enterprises.**

24. MATTRESSES SHRINK

Kozylon Industries Ltd.

M/s Kozylon Industries Limited, formerly known as Bhargava Industries Ltd. was established in the year 1994, to manufacture Mattresses at Gudiwada, Andhra Pradesh, under the brand name "KOZYLON". The Brand has been well accepted in Andhra Pradesh, Tamil Nadu, Kerala, Orissa, Madhya Pradesh and parts of Maharashtra. In the past eight years, it has become one of the market leaders in the captioned industry. In the year 1998, to cater to the additional demand, the Chief Promoter of Kozylon Industries Ltd, Mr. M.Satyanarayana, started another Company at Gudiwada, M/s. Kozylon Coir Products Limited, to manufacture the same products, to cater to the markets in Maharashtra, Madhya Pradesh, Karnataka, Goa, Gujarat and other northern States beside some parts of Andhra Pradesh, the group established another unit at Hyderabad.

The Company has an excellent infrastructure to manufacture good quality mattress with a total asset base of around Rs.25crores which includes 16 acres of land and 3lacs sq.feet of construction in which both the units are housed besides the Plant & Machinery.

The Company own two imported PU foam plants, and imported quilting and tape edging machines.

The Company at 80% of its installed capacity can maufacture 4.32lakh mattresses per annum with a capability to achieve a turnover of around Rs.88crores with a net profit of around Rs.6.25crores.

The product attracts a Sales Tax of 12% in Andhra Pradesh, 4-13% in other States.

The Company has a good dealer network and commands good reputation in the market for its products. However, its over-ambition to expand capacities without concern to the liquidity for running the industry has landed the Company in trouble. **The Bankers refuse to consider any further loans and asked the unit to bring in additional capital by raising equity through various sources. His efforts to raise equity have not fructified. He approached the Government for help. This is a typical case of greed for**

investments and mismanagement. But, given the Company's strengths in the market for its products, with certain conditions of better management, it is possible for the unit to re-establish and look up.

25. LOOSING ON GAS

Jaya LPG Bottling Plant Ltd.

M/s. Jaya LPG Bottling Plant (P) Ltd. was set up in Rebaka Village of Anakapalle Mandal in Visakhapatnam district of Andhra Pradeh by Mr. V.Satya Prasad, an engineer and a post-graduate in Business Management. It is a closely-held family enterprise. During the year 1998, the promoter, enthused by the Government policy allowing private entrepreneurs to enter into an area where demand existed, viz., supply of gas to households in convenient packs, set up the unit with technology put on a turnkey basis. Both the Chairman and the Managing Director have considerable experience in the management and technology aspects. The unit did not achieve a breakeven right from inception till now.

The firm has put in an equity of Rs.93.50lakhs and took a Term Loan from the Central Bank of India to the tune of Rs.125lakhs. Its Working Capital limits are to the extent of Rs.31lakhs.

The unit was on operating losses during the last four years, although on a reducing scale during the past two years. The Bank has re-scheduled the Term Loan – taking one year for its decision during which period the interest accumulations eroded the advantage of such reschedulement.

This is a unit where adverse Government policies were responsible for the failure:

i. Central Government's gas filling price was 40% less than the Cost price of this unit which was responsible for low volumes of business.
ii. The State Government extended Rs.1000/- subsidy to lakhs of connections through the Public Sector Undertakings under "Deepam" scheme – just within three months of launching the plant
iii. The Government delayed the release of Investment Subsidy by three years
iv. The State Government also withdrew the Scheme of Sales Tax holiday

v. PSU oil companies refused to sell bulk LPG to SSI bottlers and, therefore, had to depend upon giant private sector bulk carriers as intermediary sellers. This led to a situation of buying high and selling low.

Accumulated losses of Rs.269lakhs as on date are, therefore, the result of Government policies. No financing institution can be expected to fund operating losses!

This is a typical case of a high moving consumer good incurring losses from day one.

26. NO LONGER FISHING IN TROUBLED WATERS

Shrimp Meal

There is yet another case where a unit manufacturing shrimp head meal, poultry and fish ensilage as a Partnesrhip firm went into problems, but was subsequently bailed out by the Bank. The unit was sanctioned a composite Term Loan of Rs.10lakhs on 24th March, 2001. There was delay in getting Power connection which also led to delay in installation of Machinery by 10 months. The commercial production, therefore, got delayed by one full year. This led to the unit becoming NPA even on the date of starting. This unit, located in Visakhapatnam, requested for replacement of the Term Loan by five years with payment of interest obligation up front. The Zonal Office considered this proposal favourably.

This is a case where Incipient Sickness was identified well in time and remedial action also taken by the financing institutions.

27. FINANCE FIRMED THE LINK

Link Fasteners and Fabricators

The unit is a Proprietary concern with Ms.P.Susheela Raju, wife of Shri Chandrashekhar Raju, as Proprietrix, engaged in the manufacture of Industrial Fasteners, Bolts & Nuts. The unit had a turnover of Rs.20lakhs in 2000 and moved over to Rs.35lakhs in 2003, and has been working on a very low profit margin. It has been enjoying a Cash Credit limit of Rs.8lakhs and a Bill limit of Rs.9.54lakhs with the Bank (SBI). The unit was on the brink of slippage in terms of its obligations when it secured a work order of Rs.43lakhs. At this juncture, the Bank came up with SME plus product and granted a limit of Rs.1.54lakhs, repayable in six weeks' time. The unit expressed its hope of honouring the commitment.

This is another case where the Bank proactively prevented the unit from becoming NPA.

28. Electric Transformers Fused

Messrs. Jagadamba Transformers, a partnership firm was slapped a notice under SAFRAESI Act after the Bank declared as NPA as it has offered adequate collateral security to back the outstanding amount of loan. When our accredited consultant went into details the following details surfaced: The partners were not financially literate. At the suggestion of the SBI Relationship Manager at the financing branch, a new partner was inducted with full powers to operate on the accounts of the firm.

A scrutiny of accounts revealed without reference to the work orders excess drawings were allowed on four occasions, each time of the order of Rs.40-50 lakhs and this amount was siphoned off into either other branch accounts or with other bank. The irregularity was later approved through submission of a fudged balance sheet created by the third partner. On two occasions the irregularity was remitted back into the account by way of transfer of funds from another account of a different branch that was also being operated by this third partner.

To the ill-luck of the firm, 2011-13 was a bad patch with agitations and power cuts. This account in the process became NPA. Bank lost no time to declare the account as wilful defaulter and served notice under SARFAESI Act.

In 2015 when the unit approached the branch with work orders from the Telangana TRANSCO requesting for providing the needed EMIs the bank refused and said that the accounts cannot be operated upon and the matter is now with AGM, Stressed Accounts Recovery Branch. Repeated rounds of discussions by the unit were of no avail. The unit had under those circumstances approached the Commissioner of Industries for placing before the SLIIC.

At the SLIIC the Bank officials did not disclose the real reasons for proceeding against the unit except mentioning that the unit has committed a fraud on the account hiding most of the information that we could get on detailed investigation. The Bank has also chosen to hide the fact that they have filed a CBI inquiry against the Relationship Manager for his collusion with the drawing partner of the account. They also did not mention the fact that the unit's deposits maturing at different points of time to the tune of Rs.51 lakhs are held by them. They also did not mention in the SlIIC that the unit has dismissed the partner and reconstituted partnership. Bank has chosen to arbitrarily close the accounts and also proceeded to wind up a well functioning unit.

The unit since its inception had an excellent record of producing transformers of approved quality standards and not a single guarantee devolved on the bank. 50 persons are working in the unit. Closure of such unit cannot be acceptable to the government. We insisted on the bank to roll back the account and allow full operations of the limits.

29. Strnggroots on Weak Soil CASE

There is another case – Stronggroots – a manufacturer of Edible cutlery, an innovative product financed by Bank of India. Even in this case, the actual facts have not been brought to the notice during the SLIIC committee meeting: The unit was allowed working capital use for research and development.

This has happened because the Bank officials did not at all visit the unit after the first sanction was made. Pre-sanction visit was the only visit. The Bank failed to follow up and guide the unit properly ever since it was set up. This has happened because they had adequate collateral security at their command. Even as the unit was being interviewed by the CNN_IBN an acquisition notice under SAFRAESI was slapped on the flat – Rs. 1cr value of security against the outstanding of Rs, 83 lakhs (Rs.65lakhs plus interest Rs. 28lakhs).

In both the cases both the banks have failed to follow the RBI guidelines on rehabilitation and revival of sick enterprises: there was neither a corrective action plan, nor handholding nor a TEV study. Several facts are not disclosed by the banks at the SLIIC making a mockery of the forum.

30. **CASE STUDY FOR REVIVAL OF SICK MSME UNIT** (By Growth Idea Lab)

NAME OF THE UNIT: Victor food products,Plot 14-20, Gajularamaram Road mini indusrial estate,Jeedimetla, Hyderabad,500055

Products: All Type of Biscuits, Rusks, and other food items .

Introduction:

Mr.Soloman has worked in M/S Uttam biscuits for 10 years as supervisor and acquired insight for manufacturing various kinds of biscuits .He has obtained term loan Rs. 9.80 lakhs and Rs. 5 lakhs working capital from SBI jeedimetla , being a SC/ST entrepreneur he got Capital subsidy 35% under industry department govt of A.P . He started manufacturing biscuits in a leased premises. The lease agreement was for 7 years. But the land lord wanted him to vacate the premises in the 4^{th} year and stopped electrical supplies. so the unit could not produce . He informed and represented to SBI for necessary action, rehabilitation, due to power cut which is a natural calamity, but the banker instead of extending any support but identify the unit as NPA and issued DRT court notice.

Mr .Soloman obtained High court order to restore power connection and also the DRT permitted him to continue his business as usual.

Present situation: Meanwhile all the liquidity dried up and he borrowed loans about Rs 10 lakhs from his friends and relatives at higher rate of interest. He did not received the subsidy from industry department in time, but received belatedly Rs 2,20,000 only. On 8/09/2011 that is only 15% not 35% eligible as per the scheme. Mr. Soloman is yet to receive balance amount of subsidy from Govt. industry department.

All working capital has been used for nonproductive purposes like court expenses, advocate fees etc.

GIL Observation: GIL had detailed discussion with the entrepreneur and identified that Machines are in good conditions so working capital is a problem .GIL sat with Mr.Solomen to find out how much is required to start the unit and become self sufficient to become a performing unit.

So, what would you do to resolve the problems of the unit?

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[i]"… manufacturing holds the key". Financial Chronicle, Sep 26, 2014. Hyderabad.

[ii]*Ibid*

[iii]*Ibid*

Annexures

ANNEXURE – I

Typical Comfort Services Provided by the Alliance of Small Business Associations(ASBA) in the USA.

Airborne Express:
Discounted prices are available on overnight service by Airborne Express. Compare their prices. Airborne charges $11 for an 8-ounce overnight envelope….a savings of $4 over other overnight delivery services.

Tax Booklets:
Save money on your taxes. All current **ASBA** members will receive one free booklet a year written by our small business tax experts.

Discount on Auto Rentals:
Hertz, Avis, National, and Alamo all provide reduced rates for **ASBA** members.

***ASBA Today* Magazine:**
ASBA Today is ***FREE*** for **ASBA** members and contains current information for small business owners and the self-employed.

Long-Distance Phone Service and Toll-Free Numbers:
Check out these prices. For long-distance calls, **ASBA** members are charged 6.6 cents a minute in six-second billing increments. Calling card service is 13.6 cents a minute with six-second billing increments. In addition, **ASBA** members may obtain an 800/888 inbound long distance number for 6.6 cents a minute in six-second increments.

ASBA Scholarship Foundation:
ASBA awards scholarships annually to dependents and grandchildren of **ASBA** members.

Corporate Print Buyer:
Get all of your business printing, from business cards to four-color catalogs, done at competitive prices.

Movie Ticket Discounts:
Save up to 40% off movie theater tickets. Tickets are valid seven days a week at any show except special engagements, which are usually certain selected movies during premier weeks.

Health Benefits Package:

Discounts are available for several health benefits for a small fee. **ASBA** members can receive discounts on:

- Walk-in and mail-order drugs
- Chiropractic care
- Dental care
- Hearing care
- Durable medical equipment
- Vitamins
- Vision care

As a bonus with this program, **ASBA** members receive discounts on legal services and travel.

Amusement Park Discounts:

Coupons are available for amusement parks in 11 states, from Six Flags to Sea World.

ASBA Motor Club:

Low rates on club membership covering towing, road services, and trip planning.

Magazine Discounts:

Save up to 70% off regular subscription rates on popular magazines. The cost of a subscription through **ASBA** is lower than almost all special offers, including promotional, student, and courtesy rates.

ANNEXURE – II

S.No.	Type of support	Details
1.	Policy Support	Definition of the MSMEs is based on investment in plant and machinery – a verifiable parameter on inspection MSME Development Act 2006 and LLP Act 2008 regulate the sector Financial assistance for new units under PMEGP Fund for regeneration of traditional industries (SFRUTI) Promotion of innovation, rural industry and entrepreneurship Janshri Bima Yojana for the KVIs and artisans
2.	Fiscal Support	Excise Duty exempt up to Rs.100lacs
3.	Finance	MSE Facilitation Council for recovering dues delayed for the goods and services rendered by MSEs 32 schemes have in place corpus funds from SIDBI and NABARD NSIC supported Credit Rating of MSMEs Composite loans – limit Rs.25lakhs Priority sector lending category National Equity Fund for projects costing Rs.50lakhs Collateral free loan limit raised to Rs.10lakhs - mandatory CGTMSE limit covers loans up to Rs.100lakhs with different levels of risk coverage from 85% of the loan to 65% of the varying loan limits with special cover for women entrepreneurs and those in the North East. Nayak Committee recommendations provide for working capital loan to an extent of 20% of Turnover.
4.	Infrastructure	Establishment of New institutions and strengthening the existing EDIs; Mahatma Gandhi Institute for Rural Industrialisation Cluster development NSIC,NIMSME, 21 autonomous tool rooms Virtual Clusters

5.	Technology & Quality Improvement	ASPIRE – Livelihood Business Incubators Coir Industry has 3 schemes to support technology and innovation. Ten schemes under National Manufacturing Competitiveness Programme (NMCP) that include Incubation, Mini tool rroms and training centres, bar-coding, IPR advocacy, technology upgradation, Credit linked capital subsidy ISO certification
6.	Marketing	Market Development Assistance; Market promotion, Participation in Exhibitions
7.	Regulations and Inspections	Repeal of laws and regulations applicable to the sector that have since become redundant. Self-certification in lieu of inspections
8.	Entrepreneurship Development	Supporting 5 select Universities and 1200 colleges to run EDPs
9.	Revival & Rehabilitation of Sick and incipient Sick MSMEs	Both MSME Ministry and the RBI issued guidelines for compliance by the Banks and FIs for handholding, corrective action plans and restructuring of MSME units approved by a zonal committee. RBI categorised specific interventions for varying levels of stress under SMA-0,1,2.
10.	Data Base	MSME Data Base and Rules were framed vide GSR(e) of 29.7.16 that make it mandatory for the MSME units to furnish all data and information with Aadhar, Udyog Aadhar Mitra, PAN and other enterprise details online in the prescribed format.

ANNEXURE - III

INCENTIVES FOR SMALL AND MEDIUM ENTERPRISES

Thailand	Malaysia	Philippines	Singapore	Korea	Japan
Exemption from corporate income tax	Automatic pioneer status (tax relief for a five year period)	Tax exemption for a period of five years and privilege tax on business	Thirty per cent tax abatement on approved investment in machinery	Special depreciation system for fixed assets	Income tax deduction for non-corporate firms owner
Exemption from withholding tax on interest on foreign loan (tax credit)	Reinvestment allowance of 50 per cent	Other benefits and privileges according to the technology and production used by the enterprises	Grants for developing business opportunities in domestic and foreign markets and for business modernisation	Tax exemption for small business consolidation	Reduced corporation tax rate
Deduction on pre-operation and organisation expenses	5 per cent abatement to large industries that purchase components from small industries		Grants of up to 50 per cent of direct development cost for product improvement or development	Acceptance of a reserve against loss from export (1 per cent of foreign exchange earnings as a reserve against loss from exports)	Special depreciation rate 14 per cent of the initial acquired machinery

Extension of incentive availment period for exporters	Full exemption from import duties on machinery and raw materials purchased by SSIs		Soft loans for upgrading and business expansion	Support for systematization promotion *	Tax incentive for small enterprise • Deduction of charges from the members' incomes as expenses • Special initial depreciation on 29% of the amount drawn from reserves for the acquisition of joint facilities

	Preferential treatment in government purchases			Exemption from local taxes • Exemption of acquisition tax, registration tax and property tax	Tax incentives for joint business project • Low corporation tax rate • Writing off of earnment area • Special deduction for retained profits of cooperatives • Reduction or exemption of certain local taxes
	Double deduction on cost of training with NPC, SIRIM, MIT and MARDI			Exemption from taxes for private enterprise	
	Soft loan scheme with priority given to loans not exceeding M $5 million				

NPC: National Productivity Centre

SIRIM: Standards and Industrial Research Institute of Malaysia

MIT: Mara Institute of Technology

MARDI: Malaysian Agricultural Research and Development Institute

- *When a mother enterprise invests in plant and equipment or technical development of products from minor enterprises for the promotion of mutual interests through systematized division of labour, six per cent of the investment amount are exempted from income tax and corporation tax or 50 per cent of general depreciation reckoned in pecuniary loss as a special depreciated amount*

Source: Kim Seung Jin and Suh Jang-Won : Cooperation in SMI Industries in ASEAN (1992; 117-118)

[iv] Gulati Mukesh 2004 (UNIDO), A presentation to the Ministry of Commerce and Industry, Government of India, New Delhi