SME’S AND THEIR CHANGING ROLE IN INDIAN ECONOMY

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Abstract

SMEs have certain advantages over large firms in terms of flexibility, speed of decision making, proximity to customers etc. In exploiting these advantages, SMEs make input factors available at higher quality or lower price, or create innovations on which consumer or other product downstream in the value chain may build. In other words: SMEs provide positive externalities to their surrounding (local or national) economy, complementing scale-intensive large firms. There are several reasons for low SME credit penetration, key among them being insufficient credit information on SMEs, low market credibility of SMEs (despite their intrinsic strengths) and constraints in analysis. This leads to sub-optimal delivery of credit and services to the sector.

Problem Definition

SMEs are major contributor to GDP of a country and even a large contributor to exports and employment. To identify as per ‘Micro, small and medium Enterprises development act, 2006’ SME sector definition & its scope in terms of growth propelled by fresh investments in heavy and basic industries. Many of these are either family owned business or partnership business. Professionals do not typically run them. This leads to fact that many of these businesses adopt ad hoc financial practices and primarily depend on funding from banks and financial institutions. Identifying the nature of borrower’s business through thorough analysis and understanding feasibility study outlining the revenue generation potential critical to prevent the creation of non-performing assets.

Does this practice of the management really affect the performance of the organization? What are the factors that convince the management to go for a structured micro financing? Do companies really benefit from the multiple institutions and innovative banking solutions? And new margins & potential corporate business has highlighted in area of SME financing are some of the questions that I as a researcher try to answer in the process of investigation?

HYPOTHESIS

Dynamism and strong growth prospects are making India’s small and medium enterprises (SMEs) increasingly attractive for banks, financial institutions and corporate. However, the sector is relatively undocumented territory and has few available sources of secondary data. This lack of accurate credit information plays havoc with the risk perception of the unites.

2.1 Null Hypothesis:

SMEs apart from being a seedbed for entrepreneurship development and risk taking behavior are critically important to build up systematic productive financial credit capacities i.e. to
create an industrial system that is flexible, resilient and interlinked with banking & other financial Institutions.

2.2 Alternate Hypothesis:

SMEs apart from being a seedbed for entrepreneurship development and risk taking behavior, are not critically important to build up systematic productive financial credit capacities, i.e. to create an industrial system that is flexible resilient and interlinked with banking & other financial institutions.

Objectives

SMEs have certain advantages over large firms in terms of flexibility, speed of decision making, proximity to customers etc. In exploiting these advantages, SMEs make input factors available at higher quality or lower price, or create innovations on which consumer or other product downstream in the value chain may build. In other words: SMEs provide positive externalities to their surrounding (local or national) economy, complementing scale-intensive large firms.

With this need in mind, I have, leveraged my knowledge base and research experience to bring out well- documented report on India’s fast-growing SME industries.

Growth potential,
Financing requirements,
Lending risks,
Opportunities for banks and other financial institution
Case study: ICICI banks & its SME funding policies

Research Methodology

Using mathematical model and arriving at conclusion using the law of likelihood- the nation that the extent to which the evidence supports one parameter value or hypothesis against another is equal to the ratio of their likelihoods.

4.1 Data collection:

Two types of data used for this project study.
Interacting with few individuals from the SME sector and the ICICI BANK collected primary data or original data.
Secondary Data whether internal or external is the data already collected by others, for purpose other than the solution of the problem in hand. The research must thoroughly search secondary data sources before commission any efforts for collecting data before attempting the collection of primary data. In many cases, e.g. For this project, the secondary data itself was sufficient to solve the problem. Usually the cost of researching for secondary data is much lower than the cost of organizing primary data. Secondary data are collected from various sources such as annual bank publications, bank journals, various financial Ref. books and financial documents of the banks customers, news articles and EBESCO website.
Introduction

Definition of SME There is no universal definition of small and medium enterprises. There are certain objective standards, which classify the units depending on the number of employees, scale of turnover. However, employee based segmentation is the predominant segmentation approach followed across BRIC (Brazil, Russia, China and India, four of the world's largest emerging economies) and Worldwide. In the Indian context, the Government classifies SMEs on the basis of limit of historical value of investment in plant & machinery. Manufacturing units with investment upto Rs. 25 Lakh in plant & machinery are considered as Micro Enterprises, those with investment from Rs. 25 Lakh upto Rs. 5 Crore are considered as Small Enterprises and those with investments from Rs. 5 Crore upto Rs. 10 Crore are considered as Medium Enterprises.

Source: Confederation of Indian Industry (CII)

In case of Service sector, the Micro enterprises are those with investment ceiling of 10 Lakhs, the smaller enterprises are those with investments from 10 Lakhs upto Rs. 2 Crores and for Medium Enterprises are those with investments from Rs. 2 Crores to 5 Crores
The definition of SMEs varies from banks to banks.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Bank</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Turnover</td>
<td>HDFC bank</td>
<td>Up to 75 cr</td>
</tr>
<tr>
<td>Turnover</td>
<td>Citi bank</td>
<td>Upto 100 crs</td>
</tr>
<tr>
<td>Turnover</td>
<td>Yes bank</td>
<td>Upto 150 crs</td>
</tr>
<tr>
<td>Turnover</td>
<td>Axis bank</td>
<td>Upto 125 cr</td>
</tr>
<tr>
<td>Net worth</td>
<td>ICICI bank</td>
<td>Up to 50 cr</td>
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<tr>
<td>Historical value of P&amp;M</td>
<td>All public sector banks</td>
<td>Up to 50 cr</td>
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5.2 SMES – The Most Vibrant & Potential Growth Segment

Small and Medium Enterprises, or SME, form large majority of the manufacturing and service units across the world. Small and medium enterprises (SMEs), particularly in developing countries, are the backbone of the nation’s economy. They constitute the bulk of the industrial base and also contribute significantly to their exports as well as to their Gross Domestic Product (GDP) or Gross National Product (GNP).

A squeeze on interest margins, a nudge from the central bank and an opportunity to expand their credit portfolio towards a new and relatively unexplored direction, led most banks to take a focus on the small and medium enterprise (SME) sector.
As at end March | Total advances by Banking Sector (Rs. in Crores) | Total Advances to SSI Sector (Rs. in Crores) | Proportion of SSI to Total Advances (in percentage)
---|---|---|---
2003 | 257203 | 46674 | 17.30
2004 | 294943 | 45788 | 15.63
2005 | 469153 | 56002 | 1.94
2006 | 536727 | 57199 | 10.66
2007 | 669534 | 60394 | 9.02
2008 | 874383 | 67855 | 8.62
2009 | 992587 | 85114 | 7.83

Source: RBI Report on Trend and Progress of Banking in India

A special role for SMEs was earmarked in the Indian economy with the advent of planned economy from 1951 and the subsequent industrial policy followed by government.

10th Plan Document of Govt. of India states: “Growth as planned will come from a sharp step-up in industrial and services growth, spurred by SMEs”.

SMEs are generally less capital-intensive and more labour-intensive, hence best suited for countries like India, China which have abundant supply of low-cost manpower and bountiful natural resources.

SMEs provide large scale employment, effective mobilization of resources of capital and skills, which would otherwise remain unutilized, particularly in rural and backward areas.

SMEs increase competitiveness of the marketplace and can curb monopolistic positions of large enterprises.

SMEs throughout India are expanding rapidly – both in terms of hiring and additional branch offices.

80% are expecting 11% growth in their revenues in the next 12 months

52% of the 3.98 million Indian SMEs are planning to add an average of 2.2 employees per business-next year

16% of SMEs are anticipated to add new branch offices to increase geographic reach and improve infrastructure.

The growth potential of SMEs and all the reasons mentioned above makes SMEs very lucrative for the banks and financial institutions. The corporate banking in terms of financing large corporate houses is saturated. All large corporate houses are rated, which implies they are less risky and hence enjoys the benefits of lower interest rates from banks. Also these
large organizations dictates the terms and conditions of financing, banks are thus at the mercy of these organizations. Whereas in SME lending the banks have an upper hand and they dictate the terms and conditions of financing. Obviously the benefits enjoyed by the banks do not come for free; due to the nature of the SMEs the risk factor in SME lending is high. Rapid globalization, liberalization and financial and real sector reforms have created numerous opportunities for growth. At the same time greater integration with the world market has posted numerous challenges and threats for SME sector, which are of far greater magnitude than those faced by large enterprises. In the face of competition, small firms are showing impressive growth and in the process, creating value and additional employment opportunities. The SME growth has been propelled by fresh investments in heavy and basic industries. The contribution to experts has also been significant in the wake of increased manufacturing activity and increasing prominence of service sector companies in this space. The major thrust is on industries like garments, spice, metals which are net revenue earners for the country rich in mineral reserves. Small and medium enterprises or SMEs, also called small and medium-sized enterprises and small and medium-sized business or SMBs are companies whose headcount or turnover falls below certain limits.

5.3 Contributor worldwide

These is growing worldwide appreciation of the fact that small and medium enterprises play a catalytic role in the development process of most economies. This position gets reflected in the form of their increasing number and rising proportion in the overall product manufacturing, exports, manpower employment, technical innovations and promotion of entrepreneurial skills. The following table reflects the contribution of SMEs in some of the developed economies.

<table>
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<tr>
<th>Country</th>
<th>Contributions in terms of incremental share in</th>
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<tbody>
<tr>
<td></td>
<td>Employment</td>
</tr>
<tr>
<td>USA</td>
<td>67%</td>
</tr>
<tr>
<td>Japan</td>
<td>80%</td>
</tr>
<tr>
<td>France</td>
<td>53%</td>
</tr>
<tr>
<td>Korea</td>
<td>74%</td>
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</table>

Facts about SMEs in India

19% of the Global SMEs are located in the BRIC region. India SMEs constitute 6% of Global and 32% of BRIC SMEs.

In India, the Micro, Small and Medium Enterprises are defined by the size of the initial investment in the plant and machinery. Their contribution to Indian economy can be summarized as below:

Currently there are 13.3 million SME units.

Employment generated in SSIs: 29.5 million

Capital Investment: $47.5 billion

SSIs accounts for 40% Industrial Production
SMEs produce diverse range of products (more than 8000- consumer items, capital goods and intermediates)

SMEs contribute to one third of the country’s total export. SMEs contribute 35% of the direct exports and 45% in the overall export from the country.

SMEs contribute 7% to the GDP of India.

Over 21,400 units have been certified as ISO 9000/14001 compliant.

SME sector breakup

Industrial Units: 96%
Service Enterprises: 3%
Ancillary Units: 1%

Ownership Pattern
Proprietorships: 78%
Partnerships: 16%
Corporate & Others: 6%

The growth of the SME sector in the last 8 years has been more than the growth of the industrial sector. The average growth of the SMEs sector in the last eight years has been 8%, whereas industrial growth has been around 5%.
According to the research conducted by Access Markets International (AMI) Partners, Inc., India, tier I cities have 63% SMEs, tier II cities have 25% and the least percentage of SMEs are in tier III cities.

5.5 Indian experience in SME Banking

SMEs are vulnerable
Information about SMEs is scarce
SMEs are local, don’t have nationwide presence
SMEs are transaction incentive
Very few SMEs are rated, risk factor increases

5.6 Small & Medium Enterprises Sector in India

SMEs are critical to the nation’s economy—they contribute approximately 40% of the country’s domestic production, almost 50% of India total exports and 45% of India’s industrial employment. Deposit there economic significance, SMEs face a number of bottlenecks that prevent them from achieving their full potential. A major obstacle in SME development is its inability to access timely and adequate finance.

There are several reasons for low SME credit penetration, key among them being insufficient credit information on SMEs, low market credibility of SMEs (despite their intrinsic strengths) and constraints in analysis. This leads to sub-optimal delivery of credit and services to the sector.

Rating Agencies can play an important role in addressing some of these concerns. In this context, SMERA is wholly committed to faulting the overall growth and development of Indian SMEs. The agency’s primary objective is to provide SME ratings that are government of India also lays emphasis on using this as a tool for increasing credit to the sector.

In India, SME sector is the second largest manpower employer, after agriculture and the output from the SSI sector. SME sector constitute the growth engine of the economy with contribution to: GDP estimated at Rs.70,862 Crores (as per the third SSI census), exports at Rs. 14,200 Crores and employment opportunities to 2.83 crores persons. Within the SME
sector, the small sector serves as a green filed for nurturing of entrepreneurial talent and helping the units to grow in to medium and large size. The promotion of SMEs, therefore, becomes a major area for policy focus, both in development as well as developing countries. In the Indian context, preliminary the concept of small scale industry has been in vogue and the medium enterprise definition is of more recent origin. An SSI is defined on the basis of limits of historical value of investment in plant & machinery, which at present is up to Rs10 million. However, in respect of some specified items, this investment limit has been hiked to Rs.50 million.

For the recently announced small and medium enterprises fund, the GoI has approved the limit of investment in plant and machinery above Rs.10 million and up to Rs.100 million for defining a unit as a medium Enterprise. Amongst the developing countries, Indian has been the first to display special consideration to SSIs and basic focus has been to make economical use of capital and adsorb the abundant labor supply in the country. The end of license raj and other reforms unleashed the entrepreneurs within Indians. The 1991 policy change was the first step in journey, which is still continuing. It is for the sake of convenient labeling that we call its preceding scornful a as ‘license raj’, thus putting it at par with the ‘British raj.

There has been a paradigm shift in the way US and China perceive India’s stature. There’s been a change in perception but for different reasons. The we will increasingly need India as its ‘back office’ to provide offshore support to its industries and services. But proximity and the long cultural ties. We can leverage our combined buying power to get the best prices for everything.

In the 2020 vision that for vision that for India, the small and medium enterprises play a key role. The government requires large amount of efforts, by industry bodies and by banks. In 2020 the SME sector would be the kingpin of innovation, while large industries will attain their size due to economy of scale. So the SMEs will be like the Silicon Valley star-ups and large industries will attain their size due to economy of scale. So the SMEs will be like the Silicon Valley start-ups and large industries will be like Microsoft. It is a challenge for everyone- government, banks. Technology institutes, laboratories, and marketing brains. Banks today finance house-building and purchase of cars, but they must come forward to finance ideas. It needs a venture-capitalist frame of mind.

The government, in its turn, must prioritize primary, secondary and higher education by laying down the best policy that leaves no child out of schools, and no capable youth out of the institutions of higher learning. The SME sector will be buzzing if the level of knowledge in the economy is high.

5.7 The SME segment

Their contribution to the booming trade and industry, their ability to generate pools of growth and employment are invaluable but hardly given due recognition. This is as true for most developed, as well as developing economies like ours. In the emerging economic order, with enabling environments like liberalization and globalization, SMEs have the leading edge when it comes to innovation and entering new global markets.

5.8. Innovation is the key to success
Today organizations are knowledge based and their success and survival depend on creativity, innovation, discovery and inventiveness. An effective reaction to these depends lead to innovative change in the organization, to ensure their existence. The rate changes in accelerating rapidly, as new knowledge idea generation and global diffusion are increasing. Creativity and innovation have a bigger role in this change process for survival. SMEs have to learn and imbibe the process of innovation, in their day to day working, to remain competitive. Instead of looking for support from other agencies, they have to find stated before, Indian SMEs have continued on their path of progress. In fact, their rate of growth is higher than the industry sector as a whole; their contribution to our GDP is almost 7%. In the past also, our SMEs have shown enough strength, vigour and in current situation they will not only survive but win also. We have our examples of hero Honda, Ranbaxy, Infosys, WIPRO, Bharti telecom and many more SMEs who have shown to the world the path of success.

5.9 Insight on Small & Medium Business in South Asia:

5.9.1 SME’s Need to Globalise

As southeast Asia region integrates with the global economy, SME’s can globalize while contributing to sustainable and inclusive growth, this takes precedence especially for easing poverty in rural areas, here the governance may seem parochial, however if not seem as ticking boxes and more about quality of decision making and improved management of risk when exposed to global supply chains, its relevance is clearer, this would be possible with partnership & business technologies. The commonwealth business council (CBC) has recently developed framework for corporate governance for SMEs following global consultations. In several areas, specific guidance for SMEs includes.

A commitment to CBC business principals (apply equally to SMEs & large companies)

Policies and practices (small SMEs should document policies and supporting practices, albeit in very concise form).

Leadership and structure (small SMEs should aim at an early stage of evaluation to have the less formal mechanisms in the place in two areas-availability to the enterprise of skills and experience, of objectivity and interdependent adviser. Small SMEs may not have a board with independent directors through extraanal advice should be considered)

Strategy, planning and monitoring (a written financial plan should exist.

Risk management (being sensitive to the risks an enterprise is facing both short-and long-term, is essential even if formal processes do not exist)

People strategy (in very small companies, the acquisition of skills may be less formal. External providers may be used for specific skill training)

Control environment and process (all but the smallest, non-incorporated entries should be subject to independent external audit)

Transparency and disclosure (for very small companies, the financial statements may be very simple in nature…

5.9.2 SME stance in south Asia

The contribution of SMEs to the overall economic growth and the GDP is significant across south Asia. It is estimated that SMEs contribute half of Bangladesh’s industrial GDP and provide employment to about five million people, or 82% of the industrial sector employment. Bhutan had in 2001 about 409 small-scale and 43 medium scale enterprises. In Nepal, SMEs constitute more than 98% of all establishments covered by censuses, and
contribute 63% of the value-added segment. More than 80% of the national value addition in manufacturing comes from the SME sector. In India, SMEs contribute as much as 30% to the GDP. In Pakistan SMEs contribute about 30% to the GDP, while 99% of the 2.3 million enterprises that are very small absorb 60 to 70% of labor in manufacturing, services and trade sectors and SMEs account 25% of exports of manufactured goods besides sharing 35% in manufacturing value-added. In Sri Lanka, the SME sector comprises largely well-established business of which sole proprietorships and partnerships account for 80% of all SMEs.

5.9.3 Vietnam SMEs are the most optimistic in Asia,

According to a HSBC commercial banking survey, as trade expands a year after the country joined the world trade organization. They were followed by their counterparts in India and mainland China. Of the Vietnam SMEs, the majorities (90%) of expect faster economic growth in the country and 21% expect local economics growth to maintain the same pace. Among the India SMEs, 58% expect faster economic growth locally, and 38% expect local economic growth to maintain the same pace. SMEs in Vietnam and India are acting on their positive economic outlook, with increased capital investment—with 75% of SMEs polled in Vietnam and India SMEs are also the most optimistic about trade growth with the rest of the world in this half. In Hong Kong 68% of SMEs polled expect local economic growth to maintain the same pace in this half and 26% expect faster growth. One of key factors building successful SMEs is to build partnerships and technical networks with large-scale organizations. Technical support can thus be available to the SME on a continuous basic. It is imperative that SMEs gets all possible technical a support to enable the creation of small cluster of firm providing services to large industries in the initial phase. Later, these very firms should be nurtured to become a modern, ‘stand-alone’ unit which is able to bring about a significant change in the national economy through its domestic as well as global competitiveness. A modern SME should be one which is technically competent, environmentally conscious, well connected to information networks and highly competitive. The active participation of the government is required to tackle issues of corruption and bureaucratic inertia. The time required for obtaining permits and necessary licenses should be kept at the minimum levels.

5.10 Combination Of South Asian & Private Sector To Support

5.10.1 Globalisation Of Smes

These can also involve Union as well as the National Productivity Organization, which have a valuable role to play too. Large organizations, with their huge resources, can not only incorporate the SMEs in their supply chains but also help them in upgrading and improving their productivity. Similarly, well-networked Industrial associations can help SMEs acquire the required standards of excellence through various workshops and training programmes. One tool, which could be encouraged by the Government, is factoring, which can be done by setting up factoring houses. Credit rating agencies could also act as a catalyst for financing SMEs. India is a classic example where third party rating facilitate smooth credit flow across SMEs. One of the factor working against the SMEs is there isolation. It is for this that clusters, such as the successful cluster in Sialkot in Pakistan (where the business community has just impressively paid for its own airport) need to be developed. This could result in better bargaining power, better quality
of production and hence, higher profitiability. Incubator facilities are of prime importance when one considers the tight resources in which SMEs operate. These facilities mean that there is a common installation of the virtual as well as physical essentials for SMEs to use. The use of incubator in European countries has proved to be a blessing in disguise for their SMEs. The European SMEs now have access to both physical as well professional services owing to the incubators. To complete effectively, SMEs need to bring their production coasts down by adopting suitable business technologies. Subcontracting, a common route to do this has played a big role in integrating SMEs into dynamic export oriented sector in Japan and South Korea. Besides, capacity building development of necessary skill is also very critical for SMEs. The government in collaboration with multinational organizations can play an important role in supporting this and can ensure that international best practices are incorporated for SMEs development.

5.11 FINANCING TO SME SECTOR

In recognition of the contribution and vast potential of the sector in the economy as well as its inherent infirmities, provision of adequate credit to this sector has continued to be an element of banking policy; even though economic and financial policies themselves have undergone significant transformation, particularly after the initiation of structural reforms in 1991. With the deregulation of the financial sector, the general ability of the banks to service the credit requirements of the SME sector depends on the underlying transaction costs, efficient recovery processes and availability security. There is an immediate need for the banks generally to focus on credit and finance requirements of SMEs. Although the banks are allow to fix their own targets for funding SMEs in order to achieve a minimum 20% year-on-year growth, the government’s objective is to double the flow of credit to the SME sector from Rs.67,000crore in 2004-05 to Rs.1,35,200crore by 2009-10 i.e. within a period of 5 years. Also, credit risk in the SME sector is widely displeased and banks get better yield from SME advances as against the traditional advances where the spread is getting gradually reduced. The SME clientele base could also be utilized by the branches to step-up “cross selling” of various other products including technology-enabled products. The Indian private sector banks and foreign banks have an additional outstanding SME portfolio of more than Rs.100billon. In the policy context, the government of India introduced a comprehensive policy package for SMEs, which the included fiscal credit, infrastructure and technological measures. There exists a well-structured institutional set up both in the public and private sector to cater to the credit needs of SMEs. The small industries development bank of India (SIDBI) was set up in April 1990, as the principal financial institution for financing and development of SSIs and coordination of institution engaged in swimmier activities. A fair code of practices has been adopted by the bank in its day-to-day operations while functioning as an apex financial institution for the sector.

5.12 Various steps taken by Gol /RBI to enhance the flow of credit to SMEs in the recent past include

Increase in the loan limit of composite loan scheme for SSIs up to Rs.5millon,
Providing loans to SSIs within the interest rate band of 2 percent above and below the respective bank’s PLR,
Setting up of technology Bureau for small enterprises to address the technology bank,
Opening of specialized SSI branches throughout the country, presently numbering 417,
Introduction of Laugh Udyami Credit Card for SME borrowers with satisfactory track record,
Identification of 60 clusters for focused development by including their Credit requirements in the respective state credit, and Setting up of a credit guarantee fund trust for small industries. In order to boost investment in SSI sector, the benefits of capital gains arising from the transfer of long-term capital assets are allowed, if such capital gains are invested in the bonds issued by SIDBI.

5.13 Instruments of SME Financing.

In spite of various initiatives taken by the government, banks and FIs, SMEs face certain challenges, which universal in the nature. These problems relate to the issue of collaterals, cost of loans, delay in receivables, obsolete technology, marketing, etc. In order to address the above problems in the Indian context, some innovative instruments of financing have been introduced and institutional set up created. Some of the major initiatives include under this stride in order to provide credit risk management and appropriate credit delivery model are mentioned.

5.13.1 Credit guarantee fund trust for small industries

Government of India, in association with SIDBI, has set up a credit Guarantee Fund Trust for small industries (CGTSI) to implement the guarantee scheme. The corpus of the trust has proposed to be enhance from the present level of Rs.7 billion to Rs.25 billion. The main objective of the trust is to facilitate hassle free credit to the SSI sector and encourage banks to shift from security based lending to merit based lending. SSI loans up to Rs.2.5 million are eligible to be covered under the scheme and CGTSI has so far extended guarantees to member lending institutions for around 18,000 units in the last three years of its operations, covering a loan amount of Rs.3 billion. The CGTSI contemplates to triple its business in the current year, as compared to the previous year. Some new guaranteeing techniques like mutual credit guarantee scheme on the lines of similar schemes are also being developed.

5.13.2 Risk sharing facility

While the CGTSI extends guarantee cover for the loans up to Rs.2.5 million, there is a need for offering guarantees for loans extended by banks beyond the above limit. Under a world bank led project on financing and development of SMEs, a possibility of introducing a risk sharing facility for the SME sector is being examined, wherein the risk in lending by banks to SMEs could be shared between the originating banks and the suggested entity. Of course, the facility would be available at a cost. This mechanism would mitigate the credit risks of the banks and upscale SME financing.

5.13.3 Venture capital funding

With regard to new sources of financing, many countries are considering liberalizing the rules regarding venture capital investments. In India also, various measures have been taken in this direction. SIDBI, along with some institutions, has taken a lead in promoting venture capital funding in the country. The bank has contributed in setting up of 16 state level/ Regional level funds; set up a national fund for software and IT industry with a corpus of Rs.1 billion and recently launched a new SME growth fund of Rs.1 billion corpus. This fund would focus on units in Pharma, biotech, light engineering, software and other KBIs. The SME growth fund corpus is contemplated to be enhanced to Rs.5 billion.
5.13.4 Micro credit

Realizing the potential of micro finance in stimulating economic growth, SIDBI, has laid emphasis on increasing the capacity of the sector to handle credit and growth in the disbursements of micro finance. SIDBI foundation for micro credit, presently functioning as a department of SIDBI, had sanctioned an aggregate financial assistance of Rs.710 million. The cumulative number of beneficiaries assisted under the programme in the last 4 years aggregated over 1 million, mostly women. The outstanding portfolio under the program as at end-march 2004 is likely to be increased from a level of Rs.910 million to Rs.4 billion by the end of this year.

5.13.5 Small and medium enterprises fund

The most important amongst the sectoral initiatives taken by the goI and SIDBI is launching of an SME fund of Rs.100 billion, with a view to giving impetus to the fund flow to the SME sector. SIDBI has been advised to structure the fund and its operations have commented with effect from April 2004. Under the fund, assistance is being provided to SMEs at an interest rate of 200 basis points below the bank’s PLR. Direct assistance is being extended to SMEs through SIDBI’s own offices at 9.5 percent rate of interest as also by way of providing refinance to the primary leading institutions. Refinance to SFCs is available in the interest rate band of 7.5% to 8%. The SME fund providers for routing of assistance, besides SFCs, through commercial banks as well. The fund, besides up scaling the flow of assistance to SMEs, address the issue of cross sector parity in the cost of loans.

5.13.6 Portfolio purchase scheme/ assets securitization

The process of assets securitization offers opportunities to purchase the SME portfolio from originators and channel funds to the sector. The portfolio so purchased can be either retained by the purchaser or sold to the investors in the capital markets through structuring. Of suitable instruments. SIDBI has recently been permitted for the same.

5.13.7 Dedicated Credit Rating Agency for SMEs

In order to address the demand side issues of credit and provide comfort to the bank officials, initiatives have been taken to support the mechanisms of information sharing and credit rating. With a view providing credit enhancement and comfort to the bank officials at the field level in their taking bona fide credit decisions, SIDBI had decided to launch a dedicated credit rating agency for SMEs in association with leading public sector banks. With the growing realization that the sector’s contribution to the economy is constrained by credit inadequacy. The concept of rating has captured much attention. Crisil has launched an independent rating service for SMEs. However, the SME rating agency of India Ltd, promoted by sidbi, dun & Bradstreet and several PSU and private banks, could potentially play a more proactive role, and as a dedicated institution could work towards wider acceptance of the rating culture among SMEs. Towards this end, SSI associations must also raise awareness among their members of the advantages of credit rating.
Bank credit is crucial for the growth of the SME sector. Unlike major companies, which have access to diverse forms of financing, including the issuance of stock and bonds, SME’s primarily depend on funding from banks and financial institutions. Banks and financial institutions aim at maximizing the value of their portfolio and managing the risks effectively.

In recognition of the vast potential of the SME sector and its inherent infirmities, provision of timely and adequate finance to this segment has always been a key element of banking policy. To service the credit requirements of the SME sector, the various parameters considered by the banks are:

- Sufficiency of cash flows of the enterprise to cover all its commitments;
- Net worth of the business; presence of adequate collateral;
- Track record in the given business;
- Specific purpose that the facility is being availed for; dealing with banks and financial disclosure, including tax return and risks involved.

A thorough analysis and understanding of the nature of the borrower’s, including a feasibility study outlining the revenue generation potential, is critical to prevent the creation of non-performing assets.

The bank’s SME policy needs to be the latest policy guidelines relating to credit-related exposures (both fund-based and non-fund-based) and the guidelines relating to credit risk management, credit delivery, credit monitoring, and recovery were made uniformly applicable to the SME policy as well to the extent these have not been modified under the bank’s SME policy.

Cluster-based schemes seem to be the latest development in this front. It is also on the list of the bank’s initiatives. The banks prioritized the following more particularly:

- Provision of timely and adequate credit to the SMEs,
- Encourage Technology Upgradation, for better quality and competitiveness of their product(s),
- Proactively detecting sick and viable units in time so as to nurse them back to health through appropriate re-structuring.

Financing of Clusters with adequate and concessional Bank finance at liberal terms in several pockets for specified activities concentrated in these pockets, which would result in reducing transaction cost and greater economies of scale.

### 5.14 Major Issues Faced by SME Sector

The major issues faced by the SME sector can be broadly classified into two categories:

#### 5.14.1 Internal to the enterprise

Internal issues include limited range of assets that can be used as collateral; lack of credible published information about their financial health or standardize financial statements for SME; key man risk, that is absence of an empowered second level of management owing to concentration of decision making with a single or few individuals; high failure rates associated with the sector; low capitalization; marketing problems consequent high cost of borrowing which have seriously affected the growth of SMEs.
5.14.2 External to the enterprise

Among external issues are: scarce availability of loans without collateral; delays in disbursal of loans; high vulnerability of small players in a liberalizing market market; high cost of funds; considerable delays in payment of bills by large scale buyers; absence of credit bureau; lack of flexibility in Government-sponsored fund that provides banks with a first loss default guarantee on SME loans; lack of access to private equity and venture capital and limited access to secondary market instruments.

Owing to the inadequate risk management systems in banks and high processing costs, which often exceed the returns, banks are generally reluctant to extend credit to SMEs. Also, to fund their rapidly growing working capital requirements, SMEs are forced to borrow from more than one bank. Banks that sanction additional working capital limits require a pari passu charge on the SME’s stocks and receivables, but the existing working capital financing banks are usually reluctant to cede a pari passu charge.

With the deregulation of the financial sector, the general ability of the banks to service the credit requirements of the SME sector depends on the underlying transaction costs, efficient recovery processes and available security. There is an immediate need for the banks generally to focus on credit and finance requirements of SMEs.

This results in SMEs being starved of working capital finance. The RBI has formulated schemes such as the one time settlement (OTS) scheme for the recovery of NPAs of banks up to Rs.10 crore and the corporate debt restructuring mechanism for the SME sector, in line with what exists for larger companies.

The Government has asked the public sector banks to achieve a minimum 20 percent Y-o-Y growth in funding SMEs, which will lead to doubling of credit to the sector from Rs.67, 600 crore in 2004-05 to Rs.135, 200 crore by 2009-10. Thus, SME financing can be promoted in a big way by creation of enabling regulatory and institutional framework, helping banks in mitigating risks and promoting market linkage programmers’ of SMEs.

Also, Credit risk in the SME sector is widely dispersed and Banks get better yield from SME advances as against the traditional advances as against the traditional advances where the spread is getting gradually reduced. The SME clientele base could also be utilized by the Branches to step-up “cross selling” of various other products including technology-enabled products.

5.15 SME- THE CORE OF LENDING OPERATIONS

Of Late, SME segment has attracted a lot of attention
* Increasingly higher pressure on margins in corporate business Markets are becoming more easily accessible to corporate
* Bundling Personal banking with Commercial Banking makes SME high margin business
* Services driven economic – many SME emerging in services sector
* Technology allows cost effective service delivery platforms
  Call Centre, ATM, Internet
* Most banks have upgraded their Risk management system
  Better preparedness to manage NPA
* Margin…Growth…Better Risk Systems Technology

However, the SME Segment is unique and needs to be addressed on its own Terms.
5.16 Factors inhibiting banks in SME financing

“NEEDS TO BE TACKLED”
There is sketchy data only available on the financial position of SMEs.
Insufficient or lack of comparative data of analysis...
Lack of professional management in finance and administration in newly established SMEs.
Fortunes depend more on the individuals behind the business rather than business/trade cycle/behavior.
Vulnerability of small sized players in a globalize economy.
Difficulties in effectively monitoring business accounts and capturing cash flow data due to seasonal and variable nature of SMEs.

5.16.1 Poor data & system availablity

Insufficient data available on the SME companies.
Lack of credible published information about financial health
High vulnerability of small size players in liberalizing market
Inadequacy of risk management systems in bank’s
Collection of authenticate data on SME segment
Educating the SMEs on the need for reliable financial data
Rolling out suitable risk models for different segments & SMEs
Close monitoring of the accounts
Being supportive to their financial needs to avoid quick mortality

5.16.2 Role of banks for developing the SME sector

The banks should come out of the assets are based lending mind set.
Cash flow/collateral based landing models to be devised.
Line of credit approach needs to be popularized
Simplified assessment/ appraisal models to be introduced (like 20% of the % turnover as working capital limits / of the project cost as term loan/etc.).
There needs to be flexibility in landing policies and rigidities need to be removed.
Customized products including factoring/ forfeiting services, leasing facilities should be introduced.
Special purpose veichel (SVP) ought to be promoted.
Simplified credit rating modules must be introduced
Advisory desks should be available to guide the new proprietors.
Serve as a link between SMEs and large corporate through channels financing/vendor chain financing.
NPA’s need to be managed aggressively

5.16.3 Institutional framework-from protective to promotional approach

Banks should encourage the formation of credit rating agency exclusively for SMEs.
The ambit of financial institutions like credit guarantee fund trust for SSIs ought to be extended to cover the SME sector also.
Mandate flow of information between of information between banks must be made compulsory.
Central governing body like CIBIL needs to act noble point.
Introduction of special insurance products especially keyman insurance policies or receivables insurance etc need to be increased in the SME sector too.

Suitable framework for making available venture capital funds needs to be encouraged.

Creation of data bank (preferably by SIBDI) for authenticated information on different segments of the SME sector.

Knowledge institutions like ‘technology bank’ should be established to impart the latest technology (technological bureau for small enterprises established in 1995 may be received for this purpose).

Involvements of NGOs, who have a successful recorded in micro management for development of tiny sectors within SME, must be optimized.

Introduction of tax/other incentives by government would boost newer initiatives.

Framework for flow of FDI for SMEs needs to be considered too.

Encouraging other incendiaries like NBFCs, ECT.

5.16.4 SME financing a win-win situation for banks

Better spread on interest/building of services for enhancement yield in relationship.

Risk wide-spread.

Bank’s are now better equipped to handle the varied needs of the SME sector due to better technology and risk management.

Vast scope for spin off of ancillary business.

Fewer complexities in extending finance.

All branches can handle the business– limited specialization involved.

KEY MANTRA: to transform SMEs into capital-or technology-intensive from labor-intensive industries, in line with the rapid development of the mainland economy.

5.17 Developmental Initiatives For A Phenomenol Future Of Smes

The magical formula. The MC^3 are motivation, calibration, capability and capacity. Crated by Nililent technologies India is a metrics based model that is a practical and integrated way of managing knowledge in everyday work. It measures cause and effect linkage to deliver financial and customer benefits. The cost being effective is a true differentiator for SME use since SME need not spend enormous amount on consulting firms.

Recognizing the fact that Indian SMEs face scarcity of talented professionals and limited cost & infrastructure at SME to train professional’s in house, national institute of design (NID), Ahmadabad and Autodesk have partnered to create an outreach programme for the SMEs in India. The aim of these courses would be to sharpen the skill sets of the professional working with SMEs and provide them with latest technologies used by peers in large countries.

Success Mantra’s From Nilkamal’S Vaman Parekh

From a plastic manufacturing facility produced house wares to se up the home solutions segment under the brand name @home Nilkamal has created newer openings for growth by spearheading international strategic alliances and collaboration in many foreign countries like Germany, French and Belgium.

Line of Defense
Having appropriation internet security solution has become imperative for Indian SMEs. Investing in internet security is necessary as SMEs are increasingly becoming vulnerable to interest risks like spam, Phishing, hacking, spy ware, Trojan, key logging and so on. SMEs that are not big enough to dedicate a separate tech system can have fairwell, anti spam and email filtering applications for desktops as well as sever. A virtual private network for remote works is always beneficial.

The right model

Six-sigma is a link road between efforts, higher quality and incentives and path of success for SMEs. Guidelines that would aid SMEs to raise six sigma levels in management

Create a climate of openness and trust
Encourage honestly and transparency
Get killed people on board
Constantly upgrade their skills
Educate on what is competition and service
Eventually expose them to the customer and to the vendor

The real advantage

With virtual instrumentation, SMEs can secure investments in test and measurement. Using virtual instrumentation allows companies to amortize the cost of test the systems over multiple projects and hence allowing them to offer price to their client.

Virtual instrumentation allows SMEs to:
Meet increasing quality & efficiency demands
Maintain price competitiveness
Reduce rest time, test space and cost
Innovate faster
Deduce development time
Make technology investment meaningful for longer durations.

Software as a service (Saas)

With large enterprise market going through stagnation, the software companies have to focus on booming SMEs. IT requirements of SME sector are quite simple, best technology and support at low cost. Understanding these characteristics of SME sector is the key for any service provider. The saas model understands the nuances of SME objectives. E.g. Caa-Cincoma as a service has allowed SMEs lacking IT resources to gain access to similar solutions and technology like the large counterparts.

5.18 The Bank of India

The role of banks, in general, has become very important in the above context and, bank of India [BOI] formulated its SME policy in October 2005, which was duly approved by the bank’s board of directors on 28/10/2005, encompassing the various schemes and norms within the overall ambit of the govt. /RBI directives.

The SME sector’s demands were comprehensively taken care of by the bank through a credit delivery model as explained below.

The BOI specialized SME branches

All the then-existing specialized SSI branches at 32 centers were redesigned as SME branches as per board approval dated 30/06/2005 with a view to increase the credit flow of SME segment in these centers by giving a special trust on marketing. It is envisaged to designate some potential general banking branches as SME branches in due course.

SME cells at zonal offices

Specialized SME credit cells have been proposed to be set up at zonal offices in all key centers having good potential for SME advances, with the functions
Processing of all proposals where the limits are beyond the managers delegated authority branches would forward all rotated paper rasp for an evaluation at SME cell with their recommendations.

Responsible only for obtention of security documents from the borrower and for perfection of other securities as well as monitoring of the unit’s operations.

Turnaround time would be reduced, ensuring that stipulated time schedules are strictly followed by both-branches and SME cell;

The critical parameter for measuring the cell’s performance would be the reduced turnaround time and SME business growth with the introduction of the centralized processing at the SME cell.

Credit thrust
In tune with RBI directives to increase the outreach of formal credit to the SME sector, our semi-urban and urban branches were advised to make concentrated efforts to provide credit cover on average every year to at least 5 new micro/small/medium enterprises each.

In terms of the extant RBI guidelines credit is made available to all segments of the SSI sector, as under:

40% of the total credit to small scale industry and tiny industries with investment in plant and machinery up to Rs. 5 lakhs,

20% of the total credit goes to SSI unites with investment in plant and machinery between Rs. 5 Lakhs and Rs. 25 Lakhs and

The remaining 40% goes to SSI unites with investment in plant & machinery exceeding Rs. 25 Lakhs.

Cluster-based lending approach
Cluster based approach for financing SMEs is expected to result in less transaction costs, and risk mitigation, besides providing an appropriate scale for improvement in infrastructure. The SME branches would also have adequate operational flexibility to extend finance/render other service to other sector/borrows. SIDBI has already initiated the process of establishing small enterprises financial centers (SEFCs) in select clusters. Risk profile of each cluster will be studied by a professional credit rating agency and such risk profile reports when made available in bank(s) would enable us to consider adoption of the cluster comprehensive credit saturation.

Credit Tenure: The banks term loan exposure to SME sector would be generally have a 7-10 year maturity.

Credit Acquisition:

Apart from direct/primary credit acquisition, BOI may also consider take-over of advance accounts from other banks/FIs. If the following minimum financial Parameters for a credit rating of minimum AA as per BOI credit rating model, thus treating the account as a new one.

Maximum debt equity ratio of 3:1 in the case of medium enterprises, and small enterprises enjoying working capital limits over Rs. 5.00 Crores and 4:1 in the case of tiny enterprises, & small enterprises enjoying working capital limits up to Rs. 5.00 Crores.

Current ratio around 1.20:1 for accounts with limits up to Rs. 5 Crores, where turn over method alone would be applied for assessment of the working capital (as against 1.33 prescribed normally).
Minimum interest service coverage ratio (ISCR) of 1.50:1 as against 1.75:1 prescribed normally. If term loan was also proposed to be over, the minimum Debt: service coverage ratio (DSCR) should be 1.25. The assets coverage ratio should not be less than 1.50.

**Credit appraisal:**

Although same appraisal norms cannot be uniformly applied to micro, small and medium enterprises, broadly the appraisal would involve:

- The acceptability of the product manufactured its popularity-market demand market competitors.
- Checking out for Willful defaulters’ list of RBI, specific approval list (SAL) of ECGC etc.
- Evaluation of State and Central Govt. Policies
- Techno-economic Appraisal of units
- Project Cost, the Proponent’s own financial contribution, projection for three years, and other important parameters which would include the BEP, liquidity. Solvency, and profitability ratios, etc
- Project Cost, the Proponent’s own financial contribution, projects for three year, and profitability ratios, etc

**Working Capital Assessment:**

For working capital limits up to Rs.5crores, Turnover Method would be applicable as mandated under Nayak Committee Recommendations for financial working capital needs of the SMEs @20% of the projected turnover based on the assumption of three operation cycle. It is abundantly clarified that this 20% is the minimum WC limit to be sanctioned even of the proponent’s operation cycle is shorter than 3 months. MPBF method may be restored in specific cases with longer operating cycle. Branches should obtain and scrutinise latest audited financial of the constituent in all cases of WC limits above Rs.10lakhs. In cases of provisional balance sheets it should be ensured that in the audited financials, the variation is not beyond +/- 5%.

**Current Ratio:**

While a benchmark current ratio of 1.33:1 is always desirable, it is felt that some relaxations are provided to SMEs in their Current Ratio. They may be permitted to maintain a minimum current ratio of 1.20:1 as against 1.25-1.33:1 stipulated for others. Deviation for this range is not this range are not to be allowed (expected by one level above the sanctioning authority), particular if the rating gets below AA. Borrower has to improve the position by building up the current assets through infusion of more capital/funds.

**Debt: Equity Ratio:**

The following may be accepted as the benchmark in this regard:
- W/C limits over Rs.5Crores to micro& small enterprises: 3:1.
- W/C limits to medium enterprises: 3:1.
- W/C limits up to Rs.5Crores to micro & small enterprises: 4:1.

Credit Rating Model

Govt./RBI had advised that banks initiate necessary steps to rationalize the cost of loans to SME sector by adopting a transparent rating system with cost of credit being linked to the credit rating enterprise. The bank’s board had already of the following credit risk models,
The entry-level requirements the prescribed in this model would be applicable:

<table>
<thead>
<tr>
<th>Credit risk models</th>
<th>Amount sanctioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>[A] large corporate model</td>
<td>Fund/non-fund-based limits of Rs.500Lakhs &amp; above or Turnover Rs.5000Lakhs</td>
</tr>
<tr>
<td>[B] Mid-segment Model</td>
<td>Fund/non-fund-based limits of Rs.100Lakhs &amp; above but not exceeding Rs.500Lakhs &amp; turn over below Rs.5000Lakhs</td>
</tr>
<tr>
<td>[C] SBS/SSI Model</td>
<td>Fund/non-fund-based limits of Rs.10Lakhs &amp; above but not exceeding Rs.100Lakhs</td>
</tr>
</tbody>
</table>

The Bank had already adopted rating models a & c above. The model for amounts between Rs.1Crores and Rs.5Crores is under progress. The ratings given by reputed credit rating agencies such as SMERA, CRISIL etc, which have been approved by the national small industries corporation, are also considered for granting concessions in the interest rates, in tune with such credit ratings, based on parameters such as turnover, market position, operating efficiency, financial position, and management evaluation.

**Pricing:**

Risk of default in the SME sector is spread amongst a wider base of borrowers and therefore the pricing would be linked to the credit rating of the constituent keeping also the RBI directives from time to time.

In view of the severe competition in the market, interest rates offered at times may have to be lower than the rate arrived at reckoning the borrowers credit rating.

**Exposure Norms:**

Banks extent exposure norms would be applicable. Accordingly, the banks exposure is not to exceed:

15% of banks capital funds to individual borrowers including PSUs. (20% in case of exposures to infrastructure landing).

40% of banks capital funds to group borrowers (50% in case the additional exposure of 10% is on account of infrastructure projects, i.e. power, telecommunications, roads ports etc)

**Collateral securities and margin norms:**

Credit facility extended to a single micro & small enterprises, borrowers (i.e. erstwhile SSI), either by way of loan or working capital or both, without any collateral security or third party guarantee, will be covered, if eligible, under SIDBI’s credit guarantee fund scheme for small industries (CGFTSI).

A company’s limit of Rs.1Crore will be considered by branches to meet working capital and term loan requirements of SSI units.

As per extent RBI guidelines, micro & small enterprises with up to Rs.5Lakhs (i.e. erstwhile tiny and SSI) may be sanctioned credit facilities without any collateral security.

For customers with good track recorded, this waiver of collateral security may be for limits up to Rs.25Lakhs, provide CGFTSI cover is available however, the issue of collateral security would be issue of collateral securities would be addressed on a case-specific basis.
Margin requirements, which normally are 25%, would very depending on the nature of the special schemes.

**Time norms of disposal of applications:**

With the switchover to the simple turn over method for all advances for all in the SME segment up to Rs.5Crores, the time for processing of the applications and sanction has to be curtailed as under (from the of submission of competition of complete papers by the borrowers):

<table>
<thead>
<tr>
<th>Limits</th>
<th>Time limit not exceeding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to and including Rs.25,000/=</td>
<td>4 business days.</td>
</tr>
<tr>
<td>Over Rs.25,000/= and up to Rs.10Lakhs</td>
<td>8 business days.</td>
</tr>
<tr>
<td>Over Rs.10Lakhs up to Rs.5Crores</td>
<td>12 business days.</td>
</tr>
<tr>
<td>Over Rs.5Crore</td>
<td>20 business days.</td>
</tr>
</tbody>
</table>

A registration should be maintained at the branches to record the dates of receipt of applications/sanction/disbursement/rejections with reasons therefore.

**Delegation:**

In terms of the committee recommendations, the managers of re-designated SME branches (and newly formatted SME branches) are to be wasted with adequate authority to consider SME lending. However, higher lending powers are to be granted to lower level functionaries, a higher authority may grant additional sanctioning powers to such branch managers on a selective basis, keeping in mind the available potential etc., in accordance with the extent scheme of delegation of powers. Marketing:

A decided sales force team is already in place in all-potential centers to market SME credit. Relationship managers at the branches would take care of the clientele requirements and do up-sell/cross-sell at the identified branches.

**Training:**

Credit officials at the various levels have been adequately, with a view to up date them selves and also give renewed thrust to the SME landing. Training programs on an on going basis is proposed, for all the managers and senior credit officials at all branches handling SME credit so that the bank staff would be equipped with the necessary skill/expertise to achieve the required SME business growth.

**Additional pointers:**

**Tie-up for SME financing with SIDBI**

The MOU for a strategic alliance with SIDBI for acceleration of deployment of credit in 13 Zones covering 35 centers has already become functional to ensure adequate flow of credit to the SME sector at the above centers. Besides the above zones and centers, the joint financing with SIDBI is also taken up at other zones/centers mutually agreed upon.
**Bank’s SME schemes products.**

To assist and promote the growth of the SME sector, bank would formulate schemes and product for specific customers/areas/activates such as:
- Star channels financing catering to our manufacture/trader customers in the SME sector.
- Energy efficiency projects.
- Scheme for solar water heaters.
- SME business card.
- 45 cluster-based schemes at identified centers.
There will be continues reviews of schemes, products, and procedures for improvement and matching market expectations.

**Rehabilitatee of sick units & debt restructuring**

Rehabilitation involves pre-emptive identification of causes of sickness, assessment of the sick unit’s viability, and nursing viable sick unit to health to ensure that the unit generates adequate surplus to service the debt including burden and also to wipe off the past losses.

**Monitoring & reporting to top management**

The progress of the SME branches and the SME credit expansion as also the units under nursing would continue to be submitted to the board on a quarterly basis to ensure that the required emphasis at the bank is given to the SME sector.
Bank’s commitment thus seems in line with recent market trends.

5.19 **ICICI BANK**

ICICI bank, the country’s second largest bank and a proponent of emerging sector like SME and logistics, is the title sponsor. It is pertinent to mention that the bank has been engaged in promoting SMEs in various ways. It has set up a focused division examining the needs of the SMEs. The bank also provides SMEs with financial products and services which were earlier only available to large corporate houses. Apart from a range of customized credit products including competitively priced working capital solutions, it also offers cash management services across geographical barriers.

Customized transaction banking service and trade finance service bring in the convention and speed, giving SMEs the much-needed edge. It has adopted a cluster approach, so as to cater to the specific needs of various sectors such as textile, logistics, Pharma, IT, auto, etc. the bank also has a dedicated team to focus on the ‘logistics Cluster’.

**Cash management services [CMS]**

It is produced by which a company treasurer minimizes float by reducing the time taken for collection and payments. Downsizing employee strength due to automation enhances operational efficiency. Helps management to have greater control over system and enable them to take quick timely decisions.

Provides effective fund and cash management services, providing funds in time, quick transfers, and quick realization of outstation cheques, easy disbursements, account reconciliation, controlled process and customized MIS.
Benefits:

Reduction of period between the date the customer pays the bill and funds get available. This reduction in collection float may translate into substantial saving for the company.

Others:
ICICI bank medical equipments loans.
ICICI bank office equipments loans.
Local current account
Pre-paid current account
Email banking
Corporate internet banking
One stop office solutions
Smart business loans
Trade services: provide everything a growing business requires, including export, import, remittance, inland, advisory and online trade services.
ICICI bank emerging corporate group: a new business frontier!!
The ICICI bank emerging corporate (Ecorp) group has been formed to focus on the small and medium enterprises (SME) segment. The group will be driving all product initiatives related to the SME business space.
The bank perceives that the SME business and lending model has to be radically different from the traditional branch based model. The traditional model non-differentiated branch driven landing was not only high cost but also inefficient and could not cater to emerging requirements of the technologically savvy and impotent, entrepreneur. The group will thus introduce non-traditional products like the roaming current account (a value added current account with several attractive money management features), the SME portal, parameterized credit products, as well as products relatively new in the Indian market like channels finance, equipment finance etc along with traditional working capital products.

Besides new products the group shall introduced risk management tools like a judgmental scoring model etc as well as portfolio level credit risk management techniques, including structured landing models. The delivery would be multi-channel and involving marketing, brand management as well as a sales approach. Therefore the Ecorp Group offers challenging assignments for bright young talent in the filed of credit risk management, marketing and sales, e-commerce tools, product management, credit operation as well as relationship management. This new focus area would continuously require out-of-the-box thinking as well as a rigorous approach to systems and versatile relationship building skills in diverse markets.
Credit operations- due to firms system approach as well as a strong background in computerized bank operations, the assignment of building and developing processing systems which are quickly scalable and adaptable for a very high volume of transactions as well sustainable to quality standards, contingency procedures etc

Credit risk management- this involves developing credit risk models using judgmental and statistical techniques, recalibration models by linking of operational data and credit techniques as an ongoing process.
Product management- this involves introducing new initiatives in the SME business like liability and money management products, SME business card, credit/smart card applications, money management products (current account with value added services) and relationship products (loyalty point etc) apart from structured products.
Relationship management-the SME business model is likely to be systems centric with relationship function basically extended over a class of SME customers. Besides strong
communication skills the job would require sound knowledge of banking requirements of SME segment to actualize full cross-sell opportunity.

E-commerce- the ICICI bank emerging corporate (Ecorp) group has included developing systems for settlements-banking products developing SME portal, handling the portal based operations as well as B2B and B2C products suites.

6 Suggestions

The bank’s SME policy should cover all credit-related exposures (both fund-based and non-fund based) and the policy guidelines relating too credit risk management, credit delivery, credit monitoring and recovery were made uniformly applicable to the SME policy as well to the extent these have not been modified under the bank’s SME policy.

The paradigm shift that occurred with the enactment of MSME development Act 2006, the enabling instructions to enhance credit to the SME sector with outreach and financial inclusion is in the backdrop of Basel II. Credit rating as a necessary accompaniment to the higher flow of credit to the sector, proved enough cause for the sector to worry about on more than one count.

While SMERA has been set up with the exclusivity to the sector, the organization is struggling to exist as the RBI is still in the process of recognizing this as the rating agency. Basel II guidelines specify that under the standardize approach, which most banks (other than globally placed) would adopt as per the RBI’s instructions from April 2008, different risk weights are suggested for various categories of assets and these are intimately linked to the external rating of various categories of borrowers.

Theatrically, internal credit scoring models are effective instruments for the banks in loan organization, loan pricing and loan monitoring. But the bank’s rating architecture is different from the rating agencies and this part of the reasons for the banks credit management committee.

Banks would also do well to reduce the rate of interest on the rated at least by 50-100 basis points with a proviso that the rating of the SMEs would

7 Conclusion

From the research it can be inferred that a majority of SME units still prefer Nationalized banks & public sector banks, the preferences of SMEs regarding banks can be understood from the points given below.

What SMEs want:
1) Loyal and lasting banking relationships
2) Doorstep banking
3) Reliable Service Quality
4) Comfort/ Relationship with bank staff
5) Proximity to delivery channels
6) Low delivery cost
7) Combination of Personal & Business banking

One of the main reasons why SMEs prefer public sector banks is the one to one contact in public sector banks, although services provided by private banks are better & relatively faster, most SMEs are still with public sector banks.
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