

A Study on Assessing the Performance of Micro, Small and Medium enterprise of Canara Bank

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ABSTRACT

In a developing country like India, Small and Medium Enterprises (SME) assumes an important status. They play a vital role in the economic development, more so in a developing economy like India. The promotion and growth of SME sector has been a cardinal feature of the industrial Policy over the years. Its employment potential is huge. Its importance as a foreign exchange earner through exports is quite significant. It is established that SME sector contributes a substantial share to India's total exports. Micro, Small and Medium Enterprises (MSME) sector is the future of India. The SMEs are facing problems in obtaining finance for marketing, technology, research and development, infrastructure etc, because they cannot afford high investments. To reduce these problems of SMEs the banks provide various schemes and new products for MSME. The Bank provides various facilities for both manufacturing and service sector.

Key words: foreign exchange, Industrial policy, MSME, SME.

INTRODUCTION

Small and Medium Enterprises contributes to the growth of Indian economy by 45% of industrial output, 40% of exports, 42 million employments, create one million jobs every year and produce more than 8000 quality products for the Indian and international markets. As a result, MSMEs are today exposed to greater opportunities for expansion and diversification across the sectors. SMEs are best suited to Indian conditions for the following reasons:

- a) They can be set up with lower to fairly medium investments.
- b) Growth of SMEs can be evenly spread throughout the country giving a boost to industrialization of the regions.
- c) The SMEs can act as a supplement to the agriculture activity as many industrial activities under SME are agro-based and agro-related.
- d) Labour intensity in this sector provides an employment opportunity which is one of the foremost in the National Agenda. The employment opportunity in this sector is next only to agriculture.

As SME is a tiny industry, various banks and financial institution are eager to finance small and medium enterprise. SMEs face greater growth obstacles than that of large firms and limited access to finance is one of the major obstacles. Hence this study highlights on assessing the performance of micro, small & medium enterprise by Canara Bank to overcome the obstacle in financing MSME and also helps in providing suggestions to the Bank for betterment of the financing MSME sector.

Worldwide, the micro small and medium enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises. The MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India too, the MSMEs play a pivotal role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession.

MSME-Development Institute, Bangalore is a field office under MSMEDO-Micro, Small & Medium Enterprises Development Organization, the Ministry of Micro, Small & Medium Enterprises, and Govt. of India. MSMEDO is an apex body and a nodal agency for formulating, coordinating and monitoring the policies and development of small-scale industries in the country. In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the MSME are classified in two classes:

(a) **Manufacturing Enterprises-** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation Act, 1951). The Manufacturing Enterprise is defined in terms of investment in Plant & Machinery.

(b) **Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, are as under:

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed 25 lakh rupees
Small Enterprises	More than 25 lakh rupees but does not exceed 5 crore rupees

Medium Enterprises	More than 5 crore rupees but does not exceed 10 crore rupees
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed 10 lakh rupees:
Small Enterprises	More than 10 lakh rupees but does not exceed 2 crore rupees
Medium Enterprises	More than 2 crore rupees but does not exceed 5 core rupees

ASSESSING THE PERFORMANCE OF MICRO, SMALL & MEDIUM ENTERPRISE OF CANARA BANK:

With the economy gaining traction, the banking system in India is widely expected to play a major role in the broad-based inclusive growth process of the Indian economy. Bank credit covers about 55% of GDP. Extensive support by banks to micro, small and medium enterprises (MSMEs), agriculture and other productive segments and the thrust on financial inclusion as an integral element of the broader inclusive growth strategy makes banks an important enabler in facilitating India's economic growth and development. With Micro, Small and Medium Enterprises (MSME) emerging as the potential growth drivers of the Indian economy, Canara Bank's MSME portfolio recorded a healthy growth of over 30% to reach Rs.31074 crore.

Figure 1: Composition of Credit Segments (%): As of March 2011

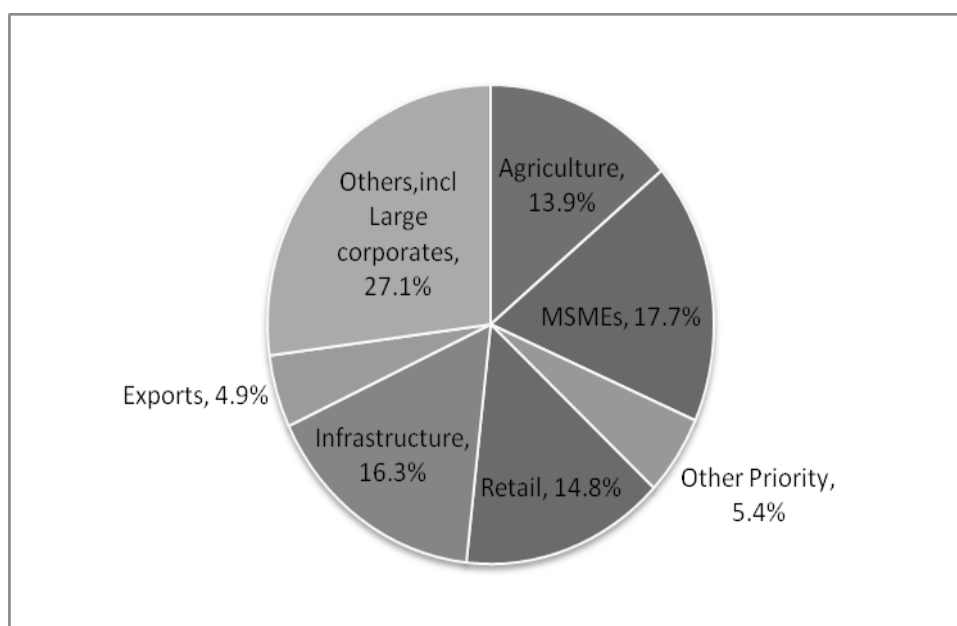


Table 1: The Number of accounts and total amount sanctioned for MSME sector from Canara Bank:

Year	Total amount sanctioned (in Crore)	No. Of Accounts
2005-06	11,619	84,280
2006-07	14,245	120,715
2007-08	18,600	327,197
2008-09	23,823	312,543
2009-10	31,074	513,562
2010-11	37,684	665,871

Figure 2: Total amount sanctioned for each year:

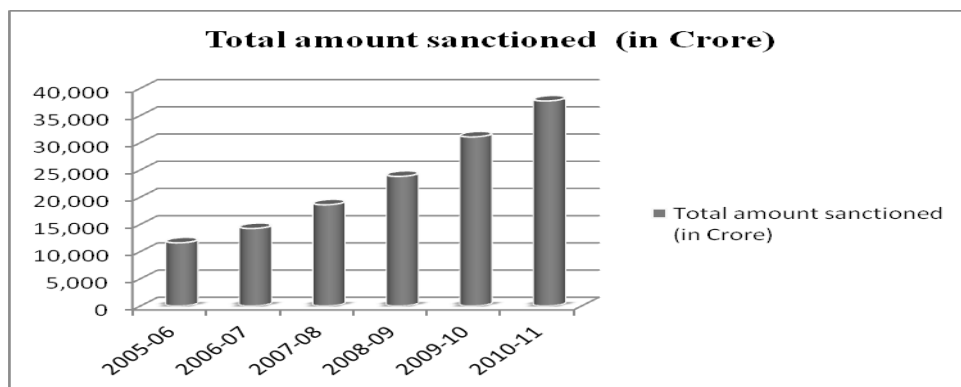
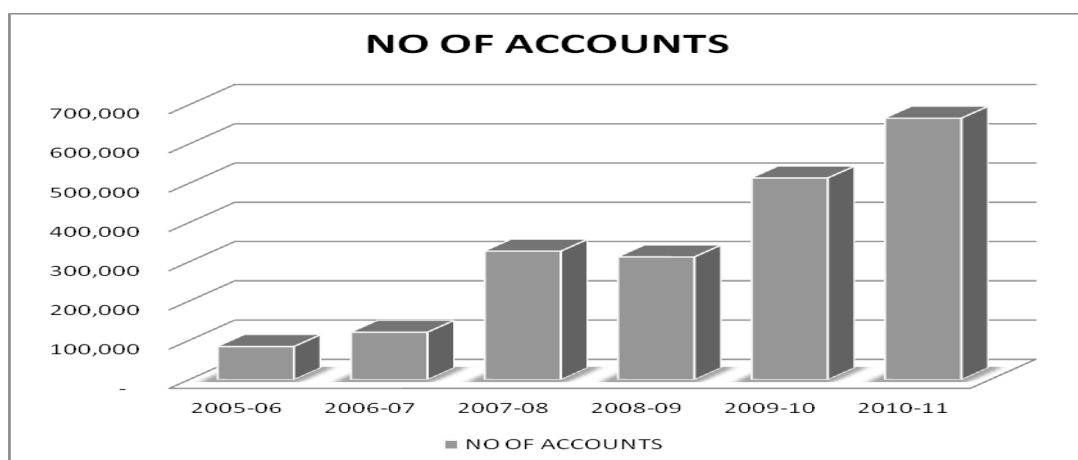


Figure 3: Number of Accounts:



Interpretation

It is evident that post recession, there has been a decrease in the number of accounts registered.

With the decrease in the number of accounts, the amount has decreased in the year 2009. This could be due to the various stimulus packages granted by the government to overcome recession.

In 2008, there was a drastic increase in the number of accounts but the increase in the amount was not up to the expected extent. This might be due to the small new accounts which do not involve huge amounts.

Table 2: Percentage change for the total amount sanctioned for MSME sector from Canara Bank:

Year	Total amount sanctioned (in Crore)	Percentage Change (%)
2005-06	11,619	-
2006-07	14,245	22.60
2007-08	18,600	30.57
2008-09	23,823	28.08
2009-10	31,074	30.44
2010-11	37,684	21.27

Figure 4: Percentage change for the total amount sanctioned for each year:

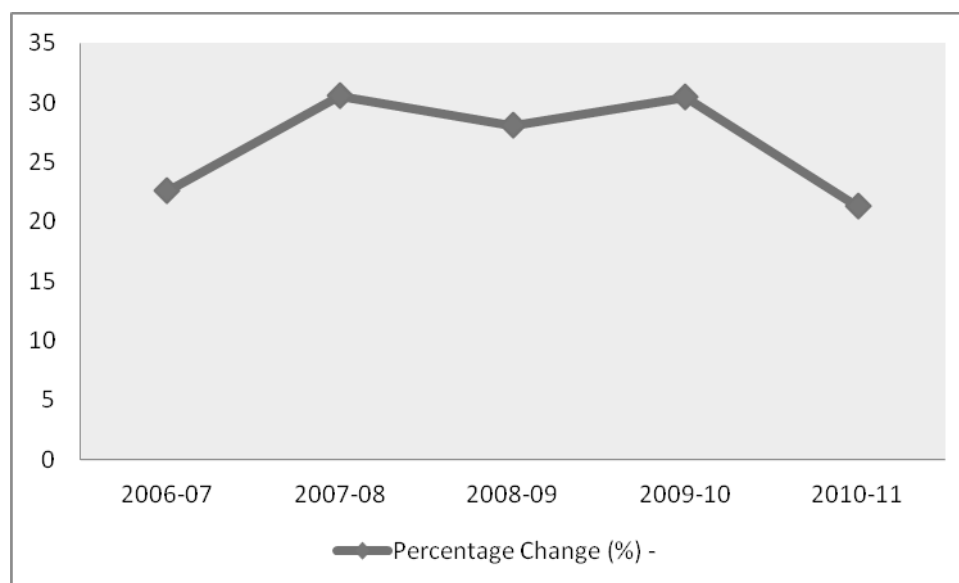


Table 4: Percentage change for the Accounts opened for MSME sector from Canara Bank:

Year	NO OF ACCOUNTS	Percentage Change (%)
2005-06	84,280	
2006-07	120,715	43.23%
2007-08	327,197	171.05%
2008-09	312,543	-4.48%
2009-10	513,562	64.32%
2010-11	665,871	29.66%

Figure 5: Percentage change for account opened for each year:

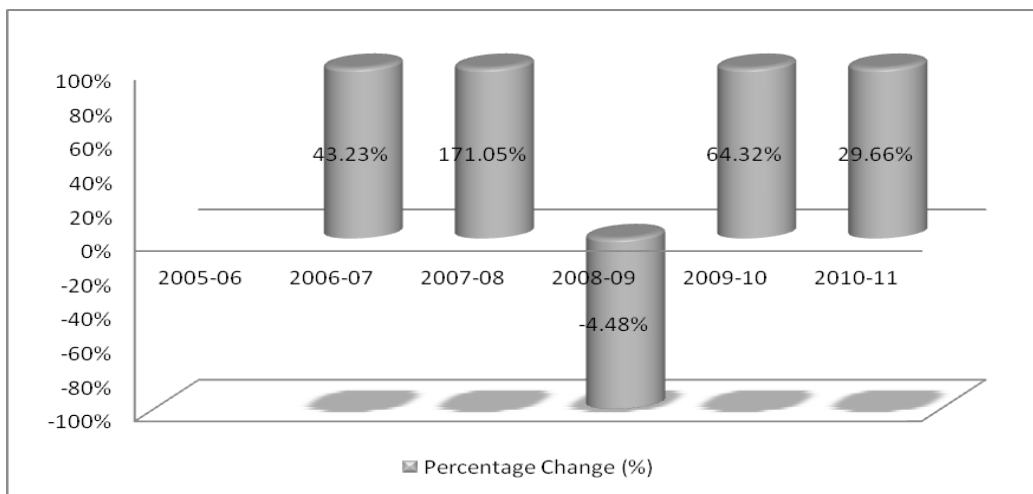


Table 5: Peer Banks Performance

BANK	2011(Cr)	2010(Cr)	% GROWTH
Bank Of India	29567	25441	16.22%
Punjab National Bank	35034	27499	27.4%
Bank Of Baroda	21111	14662	43.98%
Union Bank	22685	16149	40.47%
Central Bank Of India	9784	8287	18.06%
Indian bank	8193	6394	28.14%

Interpretation:

From the above Figures, amount sanctioned in 2006-2007 has increased by 22.60% and in the year 2007- 2008 has shows an increase of 30.57%. However, there has been slight fall in the

year 2008-2009 in percentage which is 28.08%. This is due to recession and uncertain market conditions and bank has not sanctioned sufficient funds when compared to the year 2007-2008. Due to recession affecting the market, many borrowers were not in a position to borrow loan from the banks.

In the year 2009-2010 the market performance had increased and there was improvement in the sanction of the bank and the percentage change was 30.44%. However in the year 2010-2011 there has been a drastic drop in the percentage from 30.44% to 21.27% in sanctioning of the funds for the MSMEs from Canara Bank. The Bank received an amount of Rs.16.9 crore from the Ministry of Micro, Small and Medium Enterprises, Government of India, during the year as a Nodal Agency for Technology Up gradation of SSI units under Credit Linked Capital Subsidy Scheme (CLCSS) and amount utilized during the years to come, Rs.13.3 crore.

The Bank has covered 49,260 accounts with an exposure of Rs.1471 crore as at March 2011 under the Credit Guarantee Scheme of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). With the decrease in the number of accounts, the amount has decreased in the year 2009. This could be due to the various stimulus packages granted by the government to overcome recession. In 2008, there was a drastic increase in the number of accounts but the increase in the amount was not up to the expected extent. There has been increase in the number of accounts and the amount sanctioned when compared to the peer competitor banks for the year 2009-2010 and 2010-2011.

Hence the performance of the bank has been good for providing finance for Micro small and medium enterprise sector when compared to other peer banks.

Conclusion

The small scale industries play a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. Small industry in India has found itself in an intensely competitive environment since 1991, thanks to globalization, domestic economic liberalization and dilution of sector-specific protective measures. The international and national policy changes have thrown open new opportunities and markets for the Indian small industry. Concerted effort is needed from the government and small industry to imbibe technological dynamism. Technological up gradation and in-house technological innovations and promotion of inter-firm linkages need to be encouraged consciously and consistently. Financial infrastructure needs to be broadened and adequate inflow of credit to the sector be ensured taking into consideration the growing investment demand, including the requirements of technological transformation.

Small industry should be allowed to come up only in designated industrial areas for better monitoring and periodic surveys. A technologically vibrant, internationally competitive small and medium industry should be encouraged to emerge, to make a sustainable contribution to national income, employment and exports. It is essential to take care of the sector to enable it to take care of the Indian economy.

Technology Resource Centre's (TRC) provides latest and right technology for attaining global reach by SSI units. SSIs which account for about 45 percent of the manufacturing output and form the backbone of industrial development in India now are not export competitive and contribute only about 34.08 per cent of exports as on 2007-08. Boosting the contribution of SSIs in total exports of India is vital to India's future economic growth, which can be promoted in the following manner. Policy intervention for SSIs could be particularly export-effective when it is based on the Triple C (Customer oriented, Collective and Cumulative) However, it is also essential to create and sustain a business environment that reinforces the international competitiveness of the export sector as a whole. This can be achieved by active collaboration between governments, the private sector and international agencies with a view to reaping the significant potential benefits of exports through SSIs.

The Banks are looking at the SME sector as a commercially viable sector. RBI's initiative to further smoothen the flow of credit to SSIs, which primarily depend on finance from banks and other financial institutions. Under the proposed scheme, banks will be encouraged to establish mechanisms for better coordination between their branches and those of SIDBI that are located in the 50 clusters identified by the Ministry of Small Scale Industries.

The Report also depicts the performance of Micro, small and medium enterprises of Canara Bank. It shows the trend that is increasing percentage and decreasing percentage in the performance of MSME schemes of Canara Bank. The bank always catered to small enterprises and when the small enterprises turned into medium enterprises, the bank's role seemed to vanish. This has made it tough to target the same companies again as the scope of Canara Bank is limited to small enterprises. In nutshell, it can be concluded that Bank's motto towards MSME is **“Catch them young and Watch them grow”**.

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