
Repayment behaviour of Micro, Small and Medium Enterprises towards Commercial Banks in Madurai

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Abstract

Micro, Small and Medium Enterprises (MSME, erstwhile SSI) sector is the backbone of every country's development. They play crucial role in providing large scale employment at comparatively less capital, at the same time help in balanced industrialization of rural and backward areas of the country. The biggest problem faced by the sector is getting adequate and timely finance from banks. However some of the banks show reluctance in sanctioning loan to micro and small enterprises due to the poor repayment history. Hence the need for analysing the pros and cons of repayment behaviour of these enterprises and the problems involved in it is imperative. The current study mostly dependent on primary data collected from the target group by administering a structured questionnaire and secondary data from government agencies. Simple random sampling technique was used to identify the samples in the study area. The primary data thus collected were analysed using various tools to identify the repayment behaviour of micro, small and medium enterprises. It is found that despite considerable increase in quantum of financing to the sector from banking institutions, still considerable gap exists. The repayment behaviour largely depends on the adequacy of loan and the borrowal process which need to be strengthened. Further, Marketing of products and delayed collection from their buyers make the enterprises repayment irregular.

Key words: MSME Finance, Banks, Repayment behaviour by MSMEs.

INTRODUCTION

Micro, Small and Medium Enterprises (MSME, erstwhile SSI) sector is the backbone of every country's development be it a developing or developed country. MSME sector generates employment to 1142.90 lakh people through 488.46 lakh units across India (MSME Annual Report 2013-14). The employment in MSME increased at an annual growth rate of 9.84 per cent for manufacturing sector and 2.6 per cent for services sector during 2001-02 to 2006-07 (4th All India Census of MSME, 2006-07). MSMEs play in reducing regional imbalances and assuring more equitable distribution of national income and wealth. Unlike other industries Micro and Small Enterprises rely heavily on the organised sector such as banks for their finance, due to credit pricing and the non availability of the consistent performance history.

Significance of the study

Micro, Small and Medium Enterprises (MSME)[®] contributes 8 per cent of the GDP, 5 per cent of the Manufacturing and 40per cent of the exports. National Manufacturing Policy envisages increasing the sectoral share of manufacturing in GDP to 25 per cent over the next decade from 16 per cent at present and generating additional 100 million jobs in manufacturing sector through an annual average growth rate of 12-14 per cent in manufacturing sector. This can be possible only by strengthening MSME sector. Major chunk of MSME industries belongs to manufacturing, with its contribution of over 45 per cent in the overall industrial output and employs an estimated 59.7 million persons spread over 26.1 million

enterprises. In addition to that every MSE unit in manufacturing sector creates minimum two-three additional jobs in related activities (*MoMSME annual report, 2015*). MSMEs reliance on credit from banking sources is very high. Majority of financial institutions prefer collateral-based financing to mitigate risk, less credit requirement per unit is not financially attractive for banks (*Momina Bushra, 2014*).

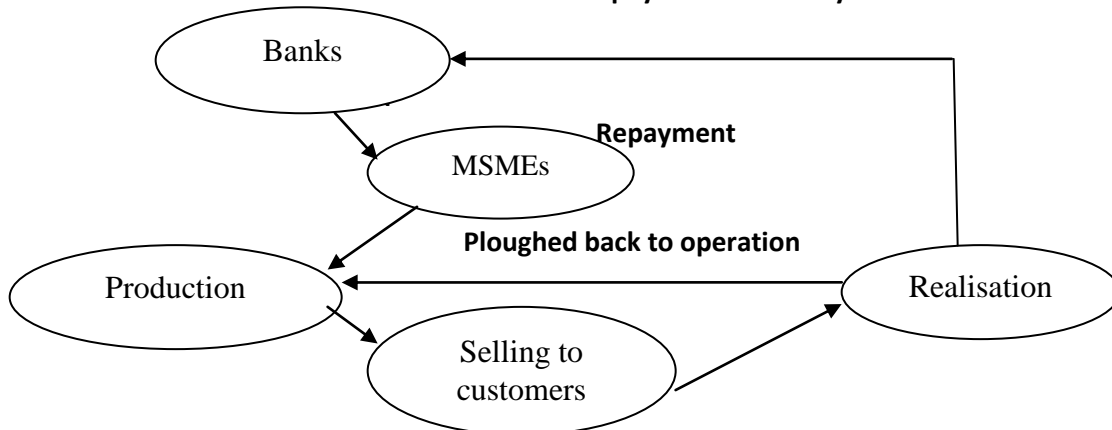
Statement of the Problem

MSMEs find it very difficult to get adequate finance from banking channel, where they can get finance at lesser cost. Banks when loaning to micro, and small enterprises, have been somewhat reluctant to conduct due diligence and thereby provide finance (*Harini Subramani, 2013*). MSME firms have lower profitability and therefore *banks are reluctant* to lend to them (*Ashok Thampy, 2010*). But many banks show reluctance in providing finance to MSMEs due to the higher non-repayment from the sector. This poses serious challenge to many micro and small industries, particularly those promoted by first-generation entrepreneurs who have innovation, enough knowledge and expertise, but lack of adequate finance. Banks claim that due to the high non-performance in this sector, reluctant in providing fiancé to this sector. Hence, it is important to analyse the repayment behaviour of MSMEs to find out the bank's claim is correct. In this context, a study conducted from MSMEs who availed loans from commercial banks in Madurai.

Objectives of the Study

- To study the repayment behaviour of MSMEs, those availed loans from banks.
- The banker's viewpoints in financing to MSMEs.

Chart 1 - Process model for Repayment of loan by MSMEs



The above model depicts the MSME borrowings to repayment cycle. The repayment is made from the profit arising from the realisation made from their borrowers. If the repayment gets delayed the interest charges will exhaust the profit.

Methodology

The study is empirical study. A structured interview schedule is prepared and used for data collection. The pattern of providing finance by banks is similar in all the cities, hence, the geographical area of Madurai, Tamilnadu is chosen on convenient basis. The MSME entrepreneurs who have availed loan/s from commercial banks are considered as populus.

Simple random sampling procedure adopted in the study. Data collected both from primary source and secondary source. Primary sources were collected from 90 entrepreneurs through pre-tested interview schedule from Micro, Small and Medium entrepreneurs who availed loans from various commercial

banks, secondary sources were collected from published reports of various government agencies. SPSS software is used for analysis, the statistical tools such as percentage analysis, factor analysis, chi squared analysis and correlation are used in the study.

Questionnaire consists of two parts. First part consists of demographic profile of the sample entrepreneurs, and in the second part few questions were framed in a five point likert scale to know the MSME entrepreneur's repayment behaviour.

Demographic profile

Table 1: Age of the MSME entrepreneurs

Descriptive Statistics							
	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Age of resp	150	26	57	39.84	7.205	.135	.209
Valid N	150						

The demographic profile indicates that the mean age is 40 years, which indicates the people with higher experience excel in MSME enterprises. Still the industry is dominated by majority 83 per cent male entrepreneurs. The place of domicile indicates considerable entrepreneurs have come from rural, which is an encouraging sign. The education level shows majority 72 per cent have education level upto higher secondary, though professionally qualified people also in the stream. It shows that the people with lesser education possess with more risk taking capacity and excel in the field. Further majority of the entrepreneurs have minimum of 15 years experience in their relevant field. Only a meager 6.7 per cent of entrepreneurs are fresh from their education. Majority 56 per cent of the MSME entrepreneurs are first time borrowers from commercial banks.

Factors influencing the Repayment Behaviour

Factor analysis was carried out to identify the variables forming factors, which predict the repayment behaviour. To check the internal consistency of the variables, reliability test was done and found that the cronbach alpha for all the variables are well above the rule of thumb 0.70 (Nunnally, 1978) prescribed for internal consistency.

Table 2 depicts the factor analysis results. KMO value is 0.79 which is above the accepted thumb rule value of 0.60 which signifies that the factor analysis is useful with the present data. The chi square value for Bartlett's test of Sphericity is 310.65 which is above, 0.05 and hence the null hypothesis 'correlation matrix is identical' is rejected. Hence the variables can be used for further analysis, also this indicates that the data is suitable for performing factor analysis. Principal component factor (PCA) analysis was done using Varimax rotation to identify the underlying factors for repayment behaviour of MSMEs. Variables with Eigen values greater than one were extracted and all factor loading greater than 0.70 were retained. Thirteen variables yielded three factors explaining 64.99 percent of variance which are displayed in Table 2 in the order of importance.

The most important factor which influences the repayment behaviour of MSMEs is Adequacy of loan with 24.96 percentage of variance, which includes five variables with reliability score of 0.89 with Eigen value 6.53. Further it indicates that when the loan amount is inadequate the firm may try for other costly sources of funds for the shortage which may affect the profit of the MSME enterprise. The next important factor which influences the repayment behaviour of MSMEs is Purchase process of loan with 21.77 percentage of variance, which includes four variables with reliability score of 0.86 with Eigen value 2.49.

Table 2: Factor loading of the variables for Repayment Behaviour

Factors	Variables	Factor Loading	Reliability Coefficient	Eigen Value	Variance in Percentage
Adequacy of loan	Requested amount is sanctioned as loan	0.833	0.897	6.526	24.959
	Additional loan sanctioned when required	0.795			
	Margin money stipulated is less	0.789			
	Loan amount is sanctioned on time	0.788			
	Loan amount sanctioned is adequate for the business	0.771			
Purchase process	Bank agreed in the first time itself	0.821	0.863	2.468	21.771
	Time taken to process the application is less	0.776			
	Loan covered under CGTMSE	0.77			
	Less number of visits made for loan sanction	0.74			
Cost of loan	Low cash margin prescribed	0.803	0.809	1.898	18.256
	Low rate of interest charged	0.788			
	Overall expenses for the loan is low	0.762			
	Subsidy available for the loan	0.722			

Kaiser-Meyer-Olkin Measure of Sampling Adequacy =.788

Bartlett's test of Sphericity = 310.653*

* Significant at Zero Percent Level

The final important factor which influences the repayment behaviour of MSMEs is Cost of loan with 18.26 percentage of variance, which includes four variables with reliability score of 0.81 with Eigen value 1.90.

Repayment of loan by MSME

The data collected from the micro, small and medium respondents about the regular repayment of loan is arrived and tabulated in table 3.

Table 3 – Repayment of loan by MSMEs

Repayment Category	Prompt repayment					Total
	With more Delay	With Delay	Moderate	Prompt	Highly Prompt	
Micro	6 (4.0)	9 (1.5)	28 (18.7)	9 (1.5)	36 (24.0)	88 (58.7)
Small	6 (4.0)	5 (3.3)	6 (4.0)	8 (5.3)	18 (12.0)	43 (28.6)
Medium	0 (0.0)	6 (4.0)	4 (2.7)	5 (3.3)	4 (2.7)	19 (12.7)
Total	12 (8.0)	20 (12.8)	38 (25.2)	22 (10.1)	58 (38.7)	150 (100.0)

Source: Survey data

Majority 38.7 per cent of MSMEs are highly prompt in their repayment. Another 10.1 per cent are prompt in their repayment. These two categories didn't require any reminder from the bank. 25.2 per cent of the sample entrepreneurs are Moderate in their repayment; they need reminders from the bank. 20 per cent of the entrepreneurs had delay but repaid in subsequent period. Only 8 per cent of MSMEs are irregular still have pending repayments.

Correlation between Marketing and Realisation of Sales with Repayment behaviour

The variables marketing of products and cash realisation of sales are used to test the correlation between repayment behaviour.

Table 4 – Correlation between Marketing and Repayment behaviour

		Repayment Behaviour	Marketing of products
Repayment Behaviour	Pearson Correlation	1	.681**
	Sig. (2-tailed)		.000
	N	150	150
Marketing	Pearson Correlation	.681**	1
	Sig. (2-tailed)	.000	
	N	150	150

** . Correlation is significant at the 0.01 level (2-tailed).

Table 4 displays the p value is 0.00, significant at 0.01 levels and the Pearson correlation is 0.681. From the table it is observed that there exists a strong positive relationship with marketing of the MSME entrepreneurs and the repayment behaviour of their loan. It implies that having better marketing of products makes the entrepreneurs more regular in repaying their loan obligations.

Table 5 – Correlation between Realisation of sales and the Repayment behaviour

		Repayment Behaviour	Realisation of sales
Repayment Behaviour	Pearson Correlation	1	.310*
	Sig. (2-tailed)		.015
	N	150	150
Realisation of sales	Pearson Correlation	.310*	1
	Sig. (2-tailed)	.015	
	N	150	150

*. Correlation is significant at the 0.05 level (2-tailed).

Table-5 depicts the test results. The p value is 0.015 which is less than 0.05 and the Pearson correlation coefficient is 0.310, which indicates a positive relationship exists with realisation of sales and the repayment behaviour of their loan. It indicates that faster time taken to receive the money from purchasers makes MSMEs regular in repaying their loan obligations.

Comparative Table of Non-Performing Assets

A comparative study made by Dr. K. C. Chakrabarty, DC, Reserve Bank of India from the annual reports of RBI is displayed in table 6. The table indicates the extent of Non-Performing Assets (NPA), restructuring and cumulative write-offs in micro and small vis-à-vis medium and large segments during the last five years.

Table 6 – Comparative study on Impaired Assets Ratio

Impaired assets ratio (in per cent)						
Segment	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	
Micro+ Small	10.7	10.6	9.4	9.7	10.6	
Medium+ Large	7.8	9.4	8.0	11.2	14.8	
Impaired Assets ratio = (GNPA + Restructured Standard Advances +Cumulative write off to (Total Advances + Cumulative write off)						
Restructuring in MSE Segment (in Percentage)						
		Mar 09	Mar 10	Mar 11	Mar 12	Mar 13
Micro + Small	Gross NPA Ratio	3.63	4.29	3.96	4.44	5.19
	Rest Std advances / Total Gross Advances	2.99	2.67	2.05	1.69	1.68
Medium + Large	Gross NPA Ratio	1.36	1.60	1.37	2.22	3.25
	Rest Std Advances / Total Gross Advances	4.80	6.39	5.04	7.52	9.80

Source: Dr. K. C. Chakrabarty, DC, Reserve Bank of India

While the headline numbers of non-performing assets (Gross and Net NPAs) are higher in this segment, if one reckons the extent of restructuring and write-offs that are resorted to in the medium and large borrower segments, the credit risk would appear to be much lower in the Micro and Small Enterprises (MSE) sector. The table indicates the extent of NPAs, restructuring and cumulative write-offs in micro and small is less compared to medium and large segments during the last five years ending March 2013.

Findings

- From the analysis, Adequacy of loan plays major role in deciding repayment behaviour.
- While majority of the MSMEs are regular in their loan repayments. Only 8 per cent of the sample entrepreneurs were irregular, those still have over dues.
- There is strong positive correlation exists between marketing of their products and repayment behaviour.
- There is positive correlation exists between cash realisation and repayment behaviour.
- Impaired assets ratio is comparatively lesser than the corporates.

Recommendations and Conclusion

Despite the increase in financing to the sector there is still a considerable credit gap which needs to be addressed by the Banks.

Impaired assets are comparatively less in micro and small sector compared to corporates, the repayment behaviour depends on adequacy of loan. Hence banks come forward to finance adequately especially to micro and small enterprises.

Marketing and delayed collection from their buyers make repayment irregular, steps may be taken to have common marketing efforts in all cities which will boost their sales and the act implemented for delayed payment to MSMEs to be actively implemented.

In view of its limited access to alternative sources of finance, Banks should support emerging MSMEs, even if the loan size is small.

To conclude, in general the repayment behaviour is good with MSMEs, and hence banks extend finance to MSME entrepreneurs, especially new MSME clients and shouldn't hesitate even if they are smaller amount loans.

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