

Working Capital Problems Of Micro, Small And Medium Enterprises (MSMEs) In India

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ABSTRACT

India is a fast developing Country. Micro, Small and Medium Enterprises (MSMEs) is one of the pillars of growth of Indian Economy. Working Capital Management is very important for a company in order to balancing between risk and efficiency of firms. The Small Scale Industries has been renamed as Micro, Small and Medium Enterprises (MSMEs) with the introduction of Micro, Small and Medium Enterprises Development Act, 2006. MSMEs are facing many competitions from Domestic firms and the Multi-National Companies. Inadequate finance is the major problem for MSMEs. MSMEs internal sources are small. So they approach the various institutional agencies like all Commercial Banks, SFI, and SIDBI. The Initial Investment are from relatives, friends, non-banking financial institutions and non-governmental sector. The banking institutions are ready to provide finance to MSMEs with less processing time. They are unable to offer security guarantee required by them. MSMEs loans are provided with better interest rate in support of its growth. Various measures taken by government for the revival of sick enterprises. This study measures the Working Capital Problems of Micro, Small and Medium Enterprises (MSMEs). The Secondary Data have been used for the study. The period of the study covers 2015-2019 from the financial statement of financial position and income statement. It was concluded that Average Payable Period has shown positive effect. Inventories Turnover in Days has negative relationship.

KEYWORDS: Working Capital Management, MSMEs, Banks, Governments.

1. INTRODUCTION

Working capital is a part of finance. The balance allocation of funds between inventories, debtors and other components of working capital is crucial in working capital management. working capital management are important for considerable part of time on day to day working capital decisions since current assets are short term investments that are mainly used for meeting short term commitment, working capital management is concerned with the decisions that relates to investment in the current asset, current liability and the inter relationship that arise between them. The MSME sector is an important pillar of Indian economy. MSMEs contribute nearly 8% of the country's GDP, 45% percent of the manufacturing output and 40% of the exports. MSMEs provide the largest share of employment opportunity to the rural and backward areas people with lower capital cost. MSMEs create more number of entrepreneurship and also create more innovation. MSMEs contributes to the socio-economic development of the country. The formal credit market includes commercial banks, co-operative banks, foreign banks and non-banking financial institutions. These institutions are provide finance to MSMEs. Banks are most vital source of finance for business. The company able to continue its operations and ability to satisfy both short

term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivables and accounts payable and cash. The MSMEs in India is highly heterogeneous in terms of its size of the enterprises, variety of products and services and levels of technology. The ministry of MSME, Government of India imposed the (MSMED) Act in 2006, which defines MSME for both manufacturing and service sector.

REVIEW OF LITERATURE

Raji Sadiq 2017. Impact of Working Capital Management on SME performance in Nigeria. The secondary data were used in this study. The data used in this study was obtained from audited financial statement of respective firms. The period of the study covers the 2010- 2014. Twenty eight SME firms was used in this study. Both dependent variable and independent variable and control variables used in this study. Panel data test, Housman test was used. Regression analysis and correlation analysis was used for the study. It was concluded that Accounts Payable Period, Cash Conversion Cycle and Net Trading Cycle has positive effect on performance. Accounts Receivable Debt and Inventories Turnover in days has negative relationship with performance.

Crescent Ike Eya 2016. Effect of Working Capital Management on the performance of Food and Beverage Industries in Nigeria. Secondary data were used for the study. The data was obtained from the Financial Statement of Nestle Nigeria Pvt. Ltd. The period of the study was 2004-2013. Trend Analysis, Descriptive Analysis, Cash Ratio, Quick Ratio was used. Regression ordinary least square method was used for the study. The findings revealed that a positive relationship exist between current ratio, quick ratio and return on asset and the relationship is statistically significant. The result shows that management of working capital is important for the business organization performance.

Adusumalli Srinivasarao 2018. Problems and Perspectives of Micro, Small and Medium Enterprises in Prakasam District. Both primary and secondary data have been used for the study. The data have been collected from various publication of Government of RBI, Ministry of MSMEs, etc. The period of the study covers 2014- 2017. The percentage method and ANOVA one way have been used for the study. The data have been collected from the period of 2014-2017. Objective of this study is to assess the different factors affecting the growth and performance of MSMEs and to know the different challenges and problems of MSMEs have to face. Findings of the study was to those MSMEs who have availed finance form banks and financial institutions and try to find out the other problems faced by them affecting their performance.

Vinay kandapal, and Prof P.C. kavidalaya 2013. Implications of Working capital Management on the Profitability: A case of ONGC Ltd, India. The secondary data have been used for the study. The study period covers 2000 -2012. The data have Data have been collected from various research papers, journals and magazines of national and international publications, RBI reports from Ministry of MSME. Objective of the study is to analyze whether there is a relationship between working capital management and profitability. And to find out the effects of different components of working capital management and profitability. Correlation analysis and regression analysis have been used for the study. The study shows that the liquidity of the company has an impact on profitability. When there is an increase in liquidity the profitability of the company decreases and vice versa.

Papiya Manna, Dr. Tapas Mistri 2017. Status of MSME in India. A regional analysis. The objective of the study is to focus on the performance and growth of MSMEs. To find out nature of spatial disparity of MSME in terms of registration, output generation and employment generation. The study is based on the secondary data. This study is both quantitative and qualitative. And descriptive and analytical both. The data has been collected from the annual reports of MSME, all India census reports of MSME. MSME enhance the economic development, providing employment generation and reduce poverty etc. and MSMEs will boost up both developed and developing countries.

STATEMENT OF THE PROBLEM

MSMEs undertakings and large firms are different from one another due to the effects of working capital management. For MSMEs mobilizing working capital itself is a tough task since financial institutions have second thought over it. Small enterprises need finance to purchase raw material, procure stock, pay wages, and meet other working capital requirements. Despite to efforts of government of India, there continues to be a huge demand supply mismatch in MSME financing. As they are small, they face working capital problems. Hence the proposed study is to examine problems and issues to working capital financing of MSME.

2. METHODOLOGY

The purpose of this study is to investigate the working capital management of MSMEs in India with the use of secondary data. The data were obtained from audited financial statement of respective firms. The period of the study covers from 2015- 2019. Nine MSMEs firm will be used for the study. Return on Assets (ROA) will be taken as dependent variables. Accounts Payable Period (APP), Inventory Turnover in Days (ITID), independent variables and Current Ratio (CR) and Net Profit Ratio (NPR) taken as control variable.

3. OBJECTIVES OF THE STUDY

1. To understand the sources of working capital finance for MSME.
2. To understand the satisfaction level about the various forms of working capital financing.
3. To measure the issues and challenges in getting working capital for MSME.

RESEARCH HYPOTHESIS

In order to examine the relationship between working capital management and study units performance, Ho following will Hypothesis.

H0¹: There is no relationship between Working capital management and liquidity.

H0²: There is no relationship between Profitability and performance.

H0³: There is no relationship between Liquidity and performance.

Table 1 shows a pre-test analysis (descriptive statistic) of data obtained for the sample period 2015 to 2019 from small and medium firm. It shows the mean, median maximum and minimum for the variables; ROA, APP, ITID, CR, NPR. The kurtosis measure the peakedness of the

variables. Almost all the variables show a high peak (higher than four) except CR which shows low peak since it is less than four. Skewness determines the probability distribution of a random variable relative to the mean.

EMPIRICAL ANALYSIS : DESCRIPTIVE STATISTICS**PRE TEST ANALYSIS**

PARTICULARS	ROA	ITID	APP	CR	NPR
Mean	113.8378	-67.81081	1078.070	1.020000	1.503750
Median	94.29500	-54.00791	68.59000	0.900000	5.745000
Maximum	519.7200	-17.67278	8825.000	2.440000	27.70000
Minimum	7.740000	-549.5660	8.830000	0.290000	-89.28000
Std. Dev.	103.0289	81.94229	1993.754	0.511484	27.00613
Skewness	2.769368	-5.260142	2.247808	0.958840	-2.196686
Kurtosis	11.30580	31.45055	7.679887	3.432234	7.744439
Jarque-Bera	166.1065	1533.517	70.18650	6.440539	69.68570
Probability	0.000000	0.000000	0.000000	0.039944	0.000000
Sum	4553.510	-2712.432	43122.80	40.80000	60.15000
Sum Sq. Dev.	413983.1	261867.0	1.55E+08	10.20300	28443.92
Observations	40	40	40	40	40

TABLE NO 1

It shows almost all the variables are positive except for ITID and NPR which has a negative value. Since a negative skewness indicates, in the tail, the right-hand side is shorter than the left-hand side while a positive skewness means that the left-hand side is shorter than the right-hand side. Jarque-Bera test for the goodness of fit in a data distribution for the purpose of ensuring that skewness and kurtosis are normally distributed.

PEARSON CO-EFFICIENT CORRELATION

CORRELATION T-STATISTICS PROBABILITY	ROA	ITID	APP	CR	NPR
ROA	1.000000 ----- -----				
ITID	-0.006390 -0.039390 0.9688	1.000000 ----- -----			
APP	0.015082 0.092980 0.9264	0.166099 1.038324 0.3057	1.000000 ----- -----		
CR	-0.141484 -0.881029 0.3838	-0.110099 -0.682846 0.4988	0.028288 0.174448 0.8624	1.000000 ----- -----	
NPR	0.097180 0.601909 0.5508	0.625392 4.940562 0.0000	0.400494 2.694331 0.0104	-0.040768 -0.251522 0.8028	1.000000 ----- -----

TABLE NO 2

From the above table it shows the strength of relationships between variables. It indicates the direction of variables (either positive or negative values). A positive correlation is shown between the independent variables and performance while a mixed reaction was shown under the control variable (where only the current ratio has negative correlation on performance and others show a positive correlation with performance). The purpose of correlation analysis is to show whether the variables are multi-collinearity. From the correlation analysis, there is no evidence of multi-collinearity, which means the test does not rightly reflect a causal relationship.

REGRESSION

VARIABLE	COEFFICIENT	STD. ERROR	T-STATISTIC	PROB.
C	133.4438	41.47445	3.217493	0.0028
ITID	-0.170454	0.270238	-0.630754	0.5323
APP	-0.001766	0.009414	-0.187552	0.8523
CR	-29.75398	33.61421	-0.885161	0.3821
NPR	0.723420	0.877844	0.824087	0.4155

TABLE NO 3

R-squared	0.849678	Mean dependent var	113.8378
Adjusted R-squared	0.800734	S.D. dependent var	103.0289
S.E. of regression	106.5776	Akaike info criterion	12.29209
Sum squared resid	397557.2	Schwarz criterion	12.50320
Log likelihood	-240.8418	Hannan-Quinn criter.	12.36842
F-statistic	0.361524	Durbin-Watson stat	1.160948
Prob(F-statistic)	0.834264		

TABLE NO 4

The R-Square shows 0.84 variation in the dependent variable is explained by all independent variables. The F-Statistic and Probability shows that all the variables (independent and control variables) jointly have a significant effect on performance. Under APP will reject the null hypothesis since it has an effect on performance at 10% level of significance. The control variables (NPR) have an effect on performance at 10% and 5% level of significance. This means the null hypothesis will be rejected and alternate hypothesis will be accepted. Since panel data is main about choosing between fixed effect and random effect, the Pooled regression will not be analysis in full.

**HAUSMAN TEST
POOLED**

VARIABLE	COEFFICIENT	STD. ERROR	T-STATISTIC	PROB.
ITID	-0.473081	0.284350	-1.663725	0.1049
APP	0.002845	0.010443	0.272420	0.7869
CR	53.67433	24.00919	2.235574	0.0317
NPR	1.272366	0.966506	1.316460	0.1963

TABLE NO 5

R-squared	0.894365	Mean dependent var	113.8378
Adjusted R-squared	0.878063	S.D. dependent var	103.0289
S.E. of regression	119.6228	Akaike info criterion	12.50120
Sum squared resid	515146.3	Schwarz criterion	12.67009
Log likelihood	-246.0241	Hannan-Quinn criter.	12.56227
Durbin-Watson stat	1.092959		

TABLE NO 6

FIXED

VARIABLE	COEFFICIENT	STD. ERROR	T-STATISTIC	PROB.
C	135.3727	42.86744	3.157937	0.0035
ITID	-0.113489	0.291443	-0.389404	0.6996
APP	-0.000169	0.009697	-0.017451	0.9862
CR	-29.43829	34.33346	-0.857423	0.3978
NPR	0.650880	0.907488	0.717233	0.4786

TABLE NO 7

EFFECTS SPECIFICATION

R-squared	0.958985	Mean dependent var	113.8378
Adjusted R-squared	0.898374	S.D. dependent var	103.0289
S.E. of regression	108.4681	Akaike info criterion	12.40590
Sum squared resid	364725.3	Schwarz criterion	12.78590
Log likelihood	-239.1179	Hannan-Quinn criter.	12.54329
F-statistic	0.523336	Durbin-Watson stat	1.073897
Prob(F-statistic)	0.829692		

TABLE NO 8

RANDOM

EFFECTS SPECIFICATION

VARIABLE	COEFFICIENT	STD. ERROR	T-STATISTIC	PROB.
C	133.4438	42.21015	3.161414	0.0032
ITID	-0.170454	0.275031	-0.619760	0.5394
APP	-0.001766	0.009581	-0.184283	0.8549
CR	-29.75398	34.21049	-0.869733	0.3904
NPR	0.723420	0.893416	0.809723	0.4236

TABLE NO 9

WEIGHTED STATISTICS

R-squared	0.039678	Mean dependent var	113.8377
Adjusted R-squared	-0.070073	S.D. dependent var	103.0289
S.E. of regression	106.5776	Sum squared resid	397557.2
F-statistic	0.361524	Durbin-Watson stat	1.160948
Prob(F-statistic)	0.834264		

TABLE NO 10

UN WEIGHTED STATISTICS

R-squared	0.039678	Mean dependent var	113.8378
Sum squared resid	397557.2	Durbin-Watson stat	1.160948

TABLE NO 11

Fixed effect model. The R-Square shows 0.89, variation in the dependent variable is explained by all independent variables. Adjusted R-square indicates 0.87 variation in dependent variable is explained by all independent variables. The result shows that the lower the days of debt resettlement (APP) the better for the firm's (SMEs') performance. From the regression table (fixed effect), it indicates that working capital measured by APP, ITID, and CR has no significant effect on performance at 10% level of significance. Under efficiency, it has no significant effect on performance expect for model2 which is significant at 10% level of significance. Profitability, Size and Growth are positively significant to firm's performance at 1%, 5% and 10% level of significance.

Random effect model. The R square shows 0.039 variations in the dependent variable is explained by all independent variables. The adjusted R square indicates 0.07% variation in dependent variable is explained by all independent variables.

From the regression table it indicates that working capital measured by APP, ITID has no significant effect on performance at 10% level of significance. Under current ratio, it is significant at 10%, efficiency has significant effect on performance at 10% level of significance. Profitability, size and growth are positively significant to firms performance at 1%, 5%, 10% level of significance.

HOUSMAN TEST

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	2.790560	4	0.5935

TABLE NO 12

PERIOD RANDOM EFFECTS TEST COMPARISONS

VARIABLE	FIXED	RANDOM	VAR(DIFF.)	PROB.
ITID	-0.113489	-0.170454	0.009297	0.5547
APP	-0.000169	-0.001766	0.000002	0.2855
CR	-29.438291	-29.753980	8.429126	0.9134
NPR	0.650880	0.723420	0.025341	0.6486

TABLE NO 13

VARIABLE	COEFFICIENT	STD. ERROR	T-STATISTIC	PROB.
C	135.3727	42.86744	3.157937	0.0035
ITID	-0.113489	0.291443	-0.389404	0.6996
APP	-0.000169	0.009697	-0.017451	0.9862
CR	-29.43829	34.33346	-0.857423	0.3978
NPR	0.650880	0.907488	0.717233	0.4786

TABLE NO 14

EFFECTS SPECIFICATION

R-squared	0.118985	Mean dependent var	113.8378
Adjusted R-squared	-0.108374	S.D. dependent var	103.0289
S.E. of regression	108.4681	Akaike info criterion	12.40590
Sum squared resid	364725.3	Schwarz criterion	12.78590
Log likelihood	-239.1179	Hannan-Quinn criter.	12.54329
F-statistic	0.523336	Durbin-Watson stat	1.073897
Prob(F-statistic)	0.829692		

TABLE NO 15

In the Hausman test whether fixed effect or random effect is to be accepted, the test is carried out. From the test the fixed effect result is to be accepted at 5% level of significance.

4. CONCLUSION

The working capital management is much more important for small and medium enterprises. The main purpose of working capital management in any organization is to manage short term funds in order to ensure day to day business running of a firm. WCM measures by Account receivable period, account payable period, cash conversion circle, net trade cycle and inventory turnover in days on the performance. Current ratio, growth, efficiency, profitability have been used as control variables under the control variables we discovered that, firm sizes, growth in sales, Profitability and earning all affect performance of SME firms. Efficiency and Current ratio have substantial effect on performance.

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