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A Study on Fiscal Support Provided by Vijaya Bank to Msme in Coimbatore City

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ABSTRACT

This study discusses about the evolution of VIJAYA BANK policies for Micro, Small and Medium-sized Enterprises (MSMEs) in its countries of operations. This study is based on a review of internal Bank in financing MSMEs, as well as equity experience with small and medium-sized enterprises (MSME) in market economies.

"Micro Medium and Small Enterprises" already get credit under the priority sector lending target. There was also a view that 15% target for MSME's would lead to overcrowding within the priority sectors and banks may not be able to meet the requirement. VIJAYA BANK have to lend 40% of adjusted net bank credit or credit equivalent amount of off-balance sheet exposures, whichever is higher to agriculture, housing, MSMEs, etc. The norm for foreign banks is 32%.

Keywords : Fiscal Support, MSME's, Vijaya bank

A STUDY ON FISCAL SUPPORT PROVIDED BY VIJAYA BANK TO MSME IN COIMBATORE CITY

A Micro or Small or Medium enterprise can easily be set up for self-employment. The MSME sector is emerging as one of the dominant sectors of the Indian economy. The definition of small enterprise differs from country to country, it is related with the size if the employment (USA less than 500, Germany less than 300).

Coimbatore is known for its various industries, engineering goods, textile mills, educational institutions, health care facilities, pleasant weather, friendly culture and hospitality. There is a significant minority of people of North and West Indian origin in Coimbatore which gives it a cosmopolitan outlook. In order to protect, support and promote small enterprises as also to help them become self-supporting, a number of protective and promotional measures have been undertaken by the Government.

RESEARCH METHODOLOGY

The research design is Descriptive in Nature. Data was collected through a structured, validated questionnaire to the branch Managers and other higher authorities of VIJAYA BANK in Coimbatore district which constitutes totally 12 banks. The survey was conducted during the period from January to April 2011. This research is specifically to analyse the monetary support to the entrepreneurs.

OBJECTIVES OF STUDY

- To study the fiscal support provided by Vijaya bank to MSME in Coimbatore district
- To study various procedures followed by VIJAYA BANK for lending and sanctioning to MSME in Coimbatore District.
- To study various Type of Schemes given by VIJAYA BANK to MSME in Coimbatore District.

TABLE 1 SHOWING TOTAL NUMBER OF MEME HOLDERS IN VIJAYA BANK

S. NO	ENTERPRISES	NUMBER OF ACCOUNT
1	MICRO Enterprises	220
2	SMALL Enterprises	132
3	MEDIUM Enterprises	98
	Total	450

Source: Primary Data

There are 220 Micro Enterprises are having account, 132 Small Enterprises are there and 98 Medium Enterprises are having account in Vijaya Bank.

TABLE 2 SHOWING THE FISCAL SUPPORT PROVIDED BY VIJAYA BANK TO MSME ACCORDING TO MANUFACTURING SECTOR WISE

S. NO	ENTERPRISES	INVESTMENT IN PLANT AND MACHINERY
1	MICRO Enterprises	Does not exceed 25 Lakhs of rupee
2	SMALL Enterprises	More than 25 Lakhs rupee but does not exceed Crore
3	MEDIUM Enterprises	More than 1 Crore rupee but does not exceed 10 Crore rupee

Source: Primary Data

For Micro Enterprise Vijaya Bank provides loan amount up to 25 lakhs, for small industries a minimum of 25 lakh to maximum 1 crore and for medium industries nor exceeding 1 crore.

TABLE 4 SHOWING THE TYPES OF FACILITIES OFFERED BY VIJAYA BANK

S. No	ENTERPRISES	TERM LOAN (Max)	BILLS DISCOUNTING (Max)	LETTER OF CREDIT (Max)	OD FACILITY FOR W C (Max)	CASH CREDIT FOR WC (Max)
1	MICRO Enterprises	1 Lakhs	1 Lakhs	1 Lakhs	10% of the turn over ratio	10% of the turn over ratio
2	SMALL Enterprises	10 Lakhs	10 Lakhs	10 Lakhs	20% of the turn over ratio	20% of the turn over ratio
3	MEDIUM Enterprises	1Crore	1 Crore	1 Crore	30% of the turn over ratio	30% of the turn over ratio

Source: Primary Data

For the micro enterprises the term loan, bills discounting and the letter of credit the maximum amount is up to 1 lakhs, in case of small scale industry Vijaya bank provides maximum of 10 lakhs to the term loans, bills discounting and letter of credit. An amount of 10 lakh is provided for the medium industries sector towards term loan, bills discounting and the letter of credit.

The overdraft of 10% of the turn over is being taken into consideration for providing the loan to the micro enterprises. Maximum allowable amount for small scale sector by Vijaya bank is 20% of the turn over. For medium Enterprises sector. 30% of turn over ratio.

In case of cash credit for working capital 10% of the turn over is being taken into consideration for providing the loan to micro enterprises. Maximum allowable amount for small scale sector by Vijaya bank is 20% of the turn over. 30% of turn over ratio for medium Enterprises sector.

TABLE 9 SHOWING COLLATERAL SECURITIES REQUIRED FOR MANUFACTURING SECTOR:

Sl. no	ENTERPRISES	Various Collateral security sources of Vijaya bank		
		Immovable property worth	LIC bonds	Secured bond
1	MICRO Enterprises	60% of market value	80 % of market value	80% of market value
2	SMALL Enterprises	50 % of market value	80 % of market value	80 % of market value
3	MEDIUM Enterprises	50% of market value	80 % of market value	80 % of market value

Source: Primary Data

It is clear that Collateral Security Required for micro sector small and medium is 60%, 50%, 50% of the market value is being taken into consideration for providing the loan. With immovable property Maximum allowable Collateral Security given for micro small scale sector and medium sector is 80% to all by Vijaya bank is of the market value. Collateral Security give by Vijaya bank for small micro medium Enterprises with security bond is 80% to all respectively.

TABLE 10 SHOWING COLLATERAL SECURITIES REQUIRED FOR SMALL SCALE SECTOR

S. no	ENTERPRISES	MAXIMUM ALLOWABLE
1	MICRO Enterprises	60% of market value
2	SMALL Enterprises	50 % of market value
3	MEDIUM Enterprises	50% of market value

Source: Primary Data

It is clear that Collateral Security Required for Micro is 60% of the market value is being taken into consideration for providing the loan. With immovable property Maximum allowable Collateral Security given for small scale sector by Vijaya bank is 50% of the market value. Collateral Security give by Vijaya

bank for medium Enterprises sector is 50%.

TABLE 11 SHOWING INTEREST RATE CHARGED BY VIJAYA BANK TO MSME:

SL NO	ENTERPRISES	MINIMUM RATE	MAXIMUM RATE	AMOUNT
1	MICRO Enterprises	10.50%	13%	Up to 25 lakh
2	SMALL Enterprises	12.25%	13%	Up to 5 crore
3	MEDIUM Enterprises	12.25%	13%	5 crore and above

Source: Primary Data

It is clear that Vijaya bank charges interest rate with minimum 10.5% for Micro sector, 12.25% for Small and Medium sector. The maximum interest rate is 13% for all Micro Small and Medium Sector

TABLE 12 SHOWING PRIME LENDING RATE CHARGED BY VIJAYA BANK TO MSME

SL NO	ENTERPRISES	MINIMUM RATE	MAXIMUM RATE	
1	MICRO Enterprises	10.25%	13%	It may vary according to the lending amount to individual.
2	SMALL Enterprises	12.25%	13%	
3	MEDIUM Enterprises	12.25%	13%	

The same process is followed for prime lending rate factor also only their Minimum rate for Micro has increased.

TABLE 13 SHOWING SCHEMES OPERATED BY VIJAYA BANK TO GIVE LOAN TO MSME WITHOUT COLLATERAL SECURITY

SL NO	SCHEMES	MICRO ENTERPRISES	SMALL ENTERPRISES	MEDIUM ENTERPRISES
1	CGTFS	Up to 2 lakhs	From 2 lakhs - 5 lakhs	5 lakhs and above
2	Collateral free loan	Up to 5 lakhs	Up to 5 lakhs	Up to 25 lakhs

CGTFS = Credit Guarantee Trust Fund Scheme

For Micro Enterprises 2 lakhs, for Small Enterprises it is 2 lakhs to 5 lakhs, for Medium sector it is up to 5 lakhs. From the above table it is clear that collateral security it is up to 5 lakhs for all the three sectors.

Note: For collateral free loan they need to get Approval of Authority.

FINDINGS

There are 220 Micro Entrepreneurs having account in Vijaya bank in 2011. 132 small scale entrepreneur and 98 medium enterprises having account in Vijaya bank in 2011.

Vijaya Bank provides loans amount up to 10 lakhs for investment in plant and machinery to small scale industries. For medium industries fiscal support provided by Vijaya Bank is more than 2 crore but not exceeding 5 crore. Minimum time taken for sanction of loan is ten days. Once the

MSME applied the process will be done within 24 hours but to provide the support it takes around ten days.

- Vijaya bank charges interest rate with minimum 12.25%. For all the sectors Vijaya bank charge margin of 25%. Based on the amount needed, according to the Sector wise the Additional Enhancement is provided to MSME by Vijaya bank, Only 0.12% total loan to MSME is non performing assets, i.e. Out of 10000 MSME sanctioned loan from bank only 12 are having nonperforming assets. Only 12 out of 10000 could not pay loan installment interest and bank charges.
- Vijaya bank provides term loan, Bills discounting, Letter of credit, Overdraft for working capital and Cash credit for working capital but not providing Factoring services to their clients. It is not compulsory to gain experience for obtaining loan most of the cases Vijaya bank encourages new entrepreneur who does not have any work experience.
- The Collateral security, Technical feasibility, Qualification of entrepreneur, Experience feasibility of project, Economic feasibility all the above quoted eligibility are required for obtaining loan from Vijaya bank.
- The minimum time taken for sanction of loan is ten days. Once the MSME applied, the process will be done within 24 hours but to provide the support it takes around ten days. Around 10 MSME's are approaching Vijaya Bank on daily basis. When we compare all the 3 sectors, Vijaya bank has more comfort with MICRO SECTOR than Small and Medium sectors.

SUGGESTIONS

1. The decision on the loan application should be taken in a time bound manner. Once all the required documents have been filed by the applicant, the application should be reviewed and a stand taken within 4 weeks.

2. Information relating to credit appraisal done by the banks should be shared with the applicants. It would be helpful if the banks inform the units the areas where their performance has fallen below the rating parameters and counsel the units to perform better and measure up.
3. Guidelines on the amount of collateral required for different loan amounts (both fresh loans and renewals) should be specified by the RBI and implemented by the banks.
4. The present collateral-free loan limit is Rs 5 lakh. Further, as per the SSI charter of some of the banks, units with good track record and fiscal position are eligible for collateral-free loans over Rs 5 lakh and upto Rs 15 lakh. This limit for collateral-free loans should be enhanced further
5. Information on all loan schemes pertaining to the SSI sector should be made readily available. The banks should interact regularly with customers by way of mailers and keep them updated with regard to changes in such schemes.
6. The present composite loan limit for SSIs, which is Rs 25 lakhs, should be revised upwards. Banks should revert to quarterly compounding of interest on working capital loans where it is presently being done on a monthly basis.
7. The period of collection and credit of cheques should not exceed three days. In case it takes longer for the cheque to be cleared, banks should compensate the clients by paying penal interest for the inconvenience caused.

CONCLUSION

This study gives an in depth view of the style of functioning of the Vijaya bank. The performance scores in respect of lending to MSME sector by Vijaya bank. This study indicates that banks have exceeded in lending its target of lending.

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