

A Study to Assess The Performance of Micro, Small and Medium Enterprises (Msmes) in India with Special Reference to Tamilnadu



Entrepreneurship

KEYWORDS : Micro, Small and Medium Enterprises, Tamilnadu, Performance, Employment and Exports.

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ABSTRACT

MSMEs have been globally accepted as an engine of economic growth for promoting equitable development and have emerged as the single most important sector generating employment next only to the agricultural sector. They encompass a heterogeneous group of activities in the manufacturing, services, trade and agro-based businesses sectors. The major advantage of the sector is its employment potential at low capital cost. In India the MSMEs play a pivotal role in recent years, this sector has consistently registered higher growth rates when compared with the overall industrial sector. Tamil Nadu is well ahead in the industrial activities through dispersing industrialization. The State attracts Foreign Direct Investment to strengthen the capital in this sector. Against this background, this paper assess the growth and performance of MSMEs in India with special reference to Tamilnadu on the number of enterprises, exports, investment, employment generated and money value of the production.

Introduction

Industrial sector is the most essential one for the economic development of a country. The MSME has acquired a prominent place in the socio-economic development of India. MSME contribute significantly to employment generation, dispersal of industrial activity to rural and backward areas ushering in all round economic growth by value addition, ensuring the mobilization of local capital and developing entrepreneurial skills.

The overall credit of developing this sector goes primarily to the vision of Jawaharlal Nehru, the first Prime Minister of free India. In the words of our honorable Prime Minister Dr. Manmohan Singh, "The key to our success in employment lies in the success of manufacturing products and services in the MSMEs. MSME is important not only for its contribution to GDP but also for its stellar performance in exports and generating employment.

Concept of MSMEs

The MSME has emerged as a vibrant and dynamic sector and an engine of growth for present millennium. The development of these industries would create broader employment opportunities, assist in entrepreneurship and skills development and ensure better use of scarce financial resources and appropriate technology.

The SSI taxonomy has been changed to MSMEs in the year 2006. After the enactment of MSMEs Development Act 2006, the industries have been classified as Micro, Small and Medium Enterprises. These definitions are based on their investment in plant and machinery for manufacturing enterprises and on equipment for enterprises providing or rendering services, which is explained through the following table.

Table 1 – Investment Limit of MSMEs

Classification	Manufacturing Enterprise	Service Enterprise
Micro	Upto 25 Lakhs	Upto 10 Lakhs
Small	Upto 5 Crores	Upto 2 Crores
Medium	Upto 10 Crores	Upto 5 Crores

Source: Ministry of MSMEs, GOI, Annual Report 2012-2013

Statement of the Problem

In a developing country like India, the role and importance of MSMEs is very significant towards poverty alleviation, employment generation, rural development and avoidance of regional imbalance through the promotion and growth of various development activities. It acts as a catalyst for socio-economic transformation of the country. Tamilnadu stands No. 1 as India's hub

of MSMEs. Against this backdrop, the present paper attempts to highlight the growth and performance of MSMEs in India with special reference to Tamilnadu.

Review of Literature

Singh et al. (2012) in their study entitled "Small Scale Industries: An engine of Growth", found that the performance of Small Scale Industries on policy changes which have opened new opportunities for this sector. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

Kalyan et. al (2011) in their study entitled "Competitive Performance of Micro, Small and Medium Enterprises in India" found that the MSMEs have performed extremely well and enable the country to make the process of providing additional employment and rural industrialization possible.

Garg and Walla(2012) in their study entitled " Micro, Small and Medium Enterprises(MSMEs) in Post reform India: Status and Performance" found that the significant growth of MSMEs have been taken place over a period of time and this sector is the major donor to GDP, employment and exports in Indian economy.

Objectives of the Study

- To examine the growth and performance of MSMEs in India in terms of number of enterprises, investment, production, employment and exports.
- To assess the performance of MSMEs in Tamil Nadu regarding the number of enterprises, investment, production and employment.

Methodology

Data used in this study are secondary in nature and mostly collected from the annual reports published by the Ministry of MSME, Policy Note of State Government, Report of Directorate General of Commercial Intelligence and Statistics, Journals, websites etc. Statistical tools like growth rate percentage and compound annual growth rate are used in this study. The study has covers the period from 2006 to 2012.

Performance of MSMEs in India

The Small Scale Industries has been renamed as Micro, Small and Medium Enterprises (MSMEs) with the introduction of MSME Development Act of 2nd October 2006. The MSMEs play a pivotal role of Indian Economy. In recent years this sector has consistently registered higher growth rate compared with other sector. Thus MSMEs are important for the national objectivity of economic growth. The growth and the performance of MSME sector in terms of number of units, investment, production and employment for the period from 2006-2007 to 2011-2012 is contained in table 2.

Table -2 Performance of Micro, Small and Medium Enterprises in India

Year	No. of Units (in lakh)	Investment (in crores)	Production (in crores)	Employment (in lakh)
2006-2007	261.01	500758	709398	594.61
2007-2008	272.79 (4.51)	558190 (11.46)	790759 (11.46)	626.34 (5.33)
2008-2009	285.16 (4.53)	621753 (11.38)	880805 (11.38)	659.35 (5.27)
2009-2010	298.10 (4.53)	693835 (11.59)	982919 (11.59)	695.38 (5.46)
2010-2011	311.52 (4.50)	773487 (11.47)	1095758 (11.47)	732.17 (5.29)
CAGR	4.52%	11.48%	11.48%	87.32%

Source: Annual Report of MSME 2012-2013

(Figures in parentheses indicate growth rate in percentage as compared to their respective previous years).

From the above table.2 it is observed that the number of MSME enterprises have increased from 261.01 lakh units in 2006-2007 to 311.52 lakh units in 2010-2011. The annual growth rate is around 4 percent, which is consistently took place. There has been a steady growth in investments and production during 2010-2011 over 2006-2007. The investment and production increased from Rs.500758 crore and Rs.709398 crore in 2006-2007 to Rs.773487 crore and Rs.1095758 crore in 2010-2011 respectively. The annual growth rate in the investment and production grow around 11 percent. The employment in MSMEs increased from 594.61 lakh in 2006-2007 to 732.17 lakh during 2010-2011. The growth rate in the employment is around 5 percent. This shows that the MSME sector is performing well and predicts a bright future for MSMEs growth in the Indian economy.

Performance in Exports:

The performance of MSME exports for the period from 2006-2007 to 2010-2011 is contained in table 3.

Table - 3 Performance of MSME Exports

Year	Exports (in millions)	Growth Rate
2009-2010	82,494	----
2010-2011	111,403	35.04
2011-2012	131,483	18.02
2012-2013	128,978	-1.90
CAGR	16.06%	

Source: DGCI&S

The exports of MSME sector is growing at the rate of 16.06 percent (Compound Annual Growth Rate) for the period from 2009-2010 to 2012 -2013. This is evident in the table 3; the exports went up from 82,494 millions in 2009-2010 to 128,978 millions in 2012-2013. The growth rates are fluctuating during the study period. In the year 2012-2013, there is a downtrend in MSME exports. This is due to inadequate market development, limited R&D and innovation, and physical infrastructure

Performance of MSMEs in Tamil Nadu

Tamil Nadu is one of the well developed states in terms of industrial development. In the post-liberalization era, Tamil Nadu has emerged as one of the fore runners by attracting a large number of investment proposals, specially during the recent times. The State of Tamil Nadu, with its significant coverage of both traditional and modern industries, stands No. 1 as India's hub of Micro Small and Medium Enterprises.

Tamilnadu MSME (33.13 Lakhs) occupies the third position after Uttar Pradesh (44.03) and West Bengal (36.64) in terms of enterprises. Tamilnadu leads in various sectors such as automobiles, auto ancillaries, spinning, textiles and food processing. A remarkable feature of the MSME enterprise in Tamilnadu is the presence of industrial clusters in various parts of the state. There are 45 identified MSME clusters. The major clustered in-

dustries in the States are textiles, leather products, rice milling, automobiles, etc.,

The MSME sector has a major contribution to the economy of Tamilnadu. It has 8.44 lakh registered MSMEs (as on 28/02/2013). This sector contributes about 10 per cent to the Gross Domestic Product (GSDP), provides employment to about 58.33 lakh persons and accounts for a total investment of Rs. 48,189 crores.

MSMEs in Tamilnadu produce over 8000 varieties of products including engineering products, electrical, electronics, chemicals, plastics, steel, cement, paper, matches, textiles, hosiery and readymade. MSME in Tamilnadu provides the largest number of employment in the country (15.23%).

Recognising the importance and pivotal role played by the MSME sector as a tool to catapult the state in the economic and social horizon, Government of Tamilnadu announced the first ever exclusive policy for Micro, Small and Medium Enterprises (2008) in the country.

The table below shows the performance of Tamilnadu MSME during the period from 2006-2007 to 2011-2012

Table - 4 Performance of MSMEs in Tamil Nadu

Year	No. of Units	Investment	Production	Employment
2006-2007	19201	714.41	2067.87	110026
2007-2008	27209 (41.70)	2547.14 (256.53)	8739.95 (322.65)	242855 (120.72)
2008-2009	32049 (17.78)	3557.89 (39.68)	13354.86 (52.80)	294255 (21.16)
2009-2010	41799 (30.42)	3214.22 (-9.65)	10880.01 (-18.53)	151743 (-48.43)
2010-2011	57902 (38.52)	5872.37 (82.69)	12500.86 (14.89)	405233 (167.05)
2011-2012	70639 (21.99)	7429.59 (26.51)	15496.00 (23.95)	502381 (23.97)
CAGR	29.76%	59.74%	49.60%	35.49%

Source: Policy Note, 2013 of Tamilnadu Government**Performance of Enterprise**

The numbers of units of MSME sector have been growing at the rate of 29.76 percent (Compound Annual Growth Rate) for the period from 2006-2007 to 2011-2012. There has been a phenomenal growth of MSMEs in Tamilnadu, during the study period. The number of MSMEs registered rose from 19201 units in 2006-2007 to 70639 units in 2011-2012. Of the total MSME units, the proportion of Micro, Small and Medium Enterprises were 55,932, 12,373 and 2,334 units respectively.

Performance of Investment

The investments in MSME sector have been growing at the rate of 59.74 percent (Compound Annual Growth Rate) for the period from 2006-2007 to 2011-2012. This

is evident in the table 4; the investment went up from 714.41 crore in 2006-2007 to 7429.59 crore in 2011-2012. This rapid growth in MSMEs has been the result of various financial incentives and promotional schemes announced in the MSME policy of the State Government.

Performance of Production

The production in MSME sector has been growing at the rate of 49.60 percent (Compound Annual Growth Rate) for the period from 2006-2007 to 2011-2012. The production in MSME sector has been continuously increasing except in the year 2009-2010, due to the industrial recession. It has resulted demand contraction. It has affected automobiles, textiles, leather industry in Tamilnadu MSME units.

Performance of Employment

The employment in MSME sector has been growing at the rate of 35.49 percent (Compound Annual Growth Rate) for the pe-

riod from 2006-2007 to 2011-2012. This is evident in the table 4; the number of employments went up from 110026 in 2006-2007 to 502381 in 2011-2012. This means that the Tamilnadu MSME sector creates more employment opportunities next to agriculture. Most of the MSME units in Tamilnadu are labour intensive in nature and generate more employment.

Conclusion:

MSMEs constitute an important and crucial segment of the industrial sector in the Indian economy. By contributing to the overall growth of the gross domestic product, employment generation and exports, the sector is emerged as the engine of growth for Indian economy. The performance of MSMEs has a direct impact on the growth of overall economy. The analysis shows that the MSME sector in India has registered a good performance in terms of number of enterprises, investment, production and employment. But there is a slowdown in MSME exports. The Tamilnadu MSME enterprises have registered a good performance during the study period except 2009-2010 due to industrial recession. It is high time that MSMEs stepped up their innovation drive to gain a larger share of global markets and became more responsive to emerging global market trends. Indian MSMEs need to diversify their export destinations and gain a larger share of emerging markets as well. With the aim to spur the growth of MSMEs the Government should come up with some incentives and subsidies. A vibrant, internationally competitive MSME industry should be encouraged to emerge, to make a sustainable contribution to national income, employment and exports.

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