



Commercial Banks Financing Micro, Small and Medium Enterprises in Karnataka

Kushalakshi

Research Scholar (UGC-SRF) Department of Studies and Research in Commerce, Mangalore University, Mangalagangothri-574199, Karnataka, India

Dr. A. Raghurama

Professor Department of Studies and Research in Commerce, Mangalore University, Mangalagangothri-574199, Karnataka, India

ABSTRACT

Karnataka is considered one of the most desired industrial locations in the country for setting up industries. The State has shown rapid industrial growth in the recent years. Micro, Small and Medium Enterprises form an important and growing segment of Karnataka's industrial sector. The performance of the commercial banks in Karnataka State is commendable in terms of spread of banking network, mobilization of deposits, disbursement of credits, penetration of the cooperative movement, etc. The CD Ratio of commercial banks in Karnataka State has hovered around 75% since last 3 years. Hence, there is a need to ensure continuous flow of adequate and timely credit from commercial banks to all productive and employment generating sectors to ensure improvement in CD Ratio. This paper has made an attempt to analyse the performance of MSMEs and commercial banks in Karnataka State.

KEYWORDS

Branch Network, CD Ratio, Commercial banks, MSMEs, Karnataka State.

INTRODUCTION

Worldwide, Micro, Small and Medium Enterprises (MSMEs) play a crucial role in sustaining and accelerating the competitiveness of an economy in turn form an integral part of economic growth, providing significant contributions to every aspect of economic development. MSMEs have been playing a momentous role in overall economic development of a country like India, where millions of people are facing the problems of unemployment and poverty. The MSME sector contributes about 8 percent of the GDP of India, 45 percent of the manufactured output and 40 percent of the total exports. The sector provides employment to more than 80 million persons through more than 36 million enterprises producing over 6,000 products.

A sound financial system is indispensable for the growth of a healthy and vibrant economy. The banking sector, being a vital constituent of the financial system is the lifeblood of any modern economy. Banks play an important role in the mobilization of deposits and disbursement of credit to various sectors of the economy. Among the formal financial institutions, commercial banks are the oldest institutions having the lion's share in the total banking operations, with a wide network of branches and commanding utmost public confidence. Commercial banks play an important role in the growth and development of the economy in general and enterprise sector in particular. They form the most important part of the Indian financial landscape in terms of their role in channelizing credit to the commercial sector and facilitating the process of financial inclusion. The Scheduled Commercial Banks (SCBs) in India comprise 26 Public Sector Banks (State bank of India and its 5 Associates, 19 Nationalized Banks and IDBI Ltd.), 20 Private Sector Banks (13 Old Generation Private Sector Banks and 7 New Generation Private Sector Banks), 30 Foreign Banks, 82 Regional Rural Banks (RRBs) and 1,606 Urban Co-operative Banks (UCBs).

REVIEW OF LITERATURE

Marcia Parda et al. (2010) analysed that increasing access to finance for MSMEs is important to improve overall economic growth in India. There is evidence that small enterprises in India are not currently able to grow to their potential because the flow of finance to these enterprises is restricted. On the

one hand, banks in India discriminate MSMEs because of high transaction costs and information asymmetry. **Sangeeta Mohanty (2011)** revealed that all most all the bankers favor to the big corporations while giving the loan. The bankers are giving more importance on the financial system, the size of the firm and less importance on business experience while giving the loan. **K. S. Ramachandra Rao et al. (2006)** revealed that the high incidence of bad loans arising out of Small Scale Industry advances could be one of the reasons for the declining share of SSI loans of the commercial banks. **C. Paramasivan and P. Mari Selvam (2013)** found that the MSMEs are powerful segment of the industrial development of a country. These sectors performed well with multidimensional aspects of the socio-economic status. Growth and progress of MSME in India is an emerging aspect which is directly associated with the sustainable development in the country. **DADA and Richard Mayowa (2014)** revealed that there is significant relationship between banks' credit and SMEs development in Nigeria.

OBJECTIVES OF THE STUDY

The present study is carried out with the following objectives:

To analyse the growth and performance of micro and small enterprises in Karnataka.

To analyse the performance of commercial banks in financing MSMEs in Karnataka.

RESEARCH METHODOLOGY

The present study is based on the secondary data. The secondary data were collected from books, journals, Government Reports and Websites.

DEFINITIONS OF MSMEs

In accordance with the provisions of MSMED Act, 2006, the MSMEs are classified into two categories viz., manufacturing and service sectors based on their Investment in plant and machinery and Investment in equipments.

Manufacturing Sector	
Enterprises	Investment in plant & machinery

Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Source: Ministry of MSME

GROWTH AND PERFORMANCE OF MSMEs IN KARNATAKA:

Karnataka is considered one of the most desired industrial lo-

cations in the country for setting up industries. The state has been consistently pursuing progressive outlook to meet the changing needs of the State's economy and industry. Karnataka is also considered to be one of the countries' Industrialised States comprising of large public sector industrial undertakings and large privately owned industries like sugar, steel, textiles, etc. In recent times, the state has emerged as the leader in IT and BT and knowledge based industrial sector, making rapid strides in IT and computer related industries and biotechnology with a strong research and development base. The State has a number of traditional cottage, handicraft industries, micro enterprises like power looms, handlooms, khadi and village industries, silk weaving etc. Micro, Small and Medium Enterprises form an important and growing segment of Karnataka's industrial sector. The below table shows the number of MSME units registered, employment generated and investment made in Karnataka from 2007-08 to 2014-15.

Table.1 Growth trend in MSMEs Registered, Investment and Employment created in Karnataka

Year	Micro			Small			Medium			Total		
	Units (Nos.)	Invst. (Rs. Lakh)	Empl. (Nos.)	Units (Nos.)	Invst. (Rs. Lakh)	Empl. (Nos.)	Units (Nos.)	Invst. (Rs. Lakh)	Empl. (Nos.)	Units (Nos.)	Invst. (Rs. Lakh)	Empl. (Nos.)
2007-08	13945	31352	77526	902	59801	38870	31	21174	6373	14984	112657	123402
2008-09	14812	28905	74726	869	56918	26815	24	15795	3493	15705	101618	105034
2009-10	16117	35110	76085	992	70404	31910	26	17302	3169	17195	122816	111164
2010-11	17408	36420	77567	998	65941	29701	28	18261	3958	18434	120623	111226
2011-12	19610	43650	86216	1370	91266	34400	41	24724	7771	21021	159641	128387
2012-13	22169	66019	105029	1981	116791	46029	56	34041	4493	24206	216851	155551
2013-14	23229	79416	110070	2661	144096	46741	76	61545	10536	25966	285056	167347
2014-15 (up to Dec.14)	17786	59736	83779	1877	90556	33421	58	41613	5086	19721	191905	122286

Source: Economic Survey of Karnataka 2013-14, 2014-15

An analysis of the above table shows that the number of units registered every year in Karnataka has increased since 2007-08. In the year 2007-08, there were 14,984 MSMEs units which created employment opportunities for 1,23,402 persons with an investment of Rs.1,12,657 lakh. In 2012-13, 24,206 MSMEs units have been registered with an investment of Rs. 2,16,851 lakh by providing employment to 1,55,551 persons. During 2014-15, 17,786 micro units, 1,877 small and 58 medium industries have been registered with an investment of Rs.59,736 lakh, Rs.90,556 lakh and Rs.41,613 respectively by providing employment to 83,779, 33,421 and 5,086 persons respectively. Thus, the above table reveals that there were 19,721 registered MSMEs with a total investment of Rs. 1,91,905 lakh employing 1,22,286 persons till December 2014. An increasing growth trend in the number of MSMEs registered, investment made and persons employed in MSMEs can be observed between 2007-2008 and 2014-15.

PERFORMANCE OF COMMERCIAL BANKS IN KARNATAKA

Karnataka state has a fairly well developed financial infrastructure. The State has pioneered in the establishment of many leading commercial banks and is home to a wide network of commercial bank branches in the country. The banking business is predominantly contributed by seven commercial banks constituting almost three-fourths of the banking business. Currently, twenty six public sector banks, sixteen private commercial banks and three rural banks are operating in the state.

2.Commercial Banks Branch Network in Karnataka

Sl.No.	Branch Network	March 2012	March 2013	March 2014	Average increase in 2013-14
1	Rural	3057	3295	3532	237
2	Semi-Urban	1668	1828	2210	382

3	Urban	1649	1699	1845	146
4	Metro/PT	1511	1608	1779	171
	Total Branches	7885	8430	9366	936

Source: Economic Survey of Karnataka 2014-15

An analysis of the above table 2 shows that the commercial banks branch network has significantly increased over the years in rural, semi urban, urban and metropolitan cities in Karnataka. There were 755 bank branches at the time of nationalization in 1969. Since then, 8611 bank branches have been added till March 2014. In 2012, there were 7885 branches of commercial banks in Karnataka State. It increased to 9366 during 2014, out of which 3532 (38%) bank branches were in the rural areas and 2210 (24%) in semi-urban areas, constituting 62 percent of the total numbers of branches in rural and semi-urban areas of the State. Thus, the

above table reveals that the branch network is providing better access of financial services to people in urban as well as in rural areas. Nevertheless, in the last couple of years there is increase in branch network in rural and semi-urban areas compared to urban and metropolitan cities.

Table 3. Performance of Scheduled Commercial banks in Karnataka

Sl. No.	Indicator	UNIT	2011-12	2012-13	2013-14
---------	-----------	------	---------	---------	---------

1	Branch network				
	Commercial Banks	Nos.	5610	6052	6876
	Regional Rural Banks	Nos.	1374	1460	1547
	Co-operative Banks	Nos.	901	918	943
	Total	Nos.	7885	8430	9366
2	Deposits				
	Commercial Banks	Rs. In Crore	371625.70	422145.50	485183.32
	Regional Rural Banks	Rs. In Crore	15821.80	17727.60	22009.36
	Co-operative Banks	Rs. In Crore	14710.47	19051.90	18232.69
	Total	Rs. In Crore	402158.00	458925.00	525425.37
3	Advances				
	Commercial Banks	Rs. In Crore	265964.25	296123.90	355415.27
	Regional Rural Banks	Rs. In Crore	13024.72	15143.10	18202.34
	Co-operative Banks	Rs. In Crore	20899.09	33603.00	21710.24
	Total	Rs. In Crore	299888.1	344870.00	395327.85
4	Credit-Deposit Ratio				
	Commercial Banks	%	71.57	70.15	73.25
	Regional Rural Banks	%	82.32	85.42	82.70
	Co-operative Banks	%	142.07	176.38	119.07
	Total	%	74.57	75.15	75.24

Source: Economic Survey of Karnataka 2014-15

The above table 3 depicts that the total number of branches of scheduled commercial banks (commercial banks, regional rural banks and co-operative banks) has significantly increased from 2011-12 to 2013-14 in Karnataka. In 2012, there were 7885 branches of commercial banks in Karnataka State. It increased to 9366 branches during 2014. The aggregate deposits of the scheduled commercial banks stood at Rs. 525425.37 crore at the end of March 2014, an increase of Rs. 66500 crore compared to previous year (March 2013), registering a growth of 14.49 per cent. Similarly, the total outstanding advances of scheduled commercial banks in Karnataka stood at Rs.395327.85 crore in March 2014 as against the total outstanding advances of Rs. 344870 crore in March 2013, indicating a growth rate of 14.63 percent.

The credit-deposit ratio of the Karnataka State is 75.24 per cent, which is higher compared to last year (March 2013). The CD Ratio of Karnataka State has hovered around 75 percent since last 3 years. In respect of some banks, it is even less than the stipulated benchmark level of 60 percent. Few banks have already crossed 100 percent CD Ratio. Banks which are having CD Ratio below 60 percent need to take necessary steps immediately to increase the flow of adequate and timely credit to productive and employment generating sectors of the economy to ensure improvement in CD Ratio.

Table 4. Outstanding Advances of SCBs to Micro and Small Enterprises in Karnataka

Year	No of Accounts	Outstanding Amount (in Millions)
2008-09	405809	120660.19
2009-10	395540	151659.12
2010-11	713619	199032.71
2011-12	720445	264318.73
2012-13	695526	275628.81
2013-14	732340	331473.39
2014-15	914118	459122.09

Source: Statistical Tables Relating to Banks in India 2014-15, RBI

The above table 4 depicts that the outstanding advances of scheduled commercial banks (SCBs) to micro and small enterprises have increased over the years in Karnataka. The total outstanding credit to micro and small enterprises has increased from Rs. 120660.19 million in 2008-09 to Rs. 459122.09 million in 2014-15. The number of loan accounts has increased from 405809 in 2008-09 to 914118 in 2014-15.

CONCLUSION

Karnataka is considered one of the most desired industrial locations in the country for setting industries. The State has shown rapid industrial growth in the recent years. Micro, Small and Medium Enterprises form an important and growing segment of Karnataka’s industrial sector. The performance of the commercial banks in Karnataka State is commendable in terms of spread of banking network, mobilization of deposits, disbursement of credits, penetration of the cooperative movement, etc. The CD Ratio of Karnataka State has hovered around 75% since last 3 years. Hence, there is a need to ensure continuous flow of adequate and timely credit to all productive and employment generating sectors to ensure improvement in CD Ratio.

REFERENCES

1. Annual Report (2013-2014), Department of Industries and Commerce, Government of Karnataka, pp.1-2
2. C. Paramasivan and P. Mari Selvam (2013), "Progress and Performance of Micro, Small and Medium Enterprises in India", International Journal of Management and Development Studies, Vol.2(4), April
3. DADA and Richard Mayowa (2014), "Commercial Banks' Credit and SMEs Development in Nigeria: An Empirical Review", International Journal of Research (IJR), Vol.1(8), September, pp. 305-319
4. Economic Survey of Karnataka 2014-15, Planning, Programmes Monitoring and Statistics Department, March 2015, http://des.kar.nic.in/docs/ES%20ENGLISH%20FINAL_2014-15.pdf
5. Jayanta Gogoi (2013), "Role of Commercial Banks for Development of MSMEs in Jorhat District, Assam: A Case Study", PARIPEX-Indian Journal of Research, Vol.2(12), December, pp.118-120
6. **K.S. Ramachandra Rao, Abhiman das and Arvind Kumar Singh (2006), " Commercial Bank lending to Small-Scale Industry", Economic and Political Weekly, Vol.41 (11), March, pp.1025-103**
7. Kalraj Mishra (2014), Press Information Bureau, Ministry of Micro, Small and Medium Enterprises, Government of India, <http://www.dcmsme.gov.in/media.pdf>
8. L. Rathakrishnan (2010), Innovation and Competitiveness of Small and Medium Enterprises, Kalpaz Publications, New Delhi, pp.237
9. Marcia Parida, Aayush Sanya, Kathryn Seitz, and Shwetha Shankar (2010), "Evaluating Access to Financial Constraints for Micro, Small and Medium Enterprises in India", International Center for Business Research, Vol.2, April, pp.142-151
10. Om Prakash Sharma and K.K. Sharma (2009), "Mergers and Acquisitions of Commercial Banks in India", Pratiyogitha Darpan , Vol.3(35), May, pp. 1961
11. Poonam Kundu (2014), "Micro, Small and Medium Enterprises (MSMEs) in India: Challenges and Opportunities", International Journal of Arts, Commerce and Education, Vol.2 (1), January, pp.25
12. Parvesh Kumar Aspal and Naresh Malhotra (2013), "Performance Appraisal of Indian Public Sector Banks", World Journal of Social Sciences, Vol.3(3), May, pp. 71
13. Statistical Tables Relating to Banks in India 2014-15, Reserve Bank of India, <http://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#14>
14. Silony (2011), Priority Sector Lending-A Study of Commercial Banks in Punjab since 1991, A thesis submitted to the Faculty of Business Studies of the Punjab University, Patiala, pp.1
15. Sangeeta Mohanty (2011), "Bank's Lending Decision to the Industrial Sectors", <http://www.ijcr.com/September2011/3.pdf>
16. http://www.dcmsme.gov.in/ssiindia/defination_msme.htm
17. <http://financialservices.gov.in/banking/listofbanks.asp>
18. <http://rbiidocs.rbi.org.in/rdocs/Publications/PDFs/05RTP211113C.pdf>