

# FINANCIAL PROBLEMS AND PROSPECTS OF MSMEs IN THE STATE OF TELANGANA

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**Abstract** MSMEs have been playing an important role in the overall economic development of a country like India, where millions of people are underemployed or even unemployed. Despite an intricate policy framework, their progress is hampered by a few basic constraints, like finance accessibility, lack of technical knowledge and skilled manpower, and inadequate infrastructure in suburban and rural areas. This paper presents the research methodology for analysing the financial problems and prospects of MSMEs in the Indian state of Telangana. The research model uses primary and secondary data for the analysis. The questionnaire was prepared and distributed to the managers or owners of 500 MSMEs, and their responses were obtained. The results show that most of the MSMEs are facing the financial problem of shortage of working capital. The MSMEs have many prospects, like improved productivity through Skill India, unprecedented entrepreneurial opportunities with industrial area development, and so on.

**Keywords:** Micro, Small, and Medium Enterprises (MSMEs), Financial Problems and Prospects, Telangana, Problems of MSMEs, Enterprises

## INTRODUCTION

Across the world, Micro, Small, and Medium Enterprises (MSMEs) are the growth engine for any nation (Panigrahi, 2012). MSMEs are the pillars of any nation; especially in India, it is considered as the base for all economic activities (Hussain, 2013). The MSME in India is acting as the power and spirit of economic growth in the 21<sup>st</sup> century (Upman & Wadhvani, 2017). The significance of MSMEs is attributable to their capacity to generate employment, the requirement of low capital and technology, the use of traditional or inherited skills, the use of local resources, mobilisation of resources, and exportability of products (Anuradha & Parthiban, 2014). This industry has grown enormously in the past two decades, in contrast to the corporate giants, with regards to their share in the Indian economy (Saini, 2014). MSMEs generate large-scale employment and provide entrepreneurial opportunities to the people in both rural and urban areas. Currently, around 11 crore people are being employed in these MSMEs (Nema & Suryavanshi, 2021; Rahman, 2011; Singh, 2021). Apart from creating employment opportunities at a comparatively lower cost compared to large industries, it initiates industrialisation in less developed areas, minimises regional imbalance, and persuades equitable distribution of growth

and development (Biswas & Vernekar, 2019). In India, only 55 per cent of the total MSMEs units are located in urban areas; the remaining 45 per cent of the units are located in rural areas of states like Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh, Karnataka, and so on. This leads to an equitable distribution of national income, poverty alleviation, and inclusive economic growth (Sethurajan & Shakena, 2021).

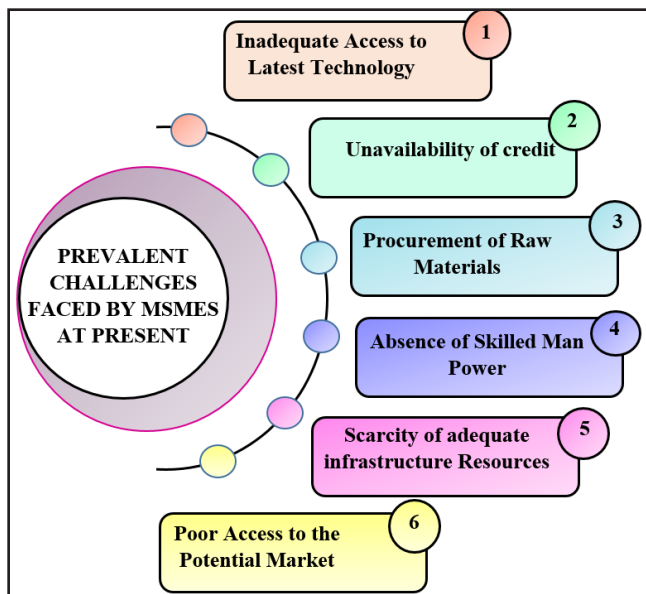
Multinational companies have played a pivotal role in the emergence of Indian MSMEs as world leaders in specific products. This sector plays an important role in the growth of GDP in the economy, as it creates employment opportunities at low capital cost (Jaswal, 2014). MSMEs are also able to do part of the work done by macro and manufacturing industries, which of course can accommodate workers, especially from local communities, and can support the country's economy (Sugiarto, 2018). The Indian economy is expected to grow by over 8 per cent per annum until 2020, and can become the second-largest in the world, ahead of the United States, by 2050, and the third-largest after China and the United States by 2032 (Singh & Singh, 2014). The diversification and expansion of the MSMEs open a new avenue for the export of quality products to different nations, and these will create opportunities for foreign exchange, thus

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boosting the country's economy (Rathore & Mathur, 2019). However, today, these enterprises continue to suffer from innumerable problems, which hinder their performance and growth (Suneetha & Sankaraiah, 2014). The MSMEs face several difficulties; there has been a high cost of traditional credit, restricted access to equity capital, raw materials at a competitive cost, unsuitable infrastructure, low technology levels, and lack of access to global markets (Dahiya, 2015). The challenges faced by Indian MSMEs are shown in Fig. 1. After the liberalisation and globalisation in India since 1991, this sector is facing keen competition from domestic organisations, as well as from the MNCs, because of the improved technology in the market (Kakde & Chaudhari, 2018). In this paper, the financial problems and prospects of MSMEs in the Indian state of Telangana have been analysed, and some policy measures have been suggested to overcome the financial problems.



**Fig. 1: Challenges Faced by Indian MSMEs**

The draft structure of the paper is as follows: section 2 presents the related work, section 3 presents the research methodology with their results, and section 4 concludes the paper.

## RELATED WORK

Kakde and Chaudhari (2015), evaluated the problems and prospects of MSMEs in the Bhandara district (Maharashtra, India). Totally, 175 MSME (25 MSMEs from each Taluka) were selected randomly for the generation of data. It was found that the MSMEs sectors in the selected region faced problems related to finance, labour, as well as marketing and technical issues. In addition to this, rising cost of

labour, shortage of skilled local labour, strikes by unions or lockouts were also some of the major problems faced. It was suggested that the government should encourage MSMEs by providing financial and technological support.

Ilahi (2017) focused on the problems and prospects of MSMEs in Delhi. A survey was conducted to study the problems of entrepreneurs in Delhi, and consequently, some measures were suggested for a better and effective environment for MSMEs. The result showed that 52% of the entrepreneurs faced financial problems. The major problem of getting finance because it was a lengthy procedure was experienced 39% of the entrepreneurs. The other problems faced by them included providing guarantee (33.3%) and indifferent attitude of officers (22.2%). The study recommended that the government should take concrete steps to control the prevailing corruption practices in the market, especially in the prices and availability of raw materials.

Saravanan and Vijayarani (2017), dealt with MSMEs and their role in economic growth and employment generation in the Indian context (Thanjavur district). The important problems were financial, marketing, social, and psychological problems. The degree of problems varied among the male and female entrepreneurs. The female entrepreneurs' perception of the problems was higher than the male entrepreneurs. However, at the same time, the female respondents also observed that there were more opportunities for MSMEs. The level of perception of problems was significantly associated with the profile of entrepreneurs, especially personality traits.

Kalyan and Babu (2011), examined the problems and prediction of MSMEs in the Chittoor district of Andhra Pradesh. A sample of 192 MSMEs was selected from among the 1,924 registered industrial units with the District Industrial Centre (DIC). The review of the problems expressed by the sample entrepreneurs revealed that non-availability of adequate finance, heavy and unhealthy competition from other firms, non-availability of skilled labour, poor marketing of the products, non-availability of water, lack of infrastructure, and location of the units were the major problems faced by the micro and small units in the district. The study highlighted the sustainability and relevance of MSMEs in India's economic development in the context of resource constraints, particularly capital resources.

Rahman (2015), conducted a study to identify major financing constraints faced by SME in Bangladesh and suggested some policy measures to overcome those constraints. The results showed that the inability to market SME products, inability to maintain product quality, lack of skilled technicians and workers, and poor management

skills of entrepreneurs were the major problems faced by the SME. An enabling economic environment comprising sound macroeconomic and structural policies, good infrastructure, a fair policy of competition, and efficiently functioning financial institutions also needed to be created and strengthened.

## RESEARCH METHODOLOGY

The present study uses both primary and secondary data to study extensively the problems faced by MSMEs in the state of Telangana. The primary data is collected through a well-thought-out questionnaire, which was prepared after an extensive literature review and pilot survey. The secondary data has been collected from annual reports, books, magazines, websites, and so on. The sample size of the study comprised 500 MSMEs, of which 446 fully responded. So the population size of the study is 446. Firstly, the financial problems faced by the MSMEs are analysed. After that, the prospects of MSMEs are identified on a five-point Likert scale. The financial problems faced by the MSMEs are shown in Table 1.

**Table 1: Enterprise-Wise Financial Problems**

Response to Financial Problems	Enterprise			Total N (%)
	Micro	Small	Medium	
Yes	142	71	85	298 (66.82)
No	75	46	27	148 (33.18)

Table 1 shows that out of the 446 enterprises, 298 enterprises (66.82%) are facing financial problems, while 148 (33.18%) are not. The financial problems in the enterprises arise due to the following reasons: well-established infrastructure, sophisticated technology, and good facilities in the enterprises. Of these, 142 out of 298 that have a financial problem are from micro enterprises, 71 from small enterprises, and 85 from medium enterprises. Types of the financial problems faced by the participating MSMEs are shown in Table 2.

**Table 2: Types of Financial Problems of MSMEs**

Problems	Enterprises			Total (%)
	Micro	Small	Medium	
Shortage of Fixed Capital	42	18	22	82 (18.39)
Shortage of Working Capital	65	32	34	131 (29.37)
High Rate of Interest	48	28	23	99 (22.2)
Meagre Assistance from Govt. Agencies	42	52	18	112 (25.11)
Others	11	5	6	22 (4.93)
<b>Total</b>				446

Out of the 446 enterprises, 18.39% faced a shortage of fixed capital, 29.37% faced a shortage of working capital, 22.2% faced a high rate of interest, 25.11% found meagre assistance from government agencies, and 4.93% faced other financial problems. These results show that the shortage of working capital was the major problem faced by the sample enterprises, followed by meagre assistance from government agencies, high rate of interest, shortage of fixed capitals, and others. The financial problems faced by the sample enterprises location-wise have been presented in Table 3.

**Table 3: Location-Wise Financial Problems**

Chi-Square value	P-Value	Financial Problems		Total N (%)
		Yes	No	
4.236	0.123			
	Rural	163	79	242 (54.26)
	Semi-Urban	62	34	96 (21.52)
	Urban	78	30	108 (24.22)
<b>Total</b>		303 (67.94)	143 (32.06)	446 (100)

Table 3 shows that 163 of 242 enterprises located in rural areas, 62 of 96 enterprises located in semi-urban areas, and 78 of 108 MSMEs located in urban areas are facing financial problems. Further, the Chi-square test reveals that there is no significant impact between the location of the enterprises and the level of financial problems faced by the enterprises (Chi-square value – 4.236 and p-value = 0.123). This means that irrespective of the location, 67.94% of the enterprises are facing the same level of financial problems. The financial problems faced by the sample MSMEs in various categories of the enterprises are presented in Table 4.

**Table 4: Group-Wise Financial Problems**

Chi-Square Value	P-Value	Financial Problems		Total N (%)
		Yes	No	
8.254	0.369			
<b>Enterprise groups</b>	Textile-based	58	17	75 (16.82)
	Engineering-based	69	19	88 (19.73)
	Chemical-based	52	20	72 (16.14)
	Mineral-based	48	15	63 (14.13)
	Agro-, forest-, and animal-based	85	21	106 (23.77)
	Others	32	10	42 (9.42)
<b>Total</b>		344 (77.13)	102 (22.87)	446 (100)

Table 4 shows that 85 of 106 (23.77%) agro-, forest-, and animal-based, 58 of 75 (16.82%) textile-based, 48 of 63 (14.13%) mineral-based, 69 of 88 (19.73%) engineering-

based, 52 of 72 (16.14%) chemical-based, and 32 of 42 (9.42%) MSMEs of other nature category are facing financial problems. Additionally, the Chi-square test reveals that there is no significant association between the category of the enterprises and the level of financial problems faced (Chi-

square value – 8.254 and p-value – 0.369). This shows that irrespective of the categories of the MSMEs, 77.13% are facing the same level of financial problems. The ownership-wise financial problems faced by the MSMEs are shown in Table 5.

**Table 5: Organisation-Wise Financial Problems**

Chi-Square Value	P-Value	Financial Problems		Total N (%)
		Yes	No	
3.654	0.325			
Form of organisation	Sole Proprietorship	185	38	223 (50)
	Partnership	99	26	125 (28.03)
	Private Ltd. Company	78	20	98 (21.97)
<b>Total</b>		362 (81.17%)	84 (18.83%)	446 (100)

Table 5 shows that 185 of 223 sole proprietary enterprises, 99 of 125 partnership firms, and 78 of 98 private companies are facing financial problems. From the Chi-square test, it is observed that there is no significant association between the form of organisation maintained by entrepreneurs and

the level of financial problems faced by the entrepreneurs/enterprises. Irrespective of the organisation, 81.17% of MSMEs are facing the same level of financial problems. Table 6 shows the financial problems faced by the sample MSMEs activity-wise.

**Table 6: Nature of Enterprise Activity-Wise Financial Problems**

Chi-Square Value	P-Value	Financial Problems		Total
		Yes	No	
2.236	0.698			
	Manufacturing	105	27	132 (29.6)
	Assembling	32	10	42 (9.42)
	Processing	98	14	112 (25.11)
	Repairing & Maintenance	48	17	65 (14.57)
	Services	86	9	95 (21.3)
<b>Total</b>		369 (82.74%)	77 (17.26%)	446

The table results show that 105 of 132 manufacturing enterprises, 32 of 42 assembling enterprises, 98 of 112 processing enterprises, 48 of 65 repairing and maintenance enterprises, and 86 of 95 service MSMEs are facing financial problems. Additionally, the Chi-square test reveals that

there is no significant influence between the nature of the enterprise activities and the level of financial problems faced by the MSME. Six major prospects of MSMEs in the near future are listed in Table 7, and the responses were collected on the Likert scale.

**Table 7: Prospects of MSMEs**

Prospects	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
P1 – Access to the capital market will improve the financing capabilities of MSMEs	85	98	115	78	70
P2 – Cluster development and industrial area development will boost the MSMEs infrastructure	93	81	99	98	75
P3 – MSMEs will contribute more to exports if government provides sufficient export promotion measures	85	92	116	75	78
P4 – Make in India scheme will ensure the growth of MSMEs by providing them with more opportunities	96	123	102	65	60
P5 – Programmes like Skill India, ESDP, and so on, will improve the performance and productivity of MSMEs	99	108	124	63	52
P6 – An increase in the purchase of reserved products will prove beneficial for MSMEs	86	85	119	82	74

Table 7 shows the response counts of respondents for each prospect. The highest number of people strongly agreed on P5 (99) – programmes like Skill India, ESDP, and so on, will improve the performance and productivity of MSMEs and P4 (96) – Make in India scheme will ensure the growth of MSMEs by providing them with more opportunities. The most agreed responses were received on P4 (123), P5 (108), and P1 (98). The highest of 124 responses were received for neutral on P5 (124), followed by P6 (119), P3 (116), P1 (115), P4 (102), and P2 (99). The most disagreed responses were received on P2 (98) and P6 (82). Around 78 responses were received for strongly disagree on P3, followed by P2 (75), P6 (74), P1 (70), P4 (60), and P5 (52).

The findings of the study show that lack of finance for working capital and meagre assistance from govt. agencies were found to be the most important problems, followed by the high rate of interest. The prospects of MSMEs are high for P5, P4, and P2. These problems and prospects must be given more importance in policy-making. Every problem must be dealt with an efficient solution. However, the most important problems must be tackled first and the most important prospects must be given priority.

## CONCLUSION

Out of the total sample of 446 MSMEs, 298 MSMEs (66.82%) are facing a financial problem, and among them, 142 are micro enterprises. The shortage of working capital (29.37%) was the major problem faced by the sample MSMEs. Moreover, 25.11% found meagre assistance from government agencies. There are 163 enterprises located in rural areas, 62 located in semi-urban areas, and 78 located in urban areas facing financial problems. Around 85 of 106 are agro-, forest-, and animal-based, 58 of 75 are textile-based, 48 of 63 mineral-based, 69 of 88 engineering-based, 52 of 72 chemical-based, and 32 of 42 MSMEs of other nature category are facing financial problems. In total, 185 of 223 sole proprietary MSMEs, 99 of 125 partnership firms, and 78 of 98 private ltd. MSMEs are facing financial problems. Most of the MSMEs in Telangana are micro-enterprises; hence, micro-enterprises should be provided more support with regards to the major identified problems. It was found from the study that MSMEs have many prospects, like improved productivity through Skill India, unprecedented entrepreneurial opportunities with industrial area development, and so on, which are big positives for MSMEs in the state. However, it must be remembered that emergent prospects can only be grabbed if the MSMEs get rid of their own problems. It was suggested that the government should collaborate with the private sector to provide better infrastructure to MSMEs in the state; also, the financial problems should be solved to improve the development of MSMEs.

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