

## **A STUDY ON FINANCIAL ASSISTANCE TO SMALL AND MEDIUM ENTERPRISES BY KSFC**

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### **ABSTRACT**

*Karnataka State Finance Corporation (KSFC) is one of the fast track term lending financial institutions in the country with assistance to over 1,66,726 units amounting to nearly Rs 12,226.27 crore over the last 54 years in the State of Karnataka since its inception up to 31-3-2013. KSFC is one of the vigorous and competently managed State Financial Corporations. In the present study researcher made an attempt to study the total investments and number of enterprises promoted by KSFC in the state of Karnataka for the period of eight years. Researcher found that from last eight years KSFC promoted 11,183 units or enterprises with an investment of Rs. 4,798.62 crore. Along with the work of KSFC is commendable in promotion of enterprises for the growth of economic development.*

**Keywords:** SMEs, MSME, Economic Development.

### **INTRODUCTION**

Small and medium enterprises (SMEs) have been measured as the engine of economic growth and pillar for promoting impartial development. The major gain of the sector is its employment budding at stumpy capital cost. The labour absorption of the SME sector is much higher than that of the large enterprises. The role of small and medium enterprises in the economic and social development of the country is well established. The sector is a nursery of entrepreneurship, often driven by individual creativity and innovation. The development of small and medium scale enterprises (SMEs) is significant because of their pivotal role for the economic development. Generally, The SME sector is important for the creation of employment, facilitation of broad based development, and the distribution of income. Its income generation activities contribute to both resource accumulation and poverty reduction. More generally the development of SMEs is seen as accelerating the accomplishment of wider economic and socio-economic objectives, including poverty alleviation.

### **Definitions of Micro, Small & Medium Enterprises**

In accordance with the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, the Micro, Small and Medium Enterprises (MSME) are classified into two Classes:

**Manufacturing Enterprises:** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.

a	Micro enterprises	Where investment in plant and machinery does not exceed Rs.25.00 lakhs.
b	Small enterprises	Where the investment in plant and machinery is more than Rs.25.00 lakhs but not exceeding Rs.5.00 crores.
c	Medium enterprises	Where the investment in plant and machinery is more than Rs.5.00 crores but does not exceed Rs.10.00 crores.

**Service Enterprises:** The enterprises engaged in providing or rendering of services defined in terms of investment in equipment.

a	Micro enterprises	Engaged in providing services where the investment in equipment is not more than Rs.10.00 lakhs.
b	Small enterprises	Engaged in providing services where the investment in equipment is more than Rs.10.00 lakhs but does not exceed Rs.2.00 crores.
c	Medium enterprises	Engaged in providing services where the investment in equipment is more than Rs.2.00 crores but does not exceed Rs.5.00 crores.

### **Background and Inception of the KSFC**

Financial institution play very important role in the economy of any country. These institutions facilitate covenant and effective channels of savings and investments, in a developing country like India, the role of these institutions becomes more pronounced in order to achieve rapid economic growth. Considering the need for such institutions, Industrial Financial Corporation of India (IFCI) was setup in 1948.

At the same time it was felt that there is necessity to establish similar institution with a view to assisting smaller industries in different state needs of all the same concerns sprawled all over the country.

Karnataka financial corporation was established by the government of Karnataka on 30th March 1959 under the provisions of SFC at 1951 passed. All along, KSFC has played a pioneer role in the development of micro and small scale enterprises in the state of Karnataka. It has fulfilled the objectives of developmental lending such as industrialization of backward areas, assistance to weaker sections, promoting first generation entrepreneurs, assistance technocrats and women, several units, which received start up assistance from KSFC have today become large industrial conglomerates. By now there are 18 SFC's functioning in the different states of the Indian union, these institution are closely modeled on the lines of IFCI, but different in the scope of their activities.

**Nature of the Business Carried**

Nature of the business of the KSFC is mainly lending Business. KSFC is a financial super market; it extends all types of financial assistance in the form of long term loans, short-term loans (in the form of corporate loans), lease finance, hire purchase finance, merchant banking and financial service etc. KSFC's assistance covers almost all types of industrial and service sectors.

KSFC is a category one merchant banker as approved by Securities and Exchange Board of India (SEBI). The Merchant Banking Division takes up management of public issues, DPG syndication of loans, bills discounting etc. The other activities are subscription to the non-convertible debentures and factoring services.

Sources of funds for KSFC are Share capital, Line of credit from SIDBI, Line of credit from banks, fixed deposits; Seed capital and other agency funding, Margin money from state Level Corporation, Recoveries, Income from interest and other activities.

KSFC provides long term loan for Establishing the new firm, Expansion of the existing firm, Modernization of the firm, Technology up gradation, Working capital requirements.

**REVIEW OF LITERATURE**

A few volume of literature available on the aspects of small-scale industries has been studied at length. A brief review of such important studies is made here.

Roy Roth Well and 'Water Zegveld (1982) reveal that SME have been and in general, continue to be, technologically innovative. Technology based new SMEs plays an important part in the emergence of new technology and in economic growth SME, particularly, young technology based SMEs also make an exceptional contribution to employment creation., and their larger counterparts, does represent an important vehicle for regional regeneration.

Ram Vepa (1983) in his study reports that over the last 25 years a network of institutions and policies has been developed in the country but not all of them have been success. But taken in totality, they have provided a well-organized frame works in which the small and cottage industry have been allowed to grow

Dias Syrian (1991) examines the scale, nature and effects of current sub contracting linkages between small and large Industries in Sri-Lanka, In general weaker relationships exist between large and small industries, however strong links exhibit with respect to more organized few larger firms. The reason for this weaker relationship is the immaturity of small Industries in meeting the requirements of large Industries in terms of technology, production cost, and quality and delivery services.

Sandesara (1988) describes the Institutional framework for the small and medium Industries in India. The impact of assistance on firms in this sector and the working of these institutions are also analyzed. He argues for a fresh approach to the institutional set-up and policy framework for this sector.

S.Ravi Prakash Singaravelu (1982) pinpoints the need to establish national level institutions or institutions at state level to finance tiny units, which come within the scope of small-scale sector. He also states that the loan should be project based, not security based.

The seminar conducted by the Reserve Bank of India (1959) on financing the small-scale Industries in India went deep into the problems of small-scale Industries, the Institutional set-up, role of government in assisting small-scale industries, resources of credit institutions and miscellaneous issues.

Narayanan (1964) in his thesis discusses the financial problems faced by Industries in general and recommends the setting up of an Industrial development Bank at the state level for mitigating the problems.

### **STATEMENT OF THE PROBLEM**

For the development of Indian economy there is a need for small and large scale industries. This leads to generation of employment opportunities, increase standard of living and purchase power etc. At present large scale industries are benefited by various all Indian financial institutions, at the same time small and medium scale enterprises also needs financial investment. The research gaps and relevant questions which strike the mind during the literature review on small and medium scale enterprises regarding their financial assistance in Karnataka, Hence there arises a need to address that what are the financial assistance provided by KSFC to small and medium scale enterprises in state of Karnataka.

### **OBJECTIVE OF THE STUDY**

- To understand the concept of SMEs and their financial requirements.
- To study the financial assistance provided by KSFC to SMEs and other sectors.
- to study size wise sanctions of KSFC to SMEs
- To offer suggestions based on findings of the study.

### **SCOPE OF STUDY AND DATA COLLECTION**

The present study is confined to KSFC and the data will be analyzed based on the information obtained from KSFC. And data will be collected for the period of eight years financial assistance provided by KSFC to small and medium scale enterprises. Data has been collected from KSFC annual reports, Research Journals and other documents etc.

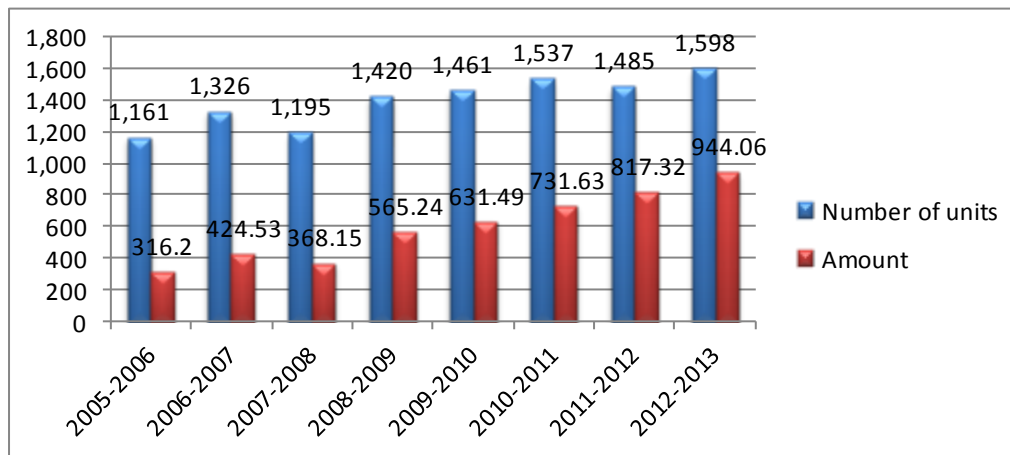
### **DATA ANALYSIS**

**Table 1.** Gross sanctions by KSFC with number of enterprises from 2005-06 to 2012-2013  
(Rs. In crores)

Years	Number of units	Amount
2005-2006	1,161	316.20
2006-2007	1,326	424.53
2007-2008	1,195	368.15
2008-2009	1,420	565.24
2009-2010	1,461	631.49
2010-2011	1,537	731.63
2011-2012	1,485	817.32
2012-2013	1,598	944.06

**Source:** Survey data

**Interpretation:** The above table indicates that the gross sanctions was Rs 316.20 crores to promote 1,161 units during 2005-06, Rs 424.53 crores to promote 1,326 units, Rs.368.15 crores to 1195 enterprises in the year 2007-08 & it increased to Rs.565.24 crores to 1420 enterprises in 2008-09 , and again it increased to Rs. 631.49 crores to 1461 enterprises in 2009-10, and in 2010- 11 it increased to Rs. 731.63 crores to 1537 enterprises, and it increased to Rs. 817.32 crores to 1485 enterprises in 2011-12 .if we look at 2012-2013 gross sanction is 944.06 crore to promote 1,598 enterprises.



**Graph 1.** Gross sanctions by KSFC with number of enterprises from 2005-06 to 2012-2013

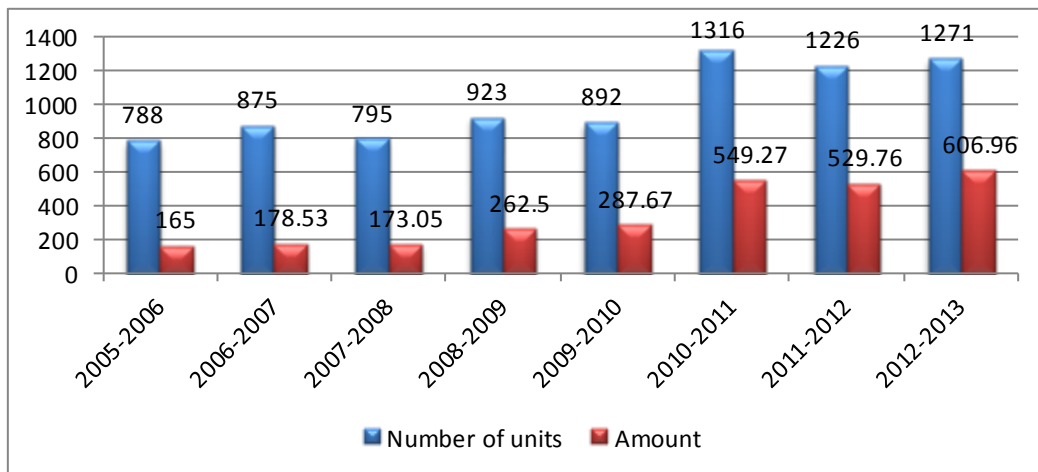
**Inference:** It can be inferred generally, there is a continuous increase in gross amount sanctioned during all the years. KSFC from its inception promoted 1, 66,726 units by financing Rs 12,226.27 crore over the last 54 years. The above graph depicts total enterprises promoted by KSFC from 2005-06 to 2012 -13 with investment. It can see that during 2012-13 maximum number of enterprises promoted with good amount of investment of Rs.944.06 crore.

**Table 2.** Financial assistance to micro and SMEs with number of units by KSFC from the year 2005-06 to 2012-2013  
(Rs. In crores)

Years	Number of units	Amount
2005-2006	788	165.00
2006-2007	875	178.53
2007-2008	795	173.05
2008-2009	923	262.50
2009-2010	892	287.67
2010-2011	1,316	549.27
2011-2012(Micro and Small)	1,226	529.76
2012-2013(Micro and Small)	1,271	606.96

**Source:** Survey data

**Interpretation:** The above table depicts financial assistance to micro and small scale enterprises. During the Financial year 2005-06 KSFC promoted 788 enterprises by lending 165.00 crore, during 2006-07 875 enterprises promoted by financing 178.53 crore of amount, 2007-08 the sanctions were made to 795 small scale enterprises that is Rs.173.05 crores. This is gradually increased to 923 enterprises that is Rs.262.5 crores in the financial year 2008-09 and in the financial year 2009-2010 it is slightly decreased to 892 enterprises but the amount sanctioned is higher when compared to the previous year 2008-09. It increased to 1316 enterprises that is Rs.549.27 crores in 2010-11. And in 2011-12 it is decreased to 1226 enterprises that is Rs.529.76 crores. Again during 2012-13 numbers of enterprises are decreased but investment amount is increased.



**Graph 2.** Financial assistance to micro and SMEs with number of units by KSFC from the year 2005-06 to 2012-2013

**Inference:** It can be inferred that there are a little fluctuations in financial assistance to micro and small scale enterprises but there is increase in amount sanctioned to small scale enterprises in the first 5years but, during the year 2011-12 it has made less sanctions when compared to 2010-2011. This indicates that there has been less enterprises came for the financial assistance to KSFC, or it may also indicate that, only these enterprises were selected by the corporation for the financial assistance during the previous year. And number enterprises and amount is increased during 2012-13.

**Table 3.** Financial assistance to medium scale enterprises KSFC from the year 2007-08 to 2012-2013

(Rs. In crores)

Years	Number of units	Amount
2007-2008	4	14.65
2008-2009	10	31.25
2009-2010	10	22.56
2010-2011	14	46.04

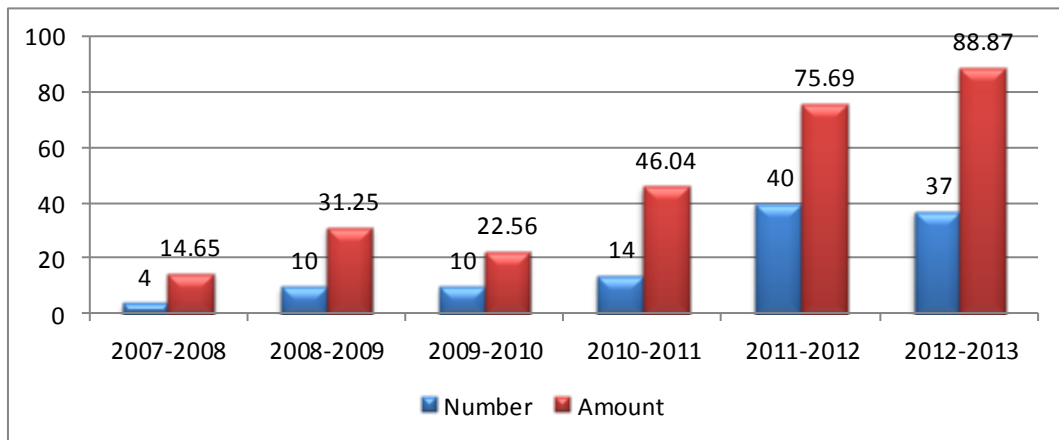
**Table 3.** Financial assistance to medium scale enterprises KSFC from the year 2007-08 to 2012-2013 (Contd....)

(Rs. In crores)

Years	Number of units	Amount
2011-2012	40	75.69
2012-2013	37	88.87

**Source:** Survey data

**Interpretation:** The above table depicts the financial assistance to medium scale enterprises. In 2007-08 KSFC has sanctioned Rs.14.65 crores to 4 enterprises, in 2008-09 it sanctioned Rs.31.25 crores to 10 enterprises, in 2009-10 the sanctioned amount decreased to Rs.22.56 crores while the number of enterprises being the same that is 10 enterprises, in 2010-11 the sanctions were made to 14 enterprises and sanctioned amount increased to Rs.46.04 crores. In 2011-12 there is a rapid growth that it has sanctioned Rs.75.69 crores to 40 enterprises. During 2012-13 number of units is 37 with investments of 88.87

**Graph 3.** Financial assistance to medium scale enterprises by Karnataka State Financial Corporation from the year 2007-08 to 2012-2013

**Inference:** It can be inferred that there is a gradual increase in financial assistance to medium scale enterprises in the first 2 years but in 2009-10 its sanctioned amount has been decreased but later there is a rapid growth for the next 3 years. This indicates that the numbers of medium scale enterprises are developing more.

**Table 4.** Table showing financial assistance to transport by Karnataka State Financial Corporation from the year 2007-08 to 2011-2012

(Rs. In crores)

Years	Number of units	Amount
2007-2008	29	2.05
2008-2009	28	1.93
2009-2010	69	6.05

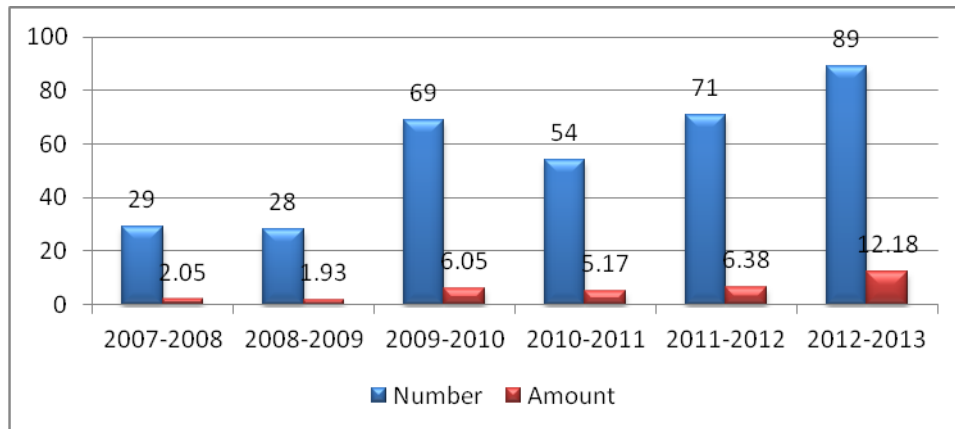
**Table 4.** Table showing financial assistance to transport by Karnataka State Financial Corporation from the year 2007-08 to 2011-2012 (Contd....)

(Rs. In crores)

Years	Number of units	Amount
2010-2011	54	5.17
2011-2012	71	6.38
2012-2013	89	12.18

**Source:** Survey data

**Interpretation:** The above table depicts the financial assistance to transport by KSFC. In 2007-08 KSFC has sanctioned Rs. 2.05 crores to 29 transports, in 2008-09 it decreased to 28 transports and the sanctioned amount decreased to Rs.1.93 crores, in 2009-10 it rapidly increased to Rs.6.05 crores to 69 transports, but in 2010-11 it decreased to Rs.5.17 crores to 54 transports and in 2011-12 it increased to Rs.6.38 crores made to 71 transports. During 2012-13 89 transportations units got financed by KSFC with an amount of 12.18 crore.

**Graph 4.** Financial assistance to transport by Karnataka State Financial Corporation from the year 2007-08 to 2011-2012

**Inference:** It can be inferred from the above graph KSFC promoting good number of transportation in state of Karnataka. If we look at the graph investments on transportation is gradually increasing over the period of time. As we everyone aware that good transportation is very imperative for the growth of any state, in this way KSFC is in right direction.

**Table 5.** Financial assistance to other sectors by Karnataka State Financial Corporation from the year 2007-08 to 2011-2012

(Rs. In crores)

Years	Number of units	Amount
2007-2008	367	178.40
2008-2009	459	269.56
2009-2010	490	315.21
2010-2011	153	131.15

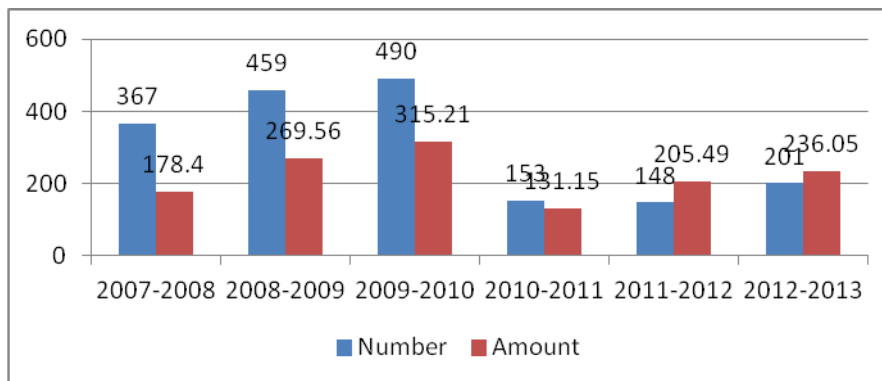


**Table 5.** Financial assistance to other sectors by Karnataka State Financial Corporation from the year 2007-08 to 2011-2012 (Contd. ...)  
(Rs. In crores)

Years	Number of units	Amount
2011-2012	148	205.49
2012-2013	201	236.05

**Source:** Survey data

**Interpretation:** The above table depicts the financial assistance to other sectors. In 2007-08 KSFC has sanctioned Rs.178.40 crores to 367 service sectors, in 2008-09 it increased to Rs.269.56 crores to 459 service sectors, and in 2009-10 its sanctions increased to 490 service sectors that is Rs.315.21 crores and it swiftly decreased to 153 services sectors and the amount decreased to Rs.131.15 crores. In 2011-12 the sanctions decreased to 148 companies but the amount is higher when compared to previous year 2011-12 that is Rs.205.49 crores. In 2012-13 KSFC investments on other sector is 236.05 crore to 201 enterprises.



**Graph 5.** Graph showing financial assistance to other sectors by Karnataka State Financial Corporation from the year 2007-08 to 2011-2012

**Inference:** It can be inferred that there is a gradual increase in financial assistance to other sectors in the first 3 years but in 2010-11 its sanctions were decreased, and in the previous year 2011-12 its sanctioned amount has been increased but the assistance to number of sectors has been decreased. This indicates that there has been less service sectors came for the financial assistance to KSFC, or it may also indicate that, only these enterprises were selected by the corporation for the financial assistance during the previous year 2011-12.

**Table 6.** Table showing size wise sanctions by KSFC from 2007-08 to 2012-13  
(Rs. in crore)

S. No	Sanction	2007-2008		2008-2009		2009-2010		2010-2011		2011-2012		2012-2013	
		units	Amount	units	Amount	units	Amount	units	Amount	units	Amount	units	Amount
1.	Up to Rs.10.00 lakhs	202	15.32	424	32.75	203	15.61	236	22.05	156	11.15	160	11.89
2.	Above Rs. 10.00 lakhs to Rs.45.00 lakhs	660	119.29	712	164.28	557	102.80	646	153.52	510	88.84	528	101.92
3.	Above Rs. 45.00 lakhs to Rs.150.00 lakhs	284	109.43	237	169.63	552	216.77	511	267.69	551	245.83	631	334.48
4.	Above Rs.150.00 lakhs to Rs. 300.00 lakhs	29	32.86	28	62.41	91	126.54	84	118.17	163	162.56	187	221.62
5.	Above Rs.300.00 lakhs to Rs. 500.00 lakhs	8	23.55	10	42.79	43	97.83	42	102.00	59	155.23	63	165.37
6.	Above Rs.500.00 lakhs	12	67.70	9	93.38	15	71.94	18	68.20	46	153.71	29	108.78
	Total	1195	368.15	1420	565.24	1461	631.49	1537	731.63	1485	817.32	1598	944.06

**Source:** Survey data

**Interpretation:** The above table depicts the total amount of investment sanctioned and number of enterprises promoted by KSFC from 2007-08 to 2012-13 in size wise. Up to Rs 10lakhs from 2007-08 to 2012-13 total 1,381 enterprises promoted with an amount of Rs.108.77 crore. Above 10lakhs to 45 Lakhs total 3,613 enterprises promoted with an amount of Rs.730.65 crore. Above 45 Lakhs to 150 Lakhs total 2,766 enterprises promoted with an amount of Rs.1343.83crore. Above 150 Lakhs to 300 Lakhs total 582 enterprises promoted with an amount of Rs. 724.16 crore. Above 300 Lakhs to 500 Lakhs total 225 enterprises promoted with an amount of Rs. 586.77 crore. Above Rs 500 Lakhs total129 enterprises promoted with an amount of Rs. 563.71 Crore.

**CONCLUSION**

Financial Assistance to Small and Medium scale Enterprises plays a vital role because Small and Medium scale Enterprises have been considered as the engine of Economic growth. It encourages the new entrepreneurs by providing them the loans and helping their dreams to be alive and come true.

Karnataka State Financial Corporation has promoted many enterprises and helped newly emerging entrepreneurs to develop their plan towards their objectives and implement it, which also helps in economic growth of the country and it also provides employment opportunities to many people. KSFC also gives suggestions to the enterprises which have taken financial assistance from KSFC at the initial stage and it also provides working capital loan to the enterprises. It has a good recovery policy which ensures that the assets will not slip in to Non Performing Assets (NPAs).

KSFC financial assistance should be reached to semi-urban and rural segments also to achieve balanced regional development. KSFC should try to finance for knowledge intensive industry like IT, ITES, Nano technology, clean technology, health care and life science etc for the growth of knowledge intensive industry in Karnataka. KSFC should try to promote

not only manufacturing and service sector along with this KSFC should try to promote Agro based industries, banking etc. Service industry contributes more than 60% to GDP where as KSFC's lending to service sector has decreased, so they should try to contribute more and more to service sector. For the regional balance development it should also concentrate on medium scale enterprises instead of concentrating only on small scale enterprises.

The SME sector is the backbone of the economy in high-income countries. So India as a developing country has to undertake various measures or techniques to encourage and assist the new entrepreneurs and the enterprises by providing them the financial assistance through various Financial Institutions.

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