AJHS
Asian Journal of Home Science
Volume 13 | Issue 2 | December, 2018 | 473-478

DOI: 10.15740/HAS/AJHS/13.2/473-478
ISSN : 0973-4732 ■ Visit us: *www.researchjournal.co.in*

Research Paper

Financial structure of powerloom MSMEs of Ludhiana city (Punjab)

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Received: 12.01.2018; **Revised:** 04.10.2018; **Accepted:** 18.10.2018

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■ **ABSTRACT :** Making investment decision is a complex and dynamic process. The present study was conducted to identify the investment pattern of micro, small and medium powerloom enterprises of Ludhiana district in Punjab. The selected sample for the conducting survey through interview technique consisted of 128 MSMEs. All the micro (50 units) and medium powerloom enterprises (2 units) were included in the sample due to their limited total number in the list of enterprises, whereas purposive probability proportional to size sampling technique was employed to select small enterprises (76 units). Results revealed that highest percentage of the owners (71.09%) had invested their own capital to establish their enterprises, while only 7.03 per cent MSMEs had borrowed capital from friends and relatives. The owners of medium enterprises had arranged funds from public sector banks. More than half of the total MSMEs (57.14%) were operating through cash credit limit sanctioned by banks for buying of raw material and machinery. Only 15.38 per cent of the owners had availed Machinery Term Loan to get subsidy on new shuttle-less looms. Low enthusiasm prevailed among MSMEs to take benefit of subsidy schemes offered by the government. Profit percentage reported by majority of micro enterprises (84.00%) was 5-10 per cent, while according to 48.68 per cent small enterprises, it was 10-15 per cent. The profit reported by medium enterprises was upto 25 per cent. The profit percentage for medium enterprises ranges from 12 to 25 per cent. Thus, an increase in profit percentage was observed with the increase in investment pattern.

■ **KEY WORDS:** Investment pattern, Micro, Small and medium enterprises

■ **HOW TO CITE THIS PAPER :** Singh, Garima and Brar, Kanwaljit Kaur (2018). Financial structure of powerloom MSMEs of Ludhiana city (Punjab). *Asian J. Home Sci.*, **13** (2) : 473-478, **DOI: 10.15740/HAS/AJHS/13.2/473-478.**

Textile industry of India has a remarkable impact in the economic scenario of the country (Gurumurthy, 2012). According to Weston and Brigham financial structure refers to the manner the enterprise assets are financed: it is the entire right hand side of the balance sheet. Capital structure is the permanent financing of the enterprise, presented primarily by long-term debt, preferred stock and common equity, but excluding all short- term credit. Therefore, an enterprises capital structure is only a part of its financial structure. The development of enterprises is one of the basic business principles and the most important part of the overall process of development is investment. SMEs play a key role during the transitional phase of developing countries. These firms typically account for more than 90 per cent of all firms excluding the agricultural sector, constitute a major source of employment and generate significant domestic and export earnings (Kamble and Suryavanshi, 2015). As such, development of SMEs emerged as a key instrument in poverty reduction efforts. SMEs, due to their size, are particularly constrained by non-competitive real exchange rates, limited access to finance, cumbersome bureaucratic procedures in setting up, operating and growing a business, poor state of infrastructure and lack of effective institutional structures. The removal of these constraints is a daunting task calling for holistic SME support system, *i.e.* an enabling environment for SMEs development consisting of functioning macro and micro level institutions (Organization for Economic Co-operation and Development, 2004).The initial investment for setting up a micro enterprise varied from Rs. 5 lac to 25 lac and for small enterprise, it varies from Rs. 25 lac to 5 crore. The enterprises are categorized under medium enterprises when investment reaches between Rs. 5 crore to 15 crore initially. The financing of small and medium enterprises is one of the step forward for their growth and development. The establishment of a small enterprise, the expansion of the business activities, the development of new products and investments in machinery, equipment and human resources are the conditions for the opportunities of the enterprise to satisfy the needs for a capital (Gveroski and Jankuloska, 2017). In light of the above cited facts, the present study was planned with following objectives:-

– To identify the initial investment made by powerloom micro, small and medium enterprises of Punjab.

– To explore the financial sources used by MSMEs.

■ RESEARCH METHODS

Location:

The study was carried out on the powerloom micro, small and medium enterprises in the Industrial Area, Ludhiana district. A sample comprising of 128 micro, small and medium enterprises (50 micro; 76 small; 2 medium) was selected for the study. All the micro and medium powerloom enterprises were included in the sample due to their limited total number in the list of enterprises obtained from District Ludhiana Centre (DIC), whereas purposive probability proportional to size sampling technique was employed to select small enterprises. A structured interview schedule was used to record the data relating to the investment pattern of the micro, small and medium enterprises of Ludhiana district of Punjab state. The data were analyzed statistically using chi-square.

■ RESEARCH FINDINGS AND DISCUSSION

The MSMEs are classified in terms of investment made in plant and machineries if they are operating in the manufacturing sector. The results of the present study as well as relevant discussions have been presented below.

Initial investment of powerloom MSMEs :

It is evident from the data presented in Table 1 that the investment on the powerloom micro enterprises ranged from Rs. 5 lac to 25 lac. The highest percentage of the owners (36.00%) had invested Rs. 5 lac -10 lac for setting up their units followed by 26.00 per cent who invested Rs. 15 lac-20 lac to start their units. There were 24.00 per cent of the micro enterprise owners who divulged that they invested Rs. 10 lac -15 lac at the time of the establishment of the enterprise. Only 14.00 per cent of the micro enterprise owners stated that they invested Rs. 20 lac -25 lac for setting up the unit.

Table 1 : Investment pattern the establishment of the powerloom MSMEs

Investment on powerloom MSMEs (in Rs.)	f (%)
Micro (n=50)	
5 lacs-10 lacs	18 (36.00)
10 lacs -15 lacs	12 (24.00)
15 lacs-20 lacs	13 (26.00)
20 lacs-25 lacs	7 (14.00)
Small (n =76)	
25 lacs-45lacs	35 (46.05)
45 lacs-65lacs	26 (34.21)
65 lacs-85 lacs	13 (17.10)
85 lacs-5 crores	2 (2.63)
Medium (n=2)	
5 crores-10 crores	1 (50.00)
10 crores – 15 crores	1 (50.00)

n_1= micro, n_2=small, n_3= medium, N= Total MSMEs
Figures in parathesis indicate percentages

Approximately half of the owners (46.05%) of small powerloom enterprises disclosed the investment of Rs.

25-45 lac for setting up their enterprises followed by 34.21 per cent respondents who had invested Rs. 45-65 lac. Only 2.63 per cent units had invested of Rs. 85 lac to 5 crore.

The data further indicated that the investment in the medium scale powerloom units ranged from Rs. 5 crore to 15 crore. Half of the units were set up with an investment of Rs. 5-10 crores and half of the units were established with an investment of Rs. 10-15 crore.

Sources of working capital :

Banking sector play a significant role in the Economy of India (Wadje, 2015). The sources of working capital of the powerloom MSMEs were identified as public sector banks, private sector banks, borrowing from friend and relatives and self-finance. Public sector banks included nationalized banks like Indian Overseas Bank, Oriental Bank of Commerce, State Bank of India, Punjab National Bank, etc. It was observed that the highest percentage of the micro enterprises (70.00%) took loan from public sector banks. Among public sector banks, highest percentage (42.85%) of the owners of micro enterprises had taken loan from State Bank of Patiala followed by 13.14 per cent who availed loan from Indian Overseas Bank. The least per cent of the owners (2.00 %) were availing loan from Oriental Bank of Commerce.

Among small enterprises, approximately half of them (47.36%) had taken loan from public sector banks. In case of public sector banks, the largest percentage of the owners of small enterprises (38.88 %) had taken loan from Oriental Bank of Commerce followed by 36.11 per cent of them who had taken loan from SBI, Patiala. Remaining 25.00 per cent of the owners availed loan from Indian Overseas Bank. All the medium enterprises were seeking financial support from public sector banks like State Bank of Patiala. In addittion to that respondents were also found to be self-financing their units. Among public sector banks, nearly half of the enterprises (52.63%) were availing loans from State Bank of Patiala and 38.59 per cent had sourced funds from Indian Overseas Bank for upgrading their infrastructure and machinery.

Regarding the private sector, there were 21.05 per cent of the units which had taken loans and subsidy for purchasing auto-looms from banks *viz.*, The Housing Development Finance Corporation (HDFC), Industrial Credit and Investment Corporation of India (ICICI), AXIS banks. All the micro enterprises were found to be taking loan from HDFC bank. Among the small enterprises, the largest percentage of the powerloom enterprises (62.5%) were seeking loan from HDFC bank in order to strengthen and modernize their powerlooms, whereas not even a single medium enterprise had taken loan from private sector banks. The highest percentage of the total MSMEs owners (60.00%) were seeking loans from HDFC Bank falling under private sector banks.

In case of micro enterprises, 12.00 per cent owners borrowed capital from their relatives and friends, while just 3.94 per cent owners borrowed capital from their relatives and friends. Besides taking loans, there were 64.00 per cent micro enterprenuers who invested their own money for setting up the unit. Majority of the small

Table 2 : Sources of capital for powerloom MSMEs (n=57)

Sources of capital	Micro (n_1=35)	Small (n_2=36)	Medium (n_3=2)	Total MSMEs
	f (%)	f (%)	f (%)	f (%)
Public sector banks				
State Bank of Patiala	15 (42.85)	13 (36.11)	2 (100.00)	30 (52.63)
Indian Overseas Bank	13 (13.14)	9 (25.00)	-	22 (38.59)
Oriental Bank of Commerce	7 (2.00)	14 (38.88)	-	21 (36.84)
Private sector banks	Micro (n_1=2)	Small (n_2=16)	Medium(n_3=2)	Total MSMEs (n=20)
HDFC	2 (100.00)	10 (62.5)	-	12 (60.00)
AXIS	-	4 (25.00)	-	4 (20.00)
ICICI	-	2 (12.5)	-	2 (10.00)
Friends and relative	Micro (n_1=50)	Small (n_2=76)	Medium(n_3=2)	Total MSMEs (n=128)
	6 (12.00)	3 (3.94)	-	9 (7.03)
Self-finance	32 (64.00)	57 (75.00)	2 (100.00)	91 (71.09)

n_1= micro, n_2=small, n_3= medium, n= Total MSMEs
*Multiple responses
Figures in parenthesis indicate percentages

enterprises (75.00%) were self-financed.

On the whole, it is evident from the investment pattern that highest percentage (71.09%) of the owners had invested their own capital. It showed that they wanted to do business with their own money instead of borrowing and paying installments to the banks. They had invested either ancestral capital or personal savings. Only 7.03 per cent of the MSMEs had borrowed capital from friends and relatives. The reason behind this attitude might be the high rate of interest charged by the banks. The data regarding the owners of medium enterprises revealed that none of them had taken financial help from private sector banks, and friends and relatives. Similar findings were reported by Kaur (2002) revealed that most of the units were self-financed (88.40%) and bank financed (82.50%) enterprises.

Credit linkages opted by powerloom micro, small and medium enterprises :

Credit is the requirement for the upgradation of existing machinery, buying raw materials (yarns), for transportation of goods, packaging etc. It was observed that MSMEs availed cash credit limit for financing their working capital requirement. Cash credit limit is cash loan given to enterprises by the bank. Banks provides the funding only after they acquire the required security. Once the cash credit limit has been approved by the banks, then powerloom MSMEs can continuously withdraw money from the banks to the specified limit set by the banks. In India, banks offer cash credit accounts to businesses to finance their "working capital" requirements (requirements to buy raw materials or "current" assets, as opposed to machinery or buildings, which would be called "fixed assets"). The cash credit account is similar to current accounts as it is a running account (*i.e.*, payable on demand) with cheque book facility. But unlike ordinary current accounts, which are supposed to be overdrawn only occasionally, the cash credit account is supposed to be overdrawn almost continuously. The extent of overdrawing is limited to the cash credit limit that the bank sanctioned. This

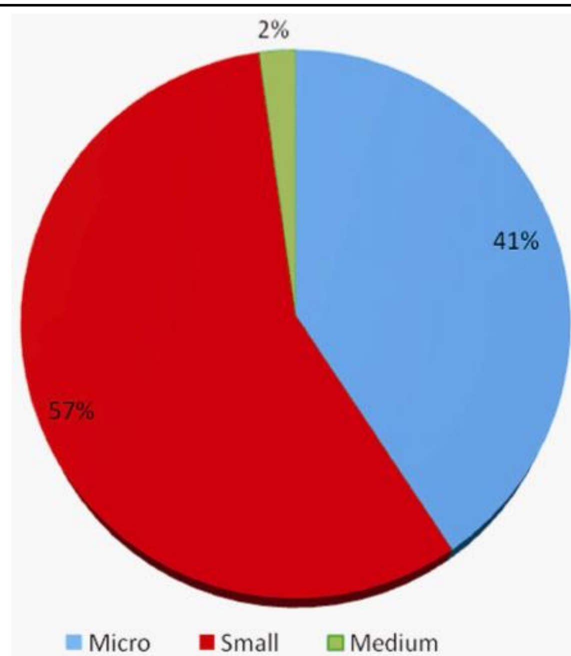

Fig. 1 : Credit linkages opted by powerloom MSMEs

Table 3 : Types credit linkages opted by MSMEs **(n= 91)**

Credit linkages \ Type of enterprise	Micro (n=37) f (%)	Small (n=5) f (%)	Medium (n=2) f (%)	Total MSMEs f (%)	χ^2 - value
Cash credit limit (CC Limit)	32 (86.48)	20 (38.46)	-	52 (57.14)	27.81*** df(4)
Machinery term loan (MTL)	-	14 (26.92)	-	14 (15.38)	
Both CC Limit and MTL	5 (13.51)	18 (34.61)	2 (100.00)	25 (27.48)	

n_1= micro, n_2=small, n_3= medium, n= Total MSMEs *** indicate significance of value at P=0.1
Figures in parentheses indicate percentages

Table 4 : Distribution of the powerloom MSMEs according to the profit percentage **(n=128)**

Profit percentage (%)	Micro (n_1=50) f (%)	Small (n_2= 76) f (%)	Medium (n_3=2) f (%)	Total MSMEs f (%)	χ^2 - value
5- 10	42 (84.00)	26 (34.21)	-	68 (53.12)	41.81***
10- 15	8 (16.00)	37 (48.68)	1 (50.00)	46 (35.93)	
15- 20	-	7 (9.21)	-	7 (5.47)	
20-25	-	4 (5.26)	1 (50.00)	5 (3.90)	

n_1= micro, n_2=small, n_3= medium, n= Total MSMEs *** indicate significance of value at P=0.1
Figures in parentheses indicate percentages

sanction is based on an assessment of the maximum working capital requirement of the organization minus the margin. The organization finances the margin amount from its own funds. Generally, a cash credit account is secured by a charge on the current assets (inventory) of the organization (Wikipedia, 2017).

It was observed from the data that 41.00 per cent micro enterprises had taken loans from the banks to finance their working capital. Nearly 60.00 per cent of the small enterprises opted loans, either CC Limit or MTL, for purchasing raw materials or upgrading their existing weaving technology. As regards medium enterprises, all of them (100.00 %) had taken loans from banks.

The financial structure shapes the destiny of the powerloom enterprise by upraising the funds most economically and using in the most productive way (Bhavsar, 2016).

Minister of State and Finance has proposed to lower the CC Limit for micro, small and medium enterprises (MSMEs) fom 30 per cent from the present 20 per cent. Tax liability for MSMEs has been reduced is reduced from 8 to 6 per cent (Economic Times of India, 2017). Enterprises were also found to be taking Machine Term Loan (MTL) for the up-gradation of their looms. It is evident from the data that 86.48 per cent of the micro clusters had opted for cash credit limit and only 13.51 per cent of them had taken Cash Credit Limit (CC Limit) as well as machine term loan (MTL) for availing benefit of 8 per cent Margin Money Subsidy (MMS) on second hand imported shuttle-looms (Table 3).

MMS is a loan scheme for powerloom weavers for their technology up-gradation with a view to improve productivity and quality of products. In cluster of small enterprise, maximum percentage of the owners (38.46%) had availed CC Limit followed by 34.61 per cent of them who had taken both CC Limit and MTL. Minimum percentage of the owners (26.92%) had taken only Machinery Term Loan so that they can avail 15 per cent capital subsidy on new shuttle-less looms under TUFS for upgradation of their looms. As regards medium cluster, 100.00 per cent of the medium enterprises had taken both cash credit limit as well as Machinery Term Loan for modification in machinery, infrastructure and standard operating procedures (SOP). The association was also demonstrated between credit linkages and the MSMEs. The chi-square value was calculated to be $\chi^2 = 27.81$, $p < 0.01$, which was statistically highly significant. Therefore, it could be concluded that the two variables were strongly associated with each other.

Overall picture depicted that more than half of the population (57.14%) had taken cash credit limit for setting up of infrastructure and machinery from financial institutions. The least percentage of the owners (15.38%) had availed Machinery Term Loan to get subsidy on new shuttle looms because MSMEs hesitate to take loan from the banks at high rate of interest that they are supposed to repay.

Profit percentage is the margin earned (as a percentage) on a product after applying the total production cost to the revenue earned. The total costs include the cost of labour, raw materials, and overhead charges. The GPP helps to identify the profitability of the organization’s products and is often time leveraged as a benchmark against competitors, or industry standards. MSMEs owners revealed different profit percentages ranging from 5-10, 10-15, 15-20 and 20-25. Among small enterprises, highest percentage of the owners (48.68%) acquired benefit of 10-15 per cent followed by 34.21 per cent of the owners who granted a profit of about 5-10 per cent. There were some of the owners (9.21%) of small enterprises which revealed that they attained a profit of 15-20 per cent and just 5.26 per cent of them divulged that they enjoyed profit of 20-25 per cent. In medium enterprises, half of the owners (50.00%) were observed to be getting a profit of 10-15 per cent and half of them (50.00%) enjoyed 20-25 per cent of profit in their business.

The profit percentage for medium enterprises ranges from 12 to 25 per cent. Thus, an increase in profit percentage was observed with the increase in investment pattern.

An overview of the profit percentage enjoyed by the owners of the MSMEs revealed that more than half of the MSMEs could earn 5-10 per cent profit followed by 35.93 per cent of the owners who gained with a profit of 10-15 per cent in their business. Very few of them (5.47%) stated that they got profit of 15-20 per cent and just 3.90 per cent of them revealed the profit percentage to be in the range of 20-25 per cent. Further the data explains the association between the MSMEs and the percentage of profit they get. Statistically, there was highly significant association between the two variables $\chi^2 = 41.81$; $p < 0.01$. Therefore, findings indicate that the profit percentage enjoyed by the owners was strongly associated with the micro, small and medium enterprises (MSMEs). It could be clearly learned from the data that small and medium enterprises enjoyed more profit as compared to micro enterprises.

Conclusion :

The MSME sector in India is incredibly heterogeneous in terms of size of the enterprises, variety of products produced and levels of technology employed. MSMEs require timely and adequate capital infusion through term loans and working capital loans, particularly during the early growth phases. Historically the MSMEs have relied on retained earnings, funding through sale of assets, ancestral capital, personal savings, loans from relatives, institutional financing from scheduled commercial banks, venture capital funds/ seed funds etc. Public sector banks have been pioneers in providing financial assistance to several MSMEs. Simplification of processing of the loan application is essential requirement. Therefore, MSMEs get loans from the banks under various schemes easily.

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