

A Study on Financial Assistance to Small and Medium Enterprises by KFC

Varun Kesavan

Assistant Professor, Guruvayurappan Institute of Management, Coimbatore

Abstract: - Kerala Finance Corporation (KFC) is one of the fast track term lending financial institutions in the State with assistance to over 40000 projects amounting to nearly Rs 3000 cores over the last 62 years in the State of Kerala since its inception up till date. KFC is one of the trend setters and path breaker managed under the supervision of Kerala Govt. In the present study researcher made an attempt to study the total investments and number of enterprises promoted by KFC in the state of Kerala for the period of five years. Researcher found that from last five years KFC promoted 3899 units or enterprises with an investment of Rs. 333,679.08 crores Along with the work of KFC is commendable in promotion of enterprises for the growth of economic development.

Keywords: *SMEs, MSME, Economic Development.*

I. 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 labor 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 is defined in terms of investment in Plant & Machinery.

(a)	Micro enterprises	Where investment in plant and machinery does not exceed Rs.25.00 laths.
(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 cores but not exceeding Rs.10.00 cores.

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 laths.
(b)	Small enterprises	Engaged in providing services where the investment in equipment is more than Rs.10.00 laths but does not exceed Rs.2.00 cores.
(c)	Medium enterprises	Engaged in providing services where the investment in equipment is more than Rs.2.00 cores but does not exceed Rs.5.00 cores.

Background and Inception of the KFC

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.

Kerala Financial Corporation (KFC) incorporated under the State Financial Corporations Act of 1951, is a trend setter and path breaker in the field of long term finance, playing a major role in the development and industrialization of Kerala. It was established as the Travancore Cochin Financial Corporation on 01.12.1953. Consequent to the reorganization of states on linguistic basis in November 1956, Kerala State was formed and the Travancore Cochin Financial Corporation was renamed as Kerala Financial Corporation.

Now KFC has 16 Branch Offices with its Head Quarters at Thiruvananthapuram and Zonal Offices at Kozhikode, Ernakulam and Thiruvananthapuram.

The main objective of KFC

1. The rapid industrialization of the state by extending financial assistance to Micro, Small and Medium Enterprises in manufacturing and service sector.
2. The rapid industrialization of the state by extending financial assistance to Micro, Small, and Medium Enterprises in manufacturing and service sector. SFCs Act empowers KFC to formulate suitable loan schemes for achieving the above said objectives. Corporation can give financial assistance for setting up of new units and for the expansion / modernization / diversification of existing units in both manufacturing and service sectors.

Since inception KFC has disbursed over Rs. 3000 Cores to more than 40,000 projects, spread over the length and breadth of the State. The Corporation is the first PSU in Kerala and first SFC in India to initiate Corporate Social Responsibility activity. As part of its Corporate Social Responsibility, KFC has set up KFC-CARE (Centre for Assistance and Rehabilitation) to rehabilitate and serve the marginalized sections of the community.

II. SERVICES PROVIDED BY KFC

*Consultancy Division**Profile*

KFC aims at enhanced Customer Satisfaction through Professional Management, Team Work and Continuous Improvement. Now as part of diversification, the Kerala Financial Corporation has set up KFC Consultancy Division with a view to render excellent Consultancy Services to our Clients as a Total Solutions provider including training.

Objectives

KFC - Consultancy Division seeks to bring together experts from the Government, industry, academic institutions, and other related organizations to evolve, develop and supply quality Consultancy Services. Kerala Financial Corporation is already dealing with the prestigious business houses in Kerala and has got excellent liaison with the Government, Academics, Management Associations, and Social Organizations. We already have fully fledged, furnished offices with all facilities, and manned by professionals, in all districts of Kerala. Further we have a panel of dedicated expert consultants who have spent quality time in India and abroad. We can provide our clients with expert consultancy and training programmers, designer made to suit their requirements.

Training Division

Training Solutions:

- Training for Trainers
- Entrepreneur's Training
- Financials for Non Finance Persons
- Manpower Planning Training
- Career Development Training
- Organizational Development Training
- Better Communication Skills Training
- Motivation, Management & Launching Training
- Product Positioning Training
- Customer Relations Training

III. 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.

Basu (1957) maker: an attempt to examine the financial problems of small scale Industries and assess their place in the country's Second Five Year Plan. The study highlights the role of S F C in financing small-scale Industries.

Suresh Chandra Jain 69 [1971] in his work analyses in detail the problems of institutional finance for small-scale Industries in the state of Utter Pradesh.

Sharma 70 [I9731 in his study explains industrial financing by national level financial institutions. It also discusses the role of the state financial institutions in financing industries of Bihar. He suggests that the financial institution should act as a guide philosopher and promoter of industries and recommend the setting up of small industries bank.

Jit Singh Chandan "(1976) observed that there is very little effort on research and development in industries for traditional items. The glaring needs in management are in respect of training in capital, investment, and costing, and budgetary control.

Pareek 72 (1978) in his work reveals the role of financial institutions and state agencies in extending credit to small-scale units and pin point their attitude of indifference in catering to the need of the tiny units. He suggests that financial institutions have to tune their policies in consonance with the needs of small-scale sector in general and the smaller among small-scale: units in particular.

Natarajan 73 (1983) 6: Examines the trends in institutional financing to SSI units in Andhra Pradesh for a period of decade commencing from 1970.

Radhey Shyan Singh 74 (1986)1 in his study makes an analytical survey of the institutional sources of finance to the SSI and other small / tiny units, after critically examining the various aspects of the functioning of the financial institutions for the growth of the small-scale sector.

Ram Dawar " (1986)1 has made an attempt to examine and appraise the operation of the hire purchase schemes of the national small Industries corporation and the state small industries corporation, particularly the Andhra Pradesh small-scale industrial development corporation.

Agarwal 76 (1987) 1 reports that the Indian banking system has failed to extent appropriate amounts of loan to SISI. He is of the opinion that lending institution should be more practical and flexible in their attitude rather than strictly legal with a view to enabling the borrowing units to overcome any temporary difficulties.

Raghurama 77 (1991)1 tries to analyze the problems faced by small-scale units while availing themselves of bank finance. The problems faced by the bankers and the procedures adopted by the bank in extending finance are also examined.

Ganesh Kumar 78 [I9131 in his study observed that KFC has disbursed more amounts of loans and all the loans are of long term nature. The Cost and terms of the loan from KFC are found to be more attractive. In addition obtaining loan from KFC is found to be less difficult process despite all

these positive factors, it is observed that KFC has made less impact on the development of SSI in Kerala.

IV. 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 Kerala, Hence there arises a need to address that what are the financial assistance provided by KFC to small and medium scale enterprises in state of Kerala.

V. OBJECTIVE OF THE STUDY

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

VI. SCOPE OF STUDY AND DATA COLLECTION

The present study is confined to KFC and the information obtained is purely based on KFC data's. And the period of study is confined to five years like financial assistance provided by KFC to small and medium scale enterprises. Finally the data's has been collected from KFC annual reports, Research Journals and other documents etc.

VII. DATA ANALYSIS

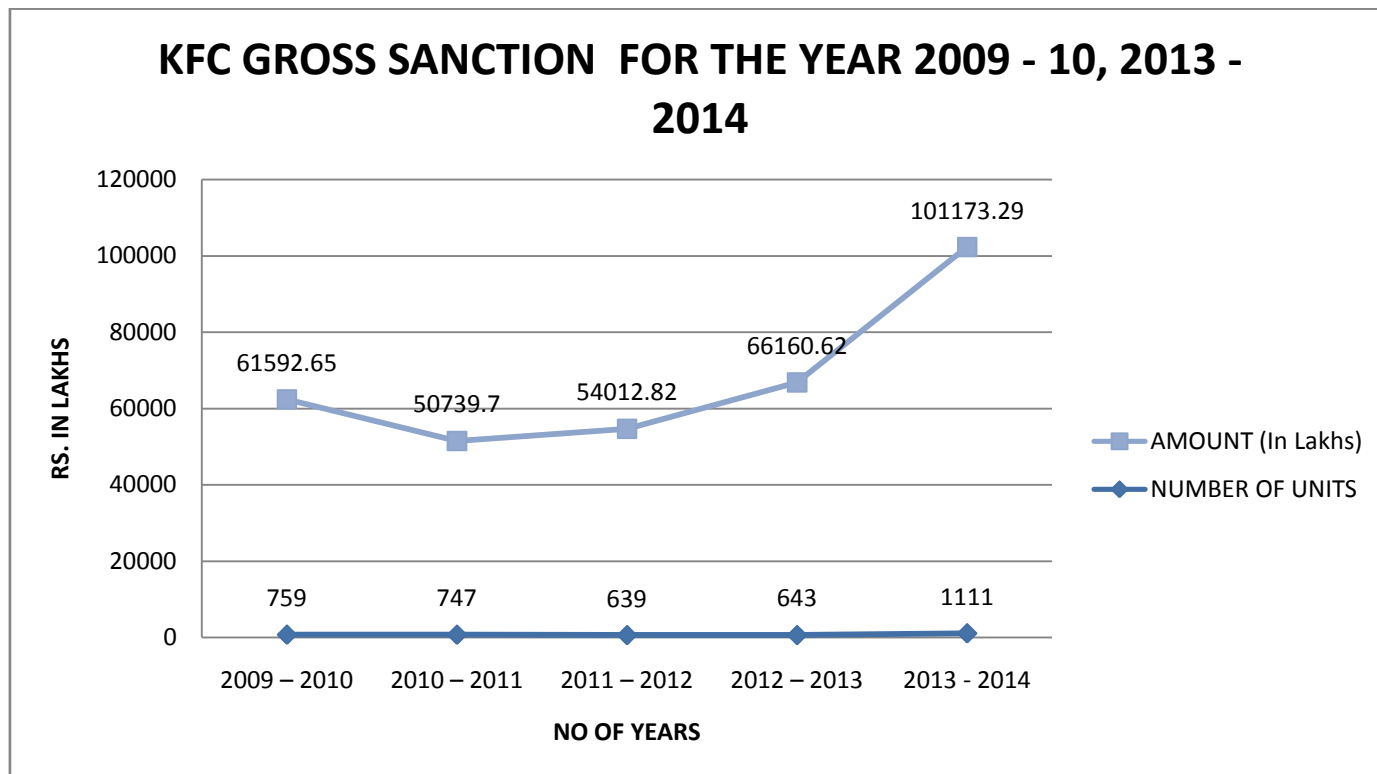
Table 1. Gross sanctions by KFC with number of enterprises from 2009-010 to 2013-2014

(In Lakhs)		
YEARS	NUMBER OF UNITS	AMOUNT
2009 – 2010	759	61592.65
2010 – 2011	747	50739.70
2011 – 2012	639	54012.82
2012 – 2013	643	66160.62
2013 – 2014	1111	101173.29

Source: Survey data

Interpretation: The above table indicates that the gross sanctions was Rs 61592.65 lakhs to promote 759 units during 2009-10, it decreased to Rs 50739.70 lakhs to promote 747 units during 2010 - 2011, and it increased to

Rs.54012.82 lakhs to 639 enterprises in the year 2011 -2012 & it increased to Rs. 66160.62 lakhs to 643 enterprises in 2012 -2013, and again it increased to Rs. 101173.29 lakhs to 1111 enterprises in 2013 - 2014.



Graph 1. Gross sanctions by KFC with number of enterprises from 2009-10 to 2013-2014

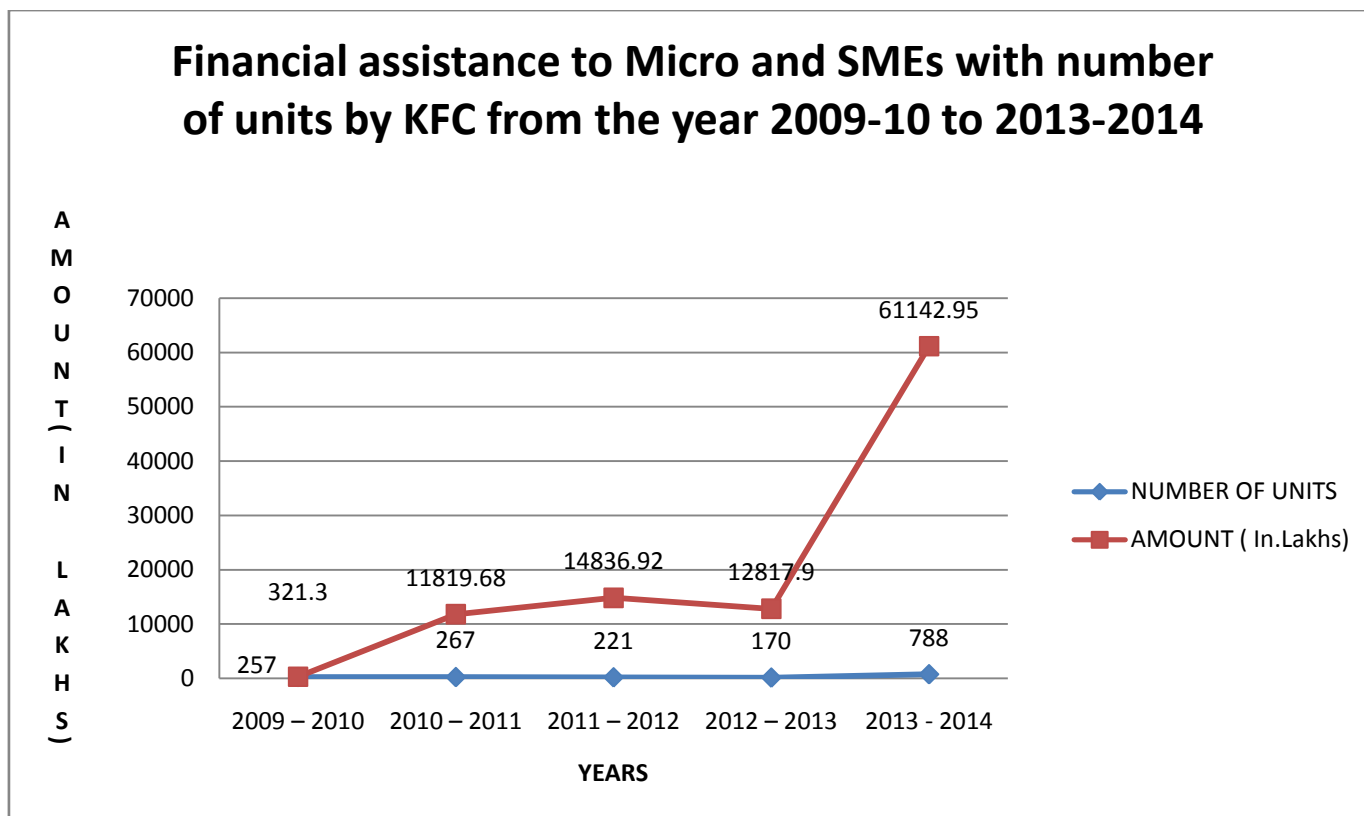
Interpretation: It can be inferred generally, there is a continuous increase in gross amount sanctioned during all the years with respect to certain years. KFC from its inception promoted 40000 units by financing Rs 3000 crores over the last 62 years. The above graph depicts total enterprises promoted by KFC from 2009-10 to 2013 -14 with investment. It can be seen that during 2013- 14 maximum numbers of enterprises promoted with good amount of investment of Rs.101173.29crore.

Table 2. Financial assistance provided to micro and SMEs with number of units by KFC from the year 2009-10 to 2013-2014.

YEARS	NUMBER OF UNITS	AMOUNT
2009 - 2010	257	321.30
2010 - 2011	267	11819.68
2011 - 2012	221	14836.92
2012 - 2013	170	12817.9
2013 - 2014	788	61142.95

Interpretation: The above table depicts financial assistance to micro and small scale enterprises. During the Financial year 2009-10 KFC promoted 257 enterprises by lending 321.30 Lakhs, during the year 2010-11, 267 enterprises promoted by financing 11819.68 Lakhs of amount, In year 2011-12 the sanctions were made to 221 enterprises that is Rs.14836.92 Lakhs a gradual reduce. And a gradual decrease to 170 enterprises that is Rs.12817.9 Lakhs in the financial year 2012-13 and a steady increase in financial year 2013-2014, to 788 enterprises that of Rs. 61142.95 Lakhs.

(In Lakhs)



Graph 2. Financial assistance provided to micro and SMEs with number of units by KFC from the year 2009-10 to 2013-2014.

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 2years but, during the year 2011-12 and 2012 - 2013 it has made less sanctions when compared to 2013-2014. This indicates that there has been less enterprises came for the financial assistance to KFC, or it may also indicate that, only these enterprises where selected by the corporation for the financial assistance during the previous year. And number enterprises and amount is increased during 2013-14.

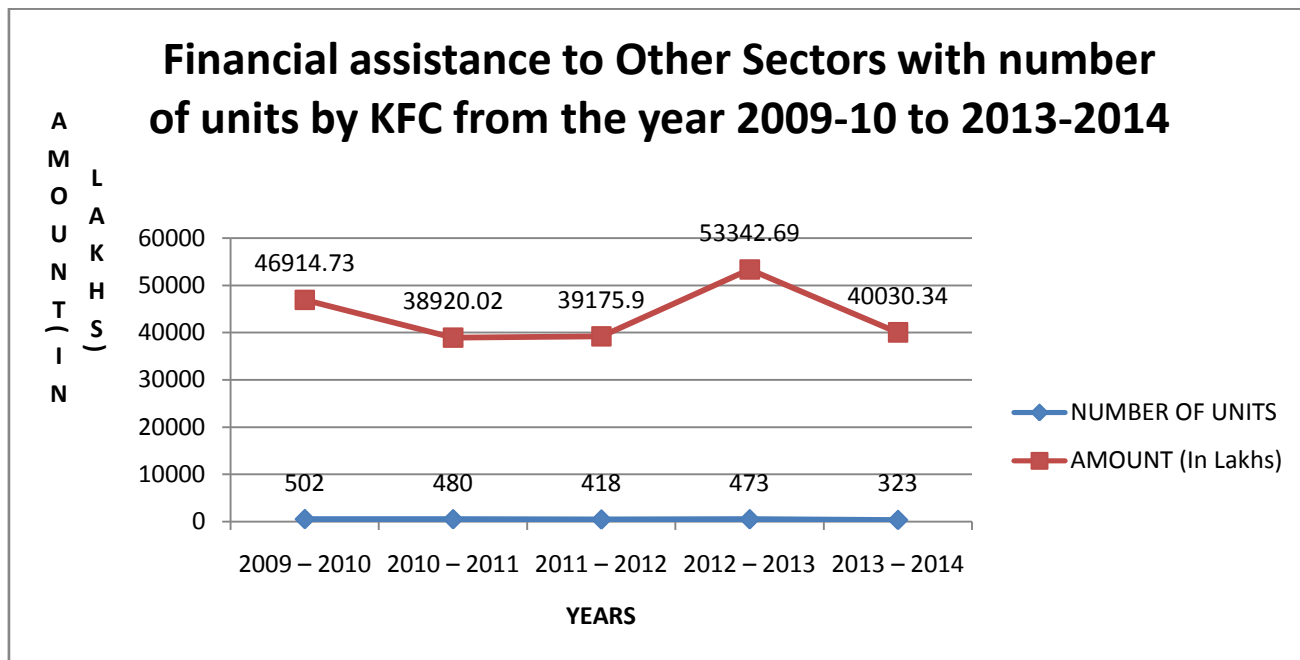
Table 3. Financial assistance provided by Kerala Financial Corporation to other sectors from the year 2009-10 to 2013-2014.

(Rs. In Lakhs)

YEARS	NUMBER OF UNITS	AMOUNT
2009 - 2010	502	46914.73
2010 - 2011	480	38920.02
2011 - 2012	418	39175.90
2012 - 2013	473	53342.69
2013 - 2014	323	40030.34

Source: Survey data

Interpretation: The above table depicts the financial assistance to other sectors. In 2009-10 KFC has sanctioned Rs.46914.73 lakhs to 502 service sectors, but in year 2010-11 it decreased to Rs.38920.02 lakhs to 480 service sectors, and in 2011-12 its sanctions decreased to 418 service sectors that are Rs.39175.90 lakhs and it swiftly increased to 473 services sectors and the amount increased to Rs.53342.69 lakhs. But in 2013-14 the sanctions tremendously decreased to 323 companies with amount of 40030.34 lakhs.



Interpretation: It can be inferred that there is a gradual decrease in financial assistance to other sectors in the last 4 years but in 2009-10 its sanctions was increased, but in the year 2012-13 its sanctioned amount has been increased but the assistance to number of sectors has been declined. This indicates that there has been less service sectors came for the financial assistance to KFC, or it may also indicate that, only these enterprises were selected by the corporation for the financial assistance during the previous year 2012-13.

VIII. CONCLUSION

Financial Assistance to Small and Medium scale Enterprises plays a significant role in accelerating economic growth. It encourages the new entrepreneurs by providing them the loans and helping their dreams to come true.

Kerala Financial Corporation has promoted many enterprises and helped upcoming entrepreneurs to develop the plans in order to attain their objectives, which also helps in economic growth of the country and it also provides employment opportunities to many people. KFC also provides suggestions to the enterprises which have taken financial assistance from KFC at the initial stage and it also provides working capital loan to the enterprises. And it has a good recovery policy which ensures that the assets will not slip in to Non Performing Assets (NPAs).

KFC's financial assistance should be reached to semi-urban and rural segments also to achieve balanced regional development. KFC 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 Kerala. KFC should try

to promote, not only manufacturing and service sector along with this KFC should also try to promote Agro based industries, banking etc. Service industry contributes more than 60% to GDP where as KFC's lending to service sector has increased over the years with slight variation, so they should try to contribute more to the service sector and also to other sectors. For the regional balance development it should also focus on medium scale enterprises rather than focusing on small scale but also to other industry.

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.

REFERENCES

- [1] Srinivas K.T "A Study on Financial Assistance to Small and Medium Enterprises by Kscf "International Monthly Refereed Journal of Research in Management & Technology." "Abhinav Journal" Vol. no – II, PP – 20 – 22.
- [2] http://shodhganga.inflibnet.ac.in/bitstream/10603/65451010_chapter20_2pdf
- [3] Articles.economicstimes.indiatimes.com/2014-09-11/news/53441894-1-smes-architecture-finance-ministry.
- [4] DR. Vinod Kumar Yadav, "Source of Finance in Small –Scale Industries" IJEMR –Vol 3, Issue 6 - Online - ISSN 2249-2585 - Print - ISSN 2249-867 June 2013.
- [5] <http://www.kfc.org>
- [6] http://articles.economicstimes.indiatimes.com/2015-03-06/news/59844613_1_capital-float-saif-partners-startups .
- [7] <http://forbesindia.com/article/insead/sme-financing-small-businesses-struggle-to-survive-the-downturn/9072/1>
- [8] http://www.business-standard.com/article/finance/private-banks-turn-to-smes-to-drive-growth-114032700812_1.html