



STUDY REPORT

A Study on credit facilities of micro, small, and medium enterprises at Syndicate Bank

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Abstract

One of the most crucial inputs for any organization is the adequate and timely availability of finance. An entrepreneur's establishment of a micro, small & medium enterprises (MSME) unit falls under this umbrella. Micro, small, and medium-sized business owners are frequently first-time business owners with little to no capital. They require technical, marketing, and management assistance and significant seed capital to launch their businesses. In addition, many MSME units need additional funding for marketing, imports, exports, generating upgrades, capability growth, expansion, and marketing. Through their branch offices and local offices spread out over the country, Indian banks provided financial centers to several businesses.

Keywords: Micro, small & medium enterprises, Syndicate Bank, Credit facilities, Economy, Loan.

Introduction

Various surveys have been attempted now and again on the parts of the commitment of MSMEs to monetary development. Even so, many of the investigations are identified with the development of MSME, commitment to financial development, and plan execution assessment, etc Audits of chosen contemplates are as follows.

Gilda Farajollahzadeh *et al.* (2016) in their study "Role of MSME in Economic Growth," which examined the advancement and accountability of MSME in India, considered the system support and open entryways for MSME. They discovered a variety of assistance provided by the Ministry of MSMEs and various commercial banks to develop the Indian economy and enhance job openings. They advised that organizations and agrarian and natural remedies and treatment-related things are needed to advance India's customary and inherited endeavors for products (Boateng *et al.*, 2019; Gaikwad *et al.*, 2020).

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How to cite this article: Behera, N.R. (2023). A Study on credit facilities of micro, small, and medium enterprises at Syndicate Bank. *The Scientific Temper*, 14(4):1531-1536.

Doi: 10.58414/SCIENTIFICTEMPER.2023.14.4.68

Source of support: Nil

Conflict of interest: None.

Subina Syal (2015), in their study, discussed the development and execution of MSME, the arrangement structure of MSME, and employment opportunities, sending out advancement and framework improvement based on the findings of her investigation. The author suggested that the administration figure out how to strengthen the MSME sector.

In their study, Babu R. *et al.* (2014) watched the business age's activity and improvement. Authorities view the diversity of the MSMEs as playing a significant role in the development of the Indian economy, according to MSME factors, including the total number of MSMEs in India, their theory, and business metrics (Srivastava, 2020; Verma, 2019).

Srinivas. K.T. (2013) considered its dedication to the Indian GDP and discovered that the MSME's role in the Indian economy cannot be avoided. To implement appropriate steps for further MSME division improvement by creator assessment (Shelly *et al.*, 2020; Mannar, 2019; Gade, 2018).

Uma, P. (2013) attested that the SMEs maintained the final significant components of in-country financial improvement. From 1991 through 2011, the author examined the development and execution of small-scale adventures in India. The researcher believed SMEs are marvels of theory, business, and toll measures. Selva Kumar *et al.* (2020) studied capital structure and firm profitability from an Indian perspective.

While expanding the credit offices, banks ought to stretch out credit to the correct individual for the correct reason at the perfect time and sum. Overlooking any of these components can bring misfortune to the bank or the business concerned. In the wake of broadening the

credit offices, banks ought to be exceptionally dynamic in development and recuperation. They must go about as a companion, logician, and guide for the borrower. They ought to bring mindfulness among the borrowers concerning the present plans, including protection, credit guarantee fund trust for micro and small enterprises (CGTMSE), etc.

The present Government is giving a great deal of significance to improving MSMEs. The Government has coasted a few plans like the MUDRA loans to advance MSME. According to the monetary development worry of the nation, the extension for MSMEs is wide in our nation.

Purpose of the Study

- To know about different term loans.
- To know about various repayment systems.
- To know the credit facilities provided by Syndicate Bank for MSMEs. MUDRA schemes – Micro Unit Development and Refinance Agency Limited.

Methodology

Data Collection

The data will be collected using both primary data collection methods as well as secondary sources.

Primary data

Most of the information will be gathered through primary sources. The methods that will be used to collect primary data is (are):

Interview with the branch manager of the bank

Secondary data

Secondary data of this study will be collected from:

Books
Balance Sheets

Limitations

- Study is based on Syndicate Bank, Jayanagar Branch, Bangalore.
- Time constraint of 1 month.
- Getting financial information is difficult.

Results

MSMEs at Syndicate Bank

Synd MSE

A strategy for financing micro and small businesses by the MSME Act of 2006 and RBI/GOI regulations to fulfil the credit need for all micro and small enterprises (MSE) in the manufacturing and service segment.

Loan Amount and Eligibility

There is no maximum allowable development amount under the plan. All credit offices authorised to micro and small enterprise are secured under the scheme, including credit score offices endorsed to retail trade up to 500 Lacs

ordered under MSE where the interest in hardware does not exceed Rs. 2.00 crore. Loans to food and agro processing units are authorised.

For all credit score places of work under MSE, as much as Rs.10 Lacs: in line with RBI policies, no assured security may be obtained, and each qualified advance could be secured below CGTMSE irrespective of that. For all credit score places of work above Rs.10 lacs as much as Rs. hundred lacs underneath MSE certified for inclusion underneath CGTMSE. Only essential protection/home loans of land and construction related to the business may be obtained, and every unmarried certified report can be secured underneath CGTMSE. Anyhow, the borrower has the option to decide whether to include the credit under CGTMSE for all credit offices that are not secured under CGTMSE.

No external assurance was obtained for credit offices approved for inclusion under CGMSE.

A reasonable third-party guarantee is only sometimes required if the office is fully validated by settlement/NSC/KVP/SV of LIC strategy/RBI remedy bonds to the extent of 100% of the degree of advance (despite hypothecation of stock). The property owner or safety should participate in the alternative as an underwriter (In the unlikely event that the property is not in the borrower's possession).

All micro businesses will receive a 0.50% pace of enthusiasm return for a quick payback. However, the final rate of enthusiasm following the concession will be at least the base rate. According to the regulations, the 0.25% tenor premium must be added to all three-year or longer-term advances. All qualifying records are secured under CGMSE regardless of circumstance. For all advances granted to weavers up to Rs. 2.00 lacs, a weavers credit card (WCC) is provided. Create a recovery strategy with the doorstep banking office to recover the advance share from the Pigmy Deposit, which accommodated advances up to Rs. 4.00 lacs.

Reimbursement: Loan Term: Maximum repayment period of 7 to 10 years, including occasion/ban period. The monthly payment is due to.

Over Draft: The limit will be set for a year and will, after that, be audited.

Fees: Service fees and documentation fees, where applicable.

Credit guarantee fund program for small and micro businesses (CGMSE) For this reason, CGMSE extends credit insurance coverage over bank-issued insurance-free credit to micro and small businesses. For all credit offices inside MSE, up to Rs. 10 lacs. No guarantee security will be obtained, and every single qualified credit will always be secured under CGTMSE, according to RBI regulations.

For all credit offices with revenue above Rs. 10 lacs and up to Rs. 100 lacs under MSE, inclusion under CGTMSE was permitted. Only necessary collateral/home loans for the business's connected land and buildings will be obtained.

All micro businesses will receive a refund of 0.50% in the event of underpayment. However, the rate of enthusiasm following the concession will no longer be lower than the base rate. The top rate for tenor is 0.25p. The rules must cover all term advances of three years or longer. Included under CGMSE: No matter what, CGMSE protects all certified information. Up to Rs. 2.00 lacs are given via the WCC for all advances granted to weavers. Recover game plan with doorstep banking office to recover the enhanced piece through Pigmy deposit with the strengthened point of confinement up to Rs. 4.00 lacs.

Reimbursement: Term Loan: The maximum repayment period, including the compensation event/ban period, is 7 to 10 years. Based on profits, repayable every month or every three months. Over Draft: The limit will remain the same for a year, with that aspect being audited—Service and documentation fees, where applicable. The credit guarantee fund scheme for CGMSE provides a loan guarantee and the insurance-free credit the bank gives micro and small enterprises. For all credit offices below the MSE, a minimum of Rs. 10 lacs is required.

No guarantee insurance may be obtained, and regardless of the circumstances, every single certified credit score must be secured under CGTMSE, as per RBI regulations, for all credit score offices with a value greater than Rs. 10 lacs and up to Rs. 100 lacs that are MSE-certified for inclusion under CGTMSE. Only essential protection and domestic loans for real estate relevant to the business may be obtained, and every single qualified document may be secured under the CGTMSE. On the other hand, the borrower can select the inclusion of advances under CGTMSE. Credit office concessions about the unit's

subject matter and CGTMSE secured advances made up the security assets. There was no outsider or assurance of safety.

Arrangement Measures to Provide Financial Support to MSMEs

The pace of intrigue is diminished for all classes under micro, small, and medium enterprises. Unwinding in minimum margin norms for different protections for advances conceded to micro and small enterprises by 5 to 10% over different divisions. Finance for Receivables as long as a half year is conceded. The money edge regarding LCs/ Guarantees is loose on a case-to-case premise for Micro and small enterprises. The least net working cash flow to be given as edge is decreased to 5 from 6.25% to all MSEs for appraisal of working capital necessity under "Turnover strategy" for reserve-based constraints up to Rs.5.00 crore. Loans for acquiring generator sets to Micro and Small Enterprises confronting a lack of intensity are allowed on hypothecation of generator sets with a diminished margin of 15%. Soft credits at a concessional rate are allowed to establish sunlight-based water-warming units according to MNRE rules. Advances for solar lighting are accessible at a concessional rate regarding the offer given by specific producers. Additional need-based working capital interest advance up to 20% of existing asset-based breaking point for every standard record of MSEs having credit offices up to Rs.10.00 crore are allowed. The advance is repayable in one year. A more extended development period between a half year to 1 year is allowed for units where the execution time of the task under account has been deferred—additional credit prerequisites considered for each Standard MSME account,

Table 1: Data analysis and data interpretation

<i>Exercise on financial statement analysis - M/S Ganesh Industries</i>			
<i>Liabilities amount (Rs.)</i>		<i>Assets</i>	<i>Amount(Rs.)</i>
Partners' Capital A/c A, B, C	21,30,000	Goodwill	1,00,000
P & L A/c of partners	13,00,000	Land & Building	40,00,000
Term loan liabilities with Fixed Interests	48,00,000	Machinery	32,00,000
Loans from friends and relatives	3,00,000	Vehicles	1,60,000
Overdraft liabilities with the Bank	9,00,000	Furniture and Fixtures	30,000
Bills discounted with Banks	1,50,000	Cash and Bank Balance	1,65,000
Sundry Creditors	-	Fixed Deposits with Bank	2,15,000
For purchase	2,65,000	Deposits with EB	35,000
For expenses	1,50,000	Investments in M/s Ganesh Industries	2,75,000
Provision for Income Tax	85,000	Debtors	6,00,000
Current A/c of A	2,50,000	Stock	12,00,000
		Preliminary Expenses	1,80,000
		Prepaid Expenses	50,000
		Current A/c of partner B	1,20,000
Total	1,03,30,000	Total	1,03,30,000

Table 2: Profit and loss account

Particulars	Amount(Rs)	Particulars	Amount(Rs)
Excise duty paid	1,50,000	Sales for the year	1,25,25,000
Purchase during the year	88,00,000	Income from other business	75,000
Opening Balance of Raw Materials	4,50,000	Closing Stock of Raw Materials	6,00,000
Work-in-Progress	1,50,000	Work-In-Progress	2,00,000
Finished Goods	3,00,000	Finished Goods	4,00,000
Wages and Salaries	9,00,000		
Power	4,50,000		
Depreciation written off	3,60,000		
Administrative Expenses	6,50,000		
Interest on Term Loan	7,50,000		
Bank Overdrafts	1,25,000		
Bad debts are written off	75,000		
Miscellaneous Expenses	90,000		
Net Profit before tax	5,50,000		
Total	1,38,00,000	Total	1,38,00,000

qualification/need. Draws of fully authorized points of confinement by all MSMEs are allowed. Ad-hoc limits for brief periods not surpassing 180 days for acquiring crude materials are considered for micro and small enterprises, where mass crude material acquisition is required during the season. Sub utmost to giant corporations is fixed on making opportune installments to MSMEs, inside as far as possible, explicitly for meeting installment commitments regarding their buys from MSMEs. Restructuring of the levy of qualified MSMEs is attempted on the value of each case for the units that cannot reimburse term advance commitments. Up to ₹10.00 Lakh, no guaranteed security will be acquired, and every qualified advance will be secured under CGTMSE regardless. Depending on the suitability of the proposition, the GTMSME spread can be stretched out up to Rs.100.00 lakh on a case-to-case premise. As IBA prescribes, the improved common loan application is received by banks up to Rs 2.00 crore. Due to surviving rules, the reduced pace of intrigue is material to credits secured under CGTMSE of above Rs 10.00 lakh and up to Rs 100.00 lakh. Facility for online accommodation of solicitation for credit for MSME advances presented. Clients can present the solicitation for credit through a site of the bank. The bank is sharing half of the one-time assurance expense and yearly assistance charge payable to CGMSE by the MSE client and the full one-time assurance expense and yearly help charge payable if there should be an occurrence of government-supported plan up to Rs.5.00 lac. Specialized SME branches are opened/ assigned to meet the necessity of the MSME division. There are 69 specific branches for financing—entrepreneurship improvement preparation through RUDSETIs and SIRDs for the advancement of business advancement among the provincial youth. Regions/Branches lead awareness programs on the offices accessible to the MSME division in key recognized focuses. Projects will feature the accessibility

of offices and credit items for MSMEs. MSME care focus/Help work area is established at each regional office of the bank, which will take care of complaints of the MSME clients and sort them out according to standards (Tables 1 & 2).

Data Analysis

Net Worth = Rs.21,30,000 + Rs.13,00,000 + Rs.2,50,000 – Rs.1,20,000 = Rs.35,60,000

(Partners' Capital a/c + P & L a/c of partners + Current a/c of A – Current a/c of B)

Intangible Assets = Rs.1, 80,000 + Rs.50, 000 + Rs.1, 00,000 = Rs.3, 30,000

(Preliminary Expenses + Prepaid Expenses + Goodwill)

Tangible Net worth = Rs.35, 60,000 – Rs.3, 30,000 = Rs.32, 30,000

(Net worth – Intangible assets)

Effective Net worth = Rs.32, 30,000 – Rs.2, 75,000 = Rs.29, 55,000

(Tangible Net worth – Investment in M/s Ganesh Industries)

Fixed assets = Rs.40, 00,000 + Rs.32, 00,000 + Rs.1, 60,000 + Rs.30, 000 = Rs.73,90,000

(Land and Building + Machinery + Vehicles + Furniture and Fixtures)

Term Liability = Rs.48, 00,000 + Rs.3, 00,000 = Rs.51, 00,000

(Term loan liabilities with fixed interests + Loans from friends and relatives)

Non – current Assets = Rs.2, 15,000 + Rs.35, 000 + Rs.2, 75,000 = Rs.5, 25,000

(Fixed Deposit with bank + Deposits with EB + Investment in M/s Vinayak Investments)

Current Assets = Rs.1, 65,000 + Rs.6, 00,000 + Rs.12, 00,000 = Rs.19, 65,000

(Cash and bank Balance + Debtors + Stock)

Current Liabilities = Rs.9,00,000+Rs.1,50,000+Rs.2,65,000 + Rs.1,50,000 + Rs.85,000 = Rs.15,50,000

(Overdrafts liabilities with Bank + For Expenses + For Purchases + Bills discounted with Banks + Provision for Income Tax)

Net Working Capital = Rs.19, 65,000 – Rs.15, 50,000 = Rs.4, 15,000

(Current Assets – Current Liabilities)

Sales = Rs.1, 25, 25,000

Net Sales = Rs.1, 25, 25,000 – Rs.1, 50,000 = Rs.1, 23, 75,000

(Sales – Expenses)

Net Profit = Rs.5, 50,000 – Rs.85, 000 = Rs.4, 65,000

(Net Profit before Tax – Provision for Tax)

Depreciation = Rs.3,60,000

Cash Profit = Rs.4, 65,000 + Rs.3, 60,000 = Rs.8, 25,000

(Net Profit + Depreciation)

Gross Profit = (Rs.1,25,25,000 + Rs.12,00,000) – (Rs.1,50,000 + Rs.88,00,000 + Rs.9,00,000 + Rs.9,00,000 + Rs.4,50,000) = Rs.25,25,000

[(Sales + Stock) – (Expenses + Purchase during the year + Wages and Salaries + Overdrafts with Bank + Opening Balance of Raw Materials)]

Ratios

Current Ratio = Rs.19,65,000/Rs.15,50,000 = 1.27

(Current Assets/ Current Liabilities)

Debt – Equity Ratio = Rs.51,00,000/Rs.32,30,000 = 1.58

(Term liability/Tangible Net Worth)

Solvency Ratio = Rs.66,50,000/Rs.32,30,000 = 2.06

(Total Outside Liabilities/Net Worth, where Total Outside Liabilities = Term Liabilities + Current Liabilities)

Gross Profit Ratio = (Rs.25, 25,000/Rs.1, 23, 75,000) * 100 = 20.40%

[(Gross Profit/Net Sales) * 100]

Net Profit Ratio = (Rs.4, 65,000/Rs.1, 23, 75,000) * 100 = 3.76%

[(Net Profit/Net Sales) * 100]

Data Interpretation

The MSME unit is currently enjoying a working capital limit of Rs.8,00,000. In the coming year, their projected balance sheet shows a total turnover of Rs.1,40,00,000. They also expect enhancement in wages, salaries, and cost of raw materials.

They have requested to enhance the working capital limit to Rs.15,00,000. The bank will consider the proposal in the following method: -

Projected Gross Turnover = Rs.1,40,00,000

Working capital at 25% of Projected Gross Turnover = Rs.35,00,000

Margin as per the borrower, i.e.

5% of projected gross turnover (Rs.7 00,000) (whichever is higher)

OR

Existing net working capital (Rs.4, 15,000)

Here, the margin will be considered at Rs 7 00,000.

So, the working capital limit, in this case, can be up to,

Rs.35,00,000 – Rs.7,00,000 = Rs 21,00,000

The unit requests Rs 15,00,000; their request can be considered favourably.

Discussion

For assessing working capital requirement, three stipulations are taken into consideration: -

Current Ratio

The minimum current ratio for MSME proposals should be a minimum of 1.

Solvency Ratio

The solvency ratio should not be more than 5.

Then, for the Profitability benchmark, the unit should have profit in the previous year

The working capital proposal is considered suitable if these three stipulations are complied with.

For the term loans, the debt-equity ratio is considered and should be within 3:1. As the financials of the unit are within the stipulated benchmark, i.e.

- Current ratio is above 1.
- The solvency ratio is within 5
- The firm has shown a profit in the current year.
- The debt- debt-equity ratio is within the range of 3.

Thus, the unit is eligible for the credit facility. Then, as per the projected sales, the unit is eligible for the working capital limit of Rs.21,00,000. However, the unit has applied for a working capital limit of only Rs.15,00,000. Thus, the proposal can be considered.

Suggestions

- To improve credit offices from the bank, the borrowers ought to have ideal creations/deals.
- The current ratio ought to consist of one or above.
- The reserve apportioned for working capital should not be redirected towards fixed resources since it will antagonistically influence creation and the present proportion.
- The borrowers should present the stock explanations in time each month.
- All the deals should be directed through the overdraft accounts.

Conclusion

According to the World Bank and International Monetary Fund (IMF), India is the main and just brilliant spot on the planet. To the extent the present monetary situation is concerned, every nation like the USA, Japan, and all other European nations is reeling under extreme money-related pressure. The cash of China, for example, the Yuan, has been devaluated to the base in the most recent 16 months, and the enterprises in China are likewise getting wiped out. Complexity to all these, the monetary development of India is required to outperform 7.5%, which is most noteworthy on the planet. Our Government, likewise, is extremely proactive

in elevating new dares to quicken the economy. Thus, many plans have been propelled, especially to advance MSMEs. As our economy is mostly household market-driven (as we have a strong residential market), the job of MSMEs is exceptionally imperative. For that, banks are additionally approaching to stretch out credit offices to the current and new MSMEs.

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