

**CREDIT NEEDS OF SMALL SCALE INDUSTRIES WITH SPECIAL REBERENCE  
TO WASTE COTTON PLANT IN COIMBATORE**

By  
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## I. INTRODUCTION

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Small Scale Industries form an integral part of Indian Economic Structure. They are not to be viewed as a static part of the economy but rather as a progressive and effective decentralised sector which is closely related with agriculture on the one hand and with large scale industry on the other. The Small Scale Sectors occupy a predominant place not only in backward economies but also in advanced economies. Small Scale Industries occupies a place of significance in the Indian Economy. There are various definitions regarding Small Scale Industry. But in deciding the size of the industry one has take into account the amount of capital invested, the number of people employed, the character of administration and management and the value of annual turnover. The most simple and useful definition of small scale industry has been given by the Government of India. "If the gross fixed capital of the industry is Rs. five lakhs or less irrespective of the persons employed then it is considered as Small Scale Industry." 1952.

The Central Government has defined the Small Scale Industry concerned "as a unit having capital invested upto

Rupees Five Lakhs employing not more than fifty persons with the use of power and one hundred persons without the use of power"(1960).

Small Scale Industry also defined as "an undertaking engaged in manufacturing and processing where investment of a capital nature like land, building, plant, machinery, equipment etc., together with capitalised value of rental premises, if any does not exceed Rs.Five lakhs".(B.N.Ahuja, 1950).

A small scale unit is, " any unit engaged in the manufacturing, processing or preservation of goods with investment in plant and machinery at original cost not exceeding Rs.10 lakhs."(Society for Social and Economic Studies, 1959).

Small Scale Industries of India have a decessive role to play in the economic development of the economy. The small scale industries contribute a large share of national income, say as labour intensive. Moreover a given amount of capital invested in small scale industry undertaking is likely to provide more employment. In addition to this, small scale

industries require mostly indigeneous machines and equipments and may need not depend too much for foreign capital or foreign exchange earnings.

But small scale units suffer from many problems such as finance, lack of management expertise, etc. It faces the problem of competition from imported articles and the articles produced by the large scale industries, lack of market facilities and transport facilities. The problem of credit and finance in respect of small scale industries is obviously inter-related to the problems of production management and marketing of their products. Credit is the life blood of any industry, so also small scale industries need credit. Small Scale Industries require credit both of short term and long term, for acquiring machineries, equipments and for construction of factory sheds etc. The industrial units has to buy raw materials carry stock of finished and semi-finished goods and has to sell its products sometimes on credit terms, so the funds get blocked in these operations. The units therefore require working capital for their day-to-day operations.

Credit structure in India is entirely regulated either by Government or by Public Sector Financial Institutions. Guidelines have been given to banks and financial institutions from time to time, advising them to follow liberalised terms and conditions in providing both long term and short term credit to small scale sector by the state. The various agencies arranging finance for small scale industries are:

1. Indigenous Banks and money lenders;
2. Commercial Banks;
3. State Financial Corporation;
4. State Bank of India and
5. Central and State Governments.

Now the new industrial policy gives top most priority to the development of small industries in rural areas. Number of items reserved for production in small scale sector have been increased from 180 to about 500. The place of small scale indus-

tries in the economy will be further strengthened. The Government also prefer to introduce the special legislation for the interest of the small scale industries.

Objectives:

The main objective of this study is to analyse the various aspects of credit needs of small scale industries during 1979 - 80 with special reference to waste cotton plant in Coimbatore.

Limitations:

The study is of the nature in detail would require sufficient amount of time, man and material. But for a single study to explore this idea in depth and in a comprehensive would be far from easy accomplishment. This limitation have been taken into consideration in deciding the variable and the size of the sample. The study was conducted in Coimbatore area alone and so the findings may not be suitable to other parts of Tamil Nadu. It is visualised that the findings of the study would provide insight into the problem and the study attempts to depict clearly the credit needs of the small scale industries.

## II. REVIEW OF LITERATURE

The related literature on the study of credit needs of small scale industries with reference to waste cotton plant in Coimbatore is given under the following heads:

1. Importance of Small Scale Industries
2. Problems of Small Scale Industries
3. Types and Sources of Credit for Small Scale Units.

### I. Importance of Small Scale Industries:

Small Scale Industries of India have a decessive role to play in the economic development and growth of the economy. Small Scale Industries and Cottage Industries occupies a place of special significance in the Indian Economy. The simple definition of Small Scale Industries have been given as "if the gross fixed capital of industry is 5 lakhs or less irrespective of the number of persons employed then it is consider as a small scale industry." (May, 1970). The Small Scale Industry may be placed under three categories.

1. Those which are subsidiary to large industries;
2. Those which are engaged in repair services with small engineering establishment
3. Those which are engaged in the manufacture of finished goods.

The small enterprises of India are contributing a large share of national income. Out of the total income of 8,500 crores of rupees in 1948 - 49, the share of small industry units was 870 cores in 1967 - 68. (S.M.Suneja in 1970). Small Scale Industries contributed 1376 crores of the national income of India. The proportion of contribution of small scale sector to the gross domestic product of India increase from 5.7 to 6.1 in 1967 - 68.(G.S.Andy in 1961). In small scale industry a given amount of capital invested is likely to provide more employment atleast in the short run. Solution to the unemployment problem. Hence the Harve Committee emphasizing this point stated "Principle of self-employment is atleast as important to a successful democ-

racy as that of self-government." For India as the capital is always inadequate small scale units are more suitable. The quantum of technical skill, managerial talents of engineers, technicians and accountants and qualified Personnel required by the small scale units is much limited, there by economising the scarce services. The time lag between investment and return in the case of small scale industries, is very short and as such the project would give quick return. In addition to the point mentioned above small scale industry are responsible for better distribution of wealth also.

Small Scale Industries forms an integral part of Indian structure. Many advantages are quoted as stemming from the setting up of small scale industry and in general small scale industries are responsible for decentralisation of industries and making optimum use of scarce resources. It help to avoid cost push inflation and slow down the concentration of economic power in a few hands. Small Scale industries can turn out consumer items of immediate need without any gestation period as happens in setting up large

scale units. The Small Scale Units unable more effective utilisation of resources manpower and skill. It is argued that the small scale sector plays an initial role by finding high employment opportunities at comparatively low capital investment. The growth of investment in the small scale sector in India is exceedingly poor 83 per cent of the units employ less than 10,00,000 by way of investment and 67 per cent do not exceed Rs.5,000. In the industrially advanced countries the small scale sector observes large employment. In U.S.A., it provides employment to 65 per cent of the national work force, whereas in, Japan the percentage is 83 per cent (Ram.K Vepa in 1977). In India majority of the people living in village and practice agriculture as their main occupation, but this occupation does not provide their work throughout the year in this case, small scale industries offer a supplementary occupation to the villagers, thereby reducing the problem of unemployment and underemployment. Small Scale Industries offer opportunities to men with small, but with initiative and skill to set up their own business and conduct it with a degree of independence. They are engaged in processing, manufacturing goods and offering services like supply of electric power to

limited areas or markets. They are comparatively capital light industries, involving less capital investment than those employing completely mechanised mass production method. They have the equipment and specialised skill to produce varied types of goods tailored to customers requirements.

## 2. Problems of Small Scale Industries:

The Small Scale Industries are facing many problems and difficulties in connection with requirement of raw materials, effective techniques of manufacture, marketing facilities and finance. Most of the small scale industries depend upon the large scale industries for raw materials. The handloom industries - wholly depends upon for the supply of yarn on cotton mills. In the absence of proper organisation the flow of materials from large scale sector, the cost of raw materials become very high. Almost all units in small scale sector carry on production with traditional methods of production. They do not have any facilities of research and training to increase output with modern equipments. Marketing is the biggest problem of small scale industry the costly handicrafts

like Banaras Sarees, Kashmir Garments could not find market because of the elimination process of Zamindars. The main burning problem of small scale units is the problem of finance. Finance for holding finished products till they are sold and financed for paying wages. Small scale producers are very poor, who have little to offer as a security, so they have depend upon money lenders for their finance and at times distress sales. The small scale industries have face many problems such as lack of credit facilities and marketing facilities etc. It has been observed that an entrepreneur has mastery over one field of activity either production or sale, besides training working with other departments of his business. The president of the federation of association of Small Scale Industries is a recent statement has disclosed that 60 per cent of the small units are sick with about 3.4 lakhs registered units in the small scale sector the number of silk units work of to an awaring figure of 2.1 lakhs. Since in a small scale enterprise, an entrepreneur is the owner, manager, the management's role in such an enterprise is a much more complex function that the case of large scale enterprise. It is realised that the difference between success and failure in a small scale enterprise is

that of management. To many a small unit managing finance only means employing a cashier who goes to bank withdraw cash, Collects bill proceeds and maintain the pity cash bank. But right management and right attitudes are also needed for success of small scale industries. The management of small units are inefficient, backward in the way of competitiveness and growth. Many small scale enterprises have been sponsored by enthusiastic entrepreneurs without adequate technical knowledge of their products or technical requirements of prospective customers. No exercises has been attempted to pinpoint the particular operations which require to those more labour less capital. Several small scale units are tied to big units whom they supply components and machinery. Big units are well established with customers and they increase prices whenever they find it necessary. It has been the experience of many small scale units that prices that they get for the components have remained stagnant for about a decade. There is a high added value between raw materials and finished goods in the large scale sector whereas in the small scale industries the added value is much lower. Another main problem of small scale industries is finance. The problem of finance and credit in respect of small scale industries is obviously interrelated to the problems of production management and marketing of their products.

Sources and Types of Credit:

Various types of credit required by small scale industries are listed below:

- a) Equity Capital;
- b) Loan Capital;
- c) Long Term, Short Term and Trade Credit.

(a) Equity Capital:

Equity Capital is risk capital and usually provided by friends and relatives. Initial investment should necessarily be made by the proprietor of the small business since a reasonable amount of venture or equity capital is always primary condition before requesting for credit. The international team of experts (1955) observed that in most of the workshops visited, real finance did not seem to exist at all. There was a severe lack of capital as well as credits. They have little money for adopting independent business methods

of their own. They are compelled to sell every days or weeks production to buy raw materials in small quantities at retail price. Their earnings are merge and do not allow them to procure new implements or machines for more or better production. The low productivity and over population in many small industries account for the scarcity and advance of capital.

(b) Loan Capital:

In addition to the risk capital long and short term loans are required by small industries. Long Term Loans are taken to finance the expansion and modernisation schemes are the purchase of the fixed assets while short term loans are required for keeping the enterprise operating or meeting the current expenses and for the stocking and re-equipment of machines and inventories.

(c) Long Term Loan:

Small Scale Industries require long term loan capital to acquire fixed assets for purpose of expansion or

modernisation of their plant and machinery or for acquiring other assets like land and buildings. If an industrial unit is able to provide adequate security in the form of fixed assets it may be in a position to raise loan capital from financial institutions. The small units however experience difficulties in obtaining long term loans because the value of the fixed assets owned by them is proportionally small compare to the requirements of long term accommodation.

#### Short Term Loan:

It may be ordinarily be assessed that the working capital will be provided by commercial and co-operative financing agencies because the advances are short term and usually made against the security of such raw materials and stock in trade as one readily creditable assets. With few exception however commercial banks are not inclined to provide short term credit to small scale industries. There are various reasons for this attitude. Generally these individual concerns do not satisfy the conditions on which advances on pledge or hypothecation are made by Commercial Banks. The co-operative banks have been granting short term creditability to

agriculturists but they have not yet been able to extend their activities to the industrial sphere. Many of these units therefore have to turn to alternative sources of finance which mainly come from shroffs and private money lenders. This finance is in the form of hundies at a stated period and the rate of interest ranges from 6 to 15 per cent and in some cases goes even higher. The needs of small business for working capital have increased during the past two or three years their own resources for working capital being very meagre.

#### Trade Credit:

The Small Scale Industries get trade credit for the new raw materials and other stores they have in turn to give credit for goods sold in the market or to large scale units. It has been found that in a buyers market or to a large scale units. It has been found that in a buyers market these entrepreneur are at a disadvantage because the period for which they have to offer trade credit for finished goods is much

larger than the time for which they get the facility from suppliers of raw materials. The small scale industries require working capital for purchase of raw materials and stores payment of wages goods in process and stock in trade.

The various agencies arranging finance for the small scale sectors may be grouped as indigenous banks and money lenders (b) public deposits (c) Commercial Banks (d) State Financial Corporations (e) State Bank of India, (f) State and Central Government. Small Scale Units require both short term and medium term finance. Finance is necessary for acquiring machines, equipments, construction of factory sheds etc. The industrial units has to buy raw materials carry stock of semi-finished and finished goods and has to sell its products same lines on credit terms. So the funds get blocked in this operation, the units therefore require working capital for their day-to-day operations. The banking system though providing a number of facilities for financing working capital under normal conditions has been often found wanted to meet exigencies. As a consequence most of the entrepreneurs are perpose driven to the money lender whose high rates of interest further impose a crippling burden on their finances.

Credit is an arrangement by which the lender allows his customer to borrow money upto a certain limit against either bond of credit by one or more securities or certain other securities. Any body who lends money is anxious to get back safely with some yield by way of interest and the bank is not an exception to this by proper selection of borrower the lender can guard against the risk of non-payment. Adequate securities provide a cover against quantities at retail price. Their earnings are merge and do not allow them to procure new machines for more or better production. The low productivity and over population, in many small industries account for the scarcity and advance of capital. The bank can realise the securities by sale of otherwise apply the proceeds to the loan. But at times realisation of securities is not only to the bank in the locality. Even after this if money realised is lesser than the money advanced the short fall will be a loss to the banks. The securities charged to the bank are to be kept in good and marketable conditions and there is insurance available to cover the risks against natural calamities like fire, earth - quake floods and the perils of the sea but there is no insurance

available against the violence and fluctuations in market prices. Change in fashion on technology as a result of which the securities given to the bank may render or with less scarp. In the private loan operations the borrower may have to make immediate possession of money from the credit and loans interest and at times pay interest in a advances too, even though he may not require all the money at once and the sometime but in the case of borrowing from credit limit for a certain period and withdraw whenever he needs and repay it and use it again to suit his convenience. The bank credit is the cheapest form of credit that is available in the money market while compared to the rate charged by the money lender. In all lending operations the bank verifies the purpose for which the borrowing is intended for as money invested in venture giving enough returned will enable to borrow to repay the dues early or as undertaken. For this reason the bank normally does not consider advances for unproductive or speculative purposes or where the yield is not certain. Though liberal credit is advocated in all the deserving cases so long as the banks are run on commercial lines and not as charitable economic institutions.

Efforts to provide credit to small scale industries have centered around providing additional credit in traditional firms, reducing interest rates and giving other rates of concessions by banks. Though bringing some advantages in their own way, these measures have failed to provide much needed credit support in other forms like venture capital, equity participation innovation finance, employment incentive reconstruction finance etc.

Assistance to small scale industries of State Bank of India various relaxations extended from time to time of and it should be followed by other commercial banks also. The new industrial policy expects the Industrial Development Bank of India to co-ordinate, guide and monitor the entire range of credit facilities offered by other institutions to the small scale industry by creating separate wings in public sector banks.

The first and foremost is granting of credit on the basis of actual needs of small scale industries. If the units proposal is viable the bank caters to the units entire

credit requirements. Secondly the bank offers comprehensive advance facilities are granted depending upon the nature of problems faced by each unit. In genuine cases the bank reduces margins makes advance payments to suppliers of raw materials, grants loan facilities to meet certain unforeseen contingencies etc. Any unit which is technically feasible and economically viable can get the necessary financial assistance from the bank. Technical feasibility of a project refers to the units capacity to generate surplus adequate enough to meet the financial commitments arising from the implementation of the scheme over the years.

The banks provide long term finance for the sick units also. The solution for rehabilitating sick units lies in providing the right type of financial assistance coupled with management expertise. It follows therefore that before disbursing funds the concerned banks should investigate into their problems and potentialities and the preparation of a result oriented plan.

The new industrial policy gives top most priority to the development of small scale industries in rural areas.

Number of items reserved for the production in small scale industries have been increased from 180 to above 500.

(May, 1971). The Government also proposes to introduce the special legislation for protecting the interest of the small scale industries. The Planning Commission appointed in 1965 June the Village and Small Scale Industries. The Committee recommended the following points:

1. Modernisation of Small Scale Industries with <sup>out</sup> resulting in unemployment;
2. Imposition of ceiling on the growth of large scale consumer goods industries;
3. Production of common consumption items;
4. Liberal financial aid to small scale units.

First Plan Year marked a sum of Rs.49 crores for the development of small scale industries. All India Board was established for the improvement of handloom and other small scale industries. Training facilities, credit and technical advice were also provided during the first plan period.

During the second plan a sum of Rs.180 crores was spend. The total outlay of third plan on small scale units was, 264 upto the end of 1968 - 69. During that period, more than 1,40,000 small scale units have been registered. (B.N.Ahuja, 1956). Even during the Fourth Plan the growth of modern and technically small scale units was promoted. Karve quoted the main secret of the success of small scale industries in Japan as their adoption of common production programme.

The allocation in rehabilitation of displaced persons has a provisions of Rs.18 crores for small scale industry of this amount Rs.11 crores is to be used for industrial loans. While the remaining of 7 crores is for vocational and technical training. In addition to this the programme budget of community development blocks has a provision of Rs.4 crores for rural arts and crafts.(May, 1970). The Central Government also set up Six All India Boards. They are All India Handicrafts Boards, the "All India Handloom Board" the "Coir Board", the Central Silk Board," the "Small Scale Industries Board" and the "Khadhi and Village Industries."

The function of the Khadi and Village Industries Board is to promote Small Scale Industries both power driven and non-power driven. As a result of the expanding activities of their Boards and greater attention paid by the Central and State Government, there has been considerable increase in both production and employment in a number of small scale industries.

### III. METHODOLOGY

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The Methodology adopted for the study on credit needs of small scale industries with special reference to waste cotton plant is described in four topics:

1. Selection of Area and Sample;
2. Construction of Tools;
3. Conduct Pilot Study;
4. Collection, Consolidation, Analysis and Interpretation of Data.

#### 1. Selection of <sup>the</sup> Area:

Selection of the area was thoroughly done to elicit the information about the credit needs of small scale industries with reference to waste cotton plant in Coimbatore. Two areas Kannampalayam, Chindhamanipurur were chosen for the study, where the majority of them were seen. In order to have a well designed sample which reflects the character of the total, we choose 50 samples at random. The owners of the waste cotton plant were approached with the detailed questionnaire from whom the information was to be obtained.

## 2. Construction of Tools:

The tool selected for the study was questionnaire schedule to be answered by the owners of the waste cotton plant.

## 3. Conduct Pilot Study:

In order to standardise the questions and to test the effectiveness of the questions the pilot study was conducted in Kannampalayam, Chindamanipurudur by collecting information from who were not included in the final study. The pretesting help us to modify the questions which were ambiguous and to include some questions which were seem to be necessary. The investigator explains the purpose, the place where she belongs and how to answer the questions. Whenever doubts were raised by the subjects they were noted in order to enable to correct them while preparing final questionnaire.

## 4. Consolidation and Interpretation of Data:

The next step was collection of data. The data were collected from waste cotton plant owners and the data obtained from the filled questionnaire were consolidated and results were interpreted.

#### IV. RESULTS AND DISCUSSION

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Results and Discussions on the study of the credit needs of small scale industries with special reference to waste cotton plant in Coimbatore is discussed under the following heads:

I. Background information;

II. Information on Credit.

##### I. Background Information:

TABLE I

TYPES OF THE FAMILY

S.No.	Types of family	Number of Persons	Percentage
1.	Nuclear	38	76
2.	Joint	12	24
	Total	50	100

Regarding family type the sample showed a pre-dominance of nuclear families to the extent of 76 per cent.

This is an agreement with the general trend in the Indian Society towards nuclear families. The major cause for this trend is the economic insecurity.

## 2. Size of the Family:

Size of the family is normally considered as a factor affecting the size of the loan generally there is a positive correlation between the size of the family and the size of the credit. The table given below shows the structure of family size.

TABLE II  
SIZE OF FAMILY

S.No.	Size of the family	Number of persons	Percentage
1.	0 - 2	5	10
2.	2 - 4	23	46
3.	4 - 6	16	32
4.	6 - 8	6	12
5.	8 and above	Nil	--
	Total	50	100

The above table reveals that out of the fifty families surveyed 10 per cent, 46 per cent, 32 per cent 12 per cent had 0 - 2, 2-4, 4-6, and 6-8 persons respectively. No family had members more than 8. The average family size of our sample four fall below the national average family size 5.3.

### 3. Age and Sex Composition:-

The correlation fitted between the size of the family and the size of the credit made the point clear that there is always positive relation between there two varieties. ~~The value of correlation is 0.4.~~ The age sex composition of our sample is given below.

TABLE III  
AGE AND SEX COMPOSITION OF THE FAMILY

S.No.	Age	Number of males	Number of females
1.	0 - 10	7	10
2.	10 - 20	20	15
3.	20 - 30	41	20
4.	30 - 40	14	12
5.	40 - 50	16	17
6.	50 - 60	19	10
Total		119	84

The above table indicates that in the age group of 0-10, 10-20, 20-30, 30-40, 40-50 and 50-60 the sample had 17, 35, 61, 26, and 33 and 29 members respectively.

#### 4. Literacy Level:

Education is the highest form of human investment. It helps to increase dexterity, of labour and creates new values and aspirations deploying new technologies. The literacy level of our sample is given below:

TABLE IV  
LITERACY LEVEL

S.No.	Literacy Level	Number of males	Number of females
1.	Illiterate	60	40
2.	Primary	10	4
3.	Middle school	10	14
4.	High school	12	10
5.	College level	20	10
Total		112	78

It was deplorable to note that the order of literacy (those who know read and write) among the group studied was 53 per cent illiterates, 47 per cent literates.

#### 5. Annual Income:

Income is the direct parameter of the living standard of a family and community. It directly depends on the amount of labour force and the availability of employment opportunities to them. The income level of our sample is given below.

TABLE V  
ANNUAL INCOME OF THE FAMILIES

S.No.	Annual Income	Number of Families
1.	0 - 10,000	-
2.	10,000 - 20,000	5
3.	20,000 - 30,000	9
4.	30,000 - 40,000	5
5.	40,000 - 50,000	8
6.	50,000 - 60,000	6
7.	60,000 - 70,000	8
8.	70,000 - 80,000	5
9.	80,000 - 90,000	1
10.	90,000 - 1,00,000	2
		50

The table reveals that more than 26 families in our sample surveyed realised an income of less than Rs.50,000 and rest of the 23 families had an income ranging between Rs.50,000 - 1,00,000 per year. The average income of our sample stood as Rs.55,800 and the per capita income was Rs.14,000 per year. Correlation between income and credit supported to the fact of indirect relationship between these two variables.

### II. 1. Need for Credit.

Credit is the life blood for any type of productive activity. Small scale industrial owner require credit for various reasons and reasons for. Credit is differ from one another. The need for credit of waste cotton plant under our study is given below.

TABLE VI  
NEED FOR CREDIT

S.No.	Purpose	Number of industries	Percentage
1.	To purchase machines	20	40
2.	To extend business	10	20
3.	For construction of factory shed.	6	12
4.	To purchase raw materials	4	8
5.	To purchase generators	5	10
6.	To purchase machines & for construction of factory.	5	10
	Total	50	100

The table reveals out of fifty samples surveyed 40 per cent, 20 per cent, 12 per cent, 8 per cent, 10 per cent and 10 per cent received credit from various sources, to purchase machines, to extend the business, to construct factory, to purchase raw materials, to purchase generators and to purchase machines and for construction of factory sheds respectively. From the table it is clear that the main reason for receiving credit was to purchase machines and the least reason for the credit of waste cotton plant was to purchase raw materials. The above information is depicted in the diagram No.I.

## 2. Amount and Type of Credit:

The various sources of credit for Small Scale Industries provide loans under three categories. Short Term, Medium Term and Long Term. The amount of credit changes according to the rate of interest which in turn reflects the type of credit. The amount of credit of our sample and type of credit of waste cotton plant is given below.

# NEED FOR CREDIT BY THE WASTE COTTON PLANT OWNERS

Figure No. 1

Scale:

1cm = 5 Industries

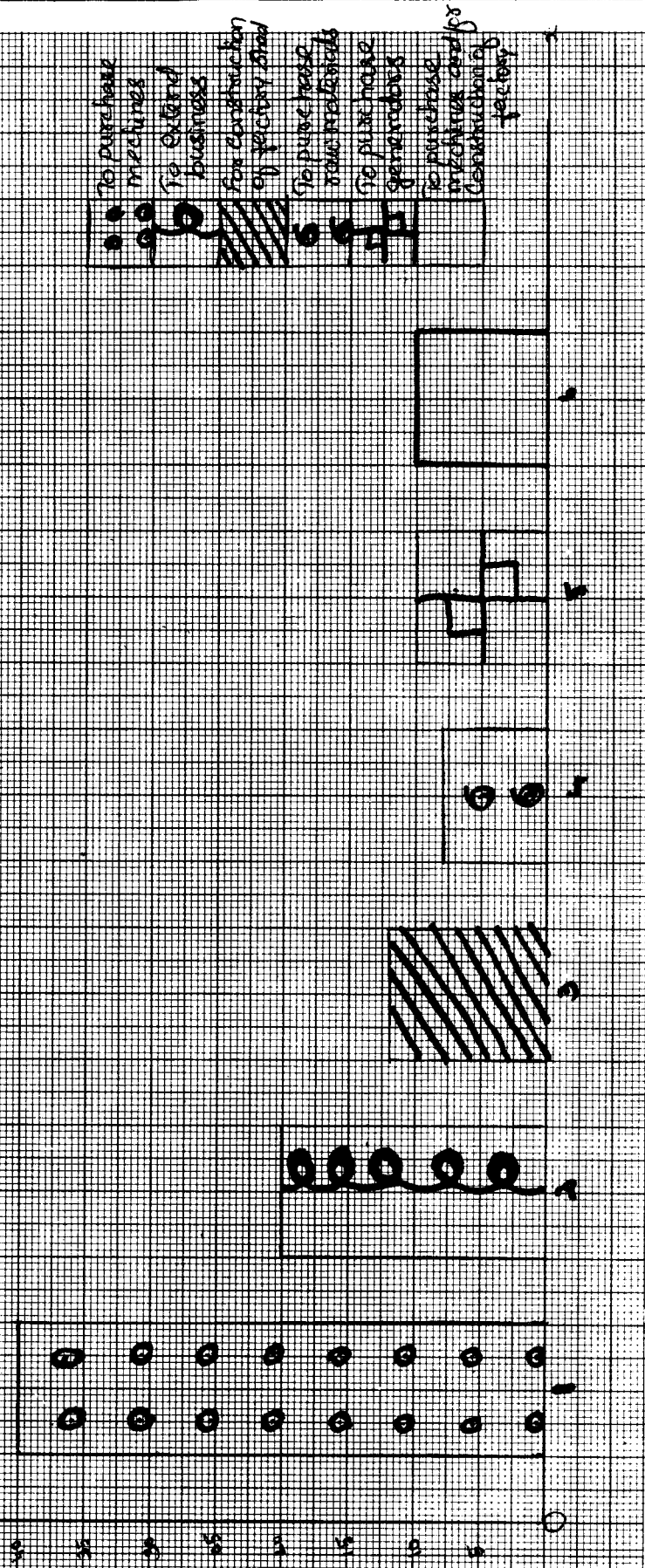


TABLE VII  
AMOUNT OF CREDIT

S.No.	Amount of Credit	Number of Industries
1.	0 - 25,000	1
2.	25,000 - 50,000	1
3.	50,000 - 75,000	2
4.	75,000 - 1,00,000	3
5.	1,00,000 - 1,25,000	5
6.	1,25,000 - 1,50,000	3
7.	1,50,000 - 1,75,000	4
8.	1,75,000 - 2,00,000	4
9.	2,00,000 - 2,25,000	3
10.	2,25,000 - 2,50,000	4
11.	2,50,000 - 2,75,000	5
12.	2,75,000 - 3,00,000	4
13.	3,00,000 - 3,25,000	2
14.	3,25,000 - 3,50,000	4
15.	3,50,000 - 3,75,000	3
16.	3,75,000 - 4,00,000	2
	Total	50

(b) Types of Credit.TABLE VIII

S.No.	Type of Credit	Number of industries	Percentage
1.	Short Term	11	22
2.	Medium Term	21	42
3.	Long Term	<u>18</u>	<u>36</u>
	Total	50	100

Out of the fifty samples surveyed 22 per cent, 42 per cent and 36 per cent are received short term, medium term and long term credit respectively. The minimum amount of credit received by them as Rs.25,000 and the maximum amount was Rs.4,00,000.

3. Sources of Credit:

The loan is provided by various institutions for small scale sectors. The owners may receive their loans from various sources considering the interest rate, amount they require and their sanctioning nature of the loan by the institutions. The sources of credit of our sample is given in the following table.

TABLE IX  
SOURCES OF CREDIT

S.No.	Sources of credit	Number of industries	Percentage
1.	Canara Bank	10	20
2.	Indian Bank	16	32
3.	Indian Overseas Bank	9	18
4.	Tamil Nadu Industrial Investment Corporation.	5	10
5.	Small Scale Industrial Development Corporation.	4	8
6.	State Indian Bank	4	8
7.	Others	<u>2</u>	<u>4</u>
	Total	50	100

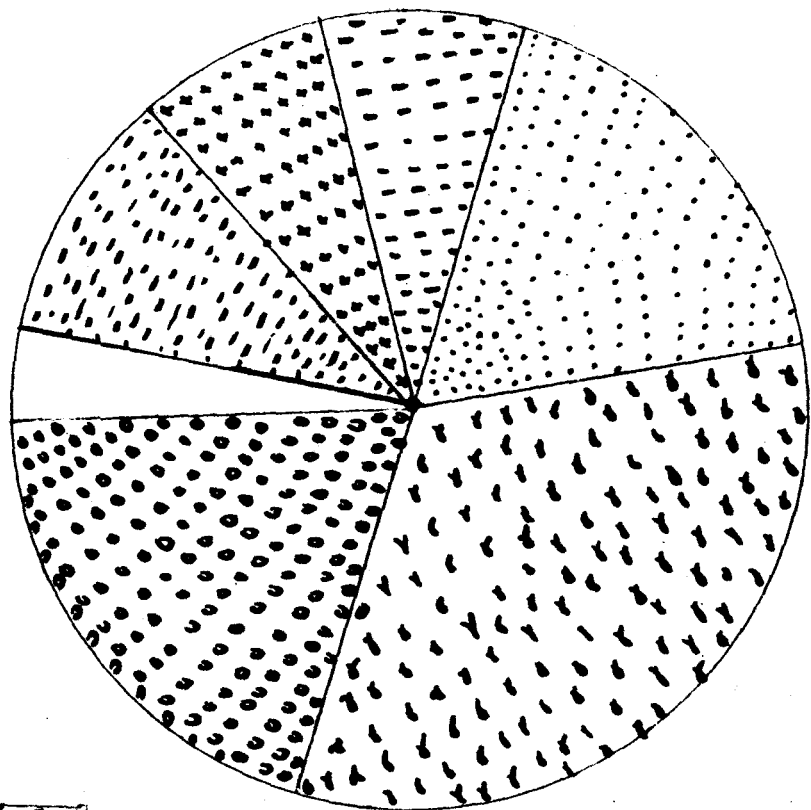
The above table reveals that out of fifty samples surveyed 20 per cent, 32 per cent, 18 per cent, 10 per cent 8 per cent, 8 per cent and 4 per cent received loans from Canara Bank, Indian Bank, Indian Overseas Bank, Tamil Nadu Industrial Investment Corporation, Small Scale Industrial Development Corporation, <sup>State</sup> Indian Bank and Others respectively. From this we can say that 32 per cent of the Industrial owners are received their loans from Indian Bank. The analysis makes the point clear that one industrial unit received credit from more than one sources as our sample surveyed was only fifty. This is shown in the form of diagram No.2.

#### 4. Sources for Repayment:

The sources from which the loan is being repaid differ from person to person. So also our survey witness this and the related information is given below.

# SOURCES OF CREDIT TO THE WASTE COTTEN PLANT OWNERS.

DIAGRAM NO. 2






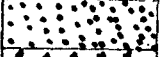
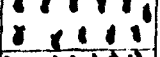
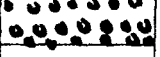

-  STATE BANK
-  SMALL SCALE INDUSTRIAL DEVELOPMENT CORPORATION
-  TAMIL NADU INDUSTRIAL INVESTMENT CORPORATION
-  INDIAN OVERSEAS BANK
-  INDIAN BANK
-  CANARA BANK.
-  OTHERS.

TABLE X  
SOURCES FOR REPAYMENT

S.No.	Sources	Number of industry	Percentage
1.	Business Income	34	68
2.	House Rent	5	10
3.	Agricultural Income	6	12
4.	Family income	<u>5</u>	<u>10</u>
	Total	50	100

The above table emphasis the fact that more than 68 per cent of our sample were able to repay their credit only from their business and only 10 per cent of the sample was supported by their total family income with regard to the repayment of the loan. Repayment out of business income may be the main cause for their inability in the extension of their business.

5. Mode of Repayment:

Mode of repayment of our sample is given below.

TABLE XI  
MODE OF REPAYMENT

S.No.	Type of Repayment	Number of Industry	Percentage
1.	Monthly	28	56
2.	Quarterly	12	24
3.	Half yearly	<u>10</u>	<u>20</u>
	Total	50	100

The above table clearly shows that 56 per cent of our sample used to pay their loans on monthly basis, 24 per cent paid the loan by half yearly basis and 20 per cent paid the loan by <sup>half yearly</sup> ~~quarterly~~ basis. The rate of interest charged has differ from one source to another. It depends upon the mode of repayment also. In spite of high rate of interest a majority of our sample wanted to renew their loan for various reasons. A majority of our sample surveyed has able to repay their loan in time.

6. Problems in getting Loan:

Everybody understand the fact that receiving loan or credit from the bank is not an easy task. We have to cross and pass various problems.with regard to receiving loan of our sample is discussed below.

TABLE XII  
PROBLEMS IN GETTING LOAN

S.No.	Problems	Number of industries	Percentage
1.	Delay in getting loan.	15	30
2.	Refuse to give full amount of loan.	13	26
3.	High rate of interest.	4	8
4.	Security problem.	7	14
5.	Others	11	22
	Total	50	100

The main thing that made our sample to feel sad about the credit is 'delay in getting loan.' Nearly 30 per cent of

our sample suffered by this problem which was following by the next pressing problem as 'less amount' (26 per cent).

### 7. Problems in Repayment:

Small Scale Industries are facing many problems in the path of their credit. The problems explained by waste cotton plant owners is given below:

TABLE XIII  
PROBLEMS IN REPAYMENT

S.No.	Problems	Number of industries	Percentage
1.	Reduces Business turnover	18	36
2.	Impossible to purchase raw materials	12	24
3.	Difficult to extend business	20	40
	Total	50	100

Nobody can deny the repayment of loan. But it affects the various phases of business. Our study shows that nearly 36 per cent were affected in terms of reduction in business turnover, 24 per cent by lack of raw materials and 40 per cent by having less chance to expand their business.

#### 8. Outstanding Credit:

The information on outstanding credit is given below:

TABLE XIV  
OUTSTANDING CREDIT

S.No.	Size of Outstanding Credit	Number of industries.	Percentage
1.	Less than 25,000	18	36
2.	25,000 - 50,000	6	12
3.	50,000 - 75,000	25	50
4.	1,50,000	<u>1</u>	<u>2</u>
	Total	50	100

The above table shows that 36 per cent of our sample surveyed had an outstanding debt amount nearly Rs. 25,000 and only one industry had an outstanding loan of the amount of Rs. 1,50,000.

### 9. Credit Facilities to the Buyer:

The producers may provide some credit facilities while purchasing final goods. It will help to expand the business. The credit facilities provided by the owners to the buyer is given below.

TABLE XV  
CREDIT FACILITIES TO THE BUYERS

S.No.	Types of facility	Number of industries.	Percentage
1.	Providing credit facilities.	41	82
2.	Not providing credit facilities.	9	18
	Total	50	100

As the waste cotton plant owners received the raw materials on credit basis, they too provided their goods on credit basis. Nearly 82 per cent of our sample surveyed provided their goods on credit basis. They felt that it helped them a lot in enlarging their market and sales.

## V. SUMMARY AND CONCLUSION

The present study on credit needs of small scale industries in Coimbatore is an attempt to find out:

- (a) The need for credit;
- (b) The amount of Credit;
- (c) Types of Credit;
- (d) Sources of Credit;
- (e) Problems in getting loan;
- (f) Problems in repaying loan;
- (g) Outstanding Credit size of waste cotton plant in Coimbatore. Two areas - Chinthamanipudur and Kannampalayam were chosen for the study. The findings of the study are given below:

### Findings:

1. There was positive relationship between credit size and family size.

2. The study witnessed the fact of indirect relationship between income and credit.

3. Forty per cent of the sample required credit for the purchase of machines and only ten per cent borrowed loan for two purposes. Say for the purchase of machines and for construction of factory shed. They expressed their view that the part played by the middle men sometimes forced them to take a smaller fraction of their loans to them.

4. The maximum amount of credit borrowed by our sample stood as Rs.4,00,000 and the minimum amount was Rs.25,000.

5. The main source of credit for the waste cotton plant in Coimbatore was Indian Bank. The next rank was secured by Canara Bank.

6. Thirty six per cent of our sample had long term loan.

7. The main source for the repayment of loan was income from their own business. This may be the main cause for the inability in the expansion of their business.

8. Seventy six per cent of our sample used to repay their loans on monthly basis.

9. Rate of interest paid by them differed from one source to another. Majority of our sample wanted to renew their loan for various reasons inspite of paying higher rate of interest.

10. With regard to the problems in receiving the loan the main theme that made our sample to suffer was delay in getting loans. Thirty per cent of our sample struggled by this problem.

11. Other sample expressed their difficulties in repaying their loans. Nearly 36 per cent felt that the repayment of credit caused them to reduce their business turnover.

12. Nearly 36 per cent of our sample surveyed had an outstanding debt amounting nearly Rs.25,000.

13. Eighty two per cent of our sample surveyed provided their goods on credit basis. They felt that it helped them a lot.

14. Forty five per cent of our sample expressed that power cut was their main problem apart from credit.

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## APPENDICES

QUESTIONNAIRE TO ELICIT INFORMATION ABOUT THE CREDIT NEEDS OF  
SMALL SCALE INDUSTRIES WITH REBERENCE TO WASTE COTTON PLANT IN  
COIMBATORE.

I. Family Background

S.No.	Name	Sex	Literacy level	Type of the job	Income
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II. i. Total investment (amount in rupees)	Amount spent/Year
Raw material	-
Machineries	-
Wages	-
Rent	-
Others(specify)-	

ii. Total production per year.

III. a. Nature of credit.

Sources or credit	Total amount	Purpose	Amount spent.	Rate of interest	Type of loan	Mode of repayment
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b. What is the criteria for sanctioning the loan.

IV. Receiving the loan.

a. Do you have any problem in getting the loan

Yes  No

b. If yes specify the problem:

- ( i ) Delay in getting the loan:
- ( ii ) High rate of interest :
- (iii) Refuse to give the full amount of loan
- ( iv) Security Problem
- ( v) Others(specify)

V. Repaying the loan:

a. Do you face any problem in repaying the loan.

Yes  No

- b. If yes, specify the problem
- c. How much have you repaid
- d. Mention the amount to be repayed
- e. Is it possible to repay the loan in time?
- f. Mention the source for repayment.
- g. Do you want to renew the loan      Yes       No
- h. Mention the purpose of renewing the loan.

VI. Marketing

- a. Do you sell the product by yourself or through middlemen.
- b. If you sell the product through middleman, what is the amount given to the middlemen.
- c. Do you provide credit facilities to your buyers.      Yes       No
- d. If yes, do you think that it helps to enhance your sales.
- e. In what <sup>way</sup> does it affect your credit your credit needs.

VII. Other information

- a. Do you have any problem in business, apart from finance;      Yes       No
- b. If yes, specify the problem.
  - (a) Getting the raw materials different
  - (b) Labour problem
  - (c) Seasonal Business
  - (d) Power - cut
  - (e) Others -(specify)