



MSMEs IN TELANGANA - OPPORTUNITIES, GROWTH AND CHALLENGES

PRABHAKAR PUDARI

M.com, MBA (finance), UGC-Net (Commerce), K.U

ABSTRACT

In this Paper I examine to what extent recent empirical evidence can collectively and systematically substantiate the claim that MSME has plays an important role in the economy of the State/nation. This proposal is provided that answers to the various aspects such as the contribution of MSME to the individual segment, Nation and world economy in comparison to non-MSME in terms of employment generation , dynamics, innovation, productivity, growth, contribution to the Nation's economy, major challenges to the growth.

Keywords: MSMEs Employments; Finances; Growth; Opportunity.

OBJECTIVES

The main objectives the Paper:

1. To provide the overview about Micro, Small & Medium Enterprises in India
2. Contribution from the MSME to the Nation's GDP/Economy
3. Current Opportunities & Challenges to the MSME in Telangana
4. Current Growth of the MSME in Telangana & It's contribution to the Telangana economy
5. Comprehensive study on recent Industrial policies (TS I pass)
6. Influence of the TS – i- Pass on the Global Market
7. Finding the barriers to establish/promote the MSME in Telangana

It has been observed that given the business environment in different states in India, large-scale companies have thrived while MSMEs have not been able to realize their full growth potential. The study hypothesises—and seeks to verify whether and the extent to which—this handicap of MSMEs is attributable to the regulatory norms applicable to them. Further, it is suggested that the business environment in Telangana, as contrasted against that of other States, is not sufficiently conducive to MSME growth.

METHODOLOGY

The paper employs secondary data analysis as the major tool of research. Primary methods were used to supplement this analysis, by means of telephonic, semi-structured interviews, visits with officials from the concerned government ministries and departments.

Overview about Micro, Small & Medium Enterprises around the world:

MSME (micro, small, and medium enterprise) around the world indicators for 132 economies. There are 125 million formal MSMEs in this set of economies, including 89 million in emerging markets. Descriptive statistical analysis is presented on the relationship between formal MSME density (number of formally registered MSMEs per 1,000 people) and key obstacles for MSMEs,



such as access to finance and informality. This analysis shows that formal MSMEs are more common in high-income economies, but that in low and middle-income economies, MSME density is rising at a faster pace. Second, although there is significant variance in the countries' definitions of MSMEs, around a third of the countries covered define MSMEs as having up to 250 employees. Third, formal MSMEs employ more than one-third of the world's labor force, but the percentage drops significantly with income level. Fourth, MSMEs are more likely to identify access to finance as their biggest obstacle than are large firms. In fact, in economies with a higher percentage of firms with no formal credit, MSME density is lower. Finally, a larger informal sector is associated with lower formal MSME density. Measures of barriers to firm entry and exit, such as the minimum capital requirement and the recovery rate in case of bankruptcy, are also associated with lower formal MSME density.

MSMEs in India

Indian Small and Medium Enterprises (SME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. SMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural areas. SMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. The Sector consisting of 36 million units, as of today, provides employment to over 80 million persons. The Sector through more than 6,000 products contributes about 8% to GDP besides 45% to the total manufacturing output and 40% to the exports from the country. The SME sector has the potential to spread industrial growth across the country and can be a major partner in the process of inclusive growth.

SMEs also play a significant role in Nation development through high contribution to Domestic Production, Significant Export Earnings, Low Investment Requirements, Operational Flexibility, Location Wise Mobility, Low Intensive Imports, Capacities to Develop Appropriate Indigenous Technology, Import Substitution, Contribution towards Defense Production, Technology – Oriented Industries, Competitiveness in Domestic and Export Markets thereby generating new entrepreneurs by providing knowledge and training.

Despite their high enthusiasm and inherent capabilities to grow, SMEs in India are also facing a number of problems like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic & global competition, working capital shortages, not getting trade receivables from large and multinational companies on time, insufficient skilled manpower, change in manufacturing strategies and turbulent and uncertain market scenario. To survive with such issues and compete with large and global enterprises, SMEs need to adopt innovative approaches in their operations. SMEs that are innovative, inventive, international in their business outlook, have a strong technological base, competitive spirit and a willingness to restructure themselves can withstand the present challenges and come out successfully to

contribute 22% to GDP. Indian SMEs are always ready to accept and acquire new technologies, new business ideas and automation in industrial and allied sectors.

Definition of MSMEs in India

(As Per Micro, Small & Medium Enterprises Development (MSMED) Act, 2006)

Manufacturing Enterprises – Investment in Plant & Machinery		
Description	INR	USD(\$)
Micro Enterprises	upto Rs. 25Lakh	upto \$ 62,500
Small Enterprises	above Rs. 25 Lakh & upto Rs. 5 Crore	above \$ 62,500 & upto \$ 1.25 million
Medium Enterprises	above Rs. 5 Crore & upto Rs. 10 Crore	above \$ 1.25 million & upto \$ 2.5 million

Service Enterprises – Investment in Equipments		
Description	INR	USD(\$)
Micro Enterprises	upto Rs. 10Lakh	upto \$ 25,000
Small Enterprises	above Rs. 10 Lakh & upto Rs. 2 Crore	above \$ 25,000 & upto \$ 0.5 million
Medium Enterprises	above Rs. 2 Crore & upto Rs. 5 Crore	above \$ 0.5 million & upto \$ 1.5 million

Opportunities & Challenges to the MSME in Telangana:

In newly formed Telangana state, for the rapid industrial growth the government of Telangana has enacted the various industrial policies which provides the wide range of benefits to the promotion of Industrial establishment. Among the various industrial policies TS-iPASS is providing the immense encouragement to the Global market for the establishments. Some of recent industrial Acts, Schemes and its summary.

- Industrial policy framework – Entrepreneurship Development
- TS- iPASS Act,2014 – Industrial Project Approval & Self Certification Scheme
- T-IDEA Scheme,2014 – Industrial Development & Entrepreneur Advancement
- T-PRIDE Scheme,2014 – Program for Rapid Incubation of Dalit Entrepreneur Incentive Scheme

MSMEs & Economic Growth

Assured Power Supply

Improved Infrastructure

Boost to Start Ups through stable policy regime

Hassle-free Inspections – Under active consideration

Finance is still an issue – Banks move at snail speed for manufacturing enterprises

Opportunities flow from Strengths and they always exist

Entrepreneurs seize them

Growth creates more opportunities

Industrial eco system nurtures them

Right Policies promote them

CLUSTERS

Collective Benefits

Favour the creation of providers of specialized technical, administrative and financial services.

Create a conducive environment for the development of inter-firm co-operation

Promote local production, innovation and collective learning.

Industrial Ecosystem:

Industrial ecology (IE) is the study of material and energy flows through industrial systems



Key Industries in Telangana

Key industries in Nizamabad:

- Minerals
- Rice Mills
- Food Processing

Key industries in Adilabad:

- Cement
- Paper

Key industries in Karimnagar:

Seed industry

- Fertilizer
- Power
- Wood and artisanal

Key industries in Warangal:

- Minerals
- Food Processing

Key industries in Medak:

- Chemicals
- Engineering
- Automobiles

Key industries in RR:

- IT & BT
- Pharma
- Food Processing

Key industries in Mahbubnagar:

- Textiles
- Minerals
- Consumer Products

Key industries in Nalgonda:

- Cement
- Pharma

Key industries in Khammam:

- Minerals
- Power
- Granite
- Metallurgy
- Paper



: Strengths of Telangana based industries

Industry	Location	Strength
IT & ITES	Hyderabad	Availability of infrastructure and manpower
Precision Engineering, Aviation & Defence	Hyderabad Ranga Reddy	<ul style="list-style-type: none">• Anchor industries such as BHEL, HAL, DRDO, DRDL, DMRL, BEL• Exclusive Aerospace SEZ
Pharmaceuticals & Allied Chemicals	Hyderabad, Medak	<ul style="list-style-type: none">• Presence of premium research institutions• Strong clustering of pharma
Biotechnology	Hyderabad, Medak	Genome Valley – the first largest organized Life Sciences cluster in India (spanning 600 sq.km)
Renewable Energy – Solar	Mahboobnagar	TSIIC and JICA set up a 5000 acre solar park

Development plan for Telangana			
Industry	Districts	Analysis	Rationale for industry selection
Phase 1	<ul style="list-style-type: none"> • Warangal • Karimnagar • Nizamabad • Nalgonda 	<ul style="list-style-type: none"> • IT and ITES • Seed Industry, Agro processing • Agro Processing • Pharma 	<ul style="list-style-type: none"> • Presence of NIT and an IT SEZ • Karimnagar and Nizamabad have crops of Maize, Paddy and Turmeric, • Existing pharma units, State has proposed pharma city
Phase 2	<ul style="list-style-type: none"> • Mehaboobnagar 	<ul style="list-style-type: none"> • solar 	<ul style="list-style-type: none"> • Solar park on the anvil
	<ul style="list-style-type: none"> • Adilabad 	<ul style="list-style-type: none"> • solar, wooden furniture, 	<ul style="list-style-type: none"> • Large forest reserves, receives high rainfall and sunlight
	<ul style="list-style-type: none"> • Khammam 	<ul style="list-style-type: none"> • Granite, Steel, Wood based units 	<ul style="list-style-type: none"> • GOI has proposed a Steel plant as part of the ACT • Granite reserves in Karimnagar • Large forest reserves for wood based units

CHALLENGES TO THE MSME:

Despite of the government encouragement, promotional industrial policies MSMEs in Telangana are also facing a number of problems like insufficient skilled manpower, sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic & competition from Big organizations, working capital shortages, not getting trade receivables from large and multinational companies on time, change in manufacturing strategies and turbulent and uncertain market scenario. To survive with such issues and compete with large and global enterprises, SMEs need to adopt innovative approaches in their operations.

SOLUTIONS TO SMALL ENTERPRISES

- Approach an Incubation Centre
- Test your product through trial market
- Assess the lead time for commercialization
- Over-enthusiasm doesn't pay
- Chose an Angel Investor/ Venture Capital



- Do not approach a Bank for Term Loan or Working Capital until the Commercials are tested.
- Do not draw the Working Capital until the Investment in Plant and Machinery reaches the Production Stage.
- Assess the Market Potential
- Assess the Lead Time for the product to take off
- Weigh the product risks
- Weigh the process risks
- Never inflate invoice to make up investor margins for capital investment – Land, Building and Machinery
- Prepare the Project Report
- Do not produce what you cannot sell
- Seed capital is very precious – Do not waste in unproductive consultancy
- Do not ask Consultant to get you finance from the Bank
- Directly approach the Bank with a viable proposal
- Convince the bank with your marketing and cash flow projections
- Do not compromise on the gestation period

SOLUTIONS TO SMALL ENTREPRENEUR:

- If you are a technocrat, choose a partner who knows finance
- If you are a finance professional, choose a product specialist as partner
- Going alone for investment beyond Rs. 100,000 is unwise.
- Do due diligence of your partner – enquire into his antecedents; his family background; his credit history
- Your closest relative need not always be the best bet.

CONCLUSION:

The above provided information helps us to understand the overview of MSME and it plays a vital role to every nation's economy. Even MSME are providing so many benefits (productivity, employment) to the society/economy its facing various challenges from the Corporates, MNCs etc.

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