NOLEGEIN Journal of
Operations Research & Management

ISSN: 2581-5458
Volume 5, Issue 1, 2022
DOI (Journal): 10.37591/NJORM

http://mbajournals.in/index.php/JoORM/index

Case Study NJORM

Micro, Small and Medium Enterprises: A Key Driver in Economic Development

Sowjanya A.*, Radhika M.

Abstract

Micro, Small and Medium Enterprises (MSME) plays an important role in development of country. It contributes high share of GDP. It not only contributes to GDP but also provides employment in rural area, by which, standard of living of people will increase and unemployment rate will be low. They are source of growth in developing and transitioning economies. It contributes 90% of the total enterprises in developed countries and it helps to strengthen the economy, creates employment opportunities for skilled, semi-skilled and unskilled, and increases the standard of living; as a result, there will be an increase in GDP rate. Both the Central and State Governments should give priority for the development of this sector by making them more competitive. This study makes an attempt to focus on the operational efficiency and understand the ethical aspects. The study evaluates the financial aspects of the company through making use of ratio analysis and provides recommendations to the organization. This research has been done to find out main areas of risk and what measure entrepreneurs are taking to be away from going on crises. ***The study is descriptive in nature. It is purely based on secondary data sources, which comprises of Balance sheet, Profit and Loss Account and Tax Returns.*** *The business was established in 2010. As it is unable to penetrate the market properly in the initial years the capacity utilization is poor. As a result, it was declared as NPA in 2013. The promoters and the management are keen in reviving the unit. As a part of resolution, they started improving the capacity utilization, trying to reduce the debt and improving the working capital etc. It is appearing that the restructuring process is going on well. The company's liabilities are more and we can see that the Net Profit for the past three years is negative which shows that the company is not able to perform well. In the year 2012 and 2013, the company raised loan from Vijaya Bank and it had an overdraft balance from the same bank; and in 2015, the company again raised a loan from three more parities; they are Bajaj Finance, Fullerton India and Religare. The interest coverage ratio is declining, indicating that the company is unable to pay interest on outstanding debts. Finally, it is concluded that the company's overall performance is not good. But, if it takes, appropriate measures, the firm will be at least able to meet its short term needs (working capital).*

***Author for Correspondence**
Sowjanya A.
E-mail: aksowjanya@gmail.com

Assistant Professor, Department of Management studies, Challa Malla Reddy Institute of Technology, Kandlakoya, Medchal, Hyderabad, Telangana, India

Received Date: July 16, 2022
Accepted Date: August 20, 2022
Published Date: August 25, 2022

Citation: Sowjanya A., Radhika M. Micro, Small and Medium Enterprises: A Key Driver in Economic Development . NOLEGEIN Journal of Operations Research & Management. 2022; 5(1): 32–47p.

Keywords: MSME, unemployment, operational efficiency, ethical aspects, government, GDP, organization

INTRODUCTION

Micro, Small and Medium Enterprises (MSME) sector is widely known as an extremely vibrant and energetic sector of the Indian economy. MSMEs not only provide large number of employment opportunities at less capital cost compared to many large industries, but also they help in growth of rural and backward areas.

However, availability of funds is the main problem of this sector, banks do not provide finance to this sector due to increase in number of sick units, low creditworthiness and increase in NPA of banks. Banks face huge problems in terms of Non-Performing Assets (NPA) as it has direct impact on bank performance and its image in general public as well as indirect impact on its business as the banks have to increase their provision to NPA on the account of increase in the number of NPA accounts resulting in reduction of capital resource available with the bank to do business, thus reducing the profitability of the banks [1–3]. MSMEs in India are facing few problems due to high competition from large industries like withdrawal of subsidy, challenges on product standards, lack of infrastructure, anti-dumping policy and quality management.

It is a proven fact that MSME players have the advantage to change the socioeconomic conditions of a country and its people. It is more relevant from a country's point of view when the said sector is able to remove the sectorial imbalance that may destabilize the overall growth prosperity of the country.

India was a male dominated country for a long time but at present we can find equality between men and women. The government has introduced many schemes to encourage women entrepreneurship by providing training and required skills to them. At present, women entrepreneurship is increasing at a considerable rate, but most of them are not able to utilize the opportunity. As per the Fourth All India Census of MSME, which reveals that total number of women were 2.15 lakhs units and 6.95% of the units in the unregistered MSMEs. The contribution of female enterprises in the micro medium and small enterprises is 14.19, 4.21 and 5.06%. The overall contribution is 13.72% by female enterprises as against 86.28% by male enterprises. Women are looked as Alba i.e., weak in all respects, women mobility is limited and the women in India give much importance to family and relationships [4]. There are many issues faced by MSMEs. It is not easy to solve MSME problems in short period. Government and banks should support for the growth of MSME sector.

OBJECTIVES OF THE STUDY

1. To focus on the sample MSME; which is a client of Growth Idea Lab and to look at all the business functions from a close angle.
2. To evaluate the operational efficiency of the MSME.
3. To understand the policies and governance and ethical aspects.
4. To conduct an in-depth analysis through ratio analysis.

Need of the Study

It is necessary to understand the role of MSME in the development entrepreneurial skills, innovation facilities and economic growth of a country as more than 65% of Indian population lives in rural and semi-rural areas. In our country, 65% of Indians belong to rural and semi-rural areas. In India, after agriculture, small business is the second largest employer in order to survive their lives [5]. SME increases purchasing power and consumerism; this is what drives the business scenario in India. Resources are very valuable and which are not having substitutes make the firm unique and market leader and they will be able to compete with other firms. With the help of all the assets and human resources, it will help to make best strategy for the development of the firm. Outsourcing will help the SMEs to reduce their cost and serve best to their customers [6].

Scope of the Study

The study focuses only on the MSME sector, especially those which are struggling in terms of insufficient finance, infrastructure, liquidation and solvency. The sample available was limited to the clients of Growth Idea Lab. It was primarily done on the financial aspects and turnaround strategy of the sample unit.

METHODOLOGY OF THE STUDY

The study is descriptive in nature. It is purely based on secondary data sources, which comprises of Balance sheet, Profit and Loss Account and tax returns.

Tools and Techniques of Analysis

Ratio analysis was used for the analysis.

Limitations of the Study

1. The study was confined for 45 days.
2. Since the study was conducted on MSME, documentation was cumbersome, incomplete and inappropriately recorded.
3. A lot of data cleaning initiation was taken before starting the study; hence there must be discrepancies in financial statements and actual financials.
4. Physical investigation of the inventory was not provided; hence the study took the word of the promoter.

REVIEW OF LITERATURE

According to Prasanna and Mariappan, who made study on making MSME sector a profitable business partner, some strategies for banks say, MSMEs play an important role in the development of country, it contributes high share of GDP. It not only contributes to GDP but also provides employment in rural area, by which, standard of living of people will be increased and unemployment rate will be low. Banks should make arrangement to buy goods from MSMEs by its large corporate so that problem of demand can be reduced. Banks should follow automation and should avoid lengthy procedure of sanctioning loan to MSMEs. Banks should work with government agencies and MSME enterprises to develop the MSME sector [7].

In the view of Shiralashettti, who made a study on “the Prospects & troubles of MSME in India”, MSME acts as a key role in the development of an economy. It contributes 90% of the total enterprises in developed countries and it helps to strengthen the economy, creates employment opportunities for skilled, semi-skilled and unskilled, and increases the standard of living; as a result, there will be an increase in GDP rate. Both the Central and State Government should give priority for the development of this sector by making them more competitive. The total count of people working in this type of industry has been increasing from 249.33 to 695.38 lakhs in corresponding years; that projects that it has nearby three-times increase in manpower in those industries in a span of a decade [8].

The MSME’s contribution towards the Gross Domestic Product (GDP) has been increased from 5.86 to 5.94% in between the years 1999–2000 and 2006–07 respectively, this might project that there is a way for development of MSME in the Indian economy. Though the MSMEs contributed huge to the Indian economy, but there is a lack of support from the government banks, financial institutions and corporate.

In the words of Khan and Bhatt, who made a study on “Role of Women in Micro, Small and Medium Enterprises (MSME)”, India was a male dominated country for a long time, but at present, we can find equality between men and women. The government has introduced many schemes to encourage women entrepreneurship by providing training and required skills to them. At present, women entrepreneurship is increasing at a considerable rate, but most of them are not able to utilize the opportunity. As per the Fourth All India Census of MSME, which reveals that total number of women enterprises were 2.15 lakhs units and 6.95% of the units were in the unregistered MSMEs. The contribution of female enterprises in the micro, medium and small enterprises is 14.19, 4.21 and 5.06% respectively. The overall contribution is 13.72% by female enterprises as against 86.28% by male enterprises. Women are looked as Alba i.e., weak in all respects, women mobility is limited, and the women in India give much importance to family and relationships [9].

According to Patnaik *et al.*, it is a proven fact that MSME players have the advantage to change the socioeconomic conditions of a country and its people. It is more relevant from a country's point of view when the said sector is able to remove the sartorial imbalance that may destabilize the overall growth prosperity of the country. The bottlenecks need to be removed so as to get a more meaningful result related to MSME sectors. Thus, utmost importance should be given to identify the issues that the sector is facing and address them as per the need of sector so as to get an overall development [10].

Issues faced by MSME are: Issues of credit, issues of equity capital, issues of infrastructure, issues related to government support, issues of technology, issues of skill gap, issues of finance, issues of marketing and issues of operational efficiency. There are many issues being faced by MSMEs. It is not easy to solve MSME problems in short period. Government and banks should support for the growth of MSME sector in "Issues of Micro, Small and Medium Enterprises (MSME) in India" [11].

KEY SERVICES

Entrepreneur faces numerous problems in daily functioning. Some of these problems are solved immediately, while some of them are kept for future. Such future delay can cause serious problem which may affect the profitability of the firm or by straining their time management. Both are extremely harmful [12]. For this purpose, CMA data (Credit Monitoring Analysis required by bank/financial institutions) is generally prepared by their auditor or accountant. CMA data monitoring and the factors capturing the changes helps in taking corrective decisions.

SCHEMES BY GOVERNMENT

Prime Minister's Employment Generation Programme (PMEP)

This national level subsidiary scheme was introduced in August 2008. This programme provides financial assistance to the micro enterprise for setting up their own business. This is costing up to Rs. 10 lakhs in service sector and Rs. 25 lakhs in manufacturing sector [13]. The subsidiary is provided up to 25% of the project in rural areas and 15% in urban areas. Statistics of 2012–13 stated that 56997 cases utilized this scheme, utilizing Rs. 1078.61 Cr as margin money subsidy.

Khadi Reform Development Programme (KRDP)

This subsidy was introduced by the Ministry of MSME, in order to maintain and reform the traditional Khadi sector in India [14]. This will increase the sustainability of the Khadi sector, increase artisan's welfare, income and employment generated for spinners and weavers, so that dependency on the government grants is less.

Enhanced Credit Flow to the MSME sector

This policy was amended to improve and strengthen the credit flow to the MSME sector. This policy was introduced in August 2005 for doubling credit flow to this sector within a period of 5 years. This has resulted in a significant increase in credit flow from Public Sector Banks to the MSME from Rs. 102550 Cr at the end of March 2007, to Rs. 278398 Cr at the end of March 2010, to Rs. 396343 Cr at the end of March 2012. This growth rate from PSB to the MSEs has registered growth rate of 47.4, 26.6 and 45.4% during 2007–08, 2008–09 and 2009–10 respectively. The growth of credit during 2011–12 and 2012–13 has been 5 and 25% respectively.

Micro and Small Enterprises Cluster Development Programme (MSE-CDP)

The MSE-CDP is being introduced for the integration for the development of MSEs with soft interventions, hard interventions and infrastructure development.

Technology Centre System Programme (TCSP)

The Ministry of MSME has opened 18 technology centres to support the MSME technologically. The government of India has upgraded and expanded the current network of MSME technology centres at an estimated cost of Rs. 2200 Cr with World Bank funding.

NOLEGEIN Journal of Operations Research & Management
Volume 5, Issue 1
ISSN: 2581-5458

Scheme of Fund Regeneration of Traditional Industries (SFURTI)

This scheme was launched in the year 2005 for the regeneration of traditional industries (namely Khadi, Village and Coir) with an objective of making them more productive and competitive in the economy and to increase the employment opportunities in the rural and semi-urban areas. So far, 96 clusters have been regenerated under this scheme. After the 12th five-year plan, 800 clusters are estimated to be regenerated.

DATA ANALYSIS

In Table 1, the balance sheet indicates the balance from years 2016–2019. It includes current assets, current liabilities, total assets and total liabilities. And based on total assets and total liabilities, the working capital of all those years is calculated. The working capital is negative from years 2016–2018 and later in 2019 it became positive due to total assets are higher than total liabilities, and also it shows the owners' equity along with their liabilities [15–20].

Table 1. Balance sheet.

Particulars	**2019**	**2018**	**2017**	**2016**
Cash and Cash Equivalents	55801	65410	170438	180438
Deposit	52052	47052	1038796	1134789
Sundry debtors	3747332	2948393	3991946	2091946
Inventory	12513450	12513450	11053077	11053077
Prepaid Expenses	0	514696	0	0
Other Current Assets	7264900	24659	3141	2789
Total Current Assets	23633535	16113660	16257398	14463039
Property Plant and Equipment	3752310	3719508	4364151	4311514
Other Long-Term Assets	0	0	0	0
Intangible Assets	0	0	0	0
Good will	0	0	0	0
Total Long-Term Assets	3752310	3719508	4364151	4311514
Total Assets	27385845	19833168	20621549	18774553
Accounts Payable	0	0	3590635	3290652
Revolving Debt	0	0	–119010	–91010
Bank overdrafts	0	16770714	14514943	12514643
Sundry creditors	3834582	5251397	0	0
Other Current Liabilities	1920324	361149	1030186	1090185
Total Current Liabilities	5754906	22383260	19016754	17004470
Secured borrowings	4550008	4556244	3735039	3535021
Unsecured borrowings	17770931	0	1062054	1062019
Total Long-Term Liabilities	22320939	4556244	4797093	4597040
Total Liabilities	28075845	26939504	23813847	21601510
Capital Account	3385500	–7106333	–3192497	–2826957
Total owner's equity	3385500	–7106333	–3192497	–2826957
Total owner's equity and liabilities	31461345	19833171	20621350	18774553

The income statement shows that from year 2016 to 2019 how the net income is negative from 2016 to 2019. In 2017, it increases the negativity and in 2018 also; and later in 2019, it reduces the negativity, negativity has decreased due to increase in sales. The net income was decreasing due to interest on debt was paid (Table 2).

Table 2. Income statement.

Particulars	2019	2018	2017	2016
Revenue	33204981	32642214	15201794	14201794
Beginning Inventory	12513450	11053077	9329218	9729218
Purchases	30042691	29864793	16138984	14188984
Freight in Expenses	0	0	0	0
Ending Inventory	12513450	12513450	11053077	9329218
Bill of Materials	30042691	28404420	14415125	14188984
Labour Charges	396641	668488	739096	769097
Sub Contract Expenses	0	0	0	0
Cost of Goods Sold	30439332	29072908	15154221	14144221
Gross Profit	3162290	3569306	47573	57573
Business Development Expenses	0	0	0	0
Fuel Expenses	0	0	0	0
Conveyance Expenses	0	0	0	0
Telephone Expenses				
Selling and Admin Expenses	0	839863	0	0
Electricity Charges	8690	0	0	0
Vehicle maintains	22330	0	0	0
Machine maintains	52971	0	0	0
office maintains	19319	0	0	0
computer maintains	4850	0	0	0
Bank Charges	0	0	0	0
Other Operating Expenses	108160	0	0	0
EBITDA	3054130	2729443	47573	57573
Depreciation	0	644642	758155	0
Amortization Expense	0	0	0	0
Other/Indirect Expenses	2537648	2928038	1116898	41689
Operating Profit	408322	–198595	–1069325	15884
Bank Interest Expense	1264970	3201031	3036333	2801031
Other Interest Expense	0	0	0	0
Total Interest Expense	1264970	3201031	3036333	2801031
Bank Interest Income	0	0	0	0
Misc. Income	0	934782	118713	0
Total Interest Income	0	0	0	0
Net Income Before Taxes	–856648	–3109486	–4745100	–2785147
Income Tax Expense	0	0	0	0
Net Income	–856648	–3109486	–4745100	–2785147

Table 3. Net sales.

Years	2019	2018	2017	2016
Net sales	33204981	32642214	5201794	14201794

The Net Sales of the company is increasing from 2016 to 2019. The sales were increasing due to marketing strategies of the company. The firm was facing loss in 2013 and 2014. With the support of growth of idea lab, it started making profits from 2016 (Table 3 and Figure 1).

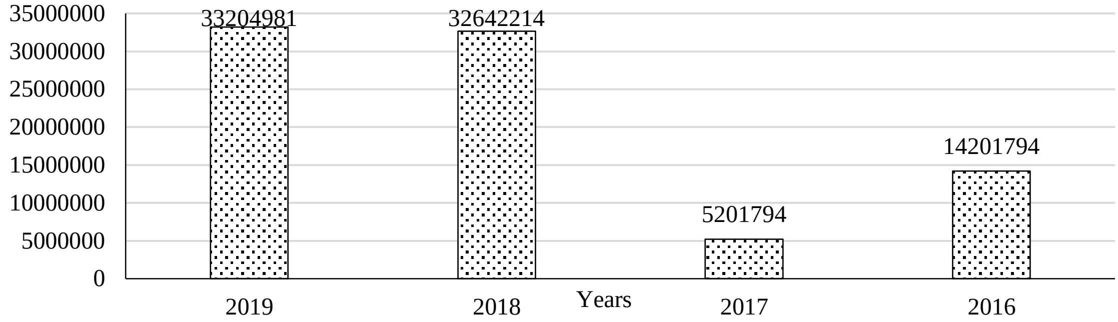

Figure 1. Net sales of the company.

Table 4. Gross profit.

Years	**2019**	**2018**	**2017**	**2016**
Gross profit	3162290	3569306	47473	57573

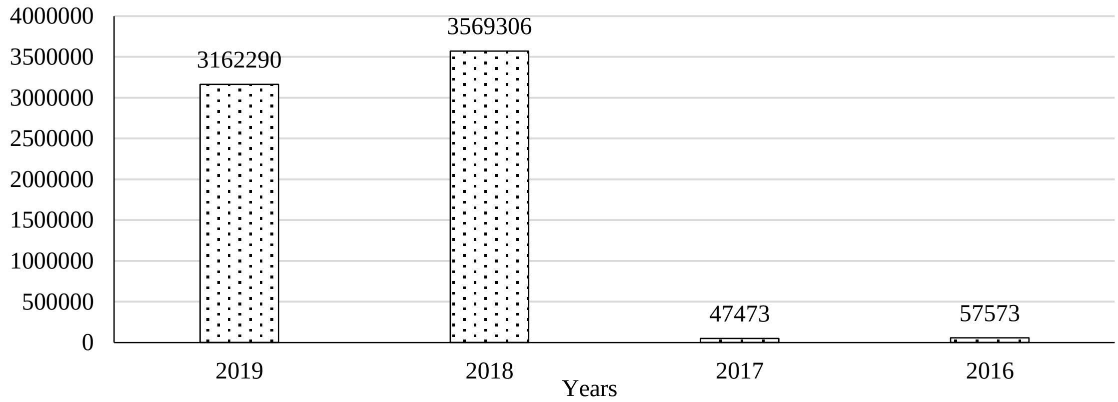

Figure 2. Graph showing gross profit.

The analysis shows that how the gross profit has increased from 2017 to 2018 and decreased in 2019. Thus, we can say that it has not that great profitability at current situation. As the sales are increasing, the Gross Profit is also increasing year by year. In the year 2018, the company's Gross Profit is satisfactory when compared to other years and in the year 2017, the company faced gross loss (Table 4 and Figure 2).

RATIOS

Liquidity Ratios-Current Ratio

The Current ratio can be calculated by using the formula:

Current Ratio = Current Assets/Current Liabilities

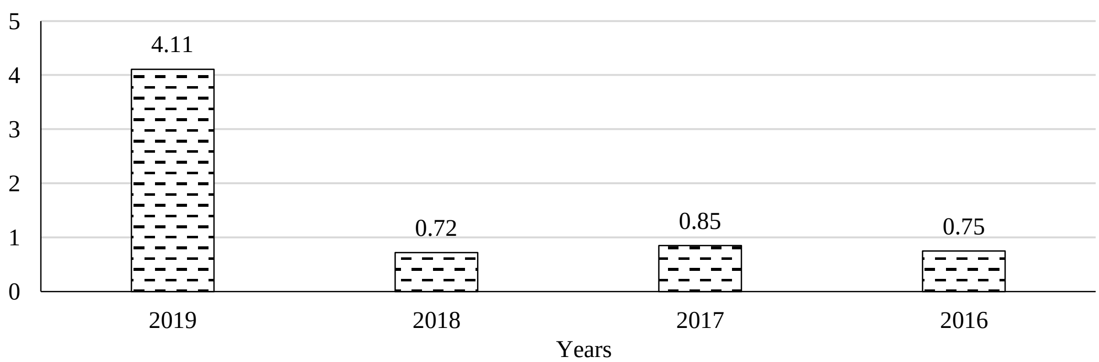

Figure 3. Current ratio.

Table 5. Current ratio.

Ratio Name	2019	2018	2017	2016
Current Ratio	4.11	0.72	0.85	0.75

The Current Ratio is decreased from the year 2017 to 2018 and increased from 2018 to 2019. The ideal current ratio should be 2:1. The firm's current ratio is increasing every year which indicates that there is good short term solvency (Table 5 and Figure 3).

Quick Ratio

The Quick ratio can be calculated by using the formula:
Quick Ratio = Quick Assets/Quick Liabilities

Table 6. Quick ratio.

Ratio Name	2019	2018	2017	2016
Quick Ratio	1.93	0.16	0.24	0.31

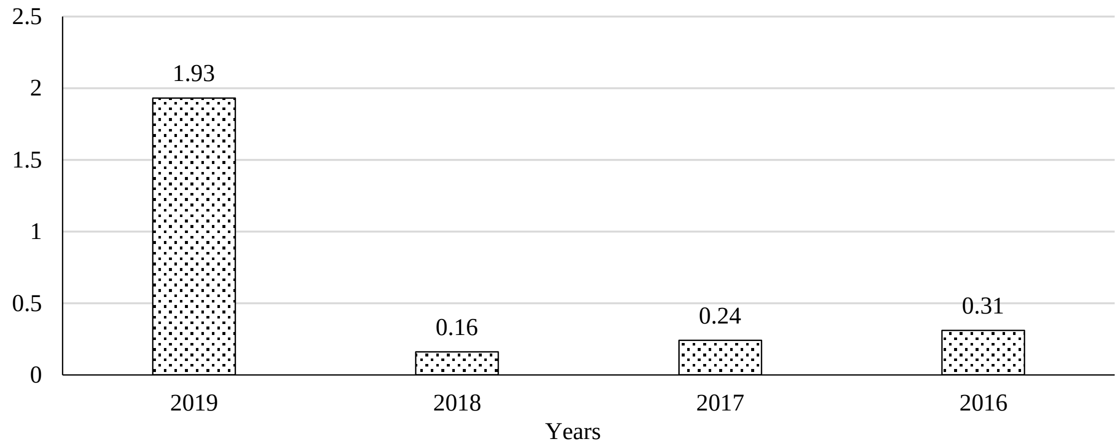

Figure 4. Quick ratio.

The ideal quick ratio is 1:1. Quick ratio decreased from 0.31 to 0.16, that is, from the years 2016 to 2018. And it has increased to 1.93 in the year 2019. However, the ratio was above the standard norm; so, the ratio is satisfactory (Table 6 and Figure 4).

Profitability Ratios-Return on Assets Ratio

The Return on assets Ratio can be calculated by using the formula:
Return on assets = Net Profit/Total Assets

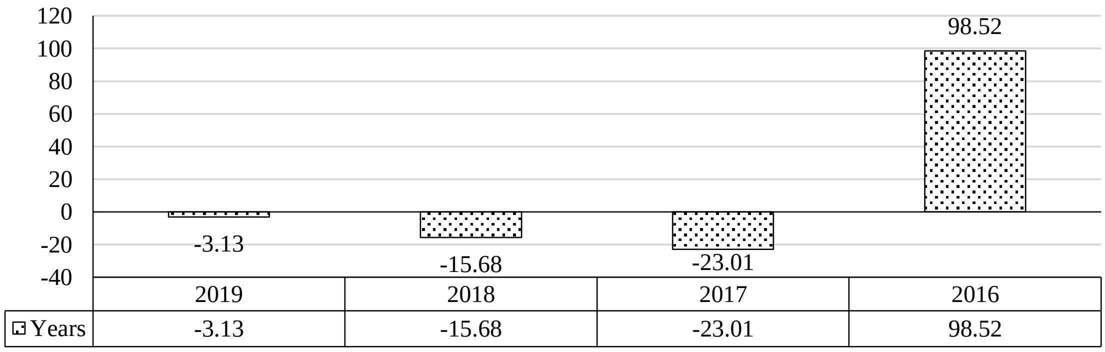

Figure 5. Return on assets.

Table 7. Return on assets.

Ratio Name	2019	2018	2017	2016
Return On Assets	–3.13	–15.68	–23.01	98.52

The return on asset is decreasing from the years 2017 to 2019 when compared to the year 2016 due to less earnings (Table 7 and Figure 5).

Return on Equity Ratio

The Return on equity Ratio can be calculated by using the formula:
Return on equity = Profit After Tax/Net Worth

Table 8. Return on equity ratio.

Ratio Name	2019	2018	2017	2016
Return On Equity	–25.3	43.76	148.63	0.41

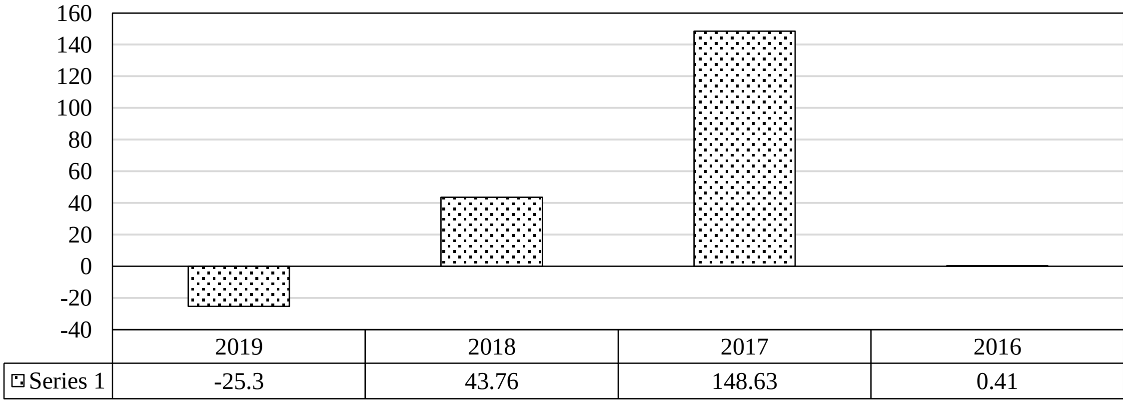

Figure 6. Return on equity ratio.

The Return on equity in the year 2016 is 0.41 and it increased suddenly in the year 2017 to 148.63 and again it decreased to 43.76 in the year 2018. And then later it became too low in the year 2019 due to decrease in net income (Table 8 and Figure 6).

Net Profit Ratio

The Net Profit ratio can be calculated by using the formula:
Net Profit = Net Income/Net Sales×100

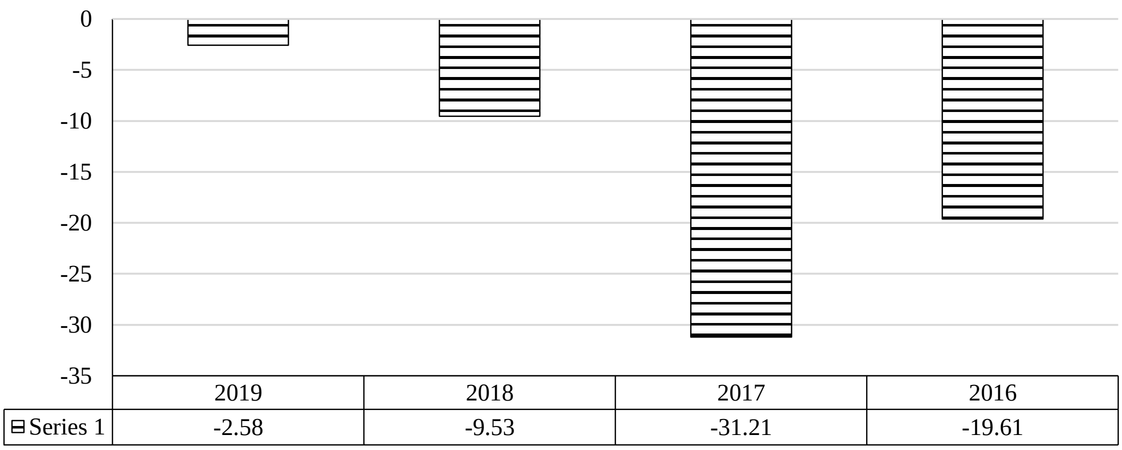

Figure 7. Net Profit ratio.

Table 9. Net Profit ratio.

Ratio Name	2019	2018	2017	2016
Net Profit	–2.58	–9.53	–31.21	–19.61

The above analysis says that the net profit ratio data of the company reveals that the net profit ratio in the year 2016 was –19.61; there was high decrease in the year 2017 as –31.21. The increase from the net profit ratio year by year from 2018 and 2019 –9.53 and –2.58 respectively because of increase in net income. According to standard norms, it is satisfactory performance of the company (Table 9 and Figure 7).

ACTIVITY TURN OVER RATIOS

Asset Turn Over Ratio

The Asset Turnover Ratio can be calculated by using the formula:

Asset Turn Over = Net Sales/Average Total Assets

Table 10. Asset turnover ratio.

Ratio Name	2019	2018	2017	2016
Asset Turn Over	1.21	1.65	0.74	0.76

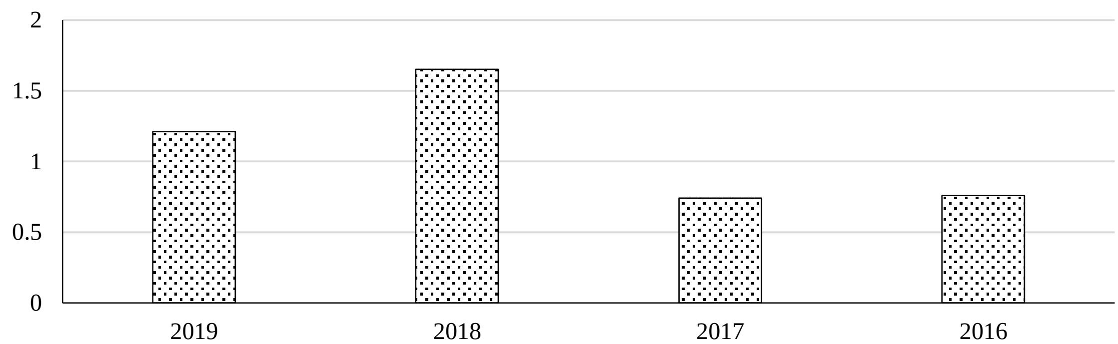

Figure 8. Asset turnover ratio.

The assets turnover ratio in the year of 2016 was 0.76 and it decreased in the year 2017, that is, to 0.74. But in next year, it suddenly increased to 1.65 in 2018, and then later it decreased to 1.21, which represents a satisfactory performance of assets turnover ratio (Table 10 and Figure 8).

Average Sales/Day

The Average Sales/Day Ratio can be calculated by using the formula:

Average Sales/Day = Net Sales/365

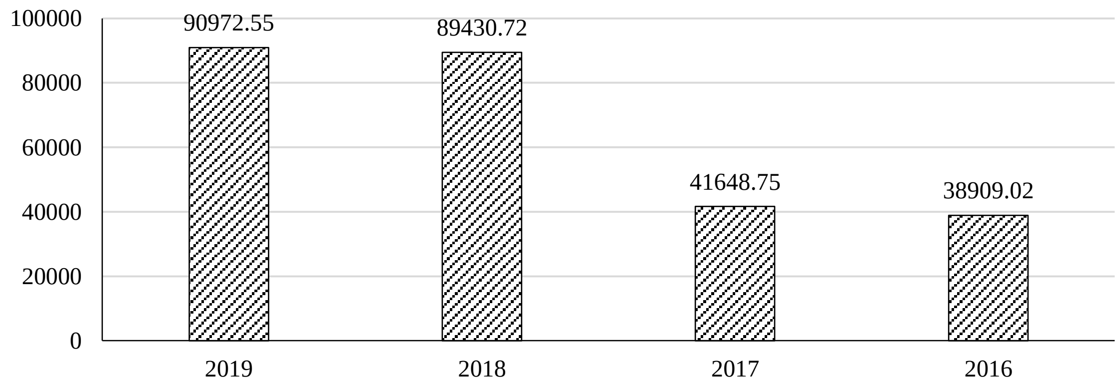

Figure 9. Average sales/day.

Table 11. Average sales/day.

Ratio Name	2019	2018	2017	2016
Average Sales/Day	90972.55	89430.72	41648.75	38909.02

The average sale per day is increasing year by year as its net sales increases, the average sales also increasing. The average sale per day in year 2016 was 38909.02 and it increased to 41648.75 in year 2017. Then the average per day sales have been doubled in year 2018, that is, it became 89430.72; and it has been increased in year 2019 also, that is, 90972.55 (Table 11 and Figure 9).

Days Receivable Ratio

The Days Receivable Ratio can be calculated by using the formula:

Days Receivable = Account Receivable/Net credit Sales ×365

Table 12. Days receivable ratio.

Ratio Name	2019	2018	2017	2016
Days Receivable	41.19	32.97	95.85	91.20

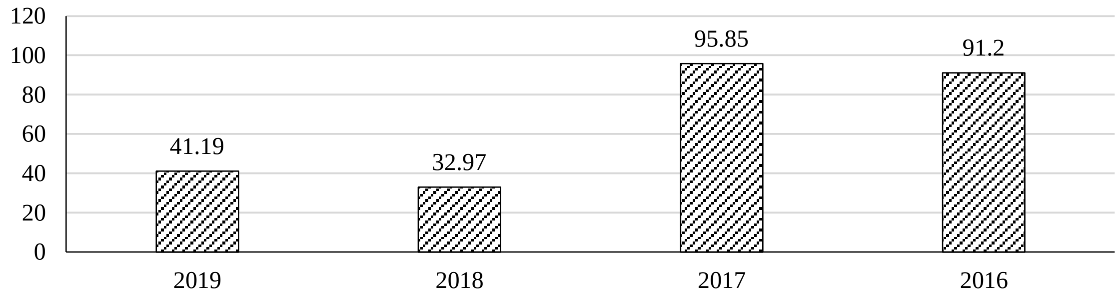

Figure 10. Days receivable ratio.

From the above analysis, in the year 2016, the days receivables is 91.2 and in the later year it increased to 95.85 due to increase in account receivables in year 2017. But the account receivables are decreased in 2018 which automatically decreases the day's receivables. And in 2019 again, it starts increasing to 41.19, so that the ratio is satisfactory (Table 12 and Figure 10).

Days Payable Ratio

The Days Payable Ratio can be calculated by using the formula:

Days Payable = Average Account Payable/Cost of Goods sold ×365

Figure 11. Days payable ratio.

Table 13. Days payable ratio.

Ratio Name	2019	2018	2017	2016
Days Payables	0.0	0.0	86.48	84.92

The graph clearly depicts that there is no account payables in the year 2018 and 2019 when compared to previous years because there is no account payables in those respective years. In the year 2016, it has 84.92 and then it increased in the year 2017, that is, to 86.48 but in the next year, it is null (Table 13 and Figure 11).

Inventory Turnover Ratio

The Inventory Turnover Ratio can be calculated by using the formula:

Inventory Turnover = Cost of Goods Sold/Average Inventory

Table 14. Inventory turnover ratio.

Ratio Name	2019	2018	2017	2016
Inventory Turnover	2.43	2.47	1.49	1.51

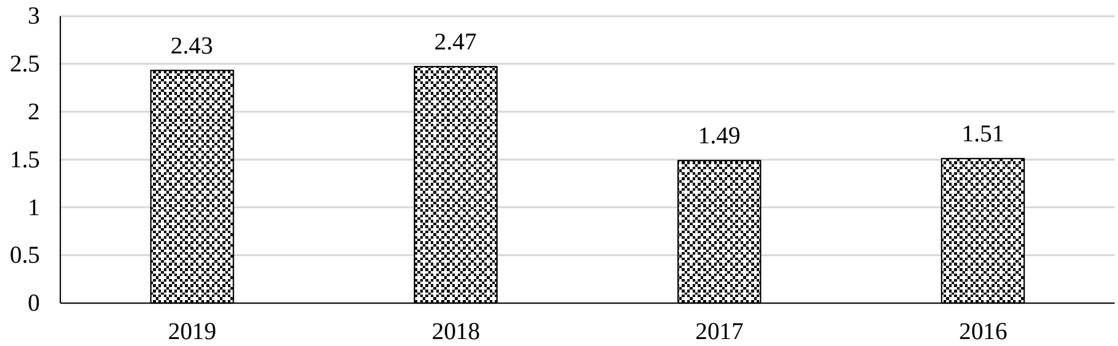

Figure 12. Inventory turnover ratio.

Inventory Turnover Ratio is decreased from the year 2016 to 2017, that is, from 1.51 to 1.49 and then increased in the year 2018, that is, to 2.47. But in the year 2019, it again decreased to 2.43. The inventory turnover ratio is less as the ideal ratio is 8. It shows that the firm is not able to convert its inventory into sales (Table 14 and Figure 12).

Working Capital Turnover Ratio

The Working Capital Turnover Ratio can be calculated by using the formula:

Working Capital Turnover = Sales/Working Capital

Table 15. Working capital turnover ratio.

Ratio Name	2019	2018	2017	2016
WC turnover	1.86	–5.21	–5.51	-5.59

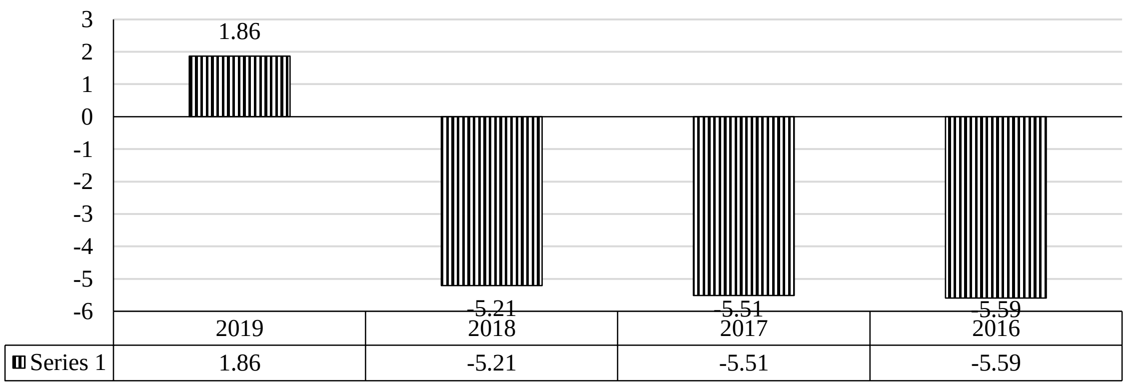

Figure 13. Working capital turnover ratio.

Interpretation

The chart clearly depicts that the Working Capital Turnover Ratio is in decreasing trend from the year 2016 to 2018 and then in the year 2019, it started giving positive value. In 2016 and 2017, it has fell down to negative, this is because of increase in the interest and also liabilities which they were not able to pay (Table 15 and Figure 13).

SOLVENCY RATIOS

Debt Ratio

The Dept Ratio can be calculated by using the formula:
Debt Ratio = Total Liabilities/Total Assets

Table 16. Debt ratio.

Ratio Name	2019	2018	2017	2016
Debt Ratio	1.03	1.36	1.15	0.87

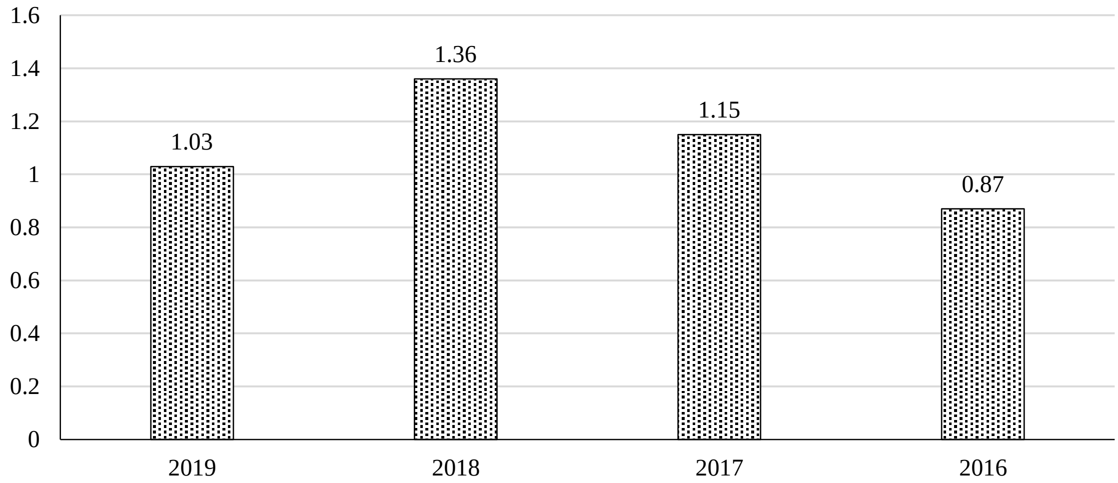

Figure 14. Debt ratio.

Interpretation

The above analysis of the debt ratio depicts the results regarding the data related to the capital structure of the company. Debit ratio is 0.87 in the year 2016; it increased to 1.15 and 1.36 in the corresponding years 2017 and 2018. Again, it is decreased to 1.03 in the year 2019. From the above fluctuating trends, we can conclude that the company’s dependence on debt is increasing. This ratio is not an enhanced way for collection of debt (Table 16 and Figure 14).

Debt to Equity Ratio

The Debt to Equity Ratio can be calculated by using the formula:
Debt to Equity = Total Liabilities/Total Shareholder Equity

Table 17. Debt to equity ratio.

Ratio Name	2019	2018	2017	2016
Debt To Equity Ratio	8.09	–2.79	–6.46	7.64

The above analysis ratio will result the data regarding capital structure of the company. Debt to equity ratio is 7.64 in the year 2016 and totally became negative to –6.46 and –2.79 in corresponding years, that is, in 2017 and 2018. In the year 2019, the ratio has increased to 8.09. By this we can conclude that the company depends on the debt fund increases (Table 17 and Figure 15).

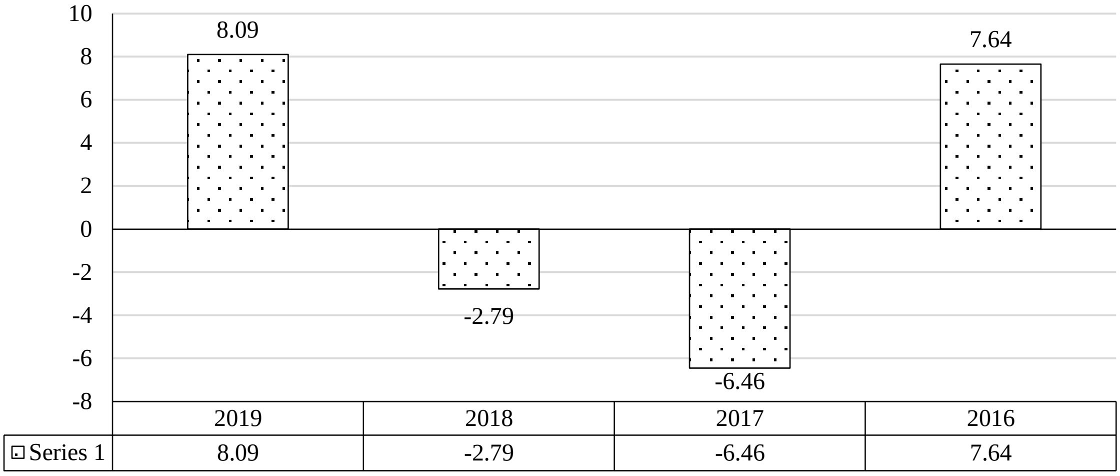

Figure 15. Debt to equity ratio.

OBSERVATIONS

Losing Stock of the company is increasing year by year due to lack of preparation of production budget (Seasonal). The company is not able to convert inventory into sales.

Proper accounting system is not been followed by the company; because of that, they are not able to understand efficiency of the asset or to be sensitive to increasing risk by interest serve ratio.

The Creditors Payable period is increasing from 2016 to 2019 which shows that the company is not able to pay off its debts. The Debtor's Collection period is also increasing which shows that the company is not able to recover from its debtors.

The Debtors collection period is high which means they are not able to recover the money properly on time which is directly affecting the creditors payable period.

The overall sales performance is good, but the company is in losses because of increased cost, and the debts raised are also increasing every year.

RECOMMENDATIONS

The firm should speed up the converting of inventory into sale. By doing so, it can improve its entire turnover ratio.

Firm should repay a part of its debts by raising additional equity; by doing so, it can improve its debt equity ratio, which will increase its credibility in the market and the problem of financial distress will be eliminated.

A part of Current assets can be invested in market investments, as the current assets in the current financial year are much higher than the required limit.

The firm should try to reduce general admin expenses and non-operating expenses which will increase the net profit.

As a good corporate practice, the firm should implement corporate governance.

The firm shall prepare books of accounts in a true and fair manner.

The firm shall start preparing budgets, cash flow statement, funds flow statement and calculation of ratios for a better understanding of firm's current situation and help to predict future actions.

Management Information System shall be introduced for storing and analysing data. The use of MIS will not only show the accuracy of data, but also will save time, which could be invested elsewhere.

The problem of working capital can be solved up to an amount of Rs. 50 lakhs, as the owners existing house loan can be converted into a term loan.

CONCLUSION AND RECOMMENDATIONS

The company was incorporated in the year 2010. As it is unable to penetrate the market properly in the initial years, the capacity utilization is also poor. As a result, it was declared as NPA in the 2103. The promoters and the management are keen in reviving the unit. As a part of resolution, they started improving the capacity utilization, trying to reduce the debt and improving the working capital etc. From the above study, it is appearing that the restructuring process is going on well.

The company's liabilities are more and we can see that the Net Profit for the past 3 years is negative, which shows that the company is not able to perform well. In the year 2012 and 2013, the company raised loan from Vijaya Bank and it had an overdraft balance from the same bank; and in 2015, the company again raised a loan from three more parities; they are: Bajaj Finance, Fullerton India and Religare. Interest coverage ratio is decreasing which shows that the company is not able to pay interest on outstanding debts. Finally, it is concluded that the company's overall performance is not good. But, if it takes appropriate measures, the firm will be at least able to meet its short-term needs (working capital).

REFERENCES

1. Harper M, De Jong M. Financing small enterprise: Proceedings of a Seminar Organized by the Netherlands Development Finance Company (FMO). Intermediate Technology; 1986.
2. Lall S. Developing Countries as exporters of industrial technology. Res Policy. 1980; 9(1): 24–52.
3. Louzine AE. Improving Working Conditions in Small Enterprises in Developing Countries. Int Labour Rev. 1982 Jul–Aug; 121(4): 443.
4. Eng Hock Cia. Anda juga bisa menjadi kreatif. Jakarta: Prestasi Pustakaraya; 2000.
5. Goldsmith RE. Adaptation-innovation and cognitive complexity. J Psychol. 1986; 119: 461–467.
6. Harvard Business Review on entrepreneurship. Cambridge, MA: Harvard Business School Press; 1999.
7. Prasanna S, Mariappan V. Making MSME Sector a Profitable Business Partnersome Strategies for Banks. Int J Bus Quant Economics Appl Manag Res. 2016; 2(12): 84–90. ISSN: 2349–5677.
8. Shiralashettti AS. The Prospects & troubles of MSME in India. Shiv Shakti International Journal of in Multidisciplinary and Academic Research (SSIJMAR). 2012 Jul–Aug; 1(2). (ISSN 2278–5973)
9. Khan N, Bhatt AA. Role of Women in Micro, Small and Medium Enterprises (MSME). TMIMT, Int J. 2014; 1(1). ISSN 2348–988X
10. Patnaik BC, Satpathy I, Rachayeeta P. Issues of micro, small and medium enterprises (MSME) in India. Int J Innov Res Dev. 2016; 5(6): 1–5.
11. Hisrich RD, Peters NP. Entrepreneurship. 4th Edn. Missouri: Irwin/ McGraw Hill; 1998.
12. Hofstede G. Cultural pitfalls for Dutch expatriates in Indonesia. Deventer/Jakarta: T.G. International, Management Consultants; 1982.
13. Joreskog K, Ssrbom D. Lisrel 8: User's reference guide. Chicago: Scientific Software International; 1996.
14. ICSI-Economic and Commercial Laws Study Material.
15. Government of India: MSME Annual Report 2008–2013.
16. Enterprises with Udyog Aadhaar Number. (N.D.). Retrieved December 22, 2015, from http://udyogaadhaar.gov.in/UA/Reports/StateBasedReport_R3.aspx.
17. MSME Overview: (N.D.). Retrieved December 22, 2015, from http://dcmsme.gov.in/ssi india/MSME_Overview09.pdf.

18. MSME: भारत सरकार Govt. of India Development Commissioner (MSME) Ministry of Micro, Small & Medium Enterprises. (N.D.). Retrieved December 22, 2015, from http://www.dcmsme.gov.in/howtosetup/getstart.htm.
19. MSME: भारत सरकार सक्ष्ूम , लघुऔर मध्यम उद्यम मंत्रालय Ministry of Micro, Small & Medium Enterprises(AN ISO 9001:2008 Certified Organisation). (N.D.). Retrieved December 22, 2015, from http://msme.gov.in/mob/home.aspx.
20. MSME: (N.D.). Retrieved December 22, 2015, from http://udyogaadhaar.gov.in/UA/Reports/SSI_Report.aspx.

