



EVALUATION OF OPERATIONAL PERFORMANCE OF SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

Mr. L.Madhu Kumar¹ & Prof. P.Viswanadham²

¹ Research Scholar, Department of Commerce and Management Studies, Andhra University, Visakhapatnam -530003.

² Professor, Department of Commerce and Management Studies, Andhra University, Visakhapatnam -530003.

ABSTRACT

The MSME (Micro Small and Medium Enterprises) sector in India has gained importance after the independence. The small and medium sector contributes major percentage of the total GDP and total exports of India. MSME is also playing an important role in enhancing employment for the people in rural and urban areas of the country and has been retaining its position as second employment providing sector in the country after agriculture. The small and medium sector has been recognized as engine for growth in the country. Keeping in view the importance of this sector efforts have been made by the government of India and state governments to ensure steady availability of financial resources. SIDBI (Small Industries Development Bank of India) is the apex institution for making available financial resources to the small scale industries. SIDBI provides the best possible infrastructure on which agriculture; industries and trade of nation depend and can allocate available resources by mobilizing deposits and advancing credit into the best possible uses according to national priorities. But in developing countries like India the role of SIDBI is not confined to accepting deposits and advancing loans. They also accept the accelerating flow of credit in accordance with the needs of SSI development. Hence In this paper, operational performance analysis of the financial institution SIDBI has been conducted during the period 2004 to 2013 with a view to analyze its function in the dynamically changing operating environment.

Key Words: SIDBI, Operational Performance, MSME, India

Introduction:

Small Industries Development Bank of India (SIDBI) was established as wholly owned subsidiary of Industrial Development Bank of India (IDBI) under the small Industries Development of India Act 1989. It is the principal institution for promotion, financing and development of industries in the small-scale sector. It also coordinates the functions of institutions engaged in similar activities. For this purpose, SIDBI has taken over the responsibility of administrating Small Industries Development Fund and National Equity Fund from IDBI Capital.

SIDBI started its operations from April 1990 with an initial authorised capital of Rs. 250 crores, which could be increased to Rs. 1000 crores. It also took over the outstanding portfolio of IDBI relating to small scale sector held under Small Industries Development Fund as on March 31, 1990 worth over Rs. 4000 crores.

Small Industries Development Bank of India is a non-independent financial institution aimed to aid the growth and development of micro, small and medium-scale enterprises (MSME) in India. Set up on April 2, 1990 through an act of parliament, it was incorporated initially as a wholly owned subsidiary of Industrial Development Bank of India. Currently the ownership is held by 33 Government of India owned / controlled institutions. Beginning as a refinancing agency to banks and state level financial institutions for their credit to small industries, it has expanded its activities, including direct credit to the SME through 100 branches in all major industrial clusters in India. Besides, it has been playing the development role in several ways such as support to micro-finance institutions for capacity building and on lending. Recently it has opened seven branches christened as Micro Finance branches, aimed especially at dispensing loans up to INR5 lakhs.

The presence of SIDBI is spread all over India with 15 regional offices and 85 branches catering to 600 clusters across all the states. It is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities.

SIDBI has also floated several other entities for related activities. Credit Guarantee Fund Trust for Micro and Small Enterprises provides guarantees to banks for collateral-free loans extended to SME. SIDBI Venture Capital Ltd. is a venture capital company focused at SME.

SME Rating Agency of India Ltd. (SMERA - provides composite ratings to SME. Another entity founded by SIDBI is ISARC - India SME Asset Reconstruction Company in 2009, as specialized entities for NPA e-solution for SME.

Review of Literature:

Performance appraisal is "the most crucial aspect of organizational life." Over the past 30 years the organizational structure of large commercial banks and the way these banks are managed have evolved to permit greater specialization and focus on the part of management. In the 1960s most banks, even the largest, were organized geographically and managed as a single, undifferentiated line of business. The retail business began to fragment as specialized distribution channels began to emerge for products such as credit cards, residential mortgages, and auto loans, and for high-net-worth customers.

Wilfred (1999) stated that performance measures provide managers, front-line employees, and companies with a broad assortment of both cultural and technical benefits. These benefits go far beyond the bottom line, but they are not commonly recognized. While it is not a prerequisite to implementing performance measures, an understanding of these benefits will give manager's insight into what makes a good measurement system and how performance measures should be used.

Subba Rao and Ramana (2012) stated that Operating performance is an important parameter to measure the effective functioning of financial Company. The operating performance of the company can be gauged in term of the number of products introduced over a period of fire, ages of claims, year-wise settlement of grievances, motor third party cases compromised through various fields.

Performance appraisals are a normal part of management in most modern organizations. Appraisal is the evaluation of worth, quality, or merit. In the organizational context performance appraisal is a systematic evaluation of personnel by superiors or others familiar with their performance. Appraisal should measure performance in achieving goals and plans and performance as a manager, that is, how well a person carries out key managerial activities.

Performance appraisal is the most talked concept in the corporate world for all these years. When one talks about performance, a majority of the management guru's right from Peter Ducker to Peter Senge has every now and then raised their opinions about performance. In a nutshell, performance appraisal is still with us; yet formidable barriers remain to bring maximum objectivity in its effectiveness as a useful management tool.

Need for the Study:

A well-integrated structure of financial institutions in India comprising eleven institutions at the national level and 46 institutions at the state level. The national level institutions known as All India Financial Institutions (AIFIs) comprise six All India Development Banks (AIDBs), two Specialised Financial Institutions (SFIs) and three Investment Institutions. Of the AIDBs, IDBI, IFCI, ICICI and IIBI provide financial assistance to medium and large industries whereas IDFC and SIDBI cater to the financial needs of the infrastructure sector and small-scale sector respectively.

Especially in the developing countries like India the role of SIDBI is not confined to accepting deposits and advancing loans. They also accept the accelerating flow of credit in accordance with the needs of SSI development. They have shifted from restricted old conservative policies to modern banking with lots of new techniques, which brings dynamism and innovation in their functioning. The Government of India and the State government have been pursuing a policy of protecting and promoting small-scale industries for a long time. Small scale industries have been accorded pride of place in the planned industrialisation process of the Indian economy, which is characterized by among other factors low productivity in the SSIs abundant labour and scarcity of capital. In this scenario there is a need to study how SIDBI's operational performance played an important role in the development of Indian SSI's.

Objectives of the Study:

- To study and understand functions and importance of SIDBI (Small Industries Development Bank of India)
- To evaluate the operational performance of SIDBI (Small Industries Development Bank of India) in India.
- To offer appropriate suggestions for improving operational performance of SIDBI (Small Industries Development Bank of India).

Research Methodology

Period of the Study : 2004-2013

Data Collection : Secondary data are used for the presentation of the study and Review of Literature is used appropriately during the study. Secondary data have been collected from official website of SIDBI and Ministry of Finance. Data are also collected from other websites related to financial institutions as a whole and published and un-published reports and periodic journals. Data relating to Financial and Operating performance has been taken from the Balance Sheet and Profit & Loss account of SIDBI.

Achievements of SIDBI:

SIDBI retained its position in the top 30 Development Banks of the World in the latest ranking of The Banker, London. As per the May 2001 issue of The Banker, London, SIDBI ranked 25th both in terms of Capital and Assets.

Credit Guarantee Fund Trust for Micro and Small Enterprises popularly known as CGTMSE is widely being used by many PSU Banks and Private sector banks to fund MSME sector. During the year 2002-03 the aggregate sanction and disbursements of SIDBI amounted to Rs 10,904 crore and INR 6,789 crore respectively. SIDBI has been permitted to raise finances up to INR 2,730 crore the year 2013 onward by the Reserve Bank of India.

Objectives of SIDBI:

In the setting up of SIDBI, the main purpose of the government was to ensure larger flow of assistance to the small-scale units. To meet this objective, the immediate thrust of the SIDBI was on the following measures:

- Initiating steps for technological up-gradation and modernization of existing units;
- Expanding the channels for marketing the products of the small scale sector; and
- Promotion of employment-oriented industries, especially in semi- urban areas to create more employment opportunities and thereby checking migration of population to urban areas.

Functions of SIDBI:

SIDBI provides assistance to the small-scale industries sector in the country through the existing banking and other financial institutions, such as, State Financial Corporations, State Industrial Development Corporations, commercial banks, cooperative banks and RRBs. etc. The major functions of SIDBI are given below:

- a. It refinances loans and advances provided by the existing lending institutions to the small-scale units.
- b. It discounts and rediscounts bills arising from sale of machinery to and manufactured by small-scale industrial units.
- c. It extends seed capital/soft loan assistance under National Equity Fund, Mahila Udyam Nidhi and Mahila Vikas Nidhi and seed capital schemes.
- d. It grants direct assistance and refinance loans extended by primary lending institutions for financing exports of products manufactured by small-scale units.
- e. It provides services like factoring, leasing, etc. to small units.
- f. It extends financial support to State Small Industries Corporations for providing scarce raw materials to and marketing the products of the small-scale units.

- g. It provides financial support to National Small Industries Corporation for providing; leasing, hire purchase and marketing help to the small-scale units.

Importance of SIDBI:

Uniquely Designed Products to meet your needs

- SIDBI have a range of Products and Services that are Flexible as well as Specialised – to meet the unique needs of Micro, Small and Medium Enterprises.
- If your needs are not ordinary, SIDBI shall be happy to especially design a product for you. After all continuous product Innovation has been a way of life for us.

Focused attention on Industrial & Service Sector Funding

Development of Micro, Small and Medium Industry is the sole reason for our being. We focus on Industrial as well as Service Sector Funding needs of the MSME sector. Ask us how our schemes for Industrial as well as Service Sectors can help you achieve your business objectives.

Attractive Rates on Financial Products

Looking at the need for Energy Efficiency and Cleaner Technology, SIDBI has tied up with International Financial Institutions like World Bank, Japan International Cooperation Agency (JICA), KfWetc to provide loans at concessional rates of Interest for Cleaner Production and Energy Saving Projects. Get in touch with us and understand how we can help you reduce costs, enhance profits and be at the leading edge technologically.

Relationship Managers to help you navigate the Entrepreneurship Journey

It is at the beginning of any Endeavour that you need maximum help. Our team has been specially trained to provide the handholding that you need.

Easier Access to Collateral Free Finance

The Ministry of Micro, Small and Medium Enterprises and SIDBI have established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement the Credit Guarantee Fund Scheme for Micro and Small Enterprises. This scheme helps New Entrepreneurs get collateral free loans up to Rs 100 Lakhs.

Risk / Growth Capital for Your Business

- Get adequate capital to meet the Growth aspirations for your business without diluting ownership.
- Benefit from innovative financial instruments like - Subordinated debt (SD)/ Optionally Convertible Subordinated Debt (OCSD).
- Equity and Sub Debt Assistance from SIDBI can help you raise higher debt funds from SIDBI and other Banks.

Access Equity / Venture Funding

SIDBI Venture Capital Limited, a wholly owned subsidiary of SIDBI provides growth capital in the form of equity through its MSME focused venture capital funds.

Realise Sales Proceeds Quickly

Our Receivable Finance Scheme helps you in Quicker Realisation of Receivables. You benefit from Efficient Cash Management as well as Cost Effective Discounting.

Easier Access to Government Schemes

SIDBI is a nodal agency to roll out Government Schemes for the Micro, Small and Medium Enterprises. With our unique, in-depth understanding of the various schemes, we can help you secure maximum possible advantage.

Discussions and Findings:

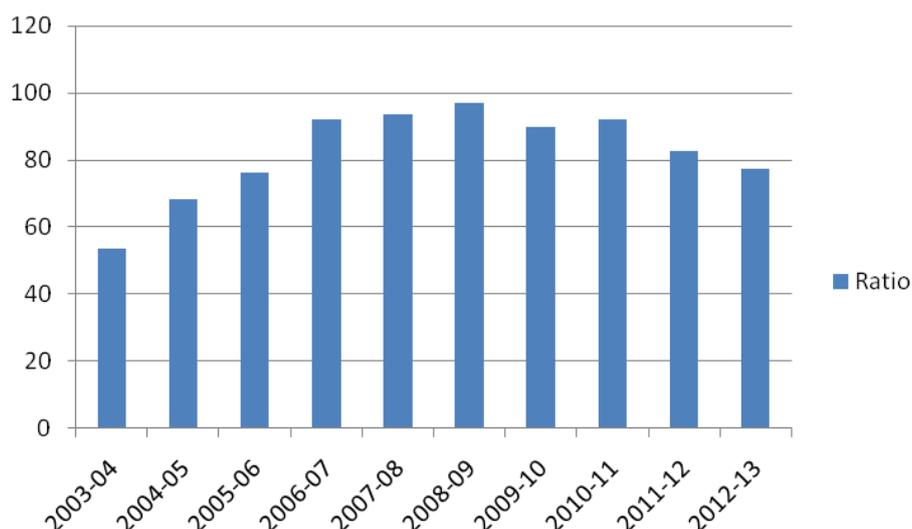
- During the period of the study, the amount of loans sanctioned and loans disbursed by SIDBI increased year by year. The percentage of loans sanctioned to loans disbursed by SIDBI varied from 53.52 percent to 77.22 percent. The maximum percentage of loans sanctioned to loans disbursed by SIDBI was 96.95 percent in the year 2008-09 and the same percentage was decreased to 77.22 in the year 2012-13.

Percentage of loan Sanctioned to Loan Disbursement (2004– 2013)

53.52	68.06	75.99	92.10	93.33	96.95	89.85	91.90	82.46	77.22
-------	-------	-------	-------	-------	-------	-------	-------	-------	-------

Source: Secondary Data

Loan Sanctioned and Disbursed By SIDBI



- The percentage of loans sanctioned was increased from 10.23 percent during the year 2004-05 to 63.63 percent during the year 2012-13. The percentage of loans disbursed also

increased from 40.17 percent during the year 2004-05 to 917.94 percent during the year 2012-13.

Growth Percent of Loan Sanctioned (2005– 2013)

10.23	31.72	7.28	45.59	80.56	21.69	18.84	18.23	5.13
-------	-------	------	-------	-------	-------	-------	-------	------

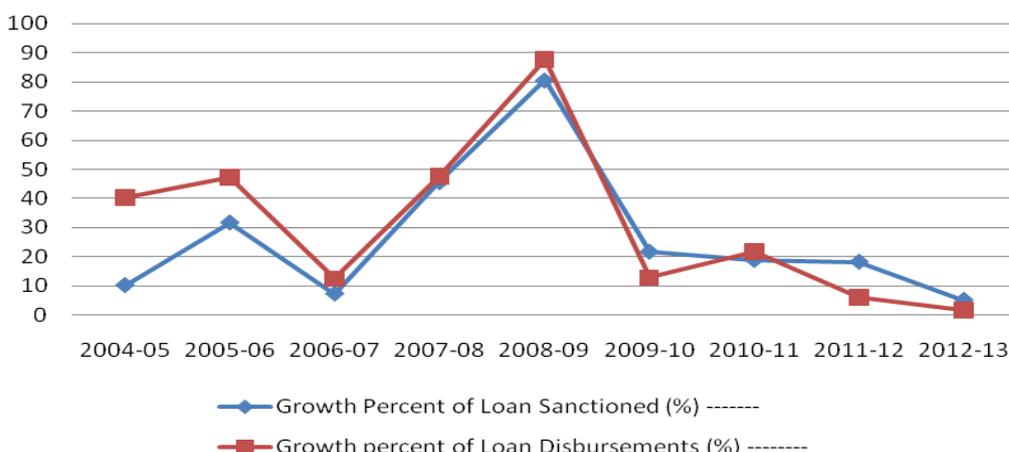
Source: Secondary Data

Growth percent of Loan Disbursement (2005– 2013)

40.17	47.06	12.36	47.54	87.56	12.79	21.54	6.09	1.55
-------	-------	-------	-------	-------	-------	-------	------	------

Source: Secondary Data

Growth percentage of Loan Sanctioned and Disbursed by SIDBI



- The composition of loan sanctioned by SIDBI during the years 2003-04 to 2012-13. Re-financing activity is found in year 2012-13 with Rs. 37,193.36 Crores. Highest Equity assistance is observed in the year 2012-13 with Rs. 39,055.49 Crores. Highest Bills financing activity was taken in the year 2006-07 with Rs. 2404.39 Crores. Highest Resource support to institution was taken place in the year 2006-07 with Rs. 5468.77 Crores. Project financing was highest in the year 2005-06 with Rs. 2944.88 Crores. Micro finance (including P&D assistance) was highest in the year 2009-10 with Rs. 2972.35 Crores. Term loan under direct was highest in the year 2011-12 with Rs. 8683.51 Crores.

Composition of Loan Sanctioned by SIDBI during 2003-04 to 2012-13 ((Rs.in Cr.)

1090	8246.	9090.	1197	1110	1616	2918	3552	4221	5378	5605
3.6	28	60	4.8	2.2	4.4	8.0	1.3	3.7	5.1	9.8

Source: Secondary Data

- The composition of loans disbursed by SIDBI during the year 2003-04 to 2012-13. Highest Re-finance was in the year 2011-12 with 24252.30 Crores. Equity assistance was highest in the year 2002-03 with 41.61 Crores. Bills financing was highest in the year 2006-07 with 2362.60 Crores. Resource support to institution was highest in the year 2012-13 with 4242.50 Crores. Project financing was highest in the year 2006-07 with 1717.13 Crores. Micro finance (including P&D assistance) was highest in the year 2009-10 with 2671.61 Crores. Term loan under direct was highest in the year 2011-12 with 4234.20 Crores. MSME receivable finance was highest in the year 2012-13 with 11528.15 Crores. Other Credit facility was highest in the year 2007-08 with 357.89 Crores. total sanctions was highest in the year 2011-12 with 41160.38 Crores.

Composition of Loan Disbursed by SIDBI during 2003-04 to 2012-13 (Rs.in cr.)

6789.	4414.	6187.	9099.	1022	1508	2829	3191	3879	4116	4051
4	15	83	75	5.4	7.2	7.8	7.9	5.9	0.4	9.8

Source: Secondary Data

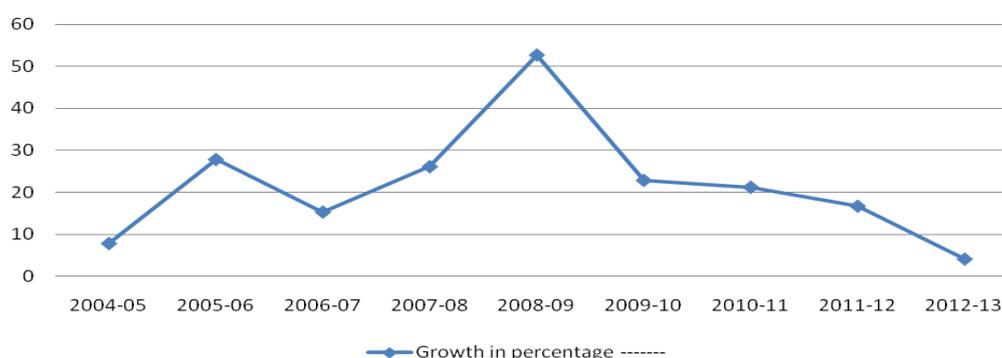
- It is also found that the outstanding loan portfolio growth percent was highest in the year 2008-09 with 52.70 percent and the lowest percentage was in the year 2012-13 with 4.22 percent. The loan amount shows a gradual increase during 2004-13, whereas growth percentage shows imbalanced phenomenon.

Outstanding Loan Portfolio of SIDBI during 2003-04 to 2012-13 (Rs.in Cr.)

7.92	27.88	15.40	26.17	52.70	22.93	21.29	16.78	4.22
-------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	-------------

Source: Secondary Data

Growth



- There are three different interest rates offered by SIDBI like tenure, fixed and floating.
- The composition of non-performing assets of SIDBI consists the following. Highest standard assets were in the year 2006 with Rs. 13,000. Crores and the lowest were in the

year 2007 with Rs. 24.14 Crores. Sub-standard assets were highest in the year 2013 with 277.07 Crores and the lowest were in the year 2006 with 0.89 Crores. The doubtful assets were highest in the year 2005 with RS. 399.12 Crores and the lowest were in the year 2010 with Rs. 1.61 Crores and the highest total NPAs viewed in the year 2005 with Rs. 406.71 Crores and the lowest in the year 2007 with Rs. 22.37 Crores.

Composition of Non-performing Assets of SIDBI during 2004 – 2013 (Rs.in.Cr.)

225.82	406.71	261.28	22.37	49.06	26.07	69.09	127.18	183.92	299.15
--------	--------	--------	-------	-------	-------	-------	--------	--------	--------

Source: Secondary Data

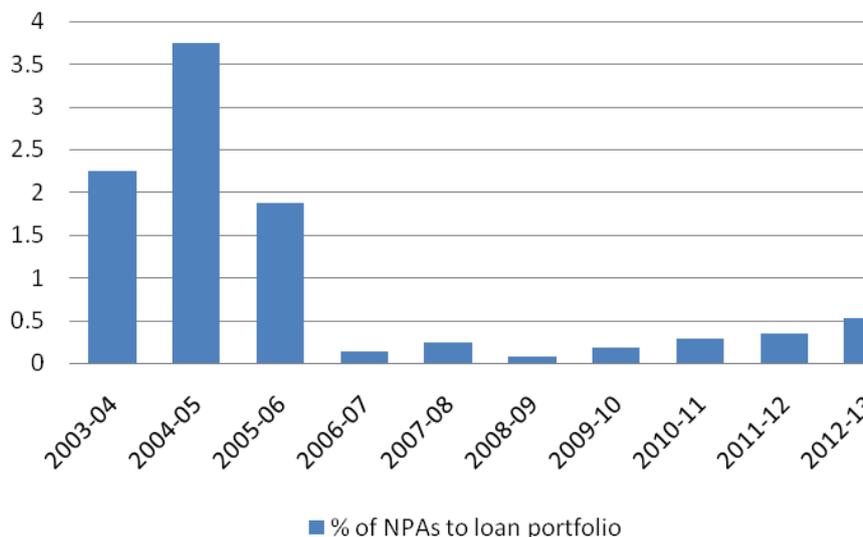
- A study on total NPAs to total outstanding loan portfolio showed uneven figures in total NPAs and a substantial growth is observed in total outstanding loans highest NPAs of SIDBI were in the year 2004-05 with Rs. 406.71 Crores, highest outstanding loans SIDBI were in the year 2012-13 with Rs. 56059 Crores. Their ratio also shows an irregular growth.

Total NPAs to Total Outstanding Loan Portfolio during 2004 – 2013 (Rs.in.Cr.)

2.24	3.74	1.88	0.13	0.24	0.08	0.18	0.28	0.34	0.53
------	------	------	------	------	------	------	------	------	------

Source: Secondary Data

Total NPAs to total outstanding loan portfolio



- There is a gradual increase in earnings per share during 2004-13 except in the year 2007-08 and some fixed growth was noted in dividend per share during 2003-2005, 2005-09 and 2009-13. Dividend per share a highest percentage recorded from year 2009-10 to 2012-13 with 112.5 percent and the lowest percentage recorded in the year 2003-04 to

2004-05 with 45 percent. Here it can be seen from earning per share increasing trend seen expect in year 2007-08 and in dividend per share fixed trends can be observed.

Earning per share in SIDBI (2004– 2013)

5.40	5.01	6.00	6.63	4.41	6.65	9.36	11.42	12.69	18.61
------	------	------	------	------	------	------	-------	-------	-------

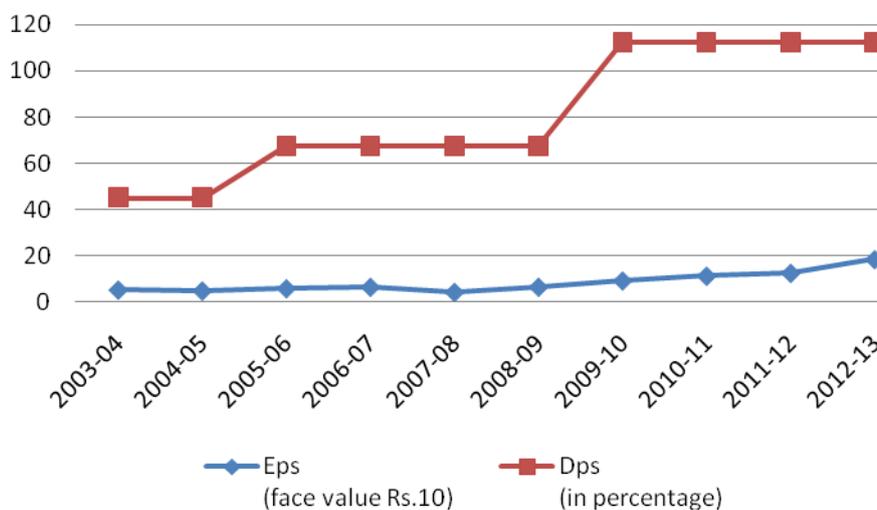
Source: Secondary Data

Dividend per share in SIDBI (2004– 2013)

45.0	45.0	67.5	67.5	67.5	67.5	112.5	112.5	112.5	112.5
------	------	------	------	------	------	-------	-------	-------	-------

Source: Secondary Data

Earning & Dividend per share in SIDBI



- The maximum profit of SIDBI was recorded in the year 2012-13 with Rs. 864.5 Crores and lowest profit was recorded in year 2007-08 with Rs. 198.4 crores. The highest profit growth percent was identified in the year 2007-08 with 50.80 percent and lowest was identified in the year 2004-05 with 7.36 percent.

Profit Performance of SIDBI during 2004-13 (in Percentages and Rs.in.Cr.)

7.36	19.93	10.36	33.44	50.80	40.77	21.98	12.67	49.33
------	-------	-------	-------	-------	-------	-------	-------	-------

Source: Secondary Data

- Trends in structure of reserves and surplus of SIDBI: It is observed that general reserve was recorded high in the year 2012-13 with Rs. 5,503.31Crores and lowest was in year 2003-04 with Rs. 3,303.35 Crores

- The percentage of interest Income on loans & advances to total assets was highest in the year 2003-04 with 427.08 percent and the same was started declining and finally at the end of year 2012-13 it was recorded 83 percent.
- The calculated value of “t” at 5% level of significance is more than the Student T-test value of SIDBI at 5 percent level of significance. Hence, the null hypothesis is rejected and alternative hypothesis is accepted and it is concluded that there is a significant difference in operating performance of SIDBI during 2004-2013.

Suggestions:

- The procedures for granting loans should be simplified. There is much delay and the cumbersome procedure discourages common man to approach the finance institution. The world is moving fast and man faster. Therefore in the modern age time cost counts much. SIDBI’s disbursements of loans were in installments at different stages of establishment after a thorough inspection. It causes the beneficiaries inconvenience, more expense and loss of time. Based on the re-payment capacity of the individual, the institution should sanction the loan amount required for the business establishment and a final inspection by the institution is advisable.
- At present, SIDBI sanctioning business loans only after the establishment of business units for micro and small units. This procedure may work for MSME well since they have other sources of income such as savings, inherited wealth, sale of property etc. Whereas in the case of an innovative entrepreneur without cash in hand, there is no role of SIDBI. Therefore SIDBI should sanction and disburse the loans before the establishment of business by following security norms. This will definitely encourage new innovative entrepreneurs / enterprises, avoid unnecessary interferences of money lenders.
- The SIDBI should invest more on computer based banking and internet banking service, telemarketing, anywhere and anytime banking and the like besides physical facilities and communication material. This will help in delivery of quick and accurate services to customer reducing better.
- The price of establishing new business units or start a new business cost is increasing day by day. The maximum loan amount sanctioned, except in SIDBI is not sufficient even to complete the basic structure. Therefore the ceiling of loan amount sanctioned should be revised proportionately with the rise in the cost of establishing units.
- Unnecessary delay in paper work by SIDBI must be strictly controlled, to avoid red tapism so that the poorer sections in the society can make better use of the loan facilities and complete the establishment of business units or machines at the stipulated time frame.

The majority of the SIDBI beneficiaries are not satisfied with the activities and services. Quick processing of application and sanctioning of loans will attract to undertake business activities by availing loans from SIDBI. Board of Management should have a “Regulatory Authority” in each region to co-ordinate and check the functions and the loan procedure delays.

- SIDBI advised to go for effective mass media advertisement and conduct frequent seminars, exhibitions to highlight the various schemes of the company.
- Financial institutions like SIDBI should also come forward through the “Awareness Cell” as suggested earlier and make the public know the advantages of cost effective business. They should also encourage the use of substitutes and cheaper business units which could significantly reduce the cost of establishment of new business.
- Cost reduction through reducing waste, adopting appropriate technology, evolving optimal designs, effective programming and efficient construction management should be adopted. SIDBI should establish some training centers and train personnel in cost reduction techniques in operations.
- The above recommendation might not be exhaustive but these would definitely meet the changing expectations of the people and show the superiority of the services rendered by the SIDBI in the financial inclusion industry.
- The absence of faster technological up gradation of SSIs could be attributed to several constraints as discussed earlier. Before suggesting future policy action, it is appropriate to revisit these issues in a codified manner.

Conclusion & Suggestions:

The business domain of SIDBI consists of Micro, Small and Medium Enterprises (MSMEs), which contribute significantly to the national economy in terms of production, employment and exports. MSME sector is an important pillar of Indian economy as it contributes greatly to the growth of Indian economy with a vast network of around 3 crore units, creating employment of about 7 crore, manufacturing more than 6,000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. In addition, SIDBI's assistance also flows to the service sector including transport, health care, tourism sectors etc. Since limit of accommodation to individual units has been increased to Rs.5 crore and Rs.2 crore in the case of companies and individuals respectively with a provision to increase it further to Rs.20 crore and Rs.5 crore respectively on the recommendations of SIDBI, the SFCs were now in a position to finance comparatively bigger industrial units having large credit requirements. The reluctance on the part of SIDBI to

release adequate refinance to eligible SFCs to enable them to finance medium scale industrial units appears to be retrograde step and tends to defeat the very purpose of enhancing the accommodation limit. Hence, it is un-doubtful that SIDBI has shown consistent operational performance in the development of MSME's and economy of India.

References:

1. International Development Finance Club - www.idfc.org/Members/sidbi.aspx
2. History of SIDBI - www.sidbi.com
3. Derven, M.G., "The paradox of performance appraisals", Personnel Journal, Vol 69, February 1990, pp107-111
4. Ernst & Young. (1995), "Performance Measurement for Financial Institutions", Probus Publishing, Vol 2, pp 12-15
5. Karr and John, (1996), "Line-of-Business Performance: Disclosures and Best Practices", Journal of Bank Accounting and Finance, Vol 29, pp. 36-42.
6. Wilfred Kaydos (1999) Operational Performance Measurement: Increasing Total Productivity - by CRC Press LLC International Standard Book Number 1-57444-099-3, Library of Congress Card Number 98-19227, USA.
7. M.Subba Rao and A.V.Ramana - International Journal of Marketing, Financial Services & Management Research Vol.1 Issue 8, August 2012, ISSN 2277 3622.
8. L.M.Prasad. (1979) "Principals and Practices of Management", Sultan Chand & Sons Publishing, New Delhi, 7th ed., 1979, pp 610.
9. Debobrat Ghose (2012) - Hindustan Times "SIDBI gets nod to raise \$500 million a year" - www.hindustantimes.com.
10. Annual Reports of SIDBI from 2003-04 to 2012-13.