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COPING RISKS ON SMALL SCALE INDUSTRIES-AN EMPIRICAL STUDY ON PUMP AND MOTOR MANUFACTURERS IN COIMBATORE, TAMILNADU

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Abstract

Small Scale industry is an significant stake to India as it role is greatly to intensification of Indian economy with a vast network of around 30 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% manufacturing output and about 40%of exports ,directly and indirectly. An attempt has been made to study the Coping risks on Small scale industries with reference to pump manufacturers in Coimbatore. It is found that the pump manufacturers are faced many risks and challenges on various aspects. Study reveals that their market is very seasonal and followed by other factors.

Keywords: *Small Scale industries, Risks, Export potential, Marketing, Infrastructure.*

Introduction

Small Scale industrial sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. They also play a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. The SSI sector contributes significantly to the country's manufacturing output, employment and exports and is credited with generating the highest employment growth as well as accounting for a major share of industrial production and exports. They have unique advantages due to their size; they have

comparatively high labor-capital ratio; they need a shorter gestation period; they focus on relatively smaller markets; they need lower investments; they ensure a more equitable distribution of national income; they facilitate an effective mobilization of resources of capital and skills which might otherwise remain unutilized; and they stimulate the growth of industrial entrepreneurship. The SSI sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services, and levels of technology. It complements large industries as ancillary units and contributes enormously to the socioeconomic development of the country.

Motor & Pumps Industry in India

The Motor & Pumps industry in India grew at a compounded annual rate of about 5% from 1985-1986 to 1995-1996 due to the importance given by the Government to the agriculture sector, and because of increased industrial and construction activities, spawned by liberalization. The Motor & Pumps sector is exclusively reserved for manufacturing in the SSI sector. About 1 lac people are directly employed in this industry in India.

The Motor & Pumps industry produces a wide range of products such as single phase & three phase motors, monobloc pumps, jet pumps, submersible pumps, industrial pumps etc. Most of the products cater to the agriculture, domestic and industrial sectors. The high value products mostly cater to the export markets.

The industry has been experiencing falling profits in spite of the rise in product prices. This is attributed to the rising production costs, high prices of raw materials and components. The industry has to make further advancement in the up gradation of technology in the production area to meet both volume and quality aspects as per international standard.

The Indian motor and pumps industry is exporting mainly to third world countries like Africa, Sri Lanka, Bangladesh, Dubai & South Eastern Asia, and very less to the developed countries like USA and Europe. The estimated turnover of the Indian pump industry is around rupees 4000 crore.

For the past few years the Motors and Pumps industry has been passing through severe slump. The major problems faced by the industry are: Threat of entry of foreign competitors who will be selling products at cheaper rates; the excise duty, sales tax and high interest charges that have placed domestic industry in weak

position.

Significance of the Study

India has a strong pump manufacturing base with both Indian and International players involved in the market. Coimbatore having the largest number of pump manufacturers. Coimbatore exports pumps to most of the countries. By keeping this in mind and the study would reveal the existing performance and issues of Small Scale pump manufacturing units who engaged in export activities in Coimbatore and also this will help the manufacturers to decide the future course of action for the development of pump industry and it will also provide the industrialists an avenue to better their performance.

Review of Literature

Nishanth P, Dr. Zakkariya K.A. (May 2014) reviewed that "there exists problem in accessing finance from banks and financial institutions and also viewed that this problem may differ from region to region between sectors, or between individual enterprises within a sector. Various barriers faced by SSI units in raising finance and also tried to identify various sources of finance other than banks. The study was restricted to Kozhikode district in Kerala.

Dr. Neeru Garg (Sept. 2014), Micro, Small and Medium Enterprises in India: Current Scenario and Challenges. This paper made an attempt to highlight the growth of this sector and analyze various problems and challenges faced by MSME sector in India in general.

Dr. A.S. Shiralashetti (2014), prospects & Problems of MSMEs in India. This paper covered growth, performance and contribution of MSMEs to GDP and also mentioned about the problems faced by MSMEs located in Dharwad district of Karnataka State.

Dr. Padmasani, S. Karthika

(2013), A study on Problems and Prospects of Micro, Small and Medium Scale Enterprise in Textile Exports with special reference to Tirupur and Coimbatore District. This paper has examined the problems of MSMEs in the era of global economy and also has identified the factors affecting MSMEs. A study was also made on the socio-economic conditions of MSMEs. The survey revealed that the problems can be overcome if MSMEs get involved in standardization of the business process, and can also adopt latest technology to improve the productivity. It was said that banks can support the industry by providing the credit facilities at low interest rate and Government and Institutions relating to Small and Medium Scale industries should take effective measures to improve the export performance of MSMEs in order to develop economy. The study covered the districts of Tirupur and Coimbatore district.

Singh (2012) analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

Venkatesh and Muthiah (2012) found that the role of small & medium enterprises (SMEs) in the industrial sector is growing rapidly and they have become a thrust area for future growth. They emphasized that nurturing SME sector is essential for the economic well-being of the nation. The above literature highlights the various aspects viz. performance, growth & problems of MSMEs in Indian

economy and induces for continuous research in this field.

Subrahmanya Bala (2011) has probed the impact of globalization on the exports potentials of the small enterprises. The study shows that share of SSI export in total export has increased in protection period but remain more or less stagnated during the liberalization period. However, the correlation co-efficient in liberalization period is higher than that of protection period suggesting that the relationship between the total export and SSI export has become stronger in liberalization period. This may be due to the drastic change in composition of SSI export items from traditional to non-traditional and growth in its contribution to total export through trading houses, export houses and subcontracting relation with large enterprises. Thus, the current policy of increasing competitiveness through infusion of improved technology, finance, and marketing techniques should be emphasized.

Rajib Lahiri (2011) the study made an attempt to critically analyze the definition aspect of MSMEs and explore the opportunities enjoyed and the constraints faced by them in the era of globalization after analyzing the performance of MSMEs in India during the pre and post liberalization period. The study revealed that except marginal increase in growth rate in employment generation, the growth rate in other parameters is not encouraging during the liberalization period.

Dixit and Pandey (2011) applied co-integration analysis to examine the causal relationship between SMEs output, exports, employment, number of SMEs and their fixed investment and India's GDP, total exports and employment (public and private) for the period 1973-74 to 2006-07. Their study revealed the

positive causality between SMEs output and India's GDP.

Bhavani T.A. (2010) highlights the issue of quality employment generation by the SSIs and negates the short term attitude of increasing the volume of employment generation compromising with quality. The author argues that employment generation by the SSIs may be high in quantitative term but very low in quality. Technological up gradation would enable the small firms to create quality employment improving remuneration, duration and skill. This structural shift may reduce the rate of employment generation in the short run but would ensure high-income employment generation in the long run. its contribution to total export through trading houses, export houses and subcontracting relation with large enterprises. Thus, the current policy of increasing competitiveness through infusion of improved technology, finance, and marketing techniques should be emphasized.

Objectives of the Study:

- To identify the Coping risks faced by the pump manufacturers.
- To identify the major problems faced by pump manufacturers

- To analyze the governmental policies and programmes offered to help the pump sector.

Research Methodology:

The present study is mainly based on primary and secondary data. A structured questionnaire is (Tamil and English) used to collect the data. The data has been collected from Small scale pump manufacturers in Coimbatore. The data has been collected from organized small scale pump manufactures using questionnaire. Since the population is definite as 1100 respondents. Simple random sampling method is applied. 250 questionnaires were distributed and data was collected.

Limitations of the study:

- The research is confined only to Coimbatore in Tamilnadu. So it may not be generalized.
- All the limitations of primary data are applicable to this study.

Analysis and Interpretation

Risks Faced by the Respondents

The below table shows the risks faced by exporters. Out of 250 respondents most of the respondents stated that credit risk is the major risk and its score is 336 and followed by legal risk with the score of 310, followed by government policy with the score of 210, followed by commercial kind of risk as the least ranked with the score of 153.

Export Risks	1st	2nd	3rd	4th	5th	Grand total	Rank
Commercial kind of risks.	30 (6*5)	24 (6*4)	27 (9*3)	26 13*2)	46 (46*1)	153	5
Government policy.	60 (12*5)	36 (9*4)	87 (29*3)	46 (23*2)	7 (7*1)	236	3
Exchange rate.	55 (11*5)	24 (6*4)	66 (22*3)	48 (24*2)	17 (17*1)	210	4
Credit risk.	210 (42*5)	84 (21*4)	24 (8*3)	18 (9*2)	(0*1)	336	1
Legal risk.	100 (20*5)	160 (40*4)	36 (12*3)	12 (6*2)	2 (2*1)	310	2

Source: Primary data

The below table shows the problems faced by pump manufacturers. Most of the respondents stated that high

cost of raw material compared to other states (Rajkot&Ahmadabad) is the major problem for pump production with the

score of 11.17 , followed by lack of infrastructure with the score of 9.63, followed by more unorganized players with the score of 9.51, followed by ineffective research & development facility with the score of 9.49, followed by seasonal orders with the score of 9.10, followed by high interventions of middleman in export with the score of 9.01, followed by higher power tariff rates with the score of 8.89, followed by material & machinery maintenance cost is high with the score of 8.8, followed by dependency of SSI on private labeling with the score of 8.25, followed by lack of managerial skill with the score of 8.11, followed by not able to meet the customer specifications &

demand with the score of 8.07 , followed by high rate of interest on loans with the score of 7.90, followed by availability of collateral free loans with the score of 7.89, followed by arrangement of expo and entrepreneur awareness camps with the score of 6.91, followed by frequent changes in the government policies with the score of 5.12, followed by complexity of clearance formalities with the score of 5.06 , followed by delayed payment from customers with the score of 4.77, followed by lack of fund to meet day today operation with the score of 4.75, followed by absenteeism with the score of 4.69 ranked as least one.

S. No.	Problems	Rating Score					Total	Mean Rank	Rank
		Strongly Agree	Agree	NO	Disagree	Strongly Disagree			
PRODUCTION									
1	High cost of raw material compared to other states (Rajkot & Ahmadabad)	190	54	0	3	3	500	11.17	1
		(76)	(21.6)	(0)	(1.2)	(1.2)	(100)		
2	Material & machinery maintenance cost is high	127	76	24	19	4	250	8.8	8
		50.8	30.4	9.6	7.6	1.6	100		
3	Lack of infrastructure	141	81	21	4	3	500	9.63	2
		56.4	32.4	8.4	1.6	1.2	100		
4	Ineffective research & development facility	132	93	14	11	0	250	9.49	4
		52.8	37.2	5.6	4.4	0	100		
5	Not able to meet the Customer specifications & demand	93	110	26	17	4	250	8.07	11
		37.2	44	10.4	6.8	1.6	100		
6	More Unorganized players	138	74	15	16	7	250	9.51	3
		55.2	29.6	6	6.4	2.8	100		
7	Seasonal orders	136	67	25	15	7	250	9.10	5
		54.4	26.8	10	6	2.8	100		
8	High interventions of middleman in export	133	56	46	15	0	250	9.01	6
		53.2	22.4	18.4	6	0	100		
9	Dependency of SSI on private labeling	112	85	21	21	11	250	8.25	9
		44.8	34	8.4	8.4	4.4	100		
10	Delayed payment from customers	37	60	53	81	19	250	4.91	17
		14.8	24	21.2	32.4	7.6	100		

11	Lack of sufficient funds to meet day-to-day operations	33	66	50	60	41	250	4.75	20
		13.2	26.4	20	24	16.4	100		
12	Availability of collateral free loans	101	85	39	18	7	250	7.89	13
		40.4	34	15.6	7.2	2.8	100		
13	High rate of interest on loans	98	96	24	32	0	250	7.90	12
		39.2	38.4	9.6	12.8	0	100		
14	Absenteeism	30	65	52	35	68	250	4.69	21
		12	26	20.8	14	27.2	100		
15	Labour turnover	37	66	50	40	57	250	4.77	19
		14.8	26.4	20	16	22.8	100		
16	Training and development	39	65	43	75	28	250	4.84	18
		15.6	26	17.2	30	11.2	100		
17	Lack of managerial skill	119	66	28	18	19	250	8.11	10
		47.6	26.4	11.2	7.2	7.6	100		
18	Frequent changes in the government policies.	45	60	56	75	14	250	5.12	15
		18	24	22.4	30	5.6	100		
19	Arrangement of Expo and Entrepreneur awareness camps.	76	88	28	54	4	250	6.91	14
		30.4	35.2	11.2	21.6	1.6	100		
20	Higher power tariff rates.	121	86	22	18	3	250	8.89	7
		48.4	34.4	8.8	7.2	1.2	100		
21	Complexity of clearance formalities	41	63	45	80	21	250	5.06	16
		16.4	25.2	18	32	8.4	100		

Source: Primary data

This below table clearly shows the government policies and programmes to promote the particular sector. establish growth centers and industrial estates by the government is highly satisfied with the mean score of 4.4 , followed by lower central excise duties for outputs with the score of 4.3and followed by liberal subsidiaries and grants of concessions with the score of

4.1,followed by entrepreneurial development programmes with the score of 3.66,followed by frequent arrangements of trade fairs of exhibition with the score of 3.48, followed by liberal credit for exporters with the score of 4.1and followed by reduction in tariffs with the score of 2.7 , followed by low rate of interest for loan with the least score of 2.45

Sl. No	Government Policies Programmes	Opinion					Grand Total	Mean Score	Rank
		HS	S	NSN D	DS	HD S			
1	Liberal credit for exporters	280	276	225	62	19	862	3.44	6
2	Lower central excise duties for outputs	610	400	48	26	0	1084	4.3	2
3	Establish growth centers and industrial estates	750	352	48	12	0	1117	4.4	1
4	Entrepreneurial Development programmes.	360	336	150	50	19	915	3.66	4
5	Frequent arrangements of trade fairs of exhibition.	295	276	225	56	19	871	3.48	5
6	Liberal subsidiaries and grants of concessions.	530	352	102	44	0	1028	4.1	3

7	Low rate of interest for loan	125	124	168	118	78	613	2.45	8
8	Reduction in tariffs	140	276	123	88	69	696	2.7	7

Source: Primary data

Findings

Majority of the respondents stated that credit risk is the major risk and its score is 336 and it ranked as 1.

Majority of the respondents stated that high cost of raw material compared to other states (Rajkot & Ahmadabad) is the one of the major problem for pump production with the score of 11.17.

Majority respondents are felt that establish growth centers and industrial estates by the government is highly satisfied with the mean score of 4.4 and ranked as 1.

Suggestions

The Pump manufacturers are faced many Challenges on Various aspects. Majority of the respondents opine that their market is very seasonal and Low margin due to high cost of raw material. Comparatively our material cost is higher than north market (Rajkot Ahmadabad) so the government has to take the necessary steps to control over the material price.

To grasp the market opportunity at international market, the producer has to improve the quality at par with international standards for sustainability and continuous growth of market share.

Government policies and programmes to uplift the particular industry have been perceived by Pump manufacturer is negative. Though the government has established growth centers and industrial estates, the subsidiaries and grants of concessions is not up to the mark. Entrepreneurial Development programmes by Government to make awareness on Export and Frequent arrangements of trade fairs and exhibition can be given to the manufacturers to know the recent scenarios in particular industry.

Conclusion

Indian pump Manufacturers are facing intense competition from the foreign counterparts cater to global needs. In the recent years, the Indian pump

industry has been forced to be proactive with foreign players bringing in superior pumps to the market. Thus it is very important to understand the Risks faced by Small Scale Pump Manufacturers to Motivate and Uplift the particular Industry In order to meet the international standard. This research would help the Relevant Bodies like MSME, DIC, COINDIA, SIEMA, IPMA, CO DISSIA and government Officials and policy makers in India to understand the various risks and problems of Pump manufacturers and their Export potential at Global level and need for technology up gradation etc.,

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