

## SMALL SCALE INDUSTRIES IN INDIA- AN ANALYSIS

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### Abstract

Small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification. By its less capital intensive and high labour absorption nature, SSI sector has made significant contributions to employment generation and also to rural industrialisation. This sector is ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices. This is the opportune time to set up projects in the small-scale sector. It may be said that the outlook is positive, indeed promising, given some safeguards. This expectation is based on an essential feature of the Indian industry and the demand structures. The diversity in production systems and demand structures will ensure long term co-existence of many layers of demand for consumer products / technologies / processes. There will be flourishing and well grounded markets for the same product/process, differentiated by quality, value added and sophistication. This characteristic of the Indian economy will allow complementary existence for various diverse types of units. The promotional and protective policies of the Govt. have ensured the presence of this sector in an astonishing range of products, particularly in consumer goods. The process of liberalisation coupled with Government support will therefore, attract the infusion of just these things in the sector. The small-scale industries sector plays a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. It has been estimated that a million Rs. of investment in fixed assets in the small scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percentage points. The small-scale sector has grown rapidly over the years. The growth rates during the various plan periods have been very impressive. The number of small-scale units has

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increased from an estimated 0.87 million units in the year 1980-81 to over 3 million in the year 2000. When the performance of this sector is viewed against the growth in the manufacturing and the industry sector as a whole, it instills confidence in the resilience of the small-scale sector. SSI Sector in India creates largest employment opportunities for the Indian populace, next only to Agriculture. It has been estimated that 100,000 rupees of investment in fixed assets in the small-scale sector generates employment for four persons. Food products industry has ranked first in generating employment, providing employment to 0.48 million persons (13.1%). The next two industry groups were Non-metallic mineral products with employment of 0.45 million persons (12.2%) and Metal products with 0.37 million persons (10.2%). In Chemicals & chemical products, Machinery parts except Electrical parts, Wood products, Basic Metal Industries, Paper products & printing, Hosiery & garments, Repair services and Rubber & plastic products, the contribution ranged from 9% to 5%, the total contribution by these eight industry groups being 49%. In all other industries the contribution was less than 5%. Per unit employment was the highest (20) in units engaged in beverages, tobacco & tobacco products mainly due to the high employment potential of this industry particularly in Maharashtra, Andhra Pradesh, Rajasthan, Assam and Tamil Nadu. Next came Cotton textile products (17), Non-metallic mineral products (14.1), Basic metal industries (13.6) and Electrical machinery and parts (11.2.) The lowest figure of 2.4 was in Repair services line. Per unit employment was the highest (10) in metropolitan areas and lowest (5) in rural areas. However, in Chemicals & chemical products, Non-metallic mineral products and Basic metal industries per unit employment was higher in rural areas as compared to metropolitan areas/urban areas. In urban areas highest employment per unit was in Beverages, tobacco products (31 persons) followed by Cotton textile products (18), Basic metal industries (13) and Non-metallic mineral products (12). SSI Sector plays a major role in India's present export performance. 45%-50% of the Indian Exports is contributed by SSI Sector. Direct exports from the SSI Sector account for nearly 35% of total exports. Besides direct exports, it is estimated that small-scale industrial units contribute around 15% to exports indirectly. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components for use for finished exportable goods. It would surprise many to know that non-traditional products account for more than 95% of the SSI exports. The exports from SSI sector have been clocking excellent growth rates in this decade. It has been mostly fuelled by the performance of garments, leather

and gems and jewellery units from this sector. The product groups where the SSI sector dominates in exports, are sports goods, readymade garments, woollen garments and knitwear, plastic products, processed food and leather products. The SSI sector is reorienting its export strategy towards the new trade regime being ushered in by the WTO (www.msme.gov.in).

From July 1991 the new economic reforms was implemented. So the present study analyses impact of economic reforms on Small scale industries (SSI). The main aim of this paper is to compare the trend of SSI in the pre and post reform period and to assess the number of sick units in the post reform period. The hypotheses tested was that the number of units, employment level, production level, exports of SSI did differ in the pre and post reform period and the number of sick units didn't increase in the post reform period. The study is based on the secondary data. The required data have been collected from hand Book of Indian Economy, RBI. Being a time series, it was collected for the period 1975 to 2008. In order to analyse the data, trend analysis and t test were used. The limitation of the study was that the data weren't available for selected variables.

### Trends and Performance of SSI

Since 1975-76, the number of SSI units was steadily increasing. Except for 1990-91 the production level was on an increasing level. The employment level was increasing yet in the year 2006-07 the increase was double. Production per employee steadily increased. Similarly exports also increased steadily without any decline.

**Table-1**  
**Trends of SSI**

No. of units	Growth	t- values	Adjusted R <sup>2</sup>	t- values
<b>PRP</b>	1.120	65.703*	0.783	-6.574*
<b>PORP</b>	1.068	99.880*	0.726	
<b>Production</b>				
<b>PRP</b>	1.089	88.769*	0.791	-3702*
<b>PORP</b>	1.127	219.454*	0.977	
<b>Employment</b>				
<b>PRP</b>	1.073	328.188*	0.972	-5.411*
<b>PORP</b>	1.067	105.802*	0.741	
<b>Production per employment</b>				

<b>PRP</b>	1.016	73.466*	0.021	1.616
<b>PORP</b>	1.081	226.060*	0.950	
<b>Exports</b>				
<b>PRP</b>	1.190	139.555*	0.975	-5.075*
<b>PORP</b>	1.168	216.930*	0.986	

Source: Calculated figures. PRP- Pre reform period, PORP- Post reform period, \* Significant at 1 %.

Though the absolute level of selected variables was higher in the post reform period, the growth rate of these variables was less in the post reform period. So to identify the growth of the selected variables in the pre and post reform period, the compound growth rate was estimated. The table shows the compound growth rate of selected variables in the pre and post reform period. The compound growth rate of the number of units declined from 12% in the pre-reform period to 7% in the post reform period. But the production level in the pre reform period was 9% but in the post reform period increased to 13%, which shows an increase in the productivity level showing a good sign for development. Production per employee increased from 2% in the pre reform period to 8% in the post reform period. Employment level (7%) in the pre and post reform period was more or less the same. But the export level decreased in the post reform period by 2%. Over all in the post reform period, there was a decline in the number of units, employment and export level. In spite of the various measures of the government to enhance SSI yet it failed to attract investors. Based on t test it can be inferred that there was a significant difference in the number of units started, production, and export and employment level in the pre and post reform period. In the case of production per employee there wasn't any significant difference in the pre and post reform period. The study by Hitendra Bargal Manasranjan Dashmishra Ashish Sharma, (2009) revealed that the reserved lists of the small scale units has been increased from 177 in 1972 to 837 in 1983 and then declined to 605 which might be a reason lesser average annual growth rate of no of unit at 4.063 % in the post- liberalization period compared to a growth rate of 9.64 % in the preliberalization period. The annual average growth of production, employment, production per employee and SSI exports has been at the rate of 12.79%, 4.24%, 3.72%, and 20.09% respectively, which is less than that of the pre-liberalization period indicating the fact that despite the policy measures taken by the government after 1991, there has not been much impetus for SSI sector to grow.

**Sickness**

A unit may be considered sick if it has incurred cash loss for one year and in the judgment of the bank it is likely to continue to incur cash losses for the current year as well as the following year and the unit has an imbalance in its financial structure such as current ratio of less than 1: 1 and worsening debt equity ratio. The other features of sickness may be: Continuous default in meeting for consecutive half yearly instalments of interest of Principal of institutional loans; Continuous cash loss for a period or two years of continued erosion in the net worth by 50 percent or more; Mounting arrears on account of statutory or other liabilities for period of one or two years, and There are consisting irregularities in operation of credit limits. According to the Sick Industrial Companies Act, 1985, sick industrial company means an industrial company which has at the end of financial year accumulated losses equal to or exceeding its entire net worth and has also sustained cash losses in such financial year and the financial year immediately proceeding such financial year. But small scale industries and some other industries do not come under the purview of the said Act (SenGupta). The number of sick units declined after 2001 but from 1991- 2001 there was an increasing and declining trend in the number of sick units. In the case of the amount outstanding to the commercial banks there was a fluctuating trend but in the year 2008 the outstanding amount declined. The reason for sickness is due to the inadequate capital, technology, inefficient management, marketing etc.

**Table-2**  
**Sick Units**

<b>Variables</b>	<b>Growth</b>	<b>t- values</b>	<b>Adjusted R<sup>2</sup></b>	<b>t- values</b>
<b>Sick units</b>	0.947	94.447*	0.601	3.378*
<b>Amount Outstanding</b>	1.028	136.225*	0.444	-4.379*

Source: Calculated figures. \* Significant at 1 %.

The compound growth rate of sick units during the post reform period was 5.3% and the outstanding due was 2.8%. Based on the t- test there was a significant difference in the number of sick units and outstanding during 1991 to 1999 and 2000 -2008.

## Conclusion

Small scale units are the back bone for emerging countries, due to its less capital and labour intensive character. It is the main contributor to the exports and gross domestic product. In spite of subsidies and incentives given from time to time, the number of small scale units was less in the post reform period. So the government should introduce more attractive industrial friendly policies to attract investors. Efforts should be undertaken to identify the sick units at the incipient stage and adopt the corrective measures. These in the long run will increase the number of small scale units and make it competitive with the rest of its counterpart like China.

## Reference

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