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### **Aninsightintothecontribution and status of Micro, Small and Medium Enterprises (MSMEs) in the State of Andhra Pradesh, India**

**R. Balaji Ravi Gopal<sup>1\*</sup>, Dr K. ChengaiahChetty<sup>2</sup>and Dr. S. Neelima<sup>3</sup>**

<sup>1</sup>Research Scholar, Department of Commerce and Management, Dravidian University, Kuppam,19-9-29/1,Lakshmipuram,Tirupathi, India, [rbrgsharma@gmail.com](mailto:rbrgsharma@gmail.com), Mobile:9247734929

<sup>2</sup>Research Supervisor, Dev.Educational Officer (Retd.), TTD, Tirupati (EAIMS) Kodandaramapuram, RamachandraPuram, Durgasamudram, Tirupati - 517 561, Chittoor Dist.,[rbr\\_sharma@yahoo.com](mailto:rbr_sharma@yahoo.com),Mobile:9440320040

<sup>3</sup>HOD-MBA Associate Professor, BSIT, Hyderabad, Department of Business Management, Gollapally(V), Chevella(M), Rangareddy-501503, [s.neelima@yahoo.co.in](mailto:s.neelima@yahoo.co.in), Mobile:9951513713

#### **ABSTRACT**

MSMEs (Micro Small and Medium Enterprises) contributes nearly one-third of national income in India. According to National Sample Survey (NSS) in the year 2015-16, the MSMEs have created 11.10 Crore jobs. Another startling fact revealed by the Annual MSME report 2017-18 is that 45% of the manufacturing output in the country and 50% of total exports is contributed by the sector. The landscape of the sector has undergone a sea change after the advent of MSMED Act 2006, a legislative measure by the Union government to give a decisive push for its long-term viability and success. In light of the above intriguing developments, this paper makes an inquisitive attempt to find out the status of the MSMEs in the state of Andhra Pradesh, India .Further, the contribution by the sector to the state in terms of employment and regional development are discussed. The paper finally delves into the various measures taken by the State government for the revival of sick enterprises.

**KEY WORDS:** Enterprises, MSMEs, Sickness, Employment Generation, Sector

**\*Corresponding Author:-**

**R. Balaji Ravi Gopal**

Research Scholar,  
Department of Management and Commerce,  
Dravidian University, Kuppam-517425  
e-mail: [rbrgsharma@gmail.com](mailto:rbrgsharma@gmail.com)  
Mobile:9247734929

## 1. INTRODUCTION

Before the advent of Industrialization, India's economy consisted only of agriculture and non-farm micro enterprises that engaged in trading and provision of various traditional services. The enterprises were family managed. In other words, most of the Indians were entrepreneurs or self-employed. The MSMEs are considered as backbone of Indian economy for the two main reasons, contribution of the sector to National Income and provision of employment opportunities. Even after rapid Industrialization of the Indian Economy in over seven decades post independence, the contribution of MSMEs are astounding. This is discussed in detail with facts and figures in this article under the head 'Role of MSME in Indian Economy'.

### 1.1 *Evolution of MSME sector*

The concept of MSME underwent lot of changes since the country attained independence. As the requirements changed with advent of new developments, the criteria to determine a unit as Micro, Small, Medium or Large enterprises were reshaped accordingly. The terminology used for the MSME sector, also changed over a period of time. The categorization of a business enterprise is generally based on one or more of the following:

- Amount of capital invested;
- Energy consumption;
- Number of persons employed;
- Technology used in operations; and
- Turnover during the relevant period.

#### *The small scale industries (SSI)*

In the year 1955, the Small Scale Industrial Board (SSIB), categorized a unit as Small if it employed less than 50 persons without the use of power, and 100 in case the unit used power for its operations. The Board further imposed Investment limit of 5 Lakhs for the above units. Thus, the initial attempt to categorize was based on number of persons employed, use of power and the investment limit. While calculating the number of persons employed, each shift was considered separate by amending the rule in the year 1959. Further, in the year 1960 the criteria based on number of persons employed was altogether removed facilitating extension of government subsidies given to SSI (Small Scale Industries) to more number of units. This resulted in investment limit of 5 Lakhs as a sole criterion for determining a unit as SSI. The board increased the investment limit to 7.5 Lakhs in the year 1966.

### ***The Ancillary Industries***

To enlarge the scope of SSIs, a new category of Small units were formed in the year 1962. This was to include many supporting units that supplied inputs to large Industrial Units. This was called Ancillary Industries. To qualify as Ancillary Industries, the maximum investment was Rs 10 Lakhs. To calculate the investment limits for both Ancillary and Non-Ancillary units, investment in Plant and Machinery was considered.

### ***The Tiny Industries***

This category of Industry was created in the Industrial Policy Resolution 1977 to encompass very small units mainly engaged in manufacturing of products like Dhoop, wooden furniture, weaving, gunny bags, etc. To qualify for this category, a unit had to satisfy two conditions:

- A unit must be located outside Metropolitan area; and
- The total investment should not be more than Rs 1 Lakh.

The location of the Tiny Industries was required to be in the area where the population was not more than 50,000.

The investment limits of the above 3 categories of units were further revised in the year 1980 to Rs 2 Lakhs for Tiny Industries, 20 Lakhs for Small Industries and Rs 25 Lakhs for Ancillary Units.

The following table summarizes the evolution of the MSME sector since the year 1955.

**Table 1: Evolution of SSI Units post independence era**

<i>Sno</i>	<i>Year</i>	<i>Investment in Plant and Machinery (Rs)</i>
1	1955	Upto 5 Lakhs
2	1966	UptoRs 7.5 Lakhs
3	1974	UptoRs 15 Lakhs
4	1980	UptoRs 20Lakshs
5	1991	UptoRs 60 Lakhs
6	1997	UptoRs 100 Lakhs
7	1999	UptoRs 300 Lakhs
8	2006	Micro Enterprise UptoRs 25 Lakhs
		Small Enterprises Between Rs 25 lakhs and 500 Lakhs

*Source:MSME Data Book,Ministry of Micro, Small and Medium Enterprises, May 2016*

Table 1 makes it clear the sector underwent many structural changes to keep pace with the changing situations.

### ***1.2 The MSMEs***

The most important milestone was achieved by the enactment of first ever legislation exclusively for small business units sector, the Micro, Small and Medium Enterprises Development

Act, 2006. Government of India passed the Act in Parliament to promote and protect the small business units. The Act was formed in response to the recommendations made by Abid Hussain Committee and S.P. Gupta Committee.

The highlights of the Act can be summarized as follows:

- The Act provides for the creation of Fund for the purpose of promoting and strengthening the small enterprises.
- The Fund is managed by a trust called Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).
- Provides enabling laws for smooth credit flows to the sector by providing credit linked subsidies.
- Assures 20% Year-on-Year growth on credit to the MSME sector through public sector banks.
- Enables Cluster based development by adapting the existing industrial infrastructure and establishing Common Facilitation Centers (CFCs)
- Enables Technology support to the sector by establishing Training-Cum-Product Development Centers (TPDCs) and industry specific Training Institutes.
- Provide Marketing support through the National Manufacturing Competitiveness Programme (NMCP).
- Enable efforts to develop Entrepreneurial and Managerial skills especially to the weaker sections such as SCs, STs and women.

Apart from the above main features, the Act classifies the Micro, Small and Medium enterprises. The classification is given in the following table.

**Table 2: Classification of Micro Small and Medium Enterprises as per the MSMED Act 2006**

<b>Enterprises engaged in manufacture or production of goods</b>		
No	Classification	Investment in Plant and Machinery
1	Micro Enterprises	<=25 Lakh
2	Small Enterprises	> 25 Lakh and <= 5 Crore
3	Medium Enterprises	> 5 Crore and <=10 Crore
<b>Enterprises engaged in providing or rendering of services</b>		
1	Micro Enterprises	<=10 Lakh
2	Small Enterprises	> 10 Lakh and <=2 Crore
3	Medium Enterprises	> 2 Crore and <=5 Crore

Source: Micro, Small and Medium Enterprises Development Act 2006

The Small business sector in India has come a long way by adapting itself into the changing scenarios with the support of economic think tanks and policy makers

## 2. ROLE OF MSMEs IN INDIAN ECONOMY

The MSME sector has been consistently contributing to India's economy since hundreds of years. The contribution has been in both industrial and service sector. Unorganized sector contributes more than 80% of total employment in the country. Nearly 50% of the exports of the country are contributed by the sector in the year 201-16. Even after post liberalization and globalization era, the sector continues to be a dominant sector in terms of employment generation also. The following data relating to the sector's contribution is worth noting.

**Table 3: MSMEs contribution in Indian Economy (Rs in Crores)**

Year	MSME GVA (Rs)	Growth (%)	Total GVA (Rs)	Share of MSME (%)	Total GDP (Rs)	Share of MSME in GDP (%)
2011-12	25,83,263	--	8106946	31.86	8736329	29.57
2012-13	29,77,623	15.27	9202692	32.36	9944013	29.94
2013-14	33,43,009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation

GVA-Gross Value Added

Table 3 reveals that the MSME contribution is about 30% of GDP in spite of decline in the growth of Gross value added from the year 2013-14. The contribution of the sector in the country's manufacturing Gross Value Output (GVO) is also about 32%.

The 73<sup>rd</sup> National Sample Survey (NSS) in the year 2015-16 shows that the sector is engaged in Manufacturing, Trading and other services almost in equal proportions. It further reveals that the sector has equal presence in both the rural and urban areas.

**Table 4: Number of MSMEs based on Activities (Estimated)**

Activity	Number of Enterprises (In lakhs)	Share (%)
Manufacturing	196.65	31
Trade	230.35	36
Other Services	206.85	33
Total	633.85	100

Source: Annual Report 2017-18, Ministry of Micro, Small and Medium Enterprises, Government of India

The total number of MSMEs in India is estimated to be 633.85 Lakhs which includes both registered and unregistered enterprises. The Registered MSMEs as per UAMs (UdyogAdhaar Memorandum) are 38,93,929 units. Out of these 34,88,624 units are Micro Enterprises which is about 90% of MSMEs. The 73<sup>rd</sup> Round Survey of NSS also reveals an interesting fact that about 1109 Lakh people are employed in the sector. The details of the survey relating to employment provided by the sector are given in Table 5.

**Table 5: Details of Employment provided by MSME sector ( In lakhs)**

Sector	Micro	Small	Medium	Total	Share (%)
Rural	489.30	7.88	0.60	497.78	45
Urban	586.88	24.06	1.16	612.10	55
Total	1076.18	31.94	1.76	1109.88	100

*Source: NSS 73<sup>rd</sup> Round Survey (2015-16) on MSMEs*

It is very intriguing to note that 55% share of employment provided by the sector is in Urban areas. It can also be understood that the sector gives employment to 45% and the rest are employed in agricultural and allied activities in rural areas. It can also be concluded from the data that more than 10 Crores are employed in the sector.

### **3. CONTRIBUTION AND STATUS OF MSMES IN THE STATE OF ANDHRA PRADESH**

Andhra Pradesh is the 8<sup>th</sup> largest state in the country in terms of area. The 73<sup>rd</sup> NSS survey conducted in 2015-16 estimated that there are 33.87 Lakh MSMEs in the state. This is approximately 5.3% of total number of enterprises in the state. This ranks the state 7<sup>th</sup> in terms of number of MSMEs. But, the fourth All India Census of MSME in the year 2006-07 estimated that there were 25.96 Lakh units in the state with 7% share in the country. Thus, there is an increase of about 7 Lakhs units in 9 years period. It can also be noted that the percentage of share has decreased from 7% to 5.3% in the period. Out of 33.87 Lakhs units 33.74 Lakhs i.e. 99.60% are Micro Enterprises. The remaining are small and medium enterprises. This goes without saying that the other types of enterprises are very negligible in terms of size in the state. It may be recalled that in the country as a whole, about 97% of the enterprises are Micro Enterprises.

#### **3.1 Ownership structure**

The ownership structure of the enterprises per 1000 distribution of estimated number of enterprises in the state is as follows:

**Table 6: Ownership Structure of MSME sectors in AP**

Type of Ownership		Number of enterprises
Proprietary	Male	614
	Female	235
Partnership	Same household	2
	Different household	3
SHG		146
Total		1000

Source: NSS, 73<sup>rd</sup> Round (July 2015-June 2016)

### 3.2 Employment generation and fixed assets owned by the enterprises

The total investments in the sector was Rs 19,176.13 Crores in the year 2014 and provided employment to 11,90,277 persons. Prakasam district alone employed 2,62,081 persons in the year. The following table further explains the sector's contribution for employment from the year in terms of CAGR (Compound Annual Growth Rate) and AAPC (Annual Average Percentage Change).

**Table 6: Employment Generation in MSME sector in AP**

Year	Male			Female		
	CAGR (%)	AAPC (%)	% of Number of Units	CAGR (%)	AAPC (%)	% of Number of Units
1940 to 1950	33.5	171.7	74.1	7.2	-6.7	25.9
1951 to 1961	18.6	116.2	87.7	2.5	24.8	12.3
1962 to 1972	11.8	46.8	80.4	14.1	45.0	19.6
1973 to 1983	35.6	168.7	87.1	12.7	103.0	12.9
1984 to 1994	19.9	96.8	90.3	1.9	29.5	9.7
1995 to 2005	12.8	20.8	81.6	11.7	26.8	18.4
2006 to 2016	26.7	40.9	72.0	32.2	57.8	28.0

Source: Directorate of Industries, A.P.

The data in Table 6 shows generation of employment owned by male and female enterprises separately. The growth in terms of CAGR in the employment generation for the period from 2006-2016 is 32.2% in female owned enterprises which is more than the growth rate in male owned enterprises. Even AAPC is 57.8% in female owned enterprises whereas it is 40.9% in male owned enterprises. Therefore, the growth both in terms of AGR and AAPC are overtaken by female enterprises. This indicates that more women are coming forward in engaging themselves in the small business activities in the state. In the recent years there is a spurt in women entrepreneurs especially in the MSME sector due to the promotional activities towards women empowerment by the state ministries.

Another interesting survey relating to the market value of fixed assets owned and hired by the Non-Agricultural and unregistered enterprises was made by NSS (National Sample Survey in 73<sup>rd</sup> Round. According to the survey the owned fixed assets per enterprise in the state of AP is Rs 1, 38,000. This is well below the all India average value of fixed assets which is Rs 2, 32,000. This shows that the size of enterprises on an average in terms of value of fixed assets is much smaller when compared to most of the states in India. Maharashtra has the highest average value of fixed assets owned by enterprise with Rs 5, 09,000 each.

### 3.3 SME clusters in AP- Regional growth

Clustering of industries geographically can be classified either as natural or artificial. Clusters are formed naturally due to high demand conditions. Artificial clusters are formed due to government policies, infrastructure facilities, etc. It enables balanced regional development. According to UNIDO (United Nations Industrial Development Organisation), there are 23 SME (Small and Medium Enterprises) clusters in the state.

Table 7: SME Clusters in Andhra Pradesh

Sno	District	No. of Clusters	Product
1	Anantpur	2	Readymade Garments and Jeans Garments
2	Chittoor	2	Power loom and Brass Utensils
3	East Godavari	4	Rice Mills, Graphite Crucibles, Coir & Coir Products and Aluminium Utensils
4	West Godavari	2	Refractory Products
5	Guntur	3	Power Loom, lime Calcination and Wooden Furniture
6	Krishna	3	Gold Plating & Imitation Jewellery, Rice Mills and Steel Furniture
7	Kurnool	2	Oil Mills and Artificial Diamonds
8	Cuddapah	1	Polished Slabs
9	Prakasam	1	Stone Slate
10	Srikakulam	1	Cashew Processing
11	Warangal	2	Power loom and Brassware

Source: UNIDO Focal Point, CDP UNIDO (as on 14-11-03)

It is clear from Table 7 that districts like cuddapah, prakasam and srikakulam needs more number of clusters to get more support from the government. The export potential are very high for Coir and coir products, Readymade garments, Jeans Garments, Wooden furniture, Gold plating and Imitation Jewellery, Steel Furniture, Artificial Diamonds, and Leather products.

### 3.4 *Sickness and measures taken for revival*

As per the fourth all India census of MSMEs 2006-07, out of 43,635 registered enterprises, a whopping 13,370 i.e. about 30% of enterprises were closed. The sickness of the units caused the closure of such large number of units. The census also found the primary reasons for the sickness which is illustrated in Table 8.

**Table 8:Reasons for sickness or potential sickness in the sector**

S. No	Reasons	Proportion of Sick/potential sick units*
1	Lack of demand	71.6%
2	Shortage of Woking Capital	48.0%
3	Non-availability of Raw materials	15.1%
4	Power Shortage	21.4%
5	Labour problems	7.4%
6	Marketing Problems	44.5%
7	Equipment Problems	10.6%
8	Management problems	5.5%

*Source:Fourth All India Census of Micro, Small & Medium Enterprises 2006-07*

*\* The total exceeds 100% as most of the enterprises had multiple reasons for the sickness.*

The three major reasons for the sickness or incipient sickness are lack of demand, Shortage of working capital and marketing problems. Least can be done to tackle the problem of Lack of demand, but lot can be done to mitigate the problems of working capital and marketing. The working capital problem can be tackled by providing cheap and timely credit and the marketing problem can be reduced by providing training to the entrepreneurs or the people employed in the activity.

The nagging problem of sickness is being handled by the Government of Andhra Pradesh with the help of the following measures:

- The AP Small Scale Industries Revival Scheme (APSSIRS) scheme was introduced in the year 2001 for revamping the small sick units having investment in Plant and Machinery over 5 Lakhs. The scheme was revised in the year 2006.This was done by constituting AP SSI Revival and Rehabilitation Fund. The Fund was used to compensate the losses suffered by the Financial Institutions due to the sickness of SSI borrowers

- Non-fiscal reliefs in the form of permissions are granted to mortgage surplus lands in favour of financial institutions under Urban land Ceilings Act. Further, the Labour department took pro-active steps to amicably settle the labour disputes in the units by encouraging co-operation between management and workers for the success of rehabilitation packages.
- Fiscal concessions in the form of interest subsidy to the extent of 6% are provided to all the units that are identified as either sick or potentially sick. The subsidy is however capped to a maximum of Rs 2 Lakhs per year for three years.
- The state taxes such as sales tax, purchase tax and the interest on the non-payment of such taxes are allowed to be deferred for a tax holiday period of 3 years. After the holiday period, the units are required to pay the arrears in six half yearly installments.
- Subsidies are also given in payment of arrears of electricity charges.

#### **4. CONCLUSION**

The MSME sector in India has endured many tough conditions over many decades. This is because the country has economic model of its own. Only the MSMEs can cater to certain needs of people. They cannot be replaced with large units as the mass production cannot suit the diverse and localized needs. Thus, the sector will not only be a dominant one, but also be an indispensable part of Indian Economy for the decades to come. The State of Andhra Pradesh is no exception. The social structure and the culture are unique in the state. Many families in the state have been engaging in the traditional business activities for thousands of years. Therefore, the role of small business units in the state economy warrants a close support from the state authorities. The government has no doubt initiated many measures to improve the conditions of the sector. But the benefits extended by it have not reached many units due to various reasons. The government needs to work more at grass root levels as the small entrepreneurs are not well educated. More SME clusters may be formed in the districts of Nellore, Guntur, and Vizianagaram districts as there are not enough clusters. Thus, the state has more potential for the sector's growth.

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