

# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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**STATEMENT OF THE PROBLEM**

**OBJECTIVES**

**HYPOTHESES**

**RESEARCH METHODOLOGY**

**RESULTS & DISCUSSION**

**FINDINGS**

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**AN ANALYSIS OF KEY INDICATORS OF SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)**

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**ABSTRACT**

*The Small Industries Development Bank of India being the apex bank of Micro Small and Medium Enterprises sector was established as a wholly owned subsidiary of the Industrial Development Bank of India by a separate act of parliament in 1990. After being completed 10 years of dedicated services to small scale sectors, SIDBI was delinked from IDBI with effect from March 27, 2000 after the enforcement of SIDBI (Amendment) Act 2000. As at March 31, 2012, SIDBI has made a journey of 12 years after being delinked from IDBI. As DFIs faced competition from banks as well as capital market, they ended up financing riskier industrial projects and large-scale industrial projects carrying low returns and long gestation periods. During 1990s the share of debt decreased while equity increased. The share of DFIs in total loan finance declined during 1990s while the share of banks rose from the low level during 1985-90 by more than double during 1995-2001 thereby overtaking the position of DFIs in project finance. By 2007-08 only SIDBI was functional. This study makes an appraisal of performance of SIDBI in terms of selected physical and financial indicators with the help of year-on-year growth percentage. During the course of the 22 years of its operation, the Bank has been fairly successful in facing the challenges while assisting the sector and, in the process, has emerged as a strong and vibrant institution. The sector to fully utilize its potential, it is essential that the entrepreneurs along with the Government support take necessary steps for their development.*


**JEL CODE**

G2

**KEYWORDS**

MSMEs, Year-on-year, Appraisal, Performance, Indicators, spread.

**1. INTRODUCTION**

 evelopment Finance Institutions (DFIs) or development banks starting with the Industrial Finance Corporation of India and the State Financial Corporation to assist the promotion and financing of fixed assets of industrial units have been in existence since 1948. Now, at the all-India level, there are three Development Banks namely Industrial Investment Bank of India (IIBI), Industrial Development Finance Company Ltd and Small Industries Development Bank of India (SIDBI) (H.R. Machiraju 2010). Industrial Development Bank of India (IDBI) played a catalytic role in the industrialization of the country for about four decades as one of the All India development banks and also as the apex banking institution in the field of long-term industrial finance till September 2004 (Varshney P.N. and Mittal D.K. 2007). SIDBI was set up as the subsidiary of IDBI. The setting-up of Small Industries Development Bank of India marked the fulfillment of a long felt need to have a separate institution at the national level to exclusively cater to the requirements of the small scale sector in the country. The decision to set-up SIDBI was announced by the Finance Minister while presenting the Union Budget for 1989-90 and the Bill for Setting up the Bank as a wholly – owned subsidiary of Industrial Development Bank of India was introduced in parliament in May, 1989 and passed in October 1989. SIDBI became operational on April 2, 1990 with an initial capital of 250 crores and taking over the outstanding portfolio of IDBI relating to small scale sector held under the Small Industries Development Fund and National Equity Fund as on March 31, 1990, amounting to Rs.4200 crores (Vasant Desai 1994). The authorised capital and paid up capital of the Bank were subsequently raised to Rs.500 crores and Rs.450 crores respectively. After being completed 10 years of dedicated services to small scale sectors, SIDBI was de-linked from IDBI with effect from March 27, 2000 after the enforcement of SIDBI (Amendment) Act 2000 (SIDBI Annual Report 2001). The Bank continues to maintain the growth in its credit disbursement to the MSME sector. The Bank's direct finance to MSMEs is targeted at niche areas to address various financial gaps through specially designed products like risk capital, sustainable finance, factoring, invoice discounting, services sector financing, etc

**2. REVIEW OF LITERATURE**

A review of the previous studies on "Small Industries Development Bank of India" is essential to understand the implications of the different concepts and also to identify the areas already investigated, so that new areas so far unexploited may be studied in depth. Hence, some of the related previous works about Small Industries Development Bank of India have been studied by the researcher. Killare V.K (2012) in his article "Performance Evaluation and role of Rural Banks in rural development: special reference to SIDBI" examined the role of SIDBI in poverty alleviation and women empowerment and specified that there is a lack of synergy between technology seekers and technology developers and hence SSIs do not have the technical or financial resources to develop new technologies/products. Sudha Venkatesh and Krishnaveni Muthiah (2012) in their article, "SME in India: Importance and Contribution" focused on the supporting agencies of SMEs, contributions and problems of SMEs. They concluded that the support given by the national and state Governments to the SMEs is not adequate enough to solve their problems. However for the sector to fully utilize its potential, it is essential that the entrepreneurs along with the Government support take necessary steps for their development. M. Vijayaragunathan (2012), in his study, "Performance Evaluation of SIDBI", evaluated the lending and financial performance of SIDBI and suggested that SIDBI should diversify its lending operations to new lines of business such as setting up of Information Technology Industry Centres. Gobinda Deka and Jatindra Nath Saika (2011) in their paper, "Green Finance Green Entrepreneurship: Role of SIDBI in NER of India", highlighted the financial and other assistances provided by SIDBI particularly in NER of India. Bisman Jayne, Goela Neelam (2010), in their paper, "The Small Industries Development Bank of India: a retrospective to SME financing" examined the quantum of state-wise assistance provided by SIDBI to assess the distribution of finance support to SMEs on a comparative basis, across the more developed and less developed states of India. Kh.Dhiren meetei and Somasundari oirangthem (2012), in their paper, "Sidbi's Promotional and Developmental Activities in Northeastern Region (NER)" attempted to give a comprehensive overview of all aspects related to promotional and developmental activities provided by SIDBI in NER.

### 3. IMPORTANCE OF THE STUDY

MSME sector has lot of significance in the economic development of the country and SIDBI is playing a greater role in developing the MSME sector. The number of MSMEs functioning in the country as per the results of fourth All India Censuses(2006-07), in the registered and unregistered categories are 1.5 million(5.94%) and 24.55 million(94.06%) respectively(Anand Chakravarthi2012). The overall economic impact of SIDBI's operations during the first 10 years has been in terms of cumulative investment catalysed of the order of Rs.34,380 crore and fresh employment opportunity about 86 lakh persons (Vasant Desai 2001). In the present globalisation era, the Bank's direct finance to MSMEs is targeted at niche areas to address various financial gaps through specially designed products like risk capital, sustainable finance, factoring, invoice discounting, services sector financing, etc. The P&D initiatives of SIDBI have so far benefitted the MSME sector through setting up of over 1 lakh enterprises, which generated employment of around 3 lakh and benefitted around 4 lakh persons. As such, there is a felt need for the study to know the growth in the operation of the Bank in terms of the selected indicators.

### 4. STATEMENT OF THE PROBLEM

The core activity of the DFIs was project financing and accounted for a substantial share in their total sanctions and disbursements. With the introduction of the concept of Universal Banking, banks have entered into project finance and have been competing with DFIs. The sources of funds of DFIs have been affected adversely by withdrawal of concessional sources of funds and restrictions on raising short term funds of maturities less than one year. DFIs were forced to raise high cost funds directly relatively from under developed and long-term debt market. Established companies could fund industrial projects directly from the capital market in a cost –effective manner.

As DFIs faced competition from banks as well as capital market, they ended up financing riskier industrial projects and large-scale industrial projects carrying low returns and long gestation periods. During 1990s the share of debt decreased while equity increased. The share of DFIs in total loan finance declined during 1990s while the share of banks rose from the low level during 1985-90 by more than double during 1995-2001 thereby overtaking the position of DFIs in project finance. DFIs also faced mismatch of assets and liabilities, borrowing from market for 3-4 years and lending for projects with long gestation periods.

The sanctions and disbursements from DFIs, namely IDBI, IFCI, ICICI, SIDBI and IIBI reached a peak in 2001. Sanctions of that year were Rs.97,335 crore and disbursements Rs.59,448 crore. By 2007-08 only SIDBI was functional. The disbursement of loans sanctioned by SIDBI in 2007-08 were Rs.16,851 crore and disbursements Rs.15,073 crore; and guarantees sanctioned were Rs.29.5 crore and disbursements were Rs.24.9 crore, and the cumulative disbursement by the bank to the MSME sector since its inception in 1990 stood at Rs.2, 44,286 crore which has benefitted around 325 lakh persons. SIDBI primarily a refinancing institution its outstanding under indirect operation as on March 31, 2012, registered growth of 21 percent and stood at Rs.42,323 crore. In the light of these distinctive progress, it is found imperative to study the operations of SIDBI on the topic entitled, **“An analysis of key indicators of Small Industries Development Bank of India”**.

### 5. OBJECTIVES OF THE STUDY

1. To evaluate the physical and financial performance of SIDBI.
2. To make a comparative analysis of growth of SIDBI in its pre and post delink period.

### 6. HYPOTHESIS

The null hypothesis to be tested is that there is no significant difference among the growth rates of the indicators.

### 7. METHODOLOGY

The analysis of financial statements may give good account on the performance of the Bank. Its growth over the past years may be better and appear to do well on all parameters. However if the economy is at crisis it may not be prudent to take on the increasing exposure. Hence the status is carefully studied, with year-on –year growth percentage of the various indicators. Ranking Method is adopted to evaluate the yearly performance as well as the performance of the indicators over the period of 22 years. FRIEDMAN'S Test is employed to test the significance of difference in the growth rates of the indicators.

### 8. ANALYSIS AND INTERPRETATION

To arrive at the meaningful decision with regard to the overall performance, the year on year growth percentage of various ratios related to the profits, utilization of resources and the data relating to the conduct of the banking business over the life time of the Bank are put together in Table 1. It serve as the input data for the purpose of evaluation of overall performance.



TABLE 1: YEAR-ON-YEAR GROWTH PERCENTAGE OF PERFORMANCE INDICATORS

Year	No. of Offices	No. of staff	Reserves & Funds	Net Worth	Gross outstanding	Income	Profit before tax	Dividend	investments	interest	Interest/ average working fund	spread	Non Interest/ average working fund	Return on investment	Profit Per employee	Return on outstanding
1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	0	0.014	142.2	12.5	25.09	18.78	100	200	-3.03	18.68	5.02	76.09	133.3	79.1	100	5.71
3	7.4	11.65	79.82	13.15	12	33.39	50	67	15.63	32.47	12.19	56.79	100	26.67	35.71	3.64
4	6.7	4.5	53.57	15.06	21.34	26.22	25	20	312.4	25.26	4.79	9.45	57.14	4.61	21.05	0
5	6.45	10.15	54.49	20.34	10.23	17.37	48	80	13.11	17.41	0.3	43.17	0	21.38	26.08	26.67
6	3.03	11.09	43.87	21.28	12.07	13.5	36.65	0	0.12	13.8	2.63	42.21	-9.09	19.17	27.59	26.32
7	14.7	14.91	35.43	21.73	12.06	13.74	21.07	0	10.67	11.14	-0.89	17.31	120	11.3	5.41	8.33
8	0	5.39	89.4	62.45	5.56	9.14	28.16	25	27.36	1.85	-6.47	26.81	-18.18	17.58	20.51	23.08
9	0	4.53	19.52	16.26	10.47	12.07	11.11	0	-14.07	20.87	11.07	12.83	5.56	2.33	6.38	0
10	0	2	18.17	13.86	6.93	1.2	2	0	-10	4.33	4.41	12.42	-86.84	-6.49	0	-6.25
11	0	2.72	49.01	40.39	-18.87	0.001	3.92	0	-6.7	-0.18	7.22	-16.48	300	-1.38	10	10
12	7.69	3.02	5.84	4.77	-7.11	-3.6	-15.09	-25	148.1	-4.54	-3.84	-32.74	30	-17.96	-43.64	-36.4
13	9.52	1.41	4.13	-0.43	4.38	-9.94	-22.22	-20	7.63	-12.75	-14	-59.66	84.62	-23.18	29.03	-23.8
14	8.7	0	4.07	3.49	-23.61	-18.08	18.73	0	63.36	-19.3	-17.98	35.54	41.67	13.97	22.73	50
15	-8	-7.61	4.01	1.18	10.55	-17.64	-15.51	0	-11.58	-20.54	-37.66	-37.8	17.39	-17.16	3.7	-12.5
16	35	-4.87	4.57	3.62	29.49	1.69	19.62	50	-9.19	8.97	38.05	140.2	-61.11	19.05	17.86	-9.52
17	12.9	0	4.11	3.94	15.94	23.13	18.78	0	1.79	20.91	13.33	75.51	66.67	9.0	9.09	-2.11
18	4.29	11.1	2.54	6.24	26.05	37.99	-25.17	0	-60.89	33.78	20.65	36.28	94.29	-27.52	-38.89	-47.3
19	38.4	15.15	7.05	13.35	53.73	22.11	146.7	67	44.72	19.62	3.63	43.69	63.24	96.84	40.91	277.6
20	2.97	-0.86	5.98	5.05	21.76	22	4.34	0	-0.4	33.76	5.54	48.46	-63.06	-24.12	32.26	29.73
21	0	-0.77	7.53	6.54	28.94	52.24	0.23	0	33.13	55.17	-4.55	31.28	-39.02	-89.4	21.95	-23.1
22	-2.9	-0.48	7.84	7.02	16.79	19.13	-25.17	0	-60.89	33.78	20.65	36.28	94.29	-27.52	-38.89	-47.3

Source : Annual Reports of SIDBI from the year 1990-91 to 2011-12.

The years 1-12 refers to 1990-91 to 2011-12

The overall performance is evaluated as

- Evaluation of the yearly performance
- Evaluation of the indicators' performance

**8.1. EVALUATION OF THE YEARLY PERFORMANCE**

The overall performance of SIDBI over its life time is evaluated through the ranking method and the results are tabulated below as Table 2.

TABLE 2: RANKING OF YEAR-ON-YEAR GROWTH PERCENTAGE OF PERFORMANCE INDICATORS

Year	No. of Branches	No. of staff	Reserves & Funds	Net Worth	Gross outstanding	Income	Profit before tax	Dividend	investment	Interest income	Interest income\ Average working fund	spread	Non Interest income\ Average working fund	Return on assets	Profit per employee	Return on outstanding	Total ranking score	Rank of the year
1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	14	14	1	12	5	9	2	1	7	10	9	2	2	2	1	10	101	3
3	8	3	3	11	12	3	3	3	8	4	4	4	4	3	3	11	87	2
4	9	9	5	8	7	4	7	6	1	5	10	17	9	11	11	12	131	5
5	10	6	4	6	15	10	4	2	9	11	14	7	14	4	7	4	127	4
6	12	5	7	5	10	12	6	7	13	12	13	8	15	5	6	5	141	6
7	3	2	8	4	11	11	9	7	10	13	15	13	3	9	16	9	143	7
8	14	7	2	1	17	14	5	5	6	16	18	12	16	7	10	6	1546	9
9	14	8	13	7	14	13	13	7	20	7	5	15	12	12	15	12	187	15
10	14	12	10	9	16	17	16	7	18	15	11	6	21	15	18	14	218	17
11	14	11	6	3	20	16	15	7	16	17	6	18	1	14	13	8	185	14
12	6	10	15	16	19	18	18	9	2	18	16	19	10	17	20	19	232	18
13	5	13	17	21	18	19	20	8	11	19	19	21	6	18	5	18	238	19
14	6	15	19	19	21	21	12	7	3	20	20	10	13	8	8	2	204	16
15	16	20	20	20	13	20	19	7	19	21	21	20	11	16	17	16	276	20
16	2	19	16	18	2	15	10	4	17	14	1	1	20	6	12	15	172	10
17	4	15	18	17	9	5	11	7	12	6	3	3	7	10	14	13	154	8
18	11	4	21	15	4	2	21	7	21	2	2	9	5	20	19	20	183	12
19	1	1	13	10	1	6	1	3	4	8	12	6	8	1	2	1	78	1
20	13	18	14	2	6	7	14	7	14	3	8	5	19	19	4	3	156	9
21	14	17	12	14	3	1	17	7	5	1	17	11	18	21	9	17	184	13
22	15	16	11	13	8	8	8	7	7	9	7	14	17	13	13	7	173	11

Source: Annual Reports of SIDBI from the year 1990-91 to 2011-12.

The years 1-12 refers to 1990-91 to 2011-12.

With the results obtained as the total ranking score, mean and standard deviation, the life time period of 22 years is categorized into three namely super normal, normal and slow growth years and are shown in Table 3.

TABLE 3: OVERALL PERFORMANCE OF SIDBI

GROWTH	NUMBER OF YEARS	
	Pre Delink period	Post Delink period
SUPER NORMAL	2	1
NORMAL	7	8
SLOW	-	3

The two years of super normal growth of the pre delink period are 1991-92 and 1992-93. The one and only year of super normal growth in the post delink period is 2008-09 being the best year of performance over the life time of SIDBI. The three years of slow growth are 2001-01, 2002-03 and 2004-05.

## 8.2 EVALUATION OF THE INDICATORS' PERFORMANCE

The overall growth of the performance indicators is evaluated by ranking the growth rates of various indicators and is presented in Table 4.

TABLE 4: RANKING OF GROWTH RATES OF THE INDICATORS

Year	No. of Branches	No. of staff	Reserves & Funds	N.et Worth	Gross outstanding	Income	Profit Before Tax'	Dividend	investment	Interest income	Interest income\ Average working fund	spread	Non Interest income\ Average working fund	Return on assets	Profit per employee	Return on outstanding
1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	2	3	14	5	8	7	12	15	1	6	4	11	13	10	15	9
3	1	2	15	5	3	9	12	13	6	8	4	14	16	7	10	11
4	5	2	14	7	10	13	11	8	16	12	4	6	15	3	9	1
5	3	4	15	9	5	7	14	16	6	8	2	13	1	10	11	12
6	5	6	16	11	7	8	14	2	3	9	4	15	1	10	13	12
7	10	11	15	14	8	9	13	2	5	6	1	12	16	7	4	3
8	3	5	16	15	6	7	14	11	13	4	2	12	1	8	9	10
9	2	4	13	12	7	10	9	2	1	14	8	11	5	3	6	2
10	5	7	13	12	10	6	7	5	2	8	9	11	1	3	5	4
11	6	8	13	12	1	7	9	6	3	5	10	2	14	4	11	11
12	14	11	13	12	7	10	6	4	16	8	9	3	15	5	1	2
13	14	10	11	9	12	8	4	5	13	7	6	1	16	3	15	2
14	9	5	7	6	2	3	11	5	15	1	4	13	8	10	12	14
15	9	10	14	12	15	4	6	11	8	3	2	1	16	5	13	7
16	13	4	7	6	12	5	11	15	3	8	14	16	1	10	9	2
17	8	2	5	4	10	13	11	2	3	12	9	15	14	6	7	1
18	8	10	7	9	12	15	5	6	1	13	11	14	16	4	3	2
19	7	4	2	3	11	6	15	13	10	5	1	9	12	14	8	16
20	6	3	10	8	11	12	7	5	4	15	9	16	1	2	14	13
21	6	5	9	8	11	14	7	6	13	15	4	12	2	1	10	3
22	6	7	10	9	11	12	5	8	1	14	13	15	16	4	3	2
Total	142	123	239	190	179	185	203	160	143	181	130	240	200	129	188	139
Rank	12	16	2	5	9	7	3	10	11	8	14	1	4	15	6	13

Source : Annual Reports of SIDBI from the year 1990-91 to 2011-12.

The years 1-12 refers to 1990-91 to 2011-12

With the results obtained as the total ranking score with regard to the various indicators, analysis is made to test the significance of difference in the growth rates of the indicators with the help of FRIEDMAN'S Test. The null hypothesis to be tested is that there is no significant difference among the growth rates of the indicators.

The Friedman's test statistic is

$$F = \frac{12}{nk(k+1)} \left[ \sum_{j=1}^k R_j^2 \right] - 3n(k+1) \quad \text{Where,}$$

K= Number of samples =20

n=Number of observations for each sample=22

R<sub>j</sub>=Sum of ranks of j<sub>th</sub> sample (indicator)

The sampling distribution of 'F' can be approximated with X<sup>2</sup> distribution with k-1 degrees of freedom.

If the calculated value of F is less than or equal to the table value of X<sup>2</sup> at 5% level of significance, the growth rates of the indicators are considered statistically the same. In case the calculated value exceeds the table value, the difference is termed as significant.

The calculated value of F =1233.3

The Table value = 30.144

Since the calculated value of 'F' is greater than the table value of X<sup>2</sup> at 5% level of significance, it is concluded that there is significant difference in the growth rates of the indicators.

Based on the total ranking score of the indicators over the period of 22 years, overall ranks are allotted to the indicators. As such the top four ranked indicators are 'Spread', 'Reserves & Funds', 'Profit Before Tax', 'Non Interest income\ Average working fund' respectively. The least performed indicators are 'No. of staff', 'Return on Assets', 'Interest income to Average working fund', 'Return on outstanding' as they are in the last four positions.

## 9. FINDINGS

- SIDBI has shown a consistent growth rate in the pre delink period because of the initiation of the set of policy measures by the Government of India in August 1991.
- Its growth in the post delink period is inconsistent. This is due to the fluctuations in its performance during the economic stagnation period and recovered itself by the year 2008-09 through the implementation of the policy packages for MSMEs, announced by Government of India through the enactment of MSMEs Act 2006.
- Among the least performed financial indicators, 'Interest income to Average working fund', has performed well in the last year but conversely by Return on Assets during the last three years.

- 'No. of staff' is the physical performance indicator which has shown slow growth.
- Among the top performed indicators, 'Profit before Tax' had been showing a declining trend during the last three years.

## 10. RECOMMENDATIONS AND SUGGESTIONS

- Adequate steps are to be taken by SIDBI to improve the performance of its least performed financial indicators namely 'Return on Assets', 'Interest income to Average working fund', and 'Return on outstanding'.
- Measures are to be undertaken by SIDBI to improve the performance of profit before tax which has not been doing well in the last three years. This can be done by reducing its expenditure.
- The slow growth of 'No. of staff' is a positive sign but it must be in tune with the 'No. of branches'.
- Support given by the national and state Governments to the SMEs is not adequate enough to solve their problems. However for the sector to fully utilize its potential, it is essential that the entrepreneurs along with the Government support take necessary steps for their development.

## 11. CONCLUSION

SIDBI, in tandem with the overall policy measures of the Government of India and keeping in view the expectations of the sector, has been refining its strategies and putting in place new policies and programs for the development of the MSME sector. During the course of the 22 years of its operation, the Bank has been fairly successful in facing the challenges while assisting the sector and, in the process, has emerged as a strong and vibrant institution. The sector to fully utilize its potential, it is essential that the entrepreneurs along with the Government support take necessary steps for their development.

## 12. LIMITATIONS

The study is compiled of only secondary data obtained from the annual reports of SIDBI. Hence the study carries the defects of the analysis of financial statements and the change in disclosure format from time to time put constraints on ability to compare.

## 13. SCOPE FOR FURTHER RESEARCH

Based on the limitations of the study, further study can be undertaken to compare the performances of the Bank between the periods wherein there is deregulation, redevelopment of financial products etc. The operational performance of the Bank can be studied with the quantum of purpose wise, industry wise, state wise assistances and assistance in Backward and Non backward areas.

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