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## WORKING CAPITAL MANAGEMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN MANIPUR- AN EMPIRICAL STUDY

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### ABSTRACT

*The Micro, Small and Medium Enterprises (MSMEs) are playing a very important role in the economic development of our country. The MSMEs are the second major contributor to the industrial economy. The distinguishing features of MSMEs lie in its potential for creation of gainful employment and specially self employment opportunities to the youths. Working capital is the amount of funds which is required for the day-to-day operations of every enterprise. Efficient management of working capital is one of the pre-conditions for the success of an enterprise. Inadequate working capital has the potential to disrupt operations of a well-managed business enterprise, while excess working capital has an adverse impact on the profitability of the enterprise. Thus, the management of working capital is an integral part of business finance for the MSMEs. In this study, an attempt is made to examine the various aspects of working capital management of MSMEs in Manipur selected for this purpose. And we have selected a sample of 100 units to analyze and examine the management of various components of working capital viz. inventories, cash and account receivables.*

### KEYWORDS

Working Capital, Potential, Dimension, Investment, Development.

### INTRODUCTION

With the increase of economic development associated with the pace of industrial growth and its activities, the need for the development of Micro, Small and Medium Enterprises (MSMEs) earlier known as Small-Scale Industries in India has been the objective of the Government, since independence. Over the years, Micro, Small and Medium Enterprises have gained increasing significance in the economic development of our country. They have achieved a high degree of sophistication and made significant progress in quality up gradation and standardization.

Beginning with simple consumer goods like soap, detergents, leather goods, etc. the micro, small and medium enterprises have made strides and now entered into sophisticated fields of production including electronics and electro-medical devices, ITs. Etc. The importance of Small Scale Industries (SSIs), presently MSMEs was specifically spelt-out in the Industrial Policy Resolution dated 6<sup>th</sup> April, 1948. And Section 4 of the New Industrial Policy of Manipur 2002. These industries are particularly suited to the better utilization of local resources and for the achievement of local- self sufficiency in respect of certain types of essential consumer goods.

The distinguishing characteristics of the MSMEs lie in its potential for creation of gainful employment and specially self-employment opportunities which is engaged in the processing, preserving, manufacturing or servicing activities including of all those modern manufacturing and repairing units. In fact, the MSMEs are the second major contributor to the industrial growth of our country. Thus, the significance of MSMEs as one of the keys to rural development hardly needs to be emphasized. Where the motivation of development is present among the rural population, the MSMEs acts as a stimulant, where motivation is lacking, it acts as a lubricant.

### MICRO SMALL AND MEDIUM ENTERPRISES (MSMEs)

The Government of India passed in June 2006 an Act regarding the Micro Small and Medium Enterprises. This Act came to be known as the Micro Small and Medium Enterprises Development Act, 2006 (MSMEDA).

The Act defines the MSMEs by the level of Investment in Plant and Machinery (P&M) as follows:

Micro Manufacturing	: Investment in Plant and Machinery less than Rs. 25 lakhs
Micro Service	: Investment in Plant and Machinery less than Rs. 10 lakhs
Small Manufacturing	: Investment in Plant and Machinery less than Rs. 5 crore
Small Service	: Investment in Plant and Machinery less than Rs. 2 crore
Medium Enterprises Manufacturing	: Investment in P&M Less than Rs. 10 crore
Medium Enterprises Service	: Investment in P&M less than Rs. 5 crore

### WORKING CAPITAL MANAGEMENT

The term working capital is particularly appropriate expression for denoting the wealth of an enterprise, which is continuously revolving through the stages most desired by the customers (inventories) and the firm (cash). The intervening stage (account receivable) identifies the current relationship between the firm and its customers. Almost every activity of business or everything that happens in the business is related to working capital decision. The problem of managing working capital has got a separate entity as against different decision-making issues concerning current assets individually. The skills for working capital management are somewhat unique, though the goals are the same as in managing current assets individually, viz. to make an efficient use of funds for minimizing the risk of loss to attain profit objectives. Hence, working capital management is concerned with the problems that arise and inter-relationship that exist between them.

### IMPORTANCE OF THE STUDY

Entrepreneur needs cash to buy raw materials and put the raw materials into production process. The goods so produced are either sold for cash or on credit. After a disposal of the turnover, cash is again needed for buying and manufacturing purposes. Under the manufacturing process raw materials are to be purchased and wages are to be paid. Thus, it enlightens the necessity of working capital and therefore, sufficient working capital is necessary to sustain sales

activity. The management of working capital has assumed added significance in respect of MSMEs in India in general and Manipur in particular, as the most of the firms/units/enterprises have weak financial base and limited access to financial institutions to supplement their scarce resources.

No significant and comprehensive study as well as enquiry into the functioning of all the various aspects of MSMEs and its policies of working capital management in Manipur, has been done before as well as experienced over the entire plan period. Hence, the present study on the "Working Capital Management of MSMEs in Manipur" is an attempt to fill up the gap.

The Micro Small and Medium Enterprises have been accorded a vital role by the Government of India for achieving socio-economic objectives. The proper calculation and maintaining of the working capital provides the business the right amount of cash to maintain regular flow of its operation and enhances the credit of the concern.

## LITERATURE REVIEW

National Council of Applied Economic Research (1966) conducted a study entitled "Structure of working capital" with special reference to three industries, namely fertilizers, cement and sugar. This study was mainly devoted to the analysis of composition of working capital in these industries for the period 1959 to 1963. However, NCAER failed to put into sharp focus the various components of working capital.

Ram Kumar Mishra (1975) made a study at the University of Rajasthan under the title "Problem of working capital" with special reference to public enterprises during the period 1960-61 to 1967-68. No doubt, the basic issues outlined in Dr. Mishra's study and finding therein are relevant to many of the units in the public sector even today, but due to the functional and structural changes that public enterprises have witnessed in the post- 1968 era, a repeated effort on a different sample is called for to bring the prescriptions up to date.

Dr. N.K. Agrawal (1977) made a study at the University of Delhi on the "Management of Working Capital" in respect of certain large manufacturing and trading public limited companies. The sample of this study covered 34 companies in all and related to the period 1966-67 to 1973-74. Dr. Agrawal observed that although most of the companies were making use of modern techniques in the areas of inventory, receivables and cash management, there appeared a sufficient scope for reduction in investments in almost all the segments of working capital.

Rajeswara Rao thoroughly examined the managerial aspects of inventories, receivables and advances and cash of certain central public enterprises in India. The study revealed that inventories formed a major proportion of total current assets investment which recorded 63% in 1971-72 and 66% by 1976-77 in the public sector. The inventory of finished goods proportion had been increasing year after year. He pointed out that the policies of public enterprises for achieving the working capital objectives were not clearly defined. His impression is that the prudent management of working capital shall be recognized as an important area for the enterprises studies.

Jain, Yadav and Surendra made a study on working capital management practices of public sector enterprises in India. This study was based on an analysis of 13-year period data from 1991 to 2003 of 137 public sector enterprises and stated that, a business organization has to be conscious that inadequate working capital can disrupt its operations and may lead to illiquidity. At the same time excessive working capital is also not desirable since it adversely affects profitability.

Burgstahler and Dichev (1997) found evidence that two components of earnings, viz., cash from operations and working capital changes can be used effectively to manage earnings and increase them.

Deloof, M. (2003) posits that managers can increase profitability by reducing the number of days of accounts receivables and inventories.

Banomyong (2005) highlighted that a company with a lower cash conversion cycle is more efficient because it turns its working capital over more number of times in a year, which means that it generated more sales per unit of money invested in working capital management.

Gupta (2010) highlighted that better working capital management can significantly help companies to improve their growth rates vis-à-vis competitors and ultimately increase the wealth of their shareholders.

All the above studies provide us a solid base and give an idea regarding working capital management and its components. They also give us the results and conclusions of those researches conducted on the same area for different countries and environment from different aspects. On the basis of these researches done in different studies, we have developed our own methodology for research.

## OBJECTIVE OF THE STUDY

In order to bring out the clear analysis of the working capital and functioning of Micro Small and Medium Enterprises in Manipur, the specific objectives of the present study is to analyze and examine the management of inventories, management of cash and management of account receivables with some findings and conclusions.

The management of working capital is one of the important aspects of overall financial management. Since Manipur remains mainly as a state of small scale production, it is necessary to analyze the issues concerning working capital to the possible extent. The present study which covers the various dimensions and aspects of working capital management in MSMEs in Manipur examines how far the objectives of the MSMEs are fulfilled, accelerated or weakened of financial assistance and assessing the regional gap.

And this empirical study highlights the working capital management of selected 100 MSMEs/ units in Manipur and the components of working capital have been intensively examined with the help of different accounting and statistical techniques such as ratios, averages and percentages, etc.

## METHODOLOGY ADOPTED

To analyze and evaluate the objective of the present study primary data from the sample units were collected by the researchers through personal interviews, on the basis of a pre-tested structured Questionnaire in all the 9 districts of Manipur namely Imphal East, Imphal West, Senapati, Churachandpur, Tamenglong, Chandel, Thoubal, and Bishenpur. Here, Imphal East and Imphal West districts were combined together as 'Imphal' district. Keeping in view of this 100 units were collected from the District Industries Centres(DICs) Manipur, registered Small Industries Development Organization( SIDO) and secondary data for the present study were collected through various records from the publications and bulletins of District Industries Centres (DICs), Department of Industries, Government of Manipur, Manipur industrial Development Corporation ( MANIDCO), Industrial Development Bank Of India ( IDBI), National Small Industrial Development Corporation ( NSIC), Planning Department Government of Manipur, Economics and Statistics Department, Government of Manipur, Information and public Relations, Government of Manipur and also from different Financial Institutions in the state.

The study has come out with the findings and suggestions, which may be of practical advantage to various Micro Small and Medium Enterprise units in Manipur, in managing their working capital effectively and efficiently to sustain the liquidity as well as profitability position of the selected sample units. Since the main components of the working capital management are management of cash, management of Account Receivable and management of Inventories. The analysis of these parameters in the selected sample units in Manipur is present in the following paragraphs.

## SELECTION OF SAMPLE UNITS

The Researcher has selected 100 units (MSMEs) for sample survey from each and every districts of Manipur through the concerned General Manager of the District Industry Centre, which were working smoothly or properly in Manipur. And the selected sample units are categorized in the following manner (depicted in Table-1).



**TABLE - 1: SELECTED SAMPLE UNITS (NO. OF UNITS FOR EACH DISTRICT)**

Sl.No.	INDUSTRY GROUP	IMP	UKL	SPT	CCP	TML	CDL	TBL	BPR	Total	Total in P.C.
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
1.	Engineering and Metal Based Industries	10	02	03	03	03	03	03	04	31	
2.	Printing and Publishing	02	01	00	02	01	00	01	02	09	
3.	Agro Based Industries	02	01	00	01	02	03	02	02	13	
4.	Ready Made and Garment	02	02	03	02	03	02	01	02	17	
5.	Forest Based Industries	03	02	04	02	02	05	05	04	27	
6.	Miscellaneous (including Brick fields, Hotel Keeping, Bee Keeping etc.)	01	00	01	00	00	00	01	00	03	
		20	08	11	10	11	13	13	14	100	

Source: Compiled personally from questionnaire.

Note: IMP = Imphal (East + West) UKL = Ukhrul, SPT = Senapati, CCP= Churhandpur, TML = Tamenglong CDL = Chandel, TBL = Thoubal, BPR= Bishnupur

**TABLE – 2: DISTRIBUTION OF SAMPLE UNITS BY TOTAL INVESTMENT**

Sl.No.	INVESTMENT GROUP(in Rs.)	IMP	UKL	SPT	CCP	TML	CDL	TBL	BPR	TOTAL
1.	2	3	4	5	6	7	8	9	10	11
1.	BELOW 10	0	0	0	0	1	1	0	1	03
2.	10-20	0	1	3	1	6	2	2	3	18
3.	20-30	1	2	3	1	1	2	2	1	13
4.	30-40	2	2	2	0	1	2	1	1	11
5.	40-50	2	2	1	1	0	1	1	1	09
6.	50-60	1	1	1	1	0	2	2	2	10
7.	60-70	1	0	0	1	1	1	0	0	04
8.	70-80	0	0	1	2	1	1	0	0	05
9.	80-90	2	0	0	1	0	0	1	1	05
10.	90-100	2	0	0	2	0	1	2	0	07
11.	100 & above	09	0	0	0	0	0	2	4	15
	<b>Total</b>	<b>20</b>	<b>08</b>	<b>11</b>	<b>10</b>	<b>11</b>	<b>13</b>	<b>13</b>	<b>14</b>	<b>100</b>

Source: Compiled personally from questionnaire.

Note: Rupees in thousand ranges.

Working Capital analysis has acquired significance primarily because the investment in current assets bears a direct relation with the growth in sales. Out of 100 units selected, there were 15 units in the investment groups of above Rs. 100 thousand which was the highest category of this range of investment group with the second highest number of units. The lowest number of units was found in the total investment range of below Rs. 10 thousand to the extent of only 3 units (depicted in Table -2).

In the present study, only 70 units could secure loans from the Financial Institutions like MANIDCO, UBI, SBI, PNB, NSIC, AFC, etc. and the remaining 30 units were not aware of the loan facilities which are shown in Table- 3.

**TABLE-3: VARIOUS INSTITUTIONS PROVIDING LOANS TO THE SAMPLE UNITS**

Sl. No	Districts	MANIDCO	MRB	UBI	SBI	PNB	NSIC	URBAN BANK	DIC	AFC	Total	No Response
1.	Imphal	09	01	03	02	01	02	00	00	01	19	01
2.	Ukhrul	00	00	01	01	00	00	00	03	00	05	03
3.	Senapati	00	00	02	00	00	00	01	03	00	06	05
4.	C.C.Pur	00	00	02	00	00	02	00	01	00	05	05
5.	TamIng.	00	00	00	01	00	00	00	04	00	05	06
6.	Chandel	00	00	04	00	00	00	00	05	00	09	04
7.	Thoubal	04	00	04	00	00	01	00	02	00	11	02
8.	Bshnpr.	03	00	01	00	00	00	00	06	00	10	04
	<b>Total</b>	<b>16</b>	<b>01</b>	<b>17</b>	<b>04</b>	<b>01</b>	<b>05</b>	<b>01</b>	<b>24</b>	<b>01</b>	<b>70</b>	<b>30</b>
	<b>Total in p.c.</b>	<b>22.85%</b>	<b>1.43%</b>	<b>21.43%</b>	<b>5.72%</b>	<b>1.43%</b>	<b>7.14%</b>	<b>1.43%</b>	<b>37.1%</b>	<b>1.43%</b>	<b>48.6%</b>	<b>3 %</b>

Source: Personal Field Survey.

Note: MRB = Manipur Rural Bank, UBI = United Bank of India, SBI = State Bank of India, PNB = Punjab National Bank, NSIC= National Small Industries Corporation, DIC= District Industries Centre, AFC= Assam Financial Corporation

The purpose for keeping cash balance by the sample units ( Table No.4) as revealed by the study that only 29 units hold cash balance to meet their current obligations followed by 18 units and 16 units hold the cash balances to meet their contingencies as well as for other purposes. Only 09 units were keeping their cash in order to make available of their advantages accruing through price changes/ fluctuations.

TABLE – 4 PURPOSE FOR KEEPING CASH BALANCE

Sl.No.	District	To meet current obligation.	To meet contingencies	To take advantage in percentages	Any other purpose	No Response	Total
1.	Imphal	05	04	04	02	05	20
2.	Ukhrul	03	02	01	01	01	08
3.	Senapati	04	03	01	02	01	11
4.	C.C.Pur	03	01	00	01	05	10
5.	Tamenglong	04	02	00	03	02	11
6.	Chandel	05	02	00	02	04	13
7.	Thoubal	03	02	00	04	04	13
8.	Bishenpur	02	02	03	01	06	14
	Total	29	18	09	16	28	100
	Total in p.c.	29 %	18%	9%	16%	28%	100.00

Source: Field Survey.

The Statistical evidence on the procedures adopted by the selected units for their collection of debts accounts revealed that compromise and persuasion as well as writing reminders appears to be the main strategy of the sample units, which shows 30 units and 27 units in respect of compromise and persuasion as well as writing reminders ( depicted in table No. 5)

TABLE-5: COLLECTION OF CREDIT INFORMATION FOLLOWED BY SAMPLE UNITS

Sl.No.	District	Writing Reminders	Compromise & Persuasion	Collection Agent	Legal Action	No Response	Total
1.	Imphal	06	03	04	01	06	20
2.	Ukhrul	03	01	01	00	03	08
3.	Senapati	04	03	00	00	04	11
4.	C.C.Pur	02	05	01	00	02	10
5.	Tamenglong	01	05	01	00	04	11
6.	Chandel	04	02	00	02	05	13
7.	Thoubal	05	04	01	01	02	13
8.	Bishenpur	05	04	01	02	02	14
	Total	30	27	09	06	28	100
	Total in p.c.	30%	27%	9%	6%	28%	100.00

Source: Field Survey.

The maximum level of inventory maintained by the various units is approximately 15% only to take the advantage of opportunity cost. Out of 100 units, 56 units and 23 units prepared the inventory report monthly and quarterly respectively. And 40 units could not supply the information due to certain reasons. This is shown in table – 6.

TABLE- 6: FREQUENCY OF INVENTORY REPORT IN THE SAMPLE UNITS

Sl.No.	Districts	Monthly	Quarterly	Half-Yearly	Yearly	No Response	Total
1.	Imphal	07	05	00	03	05	20
2.	Ukhrul	02	01	00	01	04	08
3.	Senapati	05	02	01	00	03	11
4.	C.C.Pur	04	02	01	02	01	10
5.	Tamenglong	03	00	00	04	04	11
6.	Chandel	05	02	01	01	04	13
7.	Thoubal	04	02	00	03	04	13
8.	Bishenpur	06	03	01	01	03	14
	Total	36	17	04	15	28	100
	Total in p.c.	36%	17%	4%	15%	28%	100.00

Source: Field Survey.

**FINDINGS**

The present study is related to the efficient management of working capital in MSMEs in Manipur (100 Units have been selected). Working Capital analysis has acquired significance primarily because the investment in current assets bears a direct relationship with rate of growth in sales. Failure to prepare comprehensive financial plan is one of the main causes for the sickness of some industries. In the survey it was found that even banks / financial institutions have financed to the MSMEs indiscriminately to achieve their targets either in pressure or with over enthusiasm, without an adequate and critical evaluation of the project/ units. Most of the times feasibility report is not prepared by many units and sometimes reports depict a rosy picture to satisfy the requirements of the lending institutions.

The list of debtors prepared by the Units did not indicate the length of the period for which different accounts had remained unpaid after the due dates, but according to the length of period they remained unclear. Hence, the entrepreneurs should follow a clear-cut debtor’s collection procedures to speed up the collection of dues from the debtors.

The availability of raw materials at the subsidized rate through the Govt. agencies found most irregular and uncertain. Many of the units seldom prepared the inventory reports as they do not have the sound knowledge of inventory management..

## CONCLUSIONS AND SUGGESTIONS

Entrepreneurs need cash to buy raw materials and put the raw materials into production process. The goods so produced are either sold for cash or on credit. After a disposal of the turnover cash is again needed for buying and manufacturing purposes. In the manufacturing process raw materials are to be purchased and wages are to be paid. Thus, it enlightens the necessity of Working Capital .To conclude sufficient working capital is necessary to sustain sales activity and growth of the entrepreneurs.

Therefore, while sanctioning loan for a unit, the qualities of the entrepreneurs like risk-taking, organizing ability, competence, integrity, honesty, creativity, and so on must be X-rayed. Further, the entrepreneurs should actively participate in the short-term training programmes in the area of Finance, Marketing, Production, Planning to update their knowledge. They should chalk out to forecast the requirements of various types of raw materials and stores and spares on continuous basis to run the production operation smoothly and efficiently. And in order to improve competitive base and resources, joint marketing programmes should be undertaken properly with standardized and identified trademarks

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