

# A Case Study of MSMEs and their Credit Repayment Pattern

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## Abstract

*A Country like India can only sustain its development on these sectors. In the recent past, the changes that took place are evident enough that the MSMEs have again gained its lost paradise. This sector again proved to be a significant one in providing pace to rapidly increasing Indian Mass and the Economy. This is because of their capacity to promote entrepreneurial skills, and their ability to be swiftly adaptable to a changing market, and to generate new jobs. The relationship between entrepreneur characteristics and firm repayment performance has received a lot of focus in recent times. The factors which form the character and behaviour of the entrepreneur are crucial internal capacities that impact on firm repayment performance as the rate of MSMEs failure in developing countries as well as developed countries is alarming. But, it is very important to quote here that the most of the promoters of MSMEs face financial crunch throughout the country. Finance has been an important ingredient in MSMEs development as well as national development. The implications of this study are that specific policy measures are necessary to encourage the many well trained but unemployed young people to engage in businesses. Additionally it also implies that specific training programs are necessary to equip the practitioners with necessary theoretical and practical capacities to enhance performance of their firms.*

**Keywords :** MSMEs, Credit Repayment Pattern, Entrepreneur

**Classification-JEL :** G 01, G 32, L 10.

## 1. INTRODUCTION

Since the independence of India in 1947, the government has ever stressed upon planned development of agriculture and Micro, Small and Medium Enterprises. As it is evident through various government reports and research studies that both of these sectors are highly labour intensive and production performer. A Country like India can only sustain its development on these sectors. In the recent past, the changes that took place are evident

enough that the MSMEs have again gained its lost paradise. This sector again proved to be a significant one in providing pace to rapidly increasing Indian Mass and the Economy. This is because of their capacity to promote entrepreneurial skills, and their ability to be swiftly adaptable to a changing market, and to generate new jobs. The relationship between entrepreneur characteristics and firm repayment performance has received a lot of focus in recent times. The factors which form the

character and behaviour of the entrepreneur are crucial internal capacities that impact on firm repayment performance as the rate of MSMEs failure in developing countries as well as developed countries is alarming. But, it is very important to quote here that the most of the promoters of MSMEs face financial crunch throughout the country. Finance has been an important ingredient in MSMEs development as well as national development.

The failure of MSMEs are sometimes blamed on the operational techniques of its promoters and their characteristics. It is up to an extent true, when a MSME gets fail, it has multiple effects on employment of the staff, on Overall exploitation of resources and on the reproduction. And, on the financial institutions who have provided the credit.

And, largely, it impacts basicly on the credit repayment performance of MSMEs.

Therefore, the present research paper throws a light on the operational Excellence of MSMEs and their credit repayment pattern".

## 2. OBJECTIVE OF THE STUDY

Any research whether it is a report, a survey, a thesis or a paper is null & void, if objective on the study is absent in any form. Here, the purpose or objective of the study is –

“To evaluate the relationship between operational excellence of MSMEs' promoters and credit repayment pattern.”

## 3. HYPOTHESIS OF THE STUDY

The following Alternative hypothesis is formulated for the present research paper-

“Credit repayment pattern is dependent on the characteristics of the promoter of MSME.”

## 4. RESEARCH METHODOLOGY

### a) Area of the Study

The present research study is a brief piece of research work, therefore a small industrial area, consisting MSMEs, was selected for the study. As the native

district of author is an old industrial city. Therefore, the sports and games industrial units of Meerut have been the sample of Research study.

### b) Sample

As it 's clear in early lines, a total of 25 such units were surveyed. All the units belong to sports and games item manufacturing.

### c) Questionnaire

A survey questionnaire was prepared to collect the responses. The responses so collected were tested through percentile and chi-square.

## 5. REVIEW OF LITERATURE

A review of literature is conducted to indentify and summarize the published and unpublished research work of the other researcher. This way the present researcher can set its goal for its study. Review of literature also sets a limit about the issues on which the work has been done.

Although a number of Indian and foreign writers and authors has quoted on MSME BUT, some important ones are being named here-

Kristiansen, Furuholt and Wahid (2003), Khayesi (2009), Momohan (2001), Charney and Libecap (2000).

## 6. CREDIT REPAYMENT PERFORMANCE OF THE SELECTED SPORTS AND GAMES MSMEs OF MEERUT

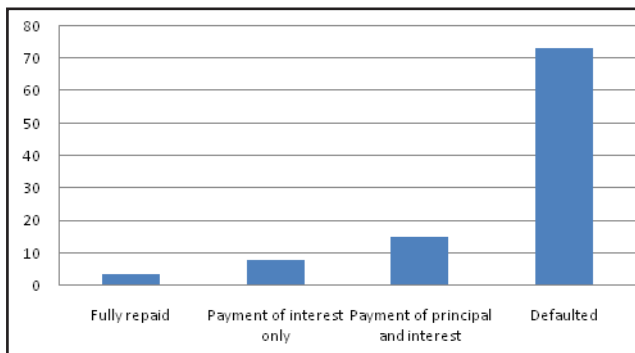
**Table 1 : Repayment position of Small and Medium enterprises**

| Repayment performance             | Number of units | Percentage of enterprises |
|-----------------------------------|-----------------|---------------------------|
| Fully repaid                      | 4               | 8                         |
| Payment of interest only          | 8               | 16                        |
| Payment of principal and interest | 36              | 72                        |
| Defaulted                         | 2               | 4                         |
| <b>Total</b>                      | <b>50</b>       | <b>100.00</b>             |

Source : Primary data.

The repayment performance of select MSMEs is shown in Table 1 and Graph 1. It is observed that 72 per cent of the enterprises are paying both principal and interest to banks and financial institutions, while 8 per cent have fully repaid the loan amount. The enterprises who on account of their poor performance paid only interest are 16 per cent and 4 per cent of enterprises have defaulted.

**Graph No. 1 Repayment Performance of SMEs**



In order to analyze in a better manner, the repayment factors are divided into three namely borrower, firm and lender characteristics. The studies show that when a loan is not repaid, it may be a result of the borrowers unwillingness or inability to repay. Similarly collateral requirements and sufficiency of loan amount also are important factors that have significance over the repayment behaviour.

**7. BEHAVIOUR OF ENTREPRENEURS**

It is evident from Table 2 that, 100 per cent of the entrepreneurs who received a training from the various agencies and FIs are repaying credit promptly with no delay or fail. Among the entrepreneurs who are not trained 70 per cent have repaid interest and principal, 17 per cent repaid only interest and 9 per cent being fully repaid the loan. 4 per cent entrepreneurs are defaulters from this segment. This shows that the entrepreneurs who have undergone training are able to repay better than compared to those who have not under taken any training program.

In order to access the association

between training undergone by the entrepreneur and repayment performance the  $\chi^2$  value at 5 per cent significant level with 3 degree of freedom and 'P' value were calculated. As the calculated value of  $\chi^2$  5.381 is less than the table value of 7.81 and the 'P' value 0.146 is more than 0.05, it can be concluded that there is no significant association between training undertaken by entrepreneur and repayment performance.

Hence, the null hypothesis that “Credit repayment Pattern is not dependent on the characteristic of entrepreneur” is accepted and it is concluded that entrepreneurs without any adequate training will also repay credit to financial institutions and hence there is no relation between training attended by borrower and loan repayment performance of the enterprises.

**Table 2 Association between training attended by entrepreneur and repayment performance**

| Training | Fully repaid | Payment of interest only | Repayment of interest and principal | Defaulted | Total    |
|----------|--------------|--------------------------|-------------------------------------|-----------|----------|
| Yes      | 0 (0)        | 0 (0)                    | 13 (100)                            | 0 (0)     | 13 (100) |
| No       | 9 (9)        | 17 (17)                  | 69 (70)                             | 4 (4)     | 99 (100) |

Source: Primary data, Note: Figures in the parenthesis are percentage to total Pearson chi-square value  $\chi^2$  5.381, df=3, p value = 0.146

**8. EXPERIENCE OF ENTREPRENEUR**

It is evident from that the study the higher percentage of credit repayment is done to the financial institutions by the more experienced entrepreneur. Whereas, defaulters are Those entrepreneurs who are less experienced. Here, it is also noted that all the defaulters have a experience of less than 10 years. The figures are shown in the below table.

Table 3 shows the association between experience of entrepreneur and repayment

performance the  $\chi^2$  value at 5 per cent significant level with 9 degree of freedom and 'P' value were calculated. As the calculated value of  $\chi^2$  33.194 is more than the table value of 16.9 and the 'P' value 0.000 is less than 0.05, it can

be concluded that there is significant association between experience of entrepreneur and repayment performance. It could be concluded from the study that as older the enterprise, its repayment performance will improve significantly.

**Table 3**  
**Association between experience of entrepreneur and repayment performance**

| Experience of the entrepreneur | Fully repaid | Payment of interest only | Repayment of interest and principal | Defaulted | Total    |
|--------------------------------|--------------|--------------------------|-------------------------------------|-----------|----------|
| Less than 5 yrs                | 0 (0)        | 6 (50)                   | 5 (42)                              | 1 (8)     | 12 (100) |
| 6-10 yrs                       | 0 (0)        | 4 (15)                   | 20 (74)                             | 3 (11)    | 27 (100) |
| 11-15 yrs                      | 4 (26)       | 3 (20)                   | 8 (54)                              | 0 (0)     | 15 (100) |
| Above 15 yrs                   | 5 (9)        | 4 (7)                    | 49 (84)                             | 0 (0)     | 58 (100) |

Source: Primary data, Note: Figures in the parenthesis are percentage to total  
Pearson chi-square value  $\chi^2$  5.381, df=3, p value = 0.146

Hence the null hypothesis that loan repayment is not dependent on entrepreneurs experience is rejected and it is concluded that experience of borrowers has significant impact on repayment performance of loan to financial institutions and hence there is relation between experience of entrepreneur and loan repayment performance of the enterprises.

## 9. CONCLUSION

The borrower's characteristics and its relationship towards repayment performance and its determinants were discussed in this study. It is concluded that firm repayment performance is significantly affected by entrepreneur characteristics of qualification and

experience and does not has any effect from skillful training and gender of entrepreneur. Firms run by relatively young, well-experienced and skillful entrepreneur's record better performance. It is essential, therefore, that MSMEs asses and match their planned decision with traits of owners and managers to enhance their competitiveness and performance. The implications of this study are that specific policy measures are necessary to encourage the many well trained but unemployed young people to engage in businesses. Additionally it also implies that specific training programs are necessary to equip the practitioners with necessary theoretical and practical capacities to enhance performance of their firms. ●

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