

Small Industrial Development Bank of India (SIDBI): Its role in Financing and Development of Industries

* MNN Appaji, # J Krishnam Raju

*Assistant Professor, AKNU Campus, Tadepalligudem,

#Assistant Professor, AKNU Campus, Tadepalligudem
mnnappaji@gmail.com , kr.research@yahoo.com

Abstract

Small Industries Development Bank of India is an independent financial institution aimed to aid the growth and development of micro, small and medium-scale enterprises (MSME) in India. It was set up on April 2, 1990 through an act of parliament; it was incorporated initially as a wholly owned subsidiary of Industrial Development Bank of India. Currently the ownership is held by 33 Government of India owned and controlled institutions. Beginning as a refinancing agency to banks and state level financial institutions for their credit to small industries, it has expanded its activities, including direct credit to the SME through 100 branches in all major industrial clusters in India. It is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities. The Role of SIDBI in Financing and Development of industries in recent years is presented in this paper. This paper Discuss the role of Direct and indirect financial Assistance schemes of SIDBI in industrial development.

Keywords: SIDBI, Direct finance schemes, indirect finance schemes, MSME sector, Small Scale Industries.

Introduction

The Small Industries Development Bank of India (SIDBI) was established as the principal financial institution for the promotion, financing and development of industry in the small scale sector and to co-ordinate the functions of the institutions engaged in the promotion and financing or developing industry in the small scale sector and for matters connected. Established on April 2, 1990 by an act of parliament Principal Development Financial Institution for:

- Promotion
- Financing
- Development of MSME sector
- Co-ordination of Institutions involved in similar activities

SIDBI Head Office at Lucknow with 15 Regional Offices and Branch Offices in all the States.

The business domain of SIDBI consists of MSMEs, which contribute significantly to the national economy in terms of production, employment and exports.

1) Its Functions are:

- A) SSI units for new/ expansion/ diversification/ modernization projects.
- B) Marketing development projects which expand the domestic and international marketability of SSI products.
- C) Existing well run SSI units and ancillaries/ subcontracting units/ vendor units for modernization and technology up gradation.
- D)) Infrastructure development agencies for developing industrial areas.

2). It provides Foreign Currency Loan to:

- A) Import equipment by existing export oriented SSIs and new units having definite plans for entering export markets.
- B) Execute confirmed export orders by way of pre-shipment credit/letter of credit and provides post shipment facilities.

3). SIDBI's Venture Capital Fund provides assistance to:

Small scale entrepreneurs using innovative indigenous technology and expertise

SIDBI refinances:

A) Loans granted for new SSI projects and for expansion, technology, up gradation, modernization, quality promotion.

B) Loans sanctioned by SIDBI to small road transport operators, qualified professionals for self employment, small hospitals and nursing homes, and to promote hotel and tourism related activities.

Indian MSME Sector an overview

The MSME sector contributes to economic growth, entrepreneurship development, financial inclusion and employment creation.

- o No. of MSMEs – > 30 million
- o Second largest source of employment - > 70 million
- o Contributes 45% of manufacturing output and 40% of exports

Consistently higher growth – at > 11% even during crisis period – higher than industrial and overall economic growth.

Classification of MSME'S**➤ MANUFACTURING ENTERPRISES**

(Investment in plant and machinery)

- o Micro Enterprises up to Rs. 25 lakh
- o Small Enterprises up to Rs. 500 lakh
- o Medium Enterprises up to Rs. 1000 lakh

➤ SERVICE ENTERPRISES

(Investment in equipment)

- o Micro Enterprises up to Rs. 10 lakh
- o Small Enterprises up to Rs. 200 lakh
- o Medium Enterprises up to Rs. 500 lakh

▶ Micro Finance sector

- o Through Micro Finance Institutions

Business Model of SIDBI:

Addressing financial gaps and non-financial gaps with the purpose of facilitating higher credit flow to the MSME sector and to make the sector strong, vibrant and competitive in future.

Financial Gaps – Niche Products

- Equity funding, mezzanine finance and risk capital.
- Financing sustainable development - energy efficiency, Environment friendly projects.
- Up scaling receivable finance.
- Secured Business Loan.
- Financing service sector projects.
- Continue indirect finance especially to

RRBs / NBFCs / Factoring companies / other channel partners like NEDFi, UCBs etc.

Non-Financial Gaps – Proposed Initiatives

- Remove Informational Asymmetry
- Small B. in – useful for entrepreneurs for setting up units

- Showcase technologies by research institutes
- Guidance in project appraisal and disbursement
- Preparing DPR for selected ideas etc.
- Set up Credit Facilitation Centres
- Guide entrepreneur's on bank financing schemes and address queries of banks
- Facilitating through Industry associations/SIDBI offices
- Establishing marketing infrastructure – MSMEs
- Exhibition centers
- Capacity building of RRBs/UCBs
- Cluster Development programmes.

Long term products of SIDBI

- ▶ Energy efficiency, clean technologies, structured debt
- ▶ Good potential for improving productivity and competitiveness through EE measures
- ▶ EE is significantly correlated to pollution and production of greenhouse gases
- ▶ To promote clean technologies, CETPs, waste recycling & management in MSME units/clusters
- ▶ Structured debt/ tailor made approach to meet the special requirements of MSMEs
- ▶ Financial assistance at concessional/ competitive term.

Short term products of SIDBI

- ▶ Receivable financing, trade financing
- ▶ Financing of MSMEs receivables by discounting bills for covering their supplies of raw material, components, sub-assemblies, job work etc., to Corporates.
- ▶ Competitive rate of interest/discount rate based on rating
- ▶ Average credit period up to 90 days.
- ▶ Clean limit may also be considered subject to norms.

SIDBI Schemes and Initiatives for Finance and Development of industries :

1. Direct Credit Scheme (DCS)

Eligibility	New or Existing units
Constitution	Private / Public Ltd. Cos., / Partnership Firm and Proprietary Concern
Assistance	Term Loan, WC Term Loan, Foreign Currency Term Loans
Minimum Loan Amount	Rs.50 Lakh for New Unit and Rs.25 lakh for Existing unit
Int Rate	Linked to Rating and PLR. Present PLR is 12.75% p.a.
Minimum Promoter's Contribution	33% for New Units and 25% for Existing Units
DER	Generally not exceeding 2:1
Repayment Period	Max 8-10 years (incl. moratorium up 18 months).
Upfront fee	Up to 2% of the term loan sanctioned.

2. Assistance for Energy Efficiency Projects

	Parameter	Norm
1	Minimum Assistance	Generally not less than Rs.10 lakh
2	Minimum promoters contribution	25%
3	Debt Equity Ratio	2:1 (KfW) / 2.5:1 (JICA)

4	Interest Rate	Fixed/Floating, 11.50% to 13.00% p.a. (50 bps lower than the normal rate)
5	Upfront fee	Maximum up to 1% of the loan amount
6	Asset coverage	1.3 for manufacturing unit and 1.4 for service sector.
7	Repayment period	Need based. Normally, not to extend beyond 7 years.

3. CREDIT LINKED CAPITAL SUBSIDY SCHEME

- ▶ Scheme of GOI operated through SIDBI as Nodal agency
- ▶ Scheme valid for XI plan – 2007-2012 (since extended for XII plan 2012 onwards)
- ▶ 15% of the eligible investment in P & M for Technology Up gradation in select sectors
- ▶ Immediate lodging of subsidy claim upon implementation of the project
- ▶ Subsidy to be adjusted against principal outstanding as and when funds released by Govt.

4. Restructured TUF SCHEME FOR TEXTILE & JUTE INDUSTRIES

- ▶ Scheme of GOI operated through SIDBI as Nodal agency
- ▶ Scheme valid for XI plan – 2007-2012 (in the process of extending for XII plan from 2012 onwards)
- ▶ Textile and Jute industries in MSME sector are eligible.
- ▶ The scheme will provide 5% interest subsidy.
- ▶ It provides a CLCS of 15% for Textile Industry, 12% for Jute Industry and 20% for power loom sector.

The scheme will provide 5% interest reimbursement plus 10% capital subsidy for specified processing machinery in textiles.

5. CREDIT GUARANTEE TRUST FOR MICRO AND SMALL ENTERPRISES

- ▶ Facilitates availment of credit by Micro/Tiny/Small and units engaged in IT based activities from formal banking channel.
- ▶ Maximum loan guaranteed by CGTMSE is Rs.100 lakh per SSI /Tiny unit (Guarantee Cap Rs.50 lakh).
- ▶ Annual Guarantee Fee at 1% p.a. (Concessional rates for women, units falling under NER and micro enterprise.

6. Service Sector Finance

Eligible Activities (asset based/cash flow based)

- Hotels, convention halls, shopping malls, hospitals, nursing homes etc.
- Logistics, supply chain, material handling, warehousing, organised retailing
- Rent a cab, car/auto dealerships, workshops/service stations
- IT and IT enabled services
- Telecom, internet café, advertising, dry cleaning
- Construction contractors, transport operators, courier services
- Broadcasting, TV/Radio/Video programme production services

Eligibility	New or Existing units
Constitution	Private / Public Ltd. Cos., / Partnership Firm and Proprietary Concern
Interest Rate	Linked to Rating and PLR. Present PLR is 12.75 % p.a.
Minimum Promoter's Contribution	Cash flow backed: 33% (New)/ 25 % (Existing) Asset backed: 25% (New)/ 20 % (Existing)

DER	2:1 for cash flow backed, 3:1 for asset backed
Repayment Period	Max 8-10 years (incl. moratorium up 18 months).
Upfront fee	Up to 2% of the term loan sanctioned.

7. Infrastructure Finance

Eligible Activities

- Transport – Roads, bridges, ports, airports, Urban public transport
- Energy – Electricity generation/transmission/distribution, oil/gas pipelines, Oil/Gas storage facilities
- Water Sanitation – Waste management facilities, water supply pipelines, treatment plants, irrigation, sewage collection/treatment facilities
- Communication – Telecommunication (fixed network)/ telecommunication towers.
- Social and Commercial Infrastructure – Hospitals, hotels, industrial parks, SEZ, Cold chains.

Infrastructure Finance

Eligibility	New or Existing units
Constitution	All forms of organizations such as Private / Public Ltd. Cos., Registered Societies/trusts, Govt. corporations/cooperative entities
Interest Rate	In line with consortium lenders
Minimum Promoter's Contribution	25% of project outlay
DER	3:1
Repayment Period	Max 10 years (incl. moratorium up to 3 years).
Upfront fee	Up to 0.5% of the term loan sanctioned.

8. Privileged Customer Scheme (PCS)

Criteria:

- For SIDBI's existing well performing borrowers
- Two year satisfactory payment track with at least one year principal repayment track record with SIDBI.
- Net profit in last two years of operation and should not be in default to any bank / FI.
- Should not have moved into stress category during the preceding one year from the date of sanction.

Purpose:

Unforeseen/ emergent and bonafide business expenditure like:

Non project specific expenses like adding/ replacement of machinery, balancing capital equipment, renovation/ additions to factory building, jigs /fixtures, computer hardware/software, WC margin needs, marketing related expenses, setting up franchise, brand building, execution of bulk orders, deposits for contracts, temporary shortage of WC, etc.

- Amount: 15% of Net Sales, maximum of Rs.100 lakh, annually.
- Promoters Contribution : Nil

- DER: Not more than 2:1 for the company as a whole
- Interest Rate: As per rating
- Upfront fee: 0.5-1% of Term Loan sanctioned
- Repayment Period: Max 5 years incl. moratorium of up to 1 year.
- Charge on assets being created out of PCS
- Extension of charge on existing immovable assets.
- Overall asset coverage should not be less than 1.3 after availing the limit.

9. Growth Capital & Equity Assistance (GEMS)

- ▶ To provide quasi equity/equity type of financial assistance/support to well-run MSMEs to enable them to meet promoter contribution/DER/Security margin requirement and to help them to scale up their operations.
- ▶ Instrument – Subordinated debt, convertible debentures, convertible preference shares, equity shares, etc.
- ▶ Purpose :Expansion, Modernization and diversification, Marketing, R&D, Product Development, Working Capital, any other expenditure required for growth of the company
- ▶ Investment Tenure - Horizon of about 5/7 years

Difficulties in Equity deals in MSMEs

- ▶ More than 90% of the MSMEs are outside the purview of equity deals (being prop./ partnerships)
- ▶ Equity investment requires detailed Due-diligence (generally by qualified legal attorneys and CAs) making the deals costlier for smaller MSMEs and taking very long time to conclude
- ▶ Valuation complexities. Negotiations to arrive at “Mutually Acceptable” value further delays the process.
- ▶ General aversion of MSMEs promoters in day-to-day interference in decision making/ operations (which a typical equity investor seeks)
- ▶ High return expectation (25-30%) from RISKY Equity investment does not suit a typical MSME operating in conventional sector
- ▶ Legal documentation expensive and complex and time consuming
- ▶ Difficulty in Exit for the investor (IPO etc rare in MSMEs) Subordinate debt
- ▶ Subordinated in ‘Repayments’ and ‘Security’ to senior lenders.
- ▶ With or without conversion option - can be given to partnerships/ prop. concerns
- ▶ Maximum amount - 1/3rd of net worth of the unit.
- ▶ Moratorium – Min 3 years. Max 5 years. Total tenure 7-8 years
- ▶ No collaterals insisted. Only residual charge on the business assets is obtained and hence improves credit rating of secured loans. Simpler documentation.

10. Receivable Finance Scheme (RFS)

- ▶ Flexible scheme, modifiable to suit the requirement of sellers and purchasers, if so desired
- Limit can be backed by collateral security or bill of exchange or even can be a clean limit
- ▶ RFS limit backed by Letter of Credit (LC discounting), directly to seller
 - ▶ RFS limit backed by collateral securities, directly to seller
 - ▶ Invoice discounting scheme for sellers
 - ▶ NTREES - Trade Receivables Engine for E-discounting (Prefix ‘N’ stands for NSE and Suffix ‘S’ stands for SIDBI)
 - ▶ Direct discounting scheme (Equipment’s) for equipment purchasers

Purpose	To enable SSI / SME / Eligible Service sector units (including construction / small road transport operators) selling components, parts, sub-assemblies, services, etc. to Medium & Large scale units realize their sale proceeds quickly
Eligible borrowers	Limits are sanctioned to well establish industrial units using components / parts / sub-assemblies / accessories / services manufactured / provided by SSI / SME / Eligible Service sector units. Either seller or Purchaser need to qualify as SSI / SME / Service Sector unit
Norms	Unexpired usance - Not more than 90 days Facility without bills of exchange / LC backed receivables can also be considered on the basis of merit.

The Various Financial Institutions provide finance to entrepreneurs:

1. **Industrial Finance Corporation of India (IFCI):** It was established in 1948 under an Act of parliament with the object of providing medium and long-term credit to industrial concerns in India.
2. **The Industrial Development Bank of India (IDBI):** It was established on 1st July 1964 under the Industrial Development Bank of India Act, as a wholly owned subsidiary of the Reserve Bank of India. The most distinguishing feature of the IDBI is that it has been assigned the role of the principle financial institution for co-ordinating, in conformity with national priorities, the activities of the institutions engaged in financing, promotion or developing industry. The IDBI has been assigned a special role to play in regard to industrial development.
3. **ICICI (The Industrial Credit and Investment Corporation of India):** ICICI was conceived as a private sector development bank in 1955 with the primary function of providing development finance to the private sector.
 - A) Assisting in the creation, expansion and modernization of such enterprises.
 - B) Encouraging and promoting the participation of private capital, both internal and external, in ownership of industrial investment and the expansion of investment markets.
4. **The National Bank for Agriculture and Rural Development(NABARD):** Its provides credit for promotion of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas.
5. **Industrial Investment Bank of India (IIBI):** It was established in 1985 and it extends loans and advanced to industrial concerns, underwrites stocks, shares, bonds, debentures and provides guarantees for loans/deferred payment.
6. **Export-Import Bank of India (EXIM):** It was set up on January 1st, 1982 as the principal financial institution for promotion and financing of India's international trade. Exim Bank finances exporters and importers, co-ordinates the working of institutions engaged in financing export and import of goods and services, finances export- oriented units and undertakes promotional activities necessary for international trade
7. **Khadi and Village Industries Commission (KVIC):** It is engaged in the development of Khadi and village industries in rural areas.
8. **National Small Industries Corporation Ltd (NSIC):** It was set-up by the government of India in 1955 with the objective of promoting and developing small-scale industries in the country.
9. **State Industrial Development Corporations (SIDCs):** Its act for industrial development and provide impetus to further investment in their respective States. SIDCs provide assistance by way of term loans, underwriting and direct subscription to shares/debenture and guarantees.

10. **State Small Industries Development Corporations (SSIDCs):** It is State Government undertakings, responsible for catering to the needs of the small, tiny and cottage industries in the state/union Territories under their justification.

11. **State Financial Corporation (SFCs):** Its function with the objective of financing and promoting small and medium enterprise for achieving balanced regional socio-economic growth, catalyzing higher investment, generating greater employment opportunities and widening the ownership base of industry.

2. Conclusion:

SIDBI plays an important role in financing and development of Industries. SIDBI extends direct/indirect financial assistance to SSIs, assisting the entire spectrum of small and tiny sector industries on All India basis. The range of assistance comprising financing, extension support and promotional, are made available through appropriate schemes of direct and indirect assistance for the various purposes like Setting up of new projects, Expansion, diversification, modernization, technology up gradation, quality improvement, rehabilitation of existing units, Strengthening of marketing capabilities of SSI units. These developmental initiatives would not only address the emerging needs of the sector, but also will create employment opportunities in this productive sector of the economy.

References

- [1] Parimal kumarsen A Study on role of SIDBI in financing small scale industries in India with special Reference to Direct Finance Schemes, Department of commerce , The university of Burdwan, West Bengal, March 2006.
- [2] Satish Taneja, Entrepreneur Development, Himalaya Publishing House, First Edition, Reprint, 2012.
- [3] Vasant Desai, The Dynamics of Entrepreneurial Development and Management, Himalaya Publishing House, Fifth Revised Enlarged Edition, 2014.
- [4] Poornima Charantimath, Entrepreneurship Development and Small Business Enterprises, Pearson Education in South Asia, Tenth Impression, 2013.
- [5] Srinivas K T, Role of Micro, Small and Medium Enterprises in Inclusive Growth, International Journal of Engineering and Management Research, Vol. 3, Issue 4, August 2013, pp. 57 – 61.
- [6] www.sidbi.in
- [7] SmallB.in
- [8] shodhganga.inflibnet.ac.in
- [9] dcmsme.gov.in
- [10] msme.gov.in