

**“AN ANALYSIS OF PROFITABILITY AND PRODUCTIVITY OF SMALL  
INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)”**

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**Abstract:** Small Industries Development Bank of India (SIDBI) is an apex institution / bank is playing a very proactive role in reaching out to MSMEs by extending direct / indirect financial assistance under different schemes to meet credit needs of the MSME entrepreneurs, promotional and developmental support services to MSMEs and to coordinate the functions of other institutions in similar activities. Its major operations are in the areas of refinance assistance, direct lending, and development & support services. SIDBI remain committed to convert dreams into realities, shape and attached feathers for enterprises growing with flying colours.

Small industries development bank is known for its muscular efforts in assisting the Micro, Small, and Medium Enterprises (MSMEs) spread all over India. The present study aims to evaluate an analysis of profitability and productivity of SIDBI that ratios indicated the satisfactory in the assistance of

Indirect finance like refinance, micro finance, and Resource support to institutions / agencies, Direct finance like Term loan direct credit, MSMEs receivable finance. The management has utilized its investment efficiently as the ratio of Return on Investment and Cost of Funds better relationship in relation to development of MSMEs units. The employee contribution in the profit of the bank was quiet satisfactory so the employee contribution is more.

Though the SIDBI plays an active role in the development of MSMEs, the present study revealed that there was gyration in performance Overall ratios like INTIN, OEXP, ROI, COF, NPPB, BPB, NPPE and BPE are showed the position of SIDBI was quiet satisfactory and it had played an important role in the development of MSMEs.

**Key words:** SIDBI, MSMEs, Indirect & Direct Finance, Government Nodal

*Agency, Profitability and Productivity analysis.*

## **INTRODUCTION**

Small industries development bank of India is a non-independent financial institution aimed to aid the growth and development of Micro, Small and Medium Enterprises (MSME) sector in India. It was set up 1990, under an Act of Indian parliament the SIDBI Act 1989. Thus, SIDBI commenced its operations as on April 2, 1990, by taking over the outstanding portfolio and activities of industrial development bank of India (IDBI) pertaining to the small scale sector. SIDBI extends direct, indirect financial assistance, promotional & development and Nodal Agency of Government schemes to MSMEs, assisting the entire spectrum of small and tiny sector industries across the nation.

Government of India enacted Micro, Small & Medium Enterprises Development (MSMED) Act 2006, so as to facilitate the promotion, development and to enhance the competitiveness of the Small and Medium Enterprise sector. Under the MSMEs Act enterprises have been classified into three categories viz. micro, small and medium enterprises on

the basis of the investment made by such enterprises.

Thus, MSME sector plays a linchpin role in the Indian economy as it significantly contributes the growth of Indian economy with a vast network of around 3 crore units, creating employment of about 7 crore, manufacturing more than 6,000 products, also contributing about 90% of the total output and 45% to manufacturing output and about 40% of exports, directly and indirectly across the spectrum.

## **ORIGIN AND GROWTH**

Small industries development bank of India (SIDBI), set up on April 2, 1990, under an Act of India parliament 1989, is the principal financial institution for the promotion, financing and development of Micro, Small and Medium Enterprises sector and for Co-ordination of the functions of the institutions engaged in similar activities. Financial support to MSMEs is provided by way of 1) refinance to eligible primary lending institutions (PLIs), such as banks, state financial corporation's (SFCs) for onward lending to MSMEs and 2) direct assistance in niche areas like risk capital/equity, sustainable finance, factoring & reverse factoring, services sector financing, etc. the financial support to

MSMEs is channelized through the bank network of 82 branches. By this way, SIDBI would be completing and supplementing efforts of banks in meeting diverse credit needs of MSMEs. Four Basic objectives are set out in the SIDBI Charter. These are as below: -

- (A) Financing
- (B) Promotion
- (C) Development
- (D) Coordination for orderly growth of the small-scale industrial sector.

Since its inception SIDBI is playing a linchpin role in extending assistance to MSMEs by devising and implementing tailor made schemes to meet the requirement of setting up of new projects, expansion, diversification, modernization and rehabilitation of existing units. On May 2001 issue of *The Banker*, London, SIDBI ranked 25<sup>th</sup> both in terms of Capital and Assets among the development bank of the world. As on September 30, 2013, SIDBI has made a cumulative disbursement over 3.26 lakh crore benefiting more than 34 million persons/units.

## **REVIEW OF LITERATURE**

Review of literature enables one to trace out the research gap in logical and sensible way. In this backdrop a brief

review of literature pertaining to research area is presented below. **Prakash Yadava (2014)** in his article entitled “A Study on Sidbi’s Direct Finance Scheme for Small Scale Units in Lucknow City”, as critically analyzed role of SIDBI in the development of SSI units in the recent past. The paper also highlights the contributions of SIDBI in the growth of small scale units by its direct finance schemes in Lucknow city of Uttar Pradesh State. **Dr. Uma Narang & Pooja Sareen (201)** in their article entitled “Performance Evaluation of Small Industries Development Bank of India” have made sincere attempt to dig and evaluate performance of SIDBI and evaluated multifaceted role of SIDBI in the development of MSME Sector. **K Shankar Rao and Abdul rahman Noorinsab (2013)** in their article crushed as the role of SIDBI in developing the MSMEs in India” are of opinion that MSMEs is store house of wide opportunities due to plethora of factors like capital intensive, extensive promotion & support by Government, reservation for Exclusive manufacture, funding by way of Finance & subsidies, reservation for exclusive purchase by Government, export Promotion, great demand in the

domestic market, export potential and so on. In this study backdrop the authors of the present paper have attempted to give a brief review of the overall performance of the MSME sector, the role played by the SIDBI in empowering MSMEs and acting as the agency for SME schemes of Government of India, have been described. **Antima Agarwal and Dr. Surender Kumar Gupta (2014)** in their article entitled “A Study on various Schemes for MSME: with special reference to SIDBI” have evaluated the various schemes which are extended by SIDBI for the development of MSMEs and concluded that the various schemes provided by the SIDBI helped lot in the development of MSME sector in India. **Dr. Kh. Dhiren meetei and Mrs Soma Devi (2013)** in their article titled as “Sidbi’s Promotional and Development Activities in Northeastern Region (NER)” are of the opinion that SIDBI will contribute a lot in gaining competitive advantage to the MSMEs through its promotional and Development activities. Hence, the paper attempts to give a comprehensive overview of all aspects related to promotional and development activities provided by SIDBI in NER. **Dr. P. Amirtha Gowri and T.Renuha (2014)**

in their article entitled “An analysis of key indicators of SIDBI” made an appraisal of performance of SIDBI in terms of selected physical and financial indicators with the help of year on year growth percentage. The sector to fully utilize its potential, it is essential that the entrepreneurs along with the Government support take necessary steps for their development.

### **OBJECTIVES OF THE STUDY**

1. To trace out origin and growth of the SIDBI in India.
2. To know the role of SIDBI towards the growth of the MSMEs sector in terms of indirect finance, direct finance and to locate SIDBI as the Nodal / Implementing agency of government schemes.
3. To carry out an analysis of Profitability and productivity of SIDBI

### **HYPOTHESES:**

#### **1. Profitability Based on Revenue and Investment:**

**Ho**-There is no significant difference between Interest Income and Operating Expenses.

**H<sub>1</sub>**-There is significant difference between Interest Income and Operating Expenses.

**Ho**-There is no significant difference between Return on Investment and Cost of Funds

**H<sub>1</sub>**-There is significant difference between Return on Investment and Cost of Funds.

## **2. Productivity Based on branch and Employee**

**H<sub>0</sub>**-There is no significant difference between Net Profit per Branch and Business per Branch

**H<sub>1</sub>**-There is significant difference between Net Profit per Branch and Business per branch

**H<sub>0</sub>**-There is no significant difference between Net Profit per employee and Business per Employee.

**H<sub>1</sub>**-There is significant difference between Net Profit per Branch and Business per Employee.

## **METHODOLOGY**

The present study is based on secondary data. Data has been collected from the published records of SIDBI; and MSMEs publications. In addition to this secondary data has been collected from daily business news papers, magazines, books and journals. Duration of study period is five years from 2010-11 to 2014-15, for the purpose of analysis, correlation is used through SPSS.

## **INDIRECT FINANCE AND DIRECT FINANCE:**

**Indirect Finance:** The Bank is primarily a refinancing Institution and provides

refinance support to more than 900 Primary Lending Institutions (PLIs) comprising SFCs, SIDCs and Banks, etc. having a combined network of over 80,000 branches. Refinance support is extended for (i) Setting up of new projects and for technology upgradation / modernization, diversification, expansion, rehabilitation, energy efficiency, adoption of clean production technologies etc. of existing MSMEs, (ii) Service sector entities and (iii) Infrastructure development and upgradation.

**Direct Finance:** In order to supplement and complement the effort of banks / FIs in augmenting the flow of credit to MSMEs, SIDBI introduced various new products and modified the existing products to meet the diverse credit needs of the MSMEs. In order to serve the MSME better, with enhanced customer satisfaction, the Bank provide tailor – made product and services. Direct credit assistance is provided by way of:

- (a) Term loan
- (b) Working capital through arrangement with IDBI Bank
- (c) MSMEs Receivable finance and
- (d) Non fund based finance

## OVERALL OPERATIONS OF SIDBI

Table No – 1

### INDIRECT FINANCE AND DIRECT FINANCE

Particulars	2010-11		2011-12		2012-13		2013-14		2014-15	
	S	D	S	D	S	D	S	D	S	D
<b>Indirect Finance</b>										
Refinance	24,337	24,116	24,252	39,055	37,193	22,870	40,383	34,255	38,098	35,308
Micro Finance	859	851	239	1,576	1,132	323	1,170	651	1,603	1,353
Resource support to institutions / agencies	810	980	1,620	1,838	5,469	4,243	7,705	4,672	4,054	NA
<b>Sub total</b>	<b>26,006</b>	<b>25,947</b>	<b>26,111</b>	<b>42,469</b>	<b>43,794</b>	<b>27,436</b>	<b>49,258</b>	<b>39,578</b>	<b>43,755</b>	<b>36,661</b>
<b>Direct Finance</b>										
Term Loan under Direct Credit	6,837	3,800	4,234	8,684	8,021	1,557	9,144	3,215	9,505	NA
MSME Receivable Finance	9,371	9,049	10,814	2,632	4,244	11,528	2,869	9,398	2,083	NA
<b>Sub total</b>	<b>16,208</b>	<b>12,849</b>	<b>15,038</b>	<b>11,316</b>	<b>12,265</b>	<b>13,085</b>	<b>12,013</b>	<b>12,613</b>	<b>11,588</b>	<b>NA</b>
<b>Total</b>	<b>42,214</b>	<b>38796</b>	<b>41,149</b>	<b>53,785</b>	<b>56,059</b>	<b>40,521</b>	<b>61,271</b>	<b>52,191</b>	<b>55,343</b>	<b>36,661</b>

Source: Annual report of SIDBI. S – denotes sanctioned and D – denotes disbursement.

### **Result and discussion:**

The above no-1 reveals that overall operation of SIDBI in relation to Refinance of SIDBI assisted to Prime Lending Institutions (PLIs). Sanctioning and disbursement of refinance is fluctuating year by year. Sanctioned amount of Micro finance is initially decreased then continuously increased; disbursement is initially increased then rapidly decreased and slightly increased. Sanctioning of Resource support to intuitions/ agencies is continuously increased but decreased in the year 2014-15, disbursement is continuously increased. Sectioning amount of Term loan is initially decreased and continuously increased, disbursement is fluctuating. MSME Resource is initially increased and continuously decreased of sanctioning amount; disbursement is highest in the year of 2012-13.

Direct finance is assisted to direct units in terms of Term loan sanctioned amount is initially decreased and continuously increases from 2012-13 to 2014-15, disbursement of term loan is fluctuating in year by year. In addition to sanctioning amount of MSME Receivable Finance is initially increased then

continuously decreased from 2012-13 to 2014-15.

### **SIDBI AS NODAL AGENCY FOR GOVERNMENT SCHEMES**

SIDBI is the Nodal Agency for implementation of some of the Scheme of Government of India for encouraging implementation of technology upgradation and modernization in the MSMEs sector. SIDBI provides services and schemes as a Nodal Agency for implementation such as below:- Technology Upgradation Fund Scheme for the Textile Industries (TUFS), Credit Linked Capital Subsidy (CLCSS), Integrated Development of Leather sector Scheme (IDLSS), FPTUFS. Schemes for Food Processing industries and Technology and Quality Up gradation Support to Micro, Small and Medium Enterprises. CLCSS since the launch of the scheme in October 2000, capital subsidy claimed of 18,740 units aggregating Rs-1, 111, 31 crores (cumulatively) were settled. Similarly since the launch of the TUFS in April 1999, capital subsidy and Interest Incentives claims for amount of 702.74 crores (cumulatively) have been. Under IDLSS, which was launched in November -2005, cumulate claims Rs 291.69 crores, were settled. Under EPTUFS, subsequent

decentralization of the scheme from April  
2007, claimed Rs- 14.03 crores  
(Cumulatively) in during year 2014-15.



**Table No-2**

**Analysis of Profitability and Productivity of Small Industries Development Bank of India (SIDBI)**

Year	Profitability Analysis and Productivity Analysis							
	Profitability Ratio				Productivity Ratio (Rs)			
	Based on Revenue		Based on Investment		Based on Branch		Based on Employee	
	INTIN	OEXP	ROI	COF	NPPB	BPB	NPPE	BPE
2010-11	0.9587	0.0899	0.0860	0.5664	4,98,87,372	5,87,70,95,462	49,79,069	58,65,70,574
2011-12	0.9600	0.0771	0.2115	0.0547	5,62,07,617	6,75,00,71,474	90,05,514	67,69,78,930
2012-13	0.9505	0.0675	0.3018	0.0633	8,39,36,003	7,20,04,49,453	82,18,068	70,49,86,971
2013-14	0.9674	0.0724	0.3906	0.0629	13,87,18,543	9,48,18,02,801	1,10,38,963	75,45,44,230
2014-15	0.9574	0.1239	0.4959	0.07646	17,50,66,862	8,28,78,80,797	1,37,73,032	65,20,32,328
Mean	0.9588	0.0862	0.2972	0.1648	10,07,63,279	7,51,94,59,997	94,02,929	67,50,22,606
df	4	4	4	4	4	4	4	4
sd	0.00605	0.02268	0.15825	0.22466	5,43,56,110	1,39,93,16,574	32,75,163	6,24,05,316
Correlation	<b>-0.050</b>		<b>-0.724</b>		<b>0.837</b>		<b>0.470</b>	
Significant	<b>0.936</b>		<b>0.167</b>		<b>0.077</b>		<b>0.424</b>	
Results	<b>Rejected</b>		<b>Rejected</b>		<b>Rejected</b>		<b>Rejected</b>	

Source: Annual Report of SIDBI and Used SPSS version 20.

[0.05 % level of Significant]

INTIN- denotes Interest Income

OEXP- denotes Operating Expenses,

ROI- denotes Return on Investment,

COF- denotes Cost on Funds,

NPPB- denotes Net profit per Branch

BPB - denotes Business per Branch

NPPE- denotes Net profit per employee

BPE- denotes Business per employee.

### **Result and Discussion:**

The above table no-2 reflects that Profitability and productivity analysis of SIDBI during the study period 2010-11 to 2014-15. Present study has profitability analysis based on two categories (i.e. Revenue & Investment) and Productivity analysis also based on two categories (i.e. Branch & Employee).

- **Based on Revenue:** Correlation of Interest Income and operating Expenses is -0.050, which is rejected, because computed level of significant is 0.936 is greater than 0.05 level of significant (Two tailed). It proves that significant difference between INTIN and OEXP on the efficiency indicator is lesser than in SIDBI. Hence, INTIN and OEXP are better managed by SIDBI.
- **Based on Investment:** Correlation of Return on Investment and Cost of Funds is -0.724, which is rejected, because computed level of significant is 0.167 is greater than 0.05 level of significant (Two tailed). It shows that significant difference between ROI and COF. Hence, better managed by SIDBI.
- **Based on Branch:** Correlation of Net Profit per Branch and Business per

Branch is 0.837, which is rejected, because computed level of significant is 0.077 is greater than 0.05 level of significant (Two tailed). It cleared that significant difference between NPPB and BPB. Hence, better managed by SIDBI.

- **Based on Employee:** Correlation of Net Profit per Employee and Business per Employee is 0.470, which is rejected, because computed level of significant is 0.424 is greater than 0.05 level of significant (Two tailed). There is significant difference between NPPE and BPE. Hence, better managed by SIDBI.

In the overall profitability and productivity reflects that effects of all eight variables are better managed by SIDBI in relation to based on revenue, investment, branch and employee.

### **CONCLUSION:**

Small industries development bank has done the lot of efforts for assisting the Micro, Small, and Medium Enterprises (MSMEs) spread all over India. The present study reveals that ratios indicated the satisfactory in the assistance of Indirect finance like refinance, micro finance, and Resource support to institutions / agencies, Direct finance like

Term loan direct credit, MSMEs receivable finance. The management has utilized its investment efficiently as the ratio of Return on Investment and Cost of Funds better relationship in relation to development of MSMEs units.

The employee contribution in the profit of the bank was quiet satisfactory so the employee contribution is more. The present study revealed that there was fluctuating in percentage of ratios but even the SIDBI plays an active role in the development of MSMEs. Overall ratios like INTIN, OEXP, ROI, COF, NPPB, BPB, NPPE and BPE are showed the position of SIDBI was quiet satisfactory and it had played an important role in the development of MSMEs.

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- **Wed sites**

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