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To Analyze The Long Term Position Of Selective Ssis In Vidisha District To Assess The Importance Of Finance Management Techniques As Tools That Help Us To Know If The Small Scale Industry Is Really Winning.

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Introduction

The role of small-scale industries for better utilization of local resources, .Providing more employment , moving towards a decentralized society and increasing supplies of consumer goods was emphasized in industrial policy Resolutions.

Our interviews with entrepreneurs indicated that small entrepreneurs obtained loans from institutional and non-institutional sources. Institutional sources means banks and non-institutional Loan form friends relatives and traders.

Among institutional sources banks constituted the most important source . Loans from them Fertilizer & Pesticide 43% units , Agriculture Implements mfg , fabrication & Service unit 28% units ,Food Grain, Dal Processing & Warehousing 40% units and ,HDP bags , Tyre Retarding / Remolding , Re-refining of used oil , RCC Pipe, Craft paper & Others units are not use of secured loan.

Keywords*: small-scale industries, Growth, Ratio, SSI, Economic Scenario, Investment*

INTRODUCTION

The 21st century has thrown up new challenges and opportunities for large and small businesses. As the world becomes an increasingly smaller and fiercely competitive market place, the dynamics of Small Scale Industries (SSIs) growth have become more challenging. Under the changing economic scenario, SSI has both the challenges and opportunities before them. The business can compete on cost, quality and products at domestic and international level only if ideal investment in technology production process, R&D and marketing are made. Infrastructure bottlenecks are not completely solved. The promotional activities for SSI in India need to concentrate on improved credit flows, human resource development, appropriate technology and funds for modernization (**Vidya and Shashidhar, 2007**).

Literature Review

With the liberalization of Indian economy, the Indian corporate world has found itself in an environment where it has to contest with the market forces, large corporations with significant brand equity and also follow different resource strategies and practices. India faces the task of not only integrating itself with the rest of the world, but more importantly, of understanding future global trends to work towards finding a place among the leading economies. Under such circumstances, investment and financing avenues have expanded considerably. Today, financial managers play a dynamic role in solving complex problems like shaping the fortunes of the enterprise, decisions regarding allocation of capital, raising of funds most economically and using them in the most efficient and effective manner. Because of this change in emphasis, the descriptive treatment of the subject of financial management is being replaced by growing analytical content and sound theoretical underpinnings. The subject now accords a far greater importance to management decision-making and policy (**Sinha, 2010)**.

Financial management assures of liquidity to meet MFI's obligations to disburse loans to its borrowers and to repay loans to its creditors. Even though financial management is a back office function, decisions in this area can directly affect the bottom line of the institution. The importance of adequate liquidity, and hence financial management, grows further if the MFI has mobilized savings from depositors. Financial management can have a major impact on profitability through the skill with which liquid funds are invested. Cost of fund ratio is selected as an important ratio to measure financial management of MFI's. A part of that, D/E ratios, liquidity ratio and financial expense ratios are other important factors to adjudge financial management capability of MFI's. (**Singh, 2010**).

Earlier, Budget of India 1998-99, announced the exclusion of farm implements and tools from the list of items reserved for manufacture by small scale industries sector to enable the farmers to get benefit of wider range of implements and tools at competitive prices, and with requisite after sales service (**Budget of India 1998-99**). The decision of the Government of India to de-reserve the manufacture of farm machinery would help the organized sector to bring latest farm machinery technology for accelerated adoption by the farmers. The small-scale industries in turn would adopt the technology for local manufacturing at a much lower cost. This would help the small-scale sector to become more competitive and to enlarge their market size.

While the above-mentioned functions of financial institutions are conventionally accepted, agricultural and rural development would require performing certain new functions like better access to extension, inputs, and marketing services as a result of technological changes in this sector (**Desai, 1989**).

MATERIALS AND METHODS

Study Site

The present study was carried out in Vidisha district that occupies the central part of Madhya Pradesh. *Vidisha* is an ancient city that historically belongs to *Ashoka*, the Great. It was the home of *Sanghmitra* and *Mahendra* who carried the message of Buddhism to Sri Lanka and South-East Asia. The earliest reference of Vidisha is contained in Ramayana by Valmiki. It is stated there that Shatrughna's Son Shatrughati was placed in charge of Vidisha.

Objectives

To assess the importance of finance management techniques as tools that help us to know if the small scale industry is really winning.

Data Collection

The primary data of selective SSIs regarding financial performance of three consecutive years in the form of their balance sheets, profit & loss accounts were collected. A structured questionnaire (Appendix-I) was also administered in individual units in order to know other important and relevant facts. This was also supplemented with interviews of unit managers and/or owners, Manager of DIC, Lead Bank Officers, Managers, and Field officers of Financial Institutions and/or banks and observations of the units at their site.

Data Analysis of Long-Term Financial Position Or Tests Of Solvency

1. Debt-Equity Ratio

Debt-Equity Ratio indicates the relative uses of debt and equity as sources of capital to finance the company's assets, evaluated using book values of the capital sources and is calculated as follows:

Debt-Equity Ratio =	**Outsiders Funds**
	Shareholders' Funds

2. Proprietory Ratio or Equity Ratio

Equity Ratio throws light on the general financial strength of the company. It is also regarded as a test of the soundness of the capital structure. Higher the ratio or the share of shareholders in the total capital of the company, better is the long-term solvency position of the company. A low proprietary ratio

will include greater risk to the creditors and is calculated as follows:

Proprietary Ratio or Equity Ratio =	**Shareholder's Funds**
	Total Assets

3. Solvency Ratio

Solvency Ratio is used to measure a company's ability to meet long-term obligations. The solvency ratio measures the size of a company's after-tax income, excluding non-cash depreciation expenses, as compared to the firm's total debt obligations. It provides a measurement of how likely a company will be to continue meeting its debt obligations and is calculated as follows:

Solvency Ratio=	**Total Liabilities to Outsiders**
	Total Assets

4.Fixed Assets to Net worth Ratio

Net worth Ratio indicates the proportion of a business owner's cash blocked in capital assets such as brick and mortar instillation, land, factories, and machinery and the proportion of cash available in liquid form to fund the firm's operations and is calculated as follows:

Fixed Assets to Net Worth Ratio =	**Fixed Assets (After depreciation)**
	Total long term Fund

RESULTS AND DISCUSSION

The term 'solvency' refers to the ability of a concern to meet its long term obligations. The long-term indebtedness of a firm includes debenture holders, financial institutions providing medium and long-term loans and other creditors selling goods on installment basis. The long-term creditors of a firm are primarily interested in knowing the firm's ability to pay regularly interest on long-term borrowings, repayment of the principal amount at the maturity and the security of their loans. Accordingly, long-term solvency ratios indicate a firm's ability to meet the fixed interest and costs and repayment schedules associated with its long-term borrowings.

6 Distribution of different categories of Small Scale Industries chosen for the present study in District Vidisha, Madhya Pradesh

Category of Industry								
Sample size	**Fertilizer & Pesticide (A)**	**Agriculture Implements mfg fabrication & Service unit (B)**	**Food Grain Dal Processing & Warehousing (C)**	**HDP bags (D)**	**Tyre Retarding / Remolding (E)**	**Re-refining of used oil (F)**	**RCC Pipe (G)**	**Craft paper & Others (H)**
Total numbers 32	07	07	05	03	02	02	01	05

The term 'solvency' refers to the ability of a concern to meet its long term obligations. The long-term indebtedness of a firm includes debenture holders, financial institutions providing medium and long-term loans and other creditors selling goods on installment basis. The long-term creditors of a firm are primarily interested in knowing the firm's ability to pay regularly interest on long-term borrowings, repayment of the principal amount at the maturity and the security of their loans. Accordingly, long-term solvency ratios indicate a firm's ability to meet the fixed interest and costs and repayment schedules associated with its long-term borrowings.

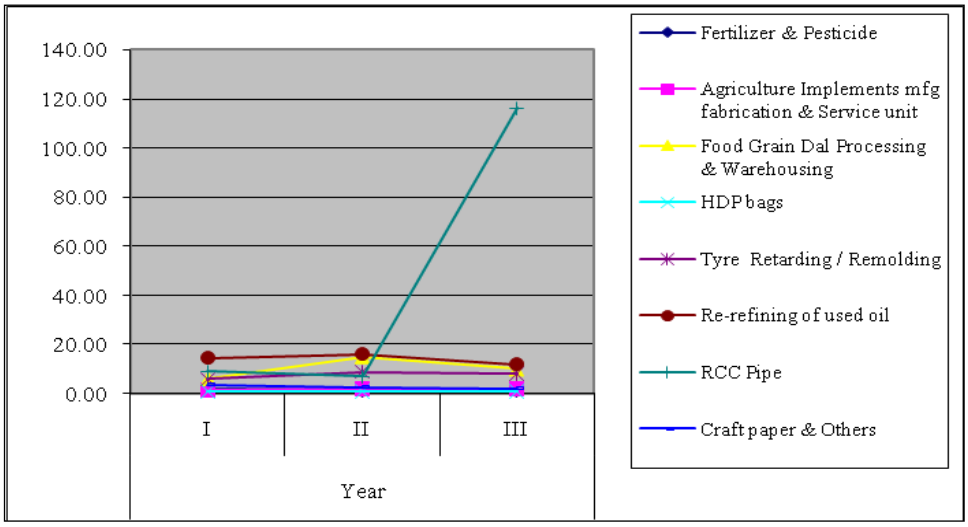

Fig. 8. Creditors turnover Ratio of various industries for consecutive three years

Table 14. Debt equity Ratio of various industries for consecutive three years

Category of Industry								
Year	**Fertilizer & Pesticide**	**Agriculture Implements mfg fabrication & Service unit**	**Food Grain Dal Processing & Warehousing**	**HDP bags**	**Tyre Retarding / Remolding**	**Re-refining of used oil**	**RCC Pipe**	**Craft paper & Others**
I	0.54	0.44	1.95	Nil	Nil	0.71	0.57	1.12
II	0.96	0.40	1.61	Nil	Nil	0.88	0.57	0.74
III	0.87	0.60	1.84	Nil	Nil	0.92	0.19	0.59

Table 14 depicts Debt equity ratio of various industries indicates the relative proportion of debt and equity in financing the assets of the firm. The debt-equity ratio is calculated to measure the extent to which debt financing has been used in a business. The ratio indicates the proportionate claims of owners and the outsiders against the firm's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. As a general rule, there should be an appropriate mix of owners' funds and outsiders' funds in financing the firm's assets. However, the owners want to do the business with the maximum of outsider's funds in order to take lesser risk of their investments and to increase their earnings (per share) by paying a lower fixed rate of interest to outsiders. The outsiders (creditors), on the other hand, want that shareholders (owners) should invest and risk their share of proportionate investments. Therefore, interpretation of this ratio depends primarily upon the financial policy of the firm and upon the firm's nature of business.

A ratio of 1: 1 is considered safe. The ratio indicated in all the categories are well within the ideal situation except category C it can be therefore considered safe since sufficient raw material is not available locally to meet the production capacity of the exiting unit and looking to the seasonally of the product the units will also need hang stocks for carrying out their functional operations smoothly , therefore category C is showing the debt /equity ratio around 2:1 which can also be considered acceptable and satisfactory.

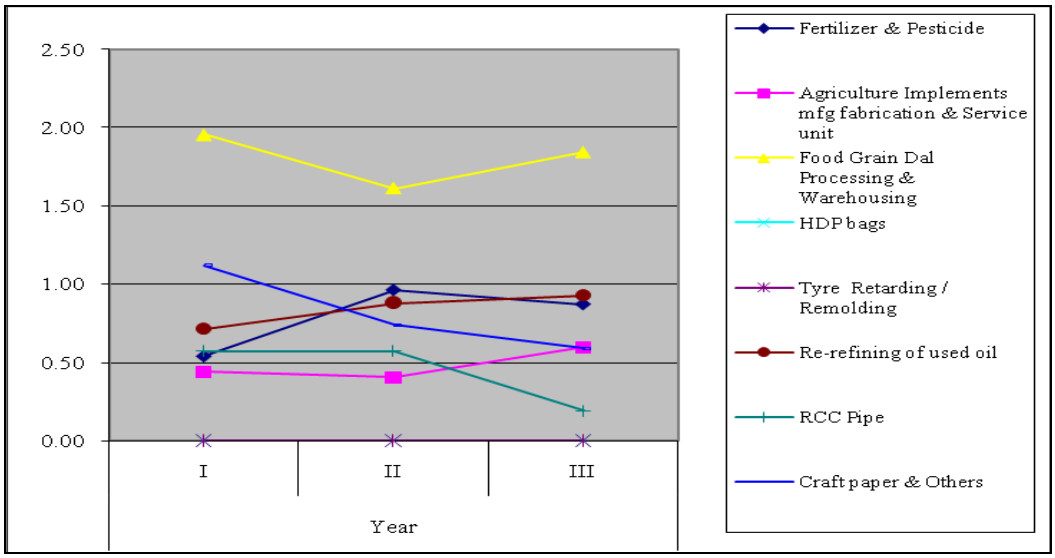

Fig. 9. Debt equity Ratio of various industries for consecutive three years

Table 15. Fixed Assets Ratio of various industries for consecutive three years

Category of Industry								
Year	**Fertilizer & Pesticide**	**Agriculture Implements mfg fabrication & Service unit**	**Food Grain Dal Processing & Warehousing**	**HDP bags**	**Tyre Retarding / Remolding**	**Re-refining of used oil**	**RCC Pipe**	**Craft paper & Others**
I	0.21	0.61	0.36	0.38	0.40	0.57	0.67	0.54
II	0.24	0.69	0.35	0.29	0.32	0.42	0.67	0.37
III	0.27	0.60	0.28	0.46	0.26	0.38	1.00	0.39

Table 15 The ratio indicates the extent to which the total of fixed assets are financed by long term funds of the firm. Generally, the total of the fixed assets should be equal to the total of the-long term funds or, say, the ratio should be 100%. But in case the fixed assets exceed the total of the long-term fund it implies that the firm has financed a part of the fixed assets out of current funds or the working capital which is not a good financial policy. And if the total long-term funds are more than total fixed assets, it means that a part of the working capital requirements is met out of the long-term funds of the firms. Fixed Assets Ratio of various industries shows as to what portion of their total assets is financed by the owner capital. The ratios of categories A, B, D, E, F and H were unsatisfactory in this series. But B,G were satisfactory.

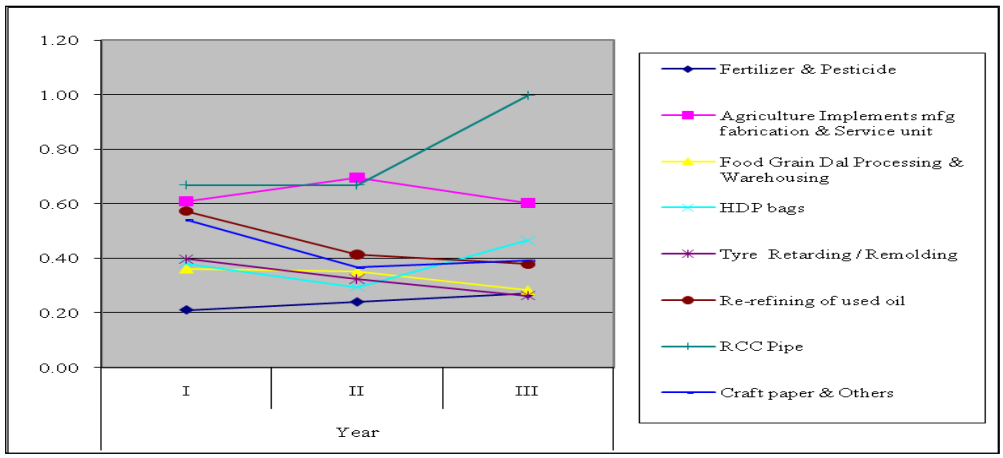

Fig. 10. Fixed Assets Ratio of various industries for consecutive three years

Table16. Proprietary Ratio of various industries for consecutive three years

Category of Industry								
Year	**Fertilizer & Pesticide**	**Agriculture Implements mfg fabrication & Service unit**	**Food Grain Dal Processing & Warehousing**	**HDP bags**	**Tyre Retarding / Remolding**	**Re-refining of used oil**	**RCC Pipe**	**Craft paper & Others**
I	27.38	25.05	10.29	37.00	56.41	29.50	45.45	29.81
II	16.98	26.82	12.72	32.53	62.78	30.94	45.45	30.10
III	15.22	28.49	12.35	16.99	64.71	29.81	42.74	30.34

Table16 depicts Proprietary Ratio of various industries that throw light on the general financial strength of the company. It is also regarded as a test of the soundness of the capital structure. Higher the ratio or the share of shareholders in the total capital of the company better is the long-term solvency position of the company. A low proprietary ratio will include greater risk to the creditors. Category E indicates best ratios, whereas, category C demonstrates risk to creditors and remaining categories in the series have shown good ratios.

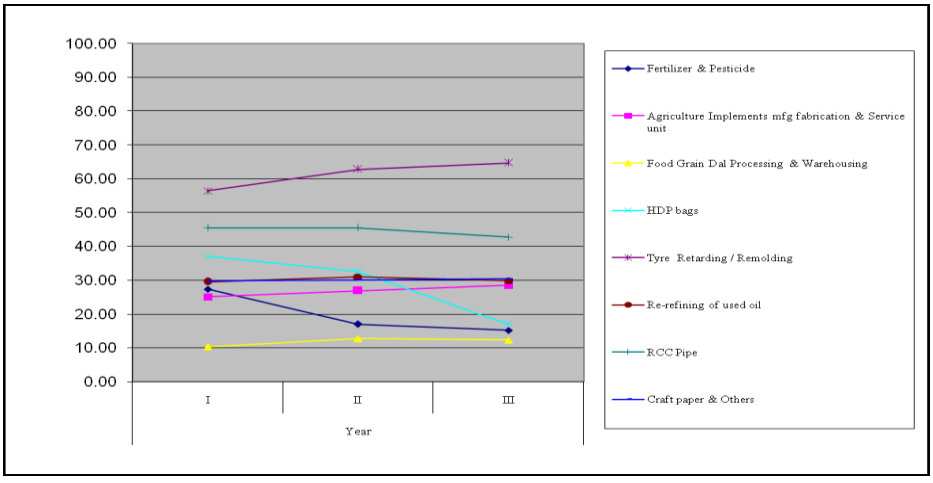

Fig. 14. Proprietary Ratio of various industries for consecutive three years

Table17. Solvency Ratio of various industries for consecutive three years

Category of Industry								
Year	**Fertilizer & Pesticide**	**Agriculture Implements mfg fabrication & Service unit**	**Food Grain Dal Processing & Warehousing**	**HDP bags**	**Tyre Retarding / Remolding**	**Re-refining of used oil**	**RCC Pipe**	**Craft paper & Others**
I	72.62	74.95	89.71	63.00	43.59	70.50	54.55	70.19
II	83.02	73.18	87.28	67.47	37.22	69.06	54.55	69.90
III	84.78	71.51	87.65	83.01	35.29	70.19	57.26	69.66

Table17 depicts Solvency Ratio of various industries for consecutive three years. Solvency Ratio is used to measure a company's ability to meet long-term obligations. The solvency ratio measures the size of a company's after-tax income; excluding non-cash depreciation expenses, as compared to the firm's total debt obligations. It provides a measurement of how likely a company will be to continue meeting its debt obligations. The ratios of all categories indicate that the firms are able to meet its total liabilities out of total assets. Generally, lower the ratio of total liabilities to total assets more satisfactory or stable is the long team solvency position of the firm for all the three years.

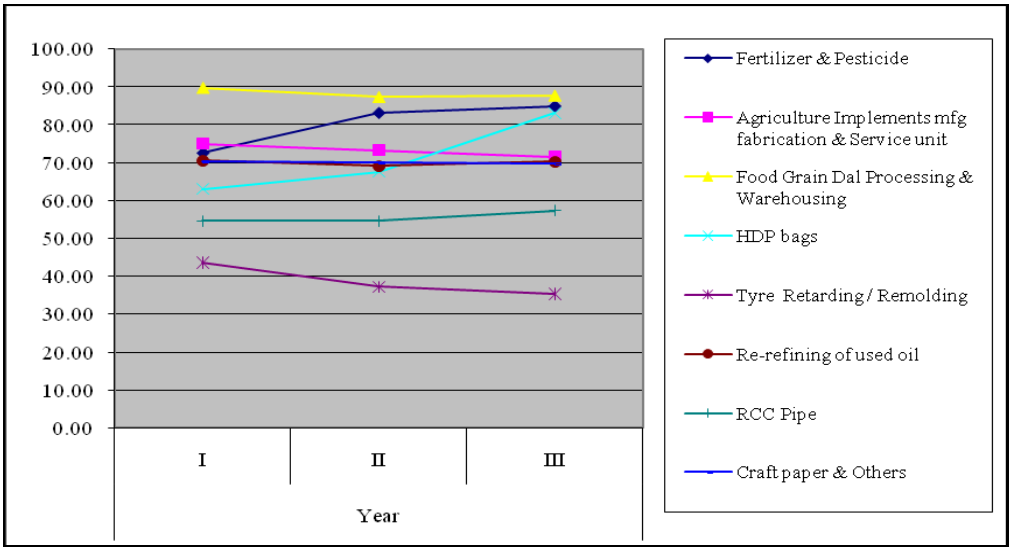

Fig. 15. Solvency Ratio of various industries for consecutive three

CONCLUSION

The term 'solvency' refers to the ability of a concern to meet its long term obligations. The long-term indebtedness of a firm includes debenture holders, financial institutions providing medium and long-term loans and other creditors selling goods on installment basis. The long-term creditors of a firm are primarily interested in knowing the firm's ability to pay regularly interest on long-term borrowings, repayment of the principal amount at the maturity and the security of their loans. Accordingly, long-term solvency ratios indicate a firm's ability to meet the fixed interest and costs and repayment schedules associated with its long-term borrowings.

To measure the solvency of a firm, the following ratios calculated:

I. DEBT-EQUITY RATIO

II. FIXED ASSETS TO TOTAL LONG TERM FUNDS OR FD(ED ASSETS RATIO
III. PROPRIETORY RATIO OR EQUITY RATIO
IV. SOLVENCY RATIO

Debt ratio indicated in all the categories are well within the ideal situation except category C it can be therefore considered safe.Fixed assets ratios of categories A, B, D, E, F and H were unsatisfactory in this series. But B,G were satisfactory.A proprietary ratio will include greater risk to the creditors. Category E indicates best ratios, whereas, category C demonstrates risk to creditors and remaining categories in the series have shown good ratios.Solvency Ratio lower the ratio of total liabilities to total assets more satisfactory or stable is the long team solvency position of the firm for all the three years. Category E,F indicates best ratios. Fertilizer & Pesticide, Food Grain, Dal Processing, , Re-refining of used oil, RCC Pipe, are. But Agriculture Implements mfg , fabrication & Service unit, and ,HDP bags are. But Tyre Retarding / Remolding, Craft paper & Others Optimum level.

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