Repaying Capacity and Commitment Levels of MSME Customers of Regional Rural Banks in India with Special Reference to Coimbatore City

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Abstract: Financial assistance is the acute input for growth and development of MSE. The lack of creditworthiness in respect of lending-borrowing generates inoperative accounts and inactive assets which becomes idle and unproductive for both the sides i.e. between Regional Rural Banks and Micro & Small Enterprises. The present study tries to identify the fluctuating factors and causes for the instability of creditworthiness in respect of assessment of credit proposals realized in between RRB and MSME. This study was intended to study the factors influencing repayment of Credit and to identify the causes of success and failures during the repayment of credit. The reasons for Credit Worthiness and Repayment success or failures were found out by the use of Weighted Average Score Analysis, the instability of Creditworthiness is found. The fluctuations in Creditworthiness are to be significantly assessed during pre and post sanctioning of credit proposals.

Keywords: Credit Worthiness, Repayment, CASA, Credit Report and Collateral Guarantee

I. INTRODUCTION

This study has focused on factors influencing repaying attitude and capacity of MSME Customers in India. In spite of the commercial banking activities exist in all the parts of our country, Rural enterprises in India are still facing problems due to inadequate supply of credit to improve their business. Several committees have emphasized the need to improve the performance of rural banks which can play an imperative role in the rural credit market in India. The creditworthiness is the key factor for availing credit facilities from lending institutions .RRBs are jointly owned by Government of India, the concerned State Government and Sponsor Banks .The issued capital of a RRB is shared by the owners in the proportion of 50%,15%and35% respectively.

The first five RRBs were setup in the States of Haryana, West Bengal, Rajasthan, with one each and two in Uttar Pradesh which were sponsored by different commercial banks. Reserve Bank of India issued the Code, which sets minimum standards of banking practices for banks to follow when they are dealing with Micro and Small Enterprises (MSMEs) as defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006.

Statement of the Problem

Financial assistance is the acute input for growth and development of MSE. The lack of creditworthiness in respect of lending-borrowing generates inoperative accounts and inactive assets which becomes idle and unproductive for both the sides i.e. between Regional Rural Banks and Micro & Small Medium Enterprises. The present study tries to identify the fluctuating factors and causes for the instability of creditworthiness in respect of assessment of credit proposals realized in between RRB and MSE.

Research Gap

The literatures of many researchers across the globe evidenced the creditworthiness of the small, medium and large enterprises that are located at urban areas and availed credit facilities from the commercial banks to develop their businesses. But no attempt has been made to study about the creditworthiness of micro, small and medium enterprises towards borrowing in connection with rural banks. Moreover only five typical components are considered for the assessment of Creditworthiness and no sound research work was found that related the procedural awareness and market status. The present study focuses on this gap with a strong belief to build knowledge based bridge by conducting broad research on fluctuating creditworthiness of micro, small and medium enterprises towards borrowing from rural banks located in the Coimbatore district.

II. OBJECTIVES OF THE STUDY

- To study the factors influencing repayment of Credit.
- To identify the causes of success and failures during the repayment of credit.

Scope of the Study

The study is mainly focused on Regional Rural Banks and Micro & Small Enterprises located at Coimbatore District.

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The 8 branches of Regional Rural Bank established in the name of "Pallavan Grama Bank", located at Coimbatore District are the lenders for the Respondents. Micro,Small and Medium Enterprises located at Coimbatore District is the population and it is specifically taken from the list of registered enterprises of CODISSIA, out of which the Respondents are selected for the study.
The creditworthiness is analyzed for these enterprises.

Research Hypothesis

Ho: There is no significant difference in the Commitment Level scores and Repaying History among the Demographic profile of the respondents;

H1: There is the significant difference in the Commitment Level Scores and Repaying History among the Demographic profile of the respondents.

III. RESEARCH METHODOLOGY

Questionnaire and Sampling Design
The questionnaire is structured and divided into four major sections. The registered Enterprises of the Coimbatore District Small Industries Association (CODISSIA) are the Population of the study, out of which the required sample size are selected as the respondents. Stratified Random Sampling method is selected for the present study. Out of the population, 350 numbers of respondents are selected as sample size according to the statistical Calculation. The Population is considered from Micro and Small Enterprises (MSME) located at Coimbatore District. The Size of the population is 1684 who are the members of the Coimbatore District Small Industries Scale Industries Association (CODISSIA), out of which, 350 MSEs are selected as respondents for the research study. The population is listed by the type of business/Industry wise in 10 groups. The purpose of the study is to identify the exact factors influencing Repayment of MSME Borrowers.

Sample Size Algorithem:
Required Sample Size (For Finite Population)

$$= SS/1+ (SS-1)/POP$$
$$= 384/1+ (384-1)/1684$$
$$= 313$$

The calculation of sample size shows 313 numbers required as samples. Instead of 313, 350 numbers were selected from the respondents and used for statistical analysis. A random sample from each spectrum is taken in a number proportional to the spectrum size when compared to the population. These subsets of the strata are then pooled to form a random sample

IV. DATA COLLECTION METHOD

Primary data is collected through structured questionnaire from the respondents. Secondary data is collected through the websites of Reserve Bank of India, Banking Codes and Standards Board of India, NABARD, MSMED and from various journals.

Pilot Study

A pilot study was undertaken and data collected from 50 respondents for pre-testing the structured questionnaire to understand the variables involved in the study. Discussions were held with my supervisor, professors, bank managers and entrepreneurs. Apart from the typical five components, further two components are added to Creditworthiness in the present study and accordingly the questionnaire has been restructured and finalized to conduct the research.

Tools used for Data Analysis

In order to analyse the data and draw interpretation, the statistical tool namely Weighted Average was used in this present study.

Limitation of the Study

The study is limited to the concept of fluctuating creditworthiness towards borrowing and lending operations of rural banks. The study confines the enterprises only those are micro small and Medium enterprises and it does not include the medium and large enterprises.

Results of the Study:

TABLE 1.1
PROCEDURAL AWARENESS OF ENTERPRISES

S.NO	AWARENESS ON CREDIT PROCEDURES	WEIGHTED AVERAGE SCORE	RANK
S1	Opening Current / Savings Account (CASA)	4.000	1
S2	Cheque Discounting	1.908	5
S3	Bill Discounting	2.030	4
S4	Cash Credit / Overdraft Facility	2.834	2
S5	CGTMSE (credit guarantee scheme))	2:205	3
S6	Loan Documentation Process	1.836	7
S7	Factoring Services	1.853	6
S8	Opening (L/C) Letter of Credit	1.786	8
S9	Payment and Settlement Systems	1.620	10
S10	Banking Ombudsman	1.768	9

Source: Primary data

The above table, shows that the 10 mean scores of awareness on credit procedures among the enterprises, ranged from 1.620 to. 4.000 and the statement S1- 'Opening Current / Savings Account (CASA)' secured higher mean score and stood at top whereas the statement S9- 'Payment and Settlement Systems' secured least score and stood at last. It indicates that the enterprises have more awareness in opening current/savings account and need more awareness on payment and settlement systems prescribed by the rural banks.

TABLE 1.2
PROFIT POTENTIAL OF ENTERPRISES

S.NO	AWARENES. ON CREDIT PROCI. DUKES	WEIGHTED AVERAGE SCORE	RANK
S1	The increase in sales revenue turnover yields potential profit in the. Business.	3.027	4

S2	The planned production schedule supports regular supply of goods to sustain profit.	3.825	3
S3	The financial strategy of the company increases the potentiality of business.	3.905	1
S4	The optimum cost:: control gives increased rate of return in the business:	3.85:.1	2
S5	Minimizing the production in offseason avoids unnecessary losses.	2.887	5

Source: Primary data

The above table shows that among the 5 mean scores on profit potential of enterprise among the enterprises, ranged from 2.887 to 3.905. The statement S3-The financial strategy of the company increases the potentiality of business' secured higher mean score and stood at top whereas, the statement S5- 'Minimizing the production in off-season avoids unnecessary losses' secured least score and stood at last. It shows that the enterprises are very keen in framing financial strategy to increase the profit of business. But do riot concentrate in Minimizing production in off-season to avoid losses.

TABLE 1.3
FINANCIAL RESOURCES OF ENTERPRISES

S.NO	FINANCIAL RESOURCES OF ENTERPRISES	WEIGHTED AVERAGE SCORE	RANK
S1	Adequate capital is required for sunning the existing/proposed business.	3.745	3
S2	The trade credit leads to flexible. Source of finance for the business enterprise.	3.765	2
S3	Availing cash credit/overdraft from the bank provides possible financial resource.	3.860	1
S4	Inventories, support to avail short term borrowing from bank at the off-season time.	3.739	4
S5	The term loan is a source which helps to expand the business of an enterprise.	.848	5

Source. Primary data

The above table shows that among the 5 mean scores on financial resources among the enterprises, ranged from 2.848 to 3.860 and the statement S3- 'Availing cash credit/overdraft from the bank provides possible financial resource' secured higher mean score and stood at top whereas the statement S5- 'The term loan is a source which helps. to expand the enterprise' secured least score and stood at last. It is observed that the enterprises are very interested in availing cash credit/overdraft from the rural banks instead of getting term loan to expand their business.

TABLE 1.4
REPAYMENT HISTORY OF ENTERPRISES

S.NO	REPAYMENT HISTORY OF ENTERPRISES	WEIGHTED AVERAGE SCORE	RANK
S1	Regular repayment enhances Credit worthy understanding with the bank,	3.753	4
S2	Timely- payment to bank/ sundry creditors creates good record on an enterprise.	3.952	1
S3	Default, or delay in payment may not create bad image to the business.	2.525	5
S4	Intermittent credit purchases make the suppliers/bank happy and also create merit.	3.884	2
S5	Good repayment history allows the bank in enhancing credit during offseason time.	3.774	3

Source: Primary data

The above table showed that among the 5 mean scores on the factors influencing on repayment history among the enterprises ranged from 2.525 to 3.952 and the statement S2- 'Timely payment to bank/ sundry creditors creates good record on an enterprise' secured higher mean score and stood at top whereas the statement S3- 'Default or delay in payment may not create bad image to the business' secured least score and stood at last.

It indicates that the enterprises accept •to take -due care in making timely payment of their credits availed. But at the same time they should be cautious in default payment which would create bad image to their business.

TABLE 1.5
CREDIT REPORT OF ENTERPRISES

S.NO	CREDIT REPORT OF ENTERPRISES	WEIGHTED AVERAGE SCORE	.RANK
S1	Credit report is prepared by CIA to: assess the credit worthiness of the borrower.	3.282	2
S2	Credit reporting is a system to decide whether to sanction or reject the credit to the borrower?	3.201	3
S3	Credit report discloses the information about the payment activities of the borrower.	2.937	5
S4	Based on the information in the credit report the bank analyzes the risk level of lending	3.074	4
S5	Default or delay in repayment of credit leads to poor report about the borrower.	3.938	1

Source: Primary data'

The above table showed that among the 5 mean scores on the factors influencing on credit report among the enterprises ranges from 2.937 to 3.938 and the statement S5- 'Default or delay in repayment of credit leads to poor report about the borrower' secured higher Mean score arid stood at top whereas the statement S3- 'Credit report discloses the information about the payment activities of the borrower' secured least score and stood at last.

It directs the enterprises not to follow the delay in repayment of credit to avoid issue of poor report on 'them since they know that credit report is the disclosure of payment activities.

TABLE 1.6
MARKET STATUS OF ENTERPRISES

S.NO	MARKET STATUS OF ENTERPRISES	WEIGHTED AVERAGE SCORE	RANK
S1	Efficient market is a positive measure of profit to manage creditworthiness as well.	4.101	1
S2	Pricing strategy of an enterprise gives competitive standing in the defined market.	4.050	4
S3	Market growth of an enterprise is the indication for improved market status of an enterprise.	3.400	5
S4	The supply of poor quality products affects the market status of an enterprise	4.017	3
S5	The intensity of competitiveness helps to ensure status quo in the market.	4.077	2

Source: Primary data

The above table showed that among the 5 mean agreeability scores on the factors influencing on market status among the enterprises, ranged from 3.400 to 4.101 and the statement S1- 'Efficient market is a positive measure of profit to manage creditworthiness as well' secured higher mean score and stood at top whereas the statement S3- 'Market growth of an- enterprise is the indication for improved market status of an enterprise' secured least score and stood at last.

It indicates that the enterprises are in the 'positive opinion of competitive withstanding in their market in, spite of they are well known about the market growth which is the indicator of enterprise growth.

TABLE 1.7 COLLATERAL GUARANTEE OF ENTERPRISES

S.NO.	COLLATERAL GUARANTEE OF ENTERPRISES	WEIGHTED AVERAGE SCORE	RANK
S1	The bank insists for collateral guarantee from an enterprise for all types of credit.	3.872	1
S2	Pledging security against the credit sanctioned in the bank gives protection to the borrower.	2.154	4
S3	Third party guarantee to the borrower is considered as collateral security in the bank.	3.299	2
S4	It is rationale for the borrower to forfeit the collateral in case	2.240	3
S5	of default payment: The bank sanctions credit to the borrower without obtaining collateral security.	2.130	5

Source: Primary Data

The above table showed that .among the 5 mean. agreeability scores on the factors influencing on collateral guarantee among the enterprises, ranged from 2.130 to 3.872 and the statement S 1 'The bank insists for collateral guarantee from an enterprise for all types of credit' secured higher mean score and stood at top whereas the statement S5- 'The bank sanctions credit to the borrower without obtaining collateral security' secured least score and stood at last.

It specifies that the enterprises are well' aware of providing collateral guarantee to avail credit from rural -banks. But they do not agree to provide collateral for sanctioning any type of credit.

TABLE 1.8
CAUSES FOR SUCCESS IN REPAYMENT OF ENTERPRISES

S.NO	CAUSES FOR SUCCESS IN REPAYMENT	WEIGHTED AVERAGE SCORE	RANK
S1	Planning the expenditure in advance against the revenue makes success in repayment.	3.602	2
S2	Focusing on repeat sales provides sufficient cash flow to enable timely repayment.	3.605	1
S3	The increase in profit supports an: enterprise in successful repayment of credit	3..543	3
S4	Choosing appropriate tenure for repayment is a cause for success and avoids default.	3.035	5
S5	Affordable interest rate for credit avoids penalty repayment by the borrower.	3.115	4

Source: Primary data

The above table shows that among the 5: Mean scores on the factors influencing causes for success in repayment among the enterprises, ranged m 3.035 to 3.605 and the statement S2- 'Focusing 'on repeat sales provides sufficient cash flow to enable timely repayment', secured higher mean score and p stood at top whereas the statement.S4- 'Choosing appropriate tenure for repayment is a cause for success and avoids default' secured least score and stood at last. It indicates that the enterprises need to focus on repeated sales to have sufficient cash flow in their business. The enterprises should take much care in selecting the repayment tenure to avoid default But focusing on repeated sales will positively give success in terms of repayment to credit availed from rural banks.

TABLE 1.9
CAUSES FOR FAILURE IN REPAYMENT OF ENTERPRISES

S.NO	CAUSES FOR FAILURE IN REPAYMENT	WEIGHTED AVERAGE SCORE	RANK
S1	Overestimating revenues and underestimating expenses is a cause for failure of repayment.	3.632	1
S2	Customers' dissatisfaction damages the repeat sales which affects cash flow and timely repayment.	3.552	2
S3	Careless on profit margin decreases the profit of an enterprise and makes, repayment delay	3.225	3
S4	Choosing shorter tenure for repayment causes failure and creates default.	3.113	4
S5	High interest rate for credit Makes penalty: repayment by the borrower	2.828	5

Source: Primary data

The above table showed that among the 5 mean scores on the factors influencing on causes for failure among the enterprises, ranged from 2.828 to 3632 and the statement. S1-'Overestimating revenues and underestimating expenses is a cause for failure of repayment' secured higher mean score and stood at top whereas the statement S5- 'High interest Kate Credit makes penalty repayment by the borrower' secured least score and stood at last. It specifies that the enterprises needs to avoid: the motive of overestimating their revenues and underestimating their expenses. At the same time they are not interested in paying high interest rate for the credit availed from rural banks.

Key Results from the Weighted Average Scores among the Borrowing Factors of MSME Enterprises

The researcher came to identify that there is the positive change between Commitment Level and Loan Repayment history from the evidence of higher results that researcher received for Timely re- of loans(3.952), Intermittent credit purchases make the supplies/Bank happy (3.884) and Good Repayment history allows the in enhancing credit during offseason time(3.774). It is hence alternative hypothesis is accepted.

❖ Among the weighted average scores on Commitment Level the majority of opinion on Repayment History (4.017) stood first followed by other constituents of creditworthiness such as Market Status, Financial Resources, Profit Potential, Procedural Awareness, Credit Report, and Collateral Guarantee. It indicates that the enterprises pay more attention on their repayment of credit availed from rural banks.

❖ The weighted average scores on Procedural Awareness shows the majority of ratings on 'Opening Current/Savings Account-.(CASH)' scored (4.000) and stood at first followed by, other products such, as Cash Credit/Overdraft Facility, CGTMSE, Bill Discounting, Cheque Discounting, Factoring Services, Loan Documentation Process, Letter of Credit, Banking Ombudsman and Payment & Settlement System: It shows that the enterprises have more awareness in opening current/savings accounts, but they need more awareness on payment and settlements prescribed by the rural banks;

❖ In case of Profit Potential the weighted average scores shows the majority of agreement on Financial Strategy (3.905) and stood first, followed by the statements concerned with Cost Control, Planned Production Schedule, Turnover, and Minimizing the production during off-season. It shows that enterprises are more interested in framing financial strategy to increase the profit, but do not concentrate in minimizing production in off-season to avoid loss.

❖ The weighted average scores on Financial Resources shows the majority of opinion-.on Cash Credit/Overdraft Scored (3.840) and stood first, followed by the statements concerned with Trade Credit, Adequate Capital, Inventories, and Term Loan. It is observed that there enterprises are very interested in availing Cash Credit / overdraft from the rural banks instead of getting term loan to expand their business.

❖ In case of Repayment History scores the weighted average shows the most of the acceptance on Timely Payment. (3.952) and stood first, followed by the statements pertaining to Cash Purchases, Reputation, Regular Payment, and Default in payment. It indicates that the enterprises take due care in making timely payment of their credits availed. But they should be vigilant in default payment which would create bad image to their business

❖ The weighted average score on Credit Report shows the majority of opinion on Poor Report (3.938) which stood first, followed by the statements concerned with Credit Information Agency, Sanctioning of Credit, Risk Level, and Disclosing Payment Activities. It directs the enterprises not to follow the delay in repayment of credit to avoid issue of poor report on them and they should not forget that credit report is the disclosure of payment activities.

❖ The scores on Market Status shows the weighted average on the agreement on Efficient Market (4.101) and hold first rank, followed by the statements concerned with Competitiveness, Poor Quality of Goods, Pricing Strategy, and Market Growth. It displays that the enterprises are in the positive view on competitive withstanding in the market and they should keep in mind about the market growth which is the indicator of enterprise growth.

❖ The weighted average scores on Collateral Guarantee shows the majority of agreement on Insisting on all types of Credit (3.872) which stands first, followed by the statements related to Third Party Guarantee, Forfeiture of Collateral, Protection to the Borrower, and Sanctioning Credit. It specifies that the enterprises are well aware of providing collateral guarantee to avail credit from rural banks. But they do not agree to provide collateral for sanctioning any type of credit.

❖ In case of Causes for Success in Repayment scores the weighted average shows the majority of views on Sufficient Cash Flow (3.605) which stands first, followed by the other statements in connection with Planning the Expenditure, Increase in Profit, Affordable Interest Rate, and Appropriate Tenure of Payment. It indicates that the enterprises need to focus on repeated sales to have sufficient cash flow in their business: The enterprises should take much care in selecting the repayment tenure to avoid default.

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❖ The weighted average scores with regard to Causes for Failure in Repayment shows the majority of views on Overestimating Revenues and Under Estimating Expenses (3.632) and got first rank followed by other statements concerned with Adverse Cash Flow, Profit Margin, Shorter Tenure for Repayment, and High Interest Rate. It specifies that the enterprises needs to avoid the motive of overestimating their revenues and underestimating their expenses: At the same time they are: t interested in paying high interest rate for the credit availed from rural banks.

V. CONCLUSION

The satisfaction in repayment of credit and expectation of flexibility in financial assistance is the question mark for both the sides. In this connection Creditworthiness is required to be extended by MSE towards borrowing. By analyzing the study through various statistical tools, the instability of Creditworthiness is found. The fluctuations in Creditworthiness are to be significantly assessed during pre-post sanctioning of credit proposals. This study is perfectly highlighting that strong attitude towards timely payment; continuous credit application and Good Loan Repayment Record are always earning all the more glories to both Banks/Suppliers and Customers. The market Performance (4.101) and Collateral Guarantee ((3.872) were happened to be major causes for the success in Repayment of Credit.

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