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Empirical Analysis of Financial Crunch in Tourism Related MSME (Micro Small & Medium Enterprises): With Special Reference to Himachal Pradesh

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Abstract: This is a well-known truth that the MSME sector of Indian economy is still in growing stage and all the government agencies and authorities are taking the relevant and necessary step to join the same in mainstream financial system of the country. Then on the other hand it is also true that no business is going to flourish without the financial assistance and the growth of tourism related MSME is somewhat dependent on financial assistance from external sources. As per the report of MSMEs in various years it was found that service related MSMEs are at the lowest level of priority list of financial institutions. This present study will try to understand the gap between the perception and expectation of financial institutions regarding service related MSMEs and also try to find the nature of factors responsible for the same. The sample of the study is tourism related MSMEs of Himachal Pradesh, total sample size is 22 such MSMEs.

Keywords: Tourism, MSME, credit and finance related issues

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INTRODUCTION

State of MSME in India

This is a well-known fact that in the corporate sector there are a number of companies working at different levels i.e. in general the domain of working is fixed but in the Indian context the scenario is different, here every second company is thriving to get business in any possible manner and many of the budding entrepreneurs are overpowered in the process. **Jatha et al (2015)**. The focused growth of tourism industry in India started after the announcement of Industrial Policy, 1991 when foreign investment was allowed in the sector. At that point of time a number of Small Scale Industries were working as allied industries in tourism sector. As a matter of fact these industries were overpowered by large companies in the sector and they never received the stature of separate organizations. **Singh et al (2016)** with the multifold growth of tourism industry in the country and introduction of Eco-Tourism and Medical Tourism compelled the authorities to regularize the presence of these small scale industries, in lieu of the same MSMED (*Micro, Small and Medium Enterprises Development*) Act, 2006 was laid down and a number of facilities and concessions were given to all the firms registered as MSME. As per the MSME Act, following conditions were laid down:

- In case of manufacturing:

- *Micro Enterprise*: any enterprise that has invested, not more than, 25 lakhs in plant and machinery
- ***Small Enterprise***: any enterprise that has invested above 25 lakhs and up to 5 cr.
- ***Medium Enterprise***: any enterprise that has invested above 5 cr. Up to 10 cr.

- In case of services:
  - ***Micro Enterprise:*** any enterprise that has invested up to 10 lakhs,
  - ***Small Enterprise***: any enterprise that has invested more than 10 lakhs and up to 2 cr.
  - ***Medium Enterprise***: any enterprise that has invested more than 2 cr. and up to 5 cr.

As stated above the focused growth of MSME in the country started after the announcement of MSMED Act, 2006 and since then government authorities and related agencies have taken all the relevant steps to ensure the growth of such industries and all this is done to assimilate these industries in the main stream financial system of the country, on the other hand the industry experts and economist have also identified the need to increase the flow of money in the overall economy, as a matter of fact this was possible only when the flow of money starts from the bottom of pyramid and MSME are the best option for the same.

Since the announcement of the Act in 2006, MSME have started to show their gravity in overall business environment of the country and as a result till 2009 more than 15% of the total employment was governed by companies registered under the head of MSME, this was a real achievement and also a great amount of motivation for new entrants. Then on the other hand, average growth of the industry was increased by around 6.01% in just two years i.e. till 2008 and the expected growth rate was around 22% on annual basis. As far as employability in the sector is concerned, all the semi-skilled and unskilled workers are eligible to work for MSME and this is even more motivating that the nature of employment is full time, this phenomenon has worked in two ways i.e. first the rate of employment increased in overall industry and secondly more number of entrepreneurs were motivated to get registered as MSME. Looking at the growth rate of MSME in the country, it is expected that in next 10 years i.e. till 2030 overall MSME sector in the country will grow by 40% and will keep on increasing at the rate of approximately 20% for the years to come. **MSME Overview (2013).**

State of MSME in Himachal Pradesh

This is a well-known fact that by the time of independence India was an agriculture based economy and Himachal Pradesh was no exception to the same i.e. overall economy of the state was based on agriculture and for all other commodities the state was dependent on imports. As a matter of fact in the initial years of 90s' the economic growth rate of the state was 6% and the same remained constant for next 5 years. This was the time when the new industrial policy was launched i.e. in 1991 and private companies' even foreign companies have started their operation in the country as well as in the state.

As glimpse of MSME growth in the state of Himachal Pradesh can be attained in the table given below:

Table 1: Year Wise growth of MSME in Himachal Pradesh (2001-2017)

Year of Assessment	MSME Units	Tentative Investment (In Rs. Lacs)	Employment Generated
2001-02	875	4363.04	4468
2002-03	792	4815.22	5219
2003-04	686	3001.65	3872
2004-05	748	4218.58	3647
2005-06	697	2599.08	3389
2006-07	663	3762.52	3684
2007-08	913	8891.52	5962
2008-09	914	11254.30	6247
2009-10	952	42318.53	10556
2010-11	842	69874.92	11418
2011-12	909	71683.58	10887
2012-13	1032	76352.88	10995
2013-14	963	87391.58	11527
2014-15	856	95482.65	8547
2015-16	798	96428.63	9853
2016-17	630	46221.08	10547

Source: Directorate of Industries, HP (2018)

As far as tourism industry of Himachal Pradesh is concerned, in the present times it is one of the most important sector for the overall growth of economy. On the other hand it is also true that the state of

Himachal Pradesh is having all the necessary components important for the growth of tourism industry, like diverse culture, differentiated geographical landscapes, clean environment, great hospitality of local people. In the present time state government and related agencies are taking all the interest in development of public services, utilities, connecting roads, means of communication, air connectivity and even supply facilities. The tourism department of the state is in the process of installing seven ropeways at major tourism destinations like, Rohtang, Kullu, Neugal, Triund, etc. and all these development are done over a PPP (Public Private Partnership) Model. Other than this the department of tourism is also looking forward to train people in various adventure sports like water sports, white water rafting, tracking, etc.

LITERATURE REVIEW

MSME Report, HP (2016) This report prepares the statistical reports on the growth of MSME in the state. The findings of the report stated that as per the statistical data for last 5 years the growth of MSME is slow and the overall growth of MSME is not as per expectation. On the other hand the respective agencies are willing to provide all the necessary facilities to respective entrepreneurs like banking services, enhanced insurance covers, minimum intervention of financial intermediaries, etc. as per the expectations it is assumed that the MSMEs are liable to grow in the state and their contribution in the main stream financial system is also expected to increase in the years to come.

Sohit et al (2017) the researcher conducted a study on the overall development of MSME in the country and findings of the study stated that in India MSME are clustered in different groups and these groups are divided into different industries like software, jute, tourism, transport, hospitality, etc. the other segregations are on the behalf of agricultural states i.e. agri-based industries like in Punjab, Uttar Pradesh, M.P., etc. the other findings of the study stated that in agricultural rich states the MSME have flourished to a substantial level, in general manufacturing sector is included in this section. Then on the other hand non-manufacturing MSME are still thriving for growth opportunities, rather tourism and education based MSMEs are growing and employing a great number of people.

Jagat et al (2018) This study was based on problematic issues related to MSME in the country. The major findings of the study stated that competition from bigger companies and availability of finances are some of the major problems and even these problems are acting like hurdles in the way of growth. As a matter of fact, respective financial institutions are rationing the flow of finances to MSMEs for a number of reasons like age of MSME, area of operation, issues related to governance, etc. the researchers stated that there is a gap in understanding the issues from both ends and this gap is needed to be filled.

OBJECTIVE

This present study is conducted to evaluate the financial viability of tourism related MSME in the state of Himachal Pradesh and impact of the same on overall growth of the industry.

HYPOTHESIS

H_0: The endogenous factors are responsible for slow growth of tourism MSME in the state of Himachal Pradesh.

H_1: The exogenous factors are responsible for slow growth of tourism MSME in the state of Himachal Pradesh.

RESEARCH METHODOLOGY

- The secondary data is imperative for the formation of research objectives and hypothesis, in this present study secondary data is used in the same manner and rest of the progress is based on primary data.
- The population of this present study is all the MSME working in the state of Himachal Pradesh and 22 tourism related MSME are selected for the sake of study. As a matter of fact the owners and proprietors of these MSMEs' are contacted to get the first hand information.
- The researcher has contacted these respondents and collected their responses on a formatted and structured questionnaire.
- The researcher has tried to contact all the tourism related MSMEs in the state but some of them are either not available or are not willing to participate in the study.

Sources of Data

- MSME Insights (2010-18 Issues)
- Ministry of MSME (website)
- MSME, Center for Civil society, 2016-19
- Research journals
- Magazines on tourism
- Indian and Foreign newspaper article on MSME

Tools of study

- Analysis of Variance (One way)

Software used

- SPSS Ver. 22.0

DATA ANALYSIS AND INTERPRETATION

Results of ANOVA (*One Way*) Test

On the basis of Operations (*Online/Offline*)	F	Sign
Availability of credit as per need	3.922	**2.982**
Documentation for MSME is too lengthy	2.157	**1.102**
Banks and NBFCs are not supportive to MSMEs	6.188	**5.140**

Less financial support to new MSMEs	.146	.017
High interest rates	1.178	.364
Schedule of repayment is not lucrative	2.354	**1.566**
Delay is issuance of credit creates problems	1.626	**.491**
Credit worthiness of MSMEs is poor in state	1.901	.581
Equity options are available	1.159	.019
Working capital schedules are very tight	1.937	.037
Minimum avenues of fixed capital	3.513	**1.261**
On the basis of years of operation (*Experience*)		
Availability of credit as per need	1.919	.381
Documentation for MSME is too lengthy	.123	**.031**
Banks and NBFCs are not supportive to MSMEs	.238	.009
Less financial support to new MSMEs	1.352	.120
High interest rates	1.911	2.118
Schedule of repayment is not lucrative	.694	.121
Delay is issuance of credit creates problems	1.234	.010
Credit worthiness of MSMEs is poor in state	.231	1.381
Equity options are available	1.690	.035
Working capital schedules are very tight	3.907	2.615
Minimum avenues of fixed capital	1.930	1.130
On the Basis of Need of Credit		
Availability of credit as per need	2.141	.018

Documentation for MSME is too lengthy	1.904	1.126
Banks and NBFCs are not supportive to MSMEs	1.104	.371
Less financial support to new MSMEs	1.010	.263
High interest rates	.680	.015
Schedule of repayment is not lucrative	2.154	1.907
Delay is issuance of credit creates problems	0.398	0.011
Credit worthiness of MSMEs is poor in state	1.618	.364
Equity options are available	.354	**.566**
Working capital schedules are very tight	1.126	**.691**
Minimum avenues of fixed capital	1.901	.581
On the Basis of past credit records		
Availability of credit as per need	1.108	.697
Documentation for MSME is too lengthy	1.936	.378
Banks and NBFCs are not supportive to MSMEs	1.135	.695
Less financial support to new MSMEs	2.166	**2.907**
High interest rates	2.131	1.951
Schedule of repayment is not lucrative	.350	**.108**
Delay is issuance of credit creates problems	.244	1.301
Credit worthiness of MSMEs is poor in state	.231	.781
Equity options are available	.902	.037
Working capital schedules are very tight	1.917	.837
Minimum avenues of fixed capital	1.945	.356

Interpretation

The analysis given above holds the data for demographics of the owners of selected tourism related MSMEs and operational components of the same. As far as the results of analysis are concerned, the researcher has given major thrust on the following related components:

- Years of operation
- Market experience of the firm
- Capital structure and requirement of finances
- Issues related to working capital
- Real time competition

The researcher has considered one way ANOVA to find the variation in the responses of selected MSMEs and all the questions asked were related to the assessment of availability of finances and need of the same at different levels of business operations. As the results show that in most of the cases are test results are favorable this shows that there is minimum difference between the values of 'F' ratio and 'Sign.' Value. As a matter of fact this does not shows that situation is comfortable for the MSMEs in Himachal Pradesh. Less variation shows that the respondents are agreed to the point in question and have common problems, as far as need and availability of finances is concerned.

As a matter of fact tourism is a service related industry and most of the stakeholders are working in online mode i.e. right from ticket booking to payments almost everything is on virtual platforms. The main problem for the financial institution is of repayment schedules and generation of NPAs in the sector. Then on the other hand, suitable number of years in market operation is another big issue i.e. credit is required by the entrepreneurs to develop the business and financial institutions are not willing to provide credits to new entrants.

Then there are a number of cases where the past credit history of the MSME and even its owner is not supportive enough to arrange credit from open market even the NBFCs are not willing to lend money to such MSMEs. It is not so that government agencies are not active, rather they are doing everything to support the MSMEs in all respects i.e. right from easy incorporation to tax holidays but as far as credits are concerned even the government agencies do not have any control over the financial institutions and the debtors are required to follow all the norms to get credit from the respective financial institutions.

RESULT

As per the results and interpretation stated above it can be said that the main issues in the credit availability of tourism related MSMEs in Himachal Pradesh are of endogenous nature and hence the null hypothesis '*The endogenous factors are responsible for slow growth of tourism MSME in the state of Himachal Pradesh*' can be accepted and the alternate hypothesis can be rejected.

CONCLUSION

The wide diversity in the culture and value system of India is even visible in the business environment of the same and as far as tourism industry is concerned it is undergoing a tremendous pressure because of 'Covid-19'. If this threat is avoided for once then also credit availability for service related MSME is tough nut to crack. Even in state like Himachal Pradesh, where there is a lot of scope for development of tourism related avenues credit worthiness of related MSMEs is diminishing. This is true that the policies of government are very supportive for the growth of such type of MSMEs but then again the government agencies do not have any control over the functioning of financial institutions. This present study has observed the finance related issues of MSME in the state of Himachal Pradesh and findings of the study stated that the MSME in Himachal Pradesh are still in infancy stage and as per the new tourism regulation the country it is very important for the related MSMEs to control the basic operation of business i.e. control the flow of finances to other agencies, keep a close track of working capital, try to expand the business operation with available resources, try to keep the credit history within acceptable limits.

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