Business Confidence Outlook of MSMEs - An Observed Fact from Gokul Industrial Estate.

Dr. Mrityunjaya B Chavannavar[1]

Asst. Prof. Chetan Business School, Hubballi

Miss. Chetana A. Lahoti[2]

MBA 2nd Year, Chetan Business School, Hubballi.

Abstract:

Indian manufacturing output growth was slowest in the last fifteen months in August 2019. The recent drop observed in the Index of Industrial Production and Rupee depreciation has added worries to continued weakening Indian economy. Recent rise in CAD to 2.5%, in Q3 FY2018-19 (2.5% of GDP) and volatility of INR against Dollar ahead of Monetary Policy Committee review, has raised concerns and opened up challenges for Indian Economy, predominantly the MSMEs. Here is an effort made to observe the business confidence outlook of MSMEs located in Gokul industrial Estate Hubballi.

The survey is undertaken for different industries to know whether there is any significant difference between the industries on business confidence outlook. The study revealed that the MSMEs are quite optimistic on capacity utilization, sales, market share and performance in the coming years. The authors found that there is no significant difference between the business confidence out look of MSMEs of different industries.

Key words: Business Confidence, Capacity Utilisation, Sales, Market Share, Performance.

Introduction:

The business confidence is based on enterprises' assessment of production, orders and stocks, as well as its current position and expectations for the immediate future. Opinions compared to a "normal" state are collected and the difference between positive and negative answers provides a qualitative outlook on economic conditions. Business Confidence Survey is a survey of local companies designed to gauge business activity, optimism, planning, market share and investment in the companies for better future growth. Business surveys provide essential information for economic monitoring, short term forecasting and economic research. Business confidence surveys are widely used to detect turning points in the economic and business houses.

The study is conducted for the manufacturing industries located in Gokul industrial estate. Future expectation about the company growth in terms of consumer demand, slaes, market share and competition they are going to face is evaluated. The business confidence among the entreprenuers is examined. Challenges like cureency

depreciation, increasing inflation which may hinder the growth of the enterprises are estimated by collecting feedback from the owners of the compnies.

Literature review:

FICCI Economic outlook survey (May 2019) highlighted that, the median growth forecast for IIP has been put at 4.4% for 2019-20 by the participating economists, with a minimum and maximum range of 3.3% and 5.5% respectively. The latest monthly IIP data has reported a negative growth in industrial production. The index contracted by 0.1% in the month of March 2019 vis-à-vis 5.3% growth witnessed in the same month previous year. The report also point out that, the oncerns remains on external front with median current account deficit forecast pegged at 2.1% of GDP for 2019-20. Median export growth is pegged at 4.0% in 2019-20. Imports, on the other hand, are forecasted to grow at 3.8% in the same year.

FICCI's survey on Manufacturing (June 2019) depict a moderation of outlook for the manufacturing sector in Q-1 (April-June 2019-20) as the percentage of respondents reporting higher production in first quarter has fallen vis-à-vis the Q-4 of 2018-19. Overall sentiments in manufacturing remains subdued as the proportion of respondents reporting higher output growth during the April-June 2019 has fallen to 41% as compared to Q-4 of 2018-19 (54%). The percentage of respondents expecting low or same production is 59% in Q-1 2019-20 which was 46% in Q-4 of 2018-19.In terms of order books, 36% of the respondents in April-June 2019 are expecting higher number of orders against 44% in January-March2019.

The latest round of FICCI's Business Confidence Survey (Jun 2019) revealed a moderation in the optimism level of members of India Inc for the fifth consecutive quarter. The Overall Business Confidence Index stood at 59.6 in the current round vis-à-vis an index value of 60.3 reported in the last survey. Moderation in assessment regarding the current conditions pulled the overall index value down during the quarter.

Objectives of the study:

- To examine the present performance of the company.
- To examine the challenges companies are going to face in the coming years.
- To study the effect of inflation, currency fluctuation and government policies on business of the companies.

Need for the study:

India's Gross Domestic Product (GDP) grew 5% in the April-June 2019, much lower than 8% growth in the same quarter last fiscal. It has opened the doors for more interest rate cuts by the RBI in the coming days. The Reserve Bank of India has recently projected India's GDP growth for 2019-20 at 6.9%.

The RBI annual report 2019 said that it was difficult to diagnose the reason or nature of India's slowdown. It is understood that, the diagnosis is difficult and the conditions are hard to sort out cleanly. The slowdown is broad based and GDP growth during the first quarter was dragged down by manufacturing growth at 0.6% as compared to 12.1% in same quarter last fiscal.

Indian manufacturing output growth was slowest in the last fifteen months in August 2019. The recent drop observed in the Index of Industrial Production and Rupee depreciation has added worries to continued weakening Indian economy. Recent rise in CAD to 2.5%, in Q3- FY2018-19 (2.5% of GDP) and volatility of INR against Dollar ahead of Monetary Policy Committee review, has raised concerns and opened up challenges for Indian Economy, predominantly the MSMEs.

For a business organization risk arising from both internal and external factors will be challenge. As per the Business confidence survey of FICCI indicates a recovery in Index of Industrial Production data and improvement in employment opportunities. It has also cited better capacity utilization rates. But the question arises is about MSMEs growth. Whether the MSMEs are facing challenges with present macroeconomic situation and whether there is full capacity utilization and increase in orders. There is need to understand whether inflation and monetary policy implications have had any effect on business growth and future expectations in MSMEs.

Business confidence survey helps to study various economic factors which will affect the future performance of the enterprise. Hence here an attempt is made to understand the level of confidence among the owners of MSMEs about the future business opportunities. The survey is conducted to collect the feedback on business outlook confidence through a self-administered questionnaire.

Scope of the study:

The study is restricted to only 50 MSMEs form four industries located in Gokul Industrial Estate, Hubballi. Sample size was 8.70% (50/575) of Gokul Industrial Estate MSMEs. The feedback on business confidence level among the owners of the firms is collected to understand the future prospects of the firm. MSMEs were selected form Fabrication & Engg, Food & Beverages, Paper Products and Rubber & Plastics.

Research methodology:

The feedback about the business confidence of the company in future is collected through a self-administrated questionnaire. The response is collected from entreprenuers of MSMEs located in Gokul Industrial Estate, Hubballi. The study period was for only two months from 1st June 2019 to 31st August 2019. The convenient sampling technique is used to collect data. Total sample size was 50 and sample unit is MSME. Total sample size was 8.7% of MSMEs located in Gokul Industrial Estate MSMEs. Validation of the questionnaire is carried out with 0.98 chronbach alpha.

Secondary data is collected from various sources like FICCI articles, RBI reports, research publications, news papers and various websites. The business confidence among the owners is estimated and analysed using SPSS tools like Cross tab, Frequency table. t test conducted to know the level of significance. The difference between mean of the industries for sales, market share, competition and consumer demand is compared using one way Anova.

Data analysis and interpretation:

Table No 1: Average annual growth in turnover in the recent past.				
	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 5%	30	60.0	60.0	60.0
5% to 8%	20	40.0	40.0	100.0
Total	50	100.0	100.0	

Table No 2: Average annual growth in turnover in the recent past			
Industry	Less than 5%	5% to 8%	Total
Fabrication & Engg	15	5	20
Paper Products	0	5	5
Food & Beverage	5	10	15
Rubber & Plastics	10	0	10
Total	30	20	50

Table No 3: Average annual profit margins of the company in the recent past				
	Frequency	Percent	Valid Percent	Cumulative Percent
Increased Substantially	10	20.0	20.0	20.0
Increased	15	30.0	30.0	50.0
Remained Same	25	50.0	50.0	100.0
Total	50	100.0	100.0	

Table No 4: Average annual profit margins of the company in the recent past				
Industry	Increased Substantially	Increased	Remained same	Total
Fabrication & Engg	5	5	10	20
Paper Products	5	0	0	5
Food & Beverage	0	10	5	15
Rubber & Plastics	0	0	10	10
Total	10	15	25	50

Table No 5: Description of business outlook of the companies in coming next two years in terms of sales.				
	Frequency	Percent	Valid Percent	Cumulative Percent
Neutral	20	40.0	40.0	40.0
Optimistic	30	60.0	60.0	100.0
Total	50	100.0	100.0	

Table No 6: One-Sample Statistics				
Description of business outlook of companies in coming next two years in terms of sales.	N	Mean	Std. Deviation	Std. Error Mean
	50	3.60	.516	.163

Table No 7: One-Sample Test						
	Test Value = 3					
Description of business outlook of companies in coming next two years in terms of sales.					95% Confidence Interval of the Difference	
	T	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
	3.674	49	.005	.600	.23	.97

Table No 8: ANOVA					
Description of business outlook of companies in coming next two years in terms of sales.					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.183	3	.061	.191	.899
Within Groups	1.917	46	.319		
Total	2.100	49			

Hypothesis:

H_0 = There is no significant difference between sales outlook of the company among companies.

H_1 = There is significant difference between sales outlook of the company among companies.

Table No 9: Description of business outlook of the companies in coming years in terms of Market share				
	Frequency	Percent	Valid Percent	Cumulative Percent
Neutral	30	60.0	60.0	60.0
Optimistic	20	40.0	40.0	100.0
Total	50	100.0	100.0	

Table No 10: One-Sample Statistics				
Description of business outlook of the companies in coming years in terms of market share	N	Mean	Std. Deviation	Std. Error Mean
	50	3.40	.516	.163

Table No 11: One-Sample Test						
Test Value = 3						
Description of business outlook of the companies in coming years in terms of market share					95% Confidence Interval of the Difference	
	T	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
	2.449	49	.037	.400	.03	.77

Table No 8: ANOVA					
Description of business outlook of the companies in coming years in terms of market share					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.483	3	.161	.504	.693
Within Groups	1.917	46	.319		
Total	2.400	49			

Hypothesis:

H_0 = There is no significant difference between the market share outlook of the company among companies.

H_1 = There is significant difference between the market share outlook of the company among companies.

Table No 13: Description of business outlook of the companies in the coming years in terms of competition				
	Frequency	Percent	Valid Percent	Cumulative Percent
Neutral	25	50.0	50.0	50.0
Optimistic	20	40.0	40.0	90.0
Highly Optimistic	5	10.0	10.0	100.0
Total	50	100.0	100.0	

Table No 14: One-Sample Statistics

Description of business outlook of the companies in the coming years in terms of competition.	N	Mean	Std. Deviation	Std. Error Mean
	50	3.60	.699	.221

Table No 15: One-Sample Test

	Test Value = 3					
Description of business outlook of the companies in the coming years in terms of competition.	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
	2.714	49	.024	.600	.10	1.10

Table No 16: ANOVA

Description of business outlook of the companies in the coming years in terms of competition.

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	1.150	3	.383	.708	.582
Within Groups	3.250	46	.542		
Total	4.400	49			

Hypothesis:

H_0 = There is no significant difference between competition outlook of the company among companies.

H_1 = There is significant difference between competition outlook of the company among companies.

Table No 17: Description of business outlook of the company in the coming years in terms of consumer demand.

	Frequency	Percent	Valid Percent	Cumulative Percent
Neutral	10	20.0	20.0	20.0
Optimistic	40	80.0	80.0	100.0
Total	50	100.0	100.0	

Table No 18: One-Sample Statistics

Description of business outlook of the company in the coming years in terms of consumer demand.	N	Mean	Std. Deviation	Std. Error Mean
	50	3.80	.422	.133

Table No 19: One-Sample Test						
	Test Value = 3					
Description of business outlook of the company in the coming years in terms of consumer demand.				Mean Difference	95% Confidence Interval of the Difference	
	T	Df	Sig. (2-tailed)		Lower	Upper
	6.000	49	.000	.800	.50	1.10

Table No 20: ANOVA					
Description of business outlook of the company in the coming years in terms of consumer demand.					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.350	3	.117	.560	.661
Within Groups	1.250	6	.208		
Total	1.600	9			

Hypotheisis:

H_0 = There is no significant difference between consumer demand outlook of the company among companies.

H_1 = There is significant difference between consumer demand outlook of the company among companies.

Table No 21: View on future growth of the company.				
	Frequency	Percent	Valid Percent	Cumulative Percent
Neutral	15	30.0	30.0	30.0
Optimistic	35	70.0	70.0	100.0
Total	50	100.0	100.0	

Table No 22: Effect of inflation on company in the coming years				
	Frequency	Percent	Valid Percent	Cumulative Percent
Increase in procurement costs	5	10.0	14.3	14.3
Increase in transportation cost	10	20.0	28.6	42.9
Decrease in sales	10	20.0	28.6	71.4
other factors	5	10.0	14.3	85.7
Increase in procurement cost/ Increase in transportation cost	5	10.0	14.3	100.0
Total	35	70.0	100.0	
Missing	System	15	30.0	
Total	50	100.0		

Table No 23: Effect of rupee depreciation on the company in the coming years				
	Frequency	Percent	Valid Percent	Cumulative Percent
Negative Effect	10	20.0	40.0	40.0
Neutral	15	30.0	60.0	100.0
Total	25	50.0	100.0	
Missing System	25	50.0		

Table No 24: Effect of Government policies on the company in the coming years				
	Frequency	Percent	Valid Percent	Cumulative Percent
Neutral	10	20.0	20.0	20.0
Positive Effect	40	80.0	80.0	100.0
Total	50	100.0	100.0	

Findings:

1. According to the survey 60% of the respondents have agreed that the average annual growth in turnover was less than 5% in the recent past. 40% of the respondents are of the opinion that the average annual growth was in between 5% to 8% (Table No 1). As per the cross tab it is understood that majority of Fabrication & Engg and Rubber & Plastics companies grew at less than 5%. Food & Beverage and Paper Products companies showed a decent growth of more than 5%-8% (Table No 2).

2. 50% of the respondents gave an opinion that the average annual profit in the recent past remained same. 30% of respondents are of the view that the average annual profit increased and remaining 20% respondents said that the average annual profit of the firm substantially increased in the recent past (Table No 3). As per the cross tab majority of the Fabrication & Engg and Rubber & Plastics companies profit margins remained same. Paper Products and Food & Beverages companies have recorded increase in the profit margins (Table No 4).

3. Majority (60%) of the respondents have optimistic view on sales of the firm (Table No 5). The t-test results at 5% significance level (Mean=3.60, df=49, t=3.674,p=0.005) indicate that it is significant. Hence it is understood that there is optimistic view about the company in terms of sales in future (Table No 6 & 7). Anova at 5% level of significance indicate that H_0 is accepted (F=.191, df1=3, df2=46, p=.899). Hence there is no significant difference in views about sales between Fabrication & Engg (Mean=3.75), Food & Beverages (Mean=3.67), Paper Products (Mean=4.00) and Rubber & Plastics (Mean=3.50) companies (Table No 8).

4. 40% of the respondents have an optimistic view on market share of the firm in future (Table No 9) and t-test results at 5% significant level (Mean=3.40, df=49, t=2.449, p=.037) indicate that it is significant (Table No 10 & 11). Anova at 5% level of significance indicate that H_0 is accepted (F=.504, df1=3, df2=46, p=.693). Hence there is no significant difference between views about market share between Fabrication & Engg (Mean=3.25), Food & Beverages (Mean=3.50), Paper Products (Mean=4.00) and Rubber & Plastics (Mean=3.00) companies (Table No 12).

5. 50% of the respondents have optimistic view on competitive ability of the firm (Table No 13) and it is found that t-test results at 5% significance level (Mean=3.60, df=49, t=2.714,p=.024) indicate that it is significant (Table No 14 & 15). Hence it is understood that there is optimistic view about the company competitive ability. Anova at 5% level of significance indicates that H_0 is accepted (F=.708, df1=3, df2=46, p=.582). Hence there is no significant difference between views about competitive capacity between Fabrication & Engg (Mean=3.25) Food & Beverages (Mean=4.00) Paper products (Mean=4.00) and Rubber & Plastics (Mean=3.50) companies (Table No 16).

6. Majority 80% of the respondents have optimistic view on consumer demand of the firm (Table No 17) and t-test results at 5% significance level (Mean=3.80, df=9, t=6.000,p=.000) indicate that it is significant. Hence it is understood that there is optimistic view about the consumer demand (Table No 18 & 19). Anova test at 5% level of significance indicate that H_0 is accepted (F=.560, df1=3, df2=46, p=.661). Hence there is no significant difference between views about consumer demand between Fabrication & Engg (Mean=3.75), Food & Beverages (Mean=4.00), Paper Products (Mean=4.00) and Rubber & Plastics (Mean=3.50) companies Table No 20).

7. According to the above table it is understood that 70 percent of the respondents are optimistic about growth of the company in coming years. 30 percent respondents are of the neutral opinion (Table No: 21).

8. As per the table it shows that 28.6% of the respondents are of the view that, increase in transportation cost affects their company with inflation being high. 28.6% of the respondents gave an opinion that sales go down due to rise in inflation. 14.3% of them predict increase in procurement costs and 14.3% are of the view that both increase in procurement cost/increase in transport cost affects their company (Table No: 22).

9. Out of total 25 respondents 60% of them said there neither positive nor negative effect of rupee depreciation against USD. But remaining 40% are of the view that it will have a negative effect on their business activities (Table No: 23).

10. It is understood that 80% of the respondents feel that there will be positive effect on the company due to change in the government policies. 20% respondents have a neutral opinion on this statement (Table No: 24).

Conclusion:

The study revealed that MSME's achieved a positive EBIT and recorded increase in profit but there was no significant growth observed in the recent past. Paper Products and Food & Beverages showed good performance in terms of profits and growth rate. Fabrication & Engg and Rubber & Plastics showed a poor performance in terms of profit and growth rate. Fabrication & Engg and Rubber & Plastics companies grew at less than 5%. Food & Beverage and Paper Products companies showed a decent growth of more than 5%-8%

It is noticed that there is positive expectation about the company performance in the coming years. There is optimistic view about the future consumer demand, competition ability, sales and market share among the companies. There is expectation of sufficient availability of credit at a reasonable interest rate in the coming years. There will not be any negative effect of currency fluctuation on the company performance. It is believed that government policies would be favorable to the companies. In spite of positive expectations about the business outlook MSMEs face certain challenges. Few of them are demand slowdown and increase in transportation cost. Other economic factors are still a major concern.

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