

“STUDY OF DEVELOPMENT OF ENTREPRENEURSHIP AND AVAILABILITY OF CREDIT FACILITIES – ANALYSIS OF BANK LENDING’S AND VENTURE CAPITAL FINANCING”

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Abstract:

Entrepreneurship development is the backbone of nation's economic development. It's not big giants, large cap companies who add value to the national wealth but it is entrepreneurship or MSME's. Contribution of MSME's in employment generation, GDP, export, industrial output and most importantly balanced regional growth is incredible in case of India and also witnessed by all developed and developing countries across the world. Countries like US, China, UK, Israel, Japan and Taiwan has experienced the impactful role of small scale industries in their respective economies. In recent years technology based start-ups have played significant role in overall MSME sector. Techno based firms have shown multifold growth over a shorter period of time. Not only in terms of scalability but also in terms of social development, technology businesses have solved many problems where people were stacked for decades. In India, companies like Flipkart, Paytm, redbus, travellyaari and many more other techno start-ups have boosted the speed of people's personal as well as social life.

Entrepreneurial activity in almost every country has been considered as a prime area of focus in national policy framing and economic development planning and same is the case with Indian government. In spite of all this, there are number of challenges faced by entrepreneurs during their journey towards entrepreneurship. Lack of basic infrastructure, skilled manpower, resources and on top of the list business finance. This research paper highlights the relation between entrepreneurship development and availability of credit facilities with special reference to bank lending's and venture capital investment.

Keywords: Entrepreneurship, MSMEs, Bank Lending's, Venture Capital, Credit Schemes

I. Introduction:

Entrepreneurial activity in India is increasing at phenomenal rate over last few years. Nasscom report on start-up ecosystem in India states that almost 8 entrepreneurs are starting a new venture every day. Technological advancement has open up new era of opportunities for Indian entrepreneurs. Growing population once considered as hinder crane in economic development is now become a potential market to serve for many national and international businesses. Internet penetration, adoptability of huge young population towards new technology has given new dimension to entrepreneurs thinking for developing new edge techno-start-ups rather than traditional business ideas. Since independence, development of entrepreneurship is considered as key for economic development and basically a tool for employment generation and eradication of poverty across the country. Government of India has given due weightage to development of MSME sector through policy initiatives addressing challenges faced by entrepreneurs.

Indian entrepreneurs consistently faced one common problem since independence i.e. access to credit sources. Timely availability of finance is the key for business success. There are number schemes launched by

government for promotion of entrepreneurship and to address financial needs of MSME's. In spite of this, government schemes are substantially failed to promote entrepreneurial activity. There are number of reasons attributable to this failure. In last few years banking system as whole is worried about the problem of increasing amount of NPAs. Majority of accounts defaulting year on year are the accounts of small scale businesses. Rising pressure of RBI on banks to control NPA has led to direct decrease in MSME credit lending or more complex process for evaluation of applicant's credit worthiness. In both the ways, this will be a challenge for entrepreneurs. Lack of collateral, risk associated with the start-up investments and limitation of owned funding, entrepreneurs find it difficult to get access to credit sources.

In many countries, venture capital has emerged as the source of risk capital for technology start-ups. Venture capital is the "your idea my money" kind of a concept. Professionals with entrepreneurial experience and funds, invest in start-ups having huge growth potential, scalability, marketability and acceptability of the product. Venture capitalist put risk capital at early stage of venture development and ask entrepreneurs for equity stake in the business. This kind of a model has developed many global companies like Google, Apple, Ebay, Spice Jet, Yahoo etc.

II. Research Methodology:

This research is exploratory type of research. Secondary data based on various reports stating credit supply to MSME sector and venture capital investment deal data available with venture intelligence is used for this research.

Scope of the study:

Present study explores analysis of credit supply to MSME sector through various sources. The geographical scope of the study is limited to state of Maharashtra wherein amount of Scheduled Commercial Bank (SCB) lending's during the period 2005 – 2015 to MSMEs are considered.

Objectives of the Study:

This research study highlights the relation between development of entrepreneurship and availability of credit facilities. Considering bank lending and investment by venture capital firms in Maharashtra study has following objectives.

1. To study the challenges faced by MSME's in financing process at various stages of venture development.
2. To analyse the availability of credit facilities and growth of entrepreneurial activity.
3. To study the need of venture capital financing in development of entrepreneurship.

Research Hypothesis:

H₁: There is correlation between development of entrepreneurship and credit facilities available for new entrepreneurs.

H₂: There is correlation between development of MSME firm and investment made by Venture Capital firms.

III. Data Analysis and Data Interpretation:

Basically entrepreneurs need fund at different stages during venture development. Funding needs are different for different type of firms and the stage at which firm needs funds. During early stage of venture development, entrepreneurs tend to manage fund requirements through personal sources like family, friends, relatives etc. At this stage firm needs a smaller amount of funds. But at next stage, early growth, growth or expansion stage entrepreneur will hardly be able to manage such huge amount of funds through personal sources. At this stage entrepreneurs approach conventional sources like banks, government agencies or financial institutions. In history of Indian entrepreneurship till 2015, 93% of MSMEs are self-financed and only 7% of MSMEs could managed to get access to credit supply through conventional sources. This credit supply exclusion of MSMEs in formal or conventional credit lending highlights the need for alternative sources of risk capital funding for MSMEs. There are variety of reasons behind financial exclusion of MSMEs in the main pool of credit access available for corporates. Entrepreneurs who are coming up with innovative ideas and starting up technology start-ups failed to have investment in fixed assets. Conventional sources or banks need collateral support in most of industrial credit lending's. Due to lack of collaterals, entrepreneurs or MSMEs could not get access to formal credit sources.

Since independence, government has given due weightage and consideration for promotion and development of entrepreneurship. There are number of initiatives taken by government helping out entrepreneurs and MSMEs to sustain. This has been observed that entrepreneurial activity in a country depends on funding facilities available to entrepreneurs. In the country like India Scheduled Commercial Banks both foreign and domestic are key lenders for MSME sector. Direct credit lending by SCB's is followed as per RBI guidelines for lending to priority sector. Apart from this Credit Guarantee Scheme (by Credit Guarantee Fund Trust) is the major support for entrepreneurs which provides credit guarantee towards loan up to Rs. 10 lakh. NDA government has launched MUDRA scheme for small businesses providing collateral free credit up to Rs 10 lakh. In the following paragraphs, analysis of credit lending to MSME sector through above stated routes in terms of amount and number of firms or entrepreneurs benefitted is presented.

Table No. 1 SCB Outstanding Credit to MSME Sector - Maharashtra

Scheduled Commercial Bank - Public Sector, Private Sector & Foreign Banks		
Year	No. of Accounts	Amount (Rs. in Million)
2005-06	358490	277085
2006-07	345793	325095
2007-08	486726	507604
2008-09	495425	613658
2009-10	773219	714786
2010-11	963589	1094276
2011-12	1037466	1006193
2012-13	1420963	1159794
2013-14	1508571	1345087
2014-15	1653225	1399447

Source: RBI Reports

Table No. 2 CAGR Calculation (SCB No. of Accounts & Amount)

Compound Annual Growth Rate of Accounts and Outstanding Credit			
	Year	Total No. of Accounts	Amount (Rs in Million)
Start Value	01/04/2005	358490	277085
End Value	31/03/2015	1653225	1399447
CAGR		16.51%	17.57%

Above table no. 1 indicates year wise outstanding credit towards MSMEs from Scheduled Commercial Banks (Public sector, Private sector and foreign banks) and table no. 2 shows Compound Annual growth Rate for number of accounts and amount over the period of 10 years i.e. year 2005 to year 2015. No. of accounts CAGR is 16.51% and CAGR for amount disbursed to MSMEs is 17.57%. This indicates that SCB's credit lending to the MSME sector is increasing at very low rate year on year.

Table No. 3 Credit Guarantee Fund Scheme: Amount of guarantees and approvals

Credit disbursed to Entrepreneurs through Credit Guarantee Fund Scheme			
Year	No. of active MLIs	No. of Proposals approved	Amount of Guarantees (Rs. in Million)
2005-06	36	518	317.78
2006-07	40	447	363.15
2007-08	47	693	571.03
2008-09	57	3853	2550.14
2009-10	85	8935	6658.30

2010-11	106	14780	12412.76
2011-12	109	13560	13693.75
2012-13	117	16643	17560.43
2013-14	117	18801	19412.19
2014-15	119	44112	25409.77

Source: CGFT Annual Reports

Table No. 4 CAGR Calculation (CGFS – Proposals & Amount)

Compound Annual Growth Rate of Approved Proposals and Amount			
	Year	No. of Proposals approved	Amount (Rs in Million)
Start Value	01/04/2005	518	317.78
End Value	31/03/2015	44112	25409.77
CAGR		55.94%	54.97%

Table No. 3 indicates figures for Credit Guarantee Fund Scheme – number of proposals approved and amount of credit guarantees sanctioned. Table No. 4 indicates percentage CAGR for year wise proposals and credit amount guarantees approved in Maharashtra. CAGR of proposals approved is 55.94% and 54.97% for Credit guarantees approved over the period of 10 years i.e. year 2005 – year 2010.

Besides priority sector lending requirement as per RBI guidelines and collateral free lending under Credit Guarantee Fund Scheme, Prime Minister has launched another scheme for small businesses in April, 2015. Lending under Mudra scheme is beyond the temporal scope of the study but to highlight government initiatives Mudra scheme analysis is presented in following table.

Table No. 5 Pradhan Mantri Mudra Yojna

Pradhan Mantri Mudra Yojna (since April 8, 2015)						
Year	Sishu (Loan up to Rs. 50000)		Kishor (Rs. 50001 - 500000)		Tarun (Rs. 500001 - 1000000)	
	No. of sanctioned Proposals	Amount (Rs. in Million)	No. of sanctioned Proposals	Amount (Rs. in Million)	No. of sanctioned Proposals	Amount (Rs. in Million)
2015-16	3337382	66950.6	154441	36450.3	43242	34663.9
2016-17	3054130	69617.5	220662	50820.3	69362	52428.8
2017-18	3145685	80933.8	354818	75299	96117	71281.2
2018-19*	1465056	39993.5	119234	23600.1	26964	20895.9

Source: PMMY Website and Reports (Figures for the year 2018-19 are till September 2018.)

Table No. 6 CAGR Calculation MUDRA

Compound Annual Growth Rate of MUDRA - Proposals and Amount			
	Year	Total No. of Accounts	Amount (Rs in Million)
Start Value	01/04/2015	3535065	138064.8
End Value	31/03/2018	3596620	227514
CAGR		0.58%	18.12%

Above table no. 6 highlights number of proposals approved and amount of credit disbursed in each category Sishu, Kishor and Tarun. Credit limit for proposals in Shishu, Kishor and Tarun category under MUDRA scheme is Rs 50000, Rs 500000 and Rs 1000000 respectively. Collective CAGR of all three categories number of proposal approved over last three years is just 0.58% but on the other side amount of credit disbursed under MUDRA, CAGR is 18.12%. This indicates that government has positively considered credit disbursement under the scheme which is directly benefitting small businesses and entrepreneurs.

From the above mentioned tables and CAGR calculation, we can find that availability of credit for MSME sector is a challenging task. Under credit guarantee scheme, CAGR is high indicating huge credit flow for entrepreneurs but credit guarantee provided is only up to Rs 10,00,000. During entrepreneurial journey, entrepreneurs need funds at various stages of venture development. Starting from early phase to growth stage entrepreneurs need funds for product commercialization, marketing, expansion, research and development. Credit availability from conventional sources has its own drawback it brings fixed cost burden on to the firm and limited amount of loan because of lack of collaterals.

In recent years, venture capital has gained huge importance in entrepreneurial activity environment. Venture capital is the investment as shareholding in start-ups, new high tech businesses having potential to grow in short time. Professional investors, HNI's or pension funds are few major investors in venture capital a risky form of investment in start-ups and it also called as risk capital. It is like my money your idea type of concept. Countries like US, UK, Israel, Taiwan and China has developed conducive environment for venture capital investment. Venture capital investor's or firms not only invest money but also they provide most preferred mentoring support to entrepreneurs. The venture capital investment activity in India is not that large in terms of numbers and amounts as compared to credit by SCB's and beneficiaries in Credit Guarantee Scheme or any other scheme promoted by government. What makes venture capital more attractive? Is its form i.e. equity investment at risky stage. In following paragraphs venture capital investment activity in Maharashtra is presented for better understanding of venture capital scenario.

Table No. 7 Year wise Venture Capital Investment and No. of Deals

Year wise Deals and Investment in Maharashtra			
Year	No. of Deals	No. of Deals disclosed Investment	Investment (\$ Mn)
2005	13	11	64.33
2006	38	32	156.94
2007	55	41	221.05
2008	49	36	207.18
2009	30	25	96.97
2010	42	36	173.39
2011	68	61	280.02
2012	66	48	132.79
2013	65	56	138.17
2014	90	78	243.23
2015	142	125	543.85
Total	658	549	2257.92*
*658 deals in 463 Companies			

Table No. 8 CAGR - Venture Capital Investment and No. of Deals – 2005 -2015

Compound Annual Growth Rate of Investment		
Year	No. of Deals	Investments (\$Mn)

Start Value	01/01/2005	13	64.33
End Value	31/12/2015	-142	-543.85
CAGR		26.99%	23.78%

Above Table no. 7 indicates number of venture capital deals closed and investment made during the period 2005 to 2015. Table No. 8 indicates CAGR of No. of deals and investment, 26.99 % and 23.78 % respectively. Venture capital investment in India is not so popular by in recent years it has gained momentum and every year investments are setting up new records and many entrepreneurs are getting benefitted out of it. Venture capital firms basically invest into technology based start-ups which helps them to earn multifold return after selling their investment in 6 to 7 years called as exit. Silicon Valley in US and Israel are perfect models of industrial growth through promoting entrepreneurship through venture capital and private equity financing.

Table No. 9 Sector wise - Venture Capital Investment and No. of Deals – 2005 -2015

Sector wise Deals & Investments			
Sector	No. of Deals	No. of Deals disclosed Investment	Investments (\$ Mn)
IT & ITES	380	313	1136.96
BFSI	21	18	117.76
Shipping & Logistics	14	12	91.39
Travel & Transport	8	7	34.41
Advertising & Marketing	5	2	28.5
Media & Entertainment	25	22	110.55
Manufacturing	14	11	76.11
Agri-business	12	11	45.83
Energy	18	12	81.53
Education	33	30	107.81
Engg. & Construction	9	8	17.3
Food & Beverages	21	20	60.07
FMCG	2	2	10.36
Gems & Jewellery	1	1	0.65
Healthcare & Life Sciences	46	44	202.09
Retail	13	13	46.64
Sports & Fitness	4	3	4.22
Telecom	6	4	24.74
Textiles & Garments	3	3	19.65
Other Services	23	13	41.35
Total	658	549	2257.92*

Above Table No. 9 indicates sector wise venture capital investment in Maharashtra during 2005 – 2015. IT&ITeS has shown strong dominance over other sectors attracting 380 deals and \$1136.96 Mn amount of investment. As compared other sector are at just 10% in terms of deals and amount. BFSI – 21 deals and \$117 mn amount is at second position and so on.

Above stated analysis highlights the role of venture capital investment in promotion of entrepreneurship dominantly in high-tech companies. For technology firms it would have been very difficult to raise the funds from conventional sources as investment in fixed assets is very less. Hence venture capital is a blend of risk capital and mentoring support for entrepreneurs.

Testing of Hypothesis

H₁: There is correlation between development of entrepreneurship and credit facilities available for new entrepreneurs.

To test the first hypothesis of the study correlation between numbers of accounts raised credit from various sources and amount of credit is studied. Following table no. 10 and 11 represents correlation between number of MSME firms and Amount of Credit received from SCBs and under Credit Guarantee Scheme.

Table No. 10 Test of Correlation No. of Accounts and Outstanding Credit

Correlations			
		No_of_Accounts	Amount_Rs Mn
No_of_Accounts	Pearson Correlation	1	.971**
	Sig. (2-tailed)		.000
	N	10	10
Amount_Rs_MN	Pearson Correlation	.971**	1
	Sig. (2-tailed)	.000	
	N	10	10

** . Correlation is significant at the 0.01 level (2-tailed).

Table No. 11 Test of Correlation – No. of Proposals approved and Credit Guarantee

Correlations			
		No. of Proposals	Amount Guarantee
No. of Proposals Approved	Pearson Correlation	1	.929**
	Sig. (2-tailed)		.000
	N	10	10
Amount of Guarantee provided	Pearson Correlation	.929**	1
	Sig. (2-tailed)	.000	
	N	10	10

** . Correlation is significant at the 0.01 level (2-tailed).

Interpretation:

Above table no. 10 and 11 indicates that there is positive correlation between numbers of MSMEs / Entrepreneurs benefitted and credit amount / guarantee provided. Hence we accept alternate hypothesis. Hence we conclude that development of entrepreneurship depends on availability of credit facilities for entrepreneurs.

H2: There is correlation between development of MSME firm and investment made by Venture Capital firms. For testing of this hypothesis, test of correlation is conducted for no. of deals and amount of investment by Venture Capital firms during 2005 – 2015. Following Table No. 12 presents output of correlation test.

Table No. 12 Test of Correlation – No. of Deals and Venture Capital Investment

Correlations			
		No of Deals	VC Investment
No of Deals	Pearson Correlation	1	.905**
	Sig. (2-tailed)		.000
	N	11	11
VC Investment	Pearson Correlation	.905**	1
	Sig. (2-tailed)	.000	
	N	11	11

** . Correlation is significant at the 0.01 level (2-tailed).

Interpretation:

Above Table No. 12 highlights that there is a positive correlation between no. of deals closed and venture capital investment by venture capital firms. Hence we accept alternate hypothesis. This indicates that MSME firm development is correlated with investment made by venture capital firm. Creating conducive

environment for venture capital or private equity investment will help MSME firms to have access to investment in the form of risk capital.

IV. Results and Discussion

MSME sector in India has become the major contributor to the overall economic development. To highlight, MSME sector alone provides employment to more than 100 mn people in the nation and creating more than 2 mn employments every year. Major hinder crane in the journey of entrepreneurship in India is the access to credit form conventional sources. Analysis presented here highlights that development of entrepreneurship is related to availability of credit sources for MSME sector. While we discuss about conventional sources of credit there is a limitation to credit amount available for entrepreneurs. Though there is a positive correlation between no. of accounts raised credit from SCBs and amount of credit disbursed, the CAGR indicates a very slow growth in terms of new accounts / entrepreneurs benefitted and amount of credit disbursed over the period of 10 years. In case of Credit Guarantee Scheme the number of proposals approved and amount of guarantee provided has a very high CAGR indicating faster growth and credit access for entrepreneurs. But the limitation is the amount of credit available through CGFS is only Rs 10,00,000. Venture capital investment is the blend of money and mentoring benefitting entrepreneurs to develop venture at faster rate. Considering the mutual interest of entrepreneur and investor both are putting efforts for venture development. On the basis of analysis presented we can state that venture capital investment helps in development of MSME firm.

V. Conclusion

Entrepreneurship development and promotion of MSME sector is the key for economic success of the nation. MSMEs as compared to large companies provide more employment opportunities, contribution in GDP, Export and Industrial output is remarkable. Most importantly MSME sector helps in balanced regional development. There are number of initiatives taken by government to support MSME sector as whole. The major challenges faced by MSMEs are lack infrastructure, skilled labour at low cost, affordability of technology to compete with global standards and availability of finances. In India 93% of the MSMEs are self-financed i.e. arrangement of required business finance is made available through personal contacts of entrepreneurs. Present study highlights that entrepreneurship and MSME firm's development is related to availability of credit supply to the sector. Hence government needs to restructure its strategies related to MSME credit and its easy access to entrepreneurs. Besides conventional sources venture capital and private equity is the most preferred source of risk capital for start-ups and specifically hi-tech and technology based firms. India has home grown technology start-ups which can easily access venture capital and private equity at larger scale. There is a need of conducive business environment for growth venture capital and private equity industry.

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