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**Economic Analysis Of Loan Repayment Patterns Of MSMEs**

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**Abstract:**

MSME credit plays a vital role in the development of economy. The complete growth of the MSME sector requires a long-term commitment from bank and financial institutions to ensure that this sector remains sustainable. Further, the varying financial needs of the diverse enterprises making up the MSME sector require intermediation through a variety of financial institutions. For this reason the Bank and financial institutions are committed to continue financing. But, usually a considerable portion of loan is given against collateral security which requires repayment. However, repayment problems turn into a main hurdle for the financial institutions to continue providing credit services. The present paper studies the loan repayment patterns of MSME and its relationship with credit adequacy. A descriptive analysis was done to permit the study to make use of both quantitative and qualitative data collection techniques and data analysis procedures. This study analyzed the MSMEs loan repayment capacity using data from 112 MSMEs from Telangana region.

*Key words: development, Credit, collateral security, Loan repayment, credit adequacy*

**Introduction: behaviours**

MSMEs play a vital role in job creation and make momentous contributions to economic growth in developed and developing economies alike. As a result, establishing a dynamic MSME sector features prominently on the economic development agendas of practically all countries around the globe. MSMEs typically face more severe constraints to growth than do large companies. Though the constraints are many, limited access to finance and the cost of credit are typically identified in MSME surveys among the most important ones.

Some of the obstacles to MSME financing are associated precisely to their own nature as smaller companies. This includes factors such as lack of critical economic size, and the somewhat informal and generally less sophisticated management of MSMEs. In the first case, relatively small loan volumes may not warrant the costs of targeted credit risk analyses that are required in the absence of more standardized and comprehensive credit data. As for the second factor, from the perspective of lenders most MSMEs lack the understanding of developing a coherent and acceptable business plan to underpin their loan application, and if a loan is granted they often fail to provide updates about the progress of the business.

In essence, banks or financial institutions assess potential MSMEs on the basis of two broad criteria sets: i) the financial capacity or ability of the MSMEs to repay the credit facility or loan; and, ii) the willingness of the MSME to repay the loan. More specifically, repayment capacity refers to whether the MSMEs will be able to repay according to the terms and conditions of the loan contract. Repayment capacity is typically determined taking into account the prospects of the MSME's business, and often also the prospects for the broader market segment or niche in which the MSME is participating. Repayment willingness, on the other hand, is inferred based on the MSME's historical repayment patterns with regard to previous contractual financial obligations, including trade credit, loans and other forms of financing.

With regard to determining repayment willingness, creditors will seek for all available credit repayment information most banks or financial institutions will also wish to assess the credit behavior of the MSME owners to determine whether this can contaminate the creditworthiness of the MSME as well as to determine whether to ask for the MSME owner's personal guaranty. In this scenario the study on economic analysis of loan repayment patterns of MSME acquires a significant importance.

#### **Objective of the study:**

1. To evaluate the effect of credit sufficiency on loan repayment behavior of the enterprises

#### **Hypotheses of the study**

The following hypothesis were formulated for testing

1. Loan repayment is dependent on the sufficiency of credit

#### **Methodology**

##### **Area of Study**

In order to select the sample units the prime task before the researcher was to select the districts which should be representative of highly industrialized areas, moderately industrialized areas and also the under developed areas. With this objective the researcher has selected two districts of Telangana namely, Hyderabad and Rangareddy.

##### **Sample Selection**

To conduct the study, 112 MSMEs were surveyed pertaining to eight different sectors namely food, chemical, pharmaceutical, engineering, service, plastic, printing and miscellaneous were selected.

**Collection of Data**

Primary data for the study is collected from Micro Small and Medium enterprises by using a structured questionnaire.

**Data Analysis**

The information gathered was tabulated and analyzed by using percentages, t test, ANNOVA one way and Chi square test.

**Reference Period**

The data for the study was collected during the period May 2016

**Review of Literature**

Martin determined the repayment performance of Grameen Bank borrowers in Bangladesh and discovered that education level and the area of land possessed by the borrowers have a positive impact on repayment performance.

Uma S. evaluated the relationship between the utilization of loan and its repayment. It was viewed that there exists a relation between quality of lending and loan recovery, improvement in lending procedures qualitatively and quantitatively are necessary to improve recovery of loans. Instead of strictly adhering to rules and regulations banks should undertake a package program for proper recovery of over dues.

Vimala P. established the relationship between proper utilization of loans and its regular repayment. It was concluded that even if there is full utilization there cannot be full repayment owing to different factors like inadequate income generation, lack of infrastructural facilities, government policies and attitude of borrowers. It was concluded that if the loan amount is sufficient borrowers will not resort to other high priced sources of finance which will lead to prompt loan repayment.

Godquin contended that borrowers who have sufficient money to reimburse might also default intentionally. It was felt that both age and size of loan have an opposite relationship to repayment performance.

Kohansal & Mansoori viewed that farmer's experience, income earned, loan size and collateral value have positive effect while loan interest rate, total application costs and number of installment implies a negative effect on repayment performance of recipients.

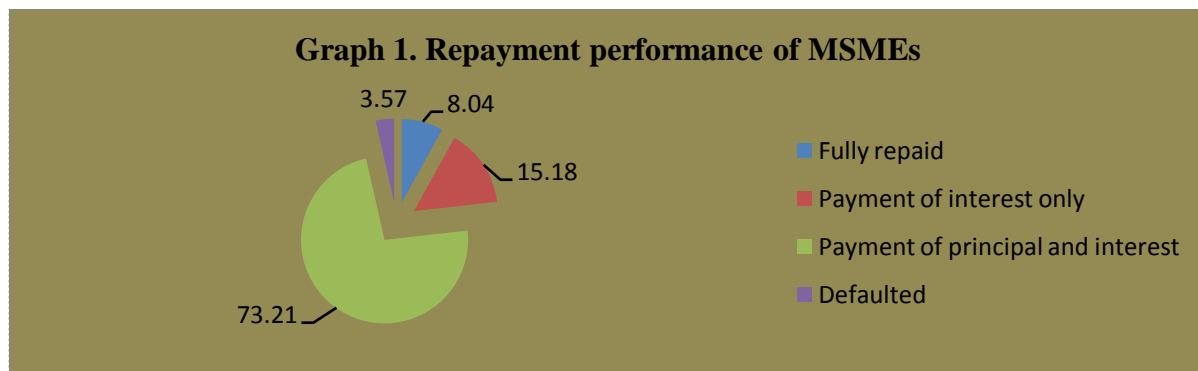
Chong, Fennee founded that there exists a strong association between loan default behavior of entrepreneur with higher installment amount per month. The financial capability represented by the income did not had any significant impact on repayment behavior. The higher education level will have significant predictive power over the repayment practices, wherein a higher level of education level attained implies better credit management.

Tomola, M. Obamuyi compared the repayment performance of banks and micro credit institutions in Nigeria. It was felt that banks were able to perform better compared to micro credit institutions in terms of repayment based on their stern efforts of screening of loan applications, monitoring of approved loans and enforcing loan contract.

### Loan Repayment Performance of the selected MSMEs

The repayment performance of select MSMEs is shown in Table 1 and Graph 1. It is observed that 73 per cent of the enterprises are paying both principal and interest to financial institutions, while 8 per cent have fully repaid the loan amount. The enterprises who on account of their poor performance paid only interest are 15 per cent and 4 per cent of enterprises have defaulted.

Table 1 Repayment performance of MSMEs		
Repayment performance	Number of units	Percentage of enterprises
Fully repaid	9	8.04
Payment of interest only	17	15.18
Payment of principal and interest	82	73.21
Defaulted	4	3.57
Total	112	100.00
<i>Source: Primary data</i>		

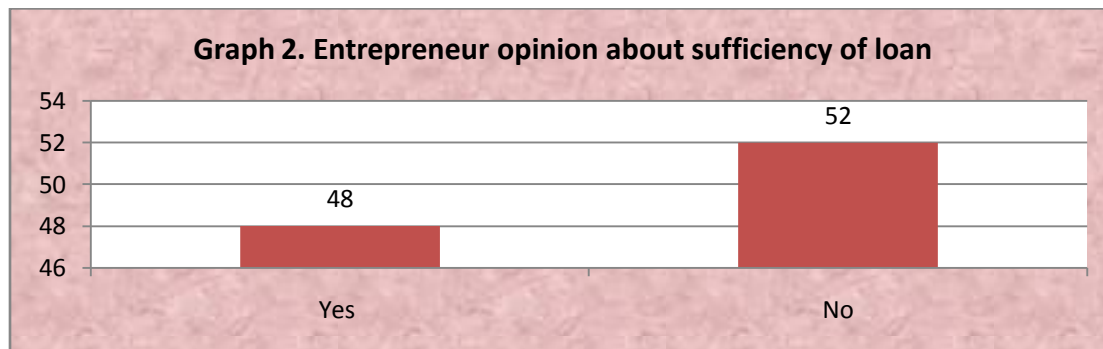


### Entrepreneur's opinion about adequacy of loan

Table 2 shows industry wise entrepreneurs' opinion about sufficiency of loan. It can be seen that only 48 per cent of entrepreneurs received adequate amount, whereas maximum of 52 per cent of entrepreneurs did not receive amount adequately as shown in Graph 2. This would mean that only 48 per cent of the entrepreneurs received the full amount they had applied and 52 per cent of the entrepreneurs received the partial of the applied amount.

Finance adequate	Total	Percentage of total
Yes	54	48.2
No	58	51.8
Total	112	100
<i>Source: Primary data</i>		

The findings of Chinta, Kameswari (1992) support this study. In her study of 90 small and medium enterprises financed by APSFC across the three districts of Srikakulam, Vizianagaram, and Visakhapatnam, it was found that 54 per cent of the entrepreneurs feel that the assistance to be adequate and 44 per cent found the assistance to be inadequate.



Under these circumstances capital base of these enterprises is usually very weak as the balance capital investment of these units mainly comes from their own funds or borrowed funds from unorganized sectors like friends, relatives and money lenders. Even when financing is available to these MSME from these sources, repayment of interest and principal is a cumbersome task as they have to repay interest and principal to different sources and the gestation period of loan will also be too short for MSMEs to make up a good assets base. Secondly the very purpose of institutional financing will be lost if the borrowers have to take additional high cost loan due to inadequacy.

The researcher under these circumstances attempted to find out whether any association exists between loan repayment behavior of the enterprise and adequacy of borrowed funds is shown as under.

### Testing of Hypothesis

As per Table 2, 52 per cent of entrepreneurs agreed that the amount sanctioned to them is insufficient to run the business smoothly and efficiently, while 48 per cent of entrepreneurs reported that the amount is sufficient to carry on the business. In order to find out the relationship between the adequacy of loan and its repayment the hypothesis is tested as under

Ho: Loan repayment is not dependent on the sufficiency of credit

Ha: Loan repayment is dependent on the sufficiency of credit

It could be observed that 67 per cent of enterprises who consider loan to be inadequate are repaying the principal and interest to financial institutions, 17 per cent are paying only interest and 9 per cent have fully repaid and 7 per cent have defaulted. From among the enterprises who consider the finance to be sufficient 80 per cent are repaying interest and principal, 13 per cent only interest and 7 per cent have fully repaid with no defaulters.

Table 3 Association between sufficiency of credit and loan repayment performance					
Sufficiency of credit	Fully repaid	Payment of interest only	Repayment of interest and principal	Defaulted	Total
Yes	4 (7)	7 (13)	43 (80)	0 (0)	54 (100)
No	5 (9)	10 (17)	39 (67)	4 (7)	48 (100)

*Source: Primary data, Note: Figures in the parenthesis are percentage to total*

*Pearson chi-square value  $\chi^2$  4.680, df=3, p value = 0.1953*

Table 3 shows the association between sufficiency of loan and repayment performance the  $\chi^2$  value at 5 per cent significant level with 3 degree of freedom and 'P' value were calculated. As the calculated value of  $\chi^2$  4.680 is less than the table value of 7.81 and the 'P' value 0.1953 is more than 0.05, it can be concluded that there is no significant association between sufficiency of loan and repayment performance of entrepreneur.

Hence the null hypothesis that loan repayment is not dependent on sufficiency of credit is accepted and it is concluded that borrowers with insufficient credit will also repay loan to financial institutions and there is no relation between sufficiency of loan and repayment performance of the enterprises.

### Conclusion:

An analysis of the pattern of industrial credit reveals that availability of credit is not only inadequate, but is unevenly distributed among different sectors, and among different size of enterprises. Thus the study concludes that there is significant variation among the different sectors in terms of amount demanded, sanctioned and disbursed from financial institutions. The entrepreneur's irrespective of sufficiency of credit are repaying the amount to different financial institutions. It is suggested that the financial institutions should improve the loan monitoring, reduce the cost of credit, supply sufficient credit which will facilitate develop the business of MSMEs, have ripple effect on the economy and reduce the borrower's attitude to not pay back their loans and help them to enhance their business

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