

Financial Literacy and other Factors affecting the usage of SME Platform of BSE, by SMEs in Goa

Research Report submitted to Bombay Stock Exchange by

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The structure of the report is as follows:

1. Introduction and objectives
2. Literature Review
3. Research Methodology
4. Findings and Conclusions
5. Managerial Implications

Introduction and Objectives

Small and Medium enterprises (SMEs) have been the backbone of the Indian economy. Employing close to 40% of India's workforce and contributing 45% to India's manufacturing output, SMEs play a critical role in generating millions of jobs, especially at the low-skill level. The country's 1.3 million SMEs account for 40% of India's total exports (The Economic Times, June 9, 2013). Thus, SMEs are regarded as nurseries for entrepreneurship and innovation.

Anand Sinha, Deputy Governor of the Reserve Bank of India, stated in 2012 that finance related issues continue to be a major concern for MSMEs. He elaborated further to state that the Fourth Census of MSME sector revealed that only 5.18 % of the units had availed of finance through institutional sources. According to Yadav R, 2012, over 50% banks have less than 7% finance to Micro Enterprises, 13 domestic banks have their finance level below 4% to this sector. Solomon, 2012, has observed that the constraints related to MSMEs are

market related (25%), finance related (70%), government policy related (12.78%), power related/ infrastructure (14.0%) and technology related(14.6%).

Given such scenario of the financial constraints faced by SMEs in India, the endeavour by Bombay Stock Exchange to provide a special platform to SMEs for raising funds can be seen as a laudable one.

However, in the state of Goa, there seem to be no takers till date, for the BSE platform for raising of funds. Hence, this research sought to unearth the reasons why the Goan SMEs did not yet avail of this opportunity. The specific objectives of the research were as follows:

1. To study the financial literacy including awareness about the SME Platform among the SMEs in Goa.
2. To identify the factors responsible for non usage of SME platform by SMEs in Goa. Besides financial literacy and the lack of awareness, there could be other concerns such as costs and dilution of control. Hence, the research endeavours to unearth the other factors responsible for the non usage of the platform.

Literature Review

“One issue that is being talked about in the field of financial inclusion is whether we need separate institutions for promoting financial inclusion. Existing formal institutions may be sufficient for this purpose. It is true that commercial banks have their own problems such as manpower shortage, an unfavorable attitude towards rural services, infra-structure and technology problems in rural areas, etc. Rural banking has to be friendly to micro, small and medium enterprises other vulnerable groups. It requires a specific type of organisational ethos, culture and attitude” [Rangarajan 2005]. This shows that the problem of financial shortages for SMEs had been identified quite early and it was also observed that banks as institutions of financing may not be sufficient for fulfilling the requirements as they have their own sets of problems.

Financial inclusion, financial literacy and consumer protection are the three major planks of financial stability. While financial inclusion acts from the supply side, providing the financial services that the firms may demand, financial literacy stimulates the demand side, making the community responsive to the services provided. The demand side issues in financial inclusion include knowledge of financial products and services, willingness to avail etc. These issues

are faced by both developing and developed countries. Especially the knowledge of SMEs in the area of new concepts in finance such as BSE SME platform could be limited, thus leading to their not availing of this new opportunity. Hence, this research posits that lack of financial literacy could be a factor that hinders the availing of BSE SME platform option. “Financial literacy is about understanding money and finances and being able to confidently apply that knowledge to make effective financial decisions. Financial literacy is considered an important adjunct for the promotion of financial inclusions and ultimately financial stability” (Nash 2012). OECD defines Financial Literacy as “a combination of financial awareness, knowledge, skills, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial well being”. This definition is used in this research for considering whether financial literacy affects the financial decisions. Prernasri, 2008, has shown that there are two obstacles to financial inclusion with respect to MSMEs, first being high transaction costs and high interest rates mainly due to high costs to banks and also other policy requirements such as ‘Know Your Customer’ procedures. Whyley, 2010, points out that lack of access to affordable credit to micro enterprises can be a result of many factors, including:

- a. “Real or perceived lack of access to mainstream credit.
- b. Inappropriate terms and conditions on mainstream products;
- c. Self-exclusion from mainstream credit;
- d. Real or perceived lack of access to affordable credit options”.

Thus it can be seen that with reference to the research relating to credit availability to SMEs, the concepts like self exclusion are discussed in literature. Hence, this research sought to unearth the factors that deter the SMEs in Goa to avail of financing option of BSE-SME platform. In other words, the research endeavoured to find the reasons for self exclusion by SMEs in the area of BSE SME platform available for their financing needs.

Research Methodology

As a thorough probing was deemed essential for exploring the reasons for not availing of the BSE SME platform option, the personal interview method was deemed appropriate for the survey of the SMEs. Detailed Interview Schedule was prepared and administered to the Owners of the SMEs. (See Annexure 1). The total sample size was 30. Each interview was approximately of the duration of 45 minutes, where the respondents filled the questionnaire, while discussing about the questions and citing their views. Though the instrument focussed

on capturing the factors like literacy and awareness, there was sufficient scope for other factors to emerge, as the questions were open ended. Qualitative content analysis was then carried out of the responses obtained. Due regard was given to each of the individual responses, without undue emphasis on aggregation. It was deemed essential to probe into the details as the sample size was a limitation. Sample was selected randomly, however, the only criteria which was followed in selection was the willingness to share information. Out of the total sample size 30, equal representation was given to Small and Medium firms. Thus, 15 small and 15 medium size firms were studied.

Sample Description

As per the tables given in annexure 2, it can be seen that MSMEs in the sample are almost evenly distributed between the three forms of organization, namely, Sole proprietorship, Partnership and Company. Among the Medium Scale Firms, less of them had sole proprietorship form. Market areas covered by MSMEs were more national and local and less international. Only one small firm catered to international markets. Names of firms and their locations are given in Annexure 3. The MSMEs covered were predominantly Manufacturing firms. They were selected from different industrial estates from the state of Goa.

Findings and Conclusions

The findings on various factors are stated below:

1.Awareness

On the awareness level, it was found that though all the owners were aware of Bombay Stock Exchange, one third of them in each of the small and medium categories were not aware of Initial Public Offer (IPO) or raising money through IPOs by listing at stock exchange. Those who were aware of IPOs as means of raising finance cited many benefits of the same. The benefits cited by the two categories were as follows:

Small firms: Crowd sourcing, access to capital other than own equity, fast generation of funds, less time, positive cost benefit ratio, raising capital through wide range of public, absence of need for repayment at a certain time, reduced the risk of bankruptcy, suitability for business expansion.

Medium firms: Cheapest form of capital, availability of funds for liquidity, growth and expansion, wider recognition for firms, flexibility of returns to be provided which helped in lean profit periods.

Thus, it was evident that suitability for growth and expansion, absence of need for repayment or payment of specific returns and recognition were the focal areas and the benefit to cost ratio was deemed positive. This source was considered reliable. Medium scale firms were concerned with recognition and they elaborated that funds would be available for expansion in areas like investments in plant and machineries and technological innovations, enhancement of staff strength and marketing expenditure. They further emphasised that the directors/shareholders can exercise “exit” option and dilute their equity contribution

When asked about the problems perceived by them in raising finance through IPOs, following responses were elicited:

Small firms: Fear that equity can dilute the owners’ ownership interest in the company thus leading to loss of control, tedious procedure and lengthy regulatory requirement, concerns over meeting minimum criteria, concerns that investors may not invest in absence of reputation.

Medium firms: Lack of knowledge and financial infrastructure, difficulties in compliances of procedures, Fear that equity can dilute the owners’ ownership interest in the company thus leading to loss of control as also fear that investors may not invest due to lack of reputation.

Thus, the prime concerns were about loss of control, the fear that investors may not respond, and the lack of expertise to raise the funds through IPOs. The small firms were worried that they may not meet the minimum criteria for the raising of IPOs.

2.Literacy

The firms were tested on their financial literacy by querying about the terms used in finance for specific providers of financial services and investors. About one third of firms in each of the small and medium categories did not reply to the question regarding venture capital, private equity, retail investors. *Though the firms may have availed of services of banks, it was pertinent to note that eight small and ten medium scale firms did not respond about the role of banks.* Very few firms, namely three to five had the knowledge about angel investors,

institutional buyers, non banking finance companies, merchant bankers, high net worth individuals, registrars to the issue and brokers.

It cannot be directly concluded that the financial literacy is low although the firms did not respond satisfactorily to many questions including the role of intermediaries. This is specially felt as even the role of banks was not responded well by the firms. It could also be that the technical terms may not be familiar to the firms. *But the overall knowledge seemed to be rather limited.* Further research seems to be required about the issue on a larger sample with detailed questions.

It was also seen that owners, partners, managers, finance managers in the firms with experience from 10 to 35 years handled issues relating to finance and were well versed about the financial modalities. But only a few small firms (3) sought advice from consultants in respect of raising money, whereas 10 medium size firms did so. They consulted banks or Chartered Accountants. 2 firms from each category were already advised about the BSE SME platform. Also, only one third of the total firms had the practice of budgeting in advance. These findings seem to be encouraging to the usage of the BSE SME Platform in future.

3.Current Sources of Finance

The current sources were banks, non banking institutions and high net worth individuals in this order. Other sources like venture capital funds or private equity funds were not availed of at all. This was consistent with the finding cited above that the literacy about other finance providers was low. These findings point towards existence of information asymmetry. Firms were unwilling to share detailed percentages of their finance structures. Therefore, the proportion of owners' funds and retained profits to external borrowings could not be satisfactorily ascertained.

4.Interest in Raising Funds through BSE SME platform

4 medium size firms were interested in raising funds through the BSE SME platform, but cited two major constraints. The constraints were that they were not fulfilling the necessary criteria as required for this purpose such as net worth not being three crores. Thus, even medium size firms in Goa faced the constraints of not fulfilling the criteria. The other concern was the availability of expert assistance on a continuous basis. They opined that cursory

introduction with single workshop on the topic would not be enough. This seems to be a pointer towards information asymmetry.

Small firms which were of the nature of family concerns expressed that loss of control being an important hindrance; they would not prefer raising funds through the platform. Lack of knowledge and lack of confidence were other issues cited. Only 2 small firms still showed interest. *However, an interesting finding was that contrary to citations in the literature, cost was NOT considered as a constraint.*

Thus it can be stated that limited financial literacy, information asymmetry, lack of expert financial services, non fulfilment of the certain criteria required for the listing on the BSE SME platform were the major reasons for the firms in Goa for not availing of the opportunity for listing on the BSE SME platform. For the family run businesses, fear of loss of control was the factor inhibiting them besides the above factors.

However, the conclusion must be read in conjunction of the finding that the firms were well aware of the benefits of listing. They opined that this was a good source for expansion of firms and also offered them the option of flexibility of returns. Hence, since the firms recognised the significance of this source for expansion purpose, it could be that once they were ready with plans of expansion, they would eventually turn to this source, provided the expert services were available in the state. These findings indicate the positive cues for the propensity of the MSMEs to avail of the financial options provided by BSE SME platform provided their concerns (especially of provision of expert services to handle the formalities) were satisfactorily addressed.

5. Managerial Implications

The findings have practical relevance and can guide the way forward. It is evident that medium size firms are interested in growth and in raising the necessary funds. The constraint seems to be availability of necessary assistance in the procedures as well as the requisite financial literacy. Hence, attention could be turned to supply of expert services to such growth oriented firms that could avail of such benefits. As these firms were keen on recognition or 'being seen', the future years could have more firms in Goa, especially in medium size categories, availing of the opportunities presented to them by BSE SME platform. Hence, there seems to be a need in the state of Goa for having expert services made available on sustained basis. It may be pertinent to note that cost was not considered to be a

constraint. Hence, institutional alliances such as Chambers of Commerce or Universities could provide expertise required at reasonable costs to those desirous of using the BSE SME platform for raising the necessary finance for growth. Thus, collaborative approach for provision of services could be adopted for the proliferation of the new source of finance in the state of Goa.

References:

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Annexure 1

QUESTIONNAIRE

The research has the broad objective of studying the factors which could be responsible for the non usage of the BSE platform by SMEs in the state of Goa.

FIRM DETAILS:

1. Name of the enterprise:
2. Date of inception:
3. Form of organization: Sole Proprietorship / Partnership / Company
4. Category: SMALL / MEDIUM
5. Products manufactured:
6. Methods of manufacturing:
7. Markets:
8. Employee type and number:
 - a. Skilled
 - b. Semi skilled
 - c. Unskilled
9. Turnover is the last five years:
10. Net worth: (Total Assets – Total Liabilities)
 - a. Less than Rs 1 crores (please specify the approx amount)
 - b. Between Rs 1 crores to Rs 5 crores
 - c. Between Rs 5 crores to Rs 10 crores
 - d. Between Rs 10 crores to Rs 20 crores
 - e. Above Rs 20 crore
11. Net Tangible Assets: (Total Assets – Intangible Assets like goodwill, patents and trademarks)

- a. Above Rs 15 crores
- b. Between Rs 10 crores to Rs 15 crores
- c. Between Rs 5 crores to Rs 10 crores
- d. Between Rs 3 crores to Rs 5 crores
- e. Less than Rs 3 crores (please specify the approx amount)

FINANCIAL LITERACY:

AWARENESS:

1. Do you know about raising money by issuance of an IPO (initial public offer)?
 - a. Yes
 - b. No
2. Are you aware about the Bombay Stock Exchange?
 - a. Yes
 - b. No (if No, kindly go to Knowledge Section)
3. Are you aware about the SME Platform of the Bombay Stock Exchange as a medium of raising capital?
 - a. Yes
 - b. No

KNOWLEDGE:

1. What according to you are the benefits of raising capital through capital markets?
2. What according to you are the difficulties in raising finance through capital markets?
3. Please share your knowledge about the following concepts:
 - a. Venture Capital Funds
 - b. Private Equity Funds
 - c. Retail Investors
 - d. Banks

- e. Qualified Institutional Buyers (QIB)
- f. Foreign Institutional Investors (FII)
- g. Non Banking Finance Companies (NBFC)
- h. Angel Investors
- i. High Networth Individuals
- j. Registrars to the Issue
- k. Merchant Bankers
- l. Market Makers
- m. Member Brokers and sub brokers
- n. Financial Advisors

SKILLS:

1. Who is responsible for day-to-day decisions about money in your organization?
 - a. Owner
 - b. Partners
 - c. Manager
 - d. Finance manager
 - e. Any other (Please specify)
2. How many years of experience does the above person hold in handling financial matters?
3. Do you consult any expert for raising finance? If yes please provide details of consultants.

4. Has anyone suggested to you BSE Platform for raising funds? If yes, please provide details.

5. Does your company have a practice of preparing budgets?

- a. Yes
- b. No

6. Have you raised finance through any of the below mentioned entities?

Yes No

- a. Venture Capital Funds
- b. Private Equity Funds
- c. High Networth Individuals
- d. Retail Investors
- e. Banks
- f. Qualified Institutional Buyers (QIB)
- g. Foreign Institutional Investors (FII)
- h. Non Banking Finance Companies (NBFC)
- i. None of the above
- f. Any other (pl. specify)

BEHAVIOR & ATTITUDE:

1. What is the current financial structure of your firm; Please mention in percentages:

- a. Owners Resources
- b. Retained profits
- c. Trade credit
- d. Short term bank loan
- e. Overdraft
- f. Hire purchase
- g. Leasing
- h. Long term finance
- i. Micro Finance Loan
- j. Stocks and Shares
- k. Any other (please specify)

2. Would you be interested in raising finance through an IPO?
 - a. Yes
 - b. No

3. If yes, would you do the same through SME Platform of the Bombay Stock Exchange?
4. If no, please specify why?
 - A. Lack of knowledge about process and procedures about going public
 - B. Lack of knowledge about BSE
 - C. Lack of knowledge about BSE SME Portal
 - D. Lack of confidence in capital markets and its functioning
 - E. Fear of Loss of control
 - F. Cost aspects
 - G. Does not meet qualifying criteria: (please select the criterion that is not met by your firm)
 - a. FINANCIALS:
 - i. The post-issue paid up capital of the company shall be at least Rs. 1 crore.
 - ii. Net worth (excluding revaluation reserves) of at least Rs.1 crore as per the latest audited financial results.
 - iii. Net Tangible assets have to be at least Rs.1 crore as per the latest audited financial results.
 - iv. Distributable profits in terms of Section 205 of the Companies Act 1956 for at least two years out of immediately preceding three financial years (each financial year has to be a period of at least 12 months). Extraordinary income is not considered for the purpose of calculating distributable profits.
 - Or
 - The net worth shall be at least Rs.3 crores.
 - b. OTHERS:
 - i. It is mandatory for a company to have a website.
 - ii. It is mandatory for the company to facilitate trading in demat securities and enter into an agreement with both the depositories.

- iii. There should have been no change in the promoters of the Company in the one year preceding the date of filing application to BSE for listing on SME segment.

H. Any other (please specify)

5. Would you require any help in raising finance? Please specify.

6. Would you require any help in raising finance through BSE platform? Please specify.

7. Would you consider raising finance through SME Platform of the Bombay Stock Exchange if sufficient help is provided to you?

a. Yes

b. No

8. What steps would you suggest to make the SME platform more popular in Goa?

-----THANK YOU-----

Annexure 2

DESCRIPTION OF SAMPLE

Forms of Business Organization

MSMEs	Sole Proprietorship	Partnership	Company	Total
Small	6	5	4	15
Medium	3	6	6	15
Total	9	11	10	30

Market Areas Catered

MSMEs	International	National	Local	Total
Small	1	4	10	15
Medium	3	6	6	15
Total	4	10	16	30

Annexure 3

LIST of SAMPLE SELECTED

(Sr. No. 1 to 15 are Small and 16 to 30 are Medium Sized firms)

Sr #	NAME OF THE FIRM	PLACE
1	M/S JUTEX	SANCOALE / VASCO
2	M/S POWER ENGINERRING INDIA PVT LTD	TUEM / MAPUSA
3	M/S KAMCO FOODS	CORLIM
4	M/S RAITURCAR PRINT PACK	MARGAO
5	M/S EP INDUSTRIES	BICHOLIM
6	M/S CREATIVE ENGINEERS	HONDA/MARGAO
7	M/S T S MISTRY	PANJIM
8	M/S ADITYA PLASTICS	PONDA/PANJIM
9	M/S CREATIVE PACKS	PONDA
10	M/S RUKMINI PACK PRINT	PILERNE
11	M/S SIDDHARTH CHEMICALS	VASCO
12	M/S SHIV SAMARTH ENGINEERING	KUNDAIM
13	M/S PRECITECH COMPONENTS	MARGAO
14	M/S OM VENTURES	CORLIM
15	M/S PUJA PLASTICS	PANJIM
16	M/S GENO PHARMACEUTICALS PVT LTD	KARASWADA
17	M/S GRANDIS FURNITURES	VERNA
18	M/S DESAI CEMENTS	PONDA
19	M/S DESAI CONCRETE CASTINGS	PONDA
20	M/S SHAIL FOODS & PACKAGING PVT LTD	VERNA
21	M/S GMI ZARHAK MOULDERS PVT TLD	VERNA
22	M/S AAKASH MANUFACTURING CO PVT LTD	KUNDAIM
23	M/S ASTRA METALS SYSTMES PVT LTD	VERNA
24	M/S ESTEEM INDUSTRIES PVT LTD	BICHOLIM
25	M/S SHRADDHA PLASTICS	KUNDAIM
26	M/S SHREE MAHALAXMI INDUSTRIES	KUNDAIM
27	M/S PARTH PRECITECH INDUSTRIES	KUNDAIM
28	M/S BRITACEL SILICONES PVT LTD	KUNDAIM
29	M/S GLOW PAINTS PVT LTD	PONDA
30	M/S SAPNA CERAMICS	MARGAO