SMALL SCALE INDUSTRY

Introduction

- At present the Small Scale Industry (SSI) constitutes a Very Important Segment of the Indian Economy & has emerged as a ***Dynamic & Vibrant Sector*** of the Economy.

- The ***Small Scale Industry Sector*** holds the Key to Economic Prosperity of the Indian Economy,
- Characterized by abundant Labor Supply,
- Unemployment & Under Employment ,
- Scarcity of Finance,
- Growing Modern Large Industries providing scope for development of Ancillary Industries & so on.
- The Small Scale Industry has grown phenomenally during the last Six Decades & has acquired a very prominent place in the Socio – Economic Development in the Country.

- ***This Sector accounts for about 40% of the Country's Total Exports***.

- Various Policy Initiatives undertaken by the Central Govt & Various State Govts whether by way of Incentives or protection, have helped the sector in acquiring the Status of a ***Major Contributor in the Growth Process***.

- The ***Process of Liberalization & Economic Reforms***, ***since 1991***, while creating Tremendous Opportunities for the Growth of Small Scale Industrial Sector, have however thrown up new Challenges for the Sector.
- changed Industrial Scenario, has called for
- building Competitive Strengths,
- Improving Quality & Productivity,
- Introducing Technology Up gradation,
- reducing Wastages & Rejections,
- Intelligent Use of Resources,
- Employing Modern Management Techniques etc in order to withstand growing competition & for ensuring sustained growth.

- Also, Small Scale Industries need to reposition itself in order to meet the Growing Demands for ***ancillary items***, Subcontracting & Job Work from other Industrial Units, requiring higher standards of Quality, Economies of Scale & ***strict timely delivery schedules***.

- The emerging challenges to the Small Scale Industries Sector are also due to the Impact of Globalization & Agreement under the ***WTO (World Trade Organization) & GATT (General Agreement on Trade & Tariff)*** to which India is a Signatory along with 134 Member Countries.

Concepts & Definitions of Small Scale Industry :

- ✓ It Comprises a Variety of Undertakings.

- ✓ These definitions generally relate to either the Capital Invested or people employed or both or any other relevant criteria.

Classification & Definition of Industries :

- The earlier concept of Industries has been changed to Enterprises. Enterprises have been classified broadly into Two Categories as Under :

1) ***Manufacturing Enterprises*** : Enterprises which are engaged in the Manufacture / Production of Goods pertaining to any Industry are referred to as “Manufacturing Enterprises”.

2) ***Service Enterprises*** : Enterprises which are engaged in providing / rendering of Services are referred to as "Service Enterprises."

I) ***Manufacturing Enterprises*** : They have been defined in terms of Investment on Plant & Machinery (Excluding Land & Buildings) & further classified into 3 Categories as under :

a) ***Micro Enterprises*** : An Enterprise where the Investment on Plant & Machinery is upto Rs. 25 Lakh is referred to as a "Micro Enterprise."

b) ***Small Enterprises*** : An Enterprise where the Investment on Plant & Machinery is above Rs. 25 Lakh upto Rs. 5 Crore is referred to as "Small Enterprise."

c) ***Medium Enterprises*** : An Enterprise where the Investment on Plant & Machinery is above Rs. 5 Crore & upto Rs. 10 Crore is referred to as "Medium Enterprise."

II) ***Service Enterprises*** :

They have been defined in terms of their Investment in Equipment (excluding Land & Building) & further classified into 3 Categories as under :

1) ***Micro Enterprises*** : An Enterprise where the Investment in Equipment is upto Rs. 10 Lakh is referred to as “Micro Enterprise.”

2) ***Small Enterprises*** : An Enterprise, where the Investment in equipment is above Rs. 10 Lakh & upto Rs. 2 Crore is referred to as “Small Enterprise.”

3) ***Medium Enterprises*** : An Enterprise, where the Investment in Equipment is above Rs. 2 Crore & upto Rs. 5 Crore is referred to as “Medium Enterprise.”

Ancillary Industrial Undertakings :

- An Industrial Undertaking which is engaged or is proposed to be engaged in the Manufacture or Production of Parts, Components, Sub – Assemblies, Tooling or Intermediaries, or the rendering of services & the undertaking supplies or it renders or proposes to supply or render not less than 50 % of its production or services, as the case may be, to one or more other Industrial Undertakings & whose Investment in Fixed Assets in Plant & Machinery whether held on Ownership terms or on lease or on hire – purchase, does not exceed Rs. 5 Crore in case of Manufacturing Small Enterprises & Rs. 2 Crore in case of Service Small Enterprises.

Characteristics of Small Enterprises :

- ***"Small Enterprise is Beautiful"*** because of its following Important Characteristics :

1) A Small Enterprise is generally a ***"One Man Show"***. Even Small Enterprises which run by a Partnership Firm or a Private Limited Company, in most cases, the activities are mainly carried out by one of the Partners or Directors. In Practice, the others mainly assist in providing Capital / Funds.

2) Owner himself / herself is also a Manager of the Enterprise. Thus, a Small Enterprise is managed in a ***personalized manner***. The Owner has First Hand Knowledge of all aspects of the Enterprise & knows what is actually going on in the Business. He takes effective participation in all matters of Business Decision Making.

3) A Small Enterprise has ***lesser Gestation Period*** compared to a Large Enterprise. i.e., the period after which the return on Investment starts.

4) Small Enterprises generally carryout their operations so as to cater to the Local & Regional Markets.

5) Small Enterprises use indigenous resources & therefore can be located anywhere subject to the availability of these resources like Raw Materials, Labor, Transport Facilities etc.

6) They are fairly ***Labor Intensive*** with comparatively smaller Capital Investment than the Larger Units. That is, for the same Investment, a Small Enterprise provides more jobs to the people compared to a Large Enterprise.

7) Using Local Resources, Small Units are decentralized & dispersed to Rural Areas & Smaller Towns. Thus, the development of Small Enterprises in Rural Areas & Smaller towns promotes more ***Balanced Regional Development*** & thereby prevents influx of job seekers from rural areas & smaller towns to bigger cities & urbanizing centers.

8) Small Enterprises are more susceptible & highly reactive & receptive to Socio – Economic conditions compared to larger enterprises. They are more flexible to adapt changes like Diversification to New Products, adopting to New Production Techniques, substituting New Raw Materials, Changes in Organization Structure, New Market etc.

Advantages of Small Enterprises :

- They are the Back Bone of the Industrial Activity in the Country & ***are playing a very important role in improving the Socio – Economic Conditions of the people***. Advantages of these Enterprises are as follows : (***12 Points***)

1) They ***create greater Employment Opportunities*** thro Labor Intensive processes & thereby help in tackling the Unemployment Problem.

2) They have ***Low Gestation Period*** & thereby Expensive Financial Resources are not idled unproductively for long periods.

3) They can be set up easily in Rural & Backward Areas.

4) They need Small / Local / Regional Market.

5) They encourage growth of Local Entrepreneurship.

6) They create Decentralized pattern of Ownership.

7) They foster Diversification of Economic Activities.

8) They Innovate & Introduce New Products particularly to cater to Local Needs.

9) They influence & ***improve Standard of Living of Local People***.

10) They provide equitable dispersal of enterprises throughout Rural & Backward Areas.

11) They earn Vital Foreign Exchange for the Country through their Exports of Goods / Services.

12) They Increase Revenue to Central & State Govts by way of Taxes Paid by them.

***Need & Rationale of Small Scale Industry Development in India* :**

- As per the IPR (Industrial Policy Resolution),1956, it emphasizes the Need & Rationale as given below :

➢ ***"They provide immediate large scale employment, they offer a method of ensuring a***

➢ ***more equitable distribution of the National Income &***

➢ ***they facilitate an Effective Mobilization of Resources of Capital & Skill which might otherwise remain unutilized. Some of the problems that unplanned urbanization tends to create will be avoided by the establishment of Small Centers of Industrial Production all over the Country."***

- The Rationale of Small Scale Industries so established can be ***broadly classified into Four Arguments as follows*** :

1) Employment Argument.
2) Equality Argument.
3) Decentralization Argument.
4) Latent Resources Argument.

1) ***Employment Argument*** :

- In View of the Scarce Capital Resources of the Country & large Manpower, the most ***important argument put forth in favor of the SSI's is that they have a potential to create immediate large scale employment opportunities***.

- The increasing emphasis on SSI's originates from the widespread concern over the Unemployment Situation in the Country. It has been found that ***Small Scale Units are more Labor Intensive than Larger Units***. i.e., Small Units use more labor per Unit of Output than the Investment.

- It has also been found by various studies that while Output – Employment Ratio (Ratio of Output to the No. of people employed) is the ***lowest in the Small Scale Sector***, the Employment Generation Capacity of Small Sector is between 8 to 15 times that of the Large Sector for the same amount of Capital Invested for different types of Industries.

- However, some Scholars have opposed this employment argument of Small Scale Industries. They argued that Employment should not be created for the sake of employment. The more important problem being, how to make the best use of the Scarce Resources like Capital, Power, Raw Materials, etc, & not how to absorb Surplus Resources (Manpower). Then, the Employment Argument becomes an Output Argument.

2) ***Equality Argument*** :

- Another Argument put forward in favor of the Small Scale Industry is that they ensure a more Equitable Distribution of National Income & Wealth. There are 2 Major Considerations :

1) The Ownership Pattern of SSI's is more widespread compared to the Ownership of Large Scale Units in which Major Stake Holders are only a few.

2) They are ***more Labor Intensive*** & their Decentralization & Dispersal to Rural & Backward Areas provide more Employment Opportunities to the Unemployed. This results in more equitable distribution of the produce of the Small Scale Units.

Here, since it is Proprietorship or Partnership, the ***relations between the Labor & Management are more harmonious & cordial in Small Enterprises than in Large Enterprises***.

- Some Authors argued that such Small Enterprises paid less to the Workers, may be only Half of the Wages paid to Workers of Large Enterprises. ***This is because Workers in Small Enterprises are Unorganized due to absence of Trade Unions & therefore easily exploited by Employers***.

- But, However, the Workers choice is really not between a High Paid Job & a Low Paid One, but between a ***Low Paid Job or No Job at all***. Thus we can say the SSI's have great importance in an Economy like Ours where millions are unemployed & in search of a Livelihood.

3) ***Decentralization Argument*** :

- This stresses the need to disperse the Industrial Development to different regions so as to promote Balanced Regional Development in the Country. Large Industries are concentrated everywhere in Urban Areas. But, Small Enterprises can be located in Rural & Semi Urban Areas to use Local Resources & to meet Local Demands.

- Decentralization of Industrial Enterprises will help harnessing Local Resources such as Raw Materials , Idle Capital , Local Talents , & ultimately improves the Socio – Economic Conditions & the ***Standard of Living of the People*** even in the erstwhile backward areas.

4) ***Latent Resources Argument*** :

- This Argument suggests that Small Enterprises are capable of picking up Latent & Unutilized Resources like hoarded Wealth, & ***Idle Entrepreneurial Ability***.

- However, the Real Force of Latent Resources Argument lies in the existence of Entrepreneurial Skill.

- The impressive growth in the number of small enterprises during the last six decades highlights the same fact that providing the necessary conditions such as Land, Sheds, Power, Good Transport & Communication Facilities , Credit Facilities etc, the Latent Resources of Entrepreneurship can be tapped by the Growth of Small Scale Industries only.

Objectives of Developing Small Enterprises :

- Reasons for Developing Small Enterprises in India can be enumerated as follows :

1) To generate Large Scale Employment Opportunities for the Unemployed speedily with relatively Low Investment.

2) To Eradicate Unemployment Problem from the Country.

3) To encourage dispersal of enterprises to all over the country covering Rural Areas , smaller towns & economically backward regions.

4) To bring Backward Regions too in the mainstream of national development.

5) To promote balanced regional development in the Whole Country.

6) To ensure more equitable distribution of National Wealth & Income.

7) To encourage effective mobilization of Untapped Resources of the Country.

8) To improve Socio – Economic Conditions & Standard of Living of the people in the Country.

9) To seize the Vast Opportunities created for Small Enterprises due to Liberalization & Globalization policies of the Govt of India.

10) To help earn Vital Foreign Exchange for the Country thro Exports of Goods / Services of Small Enterprises.

11) To bring more Revenue to the Central & State Govts by way of Taxes.

Role of Small Enterprises in Economic Development :

- Economic Development of a Country can be defined in terms of Increase in Real Per Capita Income of Persons resulting in Improvement in Standard of Living. ***The Development of Small Enterprises contributes to the Increase in Per Capita Income & leads to Overall Economic Development.***

- It generates Vast Employment Opportunities quickly with relatively Low Investment , Promotes more equitable distribution of National Income, makes effective mobilization of Unutilized Capital & Skilled Manpower & leads to dispersal of Manufacturing Activities all over the Country , leading to ***Growth of Villages*** , Small Towns & Economically Backward Regions. This leads to Balanced Regional Development throughout the Country.

- The ***Role of Small Enterprises in Economic Development of our Country*** can be discussed with reference to the following parameters during the last Four Decades :

1) Increase in the Number of Small Enterprises.

2) Increase in the Value of Production in Rupee Terms.

3) Increase in the Number of People Employed.

4) Increase in the Export Earnings in Rupee Terms.

The Small Enterprises have registered phenomenal growth in their Number, Production, Employment & Exports over the Last Four Decades.

In 1950, there were 16,000 Registered Small Scale Industries & this has increased to 31.21 Lakh Registered SSI's during 1998 – 1999.

During 1973 – 74, the Total Value of Production reported by SSI's was Rs. 7200 Crores & this has grown phenomenally by about 75 Times to Rs. 5,38,357 Crores during 1998 – 1999.

As regards Employment, about 40 Lakh People were employed in SSI Sector during 1973 – 1974 & there is a Four Fold Increase in Employment during 1998 – 1999, that is 175.2 Lakh People were employed in SSI Sector during 1998 – 1999.

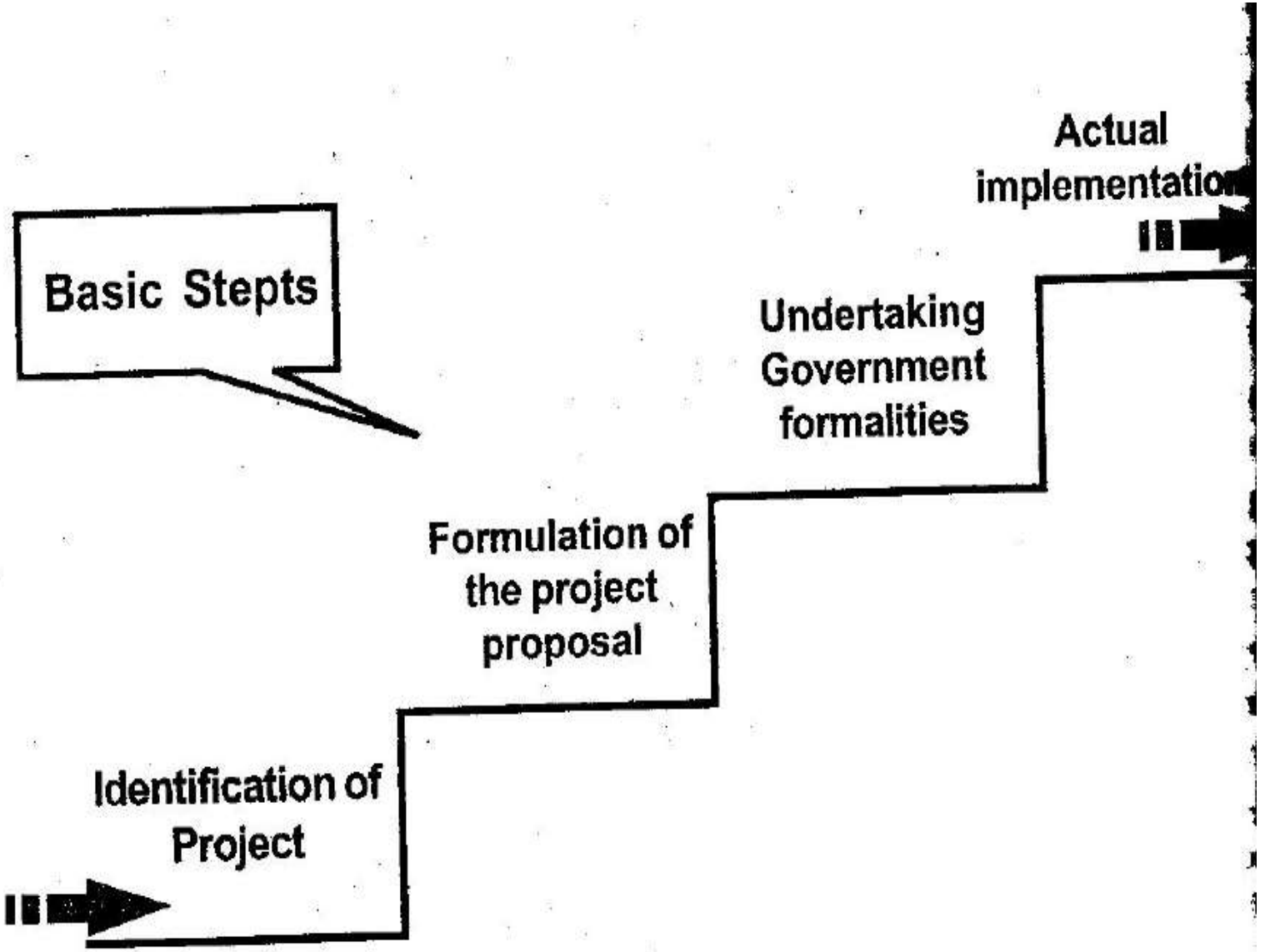
There is a ***Phenomenal Growth in Exports Revenue*** during the last Four Decades. During 1973 -1974, SSI Sector exported Rs. 393 Crores worth of Goods & Services & this has grown nearly 150 times to Rs. 57, 488 Crores during 1998 -1999.

As we can see, the ***SSI Sector has been contributing tremendously in overall economic development of the Country by creating Vast Employment Opportunities , increased Value of Production, & increased Value of Exports & Foreign Exchange Earnings***.

Another way of looking at the SSI Sector for the Economic Development of the Country is to look at its Relative Position in terms of Country's Total Production, Employment & Exports. It is encouraging to note that Small Scale Enterprises accounts for 35 % of the Gross Value of the Output in the Manufacturing Sector , about 80 % of the Total Industrial Employment & about 40 % of the Total Exports of the Country.

Steps for Starting a Small Industry :

- *The Various Basic Steps for Starting a Small Enterprise is as Given Below* :


Basic Stepts
Identification of Project
Formulation of the project proposal
Undertaking Government formalities
Actual implementation

FLOW CHART FOR SETTING UP A SMALL ENTERPRISE

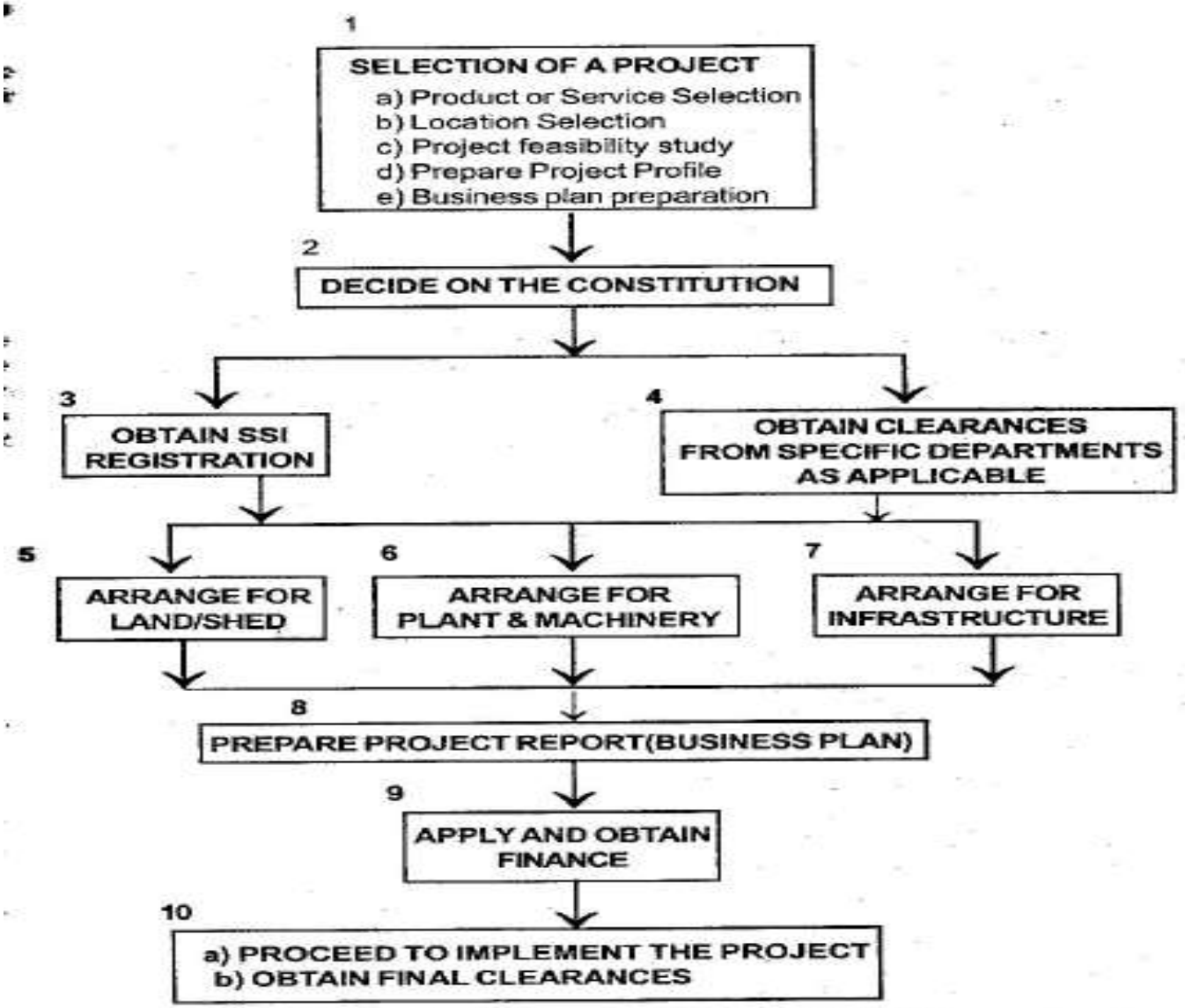


Fig 6.2 Flow Chart for setting up a small enterprises

The Steps are discussed below :

1) ***Project Selection*** : Entrepreneur is the Most Important person for the Success of a Project. In order to set up a Small Enterprise, the Entrepreneur has to decide or choose a suitable project.

The Entrepreneur has also to decide on a suitable location for the project. Based on these selections, a project feasibility study has to be conducted & then a brief project profile has to be prepared for the proposed project.

- The Project Selection & the Preliminary Activities involve the following :

a) ***Product or Service Selection***.
b) ***Location Selection***.
c) ***Project Feasibility Study***.
d) ***Preparation of Project Profile***.
e) ***Business Plan Preparation***.

a) ***Product or Service Selection*** :

This is the first & most important step in setting up a small enterprise. Because, the further prospects, actions & efforts in setting up the small enterprise & commencing its commercial activities successfully depend on this decision.

Therefore, the Entrepreneur has to be very careful in the choice or selection of the Project. The main factors to be considered in deciding a suitable project are as follows :

1) Background & Experience of Entrepreneurs.

2) Availability of the Right Technology & Know – How for the Project.

3) Marketability of the Product / Service.

4) Investment Capacity (i.e., Financial Resources.)

5) Availability of Plant & Machinery, Indigenous or Imported.

6) Availability of Raw Materials.

7) Availability of Proper Infrastructural Facilities Viz., Land / Shed, Power, Water, Communication, Transport etc.

8) Availability of right kind of Labor Viz., Skilled, Semi – Skilled & Unskilled.

- Considering all above aspects & taking the help of Governmental Support Organizations like ***TECSOK***, ***KIADB***, ***KSSIDC*** etc & even private consultants , the Entrepreneur has to choose & decide the project for implementation.

b) ***Location Selection*** : After deciding on the Project, the next important decision an Entrepreneur has to make is about the Location of the Project. There are a Few factors associated with the same :

1) Nearness or Proximity to Market.

2) Availability of Raw Materials.

3) Availability of Transformation & Communication Facilities.

4) Availability of Govt Incentives / Concessions.

5) Govt Industrial Policy.

6) Availability of suitable Infrastructural facilities.

7) Availability of Labor.

8) Convenience for the Entrepreneur’s.

c) ***Project Feasibility Study*** : The important facets of Project Feasibility Study are as follows :

1) Market Analysis is carried out to find out the aggregate demand of the proposed Product / Service & what would be the Market Share of the proposed project.

2) Technical Analysis seeks to determine whether the prerequisites for the successful commissioning of the Project have been considered & reasonably good choices have been made with respect to Location, Size, Process & so on.

3) Financial Analysis seeks to ascertain whether the proposed project will be Financially viable in the sense of being able to meet the burden of Servicing Debt & Satisfy the return on Investment Expectations of the Promoter's.

4) ***Economic Analysis*** : (Social Cost – Benefit Analysis) is concerned judging a Project from the larger, social point of view. In such an evaluation, the focus is on the Social Costs & Benefits of the Project.

5) ***Project Profile*** : This gives a Bird's Eye View of the Proposed Project. This may be used for obtaining Provisional Registration Certificate (***PRC***) from the District Industries Centre & for making an Application to ***KIADB*** for allotment of Land or to KSSIDC for allotment of Shed & other Infrastructures.

A ***Project Profile*** generally contains information about the Project under the Following Heads :

1) Introduction.
2) Promoter(s) Background (Education, Experience).
3) Product(s) Service(s) Description (Specification, Uses etc.)
4) Market & Marketing.
5) Infrastructure needed.
6) Plant & Machinery (Description, Capacity, Cost etc.)
7) Process Details.
8) Raw Materials (Requirements, Specifications, Cost etc.)
9) Power, Water & other utilities required.
10) Manpower needed (type of Personnel reqd & salaries / wages)
11) Cost of the Project & means of finance.
12) Cost of Production & Profitability.

e) ***Business Plan Preparation*** : This is a Document where the Entrepreneur plans his Business to have an Organized & effective response to a situation which may arise in future. A Business Plan is used to make Crucial Start Up Decisions to reassure Lenders, Investors, to measure Operational Progress ; to Test Planning Assumptions ; to Adjust Forecasts; & to set the standard for good Operational Management.

A Workable Business Plan has the following features :

- ✓ Determines where the Company needs to go.
- ✓ Forewarns of possible hurdles along the way.
- ✓ Formulates the responses to contingencies.
- ✓ Keeps the Business on Track to reach its Planned Goals.

Start a Business Plan with describing your Business & Product or Services. Indicate the Market Segment you are Targeting & the Stage of Development your Company is in.

2) ***Decide on the Constitution*** :

To start any Enterprise, the Promoter's have to decide on the Constitution of the Unit. There are 3 Major Alternatives :

a) ***Proprietary*** b) ***Partnership*** c) ***Company***.

In fact, this has to be decided at the initial stages of the Project & necessary formalities should be completed by the time the application for Provisional Registration Certificate (PRC) is made to DIC (District Industries Centre).

a) ***Proprietary Enterprise*** : A Single Individual is the Owner of such an Enterprise. The Proprietor may proceed to obtain PRC from the DIC.

b) ***Partnership Enterprise*** (***Firm***): This is an Association of Two or more Persons, subject to a Maximum of 20 Persons. They are governed by the Indian Partnership Act , 1932 & rules framed there under the State Govt. It is advisable to have a Partnership Deed Agreement on Stamp Paper of Appropriate Value.

Registration Formalities of a Partnership Firm :

For Registering a Partnership Firm, an Application in the prescribed form has to be submitted to the Registrar of Firms of the District , along with the authenticated copy of the Partnership deed & the prescribed fee & must obtain "***Form A***" & "***Form C***" from the Registrar of Firms for having registered the Partnership Firm.

Assistance of a Chartered Accountant may be availed for completing the above formalities.

c) ***Company*** :

This may be a Private or Public Limited Company. A Private Limited Company can be formed with a minimum of 2 Persons & a Maximum of 50 Persons. A Public Limited Company can be formed with a Minimum of 7 Persons & Maximum number of Persons is unlimited. Company is governed by the Companies Act, 1956.

For Registering the Company, one has to approach ***Registrar of Companies*** of the State.

3) ***Obtaining SSI Registration*** :

Entrepreneurs desiring to start a Small Enterprise have to initially obtain a ***PRC***(Provisional Registration Certificate). Once the Unit goes into Production, the PRC has to be converted into a Permanent Registration Certificate (***PMT***).

a) *PRC* : This is the Initial Registration reqd for starting a Micro & Small Enterprise. The Entrepreneur has to apply & obtain a PRC after selection of the Project & deciding on the Location of the Unit. This Application is necessary for Infrastructural Facilities such as Land, Shed, Power etc & Finance from the Financial Institutions.

b) ***Permanent Registration Certificate* (PMT)** :

A Micro or a Small Enterprise can get a Permanent Registration Certificate when it actually commences Commercial Production / Service. PRC would be converted to PMT when the Unit commences its Commercial Activities.

PMT Registration will help in several ways like the following :

- ✓ To apply for scarce raw materials & for imported raw materials.
- ✓ To get Working Capital Loan from Banks / Financial Institutions.
- ✓ To get Central Excise Duty Concessions.
- ✓ For Claiming Incentives, Concessions, including Sales Tax Exemption wherever applicable.
- ✓ To apply for registration under Govt Stores purchase programs / Ancillary Development Programme / Export Promotion Program & to get Purchase & Price Preference.

4) ***Specific Clearances*** :

There are a number of Statutory Clearances required to start Micro & Small Enterprises.

Some of them are given below :

a) Agricultural Land Conversion into Non – Agricultural Land (NA Conversion).

b) Building Plan approved by the Local Authorities.

c) Factories Act & Labor Dept.

d) Trade License from the Local Authorities.

e) Pollution Control Board Clearances.

f) Food Adulteration Act License.

g) BIS Certification wherever applicable etc.

5) ***Land or Shed Selection*** :

For any Industrial Project, suitable Industrial Site or a ready Industrial shed is reqd. The Promoters of the Unit could consider taking an Industrial Site & constructing a shed as per their requirement, alternatively, could consider taking a ready Industrial Shed on Ownership Basis also.

Whom to approach :

a) KIADB for Land.

b) KSSIDC for Shed requirement.

c) Alternatively, the Entrepreneur can also approach directly the Jt. Director , DIC in the particular District also for requirement of Land / Shed for the proposed Enterprise.

6) ***Plant & Machinery*** :

This requirement for a Particular Project could be purchased from recognized manufacturer's / dealers. This could also be taken on Hire Basis operated by National Small Industries Corporation Limited (***NSIC***).

This is a Govt of India promoted Corporation.

7) ***Infrastructure Facilities*** :

For Micro or Small Enterprises the main infrastructure facilities are Land or Shed for the Project , Power Connection , Water Supply & Telephone & Internet Facility.

As said earlier, for Land or Shed , the Entrepreneur can approach either KIADB or KSSIDC as the case may be. For the requirement of Power, an application may be made to the local electricity company in the region. For Telephone connection & Internet facilities, Entrepreneur has to approach BSNL or other operators.

District level Single Window Agency (***SWA***) assists the Entrepreneur in getting all the above facilities. Hence, the Entrepreneur can forward an Application on a plain paper to the Jt. Director , District Industries Centre of the District giving his requirement of various infrastructural facilities for speedy approval & sanction.

8) ***Project Report*** :

For any New Project or Enterprise to be set up, Proper Planning is necessary.

A detailed Project Report provides such a plan for the Project. The Report is useful to the Entrepreneur for Planning & Implementing the Project. This is essential for Obtaining Finance & other clearances for the Project.

In fact, the Project Report gives a detailed insight of the ***Techno – Economic Viability of the Project***. This is generally prepared to cover the following :

1) Introduction.

2) Entrepreneurs (Promoters) Background (Education, Experience, Special Achievements etc.)

3) Details of Product(s) to be manufactured & specs / details of Service(s) to be rendered with Technical Details.

4) Market Potential for the Product(s) / Service(s) & Marketing Plan.

5) Plant Capacity, Production Plan & Manufacturing Process.

6) Infrastructure needed for the Project.

7) Raw Materials & Consumables needed for the Project.

8) Plant & Machinery for the Project (Description , Capacity , Cost etc.)

9) Manpower requirements.

10) Total Project Cost.

11) Means of Finance.

12) Income , Costs & Profitability Projections.

13) Financial Analysis.

14) Schedule of Implementation.

15) Conclusions & Recommendations.

9) ***Finance*** :

Finance for such Projects are under 2 main categories :

a) Term Loan.

b) Working Capital Loan.

a) ***Term Loan*** : For starting a Small Enterprise, Term Loan Finance for the Fixed Assets like Land, Building, Plant & Machinery etc ., can be availed. This Loan can be availed from Karnataka State Financial Corporation (KSFC) & or from the Commercial Banks.

Financial Institutions sanction up to 75 % of the Total investment on Fixed Assets & the Balance of 25 % has to be pooled in by the Promoters as Margin Money. At present the Lending Interest Rates are between 13 to 14 % & also subject to change. Promoters can also approach National Small Industries Corporation (***NSIC***) for Financial Assistance.

b) ***Working Capital Loan*** :

It is always preferable to approach Commercial banks for Working Capital Loan. All Commercial Banks finance up to 75 % of the Working Capital Loan & the remaining 25 % has to be pooled in by the Promoters.

It is important to note that Banks will release Working Capital Loan only after the Promoters have contributed their share of 25 % , at present the Lending Rates are varying between 13 to 14 %.

c) ***Single Window Scheme (SWS) of KSFC for both Term Loan & Working Capital Loan*** :

This Loan Scheme is for providing assistance to new Micro & Small Enterprises whose project cost (Excluding Working Capital Margin of the Promoters) does not exceed Rs. 50 Lakh & the Total Working Capital Requirements at the Normal Level of Operation is up to Rs. 20 Lakh. Term Loan for Fixed Assets & Term Loan for Working Capital is fixed based on the Debt Equity Ratio of 2:1 for Loans above Rs. 10 Lakh & 3:1 for Loans up to Rs. 10 Lakh.

10) ***Implementation of the Project*** :

The Entrepreneurs will have to take necessary steps to physically implement the Project after obtaining the various Licenses, Clearances, Infrastructural Facilities etc. Following are the Major Activities that the Entrepreneurs have to undertake for implementing the Project.

a) ***Construct Shed*** : If the Entrepreneurs have taken a ready shed from the **KSSIDC** or have made arrangements for Rental Sheds / Premises then they need to go thro this Step. If they have obtained Industrial Land from **KIADB** or they have made arrangements for Vacant Land privately, then they have to take steps to construct the shed for their industry. The Plan for the Industrial Shed should be approved by the concerned authorities like KIADB & or Local Authorities like Municipal Corporations or Municipalities or Village Panchayats etc., as the case may be.

b) ***Order for Machinery*** :

The Entrepreneurs have to take necessary steps to order the necessary Machinery, Equipments etc. thro **NSIC** or any other suitable Organizations. The Terms & Conditions for ordering Machinery, Equipments etc. will vary from dealer to dealer, hence the Entrepreneurs have to make necessary arrangements as per the terms & conditions of the dealers.

The delivery dates may vary upon the type of Machinery, Equipments etc. & the dealer thro whom the Machinery is ordered.

Keeping these Factors in mind, the Entrepreneurs should plan to order the necessary Machinery, Equipments etc. at the appropriate time so that they are able to obtain them in Time, to implement the Project.

c) ***Recruit Personnel*** :

Depending upon the Size of the Industry & type of the Products, the Entrepreneurs will have to hire different types of personnel for the Industry.

Certain Managerial & Technical Personnel may be reqd in the initial stages for the Project Planning. These Personnel may be needed for the preliminary works, for supervision & other related works during Planning & Implementation of the Project.

Accordingly, the Entrepreneurs should take steps to hire the Key Managerial & Technical Personnel well in advance. Most of the other Personnel & Office Staff will be needed as soon as the unit is ready for Commissioning.

d) ***Arrange for Raw Materials*** :

Entrepreneurs should plan for reqd Raw Materials as soon as they proceed to implement the Project. They should try to get the necessary samples for the Basic Raw Materials & Components that they need to buy from outside for the Project.

During the implementation of the Project, they should finalize the Sources of Raw Materials, the Quality & Quantity Requirements for the Project. Accordingly, they should Plan & Order the necessary Raw Materials & Components so that they start receiving the supplies from the date of expected Commissioning of the Project.

e) ***Marketing*** :

The Entrepreneurs would have already considered about the Market for their Project & the Marketing Plan that they desire to take up for the Products.

They should build up necessary Contacts for marketing during the implementation stage. They have to undertake ***necessary ground work*** of contacting the prospective customers & preparing necessary plans for Marketing. The Planning should cover the product(s) design, Pricing, Promotional Activities & the Distribution Systems.

f) ***Erection & Commissioning*** :

Once the Building is ready & the necessary Plant & Machinery have arrived, the Entrepreneurs have to take steps to erect the Machineries. The various items of Plant & Machinery should be erected as per the Plan prepared. Some of the sophisticated Machineries are supplied along with the service of erection. In such cases, the erection & commissioning will be undertaken by the Vendors of the equipment.

After the Plant Machinery is erected, the Entrepreneurs should proceed to commission the Plant. Initially, during the trial run period, the Entrepreneurs will have to make necessary adjustments & changes in Production & Process so as to obtain the desired quality products. Once, the Production / Process of the Unit is standardized, they can proceed with Commercial Production.

g) ***Obtain Final Clearances*** :

The Entrepreneurs are reqd to take several Final Clearances when is ready for Commissioning or as it goes into Production. Accordingly, the Entrepreneurs are advised to refer to the various preliminary clearances they have obtained from different Depts / Organizations & take necessary steps to obtain Final Clearances or approvals as reqd.

SME: REGISTRATION

- There are two stages of registration-provincial and permanent (final). An enterprise is granted provincial registration when it is at a pre-investment stage. After getting provincially registered, an enterprise can apply for permanent registration just before launching its production facilities.
- However, an enterprise that is already functioning need not have to apply for provincial registration as it is eligible to apply for permanent registration.
- Enterprises falling under the three categories (micro, small and medium) are further categorized into two types of industries- manufacturing industry and service industry. The status of an enterprise under the MSMED Act is determined according to the investment slab under which an enterprise falls.
- The main purpose of Registration is to maintain statistics and maintain a roll of such units for the purposes of providing incentives and support services.
- States have generally adopted the uniform registration procedures as per the guidelines. However, there may be some modifications done by States. It must be noted that small industries is basically a state subject.
- States use the same registration scheme for implementing their own policies. It is possible that some states may have a 'SIDO registration scheme' and a 'State registration scheme'.

SME: REGISTRATION

Objectives of the Registration Scheme

- They are summarised as follows:
- To enumerate and maintain a roll of small industries to which the package of incentives and support are targeted.
- To provide a certificate enabling the units to avail statutory benefits mainly in terms of protection.
- To serve the purpose of collection of statistics.
- To create nodal centres at the Centre, State and District levels to promote SSI.

Procedure for Registration

Features of the present procedures are as follows:

- A unit can apply for PRC for any item that does not require industrial license which means items listed in Schedule-III and items not listed in Schedule-I or Schedule-II of the licencing Exemption Notification. Units employing less than 50/100 workers with/without power can apply for registration even for those items included in Schedule-II.

SME: REGISTRATION

Procedure for Registration

Features of the present procedures are as follows:

- Unit applies for PRC in prescribed application form. No field enquiry is done and PRC is issued.
- PRC is valid for five years. If the entrepreneur is unable to set up the unit in this period, he can apply afresh at the end of five years period.
- Once the unit commences production, it has to apply for permanent registration on the prescribed form.
- The following form basis of evaluation:
- The unit has obtained all necessary clearances whether statutory or administrative. e.g. drug license under drug control order, NOC from Pollution Control Board, if required etc.
- Unit does not violate any locational restrictions in force, at the time of evaluation.
- Value of plant and machinery is within prescribed limits.
- Unit is not owned, controlled or subsidiary of any other industrial undertaking as per notification.

NOC FROM POLLUTION BOARD

- First of all , what do you get by the term **NOC** - It stands for ***No Objection Certificate*** which is required by the industries or factories for getting constructed ,evolved in a particular location ,or for starting any business for human welfare which requires government approval.
- **CPCB** stands for ***Central Pollution Control Board*** comes under The Ministry of Environment, Forest and climate in India. It works for taking note of Air, water, noise pollution and checking the quality of air and water of all the areas in States . Each state have there own pollution control boards.

- Check documents regarding the location you choosed for building the industry.
- Whether that area comes under
  - red category (highly polluted region)
  - or orange category (less polluted region) on which basis they would give you certificate of consent.
- The location you have choosed should not harm the biodiversity of that region .
- If your industry is being planted for the purposes like - Nuclear power, thermal power, fertilizers(Nitrogen , phosphate) , Sugar mill, Textiles, pulp and juices , aluminum and steel etc , then it will come under serious notice and will regularly be operated by the Boards .

HARYANA STATE POLLUTION CONTROL BOARD

The necessary documents, which are required to be submitted along with NOC application, are as under:

i) Scheme for pollution control including E.T.P (Effluent Treatment Plant) management if application

ii) Site plan/layout plan (not applicable in case of industry located in approved industrial area)

iii) Project report

iv) Memorandum of Articles/ Partnership deed

v) NOC fee

vi) Flow Chart & Manufacturing Process

vii) Affidavit in respect of column **12.5,12.6, & 12.7** of NOC From applicable.

Capital investment	NOC Fee
up to 2 lakh	Rs. 600
up to 10 lakh	Rs. 2250
up to 25 lakh	Rs. 4500
up to 50 lakh	Rs. 7500
up to 1 crore	Rs. 14,500
up to 3 crore	Rs. 17,700
up to 10 crore	Rs. 24,000

NOC FROM POLLUTION BOARD

FUNCTIONS OF THE BOARD :

- Issue of No Objection Certificates from the environmental pollution point of view including adequacy of the site from the environmental angle.
- Issue of Consent under provisions of section 25/26 of the Water (Prevention and Control of Pollution) Act, 1974.
- Issue of Consent under provisions of section-21 of the Air (Prevention and Control of Pollution) Act, 1981.
- Assessment and collection of Water Cess, under provision of Water (Prevention and Control of Pollution) Cess Act, 1977.
- Identification and assessment of industrial and municipal pollution sources and control thereof.
- Assessment of ambient air quality.
- Assessment of quality of inland surface waters.
- Mass awareness programmes.
- Notification of effluent and emission standards.
- Development of Pollution Control technologies.

NOC FROM POLLUTION BOARD

FUNCTIONS OF THE BOARD :

- Instituting legal action against defaulters.
- Issue of Authorization under the Hazardous Waste Management Rule, 1989.
- Identification of isolated storages, onsite crisis management plans etc. under the Manufacture, Storage and Import of Hazardous Chemicals Rules, 1989.
- Implementation of Biomedical Waste Rules, 1998.

MACHINERY AND EQUIPMENT SELECTION

- The equipment selected should possess certain desirable characteristics or meet certain criteria to be best suited to the desired task. Some of these criteria are:

(a) Fit into the system;
(b) Be as simple as possible;
(c) Require minimum space;
(d) Be flexible and adaptable;
(e) Require minimum of loading, unloading and rehandling;
(f) Call for as little maintenance, repair, power and fuel as possible;
(g) Have a long useful life;
(h) Capable of higher capacity utilization;
(i) Perform the operation efficiently and economically.

PROJECT REPORT PREPARATION

- Project Report for Small Scale Industry helps in identifying the product line and target market of the sector, besides evaluating the level of skill and accuracy.

- Hence, a small scale industry project report must contain 5-7 years evaluations in context of revenues, expenditures, cash flows and outflows, balance sheet of legal responsibilities and assets in hand, and reimbursement agendas of working capital and long-term loans, etc.

- In this way the endorsers can make use of the estimations provided by the firm in the project reports and compare it with the real performance and accordingly take remedial steps against the negative disparities.

- The promoters establishing their commercial enterprises without considering the project reports are taking a big risk as they are equipped with any measuring units to assess the firm's performance. In the competitive market ambiance, industrialist must not make a foray into a new sector or set up a new business without preparing Project Reports.

PROJECT REPORT PREPARATION

- While preparing the project report for small scale industry always keep in mind that the statistical figures are not discouraging for the promoters. The project valuation should encourage a sense of practicality among them.
- The other users who could require the project reports are industrialists,Financiers, banks, Financial Analysts, merchants, clients, certifying authorities, Management Accountants, etc

Specimen of Project Report

- The standard format for preparing a project report for small scale industry is listed in sequential order as below:

➢ **General Information**

- Bio-data of promoter (Education, experience)
- Industry profile (present status and its problem)
- Constitution and organization
- Product details (Specification, Uses etc.)

- Preliminary Analysis
  - Gap between demand and supply
  - Feasible technology
  - Expected Rate of return

- Project Description
  - Plant Location
  - Physical Infrastructure-
    I. Raw material
    II. Skilled Labor
  - Utilities
    I. Power
    II. Fuel
    III. Water

- Communication System
- Transport Facilities
- Other common facilities (welding shop, electric repair shop)
- Production process
- Machinery and Equipment
- Capacity of Plant
- Technology Selected
- Proposed Research and development Activity

- Marketing Plan
- Expected Demand and supply position of company’s product
- Expected price
- Marketing Strategies (segmentation, target market)
- After-sales Services
- Fixed Capital Requirement (Sources of finance)
- Operating Requirements (working Capital & SOF)

- Financial Analysis

Projected balance sheet considering depreciation, income tax, GST, rebates for priority industries, incentive for backward areas

- Economic Analysis

Break-even point

Employment generation

Import substitution

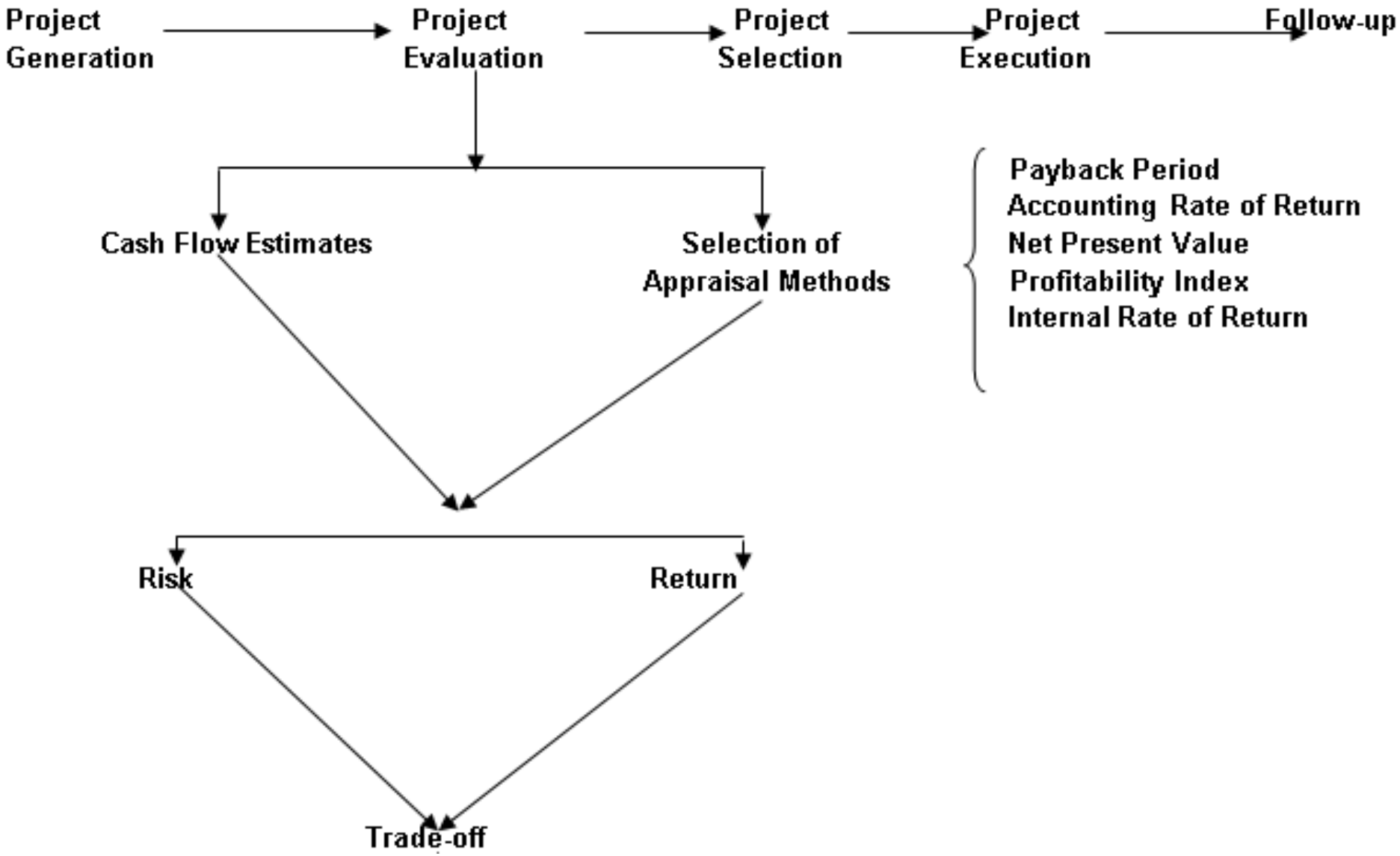
Export

Utilization of Idle Resources

Development of area

- Miscellaneous Aspects such as social cost

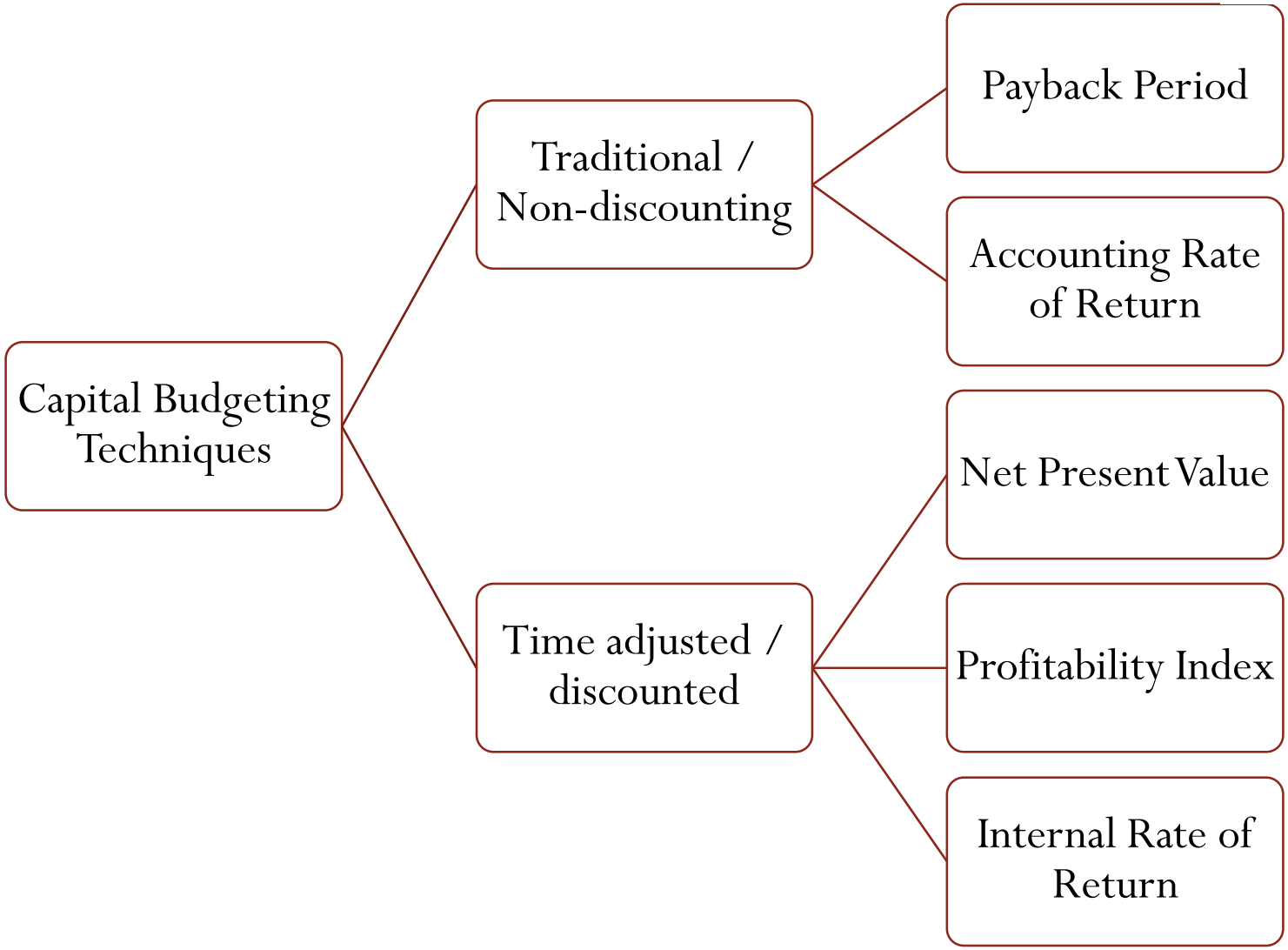
Project Finalization



METHODS OF PROJECT APPRAISAL

- Project appraisal methodologies are methods used to access a proposed project's potential success and viability. These methods check the appropriateness of a project considering things such as available funds and the economic climate. A good project will service debt and maximize shareholders' wealth.
- The recommended analytical methods for appraisal are generally discounted cash flow techniques which take into account the time value of money. People generally prefer to receive benefits as early as possible while paying costs as late as possible.
- Costs and benefits occur at different points in the life of the project so the valuation of costs and benefits must take into account the time at which they occur. This concept of time preference is fundamental to proper appraisal and so it is necessary to calculate the present values of all costs and benefits.

Evaluation Technique / Method of Project Appraisal



Method of Project Appraisal

it is defined as number of years required to recover the cost of the project.

(I)WHEN ANNUAL CASH INFLOWS ARE EQUAL

Payback Period= Cash Outlay (Investment)/ Annual Cash Flow

Illustration:- A project requires an outlay of Rs.50,000/- and annual cash inflow of Rs.12,500/- for 7 Years. Calculate the Payback period for the project.

Payback Period = 50000 **/** 12500 = **4** Years **Ans**.

Advantages of Pay-back Period Method

- Simplicity
- Cost effective
- Short-term effects
- Risk shield
- Liquidity

Disadvantages

- It fails to account of the cash flows earned after the payback period.
- It is not appropriate method of measuring the profitability of an project.
- It ignore time value of money.
- It ignore cost of capital.

ACCOUNTING RATE OF RETURN

It is also known as Return on Investment (ROI). It is a return on investment by using accounting profit of a project. It may be defined as the net income earned on the average funds invested in a project. It is computed as follows:

$$ARR = \frac{\text{Average annual profit (after tax)}}{\text{Average investment}} \times 100$$

Where,

Average Investment= ½ (Initial cost of Machine – Salvage value) + Additional working capital+ Salvage value

$$\text{Average Investment} = \frac{Orignal\ Investment + Salvage\ Value}{2}$$

Illustration

Calculate Accounting Rate of Return with the following information. A project having a life of 5 yrs will cost Rs. 400000. Its stream of income as follows:

Year	Cash Flow after Depreciation & After Tax
1	12000
2	24000
3	48000
4	54000
5	72000

NET PRESENT VALUE

In this method the sum of the present value of all the cash outflows are deducted from the sum of the present value of all the future cash inflows.

A rate of discount is used to calculate the present value of inflows and outflows.

It may be calculated as follows:

NPV= PV of cash inflow – PV of cash outflow

$$NPV = -C_0 + \frac{C_1}{1+r} + \frac{C_2}{(1+r)^2} + \ldots + \frac{C_T}{(1+r)^T}$$

$-C_0 = Initial\ Investment$
$C = Cash\ Flow$
$r = Discount\ Rate$
$T = Time$

Advantages

- Consider time value
- Measure of true profitability
- Consider the entire life of project
- Easier to calculate among the discounting techniques

Disadvantages

- Difficult to determine discount rate
- Difficult then PBP & ARR
- Sensitive to discount rate

Profitability Index

Profitability index is the ratio of present value of the inflows to the cash outflows of the investment. PI measures the present value of return per rupee invested.

$$PI = \frac{\text{Present value of cash inflows}}{\text{Present value of cash outflows}}$$

Advantages & Disadvantages

Advantages

- Simple and very easy to understand
- Consider the time value of money
- Consider the all cash flows during the life of the project.

Disadvantages

- Not useful when small projects are to be compared with large project.

Internal Rate of Return

The IRR of a project is defined as the discount rate which produces a zero NPV (NPV= 0). The IRR is the discount rate which will equate the present value of cash outflows. It is also known as Marginal Rate of Return or Time Adjusted Rate of Return.

Advantages & Disadvantages

Advantages

- No pre-determination of discounting rate
- Consider the time value of money
- It considers all cash flows.
- It is a good measure of profitability.

Disadvantages

- Calculations are tedious and time consuming
- Does not differentiate satisfactorily between projects of different lives.

METHODS OF PROJECT APPRAISAL

Sensitivity analysis

- Sensitivity analysis is the process of establishing the outcomes of the cost benefit analysis which is sensitive to the assumed values used in the analysis. This form of analysis should also be part of the appraisal for large projects. If an option is very sensitive to variations in a particular variable (e.g. passenger demand), then it should probably not be undertaken. If the relative merits of options change with the assumed values of variables, those values should be examined to see whether they can be made more reliable.

Scenario analysis

- The scenario analysis technique is related to sensitivity analysis. Whereas the sensitivity analysis is based on a variable by variable approach, scenario analysis recognises that the various factors impacting upon the stream of costs and benefits are inter-independent.

Project Planning and Scheduling

- Planning involves setting the objectives of the project as well as the assumption to be made.
- It involves the listing of task that must be performed in order to complete a project under consideration.
- In this phase, in addition to the estimates of cost and duration of the various activities, the manpower, machines and material required for the project are also determined
- Scheduling consists of laying activities according to their order of precedence and determining the following:
- Start and finish time of each activity
- Critical path on which activities required special attention.
- Slack(event) and float(Activity) for non-critical path

- Controlling includes
- Making periodical progress report
- Reviewing the progress
- Analyzing the status of the project
- Making management decisions regarding updating, crashing and resource allocation etc.

PROJECT PLANNING AND SCHEDULING USING NETWORKING TECHNIQUES OF PERT / CPM

- Basically, CPM (Critical Path Method) and PERT (Programme Evaluation Review Technique) are project management techniques, which have been created out of the need of Western industrial and military establishments to plan, schedule and control complex projects.
- Planning, Scheduling (or organising) and Control are considered to be basic Managerial functions, and CPM/PERT has been rightfully accorded due importance in the literature on Operations Research and Quantitative Analysis.
- Far more than the technical benefits, it was found that PERT/CPM provided a focus around which managers could brain-storm and put their ideas together. It proved to be a great communication medium by which thinkers and planners at one level could communicate their ideas, their doubts and fears to another level. Most important, it became a useful tool for evaluating the performance of individuals and teams.

PROJECT PLANNING AND SCHEDULING USING NETWORKING TECHNIQUES OF PERT / CPM

There are many variations of CPM/PERT which have been useful in planning costs, scheduling manpower and machine time. CPM/PERT can answer the following important questions:

- How long will the entire project take to be completed? What are the risks involved?
- Which are the critical activities or tasks in the project which could delay the entire project if they were not completed on time?
- Is the project on schedule, behind schedule or ahead of schedule?
- If the project has to be finished earlier than planned, what is the best way to do this at the least cost?

Essentially, there are six steps which are common to both the techniques. The procedure is listed below:

- Define the Project and all of it's significant activities or tasks. The Project (made up of several tasks) should have only a single start activity and a single finish activity.
- Develop the relationships among the activities. Decide which activities must precede and which must follow others. (Preceding, succeeding and concurrent activities)

PROJECT PLANNING AND SCHEDULING USING NETWORKING TECHNIQUES OF PERT / CPM

- Draw the "Network" connecting all the activities. Each Activity should have unique event numbers. Dummy arrows are used where required to avoid giving the same numbering to two activities.
- Assign time and/or cost estimates to each activity
- Compute the longest time path through the network. This is called the critical path.
- Use the Network to help plan, schedule, monitor and control the project.
- The Key Concept used by CPM/PERT is that a small set of activities, which make up the longest path through the activity network control the entire project. If these "critical" activities could be identified and assigned to responsible persons, management resources could be optimally used by concentrating on the few activities which determine the fate of the entire project.
- Non-critical activities can be re-planned, rescheduled and resources for them can be reallocated flexibly, without affecting the whole project.

PROJECT PLANNING AND SCHEDULING USING NETWORKING TECHNIQUES OF PERT / CPM

Five useful questions to ask when preparing an activity network are:

- Is this a Start Activity?
- Is this a Finish Activity?
- What Activity Precedes this?
- What Activity Follows this?
- What Activity is Concurrent with this?
- Some activities are serially linked. The second activity can begin only after the first activity is completed. In certain cases, the activities are concurrent, because they are independent of each other and can start simultaneously. This is especially the case in organisations which have supervisory resources so that work can be delegated to various departments which will be responsible for the activities and their completion as planned.
- When work is delegated like this, the need for constant feedback and co-ordination becomes an important senior management pre-occupation.

PERT (Programme Evaluation and Review Technique)

- Where the activities are non-deterministic nature, PERT was developed such as research projects or design of a new machine. In this case three time estimation are made
- Optimistic time estimates
- Most likely time estimates
- Pessimistic time estimates

Difference between PERT and CPM

PERT	CPM
Use for New Projects	Repeat projects
Probabilistic Model	Deterministic Model
Focus on Event occurance	Focus on Acitivity
Duration not given	Duration given

THANKYOU