

UNIT-IV

SMALL SCALE INDUSTRIES – MEANING:

Small scale industries (SSI) are those industries in which manufacturing, providing services, productions are done on a small scale or micro scale. For example, these are the ideas of Small scale industries: Tissues, chocolates, toothpick, water bottles, small toys, papers, pens. Small scale industries play an important role in social and economic development of India. These industries do a one-time investment in machinery, plants, and industries which could be on an ownership basis, hire purchase or lease basis. But it does not exceed Rs. 2 Crores.

Essentially small scale industries comprise of small enterprises who manufacture goods or services with the help of relatively smaller machines and a few workers and employees. Basically, the enterprise must fall under the guidelines set by the Government of India. At the time being such limits are as follows,

- ✚ For Manufacturing Units for Goods: Investment in plant and machinery must be between 25 lakhs and five crores.
- ✚ For Service Providers: Investment in machinery must be between 10 lakhs and two crores.

In developing countries like India, these small scale industries are the lifeline of the economy. These are generally labour-intensive industries, so they create much employment. They also help with per capita income and resource utilization in the economy. They are a very important sector of the economy from a financial and social point of view.

Examples and Ideas of Small Scale Industries:

- ✚ Bakeries
- ✚ School stationeries
- ✚ Water bottles
- ✚ Leather belt
- ✚ Small toys
- ✚ Paper Bags
- ✚ Photography
- ✚ Beauty parlors

CHARACTERISTICS OF SMALL SCALE INDUSTRIES:

The following are the characteristics of Small scale industries:

Ownership:

Such units are generally under single ownership. So it is a sole proprietorship or sometimes a partnership.

Management:

Both the management and the control generally is with the owner/owners. So the owner is actively involved with the daily running of the business.

Limited Reach:

Small scale industries have a restricted area of operations. So they meet local and regional demand.

Labour-Intensive:

These small scale industries tend to use labour and manpower for their production activities. So their dependence on technology is pretty limited.

Flexibility:

These units are more adaptable to their changing business environment. So in case of sudden changes or unexpected developments, they are flexible enough to adapt and keep carrying on. Large industries do not have this advantage.

Resources:

They use local and readily available resources. This also helps the economy with better utilization of natural resources and less wastage.

OBJECTIVES OF SSI:

The objectives of the small scale industries are:

- ✚ To create more employment opportunities.
- ✚ To help develop the rural and less developed regions of the economy.
- ✚ To reduce regional imbalances.
- ✚ To ensure optimum utilisation of unexploited resources of the country.
- ✚ To improve the standard of living of people.
- ✚ To ensure equal distribution of income and wealth.
- ✚ To solve the unemployment problem.
- ✚ To attain self-reliance.
- ✚ To adopt the latest technology aimed at producing better quality products at lower cost

PROBLEMS OF SMALL SCALE INDUSTRIES

Shortage of Finance:

It is the most severe problem faced by small scale business. They lack credit worthiness to raise funds as borrowed capital.

Shortage of Raw Materials:

Small producers cannot afford to buy in bulk due to limited funds. Therefore, their bargaining power is low.

Lack of Managerial Skills:

Since they are operated by single owners, they lack managerial skills.

Incompetent Labour:

As they cannot afford to pay high wages, they generally do not get competent manpower.

Marketing Problems:

A small business cannot afford to spend too much on advertisement, offers and to get information on customer's changing tastes and preferences.

Low Quality Products:

Small businesses do not have adequate resources to invest in quality research and maintain the standards of the industry. They also do not have capability to upgrade the technology.

Idle Capacity:

Many of small units operate below their capacity.

Out-dated Technology:

Use of out-dated technology also makes them incompetent in the market.

Sickness:

Many of SSIs are sick due to internal as well as external problems like lack of trained labour, delayed payments, lack of working capital etc.

Global Competition:

Due to the policy of LPG (Liberalisation, Privatisation and Globalisation) there are increased competitions which are further adding of the problems of small business.

ROLE OF SMALL SCALE INDUSTRIES IN THE INDIAN ECONOMY**Total Production**

These enterprises account for almost 40% of the total goods and services produced in the Indian economy. They are one of the main reasons for the growth and strengthening of the economy.

Employment

These small scale industries are a major source of employment in the country. The whole labour force cannot find work in the formal sector of the economy. So these labour-intensive industries provide a livelihood to a large portion of the workforce.

- ✚ SSI uses labour intensive techniques. Hence, it provides employment opportunities to a large number of people. Thus, it reduces the unemployment problem to a great extent.
- ✚ SSI provides employment to artisans, technically qualified persons and professionals. It also provides employment opportunities to people engaged in traditional arts in India.
- ✚ SSI accounts for employment of people in rural sector and unorganized sector.
- ✚ It provides employment to skilled and unskilled people in India.

SSI Facilitates Women Growth

- ✚ It provides employment opportunities to women in India.
- ✚ It promotes entrepreneurial skills among women as special incentives are given to women entrepreneurs.

SSI Brings Balanced Regional Development

- ✚ SSI promotes decentralized development of industries as most of the small scale industries are set up in backward and rural areas.
- ✚ It removes regional disparities by industrializing rural and backward areas and brings balanced regional development.
- ✚ It promotes urban and rural growth in India.
- ✚ It helps to reduce the problems of congestion, slums, sanitation and pollution in cities by providing employment and income to people living in rural areas. It plays an important role by initiating the government to build the infrastructural facilities in rural areas.

- ✚ It helps in improving the standard of living of people residing in suburban and rural areas in India.
- ✚ The entrepreneurial talent is tapped in different regions and the income is also distributed instead of being concentrated in the hands of a few individuals or business families.

SSI Helps in Mobilization of Local Resources

- ✚ It helps to mobilize and utilize local resources like small savings, entrepreneurial talent, etc., of the entrepreneurs, which might otherwise remain idle and unutilized. Thus it helps in effective utilization of resources.

Contribution to Export

Nearly half of the goods (45-55%) of the goods that are exported from India are produced by these small enterprises. About 35% of direct exports and 15% of the indirect exports are from the small scale industries. So India's export industry majorly relies on these small industries for their growth and development.

Welfare of the Public

Other than economic reasons, these industries are also important for the social growth and development of our country. These industries are usually started by the lower or middle-class public. They have an opportunity to earn wealth and employ other people. It helps with income distribution and contributes to social progress.

CATEGORIES / TYPES OF SMALL INDUSTRY:

On the basis of capital invested, small business units can be divided into the following categories:

(1) Small Scale Industry (Before 2006)

They invest in fixed assets of machinery and plant, which does not surpass than one crore. For export improvement and modernization, expenditure ceiling in machinery and plant is five crores.

(2) Ancillary Small Industrial Unit

This industry can hold the status of an ancillary small industry if it supplies a minimum 50 per cent of its product to another business, i.e. the parent unit. They can produce machine parts, components, tools or standard products for the parent unit.

(3) Export Oriented Units

This industry can possess the status of an export-oriented unit if it exports exceeds 50 per cent of its manufactures. It can opt for the compensations like export bonuses and other grants awarded by the government for exporting units.

(4) Small Scale Industries Owned by Women

An enterprise operated by women entrepreneurs in which they alone or combined share capital minimum of 51 per cent. Such units can opt for the special grants from the government, with low-interest rates on loans, etc.

(5) Tiny Industrial Units

It is an Industrial or a company whose expenditure on machinery and plant does not exceed Rs. 25 lakhs.

(6) Small Scale Service and Business

It is a fixed asset investment on machinery and plant excluding land and building should not surplus Rs. 10 lakhs

(7) Micro Business Enterprises

It is a tiny and small business sector. The investment in machinery and plant should not exceed Rs.1 lakh.

(8) Village Industries

The industries which are located in rural areas and manufacture any product performs any service with or without the utilization of power is called village

industries. They have fixed investments on capital as per head, workers, and artisan, which does not exceed Rs.50, 000.

(9) Cottage Industries

It is also known traditional or rural industries. These industries are not covered by the capital investment criterion. Cottage industries are characterized by the following features:

- ✚ These are organized by a single, with private resources.
- ✚ Use family labour and local talent.
- ✚ Simple instruments are used.
- ✚ Small capital investment is involved.
- ✚ Simple products are made.
- ✚ Indigenous technology is utilized

Meaning of Project Report

A Project Report is a document which provides details on the overall picture of the proposed business. The project report gives an account of the project proposal to ascertain the prospects of the proposed plan/activity.

Project Report is a written document relating to any investment. It contains data on the basis of which the project has been appraised and found feasible. It consists of information on economic, technical, financial, managerial and production aspects. It enables the entrepreneur to know the inputs and helps him to obtain loans from banks or financial Institutions.

The project report contains detailed information about Land and buildings required, Manufacturing Capacity per annum, Manufacturing Process, Machinery & equipment along with their prices and specifications, Requirements of raw materials, Requirements of Power & Water, Manpower needs, Marketing Cost of the project, production, financial analyses and economic viability of the project.

CONTENTS / COMPONENTS OF A PROJECT REPORT

Following are the contents of a project report.

1. General Information

A project report must provide information about the details of the industry to which the project belongs to. It must give information about the past experience, present status, problems and future prospects of the industry. It must give information about the product to be manufactured and the reasons for selecting the product if the proposed business is a manufacturing unit. It must spell out the demand for the product in the local, national and the global market. It should clearly identify the alternatives of business and should clarify the reasons for starting the business.

2. Executive Summary

A project report must state the objectives of the business and the methods through which the business can attain success. The overall picture of the business with regard to capital, operations, and methods of functioning and execution of the business must be stated in the project report. It must mention the assumptions and the risks generally involved in the business.

3. Organization Summary

The project report should indicate the organization structure and pattern proposed for the unit. It must state whether the ownership is based on sole proprietorship, partnership or Joint Stock Company. It must provide information about the bio data of the promoters including financial soundness. The name, address, age qualification and experience of the proprietors or promoters of the proposed business must be stated in the project report.

4. Project Description

A brief description of the project must be stated and must give details about the following:

- ✚ Location of the site,
- ✚ Raw material requirements,
- ✚ Target of production,
- ✚ Area required for the work shed,
- ✚ Power requirements,
- ✚ Fuel requirements,
- ✚ Water requirements,
- ✚ Employment requirements of skilled and unskilled labour,
- ✚ Technology selected for the project,
- ✚ Production process,
- ✚ Projected production volumes, unit prices,
- ✚ Pollution treatment plants required.

If the business is service oriented, then it must state the type of services rendered to customers. It should state the method of providing service to customers in detail.

5. Marketing Plan

The project report must clearly state the total expected demand for the product. It must state the price at which the product can be sold in the market. It must also mention the strategies to be employed to capture the market. If any, after sale service is provided that must also be stated in the project. It must describe the mode of distribution of the product from the production unit to the market. Project report must state the following:

- ✚ Type of customers,
- ✚ Target markets,
- ✚ Nature of market,
- ✚ Market segmentation,
- ✚ Future prospects of the market,
- ✚ Sales objectives,
- ✚ Marketing Cost of the project,
- ✚ Market share of proposed venture,

- ✚ Demand for the product in the local, national and the global market,
- ✚ It must indicate potential users of products and distribution channels to be used for distributing the product.

6. Capital Structure and operating cost

The project report must describe the total capital requirements of the project. It must state the source of finance; it must also indicate the extent of owners funds and borrowed funds. Working capital requirements must be stated and the source of supply should also be indicated in the project. Estimate of total project cost, must be broken down into land, construction of buildings and civil works, plant and machinery, miscellaneous fixed assets, preliminary and preoperative expenses and working capital.

Proposed financial structure of venture must indicate the expected sources and terms of equity and debt financing. This section must also spell out the operating cost

7. Management Plan

The project report should state the following.

- ✚ Business experience of the promoters of the business,
- ✚ Details about the management team,
- ✚ Duties and responsibilities of team members,
- ✚ Current personnel needs of the organization,
- ✚ Methods of managing the business,
- ✚ Plans for hiring and training personnel,
- ✚ Programmes and policies of the management.

8. Financial Aspects

In order to judge the profitability of the business a projected profit and loss account and balance sheet must be presented in the project report. It must show the estimated sales revenue, cost of production, gross profit and net profit likely to be earned by the proposed unit. In addition to the above, a projected balance sheet, cash

flow statement and funds flow statement must be prepared every year and at least for a period of 3 to 5 years.

The income statement and cash flow projections should include a three-year summary, detail by month for the first year, and detail by quarter for the second and third years. Break-even point and rate of return on investment must be stated in the project report. The accounting system and the inventory control system will be used is generally addressed in this section of the project report. The project report must state whether the business is financially and economically viable.

9. Technical Aspects

Project report provides information about the technology and technical aspects of a project. It covers information on Technology selected for the project, Production process, capacity of machinery, pollution control plants etc.

10. Project Implementation

Every proposed business unit must draw a time table for the project. It must indicate the time within the activities involved in establishing the enterprise can be completed. Implementation schemes show the timetable envisaged for project preparation and completion.

11. Social responsibility

The proposed units draw inputs from the society. Hence its contribution to the society in the form of employment, income, exports and infrastructure. The output of the business must be indicated in the project report.

Thus, these are the component or the contents of the project report.
