CAPACITY UTILIZATION OF MICRO AND SMALL ENTERPRISES IN KADAPA DISTRICT

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ABSTRACT

In the era of fast changing developments, with the global economy linkages, Micro, Small and Medium Enterprises, faces several challenges as well as opportunities. The active role played by the MSMEs in the process of development of Modern Economies is widely accepted. All indicators reveal that MSMEs are yet to develop. The study selected Kadapa District of Andhra Pradesh, to study the capacity utilization level in micro and small enterprises. A sample of 153 micro and small industrial units was selected from among the 1527 registered industrial units with the District industries Centre. The study used both primary and secondary data. Primary data was collected through a schedule. Secondary data was collected from books and journals. The study considered the location of the units, capacity utilization, reasons and measures for capacity underutilization of the units. The study identified that there is no relationship between the location of units and the extent of capacity utilization.

Keywords: *Capacity Utilization, DIC (District industrial centre), Kadapa, MSMEs (Micro, Small and Medium Enterprises)*

Introduction:

Micro, Small and Medium Enterprises (MSMEs) sector plays a significant role the improvement of production, employment and exports of the country. This sector accounts for about 45 per cent of Manufacturing output and 40 percent of the total exports of the country. This sector employs about 60 million persons. The production growth rate was 13.7 in 2010-2011. The employment growth rate was 7.6 per cent. The export figures touched $ 171.2 billion during 2010-2011. In India, MSMEs produce more than 750 products of all types. As per the revised estimates for the MSMEs sector based on Third All India Census, the number of SSI units at the end of 2010-2011 in the country was 311.52 lakh.

Review of Literature:

1. G.V. Jagapathi Rao (2010) studied 135 small-scale industrial units in west godhavari district of Andhra Pradesh and found that 45% -50% installed capacity was idle in many industrial units.
2. Vijaya (1981) studied twenty three SSI units of an industrial estate in Warangal town of Andhra Pradesh, and the study revealed that there was general under utilization of production capacity in different units studies and only two units utilized their maximum capacities. The study found deficiency of demand, scarcity of raw material, lack of finance during the initial stages of development, competition from large units and, technical reasons as cause for under utilization of capacity.
3. Mohanthy (1982) Survey 171 small-sacle units in cuttack district of Orissa state for a period of 5 years from 1976-77 to 1980-81 and found that the capacity utilization in different sizes of industrial units did not depend on the size of the unit.
4. Krishna Kumar and Ramamurthi (1990) covered 85 units situated in and around the twin cities of Hyderabad and Secunderabad. The study revealed that out of 85 units, 58.82% were not in a position to utilize their capacity beyond 50 per cent and identified inadequate market demand, lack of working capital, inadequate and irregular supply of raw material and power failure inadequate work force etc, as the reasons.

Need for the Study:

Micro, Small and Medium Enterprises were particularly suited for better utilization of local resources and for the achievement of local low capital investment. In view of the

Table 1: Revenue Division Wise Distribution of Sample Micro and Small Industrial Units in Kadapa District

S. No	Category	Kadapa Division	Rajampet Division	Jammalamadugu Division	Total Registered Units
1	Agro & allied based units	171 (17)	121 (12	176 (18)	468 (47)
2	Chemical based units	78 (8)	50 (5)	31 (3	159 (16)
3	Electronics & Electrical based units	25 (3)	9 (1)	11 (1)	45 (5)
4	Engineering based units	47 (5)	12 (1)	44 (4)	103 (10)
5	Non-metallic's & Mineral based units	269 (27)	75 (7)	237 (24)	581 (58)
6	Paper & printing based units	26 (3)	8 (1)	22 (2)	56 (6)
7	Repair & service based units	43 (4)	-	27 (3)	70 (7)
8	Textile based units	8 -	-	16 (2)	24 (2)
9	Miscellaneous	11 (1)	6 (1)	4 -	21 (2)
Total		**678 (68)**	**281 (28)**	**568 (57)**	**1527 153)**

Note: Figures in the parentheses are sample of micro and small industrial Units in the respective category.
Source: District Industrial Centre, Handbook Year, 2010-2011.

vital role being played by the MSMEs sector, in generating employment, development rural economy, reducing regional imbalances and in earning more foreign exchange there units were selected for the study. With respect to Kadapa District of Andhra Pradesh in the heart of famine zone and the development of industries not being fast in the area, no studies were conducted on capacity utilization in micro and small industrial units. Hence a detailed study in necessary to find out and analyse, the capacity utilization in micro and small industrial units.

Scope of the Study:

The main focus of study is in micro and small industrial units in Kadapa District of Andhra Pradesh, Only 3 medium enterprises are available in the district which are excluded from the study. The study was restricted to the units which were registered with District Industries Centre, Kadapa only. The following two conditions namely: (i) The units must be having existence of five years and above, (ii) The units most be having above Rs.25 lakh but not exceeding five crore in plant and machinery were considered as the basis for selecting the SSI units.

Objectives:

The study aimed to achieve the following objectives.

1. To study the extent capacity utilization among the sample units.
2. To identify the causes for under utilization of capacity.
3. To analyse the relationship between the nature of units location and capacity utilization.

Methodology:

The present study used both primary and secondary data. The primary data were collected through a schedule. The researcher personally visited all the sample units and collected data from the entrepreneurs of Kadapa District of Andhra Pradesh. While collecting data, the researcher visited District Industries Centre (DIC) of Kadapa District. Secondary data was collected from the relevant publications of government and non-governmental organisations like Development of Industries, Government of Andhra Pradesh, Hyderabad, District Industries Centre, Kadapa, and other reports and publications of Planning Commission, different websites, annual reports and SIDO, NISET, Hyderabad and published information available with directorate of small industries etc.

Sampling Design:

Stratified random sampling method in employed for the selection of final units. From each category 10 percent of the sample units have been selected at random. Thus, the study covers a total sample of 153 units covering all the nine categories. The category-wise distribution of sample micro and small industrial visits in shown Table 1.

Period of the Study:

A Field survey was conducted from May 2012 to July 2012 to collect the first hand data.

Table 4: Industry-wise Line of Activity

S. N.	Industry Name	Manufacturing	Process	Service	Trading	Assembling	Total
1	Agro & allied based units	38	4	5	0	0	47
2	Chemical based	8	69	0	2	0	16
3	Electronics & Electrical based units	1	1	1	0	2	5
4	Engineering based units	6	1	1	2	0	10
5	Non-metallic & mineral based units	39	14	5	0	0	58
6	Paper & printing based units	6	0	0	0	0	6
7	Repair & services based units	4	1	2	0	0	7
8	Tex title based units	1	1	0	0	0	2
9	Miscellaneous	2	0	0	0	0	2
Total		**105 (68.63)**	**28 (18.30)**	**14 (9.15)**	**4 (2.62)**	**2 (1.30)**	**153 (100.00)**

Source: Primary Data

Table 5: Capacity Utilization by line of activity

Capacity of the units	Manufacturing	Process	Service	Trading	Assembling	Total
Below 25%	2 (1.31)	2 (1.30)	0 (0)	0 (0)	0 (0)	4 2.61
25%-50%	15 (9.80)	(10) 6.54	(2) 1.31	(0) 0	(0) 0	(27) 17.65
50%-75%	35 (22.88)	7 (4.58)	6 (3.920	1 (0.65)	0 (0)	49 (32.03)
75%-100%	53 (34.64)	9 (5.88)	6 (3.92)	3 (1.97)	2 (1.30)	73 (47.71)
Total	**105 (68.63)**	**28 (18.30)**	**14 (9.15)**	**4 (2.62)**	**2 (1.30)**	**153 (100)**

Source: Primary Data

Table 6: Reasons for under utilization of the installed capacity

Reasons for under utilization	1st Rank	Points	2nd Rank	Points	3rd Rank	Points	Total Points	Rank
Shortage of Raw Material	14	42	6	12	24	24	78	5
Shortage of Skilled Labor	2	6	13	26	23	23	55	6
Shortage of Finance	18	54	18	36	22	22	112	4
Lack of Marketing Facilities	37	111	35	70	15	15	196	2
Lack of Power	17	51	22	44	27	27	122	3
Competition	65	195	259	118	42	42	355	1
Total	**153**	**459**	**153**	**306**	**153**	**153**	**918**	**21**

Source : Primary Data

Analysis and Discussion:

Considering the growing population and the rising unemployment, India is need for MSMEs sector for speedy growth of the economy. We devoted this study to identify the various factors that differentiated installed capacity and the extent of capacity utilization in MSMEs.

Location of the Units:

Location decision has to be taken incase of a new business as well as for setting up a brand of an existing business. A well-located unit will have higher capacity utilization than a badly located unit. The micro and small industrial units may be located either in approved place or industrial estate or in industrial area. The estate or area based units have locational advantages.

Table 2: Location of the Units

Location of the Units	No. of Enterprise	Percentage to Total
Industrial Estate	35	22.87
Industrial Area	38	24.84
Approved Place	80	52.29
Total	**153**	**100.00**

Table 2 reveals that the location of the unit. Nearly 47.71 per cent of sample units were established in industrial estates and industrial areas and the remaining 52.29 per cent were established in some other approved areas. 80 out of the 153 entrepreneurs worked hard for establishment of their plants as they started in other than industrial estates and areas allotted by Government.

Capacity Utilization:

The productivity of an enterprise is based on the utilization of their production capacity. Non-utilization of the production capacity results in an increase in the cost of production per unit. If the necessary raw materials are available, there is a maximum utilization of machinery and labour resorting in higher production. Every increase in production reduces the average cost per unit and the marginal cost is also considerably lower. An entrepreneur has to plan in detail so that the bottlenecks are cleared to reduce overhead cost. Thus the aim of the entrepreneurs should always be to utilize production capacity fully. Hence we made an attempt to collect the data regarding the utilization of units considered for the study and the results are presented in Table 3.

Table 3: Capacity Utilization in Sample Micro and Small Industrial Units

Capacity of the Units	No. of Enterprise	Percentage to Total
Below 25%	4	2.61
25-50%	27	17.65
50-75%	49	32.03
75-100%	73	47.71
Total	**153**	**100.00**

Source: Primary Data

Table 3 shows that 73 units constituting 47.71 percent (73 out of 153) were utilizing in the range of 75-100 per cent of their installed capacity. 49 units constituting 32.03 per cent were utilizing in the range of 50-75 percent, while 27 units constituting 17.65 percent were utilizing in the range of 25-50 percent. Only 4 units constituting 2.61 percent (4 out of 153) were utilizing below 25 percent installed capacity.

Line of Activity:

Line of activity in this study is classified into five categories as manufacturing, processing, services, trading, assembling. Manufacturing units include all types of industries in the study. Other paper and printing, miscellaneous types of industries are includes in processing sector. Some of Engineering units include services and trading units. Trading include chemical based and engineering based units. Service sector includes Agro & allied, Electrical & Electronics units, non-metallic & mineral based and repairs service industrial units.

We made an attempt to explain the relation between line of activity and type of industry and the results are presented in the following Table 4 and 5.

Table 4 explains that 68.63 per cent of total 153 were established in manufacturing sector whereas only 18.30 per cent (28 units out of 153 units) were established in processing sector. Nearly 31.37 per cent of the total 153 units i.e. 48 units were non-manufacturing units.

Table 4 present that 81 per cent of micro and small industrial units manufacturing agro & allied industries (i.e. 38 units out of 47 units) were manufacturing units. Of the 39 non-metallic & mineral based units covered in the study 67.24 per cent of them (58 units) were handling manufacturing activities and rest of them mainly in processing sector. 14 entrepreneurs (24.13 percent) of the total 58 in the non-metallic & mineral based units were in the processing sector Table 4 shows that industry-wise line of activity.

Table 5 reveals that 50 per cent [53 out of 105] manufacturing units were utilization more than 75 per cent of the installed capacity but it was 47.71 per cent i.e. 73 units out of 153 which have been utilizing more than 75 per cent of the production capacity. Nearly 84 per cent of manufacturing units under study i.e. 88 out of 105 enterprise were utilizing more than 50 percent of their production capacity but it was only 80 per cent (112 out 153) in total units considered for the study. All trading and assembling units were utilizing more than 50 percent of their production capacity and 57 per cent of processing units were utilizing only 50 per cent of their production capacity.

Reason for Under Utilization:

Under utilization of installed capacity is a major bottleneck in management of any organization. The installed capacity of any concern is decided by forecasting the future demand of the product in the market. There are so many reasons which influence the under utilization of installed capacity. The reasons differ from enterprise to enterprise and from entrepreneur to entrepreneur. They include scarcity of raw material, shortage of skilled labor, limited marketing facilities, irregular supply of power and competition prevailing in the market etc. Table 6 brings to lime light the reasons for under utilization of the capacity as perceived by the entrepreneurs. Table 6 shows reasons for under utilization of the installed capacity.

As per Table 6 heavy competition was the first reason for under utilization of the installed capacity with 355 weight age score and it was accepted by 65 entrepreneurs as their first problem (1st rank), 59 entrepreneurs as their secondary problem (2nd rank) and 42 entrepreneur as third rated (3rd rank) problem of them. Due to lack of marketing facilities the entrepreneurs were not interest to utilize the total installed capacity of their production plant, lack of marketing facilities was secondary major reason for under utilization of installed capacity and it was opted 1st rank by 37 entrepreneurs, 2nd rank by 35 entrepreneurs and 3rd rank by 15 entrepreneurs. In this analysis also the shortage of skilled labour got the least place with 55 weightage points.

Remedial Measures:

1. Due to serve competition from the large-scale units, the survival of the micro and small enterprises is a big

problem. Inadequate power supply in the major reason for under utilization of capacity. When compared with large-scale generation. The government hence should give higher preference to the micro and small units and ensure that power is supplied 24 hours throughout the year.

2. Marketing is a big problem to the micro and small enterprises (Rank 2 in factors for under utilization of capacity) and marketing has now become highly complex and scientific operation. Export promotion and marketing development council may be setup by the government exclusively for strengthening the micro and small enterprises on exports front.
3. Because of the shortage of finance, the micro and small enterprise have been utilizing less than 50% installed capacity. The banks and financial institutions should follow uniform norms of lending and liberal procedures with regard security, so as to avoid delay in sanction and disbursement of loan amounts to micro and small industrial units.
4. Micro and Small industrial units should realize the necessity of the productivity and they should employ latest techniques of production and promotional activities, so as to improve the equality and increase the market share of the products.
5. Among the operational problems non-availability of raw material and skilled labor are the minor problems faced by the micro small and enterprises in the present study efforts are needed from the government agencies to overcome these problem by providing necessary mechanism.
6. Level of the success enterprises may be enquired by district industries centre periodically and deficiencies may be identified and training may be arranged for rectifying the defects and removing the deficiencies in the organization or management.
7. The government should setup a special institution or agency in order to eliminate middle men and to ensure the supply of good quality of raw materials at reasonable prices. It has to procure and distribute both local and non-local raw materials as and when required.
8. There is need to strengthen training and development programmes. Apathy towards training programes should be overcome by proper identification of prospective entrepreneurs and by providing needed training inputs in an effective manner.

Conclusion:

Under utilization of capacity created in a business organization in most undesirable. It brings disadvantages to all therefore, the control of it becomes very much necessary. It can be controlled both at the firm level as well as the industry level. The firm level measures includes actions taken by the entrepreneurs himself while at the industry level the external force, namely, the government has to set right the imbalances.

Due to several reasons namely shortage of raw materials, finance and skilled labor, lack of marketing facilities and power and intense competition from the domestic giants and international brands, micro and small units have been utilizing less than 50% capacity. The survival of the small enterprises largely depends on improvement in the quantity of output. In the era of fast changing developments, with the global economy linkages, the micro and small enterprises need to adapt change if they have to find a place in the competitive environment.

The measures suggested above if implemented sincerely can ease out the problems of Micro and small enterprises and help their development to large extent. What is required most is a positive approach on the part of the government and financial and other institution towards the growth of Micro and small enterprises in Kadapa district of Andhra Pradesh.

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