



## Role of Financial Management in MSME Industry in Gujarat

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### ABSTRACT

The Micro, Small, and Medium Enterprises (MSME) sector plays a pivotal role in the economic landscape of Gujarat, contributing significantly to employment generation, industrial growth, and exports. This research paper delves into the critical role of financial management in the MSME industry in Gujarat. It explores the financial challenges faced by MSMEs, the importance of effective financial management, and the role of government initiatives and financial institutions in supporting the sector's growth. The MSME sector in Gujarat is a major driver of economic development, with a substantial presence in various industries such as textiles, pharmaceuticals, automobiles, gem and jewellery, chemicals, and more. However, these enterprises often encounter financial challenges that hinder their growth potential. Effective financial management is vital to address these challenges and enhance the sustainability of MSMEs. This research investigates the pivotal role of financial management in Gujarat's Micro, Small, and Medium Enterprises (MSME) sector. With a focus on addressing challenges such as limited access to capital, working capital management, and regulatory compliance, the study delves into the critical financial aspects that underpin the sustainability and growth of MSMEs in the state.

**KEYWORDS:** MSME, Gujarat, financial management, economic development, employment generation, industrial growth, financial challenges, sustainable growth, government initiatives, financial institutions, textiles, pharmaceuticals, automobiles, gem and jewellery, chemicals, working capital management, regulatory compliance, exports.



## 1. INTRODUCTION

Gujarat, a vibrant and industrially dynamic state in western India, has garnered a stellar reputation for its entrepreneurial spirit, robust work ethic, and remarkable contributions to India's economic landscape. With a GDP contribution of 8.36% to the nation's total, Gujarat stands as a powerhouse within the Indian economy, exemplifying its capacity to compete in the globalized world of today. The recently presented Gujarat Budget 2023-24, under the stewardship of Finance Minister Mr. Kanubhai Desai, projects a remarkable 15.5% growth in the Gross State Domestic Product (GSDP) for the fiscal year 2022-2023, poised to reach Rs 25,62,975 crore. Such ambitious growth reflects Gujarat's unwavering commitment to further bolster its economic prowess.

Under the visionary leadership of Principal Secretary of Economic Affairs, Smt. Mona Khandhar IAS, Gujarat has set forth an audacious goal to more than double its GSDP to Rs 42 lakh crore and ultimately to an impressive Rs 83 lakh crore within the span of a decade. This visionary approach underscores Gujarat's determination to scale new heights in economic development.

Gujarat's status as a trailblazer in India's business and economic landscape is underscored by its unique distinction as the only state in the country to host an operational International Financial Service Centre (IFSC). This has led to the attraction of numerous multinational corporations, choosing Gujarat as their base of operations, further solidifying the state's reputation as an investment magnet.

Beyond its industrial prowess, Gujarat boasts an array of natural and cultural attractions, positioning it as one of India's most alluring tourist destinations. From stunning beaches and wildlife sanctuaries to historic forts and temples, the state offers a diverse range of experiences for travelers.

Gujarat's industrial landscape is characterized by its diverse range of sectors, including textiles, pharmaceuticals, chemicals, automobiles, and it is notably the global hub for diamond cutting and polishing, home to the world's largest center for this artistry. Moreover, the state's robust infrastructure is a testament to its forward-looking policies, with significant investments in roads, ports, airports, and power plants. A well-connected network of



highways, railways, and ports further positions Gujarat as a central hub within India's economic landscape.

With its strategic infrastructure, skilled workforce, and business-friendly policies, Gujarat has emerged as an attractive destination for global investors. The state is poised to become a center of activity in manufacturing, financial services, and technology, offering an enabling environment for wealth creation and employment generation. Gujarat's journey towards becoming a major player in the global economy and a leader in economic development is firmly rooted in its commitment to strategic policymaking and the promotion of entrepreneurship, sustainability, and innovation.

As Gujarat ushers in a new era of growth, its governing institutions are tasked with crafting policies that drive strategic development, promote thriving markets, support Micro, Small, and Medium Enterprises (MSMEs), nurture entrepreneurship, and champion sustainable manufacturing processes and the Information Technology (IT) and Information Technology Enabled Services (ITES) industry. These concerted efforts are geared towards ensuring that Gujarat's progress is not only substantial but also sustainable, positioning the state to overcome the challenges of the modern world.

## 2. LITERATURE REVIEW

- **Dr. Nalla Bala Kalyan (2012)**, The author highlights the significant growth of employment in India's MSME sector, which increased from 294.91 lakh rupees in 2005-06 to 732.17 lakh rupees in 2010-11. The government plays a vital role by implementing schemes like CGTMSE in supporting MSMEs, recognizing credit as a crucial element for their sustained growth.
- **D. Sanjun (2019)**, The author examines financial challenges within MSMEs and the evolution of their accounting systems. Inefficient financial management leads to various issues, emphasizing the need for better practices to enhance profitability, liquidity, and overall business growth. The study also covers capital structure, working capital needs, and financial planning.



- **Dr. Aniruddha Ghosh and Mr. Tarak Nandi (2015)**, In the study "Financial Management Issues in MSMEs - Assessing the Financial Position of Indian MSMEs," the researcher examines the unique characteristics of the MSME sector and evaluates the dynamics of financial supply and demand within it. The study reveals that micro industries have the highest average finance demand in manufacturing, at 40.23 lakhs, followed by small enterprises at 2.07 lakhs, and medium enterprises at 0.07 lakhs.

### 3. DEFINITION FOR KEYWORDS

The meaning and definition for Keywords of on the Role of financial management in MSMEs in Gujarat State are:

- **Role:** In the context of the research topic, "role" refers to the significance, impact, or function of financial management within the Micro, Small, and Medium Enterprises (MSME) industry in Gujarat. It explores how financial management influences the performance and growth of these enterprises.
- **Financial Management:** Financial management encompasses the practices, strategies, and decisions related to the allocation, utilization, and optimization of financial resources within an organization. In this context, it pertains to how MSMEs in Gujarat manage their finances to achieve their objectives effectively.
- **MSME Industry:** MSME stands for Micro, Small, and Medium Enterprises. The term "MSME industry" refers to the collective sector comprising these small and medium-sized businesses in Gujarat. It includes a range of economic activities and sectors where these enterprises operate.
- **Gujarat:** Gujarat is a state in western India. In this research, "Gujarat" signifies the geographical location and economic environment where the role of financial management within the MSME industry is being examined.
- **Role of Financial Management in MSME Industry in Gujarat:** This is the overarching theme of the research, emphasizing the investigation of how financial management practices influence and impact the operations and growth of MSMEs specifically within the state of Gujarat. It explores the role financial management



plays in addressing challenges and facilitating success in the MSME sector in this region.

#### 4. WHAT IS MSMES

MSME stands for Micro, Small, and Medium Enterprises. These are businesses or enterprises categorized by their size and level of investment in plant and machinery. The specific criteria for classifying an enterprise as an MSME may vary by country, but they generally include:

- **Micro Enterprises:** These are the smallest enterprises, usually with a very low investment in plant and machinery. The exact definition of a micro-enterprise can vary, but it often includes businesses with fewer than 10 employees.
- **Small Enterprises:** Small enterprises are larger than micro-enterprises but still relatively small. They typically have more employees and a higher level of investment in plant and machinery than micro-enterprises but less than medium-sized enterprises. Again, the specific criteria may vary, but small enterprises often have fewer than 50 employees.
- **Medium Enterprises:** Medium-sized enterprises are larger than both micro and small enterprises. They have a higher level of investment in plant and machinery and more employees. The exact criteria can differ, but medium-sized enterprises might have fewer than 250 employees.

Revised Classification applicable w.e.f 1st July 2020

Composite Criteria: Investment in Plant & Machinery/equipment and Annual Turnover

CLASSIFICATION	MICRO	SMALL	MEDIUM
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover; not more than Rs. 5 crores	Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover; not more than Rs. 50 crores	Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover; not more than Rs. 250 crores



MSMEs play a significant role in the economy of many countries. They are often seen as engines of economic growth and employment generation, contributing to innovation and entrepreneurship. Support for MSMEs is a common focus for economic development policies, as they can help drive economic development, especially in emerging economies.

## 5. RESEARCH OBJECTIVE

The objective of this research is to comprehensively investigate the role of financial management in the Micro, Small, and Medium Enterprises (MSME) industry in Gujarat and point out various problems faced by the MSMEs while having inefficient financial management.

## 6. RESEARCH METHODOLOGY

The research employs a descriptive design, using secondary data sources like MSME reports and annual reports from 2022-23. Data about Gujarat's MSME sector, focusing on pharmaceuticals, automobiles, tourism, and textiles, is extracted and analyzed quantitatively and qualitatively. Ethical considerations are observed, and future research suggestions are offered. Limitations are noted, and proper referencing is done.

## 7. COMPARATIVE ANALYTICAL REPORT

Gujarat, India's vibrant state, is home to diverse MSME sectors, including automobiles, pharmaceuticals, tourism, and textiles. This comparative analytical report highlights the growth, contributions, and potential of each sector within the state's economy.

Industry	Key Highlights
Automobiles	• 3.81 lakh car units sold in 2022-23 fiscal year
	• 39% growth in passenger vehicle sales
	• Sanand, the automobile hub, attracts investments
	• Significant contribution to employment and economic development
Pharmaceuticals	• 3,300+ manufacturing units in Gujarat



	<ul style="list-style-type: none"> <li>• 52,000+ individuals employed</li> </ul>
	<ul style="list-style-type: none"> <li>• Presence of USFDA-approved and WHO GMP manufacturing units</li> </ul>
	<ul style="list-style-type: none"> <li>• Diversified into research, generics, and bulk drug production</li> </ul>
	<ul style="list-style-type: none"> <li>• Significant contribution to India's pharma sector turnover and exports</li> </ul>
<b>Tourism</b>	<ul style="list-style-type: none"> <li>• 18.9 million tourists annually</li> </ul>
	<ul style="list-style-type: none"> <li>• Contribution to the state's GDP increased to 10.2% in 2022</li> </ul>
	<ul style="list-style-type: none"> <li>• Government initiatives boost tourism</li> </ul>
	<ul style="list-style-type: none"> <li>• Rise in foreign tourist numbers</li> </ul>
	<ul style="list-style-type: none"> <li>• Potential for significant economic growth</li> </ul>
<b>Textiles</b>	<ul style="list-style-type: none"> <li>• Contributes over 3% of India's GDP</li> </ul>
	<ul style="list-style-type: none"> <li>• Largest cotton producer in India</li> </ul>
	<ul style="list-style-type: none"> <li>• Diverse textile industry producing cotton, synthetic fabric, woven fabric, and denim</li> </ul>
	<ul style="list-style-type: none"> <li>• Gujarat is the 'Denim Capital of India'</li> </ul>
	<ul style="list-style-type: none"> <li>• Major player in cotton and synthetic fabric production</li> </ul>

- **Automobiles:** Gujarat's automobile industry has witnessed substantial growth, with a record-breaking 3.81 lakh car units sold in the 2022-23 fiscal year. The sector's remarkable 39% growth in passenger vehicle sales is a testament to its vibrancy. Sanand, known as "the automobile hub of Gujarat," has attracted significant investments, making it an economic powerhouse in the region. The automotive



industry's success is marked by its contribution to employment and economic development.

- **Pharmaceuticals:** Gujarat's pharmaceutical sector stands as a pillar of the state's economy, with over 3,300 manufacturing units employing more than 52,000 individuals. The presence of USFDA-approved and WHO GMP manufacturing units has solidified Gujarat's position in the pharmaceutical market. The sector has diversified into research, generics, and bulk drug production, fostering innovation. The state's pharmaceutical manufacturing industry contributes significantly to India's pharma sector turnover and exports, strengthening its reputation as a pharmaceutical production hub.
- **Tourism:** Gujarat's tourism industry has been growing steadily, attracting 18.9 million tourists annually. The state's diverse landscapes and rich cultural heritage make it a popular destination. In 2022, the tourism sector's contribution to the state's GDP increased to 10.2%, reflecting its economic significance. Government initiatives have boosted tourism, evidenced by a rise in foreign tourist numbers. Gujarat's tourism sector continues to hold great potential for economic growth.
- **Textiles:** Gujarat's textile industry is a vital contributor to the state's economy, accounting for over 3% of India's GDP. Known for its cultural preservation, Gujarat is the largest cotton producer in India, employing a substantial workforce. Women play a significant role in the garment sector. Gujarat's textile industry is diverse, producing cotton, synthetic fabric, woven fabric, and denim. The state is the 'Denim Capital of India' and a major player in cotton and synthetic fabric production.

## 8. COMPARATIVE ANALYSIS

- All four sectors have shown remarkable growth, with the pharmaceutical and textile sectors being particularly prominent contributors to the state's economy.
- The textiles and pharmaceutical sectors employ a substantial workforce, with a notable presence of women in the textile industry.
- The pharmaceutical sector has attracted significant investments and diversified into research and development, showcasing innovation.





- The tourism sector has benefited from government initiatives to attract more tourists and boost economic growth.
- Gujarat's pharmaceutical and textile industries have significant export potential, contributing to India's global trade.

## 9. CONCLUSION

This comparative analytical report sheds light on Gujarat's thriving MSME sectors, namely automobiles, pharmaceuticals, tourism, and textiles. Each sector has made significant contributions to the state's economic landscape, exhibiting impressive growth and potential. The automobile industry's remarkable sales figures, pharmaceutical innovation and manufacturing prowess, tourism sector's increasing GDP share, and the textile industry's rich diversity and global presence underline their importance.

Moreover, these sectors provide substantial employment opportunities, with women playing a significant role in the textile and garment sector. The pharmaceutical industry's research and development endeavors exemplify Gujarat's commitment to innovation and growth. The state's tourism sector, benefiting from strategic government initiatives, continues to attract both domestic and international tourists, bolstering economic prosperity.

With a robust presence in global trade, particularly in the pharmaceutical and textile domains, Gujarat plays a pivotal role in India's economic landscape. These sectors collectively drive the state's economic progress and hold significant promise for the future. As Gujarat maintains its momentum, these MSME sectors will likely continue to be key drivers of economic growth and development in the region.



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