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CHOOSING EQUITY AS A SOURCE OF FINANCE: PERCEPTION OF SME PROMOTERS

Keywords: SME, finance, equity, perception, promoters.

J E L Classification: G100, G320, G410, L260.

Abstract: This paper tries to understand the perception of SMEs' promoters in choosing equity as one of their sources of finance. To explore reasons the research has been done in five phases which included: a literature review, offer document objectives, ratio analysis, and in-depth interviews of five SME owners of Gujarat. In the last phase, all the reasons have been simplified by including them in five broad themes. The study analyzed the five broad themes as bank loan barriers, financial factors, growth factors, economic factors, and other barriers. The research has been carried in Gujarat so there is a need for further research all over India. This is going to help SMEs in understanding the pros and cons of selecting a particular avenue as a source of finance. SMEs are the engine of most of the developing nations. This makes it necessary to study them in detail so that the environment can be made friendly for them.

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Introduction

The mantle of SME's (Small and Medium Enterprises) in Indian economic and social development has been universally acknowledged (Annual Report, 2017-18; Singh & Kumar, 2017; Yadav, 2012; Jahanshahi, Nawaser, SadeqKhaksar & Kamalian, 2011; Ghatak, 2010). SMEs are significant part of any developing economy and it needs to be examined as thoroughly as possible. The research on SMEs is substantial as they contribute 37% of Gross Domestic Product (GDP) in India and constitute 40% of exports and 90% of an industrial ecosystem and finally represent about 45% of the manufacturing sector (Baker, Kumar & Rao, 2017). Beck et al. described, that the growth of SME will depend on various factors like access to finance, property right protection, provision of infrastructure, efficient regulation and taxation, and broader governance features such as corruption, macroeconomic and political stability. The small firms face almost twice or thrice the magnitude of obstacles on the basis of finance, legal and corruption in comparison to large firms (Beck & Demirguc-Kunt, 2006). SME has also enacted a significant role in employment and industrializing the backward and rural areas of any country (Sarkar, 2016; Nikaido, Pais & Sarma, 2015; Jahanshahi et al., 2011; Ghatak, 2010; Banerjee, 2006; Beck & Demirguc-Kunt, 2006; Cook, 2001).

SMEs' existence is being threatened as there is, up until now a large credit gap in India. This gap represents the result of lack of expertise on the bank side to evaluate SMEs and because of lack of creditworthiness among them (Baker, Kumar & Rao, 2017). SMEs least preferred source from the outlook of owners was equity funding (Baker, Kumar & Rao, 2017; Sarkar, 2016). The primary reason behind less preference of equity finance was intricate listing procedures and their ineptitude in meeting compliance requirements (Baker, Kumar & Rao, 2017). Generally, this source of finance takes more time and cost in the initial stage of financing in comparison to other sources of finance (Sarkar, 2016).

It shows how finance has a substantial importance in the growth and development of SMEs. This specifies that equity is not that much a preferable source of finance for SMEs because of the intricate procedures and compliance requirements. This paper is trying to explore the reasons behind choosing equity as a source of finance by the promoters of SMEs.

Literature Review (Phase-1)

MSME

According to Government of India (NIC, 2018), MSME have been defined according to the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006. MSME has been classified into the following two categories manufacturing and service enterprises based on investment mentioned in table 1 and 2:

Table 1. Manufacturing Enterprises

Enterprises	Investment in Plant & Machinery
Micro Enterprises	Does not exceed 25 lakh
Small Enterprises	More than 25 lakh but does not exceed 5 crore
Medium Enterprises	More than 5 crore but does not exceed 10 crore

Source: NIC, 2018.

Table 2. Service Enterprises

Enterprises	Investment in Equipment
Micro Enterprises	Does not exceed 10 lakh
Small Enterprises	More than 10 lakh but does not exceed 2 crore
Medium Enterprises	More than 2 crore but does not exceed 5 crore

Source: NIC, 2018.

Role of MSME in Indian Economy

MSMEs have not just opened door to promising avenues for the entrepreneurs but also for the lending institutions, the stock market, researchers, regulatory and policy makers, etc (Annual Report MSME Government, 2017-18; Yadav, 2012). According to the Annual Report contribution done to Gross Value added (GVA) and GDP in India for last 5 years is given in table 3 (Annual Report 2017-18, 2018, p. 22).

Table 3. Contribution of MSME

Year	Growth in GVA	Share of MSME in GVA	Share of MSME in GDP
2011-12	-	31.86%	29.57%
2012-13	15.27%	32.36%	29.94%
2013-14	12.27%	32.26%	29.76%
2014-15	9.43%	31.86%	29.39%
2015-16	7.62%	31.60%	28.77%

Source: Annual Report 2017-18,2018.

Importance of Finance for SME

The majority of SME's have more constraints than large firms in procuring formal finance (Maiti, 2018; Baker, Kumar & Rao, 2017; Jayadev, Singh & Kumar, 2017; Ramcharran, 2017; Rao, Kumar, Gaur & Verma, 2017; Singh & Kumar, 2017; Thampy, 2010; Banerjee, 2006; Beck & Demirguc-Kunt, 2006; Cook, 2001). The importance of finance for SME has been rocketed as it helps in economic development and also in assuaging the poverty of any country. Presently, majority of the countries are focusing on policy making related to finance of SME (Kersten, Harms, Liket & Maas, 2017; Ramcharran, 2017; Rao et al., 2017; Thampy, 2010; Beck & Demirguc-Kunt, 2006). According to the World Business Environment Survey (WBES) conducted in 1999 and 2000 for over 10,000 firms in more than 80 countries small firms have listed financing as their major obstacle. These organizations have to manage finance for their need of fixed and working capital (Baker, Kumar & Rao, 2017; Jayadev, Singh & Kumar, 2017; Rao et al., 2017; Ramcharran, 2017; Singh & Kumar, 2017; Sarkar, 2016; Beck & Demirguc-Kunt,2006).

Bank Loan

In India, banks serve as the leading source of providing finance to any industry. It is even more crucial for SMEs as they don't enjoy that much access to capital markets (Thampy, 2010; Cook, 2001). Bank Loan has been a notable source of finance for SME from the establishment of such kind of firms (Maiti, 2018; Ramcharran, 2017; Nikaido, Pais & Sarma, 2015; Thampy, 2010). From the beginning of Nationalization of Banks, it has been made compulsory for them to provide 40% of their credit to 'priority' sectors which include MSME and Agriculture (Maiti, 2018; Ramcharran, 2017; Nikaido, Pais & Sarma, 2015; Thampy, 2010). They were on top entitle to some privileges in the form of low-interest rates. The premier financial institution was set up in 1990 known as Small Industries Development Bank (SIDB) for advancement and assistance of SME sector (Maiti, 2018; Ramcharran, 2017; Nikaido, Pais & Sarma, 2015). The other institutes which provide the loans to MSMEs are commercial banks, Non-Banking Finance Companies (NBFCs) and some smaller banks such as regional rural banks and urban cooperative banks (Rao et al., 2017). The establishment of Microfinance Institutions (MFIs) helped in strengthening financial institutions specifically for SMEs (Sarkar, 2016).

The loan provided to the firms is on the basis of two kinds of information which is hard and soft information. The 'hard' information relates to quantitative data provided, and 'soft' information relates to the relationship based lending (Thampy, 2010; Berger & Udell, 2006). Most of the time loans have been provided to SME on the basis of soft information that is produced by personal or direct contact of officers (Jayadev, Singh & Kumar, 2017; Ramcharran, 2017; Rao et al., 2017; Berger & Udell, 2006). This scenario is more formidable hurdle for new and financially distressed SMEs as they would not be able to provide relationship creditworthiness (Rao et al., 2017). This, in turn, leads to high transaction costs and risk premiums (Sarkar, 2016; Nikaido, Pais & Sarma, 2015; Chakraborty, 2010; Allen, Chakrabarti, De, Qian & Qian, 2006; Beck & Demirguc-Kunt, 2006; Cook, 2001). Banks have also felt that SMEs are not appealing them much as they are contemplated as the high-risk borrower because of their inadequate assets, low capitalization and high mortality rates (Thampy, 2010; Raja & Kumar, 2007; Banerjee, 2006). The small firms have to rely more on informal lending such as moneylenders or family and friends than banks, equity, lease, etc (Baker, Kumar & Rao, 2017; Banerjee, 2006; Beck & Demirguc-Kunt, 2006). To reduce the risk of collateral, many institutions have come up with asset-based lending and leasing (Beck & Demirguc-Kunt, 2006).

Presently, the gap can be seen between the demand side and supply side of bank loans as it can be seen that there is an exceptionally high growth rate of SMEs in India (Maiti, 2018). Formal sources are barely able to serve less than 25% of total debt requirement in India (Rao et al., 2017). From 2001 the number of sick units has increased which has also affected banks as there were a lot of outstanding loans (Ramcharran, 2017; Nikaido, Pais & Sarma, 2015).

According to Rao et al. (2017), there are four types of financing gaps present in SMEs. The firstmost gap is known as demand gap which arises because of more preference of SMEs towards the internal source of finance than external source (Rao et al., 2017; Chakraborty, 2010; Allen et al., 2006). The reason behind this preference is cumbersome procedures, the requirement of collateral, high moratorium period, high-interest rates and non- familiarity with banks. The second type of gap is the knowledge gap which represents lack of knowledge and awareness about various financial products and services available in the market and various schemes launched by the government. The third type of gap is supply gap which contains problems like information asymmetry, lack of creditworthiness, bureaucratic environment, the absence of unique financial products especially targeting their sector, scarcity of external investors, preparation and presentation of financial statement and finally transitioning stage of capital markets. The last kind of gap is Benevolence gap which is nothing but disinclination of financial institutions in providing loans to the SME sector (Rao et al., 2017; Bhattacharya & Londhe, 2014).

Equity

SMEs also have a life cycle like any other business and here the finance avenues are limited at the introduction or launch stage, but for the stages after that like growth, shake-out and maturity, the capital market as an avenue shows a promising future (Maiti, 2018; Sarkar, 2016). Equity finance as a source would be preferable for the number of reasons. The primary reason is that it is a systematic, transparent, properly functioning and reliable form of finance. It helps in maintaining an efficient cash flow of a company. It will also positively affect the growth of the company as now it will be under the scrutinization of investors. This source also helps in raising finance both at the time of listing and also at later stages. It also helps in making credibility inthe market, which is good for their business (Sarkar, 2016).

After going through the literature review, we can come up with the following reasons for choosing equity as a source of finance which is mentioned in table 4.

Table 4. Reasons from Literature Review

S.No.	Researchers	Reasons Presented
1	Rao et al., 2017	Complicated procedures of the bank loan. Requirement of collateral for a bank loan. High moratorium period for the repayment of bank loans.
		High cost for bank loans. Unfamiliarity withbanks. Lack of awareness about the other avenues offinance. Lack ofcreditworthiness. Bureaucratic environment. Absence of any unique financial source for their industry. Disinclination of financial institutions in providing a loan to SME.
2	Ramcharran, 2017	Requirement of collateral for a bank loan.
3	Beck & Demirguc-Kunt, 2006	Requirement of collateral for a bank loan. High cost for bank loans.
4	Bhattacharya & Londhe, 2014	Requirement of collateral for a bank loan.
5	Nikaido, Pais & Sarma, 2015	Requirement of collateral for a bank loan. High cost for bank loans.
6	Maiti, 2018	Requirement of collateral for a bank loan.
7	Berger & Udell, 2006	Requirement of collateral for a bank loan.
8	Thampy, 2010	Requirement of collateral for a bank loan. Lack of awareness about the other avenues of finance.
9	Banerjee, 2006	Requirement of collateral for a bank loan.
10	Raja & Kumar, 2007	Requirement of collateral for a bank loan.
11	Baker, Kumar & Rao, 2017	High cost for bank loans.
12	Sarkar, 2016	High cost for bank loans. Systematic, transparent and reliable form of finance. Getting credibility in the market.
13	Cook, 2001	High cost for bank loans.
14	Chakraborty, 2010	High cost for bank loans.
15	Allen et al., 2006	High cost for bank loans.

Source: own study.

Objective

This study helps in filling the gap as researchers have studied about capital structure theories applicable to SMEs and also about their preferences in India. The research is still not significant on SMEs recent addition of equity market as source. The study needs to be done on the perception of the promoter of SME who chose to add equity in their capitalstructure.

The research methodology and the course of the research process

As the study was presented with the difficulty of surveying all Indian SMEs owing to their vast number, it has focused on SMEs based in Gujarat as this is also strategically important for study. Gujarat comprises of the 5% share (33.16 lakh) of SMEs in India, which belongs from the list of 10 states with the highest distribution of SMEs (Annual Report 2017-18, 2018, p. 31). This is the region where SME stock market exchange as a source of finance has been most successful in India. The study is trying to acquire an understanding of SME's promoter's perception behind the selection of the equity market as a source of finance. The research has been done in five phases:

1st Phase: In the first phase study, we try to get the reasons for preferring equity among all other avenues available to the organization by going through literature review. This is done to understand what kind of past research has been done in the said field.

2nd Phase: In the second phase the offer document of 5 companies which are selected for an in- depth interview would be studied in detail. This is done to understand their objective for going public mentioned according to their offer documents.

3rd Phase: In the third phase, in-depth interviews would be analyzed to get a perception of promoters straight from their own mouth. This would help in getting a clear understanding of their perception.

4th Phase: In the fourth phase, we try to analyze whether after opting for equity if SMEs are able to improve their capital structure or not. To analyze this we are using ratio analysis technique to get the idea whether going for equity has improved their profit making ability or not.

5th Phase: In the last phase, a table would be prepared by combining all the reasons from the literature review, offer document and in-depth interviews which would then be combined to form broad themes to understand it easily.

Discussion

Offer document (Phase-2)

An offer document is a document which is issued by every company to the public interested in Initial Public Offering (IPO). It needs to accommodate the information related to the history of business, industry, financial performance and ownership details (Bhabra & Pettway, 2003). It doesn't just disclose the company's historical performance as an annual report, but it encapsulates the company's perspective and anticipated financial prospects (Nikolaj Bukh, 2003). The offer document, which is issued by companies, plays a profoundly significant role in deciding whether to invest in a particular company or not. The information provided in the offer document has been more successful in anticipating the future of a company than subsequent equity offerings or acquisitions (Bhabra & Pettway, 2003).

The Offer document when gets approved by the SEBI indeed becomes a binding document which can bind both issuer and underwriter. Even with shortcomings like window dressing, this is a unique document which provides investors with the opportunity to get to know about the company's past and projected future performance (Bhabra & Pettway, 2003). After going through the offer document of companies which they have issued, we can come up with the following reasons for choosing equity as a source of finance as mentioned in table 5.

Table 5. Reasons from Offer Document

S.No.	Company Name	Reasons Presented in Offer document
1	Nintech Systems Ltd (Information Technology-IT)	To complete the Working Capital (WC) needs of the company. To expand the business's global presence to enhance their ability.
2	Shubham Polyspin Ltd. (Chemical)	To modernize the plants, machinery, buildings, and electrification. To complete the WC needs of the company. To increase brand visibility. To develop new products. To enhance the customer base. To complete the WC needs of the company. To expand the product range.
3	Trident Texofab ltd. (Garment & Textile)	To increase geographical presence.
4	Sprayking Agro Ltd. (Engineering)	To enhance the utilization of existing production capacity. To repay the unsecured loan. To complete the WC needs of the company.
5	Yug Décor Ltd. (Chemical)	To enhance companies corporate image and brand name.

Source: own study.

In-depth Interviews (Phase-3)

The aggregate number of SMEs listed on BSE till date is 277 (BSE Ltd., 2018). The 5 SMEs selected on the basis of the purposive sampling belong to 4 diverse industries which are Information Technology (IT), Chemical, Garment & Textile, and Engineering. This helps in collecting the dynamism in the reason for the choice of equity as a source of finance.

In-depth interviews help in understanding the most preferable source of finance which is banks according to NiNtec Systems Ltd and Sprayking Agro Ltd. The reason which they have given for the same is that it is convenient and safe for them. They also feel that there is an ease in getting finance from banks and they can get many services other than just financing from there.

According to the promoter of Yug Décor Ltd, the most preferable source of finance for him are family and friends as it is convenient, safest and they can get finance from this source even overnight. The promoter of Shubham Polyspin Ltd. feels that the need for collateral becomes an issue after a period of time as they won't be able to give more of collateral to banks. He also thinks that banks are not able to give them financing as and when needed by them. The promoter of Trident Texo fab Ltd thinks that procedures of bank loans are very complicated and it takes a lot of time to complete theforms.

After taking interviews of the owners of the 5 SME's the study revealed the following reasons to go for equity which is mentioned in table 6.

Table 6. Reasons from In-depth Interview

S.No.	Company Name	Reasons Presented in Interview
1	Nintech Systems Ltd	To create the Public presence.
2	ShubhamPolyspin Ltd.	To get the hand for future growth and development. To avoid giving own capital as collateral to banks. To help in the modernization of the machinery.
3	Trident Texofab ltd.	To collect the WC for the company. To get recognition in the capital market.
4	Sprayking Agro Ltd.	To get the capital from the market as convinced byothers.
5	Yug Décor Ltd.	To get recognition in the capital market.

Source: own study.

Ratio Analysis (Phase-4)

The financial health of any company can be evaluated using the financial statements of any company (Higgins, 2012). The promoter who would be interested in changing their capital structure would mostly do it for the increase in profit which he is expecting in the future. We are going to take some ratios before and after the choice of equity as follows:

Sprayking Agro Ltd.

Table 7. Ratio Analysis

Equity Issue Date: August 2016		
Relevant Ratios	**2015-16**	**2016-17**
Interest Coverage	1.15	1.18
Total Debt to Owners Fund	1.2	0.66
Earning Retention Ratio	100	100
Earnings Per Share (EPS)	0.23	0.26
Number of Shares	2284769	3172769
Return on Assets (%) (ROA)	0.36	0.48

Source: own study.

Trident Texofab Ltd.

Table 8. Ratio Analysis

Equity Issue Date: September 2017		
Relevant Ratios	**2016-17**	**2017-18**
Interest Coverage	1.85	2.35
Total Debt to Owners Fund	1.37	0.5
Earning Retention Ratio	100	57.16
Earnings Per Share (EPS)	9.92	1.88
Number of Shares	331750	3995875
Return on Assets (%) (ROA)	1.34	1.66

Source: own study.

Nintec Systems Ltd.

Table 9. Ratio Analysis

Equity Issue Date: March 2016		
Relevant Ratios	**2015-16**	**2016-17**
Interest Coverage	0	0
Total Debt to Owners Fund	0	0
Earning Retention Ratio	100	100
Earnings Per Share (EPS)	0.26	0.64
Number of Shares	5000000	6880000
Return on Assets (%) (ROA)	2.39	5.52

Source: own study.

Yug Décor Ltd.

Table 10. Ratio Analysis

Equity Issue Date: May 2017		
Relevant Ratios	**2016-17**	**2017-18**
Interest Coverage	2.17	3.51
Total Debt to Owners Fund	0.79	0.38
Earning Retention Ratio	100	100
Earnings Per Share (EPS)	1.02	0.8
Number of Shares	3061766	3061766
Return on Assets (%) (ROA)	3.13	2.63

Source: own study.

ShubhamPolyspin Ltd.

Table 11. Ratio Analysis

Equity Issue Date: September 2018		
Relevant Ratios	**2016-17**	**2017-18**
Interest Coverage	18.17	36.91
Total Debt to Owners Fund	1.37	1.19
Earning Retention Ratio	100	100
Earnings Per Share (EPS)	44.17	188.47
Number of Shares	4010000	1500000
Return on Assets (%) (ROA)	87.27	158.49

Source: own study.

Interest Coverage ratio talks about how many times a company can pay its interest expenses from earnings. It can be seen from the above analysis that interest coverage ratio of all the companies is improving, except NiNtec Systems Ltd. This company is not showing interest coverage ratio because they have not taken any debt.

Total Debt to Owners fund shows how much the creditors have committed to the company versus what the shareholders have committed. It can be seen from the above analysis that total debt to owner's fund is decreasing for all the above companies as they all have opted for the public issue of equity shares which has resulted in an increase in owner's equity.

The retention ratio refers to the percentage of net income that is retained to grow the business, rather than being paid out as dividends. It can be seen from the above analysis that except Trident Texofab Ltd., all the companies are retaining percentage of their revenue for further growth of the company.

EPS is the portion of a company's profit allocated to each share of common stock. It can be seen from the above analysis that except 2 companies which are Trident Texofab and Yug Décor Ltd. all the companies' EPS are increasing. This shows that their profit have also increased with finance which they have acquired. Now looking at Texofab and Yug, EPS has decreased as they were not able to grow their revenue in the same ratio of their increment in finance.

ROA is an indicator of how profitable a company is relative to its total assets. It can be seen from the above analysis that Return of Assets of all the above companies are showing improvement that means the decision of going for the public issue has been beneficial for them.

Result and analysis (Phase-5)

After going through the literature review, offer document and interviews with promoters of SMEs, the following reasons can be extrapolated with broader themes as follows:

1. **Bank Loan Barriers**
   a) Complicated procedures.
   The cumbersome procedures of banks to get a loan became significant hurdle in going for bank loans. These kinds of procedures require a distinctive set of skills which is not always present in promoters of SMEs.
   b) Requirement of collateral.
   The requirement of collateral arises due to lack of information provided by SMEs. As most SMEs don't possess assets to be provided to banks so it is incredibly difficult for them to get financing forthem.
   c) High moratorium period forrepayment.
   The period between loan approval and receipts of finance by promoters has sometimes been excessively long that SMEs gets discouraged to go for bank loans.
   d) High cost.
   The cost associated with bank loan is sometimes more than the benefit received by that money. The exorbitant cost gets justified to the lack of symmetric information provided and lack of transparency by SMEs.
   e) Unfamiliarity.
   The non-familiarity of banks to SMEs working also formulate the problem of taking finance. This leads to the need for hard information by banks, which become difficult for SMEs to provide as they predominantly rely on soft information or informal relationship they have with banks.

2. **Financial Factors**
   a) Systematic, transparent and reliable.
   Raising equity capital from the capital market is better in comparison to any other sources. The reason behind this is that the capital market is more organized, transparent, orderly functioning and reliable market than any of the above- mentioned avenues.
   b) Getting credibility.
   SMEs can benefit from the favorable effects market listing have on the quality of management and also from greater visibility in the market it sparks a trust among various stakeholders of a company.
   c) Working capital needs.
   As mentioned in offer document of the companies NiNtec Systems Ltd., Shubham Polyspin Ltd., Trident Texo fab Ltd. and Yug Décor Ltd. the requirement of capital from the market is for completing needs of working capital in their company. The promoter of Shubham Polyspin Ltd also confirms the same in his interview.
   d) Repay an unsecured loan.
   As mentioned in offer document of Sprayking Agro Ltd. they lacked the capital to pay off the loan taken from an unsecured loan taken from Jigneshbhai Patel. The unsecured loan amounted to Rs 119.48 lakh which they are interested in paying from 146.48 lakh received from IPO in the capital market.
   e) Fixed capital needs.
   As mentioned in the offer document of Shubham Polyspin Ltd. they are interested in modernizing their plants, machinery, buildings, and electrification. This was also backed by promoter of the company in their interview.
3. **Growth Factors**
   a) Global presence.
   As mentioned in offer document of the NiNtecSystems Ltd., Shubham Polyspin Ltd., Sprayking Agro Ltd., and Yug Décor Ltd. they are interested in enhancing their global presence, brand visibility, geographical presence and brand name in the market. These all factors direct towards the one significant reason that is to able to get their company a global presence.
   b) New product development.

As mentioned in the offer document of Shubham Polyspin Ltd. and Sprayking Agro Ltd., other substantial reason was to develop a new product for their company or expand their product range to entice more customers.

c) Customer base enhancement.
As mentioned in the offer document of Shubham Polyspin Ltd. they are interested in enhancing or escalating their customer base so as to increase their sales. It's also clear from the Sprayking Agro Ltd. that they are interested in increasing their customers as they have mentioned in their offer document that they want to enhance the utilization of existing production capacity.

4. Economic Factors

a) Bureaucratic environment.
The bureaucratic environment has become a major hurdle in getting finance from different avenues. This kind of environment makes it difficult for companies to get finance easily.

b) Absence of unique financial avenue for the industry.
In any country, it is important to provide unique financial avenues specifically targeting a particular industry. This helps with the expansion of industry, which is beneficial for the economy. Here in India, these kinds of unique financial avenues are not present.

c) Intimidation from others.
As explained by the promoter of Sprayking Agro Ltd. he got influenced by some people and took a very important decision for getting finance from the capital market. He is not happy with the turnout of events as such he still would like to go back to the traditional way of getting the finance that is from the banks.

5. Other Barriers

a) Lack of awareness.
SMEs are not that much aware of financial avenues available for them in the market. This leads to a non-informed decision making on their side that leads to a loss for them in the long-term.

b) Lack of credit worthiness.
Various avenues don't find SMEs to be creditworthy to reimburse them back in time because of the issue of asymmetric information provided by them.

c) Disinclination towards SMEs.

The banks are not interested in giving finance to SMEs any more because the frequency of Non-Performing Assets (NPAs) has increased significantly in the last few years. That's why now unless banks acquire satisfactory information from SMEs they hesitate a lot in giving loans to those SMEs (Thampy, 2010). In a similar way, other avenues are also not that much inclined towards SMEs as they think of them as befalling a possible defaulter in the future (Rao et al., 2017).

The various reasons which can be behind the perception of promoters in adding equity in their capital structure have been combined using the 5 broad themes which are mentioned in table 12.

Table 12. Themes

Themes	1.	2.	3.	4.	5.
Bank Loan Barriers	Complicated Procedures	Requirement of Collateral	High Moratorium Period	High Cost	Unfamiliarity
Financial Factors	Systematic, Transparent & Reliable	Credibility	Working Capital needs	Repay Unsecured Loan	Fixed Capital needs
Growth Factors	Global Presence	Modernization	NewProduct Development	Customer Base Enhancement	
Economic Factors	Bureaucratic Environment	Absence of unique financial avenue for the industry	Intimidation from Others		
Other Barriers	Lack of Awareness	Lack of Creditworthiness	Disinclination towardsSMEs		

Source: own study.

Future implications and limitations

The research has only been carried out in the state of Gujarat. The findings should be tested in all over India by measuring them quantitatively. These themes can also be taught to the students so that they can get a deep understanding of SME finance. The academicians can take a cue from these broad themes and try to research further the same. The entrepreneurs or SME promoters can also get help from this paper to understand their financial situation and then taking the decision of financing accordingly. This paper is able to come up with a framework that can be researched further by the academicians.

Conclusion

This paper made an attempt to study the reasons behind the perception of SMEs' promoters in choosing equity as one of the sources of finance for them. In the earlier literature, there have been studies which talked about various avenues available for SMEs and their pros and cons. As public equity has been a new addition to that avenue and it has been a beneficial avenue for the SMEs, there is a need to understand it in detail.

This study has been done in five phases so as to include literature review, offer document objective, in-depth interviews of owners, ratio analysis and a compilation of four phases. The reasons which have been extrapolated have been given broad themes in which they should be included. On the basis of that, a table has been made which needs to be explored further. Finally, there is a need of government of India as well as stakeholders of SMEs to understand different avenues in detail and plan for long-term so as to improve their performance in the long run. This improvement in the performance of SMEs will also help in an increment in GDP of the country and finally wealth of the nation.

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