



# MSME: Growth Driver of Indian Economy 2019



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# Executive Summary



**Micro, Small and Medium Enterprises (MSME)** sector is one of the most emerging, highly vibrant sector of Indian economy. They are one of the largest employment generators and also helps in industrialization of rural and backward areas. The Indian MSME sector is the backbone of the national economic structure and has unremittingly acted as the bulwark for the Indian economy, providing it resilience to ward off global economic shocks and adversities. With around 63.4 million units throughout the geographical expanse of the country, MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities as well as 33.4% of India's manufacturing output. They have been able to provide employment to around 120 million persons and contribute around 45% of the overall exports from India. The sector has consistently maintained a growth rate of over 10%. About 20% of the MSMEs are based out of rural areas, which indicates the deployment of significant rural workforce in the MSME sector and is an exhibit to the importance of these enterprises in promoting sustainable and inclusive development as well as generating large scale employment, especially in the rural areas.

## Statistics in MSME (2018-19)

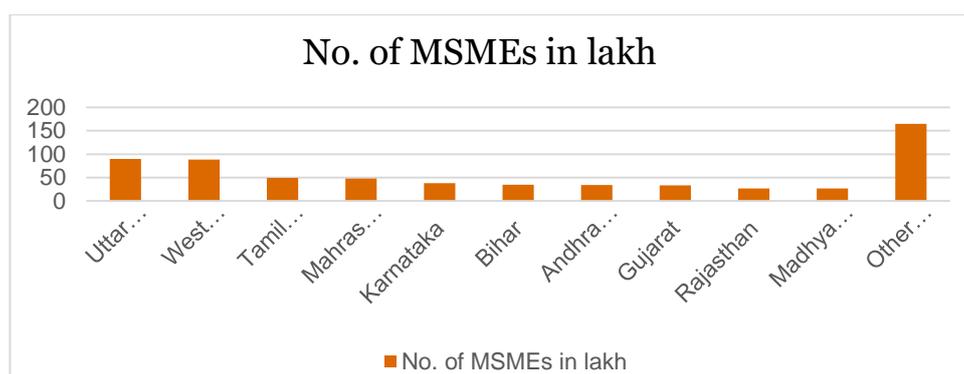
The value of Micro Small and Medium Enterprises (MSME) related products exported during 2017-18 reached US\$ 124.4 bn as per data received from the Directorate General of Commercial Intelligence and Statistics (DGCIS).<sup>1</sup>

<b>Micro</b>	60,32,100
<b>Small</b>	7,28,516
<b>Medium</b>	28,611

*Total Number of MSMEs registered on Udyog Aadhar Memorandum (UAM) – 6.8 mn<sup>2</sup>*

<b>Maharashtra</b>	11,04,189
<b>Bihar</b>	8,29,694
<b>Tamil Nadu</b>	7,91,288
<b>Madhya Pradesh</b>	6,45,077
<b>Uttar Pradesh</b>	7,06,342

### State with highest number of MSME



# Role of MSME in Indian economy

SMEs are considered as panacea for several economic woes like unemployment, poverty, income inequalities and regional imbalances. The MSMEs have played a great role in ensuring the socialistic goals like equality of income and balance regional development as envisaged by the planners soon after the independence.

## *MSME as the largest source of employment after MSME sector*

Over one lakh small and medium enterprises have shown 13.9% increase in net jobs created in the MSME sector in last four years or 3.3% per annum. Maharashtra, Gujarat and Telangana have been the largest job generators over the past four years while in the case of case of exporters, Maharashtra, Tamil Nadu and Telangana have emerged as the top three states. There is a very healthy growth in employment among the MSME segment of industry and with the kind of disruptions and innovations that are likely to sweep through industry in terms of new technologies and practices, our skills development front is also undergoing rapid changes.

## **GDP**

Micro, Small and Medium Enterprises (MSME) sector is the most vibrant and dynamic sector promising high growth potential for the Indian economy. There are close to 51 million MSME units in the country that employ about 117 million people across various sectors, constituting 40% of the workforce. The MSME share to the total Gross Domestic Product (GDP) is about 37%. In coming years it is aimed to increase MSME contribution to the country's GDP to 50 percent from the present 29 percent, and ensure that it gave employment to at least 15 Crore people against the 11.1 Crore at present.

## **Budget Highlights (2019-20)**

**The government has taken several measures to strengthen the Medium, Small and Micro Enterprises (MSMEs). The highlights of the budget 2019-20 for the Ministry of MSME are as:**

1. An allocation of US\$1 bn.
2. US\$ 50.1 mn has been allocated under the 'Interest Subvention Scheme for Incremental Credit to MSMEs'. This will provide funding for the 2% rebate on incremental loans up to INR 1 crore for GST-registered MSME units.
3. US\$ 85.4 mn is being provided under the Credit Support Programme, which will ensure seamless credit guarantee to small and medium enterprises.
4. 20 large and 100 small Technology Centres are being set up with a support of US\$ 858.12 mn.
5. 4 These technology centres are being set up in the continuation of the 12 initiatives announced in November 2018.<sup>5</sup> These initiatives are expected to help grow, expand and facilitate MSMEs across the country.

### ***Contribution to Export and Industrial Production***

MSME are, at present, operating in wide variety of sectors such as manufacturing, trade and services and there by constitute a terrifying component of country's industrial production from last good number of years. The capability of Indian MSME products to compete in international markets is reflected in its share of about 34% in national exports. In case of items like readymade garments, leather goods, processed foods, engineering items, the performance has been commendable both in terms of value and their share within the MSME sector while in some cases like sports goods they account for 100% share to the total exports of the sector.

### ***Scope of service opportunities through MSME's***

MSMEs are playing a significant role in the growth of service sector from the significant years by creating service opportunity for rural elites, masses and for corporate also. Other service opportunities emerged from associated agricultural activities may be taken as support systems at the time of crop failure and needs to be installed as complimentary and supplementary farm enterprise. If these can be done the service sector may become one of the key contributors in the growth of nation.

### **Key Challenges for MSME**

MSME's faces certain distinct challenges because of their vary nature. One of the biggest is the stiff competition from two sources—bigger and established players in the market and imports. In the current Indian economic scenario, cheap funds are difficult to come by. With the RBI reiterating that cost of funds will remain high for a while to curb inflation, this will continue to remain a challenge for the sector. Another reason is banks are not comfortable in lending to this sector and there is a high risk perception. MSME sector players are unable to provide collateral to banks and are hence denied access to credit, making it harder to get loans.

### ***Lower technology levels***

The MSME sector in India, with some exceptions, is characterized by low technology levels, a huge drawback in the emerging global market. As a result, the sustainability of a large number of MSMEs will be in jeopardy amidst competition from imports this hinders the growth of innovation-driven companies which do not belong to the IT sector, where effective technology will sort out most process road blocks and allow companies to concentrate on their core business of innovation.

### ***Challenges wrt SMEs whose primary clients are Govt depts:***

- Bill discounting and recovery by NSIC - Payments made by the Government departments are delayed indefinitely without mandatory enforcement of the Interest provision U/s 15, 16 & 17 of the MSMED Act. This reduces the profitability of the contract and in certain instances makes the contract a loss making proposition due to high lending costs at the supply end of funds. NSIC is a profitable PSU dedicated to the development of the MSE sector. If NSIC starts underwriting/discounting government transactions and takes end responsibility of recovery of these bills, SMEs can focus on their core activity of doing business.
- TREDS has been launched and various exchanges are present. It would be desirable to have a Govt Depts/PSU such as LIC, EPF etc. bidding for the bills on this platform. TREDS allows the supplier to get his bills discounted as long as the customer is also enlisted on the platform and thus allows for discounted settlement of bills to the MSE. Currently there is a lack of financiers purchasing the bills on this platform.
- Mandatory enlistment of all government departments on this platform to shall enable SME suppliers to discount bills and focus on business. Currently a considerable amount of energy is spent in recovery of payments which is counter productive to business as it considerably decreases the efficiency of the entrepreneur not to mention diminishes his entrepreneurial spirit and motivation.
- The government is deducting a 2% TDS (for GST) on all government transactions - For MSE traders working in the commodities sector/on items which have a profitability model based on volumes such a tax increases the tax refund credit (which is hard to get and does not have interest liability on delayed disbursement) while decreasing the working capital. Please note that here due to government deducting TDS the MSE supplier who has borrowed from the bank is actually financing the government which is holding these tax credits indefinitely without being liable to pay interest as per them. Section 15, 16 & 17 of the MSMED Act be extended to TDS refunds to MSE units.
- Integration of GeM & TREDS - The same shall allow for seamless flow of finance for executed projects and increase the fund rotation also reducing inefficiency brought about by manual processing.

### ***Insufficient Infrastructure***

To ensure MSME competitiveness, it is essential that the availability of infrastructure, technology and skilled manpower is in tune with global trends. The state of infrastructure, including power, water, roads, etc. in such areas is poor and unreliable. While these act as threats to MSMEs, the biggest impact is felt by their research arms as they don't have the firepower to be able to innovate.

### ***Lack of skilled Manpower***

Although India has a large pool of human resources, the industry continues to lack skilled manpower required for manufacturing, marketing, servicing, etc. Also, there is a lack of a culture of research. Even premier technological institutes do not produce the quantity and quality of world-class research expected of them. This leads to a serious dearth of competent researchers in organisations.

### ***Problems of storage, designing, packaging and product display***

MSMEs face problems of storage, display and designs for their products. Non availability of selling outlets for their products is a serious constraint. In addition, MSMEs also face the problem of inadequate infrastructure for marketing their products to remote parts of the country.

### ***Delays in settlements***

Large-scale buyers usually have long settlement lead times when they deal with MSMEs owing to their limited bargaining power in the market. This hurts the ability of MSMEs to divert funds to other capex requirements and to R&D.

## **OPPORTUNITIS FOR MSME SECTOR**

MSME segment has been a focus sector for government bodies and there are many initiatives taken by government for promoting this segment. . There are various opportunities for MSME in various sectors.

### ***To go Digital***

Leveraging the e-commerce trend SMEs now can make their presence in the online world by going digital. For many years, the SME sector was struggling with the intense competition, but going digital can give them the required edge.

### ***Technology Advancement***

Adoption of technology since social media, mobile phones, and cloud technology is the talk of the town now, SMEs can take help of these platforms. Embedding the social and cloud platform will open up vast opportunities for revenue growth and operational efficiency.

### ***Advantage of Government Schemes***

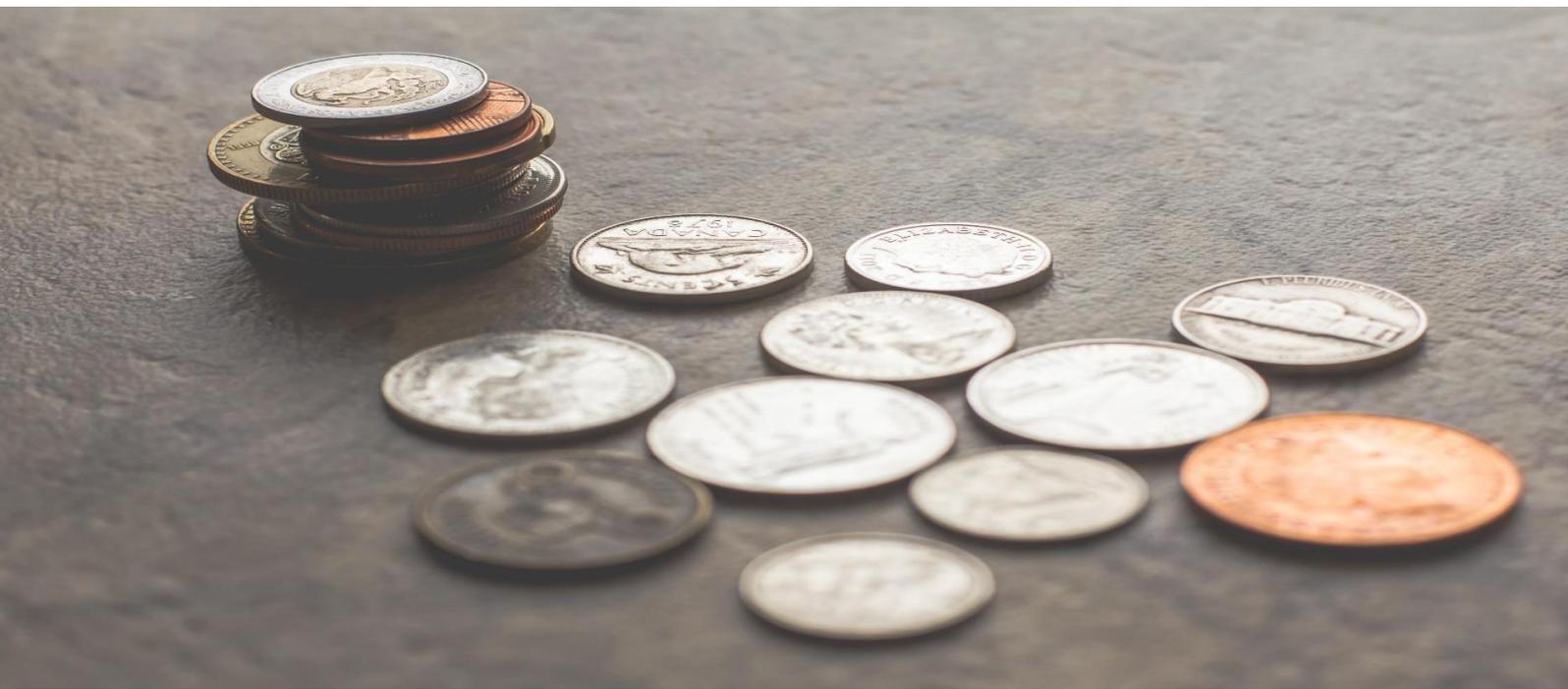
Taking advantage of Government schemes SMEs need to receive benefits of Government initiatives such as Make in India, Startup India and Skill India. These schemes introduced by the government are aimed to promote an entrepreneurial culture to grow the current SME status.

### ***Abundance of Fintech Firms***

Abundance of Fintech firms with the number of Fintech firms and lenders on the rise, SMEs will have the opportunity to get accessible and affordable financing options. SMEs always had to worry about the gap in their cash flows while taking the SME loan from the traditional lender. But now, they will be able to focus on their business entirely, as enhanced speed, transparency, and quick SME

# Alternative financing solutions to MSME

MSMEs require timely and adequate capital infusion through term loans and working capital loans, particularly during the early and growth stages. Historically the MSMEs have relied on following sources for financing their needs:



- Retained earnings, funding through sale of assets
- Ancestral capital, personal savings, loans from relatives, loans from unregulated market

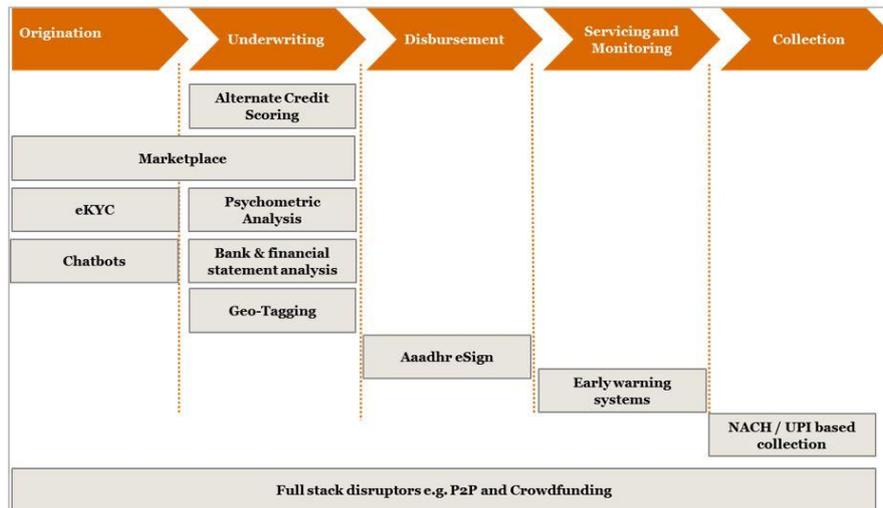
**Financing through banks** traditionally, banks have been the largest source of finance for SMEs. Bankers in India who have been part of a conservative lending system, based on prudent norms designed to minimise non-performing assets (NPAs), have been averse to risk in their approach to lending. Credit is usually extended against collateral equivalent to 100% of the loan amount. Many of the SMEs, especially those in the start-up phase, are unable to provide sufficient assets as collateral for lending, making the banking system inaccessible, especially for first-generation entrepreneurs.



**Venture capital and private equity** For the SME sector, availability of risk capital in the form of venture capital and private equity presents new options. Capital is now more freely available albeit with loss of some control over the organisation. In addition to providing capital, the venture capital and private equity firms also provide valuable advice on the growth strategies by being a member on the board, increasing access to new markets through their network of contacts and assisting with running the operations in the most cost-effective manner through streamlining the supply chain.

**Angel investors** Angel investors usually invest their own funds, unlike venture capitalists who manage the pooled money of others in a professionally-managed fund. Although, typically reflecting the investment judgment of an individual, the actual entity that provides the funding can be a trust, a business, a limited liability company or an investment fund, etc.

**Digital Finance model For MSME** MSME banking is likely to be the fourth-largest sector to be “disrupted” by fintech in the next five years after consumer banking, payments, and investment/wealth management. Fintech companies are offering solutions that can substantially improve efficiencies at every step of the lending process. Fintech models can provide end-to-end



Solutions for the lending value chain or “full stack lending models” such as peer-to-peer (P2P) lending, marketplace lending, crowdfunding, and invoice based financing and so forth.

### Benefits of Digital Lending

1. Minimal Operation Requirements
2. Alternative credit Assessment Methods
3. Low Regulatory Obligations
4. Unsecured Loan Products

# Government Initiatives for MSME

One of the key driving forces for industrial augmentation is the growth of MSMEs because it helps create employment. However, several factors like credit policies and innovation barriers restrain the profitability of this sector. Poor infrastructure, especially power, is a major hindrance when it comes to being competitive, especially for SMEs who cannot afford to build their own infrastructure.

Ministry of MSME launched different, one of the major MSME initiatives to advance the ease of doing business and to make Micro, Small and Medium Enterprises more internationally competitive. These initiatives contain ease of registration of the business in the form of the Udyog Aadhar Memorandum, a Framework to renew sick MSMEs, encouraging technology in rural entrepreneurship via ASPIRE scheme, a fund for reinforcing traditional firms, financial support in the form of credit guarantee and credit linked capital funding. Few of the Initiatives taken towards MSMEs by Indian Government include:

## ***Promulgation of MSMED Act, 2006***

In an important policy initiative, the Government has passed a Micro, Small and Medium Enterprises Development Act, 2006, which targets to assist the promotion and development and augment the competitiveness of MSMEs. The Act was coming into force from 2nd October 2006 accomplished huge demand of this sector. Apart from giving legal strength to the definitions of MSMEs, this Act also comprises strict provisions relevant to the delayed payment to these enterprises.

## ***Khadi and Village Industries Commission Act, 1956***

The Khadi and Village Industries Commission Act, 1956 has been expansively revised in 2006, presenting several new highlights to facilitate professionalism in the commission operations as well as field-level formal and structured consultations with all segments of stakeholders.

## ***Leader's Employment Generation Program***

Prime Minister's Employment Generation Program (PMEGP) was presented in August 2008. Under this program, budgetary assistance is given to setting up of smaller scale undertakings each costing up to Rs.10 lakh in the administration part and Rs.25 lakh in the manufacturing division. The help is given as endowment up to 25% of the project cost in country regions, while it is 15% for urban regions.

### ***Procurement Policy for MSEs:***

A Public Procurement Policy for MSEs was advised in March 2012. The approach conceives that each Central Ministry or PSU will set a yearly objective for obtainment from the MSE area with the target of accomplishing least 20% of the aggregate yearly buys from MSEs in a time of three years. Of this, 4% will be reserved for obtainment from MSEs possessed by SC/ST business people. The approach will advance MSEs by enhancing their market access and intensity through expanded cooperation by MSEs in Government buys and empowering linkages among MSEs and large enterprises.

### ***Prime Minister's Employment Generation Program (PMEGP)***

PMEGP is the leading program of the administration offering credit connected appropriation to build up new endeavors for producing consistent and manageable business openings in Rural and Urban zones of the nation. Rs. 860.51 crore has been discharged by the Ministry as edge cash under PMEGP out of which Rs. 528.32 crores has just been dispensed by the banks.

- 24126 new undertakings giving work to 170983 people have been profited under the Scheme.
- There is over half increment over the earlier year regarding reserves dispensed by the banks, no of tasks with assets dispensed and the work created.



### ***A Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship (ASPIRE)***

ASPIRE MSME initiatives have been propelled on 2015 with a goal to set up a network of technology centers, speed up business enterprise and furthermore to advance new businesses for development and business in the country and agriculture-based industry with a reserve of Rs.210 crores. The arranged results of ASPIRE MSME initiatives are setting up Technology Business Incubators (TBI), Livelihood Business Incubators (LBI) and formation of a Fund of Funds for such activities with SIDBI. First LBI set up in April-2015 under ASPIRE within a month of propelling the Scheme. The principal cluster of 107 youth has been trained and talented through it. 19 LBIs have been endorsed till September 2015 and another 9 LBIs and 2 TBIs are ready to be affirmed.

### ***Credit Guarantee Scheme***

The Government has set up a Credit Guarantee Fund to offer relief to those micro and small entrepreneurs who are not capable to assure collateral security in order to gain loans for the growth of their enterprises. This scheme provided is up to 75% of the credit facility up to Rs. 50 lakh with a uniform guarantee of 50% of the credit disclosure above Rs. 50 lakh and up to Rs. 100 lakh.

### ***National Manufacturing Competitiveness Program***

Guaranteeing the development of Small Scale Sector at a sound rate is essential for the general development of the Manufacturing Sector as likewise the National Economy. For this to happen in the small-scale sector has become competitive. In the 2005-06 Budget, the Government declared formulation of a National Competitiveness Program, mainly to sustain the Small and Medium Enterprises (SMEs) in their venture to become competitive. Therefore, the National Manufacturing Competitiveness Council (NMCP) has confirmed a five year National Manufacturing Competitiveness Program (NMCP).

### ***Micro & small enterprises cluster development program***

The Micro and Small Enterprises – Cluster Development Program (MSECDP) is being executed for all-encompassing and incorporated advancement of micro and small enterprises in groups through Soft Interventions, such as capacity building, marketing development, skill development, export promotion, technology organizing workshops, graduation, seminars, training, exposure visits study visits, and many more.

### ***Technology Center Systems Program (TCSP)***

Ministry of Micro, Small and Medium Enterprises, Government of India has built up 18 Technology Centers (TCs) prior known as Tool Rooms (10 Nos) and Technology Development Centers (8 Nos) spread the nation over. The Technology Centers' essential center is to help ventures, especially MSME initiatives in the nation through access to cutting-edge technologies and giving technical advisory support and in addition talented labor by offering open doors for technical skill development to the youths at different levels extending from School Dropouts to Graduate Engineers.

# Wealth creation and maximization



## **Importance of Wealth Creation in MSME**

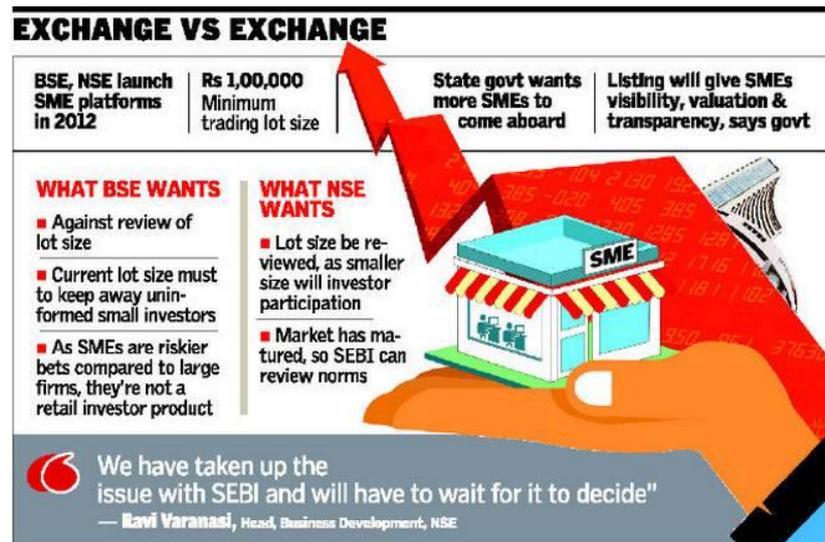
Raising capital is a major challenge for startups in India. Banks in India are averse to lending for startups in the technology domain and very few startups get venture capital funded. Therefore, in an effort to provide better access to funding for startups, SEBI had recently proposed a stock market for startups and SME.

## Funding for MSME

Funding is a major area of concern for startups as it is one of the key requirements for starting up and running the business. Startups in the manufacturing sector or trading sector can avail startup bank loan for investment in building, machinery and inventory through term loan or working capital loans. However, banks do not fund expenses like marketing, research, development, salary, rent, etc., Hence, companies in the technology industry or services industry often cannot access bank funding and are forced to bootstrap.

## MSME IPO in India

Startups and SMEs play a very important role due to their potential in terms of generating employment and income as well as fostering innovation and enterprise. Therefore, taking in view the existing constraints and the role of Startups and SMEs in nation building, it is imperative that the necessary enabling environment be provided for these enterprises to flourish.



**EXCHANGE VS EXCHANGE**

**BSE, NSE launch SME platforms in 2012** | **Rs 1,00,000 Minimum trading lot size** | **State govt wants more SMEs to come aboard** | **Listing will give SMEs visibility, valuation & transparency, says govt**

**WHAT BSE WANTS**

- Against review of lot size
- Current lot size must to keep away uninformed small investors
- As SMEs are riskier bets compared to large firms, they're not a retail investor product

**WHAT NSE WANTS**

- Lot size be reviewed, as smaller size will investor participation
- Market has matured, so SEBI can review norms

**We have taken up the issue with SEBI and will have to wait for it to decide"**  
— **Ravi Varanasi**, Head, Business Development, NSE

## Benefits of listing on MSME Exchange

There is no denying that SMEs play a vital role in the growth of an economy both, as a job creator and a contributor to the national income. This has been recognized by the economies across the globe leading to construction of the SME Exchanges in various developed and developing economies.

**Firstly, it provides access to capital by equity infusion** which is a direct growth driver. The funds so raised are company's own and the company is at complete liberty to utilize it for any purpose such as expansion, diversification, acquisition or even loan repayment, all of which leads to a healthy balance sheet. Once listed, these companies are now well equipped to exploit other avenues of raising capital such as rights issue, preferential issues, qualified institutions placements (QIP) and other international fund raising instruments, such as FCCBs, ADRs and GDRs etc. Banks and financial institutions also prefer to extend finance to listed companies as against unlisted ones.

**Secondly, it simultaneously provides a convenient exit route to private equity investors**, stock option holding employees and other investors, by providing liquidity to these shareholders and maximizing value. Liquidity in shares also enables the existing shareholders to trade in their own shares leading to better valuation than through private transactions.

**Thirdly, a major reform lead by listing is good governance.** Benefits accrue at the time of listing as the companies prepare themselves for this event and also throughout the life of the company.

Regulatory supervision and governance controls in the form of routine compliances become a part of the company's day-to-day existence. Timely disclosure of material information not only leads to improved governance but also protects investors' interest.

**Fourthly, listing on an SME Exchange enhances the visibility of these companies,**

which would otherwise be lacking due to little or no exposure. As a listed entity, these companies now have a real platform to showcase themselves, helping them deal directly with their competitors and simultaneously getting the opportunity to market themselves, thereby creating business opportunities

**Fifthly, the sale of listed securities attracts short term capital gains tax** of only 15% and a long term capital gains of only 10%, making it tax efficient as well, as against sale of shares of an unlisted company, which attracts tax of 30% short term capital gains and 20% long term capital gains.

**Lastly, a striking feature of listing on an SME Exchange** is the advantage of seamlessly migrating to the main board, i.e. the BSE or the NSE. If the paid-up capital of the company exceeds Rs.110 crores and is up to Rs.25 crores, a company may transit to the main board.

### Valuation challenges in SMEs

In recent times, we have witnessed SME IPOs with a higher valuation demonstrating a higher demand. Higher valuation is also closely linked to companies listed peers motivating investors to pay the same value for stocks in similar industry. Valuation also depends on the company's financials, profitability and future prospects in relation to the business for which the price is paid.

With the unrelenting rise in the SME IPOs, a common question raised is with regard to the valuation of these companies with many of these companies failing to set the returns chart on fire. Tightening liquidity and poor operational performance could shrink the valuation of these companies with the result that many of these companies fail to reward the investors despite a higher valuation. Hence, if the IPO is overpriced, chances of making gains are lesser in the long run as compared to the IPOs that are

### *Challenges faced by startups while listing on SME Exchanges*

*The challenges faced by startups while listing on SME Exchanges may be attributed* to the struggles of being a startup itself. A slowdown in the growth of SMEs will almost automatically impact the popularity of an SME listing as a pillar of fund raising. With many roadblocks in their growth, listing alone cannot ensure success. Moreover, the absence of any benefit or incentive as a result of listing often fails to motivate the start-ups to list. Many of these startups often lack the experience and technological capabilities to sail through the whole listing process. These weaknesses are further deepened due to lack of human resources, preparedness, non-compliances and a general lack of awareness among the young entrepreneurs about the listing process. Limited knowledge of the stock markets and listing procedure is a major deterrent for these start-ups who traditionally have only depended on banks for raising capital.

Despite measures put in place by the regulator, the outcome is far from satisfactory. **Most MSME’s perceive the relaxed listing norms to be no less burdensome than listing on the main board** and would rather wait a few more years and get listed on the main board itself. The exemptions available to the companies listed on the SME Exchange may be miniscule and the fear of penalties on account of non-compliances could make these companies less keen on listing.

**Promotional programmes by the stock exchanges to increase awareness among these startups could go a long way to overcome many of the challenges discussed above.** Secondly, stock exchanges have to market the SME platform as a product. This can be done through proper advertisement, both in print as well as through online portals. Currently, there is less media coverage of SME issues as compared to the main board issuances. Scrips of the SME Exchanges usually do not find space on many famous capital markets sites. Providing incentives for listing may also help the growth of these exchanges.

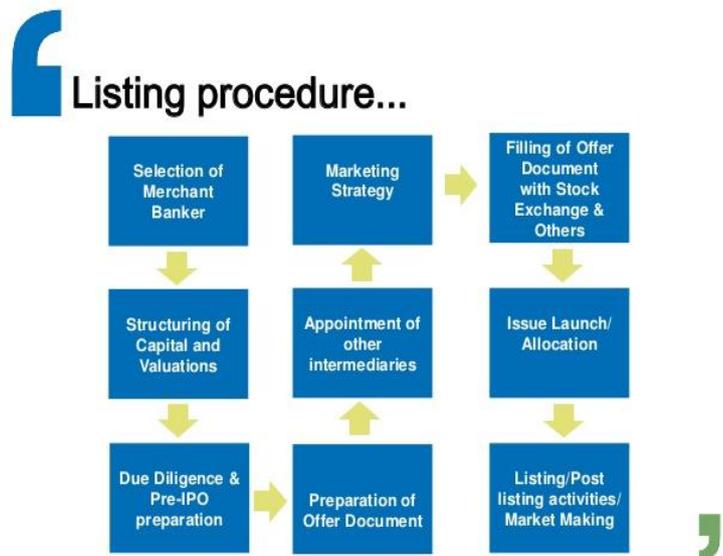
The best possible way to promote the SME Exchange is not just by creating awareness among the investors or by removing the listing barriers but by creating a knowledge ecosystem for these start-ups. The stock exchanges could indulge into interactive sessions with these companies which could help reduce hurdles and provide a much needed impetus to the SME growth story.

*Procedure of filing for an IPO with SME Exchanges*

**Listing requirement for SMEs on SME Exchanges**

A company desiring to list on the SME platform must first and foremost be a limited company and have a post issue paid-up capital of not more than Rs.25,000,000, although companies with post issue paid-up capital between Rs.100,000,000 and Rs.250,000,000 have an option to list either on the main board or on the SME platform.

To induce companies to list on the SME platform, the BSE SME and NSE Emerge have relaxed the listing requirements, compared to that of a main board IPO. The essential eligibility criteria for companies desiring to list of the SME platform is captured in the following table:



Particulars	BSE SME	NSE Emerge
<b>Post-Issue Paid-up Capital</b>	A minimum of Rs.30,000,000	Not more than Rs.250,000,000
<b>Networth</b>	A minimum of Rs.30,000,000	<ul style="list-style-type: none"> <li>➤ Positive Networth;</li> <li>➤ Earnings before depreciation and tax from operations should be positive for at least two financial years.</li> </ul>
<b>Net Tangible Asset</b>	A minimum of Rs.30,000,000	NA
<b>Track record</b>	The company must have distributable profits for at least two years out of immediately preceding three financial years or the net worth must be a minimum of Rs.50,000,000	The company or the promoters or the promoting company or the partnership firm (converted into a company) must have a minimum of three years track record

### IPO can be a good choice

To overcome this, almost all major capital markets have realized the need for a separate exchange for SME segment. More than 20 countries operate separate SME bourses. These markets have tried to create a SME friendly market architecture supported by effective institutions and forging links to policies that foster a new class of investable equities.

Particulars	Main Board	SME Platform
<b>Post-Issue Paid up Capital</b>	Not less than Rs.100,000,000	Less than Rs.2,500,000
<b>Underwriting</b>	Compulsory, except where 75% is allotted to QIBs	100% underwritten
<b>Minimum Application Value</b>	Rs.100,000	Between Rs.10,000 to Rs.14,000
<b>Minimum Allottees</b>	1000	50
<b>Market Making</b>	NA	Compulsory for 3 years
<b>Offer Document</b>	SEBI	Stock Exchanges

Recognising this aperture and that SMEs fetch the major pie of any country's industrial activity, the BSE and the NSE launched their platform for small and medium enterprises to list on the BSE and the

NSE and later migrate to the main board of the BSE and NSE without the need to make an initial public offering. The BSE SME and NSE Emerge are a new source for SME IPOs and provide a listing opportunity to the SMEs with minimum compliances and cost compared to the main board. SMEs are spread across divers sectors and are fast emerging as an alternate asset class for investors.



output, 40% of exports, 42 million in employment and creating one million jobs every year. Many SMEs tend to be entrepreneurial ventures where the promoter has either invested his/her savings or borrowed money to start a new venture.

Now, risk is inherent in our lives, but SMEs are especially vulnerable to risks that threaten the dream venture that they have worked so hard to build. Naturally, with the stakes being so high, insurance is a prudent way to limit liabilities in the event of damage to assets, property and business. For SMEs, it could be the key to survival.

However, SME Insurance in India is a highly underpenetrated market especially in the non-mandatory segments. Even today, among large sections of the population, the perception is that insurance means either life insurance or health insurance. The fact is that insurance covers anything and everything under the sun, and is even customised to fit the specific requirements of offices, industries, shops, small businesses, agriculture etc.

Only 10% of employees of SMEs have health cover, and only 0.1% of other core property risks like fire, marine etc. are covered. A lack of awareness, coupled with thin margins, makes insurance a low priority and so it is often neglected by SMEs. Most of them, especially in the micro and small enterprise segments, lag behind corporates on usage of safety practices and equipment. They run huge risks of fire and workplace-related accidents, besides floods during the rainy season. These risks have the potential to cripple their business.

Now, with banks putting a collateral condition to have adequate protection for getting funds, more SMEs are coming forward to take an insurance policy. While awareness levels are increasing, it does not always translate to penetration due to a vicious cycle of mistrust. The fund-strapped SME segment often ends up with partial cover just to meet the requirements of lenders. This eventually leads to a poor claims experience and a lack of perceived value (no money back on claim) which is the primary reason for lower penetration.

SME insurance cover is now seeing a rise in India, with respect to the products offered and the companies that offer these products. An SME Package cover gives the flexibility to combine covers of one's choice in a single policy. The standard package policies include cover from fire and natural perils and burglary coverage. However, the sector has still not adequately met the need for more tailored and customized products for the SME segment.

### *Importance of Insurance*

**Safeguarding Assets:** It is a crime not to protect your assets as an entrepreneur. If you can pay for security guards to protect your physical assets at your business premises why can't you do same for the intangibles and for hidden dangers? Small business insurance is likened to the invisibles that you only see in action when things go wrong.

**Gives Associates Confidence:** Suppliers and big time customers tend to have this confidence in your entity when you have a kind of policy that takes care of the unexpected. You will be seen as a core professional when they know you are conscious of uncertainties.

**Covers a Company from Employee Action:** There are times when things happen to employees like work place accident. A small business that does not have a small business insurance cover would end up paying huge medical bills and could even result in fine. By no means am I saying that insurance cover is a substitute for work place health and safety but it gives that extra bit of peace of mind that you got your back covered for anything.

**Meets Legal Requirement:** A small business that is required by any law to have small business insurance will be saving on legal costs by having one. The importance of small business insurance to a small business goes beyond being compliant as it helps boost the reputation of the enterprise.

**Improves Internal Control Systems:** Small businesses are forced into setting up an internal control system if they don't already have one when they apply to take up small business insurance. The reason for this varies ranging from the desire to get cheap small business insurance to meeting the contractual agreement in the policy.

### *Types of Business Insurance*

#### **Property Cover**

Property insurance offers you protection against risks to your business property. This includes not just your premises (office, shop, building, factory, etc.) but also the assets and equipment, machinery, appliances, etc. that you have within. The risks that are typically covered under this policy include fire, earthquakes, flooding, burglaries, theft and vandalism, mechanical and electrical failure, property loss due to accidents, etc.

Note that insurance cover for equipment and machinery failure does not include wear and tear, and loss of functionality after extensive usage over time. You may also seek cover for loss of income due to business disruption, and also loss on account of employee actions/malfeasance, dishonest actions, etc.

#### **Legal Liability**

This type of business insurance provides you cover against legal liabilities arising due to personal injury and/or losses caused to employees, customers, business partners and other third-parties. This may cover accidents that occur on the premises, as well as incidents arising out of the use of the business products and/or services.

Note that it's important to ensure that your business insurance covers all your liability towards employees as per the Fatal Accidents Act 1855 and the Workmen's Compensation Act 1923.

## Commercial Vehicles

This is the only type of insurance that is mandatory in India. You have to get vehicle insurance anyway, so it makes sense to get commercial vehicle insurance and extend the coverage you get to:

- vehicle damage;
- third-party property damage;
- third party injury or death;
- personal accident coverage for employees and passengers;
- legal liability cover for employees using the vehicle; and
- property insurance for goods being transported.

A lot of this is not covered under your personal vehicle insurance policy.

### *Types of Business Insurance Packages*

You don't have to pick and choose specific types of business insurance, because most insurers offer packages that include all or most of the above. For instance, Bharti AXA has different SME Insurance policy packages for shops, offices and other businesses. Their Smart plan Office package provides comprehensive coverage in 13 sections for office premises, including property damage, legal liability and personal accidents. You can buy protection up to a maximum of Rs. 15 crores in sum insured for property damage. Their Smart plan Shop package likewise offers coverage for 12 sections, with a maximum sum insured of Rs. 5 crores.

### **Highlights**

- Banks also offers an insurance package for SMEs that covers material damage, business interruption, public liability, personal accidents, and workmen's compensation.
- Insurance companies has a standard SME package that includes all the common insurance requirements that small and medium scale businesses in India have. Their cover includes loss and damages caused by fire, lightning, aircraft, riots and malicious damage, storms and flooding, damages and loss of business property caused by vehicles, etc. You can optionally add coverage for burglary, public liability, personal accident, machinery breakdown, etc.
- You can get business insurance quotes online from these and other insurers, or just call them or fill up an online form stating your requirements. Either way, it is advisable to compare insurance quotes from at least 3-5 different insurers before you buy business insurance.





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## Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has around 9000 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from around 276 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

India is now set to become a US\$ 5 trillion economy in the next five years and Indian industry will remain the principal growth engine for achieving this target. With the theme for 2019-20 as 'Competitiveness of India Inc - India@75: Forging Ahead', CII will focus on five priority areas which would enable the country to stay on a solid growth track. These are - employment generation, rural-urban connect, energy security, environmental sustainability and governance.

With 66 offices, including 9 Centres of Excellence, in India, and 10 overseas offices in Australia, China, Egypt, France, Germany, Singapore, South Africa, UAE, UK, and USA, as well as institutional partnerships with 355 counterpart organizations in 126 countries, CII serves as a reference point for Indian industry and the international business community.

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