



 **resurgentindia**
Debt | Equity | Advisory

Who am I?

- I am a key part of the Indian industrial ecosystem
- We provide 8% of the country's GDP, 45% of manufacturing output and 40% of exports
- We provide the largest share of employment after agriculture – employing more than 80 million people
- We constitute 95% of the no of industrial units in the country
- We are the nurseries for entrepreneurship and innovation



But did you know?



20,000 of us commit suicide every year?

That's double than that of farmers' suicides in this country

But that goes largely unnoticed by media and policymakers

“Analytics said that every second or third day there is a case of suicide of a MSME owner in India due to insolvency & bankruptcy of his enterprise ... ”

– Dr. Laveesh Bhandari, noted economist

“Globally entrepreneurs who fail to learn from their first mistakes are more successful at the next attempt. However in India ..., an entrepreneur is given no second chance. He has either to succeed in his first attempt or else live in extreme conditions for the rest of his life ” – smetimes

“I have seen that in more cases than one, due to the dysfunctional insolvency and bankruptcy system in India for SMEs, it deprives the entrepreneur of an honorable exit nor does it give him a second chance to re -establish his business if he fails ”– Bibek Debroy, noted economist

“with the absence of an exit route, the SME is kept in a state of suspended animation till it is declared sick. Due to this obsolete regime existing in the country, neither the entrepreneur nor the creditors are benefited. Banks who could take control of the assets and put them again into productive use are however caught in the web of paperwork and judiciary hurdles ” – smetimes

Left unattended systemic SME failure can lead to Serious socio economic impact



- High rate of shut down of units
- Loss of employment
- Rise in bank NPAs
- Little or no innovation in indigenous technologies in core industries and higher dependence on imported technology
- Erosion of entrepreneurship in core sectors

Most affected will be small towns and non metro locations that house more than 70% of the MSMEs

Perhaps we do not have to look beyond the Foundries in India to understand this point



- Foundry is one of the oldest industries in India with rich heritage and deep competencies
- 85% of India's \$12 billion foundry industry comprises of MSMEs
- The industry is under severe stress since last 5 years – working at average capacity utilization of <70% with auto suppliers at 50% or below
- Dry up of bank credit due to rising NPAs, stress in balance sheets & low confidence by banks in the industry's ability to service loans
- High rate of unemployment, no rise in wages – leading skilled manpower move away from the industry
- No focus or investments in capex & technology upgradation
- All these have led to a huge jump in rejection rates & vicious downward spiral for the industry

> 50 units have shut down in Raipur in last 2 years plagued by these circumstances

Many such examples can be found across industry sectors

- A recent ASSOCHAM report reveals in the last 5 years near **40% of the Indian toy companies have been shut down & 20% are on the verge of closure**
- A recent ASSOCHAM report suggests acute power crises in most parts of north India has **brought more than 25% of MSMEs on verge of closure** – worst affected states being Punjab, Haryana, UP, Rajasthan and Delhi
- A 2013 survey in Gujarat revealed about **5% MSMEs had shut down between 2011 & 2013** – with textiles, IT-enabled services and transport the most affected
- A recent DSIR report has highlighted several **weaknesses of pharma MSMEs** (which contribute 48% of India's pharmaexports) – including lack of expertise & training for technological up-gradation; low expertise on IPR; and inability to access finance on easy terms – which will seriously impair their competitiveness
- Recent RBI Circular cancelling exemption from STPI registration for IT exporters upto \$25,000 –a huge negative for IT SMEs since the STPI would levy certification charges **which will shoot up the overall costs of doing business & cause handling delays to obtain certification**
- Many MSMEs in **textile & garments, auto ancillaries, cycle & cycle parts manufacturing, electrical products across India have shut down** or in the verge of closure

In a nutshell all MSME owners are seriously affected



From a holi spray gun manufacturer plagued by Chinese imports & difficulty of running his business efficiently due to severe supply side constraints



.... to an MSME pharma unit due to increasing complexity in compliance norms, IPR issues, lack of training & exposure – amidst ever increasing global competition

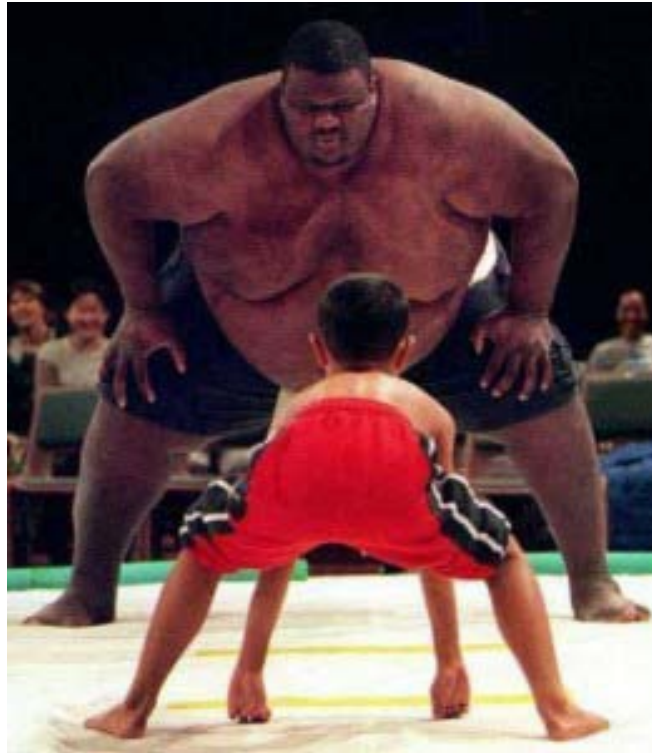


.... to a small software exporter who is plagued with higher compliance cost, shortage of trained & flexible manpower

Think about it



Do we want our millions of traditional craftsmen and micro entrepreneurs in a state of perpetual despair & losing their battle with life?



... and our small & medium business owners fight losing battles with more sophisticated, resourceful and nourished global competitors?

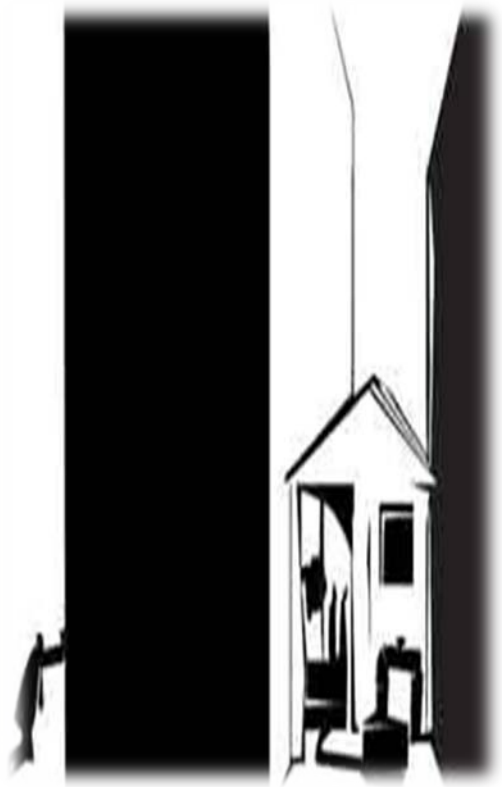
*The socio economic cost of MSME failure will be too high to bear
.... especially with young India and poor sections of the society
severely dependent on MSME success*





*It's time to realize the problems and take
them head on*

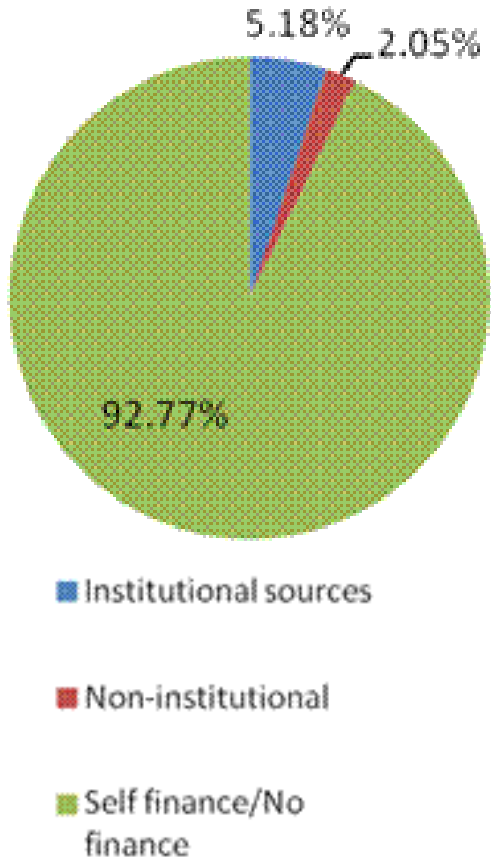
Let us all first realize the key problems



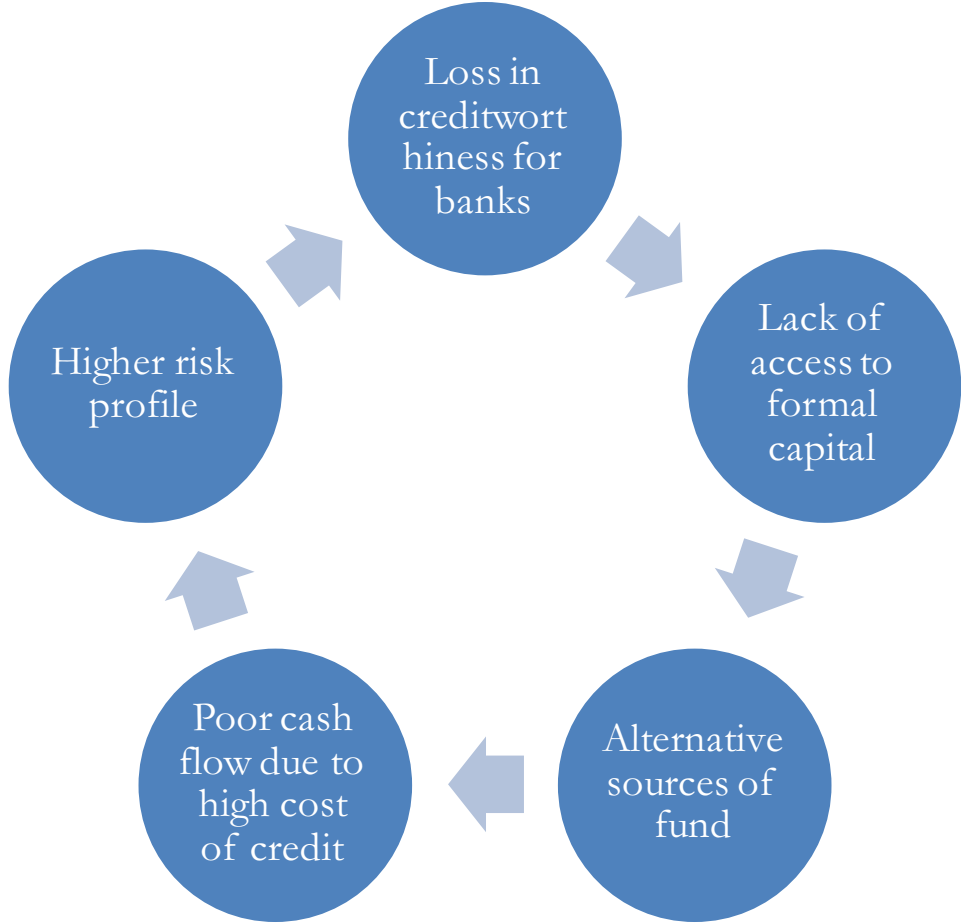
- Lack of flow of easy credit from banks, despite multiple schemes & need of high collaterals
- No access to sophisticated & cost efficient financial products
- High level of working capital due to low bargaining power with larger customers
- High cost of doing business including compliance costs compared to global counterparts
- Little or no access to globally competitive technology
- Low exposure to world class professional services
- Availability of skilled labor force
- Low marketing skills and difficulty to expand beyond home markets – and hence *glass ceiling* effect in many businesses
- We are perhaps the largest victims of corruption
- Asset price valuations significantly higher than business valuation – dampening entrepreneurs' hunger for growth & causing many business owners to become investors

Despite 30% credit growth in 2013, access to finance remain a critical pain point for MSMEs

Lack of access to formal sources



Vicious cycle in the funding pattern of MSMEs



Source: Reserve Bank of India, 2012

While few steps have been taken

1

Various schemes under Ministry of Micro, Small & Medium Enterprises

- Enterprise & Skill development
- Capital Subsidy for Technology upgradation under CLCSS, NMCP etc
- Cluster development programs
- Marketing assistance through International Trade Fairs & stipulation to PSUs to procure 20% of their requirements from MSMEs
- Establishment of MSME Credit Monitoring Cell

2

Bill Discounting schemes by banks addressing working capita issues of MSMEs

- Credit facility granted by banks to companies procuring materials/ services from MSMEs in form of bill discounting/cash credit/ overdraft - aimed to fund the manufacturing and receivable cycle
- Aims to solve the problem of lack of borrowing power by MSMEs by indirectly funding their customers and ease receivable cycle

3

Schemes by Govt. of India

- Credit Guarantee Fund Scheme announced by GoI India under which Rs 1,000 Cr. collateral free loan could be provided to MSME units in states contributing towards the scheme
- Proposed MSME Technology Development centre in Bengaluru & 14 other centers with corpus of Rs 2,240 Cr.
- Venture capital fund of Rs 10,000 cr. announced in the current Budget

Proper implementation are needed to solve the real issues

Working Capital Management

- Enforcement of delayed payment penalties on companies procuring goods & services from MSMEs
 - Mandatory disclosure of all goods & services procured from MSME suppliers in filings by Companies
 - Mandatory reporting of such defaults in Audit Reports
 - Powers to MSME Credit Monitoring Cell to enforce penalties on erring Companies

Availment of bank credit

- Proper sensitization of Branch Managers of all public sector banks to increase lending under Credit Linked Capital Subsidy Scheme (CLCSS) for technical upgradation of MSMEs
- Quarterly monitoring of loan proposals received and disbursements by MSME Credit Monitoring Cell – proactive intervention and redressal wherever needed
- Promote & scale up operations SME Rating Agency (SMERA) to incentivize and enable MSMEs avail credit rating for availing credit

Efficiency improvement of MSMEs

- Timely implementation of Technology Development Centers and proper information dissemination to ensure wider participation
- While the existing marketing support to MSMEs are confined to Trade Fairs, Procurement Policy MSEs & Vendor Development Programs –a
- Constant education of Corporate Governance through seminars & workshops – involving Govt. agencies, professional firms and non profit organizations involved in corporate governance practices

Road ahead –focus on practical and implementable solutions with systemic improvements to solve the real problems



Immediate priorities

- **Enable the release of right credit to MSME sector**
Strengthen the Credit Monitoring Cell under Ministry of MSME to work with the banking ecosystem for timely evaluation and release of credit to MSME under various schemes as well as under general credit
- **Develop holistic revival packages for MSMEs in key & promising sectors**
Develop specialized task force on core manufacturing sectors to develop and implement revival package
Leverage MSME Clusters for formulating and implementing appropriate programs
Develop clear frameworks and criteria to enable MSMEs with the right intentions benefit from such programs
- **Focus on Implementing the high-impact Govt. programs**
Credit Guarantee Fund Scheme
MSME Technology Development centers
Initiate & implement the Venture capital fund with minimum corpus of Rs. 2000-2500 Cr. Leverage existing Govt & PSU agencies to disseminate the same

Focus on systemic improvements by way of structured programs to create sustainable solutions

- **Corporate Governance**

Develop standard practices and protocols and include them as part of specific programs and packages

- **Credit Rating**

Provide strong incentives to promote practice of credit rating amongst MSMEs.

Strengthen SMERA to provide quality & timely services to MSMEs

- **Compliance Management**

Create platform to understand practical difficulties faced by MSMEs to comply with various statutory requirements

Formulate practical solutions based on assessment

- **Efficiency improvement**

Create platforms for MSMEs including participation in international seminars and user-friendly information dissemination platforms to learn about new technologies, know-how and avenues to access newer markets

Understand from large international technology providers & business advisory firms who serve a large no of MSMEs in India and internationally sustainable methods for knowledge dissemination



All these need to be put together within structured programs with clear timelines and responsibilities to bring ground level changes



- Create a 10-12 member task force with representatives from Ministry, MSME-cell, Industry Associations and other agencies
- Formulate structured programs and detailed implementation plans
- Identify resources and administrative interventions required for policy formulation and implementation
- Create inclusive and implementable programs focused on specific industry clusters



*Let us join hands
and resolve to
preserve & give a
bright future to
the traditional &
true entrepreneur
of India – The
laghu Udmi*

THANK YOU