

MSME'S: DEFINING THE FUTURE OF RAJASTHAN'S ECONOMY





FICCI MESSAGE



The Micro, Small and Medium Enterprises (MSME) sector contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating employment opportunities.

The growth and development of MSME sector is closely interwoven with our quest for becoming a global economic power. One of the major challenges in this regard is easy and affordable access to finance to unleash the vast growth potential of this sector. MSMEs tap into various sources for funds and banks still form the largest lending source. Access to affordable capital at the right time throughout the growth stage of an

MSME is essential and is still a major stumbling block.

Manufacturing sector is the base of revolution; the phase of new technology not only makes the work easier but also increases employment opportunities in this sector. The emergence of new technology, digitalisation, ZED scheme, innovative banking and energy efficient production ensures a better future for our manufacturing sector.

The report provides insight of financial arrangements and government schemes to boost the growth and development of MSME sector and I do hope that you would find this publication quite useful.

Rajneesh Singhvi

Chairman - MSME Sub-Committee
FICCI Rajasthan State Council

RESURGENT INDIA MESSAGE



The Micro, Small and Medium Enterprises (MSME) sector contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating employment opportunities.

The growth and development of MSME sector is inter-connected with our aim of becoming a global economic power. Even being the backbone of the Indian Economy the MSME Sector is highly vulnerable when it comes to payment & financial mechanisms.

The liquidity crunch in the recent times has only escalated the challenges faced by the MSME Sector.

With a halt in the Major flow of lending coming from NBFC earlier, Banks are now

required to start lending directly to the MSME's and a relaxation in the criteria for Credit ratings in this is need of the Hour. The emergence of new technology, digitalization, innovative banking and financing opportunities have led to new ways of business.

The State of Rajasthan has a Literacy Rate: 66.10 percent and the MSME sector place an important role in the opportunities provide for the Ease of Doing Business in the state

We believe the FICCI's 3rd MSME Summit, 2019 emerges out to be key indicator for the MSME sector in the state and provides insight on boosting the Economic State of the Rajasthan.

Jyoti Prakash Gadia
Managing Director
Resurgent India Limited

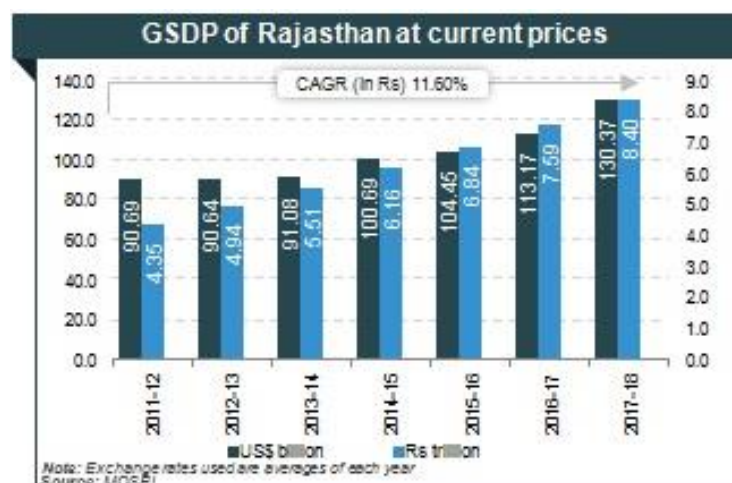
TABLE OF CONTENT

1. Rajasthan: The Colorful Land of India	1
2. Rajasthan MSME Policy	4
3. Challenges faced by MSME	8
4. Alternative sources of financing	10
5. Fintech: Ushering Financial Inclusion	16
6. STARTUPS: Reinventing the Future of Msme	22
7. Government Schemes and Trade finance for MSME	24
8. MSME: The Road Ahead	28



Rajasthan: The Colorful Land of India

Rajasthan, the largest (area-wise) state in India, is located in the north-western part of the subcontinent. It is surrounded on the north and north-east by Punjab, Haryana and Uttar Pradesh, on the east and south-east by Uttar Pradesh and Madhya Pradesh and on the south-west by Gujarat.



The state has an agricultural economy with nine agro-climatic zones and various types of soil that help during the cultivation of crops. It is among the largest mineral-producing states in India. Around 81 varieties of minerals are available in the state and 57 minerals are produced on a commercial scale in the state. It also contributes significantly to production of dimensional and decorative stones, such as marble, sandstone, and granite etc. The state is one of the leading tourist destinations in India. Historic palaces, especially those in Jaipur and Udaipur, offer opportunities to expand the luxury tourism segment, with increasing number of tourists visiting wild life sanctuaries and desert locations.

- High economic growth and stable political environment.
- GSDP grew at a CAGR (in Rs) of 11.60 per cent between 2011-12 and 2017-18.
- Rajasthan has been investing in capacity building through the development of a strong institutional network at all levels. The state has renowned higher education institutions in various disciplines, producing thousands of skilled and proficient young individuals every year.
- Rajasthan offers a variety of unexploited agricultural and mineral resources, which is indicative of the scope for value addition and exports.

Quick Facts

Capital: **Jaipur**
Geographical Area (sq km): **342,239**
Literacy Rate: **66.1 per cent**
Total Population (in million): **68.6**
Key Industries: **Cement, tourism, IT and ITeS, ceramics, handicrafts, chemicals, textile, marble and steel**

Infrastructure Overview

Roadways

Road Type	Length (KM)
National highways	8,972
State Highways	15,437
Major District Roads	8462
Other District Roads	31431
Village Roads	163320



Industrial Infrastructure

- Bureau of Investment Promotion (BIP) and Rajasthan Industrial Development and Investment Corporation (RIICO) are responsible for promoting investments and developing industrial infrastructure in the state.
- The Government of Rajasthan is promoting the development of several SEZs across the state for sectors such as gems and jewellery, handicrafts, IT, electronics, automotive/ auto components and textiles.
- As of July 2018, the state was home to two operational SEZs, four notified SEZs, one SEZ with an in-principle approval and five SEZs with formal approvals.
- The Rajasthan Industrial Infrastructure Corporation (RIICO) has been assigned the responsibility of setting up industrial areas in the state. The organisation also provides loans for small, medium and large scale projects.

Railways

- As of March 2017, Rajasthan has a total railway network spanning 5,894 km, of which 4,868.06 km was covered under broad gauge,
- 915.56 km under meter gauge and 86.76 km under narrow gauge.
- As per Budget 2018-19, the state government allocated an amount of
- US\$ 30.89 million for the phase-I-B of metro rail project in the state.
- As of August 2018, 12 km Metro Rail Project is under construction in
- Jaipur with the cost of Rs 3,149 crore (US\$ 469.72 million), expected to be completed in March 2019.
- The Government of Rajasthan has undertaken the development of a Metro Rail Urban Transport Project in Jaipur.



Rajasthan MSME Policy

Micro, Small and Medium Enterprises (MSMEs) cater to the vital needs of the economy in terms of their two specific roles, i.e. as a support base for large industry and as a stand-alone provider of goods and services. In fact, they form the backbone of the industrial sector in terms of numbers and provide the largest share of employment after agriculture. Rajasthan is the largest State in India. Strategically located between the northern and western growth hubs in India, it has 40% of the land falling within the ambit of the upcoming Delhi Mumbai Industrial Corridor (DMIC). Rajasthan is a remarkably peaceful and politically stable State, offering a set of unique opportunities for profitable investment in many sectors.

The State is endowed with abundant physical resources, rich mineral wealth, agro surplus, world renowned handicrafts and handloom and outstanding skills. These provide ample opportunities for manufacturing, beneficiation, processing activities and services in the MSME sector, which has been the strength of the State. This sector plays a crucial role in the process of economic development by value addition, employment generation, equitable distribution of income, removal of regional disparities, as well as through export earnings. However, there remains a vast untapped potential which, through proper harnessing and nurturing, can be translated into huge gainful employment generation and many fold increase

in contribution to the State's Gross Domestic Production.

To realize the vision, the approach and strategy for MSME development focuses on a combination of both fiscal and non-fiscal interventions. These policy initiatives are expected to provide a conducive environment to encourage increased investments in the MSME sector in the State. The key measures include:

- 1 Streamlining procedures, rules and regulations for ease of doing business.
- 2 Strengthening the Single Window System to make it more effective under the provisions of the Rajasthan Enterprises (Single Window Enabling and Clearance Act, 2011).
- 3 Setting up facilitation mechanisms for guidance to new investors and support to existing ones.
- 4 Providing competitive fiscal incentives and concessions to attract investment.
- 5 Creation of new industrial areas.
- 6 Time bound allotment or conversion of land for industry.
- 7 Encouragement of private industrial parks and MSME Clusters.
- 8 Focus on thrust sectors, including handicrafts, handlooms and Khadi.
- 9 Facilitate SMEs for raising obtaining credit/capital.
- 10 Assist unemployed youth for setting up Micro Enterprises.
- 11 Promoting start-ups and budding entrepreneurs through setting up of plug-and-play facilities and incubation centers.
- 12 Marketing support to MSMEs.
- 13 Encourage Quality Improvement and Research & Development.
- 14 Promote adoption of practices for environment protection and water and energy conservation.
- 15 Focused skill development programmes to provide adequate work force.
- 16 Assist sick units in revival efforts.
- 17 Strengthening of MSME Government support agencies.
- 18 Recognition and encouragement to MSME adopting best practices.

Development of MSME Clusters

- 1 The State Govt. shall encourage cluster development approach as an effective strategy for the development of MSMEs. It is cost-effective, inclusive, sustainable and enables competitiveness
- 2 The basic aim of the strategy and approach would be addressing critical infrastructure gaps, and optimizing local resources with the objective of creating production centers constituting the critical mass to become production or service hubs so as to ensure economy of scales for overall benefit. Sectors namely handicrafts, handloom and Khadi, gems and jewellery, agrobased/ food processing, leather and leather products, textiles and apparels, stone, ceramics and glass, pottery, light engineering and auto components, ESDM, IT, ITes etc. shall be taken up on priority for development in clusters, especially for the development of artisans, craftsmen, weavers and micro enterprises.
- 3 Interventions based on identified missing links, nature and level of required support in the field of infrastructure, capacity building of human resources, market development assistance, technology adoption and product diversification shall be taken up for the implementation of cluster development projects.

- 4 In addition to State schemes, the State Government will provide all necessary support and contribution for maximizing the benefits of the Cluster Development Schemes for MSME of the Central Government. Khadi, Handloom and Crafts sector

The State Government will make concerted efforts for the development of the Khadi, Handloom and craft sectors and for employment generation and increased earning opportunities of the artisans and weavers. The interventions will include design development, innovations, product development, skill development, technological upgradation, quality improvement, branding, marketing support and various other means for popularizing these handicrafts for contemporary use. State and District-wise Inventory of Crafts and directory of artisans would be prepared as part of this concerted strategy for focused development.

Credit Access and Support

- 1 MSMEs shall be facilitated in seeking credit from financial institutions by providing them required information and help in documentation.
- 2 Rajasthan Financial Corporation (RFC), a State Government undertaking, shall provide credit to MSME enterprises on easier terms under its loan schemes.
- 3 Credit up to a maximum of Rs. 5.0 crore can be availed by young entrepreneurs (up to age 45 years) for setting up a new enterprise, with interest subsidy of 6% applicable up to a maximum credit limit of Rs. 90 lakh, under the YuvaUdyamitaProtsahanYojna of RFC.
- 4 Interest subsidy would be provided to unemployed youth, women, educated and unemployed women and S.C., S.T. and Specially-abled Persons for setting up micro enterprises, as per the provisions contained in the Chief Minister's Employment Generation Scheme, 2015, as notified by the State Government.
- 5 For those MSEs seeking collateral free loan (of up to Rs. 1 crore) from financial institutions under Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) the onetime service processing fees charged by NSIC / State Agency / Financial Institution for documentation and submission to the financial institution shall be reimbursed by the State Government on sanction of loan, subject to a maximum of 0.5% of the loan amount or Rs. 25,000/-, whichever is less.
6. For women, SC / ST and Specially-abled entrepreneurs, the service processing fees charged, as mentioned in clause (2) above, shall be reimbursed by the State Government on sanction of loan, subject to a maximum amount of Rs. 50,000/-.
- 7 In addition to availing credit from commercial banks, other financial institutions and RFC, SMEs can also avail credit under the on-going financing schemes of RIICO.

Support To Small & Medium Enterprises (SMEs) For Raising Capital

Under the new guidelines of SEBI, SMEs can raise equity capital through SME exchange. With a view to encourage SMEs to raise funds through this route, assistance will be provided to the extent of 10% of the expenditure incurred, subject to a maximum of Rs.2.5 lakh one time after successful raising of equity.

- 1 To assist start-up ventures and budding entrepreneurs plug and play facilities will be encouraged to be set, especially in the sectors of IT, Garment-making, Electronics and ESDM so that the new entrants in these fields may have access to easy entry and exit

facilities for immediate starting their business venture.

- 2 RIICO / RSIC would develop flatted factory complexes, including plug-and-play facilities, for MSMEs, with 24 hour 3 phase uninterrupted power supply and enabling infrastructure. In such complexes, allotment shall be only to non-polluting enterprises. These shall be developed on nonprofit no-loss basis. For this purpose, the State Govt. shall provide 10% subsidy to RIICO / RSIC towards its capital cost.
- 3 Rapid Incubation Centers would be established in each District of the State for encouraging unemployed youth and other entrepreneurs for setting up new micro and small enterprises. This would include entrepreneur business skill development, identification of appropriate technology, hands-on experience on the working projects, projects/product selection and opportunity guidance, facilitation on fund management through Banks, interaction with project suppliers for machine technology supply, how to set up an enterprise and facilitation for project report preparation.
- 4 With a view to provide access to young entrepreneurs to new and emerging technology a 3-D and robotics Laboratory would be set up, for which the State Government will provide Rs. 5 crore.

4.14 Marketing Support to MSMEs

- 1 **Organization of Fairs, Expositions, B&S meets** : With a view to create more business opportunities for MSMEs and to establish linkages between vendors and anchor units marketing events for MSMEs like Buyer-Seller Meets, trade fairs& expositions, etc. would be organized. Assistance would also be provided under on-going schemes for setting up stalls and participation in such events within the State as well as in national and international events.
- 2 **Vendor Development of MSEs** : In order to equip SMEs to cater to the requirements of the PSUs, activities would be taken up under the vendor development Programme for a Rajasthan : Ease of Doing Business for MSME Sector 25 direct interface and linkages between the PSUs and the vendors. In addition, consortia of MSEs would be encouraged through NSIC / RSIC in order to enable MSEs to meet the requirements of large order procurements through package bidding.
- 3 **Purchase Preference for MSEs** : The State Govt. will provide the following facilities for purchase of stores/ services by its various departments, PSUs and autonomous bodies from MSMEs, registered/ having Entrepreneur Memorandum with the Industries Department:- (a) Concessions in Tender Forms etc. for Micro and Small Enterprises (MSEs): (a) Tender form shall be made available at 50% of the prescribed cost. (b) Earnest money shall be deposited at 0.5% of the estimated value of purchases/ services. (c) Security deposit will be 1% of the value of the purchases/ services. (b) Purchase preference to MSMEs of the State in accordance with the provisions stated in the Procurement of Stores (Preference to Micro, Small & Medium Enterprises of Rajasthan) Rules, 2015, as notified by the State Government.
- 4 **Marketing Support to Handicrafts** : With a view to provide sustainable market access to artisans for sale of their products, artisans / artisan bodies will be effectively linked with organizations / institutions / agencies that are engaged in marketing and access to ecommerce platforms will be encouraged. In addition, State level crafts bazaar would be organized round the year and would include an annual mega event.



Challenges faced by MSME

Despite of the importance of the MSMEs in Indian economic growth, the sector is facing challenges and does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporates which is proving to be a hurdle in the growth path of the MSMEs. The list of the problems that are faced by existing/new companies in SME sector are as under:

1. Absence of adequate and timely banking finance
2. Limited capital and knowledge
3. Non-availability of suitable technology
4. Low production capacity
5. Ineffective marketing strategy
6. Constraints on modernisation& expansions
7. Non availability of skilled labour at affordable cost
8. Follow up with various government agencies to resolve problems due to lack of man power and knowledge etc

It is very important to empower the SME sector to utilize the limited resources (human & economic) they have in an optimum manner. The SMEs need to be educated and informed of the latest developments taking place globally and helped to acquire skills necessary to keep pace with the global developments. SMEs are now exposed to greater opportunities than ever for expansion and diversification across the sectors. Indian market is growing rapidly and Indian entrepreneurs are making remarkable progress in various Industries like Manufacturing, Precision Engineering Design, Food Processing, Pharmaceutical, Textile & Garments, Retail, IT and ITES, Agro and Service sector.

To counter the challenges faced by SME sector and grab the opportunities in the market, the Chamber has developed key strategies to promote and support the SME sector. The Chamber encourages SMEs to adopt innovative ideas and concepts for the promotion of their business. The goal of the Chamber is to organise Seminars, Conferences, Workshops and Training Programs and other trade promotional activities to educate & create awareness amongst the SMEs. CIMSME has decided to start various activities to empower and educate the SME Sector by organising various trade promotional activities.



Alternative sources of financing

Priority Sector Lending

Priority sector lending include only those sectors as part of the priority sector, that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and Micro and Small enterprises. Bank lending to the micro, small and medium enterprises (MSMEs) will rise sharply after Reserve Bank of India (RBI) allowed lenders to classify all working capital limits to these units as priority sector lending (PSL). Earlier, only working capital loans up to Rs 5 crore to the micro and medium and up to Rs 10 crore to the small-scale industries were allowed to be classified as priority sector lending. Investment into plant and machinery, however, will not qualify for PSL beyond certain limits. In another announcement, RBI has now given the GST-registered MSME units a 180-period window to repay their dues between September 1, 2017, and January 31, 2018, if their dues to the banks were standard as on August 31, 2017. All loans up to a limit of Rs 25 crore will enjoy the extended repayment schedule. In the Union Budget announced this year, the government also reduced the corporate tax rate for the MSME sector from the existing 30% to 25% for units with a turnover of Rs 250 crore. "Policy relaxation given to MSME sector for the overdue payment and the removal of credit caps on MSMEs (services) under priority



sector augurs well for both MSMEs and banks and will help in increasing the credit flow to the MSME sector which has been affected by the demonetization and GST". Some of the lenders, especially the private sector banks, struggle to meet their priority sector obligations, which is 40% of the total bank credit during the financial year.

ACCESS TO ALTERNATE SOURCE OF CAPITAL

MSMEs in India play a crucial role in contributing to the overall economic growth. In India, MSMEs account for more than 80% of total industrial enterprises and employ an estimated 117 million people. Moreover, MSMEs make a significant contribution of more than 40% to industrial output and exports. However, there is a huge and unidentified potential in this sector which is yet to be harnessed to make it an economic powerhouse of employment creation and innovation. As per the MSME census of 2006-07, it has been found that more than 92% of MSMEs in India did not have access to finance from institutional sources. Besides, the bank credit to this sector has remained largely flat over the past two years at INR 4.7 lakh crore (as of September 2017). Undoubtedly, access to finance has been the biggest challenge for the MSMEs in India to grow, innovate and create jobs. Notably, over 50% of the MSMEs in India are rural enterprises widely distributed across the low-income states, making them an important sector for promoting inclusive economic growth and poverty reduction. (World Bank, Aug 17). Indian MSMEs face several constraints to access credit from the formal financial system. In the light of above, it is evident that the present banking system in India is needed to go through radical transformation to cater to the financing needs of MSMEs. The traditional banking though very predominant in India even today, involves lengthy procedures to grant loans to the MSMEs. Hence, MSMEs fail to obtain timely credit during their various crucial stages of growth. Besides, the quantum of credit approved is also based on the collateral offered to the banks, thereby limiting the required access to credit. Alternative sources of financing for small businesses- finding grip in India. Notably, the new alternative sources of funding in India are at their nascent stage and yet to become proven and sustainable models. However, given the large unbanked population, there is a good space for these financing channels to flourish and establish. Some of these innovative and transformative approaches are discussed below:

Factoring Mechanism: Factoring is a very effective tool as it helps in managing the cash flows of the company who have deficient working capital arrangements. The tool involves selling of accounts receivable (debtors) to a third party (factor) at a discounted rate. The



companies facilitating factoring services pay cash against the credit sales of the client and obtain the right to receive the future payments on those invoices from the debtors. This tool proves to be very effective for MSMEs in addressing liquidity issues and finance operations which otherwise may result in loss of opportunities from the revenue that it may be able to garner. In India, the potential for this tool is very huge, as the use of this facility though suitable is overlooked. However, there are several service providers in India at present after the regulatory obstacle was addressed by The Factoring Regulation Act in 2011, which came into effect in February 2012. This Act now regulates the factoring business in India and focuses on promoting the factoring concept and spreading awareness. However, the factoring market is not yet robust compared to other international markets and this could be attributed to lack of awareness, low customer reach by factoring companies, etc. It is essential to encourage use of this tool as it results in higher utilization of resources, higher profits margins and more importantly enables smooth functioning of business operations. Markedly, international factoring also appears to be an attractive tool for exporters compared to traditional letter of credit.

Private equity: Another financial solution would be to cater to the equity needs of the small businesses which would be essential to expand the business and bring about sustainable growth. Though private equity (PE) investments have gathered momentum in India they are skewed towards the larger businesses while private equity investments in small businesses are yet to establish a firm footing. The venture capital funds and angel investors have shown interest in MSMEs; yet here is still a significant push needed in the MSME space. The listing of companies on the MSME exchange has been an important initiative taken by the regulatory authority. However, currently there is a real challenge of market making which is absent and the underwriters to support public issues of MSMEs. Alternatively, the heavy reliance of MSMEs on debt has been creating pressure on their balance sheets. Besides, the present environment is confronting many regulatory actions like demonetization and implementation of GST which have slowed the growth in industrial segment and banks are reeling under the pressure rising NPAs. In such circumstances, raising fresh loans from banks, MSMEs are likely to face several challenges with increased uncertainty over future cash flows. It is thus important for the MSMEs to shift their focus from debt alone to funding mix with equity capital to grow in healthier manner. This alternative source offers plenty of positives in terms of strengthening the balance sheet, increased capacity to withstand volatile business



environment, higher flexibility in deciding the return on investment, etc. Moreover, raising funds through private equity is easier as opposed to public issue and requires minimum regulatory compliance.

Crowd funding: Crowd funding also called as democratized funding is web-based tool which involves seeking mainly smaller funds from multiple lenders through a social platform to fund new ventures. It is a big opportunity for small borrowers who are unable to raise funds through traditional means due to credit scores or higher interest rates. This concept is also in its nascent stage in India as yet. SEBI, the regulatory authority in India has been actively considering this concept and has proposed a framework to encourage and streamline the crowd funding market. A solid regulatory framework is expected to go a long way in enabling a sustainable business model in an emerging market like India. This concept is likely to gain traction in India given that it requires huge social media penetration. Interestingly, India has outpaced the US to gain the leading position for Facebook (a social networking platform) users. This Facebook usage could prove to be a useful tool because in crowd funding the "single most predictive factor for the rate of emergence is social media penetration", as mentioned in the World Bank report titled 'Crowd funding's potential for the developing world'. Presently, the US, UK and China are big key players in the crowd funding market. In India, there are merely 10 crowd funding platforms as of 2013, as per World Bank notes.

Peer to Peer(P2P) lending:

P2P lending, a form of crowd funding, has become increasingly popular globally post financial crisis of 2008. P2P based lending platform seeks to connect interested investors and borrowers with matching requirements without any involvement of a formal financial institution, unlike other Fin-tech companies which act as intermediaries between the banks and borrowers. It caters to the borrowers without the need for collaterals and at affordable rates which are lower than the bank rates. Meanwhile, the investors holding idle cash have the options to fetch lucrative returns. However, this lending concept is at its initial stage in India and still remains unregulated. However, these start-ups have been the recent buzz in the financial market. Several start-ups have been catching up in India to cater to the needs of the MSMEs. These start-ups not only aim to provide affordable credit in a simplified manner but also ensure real-time loan approvals for applicants within a fixed time frame. Apparently,

concerns over rising non-performing loans (NPLs) in the Indian banking segment and the implementation of more stringent Basel III capital adequacy norms, banks have become extremely cautious in lending to risky ventures and individuals. Moreover, the lack of credit information of the MSMEs also prevents banks from extending financial aid. Unsurprisingly, the restrictive banking system in India has led to a much wider funding gap, restraining the MSME sector's growth prospects.

Alternative financing-a boon to merging market like India

Alternative financing in India though it is yet to establish its roots in India; It is certain to give positive push to growth of the MSMEs. The key hurdle i.e. inaccessible timely credit at competitive cost which has been a major challenge faced by MSMEs over the past several years, the alternative platforms aim to provide simplified and customized access to finance along with more active participation and guidance in the overall growth and operations of the enterprises. Besides, in the era of rapidly changing technology, it is also essential for enterprises to overcome the risk of becoming technologically obsolete. Hence, alternative sources are expected to be the key drivers, providing convenient and cost-effective funding during the crucial stages of growth of the small and medium enterprises, thereby aiding sustainable growth. These alternative solutions are known to be popular among advanced countries suggesting that these alternatives are more likely to thrive if implemented in India as they help in bringing the borrowers and investors closer. However, these innovative methods would prove to be fruitful if established with strong legal framework involving greater transparency which would not only encourage borrowers but also build greater confidence among investors.

Equity Financing Opportunities

Equity financing is the process of raising capital through the sale of shares in an enterprise. Equity financing essentially refers to the sale of an ownership interest to raise funds for business purposes. So, the MSME have an option to raise the funds through Equity or issuing of shares.

Access to Equity Capital through SME Exchanges: Access to equity capital from the stock market is a genuine problem for MSMEs. Till some years ago, there was no great flow of equity capital into this sector. Absence of equity capital poses a serious challenge to the development of knowledge-based industries, particularly those promoted by the first-generation entrepreneurs with the requisite expertise and knowledge. Further, for efficient capital structure decisions, an optimal mix of equity and debt is very important. Keeping this in mind, the Report of the Task Force on MSME Chairman (Shri. T.K.A. Nair, 2010) had recommended the setting up of a dedicated Stock Exchange/Platform for MSMEs to access institutional and retail capital. This would also facilitate greater financial inclusion in the country. Following this, SEBI laid down the regulatory framework for the SME Exchanges with relaxed listing conditions and accorded approval to BSE and NSE to launch an SME Exchange in September 2011 and October 2011 respectively. Successful examples of SME Exchanges across the World include AIM (London), Canada (TSXV), Hong Kong (GEM), Japan (Mothers), Korea (KOSDAQ) and US (NASDAQ). In March 2012, both BSE and NSE launched their SME exchange platforms to enable MSMEs to raise funds and get listed as public entities. BCB Finance Ltd. was the first Indian SME to get listed on the BSE SME Exchange. This was an event of immense significance for MSMEs as they have a huge listing potential but mostly had debt-financing options. The launch of SME exchanges will play an important role in growth of MSMEs and the need of the hour is to improve the awareness among MSMEs about equity capital, stock markets and funding options, other than banks. The capital markets can play

a crucial role in helping MSMEs improve their visibility and raise capital for their growth and expansion, offering an effective way to improve financial inclusion. They can also offer investors opportunities to invest in growing businesses at an early stage. Since its launch in March 2012, 13 companies have listed with BSE SME exchange, and BSE is negotiating with other companies for listing. BSE's rival NSE has also followed suit and launched its own SME platform called 'Emerge' with the proposed listing of Chennai-based SME Thejo Engineering. A vibrant equity market for MSMEs would also provide an added incentive for private equity and venture capital investments by providing an exit option for them. Listing on exchanges will also offer MSMEs an opportunity to offer equity ownership to their employees, thereby, increasing their commitment to their company and working for its future success.

The MSME sector is an important factor for growth of the country's economy, and presents a significant business opportunity for both banks and alternative finance providers. The improvements of financial exclusion in MSMEs is high and in spite of the increase in credit outstanding in recent years, fetching the adequate and timely credit from a bank is still a critical problem faced by the Indian MSME sector. So, the alternative sources of finance can step in and assist MSMEs in their growth and development. In recent years, the amount of alternative finance options has improved and have proven to be an important source of financing for Indian MSMEs. The alternative financing avenues discussed above truly have the potential to bridge the financing gap for MSMEs from banks. Access to finance is essential for improving MSMEs competitiveness, as MSMEs have to invest in new technologies, skills and innovation. On their part, the MSMEs should be responsible borrowers, should use the finance in a judicious manner and take advantage of the business opportunities both within and outside the country. They should improve their governance and risk management practices, maintain proper books of accounts, submit correct information to banks and all authorities, and make their operations more efficient and productive to get easier access to finance from banks and other investors. This way the MSME sector would become more competitive and efficient and contribute further to the economic development of our country.



Fintech: Ushering Financial Inclusion

Recent technological innovations have transformed the entire financial services value chain. Additionally, the use of behavioural and psychometric information & social media traces has equipped several non-banking financial institutions (NBFCs) in bridging the funding gap for Micro, Small and Medium Enterprises in the country. Having targeted niches in the SME lending sector, fintech has paved a hassle-free route to flexible and customised credit products. Being complacent is dangerous for any business and this is exactly what fintech is not. The digitally empowered platform, which has made big strides since 2005, has leveraged several technological advances. Fintech companies deploy the following three innovations to speed up loan disbursements for small businesses who are perpetually in need for quick access to finance.

FINTECH Transforming the MSME Scenario

MSME sector with its huge contribution to GDP, exports and employment keep playing a significant role in nation-building. However, economic institutions have underserved SMEs despite their confirmed increase experience and contribution to the financial system.

There are numerous reasons for this state of affairs. The section could be very complex and, consequently, perceived as an excessive chance by economic institutions such as Fintech. Most of the companies are own family-run and promoters pick funding support from unorganized sources, at extremely unfavorable terms. Inadequate credit score records limits banks' ability to evaluate the credibility of such gadgets. Poor accounting and financial plans are a barrier for banks. Fear of low rating and objection to reducing fairness keeping further restrict the chance of having access to formal finance and construct a stronger tune document for future desires.

Having said that, over the previous few years, there was a variety of awareness and encouragement for SMEs and startup and it is clear that the government is banking upon this sector to pressure the economic increase. While MSME schemes retain to face demanding situations together with the incapacity to get professional manpower, infrastructure-related bottlenecks and capability to raise well-timed finance at economical rates, the authorities are developing a permitting environment for MSMEs and ensuring that good enough capital and finance channels are available to them. Various coverage initiatives like skill development, industry cluster improvement, the advent of GST have created sustainable surroundings for MSMEs and spread out formal finance channels from commercial banks, small finance banks, and NBFCs.

The government has released SME Exchange to provide an investor-pleasant platform to raise capital and begin new ventures or to satisfy growth necessities. There are a few transition-associated troubles in positive enterprise segments with migration to the unified tax regime. However, the identical is anticipated to be brief-lived and, thinking about the long-term profits, there is going to be a big development at the macro enterprise trends. There are plenty of organizations that have moved into the formal demonetization and GST, on the way to convey an advantage to the sector in medium- to long-time period. However, micro and small gadgets operating in the casual zone will retain to stand credit score troubles and, consequently, it is important for these gadgets to be higher organized and improve on disclosures and compliances for long-term sustainability and increase.

As India's economy receives larger and formalized, there are massive opportunities for banks to grow their portfolio in the SME section. With NBFCs and fintech firms riding innovation, more recent products are entering the market each month, making the world competitive. Banks have realized the importance of customizing the threat rules and credit assessment methods so one can meet the credit desires of this sector. As an effect, banks are evolving their services through revolutionary merchandise, leveraging analytics and technology to develop customized programs and partnering with fintechs to decorate their virtual reach. Banks are doing their bit to help MSMEs to alter to the one-state one tax regime, via investing in potential constructing with numerous trade institutions and growing customized credit products to tide over the temporary financial crunch. Earlier this 12 months, as a minimum one financial institution released a credit product to help small organizations avail secured loans based on their GST returns. This product does now not need any additional evaluation of balance sheet or bank statements. A GST compliant MSME can avail of a mortgage within 24 hours. Banks are moving to scorecard based funding to make the decision more objective and dispose of the subjectivity worried in lending to small units.

The National Bank for Agriculture and Rural Development plans to offer round 200,000 point-of-sale machines in 100,000 villages and distribute RuPay playing cards to over 34 million farmers across India, to allow farmers to undertake cashless transactions. The authorities' plan to construct 10 million homes for the rural populace with a funding outlay of Rs 81,975 crore for the duration from 2016-17 to 2018-19 empowers nearby SMEs to flourish. The authorities are seeking to deploy Wi-Fi hotspots at more than 1,000-gram panchayats



throughout India, under its formidable mission called Digital Village, so that you can provide internet connectivity for mass use, as well as to allow transport of services like fitness and education in ways-flung areas. The rural regions are already properly included by way of basic telecommunication services and are now witnessing increasing penetration of computer systems and smartphones. Taking advantage of those developments, online portals are being considered as key channels for SMEs seeking to input and establish the Fintech themselves within the rural market. Many contact points and transaction factors using the banks or thru banking correspondents are developed giving rural mass a terrific consolation for doing real-time transactions comfortably. The major cognizance for all the corporations is now "Bharat" wherein there may be a huge change within the product portfolio of the agencies; more relevant to rural and mass purchasers than the urban populace. While the focus of banks remains on purchaser loans, rural housing, small and micro commercial enterprise lending, the shape of the product has been modified notably keeping the rural populace in thoughts. With the advent of technological advancements, the turnaround time has also decreased drastically for the delivery of economic services in rural and semi-city geographies. There is likewise a huge shift in phrases of clients – banks are tapping complete household financial necessities at the same time as providing products for the agricultural market.

Digital lending and fintechs are converting the SME finance state of affairs in India. Banks are fast transferring to adopt the digital environment and automate backend strategies to obtain the short- and lengthy-time period blessings. The end-to-cease digitization will no longer most effective help banks in decreasing the turnaround time for choices, however, may even reduce the processing fee worried in lending to these devices. This shall no longer handiest offer timely get admission to to finances but additionally lower the pricing of those loans. Robotics, block chain, artificial intelligence, big facts, analytics are a number of the initiatives that economic institutions are exploring. New age fintechs have introduced a revolution in the SME finance situation in India. The fintech companies with their innovation and new-age strategies like predictive analytics and artificial intelligence can assist in real-time choices, accordingly accomplishing out to the remaining mile patron. These technologies are allowing banks to move from traditional funding methods primarily based on collaterals to superior cash waft lending. Some of the reputed fintechs are presenting offerings like converting

scanned financial institution statements into customized codecs for quick decision making and providing virtual platforms to borrowers for easy access to finance. Banks and fintechs will have to portraits together to innovate customized digital offerings even as additionally making sure that most MSME can avail the benefits of formal lending channel.

Catalyst

Innovative business models have enabled fintech companies to emerge as a catalyst for growth for SMEs, not just locally but globally too.

Fintech companies are thus becoming a 'one-stop shop' for financial needs of small enterprises. Online lending platforms (as opposed to sub sectors such as payments or wealth management), are seeing several new entrants in the market offering novel financial products. The potential impact of fintech's efficient lending processes can be measured in several tangible aspects. These include:

1. Short-term online loan offering
2. Quick loan disbursal
3. Competitive interest rates
4. Ease of procuring small ticket loan
5. Low cost of transactions

Substantial majority (about 75%) of fintech lenders are focusing on retail banking, lending, wealth management and payment systems for MSMEs. The numbers look promising despite the ineligibility for classification as direct or indirect finance to MSE sector that takes all such loans to NBFCs out of the 'priority sector classification.' It isn't surprising then that MSMEs are turning away from traditional, collateral-chasing banks. Even the investor sentiment is positive vis a vis the touted success of fintech.

A report by International Financial Corporation (IFC) cites a "funding gap of more than \$2 trillion that exists for small businesses in emerging markets alone." Despite a favourable regulatory environment, direct Government lending, supportive SME banks as well as credit bureaus, the credit gap is huge. This is where fintech steps in. Mutually beneficial, the burgeoning relationship between SMEs and fintechs augurs well for both sectors.

Changing Face of Fintech

Fintech is no more just a disruptor- it is helping SMEs become more bankable by removing major pain points like quick access to finance. It is making inroads into the financial services industry as an innovator and enabler, strong enough to carry the risk of loans and recoveries. Free from regulatory and legacy baggage, fintech lenders are gaining competitive edge over traditional banks

- 67% of traditional financial institutions are already feeling the heat
- 84% of traditional financial institutions are embracing disruption
- 95% of traditional financial institutions are expected to increase fintech partnerships in the next 3 to 5 years.

While fintech lending is still at a nascent stage in India as compared to its global counterpart, it is poised for expansion. The reasons are self-explanatory. The country's active start-up ecosystem is in constant need of credit and banks are unable to meet this growing demand owing to reason such as high transactional cost and old business models.

Future Prospects

The importance of MSMEs as a major driver of the economy and a critical employment generator cannot be overstated. Moreover, there is a large market of unserved/underserved populations that fintech can reach out to. This game changer for inclusion has only reached elite customers in Tier-I and Tier-II cities of India so far. The need of the hour is to innovate for the mass market and address challenges such as lack of financial and digital literacy and restrictive regulatory policy.

Also, being able to sustain relations with SME customers despite delinquencies is an onus that rests entirely on a fintech organization. The problem of delayed payment in financing, more so in the MSME space, tantamount to being an occupational hazard that cannot be done away with.

However, looking at the bigger picture, ensuring continuity of partnerships, and staying resilient is the key. In addition, there is substantial interest from foreign investors in the Indian fintech space, wanting to capitalise on the country's steadily growing GDP. Initiatives such as 'Digital India', 'Make in India', the recent demonetisation drive and the push to make India a cashless economy are laying strong foundations for synergies between fintech and MSMEs.

Initiatives taken by Fintech involved in MSME

There has been a lot of focus and encouragement for SMEs and start-ups and it is clear that government is banking upon this sector to drive the economic growth. While MSME units continue to face challenges such as the inability to get skilled manpower, infrastructure related bottlenecks and ability to raise timely finance at economical rates, the government is developing an enabling ecosystem for MSMEs and ensuring that adequate capital and finance channels are available to them. Various policy initiatives like skill development, industry cluster development, the introduction of GST have created a sustainable environment for MSMEs and opened up formal finance channels from commercial banks, small finance banks and NBFCs.

As India's economy gets bigger and formalised, there are huge opportunities for banks to grow their portfolio in the SME segment. With NBFCs and fintech firms driving innovation, newer products are entering the market every month, making the sector competitive. Banks have realised the importance of customising the risk policies and credit evaluation methods in order to meet the credit needs of this segment. As a consequence, banks are evolving their offerings through innovative products, leveraging analytics and technology to develop customised programmes and partnering with fintechs to enhance their digital reach. Banks are doing their bit to assist MSMEs to adjust to the one nation one tax regime, by investing in capacity building with various trade associations and creating customised credit products to tide over the temporary financial crunch. Earlier this year, at least one bank launched a credit product (offering up to Rs 1 crore) to help small businesses avail secured loans based on their GST returns. This product does not require any additional assessment of balance sheet or bank statements. A GST compliant MSME can avail of a loan within 24 hours.

The National Bank for Agriculture and Rural Development plans to provide around 200,000 point-of-sale machines in 100,000 villages and distribute RuPay cards to over 34 million farmers across India, to enable farmers to undertake cashless transactions. The government's plan to construct 10 million houses for the rural population with an investment outlay of Rs 81,975 crore for the period from 2016-17 to 2018-19 empower local SMEs to flourish. The government is looking to install Wi-Fi hotspots at more than 1,000 gram panchayats

across India, under its ambitious project called Digital Village, in order to provide internet connectivity for mass use, as well as to enable delivery of services like health and education in far-flung areas. The rural regions are already well covered by basic telecommunication services and are now witnessing increasing penetration of computers and smartphones. Taking advantage of these developments, online portals are being viewed as key channels for SMEs trying to enter and establish themselves in the rural market.



STARTUPS: Reinventing the Future of Msme

- Startups are increasingly adopting hybrid business models to increase access to MSME clients
- Govt offers a range of benefits to companies registered as startups and MSMEs
- Both startups and small businesses face similar challenges of visibility, credit and room for growth.

Startups in India today are relentlessly focussed on employing technology to bring great experiences to consumers. Be it near-painless food delivery, doctor appointments, insurance, entertainment or digital payments, startups have permeated into the everyday lives of Indians in cities, as well as the bigger towns in ways that were thought to be impossible a few years ago. The exponential growth shows that for those who have spotted an opportunity or have an idea, there is a real chance of succeeding as the startup ecosystem has matured over the last decade. As it evolves towards profitability and greater penetration in rural areas, entrepreneurs can register as MSMEs (Micro, Small, and Medium Enterprises) to grow faster, increase the user base and innovate to solve very specific problems that technology has so far ignored.

This is because while startups are afforded plenty of benefits by the government, the MSME sector, being a large employer and contributor to the GDP, has also been courted with sops, subsidies and other benefits over the decades. Startups and MSMEs face similar challenges

of visibility, credit and room for growth. However, they can be very different in terms of the business setup and growth curve, funding opportunities, technology and the customer base. That's where a huge opportunity lies for startups and MSMEs to work together to meet each other's specific needs. Even as the government sees MSMEs and startups as the backbone of the digital economy, these sectors need assistance and protection from other big companies through specific and dedicated schemes, tax breaks, training and counselling. It can be useful for startup founders and entrepreneurs to consider the benefits that they may be able to avail if they looked to enter the MSME sector.

Key takeaways for Startups and MSMEs:

- 1) Sitharaman proposed to start an exclusive TV channel for startups under Doordarshan bouquet to provide a platform for startups to disseminate information in the industry.
- 2) The Finance Minister said that under the interest subvention scheme, Rs 350 crore allocation is for 2% interest subvention to all GST registered MSMEs in the current year on all fresh and incremental loans.
- 3) Government also plans to open a payment portal for MSMEs. Investment in MSMEs will receive a big boost through the portal if the delays in payments to SMEs and MSMEs are eliminated.
- 4) Small retailers with an annual turnover of less than Rs 1.5 crore will get pension benefit under the Pradhan Mantri Man Dhan Yojna. More than 3 crore shop owners will benefit for the scheme. Loan of Rs 1 crore for MSMEs being cleared within 59 minutes through an online portal.
- 5) The startups and investors who file requisite declarations will not be subjected to any kind of scrutiny in respect of valuation of share premium. A mechanism of e-verification will be put in place and with this, the funds raised by startups will not require any tax scrutiny.
- 6) Faceless income tax assessment in electronic mode involving no human interface to be launched this year in a phased manner, to reduce taxpayer harassment.
- 7) The Finance Minister also announced that special arrangements will be made by CBDT for pending reviews and cases related to Startups.
- 8) Government will also take steps to augment the participation of women in the development of the country. Sitharaman proposed to expand self-help groups (SHG) to all districts and said one woman in every SHG will get a loan of up to Rs 1 lakh under Mudra Yojana.
- 9) Delivery startups like Zomato and Swiggy will see an increase in operational cost as the government proposed to increase Special Additional Excise duty and Road and Infrastructure Cess on diesel and petrol by INR 1 each.





Government Schemes and Trade finance for MSME

Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

It is as a cluster-based scheme for development of khadi, village industries, and coir clusters by providing them with improved equipment, common facilities centres, business development services, training, capacity building and design, and marketing support, etc. The scheme invites applicants from non-government organisations (NGOs), institutions of the Central and State governments and semi-government institutions, field functionaries of State and Central government, Panchayati Raj institutions (PRIs), private sector bodies by forming cluster-specific special purpose vehicles/entities (SPVs), corporates, and corporate social responsibility (CSR) foundations with expertise to undertake cluster development

A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE)

This scheme aims to create new jobs and reduce unemployment, promote entrepreneurship culture in India, boost grassroots economic development at the district level, facilitate innovative business solutions for unmet social needs, and promote innovation to further strengthen the competitiveness of the MSME sector. It does this by implementing incubation

and commercialisation of Business Ideas Programme through technical/research institutes, including those in the field of agro-based industry. These would be designated as Knowledge Partners and would incubate new/existing technologies for their commercialisation. The Budget 2019 proposed that 80 livelihood business incubators and 20 technology business incubators will be set up in 2019-20 under this scheme. "The aim is to develop and train 75,000 skilled entrepreneurs in agro-rural industries

Credit Linked Capital Subsidy Scheme (CLCSS)

The scheme is a facilitator of technology upgradation of small scale industries, including khadi, village and coir industrial units, by providing 15 percent upfront capital subsidy (limited to a maximum of Rs 15 lakh). The major objective is to upgrade the plant and machinery of small enterprises with state-of-the-art technology, with or without expansion, and also for new MSMEs, which have set up their facilities with appropriate, eligible and proven technology duly approved under scheme guidelines. Since inception of the scheme in 2000-01 till date, a total of 62,827 MSME units have been assisted, utilising subsidy of Rs 3888.13 crore, Gadkari had said earlier.

Prime Minister's Employment Generation Programme (PMEGP)

Started in 2008, the scheme is a credit-linked subsidy programme which aims to generate self-employment opportunities through establishment of micro-enterprises in the non-farm sector by helping traditional artisans and unemployed youth. The scheme is implemented by Khadi and Village Industries Commission (KVIC) functioning as the nodal agency at the national level. At the State level, the scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs) and banks.

A total of 5.45 lakh micro enterprises have been assisted with a margin money subsidy of Rs 12,074.04 crore, providing employment opportunities to an estimated 45.22 lakh persons since PMEGP's inception and till March 31, 2019.

Credit Guarantee Scheme for Micro and Small Enterprises (CGTMSE)

The Credit Guarantee Scheme for Micro and Small Enterprises (CGTMSE) facilitates credit to MSME units through collateral-free credit facility (term loan and/or working capital) extended by eligible lending institutions to new and existing micro and small enterprises. The MSME Ministry and Small Industries Development Bank of India (SIDBI) jointly established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises in order to implement Credit Guarantee Scheme for Micro and Small Enterprises. The corpus of CGTMSE is contributed by Government of India and SIDBI. Seventy-five percent of the loan amount to the bank is guaranteed by the Trust Fund. The scheme provides collateral-free loan up to a limit of Rs 100 lakh for individual MSMEs on payment of a guarantee fee to the bank by the MSME.

TRADE FINANCE SOLUTIONS FOR MSME

About 80-90% of world trade today relies on trade finance. It is one of the most reliable forms of financing with less than 1% of transactions facing default. Despite this, the global trade



finance gap was estimated at US\$ 1.6 trillion in 2016. For Asian developing economies alone, the estimated shortage is US\$ 692 billion. The access to trade finance is further restricted in case of Micro Small and Medium Enterprises (MSMEs). According to a survey by the Asian Development Bank (ADB), rejection rates for trade finance applications are as high as 56% in case of Small and Medium sized Enterprises (SMEs). These rejections have far reaching effects on the overall economy as they cause trade financing gaps among developed and developing countries. Therefore, there is a major need for reform in the global trade finance policies for the growth and development of MSMEs all across the world.

Impact on overall GDP

In the last five decades MSMEs have emerged as a highly potent and dynamic sector of the Indian economy. They perform a major role in the economy by providing employment to a large number of unskilled and semi-skilled people, contributing to exports, raising manufacturing sector production and extending support to bigger industries by supplying raw material, basic goods, finished parts and components, etc. India's MSMEs base is the largest in the world after China. As per the official estimates, there are about 63.05 million micro industries, 0.33 million small, and about 5,000 medium enterprises in the country.

MSMEs accounted for 30% of India's GDP, 45% of India's total manufacturing, and 40% of India's exports in FY18. One of the major problems faced by MSMEs is the scarcity of sources of funds due to lack of financial inclusion. An estimated 75% of MSMEs secure funding through informal sources. Financial literacy is a consequential factor, since there is a lack of knowledge and awareness of appropriate banking finances designed for MSMEs. With change in policies and introduction of government reforms to streamline the flow of credit like Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Micro Units Development and Refinance Agency (MUDRA) and Stand up India the scenario is changing slowly.

Trade finance solutions – other alternatives that must be explored

Companies such as Blend Finance, Cargill Trade Finance, Interlink Capital, Kotak Mahindra, Meg Fin India provide offerings such as structured trade finance, equity broking and other

such solutions to startups, SMEs and MSMEs. Maersk Trade Finance have been very active in offering a combination of trade finance and shipping solutions to the MSME sector since their inception in 2016. Such companies bring with them a knowledge of the underlying business that is probably difficult if not impossible for a traditional financial institution to replicate. Knowing what someone has been transporting in and out of the country for ten years or more gives a particular comfort in boosting that business. Based on that comfort a non - FI, can provide export or import funding to SMEs, mid-sized companies and of course to large corporates.

Today, India's MSMEs and their business owners are finding new-age digital start-ups and alternate lending platforms to be the most effective institution to disperse credit. A report titled 'Credit disrupted: Digital MSME lending in India' estimated that in 2018, the total MSME credit demand would have been Rs 45 lakh crore, of which Rs 25 lakh crore would have been met through formal channels with the borrowing done in the entity's or proprietor's name. However, as much as Rs 20 lakh crore is seen as the unmet credit demand which is financed through informal channels. Thus alternate financing channels along with digitization are the need of the hour for MSMEs. In today's scenario ease of doing things is prioritized and time invested is quite valuable. There is a need for solutions that increase efficiency and at the same time are sustainable.

Trade and Finance go hand in hand as processes, hence combining them is an obvious step forward. This makes for a smooth. This makes for a smooth and effortless experience for those involved. The use of digital technology has had a huge role in the development of trade finance solutions. Blockchain is the next frontier for trade finance. Each block contains a cryptographic hash of the previous block a timestamp, and transaction data and thus, a blockchain is resistant to modification of the data. Some of the technologies that financial institutions are exploring in various domains is to digitise the lending process using blockchains.



MSME: The Road Ahead

India's micro, small and medium enterprises (MSME) sector, known as its engine of growth, contributes 31 per cent of its GDP, 45 per cent of exports, employs over 124 million people and creates nearly 1.3 million jobs every year. The entrepreneurial growth and development they contribute are not restricted to the urban areas only. Of the 55.8 million MSMEs, 59 per cent are based in rural India.

But the absence of adequate and timely bank finance, high cost of credit, non-availability of suitable technology and over-regulation impede the growth of this sector.

The Indian government has realised the crucial role played by MSMEs in economic and social development. It is committed to their growth and development and enhancement of their competitiveness so that these enterprises contribute to accelerate the expansion of productive employment in the country. The government is formulating policies and designing/ implementing support measures in disbursement of credit, technological upgradation, marketing, entrepreneurship development, etc, and undertaking effective advocacy for these purposes. Some of the initiatives taken by the government include:

- Enactment of the Micro, Small and Medium Enterprises Development Act, 2006, which aims to facilitate the promotion and development and enhance their competitiveness.
- Creation of the Udyami Helpline, the call centre of the ministry of MSME, to satisfy the

long-felt need for a single-point facility for MSMEs for a wide spectrum of information and access to banks and other MSME-related organisations.

- Signing of long-term agreements with several countries Tunisia , Rwanda, Mexico, Uzbekistan, Lesotho, Sri Lanka, Algeria, Sudan, Cote dlvoire and Egypt to open doors for new opportunities for the Indian MSME sector by way of new markets, joint ventures, sharing of best practices and technology collaborations, etc.
- Announcing a comprehensive package for promotion of micro and small enterprises, comprising several proposals for providing requisite support to MSMEs in areas relating to credit, cluster-based development, infrastructure, technology and marketing. The package also provides a thrust on capacity building of MSME associations and support to women entrepreneurs.
- Launching of the National Manufacturing Competitiveness Programme (NMCP), which is the nodal programme to develop global competitiveness among Indian MSMEs.
- Setting up of a task force to reflect on the concerns and issues and formulate an agenda for action. The task force classified the common issues into six major thematic areas credit, marketing, labour, rehabilitation and exit policy, infrastructure, technology and skill development, and taxation. It then constituted separate sub-groups for detailed examination of each. Recommendations of the task force are presently in the process of being implemented.

MSMEs also need to leverage information and communications technology (ICT) not only to facilitate communication but also to gain a competitive edge and improve efficiencies. However, surveys and studies conducted by PricewaterhouseCoopers show huge gaps in ICT deployment for Indian MSMEs. The challenges faced in ICT adoption by MSMEs include suitability of IT applications, price affordability and skill sets and training issues. These challenges have spurred IT firms to think out of the box to create products and services that are more relevant, affordable and address the real-life challenges of the MSMEs. Companies like Google, Amazon, and Salesforce.com have come up with cloud computing solutions to deal with data storage, scalability and computation issues for MSMEs that look for more affordable IT solutions. Similarly, Indian MNCs have come up with new integrated offerings of hardware, network and consulting for MSMEs.

Last, but not the least, the importance of appropriate financing for ensuring sustainable growth of MSMEs cannot be over emphasised. Steps need be taken to allow banks to achieve the priority sector lending targets with very low levels of risk. One way for MSMEs to signal their credit worthiness is also to acquire a credit rating from an independent credit ratings agency.

While initiatives of the kind mentioned above are necessary, it is also important for MSMEs to be made aware of the facilities/concessions/incentives available to them. It is also important to give wide publicity to stories of successful companies and the challenges overcome by them so that budding entrepreneurs can be both motivated to give their best and also be aware of the obstacles ahead.

Notes_____

Notes_____

About Resurgent India Ltd

Resurgent India is a full service a growing Investment Bank and a SEBI registered Category I Merchant Bank. We are also a certified company under ISO 9001:2015. We offer services in the lines of Mergers & Acquisitions, Private Equity, Debt Solutions, Structured Finance, Capital Market Solutions, Transaction Advisory, Valuations, Enterprise Risk and Tax Services, Training etc.

We advise clients in all aspects of finance and our expertise lies in the areas of debt, equity and transaction advisory. The firm rests on its strong and professional leadership that has an in-depth understanding of key business drivers. Our management excels in domain knowledge, capital syndication alternatives with remarkable transaction execution capabilities and have established network with leading private equity funds, banks & financial institutions. Strong research focus to ideate several cross border opportunities is one of the core strength and being empanelled for TEV Studies with 21 Public Sector Banks, We have a pan India presence with offices in Gurgaon, Delhi, Mumbai, Kolkata, Bengaluru and Jaipur

We offer independent advice on debt & capital raising, mergers & acquisition, financial reconstructing, valuation and due diligence for our clients.

www.resurgentindia.com

© Resurgent India Limited, All rights reserved.

Disclosures

This document was prepared by Resurgent India Ltd. The copyright and usage of the document is owned by Resurgent India Ltd.

Information and opinions contained herein have been compiled or arrived by Resurgent India Ltd from sources believed to be reliable, but Resurgent India Ltd has not independently verified the contents of this document. Accordingly, no representation or warranty, express or implied, is made as to and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. Resurgent India Ltd accepts no liability for any loss arising from the use of this document or its contents or otherwise arising in connection therewith.

The document is being furnished information purposes. This document is not to be relied upon or used in substitution for the exercise of independent judgment and may not be reproduced or published in any media, website or otherwise, in part or as a whole, without the prior consent in writing of Resurgent. Persons who receive this document should make themselves aware of and adhere to any such restrictions.

Delhi NCR Office:

903.904, Tower C,
Unitech Business Zone, Nirvana Country,
Sector 50, Gurgaon – 122018
Tel No. : 0124.4754550
Fax No. 0124.4754584

Kolkata

CFB F.1, 1st Floor, Paridhan Garment Park,
19 Canal South Road, Kolkata . 700015 Tel.
No. : 033.64525594 Fax No. :
033.22902469

Mumbai

Express Zone A.509
5th floor Western Express Highway
Malad East Mumbai . 400097
Telephone No. : 022.29810219
Fax No. : 022.28727937

Bengaluru

No. 49/1, 2nd Floor, Anees Plaza, R V
Road, Basavangudi, Bengaluru . 560004
Telephone No.: 080-26570757



Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 2,50,000 companies.

FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.

Federation of Indian Chambers of Commerce & Industry (FICCI)

Rajasthan State Council

202, Gravita Tower, A-27-B, Shanti Path, Tilak Nagar, Jaipur 302004

Tel : +91 141 2621345, 4061345

Email : rajasthan@ficci.com

Web : www.ficci.in