

## Fresh impetus to the MSME sector

Sound implementation of these measures holds the key to a stronger and healthier MSME ecosystem

Acuité Ratings believes that the recent steps announced by the Government of India will continue to reinforce the presence of an enabling framework for the growth of MSMEs and further enhance the formalisation of the sector through several digital initiatives. MSMEs had displayed an encouraging performance in FY 18 (please refer to our article "Signs of Vibrancy in the MSME sector" dated June 25, 2018) and it is important that they continue to enjoy a supporting environment to continue their growth path and tackle the headwinds on their way.

Given the difficult capital position and the regulatory restrictions on a large section of public sector banks, the banking sector advances to the micro and the small enterprises sector dropped marginally by 0.4% in the last one year (Oct-Sept 2018). While NBFCs have grown their lending portfolio to this sector steadily, such growth is also subject to a slowdown in the context of the recent credit event and the resultant funding challenge in NBFCs. The government through the latest measures have attempted to address three aspects which are (i) funding and borrowing costs (ii) strengthen demand for their products and services (iii) remove bottlenecks and challenges in terms of government clearances.

The government's decision to launch an online portal for small loans up to Rs. 1.0 Cr with back end support from SIDBI and a few public sector banks is expected to bring the focus and the priority back to small enterprise lending. Importantly, the linkage of credit availability with the registration in GST will go a long way in further increasing the formalization in the sector. This will not only improve the access of micro enterprises to formal lending sources (i.e. banks or NBFCs) but also provide some relief on interest costs with the announcement on interest subvention. Given the typically higher interest rates applicable to such enterprises especially those without the ability to offer adequate collateral, the interest rebate of 2% on regular loans and 3%-5% for export credit will help to improve their profitability. However, the most significant step to address the funding and working capital challenge for MSMEs is to ensure the presence of all large corporates with turnover greater than Rs. 500 Cr in the "Trade Receivable e-Discounting System," (TReDS), a digital and GST enabled platform that will help in the discounting and factoring of receivables by banks.

---

Acuité Ratings & Research Limited

*(Erstwhile SMERA Ratings Limited)*

CIN: U74999MH2005PLC155683

A-812, The Capital, G Block, BKC, Bandra (E), Mumbai - 400051

Board: +91 22 49294000 | SMS: +91 9969898000 | [www.acuite.in](http://www.acuite.in)

The government has also proposed measures to strengthen the presence of MSMEs in the large business ecosystem. The public sector companies need to procure at least 25% of their requirements from MSMEs and at least 3% out of that proportion from businesses managed by woman entrepreneurs. Further, an impetus has been given to the Government e-Marketplace (GeM), a digital portal for procurement of common goods and services by government agencies. CPSEs are mandated to be a part of such a platform and register their vendors herein, thereby furthering the formalisation of the MSME ecosystem. An analysis by Acuite Ratings, however indicate that CPSEs are currently sourcing only 12.4% of their requirements from MSMEs, implying the adherence to such a guideline needs to step up for it to be effective. The government has also announced an investment of up to Rs. 6000 Cr to support the technology upgradation of the MSMEs in the manufacturing sector. The investment is proposed for setting up tool rooms across the country that will facilitate advanced product design and improve the competitiveness of MSMEs. The government also plans to focus on setting up new clusters in the pharma sector which have a significant potential in terms of employment and exports.

The government has additionally taken a few steps to address the compliance and regulatory challenges in the MSME sector. A single clearance has been proposed for environmental clearance as against multiple approvals required in the past. The inspection norms for MSMEs are also expected to be streamlined. The government also plans to bring an ordinance to bring about necessary changes in the Companies Act and ensure that minor violations under the Act can be addressed through simple procedures, thereby avoiding the cumbersome process through the courts of law. MSMEs also will need to file a single annual return on eight labour laws and ten central rules, thereby simplifying the requirements in this regard.

---

**Acuite Ratings & Research Limited**

*(Erstwhile SMERA Ratings Limited)*

CIN: U74999MH2005PLC155683

A-812, The Capital, G Block, BKC, Bandra (E), Mumbai - 400051

Board: +91 22 49294000 | SMS: +91 9969898000 | [www.acuite.in](http://www.acuite.in)

### **About Acuité Ratings & Research Limited:**

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

### **Media Contact:**

Suman Chowdhury  
President – Ratings  
Ph: + 91-9930831560  
[suman.chowdhury@acuite.in](mailto:suman.chowdhury@acuite.in)

**Disclaimer:** *This release is sent to you for the sole purpose of dissemination through your newspaper / magazine / media / website / agency. The release may be used by you in full or in part without changing the meaning or context thereof but with due credit to Acuité. However, only Acuité has the sole right of distribution of its releases through any media. Acuité has taken due care and caution for writing this release. Information has been obtained by Acuité from sources which it considers reliable. However, Acuité does not guarantee the accuracy, adequacy or completeness of information on which this release is based. Acuité is not responsible for any errors or omissions or for the results obtained from the use of this release. Acuité has no liability whatsoever to the users / distributors of this release.*

---

**Acuité Ratings & Research Limited**

*(Erstwhile SMERA Ratings Limited)*

CIN: U74999MH2005PLC155683

A-812, The Capital, G Block, BKC, Bandra (E), Mumbai - 400051

Board: +91 22 49294000 | SMS: +91 9969898000 | [www.acuite.in](http://www.acuite.in)