Innovative Financial Solutions for MSMEs

Knowledge Partner

resurgentindia

Debt | Equity | Advisory | Training

October, 2018

New Delhi, India

ASSOCHAM
INDIA

Message

India is fast moving towards becoming a developed country. In this process the Small and Medium Enterprises, have played a very important and pivotal role and will continue to do so in future.

The Associated Chambers of Commerce and Industry of India (ASSOCHAM) have always been proactive in encouraging and promoting MSME sector. It is well known that the most innovative business ideas come from the MSME sector; however with regard to the capital needs of small units, there has been a huge gap between the needs and the available resources. ASSOCHAM firmly believes that if MSMEs are provided with ample finance facilities their performance in terms of productivity will further grow and they will be able to perform as per their capability. Today MSMEs have more options to get the finance including Banks, Stock Exchanges, Private Equity, Factoring Agencies, Venture Capitalists and many more.

Keeping this in view, ASSOCHAM is organizing the Summit – Innovative Financial Solutions for MSMEs & 6th SMEs Excellence Awards – 2018. The prime objective of the Summit is to provide a platform where financial institutions and entrepreneurs could meet to discuss the innovative financial solutions for the Micro, Small and Medium Enterprises (MSMEs). The Summit will also focus upon the issues and hurdles faced by the MSME sector to access timely and adequate finance

Special thanks to Resurgent India for agreeing to our request to be the knowledge Partner of the Summit.

Our best wishes on this occasion for the success of the Innovative Financial Solutions for MSMEs Summit & 6th SMEs Excellence Awards 2018.

Uday Kumar Varma

Uday Kumar Varma
Secretary General, ASSOCHAM

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MESSAGE

It is a pleasure to be the part of this initiative by ASSOCHAM Flourishing amidst a challenging environment, the Small and Medium Enterprises (SMEs) of India experienced several highs and lows in the past few years. With the Indian economy expected to emerge as one of the leading economies in the world and likely to become a $5 trillion economy by 2025, major impetus is being given to strengthen the backbone of our economy - the SME sector. Over 94% of new businesses fail during first year of operation. Lack of funding turns to be one of the common reasons. Money is the bloodline of any business.

SME finance is the funding of small and medium-sized enterprises, and represents a major function of the general business finance market – in which capital for different types of firms are supplied, acquired, and priced. Capital is supplied through the business finance market in the form of bank loans and overdrafts; leasing and hire-purchase arrangements; equity/corporate bond issues; venture capital or private equity; asset-based finance such as factoring and invoice discounting, and government funding in the form of grants or loans.

It is a great pleasure to collaborate with ASSOCHAM in presenting Knowledge paper "Innovative financial solutions for MSME”.

Jyoti Prakash Gadia
Managing Director
Resurgent India Limited

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MSME in Indian Economy

MSME IN INDIAN ECONOMY

Indian Economy: A Glimpse

India has emerged as the fastest growing major economy in the world as per the Central Statistics Organisation (CSO) and International Monetary Fund (IMF) and it is expected to be one of the top three economic powers of the world over the next 10-15 years, backed by its strong democracy and partnerships. India's GDP is estimated to have increased 6.6 per cent in 2017-18 and is expected to grow 7.3 per cent in 2018-19. India's labour force is expected to touch 160-170 million by 2020, based on rate of population growth, increased labour force participation, and higher education enrolment, among other factors.

MSME: Importance in Indian Economy

Micro, Small & Medium enterprises- is the pillar of economic growth in many developed, and developing countries in the world. Often rightly termed as "the engine of growth" for India. The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country's Gross Value Added (GVA) and Gross Domestic Product.

Year	MSME GVA	GROWTH (%)	MSME GDP	SHARE IN GDP (%)
2013-14	3343009	12.27	11233522	29.76
2014-15	3658196	9.43	12445128	29.36
2015-16	3936788	7.62	13682035	28.77

Table: Contribution of MSME in Indian economy

Estimated Number of MSMEs in the country

As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16, there were 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic activities (196.64 lakh in Manufacturing, 230.35 lakh in Trade and 206.84 lakh in Other Services and 0.03 lakh in Non-captive Electricity Generation and Transmission,).

Activity Category	Estimated Number of Enterprises (in lakh)	Share (%)
Manufacturing	196.65	31
Trade	230.35	36
Other services	206.85	33
Electricity	0.03	0
Total	633.88	100

Table: Estimated Number of MSME's (Activity wise)

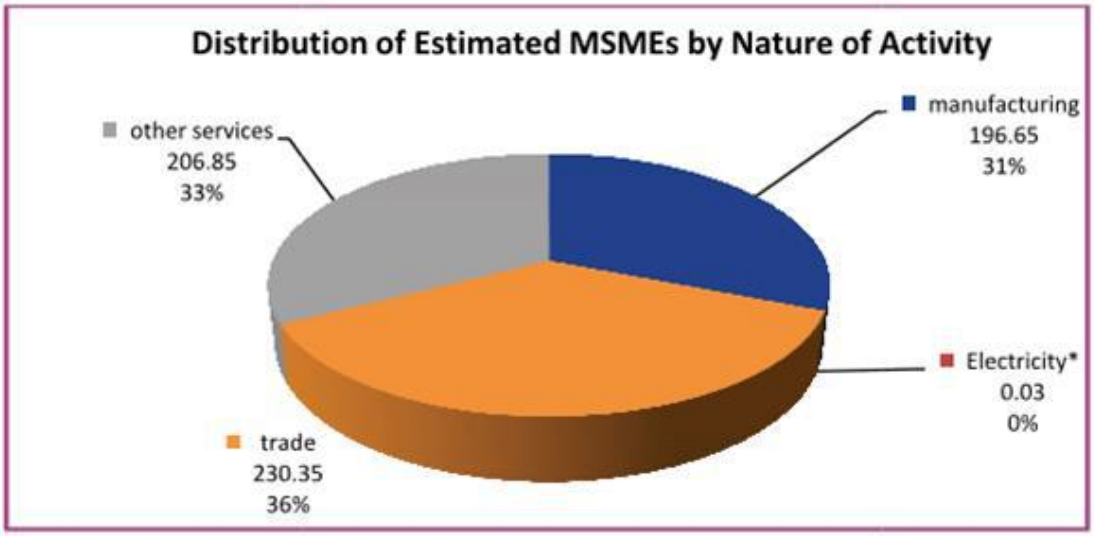


Chart: Distribution of Estimated MSMEs (Nature of Activity Wise)

Sector	Micro	Small	Medium	Share (%)
Rural	**324.09**	**0.78**	**0.01**	**51**
Urban	**306.43**	**3.53**	**0.04**	**49**
All	**630.52**	**3.31**	**0.05**	**100**

Table: Distribution of Enterprises Category Wise (Numbers in lakh)

MSME has played a prominent role in the development of the country in terms of creating employment opportunities-MSME has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.82 lakh in Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country. Though India is still facing infrastructural problems, lack of proper market linkages, and challenges in terms of flow of institutional credit, it has seen a tremendous growth in this sector.

Broad Activity	Rural	Urban	Total	Share (%)
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other services	150.53	211.69	362.22	33
Electricity	0.06	0.02	0.07	0
All	497.78	612.10	1109.89	100

Table: Estimated Employment in MSME Sector (Numbers in lakh)

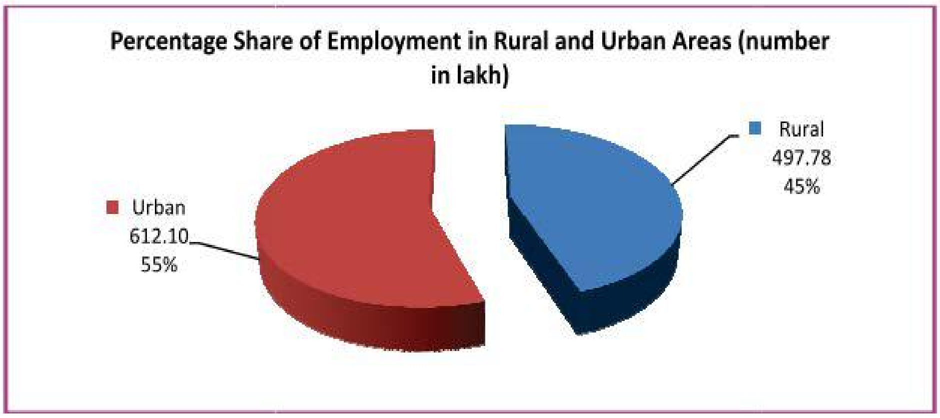
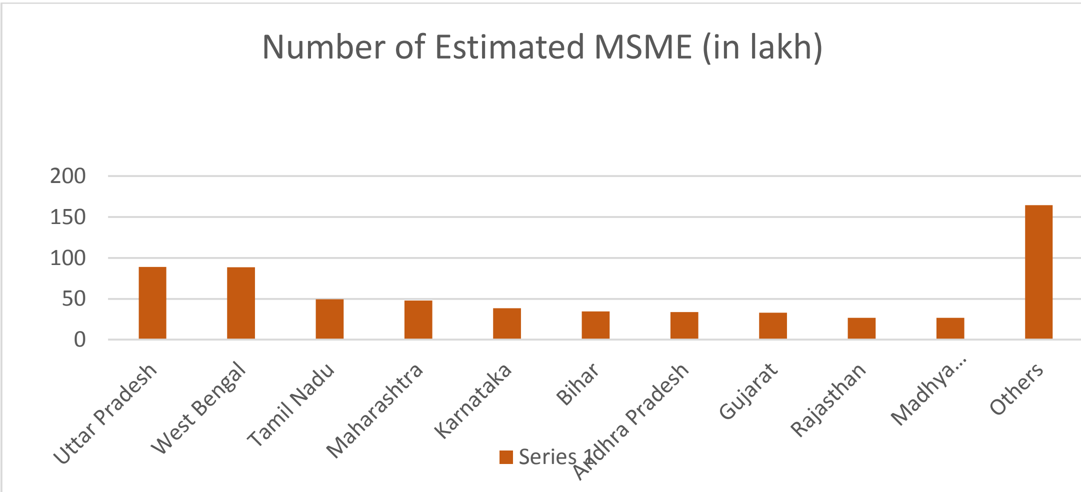


Chart: Share of Employment in Rural and Urban areas

State wise distribution of MSME

State of Uttar Pradesh had the largest number of estimated MSMEs with a share of 14.20% of MSMEs in the country. West Bengal comes as close second with a share of 14% again. The top 10 States together accounted for a share of 74.05% of the total estimated number of MSMEs in the country.



(Source: MSMED)

Challenges to MSME

MSME has shown tremendous growth of 10% in last 5 years but still the sector is facing many challenges which is hampering the growth of the sector. MSMEs are very important in the economic growth of India but this sector is not getting sufficient support from the concerned Government Departments, banks, financial institutions and corporate. Presently, the Indian MSMEs are facing different types of problems. Most of the problems are controllable while rests are uncontrollable. This proves hurdle in the growth path of the MSMEs.

1. **Lack of credit from banks-** The MSME`S are presently facing the problems of credit from the banks. The banks are not providing the adequate amount of loan to the MSMEs. The loan providing process of the banks is very long and formalistic. The owners of the MSME`S has to produce different types of documents to prove their worthiness.

2. Competition from multinational companies- In present era of globalization, the MSME`S are facing the great from the international manufacturing companies who are proving quality goods at cheapest price. Therefore, it is very difficult to compete with the multinational companies.

3. Poor infrastructure- Though, MSME`S are developing so rapidly but their infrastructure is very poor. With poor infrastructure, their production capacity is very low while production cost is very high.

4. Unavailability of raw material and other inputs- For MSME"s required raw material skilled work force and other inputs, which are not available in the market. Due to unavailability of these essentials, it is very difficult to produce the products at affordable prices.

5. Lack of advanced technology- The owners of MSMEs are not aware of advanced technologies of production. Their methodology of production is outdated. The owners are using older method in the field of fabricated metal and textile.

6. Lack of distribution of marketing channels- The MSMEs are not adopting the innovative channels of marketing. Their advertisement and sales promotion are comparatively weaker than the multinational companies. The ineffective advertisement and poor marketing channels leads to a very poor selling.

7. Lack of training and skill development program-The training and development programs in respect of MSME`S development concern is very low .So, skilled manpower is not being available to MSMEs. The owners are aware of the innovative methods of production. The skill developmental schemes conducted by the government are not sufficient.


IMPACT
of
DEMONETIZATION
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IMPACT OF DEMONITIZATION ON MSME

In the recent past there have been unprecedented debates and discussions regarding the demonetization move that shook the nation on 8th November 2016. Although demonetization as a cleaning exercise has generated numerous benefits to the economy. However at the same time, it has created unavoidable income losses to the MSME sector which is basically a cash based sector and where incomes are based on their daily work. Moreover inadequate liquidity has caused gross disruption in all sectors of the economy and in India the digital transaction culture has yet to catch up with all section.

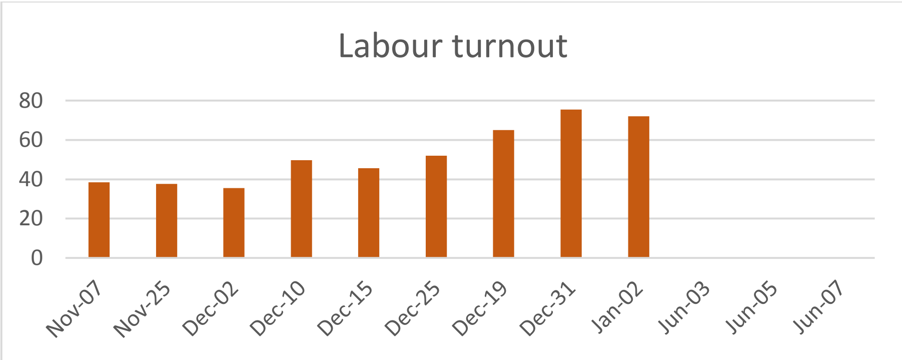
SMEs usually function with unsecured loans from friends and associates which has now started drying up, Because of greater reliance on cash, sales of MSMEs is expected to be impacted. MSMEs play a predominant role in the Indian Economy and accounts for nearly 40% of the total economic activities in the country besides being the largest contributor towards employment. Also most of the micro enterprises belonging to the unorganized / informal sector are facing an adverse impact in their day-to-day operations and close to 40 per cent of them could end up closing down in the second half of the current financial year.

Immediate impact
• Affected employment
• Payments among units impacted due to lack of cash

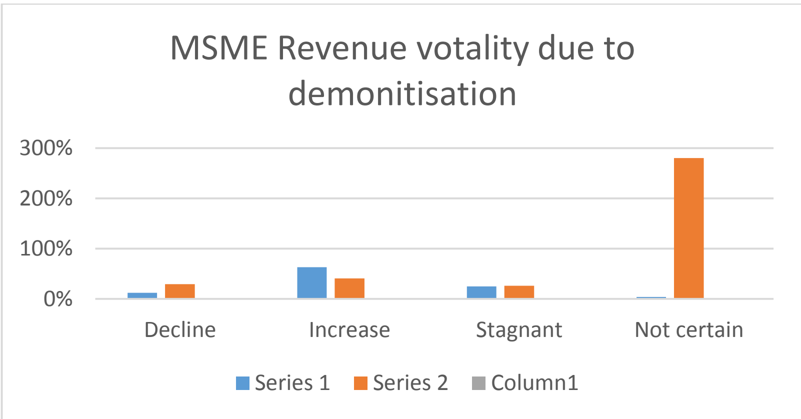
Outcome and response
• Have gone digital
• Started e-invoicing and e-payments.
• Digitization will help SMEs increase their market reach especially to potential clients and investors overseas
• Volume of business to improve

MSMEs affected the most relate to textiles, agricultural products, consumer durables, steel, infrastructure and automobiles – all of which are basically small and micro industries and rely heavily on cash transactions and about 33% of their manpower is casual labour and daily wage earners.

- **Labour Turnout due to Demonetization by MSMEs:** Documents accessed under RTI reveal that MNREGA demand has spiked by 300% after demonetization indicating severe rural distress and fleeing of migrant workers (labour) back to villages seeking work after factories and MSME businesses. After a month of demonetization aroun40% workers were went as jobless. It is quite clear from the above table that within two months around 84 lakhs workers are ruled out from the work because of this demonetization kind of surgical stroke.



- **MSMEs revenue volatility due to the impact of Demonetization**: Around 41 percent of micro small and medium enterprises (MSME) in India witnessed a shift away from cash to digital payments and cheques after the government's move to demonetise higher denominations, CRISIL says, “It is heartening to see this marked shift to cheque or electronic payments, especially in the traditional, cash-intensive sectors such as textiles, agricultural products, electrical equipment, steel, consumer durables and automobiles Whereas, only a third of the MSMEs with revenues above Rs 25 crore witnessed a greater shift towards digital payments. MSMEs usually perform better in the second half of the fiscal year between October and March. But due to the cash ban, these enterprises may not see any growth this fiscal.



While sectors such as readymade garments and cotton yarn exhibited an increase in exports in January 2017, exports of sectors such as gems and jewellery, leather and leather products, and meat, dairy and poultry products contracted in January 2017.

The cotton sector – already impacted by low demand from China since 2014-15 – faced some domestic supply constraints after demonetization. As farmers preferred to postpone their sales due to lack of cash, cotton arrivals dropped by 30 per cent in November (Indian Cotton Federation). Consequently, shipments of cotton bales also remained below order books in that month. About 70 per cent of India’s cotton exports are shipped during October-March every year. The industry expected an export of six million bales of cotton in the current cotton year (October 2016-September 2017), but these are now expected to be lower.

- Credit growth in the micro, small and medium enterprise (MSME) sector, which had started slowing even before demonetisation, declined further during the demonetisation phase, a Reserve Bank of India (RBI) study said on Friday. However, bank credit to MSMEs increased on average by 8.5% year on year during the June quarter of fiscal year 2018-19, mirroring the level of growth seen during April-June of FY16

  Demonetization has already affected the micro, small and medium enterprises. Since the bulk of transactions in this sector are cash-based, a liquidity crunch will likely cause a slowdown in economic activity. In the medium and long-term, however, there is reason for optimism. The inflow of deposits should logically allow for lower interest rates, spurring investment in this sector

Impact of GST on MSME

Impact of GST

The GST Tax mechanism is being a bit topsy-turvy for the SMEs and the Start-Ups as the procedures might be complex for them to incorporate with. The new tax regime is supposed to and is benefitting them in the following ways:

- **Easier of doing a new business:** Previously there were different tax structures being followed in different states, and had different parameters to comply with VAT Registration system. Though registering with the state still exists under the new structure, the rules are clearly defined and are uniformly given in the portal.
- **Transparency in Transactions:** GST will enable an online and transparent view of tax obligations and on-goings, minimizing the need to liaison with tax authority's offline. Though it will take some initial investment now, SMEs that streamline their transactions now will be setting up future-ready systems and processes.
- **Wide Expansion of the business:** VAT System had imposed limitations in the expansion of the business, as there existed different tax structure in different states, and had increased the burden on the consumers due to increased cost. However, this barrier no more exists as tax credit can be transferred irrespective of the location of the buyer and the seller.
- **Reduced tax burden due to an increase in threshold limit:** GST system will eliminate the cascading effect of various state and central taxes. Under the old regime, business owners with an annual turnover of Rs 5 lakh (Rs 10 lakh in the North East), mandatorily need to register for VAT and make VAT payments. Under GST businesses above Rs 20 lakh turnover (Rs 10 lakh for North East) qualify for GST registration, which brings huge relief to SMEs. Thus, businesses that falls in the Rs 5 lakh – Rs 10 lakh revenue bucket need not register and will experience better cash flows because they are exempt from GST.
- **Better Cash flow due to input credit facility:** Cash flows may increase because of facility of input tax credit, wherein businesses will be able to avail credit on input expenses such as supplies. For example, for a business that procures steel as the raw material to manufacture utensils, the businessman will need to pay tax on the raw materials procured i.e. iron ore. He can adjust the tax paid on inputs from the taxes collected on outputs. This means that only the actual "value addition will be taxed.
- **Online compliance procedures:** Under GST all compliance procedures such as registration, payments, refunds and returns will be carried out through online portals. The burden on SME's (due to current taxation system) to interact with department officers carrying out compliances will be eliminated. GST will help eliminate time-consuming border tax protocols, allowing for free flow of goods across borders. This will result in savings in logistical costs. In this way GST will save time and effort of SME's.
- **Logistics and delivery is becoming faster:** GST is eliminating time-consuming border tax procedures and toll check posts and encourages supply of goods across borders. The logistical cost for companies manufacturing bulk good would be reduced by around 20%. Such costs can be crucial for the survival of SMEs. No entry tax is being charged for goods manufactured anywhere in India. Thus, making logistics and delivery faster and smoother for small and medium businesses.

Role of fintech in MSME

Role of fintechs in MSME

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.

Speaking of the present scenario, one can still witness an inherent aversion to formal financial services (banks as well as online lending platforms) on the part of small businesses. Lack of digital literacy and complacency form some of the major reasons for the same.

Role of Fintech Companies in MSME

Being complacent is dangerous for any business and this is exactly what fintechs 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 disbursals for small businesses who are perpetually in need for quick finance.

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. Theseinclude:

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

Breaking norms

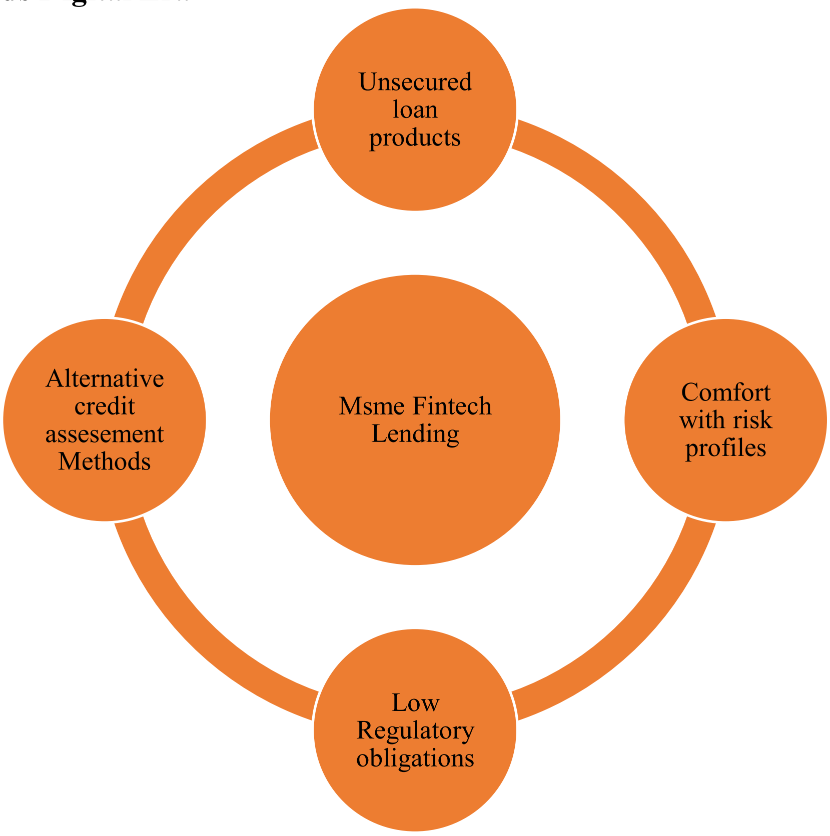
A substantial majority (about 75%) of fintech lenders are focusing on retail banking, lending, wealth management and payment systems for MSMEs. The numbers look promising despite the ineligibility for classification as direct or indirect finance to MSME sector that takes all such loans to NBFCs out of the 'priority sector classification.' It isn't surprising then that

MSMEs are turning away from traditional, collateral-chasing banks.

This is where fintechs steps in. Mutually beneficial, the burgeoning relationship between SMEs and fintechs augurs well for both sector. Fintechs 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.

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 fintechs 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.

MSME towards Digital Era



Last year's demonetisation drive has propelled the digital on boarding of a number of MSMEs. While these small-scale enterprises have a long standing history of working offline and operating via cash, needless to say that the sector was one of the biggest casualties of the sudden scrapping of Rs 500 and 1,000 notes. When pushed against the wall due to cash crunches, these enterprises had no other choice but to adopt digital payments, in order to continue operations. Overnight, a number of these ventures also opened their bank accounts and, in an instant, became part of the formal banking chain. This year, the application of Goods and Services Tax

(GST) laid a strong impetus for continuing MSMEs' foray into the digital world. Warranting digital compliance, GST is set to further increase the number of MSMEs that are digitally active. However, given a favourable environment and a slew of radical changes, there is still a huge credit deficit that is still unmet for the sector. This is exactly where the number of mushrooming fintechs startups step in. To disrupt the status quo and level the playing field, a number of fintech lenders are supporting these small-scale ventures. MSMEs are also flocking to the fintech lenders for their fast, digital processes. Endeavouring to make the entire process hassle-free, some of the new-age fintech lenders provide MSMEs with loans within two working days.

While the MSMEs have been left starving for institutional financing over decades, the fintech platforms are here to transform the same. The market appears to be positively predisposed towards fintech lending. The fintech market is slated to be worth $2.4 billion by 2020, a double from the current value of $1.2 billion. Now, with the easy availability of business financing, the MSME sector is pegged for superior growth, and is emerging as a stronger, better contributor to the nation's GDP, economic growth and overall development of the rural segments.

Government hands on MSME

Of all the problems faced by the MSEs, non-availability of timely and adequate credit at reasonable interest rate is one of the most important. One of the major causes for low availability of bank finance to this sector is the high risk perception of the banks in lending to MSEs and consequent insistence on collaterals which are not easily available with these enterprises. The problem is more serious for micro enterprises requiring small loans and the first generation entrepreneurs.

The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGS) was launched by the Government of India (GoI) to make available collateral-free credit to the micro and small enterprise sector. Both the existing and the new enterprises are eligible to be covered under the scheme. The Ministry of Micro, Small and Medium Enterprises, GoI and Small Industries Development Bank of India (SIDBI), established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement the Credit Guarantee Fund Scheme for Micro and Small Enterprises. The scheme was formally launched on August 30, 2000. The corpus of CGTMSE is being contributed by the GoI and SIDBI in the ratio of 4:1 respectively and has contributed Rs. 2477.78 crore to the corpus of the Trust up to May 31, 2016. As announced in the Package for MSEs, the corpus was to be raised to Rs.2500 crore by the end of 11th Plan.

Performance and Credit Rating Scheme To sensitize the MSE sector on the need for credit rating and encourage the MSEs to maintain good financial track record enabling them to earn higher rating for their credit requirements, the Government in April 2005 launched the Performance and Credit Rating Scheme‘. The implementation of the scheme is through National Small Industries Corporation (NSIC). Reputed Rating Agencies have been empanelled by NSIC from which the MSEs can select the one to be engaged by it for obtaining the rating.

Innovative Coir Products

Coir Udyami Yojana - This is a credit linked central sector scheme whose objectives are modernisation of the Coir Industry and enhancement of utilization of coconut husk and to provide more employment for women in rural areas. During 2017-18, Rs.6.32 crore (up to December, 2017) has been spent as margin money in setting up of 319 units. During the remaining period of this financial year 450 more units will be set up.

Coir Vikas Yojana – In this scheme various programmes like Entrepreneurship Development Programme, Awareness Programme, Workshop, Seminar, Exposure Tour, etc. are organised for attracting more entrepreneurs to coir sector. In order to create skilled man power required for the coir industry the Board is organising various training programmes on manufacture of value added products. The candidates undergoing these training programmes are given a monthly stipend amounting to Rs. 1000/- per month. Coir Board has conducted 10 Workshops, 7 Entrepreneurship Development Programme, and 19 Awareness Programme in various States through Board's Regional / Sub Regional Offices during the year 2017-18 (up to December 2017).

Mahila Coir Yojana - The Mahila Coir Yojana is a woman oriented self-employment Scheme in the coir industry which provides self-employment opportunities to the rural women artisans in the coconut producing regions. One artisan per household is eligible to receive assistance under the Scheme. The training is given in spinning of coir yarn/ various coir processing activities to rural women in regions producing coir fibre in the country. The scheme envisages distribution of motorized ratts/ motorized traditional ratts and other coir processing equipment's which can be operated by women, at 75% subsidy subject to a maximum of Rs. 7500/- after completion of the 2 months training programme.

Prime minister's Employment Generation Programme (PMEGP)

The scheme aims to generate employment opportunities in rural as well as urban areas of the country through setting up of new self-employment ventures/ projects/ micro enterprises. Another objective is to provide continuous and sustainable employment to a large segment of traditional and prospective artisans and rural / urban unemployed youth in the country, so as to help arrest migration of rural youth to urban areas. A third objective is to increase the wage earning capacity of artisans and contribute to increase in the growth rate of rural and urban employment. The Scheme is implemented by Khadi and Village Industries Commission (KVIC), 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) and District Industries Centres (DICs) and banks. The maximum cost of the project/ unit admissible under manufacturing sector is Rs.25 lakh and under business/service sector is Rs.10 lakh.

Credit Linked Capital Subsidy Scheme (CLCSS): The objective of the Scheme namely "Credit Linked Capital Subsidy Scheme (CLCSS)" for Technology Upgradation of Micro and Small Enterprises is to facilitate technology up-gradation in Micro and Small Enterprises (MSEs) by providing capital subsidy of 15 % (limited to maximum of Rs.15.00 lakhs) on institutional finance availed by them for induction of well-established and improved technology. Maximum limit of eligible loan for calculation of subsidy under the Scheme is investment in approved plant & machinery upto Rs.1.00 crore for induction of well-established and improved technologies. MSEs are particularly disadvantaged due to insufficient investment and lack of awareness of both the quality standards and access to modern technologies. A large percentage of MSEs are running with outdated technology and plant and machinery. The CLCSS is envisaged to address this issue. Presently, 51 Sectors / sub-sectors with approved Machinery/Technologies are covered under the scheme. The scheme is applicable to new and existing Micro & Small Enterprises (MSEs) engaged in manufacturing.

A Scheme for Promotion of Innovation, Rural Industry & Entrepreneurship (ASPIRE):
The scheme has the following objectives:

(i) Create new jobs and reduce unemployment,
(ii) Promote entrepreneurship culture in India,
(iii) Grassroots economic development

(iv) Facilitate innovative business solution for unmet social needs, and
(v) Promote innovation to strengthen the competitiveness of MSME sector.

The scheme components are

(i) Create a database of technologies available with various Government/ private agencies and set up a Network of Technology Centres for sharing of best practices and experiences;
(ii) Develop the required skilled Human Resources necessary for mentoring and handholding the incubates;
(iii) Set up Livelihood Business Incubators (LBI) under National Small Industries Corporation (NSIC), KVIC or Coir Board or any other Institution/agency of GOI/State Govt.
(iv) Incubation and Commercialisation of Business Ideas Programme through technical/ research institutes Ministries of GOI and Private incubators.
(v) Business Accelerator programme for scaling up.
(vi) Create a framework for Start-up Promotion through Small Industries Development Bank of India (SIDBI) by using innovative means of finance to enable ideas/innovation & to convert these into commercial enterprises.

Infrastructure Development Programme

The Ministry of MSME has adopted cluster development approach for enhancing productivity and competitiveness as well as capacity building of MSEs. The Scheme supports financial assistance for establishment of Common Facility Centres (CFCs) for testing, training centres, R&D, Effluent Treatment, raw material depot, complementing production processes etc. and to create/upgrade infrastructural facilities (IDs) in the new/existing industrial areas/clusters of MSE's such as power distribution network, water, telecommunication, drainage and pollution control facilities, roads, banks, raw materials, storage and marketing outlets, common service facilities and technological backup services for MSEs in the new/ existing industrial estates/areas. Hard interventions, i.e., setting up of CFCs with maximum eligible project cost of Rs 15.00 cr with GoI contribution of 70% (90% for special category States and for clusters with more than 50% women/micro/village/ SC/ST units). Infrastructure development in the new/ existing industrial estates/areas in which the maximum eligible project cost is Rs 10.00 cr, with GoI contribution amounting to 60% of project cost (80% for special category States and for clusters with more than 50% women/micro/SC/ST units).

Hassle free online loans: Launched a common online platform for micro, small and medium enterprises (MSME) credit which will enable businesses to get loans up to Rs 10 million approved through a completely automated process within just 59 minutes.

Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

The objectives of the scheme is to organize traditional industries and artisans into clusters to make them competitive and provide support for their long term sustainability, sustained employment, to enhance marketability of products of such clusters, to equip traditional artisans of the associated clusters with the improved skills, to make provision for common facilities and improved tools and equipment for artisans, to strengthen the cluster governance systems with the active participation of the stakeholders, and to build up innovative products, improved technologies, advanced processes, market intelligence and new models of public-private partnerships. The scheme covers three types of interventions: Soft interventions – Activities to build general awareness, counselling, skill development and capacity building, exposure visits, market development initiatives, design and product development, etc. ii. Hard interventions – Creation of common facility centres, raw material banks, upgradation of production infrastructure, warehousing facility, tools and technological upgradation, etc. iii. Thematic interventions – Interventions on a cross-cutting basis for brand building, new media marketing, e-commerce initiatives, research and development, etc. The financial assistance provided for any specific project shall be subject to a maximum of Rs 8 (eight) crore to support Soft, Hard and Thematic interventions.

Importance of credit rating for MSME

Why credit rating is important for SME?

A survey study revealed that, merely around 5% of the SMEs surveyed in Delhi cluster had a credit rating and face problem in availing adequate finance from their lender, as banks turn apprehensive about their business credibility in the absence of a credit rating. This acts as a hurdle in their business growth. This is primarily because they do not want to expose their business operations details to a third party and attract more tax liability.

Getting a credit rating can support the SMEs in negotiating the borrowing rates, gaining flexibility in repayment and strengthen their relationship with their lender. Further, they can utilize the ratings to boost their credibility with their business associates such as vendors, clients and consultancy or support services providers.

A good credit rating helps in:

- Enables large corporate units build confidence to invest in the SME units and helps SME in building healthy relationship with the large corporate bodies.
- Strengthens the position of SME among peers for the one bearing credit rating and also allows easy comparison.
- Allows SMEs to explore opportunities internationally as rating provides a platform for trade partnerships with global players.
- **Concessional funding:** A good rating can help you gain faster and cheaper credit for your venture. The agencies that provide rating for SMEs—CRISIL Ratings, SME Rating Agency of India (SMERA), ICRA, Credit Analysis &Research (CARE), Onicra, and Fitch—have tie-ups with several banks to offer preferential interest rates based on ratings. For instance, CRISIL Ratings has such a working arrangement with 35 banks and financial institutions, while SMERA has entered into such pacts with 29. If a firm gets a good rating, he can even approach other banks to get a better rate bargain than the one provided by his existing banker.
- **Better business opportunities:** The independent risk evaluation of SMEs by an unbiased third party lends credibility to them and opens doors for them while dealing with MNCs and corporate. You can submit credit rating for tenders and make yourself more credible to get bigger orders. It also provides easier access to other sources of finance such as private equity. "Better ratings have helped the SMEs retain customers and suppliers, and negotiate better terms with them.
- **Government support**: The government also favours rated SMEs, restricting certain contracts for such firms. It also operates a performance and credit rating scheme through various credit rating agencies via the National Small Industries Corporation. The scheme provides a one-time subsidy to SMEs to get rated. "The rating agencies have by far done a good job as external ratings have been coinciding with our internal risk evaluation mechanism. This is a very important benchmark while giving loans.
- **Tools for self-improvement:** Another advantage of rating is that the highlighting of strengths and weaknesses acts as a trigger for self-correction. A regular renewal of

ratings not only helps improve a firm's performance but also builds confidence within the lender fraternity and trading channel.

For this purpose a scheme was launched by government to create awareness regarding credit rating and also introduced many benefits to the small business.

Performance and Credit Rating Scheme

Performance & Credit Rating Scheme was formulated in consultation with Industry Associations, Indian Banks' Association (IBA) and Rating Agencies, with the objective of creating awareness amongst Small Scale Units (now known as micro & small enterprises) about the strengths and weaknesses of their existing operations and to provide them an opportunity to enhance their organizational strengths. The Scheme launched in April, 2005 has been well appreciated by the various stakeholders. Indian Banks' Association (IBA) circulated the scheme among its member banks mentioning that the government expects the rating product to help SSI units in accessing credit from banks faster and on better terms. It has been analysed that more than 110,828 units have been rated under the Scheme. The fee to be paid to the rating agencies shall be based on the turnover of the MSEs which has been categorized into three slabs. The balance amount towards the fee shall be borne by the SME's. The slabs of the Turnover and the share of Ministry of MSME towards the fee charged by the Rating Agency have been indicated in the table given below:-

Turnover	Fee to be reimbursed by Ministry of MSME
Up to Rs.50 lacs	75% of the fee charged by the rating agency subject to a ceiling of Rs.25,000/-
Above Rs.50 lacs to Rs.200 lacs	75% of the fee charged by the rating agency subject to a ceiling of Rs.30,000/-
Above Rs.200 lacs	75% of the fee charged by the rating agency subject to a ceiling of Rs.40,000/-

Benefits under the scheme:

The major benefits accruing under the scheme to the rated units include:

- Rating is an independent, trusted third party opinion on capabilities and credit worthiness of SME's.
- Rating enables SME units to ascertain the strengths and weaknesses of their existing operations and take corrective measures to enhance their organizational strength.
- Good rating enables MSEs to access to funds at cheaper rates and better terms,
- Rating facilitates prompter credit decisions from Banks on proposals of SME's.
- Good rating enhances the acceptability of the MSEs with their customers and buyers.
- Facilitate buyers in capability & capacity assessment of MSEs before finalizing purchase contracts

Financing Solutions to MSME

Financing of MSME's

Venture capital

Venture Capital is emerging as an important source of finance for small and medium-sized firms, especially for starting the business and business expansion. An entrepreneur usually starts the business with his own funds, and those borrowed from banks. It is during expansion that they find it difficult to raise funds. SMEs have traditionally been dependent on Bank finance for expansion and working capital requirements. However, in the recent past, bankers have curtailed lending to SMEs due to the greater risk of non-performing assets (NPAs) in a downturn. Thus, even though many SMEs have profitable projects and expansion plans, they find it difficult to get finance for their projects, as bankers may not be willing to fund high risk projects. Traditionally, Venture Capitalists in India have shied from the MSME sector. The non-corporate structure and small size of majority of MSMEs in India makes the Venture Capitalists and Private Equity Players reluctant to investing in them due to higher transaction costs and difficulties in exits out of such investments. However, the VC scenario in India is rapidly changing. Alternative funding like VC is picking up in the India, including in the MSME sector. Moreover, the VCs are expanding their reach into areas besides the traditional VC sectors like Information Technology (IT); nowadays interest in sectors like clean energy, healthcare, pharmaceuticals, retail, media, etc. is also growing.

In recent years, the government controlled financial institutions have initiated positive and progressive measures to provide MSMEs access to funds at a reasonable and affordable costs and without any usual hurdles. Venture capital funding institutions have been floated to induct fund at low cost, share the risk and to provide management and technology up gradation support to these enterprises. Government-funded schemes exist at both the national and the state levels.
The Small Industries Development Bank of India (SIDBI) is the main public financial institution involved in VC funding operations.

Factoring

Factoring is a form of receivables finance whereby a business sells or assigns its accounts receivables (i.e. invoices) to a finance company (a factor) at a discount in exchange for immediate money with which to finance continued business.12 The delayed payment cycle by the large scale customers of SMEs have an adverse effect on their operational facets and fund recycling efforts.

Factoring provides small and medium enterprises (SMEs) with working capital financing. However, unlike traditional forms of working capital financing, factoring involves the outright purchase of the accounts receivable by the factor, rather than the collateralization of a loan. The virtue of factoring in a weak business environment is that the factored receivables are removed from the bankruptcy estate of the seller and become the property of the factor. A CRISIL study on 5000 small and medium enterprises (SMEs) reveals that SMEs can enhance profits by at least 15 per cent if they receive payments on time from their large corporate customers. CRISIL estimates that timely payments from large customers will help SMEs reduce interest costs, improve profitability and have a positive impact on the long term health and sustainability of India's SME sector. SMEs with large corporate customers have receivables of 90 to 120 days of sales on their balance sheets, as against 45 days stipulated by the Micro, Small, and Medium Enterprises Development (MSMED) Act. Factoring is capable of providing SMEs with the liquidity needed against their receivables and can be efficient alternate source of working capital. Factors buy the right to collect on invoices raised against any sales by the SME and releases 80-90% of the invoice value to the firm. It is on account of its superior conversion time of receivables into cash, absence of geographical restraints, non-requirement collateral security etc makes it a much preferred and superior product than bank finance.

Supply chain finance Supply chain finance can prove to be another route to facilitate SMEs' access to enhanced working capital from bank and non-bank sources. This mode of financing enables SME suppliers to large OEMS to receive short-term credit against the volume supplied during the payment receivable period. HSBC for instance has a distributor finance programme (DFP) which assists in creating the support framework for financing and collection for any SME client's delivery chain. Regular MIS helps the SME update their sales ledgers and avoid reconciliation issues.

Alternate Lending platforms to the rescue

Nimble new-age startups saw the existing gap in the market, and evolved a technology-driven solution which has helped India's MSMEs access legitimate credit easily. Today, several

MSME founders and owners are leaning on these platforms for credit, with NBFCs already accounting for more than 16% of the credit extended to MSMEs. According to the ICRA, the share of lending by NBFCs to MSMEs is projected to rise to 22-23% by March 2022. Thanks to these startups, the amount of credit being disbursed.

The benefits of financial inclusion for India's MSMEs

MSMEs having access to credit through these startups is an extremely important development, especially in the context of how the Indian economy is engaging with the e-commerce opportunity. According to a Morgan Stanley report, India's e-commerce market is set to hit $200 billion by 2026, growing at 30% annually. In large part, this amazing growth is attributed to the greater adoption of technology by consumers in India's tier 2 and tier 3 cities. Further, a BCG report projected that by 2025, these cities will account for 45% of India's consumption. For India's MSMEs, this is a fantastic opportunity for them to grow and capture larger portions of the consumer market. However, to sell effectively to this new customer base, these companies need capital to increase capacity, geographical reach, and make the transition to the world of online commerce.

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 there 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.

Fin-tech start-ups: Fin-tech start-ups have also gained momentum in India recently. This technology based firms act as intermediaries between the banks or NBFCs and borrowers and charge a processing fee for the transaction from both. Given the rich build of database in India these start-ups differ from traditional financing in terms of credit information of the borrower. They arrive at holistic credit scores that are more inclusive of myriad data points compared to the conventional credit bureaus which consider around merely 30 parameters, thus helping the enterprise to build a credit history. It thus involves a more comprehensive credit evaluation of the small borrowers. This not only assists in faster processing of the loan applications but also helps small enterprises to get more competitive and make most of the business opportunities.

Alternative financing-a boon to emerging 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.

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About Resurgent India Ltd

DEBT I EQUITY I ADVISORY
Resurgent India is a full service investment bank providing customized solutions in the areas of debt, equity and merchant banking. We offer independent advice on capital raising, mergers and acquisition, business and financial restructuring, valuation, business planning and achieving operational excellence to our clients.

Our strength lies in our outstanding team, sector expertise, superior execution capabilities and a strong professional network. We have served clients across key industry sectors including Infrastructure & Energy, Consumer Products & Services, Real Estate, Metals & Industrial Products, Healthcare & Pharmaceuticals, Telecom, Media and Technology.

In the short period since our inception, we have grown to a 100 people team with a pan-India presence through our offices in New Delhi, Kolkata, Mumbai, and Bangalore. Resurgent is part of the Golden Group, which includes GINESYS (an emerging software solutions company specializing in the retail industry) and Saraf& Chandra (a full service accounting firm, specializing in taxation, auditing, management consultancy and outsourcing).

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About ASSOCHAM

The Knowledge Architect of Corporate India

Evolution of Value Creator

ASSOCHAM initiated its endeavour of value creation for Indian industry in 1920. Having in its fold more than 400 Chambers and Trade Associations, and serving more than 4,00,000 members from all over India. It has witnessed upswings as well as upheavals of Indian Economy, and contributed significantly by playing a catalytic role in shaping up the Trade, Commerce and Industrial environment of the country. Today, ASSOCHAM has emerged as the fountainhead of Knowledge for Indian industry, which is all set to redefine the dynamics of growth and development in the technology driven cyber age of 'Knowledge Based Economy'. ASSOCHAM is seen as a forceful, proactive, forward looking institution equipping itself to meet the aspirations of corporate India in the new world of business. ASSOCHAM is working towards creating a conducive environment of India business to compete globally. ASSOCHAM derives its strength from its Promoter Chambers and other Industry/Regional Chambers/Associations spread all over the country.

Vision

Empower Indian enterprise by inculcating knowledge that will be the catalyst of growth in the barrier less techn ology driven global market and help them upscale, align and emerge as formidable player in respective business segments.

MISSION

As a representative organ of Corporate India, ASSOCHAM articulates the genuine, legitimate needs and interests of its members. Its mission is to impact the policy and legislative environment so as to foster balanced economic, industrial and social development. We believe education, IT, BT, Health, Corporate Social responsibility and environment to be the critical success factors.

Members – Our Strength

ASSOCHAM represents the interests of more than 4,00,000 direct and indirect members across the country. Through its heterogeneous membership, ASSOCHAM combines the entrepreneurial spirit and business acumen of owners with management skills and expertise of professionals to set itself apart as a Chamber with a difference. Currently, ASSOCHAM has more than 100 National Councils covering the entire gamut of economic activities in India. It has been especially acknowledged as a significant voice of Indian industry in the field of Corporate Social Responsibility, Environment & Safety, HR & Labour Affairs, Corporate Governance, Information Technology, Biotechnology, Telecom, Banking & Finance, Company Law, Corporate Finance, Economic and International Affairs, Mergers & Acquisitions, Tourism, Civil Aviation, Infrastructure, Energy & Power, Education, Legal Reforms, Real Estate and Rural Development, Competency Building & Skill Development to mention a few.

Insight Into 'new Business Models'

ASSOCHAM has been a significant contributory factor in the emergence of new-age Indian Corporate, characterized by a new mindset and global ambition for dominating the international business. The Chamber has addressed itself to the key areas like India as Investment Destination, Achieving International Competitiveness, Promoting International Trade, Corporate Strategies for Enhancing Stakeholders Value, Government Policies in sustaining India's Development, Infrastructure Development for enhancing India's Competitiveness, Building Indian MNCs, Role of Financial Sector the Catalyst for India's Transformation.

ASSOCHAM derives its strengths from the following Promoter Chambers: Bombay Chamber of Commerce & Industry, Mumbai; Cochin Chambers of Commerce & Industry, Cochin: Indian Merchant's Chamber, Mumbai; The Madras Chamber of Commerce and Industry, Chennai; PHD Chamber of Commerce and Industry, New Delhi and has over 4 Lakh Direct / Indirect members.

Together, we can make a significant difference to the burden that our nation carries and bring in a bright, new tomorrow for our nation.

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