MSMEs getting a healthy liquidity dose, but demand remains elusive

Brickwork Ratings, Mumbai, 15 July 2020: The Emergency Credit Line Guarantee Scheme (ECLGS) for MSMEs has started off well, with around Rs 1.2 lakh crore sanctioned and around Rs 62,000 crore disbursed as on 09 July 2020. State Bank of India, Canara Bank and Bank of Baroda are the largest lenders under this scheme, accounting for around 65 per cent of the overall disbursement until date. MSMEs in Tamil Nadu, Uttar Pradesh, Maharashtra, Gujarat and Karnataka have received the highest disbursements.

The disbursements have not been keeping pace with the sanctions due to the cautious availing of facilities by MSMEs as demand in the market has not revived completely, thereby restricting the capacity utilisation of these companies. The players are adopting a cautious approach and delaying the availing of the full amount until demand revives to a certain extent to avoid excess interest costs. Hence, demand revival in the economy will play a crucial role, and measures need to be focused at this aspect.

Before the implementation of the ECLGS, MSMEs faced severe liquidity issues amid the difficulty in getting funds from banks. The outstanding credit to MSMEs declined by 4 per cent year-on-year as on 22 May 2020, when the overall bank credit was up by 6 per cent, and credit to industries was up by 2 per cent. Decline in credit outstanding to MSMEs is on account of the low risk appetite of banks in lending to MSMEs. Hence, the ECLGS has provided a much-needed liquidity boost to these players to start operations post the lockdown. However, once Rs 3 lakh crore under the scheme is exhausted by October 2020, further measures will be required to incentivise banks to continue lending to MSMEs, given that MSMEs’ performance is expected to be a slow grind-up until demand is back in the economy.

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