Brickwork Ratings hosts Web-Conference on Indian MSMEs and Impact of COVID-19

Brickwork Ratings, Mumbai, 07 July 2020: Brickwork Ratings (BWR) hosted a Web-conference on 06 July 2020 on Indian MSMEs and the impact of COVID-19. Shri Pratap Chandra Sarangi, Hon'ble Minister of State, Ministry of Micro, Small and Medium Enterprises (MSME), Government of India, gave the keynote address highlighting the challenges faced by MSMEs in the country and strong measures taken by Hon'ble Prime Minister Shri Narendra Modi and his cabinet to address the situation. He gave an update on the steps taken in terms of the stimulus package announced by Hon'ble Finance Minister Smt. Nirmala Sitharaman for the sector. The panellists included Mr. C S Setty, Managing Director, State Bank of India (SBI); Mr. V S V Rao, Deputy Managing Director, Small Industries Development Bank of India (SIDBI); Mr. P Udayakumar, Director (Planning and Marketing), The National Small Industries Corporation Ltd. (NSIC); Mr. Ajay Marwaha, Head- Investment Advisory & Management, Sun Global Investments (UK); Prof. Ananth Narayan, Associate Professor, SP Jain Institute of Management and Research.

The session began with an opening address from Mr. Vivek Kulkarni IAS (Retd), Managing Director, Brickwork Ratings and was moderated by Mr. Rajat Bahl, Chief Ratings Officer, Brickwork Ratings.

During the Web-conference, highlighting the importance of MSMEs and the issues they are facing currently due to the pandemic, **Mr. Kulkarni of Brickwork Ratings said** ***"An important step that the government has taken is that they have defined MSMEs based on the turnover; i.e., any company with a turnover of less than Rs 250 crore is an MSME. During the lockdown, India has witnessed a lot of job losses; maybe 100-114 million jobs have been lost. MSMEs being an important employment generating sector, is governed by a lot of laws, both at the state and centre levels. Important reforms that can help MSMEs include a minimum number of inspections and better transparency to simplify the process of setting-up MSMEs. For MSMEs in India, demand for credit is Rs 37 lakh crore, and the bank is giving around Rs 14 lakh crore, and recently, the government has announced Rs 3 lakh crore credit facility. A BWR study pointed out that another Rs 3 lakh crore is stuck with large firms as receivables. Despite all difficulties, MSMEs have continued with manufacturing during Covid-19 and have produced a lot of PPE kits, masks and other Covid essentials".***

Emphasising MSMEs' role in the government's Aatmanirbhar Bharat Abhiyan, Hon'ble Minister **Shri. Sarangi said** ***"Before Corona, not a single PPE kit was manufactured in India, and now, India is also exporting kits. To encourage MSMEs and address their credit needs, the government has announced Rs 3 lakh crore collateral-free loans for standard MSMEs, Rs 20,000 crore subordinate debt for stressed MSMEs and a Rs 50,000 crore equity infusion through the fund of funds under its Rs 20 lakh crore package. The change in the definition of MSMEs was implemented to benefit a lot of MSMEs, and the government will work towards simplifying the process of setting-up MSMEs. Other measures such as global tenders to be disallowed up to Rs 200 crore, the E-market linkage, the GEM portal and loans for hawkers, along with many other policies have been changed to support the sector. The Government of India will clear all MSME dues in 45 days. Although this is not getting implemented, we are diligently working on it and will surely resolve it".***

Whether MSMEs are in a position to benefit from the current situation and take over things from China, the Minister said he is very optimistic about it, and the government is giving guarantee so that banks are not hesitant towards lending to MSMEs. The government has also proposed to develop a mechanism in which bureaucrats and bankers and other professionals would be involved to help MSMEs procure loans easily from banks on their recommendations.

On issues related to raw material supply to MSMEs, **Mr. Udayakumar of NSIC said** ***"Over the years, the NSIC market share in raw material supply to MSMEs has been going down, and raw-material-producing companies, including PSUs such as SAIL, have been changing their strategies by directly supplying products to MSMEs by appointing dealers. Whatever volumes the NSIC has lost, have been grabbed by dealers and distributors. Since post lockdown, most dealers were not able to mobilise raw materials from producers and are not able to organise supplies because of cash flow problems. When MSMEs wanted to start production after the lockdown was lifted, we found that dealer's earlier supplying raw materials had just vanished. So, the NSIC approached companies producing raw materials and asked for special incentives, but there is a lot of reluctance because for the last 4-5 years, the market was driven completely by dealers and distributors, and now companies are not willing to change these procedures. Hence, the NSIC approached various ministries and PSUs to give incentives so that MSMEs can obtain products without any difficulty. We***

want special support from raw-material-producing companies, and certain companies have started showing interest. The NSIC is also providing financial assistance and logistics support. So, it makes sense for MSMEs to approach the NSIC so that they get raw materials at this critical juncture".

He also pointed out that a lack of demand is the other major issue as MSMEs are waiting for fresh orders, because to borrow money they want the comfort of demand and product sourcing.

On the outlook from the demand side, **Prof Ananth Narayan said**, ***"Demand will revert only when the pandemic fear subsides. For FY21, there will be a severe contraction of economic activity due to the strict lockdown. Many economists are projecting a 5% to 6% contraction in the GDP, and some are even predicting double-digit de-growth in the GDP, which will seriously impact demand. However, there are a couple of silver linings through the resurrection of the rural economy. If we see the CMIE data, unemployment, which peaked at 20%-30% in the middle of April, has lowered very sharply to 8.5%. Clearly, a big chunk of this is because of the success of MNREGA as a lot of jobs were created through this scheme, and the government has already spent Rs 37,000 crore so far. Second, the Food Corporation of India, holds a record amount of food stocks. So, two good things out of this, money has gone into the hands of farmers, and food security is possible. The third good thing is that monsoons are looking good so far and are expected to be normal this year. We could easily expect a 3-5% increase in agriculture growth this year. All this augurs well for the rural economy. Since the urban economy is still grappling with Covid-19, demand should mainly come through the rural economy. So, all sectors catering to the rural economy should see some respite now. Eventually, the reality is that this is a deep recession, with the economy witnessing a huge contraction in the GDP.***

On the financial support front, on whether the central government's measures to provide additional funding to MSMEs is sufficient to meet their financial requirement, and how the ECLGS has progressed so far, **Shri Rao of SIDBI said** ***"The speed at which sanctions are happening under the ECLGS is definitely picking up, and within a span of 37-40 days, we have sanctions of around Rs 1,10,000 crores and disbursements around Rs 52,000 crores. So, the encouragement is very much there, and definitely, the speed is also there. There is scope for more funding requirements, but it depends on MSMEs' intake. Once the Rs 3 lakh crore is***

exhausted, perhaps both, the government and regulator, will be looking into the requirement of the industry and may take a conscious call".

On the lending situation at the bank branch level, and the translation of government's support to MSMEs through the ECLGS **Mr. C S Setty of SBI said**, *"**For the first time, there is a product that is very simple to implement, i.e. ECLGS, and there is absolutely no reason for banks to be risk averse as there is no risk of default, and there is no capital requirement because of a 100% government guarantee. SBI has completely revamped its MSME lending and positioned a senior officer across the country in each of the 90 administrative offices at the AGM level, who will be a single point of contact for MSMEs. A lot of reskilling of people is happening at the operating level. Sensitivity towards MSMEs is increasing. A lot of initiatives have been taken. One of the most important initiatives that the ministry has taken is the Champions portal. Other than the initiatives, the most critical point will be how do we make these receivables to flow into MSMEs both by the corporates, as well as PSUs, and we must facilitate MSMEs to get their money in time".***

On how to attract foreign entities to invest in MSMEs, whether equity or debt, and what is limiting them from investing in MSMEs, **Mr. Marwaha of Sun Global UK said**, *"**With the current times being grim as they are, one has to look for opportunities and silver linings. Realignments are happening, like international realignments that took place, which allow for Indian products to find the place in the international market. There are opportunities for Indian MSMEs to be a part of supply chains and integrate themselves into a certain supply chain they haven't been a part of so far. If we focus on operating companies, in terms of the scale at which they operate, a lot of them are actually ground-level cash-flow-generating operating companies. And making them investible from both, debt and equity perspectives, is the problem of consolidation and size. International investors appreciate consolidation and size, and a lot of them with pockets of liquidity/capital can only go into situations that can afford that size. Although the domestic banking system with support from the government is attempting to finance in this situation, the lacuna in financing the MSMEs space is probably in the range of at least 200 to 300 billion dollars, which can only come when you start looking at international capital flowing in both firms. Consolidation will imply that you look at all of these entities, a bunch of operating companies coming together,***

and have some sort of a credit intermediation mechanism sitting on top of that. Individual entities may not be creditworthy enough to attract capital, but the consolidated set will definitely be able to afford to borrow. What is required is an apex entity, whether the EXIM bank of India, etc., or any entity actually be created domestically, which will play the role of an intermediary or rely on enough and more developmental financial institutions to come and play this role and use their sort of umbrella, but this model we need to start quite aggressively and then bring in foreign capital at least for the debt perspectives to these entities. The initial move could be advantageous. Use this as an opportunity to bring in cheaper capital and enable these MSMEs to produce and be a part of the international supply chain".

Contacts:

Investors and Media Contact
+91 84339 94686
liena.t@brickworkratings.com

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