

‘Credit on Tap, but Big Cos Hold Back Rs.3.3L-cr Dues to MSMEs’

Lack of bargaining power hurting smaller players: Brickwork study

23 Jun 2020 | Saloni.shukla@timesgroup.com

Mumbai: Micro, small and medium enterprises (MSMEs) continue to face stretched liquidity cycles despite easing of credit from the banking system as large corporates with stronger liquidity banking have held up nearly Rs3.3 lakh crore payable to MSMEs, a new study has revealed.

This is largely due to the low bargaining power that small businesses have with large corporates to have payments released for materials supplied or services provided, according to the study by **Brickwork Ratings**.

Large corporates extracting long credit periods despite sufficient liquidity has logjammed credit cycles for MSMEs, the credit rating agency said.



“Even if 50% of the funds held up by strong large corporates with high creditor days are released, it will shore up the liquidity for the MEME sector by close to Rs1.6 lakh crore, and significantly reduce the liquidity pressure and working capital burden,” said Rajat Bahl, chief ratings officer of **Brickwork Ratings**.

Many large corporates have increased their bargaining power with MEMEs amid adverse economic conditions in the April-June quarter. ET had reported in its edition on April 17 that top corporates such as Tata Steel and Asian Paints were delaying vendor payments by 45-30 days citing Covid-19 pressures.

Another research by Crisil said the 5% contraction in the Indian economy wrought by the Covid-19 pandemic could lead to an existential crisis for MEMEs. While the pain is expected to lead to a 15% decline in revenue and 25% fall in Ebitda for India Inc, for MEMEs, the fall in revenue will be steeper at 17-21% and Ebitda margin may shrink 200-300 basis points to 4-5% as weak demand gnaws away gains from lower commodity prices, Crisil said.

“The current facilitations may not have the heft to crank up demand in the near term because fiscal stimulus is limited and only to vulnerable households,” said Amish Mehta, chief operating officer of Crisil.