

Upliftment Of MSMEs- Extricating The Economy

written by Avani Sinha | June 10, 2020



Why are Relief Measures for MSMEs essential for the Economy?

The Ministry of Finance has been at the forefront, shielding the Micro, Small and Medium enterprises (MSMEs) from the aftermath of the pandemic. The sole purpose was to avert the recession. The outbreak of the pandemic and ensuing countrywide lockdown had led to the closing down of various industries causing the MSMEs also to become distressed. Hence, to protect this sector, in conjunction with various provisions proposed to be brought into light lately, the government issued fresh statements vide press release on June 01, 2020[1].

Following the announcement of the relief package on May 13, 2020, the government decided to further raise the limit for medium manufacturing and service enterprises. The composite classification of the MSME[2] with consideration of turnover notified on June 01, 2020 is reproduced below-

- Micro enterprise- the investment in Plant and Machinery or Equipment is up to Rs. 1 Crore and turnover is up to Rs. 5 Crore;
- Small enterprise- the investment in Plant and Machinery or Equipment is up to Rs. 10 Crore and turnover is up to Rs. 50 Crore ;
- Medium enterprise- the investment in Plant and Machinery or Equipment is up to Rs. 50 Crore and turnover is up to Rs. 250 Crore.

The government's decision to raise the turnover limit for medium units from Rs 100 Crore to Rs. 250 Crore will help introduce innovation and influence automation in explicit segments and lift up outbound shipments. This is a tricky move and improvement in investment in plant and machinery would not have been very useful except if accompanied by an increase in the turnover cutoff to Rs. 250 Crore.

In an attempt to make this significant sector of the economy endure, the government has outlined explicit boosters vide press release on June 01, 2020, that could offer some relief to the battling industry. The significant features[3] are discussed below-

- The turnover with regard to exports will not be calculated in the limits of turnover for all classes of MSMEs-

The idea is to remove the turnover criterion for characterizing MSMEs in the export sector. This will help MSMEs to voluntarily sell overseas without losing any benefits. They can acquire more profit by selling abroad.

This will help the MSMEs in capturing international attention and will help

in regulation of the sector on exports. Such a move will likewise bring automation of few processes which are required for combative manufacturing or production. The decision will enhance India's exports and reinforce the MSME sector, which is India's path to becoming self-reliant.

- A provision for Rs. 3 lakh crore collateral-free automatic loans for MSMEs has been acquired-

As indicated by the scheme, the government will offer full credit guarantees for the loan amount to banks, in the event of such loans turning bad. The scheme was introduced considering the fact that the MSME sector is struggling for assets in the current situation. Since this sector is facing a financial crisis, they don't have huge cash flows or promoters for survival. Numerous MSMEs, particularly smaller ones, have already run out of money and are facing difficulties to pay staff salaries, rents and other expenses on account of an already slowing economy and prolonged lockdown. These firms need funds to meet immediate payment obligations.

The comfort for banks, in this case, is a 100 percent government guarantee on these loans. Nonetheless, the banks will be watchful to part with these credits.

- Provisioning of Rs. 20,000 Crore as subordinate debt to provide equity support to the stressed MSMEs

This provision of the introduction of subordinated debt may assist a large number of stressed MSMEs. This will help in pulling in speculations and creating more job opportunities in the MSME sector. This scheme will go a long way in empowering them to resume work and earn livelihoods. It can be construed that the equity support will encourage increased financing by promoters in MSMEs thus giving way to gather upfront profit and helping the sector to sustain with the continuing cash flow.

- An open door for MSMEs to get listed in stock exchanges-

Proposition for equity infusion of Rs. 50,000 Crore for MSMEs through fund of funds has been affirmed in the press release. This will establish a framework to assist MSMEs in managing the debt-equity ratio and capacity augmentation creating opportunities for MSMEs to get listed in stock exchanges.

The decision by the government to permit the listing of MSMEs will help them in the longer-term and become a growth engine for their recovery. MSMEs listed on the stock exchange will no longer have to rely upon banks for their funding. Through this strategy, MSMEs with a decent balance sheet, good ratings and GST record will get ignited. The platform is expected to offer a new and alternate asset class to investors and will allow early-stage ventures and small quality organizations to raise capital as they develop, mature and transit to the Exchanges' mainboard.

This method of fund raising through infusion of equity can assist companies in raising borrowed funds at an efficient rate. Equity financing can be utilized to reduce the debt burden thereby lessening the interest and other financing costs. This strategy will also help to produce an autonomous valuation of the company by the market assisting in representing a company's public profile and image to customers, suppliers, investors, financial institutions and the media. Listing of MSMEs will prompt better corporate administration and timely revelations thus securing the interest of the investors. Additionally, it provides a continuing liquidity to the shareholders of the organization.

Among the above mentioned changes, the government has also launched a

platform "CHAMPIONS" for boosting the MSMEs.

CHAMPIONS[4]-

The government has launched this e-platform for advancement and empowerment of the MSMEs. The full form of CHAMPIONS being Creation and Harmonious Application of Modern Processes for Increasing the Output and National Strength. As suggested by its name, this portal focusses at Creation and Harmonious Application of Modern Processes in order to increasing the Output of the MSMEs. This is primarily for aiding the smaller units to become big. Fundamental Objectives of the E-portal are-

1. To assist the MSMEs that face inconvenience in terms of finance, raw materials, labour, permissions, etc.
2. To help MSMEs to extricate maximum advantage of the new opportunities including manufacturing of medical items and accessories.
3. To identify the expert and capable MSMEs and help in progression of such MSMEs who can withstand the current circumstances and have potential to become national and international champions.

CONCLUSION - Relief Measures for MSMEs essential for the Economy?

Under this package, the MSME sector has been given considerable apportionment and furthermore rendered priority in all the measures to resuscitate the economy. The upgrading in the classification of the MSMEs is a significant advancement towards ease of doing business and has broadened the scope of MSMEs. This will draw in more ventures and will create more opportunities in this sector besides providing a boost for many MSMEs that are struggling to stand out. This move will benefit enormous MSMEs to sustain and regrow concurring the tough time.

The new provisions will fortify the growth potential of the MSMEs. The object of all the new provisions and amendments is to prevent the shattering of the economy, thereby targeting the important sector by contributing a major chunk in maintaining the cash flow in the country. Additionally, the technology driven platform explicit for the MSMEs is an extremely crucial step for evolution of the sector. With all the current provisions brewing up the economy, there is light at the end of the tunnel.

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- [1] Press release by Ministry of Micro, Small & Medium Enterprises
<https://pib.gov.in/PressReleasePage.aspx?PRID=1628345>
 - [2] Notification for revised classification of MSME
<http://www.dcmsme.gov.in/Gazette-notification.pdf>
 - [3] <https://pib.gov.in/PressReleasePage.aspx?PRID=1628345>
 - [4] E-portal
- https://champions.gov.in/MyMsme/grievance/COM_Grievance_Welcome.aspx

- Relief Measures for MSMEs

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