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NEWSLETTER

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MSME News Update

1. *Govt. suspects GST leakage via SME scheme*

The government suspects that its composition scheme meant to ease life for small businesses is being misused with the average quarterly turnover estimated at Rs 2 lakh. For July-September, around 10 lakh entities had opted for the composition scheme for GST — where only the turnover details have to be disclosed and tax is paid at a flat rate. Of these, around 6 lakh filed returns.

But the total amount mopped up from these entities for the three-month period added up to Rs 251crore, translating into an annual turnover of Rs 8 lakh.

The number has taken the government machinery by surprise as the threshold for registering for GST is an annual turnover of Rs 20 lakh. With registrations on the rise, now around 15 lakh entities are registered for the composition scheme. But officials fear that because of multiple relaxations, there has been leakage of tax revenue from the system.

The startling numbers have also prompted the finance ministry brass to check the scheme for payment of presumptive tax under income tax, where the limit was doubled to an annual income of Rs 2 crore. The numbers estimate the average annual income at Rs 18 lakh, which again officials believe is a result of under-reporting by those who are eligible to opt for it.

The immediate worry, however, is GST, where aspects like invoice matching, reverse charge and e-way bills were put on the back burner as there was an uproar of sorts against the new regime that sought to plug leakage of government revenue.

(The Times of India, January 1st, 2018)

2. *Separate insolvency norms likely for MSMEs*

The government has indicated it would come up with separate norms to deal with insolvency proceedings against small and medium scale enterprises (MSMEs) to protect their interests.

"What do you do with the MSME sector? With regard to the MSME sector, the Insolvency Legal Committee has already been looking into this issue as to whether we require a separate set of regulations to deal with them. They have been asked to give the report within three months and once that recommendation comes, we will apply ourselves to it and if necessary, come back to this House if any changes are required to deal with the MSME sector," finance minister Arun Jaitley said while responding on the Insolvency and Bankruptcy Code (IBC) (Amendment) Bill.

The Rajya Sabha unanimously approved the bill which aims to keep defaulting promoters out of the resolution process of insolvent companies. The Lok Sabha had earlier approved the legislation

(The Times of India, January 3rd, 2018)

3. *More MSMEs register with M1 exchange for online trade receivables discounting*

Micro, small and medium enterprises (MSMEs), which were hitherto struggling to stay afloat due to paucity of working capital, can bank on M1 Xchange, a digital platform that deals in TReDS.

Launched by outsourcing and consulting firm Mynd Solutions, the platform which went live in April last year has on-boarded many large corporates, their vendors (who are mostly MSMEs) and banks — public, private and foreign — to do the transactions, its founder and Chief Executive Sundeep Mohindru told.

He said the use of TReDS is aimed at improving the flow of funds to the MSMEs by reducing the receivables realisation cycles. TReDS will allow SMEs to post their receivables on the system and get them financed.

The manual bill discounting market is currently estimated at around ₹ 30,000 crore a year. Mohindru perceives that with the online system in place, this could grow manifold in the years to come.

The Reserve Bank gave in-principle approval to three entities in 2015 to deal in TReDS — Mynd Solutions, Axis Bank and NSE-SIDBI joint venture.

"Though we launched the platform in April, it was only in October last that we went commercial with it. The volume of bills discounted averaged ₹ 100 crore a month since October. Over 200 MSMEs have registered on the platform till date."

Till September, only five banks were active on this platform. It more than doubled to 12 by December. As this is an RBI-driven process, banks are comfortable and they get priority sector lending benefit as well.

"As both the buyer and seller are on the same platform, banks can infer the genuineness of the transaction and offer its services. The rate of interest charged on this platform ranges between 8.5 and 10 per cent," he said, and pointed out that SMEs raise up to five invoices a month on a corporate.

"We have on-boarded milk aggregators, farm traders and such other MSMEs. Liquidity is high as the vendor and supplier are registered on M1 Xchange and the MSME is able to select the best bid."

To a query on the registration process, he said, "The MSME can log on to the site and register, irrespective of our presence in that particular city. We will be able to on-board them within 48 to 72 hours after completing the KYC and control checks.

"We charge both the bank and the MSME a token fee for every transaction," Mohindru said.

(Business Line, January 8th, 2018)

4. *New year gift for Khadi workers*

Taking serious notes of the low profitability of the Khadi Institutions (KIs) due to the low remuneration paid to its office bearers, the KVIC has decided to increase their salary/remuneration linking with the turnover/sales performance of each KI from January. This would benefit secretaries and chairman of the KIs.

Giving this information, KVIC chairman VK Saxena said that at present, except few Khadi Institutions, most of them pay very meager amount of remuneration to its office bearers — ranging from Rs 5,000 to Rs 10,000 per month. "It was the need of the hour to connect their salary/remuneration with the sales performance of their respective KIs. It will act as a morale booster for them to work hard for an overall improvement of the institutions," he said.

He went on to add, "Most of the profitability is blocked in the form of large inventories and sundry debtors. Low remuneration also open ways for the office bearers to use unfair means to earn extra money from the KIs, to meet out their house hold expenditure."

Not only that, it would also encourage everyone from artisan to office bearers to give their best to increase their income and consequently increasing the employment opportunities.

The KVIC Chairman further informed that this issue was discussed on many occasions at various forms including with the Minister of MSME Shri Giriraj Singh and it was unanimously proposed to give proper increase in their monthly remuneration of secretaries and chairmen of KIs.

"The monthly remuneration proposed varies from Rs 15,000 to Rs 90,000 per month with respect to the turnover of the Khadi Institutions ranging from Rs 50 lakh to Rs 5 crores and above. The institutions with lower turnover will now enthusiastically approach to make it doubled or tripled as it would directly proportional to their performance. Similarly, the federation members agreed that value addition in the products will not affect the pricing in any manner," Saxena added.

Similarly members of the board of Khadi institutions will also get Rs 1,000 per sitting, which has also been started for the very first time.

There are altogether 2,600 KIs, of which number of institutions having annual turnover of less than Rs 50 lakh and between Rs 50 lakh and Rs 1 crore are 1,274 and 388 respectively. With this moral boosting remuneration bonanza, it is all set that in the coming years; almost 50 percent institutions would try to achieve the higher circuit, which would automatically increase the turnover of the Khadi to a new high.

(The Pioneer, January 8th, 2018)

5. SME IPOs make a mark in 2017

Spurred by investor interest, 132 small and medium enterprises (SMEs) raised a record Rs 1,785 crore through IPOs in 2017, which was more than three times the funds raised in the preceding year. Funds raised were used for business expansion plans, working capital requirements and other general corporate purposes.

A total of 132 SMEs got listed with initial public offers (IPOs) worth Rs 1,785 crore last year as compared to 66 firms garnering Rs 540 crore in 2016 through the route, according to a data compiled by Pantomath Research.

Besides, 2017 witnessed more fund-raising than aggregate capital garnered in past five years cumulatively. Overall, the firms had mopped up Rs 1,315 crore in last five years.

Together, these 132 firms have a market capitalisation of more than Rs 30,000 crore.

"The year 2017 has been pinnacle in SME capital market and we expect this trend to continue in 2018 as well," said Mahavir Lunawat Group Managing Director at Pantomath Advisory Services Group.

Besides, average initial share-sale offers have shot up to Rs 13.42 crore last year from Rs 8.18 crore in 2016.

The IPO chart in the year is led by Zota Healthcare that raised Rs 58.50 crore, followed by Euro India Fresh Foods Ltd, which mopped up Rs 51.26 crore.

Geographically, Gujarat continued to dominate the IPO space by contributing 51 firms on SME bourses, followed by

Maharashtra (39), Madhya Pradesh (11), Delhi (8), Rajasthan (6), Telangana (4), West Bengal (3) and two companies each got listed from Andhra Pradesh and Punjab.

The companies which got listed during the period under review represent diverse industry base such as media and entertainment, manufacturing, textiles, engineering, finance, chemicals, agriculture, food processing and construction.

"Some of the marque investors also participated in SME IPOs at pre-listing and post-listing stage. This clearly shows SME investing is gaining popularity day by day," he added.

The year 2017 also reaped bumper returns to investors. Out of 132 companies listed in 2017, 39 closed at 20 per cent upper circuit limit on the first day of listing.

Further, robust response from investors has been received in terms of subscriptions with five IPOs getting subscribed more than 100 times the issue size.

In terms of value, top five initial share-sale offers garnered Rs 18,629 crore subscriptions from the investors.

BSE and NSE launched SME platforms in March 2012, becoming the only two bourses to offer such a segment in the country. Since then, around 329 companies have got listed on these platforms.

Further, SME indices outperformed broader markets in 2017. The secondary market witnessed 89 per cent growth of BSE SME index and 67 per cent surge in NiftySME. In comparison, the broader indices - Sensex and Nifty 50 - climbed 27 per cent and 28 per cent, respectively.

(The Times of India, January 3rd, 2018)

6. *Odisha sheds 'MoU model' tag, rides on reforms to tap emerging sectors*

Odisha, known for its 'memorandum of understanding (MoU) model of development', is veering to a reform-powered growth path, with focus on speedy approvals, to tap emerging sectors.

With the average time for a project approval in Odisha narrowing to 19.5 days and the state boasting of the highest conversion rate from investment intents to firm proposals, the stage is set to script a new growth story that goes beyond the favoured metals and mining space.

Sanjeev Chopra, principal secretary-industries said, "Odisha is a victim of perception. More often than not, people tend to speak of Odisha in a negative light. That's very unfortunate. An industry report ranks Odisha among the top three states in attracting live manufacturing investments and the number one in implementation rate (of projects). This has not happened through a stroke of luck but on the back of reforms and systems put in place.

Chopra junked the MoU model of attracting investments, clarifying that the emphasis was more on timely approval to projects. "We, at the industries department, have not signed any MoU in the last three years. There is no need to sign any MoU. An MoU has no legal backing. We invite investors to come to us and we will give an approval within 30 days," he said.

Between 2002 and 2010-11, Odisha signed 92 MoUs. Forty-six of these have translated into production, which is the highest conversion rate in the country among MoU-signed projects, Chopra claimed.

Arun Mishra, managing director at Tata Steel SEZ Ltd and vice-president (project Gopalpur), said with its industrial ecosystem and as an education hub, Odisha was branching out to other sectors.

"We have the knowledge and skills to help us to diversify into other sectors, which we did not dare to in the past. This government has come out with many initiatives that have taken care of people who are not into gainful employment pursuits and this gives solace to industry. If industry is burdened with social initiatives, then it becomes a drag."

The state government has listed six new focus sectors in its Industrial Policy Resolution-2015. These are electronics manufacturing; tourism; ancillary & downstream industries in metals and chemicals; plastics & petrochemicals; food processing, including sea food; and textiles & apparel. In these six, Odisha aims to garner Rs 2.5 trillion of fresh investments by 2020.

L N Gupta, additional chief secretary-MSME, said Odisha has huge potential in food processing, especially sea food. "We are the ninth largest fish producer. Exports worth Rs 3,000 crore (Rs 30 billion) are likely to happen this year in the marine sector.

Gupta dwelt on the calibrated efforts taken up to change the landscape of entrepreneurship and build a start-up ecosystem in Odisha. "152 start-ups have been registered without the start-up portal, of which 10 per cent are helmed by women. We are providing Rs 20,000 every month to registered start-ups and marketing & development allowance of up to Rs 15 lakh. We also have a learning & development programme developed by Upgrad, which has seen around 3,000 registrations. We have an informal partnership with Facebook to provide digital marketing skills to micro entrepreneurs."

Opportunities also exist in steel downstream space, said R K Sharma, principal secretary (steel & mines). "I believe the number of downstream industries in steel would go up. We will ensure that there is no scarcity of raw materials as we will be able to bring many more mines for auctions. The government will also endeavour for seamless transition for mining leases due to expire in 2020. Odisha has been leading reforms in the mining sector and we believe the sector can drive the state's GDP (gross domestic product)," Sharma added.

Vinod Nowal, deputy managing director at JSW Steel, said the company was hopeful of starting work on its 12-million-tonne steel project in Odisha in the next fiscal year. "We have applied for all clearances. Apart from steel, we may also go for some allied products and value addition."

Nowal sounded confident of Odisha's promise of being an industry friendly state. "My experience with the bureaucracy (in Odisha) is very high. The officials are very proactive. Politically too, there is not much interference."

(Business Standard, January 08th, 2018)

7. *FinMin asks PSBs to back Stressed Small Businesses*

The finance ministry has asked public sector banks (PSBs) to consider special packages for small and medium enterprises (SMEs), especially those under stress.

The government feels such enterprises should have easy access to finance and market as they are critical to job creation. Banks have been asked to look at all options, including restructuring of loans in cases that originate in genuine business reversals rather than wrongdoing.

They could consider creating special units to speed up such cases and provide credit support where the stress is because of external factors. Some banks including the State Bank of India have already taken the lead and are setting up a rehabilitation unit for such SMEs.

The government is also looking to bringing all new projects in the micro, small and medium enterprises (MSME) sector onto its Udaymitra portal to facilitate easy access to finance.

"Banks will also handhold medium and small enterprises to finalise their project templates," the official said. "Once that is done, these projects will be available on the website where other lenders can also participate in the lending process or offer competitive rates."

Finance minister Arun Jaitley had told banks last year: "One of the focus areas banks have taken up is to support MSMEs because the sector creating jobs and giving boost to the economy has no access to international finance or the bond market."

A senior bank executive said sector-specific Micro Units Development and Refinance Agency (Mudra) products such as Mudra textile and Mudra manufacturing programmes are being drawn up to give a boost to credit growth. "We are also identifying clusters where new schemes can be rolled out or provide enhanced support to existing borrowers," he added.

Banks will also synergise their lending through Mudra Yojana, Stand Up India and Start-Up India to the MSME sector. After announcing a Rs 2.11 lakh crore bank recapitalisation plan recently, the government had said that in order to aggregate MSME products, it will initiate a drive to put them on the Government e-Marketplace (GeM), the platform on which government ministries, public sector units and autonomous bodies buy goods and services. It has also registered all major suppliers on the Trade Receivables e-Discounting System (TReDS).

(The Economic Times, January 7th, 2018)

8. *Citi Foundation promotes job opportunities for young artisans*

Citi Foundation is implementing a programme "E2E-Embroidery to Employment in Agra" as part of its 2016 India Innovation Grant Program (IIGP) through its implementing partner Foundation for MSME Clusters.

The 'E2E Program' aims to infuse new skill sets as per market requirements and enhance income opportunities among 500 embroidery artisans in Agra through a self-propelling model. A Design / Product Innovation Centre formed out of a community enterprise will further continue to function as an design innovation and marketing network for future market linkages beyond the project period.

So far, Programme has enhanced income of 400 artisans by almost 20% and a community enterprise set to operate on its own. By end of March 2018, the Program will enhance skill for 500 young artisans and link them with new buyers which will result in to increase in income by 25% of these 500 artisans.

(Millennium Post, January 8th, 2018)

9. Modernise or Perish: Rice millers have their choice cut out

Conventional Rice Mills tend to have weaker financial profiles compared with modern ones, a CRISIL analysis of about 300 of them from the non-basmati category shows. Such mills face difficulty in managing their business given the low operating margins, low liquidity and high working capital requirements typical of the sector.

Rice milling involves removal or separation of husk and bran from paddy to obtain the edible portion of rice. While conventional mills process paddy using steel hullers, modern mills use the more efficient rubber-roll shellers.

Further, activities such as cleaning, drying, grading and polishing involve manual operations in conventional mills, while their modern counterparts use driers, aspirators, graders, polishers and other equipment for these. The manual process of conventional units leads to higher percentage of broken rice and lower efficiency.

CRISIL's interactions with micro, small and medium enterprises (MSMEs) which it rates in the space reveals that the conversion ratio from paddy to polished rice is more by 10 per cent for modern mills, compared to conventional mills.

Given lower yields and low capacity utilisation, the operating profit margins (OPM) of conventional mills are at least 120-400 basis points (100 basis points = one per cent) lower than that of modern mills across rice producing states. CRISIL believes this gap will only widen going forward, considering the gradual increase in labour costs.

Within the CRISIL-rated sample, conventional rice mills also have lower ratings than their counterparts due to negative cash accrual and working capital crunch resulting in delays in payments to lenders. Unless such units modernise, CRISIL believes, lenders would be wary, and some would also be forced out of business.

(Business Standard, January 9th, 2018)

10. Centre to come out with coir policy: Minister

With a view to maximise the potential in the coir sector, the Centre would soon announce a new coir policy and Cori-Vision 2020, MSME Minister Giriraj Singh said. The Vision targets export of coir products worth Rs 20,000 crore and domestic sale of Rs 40,000 crore by 2021-22, the Minister. It was also expected to generate 20 lakh new jobs in the sector during the period, the Minister said. An amount of Rs 1.16 crore has been made available during 2017-18 through Coir Board for modernisation of 179 coir units in Kerala.

(India Today, January 8th, 2018)

11. 'TReDS' gets going; 47 private firms, banks, PSUs on board'

Eight public sector banks, five PSUs and 34 private firms have come on board the TReDS platform, a mechanism that was formed to promote labour- intensive MSME sector, a top official said.

Announced along with the unprecedented Rs 2.11 lakh crore capital support for banks two months ago, TReDS is an online mechanism for facilitating the financing of trade receivables of MSMEs through multiple financiers.

It aims at improving the finances of MSMEs by shortening the cash cycle through a structured bill discounting framework with participation of all the stakeholders, Financial Services Secretary Rajiv Kumar told.

The Trade Receivables electronic Discount System (TReDS) also enables discounting of invoices of exchange of MSME sellers against large corporate.

It also takes care of the cash crunch for the very important segment of the economy that is the focus of the government, Kumar said.

Kumar said public sector companies like Shipping Corporation of India, Kudremukh Iron Ore Company Ltd and Bharat Electronics Ltd have onboarded the platform while companies like Bhel, Hindustan Aeronautics Ltd, NALCO, IRCON, Goa Shipyard among others are in the process of joining.

So far Rs 80 crore discounting of bills have taken place and 8 banks which are part of TReDS include State Bank of India, Bank of India, Bank of Baroda and IDBI Bank.

Other public sector lenders are Indian Overseas Bank, Dena Bank, Union Bank of India and Oriental Bank of Commerce.

As soon as goods are delivered by a vendor, ususally an MSME to a large firm, the system generates a bill. Based on the bill, the vendor can get working capital from banks at a discounted rate instantly. Currently, bill payment takes 90 days to a year, choking the fund flow of the micro, small and medium enterprises (MSMEs).

Besides, Kumar said, the udyamimitra portal will help bring in a culture of competitiveness among banks to finance MSME projects.

(The Times of India, January 9th, 2018)

12. *Meet on bell metal industry*

Chief Minister Sarbananda Sonowal chaired a high-level meeting of the Industry and the Micro, Small and Medium Enterprise (MSME) Departments for bringing about revival and stimulating growth of traditional bell metal industry of the State.

The meeting discussed about ways to preserve and develop the indigenous industry through different measures keeping with the modern industrial practices.

The meeting also discussed about methods of encouraging the artisans engaged in the bell metal industry so that they can be enabled to earn a decent livelihood through financial gains. Sonowal directed the top officials of the Industry and the MSME Departments for preparing a roadmap in this regard in consultation with the local artisans.

The chief minister also issued direction to the Industry department to conduct a survey about the potential demand of the bell metal products in the international market and instructed the department for taking action to develop the skills of the local artisans for enabling their products to gain popularity in the global market

(The Assam Tribune, January 11th, 2018)

13. *Teotia for new policy framework to address export finance issues*

The Commerce Secretary Rita Teotia said that the country aims to become a 5- trillion economy. To accomplish this mission, the country needs to spruce up its policy framework to address exporters' finance problems.

"To become a $5-trillion economy, we need 40 per cent trade contribution and exports of at least $1 trillion. To achieve this, we must actually gear up our policy framework and address the precise needs of export finance and institutions serving exporters," commerce secretary Rita Teaotia said.

Addressing an industry event, she said, banks and financial institutions need to become more sensitive towards small units, which contribute 30 per cent of exports in terms of value.

"We are facing several challenges on trade finance issues. Our policy framework is not entirely geared up to recognise risks of overseas markets and credit availability. "There is a large challenge for MSMEs and unless we address that, we are not going to become a significant global player," the top commerce ministry official said.

The commerce secretary also stressed upon the need to spruce up banking policy to serve the needs of small manufacturers, services sector and exporters. She said the commerce ministry provides both guarantees and insurance for export finance through various schemes like merchandise exports scheme.

"But these alone cannot make a difference and it is necessary for the banking sector and financial institutions to be more sensitive to these sectors," Teaotia said. Stressing on the importance of like gems & jewellery, pharma and handloom sectors, she said these sectors offer good potential to excel.

(The Economic Times, January 12th, 2018)

14. *Defaulting cashews MSMEs may be spared insolvency ordeal*

The Finance Ministry has agreed in principle to open a special window for defaulting MSMEs in the cashew sector. In the normal course, the Insolvency and Bankruptcy Code (IBC) could have invoked against them.

Finance Minister Arun Jaitley has agreed to a proposal to amend the IBC suitably to allow these MSMEs one shot at restructuring, Rajeev Chandrasekhar, Independent MP, told.

This was decided after he had met Jaitley last month. According to Chandrasekhar, the cashew sector that employs lakhs needs to be handled with care and caution.

Post-IBC, there have been many instances of the MSME units in the sector folding up, especially during a critical period when they were in the transition period through demonetisation and GST.

Some of them had lapsed into bankruptcy, promptly invoking the IBC and concomitant takeover by banks.

The Finance Minister has agreed in principle that this would not be allowed to happen.

Chandrasekhar said he has also suggested that the Finance Ministry sit up with the Commerce Ministry to devise a short-term package for the cashew sector.

“I think there’s sensitivity on these issues in the Finance Ministry. Post-budget, there would likely be a meeting of stakeholders to figure these things out,” he added.

It is acknowledged that these units have only a limited number of buyers, if any, and rely largely on promoters for resolution.

"A bank cannot ideally take over a small company run by a single person. After all, who does the bank entrust it to? Only the original owner knows best how to run it. So what I'm saying is that, unlike in the case of mega enterprises, please don't apply IBC to the small MSME units. Give them one opportunity to get their business back on track.

A lot of them have not been mismanaged, as is largely the case with the big companies. Rather, it could be a combination of mismanagement, adverse economic situation, demonetisation, GST and transition issues.

In the process, these units were rendered unable to meet their bank obligations, leading to default. If they're taken out of the purview of IBC and supported with some cashew sector-specific sops, they can get back to their feet, Chandrasekhar said.

(Business Line, January 12th, 2018)

15. *Bengal business summit gets investment commitments of over Rs. 2 Lakh crore*

West Bengal has secured investment commitments of over ₹ 2,19,000 crore at the 2018 edition of the Bengal Global Business Summit (BGBS), said Mamata Banerjee, Chief Minister.

"Nearly 50 per cent of the commitments made in the 2017 are underway. These are fresh proposals," the Chief Minister said, during the closing ceremony.

West Bengal had drawn investment commitments of ₹ 235,000 crore in 2017; more than ₹ 250,000 crore in 2016; and ₹ 243,000 crore in 2015.

According to Amit Mitra, West Bengal Finance and Commerce and Industries Minister, gross capital formation in the country was abysmally low, and in this context, Bengal had done well to draw investments.

This year's edition of the investors' meet saw manufacturing and infrastructure emerge as the top draw. Nearly 72 per cent of the commitments, or ₹ 156,811 crore, came from these sectors. This includes a ₹ 12,000 crore commitment by the State government towards infrastructure development.

Mitra, however, did not give a detailed break-up. MSMEs remained the second major draw, at 24 per cent, with commitments worth ₹ 53,000 crore. Hospitality and tourism, IT and ITes, health, education and skill development were the other preferred sectors.

"Nearly 20-lakh jobs will be created when these commitments and MoUs materialise," said Mitra. A variety of MoUs relating to technology transfer, academic collaborations and skill development were also signed.

(Business Line, January 17th, 2018)

16. *Building alliance for competitive SMEs*

With mega India-ASEAN commemorative summit, the ASEAN—the central pillar of India's Act East Policy—is back in the limelight. Ever since the launch of the Look East Policy in 1991, the bilateral relations have travelled a long distance, crossing several milestones. The two sides established a Sectoral Dialogue Partnership in 1992, which was elevated to full-fledged dialogue partnership in 1996, and to a strategic partnership in 2012—culminating in the establishment of an ASEAN-India Centre and ASEAN-India Vision Statement. In the same year (1996), India became a member of ASEAN Regional Forum, sharing the high table with US, Russia, Australia and Japan, among others. ASEAN and India have about 30 platforms for engagement, including an annual leaders' summit and ministerial dialogues. Later this year, Prime Minister Narendra Modi will address the security dialogue, Shangri-La—the first for an Indian PM. After 15 years of summit-level meetings, five years of strategic partnership, and with the Narendra Modi government upgrading the Look East to Act East policy, the India-ASEAN bonhomie has broadened to accommodate political, strategic, security and defence ties, in addition to the economic realm. The primary focus of the engagement, however, continues to be the furtherance of economic and commercial ties.

The ASEAN-India economic integration process gathered impetus after the creation of the ASEAN-India free trade area in 2010, followed by the implementation of the India-ASEAN agreement on services and investment in 2015. ASEAN is India's fourth largest trading partner, and India is the seventh largest trading partner of the bloc. However, the bilateral trade and investment ties are still way below their true potential. The bilateral trade stood at $70 billion—only 2.6% of ASEAN's total trade in 2016. This is a long way off the trade target of $200 billion with ASEAN countries by 2022. Besides, the balance of trade has always been in favour of ASEAN member countries. Total exports to ASEAN in 2016-17 stood at $31.07 billion compared to the imports at $40.63 billion, creating an adverse trade balance of $9.56 billion.

In terms of investment, while the Indian FDI into ASEAN nations, standing at over $31 billion, accounts for 22% of its total outbound FDI, it is far less in comparison to the US, the EU and Japan. Over the same time, FDI inflows in India from ASEAN crossed $25 billion. India receives nearly 99% of the total FDI inflows from the region from Singapore alone—with the Comprehensive Economic Cooperation Agreement driving the economic partnership—while the other major Southeast Asian economies being Malaysia, Indonesia, and Thailand accounting for less than 1%.

Several obstacles exist against the bilateral trade and investment today. Challenges in establishing a supply chain, poor infrastructure and bad maritime and air connectivity between India and ASEAN countries have served as obstacles to the trade and investment relations. Besides, all the countries of the region have differing levels of socio-economic development—posing as a complex challenge, especially to the SMEs since they have to adjust with a new set of supply-chain strategies to the varying regulatory requirements in every country. Technological upgrading is pivotal to enabling the SMEs to be more competitive in the global market. That requires big investments in the form of physical equipment and human resources to compete with foreign companies and meeting the requirements of the new customers in foreign markets. The SME sector in India is dependent on foreign technologies in a huge way because they lack an in-house R&D, owing to their smaller setup. Here again, ineffective physical connectivity, communication infrastructure and bureaucratic costs involved in complex tax and duty structures, licensing, and other business activities impeded the flow of FDI into the SME sector until last year. Initiatives like the 'Make in India' and 100% FDI in retail are facilitating foreign investment in the SME sector, which will also help improve the supply-chain efficiencies of this sector.

Moreover, the CLVT countries—Cambodia, Laos, Vietnam and Thailand—are emerging as the manufacturing hotspots, with China increasingly outsourcing its production to these countries. Last year, Chinese companies signed outsourcing deals on construction, engineering and telecommunications projects worth $ 415 million with countries along the Belt and Road project, mainly ASEAN members. The CLVT countries, in particular, stand to gain from this industrial capacity cooperation as their manufacturing remains at a low-level. Further, Chinese e- commerce retailers like Sunning have committed to promoting ASEAN SMEs. Thus, the dominant Chinese footprint in the region makes the competition tougher for Indian SMEs.

The upcoming commemorative summit in New Delhi will provide India another chance to not only voice its concerns to the bloc but also project India as a lucrative investment destination for the ASEAN countries.

Recent major developments on the infrastructure front—improving road and rail connectivity, building international airports and seaports, while earmarking another $377 billion for infrastructure developments in the next three years— are an encouraging sign for foreign companies and investors to do business in India. Seamless transport links are key to India-ASEAN trade relations. To allow smooth movement of goods and services, the Indian government is currently undertaking some big-ticket projects. India has recently proposed a credit line of $1 billion to promote physical and digital connectivity with ASEAN through road, air and sea projects, apart from setting up development fund of $77 million for the development of manufacturing hubs in Cambodia, Laos, Myanmar and Vietnam. The India-Myanmar-Thailand Trilateral Highway is already under construction, and the Indian government plans to extend it to Laos and Vietnam under the Dawei project. Additionally, the action plan for implementation of the BBIN Motor Vehicles Agreement, 2016, has been initiated. Myanmar is a member of both the BBIN as well as the ASEAN. The Kaladan Multimodal Transit Transport Project is another initiative linking the Kolkata with Myanmar's Sittwe port, facilitating the movement of cargo across the India-Myanmar border through the sea route—and later extending to other ASEAN countries like Laos, Cambodia, and Vietnam.

With its largely skilled-yet-unexplored demographic dividend, the logistics sector and the supply-chain environment can be developed to a world-class level. Since regional value chains are a great pathway to connect to the global value chain, there's huge potential to create value chains between the manufacturers of SMEs in India and those in the less developed countries of ASEAN bloc, like Laos, Vietnam, Cambodia and Myanmar, considering that these countries are the beneficiaries of generalised system of preferences in the US and the EU. So, if the Indian manufacturers set up business units in these countries, they are bound to get the same benefits while exporting to the US and EU markets. There is huge potential in creating value chains in textiles and fibres between India and these economies.

SMEs are a vital aspect of both Indian as well as the ASEAN economy, contributing nearly 45% to the Indian manufacturing. The sector contributes even more significantly to the collective GDP of the ASEAN bloc, with the numbers ranging between 30-58%. So, while the jury is still out on the overall impact of the India ASEAN FTA, increasing SME cross-border activities across India and ASEAN by building a regional network, greater integration in the areas of regional trade agreements and digital solutions will, thus, help in boosting mutual economic growth and development. The upcoming India-ASEAN

Summit is further expected to facilitate the process to bring about faster economic development in the region (Financial Express, January 20th, 2018).

17. *Paytm introduces business application*

After WhatsApp, Digital payments platform Paytm has unveiled an application called 'Paytm for Business' to enable small and medium businesses to accept digital payments.

The application, available on Android Play Store, would enable merchants to sign up quickly and get a Paytm QR code to start accepting digital payments, the company said. "The 'Paytm for Business' app will make managing day-to-day business operations simpler for our partner merchants," said Kiran Vasireddy, COO, Paytm. "All needs, ranging from seamless acceptance of various payment modes to day-wise settlement summary, have been taken care of," he said.

The application, available in 10 regional languages, would allow merchants to track payments, navigate past collections and trace settlements made to their bank accounts.

They can also generate a Paytm QR instantly through the app, print it and start using it at their shops to accept unlimited payments directly into their bank accounts at 0% charge.

(The Hindu, January 21st, 2018)

18. *NSIC signs pact with Malaysia's SME Corp*

National Small Industries Corporation (NSIC) signed an MoU with SME Corporation Malaysia for exchange of information and cooperation in areas such as policies to aid development of small and medium businesses (SMBs) in the two countries. Besides, three other agreements were also signed between Indian and Malaysian entities to strengthen cooperation among smaller businesses in these countries.

Micro, Small and Medium Enterprises (MSME) Minister Giriraj Singh, who was present at the event, expressed confidence that the two countries will work together in various areas like manufacturing and technology to drive growth in the SME sector.

He said Malaysia and India are large trading partners and share cordial relations for a long time.

Bilateral trade (between India and Malaysia) was registered at $12.02 billion in 2015 as against $13.84 billion in 2014 and $13.38 billion in 2013, he said.

"As per the latest statistics, bilateral trade during January-September 2016 stood $8.71 billion. Trade is significantly biased in favour of Malaysia," he added. The agreement between NSIC and SME Corp Malaysia is for cooperation in matters of policies, expertise and information relating to the development of MSMEs in India and Malaysia. The two entities will also work together for improving competitiveness of Indian and Malaysian MSMEs in global markets and other forms of technical collaboration.

The MoU between Malamega (Malaysia) and Pupathy Enclave will explore the possibilities of sourcing and supplying fossil fuels and development of green renewable energy. It will also explore joint business ventures for trading coal and other fuels required for power generation sector in India. The partnership between India's GA Software Technologies and JS Rezeki Bumi Maju Sdn Bhd will see an initial project targeted at providing computerised automated services for Malaysian immigration office and its related services/agencies via JS Rezeki's subsidiary

(Business Line, January 25th, 2018)

19. *Why value investors are flocking to SME platforms*

With valuation of small-cap stocks hitting the roof even in the absence of substantial signs of a turnaround in their financial performance, marquee investors and institutional investors are fishing for investment opportunities in stocks listed on dedicated SME platforms of the NSE and the BSE.

Among the investors who have exposure to stocks listed on the SME platform are Chandir Gidwani, Centrum Group founder; Jaspal Bindra, former Stanc Bank Asia Chief; Madhusudan Kela and Sunil Singhania, former fund managers of Reliance Capital; Ramesh Damani, Member of BSE; and Sunny Veliyath Porinju and Vijay Mohan, ace value investors. Some of these professionals have quit their jobs recently and have invested in high-growth and risky SME assets.

These investors, and others, including YES Bank, HSBC Mutual Fund, Sundaram Mutual Fund, Blue Lotus Capital Multi Bagger Fund-I and Reliance Mutual Fund, have together invested about ₹ 35 crore in SME stocks.

The stock prices of most companies that these investors have picked up have doubled in the past one year, although in many cases it was from a low base.

In fact, the buoyant demand has helped 132 SMEs raise ₹ 1,785 crore in 2017, whereas in 2016, 66 companies raised ₹ 540 crore through the IPO route. In the past one month, seven SMEs have collectively raised ₹ 79 crore and have notched up a market capitalisation of ₹ 367 crore.

To date, 336 companies have raised ₹ 3,450 crore by listing on the NSE Emerge and the BSE SME and command a market-cap of ₹ 34,437 crore. Last year, the market-cap of the two SME platforms had more than doubled to ₹ 11,290 crore from ₹ 5,343 crore in 2016.

Mahavir Lunawat, Managing Director, Pantomath Advisory Services Group, said SMEs have just begun to emerge on the exchange platform and they have the potential to exceed the market-cap of the main bourse even if only 1 per cent of the five crore SMEs in the country lists on the exchange platform.

SMEs gain on many fronts by listing on an exchange platform. They get to clean up their balance sheets and improve their credit rating, which in turn lowers their bank finance cost by 3-5 per cent; they also get to raise short-term finance by pledging equity, he added.

Pantomath Advisory managed 60 SME IPOs that together raised over ₹ 600 crore last year. It also manages ₹ 50 crore under its alternative investment fund and portfolio management service launched recently.

(Business Line, January 25th, 2018)

20. *How can the government revive manufacturing?*

After decelerating for five quarters, the growth in gross domestic product (GDP) recovered to 6.3% in Q2 of 2017-18 on account of a rebound in manufacturing. The projected growth at 6.5% in 2017-18 is premised on high growth in services in the next two quarters, though manufacturing growth may remain subdued. Our assessment also suggests manufacturing growth will remain subdued until 2018-19. Achieving 7.5% plus growth after 2018-19 will require a series of measures for manufacturing, which we outline below.

The table shows falling manufacturing GDP growth, the anaemic status of credit growth to manufacturing and micro, small and medium enterprises (MSMEs), poor rate of growth in fixed investments and rate of growth of capital goods and the falling ratio of fixed capital to GDP. But banks' investment in government securities grew 15% in the past four quarters. Banks are reluctant to offer credit for industrial activity, reasons for which are widely known. The current reported data on investments is also not encouraging. Data from the Centre for Monitoring Indian Economy (CMIE) shows a significant reduction in new investment proposals in April-December 2017. Hence we may see some brown-field expansion in manufacturing in 2018-19, but few fresh investments.

Productivity growth of manufacturing has been moderate and sticky. Average productivity growth of organized manufacturing during 2010-13 was around 1.8%. The total factor productivity growth of manufacturing in the corporate sector is a little higher, but it exhibits similar stickiness. Total factor productivity growth in some key sectors such as basic metals and non-metallic minerals was negative. Though other general measures on labour, land and infrastructure could improve total factor productivity somewhat, sector-specific factors are required to be analysed for taking necessary policy measures to take productivity growth in manufacturing to a higher level.

Industry associations and executives have been suggesting the need for policy interventions by the government to improve manufacturing prospects. From building skills among the large population of minimally educated workforce, enacting laws that focus on improving workforce relations together with greater flexibility, improving infrastructure including development of world class clusters, reducing uncertainties and providing stability and predictability in regulatory, legal, environmental, taxation areas and providing access to capital at competitive prices have been many of the suggestions that have been offered at different fora. Some initiatives have been taken in recent past, but they need focused implementation.

An already conceived programme on silicon manufacturing for fabrication must be revived. This will ensure competitive domestic production of chips, leading to a reduction in imports of electronic items that has been increasing, as well as improve security. Electric vehicles are an area where evolution of technologies gives us options and public investment in this area should not restrict choice.

The model standing orders need to be replaced by guidelines, allowing industries themselves to frame their specific standing orders. The multiplicity of unions wastes productive management time; we should see how its beneficial effects can be captured in other ways.

The global economy is witnessing a revival. The US, Europe, China, Japan and South-East Asian economies are exhibiting growth. The exports to these countries would help in improving capacity utilization and a restart of the investment cycle. The procedure in goods and services tax (GST) refunds for input tax credit and other processes by Directorate General of Foreign Trade (DGFT) in exports could be allowed on a self-certification basis to reduce the liquidity crunch. Banks should reassess working capital requirements for exports and meet them on a priority. Items for which merchandise export incentive scheme (MEIS) was not granted so far may be revisited and attention may be focused on assistance to states for export-related infrastructure through assistance to states for development of export infrastructure and allied activities (ASIDE) type schemes, financial and technical assistance to export industries to improve their standards and application of trade defence measures wherever permitted. The inverted duty structure must be attended to and negotiations of items getting hit under current free trade agreements (FTAs) should be focused upon.

The insolvency and bankruptcy code's (IBC) implementation will be watched by both banks and the industry alike to draw lessons for their future behaviour. We have decided to recapitalize public sector banks. Once we get an idea of the extent of recovery in some sectors after studying IBC results, the government and the Reserve Bank of India (RBI) can assess further capital requirement. The government, however, must state now itself that on consideration of such requirement, the necessary recapitalization amount will be provided. The autonomy of bank management, enhancement of banks' professional capabilities, increased use of technology to reduce costs, improved whistle blower system and getting government equity holding below 50% are other necessary measures for confidence-building for lending.

The MSMEs' financing has suffered. Structures within banks must be regrouped to create specialization at zonal or regional level for appraisal and grant of loans to this sector. Branches will then monitor only the performance of these loans. An increased use of ratings, credit insurance, and reasonable choice by creditor committees in the IBC proceedings for MSMEs are necessary. There are reasons why factoring has not taken off and efforts must be made to fix the problem. Other intentions such as self-certification and steps for seamless graduation must be implemented.

(LiveMint, January 26th, 2018)

21. *'Honest borrowers will get loans easily'*

Honest borrowers will find it easier to get loans from public sector banks (PSBs) following the reforms being undertaken, said Rajiv Kumar, Secretary, Financial Services, asserting that there would be a premium on integrity.

The government announced a slew of reforms for the banking sector and said it will infuse an unprecedented ₹ 88,139 crore capital in 20 PSBs before March 31 to boost lending and revive growth.

Announcing the reforms, Finance Minister Arun Jaitley had said that stringent norms for disbursal of high value loans have been framed, with strict surveillance on big loan defaulters and mandatory reporting of loans of over ₹ 250 crore if there is a breach of any covenant.

PSBs have been reeling under non-performing assets (NPAs) or bad loans, which total around ₹ 8 lakh crore and have hampered lending, impacting growth.

"One of the key objectives of the reform process announced by the government is to put a premium on the integrity of the borrower and make need-based funding easy and hassle-free for genuine and honest borrowers," Kumar told PTI.

In addition to various fintech tool, he said, GST returns filed by anyone gives a fair idea to banks about the cash flow.

Banks can thus decide about sanction of loans, Kumar said, adding that rigorous due diligence and ring-fencing of cash flows would ensure safety and security of loans sanctioned.

He said special focus will be there on micro, small and medium enterprises (MSMEs), financial inclusion and job creation. For easy access to finance for the MSME sector, it has been decided they would make online application for loans that would be 100 per cent automated and decision making would be tracked at each stage.

Decision with regard to loan application has to be finalised within 15 days for the online proposal made through Udyamimitra.com.

As part of government resolve to fund the unfunded, banks would also focus on enhancing exposure to MUDRA and Stand Up India. Since the launch of Mudra Yojana by Prime Minister Narendra Modi in April 2015, banks have disbursed more than ₹ 3.80 lakh crore to over 8.90 crore beneficiaries.

(Business Line, January 26th, 2018)

22. *Iron ore price rise puts small sponge iron makers in quandary*

The sharp rise in iron ore prices has taken a heavy toll on small and medium sponge iron manufacturers across the country.

Earlier this month, NMDC increased iron ore prices by 30 per cent, from ₹ 5,100 to ₹ 6,600 a tonne.

Vijay Jhawar, Secretary, Chhattisgarh Sponge Iron Manufacturers Association, said the Centre should fix the price of iron ore supplied through linkages for one year, as price volatility in the key raw material can potentially sink a few industries.

If the Centre can insist on the industry supplying steel at a fixed price for six-nine months for specified government projects, how can it let iron ore prices fluctuate so widely, he asked.

Moreover, he said, iron is a natural resource, and it belongs to the steel industry as much as it belongs to NMDC. The industry is in doldrums as banks are not willing to provide extra working capital to tide over the iron ore price rise, because of the bad experience they have had with the industry, he said.

Iron ore constitutes 65 per cent of overall sponge iron making; 2 tonnes of the material is required to produce 1 tonne of sponge iron.

The Centre should levy loyalty and other cess on the finished product rather than the basic raw material to promote value addition, said Jhawar.

There are about 360 small units producing about 35 million tonnes (mt) of sponge iron, with Chhattisgarh and Odisha commanding capacities of 19 mt.

The situation has become piquant for MV Subba Rao, Chairman, KIOCL Ltd, who has to chart a plan to keep his plant running after receiving the best exporter award for 2017from Mangaluru customs.

With pellet export realisation at $105 (₹ 6,720) a tonne, almost equal to the iron ore price, Rao plans to buy two vessels of iron ore from NMDC, two vessels from private miners in Chhattisgarh and one shipment from Goa everyday for blending. This will be more cost-effective than buying five vessels from NMDC.

RK Goyal, Managing Director, Kalyani Steel and Vice-President of Karnataka Iron and Steel Manufacturers Association, said there is a tremendous shortage of iron ore supply in Karnataka even after the Supreme Court increased the annual production cap for the State from 30 mt to 35 mt. Mining companies are waiting for environment and other clearances for the enhanced production quota.

(Business Line, January 29th, 2018)

23. *MSME sector faces major problems getting credit*

India's MSME sector faces a major problem in terms of getting adequate credit for expansion of business activities, the Economic Survey.

The survey tabled in Parliament by Finance Minister Arun Jaitley pointed out that the micro, small and medium enterprises (MSME) received only 17.4% of the total credit outstanding.

"Growth of credit to micro and small enterprises increased by 4.6%, while credit to medium enterprises decreased by 8.3%," it said.

Elaborating on the status of the major schemes implemented for the MSME sector, the survey observed that loans extended under the Pradhan Mantri Mudra Yojana during 2016-17 have crossed the target of Rs 1.8 lakh crore.

"Of this amount, Rs 1.23 lakh crore was lent by banks while non-banking institutions lent about Rs 57,000 crore. In December 2017, total number of borrowers were 10.1 crore, out of which 7.6 crore were women," said the survey.

It highlighted the crucial role played by MSMEs in India towards providing large-scale employment opportunities at comparatively lower capital cost than large industries and also in industrialisation of rural and backward areas.

(Economic Times, January 29th, 2018)

24. *GST base expands, but what about compliance?*

One of the intentions of the Goods and Services Tax regime was expansion of the tax base.

Data put out by the Economic Survey show that the new tax achieved its initial objective of drawing smaller businesses into the tax net. But unless compliance is improved, reverse charge mechanism reinstated and invoice matching re-introduced, all the good will be undone.

Number of GST registrations are currently 9.8 million, according to the Economic Survey; showing a 50 per cent jump over the number of tax payers registered earlier for excise duty, service tax and VAT. While the tax payers migrating from the old system numbers 6.4 million, new registrations stand at 3.4 million.

While the above numbers are already in the public domain, the Economic Survey gives out some new data as well.

It says that there are about 1.7 million taxpayers who were below the threshold limit who chose to register despite not being required to do so.

The Survey also says that almost 13 per cent of non-agricultural enterprises are now part of the formal sector with the rollout of GST.

This is a small victory for GST as expansion of the tax base was one of its primary objectives.

This was supposed to be achieved through two ways – one, due to the Reverse Change Mechanism (RCM) under the GST rules, businesses that bought goods or services from smaller businesses not registered under the GST had to pay the input tax credit on the purchases and claim refund on it later.

The additional compliance burden that this entailed made many larger businesses migrate all their suppliers on to the GST regime.

Two, the Economic Survey says that many small businesses that were not really supplying to large businesses have also registered under the GST. This could be in order to claim ITC.

While the Economic Survey claims the addition of tax payers as an achievement, it is silent about the falling return filing statistics.

Of the total registrations of 9.2 million, around 6 million filed GSTR 3B returns in July and 6.3 million in August and September. But the numbers have been falling since then with only 5.6 million filing returns in December.

It also needs to be noted that invoice matching with the help of both GSTR 1 and GSTR 2 returns have not yet commenced. Tax payers are just about getting comfortable filing the GSTR 3B, which is a summary return where the tax payer estimated the tax after deriving the input tax credit from his books.

The fall in compliance could be partly due to the leeway given to taxpayers by the GST Council. Tax payers faced innumerable problems in the initial months in logging on the GSTN portal and in filing returns, as the system was user unfriendly and quite slow.

With small taxpayers as well as tax consultants raising a furore over the complicated tax filing process, the GST council has allowed tax payers to continue filing GSTR 3B and GSTR 1 returns. The GSTR 2 return, that allows invoice matching has been deferred.

Similarly, due to protests from smaller businesses, reverse charge mechanism has been suspended up to March 2018. These measures in providing relaxation, will undo all the good done in the previous months in expanding tax payer base. It will be better if the Budget brings back RCM and invoice matching concept, at least on a quarterly basis. This will help improve tax filing statistics as well as GST collections too.

(Business Line, January 30th, 2018)

25. *Spurring financial growth*

The Indian financial services' industry has remained stable in recent times. The banking sector has unbundled with a range of service providers widening, technologies making service offerings more personalised and customers making informed decisions by leveraging advances in data science. Players are using agile processes so that products and services can get to the market soon and be adjusted along the path. Customers in the banking sector widened post demonetisation and following financial inclusion agenda. This was possible only with the use of technology and transforming conventional bank to a 'digital bank'.

Spurred by increased awareness among customers and a shift in expectations, emerging competition from start-ups and limitations in traditional models of conducting business, banks have reached a tipping point. To stay relevant in the business and become the 'go-to' platforms in the industry, they are forced to redefine their purpose and align with a new vision.

Creating smart products that self-optimise around customer ecosystem; leveraging, mining, and sharing data; investing in technologies and cybersecurity are necessary steps to be taken in this journey and will be a net positive for the bank tomorrow.

Indian FinTech is one of top five markets by value of capital funding and investments in the sector with nearly $270 million of funding in 2016. India remains one of the largest markets where structural enablers have come together to setup and incubate FinTech at an apt time. A combination of steady economic growth with low penetration of financial services and availability of supporting infrastructure, such as Internet data access, smartphones, along with utility infrastructure, including Aadhaar-based authentication and India stack capabilities, are likely to provide the required impetus to India's FinTech sector.

We have analysed the breakout potential of India's FinTech sector across six segments — payments, credit, investment management, personal finance management, bank technology and insurance technology across 20 sub segments. Expectedly, payments and lending are the likely candidates for breakout in the short-term as new FinTechs target the quest for offering cashless digital payments services. On the lending side, low penetration of retail and MSME credit, along with the promise of better experience and faster turnaround time, have created strong propositions for customers. FinTechs, in other segments, including investment management, personal finance management, BankTech and InsurTech, have initiated the market making process and currently target specific market niches. We believe that armed with right value proposition and by gaining confidence of customers, these segments are likely to witness their own break out moments and it's just a matter of time, some entrepreneurial energy and creativity before it happens.

Incumbent players have up their ante and are embracing these changes, as well as emerging competition, while they are seeking to convert banking consumers, who use digital touch-points to brand loyalists, as also to widen their user base. Use of data to deliver the right customer experience, leveraging innovations to make banking simplistic and to give the customer complete control, are the new guiding principles for financial service providers. Some firms are choosing to bridge gaps in internal capabilities to adopt a more holistic and value-based approach by understanding that all these applications are not always a panacea. Organisations will have to make choices that include trade-offs. They will need a vision of their future, the applications of these in the context of their overall strategy, culture and structure. They have to evaluate the key considerations in implementing changes and aligning them with their ambitions.

Demonetisation too has given rise to digital banking. It is also a pragmatic step towards creating a cashless economy. It is time that banking leaders lived up to the challenges by adopting new technologies in operations and customer service and also embrace appropriate business models. It also time for microfinance institutions and non-banking financial companies (NBFCs) to adapt to the digitised economy.

The Reserve Bank of India (RBI), after having banking license on tap, released a discussion paper on proposal for setting up of long-term finance banks, especially to fund infrastructure and greenfield projects of industries with a minimum capital requirement of Rs 1,000 crore. The Wholesale and Long-term Finance Bank, which will finance infrastructure and core industries, will not have the mandate to open branches in rural and semi-urban areas and lend to agriculture and weaker sections of society. With a record budgetary allocation of Rs 396,135 crore this year, infrastructure has received a boost and affordable housing has been given infrastructure status. At an ecosystem level, development in banking infrastructure and implementing regulations, that are receptive to innovations and data requirements, are also required.

Moody's outlook for the Indian banking system as of September 2017 was stable, although on the back of improved prospect for asset quality. Managing stressed assets poses a growing risk to the Indian economy. Due to the inadequate leverage of multiple options to manage stressed assets and NPAs, a few banking behemoths, like public sector banks, have suffered the most so far. In fact, the problem that confronts the banking industry is a huge pile of non-performing assets (NPAs).

According to the Economic Survey 2017, stressed assets, ie bad loans and restructured loans, constitute 20 per cent of the total loans in the system. So is the Insolvency and Bankruptcy Code 2016 which binds defaulters with a timeline — something which did not exist in the past. For the Government, merger and consolidation is a next bold step towards resolving the problem.

Respective industry players can fund these assets during the cash generating projects life cycle. These players are those with large capital under their asset management arms, or well settled players in the industry where stressed assets belong. By analyzing the different options available, and using the opportunity under NPA resolution rules (with the introduction of new policies), the Indian economy is gearing up to resolve the issue of NPAs. For speedier recovery proceedings and settlement of debts, the Insolvency and Bankruptcy code (IBC) has been introduced. The code provides the insolvency resolution process, or liquidation as two paths to recovery of stressed assets. Most standard restructured loans are now NPA.

Defragmentation for SME and mortgages sector have emerged as a trend and sectors, who have access to the customer ecosystem, have been looking at venturing into financial services segment. It began with telco, but will now be aggregators and retailors, who will converge into financial services. Further, disintermediation/crowd sourcing will be the key trends to pick up in future.

Another measure which would impact the business model and performance of banks is the proposed introduction of the Indian Accounting Standards (IndAS). With the industry seeking advocacy and standardisation, ensuring robust implementation of the IndAS is critical. An organisation-wide transformation to ensure the business model of the bank is in line with the changing laws and policies of the Indian banking industry, and the need for coordinated efforts of stakeholders that will drive the implementation of IndAS.

Recently, the Indian economy has seen a massive change in its indirect tax regime with the introduction of the Goods and Services Tax (GST). Its biggest impact is the shift to decentralised registration in financial services, in turn requiring robust operations, IT and accounting systems. The GST regime is bound to increase compliance across the economy. Though the impact on FSI is not that significant, the effect over other commercial transactions/ industries is slowing financial transactions, and hence, the effect on banking.

As per World Bank estimates, India's rural population in 2016 stood at 66.86 per cent of the total population. Many living below the poverty line can be pulled out of poverty with basic access to financial services, such as payments, insurance and savings. Given the systemic barriers to inclusion, efforts to serve this very attractive segment will require fundamentally different business models. Innovative approaches will help achieve the desired social progress (not just economic progress). Innovation (both, technology and non-technology), across all areas of impact in product and delivery of financial services will be desirable in making the rural segment attractive to service providers, in a way that providers of financial services in-fact, compete for these customers.

(The Pioneer, January 30th, 2018)

26. SMEs hold key to revive investments

The current episode of investment slowdown is ongoing, and one that is impacting growth, and therefore investment revival needs to be prioritized urgently to arrest more lasting impact on growth, said the Economic Survey.

Signalling the likelihood of some steps being taken to boost investment in the Budget, it said, "The policy conclusion is urgent prioritisation of investment revival to arrest more lasting growth impacts, as the government has done with plans for resolution of bad debts and recapitalistion of public sector banks."

To help India regain 8 - 10% growth, the Survey suggested that the measures, that need to be taken soon, should include easing further the cost of doing business and creating a clear and stable tax and regulatory environment. The government must create a conducive environment for small and medium industries to prosper and invest to help revive private investment. "The focus of investment incentivising policies has to be on the big and small alike. The 'animal spirits' need to be conjured back," it said.

The Survey raised concerns over slowdown in savings saying that too was ongoing. However, investment slowdown was more detrimental to growth than savings slowdown.

Referring to the simultaneous slump in savings and investment, the Survey asked, "Should policies that boost investment (substantial infrastructure push, reforms to facilitate the ease of doing business or the 'Make in India' programme) be given greater priority over those that boost saving?"

(Hindu, January 30th, 2018)

27. New campaign to encourage budding Odisha entrepreneurs

Chief Minister Naveen Patnaik launched a new campaign under the central government's Startup India programme to encourage and inspire budding entrepreneurs.

As part of the state's 'Odisha Yatra' campaign, the officials of Micro, Small and Medium Enterprises (MSME) Department will travel to 60 educational institutions in 15 districts, including Khurda, Cuttack, Bhadrak, Balasore and Ganjam, he said.

As part of the state's 'Odisha Yatra' campaign, the officials of Micro, Small and Medium Enterprises (MSME) Department will travel to 60 educational institutions in 15 districts, including Khurda, Cuttack, Bhadrak, Balasore and Ganjam, he said.

Ten boot camps will be organised at selected colleges, where aspiring entrepreneurs will get a chance to present their ideas and seek backing from investors.

The winners of the boot camps will get cash prizes, legal consultation, advisory services and mentorship support, he said.

Odisha's MSME minister Prafulla Samal said the main objective of the yatra is to create awareness about the startup eco-system in Tier-II and Tier-III towns and encourage entrepreneurs and youths to set up their ventures in the state.

The one-month yatra will conclude with a grand finale at Bhubaneswar, he said.

Additional Chief Secretary, MSME department, L N Gupta said startup clubs will be formed at the educational institutes as part of the yatra. The clubs will function under the supervision of a professor in-charge with at least 3-4 volunteers.

During the yatra, 50 entrepreneurs will get a chance to convert their ideas into startups, Gupta added.

(The Times of India, January 31st, 2018)

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Case Study 1:

Implementation of SCORE Module 1 "Workplace Cooperation" at Smash Enterprises (Pune), by FICCI through its National Coordination Centre for SCORE Training

SCORE SUCCESS STORIES

Problem Definition/ Identified for Improvement:

SMASH Enterprises is into specialized welding of carbon steel, alloy steels and stainless steel components. One of the workplace challenge faced was lack of proper space at the shop-floor due to leftover electrode pieces. One of the goal was set to "Reduce Space Constraint by 10%".

Process / steps adopted to address the problem:

- An Enterprise Improvement Team (EIT) was formed as a first step. The EIT is the driving force behind implementing any new initiatives during the SCORE trainings. EIT is cross-functional and cross-hierarchical, which brings together managers and workers (including supervisors) to collectively plan and implement solutions.
- EIT highlighted that earlier attempt for cleaning the shop-floor of the waste material like electrodes has not been successful. During the brain storming session in EIT, an idea of using magnet to clear the shop-floor was shared by the EIT members.
- As part of 5S, the EIT members initiated a "shop-floor cleaning project" and henceforth all the workers participated in hand picking the scrap material and cleaning by magnet.

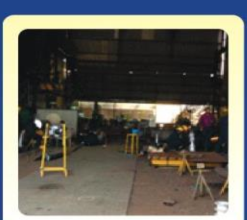
Results Achieved:

- Space utilization improved by about 12%. About, 210 kg of end pieces of electrodes plus few gunny bags of ferrous dust were collected
- About Rs. 65,000 were earned by disposal of unwanted material and scrap. Rs. 20,000 were spent to purchase drinking water purifier for the shop-floor workers and their drinking water problems got addressed
- With the availability of space there was an opportunity to work on new product development and new orders

Lessons Learnt:

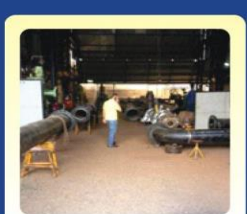
- SCORE program provided a new way of looking at the situation at the workplace and opportunity to brainstorm to find solutions within the available resources.
- Management and operators realized the benefits of 5S that it helps to identify hidden and unwanted materials and the monetary benefits that can be derived.
- Employees can find out ways to reduce waste, remove scrap and can use the money earned or saved for their own benefit, which is WIN - WIN situation for both Management and employees.

BEFORE



Equipment lying unorganized on the shop-floor.

AFTER



Lot of free space by implementing 1S & 2S

End pieces of electrodes and ferrous dust on shop floor

Operators hand picking end pieces of electrodes and other scrap from floor

Operator using magnet to collect ferrous scrap and dust from the floor

Shop floor looking clean after magnet cleaning

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