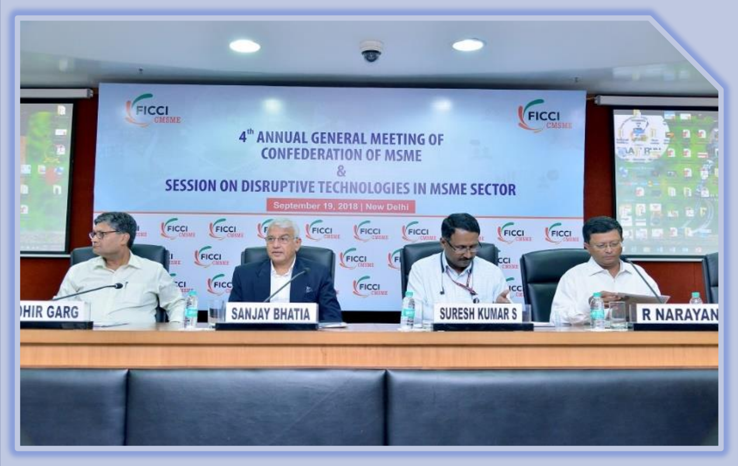
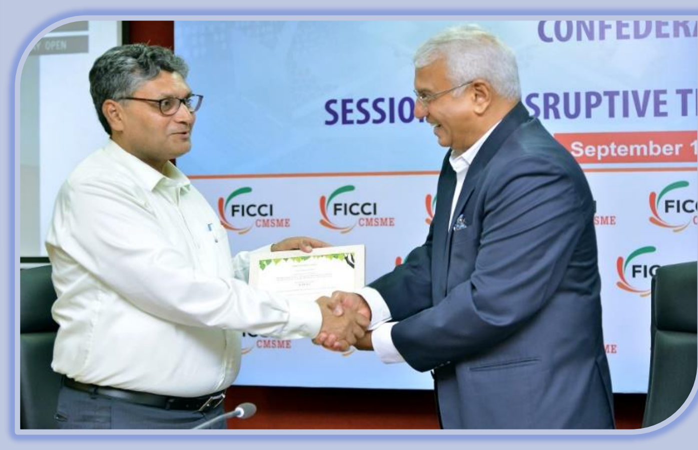
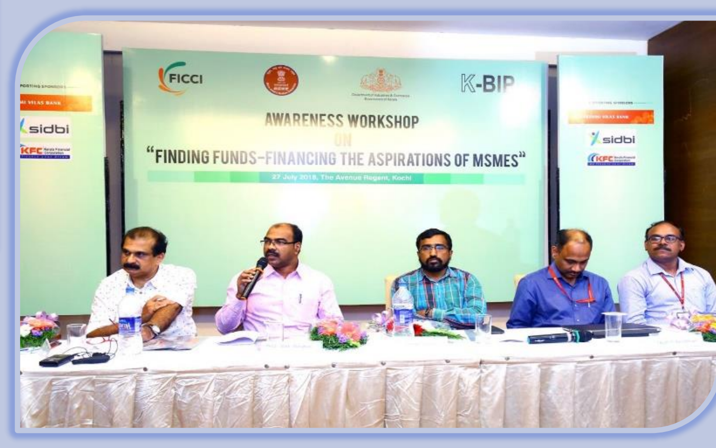
Edition: September 2018

Issue: 36







NEWSLETTER

IN THIS ISSUE………

MSME News Update

1. July mop-up down to Rs. 93,960 crore due to rate cuts

The Goods and Services Tax (GST) collections for July came in at Rs 93,960 crore, down 2.5% from the receipts in the previous month and reversing the recent trend of a gradual month-on-month increase in the mop-up. The rate cuts for 88 items and 24 services announced on July 21 to give relief to MSMEs and customers did have an impact on the collections. Although there were only a few days in July after the rate reductions, consumers had deferred purchases in anticipation of the relief in the offing, analysts reckon. The overall slowdown in consumption due to monsoons, too, dented collections.

The impact of the rate cuts could be more pronounced for August. The government's average monthly GST revenue for this fiscal now stands at a little over Rs 9,4700 crore compared with around Rs 90,000 in FY18. That means a shortfall of 20% for the Centre. As for the states, the compensation mechanism would ensure that their GST revenues this year are at least 14% above last year's level. The collections being reported are as of the stipulated deadline; the actual receipts could turn out to be slightly higher due to delayed payments.

"Since it would have taken some time for the market to pass on the benefit of reduced taxes, consumers would have postponed their decision to buy expecting the benefit," the government said in a statement.

It added that the actual impact of reduction of rate of taxes would be observed only from next month onwards. Further, historically indirect collection for July has been lower than June. "While June collections are 8.2% of the total annual collections, July collections are at a lower level of 7.7% of the total annual collections," it said.

The total revenue earned by the central government and the state governments after settlement including provisional settlement of Rs. 12,000 crore for July came in at Rs 36,963 crore and Rs 41,136 crore, respectively. The total number of summary return — GSTR 3B —filed for the month of July up to August 31 was 67 lakh. This is slightly higher than 66 lakh returns filed during the corresponding period of the previous month.

(Financial Express, September 2nd, 2018)

2. What robust GDP data does not tell us about the struggling small enterprises

At 8.2%, India's June quarter (Q1) GDP (gross domestic product) estimates for fiscal year 2019 may indicate that finally the after-effects of demonetisation and a messy implementation of the goods and services tax (GST) are behind us.

But does the same hold true for small and medium-sized enterprises (SMEs), which form a significant part of the country's informal economy?

Since GST implementation came close on the heels of demonetisation, SMEs were among the worst hit. Although it has been more than a year now, these firms haven't recuperated from this twin blow yet. Their profit and sales growth haven't recovered, consequently impairing their ability to hire.

It should be noted that the GDP data does not capture the contribution of the informal economy given the data collection-related constraints to measure their performances.

In the circumstances, survey-based measures become important. The Crisil-Sidbi MSE Sentiment Index, a quarterly survey conducted by ratings agency Crisil Ltd and SIDBI (Small Industries Development Bank of India) showed that although business sentiment has improved, new job additions have remained tepid.

In the April-June period, nearly 79% of the respondents reported that their employee base remained unchanged, while 17% added more staff. Only 4% either let go or did not replace outgoing employees, it showed.

The sample is a diversified one of 1,100 MSEs with revenue of up to ₹ 25 crore across industries.

However, the situation is improving. In July-September, 71% MSEs intend to continue with their current employee base with no net additions, while only 3% foresee a reduction and 26% said they intend to hire, added the survey.

"Sectors with relatively subdued hiring are food products, textiles, healthcare, logistics and metals & mining, while few players in construction and leather & leather goods reported reduction in employee base," said R. Vasudevan, senior director for SME Ratings at Crisil.

Similarly, while the key benchmark indices are regularly scaling new peaks, a large number of mid-cap and small-cap companies continue to trade in the red.

A CARE Ratings Ltd's analysis of 700 listed companies showed that those in the ₹ 50-100 crore, ₹ 100-250 crore and ₹ 500-1,000 crore sales slab reported negative employment growth in FY18. On the other hand, large companies with an annual turnover of ₹ 1,000-5,000 crore saw better employment growth.

This is said to be a fallout of dismal sales growth.

“Growth in sales was muted for these companies and hence did not result in more hiring. Companies at the lower end had to rationalize staff especially when production activity was affected by both demonetisation and GST which made them scale back operations. Even in Q1FY19 companies with less than ₹100 crore annual turnover witnessed negative sales growth,” said Madan Sabnavis, chief economist at CARE Ratings.

While demand conditions have improved, many small-sized firms are still struggling to meet their increased working capital needs. So, economists are not too convinced about the ability of SMEs to generate employment at least in the near term.

In short, small is still not beautiful and it may remain so for a while.

(Live Mint, September 3rd, 2018)

3. GST council seeks ways to ensure MSMEs pay taxes every month

Tax authorities are considering ways, including the levy of interest on tax dues, to ensure that micro, small and medium enterprises (MSME) pay taxes every month, two officials aware of the matter said.

Nearly 93% of taxpayers with annual sales up to ₹5 crore need to file only quarterly returns, according to a recent decision of the Goods and Service Tax Council (GST Council).

“The law committee of the GST Council is examining how to ensure that taxpayers pay tax every month. The monthly tax payment has to approximate a third of the quarterly tax payments. If the variation is beyond a percentage, the taxpayer may be asked to pay interest on that part,” said one of the officials.

Such safeguards are being introduced to address concerns of states over any potential revenue leakages from easing of compliance burden on firms.

“MSMEs may also be asked to give a break-up of monthly sales data to check if the monthly tax payments made are commensurate to sales,” said the official.

The central government is keen to give relief to the MSME sector, which suffered from the November 2016 demonetisation and the July 2017 GST rollout.

According to data available with the MSME ministry, there are more than 63 million MSMEs engaged in manufacturing, services and trade, more than half of which are in rural areas. These enterprises account for about 110 million jobs and contribute about 29% of the country’s economic output, the ministry said, citing the National Sample Survey 73rd round conducted during 2015-16. The role of SMEs in employment creation makes it a priority for the government to make it easier for them to do business and comply with regulations.

Besides quarterly filing of tax returns, the GST Council is also exploring the option of providing partial tax relief to MSMEs from GST. This may be done through a refund mechanism for a certain percentage of the tax payment.

The GST Council, in its previous meeting in August, had decided to set up a panel to look into issues faced by MSMEs and come up with suggestions.

(Live Mint, September 4th, 2018)

4. Ease GST costs for small businesses

The goods and services tax (GST) rate has been lowered on many products from 28%, but the operating costs for small businesses are still onerous. This must change. SMEs that supply products such as auto parts to large buyers are forced to borrow money at usurious rates to pay GST upfront, at 28%. Payment delays by their customers block the working capital of SMEs and hurt their businesses. So, large companies get the benefit of extended suppliers’ credit that SMEs do not. There is no reason why the GST Council cannot institute a system wherein large buyers of inputs can deduct GST at source, when they purchase their inputs from SMEs, even as the supplier and buyer file returns indicating the tax incidence and collection. This will spare small suppliers from having to borrow to pay GST. Large buyers can claim credit for the taxes payable by their suppliers and collected and paid by the buyers themselves.

Small suppliers are obliged to remit tax that they levy on large buyers in the following month itself, whereas large buyers make payments only after three months or more. Unlike large companies, small suppliers do not have easy access to cheap bank credit. An MSME study by the RBI Monetary Policy Department notes that the share of credit extended to MSMEs in overall bank credit fell steadily to around 14% by end-March 2018 from about 17% in 2007, partly due to over lending to large corporates (now stressed) in the second half of 2000s. So, SMEs rely on informal channels, paying high rates of interest.

This can be overcome through a mechanism akin to reverse charge, meant to track small firms outside the GST net. The registration and filing of returns should be made compulsory for all small suppliers. This will create audit trails and curb tax evasion. The case to lower GST on auto-parts too is compelling.
(The Economic Times, September 4th, 2018)

5. *Indian Startup Factory's Rs. 200 cr. Fund gets nod*

Markets regulator SEBI has given an approval to IndianStartupFactory to launch its Rs. 200-crore maiden India venture capital fund which will invest in start-ups as well as small and medium enterprises. The move would increase funding accessibility and give momentum to upcoming ecosystems, including start-ups and SMEs, IndianStartupFactory said.
(The Hindu, September 6th, 2018)

6. *Govt to target 25 clusters to boost handicraft exports*

The government is in the process of identifying 25 export- oriented clusters to boost India's shipments from the handicraft sector, a top official said. Handicrafts exports during the April-June period registered a growth of 3.52 per cent in rupee terms and stood at Rs 5,797 crore. However, in dollar terms, there was a marginal decline of (-) 0.39 per cent.
"We are in the process of identifying 25 handicraft export- oriented clusters to boost shipments from the sector. We can even organise reverse buyer-seller meets in these clusters," Development Commissioner (Handicrafts) Shantmanu said.
(The Times of India, September 3rd, 2018)

7. *ICICI bank launches loans for MSMEs based on GST*

To ease the availability of working capital, ICICI Bank announced a new overdraft (OD) facility for medium, small and micro enterprises based on their goods and services tax (GST) returns. Under the new system, firms can submit their GST returns to avail overdraft up to Rs 10 million without having to submit other financial statements. In a press statement, the bank said that this facility is available to all firms including non-customers of ICICI Bank. Additionally, this reduces the burden of paper-intensive process and cuts the lead time between application and sanction of a loan, claimed ICICI Bank.
"This facility brings in the improved convenience of availing quick OD facility, as it does away with the requirement of paper-intensive assessment of financial documents including balance sheets of previous years," the bank stated.
(Business Standard, September 10th, 2018)

8. *Army accepts first Suo-motu proposal from MSME under 'Make II' procedure*

Ajay Kumar, Secretary, Department of Defence Production, said the defence sector received 50 suo motu proposals from MSMEs, including start-ups, under the simplified 'Make II' Defence Procurement Procedure over the last six months. One of the proposals has been accepted by the Indian Army.
Under the 'Make in India' programme, the Defence Acquisition Council had cleared a simplified 'Make-II' procedure to enable greater participation of industry in acquisition of defence equipment. The simplified procedure came into force in February 2018.
Unlike in the past, when defence procurements were need-based, the changed rules allow 'suo motu' proposals from the industry.
"This is a great sign of change where the industry today is in a position to suggest best solution for the defence sector," Kumar said over video conference at a seminar organised jointly by the Department of Defence Production and Bharat Chamber of Commerce in the city.
According to Kumar, the simplified 'Make II' procedure will bring innovative solutions in the defence industry and help bring down imports.
India is currently the world's largest importer of defence items, including arms, and it was time to change the status by going in for indigenisation, he said.
"Till about a couple of decades ago, this privilege (of being the largest importer) belonged to China before the baton was passed on to India. We should now see if we can pass on the baton to someone else," he said. According to him, the Make II programme has been able to generate "a huge response" in the last six months. "In the last six months, 25 in-principle approvals have been issued and six EoIs (Expression of Interest) have been floated. These are large numbers, considering the usual time delays in defence procurement," he said.

This has helped bring down the timeline for defence procurement by nearly one-third.
Srei Infrastructure has proposed the creation of a defence offset fund in which foreign suppliers can invest a part of their offset obligations, Hemant Kanoria, CMD, Srei, told newspersons on the sidelines of the defence seminar.
India's offset policy mandates foreign suppliers to spend at least 30 per cent of the contract value in the country.
"We have presented this concept to the Ministry of Defence. All foreign companies having offset obligations can invest in this fund. There can be many such funds, which will provide equity support to MSMEs for innovations in defence," he said.
(Business Line, September 14th, 2018)

9. *MSME loans: Pvt banks, NBFCs eat into PSU Banks market share*

State-run banks' market share in loans to the micro, small and medium enterprises (MSMEs), a major thrust area for the government, has dipped on aggressive play by private sector banks and NBFCs, a report said.
The share of the 21 public sector banks(PSBs) has fallen to 50.7 per cent as of June 2018, from 55.8 per cent in June 2017 and 59.4 per cent in June 2016, a quarterly report by Transunion Cibil and Sidbi has said.
The overall credit to the MSME segment grew 16.1 per cent for the year to June 2018, it said, adding PSBs reported a 5.5 per cent growth, compared with 23.4 per cent for the private sector competitors.
It can be noted that 11 PSBs are under the Reserve Bank of India's prompt corrective action (PCA) framework because of earning pressures and networth concerns, which puts restrictions on lending.
The share of private sector banks has grown to 29.9 per cent in June 2018, against the 28.1 per cent in the same month last year, while the same for non bank finance companies (NBFCs) has grown up to 11.3 per cent from 9.6 per cent, according to the report.
Despite the aggressive growth, private sector banks and NBFCs fare better on asset quality as well, it said.
(The Economic Times, September 17th, 2018)

10. *Data powering lending to MSMEs*

We are at a rare moment in history. Lending to micro, small and medium enterprises (MSME) is at the cusp of witnessing the same transformation that retail lending went through over the last decade. Structural changes on both the demand and supply sides for MSMEs are creating a massive flywheel effect. Demand is growing with rising access and supply is growing with lower cost of origination, and rising confidence in underwriting and collections.
Addressing MSMEs' credit needs is today a national priority, more than ever. With increasing formalisation of the economy, the pricing advantage that MSMEs had in the parallel economy is eroding. Further, the gradual shift of consumer demand towards organised channels is creating additional growth challenges. Not to mention, the additional cost of building greater sophistication in reporting and compliance. This is a concerning situation for a segment that contributes ~40% of India's GDP and employs ~120 million Indians.
As MSMEs become more organised, the demand flywheel for formal credit will accelerate. MSMEs recognise that access to formal credit, which is much cheaper than informal sources of credit, can help in protecting their business margins. For a cold storage provider (see graphic), as the contribution from informal sources of funding goes down, the pressure to under-report income decreases dramatically while protecting the business' return on capital.
Against this backdrop, potentially less than 10% of the 50 odd million MSMEs have access to formal credit as of today. Bridging this gap is a national priority.
The supply side flywheel has been jammed primarily because of three reasons (so far):

- High cost of origination and servicing (small ticket sizes, last mile access with high presence in tier III/IV cities and rural areas leading to overall unviable economics);
- Low confidence in underwriting in the absence of reliable data;
- Poor ability to manage portfolio health and collections due to lack of on-going visibility into the health of MSMEs.

All three factors have witnessed significant disruption in past couple of years. As access to organised market places and digital channels increases, the cost of accessing for MSMEs is coming down. Aadhaar has reduced the cost of disbursing a small ticket loan by 25% (leveraging AEPS). While still early days, wide scale adoption of GSTN should further provide reliable transaction and invoice data. Telecom data and other utility data also needs to be significantly digitised and made accessible to lenders to further increase credit access. All this has to be under a well-regulated consent architecture. The impact is significant:

- Lower cost of acquisition, on-boarding and servicing: Deploying the full stack of digitized customer journeys can reduce the cost of processing to approximately 33% of the original cost. Cost of servicing through digital channels is typically observed to be 1/10th of physical channels. This allows financial institutions to fundamentally service lower ticket sizes while maintaining unit profitability
- Better risk assessment and pricing: Across Bureau, MCA, GSTN, and other surrogate data providers, there exist more than 100 data points which can be accessed and analysed instantaneously. Similar sources could be also used to set up alarms and triggers on portfolio health which can help contain credit losses in the long term.

Loans of ticket size less than one crore constitute around 60–70% of the total MSME lending. Our experience suggests that the customer journey in this segment can be fundamentally re-imagined to create a win-win for both customer and banks/NBFCs. The day is around the corner when an MSME looking for working capital loan of, say, Rs 50 lakh, gets an instant paperless loan sanction using data such as Aadhaar, PAN, TIN and GSTN. Subsequent renewals are done from home/office (no branch visit) with no document submission.

The next frontier is pre-qualified and pre-approved loans for MSMEs. With consent architecture in place, we could go a step further and offer pre-approved business loans to new MSMEs. This concept is limited to personal loans and credit cards today in India. It is time to replicate this revolutionary idea for MSMEs.

The journey has just begun and a more concerted effort is required. The constructive nudge from the government to increase MSME participation in banking will further help accelerate MSME accessibility to formal credit.

To help small businesses borrow from banks, the ministry of MSME is working on a portal that will certify the credit worthiness of small players based on pre-identified parameters which can be submitted to banks when loans applications are submitted. It is imperative that all regulated entities which are bringing capital have a level playing field access to the Aadhaar stack to ensure that they can go about originating credit efficiently.

Government's concentrated effort on installing POS in large numbers has been a great initiative in breaking the vicious cash cycle for small kirana shops and merchants. New age lenders are already beginning to use the POS transaction data to provide OD/CC limits to small merchants, thereby introducing them to formal credit.

While the market is huge and there is ample room for growth, pioneers will establish the much-needed competitive advantage. We believe the competitive advantage will reside in lowering unit costs of end-to-end customer journeys (from origination to collections and servicing) for MSMEs and using conventional plus surrogate data to sharpen risk assessment and pricing

(Financial Express, September 18th, 2018)

11. *Canara, PNB were on govt's list for merger*

Bank of Baroda's healthier financials, strong brand, technology and international presence helped the finance ministry settle for it as the anchor for an amalgamation with Dena and Vijaya Bank, instead of Canara Bank and Punjab National Bank, among others, which were considered for carrying forward the first consolidation exercise in the public sector space.

PNB was ruled out as its recovery is seen to be a few quarters away after a Rs 14,000-crore fraud, allegedly orchestrated by Nirav Modi and Mehul Choksi, leaving Canara Bank as the other option to anchor the amalgamation. But it was seen to be weak on a few financial parameters, a source involved with the process told TOI. Besides, the new entity would have been focused more on south India.

Financial services secretary Rajiv Kumar said, "We did not want consolidation for the sake of it. The first guiding principle was to create a healthy bank that was large in size. The second principle was to have an entity that had a strong brand, technology and a good reach."

In Dena, Vijaya and BoB, the government found the right fit. "Dena has a strong CASA base with a good retail and MSME presence. Vijaya Bank has been sensible in its lending, while BoB offers a good international presence, a strong brand and a good tech platform. It's a win-win deal for the three banks and will result in a massive cost rationalisation," the secretary added.

While consolidation has been on the government's radar, the fraud at PNB pushed back the plan by a few months.

department of financial services looking at various permutations and combinations. A source said, “It was an in-house exercise. Secrecy had to be maintained at all costs.”
(The Times of India, September 18th, 2018)

12. Banks push supply chain finance on back of low SME bad loans

Certain banks such as Bank of Baroda, Axis Bank and are increasingly pushing for supply chain finance (SCF) due to its lower delinquency rates and easy disbursals.

SCF provides banks with greater opportunity for leveraging cross-selling and data analytics. “SCF is a win-win opportunity for all stakeholders in the supply chain ecosystem — the corporates, their suppliers and dealers," said J P Singh, head, small and micro enterprises (SME), Axis Bank. It links small vendors to the large corporates. This enables SMEs to access credit at a lower cost with minimal documentation and lesser collateral.

Negligible non-performing asset (NPAs) in the segment is a driving factor for banks, which they attribute to the inherent structure of the SCF. Bank of Baroda claims to have zero NPAs in this segment. “In the past one and a half year since we started this business, we have sanctioned over Rs 10 billion and have around 25 anchors,” said Lithesh Majethia, head, SCF, Bank of Baroda. Axis Bank's SCF arm has seen a steady compound annual growth rate of 26 per cent since the past three years.

The corporate linkages serve as an assurance, said experts. “Any default in repayment results in stop supply invocation by the large corporates, which can jeopardise the business' existence. This acts as a deterrent for borrowers,” said Singh. According to YES Bank, corporate anchors also help banks in the delinquency management and keep NPAs low. SCF solves a lot of problems associated with lending to the SMEs. A key challenge is the lack of data when it comes to new to banking (NTB) customers. "The challenge in SME lending is to reach and identify them and veracity of financial data of the borrower. This gets mitigated to a large extent in SCF by generating credit comfort from borrower's transactional behaviour with large corporate," said Sumit Gupta, group president and head, SME Banking, YES Bank. The bank has seen continuous on-boarding of NTB clients. This is reflected in clients’ contribution of over 50 per cent in incremental supply chain MSME book in FY18, said Gupta.
(Business Standard, September 19th, 2018)

13. MSME Insider- Monthly e-Newsletter of Ministry launched

Union Minister of State (Independent Charge) for Ministry of Micro, Small and Medium enterprises, Giriraj Singh, launched MSME Insider – a monthly e-newsletter of the Ministry here. Speaking on the occasion, Giriraj Singh said that the e-newsletter will give information of the activities undertaken by the Ministry and also act as a bridge between the Ministry and the millions of MSME units spread across the country.

He said employment generation is the main motto of this ministry. The e-newsletter will assist in the regular flow of information about the sector to the MSMEs and will also help in developing a two-way communication between the Ministry and its stakeholders, he said. Secretary, MSME, Dr. Arun Kumar Panda said the e-Newsletter has been brought out to create awareness about the schemes and other activities undertaken by the Ministry and its affiliated organizations. Apart from providing information to MSMEs and the general public about Ministry’s Schemes, the e-newsletter will provide information about latest innovations in the field of technology, upcoming events and training programs for the month and will also carry interesting articles on relevant topics. It will also carry success stories of the entrepreneurs who have benefitted from schemes of the Ministry. The e-newsletter will be available on the website of the Ministry www.msme.gov.in as well as on the websites of its attached organizations and will also be distributed to about 50 lakh MSMEs registered on the Udyog Aadhaar Memorandum Portal. Additional Secretary & Development Commissioner, MSME, Ram Mohan Mishra and other senior officers of the Ministry were present during the launch of the e-newsletter.
(Press Information Bureau, September 18th, 2018)

14. TN to create land banks for MSMEs in two districts

The Tamil Nadu government is creating land banks for MSMEs in Tiruvallur and Kancheepuram districts, said P Benjamin, Minister for Rural Industries.

Benjamin said the government is continuously resorting to various policy interventions and support schemes such as Business Facilitation Act and single-window clearance to support the MSME sector and to facilitate ease of doing business in the State.

Urging the business community to benefit from the government's online single-window MSME portal, Benjamin said the website enables entrepreneurs to apply and obtain approvals, licences and renewals in a time-bound and transparent manner.

"Through this portal, we have already approved 80 out of 125 applications filed worth ₹240.35 crore of investment," Benjamin added.

The Minister also highlighted the latest initiatives of increasing the maximum eligibility of the project cost under the New Entrepreneur-cum-Enterprise Development Scheme (NEEDS), to ₹5 crore from ₹1 crore.

The upper limit of subsidy under NEEDS, a flagship scheme aimed at encouraging educated youth to become first generation entrepreneurs, has also been enhanced from ₹25 lakh to ₹30 lakh, he added.

Dharmendra Pratap Yadav, Secretary, MSME department of the Tamil Nadu government, listed out various business-friendly policies introduced by the State government which includes 25 per cent mandatory government procurement from MSMEs, bills discounting facilities, innovation voucher scheme for start-ups, plot price rationalization under SIDCO area besides frequent representations to RBI to increase the Non-Performing Assets (NPA) recognition time from 180 days for MSMEs.

"We want to support a minimum of 400 vouchers under the innovation voucher scheme every year," Yadav added.

(Business Line, September 19th, 2018)

15. *Credit turnaround time for MSMEs improves to 26 days*

The average turnaround time (TAT) for a micro, small and medium enterprise (MSME) to take credit improved to 26 days in 2018 from 29 days in 2017, according to a TransUnion Cibil-SIDBI joint report.

TAT is defined as the number of days between the date of enquiry and the date of loan sanctioned or renewal date.

"Data show that from 2016 to 2018, TAT has continuously improved for MSME segment underwriting. In 2016, TAT stood at 32 days. This reduced to 29 days in 2017 and reduced further to 26 days in 2018," said the report, MSME Pulse.

TAT is lowest for small-sized entities of up to ₹1 crore (from 23 days in 2017 to 18 days in the up to ₹10 lakh segment and from 26 days in 2017 to 24 days in the ₹10 lakh to ₹1 crore segment). The study has found that TAT has reduced significantly for micro segment over a period of time. "There is not much improvement in the TAT for larger segments, mainly as most digitisation initiatives undertaken by banks are focussed on the low-ticket segments," said the report.

TAT has increased from 31 days in 2017 to 32 days in the ₹1 crore to ₹10 crore segment, and from 36 days in 2017 to 37 days in the ₹10 crore to ₹25 crore segment.

Non-banking finance companies have consistently demonstrated lowest TAT vis-a-vis other lender categories, and their TAT has reduced from 24 days in 2016 to 18 days in 2018. The report attributed the lower NBFC TATs to higher proportion of parameterised programme-based loans.

"While public sector banks still have the longest TAT, they have demonstrated the maximum reduction in TAT for the MSME segment from 41 days to 31 days. Private sector bank TATs have moved from 32 days to 29 days," the report said.

(Business Line, September 19th, 2018)

16. *Already late, e-wallet to miss October deadline*

The roll-out of an e-wallet mechanism for exporters under the goods and services tax (GST) regime may be delayed again, as the required systems are not yet in place, according to trade and official sources.

As per the proposed e-wallet mechanism, a notional credit would be transferred to exporters' accounts based on their past record and the credit can then be utilised to pay taxes on inputs. Once the e-wallet is in place, exporters do not have to pay taxes first and then seek refunds. It will typically act as a virtual payment system whereby the exporters will pay only notional duty and get notional refunds later.

Exporters, especially MSMEs, have long been demanding an e-wallet-type mechanism, arguing most of them take working capital loans to pay taxes, and since refunds are delayed, their money is blocked on a regular basis. This hits their ability to ship out in large volumes.

The e-wallet mechanism was initially planned to be introduced from April 1, which was then delayed.

Any delay in its roll-out, without speedy refunds, could hurt exporters as the country looks to scale up outbound shipments to $350 billion in the current fiscal, up 16% from a year before. In 2017-18, merchandise exports had grown 10%.

While extending the April deadline for e-wallet, the GST Council had conceded that "more was needed to be done to address a large number of identified technical, legal and administrative issues".

Exporters have said that while refunds under the integrated GST regime are being processed fast, getting refunds against input tax credits is still a time-consuming process.

To expedite the refund process, the Central Board of Indirect Taxes and Customs (CBIC) has been organising "refund fortnights" from time to time, the last being in July. The total GST refunds disposed by the Centre and the states were to the tune of Rs 54,378 crore as of end-July.

(Financial Express, September 22nd, 2018)

17. *India's MFI loans portfolio up 47% in FY 18 to Rs. 68,789 crore*

India's microfinance industry clocked 47 per cent growth with a gross loan portfolio of Rs 68,789 crore in the financial year ended March 2018 as against Rs 46,842 crore in the year-ago period, according to a report.

Releasing the report, Union MSME Minister Giriraj Singh said the interest rate at which bankers provide loan to microfinance institutions should be brought down so that more people can be brought under the ambit of microfinance. "It is time that banks and MFIs should work in tandem. The banks are worried about NPAs. Let me tell SIDBI, those who take microfinance loans are not capable of leaving the country.

"Stop thinking about NPA when you are giving loans to MFIs. The loan takers will not run away from India like Nirav Modi or Vijay Mallya," Singh said in a statement. According to the report, the sector witnessed 56 per cent increase in loan disbursements in 2017-18 over the previous year. It stood at Rs 81,737 crore, the highest since 2015-16.

However, the top 10 MFIs disbursed Rs 55,013 crore, which is 67 per cent of sector's total amount disbursed, and rest of the other MFIs disbursed 33 per cent.

Among the regions, south still dominates the overall loan disbursement of MFIs with 34 per cent, followed by east with 30 per cent. Central and west have a share of 18 per cent and 9 per cent, respectively. While north and northeast have least disbursement share of 7 per cent and 2 per cent, respectively.

(Business Standard, September 19th, 2018)

18. *Commerce Ministry rues steep decline in export credit*

The Commerce Ministry has decided to take up with the RBI, the Finance Ministry and banks, the problems faced by exporters due to a sharp drop in export credit despite an increase in exports.

"Commerce Minister Suresh Prabhu will hold meetings with the Department of Financial Services in the Finance Ministry, the RBI and leading bankers to discuss ways to increase credit flow to exporters," a government official told.

In July 2018 (up to the 20th), export credit provided by banks fell about 47 per cent to ₹21,900 crore compared to the same month last year. Overall lending to the priority sector, however, increased 7.5 per cent during the month, as per the latest RBI data. Even compared to March this year, there has been a 22.7 per cent drop in export credit.

The flow of credit to the export sector is at an all-time low. When export growth is over 15 per cent, there is no reason that export credit is down by 25 per cent or more. This is going to affect all exporters.

It is the MSME sector that is hit the most by the credit crunch as, without liquidity, they are unable to take orders.

With the refund of input tax credit continuing to be a stiff challenge, especially at the State level, it is a double whammy for exporters.

Exports from sectors dominated by MSME units — such as plantations, marine products, readymade garments, jute manufacturing including floor covering — continue to post a decline despite an overall growth in exports.

"The government has to realise that you cannot talk about pushing up exports while not addressing the liquidity problems of exporters," said a Delhi-based exporter of garments. "Banks have to be convinced to loosen their purse strings for exporters. If that doesn't happen export growth will be erratic and labour-intensive sectors will continue to suffer."

(Business Line, September 23rd, 2018)

19. Rising imports from China hit MSMEs hard: House panel

Rising imports from China have taken a heavy toll on the employment-generation potential of the manufacturing sector, especially among the micro, small and medium enterprises (MSMEs), the parliamentary standing committee on commerce said.

The major impact of Chinese imports has been felt by labour-intensive sectors like textile, steel and power. “The stainless-steel industry is a case in point, where a number of MSMEs have had to close down, particularly manufacturers of stainless-steel grades of the 200 series due to Chinese imports,” the report, titled ‘Impact of Chinese goods on Indian industry,’ said.

The panel recommended that India take more stringent measures to completely protect local industries against illegitimate, protectionist and unfair trade practices used by trading partners.

However, the committee observed that imposition of anti-dumping duties against Chinese products have largely failed as these duties are relatively few compared with the amount of Chinese dumping that takes place.

“Nearly 75-80% of Chinese steel products are covered under anti-dumping duty, yet despite this, import of such steel products have increased by 8%. This clearly shows that anti-dumping measures have become completely ineffective,” the committee noted in its report.

The report suggested further measures to curb dumping of Chinese goods. It said that quality standards and technical regulations are potent tools to check sub-standard Chinese imports. “However, the Quality Control Orders and Compulsory Registration Orders laying down technical standards of the products being imported need strengthening,” the report said.

The committee said that the impact of Chinese imports was far reaching as downsizing and closing of industrial units would adversely impact the tax collection and Make in India program.

Further, the closure of industry will also stress the banking sector, which is already reeling under the burden of huge non-performing assets (NPAs), the report said.

The trade between the two countries has been lopsided, with India running a trade deficit of $63 billion with its neighbour. This accounts for 40% of India’s total trade deficit.

During the period 2007-08 to 2017-18, India’s exports to China increased by $2.5 billion; imports, however, increased by $50 billion during this period, the report said.

Making an observation on Chinese competitiveness, the report said that the Chinese industry has also been benefited by opaque government interventions to boost low-cost production.

The effect of this legitimate and illegitimate support has helped China create a huge inventory of products and dump their products globally, the report said.

China is involved in anti-dumping investigations for 214 products. In comparison, there are 86 anti-dumping cases initiated against the EU, 64 cases against South Korea, 62 cases against Taiwan and 41 cases each against Japan and the US.

“China faces the major chunk of anti-dumping investigations which is a clear indication that Chinese goods are causing unfair trade disruption,” the report said.

(Financial Express, September 25th, 2018)

20. MSMEs drivers of job creation, show govt data

The MSME sector seems to be driving job creation. Units employing 10-20 people created 4.5 lakh jobs on a net basis in July, while the entire universe of larger companies produced 9.5 lakh jobs during the month, indicating the smaller units’ higher labour-intensiveness.

According to Central Statistics Office (CSO) data, the EPFO’s monthly pay-roll data saw a net addition of 9.5 lakh till July, while the number of newly-registered employees under the ESIC fold during the month was 13.97 lakh.

ESIC registration is mandatory for an employee in an establishment employing 10 or more workers if her monthly salary is up to Rs 21,000.

The EPFO covers every establishment in which 20 or more persons are employed and certain organisations even if they employ less than 20 persons each, while the pay limit for mandatory enrolment is `15,000 per month. Persons drawing pay above Rs 15,000 per month are exempted or can be enrolled with some permission or on voluntary basis.

Although the ESIC and EPFO data are not strictly comparable — there is an element of overlap — the fact that ESIC’s “new jobs” for July is 4.5 lakh higher than that of EPFO indicates jobs are mostly created in the MSME sector. However, even as the

EPFO says close to 1 million 'formal jobs' were created on a net basis in July 2018, a record for any month and 6.18 million for September 2017-July 2018 period, the CMIE, in sharp contrast, says close to 9 million jobs have been lost in the 11 months to July 2018.
(Financial Express, September 26th, 2018)

21. *Taking financial services to rural folk*

A total of more than 63 million MSMEs contribute nearly 30 per cent to the country's GDP. More than half of these establishments are in rural areas, and over 99 per cent of these are micro-enterprises. It is imperative, therefore, that the yawning gap in availability of formal financial services for this segment is plugged at the earliest. Micro-enterprises not only represent a substantive solution to the employment quandary that India currently faces, but also contribute to the development of the local economy and market systems.

In this context, it is important to recognise the niche capabilities that fin-tech firms bring in reaching the un-banked and under-served segments of the populations, not least through alternative lending.

Fin-techs can leverage advances in ICT to pilot and scale innovative process of credit scoring, risk assessment and disbursement of credit. This essentially means easier application processes, use of Big Data for alternative credit scoring, and lower processing time for clients. Recent policy moves such as demonetisation, implementation of GST, and initiatives like UPI have engendered a process of formalisation and digitisation in the economy and, thereby, deepening the digital ecosystem that enables fin-tech to scale. Fin-techs are also in a position to offer customised financial services and products aligned with specific needs, such as working capital and cash flow needs of micro-enterprises, credit aligned with cropping cycles, etc.

Plus, there is massive underutilised scope for value-added products like micro-insurance. However, the new frontiers in financial inclusion represent a set of old and new challenges. These include: persistent low financial and digital literacy; infrastructural hurdles such as low internet penetration and mobile phone ownership; and language barriers.

A 2018 Nabard survey finds that a mere 11.3 per cent of respondents had 'good financial literacy'. As many as 43 per cent of those who sought loans and were not sanctioned one, said this was due to incomplete paperwork. This reflects continued difficulties of cumbersome paperwork (including furnishing supporting documents). Similarly, 38 per cent of those who felt the need for a loan did not apply for one, due to anticipated challenges in formalities and procedures. While this reinforces the need for digital procedures, which reduce the burden of complex paperwork, it also shows a sticking problem with financial literacy.

Collateral security (documentation) is also a major problem, which often is caused or compounded by unavailable or inconclusive land records. Progress on The Digital India Land Records Modernization Programme (DILRMP) will be important to watch in this regard.

Requisite infrastructure needs to be in place for digitally driven financial inclusion. While rural tele-density, as reported by TRAI, is still a low 59.05, the monthly growth rates of wireless subscription is 2.84 per cent — significantly higher than the 1.87 per cent in urban India. Half of India's internet users will be from rural areas by year 2020. But, currently, mobile internet penetration stands at a measly 18 per cent, compared to 59 per cent in urban India. It is, therefore, important that basic infrastructural hurdles are overcome at the earliest.

India is the largest consumer of mobile data. While fin-techs are well-poised to leverage the improving digital infrastructure, scaling fin-tech innovations in a rural micro-enterprise context nonetheless requires a steady increase in infrastructure. The government's efforts under Digital India will be watched closely on this front.

Also, the ownership and use of mobiles by women will be a key lever to empower them not only through financial inclusion, but also by nudging them to formally and productively contribute to the economy.

Internet use is often driven by entertainment. The potential for converting existing entertainment internet users into digital consumers of business and personal credit is large.

Finally, language is important, particularly with the receding human touch. According to a Google-KPMG report, there were 234 million Indian language internet users in 2016. Moreover, nine out of ten new users up to year 2021 are expected to be local language users of the internet.

This means fin-techs have to be mindful while developing applications, weaving in regional languages not only in app

interfaces, but possibly with translation, transliteration, and text-to-speech features. For fin-techs to make a dent in the bottom of pyramid segment, localisation of English language apps will be imperative.
(Business Line, September 28th, 2018)

SCORE

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effect on production cost)

I - Inventory (stock of materials, finished goods, storage)	O - Over Processing (poor quality, lack of employee efficiency)
M - Motion (unnecessary motion within work area resulting in time waste)	D - Defects (repeated errors, avoidable errors)
W - Waiting (materials, information)	H - Human Resources (absenteeism, lack of team effort)

E - Environmental Waste (natural resource inputs such as Energy, water, fuel etc)

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Workplace Cooperation
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The starting point for all training

- **Unite employees around shared targets**
- **Involve the entire workplace in continuous improvement**

Module	
Module 2: **Quality - Managing Continuous Improvement**	Identity customer needs Develop quality assurance culture Reduce defects systematically
Module 3: **Productivity Through Cleaner Production**	Save costs and increase efficiency Systematically reduce waste & energy usage
Module 4: **Workforce Management For Cooperation and Business Sucess**	Develop Human Resource strategies for better recruitment & retention Motivate & develop the right people to make staff a competitive advantage
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ii. **High return** on training investment including **cost savings** within 3 months.
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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

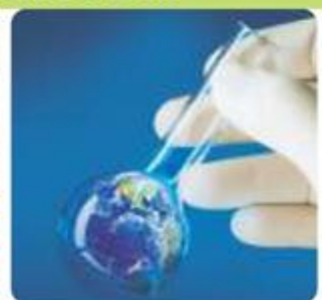
Shop floor looking clean after magnet cleaning

Empowering MSMEs

FICCI - Confederation of Micro, Small and Medium Enterprises (CMSME)

INVITING MEMBERSHIP



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