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NEWSLETTER

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1. ***State tweaks cluster development policy to promote MSMEs***

In a bid to promote the growth of micro, small and medium enterprises (MSMEs), the Maharashtra government has tweaked its cluster development policy. The focus of the scheme is on underdeveloped Vidarbha, Marathwada, North Maharashtra excluding Nashik, Ratnagiri and Sindhudurg. As per the revised policy, the Maharashtra Industrial Development Corporation (MIDC) will provide land on a priority to the MSME for expansion.

The MIDC at its board meeting chaired by industries minister Subhash Desai took decision in this regard which aims to boost job creation in MSMEs. There are about 3.8 lakh MSMEs spreading across food processing, auto ancillary, pharma and bio technology, electronic sectors.

A 'cluster' set definition is a group of enterprises located within an identifiable and contiguous area producing similar product and services. In case of central and state government approved clusters, land allotment is done on a priority basis to industrial units who are part of the cluster. However, as per the revised policy, MIDC can also allot the industrial land for the individual unit which is already a part of the larger approved cluster. MIDC has done away with the investment limit criteria for approved cluster.

MIDC CEO P Anbalgan told DNA," MSME is a thrust sector with more potential for employment generation. The revised policy hopes to trigger the boom in the MSME sector. In MSME, the employment potential is for 15 to 30 people for every crore of rupee investment. This will help in achieving the state's mission of job creation for 60 lakh people."

According to the revised policy, MIDC will also allot land to those units which are not part of the cluster but willing to set up the new cluster of industries. For the proposed new cluster of industries there should be 20-25 members with minimum investment of Rs 50 crore. Such new cluster of industries will be encouraged in D and D plus areas including Pune region, Mumbai, Thane, Raigad, Palghar and Nashik.

The minimum investment criteria for Vidarbha, Marathwada and North Maharashtra excluding Nashik, Ratnagiri and Sindhudurg is Rs 20 crore for priority land allotment. The state has identified 145 cluster projects and undertaken for further development through soft and hard intervention including financial incentives.

(DNA, November 2nd, 2018)

2. ***US levies duty on 50 Indian items***

The US revoked duty-free concessions on import of at least 50 Indian products, mostly from handloom and agriculture sectors, reflecting the Trump administration's tough stand on trade-related issues with New Delhi.

The federal register issued a notification, listing out 90 products which were so far subject to duty-free provisions under the Generalised System of Preferences (GSP).

President Donald Trump has issued a presidential proclamation leading to the removal of these products from the privilege.

As of November 1, these products "will no longer qualify for duty-free preferences under the GSP programme but may continue to be imported subject to regular most favoured nation duty rates," an official of US Trade Representative said.

A count of these products indicated that at least 50 of them are from India. Notably India is the largest beneficiary of the GSP. In 2017, India's duty-free export to the US under the GSP was to the tune of more than $5.6 billion.

The volume of India's export to the US impacted by the latest move of the Trump administration is not known yet, but the list of products from which duty-free import provision has been removed reflects that a large number of SMEs could be impacted, in particular handloom and agricultural sector.

(The Tribune, November 1st, 2018)

3. ***Companies law amended: Special courts' case load may fall by 60%***

The government amended various provisions of the companies law through an ordinance, a move that is expected to reduce pendency of cases before special courts by 60 per cent besides bringing down applicable penalties for small companies.

The ordinance amending the Companies Act, 2013, has been promulgated with twin objectives of "promotion of ease of doing business along with better corporate compliance", an official release said.

President Ram Nath Kovind gave his assent for the ordinance after the Union Cabinet cleared the proposal for promulgating it.

The amendments have been made on the basis of recommendations made by a government-appointed panel that reviewed the offences under the Act.

With the latest amendments, jurisdiction of 16 types of corporate offences would be shifted from the special courts to in-house adjudication.

This is "expected to reduce the case load of special courts by over 60 per cent, thereby enabling them to concentrate on serious corporate offences. With this amendment, the scope of in-house adjudication has gone up from 18 Sections at present to 34 Sections of the Act," the Corporate Affairs Ministry said in the release.

Speaking at an event, Prime Minister Narendra Modi said the companies law has been amended to give relaxation for Micro, Small and Medium Enterprises (MSMEs) from legal complexities.

According to him, there were provisions in the Act because of which small mistakes could led to criminal proceedings against MSMEs. "Sometimes entrepreneurs landed in jail also which had impacted their respect and status... to rectify small mistakes they have to run from pillar to post in courts," he said.

Modi said all these rules have been changed by and "now you (MSMEs) don't have to run to courts to rectify small mistakes. You can visit the concerned departments and follow easy processes and rectify these mistakes".

The ministry in its release said the penalty for small as well as one-person companies has been reduced to half of the amount that is applicable for normal companies.

(News18, November 2nd, 2018)

4. *Loans for MSMEs in 59 minutes*

Prime Minister Narendra Modi announced 12 measures to boost the Micro, Small and Medium Enterprises (MSME) sector, including a portal that would enable the units to get a loan in just 59 minutes and interest subvention of 2%.

"In the time taken for you to reach your office, you can now get a loan," he said. "We had run a pilot and I had set a target of 72,000 MSMEs. As of today, 72,680 have been on-boarded."

The Prime Minister said firms registered on the Goods and Services Tax portal would be able to avail themselves of this facility on the portal itself. "When you file GST returns, you will be asked if you want a loan," Mr. Modi said. "GST-registered firms will also get a 2% rebate on interest rates. Being a part of the GST and being an honest taxpayer will become your strength."

Mr. Modi said public sector companies had now been asked to compulsorily procure 25%, instead of 20%, of their total purchases from the MSMEs. He said that of the 25% procurement mandated from the MSMEs, 3% must now be reserved for women entrepreneurs.

Also, Mr. Modi announced a 2% interest subvention on fresh or incremental loans for all GST-registered MSMEs. "These 12 decisions will mark a new chapter for the MSME sector," he said.

The Prime Minister recalled India's strong traditions of small-scale industries, including Ludhiana's hosiery and Varanasi's saris

(The Hindu, November 3rd, 2018)

5. *10 handicraft parks being planned to provide infra support to small exporters*

With small exporters of handicrafts finding it difficult to meet the stringent international standards of manufacturing in most developed-country markets, the Export Promotion Council for Handicrafts (EPCH) plans to bring such units together in handicraft parks to be set up across the country, with common facility centres (CFCs), testing labs and raw material banks.

"We are planning to set up about 10 handicraft parks throughout the country. The first such park is coming up on the Yamuna Expressway," Rakesh Kumar, Executive Director, EPCH, told.

The CFCs will serve as a training/skill development facility as well as a manufacturing hub for the handicraft exporters, who will be provided with the latest machinery required for augmenting production and exports, Kumar said.

The testing labs shall serve the purpose of testing products for meeting international standards and the raw material bank shall ensure steady supply of inputs thereby decreasing the lead time to delivery to the exporters.

"The facilities in the parks will be especially significant for small exporters as they often operate from very small set-ups and do not have access to the infrastructure that is required to meet the standards of buyers in markets such as the EU, the US or Japan," Kumar added.

The park on the Yamuna Expressway could also be the answer to the woes of the small & medium enterprise (SMEs) in Delhi facing a sealing drive carried out by the municipal corporations. "This handicrafts park would offer an alternative to SMEs to set up their units in the proposed park thereby facilitating uninterrupted, social and environmentally compliant production," Kumar said.

While the handicraft park on the Yamuna Expressway will house about 300-400 units spread over 200 acres, some parks that are being planned could be much smaller depending on the place, he said.

India's handicrafts exports declined 1.8 per cent to $3.57 billion in 2017-18, while overall exports from the country posted an increase of 9.8 per cent to $302 billion.

(Business Line, November 2nd, 2018)

6. *The need for a boost to micro, small and medium enterprises sector*

Prime Minister Narendra Modi's Diwali package for micro, small and medium enterprises (MSMEs) may be late in the day, but it's nevertheless a boon, particularly the interest subvention and the measures to see that bills are paid on time.

Why the need to boost lending to the MSME sector? Simply put, non-banking financial companies (NBFCs) have increased their share of financing MSMEs in recent years and the current lack of lending to NBFCs threatens to cut off credit to a substantial number of MSMEs too.

The data shows bank lending to micro and small-scale industrial units fell from 3.1% of gross domestic product (GDP) in 2013-14 to 2.22% in 2017-18. Over the same period, bank lending to medium-scale industrial units fell from 1.1% of GDP to 0.62%. But this decline is part and parcel of the credit cycle and indeed lending to large industrial units as a percentage of GDP saw a larger decline, doubtless because of the Reserve Bank of India's (RBI's) asset quality review.

Interestingly, RBI data shows that in the priority sector, bank credit to SMEs in the manufacturing sector as at end-September 2018 contracted by 1.4% from a year ago. In sharp contrast, bank credit to SMEs in the services sector grew at a good 17%. This mirrors the overall weakness in manufacturing and the buoyant conditions in the services sector.

While bank lending to MSMEs was tepid, NBFCs stepped in. The share of NBFCs in total finance to MSMEs went up from 7.9% in December 2015 to 9.6% as on June 2017 and then spurted to 11.3% by June 2018. This was aided by bank lending to NBFCs, which grew by 26.9% in 2017-18. Now that NBFCs are suffering from a lack of liquidity caused by contagion from the Infrastructure Leasing and Financial Services Ltd's debacle, the government is attempting to ensure that credit channels to MSMEs remain open.

One reason why public sector banks are reluctant to lend to MSMEs is that a substantial proportion of these loans go bad. According to the MSME Pulse report, for public sector banks, the level of non-performing assets (NPAs) among MSMEs went up from 13% in June 2016 to 15.2% in June 2018. Public sector banks accounted for half the total credit given to MSMEs. The credit quality of MSMEs availing loans from private sector banks and NBFCs is significantly better and as of June 2018, their NPA levels on account of MSME loans were 3.9% and 5%, respectively. This suggests that the loss of market share by public sector banks in MSME financing (see chart) is good for the Indian economy, as private sector banks and NBFCs seem to be far better at managing bad debts. That is why the system whereby banks lent to NBFCs and they on-lent to MSMEs was a win-win for all. The trend is therefore likely to continue, once confidence in NBFCs is restored. More lending to MSMEs is all very well, but public sector banks need to ensure better credit assessment so that higher lending now doesn't translate into NPAs later

(Live Mint, November 5th, 2018)

7. *Loan losses high in sector, but banks continue to lend*

Lending to smaller businesses is as fraught with risks as is lending to large companies, going by the level of non-performing assets (NPAs). However, despite this banks have not pulled back on credit to mid-sized and smaller companies. Delinquencies on account of micro, small and medium enterprises (MSME) rose to a high 13.08% for public sector banks (PSBs) at the end of March 2018, compared with 12.56% in March 2017, according to data sourced from the Reserve Bank of India (RBI).

However, outstanding loans to medium industries rose 3.3% year-on-year to Rs 1.05 lakh crore, data released by the RBI on October 31 reveals.

Again, credit to the micro and small industries, at Rs 3.64 lakh crore as on September 28, 2018, was more or less at same levels in the previous year.

The worsening in the quality of MSME credit was even more severe at banks under the prompt corrective action (PCA) framework. For these lenders, NPAs arising from the MSME portfolio stood at 15.74% at the end of March 2018, about a150 basis points higher than the level a year before that, documents reviewed by FE showed.

The government has been concerned that the flow of credit to the MSME sector is being restricted because 11 state-owned lenders are operating under the PCA (prompt corrective action) framework.
(Financial Express, November 6th, 2018)

8. *Going beyond the credit requirements of MSMEs*

The announcement of support to micro, small and medium enterprises (MSME) by Prime Minister Narendra Modi last week had both economic and political rationales behind it. Politically, the government would like to be seen as supporting MSMEs, given that people engaged in the sector are considered a core constituency of the ruling Bharatiya Janata Party. Economically, any improvement in the sector's operating environment will help the Indian economy. The share of MSMEs in the country's gross value added is estimated to be about 32%. It also contributes about 40% to total exports and 45% to manufacturing output.
Apart from improving ease of doing business, the most important announcements were regarding access and cost of credit. MSMEs can now get in-principle approval for loans of up to ₹1 crore in 59 minutes. Additionally, goods and services tax (GST)-registered MSMEs will get an interest subvention on fresh or incremental loans. Interest rate rebates have also been announced for exporters. While an increase in the flow of credit will benefit the sector, banks and financial institutions would do well to not dilute their credit appraisal criteria.
Availability of credit from formal sources has been a problem for the sector. MSME credit is also one of the reasons behind the ongoing rift between the government and the Reserve Bank of India (RBI). In terms of financing, the share of non-banking financial companies (NBFCs) has gone up in recent years, given that banks saddled with high non-performing assets (NPAs) are reluctant to lend. But since NBFCs are now facing a liquidity crunch, it is likely that the flow of credit would have been affected. A Mint Street Memo, published by the RBI in August, mapped the flow of credit to the sector. While about 90% of credit from formal sources comes from banks, loans extended by NBFCs to MSMEs have increased in recent years. Credit flow was affected in the aftermath of demonetization, though it subsequently recovered from February 2017. Nevertheless, the share of credit to MSMEs has declined as a proportion of overall bank credit in recent years.
Although government intervention will help the sector, the actual impact for a large number of small firms will remain limited. The problem is that, as researchers highlighted in the above-mentioned note, more than 90% of MSMEs operate in the informal sector. These firms largely depend on informal sources of credit at higher interest rates. It is difficult for these firms to get loans from banks because they do not maintain proper documents and records.
At a broader level, since most firms are very small, besides non-availability of formal finance, they are also not in a position to adopt technology to improve productivity. Further, most firms in the informal sector are unlikely to attract skilled labour. The sixth economic census, for example, showed that enterprises on an average employed only 2.24 people. This illustrates that the problem is much bigger than the availability of credit.
India has a large number of tiny firms that work in the informal sector and do not scale up. This has not only affected growth and output, particularly in the manufacturing sector, but also employment generation. It is likely that with increasing digitization and the implementation of the GST, more firms will join the formal sector. However, a large informal sector raises important policy questions: Why do most firms operate in this sector? Does the regulatory environment disincentivize firms to formalize and increase their scale of operations?
Coming back to credit, as mentioned above, it is important to note that the while incentivizing credit flow will help improve activity in the sector, government intervention and directed lending can affect proper credit appraisal. This could not only result in higher NPAs, but also affect the flow of credit in the future. In this context, former RBI governor Raghuram Rajan, in his note to a Parliamentary committee, recently cautioned: "Both MUDRA loans as well as the Kisan Credit Card, while popular, have to be examined more closely for potential credit risk. The Credit Guarantee Scheme for MSME (CGTMSE) run by SIDBI is a growing contingent liability and needs to be examined with urgency."
Public sector banks already have significant NPAs in the MSME sector and a push by the government can increase the risk. Thus, what is needed is a simplification of processes so that more firms can access formal finance. Also, banks should improve their credit appraisal capability to work with firms that are perhaps dealing with a financial institution for the first time. Meanwhile, the government should work to improve the overall regulatory architecture that would incentivize smaller firms to scale up.
(Live Mint, November 6th, 2018)

9. *MSMEs yet to recover from demonetization shock*

The industry, particularly the micro, small and medium enterprises (MSMEs), in the region is still reeling under liquidity crunch and lack of business orders to the tune of about 30% even after two years of demonetisation.

The economy seems to be back on the track two years after the demonetisation. However, the MSMEs are yet to recover from the shock. They are still facing liquidity crunch, which has not only affected the sales but also production.

Hit by the note ban, the woes of MSMEs were compounded by the introduction of goods and services tax (GST), as a result they are experiencing 30% decline in production because of the liquidity and demand crunch, industry experts said.

The impact of the drastic economic measures resulted in job losses and closure of several units, they added. The demonetization, announced on November 8, 2016, rendered 86% of India's old currencies of Rs 500 and Rs 1,000 invalid.

"Even after two years, the tremors of demonetisation are still felt and it is apparent across the region. The industrial production, especially by the MSME sector, is down by 20-30%," industry expert said.

He said panicked by the sudden announcement of demonetisation, many businessmen exchanged high denomination notes for gold and invested in property that sucked their liquidity.

The government has made a slew of measures to ease cash flow and business procedures for the MSME sector. It is, however, too early to predict impact of these measures, the industry experts said.

Hit by demonetisation and GST, many of the MSME accounts also turned non-performing assets (NPAs), they said.

(The Tribune, November 8th, 2018)

10. *Sidbi, PSBs own MSME loan site*

Sidbi has said that Capita World — the company behind the 'loan in 59 minutes' portal for micro, small and medium enterprises (MSMEs) launched by the Prime Minister last week — is a public-sector firm. Public sector unit (PSU) institutions have an option to increase stake from 56% to 74% in the future.

Sidbi DMD Manoj Mittal said that a consortium of six public banks led by Sidbi held 56% in the fintech company, which gave it a public-sector character. The PSUs' shareholders held four board seats and had management control.

(The Times of India, November 8th, 2018)

11. *GoDaddy bets big on SMEs*

Internet domain registrar and web hosting company GoDaddy is trying to increase its market share and tap into a growing number of SMEs in India, trying to establish their presence online, through vigorous marketing campaigns.

"In the last two months, we have done roadshows and campaigns in the country to try and educate people about what it means to be online and in what way will it benefit their business," Nikhil Arora, managing director and vice president, GoDaddy India told.

Arora said the company is trying to target MSMEs in the country by getting them an online presence. However, a study by Google-KPMG said that India has over 51 million small businesses out of which, 68% are offline, meaning, they don't have internet connectivity, don't own a personal computer or don't use social media for business purposes.

Arora said while the company has created a lot of interest and increased brand awareness but going online is still an evolving idea. He added that there is still a lot of confusion as to what it means going online.

"Some people think, being online means just having social media presence or being listed on a search engine, but it includes a lot more and this is what we're trying to say through our campaigns," he said.

The Google-KPMG report showed 35% of businesses that are offline said they don't have any online presence because they don't believe it will add value to their business with another 31% saying they have limited expertise on setting themselves online. The rest attributed network, infrastructure and safety issues to not having online presence.

Some experts also noted that many MSMEs may not feel having an online presence beneficial because of internet penetration. Market and consumer data platform Statista estimates India having 460 million users out of 1.3 billion population and in 2016, only 29.55% of India's population used the internet. Social media also has poor penetration in the country, Statista said, with 216.5 million users as of 2016.

Both the report and Arora said that both interest and adoption of having an online presence for a business is increasing. GoDaddy says that it has over a million customers in India. The National Internet Exchange of India (NIXI) said that GoDaddy leads in market share for the .in domain.

(Financial Express, November 10th, 2018)

12. *Kerala financial corporation declares 'special rate cuts' for industry loans*

Kerala Financial Corporation (KFC) has announced a special interest rate cut for manufacturing and service sector loans.

The interest rates of the service sector loans will come down by up to 1 per cent from the existing rates, according to Sanjeev Kaushik, Chairman and Managing Director, KFC.

The revised rates will be applicable for new customers from December, and for existing base rate customers, the rate will be applicable from their next reset dates.

"This is the biggest cut in interest rates yet announced by the KFC and is an excellent opportunity for units in the MSME sector. The reduction in rates will benefit thousands of manufacturing, industrial and service sector units in the State," Kaushik added.

Kaushik said that the corporation has been able to reduce its cost of funds by mobilising low-cost money from the market, financial institutions, and banks. The benefit is now being passed on to customers.

Currently, the corporation's loan products are linked to a base rate of 9.5 per cent. Each loan is placed in one of the seven bands of interest structure, based on their credit rating of customers.

The corporation has observed that even after the introduction of the base rate system, some of its customers have not been able to reap benefits because of the higher spreads.

A few others, who follow the erstwhile prime lending rate (PLR) regime, have not switched over to the base rate system, as they were not getting the interest benefit if they had opted for the new base rate system.

Also, the rates for the service sector were higher by 0.5 per cent than the manufacturing sector. These anomalies are sought to be corrected with the simplification of the interest rate structure by reducing the bands from seven to five.

(Business Line, November 9th, 2018)

13. *India Nivesh fund a lifeline for SMEs*

Small and medium companies, struggling to raise funds, now have a lifeline in IndiaNivesh-First Bridge Capital Manager. The fund is introducing a first-of-its kind capital support for firms that critically need re-financing for survival. IndiaNivesh-First Bridge Capital has closed its first tranche of the Rs 900-crore fund, called the IndiaNiveshNSE 0.00 % Renaissance Fund (INRF). It will own significant minority stakes in SMEs by infusing capital. In the first instalment, the fund raised Rs 168 crore.

"We will take substantial minority stakes to infuse equity capital to boost operations and optimise capacity utilisation," said Sridhar Ramachandran, CIO, IndiaNivesh First Bridge Fund Managers, who is managing this particular fund. "We are looking to deploy the money in SMEs that are struggling due to business underperformance or financial stress. This is India's first turnaround fund and such companies are just a step away from turning non-performing assets." IndiaNivesh Renaissance Fund is chaired by former Securities & Exchange Board of India chairman GN Bajpai. It will have two components – about Rs 300 crore from domestic investors and Rs 600 crore from international investors. The fund is useful for those SMEs where banks have closed credit facilities. The funding is for working capital. The fund will only invest in those SMEs with yearly revenues in the range of Rs 100-800 crore.

The tenure of such equity funding is about three-to-five years within which the investee company should generate returns for the fund. The fund aims to attain over 20 per cent (internal rate of return).

Cash has been raised from a sponsor and anchor investor, high networth individuals, family offices and Non-Resident Indians, besides contribution from the management teams.

Co-owners of the fund, IndiaNivesh and First Bridge, have contributed Rs 25 crore and Rs 5 crore each to the corpus. The first closing of our fund highlights the relevance of our unique turnaround proposition for SMEs, said KK Rathi, founder at IndiaNivesh Frist Bridge Fund Managers

(Economic Times, November 12th, 2018)

14. *India's plastics export jump 31.6% to $4.59b in H1 FY19*

India's plastics exports posted a growth of 31.6 percent at $4.59 billion during the period April - September 2018 (H12018-19) as against $3.48 billion in same period during H1 2017-18, registering a faster pace of growth than the overall merchandise export growth from India, as per the Plastics Export Promotion Council (Plexconcil).

During H1 2018-19, India reported merchandise exports worth $164.04 billion, up 12.5 percent from $145.75 billion in H1 2017-18.
According to Plexconcil, plastics formed 2.80 percent of India's overall merchandise exports in H12018-19.
The growth in India's plastics export has been primarily boosted by higher shipment of plastic raw materials, plastic sheet, film, plates, and packaging materials.
During H1 2018-19, 23 out of the top 25 destination countries recorded year-on-year growth in plastics export from India. Exports to China, Vietnam and Mexico witnessed high growth rates ranging between 70-140 percent during the H1 2018-19 period, association said in a statement.
"China, United States and United Arab Emirates continue to be top-3 destinations for India's plastics products. These three countries accounted for 27.5 percent of India's plastics product exports, by value, during H1 2018-19. And we added new destination countries for plastics export which includes French Guiana, Guam, Kiribati Republic, Lesotho, Marshall Island, Mayotte, Monaco, Nauru Republic and United States Virgin Islands," Plexconcil chairman Ravish B Kamath said.
"In the first half of 2018-19, the trend in plastic exports from India has been very positive with a strong year-on-year growth vis-a-vis 2017-18 with August 2018 topping $800 million and registering 38.1 percent y-o-y growth.
(Money Control, November 5th, 2018)

15. Dairy Cos seek lower GST on flavoured milk, ghee

Dairy companies have sought lower goods and services tax on flavoured milk and ghee to help revive sales and pay farmers a better price.
The companies want GST on ghee and flavoured milk to be lowered to 5% from 12% currently. The demand comes ahead of a meeting of the GST Council, which administers the tax, this month.
According to traders, about 300,000 tonnes of ghee are sold annually in India and sales have dipped 5%.
“Since the 12% GST has been imposed, the organised sector has seen a drop-in sale of ghee and flavoured milk. The sale of adulterated ghee has picked up, as per trade information,” said RS Sodhi, managing director of Amul, adding that they expected GST to be reduced this month.
With the drop-in sales, Amul reduced ghee prices twice in the past six months, said Sodhi.
“We had to reduce milk price to be paid to farmer to ensure price of ghee was less. A reduction in tax slab will ensure farmers get remunerative rates,” he said.
Sodhi said the tax rate was uneven in the same product category and cited the example of sweetened milk being taxed at 5% and flavoured milk at 12%.
“All milk-based beverages should be under one slab of 5%,” he said.
(S3 Solutions, November 15th, 2018)

16. Government feels MSME sector needs support

But the most urgent attention and steps would be sought from RBI in easing of lending norms for MSMEs, including strict rating criteria to improve credit flow, sources said.
The central bank seems to have been convinced by the North Block’s consistent efforts to relax some of these criteria to augment credit to this sector. RBI is also expected to consider special dispensation for MSMEs and NBFCs that have been facing liquidity issues.
The government feels MSMEs that employ about 1.2 million plays a critical role in the economy and the sector hit by demonetisation and the goods and services tax (GST) needs support. But RBI has been averse to the government demand for special dispensations for MSMEs and NBFCs as it considers them vulnerable and doesn’t want to increase the risk of higher NPAs.
On RBI’s capital framework, there could be discussion but no action or resolution, sources said. A committee may be set up to deliberate on the issue, as it will need threadbare discussions taking both sides concerns and arguments into account.
(Financial Chronicle, November 15th, 2018)

17. *RBI takes measures to increase credit flows*

Amid a raging debate on the need for easing rules governing credit to MSMEs, an analysis of RBI data on such loans shows that a large majority of banks, including those facing 'prompt corrective action', have achieved the mandatory priority sector lending target for micro enterprises.

The MSME lending has also been exempted from most of the restrictions, including those relating to stressed assets, and several steps have been taken by the RBI to ease credit flow to this sector, bank and industry officials said.

While much has been written about the "so-called differences" between the Reserve Bank of India (RBI) and the government, including on issues like management of surplus reserves of the central bank and the credit flow to MSMEs, officials said facts and the data show there are hardly any significant issues that are being faced by these small enterprises due to policy or regulatory matters.

"There may be a short-term dip in the rate of growth for the credit flow to MSMEs, but that should not be seen as an actual decline in lending extended to them and even a slowdown in the expansion rate is very much transient in nature that would get reversed with a faster formalisation process underway for the sector," a top banker said citing the data and regulations that favour the MSME sector.

The officials also said all these steps have been taken jointly by the government and the regulators after an extensive and continuous consultation process. The officials declined to be named here given the sensitivity of the matter and continuing controversy over the RBI-government relations.

They cited several steps taken in the recent past by the RBI, in consultation with the government, for facilitating easier access and availability of credit, including the 'Resolution of Stressed Assets-Revised Framework (RSA-RF)' of February 12, 2018, to the MSME sector.

While some corporate firms have criticised this framework, the officials alleged the opposition is mostly coming from those who were misusing the earlier rules for 'ever-greening' of their loans. This framework has been carefully calibrated to exclude loans of up to Rs 25 crore availed by MSME units from its purview, which nearly covers the entire spectrum of the MSME borrowers. Besides, this remains in line with the earlier government policy for the benefit of MSMEs.

The average outstanding loan size of the MSMEs being Rs 2.7 lakh, Rs 26 lakh and Rs 92 lakh respectively, almost all the MSME loans are out of the purview of the February 12 circular, while the earlier 'specially carved out' rectification process for the MSME sector remains in force.

The officials also pointed out the inclusion of a separate sub-target of 7.5 per cent under priority sector lending for the micro sector, which required the target to be met in a phased manner.

This target has also been made mandatory for foreign banks with 20 or more branches in India with effect from this year. Earlier, the target was applicable only to domestic banks.

The data shows that the target has been achieved by most domestic public sector banks, including those under the PCA.

Out of the 12 banks, including the one from the private sector under PCA, 10 have achieved the target as on March 31, 2018. Among the 10 public sector banks outside the PCA, eight has achieved the target. Besides, 15 out of 20 private sector banks have also met this target already.

To provide the much-needed credit to the priority sector in general and MSME sector in particular, the RBI has also permitted all scheduled commercial banks to co-originate loans with non-deposit taking, systemically important non-banking financial companies for the creation of priority sector assets.

This step is expected to improve the reach of the banks to the last mile MSME units without sacrificing the loan appraisal parameters. This is also expected to lower the borrowing cost for the end-user MSME beneficiary because.

The co-origination model also enables the NBFC customers, including the MSME customers, to access the more robust grievance redressal mechanism of banks.

Besides, caps have been removed on bank loans for lending to the MSME sector to encourage banks to go beyond the earlier limits.

To ensure timely availability of funds to the MSME sector, the RBI also facilitated the setting up of electronic bill factoring exchanges in the country. These exchanges provide for a swift discounting of MSME bills and help MSMEs raise funds without delay.

With the recent announcement made by prime minister Narendra Modi that all corporate firms with an asset size above Rs

500 crore must come on to TReDS platform (Trade Receivables Electronic Discounting System), it is expected that the exchanges will get a major traction thereby benefitting the MSME sector significantly.

The non-performing assets (NPAs) norms have also been relaxed for the MSME sector to help them cope up with challenges following implementation of new reforms, officials said. To ensure formalisation of MSMEs, exposure of banks and NBFCs to the GST-registered MSMEs has also been permitted to be classified as a standard asset.

(Financial Express, November 17th, 2018)

18. *Govt seeks data from CPSEs on procurement from MSME sector*

The government has sought details from all central public sector enterprises (CPSEs) on their procurements from micro, small and medium enterprises, especially those owned by women, to assess their support for these small businesses.

The government had directed all departments and public sector companies to purchase at least 25% of their goods and services from such enterprises. It had asked the state-owned companies to get on board the Trade Receivables Discounting System (TReDS), a digital platform aimed at addressing the critical financial needs of micro, small and medium enterprises (MSMEs).

"The government is looking to promote the MSME sector and has taken a series of steps to support them. CPSEs can play a major role in promoting such enterprises," said an official with the department of public enterprises, the nodal agency for all CPSEs. The credit outstanding to the MSME sector contracted by 1.4% in September although overall bank credit grew 11.3%, according to Reserve Bank of India data.

The government has amended the Public Procurement Policy and expects to improve market accessibility and enhance competitiveness of MSMEs, the official added. CPSEs have been directed to also provide a minimum 3% reservation for these enterprises owned by women.

The government has asked public sector banks to register themselves on the TReDS platform to enable faster payments to small businesses. It will update udaymitra.in, a web portal where MSMEs can list their projects and banks can compete to finance them.

In order to aggregate products and services of MSMEs, a drive has been initiated to put them on the Government e-Marketplace (GeM), where they can be purchased online by ministries, PSUs and autonomous bodies.

(The Economic Times, November 17th, 2018)

19. *Mudra loans- big source of oxygen for small businesses*

The govt introduced Mudra loans to give a financial boost to the budding enterprises coupled with the responsibility to the banks for ensuring maximum benefits for the small industries.

The Mudra loans could be referred as the key drivers for Medium, small and micro enterprises sector because lending to the space provides major support in to system credit growth in India.

According to JM Finanical, the total disbursements under the ambit of Mudra or micro units development and refinance agency, amount to Rs 6.5 lakh crore during April 2015 to September 2018, while the quantum of loans actually refinanced by Mudra is only Rs 10,500 crore.

Moreover, the disbursement target of Mudra for the current fiscal year is aggressive at Rs 3 lakh crore, and PSU banks are targets to achieve this outcome. However, the analysts believe, the targeted lending approach may not be sufficient to cover a potential upsurge in credit costs.

On the other hand, private banks have largely been spearheaded the growth in MSME lending followed by NBFCs, while the public sector banks were seen as losing the grip over market.

Moreover, the better asset quality in MSME loans is skewed starkly in favour of NBFCs and private banks and within the MSME space, asset quality is markedly superior for lower-ticket-sized loans.

The Mudra has mostly managed to achieve its disbursement targets since inception in FY16. But most loans disbursed under the scheme are not eligible to utilise the benefit of refinance. Although media reports indicate that non-performing loans (NPLs) in under the scheme are moderate at 4.8 per cent.

Moreover, average ticket sizes for Mudra loans disbursed by PSU banks are much higher than NBFC and private bank peers. The data suggests that the average ticket size disbursement under the scheme was Rs 142,000, Rs 78,000 and Rs 44,000 for PSU banks, NBFCs and private banks respectively.

The credit guarantee fund for micro units (CGFMU) is a fund set-up by the government to provide payment guarantees to lenders against defaults in micro loans. The government has allocated Rs 3,000 crore for Mudra portfolio guarantees. A credit guarantee is provided on the default amount, in respect of the eligible facility extended by the lender: The first loss up to 5 per cent of the portfolio is to be borne by the lender and of the remaining portfolio, the guarantee coverage is restricted to 50 per cent of the default amount subject to a cap of 15 per cent of the total portfolio.

As of September, out of Rs 6.5 lakh crore amount, which was disbursed under the Mudra loans, Rs 65,000 crore is covered by the portfolio guarantee mechanism.

Although, portfolio guarantees maybe a credible line of defence against asset quality pressures, the corpus allocated and the total portfolio covered under the scheme may be below comfort levels, in our view.

(Daily Hunt, November 19th, 2018)

20. *MSME loan recast plan may be based on existing scheme*

The proposed loan restructuring mechanism for micro, small and medium enterprises (MSME) with loans up to ₹25 crore is likely to be based on the existing government "framework for revival and rehabilitation of MSMEs", albeit with a few tweaks, said a person aware of the development.

"While the existing framework provides for early detection of stress in MSMEs and charts a mechanism for resolution, the new scheme could perhaps relax the existing stress recognition timelines," the person cited above said, requesting anonymity. The government has been pushing the Reserve Bank of India (RBI) for some sort of relief to the MSME sector, and the board on 19 November advised the central bank to consider a scheme to recast MSME loans.

In March 2016, RBI had notified an updated mechanism for resolving stressed MSME loans of up to ₹25 crore. The guidelines said banks should classify stress in such loans into three categories—special mention account (SMA) 0, SMA 1 and SMA 2 —depending on the delay in repayment of loans. While borrowers delaying repayments by up to 30 days should be classified as SMA 0, borrowers delaying by 31-60 days and 61-90 days will be classified as SMA 1 and SMA 2, respectively. The loans still remain standard even in these categories and turn bad only after a delay of more than 90 days.

Once an MSME borrower turns SMA 2, the bank has to refer it to a committee that will look for a resolution plan. The resolution plan may be of three kinds—rectification, restructuring and recovery. Under rectification, lenders are allowed to provide additional finance to the borrower. Under restructuring, the borrower's loan repayment schedule is extended and interest rate reduced to ease the repayment pressure. In recovery, lenders pursue legal routes to recover dues.

According to RBI data, for the half year ended March 2017 (latest available), 137,282 MSME loan accounts were referred to these committees for resolution. Of these, banks used rectification in 80,905 cases, recovery in 54,180 cases, and only 2,197 loans were recast. However, the quantum of loans for these categories is not available.

The amount of gross bad loans in the micro- and small enterprises (no data for medium) has been growing over the last few years and stood at ₹82,756 crore in FY17, up from ₹70,842 crore in FY16 and ₹51,952 crore in FY15.

Meanwhile, the industry believes that lenders are restructuring only a handful of MSME loans while others are being subjected to recovery. Minutes of the meeting of the National Board for Micro, Small and Medium Enterprises (NBMSME) held on 26 February showed that its members wanted to request the department of financial services (DFS) and RBI to increase the bad loan classification deadline for micro and small enterprises from 90 days to 180 days. "Members also expressed their concern that in a very large number of cases the committees are taking a decision to recover the amount and re-working is only being done in less than 50% of the cases," the minutes of the meeting said.

A "Mint Street Memo" released by RBI in August pointed out that demonetization of ₹500 and ₹1,000 currency notes led to a further decline in the already-decelerating credit growth of the MSME sector. However, recent data shows that lending to MSMEs has recovered and for the fortnight ended 28 September 2018, bank loans to the sector grew 2.3% year-on-year (y-o-y) to take the outstanding loans to ₹27 trillion.

(Live Mint, November 21st, 2018)

21. *Vice president visits KVIC's stall*

Khadi once again won the accolades from Vice President of India – M Venkaiah Naidu. On November 19, Naidu visited the exclusive stall of Khadi and Village Industries Commission (KVIC) at Ambedakar International Center, before chairing the Commemorative Event of 150th Birth Anniversary of Mahatma Gandhi, organised by FICCI – Aditya Birla CSR Centre for Excellence.

KVIC Chairman Vinai Kumar Saxena welcomed him with the shawl and momento there. On the inspiring event of commemorating 150th Birth Anniversary Celebrations of Rashtrapita Mahatma Gandhi, Venkaiah Naidu, Vice President of India presented a cheque of Rs 32, 00,000/– towards sponsorship of 202 Charkhas to V K Saxena, Chairman KVIC, in the presence of Rajashree Birla, wife of Aditya Birla.

The donation was sponsored by Aditya Birla Centre for Community Initiative and Rural Development under the auspices of FICCI.

Later, addressing the function, Naidu said that for Gandhi, Khadi was not just a political icon or a symbol of national pride, it was also a way to empower the rural economy.

"Today we see a disturbing trend of distress migration from rural to urban areas. Our rural economy is weak and fails to provide enough opportunities for livelihood. It is time India honors the Mahatma's wishes and goes back to its villages. Real growth will happen in India when we are able to empower rural India, especially our farmers, our weavers and our craftsmen," he said.

"As Gandhi himself said that the spinning-wheel represents the hope of the masses and the Charkha supplemented the agriculture of the villagers and gave it dignity, being the friend and solace of the rural women and keeping the villagers from idleness, I am extremely obliged by the generosity of the Aditya Birla Centre for Community Initiative and Rural Development, for donating Rs 32 lakh cheque to the KVIC family," said Chairman KVIC.

(Millennium Post, November 20th, 2018)

22. *Nearly 40% of lending to MSMEs is through informal channels*

Micro, small and medium enterprises (MSMEs) still find access to formal credit a challenge with nearly 40 per cent of lending happening through informal sources, according to a new report by the Omidyar Network and BCG.

The report titled ‘Credit disrupted: Digital MSME lending in India’ estimated that in 2018, the total MSME credit demand will be ₹45 lakh crore, of which ₹25 lakh crore will be met through formal channels with the borrowing done in the entity’s or proprietor’s name. However, as much as ₹20 lakh crore is seen as the unmet credit demand which is financed through informal channels.

“Roughly 40 per cent of MSME lending is done through the informal sector, where interest rates are at least twice as high as in the formal market,” it said, adding that an additional 25 per cent of MSME borrowing is invisible and is through personal proprietor loans.

“We found that urban and rural MSMEs are quite similar in their borrowing behaviour, with nearly identical rates of informal borrowing and bank account registration,” it further said. The findings come at a time when the government is working on special schemes to boost lending to the sector, including a special package announced by Prime Minister Narendra Modi earlier this month to help improve access to credit.

“MSMEs in India continue to struggle with traditional banking challenges that, if addressed by digital lenders, could accelerate both formalisation and digitisation among businesses in this sector,” said the report.

According to the MSMEs surveyed, the challenges faced in access to formal credit included long processing times, lack of transparency in timelines and insufficient loan sizes. “These pain points are substantial enough to compel many MSMEs to continue to seek out informal sources, often at much higher interest rates,” it added.

But, with growing formalisation of the sector due to demonetisation and the introduction of the Goods and Services Tax, maturing ‘India Stack’, along with growing API-based data availability and increasing receptivity, the report said that there is great potential for digital lending. Digital lending to the sector can increase by 10 to 15 times to touch ₹6-7 lakh crore in annual disbursements by 2023. At present, 99 per cent of formal MSME lending is through incumbent banks and NBFCs and most of it is non-digital.

The report has recommended that digital lenders align themselves with the needs of MSMEs through measures like leveraging supply chain ecosystems and e-commerce platforms and embracing next-generation data analytics.

Significantly, it has suggested revamping the government loan refinancing programmes through SIDBI and MUDRA to include newly-established digital lenders and focus on small, new-to-finance MSMEs. “The current programmes do not serve the riskiest, new-to credit MSMEs segment where support is most needed,” it said.

The report surveyed 1,500 MSME owners with annual business revenue between ₹3 lakh and ₹ 75 crore, held discussions with

over 80 MSME owners and interviewed more than 60 digital lenders, intermediaries, ecosystem partners, and other subject-matter experts.
(Business Line, November 21st, 2018)

23. *Small biz sentiment largely intact in Sept qtr*

Small business sentiment was "largely intact" in the September quarter despite the slew head of headwinds including higher oil prices and rupee depreciation, a survey said.
The findings of the survey come amid heightened concerns over the the state of the micro, small and medium enterprises (MSME) sector, which also led the RBI board to accept the need for a special dispensation to support such businesses.
The RBI board had decided to advice the management to come out with a scheme under which advances of up to Rs 25 crore to MSMEs can be restructured.
The fourth Crisidex survey, jointly undertaken by Crisil and Sidbi, said lenders' sentiment has also increased since the last survey, for which 1,100 companies have responded.
Six out of ten lenders surveyed saw an improvement in the overall business situation of MSMEs and three out of 10 rated it as satisfactory, compared with four out of 10 each for positive and satisfactory last quarter.
For the next quarter, nine out of 10 lenders keep a "positive outlook" for MSMEs, it said.
However, when it comes to asset quality, the lenders are not as optimistic, with six of the ten lenders expecting the NPAs ratios to be unchanged, one expecting an increase and three believing it will decrease.
The study said the headwinds small businesses are grappling with include the elevated oil prices and the rupee depreciation, besides the seasonality.
The Crisidex score stood at 124, which is a notch below the 127 for the preceding June quarter, but above the 121 in March or 107 in December 2017 quarter, it said.
A larger number of small businesses reported a satisfactory quarter even as share of those reporting negative sentiment was unchanged, it said.
Both in manufacturing and services, nearly 40 per cent of them indicated a significant improvement in activity, it said, adding that companies in both the sectors expect the October-December period to be a "better quarter".
It said half of the respondents in both the services and manufacturing sectors expect positive momentum to continue in the next quarter, pointing out that auto components, engineering and capital goods, and metals and mining, healthcare, power and utilities and travel and hotels are the most optimistic.
The Crisil survey said 40 per cent of the MSMEs reported an increase in order book, which is higher than the previous two surveys, with export-oriented ones reporting a marginally lower order book growth.
(The Economic Times, November 20th, 2018)

24. *More fund infusion likely in PSU banks*

The government is planning an urgent infusion of more capital into public sector banks to push credit flow as it worries that liquidity constraints faced by non-banking finance companies may have hit growth.
The amount to be given to the banks could exceed the Rs 42,000 crore left under the capitalisation plan currently being implemented, said a government official aware of the deliberations.
"The cabinet may take up the issue. We want to give growth capital to banks so that they can lend to meet and support the demands of the economy," the official said.
The government may increase the capital support to Rs 80,000-100,000 crore so that most banks will benefit. Year-on-year credit growth was 14.9% as of November 9, but the industry has complained that vital sectors such as real estate and micro, small and medium enterprises (MSMEs) have been denied funds. These sectors got the bulk of their credit from NBFCs, which saw their funding drying up after defaults by Infrastructure Leasing & Financial Services Ltd.
"These are initial plans worked out considering an above 8% credit growth. It depends on the fiscal maths as well," the official added.
With crude prices falling sharply and the rupee rallying, fiscal pressures have abated a bit.
The capital calculation will also take into consideration the proposed merger of Bank of Baroda, Dena Bank and Vijaya Bank,

which will create the country's third-biggest lender. "Besides, there will be some extra requirement taking into consideration the merger between the three lenders," the official said.

Separately, a finance ministry official said the government will certainly infuse the remaining Rs 42,000 crore in state-owned banks by March and the next tranche would be released as early as next month.

Public sector banks will need fresh Tier I capital of Rs 1.2 lakh crore in the five months ending March 2019, or Rs 21,000 crore more than what was envisaged under the Rs 2.11-lakh crore recapitalisation plan worked out last year, according to a recent report by rating company Crisil. Under the plan announced last year, Rs 1.35 lakh crore was to be given through recapitalisation bonds and Rs 18,000 crore from the Budget, while banks would raise Rs 58,000 crore from the market. Crisil had noted that given their weak performance and low valuations, public sector banks have little ability to tap the market, which means the government will have to provide most of the requirement.

The Reserve Bank of India's recent decision to extend the time to implement the last tranche of capital conservation buffer under Basel III capital regulations by one year could reduce the burden of state-owned banks by .`35,000 crore this fiscal. Recoveries under the Insolvency and Bankruptcy Code will reduce the capital requirement and banks will also benefit from the decline in bond yields. The rally in yields had raised the mark-to-market losses of banks against which they would have had to make provisions.

(The Economic Times, November 27th, 2018)

25. *Invoicemart successfully onboards NLC India*

Invoicemart, India's leading digital invoice discounting marketplace has successfully on boarded NLC India Limited (formerly Neyveli Lignite Corporation Ltd.). NLCIL is a Navratna Government of India enterprise, under the administrative control of Ministry of Coal. The PSU has a major share of lignite production and some share of thermal power generation in the country. Onboarding of the PSU on the TReDS platform will allow over 2000 MSMEs to tap into the TReDS platform Invocemart and ensure their invoices are paid within 48 hrs. of getting uploaded and approved.

(Start up the post, November 29th, 2018)

26. *Rakez business investment forum woos Indians*

Ras Al Khaimah organised the 2nd Ras Al Khaimah Economic Zone (RAKEZ) Business Investment Forum in New Delhi. Held in collaboration with KPMG, the event was geared towards drawing more Indian manufacturers to Ras Al Khaimah's industrial ecosystem.

Addressing the forum, CEO of RAKEZ, Ramy Jallad said, India is deeply rooted in RAKEZ's DNA. To put that into context, RAKEZ hosts over 3,100 SMEs and over 230 industrialists from India, making up to nearly a quarter of the economic zone's total company population. Solely this year, RAKEZ has registered nearly 700 companies out of the over 11,000 enquiries it has received from Indian businessmen since January.

Speaking to The Pioneer on taxation system in the region, he said, "When it comes taxes, it is federal Government issue but if you talk about RAK, it is an economic zone. As an economic Zone — we provide incentives with our commercial incentive. We give special incentives on the price of our products and services depending on the requirement of the client. The UAE and GCC have introduced VAT in the beginning of this year where taxes and VATs are applicable to all. We personally as RAKEZ cannot influence that, but, I believe that when it comes to commercial business, Indian investors see benefit being in the RAK because of cost effectiveness. RAK is around 25% to 50% more cost effective compare to other part of the world, and that is what they want."

RAKEZ saw interest from manufacturing leaders in the fields of food and beverage, pharmaceuticals, and consumer care, among others. The forum is expected to support the continuous growth of RAKEZ's industrial sector which experienced a 28% increase this year, from 600 manufacturing companies in 2017 to now more than 770.

Among RAKEZ's Indian success stories are Ashok Leyland, one of the leading automotive assembly company; Dabur, a personal care and products maker; and GK Technologies, a steel structure manufacturer.

(The Pioneer, November 29th, 2018)

27. BSE creates new division for listing of startups

To make stock market listing attractive for startups, leading stock exchange BSE has announced the creation of a new division within its SME segment to list new-age companies.

The platform will facilitate the listing of companies in sectors like IT, ITeS, bio-technology and life sciences, 3D printing, space technology and e-commerce.

Besides, the platform will aid in listing of firms from hi-tech defence, drones, nano technologies, artificial intelligence, big data, virtual reality, e-gaming, robotics, genetic engineering, among other sectors.

“In order, to incentivise startup companies...the exchange is pleased to announce the creation of a new sub-segment within the existing SME (small and medium enterprise) segment,” BSE said in a circular.

Spelling out the criteria for listing on the BSE startup platform, the exchange said the company should be registered as a startup with the Ministry of Micro, Small & Medium Enterprises or Department of Industrial Policy & Promotion.

Among other criteria, the company should be in existence for a minimum period of two years, besides, qualified institutional buyer (QIB) or angel investor or any other accredited investor should have invested in the firm for a minimum period of two years at the time of filing of draft prospectus with the BSE.

(The Pioneer, November 29th, 2018)

28. Restructuring MSME loans a step backwards: Fitch

The decision to restructure loans of up to Rs 25 crore for the MSME sector is a “step backwards” and the risks to the banking sector will manifest in the next 6-9 months, Fitch Ratings said.

Fitch Ratings Director (Financial Institutions) Saswata Guha said, given the past record, it is unlikely that banks would exercise prudence while restructuring loans of micro, small and medium enterprises (MSME).

The board of the Reserve Bank last week advised the central bank that it should consider a scheme for restructuring of stressed assets of MSME borrowers with aggregate credit facilities of up to ₹25 crore, subject to conditions necessary for ensuring financial stability.

“In one way, it is a step backwards given RBI’s previous stance to do away with all restructuring. It clearly reflects stress in the MSME sector although we expect risk to manifest in the next 6-9 months,” Mr Guha said.

Relaxation of lending norms to spur growth is “never a good strategy”, he said, adding the legacy problem loans will continue to be a bigger drag on the MSME sector’s asset quality until March 2019.

“There is adequate evidence in the form of $140 billion of NPL (non-performing loan) stock that the sector is currently grappling with, which, in my opinion, is a direct result of the unbridled lending of the past,” Guha said.

On the RBI board’s decision to defer the timeline for implementing capital adequacy norms (Basel III) by the banks, Guha said the move is “certainly credit negative” as it reflects the sector’s poor capitalisation, particularly that of state-owned banks, and their inability to meet minimum regulatory requirements.

There was a stand-off between the RBI and the Finance Ministry over several issues, including easier funding norms for the MSME sector, implementation of the capital adequacy norms and economic capital framework of the central bank.

On November 19, the RBI Board directed the Reserve Bank to restructure loans for the MSME sector, extend the timeline for implementation of Basel III norms and also set up an expert committee to deliberate on economic capital framework.

RBI board, which is headed by Governor Urjit Patel, has 18 members, which include 4 RBI Deputy Governors and two Government nominees.

In the said meet, the RBI Board, while deciding to retain the capital adequacy requirement for banks at 9 per cent, agreed to extend the transition period by one year — up to March 31, 2020.

Guha further said that non-banking finance companies (NBFCs) continue to remain a risk as a result of their aggressive lending, especially to real estate and MSME, in the past.

“We may see slippages from the latter sectors (real estate, SMEs) in the near-term if challenges in terms of liquidity continue. However, better rated non-banks with good track record and market reputation face much lower rollover risk as compared to ones where risks are elevated although funding costs have risen across the board,” Guha added.

(Business Line, November 28th, 2018)

29. *With policy tweaks, defence/aerospace sector can open new vistas for MSMEs*

Micro, small and medium enterprises (MSMEs) are set to play a much bigger role in defence and aerospace projects and have the potential to enter into direct deals with global companies.

Experts felt some policy tweaks would encourage MSMEs and enable them to take a bigger slice of sourcing contracts.

KV Kuber, Director, Aerospace and Defence, E&Y, said the Defence Procurement Policy 2016 has been a game-changer for private companies, particularly the MSMEs.

Even though the policy aims at 20 per cent procurement, MSMEs require some more support to achieve and scale up. Some more policy changes could make a big difference to them in attracting more investments.

Jayesh Ranjan, Principal Secretary, Industries, Telangana, said, "T-Works has the ability to provide cutting edge tech to defence and aerospace companies by providing exclusive prototyping facility. Those companies needing this facility can access it for their business."

Explaining how a number of companies have made the aerospace park near Hyderabad their hub, including GE, Tata Advanced Systems, Boeing, and Lockheed Martin, Jayesh Ranjan said there are opportunities for MSMEs to bag contracts from global companies.

Referring to a meeting hosted by Boeing, he said representatives from more than 150 suppliers attended it. This shows the growth potential.

Referring to the importance of technology upgradation and use of new systems backed by 3-D printing, artificial intelligence and automation under Industry 4.0, experts felt that these were disruptive but could make a difference to suppliers, who must upgrade to turn globally competitive.

Competition is no longer among cities or States, it is global. When GE chose Hyderabad to locate its facility, the competition was with cities in Japan and Korea. And companies can be successful only when they scale up technologically.

(The Pioneer, November 29th, 2018)

30. *With new portal, PSBs likely to regain market share in MSME loans: SIDBI*

Public sector banks (PSBs) are likely to regain market share in loans to the micro, small and medium enterprise (MSME) segment, as the recently launched online lending portal, psbloansin59minutes.com, will help them crunch the turnaround time (TAT) for loan proposals, according to a top SIDBI official.

TAT, which is the number of days between the date of enquiry and the date of loan sanctioned or renewal date, was the longest for PSBs at 31 days for MSME loans in 2018, as per a TransUnion CIBIL-SIDBI joint report.

Among lenders, non-banking finance companies have the best TAT of 18 days, followed by private sector banks at 29 days.

Manoj Mittal, Deputy Managing Director, Small Industries Development Bank of India (SIDBI), said: "The MSME sector presents huge opportunity for banks to lend. Roughly 90 per cent of the units are not linked to the formal financial institutions.

"Within the sector, small loans are witnessing good growth. But the market share of PSBs is going down."

The TransUnion CIBIL-SIDBI joint report said the market share of PSBs in MSME lending declined to 50.7 per cent in June 2018 from 55.8 per cent in June 2017 (59.4 per cent in June 2016).

NBFCs and private banks continue to garner market share, it added.

The online lending portal, which requires borrowers to upload details pertaining to Goods & Service Tax, Income Tax Returns, Bank Statement, Directors/Partners/Proprietor, and loan required, will help PSBs claw back market share, said Mittal, adding that if an MSME ticks all the boxes, then it can get an in-principle loan approval in less than an hour.

"So far, the major challenge for micro and small enterprise entrepreneurs was that they did not know whether they should approach X branch or Y branch for a loan. Even if he goes to the branch, he is not sure whether he will be entertained or not.

"But if he has an in-principle letter, which has gone to the branch as well as Head Office (HO) via the portal, the proposal will be monitored at the HO-level also. The customer can select which branch he wants to avail the loan from," explained a SIDBI official.

Mittal said 20 PSBs and SIDBI are part of the lending portal, which is owned by CapitaWorld Platform Pvt Ltd. MSMEs can avail loans ranging from ₹1 lakh to ₹1 crore via the portal.

(Business Line, November 29th, 2018)

31. Interest subsidy up for MSME exporters

To boost MSME sector exports, the Reserve Bank said the interest subsidy on post and pre-shipment export credit has been increased to 5 percent from 3 percent. The increased subsidy is applicable from November 2.

Exporters get the subsidy under the 'Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit'.

"It has been decided by the Government of India to increase w.e.f. November 02, 2018 Interest Equalisation rate from 3 percent to 5 percent in respect of exports by the Micro, Small & Medium Enterprises (MSME) sector manufacturers under the Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit," the RBI said in a notification.

(Money Control, November 29th, 2018)

32. 42% SMEs in India find accessing finance difficult

For small and medium enterprises (SMEs), accessing finance is the most difficult part and most of them rely on traditional bank loans to run their businesses. A global survey by American Express underlines that 42% of Indian respondents find access to finance to grow business difficult, as compared to a third of their global peers.

The survey says that 82% of all SMEs plan to use bank loans. However, with rising borrowing costs, Indian SMEs are taking a hard look at their finance options. In fact, 69% of the fast growing ones say they will tap other sources of funding such as public equity. Managing expenses effectively is a key focus area for Indian SMEs who are now placing equal priority on expense management as much as on increasing revenue.

Saru Kaushal, vice-president and general manager, Global Commercial Services, American Express Banking Corp, India says: Small enterprises are balancing revenue growth with efficiency improvements and leveraging innovation and strong customer relationships.

The American Express Global SME Pulse 2018 survey highlights that time-consuming application process, high interest rates and hidden fees are the top pain points for SME entrepreneurs. “At present it takes around 30-40 days for small entrepreneurs to get loan from banks because of documentation process and credit evaluation. But with new technology solutions, the process can be done faster and entrepreneurs can get quick access to funds,” Kaushal says.

Over three quarters of Indian SMEs say that customers are demanding more new or tailored products and services, and some 44% plan to apply new technology to help them redesign products or services.

(Financial Express, November 30th, 2018)

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vi. Training results in improved robust management systems and practices.

vii. Association with FICCI and ILO bringing market visibility

More than 100 Indian SMEs benefited since 2012 with proven results such as enhanced productivity, improved cost competitiveness, waste reduction, defect elimination and more.

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FICCI

SCORE

International Labour Organization

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.

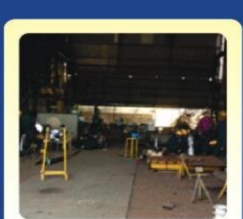
Results Achieved:

- 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:

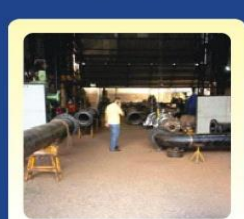
- SCORE program provided a new way of looking at the situation at the workplace and opportunity to brainstorm to find solutions within the available resources.
- Management and operators realized the benefits of 5S that it helps to identify hidden and unwanted materials and the monetary benefits that 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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