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NEWSLETTER

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

Empowering MSMEs

Confederation of Micro, Small and Medium Enterprises (CMSME) established in December 2013 with a vision to empower Indian MSMEs and build their competitiveness is an affiliated body under the umbrella of the Federation of Indian Chambers of Commerce and Industry (FICCI), an apex Chamber of Commerce & Industry of India. FICCI has tie ups with over 300 industry associations and chambers worldwide.

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- Provide a holistic grid to connect MSMEs with mentors, incubators & accelerators and assist them through capacity building programs & services
- Help MSMEs explore different government schemes
- Deliberate on policy issues that impact performance of the MSME sector and provide effective channels to communicate issues and concerns to government at the center and states as well as to other regulatory bodies and banks
- Provide regular interface between Industry, Government and regulators through workshops, round tables and representations and interactive sessions with to create an enabling environment for further growth of the sector

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- Marketing & Quality Standards including Packaging
- Finance
- Technology & Innovation
- Legal & Taxation
- Procurement
- Environment
- Start-up & Entrepreneurship

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MSME NEWS UPDATE

1. Led by MSMEs, credit growth to industry picks up 4.1% in October

After remaining sluggish for quite some time, credit growth to industry picked up to 4.1 per cent in October from a contraction of 0.7 per cent in October 2020. In absolute terms, outstanding credit to the industry rose by Rs 1.13 lakh crore on a year-on-year to Rs 28.54 lakh as of October 2021, according to the latest RBI data. This is largely aided by credit to medium industries which registered a robust growth of 48.6 per cent, or Rs 58,000 crore, to Rs 1.79 lakh crore in October 2021 as compared to 20.8 per cent last year. In September, credit growth to industry showed a 2.5 per cent increase. Credit to micro and small industries accelerated to 11.9 per cent in October 2021 from 0.7 per cent a year ago. Credit growth to large industries stood at 0.5 per cent, or Rs 12,000 crore, to Rs 22.70 lakh crore in October 2021 as compared to a contraction of 1.8 per cent a year ago, it said.

On a year-on-year (y-o-y) basis, non-food bank credit growth accelerated to 6.9 per cent in October 2021, compared to 5.2 per cent in October 2020, RBI said. According to the RBI, credit to agriculture and allied activities continued to perform well, registering an accelerated growth rate of 10.2 per cent in October 2021 as compared to 7.2 per cent in October 2020.

Credit growth to all engineering, chemicals and chemical products, food processing, gems and jewellery, infrastructure, among others accelerated in October as compared to the corresponding month of the previous year. However, credit growth to basic metal and metal products, beverage and tobacco, cement and cement products, construction, among others decelerated or contracted.

The Indian Express, December 01, 2021

2. Rs 2.82 lakh crore disbursed under Emergency Credit Line Guarantee Scheme: Centre

Despite so much push by the government to disburse credit to small industries, so far Rs 2.82 lakh crore of loans have been sanctioned under the Emergency Credit Line Guarantee Scheme (ECLGS). "As informed by DFS, as on November 19, 2021, Rs 2.82 lakh crore of loans have been sanctioned under the scheme," MSME Minister Narayan Rane informed the Lok Sabha in a written reply.

Finance minister Nirmala Sitharaman had announced the scheme as the Covid relief measure to small industries last year, allocating Rs 3 lakh crore for the scheme, apart from the additional Rs 1.5 lakh crore announced in June this year, as a part of Covid relief package for the second wave. However the disbursal was slow. Government relaxed the criteria of loan disbursal.

For instance, now existing borrowers under ECLGS 1.0 & 2.0 would be eligible for additional credit support of upto 10% of total credit outstanding as on 29.02.2020 or 31.03.2021, whichever is higher. It also said, businesses who have not availed assistance under ECLGS (ECLGS 1.0 or 2.0), can avail credit support of upto 30% of their credit outstanding as on 31.03.2021 and in some sectors upto 40%. It also announced an extension of the scheme till 31 March, 2022, as over Rs 1.5 lakh crore remain unused. The last date of disbursement under the scheme has been extended to June 30, 2022. The ECLGS is under the domain of the Ministry of Finance, Department of Financial Services (DFS).

The New Indian Express, December 03, 2021

3. Govt approves manufacturing of AK-203 rifles in Amethi

In a major boost to self-reliance in defence manufacturing, the central government has given its go-ahead for the production of over five lakh AK-203 assault rifles at the Korwa unit in Amethi district of UP. The rifles will be manufactured in partnership with Russia, sources said.

The 7.62x39mm caliber AK-203 rifles will replace the in-service INSAS rifle, which was inducted over three decades ago, government sources said. With an effective range of 300 metres, AK-203 modern assault rifles are lightweight, robust and easy to use. The technology of these assault rifles will enhance the combat potential of soldiers to adequately meet, present and envisage operational challenges. AK-203 assault rifles will enhance the operational effectiveness of the Indian Army in counterinsurgency/counter-terrorism operations.

Sources said the project would be implemented by a special purpose joint venture called Indo-Russian Rifles Private Ltd (IRRPL). The joint venture is between Advanced Weapons and Equipment India Ltd and Munitions India Limited of India, and Rosoboronexport and Kalashnikov of Russia. The project will provide business opportunities to various MSMEs and other defence industries for the supply of raw material and components, which will lead to job creation.

The Times of India, December 05, 2021

4. **Entrepreneurs should tap into opportunity emerged from closure of factories in China: Narayan Rane**

MSME Minister Narayan Rane has urged Indian entrepreneurs to tap into the opportunity that has emerged from the closure of factories in China. Rane, addressing an event, said he has urged promoters of businesses to manufacture goods in India whose production has been shut in China along with marketing those products and exporting them globally.

"Production in China is on top globally. China has a share of 64 per cent of the world's production but currently, many companies are shutting down (in China) and their production has been stopped. I have urged medium and large entrepreneurs that they should manufacture products in India whose factories were shut in China," said Rane. Addressing the event on the role of MSMEs in enhancing the country's growth, the minister added that, "We should also market the production (of these goods) in countries where they are marketed and also export (them). India's share in world manufacturing is 6 per cent and if we take it to 10-11 per cent, then our GDP will also grow, and we would become Atmanirbhar."

According to a survey by Gartner, Inc. of 260 global supply chain leaders in February and March last year, 33 per cent had moved sourcing and manufacturing activities out of China or plan to do so in the following two to three years. Covid was only one of several disruptions while tariff costs and resilience concerns were primary reasons for businesses to look for alternative locations.

"We have found that tariffs imposed by the U.S. and Chinese governments during the past years have increased supply chain costs by up to 10% for more than 40% of organizations. For just over one-quarter of respondents, the impact has been even higher," Kamala Raman, Senior Director Analyst, Gartner Supply Chain Practice said in the survey report. "Popular alternative locations are Vietnam, India, and Mexico. The second main reason for moving business out of China is that supply chain leaders want to make their networks more resilient," Raman had said. Rane also noted that entrepreneurs must adopt the latest technology and machines for the production of goods that aren't made in China anymore in order to provide quality products and capture global markets. "A growing industrial environment helps stabilize the society with innovative solutions. It also inspires the younger generation to think creatively. Hence, it is important to focus on the growth of MSMEs."

Financial Express, December 05, 2021

5. **'Create robust, digital platform for easy credit availability to small biz'**

IT Minister Ashwini Vaishnaw exhorted the banking industry to create an innovative digital platform — as powerful, seamless and robust as UPI — for providing quick and easy credit to MSME, small businessmen, and those at the bottom of pyramid.

The building blocks required to create such a platform are already available, given the strong ecosystem of Aadhaar, mobile phones, UPI (Unified Payments Interface) platform and digilocker, he said asking the banking industry to come up with innovative idea and solutions in three months. Vaishnaw was speaking at 'Digital payment Utsav' which was part of a weeklong showcase of India's achievements in digital space titled 'Azadi ka Digital Mahotsav' in the capital.

Throwing a "challenge" at the bankers present in the audience, the Minister said: "Can we create a platform as powerful, seamless, good, as digital as UPI platform for providing very quick and easy credit to the MSME, small industries, small businessmen…people really at bottom of pyramid."

The Indian Express, December 06, 2021

6. **To support MSMEs, Tamil Nadu slashes prices of land at government industrial estates**

The Tamil Nadu government slashed prices of plots inside the SIDCO industrial estates to support MSMEs that are recovering from the impact of the pandemic. MSME associations have also been making the for a cut in prices of industrial plots. Due to high prices, there have been no takers for land inside many of the SIDCO. The present price reduction is expected to be attractive for MSME units that have been planning to set up units, said an official statement quoting Chief Minister MK Stalin.

In Uthangarai SIDCO Industrial estate, Krishnagiri district, the price has been reduced to ₹30,81,200 per acre from₹119,79,000; at Kumbakonam Industrial Estate it is down to ₹81,89,300 from 3,04,92,000; Nagapattinam ₹85,35,800 from ₹239,71,500; in Kurichi Industrial Estate, Coimbatore District, it is now ₹4.2 crore from ₹9 crore earlier; and at Winnamangalam Industrial Estate in Tirupathur District ₹2 crore from ₹4 crore.

The land price at Alathur Estate in Chengalpattu District has been reduced to ₹3.5 crore per acre from ₹6 crore; and at Erode Industrial Estate it is ₹3.8 crore per acre, against ₹6.4 crore earlier. Also, prices of industrial plots at Karaikudi, Pidaneri (Thoothukudi District) and Rajapalayam have been reduced in the range of 30-54 per cent as a significant portion of plots in these estates have been lying vacant for years citing high prices.

For about 12 industrial estates including those at Ambattur and Thirumazhisai, prices for the industrial plots have been fixed at 2016-17 rates. For eg, per acre cost has been fixed at ₹25.07 crore at Ambattur against the current market price of ₹43.86 crore and at ₹7,67 crore at Thirumazhisai against a market price of ₹13.41 crore. The proposed price cut will help MSMEs to set up shop at a lower price, while the sole objective of setting up such industrial estates to promote MSME units is also fulfilled, it said.

The Hindu Business Line, December 07, 2021

7. **PSBs restructure over Rs 58,500 cr loan advanced to 1 mn MSME acc: Govt**

Public sector banks (PSBs) effected restructuring of 9.8 lakh accounts of micro, small and medium enterprises, due to the impact of Covid-19 pandemic, amounting to Rs 58,524 crore as of November 26, the government said in Parliament. While, as many as 8.5 lakh accounts of individual borrowers of over Rs 60,000 crore have also been restructured.

"As per inputs received from public sector banks (PSBs), as on November 26, 2021, resolution plan/restructuring has been implemented by them in 9.8 lakh MSME accounts amounting to Rs 58,524 crore, and in 8.5 lakh accounts of individual borrowers amounting to Rs 60,662 crore, as on November 15, 2021," the Finance Ministry said in a written reply in the Lok Sabha.

The government and the Reserve Bank took a number of measures to support the retail and micro, small and medium enterprises (MSME) borrowers in the wake of the pandemic, including a Covid-19 regulatory package granting moratorium of six months on payments of all instalments of term loans and deferment of recovery of interest on working capital from March 1, 2020 to August 31, 2020.

Under Emergency Credit Line Guarantee Scheme (ECLGS) which was backed by 100 per cent guarantee of the central government, banks and non-banking financial companies (NBFCs) have sanctioned loans amounting to Rs 2.97 lakh crore as on 26 November 2021, as per the reply.

Also, the launch of PM Street Vendor's AtmaNirbharNidhi (PM SVANidhi), to help the poor street vendors impacted by the pandemic to resume their livelihood activities enabled 30.23 lakh vendors to access credit amounting to Rs 3,054 crore till November 30, 2021.

"PSBs sanctioned Rs 1,84,046 crore to 1.1 crore existing loan accounts under Covid-19 emergency relief schemes for their existing borrowers, including MSME borrowers and Self-Help Groups, by providing additional loan facility without additional margin/security/ or processing charge. "Further, government has launched nationwide Credit Outreach Programme on 16 October 2021, under which banks have been holding special camps across the country to make loans available to eligible borrowers," the ministry said. As reported by banks, an aggregate loan amount of Rs 94,063 crore has been sanctioned up to 26 November 2021 under this, it added.

Business Standard, December 07, 2021

8. Public sector bank disbursed most loans to MSMEs: Report

Public sector banks accounted for the largest share of loans disbursed under the ECLGS scheme under which the government guarantees a certain amount of loans to MSMEs, with private sector banks coming close. But the public sector banks reached more to the tiny borrowers, finds a study by credit bureau Transunion Cibil. Of the total loan applications received under the ECLGS scheme, the share of public sector banks is about 47%. While that of private sector banks is 44 per cent. But the public sector banks have reached out more to the tiny borrowers who have accounted for 58 per cent of the number of loans disbursed, finds the study by the credit bureau.

Under the Emergency Credit Line Guarantee Scheme (ECLGS) MSMEs get up to 20% of the borrower's total outstanding credit up to Rs. 25 crore is fully guaranteed by the government. This is a part of the Rs 20 lakh crore package to help the industries hit by the COVID induced lockdown.

Public sector banks with their extensive network operationalized the scheme as soon as it was launched. This enabled the scheme to reach out to a maximum number of MSME borrowers spread across the length and breadth of the country, within a short time, the study said.

"Public sector banks led from the front on the implementation of ECLGS. They efficiently channeled credit infusion to deserving MSMEs in a timely manner by astutely utilizing credit information analytics and digital drivers" said said an expert. "Credit infusion through the ECLGS has set the MSME sector on a long-term and sustainable growth trajectory which bodes well for the resurgence of India's economy."

The very small and micro enterprises were the most affected by the crisis. The credit bureau's analysis indicates that the ECLGS scheme has benefitted this class. Of the total number of borrowers who availed loans under this scheme, 58.50 belong to the very small category (overall credit exposure less than Rs 10 Lakhs) and 32% belong to the micro category (overall credit exposure between Rs 10 Lakhs and Rs one crore). In terms of value, the share of very small and micro segment is at 30%. Top five states of Maharashtra, Tamil Nadu, Gujarat, Uttar Pradesh, and Karnataka that are high on industrial and commercial activity and also have a significant share in overall MSME exposure, contributed to 47% of total ECLGS Joan disbursements.

The Economic Times, December 09, 2021

9. Steel makers should consider offering some relief to MSME user-industry, says Goyal

Commerce & Industry Minister Piyush Goyal has asked steel manufacturers to consider offering some “relief” to small industries and exporters using steel as an input for manufacturing of components and other engineering products. The Minister met participants from the steel industry and the user industry to discuss and address issues raised by the MSME sector.

Goyal said that special care needs to be taken of MSMEs needs for easier and cost-effective supply of steel, according to an official release issued by the Commerce & Industry Ministry. Steel prices have almost doubled over the last year causing distress to MSMEs manufacturing a wide range of items that uses steel as inputs such as electrical equipment and engineering products.

The Minister asked the steel industry stake holders to assess the manufacturing costs and explore the possibilities of offering relief to small user industries. The meeting was also attended by Union Minister of Steel Ram Chandra Prasad Singh, Minister of MSME Narayan Tatu Rane, SAIL chairperson. Soma Mondal, Rashtriya Ispat Nigam CMD Atul Bhatt, JSW Steel CMD Sajjan Jindal and Tata Steel CEO and MD T V Narendran.

The Hindu Business Line, December 09, 2021

10. MSME credit scheme may be extended to help small units tide over pandemic

The government could extend its ₹4.5 lakh crore sovereign-guaranteed credit facility for small businesses to the next fiscal year as the pandemic is not yet over and the scheme has been successful in providing liquidity support to over 10 million enterprises, protecting about 54.5 million jobs, people aware of the development said.

The Emergency Credit Line Guarantee Scheme (ECLGS), which ends on March 31, 2022, could be extended in the next financial year as several small firms, particularly in the services sector, still need such liquidity support in the wake of new Covid-19 variants, two persons aware of the development said requesting anonymity.

“The extension of ECLGS with certain modifications is under consideration and an announcement to this effect is possible in the budget,” one of them said, adding that a corpus of about ₹1.6 lakh crore is still available under the scheme.

ECLGS is one of the key components of the ₹20 lakh crore economic stimulus package under the Atmanirbhar Bharat Abhiyan launched in mid-May last year that offers additional working capital finance in the form of a term loan to MSMEs and professionals. Initially, its corpus was ₹3 lakh crore, which was raised to ₹4.5 lakh crore in June this year after the second Covid wave when finance minister Nirmala Sitharaman announced the fourth stimulus package worth ₹6.29 lakh crore.

A second person said that under ECLGS, loans worth over ₹2.82 lakh crore have been sanctioned to about 11.5 million borrowers so far, and ₹2.28 lakh crore has already been disbursed, benefiting 9.52 million units. "The scheme has been able to provide much needed liquidity support to pandemic-hit small units. Although the economy has bounced back, several such firms, particularly those in services sector, still need such credit support as the potential threat of new variants cannot be ruled out," he said.

The Covid-19 outbreak last year, and the consequent 68-day nationwide lockdown, had a devastating impact on the economy. India's gross domestic product (GDP) contracted in the first two quarters of 2020-21 -- 24.4% in Q1 and 7.4% in Q2. Thereafter, the economy saw a V-shaped recovery on the back of the ₹20 lakh crore stimulus package and several policy reforms announced since March 2020. The third quarter saw 0.5% growth, followed by 1.6% expansion in the fourth quarter ended March 31, 2021. The Indian economy started the current fiscal year with a record 20.1% expansion in Q1, and 8.4% in Q2 ended September 2021, signalling a strong revival in business activity.

An expert said ECLGS with a sovereign guarantee has been the "saviour of a large number of enterprises" facing challenges related to financial liquidity, demand crunch, debt repayments, and meeting their fixed expenses such as electricity, rent and wages. "While the overall pace of implementation of the ECLG scheme has been good... but as we understand from the available figures, out of ₹4.5 lakh crore, loans worth ₹2.90 lakh crore have been sanctioned so far. It is, therefore, desirable that the validity of the scheme should be extended," he said.

Another expert said although ECLGS helped small and medium enterprises its qualification criteria could have been "more relaxed to cover larger segment" such as ancillary units and vendors who are victims of the supply chain disruptions. He, however, said that the scheme "should continue for another year" to make up for the dent of past one-and-a-half years.

Hindustan Times, December 10, 2021

11. **Govt rejects steel cos' offer to lower prices**

The government has rejected the steel industry's proposal to lower prices on several products by Rs 1,500 a tonne for small businesses and exporters and has instead asked it to improve the offer. At a meeting of commerce and industry minister Piyush Goyal, steel minister R C P Singh and MSME minister Narayan Rane, user industries such as auto components players, engineering goods makers and exporters demanded that prices be lowered by Rs 4,000 a tonne. But the offer from the steel companies was for a lower reduction, sources familiar with the deliberations told.

One of the ministers is learnt to have told industry players that the offer was unacceptable as the extent of reduction was too low and suggested that it should be improved as an announcement will be made by the government soon. An industry source indicated that the price cut may be to the tune of Rs 2,500-3,000 a tonne. According to industry sources, the rate of cold-rolled strips is estimated at Rs 77,000-80,000 per tonne, while for hot-rolled coil it is in the range of Rs 67,000-70,000 a tonne. "These are required by micro, small and medium enterprises (MSMEs) from large steel producers as billet, TMT bars and similar products are sourced from secondary producers and steel producers made it clear that their commitment is not for long products," a source said. Besides, the steel companies, which have been periodically raising prices and hitting the MSMEs hard, are also likely to settle for monthly price adjustments. The original proposal was to opt for a quarterly revision, but it was seen to be too long.

Small businesses have been complaining that frequent price changes have hit them hard as they have often been unable to recover the costs as prices have shot up between the time, they get the order and when it is ready to be shipped. While MSMEs had been demanding government intervention for a long time, the government had chosen to keep a hands-off approach. Prices have moderated in the last few weeks as exports have slowed down, industry sources said. Besides, iron ore prices have also come down during December.

The Times of India, December 11, 2021

12. Over Rs 75k crore paid to MSME vendors

The government ministries, departments and central public sector enterprises have paid dues of over Rs 75,472 crore to the micro, small and medium enterprises (MSMEs) vendors between June 1, 2020 and October 31, 2021, minister of state for finance Pankaj Chaudhary said in a written reply to a question in the Lok Sabha.

A special sub-portal within SAMADHAAN portal and an online reporting system has been developed for reporting the dues and monthly payments by ministries, departments and CPSEs to the MSMEs, Chaudhary said. SMEs have long been facing a problem of delayed realisation of their receivables, leading to liquidity constraints and a key reason for many of them turning into non-performing assets (NPAs).

Financial Express, December 14, 2021

13. 9% MSMEs closed down due to Covid as of August 2020, says govt

The Ministry of Micro, Small and Medium Enterprises informed that during an online survey of 5,774 MSMEs in August 2020, it was found that 91 per cent of MSMEs were functional and 9 per cent closed down due to COVID-19 impact.

Responding to Congress leader Rahul Gandhi questions, Union Minister of Micro, Small and Medium Enterprises (MSMEs) Narayan Rane told the Lok Sabha, "National Small Industries Corporation Ltd conducted an online survey in Aug 2020, covering around 5,774 MSMEs in 32 States/UTs to assess impact of COVID on MSMEs. It was found that 91% MSMEs were functional and 9 per cent closed down due to the impact."

Business Standard, December 16, 2021

14. 'Digitization democratizes credit in India'

Digitization of payments, in tandem with the adoption of Aadhaar across India, will lead to steady democratization of credit to small businesses and users in the country, said Nandan Nilekani, co-founder and chairman of Infosys Ltd and founder-chairman of UIDAI. Speaking at the Conclave, Nilekani explained how the adoption of Aadhaar can transform lending and make instant loans available for many more users.

“Aadhaar and UPI (unified payments interface) are helping transactional efficiency, migrating to high-volume, low-cost and small ticket-size transactions. This leads to expanding the market, as well as social inclusion. What these are now doing is also creating a digital footprint. For example, when a small retailer sells or buys something digitally, there is a footprint of that transaction. Invoice details of digital purchases are uploaded automatically to the GST (goods and services tax) portal to file taxes. Hence, as more consumers and small businesses transact digitally, they create digital footprints," Nilekani said. These footprints, he said, have helped the Reserve Bank of India establish India’s Account Aggregator (AA) system in September.

“What AA does is empower consumers and small businesses to get access to financial services. They can get their bank statements, GST, TDS (tax deducted at source) and other data and request an AA to securely share this with lenders. This process will dramatically democratize lending, as for the first time, this is removing the knowledge asymmetry that is dissociated from small borrowers. They can borrow efficiently, quickly and at low cost—in near real-time," Nilekani said. “Many banks are already embracing this, and I expect all banks to get on board," he further added.

However, Nilekani warned that lenders must be prepared to switch to lower operating margins to bring about this change. “You’d go from low volume, high cost and high-value transactions to very high volume, very low cost and small-ticket transactions. This is key to market expansion. You have to lower the transaction cost to be able to reach a wider set of people," he added. Talking about the AA model, Nilekani said that the use of artificial intelligence and Big Data could help bring more individuals and businesses into the fold of the formal economy.

“Credit using data will fuel more consumption, as well as production. A lot of this will require Big Data and AI, as it’ll require sophisticated algorithms to figure out who is a deserving candidate and who’s a fraud. We will hence see a big push on lending. This is part of a larger process of formalization of the economy," he said.

He also added that the scope of AA is wide and is an already accepted model that awaits adoption. “AA is already approved by the Financial Stability and Development Council (of the finance ministry). The first usage of AA may be with credit, but it will soon extend to personal finance, wealth management and so on." Nilekani also called on service providers to build consumer-facing portals that are digital-first. “Consumerization of the user experience is very important. As more people use smartphones and experience the ease of use of everyday apps, they will expect the same experience from financial services. So if we are to attract and retain them, we have to give them an app as simple, intuitive and digital-first as everything else."

Finally, he also spoke about factors that banking providers in the digitization journey should be aware of. “We will see a shift to the cloud, in combinations of public and private cloud models. This will require a whole new micro-services architecture for banks to implement technologies quickly. Cybersecurity will be increasingly important—as we expose more of our systems to the internet," he said.

Mint, December 16, 2021

15. PLI schemes to add over $504 bn of production, infuse 1 cr jobs in 5 years: Govt

The outcome from the Centre's recently announced slew of production-linked incentive schemes, in terms of production, is expected to be over $504 billion over the next five years, an official statement said. Also, these incentives to be provided under the PLI scheme will "enhance" employment by over one crore during the above-mentioned period, the Commerce and Industry Ministry statement said.

"The schemes have been specifically designed to attract investments in sectors of core competency and cutting-edge technology, ensure efficiency and bring economies of size and scale in the manufacturing sector and make Indian manufacturers globally competitive so that they can integrate with global value chains," it said.

As part of the scheme, an estimated outlay of Rs 1.97 lakh crore was announced in the Union Budget for FY22 in 13 key manufacturing sectors - mobile manufacturing and specified electronic components, critical key starting materials/drug intermediaries and active pharmaceutical ingredients, manufacturing of medical Devices, automobiles and auto components, pharmaceutical drugs, specialty steel, telecom and networking products, electronic/technology products, white goods (ACs and LEDs), food products, textile products - MMF segment and technical textiles, high-efficiency solar PV modules, and advanced chemistry cell (ACC) Battery.

The statement also mentioned how the steps taken by the Centre such as reduction in corporate tax rates, easing liquidity problems of NBFCs and banks, improving ease of doing business, FDI policy reforms, reduction in compliance burden, policy measures to boost domestic manufacturing through public procurement orders, phased manufacturing programme (PMP), and PLI schemes supported the Indian economy. In FY21, as per provisional data, India registered the highest ever annual FDI Inflow of $81.97 billion, the statement said.

"Top five countries from where FDI equity inflows were received during April, 2014 and August, 2021 are Singapore, Mauritius, the US, the Netherlands, and Japan. The computer software and hardware sector attracted the largest share of FDI inflows at 19 per cent, followed by service, trading, and telecommunications and construction during the same period in the last more than seven years," it added.

The Free Press Journal, December 17, 2021

16. India to become fastest growing economy: Shah

India is emerging strong from the Covid-19 pandemic and is likely to become the fastest growing economy in the world, Union home minister Amit Shah said. Speaking at the 94th Annual General Meeting of the Federation of Indian Chambers of Commerce and Industry (FICCI), Shah said the government has taken various steps to counter the effects of Covid-19 by improving supply, and that the economy was reaching pre-Covid levels.

“July to September GDP number has been at 8.4% and I think in the year 2021-22, India is likely to become the fastest growing economies in the world. I will not be surprised if we touch double digit growth,” a statement from FICCI quoted the minister as saying.

Referring to several high frequency economic indicators exceeding pre-pandemic levels, the minister said the economy has come out strong. “Both the manufacturing and service sector index have reached the pre-Covid levels. With the announcements of various packages and relief, our inflation is in the range of 4-6% as set by the government,” he said. Highlighting the potential of the micro, small and medium enterprises (MSME) segment, the minister said unemployment in the country cannot be addressed till the time this segment is encouraged and supported. The minister also stressed on the need to spend more on research and development.

Highlighting the NDA administration's achievements, Shah said: "There has not been a single instance of corruption in the last seven years. We have provided a corruption-free government. We have taken many decisions and one or two may be wrong. But no one, not even critics, can say that our intention (niyat) is bad," news agency quoted Shah as saying.

The home minister also said that there have been massive changes in the economy and 60 crore people, who were deprived of the country's development process since independence, were made participants, the statement said.

"There were 60 crore people, who did not have a bank account, they did not have electricity connection, gas connection or health facilities. The Modi government has given all of these to them, and it has helped increase their faith in India's democratic process," Shah said.

Hindustan Times, December 18, 2021

17. Input Tax Credit for GST assessees only up to invoices matched from January

Finance Ministry has notified January 1, 2022, as the date for norms making 100 per cent invoice matching mandatory under the Goods & Services Tax (GST) regime. This means an assessee will get input tax credit (ITC) only to the extent of invoices matched. For each and every assessee, the system calculates ITC based on returns filed by her/his supplier. These curb the chance of overstating ITC and taking benefits more than due. Earlier rules allowed assessee to take 10 per cent additional ITC, without supporting invoices, which was later reduced to five per cent. Now, this provision will not be applicable from January 1, and 100 per cent invoice matching will come into place.

This will be possible because of an amendment in the Finance Act, 2021, which inserts a new clause in Section 16, which deals with eligibility and conditions for taking ITC. There are four conditions for ITC to be credited for an assessee in respect of a supply. First, he should have a tax invoice or debit note issued by a registered supplier or such other tax paying documents. Second, he has received the goods or services or both. Third, tax has actually been paid on the supply. And fourth, a return has been filed.

Now, after the first condition, another clause has been added which says, "the details of the invoice or debit note referred to in clause (a) has been furnished by the supplier in the statement of outward supplies and such details have been communicated to the recipient of such invoice or debit note in the manner specified under Section 37." This addition will come into effect from January 1.

According to an expert, now with the amendment, Rule 36(4) that allowed recipient to avail ITC with respect to invoices, details of which were not furnished by the supplier in its GSTR-1, seems to lose its relevance since the recipient will not be able to avail ITC if the same is not reflected in recipients GSTR-2A/2B. Another question that remains post the amendment is whether Rule 36(4) of the CGST Rules will be allowed to operate since the department may try to limit availment of ITC for invoices which have been uploaded.

"Further, it is not possible for a recipient who is fully compliant in filing its return, to ensure that its suppliers are filling their returns on time. This may overburden genuine taxpayers with over restrictive provisions of Section 16 especially in the MSME and SME sectors," she said.

Another expert said this change will make it mandatory for every taxpayer to claim the tax credit only when the supplier reports such specific invoices in GSTR -1. “Currently, a similar condition specified in delegated legislation is not taken seriously by numerous taxpayers on technical grounds, due to which non-compliance of this point is being litigated in several high courts. With this change, underlying restriction on ITC will have statutory support, making the same invincible. Though this change is not a retrospective amendment in law, it is expected that the current litigation will be decided in favour of taxpayers,” he said.
The Hindu Business Line, December 23, 2021

18. SIDBI signs MoU to develop MSME ecosystem in West Bengal

SIDBI has signed a memorandum of understanding with the government of West Bengal to develop the MSME ecosystem in the state, a SIDBI official said. As per the MoU a project management unit (PMU) of SIDBI will work with the state government. The PMU will support the West Bengal government in making necessary interventions for focused engagement of SIDBI with the objective of facilitating development of the MSME ecosystem, the official said.
We are working towards strengthening the MSME ecosystem in the states. SIDBI will be placing an expert agency with the state MSME department," SIDBI deputy managing director Sudatta Mandal said. The key functions of the PMU will be to study the existing framework and guide stakeholders for cluster, sector specific products, interventions for MSMEs and handholding them for onboarding on digit platforms for funding, marketing and listing, besides evaluating scope of infrastructure projects for MSME clusters among others.
Business Standard, December 25, 2021

19. Govt may cut duty on steel, aluminium in Union budget

The government may consider reducing import duties on products such as steel, aluminium, copper and polymers in the budget to provide relief to small and medium businesses, which have been hit hard by surging input costs, two people aware of the development said. A broad understanding between the steel and finance ministries has been reached to review import duties on major metals and bring them down and, in some cases, withdraw them completely to help user industries, the people said, requesting anonymity. An announcement on this is expected in the upcoming budget, they said.
The import duty on steel is 7.5%, while aluminium attracts 10% basic customs duty, copper 5% and polymers 10%. In addition, all the products also attract 18% integrated goods and services tax to offset local levies on the products. The taxes may now be brought down further in the budget, with a certain category of metals and allied products getting full exemption, the people said. In this year’s budget, finance minister Nirmala Sitharaman withdrew the anti-dumping duty and countervailing duty on certain steel products while reducing customs duty uniformly to 7.5% on semis, flat, and long products of non-alloy, alloy, and stainless steels from 10-12.5% levels earlier.
She also cut the import duty to nil on steel scrap to support user industries hit hard by a sharp rise in steel prices. The budget for the year starting 1 April is expected to cut duties further. Lower import duties are expected to make it viable for small and medium businesses, reeling under the pressure of high input costs, to import metals if local prices are high. It would help restrict domestic metal producers from raising prices to abnormally high levels, the people said.

Domestic steel prices have risen sharply since late last year when a pickup in economic activity post the lifting of the nationwide lockdown boosted demand. Steel prices also rose due to an increase in iron ore and coking coal prices globally. As a result, India's benchmark domestic hot-rolled coil prices have risen from ₹58,000 per tonne in April 2021 to more than ₹72,000 per tonne now. Though metal prices have softened a bit in December, they have largely remained high, putting pressure on user industries.

In its pre-budget memorandum submitted to the finance ministry, one of associations suggested abolishing import duties on steel, copper, aluminium, and polymers and suspending additional customs duties on the four commodities to rein in prices. "The prices of building blocks of industrialization: steel, copper, aluminium and polymers on which millions of downstream industries/MSMEs are dependent remain 25-50% higher than their international counterparts," the association said in its pre-budget memorandum. While small and medium industries seek duty cuts, metal producers want the government to raise duties, particularly on aluminium, to prevent India from becoming a dumping ground for overseas producers saddled with high inventory levels.

Mint, December 27, 2021

20. ₹1.16-lakh crore MSME advances restructured since 2019

Scheduled Commercial Banks (SCBs) have restructured micro, small and medium enterprise (MSME) advances aggregating to ₹1,16,332 crore since January 1, 2019.

The total number of accounts that were restructured stood at about 24.51 lakh, according to the RBI report on Trend and Progress of Banking in India 2020-21. The restructuring took place under four circulars issued since January 1, 2019.

The eligible amount and number of accounts restructured were at 7.67 per cent and 8.51 per cent, respectively. In terms of amount, SCBs restructured ₹51,467 crore, ₹29,277 crore, ₹7,224 crore, and ₹28,364 crore under the RBI's May 2021, August 2020, February 2020, and January 2019 Circulars, respectively.

The Hindu Business Line, December 28, 2021

21. UAE lifts ban on import of eggs, other poultry products from India

The United Arab Emirates (UAE) has lifted ban on the import of eggs and other poultry products from India after New Delhi assured that it will comply with biosafety norms set by the World Organization for Animal Health to prevent transmission from bird flu. With this, India's egg and poultry traders will be able to export table eggs, hatching eggs and day-old chicks to the UAE "from two establishments in Tamil Nadu,".

The poultry import from India was stopped for the last 5 years due to concerns over bird flu, said the report. According to the report, India had sought egg market access under a trade agreement it is negotiating with the UAE. With this agreement, India wants to increase the export of 1,100-odd products, including poultry, washing machines, air-conditioners, refrigerators, spices, tobacco, cotton fabrics, textiles and leather, it said.

The UAE is keen to get duty concessions from India for dates, confectionery and sugar-based products, as per the report. The UAE is India's third-largest trading partner, with bilateral trade of approximately

$60 billion in FY20. It was India's second-largest export destination after the United States, with an export value of around $29 billion, the report stated.
Money Control, December 28, 2021

22. RBI warns of bad loan spike, pencils NPAs at 8.1-9.5% by September

Gross bad loans of banks may rise from 6.9 per cent in September 2021 to 8.1-9.5 per cent by September 2022 if the Omicron variant strikes the economy hard, as per the financial stability report of the Reserve Bank released.

The report also said that the rising stress level in the retail loan portfolio of banks — the mainstay of bank credit for many years now — was led by home loans, which grew in double-digits so far, this fiscal. While asset quality improved, with gross non-performing assets (GNPA) and net NPA (NNPA) ratios declining to 6.9 and 2.3 per cent, respectively, in September 2021, the slippage ratio inched up during the same period as private sector banks showed a higher rate of deterioration in asset quality, as per the report.

But, based on the stress tests, the report warns that the GNPA ratio may rise to 8.1 per cent by September 2022 under the baseline scenario and further to 9.5 per cent under severe stress, if the economy is hit by an Omicron wave.

Within the bank groups, public sector banks' GNPA stood at 8.8 per cent in September 2021 and may deteriorate to 10.5 per cent by September 2022 under the baseline scenario, while for private-sector lenders, the same may rise from 4.6 per cent to 5.2 per cent, and for foreign banks, it may increase from 3.2 per cent to 3.9 per cent over the same period, the report said. Similarly, the overall provisioning coverage ratio moved up from 67.6 per cent in March 2021 to 68.1 per cent in September 2021.

Banks have not only improved their profitability, asset quality and capital adequacy but will also be able to comply with minimum capital requirements even in a severe stress scenario, as per the macro-stress tests. However, the same tests on non-banks indicate that a significant number of them would be hit if there are liquidity shocks and the network analysis points to increasing inter-bank exposure, raising contagion risks. In sectoral terms, the GNPA ratio for personal loans rose above its level six months ago and a year ago, said the report without offering an exact number. The deterioration was led by housing and auto loans.

The GNPA ratio for the industrial sector continues to decline, though some sub-sectors like food processing, chemical and infrastructure, excluding electricity, saw increases over their March 2021 levels. Restructuring under the resolution framework 2.0 stood at 1.5 per cent of total advances in September 2021, which covered 81.7 per cent of the borrower accounts where restructuring under the scheme was invoked. In the case of MSME and retail loans, the restructuring was to the extent of 2.4 per cent of total sectoral advances and covered 80 per cent of borrower accounts where it was invoked, the report said, adding that a clearer picture of the aggregate extent of restructuring will emerge after the moratorium ends on December 31, 2021.

The share of large borrowers in GNPAs fell from 75.9 per cent in March 2020 to 62.1 per cent in September 2021, and their loans in the special mention account (SMA6) buckets also declined, and the share of top 100 borrowers shrunk marginally to 16.6 per cent while their share in GNPA pool fell to 5.7 per cent.

The common equity tier I (CET 1) capital ratio may reach 12.5 per cent by September 2022 under the baseline scenario and decline to 11.9 per cent and 11.2 per cent under the medium and severe stress scenario, respectively, but even under adverse scenarios, no bank would face a decline of the CET 1 capital ratio below the regulatory minimum of 5.5 per cent.

In case of a severe shock, the GNPA ratio of banks may move up from 6.9 per cent to 12.7 per cent, and the system-level CRAR declines from 16.3 per cent to 12.8 per cent, and the system-level capital impairment stands at 23.3 per cent.

Further, eight banks with a share of 20.2 per cent in total assets may fail to maintain the regulatory minimum level of CRAR, and their CRAR would fall below 7 per cent in case of these banks, and six of them would record a decline of over 8 percentage points.

The CRAR of urban co-operative banks stood at 12.9 per cent in September 2021, while that of NBFCs was at 26.3 per cent.

Network analysis indicated that the total outstanding bilateral exposures among constituents of the financial system have been on an upswing since H1FY21, with banks having the largest share of bilateral exposures albeit still below pre-pandemic levels.

In terms of inter-sectoral exposures, mutual funds, followed by insurers, remained the dominant fund providers, while NBFCs were the biggest receivers of funds, followed by housing finance companies.

The RBI checks the resilience of banks' balance sheets to unforeseen shocks emanating from the macroeconomic environment using macro-stress tests through which impairment and capital ratios are projected over a one-year horizon under a baseline and two adverse (medium and severe) scenarios.

Financial Express, December 29, 2021

23. Textile PLI linked to high turnover score

Textile companies seeking production linked incentive (PLI) will have to achieve a turnover that is double the investment in the first year. Firms investing Rs 300 crore will have to have at least Rs 600 crore turnover to get the 15 per cent incentive, while those investing Rs 100 crore should garner Rs 200 crore to receive 11 per cent incentive in the first year of the scheme.

As the operational guidelines of the PLI scheme published by the government, companies meeting a turnover of Rs 750 crore in the second year will receive 14 per cent incentive and those having Rs 250 crore, 10 per cent. In the third year, they need to achieve Rs 937.5 crore for a 13 per cent incentive and Rs 312.5 crore for 9 per cent relief. The target turnover will be Rs 1,171.87 crore for 12 per cent incentive and Rs 390.63 crore for 8 per cent. In the fifth year, the firms need to have a turnover of Rs 1,464.84 crore for 11 per cent relief and Rs 488.2 crore for 7 per cent. "The scheme is meant for large companies which can meet the turnover and investment threshold. Not many companies in the garment segment are expected to go for PLI...the companies will have to achieve additional turn-over growth even in the fourth or fifth year, which will require more investment.

Deccan Chronicle, December 30, 2021

24. Small e-sellers may get GST compliance relief

Exemption from mandatory goods and services tax (GST) registration that is currently available for small enterprises with annual revenue of up to ₹40 lakh may soon extend to their sales on online platforms as well, two people aware of the matter said.

Currently, the turnover threshold for GST registration is ₹40 lakh for goods and ₹20 lakh for services. However, registration is mandatory for all merchants selling on online platforms, regardless of revenue. According to the people cited above, who requested anonymity, the budget may provide a direction in this regard, even though the GST Council decides on indirect tax matters.

The move is expected to help micro, small and medium enterprises (MSMEs), self-employed individuals, self-help groups, and artisans sell their products online without bearing compliance costs of GST registration. Under GST rules, even if there are no transactions, GST returns must be filed from the month of registration, failing which a penalty is payable.

The proposal would still need to be ratified by the GST Council that decides on tax rates, exemptions, deadlines for GST form submissions and tax-related laws.

Questions mailed to the finance ministry remained unanswered till press time.

“There is a solid case for allowing small businesses to sell without GST registration below a turnover of ₹40 lakh," said an expert. “This facility is not available once the business sells goods online through e-commerce. Inability to handle GST compliance costs has disabled millions of self-employed women/SHGs and artisans from selling their products online, especially during the covid pandemic. It is crippling," he said.

Another expert said compliance costs and cumbersome processes make it difficult for small players to sell products and offer services through e-commerce platforms.

“GST rules stipulate that every e-commerce operator who is required to collect tax at source and vendors who make supplies through such e-commerce operators are compulsorily required to take a GST registration and comply with tax rules. This registration requirement is irrespective of the scale of operations in the said entity. Not only registration but also payment of tax, together with compliance of all rules, are mandatory. Thereby, all MSMEs registered on e-commerce platforms like Flipkart, Amazon and Snapdeal are required to adhere to GST compliance principles," he said.

Though the easier ‘composition scheme’ is available for all small participants where a fixed lower tax rate and quarterly filing windows is available, it is still considered cumbersome and expensive for small businesses that are only looking at online channels to get some revenue in the absence of expanding market in the offline space. Moreover, those registered under the composition scheme are not allowed to sell online.

The government introduced mandatory and separate GST registration of all sellers (irrespective of turnover) to prevent evasion of taxes by e-marketplace from selling goods and services of related entities, which have been prohibited. E-commerce players are considered marketplaces providing a medium for buyers and sellers to undertake transactions.

Mint, December 30, 2021

25. Textile GST hike likely to be rolled back

The sharp increase in goods and services tax (GST) on textiles, scheduled to come into force from 1 January, is expected to be rolled back due to pressure from businesses and traders. GST Council meeting has been called exclusively to discuss the rollback of the tax rate increase from 5% to 12% on several items used in the textiles sector, three state ministers said.

MSME NEWS UPDATE

At its last meeting in September, the GST Council corrected the inverted duty structure—a situation where tax on raw materials is more than that on finished products—in the sector by raising rates on finished goods.

The council raised GST on 18 items, including woven fabrics of cotton, silk and wool, coir mats, matting and floor covering, apparel and clothing accessories of sale value up to ₹1,000 from 1 January. An increase was also approved for footwear that cost up to ₹1,000 a pair, but the council may not consider a similar rollback for it. Rajasthan technical education minister Subhash Garg said the GST Council meeting was called exclusively to discuss the rollback of GST hike. “I think it is desirable to do that. Economies like Bangladesh are competing with India (in world markets). I think the council will consider a rollback," Garg said.

Delhi deputy chief minister Manish Sisodia said that several businesses and small traders had sought relief on the proposed tax increase.

“Many textile industry representatives have met me. They have submitted that the GST rate increase in the sector from 5% to 12% is not in the interest of businesses and small traders. They have appealed for a rollback of the tax increase and bring it back to 5%," Sisodia told. The minister also said that he would bring it to the council’s notice.

West Bengal urban development and municipal affairs minister Chandrima Bhattacharya said the state was not in favour of the increase in the first place. The ministers are in the capital for the Council meeting and budget consultations with the Union finance minister Nirmala Sitharaman.

The Gujarat government, too, appealed to the Centre to put the tax rate hike on textiles on hold as implementing the rate change may result in a drop in demand, said a person familiar with the discussions between central and state governments. The person said that the single-point agenda of the meeting is to consider putting the rate-hike decision on hold.

The tax increase addressed the distortions in tax administration, but the fact that the textile sector is a significant employer and a price increase on apparel and footwear may depress demand is forcing a review.

In addition to the tax rate changes in textiles and footwear sectors, several other changes meant to boost tax compliance will also take effect from 1 January.

These include denial of input tax credit in cases where suppliers have failed to meet the reporting requirements and introduction of restrictions on filing returns related to sales in cases of default in filing summary tax returns for the previous tax period.

Mint, December 31, 2021

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