



Relief to **MSMEs** During **COVID-19**: Are They Enough?

Krrishan Singhania and Alok Vajpeyi, K Singhania & Co. discuss and analyse the relief measures announced by the Finance Minister for the MSME sector.

The national level lockdown imposed by the Government of India to combat the rising Covid-19 cases has caused a huge setback to the Indian economy. To deal with the ongoing economic crisis, the Government announced a 20-lakh crore package with a road map towards building a self-reliant India, with five key pillars identified as Economy, Infrastructure, System, Vibrant Demography and Demand. The first tranche of the relief package announced by the Finance Minister was focused on bringing up the Micro, Small and Medium Enterprises (MSME) sector.

Importance of MSME Sector in India

The importance of the MSME sector can be noted from the fact that it is the second-largest employment provider in the country, after agriculture. Currently in India, there are nearly 56 million such enterprises across various industries, employing close to 124 million people. In all, this sector accounts for almost 8% of India's GDP and for almost 40% of exports and about one third of national output of the country. Due to this, the MSME sector is called the growth engine of the nation.

The current pandemic has caused huge stress

to the MSME sector and it was critical to address loss of revenue so as to purposefully avoid closure of units and damage to livelihoods. An estimated 6.3 crore MSME units employ 11 crore persons across the country, and it was only fitting that the sector was provided credit guarantees and interest subventions to survive the lockdown.

Reliefs Announced by the Finance Minister

On 13th May, 2020, the Finance Minister announced a slew of relief measures towards MSMEs, in order to ensure liquidity in the economy and to protect them from the adverse impact of Covid-19. Some of the key relief measures provided to the MSMEs are as follows:

Definition of 'MSME' has been made Broader

Earlier, the definition of MSME included two sectors: manufacturing and service. The criteria of classification as a MSME was the amount of investment. The thresholds of investment for the manufacturing and the service sector were different. Now, the classification additionally includes the criteria of turnover as well. Distinction between manufacturing and service sectors has also been removed.

Earlier, MSMEs feared growing beyond the particular monetary threshold, as they would lose the benefits conferred on them as a MSME. The broadening of the definition would now ensure their growth without excluding them from the ambit of a MSME.

The new definition is as follows:

Micro-enterprise	Investment < INR 1 crores and turnover < INR 5 Crores.
Small enterprises	Investment < INR 10 crores and turnover < INR 5 crores.
Medium Enterprise	Investment < INR 20 crores and turnover < INR 100 crores.

INR 20,000 crores would be given as subordinate debt to stressed MSMEs

Stressed MSMEs are those which are not performing well and may have a number of NPAs in their portfolio. In order to help out such stressed MSMEs, the government has proposed the infusion of INR 20,000 crores in the form of subordinate debt. Further, INR 4000 crores would also be made available under the existing credit guarantee scheme to MSMEs. This is to provide cash in the hands of stressed MSMEs, who can then on the basis of the same can ask banks for more loans.

Mother and Daughter Funds

A mother fund or a primary fund with a corpus of INR 10,000 crores is proposed to be set up. This fund would then leverage money worth INR 50,000 crores from daughter funds (subordinate funds). This money can then be infused into those MSMEs who are either performing well or have the potential of performing well. This will ensure that the MSMEs who want to scale up their operations have enough money at their disposal.

Availability of Debts for MSMEs with no Collaterals Required

For loans up to INR 3 Lakh crores, no collaterals would have to be shown. An emergency credit line up to 20% can be availed by the MSMEs from financial institutions. The loans can be taken for a period of 4 years. A moratorium of 12 months for principal amount payment shall apply on such loans. The deadline before which MSMEs may avail of collateral free loans is October 31, 2020.

Clear Receivables Within 45 Days

The government has also promised that all MSME dues pending from the side of the government would be cleared within 45 days' time period.

Global Tenders to be Disallowed up to INR 200 crores

Considering that the Indian MSMEs and other companies have often faced unfair competition from the foreign companies. Therefore, Global tenders will be disallowed in Government procurement tenders up to Rs. 200 crores. This will help the MSMEs to increase their business.

E-Market Linkage for MSMEs

As the MSMEs are currently facing problems of marketing and liquidity due to the pandemic, E-Market linkage for the MSMEs to be promoted



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to act as a replacement for trade fairs and exhibitions.

Liquidity Measures for all Enterprises, which would also benefit MSMEs

- i) EPF contribution for both employers and employees is reduced from 12% to 10%. This would increase spending money in the hand of the employees and would place less burden on the employer to deposit a 12% mandatory contribution.
- ii) The government had earlier announced that it will bear the burden of employers' contribution for entities with less than 100 employees where 90% of the employees draw salaries of INR 15,000 or less for the months of March-May. This facility has been extended by another three months.
- iii) The existing rates of TDS and TCS will be reduced by 25% till 31st March 2020.

Analysis

These reliefs will act as initial seed money for small enterprises hit by zero cash flow due to the national lockdown. The INR 20,000 crores subordinate debt given to help the stressed MSMEs will help them buy raw materials, pay initial bills and daily wages to employees.

The revised thresholds announced by the government for classifying industries as MSME will result in a higher number of businesses qualifying for the safeguards under the MSME law. It was necessary because many MSMEs were not keen on expanding because of the possible loss of benefits, if they fall outside the definition of MSMEs.

The giving of loans with no collaterals is a double edge sword. On one hand, this will make the banks secure in giving loans to the MSMEs as the repayment is guaranteed by the government.

On the other hand, such relief does not leave any incentive for either the borrower or for the lender. A more rationale option would have been a split between the government and the MSME to pay back new loan. As a result of this step, it is quite probable that the government will have to start shelling out money when MSME NPAs would be in rise, after the moratorium is over.

Additionally, disallowing the global tender for projects up to two hundred crores, is a welcome step. This will increase confidence in the entrepreneurs and the competition will be fair to the local MSMEs. New-age enterprises will have the appropriate chance to flourish with these measures and will provide them with the platform to increase their revenue. E-market linkages for the MSMEs due to disruption of exhibition and trade fairs, is also a positive step and shows that the government is preparing in advance, for the upcoming challenges of social distancing.

However, the larger question remains that whether such measures resolve the problems of the MSME sector. If the above-mentioned incentives are looked at broadly, they're all in the interest of MSMEs in the long run. There is nothing to support them from the present crisis. The sector was expecting a package that will help them through the current pandemic. Further, the payment of all the receivables (outstanding against the government), will be honored within, 45 days. This is not a relief package but something which the government is obliged to do. This giving of collateral free loans has not relived the MSMEs but has only increased the liquidity in the market.

Conclusion

The government did not completely fail to deliver reliefs to the MSMEs. Due to obligations with respect to salaries and wages, some of these MSMEs run the risk of shutting down, in the coming few months. The government, on one hand, should be appreciated for announcing measures that are far-sighted and futuristic. However, on the other hand, the government has missed the point that people needed their help in the present too. If not a major step of payroll support as provided by countries such as the USA, at least, some immediate financial transfers should've formed a part of the reliefs announced for the MSMEs. This would've given the enterprises some financial support and satisfaction along with a vision to save them, in the coming future.

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