

THE COVID QUARTER



SKOCH GROUP

In collaboration with



TAX LAW EDUCARE SOCIETY
...spearheading information dissemination



Bhartiya Vitta Salahkar Samiti
Contributing to Nation Building

Third National Multi-Institutional Survey on MSMEs in India

April - June 2020

20 July 2020

Background



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At the beginning of the COVID crisis, we had taken up providing a moratorium on term loans with RBI and the government. We were pleased to note that the RBI vide [circular DOR.No.BP.BC.47/21.04.048/2019-20 dated March 27, 2020](#) announced a moratorium on all term loans.

Our first national multi institutional survey on MSMEs in India released on Apr 29th, 2020 pointed out a need for extension of this moratorium. Subsequently, the RBI [Governor's Statement of May 22, 2020](#) provided a further three month extension for the moratorium on term loans. This ends Aug 31st, 2020.

This has perhaps been the single biggest relief that has helped MSMEs survive this period, resulting in some green shoots. Allowing late payment of taxes has had a similar impact.

Borrowing From the Future

Both these measures are akin to borrowing from the future to meet current liabilities.

The June edition of the *National Multi-Institutional Survey on MSMEs in India* shows that 67% respondents need a moratorium of another 12 to 18 months. This figure was 65% in April and had gone down to 54% in May.

This also points to the latent problem of an inability to service loans and resultant NPAs. We therefore recommend that there is a need to restructure term loans, which is better now than later. The devil though is in the details.

Most MSME businesses do not own properties but have lines of credit based on personal properties. Yet others take cheaper housing loans rather than business loans to generate lower cost working capital for businesses.

This is where there seem to be perception differences between the Ministry of MSME and the Ministry of Finance, with the latter being more inclined towards taking the easier route of restructuring only company loans and not individual loans. This may create an avoidable real estate led NPA crisis.

Recommendation

Any restructuring of term loans must simultaneously take care of restructuring of personal Housing, Loans, and Loans Against Property (LAP).

Working Capital Limit

Our survey in April had flagged that the most immediate challenge for MSMEs is the working capital limit. Although towards the end of March, SIDBI announced a scheme for loans for MSMEs manufacturing Goods fighting COVID-19 and several banks had announced a COVID emergency fund. 93% respondents could not avail this facility. We therefore once again recommended to both RBI and the govt. that the working capital limit issue needs urgent attention. We were pleased to note that on May 12th, 2020 under the '*Atmanirbhar Bharat*' scheme, the Govt. announced collateral free loans of 3 Lac Crores for MSMEs.

By the end of May, as revealed by our second survey, they have sanctioned some loans against this scheme in May. In June, 17% respondents have used this facility, however, another 79% could not do so. The reasons for this are:

1. The demand is high but the number of MSMEs who qualify all conditions is low.
2. Public Sector Banks (PSBs) have been proactive and have offered this loan to their existing 'good' customers who already had collateral pledged that was over pre-COVID lending rounds.

Given that the Govt. can do only as much credit guarantee, there is a pronounced need for options outside the Govt. These are:

1. Strengthening the TReDS system further. We may note that the number of transactions on TReDS and MSMEs using it has gone up during the COVID period, however the number of buyers registering is not commensurate with this increase .
2. There is an urgent need to implement the Cash Flow Lending (CFL) system as a second window on TReDS as recommended by the UK Sinha Committee Report. This was also a major recommendation from us during pre-COVID times, and a recommendation which came out in the April edition of the National Multi-Institutional Survey on MSMEs in India. We can implement this system at no cost to the government.

Working Capital Limit - Procedural Challenges

- 1. e-Sign:** Paper signatures involve visiting a branch or an agent visiting the customer and hence require physical contact. The industry across the board is unclear when and where e-Sign is allowed. To date, several banks require a paper signature on a form for changing something as simple as an email address.
- 2. e-KYC:** e-KYC and Remote/Video KYC are only allowed for banks to open accounts for individuals. There are several other use cases where it can be used.
- 3. Requirement for Regulated Entity:** Most regulations around e-KYC/Video KYC require an employee of the regulated entity.
- 4. PAN- API Verification:** PAN-API verification is a critical element in digital verification and onboarding of MSME's for service providers. Today a start-up is allowed access to all information via a website but the same isn't easily available via API's and intermediaries add an unnecessary cost.
- 5. Collections via UPI:** UPI-based payments are low-cost, but limits enforced reduce its practical adoption and acceptance.

Working Capital Limit - Recommendations

1. Making TReDS registration mandatory for all non-MSME buyers (currently this is mandatory for companies over 500 crores).
2. Explicitly allow Aadhaar-based eSign in all situations requiring a customer signature - whether the customer is an individual, a partnership, or a business via its authorized signatory.
3. Substantially reduce the price of e-Sign from Rs. 20+ to Rs. 5
4. Extend e-Sign facility to non-NBFC FinTech companies—or at least in collaboration with a supporting Bank partner
5. Explicitly allow e-KYC & Remote/Video KYC for NBFC's
6. Banks & NBFC's to use e-KYC & Remote/Video KYC for MSME's
7. Extend to non-NBFC FinTech companies that have a bank partner.
8. e-KYC/Video KYC (Contactless) should be extended to employees of Authorized Agents so that FinTech companies working with multiple partners can scale.
9. Open up PAN Verification API to start-ups. Also, a regulator should explicitly state that it deems these to be acceptable in all cases where PAN card copies are required.
10. UPI-based recurring mandates - increase limits to INR 25,000. Mandates to allow up to 3 attempts for one successful transaction rather than only one attempt - which may fail.

Integrated Electronic Platform

Our April survey had recommended that there should be one unified electronic platform to provide all services and financial support to MSMEs. They should integrate the platform with GSTN and Income-tax databases. We could use the same system for identifying and registering MSMEs. And also, the definition of MSME needs to be such that it is electronically verifiable based on easily available datasets.

We are pleased to note that the Ministry of MSMEs has noted these recommendations and implemented the following measures:

1. The Ministry has implemented an upward revision of definition of MSMEs by increasing the turnover requirements across micro, small, and medium. This upward revision is expected to pave way for the strengthening and growth of MSMEs. Particularly, the provision of excluding the exports from counting of turnover will encourage the MSMEs to export more and more without fearing to forego the benefits of a MSME unit. We expect this to add to exports from the country leading to more growth and economic activity and creation of jobs.
 - a) **Further suggestion:** There is a possibility of micro-enterprises getting crowded out due to the huge span that the new definition covers. Ministry may examine separate provisions for micro enterprises in every scheme

Udyam Portal

To ease the registration process of enterprises as per the new definition of MSME, the Ministry of has introduced Udyam Registration Portal. The new MSME registration process is simple, seamless, and entrepreneur friendly. It is an excellent step towards Ease of Doing Business (EODB). One of the key benefits of registration is that a business can easily avail the state and central government business schemes. Registered MSMEs can get protection against delay payments, collateral free loans, subsidized interest from the banks, excise exemption, easy bank mortgages, tax & tariff subsidies, etc.

The Udyam platform can emerge as a single integrated platform that links MSMEs to all the services that they need and also helps coordinate services and schemes related to MSMEs across Ministries as a single-window solution. It can play an invaluable role in:

1. Single window for routing, implementing and monitoring all MSME related schemes.
2. Single window for all MSME related e-KYC and eligibility etc.
3. Single window for DBT to and through MSMEs.
4. An effective tool to implement the provisions of MSMED Act, 2006.
5. A common infrastructure bridge for introducing schemes like CFL and other application-based financing systems
6. Even credit limits and other financial benefits can be made significantly more effective through this platform.

Delayed Payments and Other Issues

As pointed out consistently over the years and since the April 2020 survey, delayed customer payments remain a major area of concern. Even in the July survey, we find that 59% payments are taking more than 90 days.

SAMADHAAN Portal

Ministry of MSME has developed an online system SAMADHAAN portal to monitor delayed payment issues (<https://samadhaan.msme.gov.in>). Ministry has been monitoring settlement of dues to MSME vendors from Government and Central Public Sector Undertakings and have been coordinating with concerned stakeholders to ensure the payments get cleared.

Two other appreciable interventions are:

Champions Platform

The Ministry of MSME has launched Champions platform, an ICT-based technology system aimed at making the smaller units big by solving their grievances, encouraging, supporting, helping and handholding throughout the business life cycle. The platform facilitates a single window solution for the needs of MSMEs. Key objectives of CHAMPIONS include resolving the problems of MSMEs including those of finance, raw materials, labour, regulatory permissions etc. particularly in the COVID created difficult situation; Help MSMEs capture fresh opportunities including manufacturing of medical equipment and accessories like PPEs, masks, etc.; and Identify and encourage potential MSMEs to withstand the current situation and help them become national and international champions.

As part of the CHAMPIONS system, a network of control rooms has been created in a Hub & Spoke Model. 66 state level control rooms are set which have been providing support to MSMEs in the areas including finance, market access, technology up-gradation, skill development etc. Ministry has also onboarded 12 Public Sector Banks (PSBs) to provide extended support for finance facilitation/ resolving through CHAMPIONS platform.

Delayed Payments and Other Issues

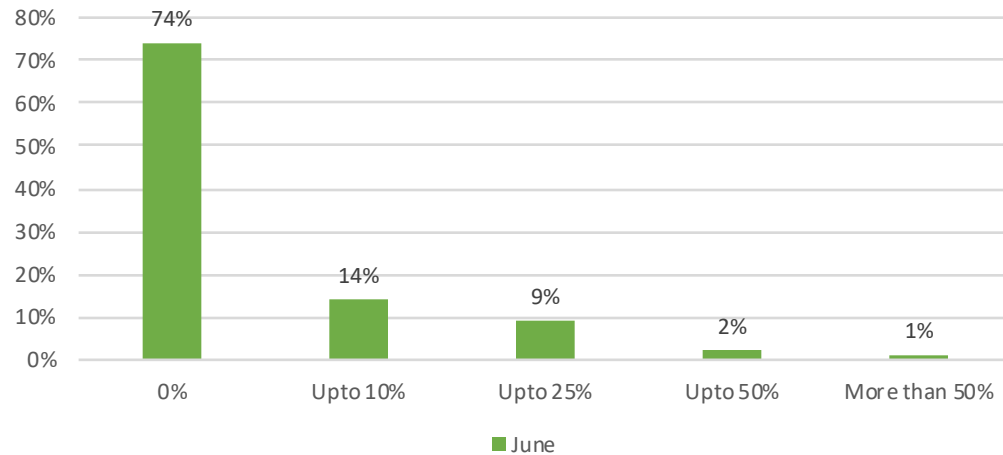
Credit Guarantee Scheme for Sub-ordinate Debt

To support the MSMEs who have faced hardships and are turning into NPAs, the government has launched a scheme - Credit Guarantee Scheme for Sub-ordinate Debt (CGSSD) also known as “Distressed Assets Fund–Sub-ordinate Debt for MSMEs” under the *Atmanirbhar Bharat* initiative. The scheme provides a guarantee cover of worth Rs. 20,000 crores to the promoters of MSMEs. The government will provide for 90% guarantee coverage for this sub-debt. We expect the scheme to benefit around 2 lakh MSMEs.

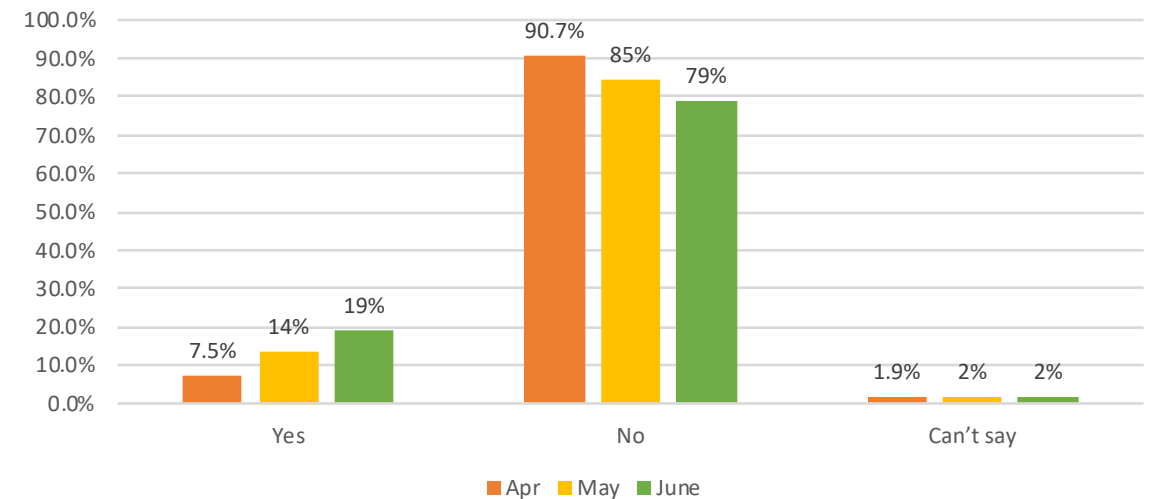
We propose to study the impact of these interventions in our upcoming surveys.

Greenshoots

What percentage of new employees have you hired from April-June?



Have you availed COVID Emergency Fund through your bank?



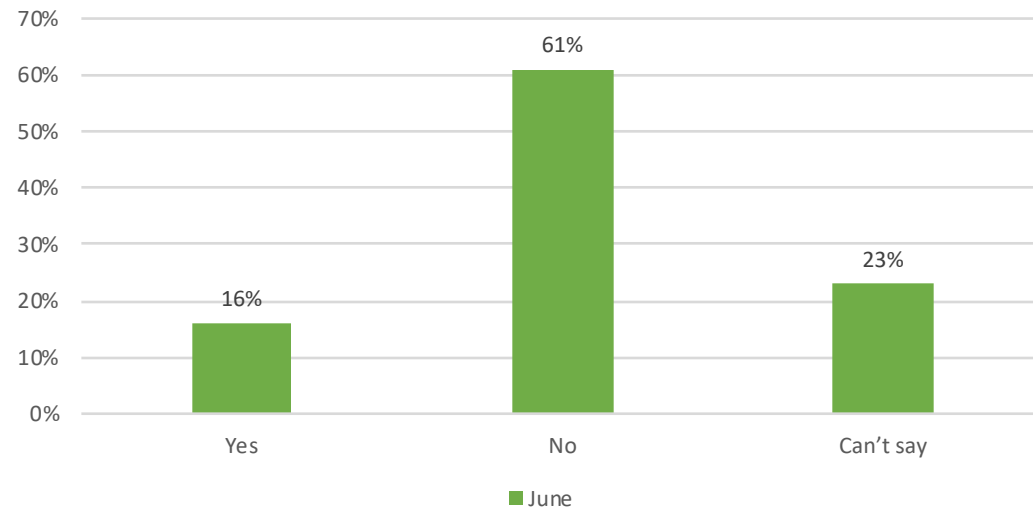
- Minimal hiring has started
- Businesses are restarting but remain acutely stressed
- 3 lakh crore package, term loan moratorium and deferment of taxes have enabled some liquidity

Good Efforts by Ministry of MSME

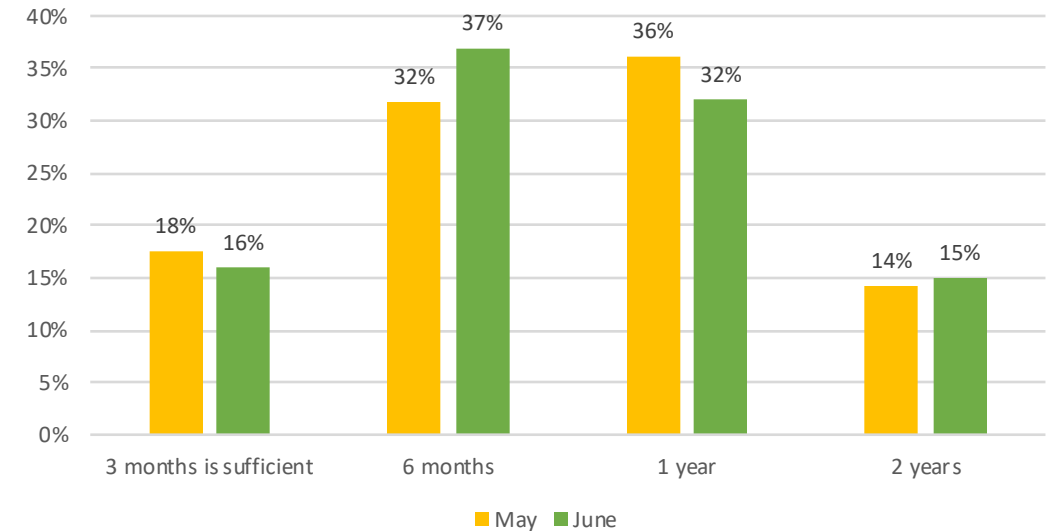
- Based on our recommendation an integrated platform called Udyam has been setup
- A MSME champions platform has been created
- SAMADHAN portal is helping address delayed payment issues
- All these could be subsumed in the Udyam platform
- The platform can then offer services like e-KYC, enablement for cashflow lending, subsidies and other targeted interventions.
- It could also emerge as a procurement as well as sales platform for MSMEs

NPAs Ahead

Term loan moratorium ends in August. Are you in a position to service your loans from September?



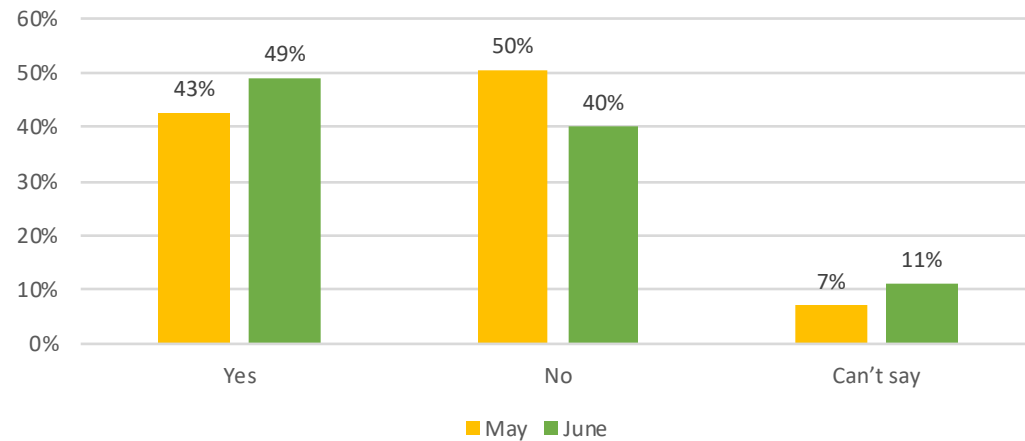
Term loan moratorium should be further extended by



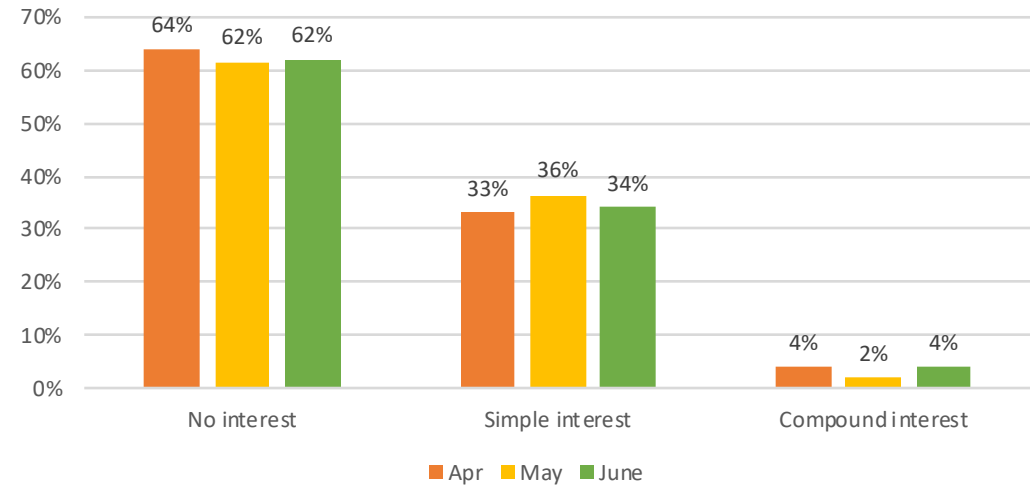
- Fairly large NPAs expected
- Need to restructure all term loans under moratorium now
- Most MSME borrowings are personal loans e.g. Housing loan, Loan against property etc.

Interest Payments

RBI has announced further three months moratorium on term loans and also the interest to be treated as term loan. Is this useful to you?



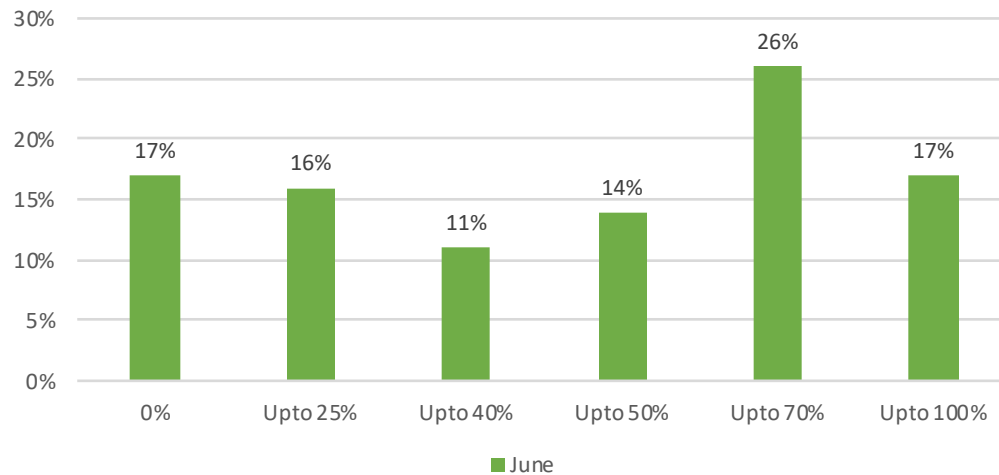
Do you think such moratorium should attract?



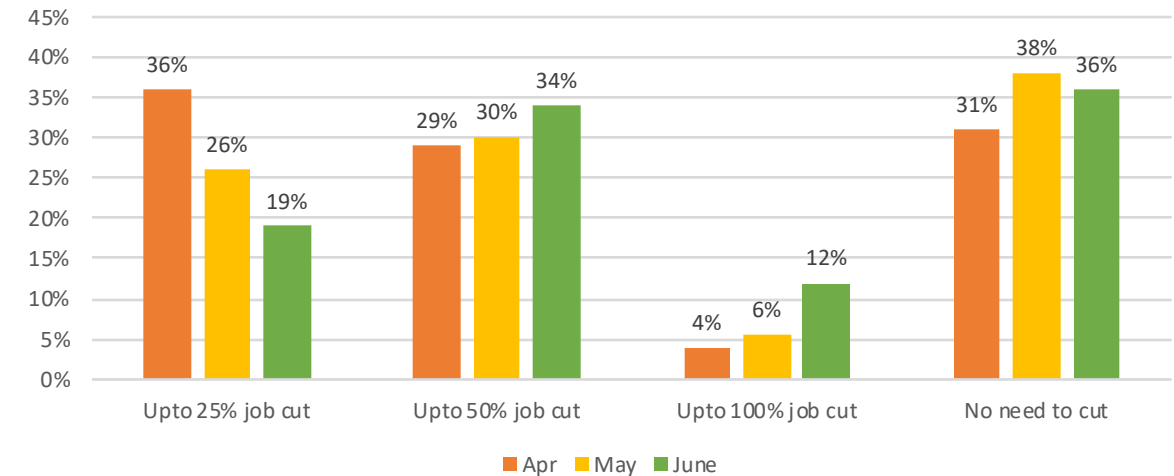
- Interest burden will speed-up NPAs

Job Losses

By what percentage has your workforce reduced since March 2020?



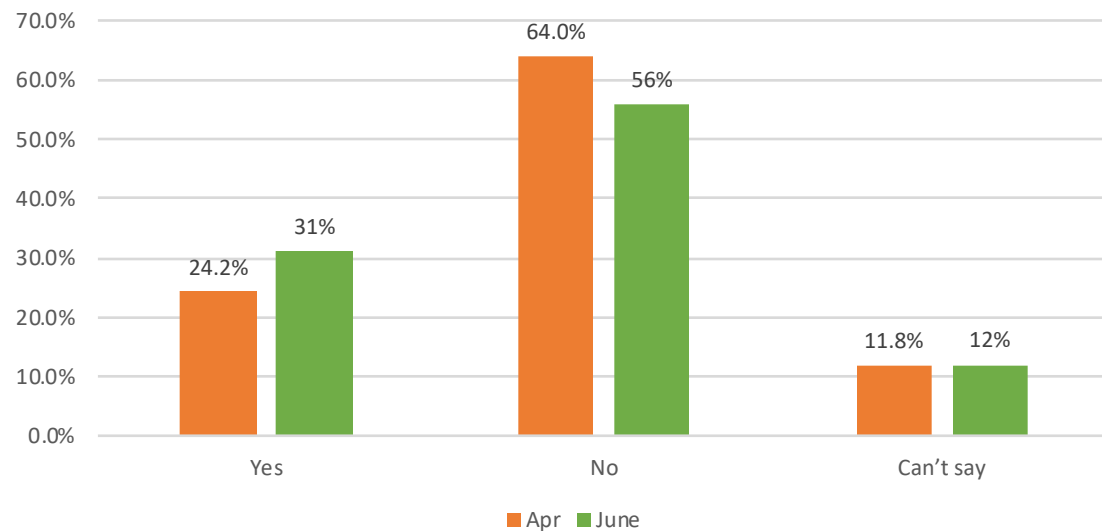
How many employees you need to reduce in the current situation?



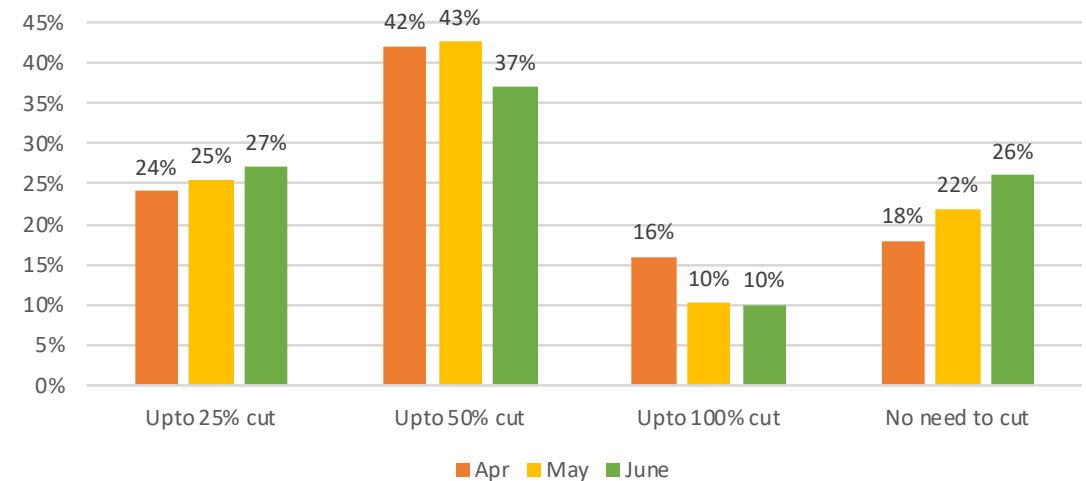
- We estimate a job loss of 2.5-3 crore has happened by end of June 2020
- Another 1-1.5 crore jobs may be lost by end August 2020

Further Salary Cuts Ahead

Do you have funds for paying current salaries?



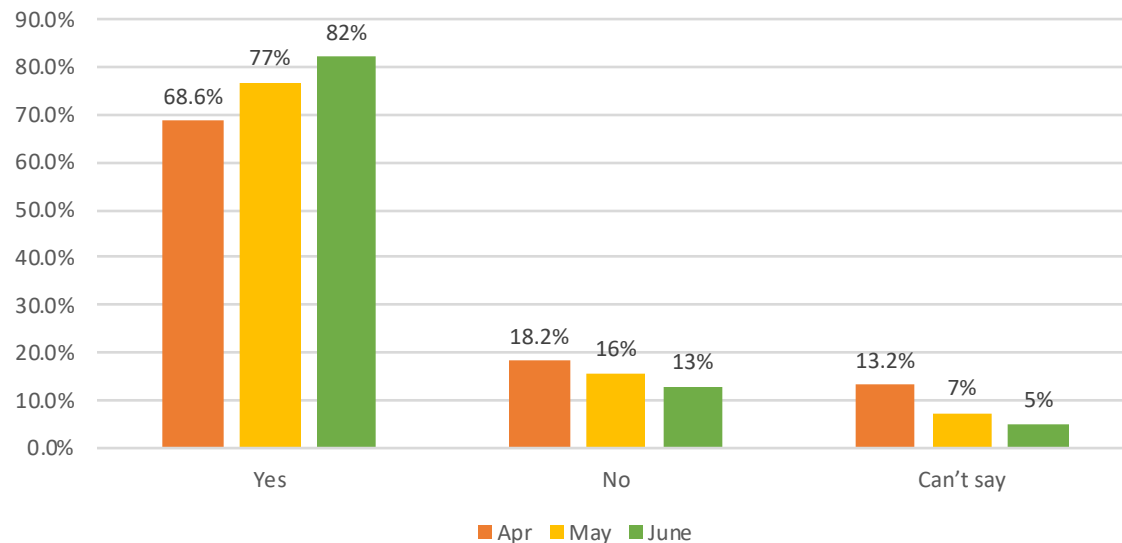
How much salary do you need to cut in next two months 2020?



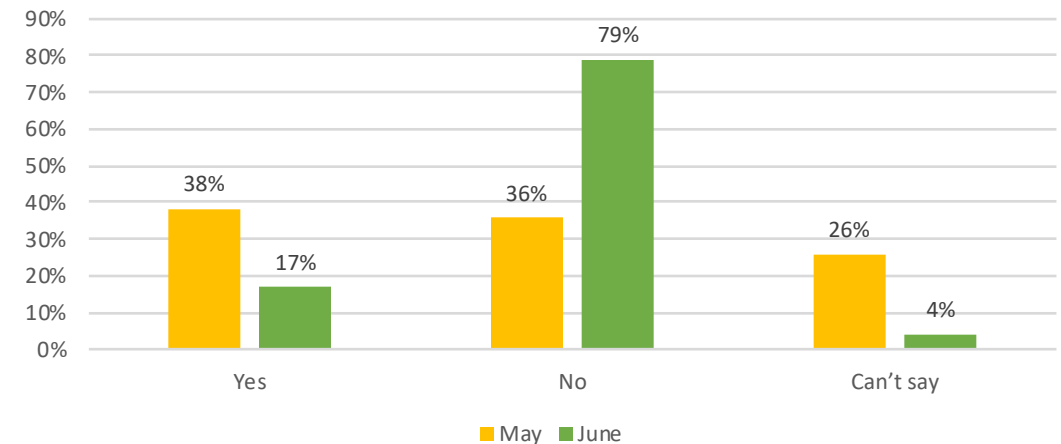
- Fund situation remains precarious
- Organisations that have avoided salary cuts may also cut salaries over the next two months

Credit Remains in Short Supply

Do you need emergency funds?



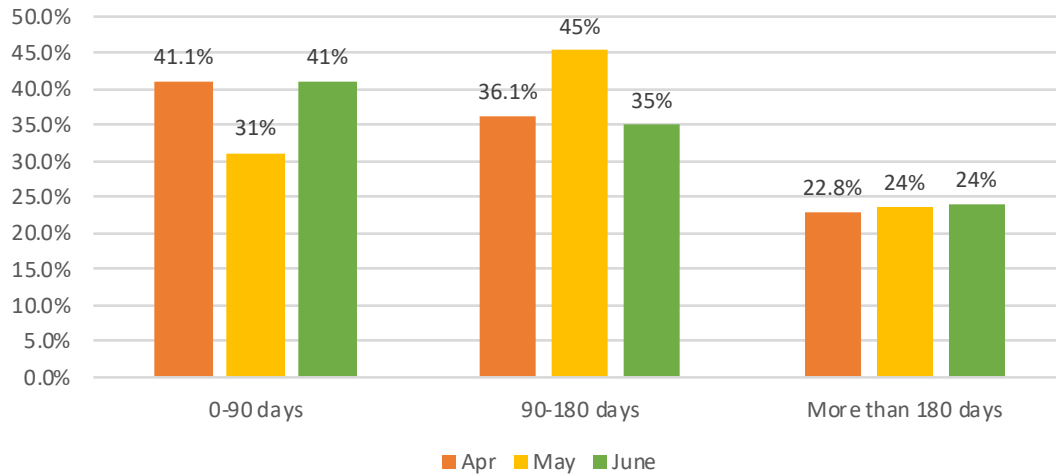
Government has announced Rs 3 lakh crore of collateral free loans for MSMEs. Have you availed this scheme?



- Large number of MSMEs need credit
- The 3 lakh crore package has fulfilled 19% demand
- Mostly to customers having abundant collateral

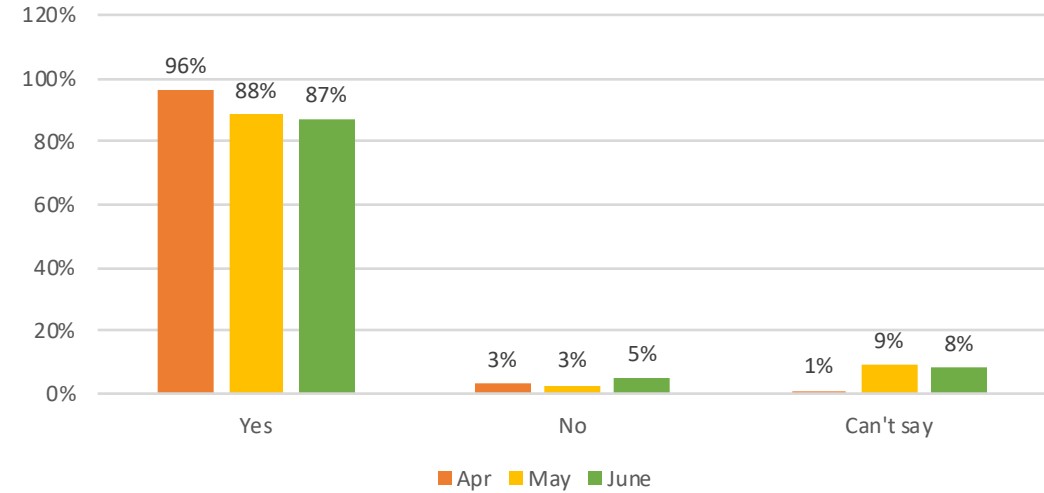
Cashflows are Strapped

How much time does your buyer take to pay you these days?

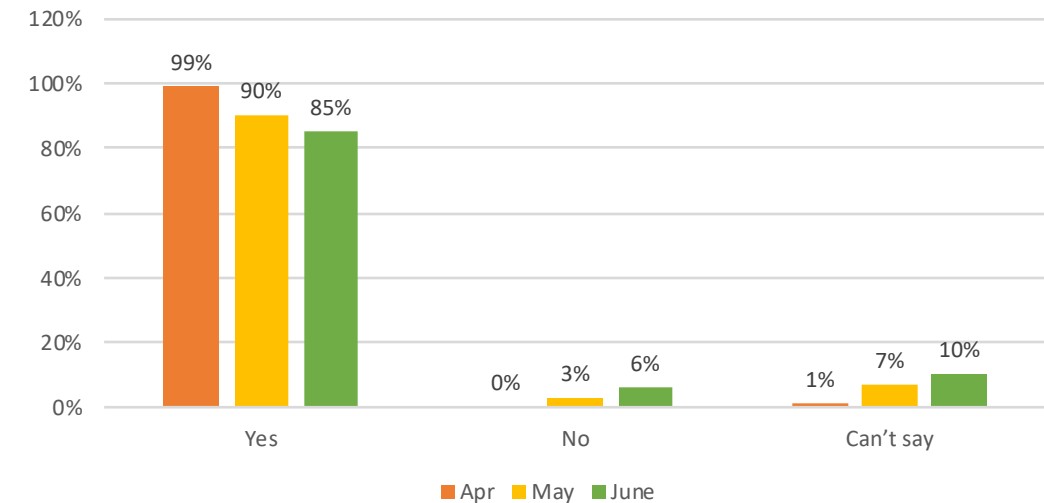


- Cashflows and delayed payments remain a huge problem
- Government payments and tax refunds completely unsatisfactory

Release Government Payments instantly

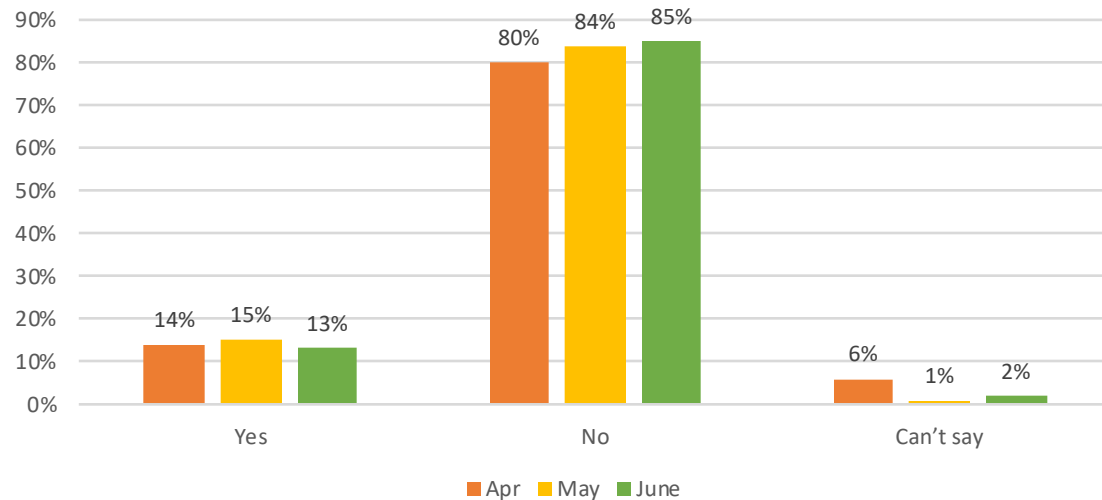


Release government / GST refunds instantly

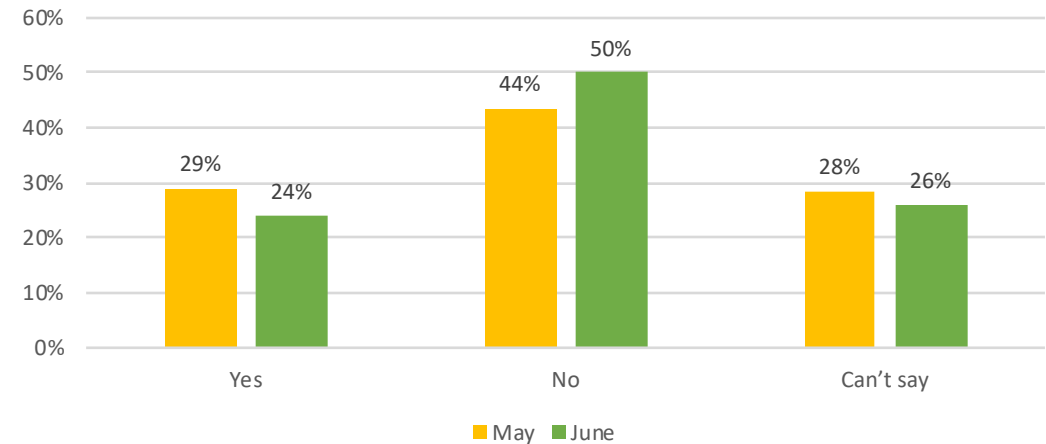


Do Government Schemes Help?

Have you taken any financial benefit from any government scheme for MSMEs in the past three years?



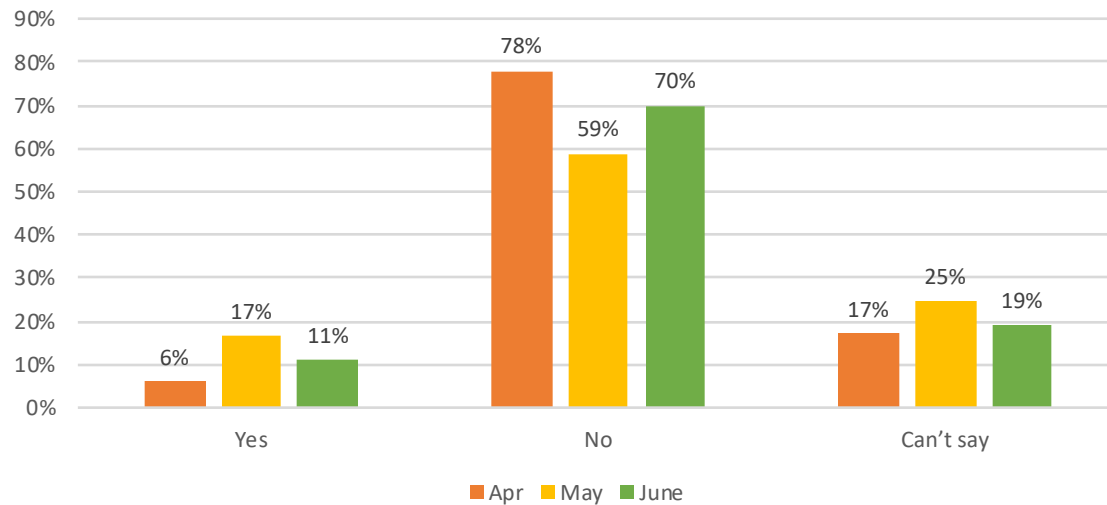
Government has announced some mega schemes for MSMEs under Aatmanirbhar Bharat on 12 May 2020?
Are these useful to you?



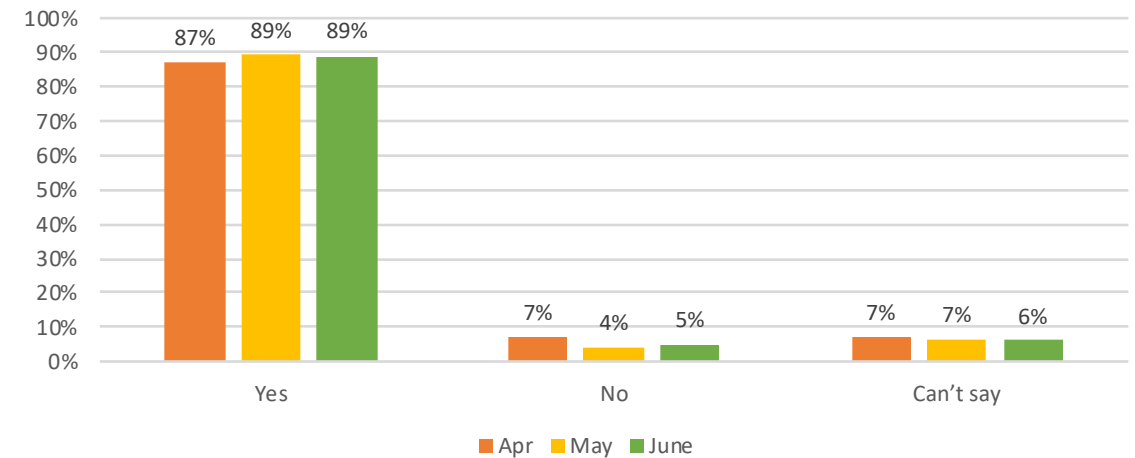
- MSMEs do not perceive the existing government schemes to be useful

Survival Remains an Issue

Do you think your business will survive without government financial help?



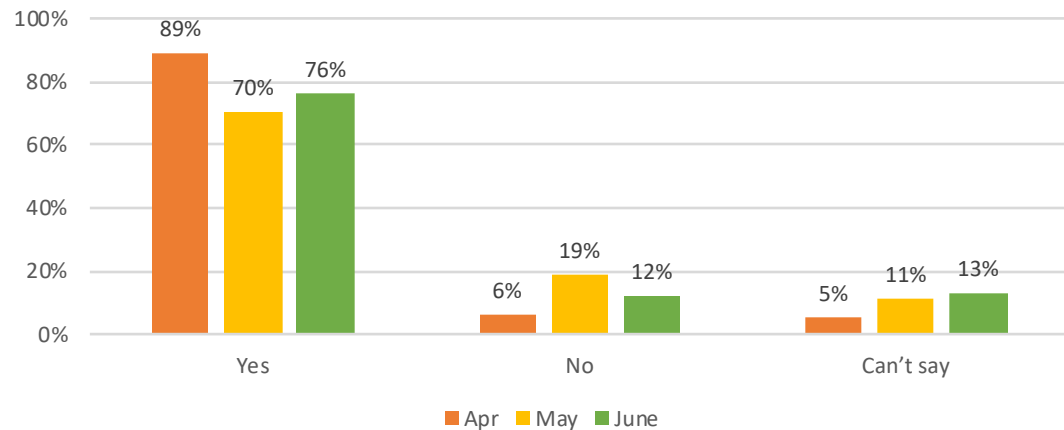
Do you think that there should be a consolidated financial help from one Ministry that should be directly transferred to MSMEs?



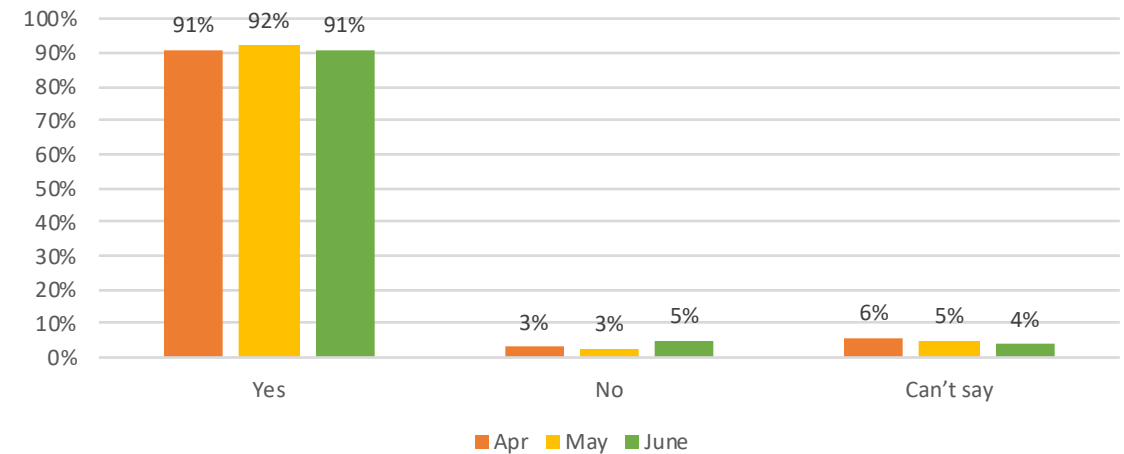
- Business confidence is bleak
- Need for NREGA equivalent for urban India to be used for MSME wages
- Need for equity support instead of debt

Cashflow Lending – Key to Survival

Do you need collateral-free credit on the basis of invoices raised?



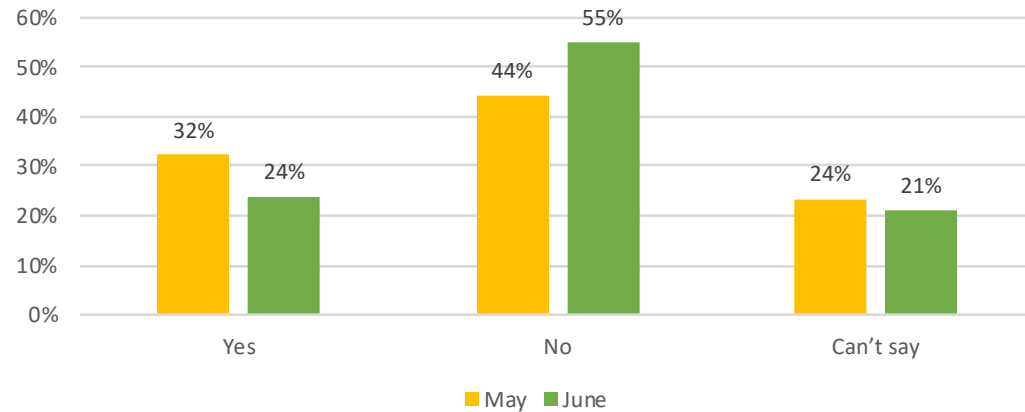
Do you think that there should be one integrated electronic platform for identifying, delivering and monitoring financial support?



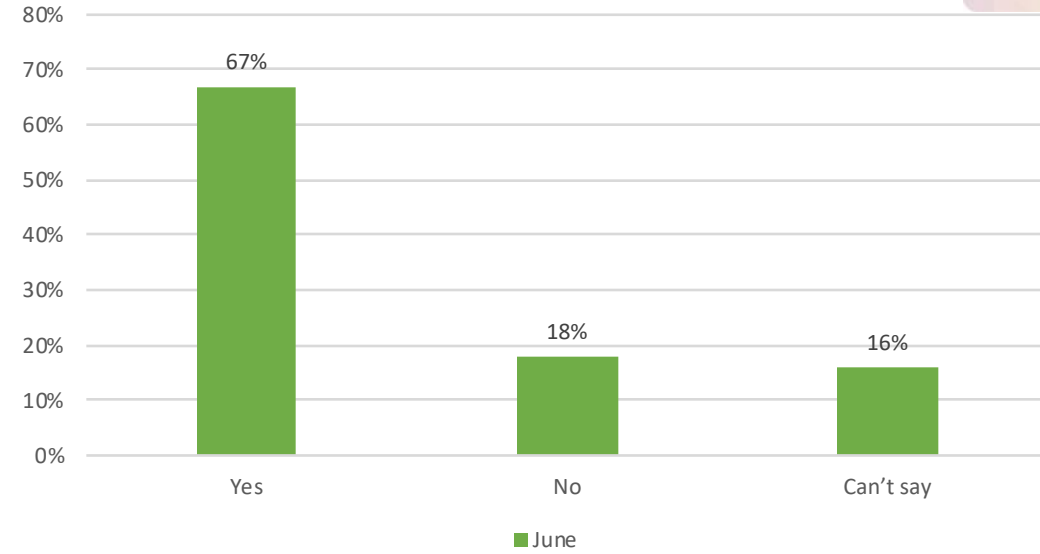
- U K Sinha committee had recommended cashflow lending as a second window on TReDS
- This is still stuck in bureaucratic inertia
- Udyam platform can't form the infrastructure for this

Atmanirbhar Bharat

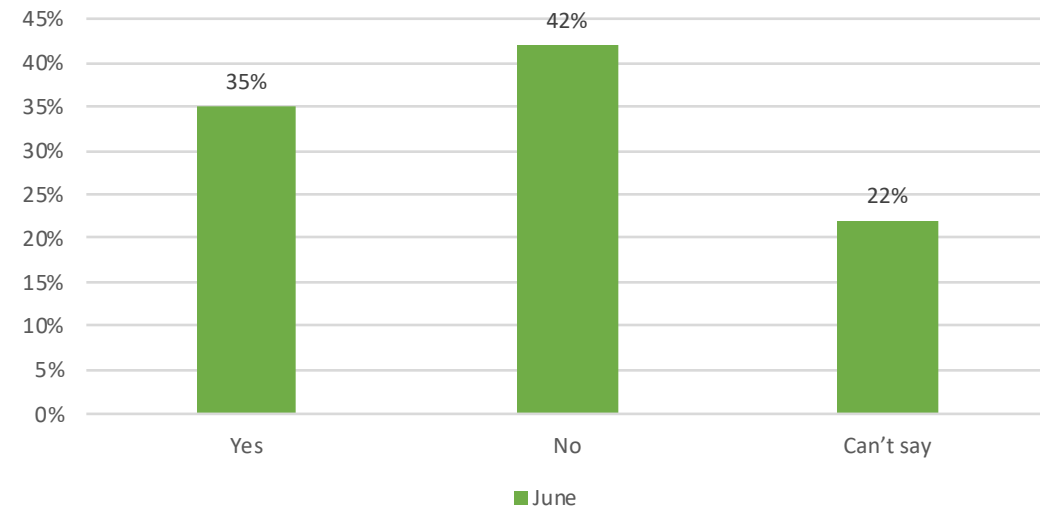
Government has announced a 20 lakh crore financial package under Atmanirbhar Bharat. Is this useful to you?



Should import from China be stopped?

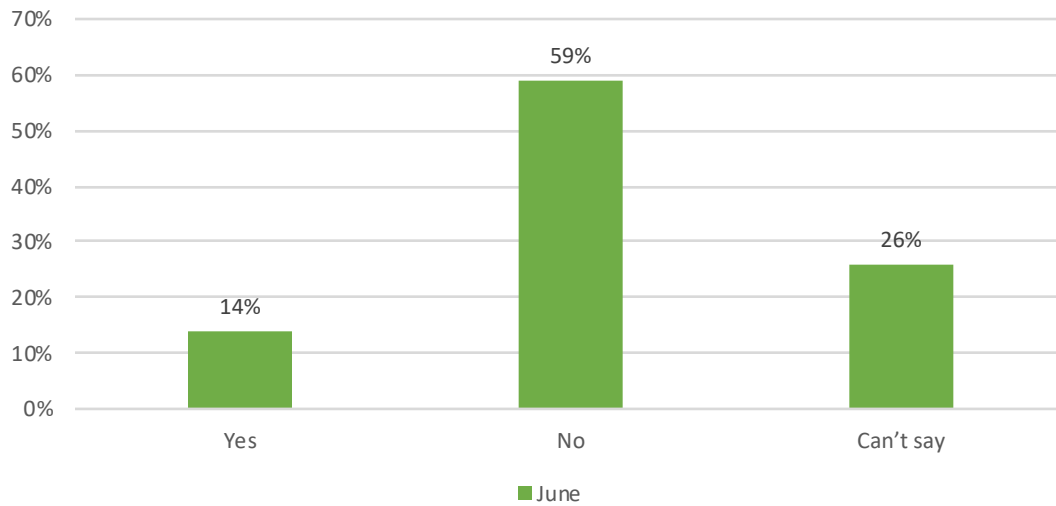


Does reducing/ stopping imports from China help your business?

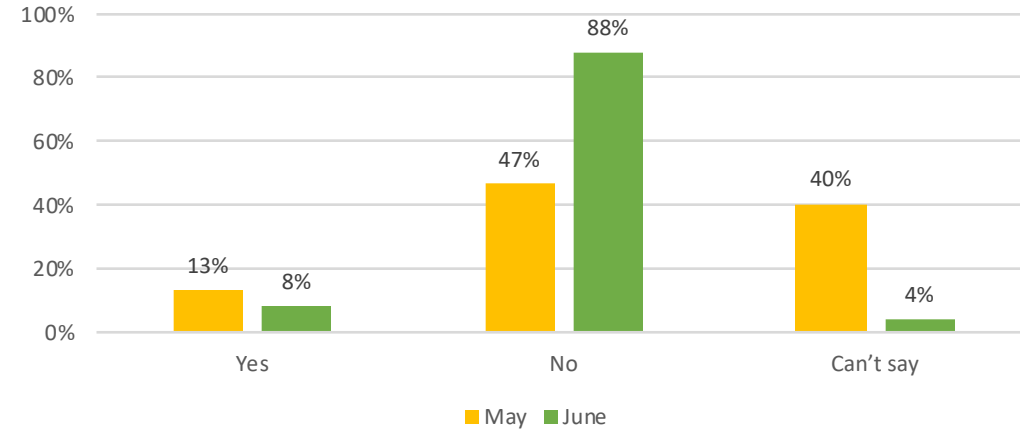


Post Haste

Government has stopped tenders under 200 crores to be global tenders. Has this helped you?



Government has announced Rs 50,000 crore of equity infusion for MSMEs through a Fund of Funds. Have you availed this scheme?



Government has announced Rs 20,000 crore subordinate debt for stressed MSMEs. Have you availed this scheme?

