CARE Ratings
Professional Risk Opinion

CARE SME Digest

SMALL & MEDIUM ENTERPRISES

Jan-Apr 2014

- Cloud Computing: How can it be helpful for SMEs
- SME Lending is not riskier: An analysis
- Comparative study on MSME policies of Indian states
- Management and mitigation of project risk by SMEs
- DICCI Chairman's Interview

CARE

SME

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About CARE Ratings

CARE Ratings commenced operations in April 1993 and over nearly two decades; it has established itself as the second-largest credit rating agency in India. With the rating volume of debt of around Rs.48,250 billion (as on March 31, 2013), CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings has also emerged as the leading agency for covering many segments like that for banks, sub-sovereigns and IPO gradings.

CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

With majority shareholding by the leading domestic banks and financial institutions in India, CARE's intrinsic strengths have also attracted many other investors.

CARE's registered office and head office, is located at 4th floor, Godrej Coliseum, Somaiya Hospital Road, Sion (East), Mumbai 400 022. It has also started its second office in Mumbai at Andheri since June 2013. In addition, CARE has regional offices at Ahmedabad, Bangalore, Chandigarh, Chennai, Hyderabad, Jaipur, Kolkata, New Delhi, Pune and international operations in Male' in the Republic of Maldives. With independent and unbiased credit rating opinions forming the core of its business model, CARE Ratings has the unique advantage in the form an External Rating Committee to decide on the ratings. Eminent and experienced professionals constitute CARE's Rating Committee.

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CARE's SME Vertical

Value-added services for SMEs

- Wide product offering: MSE Rating, SME Rating, Bank Loan Ratings, Due Diligence Services
- Data base of more than 6,000 SME entities
- SME digest: A Quarterly publication for analytical inputs
- SME Newsletter: Daily publication on news in SME sector
- Operating from ten branches across India
- MoU with leading banks for interest & rating fee concession
- A team of qualified analysts

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Professional Risk Opinion

From Desk

From MD's Desk

India's growth story has been affected significantly in FY13 and FY14. Whenever such things happen SMEs are affected in dual manner: fall in demand and hence sales and profits and lower access to credits.

A turnaround in the global scene in 2014 is good news for the SMEs. Export markets to be more robust this year (expected to grow by 10-12%). Exchange rate however, will continue to be vulnerable given that the tapering programme will be executed fully in the course of the year which will impact their earnings and cost. SMEs need to manage these risks through appropriate hedging strategies. SME sector is unable to face the stiff competition from global competitors. Besides, the tough competition from global players, the uncertain global economic scenario also poses challenges to this sector.

Despite its significant contribution to growth, SME sector does not get the required support and hence, faces a number of problems. Hence, this calls for change in government policies and strategies - instead of encouraging protection of these units; there is a need to enhance collaboration of SME units with large domestic corporates, multi- and trans-national corporations (MNCs/TNCs). The government needs to start spending on projects so that the backward linkages are built with the larger companies and through them to the SME segment.

There is a need to set up more business associations like SME associations which would help SMEs with added information on latest technology, best trade practices, and much more. Improvement in training would also result in better operations of the enterprise. This will bring them closer towards the skill levels observed in larger industry.

We have observed that progressively a large number of SMEs have realized the need to go in for credit ratings in order to have better access to credit. This we believe is necessary for sustainable growth of a sector which has become more important in terms of productivity, employment generation, contribution to industrial and exports growth.

D.R. Dogra,
MD & CEO, CARE Ratings

From Head-SME

FY14 was a challenging year for overall industry which ended with some signs of revival in the last quarter. MSME (Micro, Small and Medium Enterprises) sector, which is characterized as under-financed segment had also witnessed pressures on demand and profitability with increased working capital requirements. Bank credit had been the major external source of financing for MSMEs in past. So for FY14, with access to credit being a major challenge for MSMEs, has the situation improved or worsened from bank credit perspective?

With growing importance of MSMEs in India's growth story for sustainable development, Government of India (GoI) and Reserve Bank of India (RBI) had taken steps to increase credit flow to MSMEs. In July 2013, RBI had increased its limits of loans to MSE (Micro and Small Enterprises) under priority sector lending scheme and set high growth target of 20% in credit to MSE for banks. Furthermore, in November 2013, loans to medium enterprises were included under priority sector lending scheme.

This had led to increased credit flow to MSME which grew by 28% in FY14 on y-o-y basis compared to mere 10% in FY13. The share of Bank credit to MSME had grown to 16% as on March 21, 2014 compared to 14% as on March 22, 2013. Overall credit growth was 14% in FY14 compared with 13.6% in the previous year. Thus, credit to MSME segment had in fact aided banks to maintain their overall credit growth.

The growth in MSME segment was driven by credit growth to MSE segment compared to medium enterprises in manufacturing segment.

This edition of "CARE SME Digest" presents studies indicating the resilient nature of MSMEs as well as poser to the common belief of high risk associated with lending to MSMSs. Further, it enumerates the various policies of state governments to promote growth in MSMEs

"Quality is never having to say you're sorry"

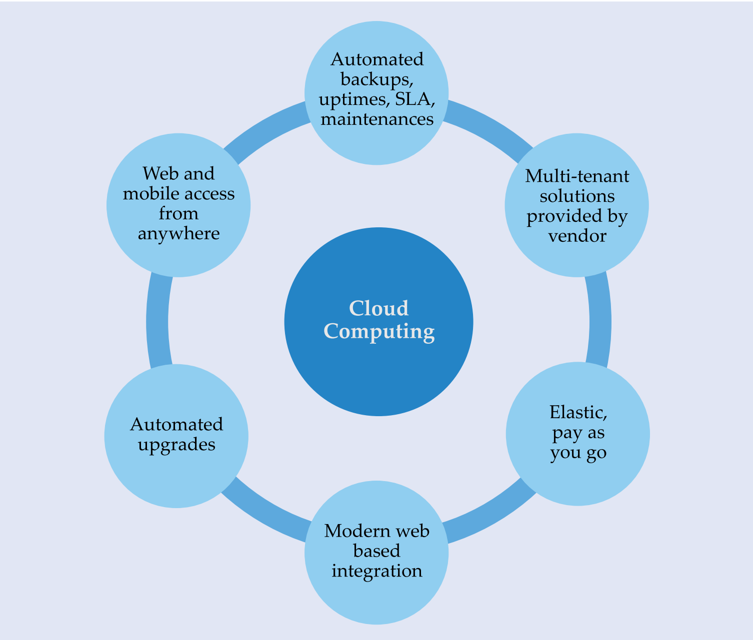
Mehul Pandya
Head – SME, CARE Ratings

Research & Articles

Cloud Computing: How can it be helpful for SMEs

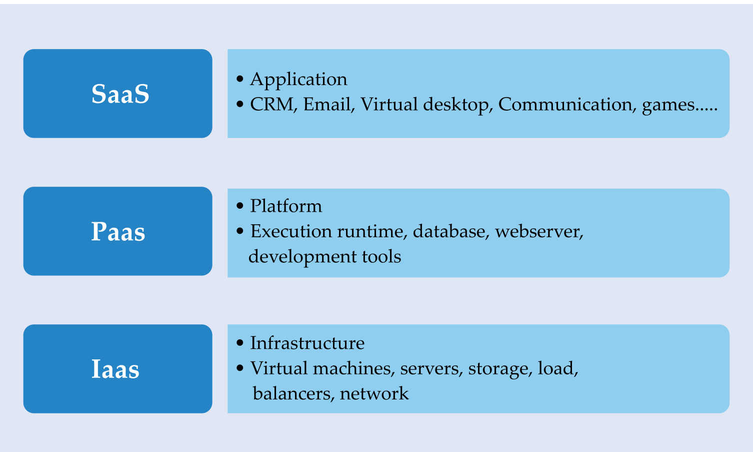
A cloud refers to a distinct IT environment that is designed for the purpose of remotely provisioning scalable and measured IT resources. Cloud computing is a computing style in which scalable and flexible IT functionalities are delivered as a service to external customers using Internet technologies. Cloud computing is not a revolutionary idea; instead, it is an evolutionary concept that integrates various existing technologies to offer a useful new IT provisioning tool.

Cloud applications extend their accessibility through the Internet by using large data centres and powerful servers that host web applications and services. Anyone with a suitable Internet connection and a standard Internet browser can access a cloud application. Rapid evolution of cloud computing technologies can easily blur its definition perceived by the public.



Most commonly used cloud architecture is your e-mail account where you can store your communications and other data on a virtual database provided by e-mail service provider without having storage of your own. When you sign up, you get to use the software without worrying about installing it, maintaining it, downloading updates or keeping it secure.

What is Cloud Computing and how it helps SMEs



Infrastructure as a service (IaaS)

Infrastructure is the basic building block of cloud computing as the other two cloud services are housed in the cloud infrastructure. IaaS offers an infrastructure to the customer where the customer can manage the hardware from remote location and use the infrastructure for storage, data processing and database management. The consumer pays for what he uses eliminating upfront huge capital expenditure. The consumer will have control on the underlying operating system and other applications. In this case the customer is responsible for the operating system upgrades, security patch installations and hence has to bear the administration costs just like the traditional IT system.

Considering the three possible ways of IT availability (IaaS, outsourcing and owning the infrastructure) to the enterprises there are some commonalities like the independence of installing and uninstalling the customer interested applications and operating system.

IaaS will give access to the infrastructure almost instantaneously and you pay for renting the infrastructure. Also the enterprise can test the applications of large scale on the cloud using IaaS before implementing on the field. So this eliminates the huge upfront costs that become a big burden to the SMEs.

Benefits of IaaS to the enterprises include

- Utility computing
- No fixed costs
- Availability
- Low cost redundancy
- Economies of scale
- Power savings

Platform as a service (PaaS)

PaaS offers a platform for the customers where the developers can design, build and deploy the applications and make it available to the users worldwide. PaaS offers the application tools required to build applications and each cloud provider has their own tools/mechanism to develop applications. This cloud based application platforms have the capability to serve consumers from the host of applications that are maintained by the cloud providers themselves. Independent developers can also make use of the platform to develop their own applications or customize the existing applications to serve their distinct purpose. So it benefits the companies that cannot afford a separate IT division or purchase hardware like servers required for housing the software applications. Further, as the time required to develop applications using the platform is short it benefits the companies where there are extremely tight deadlines.

Benefits of PaaS include

- Secure and robust applications
- Broad network access
- Control on deployed applications
- Low cost disaster recovery
- Immediate updates

Software as a Service (SaaS)

All cloud services meant that customers will rent the facilities instead of purchasing and maintaining them. SaaS particularly meant that the online software is rented instead of purchasing the license and installing it in their own computers. A classic example of this is when the user has to shell out thousands of rupees to purchase the software license and SaaS offers the user to access the same software online almost instantaneously at a relatively lower monthly rental. Also SaaS does not need any installations at the user terminal and is delivered to the end-customer directly unlike the other two cloud service offerings. In SaaS, the software is developed to cater large number of enterprises than the customized solutions. Frequent upgrades to the software in cloud can be done instantaneously compared to the traditional software packages.

In the traditional software packages installations the software is installed at the customer locations on their own computers. In SaaS the software in installed in the server and will be accessed by the users through the web browsers. So in SaaS any updates made at the central server will be reflected simultaneously at all the user locations. Many web applications that are in usage come under this category. SaaS is modular and more flexible as users can subscribe only to the applications which are beneficial to them instead of paying for the entire bundle which is normally the case with the most of the software licenses. Also the switching costs are minimal compared to the traditional IT setup.

Benefits of SaaS

- Secure and robust applications
- Remote access from anywhere in the world
- Fast access to the services
- Easy subscription

Cloud Service is the Need of Hour

A Research Institute, Parallels, estimated US$45 billion market worldwide for cloud services for SMEs in 2013, with a growth outlook to US$95 billion by 2015, at a compound annual growth rate (CAGR) of 28 percent.

Cloud Computing in US

In U.S. IT managers are focused on moving data into cloud environments, leading to a 24 percent average growth rate in cloud sales since 2010 and adoption rates are growing four times faster than overall technology spending.

Similarly, venture capital firms are rushing to fund the next great cloud solution. U.S. cloud computing start-ups have also received numerable investments ranging from a couple million dollars to more than $100 million in venture capital funding, creating a booming cloud economy with attractive margins for providers and a “get in or go home” mentality among service providers. Building on these investments, the U.S. government has spent US$724 million on cloud computing in 2012 alone.

Stunted Cloud growth in Europe

Meanwhile, many countries within Europe have instated conflicting policies surrounding data security. For example, Spain, France and Germany are notoriously tough on data processed in the cloud, requiring cloud service providers to know where information is being kept at all times. While Britain and Scandinavian countries tend to be more permissive, all European national governments are actually required by law to process any personal data within their own borders. As a result, service providers have been quite hesitant to bring to market cloud services and offerings in Europe, despite local interest in private cloud solutions that can be hosted on-premise.

A recent research has shown that 60% of UK SMEs have partly or fully outsourced their IT infrastructure. The findings highlight that 10% SMEs have already deployed a fully cloud-based IT infrastructure - meaning that over 300,000 employees in UK are already experiencing the full flexibility and efficiency benefits of cloud-based IT solutions. In an effort to expedite cloud adoption, the European Commission released a proposal in September 2012 to establish a common set of rules for a cohesive market structure in Europe. A key goal of this plan is to establish public cloud offerings in Europe, which, according to the EU, would boost Europe’s collective GDP by approximately 600 billion euros, or US$774 billion, from 2015 to 2020.

Indian Perspective

Indian Government has launched its National Cloud, ‘Meghraj’, in order to accelerate delivery of e-services in the country, while optimizing ICT spending of the Government. The project is being implemented by National Informatics Center (NIC) and is expected to ensure better development and deployment of eGov applications with better utilization of the existing infrastructure.

A research report from NASSCOM in association with Deloitte reveals that cloud computing is expected to have a significant impact on the services industry, in terms of services offered, delivery mechanisms and business models. The Indian market for cloud computing is expected to grow by US$16 billion in 2020. About two-third of this growth will be due to new businesses and the rest will come from the existing service lines.

According to International Data Corporation, digital data in India is expected to be around 40,000 petabytes in 2010 and this number is projected to shoot up to 2.3 million petabytes in 2020. This slowly leads to an information explosion with cloud in the middle, as more and more Indian companies are looking to leverage the cost advantages of the cloud.

A research study conducted by Zinnov Management Consulting reveals that private cloud in India is expected to help save Indian companies up to 50% of their infrastructure costs and also create more than 1 lakh jobs by 2015.

Gartner executive programs survey of Chief Information Officer in India identifies cloud computing as the top technology priority for CIOs in 2011. Currently, no one reports having the majority of IT running in the cloud or on SaaS technologies, but over the next four years CIOs in India expect this number to increase to 67 percent. The survey also reveals that Indian companies will adopt new cloud services much faster than originally anticipated.

The other side of the coin

Like all new technologies, cloud computing has its fair share of disadvantages. While this affects in general all users, private users or smaller companies are the ones who may feel slightly more disadvantaged than larger businesses.

Security

The interconnectedness of servers in the cloud may lead to a situation in which a hacker breaches one system and then can make his way into other linked systems.

Data Ownership

As one of the biggest issues that trouble cloud computing, data ownership can be a major obstacle, especially if you have a lot of data to deal with. As of yet there is no straightforward answer to a basic question such as 'who owns the data maintained by a cloud storage service, the uploader or the storage provider?' As a result, cloud providers create their own terms and conditions, which at times may seem arbitrary. Therefore, reading the small print is necessary when you deal with cloud computing, and especially with cloud hosting. Also note that at times you may not be allowed to upload a certain type of data.

No Hard Drive

For some users the lack of a hard drive is an advantage, as they can reduce costs. For those who use programs that need an attached hard drive, however, this may be unpleasant. Still, an increasing number of companies eliminate the need for a hard drive, in an effort to make data management easier.

Cost-to-Benefit Analysis of Cloud Computing

The cost of adoption of cloud computing depends on quality of services, hardware and its configuration such as its RAM, hard disk, bandwidth, processor etc. The basic services starting from Rs.2,500/- (approximately) per month and its cost may go up depending upon the quality of hardware, services and configurations deployed.

However, the benefits are multifold compared to the cost involved in the utilization of such service. A survey was conducted in UK and US over 1,300 organizations including 1,000 SMEs covering industries like financial services, retail, IT/technology, manufacturing, business and professional services, media, logistics and mobile telecommunication, with a further small representative group from other sectors. Major observations of the study are:

- Cloud computing improved profits by an average increase of 22%
- Average cost reduction is 23% due to savings on infrastructure

- Increased total investment by an average of 23% due to the increase in profits
- Cost reductions were significant; the greatest contributions were seen in increase in expense for innovation (48%), new product & service development (45%), and boosting sale efforts (38%).

Conclusion

The Cloud promises to revolutionize not just the Government but also industry as a whole. Further, the Cloud presents tremendous opportunities to fast track the SME sector in India as only 2% of Indian SMES are currently aware of the cloud computing. Hence, it requires a careful development of National Cloud strategy to ensure that maximum benefits of the Cloud accrue while minimizing the risks.

The Government needs to work on dual goals of (1) protecting interests of Indian entities in relation to risks from Cloud adoption and (2) accelerating the adoption of Cloud in India. This will be possible only with proper co-ordination between various government agencies and departments anchored by key ministries

Contributed By:
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SME lending is not riskier: An analysis

The banks are usually found to be averse to offer credit to the SMEs for a number of reasons, the foremost of which emanates from a general perception that the credit risk in lending to SMEs is very high. Precisely because of this banks demand heavy collateral, charge higher interest rates from SMEs and even transaction costs remain more. Since some years, banks started focusing on SME lending in search of high growth opportunity, still a cautious approach is observable. On the other hand, primarily due to lack of timely and adequate credit from the banking sector, a significant portion of SME business cannot avail bank finance which hinders their competitiveness. The statistics compiled in the Fourth Census of SME sector revealed that only 5.18% of the units (both registered and unregistered) had availed finance through institutional sources, 2.05% had finance from non-institutional sources and the majority of units i.e. 92.77% had no finance or depended on self-finance. This definitely demands a closer look at the facts and figures.

Evaluating riskiness in SME portfolio

CARE tried to study from the various data sources available on this front from RBI studies and reports. Data for the period FY08-FY12 have been sourced from RBI's annual bank studies whereas for FY13, CARE has gathered from Annual Accounts of 37 banks (i.e. 21 public sector banks and 16 private sector banks, which are most active in SME lending). Further, some data is sourced from presentations of senior RBI officials at various forums. The analysis of this figures provided enlightening facts, which may be of interest to lending banks which are not yet active / aggressive in SME business.

Measuring credit quality

Credit quality of the segment can be measured by the level of Non-Performing Assets (NPA) in the segment, proportion of restructuring of business loans and impaired asset ratio. As per the present RBI guidelines, once the borrower has failed to make interest or principal payments for 90 days, the loan is considered to be NPA. Troublesome pressure from the economy can lead to a sharp increase in NPAs and often results in massive write-downs; thus, not only affecting the financial health of banks but having a cascading effect on the overall economy at large.

Restructuring of business loans refers to a loan where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the bank would not otherwise consider. It normally involves modification of terms of the loans, which would generally include, among others, alteration of repayment period, repayable amount, the amount of instalments and rate of interest.

Impaired assets, in banking, applies to all problem assets which banks hold, and is not limited to problem loans. In addition to loans, it also captures off- balance sheet exposures and assets which have come onto bank's balance sheets through enforcement of security conditions. Impaired assets ratio (IAR) refers to {Gross NPA+ Restructured Standard Advances+ Cumulative write off}/ {Total Advances + Cumulative write off}.

Thus, it is the impaired assets ratio which should be considered by banks for determining the credit quality of the SME segment rather than NPA or restructuring of business loans as it provides a holistic picture of the bank's asset quality.

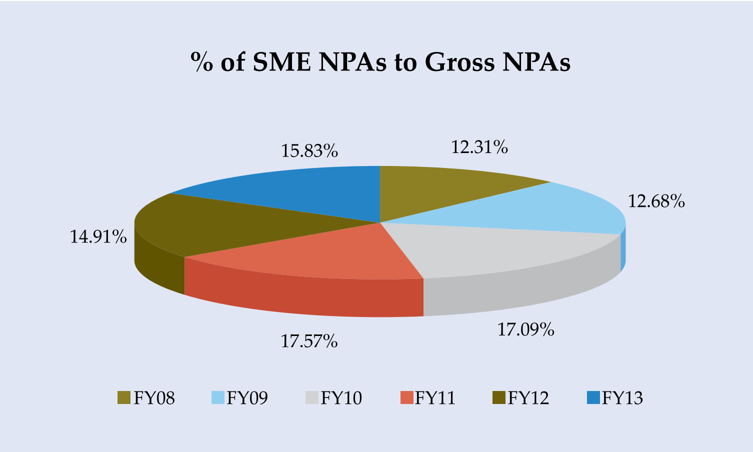
Appendix: NPA Norms

RBI with a view to moving towards international best practices and to ensure greater transparency, decided to adopt the '90 days' overdue' norm for identification of NPA, from the year ending March 31, 2004. Accordingly, with effect from March 31, 2004, a non-performing asset (NPA) shall be a loan or an advance where;

- Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- The account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC),
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- Interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and
- Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Small proportion in total banking NPA

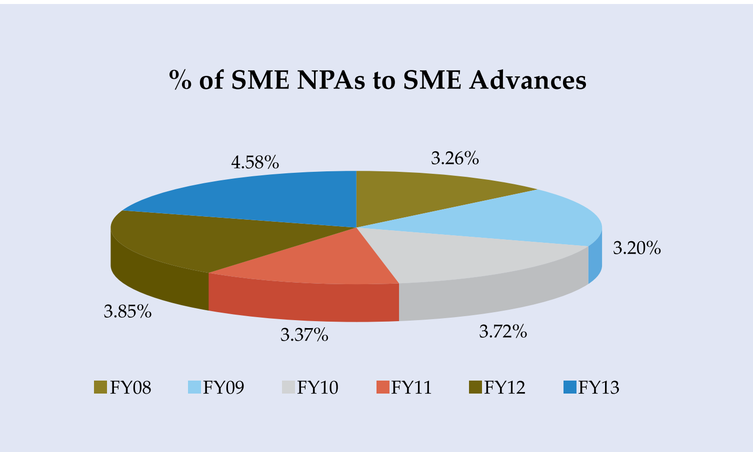
The chart showing the percentage of SME NPAs to Gross NPAs over FY08-FY13 has been covered below.



It can be noted from the aforesaid chart, that the composition of SME NPAs in Gross NPAs has been fluctuating over the aforesaid period. The same has continuously increased from FY08-FY11, improved in FY12 and has again deteriorated in FY13 reflecting the sluggish growth of the domestic economy impacting the SME segment. The Indian economy grew 5% in FY13, the slowest pace in a decade, as high borrowing costs forced companies to put fresh investments on hold and consumers to cut spending. Delays in securing mandatory government approvals and problems in land acquisition have stalled many big ticket projects, stopping the cash flows of companies and dented their ability to repay debt. This has led to increase in NPAs in banks in the recent time which is more so in case of the SME sector.

Relatively higher NPA level

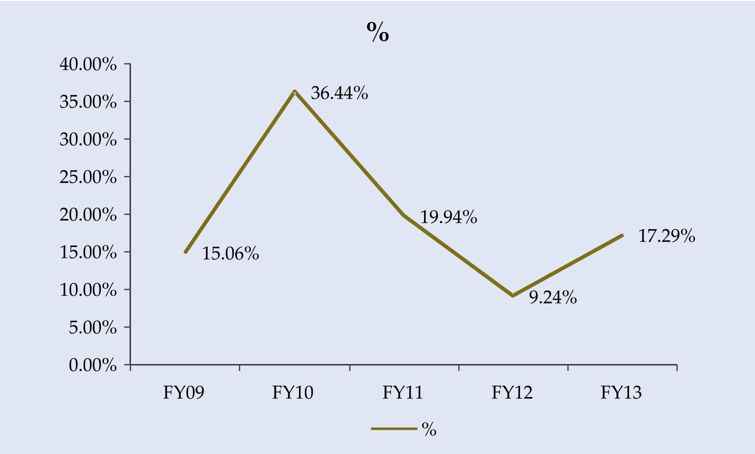
The chart showing the percentage of SME NPAs to SME Advances over FY08-FY13 has been covered below.



It can be seen from the aforesaid chart, that the composition of SME NPAs in SME Advances has fluctuated over the aforesaid period. The same has continuously deteriorated in the last three years (i.e. FY11 to FY13) mainly due to deterioration in the financial risk profile of SMEs both on account of sluggish growth being witnessed in the western economies (i.e. US & Europe) in addition to sluggish growth being witnessed in India.

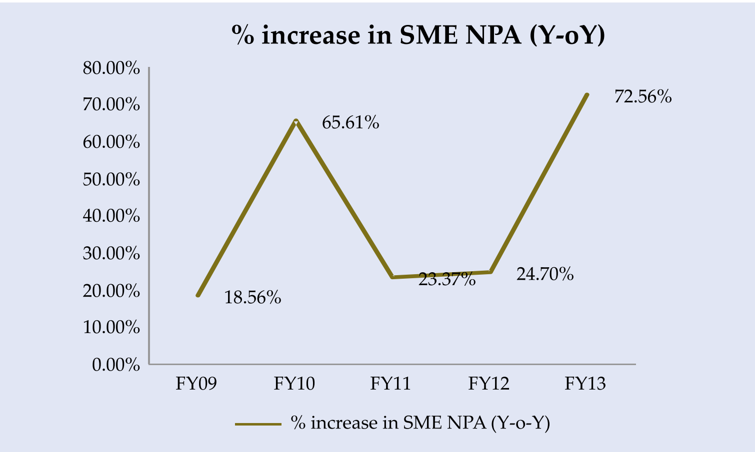
Lesser incremental NPA

The graph showing the percentage of incremental SME NPAs to incremental Gross NPAs over FY09-FY13 has been covered below.



The graph reflects that the percentage of yearly increase in SME NPAs to Gross NPAs has been fluctuating over the aforesaid period with major increase in FY10, caused more as an after-effect of the US financial crisis in October 2008 affecting the domestic export market catered largely by SMEs resulting in the deterioration in its credit profile. The same had started improving thereafter, but it has again deteriorated sharply in FY13 more on account of the sluggish domestic economy resulting in weakening credit profile of SMEs.

High NPA growth in FY13



The graph shows the yearly growth rate in SME NPAs during FY09-FY13. It can be observed that the growth rate was highest in FY13 followed by FY10.

Low restructured accounts in SME segment

While the NPA growth rate are higher in this segment, if one reckons the extent of restructuring and write-offs that are resorted to the large corporate segment, the credit risk would appear to be much lower in the SME segment. According to RBI, there has been a 52% jump in the restructured loan amount under the CDR (corporate debt restructuring) scheme in FY13 to Rs.2,29,000 crore from Rs.1,50,500 crore in FY12, which majorly comprised of large corporate entities. Further, two comparative tables (source: Keynote address delivered by Dr. K.C. Chakrabarty, Deputy Governer, RBI during the training workshop on Credit Scoring Model for SME lending in Mumbai on November 29, 2013) indicating the extent of NPAs, restructuring and write-offs in SME vis-à-vis large corporates during the last five years given below, also suggests that in the recent scenario of rising impairment of assets in the banking sector, it is the SMEs that have demonstrated better credit discipline.

Restructuring in SME Segment (in per cent)						
Segment		**FY09**	**FY10**	**FY11**	**FY12**	**FY13**
SME	Restructured Standard Advances / Total Gross Advances	2.99	2.67	2.05	1.69	1.68
Large Corporates	Restructured Standard Advances / Total Gross Advances	4.80	6.39	5.04	7.52	9.80

It can be observed from the aforesaid table that the percentage of restructuring out of total gross advances in the SME segment has continuously declined over the aforesaid period, while the same for the large corporates has been fluctuating with continuous increase over the last three years. Further, the percentage is also much higher for the larger corporates as compared to the SMEs. This reflects the fact that the credit profile of large corporates has also deteriorated and at a much higher rate as compared to SMEs.

Significantly better IAR in SME segment

Impaired Assets Ratio (in per cent)					
Segment	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**
SME	10.7	10.6	9.4	9.7	10.6
Large Corporates	7.8	9.4	8.0	11.2	14.8

It can be noted from the aforesaid table that the impaired assets ratio i.e. all the problem assets which the banks are holding, is much lower for the SME segment as compared to the large corporates over the past two years. Impaired assets ratio has been higher for the SME segment as compared to the large corporates during FY09-FY11; however, the trend has reversed during FY12-FY13. Hence, one can conclude that in the last two years it is the SMEs that had a better credit profile as compared to the large corporates and has shown better financial discipline.

Causes for an account becoming NPA

Internal Factors	External factors
• Funds borrowed for a particular purpose but not used for the said purpose. • Project not completed on time. • Poor recovery of receivables. • Excess capacities created on non-economic costs. • In-ability of the entity to raise capital. • Business failures. • Diversion of funds for expansion/modernisation/setting up new projects/helping or promoting sister concerns. • Willful defaults, siphoning of funds, fraud, disputes, mis-appropriation etc. • Deficiencies on the part of banks i.e. in credit appraisal, monitoring and follow-ups, etc.	• Sluggish legal system. • Scarcity of raw material, power and other resources. • Industrial recession. • Excess capacity and natural calamities like floods, accidents. • Failures, non-payment/overdues in other countries, recession in other countries, externalization problems, adverse exchange rates etc. • Government policies like excise duty changes, import duty changes etc.

Ways to reduce NPA in SME segment

Banks should continuously monitor the credit ratings being provided by the credit rating agencies to the entities in the SME segment which would help them determine whether the credit quality of an entity is stable, improving or deteriorating in addition to studying the cash flow statement. In case of deterioration, banks can take appropriate steps in consultation with the authorities of the entity and thereby save the account from turning NPA. In this regard, reference can be drawn to CARE's default study for MSE Rating for FY13. CARE undertook the study of its clients (rated during April 01, 2012 to March 31, 2013 period) to assess the impact of the economic situation to CARE rated SME entities.

MSE rating scales are two-dimensional in nature and covers performance capability (measured on a scale of 1 to 5) and financial strength (measured on a three point scale A, B & C) rating on separate scales. It was observed that inspite of a challenging economic environment, CARE experienced no corporate defaults during this period from the highest rating categories on financial strength indicators viz. SE 1A, SE 2A … SE 5A. However, there was a clear trend of increasing default rate among the lower financial strength rating categories. The following table shows the analysis of each default vis-à-vis the rating category on both the scales. Only those rating categories are mentioned from which the default happened. For all the other categories, no default was reported.

Rating	Total	NPA	Restructured	Total Defaults	Default Rate (%)
2B	155	3	1	4	2.6
3B	289	4	7	11	3.8
2C & 3C	121	24	6	30	24.8
4C	27	7	6	13	48.2
5C	6	5	1	6	100.0

It was observed that the default rate had shown ordinality with an increasing trend once it moves lower down the rating category, thereby indicating better creditworthiness of higher rated entities compared with the lower ones. Thus banks, should take help of such credit ratings in order to have an idea of the current credit profile of an entity and take appropriate measures to reduce NPAs.

Appendix: Measures for overcoming NPAs

- Banks should have an effective and regular follow-up mechanism to determine whether the end-use of the funds sanctioned is for embezzlement or diversion. This process can be undertaken every month so that any account converting to NPA can be properly accounted for.
- Modern statistical tools along with traditional wisdom should be employed by the bankers to assess the borrowers. This is to be supplemented by information sharing among the bankers about the credit history of the borrower. In case of new borrowers, proper analysis of the cash flow statement of past years is to be undertaken carefully.
- Banker should develop a healthy relationship with the borrower. They should avoid forceful recovery of debts from borrowers. Debt recovery is much easier in a congenial environment.
- Banks should assist the borrowers in developing entrepreneurial skills which will not only establish a good relationship with the borrowers but will also help the bankers to keep a track of their funds.
- Countries such as Korea, China, Japan, Taiwan have a well-functioning Asset Reconstruction/ Recovery mechanism wherein the bad assets are sold to an Asset Reconstruction Company (ARC) at an agreed upon price. In India, like ARCIL, we need to develop more ARCs, which can adequately address the problem of pricing of such loans so that they can be easily and quickly disposed. The ARCs should have clear 'financial acquisition policy' and guidelines relating to proper diligence and valuation of NPA portfolio.
- Government should provide some tax incentives like capital gain tax exemption, carry forward the losses to set off the same with other income of the Qualified Institutional Buyers, so as to ensure their active participation by way of investing sizeable amount in distressed assets of banks and financial institutions.
- Banks must try to reduce the transaction costs involved while lending to priority sector which includes the micro and small enterprises, by embracing latest technology and minimising documentation.
- Banks should be allowed to have their own borrower-based measures to address the problem of NPAs. This may include waiving and reducing the principal and interest on such loans, or extending the loans, or settling the loan accounts.
- Apart, from the above mentioned procedures banks can also employ various measures formulated by central government and RBI from time to time such as the One Time Settlement scheme (or OTS scheme), Lok Adalats, Debt Recovery Tribunals (DRTs), recovery through securitisation and SARFAESI Act and Corporate Debt Restructuring

Conclusion

Given the level of financial discipline demonstrated as compared to the large corporates and the extent of financial exclusion in the SME sector apart from the importance of the sector for the overall economy, banks need to urgently step up lending to the sector. For evaluating loan proposals and for facilitating SME financing, banks need to employ low cost and quick decision making alternatives which would help accelerate credit flow to this sector. Since, it is increasingly being recognised by the policy makers that if India has to regain its high growth trajectory, it needs a vibrant SME sector.

Contributed By:
Avinava Adhikary, *Manager*

Trend of PE Investments in SME Segment

Limited Partners (Investors into PE funds) have had the history of adopting top-down approach when evaluating destinations for investments, typically it has been observed that a favorable policy framework and environment takes edge over sector-based performance, as the former effectively leads to safer if not higher returns. The capital flow is traced prima facie from the mood of the investment commitments garnered by general partners (Partners managing the fund) which ultimately flows into businesses sooner or later.

Globally the climate for general partners is better when compared to 2007-09 era, whereas in case of India it is yet to be notified in terms of translations of pitch for India story. The one thing that is helping in this translation is the expectation of the positive outcome in the general elections 2014.

On overall basis (large corporates and SMEs), India focused PE players have seen over significant rise in the investments in Q4CY2013 (US$2.12 bn) when compared with total investments in Q4CY2012 ($1.22 bn) as per data by Venture intelligence. However, the number of deals had fallen to 76 compared to 109 in Q4CY2012, reflecting the decline in investments in SMEs. Though there is expected uptick in the investment pool, the market remains tough; quite a few PE funds have exited their 2006-07 deals by taking hair-cut (Yatra capital exited Indore-based residential project with 33% haircut in November 2013, Warburg Pincus exited Amtek Auto with haircut in November 2013), hence there is going to be cautious approach adopted by LPs.

Trend for PE investment in SMEs in CY2013

The overall PE investment in India in small and medium enterprises remained flat when compared in terms of total investments. For CY2013, SMEs attracted US$1.25bn which is 3% down when compared with US$1.30bn in CY2012, however the number of deals have increased by 26% to 222 deals. Sectors which got continued investors from fund managers were IT/ITES, healthcare and BFSI. The expected decline in the total investment value is perceived to be due to lower utilization of growth capital due to overall economic slowdown.

The PE investments in SMEs had declined. Now, looking towards the deal happened in Q4, CY2013, following were the key highlights

Few of the highlights on the Investments side in Q4, CY2013

Private Equity Investor	Company	Investment Amount (In million USD)	Sector	Region
IFC	Visakha Water Reclamation Infrastructure Pvt. Ltd.	21	Waste Water Management	Andhra Pradesh
Unilazer Ventures	Zivame	6	E commerce	Karnataka
Matrix Partners	TechMed Healthcare	NA	Healthcare	Tamil Naidu
Accel Partners & Ventureast	Portea Medical	8	Healthcare	Karnataka
Avenue Ventures	Vastushodh's project	6.5	Real Estate	Tamil Naidu

Source: DealCurry.com; NA-Not Available;

The number of early-stage start-ups attracting investment has increased, due to various factors such as the innovation assumed to be picking up in India SME space along with the lower returns in big ticket size investments in to energy and infra space. The two major sectors attracting PE investment in SMEs are the Healthcare and IT & ITeS with E-commerce being the upcoming segment.

Need for bridging the gap

Inadequate financing and market linkages constrain the growth of MSMEs. Financial institutions meet only one-fourth of the financing demand of micro, small and medium enterprises in India, and a sizeable part of this unfulfilled opportunity is viable, according to a study jointly undertaken by the International Finance Corporation and the Japanese government in Q4CY2012. The study estimates the overall funding shortfall for MSMEs at over US$400 billion in India. Formal sources are able to channel only US$140 billion to MSMEs.

The way forward

Despite the negative growth in PE investments in SMEs, it is undeniable fact that SMEs in India have great potential and given India being an emerging economy, SMEs would be a favored investment destination when the economy revives. Further, with expectation of the positive outcome in the general elections 2014 and subsequent pro industry policies, the growth of SMEs is expected to increase attracting new PE investments. Factors like information gaps and returns not being free of risk are stopping many investors from pumping money into the SME industry which would be addressed going forward with various steps like credit rating, SME exchanges, Credit bureau are already aiming towards the same.

Contributed by:
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Special Section

Interview with Mr Milind Kamble (Chairman – DICCI)

About DICCI

Dalit Indian Chamber of Commerce & Industry (DICCI) was established on 14th April 2005 to instill the spirit of entrepreneurship among Dalit youth to develop business leadership, thus empowering them to enter the business & industry sector as entrepreneurs and to carve their own niche and encourage them to contribute to the nation's economy through wealth creation and spread the spirit of enterprise to other fellow members. DICCI is actively involved in creating business opportunities for its members and empowering them through information and knowledge exchange.

Excerpts from the interview with the Chairman of DICCI, Mr Milind Kamble, are as under:

1. **1.Currently, how many entrepreneurs are part of your organization and how can a rising SC/ST entrepreneur become part of your organization and what are the key areas where you are able to help them?**

   DICCI has nationwide presence of 12 state chapters, 7 international chapters and over 3,000 members. An organization that started its journey in Pune, Maharashtra, today stands at a Pan-Indian and Global level. With chapters in different states, different countries ranging from UAE to Netherlands, DICCI has gone from being an idea to now being an organization with over 3,000 members and an international network.

   For admission as a member of the DICCI, a company or a firm can make an application in writing to the Head Office of DICCI on the prescribed form, which shall be signed by the applicant.

   Key areas where we are able to help them are Mentoring, Business Networking, Financial & Tax Management Assistance, Industry Linkages, Quality Management Services (QMS) certification Guidance, Training, Business Trade Fair, Conferences & Seminars, and Recognitions.

2. **Kindly tell us about your five year plan and how different are those from other organizations like NSIC, FICCI and CII?**

   NSIC, FICCI and CII play a key role in promoting the MSMEs and big corporates in India. However the challenges faced by SC/ST entrepreneurs are different from that faced by other entrepreneurs. SC/ST communities have been deprived from various opportunities such as education, healthcare, jobs, mainstream businesses, etc over the past 2000 years. They were kept apart from the main strata of the society. SC/STs got the first boost in 1950, when Republic of India was formed and they got a preferred chance to get education at par with others. Most of the entrepreneurs from these communities started their businesses post liberalisation of India economy in 1991. DICCI was established to instill the spirit of entrepreneurship among SC/ST youths to develop business leadership, thus empowering them to walk in step with the world. In coming years we plan to develop Skill Development Council, Entrepreneurship Development Programme, Help Line, Venture Capital Fund and Dalit Social Responsibility initiatives.

3. **Within short span of ten years, the organization has grown manifold – how difficult was the journey in terms of encouraging the people to join and work towards the goal and how were these overcome?**

   Building trust among entrepreneurs from different parts of the countries to come together for a common cause was one of the major challenges faced by us. We brought in well-known industry experts from different fields as our advisors to establish the trust among entrepreneurs. Providing various services to our entrepreneurs with limited resources were another key challenges faced by us, we got support from various like-minded people who supported DICCI to march towards its noble cause without expecting any benefits.

   As we chart out the future course of action, we confront many challenges in terms of fostering entrepreneurship among the community: a) availability of early-stage funding; b) Creating professional Entrepreneurship Development

Programs (EDPs) tailored for their needs without ignoring their social setting, and; c) helping existing Dalit entrepreneurs scale up their operations and grow.

4. **What are the various (financial/training etc) ways in which DICCI is able to help the entrepreneurs?**
As mentioned earlier the key areas where we are able to help them are Mentoring, Business Networking, Financial & Tax Management & Assistance, Industry Linkages, Quality Management Services (QMS) certification Guidance, Training, Business Trade Fair, Conferences & Seminars, and Recognitions.

Achievements in 10 years:

Showcasing talent through Expos and Trade fairs on a national/global platform: Since our inception, we have had several major trade fairs. Our guests included the titans of Indian industry and high-ranking government officials. Through this we have managed to successfully showcase Dalit entrepreneurial and business talent to the nation- through extensive media coverage we have now been able to showcase DICCI members to a global audience.

Connected over 100 of our vendors to mainstream industry: We have always maintained a simple dictum – 'we want connections, not concessions'. Through our hard work we have successfully managed to connect and integrate over 100 Dalit-owned enterprises into mainstream industry as vendors to major companies.

Provided the existing community of Dalit entrepreneurs with a sense of confidence: Through a continuous process of development and assistance we have provided Dalit entrepreneurs not only the connections needed for success, but also the confidence that they too are able to take their businesses to new heights and become mainstream members of Indian industry.

Become a source of inspiration to Dalit youth in India: Through our Pan-Indian presence we have been able to motivate and guide Dalit youth across the country to believe that they too can attain levels of success they had not previously imagined in the fields of business and industry.

Become an active player in National and Industrial policy making bodies: Through our activities and actions we have become active in the field of the national and regional policy decision making. We now have representation at the highest levels of industry through membership of the Chamber of Indian industry's National Council as well as the Planning Commission, Government of India.

Created the DICCI SME Fund: In our mission to facilitate the growth of Dalit enterprise, we have created the DICCI SME fund, a social impact fund that caters exclusively to SC/ST enterprises.

Received national recognition through four of our members receiving the Padma Shri Award from the Government of India: Our work has been recognized by the highest levels of Government with Mr Milind Kamble (Chairman – DICCI) and Mrs Kalpana Saroj receiving the prestigious Padma Shree Award in the field of trade and industry from the President of India in 2013 and Mr Rajesh Sariya and Mr Ravi Kumar Narra are recipient of Padma Shree for 2014.

5. **Who all can benefit from DICCI SME fund and how does it exactly works?**
Even after more than 6 decades of independence, SC/ST communities have maximum poverty level; SC/ST communities constitute 22% of population but 42% of poor. With reservation in education and employment, SC/ST community have shown significant improvement in education and employment levels. However, the entrepreneurs from these communities are not treated at par with entrepreneurs from other community.

In 2013, entrepreneurs from SC/ST communities owned 14% of MSMEs in India (MSME annual report, 2013). Given the global and domestic downturn, these companies are facing severe capital crunch situation. As MSMEs act as the primary employment generator, investing in these companies will create lot of job opportunities. Most of the developed world boasts of 70-80% employment through SGBs. In India MSMEs contribute to 40% of the total non-agricultural work force.

By investing in SC/ST entrepreneur run SGBs, we can create impact on Base of Pyramid (BoP) and SC/ST communities through financial inclusion, entrepreneurship, poverty reduction and capacity building. This will attract SC/ST youth towards entrepreneurship.

Financial inclusion: By providing constant source of income for 25,000 BoP and access to equity capital markets for SC/ST entrepreneurs by providing growth capital.

Entrepreneurship: Our SC/ST entrepreneurs could be the role models for the whole country to bring in educated youth to entrepreneurship.

Poverty reduction: Most of the direct and indirect employment may come from BoP for the portfolio companies. We have strategies in place to have well-diversified employee base for people from deprived communities as well as women.

Capacity building: Once SC/ST entrepreneurs get talent in-house as well as outsourced, the productivity and profitability will improve automatically.

Social budget: Once SC/ST entrepreneur-run businesses becomes INR1bn+ in revenue, its contribution to exchequer rises significantly that can fund part of social budget of Government of India.

6. **What is the strategy that DICCI is adopting to help MSMEs benefit from the formation of New Public Procurement Policy 2012?**

   DICCI has been instrumental in the formation of the New Public Procurement Policy 2012- assuring the Dalit entrepreneurial community with a massive market and a significant business opportunity. As a result, Government of India has set aside 4% of their annual procurement of goods and services to be sourced from SC/ST enterprises.

   We worked with Varhad Group to access the opportunity created by public procurement policy 2012. Mr. P. Chidambaram, Hon. Finance Minister, Govt. of India launched our joint report titled "MSME: The opportunity knocks". The research states that Public procurement in India through MSMEs is expected to reach INR28tn in FY20. Incremental cumulative opportunity for MSMEs should be INR17tn during FY14-20. It will give a boost to the SC/ST MSMEs through the earmarked procurement of 4% reserved for them. It is an INR3.4tn incremental SC/ST SME opportunity over FY14-20. It shall create huge business opportunities for SC/ST entrepreneurs, which will encourage more number of SC/ST youths to become entrepreneurs and ultimately bring them out of the social stigma and discrimination.

7. **What are DICCI's plans to make the domestic MSME players competitive in international market?**

   Quality products at competitive price, business networks and proper corporate governance are key to make our MSME players competitive in international market. We are providing Business Networking, Financial & Tax Management & Assistance, Industry Linkages and Quality Management services to make the MSME players competitive. We are also planning to conduct international trade fairs to develop international business network.

8. **What are the major setbacks that any player in the MSME segments faces and how crucial is the government's role in removing those setbacks and which are major initiatives taken to give a boost to these units?**

   Access to finance: SMEs are still majorly dependent of bank funding which works on the basis of turnover, profitability and collateral.

   Priority sector lending initiative by RBI is major step to increase the MSME's access to finance. However, most of the banks are not meeting the priority sector lending targets. Rerouting the surplus funds to Social funds will benefit the MSMEs. CGTMSE initiative by SIDBI is another major initiative to provide financial access to MSMEs without any collateral.

   Capacity building: 80% of the MSME's promoter time goes in business development and they are struggling to build capacity at their plant. Few industry-focussed initiatives by Government has helped the SMEs in those particular industry. For example, Cluster development initiatives undertaken by Ministry of textile to develop a cluster-based programme for capacity building in textile and clothing SMEs in across 20 clusters in the country.

9. **What are the key challenges faced by MSME units to access cheap finance and how can rating agencies help in getting it?**

   Lack of awareness of different sources of finance, inability to maintain profitability due to business cycle fluctuations and perceived credit risk by Banks due to poor corporate governance by MSMEs are major challenges faced by MSME.

   Credit rating will address the issue of perceived risk by Banks. We advise the MSMEs to strengthen balance sheet, aim at improving credit rating, improve transparency, build capacity and chase growth. There is enough funding available for growing companies though not enough such companies are available.

10. **Apart from bank funding, what are other major sources of finance?**

    Alternative channels like private equity, stock exchanges are still in the development stage though some exciting things like BSE SME exchange, ITP are emerging as viable and credible source of SME fund raising.

11. **What are your current key focus areas for the short term?**

    In short term, we are focussing to launch chapters in West Bengal, Bihar and Madhya Pradesh. By the end of 2014, we will complete the national level organization structure with chapters across the country.

    First close of DICCI SME Fund will also be done by the end of 2014 and it will start investing in SC/ST entrepreneur-run companies.

    In 2015 we are planning to conduct a national level trade fair at Pragati Maidan in New Delhi.

Learning

Comparative Study on MSME policies of Indian States

The Micro, Small and Medium Enterprise (MSME) sector is crucial to India's economy as there are as many as 29.8 million enterprises covering various industries and employing almost 69 million people. The sector includes 2.2 million women-led enterprises (approximately 7.4% of total) and approximately 15.4 million rural enterprises (51.8%). In all, the MSME sector accounts for 45% of Indian industrial output and 36% of Indian exports. Although 94% of MSMEs are unregistered, the contribution of the sector to India's GDP has been growing consistently at 11.5% a year, which is higher than the overall GDP growth of 8%. However, the sector has a varied contribution and growth story for different states of the country.

Objective of Study

This study by CARE aims to analyze the SME Sector performance of the few selected states of India on specific parameters and identify the unique initiatives and effective policies undertaken by these states to overcome the familiar constraints faced by SMEs like poor infrastructure, lack of adequate and timely access to finance and inadequate market linkages etc.

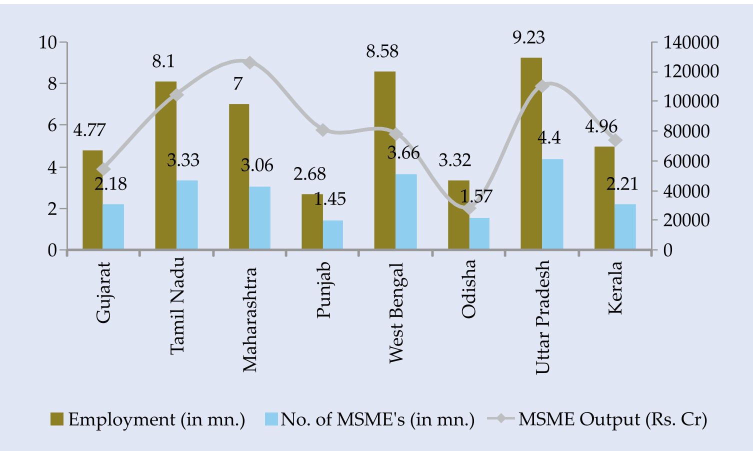
Scope of Study

The study covers a mix of eight developed and under-developed states of India having maximum concentration of MSME units. The study covers two states each from north, east, west and south zone. The states are further selected on the basis of highest number of MSMEs in these zones. To be more specific, the study covers the states like Gujarat, Maharashtra, Uttar Pradesh, Odisha, Kerala, Tamil Nadu, Punjab and West Bengal.

State-wise MSME productivity

The 10 leading states in terms of number of MSMEs in FY 2011-12 were Uttar Pradesh, West Bengal, Tamil Nadu, Maharashtra, Andhra Pradesh, Kerala, Gujarat, Karnataka, Madhya Pradesh and Rajasthan. We have covered eight of them in our study while excluding Karnataka and Rajasthan.

As observed from Table 1 below, there is a direct relationship between the number of MSMEs and employment generated. However, there is a significant gap in terms of the gross output. Maharashtra produced the maximum output despite standing at 4th position in terms of number of MSMEs. On the similar lines, Punjab was 4th best in terms of output despite having lowest number of MSMEs among the sample states and West Bengal stood at 5th position in terms of output in spite of 2nd position in MSME unit count.



Considering average productivity calculated as gross output divided by number of employment, Punjab ranks the highest followed by Maharashtra, Kerala, Tamil Nadu, Uttar Pradesh, Gujarat, West Bengal and Odisha. The average productivity in terms of Rs. Lakh per employee is tabulated as under:

North	East	South	West
Uttar Pradesh	**West Bengal**	**Tamil Nadu**	**Maharashtra**
1.87	1.35	1.98	3.56
Punjab	**Odisha**	**Kerala**	**Gujarat**
4.46	1.23	2.25	1.61

As evident from above, Punjab fares far better in terms of productivity while Odisha has the worst productivity. Now merely on the productivity front, we cannot jump on the conclusion that Punjab is the best and Odisha is the worst for investment/ manufacturing setup.

Punjab, primarily an agricultural state, has various sets of problems like power shortage, high land prices and high amount of drug/liquor usage among the youth which makes them relatively under-productive. On the other hand, Odisha has emerged as one of the hottest investment destination for new projects as per the data released by the Reserve Bank of India. The states such as Maharashtra, Kerala and Tamil Nadu have a large pool of skilled workforce which is primarily engaged in the knowledge-based industries like information technology and related sectors. Further, the states located near the sea like Gujarat, Maharashtra, Tamil Nadu and Kerala are major hubs of sea trade which also spur the growth of MSMEs in these regions.

States	Key MSME Industries
Uttar Pradesh	Food Processing, leather/ sports goods, tourism
West Bengal	Agro-based, textile, handicraft, sericulture
Tamil Nadu	Textile, leather, irrigation pump/ motor, agro-based,
Maharashtra	Engineering, electrical, food processing, chemicals, pharmaceuticals
Punjab	Textile, agro-based/ food processing, hosiery, energy
Odisha	Iron & steel, aluminium, handloom
Kerala	Rubber, coir, tourism, chemicals, fertilisers,
Gujarat	Textile, pharmaceutical, engineering, dyes & intermediates, diamond processing

In order to analyse the anomaly in the MSME productivity in the sample states, we have studied the different policies/ schemes in place in these states and divided such policies/ schemes under the below-mentioned five categories which are imperative for sustainable growth and development of any SME.

1. Infrastructure development
2. Business growth
3. Cluster development
4. Quality and Technological upgradation
5. Market development

1. Infrastructure development support

As has been pointed out in many studies on MSMEs, one of the most persisting constraints facing the sector is inadequate physical and economic infrastructure. Particularly, access to dependable supply of electricity has emerged the most crucial issue blocking the rise of productivity and output of small firms. To address this issue, the governments of various states have come up with different policies in addition to the support provided by the Central Government.

The below table summarizes the type of schemes offered by each of the State governments in brief-

Infrastructure Development support			
North	**East**	**South**	**West**
Uttar Pradesh	West Bengal	Tamil Nadu	Maharashtra
• Electricity duty exemption • Stamp duty exemption	• Capital investment subsidy • Refund of Value added tax • Reimbursement of Entry Tax • Refund of stamp duty and registration fee • Refund of CST	• Part-funding for approved infrastructure items • Rebate on stamp duty on plots in certain industrial estates	• Stamp Duty exemption, Electricity duty exemption to EOU/IT/BT units & Capital subsidy for IT Parks
Punjab	**Odisha**	**Kerala**	**Gujarat**
• VAT and CST incentive for Units with Fixed Capital Investment • Reimbursement for modernization	• Reservation of Industrial estates	• Part-funding for fixed capital investment with preference to women, SC/ST, young entrepreneurs	• Interest subsidy for SME • Additional subsidy to youth and women entrepreneurs

North region

Uttar Pradesh government offers exemption from Electricity duty for 10 years to all new units and exemption from stamp duty ranging from 50 to 100% depending upon the location of the unit. In Punjab, VAT and CST incentive (50% VAT+75% CST with maximum cumulative quantum of 50% of fixed capital investment) shall be available to new SMEs, having fixed capital investment from Rs.1 crore to Rs.10 crore, which have obtained term loan from a Financial Institution/Bank. The incentive shall be available only to units setup in Industrial Focal Points, Industrial Estates and approved Industrial Parks for a maximum period of 7 years from the Date of Approval. Also, the state government shall reimburse 50% cost for modernization of facilities.

East region

The government of West Bengal has divided the state into four zones. Depending on the zone location, an eligible micro/ small unit will be entitled to capital Investment subsidy in the range of 15% to 40%, subject to a ceiling of Rs.50 lakh for small enterprise, along with additional subsidy of 20% for all enterprises wholly owned by women, SC/ST and minority community. Further, an eligible MSME shall be given VAT refund in the range of 80-90%, for its approved project for 8 years or 75% of fixed Capital Investment whichever reached earlier as well as total refund of CST for 3 years from the date of commencement of commercial production. Also, MSMEs will be entitled to a refund of stamp duty and registration fee paid by it for the purpose of registration of documents within the State relating to the purchase of land and buildings for setting up of the approved project ranging from 25% to 100%. The government will also provide reimbursement of Entry Tax on plant and machinery available after beginning of commercial production by the unit as well as reimbursement of entry tax on procurement of raw materials for the initial 3 years to the MSMEs.

The Odisha government has also reserved 20% of area in all industrial estates for MSMEs. Further, Common Facility Centres (CFCs) set up by SPVs of MSME clusters shall be entitled for allotment of land on free-of-cost basis at locations earmarked for the purpose by Odisha Industrial Infrastructure Corporation (IDCO).

West region

Maharashtra government entitles MSMEs for 100% stamp duty exemption within the investment period for acquiring land and for term loan purpose. Further, the electricity duty exemption is offered to 100% EOU and IT/BT units for seven years and a capital subsidy of 20% on fixed capital investment in IT park, subject to ceiling of Rs.20 lakh, to be available to first 10 approved SME units in the notified IT Parks. The Government of Gujarat offers interest subsidy of upto 7% for micro enterprises and @ 5% for small and medium enterprises. Further, 1% additional interest subsidy shall be provided to youth having less than 35 years of age in case of the first project with a maximum limit of Rs.25 lakh per annum, for five years. Woman entrepreneurs will be accorded priority.

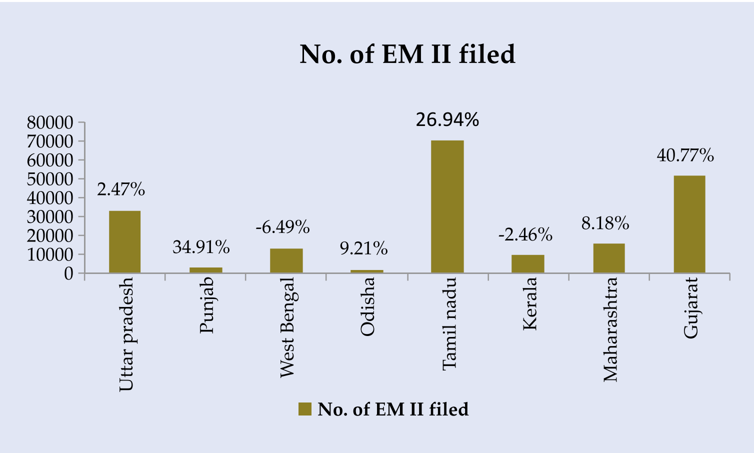
South region

Tamil Nadu government funds 20% of cost of approved infrastructure items with a maximum limit of Rs.1 crore and offers 50% rebate on stamp duty and registration charges for privately developed industrial estate. Further, 30% of the area shall be reserved for Micro Enterprises in Tamil Nadu Small Industries Development Corporation Limited (TANSIDCO) Industrial Estates and 20% of the area for Micro Enterprises in State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT) Industrial Estates. Kerala government provides 15% of fixed capital investment upto a limit of Rs.20 lakh and 20% of fixed capital investment upto Rs.30 lakh for women, SC/ST, young entrepreneurs.

Entrepreneurs Memorandum

Further, in order to encourage the unorganized units to register, the Ministry of MSME has simplified the registration process (replacing the earlier two-stage registration process with a one-step filing of memorandum).

MSMEs has shown consistent growth in terms of number of Entrepreneurs Memorandum (Part II) [EM-II] filed every year. Number of EM-II filed during 2007-08 in the District Industries Centres (DICs) across the country was 1.74 lakh which increased to 1.93, 2.14, 2.37 and 2.82 lakh during 2008-09, 2009-10, 2010-11 and 2011-12 respectively.



**Figures in percentage indicate CAGR during FY 2007-08 to FY 2011-12*

As can be witnessed above, both the states placed in extreme in terms of productivity (Punjab and Odisha) fared lowest among the group in terms of number of EM-II filed in FY 2011-12. This indicates that very less number of entrepreneurs/ industrialists are interested in setting up their business in these states. Furthermore, even on comparing the existing number of SMEs operating in these states, Punjab and Odisha fared at the lowest rank in the group. However, as per the report published by RBI in September 2013, in terms of the new investment proposals which got sanctioned by banks and financial institutions during FY 2012-13, Odisha has emerged as the top preferred destination. Odisha managed to get investors to commit to around Rs.53,000 crore investment, a 27% share of all-India investments which was a sharp rise from just over 6% in FY 2011-12.

Not only during FY 2011-12, Tamil Nadu has received the maximum number of EM-II in the last five years as it is one of the most industrialized state of India. It has a long coastline and is well connected to the major trade centres. However, in terms of the annual growth rate, Gujarat is far better wherein the number of EM-II filed has grown at a Compounded Annual Growth Rate (CAGR) of 41% during FY 2007-08 to FY 2011-12 as against 27% in Tamil Nadu. This high growth rate has also bridged the gap between the number of EM-II from less than half of Tamil Nadu in FY 2007-08 to almost three-fourth of Tamil Nadu and also the second best in FY 2011-12. The primary reason behind the high entrepreneurs' interest in Gujarat is the pro-active administrative set up, relatively transparent procedure of investment, efficient power sector and diversified industrial set-up.

Though Uttar Pradesh is well placed at third position in terms of EM-II filed, its position has actually worsened from the top state in FY 2007-08 as the growth in number of EM-II filed has remained stagnant.

2. Business growth support

For decades, the most dominant constraint facing the MSMEs has remained access to adequate and timely loan finance. This becomes more crucial during the growth stage of business where the financing needs of the enterprise rises. For the purpose, the state governments offer various incentives and funding support depending on the focus areas and industries to encourage growth of Business.

The schemes for business growth offered by various state governments have been tabulated below-

Business Growth Support			
North	**East**	**South**	**West**
Uttar Pradesh	West Bengal	Tamil Nadu	Maharashtra
• Part-funding for capacity expansion • Interest subsidy • Nivesh Protsahan Yojna	• Interest subsidy on term loan • Waiver on electricity duty • Power subsidy • Workforce welfare assistance	• Interest subsidy for technology upgradation/modernization • Capital subsidy on eligible P&M with additional subsidy for women, SC/ST • Employment generation subsidy & Subsidy on power consumption	• Industrial promotion scheme • Power tariff subsidy • Interest subsidy for electricity consumed • Additional incentive for food processing industry
Punjab	**Odisha**	**Kerala**	**Gujarat**
• Design clinic scheme for SME's • Electricity duty exemption	• Capital investment subsidy with additional subsidy for women, SC/ST etc.	• Additional incentives for certain priority industries	• Interest subsidy • Additional subsidy to youth and women entrepreneurs

North region

Uttar Pradesh government provides funding for purchase of Plant & machinery for enhancement of capacity and quality improvement @ 50% subject to a maximum of Rs.2 lakh and interest subsidy @ 50% subject to a maximum of Rs.0.50 lakh. Also, grant of interest-free loan shall be provided to new units having made fixed capital investment of Rs.5 crore or more in Food Processing Sector (Rs.10 crore or more in Eastern U.P. and Bundelkhand and Rs.25 crore or more in other districts) for 10 years under Nivesh Protsahan Yojna, which is repayable after 7 years. The amount of loan shall not exceed 10% of turnover or sum of the trade tax/ vat and central sales tax paid by the units. Further, it shall also offer scheme under which amount incurred for consultancy worldwide competition@ 50% is being provided by the government, subject to a maximum of Rs.0.50 lakh.

Government of Punjab is offering a scheme focused for students wherein the Design Clinic Scheme supports design work by reimbursing 75% of expenses incurred subject to maximum of Rs.1.5 lakh for final year student projects done for SMEs under the supervision of parent design Institutions. Further, 100% exemption from payment of Electricity Duty on Power, including Captive Power consumed by the same unit or exported to Punjab State Power Corporation, shall be available to new units for a maximum period of 7 years from the date of Approval within approved Industrial Focal Points, Industrial Estates and Industrial Parks.

East region

The Government of West Bengal will provide an interest subsidy in the range of 6% to 7.5% to SMEs and interest subsidy of 25% for medium enterprises (subject to a ceiling of Rs.175 lakh/year) for 5 to 7 years depending on the location of the units.

Further, an eligible micro, small or medium unit will be entitled to a waiver of electricity duty on the electricity consumed ranging from 50% to 100% (subject to maximum of Rs.25 Lakh per year for medium enterprise) for 5 years from the date of commencement of operation depending on the location, with 100% waiver for units owned by women, SC/ST and minority community. Further, Government has decided to provide a power subsidy of Rs.1.00 / Kwh for units in Zone A & B and subsidy of Rs.1.50 / Kwh for units in Zone C & D for 5 years subject to a ceiling of Rs.20 lakh per annum for small enterprises and Rs.30 lakh for medium enterprises. Also for workforce welfare assisstance, MSMEs will be entitled to a reimbursement of 100% in 1st year & 75% in next remaining years of expenditure incurred by it towards Employees State Insurance (ESI) and Employees Provident Fund (EPF). The reimbursement for Zones B will be for 5 years, Zone C for 7 years and Zone D for 9 years.

As per the policy of Odisha government, New Industrial Units belonging to MSME sector shall be entitled to capital investment subsidy of 10% of fixed capital investment subject to an upper limit of Rs.8 lakh only. SC, ST, PH, Women and Technical (Degree / Diploma holding) entrepreneurs shall be entitled to capital investment subsidy of 12% of fixed capital investment subject to an upper limit of Rs.10 lakh.

South region

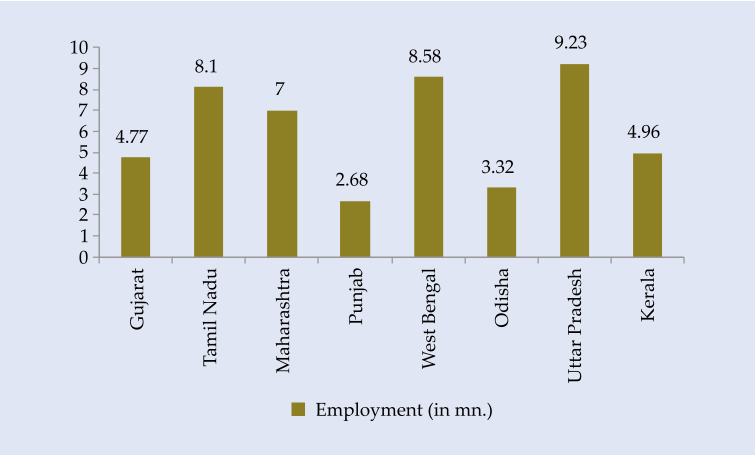
Tamil Nadu Government provides subsidy to the extent of 3% of the interest on term loan obtained for Technology upgradation/modernization scheme. Further, 15% capital subsidy is offered on the value of eligible plant and machinery subject to a maximum of Rs.3.75 lakh and 5% of Plant & Machinery cost as employment generation subsidy. Additional capital subsidy of 5% of Plant & Machinery cost shall be provided to women, SC/ST and differently-abled entrepreneurs. Also, 20% on power consumption charges for 36 months from date of new power connection shall be borne by the government. 25% of Plant & Machinery to promote cleaner environment and 25% on the generator sets upto 125 KVA capacity is being offered. As per the policy of Kerala Government, certain priority industries shall get additional 10% upto Rs.10 lakh.

West region

As per Maharashtra government policy, it shall offer i) Incentive equal to VAT on local sales + CST payable + 20% to 100% of ITC on eligible finished products. ii) Power tariff subsidy of Rs.0.50 to Rs.1 per unit shall be granted (depending upon location) for 3 years from the date of commencement of commercial production. iii) Interest subsidy shall be offered of maximum @5% upto the value of electricity consumed. iv) In Food processing sector, eligible units would be granted additional 10% incentives.

The Government of Gujarat offers interest subsidy of upto 7% for micro enterprises and @ 5% for small and medium enterprises. Further, 1% additional interest subsidy shall be provided to youth having less than 35 years of age in case of first project with a maximum limit of Rs.25 lakh per annum, for 5 years. Woman entrepreneurs will be accorded priority.

Employment Status



Source: MSME Annual Report 2012-13

As evident from above, the leading state in terms of employment in MSMEs is Uttar Pradesh whereas Punjab stands at last among these sample states.

State-wise Distribution of Debt Supply by Commercial Banks

The percentage share of lending to MSMEs as per the data available from RBI pertaining to year 2009-10 is as below:

State	Estimated Share (%)
Odisha	2.53
Uttar Pradesh	5.60
West Bengal	1.51
Tamil Nadu	12.82
Maharashtra	26.48
Gujarat	5.23
Kerala	3.82
Punjab	3.97
Total	**61.96**

Source: IFC Report

These eight states comprised almost 62% of the lending extended to the MSME sector by the commercial banks. Maharashtra and Tamil Nadu were the major beneficiaries in terms of the lending from the banks for the MSME sector.

3. Cluster development

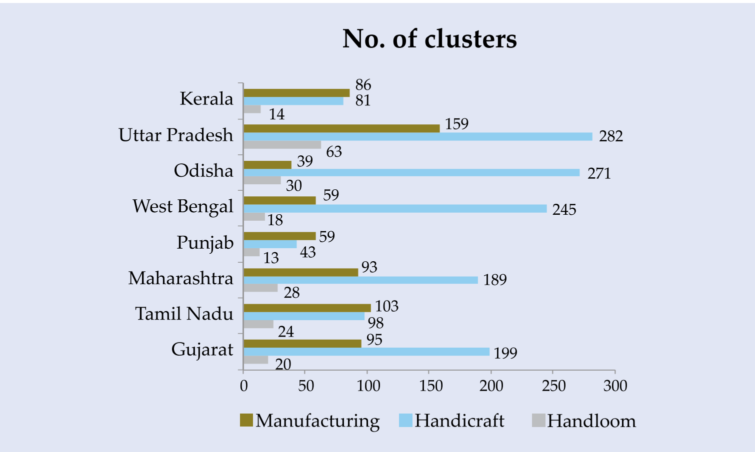
Cluster-based approach is increasingly being recognized as sustainable, cost-effective and an inclusive strategy to ensure competitiveness and improvement of MSMEs. As per the study '2010, Clusters in India' undertaken by Foundation for MSME clusters (FMC), It is estimated that there are around 6,400 clusters in India. A total number of 4,259 clusters have been mapped in its study. These clusters have been classified under the following typology:

(i) SME clusters – 1,086

(ii) Handloom clusters - 491

(iii) Handicraft clusters – 2,682

Considering the states selected in our study, the state of Uttar Pradesh has the largest number of 504 clusters of all types followed by 340 clusters in Orissa, 322 in West Bengal, 314 in Gujarat, 310 in Maharashtra, 225 in Tamilnadu, 181 in Kerala and 115 in Punjab . A state-wise presence of all types of clusters is shown in the graph given below.



Source: '2010, Clusters in India' by Foundation for MSME Clusters (FMC)

The list of key clusters present in the sample states is as below.

State	Key Industrial Clusters
Gujarat	Ship breaking, tile, pharma, dyes, plastic products, oil mills, diamond processing, textile processing
Kerala	Coir, rubber, powerloom, sea food processing
Maharashtra	Auto components, foundry, dal mills, readymade garments
Odisha	Rice mills, powerloom, spices
Punjab	Rice mills, footwear, auto components, machine tools
Tamil Nadu	Powerloom, rice mills, auto components
Uttar Pradesh	Leather products, powerloom, mechanical engineering equipment, electronic goods, toys
West Bengal	Wood products, handtools, artificial/real jewellery, locks

Source: List of SME Clusters in India (identified by UNIDO)

Considering the importance of MSMEs, the state governments have come up with schemes to enable development of clusters and providing necessary assistance.

Cluster Development			
North	**East**	**South**	**West**
Uttar Pradesh	West Bengal	Tamil Nadu	Maharashtra
• Selected 22 clusters for support under GOI's scheme	• Financial assistance for cluster development	• Mini Tool room scheme	No specific scheme
Punjab	**Odisha**	**Kerala**	**Gujarat**
No specific scheme	• Cluster development cell	No specific scheme	• Financial assistance for cluster development

North region

In Uttar Pradesh, 22 clusters are selected to provide infrastructural support and technological support under GOI's cluster development scheme which provides i) Diagnostic Study - Maximum cost Rs. 2.50 lakh ii) Soft interventions - Maximum cost of project Rs.25 lakh, with GoI contribution of 75% (90% for Special Category States and for clusters with more than 50% women/micro/village/SC/ST units). iii) Hard interventions i.e. setting up of CFCs – maximum eligible project cost of Rs.15 crore with GoI contribution of 70% (90% for Special Category States and for clusters with more than 50% women/ micro/village/SC/ST units).
Out of 22 clusters, five are Common Facility Centre (hard intervention) at Varanasi (Glass beads), Bhadohi (Carpet), Khurja (Pottery), Gorakhpur (Leather), and Meerut (Scissors).

In Punjab, there is no specific scheme floated by the state government to support the cluster development and follows the GOI's cluster development scheme.

East region

As per West Bengal's Policy, the State Government will provide financial assistance of up to Rs. 5 crore to establish common infrastructure facilities in industrial clusters such as road, power etc for each micro and small industrial cluster in Zone B and C and in Zone D, i.e. the backward areas ,this support will be upto Rs.10 crore.

In Odisha, a Cluster Development Cell is set up for the cluster development in the state. To promote SPVs in MSME clusters, the SPVs shall be given the status of new small-scale industrial units for the purpose of availing fiscal and non-fiscal incentives.

South region

In Tamil Nadu, mini Tool Room of 25% project cost upto Rs.1 crore shall be provided.

West region

In Gujarat, assistance of upto 80% of project cost (including assistance from GoI, with a ceiling of Rs.10 crore shall be provided per cluster for a period of 3 to 5 years. If the assistance for cluster development is obtained under the Cluster Development Scheme of GoI, the total benefit under both the scheme shall not exceed 80% of the project cost.

4. Quality and Technological upgradation support

The type of schemes offered for quality and technological upgradation by each of the states are summarized in the table below-

Quality and technological upgradation support			
North	**East**	**South**	**West**
Uttar Pradesh	West Bengal	Tamil Nadu	Maharashtra
• Financial assistance for ISO/ISI certification	• Standard quality compliance • Subsidy for Intellectual property (GI / Patent registration)	• Financial assistance for obtaining patents	• Support for quality certification measures • Incentives for credit rating of MSMEs • Subsidy for technology upgradation • Financial Support for patent registration
Punjab	**Odisha**	**Kerala**	**Gujarat**
• Financial assistance for quality certification	• Reimbursement of technical knowhow cost • Clean development mechanism	• Financial assistance for technology upgradation	• Grant for technology acquisition • Support for quality certification & patent registration

North region

Uttar Pradesh government provides 50% (subject to a maximum of Rs.75,000) of amount incurred for obtaining ISO/ISI certification.
Punjab government provides 75% of expenses incurred on quality certification measures upto a maximum of Rs.75,000.

East region

In West Bengal, a further assistance of 50% of cost upto a maximum of Rs.5 lakh will be provided for Standard quality compliance e.g. obtaining certification/accreditation like ISO-9000, ISO-14000, ISO-18000, Social Accountability Standards etc. Also, the State Government will provide consultancy and facilitation services for identification and registration of Geographical Indicators (GI) of items alongwith reimbursement of 50% of expenditure for obtaining patent registration subject to a maximum of Rs.5 lakh.

In Odisha, new MSMEs are eligible for reimbursement of 50% of cost of purchase of technical know-how up to Rs.1 lakh in case of indigenous technology and up to Rs.5 lakh in case of imported technology. The state government shall endeavour to promote adoption of Clean Development Mechanism (CDM) and related technologies by the MSMEs. The government subsidized consultancy services for adoption of CDM by the MSME to the extent of 50% of the charges or Rs.25,000/- whichever is less.

South region

In Tamil Nadu, i) Financial Assistance of upto 50% of expenditure is being provided for obtaining patents, subject to maximum of Rs.2 lakh ii) Assistance is given upto 50% of expenditure incurred for obtaining trademark subject to maximum of Rs.25,000.

In Kerala, 10% of fixed capital investment (upto Rs.10 lakh) is being provided for technology upgradation purposes.

West region

In Maharashtra, i) 75% of expenses incurred on quality certification measures shall be provided by the government ii) Incentives for credit rating of MSMEs shall be offered, where 75% of cost for getting a credit rating will be subsidized iii)

5% subsidy shall be provided for technology upgradation and 25% subsidy on capital equipment for cleaner production measures upto ceiling of Rs.25 lakh and Rs.5 lakh respectively. iv) 75% of expenses incurred on Patent registration shall also be provided.

In Gujarat, i) 50% of cost of quality certificate shall be provided by the government, within overall ceiling of Rs.6 lakh in 5 years, with maximum of three certificates in the Scheme ii) Grant at the rate of 50% of cost of technology acquisition shall be offered, including royalty payments for the first two years, subject to maximum of Rs.1 crore per technology. iii) Financial assistance shall be provided of upto 50% of expenditure incurred for obtaining patents, subject to maximum of Rs.10 lakh for obtaining domestic patents and Rs.25 lakh for obtaining international patents. Maximum five patents per unit over a 5 years period will be eligible.

5. Market development support

Since most SMEs do not have easy access to capital and have to invest a larger amount of their funds in production activities, they do not have any surplus funds left for marketing activities. Further, even with availability of funds, the importance of marketing is not recognized by most of them. Thus, the government provides special schemes wherein SMEs are specially provided assistance solely for their marketing activities.

Some of the schemes provided by the governments of various states are listed below-

Market Development Support			
North	**East**	**South**	**West**
Uttar Pradesh	West Bengal	Tamil Nadu	Maharashtra
No specific scheme	No specific scheme	• Waiver on Earnest Money Deposit • Reimbursement of hall rent for conducting exhibition by MSME Association	No specific scheme
Punjab	**Odisha**	**Kerala**	**Gujarat**
• Dedicated annualized fund for marketing, cluster development • Market development support for national/State/local level associations	• OSIC will act as nodal procurement agency	No specific scheme	• Assistance to MSME units & industries for participation in international fairs

North region

In Uttar Pradesh, i) 60% of Stall charges shall be paid by government, upto maximum of Rs.1 lakh for one fair/exhibition, ii) In Air Fare, 50% by economy class maximum upto Rs.50,000/- per fair for one person shall be reimbursed. iii) 75% of total expenses shall be reimbursed on air-freight courier for sending samples max. assistance up to Rs.50,000/- per year. iv) Also, Subsidy shall be offered on freight charges.

In Punjab, dedicated annualized fund of Rs.150 crore will be created for the purpose of creation & up-gradation of Industrial Infrastructure, to make contributions as a State share for the Central Government Schemes like Cluster Development, Common Facility Centers, R & D, Marketing, etc ii) 50% of the expenses in case of National level Associations, subject to a ceiling of Rs.2 lakh would be met by GOI's assistance iii) 25% of the cost would be borne by the concerned State/Regional/ Local Level Association. The remaining 75%, subject to a ceiling of Rs.1 lakh would be met by GOI's assistance.

East region

In Odisha, Odisha Small Industries Corporation Ltd. (OSIC) will act as nodal procurement agency of the State Government Departments and Agencies under their control. Bulk orders for procurement of goods and services shall be routed through OSIC. While acting as a consortium leader of local MSMEs, OSIC shall be entitled to service charges not exceeding 1% of the order value from the concerned units. ii) The local MSEs registered with respective DICs, Khadi, Village, Cottage

& Handicraft Industries, OSIC and NSIC shall be exempted from payment of earnest money and shall pay 25% of the prescribed security deposit while participating in tenders of Government Departments and Agencies under its control.

South region

In Tamil Nadu, i) 100% waiver on Earnest Money Deposit shall be provided ii) 50% Reimbursement of hall rent shall be provided for conducting exhibition by MSME Association.

West region

In Gujarat, i) Financial assistance shall be provided to MSME units for participation in International Trade Fair outside India @ 50% of total rent of Stall or Space paid to organizer and cost of product literature, catalogue and display material, with maximum of Rs.2 lakh. ii) Assistance to Industries Association for participation in international trade fair shall also be provided as Gujarat Pavilion outside India @ 50% of total rent, with maximum of Rs.10 lakh.

Conclusion

The factors such as the level of industrialisation, infrastructure setup and the availability of natural resources, are the few major determinants of the type of industries in the region. The central government as well as the state government have various schemes for promoting the MSME sector, which is crucial to the growth of any country. However, it is difficult to determine the effectiveness of these schemes as many SMEs are even not aware about many government policies and even it is very difficult to get the guidelines of many government policies. Also small entrepreneurs do not have much of expertise in various company laws and taxation policies and also do not want to go to the legal experts or CA because of the high cost involved. Hence, there is a need to minimize the paper work in order to pass on the benefit to the larger set of SMEs.

Further, due to lack of transparency and appropriate mechanism, it is difficult to determine the efficiency of these states in terms of benefits being availed by MSMEs under the offered schemes. Though each state is different from the other in terms of its employable workforce, regional diversity, key resources etc, we observe that there is lack of focused schemes for promotion of particular industries or schemes promoting utilization of key resources available in the state. Hence, the state governments should concentrate on promoting the growth of MSMEs through focused approach and assess the status and requirement of their SMEs, and offer such schemes, which would encourage setting up more number of MSMEs and would further, help them to grow. Further, they should strive to bring in more transparency in availability of data pertaining to the MSMEs which would also help them as well as other policy makers in monitoring the effectiveness of these schemes.

Contributed by:
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Higher rated MSMEs stayed resilient amid adversity: CARE Study

Overview

Micro, Small & Medium Enterprises (MSMEs) have been playing a pivotal role in the country's overall economic growth and have achieved sturdy progress over the last couple of years. However, at the present time, MSMEs have been hard hit by the global crisis. Further, on a domestic front as well the prolonged economic slowdown together with high inflation, rising lending rates and substantial depreciation of the domestic currency against all major foreign currencies are putting an extra burden on these small entities.

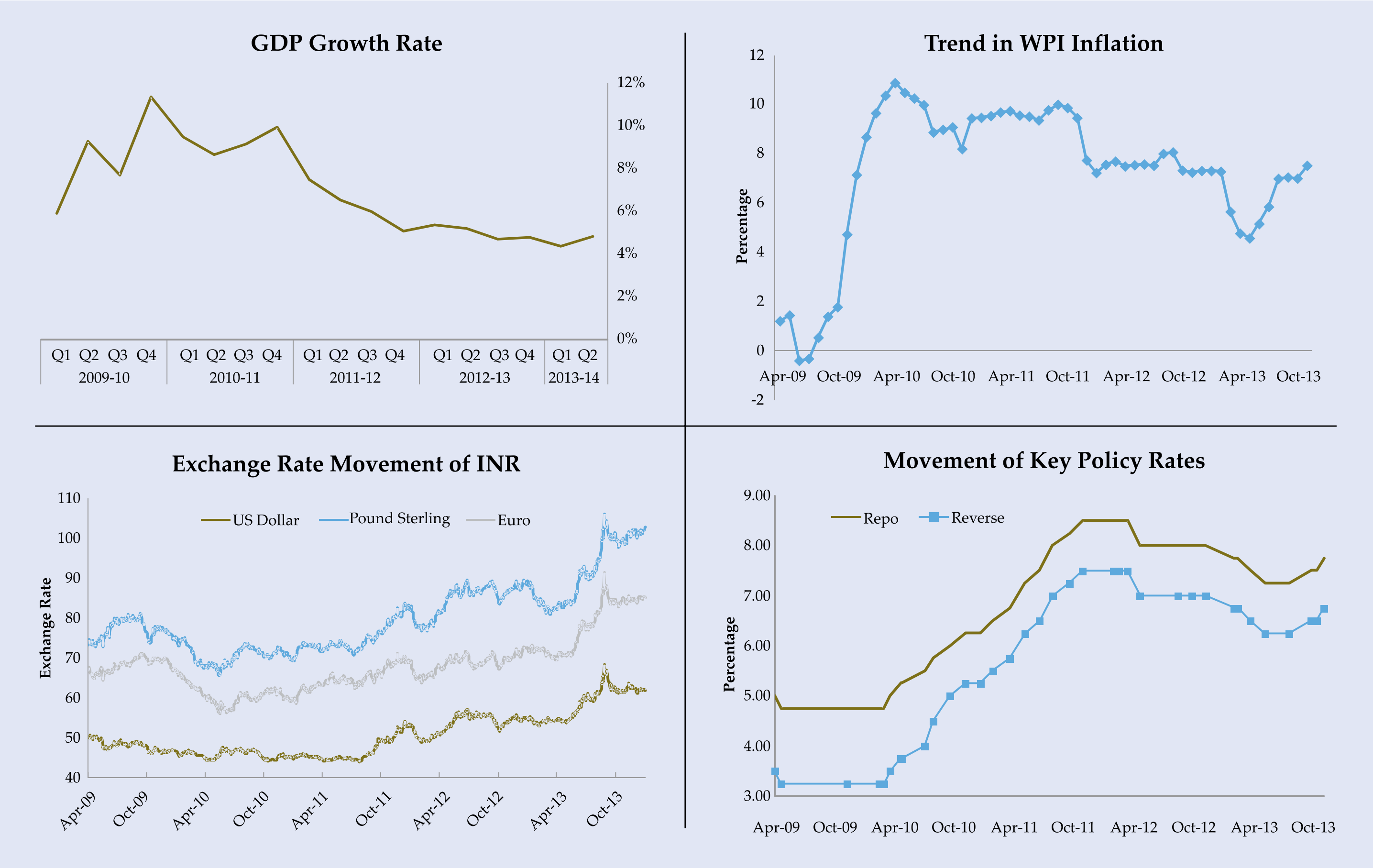


Figure 1; Source: Reserve Bank of India

In this tough time the key challenges that they face are:

- difficulty in downsizing the business as they are already small;
- less diversified;
- have lower capitalization;
- heavily dependent on credit;
- fewer financing options and
- Many do not have credit rating.

Sample Selection and Scope of Study

With an objective to assess the financial impact of the ongoing economic turbulence on the MSMEs during the past four financial years ended FY13 CARE has undertaken this study.

The study covers the analysis of 550 CARE rated MSMEs which are operational for at least past four years and has total operating income (TOI) up to Rs.100 crore and total debt up to Rs.50 crore in the financial year ending FY13.

The study covers comparison of the key financial ratios of such entities within different rating categories and also analyses the trend of financial performance of MSMEs over the past four years ended FY13.

Sample Distribution

Out of total sample size of 550 CARE rated entities, 87% of the entities belong to manufacturing sector, 7% to service sector and rest 6% belong to the wholesale and retail trading activities. Further, 75% of the entities fall under the sub-investment grade rating category (i.e entities having credit rating of 'CARE BB+' and lower) while only 25% fall under the investment grade rating category (i.e rated 'CARE BBB-' and higher).

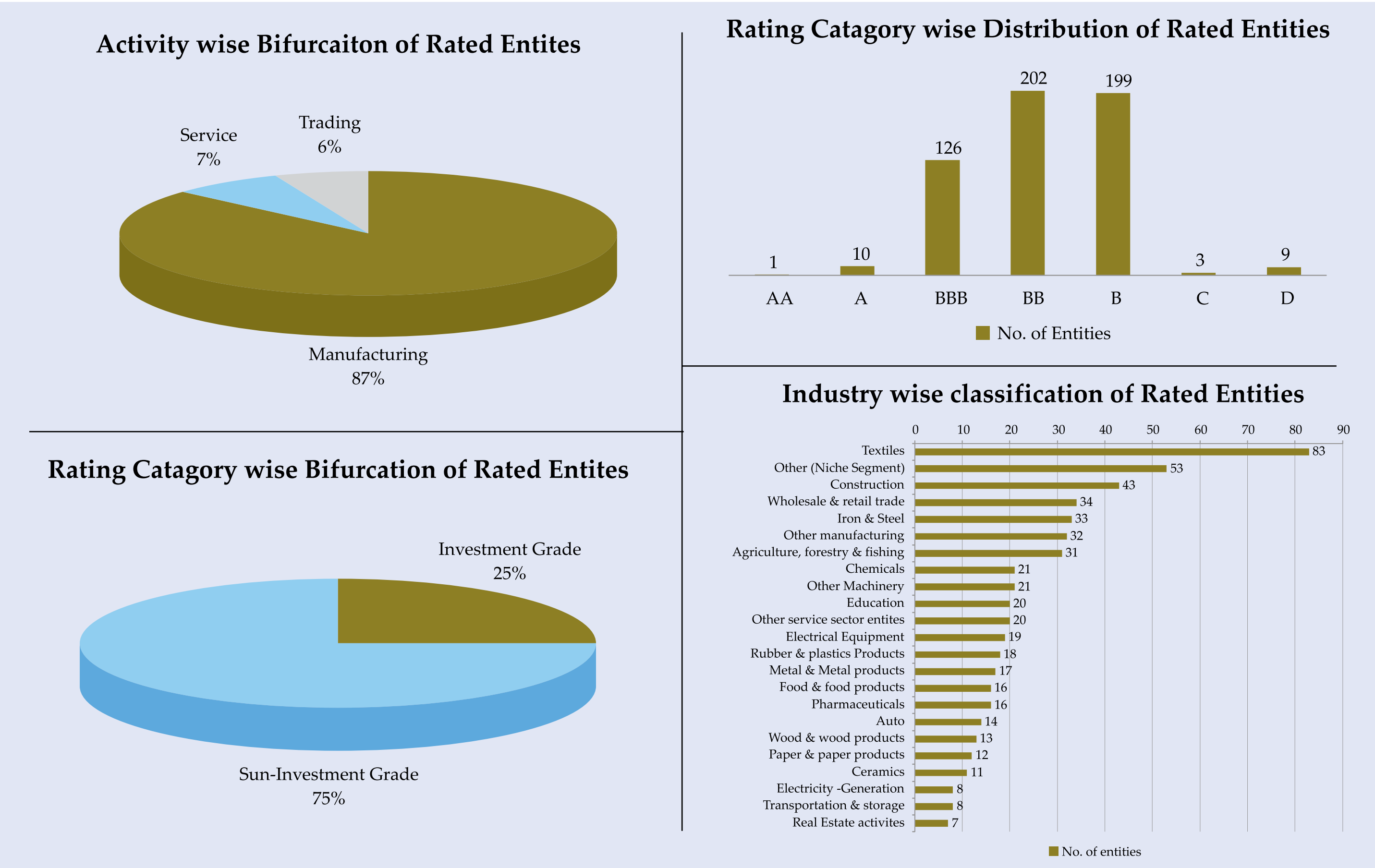


Figure: 2

MSME performance summary:

Exhibit 1: Aggregate Metrics by Rating Category

Financial Parameters/Rating category	Investment grade category					Sub-investment grade category				
Financial Year	**FY10**	**FY11**	**FY12**	**FY13**	**Change**	**FY10**	**FY11**	**FY12**	**FY13**	**Change**
	Aggregate Details									
TOI (Rs.Crore)	5,856	7,028	7,645	8,184	12%	11,394	14,734	17,174	18,624	18%
Total Debt (Rs.Crore)	2,344	2,742	2,679	2,611	4%	4,367	5,154	6,039	6,581	15%
Networth level (Rs.Crore)	2,966	3,528	4,130	4,668	16%	2,968	3,771	4,087	4,606	16%
Gross Asset Block (Rs.Crore)	4,581	5,220	5,351	5,828	8%	4,467	5,165	5,835	6,590	14%
	Median Ratios									
PBILDT Margin (%)	13.89	15.30	15.00	14.61	72 bps	7.36	7.73	8.12	7.84	48 bps
OPBT Margin (%)	7.20	7.90	7.56	6.11	-109 bps	1.58	1.55	1.56	1.50	-9 bps

APAT Margin (%)	5.91	5.78	5.29	4.84	-107 bps	1.13	1.17	1.18	1.10	-3 bps
Debt to Equity ratio (times)	0.25	0.31	0.26	0.25	0 bps	0.37	0.49	0.52	0.49	12 bps
Overall Gearing (times)	0.77	0.78	0.74	0.67	-10 bps	1.76	1.72	1.87	1.76	-
TDGCA (times)	3.00	3.25	3.00	2.90	-10 bps	8.19	8.73	9.04	9.08	90 bps
PBILDT to Total Debt (times)	0.48	0.44	0.49	0.45	-2 bps	0.21	0.22	0.22	0.23	3 bps
Interest Coverage (times)	4.74	4.90	4.35	3.83	-91 bps	2.10	2.11	1.95	1.97	-13 bps
Working Capital Borrowings/ NWC (%)	29	38	35	35	6 %	53	57	60	59	6 %
Working Capital Borrowings/ Total Debt (%)	36	41	45	43	7 %	45	55	56	58	14 %
Gross Current Asset (days)	107	116	125	134	27 days	108	113	121	131	23 days
Operating Cycle (days)	56	68	81	77	21 days	65	72	80	84	19 days

Exhibit 1 presents the changes in the key financial parameters over the past four years ended on FY13 for sample entities having investment grade and sub-investment grade ratings.

Key Findings:

- Decent Growth in the Total Operating Income but decline in the net profit margins

  It is interesting to observe that the growth of sub-investment grade entities was more than investment grade entities. While the aggregate income of all the entities having investment grade ratings grew at a Couponed Annual Growth Rate (CAGR) of 12% during FY10-FY13, the entities having sub-investment grade rating reported a decent CAGR of 18% over the same duration.

  On the profitability front, there has been improvement in PBILDT margin of both investment grade entities as well as sub-investment grade entities, however the volatile foreign exchanges rates and high interest rates seems to have take a toll on the operating profit before tax margin and the net profit margin.

- Consistent increase in the working capital requirements at a time when interest rates are also at an elevated level

  All the MSME entities irrespective of rating band have been badly affected on liquidity front. Majority of the MSMEs are procuring material from large suppliers which extends shorter credit period and in many cases they ask for the advance payment or payment on delivery basis. However, on the other hand, MSMEs are required to extend longer credit to their customers due to their lower bargaining power. Further, majority of them are operating in a fragmented and highly competitive industry where the product differentiation is very low, thus in many cases MSMEs try to attract its potential customers by way of offering longer credit period.

  The study also shows that the working capital intensity has increased during FY10-FY13 as reflected by deterioration in operating cycle by 21 days for investment grade entities and 19 days for sub-investment grade due to the elongated inventory holding and receivables period. Increased scale of operations coupled with elongated operating cycle had a multiplier effect on the working capital requirements of MSMEs. Furthermore, consequent to the increase in the lending rates by the banks over the past four years, the borrowing cost has also gone up. Hence, the critical issue for such MSMEs was to decide the source of financing to fund the growing working capital requirement.

- Investment grade entities managed their liquidity efficiently

  It was observed that due to higher capitalization level and comparatively better cash flows, the investment grade entities have managed to fund majority of their incremental working capital requirements through internal accruals and accumulated reserves as against the sub-investment grade entities having low capitalization and thin profitability. This can be seen from a comfortable and consistently lower median W.C Borrowing/Net working capital (NWC) ratio of 35% as against 59% for the sub-investment grade entities.

  While on one hand, the investment grade entities managed to restrict the excessive use of working capital borrowings as reflected by the proportion of working capital borrowings in the total debt of 43% in FY13. On the other hand, the proportion of working capital borrowings in the total debt has rapidly increased from 45% in FY10 to 58% in FY13 for the sub-investment grade entities on account of their heavy dependence on the bank borrowings to fund the incremental working capital requirements.

- Investment grade entities were able to maintain better capital structure

  Despite the challenging macro-economic environment, the majority of the investment grade entities have managed to maintain comfortable capital structure by way of going-slow as far as new capex plans are concerned. During FY10-FY13, the CAGR of the new asset additions on an aggregate level has remained modest at 8% as against 14% in case of sub-investment grade entities. It seems that, rather than going for major expansion in the uncertain times, investment grade entities have chosen to invest the cashflows to reduce the dependence on the debt to the extent possible. Hence, over the past four financial years ending FY13, the median gearing ratio stood comfortable at 0.67 for investment grade entities as against 1.76 times for sub-investment grade entities.

- Sub-investment grade entities have weak debt servicing capacity

  The study reflects that the debt coverage indicators of the sub-investment grade entities have worsened in past four years as reflected by the median total debt to gross cash accrual (TDGCA) ratio of 9.08 times as against 2.90 times for the investment grade entities. Further, the interest coverage ratio has also deteriorated over the past four years making sub-investment grade entities more vulnerable to any further weakness.

Exhibit 2: Aggregate Metrics by Rating Category

	Median Ratios for FY13			
Financial Parameters/Rating category	**Investment grade**		**Sub-investment grade**	
	A	**BBB**	**BB**	**B**
PBILDT Margin (%)	30.73	13.77	8.62	6.68
OPBT Margin (%)	18.50	5.40	2.27	0.99
APAT Margin (%)	13.42	4.57	1.73	0.77
Debt to Equity ratio (times)	0.06	0.29	0.48	0.51
Overall Gearing (times)	0.10	0.74	1.59	2.21
TDGCA (times)	0.54	3.19	6.86	12.54
PBILDT to Total Debt (times)	1.23	0.43	0.26	0.20
Interest Coverage (times)	15.74	3.62	2.19	1.73
Working Capital Borrowings/ NWC (%)	-	38	56	62
Working Capital Borrowings/ Total Debt (%)	7	45	53	62
Gross Current Asset (days)	162	135	138	129
Operating Cycle (days)	84	78	83	86

Exhibit 2 presents the median ratios of sample entities falling under the investment grade category and sub-investment category for the year ended FY13.

- High rated entities managed to maintain better financial profile

  It is observed that, despite the weaker macro-economic scenario the investment grade entities have reported healthy profitability margins during FY13. Their solvency position as reflected by the median long-term debt/ equity ratio and median gearing ratio has also remained very strong as on March 31, 2013 as against non-investment grade entities. It is very much evident from the median interest coverage ratio that lower rated entities have comparatively much lower level of operating profits available to them to cover the interest obligations as compared to higher rated entities and hence any further increase in the interest cost or decline in operating profits could challenge their ability to serve the debt obligations on time.

Contributed by:
***Ruchir Kapadia**, Dy. Manager*

Rating Guide

Rating Approach for SME / MSE Ratings

Background

SME (Small and Medium Enterprises) segment plays a very vital role in the economic development of our nation. On the other hand, credit risk assessment in this segment requires a specific approach as the factors affecting the creditworthiness are somewhat different compared with large corporate entities. Hence, to further support the growth for this sector and help the investors to determine the relative creditworthiness of entities belonging to this segment a need for separate rating product was felt. Accordingly, CARE introduced SME ratings in 2006, which are intended solely for Small and Medium Scale Enterprises. Furthermore, CARE has signed a Memorandum of Understanding with National Small Industries Corporation Limited (NSIC) to introduce the NSIC – CARE Performance and Credit Rating for MSEs. This is a special rating product for units registered as MSEs.

SME Rating

SME Rating indicates the relative level of creditworthiness of an SME entity, adjudged in relation to other SMEs. It is an issuer-specific rating reflecting the overall general creditworthiness. It is a one-time assessment of credit risk of the rated entity in comparison with the other SMEs.

NSIC-CARE Performance and Credit Rating for MSE entity

This rating indicates the relative level of financial strength and performance capability of an MSE entity compared with other MSEs. It is an issuer-specific rating and not a loan/bank facility-specific rating. It is a one-time assessment of the rated entity. This rating helps MSEs to obtain quicker and cheaper credit, facilitate capability assessment of MSEs by their clients and help MSEs obtain leverage from the parties in the supply chain. The Indian Bank Association (IBA) has been involved in formulating this scheme. The government has subsidized the rating fees for this rating up to 75%, enabling MSEs to get the rating at a lower cost.

Rating Methodology

The rating exercise would take into account the industry dynamics, operational performance, financial risk characteristics, management capability and the future prospects of the entity for arriving at the overall risk profile of the SME unit. A brief discussion about key criteria is given below:

Industry Dynamics

No SME unit can isolate itself from the impact of industry dynamics. The industry parameters that affect an SME unit would include overall demand-supply scenario, level of entry barrier, competition level, availability of substitutes and technological trends and government support to the sector, cyclicality and seasonality of the industry. Therefore, CARE believes that promoters' ability to manage the business on industry impact is very crucial.

Operational performance

Against the backdrop of the industry, CARE assesses the entity's operating strengths and weaknesses vis-a-vis its competitors. Many SMEs have inherent strength and relatively strong positioning (including market share) in their business segment, which is considered as credit positive.

For assessing the business risk, long-term sustainability of the business model is very important. Many SME units are part of some large groups. In that case, the entity's importance and positioning within the group, its inter-linkages of operations and transaction transparency are also evaluated.

In order to assess the smoothness of functioning of the day-to-day operations, timely availability and sufficiency of raw materials, manpower, utilities are analyzed with the major focus on locational and technological edge over others. The entity's initiatives for clean and green environment are also evaluated, during the site visit.

Business strength is derived by assessing the customer profile, product profile, revenue mix and bargaining power with the stakeholders. An interaction with key customers and suppliers also provides input for strength of relations with the rated SME unit. Depending on the category of the product, a wide distribution network would be essential to gain competitive advantage.

Financial risk analysis

CARE believes that the quality of accounts is of prime importance as a significant part of financial risk analysis is based on the reported financial statements, disclosures and information submission. Audited financial results give more comfort than the unaudited/provisional results. CARE believes that among the SME units, limited companies have better accounting & disclosure systems as they need to follow regulatory and specific ICAI guidelines. CARE also believes that in specific legal entities, viz, partnership and proprietorship firms, the risk of withdrawal of capital exists.

CARE evaluates financial flexibility (through gearing ratios, debt protection ratios and hybrid ratios), liquidity (measured by current & quick ratio, proportion of liquid assets, operating cycle, working capital management, cash flow from operating activities, etc), business efficiency & profitability (indicated by turnover ratios, profitability ratios, return ratios, growth ratios, etc). While evaluating the gearing ratios for SME units, CARE also sees the proportion of bank funds (excluding unsecured loans by the promoters, friends and relatives) as dependency on external funds may be lesser in certain SME entities, which is considered as a credit positive.

In order to evaluate the track record and relations with the banks, CARE team interacts with the bankers/lenders to know the overall conduct of account. Cash flow analysis is the most important parameter for assessing the creditworthiness.

Management capability

CARE critically evaluates the quality of management as one of the most important parameters that supports the credit strength of an SME unit. CARE team interacts with the SME promoters/key management personnel for understanding their business insight, vision, future growth strategy and approach towards the perceived risk factors. Most SMEs are family-managed entities and highly dependent on single person. To assess the depth of the management, CARE analyses the quality of the second line management, succession planning, organization structure and internal control systems.

The promoter's experience in business (including within the relevant industry sector) and track record of operations of the rated entity would act as a key criteria for assessing the management competence. CARE believes that the management having experience of several business cycles and familiarity for project implementation would have an edge. The management's skill to expand clientele, new trade initiatives and level of priority to the finance function are equally vital.

Project risk analysis

High level of project risk can also affect the financial strength of an SME unit, which can be assessed by project feasibility, size, and project gearing and stabilization issues, post implementation. CARE believes that the promoter's track record in project implementation and project status including financial closure is equally vital.

The rating outcome is ultimately an assessment of the above factors and their linkages to arrive at the overall assessment of credit strengths and weaknesses by taking into account the industry's cyclicality. While the methodology encompasses comprehensive technical, financial, commercial, economic and management analysis, credit rating is an overall assessment of all aspects of the issuer.

Disclaimer

CARE's MSE rating is an independent opinion on performance capability and financial strength. The rating is a one-time exercise and it will not be kept under surveillance. The validity of the rating is one year from the date of provisional communication of rating, subject to no significant changes / events occur during this period that can materially impact the operational and financial parameters of the entity. The rating is not an audit and also not a recommendation for entering into any transaction with the entity. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information.

NSIC-CARE MSE Rating Scale & Definitions

Rating Matrix		Financial Strength		
		High	Moderate	Low
Performance Capability	Highest	SE 1A	SE 1B	SE 1C
	High	SE 2A	SE 2B	SE 2C
	Moderate	SE 3A	SE 3B	SE 3C
	Weak	SE 4A	SE 4B	SE 4C
	Poor	SE 5A	SE 5B	SE 5C

Definitions:

SE 1A	Highest Performance capability: High Financial strength. Prospects of performance are the highest and the entity has high capacity to meet its financial obligations.
SE 1B	Highest Performance capability: Moderate Financial strength. Prospects of performance are the highest. However, the entity has moderate capacity to meet its financial obligations.
SE 1C	Highest Performance capability: Low Financial Strength. Prospects of performance are the highest. However, the entity has low capacity to meet its financial obligations.
SE 2A	High Performance capability: High Financial strength. Prospects of performance are high and the entity has high capacity to meet its financial obligations.
SE 2B	High Performance capability: Moderate Financial strength. Prospects of performance are high. However, the entity has moderate capacity to meet its financial obligations.
SE 2C	High Performance capability: Low Financial Strength. Prospects of performance are high. However, the entity has low capacity to meet its financial obligations.
SE 3A	Moderate Performance capability: High Financial strength. Prospects of performance are moderate. However, the entity has high capacity to meet its financial obligations.
SE 3B	Moderate Performance capability: Moderate Financial Strength. Prospects of performance are moderate and the entity has moderate capacity to meet its financial obligations.
SE 3C	Moderate Performance capability: Low Financial strength. Prospects of performance are moderate. However, the entity has low capacity to meet its financial obligations.
SE 4A	Weak Performance capability: High Financial strength. Prospects of performance are weak. However, the entity has high capacity to meet its financial obligations.
SE 4B	Weak Performance capability: Moderate Financial Strength. Prospects of performance are weak. However, the entity has moderate capacity to meet its financial obligations.
SE 4C	Weak Performance capability: Low Financial Strength. Prospects of performance are weak and the entity has low capacity to meet its financial obligations.
SE 5A	Poor Performance capability: High Financial strength. Prospects of performance are poor. However, the entity has high capacity to meet its financial obligations.
SE 5B	Poor Performance capability: Moderate Financial Strength. Prospects of performance are poor. However, the entity has moderate capacity to meet its financial obligations.
SE 5C	Poor Performance capability: Low Financial Strength. Prospects of performance are poor and the entity has low capacity to meet its financial obligations.

SME Rating Scale & Definitions

CARE SME RATING SYMBOLS& DEFINITIONS

CARE SME Rating	Definition
CARE SME 1	The level of creditworthiness of an SME, adjudged in relation to other SMEs is the **Highest**
CARE SME 2	The level of creditworthiness of an SME, adjudged in relation to other SMEs is **High**
CARE SME 3	The level of creditworthiness of an SME, adjudged in relation to other SMEs is **Above Average**
CARE SME 4	The level of creditworthiness of an SME, adjudged in relation to other SMEs is **Average**
CARE SME 5	The level of creditworthiness of an SME, adjudged in relation to other SMEs is **Below Average**
CARE SME 6	The level of creditworthiness of an SME, adjudged in relation to other SMEs is **Inadequate**
CARE SME 7	The level of creditworthiness of an SME, adjudged in relation to other SMEs is **Poor**
CARE SME 8	The level of creditworthiness of an SME, adjudged in relation to other SMEs is the **Lowest.** Such entities may also be in **default.**

Leading SMEs

Analysis of higher rated Small Scale entities

The NSIC-CARE MSE ratings grade the businesses registered as MSEs on two distinct parameters, viz, performance capability and financial strength. The rated units are compared with other MSE units operating in the same industry. If a unit is operating in a niche product segment, then comparison is made with MSEs having similar exposure to business and industry risk factors. The entities covered in this report are highly rated, having ratings SE 1A and SE 2A indicating high to highest performance capability and high financial strength.

The entities covered in this report belong to diverse industries like chemicals, consultancy, metal, food processing, construction, cosmetics, pharmaceuticals, textile, minerals, material handling equipment and education industry. Furthermore, eight of the entities have proprietorship or partnership constitution while the rest are private limited and public limited entities. The limited liability form of a business entity is viewed more favourably by CARE as it not only indicates the entity's compliance with applicable norms but also indicates the promoters' commitment towards its business. Moreover, such a form is also viewed favourably by banks when it comes to secured lending. In a proprietorship or partnership form of business, the ability to withdraw and infuse capital easily creates difficulties in judging the net-worth base and other financial parameters like leverage, thus restricting the financial flexibility of an entity with lending institutions also relatively being reluctant to take exposure to them.

Parameters considered by CARE for arriving at the performance capability grade can be broadly divided into management and business risk parameters. For entities getting a high grade on the performance capability, the management profile is characterized by a long operational track record of the entity (usually more than 10 years), vast experience of the promoter in the main line of business and technically qualified promoters in engineering, chemicals and IT & ITES segments. Their business risk profiles are characterized by established relationships or strategic tie-up with reputed clients, which have a strong position in their respective industry segments, established marketing and distribution setup, relatively diversified product portfolio catering to various end-user industries and proximity to key customers & raw material suppliers. Some of the entities are present in the niche business segment, thereby avoiding competition to an extent. A few entities have long-term supply contracts in place with their key customers which ensure fair degree of revenue stability. However, these entities are exposed to industry downturns which would impact their business profiles through adverse impact on their customers. This, though, would be applicable for majority of MSEs and hence units catering to various end-user industries are better placed than others.

The financial strength of the entities is characterized by healthy growth in turnover, comfortable leverage position, moderate profitability and good liquidity indicators (See table below). The operating cycle, as expected, is on the higher side mainly due to the entities' position in the industry value chain resulting in relatively lower bargaining power vis-a-vis customers and high degree of competition resulting in the need to keep higher inventory and extend high credit to customers.

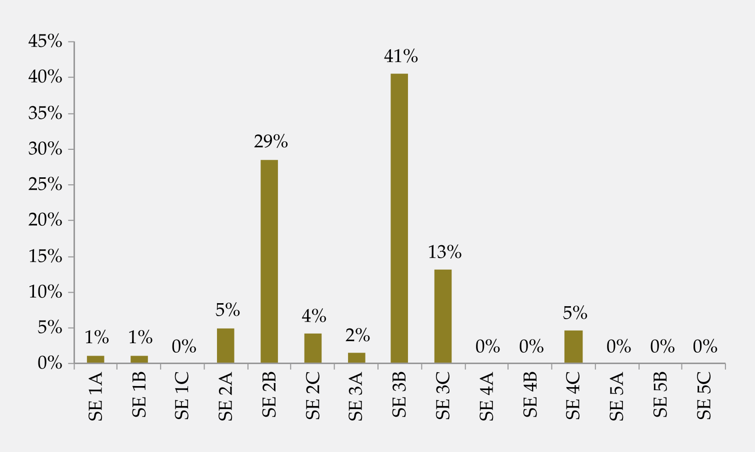
Table 1: Distribution of select financial parameters for the few selected entities

Financial Parameter	High	Low	Median
Growth in turnover (2-year CAGR %)	174	-12	22.51
PBIDT margin (%)	27.97	4.64	13.65
PAT margin (%)	14.47	3.33	6.10
Interest coverage	63.24	3.38	20.17
Overall gearing	0.91	0.00	0.24
Working capital turnover	63.41	1.98	5.71
Avg. inventory period	138	0	14
Avg. collection period	113	2	42
Working capital cycle	133	-12	25

Besides the above parameters, CARE also looks at the ability of the promoters to bring in funds in the form of capital and/or unsecured loans from their own sources to support the operations as and when required. Lastly, the relationship with the bankers and the regularity of servicing the debt obligations in a timely manner is also a factor while arriving at the financial strength grade for an entity

Summary profile of small-scale entities rated by CARE

Below is a profile of small-scale entities rated by CARE during the quarter ended December 2013 (Q3FY14)



Profiles of top rated small-scale entities

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List of the entities covered in the report	Rating	Page
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Name of the entity	Asian Aerosol	Rating	SE	2	A
		Rating Valid Till	October 9, 2014		

Entity profile

Year of Incorporation	2002
Constitution	Proprietorship Firm
SSI Registration number	02-009-1-2-70144 (dated December 1,2007)
Nature of Business	Manufacturing
Industry	Aerosol
Controlling/ Registered Office	228, Pragati Industrial Estate, N.M. Joshi Marg, Lower Parel, Mumbai, Maharashtra-174101

Operation profile

Products / Services	Filling of aerosol products (deodorants, air fresheners & insecticides)
Major Brands	NA
Total Number of employees	51
Key Customers	TTK Healthcare, Reckitt Benckiser (India) Limited, Dabur India Limited
Key Suppliers	Asian Containers, Hi Pack, Metal Impact

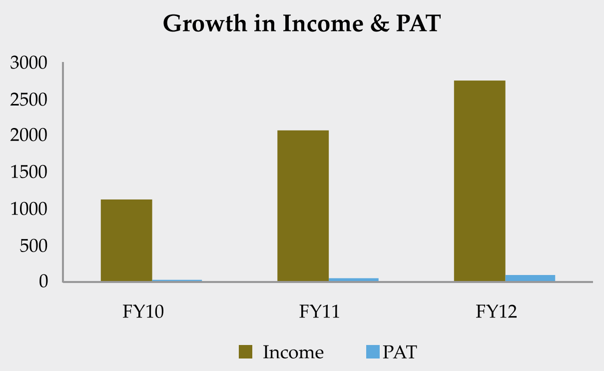
Management Profile

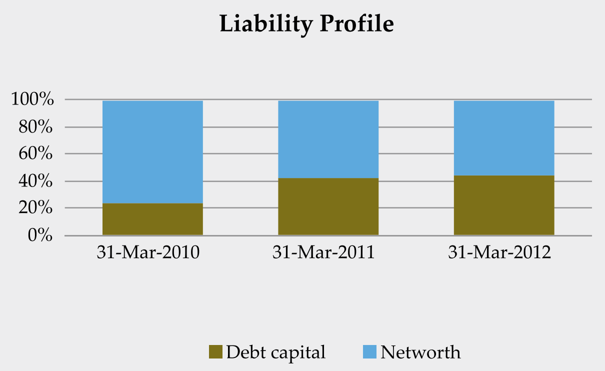
Key Promoter	Mr Bhogilal Patel
Total Experience (in years)	50 years
Certifications / Awards	NA

Bankers & Auditors

Name of the Auditor	M/s H. M. Shah & Co.
Major Bankers	Dena Bank

Financial Profile





Key Strength

- Experienced proprietor and established group presence in the Aerosol industry
- Established trade relationship with reputed clientele
- Moderate profitability margins and comfortable capital structure and debt coverage indicators
- Favourable industry scenario

Name of the entity	Chaitanya Projects Consultancy Private Limited	Rating	SE	2	A
		Rating Valid Till	October 9, 2014		

Entity profile

Year of Incorporation	1999
Constitution	Private limited company
SSI Registration number	090092109033 (dated January 23, 2004)
Nature of Business	Services
Industry	Construction & Infrastructure
Controlling/ Registered Office	C-5, 2nd Floor, R.K. Tower, Plot No. 21-22, Sector-4, Vaishali, Ghaziabad, Uttar Pradesh-201012

Operation profile

Products / Services	Consultancy, Construction Management & Structural Design
Major Brands	NA
Total Number of employees	50
Key Customers	Civil engineering consultancy services to government agencies and private organizations
Key Suppliers	The company is engaged in providing consultancy services therefore details of suppliers are not applicable.

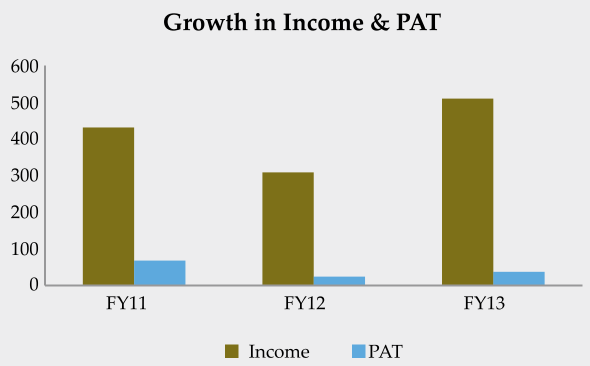
Management Profile

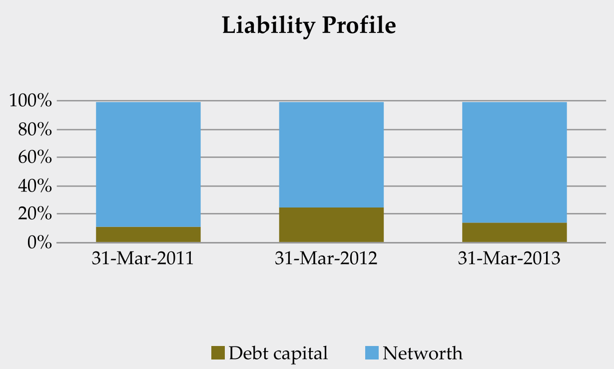
Key Promoter	Ms. Rupa Sinha
Total Experience (in years)	14 years
Certifications / Awards	ISO-9001:2008

Bankers & Auditors

Name of the Auditor	Rahul Pramod & Associates
Major Bankers	Indian Bank, Corporation Bank and ICICI Bank

Financial Profile





Key Strength

- Experienced promoters and long track record of operation
- Qualified and competent managerial staff
- Comfortable financial risk profile characterized by healthy profitability margins, comfortable capital structure and coverage indicators
- Healthy order book position

Name of the entity	Dynamic Engineers and Electroplaters	Rating	SE	2	A
		Rating Valid Till	December 9, 2014		

Entity profile

Year of Incorporation	1989
Constitution	Proprietorship Concern
SSI Registration number	330031102123 (dated May 14,2008)
Nature of Business	Job work of electroplating and conventional coating
Industry	Engineering
Controlling/ Registered Office	C-58, Sidco Industrial Estate, Maraimalai Nagar, Kanchipuram, Chennai, Tamil Nadu – 603209

Operation profile

Products / Services	Sliver plating, Zinc plating, Tin plating, Blackening, Phosphating etc
Major Brands	-
Total Number of employees	20
Key Customers	Ajay Electronics , Sundaram Fastener Limited, Madras Engineering Industries Private Limited
Key Suppliers	Jai Bharat Chemicals, Plating Chemicals, CMF Chemicals

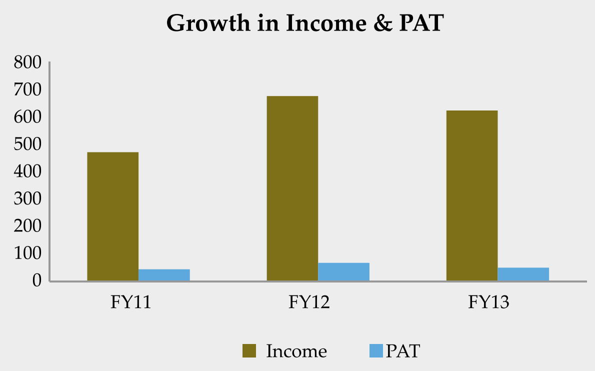
Management Profile

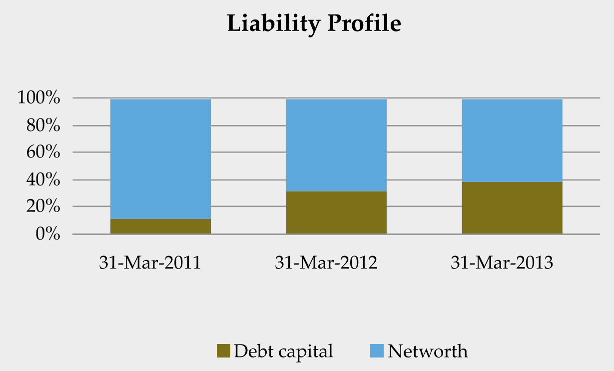
Key Promoter	Mr P. Ganeshen
Total Experience (in years)	25 years
Certifications / Awards	ISO 9001:2008

Bankers & Auditors

Name of the Auditor	R Gopalakrishna & Co, Chennai
Major Bankers	IOB, Maraimalai Nagar branch, Chennai

Financial Profile





Key Strength

Experienced proprietor for more than two decades in the similar line of business
Comfortable capital structure and satisfactory debt coverage indicator
Long term business relationship with established suppliers

Name of the entity	Gatade Foods	Rating	SE	2	A
		Rating Valid Till	December 18, 2014		

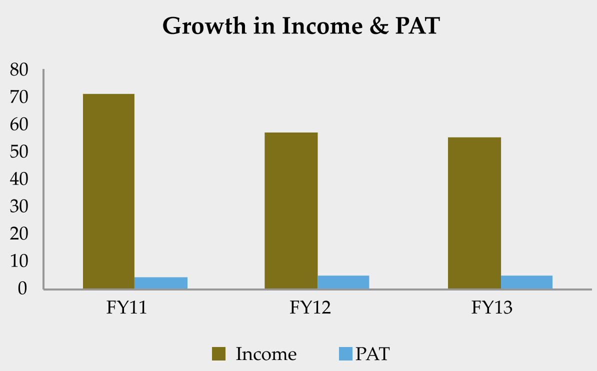
Entity profile	
Year of Incorporation	2002
Constitution	Proprietorship Firm
SSI Registration number	27341109883 (dated November 20, 2013)
Nature of Business	Processing of grounded spices
Industry	Food and food products
Controlling/ Registered Office	1318, C, Laxmipuri, Kolhapur, Maharashtra-416002

Operation profile	
Products / Services	Grounded Spices
Major Brands	A-1 Rajesh Masale
Total Number of employees	17
Key Customers	Yashwant Bazaar, Sarvoday Bazaar, Apna Bazaar
Key Suppliers	The firm procures its raw material from diversified supplier base usually from the distributors in Kolhapur region

Management Profile	
Key Promoter	Mr Rajesh Nana Gatade
Total Experience (in years)	20 years
Certifications / Awards	Priyadarshini Indira Gandhi Award- 2010, Indiamart Leades of Tomorrow Award, Quality Brands Award and ISO 22000:2005 (Food Safety Management System Award)

Bankers & Auditors	
Name of the Auditor	Bhosale, Wangikar & Parannawar & Associates
Major Bankers	Deutsche Bank

Financial Profile



Key Strength

Experienced proprietor
Comfortable capital structure and debt coverage indicators
Healthy demand growth with favorable government regulations

Name of the entity	Geosys India Infrastructures Private Limited	Rating	SE	2	A
		Rating Valid Till	December 4, 2014		

Entity profile

Year of Incorporation	2008
Constitution	Private Limited Company
SSI Registration number	090102207374 (dated July 14, 2013)
Nature of Business	Civil Contractor
Industry	Construction
Controlling/ Registered Office	C-56 A/28, 3rd floor, Sector 62, Noida, Uttar Pradesh

Operation profile

Products / Services	Highway walls and roads
Major Brands	NA
Total Number of employees	45
Key Customers	Nagarjuna Construction Company (NCC) Limited, Larsen & Turbo (L&T) Ltd, Vishal Infrastructure Limited
Key Suppliers	Maruti Rubber

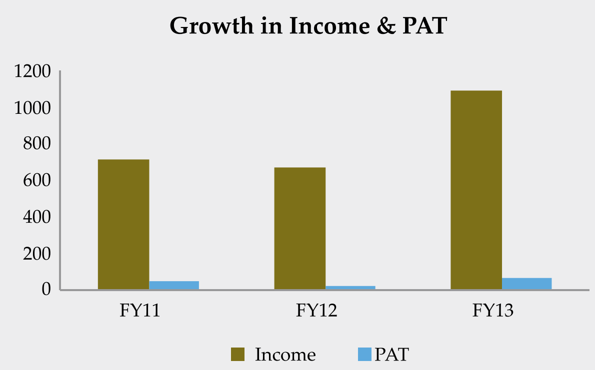
Management Profile

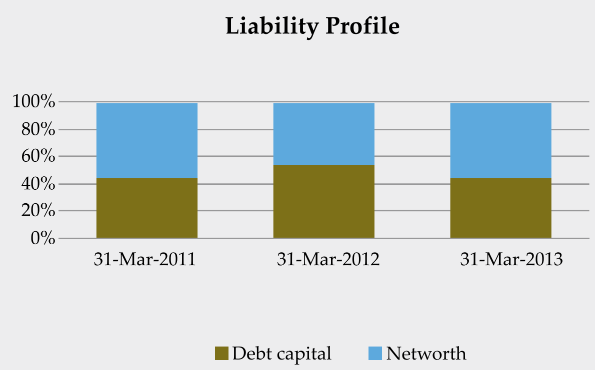
Key Promoter	Mr. Rajeev Agarwal
Total Experience (in years)	19 years
Certifications / Awards	NA

Bankers & Auditors

Name of the Auditor	JPRMS & Co
Major Bankers	ICICI Bank

Financial Profile





Key Strength

- Experience of the promoters in construction sector
- Reputed client base
- Moderate profitability, capital structure and coverage indicators
- Healthy order book indicating revenue visibility in near term

Name of the entity	Harman Plastic Industries	Rating	SE	1	A
		Rating Valid Till	December 30, 2014		

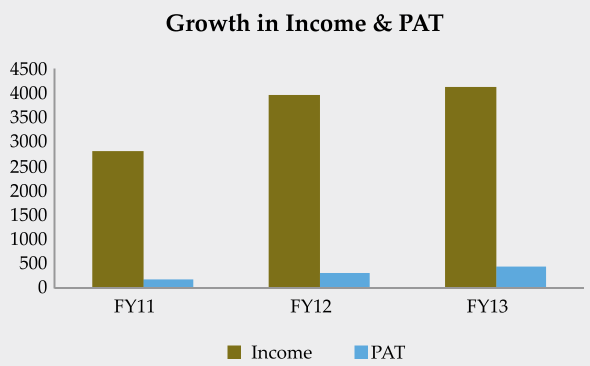
Entity profile	
Year of Incorporation	1983
Constitution	Partnership Firm
SSI Registration number	27-021-12-04020 (dated March 26, 2012)
Nature of Business	Manufacturing of nail polish caps & brushes, shaving brushes etc
Industry	Plastic Products
Controlling/ Registered Office	5-L, Laxmi Industrial Estate, New Link Road, Andheri (W), Mumbai-400053

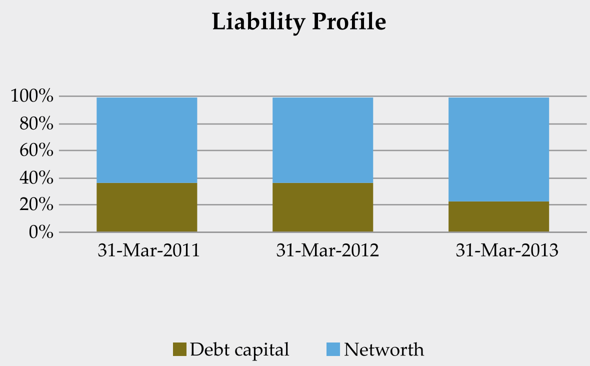
Operation profile	
Products / Services	Nail polish caps & brushes, shaving brushes
Major Brands	NA
Total Number of employees	433
Key Customers	ARCH Trading Corp, Mangoli Cosmetic, All American Container
Key Suppliers	Reliance Industries Limited. Supreme Plastic, Dupont Filaments

Management Profile	
Key Promoter	Mr Sarabjeet Singh Chaddah
Total Experience (in years)	35 years
Certifications / Awards	NA

Bankers & Auditors	
Name of the Auditor	M/s AS Gujaral & Co
Major Bankers	State Bank of India

Financial Profile





Key Strength

Experienced management with long track record
Established relation with customers & suppliers
Presence in niche market resulting in comfortable profitability margins
Comfortable capital structure & debt coverage indicators

Name of the entity	Lakshmi Builders	Rating	SE	2	A
		Rating Valid Till	December 11, 2014		

Entity profile

Year of Incorporation	1988
Constitution	Proprietorship Firm
SSI Registration number	06178997 (dated September 27, 2010)
Nature of Business	Services
Industry	Construction
Controlling/ Registered Office	267/22, Urban Estate, Gurgaon, Haryana-122002

Operation profile

Products / Services	Civil Contractor
Major Brands	NA
Total Number of employees	790
Key Customers	Indraprastha Gas Ltd, Bharat Petroleum Corporation Ltd, Hindustan Petroleum Corporation Ltd
Key Suppliers	Bery Plastics, Singhla Sales, Vishal Pipes

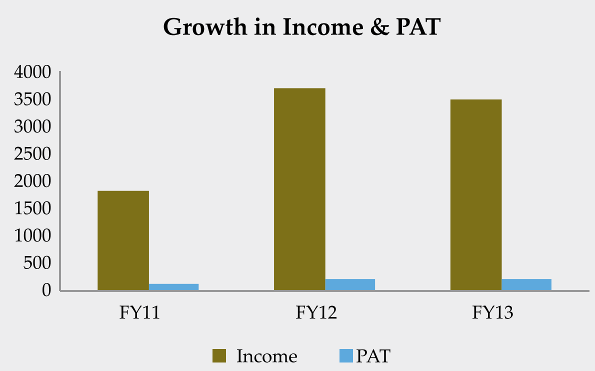
Management Profile

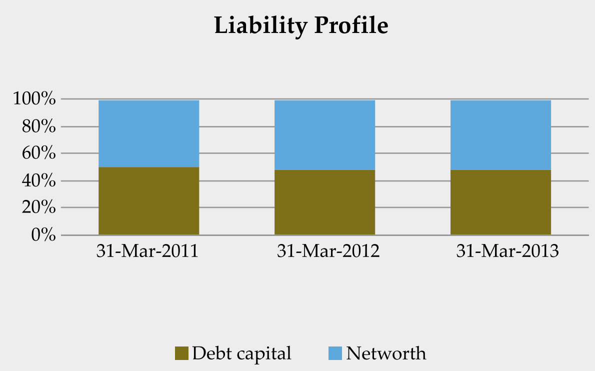
Key Promoter	Mr Vinod Sharma
Total Experience (in years)	30 years
Certifications / Awards	ISO 9000

Bankers & Auditors

Name of the Auditor	D.D Bansal Associates
Major Bankers	Vijaya Bank

Financial Profile





Key Strength

- Experienced proprietor and long track record of operations
- Comfortable capital structure and debt protection metrics
- Comfortable operating cycle and liquidity ratios
- Moderate profitability margins

Name of the entity	Lyophilization Systems India Private Limited	Rating	SE	2	A
		Rating Valid Till	October 30, 2014		

Entity profile

Year of Incorporation	2003
Constitution	Private Limited Company
SSI Registration number	280061200553 (dated March 29, 2008)
Nature of Business	Manufacturing of freeze drying equipment
Industry	Electrical Equipment
Controlling/ Registered Office	Plot No.26/27, Aleap Estate, Opp. JNTU Road, Near Pragathi Nagar, Kukatpally,Hyderabad,Dist.:,Andhra Pradesh-500072

Operation profile

Products / Services	Lyophilizers
Major Brands	Nil
Total Number of employees	62
Key Customers	Immacule Life sciences Pvt Ltd, Cadila Health Care Ltd, Venakatewara Hatcheries Pvt Ltd
Key Suppliers	Hong Shan Machinery Equipments (Shanghai) Co Ltd, Technogreen LLC, Liberty Engineering Equipments India Pvt Ltd, AdixenVaccum Products

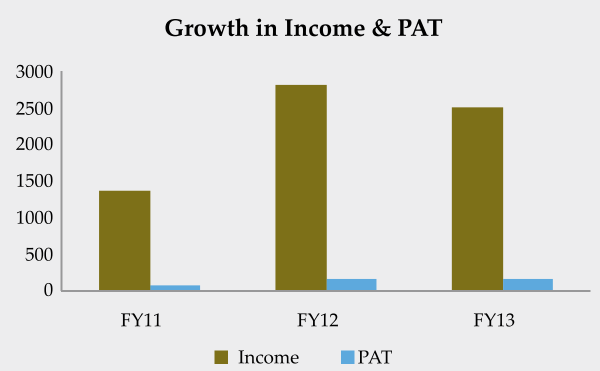
Management Profile

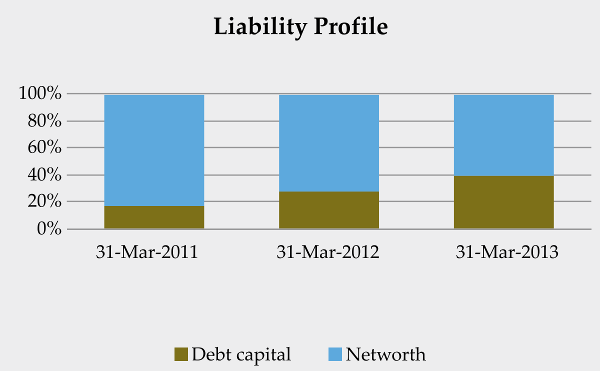
Key Promoter	Mr M S Prasad
Total Experience (in years)	30 years
Certifications / Awards	ISO 9001-2008

Bankers & Auditors

Name of the Auditor	D.Venkat Krishna & Co., Hyderabad
Major Bankers	Corporation Bank- Nampally Branch, Hyderabad

Financial Profile





Key Strength

- Established track record with experienced promoters for more than two decades in the similar line of industry.
- Moderately high profitability margins over the past three years
- Satisfactory order book worth of Rs.1382.85 lakhs to be executed in next five months
- Favourable capital structure and satisfactory debt coverage indicators
- Diversified customers base with wide geographical presence in domestic and international market
- Established long term relationships with customers and suppliers

Name of the entity	MG Cotton Company Private Limited	Rating	SE	3	C
		Rating Valid Till	November 11, 2014		

Entity profile

Year of Incorporation	1998
Constitution	Private Limited Company
SSI Registration number	330321209427 (dated October 25, 2013)
Nature of Business	Manufacturer and exporter of readymade garments
Industry	Textiles
Controlling/ Registered Office	SF No. 442/2 - B1, 443/2 - B2A,Avinashilingampalayam, Palangarai Village,Chennai, Tamil Nadu-641654

Operation profile

Products / Services	Knitted readymade garments (Women's and Kids wear)
Major Brands	NSN, N&N, Crazy Farm, Happy People
Total Number of employees	800
Key Customers	Italian Textile Company, Max Holdings and Investments Ltd., Gestio Cincdos, S.L.
Key Suppliers	Coimbatore Polytex Pvt. Ltd, Precot Meridian Ltd, Gokak texttiles Ltd

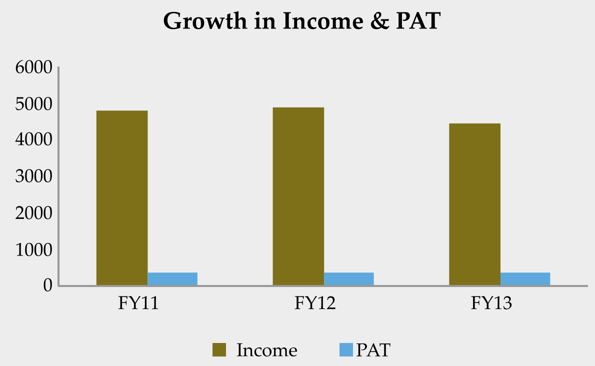
Management Profile

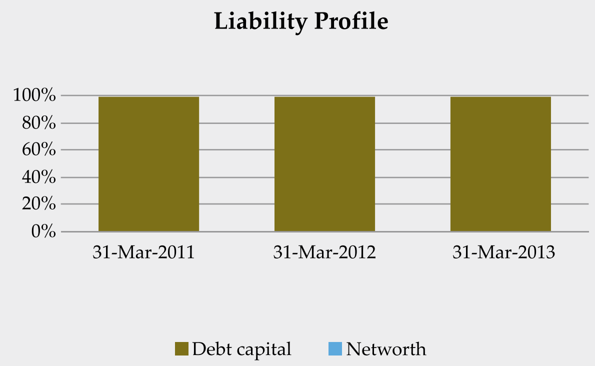
Key Promoter	Mr Raghupathy
Total Experience (in years)	25 years
Certifications / Awards	Yes

Bankers & Auditors

Name of the Auditor	Srivatsan & Gita, Chennai
Major Bankers	Bank of Baroda, Chennai

Financial Profile





Key Strength

Experienced promoters and management team in the textile industry
Long term business relations with its established customers and Geographically diversified customer base
Integrated manufacturing facility with the latest technologies
High profitability margins over the past three years
Comfortable capital structure and satisfactory debt coverage indicators
Healthy order book position worth of Rs. 1833 lakh as on November 4, 2013

Name of the entity	Progressive and Popular Minerals Private Limited	Rating	SE	1	A
		Rating Valid Till	November 27, 2014		

Entity profile

Year of Incorporation	2011, Originally incorporated as Progressive Enterprises in 1972
Constitution	Private Limited Company
SSI Registration number	080291200071 (dated December 08, 2011)
Nature of Business	Mining and processing of minerals
Industry	Mining and processing of minerals
Controlling/ Registered Office	Khwaja Bagh, Sawa, Dist: Chittorgarh, Rajasthan -312613

Operation profile

Products / Services	Red-ochre, China Clay, Silica Sand and Kaolin
Major Brands	NA
Total Number of employees	361
Key Customers	Siddharth Enterprises, Kajaria Ceramics Limited, Ultratech Cement Limited, D. M. Minerals, J. K. Cement Limited
Key Suppliers	NA

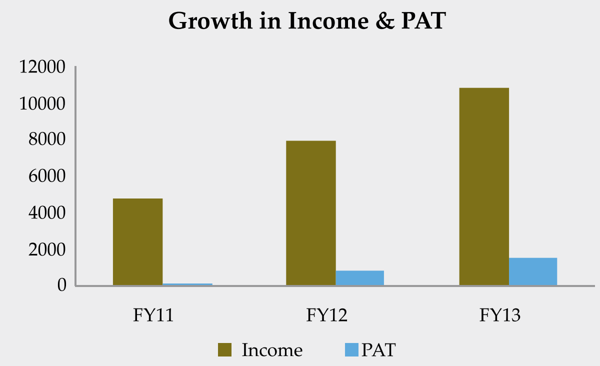
Management Profile

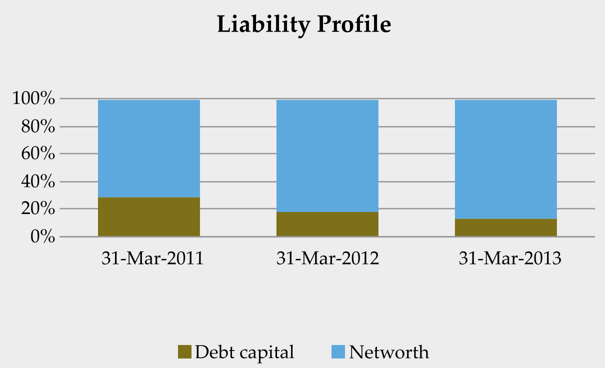
Key Promoter	Mr Mohd Sher Khan
Total Experience (in years)	41 years
Certifications / Awards	Yes

Bankers & Auditors

Name of the Auditor	Shyam S. Singhvi & Co., Udaipur
Major Bankers	Punjab National Bank, HDFC Bank, ICICI Bank

Financial Profile





Key Strength

- Experienced management and established track record of operations in mining and minerals business
- Long standing association with reputed customers
- High capacity utilization
- Location advantage being situated nearer to its customers
- Diversified product portfolio
- Financial risk profile marked by healthy profitability margins, comfortable solvency position

Name of the entity	Sanmarg Projects Private Limited	Rating	SE	2	A
		Rating Valid Till	October 23, 2014		

Entity profile

Year of Incorporation	2007
Constitution	Private Limited Company
SSI Registration number	090102107553 (dated August 20, 2013)
Nature of Business	Services
Industry	Services
Controlling/ Registered Office	330, 3rd Floor, D-288/89, Wadhwa Business Centre, Laxmi Nagar, New Delhi, Delhi-201305

Operation profile

Products / Services	Operations and maintenance services
Major Brands	NA
Total Number of employees	127
Key Customers	HPCL-Mittal Pipelines Limited (HMPL)
Key Suppliers	NA

Management Profile

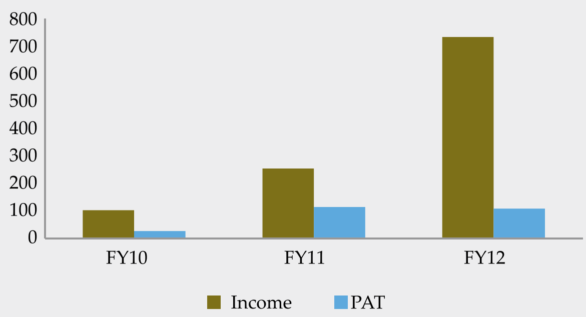
Key Promoter	Mr Sanjay Kaul
Total Experience (in years)	24 Years
Certifications / Awards	No

Bankers & Auditors

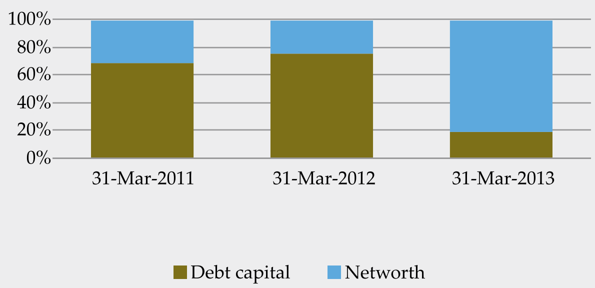
Name of the Auditor	S.S.Kothari Mehta & co.
Major Bankers	ICICI Bank

Financial Profile

Growth in Income & PAT



Liability Profile



Key Strength

- Experienced promoter and qualified management
- Reputed client base
- Comfortable financial risk profile characterized by healthy profitability margins, comfortable capital structure and coverage indicators
- Healthy order book

Name of the entity	Shakti Engineering Works	Rating	SE	2	A
		Rating Valid Till	November 28, 2014		

Entity profile

Year of Incorporation	1996
Constitution	Proprietorship Firm
SSI Registration number	090091209035 (dated November 15, 2013)
Nature of Business	Manufacturing
Industry	Engineering Goods
Controlling/ Registered Office	Plot No-134-C, Anand Industrial Estate, Ghaziabad, District-Mohan Nagar, Uttar Pradesh-201007

Operation profile

Products / Services	Material Handling equipments, shipment frames and Pre-Engineered Building
Major Brands	NA
Total Number of employees	50
Key Customers	Honda Motors and Scooters India Private Limited(HMSI), Honda Cars India Limited (HCIL), Hero Motor Corps, Honda Motor India Private Limited (HMI)
Key Suppliers	Diversified

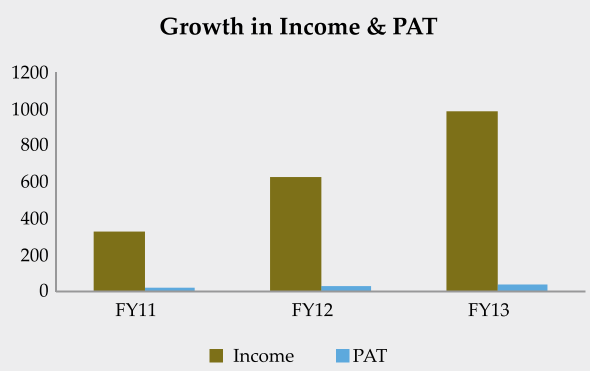
Management Profile

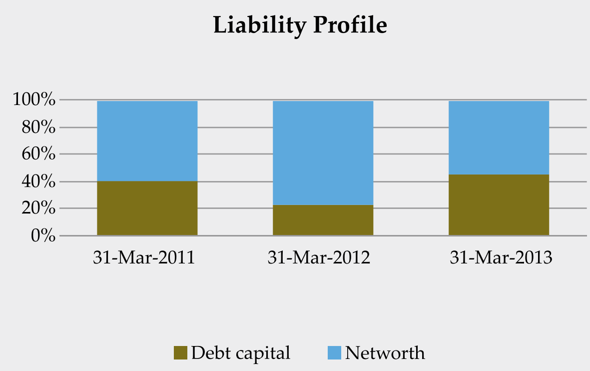
Key Promoter	Subhasna Devi
Total Experience (in years)	15 years
Certifications / Awards	ISO 90001:2008

Bankers & Auditors

Name of the Auditor	Sanjeev Anand & Associates
Major Bankers	Bank of Baroda and ICICI Bank

Financial Profile





Key Strength

Experienced proprietor and long track record of operations
Diversified product portfolio and reputed client base
Low reliance on external debt resulting in healthy capital structure and coverage indicators

Name of the entity	Sree Balaji Constructions	Rating	SE	2	A
		Rating Valid Till	December 18, 2014		

Entity profile

Year of Incorporation	2001
Constitution	Partnership Firm
SSI Registration number	280202202047 (dated March 14, 2014)
Nature of Business	Civil contract works (construction and improvements of roads)
Industry	Construction
Controlling/ Registered Office	1/1824-7, Gandhi Nagar, Kadapa, Andhra Pradesh-516004

Operation profile

Products / Services	Civil construction works
Major Brands	NA
Total Number of employees	20
Key Customers	Road & Building Department, Andhra Pradesh
Key Suppliers	Indian Oil Corporation

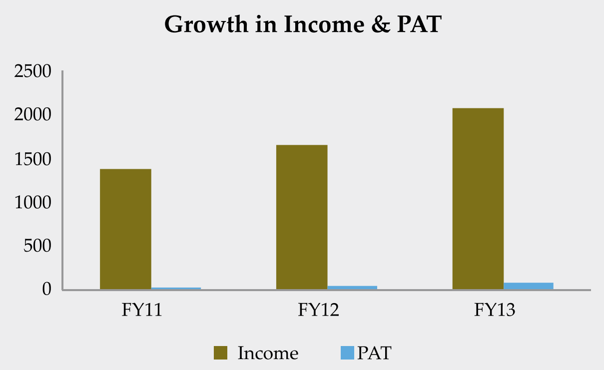
Management Profile

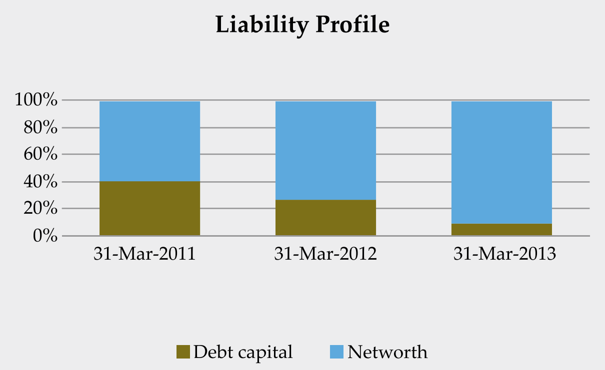
Key Promoter	Mr Y Madhusudhan Reddy
Total Experience (in years)	25 years
Certifications / Awards	Yes

Bankers & Auditors

Name of the Auditor	M.Visweswara Rao, Kadapa, Andhra Pradesh
Major Bankers	State Bank of India, Kadapa branch, Kadapa, Andhra Pradesh

Financial Profile





Key Strength

Experienced partners for more than two decades in the construction industry
Significant improvement in turnover during the last three years ended FY13
Registered as Class 'I' civil contractor with Road & Building Department (R&B), Government of Andhra Pradesh
Comfortable capital structure and satisfactory debt coverage indicator
Satisfactory order book position with orders worth of Rs.233 lakhs as on November 30, 2013

Name of the entity	Super Services	Rating	SE	2	A
		Rating Valid Till	November 28, 2014		

Entity profile

Year of Incorporation	1998
Constitution	Proprietorship Firm
SSI Registration number	27-22-21-01991 (dated November 22, 2013)
Nature of Business	Trading
Industry	Commercial Refrigeration
Controlling/ Registered Office	30, 1st Floor, Evershine Mall, Mindspace Link Road, Malad (West), Mumbai-400063

Operation profile

Products / Services	Refrigeration, Food Services & Water Purification Equipments
Major Brands	Celfrost
Total Number of employees	4
Key Customers	Natures Basket Limited, Dreams Foods International Pvt. Ltd., Future Value Retail Ltd.
Key Suppliers	Celfrost Innovation Pvt. Ltd.

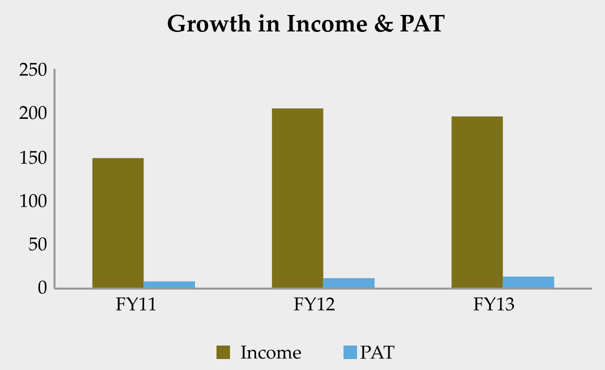
Management Profile

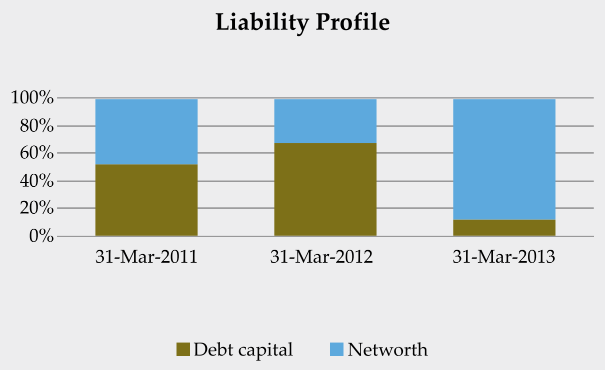
Key Promoter	Mr Dipankar Dutta
Total Experience (in years)	17 Years
Certifications / Awards	No

Bankers & Auditors

Name of the Auditor	M. R. Jain & Co.
Major Bankers	Bank of Baroda

Financial Profile





Key Strength

Experienced proprietor having more than fifteen years in the field of refrigeration equipment trading business
Comfortable capital structure, debt coverage indictors and liquidity.
Authorized dealer of 'Celfrost'; one of largest manufacturer of commercial & food refrigeration equipments.
Moderately diversified customer base and includes reputed clientele namely Dreams Foods International Pvt. Ltd. Future Value Retail Ltd. & Natures Basket Ltd.

Name of the entity	Vardhman Educational Society	Rating	SE	2	A
		Rating Valid Till	December 29, 2014		

Entity profile

Year of Incorporation	1996
Constitution	Society
SSI Registration number	050132203401 (dated November 13, 2013)
Nature of Business	Education
Industry	Education
Controlling/ Registered Office	10th Km Stone, Roorkee - Dehradun highway, Roorkee - 247 667

Operation profile

Products / Services	NA
Major Brands	NA
Total Number of employees	52
Key Customers	The society is operating a college and hence the customers are their students.
Key Suppliers	NA

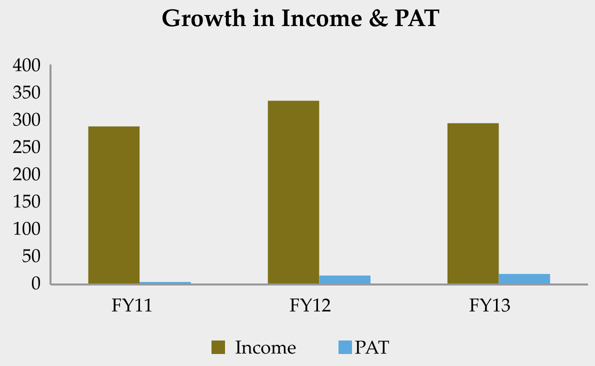
Management Profile

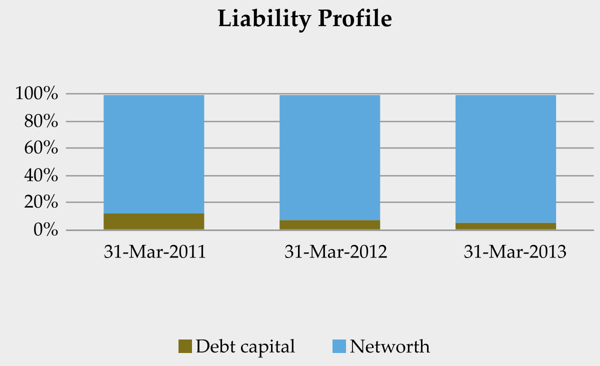
Key Promoter	Mr Y.P. Singh
Total Experience (in years)	27 years
Certifications / Awards	NA

Bankers & Auditors

Name of the Auditor	Singh Yadhveer & Associates
Major Bankers	Punjab National Bank

Financial Profile





Key Strength

- Experienced trustees and long track record of operations
- Comfortable capital structure and coverage indicators
- Buoyant prospects of higher/professional education of sectors

Recognition

Testimonials

Oasis Tradelink Ltd

Oasis Tradelink Ltd.

Office : 1st Floor, Maruti House, Opp. Sales India Showroom, Ashram Road, Ahmedabad-380 009.
Works : Plot 438/2, Kundal, Kadi-Kalol Highway, Nr. Cera Factory, Kadi - 382715
Phone : 079-2754 2998 • Fax : 079-2754 1625 • E-mail : oasistradelink@gmail.com

Date : 19/02/2014

To,
The Managing director,
Credit Analysis & Research Ltd.
4th Floor, Godrej Coliseum,
Somaiya Hospital Road,
Sion (East),
Mumbai - 400 022

Subject: **Use of Credit Rating**

Dear Sir,

We hereby would like share with you that after getting rated by Credit Analysis & Research Ltd. (CARE Ratings) under SME Ratings, we were able to negotiate better terms with the bank.

Further, we would like to mention that the services and communications from CARE Ratings were always on time and without any delay. We appreciate the professional approach undertaken by Rating Team and Marketing Executives during the whole process.

We thank CARE Ratings for all support extended to us.

Thanking You,

Yours Truly
For Oasis Tradelink Ltd

Director
SNehal B. Patel

OASIS TRADELINK LTD. ★ AHMEDABAD ★

Nirmala Industries

TIN : 28953087802 Ch. Radha Krishna -9963637238, Ch. Kiran Kumar -9963637227 ☎ 0863-222516

NIRMALA INDUSTRIES

Manufacturers of :

TRAILORS & AGRICULTURAL IMPLEMENTS, POWER DRIVEN, Mahindra & M.F. DISCPLOUGH, HYDRAULIC MACHINES & Etc.,

Work Shop : P.L.No. 61, IIIrd Phase, Autonagar, GUNTUR - 522 001.

నిర్మలా ఇండస్ట్రీస్, గుంటూరు.

వ్యవసాయ పరికరములు మరియు వాటి స్పేర్సు తయారు చేయబడును.

Ref. Date..................

To

The Managing Director.
Credit Analysis & Research Ltd.
Mumbai (MH)

Sub :- Appriciation Letter.

Dear Sir,

With reference to the Due-Deligence activity done by you we are thankful to your team. Our loan from Canara Bank got processed fastly and documentation requirement also reduced. We look forward for healthy relationship in future and at the same time we will take other services from "CARE RATINGS". At the outset I thank Mr. K V K Chaitanya for his approach and understanding. Thanking you in anticipation.

Regards,

For NIRMALA INDUSTRIES
Proprietor

Customer's Signature Visit Again..... Signatue

ఆర్డరు ఇచ్చిన నెల తరువాత అప్పుడు వున్న మార్కెట్‌రేటుకు ఇవ్వగలము.
ఇచ్చిన అడ్వాన్సు తిరిగి ఇవ్వబడదు. అడ్వాన్సుకు తగిన సామాను తీసుకొనగలరు. దయచేసి సహకరించగలరు.

SME
Small and Medium Enterprises

SME Fundamental Grading

It is a relative assessment of fundamentals of a SME entity in relation to other SMEs in India. It involves an in-depth assessment of the various quantitative and qualitative parameters of the entity. The product aims to aid the investors in taking an informed investment decision based on the fundamentals of SMEs and will also assist the graded entity to differentiate from others, thereby facilitating raising of funds.

CARE's SME Product

Credit Rating

- Bank Loan Ratings
- NSIC-CARE Performance & Credit Rating for MSEs
- SME Ratings

SME Fundamental Grading

Due Diligence services

Channel Partner Evaluation

Verification Services

SME Digest - Publication

CARE's SME Vertical

Value added services for SMEs

- Wide product offering
- A team of highly qualified analysts
- Data base of more than 6000 SME entities
- SME Digest: A Quarterly publication for analytical inputs
- SME Newsletter: Daily publication on news in SME sector
- Operating from nine branches across India
- MoU with leading banks for rating of their MSME clientele

Mehul Pandya - Executive Vice President & Head - SME
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Ahmedabad | Bangalore | Chandigarh | Chennai | Hyderabad | Jaipur | Kolkata | Mumbai | New Delhi | Pune | Male (Maldivies)

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www.careratings.com

Awareness Efforts

Synopsis of Seminars and Events with CARE's participation

CARE acts as the Knowledge Partner at Progressive Maharashtra event organized by FICCI at Mumbai

Mr Madan Sabnavis, Chief Economist – CARE Ratings was moderator for the plenary session on "Imperatives for Enhancing Global Competitiveness of Manufacturing MSMEs" at the event.

The session deliberated on various aspects like Impact of Government Support on MSMEs, how to leverage latest marketing tools to maximize sales, Innovative Financing models, support for technology up-gradation, sensitizing MSMEs on issues attached to competitiveness such as e-Commerce, Insurance and R&D support required to promote Small and Medium Enterprises in India.

ICICI Bank Ltd signs MoU with CARE Ratings

ICICI Bank Ltd. has signed a MoU with CARE Ratings for providing Credit Rating Services for MSME clients of the bank for two years.

Karnataka Bank Ltd signs MoU with CARE Ratings

Karnataka Bank Ltd. has signed a MoU with CARE Ratings for providing Credit Rating Services and Due Diligence Services for MSME clients of the bank.

Raipur Automobile Dealers' Association (RADA) signs MoU with CARE Ratings

RADA has signed a MoU with CARE Ratings for providing Credit Rating Services to automobile dealers in Raipur. Officials from CARE also explained the members about benefits of credit rating.

CARE officials attend "National Vendor Development Program – cum - Exhibition" which was organized by MSME Development Institute at Mumbai.

Mr Avinash Chandra explained the importance of Credit Rating to the participants during the programme.

Officials from CARE also attended event hosted by AIMO, Mumbai along with NSIC and Canara Bank.

CARE officials participated in "Intensive Awareness Program" organized by NSIC in Patna

Mr Argya Talukdar – (Sr. Manager – BD) explained the benefits and uses of Credit Rating to MSME units.

CARE Ratings jointly hosts event with NSIC and Central Bank at Patancheru Industrial Association (PIA)

Mr Aakash Jain (Zonal Manager-SME; second from right) during the event along with Regional Manager – Central Bank of India, Chief Manager – NSIC and President - PIA

Theme of the program was "CARE Ratings: Bridging gap between banks & SMEs". Chief guest of the event was Sri Baji Rao Chavali, Regional Manager - Central Bank Of India & special guest of the event was Mr Madan Mohan, Chief Manager - NSIC, Kushaiguda along with Mr Rao, PIA - President. The event was attended by 60-80 MSMEs.

CARE Ratings cosponsored an event organized by MSME-DI hosts at Vizag

Mr Aakash Jain (Manager - CARE Ratings) accepting the memento

MSME News updates

1. **SMEs helped IPO market from becoming worse**

   The IPO market, which hit 12-year low in 2013, could have been worse had it not been for the large number of SME issues raising Rs.335 crore or 21 per cent of total money raised through this route during the year. Top bourses BSE and NSE promoted Small and Medium Enterprise platforms in 2013 and as a result 35 small units hit the market raising Rs.335 crore. The entire primary market, on the other hand, stood at a paltry Rs.1,619 crore – 12-year low - according to the data collated by Prime Database *(Source: Business Line).*

2. **Microsoft launched 'Trade-In' scheme for Indian SMEs**

   In a first of its kinds move, Microsoft India has launched a 'Trade-In' scheme in order to attract small and medium enterprises (SMEs) to its cloud platform, Windows Azure. Under the scheme, which is currently limited only to India, SMEs can sell their old hardware and opt to use proceeds from the same to migrate to Windows Azure *(Source: Business Standard).*

3. **Government concerned over rise in sick MSMEs**

   An inter-ministerial committee on accelerating manufacturing in the micro, small and medium enterprise (MSME) sector has made over 60 recommendations covering issues of regulation, finance, infrastructure, technology and markets that affect the different stages of the life cycle of MSMEs. The recommendations come in the backdrop of a 221 per cent increase in the number of sick micro and small enterprises (MSEs) between 2010 and 2013 — from 77,723 to 249,903 (provisional) — after declining between 2005 and 2008 *(Source: World Bank).*

4. **MSME proposes to set up Rs 10,000-cr fund for tech acquisition and support**

   The ministry of micro, small and medium enterprises has proposed to set up a fund for technology acquisition and support to assist the indigenous technology and acquisition of global technology by the Indian MSMEs. To this effect, A Technology Development Fund of Rs.10,000 crore is proposed for supporting MSMEs to undertake technology upgradation, acquisition, adaptation and innovation to enable them to move up the value chain *(Source: Business Standard).*

5. **Microsoft bets big on SMEs in India**

   Microsoft is betting on the small and medium enterprises segment for the expansion and adoption of its cloud offering like Windows Azure, Office 365 and Dynamic CRM Online. India, according to Microsoft, has over 40 million small businesses that contribute about 45% of India's industrial output. According to findings by Boston Consulting Group (BCG), over the past three years IT-enabled SMEs grew their revenues 20 percentage points faster and cloud services are playing a key role in SME growth *(Source: Business Standard).*

6. **BSE issues additional eligibility criteria for SMEs**

   BSE issued a set of additional eligibility criteria for firms looking to list on the stock exchange's platform for small and medium enterprises (SME). As per the new norms, there should not be any change in the promoters of the firm in preceding one year from date of filing the application to BSE for listing under its SME segment as well as institutional trading platform (ITP). Besides, companies planning to be listed on the 'BSE SME ITP' platform would be required to have net tangible assets of minimum Rs.1 crore or a net income of Rs.50 lakh as per the latest audited financials, the exchange said in a notice *(Source: NDTV Profit).*

7. **BSE has listed the 50th company on its SME platform, taking its market capitalisation to over Rs.3,000 crore**

   BSE has listed the 50th company on its SME platform, taking its market capitalisation to over Rs.3,000 crore. The Surat-based SiVi Shipping Corporation has become the 50th company to be listed on the BSE SME Exchange. The

IPO of SiVi Shipping was over-subscribed by almost two times in the HNI category. The company offered fresh issue of 27.42 lakh equity shares at a fixed price of Rs.25 per share, The BSE SME platform was launched in March 2012 *(Source: Financial Express).*

8. RBI panel to review credit flow to MSME sector

A meeting of the Reserve Bank of India's Standing Advisory Committee has been convened recently to review the flow of institutional credit to the micro, small and medium enterprises (MSME) sector. The RBI has constituted the Standing Advisory Committee (SAC) with Deputy Governor K C Chakrabarty as chairman. The officials of the ministry of micro, small and medium enterprises, banks and associations of the MSME sector are members of the SAC *(Source: Business Standard).*

9. MPEDA's co-branding drive for seafood exports

India's seafood export industry, dominated by small and medium enterprises (SMEs), and growing at 20 per cent a year, will soon get a shot in the arm. In a bid to help entrepreneurs, the Marine Products Export Development Authority (MPEDA) under the ministry of commerce is undertaking a major co-branding drive, which will promote the brand equity of Indian marine products in regulated markets. Seafood exports from India are expected to touch US$4.3 billion in the current fiscal year and US$10 billion a year by 2020, according to MPEDA *(Source: Business Standard).*

10. Govt introduces new Exim Bank Line of Credit for Africa

A new Exim Bank Line of Credit for Africa has been introduced to speed up infrastructure project development in the continent. The finance ministry has put it together under the Export Credit Guarantee Corporation (ECGC) and the National Exports Insurance Authority (NEIA), for which Buyer's Credit is available for infrastructure projects in Africa *(Source: SME Times).*

11. MSME interest rate issues in ministry's FTP recommendations

The Ministry of Micro, Small & Medium Enterprises has given a set of important suggestions for the Foreign Trade Policy (FTP) 2014-19, to address the high interest rate problems faced by the sector, said MSME minister K.H Muniyappa on Wednesday. MSME sector is suffering from duty problems, tax relaxation and interest rate problems, so recommendations have been made on these problems for FTP. FTP 2014-19 is likely to be announced in April *(Source: SME Times).*

12. Anti-dumping duty on PTA imports unfair to SMEs

PHD Chamber of Commerce and Industry on Tuesday suggested the government not to impose anti-dumping duty on imports of Purified Terephthalic Acid (PTA) into India in view of its demand-supply mismatch, which according to latest estimates stands at 4,096,952 MT against 3,420,000 MT.

PTA imports to India, presently originate and are facilitated from China, European Union (EU) Korea and Thailand to help domestic industry in small and medium enterprise (SME) category to tide over its shortage to enable them manufacture of polyester staple fiber, polyester filament yarn, polyester film and other value-added products *(Source: SME Times).*

13. Over 2 million get employed under job scheme

Over two million people have been provided employment and Rs.5,381.63 crore released under the Prime Minister's Employment Generation Programme (PMEGP), since it was launched by the ministry of micro, small and medium enterprises (MSME) on August 15, 2008. According to a release of the ministry, more than 233,000 lakh projects have already been assisted.

The government has been enhancing the allocation for PMEGP every year and the allocation for 2013-14 is Rs.1,418.28 crore. For the country as a whole, the outlay for the PMEGP in the Twelfth Plan is Rs.8,060 crore - 70 per cent higher than the allocation in the Eleventh Plan *(Source: Business Standard).*

14. MSME to continue with scheme for development of SMEs through incubators

The ministry of small, micro and medium enterprises (MSME) has decided to continue with its scheme of development of small and medium enterprises (SME) through incubators in the twelfth five year plan.

The objective is to promote generation of new ideas in the field of mechanical engineering, food processing, chemical, and electronic and software and engineering in general at a nascent stage *(Source: Business Standard).*

15. Govt mulls setting up 'social bourse'

The Union finance ministry has sought the views of the Securities and Exchange Board of India (Sebi) for the creation of 'social stock exchanges'. These exchanges will provide a platform to help non-profit entities such as non-governmental organisations, trusts, cooperative societies and even political parties raise capital in a transparent manner *(Source: Business Standard).*

Notes

Notes

Notes

For more information, please contact the following

Mehul Pandya - Executive Vice President & Head - SME
Tel.: +91-79-40265656, +91-9824256265, E-mail: mehul.pandya@careratings.com

CARE Ratings
Professional Risk Opinion

Credit Analysis & Research Ltd.

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Tel.: +91-22-6144 3456; Fax: +91-22-6144 3556

MUMBAI
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Somaiya Hospital Road, Off Eastern Express Highway,
Sion (East), Mumbai - 400022
Tel: +91-22-6754 3456
Email: avinash.chandra@careratings.com

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Satellite, Ahmedabad - 380015
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