

## CARE Ratings' SME Survey

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### Overview

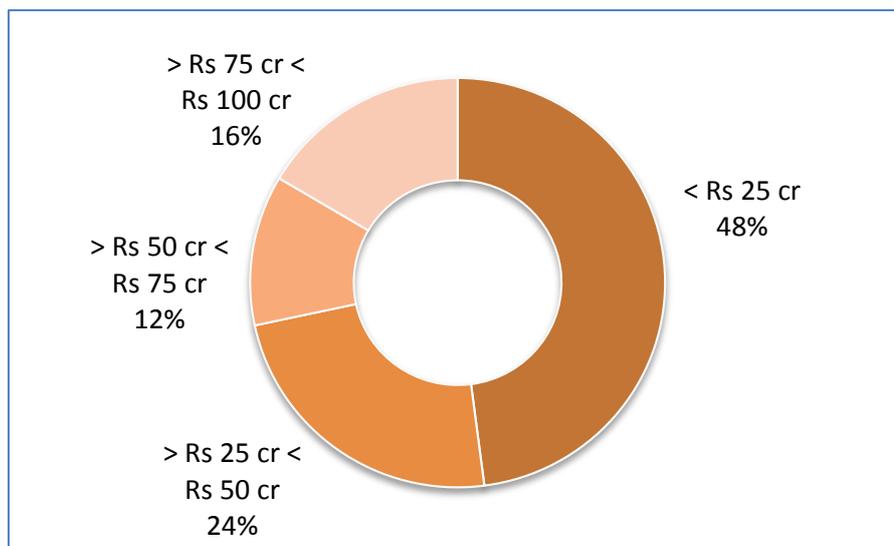
The SME sector is a key part of the Indian economy and has emerged as a highly vibrant and dynamic sector. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities, next only to agriculture. SME enterprises employ over 110 million people across various sectors. As per the Ministry of Commerce, the SME share in the GDP is over 30% and 40% in exports. SMEs are complementary to large industries and this sector contributes significantly to inclusive industrial development of the country. The SMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demand.

In continuation with our regular monitoring and evaluation of the SME units and the environment in which they operate, an insight into the views and expectations of the SMEs was deemed relevant. Hence, a Survey was designed and commissioned to capture the market sentiment and aggregate the views of the various entities.

### Survey Outline

The Survey drew participation from a cross-section of sectors with the respondents being from agri-based industries, automobile, construction, infrastructure, services, gems & jewellery, FMCG, metals and mining and warehousing. The Survey was sent via email and drew responses from 197 participants. The respondents were segregated across four categories on the basis of their turnover.

- 48% of the participants reported a turnover of less than Rs. 25 cr, while 24% of the respondents had a turnover greater than Rs. 25 cr but less than Rs. 50 cr.
- The share of participants with a turnover more than Rs. 50 cr but less than Rs. 75 cr was 12% and the balance 16% had a turnover more than Rs. 75 cr but less than Rs. 100 cr.

**Chart 1: Broad classification as per Turnover of Respondents**


The SME Survey was designed to collect data and understand the impact of multiple parameters. The respondents were asked about their expectations on the general economy and the overall investment climate. In addition, specific questions pertaining to their respective company performance, investments plans, employment generation, funding options and payment behavior of customers, GST filings and refunds were sought. The Survey involved seeking opinions on the factors regarding impending investments, and forecast for the economy and industry.

While quite a few participants answered all the questions, some of them did not respond to specific questions.

### Survey Highlights

- The Survey indicates that a majority of respondents believe that the conditions have improved over the last six months and are further expected to improve over the next six months.
- Around 40% of the respondents have either a BLR rating or SME rating.
- The primary reason of the respondents who do not have a rating is that they believe the rating does not contribute meaningfully to their operations. Bankers often were not considering favourable dispensation on interest rates when told about the rating.
- Interest rate concession was the major benefit derived by the companies which had procured a rating
- Own contribution is the primary funding option of the respondents, followed by bank loans and loans from friends and family.
- Half of the respondents reported their borrowing cost to be below 11%. Out of these companies, 31% (largest share of responses) reported an interest rate between 10% and 11%. On the other hand, 9% of the participants reported a rate of more than 13%. This seems to be mostly in line with the WALR for outstanding rupee loans for SMEs of 11.3% in June 2018 reported by RBI in its 2017-2018 Annual Report.
- A majority (55%) of the participants reported that they were not planning any capital expansion. Out of those planning some level of capital expansion, 17% stated that the investment would be less than Rs. 1 cr.

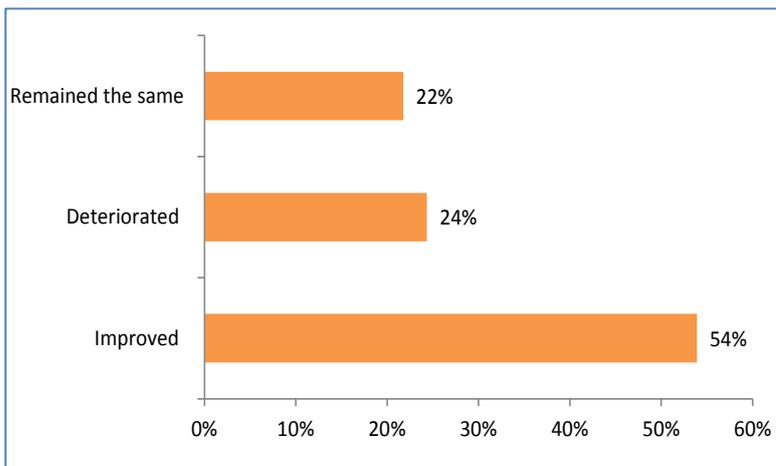
- A large portion (52%) of the respondents indicated that they had not hired any additional employees, out of which 31% stated that no hiring was done as additional employees were not required.
- The largest share of the participants who reported hiring belonged to the companies (25%) who had hired between 1 to 10 employees.
- 55% of the participants reported delays in payment by customers.
- A majority of the respondents ranked the inability to either receive or make payments as the primary impact of demonetization.
- Less than 20% of the respondents stated that they undertook export operations
- Over 80% of the exporters stated that they had not received GST refunds indicating the requirement of a larger quantum of working capital.

**Survey Results**

The CARE SME Survey is divided into four broad parameters: (A) General Economy, (B) Company Rating, (C) Company Funding and (D) Company Performance analyzing the responses of the 197 participants.

**(A) General Economy - General Optimism about Economic growth**

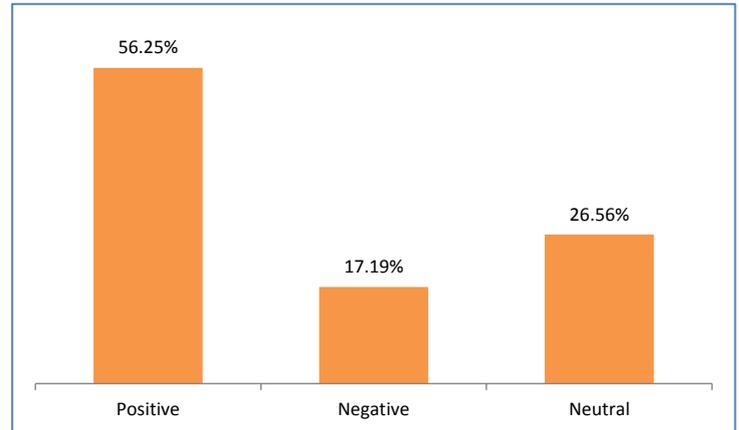
**Chart 2: Economic situation for last 6 months**



**Do you think that the general economic situation in our country has improved, deteriorated or remained the same in the past six months?**

**Chart 3: Economic situation for next 6 months**

**What is your opinion on the general economic situation in the six months to come?**

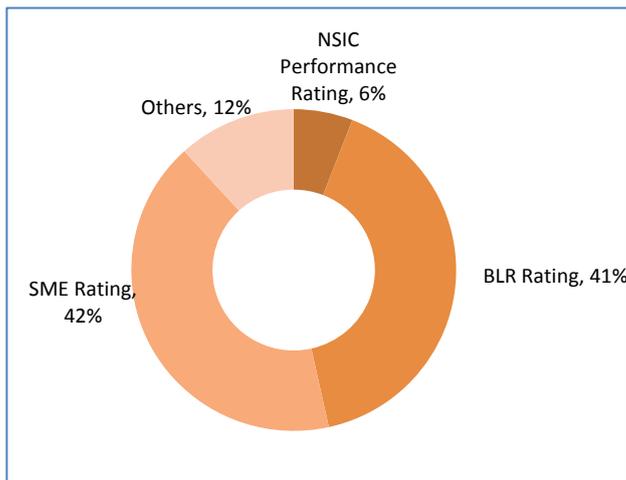


The Survey specifies that the respondents have indicated that the country’s economic performance improved over the last six months and also that an improvement is likely to occur in the Indian economy going forward.

- Over half of the respondents (54%) stated that the conditions have improved over the last six months, while 24% stated that the conditions had deteriorated. Less than a quarter (22%) of the respondents stated that there had been no change.
- Over half (56.25%) of the respondents expect the domestic economy to improve in the coming six months, while the participants which expect no changes (26.56%) are significantly more than the contributors who expect a fall (17.19%) by over 9%.

**(B) Company Rating**

**Chart 4: Which rating do you have?**



**Chart 5: Why do you not have a rating?**

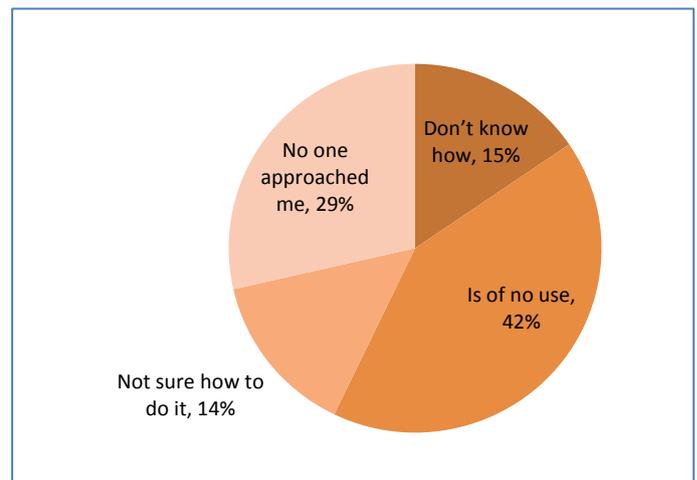


Chart 4 show that around 40% of the respondents have either a BLR rating or SME ratings. Over 40% of those holding either a BLR rating or SME rating is from the smallest size group i.e. companies with a turnover less than Rs. 25 cr.

42% stated that they do not find use for the rating. Of these respondents who find no use for the rating, there was concentration in the group of companies with size of sales of more than Rs 50 cr.

At a different level 50% of the respondents stated that they were indifferent towards the reintroduction of the erstwhile NSIC Performance Grading scheme with only 28% being receptive towards the idea and the balance 22% were against the same.

Chart 5 provides information on the shares of various reasons for companies not to have a rating so far. 29% of the respondents said that they had not been approached by anyone for a rating, while 14% were not sure of how the rating worked. 42% felt that it did not serve any purpose and hence they were not interested in such a product.

Table 1 provides information on the proportion of respondents who found value in the ratings under different headings.

**Table 1: How has the rating been helpful in availing finance?**

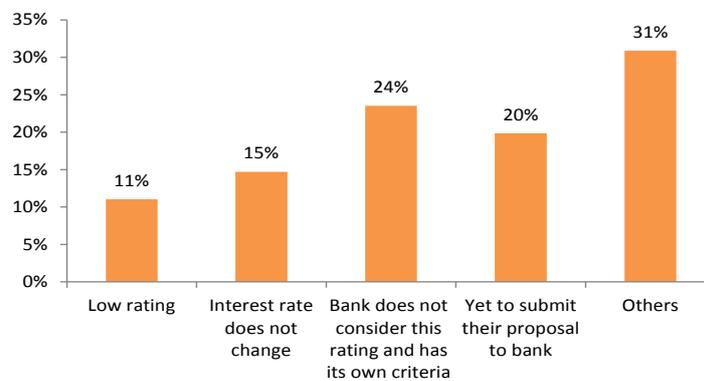
Choice	%
Interest rate concession up to 0.25%	21%
Interest rate concession of 0.25% to 0.5%	4%
Interest rate concession of 0.5% to 0.75%	4%
Interest rate concession of 0.75%	6%
Sanction of additional/ new bank finance	24%
Transaction benefits	9%
Improved credibility	20%
Others	42%

*Note: Percentage of the responses total to more than 100% as respondents have selected multiple options*

Of the responses:

- 20% felt it improved their credibility with suppliers and buyers
- 35% said that their cost of funding came down which ranges from 0.25% to 0.75%. A majority of those who received interest concession reported that they received a concession of up to 0.25%.
- 24% reported benefits in sanction of additional/ new bank finance
- 9% stated that they received transaction benefits such as faster loan processing and / or lower transaction costs

**Chart 6: Has the rating been helpful in availing finance? If No, why?**



Around 20% of the respondents which did not find the rating useful had not yet submitted proposals to banks. 24% of the respondents said that banks do not consider the rating when deciding their interest rates and have their own criteria.

Around 15% of the respondents said that the interest rate did not change on account of their rating while 11% said that their rating was low to draw any benefit on the interest cost.

**(C) Company Funding**

**How have you financed your business? Please rank the following sources of business, with 1 being the most important.**

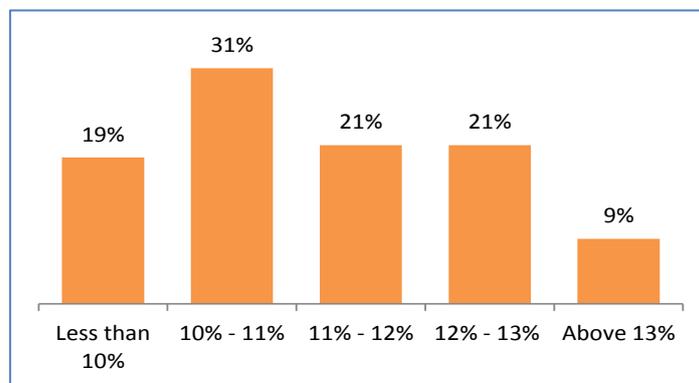
**Table 2: Ranking of Funding Sources**

Funding source	Rank				
	1	2	3	4	5
Own contribution	54%	19%	6%	5%	6%
Equity funding from outside investors	2%	37%	13%	6%	10%
Loan from friends and family	4%	14%	64%	11%	1%
Bank Loans	37%	24%	13%	61%	9%
Others	2%	6%	4%	16%	73%
Total	100%	100%	100%	100%	100%

54% of the respondents have ranked “Own contribution” as the primary source of funding, while 37% have indicated bank loans as the primary source of financing. The “own contribution” response cuts across industries. However, over 50% of the respondents have been from the companies with the lowest turnover range i.e. less than Rs. 25 cr. Bank loans response is more varied with the smallest and the largest category of respondents accounting for a majority (over 65%) of the responses.

**What is your average cost (interest rate) of borrowing? (In percentage terms)<sup>1</sup>**

**Chart 7: Distribution of borrowing costs**



<sup>1</sup> This was a general question posed to the participants and was not related to the ratings that they may have received or not received.

Half of the respondents reported their borrowing cost to be below 11%. 31% (largest share of responses) reported a borrowing cost between 10% and 11%, while 19% reported a borrowing cost of less than 10%.

With close to 9% of the respondents reporting a borrowing cost above 13%, the balance 42% of the respondents was split equally between 11% - 12% and 12% - 13%

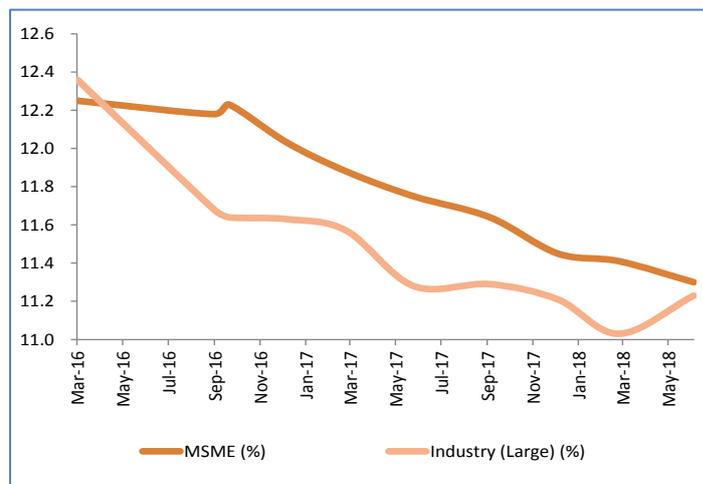
**Table 3: Distribution of companies according to their turnover by interest rate**

Company Size	Interest Rate				
	Less than 10%	Between 10% to 11%	Between 11% to 12%	Between 12% to 13%	Above 13%
Less than 25 cr	43%	43%	49%	59%	50%
More than Rs 25 cr but less than Rs 50 cr	20%	26%	26%	15%	31%
More than Rs 50 cr but less than Rs 75 cr	17%	7%	15%	10%	13%
More than Rs 75 cr but less than Rs 100 cr	20%	24%	10%	15%	6%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**Table 4: Distribution of companies according to their interest rate by turnover**

Interest Rate	Turnover in cr			
	< Rs 25 cr	> Rs 25 cr < Rs 50 cr	> Rs 50 cr < Rs 75 cr	> Rs 75 cr < Rs 100 cr
Less than 10%	17%	16%	27%	22%
10%-11%	28%	35%	18%	44%
11%-12%	21%	23%	27%	13%
12%-13%	26%	14%	18%	19%
Above 13%	9%	12%	9%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**Chart 8: Sector-wise WALR (excluding RRBs) – O/s Loans**

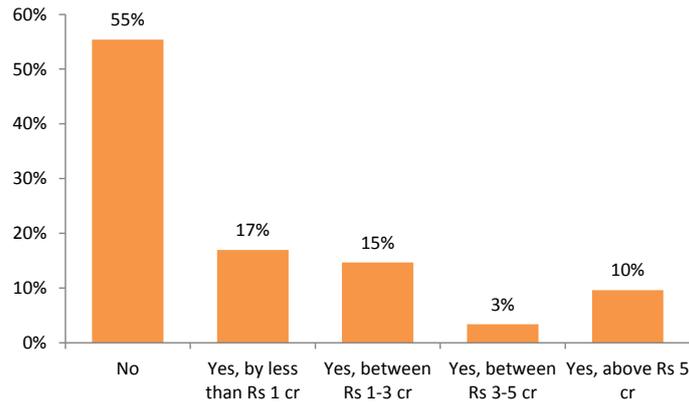


Source: RBI Annual Report 2017-2018, Note: WALR: Weighted Average Lending Rate of SCBs (excluding RRBs)

RBI's data shows that, the WALR (Weighted Average Lending Rate of SCBs (excluding RRBs)) for outstanding rupee loans for SMEs was 11.3% in June 2018, compared with 11.23% for the large borrowers. The spread between the WALR for MSMEs and large borrowers has generally remained in favor of large borrowers. Post September 2016, the spread between the two rates has widened significantly by 0.59% in October 2016, which reduced to 0.07% in June 2018.

## (D) Company Performance

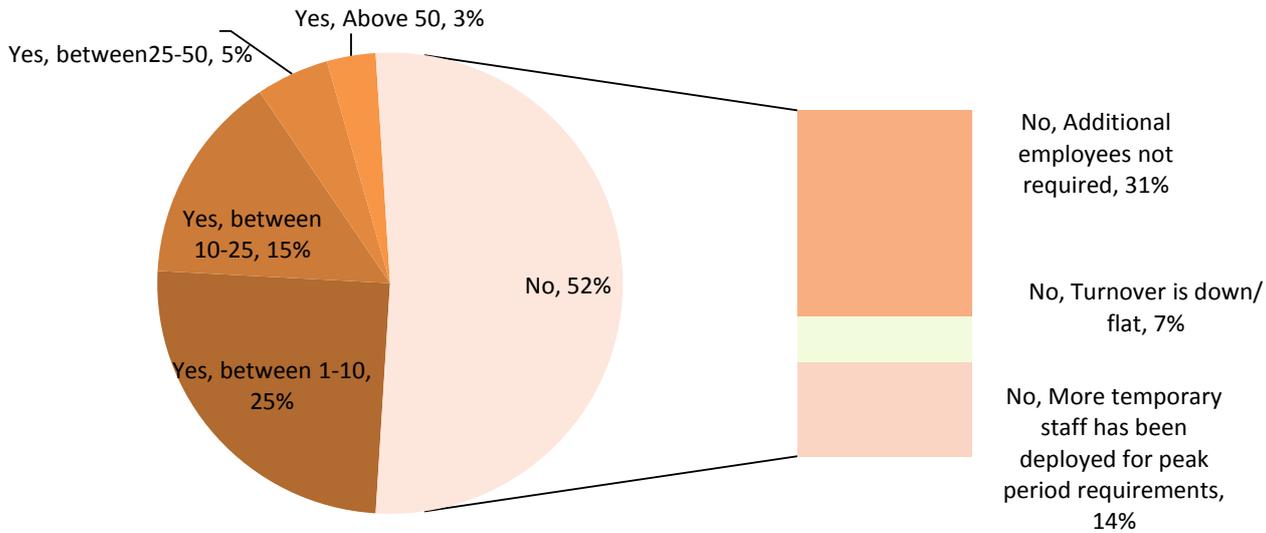
**Chart 9: Is your company planning for Capital Expenditure in the next 18 months?**



Even though a majority of the respondents stated that the conditions had improved (chart 2) or were expected to improve (chart 3), 55% of the respondents to this question were not planning any capital expansion.

- Out of those planning some level of capital expansion, 17% stated that the investment would be less than Rs. 1 cr., 15% between 1-3, 3% between 3-5 cr and 10% above 5 cr.
- Half of those who were confident of economic conditions improving were still not planning any capital expenditure.

**Chart 10: During the current year, has there been a net increase in employee hiring compared to previous years?**



A majority (52%) of the respondents indicated that they had not hired any additional employees. Out of these responses, 31% in total stated that additional employees were not required; the itemization of this 31% is as under:

- 14% stated that the establishment had employed temporary staffers
- 7% responded that the turnover was down

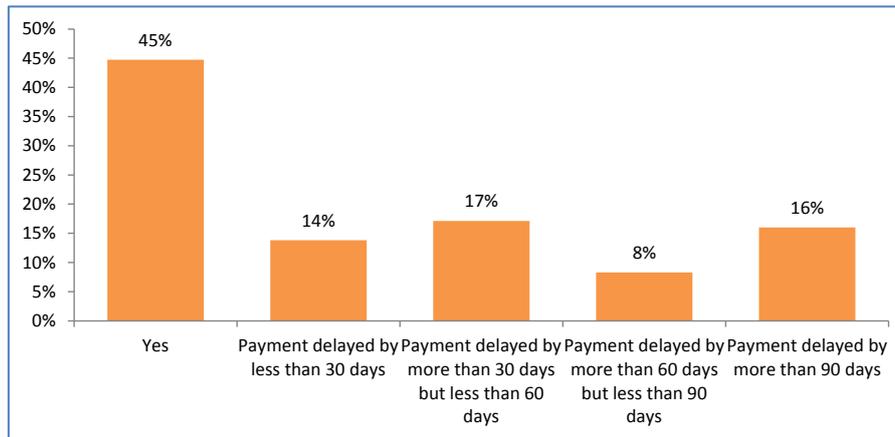
48% of the respondents in total indicated that they had done some level of hiring. The itemization of this 48% is as under:

- 25% indicated that they had hired between 1 to 10 employees.
- 15% had hired between 10 to 25 employees
- 5% had employed between 25 to 50 employees

**Table 5: Distribution of companies according to their hiring plan by turnover**

	< Rs 25 cr	> Rs 25 cr < Rs 50 cr	> Rs 50 cr < Rs 75 cr	> Rs 75 cr < Rs 100 cr
No, additional employees not required	29	12	4	10
No, temporary staff deployed for peak period	13	7	3	2
No, Turnover is down/flat	6	1	2	3
Yes, 1-10 employees	29	6	5	4
Yes, 10-25 employees	6	9	5	6
Yes, 25-50 employees	4	1	1	3
Yes, Above 50 employees	-	1	2	3

**Chart 11: Do you receive payments on time from customers?**



55% of the respondents stated that payments were delayed by customers, while the balance 45% reported that the payments were received in a timely manner.

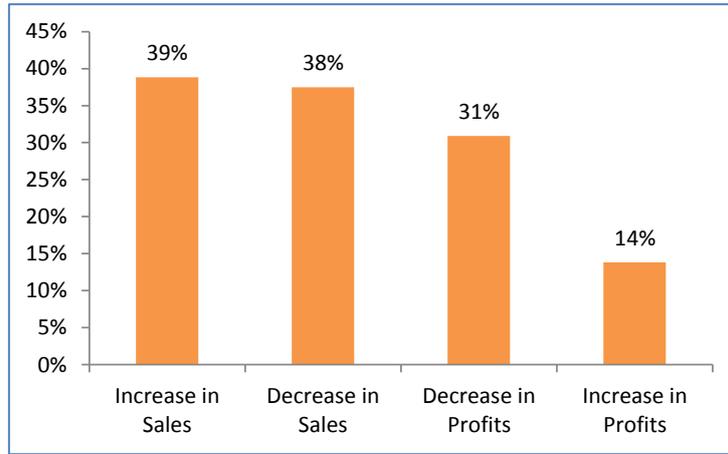
- The delays reported by the participants have been across the board, considering the number of days the payments have been overdue, with 17% reporting delays of more than 30 days but less than 60 days, 16% reporting that delays of over 90 days.
- A majority of the respondents who reported timely payments as well as delays in payments had a turnover of less than Rs. 25 cr.

**Table 6: How has Demonetisation affected your business? Mark in terms of importance with 1 being main effect.**

Response	Rank				
	1	2	3	4	5
Did not get payments on time	<b>67%</b>	19%	5%	4%	7%
Could not make payments on time	11%	<b>59%</b>	14%	13%	1%
Customers stopped buying	12%	12%	<b>58%</b>	18%	3%
Banks stopped lending	3%	8%	18%	<b>58%</b>	12%
Employees left	7%	2%	4%	7%	<b>77%</b>
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The respondents ranked the effect of demonetization as per the above table, with a majority of the respondents rather expectedly ranking at the top, the inability to either receive or make payments, followed by customers halting business and banks stopping lending.

**Chart 12: How has GST affected your business? Mark whatever is applicable**

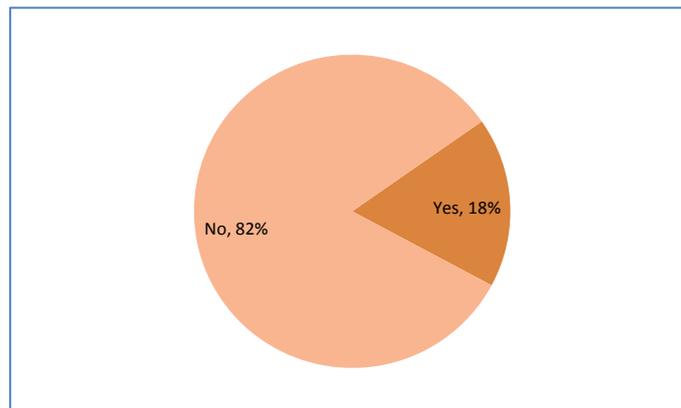


After a year of GST and the periodic changes in rates and formats, close to three fourth (74%) of the participants reported that they were sure of the GST rates and related filings.

Roughly an equal number of respondents stated that they had either witnessed an increase (39%) or a decrease in sales (38%). This indicates that it is not possible to conclude whether it had a bearing on growth in sales.

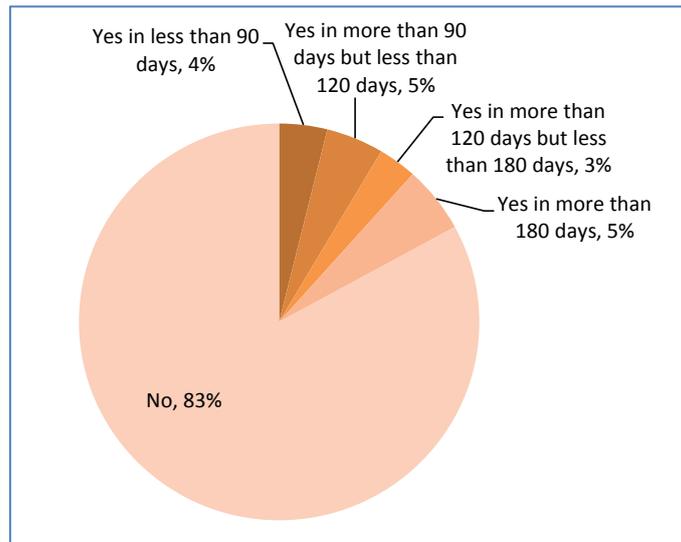
- The increase in sales was spread across all levels of turnover, while more than half the respondents who witnessed a decline in sales belonged to the smallest segment of the pie i.e. those with turnover less than Rs. 25 cr indicating that the larger companies had witnessed more benefits under the GST regime compared with the smaller players.
- More than twice the number of participants reported a decline in profits (31%) compared with respondents who witnessed an increase in profits (14%).

**Chart 13: Do you export your products?**



A significant majority of the respondents at 82% stated that they did not export their products or services. Close to 40% of the respondents who stated that they were exporters had a turnover between Rs. 75 cr and Rs. 100 cr.

**Chart 14: If you export, have you received GST refunds?**



A significant majority of those respondents who export have not received their GST refunds (83%), while out of the balance, 5% of the respondents, each stated refunds were received in more than 180 days and in between more than 90 days but less than 120 days. This delay indicates that the exporters are using additional working capital. This requirement of additional working capital generally requires borrowing which in turn increases interest costs and negatively impacts margins.

## Conclusions

### The Survey shows (based on majority of responses)

- The economic situation has improved in the recent past and also that the economic environment is expected to improve in the near future
- Around 40% of the respondents have either a BLR rating or SME ratings.
- Interest rate concession was the primary advantage of a rating
- The primary reason for not availing a rating is the belief that the rating does not contribute to operations along with bankers not considering the assigned rating.
- Own contribution is the primary funding option of the respondents
- Half of the respondents reported their borrowing cost to be below 11%
- Capital expansion was not being considered
- No additional employees were hired
- Customers routinely delay payments
- The exporters had not received GST refunds