

Downing the shutters, again for MSME

Synopsis

Local lockdowns, delayed payments and rising costs have hurled MSMEs into another cycle of financial stress. Will they survive the second Covid shock?



MSMEs operating in sectors such as hospitality, mobility services, offline retail, entertainment & leisure, tourism and aviation-related businesses are in dire straits.

A swinging rooster, placed near the cash counter, is casually nudged into motion as Mayur Gowda starts speaking about Covid-19 and its impact on the traditional wooden-toy industry in Channapatna, a small town along the Bengaluru-Mysuru highway. The bright red-and-yellow wooden plaything, hand-carved in the shape of a murga, keeps nodding its head in agreement while the 25-year-old talks about the devastation all around, of how the toys have fallen silent.

“Demand for wooden toys has crashed by at least 50% since the beginning of the second wave,” says Gowda, an engineering graduate, who joined his family’s four-decade-old business, Shri Manjunatha Toys Factory, a couple of years ago. “Retail shops selling toys are not open in many parts of the country. Large temples are closed and so have the businesses around them. Tourism is down and there are no fairs happening in north Indian villages either. Our products are only sold online these days.”

Till a few years ago, Channapatna, renowned as the “town of wooden toys”, had nearly 300 toy-making units that employed over 4,000 artisans. But many workshops downed their shutters permanently after the nationwide **lockdown** last year. The surviving units did brisk business around Dussehra and New Year, but again got drubbed when the second Covid wave hit them this year.



“We are not getting artisans to work in our factories. People who worked with us earlier have taken up other jobs. This is partially because manufacturers had to let go of many people during the first lockdown last year,” rues Gowda.

The rising cost of raw material (wood, lacquer), lower prices for the products they manufacture and inadequate financial support from banks and the government — the toy makers’ cup of woes brims over. But these manufacturing units are not the only ones that are suffering. A large number of Indian micro, small & medium enterprises (**MSMEs**) are fighting hard to survive the economic turmoil that has fallen upon them on account of the pandemic, according to several **small business** owners, economists, lenders and consultants.

The majority of the 6.3 crore-odd MSMEs are facing a slump in demand for their products or services. They are also facing acute financial stress, despite various schemes announced by the government. Payment delays by large companies and other SMEs, labour shortage and rising cost of raw materials have hurled these small businesses into great distress, say members of several industry bodies. MSMEs operating in sectors such as hospitality, mobility services, offline retail, entertainment & leisure, tourism and aviation-related businesses are in dire straits while numerous manufacturing-led MSMEs are on the verge of getting swamped, point out industry watchers.



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MAYUR GOWDA,
SRI MANJUNATHA
TOYS FACTORY,
CHANNAPATNA



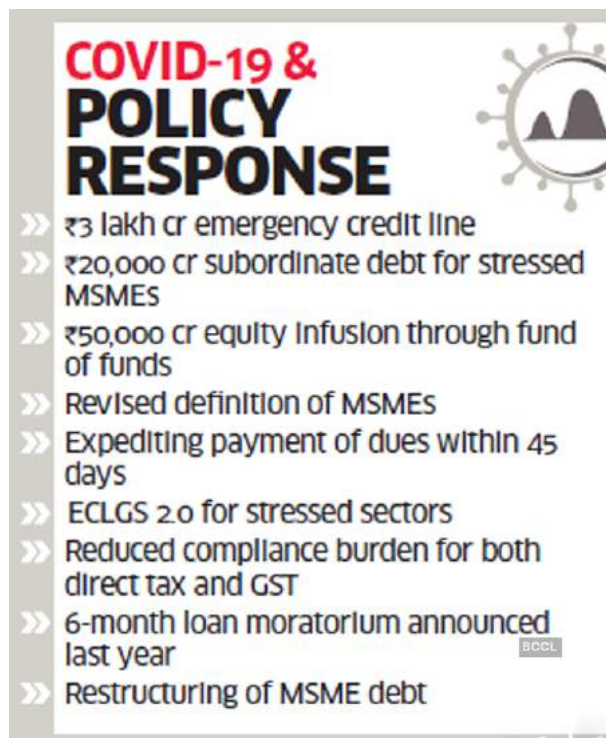
“The first wave of Covid, and the nationwide lockdown, was very debilitating for most MSMEs. A good number of them survived that phase, and was beginning to regain health, when the second Covid wave happened. So, now it has become a double whammy for small businesses,” says Yuvika Singhal, economist, QuantEco Research. “Small business owners may now become very cautious about the steps they take. They may be scared to invest more or take on debt to grow their business. They may just keep their business small — to have better control of the situation. If that happens, it’s bad news. When key economic agents rationalise, they stay in that mode for three-four years,” she adds.

Much like the toy industry in the South, sports goods manufacturing in the North is finding it difficult to survive in the prevailing hostile business environment. MSMEs have not done much business over the past 14 months,” says Mukesh Bassan, MD of Belco Sports, a Jalandhar-based manufacturer. “Schools and colleges are shut; training facilities and playgrounds are closed. There are no big tournaments happening. Professional athletes are staying indoors. There are lockdowns in several parts of the country. How will this industry survive?” asks Bassan. “Fitness and indoor games are the only two verticals that have seen some sales over the past one year. We have sold quite a few dumbbells, carrom boards and chess sets since Covid began,” he adds.



LocalCircles, a community social media platform, surveyed over 6,000 MSMEs and startups in May to gauge the sentiment. The survey found several small businesses short of working capital and in deep financial stress. Nearly 60% of those surveyed said they would have to scale down or shut down their businesses this year.

“Many of these SMEs have had no cash flow for several months now. Some of them barely have one to two months of working capital runway. The government’s financial assistance packages have not reached these small business owners so far,” says Sachin Taparia, founder-CEO, LocalCircles. “We may not see a huge pent-up demand driving sales this time. There are even worries about regular consumption pattern getting hit. If that happens, small businesses would be severely impacted,” he adds.



Financial stress

According to industry bodies, over 80% of MSMEs are micro enterprises – with just 5 to 20 workers, and a turnover of less than Rs 5 crore. The packages and emergency credit lines offered by the government rarely reach this stratum of business owners.

“A large number of MSME owners do not have access to the numerous schemes announced by the government. A good number of them are labelled ineligible because they do not fit into the definition of MSMEs; many are weeded out because of (business) size issues,” says Sachchidanand Shukla, chief economist, Mahindra Group. “Only top-tier MSMEs benefit from government assistance packages. Even schemes, where government guarantees loans given to small businesses, don’t reach the really small business owners as lenders do not want to engage with them. Lenders are wary of giving loans to low-rung MSMEs at the cost of their balance sheets,” he adds.

Despite a slew of financial assistance packages announced by the government over the past one year, bank credit to micro and small enterprises has remained more or less subdued. In the first month of this fiscal, incremental bank credit to the MSME sector fell by 3.2% to ₹12.03 lakh crore. The fall in credit has been chiefly on account of fewer number of loan disbursements to micro and small enterprises. However, bank credit to medium enterprises witnessed a growth of over 5% to ₹1.43 lakh crore in April 2021. Two senior private bank officials, whom ET consulted, said that they were only lending to existing MSME clients that have a reasonably strong repayment record.



WHAT MORE NEEDS TO BE DONE

- » Extension of emergency credit line to units in states under lockdown
- » One more round of loan moratorium
- » Indirect tax cuts (including GST rebate on raw materials)
- » Expediting pending dues from large companies, government bodies
- » Urging banks to lend more to smaller MSMEs
- » Reduce prices of raw material (fuel, coal, pig iron & ores) supplied by govt
- » Adopt a sector-specific approach. More support to hospitality, tourism, aviation & auto sector MSMEs

“The six-month loan moratorium helped SMEs a lot last year. They survived by cutting operating costs. By the time the moratorium ended, economic growth had gathered pace — and several small businesses recovered in good time,” says Sachin Gupta, chief rating officer, Care Ratings. “But this time no loan moratorium has been announced so far. Perhaps, that’s because the economic impact of the Covid second wave was less severe than the first when there was a nationwide lockdown. However, if, for some reason, Covid cases rise again and demand shock persists, small businesses may face stiff challenges,” he adds.

There have also been payment delays by large companies and other SMEs. As per rules, MSME dues have to be settled in 45 days; but that is not happening at the ground level. “Even large companies are delaying vendor payments these days,” says Mukesh Mohan Gupta, president, Chamber of Indian MSMEs, an industry body. “Payment delays are causing a lot of MSME loan defaults as well. Small business owners are not able to repay banks on time,” he adds.



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SACHIN GUPTA, CHIEF RATING OFFICER, CARE RATINGS


Apart from payment delays, cost of production has gone up for MSMEs operating across sectors. “No SME is working at 100% efficiency now — and the time taken to manufacture products has gone up. Less capacity utilisation has shot up conversion cost,” adds Gupta.

Pricey raw materials

While manufacturing MSMEs are better positioned to weather the storm, they have their own set of challenges to deal with. Several manufacturing companies are grappling with a significant rise in raw material costs. “Cost of raw materials has gone up 40-60% over the past one year,” says D Gandhikumar, MD of Coimbatore-based Gandhikumar Foundry, which supplies parts to agri pump-set manufacturers and automobile companies. “This price rise is across the board, starting from steel to pig iron, steel scraps, other metals and even alloys. This is happening when demand for our products is going down. Demand from the auto sector is down 60-80%; demand from agri sector is muted as well,” he adds.

Labour shortage and job losses

Labour shortage is another problem faced by several MSME across the country. Labour contractors are finding it difficult to meet the rising demand for blue-collared workforce from India’s manufacturing hubs. “We are seeing a 40-50% drop in the number of people willing to work in large factories and automobile shop floors,” says Anant Akhade of SSS Services, a Pune-based labour contractor. “The problem started about two months back when people returned to their villages in north India,” he adds.

 **We have not done much business over the past 14 months. Schools, colleges and training facilities are shut. How will this industry survive?"**

MUKESH BASSAN, MD,
BELCO SPORTS,
JALANDHAR



While there is shortage of workers on one end of the employment spectrum, there are job losses on the other. According to **CMIE**, over 15 million jobs were lost during May, with the urban unemployment rate hitting nearly 18%. Bulk of the job losses have come up in MSMEs and the informal sector (daily wage earners), say economists. But how can labour shortage and job losses happen at the same time?

“When lockdowns started happening across states, and demand slumped, small companies let go of a lot of people. But now, as we enter the unlock phase and with a slight demand uptick, companies are not getting enough workforce to increase production. It’s a business cycle one has to live through,” says Saurabh Tandon, COO of BetterPlace Safety Solutions, a platform that helps firms manage blue-collar workforce.

A SURVEY OF MSMEs: KEY FINDINGS

- » Only 22% of MSMEs & startups have over three months’ funding runway
- » 41% are either out of funds or have less than 1 month of funds left
- » 49% of MSMEs & startups plan to reduce employee cost
- » 59% of MSMEs expect to scale down or even shut business over the next 6 months
- » 88% of all SMEs expect govt to provide cost escalation on all MSME business contracts
- » 92% of SMEs want govt to extend project fulfilment contracts

BCCI

Source: LocalCircles survey of over 6,000 entities located in 171 districts in India in May

According to job consultants, there have been a lot of job losses over the past one year — especially in brick-and-mortar businesses. At the same time, several internet companies (platform-based) have ramped up their blue-collar hiring. “So 85-90% of the people who lost jobs recently will find alternate employment once the economic situation improves. My worry is the remaining 10-15%; these are jobs that are lost forever. This number could be quite staggering in India’s case,” adds Tandon.

The next few months could be critical for MSMEs across the country. Ones that survive could emerge stronger than before but many could perish.

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