

SME Roundup

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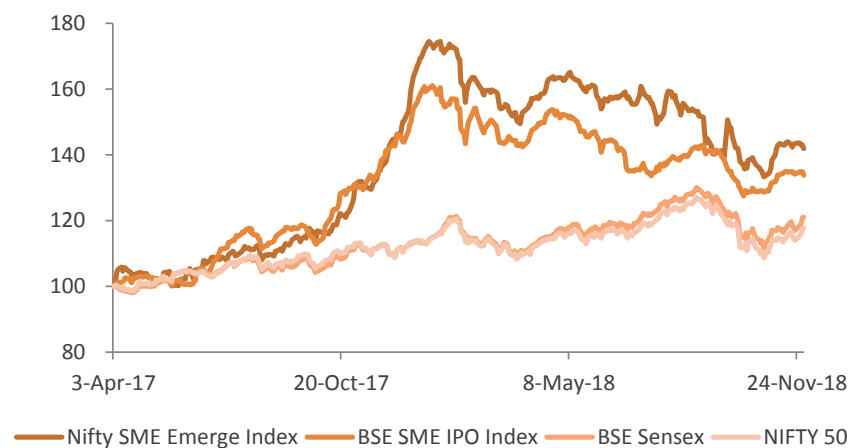
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Highlights

- Over the last fortnight, the stock markets remained volatile, while the SME indices fell even as the broad market indices closed on a positive note.
- Even as an American Express report highlighted the challenges that SMEs face while raising bank finance and stated that SMEs are looking at alternative options to raise funds, BSE created new division for listing of start-ups and SBICAP Ventures announced plans to launch and SME focused fund.
- Events are being organised in Delhi and Hyderabad to promote MSME growth

1. Capital Market Movement

SME Index Movement



Source: NSE, BSE

Index	15/11/18	30/11/18	% change
Nifty SME Emerge	1,543.66	1,523.47	-1.3
BSE SME IPO	1,756.75	1,742.05	-0.8
BSE Sensex	35,260.54	36,194.30	2.6
Nifty 50	10,616.70	10,876.75	2.4

Source: NSE Emerge, BSE SME Platform

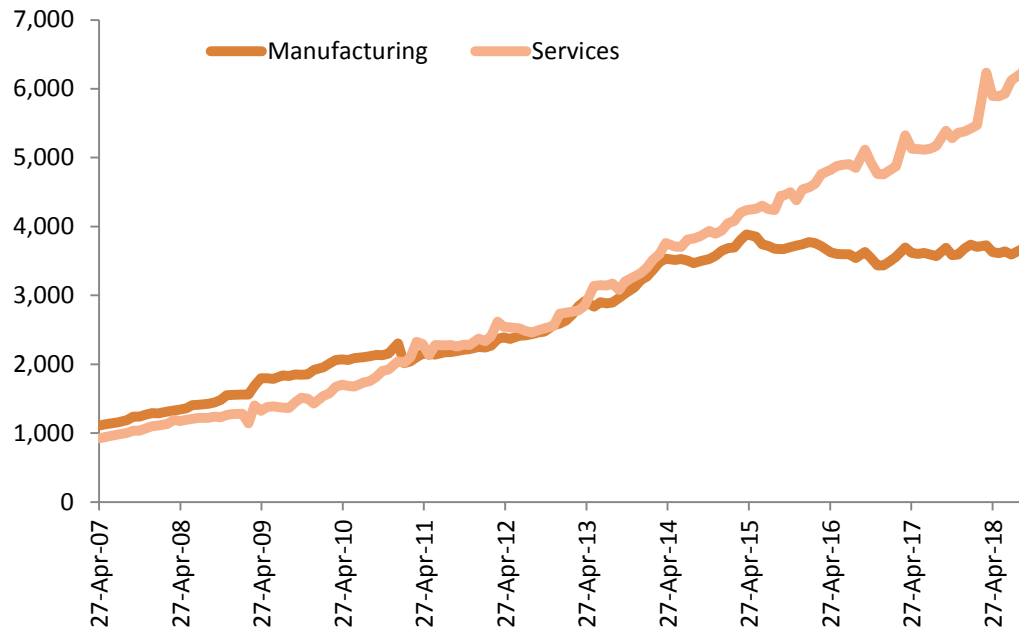
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Upcoming IPOs

No	Company Name	Start Date	End Date	Issue Size	Issue Price	Lot Size	Platform
1	ICL Multitrading India Ltd	19-Nov-18	3-Dec-18	17.86	85-0	1600	NSE Emerge
2	DRS Dilip Roadlines Ltd	27-Nov-18	30-Nov-18	31.50	75-0	1600	NSE Emerge

2. Sectoral Deployment of Credit

Priority Sector Bank Credit to the SME Sector (in Rs. bn)



Source: RBI

Sector	Outstanding as on (Rs bn)					% Change	
	Sep.30, 2016	Mar.31, 2017	Sep.29, 2017	Mar. 30, 2018	Sep.28, 2018	Sep.28, 2018 / Sep.29, 2017	Sep.28, 2018 / Mar.30, 2018
Micro & Small Enterprises	8,744	9,020	9,079	9,964	9,945	9.5	-0.2
Manufacturing	3,630	3,697	3,690	3,730	3,638	-1.4	-2.5
Services	5,114	5,322	5,389	6,234	6,307	17.0	1.2

Source: RBI

3. Key Developments

[SBICAP Ventures launches SME, affordable housing funds](#)

SBICAP Ventures (SVL) has launched two funds for the small and medium enterprises (SMEs) and affordable housing sectors. The SME fund is expecting to raise a corpus of Rs. 400 crore, with two anchor investors - SBI and SBI CAP/SVL. The firm expects an internal rate of return (IRR) between 18% and 22%. The SME fund is expected to commence in September 2019 and the first close of around Rs. 240 crore is expected by June 2020. SBI is expected to invest up to 10% and SBI Capital would invest another 10-12%.

[BSE creates new division for listing of startups](#)

BSE Ltd has setup a new division within its SME segment to list start-up companies. The platform will facilitate the listing of companies in sectors such as IT, ITeS, biotechnology and 3D printing. BSE has stated certain criteria for such companies

- The company should be registered as a start-up with the Ministry of Micro, Small & Medium Enterprises or Department of Industrial Policy & Promotion
- In case the company is not registered as a start-up, then its paid-up capital should be minimum ₹1 crore
- The company should be in existence for a minimum period of two years
- Qualified institutional buyer (QIB) or angel investor or any other accredited investor should have invested in the firm for a minimum period of two years at the time of filing of the draft prospectus with the BSE
- The firm should have positive net-worth and none of the promoters or directors of the start-up should have been debarred by any regulatory agency
- The firm should not have been referred to National Company Law Tribunal (NCLT) under Insolvency and Bankruptcy Code and there should be no winding up petition against the company that has been accepted by NCLT

[Indian SMEs look at alternate options of raising funds](#)

According to the American Express Global SME Pulse 2018 report, SMEs in India have difficulty in accessing funds due to high borrowing cost and cumbersome process. Approximately 42% of SMEs said that access to finance to grow the business is difficult, compared to 33% in the global average. Rising borrowing costs and access to finance has forced SMEs to look at alternate options of raising funds to fuel growth. Additionally, as per the survey, Indian SMEs expect annual revenue growth over the next three years of 7%, along with a 6% annual growth in profits.

[MSME linkage event to be organized in Hyderabad for the growth of MSMEs](#)

A MSME linkage event- Growth driven for Business (GDB) has been organized to bring together MSMEs, Financial institutions, private and public sector to help the stakeholders to envision changes for the sustainability of sector. The event has been organized by Indian Chamber of Commerce (ICC) southern region council with Industries and Commerce Department, Government of Telangana. The conference will be held on December 21, 2018 at Hotel Haritha Plaza, Hyderabad.

[MSME Ministry-GIZ organizing a 2-day Strategy Workshop for Incubation Services in New Delhi on Dec 11-12](#)

The MSME Ministry and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH have jointly organised a two-day Strategy Workshop for Incubation Services in Delhi on December 11-12, 2018. The workshop has been organized under the ambit of MSME INNO, an Indo-German bilateral project to promote innovation in MSMEs. The Strategy Workshop has been targeted towards select Business Incubators across the country that promote technological and knowledge based innovative ventures.

[Giriraj Singh inaugurates MSME Pavilion at India International Trade Fair](#)

Shri Giriraj Singh, Union Minister of State (I/C) for MSME, inaugurated the MSME pavilion at the 38th India International Trade Fair (IITF) in New Delhi. Over 50 MSME entrepreneurs showcased their products at the stall. The MSME Expo exhibits were on Solar Charkha Scheme Products, Process Development Centres, Skill Development and Procurement Marketing Assistance Schemes.

4. Other Updates

Small and Medium Enterprises (SMEs) are the backbone of the economy and major source of entrepreneurial innovation and skills. This sector plays a pivotal role in the country's economy with contribution of around 45% of the industrial output and 40% of the exports. Further, SMEs employ more than 110 million people, create more than one million jobs every year and produce more than 8,000 products for the domestic and international markets.

Despite high enthusiasm and inherent capabilities to grow, they have traditionally been facing some constraints, including lack of adequate and timely finance. Hence, there is a need to promote and strengthen the sector. However, ability of SMEs to develop, grow, sustain and strengthen themselves is heavily determined by their capacity to access and manage finance. One of the main causes is the perception of lenders towards SMEs.

Lending to SMEs is perceived as a high risk proposition mainly on account of information asymmetry issues, high transaction cost involved in due diligence, diversity of product profile among SMEs and default rates in the past. However, below data clearly indicates that SMEs NPA rate is in fact lower than overall NPA rate in India.

% as exposure to respective segment

Year / Exposure	Micro Less than 1 Crore	SME 1-25 crores	MID 25-100 Crores	Large than 100 crores
Mar-16	7.9%	9.8%	9.2%	13.4%
Mar-17	8.9%	11.4%	16.3%	15.3%
Mar-18	8.8%	11.2%	18.0%	15.9%

Source: MSME Pulse

Majority of SMEs face a common issue in their early days, which is finding the right type of finance at an affordable cost to start and grow the business. Therefore, in order to facilitate the sector, RBI/Banks has taken various policy measures; few of which are mentioned below:

- Ensuring credit to the SME sector as a part of priority sector lending by banks
- Earmarking credit for microenterprises within overall lending to micro and small enterprises.
- Opening specialized SME branches
- Assessment of working capital requirements on the basis of minimum 20% of the projected annual turnover

Also, government has taken various measures to provide support for credit access and other aspects in relation of ease of doing business to SMEs. Some of such measures are mentioned below:

- In Feb 2018, Government of India redefined the categories of micro, small and medium enterprises which are now based on their annual revenue instead of self-declared investment on plant and machinery. This move benefitted SME's in reducing the unnecessary inspections and enables the authorities to verify claims of businesses using the sales data based on GST returns.
- Government of India (GoI) has set up an institution named Micro Units Development & Refinance Agency Limited (MUDRA) under the Pradhan Mantri Mudra Yojana to provide funding to the non-corporates; non-farm sector income generating activities of micro and small enterprises whose credit needs are below 10 Lakh. MUDRA provides refinance support to Banks / MFIs for lending to micro units.
- The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGS) was launched by GoI to make available collateral-free credit to the micro and small enterprise sector.

- In Union Budget 2018, corporate tax rate for companies with an annual turnover of up to Rs.250 crore was reduced to 25%. This move benefited SME in reducing their cash outflow and helps in funding to their various requirements towards working capital and expansion plans.
- Additionally, in order to provide ease of registration to SME's, Entrepreneurs' Memorandum (EM part-I & II) was replaced with Udyog Aadhaar Memorandum (UAM) filing wherein the information sought is on self-certification basis and without any supporting documents required.

On account of the various measures from RBI and the government, the bank credit to SMEs has shown growth, which is depicted from the table below

Credit Exposure of SME Segments (considered upto Rs. 25 crores)

Year	Total Loan to SMEs Rs. Lakh Crore
Mar-16	9.69
Mar-17	10.92
Mar-18	12.60

Source: MSME Pulse

Despite the bank credit growth for SMEs over the years; 90% of SMEs continue to face issues with respect to access to the bank finance. For facilitating SME financing, banks need to employ low cost and quick decision making alternatives which would help accelerate credit flow to this sector.

In addition to various policies, banking in SME segment requires an innovative approach in order to have a wide reach across the country. Also, banking system requires strengthening to monitor large SME portfolio and quality of the advances. To achieve it, some financing tools may be useful.

- Reverse factoring can be one of such tools. In the traditional factoring, the factor purchases the receivables from the various buyers of a single seller i.e. the credit risk of multiple buyers is sold to a single factor. Though the reverse factoring technique is similar to the traditional factoring in many ways, prime distinctive parameter here is the initiating party. In reverse factoring, buyer (generally large corporate) initiates the transaction in order to help its small suppliers to finance the receivables. This facilitates banks to reduce the credit risk as the exposure shifts to large corporate factor rather than SMEs.
- The second could be extensive use of credit score model. The credit scoring approach, which is based on use of technology, artificial intelligence and mass production methods, was originally designed to handle consumer loans, but are now being used effectively for lending to small businesses by predicting their potential loan delinquency. Credit scoring offers a modern alternative for the traditional method of evaluating loans for small businesses where loans were approved on the basis of the banker's qualitative judgment and the financial condition carried significant weight in the appraisal process.
- Third would be balancing the equity needs of SMEs through seed equity financing along with normal bank credit. Introduction of a proper equity-cum-loan scheme for SMEs by some banks in future can make wonders in this segment.

Since resources are scarce, all the issues which SMEs are facing cannot be tackled simultaneously. Thus, there is a need to prioritize the issues and identify the policy options on the basis of the requirements of SMEs in their region. Furthermore, the effective pace of implementation is required, which would help the sector to develop at a regular pace.

*By Mr. Achin Nirwani, Associate Director - MSME
(Views expressed are personal)*

CARE Ratings’ presence in SME related activities



Mr. Saikat Roy, Director & Head, SME was a jury member for the Jury Meet at 3rd IPF Industrial Excellence Awards 2018 held at IMC Chamber of Commerce and Industry on November 15, 2018.

Mr. Saikat Roy, Director & Head, SME was a panellist in the panel on “Challenges faced by MSMEs” at an event organised by Business Standard and MACCIA on November 28, 2018 at Mumbai.



Mr. Manish Kumar (Senior Manager) addressed delegates from 18 countries on ‘Indian MSME segment from credit perspective and benefits of credit rating for MSMEs’ at National Institute for Micro, Small and Medium Enterprises, Hyderabad.

Ms. S. Uma (Manager), Mr. N. Anand Kumar (Deputy Manager) and Mr. Kannadasan (Sr. BDO) spoke on Methodology of Credit ratings at Canara Bank, Karur AGM Branch, Tamilnadu on November 20, 2018.

