

Impact of Covid-19 on MSMEs

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The Covid-19 induced lockdown has impacted all sectors of the economy with the worst hit one being the MSMEs. The MSME sector with a share of 30% in nominal GDP (in FY17) contributes significantly to the country's economic growth. The share of MSME sector in India's merchandise exports stood at around 48% in FY19.

There are more than 6.3 crore unincorporated non-agriculture MSMEs (excluding construction) in the country engaged in different economic activities and the sector provides employment to more than 11.1 crore people. The MSME sector comprises manufacturing, trade and service providers. A large number of MSMEs are ancillary units catering to the needs of large industries. The government has envisioned to increase MSME sector's contribution to GDP to over 50% in next few years as the country aspires to be a \$ 5 trillion economy. However, as most MSMEs are largely unorganised with small size of individual units and informal nature of the business challenges exist. The sector was already struggling with slowdown in demand and disruptions led by demonetisation and GST implementation. The Covid-19 pandemic has further aggravated stress in the sector.

The MSME sector operates mainly on cash basis and unlike the larger players have less access to formal source of credit. The sector has been under immense financial stress as operations have been curtailed due to the lockdown but overhead cost still remains to be borne by the companies. Without a steady stream of income to cover the expenses, many companies could not survive and may shut down or are on the brink of shutting down. The sector needs immediate assistance without which many companies may go out of business. Besides the lockdown the sector is likely to witness tepid demand going forward due to the overall slowdown in the economy. Most small scale business may not be in a position to survive long without timely support from the government.

This study looks at the sector in some detail and analyses how it will be affected on account of the Covid-19 pandemic and subsequent lockdown. Also the immediate steps required to bring relief to the sector are discussed.

Which companies are classified as Micro, Small & Medium Enterprises?

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as below:

Table 1: Classification of micro, small and medium enterprises

I. Manufacturing Sector	
Enterprise Category	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
II. Service Sector	
Enterprise Category	Investment in equipment
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than ten lakh rupees but does not exceed two crore rupees

Source: Ministry of MSME

Size:

As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16, there were 633.9 lakh unincorporated non-agriculture MSMEs (excluding construction) in the country engaged in different economic activities. Of this 31% MSMEs were found to be engaged in manufacturing sector, while 36% were in trade sector and 33% in other services sector.

Out of the 633.9 estimated numbers of MSMEs, 324.88 lakh MSMEs (51.25%) were in rural area and 309 lakh MSMEs (48.75%) were in the urban areas.

Chart 1: Sector-wise estimated MSMEs in India (in lakhs)

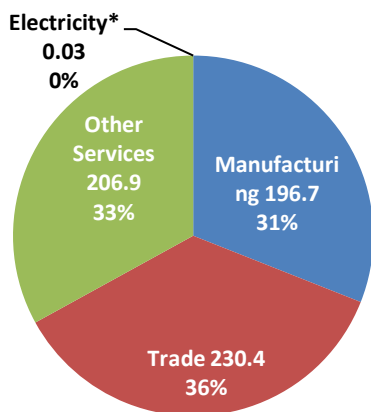
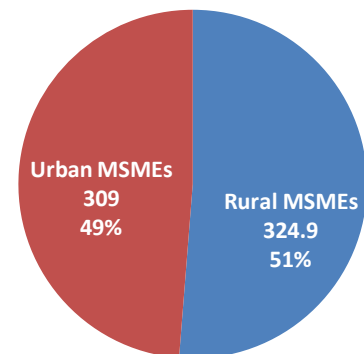


Chart 2: Percentage share of rural and urban estimated MSMEs in India (in lakhs)



Source: Ministry of MSME

*Non-captive electricity generation and transmission

Distribution of enterprises category wise

The Micro sector with 630.5 lakh estimated enterprises accounts for more than 99% of the total estimated number of MSMEs. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs accounts for 0.52 % and 0.01 % of total estimated MSMEs, respectively.

Table 2: Category-wise distribution of enterprises (in lakhs)

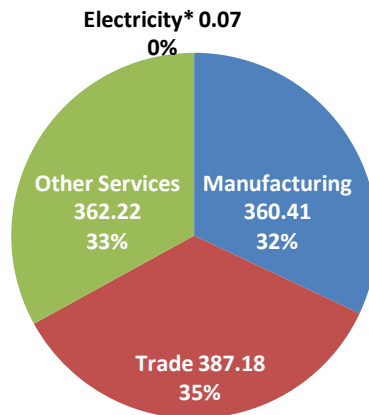
	Micro	Small	Medium	Total	Share (%)
Rural	324.1	0.78	0.01	324.9	51
Urban	306.4	2.53	0.04	309.0	49
Total	630.5	3.31	0.05	633.9	100

Source: Ministry of MSME

Employment:

As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 11.1 crore jobs. Out of 11.1 crore jobs created, 360.4 lakh employment was created in manufacturing sector, 387.2 lakh in trade sector and 362.2 lakh in other services sector and 0.07 lakh in non-captive electricity generation and transmission sector.

Chart 3: Estimated employment in MSME sector (in lakhs)



Source: Ministry of MSME

Micro sector provides employment to 1,076.2 lakh persons, which accounts for around 97% of total employment in the sector. Small sector with 3.31 lakh and medium sector with 0.05 lakh estimated MSMEs provides employment to 32 lakh (2.9%) and 1.8 lakh (0.2%) persons of total employment in MSME sector, respectively. MSMEs in rural areas accounted for 45% of total employment and urban MSMEs provided employment to 55% of the total employees.

Impact of Covid-19 on MSMEs and workers employed in MSMEs

We have tried to guess the impact on employment in MSMEs based on how sectors have been impacted by the pandemic. These numbers are conjectures assuming that these enterprises are in operation - which may not always be the case as several of them are non-operative. Also the data is based on the 2015-16 Survey which has the disadvantage of being dated

as there have been several changes in the past 5 years which is not captured and is a limitation. Based on the state of operations of the segments in the first two months of the lockdown, the impact on employment has been estimated keeping in mind these limitations.

Manufacturing

Here we attempt to conjecture how many jobs of MSME workers are under pressure due to lockdown imposed in India on account of Covid-19.

Table 3: Percentage distribution of manufacturing enterprises by activity category

Activity category	% share in manufacturing	Estimated number of workers employed (in lakh)
1) Wearing apparel	28.5	78.6
2) Tobacco products	16.7	39.5
3) Textiles	13.2	49.8
4) Food products	11.6	47.7
5) Wood and products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	6.1	21.8
6) Other manufacturing	4.8	18.7
7) Furniture	4.4	16.5
8) Fabricated metal products, except machinery and equipment	4.0	20.2
9) Other non-metallic mineral products	3.1	28.1
10) Repair and installation of machinery and equipment	1.8	5.6
11) Others	5.7	34.0
Total	100.0	360.4

Source: MoSPI, NSS 73rd Round (July 2015 – June 2016)

- The top 10 activities mentioned in the table accounted for about 94% of the total manufacturing activities in the MSME sector with the top 4 activities having a major share of 70% in the manufacturing sector.
- All the activities mentioned in the above table are believed to have got impacted during the all-India lockdown period that started from 25 March 2020 which is set to last till 17 May 2020.
 - o Manufacturing activity of food products however is estimated to have been better compared to the other mentioned manufacturing activities during the lockdown as food products being basic necessity falls under essential category.

Even while relaxations for manufacturing units were provided in the second and third phase of lockdown, clearance of formalities from district administrators is delaying operations at mills and factories. The mills nevertheless are resuming work at below normal operation rates. The disturbance caused due to lockdown has not just affected the demand-supply scenario of these activities but have also created pressure on the employed workers. **Resultantly, stress continues to surmount on around 275-300 lakh workers involved in MSME manufacturing units.**

Trading enterprises

Table 4: Percentage distribution of trading enterprises by activity category

Activity category	% share in trade	Estimated number of workers employed (in lakh)
1) Other retail trade	86.9	320.3
2) Other wholesale trade	7.1	39.2
3) Maintenance and repair of motor vehicles and motor cycles, and repair	4.3	18.8
4) Wholesale and retail trade of motor vehicles and motor cycles	1.1	6.0
5) Activities of commission agents	0.7	3.1
Total	100.0	387.4

Source: MoSPI, NSS 73rd Round (July 2015 - June 2016)

The 'other retail trade' segment holds the largest share of 86.9% in trade sector of MSMEs. This includes retail trade of products like food & grocery, apparels & footwear, consumer durables & IT, jewellery & accessories, medical stores & pharmacies, home décor & furnishings, beauty & personal care among others.

- While the retail trade of essential items like groceries & food and medical stores & pharmacies is not largely affected, the retail trade of non-essential items like apparels & footwear, consumer durables & IT, jewellery & accessories, home décor & furnishings, beauty & personal care has taken a hit.
 - o This, in turn, is expected to create pressure on jobs of workers employed in all MSME retail trade activities except for food & grocery (accounts for about 60% of the retail market in India) and medical stores & pharmacies.
- In addition to this, the other 4 activities mentioned in the trade sector of MSMEs are also believed to have been hurt quite significantly. Around half of those in the wholesale business have been affected directly by the shutdown.

Thus almost 40-45% of the workers employed in the trading enterprises sector are likely to see their jobs under pressure.

Other services

Table 5: Percentage distribution of other services enterprises by activity category

Activity category	% share in other services	Estimated number of workers employed (in lakh)
1) Other community, social and personal service activities	26.88	81.0
2) Land transport	25.99	65.9
3) Food service activities	14.39	69.0
4) Education	6.27	60.4
5) Financial service activities except insurance and pension funding	6.18	3.0
6) Human Health and Social work	5.05	23.9
7) Administrative and support service activities	5.01	23.0
8) Real estate activities	4.17	10.3
9) Professional, Scientific and Technical activities	3.31	12.7
10) Information and Communication	1.54	6.4
11) Others	1.21	9.3
Total	100	364.8

Source: MoSPI, NSS 73rd Round (July 2015 - June 2016)

The top 3 activities mentioned in the above table together accounted for a significant share of 67% in other services sector of MSME.

- While some community and social services like provisions of safe drinking water and sanitation continued, personal services like that of hardware engineer is impacted.
- However other personal services like tax preparation by chartered accountants and accountants is not largely affected.
- The land transport activities comprising roadway activities is primarily impacted given the suspension of road transport for passengers and movement of non-essential products across nation.
- Also, food service activities are believed to have taken a hit as restaurants and stalls remain closed.
- While education services are expected to have seen limited impact as some of education services continue to be delivered by digital platform, services like real estate activities and human health activities have witnessed sharp decline in footfalls.

Resultantly, it can be seen that most of the activities falling under MSME other services sector are believed to have got impacted following the lockdown which have posed a challenge for the workers employed in these activities. Here too around 40-50% of the total employment could get impacted due to the shutdown.

It can be concluded from the above discussion that the jobs of MSME workers in the manufacturing units are at more risk compared to that of the workers involved in trade and other services sectors of MSME. Also, many migrant workers have moved to their home towns due to shutdown of operations which has further increased the risk of their job loss. the reverse migration will be a challenge and a long-drawn process.

State-wise workers employed in MSMEs

Uttar Pradesh had the largest number of estimated MSMEs with a share of 14.2% of MSMEs in the country. West Bengal comes as close with a share of 14%. The top 10 states together accounted for a share of 74.1 % of the total estimated number of MSMEs in the country.

Table 6: State-wise distribution of estimated MSMEs and employees (in lakh)

	Number (in lakh)	% share	No. of employees (in lakh)	GSDP (FY19)
Uttar Pradesh	90	14	165	8.1
West Bengal	88.7	14	135.5	5.7
Tamil Nadu	49.5	8	96.73	8.6
Maharashtra	47.8	8	90.77	14.8*
Karnataka	38.3	6	70.84	8.1
Bihar	34.5	5	53.07	2.8
Andhra Pradesh	33.9	5	55.99	4.4
Gujarat	33.2	5	61.16	8.5
Rajasthan	26.9	4	46.33	4.9
Madhya Pradesh	26.7	4	48.8	3.8

Source: Ministry of MSME and CMIE

Note: * represents GSDP of Maharashtra for FY18

India's top five states in GSDP are Maharashtra, Tamil Nadu, Gujarat, Karnataka and Uttar Pradesh. These states are the largest contributor to the country's GDP.

Maharashtra, Tamil Nadu and Gujarat which together contributes about 31.9% to the GDP have reported the maximum number of Covid-19 cases with Mumbai being the worst affected city in the country at present.

The government has classified all metropolitan cities (Delhi, Mumbai, Chennai, Kolkata, Hyderabad, Bengaluru and Ahmedabad) into the 'no activity' zone as India entered third phase of nationwide lockdown to mitigate the spread of the virus.

Uttar Pradesh and Maharashtra have the maximum number of red zones (districts with high cases therefore lockdowns to be stringent) at 19 and 14 respectively, followed by Tamil Nadu at 12. This is likely to significantly affect the employment and states contribution to the GDP. (these numbers are of date and can change with time)

Some measures taken by government to support MSME sector in the past:

- i. Considering the importance of MSMEs in the Indian economy and for creating an enabling environment for the sector in its efforts towards formalisation the RBI has allowed banks and NBFCs for a one-time restructuring of loans to MSMEs having loan limits up to Rs.25 crore, that were in default but 'standard' as on January 1, 2019, was permitted without an asset classification downgrade. The restructuring under the scheme has to be implemented latest by 31st December 2020
- ii. The number of MSME loan accounts restructured by the public sector banks has crossed 6 lakh figure, according to the Ministry of Finance. As on January 31, 2020, the total accounts restructured were 6,19,562 involving an amount of Rs 22,650 crore, Finance Ministry MoS said in a written reply to a question on NPAs in MSME sector in Rajya Sabha .
- iii. Finance Minister said that 5.28 lakh loans have been restructured as per the one-time restructuring exercise permitted by the RBI of existing loans to GST-registered MSMEs without any downgrade in their asset classification.
- iv. To ease funding access for MSMEs, the government had launched 2% interest subvention for MSMEs for loans up to Rs 1 crore for FY19 and FY20.
- v. It had also announced collateral-free loans up to Rs 10 lakh for micro and small units.
- vi. Bank credit growth to MSMEs came out of red in January after 10 months of contraction throughout FY20. The credit given to MSMEs as on 31st January 2020, was worth 11 lakh crore, 3.1% growth in the FY20.

The Covid-19 and the subsequent lockdown have severely impacted small businesses as their cash reserves have depleted and clients have cancelled orders. The sector is staring at huge losses. MSME Minister has hinted that there may be a relief package for MSMEs.

Meanwhile, Small Industries Development Bank of India (SIDBI) has decided to lend Rs. 50 lakh to Rs.1 crore at an interest rate of 5%, without guarantee or mortgage for MSMEs involved in producing essential goods. SIDBI is not charging any processing fees for this loan and no additional charges will be levied even on pre-payment.

This loan is available to all MSMEs providing services connected with the production of essential commodities. These products include such items as masks, sanitizers, gloves, medicines items, permitted drugs, Ventilators, N95 or higher Masks,

Eye protection (visor / goggles), Protective Gowns / Aprons, Shoe covers, IV Fluid – DNS, IV Fluid – Dextrose, IV Sets, IV Cannula, ICU Beds, Cardiac monitors, Syringe pumps, Portable x ray machines, Endotracheal tube, Suction tube, Oxygen cylinders, Rubber Sheets, testing labs, etc.

The only condition for taking a loan under this scheme is to have cash profit in the balance sheet of that MSME. Those who are old customers of SIDBI, their balance sheet should be in the cash profit last year and the two-year cash profit should appear in the balance sheet of MSME, which was first associated with SIDBI.

Recommendations for MSME sector:

- The government has been nudging banks to provide credit to the MSME sector however banks are unwilling to lend to the sector given the high risk of default of such loans in the current economic scenario. The government should extend guarantees on loans to small businesses (upto 100%) under the government's credit guarantee scheme which will alleviate banks fear to lend to the MSME sector.
- Enhance working capital limit to the MSMEs as the sector is in need of finance to meet its regular expenditures even when it is not earning any revenue due to lockdown.
- All pending dues from PSUs and DISCOMs which have to be paid to the small businesses should be cleared.
- GST refund and tax refund should be immediately released by the government and GST payment should be waived off or should be reduced by half.
- The MSME sector has been demanding waiver of fixed electricity charges and electricity charges for the month of March and April from the state governments as production was affected due to lockdown. This concern should also be considered by the government.
- Provide support to MSME workers by paying wages to them for the affected period.

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