MSME Sector

“आत्मनिर्भर भारत की आधारशिला”

N A V P & Associates

Chartered Accountants

Prepared by

Nitin Bansal (CA, LLB, B.com)

+91-9549381996

Aatmanirbhar Bharat…

- Recently Govt. Of India Introduced "Aatmanirbhar Bharat Abhiyan" with a view to make India Self Reliant.

- MSME Sector is at core of this movement and primarily focused in making India self reliant in each and every sector.

- MSME Sector is backbone of Indian economy and hence needs to be strengthened on the fronts of capital availability, Infrastructure, competitiveness, Smooth Business operations.

Now Let us Analyse about MSME Sector….

Content

- Introduction
- MSMED Act 2006
- Definition of MSMEs
- Contribution In Indian Economy
- Benefits Of MSMEs
- Registration process for MSMEs
- Major Plans and schemes by Ministry
- Recent announcements in Atmanirbhar Bharat Abhiyan for MSMEs
- GeM portal- A new vibrant platform to enhance business opportunities

Introduction

- MSME Sector is the backbone on Indian Economy
- It is Highly Vibrant and Dynamic Sector
- MSMEs are undoubtedly the engine of economic growth of country
- Promotes equitable economic Growth of Country.
- Complementary to Large Industries
- Provides large employment opportunities
- Help in Industrialization of rural and backward areas
- Major contribution in Industrial Output, Employment generation at low capital cost and Exports.

MSMED Act 2006

- Prior to Introduction of MSMED Act 2006, this sector was classified as Small Scale Industry (SSI)

- Introduces the concept of "Enterprise" as opposed to prior concept of Industry.

- First-ever legal framework for recognition of the concept of "enterprise" which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium.
- Classifies MSMEs into :

- Enterprises engage in the manufacture or production of goods pertaining to any industry specified into first schedule of industries in the Development and Regulation Act, 1951

- Enterprises engaged in providing or rendering services

Definition of MSMEs

Existing and Revised Definition of MSMEs

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment<Rs. 25 lac	Investment<Rs. 5 cr.	Investment <Rs. 10 cr.
Services Enterprise	Investment<Rs. 10 lac	Investment< Rs. 2 cr.	Investment<Rs. 5 cr.

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment< Rs. 1 cr. and Turnover < Rs.5 cr.	Investment< Rs. 10 cr. and Turnover < Rs.50 cr.	Investment< Rs. 20 cr. and Turnover < Rs.100 cr.

Contribution In Indian Economy

MSMEs

- 63 million units
- 24.63% Of Service Sector GDP
- Constantly Growing at growth rate of 10%
- 6.11% of Manufacturing GDP
- 45% Of total Export
- 120 million employment

Benefits Of MSMEs

- Easy access to credit from banks without collateral requirement.
- Protection against delayed payments and right of interest on delayed payment.
- Concession in Electricity bills.
- Special provisions, Preference and Exclusive access in some Govt. Tenders.
- Reduced fee for patent Registration and ISO certification.
- Benefit of Interest Subvention (reduction in rate of interest)
- Time bound resolution of disputes through conciliation and arbitration.
- Reservation Policies to Manufacturing/Production sector enterprises.
- Reservation of space in SEZ areas to promote small scale units.
- Benefits of Industrial Promotion Subsidy.
- Special Consideration in various Trade Fairs.
- Benefit of different Govt. Schemes for subsidy, technology up gradation etc.

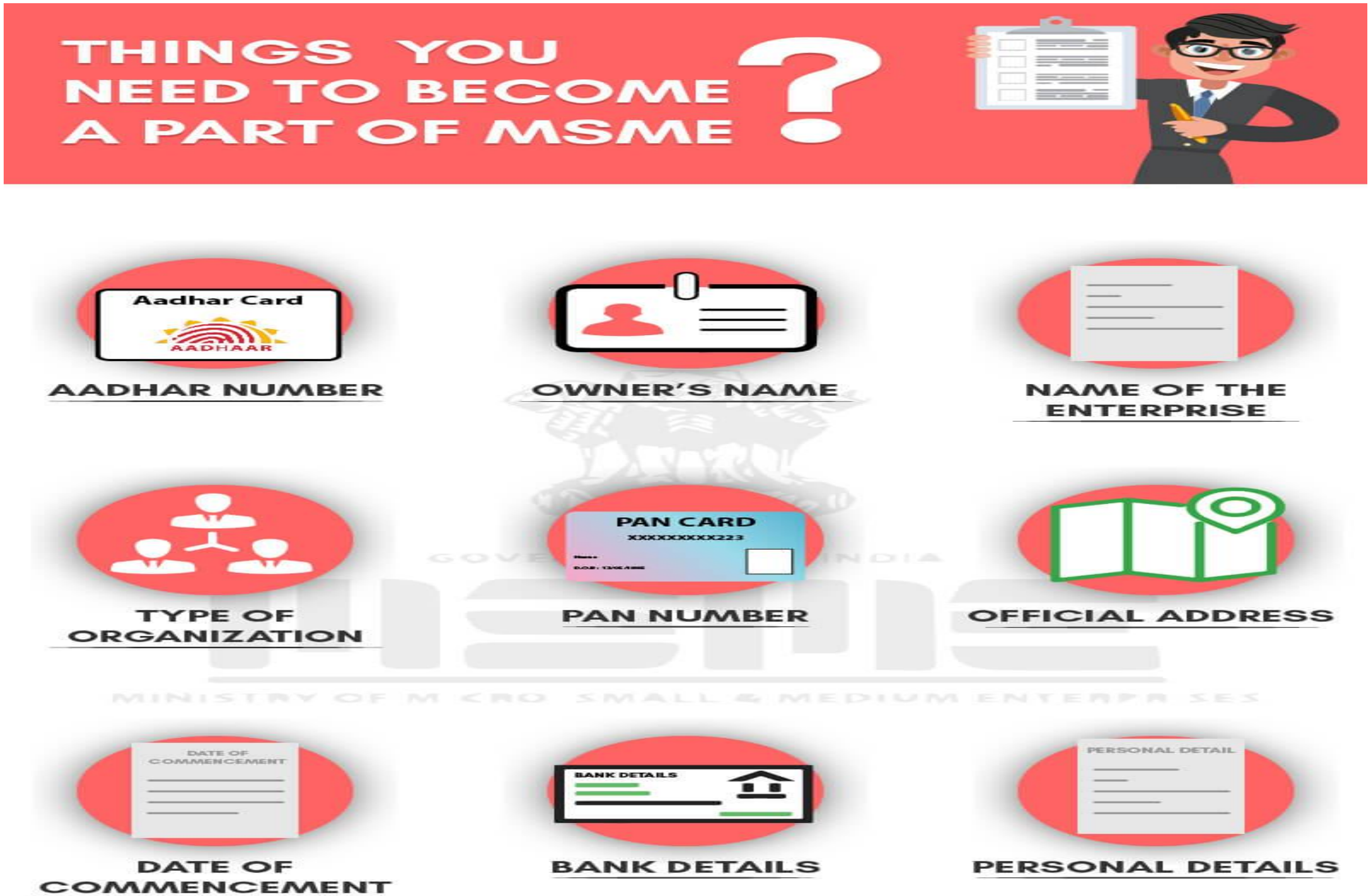
Registration process for MSMEs

- As opposed to earlier process of registering small and medium scale industries, MSME registration has been replaced with the Udyog Aadhar registration. If any micro, small and medium industries want to start any business, they need to do the registration with MSME/Udyog Aadhar.

- Udyog Aadhar Memorandum (UAM) is a one-page registration form which constitutes a self-declaration format under which the MSME will self-certify its existence, bank account details, promoter/owner's Aadhaar details and other minimum information required.

- There shall be no fee for filing the Udyog Aadhaar Memorandum.

Registration process for MSMEs



Major Plans and schemes by Ministry

- Ministry of Micro, Small and Medium Enterprises under the agies of GOI comes out with different plans and schemes for the promotion and development of MSME sector.
- Some of the major schemes are listed as below:-

1. Prime Minister Employment Generation Programme(PMEGP)
2. Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE)
3. Credit Linked Capital Subsidy for Technology Upgradation

1. Prime Minister Employment Generation Programme(PMEGP)

- Prime Minister's Employment Generation Programme (PMEGP) is a credit linked subsidy programme administered by the Ministry of Micro, Small and Medium Enterprises, Government of India. PMEGP gives MSMEs financial assistance to set up a new project. Main Object of this scheme is generation of sustainable and continuous self-employment opportunities in urban and rural areas of the country by assisting in setting up of new units.

Levels of funding under PMEGP

Categories of beneficiaries under PMEGP	Beneficiary's contribution (of project cost)	Rate of Subsidy (of project cost)	
Area (location of project/unit)		Urban	Rural
General Category	10%	15%	25%
Special (including SC / ST / OBC /Minorities/Women, Ex-servicemen, Physically handicapped, NER, Hill and Border areas etc.	05%	25%	35%

Note: (1) The maximum cost of the project/unit admissible under manufacturing sector is Rs. 25 lakh.
(2) The maximum cost of the project/unit admissible under business/service sector is Rs. 10 lakh.
(3) The balance amount of the total project cost will be provided by Banks as term loan

Who can apply?

- Any individual, above 18 years of age
- At least VIII standard pass for projects costing above Rs.10 lakh in the manufacturing sector and above Rs. 5 lakh in the business / service sector
- Only new projects are considered for sanction under PMEGP
- Self Help Groups (including those belonging to BPL provided that they have not availed benefits under any other Scheme), Institutions registered under Societies Registration Act,1860, Production Co-operative Societies, and Charitable Trusts are also eligible.
- Existing Units (under PMRY, REGP or any other scheme of Government of India or State Government) and the units that have already availed Government Subsidy under any other scheme of Government of India or State Government are NOT eligible.

How to apply?

- The beneficiaries can submit their application online at https://www.kviconline.gov.in/pmegpeportal/pmegphome/index.jsp
- Take the printout of the application and submit the same to respective offices along with Detailed Project Report and other required documents.

Note:

Entrepreneurship Development Programme(EDP) will be mandatory for all the PMEGP beneficiaries. However, the beneficiaries who have undergone EDP earlier of duration not less than two weeks through KVIC/KVIB or reputed training centers will be exempted from undergoing fresh EDP

2. Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE)

- Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI) jointly established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in order to implement Credit Guarantee Scheme for Micro and Small Enterprises. The corpus of CGTMSE is contributed by Government of India and SIDBI.

- CGTMSE has introduced a new "Hybrid Security" product allowing guarantee cover for the portion of credit facility not covered by collateral security. In the partial collateral security model, the MLIs(Member Lending Institutions) will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining part of the credit facility, up to a maximum of 200 lakh, can be covered under Credit Guarantee Scheme of CGTMSE.

Extent of Credit Guarantee

<table>
<tr><th>Category</th><th colspan="3">Maximum extent of Guarantee where credit facility is</th></tr>
<tr><th></th><th>Upto 5 lakh</th><th>Above 5 lakh upto 50 lakh</th><th>Above 50 lakh upto 200 lakh</th></tr>
<tr><td>Micro Enterprises</td><td>85% of the amount in default subject to a maximum of 4.25 lakh</td><td>75% of the amount in default subject to a maximum of 37.50 lakh</td><td rowspan="3">75% of the amount in default subject to a maximum of 150 lakh</td></tr>
<tr><td>Women entrepreneurs/ Units located in North East Region (incl. Sikkim) (other than credit facility upto 5 lakh to micro enterprises)</td><td colspan="2">80% of the amount in default subject to a maximum of 40 lakh</td></tr>
<tr><td>All other category of borrowers</td><td colspan="2">75% of the amount in default subject to a maximum of 37.50 lakh</td></tr>
<tr><td>Activity</td><td colspan="3">From 10 lakh upto 100 lakh</td></tr>
<tr><td>MSE Retail Trade</td><td colspan="3">50% of the amount in default subject to a maximum of 50 lakh</td></tr>
</table>

'Non-security, non-collateral loans for micro and small enterprises up to INR 200 lakh' by Anil Ganga for www.globallinker.com

Who can apply?

- Both existing and new enterprises are eligible under the scheme.

- Exclusions: Some entities are excluded from the CGTMSE coverage. They are:
  - Educational Institutions.
  - Agriculture.
  - Self Help Groups (SHG).
  - Training Institutes.

- Loans under Consortium are not eligible under this scheme

- All units should have a valid Udyog Aadhar No. (UAN)

How to apply?

- Candidates meeting the eligibility criteria may approach banks / financial institutions, and select Regional Rural Banks which are eligible under the scheme.

- Details available at following links:

www.dcmsme.gov.in/schemes/sccrguarn.htm

https://www.cgtmse.in/

3. Credit Linked Capital Subsidy for Technology Upgradation

- CLCSS provides 15% subsidy for additional investment up to ₹ 1 cr for technology upgradation by MSEs. Technology upgradation would ordinarily mean induction of state-of-the-art or near state-of-the-art technology.
- Units looking to replace existing equipment/technology with the same equipment/technology will not qualify for subsidy under this scheme.
- Units upgrading with used machinery would not be eligible under this scheme.

Continued....

- Nature of assistance

  The revised scheme aims at facilitating technology upgradation by providing 15% up front capital subsidy to MSEs, including tiny, khadi, village and coir industrial units, on institutional finance availed by them for induction of well established and improved technologies in specified sub-sectors/products approved under the scheme.

- Who can apply?

  Any MSE unit having valid UAM.

- How to apply?

  Candidates meeting the eligibility criteria may approach Specified nodal banks/agencies

  Weblink:

  www.dcmsme.gov.in/schemes/credit_link_scheme.htm

Recent announcements in Aatmanirbhar Bharat Abhiyan for MSMEs

- Recently due to Covid-19 pandemic Business sector specially MSMEs are badly hit in meeting their operational liabilities, fund flows and working capital requirements.
- In view of ongoing situations Finance Minister while unveiling "Aatmanirbhar Bharat" proposals announced a slew of measures for revival of MSME sector.
- These announcements will act as initial seed money for these small enterprises hit by zero cash flow due to the national lockdown. Credit facilities will help them buy raw materials, pay initial bills and daily wages to employees. In short, this will be like working capital for cranking up their businesses again.

Let us analyse announcements made in this package for MSMEs…..

1. Rs 3 lakh crores Collateral-free Automatic Loans for Businesses, including MSMEs

- **Purpose:** To provide additional funding to businesses to meet their operational liabilities, Working capital requirements, Restart business .

- **What is there in it?**

  The government has proposed to offer collateral-free loans to MSMEs which will be fully guaranteed by the Centre.

- **Terms of Credit:**

1. Borrowers with up to Rs 25 Crore credit outstanding and Rs 100 Crore turnover is eligible.
2. Borrow up to 20% of their total outstanding credit as on February 29, 2020.
3. Loans to have 4 year tenor with moratorium of 12 months on Principal repayment
4. Interest to be capped
5. 100% credit guarantee cover to Banks and NBFCs on principal and interest
6. Scheme can be availed till 31st Oct 2020
7. No guarantee fee, no fresh collateral

2. Rs 20,000 crores Subordinate Debt for Stressed MSMEs

- **Purpose:** About two lakh stressed MSMEs with non-performing assets (NPAs) are projected to benefit from this. Equity support will be provided to stressed MSMEs.

- **What is there in it?**

  A partial credit guarantee scheme has been extended to enable promoters of these units to increase their equity.

- **Terms:**

1. Functioning MSMEs which are NPA or are stressed will be eligible
2. Govt. will provide funding support to Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).
3. CGTMSE will provide partial Credit Guarantee support to Banks
4. Promoters of the MSME will be given debt by banks, which will then be infused by promoter as equity in the Unit.

3. Rs 50,000 cr. Equity infusion for MSMEs through Fund of Funds

- **Purpose:** The object is to expand size and capacity of the MSMEs with equity and help them get listed on the stock exchanges.
- **What is there in it ?**

1. A Fund of Funds (FoF) with initial Corpus of Rs 10,000 crores will be set up.
2. Will provide equity funding for MSMEs with growth potential and viability i.e. to good performing MSMEs.
3. FoF will be operated through a Mother Fund and few daughter funds
4. Fund structure will help leverage Rs50,000 cr of funds at daughter funds level

4. New Definition of MSMEs

- **Purpose:** There has been a long-standing demand from industry to hike the investment limits, as with inflation, units often cross the threshold that will bring them benefits. To prevent this, they either run their operations at a reduced level or incorporate multiple units so that investment is distributed in a way that they remain within the threshold that will give them the benefits.
- **Announcements:**

1. Definition of MSMEs will be revised .
2. Investment limit will be revised upwards.
3. Additional criteria of turnover also being introduced.
4. Distinction between manufacturing and service sector to be eliminated.

New Definition of MSMEs…

Existing and Revised Definition of MSMEs

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment<Rs. 25 lac	Investment<Rs. 5 cr.	Investment <Rs. 10 cr.
Services Enterprise	Investment<Rs. 10 lac	Investment< Rs. 2 cr.	Investment<Rs. 5 cr.

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment< Rs. 1 cr. and Turnover < Rs.5 cr.	Investment< Rs. 10 cr. and Turnover < Rs.50 cr.	Investment< Rs. 20 cr. and Turnover < Rs.100 cr.

5. Global tenders to be disallowed up to Rs 200 crores

- **Purpose:**

1. To make Indian MSMEs and other companies more competitive with foreign companies.
2. To help MSMEs to increase their business.
3. To provide support to Make in India and Self Reliant India Initiatives.

- **What is there in it ?**

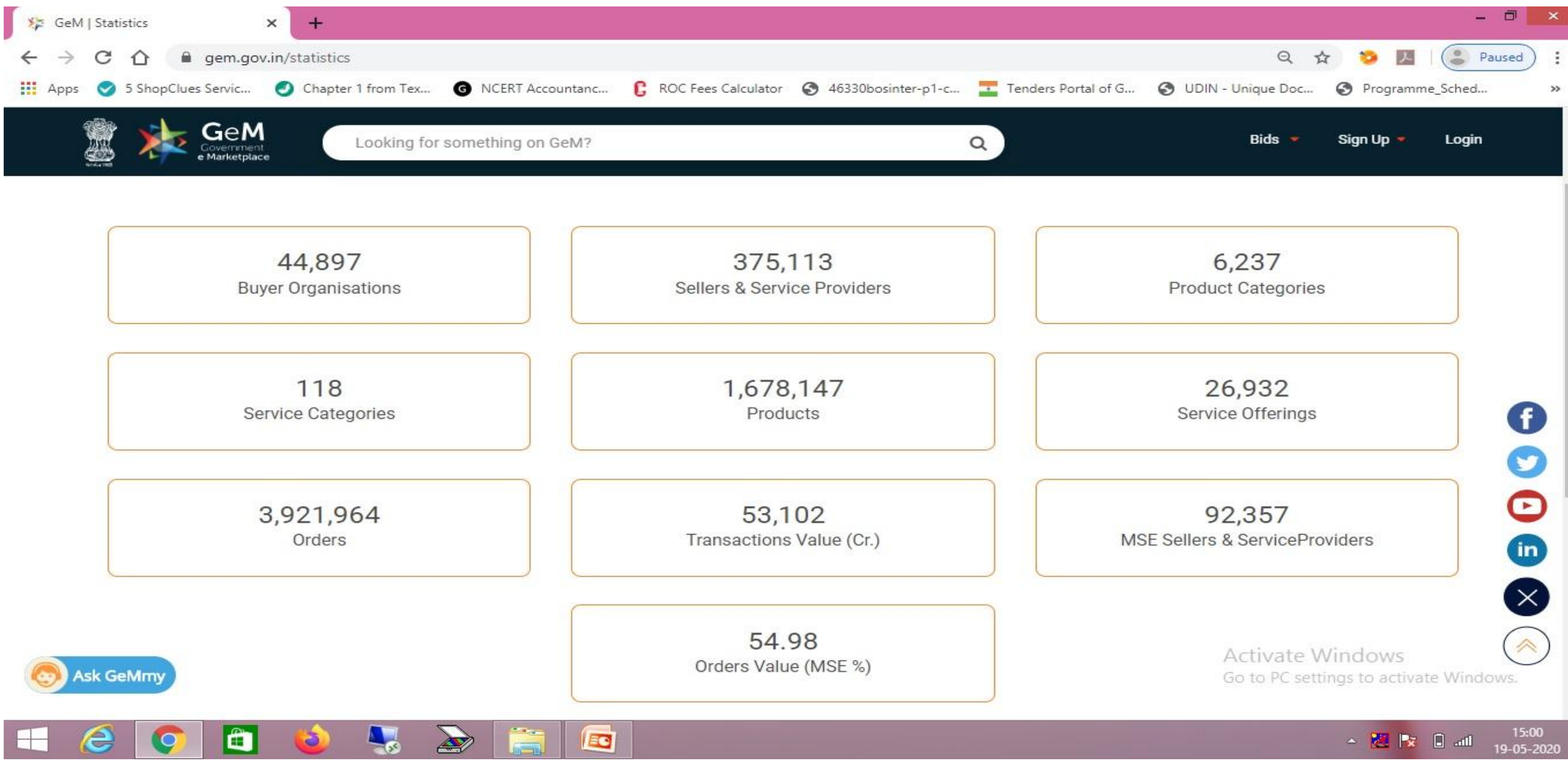
Global tenders will be disallowed in Government procurement tenders up to Rs 200 crores.

6. Other interventions for MSMEs

1. e-market linkage for MSMEs to be promoted to act as a replacement for trade fairs and exhibitions.
2. Fintech (Financial technology) will be used to enhance transaction based lending using the data generated by the e-marketplace.
3. MSME receivables from Govt. and CPSEs to be released in 45 days.
4. Raised minimum threshold to initiate insolvency proceedings to Rs 1crore from Rs 1 lakh, which largely protects MSMEs.
5. No fresh insolvency proceedings will be initiated up to 1 year under IBC .
6. A special insolvency resolution framework under Section 240A of the IBC which will be notified soon.

GeM portal- A new vibrant platform to enhance business opportunities

- Government e-Marketplace (GeM) is a one stop portal to facilitate online procurement of common use Goods & Services required by various Government Departments / Organizations / PSUs. GeM aims to enhance transparency, efficiency and speed in public procurement.



GeM portal- A new vibrant platform to enhance business opportunities

- **MSME SC/ST entrepreneurs on GeM**

✓ GeM is collaborating with various stakeholders from the Micro, Small and Medium Enterprises [MSME] ecosystem with special focus on entrepreneurs from the Scheduled Caste/ Schedule Tribes [SC/ ST]. The partnership is based on the objective of achieving the **mandatory procurement goal of 25 percent from MSMEs and a sub target procurement of 4 percent goods and services from MSME entrepreneurs within SC/ ST communities, by all government departments and public sector enterprises [PSE].** This initiative seeks to encourage active participation of MSE sector in public procurement.


Thank
You