Regaining the Business for MSME of India in Context of Covid -19

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Abstract

Covid-19 is the current Buzz Word all over the world. It is obstructing world economy in all dimensions; effecting road side fruit seller to large enterprise organizations. Micro, Small & Medium Enterprises (MSME) are affected heavily due to epidemic. Covid-19 has challenged mankind with many challenges. One of them is survival of MSME. Since the arrival of Covid-19 in India, MSME performance started declining. To protect the public interest, Govt of India (Ministry) has been taking economy boosting steps. This paper covers MSME business scenario in Indian context; Measures taken by the Government of India, Scenario of financial institutions, RBI measures for financial stability, Measures for stability of Real Estate Sector, Covid-19 regulatory packages and overall scenario of related leading business domains. The research paper also aims at analysing present scenario of MSMEs and appropriate measures that are to be taken by MSMEs owners and government to revive and sustain the said business.

Keywords: COVID-19, MSMEs, RBI, Financial Stability.

Introduction:

According to Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes as Manufacturing **Enterprises and Service Enterprises.** The following figure shows the MSMEs coverage in India(2015-16).

	Service Sector
Enterprises	**Investment in Equipments**
Micro Enterprises	Does not exceed 10 lakh rupees
Small Enterprises	More than 10 lakh rupees but does not exceed 2 crore rupees
Medium Enterprises	More than 2 crore rupees but does not exceed 5 crore rupees

Fig1. The Indian MSMEs sector View(Source: Google)

Human beings are experiencing perhaps the trial of its time as COVID-19 grips the world in its deadly embrace. All over the world, as also in India, the mission is to do whatever it takes to prevent epidemiological curve from steepening any further. Human spirit is ignited to overcome the pandemic. It is during our darkest moments that we must focus on the light. As quoted by Mahatma Gandhi "…In the midst of death life persists, in the midst of untruth truth persists, in the midst of darkness light persists."

The macro economic and financial landscape has deteriorated, swiftly in many areas but still hopeful for some other areas. According to IMF , that in 2020, the global economy is expected to fall into worst depression. IMF's Economic Counselor named it as the 'Great Lock down'. Estimating the cummulative loss to global GDP over 2020 and 2021 is around 9 trillion US dollars – greater than the economies of Japan and Germany, combined.

During this downturn, forecasts indicates sharper declines in various countries. India is projected to cling on tenuously to positive growth (at 1.9 per cent) which is one of the highest growth rate among the G20 economies. The World Trade Organisation predicts that global stock trade shrinking by 13-32 percent in 2020. Global financial markets continue to be unstable, and this will affect emerging market economies to deal with capital losses and unpredictable exchange rates. India is expected to post a sharp turnaround and resume its pre-COVID pre-slowdown trajectory by growing at 7.4 percent in 2021-22. The following figure shows the MSMEs issues and demands during Covid-19 in the city of Madurai(Tamilnadu state):

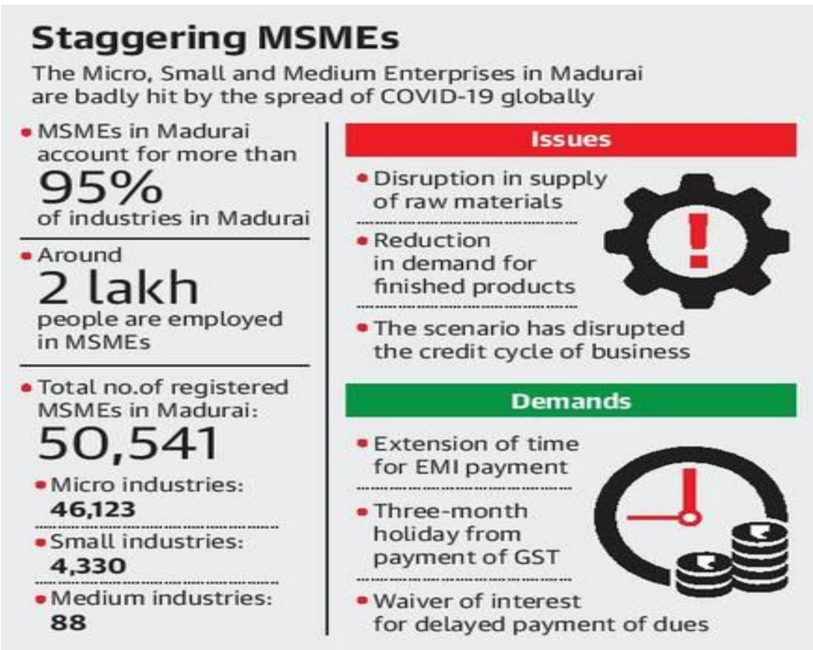

Fig2. Covid-19 hit-Madhurai (Tamilnadu)

(Source: Google images)

MSME Business Scenario in Agriculture and Allied Activities in India:

The continuing resilience of agriculture and allied activities on the back of all-time highs in the production of food grains and horticulture, with huge buffer stocks of rice and wheat far in excess of the buffer norms.

In agriculture sector, pre-monsoon kharif sowing had begun strongly up by 37 per cent compared to last year. Many states like West Bengal, Telangana, Odisha, Assam, Karnataka and Chhattisgarh are leading in sowing activity despite the lock down. The Indian Meteorological Department (IMD) forecasts a normal south west monsoon for the year 2020 with rainfall expected to be 100 per cent of the long period average. This forecasting accelerated fertiliser production and tractor sales is up by 21.3 percent compared to last year.

The index of industrial production for February showed industrial output accelerated to its highest rate in seven months. The manufacturing purchasing mangers' index (PMI) for March 2020 was the lowest in this quarter. Suppliers distribution time extended for the first time in five months, indicating supply chain disruptions thereby hampering SCM . Electricity demand has been halted by a sharp fall in daily demand in the range of 25-30 percent after the lock down announcement on March 25, 2020. Automobile production and sales, and port freight traffic declined sharply in March. There is sharp downfall in export business, new domestic orders and employment.

Objectives of the Study

1. To study the present business scenario of MSMEs in context of COVID-2019

2. To analyse the problems faced by MSMEs in context of COVID-2019.

3. To evaluate the pros and cons of MSMEs in context of survival and sustenance.

Need and Scope of the Study

The Corona-virus pandemic has already created a considerable impact on Indian businesses and has already caused an unprecedented collapse in economic activities over the last few weeks, according to an industry survey released on 6th May, 2020 by Economic Times. The survey, jointly conducted by industry body FICCI and tax consultancy firm Dhruva Advisors by seeking responses from about 380 companies across sectors, also said that businesses are grappling with 'tremendous uncertainty' about their future. MSMEs are a backbone of economy which foster the productivity and are drivers of inclusive growth. They generate a large scale employment and have an inherent flexibility of adapting to changing trends. SMEs are innovation centres and encourage competitiveness. MSMEs can scale up and innovate at different stages of their life cycle. Fostering innovations and right measures in established MSMEs in COVID scenario can further enhance aggregate productivity and ensure their survival and sustenance. The area of study is restricted to MSMEs working in India.

Research Methodology

The present research is explorative research and is prepared on the basis of secondary data. The opinions of industry experts and their critical remarks are considered for suggestions and conclusion of the study.

Research Analysis and Discussion

Measures Announced by Government

On 27th March, the RBI's injected liquidity in to the financial market around 3.2 per cent of GDP. This has led to surplus liquidity in the banking system in the wake of sustained government spending. On March 27, the RBI commenced three auctions of targeted long term repo operations (TLTRO), injecting cumulatively 75,041 crore to ease liquidity constraints in the banking system and de-stress financial markets. Systemic liquidity surplus, as reflected in net absorptions under the LAF, averaged ₹4.36 lakh crore during the period March 27- April 14, 2020. Another TLTRO auction of 25,000 crore was conducted on April 17.

Financial conditions have eased considerably, this has resulted spreads of money and bond market instruments. Corporate bond market has picked up with several corporates making new issuances in this calamity. There are also suggestions that improvement pressures faced by mutual funds have moderated.

To assess macro economic situation and financial market conditions, the following measures haven been taken:

(i) Preserve adequate liquidity in the system and its constituents in the face of COVID-19 related disruptions

(ii) Simplify and incentivise bank credit flows

(iii) Easy financial stress

(iv) Empower the normal functioning of markets.

Refinancing Facilities for All India Financial Institutions (AIFIs)

The financial institutions which are committed for social developments such as SIDBI , National Bank for Agriculture and Rural Development NABARD, and the National Housing Bank play an significant role in meeting the long-term funding requirements of agriculture and the rural sector, small industries, housing finance companies, NBFCs and MFIs. All India Financial Institutions raise funds from the market through definite instruments allowed by the Reserve Bank, in addition to trusting on their internal sources.

In view of the shrinking of financial situations in the wake of the COVID-19 epidemic, these organizations are facing complications in raising resources from the market. Based on these situations, special refinance facilities for a total amount of 50,000 crore to NABARD, SIDBI and NHB has been given to enable them to meet sectorial credit needs. Total 25,000 crore to NABARD for refinancing regional rural banks (RRBs), cooperative banks and micro finance institutions (MFIs); 15,000 crore to SIDBI for on-lending/refinancing; and 10,000 crore to

NHB for supporting housing finance companies (HFCs) has been allotted by charging at the RBI's policy repo rate at the time of availment.

NBFC providing Loans to Commercial Real Estate Projects for Commercial Operations

In terms of the existing guidelines for banks, the date for instigation for commercial operations (DCCO) in respect of loans to commercial real estate projects delayed for reasons beyond the control of promoters and can be extended by an additional one year, without treating the same as restructuring. It has now been decided to extend a similar treatment to loans given by NBFCs to commercial real estate. This will provide relief to NBFCs as well as the real estate sector.

Distribution of Dividend

It is commanding that banks preserve capital to hold their capacity to care the economy and absorb losses in an environment of intensified uncertainty. It has been decided that in view of pandemic of the COVID-19-related economic shock, scheduled commercial banks and cooperative banks shall not create any further dividend payouts from profits pertaining to the financial year ended March 31, 2020 until further orders. This constraint shall be reviewed on the basis of the fiscal position of banks for the quarter ending September 30, 2020.

Liquidity Adjustment Facility: Fixed Rate Reverse Repo Rate

The excess liquidity in the banking system has risen significantly in the wake of government expenditure and the various liquidity enhancing measures undertaken by the RBI. On April 15, 2020 the amount immersed under reverse repo processes was 6.9 Lakh crore. To encourage banks to deploy these excess funds in reserves and credits in productive sectors of the economy, it has been decided to reduce the fixed rate reverse repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 4.0 percent to 3.75 percent with immediate effect. The policy repo rate affected at 4.40 percent, and the marginal standing facility rate and the Bank Rate continue untouched at 4.65 percent.

Extension of Resolution Timeline

RBI' has done following sensible framework of resolution of stressed assets on June 7, 2019. Recognizing the challenges to resolution of stressed assets in the current volatile environment, it has been decided that the, in the case of large accounts under default, AIFIs, Scheduled Commercial Banks, NBFC-ND-SIs and NBFC-D are presently required to hold an additional provision of 20 percent if a resolution plan has not been applied within 210 days from the date of such evasion. Period for resolution plan shall be extended by 90 days

Liquidity Coverage Ratio

Proactively measures taken by Reserve bank to address the systemic liquidity issues through a skid of monetary and marketing operations of sudden calamity. To simplify the liquidity position at the level of individual institutions, the Liquidity Coverage Ratio requirement for Scheduled Commercial Banks is being brought down from 100 percent to 80 percent with instant effect. This requirement shall be slowly reinstated back in two phases – 90 percent by October 1, 2020 and 100 percent by April 1, 2021.

COVID-19 – Regulatory Package

To address the issues brought about by disruptions on account of COVID-19 pandemic and to ensure the continuity of viable businesses, certain regulatory measures were announced by Development & Regulatory Policies on March 27, 2020.

Following are the regulatory packages provided by Development & Regulatory:

- **Rescheduling of Working Capital Facilities and Term Loans:** All term loans (including agricultural term loans, retail and crop loans), all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, all-India Financial Institutions, and NBFCs (including housing finance companies) ("lending institutions") are permitted to grant relaxation of three months on payment of all instalments falling due between March 1, 2020 and May 31, 2020.
- The repayment schedule for such loans as also the outstanding tenor, will be shifted across the board by three months after the moratorium period.
- The Cash Credit, Overdraft facilities provided as working capital loan to the MSMEs by the lending institutions
- The Cash Credit, Overdraft facilities provided as working capital loan to the MSMEs by the lending institutions are permitted to comply the recovery of interest applied in respect of all such facilities during the period from March 1, 2020 upto May 31, 2020 ("deferment"). Institutions has been given facility to pay accumulated accrued interest after the completion of this period

(iv) **Simplification of Working Capital Financing:** Working capital facilities authorized in the form of CC/OD to debtors facing stress on account of the economic consequence of the pandemic, loaning institutions may recalculate the 'drawing power' by dipping the margins and/or by reassessing the working capital cycle. The postponement of loan instalment given to the borrowers will be extended up to 31st May,2020 and shall be depending on the loaning organizations satisfying themselves that in the economic fallout from COVID-19. Further, relief can be given in subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19.

Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)

Recalculation of the 'drawing power' is being provided specifically to enable the debtors to tide over economic fallout from COVID-19, Change in terms and conditions of loan agreements can be done due to financial difficulty of the borrower. The part of stressed assets of term loan which are considered as out of order will be evaluated further keeping in mind of accumulated interest and difficulties faced by borrowers during covid period.

The rescheduling of interest payments, to the lending financial institutions will not qualify as a default for the purposes of supervisory reporting and reporting to Credit Information Companies (CICs).

Other Conditions

Lending institution to a borrower is 5 Crore or above as on March 1, 2020, the bank shall develop an MIS on the reliefs provided to its borrowers regarding the nature and amount of relief granted.

The Board of Directors and the key management personnel of the lending institutions shall ensure that the above commands are properly communicated down the line in their respective organisations, and ensure that it is duly implemented by their staff.

Suggestions

1. Proper transitional analysis from pre COVID scenario of MSMEs to post COVID scenario is to be done by giving due attention of grey areas of MSMEs.

2. Working capital gap analysis for the entire product life cycle and adequate provisions of working capital is to be maintained for the MSMEs atleast for post COVID two quarters.

3. Moral boosting of MSMEs employees are to be ensured through existing job retention approach and timely payment of salary and wages.

4. Proper co-ordination between BFIs, Governments and MSMEs are required during post COVID periods.

5. The owners of MSMEs are required to be proactive and pragmatic in executing plans of actions needed for survival and sustenance.

Conclusion

The RBI will be addressing these daunting challenges posed by the pandemic by keeping the financial system and financial markets sound, liquid and for smooth functioning so that finance keeps flowing to all stakeholders, especially those that are disadvantaged and vulnerable. Regulatory measures announced by RBI are merged into the objective of preserving financial stability.

We are seeing various challenges faced by MSMEs in this context, which are requiring a conscious effort and action plan. Some of the common challenges includes issues like: Inadequate working Capital , Complex managerial activities , Improper information handling ,marketing related problems, Inability to separate business and personal finances , Non-exposure to best management practices in manufacturing, marketing, distribution and branding , Lack access of packaging technologies , and Lack of Skilled Human Resources etc. In order to address these above stated issues, the requisite measures are to be undertaken by owners of MSMEs and by Government for the long period to go considering the impact of COVID-2019.

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