

Fate of MSME's in the new normal

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The year 2020 saw unprecedented disruptions to lives and livelihood all across the world and India was no exception. India's economy shrank 7.5 percent in the three months that ended in September 2020 compared with a year earlier. This firmly ensconced India's position among the world's worst-performing major economies, despite expansive government spending designed to rescue the thousands of small businesses severely battered by its long, hastily imposed lockdown.

The Covid-19 pandemic catapulted the majority of Indian businesses to shift online to scale up and succeed, with small business owners waking up to the need of technology as the only path for sustained growth. However, the majority of India's Micro, Small and Medium Enterprises (MSMEs), that employ over 120 million people and contribute significantly to the GDP, unfortunately, were far away from reaping benefits of digitalisation. Already reeling under the lack of access to credit and inability to leverage newer technologies like cloud computing, IoT, consumer analytics, the MSME sector was further hammered by challenges of business continuity and reduced cash flows due to the pandemic.

Across India, MSME units were locked down for nearly two and a half months due to the Covid pandemic. Consequently, operations for many units were squeezed due to little to no revenues even as they were forced to either cut or hold back salaries. Along with this, restriction in public transportation made it tough for the workforce to reach factories and plants for the production of goods while work from home was of little help for such businesses. Hospitality including restaurants, hotels, along with furniture, gym, toys, electrical equipment, textiles, and other sectors took a maximum hit while those in the retail of essential goods such as grocery products, healthcare, etc witnessed more traction amid lockdown.

Efforts made by the government to help revive MSMEs

MSMEs have taken the brunt of the financial effect on account of the Covid 19 pandemic which prompted the authorities to take a number of steps together with clearing of dues from authorities to such corporations. Under the Atmanirbhar Bharat campaign, INR 3 lakh Crore Emergency Credit Line Guarantee Scheme (ECLGS) was introduced, which offered credit through public and private sector banks, which has found many eligible takers since June when the disbursement started. The scheme targeted units in the formal segment having existing loans.

Additionally, the Finance Minister signed an agreement with the World Bank for loans worth USD 750 million to close to 1.5 lakh Covid-hit MSMEs under the MSME Emergency Response Programme. The World Bank also committed USD 2.75 billion so far to help India fight Covid, including for the new MSME project. Moreover, the Union Budget 2021 has doubled the allocation to MSMEs to INR 15,700 Crore for the next financial year to help MSMEs revive when the lockdown restrictions. Further, the government has proposed to allocate INR 300 Crore towards the establishment of new technology centres for the MSME units.

Large corporates made a 'prompt payment pledge', an ethical commitment to pay their MSME suppliers in accordance with Section 15 of the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act) which creates a movement around 'prompt payments' and encourage corporate boards to both track payment efficiency and link it to CFO KPIs.

Way forward

With industries showing immense resilience through innovative ways during the pandemic and India now gradually making its way toward recovery, growth sustainability in 2021 will depend on widespread vaccine deployment and effective government measures. The path to sustained growth will deliberate on the digitisation of SMBs/SMEs and how the adoption of digital payments will shape the future path to sustained growth. Other factors would include affordable innovations which tech

companies can deliver to small businesses, ways to ease transactions to ride the wave of economic recovery and policy interventions to help reduce the digital gap between large and small companies.

Digitization – Online search, ads and festive sales are playing a crucial role in both B2B and B2C scenarios. People are looking more carefully at online ads now as their traditional sources of advertising like billboards, newspapers are no longer available. Customer preference is for “tried and tested” even if that comes at a higher price. Entrepreneurs need to change long-held belief and mindset to acknowledge that customers are also changing ways of finding service providers like them. Small and medium enterprises will need to rethink how to present themselves for predictably attracting new clients and be present in every stage of their decision-making process. Correspondingly MSMEs are beginning to look at digitization as an opportunity to access new markets in the light of online brand building having replaced most events and offline activations.

Agile manufacturing to suit the requirements – Health and Home have become the center of our existence which has forced businesses to explore how to use infrastructure differently. Capitalising on their loyal customer base and accordingly tweaking the product mix would be their best bet. Companies who have been agile have aced the curve. To give a few examples – Swiggy shifted its focus to grocery deliveries, Dyson to ventilators and Spotify to offering deals on podcasts. This ensured that their clients remained on the app and got the delivery of what was essential at that time.

Cash Flow Vs Profitability – MSME promoters have to learn to delegate power down the line. This will help in proper utilisation of time and increase productivity. Historically, MSMEs have focused more on cash flows paying little attention to profitability. With cash flows dipping in 2020, MSMEs were forced to focus on leakages and better utilization of funds. In 2021, investments funnel needs to be created for equity investment in MSMEs. The equity fund will de-leverage the balance sheet and make it healthy. Promoters of MSMEs need to bring innovation and research into their business and explore both offshore and onshore markets to expand their business.

Change is the only constant – Technology which was a “good to have” earlier and was needed only for scale, has now become the backbone for the very existence of most MSMEs. Flexible workforce is becoming an option as more and more innovative staffing solutions are coming up which will pluck the loopholes and increase the efficiency of the firms. This has also increased access to mentors and consultants whom MSMEs were not accessing earlier preferring to hire in house, even if they were not bringing in the right mix of skills.

The economic problems are by no means over. Officials desperate to stimulate business lifted some of the lockdown restrictions, allowing more movement and further spreading the coronavirus. The country is recording a sharp decline in infections from a September high, but experts fear it is only a lull. Even after the pandemic wanes, India will be the worst-affected among the world’s major economies.



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