



SMERA's Perspective on Union Budget 2020 for MSMEs

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UNION BUDGET 2020 FOR MSMEs: AN OVERVIEW

Amidst the slowdown in the Indian economy, the budget has tried to address the structural problems that have been encumbering the growth of Indian MSMEs. The issues related to working capital management, debt and equity financing, competitive advantage and modernization have been the fulcrum of the budget proposals. Notably, the allocation of funds to the tune of ₹ 7,572.20 crores to the MSME ministry stands at an all-time high. Overall, the budget attempts to position MSMEs as an integral part of the value chain / production life cycle.

BUDGET ACTIONS

Boosting working capital finances

Enable NBFCs to extend invoice financing to MSMEs through TReDS. This aims to ease liquidity challenges for the MSMEs as well as address the problem of receivable management.

Introduction of scheme to provide subordinate debt in form of quasi equity to MSMEs which will be fully guaranteed through CGTMSE. This measure would increase the credit absorption capacity of the MSMEs.

Launch of App-based invoice financing loan product to overcome the problem of cash flow mismatch.

Strengthening balance sheet and financial position

Extension of window of debt restructuring for MSMEs till March 31, 2021. This scheme enables MSMEs to recast their debt structure and accordingly improve their balance sheet position and financials.

Introduction of fund of ₹ 1,000 cr to provide support for technology upgradation, R&D, and business expansion for select export oriented sectors like Pharmaceutical, auto components, etc. This scheme will be routed through EXIM Bank and SIDBI through equity contribution of ₹ 50 cr each. The remaining amount of ₹ 900 cr to be funded as debt from banks.

Promoting employment generation

Allocation of fund of ₹ 465 cr under "Scheme of Funds for Regeneration of Traditional Industries" (SFURTI). This is to help traditional industries become more competitive and profitable thereby generating employment opportunities for artisans, craftsmen, and other related fields.

All time high allocation of ₹ 2,500 cr for generating self-employment opportunities through establishment of micro-enterprises in non-farm sector.

Favourable import - export policy for MSMEs

Hike in custom duty on import of various products is a welcome step to restrict the low-priced imports. This will create a level play field for Indian MSMEs and promote Make in India initiative. These products are from various sectors like footwear, furniture, electrical appliances, chemicals, and household goods.

Launch of Niryat Rin Vikas (NIRVIK) Yojana to provide higher insurance coverage, reduction in premium for small exporters and simplified procedure for claim settlements.

Easing compliance and regulatory stipulation

The turnover threshold for MSMEs increased from ₹ 1 cr to ₹ 5 cr for audit. However, this shall apply only to businesses which carry out less than 5% of their business transactions in cash.

Government is aiming to simplify the GST return filling process. The proposed measures include automation of GST refund, introduction of electronic invoice mechanism, and overall simplification of process. Further, rationalisation of GST rate slab is being considered.

Expanding business opportunities through market place

Currently over ₹ 3.24 lakh MSME vendors are registered on Government E-Marketplace, which is a Unified Procurement System for government entities for their goods and service requirements.

Government's aim to push the turnover to ₹ 3 lakh crore provides a larger platform and new opportunities to registered MSMEs.

Development of e-logistic market, and the national cold storage chain is a significant announcement that will help MSMEs present in agro services, manufacturing as well as transportation services.

REFORMS FOR START-UPS:

Promoting funding avenues / investment culture

Government proposes to provide angel funding including seed funding to help start-ups with their early stage ideas and business strategies.

Reforms in taxation pertaining to ESOPs aim to ease out the financial burden of perquisite tax. It is proposed to differ the tax payment on the ESOPs given to the employees by 5 years or till the employment period or whenever the employee sells the shares; whichever is the earliest.

Tax reforms

The eligibility of tax holidays for start-ups have been increased from turnover of ₹ 25 cr to ₹ 100 cr. Further, the period of eligibility for claim of deduction has also been extended from 7 years to 10 years. This will enable more start-ups to avail the benefit of tax holiday.

About SMERA Gradings & Ratings Private Limited:

SMERA, widely known as 'The SME Rating Agency', was conceptualized by Ministry of Finance, Govt. of India and the Reserve Bank of India to help Indian MSMEs grow and get access to credit through independent and unbiased credit opinion that banks can rely on. Thus, SMERA became world's first MSME focused rating agency and introduced the concept of SME Ratings in India. SMERA offers SME Ratings, New Enterprise Credibility Scores, SME Credit Due Diligence and SME Trust Seal to Indian MSMEs to help lenders take informed decisions.

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