KEY TO SME GROWTH

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Chairman's Message

The Micro, Small and Medium Enterprises (MSME) sector contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating employment opportunities.

The growth and development of MSME sector is closely interwoven with our quest for becoming a global economic power. One of the major challenges in this regard is easy and affordable access to finance to unleash the vast growth potential of this sector. MSMEs tap into various sources for funds and banks still form the largest lending source. Access to affordable capital at the right time throughout the growth stage of an MSME is essential and is still a major stumbling block.

Manufacturing sector is the base of revolution; the phase of new technology not only makes the work easier but also increases employment opportunities in this sector. The emergence of new technology, digitalisation, ZED scheme, innovative banking and energy efficient production ensures a better future for our manufacturing sector.

The report provides insight of financial arrangements and government schemes to boost the growth.

Ashok Kajaria
Chairman, FICCI Rajasthan State Council &
CMD, Kajaria Ceramics Ltd

Message

The Federation of Indian Chambers of Commerce and Industry is an apex organisation of India. The chamber has an indirect membership of over 250,000 companies from various regional chambers of commerce. It is involved in sector specific business polus building, and business promotion and networking. It has presence in 12 states in India and 8 countries across the world the goal of this organisation is to promote Business interest of various organisation. We are preparing this report with FICCI for its MSME FINANCE SUMMIT.

MSME Finance sector is the backbone of our economy, a country like India where Service sector is far ahead of manufacturing sector. The report provides insight of financial arrangements and government schemes to boost the growth.

Finance sector is the base of every sector and in this phase of new technology has made the work easier but also increases employment opportunities in this sector. The emergence of new technology, digitalisation, innovative banking and financing opportunities has led to new ways of business. New ways of funding for MSME sector is the core of this report

We hope that this report serves the purpose of knowledge enhancement on Finance sector and its ways of funding for MSME sector.

Jyoti Prakash Gadia
Managing Director
Resurgent India Limited

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ROLE OF SMEs IN INDIAN ECONOMY

The Small & Medium Enterprises (SMEs) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country's Gross Value Added (GVA) 1 and Gross Domestic Product (GDP) 2, at current prices for the last five years is as below:

Contribution of SMEs in country's economy at Current price

Figures in Rs Crores adjusted at current price level

Year	SME GVA	Growth (%)	Total GVA	Share of SME in GVA (%)	Total GDP	Share of MSME in GDP (%)
2011-12	2583263	-	8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

Source: MSME Annual Report

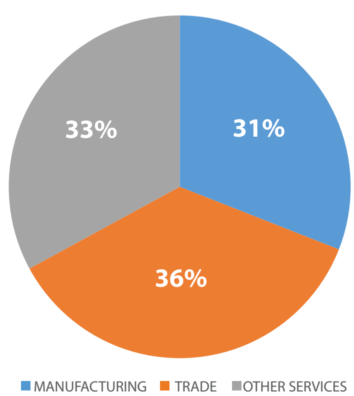
SME is the second largest employment generating sector of India after agriculture sector. It provides 80% of jobs in industry with just 20% investment. It contributes around 31% to nations GDP and 45% and 34% share of the overall exports and manufacturing output. SME was classified on the basis of investment in Plant and Machinery for manufacturing units and Investment in equipment of service sector.

The union cabinet has approved the modification of MSMED Act, 2006. Under section 7, SME units producing goods and rendering services will now be classified as follows:

- A micro enterprise will be defined as a unit where the annual turnover does not exceed five crore rupees;
- A small enterprise will be defined as a unit where the annual turnover is more than five crore rupees but does not exceed Rs 75 crore;
- A medium enterprise will be defined as a unit where the annual turnover is more than seventy five crore rupees but does not exceed Rs 250 crore.
- Additionally, the Central Government may, by notification, vary turnover limits, which shall not exceed thrice the limits specified in Section 7 of the MSMED Act

Estimated number of MSME rendering different type of Activity

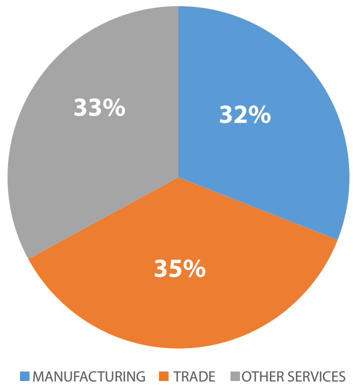
Distribution of SME by Nature of Activity



Source: Annual Report MSME 2017-18

SME sector serves as the one of the largest sector providing jobs to many organised and unorganised sector of our economy. As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.82 lakh in Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country

Estimated Employemnt in SME sectors



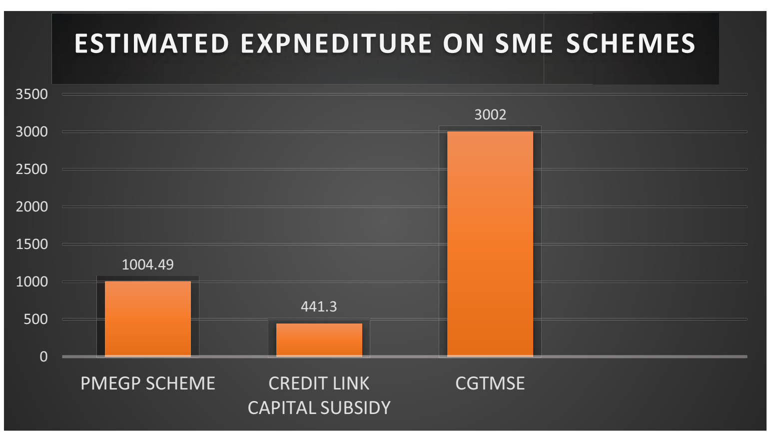
Source: Ministry of Statistics and Programme implementation

India has been the fastest developing economy globally. This has been high, possibly because, the lending scenario of Indian banks for SME sector, are flourishing enormously and contributing significantly to the Indian economy. They have been generating employment opportunities for the masses. In spite of their fantastic performance, they are sometimes deprived of sufficient funding sources.

SMEs are considered as high-risk borrowers by SMEs due to their insufficient assets, high mortality rates, and low capitalization. SMEs are largely dependent on Indian banks than on large enterprises.

Credit and Financial Assistance to Small and Medium Enterprises in India in the year 2017-18.

The SME sector has been strongly backed by various schemes and funds allocated. CGTMSE scheme provides collateral free loans to SME sector and the number has been rising since inception. As on 31st December cumulatively 2968859 proposals have been approved for guarantee cover.



Source: Annual Reports CGTMSE and MSME

Access to finance is one of the major challenges faced by the MSME sector in India. The MSME Census of 2006-07 revealed that almost 87% of MSMEs did not have access to secure finance and often had to approach internal sources like friends or relatives to meet their financial requirements. One of the major reasons for this demand-supply mismatch in SME financing is the perceived credit risk involved in financing SMEs. This is primarily due to non-availability of valid invoices, proper accounting systems and dearth of known buyers. In order to mitigate this credit risk, higher collateral is sought, which cannot be brought in by many SMEs. Further, due to their small size and local presence, the transaction costs involved in financing them are very high. In order to tackle this issue, SME lending is being treated as priority sector lending. The priority sector lending to SMEs reached ` 9 trillion in FY17 as against ` 8.5 trillion in FY16, registering a growth of 6.5%.

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START-UPS AND THEIR ROLE

India is one of the largest and most populous countries in the world. Its demographic dividend is also one of the largest and fastest growing in the world. This demographic dividend is a potential asset but if not coupled with rising economic growth and employment they are bound to be one of the biggest liability. In India we are seeing a trend of rapid economic growth but by and large it's mainly jobless economic growth and this trend will not change anytime soon. Therefore the best way to change this scenario is to make the demography self-sufficient and enable them to find new ways to help themselves and provide employment. The best way available is by promoting an environment of entrepreneurship and supporting them to adventure into new venues of opportunity. India needs more than a 100 million jobs a year and the jobs which are generated are mostly from start-ups and not big enterprises. Start-up entrepreneurship is crucial because it also brings new innovations, new jobs and competitive dynamics into the business environment and enterprises. This also brings great opportunity to be involved in dealings with new technology which generally lies at the highest end of value addition chain. Start-ups have been the flavour of the season over the last few years for the Indian markets. Start-ups are set to play a big role in the growth of economy as boosters and the huge number of employment subject. In the recent years, different countries are taking different initiatives to link up their businesses with the Indian start-ups in almost all sectors including defence. Such joint venture can attract the huge foreign fund which can boost the country's growth .Start-ups are also the centres of innovation and are a great way to enhance employment creation in the economy. The objective of the study is to examine the contribution of start-ups to economic growth by way of employment generation and impact on GDP and to identify the government initiatives for the development of start-ups.

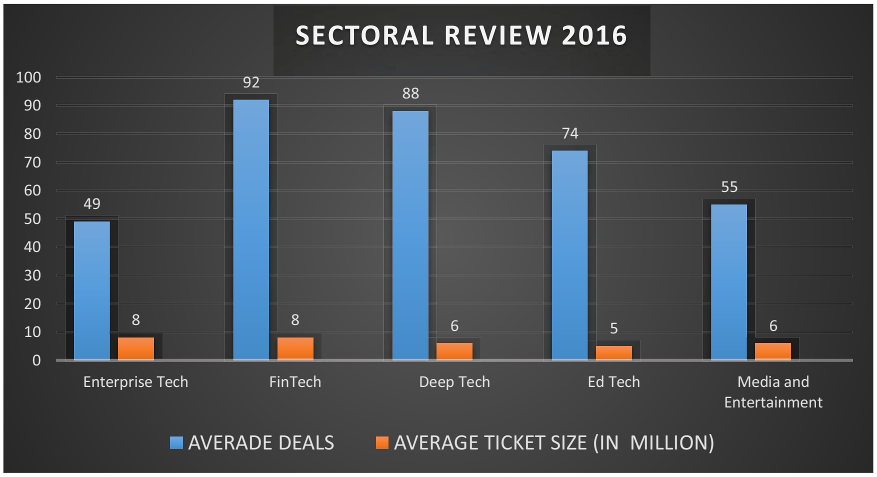
Start-ups are so important:

- Start -ups are free from economic downturns and free from encumbrance and that's what makes start-ups so disruptive and agile.
- Start-ups work in an environment of changing technology and try to maximize profits by innovation.
- This induces backward and forward linkages which stimulate the process of economic development in the country irrespective of the economic environment.
- They even act as catalytic agent for change, which results in chain reaction. Once an enterprise is established, the process of industrialization is set in motion. This will generate demand for various types of units and will in turn, lead to overall development of an area due to increase in demand and setting up of more and more units. I.e. like OLA and UBER.

Status of Start-ups

2015 saw the launch of three to four start-ups a day, which helped India secure the third position in the world in terms of number of start-ups – 4,200 and counting. Last year, a huge amount of money was poured into the start-ups—on very high valuations—with ideas that were building just the "me too businesses". With no defensibility, weak business metrics, and entrepreneurs, who were largely opportunistic, a lot of start-ups entered the ecosystem and even got considerable attention from investors.

Key sectors in the Start-ups on Rise



Ways of Funding Innovative Start-Ups

Considering this close to 5,400 start-up business in India made a boom and the number is expected to reach over 15,000 by 2020. India is on the 3rd place behind Britain and USA in terms of the number of start-ups. Furthermore; in line with its global counterparts, India has its own billion dollar club when it comes to start-up business in India. Over 90% of the new businesses fail during first year of operation. Lack of capital turns out to be one of the most common reasons. Money is the bloodline of any business.

Funding Options for Start-ups

- Angel Investors: Angel investors are the individual with surplus cash and keen interest to invest in upcoming start-ups. They also work in group or collectively analysing the proposal, offering mentor services and acting as advisors as well. Angel Investors have helped start up some prominent companies including Yahoo, Google and Alibaba.
- Venture Capitalist: Venture Capitalist are professionally managed funds who invest in companies that have huge potential. They usually invest in a business against equity and exit when there is an IPO or acquisition. VC provide expertise, mentorship and acts a litmus test of where the organisation is going, evaluating the business from sustainability to scalability point of view.
- Business Incubators and Accelerators: Early stage business can consider Incubators and Accelerators programs as funding options. Found in almost every major city, these organisations assist hundreds of startups every year. Programs run for normally 4-8 months and require the commitment from business owners.
- Raising money from Bank Loans: Bank provides two kinds of loans. One is working capital loan and other is funding. Working capital loan is issued to complete cycle of revenue generating operations and the limit is usually decided by debtors. Funding from bank will include usual process of sharing the business plan and valuations details.
- Funding from Micro Financiers and NBFC: Micro finance institutes are the options available for all those who could not access to basic banking conventionality. It is being popular who are those requirements are limited and credit ratings are not favoured.
- Fin-Tech Funding: These are the technology based funding institutions where the process is quick and easier. The documents are submitted online and the payment is made within hours. Usually the interest rate charged by these organisations is large.
- Government schemes and Programs: Government keeps on boosting the growth path for SME by providing various schemes, to help raise funds for the start-up. For example, stand -Up India, Skill Development programmes etc. Under MUDRA Yojana and CGTMSE schemes various collateral free loans are also featured.
- Crowd funding: Crowd funding is one of the newer ways of funding a start-up that has been gaining lot of popularity lately. It's like taking a loan, pre-order, contribution or investments from more than one person at the same time. An

entrepreneur will pitch detailed description of his/her business on a crowd-funding platform. The participant will mention the goals of his business, plans for making a profit, how much funding he needs and for what reasons, etc. and then consumers will read about the business and invest if they like the idea.

- Those giving money will make online pledges with the promise of pre-buying the product or giving a donation. Anyone can contribute money toward helping a business that they really believe in. The best thing about crowd funding is that it generate interest hence; helping in marketing the product alongside financing. This process can cut out professional investors and brokers by putting the funds in the hands of common people.

Digital Financing Model

Economic analysis suggests that the next impetus for growth in India's economy will come from micro, small, medium-size enterprises (MSMEs) and start-ups. A slew of programs announced in recent years have fostered a more favourable business environment for financial technology – or Fin-tech – models to emerge in the MSME lending space – in India.

This need for technology disruption in formal debt financing has been underscored by a credit gap – estimated at US$230 billion in 2017 – coupled with demand and supply-side issues in financing for MSMEs. Credit availability globally has shrunk in the last decade in the aftermath of the global financial crisis of 2007-2008 and the subsequent heightened regulations.

In India, the GoI, via India Stack and the JAM (short for Jan Dhan-Aadhaar-Mobile) Trinity, is supporting digitization and the Fin-tech industry. IndiaStack is a set of APIs that allows governments, businesses, start-ups and developers to utilize a unique digital Infrastructure to solve India's hard problems towards presence-less, paperless, and cashless service delivery. JAM Trinity refers to the government of India initiative to link Jan Dhan accounts, Mobile numbers and Aadhar cards of Indians to plug the leakages of government subsidiaries.

Fin-tech companies are offering solutions that can substantially improve efficiencies at every step of the lending process. Fin-tech models can provide end-to-end solutions for the lending value chain or "full stack lending models" such as peer-to-peer (P2P) lending, marketplace lending, crowd funding, and invoice based financing and so forth.

Currently, Fin-tech companies provide small-ticket loans and are focused on MSMEs that have limited credit history and need formal funding.

Flowchart for the Disbursement of funds to SME through Fin-tech models.

ORGANISATION

- **eKYC**
- **Chatbots**

UNDERWRITING

- **Alternate credit Scoring**
- **Psychometric Analysis**
- **Bank and financial statement analysis**
- **Geo-Tagging**

DISBURSEMENT

- **Aadhar eSign**

SERVICING AND MONITORING

- **Early warning Systems**

COLLECTION

- **NACH/ UPI Based collection**

Source: World Bank

India's financial services industry is poised for a digital revolution. From payment banks to India Stack to the recent expansion of mobile financial services, policy makers and financial service providers are energetically pursuing digitization of financial services. But the country still has a tremendous way to go. Roughly half the population has low digital literacy, and adoption of digital financial services (DFS) is skewed towards higher income population segments. For example, only 9 percent of those with lower education levels are online, as compared to 38 percent for those with higher education levels.

FUNDING CHANNELS

PRIORITY SECTOR LENDING

Priority sector lending include only those sectors as part of the priority sector, that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and Micro and Small enterprises.

Bank lending to the micro, small and medium enterprises (MSMEs) will rise sharply after Reserve Bank of India (RBI) allowed lenders to classify all working capital limits to these units as priority sector lending (PSL).

Earlier, only working capital loans up to Rs 5 crore to the micro and medium and up to Rs 10 crore to the small scale industries were allowed to be classified as priority sector lending. Investment into plant and machinery, however, will not qualify for PSL beyond certain limits.

In another announcement, RBI has now given the GST-registered MSME units a 180-period window to repay their dues between September 1, 2017, and January 31, 2018, if their dues to the banks were standard as on August 31, 2017. All loans up to a limit of Rs 25 crore will enjoy the extended repayment schedule.

In the Union Budget announced this year, the government also reduced the corporate tax rate for the MSME sector from the existing 30% to 25% for units with a turnover of Rs 250 crore.

"Policy relaxation given to MSME sector for the overdue payment and the removal of credit caps on MSMEs (services) under priority sector augurs well for both MSMEs and banks and will help in increasing the credit flow to the MSME sector which has been affected by the demonetization and GST".

Some of the lenders, especially the private sector banks, struggle to meet their priority sector obligations, which is 40% of the total bank credit during the financial year.

Rajkiran Rai, chief executive director and managing director, Union Bank of India, said, "This will be a big relief for the MSME sector as working capital limits will go up sharply as this will also be counted as priority sector exposures. Many units had huge working capital demands even if investment in plant and machinery was low."

ACCESS TO ALTERNATE SOURCE OF CAPITAL

MSMEs in India play a crucial role in contributing to the overall economic growth. In India, MSMEs account for more than 80% of total industrial enterprises and employ an estimated 117 million people. Moreover, MSMEs make a significant contribution of more than 40% to industrial output and exports. However, there is a huge and unidentified potential in this sector which is yet to be harnessed to make it an economic powerhouse of employment creation and innovation. As per the MSME census of 2006-07, it has been found that more than 92% of MSMEs in India did not have access to finance from institutional sources. Besides, the bank credit to this sector has remained largely flat over the past two years at INR4.7 lakh crore (as of September 2017). Undoubtedly, access to finance has been the biggest challenge for the MSMEs in India to grow, innovate and create jobs. Notably, over 50% of the MSMEs in India are rural enterprises widely distributed across the low-income states, making them an important sector for promoting inclusive economic growth and poverty reduction. (World Bank, Aug 17).

Indian MSMEs face several constraints to access credit from the formal financial system

In the light of above, it is evident that the present banking system in India is needed to go through radical transformation to cater to the financing needs of MSMEs. The traditional banking though very predominant in India even today, involves lengthy procedures to grant loans to the MSMEs. Hence, MSMEs fail to obtain timely credit during their various crucial stages of growth. Besides, the quantum of credit approved is also based on the collateral offered to the banks, thereby limiting the required access to credit.

Apparently, concerns over rising non-performing loans (NPLs) in the Indian banking segment and the implementation of more stringent Basel III capital adequacy norms, banks have become extremely cautious in lending to risky ventures and individuals. Moreover, the lack of credit information of the MSMEs also prevents banks from extending financial aid. Unsurprisingly, the restrictive banking system in India has led to a much wider funding gap, restraining the MSME sector's growth prospects.

Finance gap in the MSME sector in India

As per report of the International Finance Corporation 2012, the MSME segment in India is characterized as largely undercapitalized segment. It has identified that there is a considerable demand-supply gap of INR3.57 trillion which though viable and addressable by the formal financial institutions, remains unmet. The finance gap is composed of debt gap of INR2.93 trillion and equity gap of INR0.64 trillion. Geographically, it indicates that there are more service sector enterprises across India than manufacturing units (71:29). However, given that manufacturing enterprises are more capital intensive they have higher working capital requirements. Hence, share of the debt in the manufacturing sector is also significantly higher at 73% of the total gap. In order to address these financial gaps, several policy interventions have been made by the fiscal as well as the monetary authority of India to extend financial support to the MSMEs. Besides, the credit rating agencies (CRA's) are also playing an important role in assessing the credit worthiness of the MSME with help of government subsidies, in order to encourage MSMEs to enter the formal financial system. Nonetheless, there is still a need to enable an environment for greater financial inclusion of MSMEs, assisting them to conduct business in a more smooth and proficient manner.

In this article, we consider some of the alternative financing solutions which can pave way for a more sustainable growth of the MSME sector in India.

Alternative sources of financing for small businesses- finding grip in India

Notably, the new alternative sources of funding in India are at their nascent stage and yet to become proven and sustainable models. However, given the large unbanked population, there is a good space for these financing channels to flourish and establish. Some of these innovative and transformative approaches are discussed below:

Factoring Mechanism: Factoring is a very effective tool as it helps in managing the cash flows of the company who have deficient working capital arrangements. The tool involves selling of accounts receivable (debtors) to a third party (factor) at a discounted rate. The companies facilitating factoring services pay cash against the credit sales of the client and obtain the right to receive the future payments on those invoices from the debtors. This tool proves to be very effective for MSMEs in addressing liquidity issues and finance operations which otherwise may result in loss of opportunities from the revenue that it may be able to garner. In India, the potential for this tool is very huge, as the use of this facility though suitable is overlooked. However, there are several service providers in India at present after the regulatory obstacle was addressed by The Factoring Regulation Act in 2011, which came into effect in February 2012. This Act now regulates the factoring business in India and focuses on promoting the factoring concept and spreading awareness. However, the factoring market is not yet robust compared to other international markets and this could be attributed to lack of awareness, low customer reach by factoring companies, etc. It is essential to encourage use of this tool as it results in higher utilization of resources, higher profits margins and more importantly enables smooth functioning of business operations. Markedly, international factoring also appears to be an attractive tool for exporters compared to traditional letter of credit.

Private equity: Another financial solution would be to cater to the equity needs of the small businesses which would be essential to expand the business and bring about sustainable growth. Though private equity (PE) investments have gathered momentum in India they are skewed towards the larger businesses while private equity investments in small businesses are yet to establish a firm footing. The venture capital funds and angel investors have shown interest in MSMEs; yet there is still a significant push needed in the MSME space. The listing of companies on the MSME exchange has been an important initiative taken by the regulatory authority. However, currently there is a real challenge of market making which is absent and the underwriters to support public issues of MSMEs. Alternatively, the heavy reliance of MSMEs on debt has been creating pressure on their balance sheets. Besides, the present environment is confronting many regulatory actions like demonetization and implementation of GST which have slowed the growth in industrial segment and banks are reeling under the pressure rising NPAs. In such circumstances, raising fresh loans from banks, MSMEs are likely to face several challenges with increased uncertainty over future cash flows. It is thus important for the MSMEs to shift their focus from debt alone to funding mix with equity capital to grow in healthier manner. This alternative source offers plenty of positives in terms of strengthening the balance sheet, increased capacity to withstand volatile business environment, higher flexibility in deciding the return on investment, etc. Moreover, raising funds through private equity is easier as opposed to public issue and requires minimum regulatory compliance.

Crowd funding: Crowd funding also called as democratized funding is web-based tool which involves seeking mainly smaller funds from multiple lenders through a social platform to fund new ventures. It is a big opportunity for small borrowers who are unable to raise funds through traditional means due to credit scores or higher interest rates. This concept is also in its nascent stage in India as yet. SEBI, the regulatory authority in India has been actively considering this concept and has proposed a framework to encourage and streamline the crowd funding market. A solid regulatory framework is expected to go a long way in enabling a sustainable business model in an emerging market like India. This concept is likely to gain traction in India given that it requires huge social media penetration. Interestingly, India has outpaced the US to gain the leading position for Facebook (a social networking platform) users. This Facebook usage could prove to be a useful tool because in crowd funding the "single most predictive factor for the rate of emergence is social media penetration", as mentioned in the World Bank report titled 'Crowd funding's potential for the developing world'. Presently, the US, UK and China are big key players in the crowd funding market. In India, there are merely 10 crowd funding platforms as of 2013, as per World Bank notes.

Peer to Peer (P2P) lending: P2P lending, a form of crowd funding, has become increasingly popular globally post financial crisis of 2008. P2P based lending platform seeks to connect interested investors and borrowers with matching requirements without any involvement of a formal financial institution, unlike other Fin-tech companies which act as intermediaries between the banks and borrowers. It caters to the borrowers without the need for collaterals and at affordable rates which are lower than the bank rates. Meanwhile, the investors holding idle cash have the options to fetch lucrative returns. However, this lending concept is at its initial stage in India and still remains unregulated. However, these start-ups have been the recent buzz in the financial market. Several start-ups have been catching up in India to cater to the needs of the MSMEs. These start-ups not only aim to provide affordable credit in a simplified manner but also ensure real-time loan approvals for applicants within a fixed timeframe.

Fin-tech start-ups: Fin-tech start-ups have also gained momentum in India recently. This technology based firms act as intermediaries between the banks or NBFCs and borrowers and charge a processing fee for the transaction from both. Given the rich build of database in India these start-ups differ from traditional financing in terms of credit information of the borrower. They arrive at holistic credit scores that are more inclusive of myriad data points compared to the conventional credit bureaus which consider around merely 30 parameters, thus helping the enterprise to build a credit history. It thus involves a more comprehensive credit evaluation of the small borrowers. This not only assists in faster processing of the loan applications but also helps small enterprises to get more competitive and make most of the business opportunities.

Alternative financing-a boon to emerging market like India

Alternative financing in India though it is yet to establish its roots in India; it is certain to give positive push to growth of the MSMEs. The key hurdle i.e. inaccessible timely credit at competitive cost which has been a major challenge faced by MSMEs over the past several years, the alternative platforms aim to provide simplified and customized access to finance along with more active participation and guidance in the overall growth and operations of the enterprises. Besides, in the era of rapidly changing technology, it is also essential for enterprises to overcome the risk of becoming technologically obsolete. Hence, alternative sources are expected to be the key drivers, providing convenient and cost effective funding during the crucial stages of growth of the small and medium enterprises, thereby aiding sustainable growth. These alternative solutions are known to be popular among advanced countries suggesting that these alternatives are more likely to thrive if implemented in India as they help in bringing the borrowers and investors closer. However, these innovative methods would prove to be fruitful if established with strong legal framework involving greater transparency which would not only encourage borrowers but also build greater confidence among investors.

ROLE OF FINTECH AND NBFC TO MEET FINANCIAL DEMANDS

Fin-tech lenders use digital technology to make lending faster, easier and less costly. Specializing in **MSME finance**, TAB Capital's work is all about granting a loan against financial statements, bank account transaction history or e-commerce transaction behaviour (all of which can be digitally uploaded by the applicant / borrower), within a matter of 1-2 days and at an interest rate that is much lesser than the banks. The creditworthiness of the borrower is assessed using big data along with psychometric tests and social media behaviour. The trading position of the business is also taken into account.

Digital lending – the dark horse of SME-focussed lending

Propelled by technological developments, an alternative source of loans for small business has emerged in the form of new FinTech (financial technology) lending. In India, the FinTech market has witnessed a period of rapid growth in the last two years. As per reports by KPMG India and NASSCOM, it is expected to cross the $2.4 billion mark by 2020. Its lending model is driven by digital technology and is inherently different from the conventional approach that has been used by banks for years.

Most FinTech lenders specialise in micro financing and SME lending. The loan is granted promptly based on financial statements, bank transaction history and e-commerce transaction behaviour where applicable. As a leading player in the digital lending industry, Capital Float has already carved out its niche and is trusted by entrepreneurs who need quick loans to materialise the innovations in their business plans.

Digital lending services build a bridge between lenders and borrowers. There is a difference in the time taken to process the application, the underwriting process, the actual disbursal of the amount and the period for which the SME loan is granted. While adequate care is taken in evaluating the eligibility of a business for the grant, a FinTech company also ensures that there are no superfluous delays.

It helps the SMEs on the following accounts:

- Unconventional approaches: Instead of scanning through numerous irrelevant documents and looking at documents that are known to be under-reported, online lenders make use of credit scorecards as well as several hundreds of variables and raw data points. Some also conduct psychometric analysis of candidates and include industry proxies, financial behaviour, and non-traditional metrics for overall assessment. This lays the foundation for them to provide collateral-free loans to SMEs even with easily provided documentation – something not widely visible within the formal banking institutions.
- Technological advantage: Digital lending platforms make use of cutting edge algorithms in their loan assessment process. Banking on AI and Big Data, to analyse the applicant, the business, and the market that it caters to in order to ensure continuous improvement of credit models. Some of the platforms have combined strong underwriting experience with technology to create truly powerful solutions. In fact marketplaces like CoinTribe are even power some of the traditional FIs platforms now through PaaS (Platform-as-a-Service) solutions to enable them to do faster and more accurate credit assessment.
- Minimal human intervention for quick assessment: Such platforms rely on entirely digital processes with minimal or no human intervention in the overall decision making. This eliminates the scope of human errors and makes assessments thoroughly reliable and unbiased. While, it greatly improves the velocity of credit processes it also makes credit under-writing much more scalable. Owing to their innovation-driven approach, the turnaround time for credit risk assessment has been brought down to a few minutes against days and weeks as is the norm in traditional FIs.
- Easy application process: The use of bots and specifically designed algorithms enable digital lending platforms to scrape all the relevant information from public and private sources. This facilitates minimum paperwork during application and obviates the need for the applicant to fill exhaustive forms.
- Loan disbursement: Digital lending companies have improved the user experience by leveraging technology to tone down the paper work and processing time. Just like retail shopping and online travel bookings, the capital market for SMEs also needed to evolve and move online. The loan disbursement process takes only about 2-3 days which proves to be pivotal for cash-strapped SMEs. 35% of the SMEs receive payments 3 months or later after delivering products or providing services – making quick access to working capital essential for smooth functioning and gradual scaling up of SMEs.

Some of the Fin-tech companies are:

- Faircent
- Capital Float
- SMECorner
- NTREES
- Mandii

In line with the standards established by banks, an online lender must also ensure a high degree of transparency in the process of granting loans. At Capital Float, before a transaction becomes active, borrowers receive complete information on the rate of interest, the tenure of loan and any condition attached to the deal. There are no unpleasant surprises at the time of loan repayment.

Another advantage of procuring unsecured loans from a digital lender is that this new industry can adjust to changes more actively than conventional banks. With lower costs of underwriting using technology, lower rates of interest also become feasible.

Digital lending is helping a new class of business borrowers who have not been able to obtain funding from traditional sources. With an automated underwriting process and risk management, it has a lower operational cost and smoother loan processing. A major of Fin-Tech -based lending is the assessment of client's credit worthiness. Unlike banks that use only income statements and formal credit history, a Fin-Tech company gathers substantial data through social media and big data. What's more, with a strong use of technology in lending, the focus on safety is also uncompromising. There are adequate measures to keep the customer details encrypted and secure. Moreover, they also facilitate tailored finance products keeping in mind the varying needs of different industry segments.

Most of digital lending platform are focusing on providing 'unsecured' loans to SMEs which has been the need of the hour as many SMEs with high potential suffer from capital starvation and are unable to take out loans from traditional FIs due to the focus on 'secured' loans. Its an 'unsecured' loan disruption that digital lenders are bringing in powered with technology to risk assess the borrowers in a much better manner and lend against the business performance and track record rather than value of a collateral. As a larger segment of the population comes under the digital aegis, the future prospects of the SME segment – driven by swift and efficient financial assistance enabled by the digital lending ecosystem – will only herald positive tidings for the long-term growth of the Indian economy.

As a conclusion it can be safely said that the emergence of the **Fintech NBFC** for **MSME finance** is a global phenomenon that is transforming the entire lending model and in turn the business sector in totality. An idea can change the world, and as fast the idea can be converted into reality, more profitable and effective it will be. Gone are the days of the waiting in line for form fill-ups and waiting months to get a loan to have your business see the light of the day. With players in the market, monetary support for your innovative business idea is just a click away!

BOOSTING THE SME GROWTH PATH

NEW VISTAS OF OPPORTUNITIES FOR SME SECTOR

The "Make in India" campaign aims to transform India as a manufacturing powerhouse by promoting exports, encouraging Foreign Direct Investment (FDI), improving industrial productivity, and by lowering the barriers to doing business. The government hopes to create 100 million jobs by 2022 and to increase the share of manufacturing in GDP to 25%.In this context, an important question is: What are the industries which hold the greatest potential for growth and what are the opportunities for MSMEs in those industries?

Given that India holds a comparative advantage in labour-intensive production activities, that there are two groups of industries that holds the greatest potential for export growth. First, there exists a huge unexploited export potential in India's traditional unskilled labour-intensive manufactured products such as clothing, footwear, toys etc. Second, based on imported parts and components, India has a huge potential to emerge as a major hub for final assembly in a range of products, where the manufacturing process is internationally fragmented and is mainly controlled by multinational enterprises (MNEs) within their global production networks (GPNs). In general, these products are not produced from start to finish within a given country. Based on the available literature, some product groups have been identified, where GPN is most prevalent. These product groups, referred to as "network products", include: office machines and automatic data processing machines, telecommunication and sound recording equipment, electrical machinery, road vehicles, professional and scientific equipment, and photographic apparatus.

A number of leading automobile companies have established assembly plants in India and some of them have begun to use India as an export base within their global production networks. Further, a number of large MNEs in electronics and electrical goods industries have set up production bases in India, but they are mainly involved in production for the domestic market. Overall, though India's exports of assembled vehicles recorded some growth, the country remains as a minor player of network product exports, particularly in electronics and electrical goods.

From government policies to technological advancement, SME look forward to carious opportunities in the coming year:

- **Leveraging the e-commerce trend** SMEs now can make their presence in the online world by going digital. For many years, the SME sector was struggling with the intense competition, but going digital can give them the required edge.
- **Adoption of technology** since social media, mobile phones, and cloud technology is the talk of the town now, SMEs can

take help of these platforms. Embedding the social and cloud platform will open up vast opportunities for revenue growth and operational efficiency.

- **Taking advantage of Government schemes** SMEs need to receive benefits of Government initiatives such as ''Make in India, 'Startup India' and 'Skill India'. These schemes introduced by the government are aimed to promote an entrepreneurial culture to grow the current SME status.
- **Abundance of Fintech firms** with the number of Fintech firms and lenders on the rise, SMEs will have the opportunity to get accessible and affordable financing options. SMEs always had to worry about the gap in their cash flows while taking the SME loan from the traditional lender. But now, they will be able to focus on their business entirely, as enhanced speed, transparency, and quick SME loan facilities are about to increase significantly.

SME loans have always helped the enterprises to meet all their business needs that arise from time to time without facing any difficulty.

Financial Management for SME in current business scenario

Good financial management is critical to the success of any business, but it is particularly important in small to medium enterprises (SMEs) where the risk of insolvency is often little more than an unpaid invoice away. A key concern for small business owner-managers is cash flow management, or more specifically the cash conversion cycle. This is the firm's ability to generate cash from its customers' invoices, and the time it takes to collect these accounts receivable.

Closely related to the cash conversion cycle is the working capital cycle, which is the movement of cash and other liquid assets through the business as a process of regular trading. How efficiently a business manages its working capital, and speed of its cash conversion cycle will impact on firm's overall profitability.

The relationship between working capital management and profitability

In relation to the linkage between working capital management and profitability within the firm, the review found several things that are worth summarising.

The research shows that there is a significant relationship between the firm's profitability and its cash conversion cycle, although this is influenced by firm size, age and the industry within which it operates. Small business owner-managers can enhance their firm's profitability through the improvement of how efficiently they manage their working capital, as this frees up the amount of liquidity in the business.

The faster a business can turn around its cash conversion cycle the more efficient it will manage its working capital. This can be driven by more effective management of inventory and attention to the turnover of stock within the business. Inventory management is likely to be more important in periods of economic downturn than during boom times, due to the fluctuations that occur in customer demand.

In addition to the efficient management of inventory and working capital, SMEs can also boost their profitability through the effective management of accounts payable and receivable. Good management of the accounts receivable helps the business bring in its customer payments faster thereby speeding up the cash conversion cycle. However, prompt payment of accounts payable also avoids late payment costs, interest charges or the loss of supplier discounts. In fact the efficient management of accounts payable and receivable might be more important than inventory management.

Working capital Management by SME owners is not well planned

SME owner-managers can enhance their firm's profitability through more efficient management of accounts receivable and payable, plus the monitoring of inventory. However, the review also found that many owner-managers are poor at managing these things. This was particularly the case for SMEs in developing economies.

SME owners have poor knowledge of banking terms and do not use funds properly. According to the studies, funds allocated to them are not rendered for the purpose for which they have been allocated. For example, Term loans provided are used for Working capital needs. Non secured loans are used for other purpose and not for business operations. This has caused a chaos and has led to a situation where the repayment becomes a little difficult.

It becomes necessary for Small business owners to understand the right allotment of funds to different verticals and investing with a sight of future. So the repayment and interest are easy going and also it becomes profitable for the owner as well.

Feasible solutions to SME hindrances

- Mutual Supply of Technologies: A number of appropriate technologies for the MSME sector have developed in various sectors. While each MSME has its areas of strengths and weaknesses, therefore, it would be mutually valuable if already developed technologies made available to each other. A comprehensive list of all sorts of technologies should be prepared and made available accordingly to the MSMEs requiring it.
- Constitution of a Panel of Consultants: For the purpose of technological advancement and guidance a panel of experts and consultants should be prepared, who can help the MSMEs within the region for effectively transfer the available technologies. The constitution of panel of these consultants could be nature wise of the activities of the MSME .At the time of constitution of panel of experts, there should be inclusion of the owners of different sectors of MSME'S
- Determination of Technological Needs: There should be detailed survey to assess the technical and financial needs of the SME. So that, the proper arrangement could be made to fulfil the needs of the SME'S.
- Training and development, awareness programs: There must be conduction of training and development programs by the MSME ministry. The currently running programs are not so effective and sufficient. One of the important reasons for slow intake in the utilization of schemes is the lack of knowledge about schemes and their likely benefits. The current knowledge dissemination system is limited in its outreach. There is a need to develop a better communication strategy and use of new age media tools
- Sufficient availability of the credit- Our banking system does not provide sufficient amount of credit to fulfil their requirement of establishment of SME and as well as not for the operational activities. Therefore, there must be availability of credit according to the requirement at cheaper rate
- Relaxation in labour laws and red tape-There should be relaxation in complex labour laws to avoid the inconvenience in compliance. There should not be uniform labour
- Laws to each SME. The must be sooth running of the concern not to create a problem for them. Every effort must do to avoid the unnecessary red tape
- Proper research and development: There should proper research and development in respect of innovative method of production and service rendering. The innovative products will provide the cheaper products and the SME'S will be able to cope up with the situation.
- Financial Training sessions for SMEs: There should be proper training sessions for Small and Medium Enterprises before applying for any funds or loans. Also, knowledge enhancement about new ways of raising funds and investing in the right business opportunity can be of much help.

IMPACT OF AUXILIARY SECTOR ON SME

ROLE OF CREDIT RATING AGENCY IN PROMOTING SME SECTOR

Since the MSME sector is the largest provider of employment in India after agriculture, Government of India is taking active interest in the development of this sector. In order to improve credit flow to this sector, the Government is encouraging MSME players to get themselves rated. The rating will help MSMEs to obtain better credit facility from lenders and also will help them establish their credibility.

The government has introduced a subsidy scheme, where a part of the rating fee is reimbursed by National Small Industries Corporation (NSIC). As per this scheme, 75% of rating fee paid to the designated rating agency is subsidized by NSIC subject to a ceiling of Rs. 25000 for entities having turnover up to Rs. 50 lakhs, Rs. 30000 for entities having turnover between Rs. 50 lakhs to 2 Crore and Rs 40000 for entities having turnover exceeding 2 Crore. The scheme has been encouraging MSMEs to get themselves rated. This subsidy is available for first year only. For renewal, the MSME has to pay the fee to the rating agency. A brief introduction to prominent players in the Indian credit rating market is given below.

Procedure for Applying for Credit Rating by SMEs

Benefits for SME due to Credit Rating Model

- The rating scale places very imminent role in determining the quantum of loan to be provided to the company. For ex; if the company is doing in par with the industry and they want to rapidly expand, the banker may have their discretion to sanction the amount taking in to consideration the industry, management, capability of the company etc and banker may sanction full money requested for expansion or they may ask the management to slow down in their expansion by reducing the capex(Capital Expenditure) investment
- Very high rating for the company will definitely have an upside benefit of interest rate reduction from anywhere between .5% -1.5%, which may give substantial benefit for the company and it may increase the company's profitability. (An reduction of 1% interest rate for the loan of 2 crores may give the benefit of close to 2 lacs benefit for the company, which will be directly adding to the bottom line of the company
- High rated company means strong confidence in their entire operation, thus gives the company to attract good talent pool from the big corporate to strengthen their operational viability and retention of employees are possible due to the strong image created by way of high rating
- Rating also helps the company to push their business very aggressively since the rating agency not only appraises the

financial quality, but also it's other performance. This gives to the company an upper edge by way of showing the rating to the other new customers and export also possible, as this will create confidence in the mind of the customer about their delivery capability and financial stability. Very strong rating will definitely make the company to show this rating as their credit worthiness in terms of financial and non-financial performance, which will definitely increase the top line & bottom line of the company

- Normally, any loan proposal may take more time with bankers, and some time, this may hamper the growth of the company. In some cases, loan status information from bank takes more than 3-6months and due to this delay, SME may be denied for their organic growth. When the company is rated by the listed rating agency, then this gives the comfort level for the banker to speed the process and loan sanction and disbursement time will be reduced substantially. In an analysis, it has been reported that more than 35% of the companies who got the rating certification claims that, processing time for the loan sanction from the banker has come down drastically, and they saved lot of time and money and their growth was thus guaranteed due to timely release of loan
- More interesting fact is, instead of SMEs approaching banks for getting loan for their expansion activity , high rated SMEs will be approached by the banker directly and they come forward voluntarily for extending the credit facility, since bankers wants to have good asset quality. With good rating, this becomes easy for the banker to understand the credit worthiness of the customer and they are optimistic on their repayment capacity
- Good credit rating will give confidence to the company(SMEs) to compete with bigger players in terms of quality, better price and they tend to grow in some cases in par with bigger corporate. This will certainly boost the employment opportunities and increase the per capita in India.

EASY EXIT POLICY

The government has proposed amendments to the MSME Act with the twin objectives of time-bound exit and revival of loss-making units to help them consolidate their businesses and re-deploy capital in other green field ventures.

The objective of proposed amendment for MSME Act is two-fold - revival and exit of MSMEs.

Revival: MSMEs that seek early assistance to tide over difficult financial times and provide a framework where a viable MSME can seek standard as well as customised relief and concession to revive.

Exit: To provide an easier and expeditious exit procedure for the benefit of promoters and guarantors through liquidation and change in management.

MSME can file an application voluntarily if accumulated losses of the enterprise equals to half or more of its entire net worth for last financial year and enterprise apprehends failure of its business specifying revival plan or exit through liquidation proceedings. The MSME facing insolvency/bankruptcy should be provided legal opportunities to revive its unit. This could be by way of re-organisation and rehabilitation scheme with comfort to creditors and a mechanism for interim suspension of enforcement rights.

For this Government has approved FAST TRACK EXIT scheme has been notified. It is very simple and cost saving method of winding up the company without going for lengthy liquidation process and without the intervention of High Court. It is an opportunity given to the defunct companies to get their names struck off from the Register under Section 560 of the Companies Act 1956 in a time bound.

ROLE OF ASSEST RESTRUCTURING COMPANIES

MSMEs have been playing a pivotal role in the country's overall economic growth and have increased potential to grow but major obstacle is that they have been facing the constraint of adequate or timely finance. Issues related to sickness of MSMEs, Non-Performing Assets and exit policy have been raised from time to time in different quarters. Keeping in view these issues, the Ministry of Micro, Small & Medium Enterprises has notified a Framework for Revival and Rehabilitation of MSME Under this framework any enterprise can seek revival and rehabilitation benefit through a committee constituted by banks with representatives from State Governments, experts and others. The main features of the framework are as below:

- Identification of incipient stress: Before a loan account of a MSME turns into a Non Performing Asset (NPA), banks/creditors are required to identify incipient stress in the account. Any Micro, Small or Medium enterprise may also voluntarily initiate proceedings under this framework if enterprise reasonably apprehends failure of its business or its inability or likely inability to pay debts and before the accumulated losses of the enterprise equals to half or more of its entire net worth.

- Committees for Distressed Micro, Small and Medium Enterprises: All banks shall constitute one or more Committees at such locations as may be considered necessary by the board of directors of such banks to provide reasonable access to all eligible Micro, Small and Medium enterprises which have availed credit facilities from such bank. The Committee shall comprise of representatives of the bank, independent expert and representative of the State Government.
- Corrective Action Plan (CAP) by the Committee: The Committee may explore various options to resolve the stress in the account. The intention is to arrive at an early and feasible solution to preserve the economic value of the underlying assets as well as the lenders' loans and also to allow the enterprise to continue with its business. During the period of operation of Corrective Action Plan (CAP), the enterprise shall be allowed to avail both secured and unsecured credit for its business operations.
- Options under Corrective Action Plan (CAP): The options under Corrective Action Plan (CAP) by the Committee may include: (i) Rectification - regularize the account so that the account does not slip into the non-performing asset (NPA) category, (ii) restructuring the account if it is prima facie viable and the borrower is not a wilful defaulter, and (iii) recovery - Once the first two options at (i) and (ii) above are seen as not feasible, due recovery process may be resorted to.
- Restructuring Process: If the Committee decides restructuring of the account as CAP, it will have the option of either referring the account to Enterprise Debt Restructuring (EDR) Cell after a decision to restructure is taken or restructure the same independent of the EDR mechanism. If the Committee decides to restructure an account independent of the EDR mechanism, the Committee should carry out the detailed Techno-Economic Viability (TEV) study, and if found viable, finalise the restructuring package within 30 days from the date of signing off the final CAP.
- Prudential Norms on Asset Classification and Provisioning: While a restructuring proposal is under consideration by the Committee/EDR, the usual asset classification norm would continue to apply. The process of re-classification of an asset should not stop merely because restructuring proposal is under consideration by the Committee/EDR. However, as an incentive for quick implementation of a restructuring package, the special asset classification benefit on restructuring of accounts as per extant instructions would be available for accounts undertaken for restructuring under these guidelines.
- Wilful Defaulters and Non-Cooperative Borrowers: Banks are required to strictly adhere to the guidelines issued by RBI from time to time regarding treatment of Wilful Defaulters.
- Review: In case the Committee decides that recovery action is to be initiated against an enterprise, such enterprise may request for a review of the decision by the Committee within a period of fifteen working days from the date of receipt of the decision of the Committee. Application filed under this section shall be decided by the Committee within a period of thirty days from the date of filing and if as a consequence of such review, the Committee decides to pursue a fresh corrective action plan for revival of the enterprise shall apply accordingly.

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Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 2,50,000 companies.

FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.

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