

SME

**Back from the brink: Unlock 1.0 puts MSMEs back on recovery path littered with manpower, capital issues**

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July 07, 2020 10:47 PM

Ease of Doing Business for MSMEs: For MSMEs, it is critical to keep their expenses in check and remain solvent in the current scenario. Lack of solvency in the business would further not allow them to take advantage of the normalcy that would eventually return.



Rs 56,091.18 crore has been disbursed to 15,24,691 MSME accounts as of July 4 under the Emergency Credit Line Guarantee Scheme.

**Ease of Doing Business for MSMEs:** India’s vast micro, small and medium enterprise (MSME) sector is gradually looking at business recovery back to pre-Covid levels. 23 days of Unlock 1.0, which began on June 8, has helped the MSME sector to begin re-scaling as economic activity resumed but with riders, according to MSME experts Financial Express Online spoke with. “Substantive recovery has taken place since unlock 1.0. More than 60 per cent units in the MSME sector are now operating fully or partially. This is a big change. For small units, retailers are a big market, they are the front end. As the market has started re-opening and orders have started coming in, the recovery cycle has, hence, started. However, 100 per cent recovery would take little more time,” Anil Bhardwaj, Secretary-General, Federation of Indian Micro and Small & Medium Enterprises told Financial Express Online.

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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.

According to SME Chamber of India’s president and founder Chandrakant Salunkhe, the recovery in the MSME sector has been only 20-25 per cent. “The major cause of suffering for the sector is the

has gone up. If the pre-Covid level was 100 per cent, the current operations are at 20 per cent. In fact, out of 20 lakh MSMEs in Maharashtra, only 75,000 are working now,” Salunkhe told Financial Express Online.

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On the other hand, looking at the recovery in the GST collection, it seems there has been a significant recovery, according to Mukesh Mohan Gupta, President, Chamber of Indian Micro, Small & Medium Enterprises (CIMSME). The association represents 1.10 lakh MSME members. “We estimate that the recovery is around 30-40 per cent but there are many sectors that are yet to begin their recovery such as hospitality, malls, healthcare, entertainment, toys, furniture, restaurants etc.,” Gupta told Financial Express Online. The GST collection recovered to Rs 90,917 crore in June from Rs 32,294 crore in April and Rs 62,009 crore in May, according to the government data.

For MSMEs, it is critical to keep their expenses in check and remain solvent in the current scenario. Lack of solvency in the business would further not allow them to take advantage of the normalcy that would eventually come up ahead. While Salunkhe said that businesses across manufacturing, service and even infrastructure sectors are hit, according to Bhardwaj, the ones that are seeing recovery are MSMEs into exports, those having pre-existing orders or suppliers to government, units catering to retail segment (typically small businesses supplying goods in 100 km periphery), units manufacturing electrical goods etc.

### **Manpower and Capital Conundrums**

On the other hand, for units awaiting the return of the migrant labour, they might have to survive without them for a few more months. “Migrant labour will only come back after two-three months. Labourers, who have gone back to states such as Bihar and Uttar Pradesh, will not come back in the rainy season,” said Salunkhe.

India saw thousands of labourers marching back to their home towns amid livelihood concerns after the Modi government-enforced lockdown on March 25. “There was a sentiment issue in labourers going back. They thought about how they would arrange for food, who would look after them. As they were moving back to their hometowns, the government had started preparing for the unlock 1.0. If they were given some assurance about unlock, then they wouldn't have left the cities,” added Gupta.

To help MSMEs tide over the Covid impact and recover their operations, the government had announced a slew of measures under the Atmanirbhar Bharat campaign. Particularly, the Rs 3 lakh crore Emergency Credit Line Guarantee Scheme (ECLGS), which offered credit through public and private sector banks, has found many eligible takers since June when the disbursement started. According to the data shared by Finance Minister Nirmala Sitharaman's office on Tuesday, Rs 56,091.18 crore has been disbursed to 15,24,691 MSME accounts as of July 4 out of the sanctioned amount of Rs 1,14,502.58 crore and 36,28,444 MSME accounts. The amount disbursed as of June 1 was Rs 3,892 crore. The share of public sector banks in the amount disbursed so far was of Rs 35,578.48 crore while private banks had contributed Rs 20,515.70 crore towards lending to MSMEs.

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“Response has been good for the scheme as already around one-third of the scheme amount has been sanctioned. The scheme targeted units in the formal segment having existing loans. If a unit is having an existing loan then naturally it is a formal sector unit otherwise no bank would have given the loan in the first place. So it was not that difficult to reach out to this small segment,” added Bhardwaj. While announcing the scheme, Sitharaman had said that it would benefit 45 lakh MSMEs in India to recover. However, “the bulk of MSMEs has not been reached out by any government policy. Barely less than 7 per cent of MSMEs have access to institutional funds.”

Importantly, the government had launched the ECLGS for giving loans with four-year tenor with a moratorium of 12 months on principal repayment. Even though this might help MSMEs to repay the amount but there has to be a good amount of diligence done by businesses before taking the loan. “MSMEs must take this loan very diligently. It might be a suicidal loan for them as there would be a challenge in repaying the amount in a given time period. This is because the end-use of the amount is likely to be for paying

Nonetheless, the full recovery of MSMEs ahead would depend on how the Covid situation unfolds. Post-Covid, there might be a three-four month window required to truly scale back to pre-Covid levels.

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