

Covid crisis: MSMEs pin hopes on release of payments by govt

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More than availing of the benefit of new credit lines and loan-related schemes announced by the government, nearly 63.3 million micro, small and medium enterprises (MSMEs) are hoping to get delayed payments from the government in the next 45 days.



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In dire need of cash in hand, the MSME sector was hoping that the government will take care of some its fixed expenses like salaries and wages or payments towards electricity bills. Industry players point out that MSMEs have limited cash at the end of a financial year with locked-in inventories, which seriously affects their ability to pay salaries of employees.

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Anil Bhardwaj, secretary general, Federation of Indian Micro, Small and Medium Enterprises, said: "Currently the problem is of cash. There is no income and expenditure is urgent. Most of them are facing cash crunch and that is why they were expecting the government to pick up some of their fixed expenses. But, that has not come their way."

Companies now will have to resort to borrowing and gradually start operations, However, those who will not be able to garner funds will be forced to wind up in the next few months.

Mukesh Mohan Gupta, president, Chamber of Indian MSMEs, described the announcement of clearing of delayed payments as bigger than any of the loan announcements. "It is because payments are stuck... if this payment is released on time, that is a direct payment to the MSMEs."

Industry bodies say new credit lines and loan schemes announced in the economic package will be helpful only to a small section of MSMEs, the reason being the caveats in the scheme – it is only applicable to those having outstanding loans. What the scheme says is that if an MSME has an outstanding loan on a given date, then it would get 20% additional amount

According to Bhardwaj, this scheme targets a very small percentage of MSMEs that might be having outstanding loans. Also, it is not yet clear whether outstanding loans that the banks are looking at are only terms loans or working capital loans as well.

Industry bodies also highlight that under the present policies of banks, they will find it hard to lend to the MSME sector. Besides, as the demand has vanished, there are no taker of new loans. “If I am a garments or toy manufacturer or a plastic manufacturing company or a furniture maker, and there is no buyer for my produces, why would I start production? So, what is the need for a loan?”

Shreekant Somany, chairman, CII National MSME Council, said: “There is lack of clarification from appropriate ministry or departments regarding the status of manufacturing units. In the absence of such clarifications, many units of essential items have run out of raw materials, packaging materials and many other such items leading to disruption in supplies and closures.”

Because of the sudden lockdown, the truck movement got stalled, resulting into materials with a limited shelf life to expire. “No direction was given for the loss of material due to expiry of shelf life of consignments during this period which were stuck in transit, with respect to be covered under insurance policies,” said Somany.
