

CRISIL SME TRACKER

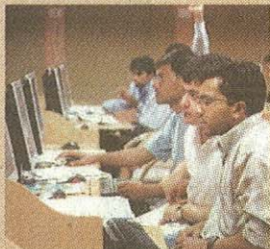
Mudra Bank will help start-ups to access funds

The Union Budget 2015 has recognised the importance of micro, small and medium enterprises (MSMEs) as the backbone of the Indian economy and the engine of growth and employment. While it put the infrastructure sector under the spotlight by promising to pump in additional funds, it also gave the IT and technology sectors a major push with a ₹1,000-crore fund for self-employment and talent utilisation. The news has been encouraging for MSMEs in general and entrepreneurship in particular.

The government proposes to set up the Micro Units Development Refinance Agency (Mudra) Bank, with a corpus of ₹20,000 crore, which will focus on lending to MSME promoters, while prioritising those with SC/ST or OBC backgrounds. This initiative will create newer avenues for start-ups to access funds.

Additionally, a trade receivables platform has been proposed to finance receivables from corporates and other buyers through financial institutions. This will help strengthen the liquidity position of MSMEs by reducing the requirement for working capital funding.

The ₹1,500-crore allocation for the National Skill Mission toward skill development among skilled and unskilled labour is set to benefit the country's workforce as well as the entrepreneurship sector.



Also proposed is an expert committee to look into replacing the current system of multiple prior permissions with a pre-existing regulatory mechanism. It also plans to develop a Comprehensive Bankruptcy Code by 2015-16, making it easier to exit sick or non-profitable ventures. These two measures will contribute to the ease of doing business and encourage interest in entrepreneurship.

The six per cent cut in excise duty on leather footwear will allow a large number of MSMEs operating in this industry to strengthen their profit margins.

On the flip side, budget cuts for some of the MSME ministry's key schemes for 2015-16 will pose hurdles for the growth and sustainability of the sector. Also, the hike in the service tax rate from 12.36 per cent to 14 per cent is set to impact the top line of MSMEs in the services sector.

Note: CRISIL has rated over 50,000 MSMEs in India. This fortnightly tracker presents to our readers insights on MSMEs, a key element of the Indian economy.