

Impact of Covid-19 on Micro, Small and Medium Enterprises----The Emerging Scenario  
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*The liberalised financial package and the revised definitions of the Micro, Small and Medium Enterprises (MSME) with a hike in the limits of investment in Plant and Machinery and turnover, are primarily inducted to revive/ nurse these entities, in the wake of financial problems faced by them, in the aftermath of Covid-19 pandemic; the hike in the limits is substantial in the case of Medium enterprises, relative to Micro and Small enterprises. The distributions of these enterprises and their principal characteristics need to be analysed in detail for a proper perspective of their financial status, and the scenario emerging from the policy measures inducted. These aspects are analysed in this article, mainly based on the results of the Surveys of the National Statistical Organisation (NSO), the Reserve Bank of India (RBI) studies on company finances and the RBI Basic Statistical Returns (BSR) on banking statistics of scheduled commercial banks. As many enterprises belong to the Micro/ Small categories with relatively low credit requirements, the need for a separate credit budget for these entities is spelt out. Taking into consideration the problem areas of these enterprises, it is suggested that the data base of these enterprises is to be revamped further, by generating additional tabulations with the garnered data, and also collection of additional data, which could be of use in formulating or modifying schemes of financial assistance to the MSME.*

*Key words: Micro, Small and Medium Enterprises*

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The Micro, Small and Medium Enterprises have been accorded considerable importance in formulation of schemes of financial assistance, in view of their contribution to income generation and employment, with a relatively low capital investment. These are also reckoned as a significant sub sector in the Priority sectors, with targets laid down for deployment of credit by the commercial banks<sup>1</sup>. The relative importance of these enterprises to Gross value added and Gross Domestic Product are given in Table 1.

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Table1: Contribution of MSMEs in Country's Economy at Current Prices--- (amounts in Rs.crore)

Year	MSME GVA	Growth (%)	Total GVA	Share of MSMEs in GVA (%)	Total GDP	Share of MSME in GDP(%)
2011-12	2622574		8106946	32.35	8736329	30.00
2012-13	3020528	15.17	9202692	32.82	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	29.70
2015-16	4025595	8.65	12566646	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90

Source: MSME Annual Report 2018-19 ( Ministry Of Micro, Small & Medium Enterprises)

Considering the period 2011-12 to 2016-17, it is observed that though the rate of growth of GVA of MSMEs declined over the time period, their share was about one third in total GVA and about 30 per cent in GDP in each of the years. (Table 1).

The differences in the old and new definitions of the MSMEs may be noted for a better perspective of the emerging scenario. The new definition has removed the distinction between Manufacturing and service enterprises . The twin criteria of investment in plant and machinery and turnover are considered for redefining these enterprises.(details in respect of which will be discussed later), while the old definition is based on investment in plant and machinery only, with separate norms for Manufacturing and Service enterprises. Against this backdrop and the revised definition of the MSME, the article analyses the data of the MSMEs emanating from diverse sources. Section 1 of the paper is devoted to analysis of the results of the unincorporated enterprises (Unregistered sector) and the summary results of the Registered factory sector generated from the Annual Survey of Industries(ASI). Section 2 examines the revised definition of the MSMEs and hints at the possibility of the bigger units in the Private Corporate sector coming into the fold of the MSMEs with the associated financial benefits. Section 3 deals with the Non-Performing Assets (NPA) of banks with reference to these enterprises. In the context of proposed capital infusion in MSMEs in the financial package, it is indicated that enterprises with a high debt equity ratio and negative net worth

need to be examined in depth before providing bank credit to the stressed MSMEs. The BSR information system is also examined with reference to Small Borrowal Accounts which, *inter alia*, cover many micro/small enterprises with relatively low credit requirements , and for which a separate credit budget is felt necessary. Section 4 deals with revamping of data base of the MSMEs, which could be of use in modifying schemes of financial assistance to these enterprises. Concluding remarks are given in Section 5.

### Section 1

The MSMEs can be broadly classified under two categories,viz Registered and Unregistered <sup>2</sup>. The Registered sector covers units under the Factories Act i.e factories employing 10 or more workers with power and 20 or more workers without power---- these are covered in the Annual Survey of Industries (ASI) . The unregistered sector covers the unincorporated units , covered in the quinquennial Surveys of Unincorporated Enterprises (SUE) by the NSSO<sup>3</sup>. According to the results of the 73<sup>rd</sup> Round of SUE (Reference year 2015-16) of NSSO, about 86 per cent of the manufacturing enterprises and 83 per cent of the service enterprises are own account enterprises without having any hired worker. The rest of the units are organised mostly as proprietary concerns. The contribution of unincorporated enterprises to GVA, employment and income generated per unit of fixed capital are given in Table 2.

Table 2: GVA, Employment and GVA to Fixed assets\* of Unincorporated enterprises ( 2015-16)

	No. of enterprises (00s)	GVA (Rs. crore)	Employment ( lakhs)	GVA to Fixed assets (%)
Manufacturing	196649 (48.7)	268062 (38.1)	360.41 (49.7)	59.1
Services	206879 (51.3)	435275 (61.9)	364.85 (50.3)	46.0
Total	403528 (100)	703337 (100)	725.26 (100)	52.1

Source: NSSO (2018) : Report on the Economic Characteristics of unincorporated Non-Agricultural Enterprises (Excluding Construction), Report No.582, July 2015-June 2016

\*Market value as on date of survey

The above results indicate that the share of enterprises by number and employment was broadly the same in the Manufacturing and Services sectors. Though the share of GVA of Services sector was more than that of the Manufacturing sector, the income generated per unit of fixed capital was more in the case of Manufacturing than in services sector<sup>4</sup>

The structure of units in the Registered Factory sector classified by type of organisation and their contribution to value added and output in relation to Fixed capital<sup>5</sup> may also be examined.

Table 3: Registered Factory sector---- Factories by Type of Organisation and their value added and output to Fixed capital

Type of organization	No. of factories	Net Value Added to Net Fixed capital	Output to Net Fixed Capital
Proprietorship	59512 ( 25.0)	0.77	5.7
Partnership	60482 (25.5)	0.89	7.5
Limited Liability Partnership (LLP)	1057 (0.5)	0.76	4.2
Government companies	1820 (0.7)	0.31	1.9
Private Corporate (Public and Private Ltd. companies )	76244 (32.1)	0.36	2.3
Total including cooperatives and	237684 (100)		

others			
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Source: Annual Survey of industries----Summary Results ,2017-18 ; Figures in brackets are per centages to Total.

The ASI does not provide detailed tabulations according to the size class of investment in plant and machinery and type of organization to identify each of the segments of the SMSE and their principal characteristics as per the erstwhile definitions of these enterprises, Be that as it may, proprietorships / partnerships accounted for one fourth each to the total factories, while another one third was accounted by Private corporate sector. *A priori*, proprietary and partnership entities could be reckoned as micro/ small category, while the medium category , along with the larger units are covered in the Private corporate sector. It is interesting to note that the value added to fixed assets was comparatively high in respect of Proprietary , Partnerships and LLPs, when compared to factories in the corporates. The same trend was noticed , even when output to net fixed capital is considered. Though the registered and unregistered sectors cannot be strictly comparable due to differences in coverage, concepts and definitions, a general conclusion is that the income generated per unit of capital is relatively high in respect of proprietary/ partnership entities in the Registered sector, when compared to those in the unregistered sector. It is also to be noted that the summary results of the factory sector do not give details of manufacturing and service categories separately, as per the different norms laid down for the two categories in the erstwhile definition of the SMSE.

The unit of enumeration in the ASI is a factory. An enterprise can have one or more factories. The data emanating from the enterprises / companies will be different from those coming from the ASI . As such, data available from Ministry of Corporate Affairs (MCA)-21 or the RBI studies on company finances may be examined to investigate the likely entry of bigger enterprises into the fold of Medium enterprises, as per the revised definition. The MCA-21 data base is the primary source for compilation of the Non- financial Corporations sector in the National Accounts Statistics (NAS) compiled by the National Statistical Office (NSO), which gives sources and uses of funds under current and capital accounts. In recent years , the RBI studies on company

finances of non- government non- financial public and private limited companies are mostly based on the MCA-21 data base. The coverage of the selected companies by RBI and NSO sources will be different , due to differences in the cut off dates in receipt of data. Also, the RBI studies cover companies common to three consecutive years, while this will vary in the case of the NAS. As the MCA-21 source does not cover the data on a census basis, the accounts in the NAS are estimated for the entire Private Corporate sector using blow up factors of Paid -up capital coverage. Though the MCA-21 data collects information on investment in plant and machinery and turnover, the distributions of companies by the two way classification as per the size classes of the revised definitions of the MSME is not available. The RBI studies also do not give these distributions , but select financial ratios of the companies by size class of sales / Paid -up capital are available, apart from the aggregates of assets and liabilities, and income and expenditure statements for the selected companies<sup>6</sup>. The distributions of the companies by size of sales and their financial ratios will provide partial information on the companies , which will be the likely entrants into the MSME.

## Section 2

The old and revised definitions of the MSME are given in Table 4.

Table4: Definitions of MSME (Old and New)

(amounts in

Rs.crore)

	Old(Based on investment in Plant and machinery only)		New(Based on twin criteria of Investment in Plant and machinery and turnover)	
	Manufacturing	Services	Investment	Turnover
Micro	≤0.25	≤0.1	≤1	≤5
Small	0.25–5	0.1–2	Not more than 10	Not more than 50
Medium	5–10	2–5	Not more than 50	Not more than 250

Source: Ministry of MSME

The limits of Investment in Plant and machinery in the new definition are substantially higher, when compared to the erstwhile definition, partly because of the rise in

investment costs over a time period. Even so, the hike is more conspicuous in the case of the Medium enterprises. Implicit in the revised definition is the assumption of invariant turnover investment ratio at 5: 1 in each of the enterprise categories. Needless to mention, the ratio will be higher for Micro and Small enterprises, in view of their low investment costs, while it will be lower in the case of Medium enterprises. The new definition will bring bigger enterprises in the Private Corporate sector (PCS) into the ambit of the MSMEs, enabling them to derive the financial benefits as deemed Medium enterprises; this is evident from the hiked upper limits in respect of plant and machinery ( R.50 crore) and turnover (Rs. 250 crore). Thus there could be drastic conversion of public and private limited companies into Medium enterprises, apart from conversion of Medium to Small and Small to Micro categories. This will lead to unfair competition for loanable funds from the enterprises in different categories. As such, it is desirable to have separate credit budget allocation for each group of enterprises. Even though distributions by size class of investment in Plant and machinery and turnover are not available, a rough idea of the turnover ratio of each group of enterprises can be obtained from the data available from various sources .

Table5: Turnover investment ratios--Unincorporated Enterprises and Private Corporate Sector

Unincorporated Enterprises ( amounts in Rs. per enterprise)				Private Corporate Sector (amounts in Rs. crore per company)	
	OAE	Establishment s	All	Private Ltd Cos.	Public limited Cos.
Plant and machinery (1)	4450	100059	19582	2.9	149.7
Main income(2)	145020	1179641	308763	15.0	351
(2)÷(1)	32.5	11.8 (5.7*)	15.8	5.7 (3.0*)	2.3(1.8*)

Source: (1)NSSO Report on unincorporated enterprises ,73<sup>rd</sup> Round, 2015-16 ,(2) RBI: Data releases on Finances of Non-Government Non-Financial Public and Private limited companies,2018-19

\*These are ratios of output/net fixed assets in case of proprietorships shown under establishments and of corporate units in the registered factory sector. As indicated earlier, the data on plant and machinery are not separately available in the summary results of the factory sector.

It may be observed that the turnover ratios for own account enterprises were considerably higher compared to the establishments( mostly proprietorship units) in the unincorporated enterprises. Even in respect of the proprietorships, the ratios for the unregistered sector are higher than those in the registered sector. Further, the ratio is higher for private limited companies than the public limited companies----- these ratios are slightly lower for the corporates in the registered factory sector. Thus there are wide variations in the ratios under reference. The average values of the turnover and investment also give an indication that most of the unincorporated enterprises will come under micro category, while some private limited companies could be placed under the small category. In respect of public limited companies<sup>6</sup>, the average values of both indicators are in excess of the prescribed limits for the medium category, though there is a possible influx of these companies into the medium category, if analysis by size classes of sales is attempted. Table 6 provides this information.

Table 6 : Distribution of Public Limited companies<sup>7</sup> by size of sales and their turnover ratios

Sales range ( Rs. crore)	No.of companies	Sales to Gross Fixed Assets (%)
< 25	10873 (67.8)	25.5
25–50	1001 (6.2)	85.4
50–100	1048 (6.5)	108.1
100–500	1875 (11.7)	123.4
500–1000	474 (2.9)	122.5
≥1000	774 (4.9)	136.1
Total	16045 (100.0)	

Source: RBI: Data Release of Non- Government Non- Financial Public Limited Companies, 2018-19

Note: Figure in brackets are percentages to total

The distribution of companies by size of sales reveals that about three fourth of the companies are having sales less than Rs.100 crore each----a little over two third with



sales less than Rs.25 crore each. The corresponding data on plant and machinery are not available. Even so, sales to gross fixed assets ratios indicate that the investment is less than the prescribed limits for the Medium enterprises. Thus a major cross section of companies will come in the orbit of Medium enterprises. Similar distributions are not available for Private limited companies. Going by the average values of private limited companies ( Table5), it may be stated that some of these could be categorized as Medium enterprises, while some others enter the territory of the small group.

### Section 3

The financial package to the MSME announced by the Government in the wake of the Covid-19 pandemic, *inter alia*, covers (a) Collateral free loans on liberal terms and conditions with loan moratorium (b) Equity infusion to MSMEs by banks in case of stressed assets of these enterprises, declared as Non- Performing Assets (NPA), with the support of subordinate debt by Government and (c) Equity infusion by the Government for potential and viable units from the funds earmarked for the purpose. While the loan facility is intended for all categories of the MSME, the equity infusion measures are primarily meant for the Medium category, into which the enterprises in the PCS make a trespassing entry with the enhanced norms cited above. Though the financial package is motivated to boost or revive the MSMEs in the short run, the operations of these assisted enterprises needs careful monitoring. If the loans turnout to be bad debts, the consequential impact will be a hike in the NPAs of the commercial banks, necessitating higher provisions, affecting their profits. The NPAs of the MSMEs and the likely impact of the equity infusion need to be examined in this context. The credit requirements of the different segments of the MSME will differ depending on the size of the enterprises. The BSR information System on banking statistics on Small Borrowal Accounts (SBA) and Large Borrowal Accounts (LBA)\*will provide detailed information, which could be used for financial planning with regard to the Micro/ Small enterprises, whose average credit requirements are relatively low, when compared to the Medium category. These aspects are discussed in this section. Table 7 provides the relevant details of the NPAs of the MSMEs for recent years.

Table 7: NPAs of the Priority sectors, MSMEs and their share in total NPAs (amounts-- Rs. crore)

Year	Priority sectors	Of which MSME	Total NPAs	
2016	140500 (24.8)	70800 (12.5)	566200	
2017	170300 (23.4)	82800 (9.5)	728800	
2018	207120 (21.5)	90659 (9.4)	961728	
2019	228156 (26.0)	86792 (9.9)	879003	

Source: RBI: Trend and Progress of Banking in India, Various Issues.

Note: figures in brackets are percent shares in total NPAs.

The share of NPAs of the MSMEs (covered as part of priority sectors) in total NPAs declined from 12.5 per cent in 2016 to 9.9 per cent in 2019. With the change in the definition of the MSMEs, the structure of NPAs of these enterprises is likely to undergo change.

The implication of the equity infusion appears to be that with a stake in the equity of the enterprise, the returns thereof could offset the bad debts that could have been incurred otherwise. If the enterprise turns out to be not viable, the lending banks may withdraw their stake in equity. This proposal was earlier mooted by the RBI under the “Scheme for Sustainable Structuring of Stressed Assets”, in the case of stressed companies in the PCS<sup>9</sup>. In respect of stressed assets In the context of equity infusion into the MSME indicated above, it is necessary to monitor their operations periodically, in particular the debt equity structure and the status of repayment of loans. The analysis of bank borrowings of companies classified by the leverage ratios made by RBI some time back revealed that the share of bank borrowings to total borrowings is significant ,even in respect of companies with high debt equity ratio and negative networth<sup>10</sup>. ( Table 8).The importance of this analysis was emphasised by Subba Rao (2018) in an earlier study on NPAs of commercial banks . Similar analysis may be attempted in respect of Medium enterprises with equity infusion, for continuous monitoring.

Table 8: Share of bank borrowings in total borrowings of companies, classified by leverage ranges

Leverage class (%)	2012-13	2013-14	2014-15	2015-16
0-100	56.1	57.5	53.0	58.2
100-200	63.2	60.3	59.1	45.7
200-300	60.0	64.3	61.3	61.6
300-400	60.1	52.4	60.1	58.3
Above 400	66.0	61.8	63.4	46.1
Net Worth negative	43.9	44.7	44.7	48.3
Total	56.6	57.7	55.5	53.6

Source: RBI: Finances of Non- Government Non- Financial Public Limited Companies, May 2016 and May 2017 issues of the Bulletin.

The RBI presents a monthly data on sectoral deployment of bank credit; these data relate to select banks, which cover about 90 per cent of non- food credit extended by commercial banks. The MSMEs are also covered as a separate category, and data are available separately for (1) Micro and Small Enterprises (including service enterprises) and (2) Medium Enterprises. These data for March ( reference dates are different for each year) for recent years are presented in Table 9. The share of bank credit to the MSME in total Gross Bank Credit was in the range of 13-14 per cent .

Table 9: Sectoral Deployment of Bank Credit (Rs. crore)

	2017	2018	2019	2020
Gross Bank Credit (1)	7145500	7730300	8674893	9263134
Micro and Small Enterprises (2)	902000	996400	1067175	1149394
Medium Enterprises (3)	104800	103700	106395	105598
Total MSME (4)=(2+ 3)	1006800	1100100	1173570	1254992
(4) as % (1)	14.1	14.2	13.5	13.5

Source: rbi.org.in

While the above data gives an idea of credit deployed by commercial banks to MSME, information on number of units/ accounts assisted is not available, to provide a rough idea of the average outstanding credit. The reference date in March for each of these years is

also different. The BSR information System on Banking Statistics collects the data on outstanding credit ( end March) by category of borrowers<sup>11</sup> for all borrowal accounts of SBA and LBA on a census basis which covers the segments in MSME<sup>12</sup> also. Even though comprehensive statements on bank credit according to different classificatory characters are published in the annual volumes of the RBI BSR of scheduled commercial banks in India (Even Tables on credit by two way classifications are available), details of credit by category of borrowers are not published. Specifically, the data on outstanding credit classified by category of borrowers and size of credit limit will be useful in analysing the credit allocation to MSME covered in both SBA and LBA, for formulating policies of financial assistance. A study on SBA by the RBI gives these details, the results of which with reference to MSME for March 2014 are presented in Table 10.

Table 10: Credit to MSME in Small and Large Borrowal Accounts March 2014----(No.of accounts in '000s and amounts in Rs. million)

	SBA		LBA		All accounts		% share of SBA in all accounts	
Enterprises	N	A	N	A	N	A	N	A
Micro and Small	704 5	296197 (42044)	3333	6511000 (1953495)	10378	680719 7	67.9	4.4
Medium	442	18091 (40930)	185	2942623 (15906070 )	627	296071 4	70.6	0.6
Total	748 7	314288 (41978)	3518	9453623 (2687215)	11005	976791 1	68.0	3.2

Source: RBI Bulletin (May 2015): Small Borrowal Accounts of Schedule Commercial Banks, 2014

Note: The accounts of LBA are derived by subtracting SBA from the Total. Figures in brackets are averages per enterprise (actual values in Rs.)

On the premise that each enterprise will have one borrowal account ( which can be reasonably expected in case of SBA), a few interesting results emerge from the above data. The MSMEs are spread in both SBA and LBA. Th SBA of the MSME accounted for 68 per cent of the total number of accounts , with only a share of 3.2 per cent in the total outstanding credit to these enterprises. The average outstanding credit per account of Micro and Small enterprises in SBA was about Rs.42000 . Most of the unincorporated enterprises will come under this category. Even average credit per account of the medium enterprises in SBA was also roughly the same. As such, it will be possible to finance a large number of micro/ small enterprises with a low credit budget . In striking contrast, the average credit of MSMEs in the LBA accounts ( Rs. 19 lakhs in respect of Micro and Small and Rs. Rs.1.6 crore for medium enterprises). The number of accounts of Medium enterprises in LBA is relatively low with a

major share in total credit. With the possible entry of the enterprises in the PCS mentioned above, these amounts could still be higher.

#### Section 4

The information system of the MSMEs needs to be finetuned , taking cognisance of the change in definitions of these enterprises. The distribution of these enterprises classified by investment and turnover size classes is a pre requisite for bringing about improvements in schemes of financing these enterprises. These can be generated with the relevant information in the schedules of the registered and unregistered enterprises. The areas of the changes in data base can be broadly classified under two categories, viz (1) generation of additional tabulations from the data already collected and (2) Collection of additional data in the schedules useful for policy purpose and analytical studies. The distribution of enterprises by the two way classification cited above and also generating tabulations of principal characteristics by these twin criteria for the registered and unregistered enterprises come under the first category. With regard to the BSR information System, detailed tabulations of outstanding credit of SBA and LBA by size of credit limit and category of borrowers ( information on different segments of MSME is already collected in schedules) will be a useful adjunct, as detailed above. The data collected in the subsequent rounds of the BSR should be based on the revised definitions of these enterprises. As regards category (2), it may be mentioned that the surveys of the unincorporated enterprises and also the ASI registered sector focus more on output, input, value added etc, and the information on financial aspects is limited. The collection of data on financial aspects needs to be examined from the problem areas confronted by some of the enterprises, in particular the micro/ small enterprises. In this connection, it may be mentioned that Block 11 in the SUE schedule covers outstanding loans by credit agency, but these tabulations are not presented in the Reports. The loan block should be enlarged to cover various details according to credit agency (including the various non- institutional sources), type of account, purpose ,rate of interest etc, as collected in the decennial All - India Debt Investment Surveys (AIDIS) of Households conducted by the NSSO . The dependence of Micro/ Small enterprises on non-institutional sources , in particular money lenders, is expected to be more. Another problem area is the trade debt of the enterprises. In the hierarchy of

enterprises, the enterprises at the lower rung of the ladder will be saddled with trade credit provided to the bigger enterprises. According to the RBI Expert Committee Report (2019), the average debtor days of MSME are quite large and over 90 days in recent years. The delayed payments will affect the working capital requirements, necessitating more borrowings from banks or other non-institutional sources. In this context, it is necessary to collect the data on trade credit and trade debt by source and also the number of days for which the funds are locked up. The ASI collects this information as sundry debtors and sundry creditors under current assets and current liabilities respectively, but the relevant tabulations are not generated. Further, the debt equity structure of the capital infused Medium enterprises coming under the category of LBA, need to be analysed at the macro level as indicated above, to identify the number of enterprises in the red with high debt equity or negative net worth. At the micro level also, this analysis is necessary, so that the banks can take corrective action in reclassifying their loan portfolio from standard to sub standard. These exercises require a complete profile of the debt and equity of the enterprises. Apart from the above quantitative information to be collected in the existing surveys, it will be useful to conduct a small sample survey of MSMEs on the lines of the RBI's Quarterly Industrial Outlook Survey, which elicits information on ex post and ex ante situation of crucial indicators of production, order books, employment, capacity utilisation and their perceptions on the overall business situation<sup>13</sup>. According to a survey conducted by Indian Institute of Technology (IIT), Madras, MSMEs in Tamil Nadu are under severe stress due to revenue loss, funds crunch, delayed payments and non-availability of workers. With the fall in demand and order books, they do not have enough cash flows, which may result in layoffs and closure of units in the aftermath of Covid situation.

## Section 5

In retrospect, the hike in the limits of investment in plant and machinery and turnover in redefining the MSME (which is substantial in case of Medium enterprises), will trigger an unforeseen development, with companies in the PCS coming into the ambit of MSMEs and reaping the associated benefits of the financial package; this is evident from the distribution of public limited companies by size classes of sales and the associated ratios of sales to gross fixed assets, detailed above. It is observed that the turnover investment ratio is

considerably high in respect of unincorporated enterprises with relatively low investment cost; this is comparatively low for the Proprietary units in the Registered factory sector and also the corporate enterprises, as mentioned above. The NPAs of the MSMEs accounted for about 10



per cent of the total NPAs in recent years. This share is likely to increase further in the ensuing years, in view of the liberalised loan moratorium announced after the outbreak of the Covid-19 to mitigate the burden of debt servicing, which will be further accentuated by the likely entry of the enterprises in the Private Corporate Sector into the fold of MSMEs, as detailed above. As per the analysis of loan moratorium made in the Financial Stability Report of RBI (2020), 43 per cent of the MSMEs availed of this facility from commercial banks, accounting for 65 per cent of their outstanding loans as at the end of April 2020. This is apart from the companies in corporate sector, with one fourth of them having a share of about 40 per cent of their outstanding loan amount. The stress test analysis in the Report also indicated that the “NPA ratios of scheduled commercial banks may increase from 8.5 per cent in March 2020 to 12.5 per cent in March 2021 and even escalate to 14.7 per cent under severely stressed scenario”. In the context of equity infusion into the MSME as indicated in the financial package, it is necessary to examine bank borrowings of companies with reference to their debt equity structure periodically, so that the banks can take corrective action of reclassifying the loan portfolio in case of enterprises found not viable at a later stage. While this monitoring is useful at the micro level, a similar exercise can also be attempted for the MSME sector as a whole, by analysis of bank borrowings classified by size of debt equity ratios, as indicated above, so as to identify the number of companies in the red and modify the credit appraisal accordingly. As indicated above, the MSMEs are covered in both small and large borrowal accounts. Though the accounts of MSMEs in SBA accounted for 68 per cent of the total number of accounts, their share in total credit was found to be hardly 3 per cent. The average credit of MSMEs in the Small Borrowal Accounts is observed to be about Rs. 42,000; these are mostly unincorporated enterprises. In striking contrast, the average outstanding credit per account was substantial for MSMEs in LBA (Rs.19 lakhs for Micro/ small and Rs.1.5 crore for Medium enterprises). These findings indicate that the credit requirements of the MSMEs in SBA can be met with a relatively small budget exclusively for this segment of enterprises. Finally, the information system in respect of the MSMEs needs to be revamped further for formulating or modifying schemes of financial assistance to this sector.

## NOTES

1. The priority sectors cover (1) Agriculture (2) Micro, Small and Medium Enterprises (3) Export credit (4) Education (5) Housing (6) Social infrastructure (7) Renewable energy and (8) Others. The commercial banks are directed to achieve a target of 40 per cent of total net bank credit to priority sectors. A sub target of 7.5 percent is fixed for MSMEs. Further details can be accessed from [rbi.org.in](http://rbi.org.in)
2. According to the Fourth Census of the MSMEs, 2006-07, 86 per cent of Manufacturing enterprises and 97 per cent of the service enterprises come under the purview of unregistered category.
3. In the series of quinquennial surveys of unincorporated enterprises, the first one with reference year 2010-11 was conducted in the 67<sup>th</sup> Round of the NSSO, and the second one with reference year 2015-16 in the 73<sup>rd</sup> Round. Manufacturing, trade and services are the three broad categories covered therein.
4. The category of trading is excluded in the present compilation.
5. The ASI schedule collects gross fixed assets and the accumulated depreciation, but the summary results provide only value of stock of net fixed assets. As such, the ratios are presented accordingly.
6. The selected Non-government Non-financial public limited companies for 2018-19 in the RBI data, account for 64.2 per cent of the paid-up capital of all companies as on March 31, 2019. Thus, the cross section of companies is fairly representative.
7. The ratios of sales with reference to plant and machinery are not available for these size groups. As such, the ratio presented is a proxy for sales to plant and machinery.
8. SBA are accounts, each with credit limit less than or equal to Rs2 lakhs; LBA are accounts with credit limit more than Rs.2 lakhs each.
9. For details reference may be made to the RBI circular dated 13 June, 2016 under notifications in [rbi.org.in](http://rbi.org.in)
10. Similar tabulations are not published by the RBI for subsequent years.
11. The category of borrowers covers farmers, MSMEs etc, with a further break up of each category. For details, reference may be made to code list F in the Hand book of instructions to Basic Statistical Returns (BSR-1) under Occasional publications ([rbi.org.in](http://rbi.org.in))
12. The details of SBA are collected account wise since 2013, and the data published will give a complete picture of all accounts
13. Reference may be made to the RBI monthly Bulletins, in which the survey results are published.

## References

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