



SURVIVAL OF MICRO, SMALL AND MEDIUM ENTERPRISES



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The current lockdown situation due to the COVID-19 pandemic has highly impacted the business of Micro, Small and Medium Enterprises (MSME). The sector has been hit hard with millions of businesses waiting to collapse due to coronavirus and fearing loss of jobs. Highly impacted as they are, the MSMEs stare at a bleak future amidst such debauched situations. The current challenges in front of the MSMEs are payment of statutory dues, wages and payment of creditors. MSMEs dread a prolonged lockdown considering its material impact on manufacturing and rendering services offered by such firms. A disturbance in supply chain may increase the prices of raw materials that may have a negative impact on such MSMEs. Not to forget, a sharp fall in business and operational challenges shall invite an acute cash crunch thereby putting the sustainability of such MSMEs in jeopardy.

AMENDMENTS/ NOTIFICATIONS BY THE CENTRAL GOVERNMENT:

In view of rescuing the businesses of MSMEs and preventing triggering of litigations, the Finance Minister of India, Mrs. Nirmala Sitharaman, vide a notification dated 24th March, 2020, raised the threshold for invoking insolvency under the Insolvency and Bankruptcy Code, 2016 from 1Lakh to 1 Crore. Further on 27th March, 2020 the RBI issued a notification to defer the EMIs and grant a moratorium on payment of all installments due between 1st March, 2020 and 31st May, 2020. The notification predominantly aims at easing the financial distress being faced by MSMEs.

On 29th March, 2020, the Insolvency and Bankruptcy Board of India vide its notification amended the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 by inserting Regulation 40C in the said Regulations. The Regulation states:

REGULATION: 40C. SPECIAL PROVISION RELATING TO TIME-LINE.

“Notwithstanding the time-lines contained in these regulations, but subject to the provisions in the Code, the period of lockdown imposed by the Central Government in the wake of COVID19 outbreak shall not be counted for the purposes of the time-line for any activity that could not be completed due to such lockdown, in relation to a corporate insolvency resolution process.”

It is pertinent to note that Section 12 of the IBC along with CIRP Regulations talk about a timeline for completion of the Insolvency Process of a Corporate Debtor. The amendment enables the Resolution Professional appointed to take over the management of the Corporate Debtor to exclude the period of lockdown for the purpose of counting the timeline of 180, 90, 270, 330 days while undertaking insolvency process.

ANNOUNCEMENT BY FINANCE MINISTER DATED 13TH MAY, 2020:

On 12th May, 2020 Prime Minister Narendra Modi announced a Rs 20 lakh crore stimulus package to spur growth and help build a self-reliant India.

Subsequently, on 13th May, 2020 the Finance Minister of India, Nirmala Sitharaman announced an Economic Relief Package in order to help MSMEs recover from the economic impact of the Coronavirus pandemic. The announcement unveiled a major booster entailing a series of initiatives for survival of the MSMEs. The following are the initiatives undertaken by the Modi Government:

1. The Government redefined the MSMEs and introduced an additional criterion of turnover as it revised the definition of sector. Difference between manufacturing and service SME has also been removed. The Finance Minister has ensured that the Government will take necessary steps to amend the legal provisions for seamless enforceability of the agenda.

The following table shows how the Government has changed the criteria of MSME:

EXISTING MSME CLASSIFICATION			
CRITERIA: INVESTMENT IN PLANT & MACHINERY OR EQUIPMENT			
CLASSIFICATION	MICRO	SMALL	MEDIUM
MFG. ENTERPRISES	INVESTMENT <RS. 25 LAKH	INVESTMENT<RS. 5 CRORE	INVESTMENT< RS. 10 CRORE
SERVICE ENTERPRISES	INVESTMENT < 10 LAKHS	INVESTMENT<RS. 2 CRORE	INVESTMENT< RS. 5 CRORE
REVISED MSME CLASSIFICATION			
COMPOSITE CRITERIA: INVESTMENT AND ANNUAL TURNOVER			
CLASSIFICATION	MICRO	SMALL	MEDIUM
MANUFACTURING AND SERVICES	INVESTMENT< RS. 1 CRORE & TURNOVER< Rs. 5 CRORE	INVESTMENT < 10 CRORE & TURNOVER<50 CRORE	INVESTMENT <RS. 20 CR & TURNOVER < Rs. 100 CRORE

These limits have been raised to encourage the MSMEs in working effectively and to boost its contribution towards growth, employment and exports.

2. The Finance Department has announced Rs. 3 Lakh Crore collateral free loans to the MSMEs having a tenure of 4 years and a moratorium of 12 months. The Government assures these loans to be available till 31st October, 2020 and guaranteed interest on such loans capped with 100% credit guaranteed cover to banks and NBFCs. As the MSMEs need additional funding to meet operational liabilities built up, buy raw materials and restart their business; this provision shall help almost about 45 lakh units to restart their activities and shall also safeguard jobs.
3. In order to provide equity support to the stressed MSMEs, the Government has ensured to provide for Rs. 20,000 Crore as subordinated debt through Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). Moreover, the functioning MSMEs whose assets were non-performing or stressed shall also be eligible for such funding in order to boost the economy. Promoters of the MSMEs will be given loans by banks and NBFCs, which shall be infused by the promoter as equity in the Unit.
4. The Government has further announced for the creation of Fund of Funds (FoF) with a Corpus of Rs 10,000 crores. This shall provide equity funding for MSMEs with growth potential and viability. The FoF is to be operated through a Mother Fund and few daughter funds. Fund structure will help leverage Rs 50,000 Crore of funds at the daughter funds level. This shall benefit the MSME in expanding its business. This also gives opportunities to the MSMEs to get listed on stock exchanges.
5. To cope up with the inability to participate in trade fairs, the Government has enabled seamless e-linkage across the board for the MSMEs. The Government shall also ensure to make pending payments through the Central Government and the PSUs to the MSMEs within the next 45 days.
6. To safeguard takeovers/acquisitions during the prevailing conditions, the Government has decided to disallow global tenders in government procurement for tenders up to Rs. 200 Crore, which shall enable MSMEs to participate in various tenders and shall further create a lot of employment and shall aid in the concept of self-reliant India and help serve "Make in India".
7. In such uncertain conditions, the announcement of Economic Relief Package will act as a boon for MSMEs in distress. It will not only protect the MSMEs from unfair competition from foreign companies but also will safeguard takeovers/acquisitions of their businesses.

The sole proprietorships in the nation act as a refining area for entrepreneurship. Decision of infusing such funds in MSMEs surely would generate employments for skilled and unskilled labour. A spur in growth of MSMEs seem probable thereby making the job seekers self-sufficient to start their own enterprise. This surely makes the objective of sustainable long term growth believable. Unlike industries, the MSME intrinsically portray a higher labour to capital ratio. A turnover based definition of MSME and a quantum jump will help the MSME sector in growing and evolving as a vigorous sector thereby contributing to the idea of a self-reliant India and resolving the problem of unemployment.



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