

SME development key to India's economic growth

The recent initiatives taken by the government to promote start-ups and SMEs will propel the sector to grow at a greater pace

Amit.Shanbaug@timesgroup.com

Micro, Small and Medium Enterprises (MSME) sector is a very vibrant and dynamic sector for any country. Considered to be the backbone of India's economy, the MSME sector reduces regional imbalances, assures more equitable distribution of national income and wealth.

The Small and Medium sized enterprises (SME) play a central role for driving India's economic growth and development at the regional, national and global platforms. The MSME sector in India has demonstrated remarkable resilience in the last few years to sustain an annual growth rate of over 10% even in the face of the global and domestic economic slowdown.

The sector plays a pivotal role in employment generation, low capital requirements, usage of technology, industrial development across rural regions, use of traditional and inherited skills and mobilization of local resources. As more than 65% of population reside in rural and semi-rural areas, small business are a major source of income for local residents and after agriculture, small business in India is the second largest employer of human resources generating over 100 million jobs across the 46 million units in India employing nearly 40 percent of India's workforce and contributing 45 percent to country's manufacturing output.

IMPACT OF UNION BUDGET

The Union Finance Bill had some major changes in corporate taxation rules. The amendment will be particularly beneficial for the MSME sector. Companies with a turnover of less than Rs 250 crore in financial year 2017 would be required to pay tax at 25 per cent and not at the erstwhile rate of 30 per cent in the financial year 2019. Out of 4,721 Indian listed companies that reported their numbers for year ended March 31, 2017, 963 companies could be major gainers.

The median tax rate for the above companies is approximately 34 percent for FY17. Consequently, the difference in tax rate to the tune of 9 percent is expected to improve their profit after tax margins, thus leading to better earnings visibility.

SKILL ENHANCEMENT

There is a huge gap between the theoretical knowledge imparted and the its practical applications.

Chairman of Bhartiya Skill Development University (BSDU), Dr. Rajendra Joshi explains that there is an acute shortage of 'job ready' candidates in virtually all the sectors. "There is a big demand and supply gap for skilled manpower requirement in MSME sector with paucity of funds that these industries have. Alternately, if such MSMEs will start training students in the university/institutions directly, they will be getting skilled resources as per their requirements," he points out. He says Indian training and education system has been on the contrary only focused on theories and achieving degrees but not the skill.

"Now, since the Skill India and Make in India campaigns are launched by the PM, there seems to be a momentum around filling the skill gap and eliminating the current challenges in the education and training," he says.

He adds that such training system will fill the industry need and Indian youth will have a proper career direction at the time of education only. For becoming a global business hub, India needs a policy framework for Skill Development Education which brings right talent to the right industry.

Start up India is also an encouraging step for budding entrepreneurs that eases out the startup process from one point online registration, funding provision, patent & legal support, credit guarantee to tax exemptions. The central government has already announced a corpus of Rs 10,000 crore for this initiative.

CHALLENGES

From bankers' perspective, MSMEs are regarded as high-risk borrowers due to insufficient assets and low capitalization, lack of accounting records and vulnerability to market fluctuations are some of the factors impacting the credit flow.

Gurucharan Gollerkeri, Director-Public Affairs Centre, a non-profit think tank in Bangalore explains that there are certain sectors in the SME space which does face financial hurdles.

"For instance, Bankers could be reluctant while furnishing loans to SMEs and MSMEs who are in the service sector, however entrepreneurs who are into the manufacturing sector with an export oriented outlook are in a relatively better position," he explains.

He informs that he doesn't believe that there is jobless growth happening in the country. "Jobs are being created in certain sectors. There has certainly been a shift in resources from lesser productive ones to more productive ones," he points out.

MARKET FOR CONSTRUCTION EQUIPMENT

India is one of the most attractive destinations for investment in the construction equipment sector. Increased impetus on development of the country's road, rail, waterways, dams, petroleum, etc, has resulted in higher growth momentum in the construction equipment area with domestic and multinational companies participating in such projects in a big way.

The central government has announced several plans to speed up the approval process and attract foreign capital for quickly upgrading India's roads and rail network. These initiatives would propel the country's construction equipment market to a net worth of \$5 billion by fiscal 2020, up 70% from fiscal 2016.

