

A worker in a steel mill wearing a white hard hat with a clear face shield and a black protective suit with an orange reflective stripe. The worker is holding a long metal rod. In the background, there is a large industrial structure with a bright orange glow, likely a furnace or a hot metal stream. The scene is dimly lit, with the primary light source being the glowing orange area.

RECENT ANNOUNCEMENTS PERTAINING TO MSME SECTOR

**Presented By: CA Bhavesh Thakkar
17 July 2020**

Indian economy: a dichotomy

3rd

Largest in the World
by Purchasing
Power Parity¹

5th

Largest in the
World by
Nominal GDP²

Projected to
overtake the US by³

2030

Annual growth in
FDI equity inflow
for FY 2020⁴

28%

Ease of Doing Business Rankings 2019

- ▶ India's position among 190 countries
- ▶ India Overall Rank: 63 (Jumped up by 14 places as against previous year ranking of 77)⁵
- ▶ Prime Minister Narendra Modi aspires to become a US\$5t economy by 2024
- ▶ Currently there is US\$158.50b worth of investments planned for the country⁶

Sources:

1. World Bank Database – Ranking of countries by Gross Domestic Product in 2018, World Bank Website

2. World Bank Database – Nominal GDP Indicator, World Bank Website

3. Report by economists from Standard Chartered Plc

Sources:

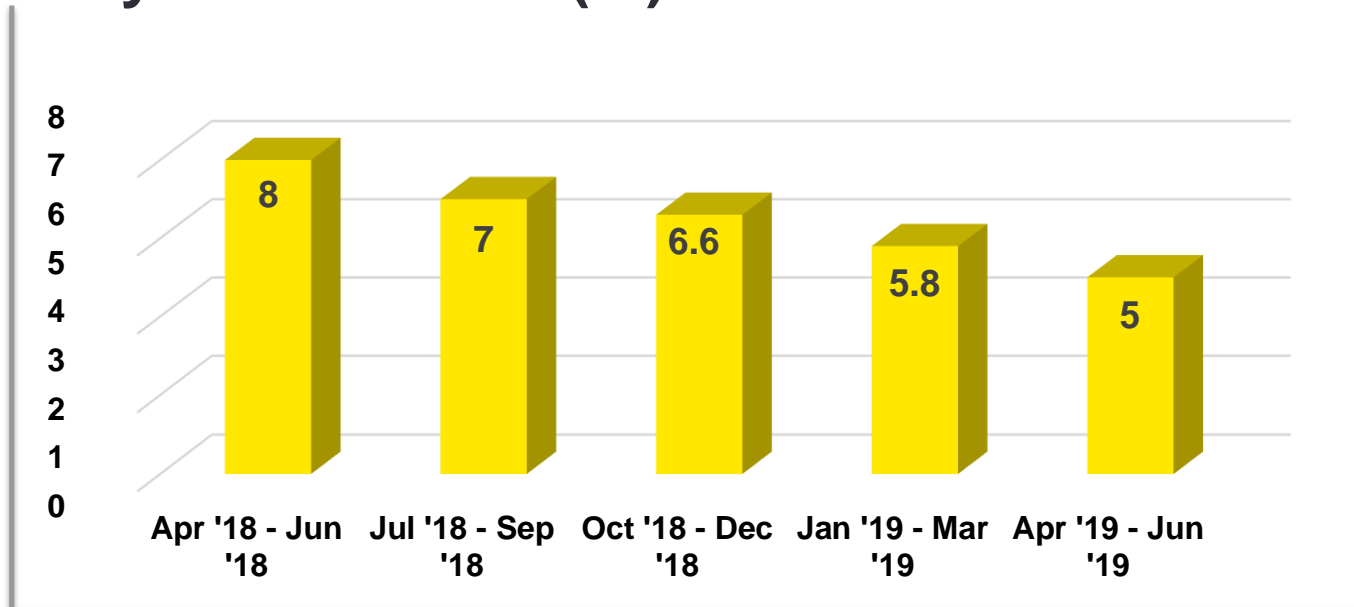
4. June 2019 Quarterly Fact Sheet – Department of Industrial Policy and Promotion, Government of India

5. Rankings – Doing Business, World Bank Website

6. Invest India Website

Overview

Quarterly GDP Growth (%)#



- ▶ A combination of global and domestic factors has resulted in a fall in India's GDP growth **from 8% to 5%**.
- ▶ **Global Factors** – Global Slow down, US – China Trade War, Brexit etc.
- ▶ **Domestic Factors** – Weak domestic consumption, financial sector health etc.

The Country requires some massive regulatory and tax reforms to be considered as a preferred destination in terms of ease of doing business

Source: *Economy Watch - Monitoring India's macro-fiscal performance September 2019* (Prepared by Macro-fiscal Unit, Policy Advisory Group, EY India)

Competitive federalism

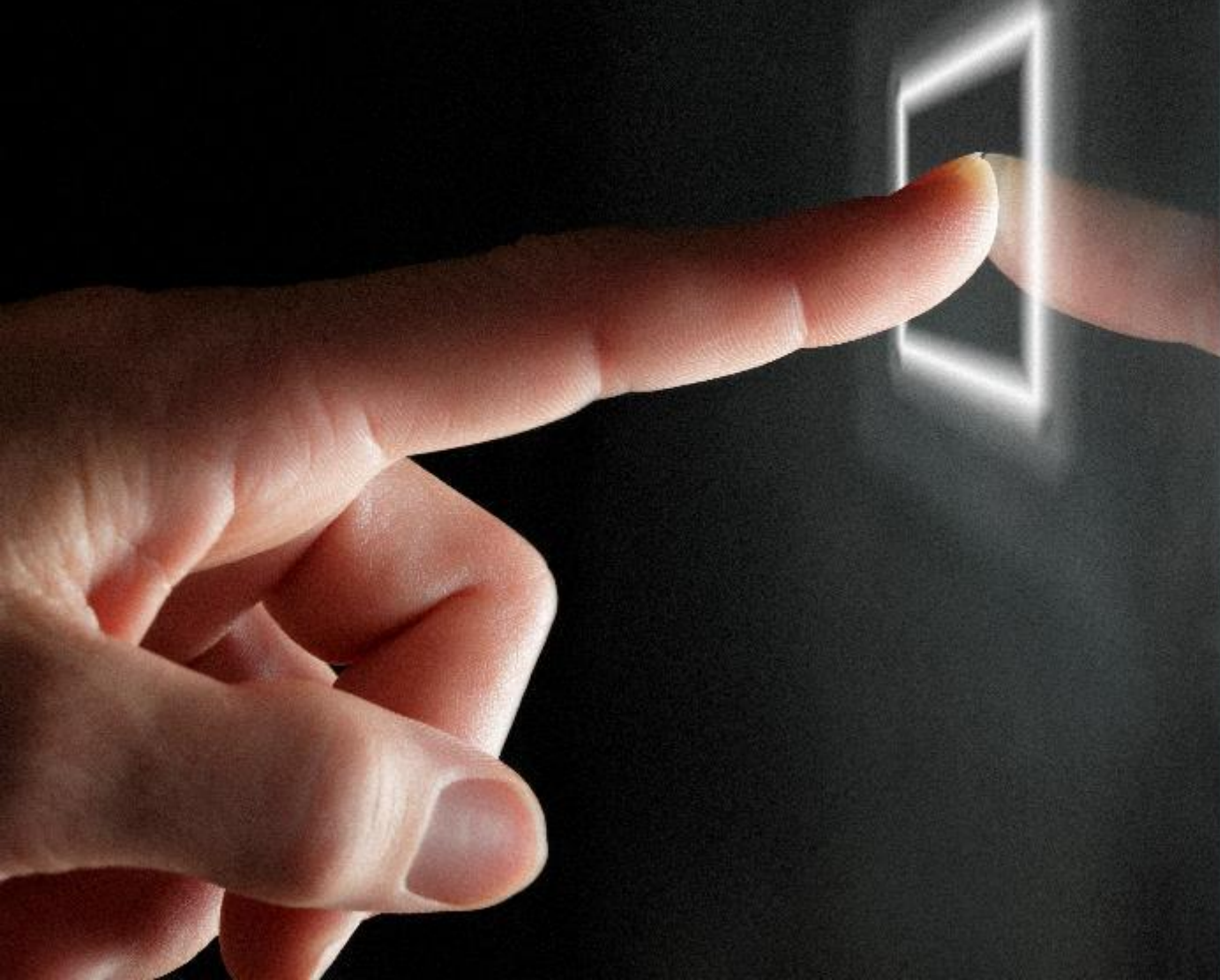
Competitiveness among States

- ▶ Industrial policies by states every 5 years that lay down the policy framework for incentives offered in the state
- ▶ A list of 405 parameters were released in 2017 and form the basis for the ranking of states according to the Ease of Doing Business (EoDB)
- ▶ The ranking methodology, entitled Business Reforms Action Plan 2017 (BRAP), consolidates values that measure evidence of reform and feedback

	State	Rank
Top 10 States ranked in BRAP (2017-2018)	Andhra Pradesh	1
	Telangana	2
	Haryana	3
	Jharkhand	4
	Gujarat	5
	Chhattisgarh	6
	Madhya Pradesh	7
	Karnataka	8
	Rajasthan	9
	West Bengal	10
Maharashtra	13	

Source: Business Reforms Action Plan 2017, Department of Industrial Policy & Promotion

MSME criteria and registration



About MSME Definitions

- ▶ Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 wherein enterprises have been classified as under:

Manufacturing Enterprises

Enterprises engaged in the manufacture or production of goods pertaining to any industry

Services Enterprises

Enterprises engaged in providing or rendering of services

- ▶ The categorization of Micro Small and Medium Enterprises (MSMEs) was based on **investment** in plant and machinery (for manufacturing) and equipment (for service enterprises), same is tabulated as under:

Classification	Micro	Small	Medium
Manufacturing Enterprises	≤ INR 25 lacs	≤ INR 5 crore	≤ INR 10 crore
Service Enterprises	≤ INR 10 lacs	≤ INR 2 crore	≤ INR 5 crore

- ▶ Amongst the various announcements made by the Finance Minister, provisions related to categorization of MSMEs revised (w.e.f. 1 July 2020) and notified on 26 June 2020 to be based on Investment and Annual Turnover, same is as under:

Classifications	Criteria	Micro	Small	Medium
Manufacturing & Service Enterprises	Investment	≤ INR 1 crore	≤ INR 10 crore	≤ INR 50 crore
	Annual Turnover*	≤ INR 5 crore	≤ INR 50 crore	≤ INR 250 crore

*Exports will not form part of the annual turnover

About MSME

Definitions

Plant & Machinery:

1. The new notification states that Investment in plant and machinery or equipment will be determined from previously filed Income Tax Return (ITR) under the Income Tax Act, 1961
 - ▶ In case of new enterprise where no ITR is available, value of investment shall be taken based on self-declaration basis until the end of the financial year in which ITR is filed.
2. Value of Plant and machinery or equipment of the enterprise shall be determined as per Income Tax Rules, 1962 and shall include all tangible assets (other than land and building, furniture and fittings)
3. The purchase (invoice) value of a plant and machinery or equipment, whether purchased first hand or second hand, shall be taken into account excluding Goods and Services Tax (GST), on self-disclosure basis, if the enterprise is a new one without any ITR
4. The cost of certain items specified in the Explanation I to sub-section (1) of section 7 of the Act shall be excluded from the calculation of the amount of investment in plant and machinery

Registration process

The firm shall register itself on Udyam Registration Portal.

Aadhar (incase of proprietor) and PAN (In case of a Company or a Limited Liability Partnership or a Cooperative Society or a Society or a Trust) shall be mandatory for registration on this portal. No fees is required to be paid nor any documents required

A Permanent ID number shall be generated and on completion of registration an e-certificate for registration containing permanent Identity Number shall be generated

On the basis of Income tax returns / GST returns uploaded the re-classification within categories of MSME may be made

- ▶ All existing enterprises registered under EM–Part-II or UAM shall register again on the Udyam Registration portal on or after the 1st day of July, 2020
- ▶ All enterprises registered till 30th June, 2020, shall be re-classified
- ▶ The existing enterprises registered prior to 30th June, 2020, shall continue to be valid only for a period up to the 31st day of March, 2021.

MSME benefits



Benefits – MSME/MSE – Central Government

- ▶ Registered MSME is entitled to various benefits and is treated as a registered legal entity in India. Key benefits made available by Central Government is summarised as under:

Scheme		Details
MSME	Priority Sector Status	Borrowings (fund and non-fund based) from Scheduled Banks accorded the priority status for lending, getting preferred rate of interest and definite allocation
	TReDs	An electronic platform for facilitating the financing / discounting of trade receivables of MSMEs (on non-recourse basis) through multiple financiers wherein the receivables can be due from corporates and other buyers, including Government Departments/PSUs
	Timely Payments	Any buyer procuring goods / services from MSME needs to make payment within 45 days
MSE*	Procurement Policy	Mandates Every Central Ministry /Department / PSU to procure minimum 25% of the annual value of goods or services and certain reserved items from Micro and Small Enterprises
	Collateral free loan through Credit Guarantee Trust fund	Collateral free loan up to a limit of ₹ 2 crores available to MSE. 85% of the loan amount to the bank is guaranteed by the Trust Fund (if unit has payment defaults)
	Credit Linked Capital Subsidy for Technology Upgradation (CLCSS)	15% up front capital subsidy to MSEs, including tiny, khadi, village and coir industrial units, on institutional finance, availed by them for induction of well established and improved technologies in specified sub-sectors/products approved under the scheme
	Benefits in tenders	No fees for procuring tender document or furnishing earnest money; and, in certain cases, price adjustment also permissible for MSEs to the extent of 15% to match lowest bid in tender

Registered MSMEs will also be eligible for various additional schemes / benefits which the Government may announce from time-to-time

* Available to Micro and Small Enterprises only

Interest subvention schemes - MSME

Scheme	Details	Benefit available
Interest Subvention Scheme	<ul style="list-style-type: none"> ▶ Interest subvention to all MSME for incremental or fresh term loan/working capital extended after 2 November 2018 ▶ Available* to both manufacturing and service enterprises, ▶ Maximum financial assistance (Working capital/Term loan) extended by Scheduled commercial banks of INR 1 crore ▶ MSME exporters availing interest subvention under any scheme of the Central/State Government or interest equalisation scheme not eligible for subvention under this scheme ▶ SIDBI act as the nodal agency 	2% per annum
Interest Equalisation Scheme	<ul style="list-style-type: none"> ▶ Scheme on Pre and Post Shipment Rupee Export Credit ▶ Benefit available to exports by MSME manufacturers (w.e.f. 2 November 2018) and for other exports for 416 tariff lines, from the date of disbursement up to the date of repayment or up to the date beyond which the outstanding export credit becomes overdue ▶ Scheme extended till 31 March 2021 	5% per annum for MSME manufacturers 3% per annum for other manufacturers

* Available to trading activities without Udyog Aadhaar Memorandum also w.e.f. 5 February 2020

Trade Receivables Discounting System (TReDS)

What is TReDs

- TReDS was launched by RBI in order to improve the cash flow of MSME suppliers
- The system, which is accessible online through 3 exchanges, was launched to ensure that suppliers are credited their due receivables in a timely manner

Tri-party Process (MSME supplier, buyer, and financier)

- The system is initiated when a transaction is conducted between the supplier and buyer.
- The receivable is logged in to the system
- Receivables are funded by financiers through a bidding process
- Only the supplier is able to view all of the bids placed by different financiers. When the supplier selects the best bid, the amount is received within 2-3 business days from the financier
- On the regular due date, the due amount is debited from the buyer and transferred to the financier

TReDS has been licensed to three exchanges:

- **Receivables Exchange of India Ltd (RXIL):** A joint venture between Small Industries Development Bank of India (SIDBI) and National Stock Exchange of India Limited (NSE)
- **Invoicemart:** Promoted by A TReDS Ltd (a joint venture between Axis Bank and mjunction services)
- **M1Xchange:** Promoted by Mynd Solutions Private Limited

Co-vid 19 Stimulus



Covid-19 Stimulus - Existing MSMEs

Scheme	Details	Allocation	Eligible Lenders
Collateral-free Automatic Emergency credit line for MSMEs	<ol style="list-style-type: none"> Emergency credit line from Banks & NBFCs up to 20% of entire outstanding credit as on 29 Feb 2020 Eligibility - Entities with ₹ 25 crores total outstanding credit and turnover up to ₹ 100 crores No fresh collateral security & no guarantee fee required Repayment to be done in 4 years with moratorium period of 12 months Maximum Interest – Banks – 9.25%; NBFC's – 14% Due date for availing such benefit - 31 Oct 2020 	₹ 3 lac crores	All scheduled commercial banks (Public / private sector banks), RRBs, SIDBI, NSICL, NBFCs
Subordinate Debt (Quasi-equity) for Stressed MSMEs	<ol style="list-style-type: none"> Functioning MSMEs having NPAs or stressed assets eligible for this scheme The debt received from the banks (i.e. any scheduled commercial banks – public / private sector) would be infused by the promoter as equity investment Debt to be provided to the promoters of stressed MSMEs, having 15% or more stake in the existing unit, subject to maximum of ₹ 75 lacs Guarantee fee of 1.5% 	₹ 20,000 crores	All scheduled commercial banks (Public / private sector banks)

Covid-19 Stimulus - Existing MSMEs

Scheme	Details	Allocation
Equity Infusion for MSMEs through Fund of Funds	<ul style="list-style-type: none"> ▶ This Fund of Funds will provide the business equity funding to MSME's which are essentially having growth potential ▶ Mother fund and few daughter funds proposed to be setup in order to execute the plan ▶ This will enable MSMEs to expand in size and capacity and encourage them to list on the main board of the stock exchanges ▶ Available for existing as well as new MSMEs 	₹ 50,000 crores
No Global Tenders in Government procurement	<ul style="list-style-type: none"> ▶ Global tenders up to ₹ 200 crores will be disallowed in Government procurement ▶ This scheme is available for existing as well as new MSMEs 	Not Applicable
Contribution to EPF	<ul style="list-style-type: none"> ▶ Government to contribute 12% of the salary on behalf of each employer and employee for 3 months (i.e. <u>June, July and August 2020</u>) ▶ Eligibility - Establishments employing less than 100 employees and 90% of the said employees earn < ₹ 15,000 	Up to ₹ 2500 crores
Reduction in EPF contribution	<ul style="list-style-type: none"> ▶ Statutory PF contribution to be reduced from 12% to 10% for all establishments covered by Employees Provident Fund for 3 months (i.e. <u>May, June and July 2020</u>) 	Up to ₹ 6750 crores

Other benefits



Benefits of Registration under the MSMED Act

▶ **Sec.15: Buyers liability to make payment**

Binds the OEM's to make payment to the SME's on the purchases made from the SME's

▶ **Sec.16: Interest on delayed payments**

Monthly Compounded Interest Liability is infused on the OEM's in case of delayed payments as per the statute

▶ **Sec.17: Payment with Interest**

Requires the OEM's to make the payment along with the interest

▶ **Sec.18: Arbitration & Conciliation**

Dispute with regards to any amount due u/s 17, to be referred to MSE Facilitation Council. The Council will then address the conciliation as per the provisions of Arbitration and Conciliation Act, 1996

▶ **Sec.23: Interest not deductible**

Notwithstanding anything contained in the Income Tax Act,1961, the amount of interest payable or paid by any buyer, is disallowed as deduction

Ministry of Corporate Affairs [MCA]

- ▶ MCA i.e. Ministry of Corporate Affairs, Government of India has notified vide order dated 22 January, 2019, it has directed all companies who get supplies of goods or services from MSME enterprises and whose payments to MSME suppliers exceed **45 days** from the date of acceptance or the date of deemed acceptance of the goods or services as per the provisions of section 9 of the [Micro, Small and Medium Enterprises Development Act,2006](#) (27 of 2006).
- ▶ All the Companies who get supplies of goods or services from Micro or small enterprises and the payment not made within 45 days from the date of acceptance or the date of deemed acceptance of goods or services
- ▶ The said provision has been divided in two parts:

Name of the Return	Details
Initial Return	<ul style="list-style-type: none">• Every Specified company shall file in MSME Form I details of all outstanding dues to the Micro or Small Enterprises existing on the date of notification of this order within 30 days from the date of this notification i.e. 22 January, 2019
Half yearly return	<ul style="list-style-type: none">• Every Specified company shall file a return as per MSME Form I, by 31 October for the period from April to September and by 30 April for the period from October to March

MSME Samadhaan and MSME Sambandh

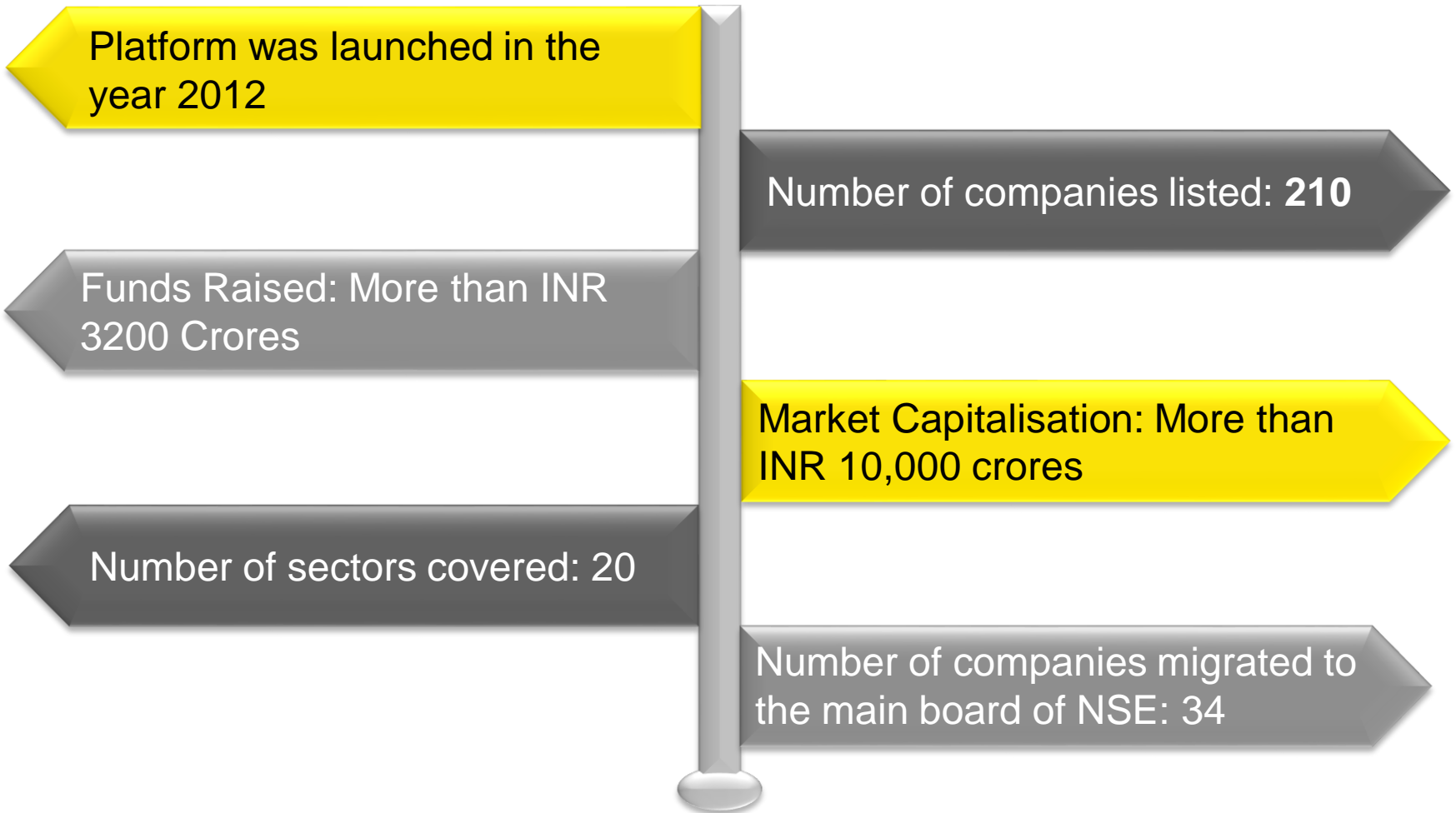
MSME Samadhaan- Delayed payments to MEMEs under MSMED Act, 2006

- ▶ MSME Samadhaan Portal is for empowering micro and small entrepreneurs across the country to directly register their cases relating to delayed payments
- ▶ MSME Samadhaan Portal - Ease of filing application under MSEFC, an Initiative from Office of DC(MSME), M/o MSME
- ▶ Nature of assistance-MSEFC will issue directions to the buyer unit for payment of due amount along with interest after examining the case
- ▶ Who can apply-Any Micro or small enterprise having valid Udyog Aadhar(UAM) can apply

MSME Sambandh Portal

- ▶ MSME Sambandh Portal is to help in monitoring the implementation of public procurement policy for micro and small enterprises
- ▶ Total 167 CPSEs Reported with annual procurement target of 1,22,839 Crores.
- ▶ Total procurement (as on date) by 159 CPSUs Rs 1,06,584 Crores.
- ▶ Procurement from MSEs(Including SC/ST) 24,173 Crores from 83227 MSEs.
- ▶ Procurement from 2096 SC/ST owned MSEs amounting to Rs 510 Crores

MSME Listing



<https://www1.nseindia.com/emerge/>

Types of Incentives



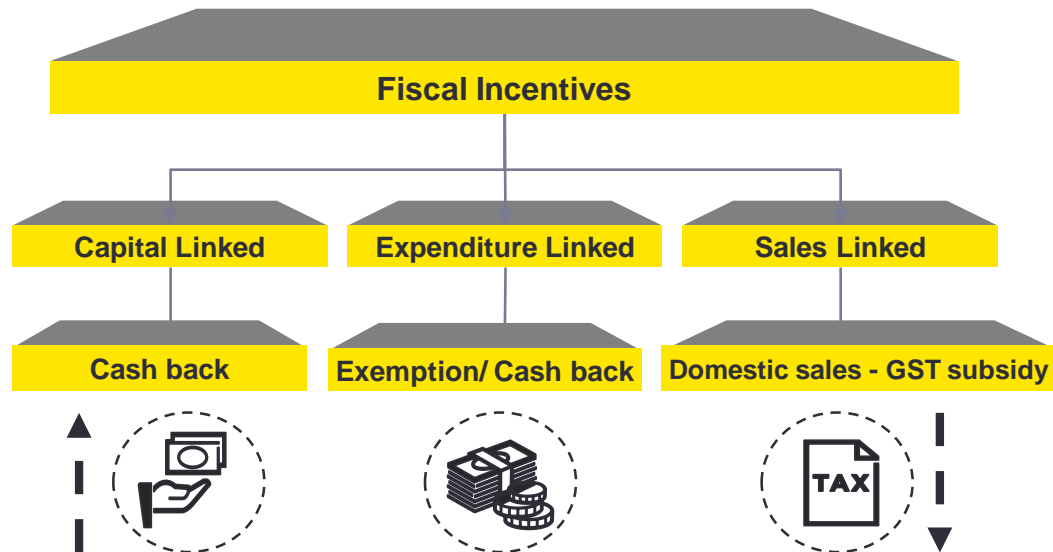
Investment incentives

Overview

Parameters to be considered

- ▶ **Location & amount of investment:** To evaluate the maximum benefits that can be availed
- ▶ **Sector:** To identify the incentives under sector specific policies
- ▶ **Sales pattern:** To identify and quantify incentives available under foreign trade policy and state industrial policy
- ▶ **Expenditure:** To quantify the incentives linked to expenditure

- ▶ **Capital Linked:** Percentage capital investment is received as a capital subsidy
- ▶ **Expenditure Linked:** Cash refund/ exemption of costs like electricity duty, power tariff, stamp duty
- ▶ **Sales Linked:** Specified % of GST paid to the State Government is given as a subsidy



Key considerations

- ▶ Incentives are equally available to all enterprises – Indian or Foreign, setting up new operations or expanding operations in India
- ▶ STATE INCENTIVES range from 30% to 100% of the project cost - impacts the cash flows & payback period
- ▶ Quantum varies based on location and amount of investment
- ▶ Tailor-made incentives for projects with substantial investment (usually referred to as Mega Projects)

Gujarat



Gujarat Incentives 2016-21

Policy Overview

Operative / Policy Period

- ▶ **Operative period:** 25 July 2016 to 24 July 2021
- ▶ Enterprise commencing production within the operative period shall be eligible for incentives

Applicability and eligibility criteria*

- ▶ Units engaged / to be engaged in **manufacture, production**, processing, or job work of articles (with certain exceptions like unit in SEZ, etc).
- ▶ **New industrial unit:** Unit which has obtained IEM and have separately identifiable capital investment
- ▶ **Existing industrial unit undertaking 'Expansion':**
 - ▶ At least 50% increase in the gross capital investment at the same location - 60% of the increased investment is in plant and machinery; AND
 - ▶ The installed capacity of existing products increases by 50%; AND
 - ▶ 75% utilization of existing installed capacity in any one of the preceding 3 financial years.
- ▶ The eligibility shall be subject to fulfilment of condition of minimum local labour requirement.

Gujarat Incentives 2016-21

Benefits available

1. 'Refund of Net SGST' as a percentage of eligible fixed capital investment

Taluka Category	% of Eligible FCI entitled for Incentives	% of Net SGST Refund	Incentives Period Years
1	100%	90%	10
2	80%	80%	10
3	70%	70%	10

Classification of Talukas – Talukas have been classified into 3 categories and ineligible area in accordance with the development index of the region and benefits have been determined accordingly

2. Electricity Duty (ED) exemption

- ▶ ED exemption is available as per the Gujarat Electricity Duty Act, 1958 and Rules
- ▶ ED exemption is available for a period of 5 years from the date of commencement of production

Maharashtra



MSME Incentives

Industrial Promotion Subsidy

- ▶ 100% Gross SGST paid on the first sale of eligible products, billed and delivered to the same entity within Maharashtra

Interest subsidy

- ▶ Up to 5% per annum

Stamp Duty Exemption

- ▶ Up to 100%

Electricity Duty Exemption

- ▶ Up to 100%, granted between seven years to the end of the eligibility period

Power Tariff Subsidy

- ▶ Between INR 0.5 per unit to INR 1 per unit for three years

MSME Incentives

Sr. No	Particulars	Incentives under Gross SGST mechanism	Incentives under Net SGST mechanism
A	Total sales within the state (assumed)	10,000	10,000
B	Gross SGST based incentive on A, at 6%	600	600
C	<p>Input tax credit on raw materials, consumables etc.</p> <p>Inputs are assumed to be 65% of the sales value ie for sales of every 100, inputs worth 65 are required.</p> <p>It is also assumed that the weighted average of the GST rate on inputs will be 7% as the range of GST applicable to inputs is 5% - 18%.</p> <p>Hence, input tax credit of IGST or SGST would be 3.5% of 65% of 10)</p>	227.5	227.5
D	Net SGST paid	372.50	372.50
E	Accordingly, value of SGST which will be used for determining incentive that the Company is eligible for	600	372.50

MSME Incentives

FCI-based Ceiling and Eligibility Period

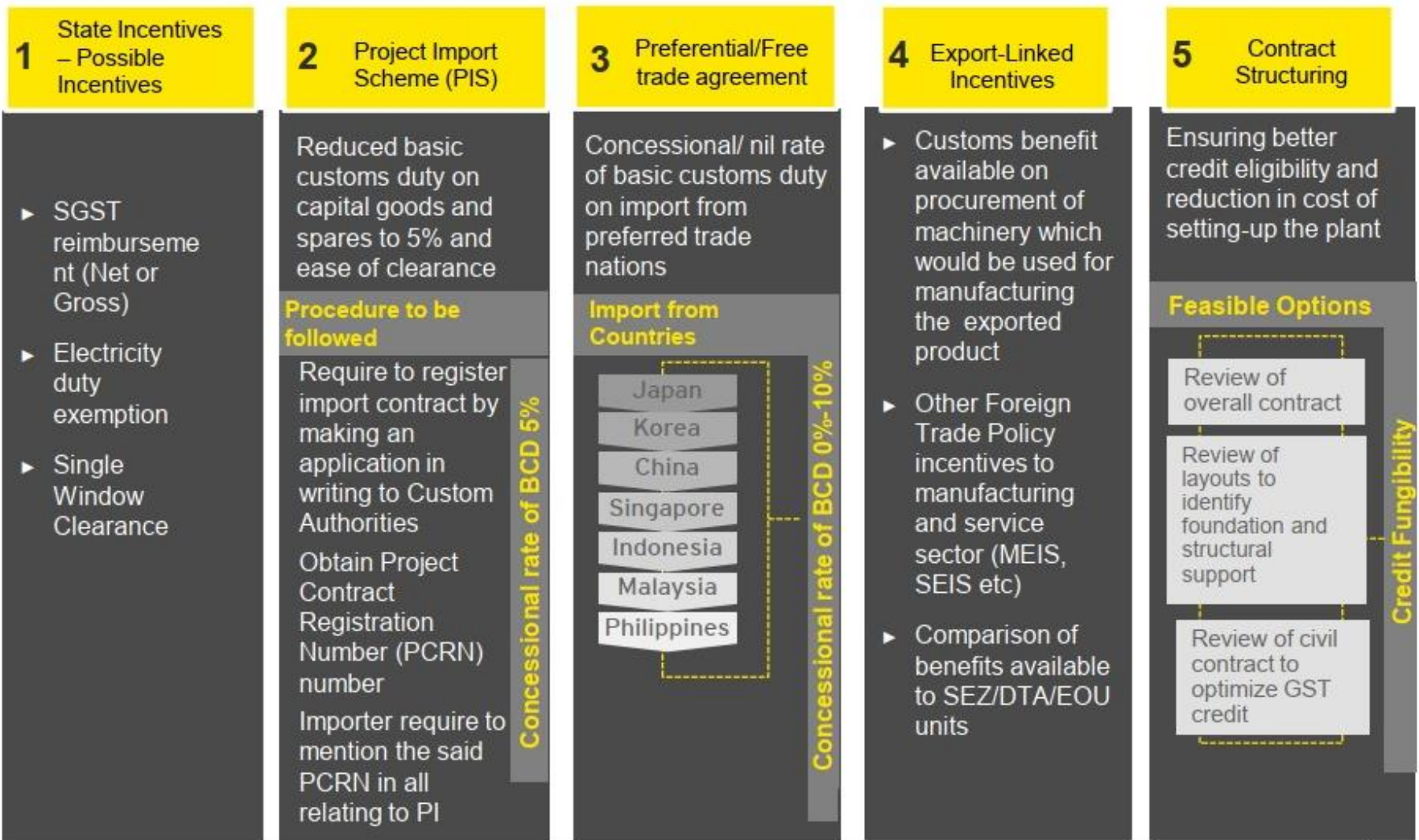
Taluka/Area classification	Ceiling as % of Fixed Capital Investment [FCI]	Eligibility period [Years]
A	-	-
B	30%	7
C	40%	7
D	50%	10
D+	60%	10
Vidarbha, Marathwada, Ratnagiri, Sindhudurg and Dhule	80%	10
No industry districts, Naxalism Affected Areas and Aspirational Districts	100%	10

Foreign Trade Policy Initiatives



Tax incentives

Greenfield/Brownfield expansion



Manufacture and Other Operations in Warehouse Regulations, 2019



Manufacture and Other Operations in Warehouse Regulations, 2019

Brief Overview of Manufacture and Other Operations in Warehouse Regulations, 2019 “MOOWR, 2019”

Generally, Customs duty is payable at the time of import of goods into India . However, MOOWR, 2019 provides for duty deferment in case of imports, subject to various compliances and procedures

Governing provisions

- ▶ **Section 58** of the Customs Act, 1962, provides for grant of license by the Principal Commissioner/ Commissioner of Customs for private warehouse, for deposit of dutiable goods
- ▶ **Section 65** of the Customs Act, 1962 provides for an owner of any warehoused goods to carry on any manufacturing or other operations in a warehouse, subject to permission of the Principal Commissioner/ Commissioner of Customs and various conditions thereon

Basic operational mechanism

- ▶ Application to be filed for private bonded warehouse and manufacturing and other operations before the Principal Commissioner/ Commissioner of Customs
- ▶ Goods to be imported into India can be deposited in the private warehouse, by way of filing a bill of entry for warehousing, but without payment of any Customs duty
- ▶ Further, manufacturing or other operations can be carried out on such goods in the private warehouse
- ▶ Clearance of goods can be done for home consumption or export
- ▶ The applicant would be required to maintain records with respect of warehoused goods

Benefits

- ▶ Duty-deferment in case of import of capital goods - Customs duty shall be payable when the capital goods are cleared for home consumption, from the private warehouse
- ▶ Duty-deferment in case of import of other than capital goods (i.e. raw material) - Customs duty shall be payable when the finished/ manufactured goods are cleared for home consumption, from the private warehouse
- ▶ No Customs duty to be paid if the goods are directly exported from the private warehouse

New State and Sectorial Policies



New State and Sectorial Policies

New State Policies

- ▶ Maharashtra
- ▶ Himachal Pradesh
- ▶ Karnataka
- ▶ Andhra Pradesh
- ▶ Jammu & Kashmir

New Sectorial Policies

- ▶ Manufacturing
- ▶ Tourism
- ▶ IT / ITes
- ▶ Electric Vehicle
- ▶ Defence & Aerospace

Some considerations

Talking points with Clients

- ▶ Investment plans
- ▶ Expected employment
- ▶ State preferences
- ▶ Sales & procurement pattern
- ▶ Assets to be installed
(Imported/Indigenous)
- ▶ Various State sectoral policies
- ▶ Dual Benefits under by State & Centre

Various Sectors

- ▶ Data Centres
- ▶ IT/ITes
- ▶ Tourism
- ▶ Manufacturing
- ▶ Food Processing



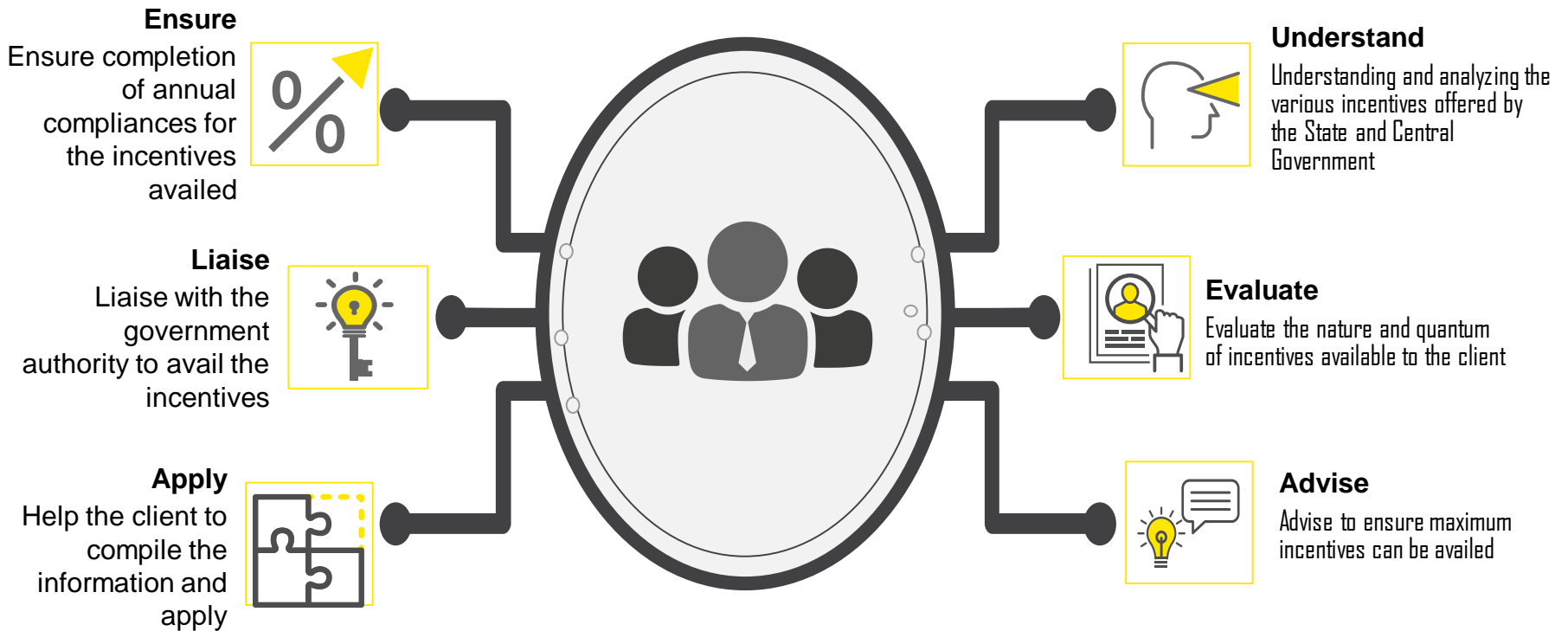
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Role of a professional



Our Role





Questions please?

