

# Micro, Small and Medium Enterprise : A Crucial Sector for Economy

*Micro, Small and Medium Enterprise (MSME) Sector is a very important sector of any economy including that of Indian economy. As per Annual Report of Ministry of MSME 2017-18 there is a vast network of about 63.38 million Micro, Small and Medium Enterprises in India. The sector contributes about 45% to manufacturing output, more than 40% of exports, over 28% of the GDP while creating employment for about 111 million people. MSMEs were first defined under Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act) which was enacted on October 02, 2006. Before enactment of MSMED Act Small Scale Industries were covered under Industrial Development and Regulation Act, 1951. Read on to know more...*



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Both Manufacturing and Service Sectors are covered under MSMED Act. They are defined under Section 7 of the MSMED Act based on the investment in the Plant and Machinery and Equipment respectively. The Micro Small and Medium Enterprises have been defined as under:

Description	Manufacturing Sector	Service Sector
Classification	Investment in Plant & Machinery	Investment in Equipment
Micro Enterprises	Upto ₹ 25 Lakh	Upto ₹ 10 Lakhs
Small Enterprises	Above ₹ 25 Lakh & upto ₹ 5 Crore	Above ₹ 10 Lakhs & upto ₹ 2 Crores
Medium Enterprises	Above ₹ 5 Crore & upto ₹ 10 Crore	Above ₹ 2 Crores & upto ₹ 5 Crores

**To support Self-Reliant India and Make in India, global tenders will not be allowed upto ₹ 200 crores under government procurement.**

It is important to understand and note that Traders are not covered under MSMED Act. There were two demand from different corners of the stakeholders that the threshold limit of the investment should be increased as the same was fixed as old as in 2006 and the definition criteria should be changed to turnover based in place of investment in plant and machinery/ equipment.

Recently our Hon'ble Finance Minister Smt Nirmala Sitharam has announced the change in the definition of MSMEs satisfying the demand of all stakeholders. According to the new definition the MSMEs will be classified based on the combination of investment in plant & machinery and the turnover of the enterprise. Another proposed change is that now there will be common criteria for both manufacturing and service sector. The new definition, though not yet notified till writing of this article, is proposed as under:

Till now the registration of MSME which is called Udyog Aadhaar is based on the self-deceleration, which may now be linked to the GST. The MSME registration is not a mandatory registration to start and run any business under these categories.

The same is evident from the statistics that wherein as per recent U K Sinha Committee there is vast network of about 63.38 million enterprises, only about 96 lacs enterprises have obtained Udyog Aadhaar registrations so far.

Six major schemes announced by the Ministry of Finance, Government of India for MSMEs under Special economic and comprehensive package of ₹ 20 lakh crores are as under:

- Guaranteed Emergency Credit Line wherein all MSMEs with outstanding credit of upto ₹ 25 crore in the category of less than or equal to 60 days past due as on 29.02.2020 and annual turnover of up to ₹ 100 crore are eligible to get upto 20% of their entire fund based outstanding as on 29.02.2020,
- Upto ₹ 20,000 crore subordinate debt to functional stressed or NPA MSMEs, which will be infused as equity of the promoters in the business making them eligible even for more debt under debt equity norm,
- Corpus of ₹ 10,000 crore fund of funds to growth potential and viable MSMEs marching towards listing on main board of stock exchange enabling them ₹ 50,000 crore equity infusion,
- Change in the definition of MSMEs, encouraging them to grow faster without any fear of losing the benefits available to MSMEs,

- To support *Self-Reliant India* and *Make in India*, global tenders will not be allowed upto ₹ 200 crores under government procurement,
- All receivables of MSMEs from government and CPSEs shall be released within 45 days. According to an estimate these are in the range of 5.50 lakh crore which will support the liquidity of MSMEs in a big way.

There are number of benefits and schemes available to the MSMEs under various ministries and Reserve Bank of India. Most of these schemes and benefits are for Micro and Small enterprises only and are not available to Medium Enterprises. To take the benefit of any of the scheme, Udyog Aadhaar registration is mandatory.

Some important benefits of Udyog Aadhaar registration under MSMED Act are as under:

- MSEs are eligible to get upto ₹ 200 lakh loan without any collateral security under Credit Guarantee Trust Fund Scheme for Micro and Small Enterprises.
- Micro Small and Medium Enterprise Development Act, 2006 provides protection to MSEs against the Delayed Payments to them. A buyer from any MSE is required to make the payment on or before the agreed date of payment or within 45 days from the day they had accepted the goods and/or

services from MSEs. If the buyer delays the payment for more than 45 days after accepting the products or services, then the buyer has to pay monthly compound interest at the rate of three times the bank rate notified by the Reserve Bank of India. Ministry of Corporate Affairs has also introduced form MSME-1 to support this.

- The Public Procurement Policy mandated every central ministry/department/PSU to procure minimum 25% of the total annual purchases / services from MSEs, with sub targets from SC/ST and Women MSEs. Free tender documents and exemption from earnest money to registered MSEs is also allowed.
- MSEs quoting price within price band L1 + 15%, when L1 is from someone other than MSE, shall be allowed to supply at L1 subject to lowering of price by MSEs to L1.
- Financial assistance is provided for Trademark, geographical indication,

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domestic and foreign patents.

- TReDS platform has been created for facilitating the financing / discounting of trade receivables of MSMEs. These receivables can be due from large corporate, Government Departments and PSUs.
- One-time restructuring has been allowed by RBI for MSME accounts having exposure upto ₹ 25 crore who were in default but 'standard asset' as on January 1, 2020, without degrading their asset classification.
- Capital subsidy of 15% up to a maximum cap of ₹ 15 lakh i.e., maximum investment in approved machinery upto ₹ 1.00 crore to MSE units under Credit Linked Capital Subsidy Scheme.
- A maximum amount of ₹ 20 crore assistance for various components such as Common Facility Centers, Infrastructure Development, Flatted Factory Complex, Marketing Hubs / Exhibition Centers under Micro and Small Enterprises - Cluster Development Program.
- Through ZED assessment under zero defect zero effect, MSMEs can reduce wastages substantially, increase productivity, expand their market, become vendors to CPSUs, have more IPRs, develop new products and processes etc.

If the buyer delays the payment for more than 45 days after accepting the products or services, then the buyer has to pay monthly compound interest at the rate of three times the bank rate notified by the Reserve Bank of India

Subsidy of 80% to Micro, 60% to small and 50% to medium enterprises of the certification fees is provided.

- Financial assistance to MSMEs is provided under International Cooperation Scheme of Ministry of MSME to reimburse air-fare, stall charges etc for participation in international exhibitions, trade fairs and buyer-seller meets in foreign countries.

There are many subsidy schemes for MSMEs under different Ministries like Ministry of Food Processing Industries, National Horticulture Board and Ministry of Textiles.

Different relaxations have been given to the MSMEs and small businesses under Insolvency and Bankruptcy Code, 2016, GST, and Ministry of Corporate Affairs considering their role in the growth of the country.

All manufacturers and service providers including professionals should consider getting themselves registered under Udyog Aadhaar free of cost. For registering please visit: at <https://udyogaadhaar.gov.in>. ■