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INTRODUCTION

- MSME (Micro Small and Medium Enterprise) is the pillar for the economic growth in many developed and developing countries across the world. In a developing country like India, MSMEs are the backbone on the economy.
- ► The MSME sector contributes to 29.7% of India's GDP, 45% of India's Total Industrial Employment, 50% of India's Total Export and 95% of all Industrial units of the country and more than 6000 types of products are manufactured in these industries.
- ► These Micro ,Small and Medium Enterprises help in accelerating the growth of our economy in the same as small things contribute towards the formation of the heap.

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INTRODUCTION

- Micro Small and Medium Enterprises is considered as the engine of betterment for all the developed and developing countries.
- The MSME sector is a nursery of entrepreneurship, often driven by individual creativity and innovation.

WHO ARE ELIGIBLE TO REGISTER AS MSME

Proprietorship, Partnership firm, Association of persons, Hindu undivided family, Company or Undertaking, Cooperative society by whatever name called can apply for the registration and get qualified for the benefits provided under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006.



ACTIVITIES COVERED UNDER NEGATIVE LIST

Following activities would not be included in the manufacture or production of goods or providing or rendering of services in accordance with Section 7 of the Micro, Small and Medium Enterprise Development Act, 2006.

NIC	Activity
02	Forestry and logging
03	Fishing and aquaculture
45	Wholesale and retail trade and repair of motor vehicle and motorcycles
46	Wholesale trade except of motor vehicles and motor cycles 47
47	Retail Trade Except of Motor Vehicles and motor cycles
97	Activities of households as employees for domestic personnel
98	Undifferentiated goods and services producing activities of private households for own use
99	Activities of extraterritorial organization and bodies
01	Crop, animal production, hunting and related activities #

Although Crop, animal production, hunting and related activities are ineligible to register under MSMED Act,2006 **EXCEPT Activities specified as under:-**

NIC	ACTIVITY
01462	Production of eggs
01463	Operation of poultry hatcheries
01492	Bee- keeping and production of honey and beeswax
01493	Raising of silk worms, production of silk worm cocoons
01612	Operation of agricultural irrigation equipment
01620	Support activities for animal production
01631	Preparation of crops of primary markets i.e. cleaning, trimming, grading disinfecting
01632	Cotton ginning, cleaning and bailing
01633	Preparation of tobacco leaves
01639	Other post-harvest crop activities, n.e.c
01640	Seed processing for propagation

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NEW DEFINITION OF MSME

- ► There has always been this fear, among successful MSMEs also, that if they outgrow the size of what has been defined as an MSME, they will lose their entitled benefits available to MSME. This is why MSMEs like to remain within the definition rather than grow.
- ▶ With the revised definitions of MSMEs, they will not have to worry about growing their size and can still avail benefits.
- ▶ Thus, Announcement was made to revise the definition of MSMEs namely:
 - i. Investment limit will be revised upwards;
 - ii. Additional criteria of turnover also being introduced and
 - iii. Distinction between manufacturing and service sector to be eliminated.

EXISTING & REVISED CRITERIA FOR MSME

EXISTING MSME CLASSIFICATION						
Criteria: Investment in Plant & Machinery or Equipment						
Classification	Micro	Small	Medium			
Manufacturing Enterprises	Investment < Rs 25 lakhs	Investment < Rs 5 Cr	Investment < Rs 10 Cr			
Service Enterprises	Investment < Rs 10 lakhs	Investment < Rs 2 Cr	Investment < Rs 5 Cr			
	REVISED MSME CLASSIFICATION					
Composite Criteria: Investment and/or (#) Annual Turnover						
Classification	Micro	Small	Medium			
Manufacturing & Services	Investment < Rs 1 Cr And / Or (#) Turnover < Rs 5 Cr	Investment < Rs 10 Cr And /Or (#) Turnover < Rs 50 Cr	Investment < Rs 20 Cr And /Or (#) Turnover < Rs 100 Cr			

Note:-Investment Value should be Gross Block Value of Preceding Year

EXISTING & REVISED CRITERIA FOR MSME

(#)

► Mr. Nitin Gadkari has already announced that, the above "and" will be replaced with "or" and accordingly, even existing MSME will continue to enjoy the benefits even though their turnover is more than Rs 100 Crore.

(i.e Revised Criteria will be Investment "Or" Turnover)

▶ In his press release he has stated that even the turnover limit is proposed to be enhanced either to Rs 200 Crore or to Rs 250 Crore.

- ▶ The Indian government has always been in favor of providing **benefits to MSMEs**. There are many advantages of obtaining MSME registration in India, which can be only availed if the business had registered itself as an MSME, under MSME Act.
- ▶ The following are a few advantages of obtaining MSME registration in India:
 - 1. Easy finance availability from Banks;
 - 2. Interest Rate Concession (MSME can avail a benefit of 1 to 1.5 % Reduction in interest rate);
 - 3. Credit Linked Guarantee Scheme (subject to certain conditions);

- 4. Subsidy on Patent Registration (50% subsidy is given to the Enterprise);
- 5. One Time Settlement (OTS) scheme for settling NPAs of MSMEs;
- 6. Registered MSMEs gets capital subsidies;
- 7. Registered entities must be paid their dues by the buyers within 45 days. Any delay in such payment will attract mandatory interest. The said Interest payable to MSME will not be allowed as a Business Expenditure under Income Tax Act;
- 8. Waiver in Earnest Money (Security Deposit) in Government tenders;
- 9. Reimbursement of ISO Certification expenses;
- 10. Concession in electricity bills in certain cases;

- 11. Marketing Development Assistance and Export Promotion by Government as under:-
 - Organizing Domestic/International Exhibitions;
 - Providing information related to sales opportunities available in international market;
 - Advertising and publicity in various countries;
 - Publication of Exporters Directory;
 - Participating in Global Tenders ;
 - Providing assistance in deemed exports and
 - Organization of Seminars and Workshops to upgrade and update MSME with regard to international developments.

- 12. Financial Assistance (FA) by Government as under:-
 - ▶ Pre and Post Shipment finance in case of Export by MSME Entities at concessional rate of interest;
 - ▶ Financial assistance for procurement of indigenous and imported raw material;
 - Financial assistance for upgradation and modernization of MSME unit;
 - Assisting in the process of claiming exports incentives (e.g. claiming IGST Refund, Duty Drawback Refund, Merchandise Export from India Scheme (MEIS), Rebate of State Levies (ROSL) etc;
 - Reimbursement of certain % of cost of Travels in case of Trade cum Study Tour abroad and
 - Reimbursement of certain Travelling and Exhibitions expenses in case of participation in Exhibitions abroad.

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- 13. Financial Assistance for setting up testing and technical facilities through National Small Industries Corporation(NSIC);
- 14. Capital and other grants for infrastructure development;
- 15. National Manufacturing Competitiveness Program (NMCP) is the nodal program of the Government to develop global competitiveness among Indian MSMEs;
- 16. Reservation policies to procure certain goods only from MSME Entities;
- 17. There are many government tenders which are only open to the MSME Industries;
- 18. MSME Training and Development program;
- 19. Certain Concession of Stamp Duty and Registration Fees on certain transactions;

- 20. Subsidy on Performance and Credit ratings Scheme as under:-
 - ► To provide an Independent, trusted third party opinion on capabilities and creditworthiness of MSMEs which in turn help MSME to expand business;
 - Benefit of Low rate of Interest based on credit rating;
 - Prompt sanction of Credit facility from Banks and Financial Institutions and
 - Subsidized credit rating fee structure for MSME.
- 21. Time-bound resolution of disputes with Buyers through conciliation and arbitration;
- 22. To appreciate efforts of MSME and in order to motivate for their outstanding performance they honored by various National Awards;

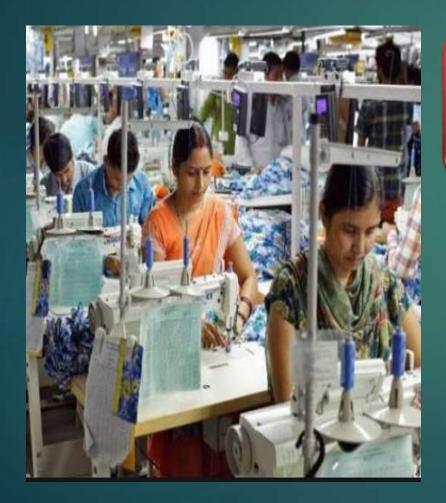
COVID 19, IMPACT ON MSME

- > This virus is mounting a very serious threat to the global economy.
- As MSMEs will be taking a maximum hit and that the distressed sector will render many people jobless and will lead to the closure of thousands of industrial outlets forever.
- > They need additional funding to meet the operational liabilities built up, buy raw materials and restart businesses.
- Thus, in "Aatmanirbhar Bharat Package" various Incentives were announced for MSMEs for immediate relief to shore up the confidence in this very important sector.



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AATMANIRBHAR BHARAT PACKAGE FOR MSMEs



5. Global
Tender to be
disallowed
upto 200
crore

4. Other Interventions for MSMEs

1. New Definition of MSMEs

Aatmanirbhar
Bharat
Package /
Initiatives for
MSME's

2. Rs 3 lakhs
Crore collateral
free Automatic
Loans for
MSMEs

3. Rs 20,000 Cr subordinate Debt for MSMEs

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Rs 20,000 Cr SUBORDINATE DEBT FOR MSME

- Stressed MSMEs have a problem of an equity.
- ▶ Thus, Rs 20,000 Cr of subordinated debt benefit for stressed micro, small and medium enterprises was announced under Aatmanirbhar Bharat Abhiyan to provide a stimulus to the economy amidst the Coronavirus outbreak.
- 200,000 stressed MSMEs will stand to benefit.
- Eligible MSMEs: MSMEs which are stressed or are non-performing assets will be eligible for this scheme.

Rs 20,000 Cr SUBORDINATE DEBT FOR MSME

- ▶ Under the subordinate debt for stressed MSMEs, promoters of these enterprises will be given the debt by the banks. This will then be infused by the promoters as equity in the units.
- ▶ Due to the Coronavirus outbreak, these firms have been finding it tough to get access to funds. As a result of this, Incentive stressed and NPA MSMEs will immediately benefit.

RESTRUCTURING SCHEME FOR EXISTING LOANS

In case of any defaults with the banker by MSME Entities, they can apply for restructuring of loans.

Examples of Benefits to be sort under this scheme are as under:-

- Seeking moratorium for installment of term loan;
- 2. Converting of overdue principal amount and interest amount into term loans or
- 3. Converting Excess borrowing in Working Capital into a term loan.



RESTRUCTURING SCHEME FOR EXISTING LOANS

One Time Restructuring Loan for MSME

Conditions:-

- 1. RBI extends one time restructuring scheme to MSME. This scheme is valid upto 31st December 2020.
- 2. Aggregate fund based and non- fund based exposure of banks and NBFCs to the borrower does not exceed ₹25 crore as on January 1, 2020.
- 3. Borrower's account was in default but was a standard Asset as on 01st January 2020.
- 4. Borrower should be registered under GST unless it is exempt

RESTRUCTURING SCHEME FOR EXISTING LOANS

Procedure

- 1. Just Submit Financials for **2 years with projections for FY 2020-21**. (For FY 19-20 up to 31.12.2019).
- 2. Letter seeking restructuring in current loans together with reasons and documentation.

What is Interest Subvention?

Interest subvention means subsidy or rebate in borrowing cost of MSME by providing refund of Interest subject to certain conditions.

Period of Operation

The Scheme will be in operation for a period of two financial years

- a. From 02.11.2018 31.03.2019 and
- b. From 01.04.2019 31.03.2020

▶ Eligibility

- a. MSME Having Valid Udyog Aadhar Number [UAN]. However Requirement of Udyog Aadhar Number (UAN) may be dispensed with for units registered with GST
- b. Traders are also eligible to opt for Interest Subvention Scheme without Udyog Aadhar Number (UAN).

Lender

Term loan or working capital loan, on which Interest rebate is sort, should be from Scheduled Commercial Banks.

Funding Limit

Interest subvention would be available for a maximum loan of ₹100 lakh.

Quantum of Interest Rebate

The quantum of rebate in interest shall be equal to 2% p.a for all GST registered MSMEs, on fresh or incremental loans which is stated as under:-

- A. In case of fresh loans, disbursed on or after 02.11.2018:-
 - Interest subsidy will be given @2% p.a on Outstanding Balance from Time to Time from the date of disbursal.
- B. In case of Existing Loans as on 02.11.2018, where there is enhancement of loan on or after 02.11.18:-
 - Interest subsidy will be given @ 2% p.a on Outstanding Balance from time to time on such enhanced Loan from the date of disbursal.

Exclusions

Following MSMEs are ineligible to opt for Interest Subvention Scheme:-

- 1. MSME exporters availing interest subvention for pre-shipment or post-shipment credit under Department of Commerce.
- MSMEs already availing interest subvention under any of the Schemes of the State / Central Government.

LIBERALISED WORKING CAPITAL ASSSSMENT IN CASE OF EXISTING OVERDRAFT FACILITY FOR THE PURPOSE OF COMPUTING DRAWING POWER

Why is this liberal approach to be applied?

- ▶ To provide relief to MSME customers and to ensure continuity of viable businesses, it is realized that there may be a temporary disruption in cash flows and in some cases loss of income.
- ▶ It is necessary to grant concessions in computing maximum permissible Bank finance and drawing power in view of current pandemic of COVID-19.

LIBERALISED WORKING CAPITAL ASSSSMENT IN CASE OF EXISTING OVERDRAFT FACILITY FOR THE PURPOSE OF COMPUTING DRAWING POWER

- ▶ This liberalised approach is intended to provide additional finance to the borrowers.
- ▶ These liberalised assessment of working capital and relax margin for the purpose computing drawing power will be applicable to loans sanctioned up to 31.05.2020.
- Suggested relaxations / concessions are explained as below:

NEW NORMS FOR BANK FINANCE FOR THE PURPOSE OF COMPUTING MPBF AND DRAWING POWER

Liberalized working capital assessment- up to 5 crores

Purpose

Build up of current assetsgenuine requirement Eligibility

Standard accounts (SMA 0/1/2 also eligible) Assistance

up to
maximum
of 33% of
the
revised
projected
turnover

(max-5 crores)

Drawing power calculation

Margins reduced to 10% on Stocks & 15% on receivable

Extended cover period having longer operating cycles

Reduced margins

Extended cover period

NEW NORMS FOR BANK FINANCE FOR THE PURPOSE OF COMPUTING MPBF AND DRAWING POWER

Liberalized working capital assessment- above 5 crores

Purpose

Build up of current assetsgenuine requirement Eligibility

Standard accounts (SMA 0/1/2 also eligible) Assistance

Based on revised projections, elongated operating cycle will be considered

No penal actions on failure of financial covenants Drawing power calculation

Margins reduced to 10% on Stocks & 15% on receivable

cover period Borrowers continuing with operating cycles

Reduced margins

Extended cover period

NEW NORMS FOR BANK FINANCE FOR THE PURPOSE OF COMPUTING MPBF AND DRAWING POWER

Documents to be submitted at Bank

Upto 5 Cr	Above 5 Cr
Simple application along with reasons for changing the estimates from the previously submitted sales turnover	Balance sheet for FY21, Reasons for the increased/ decreased/ proposed holding levels of inventory i.e. Raw material, SIP and finished goods
Revised projected turn over for FY 21	Level of sundry creditors and receivables
Other Documents as may be specified by bank	The credit period allowed by him to his buyers (cover period of receivables).
	The borrower should submit reasons for changing the estimates from the previously submitted information.
	Other Documents as may be specified by bank

- Businesses/MSMEs have been badly hit due to COVID 19 need additional funding to meet operational liabilities built up, buy raw material and restart business.
- Emergency Credit facility to MSMEs from Banks and NBFCs up to 20% of entire outstanding credit as on 29.02.2020
 - 1. Eligibility for availing additional loan: Borrowers with up to Rs 25 Cr outstanding as on 29.02.2020 and Rs 100 Cr Turnover;
 - 2. This additional loan amount to be repaid in <u>4 years</u> with facility of <u>moratorium of first 12</u> months on repayment Principal amount;

- This additional loan is 100% guaranteed by Government to Banks and NBFCs for repayment of principal and interest (i.e. Bank and NBFC are fully secured);
- 4. This additional loan can be availed till 31.10.2020;
- 5. For availing this additional loan there is <u>no guarantee fee</u> payable by borrower <u>and no</u> <u>additional collateral securities is</u> required to be offered to bank;
- 6. Only existing borrowers as on 29.02.2020 for business are eligible;
- 7. Maximum rate of interest is 9.25% if additional loan is given by Bank. However, Bank can offer reduced rate of interest depending on borrower's Financials;

- 8. If additional loan is given by NBFC, then Maximum interest is capped at 14%;
- 9. If your existing loan is from say, Citi Bank, then additional loan will have to be taken from Citi Bank only;
- 10. No Processing fees will be charged by bank and NBFC;
- 11. CMA Data will have to be furnished. Instead of financials of FY 2019-20, Borrower needs to give unaudited financials up to 31st December 2019;
- 12. There is no margin on stock and debtors applicable on additional loan;

- 13. Additional loan can be drawn by borrower in 3 to 4 instalments;
- 14. Additional loan only in the form of Fund based limits can be given;
- 15. End use certificate of having used additional loans in the business should be provided;
- 16. MSME Registration is not mandatory only eligibility is mandatory;
- 17. Time taken to sanction additional loan will not be more than 4 to 5 days;
- 18. All types of loans outstanding as on 29th February 2020 are to be considered for the purpose of applying eligibility of 20% additional loan. Even Overdraft against FD is considered as Bank loan if overdraft is used for the purpose of business;

- 19. Maximum amount of additional loan is 5 crores. In other words, if existing loan is 30 crores, then Borrower may get additional loan of 5 Crores only. (This point needs to be clarified by Government);
- 20. According reliable sources, even Traders are allowed to avail additional loan.

 However, this issue needs to be clarified by Government;
- 21. Those who are currently not registered under MSME but are eligible for MSME Registration, are also eligible to apply for this additional loan;
- 22. New additional loan will always be in the nature of WCTL(working capital Term loan);

- 23. For the purpose of availing additional loan, Borrower will have to work out 4 years projected financials along with 4 years cashflow, which should reflect that borrower is able to repay this additional loan within stipulated period of 4 years;
- 24. Debt Service Coverage Ratio (DSCR) in financial should be at least 1.5 in order to qualify additional loan. DSCR means

Net Profit after Tax (+) Depreciation (+) Interest on Loan from Bank

- Aggregate Obligation in respect of Repayment of Loan (+) Interest for the year
- 25. Those entities who have availed One Time Settlement (OTS) are not eligible for additional loan for at least 5 years from the date of OTS.

OTHER INTERVENTIONS FOR MSME

- 1. MSMEs currently face problems of marketing and liquidity due to pandemic of COVID 19;
- 2. E-market linkage for MSMEs since trade fairs and exhibitions may not be held post coronavirus in place of trade fairs;
- Government has been continuously monitoring settlement of dues to MSME vendors from Government and Central Public Sector Undertakings;
- 4. MSME receivables from Government and CPSEs to be released in 45 days and
- 5. Fintech will be used to enhance transaction based lending using the data generated by the e-marketplace.

GLOBAL TENDERS TO BE DISALLOWED UPTO RS 200 CRORE

- Indian MSMEs and other companies have often faced unfair competition from foreign companies;
- 2. Therefore, Global tenders will be disallowed in Government procurement tenders up to Rs. 200 crores. In other words, these Government tenders will be open only for Indian entities;
- 3. This will be a step towards Self-Reliant India and support Make in India;
- 4. This will also help MSMEs to increase their business and
- 5. Necessary amendments of General Financial Rules will be effected.

RESPONSIBILITIES OF SPECIFIED CO. WHO DEAL WITH ENTITIES REGISTERED UNDER MSME

- As per the provisions of Section 9 of the MSMED (Micro, Small and Medium Enterprises Development) Act, 2006, Specified Companies are those companies:
 - a) who get supply from micro small and medium enterprises.
 - b) whose payments to Micro and small enterprise suppliers transcend 45 days from the date of acceptance or the date of deemed acceptance of the goods or services

RESPONSIBILITIES OF SPECIFIED CO. WHO DEAL WITH ENTITIES REGISTERED UNDER MSME

- The Specified Companies need to check:
 - a) Whether their suppliers are registered under MSME Act or not?
 - days from the date of supply of goods or services.
 - c) If specified company make any default in making payment within 45 days then they have to file a return in form MSME-1 with Registrar of Companies (ROC) stating amount of payment due and reasons for delay.
- Due date for filing Form MSME 1:-

For period April-September – 31st October

For period October-March – 30th April

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GENERAL FAQS

Q. Whether MSME Registration is replaced by Udyog Aadhar Registration?

Ans. Yes, MSME registration has been replaced with the Udyog Aadhar registration. If any micro, small and medium industries want to start any business; they need to do the registration with MSME/Udyog Aadhar. This registration with MSME/Udyog Aadhar can be done in two ways online and offline. This facility provides the business with a lot of benefits and subsidies.

Q. Is Aadhar card compulsory for MSME Registration?

Ans. Yes. For registration under the Udyog Aadhar scheme, Aadhar card is compulsory. In case an applicant is other than the proprietor, the Aadhar card of the partner and the director will be required.

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GENERAL FAQS

Q. What is the validity of the Udyog Aadhar Certificate?

Ans. There is no expiry of the Udyog Aadhar Certificate. As long as the entity is ethical and financially healthy there will be no expiry of the certificate.

▶ Q. Whether Contractor for different kind of projects can register under MSMED Act?

Ans. Yes, Contractor for different type of projects are eligible to get registered under MSMED Act.

Q. Through One Aadhar different Udyog Aadhar can be filed?

Ans. Yes, More than One Udyog Aadhar can be filed with same Aadhar Number.

DISCLAIMER

Following Questions are still unanswered:-

- New Definition of MSMEs was announced on 13.05.2020 (at the time of Presenting Aatmanirbhar Bharat Package-Part 1) so, at present there is no clarity with regards to calculation of Turnover (i.e. Net Turnover or Gross Turnover) and Period of which Turnover should be considered.
- 2. Whether a Trader can register under MSME?
- 3. Whether Subordinate Debt of Rs 20,000 Cr provided to Promoters of Stressed MSME under Aatmanirbhar Bharat Package-Part 1 are Collateral Free or not?

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DISCLAIMER

- 4. Whether any Unregistered entity having Outstanding Loan as on 29.02.2020 (within limits prescribed) and they have registered as MSME after 13.05.20 whether they are eligible to get Emergency Credit Facility from bank under this Rs 3 lakhs Crore collateral free Automatic Loans scheme?
- 5. There is no clarity about existing MSME whose Turnover exceeds Rs.100 Crores whether they will be eligible for additional loan (In Rs 3lakh Cr Collateral Free Automatic Loans for MSME Scheme). This issue may get clarified in Notification which will issued shortly.