

The Backbone of Indian Economy

MSME SECTOR



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The Micro Small & Medium Enterprises (MSMEs) are a backbone of Indian economy contributing 40% of India's GDP. MSME's are defined under the MSME Development Act 2006 (MSMED Act). The Government of India has amended the existing definition of MSME in the MSMED Act by notification in the official gazette on June 1 2020.

The revised criteria for classification of MSME's is as under:

CLASSIFICATIONS	INVESTMENT	TURNOVER
Micro	Less than INR 1Cr	Less than INR 5 Cr
Small	Less than INR 10 Cr	Less than INR 50 Cr
Medium	Less than INR 50 Cr	Less than INR 250 Cr

The revised classification of MSME will be effective from July 1, 2020.

The announcement of the aforesaid amendment had raised several questions amidst the entrepreneurs such as the need of such amendment and the benefits thereon. Therefore, it is important to go back to the objective and necessity of establishing the MSMED Act. Prior to 2006 the enterprises were required to comply with plethora of laws and regulations with minimal awareness and resources.

This created hassles in the development of MSMEs. Thus, the government decided to enforce single comprehensive Act for the development and regulation of small enterprises. The said Act provided proper legal framework for small sector to relieve them from the requirement to comply with multiple rules and regulations and also made appropriate policy interventions.

The old definition of MSMEs mentioned in the Act was based on the economic conditions prevalent twelve years back. Below is snapshot of same.

Classification	Micro	Small	Medium
Manufacturing Enterprise	Investment less than 25 lakhs	Investment less than 5 cr	Investment less than 10 cr
Service Enterprise	Investment less than 10 lakhs	Investment less than 2cr	Investment less than 5 cr

With passage of time the above criteria was defeating the purpose of establishment of MSMED Act, 2006. The prescribed thresholds were restricted to provide a better coverage to MSME sector. The current cost of setting up business today similar to a set up twelve years back has increased many folds. This does not provide same fields for the new entrants as compared to older ones who are operating in same product line with same production capacity. Further, the additional compliance requirements have enhanced the cost of investment in certain sectors such as pharmaceuticals, auto component, food processing, etc. Thus, it was important to adjust the existing limits keeping in regard the current inflation rate and additional means to comply with the enhanced industrial standards.

Further, the low limits were deterrent to the growth of the MSME's. The studies have showed that successful MSME's refrain from increasing the operations out of the fear of losing out MSMEs classification and thus the available benefits. The new criteria would boost investments in MSME's which in turn will lead to enhanced production resulting in economies of scale and generating new employment opportunities. This would also cradle the Make in India vision and would also provide an opportunity to the large MSME players to become global players.

Besides above, it was observed that investment being the only criteria, the benefits were enjoyed by enterprises qualifying as MSME due to low investments despite having a high turnover and financial back up. Thus, benefit was not reaching the actual MSME's at the bottom of the pyramid. The revised criteria being composite in nature i.e. taking into account both investment and turnover will also be able to mitigate situation wherein the benefit meant for MSME's is utilized by big fishes.

The revised criteria is not just composite in nature but has also eliminated the distinction of manufacturing and service sector for the purpose of MSME classification. The details of investments and turnover are easily available in books of accounts to be statutorily maintained. The turnover details are also available on the GST portal. Thus, the change will not only bring ease of doing business but a greater transparency.

In nutshell, the revised classification would bring in a large number of enterprises under the ambit of MSMEs eliminating the enterprises with strong financial backing. It is a welcoming initiative to ensure channelization of resources to the actual MSMEs and a step towards change of mind set of such organizations to grow higher without the fear of losing out benefits.



MSME

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