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Cash-driven MSMEs in the lurch

G Naga Sridhar / NS Vageesh

Banks concerned over repayment of loans by the sector

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With the cash economy hit by demonetisation, uncertainty hangs over the fortunes of many micro, small and medium enterprises (MSMEs).

There are 3.6 crore MSMEs across the country employing 8.6 crore people, according to government data. This sector plays a complementary role to large industries and accounts for about 8 per cent of thecountry's GDP, around 45 per cent of the total manufacturing output, and about 40 per cent of the country's exports.

Yet, this sector may be the worst affected given its heritage as ancillary units as well as its dependence on cash.

"There are neither orders nor payments since the withdrawal of ₹ 500 and ₹ 1,000 notes," said M Rammohan Reddy, who runs a lathe works shed in the industrial area of Jeedimetla, in the suburbs of Hyderabad.

Reddy, who runs a business of ₹ 10 crore per annum, says the negative impact was due to the sudden halt of the cash-based economy. "Most small manufacturers keep 50 per cent of their working capital in cash though their current accounts are maintained in banks," he said, explaining the trouble caused by demonetisation.

An Equirus Securities report on the impact of demonetisation on MSMEs says that these businesses are facing issues related to salary payments to employees/factory workers, which are usually made in cash.

The post-Diwali business environment in Gujarat, it says, has been hit.

Equirus expects business activity to remain weak over the next one-two months as 35-40 pc of their sales were in cash — and mostly outside books.

The situation is no different in Andhra Pradesh. "While demonetisation is good in the long run, there are issues in labour payments and supply chain management in the short term for MSMEs. According to our estimate, business has come down by 50-70 per cent," said P Bhaskara Rao, Executive Director, Andhra Chamber of Commerce.

According to A Prakash, President, Telangana State Federation of Chambers of Commerce and Trade, business in key sectors such as automobiles, and electrical and electronic components, where MSMEs are present in large numbers, are incurring losses.

CONCERN

Banks, on their part, are also worried over the significant exposure to MSME loans. A top executive of Mudra Bank said the quality of loans extended under the MUDRA (Micro Units Development and Refinance Agency) scheme might get impacted in the current quarter.

"There are various views on the long-term impact of the currency call-back on the economy and GDP growth. If things do not return to normalcy soon, there could be a spin-off impact on MSME loans," he said, adding that the real picture on repayments would emerge only in the third quarter numbers of banks.

A study by rating agency CARE says that GDP growth for the current fiscal is likely to be affected by 0.3-0.5 per cent as a result of demonetisation.

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