

# NEW MSME POLICY & CLASSIFICATION 2020



सत्यमेव जयते

# MSME

MICRO, SMALL & MEDIUM ENTERPRISES  
सूक्ष्म, लघु एवं मध्यम उद्यम  
OUR STRENGTH • हमारी शक्ति

Ministry of MSME, Govt. of India

ABINASH MANDILWAR



## MSME POLICY



@amandilwar

mandilwar.bankingdigest@gmail.com

# IMPORTANCE OF MSME IN INDIAN ECONOMY

Micro, Small & Medium Enterprises (MSME) is the pillar of economic growth of India. MSME's are the backbone of Indian industry.

MSME has played a prominent role in the development of the country in terms of creating employment opportunities- :-

- i. MSMEs contribute 29 per cent to India's gross domestic product and comprise almost half of its exports.
- ii. These units Provide Employment opportunity to nearly 11.10 crore jobs through huge base of 1.22 lakh MSMEs Units, making it largest source of employment sector next to Agriculture.

Though, India is still facing infrastructural problems, lack of proper market linkages, and challenges in terms of flow of institutional credit, it has seen a tremendous growth in this sector.



# MICRO, SMALL & MEDIUM ENTERPRISES DEVELOPMENT (MSMED) ACT, 2006

- ❖ The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2, 2006.
- ❖ With the enactment of MSMED Act 2006, the paradigm shift that has taken place is the inclusion of the services sector in the definition of Micro, Small & Medium enterprises, apart from extending the scope to medium enterprises.
- ❖ Public Procurement Policy for MSEs Order, 2018 has been notified under section 11 of MSMED Act, 2006. The Policy is effective from 1st April 2019 (Gazette notification on 9 November 2018).



# NEW CLASSIFICATION OF MSME 2020

Union Ministry of Micro, Small and Medium Enterprises has issued Gazette notification dated 01 June 2020 to pave way for implementation of the upward revision in the definition based on Investment and Annual Turnover of MSMEs in the country. The new definition and criterion will come into effect from 1st July, 2020. Gazette Notification is as under:

*(i) A micro enterprise, where the investment in Plant and Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;*

*(ii) A small enterprise, where the investment in Plant and Machinery or Equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees;*

*(iii) A medium enterprise, where the investment in Plant and Machinery or Equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.*



# OLD DEFINITION OF MSME TILL 30<sup>TH</sup> JUNE 2020

Sector	Enterprises for Manufacturing Units	Enterprises engaged in providing services
Micro Enterprise	Investment in plant & machinery not exceeding Rs.25 lakh.	Investment in equipment not to exceed Rs.10 lakh.
Small Enterprise	More than Rs.25 lakh but not to exceed Rs.5 crore.	More than Rs.10 lakh but not to exceed Rs.2 crore.
Medium Enterprise	More than Rs.5 crore but not to exceed Rs.10 crore.	More than Rs.2 crore but not to exceed Rs.5 crore.



# Revised Classification applicable w.e.f 1st July 2020

## Composite Criteria for Manufacturing Enterprises and Service Enterprises: Investment and Annual Turnover

Classification	Micro	Small	Medium
Investment in Plant and Machinery or Equipment and	Not more than Rs. 1 crore	Not more than Rs.10 crore	Not more than Rs.50 crore
Annual Turnover	not more than Rs. 5 crore	not more than Rs. 50 crore	not more than Rs. 250 crore

# **ITEMS INCLUDED WHILE CALCULATING THE INVESTMENT IN PLANT & MACHINERY**

While calculating the investment in plant and machinery, the original price thereof, irrespective of whether the plant and machinery are new or second handed, shall be taken into account provided that in the case of imported machinery, the following shall be included in calculating the value, namely;

- I. Import duty (excluding miscellaneous expenses such as transportation from the port to the site of the factory, demurrage paid at the port);
- II. Shipping charges;
- III. Customs clearance charges; and
- IV. Sales tax or value added tax.



# EXCLUDED ITEMS FOR CALCULATING THE INVESTMENT IN PLANT AND MACHINERY

Investment in these items are not included for the classification purpose of MSME Unit.

- I. Cost of Land & Building,
- II. Furniture and fittings,
- III. Tools, Dies, Moulds, Spare Parts & other consumables items etc.,
- IV. Installation charges,
- V. Fire fighting equipments,
- VI. R&D equipments,
- VII. Pollution control equipments,
- VIII. Power generation set etc.





# **ISSUE OF ACKNOWLEDGEMENT OF LOAN APPLICATION TO MSME BORROWERS**

- ❖ Banks are advised to mandatorily acknowledge all loan applications, submitted manually or online, by their MSME borrowers and ensure that a running serial number is recorded on the application form as well as on the acknowledgement receipt.
- ❖ Banks are further advised to put in place a system of Central Registration of loan applications, online submission of loan applications and a system of e-tracking of MSME loan applications.



# COLLATERAL SECURITY & CREDIT GUARANTEE SCHEME

- Banks are mandated not to accept collateral security in the case of loans up to Rs.10 lakh extended to units in the MSE sector and financed under PMEGP.
- Waiver of collateral security may be extended for loans over Rs. 10 Lakh and up to Rs. 25 Lakh subject to good track record and financial position of the borrower and with prior approval from the appropriate authority.
- Banks are advised to strongly encourage their branch level functionaries to avail of the Credit Guarantee Scheme cover.
- The CGTMSE would provide cover for credit facility up to Rs. 200 lakh which have been extended by lending institutions without any collateral security and /or third party guarantees.
- Annual service fee is charged by the CGTMSE to avail of the guarantee cover.



# TARGETS PRESCRIBED FOR LENDING BY BANKS TO MSME

- ❖ As per extant policy, certain targets have been prescribed for banks for lending to the Micro and Small enterprise (MSE) sector.
- ❖ Banks have been advised to achieve a 20 per cent year-on-year growth in credit to micro and small enterprises, a 10 per cent annual growth in the number of micro enterprise accounts and
- ❖ 60 percent of total lending to MSE sector as on corresponding quarter of the previous year to Micro enterprises.
- ❖ Public sector banks have been advised to open at least one specialised branch in each district.
- ❖ Cluster based approach to lending is intended to provide a full-service approach to cater to the diverse needs of the MSE sector.



# CREDIT RATING OF THE MSME BORROWERS

- With a view to facilitating credit flow to the MSME sector and enhancing the comfort-level of the lending institutions, the credit rating of MSME units done by reputed credit rating agencies should be encouraged.
- Banks are advised to consider these ratings as per availability and wherever appropriate structure their rates of interest depending on the ratings assigned to the borrowing MSME units.



# **STREAMLINING FLOW OF CREDIT TO MSE FOR FACILITATING TIMELY AND ADEQUATE CREDIT FLOW DURING THEIR 'LIFE CYCLE'**

In order to provide timely financial support to Micro and Small enterprises', Banks are advised to review and tune their existing lending policies to the MSE sector by incorporating therein the following provisions of credit to viable MSE borrowers especially during the need of funds in unforeseen circumstances:

- i. To extend standby credit facility in case of term loans;
- ii. Additional working capital to meet with emergent needs of MSE units;
- iii. Mid-term review of the regular working capital limits, where banks are convinced that changes in the demand pattern of MSE borrowers require increasing the existing credit limits of the MSMEs, every year based on the actual sales of the previous year;
- iv. Timelines for Credit Decisions.



# FRAMEWORK FOR REVIVAL AND REHABILITATION OF MSME

The salient features of the Framework are as under:

- i) Before a loan account of an MSME turns into a Non-Performing Asset (NPA), banks or creditors should identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the Framework.
- ii) Any MSME borrower may also voluntarily initiate proceedings under this Framework.
- iii) Committee approach to be adopted for deciding corrective action plan.
- iv) Time lines have been fixed for taking various decisions under the Framework.

ABINASH MANDILWAR



@amandilwar

mandilwar.bankingdigest@gmail.com

# **BANKING CODES & STANDARD BOARD OF INDIA (BCSBI) FOR MSE**

- ❖ The Banking Codes and Standards Board of India (BCSBI) has formulated a Code of Bank's Commitment to Micro and Small Enterprises.
- ❖ The Code sets minimum standards of banking practices for banks to follow when they are dealing with Micro and Small Enterprises (MSEs) unit.
- ❖ It provides protection to MSEs and explains how banks are expected to deal with MSEs for their day to-day operations and in times of financial difficulty.



**For more details, you may visit the website**

<https://bankingdigests.com/blog/new-msme-policy-classification-2020/>  
<https://msme.gov.in/whatsnew/new-criteria-classification-micro-small-and-medium-enterprises-gazette-notification-1st>

