SME INSIGHTS

A Newsletter from Onicra

Onicra Credit Rating Agency of India Ltd.

ABOUT ONICRA

Onicra Credit Rating Agency is an active player in the Credit and Performance Assessment space. It provides analytical risk assessment and rating solutions to MSMEs and Corporates.

These ratings enable the lender or service provider to make smart, value based decisions on the MSME or the corporates by arming them with essential information that includes financial, operational, 3-Dimensional analysis that provides a holistic view about the entity.

About Onicra MSME Ratings

The Ministry of MSME through NSIC has signed a memorandum of undertstanding with Onicra to provide performance and credit rating services to MSME units. The rating creates awareness about the strengths, weaknesses, opportunities and threats, and assists in identifying areas of improvement for the MSME unit. Under this scheme, the MSME unit only pays 25% of the rating fee to Onicra while the rest 75% is subsidized by NSIC.

The company has rated around 17770 MSMEs since inception.

NSIC scheme features

Benefits of NSIC-Onicra Performance and credit rating

- Assists in risk management by highlighting parameters measuring operational, financial and business risk.
- Enhance acceptability with Banks, Financial Institutions and provides access to cheaper and timely credit.
- It is a “holistic health check-up of the unit” that establishes credibility, goodwill and assists in dealing with large companies.
- Helps in marketing and serves as first point to generate interest among potential partners.

ECONOMIC PERSPECTIVE

Executive Summary

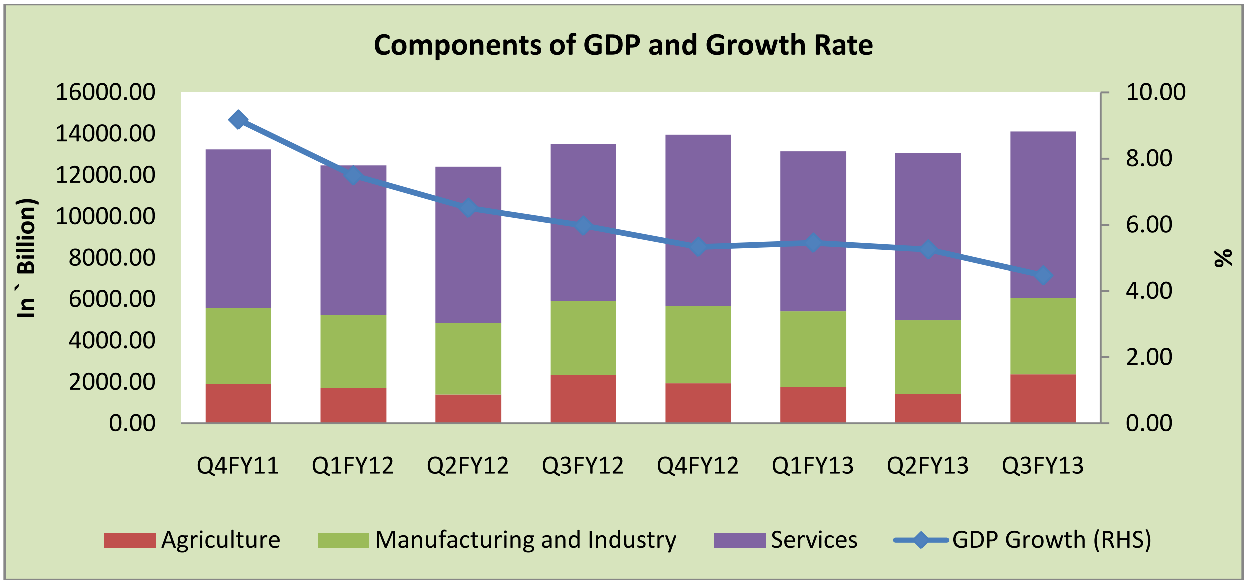
The Indian Economy has witnessed a sluggish trend in the FY12 and the same story has continued in FY13 also. The economy growth is likely to drop further from 6.48% in FY12 to somewhere in the range of 5.2-5.4% in FY13. Reasons for the decline are partly global and partly domestic.

On the domestic front, the Indian Economy continued to decline in all its sectors. Rainfall played an important role in the decline in agriculture sector, while the manufacturing and service sector continued to decline in the wake of tighter monetrary policies, delays in projects due to government regulations, weakening consumption and declining exports. The mood of investments in the economy has weakened and the deployment of bank credit into corporates has increased at a declining rate. The challenge now is to boost the investments into the economy while maintaining the inflation under control.

Rupee has depreciated during the quarter and in the existing scenario, this has led to the increase in inflationary trends. The Consumer Price index has been high and has caused a lot of dis-rest in the economy. RBI and the government of India are taking steps to control inflation, yet the food inflation has remained at levels too high for comfort.

Global reasons for the decline in the economic growth continued to be in the form of Euro Risk and fiscal consolidation in US. The demand for Indian goods has decreased and the current account decficit (CAD) has increased due to rising import bill on account of increasing oil bill. While it is expected by the various agencies that the global economy will recover in FY13, the Indian economy will take its cue from there.

Economic Growth



Source: CSO

* GDP at constant price

Composition of Sub Sectors of GDP

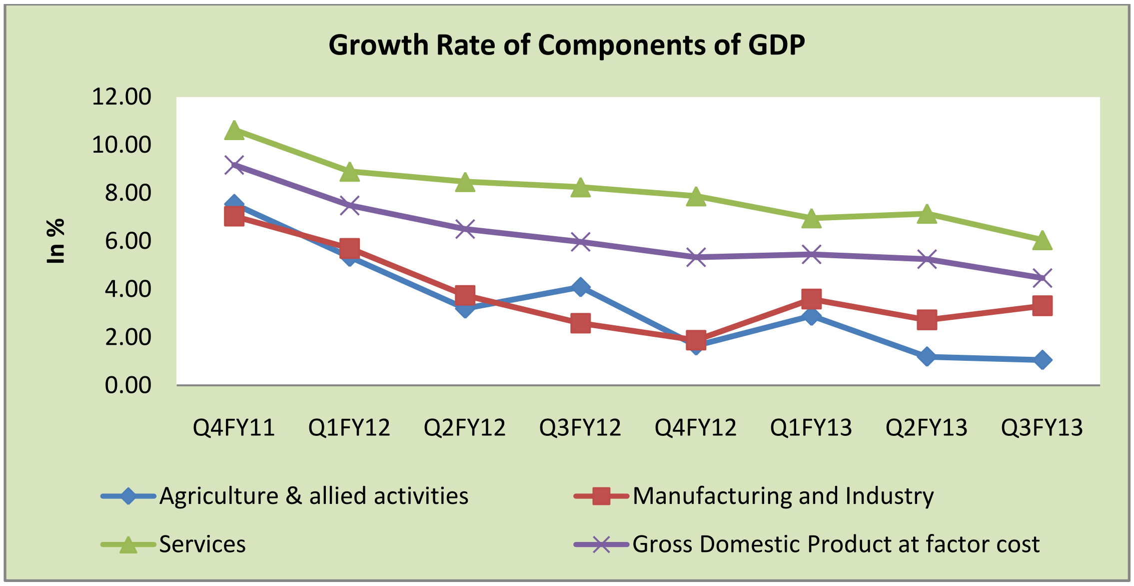
(Amount in ` Billion)

Sectors	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Agriculture & allied activities	**1907.78**	**1719.66**	**1389.87**	**2338.94**	**1939.55**	**1769.51**	**1406.55**	**2363.76**
Manufacturing and Industry	**3661.05**	**3524.72**	**3475.81**	**3590.46**	**3730.21**	**3651.44**	**3570.68**	**3709.54**
Mining & Quarrying	295.20	262.05	239.42	273.45	307.98	262.34	243.86	269.71
Manufacturing	2095.23	2033.49	1998.73	2026.65	2089.99	2037.20	2014.45	2078.13
Electricity, Gas & Water Supply	236.84	245.08	245.99	246.86	248.39	260.53	254.26	257.98
Construction	1033.78	984.10	991.67	1043.50	1083.85	1091.37	1058.11	1103.72
Services	**7676.01**	**7230.58**	**7545.40**	**7583.13**	**8280.96**	**7734.31**	**8085.47**	**8042.62**
Trade, Hotel, Transport and Communications	3659.94	3489.03	3464.52	3567.68	3915.27	3629.03	3654.91	3749.92
Finance, Insurance, Real Estate & Business Services	2211.14	2296.38	2344.60	2385.86	2432.94	2545.43	2564.17	2575.11
Community, Social & Personal Services	1804.93	1445.17	1736.28	1629.59	1932.75	1559.85	1866.39	1717.59
GDP at Factor Cost	**13244.84**	**12474.95**	**12411.06**	**13512.52**	**13950.71**	**13155.26**	**13062.70**	**14115.94**

Growth Rate of Sub Sectors of GDP

(In %)

Growth Rate of various sub sectors of GDP	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Agriculture & allied activities	**7.55**	**5.35**	**3.20**	**4.09**	**1.67**	**2.90**	**1.20**	**1.06**
Manufacturing and Industry	**7.04**	**5.70**	**3.75**	**2.59**	**1.89**	**3.60**	**2.73**	**3.32**
Mining & Quarrying	0.58	-0.43	-5.33	-2.63	4.33	0.11	1.85	-1.37
Manufacturing	7.34	7.41	3.06	0.66	-0.25	0.18	0.79	2.54
Electricity, Gas & Water Supply	5.11	6.59	8.44	7.66	4.88	6.30	3.36	4.50
Construction	8.85	3.77	6.52	6.89	4.84	10.90	6.70	5.77
Services	**10.64**	**8.91**	**8.48**	**8.26**	**7.88**	**6.97**	**7.16**	**6.06**
Trade, Hotel, Transport and Communications	11.60	9.51	7.00	6.88	6.98	4.01	5.50	5.11
Finance, Insurance, Real Estate & Business Services	9.97	11.61	12.34	11.42	10.03	10.85	9.36	7.93
Community, Social & Personal Services	9.55	3.54	6.47	6.84	7.08	7.94	7.49	5.40
Gross Domestic Product at factor cost	**9.17**	**7.49**	**6.51**	**5.97**	**5.33**	**5.45**	**5.25**	**4.47**

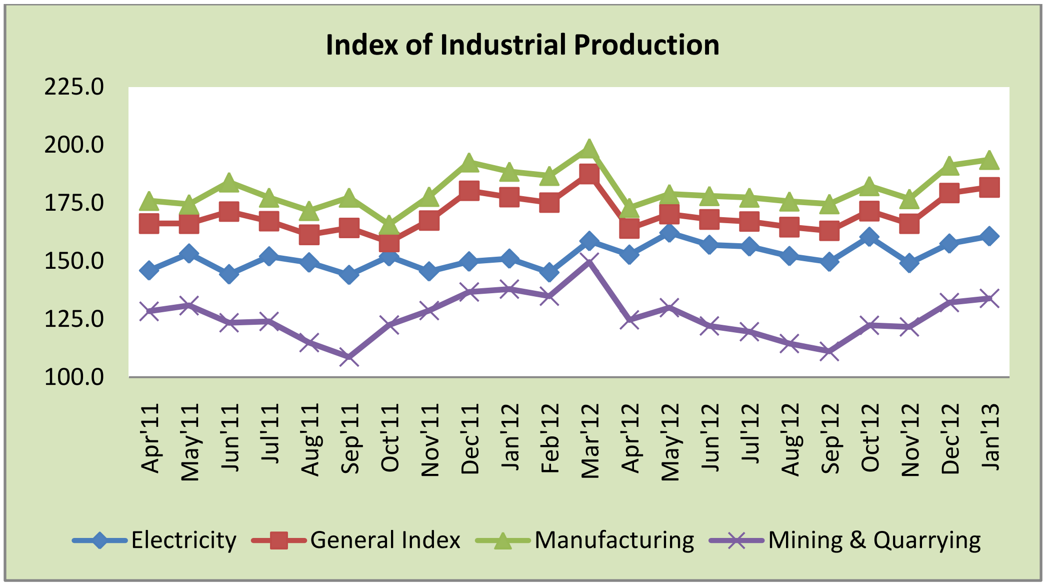


The declining growth rate of GDP over the last two years speaks poorly of the performance of the Indian Economy. Slight buoyancy has been noted in the Manufacturing and Industry sector but that is not enough to set off the decline in the agriculture and service sector. An erratic rainfall has severely hit the agriculture sector as well as the agri-able land. As expected the mining sector has registered decline in output. Core manufacturing and Electricity, Gas and water supply sector has improved. Poor global market conditions have impacted the services sector in whole.

Agriculture and Allied Activities

Agriculture contributed 16.75% of GDP in Q3FY13, however the growth rate of the sector has been lowest in the period. As per the Department of Agriculture and Cooperation, the Agriculture sector For FY13 shall see a decline in production. The total foodgrain production is expected to decline by 5.02% in FY13 vis-à-vis FY12 driven by decline in both rabi and kharif production. The decline in the agriculture can be attributed to the erratic and scanty rainfall which was 21% less than the Long Period Averages (LPA) during the quarter. The rainfall was 26% above the LPA in Jan’13-Feb’13, however, due to its erratic nature loss of agri-able land was reported in parts of North India. While rabi crop did see a growth in some of the crops such as coarse cereals, pulses, and oilseeds, the growth was too insignificant to pull the sectoral growth rate.

Manufacturing and Industry



While the sectors – Electricity, Gas and Water supply and Construction have seen slower growth, the mining sector has seen a fall in output. Failing health of the power companies, scarcity of production of resources like coal and red tape on new oil and gas projects and their pricing has curbed the growth of power, gas and water supply sector. Mining sector continues to reel under the tint of infrastructure impingements and delays in regulatory and environmental clearances by government.

The growth in the industry has been driven by the growth in the manufacturing and industry sector. The sub-sectors that witnessed a growth were Chemicals and Chemical Products; Coke, Refined petroleum products and Nuclear Fuel; Electrical Machinery and Apparatus etc.; Furniture, manufacturing n.e.c and Textiles.

Service

The service sector has seen a decline in Q3FY13 due a decline in all its sub-sectors. The reduction in the production of oil and gas, steel and cement sectors has led to a reduction in the Trade, Hotel, Transport and communications sector on account of reduced cargo, freight handling by railways, civil aviation and ports sectors. A low market sentiment and declining global economy has led to low growth rate of finance, insurance, real estate and business services.

Consumption Drivers

Growth in	Q3FY12	Q3FY13
Production of Food Products and Beverages	22.07	7.64
Production of Wearing Apparel	-0.05	-0.47
Production of Consumer Goods	7.72	2.74
Deployment of Bank Credit to Housing	11.95	12.53

* Source: RBI

Growth in	FY12	FY13
Total Food grain production	7.22	-9.82

* Source: Department of Agriculture and Co-operation

The above table indicates that there has been a significant decline in the food, apparel and consumer goods sector in the Indian Economy. With increasing population, this does not bode well for the consumption levels of the Indians and is indicative of less per capita consumption.

Possibly, the increase in bank credit to housing has been a result of increase in the prices of dwelling units rather than the rise in the volume of dwelling units. The demand-supply gap in the housing sector is expected to widen in the wake of less number of economical units being built.

Investment Drivers

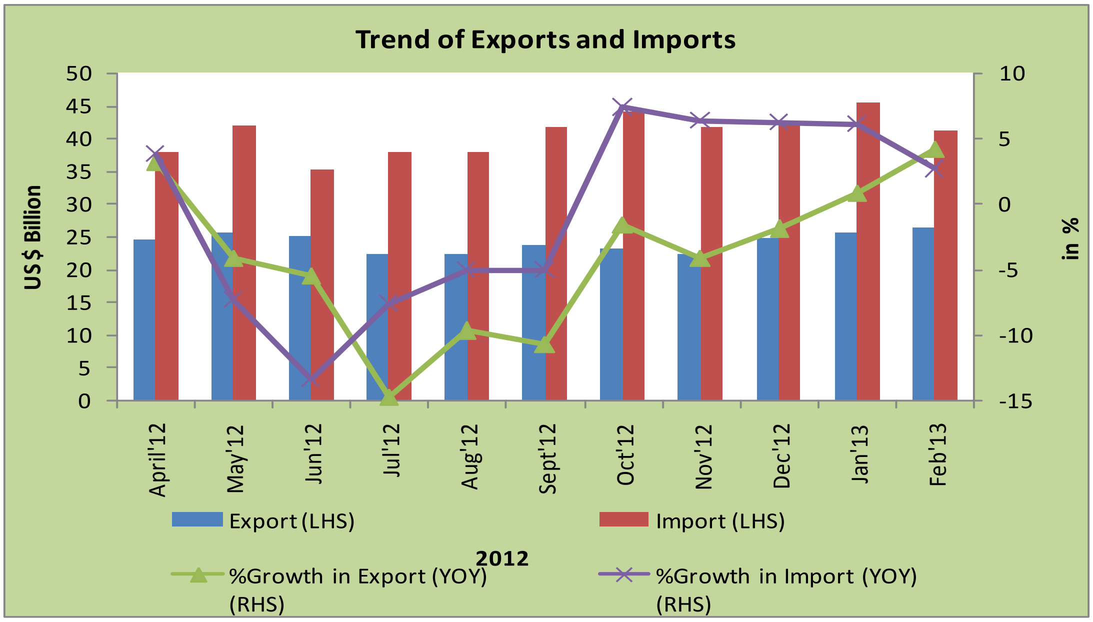
Industry-wise Deployment of Gross Bank Credit

	Share towards Deployment of Gross Bank Credit (%) (As of 25th January 2013)	Growth (%) Jan-Jan	
		2012	2013
Infrastructure	33.61	20.39	19.12
Basic Metal & Metal Product	13.91	25.08	20.24
Textiles	7.83	12.68	8.03
All Engineering	6.00	20.11	19.19
Chemicals & Chemical Products	5.88	13.18	21.98
Food Processing	5.24	20.35	18.39
Petroleum, Coal Products & Nuclear Fuels	3.08	-3.78	10.96
Construction	2.82	19.79	8.97
Vehicles, Vehicle Parts & Transport Equipment	2.79	22.74	14.96
Gems & Jewels	2.71	29.80	19.32
Cement & Cement Products	2.04	17.64	21.40
Mining & Quarrying (incl. Coal)	1.87	52.01	32.36
Rubber, Plastic & their Products	1.40	18.10	23.35
Paper & Paper Products	1.34	21.10	17.19
Beverage & Tobacco	0.79	18.95	24.05
Leather & Leather Products	0.39	8.42	11.70
Wood & Wood Products	0.36	17.28	25.81
Glass & Glassware	0.31	13.84	12.68
Other Industries	7.62	28.76	-10.74
Total	100.00	20.17	15.16

Registering a growth of 15.16% for the period of Jan’12-Jan’13 so far, vis-à-vis 20.17% for the corresponding period last year, credit deployment towards industry has been subdued. Infrastructure (33.61%), basic metal and metal products (13.91%), textiles (7.83%), engineering (6.00%), chemical and chemical products (5.88%), food Processing (5.24%) and Petroleum & Petroleum Products (3.08%) industries have accounted for major shares in overall credit to industry.

Credit growth to infrastructure sector was lower than last year mainly due to slower pace of credit deployments in roads (to 18.7% from 25.8% YoY), which accounts for 6.11% of credit to industries. There has been a decline in the growth of credit deployment in Textile industry mainly on account of decline in the credit deployment growth rate of the cotton textile i.e. 5.7% vis-à-vis 14.2% last year. Growth of credit deployment in construction industry declined to 8.97% from 19.79% (YoY) and credit deployment in Mining & Quarrying (incl. Coal) has declined to 32.36% from 52.01% (YoY), mainly due to delay in environmental clearances by the government.

Import Export Growth



Foreign Trade
(US $ Billion)

2012-13	Exports	%Growth in Exports (YoY)	Import	%Growth in Imports (YoY)	Trade Balance
April	24.50	3.20	37.90	3.80	-13.40
May	25.68	-4.16	41.95	-7.36	-16.27
June	25.07	-5.45	35.37	-13.46	-10.30
July	22.44	-14.80	37.94	-7.61	-15.49
August	22.33	-9.74	37.95	-5.08	-15.62
September	23.70	-10.78	41.78	-5.09	-18.08
October	23.25	-1.63	44.21	7.37	-20.96
November	22.30	-4.17	41.59	6.35	-19.29
December	24.88	-1.92	42.55	6.26	-17.67
January	25.59	0.82	45.58	6.12	-19.99
February	26.25	4.23	41.18	2.65	-14.92

Source: Ministry of Commerce & Industry

The Budget (FY14) has recognized the rising current account deficit (at 4.60%of GDP in FY12) as the biggest threat to India's macro-economic stability. Given the inelastic nature of India's major imports (e.g. crude, coal, edible oil and fertilizers) and the insatiable demand for gold; the long-term solution to the problem of CAD lies in attracting foreign investment or increasing exports.

Exports had declined for eight straight months starting May 2012 to December 2012 mostly due to contraction in demand in the EU and the US. However, In January and February this year, exports posted a small growth, but fiscal deficit continued to be high because of higher growth in imports.

India’s exports have shown a declining trend till December 2012. There has been a decline in global import demand following the recent crisis and this has affected India’s exports. The dip is more pronounced in high-value exports such as processed petroleum. The other key products which have witnessed a decline in exports include apparels, precious stones, electronic equipment, and iron and steel, to name a few. These products account for almost 60.00% of the country’s total exports. However, in January and February there has been a revival in the export and it increased by 4.23% in February 2013, mainly due to increase in increase in exports of agriculture and allied products, chemical and related products and petroleum products during the period.

Cumulative value of imports for the period April’12-February’13 was US $ 44.80 billion as against US $ 44.69 billion registering a growth of 0.25% and over the same period last year. Overall YOY increase in import in the period was not significant mainly because increase in oil import was nullified by decrease in import of gold and other precious stones & pearls.

Imports during February, 2013 were valued at US $ 41.18 billion representing a growth of 2.65% in Dollar terms and 12.27% in Rupee terms over the level of imports valued at US $ 40.11 billion in February, 2012. Increase in February was mainly due to increase in the Oil imports which were valued at US $ 15.14 billion during February, 2013 which was 15.45% higher than oil imports valued at US $ 13.12 billion in the corresponding period last year. Non-oil imports during February, 2013 were estimated at US $ 26.03 billion which was 3.57%lower than non-oil imports of US $ 26.99 billion in February, 2012.

INTEREST RATE

Policy Rate/ Interest Rates (% per annum)			
Item / Week Ended	**2011**	**2012**	**2013**
	31-Mar-	**31-Mar**	**19-Mar**
Cash Reserve Ratio	6.00	4.25	4.00
Bank Rate	6.00	9.00	8.50
Repo Rate	8.50	8.00	7.50
Reverse Repo Rate	7.50	7.00	6.50
Base Rate	10.00 / 10.75	9.75 / 10.50	9.70 / 10.25
Deposit Rate	8.25 / 9.25	8.50 / 9.00	7.50% - 9.00%

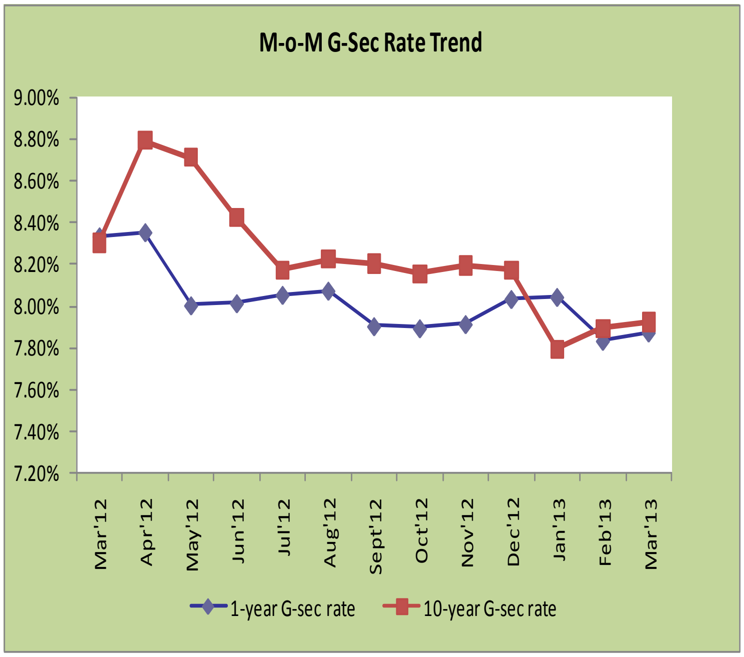
Based on an assessment of the current macroeconomic situation, the Reserve Bank of India decided to reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 7.75 percent to 7.5 percent with immediate effect. Consequently, the reverse repo rate under the LAF stands adjusted to 6.5 percent and the marginal standing facility rate and the Bank Rate to 8.5 percent with immediate effect.

Since January 2013, global financial market conditions have improved, but global economic activity has weakened. On the domestic front too, growth has decelerated significantly, even as inflation remains at a level which is not conducive for sustained economic growth. Although there has been notable softening of non-food manufactured products inflation, food inflation remains high, driving a wedge between wholesale price and consumer price inflation, and is exacerbating the challenge for monetary management in fixing inflationary expectations.

The yield on Indian government bonds have shown a downward trend since April 2012 starting from 8.8% to 8.40% in June 2012. There after the movement in yield has been range bound till December 2012. There has been a sharp fall in the yield for January 2013 on account of postponement in the Government borrowings program, the expectation of rate cut and `8,000 Crores Open Market Operation (OMOs) in order to infuse liquidity in the system by buying back government bonds.

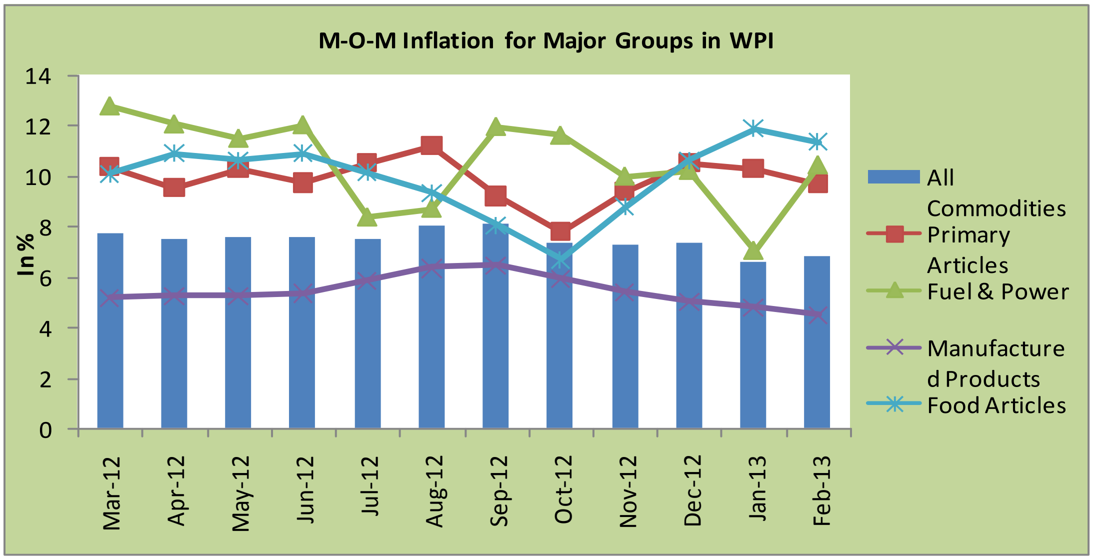
The 10-Year G-Sec rate remained bullish in February and March supported by favorable IIP and inflation numbers.

A lower inflationary expectations and continued OMOs by the RBI will keep yields low.



Source: FIMMDA

INFLATION



WHOLESALE PRICE INDEX & INFLATION

Commodity	Weight	2011-12	Mar-2012	Apr-2012	May-2012	Jun-2012	Jul-2012	Aug-2012	Sep-2012	Oct-2012	Nov-2012	Dec-2012	Jan - 2013	Feb-2013
All Commodities	100.00	8.94	7.69	7.50	7.55	7.58	7.52	8.01	8.07	7.32	7.24	7.31	6.62	6.84
Primary Articles	20.12	9.80	10.41	9.55	10.31	9.75	10.54	11.23	9.22	7.81	9.42	10.56	10.31	9.70
Fuel & Power	14.91	13.96	12.82	12.10	11.53	12.07	8.39	8.74	12.00	11.65	10.02	10.25	7.06	10.47
Manufactured Products	64.97	7.26	5.16	5.27	5.24	5.37	5.87	6.36	6.47	5.95	5.41	5.04	4.81	4.51
Food Articles	14.31	8.72	10.11	10.92	10.63	10.91	10.17	9.34	8.06	6.72	8.80	10.63	11.88	11.38

For most of FY11 and FY12, the Wholesale Price Inflation (WPI) remained around 9%. Though steps were taken by the RBI through a repo rate increase, inflation refused to subside. During late 2012-13, inflation finally moderated to reach 7.6%. In January, inflation stands at a three year low of 6.62%. Gradual moderation of international commodity prices including crude oil prices and easing of geo-political tensions in the Middle East helped in moderating domestic inflation during the year.

Headline inflation rose to 6.84% in February 2013 from 6.62% in January 2013 in year-on-year (y-o-y) terms, led by fuel & power (to 10.5% from 7.1%) even as inflation related to other major categories moderated.

Inflation related to fuel & power rose to 10.5% in February 2013 from 7.1% in January 2013 in y-o-y terms. This was led by an increase in the price of high speed diesel and petrol. Additionally, the index levels for furnace oil, aviation turbine fuel etc. rose in month-on-month (m-o-m) terms in February 2013, reflecting the higher price of the Indian crude oil basket.

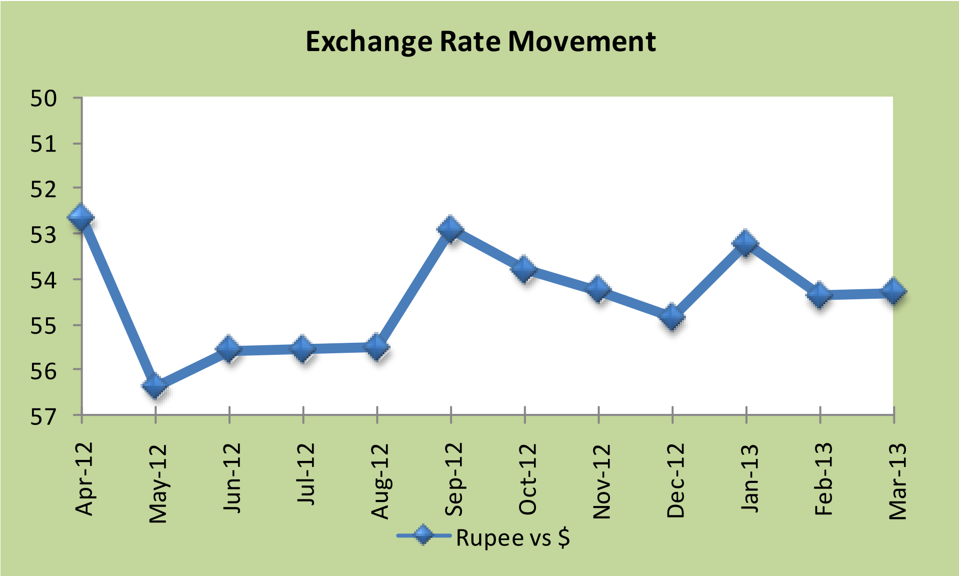
Primary food inflation eased slightly to 9.7% in February 2013 from 11.9% in January 2013. The prices of vegetables, pulses and fruits declined in February 2013 relative to the previous month.

Inflation for primary non-food items eased to 10.1% in February 2013 from 10.5% in January 2013 led by oilseeds (to 23.4% from 25.4%), even as inflation related to fibers rose (to 7.6% from 3.0%).

FINANCIAL MARKET

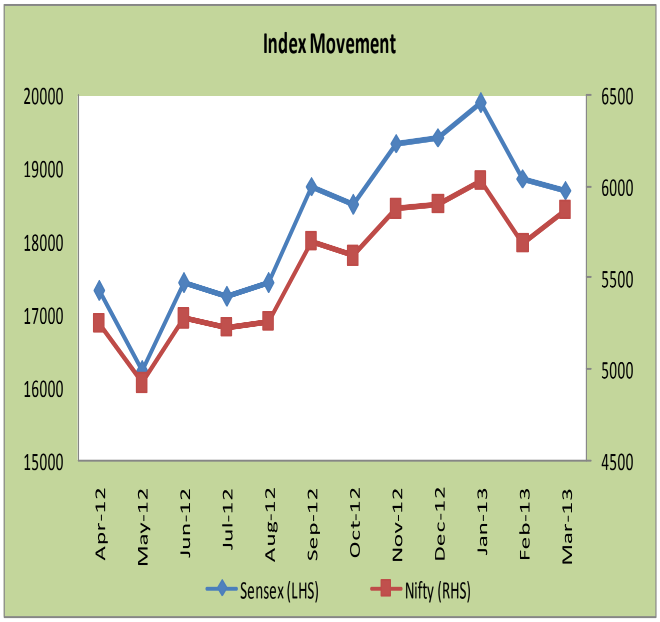
Currency Market

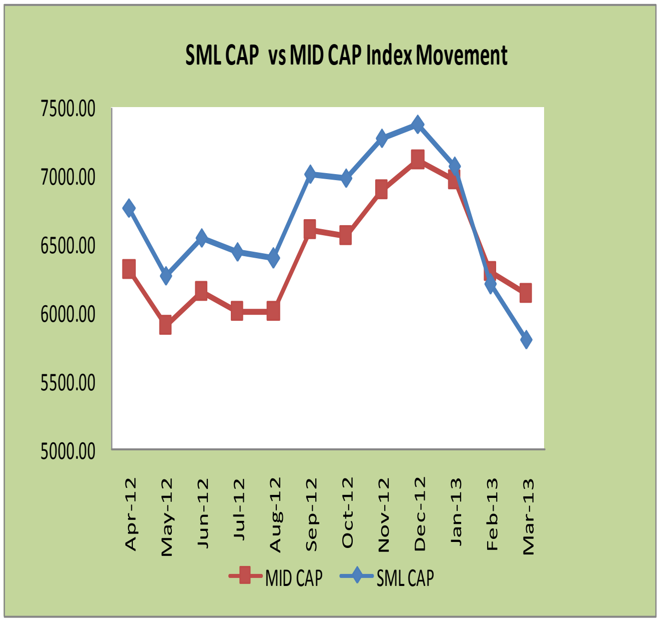
The Indian Rupee has suffered depreciation over the previous year and has rechaed its lowest levels in the month of May 2012. The trend in rupee has been volatile on the back of weak GDP growth, weak capital inflows, high inflation and stalling reforms. Also the global economic factors have been weak.



Source: RBI

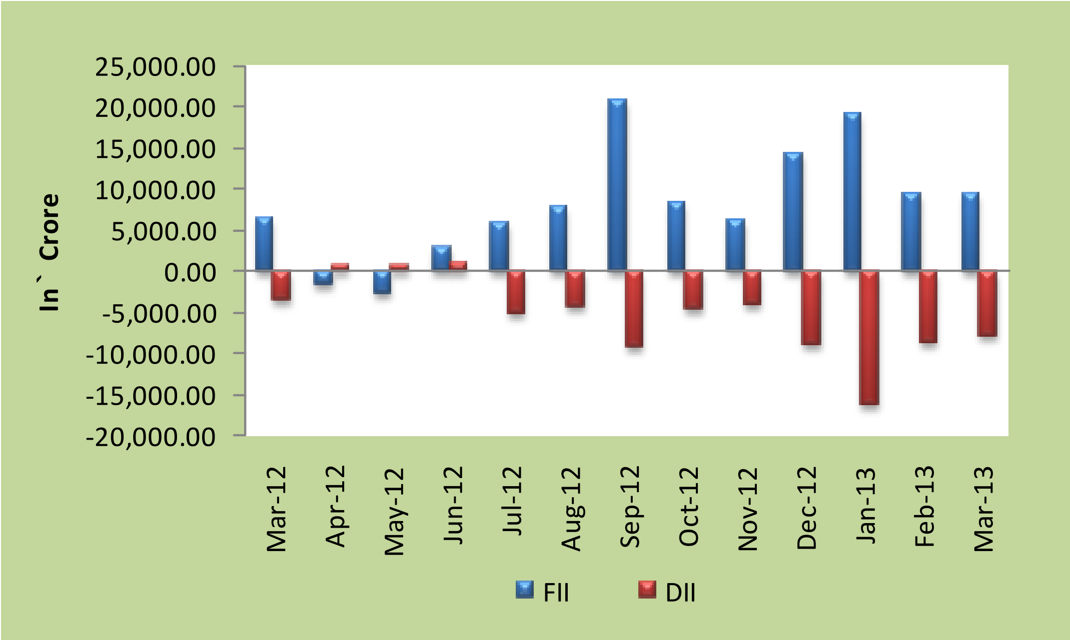
Equity Market





Source: BSE & NSE

FII vs DII Movement



Source: SEBI

While the Sensex has declined marginally in February 2013, the Small-Cap and Mid-Cap stocks have taken a drastic fall, giving an impression that the overall sentiments are weak. Though the decline in the automobile industry has presented a weak positon the two rate cuts by RBI is expected to ease some pressure off the lending rates. High interest rates have been a major contributor to subdued demand, and any easing on this front will be reflected in the sales volumes.

During FY13 domestic institutional investors (DIIs) were net sellers while FIIs were net buyers in the equity markets. Any adverse developments in the Euro area or on the unraveling of the US fiscal cliff issue could potentially lead to a sudden reversal of FII inflows from the Indian equity markets leading to a substantial correction in the indices. Domestic equity indices have rallied despite overall economic weakness on account of investor optimism about the renewed pace of reform measures such as FDI liberalization, disinvestment in PSUs, increased infrastructure investment announced by the government.

Despite volatile moves, FY12 has finally proved to be fruitful for the stock market with about 25.00% appreciation in benchmark indices, but investors are looking forward to more stable times in 2013. Implementations of key reforms, cut in interest rates, overhaul of tax regime and a stable global economy are some of the wishes that are expected to come true in FY14.

OUTLOOK

Indian economy is likely to grow between 5.2-5.4% in FY13 as the economy has shown no signs of recovery in the last fiscal year. RBI expects the economy to have grown at 5.5% in FY13. Despite the declining growth, India continues to be one of the fastest rising economies after China.

A revival in the manufacturing sector is imperative for the growth of the economy which can be achieved by boosting the investment environment. Efforts have been made to curtail the non-productive government spend on subsidies on fuel such as oil and gas; policies are being placed to increase tax-Revenue to GDP ratio for sustaining the process of fiscal consolidation in the longer run. RBI has taken steps to curb inflation and increase savings rate, which will further boost the investments.

Expecting the global economy to recover in FY13, and with the Indian government focused on clearing the road for fresh investments, Indian economy may be expected to better its performance in FY14.

BUDGET HIGHLIGHTS

BUDGET 2014

Highlights of Union Budget 2013-14

The Union Finance Minister presented the budget for the year 2013-14. Some of the key points that were highlighted by the Finance Minister (FM) in the budget are:

Growth Drivers

- The Indian economy has slowed down, and growth is expected to drop as the nation is still feeling the effects of the global economic downturn
- Growth forecast is estimated at 5.5% by RBI which is below the past 9 years average of 8%
- Need for foreign investment for economic growth
- Main worry is the current account deficit as exports have slowed down while oil, coal and the passion for gold weigh on imports, resulting in a higher current account deficit
- $75 billion is needed to finance the current account deficit over the next two years
- India's fiscal deficit is estimated to be 5.3 percent of GDP in FY13 and 4.8 percent of GDP in FY14
- To attract new investment and to quicken the implementation of projects, FM propose to introduce an investment allowance for new high value investments. A company investing `100.00 cr or more in plant and machinery during the period 1.4.2013 to 31.3.2015 will be entitled to deduct an investment allowance of 15% of the investment, which will be in addition to the current rates of depreciation

Social Objectives

- A sum of `373.3 billion was allocated to the Ministry of Health & Family Welfare, and `47.27 billion was allocated for medical education and research
- Allocations to the Ministry of HRD totaled to `658.67 billion in FY14
- The Food Security Bill was allocated approximately `100 billion
- The alternative medicine industry received approximately `11.06 billion
- Emphasizing the country's collective responsibility to ensure the safety and dignity of women, the Finance Minister allocated an additional sum of `2 billion to combat the harassment of women
- Allocations to India's Scheduled Caste sub-plan totaled to `415.61 billion, while allocations to India's tribal sub-plan were to the tune of `254.98 billion
- Allocations to various Ministries for providing scholarships for students hailing from India's Scheduled Caste (SC)/ Scheduled Tribe (ST), and Other Backward Castes (OBC) totaled to `52.84 billion
- Allocations for drinking water and sanitation were to the tune of `152.6 billion, while the agriculture ministry attracted funds worth `270.49 billion
- No revision in tax slabs was announced, but taxpayers in the range of `2 lakh to `5 lakh will get a tax credit of `2,500
- A 100 percent tax exemption was proposed toward donations to the National Children's Fund

Infrastructure

- Introduction of incentives viz promotion of IDFs and tax free bonds, debt segment on stock exchange in addition to granting support from Financial Institutions like World Bank and ADB and allowing pension funds to invest in asset backed securities
- Generation based incentives for Wind power generation and low interest bearing funds for renewable energy would be welcomed by the Industry players
- Constitution of Regulatory Authority for Road sector to monitor the challenges faced by the road construction companies will provide transparency and thereby boost foreign investor confidence
- Shipping and aviation sectors related reforms include introduction of new waterway, movement of bulk cargo through coastal shipping and concessions to set up MROs respectively
- On the Direct tax front, the sunset clause of the tax holiday for commencement of business in power sector has been extended to March 2014
- Levy of 20% tax on buyback of shares by unlisted companies will not only dent the foreign investment but also add to the woes of foreign investors towards unstable Indian tax regime
- Another step which could deter the foreign investor being increasing tax rate on royalty and fees for technical services paid to non-resident from 10% to 25%
- The Budget has proposed to increase surcharge for Indian companies to 10%, which would increase the tax burden in form of MAT for the infrastructure companies incurring tax losses
- Changes as were promised are incorporated in GAAR provisions and implementation of GAAR from April 2016 is a welcome move as this will build at least some confidence among taxpayers and allow them time to gear up for GAAR
- The shipping sector would benefit from the complete exemption provided from Excise duty to specified ships and vessels
- On the other hand, the indirect tax proposals are likely to adversely impact the luxury real estate segment, as high end properties (i.e. residential properties with carpet area of 2000 sq. ft or more or properties of value of `0.01 billion or more) would now suffer service tax at a higher rate of 3.71% compared to present rate of 3.09%

IMPACT OF UNION BUDGET ON SME'S

The FM announced the union budget 2013 with few important announcements for SME's in his kitty. Following are the major announcements made in the budget regarding SME:

All the startups and small and medium enterprises can get themselves listed on the Small and Medium Exchanges without making an initial public offering. Though the exact norms that will enable interested companies to list on the Small and Medium Exchanges have not been made public yet, they will be soon. The listings will be restricted to 'select informed investors'.

The move is expected to give the already heated up start-up market in India a major shot in the arm. Access to capital markets without having to resort to the IPO route will enable more startups and SMEs to scale up and not lose out to the competition for want of capital. The move should also give a considerable boost to the India's two SME exchanges, NSE's Emerge and BSE's SME.

Another budgetary move that is expected to encourage SME's to push for higher growth is a three year relief of tax benefits to SMEs after they graduate to becoming large enterprises. Previously many SME's were afraid of growth due to the prospect of losing the tax benefits that they receive from the government due to their SME status but after this announcement they will be encouraged to push for higher growth and will help the economy get back on its stride.

Both large corporations as well as SMEs are increasingly looking at IT spending as a means of improving efficiency in their core operations rather than a support service and a low priority in their budgets. A large part of this technology is in moving to more modern IT solutions with products and services hosted in the cloud and delivered online to a range of devices.

SIDBI's re-financing facility to MSMEs to be doubled to `100 billion. This will help the SMEs to scale up and not lose out to the competition for want of capital.

SECTORAL IMPACT

Sector	Measure	Implications	Impact
Agriculture	• Increased Budget Amounted to ` 270.49 billion • Introduction of Nutri Farms for introducing new micro nutrients crop varieties • Government declares ` 100 billion -National Food Security Act and ` 900 billion- food subsidy • The target for agricultural credit which is major driver for agriculture production gets to ` 7000 billion for FY14 from ` 5750 billion of FY13	More funds available for growth and development	**Positive**
Auto Component	• The full exemption of customs duty on certain parts of hybrid vehicles and electric vehicles • The retention of the excise duty across all vehicles indirectly benefits the auto component industry. • Doubling of SIDBI's re-financing capabilities will benefit a large number of Tier II and III vendors	More finance available, The automobile industry is already in midst of high inflation, rising interest costs and raw material costs	**Neutral**
Construction	• Issue of tax- free bonds raised by government agencies to a total limit of `500 billion. • The Pradhan Mantri Gram Sadak Yojana (PMGSY) II has been announced • Allocation towards the JNNURM programme has been doubled in 2013-14	This will provide additional funds to various infrastructure sectors such as roads, ports and power, Also it could boost the spending on ongoing and upcoming urban infrastructure projects	**Positive**
Information Technology	• Increased 5 to 10 percent surcharge on domestic companies whose taxable income exceeds `1.0 billion. • In case of foreign companies surcharge to increase from 2 to 5 percent, if the taxable income exceeds ` 1.0 billion • In all other cases such as dividend distribution tax or tax on distributed income, current surcharge increased from 5 to 10 percent • The Concessional rate of tax of 15 percent on dividend received by an Indian company from its foreign subsidiary proposed to continue for one more year	Expected to result in marginally higher tax outgo going forward.	**Neutral**

Paper	• Excise duty on Paper and paper board industry has been increased from 5% to 6%. • Also excise duty on supply of paper to Text Book Corporation/ Printing Corporation has been increased from 1% to 2%. • The most significant change in the budget is reduction in the Import Duty for import of waste paper. The duty has been reduced from 2.5% to Nil.	Cost of Paper can increase Waste Paper based paper companies to benefit	**Negative**
Steel			**No Impact**
Pharmaceuticals	• The sharp increase in the rate of surcharge from 5% to 10% and an increase in tax withholding rates while making payments to non-resident companies in the nature of royalty or fees for technical services from 10% to 25% is likely to increases the tax burden • The budget also increased the excise duty on drug formulation and Active Pharma Ingredients (API) from 5% to 6% and 10% to 12% respectively	Increase in the tax burden	**Marginally Negative**
Textile Industry	• Continuation of the TUFS for modernization of power loom sector • Extension of another scheme SFURTI for the development of Khadi industry • Sanction of bank loans at concessional rates for handloom sector has also been proposed.	Khadi manufacturer to be benefitted. Easy credit and more schemes will give a push to this sector, which is already one of the most important economic activity in India in terms of share in GDP share, share in exports, and employment generation.	**Positive**

ONICRA RATED ENTITIES

PROFILE OF ONICRA RATED MSMEs (For the Period 1st April 2012 to 31st March 2013)

Geographical Distribution of Ratings

State	Percentage Wise
Andhra Pradesh	6.53%
Arunachal Pradesh	0.10%
Assam	5.72%
Bihar	3.55%
Chandigarh	0.18%
Chattisgarh	1.15%
Delhi	2.87%
Goa	0.04%
Gujarat	4.69%
Haryana	3.69%
Himachal Pradesh	0.88%
Jammu & Kashmir	0.33%
Jharkhand	3.22%
Karnataka	8.90%
Kerala	0.49%
Madhya Pradesh	5.66%
Maharashtra	6.09%
Meghalaya	0.33%
Orissa	1.63%
Punjab	3.74%
Rajasthan	3.52%
Sikkim	0.01%
Tamil Nadu	9.66%
Tripura	0.05%
Uttar Pradesh	16.37%
Uttarakhand	2.14%
West Bengal	8.46%
Total	100.00%

Rating Distribution: NSIC-Onicra Rating

Rating Assigned	Number of Cases	Percentage Wise
SE 1A	35	0.40%
SE 1B	80	0.92%
SE 1C	72	0.83%
SE 2A	869	9.96%
SE 2B	2613	29.95%
SE 2C	1549	17.76%
SE 3A	1474	16.90%
SE 3B	1459	16.72%
SE 3C	524	6.01%
SE 4A	15	0.17%
SE 4B	28	0.32%
SE 4C	6	0.07%
Total	8724	100.00%

Onicra- Rated MSME: Industry Wise Distributions

Industry	Number of Cases	Percentage Wise
Agricultural Products and FMCG	862	9.88%
Auto and Auto Ancillaries	258	2.96%
Cable and Wires	48	0.55%
Chemical- Organic and Non-Organic	136	1.56%
Construction - Material, Civil and Equipment	615	7.05%
Consumer Durables	114	1.31%
Electronic and Electrical	386	4.42%
Engineering	317	3.63%
FMCG Industry	9	0.10%
Food Processing	315	3.61%
Furniture	43	0.49%
Industrial Chemicals	18	0.21%
Iron & Steel	175	2.01%
IT and Software Services	48	0.55%
Jewellery	65	0.75%
Leather & Leather products	69	0.79%
Machinery & Equipment	706	8.09%
Media and Entertainment	19	0.22%
Metal & Metal Products	780	8.94%
Packaging	124	1.42%
Paper & Paper Products	17	0.19%
Pharmaceuticals	144	1.65%
Plastic and Plastic Products	250	2.87%
Power and Energy	45	0.52%
Printing	87	1.00%
Real Estate	46	0.53%
Rubber and Rubber Products	64	0.73%
Services	691	7.92%
Telecommunications	16	0.18%
Textile Products	725	8.31%
Wood and Wood Products	121	1.39%
Others	1411	16.17%
Total	**8724**	**100.00%**

The benefit of getting a SME business credit rated goes beyond procuring finance at competitive rates. While drawing business from a client located in dispersed geographies of from large corporate and multinationals, the rating exercise also serves as an independent due diligence activity. Further, since Onicra examines all aspects of the SME business, the management came to know the shortcoming and areas which requires further improvement. All these benefits create confidence in the client and that has enabled ONICRA to achieve significant growth in the numbers of rating done.

Onicra has its presence across the country and has been able to reach SMEs from remote parts. Uttar Pradesh, Tamil Nadu, West Bengal, Karnataka, Maharashtra and Andhra Pradesh have contributed majorly in establishing the strong network of the company in the FY13.

Number of Rating Done	2119	2205	1633	2767
Agriculture products and FMCG	10.43%	9.12%	7.78%	9.47%
Auto and auto ancillaries	2.97%	2.45%	3.37%	3.18%
Cable and Wires	0.76%	0.82%	0.18%	0.25%
Chemical- Organic and Non-Organic	1.98%	1.22%	1.90%	1.70%
Construction - Material, Civil and Equipment	8.82%	8.30%	6.55%	7.05%
Consumer Durables	1.27%	1.59%	0.43%	0.69%
Electronic and Electrical	4.62%	3.85%	4.65%	4.77%
Engineering	4.62%	3.76%	3.55%	2.89%
Food Products	4.20%	3.40%	5.27%	3.79%
Furniture	0.90%	0.59%	0.43%	0.54%
Industrial Chemicals	0.14%	0.14%	0.18%	0.18%
Iron and Steel	2.08%	2.54%	2.27%	1.48%
IT and Software Services	0.80%	0.50%	0.86%	0.61%
Jewellery	0.76%	0.27%	0.80%	0.98%
Leather and leather products	0.66%	1.04%	1.10%	0.54%
Machinery and equipments	7.79%	9.34%	6.86%	7.88%
Media and Entertainment	0.47%	0.23%	0.12%	0.18%
Metal and Metal Products	9.39%	10.98%	8.57%	7.63%
Packaging	1.13%	1.22%	1.35%	1.41%
Pharmaceuticals	1.42%	1.90%	1.59%	1.73%
Plastic Products	2.93%	3.40%	3.06%	2.86%
Power and Energy	0.47%	0.45%	0.67%	0.40%
Printing	0.90%	1.77%	1.29%	0.87%
Real Estate	0.71%	0.54%	0.49%	0.07%
Rubber and Rubber Products	0.76%	1.04%	0.80%	0.47%
Services	7.36%	11.29%	7.78%	7.48%
Telecommunications	0.52%	0.18%	0.12%	0.18%
Textile Products	7.83%	5.99%	9.92%	9.90%
Wood and Wood Products	2.08%	0.50%	0.73%	1.52%
Others	11.23%	11.58%	17.33%	19.30%

Quarterly Rating Distribution

Rating	Q1'FY13	Q2'FY13	Q3'FY13	Q4'FY13
SE 1A	0.66%	0.45%	0.12%	0.43%
SE 1B	3.40%	1.63%	0.67%	1.05%
SE 1C	1.93%	1.05%	0.55%	0.43%
SE 2A	11.09%	9.58%	9.37%	10.05%
SE 2B	26.43%	31.36%	31.41%	32.38%
SE 2C	20.15%	19.22%	18.98%	14.02%
SE 3A	18.59%	15.94%	14.57%	15.54%
SE 3B	10.67%	13.20%	18.31%	20.31%
SE 3C	6.37%	6.52%	5.57%	5.49%
SE 4A	0.33%	0.48%	0.00%	0.00%
SE 4B	0.24%	0.45%	0.43%	0.30%
SE 4C	0.14%	0.13%	0.00%	0.00%
Total	100.00%	100.00%	100.00%	100.00%

Quarterly Geographical Rating Distribution

State	Q1'FY13	Q2'FY13	Q3'FY13	Q4'FY13
Andhra Pradesh	6.04%	6.21%	6.92%	6.43%
Arunachal Pradesh	0.00%	0.05%	0.43%	0.00%
Assam	9.11%	5.22%	4.35%	5.64%
Bihar	4.20%	4.63%	4.23%	2.28%
Chandigarh	0.00%	0.00%	0.00%	0.58%
Chattisgarh	0.71%	0.63%	1.78%	1.73%
Daman	0.00%	0.00%	0.00%	0.00%
Delhi	2.31%	3.17%	4.65%	2.06%
Goa	0.00%	0.00%	0.18%	0.00%
Gujarat	5.99%	4.58%	4.53%	4.26%
Haryana	4.72%	4.58%	2.33%	3.18%
Himachal Pradesh	1.04%	1.63%	0.92%	0.14%
Jammu & Kashmir	0.80%	0.05%	0.12%	0.07%
Jharkhand	4.62%	5.03%	2.33%	0.61%
Karnataka	8.78%	7.76%	7.90%	8.75%
Kerala	0.85%	0.41%	0.55%	0.14%
Madhya Pradesh	4.81%	6.17%	5.76%	5.78%
Maharashtra	5.14%	5.44%	7.96%	6.18%
Meghalaya	0.09%	0.09%	0.49%	0.43%
Mizoram	0.00%	2.22%	0.00%	0.00%
Orissa	2.17%	3.27%	1.71%	1.23%
Punjab	8.31%	3.76%	3.00%	2.57%
Rajasthan	3.21%	0.05%	4.65%	3.14%
Tamil Nadu	6.61%	4.08%	10.41%	14.96%
Tripura	0.00%	0.05%	0.00%	0.00%
Uttar Pradesh	12.32%	19.50%	15.86%	18.54%
Uttarakhand	1.60%	2.04%	1.22%	2.49%
West Bengal	6.56%	9.39%	7.72%	8.78%
Pondicherry	0.00%	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%	100.00%

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