

# **REVITALIZING SICK MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) THROUGH DEBT RESTRUCTURING**

Significance of MSMEs cannot be negated given their contribution in the Indian economy. The MSMEs contribute 45 percent of the total manufacturing output, 40 percent of the exports and 8 percent of the Gross Domestic Product (GDP). Apart from this they are also the second largest employment providers after agriculture and considered as the engine of entrepreneurship and innovation. The MSMEs offer a diversified range of products which caters to both national and international markets and hence act as a key segment of the value chain.

During the past decade there has been a surge of entrepreneurship across Indian geography; the total working enterprises has increased from 377.37 lakh for 2007-08 to 447.73 lakh for 2011-12. However, on the other hand the number of sick MSMEs in the country is also growing substantially. As on 31 March 2013, there were 2,48,890 sick enterprises in India. According to Reserve Bank of India (RBI) an enterprise is considered as sick if a) any of the borrowal account of the enterprise remains NPA for three months or more, or, b) there is erosion due to accumulated losses to the extent of 50% of its net worth during the previous accounting year<sup>1</sup>.

There are many reasons which contribute to the rising sickness prevalent in the MSME sector. However, the main reason is unavailability of adequate resources against rising demand. Given the size of the business the MSMEs have very limited resources in terms of availability of finance, technology, manpower etc. and hence are also susceptible to a slightest change in its environment. Added to this is delayed realization of receivables from the large corporate as well as the government, power shortage, labour problem, non-availability of raw materials which further worsens the condition of MSMEs. With all the constraints prevailing in the working environment, the MSMEs find it hard to sustain and often default. RBI has announced various schemes for rehabilitation of the sick MSMEs. In 2005, the Department of Banking Operations & Development (DBOD) of RBI formulated a debt restructuring mechanism for stepping up credit to sick MSMEs which have both funded and non-funded outstanding up-to Rs 10 crore under multiple/ consortium banking arrangement. In 2008, the RBI also constituted a working group headed by Dr. K. C. Chakrabarty, the then Chairman & Managing

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<sup>1</sup> <http://www.rbi.org.in/commonman/english/scripts/FAQs.aspx?Id=966>

Director, Punjab National Bank to identify problems faced by MSME sector with respect to rehabilitation of potentially viable sick units. The group identified several issues faced by the MSME sector and provided several recommendations.

As on 31 March 2013, RBI has identified 8,836 sick MSMEs as potentially viable enterprises out of which 4,460 are already undergoing nursing. However, a majority (96%) of the identified sick enterprises still need financial assistance and capacity building. Apart from this there are several MSME units which are on the verge of being sick. Onicra believes that there is a need to identify such potentially viable MSMEs and strengthen them financially to enable them to better withstand external shocks. Corporate debt restructuring mechanism and expediting its implementation by leveraging the existing credit and performance rating system may be considered as one of the tools to revitalize the sick MSMEs. Credit and performance rating analysis of MSMEs can be used as a yard stick for identification of potential sick units and could act as a decision making tool for an appropriate and timely action plan to stop such units from turning sick. Further, the existing credit and performance rating system will help the stakeholders in identifying the areas in which the enterprise requires additional support in terms of technology, human resource, marketing etc.

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