

Brief Note on

MISME

MICRO, SMALL & MEDIUM ENTERPRISES

सूक्ष्म, लघु एवं मध्यम उद्यम

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MSME – An Introduction

- In a developing country like India, MSME industries are the backbone of the economy.
- MSME sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last decades. According to data available, there are over 63 million MSME's in the country engaged in manufacturing, services and trade- more than half of which are in rural areas.
- The number of MSMEs registered on Udyog Aadhaar Memorandum (UAM) Portal till July 12, 2018 (since Sep 2015) is 48.40 lakh. However, as per the data received from the 73rd round of the National Sample Survey on 'Unincorporated Non-Agricultural Enterprises (excluding Construction)', conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation (during July 2015 to June 2016), the total number of MSMEs in the country was 633.88 lakh.
- When these industries grow, economy of the country grows as a whole and flourishes. These industries are also known as small-scale industries or SSI's.

Contribution of MSME in GDP

Year	Total GDP (in Rs. Crore)	Share of MSME in GDP (%)
2011-12	8736329	29.57
2012-13	9944013	29.94
2013-14	11233522	29.76
2014-15	12445128	29.39
2015-16	13682035	28.77

Source: Annual Report 2017-18, Ministry of MSME



Classification of Micro Small and Medium Enterprises

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Existing Definition of Micro Small & Medium Enterprises

The limit for **investment in plant and machinery / equipment** for manufacturing / service enterprises, as notified, vide S.O. 1642(E) dtd.29-09-2006 are as under:

Nature of Enterprises	Manufacturing Industry	Service Industry
Nature of Investment	Investment in Plant & Machinery.	Investment in Equipment.
Micro Enterprises	Does not exceed Rs. 25 Lakhs	Does not exceed Rs. 10 Lakhs
Small Enterprises	More than Rs 25 Lakhs but does not exceed Rs 5 Crore	More than Rs 10 Lakhs but does not exceed Rs 2 Crore
Medium Enterprises	More than Rs 5 Crore but does not exceed Rs 10 Crore	More than Rs 2 Crore but does not exceed Rs 5 Crore

Basis of Calculation of Investment in equipment:

Original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006

Calculation of Investment in Plant & Machinery

Original cost (excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification [No.S.O.1722\(E\) dated October 5, 2006](#) which **excludes following items** from calculation of Investment in Plant & Machinery:

- i. Equipment such as tools jigs, dies, moulds and spare parts for maintenance and cost of consumable stores;
- ii. Installation of plant & machinery.
- iii. R & D Equipment & Pollution control equipment.
- iv. Power generation set & extra transformer installed by the enterprise as per the regulations of the State Electricity board.
- v. Bank charges and service charges paid to National Small Industrial corporation or the States Small industrial corporations.
- vi. Procurement or installation of cables, wiring, bus bars, electrical control panels (not mounted on individual machines), oil circuit breakers or mini circuit breakers necessary to be used for providing electrical power to the plant & machinery or for safety measures.
- vii. Gas producer plants
- viii. Transportation charges (excluding sales tax or VAT and ED) for Indigenous machinery from place of manufacture till site of enterprise

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- (ix) Charges paid for technical knowhow for erection of plant and Machinery.
 - (x) Such storage tanks which store raw materials and FG only and are not linked with the manufacturing process; &
 - (xi) Fire fighting equipment.

In case of **Imported Machinery** following items shall be **included** in calculating the value:

- i. Import duties (Excluding miscellaneous expenses, Demurrage etc.)
- ii. Shipping charges
- iii. Custom clearance charges &
- iv. Sales Tax or value added Tax

Proposed Definition:

Revision in MSME Definition ??

MSME are defined under MSME Act 2006 on the basis of Capital Investment made in plant & Machinery, excluding investment in Land & building.

Hon'ble Finance Minister in her Press Briefing on 13.05.2020 has proposed a new turnover based classification of MSMEs. As per this new classification, the MSMEs are categorized in term of business turnover and investments as given in table on the left side.

MSME	Revised Classification
Micro	Investment not exceeding Rs. 1 Crore & turnover not exceeding Rs 5 crore
Small	Investment not exceeding Rs. 10 Crore & turnover not exceeding Rs 50 crore
Medium	Investment not exceeding Rs. 20 Crore & turnover not exceeding Rs 100 crore

Note: Under the previous classification a separate methodology was adopted for service sector. However the new definition does not differentiate between manufacturing and service enterprises.




Benefits
of
MSME Registration
to Enterprises

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List of Schemes for introduced for Benefits of MSME entities

S No	Particulars
1.	Prime Minister Employment Generation Programme and Other Credit Support Schemes
1.1.	Prime Minister Employment Generation Programme (PMEGP)
1.2.	Performance and Credit Rating Scheme
1.3.	Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE)
1.4.	Interest Subsidy Eligibility Certificate (ISEC)
2.	Development of Khadi, Village and Coir Industries
2.1.	Science and Technology Scheme
2.2.	Market Promotion & Development Scheme (MPDA)
2.3.	Revamped Scheme Of Fund for Regeneration Of Traditional Industries (SFURTI)
2.4.	Coir Vikas Yojana (CVY)
2.4.1.	Coir Industry Technology Upgradation Scheme(CITUS)
2.4.2.	Science and Technology (S&T) for Coir
2.4.3.	Skill Upgradation & Mahila Coir Yojana (MCY)
2.4.4.	Export Market Promotion (EMP)
2.4.5.	Domestic Market Promotion Scheme (DMP)
2.4.6.	Trade and Industry Related Functional Support Services (TIRFSS)
2.4.7.	Welfare Measures (Pradhan Mantri Suraksha Bima Yojana (PMSBY)
3.	Technology Upgradation and Quality Certification
3.1.	Financial Support to MSMEs in ZED Certification Scheme
3.2.	A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE)

3.3.	National Manufacturing Competitiveness Programme (NMCP)
3.3.1.	Credit Linked Capital Subsidy for Technology Upgradation
3.3.2.	ISO 9000/ISO 14001 Certification Reimbursement
3.3.3.	Marketing Support/Assistance to MSMEs (Bar Code)
3.3.4.	Lean Manufacturing Competitiveness for MSMEs
3.3.5.	Design Clinic for Design Expertise to MSMEs
3.3.6.	Technology and Quality Upgradation Support to MSMEs
3.3.7.	Entrepreneurial and Managerial Development of SMEs through Incubators
3.3.8.	Enabling Manufacturing Sector to be Competitive through QMS&QTT
3.3.9.	Building Awareness on Intellectual Property Rights (IPR)
4.	Marketing Promotion Schemes
4.1.	International Cooperation
4.2.	Marketing Assistance Scheme
4.3.	Procurement and Marketing Support Scheme (P&MS)
5.	Entrepreneurship and skill Development Programme
5.1.	Assistance to Training Institutions (ATI)
6.	Infrastructure Development Programme
6.1.	Micro & Small Enterprises Cluster Development (MSE-CDP)
7.	Scheme of Surveys, Studies and Policy Research
7.1.	Revised guidelines (bilingual) of scheme SS&PR with effect from 15-10-2018



MSME registration is not yet made mandatory by the Government but it is beneficial to get one's business registered under this because it provides a lot of benefits in terms of taxation, setting up the business, credit facilities, loans etc.

Following is brief description of a few schemes introduced by the government for MSME sector.

1. Collateral Free loans from banks:

Description of Assistance

Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI) jointly established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in order to implement Credit Guarantee Scheme for Micro and Small Enterprises. The corpus of CGTMSE is contributed by Government of India and SIDBI. 75% of the loan amount to the bank is guaranteed by the Trust Fund.

Nature of Assistance

Collateral free loan up to a limit of ₹ 100 lakh is available for individual MSE on payment of guarantee fee to bank by the MSE.

Who can Apply ?

Both existing and new enterprises are eligible under the scheme.

How to Apply ?

Candidates meeting the eligibility criteria may approach eligible banks / FI, and selected RRB's.

2. Prime Minister's Employment Generation Programme (PMEGP)

Description of Assistance

The scheme is implemented by Khadi and Village Industries Commission (KVIC) functioning as the nodal agency at the national level. At the state level, the scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs) and banks.

Nature of Assistance

The maximum cost of the project/unit admissible in manufacturing sector is ₹ 25 lakhs and in the business/service sector, it is ₹ 10 lakhs. Categories of Beneficiary's Rate of subsidy under PMEGP (of project cost) Area (location of project/unit) General category 15%(Urban), 25%(Rural), Special 25%(Urban), 35%(Rural) (including SC/ ST/ OBC/ Minorities/Women, Ex-servicemen, Physically handicapped, NER, Hill and Border areas, etc.) The balance amount of the total project cost will be provided by the banks in the form of term loan and working capital.

Who can apply?

Individual, above 18 years of age, at least VIII standard pass for projects costing above Rs.10 lakh in the manufacturing sector and above Rs. 5 lakh in the business / service sector. Only new projects are considered for sanction under PMEGP. Self Help Groups (including those belonging to BPL provided that they have not availed benefits under any other Scheme), Institutions registered under Societies Registration Act,1860; Production Co-operative Societies, and Charitable Trusts are also eligible. Existing Units (under PMRY, REGP or any other scheme of Government of India or State Government) and the units that have already availed Government Subsidy under any other scheme of Government of India or State Government are NOT eligible.

3. Interest Subsidy Eligibility Certificate (ISEC)

Description

The Interest Subsidy Eligibility Certificate (ISEC) Scheme is an important mechanism of funding khadi programme undertaken by khadi institutions. It was introduced to mobilise funds from banking institutions for filling the gap between the actual fund requirements and availability of funds from budgetary sources.

Nature of assistance

Under the ISEC Scheme, credit at a concessional rate of interest of 4% per annum for working capital, is made available as per the requirement of the institutions. The difference between the actual lending rate and 4% is paid by the Central Government through KVIC to the lending banks.

Who can Apply

The Khadi institutions, having valid Khadi certificate and sanctioned khadi programme. The Institutions registered with the KVIC/State Khadi and Village Industries Boards (KVIBs) can avail of financing under the ISEC Scheme, the Scheme supports only the khadi and the polyvastra sector.

How to Apply

The Khadi institutions will apply to the financing bank for working capital along with the ISEC certificate issued by KVIC. Based on the working capital sanctioned, financing bank will raise the reimbursement claim to the nodal branch for the differential interest rate over and above 4%.

Some other benefits:

1. Protection against delayed payments(45 Days Criteria)

If any **micro or small enterprise** that has MSME registration, supplies any goods or services, then the buyer is required to make payment on or before the date agreed upon between the buyer and the enterprise (or within fifteen days of acceptance of goods or services if there is no agreed date). Further, in any case, a payment due to a micro or small enterprise cannot exceed forty-five days from the day of acceptance or the day of deemed acceptance. In case of failure by the buyer to make payment on time, the buyer is required to pay compound interest with monthly interest rests to the supplier on that amount from the agreed date of payment or fifteen days of acceptance of goods or service. The penal interest chargeable for delayed payment to a MSME enterprise is three times of the bank rate notified by the Reserve Bank of India.

2. A hefty 50% subsidy on Patent registration

Enterprises that have MSME Registration Certificate can avail 50% subsidy for patent registration by making application to respective ministry.

3. 1% exemption on interest rate on overdraft

Enterprises that have MSME Registration can avail benefit of 1% exemption on interest rate on OD as mentioned in the scheme (this is bank dependent).

4. Eligible for Industrial Promotion subsidy

Enterprises that have MSME Registration are eligible for Industrial Promotion Subsidy as may be prescribed by the government in this behalf.

5. Concession in electricity bills:

Enterprises that have MSME Registration Certificate can avail Concession on electricity bill by making application to electricity department along with MSME Registration Certificate.

6. Reimbursement of ISO Certification charges

Enterprises that have MSME Registration Certificate can claim reimbursement of ISO Certification expenses by making application to respective authority.

7. Classification of advances into NPA's-

The longstanding demand of MSMEs for extension of NPA recognition period from 90 to 180 days has been taken cognizance of by Reserve Bank of India (RBI) and the period of recognition has been enhanced to 180 days for MSME borrowers registered under GST provided the condition specified in the relevant RBI circular are complied with.

8. Reservation policies to manufacturing sector:

Reservation of items for exclusive manufacture in SSI sector statutorily provided for in the Industries (Development and Regulation) Act, 1951, has been one of the important policy measures for promoting this sector.

9. GST Benefits

GST Council doubled the tax exemption limit to ₹ 40 lakh (in case of supplier of goods) in annual revenue effective from 01.04.2019. The turnover limit for businesses availing of the GST composition scheme, which allows them to pay goods and services tax at a flat rate, was raised to ₹1.5 crore in case of intra-state supply of goods & ₹50lakh in case of intra-state supply of services

Benefits proposed for MSMEs under Atmanirbhar Bharat Abhiyan by Hon'ble FM on 13-May-2020

- Emergency Credit Line to Businesses /MSMEs from Banks and NBFCs upto 20% of entire outstanding credit as on 29.02.2020 - Collateral free automatic loan - MSME with turnover upto 100Crore, 4 year tenure with 1(one) year moratorium of principal, Interest shall be leviable – scheme to be availed upto 31st October 2020(**Total Rs. 3 lakh crore for 45 lakh MSMEs**).
- Subordinate debt for stressed MSME - Rs.20,000 crore for 2 lakh MSME and 4,000 crore under CGTMSE scheme
- Equity infusion in MSME with viable business- through Funds of funds with corpus of Rs. 10,000 crores equity - will help leverage 50,000 crores of funds at Daughter funds level
- Govt. Procurement upto Rs.200crores - global tenders will be disallowed.
- Receivables from GOI & CPSE will be released in 45 days
- E-market linkage for MSMEs will be promoted to act as a replacement for trade fairs and exhibitions.



**Registration
of
Micro, Small & Medium
Enterprises**

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Brief History of the Registration Process

- Micro, Small and Medium Enterprises Development Act (MSMED Act) was notified in 2006. Before 2006, small scale registration certificate used to be issued by respective District Industries Centers (DICs).
- After 2006 this was changed to Entrepreneurs Memorandum (EM-I) for such enterprises that are yet to commence operation and EM-II for enterprises having commenced operations. The 2006 Act also widened that definition of entities from “industries” to “enterprises” to take into account service sector also. Such Memoranda were to be filed with the respective DICs. Some States/ UTs, subsequently, computerized the process of filing of EM, while rest continued with physical filing. In 2014 Ministry of MSME launched the EM Portal.
- (<http://em.msme.gov.in>) in consultation with States / UT’s
- Entrepreneurs Memorandum Part I and II came into vogue for proposed and existing enterprises respectively. As per the provisions of the said Act, filing of EM-I was discretionary in nature. However, MSMEs file EM-II at District Industries Centers (DICs) in respective States/UTs, after commencement of the project.
- The major issue lied not with the registration process as per the MSMED Act, 2006 but with the conditions applied by the local DICs. There were local rules and requirements which varied even from district to district within the same state, which often resulted in delays in receiving the EM II acknowledgement”.



Progress towards Udyog Aadhaar Memorandum (UAM)

- To further simplify the registration process, the Ministry of MSME has notified the Udyog Aadhaar Memorandum (UAM) on 18th September 2015.
- UAM has emerged from the vision of Hon'ble Prime Minister of India shared with the Nation through "Mann Ki Baat" telecast on 03-10-2014 and the recommendations for Universalization of Registration in the Report of the Kamath Committee on Financial Architecture of MSME sector.
- UAM requires only Aadhaar Number of the applicant / authorized person filing the application. UAM provides instant registration making the process easy, paperless.
- Also there is no fee for filing UAM.

Option for Registration Without Aadhaar:

An applicant or the authorized signatory who is not yet enrolled for Aadhaar shall have to apply for Aadhaar enrolment and in case he or she is entitled to obtain Aadhaar as per section 3 of the Aadhaar Act such individual may visit any Aadhaar enrolment center to get enrolled for Aadhaar.

Provided that till the time Aadhaar is assigned to the individual, UAM registration shall be filed by the concerned DIC or MSME-DI on behalf of such enterprise, subject to the production of the following documents as alternative and viable means of identification.

- (a) (i) If he has enrolled, his Aadhaar Enrolment ID slip; or
(ii) A copy of his request made for Aadhaar enrolment,
- (b) Any of the following documents, namely:-
Bank photo passbook; or voter ID Card, or passport; or driving license; or PAN card; or employee photo identity card issued by the Government.



**Micro Small & Medium
Enterprises
under the
Insolvency and
Bankruptcy Code,
2016**

MSME provision under IBC, 2016

- The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2018 has brought relief to the Micro Small and Medium Enterprises by relaxing the provisions of section 29A in their favor.
- The amendment was introduced in an Ordinance in the house of Parliament and after that it was enacted through the Amendment that came into force in January, 2018, with the intention to restrain untrustworthy promoters from buying back assets at a subsidized price.
- Earlier section 29A was inserted which excessively enlarged the scope of disqualification to the extent of drastically reducing the prospective resolution applicants. This was too harsh for the sector, where it becomes difficult for the innocent resolution applicants to file a resolution plan. The Government has now introduced certain exemptions from the provisions of the stringent Section 29A by inserting section 240A(1) which specifically dispenses the applicability of 29A clause (c) & (h) in case the Corporate Debtor is a Micro, Small or Medium Enterprise.
- Further section 240A(2) provides that the Central Government may, in the public interest, by notification, direct that any of the provisions of this Code shall—
 - (a) not apply to micro, small and medium enterprises; or
 - (b) apply to micro, small and medium enterprises, with such modifications as may be specified in the notification.



Mandatory reporting
By
Specified Companies
for dues of
Micro and Small
Enterprises

New Rule 22.01.2019

Requirement of the Law

Mandatory filling of MSME Form I announced vide Companies (Furnishing of information about payment to Micro and Small enterprise Suppliers) Order, 2019 dated Jan 22, 2019 with **effect from Jan 22 , 2019** itself.

These rules requires **every specified companies** to file **MSME form I** with Roc in below mentioned different situations.

Meaning of Specified Company:

- Every **Private or Public** company
- Which **received** goods or services **from Micro or Small Enterprises**
- “of which payment **due or not paid till 45 days.**”

Specified Company is required to file return with ROC:-

Half Yearly Returns required to be filled by “Specified Companies” in form MSME Form -1:

Due dates of filing the Returns

Half Yearly Return
For period ‘April to September – 31 st October
For period ‘October to March – 30 th April

Information required to be submit with ROC in MSME Form I?

- Total outstanding amount due to MSMEs
- Particular of Name of Supplier
- Pan of Supplier, Amount of payment due etc.
- Date from which such amount is due

Penalty for Non-Filing of Form MSME-I

Non-compliance will lead to both punishment and penalty. As per Penalty Provision of Section 405 (4) of the Companies Act, 2013 Fine will be as follows:

On Company

upto Rs.
25,000

On Directors, CFO and CS

Imprisonment
upto 6
Months

Fine not less
than Rs.
25,000 upto
Rs. 3,00,000
per person

Exemption

- Not applicable in the case of Medium Enterprises.
- Applicable only for those Specified Companies whose payment to Micro & Small Enterprises exceed 45 days from the date of acceptance or the date of deemed acceptance of the goods or services as per the provisions of section 9 of the MSME Development Act, 2006;
- If payment Exceed 45 days but supplier/Creditors given a declaration that they do not fall under Micro or small Enterprises.

Important Issues that arises w.r.t the MSME Form I:

Whether for purpose of filing of e-form MSME-I by specified Companies. Does the Micro or Small Companies required to obtain registration under MSME Act or not?-

As per language of MSME Act, 2006 no where it is mentioned that entity should be registered under MSME Act and fall under above limits shall considered as MSME.

Therefore as one school of thought, one can opine that an entity even not registered under MSME Act, 2006 however, falls under above mentioned limits shall be considered as Micro and Small Company for the purpose of MSME Form -I.

How to identify whether creditors entity falls under Micro and Small or not?-

For the purpose of reporting under MSME Form-1. Company should be aware that creditor's entity is Micro or Small or not. Therefore, Company have to ask a declaration from the creditors whether they falls under Micro or small or not. Company should also ask for Registration certificate under MSME.

Which type of entities cover under Micro and Small entities?-

Proprietorship, Association of Persons, Partnership Firm, HUF, Co-operative society, company or undertaking.

How many Disclosures Company have to make in respect of delay in payment to Micro and Small Company:

First: Specified Companies needs to file MSME Form I with ROC as per MCA notification dated 22nd January, 2019.

Second: As per Section 22 of MSME Act, 2006 “Where any buyer is required to get his annual accounts audited under any law for the time being in force, such buyer shall furnish the following additional information in his annual statement of accounts, namely:

- (i) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier as at the end of each accounting year;
- (ii) the amount of interest paid by the buyer in terms of section 16, along with the amount of the payment made to the supplier beyond the appointed day during each accounting year;
- (iii) the amount of interest due and payable for the period of delay in ma payment (which have been paid but beyond the appointed day during the year) but without adding the interest
- (iv) the amount of interest accrued and remaining unpaid at the end of each accounting year; &
- (v) the amount of further interest remaining due and payable even in the succeeding years, until actually paid to the small enterprise, for the purpose of deductible expenditure under sector



*Thank
you*



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