

# GROWTH DRIVERS FOR TOM

CONSUMER CONNECT INITIATIVE

Small and Medium Enterprises (SME) play a vital role in the growth of Indian economy by contributing 45 per cent of the industrial output, 40% of exports, 42 million in employment, creating one million jobs every year and producing more than 8,000 quality products for the Indian and international markets, reports **Amit Shanbaug**

## SME SECTOR DRIVING INDIA'S GROWTH STORY

**T**HE INDIAN ECONOMY is expected to grow by over eight per cent per annum until 2020. It can become the second largest in the world, ahead of the United States, by 2050, and the third largest after China and the United States by 2032. However Industry experts believe this target would be difficult to achieve without the active participation of the SME sector.

Chandrakant Salunkhe, president of the SME Chamber of India explains that at present the SME sector contributes around 15 to 16 per cent to India's GDP and is expected to touch a figure of 22 per cent in the next 3 years.

"However a lot is expected and much needs to be done if the figure needs to be achieved. Nearly 60 per cent of the SMEs in India fall in the unorganized sector. Once this untapped potential becomes the source for growth of these units, the

size of Indian GDP can surpass that of developed nations," he informs.

Salunkhe explains that the SME sector at times fails on achieving its full potential due to lack of direction. "A small entrepreneur faces several difficulties including access to finance to expand their operation. In addition, the loans that they get are not on preferential rates but are available around 15-18 per cent rate of interest which adds to their cost of operation. In several Asian countries, loans are available on interest as low as three per cent annually. India should take such steps," he adds.

According to Salunkhe, 43 per cent is regards to exports from the SME sector. "We anticipate the figure to go up to at least 47-48 per cent by 2018," he informs.

Small Industries Development Bank of India (SIDBI) offers loans to SMEs without collateral to the tune of



around Rs 1 crore. However many are of the opinion that this limit needs to be increased to Rs 2.5 crore.

K Nandkumar, Chairman CII(WR) committee on SME explains that the government is also taking several steps to boost manufacturing sector growth as it would lead to job creation and boost the country's economy. "At present the SMEs share in the manufacturing sector is just to the tune of around seven per cent. This is a very important sector and creates lot of employment opportunities both directly and indirectly," he says.

According to Nandkumar, there should be a change in the academic curriculum to ensure that students once out of college, could be directly employed.

The central government on

its part has also set up National Manufacturing Competitiveness Council to suggest ways to enhance competitiveness in the manufacturing sector. The government has already announced a National Manufacturing Policy (NMP) that aims at raising the share of manufacturing to 25 per cent of GDP by 2022. The NMP envisages setting up of national investment and manufacturing zones, which are industrial townships, benchmarked to the best manufacturing hubs in the world.

"The central government has announced the skill development programs and set up various bodies for the same. However we feel that there should be proper coordination between the central and state level units," Salunkhe informs.

### ISSUES FACED BY THE SECTOR

Ganesh Kini, founder of Sri Ganesh Graphics, a Mumbai based SME explains that there is a huge shortage of skilled manpower in the SME sector today. "There would be institutes which caters to providing training to the skilled force, however what is needed is a platform which would bridge the gap between these training institutes and the entrepreneurs to ensure that these skilled workforce is effectively used," Kini explains.

Delayed payments have always been an area of concern for SMEs that contribute to reduced working capital for SMEs. Delay in settlement of dues adversely affects the recycling of funds and business operations of SME units. "Since many a times, we work on credit from banks, they convert our outstanding loans to bad debts after a period of 90 days, we should get at least 150 time window before our loans are converted," Salunkhe adds.

Excise duty is another issue faced by the SME sector. While the cost of raw materials has gone up about 100 per cent, but the excise limit is not increasing accordingly. It is very difficult for the small and tiny units to compete with the large units, because the large units are getting discounts on their purchase, given that they buy in bulk.