What would be the impact on companies because of corona and what would be the aftermath?

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The Current situation:

The far-reaching impact of novel coronavirus continues to evolve. Though the Indian government is taking enormous measures to curb the loss caused by global pandemic, MSMEs are grappling for stability when sales and revenue remain at standstill whereas it is difficult to get hold of expenses.

India is managing the effects of the global Covid-19 pandemic using unprecedented public health and economic measures. With adverse outcomes looming large on the economy, relief interventions will need to minimize permanent damage to lives and livelihoods. Among the many parts of the economy that require immediate attention and succor, are the micro, small and medium enterprises.

The ongoing Coronavirus pandemic is a once-in-a-lifetime crisis for most businesses. We are in the early days of what is likely to be a prolonged and intermittent shutdown, one that will be lifted only gradually over months. For now, the production and transportation of all goods has been put on hold, except for those earmarked as essentials. Large factories and offices are shut down, and so are hotels, restaurants and most shops.

The situation is particularly dire for small businesses with limited or negligible cash reserves. As the lockdown continues, most small businesses will be fighting for their existence. The threat is even greater for millions of organized and unorganized workforces that they employ; which will soon be accosted with layoffs and job losses.

With over 120 million people employed — nearly 40 per cent of India’s workforce — the urgency of addressing the needs of the MSME sector can hardly be overstated. These small units, since they are nimbler than larger companies, have growth rates higher than that of the Indian economy and are also able to react to immediate needs of the region they are in.

India's micro, small and medium enterprises are staring at a bleak future in wake of the Covid-19 crisis. A prolonged lockdown will have material impact for the products/services offered by small firms. While on one hand, it may restrict the demand for their products, the disruption in the supply chain may push prices for raw materials up that may negatively hurt

SMEs' cash flows. Contributing almost 30 per cent to India's GDP and about half of exports (data by Directorate General of Commercial Intelligence and Statistics (DGCIS)), MSMEs play a significant role in the economy. As the economic activities come to halt due to prolonged lockdown, MSMEs need a fiscal stimulus.

Given the clampdown on economic activity in the past few weeks, it is unquestionable that a vast number of these units will be choked, possibly to the point of perpetual closure. There are an estimated 6.33 crore unincorporated MSMEs engaged in non-agricultural economic activities, employing 11 crore persons across the country. MSMEs contribute nearly 30 percent of India's gross domestic product and close to half of the country's total exports.

With adverse outcomes looming large on the economy, government intervention and relief measures are the need of the hour to minimize the damage being caused to industry, economy and livelihood of many. Micro, small and medium enterprises form a significant part of several sectors of the economy that require immediate attention.

Measures taken:

So far, the Reserve Bank of India has announced an indicative list of Covid-19 operations and business continuity measures to be set in place by scheduled commercial banks, nonbank financial companies, payment banks etc. Financial institutions have been directed to assess the impact of the health crisis on their balance sheets, asset quality, liquidity, etc. and introduce contingency measures to manage risks. The RBI has allowed a moratorium on term loans, eased working capital financing and deferred interest payment on working capital facilities without an asset classification downgrade. In terms of ad-hoc relief measures, many public sector banks have introduced emergency credit lines whereby a maximum loan amount of up to Rs.200 crore or 10 percent of the existing fund-based working capital limits can be availed by MSME borrowers. Here loans would be provided within 48 hours, with no collateral and minimum paperwork but only those MSMEs that are manufacturing products or delivering services related to the Covid-19 fight are eligible for these loans. The government has also introduced measures permitting delayed GST payments until June 2020, without levy of interest, late fees or penalties.

Despite these measures, however, there are reports that MSMEs are unsure of paying salaries and creditors given the current freeze on production and supply coupled with slowing demand. A risk-averse conservative approach towards lending has been noted in public sector banks even before the health emergency hit the economy, it is believed that this approach may only worsen in these times. Due to the halted production and slump in demand, MSMEs are unable to pay their creditors. While the revenue generation remains on hold, there are several expenses that the companies can't get their hands off such as salaries of employees, tax deposit, rent of warehouses and office spaces, among many others.

That is why it was important for the National Highways Authority of India (NHAI) to release payments worth Rs.25,000 crore owed to the contractors. It helps put money into the hands of smaller companies and their employees as they try to find a way to live through the slowdown and the 21-day lockdown period. Over the last few quarters, several industry bodies have approached the Modi government to raise the issue of the payments — which the government-run companies and departments owe them — being stuck due to procedural delays.

As the first half of the financial year 2019-20 ended on September 30, Nirmala Sitharaman had to step in to make sure payments were released to the vendors of public sector companies. Economic growth was at its lowest for the NDA government. “Government should not sit on overdue payments,” Sitharaman was quoted as saying. Getting payments in time is critical for small companies since they have to pay GST in the month after they raise their invoices. When their payments are stuck for several months, the capital cost adds to the inefficiency. For companies in the MSME sector, it could occasionally threaten survival. With taxes paid in advance and payments due from PSU companies, small firms have been facing the heat.

It is important that the Ministry of MSMEs draws up a policy framework with multiple scenarios for how to continue business operations, commensurate to the spread of the virus. Governments worldwide have been using various policy measures to soften the economic blow rendered to their MSME sectors. A policy framework could be considered for the Indian MSME sector, one that is based on fostering their resilience to the onslaught of this health emergency, not just in the short-term but also for the medium and long term – considering both supply- and demand-side impacts. It is pertinent to note that the lack of accurate information on this sector due to the absence of a dedicated MSME census conducted in recent years (the last MSME census was held in 2006-07), and the absence of a of a unified (and verified) MSME database could hinder targeted relief delivery and making access to credit easier for enterprises that need it the most.

With 99 percent of MSME sector enterprises categorized as micro, it is clear that a large percentage of the 11 crore persons employed in this sector work in these vastly informal enterprises. Wage support could be made available to workers employed in such units. It will be critical that the self-employed MSME units be given the safety net needed to navigate this crisis. There may be room to compensate (subject to a cap) self-employed businesses who can prove a decrease in turnover. The government can approve such compensation subject to demonstration of reduced income, for instance, by way of documented decline in predicted revenue due to cancelled orders, restricted movement of goods and labor etc. The framework could also make it imperative for businesses to draw up cash flow forecasts for how they will operate if compensation were provided for a fixed time-period. The policy framework must account for self-employment separately since this includes hawkers, small shopkeepers, those offering private services such as plumbers, electricians, drivers etc. who do not fall into the regular or casual salaried workers in other enterprises.

Treatment of commercial electricity, water, and other utility bills could be examined especially in a scenario where lockdown is extended further. It will be extremely beneficial for units to be offered deferment or be required to only partially pay property taxes, rent and other utilities in order to avoid further costs and liquidity shortfalls, since payment of personnel salaries should be a priority for enterprise owners.

In India, the government has currently proposed to pay the Employees Provident Fund contribution for businesses having less than 100 workers, where 90 percent of these employees earn less than Rs.15,000 per month. Such contribution amounting to 24 percent of wages will be credited to PF accounts for the next three months. While this is estimated to benefit 80 lakh employees and incentivize 4 lakh establishments to retain their employees, it is unclear due to lack of information in this regard, how many MSMEs will benefit from this measure. The EPF and Miscellaneous Provisions Act is presently applicable to establishments with 20 employees or more whereas most tiny and micro-businesses that comprise 99 percent of all MSMEs are known to have between 5-10 workers. This makes most small, informal economic units ineligible to have PF accounts for their workers and therefore are excluded from availing this relief measure. Formal credit channels such as banks and NBFCs will need to play a much larger role in making financing easily available to this sector. MSME credit already forms a very small percentage of total outstanding bank credit with credit growth to this sector showing signs of decline much before the pandemic struck.

While SIDBI could play a role in incentivizing banks to lend to MSMEs, a viable lending model for this sector has to be determined, one where banks are encouraged to innovate with lending strategies and exercise due diligence. This will be possible only if lending to this sector is made a core business activity for banks; and is not just at the behest of priority sector lending norms where PSBs 60 percent of such lending only at micro-segments.

Structural changes to lending practices for this sector are well overdue. It is time to expand the role of fintech lenders. Given the current economic climate, digital finance lending platforms will be better suited to offer unsecured loan products given most enterprises in the micro and small business spectrum will have higher risk profiles. Since these platforms use historical cash flows and check future enterprise potential, it is time that they are allowed to be further embedded in the lending ecosystem for the MSMEs. The Economic Survey 2019-2020 highlighted the need for PSBs to embrace fintech lenders and collaborate with them to make faster and safer lending choices using the analytics tools the latter utilize to assess the creditworthiness of small businesses, enhance turnaround time in loan application processing and disbursal processes.

Revival Plan:

The small business owners must start with accepting the facts and come out of the vicious cycle of over thinking and little action. There is no point in checking the COVID affected score 10 times in a day. They must take account of their finances and figure out how much runway you have; they can easily learn about scenario planning techniques via online videos. Also, they must question each and every expense critically second recommendation is for business owners to keep their teams close to them, the way they are keeping their families. This crisis has made everyone vulnerable and their core employees are also looking up to the owners. Good businessmen will also be able to identify their loyal employees from transactional ones, and they must make their long-term employee decisions accordingly.

While business owners may have to take some hard calls and defer some perks, bonuses and pay-outs, they must take all steps with grace, transparency and clear communications with all those affected. The team members will understand the situation provided the owners involve them in the process. Those who are supporting must be rewarded when the clouds settle down.

Thirdly, businesses in services sector and particularly those engaged in knowledge-based services have an advantage in allowing their employees to work from home. They must quickly evolve their internal processes to facilitate sustained operations from employees working from their homes. Admittedly it is not a simple exercise, especially for those owners who have never looked deep inside their business models. They are advised to look at how their peers are managing remote working in their own sector. If required, they can seek help of experts and consultants to quickly pivot or change their business model before it is too late.

Fourthly, this is the most critical time for business owners to talk to their customers and build better relations with them. A few phone calls in a day where they do not discuss business with their customers will go long way in building long term relations. Moreover, business owners must be open to help their customers in any way they can.

Fifth, business owners must spend their free time in learning and training. Their own teams will copy their mindset and their actions so keep themselves busy; but before that the owners need to be busy learning new things. This is the time to think about new products, make new strategies and work on new business models. You may take a deep dive in your books of accounts and find trends in your data. Most importantly, business owners must not hesitate in asking for help from fellow entrepreneurs and experts, as collective wisdom is always effective. There are plenty of webinars and trainings available online and many domain or business experts are extending free support, business owners must take advantage of these.

Liquidity is the key to the revival of MSMEs. The micro and household enterprises will suffer the most and therefore public support must be extended to microfinance institutions (MFIs) and Non-Banking Financial Companies (NBFCs) that provide loans to MSMEs. They, in turn, must pass on the benefit to their borrowers. The credit guarantee trust may need buttressing so they can further guarantee lend to MSMEs.

Three months moratorium is not enough for many MSMEs with longer working capital cycles and slow recovery of markets. The moratorium should be extended to six months. This proposed moratorium does not include waiver of interest rate. It is understood that compound interest will be charged later. Interest during the moratorium period should either be waived off completely or at least partially. This will mean a subsidy of Rs.45,000 crore approximately with partial waiver of 50 per cent.

Working capital loans should be provided to an estimated 20 lakh artisanal units with an estimated average turnover of Rs.10,000 a month, assuming the labor and raw material component to be half and half. Taking a working capital cycle of three months, the loan requirement can be estimated at Rs.3,000 crore for material inputs and Rs.6,000 crore if we include labor cost as well. A loan fund of Rs.6,000 crore should be created for provision to the artisans at zero per cent rate of interest for a year, amounting to an interest rate subsidy of Rs.720 crore.

While NBFCs and MFIs are giving moratorium to micro-enterprises, they are not getting that benefit from the banks. This support should be given. The current account limits on working capital of the MSMEs should be increased by at least 75 per cent. The government should stand guarantee for the same. Payments stuck with large public and private sector units must be released as soon as possible. The Modi government has already given such instruction and it should follow up rigorously. GST input tax credits and income tax refunds should be expedited.
At a time when the industry is not using electricity, minimum charges on electricity (as per contract demand) should be waived off.

Aftermath:

Like all crises, pandemics, and natural disasters, the Coronavirus pandemic will eventually die down – give or take a few weeks or months from now. The new business models will evolve and lot of innovations will help society in different ways. Consumer behavior will change and those who will pick these trends will flourish in times to come. The morning after the crisis will open up a stream of new opportunities and challenges for the businesses.

Once the pandemic scare ends and the restrictions lift, the nation will depend on its small business community to spearhead the economic recovery. There will be businesses who will not survive – those with flawed business models and depleted capital are at maximum risk. The agile and adaptable entrepreneurs will be ready to address the consumer demand, restart their operations and start growing their employee strength. Our country needs those businesses the most. The others will wait for magic the others will wait for magic and will keep blaming virus, policies, government, competition etc. rather than taking corrective actions – such businesses are ought to diminish.

With a proactive approach and a bit of readiness, India's MSME sector will once again get the GDP engine humming. For a number of business owners, this will be again a once-in-a-lifetime opportunity.

If you always wanted to upgrade your business or launch a new one, now is the time.