



One of the things about SMEs, especially in manufacturing and others sectors, is that we find that our next generation is not so keen to join the family business. This is because we lack superstars in the SME sector.

**ANAND LADSARIYA**, Director, Everest Flavours Ltd



I don't think that any of the SMEs have ever sat down and thought about government, banks etc. when it comes to running their business. In that sense, they have been fairly good in taking risks. I think there are a couple of things that businesses themselves have to look at. One, they have to have the ability to take risks. You also don't see any superstars emerge from SME businesses. Two, there is something that acts as an incentive for people not to come out and say that they've grown big.

**BRIJESH AGRAWAL**, Co-founder, IndiaMART & Founder, Tolex.com



SME portfolio has more risk. So the government should set up more bodies, like export insurance schemes, and there should be some kind of scheme or organization which takes care of the debt finance to SMEs, and by that way, the entire SME debt gets secured and it can be taken as a larger block.

**MAKRAND APPALWAR**, CMD, EMMBI Industries Ltd

**ET: Mr Anand, as an SME entrepreneur, where do you see the pain points?**  
**Anand Ladsariya, Director, Everest Flavours:** The difficulties of working in India are the same as other industries, such as inspector raj. But we find it exceedingly difficult as an SME because most of our work relates to the state government. Possibly, reforms have not percolated to the state level. Most of the things, be it power, labour, pollution, are connected to the state government and local bodies. There, we find hardly any change. Until and unless reforms and liberalization take place at the state level, SMEs will not benefit.

**ET: Brijesh, you have 6 lakh SMEs on the IndiaMART platform. How are they faring?**  
**Brijesh Agrawal, co-founder, IndiaMART & founder, Tolex.com:** Export-driven businesses have actually shrunk with respect to businesses that have been very focused on the Indian market. There is a stark difference between the two. The domestic-focused businesses have jumped dramatically whereas export-oriented businesses have seen a deceleration. Within the domestic businesses, two specific sectors which have outperformed everything else are industrial goods and building and construction. Of course, some of the domestic businesses that have not kept pace have been the handcrafted products business and the garment business. The third thing we're hearing is that the financial crunch has led to an expansion of the working capital cycle of these businesses considerably. So there is more need for working capital finance as there is also a very high risk associated with working capital. With time, you are worried about whether you will ever get the payment or not. Apart from this, availability of skilled labour and taxation continues to remain a challenge. A lot of it has to do with the state governments and not the Central government alone. Therefore, if the relationship between the Centre and states becomes better, SMEs will be extremely successful.

**ET: Anshu, what has been your experience in the services industry?**  
**Anshu Sarin, CEO, Berggruen Hotels:** People give marketing spins like 'Make in India', 'Digital India', 'single window', but unless basic things really get addressed, nothing will move. One of our fundamental problems is debt finance, for example. It is a huge issue as far as the hotel industry goes. Regulatory norms is the second, taxation is the third.

**ET: Makrand, do you see a leadership deficit among SMEs that eventually disallows them to aspire for the next level of growth?**  
**Makrand Appalwar, CMD, EMMBI Industries:** I find a mismatch of the vision of the leadership of SMEs. Most SME leaders don't want to dream big. When we started the company, our dream was Rs 10 crore topline per year. Then we realigned our topline when we reached Rs 100 crore and our dream again is to go to Rs 1,000 crore. The businesses are run in a very proprietary manner and the top management needs restructuring. SMEs don't want to run themselves as a very structured organization. They hardly have any cadres, technology or finance officers. One or two people decide the course of the company. So the bandwidth of decision-making will have to be realigned for SMEs to grow larger.

**ET: Mr Vaidya, how are SMEs faring in pharma?**  
**SR Vaidya, Chairman-MSME Committee, Indian Drug Manufacturers Association and Director, Bliss GVS Pharma:** Today, we have Rs 2 lakh crore worth of exports in drugs. And 45% are exported by SMEs. Over the last five years, SMEs have done exceedingly well. They can grow by leaps and bounds because newer molecules are coming. We can do wonders in innovation, patents. SMEs are capable of doing it provided they are given infrastructure and financial resources. Though we are the third largest manufacturers in the world in terms of the output, or the number of units sold, we still have fantastic scope. In 1970, we hardly had 4-5 companies which were USFDA approved. Today, we have 200 USFDA approved

companies and massive improvements in technical compliance. Unfortunately, the Central government has not been that proactive until now, when there is a realization that this sector can be very dynamic. However, when it comes to implementation, bureaucracy moves at its own pace. Once that is settled, this country can be the largest exporter of healthcare products.

**ET: Cherag, is there enough capital available for entrepreneurs like you in real estate?**  
**Cherag Ramakrishnan, Founder and Managing Director, Ceear Realty:** You see a new breed of developers with professional backgrounds coming in, which is a clear indication of capital available for entrepreneurs. On the approval side, it is a state issue. I think some states

are rocking while others are troubled. The other issue is taxation. It is a disaster in our sector. The GST is more of a political statement. It is just reducing paperwork. But grappling with taxation itself is a challenge.

**ET: Aditya, how has FMCG performed from an SME perspective?**  
**Aditya Bagri, Director, Bagrys:** The challenge really is at the infrastructure level. Essentially, you're talking about an environment where there are close to about 60 lakh retail outlets. Even the top of the heap don't cover every retail outlet in India. And for SME players, covering outlets is actually a far larger challenge today than marketing, which is traditionally what large-scale FMCGs outside India are predominantly driven by. India is going to see a diversified retail spread, which is good for the SMEs as well because it will give them a lot more negotiation power. I was doing a back-of-the-envelope calculation that when our supplies go to the north-east, sometimes a box of our cereals changes hands 15 times before reaching the end consumer, largely owing to taxation. So the number of hands it changes versus the time for a perishable good is fairly high. So GST for FMCGs is definitely required even if it means less paperwork.

**ET: Anil, two things have come out sharply as concerns of this panel—financing and taxation. What is your view?**  
**Anil Kothuri, President and Head, Edelweiss Retail Finance:** As a finance professional, I have been interacting with SMEs for over 10 years now. While the SME sector continued to be under-served, that is now relatively getting rectified for the past couple of years with the first few scheme-related announcements coming in. So there is recognition that SMEs are important and need to be catered to as a sector. The second point I want to make about SMEs is based on some research that we undertook before putting together our product offerings. A lot of SMEs feel that they have to work harder than larger corporates to do the same things. Larger corporates have access to expertise, superior deals, greater bandwidth when it comes to making decisions. I see that imbalance also getting corrected. In it you have all kinds of services which are hireable piecemeal—you have a CFO who can work for you on-demand and there's a company that makes a living by providing CFO services to a large number of companies etc. So the problem of expertise that SMEs faced, where the promoter had to virtually take every decision, is getting rectified.

**ET: Vishal, What are the pain points for SMEs when it comes to taxation?**  
**Vishal J Shah, Partner, PwC India:** The point is that tax has been plaguing SMEs the way it has. It is probably the story of the last 15-20 years. To my mind, 2012 was the year when the perception on tax changed negatively because every second day you had a headline in some leading daily about something wrong on the tax front, be it VAT, capital gains, retrospective tax. So I think the focus of the government moving away from the large big-ticket players to the SMEs is not really happening. How can that happen? I don't think it can happen at an individual level. Not one SME would have the capacity to shout like a Vodafone or a GE on the tax issue of the country. I think we need to have an institutional change.

### The Indian SME Terrain



Panelists at the ET-Edelweiss Budget 2016 roundtable on SMEs are bullish on what the FM channel has in store

### Budget Wishlist

**Aditya Bagri:** GST should come in with a very reasonable impact on food and we would want food and agri to be viewed in the same light. This will help control inflation.

**Cherag Ramakrishnan:** At the retail level, which is the housing level, if we can do perception play where we allow taxation on housing loans to be deductible at the time of booking apartments, it will take away the inventory over-lag that everyone wants to write about. It will give a perceptible boost. Also, just simplify the tax structure and make life simpler from a project perspective.

**SR Vaidya:** Three areas where government has to help—human management, innovation and patents. We want the government to look at these areas so that we can grow as an industry from number three to number one.

**Makrand Appalwar:** The government should set up a skill upgradation and innovation-fund that will work with various technical institutes across the country. Getting manpower is a big challenge. This special fund could help with the requirement of manpower for SMEs.

**Anshu Sarin:** Huge issue of capital at multiple levels will help huge amount of growth and bolster a lot of the plans of the government. Also, GST would add much needed sanctity to the system.

**Anand Ladsariya:** There should be framework where the states are incentivized and encouraged to change themselves. The other thing is reducing the discretionary power of the various officials of the states. Presently, there are thirty-plus permissions that are required and the single window becomes the thirty-first window. Single window has no meaning today.

**Anil Kothuri:** This budget is an opportunity for the government to demonstrate its vision and make announcements along the following vectors—fiscal consolidation, tax sector reform, infrastructure/social sector priorities and banking sector reform.

**Brijesh Agrawal:** Whatever has been said is all very good, let them go and execute that.

**Vishal J Shah:** What is needed is walking the talk like implementing the report on the tax reforms. Just make it simpler for people. The other is the clarity on reducing the corporate tax from 30%. I would like more clarity on the tax roadmap that was promised last year for corporates.



Unsecured lending to SMEs is a Rs 50,000 crore business in this country. We have started doing that and the defaults on them are negligible because an SME is a net borrower throughout the course of its life. So the SME will not default on a loan, whether it is secured or unsecured.

**ANIL KOTHURI**, President and Head, Edelweiss Retail Finance Limited



The tax component in India is say an 'x' amount and if we were to do it in Thailand, it is significantly lower. Your cost of a holiday in a local city today, say Goa during New Year, for instance, for the same number of room nights versus, say Langkawi, is significantly more expensive. One, of course, is infrastructure and logistics, which add to it, and then the huge tax that you end up paying from state to state.

**ANSHU SARIN**, CEO, Berggruen Hotels Pvt Ltd



The government formed on a brand promise and now they are taking it forward. It is a function of pressing 30 buttons at the same time. No other government has done it. We must give the devil its due.

**CHERAG RAMAKRISHNAN**, Founder and Managing Director, Ceear Realty