



Confederation of Indian Industry

# SME Business

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## FROM DIRECTOR GENERAL, CII

The MSMEs have time and again proved their importance to the overall growth of the economy. The recent CII Survey on employment generation by the MSMEs holds testimony to the contribution of the sector in boosting employment despite an economic slowdown. The survey indicates a growth of 13.9% in the net job creation over the last 4 years which translates to a compound annual growth of 3.3 percent. While the growth in the jobs created by medium enterprises stood at 10.7 percent, the small and micro enterprises contributed to 5.4 percent and 2.7 percent respectively. Though demonetisation and GST induced economic slowdown affected the growth of MSMEs, favourable government policies aimed towards revival of the sector have resulted in the growth of the sector.



The relaxation of GST norms for the SMEs has provided a breather allowing the entrepreneurs to file one annual return instead of struggling with quarterly payments. The step will not only provide relief from compliance burden but also improve the working capital cycles of the SMEs in addition to improving their credit ratings. The relaxation will also encourage more number of SMEs to get into the formal lending system through filing of their GST. The relaxation on loan payments through restructuring of MSME Loans up to a maximum amount of 25 Crores and the recent budget announcement of an additional 2 percent interest subvention on MSME loans up to 1 crore will further boost the growth of the sector.

Growth of MSMEs is crucial in promoting inclusive and sustainable development of the country. CII also has been working in this sphere where we envisage towards addressing the social aspect of any issue. CII's exclusive conference for the SCs/STs in collaboration with the Ministry of MSMEs on the Issue of Financing for MSMEs stands testimony to our commitment towards affirmative action. CII has been instrumental in growth of MSMEs through channelizing the industry voices and concerns to the policy makers and engaging in continuous negotiations for the development of the sector. With almost 60% of its membership base, CII believes that progression of the MSMEs would translate into inclusive growth of the economy.

MSME Business is an initiative to keep the readers abreast of recent policy developments in the sector. In addition to news and policy updates, the bi-monthly newsletter also strives to provide a crisp analysis of a particular sector through providing information of current status of the sector, understanding its strengths, challenges and opportunities of growth from the MSME perspective.

**Chandrajit Banerjee**

Director General

Confederation of Indian Industry

## FROM THE CHAIRMAN'S DESK

The Indian Paper Industry is one of the priority sectors of India witnessing growth in the recent years. The growth has been evident from the increase in domestic demand and from 9.3 million tonnes in 2008 to 15.3 million tonnes in 2016, at the compound annual growth rate of 6.4%. The importance of the sector has been acknowledged by the Government of India through devising programmes on technology upgradation since the FY12. As per IPMA, the contribution of paper industries is about Rs.4500 Crore to the exchequer with providing employment to over 5 lakh people across 750 paper mills. While this is just an estimate of the employment generated by the larger mills and those involved in manufacturing paper per say, there are various micro, small and medium enterprises engaged in manufacturing paper and paper products. The number of MSMEs engaged in such activities stand at 68,713 of which approximately 79% are micro speaking the volumes of the contribution of the sector in equitable distribution of opportunities as well the employing large number of people in rural settings.



The survival and growth of paper industry can be attributed to their dexterity towards adapting to changing policies on use of raw materials for production of paper and tapping global opportunities. Encouraging farm forestry by some of the large mill owners to address the shortage of the wood in the wake of government's National Forest Policy in 1988 was such a step towards imbibing change along with boosting the industry. While earlier Wood pulp was a primary source of paper production, in the present times, the proportion of wood for paper production has declined substantially from 84% to 31%, with increase in use of crop residues and recycled paper for manufacture of paper.

The Indian Paper Industry has also been able to tap the opportunity emanated through China's introduction of stringent measure on import of waste paper. Earlier the global prices for recycle paper was driven by China but with the ban on import paper for quality issues, there has been a global fall in the prices of recycled paper. The Indian paper Industry has come forth to tap this opportunity as well. Nevertheless, the scope of growth for the industry is huge given its potential for growth as the per capita paper consumption in India stands at a little over 13 kg which is well below the global average of 57 kg.

MSMEs contribution to the sector has been quite extraordinary as the sector is engaged in manufacture of both paper and paper products like registers, notebooks, stationary items, corrugated boxes, packaging material which are exported in considerable numbers thus adding to the forex and GDP of the country. While discussing Paper Industry, one cannot ignore its backward linkages which also account for livelihood of large number of rural enterprises and farmers.

The current edition of MSME Business tries to bring out a crisp analysis of the Paper Industry and the contribution of MSMEs to the sector. In addition, it also provides a glimpse of the latest updates in the MSME sector, schemes specific to Paper Industry for the MSMEs.

Please feel free to write to me at:  
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Regards,

**Shreekanth Somany**  
Chairman, CII National MSME Council

## NEWS UPDATES ON MSMES

### **Budget 2019 Announcement: 2% interest subvention for MSMEs on loan up to Rs.1 crore**

The government on 1st February 2018, announced 2 per cent interest subvention for micro, small and medium enterprises (MSMEs) for loans up to Rs.1 crore. "The government has taken many steps to support the MSME sector that provides jobs to crores of people in the country said Finance Minister Mr. Piyush Goyal while presenting the Interim Budget for 2019-20. The government recently announced a facility to avail Rs.1 crore loan within 59 minutes. The 2 percent interest subvention scheme will be an added advantage to the MSMEs. All MSME units registered with the Goods and Services Tax (GST) will now be eligible for availing benefits under the scheme.

### **Government to crack down on COS delaying payments to MSMEs**

The government has decided to crack down on companies delaying payments to small businesses to bring an end to the age-old problem the MSME sector has been facing. The Ministry of Corporate Affairs has released a compliance schedule under which private and public companies will be required to fill Form DPT 3 on or before April 22, for disclosure of details of outstanding money or loan received by company but not considered as deposits. It has also asked over 12 lakh active registered companies in India to mandatorily upload all their particulars, including details of registered offices, in an e-filing to the government as the Centre continues with its crackdown on "fly-by-night and dummy" entities incorporating stringent KYC regulations. Entities unable to do this may face action that could result in imprisonment up to 6 months or fine of not less than Rs.25,000 up to Rs.3 lakh.

### **CRISIL-SIDBI survey claims improvement in MSME sentiment in Q3**

Small business sentiment improved in the December quarter on positive factors like festivities, rupee depreciation, and dip in oil prices, claims a report. The RBI, persuaded by the government, announced a special relief package of loan recast (up to Rs 25 crore) for micro, small and medium enterprises early January. Banks also expect a minor improvement in asset quality from MSEs, the report said Friday, adding three of 10 lenders surveyed saw an improvement in the overall business situation of MSEs and half of them as satisfactory.

SIDBI chairman and managing director Mohammad Mustafa said in the manufacturing space, pharma, gems & jewellery, and chemicals, while in services, professional services, traders, logistics and power and power utilities are the most optimistic.

From a job generation perspective, the report said 20 percent MSEs reported hiring in the reporting quarter, compared to 14 percent in the preceding quarter and a quarter of them want to hire in the March quarter, while 6 percent intended to reduce headcount.

### **Special MSME package can help 7 crore accounts estimating to rs 1 lakh crore loans**

The estimate from the Department of Financial Services (DFS) secretary Rajiv Kumar is much higher than domestic rating agency Ica's assessment of Rs 10,000 crore. It comes even as some banks have seen a reluctance among the target MSMEs to take advantage of the scheme. The Reserve Banks restructuring package for small businesses announced last month will help recast Rs 1 lakh crore of loans for 7 lakh eligible micro, small and medium enterprises, a top government official has said.

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### **BUDGET 2019: Focus on credit supply to MSMEs, housing sector and support to NBFCs are some key expectations**

Currently, NBFCs and HFCs account for about a quarter of the total systemic credit, while their exposure to MSMEs and other retail segments account for more than half of their total credit outstanding. Given the Union government's focus on alleviating stress faced by the micro and small and medium enterprises (MSMEs) and on furthering its other initiatives including the Pradhan Mantri Awas Yojana (Urban and Rural), we expect allocation towards the above to be one of the key focus areas in the upcoming Vote on Account to be presented in February 2019.

Non-banking finance companies (NBFCs) and housing finance companies (HFCs) with niche positioning, differentiated product offering, good market knowledge and better customer understanding play a crucial role in the overall credit growth and outreach in the country.

### **RBL, NASSCOM sign MoU for credit solution to ICT MSMEs**

The RBL Bank and Nasscom on Thursday announced entering into a MoU to provide customized credit solutions to MSMEs in the Information and

Communication Technology sector. "As part of the MoU, the two entities will collaborate for various activities including joint events, knowledge sharing sessions and ensure continuous engagement with various chapters in ten locations across India," a statement said. The collaboration is aligned at the central government's mission to promote and encourage the MSMEs. The partnership will comprise key services like simplified assessment procedure and processing and competitive pricing.

### **MSME conclave on empowering women entrepreneurs**

The Ministry of Micro, Small and Medium Enterprises will organize a Conclave "Empowering Women Entrepreneurs 2019, Financing & Enabling Women from Marginalized Sections", in Mumbai on Monday 25th Feb 2019. The conclave is being organized under National SC-ST Hub initiative of the MSME ministry which is targeted towards developing a supportive ecosystem towards SC/ST entrepreneurs. Issues of access to financing, assessing risks and growth mantras enabling SC-ST women entrepreneur to setup and run a sustainable business will be discussed during the day long programme. Minister of State for MSME (IC) Giriraj Singh will inaugurate the Conclave. Path-breaking women entrepreneurs and inspirational women achievers will be awarded with Enterprising Women of the Year 2018 Awards. Loan disbursal Cheque or sanction letters to women entrepreneurs under Standup India initiative will also be distributed by Banks. Senior officials of the MSME ministry along with bankers, investors and women entrepreneurs will participate in the deliberations

# PAPER INDUSTRY- AN OVERVIEW

## BACKGROUND

The Paper and Pulp Industry is one of the important industry in India contributing almost 4% of the global production of paper and packaging material. The growth of the Paper Industry in India can be attributed to various factors including the growth in GDP and increased government spending in the literacy programs. Improved standards of living, urbanisations, growth in e-commerce and increased youth population catapulting the demand of paper to an extent that it has surpassed the domestic availability. Comparison of imports and exports for the year 2017-2018 reflects that the imports of Paper and Paperboard was approximately 1.5 times higher than the exports during the same period. The Indian Paper Industry has witnessed rising profits and a steady growth from 2013 to 2017 at a compound annual growth rate (CAGR) of 7.35%<sup>1</sup>. With the current growth trend, the Indian Paper Industry is projected to grow at 6.6% by 2021 with the highest growth predicted in paperboard and packaging paper and speciality paper. The Indian printing and packaging industry is growing at a CAGR of 14%<sup>2</sup>.

The Indian Paper Industry can be broadly segregated into:

- Writing and Printing Paper
- Paperboard/Packaging
- Newsprint
- Speciality Paper
- Others

The Table 1 shows the highest growth rate in Tissue paper followed by Packaging Paper and paper boards used for packaging.

The Paper Industry in India is highly fragmented and primarily dominated by the few larger industries. Large Industries comprise a small proportion of the industry while there are a lot more MSMEs engaged in the production of paper and packaging products. The reservation of items for exclusive purchase of paper products from MSMEs also suggest the vast variety of paper products produced by the MSMEs.

As per the data of Annual Survey of Industries, there has been an increase in the number of factories for manufacturing of paper along with an increase in the investment in the sector. However, the increase in the labour force has not been as significant.

Items reserved for PPP from MSMEs

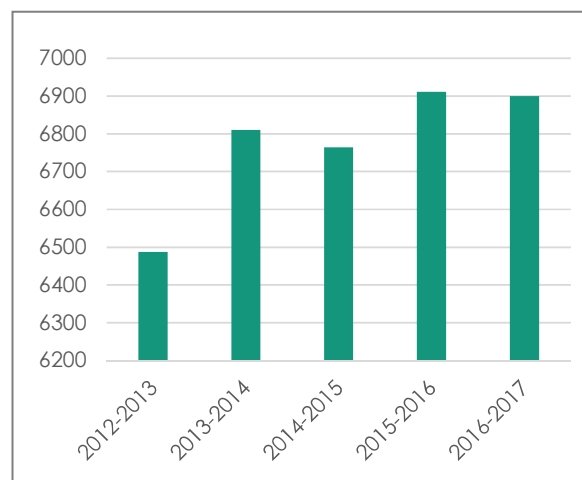
- Blotting Paper
- Corrugated Paper Board & Boxes
- Paper conversion products, paper bags, envelopes, Ice-cream cup, paper cup and saucers & paper Plates
- Paper Tapes (Gummed)
- Water Proof paper
- Waxed paper

**Table 1: Paper and Paper Industry - Estimated Domestic Market size and Growth 2017-2018**

Sl. No	Paper grade	Domestic Market Size in Million Tonnes	Growth Rate
1	Newsprint	2.585	2.60%
2	Writing and Printing Paper	5.065	4.86%
3	Packaging Paper/Board	8.710	8.37%
4	Tissue	0.165	17.75%
5	MG Variety/ Poster	0.239	2.00%
6	Other Paper/Board	0.355	10.75%
	<b>Total</b>	<b>17.119</b>	<b>6.51%</b>

Source: IPMA

**Figure 1: Comparison of Fixed Capital, Productive Capital and Invested Capital**

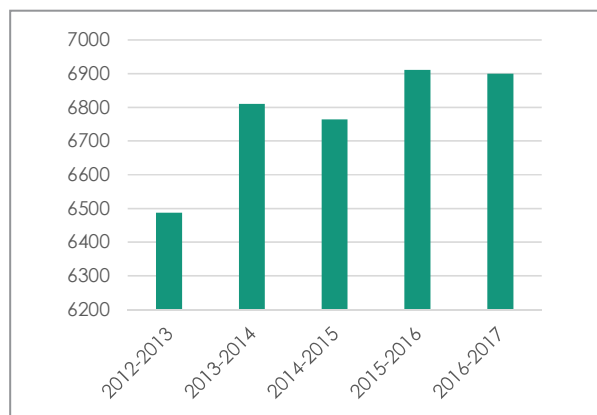


Source: ASI - 2016-2017

1 <https://www.kanvic.com/grey-matter/The-Indian-paper-industrys-next-act>  
2 [http://www.indusedu.org/pdfs/IJRMEC/IJRMEC\\_1222\\_58960.pdf](http://www.indusedu.org/pdfs/IJRMEC/IJRMEC_1222_58960.pdf)



**Figure 2: Transition in no. of factories in Paper Manufacturing 2014-2017**



Source: ASI - 2016-2017

**Figure 3: Comparison of Number of Workers, Total persons engaged and Wages**

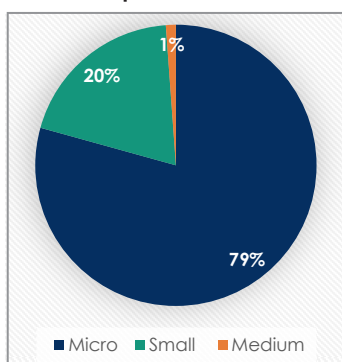


Source: ASI - 2016-2017

## MSMEs IN PAPER MANUFACTURING

A large part of the Paper Industry is scattered and unorganised and hence does not reflect in the ASI data. The MSMEs in India are usually engaged in production of paper related products. As per the Udyog Aadhar Memorandum (UAM) data, the number of MSMEs engaged in the manufacture of paper and paper products are approximately 68713. As suggested in the Figure 4, almost 79% of the enterprises registered in the

**Figure 4: Number of MSMEs in Manufacturing of Paper and Paper Products**



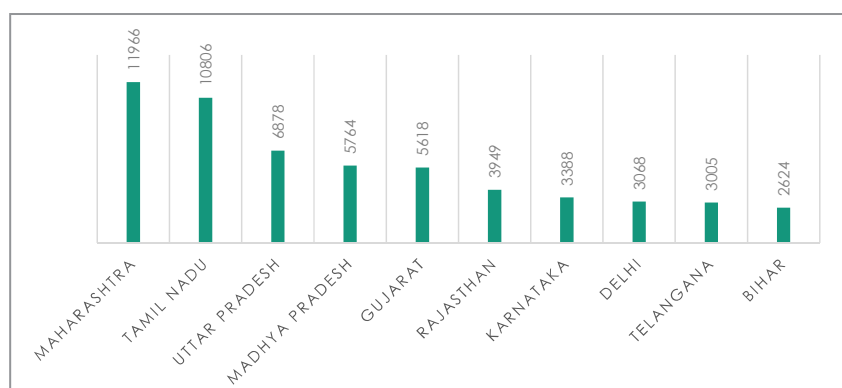
Source: UAM

UAM for production of paper and paper products are micro. The graph below shows the top ten states with MSMEs engaged in manufacturing of paper and paper products.

## PRODUCTION OF PAPER

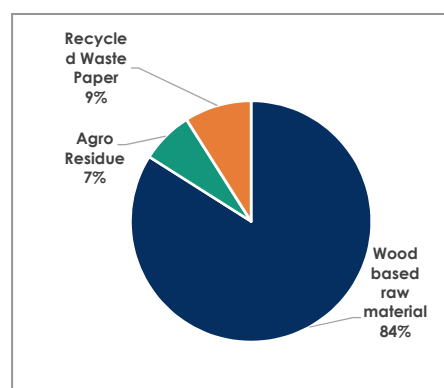
Paper Industries in India predominantly use wood pulp, agro-residues and RCF or Waste paper. In early seventies, wood pulp constituted the primary source of paper production. However, the trend gave way to increased use of agro-residues and recycled waste paper in comparison to wood pulp. The pie charts give a comparison of the changing trends in the use of raw material for the production of paper clearly suggesting the decline in wood based raw material given the scarcity of wood and adoption of greener methods of paper production.

**Figure 5: States with highest number of MSMEs in Manufacturing of Paper and Paper Products**



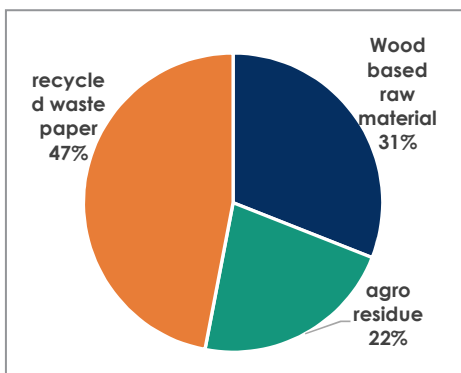
Source: UAM

**Figure 6: Division of Raw Materials for Paper manufacturing in 1970s**



Source: CPRI

**Figure 7: Disaggregation of Raw Materials for Paper Manufacturing- 2017**



Source: CPRI

Growing concern of deforestation has led to the transformation where more use of recycled waste paper and agro residues have tried to relieve the pressure on forests. Farm forestry has been adopted to address the dual issues of availability of wood pulp and checking deforestation. The share of recycled waste paper as source of raw material for production of paper has also increased in the recent times.

Agro Residues comprises of Wheat straw, Rice Straw, Sarkanda and others. Through sourcing Agro residues and recycled waste paper as raw materials for production of paper, approximately 20 million<sup>3</sup>

trees are saved per year. Other than contributing to the environment, farm forestry also provides livelihood directly and indirectly to more than 40 lakh people in rural areas which includes marginal farmers, semi-skilled and skilled workers. Agriculture residues which otherwise were thrown away or burnt now are sold to the paper industry at remunerative prices which solves both environmental and economic issues.

#### CONVERSION CHART

2.2 tons of Wood	=1 ton of Paper
2.5 tons of bagasse (oven dry)	
2.3 tons of wheat/rice straw (oven dry)	
1.33 tons of Recycled Paper Waste	

The availability of bagasse and agriculture residue are subjected to<sup>4</sup>

- seasonal availability
- high transportation costs
- perishability of the product over longer storage
- difference in quality of straw
- technical constraints like poor strength
- low opacity bulk and porosity
- problems of chemical recovery
- pollution control measures

**Agro-Residues- India is predominantly an agrarian economy where more than 50% of people are engaged in agriculture. This explains the large availability of agriculture residues which can be used by the paper industry for manufacture of paper. While the potential remains high, the actual availability of raw materials dwindle because of low awareness of the farmers on alternate use of raw materials. A large part of the agriculture residues are either used for power generation or burnt in the fields leading to environmental hazards. The farmers need to be made aware of the economic value of the agriculture residue and its use in paper manufacturing.**

**Bagasse- India is one of the major sugar producing countries and is amongst the top producer of bagasse globally. India is world's largest producer with close to 280 MTPA. Bagasse as a waste material has multiple uses. It is used as raw material for paper production and also as a source of fuel for power generation at sugar mills. Increased use of the bagasse by sugar industries has resulted in the shortage of bagasse raw material for paper production. The paper mills association argue that diverting bagasse for paper production can be more profitable than using it as fuel due to its low thermal efficiency.**

**Recycled Waste Paper- Waste paper as raw material has immense potential for the growth of paper industry. Recycled waste paper and agriculture residue are two green ways of paper production. While India produces waste paper in large quantities, only a mere 25% to 30% is collected for recycling purposes. Legislations specific to recycling of waste paper in the developed countries mandates recycling to about 80-85%. However, lack of such regulations in India restricts collection and recycling of waste paper which can account for a major source of raw material for paper industry.**

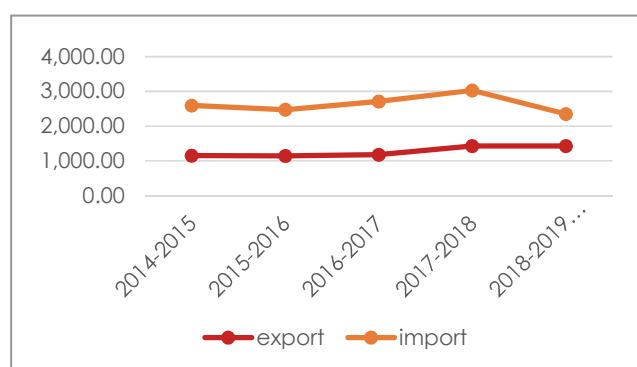
<sup>3</sup> <http://www.iarpmo.org/indian-paper-industry.asp>

<sup>4</sup> [http://environmentclearance.nic.in/writereaddata/form1a/homelinks/TGM\\_Pulp%20and%20Paper\\_010910\\_NK.pdf](http://environmentclearance.nic.in/writereaddata/form1a/homelinks/TGM_Pulp%20and%20Paper_010910_NK.pdf)

## EXPORTS AND IMPORTS

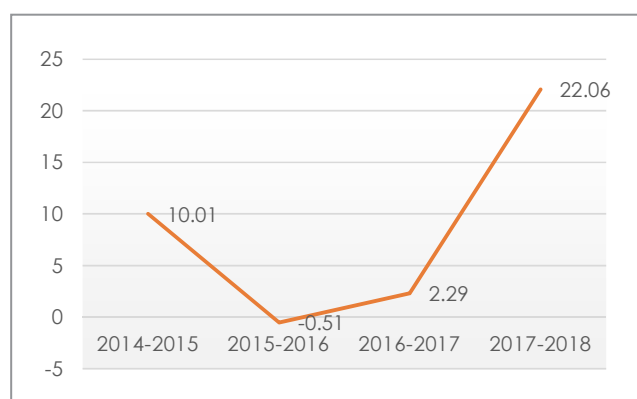
India has emerged as the fastest growing market in paper products, imports of paper products exceeds the exports. The present demand is estimated at 13.1 million tonnes with domestic production of 11.4 million tonnes, export of 0.5 million tonnes and import of 2.2 million tonnes. The demand is projected to boost to 23.5 million tonnes by 2024- 25. India is the greatest growing market for paper in the world with a growth rate of about 6 percent yearly<sup>5</sup>. The graph tries to bring out comparison of the exports and imports over the last five year in the paper industry.

**Figure 8: Export Vs Import of Paper Products HS Code (48)**



Source: DGCS

**Figure 9: Percent Growth in Exports of Paper Industry**



Source: DGCS

Growth in exports in the Paper Industry has been increasing after a short downfall in 2015-16. The slump in exports in the year 2015-16 can be attributed to the slow global recovery and hence weak demand and softening of commodity prices. Indian exports decreased because of subdued global economic growth, especially in the US, China, Euro area and

Japan along with still-depressed commodity prices. Nevertheless, despite global slowdown, exports of paper and paper products has been able to transgress into the positive growth chart with a recorded growth rate of 22.06%.

Few of the top exported items for the year 2018-19 includes uncoated paper and paperboard for writing printing or other graphic purposes; other paper, paperboard, cellulose wadding and webs of cellulose fibres, paper board with or without coating, coloured or printed; registers, account books, note books, order books, receipt books, letter pads, memorandum pads, diaries and similar products and others.

Major items of imports included Newsprint; other paper, paperboard, cellulose wading and webs of cellulose fibres; paper and paperboard and cellulose wading and webs of cellulose wading coated or impregnated and others.

While the many of the top ten items listed for exports and imports are similar, the table below tries to provide a clearer picture listing out the amount of exports and imports.

**Table 2: Top 10 Items listed within exports and imports (Values in US \$ Million)**

HS Code	Brief Description	Export	Import
4802	uncoated and paper and paperboard for writing, printing or other graphic purposes	326.55	445.42
4823	other paper, paperboard, cellulose wading and webs of cellulose fibres	4823	84
4810	other paper, paperboard, cellulose wading and webs of cellulose fibres	176.04	740.37
4811	paper and paperboard and cellulose wading and webs of cellulose wading coated or impregnated	116.65	347.36
4805	other uncoated paper and paperboard in rolls or sheets	112.25	142.63
4804	uncoated kraft paper and paperboard in rolls or sheets	110.01	157.42
4819	cartons, boxes, cases, bags and other packing containers	88.45	89.81

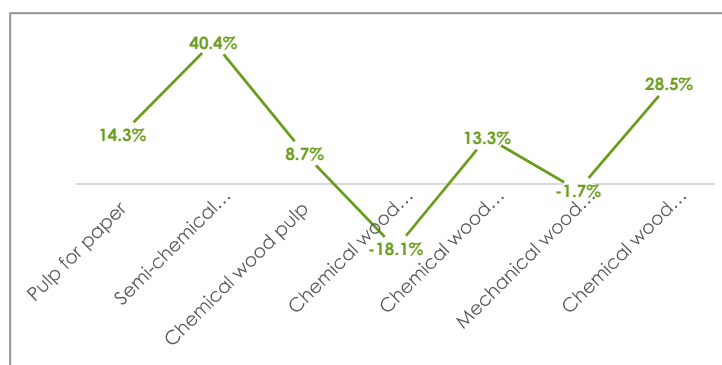
Source: DGCS

<sup>5</sup> <https://www.smeventure.com/growth-paper-industry-india/>



India also imports raw materials for production of paper. Pulp for paper, Mechanical wood pulp, Semi-chemical wood pulp, Chemical wood pulp, Chemical wood pulp, sulphate, bleached and unbleached, Chemical wood pulp, sulphite, bleached and unbleached and Pulp from fibres other than wood. While there has been an increase in the import on pulp by 14%, the increase in imports of semi-chemical wood pulp witnessed a growth of 40.4% during the period of 2014- 2017. Imports of Pulp from fibres other than wood and Chemical wood pulp, sulphite, bleached witnessed huge reduction in imports while Chemical wood pulp, sulphate, unbleached and Mechanical wood pulp saw minor decrease in imports to India.

**Figure 10: Variation in the imports of Raw materials for Production of Paper (2014-2017)**



Source: FAO data

## GROWTH OPPORTUNITIES

India paper market is calculated to grow with a CAGR of more than 10% in value terms during review period starting from 2011-12 to 2016-17 and the market is anticipated to reach more than Rs.75,000 crores at the end of forecasted period year 2022-23. The demand for paper is boosted by rising income levels of the people and their consecutive change in lifestyle and food preferences. The growth of FMCG industry in terms of increased demand for ready to eat meals and cooked-semi-cooked food is witness to it. The subsequent awareness about the defects of use of plastic as packaging material and their environmental impacts have resulted in a behavioural change where more number of people are shifting their packaging preferences to paper/coated paper.

The rise in e-commerce and organised retail has also resulted in increased demand of paper boards and packaging papers. Last but not the least, the increased government spending in education programs like Sarva

Siksha Abhiyaan and others have resulted in a surge for books and writing materials. The Indian paper Industry can leverage the above opportunities to increase their growth in addition to improving their productivity and quality to compete in the global market.

India can also take advantage of the recent ban on import of Waste paper by China. China has tightened its import norms on waste paper which has resulted in surge of both demand and price of pulp. Also the prices of paper and finished products have gone up in China which makes importing paper and products from India cheaper.

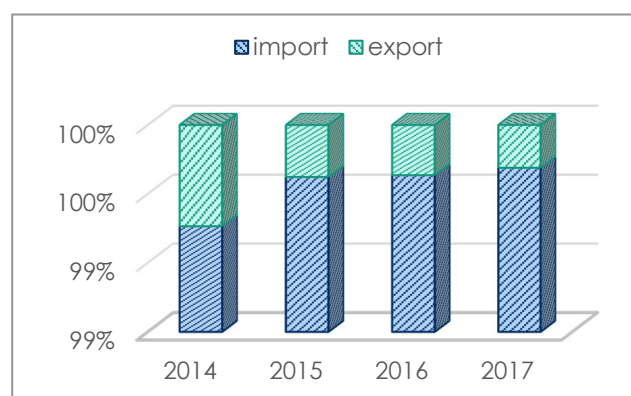
## CHALLENGES

The paper industry is capital-intensive and fragmented, and has an uneconomic scale of operations. These constraints hamper the global competitiveness of the Indian paper industry; consequently, India's exports, which are primarily to neighbouring countries such as Bangladesh and Sri Lanka, have traditionally been marginal. The industry is also highly cyclical, mainly on account of the bunching up of capacity additions, resulting in temporary demand-supply imbalances, rather than fluctuations in absolute demand, as is the case with developed economies.

### a. Cheap Imports

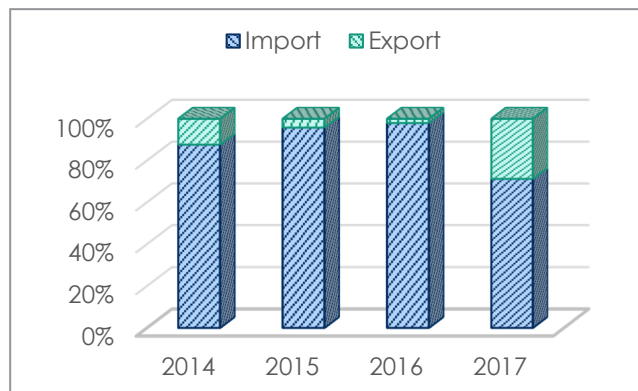
Cheap imports pose threat to the Indian Paper Industry. The FTA signed in 2014 has resulted in higher imports in the sector of paper industry posing a threat to the competitiveness of the Indian paper industry. Rising imports in various sectors including that of raw materials and completed products has been affecting the growth curve of the enterprises engaged in paper and paper products.

**Figure 11: Import Vs. Export of Newsprint (in million tonnes)**



Source: FAO

**Figure 12: Import Vs Export of Packaging Paper  
(in million tonnes)**



Source: FAO

For instance the import of newsprint has increased by 14% and that of packaging paper and paperboard has increased by approximately 34% in the last 5 years.

#### **b. Rising Commodity Prices**

Rising commodity prices like that of raw materials and energy requirements have been affecting the profitability of the enterprises engaged in manufacturing of paper and paper products. Energy costs account for 13% of total costs of Indian Paper Mills as compared to 8% for international players in the same field primarily due to the mode of energy used. Indian Paper mills rely on captive thermal plants for their energy production which often turns out to be expensive.

#### **c. Availability of raw materials**

India is primarily a fibre deficient country. As discussed above, India imports a large part of the raw materials for production of paper. Data on imports suggest the substantial increase in import of wood pulp which is

one of the primary source of paper production. 90% of the demand for wood is met through industry driven agro or social forestry and the rest through government sources and imports. While the total domestic demand for pulpable wood by paper industry is 11 million tonnes per annum while domestic availability is 9 million tonnes per annum.

#### **d. Digital Revolution**

The digital revolution has created a fundamental shift in the lifestyle of paper where people have jumped from papers to digital technologies for their day today knowledge quest. E-news is increasingly taking over newspapers and e-books are replacing hard copies. This has substantially affected the demand for paper in these areas.

#### **e. Technological Obsolescence**

Indian Paper Industry today is facing with technological obsolescence which inhibits their global competitiveness. Access to upgraded technology at affordable prices can aid in better productivity of the enterprises engaged in manufacture of paper and paper products. The Government of India has identified the need of technology upgradation and has included it as a priority sector in the eleventh plan.

#### **f. Economies of scale-**

India's paper industry market is highly fragmented and as discussed above small players play a major role in production of paper products. These MSMEs often have to compromise on the profits owing to their smaller production base. The unit consumption of power, water, chemicals and other required materials in small mills is as high or much higher in small enterprises due to use of obsolete technology. This poses challenge to the profitability of these enterprises in addition to affecting their competitiveness.

## FOSTERING THE GREAT INDIAN DREAM

Unique Threads, a saree store based in Chennai, began as a passion project. Advised to work from home when she was six months pregnant, founder Shanmuga Priya started Unique Threads with a bag of sarees and a selection of WhatsApp groups comprising friends and family. Soon, in addition to buying Priya's collection, a number of her customers also wanted to resell them that transformed her business. Now, using the WhatsApp Business app, Unique Threads sells more than \$400,000 worth of product to over 2,500 local resellers and has been able to expand to international markets such as Australia and the United States as well.

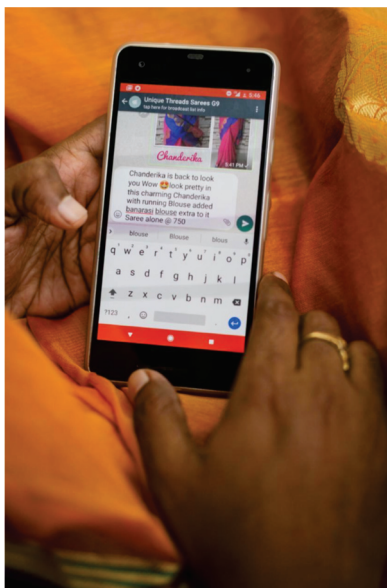
The success of businesses like Unique Threads is due to the tenacity of its founder and made possible because of the modern Indian consumer. Technology is redefining how customers interact with companies, levelling a playing field that has long been dominated by large organisations. The right tech and a commitment to the customer mean that MSMEs can now thrive and even compete with big businesses without breaking the bank. If this does not already strike you as a transformative development, read on.

With the youngest working population in the world, a thriving start-up ecosystem and a comprehensive digital transformation, India is economically stronger than it has ever been before and is well on its way to becoming a global superpower. MSMEs have played a vital role in this growth. As the backbone of the Indian economy, companies in this sector make up 8% of the GDP and nearly 50% of India's total export volume. It is their ingenuity that is driving the progress of Make in India, offering the nation a financial spine strengthened by a robust industry. But, their growth is not without its challenges.

Limited financial resources make it difficult for small and mid-sized businesses to invest in infrastructure, human resources and new product development. Many of these businesses are also in need of

modernisation. They need to go digital, accept online payments, automate workflows, and communicate with their customers on a deeper level while meeting their ever-changing demands. Unfortunately, many companies in this size bracket do not have even basic digital literacy, and for those looking to start a business, it can be overwhelming to think about where to begin.

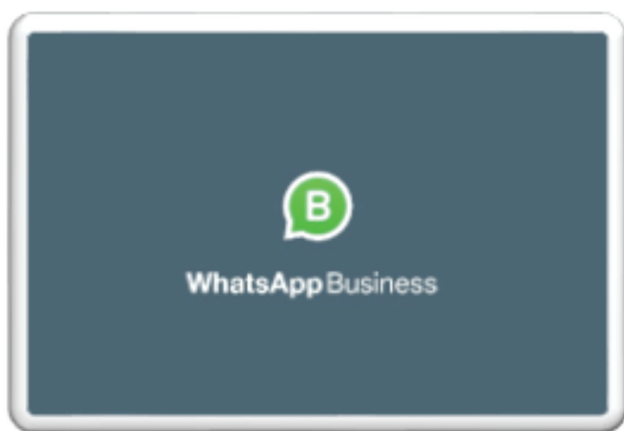
The answer sits in an unlikely place - the palm of our hands. Today's consumers are different from those in the past. Firmly in the driver's seat, they enjoy choice, convenience, speed and access. Their attention is the new currency and is spent, almost entirely, on their smartphones. For businesses to succeed, they now need to meet their customers where they are, and what better place to do that than messenger apps?



India is currently projected to have no fewer than 300 million smartphone that are always connected and engaged in messaging, and this presents businesses with an incredible opportunity to build deep and long lasting relationships with their users. WhatsApp has played a key role in driving relevant conversations between more than 5 million businesses and their customers around the world. It has become a place where small business owners connect with customers - whether by answering questions, sending information about their business or products, or selling their goods and services. Small business owners solve multiple

problems simultaneously to succeed in a highly competitive market and the WhatsApp Business App remains their preferred communication platform. Research shows that 70% of small businesses using WhatsApp have said they have built their business on the platform and 77% have said they have been able to hire more employees due to growth since joining WhatsApp.

The WhatsApp Business app gives small businesses a formal presence on WhatsApp and offers tools



that make messaging with customers more efficient. Customers want to connect with businesses in the same way they chat with their friend and family — with fast, simple, and convenient messaging. It is a great way to send and receive all types of helpful and important information — product details, customer support, delivery updates, order information, and more. Today's customers no longer want to call or email a business. They prefer sending a message to open a two-way conversation where their questions are responded to in real time. These interactions can generate a deep understanding of consumer behaviour and preferences. The WhatsApp Business app is providing a fillip to Indian's MSME ecosystem.

Small business owners credit the success of their experience with the app to intuitiveness. By going where their customers already spend time, businesses can make it easy for buyers to interact with the brands they love in a way that comes naturally to them. This ease doesn't just help businesses build a rapport with customers but also has a powerful impact on sales.

Srinidhi, an engineer-turned-farmer based in Karnataka, is one such example. He enjoys almost triple the returns that farmers usually get, with a little help from WhatsApp. He leveraged tech-enabled communication channels like WhatsApp to not only eliminate

Middlemen, but engage in direct selling to enable higher returns for farmers. WhatsApp is often the first

point of interaction with his customers which helps him stay in constant touch, expand his customer base through recommendations from friends and family and be able to understand their preferences and provide customised solutions. This has helped him triple his earnings in a short time.

Integrating technology will be vital to the long-term success of Indian MSMEs. By introducing humanness and efficiency at virtually no cost, messaging apps offer these organisations a quick and powerful way to begin this journey — just ask Priya or Srinidhi. Combined with the customer appetite for variety, this means that the next great success could come from anywhere — be it a saree shop in Chennai or a farm in Karnataka. And that is a story you know you will want to share.

Article contributed by TFC Partner - WhatsApp

Find more on WhatsApp Business at:

<https://www.whatsapp.com/business/> and <http://ciisme.in/tfc.html>

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## COMPARING EARLY STAGES FINANCING FOR START-UPS INDIA

Micro Small and Medium Enterprises (MSMEs) account for more than 80 percent of total industrial enterprises, producing over 6000 value-added products. The sector contributes to approximately 45 per cent to manufacturing output and about 40 percent to exports. Over 50 percent of the MSMEs are spread across rural areas in low-income states and is instrumental for promoting inclusive economic growth and poverty reduction. With one million people entering the labor force every month in India, MSMEs have the potential to be an important source of wage employment and entrepreneurship. They can also foster innovation as well as be the cradle for the Government's 'Make in India' vision, which encourages companies to manufacture their products in India. For these ideas to take shape, addressing the key constraints that inhibit MSMEs from accessing finance is of utmost importance.

Lack of adequate finance has been one of the biggest challenge faced by the MSMEs. Financial constraints poses multiple challenges to the enterprises by affecting their growth, competitiveness, response to shocks, and their employment and investment related decisions which also affects the economy at large. The MSME census of 2006-07 estimated that about 87 percent of MSMEs did not have any access to finance and were self-financed. Credit towards micro and small enterprises represents only around 13-15 percent of the portfolios of formal financial institutions because the financial institutions limit their exposure to the MSMEs due to higher risk perception, information asymmetry, high transaction costs and lack of collateral.

Focus on the spurring key areas within the MSME sector is critical for their growth as well as overall socio-economic growth through increase in employment opportunities. While accelerating entrepreneurship finance is crucial for generating large scale employment is important, providing solutions to the ancillary sectors also remains pertinent. In addition, the service sector which accounts for 67 percent of GDP and encompasses 71 percent of MSMEs also need to be given their due importance through devising growth strategies. The growth of the service sector has also propelled growth in several

low income states and has therefore been instrumental in boosting inclusive growth of the economy.

While the potential for start-ups in MSMEs is quite promising, their growth is often hindered as debt financing for early stage companies is virtually non-existent and MSMEs also lack mezzanine risk capital products. While India has seen substantive growth of venture capital (VC), the financial market to support the ecosystem has been under-developed in debt options to funds start-ups. The lack of debt financing in the ecosystem has translated into slower growth of the firms thus impeding their ability to take advantage of viable economic opportunities. These firms are often forced to turn to equity to finance working capital – which is both an expensive way of financing working capital and reduces entrepreneurial capacity.

In addition to the shortfall in early stage debt finance, MSMEs across various stages of growth lack mezzanine capital, which if provided, could help strengthen balance sheets by providing longer term funding and leverage additional funding.

The development and scaling up of financial debt products, appraisal frameworks and on-lending models can catalyze the startup debt market in India. SIDBI has identified three key potential areas where innovation can help start-ups to scale up their pilot portfolio.

- Developing faster appraisal models that leverage industry assessments thus helping in reduction of risk which would result in processing more

### Potential of Start-Ups in India

- India's Start-up ecosystem is currently one of the fastest growing in the world
- India's start-up ecosystem attracted 300 Venture Capital (VC)/Private Equity (PE) and 225 angel investment deals worth over US\$2.3 billion between 2011-2014
- The period also saw over 20 mergers and acquisitions worth US\$1 billion.
- As per World Bank's estimates (2014) India has the potential to build about 2,500 highly scalable businesses that could generate revenues of US\$200 billion over the next 10 years



number of loans within a short span of time.

- Actively seek out partnerships and potential Participating Financial Institutions (PFIs) interested in catering to the segment and develop incentive compatible models of lending.
- Leveraging digital technology through development of a financing electronic platform to facilitate processing, sourcing and for appraisal of start-ups. The electronic platform will provide a portal for connecting start-ups, financiers and investors along with accumulation of data on credit and investing history which can help in predicting future trends.

## DEVELOPING FRANCHISEE FINANCING FRAMEWORKS

Financial institutions especially traditional modes of financing have limited their exposure particularly to the service sector which typically has softer collateral (e.g. fixtures, furnishings, equipment) and lack the immovable collateral used in traditional banking. The said issue of financing can be addressed through introduction of Franchisee Financing Frameworks along the lines of channel financing structures, with adequate support from the franchising ecosystem, in particular from the franchisor.

Despite enormous opportunities for budding entrepreneurs and start-ups, the Franchisee mode of financing is still at a nascent stage in India. Most financial institutions continue demanding for traditional collateral/asset based lending for financing. On the contrary, Franchisees (like other firms in the service sector) typically have softer collateral (including single purpose commercial buildings, leased lands etc.) coupled with smaller ticket size of loans.

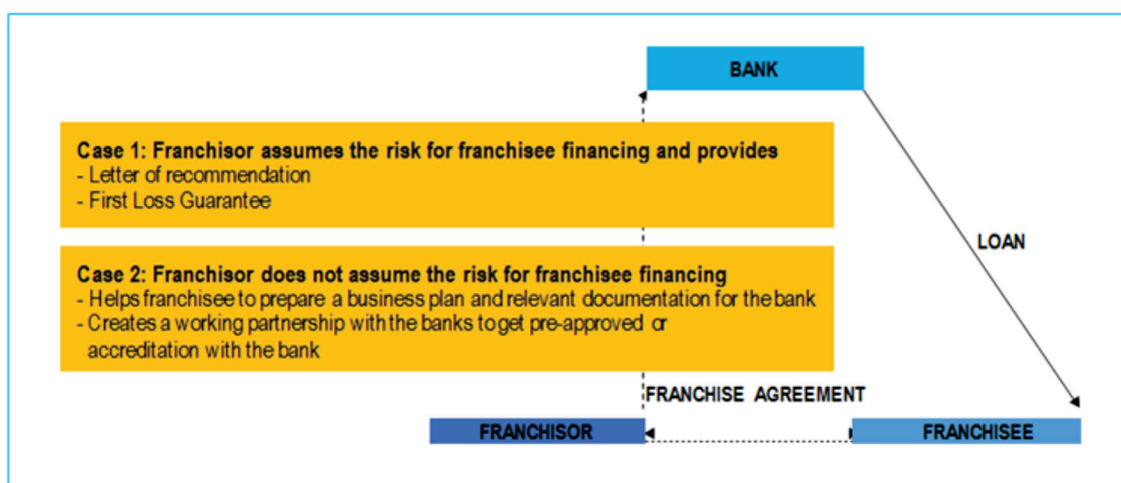
The Franchisee framework of lending relies on the relationship between the franchisor and the franchisee, to provide additional reassurance to the lending institutions. While the financial institutions can actively engage the franchisor in assessing the franchisees and mitigating credit risk, the franchisor could provide accurate information on his/her business plan, credit screenings, ratings on franchisees, letters of recommendation, and first loss guarantees. Such an arrangement can be designed along the lines of channel financing structures.

Nevertheless, appropriate risk assessment frameworks to assess franchisees, with customized appraisal parameters that rely on business viability and cash flow assessment (rather than typical models that rely on collateral as a primary criterion for eligibility) are yet to be developed.

In addition to frameworks for franchisee financing, the MSME projects also supports asset light models, cluster-centric financing, the potential use of supply chain data from e-commerce platforms and other innovative credit delivery arrangements. The project tests multiple/alternative sources of information that can be used to address information asymmetry and mitigate credit risk in lending to MSMEs. It supports tailored credit appraisal and credit scoring methods to address the key constraints that inhibit finance not only for franchisees but also for other MSMEs in service and manufacturing sectors and start-up/early stage MSMEs.

There are several solutions and channels available. However, the only challenge is the development and adoption of such channels which requires the combined efforts from both the financial institutional experts for development and MSMEs for adoption.

*Article Contributed by FFC Partner- GATS India*



# HUMAN RESOURCES STRATEGY FOR SUSTAINED SME GROWTH

Today India is in the upper band of developmental spectrum. With regained confidence, it has attracted global interest and is at the start to see real progress in the coming years. In the growth spectra, an important focus has been on the role of Small and Medium Enterprises (SMEs) and the impact they can have on the overall economy. However, the SMEs face an intrinsic challenge of Managerial Excellence, which is very much required to ensure optimal scale of operation and predict technological obsolescence.

The only means by which the Indian SMEs can create wealth is through innovation and enhancement of competitiveness. To remain in business, they have to excel in Product, Process and Organizational innovations - which calls for rapidly incorporation of new technology and processes. While the technology and the know-how are available off the world's shelves and can be quickly deployed, it's the hands capable of operating them, which is one of the critical areas of concern for the SMEs.

The spurt in Industrial activity has given rise to an unprecedented demand for trained manpower and today a qualified professional, having multiple options, looks far beyond just only employment. SMEs have to match the job enrichment and career growth opportunities, besides compensation in comparison to the similar offers available in larger organizations. But most of the time they are not in a position to attract, acquire and retain skilled and competent manpower.

This requires conscious human resources interventions with emphasis on Organization Design, Transparent Policies, Communicated Performance Metrics, Change Management, Team Work, Daily Work Management, Leadership Succession and Motivation amongst others. Employees can feel confident and committed only when they are able to identify themselves with the goals and aspirations of the organization. For this, they should be able to see clearly the roadmap for their personal growth and development potential in a transparent system-based environment.

## SOLUTIONS OFFERED:

The CII – Centre of Excellence for Competitiveness for SMEs, Chandigarh, with its focus on the development

of SMEs has already initiated efforts to fill this void by including HR in its scope of specialized activities. The services offered range from individual Unit Level Interventions for redesigning organization structure and development of HR policies to Group Level Training workshops on relevant topics, leading to build a professional HR Culture aligned with the business of the organization.

## The Process

As a first step, the entrepreneur shows commitment to dovetail HR into strategy formulation. This is typically followed by Position Analysis, Organization Restructuring, Retraining, Redeployment and Recruitment process along with the development of transparent HR policies and procedures including Performance. In the case of turnkey interventions, the process begins with defining short-term and long-term business goals of the organization. This is followed by a diagnostic study of the existing systems and policies of the organization, followed by an analysis of the current manpower inventory. These serve as input to revise and fine-tune the organization structure and define positions along with required competencies.

Training inputs for behavioral adjustments and/or specific skill up gradation fully aligned with the changes being sought in the organization are next identified. Finally, through systems approach, professionalism is imparted by creating special HR modules to form a Manual so as to seamlessly translate overall HR Policies of the Organization into





practice. These basic steps would form the core of the transactional HR in the organization. And after internalizing the same, the organization would be ready for its transformational journey.

A typical road map of activities spread over a period of one year with defined deliverables would look as under:

### HR INTERVENTIONS – ONE YEAR ROAD MAP

Time Period	Activities	Outcomes
<b>Month 1 to 2</b>	In-house training to company's managerial staff on <ol style="list-style-type: none"> <li>1. Current business requirements</li> <li>2. Motivation /Employee involvement</li> <li>3. Daily Work Management system</li> </ol>	People orientation Appreciation of professional HR management
<b>Month 1 to 3</b>	<ol style="list-style-type: none"> <li>1. Develop organization structure</li> <li>2. Profiling of existing manpower to identify gaps</li> <li>3. Clarify roles-responsibilities</li> </ol>	Comprehensive visual organization skills inventory and gap identification
<b>Month 4</b>	Recruitment system and formal induction process	Right manpower acquisition Better retention impacting business positively
<b>Month 5 to 7</b>	Training Needs Identification/ Implementation Process	Work process adherence Source of continuous supply of trained manpower
<b>Month 6 to 12</b>	Compensation strategy Appraisal and reward system	Set Performance Standards Build Career growth paths leading to employee satisfaction
<b>Month 2 to 12</b>	Develop transparent internal HR processes	Setting HR policies and processes driving accountability and efficiency of HR function
<b>Month 3 to 9</b>	HR Policy Manual	Transparent communication of HR policies Symbol of Management commitment to Employee centric policies.
<b>Month 9 to 12</b>	Delegation and second line leadership development	Succession planning for Business self-sustenance

### CONCLUSION

Organizations today are increasingly knowledge-based and their success and survival depend on creativity, innovation, discovery and inventiveness. SMEs have to learn and imbibe the process of encompassing all these to remain competitive and grow in the future.

*Members can send in their interest on [ciicfc@cii.in](mailto:ciicfc@cii.in) to avail the services.*

## OUR INITIATIVES

### FINANCE FACILITATION CENTRE

Despite MSME's critical importance to the economy, the sector has been facing challenges due demand supply mismatch in financing. Some of the pronounced issues which has been plaguing the sector are which restrict their growth in order to function in their full capacity

- dearth of funds with various financial institutions
- higher interest costs,
- complicated setup procedures for the MSMEs,
- long receivables cycles leading to disruption in the smooth working capital management,
- taxation policy,
- market uncertainty, imperfect competition, limited access to trained labor, etc.

CII in line with the government has taken several measures to empower the MSMEs by collaborating with various institutions to cater to the MSME's needs. CII SME Finance Facilitation Center in association with its several financial institutional partners is one such initiative that has the sole aim of providing handholding support in the form of service assistance and spreading awareness to the MSMEs not only in the financing space but also in other domains like credit rating, compliance and Insurance for the SMEs. This center operates both offline and through an online portal and is a one stop shop, aggregating financing and other allied options from multiple large financial institutions. Till date, the Centre has reached out to over 4000 SMEs across the country and organized around 60 technical sessions wherein presentations were delivered by our partnering institutions.

### SOLUTIONS OFFERED

- Information sharing about various SME Schemes of Banks/ Financial Institutions
- Facilitation to MSMEs for assessing funds and other allied requirements
- Advisory / Guidance Support to SMEs for financing, credit rating, compliance advisory and

insurance services

- Creating Financial literacy amongst MSMEs through various activities under FFC
- Sharing of information on various financial products of banks and other financial institutions for MSMEs

### TECHNOLOGY FACILITATION CENTRE

The centre was launched in November 2016 to provide latest technological support to MSMEs. TFC provides facilitation service interconnecting technological solution providers with remote SMEs across the country and creating awareness amongst SMEs across the country on cutting edge technological solutions. It also helps in demonstration of technological solutions for more efficient usage and adoption by SMEs and automatic linkage to CII-FFC for credit facilitation support.

The objectives of the centre are;

- Highlight significant technological solutions that facilitate in enhancing the competitiveness of Indian MSMEs
- Create awareness amongst Indian SMEs about latest technological solutions available and ways to leverage these to their advantage
- Demonstrate various uses of technological solutions through presentations by technical experts
- Few of the highlights of the centre are as follows,
- Operates as a one stop shop, through online portal [www.ciiitfc.in](http://www.ciiitfc.in), summing different upgraded and latest technology from multiple technology partners.
- MSME applicants can access multiple technology providers serving MSMEs with their technology.
- Technology providers to network and interact with potential customers and gain insight for product development and diversification



## EVENTS









## Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has around 9000 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from around 276 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

India is now set to become a US\$ 5 trillion economy in the next five years and Indian industry will remain the principal growth engine for achieving this target. With the theme for 2019-20 as '**Competitiveness of India Inc - India@75: Forging Ahead**', CII will focus on five priority areas which would enable the country to stay on a solid growth track. These are - employment generation, rural-urban connect, energy security, environmental sustainability and governance.

With 66 offices, including 9 Centres of Excellence, in India, and 10 overseas offices in Australia, China, Egypt, France, Germany, Singapore, South Africa, UAE, UK, and USA, as well as institutional partnerships with 355 counterpart organizations in 126 countries, CII serves as a reference point for Indian industry and the international business community.

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