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### **MSME (MICRO, SMALL AND MEDIUM ENTERPRISES)**

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play a crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural and backward areas. The MSMEs of India would be the cradle for the “Make in India” vision and also for self-reliant India Movement.

Major Contribution of MSME is as follows:

1. It provides opportunities at comparatively lower cost;
2. It helps in industrialization of rural and backward areas;
3. Reduce Regional imbalances through the optimum utilization of their resources;
4. More equitable distribution of national income and wealth;
5. Major partner in the process of inclusive growth.

The MSME market of India is large and bubbling with newer opportunities. Increased purchasing power and consumerism is what drives the business scenario in India.

Types of Organization can register in MSME:-

- |                                   |                              |
|-----------------------------------|------------------------------|
| (1) Proprietary,                  | (5) Private Limited Company, |
| (2) Hindu Undivided Family (HUF), | (6) Public Limited Company,  |
| (3) Partnership Firm,             | (7) Self Help Group,         |
| (4) Co-Operative Society,         | (8) Others                   |

### **What is MSME?**

As per Micro, Small and Medium Enterprise Development (MSMED) Act, 2006, MSME are classified into two classes:-



## 1. MANUFACTURING ENTERPRISE:

The Enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the **\*first schedule to the industries (Development and regulation) Act, 1951)** or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprises are defined in terms of **investment in Plant & Machinery**.

## 2. SERVICE ENTERPRISE:

The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

In short, Enterprises are classified into Micro, small and Medium Enterprises on the basis of investments in Plant and Machinery or equipment respectively.

\*Classification of Micro, small or Medium Enterprises as per Investment (Section 7(1) of MSMED Act, 2006)

Classification	Micro	Small	Medium
<b>Manufacturing Enterprises</b>	Investment < Rs. 25 lac	Investment < Rs. 5 cr.	Investment < Rs. 10 cr.
<b>Services Enterprise</b>	Investment < Rs. 10 lac	Investment < Rs. 2 cr.	Investment < Rs. 5 cr.

(It has changed w.e.f 1<sup>st</sup> July, 2020 with the limits given below)

[For proposed Classification please refer D below in First Tranche of Finance Minister]

In case of Manufacturing Sectors there is maximum limit of Rs. 10 Cr and in case of Service Sector there is maximum limit of Rs. 5 Cr. which means no person can register its Manufacturing Sector under MSME if Investment in plant and Machinery exceeds Rs. 10 Cr. and similarly registration in Service Sector is also prohibited under MSME if Investment in Equipment exceeds Rs. 5 Cr.

Please note that Amount of Investment in Plant and Machinery exclude the following [Explanation I of Section 7 of MSMED Act, 2006]:-

- Research and development cost
- Cost of pollution control
- Industrial safety devices
- Other items as specified by notification

According to Section 8 of MSMED Act, 2006, any person who intend to establish



- a micro or small enterprise, may, at his discretion; or
- a medium enterprise engaged in providing or rendering of services may, at his discretion; or
- a medium enterprise engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951

shall file the memorandum of micro, small or, as the case may be, of medium enterprise with the authority through <https://msme.gov.in/>

By this, Government has made each and every thing clear in relation to registration in MSME. Although, there are few activities would not be included in manufacture or production of goods or rendering of services in accordance with section 7 of MSME Act, 2006, activities are as follows:-

NIC Code	Activity
02	Forestry and logging
03	Fishing and aquaculture
45	Wholesale and retail trade and repair of motor vehicle and motorcycles
46	Wholesale trade except of motor vehicles and motor cycles
47	Retail Trade Except of Motor Vehicles and motor cycles
97	Activities of households as employees for domestic personnel
98	Undifferentiated goods and services producing activities of private households for own use
99	Activities of extraterritorial organization and bodies

In addition to the above table, NIC Code 01 - crop, animal production, hunting and related activities would also not be included as per section 7 of the MEMED Act, 2006 except for the sub-classes:-

- Production of eggs
- Operation of poultry hatcheries
- Bee- keeping and production of honey and beeswax
- Raising of silk worms, production of silk worm cocoons
- Operation of agricultural irrigation equipment
- Support activities for animal production
- Preparation of crops of primary markets i.e. cleaning, trimming, grading disinfecting
- Cotton ginning, cleaning and bailing
- Preparation of tobacco leaves
- Other post-harvest crop activities, n.e.c
- Seed processing for propagation



**FOLLOWING DOCUMENTS/INFORMATION REQUIRED FOR REGISTRATION OF MSME**

<b>Steps</b>	<b>Particulars</b>
<b>Information Required</b>	<ol style="list-style-type: none"><li>1. Mobile No. Registered with UIDAI</li><li>2. Email-id</li><li>3. Name of Entrepreneur</li><li>4. Name of Enterprise</li><li>5. Type of Organization</li><li>6. Location of Plant</li><li>7. Official Address</li><li>8. Date of Commencement of business</li><li>9. Details of Previous EM1/EM2/SSI/UAM registration Number and proof</li><li>10. Bank Details</li><li>11. Details of Business Activity- Whether Manufacturing or Service</li><li>12. No. of Employees</li><li>13. Amount of Investment in plant and machinery/equipment (excluding land &amp; building)</li><li>14. District Industry Centre</li></ol>
<b>Documents required</b>	<ol style="list-style-type: none"><li>1. Aadhar Card</li><li>2. Pan Card</li><li>3. Passbook/ Cheque book containing Bank Account Number and IFSC Code</li><li>4. Category Certificate, if any</li><li>5. Certificate of Incorporation</li><li>6. Any of the following documents for Address Proof of the business for communication-<ol style="list-style-type: none"><li>a. Copy of passbook; or</li><li>b. Telephone Bill; or</li><li>c. Water bill; or</li><li>d. Electricity Bill</li></ol></li></ol> <p><b>Note: All documents should be self-attested</b></p>
<b>OTP</b>	Share the One Time Password (OTP) three times which will be received as follow: <ol style="list-style-type: none"><li>a) At two times on phone no</li><li>b) At one time on e-mail id</li></ol>

**Note:**

1. For those **who do not have Aadhar Card** they have to file offline application as follow:



UAM registration shall be filed by the concerned DIC or MSME-DI on behalf of such enterprise, subject to the production of the following documents as alternative and viable means of identification.

- (a) (i) If he has enrolled, his Aadhaar Enrolment ID slip; or  
(ii) A copy of his request made for Aadhaar enrolment,

(b) Any of the following documents, namely:-

1. Bank photo passbook; or
2. voter ID Card; or
3. passport; or
4. driving license; or
5. PAN card; or
6. employee photo identity card issued by the Government.

2. For those whose Mobile No is not registered with UIDAI, they can proceed with the filing of UAM but before final submission, mobile Phone is required to be updated with the UIDAI. (Please visit any Aadhar Centre to get the same updated)

### **BENEFITS FOR REGISTRATION IN MSME**

Registration of Micro, Small and Medium Enterprises (MSME) under MSME Act is a very powerful medium to enjoy the regime of incentives offered by the Centre generally contain the following:

- ➔ Easy finance availability from Banks, without collateral requirement
- ➔ Preference in procuring Government tenders
- ➔ Stamp duty and Octroi benefits
- ➔ Benefit for Registration on Trademark
- ➔ Concession in electricity bills
- ➔ Reservation policies to manufacturing / production sector enterprises
- ➔ Time-bound resolution of disputes with Buyers through conciliation and arbitration
- ➔ Reduction in rate of Interest from banks (Subject to ratings)
- ➔ Free of Cost Government tenders
- ➔ Promotion of MSME by way of development of skill in employees, management and enterprise;
- ➔ Various Credit Facilities by Central Government
- ➔ Preference policies by Government;
- ➔ Grants or subsidies by Central Government in any form
- ➔ As per Chapter V of MSME Act, 2006, protection from <sup>1</sup>delayed payments to Micro and Small Enterprises



1 MSME Form is deployed by MCA in support of MSME to give support to MSMEs in their payments and to identify the corporates who delayed the payments to Micro and Small Enterprises. In MSME form which is filed by Corporates half yearly should specify the amount and reason of delay of the payment.

In addition to this, Chapter V of MSMED Act, 2006 also has provision for interest on delayed payment of MSME.

### **Chapter V of MSMED Act, 2006 [DELAYED PAYMENTS TO MICRO AND SMALL ENTERPRISES]**

- **Liability of buyer to make payment (Sec 15)**

Where any supplier supplies any goods or renders any services to any buyer, the buyer shall make payment therefor on or before the date agreed upon between him and the supplier in writing or, where there is no agreement in this behalf, before the appointed day:

Provided that in no case the period agreed upon between the supplier and the buyer in writing shall exceed forty-five days from the day of acceptance or the day of deemed acceptance.

- **Date from which and rate at which interest is payable (Sec 16)**

Where any buyer fails to make payment of the amount to the supplier be liable to pay compound interest with monthly rests to the supplier on that amount from the appointed day or, as the case may be, from the date immediately following the date agreed upon, at three times of the bank rate notified by the Reserve Bank.

**12 Key announcements** made by Hon'ble Prime Minister in support and outreach programme for MSMEs on 2<sup>nd</sup> November, 2018 for strengthening MSME Sector. These 12 key announcements are aimed to address various challenges faced by MSMEs such as access to credit, market access, technology upgradation, ease of doing business, social security for employees of MSMEs etc. The 12 key announcements are:

- I. Launch of 59 minute loan portal to enable easy access to credit for MSMEs. In-principle approval of loans upto Rs. 1 crore through the portal linked with GST portal.
- II. 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans, and an increase in interest rebate from 3% to 5% for exporters who receive loans in the pre-shipment and post-shipment period.
- III. Companies with turnover more than Rs. 500 crore to be compulsorily brought on the Trade Receivables e-Discounting System (TReDS) to enable entrepreneurs to access credit, based on upcoming receivables.
- IV. Central Public Sector Undertaking (CPSUs) units to make mandatory procurement of 25% instead of 20% from MSEs.
- V. CPSUs to make mandatory procurement of 3% from Women Entrepreneurs out of 25% mandatory procurement.



- VI. CPSUs to compulsorily be part of Public Procurement Portal Government e-Marketplace (GeM). CPSUs to get their vendors registered on GeM portal.
- VII. 20 Hubs and 100 Spokes in the form of Tool Rooms for Technological Upgradation to be established across the country with a fund allotment of Rs. 6000 crore.
- VIII. Clusters for Pharma MSMEs to be formed with a support of 70% financial assistance from Govt. of India.
- IX. Only one annual return to be filed for 8 Labour laws and 10 Union regulations to simplify Government procedures.
- X. Computerized random allotment for visits to firms by Inspectors to simplify Government procedures.
- XI. Environment Clearance and Consent to establish unit, under air pollution and water pollution laws, to be merged into a single consent. Return to be accepted on the basis of Self-Certification.
- XII. Ordinance has been promulgated to enable entrepreneurs to correct the minor violations under the Companies Act through simple procedures rather than to approach Courts.

These are the key announcements made in the year 2018-19, but in the Financial Package which was introduced by our Finance Minister as a First Tranche to support the economy of India on May 13, 2020 has also announced some of the benefits for MSMEs which are as under:-

**A. Rs 3 lakh crores Collateral free Automatic Loans for Business, including MSME**

*Emergency Credit Line to Businesses/MSMEs from Banks and NBFCs up to 20% of entire outstanding credit as on 29.2.2020. Borrowers with upto Rs. 25 Cr. Outstanding and Rs. 100 Cr. Turnover are eligible for this. Scheme can be availed till 31.10.2020*

**B. Rs 20,000 crore Subordinate Debt for Stressed MSMEs**

*Functioning MSMEs which are NPA (Non-Performing Asset) or are stressed will be eligible for this scheme.*

**C. Rs 50,000 cr equity infusion through MSME Fund of Funds**

*MSMEs were faced severe shortage of Equity that is why this step is taken by Government of India. It will provide equity funding for MSMEs with growth potential and viability. It will encourage MSMEs to get listed on main board of Stock Exchange.*

**D. \*New Definition of MSMEs**

*Definition of MSMEs will be revised by making necessary amendments in law. Investment limits will be revised upwards and additional criteria of turnover also being introduced. Revised MSME Classification will be (Composite Criteria)*

S.No.	Enterprise- Manufacturing and	Investment and Turnover
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	<b>Service Sector</b>	
1.	<i>Micro Enterprises</i>	<i>Investment Does not exceed Rs.1 Cr. And Turnover does not exceed Rs.5 Cr.</i>
2.	<i>Small Enterprises</i>	<i>Investment: Rs.1 Cr.&gt;Rs.10 Cr. and Turnover : Rs.5 Cr.&gt;Rs.50 Cr.</i>
3.	<i>Medium Enterprises</i>	<i>Investments: Rs.10 Cr.&gt; Rs.20 Cr. and Turnover: Rs.50 Cr. &gt;Rs.100 Cr.</i>

**E. Global tender to be disallowed upto Rs 200 crores**

*To help MSMEs to increase their business and as a step towards Self-Reliant Indian and Support Make in India, Government has taken this step i.e., Therefore, Global tenders will be disallowed in Government procurement tenders upto Rs 200 crores.*

**F. Other Interventions for MSMEs**

- *E-market linkage for MSMEs to be promoted to act as a replacement for trade fairs and exhibitions.*
- *Fintech (Financial Technology) will be used to enhance transaction based lending using the data generated by the e marketplace.*
- *Government has been continuously monitoring settlement of dues to MSME vendors from Government and Central Public Sector Undertakings.*
- *MSME receivables from Government and CPSEs to be released in 45 days.*

**G. Rs 2500 crores EPF support for Businesses and Workers for 3 more months**

*Under this initiative, Central Government will make payment of 12% of employer contribution and 12% employee contributions into EPF Account of eligible establishments under Pradhan Mantri Garib Kalyan Package (PMGKP) by another three months to salary months of June, July and August 2020.*

**H. EPF contribution reduced for Business & Workers for 3 months Rs 6750 crores**

*Statutory PF contribution of both employer and employee will be reduced to 10% each from existing 12% each for all establishments covered by EPFO for next 3 months for the workers who are not eligible for 24% EPF support under PM Garib Kalyan Package and its extension.*

**Conclusion**





After registration on MSME Portal the registered MSMEs are required to furnish information relating to the enterprise to the Government in the Form as prescribed in Micro, Small and Medium Enterprises Development(Furnishing of Information) Rules, 2016 on the portal [www.msmedatabank.in](http://www.msmedatabank.in)

Government of India is taking many steps to promote the MSMEs in India and MSMEs also play a vital role in growth of the Economy by contributing in GDP. As per Annual Report issued by MSME Ministry, MSMEs has share of 28.90 % in the GDP for the year 2016-17.

For registration of MSME in the Ministry there is no fees also no documents are required, any person can register themselves on the basis of self-declaration.

### **Disclaimer**

This is note is as per understanding of author and interpretation of MSME. It is advisable to seek professional and legal advices before proceeding with this note. Firm or author will not be liable for any loss caused due to this note.

Summit Grover & Associates