

1 pc decline in cost can boost SMEs' profitability by 12.5 pc

Stressing the importance of raw material prices for small businesses, rating agency Crisil said a percentage point decrease in cost can boost their operating profit margin by 12.5 per cent. "Given that the raw material cost accounts for about 70 per cent of the overall cost of manufacturing for the SMEs, any positive or adverse movement of raw material prices has a major impact on their overall profitability," Crisil SME

Ratings Senior Director Sachin Nigam said in a statement. The small and medium enterpris-

es (SMEs) operating in engineering, capital goods, textiles and chemical industries are most sensitive to movement in raw material prices, he said.

The rating agency, which studied 3000 SMEs, added the sector could expect decline in raw material prices in the near future. According to Crisil, prices of key commodities, such as steel, cotton, commodity chemicals, plastics and rubber, which constitute a major portion of the SMEs' cost structure, will decline in 2012. Cotton and rubber prices are expected to move

down by around 20 per cent and 9 per cent respectively. Similarly, prices of other raw materials such as plastic, flat steel and commodity chemicals are expected to decline by 3 to 6 per cent, it said.

"The recent decline in commodity prices, could ease cost pressures on SMEs. Additionally, with the Reserve Bank of India lowering interest rates, SMEs could also anticipate easier access to funds at lower cost of borrowing vis-a-vis that in 2011," Crisil SME Ratings Director Yogesh Dixit said.