

53% SME promoters using own funds to tide over crisis

Crisil study shows smaller firms still don't have easy access to funds

PRESS TRUST OF INDIA

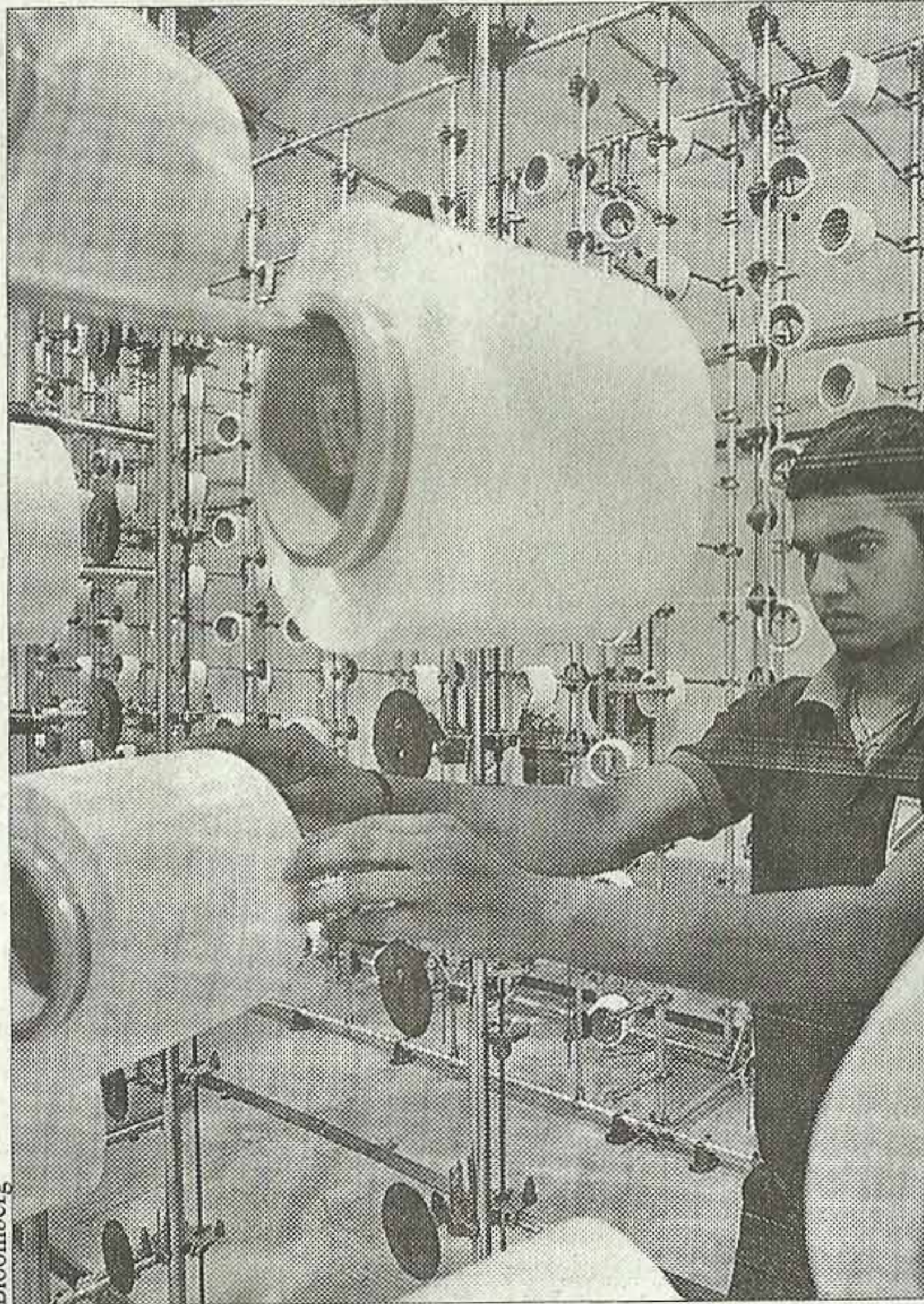
Mumbai

RATING agency Crisil on Tuesday said a large majority of SME promoters — as many as 53 per cent — continue to use their own funds to tide over inflationary pressure as getting bank funds are not without difficulties for them.

“Easy access to bank funds has always been difficult for of small and medium enterprises (SMEs)...Support from the lending institutions would have provided additional fillip to the sector,” Crisil senior director for SME ratings Sachin Nigam said in a note.

After a survey of over 3,000 small and medium enterprises on their funding patterns, it has found that 53 per cent of them met their funding needs through promoters' funds and personal loans in financial year 2010-2011, Nigam said quoting a survey finding.

The survey said that while revenue of the small and medium enterprises increased 29 per cent



Bloomberg

SORTING IT OUT: In FY12, most funding requirement of the SMEs was met through promoters' funds than bank borrowings

last financial year, raw material costs rose 31 per cent.

Operating margins marginally declined (1 per cent), showing their in-

ability to pass on the inflation pressures to their customers, he said.

In the same financial year, equity capital bought by small and medium enterprises promoters increased 29 per cent, while loans from promoters' family and friends were up 24 per cent, indicating that funding requirements were met through promoters' funds than through bank borrowings.

The Crisil study said companies in the engineering and capital goods, textiles as well as chemicals, which have high input costs, are most susceptible to inflationary pressures.

However, with the interest rates going down and ease in inflation, Crisil feels that the situation will get better for small and medium enterprises, its director for SME ratings Yogesh Dixit said.

Notably, country's largest lender State Bank of India recently announced an up to 3.50 per cent reduction in interest rates for the small and medium enterprises.