

SMEs combat inflation with own funds: Crisil

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India's small and medium enterprises (SMEs) have sought to tackle mounting inflationary pressure with funds from their own sources. This is the finding of a recent study conducted by Crisil on the working capital funding patterns of 3000 SMEs.

The SMEs' revenue grew 29 per cent, while raw material costs increased by 31 per cent in 2010-11. Their operating margin declined 1 per cent, on account of inability to pass on increase in input costs entirely to end users. The enterprises' profit after tax, however, grew 4 per cent, despite mounting working capital requirements and costs of borrowing. A study of the SMEs' funding sources reveals that 53 per cent of the total funding needs were met through the promoters' own funds and personal loans. Their equity capital (funds brought in by the promoter himself) increased by 29 per cent, while loans from the promoters' family and friends increased by 24 per cent.

This indicates that a larger portion of the SMEs' additional funding requirements were met through promoters' funding than through borrowings from banks. The enterprises maintained adequate liquidity both with their own funds, and through improved cash management.