

'MSMEs need more sources of funding'

B DASARATH REDDY

Hyderabad, 29 October

Micro, small and medium enterprises (MSMEs) are facing a double whammy — erosion of profitability due to the current economic downturn, and the increasing reluctance of banks to lend due to an increase in risk perception.

However, banking experts say that there still are funding solutions that can help both MSMEs and banks.

CitiBank India managing director Piyush Agrawal says bank lending to MSMEs must be incentivised, considering the higher risks involved in this space.

Ehsan Syed, director of India Rating and Research, says that MSMEs' cash-flow problems are accentuated because big companies give them the lowest priority when it comes to paying for supplies in time.

To overcome this issue, banks should adopt cash flow-based lending in place of asset-based lending, says P Rudran, CEO, Asset Reconstruction Company of India Limited.

CitiBank has made a start, says Agrawal. The bank is approaching big players to identify their backend supply chain. It will link its lending to MSMEs to the invoices they generate from their supplies to big companies.

Experts agree, however, that MSMEs need multiple sources of funding to ensure better access to capital. These include capital markets, NBFCs and microfinance institutions.