

REBOOTING MSMEs

IN THE COVID 19 ERA

MSME
BUSINESS
CONTINUITY
CHECKLIST



The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)



Preface

COVID 19 pandemic has posed an unprecedented challenging situation and an existential crisis before the entire mankind followed by economic and social lockdown resulting in massive loss, the magnitude of which perhaps will never be quantified. The global economic outlook for the current year is subdued on account of the pandemic that has led economies to face the situation of deceleration of growth or recession. The Indian economy that has been performing quite well with one of the highest growth rates in the recent past is no exception to the economic fallout of this medical catastrophe.

With the spread of the Indian economy and employment generation capabilities, the Micro, Small and Medium Enterprises (MSMEs) are considered to be the backbone of the national economic structure. The sector is rightfully being seen as a growth booster, providing resilience to ward off global economic adversities on account of the pandemic. MSMEs employ more than 11 crore people with a GDP share of about 29 percent and is a major constituent to achieve a target of having a \$ 5 trillion Indian Economy.

The Government has announced a host of measures to revive the MSME sector including relaxation of the criteria of an MSME so that MSMEs would not outgrow the benefits of being an MSME for a considerable time. With the lines between industries blurring, the Government has also proposed that the demarcation between services and manufacturing would be done away with and this would benefit new MSME registrations. Easy credit has been openly offered to MSMEs. RBI has allowed moratoriums on the interest on loans up till September 2020. Relaxations have been provided on the taxes front also. These liquidity infusion measures could be a shot in the arm for the MSME.

A substantial portion of Chartered Accountants is spread across the country, practicing as Small and Medium Professionals (SMPs). The accounting profession has a deep reach and connects to the MSME sector as SMPs are the trusted financial advisor of MSMEs providing a variety of services including project financing, working capital management, asset management, export promotions advice, budgetary forecasts, financial modelling, preparing standard operating procedures, assessing the design and operative effectiveness of internal controls besides regular accounting, auditing and taxation services. It is perhaps for this reason, the profession understands the pulse of the sector. It is possibly the appropriate time now to carry out a health check-up of the sector.

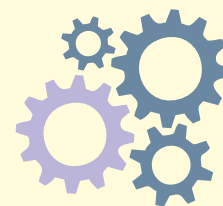
With the above objective in mind, the Institute of Chartered Accountants of India (ICAI) as true 'Partner in Nation Building' has thought it fit to have an independent analysis and come out with a model for sustainability of MSME. In the "MSME Business Continuity Checklist" we have focused on a number of factors that require special attention by the management of MSME which can guide their initiative to face this tough time.

Keeping in mind that there would be specific situations for specific stakeholders, the checklist has been made generic in nature, rather than specific to any industry or legal body. Users should use their own experience or consult a professional if needed.

I hope the checklist will serve the purpose of various research initiatives and guidance to MSME for enabling them to continue and contribute to building the Nation and be AtmaNirbhar.

Warm Regards

CA. Atul Kumar Gupta
President, ICAI



Managing your finances and working capital

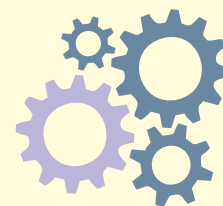
The COVID 19 pandemic era shutdown seemed like a long cut off period with no change in the results of operations of the entity- with even the impairment quantification not being easily measured reliably. Businesses may take longer to sell their inventories and that period could be say 15 months instead of the 1 year or shorter time period assumed up until now. MSMEs should reassess their normal operating cycle and reassess their current and non-current assets and liabilities. This would be helpful in the preparation of financial statements and the new working capital would help in the better presentation of the state of affairs of the business to the bankers, suppliers and shareholders.



Task	Points to ponder	Comments / Next Steps
<ul style="list-style-type: none"> ➤ Have you reassessed the normal operating cycle of your entity? 	<ul style="list-style-type: none"> • The normal operating cycle of an entity is defined as the time between the acquisition of assets for processing and their realization in cash or cash equivalents. • Non-current assets and liabilities may be classified as current assets and liabilities 	<p>Important to consider depreciation and credit exposure</p>
<ul style="list-style-type: none"> ➤ What is your working capital requirement? 	<ul style="list-style-type: none"> • Does your stock require a write-down? • How much reduction in turnover is expected? • Review the customer to whom you were supplying to assess the future order • Re-assess the debtor payment cycle • Re-assess what extra time can be obtained for payment to creditors • Can we postpone some payment to wages and salary and other statutory dues? • Analyze availability of cash flow for next three- six months to sustain even in reduction of turnover • Assess gap funding required for 6 months to 1 year • Consider giving a discount to your customer if they issue you a postdated cheque (PDC) 	



Task	Points to ponder	Comments / Next Steps
	<ul style="list-style-type: none"> • Is your PDC a proper document otherwise the benefit will be lost? • Have you considered bill discounting? • Do you see red flags in the credit payments to your supplier or customer who pays on credit? • Have you considered obtaining a credit report from your customers and suppliers? 	<p>Just-in time manufacturing is an effective tool to consider.</p>
<p>➤ Do you need to improve your liquidity situation?</p>	<ul style="list-style-type: none"> • Would you like to avail a loan? • Have you considered the 'pari passu' clause? If you are taking a loan (with a previous existing loan) then due to a 'pari passu' clause the original loan security would reduce as 'pari passu' stands for 'equal footing'. • Would you like to go for benefit in availing relaxation on working capital by banks? • Do you know your credit rating which can easily be obtained through CRISIL? • Consider maintaining a good credit score which will help you get a better loan and better business • Have you considered asking your shareholders for equity infusion? 	<ul style="list-style-type: none"> • Government is prioritizing lending to MSMEs from banks by including small enterprises in the earmarked priority sector and raising sub-target limit to 10% from 7.5% • The Government is offering loans of up to 3 lakh crores to MSMEs without collateral at a rate of 9.25% • Collateral free & MUDRA small loans to encourage self-employment
<p>➤ Are you aware about the credit support for MSMEs?</p>	<ul style="list-style-type: none"> • RBI has allowed a moratorium period of 6 months for repayment of MSME loans and other forms of debts, together with a provision of 'no change' in the credit rating during the said period. • Norms for declaring NPA period in banks be extended to 180 days for at least next 2 years as the MSMEs need uninterrupted banking assistance to deal with this crisis situation. 	<ul style="list-style-type: none"> • Have an active dialogue with bankers



Task	Points to ponder	Comments / Next Steps
	<ul style="list-style-type: none"> Interest rate subvention @ 3% on loans to MSMEs that are healthy and not NPAs. IBC suspended for a year, Covid-19 related debt exempted from default Interest from Mar – August may be added to principal from September or paid off before March next year Notify the bank if the business is expecting the breach of a covenant in the near term 	
<ul style="list-style-type: none"> Have you analyzed the financial statements and important ratios for decision making? 	<ul style="list-style-type: none"> Re-assess crucial ratios such as working capital ratio, debtor turnover ratio and average collection period, creditor turnover ratio and average repayment period, and stock/inventory turnover ratio in pre COVID period and post COVID period for remedial actions. 	<ul style="list-style-type: none"> Better information leads to better decisions

Entering the formal economy

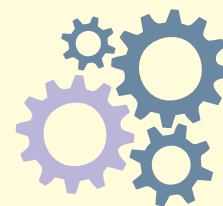
MSMEs which are part of the formal economy have better access to finance and are able to reap the benefits of export, including refund of GST paid as taxes are not exported.



Task	Points to ponder	Comments / Next Steps
<ul style="list-style-type: none"> Have you registered your MSME with the Udyog Aadhar website? 	<ul style="list-style-type: none"> Having registered the MSME has other benefits like the recipient of goods/services from MSME is bound to pay within 45 days of such receipts. Registration is free. 	<p>Government is proposing to do away with the distinction between 'services' and 'manufacturing' category of MSME.</p>
<ul style="list-style-type: none"> Would you like to corporatize your MSME or convert it into an LLP? 	<ul style="list-style-type: none"> YES/NO 	<p>Benefits of LLP/ Corporatisation:</p> <ul style="list-style-type: none"> Limited Liability Separate identity from owner



Task	Points to ponder	Comments / Next Steps
		<ul style="list-style-type: none"> • Once your MSME is a part of the formal economy it will be able to get access to finance and to export. • Lack of accounting systems are a deterrent for investors putting their money in the business. • MSMEs need accounting standards and systems to export and receive tax refunds. • Owner managed businesses have no proper accounts.
<p>➤ Are you aware about the dedicated helpdesk for MSMEs?</p>	<ul style="list-style-type: none"> • YES. ICAI is in process of developing this helpdesk. In the meantime, various department and ministry are also looking forward in this direction. 	<p>Look out for government grant/ subsidy</p>
<p>➤ Are you worried about issues of Financial/ Statutory Compliances and feel relaxation in statutory compliances like filing of GST returns in time, timely refunds of GST payments and some other measures need to be taken?</p>	<ul style="list-style-type: none"> • Government is examining the matter and providing suitable relief measures. 	



Liquidity is the lifeline

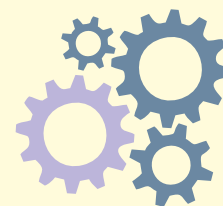
In today's time liquidity is the lifeline. MSMEs need to conserve cash and reduce capex and wastage over wanted or excessive costs. It is time to separate the wheat from the chaff and go lean.



Task	Points to ponder	Comments / Next Steps
<p>➤ Do you need to prepare short-term, medium term and long term forecast as per various scenarios? Analyze</p>	<ul style="list-style-type: none"> • Which expenses could be reduced such as travel and marketing? • Which expenses could be saved? • Which could be the additional expenses? • Which operations/line of operations can be temporarily paused? • Which assets may not be purchased currently taking benefit of reduced price? • Focus on products that provide more cash flow • Have you considered reducing your capex? • Have you considered renting less building space as per your optimum needs? 	<p>Important to analyse how long the cash resources will last and consider availing financing accordingly</p>
<p>➤ Would you like to take a sensitivity analysis or shock analysis to help prepare better for scenarios?</p>	<ul style="list-style-type: none"> • Analyse the impact of the loss of a major customer or supplier or the prospects of a drop in sales by a significant margin of say 20% • Prepare best and worst case scenarios • Consider the impact of COVID 19 returning again after a period of time • Consider the possibility of developing new customers • Consider the possibility of developing new and lateral products 	<p>Consider worst case scenario as well.</p>



Task	Points to ponder	Comments / Next Steps
<p>➤ Are you struggling to meet the Delivery Schedule in respect of Government orders, PSUs, Railways etc. where Liquidated Damages (LD) clause may apply as per contract terms?</p>	<ul style="list-style-type: none"> • Are you in a contract where Liquidated damage clause is applicable? If Yes, have you proposing to take benefit of DPE, Railway Board and other Ministries having PSUs to be approached to allow relaxation in applicability of LD clause for a period of from the schedule date of delivery/execution of order? • Consider that liquidated damages clause works both for and against you 	<p>LD clause waiver in cases can help avoid impairment</p>
<p>➤ Are you suffering due to delayed collection for supplies made to any Government department/PSU</p>	<ul style="list-style-type: none"> • Government is proposing that DPE, Railway Board to be approached for immediate intervention and release of all pending payments by CPSEs and Railways to the MSME, even if the related matter is pending with MSEFC 	<p>Follow up where required</p>
<p>➤ Are you worried about meeting fixed costs including on leases? The most emerging challenge during the lockdown period as well as in the post COVID-19 period</p>	<ul style="list-style-type: none"> • Negotiate rent agreements applying the 'Force Majeure clause' implying treating COVID 19 as an Act of God • Consider that the 'Force Majeure clause' works both for and against you 	<p>Keep bankers informed of your efforts and look out for reliefs offered by state governments.</p>
<p>would be meeting fixed costs. While this will be burdensome in absence of regular funds flow, the problem will be more intensified if Banks/NBFC create pressure on MSMEs for repayments of the dues.</p>	<ul style="list-style-type: none"> • Consider lease break options • Explore payment deferrals • Explore lean manufacturing by sharing infrastructure like packaging facilities 	
<p>➤ Are you facing an escalation of product Prices? In the post COVID-19 period</p>	<ul style="list-style-type: none"> • Yes/NO. If yes, then need to represent with CBIC for reduction in GST Rate or search for alternative vendor for continuity in supply of products 	<p>Consider sourcing locally and reducing cost excesses</p>



Task	Points to ponder	Comments / Next Steps
➤ Go lean?	<ul style="list-style-type: none"> • Use the optimal level of staff and other resources like water, gas, electricity, fuel etc. • Switch to more local suppliers • Identify inefficiencies • Waste recycling to reduce costs 	

Data is the new oil- Digitisation, internal controls and risk management

For many businesses the lockdown was pivotal in their digitisation drive. Many businesses were worried about internal controls in the circumstances and many more planned to take insurance and improve the security of their data.



Task	Points to ponder	Comments / Next Steps
➤ Have you assessed the weaknesses in your internal control which got highlighted during lockdown	<ul style="list-style-type: none"> • Which internal controls are weak? • Do you need to set up standard operating procedures in areas like approval and payments? • Is your data secure at the time of remote working? 	Important to invest in cyber security
➤ Do you need to carry out a due diligence lost the lockdown?	<ul style="list-style-type: none"> • Would you like to take a stock of your assets post lockdown? • Would you like to value your assets? • Which assets may be sold off to raise cash? 	Important to assess fraud risk in more areas other than cash and revenue
➤ Have you got your trademarks registered	<ul style="list-style-type: none"> • It is important at this time to protect your Intellectual property. 	Consider the geography in which you wish to protect your IP- whether within India or abroad as well
➤ When did you last review your IT systems?	<ul style="list-style-type: none"> • Invest in cyber security • Be aware of scams, Phishing and cyber crime • Use current version of software • Use a good quality firewall • Take back up of data • Do frequent trainings on IT tools • Do virtual meetings 	



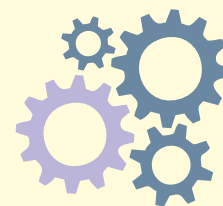
Task	Points to ponder	Comments / Next Steps
➤ Have you taken insurance?	<ul style="list-style-type: none"> • What percentage of your business is digitized? • Do you use cloud-based accounting software? • Consider what your insurance policy covers • Does your insurance policy cover loss of business and insolvency? • Are your assets covered? • Is the life and health of the owner/ entrepreneur covered? • Is the life of the employees covered? • What additional insurance do you think your business would be better off taking? 	

Government schemes for MSMEs

The Government is responding very fast to the product requirements in the country like personal protective equipment for medical staff which needed to be sourced from within India in the lockdown. MSMEs should keep a look out for schemes, subsidies and grants provided by the government for various products.



Task	Points to ponder	Comments / Next Steps
➤ Are you an MSME manufacturing medical items and auxiliary items?	<ul style="list-style-type: none"> • Government Technology Centres are undertaking practical demonstrations on sanitizer manufacturing, sharing details of Mask, PPE manufacturing, formulations, Product Suppliers, Quality Standards, Testing labs etc. • Faster Approvals: May require relaxed terms & conditions especially for the items which fall under medical/auxiliary categories • Government Emphasis on quick Industrial Infrastructure Development 	Take advantage of the government support to grow this line of business



Task	Points to ponder	Comments / Next Steps
	<ul style="list-style-type: none"> • Government supporting Mass Production CFCs for mass production of such products/intermediaries by MSMEs • Government giving priority in manufacturing of COVID Related Items such as masks, gloves, PPE, ventilators, Testing Equipment, Infrared Thermometers, etc. 	
<p>➤ Are you aware of the initiatives of the Khadi and Village Industries Commission?</p>	<ul style="list-style-type: none"> • Release of INR 1,000 per month to each registered artisan from the Artisan Welfare Fund Trust • Khadi institutions directed to release AWF contribution to the bank accounts of artisans in three instalments • Release of funds under Market Development Assistance (MDA) to Khadi Institutions and Artisans through DBT 	<p>Look out for government grant/ subsidy</p>
<p>➤ Are you aware about the initiatives undertaken by National Small Industries Corporation Ltd NSIC?</p>	<ul style="list-style-type: none"> • MSMEs availing Product Assistance against Bank Guarantee prior to 01/03/2020 allowed moratorium of 03 months for repayment of outstanding dues • Accounts of MSMEs to be frozen to avoid outstanding in the books in cases where outstanding is going to touch 99.99% of BG value. • SPRS enlistment certificates expiring between 01/03/2020 to 30/06/2020 to be continued. • 50% discount offer on Annual membership in MSME Mart extended. • Godowns of essential commodities like Polymers in Field Offices allowed to carry out operations 	<p>Look out for government grant/ subsidy</p>

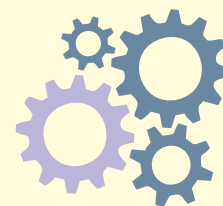


Social distancing at workplace, remote working and taking care of employees

The MSMEs need to take care of the rearrangement and sanitization of their office spaces once they unlock their business. They need to ensure that the staff have a minimum 6 feet physical distance between them, have staggered office and meal timings, are allowed remote working where possible, provided sanitizers and their workplace is kept clean.



Task	Points to ponder	Comments / Next Steps
<p>➤ Have you thought about physical distancing of minimum 6 feet of your employees at workplace? Have you provided them with sanitizers, soap and PPE where required?</p>	<ul style="list-style-type: none"> • Do you get the office premises sanitized? • Do you ensure the use of masks, sanitizing and social distancing? • Do you provide your employees with PPE where needed? • Have you rearranged the office furniture so that a distance of 6 feet is maintained between employees at workplace? • Have you thought through staggered working hours and staggered meal timings? 	<p>Important to take good care of your people</p>
<p>➤ Are you allowing work from home to those who have the infrastructure to do so?</p>	<ul style="list-style-type: none"> • Have you provided laptops and other IT equipment to your employees? • Do your systems and processes need to change? • Do you allow flexibility? • Do your sick leave and vacation policy need to change? • Have you considered paying 'sick leave' to your employees instead of showing the payments as salary? • Have you considered giving leave to employees without pay? 	<p>Important to take good care of your people</p>
<p>➤ Do you boost the morale of your staff?</p>	<ul style="list-style-type: none"> • Involve staff by asking for ideas on how the business can succeed • Express faith in staff • Keep in touch through virtual meetings and keep the morale up • Be transparent about the state of affairs 	<p>Important to take good care of your people</p>



Reinvent your business to adapt to changing customer habits

The pandemic has accelerated certain trends in consumer behavior like a spike in online purchases, use of chatbots etc. E-commerce is the cheapest way for an MSME to showcase its products and maybe it's time to take the business online and improve the social presence of the business. It is also a good time for MSMEs to think of improving their productivity and accessing new markets to sell the increase in production.



Task	Points to ponder	Comments / Next Steps
<ul style="list-style-type: none"> ➤ Would you like to export your goods? 	<ul style="list-style-type: none"> • IEC number is needed from the Directorate General of Foreign Trade • GST number is needed • Authorised Dealer code is needed from the bank of the exporter • The exporter needs to be registered with Customs to be able to export through the port • Trademarks may need to be protected in foreign lands by registering them outside India as well • Taxes are not exported so MSMEs would get refund of GST paid as input tax credit 	<p>Consider export as growth of products would need new markets</p>
<ul style="list-style-type: none"> ➤ With COVID 19 the changes in the social habits of people have accelerated and online purchases are booming. Would you like to take your business online? 	<ul style="list-style-type: none"> • 50% discount offer on Annual membership in MSME Mart extended. • Consider making a website or using Government e-commerce portal • For exports many online platforms could be explored • Improve social presence 	<p>Consider changing your business operating model to suit changing consumer needs</p>
<ul style="list-style-type: none"> ➤ Are you thinking about serving your customers better? 	<ul style="list-style-type: none"> • Improve packaging and quality of products • Improve market image • Give prompt delivery • Ask for feedback and post online • Leverage Customer relationship management systems and data • Consider using chatbots 	<p>Adopt a customer centric approach as the customer habits are changing fast</p>



This Checklist has been developed by an ICAI Group formed to recommend suggestions on rebooting the Indian Economy post COVID-19 global shutdown comprising of the following members:

Convenor

CA. Atul Kumar Gupta, *President ICAI*

Deputy Convenor

CA. Nihar Niranjan Jambusaria, *Vice-President ICAI*

Members

- CA. Tarun Jamnadas Ghia
- CA. Rajendra Kumar P.
- CA. Ranjeet Kumar Agarwal
- CA. Prakash Sharma
- CA. Charanjot Singh Nanda
- CA. (Dr.) Sanjeev Kumar Singhal
- CA. Anuj Goyal
- CA. Chandrashekhar Vasant Chitale
- CA. Nandkishore Chidamber Hegde
- CA. Dheeraj Kumar Khandelwal
- CA. Babu Abraham Kallivayalil
- CA. Durgesh Kumar Kabra
- Shri Chandra Wadhwa

Special Invitees

- CA. Amarjit Chopra, *Past President ICAI*
- CA. G. Ramaswamy, *Past President ICAI*
- CA. Manoj Fadnis, *Past President ICAI*
- CA. Balram Nandwani
- CA. Puneet Agrawal
- CA. Rohini Aggarwal
- CA. R. Sundaram

ICAI – A proud partner in nation building

ICAI

– A proud partner in nation building



The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

ICAI BHAWAN, Post Box No. 7100, Indraprastha Marg, New Delhi - 110 002

Tel. No.: (011) 30110448 | Website: www.icai.org