

Lenders mull revised credit cover for SMEs

Plans afoot to support such units to absorb shocks, rework strategies

ABHIJIT LELE

Mumbai, 4 April

With micro, small and medium enterprises (MSMEs) being more vulnerable to trade tariff shocks, lenders are toying with the idea to suggest revision in terms for credit guarantee cover as part of the support package.

The SMEs may have relative advantage for sectors against countries like China, which face higher reciprocal tariffs. They would need incentives, bankers said.

“The situation is evolving. We are keeping track of developments,” a senior State Bank of India (SBI) executive said.

Some of the industries may be impacted are textiles, auto part components and gems and jewellery. SMEs in this segment have relatively limited capacity to absorb shocks and rework action plans. Such units may need support and one of steps could be tweaking the credit guarantees scheme to provide comfort to lenders to provide funding. This could be discussed with the union government, bankers said.

Some industries in India may be better placed than enterprises in other competing nation's which are facing higher tariffs, they added.

The credit to micro and small units grew by 9.7 per cent year-on-year (Y-o-Y) basis to ₹7.84 trillion in February. The loans to medium size firms rose by 18.1 per

cent Y-o-Y to ₹3.52 trillion in February, according to Reserve Bank of India's data.

Apparently, there is already one per cent downward revision of the reciprocal tariff on India to 26 per cent. It would take a while to workout action plans to provide support. This would be done by holding discussions with stakeholders – industry organisations, units and the government, two public sector executives said.

Top executive of a Delhi-based lender said the situation remains fluid. The pharmaceuticals sector has

been kept out of reciprocal tariffs.

It is one of the biggest exporters now. The consistency of policy (from the US) is important.

Textiles is another major sector.

“Let us see in another 15 days what is going to happen and then we will have discussion with corporate clients,” he said.

SBI in its research report on likely impact (of US tariff) said India's exports to the US is only ₹ four per cent of GDP so direct impact appears limited though collateral impact from overall global growth slowdown and heightened global financial volatility will take a toll going ahead.

India's exports to the USA are on a declining trend since FY23 with the share in total exports around 17-18 per cent. The top 15 items exported to the US accounted for 63 per cent of total exports, it added.

