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COMPREHENSIVE STUDY OF THE MSME SECTOR IN INDIA: DEFINITIONS, CHALLENGES, AND CAUSES OF DISTRESS

AUTHORED BY - MEGHA MAHESH

ABSTRACT

This paper comprehensively studies India's Micro, Small, and Medium Enterprises (MSME) sector, examining its definitions, significance, challenges, and underlying causes of distress. The MSME sector is integral to India's economic landscape, contributing approximately 30% to the Gross Domestic Product (GDP) and generating employment for over 110 million people. Defined under the MSME Development Act of 2006, the sector encompasses various industries, facilitating innovation, entrepreneurship, and local development.

Despite its critical role, the MSME sector grapples with numerous challenges that impede its growth and sustainability. Key issues include inadequate access to finance, where many small enterprises need more time to secure loans due to stringent credit requirements and high collateral demands. Bureaucratic hurdles further complicate the operational landscape, as cumbersome regulatory processes deter potential entrepreneurs and stifle growth.

Technological lag, inadequate infrastructure, and the COVID-19 pandemic have exacerbated vulnerabilities in the MSME sector, leading to financial distress and insolvencies. Economic fluctuations, rising input costs, and reduced consumer demand also increase susceptibility to external shocks.

This study identifies several causes of distress, including poor cash flow management, high debt levels, and inadequate infrastructure. Furthermore, the interconnected nature of MSMEs often leads to group dynamics that complicate insolvency resolutions, as financial distress in one entity can have cascading effects on related businesses.

In light of these challenges, the paper emphasizes the need for targeted government initiatives and policy reforms to bolster the resilience of the MSME sector. Recommendations include improving access to credit through streamlined lending processes, simplifying regulatory

frameworks to reduce compliance burdens, promoting technological adoption to enhance competitiveness, and strengthening group insolvency mechanisms to ensure effective resolution processes.

Overall, this study aims to provide valuable insights for policymakers, researchers, and stakeholders in fostering the growth and sustainability of the MSME sector in India, which is vital for economic recovery and development.

Keywords: MSME sector, economic growth, challenges, distress, insolvency, access to finance, government initiatives, policy reforms, technological adoption.

I. INTRODUCTION

The Micro, Small, and Medium Enterprises (MSME) sector is a crucial economic growth and employment driver. Defined by the Government of India based on investment and turnover limits, MSMEs contribute over 30% to GDP and 45% to exports. Despite their importance, MSMEs face several challenges, including limited access to credit, outdated technology, inadequate infrastructure, and regulatory burdens. These challenges are compounded by causes of distress, such as market fluctuations, competition from more prominent players, and vulnerability to economic shocks. A comprehensive study of the MSME sector examines these issues to identify solutions that foster resilience and sustainable growth.

1. NATURE AND EVOLUTION OF MSMEs

- **Nature:** The MSME sector in India spans many industries, including manufacturing, services, and traditional sectors like handicrafts and rural industries. These enterprises vary from small family-owned businesses to more structured medium-sized firms contributing significantly to exports and job creation. Renowned for flexibility and innovation, MSMEs are pivotal in fostering regional growth, creating jobs, and supporting more prominent industries through supply chain networks. However, they often have limited access to resources and rely on informal management approaches, highlighting the sector's strengths and need for modernization to drive economic growth and stability.
- **Historical Background:** MSMEs (Micro, Small, and Medium Enterprises) have a rich history in India. They emerged initially as small-scale cottage and handicraft industries. Post-independence, the government recognized the need

to protect and promote these industries, which led to early policy support in the 1948 Industrial Policy Resolution (IPR). The policies of the 1950s and 1960s favored small-scale industries with preferential treatment to reduce poverty and boost employment.¹

- **Liberalization in 1991:** Economic liberalization marked a pivotal shift, exposing MSMEs to new opportunities and increased competition from larger and foreign firms. The globalization of trade encouraged MSMEs to explore new markets, while increased competition forced them to modernize, albeit at a slower pace.
- **Post-2006 Developments:** The Micro, Small, and Medium Enterprises Development Act (MSMED Act) in 2006 was a landmark regulation that provided a legal definition and framework for MSMEs. It marked the beginning of targeted government policies to increase MSMEs' competitiveness and sustainability in the global market.
- **Recent Changes:** The 2020 update to MSME definitions, including a turnover criterion alongside investment limits, aimed to expand the sector's eligibility and simplify access to credit. This has since encouraged MSMEs to scale up while retaining classification benefits.

2. CHARACTERISTICS OF MSMEs

- **Resource Constraints:** Typically, MSMEs operate with limited financial and technological resources. They often depend on informal finance channels, leading to high borrowing costs and vulnerability to credit crunches.
- **High Employment Generation:** MSMEs are highly labor-intensive and have a significant capacity for employment generation. They employ around 110 million people, a large portion working in semi-urban and rural settings.

3. SIGNIFICANCE OF MSME IN INDIA

- **GDP Contribution:** MSMEs contribute approximately 30% to India's GDP, reflecting their role in economic growth and diversification. Their agility allows them to operate across multiple sectors, from manufacturing and trade to services.²

¹ Government of India, "The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006," available at <https://msme.gov.in>.

² Ministry of Micro, Small and Medium Enterprises (MSME), "Annual Report 2021-2022," Government of India, available at <https://msme.gov.in>.

- **Employment Generation:** MSMEs are vital for employment generation, creating jobs for diverse skill levels and demographics. They offer employment opportunities for skilled and unskilled labor, reducing poverty and migration to urban centers.

Sector	Total Employment in MSMEs (in Million)	Percentage of Total Employment in India
Manufacturing	30.1	8.5%
Services	28.4	7.9%
Agriculture	12.2	3.4%
Retail & Wholesale	25.3	7.0%
Total MSMEs	95.0	25.8%

- **Export Contribution:** MSMEs contribute nearly 45% of India’s total exports, with sectors such as handicrafts, textiles, gems and jewelry, and leather goods being particularly prominent.

4. DEFINITION OF MSMES (PRE-2020, POST-2020, PRESENT)

- **Pre-2020 Classification:** Until 2020, MSMEs were classified based solely on investment in plant and machinery or equipment. The low thresholds made it difficult for MSMEs to grow without losing their classification status and access to benefits.
- **Post-2020 Reclassification:** The government redefined MSMEs in 2020 to allow for more considerable turnover and investment limits, making the sector more inclusive. This change added a turnover criterion to the existing investment limit, allowing businesses to scale without the immediate threat of losing MSME status.

- **Current Definition- 2024**

The definition of **Micro, Small, and Medium Enterprises (MSMEs)** in India is based on the **Atmanirbhar Bharat Abhiyan** announcement made in June 2020 and notified in July 2020. This definition focuses on **plant and machinery/equipment investment** and **annual turnover** to classify enterprises as micro, small, or medium.

○ **Highlights**

1. **Unified Criteria:** The definition uses a **single uniform threshold** for manufacturing and service sectors, which earlier had separate criteria.
2. **Composite Basis:** Classification now considers **both investment and turnover**. An enterprise will qualify as an MSME if it satisfies either criterion.
3. **Revised Periodically:** The government retains the right to revise these thresholds to account for inflation or changing economic conditions.
4. **Udyam Registration:** MSMEs must register through the **Udyam Registration Portal**, which uses a self-declaration method based on Aadhaar. The system integrates with PAN and GST databases to verify turnover and investment automatically.

○ **Benefits of the New MSME Definition**

- **Broader Inclusion:** Many enterprises previously excluded due to low investment limits now qualify as MSMEs.
- **Ease of Doing Business:** Simplified registration and compliance processes encourage formalization.
- **Increased Growth Opportunities:** Higher limits allow MSMEs to scale up without losing benefits.

DEFINITION OF MSME		
CLASSIFICATION	Manufacturing Enterprise (Investment in Plant and Machinery or equipment)	Annual turnover
MICRO	Up to 1 crore	Up to Rs. 5 crore
SMALL	Up to 10 Crore.	Up to 50 Crore
MEDIUM	Up to 50 Crore.	Up to 250 Crore ³

II. OVERVIEW OF MSME ACT

1. KEY PROVISIONS OF THE MSME DEVELOPMENT ACT, 2006

- **Purpose and Objectives:** The MSME Act aimed to foster and promote the competitiveness and sustainability of MSMEs by formalizing their categorization and providing a structured framework for support.

³ Ministry of Micro, Small & Medium Enterprises, 2007 and Annual Report of Working Group of MSMEs (2018-19).

- **Provisions for MSME Development:** The act includes provisions for credit facilitation, technology upgradation, infrastructural development, and skill training programs. This helps MSMEs enhance productivity and efficiency to compete domestically and globally.
- **Market Support and Promotion:** The act also mandates policies to facilitate market linkages, ensuring MSMEs have access to both domestic and global markets. It includes procurement policies, stipulating that government agencies must source a certain percentage of their purchases from registered MSMEs.

2. REGISTRATION PROCESS AND LEGAL FRAMEWORK

- **Udyam Registration:** Since July 2020, the Udyam Registration process has become mandatory for MSMEs to access government schemes and benefits.
- **Legal Protections:** The act includes legal safeguards for MSMEs in case of payment delays from clients, particularly giant corporations. It mandates timely payments, with penalties for delayed settlements, thus providing MSMEs with greater financial security.

3. RECENT AMENDMENTS AND GOVERNMENT INITIATIVES

- **PMEGP (Prime Minister's Employment Generation Programme):** A central sector scheme to create self-employment opportunities through micro-enterprises, providing subsidies and financial assistance to new entrepreneurs in both rural and urban settings.
- **CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises):** This scheme encourages banks and other financial institutions to offer collateral-free loans to MSMEs. The government guarantees a portion of the loan amount, reducing the risk for lenders.
- **TReDS (Trade Receivables Discounting System):** This electronic platform allows MSMEs to auction their receivables, facilitating quick cash flow solutions by allowing them to receive early payments for pending invoices from large corporates and PSUs.

III. PROBLEMS AND CHALLENGES OF MSMEs IN INDIA

PROBLEMS

- 1. Financial assistance** – IndusInd Bank provides MSME loans at competitive rates, offering hassle-free services, customized products, and comfortable repayment tenure to help small businesses overcome credit challenges.
- 2. Marketing-** The National Small Industries Corporation (NSIC) organizes workshops to help MSMEs increase the marketability of their products and services, address challenges such as a lack of resources, time, and skilled employees, and generate quality leads.
- 3. Technology** – MSMEs in India face challenges in adopting new technology, training employees, and investing in advanced tech solutions due to a lack of IT education and awareness.
- 4. Upskilling-** Skilled employees are crucial for business growth, and multinational companies prioritize on-the-job training. However, small-scale enterprises often fail to upskill their workforce, unknowingly affecting their success.
- 5. Business expertise-** While entrepreneurs may have subject matter expertise relevant to their goods and services, they might need more business acumen to run an enterprise smoothly. These include funding and financing, tracking sales, managing input and output costs, etc.
- 6. Procurement of raw materials-** The NSIC has launched a 'Raw Material Assistance Scheme' to assist MSMEs in procuring raw materials, addressing challenges such as a lack of bulk orders, credit facilities, and transportation.
- 7. Innovation** – Rapid change necessitates increased creativity and innovation for survival. Knowledge-based businesses rely on creativity, innovation, discovery, and inventiveness, requiring MSMEs to adapt and innovate daily.
- 8. Stiff competition from giant businesses** – Indian MSMEs face increasing competition from global and domestic giants, despite government protection schemes, making selling their products in domestic and international markets challenging.
- 9. Overall management-** IndusInd Bank Current Accounts provides money-management solutions to help small enterprises overcome insufficient management skills, grow their workforce, cater to diverse customer needs, manage inventory, and maintain a supply chain.

CHALLENGES

1. Financial Constraints

Access to Formal Credit:

- **Challenges with Collateral:** MSMEs often lack collateral for loans, leading to high interest rates or rejection due to their limited fixed assets and inventories.⁴
- **Credit History Issues:** MSMEs often struggle with financing due to limited or no credit history. This leads to reliance on informal sources, increasing their vulnerability to higher interest rates and poor financial health.

Dependence on Informal Credit: Due to high interest rates, MSMEs often rely on informal credit sources like family, local lenders, or moneylenders, leading to financial instability. Government initiatives like CGTMSE aim to address this gap.

Delayed Payments and Cash Flow Problems: MSMEs face cash flow issues due to delayed payments from large corporate buyers, affecting their ability to pay employees, purchase raw materials, and expand operations.

2. Operational and Technological Challenges

- **Infrastructure Deficiencies:** MSMEs, particularly in rural and semi-urban areas, often lack adequate infrastructure, leading to increased operational costs and poor logistics. This affects their competitiveness and ability to source raw materials cost-effectively.
- **Limited Technology Adoption and Digitalization:** MSMEs often lack access to advanced technology, decreasing productivity and efficiency. Traditional production methods and outdated machinery are prevalent, and high costs limit their competitiveness in domestic and global markets.
- **Skilled Workforce Shortage:** MSMEs struggle to attract and retain skilled labor due to limited resources and a lack of vocational training programs, which affects productivity and quality standards.

3. Market Access Issues

- **Competitive Pressures from Larger Corporations:** MSMEs face challenges in establishing a competitive market presence due to market consolidation and economies of scale, leading to limited, niche markets.
- **Delayed Receivables and Dependency on Large Buyers:** Late payments in MSMEs, primarily supplying large corporations or government projects, can lead

⁴ State Bank of India, "Financing MSMEs: Challenges and Solutions," SBI Research Report, 2022.

to dependency on a few large clients, making them vulnerable to changes in their buying patterns. While the **Trade Receivables Discounting System (TReDS)** platform is intended to improve payment timelines, uptake among MSMEs has been slower than expected due to limited awareness and bureaucratic complexity.

4. Regulatory and Compliance Hurdles

- **Complex Compliance Requirements:** MSMEs face numerous compliance regulations, such as GST, labour laws, and industry standards, which require dedicated resources and time, and lack of simplification, diverting focus from core business activities.
- **Costs Associated with Compliance:** Compliance costs for small businesses, including legal fees and documentation, can impact profitability. Sector-specific challenges, like stringent quality standards in industries like food processing, pharmaceuticals, and textiles, can also hinder entry.

5. Environmental and Social Challenges

- **Environmental Sustainability Requirements:** MSMEs struggle to meet strict environmental regulations due to limited resources and lack of green financing, hindering adoption of sustainable practices like clean energy and waste management.
- **Social Compliance:** MSMEs face challenges in maintaining fair labor practices due to limited capital and awareness, and lack of access to government and non-governmental support programs.

Data from MSME Report

Access to Credit	45%
Regulatory Issues	30%
Market Competition	40%
Skilled Labor Shortage	25%
Infrastructure Deficiencies	20%

IV. CAUSES OF DISTRESS IN THE MSME SECTOR- FINANCIAL AND BUSINESS DISTRESS

1. DISTRESS IN MSMES

- **Definition and Types of Distress:** MSME distress can be broadly categorized into financial distress (inability to meet financial obligations, liquidity crises) and business distress (operational inefficiencies, competitive pressures, market demand issues). Both types are often interconnected, with financial distress impacting operational capabilities and vice versa.
- **Importance of Addressing Distress:** The MSME sector forms the backbone of India's economy in terms of employment and exports. Addressing distress is essential for maintaining economic stability, employment, and the growth of domestic manufacturing.

2. FINANCIAL DISTRESS IN MSMES

- **Inadequate Working Capital and Cash Flow Issues:** MSMEs rely on consistent cash flow for operations, salaries, and raw material purchases, making sudden disruptions potentially severe. Limited working capital access, such as overdraft facilities or quick-disbursal loans, further increases vulnerability to cash flow issues.
- **High-Cost Borrowing and Dependence on Informal Credit:** MSMEs often face high interest rates on formal credit due to perceived risk, leading to higher financial costs and affecting profitability and growth. They also often rely on informal lenders, who charge exorbitant interest rates, causing a cycle of high-interest debt and financial strain.
- **Delayed Receivables from Large Buyers:** Large corporations and government agencies frequently delay payments to MSMEs, disrupting their cash flow and damaging long-term business relationships. MSMEs rely heavily on key clients, which can increase their risk of financial distress if payments or orders are delayed.
- **Insufficient Financial Management Skills:** Many MSMEs lack dedicated financial management teams and often have limited knowledge of cash flow management, credit control, and effective budgeting. This increases their vulnerability to financial challenges.

Cause of Distress	Percentage of MSMEs Affected	Explanation
Cash Flow Issues	55%	Delay in receivables, low capital investment, and high operating costs
Access to Finance	45%	Difficulty obtaining loans or credit from financial institutions
Market Competition	40%	Strong competition from larger businesses and imports
Regulatory Compliance	30%	Burdensome tax policies, environmental standards, etc.
Delayed Payments from Clients	50%	Large corporations or government delays in paying for goods and services.

3. BUSINESS DISTRESS IN MSMEs

- Operational Inefficiencies and High Production Costs:** MSMEs often struggle with outdated machinery, inefficient production methods, and limited economies of scale, leading to high production costs and challenges in competitiveness. Quality control issues and inconsistency in product quality can also impact marketability and brand reputation, affecting revenue.
- Inadequate Market Linkages and Limited Market Access:** MSMEs relying on local markets face limited growth opportunities and are vulnerable to economic downturns. They lack the network and resources to expand into new markets, including exports. Lack of access to technology and e-commerce platforms also limits their ability to expand reach and diversify revenue sources.
- Lack of Skilled Labor and Workforce Challenges:** MSMEs struggle to recruit and retain skilled labor, particularly in remote or rural areas, affecting productivity, quality, and operational efficiency. Inadequate training and skill development lead to a skill mismatch between available labor and MSME requirements, affecting growth potential.

4. EXTERNAL FACTORS LEADING TO MSME DISTRESS

- **Impact of Economic Cycles and Market Fluctuations:** Economic slowdowns like the 2008 financial crisis and COVID-19 pandemic negatively impact MSMEs, leading to reduced sales and revenue. Inflation and input cost volatility can also reduce profit margins, especially for low-priced MSMEs, making it difficult for them to pass these costs on to customers due to competitive pressures.
- **Regulatory and Compliance Burden:** MSMEs face a complex regulatory environment, with compliance with GST, labor laws, and sector-specific regulations being costly and time-consuming. Frequent policy changes, such as shifting tax policies, trade tariffs, environmental policies, and export regulations, add uncertainty to financial planning and disrupt operations.
- **Supply Chain Disruptions:** MSMEs heavily rely on specific suppliers or buyers, which disruptions from more giant corporations or limited suppliers can severely impact. The COVID-19 pandemic highlighted the vulnerability of MSME supply chains, causing delays and shortages.

5. EXAMPLES OF DISTRESS IN MSMES

- **Case Study—COVID-19 Impact on MSMEs:** During the COVID-19 pandemic, MSMEs across sectors faced prolonged disruptions. Many reported 50% or more revenue reductions, and a significant percentage were forced to either downsize or shut down operations entirely.
- **Example of Textile MSMEs:** Textile MSMEs in cities like Tirupur and Surat were severely impacted due to reduced demand and disruptions in export markets, leading to large-scale layoffs and business closures.

V. DEALING WITH MSME DISTRESS- PPIRP AND ITS CURRENT STATUS

1. INSOLVENCY AND BANKRUPTCY IN MSMES

- **Financial Vulnerability of MSMEs:** MSMEs are particularly vulnerable to insolvency due to limited financial resources, high dependency on a few clients, and challenges in accessing affordable credit. Due to prolonged distress, insolvency and bankruptcy issues often arise when MSMEs cannot meet their financial obligations.

- **Need for Specialized Insolvency Mechanisms for MSMEs:** Unlike large corporations, MSMEs require swift, cost-effective, and minimally disruptive insolvency processes to avoid job losses and production halts. The government recognized this need by introducing the Pre-packaged Insolvency Resolution Process (PPIRP).⁵

2. PRE-PACKAGED INSOLVENCY RESOLUTION PROCESS (PPIRP)

- PPIRP is a faster and less costly insolvency process explicitly designed for MSMEs, introduced under the Insolvency and Bankruptcy Code (IBC) through the IBC (Amendment) Act, 2021.⁶ It allows MSMEs to resolve distress without going through a lengthy insolvency process in the National Company Law Tribunal (NCLT).⁷
- **Features of PPIRP**
 - **Speed and Efficiency:** PPIRP is a time-bound process designed to be completed within 120 days to maximize value recovery and minimize disruptions to business operations.
 - **Debtor-in-Possession Model:** The MSME continues to run the business during the process, with management retaining control. This helps to prevent operational disruptions and maintain employee morale.
 - **Stakeholder Involvement:** PPIRP requires creditor and debtor coordination from the outset, ensuring both parties are aligned and increasing the chances of a successful resolution.
- **Advantages of PPIRP for MSMEs:**
 - **Cost-Effectiveness:** Compared to the traditional Corporate Insolvency Resolution Process (CIRP), PPIRP is less costly, making it accessible to smaller firms with limited financial capacity.
 - **Confidential and Low-Impact Resolution:** PPIRP allows MSMEs to negotiate and resolve insolvency quietly without public announcements, which helps maintain their reputation and business relations.

⁵ <https://ibbi.gov.in/uploads/meetings/3b7d255d9ea5811a0190e9aaf9221ed9.pdf>

⁶ Ministry of Corporate Affairs, "Insolvency and Bankruptcy Code (IBC) Amendment Act, 2021," Government of India, available at <https://mca.gov.in>.

⁷ The Insolvency and Bankruptcy Code, [s. 29A](#), No. 31 of 2016.

- **Flexibility and Control:** By allowing debtors to propose a resolution plan from the beginning, PPIRP grants MSMEs more control over the resolution outcome, fostering feasible solutions for the business.⁸

3. CURRENT STATUS OF PPIRP CASES

- **Adoption of PPIRP by MSMEs:** Since its introduction in 2021, PPIRP adoption has been gradual. This slow uptake is attributed to MSMEs’ unfamiliarity with the new process, lack of awareness among MSME owners, and, in some cases, bureaucratic challenges.⁹
- **Case Studies of PPIRP Applications:**
 - **Success Stories:** In some instances, PPIRP helped MSMEs achieve quick and effective resolutions, allowing businesses to retain jobs, continue operations, and return to profitability.
 - **Challenges Faced by Applicants:** Some MSMEs have faced hurdles, such as delays in approvals or complications arising from a lack of clarity in the PPIRP framework. These issues highlight areas for improvement in the implementation process.
- **Statistical Insights:** Provide recent statistics on the number of cases filed under PPIRP, the success rate, and the time taken for resolution.

S.NO	NAME OF CD	DATE OF ADMISSION	NCLT BENCH	CURRENT STATUS
1.	GCCL Infrastructure & Projects Ltd	14/09/2021	Ahmedabad	Ongoing
2.	Loon Land Developers Pvt. Ltd	29/11/2021	Principal Bench, New Delhi	Withdrawn
3.	Enn Tee International Limited	10/10/2022	Principal Bench, New Delhi	Ongoing
4.	Amrit India Limited	28/11/2022	Principal Bench, New Delhi	Plan Approved
5.	Sudal Industries Limited	20/04/2023	Mumbai	Plan Approved

⁸ Deepali Bhandari, *The Fate of Pre-pack in India*, IRCCL, (2023)

⁹ The Insolvency and Bankruptcy (pre-packaged insolvency resolution process) Rules, 2021, Form-1.

6.	Shree Rajasthan Syntex Limited	19/04/2023	Jaipur	Plan Approved
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PPIRP Success rate

PPIRP	70%
TRADITIONAL IBC	45%

4. CHALLENGES IN IMPLEMENTING PPIRP FOR MSMEs

- **Limited Awareness Among MSME Owners:** Despite its benefits, many MSMEs are unaware of PPIRP or lack clarity on initiating the process. This knowledge gap restricts the widespread adoption of PPIRP.
- **Capacity Constraints in NCLT:** The National Company Law Tribunal (NCLT) faces capacity constraints due to a high backlog of cases, which can delay the PPIRP process and affect efficiency. While PPIRP aims for a quicker resolution, delays in tribunal proceedings remain challenging.
- **Financial and Operational Data Limitations:** MSMEs often have limited or incomplete financial and operational records, essential for developing a credible resolution plan. This lack of data complicates the PPIRP process and can slow the approval of resolution plans.
- **Creditors' Reluctance and Resistance:** Some creditors hesitate to agree to resolutions proposed under PPIRP due to perceived risks and concerns over the reduced recovery of dues. Engaging creditors effectively is crucial to making PPIRP work as intended.

SOLUTION	ELIGIBILITY	PROCESS TIME	COST OF RESOLUTION	OUTCOME
Pre-Packaged Insolvency Process (PPIRP)	MSMEs with financial distress	90 to 180 days	Lower than traditional IBC	Faster resolution and business continuity
Traditional Insolvency (IBC)	Any company, including MSMEs	180 to 330 days	High	Complete business liquidation or

				restructuring
MUDRA Loans	Micro and Small Enterprises	1-3 months	Low to moderate	Provides working capital to micro businesses

5. RECOMMENDATIONS FOR ENHANCING PPIRP FOR MSMEs

Increasing Awareness and Outreach:

- **Awareness Programs:** Conduct workshops, seminars, and online training sessions for MSME owners to explain the PPIRP process, benefits, and eligibility criteria.
- **Simplified Guidelines and Resources:** Develop simplified guidelines and toolkits for MSME owners, with step-by-step instructions on initiating PPIRP and preparing the necessary documentation.

Providing Financial Support for PPIRP:

- **Government-Subsidized Legal and Professional Services:** Offer subsidized legal, financial, and consulting services to MSMEs undergoing PPIRP, as many MSMEs lack the resources to navigate the complex requirements.
- **Establishment of a Distress Support Fund:** A dedicated distress support fund for MSMEs undergoing PPIRP can help provide liquidity and cover operational expenses.

Improving Coordination Among Stakeholders:

- **Better Creditor Engagement:** To encourage positive stakeholder participation and incentivize creditors who actively participate and cooperate in PPIRP.
- **Involvement of Industry Bodies:** Engage MSME industry associations as intermediaries, facilitating dialogue between MSMEs, creditors, and legal authorities.

Encouraging Data-Driven Decision Making:

- **Establishing Data Collection Frameworks:** Encourage MSMEs to maintain accurate financial records and critical performance metrics to streamline the preparation of resolution plans.
- **Incentivizing Financial Reporting:** Offer tax benefits or grants to MSMEs that adhere to high financial reporting standards, which will better prepare them for potential PPIRP processes.

6. FUTURE OF PPIRP AND MSME DISTRESS RESOLUTION

Expanding the Scope of PPIRP: PPIRP, a streamlined process for SMEs, could be adapted for larger businesses and potentially integrated with digital tools for filing, tracking, and assessing cases, making it more accessible and manageable for MSME owners.

Role of Government and Industry in Strengthening PPIRP: Government agencies and industry bodies are crucial in promoting PPIRP and ensuring its evolution to meet MSMEs' needs. Collaboration is essential for creating a sustainable distress resolution mechanism. Regular monitoring and evaluation are necessary for continuous improvement.

VI. CONCLUSION AND RECOMMENDATIONS.

The MSME sector is the lifeblood of the Indian economy, contributing significantly to jobs, exports, and GDP. This research studies the heart of MSME, its ever-changing definitions, the challenges it faces, and the distress of many of these enterprises. Gradually, the criteria of MSMEs have evolved from being only investment-based to turnover-based to better suit the way the economy has become. This change has helped clarify data; however, the small-business community needs help understanding and adapting to these redefined numbers. While it continues to be the most significant segment of the Indian economy, MSMEs face numerous challenges. Among these are access to affordable credit, outdated infrastructure, technological gaps, and a regulatory compliance quagmire. Financial distress, in particular, is a serious threat, mainly due to delayed payments, cash flow problems, and heavy reliance on informal sources of credit. MSMEs were already struggling with many issues, which became starker with the disruption caused by the COVID-19 pandemic, which has resulted in market contraction and increased financial pressure on MSMEs. The study finds that MSMEs remain vulnerable to shocks due to gaps in financial literacy, lack of market diversification, and overreliance on a handful of customers. In addition, many businesses need help scaling up due to limited market linkages and a lack of innovation. Limited buyer resolution mechanisms—delay the payments, which excites distress, putting many businesses on the brink of closure.

On the bright side, the government has adjusted to ease those pressures. Measures such as the Pre-Packaged Insolvency Resolution Process (PPIRP) and Emergency Credit Line Guarantee Scheme (ECLGS) have had good utility. But more than others require these attempts. To flourish, MSMEs require structural support, simplified regulatory frameworks, and broader

access to cost-effective digital tools. The long-term resilience of the population also requires training programs to develop entrepreneurial skills and financial literacy. MSMEs as a sector have immense unexploited potential to contribute to India's economic growth and livelihood enhancement. Resolving its issues will require the combined work of policymakers, financial institutions, and industry leaders. By promoting innovation, developing strong financial ecosystems, and easing processes, we can ensure that the MSME sector has longevity and succeeds in the global market system. Let that be how India's MSMEs can become the actual economic growth engine they are.

SUGGESTIONS

1. Strategies for Resolving MSME Distress

Strengthening the Pre-packaged Insolvency Resolution Process (PPIRP): The proposal suggests campaigns to enhance MSME awareness of PPIRP, simplifying guidelines and application processes, and advocating for dedicated NCLT benches or faster digital processing to expedite PPIRP cases for distressed MSMEs.

Implementing a Distress Support Fund: The proposal suggests establishing an MSME Distress Helpline and online platform for MSME owners to seek guidance on distress management, financial planning, and restructuring options and recommending government and private sector initiatives for mentoring and financial counseling.

2. Policy Recommendations

- **Improving Data Collection and Reporting:** Advocate for a centralized digital platform for MSMEs to report financial and operational data, enabling policymakers to monitor sector health and address distress. Conduct annual surveys for insights and policy adjustments.
- **Encouraging Innovation and Modernization:** Propose grants for MSMEs to invest in R&D, product innovation, and process improvement to boost competitiveness and reduce long-term distress risks, and recommend collaborations with academia and industry for knowledge sharing and skill development.
- **Expanding MSME Export Support:** Expand export incentives for MSMEs, promote trade partnerships, and diversify revenue by reducing dependency on local markets. Encourage government-supported participation in international trade shows and promote digital export platforms for global exposure.

3. **Future Outlook and Potential Reforms:** The MSME sector's growth trajectory is discussed, emphasizing its potential to become a global manufacturing and services hub with proper support and investment. The role of government and industry stakeholders is emphasized, with a collaborative approach ensuring sustainable growth. Periodic evaluation and adaptation of policies are recommended to address evolving challenges and market demands. Emphasize the flexibility needed to respond to digital disruption, global competition, and economic crises.¹⁰
4. Reinforce that the MSME sector is vital for economic growth, job creation, and equitable development. Conclude with a hopeful outlook that through targeted reforms, strong policy support, and proactive distress management measures, India's MSME sector can overcome its challenges and continue to thrive.
5. **Call to Action for Stakeholders:** Encourage all stakeholders—government, industry, and MSME owners—to work together to build a resilient MSME ecosystem that supports growth and safeguards against future crises.

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¹⁰ Indian Chamber of Commerce, "Policy Recommendations for MSME Growth," 2022.