

Indian small businesses under pressure of rising inflation

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MUMBAI, May 19 (Xinhua) -- India's micro, small and medium enterprises (MSMEs) are facing the pain of rising inflation, which would deteriorate their working capital position, experts said Thursday.

"MSMEs are badly hurt by rising commodity prices," said Madhavan Kutty, senior economist of Aditya Birla Group, a leading Indian diversified business conglomerate.

Kutty was speaking at a panel discussion organized jointly by MVIRDC World Trade Center Mumbai and All India Association of Industries (AIAI), which was themed on the impact of commodity price inflation on MSMEs.

India's 63 million MSMEs contribute around 30 percent to the country's gross domestic product.

"Prolonged period of high inflation will erode the profit margin of large corporate buyers, who will in turn delay their payments to their MSME vendors," Kutty said.

Citing an example of commodity inflation, Avinash Misar, vice chairman of the Indian Tech Textiles Association said that the Indian textile industry is badly affected by cotton prices rise as 75 percent of the downstream industry produces cotton garments and only 25 percent produce man-made fibre garments.

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Cotton price has risen three times more than the growth in general inflation and MSMEs are unable to pass on this cost inflation because of their long term agreements with foreign buyers, Misar said.

"The Reserve Bank of India's recent hike in Cash Reserve Ratio (CRR) has squeezed 11.2 billion U.S. dollar liquidity from the system, and will thus impact the growth prospects of sectors dependent on bank finance," said Vijay Kalantri, chairman of MVIRDC World Trade Center Mumbai and president of the AIAI in his welcome remarks of the panel. ■