

# MSMEs' Working Capital Will Deteriorate If Inflation Remains In Double-Digit: Economist



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The working capital of Indian micro, small and medium enterprises (MSMEs) would deteriorate further if the wholesale price inflation continues to remain double-digit, said Madhavan Kutty, Senior Economist, Aditya Birla Group, Mumbai.

While speaking at an event on 'Impact of commodity price inflation on MSMEs' organised jointly by WTC Mumbai and the All India Association of Industries (AIAI), he said that the MSMEs are badly hurt by rising commodity prices.

"Prolonged periods 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.

Kutty called upon banks and NBFCs to support MSMEs to navigate through this challenging time. Lenders must increase the credit flow to MSMEs and shed their risk aversion, he said.

Presently, 57 per cent of private banks and 30 per cent of public sector banks' loan portfolio is linked to external benchmarks. By linking their loan portfolio to external benchmarks such as RBI's repo rate, banks are compelled to transmit policy rate hikes to their borrowers.

However, in these challenging times, banks may refrain from passing on the RBI policy hike to MSME borrowers, he said, calling upon state-run lenders to introduce innovative derivative products to hedge interest rate risks and thereby support MSME borrowers.

Meanwhile, Vijay Kalantri, Chairman, MVIRDC World Trade Center Mumbai and President – All India Association of Industries said, "The RBI's recent hike in cash reserve ratio (CRR) has squeezed Rs 87,000 crore liquidity from the system, and will this impact the growth prospects of sectors dependent on bank finance."