For micro and small enterprises (MSEs) in the leather sector, the stretch in working capital requirements that began in fiscal 2017 continues even today, a CRISIL analysis of MSEs with a turnover of less than Rs 250 million — most of them exporters — shows.

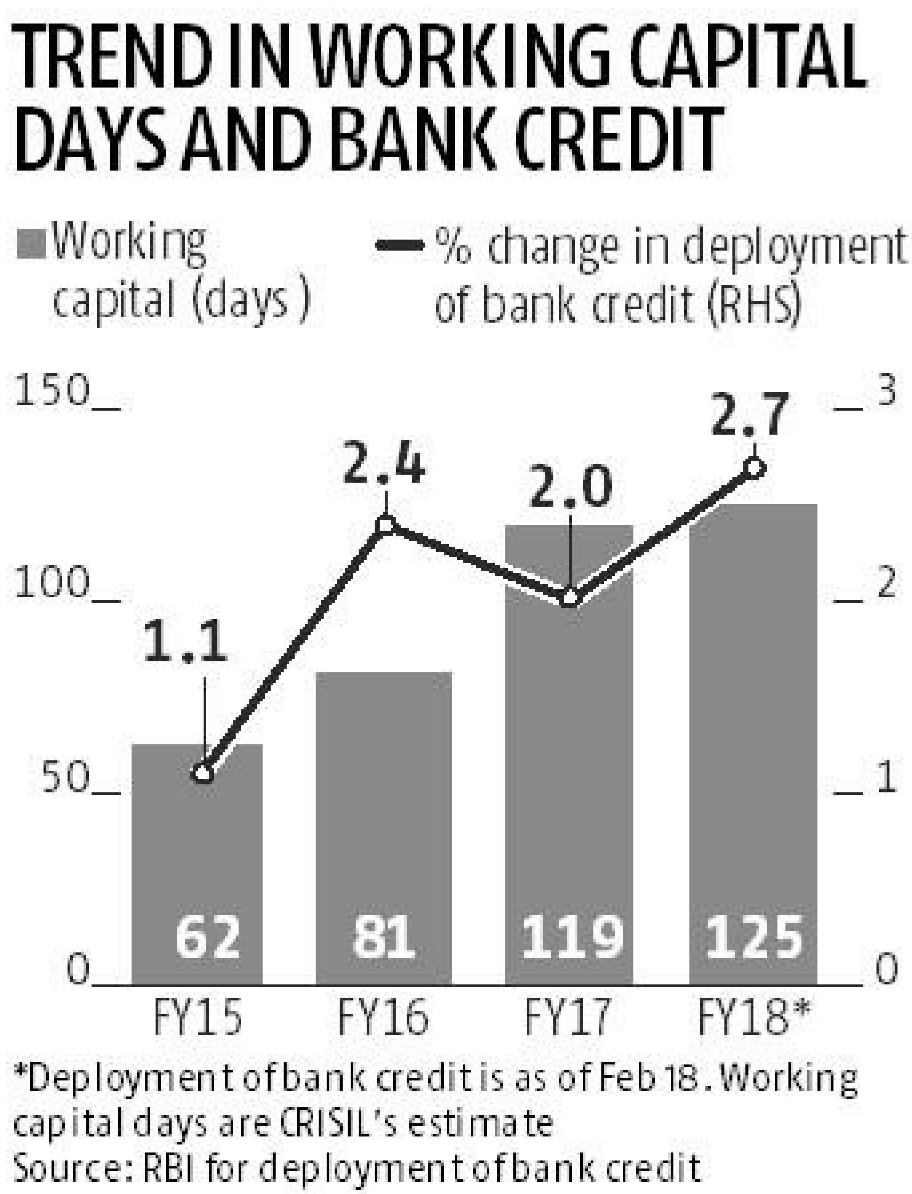
MSEs account for about 85 per cent of the leather industry's production.

Intense competition, raw material shortage and reduction in duty drawback had resulted in an increase in working capital days to 119 in fiscal 2017, from 62 in 2015.

Delays in Goods and Services Tax refunds aggravated the problem, resulting in estimated working capital days of 125 days in the last fiscal.

There is rising competition from China, Vietnam and Bangladesh, which is making it difficult to retain key customers and ensure quick realisation of receivables.

Also, shortage of raw material is forcing imports, leading to higher inventory and a lower credit period.



Even CriSidEx, the sentiment index for MSEs (derived through quarterly surveys done jointly by CRISIL and SIDBI) reflects the subdued sentiment for the first quarter of this fiscal, with little signs of recovery.

South-based MSEs have been the most impacted, with more than 20 per cent negative growth in sales in fiscal 2017. As a result, their working capital days have risen beyond 125.

CRISIL's interactions with MSEs indicated that lack of access to funding is limiting the ability of MSEs to grow. Data from the Reserve Bank of India shows that gross bank credit to the leather industry has improved only marginally in the past three years.

Going forward, timely access to credit will play a critical role. As for lenders, the differentiators they should look for are the borrower's ability to retain key customers and margins, invest in technology and skill building, ensure raw material sourcing and offer quality products.