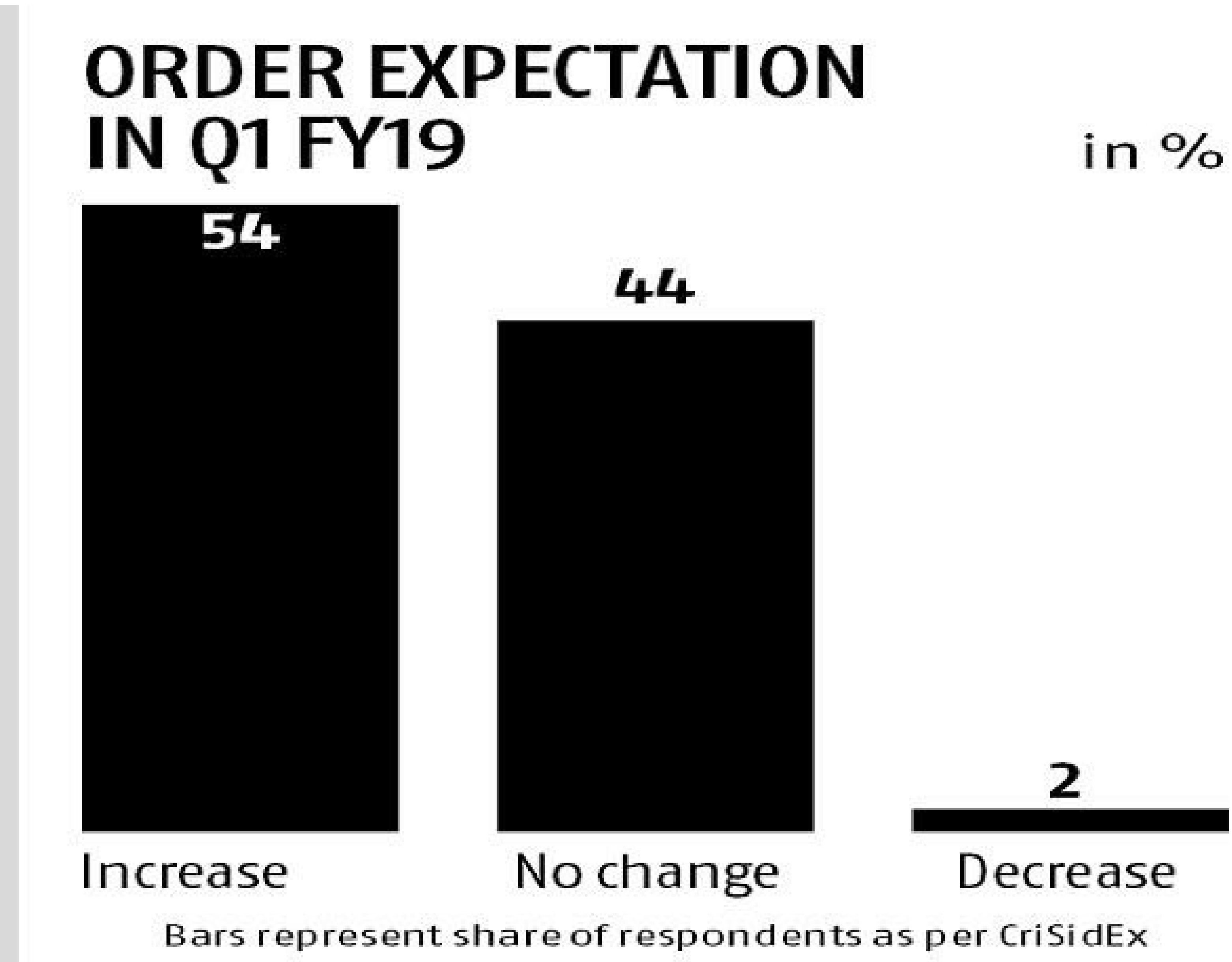
Micro, small and medium enterprises (MSMEs), which make up about 85 per cent of the electrical components and equipment industry, are battling multiple headwinds today.

First, poor financial health has limited the ability of most state-owned power distribution companies (discoms) to undertake last-mile reforms — for improvement of quality of supply voltage, distribution loads, the billing process and prevention of pilferage. This has weakened demand for the MSMEs whose products find use in last-mile power distribution applications.

Between fiscals 2016 and 2018, while power transmission capacity logged a compound annual growth rate (CAGR) of 42 per cent to 390 thousands circuit km, investments in distribution were hard to come by, despite well-meaning measures such as the Ujwal DISCOM Assurance Yojana, or UDAY.

Tellingly, CRISIL-rated MSMEs in the industry saw sales log a sluggish CAGR of seven per cent over this period.



Second, imports — which account for a third of the market — are hurting. According to the Indian Electrical & Electronics Manufacturers' Association, over the past decade, electrical equipment imports have logged a CAGR of 14 per cent.

Domestic players are at a disadvantage vis-à-vis imports because of the high cost of borrowings, lack of technology and infrastructure, and dependence on imports for critical raw material and components.

Delays in payments from customers are yet another hurdle for MSMEs.

While, the latest survey for CriSidEx, the sentiment index for MSEs developed by CRISIL and SIDBI, shows some improvement in sentiment among manufacturers for the first quarter of fiscal 2019, any sustained improvement will require a significant spurt in financial health of discoms and thereby investments. It would also be critical for MSMEs to raise their ability to compete efficiently in both domestic and export markets by adopting new technologies for improvement of quality and safety.