The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

ICAI MSME ECOSYSTEM

ICAI STARTUP GATEWAY

Vol. 2 Series 19

ICAI Knowledge Series on

MSME & Startup

ज्ञान सागर

Issued by:

MSME & Startup Committee

November 2026





Startup Portal:
startup.icai.org

MSME Portal:
msme.icai.org

DISCLAIMER

This publication is for general information and reference only and does not constitute professional advice. While reasonable care has been taken to ensure accuracy, ICAI assumes no responsibility for any errors, omissions, or consequences arising from its use. Readers are advised to refer to the latest laws and official sources and seek professional advice before taking any decision or action.



Union Minister Releases ₹1,000 Crore Subsidy under PMEGP to Support 11,333 New Micro Enterprises

Union Minister for MSME Shri Jitan Ram Manjhi released ₹1,000 crore in Margin Money subsidy under the Prime Minister's Employment Generation Programme (PMEGP) to support 11,333 new micro-enterprises across India.

The subsidy will facilitate bank credit of approximately ₹3,260 crore and is expected to generate over 1.02 lakh employment opportunities, particularly in rural areas.

Since FY 2014-15, PMEGP has facilitated the establishment of over 8.38 lakh micro-enterprises through bank loans exceeding ₹70,000 crore, generating approximately 75 lakh employment opportunities. Nearly 80% of the assisted units are located in rural areas, while around 40% are owned by women entrepreneurs.

The initiative aims to promote inclusive entrepreneurship, women-led enterprises, social empowerment and balanced regional development, contributing to the vision of Viksit Bharat.

Source: **https://www.pib.gov.in/PressReleaseDetail.aspx?PRID=2329819&reg=3&lang=1**

Prime Minister Highlights Achievements of Khadi and Village Industries Sector in 'Mann Ki Baat'

In the 139th episode of 'Mann Ki Baat', Prime Minister Shri Narendra Modi highlighted the growing sales of Khadi and Village Industry products and encouraged citizens to promote local artisans by purchasing indigenous products during the festive season.

KVIC Chairman Shri Manoj Goel expressed gratitude to the Prime Minister, stating that his continued encouragement has strengthened the Khadi sector and boosted the morale of artisans, weavers and rural entrepreneurs.

During FY 2025-26, the Khadi and Village Industries sector recorded a turnover of over ₹1.87 lakh crore and provided employment to more than 2.04 crore people. The initiative reinforces the vision of Vocal for Local, women empowerment and Atmanirbhar Bharat.

Source: **https://www.pib.gov.in/PressReleaseDetail.aspx?PRID=2328288&reg=3&lang=1**

ni-msme Strengthens MSMEs through Capacity Building, Entrepreneurship Development and Digital Empowerment

The National Institute for Micro, Small and Medium Enterprises (ni-msme), an autonomous institute under the Ministry of MSME, continues to strengthen India's MSME ecosystem through entrepreneurship development, training, research and digital empowerment.

The Institute has conducted 550 international training programmes, benefiting 11,032 executives from 150 countries, and 17,672 national programmes, benefiting 6,07,497 participants. Its key achievements include 6,840 skill development programmes, 27 MSME cluster projects, 235 services through Intellectual Property Facilitation Centres and 962 research studies.

Through initiatives in digital marketing, e-commerce, artificial intelligence and technology adoption, ni-msme is helping enterprises improve competitiveness and expand market access. Its success stories include a handloom enterprise in Telangana that secured a ₹16 lakh order through digital platforms and a woman-led millet enterprise that achieved a tenfold increase in monthly turnover, from ₹20,000 to ₹2 lakh.



These initiatives highlight ni-msme's contribution towards entrepreneurship development, women empowerment, employment generation and a globally competitive MSME sector.

For more information: ni-msme Official Website

Source: **https://www.pib.gov.in/PressReleaseDetail.aspx?PRID=2326147&reg=3&lang=1**

PM Vishwakarma Artisans Showcase India's Traditional Crafts at BRICS Cultural Bazar

Posted on: 27 October 2026 | PIB Delhi

Artisans and craftspeople supported under the PM Vishwakarma Scheme of the Ministry of MSME showcased India's traditional craftsmanship at the two-day BRICS Cultural Bazar held at the Parliament House Complex, New Delhi, on 26–27 October 2026, during the 12th BRICS Parliamentary Forum.

Eight artisans from eight states – Rajasthan, Jammu and Kashmir, Bihar, Madhya Pradesh, Jharkhand, Nagaland, Karnataka and Maharashtra – displayed handcrafted products representing traditional trades such as goldsmithing, stone carving, tailoring, toy making and cobbling. Live demonstrations were also organised to highlight India's diverse craft traditions.

The initiative provided artisans with national and international exposure, opportunities to expand market access through e-commerce platforms and recognition for their traditional skills. It also highlighted the PM Vishwakarma Scheme's role in preserving indigenous craftsmanship and strengthening artisan livelihoods.

Source: **https://www.pib.gov.in/PressReleaseDetail.aspx?PRID=2328975&reg=3&lang=1**

Viksit Gujarat Industrial Policy 2026:
Beyond the Subsidy Percentage



What the new assistance framework means for manufacturing MSMEs—and why informed planning matters as much as the incentives themselves

A manufacturing entrepreneur deciding whether to expand a factory seldom begins with a government resolution. The questions are more immediate: Can the business afford the machinery? Will the additional production justify the borrowing? Where should the new unit be located? And how quickly will it generate enough cash to sustain operations?

The Viksit Gujarat Industrial Policy 2026 is relevant to these questions because it approaches industrial assistance as more than a reimbursement of capital expenditure. Its newly notified MSME framework brings investment, borrowing costs, electricity, employment, technology and market readiness into a common policy conversation. The opportunity is meaningful. Equally, the details matter: a headline percentage is not the same as a subsidy that a particular enterprise will actually receive.

A policy intended to encourage the next stage of growth

Gujarat has a well-established base of engineering, chemicals, pharmaceuticals, food processing, textiles and ancillary manufacturing. Many units began as small family-owned enterprises and became dependable suppliers to larger industries. Their next challenge is not merely to survive, but to modernise processes, improve productivity, secure quality certifications and participate in more demanding domestic and global supply chains.

Announced in June 2026, the Viksit Gujarat Industrial Policy has been followed by separate implementing Government Resolutions. For manufacturing MSMEs, the operative document is the Industries & Mines Department Resolution dated 25 September 2026 (GR No. IMD/WRT/e-file/9/2026/2630/CH). The MSME scheme runs from 1 June 2026 to 31 May 2031. Separate resolutions dated 8 September 2026 govern larger industrial projects and the new taluka classification. These documents, rather than broad policy publicity, establish the eligibility tests and incentive limits.

Which enterprises can benefit?

The MSME resolution principally covers enterprises engaged in manufacturing, production, processing or job work of articles, whether organised as a proprietorship, partnership, LLP, company or another specified legal form. It includes eligible new projects and qualifying expansion or diversification by existing units, provided commercial production begins within the operative period. A trading concern or a service business does not become eligible for this manufacturing package merely by holding Udyam registration.

For this resolution, enterprise size is tested using gross fixed investment in plant and machinery across all units in India: micro, up to ₹2.5 crore; small, above ₹2.5 crore and up to ₹25 crore; and medium, above ₹25 crore and up to ₹125 crore. This scheme-specific investment test should not be confused with the broader criteria used for Udyam classification. A project crossing the threshold must be examined under the separate framework for large industries. Expansion and diversification also carry investment, capacity and other conditions; purchasing a replacement machine does not, by itself, make an expansion eligible.

The significance of location—and the meaning of eligible investment

The policy divides talukas into Category A and Category B under a separate resolution. The classification determines the applicable incentive rate, making location an important financial variable in a new project. For instance, the official schedule places Dholera in Category A, while Sanand is Category B. Entrepreneurs should verify the precise taluka of the proposed project rather than assume that all locations in one district receive the same assistance.

A second distinction is between total project cost and eligible fixed capital investment (EFCI). EFCI includes specified qualifying buildings, new plant and machinery, and certain project-related assets acquired and paid for during the permitted investment period. Land, working capital, second-hand machinery and other expressly excluded costs do not qualify. In particular, the resolution considers only 50% of eligible expenditure on its listed project-related infrastructure items. Assets acquired and paid for from 1 January 2026 may be considered, subject to the prescribed conditions and investment window. A subsidy projection should therefore begin with a documented EFCI reconciliation, not the amount appearing on a project report's cover page.

How the principal MSME incentives work

The central design is flexible: an eligible enterprise may choose capital subsidy, interest subsidy, power-tariff assistance or a permissible combination. But three controls operate together—the individual component ceiling, an annual ceiling and an overall five-year ceiling. The general manufacturing-sector schedule is summarised below.

Capital subsidy	35% of EFCI	25% of EFCI
Interest subsidy	7% on qualifying term loan for five years; aggregate cap 10% of EFCI	Same rate and cap
Power-tariff assistance	₹2 per eligible unit for five years; cap 25% of EFCI	₹1 per eligible unit for five years; cap 25% of EFCI

Combined five-year ceiling	45% of EFCI	35% of EFCI
Annual combined limit: small/medium	9% of EFCI	7% of EFCI
Annual combined limit: micro	Year 1: 37%; years 2–5: 2% each	Year 1: 27%; years 2–5: 2% each

Source: MSME Government Resolution, paragraphs 4.2 and 5. The percentages are ceilings, subject to all prescribed tests; they are not assured payouts.

For micro enterprises, the capital component is structured for disbursement in one year; for small and medium enterprises, it is spread over five years. An additional one percentage point of interest assistance is specified for eligible women entrepreneurs, registered manufacturing start-ups and first-generation entrepreneurs, within the applicable ceilings. The borrower must still bear at least 2% interest, and the interest subsidy is linked to eligible term-loan disbursement, interest actually levied and regular servicing of the loan. Loans from NBFCs are excluded under the resolution's definition. Power assistance depends on eligible metered consumption; captive consumption is not covered.

A simple example: why 45% does not mean a cheque for 45%

Consider a hypothetical small manufacturing enterprise in a Category A taluka with accepted EFCI of ₹4 crore. Its capital-subsidy component ceiling is ₹1.40 crore (35%), while the total permitted combination of capital, interest and power assistance cannot exceed ₹1.80 crore (45%) over five years. In addition, the combined amount in any one year is restricted to ₹36 lakh (9% of EFCI).

Suppose an otherwise admissible claim for a particular year includes ₹28 lakh of capital subsidy, ₹6 lakh of interest assistance and ₹8 lakh of power assistance. Although the three amounts total ₹42 lakh, the annual ceiling restricts the combined claim to ₹36 lakh. The resolution does not permit the ₹6 lakh lost to the annual ceiling to be carried forward. The illustration assumes that all other eligibility requirements have been met; it is not a prediction of a sanction or disbursement schedule.

This is why serious project appraisal should calculate subsidies year by year, rather than entering the maximum five-year percentage as an upfront inflow. A bankable cash-flow forecast must distinguish the capital requirement today from government reimbursements that may arrive only after production, certification, claim scrutiny and sanction.

Assistance beyond machinery: people, systems and competitiveness

Several provisions address the day-to-day difficulties experienced by MSMEs. Eligible employer EPF contributions for qualifying new employees working in Gujarat may be reimbursed for up to five years. Reimbursement is subject to the statutory contribution and a monthly ceiling of ₹1,800 for a male employee, ₹2,500 for a woman employee and ₹3,000 for a specially abled employee, whichever applicable limit is lower. Importantly, the resolution defines a new employee as one who did not already have a Universal Account Number (UAN) before joining. For an expansion, the incentive relates to incremental employee strength. Thus, payroll and EPFO records become as relevant as investment invoices.

Technology adoption receives practical recognition. Eligible ERP expenditure—covering, for example, production, inventory, purchasing and accounting functions—can attract assistance of 65%, limited to ₹1 lakh during the operative period. Qualifying ICT investments relating to networking, cloud access, Industry 4.0 and AI-related facilities have a separate 65% assistance provision capped at ₹5 lakh. The scheme also contains support for quality certification (50%, within

a ₹10 lakh combined ceiling for eligible fees and testing equipment), technology acquisition (65%, up to ₹50 lakh) and patent registration (75%, up to ₹25 lakh), each with its own restrictions and filing deadlines.

Other measures include reimbursement of eligible annual CGTMSE service fees for collateral-free term borrowing by micro and small manufacturing enterprises, and rent assistance for eligible manufacturing sheds—65% of rent, or 75% where women entrepreneurs hold 100% equity, subject to ₹3 lakh per year for five years. These are not automatic additions to every project's incentive package: the beneficiary, eligible cost, timing and non-duplication provisions must be examined separately.

Selected thrust sectors receive additional emphasis

The resolution singles out sports goods and equipment, toys, footwear, robots and drones as selected thrust sectors, with scope for further notification. Here the combined capital–interest–power ceiling rises to 50% of EFCI in Category A and 45% in Category B. Special provisions include reimbursement of eligible stamp duty and registration charges on project land, higher support for certain intellectual-property and international-certification expenses, technology acquisition, workforce training and creative design studios.

One particularly forward-looking provision is reimbursement of 80% of qualifying AI subscription fees, up to ₹1 lakh annually for three years. It is, however, limited to eligible micro enterprises and artisans in the selected thrust sectors. Describing it as an AI subsidy available to all Gujarat MSMEs would be incorrect. The difference illustrates a wider principle: policy initiatives are most valuable when communicated with their eligibility conditions intact.

The discipline of documentation and timely applications

For the principal incentives, the date of commencement of commercial production (DoCP) is defined by the first commercial sale bill of the relevant product. The provisional eligibility certificate (PEC) ordinarily requires an application within six months of DoCP or within six months of the 25 September 2026 resolution, whichever is later. Depending on project completion, an enterprise may instead apply directly for the final eligibility certificate (FEC) within the prescribed timelines. Delayed FEC applications within the permitted period may suffer proportionate reduction; the resolution also provides a final outer limit. Other assistance components have separate six-month triggers, such as ERP installation, certification, or execution of a technology agreement.

There are continuing obligations as well. For the main subsidy components, at least 85% of all employees must be domiciled in Gujarat, with at least 60% among managerial and supervisory employees. Applicable pollution-control approvals, proper loan servicing, claim records and continuing production are important. A material breach can trigger recovery of incentives with 18% annual interest under the resolution. Before comparing the 2026 framework with the earlier Aatmanirbhar Gujarat scheme, advisers should also consider the limited, irrevocable option available under the transitional provision; projects commencing production before 1 June 2026 remain governed by the previous scheme.

Where Chartered Accountants can add real value

The professional contribution extends well beyond calculating a percentage. At the planning stage, a chartered accountant can help the enterprise test project classification, compare locations, reconcile eligible investment, identify compatible incentives and reflect realistic receipt dates in the cash-flow model. During implementation, a disciplined record should connect every

qualifying asset with purchase orders, invoices, payment evidence, asset registers, loan utilisation and commencement-of-production records.

An equally useful contribution is the post-sanction compliance calendar: separate milestones for PEC/FEC, energy bills, EPF claims, technology or certification support, and continuing operating conditions. Such an approach reduces avoidable disputes and helps management distinguish a promising incentive from a dependable financial assumption. For smaller businesses in particular, advice delivered before investment decisions are finalised is often more valuable than assistance sought after expenditure has already been incurred.

A considered opportunity for Gujarat's manufacturers

The Viksit Gujarat Industrial Policy 2026 indicates an effort to promote manufacturing growth through a combination of finance, technology, skills and market competitiveness. Its significance will ultimately be judged not by the highest percentages displayed in a brochure, but by how effectively enterprises turn eligible investment into productive capacity, quality employment and sustainable businesses.

For MSMEs, the practical message is straightforward: understand the policy early, select the right location and project structure, maintain evidence from the first rupee of expenditure and assess incentives conservatively. Applied in that spirit, the scheme can become a useful part of an investment decision—not a substitute for a sound business decision.

Primary references

1. Government of Gujarat, Industries & Mines Department, GR No. IMD/WRT/e-file/9/2026/2630/CH, 25 September 2026, "Scheme for assistance to MSMEs" (32 pages). Resolution copy
2. Government of Gujarat, GR No. IMD/HMR/e-file/9/2026/2211/I, approved 8 September 2026, category-wise taluka classification. Resolution copy
3. Government of Gujarat, GR No. IMD/WRT/e-file/9/2026/2320/I, 8 September 2026, "Assistance to Large, Mega and Ultra Mega Industries". Resolution copy

Official policy and GR repositories: iNDEXTb Policy | Industries & Mines Department

Reference: Individual claims remain subject to the applicable GRs, any subsequent amendments or implementation guidelines, verification and sanction by the competent authority.

By CA Dhaval Raval

From Sanction to Slippage

Why Standard MSME Accounts Turn Irregular

Drawing power, the SMA framework and the monthly disciplines that decide an MSME's credit record

An MSME account can sit ₹18 lakh inside its sanctioned limit, service its interest every month without fail, and still be classified as non-performing. Nothing about that is unusual, and none of it requires the business to have failed.

Executive Summary: The 90-Day Clock

Most discussion of MSME credit stops at the moment of sanction. The limit is approved, the documents are executed, the facility is disbursed, and the file is treated as closed. In practice, the harder problem begins the day after disbursement. Accounts that were appraised as creditworthy, and that remain commercially viable, nevertheless slip into the Special Mention Account (SMA) categories and, in some cases, into classification as a non-performing asset (NPA). In many such cases the business has not failed. What has been missed is the monthly arithmetic by which a lender measures regularity.

This article sets out that arithmetic. It explains how drawing power is computed and why it, rather than the sanctioned limit, governs permissible drawings; what the expression "out of order" actually covers; how the SMA ladder operates under the Reserve Bank of India's day-end classification process; and two overlooked provisions, stale stock statements and unrenewed limits, under which a fully serviced account can be classified as non-performing. It closes with a monthly monitoring calendar that a Chartered Accountant can operate for an MSME client.

1. Access Has Widened; Retention of Standard Status Has Not

Policy over the last two years has consistently widened MSME access to institutional credit. The classification criteria themselves were liberalised with effect from 1 April 2025, when the Ministry of Micro, Small and Medium Enterprises, by Notification S.O. 1364(E) dated 21 March 2025, superseded the 2020 criteria and raised the investment and turnover thresholds for all three categories: micro to ₹2.5 crore and ₹10 crore, small to ₹25 crore and ₹100 crore, and medium to ₹125 crore and ₹500 crore respectively. The guarantee ceiling under the Credit Guarantee Fund Trust for Micro and Small Enterprises was enhanced from ₹5 crore to ₹10 crore with effect from the same date. More recently, the Reserve Bank of India, through the Lending to Micro, Small & Medium Enterprises (MSME) Sector (Amendment) Directions, 2026, raised the limit for mandatory collateral-free lending to micro and small enterprise units from ₹10 lakh to ₹20 lakh.

Each of these measures addresses entry. None of them addresses what happens afterwards. An enterprise that obtains a working capital limit and then allows that account to run irregular will find the resulting credit record following it into every subsequent application: for enhancement, for a term loan, for a take-over by another bank, and for the guarantee cover that was meant to substitute for collateral. The economic cost of slippage is therefore far greater than the interest penalty that borrowers tend to focus on.

For the Chartered Accountant, this is an area of unusual leverage. The disciplines involved are monthly, documentary and well within the professional's competence. They require no additional funding and no negotiation with the lender. They require only that someone is watching the right numbers on the right dates.

2. The Sanctioned Limit Is Not the Entitlement

A common misconception among MSME borrowers is that a sanctioned cash credit limit represents an amount they may draw at will. It does not. The sanctioned limit is a ceiling. The amount actually available on any given day is the drawing power, which is derived from the borrower's own current assets, net of margin, as reported in the periodic stock and book debt statement. Permissible drawings are governed by whichever of the two is lower.

Drawing power is typically computed as paid stock, meaning closing stock reduced by creditors for goods, less the stipulated margin, plus eligible book debts within the agreed ageing window, less the margin applicable to them. The margins and the ageing window are specified in the sanction letter and vary between lenders and between facilities. Drawing power therefore moves every month: with inventory levels, with creditor balances and, most sharply, with the ageing of receivables.

The following illustration, using indicative figures, shows how an account can be comfortably within its sanctioned limit and nevertheless be irregular.

Computation of drawing power (illustrative)	**₹ in lakh**
Closing stock as per stock statement	180.00
Less: creditors for goods	(40.00)
Paid stock	**140.00**
Less: margin on stock @ 25%	(35.00)
(A) Stock component of drawing power	**105.00**
Book debts as per statement	120.00
Less: debtors outstanding beyond 90 days	(45.00)
Eligible book debts	**75.00**
Less: margin on book debts @ 40%	(30.00)
(B) Book debt component of drawing power	**45.00**
Drawing power (A + B)	**150.00**
Sanctioned cash credit limit	**200.00**
Outstanding balance in the account	**182.00**
Excess over drawing power	**32.00**

The borrower in this illustration is ₹18 lakh below the sanctioned limit and may well believe the account is comfortable. It is not. The outstanding exceeds drawing power by ₹32 lakh, and the account is irregular from the first day of that excess. Every day it continues is counted.

The problem originates somewhere the borrower is unlikely to look. Not in the stock, but in the ₹45 lakh of receivables that have aged beyond 90 days and have therefore dropped out of the eligible pool altogether. If the enterprise recovers those receivables and routes the collection through the cash credit account, two things happen at once: the outstanding falls to ₹137 lakh, and the ageing profile improves. The account returns to regularity without a

rupee of fresh funding. Receivables discipline is not only a working capital concern. It is the single most effective lever available for protecting the credit record.

3. "Out of Order": The Two Limbs Most Borrowers Never Read

A cash credit or overdraft account is treated as "out of order" if either of two conditions is satisfied. The first is the familiar one: the outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for 90 days. The second limb is less well known, and it catches accounts that are otherwise healthy.

Under the second limb, an account can be below its limit and drawing power throughout and still be out of order, if either there have been no credits in the account for a continuous period of 90 days, or the credits during the preceding 90 days are insufficient to cover the interest debited during that same period. The practical implication is important. An enterprise that has diverted its collections to a current account with another bank, leaving the cash credit account dormant, is building an irregularity even though it has drawn nothing further. So is an enterprise whose turnover has contracted to the point where routed collections no longer cover the monthly interest debit.

POINT TO NOTE

Routing of turnover through the operating account is not a procedural courtesy to the bank. It is one of the two statutory tests of regularity for a revolving facility. Where an MSME maintains multiple banking arrangements, the Chartered Accountant should confirm that the proportion of collections routed through each lender's account is consistent with the sanction terms, and that credits in each account at minimum exceed the interest debited.

4. The SMA Ladder and the Day-End Process

The Reserve Bank of India's framework for identifying incipient stress classifies accounts into Special Mention Account categories before they become non-performing. The ladder runs as follows.

SMA-0	SMA-1	SMA-2	NPA
Up to 30 days	**31 to 60 days**	**61 to 90 days**	**Beyond 90 days**

The trigger that starts the clock is not the same for the two kinds of facility, and the distinction is where most borrowers go wrong.

Stage	Days	Term loans and other non-revolving facilities	Cash credit / overdraft (revolving)
SMA-0	Up to 30	Principal or interest overdue up to 30 days	Not applicable to revolving facilities
SMA-1	31 to 60	Principal or interest overdue for more than 30 days and up to 60 days	Out of order for more than 30 days and up to 60 days
SMA-2	61 to 90	Principal or interest overdue for more than 60 days and up to 90 days	Out of order for more than 60 days and up to 90 days
NPA	**Beyond 90**	**Overdue for more than 90 days**	**Out of order for more than 90 days**

Two features of this framework are worth spelling out, because borrowers misunderstand both.

The classification is automated and date-stamped

Classification as SMA or NPA is carried out as part of the lender's day-end process. The relevant date is the calendar date for which the process is run, and the classification reflects the position of the account at the close of that day. There is no discretionary review and no grace period. An amount is overdue if it has not been paid on its due date, and the ageing begins from that day. A payment made on the 91st day does not retrospectively remove a tag applied on the 90th.

Upgradation requires clearance of the entire arrears

An account classified as non-performing may be upgraded to standard only when the borrower has paid the entire arrears of interest and principal. Further, where a borrower enjoys more than one facility with the lender, upgradation requires that the arrears in respect of all credit facilities of that borrower are cleared. Partial regularisation of the most visible account does not restore standard status to the relationship.

Where the aggregate exposure of a borrower is ₹5 crore and above, the lender also reports the account and its SMA status to the Reserve Bank's Central Repository of Information on Large Credits. Stress in one account therefore becomes visible to every other lender in the system. For an enterprise that is simultaneously negotiating an enhancement, a take-over or a fresh term loan, this visibility is often decisive.

4. Two Silent Classifications That Have Nothing to Do With Default

The provisions discussed so far respond to a borrower's failure to pay or to maintain drawings within entitlement. The Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisioning, however, contains two further provisions under which an account can be classified as non-performing although every instalment has been paid and every interest debit has been serviced. Neither involves any default. Both are avoidable with routine administrative discipline.

(i) Drawings against stock statements older than three months

Where the outstanding in the account is based on a drawing power calculated from stock statements older than three months, the drawings are regarded as irregular. If such irregular drawings are permitted to continue for a continuous period of 90 days, the account is classified as non-performing. The clock here is driven by the date of the last statement filed, not by the conduct of the account.

ILLUSTRATION — THE STATEMENT THAT STOPPED

A fabrication unit with a ₹150 lakh cash credit limit submits stock and book debt statements promptly until June. The accounts assistant who prepared them leaves. No statement is filed thereafter. The firm continues to operate the account well within its limit and services interest every month without exception.

By the end of September, the most recent statement on record is more than three months old. From that point, the drawings are irregular. If no statement is filed and the position is allowed to continue through December, the account is liable to be classified as non-performing. It has never been overdrawn and has never missed an interest debit.

(ii) Limits not reviewed or renewed within 180 days

Where regular or ad hoc credit limits have not been reviewed or renewed within 180 days from the due date or the date of ad hoc sanction, the account is treated as non-performing. Renewal is a joint exercise: the lender must process it, but the borrower must first furnish

audited financial statements, the renewal application, revised projections and the Credit Monitoring Arrangement (CMA) data on which the assessment will be based. Where an MSME delays its audit, the renewal cannot proceed, and the 180-day period continues to run regardless of the reason for the delay.

This provision deserves particular attention in the current year. An enterprise whose limits fall due for renewal shortly after the statutory audit deadline has very little margin for delay. The Chartered Accountant who completes the audit is usually the only person in the enterprise's orbit who can see both dates at once, and is therefore best placed to ensure that the renewal submission is made in time.

5. A Monthly Monitoring Calendar for the Chartered Accountant

The disciplines below are deliberately modest. None of them requires specialised software or a separate engagement. Operated consistently, they address each of the causes of classification discussed above before any of them matures.

- **By the 7th of each month —** Compile the stock and book debt statement for the preceding month and file it with the lender. Record the acknowledgement. Diarise the next due date before closing the file.
- **With each statement —** Recompute drawing power independently, applying the margins and the ageing window stated in the sanction letter rather than those assumed in the previous month. Compare it with the outstanding, not with the sanctioned limit.
- **Monthly —** Review the ageing of receivables and identify balances approaching the ageing cut-off. A receivable at 80 days is a drawing power problem in the making; a receivable at 95 days has already become one.
- **Monthly —** Verify that credits routed through each operating account exceed the interest debited in the account during the period, and that no account has gone without credits.
- **Quarterly —** Reconcile the drawing power advised by the lender with your own computation. Differences usually arise from the treatment of creditors, from unbilled stock or from an ageing window applied differently, and they are far cheaper to resolve in the quarter than at renewal.
- **90 days before renewal —** Confirm the renewal due date of every facility. Plan the audit and the CMA submission so that the complete renewal package reaches the lender at least 60 days before the due date.
- **On any irregularity —** Establish the date on which the excess or the non-payment first arose, and work to the 30, 60 and 90-day thresholds from that date. Regularisation on the 89th day and on the 91st day have materially different consequences.
- **Annually —** Obtain the borrower's commercial credit report, reconcile every facility shown in it with the books, and take up discrepancies in reported status with the lender in writing. Errors in reported data are not uncommon and are far harder to correct once an application is under assessment.

6. Where the Professional Adds the Most Value

The work described here is not glamorous, and it is not what an MSME proprietor expects to pay a Chartered Accountant for. Its value becomes apparent only in its absence: at the point

where an enhancement is declined, a take-over proposal is returned, or a guarantee claim is questioned because the account was not standard on the relevant date.

There is also a reporting dimension. A member conducting a statutory audit, a stock audit or a concurrent audit of an MSME borrower will encounter these same indicators, such as ageing receivables, unfiled statements and limits long overdue for renewal, and is expected to apply professional scepticism to them. The classification consequences discussed above bear directly on the recoverability of balances, on the enterprise's ability to continue as a going concern, and on the adequacy of the disclosures made in its financial statements.

For the enterprise, the proposition is straightforward. Access to credit has been widened considerably by recent policy. Retaining that access depends on a set of monthly disciplines that cost very little and are almost entirely documentary. For the profession, this is the territory in which a Chartered Accountant moves from being a compliance provider to being the person the enterprise cannot afford to be without.

Conclusion

An MSME account rarely becomes non-performing on a single day or for a single reason. It drifts. A statement not filed. A receivable allowed to age. A renewal that slips past its date. Collections routed elsewhere for a quarter. Each of these is individually trivial and individually reversible. Taken together, and left unattended for 90 days, they produce a classification that will shape the enterprise's cost of capital for years.

The framework is not obscure. It is set out in the Reserve Bank's prudential norms, it is reproduced in every sanction letter, and it operates on dates that are entirely predictable. What is usually missing is not information but attention. Supplying that attention, month after month, is work the Chartered Accountant is uniquely equipped to do.



Green Energy and the MSME Transformation:
From Cost Center to Competitive Advantage



For years, energy was just another line item for most MSMEs. It was something they simply paid for — a monthly electricity bill, diesel expenses, or rising production costs that quietly squeezed profit margins. Very few businesses viewed energy as a strategic asset; it was just seen as a necessary cost of doing business.

That equation is shifting. India's green energy transition is reshaping not just how businesses consume power, but how they produce, finance, manage, and derive value from it. An MSME today can generate its own electricity via rooftop solar, procure renewable power through open access, combine farming with solar generation, or even turn organic waste into compressed biogas. Beyond generation, there is a growing ecosystem of opportunities in equipment manufacturing, technology, EPC (Engineering, Procurement, and Construction), logistics, and specialized professional services.

The policy landscape is evolving in lockstep with this transition. Recent developments in late 2026 make the direction clear. On September 30, the Union Cabinet approved the Green Energy Corridor Phase-III (GEC-III) — a massive project designed to build transmission infrastructure capable of handling up to 135 GW of renewable energy, alongside 50 GWh of Battery Energy Storage Systems (BESS). With a total outlay of ₹1,86,405 crore, this program is slated for implementation by FY 2032–33. Just a day later, on October 1, the Ministry of Petroleum and Natural Gas launched the new GOBARdhan program to develop India's Compressed Biogas sector, backed by a ₹23,731 crore investment over ten years.

These aren't just isolated policy updates. Together, they signal a fundamental shift: India is moving from merely deploying renewable energy to building a complete, functional green industrial ecosystem.

The Green Energy Opportunity Is Bigger Than Solar

While solar remains the most accessible entry point for MSMEs — through rooftop systems, captive generation, or solar-plus-storage models — the green economy is far more expansive. It includes solar thermal, wind, small hydro, biomass, biogas, waste-to-energy, green hydrogen, energy management, and agrivoltaics.

As these technologies grow, new business niches are emerging in manufacturing, project development, operations and maintenance, biomass aggregation, carbon management, and specialized advisory services. India crossed the milestone of 300 GW in non-fossil electricity capacity in August 2026, but installed capacity is only half the story. For an MSME, the real question is: *What economic activity will this capacity actually create?*

The answer lies across the entire value chain. A business in Rajasthan might find success in solar; an agricultural district might serve as the feedstock hub for a biogas project; a region with steady water resources could support small-scale hydro; and a manufacturing cluster with high heat needs might thrive using solar thermal technology. There is no "one size fits all" model — the right approach will always be specific to a business's location, resources, and fuel needs.

Why the Transition Matters to MSMEs

MSMEs are the backbone of India's industrial economy. They consume significant amounts of electricity and thermal energy, often while operating on much tighter margins than large corporations. This makes energy costs a critical factor in their survival. A standard business equation looks like this:

Revenue – Raw Materials – Labor – ***Enerofty*** *– Logistics – Finance – Overheads = Operating Surplus*

Energy sits right in the middle of that equation. By reducing the volatility of energy spending, an enterprise can improve its margins, make costs more predictable, increase operational resilience, and plan investments with greater confidence. Therefore, green energy shouldn't be viewed merely as a way to comply with environmental regulations — it should be treated as a tool for financial risk management and competitive advantage.

The question for an MSME shouldn't be *"How green can I become?"* but rather, *"How can cleaner energy improve my bottom line?"*

Generation, Grid, and Storage: Building the New Energy Architecture

The approval of GEC-III is a game-changer because renewable generation alone isn't enough. Power must be transmitted, balanced, and available exactly when it is needed. The new energy architecture follows a clear path:

Generation → Transmission → Storage

With GEC-III's massive investment in transmission and battery storage, the landscape for industrial consumers is changing. As renewable power becomes more deeply integrated into the national grid, the conversation is shifting from "intermittent" power to electricity that is flexible, reliable, and commercially viable for all. For energy-intensive MSMEs, renewable energy is no longer just an environmental gesture — it is a core component of a long-term business strategy.

Beyond Electricity: The Opportunity in Industrial Heat

A major development highlighted by the MNRE in September 2026 was the call for proposals regarding Concentrating Solar Thermal Technology for Indian industry. This is significant because

industrial decarbonization isn't just about swapping out electricity — many industries rely heavily on heat. Sectors like food processing, textiles, chemicals, pharmaceuticals, paper, and dairy have massive process-heat requirements. Solar thermal technology tackles a different part of the energy equation, providing renewable process heat rather than just renewable electricity. This significantly expands the playing field for MSMEs.

Businesses should start asking themselves two critical questions:

1. How much of my electricity can I decarbonize?
2. How much of my thermal energy can I decarbonize?

The second question is likely to become much more vital as decentralized energy solutions advance.

Agrivoltaics: One Parcel, Two Outputs

Another emerging frontier is agrivoltaics — the practice of integrating agricultural activities with solar power generation. In September 2026, the MNRE highlighted plans to include a dedicated agrivoltaics component in the next phase of PM-KUSUM, focusing on allowing farming to continue right alongside electricity production.

The scale of this opportunity is already evident in the numbers. Roughly 29 lakh agricultural pumps have been solarized, solar energy contributed 16.3 GW in the previous year, and the PM Surya Ghar scheme has already reached approximately 5.6 million beneflciaries.

The logic behind agrivoltaics is simple and powerful: one piece of land, two productive outputs. The farming continues, and electricity is generated simultaneously. For MSMEs, the potential goes far beyond simply owning solar assets. There are opportunities in:

- Solar structures and crop-compatible mounting systems
- Irrigation and farm-level technology
- EPC services and project aggregation
- FPO-based models and energy management
- Finance and specialized advisory services

The real profit may lie in building the ecosystem that makes this dual-use land commercially viable.

CBG: Turning Waste into an Industrial Opportunity

While solar is India's most visible green energy move, Compressed Biogas (CBG) might be the most compelling example of a true circular economy. The basic concept is straightforward:

Waste → Feedstock → Biogas → Puriflcation → CBG → Fuel + Organic Manure

However, the actual commercial ecosystem is far more intricate. A successful CBG project requires reliable feedstock aggregation, biomass logistics, preprocessing, plant technology, gas purification, compression, storage, quality testing, connectivity, offtake, organic manure marketing, finance, and long-term operational management. Because of this, the opportunity isn't limited to owning the plant itself — it spans the entire value chain.

India's SATAT initiative, launched by the Ministry of Petroleum and Natural Gas in 2018, created the foundation for producing CBG from waste and biomass. Since then, oil and gas companies

have been inviting entrepreneurs to supply CBG through long-term offtake agreements. Now, the ecosystem is entering a much larger phase.

GOBARdhan 2026: A New Chapter for CBG

On October 1, 2026, the MoPNG launched the GOBARdhan scheme to support India's CBG sector, following Cabinet approval in August. This framework is massive, featuring:

Key Feature	Detail
Total Outlay	₹23,731 crore
Implementation Window	FY 2026–27 to FY 2035–36
Production Target	~5 MMSCMD (nearly 10x increase)
Administered CBG Price	~₹105/kg, guaranteed for 10 years
Capital Assistance	Up to ₹2 crore per TPD of installed capacity
Mandatory CBG Obligation	3% from FY 2026–27; rising to 5% from FY 2028–29

For developers, investors, and lenders, this policy architecture is vital. CBG projects often struggle with hurdles that have nothing to do with technology — things like feedstock availability, logistics, offtake, and financing. Therefore, the question for stakeholders isn't merely, *"Is CBG technically feasible?"* (it is). The real question is, *"Can the project structure turn policy visibility into bankable cash flows?"* That is the pivot point that determines whether a project can actually be financed and scaled.

The Hidden Opportunity: Biomass Aggregation

One of the most underrated opportunities in the CBG landscape is biomass aggregation. Look at the supply chain:

Farmer → Residue → Aggregator → Baling/Shredding → Storage → Transportation → CBG Plant

Every single link in this chain is a potential business. An MSME doesn't need to own the actual CBG plant to succeed — they can specialize in biomass aggregation, baling, shredding, transportation, storage, preprocessing, or digital supply-chain traceability.

Recognizing biomass aggregation as a vital part of the CBG ecosystem is a commercial game-changer. It lowers the barrier to entry, allowing businesses to participate in the green economy without needing to own the most capital-intensive assets. The next generation of green businesses might not necessarily own the core assets themselves — instead, they may own the *infrastructure surrounding them.*

Green Hydrogen and the Rise of Asset-Light Participation

Beyond biomass and CBG lies another emerging frontier: green hydrogen. The National Green Hydrogen Mission has laid the groundwork for developing production, infrastructure, electrolyzers, and manufacturing. For MSMEs, participating in this sector doesn't have to mean building a massive hydrogen plant. Opportunities are emerging in:

- Specialized fabrication and balance-of-plant equipment
- Sensors, valves, compressors, and storage systems
- Safety systems, automation, and engineering
- Testing services and renewable power integration

Emerging service models, such as *"Electrolyzer as a Service,"* highlight a broader trend: you don't always need to own large assets to participate in clean energy. For MSMEs, these asset-light models can lower capital barriers and create specialized opportunities within high-tech ecosystems.

Green Energy as a Financing Opportunity

Perhaps the most significant shift is happening in finance. Historically, renewable energy projects were difficult to fund because lenders had to navigate complex risks regarding technology, performance, cash flows, offtake, and policy support.

The policy landscape is changing to address these hurdles. The CBG sector is a prime example: the MoPNG has included CBG projects under Priority Sector Lending, and SBI has developed dedicated financing products for the sector. The GOBARdhan framework further bolsters these credit-support mechanisms.

The implication is clear: a green project only becomes truly scalable when it becomes bankable. A project might be innovative, sustainable, and look profitable on paper, but lenders ultimately require proof of steady cash flows and repayment capacity. This makes project structuring, financial modeling, and rigorous risk assessment essential components of the green energy ecosystem.

Look Beyond the Subsidy

Entrepreneurs are often tempted to approach green energy schemes with a "subsidy-first" mindset, but that can be a dangerous strategy. A much stronger hierarchy for project development is:

Resource → Technology → Market → Revenue → Cost → Finance → Policy Support

Not: Subsidy → Project

Before launching a project, an MSME should be able to answer seven fundamental questions:

1. What resource is available? Sunlight, biomass, waste, water, land, or renewable electricity?
2. What technology converts it into value? Solar PV, thermal, CBG, hydro, hydrogen, storage, or something else?
3. Who will buy the output? Electricity, CBG, hydrogen, heat, manure, or other products?
4. What is the realistic selling price? Not just the headline price, but the actual price that is contractually realizable upon delivery.
5. What will the project actually cost? Including land, equipment, civil works, connectivity, logistics, contingencies, pre-operative expenses, and working capital.
6. What happens if assumptions fail? What if feedstock costs rise, generation drops,

commissioning is delayed, interest rates climb, or offtake terms change?

7. Can the project service its debt? Ultimately, lenders care about cash flow and repayment capacity. This is the bridge that turns a technically sound project into a commercially credible one.

From Price Advantage to Green Competitive Advantage

Traditionally, MSME competitiveness has been defined by:

Price + Quality + Delivery

Today, that equation is evolving. It is increasingly becoming:

Price + Quality + Delivery + Energy Resilience + Resource Efficiency + Sustainability Credentials

Large corporations are paying much closer attention to supply-chain sustainability and emissions, which has a direct impact on their MSME suppliers. An enterprise that can prove it uses renewable energy, maintains low energy intensity, practices responsible waste utilization, and provides credible environmental data will become far more attractive to major buyers. In this way, green energy can move from being a cost on the P&L to a core driver of revenue and business strategy.

The Rural MSME Opportunity

The transition to green energy has a unique characteristic — it has the power to turn geographically scattered resources into widespread economic opportunities. Agricultural residues are spread across countless villages, solar radiation covers vast stretches of land, small-scale hydro resources are tucked away in remote areas, and organic waste is present in almost every district. This creates a massive opening for decentralized entrepreneurship.

A rural MSME can step into various roles:

- Biomass aggregator or solar EPC contractor
- Equipment supplier or CBG logistics operator
- Organic manure marketer or O&M provider
- Renewable energy service provider or local project developer

Ultimately, green energy can do more than just decarbonize — it can drive rural industrialization and create meaningful employment.

Your Four-Step Action Plan

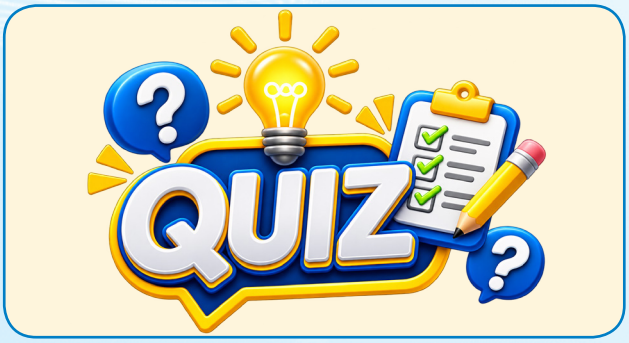
The best approach for an MSME isn't to jump in blindly or to wait indefinitely for the market to mature. Instead, it requires a strategic assessment built on four clear steps:

- Step 1 — Map energy consumption: Get a clear picture of electricity usage, peak demand, thermal energy needs, diesel and gas consumption, and any energy-intensive processes.
- Step 2 — Identify renewable potential: Look at available rooftop space, land, biomass availability, waste generation, grid connectivity, water resources, and local agricultural links.
- Step 3 — Identify the right business model: The right path might be solar plus storage, green open access, solar thermal, CBG, biomass aggregation, agrivoltaics, green-tech manufacturing, or a strategic combination of these.
- Step 4 — Build the financial model: Run the numbers on CAPEX, OPEX, revenue, savings, debt, equity, interest, DSCR, and IRR.

The green energy transition is not a distant event on the horizon — it is already reshaping India's industrial economy today. For MSMEs, the window of opportunity is open. The question is simply whether your business will be a passive observer or an active participant in one of the most significant economic transformations of our time.

The green economy rewards those who plan strategically, act decisively, and build for the long term. For India's MSMEs, the time to start is now.

By CA. Shipra Roongta



1. **Commercial Banks are commonly categorised in to :**
   a) Public Sector Bank
   b) Private Sector Bank
   c) Foreign Bank
   D) All of the above

2. **Ministry of Micro, Small & Medium Enterprises is Apex Body For :**
   a) DPIIT
   b) Invest India
   c) Start Up India
   D) None of the above

3. **SIDBI is Mandated to Serve as the Principal Financial Institution For :**
   a) Promotion for MSME
   b) Financing for MSME
   c) Development of MSME
   D) All of the above

4. **DPIIT (Department for Promotion of Industry and Internal Trade) is executing the business of :**
   a) Matters related to E-Commerce and Start-Ups
   b) Facilitating Ease of Doing Business
   c) Issuing Industrial Entrepreneurs Memorandum (IEM)
   D) All of the above

5. **DPIIT is administering the following legislations:**
   a) The Industries (Development and Regulation) Act 1981
   b) The copyright Act 1957
   c) The Trade Marks Act 1999
   D) All of the above

6. **How many Mega Investment Textiles Park (PM – MITRA) will be established in the country :**
   a) 10 (Ten)
   b) 7 (Seven)
   c) 5 (Five)
   d) None of the above

7. **Pradhan Mantri Kisan Sampada Yojana (PMKSY) is implemented by :**
   a) NABARD
   b) IREDA
   c) SIDBI
   D) MOFPI

8. **How many National Industrial Corridors are implemented in the country :**
   a) 11 (Eleven)
   b) 15 (Fifteen)
   c) 10 (Ten)
   d) 7 (Seven)

9. **Primary objective of the 'Zero Defect Zero Effect' (ZED) scheme?**
   A. Quality manufacturing with minimal environmental impact
   B. Zero-interest loans
   C. Eliminate GST for MSMEs
   D. Zero taxation on exports

10. **Registration under Udyam allows an enterprise to add:**
    A. Only manufacturing activities
    B. Only service activities
    C. Both manufacturing and service activities
    D. None of the above



MSME & Startup Committee, ICAI

ICAI Bhawan, P.B. No.7100, Indraprastha Marg, New Delhi- 110 002, India

Phone 0120-3045944 • **Email:** msme@icai.in/ startup@icai.in

MSME Website https://msme.icai.org/ • **Startup Website:** https://startup.icai.org/