



16th August, 2019

Smt. Nirmala Sitharaman
Hon'ble Minister of Finance
Government of India
Udyog Bhavan
New Delhi- 110011.

Durgesh V. Buch
President

Natubhai Patel
Sr. Vice President

Bhargav Thakkar
Vice President

Sanjeev Chhajer
Secretary

Dilip M. Padhya
Secretary (R)

Pathik S. Patwari
Treasurer

Respected Madam,

Sub: Some suggestions for further enhancement of industrial and economic growth- Moving towards the target of \$5 trillion economy by 2024

Greetings from Gujarat Chamber of Commerce and Industry (GCCI).

Madam, at the outset, we would like to compliment you for the exemplary initiatives taken by you within a very short span of time, which has helped accelerate India's economic growth and paved the way for future development. Madam, "Make in India" and "Ease of Doing Business" are just some of the landmark initiatives which deserve wide applaud. Also, the implementation of GST has been one of the greatest achievements in the taxation arena, as it has brought the whole country under a common tax regime.

Madam, we thank you for sparing your valuable time to have a meeting with trade and industry representatives. On this occasion, we would like to take the opportunity to share our views and suggestions on how we could collectively move towards becoming a \$5 trillion economy by 2024, a target which has been given by our Hon'ble Prime Minister Shri Narendrabhai Modi. We present some of our suggestions as below, with a request to your goodself to kindly consider them positively:

1.1. Funding to MSME units by banks

Madam, the funding available to the MSME units by the banks is not adequate and there exists a wide gap between the



demand and supply of funds for the MSMEs. The banks are more interested in funding the large units and the MSMEs are getting left out. This results in a situation where the MSMEs have to either manage with less than adequate funding or borrow funds from the Micro-finance companies at very high rates.

A special formula or directive is therefore needed to ensure that the MSMEs get adequate funding and are able to undertake developmental activities such as Research and Development etc.

1.2. Percolation of rate control mechanisms by Govt. and RBI to commercial fundings

Currently, the RBI has been continuously reducing the Repo rates in order to encourage bank borrowings and infusion of funds into the economy. However, the benefits of these rate control measure have not been percolated by the banks to the commercial borrowers. There has been no rate cut in commercial loans by banks, even though the repo rate has reduced by almost 110 basis points in recent times.

Madam, we suggest that the banks should be directed to pass on such benefit to commercial borrowers with immediate effect.

Further, we have noticed that various private and public-sector banks have different bank charges even for basic services such as passbook up-dation, clearing charges etc. Also, there is significant disparity in the interest rates of the banks.

A regulatory mechanism is suggested for ensuring that the rates are standardized and kept low, especially in case of the MSMEs.

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1.3. Modification in the NPA criteria in wake of the current scenario

Currently, the banks classify accounts as NPA based on a payment default beyond a period of 30, 60 and 90 days for SMA1, SMA2 and SMA3 respectively. However, as we have mentioned earlier, the recent recessionary trends and resultant severe liquidity crunch have caused the credit cycles to stretch. We therefore suggest doubling the NPA criteria to 60, 120 and 180 days respectively so that the MSMEs can manage their credit effectively and are spared from the problems caused due to their classification as NPAs.

1.4 Providing relaxation in the repayment cycles by banks

In view of the current situation of severe liquidity crunch, we suggest that the banks should provide relaxation in the payback terms available to the commercial borrowers.

2. GST related suggestions

We appreciate the pragmatism and dynamism with which GST has been successfully implemented in the country within a short time span. We have been actively taking up some of the navigational issues related to GST with the GST Council and are in continuous dialogue with the same. These issues are being considered positively and resolved by them from time-to-time.

- Madam, with implementation of GST, the revenue which Gujarat used to get from state taxes is now not available. Further, the allocation made available to the state is also showing negative growth. Under GST, the revenue is realized only after the final consumption of the goods and not immediately. This leaves very less funds with the state for industrial development in the intervening period. Also, since Gujarat is a major manufacturing state but not a consuming state, much of the benefit goes to the other states and the

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manufacturing sector as a whole gets unknowingly disincentivized. Many priority projects planned by the state to support the industries, especially the MSMEs have been put on hold because of paucity of funds.

Gujarat's industries have proved their worth and have emerged as leaders within the country in most of the major sectors, and they are now targeting the global markets and trying to establish their brand across the globe.

Madam, we therefore request you to consider increased allocation to the manufacturing states like Gujarat in view of the high growth planned for the manufacturing sector in near future.

- The GST Act Section 132 of the CGST Act provides a commissioner the power to arrest a person directly in case he has reasons to believe that the tax evasion is likely to be more than Rs 5 crore, without waiting for the final determination of the tax liability. Madam, such wide authority may be bound to misuse.

We therefore we suggest that there should be a monitoring and approval authority which sanctions such action by the commissioner.

- The members who paid IGST on import of textile machinery between 1st July to 12th October 2017 against the earlier available EPCG scheme have not received the credit and are in financial stress as they had to bear this additional cost.

We therefore request that the benefit of credit should be made available to these cases with retrospective effect.

- The units going for expansion or setting up a new unit have to incur a huge expenditure. In addition, they are required to pay GST also on the plant and building.

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Also, in the GST regime, this credit is not available on this expenditure/investment and therefore it creates a huge financial burden.

We suggest that credit of GST on Plant and Building should be provided for such cases so that industry is promoted to go for expansion or setting up new unit.

3. Handholding and support to industries needed in view of the prevailing recessionary trend

The global as well as national perception of economy is that it is passing through a recessionary phase. The domestic and global demand is low and the credit cycles have stretched. To add to the situation, adequate funding is not available to the new and existing units which is creating a cash crunch. Since Gujarat is a major manufacturing state, it is one of the most affected states in the country. Major core sectors of Gujarat such as textile are lagging behind due to the recessionary trends coupled with some policy lapses as compared to our neighbouring countries. For e.g. Gujarat's textile exports are lagging behind due to Bangladesh's favourable policies.

In the Chemical sector, the National Green Tribunal is taking a firm stance towards environment conservation and pollution control. The environment conservation and waste management technology and infrastructure such as Common Effluent Treatment Plants (CETPs), Landfill Sites and Green Technologies are very expensive and cannot be afforded by the MSMEs on standalone basis. This makes it necessary to monitor the allocation and activity for Common Effluent Treatment Plants and other waste management infrastructure at the Central Government level.

It is very important to ensure that the funding process for such allocations is fast and adequate. The process of obtaining Environment Impact Assessment (EIA) and Environment Clearance Certificate (ECC) is too time consuming and needs simplification.

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For the textile sector, we suggest that a National Textile Policy should be formulated so that mere migration of business from one state to the other does not occur and there is an actual net addition to business and to national GDP.

We request you to kindly consider providing additional handholding and support to the industries in the wake of the current trends.

4. Benefit of lower Corporate Tax to be extended to equivalent MSMEs

Madam, we highly appreciate your initiative of providing the benefit of lower Corporate Tax rate of 25 % to MSMEs with annual turnover up to Rs 400 crore from earlier cap of upto Rs 250 crore.

We would request you to kindly consider also including Partnerships, Proprietorships and LLPs having similar eligible turnover, as a large chunk of MSMEs are currently in these segments and have to pay higher tax of 30%. This initiative will provide much impetus to the MSMEs and promote overall economic growth.

Madam, lastly, we would request you to kindly provide an opportunity to us for a meeting at your office in New Delhi in the month of September, so that we can further share our plans and take inspiration, guidance and direction from your good self.

Thanking You,

Sincerely,

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