

ICAI MSME YATRA & SETU

Strategies for Growth of MSME - Virtual CFO's Contribution

HOST: ICAI & FKCCI

CA Chinmaya AM

Partner:

- **Agraga Advisors**
- **Agraga Valuers**

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BACKGROUND

- MSME Sector is a nursery of entrepreneurship
- It contributes 8% to GDP
- 8 crore people employed
- 3.6 crore enterprises
- Total investment in Assets 2 lakh Crores
- Total gross output 10 lakh crores

MSMEs are not too big to be non-dynamic

- Banking space – clear display – too big to adopt change
- None of the banks have been able to provide what any fintech start-ups are providing
- Axis bank learnt this earlier and bought 'Freecharge' to come over this problem
 - ✓ Yet – it was not a solution – Axis couldn't monetise from Freecharge Acquisition
 - ✓ This is the depth of the adaptation issue of large corporations
 - ✓ Post this there are 100s of successful fintech companies, many of them with around a Bn\$ valuation – when not one large bank could crack it

Lacunae Vs Opportunities for MSMEs

- Scale/ Bargaining Power – Collective procurement, collective market research, common sales channel

Start-up Ecosystem

Open Sources tech

- Democratisation by e-commerce and other emerging tech

Jio, UPI, ONDC and many more examples

- MSMEs cannot do a 'me too' product and succeed. Even if it is 'me too' distinction in itself is possible



- Quick course corrections, adopt to change – MSMEs could do best during covid

- Strategic Alliances with large companies – identify what you can offer to large players that is the beginning of the alliance



- Strong innovation in everything [because implementing new is easy in MSME]



M&As offer huge growth

- Inorganic growth is an essential part of growth story of most companies
- Case Study 1
 - Testing Company incubating a separate company for data analytics and gaming in 2016
 - After 6 years – this new company has become 5 times bigger than the Testing Company
- Case Study 2
 - Robotics and gaming company – growing multi folds every year with the funding and acquisitions
- Case Study 3
 - Electrical testing and advisory company – growing much with its acquisition in Dubai – providing cross boarder learnings and efficiencies
- Case Study 4
 - Textile manufacturer supplying to Japanese retail market – Japanese JV Partner

Pre-requisites for External Funding

- Corporate Governance
- Sectors: Capital intensive, high growth, huge/ scaleable market, product fit - manufacturing, b2c, fintech, etc.
- CFO in the Company [<https://economictimes.indiatimes.com/prime/technology-and-startups/whos-the-cfo-investors-ask-for-finance-heads-in-new-startups-to-avoid-bharatpe-zilingo-like-mess/primearticleshow/95068385.cms>]
- Reliable promoters with good track record
- Clarity in books and operations
- Clarity on future possibilities and goal post [STORY]
- Above the board compliances
- Budgets and future forecast - all the listed companies does give future forecasts and those who meets the forecast, share price would be more. Likewise, investor would be keen to invest in the company which gives clear and meaningful MIS, clarity on projection, confirmation on compliances

Clarity on the goal post of Founders/ CEO

MARCHING WELL WITH PROMOTERS IS ONE OF THE KEY FOR SUCCESS OF A CFO

- GMV Vs Revenue Vs Profitability Vs Cash generation
- Growth cycle of the Company – life of the goal post
- Understanding of vision of promoter – technically, commercially, impact based
- Understanding the ecosystem, competitor landscape
- Understanding the funding requirements on short and long term game of the Company

Other Points

- Financial discipline makes a huge difference in the value of MSME
 - Long term funding for Capex and Short term funding for Opex
 - Equity is more expensive than Debt
 - Be aware of things brought in by investors apart from money
 - Risk Vs Return – no free meal by anyone
 - Treasury management – Portfolio manager will improve earnings, appropriate risk instruments vis a vis investment horizon [outsourcing to experts helps in best results]
 - Access to foreign capital
 - New age funding – venture debt, revenue financing, order book financing, etc
 - Credit Rating, Security, healthy order book, predictable revenue, healthy margins, secured/ diversified market
 - Everything is negotiable [every YES would become NO at a cost and NO would become YES at a cost] – if we speak to two banks interest rates would come down.
 - Processing fees also could be a big dent
 - Pre-closure charges could be an issue
 - Interest rate application error in loans by banks

Other Points (Contd..)

➤ Tech Adoption

- Many a times we would have ignored simple things like better warehouse management service provider, better CRM tools
- Most companies need better accounting software too (and better utilization of the existing software)

➤ Choice of Consultants

- Remember – all consultants would have their agenda, they are responsible for their P&L
- Some consultants are too knowledgeable, but short visioned

➤ Legal clarity and Compliances

- Avoiding litigation takes out a lot of burden from the management – gives more time for growth avenues
- Lapse of compliances also cost a lot of time/ efforts to management apart from financial impact

Other Points (Contd..)

- Corporate Structure and legal clarity
 - Eq holder Vs Pref Holder Vs Director Vs Promoter Vs Founder Vs CEO Vs President
 - Importance of Shareholders Agreement and clarity amongst investors/ expectations/ vision
- Once you start delegating – your margins may shrink – checks should be planted on all delegated tasks
 - Delegation leads to institutionalization – that is the only way to growth – but, checks and leadership building in each such node is a must
- Process reviews improving the profitability - case study - mall parking
- Cyber Security/ Cyber Audits

Other Points (Contd..)

- Awareness of latest trends in business
 - Ex: Cloud Manufacturing – zetwerk, locofast, etc.
 - Funding support to MSMEs from fintechs
 - Get onto Twitter – best source of knowledge, especially on latest happening
 - Subscribe to some news sources – Ken, ETPrime, etc.
- ESOPs is a great mode of a good team building
- Succession planning at all levels – savings in stamp duty on owners' wealth, and many more advantages

My learnings in building a team in an MSME

- Valuation practice – 100's does valuation but with professionalism, adapting to change, customize solutioning was the differentiator with us
- Human touch is not possible from large corporations
- Leadership Vs Institutionalization – Leadership to the key for MSMEs, while the latter is also required
- Always have the two visions:
 - One eye is on maximising the competitive advantage compared to large corporations (what we saw in earlier slide)
 - Second eye is on how we can continue to offer what we are offering when we have grown as a large company:
 - Quality, standardization, non-stop growth – growth beyond layer two
- Holding the fort in adversities is the key for MSME success
 - Plan the working capital well
 - Function well when you need to survive
 - Once you pass the bad times – sky is the limit for the growth

ONDC – Watch out and do not miss the bus

➤ OPEN NETWORK FOR DIGITAL COMMERCE

What ONDC is:

- An open network
- Eliminates the need for a central intermediary
- An enabler for e-commerce expansion
- An enabler for broad-based innovation
- Market and Community-led initiative

What ONDC is NOT:

- An application or a platform
- A central intermediary
- A medium to help digitize businesses
- A regulator

Thank You

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