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February 13, 2020

Shri Hardeep Singh Puri
Hon'ble Minister of State for Commerce & Industry
Govt. of India

Hon'ble Sir,

Re : Recommendation for growing manufacturing to contribute 25% of GDP
Request for meeting to discuss recommendations for extending Credit Guarantee for
procuring Plant & Machinery for new manufacturing units

Currently, the manufacturing industry contributes about 16% to the Country's GDP. The following enablers will help achieving the goal of the manufacturing Industry contributing to 25% of the GDP and become a \$ 5 trillion economy.

1) **Plant & Machinery Financing (Credit Guarantee Scheme):**

- a) Capital Goods Industry at Rs. 400,000 Crs (including imports) annually across all segments (source for Indian Capital Goods: <https://www.investindia.gov.in/sector/capital-goods>)
- b) Enable the growth of the industry by providing credit default guarantee through public financial institutions (SIDBI, IFCI, etc) @ 50% of the project cost; (*similar model is operational for MSME by SIDBI; notification being issued for electronics*)
- c) Origination fee @ 5% to be collected from project owners on the plant & machinery cost. This will be used as corpus to get 8X – 10X leverage to issue credit default guarantees
- d) No burden on exchequer by way of subsidies, etc**
- e) NPA losses to be borne out of guarantee fees from Industry annually on guarantee outstanding
- f) Average cost of borrowing will be about 10.3 % - 12.2% depending on loan tenor (6 yrs – 15 yrs)

This will enable the manufacturing industry to avail loans without giving collateral in the form of land, building, etc. Additionally, borrowers can avail loans at lower interest rates.

2) **Working Capital (Credit Guarantee Scheme):**

- a) Working Capital requirement @ 3 months of the turnover is Rs. 784,000 Crs. Credit guarantee to be extended @ 50% of the working capital amounting to Rs. 392,000 Crs.
 - This will enable the Industry to extend credit on domestic and export sales and compete in the global market
 - Sinasure, China's Insurance Company guarantees receivables risk and hence 90 - 180 days credit is extended to their global customers; hence preference given for imports

Total Credit Guarantee Exposure:

Rs. Crs

	Total Requirement	Credit Guarantee (50%)	Promoter Share (20%)	Bank Exposure (30%)
Plant & Machinery	400,000	200,000	80,000	120,000
Working Capital	784,000	392,000	156,800	235,200
Total	11,84,000	592,000	236,800	355,200

3) Land & Building:

- a) As per the existing model; to be funded by the promoters and banks
- b) Loan tenor to be extended upto 15 years

Extending credit default guarantees for capital goods and working capital will help the manufacturing Industry achieve the above goals and allow new players / startups to enter the space. It will also grow exports. The total industry requirement is **Rs. 12,00,000 Crores** of which, the credit guarantee shall be for **Rs. 600,000 Crs.**

- a) It frees-up the entire manufacturing industry for capacity expansion for Plant & Machinery and grows the Indian capital goods industry and boost exports
- b) Enables the industry by providing working capital equal to 3 months turnover
- c) Domestic players come on par globally and can compete with the exports done by China on a level playing field
- d) Foreign Companies can set-up manufacturing facilities with lower capital requirements

We request for a **brief meeting with your goodself on February 14, 2020 at any time of your convenience** to explain the same and seek your support for its implementation.

With warm regards,



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