

'Eurozone crisis hits Indian SMEs'

by [Gopal Singh](#) on July 1st 2010 and filled under [Other](#)

The lingering sovereign crisis in eurozone is hampering the business growth of Indian SME exporters and making them apprehensive about their profitability. Although there has been an indication of recovery in India's overall exports, which have surged by 35.1 percent year-on-year to \$16.1 billion (which stood at \$33 billion in May 2010), this growth is mainly due to the low base of the last year, when exports fell 4.7 percent.

In fact, the European crisis and the subsequent erosion in the value of the euro, is a cause of worry for exporters at the moment. Over the last 12 months, the Indian rupee has appreciated from around 67 to a euro last June to around 57.

"The exporters are hit on the profitability of their business due to the eurozone debt crisis. The profitability of the exporters are much affected by the European crisis. We know that the cotton prices are going up and the stimulus packages are being withdrawn in the Europe and US. So, these are hurting Indian exporters (especially small and medium enterprises)," said Rakesh Vaid, President of Garments Exporters Association (GEA).

He told SME Times, "Our bottom-line (profitability or profit margin) is already very low and are extremely affected. In fact, the cotton prices have multiplied our woes. MSMEs are the driving force of the Indian economy. I don't know how the eurozone is going to behave but the outlook is not bright at present".

India is home to 26 million MSMEs which accounts for 45 percent of industrial output, and 40 percent of exports and provides employment to about 60 million people.

The demand flow is there in the European market and Indian exporters are not witnessing loss in their order books, but extreme worry is the bottom-line, which is weak, he added.

"Our bottom-line should be protected. Indian MSMEs are not in a position to take long-term hitch. They cannot take a hitch via hedging orders. Hence, MSMEs keep low profit margin. We have a fall at the rate of 8 to 9 percent of our bottom-line. In the last two months things were critical," Vaid added.

Many exporters have observed that the key export market, Europe, have shut down their shops due to the crisis. Opining in this context, O.P Garg, Chairman, Overseas Carpet Ltd, and chief of the Carpet Export Promotion Council (CEPC) said, "Actually, the bankers in Europe have no money. They have gone bankrupt. People are also closing their shops. Many retail stores in Europe are being shut down."

"Retailers have stopped their operations as they are facing crisis. They have reduced their inventories. In fact, no new stores are being opened. This is the basic problem," Garg added.

Around 25 percent of the US and European markets dealing into handicrafts items have closed

their shops due to the recent global financial crisis, he mentioned.

In order to sustain in business, many Indian exporters are also looking for opportunities for growth in alternative destination such as the Gulf countries, ASEAN regions, Russia, Latin America, Australia and African countries.

Earlier, Commerce Secretary, Rahul Khullar warned Indian exporters on the perspective of export growth and said, "Over the next three to six months, if things continue like this, people who export to these markets (US and Europe) will figure out how to deal with lower margins. Some of them will look at other markets."

Although the Commerce Secretary projected a export fillip in May 2010 after a consecutive fall for over a year, he seems to 'wait and watch' the export growth trajectory before making any judgement.

The Ministry of Commerce and Industry has also said that the crisis is indeed a concern for exporters this year. And, if the crisis persist then achieving exports growth of 25-30 percent will be impossible.

Further indicating that MSMEs are most affected ones during the crisis period, Prashant Agarwal, Senior Vice President, Technopak Management Consultants said, "SMEs are impacted by the global crisis dearly. MSMEs usually supply to the domestic market. Some even exports in the international market. In fact, MSMEs' product are usually of those kind that get easily impacted during any global crisis."

"MSMEs usually manufacture products of handicrafts, handloom, garments, etc. So, when the slowdown takes place consumers curtail purchasing such types of product and just because consumers reduce their expenditure on these kinds of product, MSMEs get more affected," Agarwal opined.

"It is not that there is no order flowing into the market. I would not completely agree to that. When the recovery comes the buyers usually wants to purchase from the best suppliers and the exporters who supply goods to the buyers may not have recovered in complete capacity. So, they are a bit in crisis. But, we cannot say that the recovery is not happening," Agarwal added.

At this juncture, the only issue is the Euro which has moved from €68 to €56-57. It has shown a downward trend of 20 percent, said Agarwal, adding, "We do not see that kind of profitability which was there earlier. Although the exporters have the capacity, they have to work with almost no margin."

Also, many MSME exporters are trying to concentrate on the domestic market for growth besides depending on exports.

The Federation of Indian Export Organization's (FIEO) Chairman, A. Saktivel recently expressed his views and opined that if China's decision to make Yuan flexible is put in place, it perhaps can be the reason for Indian exporters to relax.

He expects if certain decisions are implemented as promised by the Chinese government then it

is likely to help Indian exports to regain the loss incurred during the global crisis. Adding to that, Saktivel underscored that the competition is likely to increase in the market as China will definitely increase their products prices, which will give India a competition advantage in the potential market.

"We must watch the developments in Europe cautiously, as the Greek crisis may spread to other countries," Saktivel added.