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SMALL AND MEDIUM ENTERPRISES - SCOPE OF MEDIA FINANCING IN INDIA

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ABSTRACT

In the Indian context, the small and medium enterprises (SME) sector is broadly a term used for small scale industrial (SSI) units and medium-scale industrial units. Any industrial unit with a total investment in its fixed assets or leased assets or hire-purchase asset of up to Rs 10 million, can be considered as an SSI unit and any investment of up to Rs 100 million can be termed as a medium unit. An SSI unit should neither be a subsidiary of any other industrial unit nor be owned or controlled by any other industrial unit.

1. INTRODUCTION

In the **Indian** context, the small and medium enterprises (SME) sector is broadly a term used for small scale industrial (SSI) units and medium-scale industrial units. Any industrial unit with a total investment in its fixed assets or leased assets or hire-purchase asset of up to Rs 10 million, can be considered as an SSI unit and any investment of up to Rs 100 million can be termed as a medium unit. An SSI unit should neither be a subsidiary of any other industrial unit nor be owned or controlled by any other industrial unit.

An SME is known by different ways across the world. In India, a standard definition surfaced only in October 2, 2006, when the Ministry of Micro, Small and Medium Enterprises, Government of India, imposed the Micro, Small and Medium enterprises Development (MSMED) Act, 2006.

This definition, however was changed according to the changing economic scenario and thus has separate definitions to it. For instance, an SME definition for manufacturing enterprises is different from what an SME definition for service enterprises has to say.

In India, the enterprises have been classified broadly into two categories:

(i) Manufacturing; and

(ii) Those engaged in providing/rendering of services.

Both categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery (for manufacturing enterprises) or on equipments (in case of enterprises providing or rendering services).

The present ceiling on investment to be classified as micro, small or medium enterprises is as under:

For the Manufacturing Sector, the MSMED Act 2006 defines micro, small and medium enterprises (MSMEs) as mentioned below:

* A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs 25 lakh.
* The investment in plant and machinery in a small enterprise is more than Rs 25 lakh, but does not exceed Rs 5 crore.
* A medium enterprise is one where the investment in plant and machinery is more than Rs 5 crore, but does not exceed Rs 10 crore.

2. GOVERNMENT POLICIES AND SUPPORT MEASURES: BRIEF HISTORY

The evolution of the policy framework and support measures of the Government can be broadly grouped into the following three periods:

1948-1991: In all the Policy Resolutions from 1948 to 1991, recognition was given to the micro and small enterprises, termed as an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital and skills. The Micro, Small and Medium Enterprises Development Organisation [earlier known as Small Industries Development Organization (SIDO)] was set up in 1954 as an apex body for sustained and organised growth of micro, small and medium enterprises.

Within next two years, the National Small Industries Corporation, the Khadi and Village Industries Commission and the Coir Board were also set up. The era provided the supportive measures that were required to nurture MSEs, in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through the Priority Sector Lending Programme of commercial banks, excise exemption, reservation under the Government Purchase Programme and 15% price preference in purchases, infrastructure development and establishment of institutes for entrepreneurial and skill development.

MSME – Development Institutes [earlier known as Small Industries Service Institute (SISI)] were set up all over India to train youth in skills/entrepreneurship. Tool Rooms were established with German and Danish assistance for providing technical services essential to MSEs as also for skill-training. At the State level, District Industries Centers were set up all over the country.

1991-1999: The new Policy for Small, Tiny and Village Enterprises of August 1991 laid the framework for government support in the context of liberalization, which sought to replace protection with competitiveness to infuse more vitality and growth to MSEs in the face of foreign competition and open market. Supportive measures concentrated on improving infrastructure, technology and quality. Testing Centers were set up for quality certification and new Tool Rooms as well as Sub-contracting Exchanges were established. The Small Industries Development Bank of India (SIDBI) and a Technology Development and Modernization Fund were created to accelerate finance and technical services to the sector. A Delayed Payment Act was enacted to facilitate prompt payment of dues to MSEs, and an Industrial Infrastructure Development (IID) scheme was launched to set mini industrial estates for small industries.

1999 onwards: The Ministry of MSME [earlier known as Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI)] came into being from 1999 to provide focused attention to the development and promotion of the sector.

The new Policy Package announced in August 2000 sought to address the persisting problems relating to credit, infrastructure, technology and marketing more effectively. A Credit Linked Capital Subsidy Scheme was launched to encourage technology upgradation in the MSE sector and a Credit Guarantee Scheme was started to provide collateral-free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs. The exemption limit for relief from payment of Central Excise duty was raised to Rs.1

crore ($0.25 million) and a Market Development Assistance Scheme for MSEs was introduced. At the same time, consultations were held with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year. In 2006, the long-awaited enactment for this sector finally became a reality with the passage of the Micro, Small and Medium Enterprises Act. In March 2007, a third Package for the Promotion of Micro and Small Enterprises was announced which comprises the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of the fast changing economic environment, wherein to be competitive is the key of success.

3. INDIAN MSMES: AREAS OF COOPERATION

India benefited immensely from experience of several countries, especially in the field of technology. However, the rich Indian experience gained in the last sixty years in the MSME sector could also be of equal use for both developing as well as developed countries. Some of the areas that offer ample opportunities for cooperation in the MSME sector are:

Fee-based consultancy services and training in the following areas:

i) Capacity Building of Entrepreneurs and Technical Manpower of SMEs.

ii) Policy & Institutional Framework for SME Promotion, Development and Enhancing Competitiveness.

iii) Entrepreneurship Development; and

iv) Business Development Services.

- Establishment of Turnkey Projects for setting up manufacturing MSMEs on commercial terms.
- Skill upgradation programmes in selected areas such as CNC Machining, Sheet-Metal Technologies, CAD & CAM Designing, Wool Processing & Weaving, Leather Technology, Plastic Technology, Wood Working, etc.
- Conducting surveys and studies to identify the tooling and related skill requirements in specific areas or regions like hilly/backward/indigenous.
- Providing turnkey assistance to set up Tool Rooms & Training Centers.
- Providing consultancy to existing manufacturing SME in upgrading their production facilities, selection of machine tools, design consultancy for tools, moulds, dies, jigs & fixtures, etc.
- Providing specialized/tailor-made training courses for specific target groups.
- Providing consultancy to existing training institutes in course design and curriculum development including trainers training programmes.
- Assistance in product design, tool design and manufacturing of intricate tooling's.

4. EMERGING CHALLENGES & OPPORTUNITIES IN THE SMALL & MEDIUM SECTOR RELATED TO FILM FINANCE IN INDIA

With the overview of the above, we need to now discuss about how the Small and Medium sector enterprises could really work out and make a profitable proposition in identifying the film business as a really a profit oriented business. The working of ROI, Debt to Equity and Cash flow could really make a difference to the business.

The comparison between Hollywood and Bollywood might answer these questions.

Increasing disposable income, growing popularity of alternate delivery mediums, digitalization of film distribution and value added services like movie on demand through pay television are set to open up new revenue streams and business models for the film

industry. Emergence of multiplexes has already improved revenue reportage and average ticket price. With the growing popularity of cable and satellite syndication and other new media platforms, small to medium budget films are expected to increasingly shift towards these mediums as opposed to conventional theatrical release that entails huge marketing and distribution expenditure.

The emergence of Cinema as the most popular medium of entertainment is one of the significant events in the history of mankind. No medium has acquired such a universal acceptability and attraction, as the cinema within a short period of its invention. It is appealing to all, the intellectual and the layman, the young and the old, the rich and the poor. Millions of people see movies regularly in all parts of the world. It is the wide popularity which has made cinema a great commercial endeavor. Within a few years of the invention of scientific mechanism of cinema it has grown into a regular industry.

Film Industry as an organized Sector abroad

Internationalisation

On the global scene, Hollywood is the undisputed leader in the entertainment industry. However, many other regional film industries are competing at the second tier. Italian, French, British, Japanese, and Hong Kong-based industries are among them. In the recent years, the bug of globalization has hit Bollywood. With the expansion of its operations in the overseas markets, even though to a limited extent, Bollywood has attracted a great deal of international interest.

Stages of Film Industry

Inside film financing Equity film financing gaining prominence. There has been a flurry of activity of third party film financing over the past couple of years driven in large part by the influx of capital into hedge funds and private equity, with equity investments now more prevalent. This is a change from past financing deals that were largely debt financed. We estimate that 30%+ of negative costs are now being covered by third party financing, with important implications from both a return on capital and an accounting perspective.

- **Co-financing increases rate of return and reduces risk**
- **Outside investors attracted by high returns/low correlation**
- **Co-financing reduces EBITDA and margins**
- **Changing Trends?**

While outside financing has always been available to the film industry, the current influx of capital is more significant and more accessible than in the past. There are several reasons why the researcher believes this is the case. The most obvious is the growth in investor demand for alternative asset classes and the large pool of capital in alternative investment funds looking to be deployed. In addition, the application of portfolio theory and willingness of studios to engage in slate deals has made the sector more attractive to sophisticated investors. The use of structured transactions may have also been a factor in the increased availability of outside financing. Slate financings are now commonly sliced it into a variety of tranches with different risk characteristics, allowing a wide range of investors to participate.

The other major difference in recent film financings is the level of risk that many investors are willing to take. When institutional investors first became more involved in slate financings in the mid 1990's, they often limited their film specific exposure by participating only in debt financings which would return their capital before the studios generated profits on the films. Even in the 1980's, investors who put equity into a film often had their risk capped. Today, studios are increasingly laying off risk to outside investors by selling pure equity in their slates. Even in debt transactions, financing partners are now accepting more film performance risk due to the movement of print and advertising reimbursement up the repayment waterfall.

5. FINANCING CONTINUUM

It may help to take a step back before we get into more detail on the current arrangements and note the various sources of film financing available to the studios. Various forms of financing have been identified to demonstrate the relative risk and required return of each type of financing. As with any other type of financing, investors demand greater returns for a higher level of risk.

- **Third Party Financing**

Here, it has been outlined the basic mechanics of current 3rd party film financing transactions. In almost all cases, outside financing is non-recourse to either the studio or parent company. This typically allows for off balance sheet treatment of any debt used in a transaction. However, even in the case where debt is consolidated, as is the case with the Marvel deal, the transactions are nonrecourse to the parent. In the case of non-recourse financing, the films in the slate are usually the only collateral available to outside investors.

- **Fund Flow For Equity**

The flow of funds for a typical equity and debt transaction has been explained. The key detail to note here is that the studio takes a distribution fee before the fund ever receives a payment. Indeed, the fund is last in line to receive disbursements.

- **Fund Flow For Debt**

A debt transaction looks similar to an equity one, but the fund is no longer subordinated to other profit participants and has therefore reduced its risk. Indeed, historically, much of the P&A has been subordinated to debt repayments, further reducing risk. However, this is becoming less common as investors take on more film performance risk.

- **Risk Reduction**

Risk management is one of the principal drivers of accessing outside financing and our research suggests there can be significant benefits. At the very basic level, the studio is able to maintain a certain level of production at a reduced level of investment. Perhaps more importantly, the use of outside financing allows for greater diversification of the studios' investments. Notably, academic research suggests studios are more likely to co-finance films that make up a large portion of their production budget in order to reduce the overall risk of their film portfolio.

6. CONCLUSION

Inspiring Consumption and Social Change

SMEs play a defining role by offering reasonable, yet revolutionary goods and services to cater to the changing market requirements. Currently, SMEs have made its presence felt in areas like education, medical care, transportation, entertainment and local infrastructure development.

Verticals in the Industry

According to Dun & Bradstreet's Emerging SMEs of India 2008, in India there are certain sectors invariably dominated by SMEs and these SMEs have been contributing significantly to the economy. Auto components, chemicals, petrochemicals, engineering goods, food and agro products, gems and jewellery, IT and IT enabled services, leather and leather products, pharmaceutical, plastic goods and textiles are some of the prominent sectors, principally dominated by the SMEs. The Indian Entertainment Industry and predominantly the film Industry could be the potential for the development and growth of the SME In India, Bollywood being one of the biggest industry in the world

The viewers of Indian cinema today transcend much beyond the Indian sub-continent.

Films like Ra.One are all set to target audiences abroad. Indian film-makers need to leverage the global audiences to make Indian films far more appealing to the international market as well as gain higher mindshare at the international film festivals.

With India opening its doors to foreign investment in the film industry and permitting financial institutions to fund film projects, Bollywood is steadily witnessing a huge change in its outdated business and legal practices. It is very important to realize that films will always remain a risky business but becoming a business can mitigate the risk. Several Hollywood companies have shown an interest in co-production of films in India and the distribution of Indian productions in English. They have also expressed interest in bringing more of Hollywood to India, such as investments in infrastructure facilities, studios and multiplexes. To complement the foreign players and attract investments from overseas, the Indian film industry will have to work better and become more disciplined and organized.

CONFLICT OF INTERESTS

None.

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