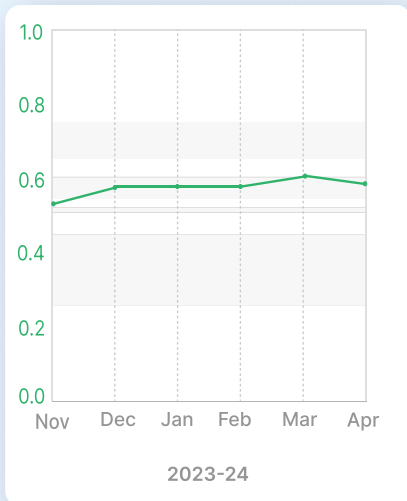


MSMEs Show Resilience with Room for Growth



**Insights from India's First
MSME Economic Activity Index**



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Apr '24 Jocata Sumpoorn **0.55**

Jocata Sumpoorn moved down to 0.55 in April 2024 from 0.60 in March, indicating that the sales activity of credit-seeking MSMEs continues in the phase of mild expansion.

India's Growth Engine: Powering Forward Despite Global Headwinds

India's latest national income estimates set GDP at constant prices growing at 8.2 percent for FY24, the fastest-growing major economy in the world. The economy has not only held its own amidst the global slowdown, but the performance reflects a resilient economy with strong growth drivers in investment with the government's stress on infrastructure. However, consumption expenditure, which has been the mainstay of the Indian economy, was subdued with both private and government consumption expenditure growing at lower rates than the previous year.

When it comes to understanding the world of MSMEs, a more relevant national income indicator is the GVA or Gross Value Added, which measures the production dynamic, and growth in GVA in current prices slowed to 8.5 percent in FY24 compared to 14.0 percent in FY23. Jocata Sumpoorn has shown the sales activity of small businesses to be in the range of 0.53-0.62 in FY24 compared to the range of 0.56-0.73 in FY23.

Manufacturing Growth Boosts, Agriculture and Exports Lag

While the manufacturing growth at 8.0 percent FY24 compared to 4.2 percent in FY23 helped sales for small businesses, low growth in the agricultural sector (5.4 percent in current prices in FY24 compared to 9.4 percent in FY23) as well as lower performance of non-petroleum exports (USD 352.92 billion in FY24, compared to USD 353.6 billion in FY23) curbed demand for MSMEs. When it comes to exports, four sectors – textiles, leather, gems and jewellery and marine products which saw a 9 percent decline to USD 78 billion against USD 86.32 billion in FY23 are the ones with high employment and predominantly small businesses.

Heatwave and Water Crisis Present New Challenges

This financial year has begun with soaring heat across the country, which has affected production and worker efficiency in industries such as engineering goods, steel products and plastics which have heat-intensive processes, as well as industries which are labour-intensive like textiles, leather, etc. Rural India has also been impacted by a water crisis after last year's deficient rainfall, dams across India reported stock at 77 percent of last year's levels. In April retail tractor sales showed a decline to 84,404 tractors, from sales of 86,940 last year. So far, slower growth in manufacturing and services as indicated through the HSBC Purchasing Managers Index – after hitting a 16-year high of 59.1 in March, the Manufacturing PMI for India fell to 58.8 in April while the HSBC PMI for Services dipped to 60.8 in April from 61.2 in March.

Bright Spots: Monsoon Forecast and Positive Sales Trends

Still, there are good prospects for the coming months, with an above-average monsoon forecast, though the actual output would depend on the spatial and temporal performance of the rains over the season – the RBI's latest Annual Report has also marked out weather fluctuations due to climate change as a risk to crops and rural incomes. Some positive signals have already come in through growth in passenger vehicle sales of 1.3 percent growth over last year, with two-wheeler sales showing high growth of nearly 31 percent compared to April 2023. India has also fared well on the export front – non-petroleum exports were up at USD 28.37 billion in April, compared to USD 28.20 billion last year.

Addressing Delayed Payments

One of the most pressing concerns of MSMEs has been access to capital and it has been reassuring to see bank credit to this sector growing robustly at 18.2 percent yoy in April 2024, compared to 12.6 percent the previous year. However, small businesses often reach out for working capital due to cash flow disruption caused by delayed payments. Some estimate payments that are delayed beyond the 45-day deadline mandated by the MSME Act to be around 7 percent of GVA, of which 80 percent is outstanding to micro and small businesses.

Measures such as Samadhaan and TReDS have only partially solved the problem and this year, an additional measure – Section 43B(h) of the Income Tax Act kicked in on April 1st, allowing larger firms to claim a deduction against payments done to MSMEs only after actual payment was made. However, instead of ushering in better compliance, there is an unintended consequence as large firms are reportedly moving orders from registered MSMEs to informal ones, leading to small businesses cancelling their Udyam registrations. This issue is on the radar of the Government and should be remedied in the coming Budget next month.

To View Entire Index Time Series From Oct'19
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Levelling Up MSME Lending: India's Digital Gamechanger



Citizen Stack: the Inaugural Conference on Digital Public Infrastructure at the United Nations HQ in New York.

Pictured: Prashant Muddu, CEO, Jocata; Jasmininder Singh Gulati, Founder, Digital Desh & Full Stack Capital; Ravi Tyagi, CGM, SIDBI

Traditional underwriting methods often overlook the true potential of India's MSMEs, leaving a staggering 86% of the Sector credit starved. But India's Digital Public Infrastructure (DPI) is changing the game. India's DPI acts as a "digital super highway" for MSME growth. The GSTN, a key pillar of DPI, envisioned as a means to standardise taxation, has emerged as a valuable repository of business data, offering lenders a comprehensive picture of MSME borrowers compared to static and dated financials. DPI empowers lenders to assess an MSME's business performance and behaviour, addressing the data gap and overall trust deficit in MSME lending.

This shift unlocks a sea of possibilities. Deserving MSMEs gain access to capital, fueling the economy and bringing us closer to the USD 7-trillion goal by 2030. A robust DPI fosters transparency – GST filing behaviour creates a "digital fingerprint" for MSMEs, leading to better loan terms and incentivizing responsible practices across the board.

By leveraging Digital Public Infrastructure, India paves the way for a more inclusive financial future, where access to capital is no longer solely determined by traditional metrics, but by an MSME's health and behaviour, revealed through rich data insights.

[Click To Leverage DPI & MSME Behavioural Insights](#)

What is Jocata Sumpoorn in association with SIDBI?

Jocata Sumpoorn in association with SIDBI is an MSME-specific high frequency indicator built using consent-led and anonymised sales data of 66,000+ MSMEs seeking credit from financial institutions.

The underlying sample is well distributed by geography, turnover size of entities and sector.

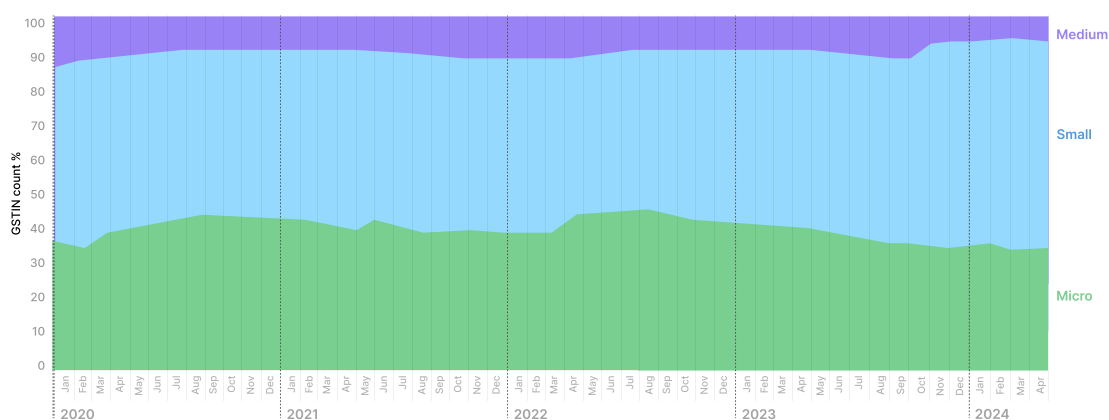


Fig - % Distribution by turnover size within MSME sample

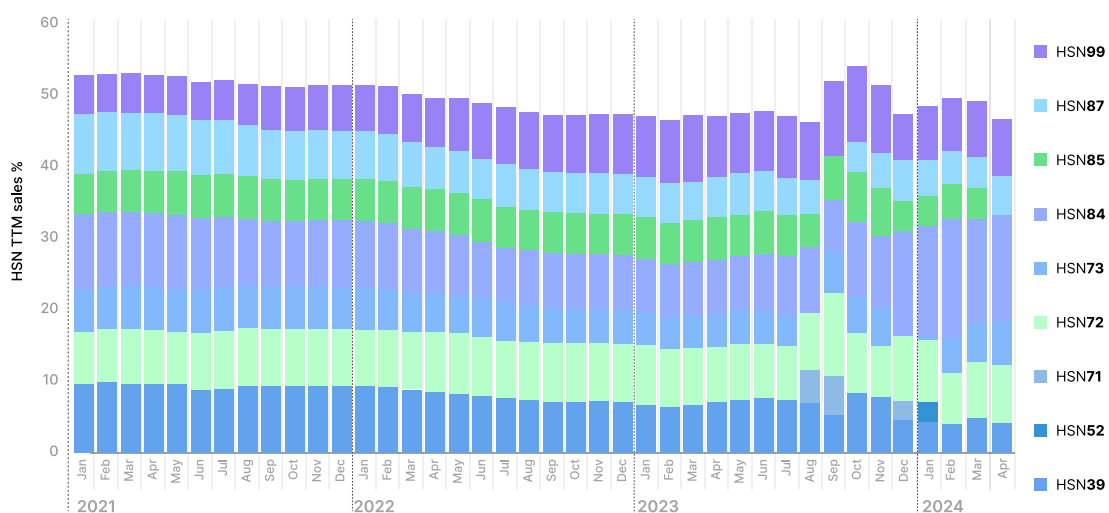


Fig.- % Distribution by value of top 7 HSNs within MSME sample



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