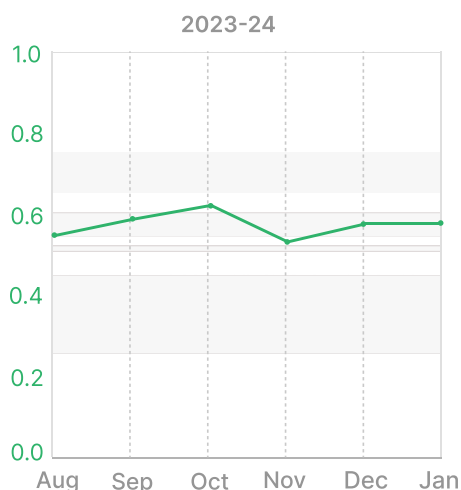


MSME Sector Showing Steady Performance



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



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Jan'24 Jocata Sumpoorn **0.57**

Jocata Sumpoorn was stable at 0.57 in January 2024, the same level as in December 2023, indicating that sales activity of credit-seeking MSMEs continue in the phase of mild expansion.

The growth in the sales performance of the MSME sector, as tracked by Jocata Sumpoorn has been in sync with the national growth trajectory, slowing down over the past year. The Jocata Sumpoorn index moved in the range of 0.53-0.62 in 2023, while the index moved in the range of 0.56-0.73 in 2022. This year has begun with the index showing a mild pace of expansion in the sales activity of small businesses. A similar picture comes through in the national income data - while the Indian economy has been holding its own amidst a global slowdown, yet there is a slowing down over the four quarters of 2023-24. The Second Advance Estimates put GVA at constant prices growing at 6.9% for the full year, with the first three quarters estimated at 8.2%, 7.7% and 6.5 % respectively - this implies that the January-March quarter will have growth at 5.4%. Do note that there is a large discrepancy in the national income estimates between the third quarter's growth in constant prices of GVA at 6.5% and GDP at 8.4% - this divergence is due to the impact of subsidies drawing down, rather than any fundamental growth spurt.

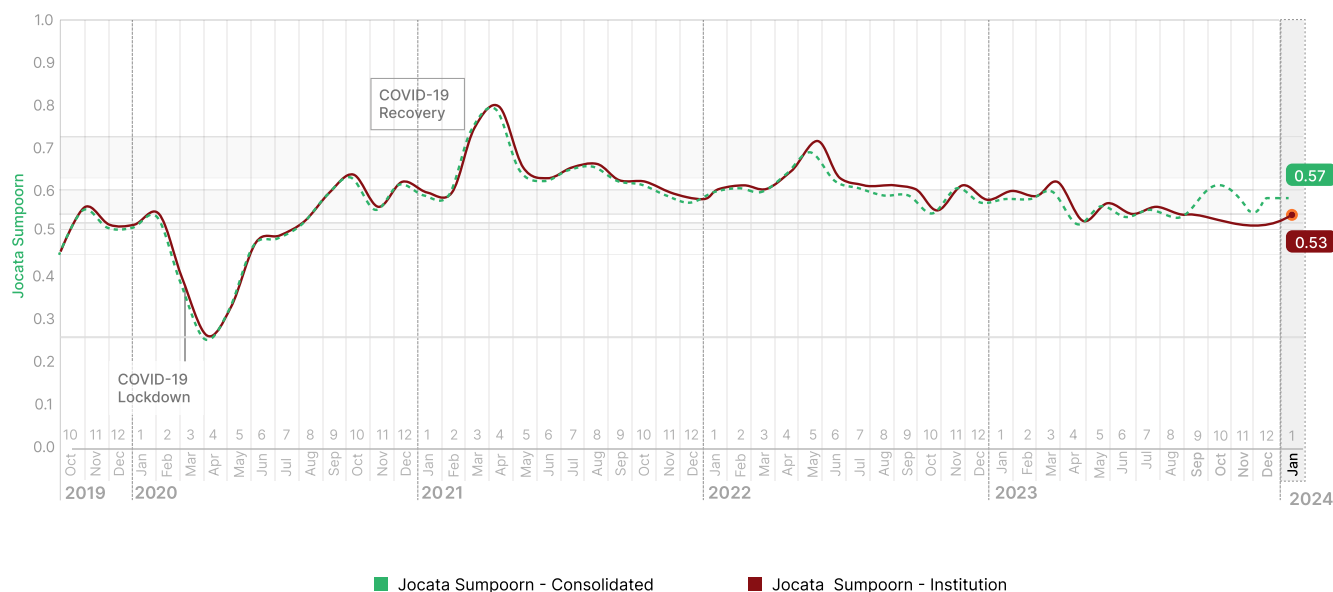
In fact, there are significant causes of concern in the national income estimates that also have an impact on MSME growth. The first is the continued slowdown in Private Final Consumption Expenditure (PFCE) which forms a large part of the demand for output from small businesses. PFCE, which forms the largest component of GDP is estimated to account for 55.6% of GDP, which is the lowest share since 2010-11. More importantly, the growth in PFCE in 2023-24 has been revised downwards from 4.4% in the First Advance Estimates in January to 3.02% in the Second Advance Estimates. Barring the year of the pandemic when PFCE contracted due to the impact of the Covid-19 restrictions, this growth is the slowest since 2002-03.

The second concern comes through the contraction in the agricultural sector, whose growth has been estimated at a minus 0.8% in 2023-24. The above-normal temperatures in February have impacted the wheat crop in the northern belt, and the IMD has also predicted a hotter summer this year. Going ahead, as of now, we are in for a normal monsoon. However, given the impact of climate change and increased frequency and intensity of flash floods and storms, the agricultural sector is facing challenging times. Once again, the resultant hit on rural incomes will have an effect on demand for small businesses.

The Jocata Sumpoorn movement showing growth in sales activity in the mild expansion zone is also in sync with the exports performance, as more than 45% of India's exports are from the MSME sector. Non-petroleum exports grew by 2.1% year-on-year, standing at USD 28.71 billion in January 2024, compared to USD 28.1 billion in January 2023. However, this growth is still subdued and does not make up for the deficit over the year – for the period April-January 2023-2024, the value of non-petroleum exports stands at USD 283.72 billion, lower than USD 290.82 billion for April-January 2022-23.

On the positive side, bank credit to MSMEs continues to grow robustly, currently at 19.3% year-on-year at the end of January 2024. The share of bank credit to MSMEs was 15.1 % of total non-food credit, indicating that the MSMEs have improved access to capital. The recently released SIDBI-Transunion-CIBIL report for the period July-September 2023 revealed improved lender confidence as the credit supply to MSMEs grew by 20% in volumes year-on-year during that quarter. Improved access to credit will help the sector combat the headwinds stemming from the concerns mentioned above.

Comprehensive Portfolio Analytics for Strategic and Risk Calibrated Loan Book Expansion



In the previous month's newsletter, we explored how lenders can adopt GST based scoring to enhance the speed and efficiency of MSME credit assessment. In today's dynamic and competitive lending landscape, employing an analytics-based approach merely at the entity level is only one half of the solution to fully leverage the potential of the underlying data to grow MSME loan books. Jocata SWARA assists institutions to not only assess entities in under 2 minutes but also enables portfolio review and monitoring to drive efficient sourcing by RMs, consolidated risk overview by geography, entity size, industry, etc for strategic and risk calibrated book expansion.

In our effort to connect the dots in digitizing MSME credit assessment and decisioning, Jocata is set to launch Jocata Sumpoorn based Comprehensive Portfolio Analytics of lending institutions for:

- **Enhanced portfolio management:** Monitor portfolio mix as well as borrower performance and risk by various GST-driven scoring parameters on a dynamic basis.
- **Macro insights & peer comparison:** Industry and cluster level trends to direct your institution's MSME credit flow and MSME risk comparison with peer lenders on an anonymised basis.

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 50,000+ MSMEs seeking credit from financial institutions.

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

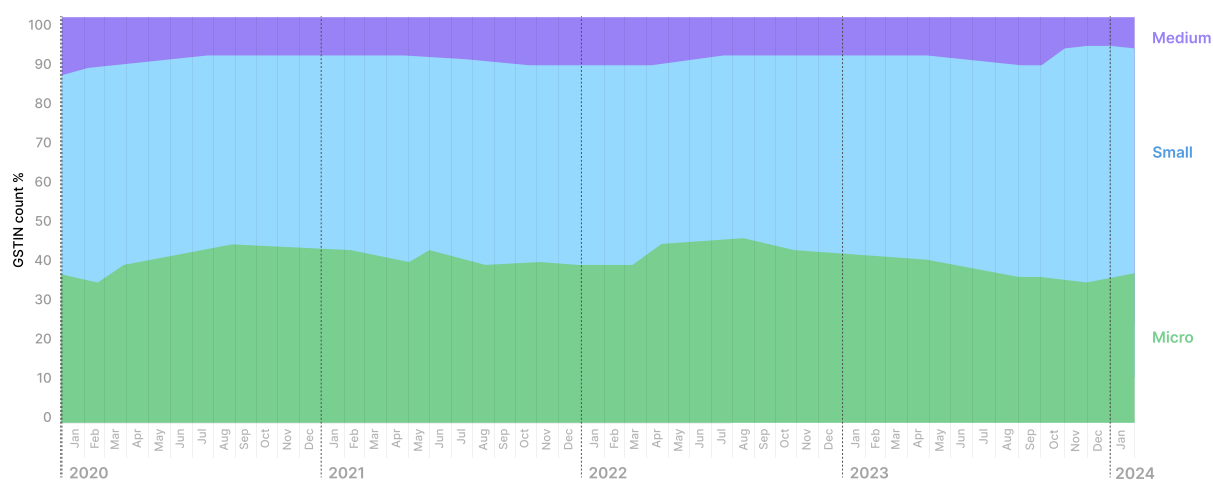


Fig - % Distribution by turnover size within MSME sample

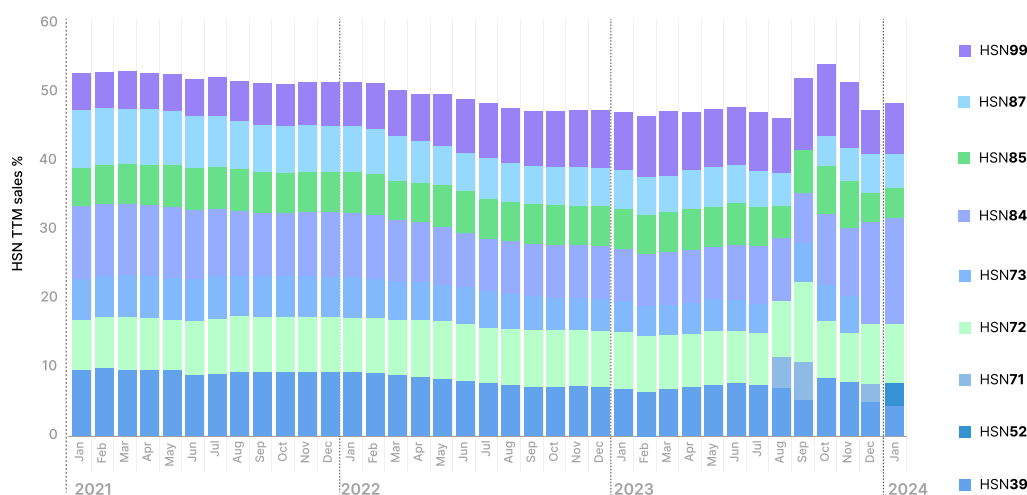


Fig.- % Distribution by value of top 7 HSNs within MSME sample



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