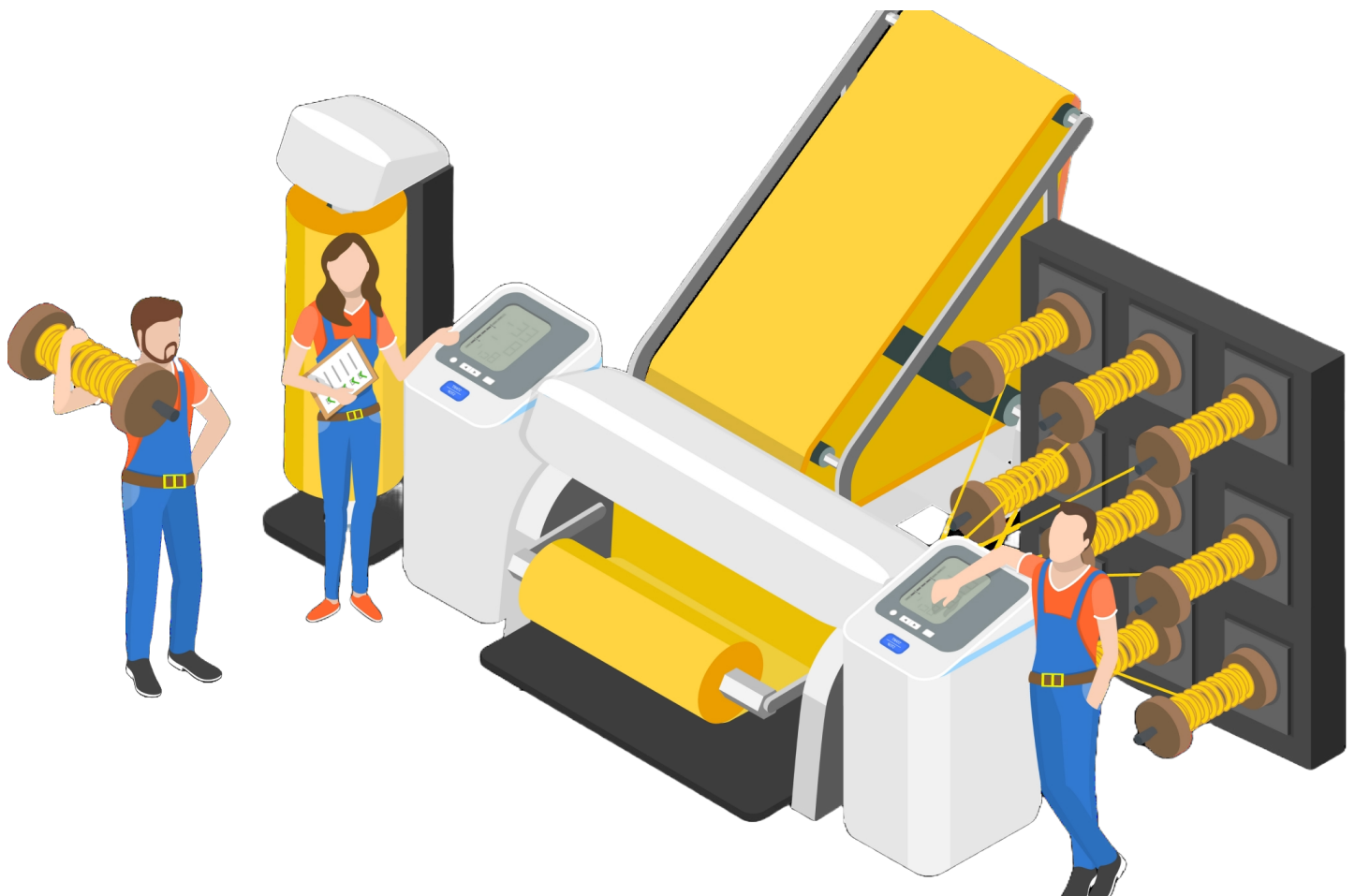
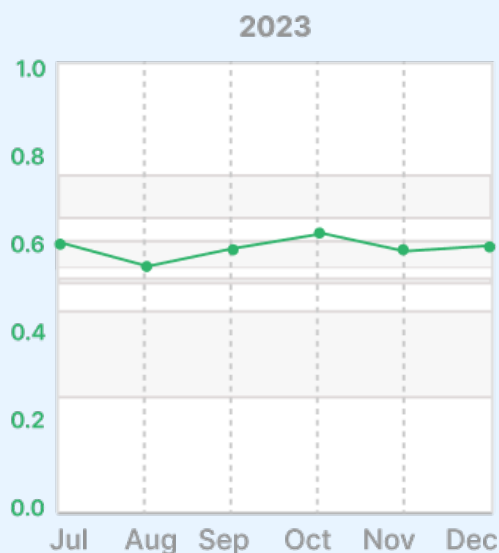


# Will The MSME Sector Look Up In 2024?



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



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### Dec'23 Jocata Sumpoorn **0.57**

Jocata Sumpoorn moved up to 0.57 in December, from its November value of 0.53, indicating that sales activity of credit-seeking MSMEs is in the phase of mild expansion.

The growth in sales performance of MSMEs slowed down in 2023 – the Jocata Sumpoorn index moved in the range of 0.53–0.62 last year, while in 2022, the index moved in the range of 0.56–0.73. This is broadly in line with India's growth trajectory as per the First Advance Estimates of National Income, where the nominal GVA came off the high growth of 15.4% in 2022–23 to 8.0% in 2023–24 and growth in nominal GDP moved down from 16.1% to 8.9%. The slowing down of growth in real private consumption expenditure from 7.5% in 2022–23 to 4.4% in 2023–24 has been of particular concern as curtailed demand impacts the MSME sector's sales performance. The agricultural sector which is estimated to grow at 1.8% in real terms compared to 4.8% in 2022–23 is a pointer to flagging rural incomes and capacity to consume. With uneven monsoons, tractor sales at 9.15 lakh units in 2023 were just above the 9.12 lakh units sold the previous year. In fact, December saw the lowest sales in the past two years and production was the lowest since May 2020.

The sector that has shown consistent double-digit growth over these two years is construction, and with the government announcing a new affordable housing scheme for the middle class in the Interim Budget, this holds hope over the years ahead for small businesses in the housing and homes value chain.

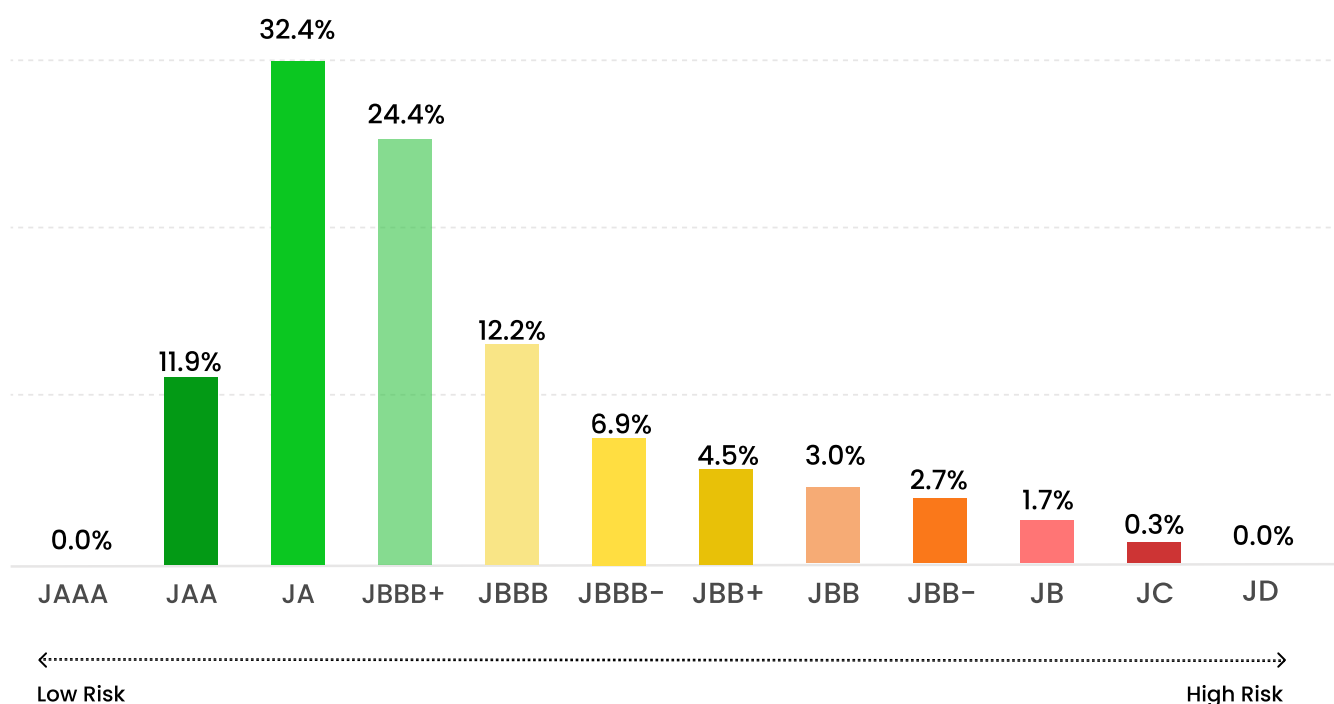
As MSMEs contribute around 45% of India's exports, the global slowdown has also hit the growth in sales for these small businesses. Non-petroleum exports were valued at USD 255.05 billion during the period April-December 2023, compared to USD 262.72 billion in the same period the previous year. This aligns with the moderation in growth of sales activity as shown by the Jocata Sumpoorn index in 2023.

Meanwhile, the HSBC India PMI had mixed signals in December- the Manufacturing PMI for India dropped to an 18-month low standing at 54.9 in December, while the Services PMI rose to 59 on the back of strong orders and business optimism. In January, the Manufacturing PMI recovered and climbed back to a 4-month high of 56.5.

On the positive side, bank credit to MSMEs has been growing at a faster clip - year-on-year growth stood at 19.1% in December 2023, compared to 11.8% in December 2022. Analysis of latest bank quarterly results shows that Gross NPAs for MSME loans have also been on the downtrend over the year. As per the RBI's latest Financial Stability Report for the second quarter of 2023-24, the quality of bank MSME portfolios had improved with the GNPA declining to 4.7% in September 2023 from 6.8 percent in March 2023 and 7.7 percent in September 2022. However, SMA-2 loans (that is loans whose payments are overdue for 61 to 90 days) rose slightly to 1.7 percent in September 2023 from 0.9 percent in March 2023- this indicator will need to be monitored as it is currently pointing to some stress in the system.

Going ahead, the challenges to growth coming from the slowing down in the global economy and in domestic rural incomes are expected to continue. Which is why the MSME sector was hoping for greater support through the Interim Budget, for instance, a modified Emergency Credit Line Guarantee Scheme, incentives towards Udyam Assist and Udyam registration to ease access to bank credit, etc. However, this will have to wait for the full Budget which will be presented later this year.

## How can we address the acquisition & monitoring challenges that limit MSME bank credit growth?



*Distribution by Jocata SME DNA score bins (December 2023 pool of Sumpoorn GSTINs)*

While Jocata Sumpoorn empowers Financial Institutions to understand the sales performance of the MSME segment at an aggregate level, at the heart of the Index lies Jocata's SWARA that uses consent-enabled GST data of entities and generates 'SME DNA' a composite risk score reflecting dimensions such as growth consistency, governance, liquidity, counterparty concentration and quality and, segment stability of an entity. The score ranging from JAAA-JD supported by sub-indices and a business intelligence report reflect the performance and risk of these businesses.

**Jocata SME DNA has been adopted by marquee Banks & NBFCs and has helped one of India's largest private banks build an MSME loan book worth \$ 1.4 Bn+ in less than a year.**



## 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.

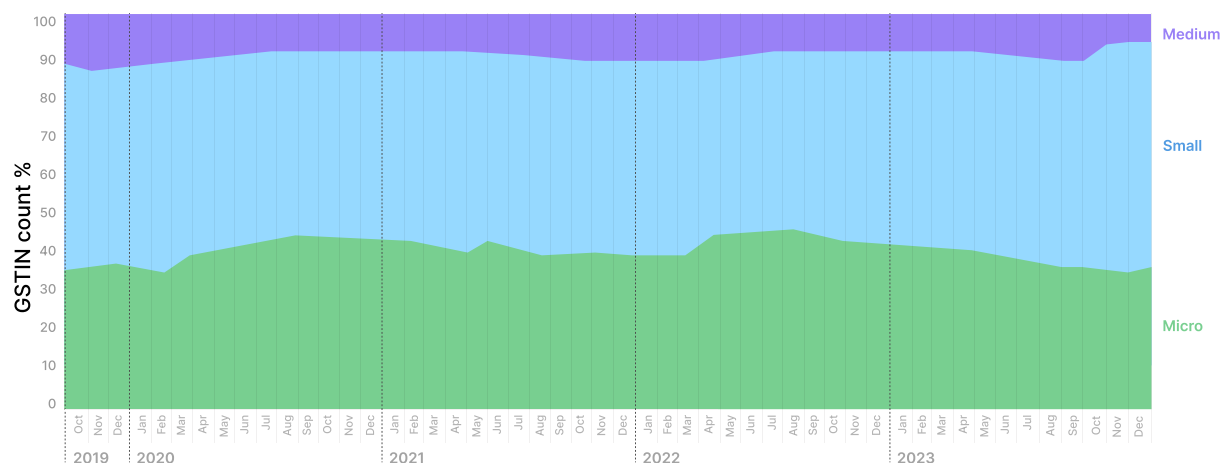


Fig - % Distribution by turnover size within MSME sample

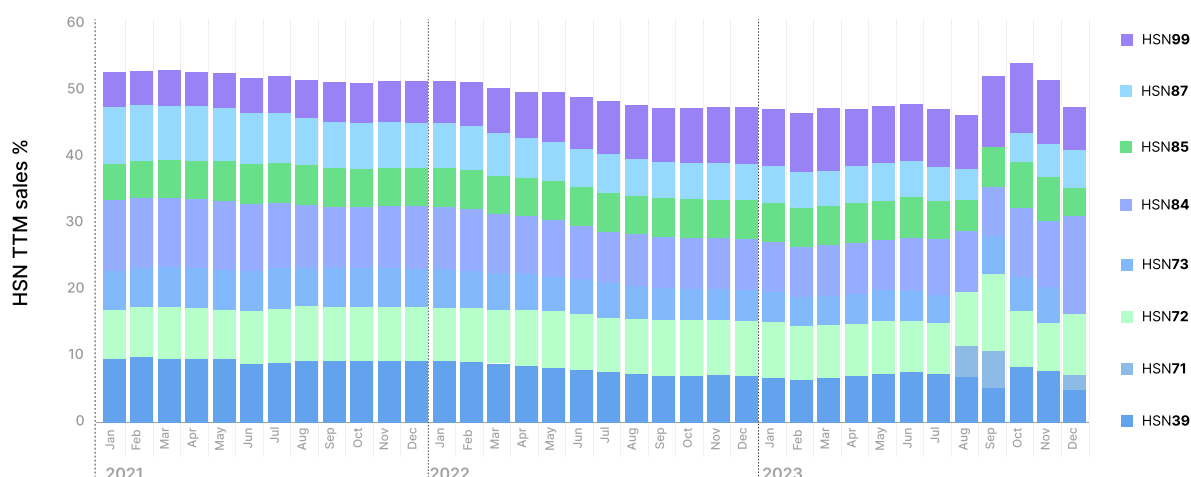


Fig.- % Distribution by value of top 7 HSNs within MSME sample



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