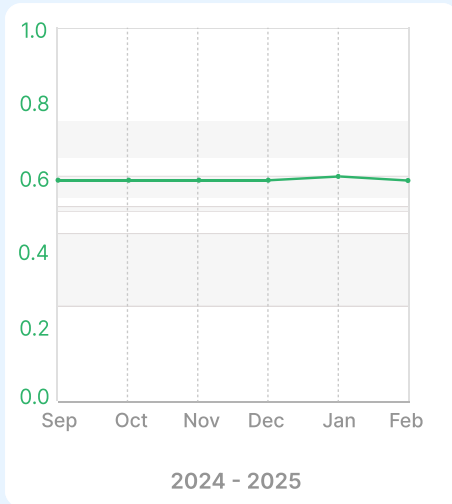


# Challenging times for MSMEs



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



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**Feb'25 Jocata Sumpoorn** **0.58**

Jocata Sumpoorn came in at 0.58 in February, moving down from the 0.60 level in January, indicating that the sales activity of credit-seeking MSMEs stays in the phase of mild expansion albeit with a contraction compared to the previous index.

**Steady but slow growth for MSMEs**

Small businesses have been reporting mild pace of growth in sales over the past year. In fact, breakthrough to faster growth appears to remain a challenge as some macro-indicators are also recording similar slower growth. One, GST collections have been rising at a slower rate than FY24; in fact, this February's 9.1 percent YoY growth is lower than the 12 percent plus growth clocked for the same month the past two years. Two, core sector growth fell to a five-month low of 2.9 percent YoY. Three, when it comes to auto sales, the Federation of Automobile Dealers Association of India reported a broad-based decline in sales of all categories of vehicles with the overall market down by 7 percent in February over the previous year. Four, merchandise exports stood at USD 36.91 billion in February, lower than USD 41.41 billion last year, although services exports have been robust, reporting positive growth of 23.6 percent YoY. Five, as per data from Centre for Monitoring Indian Economy (CMIE), capex project completions marked a four-year low, worth only ₹4.7 trillion in 2024-25, nearly half of the value completed in FY24. While small businesses are looking forward to a turnaround in the year ahead, the outlook remains one of cautious optimism, as global uncertainties abound.

## Hopeful but wary

There are a number of indicators that point to the possibility of faster growth for MSMEs ahead, but there are caveats. To begin with, in the last quarter of FY25, Centre and state governments have announced new projects worth ₹18.7 trillion, accounting for half of the total new projects announced for the entire year and this is a 117 percent YoY rise in new government projects. Private investment remains subdued, with new project announcements up by only 3.3 percent YoY in Q4. Small businesses in the supply chain will benefit as and when these projects commence, and the pace of completion will be critical for growth. Secondly, with inflation pressures moderating and potential tax benefits coming through this year, discretionary incomes should improve. However, over the past quarter, demand for FMCG has not seen any significant uptick, though there are reports of improved stocking at stores in Q4 compared to earlier, and improvement in sales through routes such as ecommerce. Thirdly, rural India does show some tailwinds for small businesses. Though there are some concerns of impact on the rabi harvest due to intense heat, as predicted by the Indian Meteorological Department, the rabi outlook continues to be favourable so far. A supporting indicator of rural performance is rising tractor sales, with Mahindra and Mahindra reporting a 34 percent YoY growth in March. Finally, access to finance should ease this year for MSMEs – while bank credit to micro and small enterprises has picked up pace of growth over the past six months, the Central Government new Mutual Credit Guarantee Scheme of ₹1-1.5 lakh crore credit guarantee cover in 2025-26 for MSMEs will come into force this year, offering 60 percent coverage for credit facilities up to ₹100 crore for equipment or machinery purchase. However, on the other side, credit for consumer durables has slumped to 3.3 percent in FY25 for the period ending February 2025, compared to 14.2 percent YoY for the same period in FY24. Similarly, growth in credit for vehicle loans has halved to 8.1 percent compared to 16.0 percent in FY24. In February, the RBI had reduced risk weights on bank loans to NBFCs and MFIs to pre-November levels of 100 percent from 125 percent, leaving risk weights for unsecured loans at the same raised level. The caution by the RBI has led to banks and NBFCs reassessing their loan portfolios away from unsecured loans. This has implications for demand for consumer products, which in turn will affect sales from small businesses in the supply chains of these segments.

## **High global uncertainties**

The strongest risks for the Indian economy and small businesses are currently coming through the global economy, as President Trump has rejigged the American tariff policy in response to what he termed a national emergency due to large and persistent annual US goods trade deficits. The new reciprocal tariff policy has serious implications for the entire world as trade flows will be in a flux this year with countries choosing their specific responses to the changed regime. Simultaneously, there will be effects of this policy on the domestic US economy through the inflationary impact of the import tariffs, a hard landing, which will hit global demand. The domino effect of this US tariff policy is far reaching.

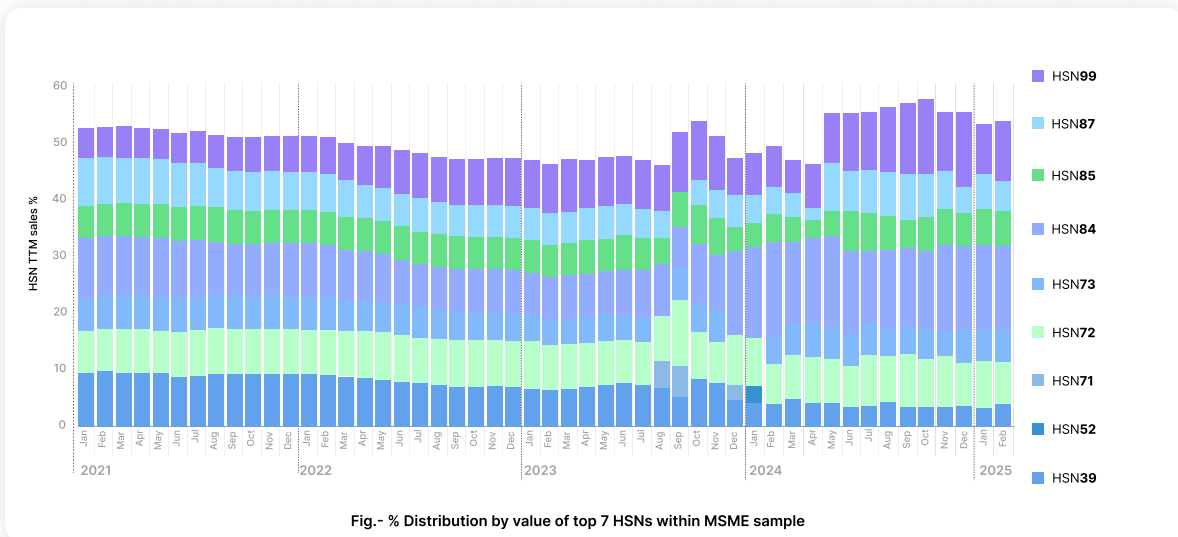
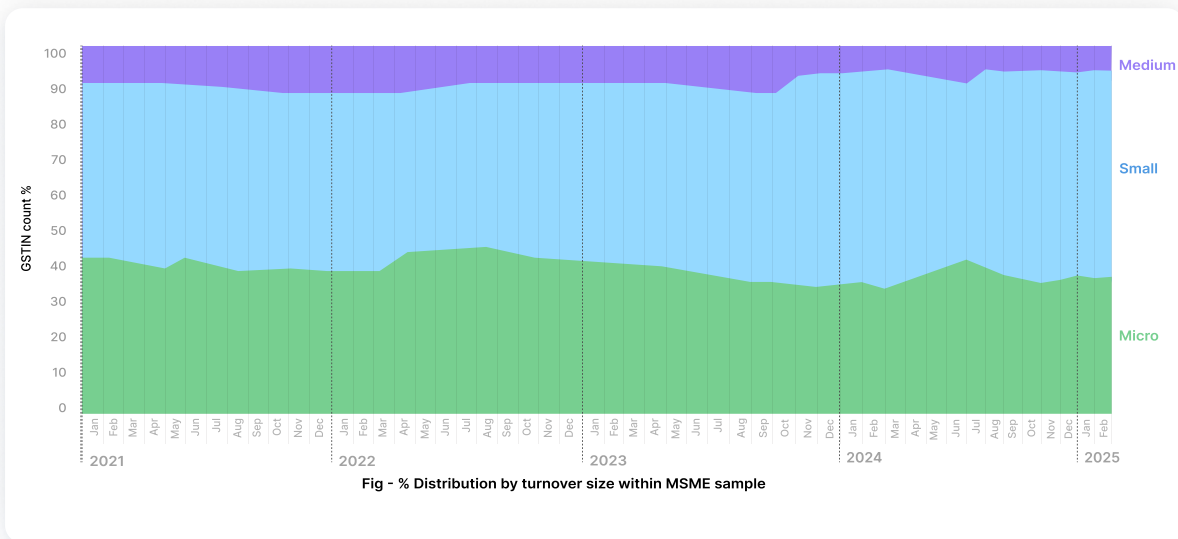
India has been called out for imposing “disproportionately high duties” on US products, and 26 percent “discounted” tariffs have been levied on Indian imports which will disrupt supply chains in various sectors. One of the sectors which has serious concerns is gems and jewellery, which has a large presence of MSMEs. Currently, the US accounts for 30 percent of India’s jewellery exports, and India levies a 20 percent tariff on gold jewellery imports, compared to the considerably lower import duty of 5.5-7 percent levied by the US. Also, Indian cut and polished diamonds had duty-free access to the US, and this segment will be badly hit. Auto ancillaries, electronics and electrical machinery, textiles and apparel are other sectors where US markets account for a large share of exports and which will see disruption. Pharmaceuticals have so far been exempted from the new regime, but this may be short-lived relief. The Indian seafood exporters are also bracing for serious impact on their markets. While MSMEs will now try to diversify their export markets, other countries will also be scrambling to do the same. The year ahead will be extremely challenging and Indian small firms will look to the government for the right interventions and incentives to stabilise the MSME sector during these times.

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## 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 1 lakh+ MSMEs seeking credit from financial institutions.

The sample is well-distributed across geography, turnover size and sectors.



Feedback

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