

# Mild expansion in MSME sector in July, what lies ahead?



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



**Dr. Sumita Kale**  
 Principal Economist,  
 Jocata



**Mr. Narasimhan V.**  
 Principal Advisor,  
 Jocata

**Jul'24 Jocata Sumpoorn 0.6**

Jocata Sumpoorn stood at 0.60 in July, moving up from the 0.59 level in June, indicating that the sales activity of credit-seeking MSMEs stays in the phase of mild expansion.

**Will the green shoots strengthen?**

After recording the same level of 0.55 in April and May, Sumpoorn moved up in June and July, while staying in the zone of mild growth of sales activity. The jump to 0.60 in July was broad-based across firms, with micro entities performing better than the average. The improved sales performance by MSMEs is in sync with the stronger growth in private consumption expenditure, which recorded a seven-quarter high of 7.4 percent in the national income estimates for the first quarter of FY25. Rural demand, which had been a cause of concern for the economy, began to show signs of revival in June, with positive sales reports from FMCG firms. However, the question remains whether the recent higher expansion of MSME sales will be sustained over the next few months, as there are several cautionary signals coming in as well.

## **Mixed signals for the festive season**

While firms are looking forward to greater demand during the upcoming festive season with lower inflation and good monsoon, there are notes of caution. To begin with, by the end of August, area under kharif sowing has been higher by almost 2 percent than last year, but still 2.8 percent lower than the average of the last five years. Moreover, while overall the monsoon so far has been above-normal, the impact has been very uneven across the country - two major rice producing states Punjab and Bihar have recorded 24 percent and 25 percent deficiency in rainfall, some states like Gujarat and Maharashtra have been witnessing floods and parts of eastern and northeastern India have received below normal rainfall for the second year in a row. Given the inconsistencies of the monsoon, both spatially and temporally, there is considerable uncertainty about the final kharif yield, which will in turn affect rural incomes, consumption patterns and sales of small businesses.

If we look at the auto industry, for which MSMEs form a critical part of the supply chain, the prospects are mixed - sales of passenger vehicles and commercial vehicles declined in July as well as in August; two-wheeler sales grew at 12.5 percent YoY in July and Bajaj Auto and TVS Motors reported robust double-digit growth in August. Going forward, firms are optimistic about increased demand in the festive season. Yet as auto firms are focusing on inventory management rather than ramping up production, the demand for MSME output is expected to be constrained.

## **Exports need a policy push**

Despite the challenging global situation, India has been holding its own in exports with non-petroleum exports at USD 28.75 billion, up by 3.5 percent in July from the previous year. The segments that have fared well, which have a strong contribution from the MSME space are electronic goods, engineering goods, and ready-made garments. However, as per the Gem and Jewellery Export Promotion Council (GJEPC), the gems and jewellery segment, another segment with strong MSME presence, saw a 21.93 percent YoY decline in exports in July, which was attributed to global unrest and slowdown in China. The potential for tapping export markets remains to be exploited and here the government has a large role to play - even as official data puts the share of MSMEs to overall exports at 45%, a recent PwC report notes that just 1.36% of all registered MSMEs are exporting. The report cites "business environment, export procedures, access to finance, and access to markets and information" as the biggest constraints. Clearly, MSMEs in India are resilient but a policy push targeted at raising their capability in the export markets will give the sector a significant growth spurt.

## **Growth prospects can brighten**

The national income estimates showing growth at 6.7 percent YoY for Q1FY25 were lower than expected, yet the World Bank has revised India's growth forecast for the year upwards from 6.6 percent to 7.0 percent. The strongest performance in Q1FY25 came in through the construction sector growing at 10.5 percent, and manufacturing clocked a good 7.0 percent, both segments have a large contribution from small businesses. Going forward, government spending, which had been curtailed due to the polls in the first quarter of the financial year, will recover. More importantly, as noted in a recent RBI paper, private capex is expected to increase significantly to Rs 2.45 lakh crore in 2024-25, up from Rs 1.59 lakh crore in 2023-24. These projects will have their spinoff boosting growth for MSMEs in the value chain.

Another factor that could contribute to better prospects for MSMEs is the continued robust growth of bank credit. Given the reality that small businesses still largely have unmet credit needs, the Finance Ministry has exhorted Public Sector Banks to move away from traditional collateral based credit-assessment models. With the State Bank of India taking the lead, looking at cash-flow based lending MSME loans under Rs 5 crore, access to finance should become relatively easier for more small businesses. However, much will depend on how the banks take this initiative forward across the country.

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## Jocata & Sumpoorn heads to a Global Forum Focused on MSME Financial Inclusion



Financial Institutions across the world constantly contemplate MSME loan book expansion and navigate the risks involved in lending to this credit hungry sector. Policymakers and other stakeholders remain in search of a navigating compass that enables transparency and trust between the ecosystem participants through digitization for a sustainable and inclusive future for MSMEs.

We are pleased to inform you that Jocata is invited to the Global SME Finance Forum 2024. Prashant Muddu, CEO, Jocata will be speaking on “Mitigating risk with AI-powered analysis of alternative data”. The forum is the world’s most diverse and in-depth annual conference centred on SME financing.

We are grateful to the International Finance Corporation (IFC), the World Bank, and Elevandi for giving us the forum to share our work and express our views at the conference in São Paulo, Brazil, from September 16-18, 2024.

### **About Global SME Finance Forum 2024**

The Global SME Finance Forum is the flagship annual event of the SME Finance Forum, a network of over 300 of the leading banks, NBFIs, Fintech companies, credit guarantee agencies, development banks, and industry associations created by the G20 countries and managed by the International Finance Corporation.

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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 76,000+ MSMEs seeking credit from financial institutions.

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

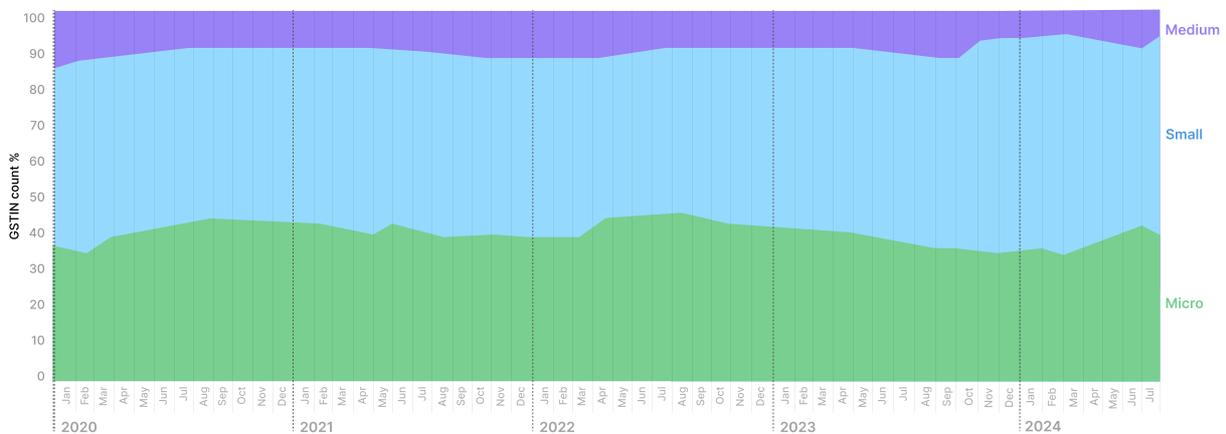


Fig - % Distribution by turnover size within MSME sample

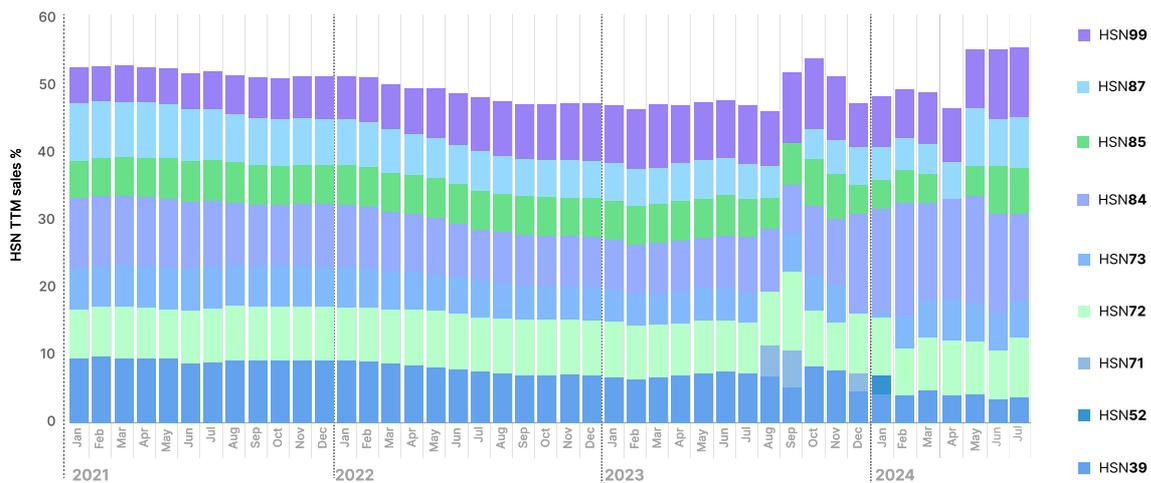


Fig.- % Distribution by value of top 7 HSNs within MSME sample



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[sumpoorn@jocata.com](mailto:sumpoorn@jocata.com)



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