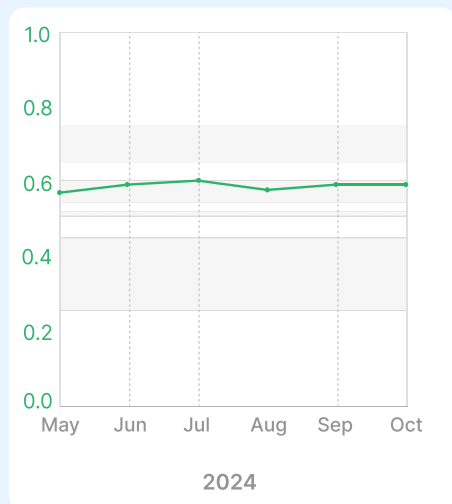


# MSMEs Maintain Pace



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



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### Oct'24 Jocata Sumpoorn **0.58**

Jocata Sumpoorn stayed at 0.58 in October, the same as in September, indicating that the sales activity of credit-seeking MSMEs stay in the phase of mild expansion.

## Growth showing mixed signals

October saw the sales activity of small businesses steady in the zone of mild expansion, with the Sumpoorn index still below the levels reached in June and July. This has broadly been in line with the national growth estimates – the second quarter of this year has seen subdued economic growth, with GDP at constant prices estimated at 5.4 percent YoY, a seven-quarter low. While the low Q2 estimate will impact the growth forecasts for the year, the festive season boost seen in October holds promise. The Finance Ministry's Monthly Economic Review for October has pointed to positive signals for rural demand from record-high tractor sales, robust growth in two-wheeler sales, and e-way bills at an all-time high in volume, driven by festive demand. Going ahead, rural demand is expected to stay positive as the First Advance Estimates of kharif output indicate that production of major kharif crops will hit a record 164.7 million tonnes, higher by 5.7 percent over last year and 8.2 percent greater than the average food grain production in the past five years. Further, central government spending is expected to increase significantly in the remaining months of this year to meet the budget target, as it needs to compensate for the underperformance so far. This holds true for state governments as well – according to analysis by ICRA for 15 major states, the combined revenue expenditure and capex must increase by 26 percent and 40 percent respectively in H2FY25 to meet the budgeted target for the year.

However, even as rural demand has picked up, household finances do not report a bright picture. NABARD released results from its second bimonthly rural economic conditions and sentiments survey in November, reporting a moderation in income and financial savings, compared to its earlier round in September. While the share of income for consumption increased over the two rounds, that on loan repayment rose from 13.4 percent to 13.7 percent. As before, data on borrowings and capital investment suggests that loans may have been used for increasing consumption, which is not sustainable. Further, signs of concern for small businesses stem from slowing urban demand and low growth in manufacturing this year. Urban sales which account for about 2/3rd of FMCG business have seen volume growth more than halved this year, as inflation has hit disposable incomes, and wage growth has been muted, with some analysts (Elara Securities) reporting contraction in real employment costs for listed non-financial companies in Q2 this year. Corporate earnings have also moderated and are expected to turn in their first single-digit growth in the past five years, according to Motilal Oswal. All in all, for MSMEs, who have stayed the course so far, there are mixed signals for demand in the months ahead.

### Exports shining

Interestingly, the one sector that has seen a turnaround in the face of challenging global conditions is exports. With MSMEs contributing to around 45 percent of India's merchandise exports, this is one of the reasons why small businesses have stayed the course through changing domestic conditions. Non-petroleum exports stood at USD 34.61 billion in October, higher than the USD 27.55 billion clocked last year, and gems and jewellery, which has been a sector of concern over the past year, also rose by 8.77 percent. Other sectors that performed well in exports in October, which have a strong component of MSME presence include Electronic goods, Engineering goods, Jute, Ready-made garments, Handicrafts, Leather goods, and Pharmaceuticals. While India is expected to benefit from the "China Plus One" policy of Western nations, the government is also looking towards more Free Trade Agreements to boost markets.

## Slowing credit growth

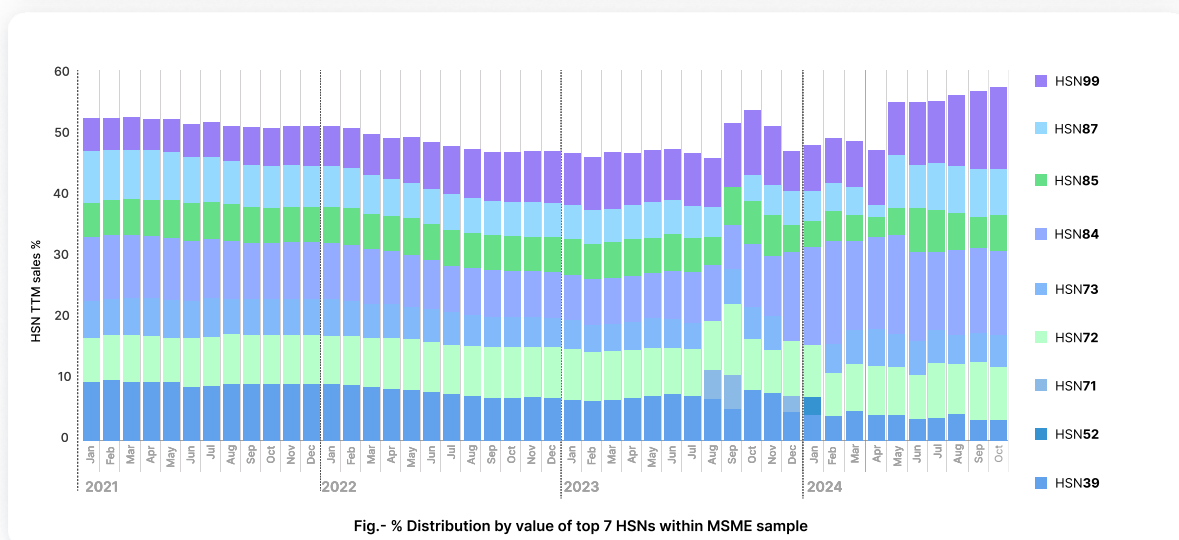
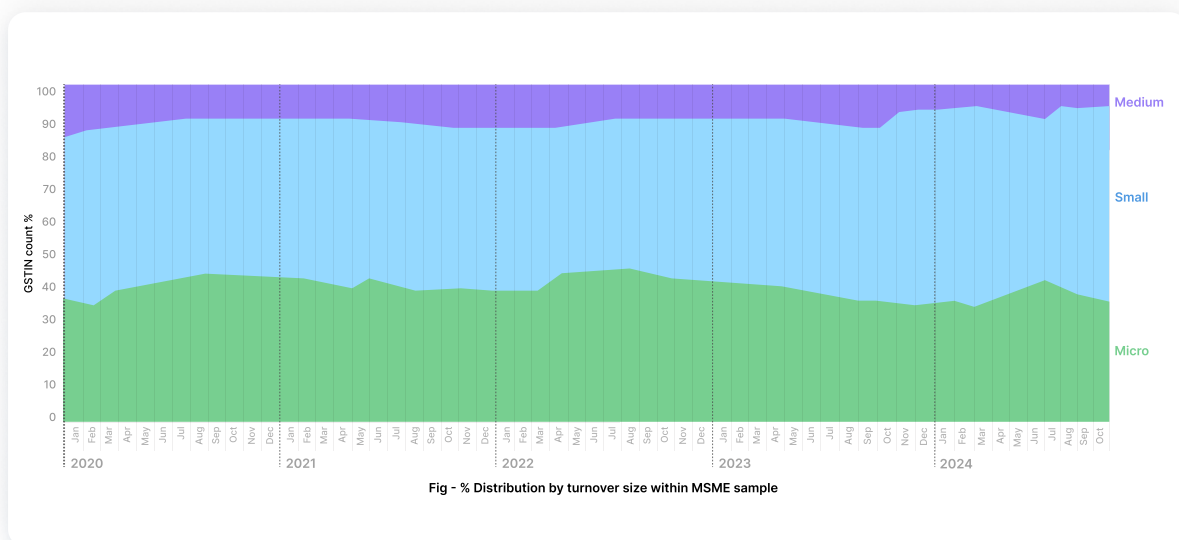
Even as the bank credit to MSMEs grew at a robust 14.0 percent in October YoY, there has been a significant slowdown in growth this year. Credit to MSMEs in FY25 so far has grown at 5.2 percent for micro and small businesses, compared to 12.6 percent last year, and for medium firms, growth has increased to 13.7 percent in FY25 so far compared to 9.0 percent last year. Given that lack of timely finance hurts the smallest businesses the most, the slower growth of credit to smaller firms is a point of concern. With the rising delinquencies in the microfinance business, the sector is rewriting underwriting guidelines to curb overleveraging and high interest rates. In the short term, this will also lead to lower access to funds. The Finance Minister launched the National MSME Cluster Outreach Programme in November, with SIDBI taking the lead, and has announced a slew of measures including a ₹100 crore credit guarantee scheme to be introduced this year. PSBs have also been asked to move from the traditional asset-based credit assessment models to digital-footprint based appraisals for MSMEs. Small businesses can get a boost from these measures, as they come into play over the year ahead.

**To View Entire Index Time Series From Oct'19**  
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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 94,000+ MSMEs seeking credit from financial institutions.

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



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