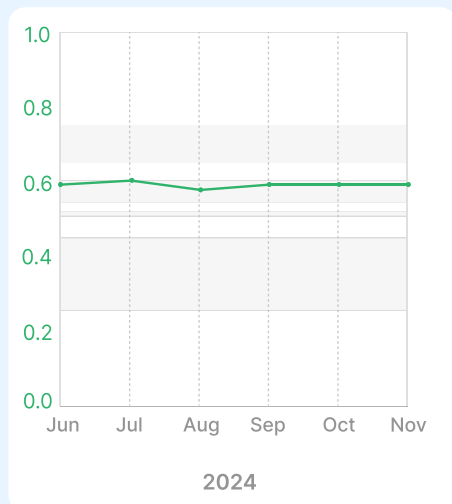


MSMEs Maintain Mild Pace of Growth



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



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Nov'24 Jocata Sumpoorn 0.58

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

Will 2025 see a breakthrough?

Sales of MSMEs have been in the zone of mild expansion since December 2023, with the Sumpoorn index moving in the range of 0.55–0.60, compared to the range of 0.53–0.62 in the preceding twelve months. Through the festive season in 2024, sales have maintained a mild pace of growth, and small businesses are hoping for a breakthrough in the year ahead. So far, the signals are mixed, indicating cautious optimism. This year, the economy has slowed down from the 8.2 percent growth clocked in FY24, and the current projection by the RBI is 6.6 percent for FY25. The Finance Ministry's Monthly Economic Review for November, which has estimated this year's growth at 6.5 percent, presents the positive side of the economic picture - the agricultural sector is supported by an increase in Minimum Support Price (MSP) for rabi crops, good reservoir levels and adequate availability of fertiliser, government capex is expected to rise in the remaining months of the financial year, rural demand has been resilient so far and urban demand has picked up. The report points out that the low growth in manufacturing in the first half of the year was not broad-based across all segments, and this bodes well for stronger demand impulses in the second half, post-monsoon months. In fact, apart from uncertainties on the external front, the government sees bright prospects for the economy, which can give a strong much-needed boost to small businesses.

Cautious optimism

Despite the strong fundamentals, there are signals pointing to emerging risks that can slow down the pace of growth. To begin with, data from CMIE shows a slowdown in new project announcements in Q3, falling by almost 22 percent YoY and 16 percent sequentially over the previous quarter. Government proposals saw a sharper decline in value terms, compared to private firms. Further, project completion rates declined in the December quarter - in value terms, completed projects fell by 52 percent from the ₹1.9 lakh crore registered in Q3FY24. CMIE notes that this is only the second time since the pandemic that quarterly project completions were below the value of ₹1 lakh crore. Unless central and state governments significantly scale up capex this quarter, budgetary targets are likely to be missed this year. If we look at the auto sector, which has been going through a bad patch this year, the government's VAHAN dashboard shows that registrations of vehicles grew by 9.06 percent in 2024, compared to 11.26 percent in 2023. The Federation of Automobile Dealers Association reported that November retail sales were not up to expectations - while on the positive side, two-wheeler, three-wheeler, and tractor sales showed good growth, sales of passenger vehicles and commercial vehicles fell by 13.72 percent and 6.08 percent, respectively. December saw varying performance across segments - wholesale dispatches of cars at a record high of 4.3 million vehicles, while firms reported mixed results for commercial vehicles. Further, tractor sales rose significantly for Mahindra and Mahindra, but declined for Escorts Kuber. In two-wheelers, Royal Enfield, and Suzuki Motorcycle recorded a double-digit rise in domestic sales but TVS Motors, Hero Motocorp, and Bajaj Auto recorded subdued performance. Going forward, inventory management is still key for auto production trends. All in all, for MSMEs that support the value chain of the automobile sector, the picture is mixed and does not give clear comfort for the immediate quarter.

On the exports front, non-petroleum exports in November 2024 were valued at USD 28.40 billion, up by 7.75 percent over the previous year. There are sectoral variations in performance - three sectors that did particularly well that have a large share of MSMEs were electronic goods (up by 54.72 percent YoY), engineering goods (13.75 percent) and readymade garments of all textiles (up by 9.81 percent). However, the gross exports of cut and polished diamonds fell by 39.8 percent YoY in November.

Systemic financial challenges

Bank credit to the micro and small firms has slowed significantly this year, growing 11.7 percent YoY in November 2024 compared to 23.7 percent growth in November 2023. Interestingly, credit to medium firms has increased pace, growing at 20.7 percent YoY, compared to 17.2 percent in November 2023. As the bulk of firms in the MSME sector are micro and small, the crunch in credit is a widespread serious issue. Further, bank credit to NBFCs has also slowed and the Reserve Bank of India's recent Financial Stability Report has pointed out the rising borrower indebtedness and rising delinquencies rising across all types of lenders and ticket sizes in the microfinance segment. Industry associations from various sectors have been highlighting the need for government support and making recommendations in pre-budget consultations. For instance, CII has flagged the issue of liquidity challenges for MSME exporters in the face of high interest rates - export credit under Priority Sector Lending has grown at 7.6 percent this financial year so far but at ₹12,668 crores in November 2024 remains lower than the outstanding level of ₹17,810 crores in December 2022. Small businesses are looking forward to government support by way of extending the Interest Equalization Scheme and increasing interest subsidy for pre- and post-shipment credit from 3 percent to 5 percent, especially in critical export segments such as leather, engineering, apparel, and gems and jewellery. Then there are other asks from specific sectors, such as the plastic industry, where small businesses make up more than 80 percent of the sector, which has proposed Production-Linked Incentives (PLI) to support manufacturers and funds for warehouses that will facilitate export logistics. All eyes are now on the forthcoming Budget that will shape the trajectory for MSME growth in the year ahead.

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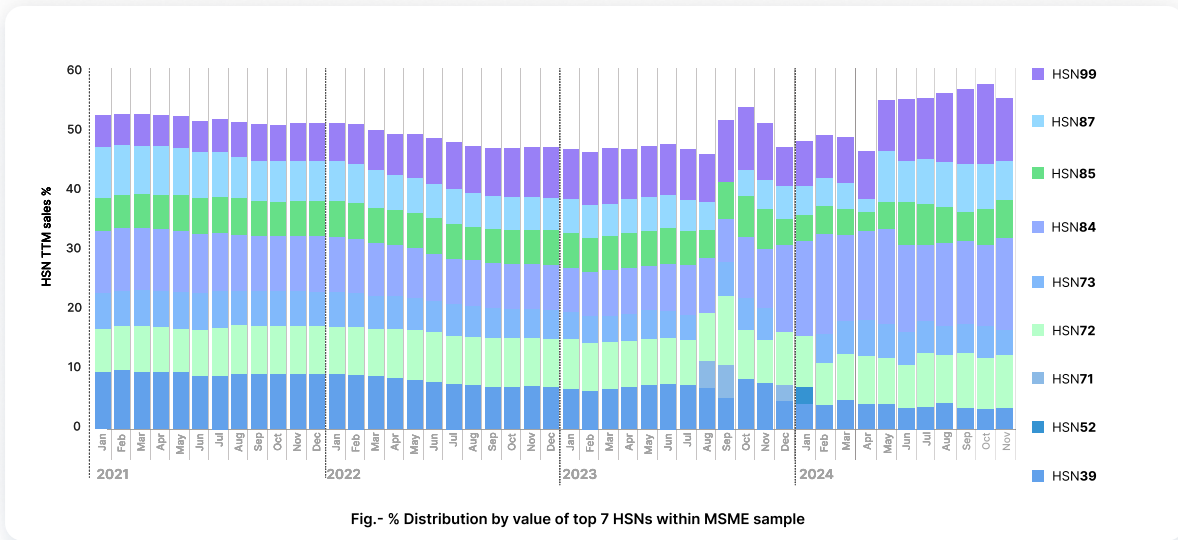
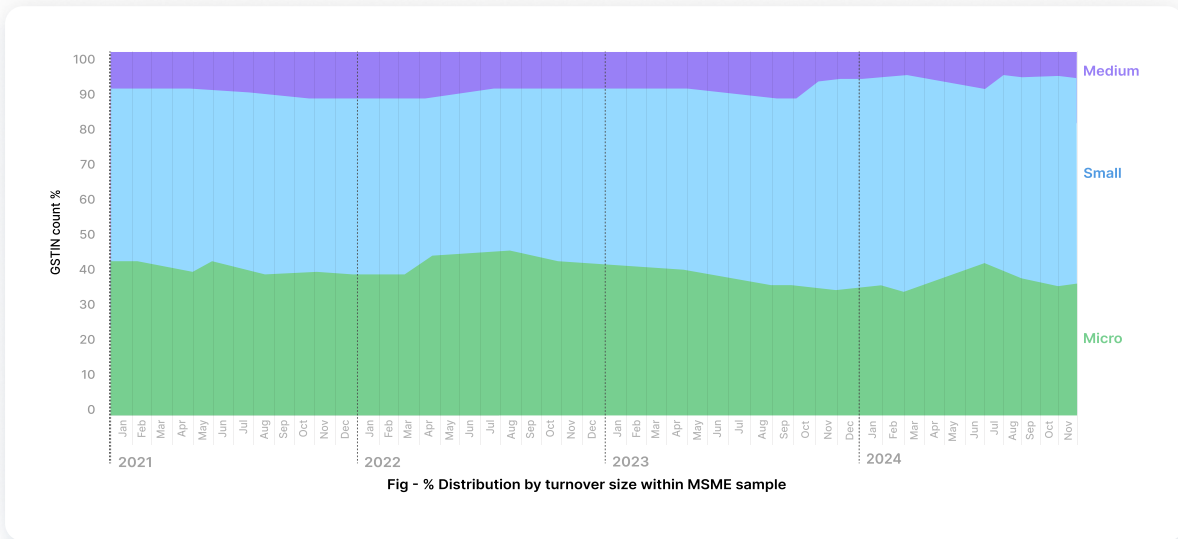
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What is Jocata Sumpoorn in association with SIDBI?

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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