

Green Shoots for MSME Growth



Insights from India's First MSME Economic Activity Index



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Jun'24 Jocata Sumpoorn 0.59

Jocata Sumpoorn stood at 0.59 in June, moving up from the 0.55 level in May, indicating that the sales activity of credit-seeking MSMEs stays in the phase of mild expansion.

Promising Signs for Higher Growth

Over the first half of 2024, the sales activity of small businesses has been seen to be in the phase of mild growth, with Jocata Sumpoorn in the range of 0.55 to 0.60. While the index was stable at 0.55 in the months of April and May, the move up to 0.59 in June reflects the influence of a number of macro signals showing promise of higher growth in the coming months. The strongest signal is coming through a revival in rural demand with FMCG firms reporting improved sales growth in June. Tractor sales rose by 4 percent in June year on year, touching an eight-month high, and Mahindra and Mahindra posted record sales in Q1FY25 pointing to improved sentiments. The latest "State of The Economy" in the Reserve Bank of India Monthly Bulletin noted a narrowing in the rural-urban divide for consumption, due to rising wage rates for MGNREGS, fiscal transfers, and remittances from migrants. Yet the review says that the green shoots seen in sales are "slender", as rural wages are still muted. Note that the Budget allotted ₹86,000 crore for MGNREGS for FY25, the same as the revised estimate for FY24, but lower than the actuals of 2022-23. However, the impact of the scheme on rural demand goes beyond mere allocation, and the Economic Survey highlighted a state's institutional capacity as the critical factor for utilisation of the budgeted funds. Meanwhile, the Budget set productivity and resilience in agriculture as a key priority, and schemes such as setting up vegetable supply chains will have a positive impact on rural incomes and MSME business prospects in the medium term.

Rural Challenges Remain

One constraint to strong growth in rural demand is on the inflation front – rural inflation has been trending higher than urban inflation since July last year, and in June 2024, Rural CPI inflation rose to 5.7 percent, compared to 4.4 percent for Urban CPI. Also note that this year's kharif crop sowing was delayed due to the heat in June and currently stands just 2.29 percent higher compared to last July. There are also regional divergences in rainfall and as of July-end, while reservoir deficits are reducing, Punjab, Bihar, and Andhra Pradesh still have a shortfall of 50 percent. Going forward, in the short term, all depends on the monsoon dynamics that influence rural incomes, consumption, and consequently MSME sales growth.

Exports Show Improved Performance

Another macro indicator that has shown improved performance in June is exports, with the value of non-petroleum exports estimated at USD 29.68 billion, compared to USD 27.57 billion in June 2023. This is despite the challenges in high freight costs and strained container availability due to the global shipping crisis. Delving into commodity-wise exports we find that according to data from the Engineering Export Promotion Council of India, engineering exports grew at a fast pace in June at 10.27 percent yoy, this includes electrical machinery, motor vehicles, auto components, and industrial machinery. Note that in April engineering exports saw a decline of 4.49 percent yoy, so this turnaround is encouraging. Data from the Confederation of Indian Textile Industry showed that exports of apparel and textiles increased 1.65 percent in value terms compared to June 2023 – apparel shipments grew by 3.68 percent, while textile exports rose by 0.5 percent yoy.

One segment that continues to feel stressed is exports of iron and steel, which face competition from cheap Chinese steel, as well as a drop in domestic production. The gems and jewellery sector which has significant MSMEs in the supply chain also saw a decline in exports; data from the Gems and Jewellery Export Promotion Council set the fall in value at 14.78 percent in June compared to last year, primarily due to a decline in exports of cut and polished diamonds. The World Gold Council data showed a sharp dip in global jewellery volumes to a four-year low in the April-June quarter.

On a positive note, the share of export of MSME in all India exports has turned around after three years of decline, according to the data shared in the Rajya Sabha – the percentage share of exports of MSME-related products in all India exports had been falling steadily from a high of 49.73 percent in FY20 to 43.59 percent in FY23 and stood at 45.73 percent in FY24. As of May 2024, the share was 45.79 percent, showing that while MSMEs are recovering their space in the export market, optimal performance is still to be achieved.

Policy Boost

The growth of bank credit to MSMEs continues to be robust though the rate has declined to 14.2 percent yoy in June 2024 compared to 18.4 percent last year. Several measures were announced in the Budget 2024-25, which will give support to MSMEs on different fronts - a Rs 100 crore Credit Guarantee Scheme for manufacturing units, a new credit assessment model for public sector banks based on MSME digital footprints, credit support for MSMEs under 'stress', enhanced Mudra loan limit from Rs 10 lakhs to Rs 20 lakhs for eligible entrepreneurs in the Tarun category, reduction in the turnover threshold of buyers for mandatory onboarding on the TReDS platform from Rs. 500 crores to Rs. 250 crores, opening SIDBI branches in clusters, setting up e-commerce Export hubs and so on. While some of these measures will yield results over the medium term, those that ease access to finance will have positive benefits for small businesses this year. As the Economic Survey has pointed out, further reduction in the compliance burden for MSMEs will make a significant difference to their growth prospects, this should be taken up by state and central governments.

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Jocata Joins Forces with SME Finance Forum to Champion Global MSME Growth



We are pleased to announce our membership in the SME Finance Forum, a prestigious global network dedicated to fostering the growth of SMEs worldwide.

This collaboration cements our vision to contribute to the growth and development of SMEs worldwide through strategic and credit focussed initiatives. The SME Finance Forum boasts a network of over 300 members across 190 countries, encompassing financial institutions, fintech companies, and development agencies. This powerful alliance allows us to:

- Share Knowledge and Spark Innovation
- Drive Economic Inclusion
- Leverage Expertise and Build Synergies
- Build a stronger global SME Ecosystem

Stay tuned for exciting developments as we embark on this transformative journey!

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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.

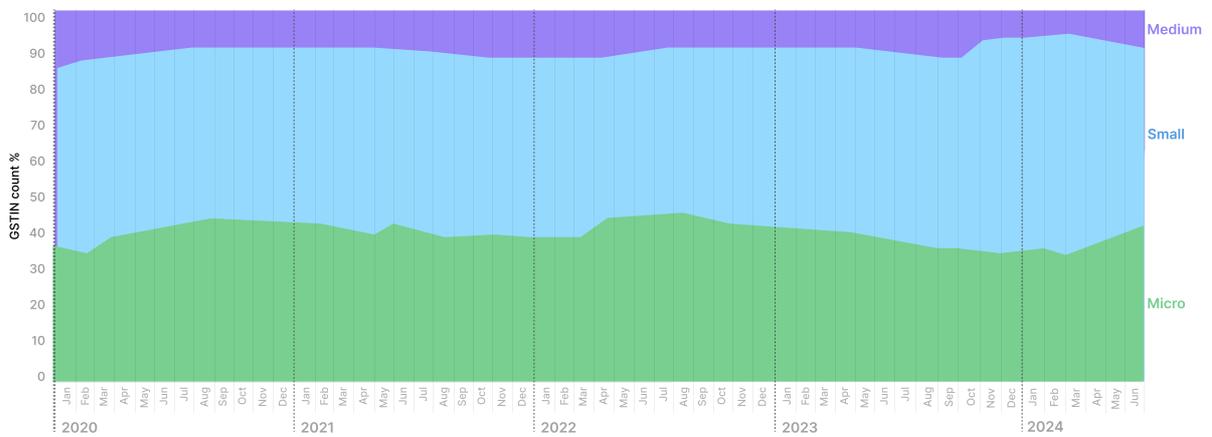


Fig - % Distribution by turnover size within MSME sample

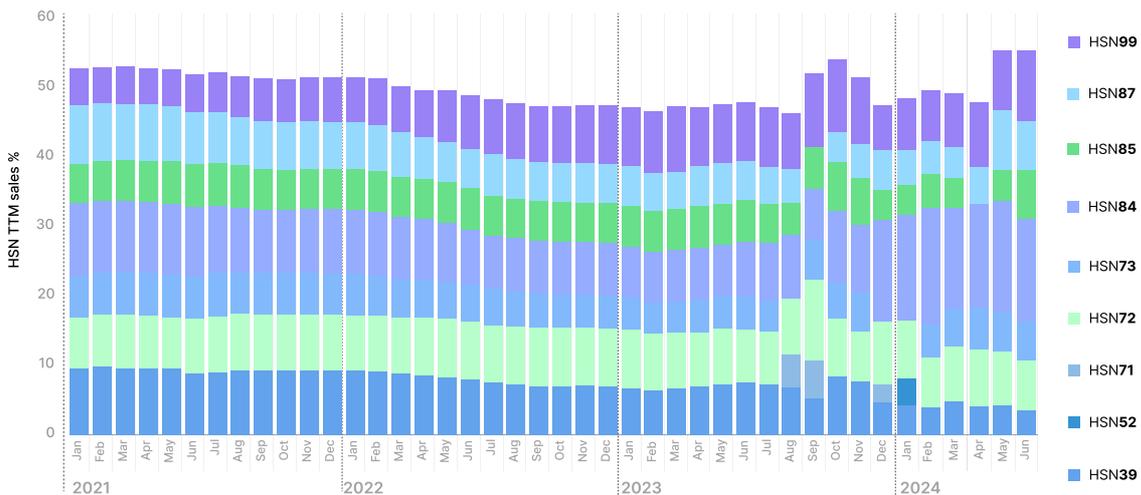


Fig.- % Distribution by value of top 7 HSNs within MSME sample



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