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SUMPOORN REPORT

MSME Momentum Holds, with Some Sectoral Fault lines

Insights from
India's first MSME Economic Activity Index

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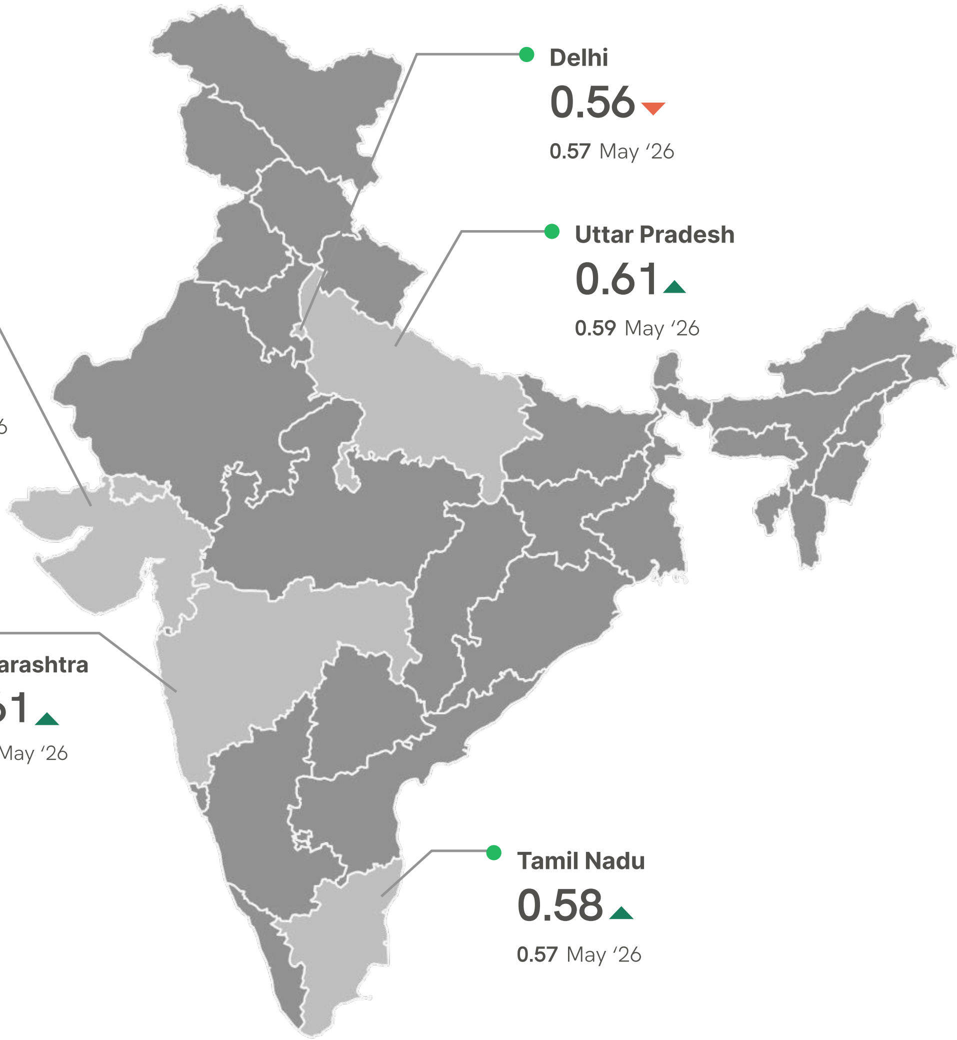
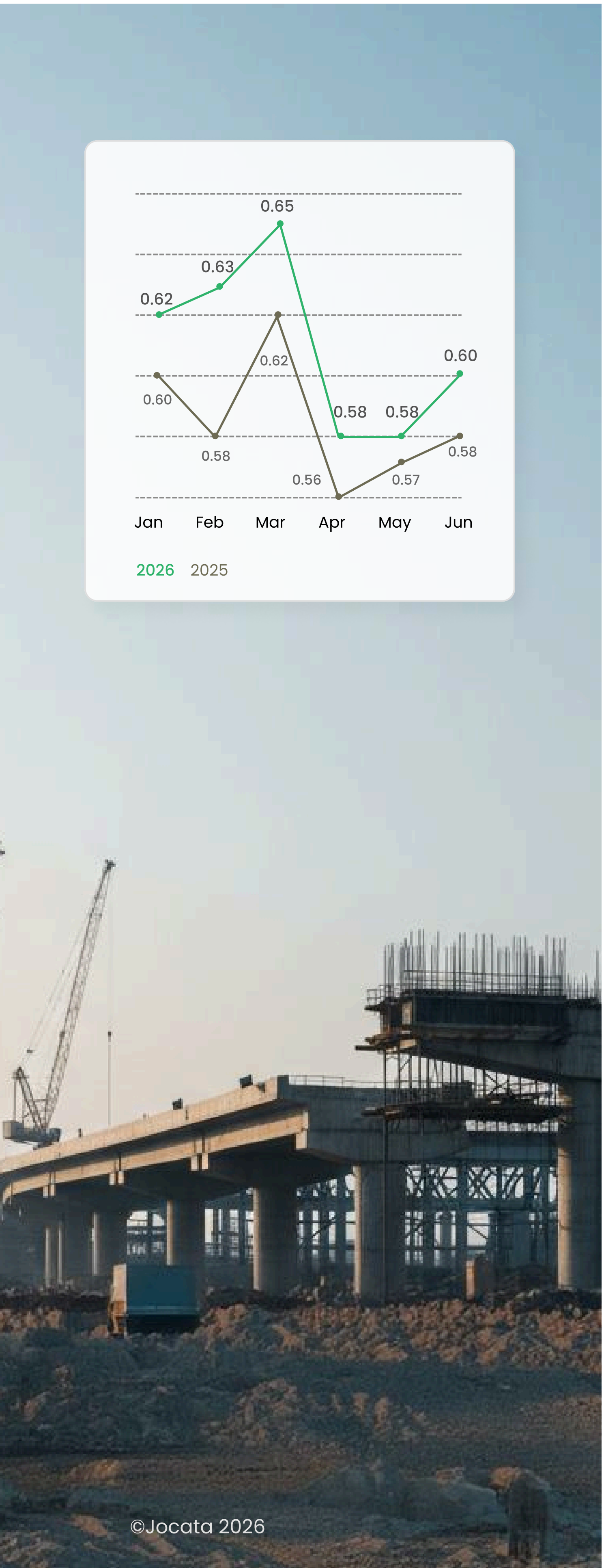


Country-level Index

Mild Expansion Phase

0.60 ▲ Jun '26

0.58 May '26



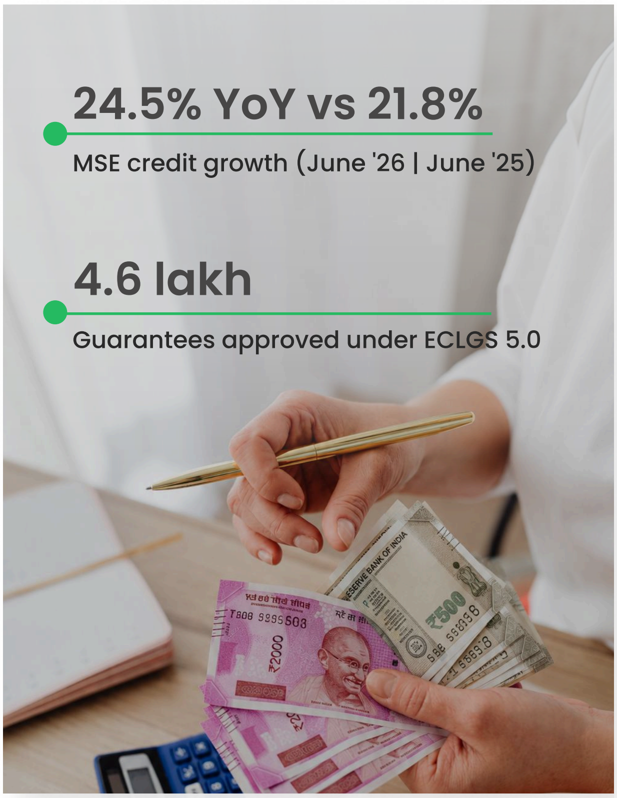
MSME Momentum Holds, with some Sectoral Fault Lines

Small businesses have registered an uptick in sales activity in June, compared to the first two months of FY27. **At 0.60, the pace of expansion was marginally higher than the 0.59 recorded in June last year, suggesting that the underlying momentum in small-business activity remains intact.** June also marked the eighth consecutive month in which the Sumpoorn Index exceeded its level in the corresponding month of the previous year, pointing to a sustained period of year-on-year improvement in business conditions since November. While there is a slew of positive macro-signals to take this momentum forward, there are some concerns, which are more granular and sector-specific but should be called out.

The Index of Industrial Production has held strong at **7.3% YoY growth in June, with manufacturing at 7.8% and electricity at 10.6%.** However, there are some nuances which will impact concerned small businesses in the value chain supplying raw materials or components or ancillary services – mining and quarrying has grown at 1.0%, primary goods and consumer non-durable goods by just 4.9%, while capital goods have surged at 14.2%. **This suggests that consumer demand is relatively subdued, with infrastructure being the main driver of growth in the IIP.** Recently released Central Government budget data underlines this as capital expenditure has risen by 24% YoY to Rs 3.4 lakh crore in the June quarter. Within IIP manufacturing, 19 of 23 industry groups recorded positive growth in June. The strongest performers were electrical equipment, up 34.0%; motor vehicles, trailers and semi-trailers, up 17.5%; and textiles, up 13.7%. In contrast, wearing apparel declined 6.9%. This uneven sectoral performance is likely to be reflected across MSME supply chains, with firms linked to capital goods and autos seeing stronger demand, while those supplying consumer-facing sectors such as apparel may face softer conditions.

Access to finance, historically a key concern for MSMEs, has also improved over the past two years. Bank credit to micro and small firms grew 24.5% YoY in June, compared with 21.8% a year earlier. Policy support has also remained strong. Under ECLGS 5.0, launched on May 5, 2026, 4,65,807 guarantees worth ₹1.72 lakh crore had been approved as of July 14.

The government has also sought to address delayed payments and cash-flow stress. The Micro, Small and Medium Enterprises Development (Amendment) Bill, 2026, passed by Parliament on August 3, requires Central Public Sector Enterprises (CPSEs) to settle payments to MSMEs through the Trade Receivables Discounting System (TReDS). It also introduces timelines for mediation, arbitration and resolution of disputes between MSMEs and buyers, including cases pending for more than six months. These measures could improve the payment cycle for MSMEs, particularly those supplying the public sector.



India's exports have remained resilient despite global challenges. **Non-petroleum and non-gems and jewellery exports rose to USD 33.13 billion in June 2026 from USD 28.73 billion a year earlier.** Engineering goods, gems and jewellery, organic and inorganic chemicals, electronic goods, and rice performed strongly, while MSME-dominated sectors such as readymade garments, jute, carpets, and leather and leather products recorded declines**. With US tariffs currently at 10% for India compared with 12.5% for Vietnam, the extent to which this advantage benefits the textile and apparel industry and smaller players remains to be seen.**

Readymade garments, jute, carpets, and leather and leather products recorded declines.

The progress of the monsoon also has implications for growth and inflation. June saw severe drought conditions in parts of Maharashtra, Uttar Pradesh, Chhattisgarh, and other states and while the monsoon has now covered the entire country, **rainfall distribution has remained uneven, with districts in Punjab, Bihar and Uttar Pradesh still facing severe drought.** Kharif crop prospects have improved, but overall sowing remained 3.6% below last year's level at the end of July, with larger declines in pulses, oilseeds and cotton. The impact on MSMEs involved in agri-related processing and support services will unfold over the coming months, while imports of these three crops have already been rising. Going forward, the IMD has forecast 7% rain deficit in August-September, even as heavy rains adversely hit some areas sporadically. Needless to say, the impact on rural incomes and demand will be uneven across regions.

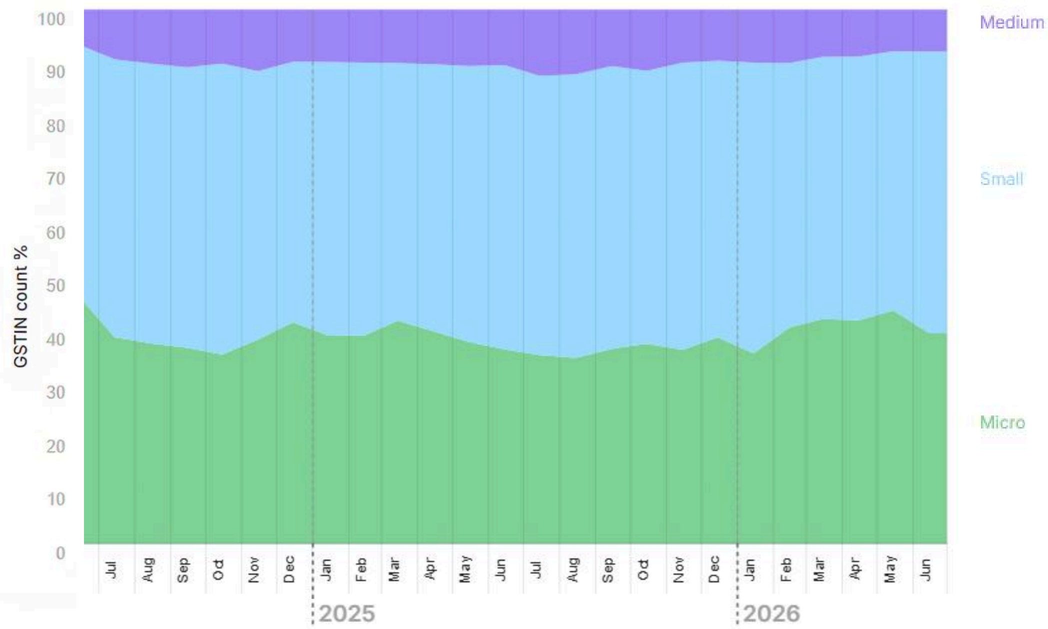
This brings us to the final challenge that faces firms this year– input cost inflation, which is being monitored carefully by the RBI - industrial and farm input cost inflation recorded 16.2% and 11.7% respectively in June compared to 16.7% and 8.9% in May 2026. The inflation rate for mineral oils has been running above 40% YoY for all three months of the April-June quarter and the other three drivers for high inflation have been Food Articles', Basic Metals and Chemicals and Chemical Products. Even as the inflationary pressures are high for small businesses, the RBI has held rates unchanged in the MPC review on 5th August as growth, though resilient, is expected to be lower this year, and core inflation has remained moderate. This should ensure a stable and affordable credit environment which will support MSMEs.

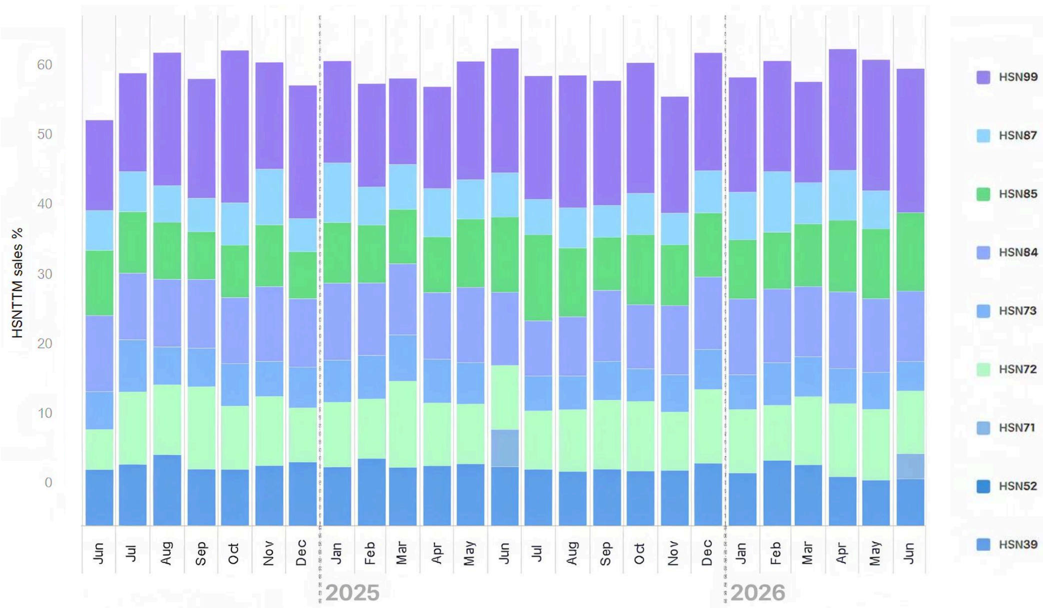
To sum up, while there are sectoral challenges, overall, the MSME sector has been showing a buoyancy that should sustain over the next quarter, provided risks from global uncertainties and inflation are contained.

What is SIDBI-Jocata Sumpoorn?

SIDBI-Jocata Sumpoorn is an MSME-specific high frequency indicator built using consent-led and anonymised sales data of 2 lakh+ MSMEs seeking credit from financial institutions.

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





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About SIDBI

Small Industries Development Bank of India (SIDBI) serves as the Principal Financial Institution for promotion, financing and development of the Micro, Small and Medium Enterprises (MSME sector) and co-ordination of the functions of the various Institutions engaged in similar activities. SIDBI operates various schemes for both Indirect Finance/Refinance and Direct Finance to create a multiplier effect and increase the flow of credit to MSMEs. Besides finance schemes, SIDBI takes up various activities/initiatives/schemes for encouraging entrepreneurship, enterprise creations and growth of MSMEs. SIDBI also promotes/supports various institutions which are engaged in financing and development of MSMEs. SIDBI has been actively developing various digital solutions to power the MSME ecosystem such as 'GST Sahay', 'Udyam Assist Platform' and now, has partnered with Jocata to launch the country's first MSME-specific Economic Activity Index by leveraging India's Digital Public Infrastructure (DPI).

www.sidbi.in

About Jocata

Jocata, a subsidiary of BillDesk, is a technology company founded in 2010 that delivers credit intelligence to the Banking and Financial Services industry. Its highly configurable, low-code digital lending platform powers Retail, Agri and MSME lending programmes for Banks and NBFCs, and enables deep behavioural scoring and analytics through a SaaS model. MSMEs are central to India's growth story, yet they remain underserved by credit for want of reliable data, with legacy underwriting models and high acquisition and servicing costs compounding the shortfall. To close it, Jocata built SME DNA - an industry-first AI/ML powered MSME score capturing the business performance and behavioural signals of a small business, adopted by several institutions for their credit onboarding, assessment and monitoring decisions. Jocata Sumpoorn extends this effort to the sector as a whole, providing a data-driven understanding of MSMEs to improve credit access and fuel its growth.

www.jocata.com

