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SUMPOORN REPORT

MSME Momentum Holds, But the Headwinds are Gathering

Insights from
India's first MSME Economic Activity Index

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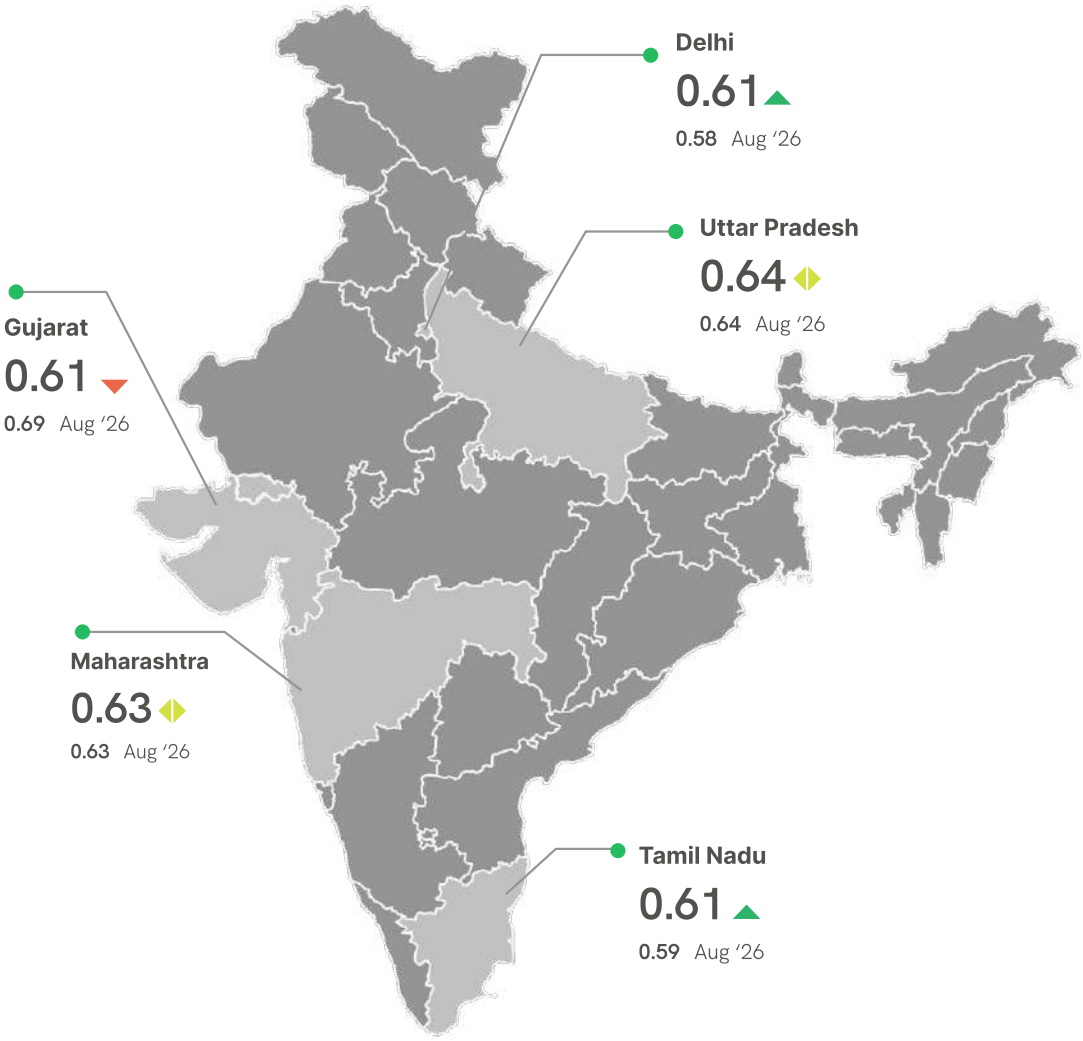
INDEX EXPERTS



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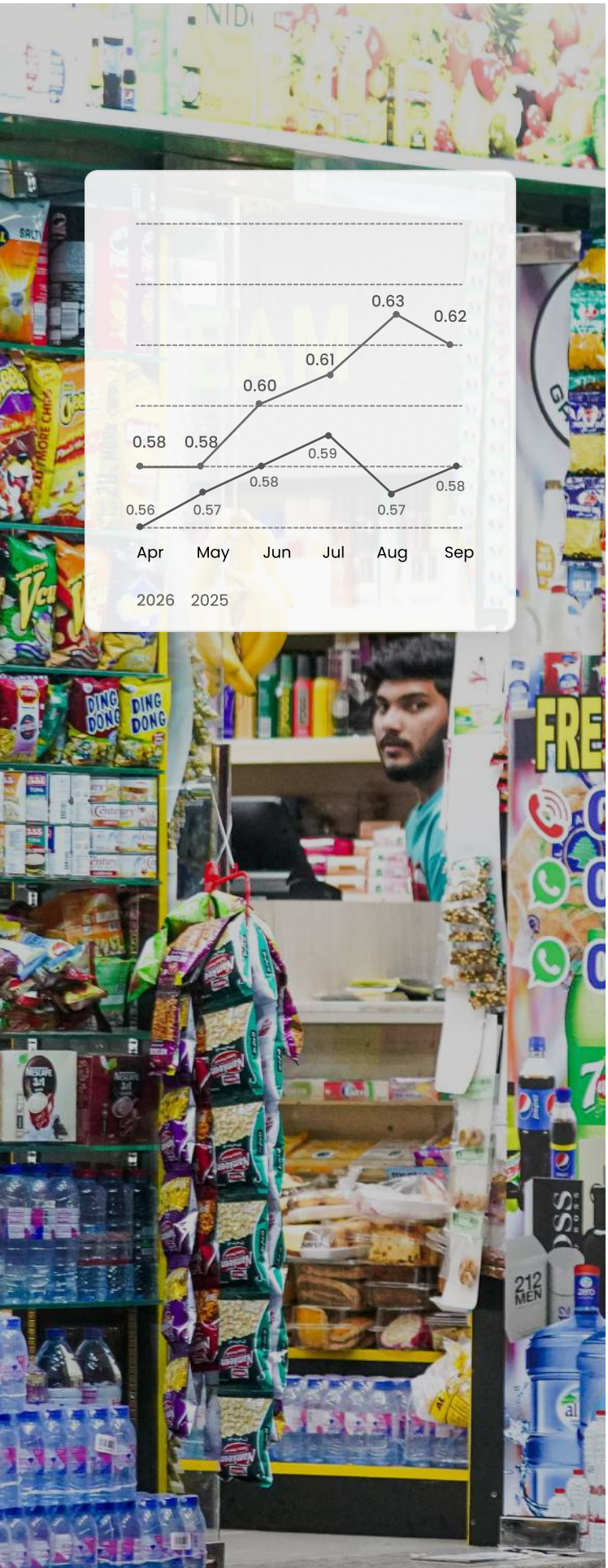
Country-level Index

Moderate Expansion Phase

0.62 SEP '26

0.63 Aug '26

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MSME Momentum Holds, But the Headwinds are Gathering

The second quarter of FY27 has closed with small businesses maintaining a healthy pace of sales growth. Although the Sumpoorn Index dipped marginally to 0.62 in September, it remains significantly higher than the 0.58 recorded last September. The momentum has remained resilient despite mounting risks from a deficient monsoon, inflationary pressures and global uncertainties. The IMF, meanwhile, continues to view India as a key growth engine, **raising its FY27 growth forecast from 6.4% to 7%**. While the risks are becoming increasingly evident, their full impact has yet to materialise and the IMF will revisit its forecast after the third quarter, when the effects of El Niño become clearer.

The Index of Industrial Production also points to some moderation, with overall growth slowing to a four-month low in September. Manufacturing growth remained respectable at 7.6%, although lower than the 8.6% recorded in August. Eight of the 23 manufacturing sub-segments registered double-digit growth, led by automobiles and electrical machinery. However, the contraction in wearing apparel and basic pharmaceuticals is a cause for concern. While capital goods sustained their double-digit growth momentum, **consumer durables slowed sharply, growing by just 6% year-on-year in September against 10.5% in the previous month**. Consumer non-durables, meanwhile, continued to record weak growth. The automobile sector, a bellwether of the economy, has been particularly robust over the past year, but growth rates could moderate as the high base effect kicks in after the festive season. **FMCG sales have also been recording negative growth this fiscal, for both rural and urban segments**, as noted in the RBI Monetary Policy Report. These trends point to mounting pressures on household demand, with implications for MSMEs catering to consumer-facing sectors.

The risks from El Niño may not have fully materialised yet, but India has already experienced a deficient monsoon and its third-warmest October since 1901. Kharif yields are expected to be below normal, while water stress across the country is raising concerns about the rabi crop. Despite the poor monsoon, there are reasons not to be overly pessimistic about rural demand and the RBI Governor has noted likely resilience stemming from non-farm incomes in rural areas. With more than a third of the income coming in from non-farm activity, rural households are cushioned to some extent during periods of crop stress.

Lenders on the other hand are turning more conservative. A key driver of buoyancy in the MSME ecosystem so far has been strong bank credit growth, both directly, with loans to micro and small enterprises registering over 20% year-on-year growth, and indirectly, through personal loans supporting consumption demand. This source of support is likely to weaken. Already large NBFCs are taking precautionary approach to lending in drought-affected areas, Shriram Finance for instance has lowered its loan-growth guidance from 18% to 15-17%, while M&M Finance has reported reduced funding in stressed locations.

A tightening of the overall credit market is anyway on the cards. As inflationary pressures from food and fuel are likely to intensify in the months ahead, the RBI has prioritised inflation management over growth, **having raised the repo rate in its October Monetary Policy Review** and specifically noted a change in stance towards calibrated tightening. While this may temper growth momentum to some extent, it should also help put the economy on a more stable footing

Lenders are turning more conservative as weather risks mount, while weaker household demand weighs on consumer-facing MSMEs.



On the external front, Indian exports, to which MSMEs contribute more than 40%, have held up remarkably well despite a challenging global backdrop. Non-petroleum and non-gems and jewellery exports in September stood at USD 34.81 billion, up from USD 28.53 billion a year ago. The strongest performers included electronic goods, organic and inorganic chemicals, engineering goods, cotton yarn/fabrics/made-ups and handloom products. Readymade garments, however, remain a cause for concern. According to the Apparel Export Promotion Council (AEPC), **cumulative exports during April–September declined by 6.2% compared to H1FY26**. While September saw some recovery, exports to the US have fallen sharply, with the prospect of additional tariffs adding to the uncertainty. Demand from the EU remains firm, but shipments to Europe face growing logistical challenges, with **freight costs more than doubling and risks in the Red Sea escalating**. The readymade garments sector, with its significant MSME presence, is therefore navigating a difficult adjustment, hoping for a stronger second half of the year.

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As we enter the second half of FY27, the picture is one of continued resilience, but with a more challenging environment taking shape. The buoyancy in MSME sales has so far been supported by strong credit flows, robust activity in manufacturing and automobiles, and resilient exports. However, the combination of weather-related risks, persistent inflation, tighter monetary conditions and uneven household demand could test this momentum. The coming quarter will be particularly important in determining how these pressures transmit to small businesses. For now, the MSME ecosystem is holding its ground, but **the conditions that have supported its growth are becoming less certain.**

MSME momentum remains resilient, supported by credit, manufacturing and exports. However, weather risks, persistent inflation and tighter monetary conditions could test this momentum in the coming quarter.



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.

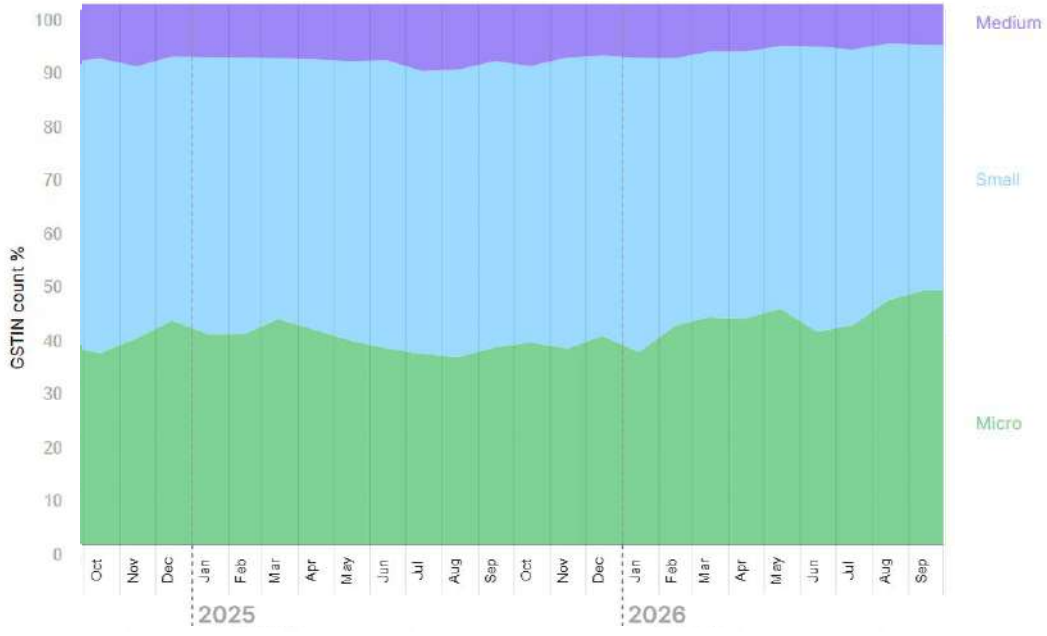


Fig.- % Distribution by turnover size within MSME sample

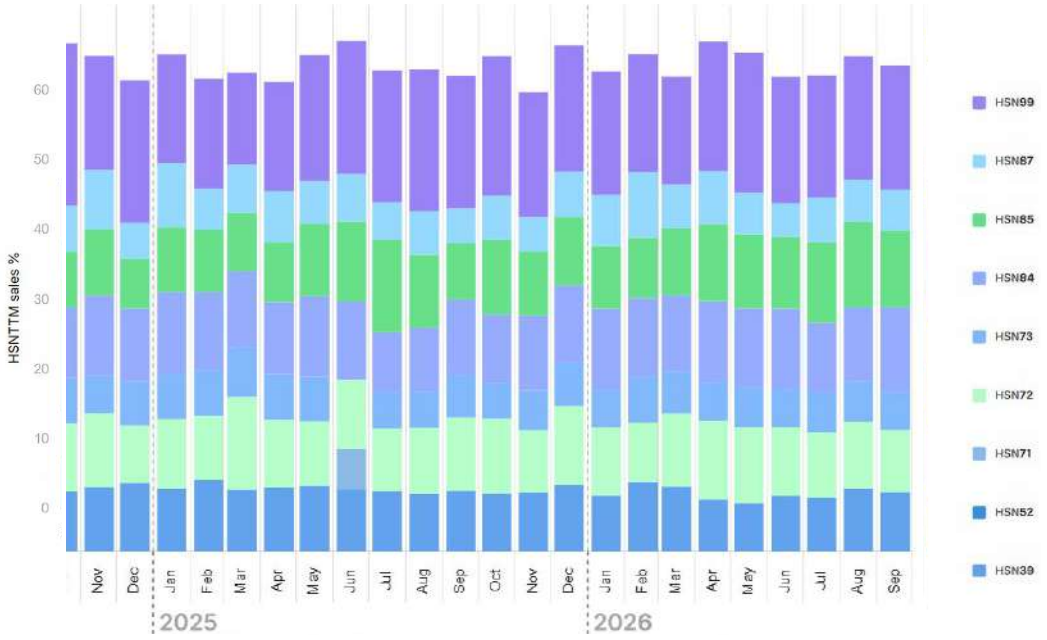


Fig.- % Distribution by value of top 7 HSNs within MSME sample

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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.

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