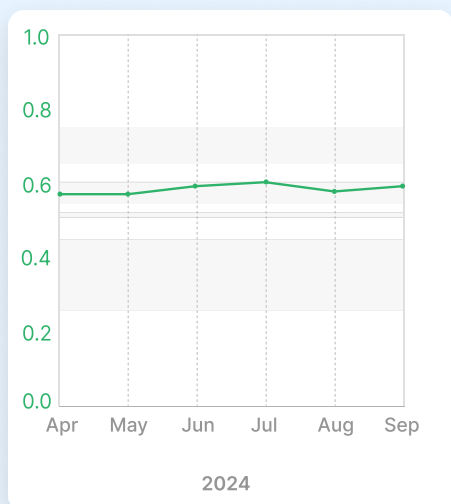


Festive Boost May be Temporary



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



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Sep'24 Jocata Sumpoorn 0.58

Jocata Sumpoorn moved up to 0.58 in September, from its 0.56 level in August, indicating that the sales activity of credit-seeking MSMEs stay in the phase of mild expansion.

MSMEs stay the course

The festive season has brought some cheer with sales for MSMEs higher in September, compared to August. However, the index is below the levels reached in June and July. Despite the signs of strain seen in August, small businesses have held their own in September. The question is whether this burst of activity will be short-lived or endure through the following months. In fact, as the Ministry of Finance's Monthly Economic Review points out, while the outlook for the economy is good, there are stresses and risks, and "underlying demand conditions bear watching". GST collections have been growing at a robust rate - up by 6.5 percent YoY in September, and 8.9 percent YoY in October. Yet, net revenues are a concern, growing at 3.9 percent YoY in September and 7.9 percent YoY in October, significantly lower than the 11 percent growth factored in the Budget 2024-25. So, while small businesses are holding the course, their rate of expansion has not panned out as high as anticipated.

Exports doing well

Even as geo-political tensions remain high, exports have been doing well and this is one of the reasons why MSME sales are holding up. Small businesses contribute a little more than 45 percent to India's merchandise exports and non-petroleum exports stood at USD 29.85 billion in September, higher than the USD 27.95 billion clocked last year. Segments that did particularly well in September include Handicrafts (excluding handmade carpets) at 48.09 percent, Plastic & Linoleum at 28.32 percent, Readymade garments at 17.3 percent, Jute at 16.45 percent, Engineering Goods at 10.55 percent. However, exports of gems and jewellery dropped in September by 15.9 percent over the previous year, continuing its bleak streak this year and the government has promised to look into measures to change the trajectory around.

Demand conditions changing

There are multiple challenges with overall demand this year. On the one hand, rural demand has picked up, as reported by FMCG sales exhibiting a gradual rise over the last quarter. The Ministry of Finance Monthly Review points to data from the Federation of Automobile Dealers Association on rural auto sales growing by around 2 percent in the first half of FY24, with good growth in sales of 3-wheelers (7.4 percent) and passenger vehicles (4.9 percent). Though the official kharif estimate for this year is still to be released, there is sufficient optimism on the back of the monsoon rainfall being 8 percent above normal for the country and higher sowing compared to last year. There is of course the concern about damage caused by excessive rainfall in patches, which will impact the final output and prices - which in turn will impact the demand for MSME output in the months ahead. For now, when it comes to farm income, there is optimism.

The concern has shifted to urban demand, as Dabur, HUL, Nestle, Godrej Consumer Products, Marico, ITC, and others have been finding urban areas a challenge as higher prices due to higher input costs are squeezing household budgets. Unlike rural areas, auto sales have fallen by 2.3 percent in FY25 H1 in urban areas, and this is essentially due to a drop in the July-September quarter compared to last year. While the Ministry of Finance has pegged the decline in urban demand to temporary factors such as "softening consumer sentiments, limited footfall due to above-normal rainfall, and seasonal periods during which people tend to refrain from new purchases", Nomura has a report which points to fundamental issues - low nominal salary growth, dwindling post-pandemic pent-up demand, tight monetary policy, action by RBI on unsecured retail loans, etc.- which will lead to moderation in overall economic growth.

Further, corporate earnings reported so far have been flat or sluggish in the September quarter. There are many factors at play – low consumer demand, high commodity prices, higher marketing expenses, etc – and should these trends continue, there will be ripple effects across the supply chain, impacting MSMEs.

Debt risks rise

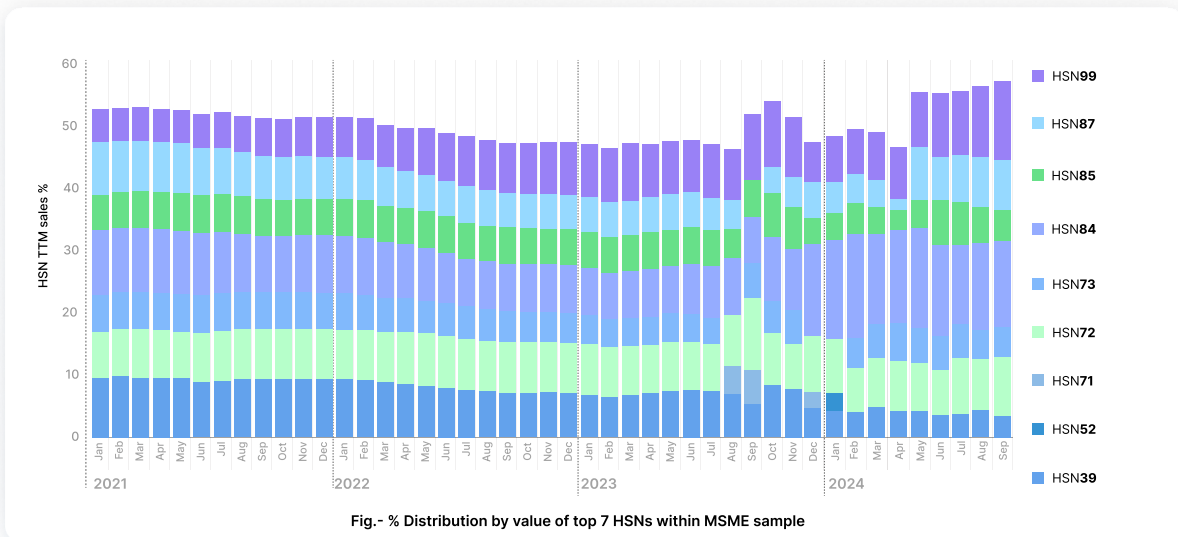
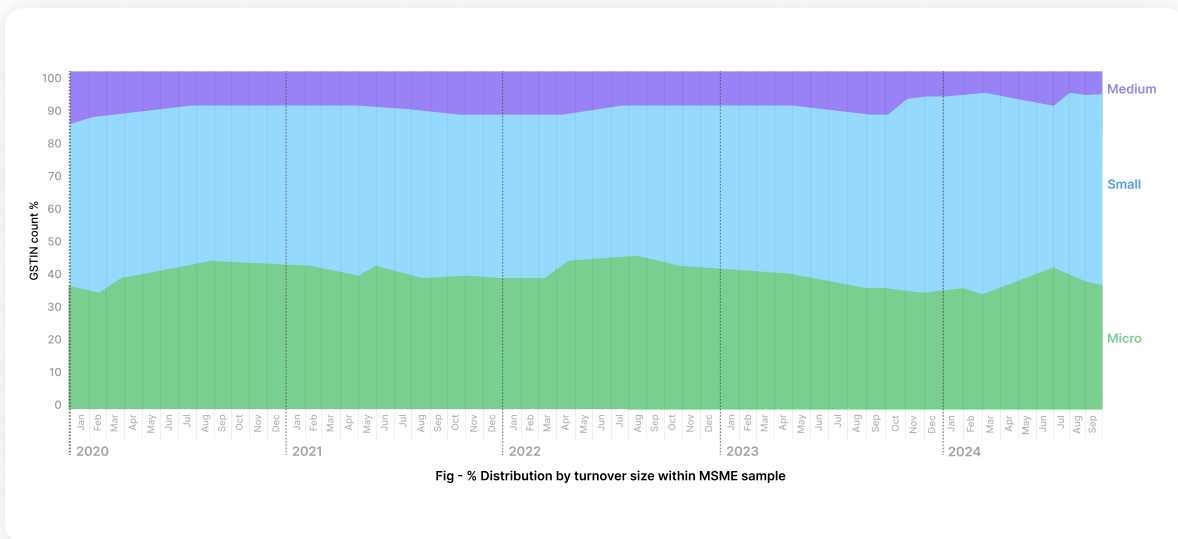
One interesting insight has come through NABARD's first bimonthly rural survey that suggests that rural consumption over the past year has been based on loans, rather than income – over the past twelve months, 37.6 percent of rural households reported that their income increased, as against 80.1 percent reporting an increase in consumption expenditure and while 40.2 percent of the households reported an increase in borrowings during the year, only 22.2 percent indicated an increase in making any capital investment. However, this picture is likely to change this year as farm income may improve, but loans will not be so readily available. There is a churn in the microfinance business, as delinquencies are seen up across all time-bands in the April-June quarter this year and amount disbursed in the quarter fell by 31.2 percent. Over the past year, the RBI has been pushing aggressively against high growth of retail loans and growth in personal loans is down to 13.4 percent in September compared to 30.0 percent last year. While this crunch in growth will impact demand for small businesses, there also seems to be a fallout on credit for MSMEs as loan portfolios are being reorganised. So, we find that even though access to credit has been flagged as one of the biggest concerns by small businesses, bank credit to micro and small firms has seen slowed growth – from 10.7 percent in H1 FY24 to 4.2 percent in H1 FY25, while medium firms see a rise in growth of credit – from 6.2 percent in H1 FY24 to 10.7 percent in H1 FY 25. All said and done, the outlook for small businesses looks challenging.

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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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