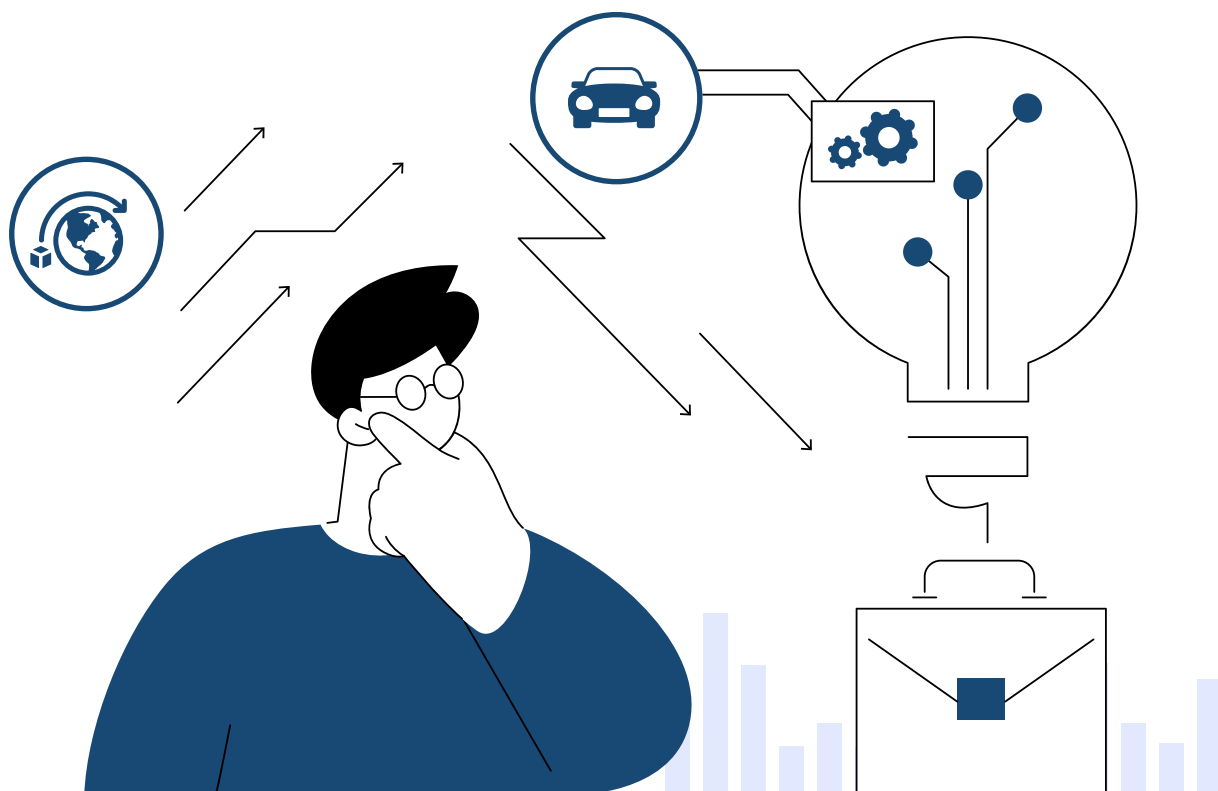
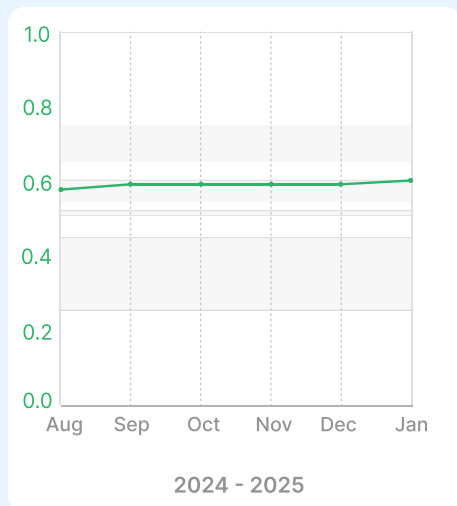


MSMEs Optimistic, Can This Sustain?



Insights from India's First MSME Economic Activity Index



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Jan'25 Jocata Sumpoorn **0.60**

Jocata Sumpoorn came in at 0.60 in January, moving up from the 0.58 level in December, indicating that the sales activity of credit-seeking MSMEs stays in the phase of mild expansion.

Uptick in MSME sales

The sales activity of small businesses has seen an uptick in January after four months of stable growth, yet the index stays in the zone of mild expansion. SIDBI's first MSME Outlook Survey released in February reported that MSMEs are optimistic about sales growth, with positive sentiment on order books, production, and so on. However, they reported a lukewarm sales performance in the October-December quarter of FY25 due to weak performance reported by most of the firms in the trading sector. For the economy as a whole, the national income estimates have come in with the third quarter real GDP growth estimated at 6.2 percent, compared to the low 5.6 percent in Q2. However, despite this rally in Q3, growth in the real GDP for the entire year has been estimated at 6.5 percent in FY25, lower than the revised 9.2 percent in FY24. The mild pace of expansion in MSME sales, as evidenced by Sumpoorn is aligned with this moderation. Particularly, if we look at manufacturing, which was the sector with the strongest growth of 12.3 percent in FY24, grew at 4.3 percent in FY25. The eight core sector industries are estimated to have grown by 4.4 percent in the period April-January of FY25, which is lower than the 7.8 percent growth recorded in the same period of FY24. The two key sectors that have shown steady growth are cement and steel, reflecting on the infrastructure push, giving support to MSMEs in the value chain in these sectors. RBI Deputy Governor Shri J Swaminathan has once again flagged the low growth of bank credit to the MSME sector.

Micro and small firms saw bank credit growing at 13.0 percent YoY in January, compared to 21.0 percent YoY last January. At the 29th Meeting of the Standing Advisory Committee (SAC) to review the flow of credit to the MSME sector, commitment towards strengthening the flows of finance was strongly reaffirmed.

Consumption trends provide support

Looking ahead, there is significant optimism for stronger pace of growth for small businesses, especially as there has been a revival of consumption. Private Final Consumption Expenditure has been estimated to increase by 7.6 percent in FY25, compared to 5.6 percent growth in FY24. The boost has come essentially from rural consumers as agriculture has done well, with growth estimated at 5.6 percent in Q3, compared to 4.1 percent in Q2. The strong rural demand is corroborated by reported FMCG sales and enhanced logistic models are now being rolled out by some firms like ITC aiming to deliver to the remotest locations in the country. Urban demand which has however been reportedly sluggish so far is expected to improve over the next few quarters as inflation has been trending downwards since October. Another factor that is expected to boost demand is the move by the RBI to reset risk weights for bank loans to NBFCs to 100 percent from 125 percent and the removal of the higher risk weights for microfinance loans given by banks. This revision along with the relief in tax rates announced in the Budget can help boost demand, and by extension give a boost to sales of small businesses.

Uncertainty lurks

On the capex side, however, there are still concerns, as the government is depending on private investment to pick pace over the year ahead, and much will depend on how the industry responds. As the CEA Anantha Nageswaran pointed out, it is a paradox that despite the fact that the Indian economy has been holding its own amidst global uncertainty, outbound foreign direct investment (FDI) by Indians has increased between April and December and this trend must be reversed towards increased domestic investment. Clearly, the outlook for small businesses will depend on how the investment pattern plays out over the year ahead.

Another source of uncertainty lies in the erosion of value in the Indian equity markets, which are down by around 15 percent over the past five months. The fall in asset value for small investors can put a brake on spending this quarter. In fact, in the auto sector, which has seen flagging growth, there has been mixed performance across firms and segments in February sales, but overall registrations of vehicles on Vahan slipped in February by 7.2 percent YoY, dispatches to dealers have moderated as inventory management continues to remain a concern. Growth of vehicle loans has slumped from 15 percent in the period March-January FY24 to 7.3 percent in the period March - January FY25. As per rating agency firm ICRA, revenue growth of the auto component industry is expected to moderate from the high of 14 percent in FY24 to 7-9 percent in FY25 and 8-10 percent in FY26. This indicates that MSMEs could be looking at expanding sales, at the slow pace of growth in the year ahead.

External headwinds

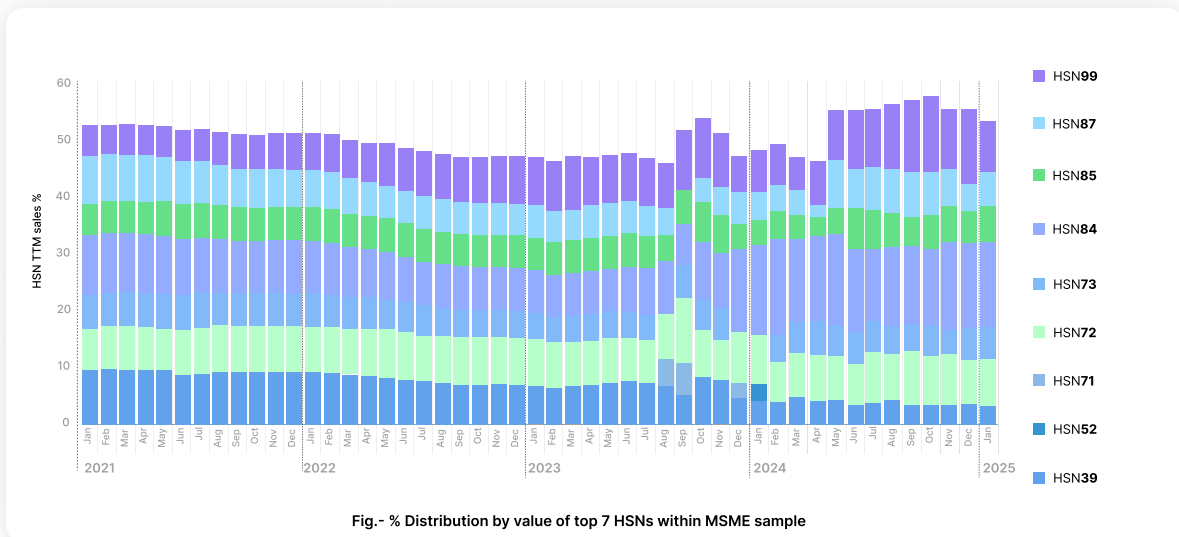
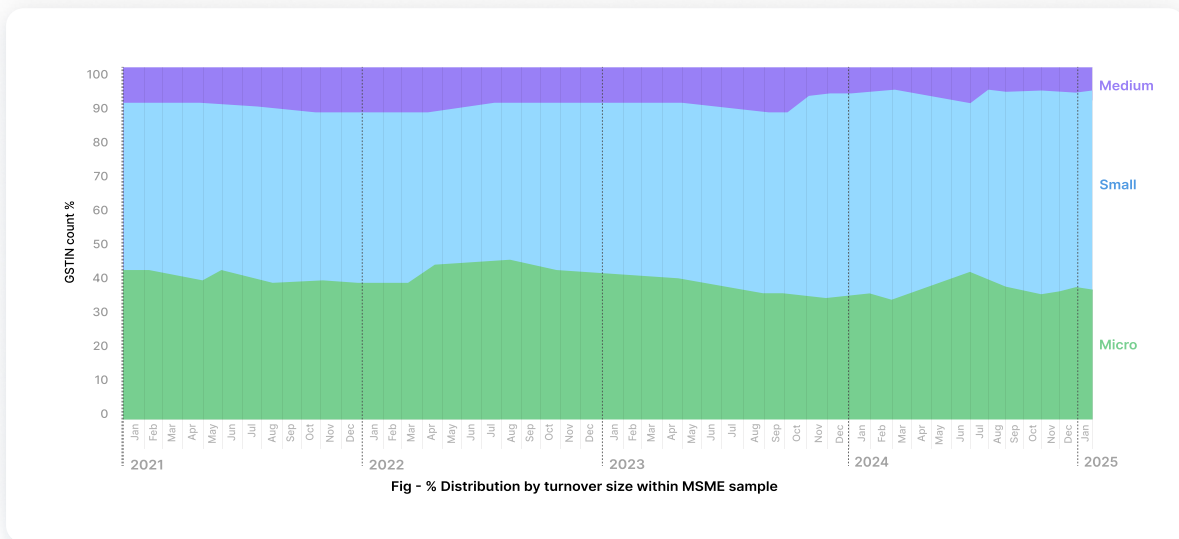
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To View Entire Index Time Series From Oct'19
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What is Jocata Sumpoorn in association with SIDBI?

Jocata Sumpoorn in association with SIDBI is an MSME-specific high frequency indicator built using consent-led and anonymised sales data of 1 lakh+ MSMEs seeking credit from financial institutions.

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



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