

MSME Outlook Survey

Round 2: January-March 2025



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Introduction

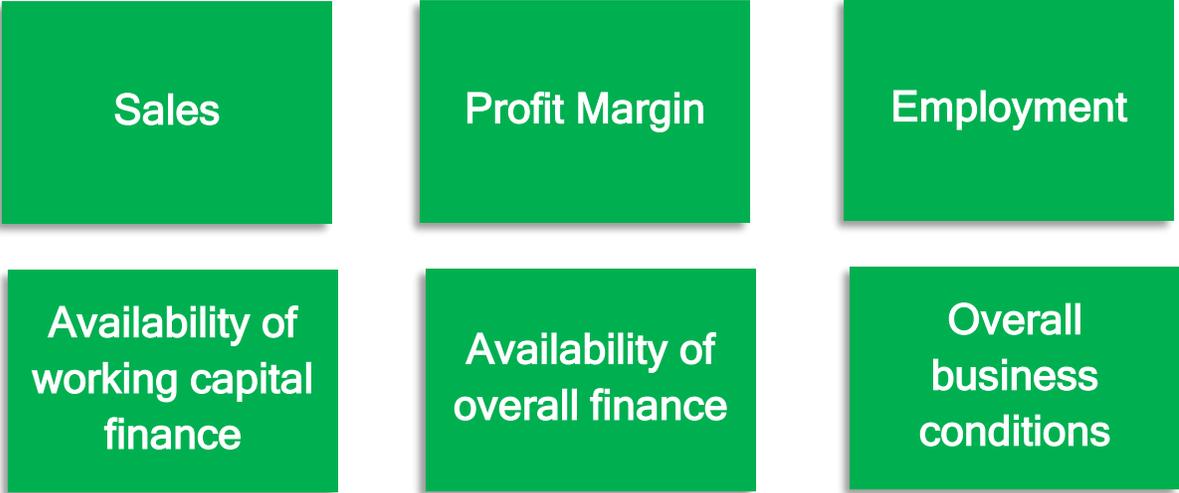
SIDBI's MSME Outlook Survey (MOS) evaluates the business sentiments and short-term expectations of MSMEs in India. The purpose of the survey is to provide regular quarterly updates on the business performance, employment situation and financial health of the MSME sector. Micro, Small and Medium sized enterprises in both urban and rural areas are well-represented in this pan-India survey, which includes business enterprises from six regions viz., North, North-East, East, Central, West and South.

About 1,200 MSMEs engaged in non-agricultural and non-financial activities in manufacturing, trading, and services participated in the 2nd round of the survey. The fieldwork for the survey was conducted during the quarter January-March 2025.

The survey will, in each quarterly round, provide MSMEs' responses on their assessment of the current scenario, the expectations for the ensuing quarter and the relative outlook one year ahead vis-à-vis the current conditions on 24 parameters. Based on the survey inputs, two indices are generated, the MSME Business Conditions Index (M-BCI) and the MSME Business Expectations Index (M-BEI), which are essentially weighted averages of the responses from MSMEs to core performance parameters - sales growth, profitability, employment, access to finance and overall business situation.

M-BCI and M-BEI are constructed at both the industry and the sectoral level.

Parameters for Indices



Executive Summary

The Small Industries Development Bank of India (SIDBI) conducted its 2nd round of MSME Outlook Survey (MOS) for the period January-Mar 2025. The survey aims to address the critical data gap in the sector by producing MSME Business Conditions Index (M-BCI) and MSME Business Expectations Index (M-BEI) which can help stakeholders, including policy makers in understanding the evolving business landscape and take informed decisions.

Key Findings:

- Overall Business Confidence:** The Composite MSME Business Confidence Index (M-BCI) for Q4 FY2025 (Jan-March) was 60.82, indicating a healthy business environment for MSMEs. The index has witnessed a moderate improvement as compared to that in the previous round for Q3 FY2025 (58.30). While the conditions have been fairly conducive in both the manufacturing and service sectors with M-BCI of 61.92 and 62.40 respectively, the trading sector's business confidence has been lower at 55.79. However, the index M-BCI has shown an improvement across all three sectors vis-a-vis that in the previous survey.
Future Expectations: The MSME Business Expectation Index (M-BEI) projects optimism for the next four quarters, with indices above 54. Sentiments in manufacturing as well as services sectors are equally optimistic with M-BEI for a year ahead, i.e., the 4th quarter of FY-26 being 62.48 and 61.74, respectively. However, the extent of optimism about the future quarters has moderated across all sectors as compared to that in the previous survey. The M-BEI for Q3FY26 has dropped to 58.65 in the current survey as against 69.94 in the previous exercise. This can be on account of the global economic uncertainty brought about by the tariff issue and its potential impact on the competitiveness of Indian MSMEs.
- Optimism on Sales Growth:** MSMEs are optimistic on sales growth buoyed by positive sentiment on order books, production and higher selling prices. The majority of the participants in all three sectors indicated sales growth in the survey period. The expectation for sales growth one year ahead also remains optimistic for more than 50% of the respondents in the Manufacturing and Services sector.
- Resilient profitability levels despite rising input costs:** A marginal increase in cost of inputs is observed in the responses for manufacturing sector in the current quarter. Similarly, the expenditure on salary saw a moderate increase for the service sector respondents. Nevertheless, around 90% of the respondents believe that they will maintain or improve their profitability in Q4 FY2025. Both the manufacturing and the services sectors expect a further rise in their costs in the next few quarters. However, with higher production quantity (for

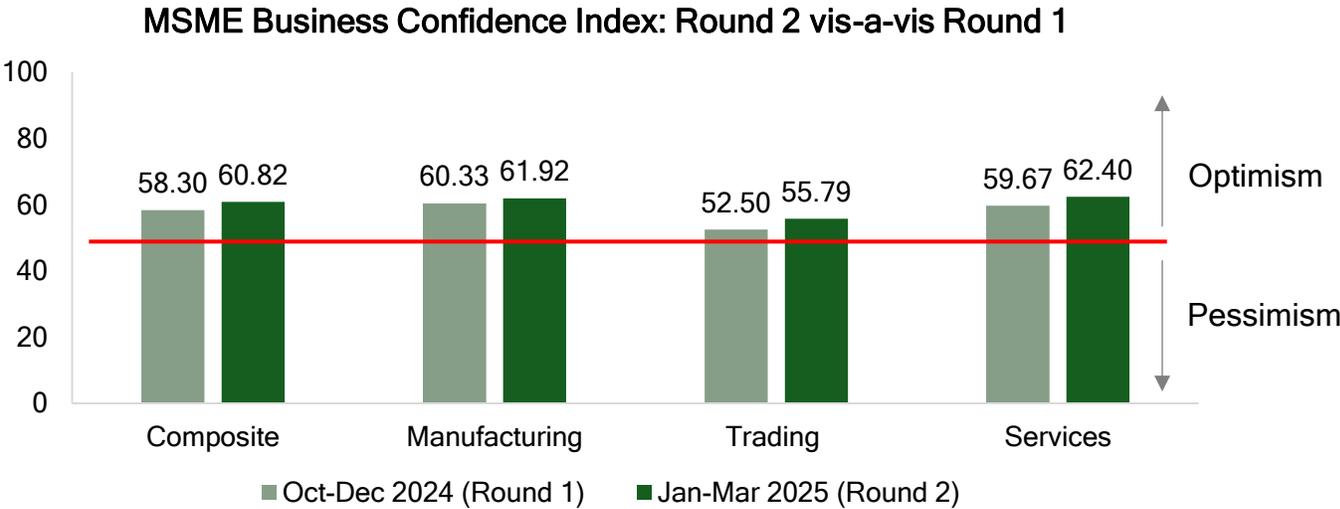
manufacturing) and increase in average selling price, the majority of these MSMEs believe that their profit margins will remain either steady or improve further one year ahead.

4. **Employment growth:** As in the previous round of the survey, about one third of the respondents in the service sector and manufacturing sector opined that employment in their enterprises has increased during the period of the survey while it is about one fourth for trading MSMEs. 40% and 37% of respondents in the Manufacturing sector and Services sector respectively are also optimistic about higher employment in the fourth quarter of FY-26 i.e. one year ahead.
5. **Labour productivity and the availability of skilled labour:** About a sixth of the respondents in the survey were, nevertheless, not happy with the availability of skilled labour. The intensity of the challenge was the same for both the manufacturing sector and services sector.
6. **Fresh Capital Expenditure Plans:** Around 37% of the respondent MSMEs from manufacturing and services have added capacity in the current survey period. Further, a similar percentage of those MSMEs are optimistic about capacity additions in the quarter a year ahead.
7. **Sustainability adoption among MSMEs on a rise:** When it comes to investment in pollution reduction/environment protection measures for business such as setting up solar panels, opting for e-vehicles, adopting new technology, etc., about 40% of the participating MSMEs in manufacturing and service sectors have confirmed their sustainability initiatives during the survey period. A similar number of participating MSMEs are also optimistic about more such investments a year ahead.
8. **Availability of Credit:** While 80% of the survey respondents have access to finance, there is a continuing challenge regarding adequate availability of credit. 40% of the respondents in manufacturing and 41% of respondents in services highlighted that the overall available finance is not adequate to meet their requirements. The optimism for finance availability improves marginally for these MSMEs for the year ahead. However, about 20% of the MSMEs in both sectors continue to have concerns about their access to credit going forward.
9. **Cost of Finance:** About 40% of the responding MSMEs in all three sectors believed that their cost of finance has increased during the survey period and a relatively higher percentage also believe the same shall remain elevated during the year ahead. This reflects the concerns of the MSME sector regarding the transmission of the cut in interest rates that is expected from RBI.

Performance of MSME Business Confidence & Expectation Indices

SIDBI MSME Outlook Survey in Round 2 highlights a sustained optimism in the MSME sector during Q4 FY2025 driven by an overall conducive business environment and positive sales growth. MSMEs are also fairly optimistic on future business expectations over the next few quarters which is indicative of the favourable domestic economic environment and the supportive Government policies for the sector despite the increased headwinds from external factors. With increasing scale of operations and new capital expenditure, however, a significant section of the respondents believe that the available credit is not adequate for their requirements.

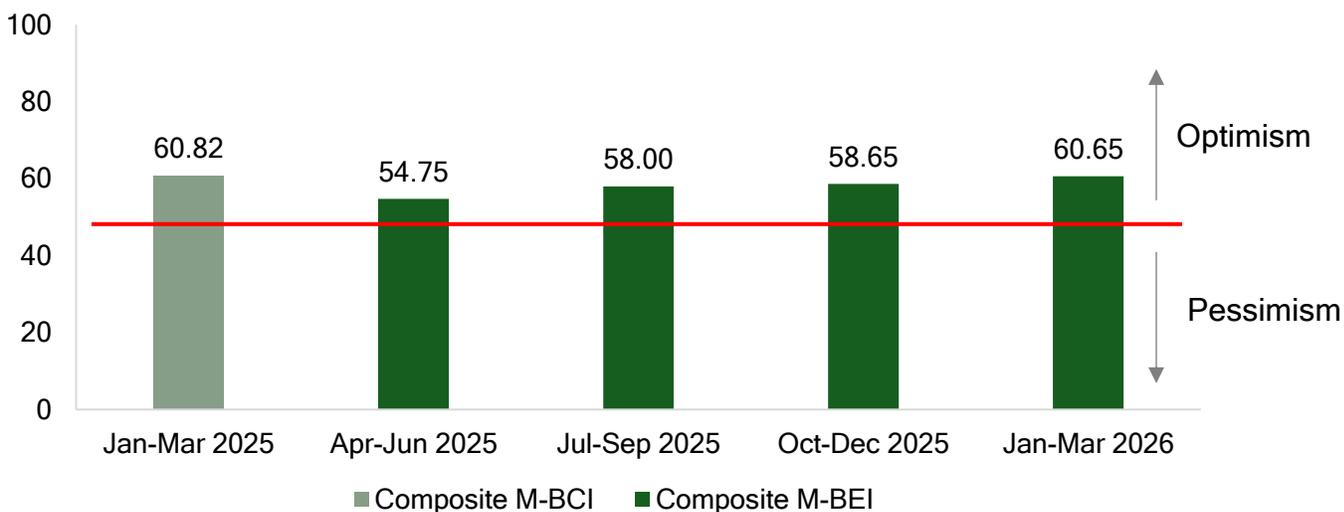
The business confidence of MSMEs captured in the MSME Business Confidence Index (M-BCI) improved in January-March 2025 quarter (Round 2) compared to the October-December 2024 quarter (Round 1). The composite BCI moved up from 58.30 in Round 1 to 60.82 in Round 2. The improvement in the confidence index is observed across all three sectors, viz., Manufacturing, Trading and Services. The BCI is a diffusion index that ranges from 0 to 100, where scores above 50 indicate positive sentiment and scores below 50 suggest negative sentiment.



The MSMEs engaged in the Services sector had the highest M-BCI level in Round 2, followed by Manufacturing and Trading sectors. M-BCI for all three sectors in round 2 has improved vis-à-vis their M-BCI in round 1

MSMEs remain optimistic in outlook for the new financial year FY 2025-26. The same is reflected in the MSME-Business Expectations Index (M-BEI) for all the upcoming quarters in FY 2025-26, with index readings above 54 during the period.

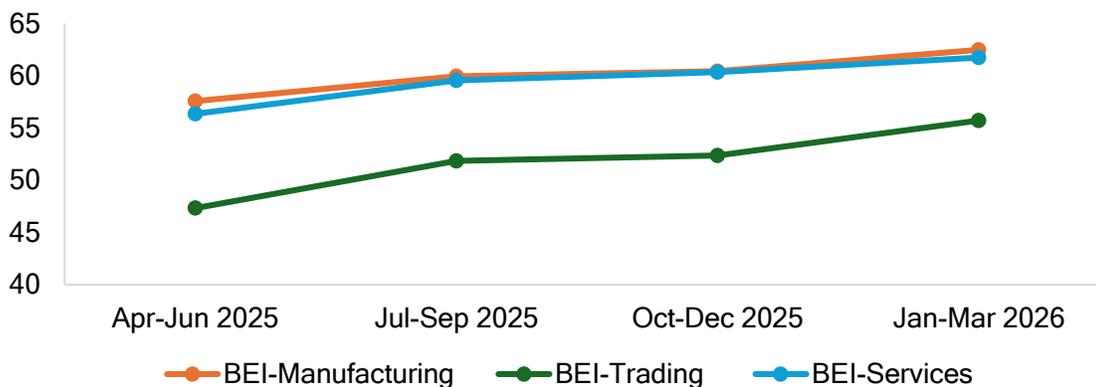
MSME BCI and BEI reading in Round 2



The outlook for MSMEs has been supported by positive sentiment in sales, profitability, availability of finance and overall business situation. However, the sentiment on skilled labour is muted. Hence, the expected indices for the next four quarters are lower than the confidence index for the current quarter. Moreover, the business volume generally remains high in the 4th quarter of the financial year. Accordingly, after a brief decline in the sentiment for Q1-Q3FY26, the sentiment improves and catches up with that of Q4FY25.

The sector-wise business expectation indices in Round 2 show an upward trajectory for all the sectors. While for the manufacturing and services sector the expectation index is optimistic throughout the four quarters, the BEI is below 50 in April-June 2025 for the trading sector before moving sequentially above the 50 mark, indicating optimism.

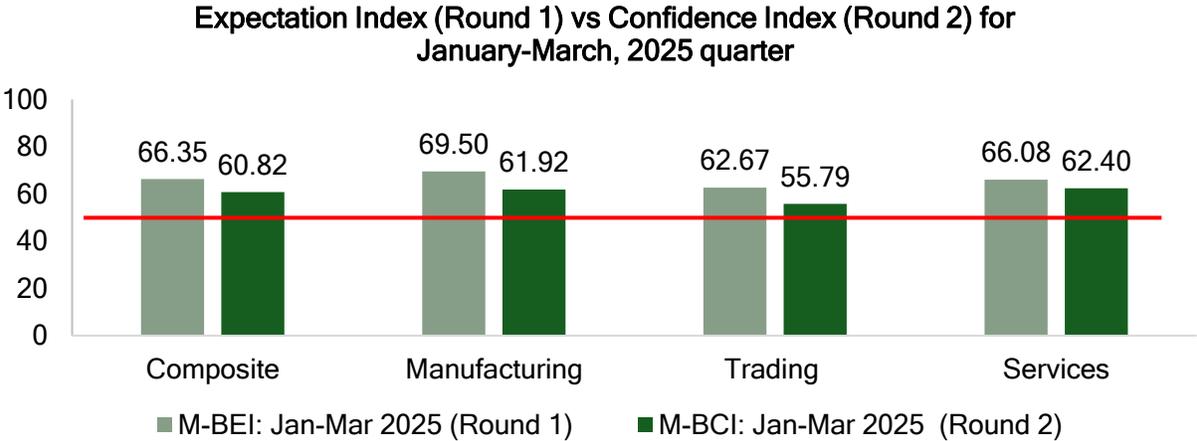
Sectoral performance of MSME Business Expectation Index



Comparative analysis of indices- Round 1 vis-à-vis Round 2

Sequentially, the business confidence among MSMEs has improved in Q4 FY2025 as compared to that in Q3 FY2025. However, the extent of optimism about the future quarters has moderated across all sectors as compared to that in the previous survey. Such a moderation of expectation may be attributed to the global economic uncertainty brought about by the sharp changes in the US tariff policies and its potential impact on global trade and the competitiveness of Indian MSMEs.

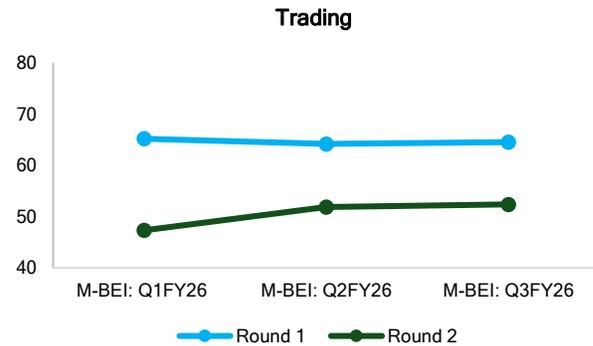
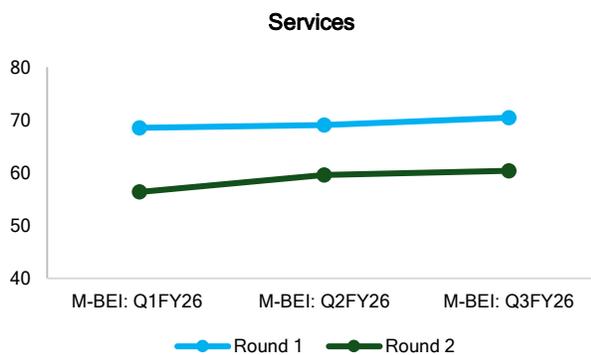
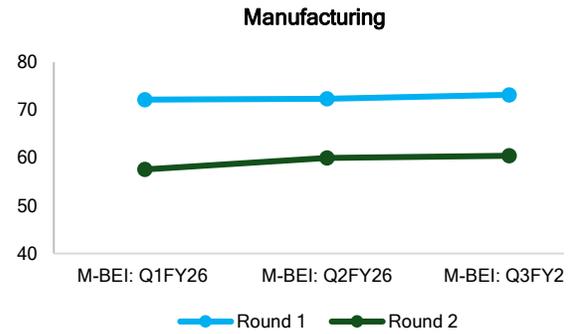
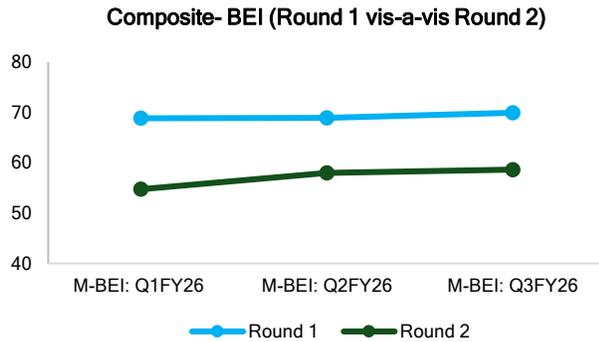
Improvement was observed in the composite M-BCI in January-March 2025 quarter (Round 2) compared to the October-December 2024 quarter (Round 1). The index moved up from 58.30 in Round 1 to 60.82 in Round 2. However, on comparing the expectation index with the confidence index for the quarter January-March 2025, it is observed that the optimism relatively softened in Round 2 across all sectors. It is also observed the moderation in indices for the manufacturing sector was higher compared to the other sectors.



The BEI for Round 1 and 2 were compared for the three quarters i.e., April-June 2025 (Q1FY26), July-September 2025 (Q2FY26) and October-December 2025(Q3FY26). The expectation indices for Round 2 trended fairly below the expectation indices for Round 1, both at composite level and sectoral level. While the BEI for Round 2 was lower, the same shows an upward movement in the three quarters indicating improving optimism with each quarter.

At the sectoral level, the BEI saw dampening in April-June 2025 quarter (below 50) for the trading sector whereas for other sectors the same was in the optimistic territory, albeit with some softening in indices value. The moderation in optimism and softening of the expectation indices can be attributed to external factors viz., global uncertainty, geo-political uncertainties, tariff impositions, strengthening dollar etc. which have impacted the overall business outlook.

Business Expectation Index (Round 1 vis-à-vis Round 2)



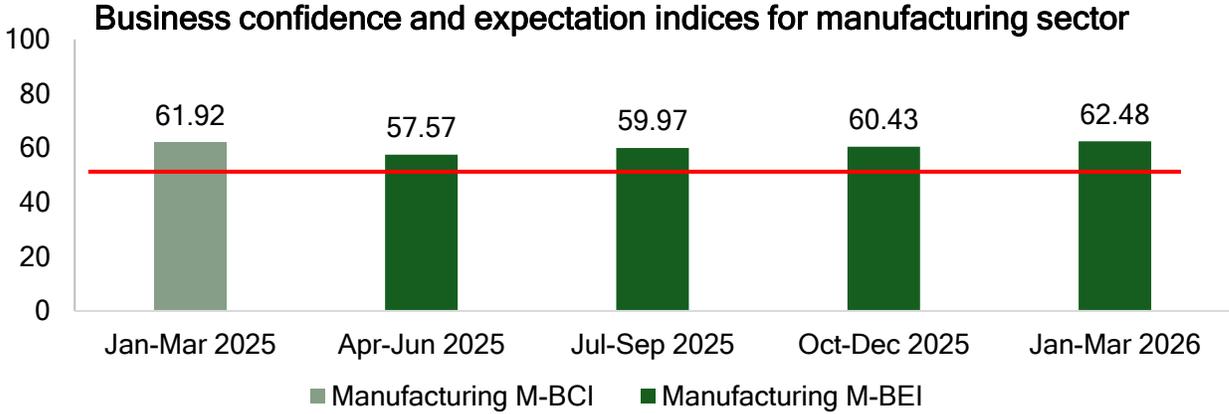
A series of recent developments are affecting business sentiments. The drastic tariff actions being taken by USA has not only created uncertainty in global trade but has also raised concerns about a potential economic recession in the US economy. This apprehension may lead to delays in discretionary technology expenditures, impacting the growth of India's outsourcing industry. The imposition of reciprocal tariffs across sectors coupled with the risk of retaliatory measures, has heightened risk aversion, affecting the broader market confidence. After five years of continuous growth, India's auto sector, particularly auto component manufacturers, is facing uncertainties amid the transition to electric vehicles (EVs) and the imposition of higher tariffs.

High-frequency indicators, such as the Purchasing Managers' Index (PMI), provide insights into sectoral momentum, with the latest Flash PMI indicating a decline in service activity. Following a buoyant fourth quarter driven by the Kumbh Mela, one of the key domestic services segments, tourism is seeking new growth drivers with uncertainty on near term outlook. Recent stock market corrections have also eroded investor confidence, further dampening the sentiment among MSMEs. These are some of the possible reasons for a lower M-BEI in Round 2 as compared to Round 1 of the survey.

Manufacturing Sector

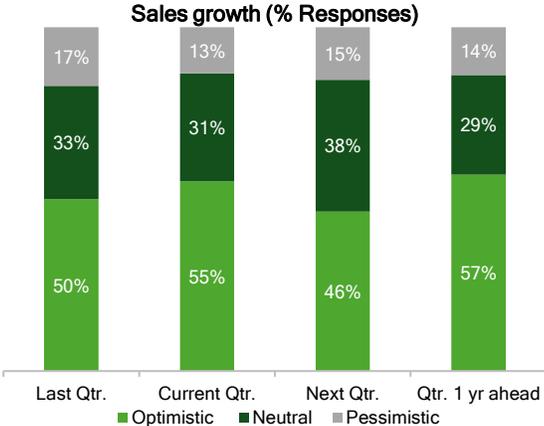
Manufacturing sector maintained the optimistic momentum in Round 2 of the MSME Outlook survey. This was driven by a broader positive sentiment on sales growth and a conducive business environment. Higher input costs notwithstanding, the respondents expect to maintain or improve their profitability with higher production and increase in average selling prices. However, a significant section of the surveyed manufacturing MSMEs believe that the available credit is not adequate; further, they also expect the cost of finance to remain elevated. Nevertheless, the sector continues to have an optimistic outlook for the next few quarters with one-year ahead expectation index higher than the present confidence index.

The optimism momentum for the Manufacturing MSMEs continued in January-March, 2025 quarter with Business Confidence Index improving from 60.33 in October-December, 2024 to 61.92 in January-March, 2025. As with the assessment for the current quarter, the expectation for the next four quarters is optimistic with slight dip in optimism in April-June 2025 quarter. The BEI in the Jan-Mar 2026 quarter improves over the BCI for Jan-Mar-2025 period.



Demand Conditions

- Majority of respondent MSMEs engaged in manufacturing activity displayed positive sentiment on sales growth. 55% of the respondents have opined that their sales revenue has increased in the current quarter vis-à-vis the previous quarter. In the first round of survey 50% respondents had reported an increase in sales for the quarter Oct-Dec 2024 vis-a-vis the preceding quarter. 46% participants reported an expectation of growth in sales in Apr-Jun 2025 quarter as compared to Q3 of FY-25 indicating a lower business activity in the first quarter of the FY-26. However, the



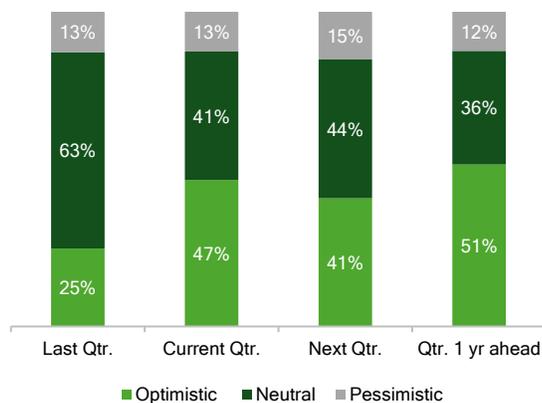
expectation of increase in sales improves to 57% for the Jan-Mar 2026 period.

- 53% of the respondents had opined that their production volume had gone up during the period of survey in the Round 1. 51% of the respondents opined that their production volume improved during the period of survey vis-à-vis the previous quarter. The percentage of optimism comes down to 44% in Q1FY26 and goes up to 55% a year ahead, i.e., in Q4FY26.
- 40% of the respondents had opined that their avg selling price had gone up during the period of survey in the Round 1. 48% of the respondents opined that their avg selling price improved during the period of survey vis-à-vis the previous quarter. The percentage of optimism comes down to 37% in Q1FY26 and goes up to 49% a year ahead, i.e., Q4FY26. This indicates that increase in both production volume and average selling price is likely to contribute the improvement in sales of the respondents.
- 25% of the respondents had reported a growth in orderbook position in the survey period during Round 1. 47% of the respondents reported increase in orderbook position during the current survey period, i.e., Q4FY25. The optimism for higher orderbook position goes up to 51% a year ahead in Q4FY26 after a dip to 41% in Q1FY26.
- 24% of the exporters had reported an increase in export in the period of survey in the Round 1, with a net response¹ of 14%. While 29% of the respondents responded an increase in export for the period Q4FY25, 28% also responded a decline in export, leading to a net response of 1% only. The net response becomes -5% for the next quarter reflecting the uncertainties pertaining to tariffs and exports in the global market. The net response marginally improves to 2% for the quarter a year ahead.

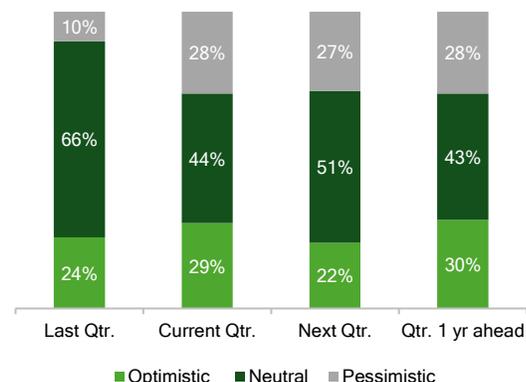
% Responses optimistic on sales volume and price



Order Book Quantity (% Responses)



Exports (%Responses)

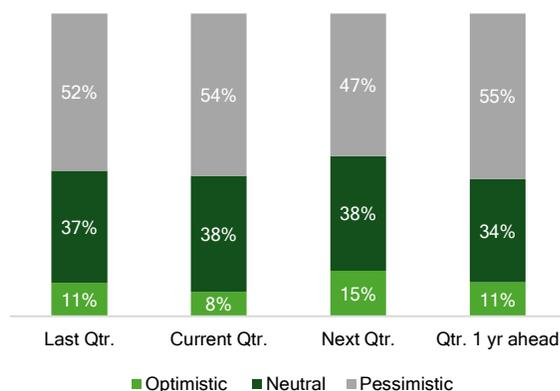


¹ Net Response (NR) is the difference between the percentage of respondents reporting optimism and those reporting pessimism. Any value greater than zero indicates an overall optimism and any value less than zero indicates an overall pessimism.

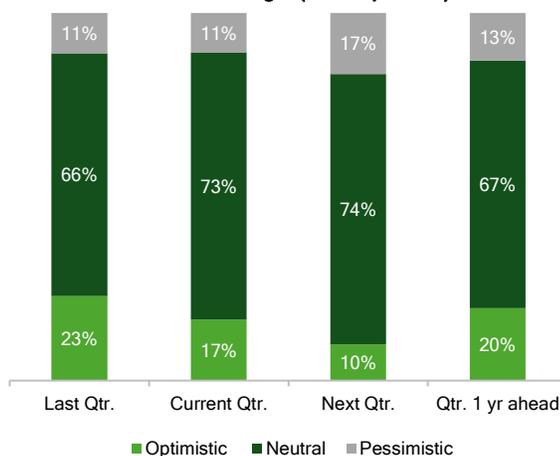
Cost & Profitability

- The percentage of respondents expecting increase in cost of inputs is rising. 54% of the respondents believed their input cost had increased during the survey period that is Q4FY25 against 52% of the respondents reporting an increase during the survey period of Round 1. 47% of the respondents believe that the cost of raw material would go up in the next quarter and 55% believe it to go up a year ahead.
- 43% and 23% of the respondents had opined that their operating profit and net profit margin respectively had improved during the survey period of the Round 1, i.e., Q3FY25. 45% of the participants indicated that their operating profit has increased in the current survey period and 50% remaining optimistic in increase in operating profit a year head. Responses towards net profit margin also shows a similar trend with 17% reporting an increase in the survey period and 20% remained optimistic about increase in profit margin a year ahead. However, 17% of the respondents expected a drop in net profit margin during the first quarter of FY26 against 10% expecting an improvement. Despite of the pessimism on rising input price, the responding MSMEs in manufacturing sector expect to improve the profitability with higher production volume and higher average unit selling price.

Cost of Inputs (% Responses)



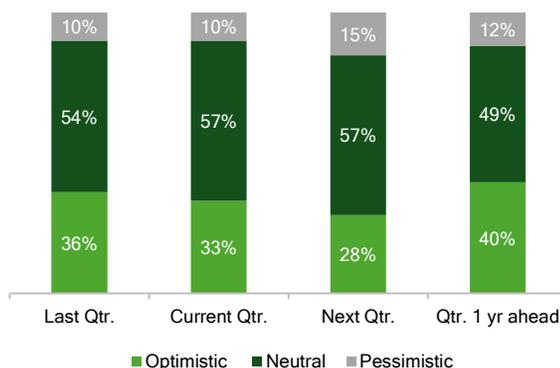
Net Profit Margin (% Responses)



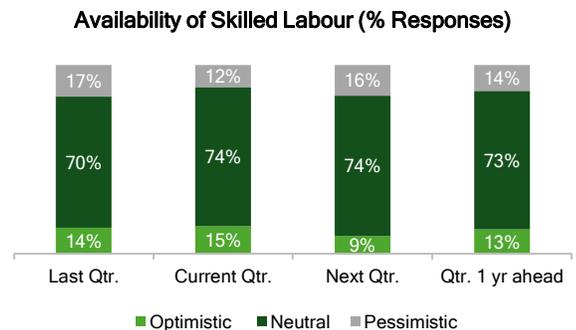
Employment & Labour

- 36% and 33% of the responding MSMEs in manufacturing sector reported an increase in employment during the quarter Q3FY25 (Round 1) and Q4FY25 (Current round) respectively. 28% believe the employment in their enterprise to improve in next quarter and 40% opined it to improve further a year ahead against the base period.

Employment (% Responses)

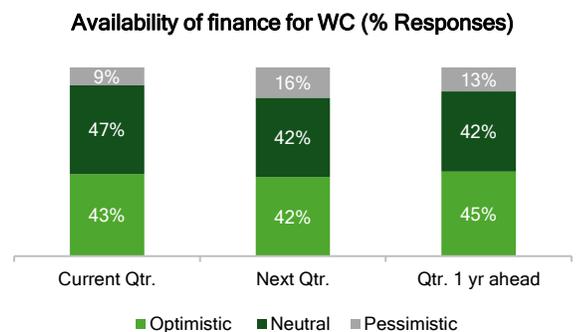


- The availability of skilled labour showed slight improvement with the net response improving from -3% during the quarter Q3FY25 (Round 1) and to 3% Q4FY25 (Current round). However, the responding MSMEs remained pessimistic about the availability of skilled labour with the net responses sliding to -7% in next quarter and -1% a year ahead.

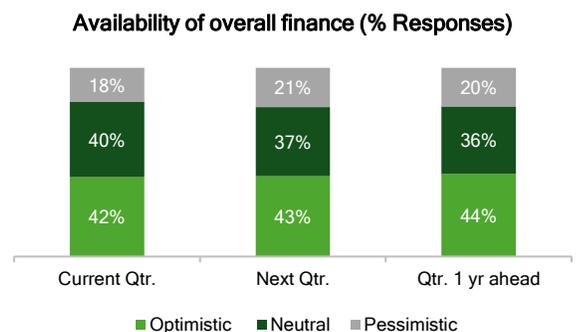


Access to finance

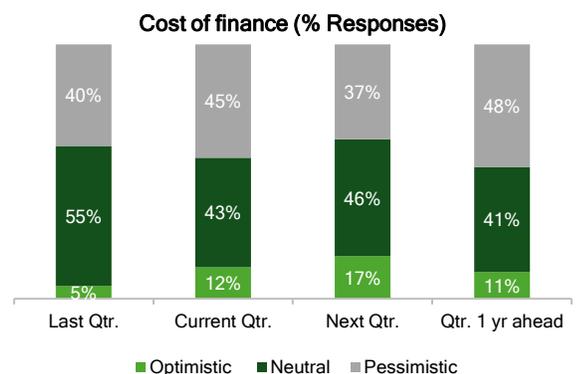
- 43% of the participants opined that availability of external finance for their WC requirement was adequate whereas 47% responded the same as inadequate during the quarter Q4FY25; 45% responded that the WC finance from external sources will be adequate while 42% feel the same to be inadequate a year ahead.



- 42% of the participants opined that availability of external overall finance including CAPEX requirement was adequate whereas 40% responded the same as inadequate during the quarter Q4FY25; 44% responded that availability of overall finance including for CAPEX requirements from external sources will be adequate while 36% feel the same to be inadequate a year ahead.



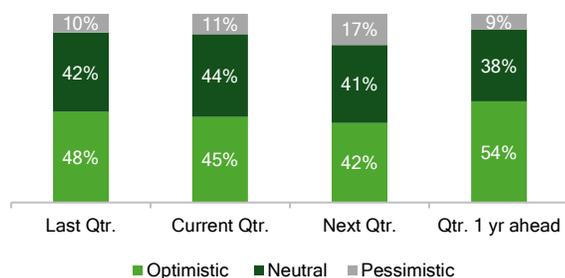
- 45% of the participants responded that their cost of finance increased during the period Q4FY25. 37% of the respondents expect their cost of finance to increase a quarter ahead and 48% expect it to be higher a year ahead.



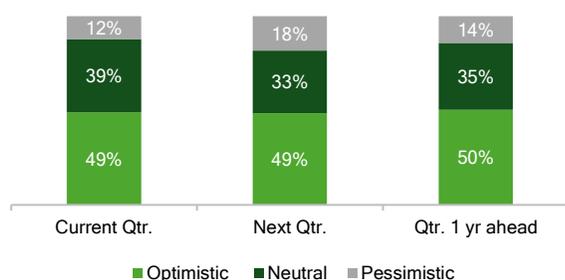
Overall business sentiment, sustainability and others

- The optimism for overall business situation is high with 54% expecting it to improve during Q4FY26 from the current situation. The percentage of respondents who assessed the overall business situation to have improved in the current period i.e., Q4FY25 vis-à-vis the preceding quarter is relatively lower at 45% as compared to 48% of the respondents who had responded to have improved business condition during the period Q3FY25 (Round 1).
- 12% of the respondents reported extreme delay and 39% faced acceptable delay in debtors realization in the quarter Q4FY25. The expectation worsens to 18% extreme delay and 33% acceptable delay for the next quarter and for the quarter a year ahead, the expectations hovered in the same range with 14% expecting extreme delay and 35% acceptable delay.
- 39% responded to have increased investments in pollution reduction/environmental protection measures (setting up solar panels, opting for e-vehicles, adopting new technology) during Q3FY25 (Round 1). 43% of the participants responded that their investment in these activities increased during the Q4FY25 period and 45% of the respondents also responded that their investments in such measures will increase a year ahead, implying expectation of higher adoption of green energy and new technology.
- The share of responses in favour of adoption of digital modes for selling & marketing witnessed a decline in the current round. 44% responded to have increased use of digital platforms for selling & marketing during Q3FY25 (Round1). The percentage of respondents with use of digital modes was 38% in Q4FY25 period, which improves to 41% a year ahead.

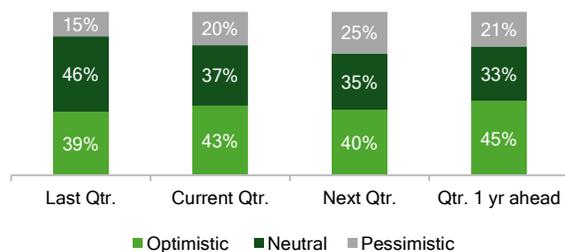
Overall Business Situation (%Responses)



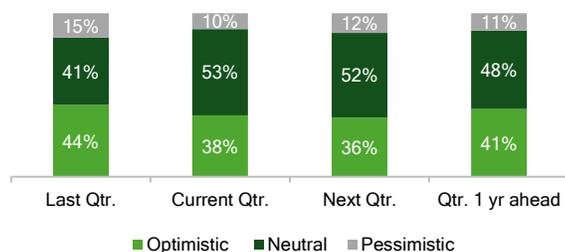
Trade Receivable Realisation (%Responses)



Environmental Protection Measures (%Responses)



Digital Platforms for Selling and Marketing (% Responses)

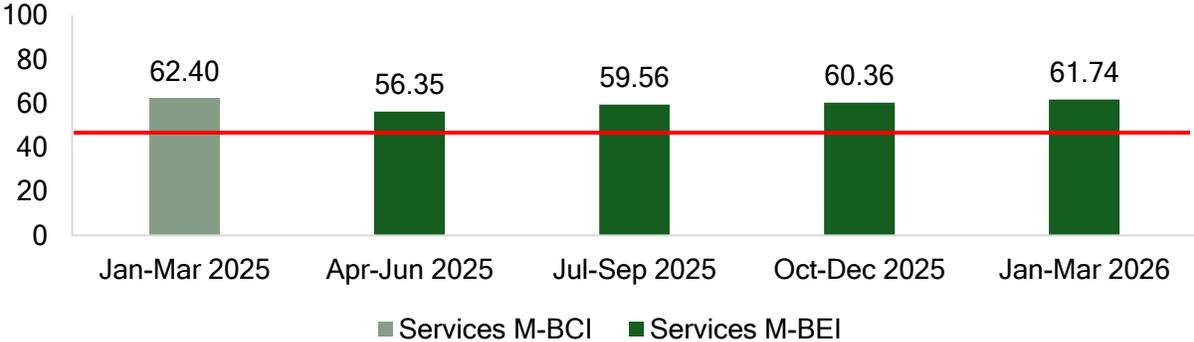


Services Sector

Services registered the highest confidence index value amongst the three sectors, reflecting a broad-based optimism on the domestic demand. While the survey respondents in the sector believe that the costs on salary and wages would increase further, it's likely to be largely offset by higher billing rates and therefore, a dominant part expect their margins to remain resilient.

The optimism momentum for the services MSMEs continued in Q4FY25 quarter with business confidence index improving from 59.67 in Q3FY25 to 62.40 in Q4FY25. As with the assessment for the current quarter, the forecast for the next four quarters is optimistic with a decline in optimism in Q1FY26 quarter. The one-year ahead expectations (Q4FY26) are only a shade lower than the confidence index for the current quarter (Q4FY25).

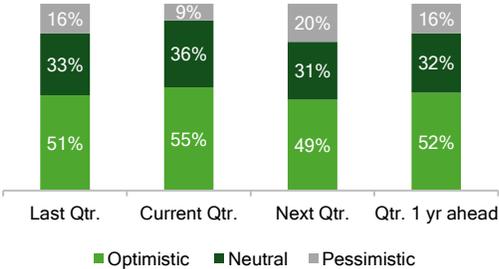
Business confidence and expectation indices for services sector



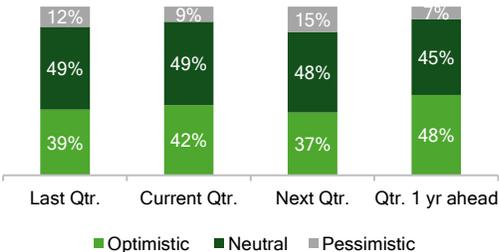
Demand Conditions

- Optimism in sales continued in the current quarter vis-à-vis the previous quarter with higher percentage of respondents indicating positive sentiment i.e., increased from 51% in Q3FY25 to 55% in Q4FY25. A dip in optimism to 49% in Q1FY26 is observed in the expectations in the next quarter. However, the one year ahead expectations in sales are steady at 52% in Q4FY26 over Q3FY25.
- The percentage of positive responses improved from 39% in Q3FY25 to 42% in Q4FY25. Similarly negative sentiment also declined from 12% in Q3FY25 to 9% in Q4FY25. One year ahead expectations also improved to 48% in Q4FY26 from 39% in Q3FY25, 42% in Q4FY25 and 37% in Q1FY26.

Sales growth (% Responses)



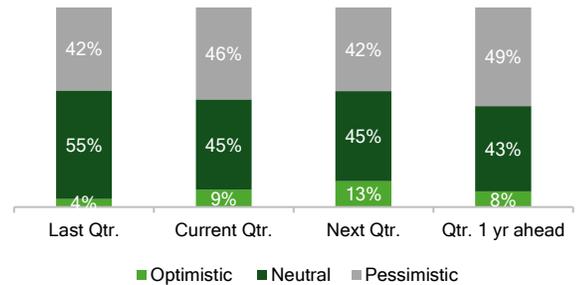
Selling Price (% Responses)



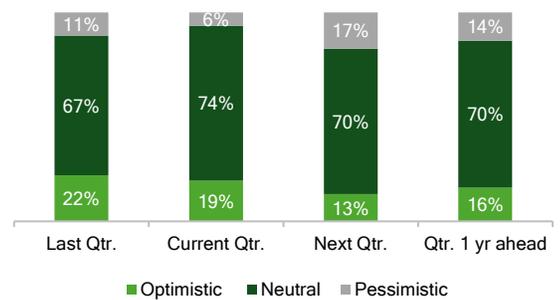
Cost & Profitability

- In the current quarter, 46% of the respondents expect an increase in the expenditure on salary, increasing from 42% in last quarter. The expectations in ensuing quarter and one-year ahead quarter also remain high with 42% (Q1FY26) and 49% (Q4FY26) respondents expecting an increase in expenditure on salary.
- Nearly 46% of the respondents opined an increase in operating profit in the current quarter. The percentage of respondents having negative sentiment towards profit stood at 12% in Q4FY25. However, in case of profit margin, the percentage of respondents reporting increase in profit margins declined from 22% in Q3FY25 to 19% in Q4FY25. Decline was also observed in expectations with percentage of respondents expecting an increase in profit margin declining to 13% in Q1FY26 and 16% in Q4FY26 vis-a-vis Q3FY25.

Expenditure on salary and wages (% respondents)



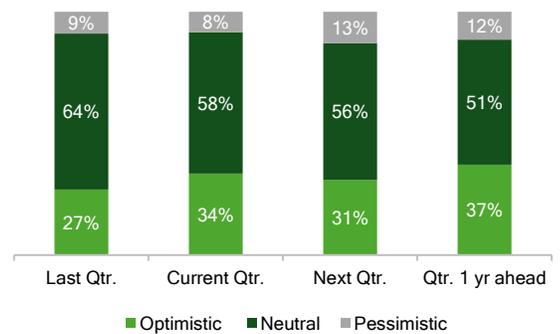
Net Profit Margin (% Responses)



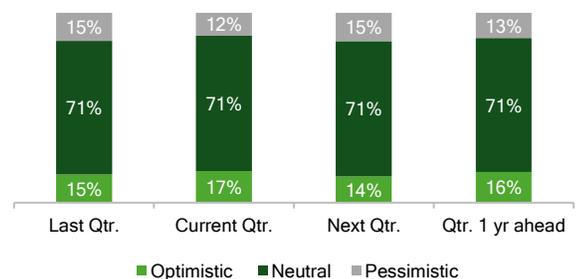
Employment and Labour

- A growing share of respondents opined an increase in employment in Q4FY25 vis-à-vis Q3FY25. The pattern remains consistent in the expectations of the respondents with higher percentage of respondents indicating increase in employment in Q4FY26 compared to Q3FY25.
- The optimism in labour productivity appears to be elevated both in current quarter (Q4FY25) and expectations in subsequent quarters (Q1FY26 and Q4FY26) when compared to the last quarter i.e., Q3FY25.
- However, availability of skilled labour has a lower percentage of positive respondents though the share of positive responses saw an increase to 17% in Q4FY25 and 16% in expectations for Q4FY26 over 15% in Q3FY25.

Employment (% Responses)



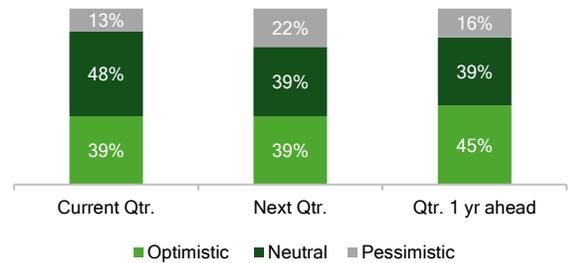
Availability of Skilled Labour (% Responses)



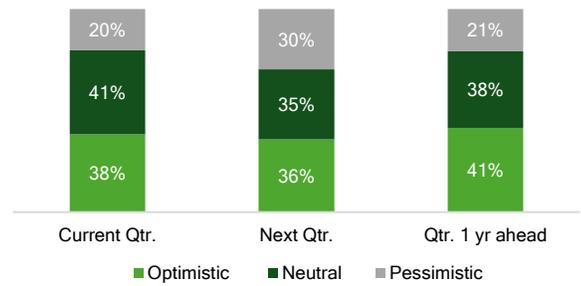
Access to finance and digitalization

- In the current quarter, a significant share of respondents at 39% have opined that the Working Capital finance is available and adequate whereas 13% have opined that it is not available. Majority of the respondents (48%) have indicated that though working capital finance is available, the same is inadequate in meeting the requirements. However, the one-year ahead expectations are higher with improvement in percentage of respondents opining that working capital finance is available and adequate.
- Similar to the availability of working capital finance, the availability of overall finance including CAPEX had a significant percentage of respondents indicating that the same is available and adequate. The one-year ahead expectations are also high with 41% of the respondents opining adequate availability of finance.
- 44% of the participants responded that their cost of finance increased during the period Q4FY25. 42% of the respondents expect their cost of finance to increase a quarter ahead and 51% expect it to be higher a year ahead.
- 47% of the respondents have opined that the utilisation of digital platforms for selling and marketing increased in the current quarter vis-à-vis the previous quarter whereas the share of optimism in the future quarters are 45% in Q1FY26 and 50% in Q4FY26.
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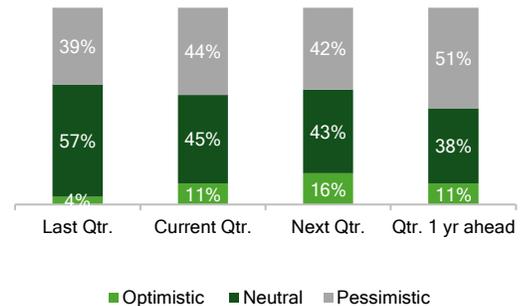
Availability of finance for WC (% Responses)



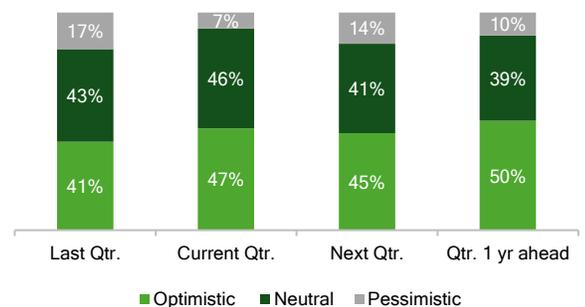
Availability of overall finance (% Responses)



Cost of finance (% Responses)



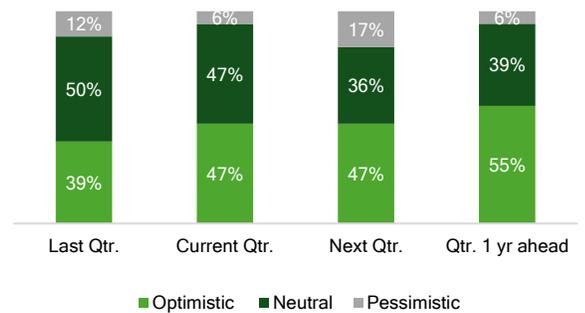
Digital Platforms for Selling and Marketing (% Responses)



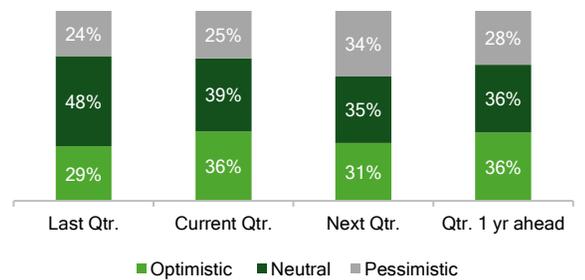
Overall business sentiment, sustainability and others

- Optimism in overall business situation was high in the current quarter at 47% vis-à-vis 39% in the preceding quarter. The optimism levels remain high in the expectation of the respondents with 47% of respondents in Q1FY26 and 55% of respondents in Q4FY26 indicating improvement in business situation.
- A significant share of the respondents plan on taking suitable environment protection measures. 36% of respondents affirmed the plans for adopting environmental measures in current quarter vis-à-vis 29% in the preceding quarter. The expectations are also optimistic and higher percentage of respondents are likely to adopt environmental measures both in Q1FY26 and Q4FY26 over the previous quarter levels.
- In the current quarter, majority of the respondents indicated in time realisation in debtor receivables whereas 9% indicated excessive delay in debtor receivables. The expectations in timely realisation in debtor receivables is marginally lower than the current quarter with slight increase percentage of respondents expecting excessive delays in the future.
- Majority of the respondents in the current quarter expressed that the time and efforts for obtaining essential permits and periodic compliances, as well as supply of electricity were acceptable. The same pattern is observed in expectations in both the next quarter and one-year ahead.

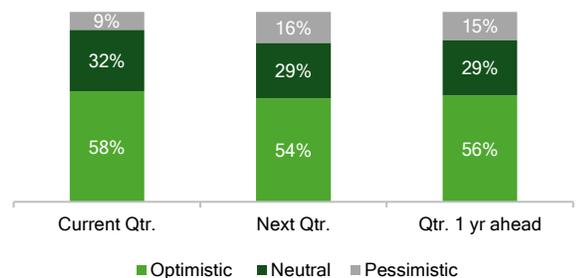
Overall Business Situation (%Responses)



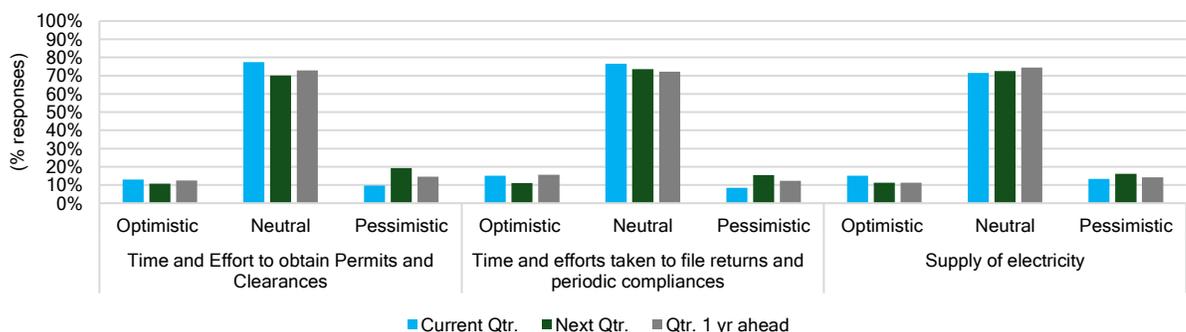
Environmental Protection Measures (%Responses)



Trade Receivable Realisation (%Responses)



% responses for other important factors impacting MSME business operations

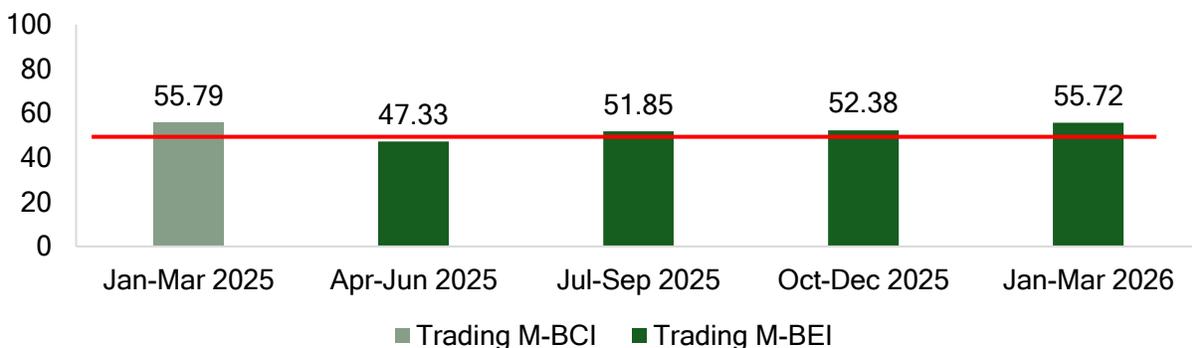


Trading Sector

While the trading sector continues to be optimistic in Round 2 of the MSME Outlook Survey, the extent of such optimism is relatively less compared to that in services and manufacturing. The key challenges in the sector are inadequate credit and skilled labour availability. The respondents in the survey plan to leverage on digital technologies and enhance their market access.

Similar to the other sectors, the trading sector business confidence index improved in Q4FY25 quarter. The BCI improved from 52.50 in Q3FY25 quarter (Round 1) to 55.79 in Q4FY25 (Current round). However, the expectation index for the next quarter viz., Q1FY26 is lower than the 50-mark indicating some pessimism amongst trading MSMEs, albeit the expectations improve in the following quarters. Moreover, the business volume generally remains high in Q4 of a financial year. Accordingly, after a brief decline in the sentiment for Q1-Q3FY26, the sentiment for Q4FY26 improves and catches up with that of Q4FY25.

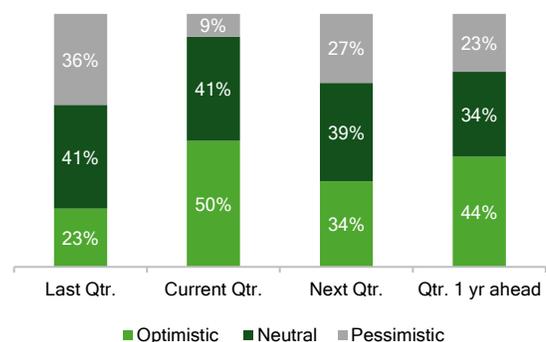
Business confidence and expectation indices for trading sector



Demand Conditions

- Optimism soared in the current quarter with 50% of respondents indicating increase in sales and only 9% indicating a decline. This has significantly improved over the previous quarter (Q3FY25) where 23% of respondents indicating increase in sales.

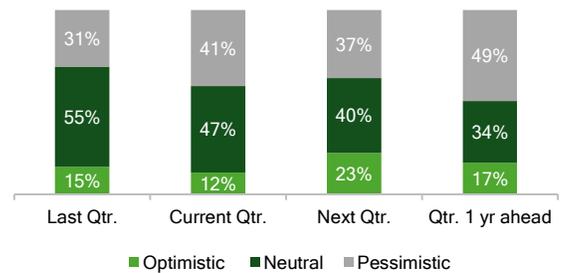
Sales growth (% Responses)



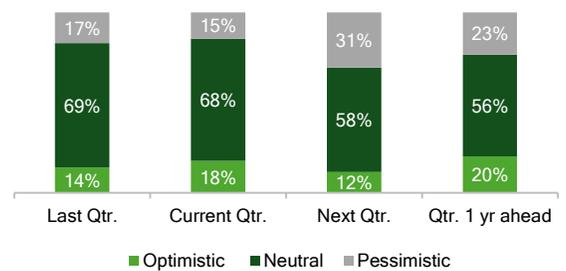
Cost & Profitability

- A significant share of the respondents in the current quarter responded an increase in cost of goods, at 41%, compared to the 31% in preceding quarter. A decline was also observed in the percentage of respondents indicating a decrease in the cost of goods. Going forward, the percentage of optimistic responses in the expectation indices are comparatively higher than Q3FY25.
- In the current quarter, comparatively more percentage of respondents indicated optimism in profit margins from 14% in Q3FY25 to 18% in Q4FY25. The one-year ahead expectations are also elevated with 20% of respondents expecting increase in margins. However, in the interim, a lower percentage of respondents expect an increase in the profit margins (Q1FY26).

Cost of goods (% Responses)



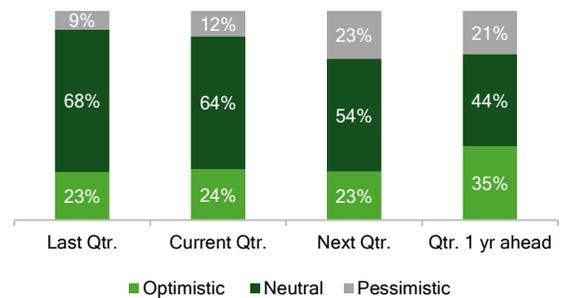
Net Profit Margin (% Responses)



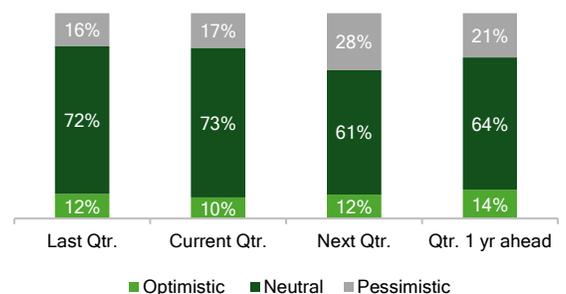
Employment & Labour

- 23% and 24% of the responding MSMEs in trading sector reported an increase in employment during the quarter Q3FY25 (Round 1) and Q4FY25 (Current round) respectively. 23% believe the employment in their enterprise to improve in next quarter and 35% opined it to improve further a year ahead against the base period.
- The availability of skilled labour deteriorated with the net response sliding from -4% during the quarter Q3FY25 (Round 1) to -7% Q4FY25 (Current round). The responding MSMEs remained pessimistic about the availability of skilled labour with the net responses further sliding to -16% in next quarter and marginally improving to -7% a year ahead.

Employment (% Responses)



Availability of Skilled Labour (% Responses)



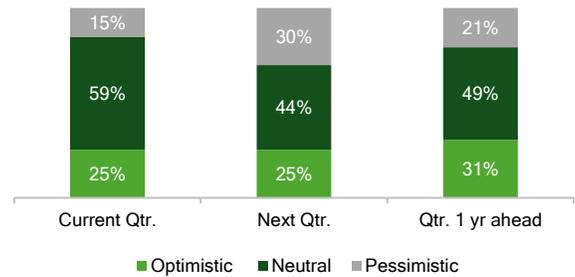
Access to finance

- 25% of the participants responded that finance for WC requirement was available and adequate and 59% opined it to be available but inadequate. The opinion regarding adequate availability of WC improves marginally to 31% a year ahead and 49% of the response indicate WC finance to be available but inadequate. 21% of the participants think there will be no finance available for WC requirement for the period Q4FY26.
- 22% of the participants responded that the availability of overall finance was available and adequate, whereas 54% felt it was available but inadequate; 24% opined that the overall finance was not available for the period Jan-Mar 2025, leading to a net response of -2%. The net response of the participants improves to 6% for the quarter a year ahead, indicating expectation for improvement.
- 31% of the participants responded that their cost of finance increased during the period Q4FY25. 28% of the respondents expect their cost of finance to increase a quarter ahead and 42% expect it to be higher a year ahead.

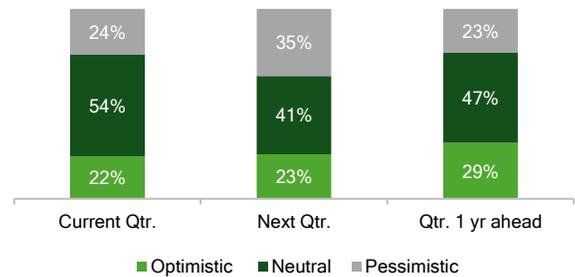
Overall business sentiment, receivables and others

- The optimism for overall business situation is high with 52% expecting it to improve during Q4FY26 from the current situation. The percentage of responses who assess the overall business situation to have improved in the current period i.e., Q4FY25 vis-à-vis the preceding quarter is relatively lower at 37%. The pessimistic response reduces significantly from 20% in the period Q3FY25 (Round 1) to 10% in Q4FY26 period.

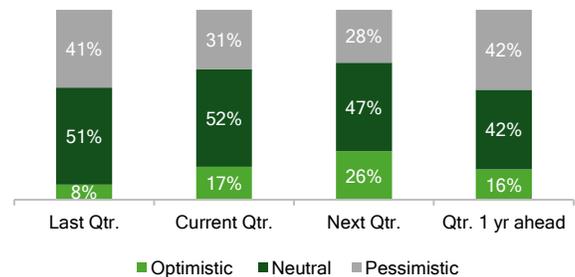
Availability of finance for WC (% Responses)



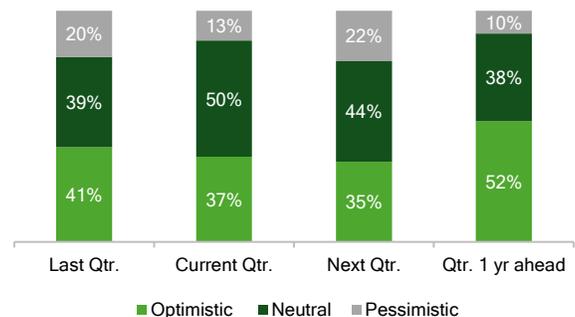
Availability of overall finance (% Responses)



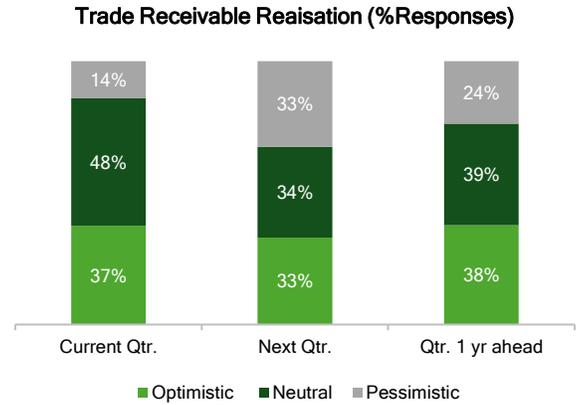
Cost of finance (% Responses)



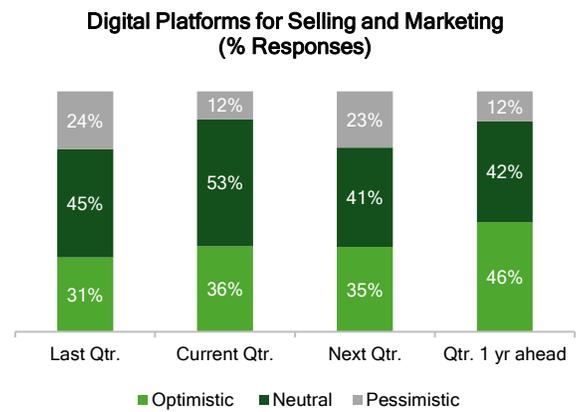
Overall Business Situation (% Responses)



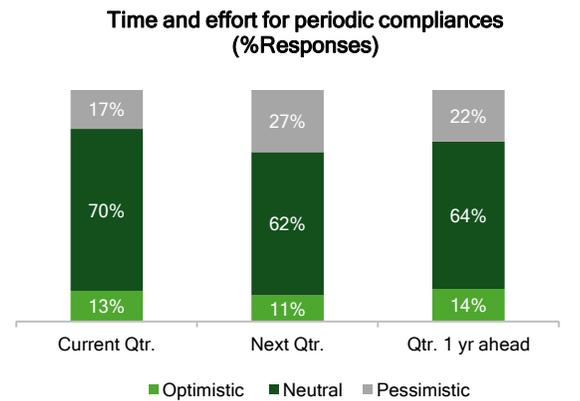
- 14% of the respondents reported extreme delay and 48% faced acceptable delay in debtors realization in the quarter Q4FY25. The expectation worsens to 33% extreme delay and 33% acceptable delay for the next quarter and 24% extreme delay and 38% acceptable delay for the quarter a year ahead.



- The share of responses in favour of adoption of digital modes for selling & marketing rising going forward. 31% responded to have increased use of digital platforms for selling & marketing during Q3FY25 (Round 1). 36% of respondents opined that the use of digital modes for selling & marketing increased during Q4FY25 period. 46% of respondents believe the use of digital mode for selling & marketing will increase a year ahead.



- 70% of the respondents were satisfied and 13% were more than satisfied with the time and efforts taken to file returns and periodic compliances during the period Q4FY25. The satisfactory responses dropped to 64% and the responses which are more than satisfied improves to 14% for the period in a year ahead.



NOTE: Considering the seasonal variations in various economic metrics and the likelihood of discrepancies in the initial responses from participants spread across India, it is expected that the survey outcomes may take a while to stabilize. The insights gained from the initial round will be leveraged in future surveys, with the intention of generating a time series of information on specific parameters that can help in evaluating the evolving dynamics of the MSME sector. Due to rounding off, percentages may not add upto 100%.

The survey questionnaire was crafted by the Economic Research and Data Analysis Vertical (ERDAV) of SIDBI, with the intention of maintaining a steady flow of information for the monitoring of the MSME sector's developments. The survey was executed by Genesis Management & Market Research Pvt. Ltd., Pune, after finalization of the sampling design in consultation with ERDAV, SIDBI.

Sampling and Estimation

The SIDBI MOS is proposed to be conducted on a quarterly basis. The survey follows a stratified sampling method where First Stage Sampling Units (FSUs) is the Broad Industry Group. There are 3 FSUs - Manufacturing, Trading and Services. To make this sample more representative, the required sample has been drawn from for each FSU from all six regions in India i.e. North, North-east, East, Central, West and South. For the Round-2, responses were collected from ~ 300 locations with 78% participants from urban areas and 22% from rural areas.

MSME-BCI and MSME-BEI

The MSME Business Conditions Index (MSME-BCI) gives a snapshot of the business condition assessment for the Jan - March 2025 quarter, while the MSME Business Expectations Index (MSME-BEI) gives a snapshot of the business expectations for the next four quarters.

The two diffusion indices, the MSME-BCI and the MSME-BEI, each is a composite indicator calculated as a simple average of six parameters, where each parameter is derived as a weighted net response, weights being the share of the industry groups (Manufacturing, Trading and Services) in gross value added (GVA).

The six parameters include, 1) Sales, 2) Profit Margin, 3) Employment 4) Access to Working Capital Finance, 5) Access to Overall Finance and, 6) Overall Business Condition.

The indices are calculated using the following formula.

$$M-BCI = ((1 \times O \times IW) + (0.5 \times N \times IW) + (0 \times P \times IW)) \times 100$$

$$M-BEI = ((1 \times O \times IW) + (0.5 \times N \times IW) + (0 \times P \times IW)) \times 100$$

Where,

O = Simple average of % of Positive Responses for each of the 6 questions

N = Simple average of % of Neutral Responses / No Change for each of the 6 questions

P = Simple average of % of Negative Responses for each of the 6 questions

IW = Industry Weight based on share in GVA

The composite MSME-BCI and MSME-BEI are computed on the entire sample of ~1,200 MSME. At the sectoral level, separate indices of Business Conditions and Business Expectations are constructed for the Manufacturing, Trading and Services sectors using the same six parameters. Responses on all 6 constituent parameters are given equal weight.

$$M-BCI_S = (1 \times O) + (0.5 \times N) + (0 \times P)$$

$$M-BEI_S = (1 \times O) + (0.5 \times N) + (0 \times P)$$

Where,

S = Sector

O = Simple average of % of Positive Responses for each of the 6 questions

N = Simple average of % of Neutral Responses / No Change for each of the 6 questions

P = Simple average of % of Negative Responses for each of the 6 questions

The indices take values between 0 to 100, where values above 50 indicate expansion and below 50 indicate contraction.

Questionnaire

A pool of 24 questions was created. Of these, 23 questions were asked to MSMEs in the Manufacturing sector, 22 questions were asked to MSMEs in the Services Sector and 17 questions were asked to MSMEs in trading sector in the sample. The choice of questions posed from the pool was subject to the industry group (Manufacturing/Trading/Services) that the MSME belongs to. Out of the 24 questions, the options in respect of 7 questions were tweaked to have a slightly better insight into trade receivables, finance, capacity utilization, cost of raw materials / goods / service delivery, usage of digital platforms and operating profit. In addition, two additional questions were included to assess the capacity addition / technological upgradation and time and efforts taken to file returns and periodic compliances during the survey period.

Questions were asked on the performance/situation during the ongoing quarter i.e. Q4FY25. Replies on expectations were sought on the same set of questions on the expectations on future performance to gauge the sentiments of the MSME sector.

- 1) Sales Revenue of your enterprise in the period below
 - i) Increase
 - ii) No change
 - iii) Decrease
- 2) Production/Sales Volume (in quantity terms) of your enterprise in the period below
 - i) Increase
 - ii) No change
 - iii) Decrease
- 3) Average Selling Price (Ex-Factory) of your enterprise in the period below
 - i) Increase
 - ii) No change
 - iii) Decrease
- 4) Order Book (in quantity terms) of your organisation in below period _____
 - i) Increase
 - ii) No change
 - iii) Decrease
- 5) Are you an exporter ?
 - i. Yes
 - ii. No
- 5).a If yes, exports of your organisation in the period below _____
- 13) Capacity utilization during the quarter is / is expected to be ____ (Capacity Utilization to be evaluated vis a vis past 2 years average)
 - i) Above normal
 - ii) Normal
 - iii) Below normal
- 14) Have you added / Do you plan to add capacity or spend on technological upgradation in the below period?
 - i) Yes
 - ii) Not sure
 - iii) No
- 15) Plans to take any pollution reduction/environment protection measures for your business in the current quarter (setting up solar panels, opting for e-vehicles, adopting new technology, etc.)?
 - i) Yes
 - ii) Not sure
 - iii) No
- 16) Timeliness in debtor/receivable realization
 - i) In time
 - ii) Acceptable Delay
 - iii) Excessive delay

- i) Increase
 - ii) No change
 - iii) Decrease
- 6) Cost of raw materials (manufacturing) / goods (trading)/Major cost towards service delivery (service) in below period
- i) Increase
 - ii) No change
 - iii) Decrease
- 7) Expenditure on salary & wages in the below period
- i) Increase
 - ii) No change
 - iii) Decrease
- 8) Operating Profit of your organization in the below period
- i) Increase
 - ii) No change
 - iii) Decrease
- 9) Net Profit Margin in the below period (Net Profit Margin to be evaluated vis a vis past 2 years average)
- i) Above Normal
 - ii) Normal
 - iii) Below normal
- 10) Employment (full-time, part-time, casual) of your organization in the below period
- i) Increase
 - ii) No change
 - iii) Decrease
- 11) Labor Productivity of your organization in below period
- i) Satisfactory
 - ii) Neutral
 - iii) Unsatisfactory
- 12) Availability of skilled labour for your organization in below period
- i) More than adequate
 - ii) Adequate/ Neutral
 - iii) Less than adequate
- 17) Availability of finance for working capital from formal sources
- i) Available and Adequate
 - ii) Available but not adequate
 - iii) Not available
- 18) Availability of overall finance including CAPEX from formal sources
- i) Available and Adequate
 - ii) Available but not adequate
 - iii) Not available
- 19) Cost of finance / interest rates during below period
- i) Increase
 - ii) No Change
 - iii) Decrease
- 20) Satisfaction towards time and efforts taken to obtain permits and clearances during below period
- i) More than acceptable
 - ii) Acceptable
 - iii) Less than acceptable
- 21) Usage of digital platforms for selling and marketing during below period
- i) Increase
 - ii) No Change
 - iii) Decrease
- 22) Supply of electricity during below period
- i) More than satisfactory
 - ii) Satisfactory
 - iii) Less than satisfactory
- 23) Time and efforts taken to file returns and periodic compliances during below period
- i) More than satisfactory
 - ii) Satisfactory
 - iii) Less than satisfactory
- 24) Overall business situation during below period
- i) Improve
 - ii) No change
 - iii) Worsen



Economic Research and Data Analysis Vertical

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The survey findings indicate the opinions of the respondents, which are not necessarily shared by SIDBI. The data have been obtained through qualitative responses to the survey by MSMEs through personal interviews, telephonic interviews and computer assisted web interviews. SIDBI also does not accept any responsibility whatsoever for any consequences arising from the use of the information contained in this document. Aggregated survey responses presented in this report can be used only by giving due credit to SIDBI.

The survey has been carried out by the Economic Research and Data Analysis Vertical (ERDAV) of SIDBI with the help of survey execution partner Genesis Management & Market Research Pvt. Ltd., Pune.