

MSME Sampark – Bi-annual Report on Latest in MSME Lending Ecosystem (2nd Edition)
(An Initiative of UGRO Capital and Dun & Bradstreet)

As India stands poised to achieve the vision of "Viksit Bharat," transforming into a developed nation by 2047, the pivotal role of Micro, Small, and Medium Enterprises (MSMEs) in this journey is undeniable. MSMEs are the engines of innovation, job creation, and entrepreneurship, contributing significantly to India's GDP and fostering economic growth. India's economic growth in FY24 surpassed all expectations, with GDP expanding by 8.2% year-over-year. As we look ahead, FY25 is projected to sustain this momentum with a growth forecast of around 7% YoY. Reflecting this robust economic trajectory, S&P Global Ratings upgraded India's sovereign rating outlook to positive, citing strong growth prospects and improved quality of government expenditure.

The role of MSMEs in achieving the "Viksit Bharat" vision is crucial and aligns with the economic principles rooted in India's ancient scriptures, which advocate for a balanced economic model where public investment and private enterprise work hand-in-hand. The government's focus on modernizing infrastructure, advancing technology, and providing financial support for MSMEs mirrors these timeless principles, ensuring that MSMEs remain central to India's economic stability and growth.

At U GRO Capital, we celebrate the spirit of entrepreneurship and innovation that defines India's MSMEs through our theme "MSME Accha Hai," recognizing the essential role these enterprises play in driving economic progress, creating jobs, and strengthening local communities. In collaboration with Dun & Bradstreet, our "MSME Sampark" report is designed to deliver the insights and data needed by lending institutions to understand MSMEs better and accelerate credit to empower MSMEs, helping them scale, innovate, and sustain their vital contribution to India's economic success.

MSME Sampark Insights:

1. Macroeconomic Overview:

- **Global Perspective:** Despite global challenges such as geopolitical uncertainties and supply chain disruptions, the global economic outlook for 2024 and beyond remains optimistic, with growth expected to stabilize and improve as inflationary pressures ease.
- **India's Growth Trajectory:** India continues to demonstrate strong growth, with its GDP growth rate recorded at 8.2% in FY24. The government's focus on infrastructure development, digitalization, and supportive policies is expected to further bolster MSME growth.

2. Credit Environment and Lending Dynamics:

- **Credit Penetration:** There has been a significant rise in credit penetration among MSMEs, with a notable increase in loan disbursements, particularly in sectors like

Light Engineering, Food Processing, and Healthcare. This reflects the growing confidence of lenders in the MSME sector's recovery and growth post-pandemic.

- **NBFCs' Role:** NBFCs have shown resilience, with their Assets Under Management (AUM) growing at a compound annual growth rate (CAGR) of 15% over the past five years. Their ability to cater to underserved markets has been instrumental in the growth of the MSME sector.

3. Impact of the Union Budget 2024-25:

- The Union Budget re-emphasized the government's commitment to supporting MSMEs through a comprehensive package that includes funding, regulatory changes, and technology support. Initiatives like the Digital Public Infrastructure (DPI) program and the Credit Guarantee Scheme are expected to significantly improve credit accessibility for MSMEs.

4. Sectoral Insights:

- **Macro View:** The report provides detailed insights into eight key sectors, including Auto Components, Chemicals, Electrical Equipment, and Hospitality. It highlights the varying debt-to-turnover ratios across these sectors and underscores the importance of tailored financial solutions to meet the specific needs of different MSME segments.
- **U GRO's View:** The report highlights U GRO's analysis of post-pandemic MSME recovery, showing a shift towards formal lending with increased credit penetration, especially through term loans. The study emphasizes sector-specific trends, with Light Engineering leading in credit and turnover, reflecting progress in financial inclusion and the need for customized credit solutions.

5. Digital Transformation:

- The rapid digitalization of India's economy, driven by initiatives like the India Stack, has greatly enhanced the formalization of MSMEs. The integration of MSMEs into this digital ecosystem is crucial for unlocking their full potential and contributing to India's goal of becoming a developed economy by 2047.

6. Women-led MSMEs:

- Women-owned MSMEs have seen a significant rise in registrations, now constituting 20% of all MSMEs. However, their contribution to investment and turnover remains relatively low. The report suggests that empowering women entrepreneurs is vital for achieving broader economic development goals.

Key Highlights of the Report:

- A slight dip in global growth is expected in 2024 compared to 2023, with a rebound anticipated in 2025 as inflation eases and monetary policy loosens.
- Over the past 30 years, India has achieved over 7% GDP growth in 16 years. The current macroeconomic environment is favorable for continued high growth, with India's contribution to global GDP expected to double between 2009 and 2029.
- The number of MSMEs registering on the UDYAM portal has nearly doubled each year since FY21, indicating rapid formalization. This has enhanced their access to government initiatives such as financial support and market access.
- Registrations of women-led MSMEs on the UDYAM portal are doubling annually. Despite their smaller size, they contribute significantly to job creation, accounting for one in five jobs created by MSMEs.
- MSMEs contribute around 30% to India's GDP, yet their share in commercial credit remains low at 6.3% in FY24. However, this share improved by 60 basis points from FY19 to FY24 across both SCBs and NBFCs.
- Despite high interest rates, credit growth to MSMEs remains strong, with decreasing delinquency rates indicating responsible credit management and enhanced borrowing prospects.
- The Union Budget for 2024-25 emphasizes the development of MSMEs and labor-intensive manufacturing through a comprehensive package of funding, regulatory changes, and technology support, with special focus on women entrepreneurs.
- Initiatives towards digitalization and technology adoption are expected to further formalize MSMEs and improve their access to credit and markets.
- MSMEs in seven studied sectors have shown a recovery post-pandemic, with over 50% recording more than 10% year-over-year growth in sales from May 2021 to March 2024.
- There has been an increase in the proportion of working capital loans, improved debt-to-turnover ratios, and a steady rise in credit penetration post-pandemic, reflecting growing confidence in the resilience and potential of MSMEs across various sectors.