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INDUSTRY OUTLOOK

MSME GROWTH IN FOCUS: KEY BUDGET 2024-25 INITIATIVES AND THEIR IMPACT

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Key Budget Initiatives for MSME Growth and Support

In the Union Budget 2024-25, several initiatives have been announced for the Micro, Small, and Medium Enterprises (MSME) sector. The government introduced a self-financing guarantee fund, providing up to ₹100 crore of guarantee cover for each applicant to boost labour-intensive manufacturing, particularly for MSMEs. This strategic move aims to facilitate continued credit flow, especially during periods of financial stress for MSMEs¹.



¹ PIB, <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2035618>

In the budget, a total outlay of ₹22,137.95 crore has been allocated for the MSME sector, highlighting the government's focus on strengthening this crucial sector of the economy. Of this, ₹21,868.45 crore is allocated to Central Sector Schemes and Projects, reflecting a strong commitment to boosting MSME growth through direct intervention. Also, ₹257.40 crore is dedicated to the Establishment Expenditure of the Centre, ensuring efficient administration and support for these schemes. A smaller portion of ₹12.10 crore is set aside for other Central Sector Expenditures, underscoring the holistic approach taken to address various operational needs. This budgetary allocation emphasizes both the *financial* and *structural* support required to enhance the competitiveness of MSMEs and their role in India's economic growth trajectory.

Trend of Budget Estimate

Financial Year	Budget Estimate (₹ in crore)	Revised Estimate (₹ in crore)	Actual (₹ in crore)
2019-20	7,011.29	7,011.29	6,717.53
2020-21	7,572.20	5,664.22	5,647.50
2021-22	15,699.65	15,699.65	15,160.47
2022-23	21,422.00	23,628.73	23,583.90
2023-24	22,137.95	22,138.01	22,094.25
2024-25	22,137.95	-	22,137.95

Source: Union Budget of India 2024-25 | PIB

Here are the eight new measures announced in the Union Budget 2024-25 to promote MSMEs:

- A credit guarantee scheme will facilitate term loans for MSMEs to purchase machinery and equipment without requiring collateral or third-party guarantees.
- To improve credit accessibility, Public Sector Banks (PSBs) will develop in-house capabilities for assessing MSME creditworthiness, moving away from reliance on external evaluations. They will also lead the creation of a new credit assessment model based on MSMEs' digital footprints.
- A new mechanism will be introduced to ensure the continuation of bank credit to MSMEs during periods of financial stress.
- The Mudra loan limit will be raised from ₹10 lakh to ₹20 lakh for entrepreneurs who have successfully repaid loans under the 'Tarun' category.
- The turnover threshold for mandatory onboarding on the TReDS platform will be reduced from ₹500 crore to ₹250 crore, bringing 22 more Central Public Sector Enterprises (CPSEs) and 7,000 additional companies onto the platform.

- SIDBI will expand its branch network to reach all major MSME clusters within three years, providing direct credit to MSMEs.
- Financial support will be provided for the establishment of 50 multi-product food irradiation units in the MSME sector.
- E-Commerce Export Hubs will be set up through public-private partnerships (PPP) to enable MSMEs and traditional artisans to sell their products in international markets.

These measures are expected to have a highly positive impact. The enhanced Mudra loan limit, especially for existing customers, opens opportunities for pre-qualified leads based on analytics, reducing capital requirements and minimizing losses in case of defaults².

Trend of capex spending, and budget promises made in the last five Union Budgets regarding ECLGS for MSMEs.

Union Budget	Allocation
2024-25	6 lakh crore
2023-24	5.25 lakh crore
2022-23	5 lakh crore
2021-22	4.5 lakh crore
2020-21	3 lakh crore

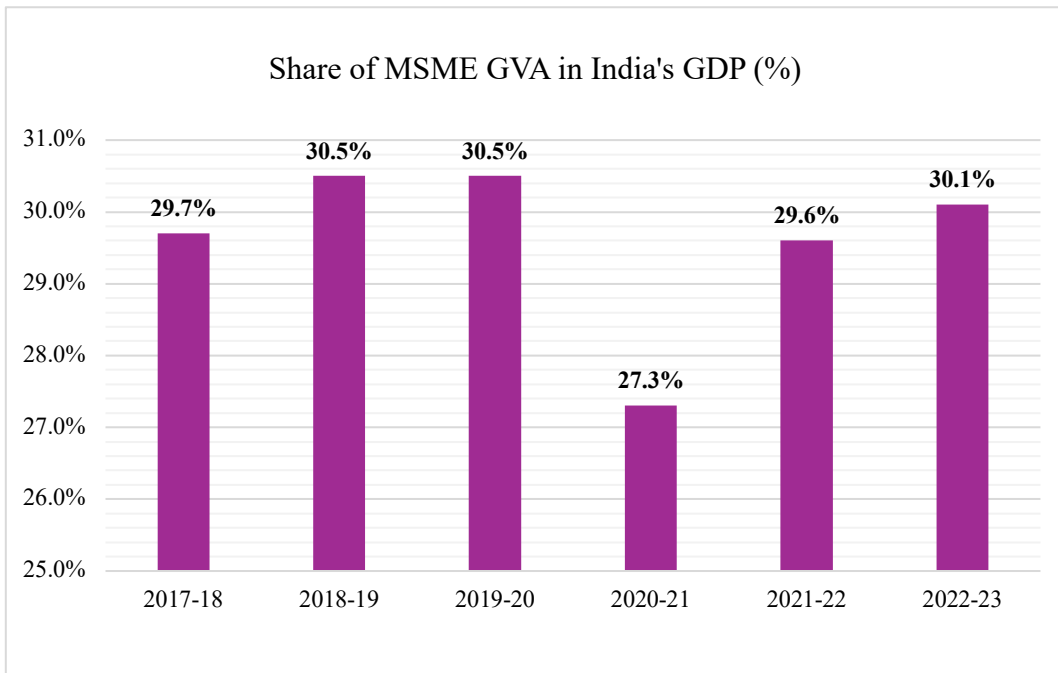
Source: PIB

Share of MSME Gross Value Added (GVA) in India's GDP

The MSME sector in India has shown resilience and adaptability over the years and consistently contributed to the nation's GDP. The Gross Value Added (GVA) by MSMEs was 29.7% of India's GDP in 2017-18, increasing to 30.5% in 2018-19 and 2019-20. Despite the severe impact of the COVID-19 pandemic, MSMEs maintained a 27.3% contribution in 2020-21 and rebounded to 29.6% in 2021-22, reaching 30.1% in 2022-23³.

² SBI, https://www.sbi.co.in/webfiles/uploads/files_2425/240724-SBI%20Union%20Budget%20Analysis%202024-25.pdf

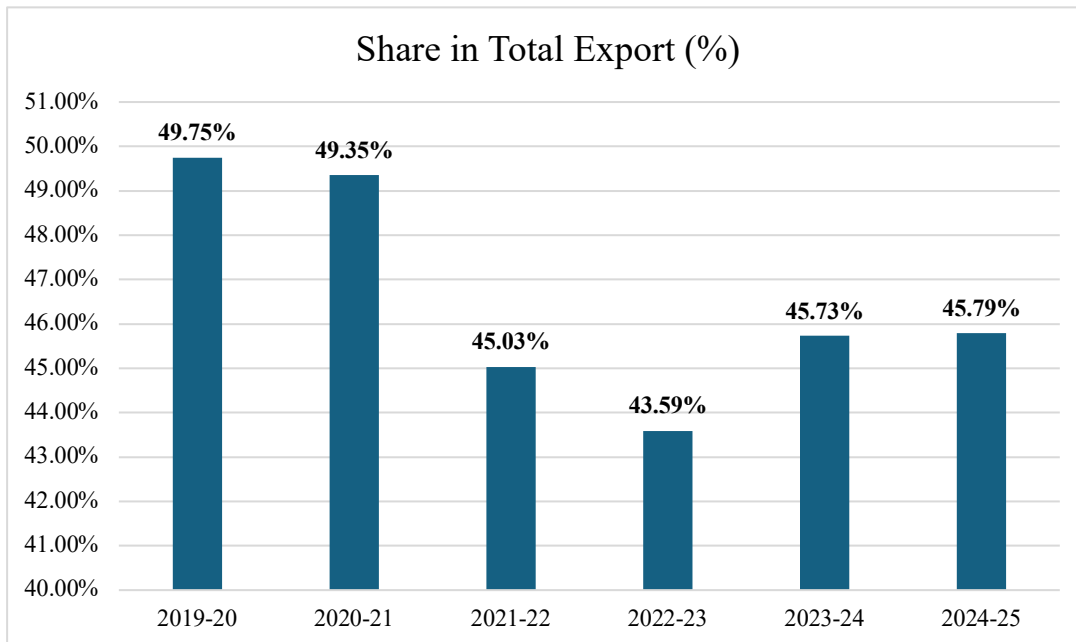
³ PIB, <https://www.pib.gov.in/PressNoteDetails.aspx?NotelId=152063&ModuleId=3>



Source: PIB

Share of MSME Export to All India Export

In 2019-20, MSMEs contributed 49.75% to India's exports. This share decreased to 49.35% in 2020-21 and 45.03% in 2021-22. It further fell to 43.59% in 2022-23 but rebounded to 45.73% in 2023-24, with a preliminary figure of 45.79% recorded up to May 2024.



Source: PIB

Boosting MSME Growth: Formalization and Expanding Credit Guarantees

India's micro, small, and medium enterprises (MSMEs) sector saw a significant surge in formalization over the past year, with registered MSMEs rising from 1.65 crore to 5 crore. This increase has helped close significant gaps in formalization and credit access for MSMEs, which play a vital role in the Indian economy, contributing around 30% to national GDP, 36% to manufacturing output, and 44% to exports. The sector also provides employment to approximately 21 crore people.

To further support MSMEs, the government has made considerable progress in addressing their credit needs through the Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE), which extended credit guarantees worth ₹4 lakh crore over the last two years⁴.

Building on this momentum, the government is now targeting ₹5 lakh crore in credit guarantees for micro and small enterprises (MSEs) over the next two years under the CGTMSE. This initiative adds to the ₹2.6 lakh crore in cumulative credit guarantees extended over 22 years. The CGTMSE provides an 85% guarantee for loans up to ₹5 lakh for micro enterprises and a 75% guarantee for loans between ₹5 lakh and ₹5 crore. Special provisions exist for women, SC-ST entrepreneurs, and businesses in aspirational districts, with guarantees up to 85% for loans up to ₹5 crore. In regions like the Northeast, Jammu & Kashmir, and Ladakh, the scheme offers 80% coverage for loans up to ₹50 lakh. With the FY24 budget injecting an additional ₹9,000 crore into the scheme, it aims to extend guarantees for another ₹2 lakh crore, further empowering MSMEs across the country.

MSME Loan Portfolio

In FY24, the loan portfolio for India's micro, small, and medium enterprises (MSMEs) reached ₹64.1 trillion, reflecting a year-on-year (y-o-y) growth of 17.8%. This increase was largely driven by a 28.9% rise in loans to self-employed individuals, which surged to ₹35.7 trillion. Meanwhile, loans to MSME entities grew by a modest 6.6%, totalling ₹28.4 trillion. In terms of loan sanctions, 27.4 million MSME loans were approved, amounting to ₹54.2 trillion, marking a 19.3% growth in volume and 5.4% in value. Portfolio quality also showed mixed results, with self-employed individuals seeing improved risk metrics, while the MSME entity segment saw a slight decline.

⁴ PIB, <https://www.pib.gov.in/PressNoteDetails.aspx?NotelD=152063&ModuleId=3>

Emerging New Challenges

The new safety regulations for machinery and electrical equipment introduced by the Indian government pose emerging challenges for MSMEs. These regulations, set to take effect in August 2025, align Indian safety practices with global standards, but compliance could be burdensome for small businesses due to financial, technical, and infrastructural constraints. MSMEs, which make up 90% of the 1,50,000 affected manufacturers, may struggle to meet the stringent safety and conformity requirements set by the Bureau of Indian Standards (BIS), especially as the regulations apply to over 50,000 types of machinery, including industrial equipment critical to MSME operations. Delays in importing essential machinery, along with the lack of certified technical consultants and trainers, further exacerbate these challenges.

Conclusion

The Union Budget 2024-25 underscores the government's commitment to strengthening the MSME sector through targeted initiatives and a significant ₹22,137.95 crore allocation. Key measures like enhanced credit guarantees, improved loan accessibility, and new export hubs aim to boost MSME growth, formalization, and competitiveness. While challenges, such as, compliance with new safety regulations persist, these budgetary provisions are expected to enhance the sector's contribution to GDP, employment, and exports, positioning MSMEs for sustained growth and resilience in the coming years. This assumes importance because while contributing significantly to India's process of economic growth and structural transformation, MSMEs are also important in maintaining macroeconomic stability and the socio-economic equilibrium.

At the present juncture, when India is on the cusp of a tipping point, there has to be a sharper focus on the convergence of entrepreneurship, education, credit and technology in the MSME ecosystem to drive MSMEs onto a higher and more sustainable growth orbit. This is a tall order but with synchronized efforts by all stakeholders working together as partners in development, this seemingly onerous task can be accomplished.