

# GROWTH AND PERFORMANCE ANALYSIS OF MSME SECTOR IN INDIA.

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## Abstract

Micro, Small and medium enterprises have emerged as a highly vibrant and dynamic sector of the Indian economy. Micro small and medium enterprises constitute the backbone of an economy in maintaining an appreciable growth rate and in generating employment opportunities. The contribution of the sector in employment was 1109.89 in 2015-2016. Growth rate of overall industrial sector was 16.36 %, whereas growth rate of MSME sector was 20.38% in 2017-2018. MSME sector contribute 30 percentage in overall GDP growth in 2020-2021. This study makes an attempt to focus on the growth potential of the MSMEs and credit flow of public, private and foreign bank to MSME sector. The study found that public sector bank held the highest share in MSMEs lending.

## Introduction

### Micro, Small and Medium Enterprises (MSMEs)

MSMEs contribute a lot to the economic development of our country. MSMEs strengthen in economic structure by contributing to production, export and employment etc. MSMEs contribute nearly 30 percent of the country's GDP and 48 percent of the exports out of total export. MSME also plays an important role in employment generation, as they employ about 11 crore people across the country. The economic expansion of a country is, directly and indirectly, related to industrial growth. The expansions of the Industrial sector lead to an increase in employment opportunities, job creation, better consumption of natural resources, upliftment of standard of living, production of goods and services. The growth of this sector also helps in eliminating monopoly power in the market, developing entrepreneurial skills, prevention of absorption of wealth and power, and balanced the social and economic development of the country. It is already known that the MSME sector creates the maximum opportunities for both jobs and self-employment after the agriculture sector (Baber, 2012).

### MSMED Act 2006 (Micro, Small and Medium development Act, 2006)

Background: Before the enactment of this act, small industries of India covered cottage, tiny, traditional, village and modern small industries. These industries divide across various departments for the development of concessions and schemes by the government of India. Sectors like handloom, power loom, khadi, handicraft, coir suffered greater neglect before the enactment of the micro, small and medium enterprises development act on June 16, 2006. This act provides the first-ever legal framework recognizing the concept of enterprise (including manufacturing and services entities), defining medium enterprises and integrating the three tiers of these enterprises, namely Micro, small and medium (Mohanty, 2018).

Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 was the first act enacted by the Government of India for promoting small scale industries and establishment of statutory National Board for promotion, development, and expansion of competitiveness of the enterprise

The definition of a small-scale industry is classified based on different parameters in different countries. These parameters are the number of employees, turnover, etc. Earlier, the classification of MSMEs was based on investment in plant and machinery/equipment by the provision of sec 7 of the MSMED Act, 2006.

**Classification of Industries:** According to the MSMED Act 2006 the micro, small and medium enterprises were classified into two classes i.e. Manufacturing Enterprises and Service Enterprises.

**Manufacturing Enterprises:** The enterprises employed machines and equipment for value-adding in the final products in the distinct name or use. Manufacturing enterprises are defined in the term of investment in plant and machinery.

**Services Enterprises:** Those enterprises that providing services and are defined in terms of investment in equipment.

Classification on the basis of investment in plant and machinery/equipment's		
Classification	Manufacturing Enterprises	Service Enterprises
Micro	< Rs 25 lakh	< Rs 10 lakh
Small	> Rs 25 lakh to Rs 5 crore	> Rs 10 lakh to Rs 2 crore
Medium	> Rs 5 crore to Rs 10 lakh	> Rs 2 crore to Rs 5 crore

(Annual Report MSMEs 2017-2018)

**Revised definition of MSMEs effect on 1<sup>st</sup> July 2020.**

Classification on the basis of investment in plant and machinery /equipment's and turnover			
Classification	Micro	Small	Medium
Manufacturing and Services	Investment in plant and machinery or equipments: not more than Rs. 1 crore and Annual Turnover; not more than Rs. 5 crore.	Investment in plant and machinery or equipments: not more than Rs. 10 crore and Annual Turnover; not more than 50 crore.	Investment in plant and machinery or equipments: not more than Rs 50 crore and Annual Turnover; not more than Rs. 250 crore.

Source: Annual report MSMEs 2021-2022)

### Literature Review

Joseph (2005) found that lack of access to credit has been identified as one of the major constraints hindering the development of small businesses and the supply of entrepreneurial activities not only in Tanzania but also in other developing countries. Commercial banks have

traditionally concentrated their lending on large formal enterprises which possess collateral and therefore, are deemed to be less risk.

Vani (2013) in his study examined the new economic policy which is called Liberalization Privatization and Globalization (LPG). Globalization integrate the Indian economy with the world economy, but LPG crate uneven and unhealthy completion among the Indian industries and MNCs. The study suggested that all possible incentives should be provided to MSMEs for competition with the world market.

Anuradha (2014) has critically examined the definition of MSMEs and discover the opportunities and challenges faced by MSMEs in India in the era of globalization. Pre and post-globalization data were compared with the help statistical tool i.e. Annual Average Growth Rate (AAGR) and four economic parameters were used for measuring the performance of MSMEs. The study revealed that MSMEs face a tough situation due to intense competition from large industries and except for a gradual increase in employment generation there was no growth rate in other parameters after globalization. The government provides several policies but also ensures that there should be proper coordination and implementation of such policies.

Iloh, & Chioke (2015) analyze the effect of small and medium enterprise financing on the economic growth in Nigeria between the periods of 1980-2010. The study found that small and medium enterprise products consider as the component of Gross Domestic Product and commercial bank financing to SME had a positive impact on the economic growth.

### Objectives of the study

- 1) To analyze the growth rate of small scale industry in terms of, employment generation, number of working units, and production after MSMED act 2006.
- 2) To analysis the credit flow of public, private and foreign bank to MSME se tor in India.

**Table:1 Performance of MSMEs**

Years	Total number of MSMEs units	Employment	Production
2006-2007	361.76	805.23	1,351,383
2007-2008	377.36	842.00	1,435,179
2008-2009	393.73	880.84	1,524,235
2009-2010	410.82	921.79	1,619,356
2010-2011	428.73	965.15	17,21,553
2011-2012	447.64	1011.69	17,88,584
2012-2013	467.54	1061.4	18,09,976
2013-2014	488.46	1114.29	18,31,624
2014-2015	510.57	1171.32	18,53,531
2015-2016	633.88	1109.89	18,75,699
<b>AAGR</b>	<b>6.595</b>	<b>3.680</b>	<b>3.737</b>
<b>CAGR</b>	<b>6.43</b>	<b>3.63</b>	<b>3.71</b>

Source: Compiled from MSMEs annual reports.

Table: 4.1 indicates the total number of working MSMEs units, production and employment during the period of 2006-2007 to 2015-2016. The number of units in MSME was 361.76 in 2006-2007 while it was 633.88 at the end of 2016. It shows that there was a continuous growth in the number of working units in the MSME sector. Table: 4.1 revealed that there was a continuous growth in all factors such as the number of units, production, and employment. Above table study demonstrates the significant growth and evolving dynamics of the MSME sector in India from 2006-2007 to 2015-2016. The sector not only expanded in terms of the number of units and employment but also made substantial strides in production.

The Compound Annual Growth Rate (CAGR) for various indicators of the MSME sector in India from 2006-2007 to 2015-2016 demonstrates the growth trends in this sector over the period. The number of working MSME units grew at a CAGR of 6.43%, indicating a steady increase in the count of MSMEs. Employment in this sector increased at a CAGR of 3.63%, reflecting the sector's role in job creation.

**Table:2 Comparison of MSME sector with the overall Industrial sector.**

Years	Overall Industry Sector (%)	Growth rate of MSMEs (%)
2007-2008	8.00	13.00
2008-2009	8.56	13.56
2009-2010	8.84	13.96
2010-2011	9.71	14.76
2011-2012	10.43	15.08
2012-2013	11.26	16.12
2013-2014	12.18	16.86
2014-2015	13.43	17.42
2015-2016	14.62	18.24
2016-2017	15.57	18.95

<b>2017-2018</b>	16.36	20.38
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Source: Reserve bank of India and ministry of Micro, Small and Medium Enterprises, Government of India 2018.

The above table shows that growth rate of MSMEs in 2007-2008 was and reached 20.38 in 2017-2018, whereas overall growth rate of industry was in 20.38 percentage in 2017-2018.

**Table: 3 Contribution of MSMEs in GDP**

<b>Years</b>	<b>Contribution in GDP</b>
<b>2014-2015</b>	29.34
<b>2015-2016</b>	29.48
<b>2016-2017</b>	29.25
<b>2017-2018</b>	29.75
<b>2018-2019</b>	30.3
<b>2019-2020</b>	30.5
<b>2020-2021</b>	30

Source: Annual report MSMEs

The above table MSMEs have contribute in the GDP approx. 30 % in 2020-2021, which indicate that MSME create a lot of job opportunities in India. The government has realized the role or importance of MSME sector and new policies were framed for the benefits of industries.

**Table: 4 Status of Outstanding Bank Credit to MSMEs in India.**

<b>Years</b>	<b>Public Sector Banks</b>	<b>Private Sector Banks</b>	<b>Foreign Banks</b>
<b>2014-2015</b>	852689.27	281548.83	36787.95
<b>2015-2016</b>	820548.01	359085.33	36373.76
<b>2016-2017</b>	828933.42	430962.70	36502.70
<b>2017-2018</b>	864597.79	411101.78	48881.34
<b>2018-2019</b>	880032.90	563678.48	66939.14

<b>2019-2020</b>	893314.83	646988.27	73279.06
<b>2020-2021</b>	908659.06	792041.95	83223.79
<b>2021-2022</b>	955860.38	969844.22	85352.38

Source : Annual reports of MSMEs

This table presents a detailed overview of the bank-wise outstanding to MSMEs (Micro, Small and Medium Enterprises) in India, categorized by the type of banks - Public, Private, and Foreign. The data spans from the fiscal year 2014-2015 to 2022-2023, and is measured in Crores (Indian currency). Over these nine years, there is a clear and consistent trend of growth in the lending activities of all three types of banks to the MSME sector. Public sector banks have consistently held the largest share of MSME lending. Private sector banks, starting at 2,81,548.83 Crores in 2014-2015, exhibited a more rapid growth rate. Foreign banks, while holding the smallest share, also showed steady growth from 36,787.95 Crores in 2014-2015 to 85352.38 Crores in 2021-2022. Overall, this period marks a significant milestone in MSME financing, highlighting a broad-based support across different types of banks.

### Conclusion of the study

The micro, small, and medium sized company (MSME) sector plays a vital role in the generation of employment opportunities, the growth of exports, and the diversification of the economy. The implementation of the MSMED Act has been a significant policy intervention because it demonstrates the positive influence that targeted legislative measures may have on boosting access to funding and simplifying the operating environment for micro, small, and medium-sized firms (MSMEs). There is a tremendous potential for micro, small, and medium-sized companies (MSMEs) to become more prominent players in the national and global economic arena. It will be essential to provide ongoing assistance and strategic development that is customized to the specific requirements and difficulties faced by micro, small, and medium-sized enterprises (MSMEs) in order to fully exploit this potential and guide India toward a more equitable and resilient economic future.

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