MSME @ CENTERSTAGE BUDGET 2024

The Narendra Modi government's first Budget after returning to power for a third consecutive term as a coalition governments reflects realization that unemployment and rural distress was a key pain points for the government in past years, it is therefore expected that government in the current tenure would focus on increasing the employment and MSMEs would be the fulcrum to service this national need.

The Budget for 2024-25 has therefore, given special attention to MSMEs, particularly labor-intensive manufacturing, through financing, regulatory changes, and technology support. These strategic measures are aimed at fostering growth and enhancing the competitiveness of MSMEs in India. The contribution of MSMEs to all-India manufacturing output in FY 22 was 35.4% and the share of MSME-made products in exports in FY 24 was 45.7%, this is only expected to grow. By 2028, India's MSME sector is projected to contribute US$ 1 trillion to the nation's overall exports, making up about 35% of the GDP. Moreover, as per the Udyam Registration Portal, the total number of persons employed in MSMEs which were registered from 2020 -23 in India was 12.3 crore and through new schemes, the government hopes to achieve a 5 crore increase in employment in the sector by 2025. The sector also includes often underappreciated small-scale entrepreneurs such as women, marginal entrepreneurs, and local craftspeople who drive wealth development at the grassroots level.

HERE IS AN ANALYSIS OF THE KEY IMPACTS 2024-25 BUDGET ANNOUNCEMENTS WILL HAVE ON MSMES:

IMPROVED ACCESS TO CREDIT

One of the most significant measures introduced is the new credit guarantee scheme. This initiative will facilitate term loans for MSMEs to purchase machinery and equipment without requiring collateral or third-party guarantees. By pooling credit risks, a self-financing guarantee fund will be established, providing guarantee coverage up to ₹100 crore per applicant, although the loan amounts may exceed this limit. The borrower will have to provide an upfront guaranteed fee and an annual top-up fee on the reduced loan balance. So, there is no subsidy from the government, unlike in the CGTMSE, which is a working capital loan scheme where the government provides the corpus. In this case, the corpus itself is self-financing, which would include pooling of the upfront fees where an MSME that wants a term loan can also avail itself of a credit guarantee facility for that term loan. By lowering the barriers to obtaining credit, this scheme supports MSMEs, especially those in the manufacturing sector, to finance their operations and growth initiatives, which is essential for maintaining and expanding their business activities.

Impact: This change will enable a broader range of MSMEs, including those without formal accounting systems, to access credit more easily. modernizing the MSME manufacturing sectors by enabling MSMEs to invest in advanced infrastructure and technologies. This scheme will also help MSMEs grow and compete globally. Facilitating collateral-free term loans and providing guarantee cover for MSMEs to purchase machinery and equipment under this scheme will significantly strengthen suppliers' and manufacturers' networks. These measures will act as catalysts for the entire supply chain, fostering innovation and driving growth.

CONTINUED BANK CREDIT DURING STRESS PERIODS

The budget proposes a new mechanism to ensure MSMEs continue to receive bank credit during stress periods, even if they are in the special mention account (SMA) stage. Credit availability will be supported through a guarantee from a government-promoted fund.

Impact: This measure is crucial as it helps MSMEs avoid slipping into the Non-Performing Assets (NPA) stage, thereby maintaining business continuity. In terms of special mention accounts (SMAs), the share of SMAs in the MSME portfolio of SCBs also dropped from 11 per cent in March 2022 to 8.6 per cent in March 2023, as per the RBI's latest Financial Stability Report. SMAs are accounts that show signs of incipient stress leading to the borrower defaulting in servicing the debt. While SMA-0 accounts have payments partially or wholly overdue for 1-30 days, SMA-1 and SMA-2 accounts have payments overdue for 31-60 days and 61-90 days respectively. The MSME asset quality profile improved across three SMA buckets. SMA-0 improved from 6.4 per cent to 5.1 per cent while SMA-1 improved from 3.5 per cent to 2.6 per cent and SMA-2 improved from 1.1 per cent to 0.9 per cent between March 2022 and March 2023.

MSMEs typically lack sufficient collateral, and their financial records often do not meet banking standards, making it difficult for banks to extend credit to them because of the higher risk. By providing this support, the government aims to stabilize the volatile MSME sector, ensuring that MSMEs can navigate financial challenges without severe disruptions to their operations and making it more attractive for banks to lend to them. However, if this step is combined with a relaxation in the bad loan classification rules, the impact would be significantly greater.

ENHANCED MUDRA LOAN LIMITS

The budget has increased the limit for Mudra loans from ₹10 lakh to ₹20 lakh for entrepreneurs who have successfully repaid previous loans under the 'Tarun' category. The Tarun category of the Pradhan Mantri Mudra Yojana (PMMY) is a business loan that earlier provided up to Rs. 10 lakhs to expand the business. The interest rate for these loans is determined by the lender based on the applicant's credit history and guidelines set by the scheme and can range from 11.15% to 20%. The lender also decides the repayment tenure. The government has already extended 43 crore loans, totaling ₹22.5 lakh crore under the PMMY.

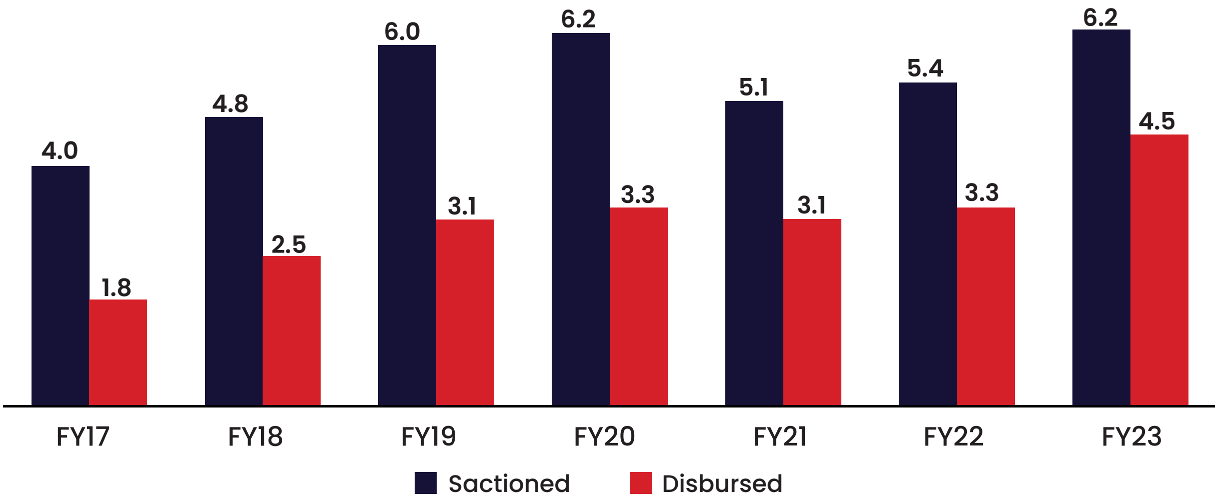
Uses for Mudra Yojana Loans:

- Commercial and transport vehicle loans
- Working capital
- Plant and machinery
- Agri-allied activities
- Business loans for traders and shopkeepers

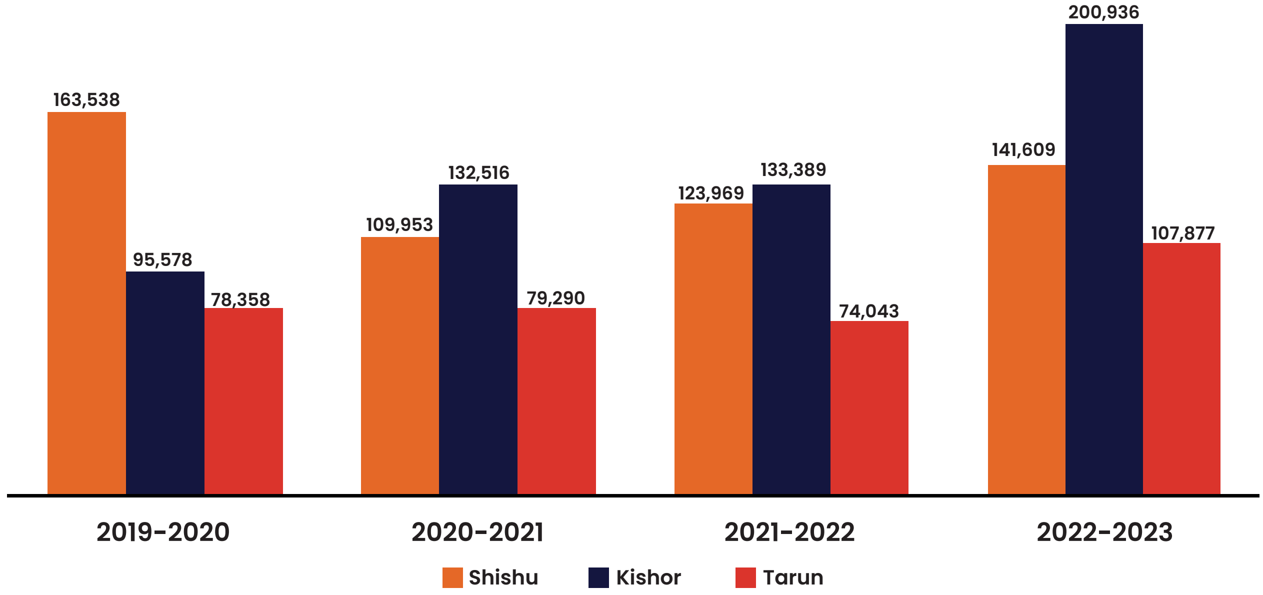
Eligible Sectors: Transport, Services, Food processing, Textiles and Agriculture.

PMMY Performance in all three categories: Shishu, Kishore and Tarun

Loan disbursements grew by an average of 33% in the first three years, declined due to COVID-19, but rebounded by ~36% in FY23, mainly by the new entrepreneurs and MUDRA Card owners, indicating a recovery in India's economy. The average loan size nearly doubled, from ~Rs 38,000 in FY16 to ~Rs 72,000 in FY23, indicating Shishu share declines and Kishore increases. In FY23, the total loan accounts were 6.23 crore of all three categories.



The disbursement of Tarun loans, which provide credit amounts ranging from ₹5 lakh to ₹10 lakh, saw a significant increase post-COVID due to several critical factors. In FY 2019-20, the disbursement for Tarun loans amounted to ₹78,358 crore. By FY 2022-23, this amount had risen to ₹1,07,877 crore. This marks an increase of approximately 37.67% over the four-year period. This growth can be attributed to the heightened need for larger loans as businesses sought financial support to recover from the economic disruptions caused by the pandemic.



As per the below table, out of the total amount disbursed under the Tarun category in the FY 2023-24, around 15% (18, 822 crores) has been repaid by the MSMEs borrowers across different categories, making these entrepreneurs eligible for enhanced Mudra loan limits.

(amt in ₹crores)

Category	Tarun (Loan from ₹5.00 to ₹10.00 Lakh)				
	No. of A/Cs	Sanctioned Amt	Disbursement Amt	Outstanding Amt	Repaid Amt
General	1208990	107219.65	105301.62	88568.29	16733.33
SC	74055	5094.99	5083.45	4199.83	838.62
ST	35879	2631.23	2581.03	2309.37	271.66
OBC	198890	14844.81	14558.07	13579.02	979.05
Total	**1517814**	**129791**	**127479**	**108657**	**18822**

Impact: The PMMY played a pivotal role by simplifying the loan application process and providing incentives to financial institutions to extend credit to MSMEs. This policy shift was reflected in the 36% increase in overall performance of the PMMY program implemented by all lending institutions in FY 2022-23 compared to the previous year. The rise in digital adoption and financial literacy among SMEs also contributed to the increased loan disbursements, as more businesses were able to access and utilize these financial resources effectively. Raising the limit to Rs 20 lakh allows small businesses and entrepreneurs to access more substantial financial resources, which is crucial for scaling operations, investing in new technology, expanding product lines, and hiring additional staff.

IMPROVED CREDIT ASSESSMENT MODELS

Public sector banks are set to develop new credit assessment models based on the digital footprints of MSMEs, rather than relying solely on asset or turnover criteria. This shift represents a significant improvement over traditional assessment method. Traditionally, banks have relied heavily on external assessments and projections submitted by MSMEs, often supplemented by data from a credit monitoring arrangement (CMA) that relies on balance sheet numbers. This approach has its limitations, frequently leading to either under-financing or over-financing of MSMEs. The new assessment model will analyze the footprint of MSMEs using a combination of their GST filing, Income Tax Returns, and Credit Bureau reports, placing lesser emphasis on the balance sheet. By utilizing this digital data, banks can evaluate a larger pool of MSMEs, including those that previously struggled to secure financing.

Impact: The shift to new credit assessment models based on the digital footprints of MSMEs will have several significant impacts:

- **Improved Access to Credit:** More MSMEs, including those without formal financial records, will gain access to financing.

- **Reduced Reliance on External Assessments:** Banks will focus on actual digital data (e.g., GST filings, ITRs, credit bureau reports) rather than outdated projections, leading to more accurate credit evaluations.
- **Faster Turnaround Times:** Automated assessments will speed up the loan approval process, benefiting MSMEs with quicker access to funds.
- **Customized Credit Solutions:** Banks can tailor credit products to the specific needs and risk profiles of MSMEs based on their digital footprints.
- **Improved Asset Quality:** More informed lending decisions are expected to result in lower NPAs in the MSME lending portfolio.
- **Increased Lending Volumes:** Enhanced assessment capabilities will likely lead to higher overall lending volumes to the MSME sector.

However, there may be some key consequences of using digital footprint-based credit assessment model, like:

- **Data Privacy Concerns:** Sensitive digital data could be misused if not protected properly.
- **Exclusion of Cash-Based Transactions:** MSMEs relying on cash may not have enough digital footprint data.
- **Lack of Historical Data:** New MSMEs or those with limited digital history may be excluded from credit access.
- **Potential for Misuse:** Lack of safeguards could lead to unfair discrimination in credit decisions.
- **Cybersecurity Risks:** Increased reliance on digital data exposes MSMEs and lenders to greater cyber threats.
- **Lack of Digital Literacy:** Many MSME owners, especially in rural areas, may lack the skills to leverage these models.
- **Dependence on External Data:** Inaccuracies in external data sources like GST filings could impact credit decisions.

This approach is expected to increase lending volumes from both Public Sector Banks (PSBs) and Non-Banking Financial Companies (NBFCs), as more businesses become eligible for credit particularly beneficial for micro and small enterprises without formal accounting systems. An increase in the co-lending partnerships between PSBs and NBFCs is also expected. The AUM of the co-lending book of NBFCs have reached INR 1 trillion this year after more than 5 years since the model came into being. Over the medium term, growth momentum is seen healthy at 35-40% annually, amidst rising interests of partners - NBFCs as well as banks.

EXPANSION OF SIDBI BRANCHES

The Small Industries Development Bank of India (SIDBI) will open 24 new branches this year to serve major MSME clusters, expanding coverage to 168 out of 242 clusters within three years.

Impact: This expansion will enhance direct credit availability and support for MSMEs in these regions. By increasing its presence in key clusters, SIDBI aims to provide more targeted and efficient financial services to MSMEs, thereby promoting regional economic growth and development.

REDUCED COMPLIANCE BURDEN

The turnover threshold for mandatory onboarding on the Trade Receivables Discounting System (TReDS) platform has been reduced from ₹500 crore to ₹250 crore. This reduction will bring 22 more Central Public Sector Enterprises (CPSEs) and 7,000 more companies onto the platform. Medium enterprises will also be included in the scope of the suppliers. Currently, there are three RBI-approved platforms: Receivables Exchange of India Ltd (RXIL), A Treds Ltd (Invoicemart), and Mynd Solutions Pvt Ltd (M1xchange).

Impact: By enabling more companies to convert trade receivables into cash, this measure will help MSMEs unlock working capital, thereby easing their cash flow constraints and improving their financial health.

GROWING PIE

Entity	MSME Sellers registered on the platform	Number of buyers*	Number of financiers registered on the platform
A. TReDs (Invoicemart)	22,590	1,470	60
B. Mynd Solutions (M1xchange)	19,782	1,325	55
C. Receivables Exchange of India (RXIL)	18,634	1,238	60

*Includes corporates/other buyers including Govt. Depts./PSUs
#includes banks, NBFCS and other financial institutions
Data as of August 2023

ENERGY AUDIT AND SUSTAINABILITY INITIATIVES

The budget has allocated financial support for conducting energy audits in 60 MSME clusters. This initiative aims to help clusters shift to cleaner energy sources, enhancing their operational efficiency, reducing costs, and contributing to India's sustainability goals.

Impact: By promoting sustainable practices, the government is encouraging MSMEs to adopt environmentally friendly technologies and reduce their carbon footprint.

SUPPORT FOR FOOD PROCESSING AND EXPORT SECTORS

The budget also includes provisions for setting up 50 multi-product food irradiation units and 100 quality testing labs with NABL accreditation, as well as the creation of e-commerce export hubs in public-private-partnership (PPP) mode. The Government had launched a separate mission i.e., National Mission on Edible Oils (Oil Palm)- NMEO (OP) in 2021-22 to promote oil palm cultivation for making the country Aatmanirbhar in edible oils by increasing area of Oil Palm from 3.70 lakh hectares to 10.00 lakh hectares in 2025-26 with the objective of augmenting the availability of edible oils by increasing the production and productivity of oilseeds & oil palm and reducing the import burden. For achieving self-sufficiency in pulses and oilseeds, the Government will strengthen their production, storage and marketing.

Impact: These measures are expected to benefit labor-intensive sectors such as food processing, apparel, and textiles. By enhancing infrastructure and providing better access to quality testing and export facilities, the government aims to boost the competitiveness of these industries in the global market.

Other scheme-wise allocation for this year and a comparison from the previous year's budget estimates:

- Scheme for Fund for Regeneration of Traditional Industries (SFURTI): Rs 260 crore, down from Rs 280 crore
- Coir Vikas Yojana: Rs 103.10 crore vis-a-vis Rs 92 crore
- Khadi Gramodyog Vikas Yojana: Rs 1,037 crore in comparison to Rs 917 crore
- ASPIRE (Promotion of Innovation, Rural Industry and Entrepreneurship): Rs 20 crore, down from Rs 22.23 crore
- MSME Champions Scheme: Rs 54.7 crore in comparison to Rs 52.7 crore
- PMEGP: Rs 2,300 crore, down from Rs 2,700 crore
- Credit Support Programme: Rs 0.04 crore in comparison to Rs 500 crore
- Guarantee Emergency Credit Line (GECL) facility to eligible MSME borrowers: Rs 9,812 crore, down from Rs 14,100 crore
- Credit Linked Capital Subsidy (CLCS): Rs 0.55 crore vis-a-vis Rs 1.06 crore
- Procurement and Marketing Support Scheme: Rs 65 crore in comparison to Rs 96 crore
- Fund of Funds: Rs 575 crore same as the previous year
- Entrepreneurship cum Skill Development Programme (ESDP): Rs 99 crore, up from Rs 80 crore
- Raising and Accelerating MSME Performance – RAMP: Rs 1,170 crore same as the previous year
- Micro and Small Enterprise-Cluster Development Programme (MSE-CDP): Rs 400 crore, up from Rs 150 crore
- National Schedule Caste/Schedule Tribe Hub Centre: Rs 99.92 crore vis-a-vis Rs 100 crore
- PM Vishwakarma: Rs 4,824 crore from Rs 989 crore (revised estimates last year)

Allocation to MSME-related schemes from Department of Financial Services

- Pradhan Mantri Mudra Yojana (PMMY): Rs 0.1 crore same as the previous year
- Credit Guarantee Scheme for Micro Finance Institutions (CGSMFI): Rs 50 crore, down from Rs 100 crore
- Stand-Up India: Rs 0.1 crore same as the previous year
- Subsidy to SIDBI on Interest Subvention of 2 per cent for prompt repayment of Shishu Loans: Rs 0.1 crore same as the previous year

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