

Targeting the MSME sector

Understanding its constituents

January 2023

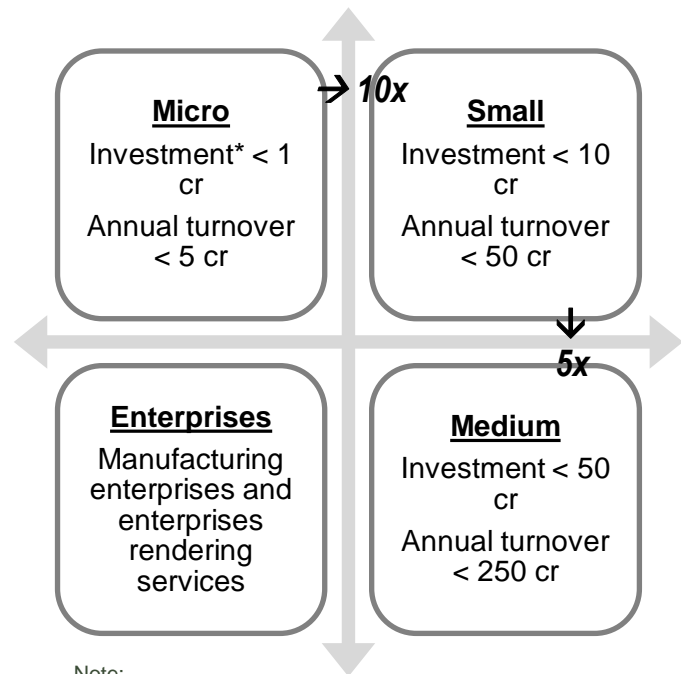
High-level MSME definition

There is a need to analytically define and identify MSMEs using attributes beyond financial ones

Government's MSME criteria as revised in 2020 by Ministry of Micro, Small and Medium Enterprises is based on financial attributes

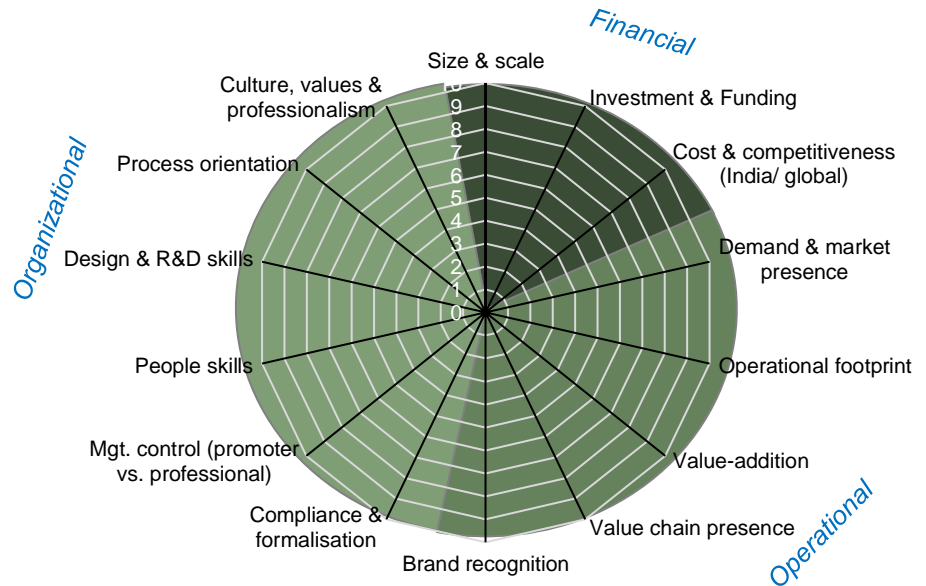


However, there are **various other facets** that define, and may be utilized to identify **MSMEs** [Illustrative only]



Note:

(*) Investment refers to the investment in plant & machinery or equipment



Each facet may involve its own set of *problems* for an MSME



MSME Landscape*

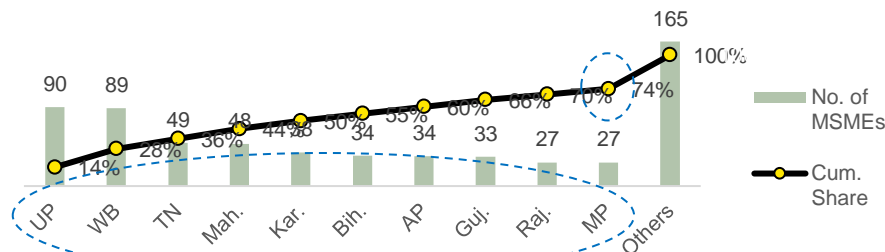
Overwhelming majority of MSMEs fall in the 'Micro' category, more than two-thirds are engaged in Trade and Services, and contribute 30% to India's GDP at overall level

Break-up into Micro/ Small/ Medium (in lakh)

Micro	Small	Medium	All
630.52	3.31	0.05	633.88

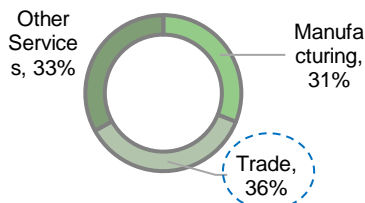
- Total of 633 lakh *unincorporated non-agriculture* MSMEs in India as per the government's 2015-16 NSS survey
- Most of them ~ 630 lakh are Micro in nature
- *As of Mar'22, over 79 lakh MSMEs were incorporated as per new classification criteria of 2020 under 'Udayam' registration*
- Top 5 *registered* MSME industries are Food Products, Textile, Apparel, Construction Activities and Construction of Building

State-wise break-up



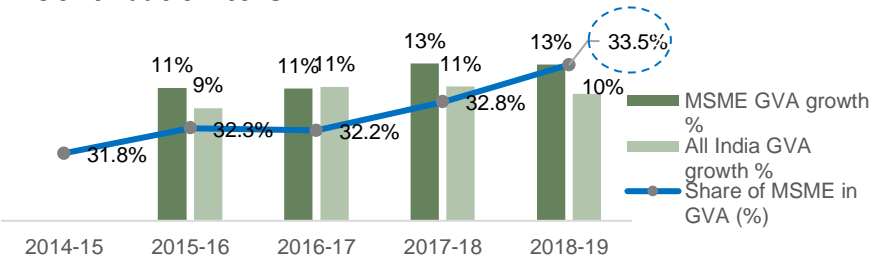
- Top 10 states constitute three-fourth of the number of MSMEs
- High population states (*and not necessarily highly industrial*) contribute to more number of MSMEs like UP, WB, Bihar, MP

Break-up into economic activity



- Almost 70% of MSMEs are into service with a high proportion of traders, while the remaining 31% are into manufacturing
- Noteworthy that more manufacturing MSMEs are in rural area

Contribution to GDP



- MSMEs contribute 33% to India's GVA and 30% to the GDP
- Their share of India's GVA (and GDP) is steadily growing driven by higher growth rates than India overall

MSME Problems in the post-covid world

1) Sudden demand *spurt* after covid disruption:

- Capacity & servicing problems
- Resource crunch
- Working capital challenges

2) Uncertain demand recovery:

- Fixed costs not aligning with volatile & variable demand pattern
- Sudden hiring followed by need for firing
- 'K'-shaped demand recovery leading to differing segmental performance

3) Clicking 'Refresh' after covid disruption:

- Need for rebranding, 'facelifting'
- Exploring new markets
- Business transformation
- New methods, need for higher efficiency, flexibility and agility

4) 'Over the roof' input costs:

- Profitability strain esp. in manufacturing sector
- Closures of cost-wise uncompetitive units
- Compromise on quality leading to customer issues

5) Digitization:

- Lost business due to lack of digitized processes during covid/ lockdown
- Unforeseen higher costs incurred for digitization
- Operating model changes

6) Fast changing technology:

- Obsolescence of products and services
- Obsolescence of manufacturing, service and delivery practices

7) Increasing regulatory scrutiny:

- Higher compliance burden
- Increased formalization & economic integration
- Reduced cost competitiveness for certain sections of MSMEs due to 'additional' compliance costs

8) Health & ESG (Environment, Social, Governance):

- Impact on people including employees, management, promoters and overall ecosystem
- Sudden need to focus on things that were earlier considered 'secondary'
- Customers (and investors) preferring ESG orientation

Compared to the predominantly financial issues in the pre-covid times, the problems for MSME have assumed multiple dimensions



So the key questions to ask in a MSME targeting strategy

1. What are the **traits** of the various segments within MSMEs? Which of these segments do we **prioritize**?
2. What is the 360° view of the *prioritized* segments? What are the **challenges** faced by the *priority* segments?
3. What should be our **strategy** for onboarding and retaining MSME customers?



Thank you

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