

PERFORMANCE OF MSME SECTOR IN INDIA: A STEP TOWARDS 'MAKE IN INDIA'

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ABSTRACT

"Make in India" the new national program introduced by the Government of India is aimed towards making India self sufficient and competitive in the global markets. The basic aims of the Make in India program involves facilitating investment, fostering innovation, enhancing skill development, protecting intellectual property and building best-in-class infrastructure. The small scale sector is proven to be the backbone of industrial development in the economy. The role of the small scale sector is very significant in the economic development of the country. Whether it is manufacturing or service industry, the Micro, Small and Medium Enterprises (MSME) sector in India plays a pioneer role in supporting the economic and social development of the country. The MSME sector of late can be termed as the arena of innovation and creativity for promoting entrepreneurship development in India. This paper tries to elaborate the role of MSME sector in the economic development in India and conducts the study to track the sector's performance and growth.

This paper uses the available secondary data sources for collecting information necessary to conduct an empirical research for the study, and analyses the MSME sector, its performance, contributions and growth in India to assess whether this sector will contribute its share to reach the Vision of Make in India.

Key Words: MSME, Make in India, Opportunities and Challenges in MSME

Introduction:

Today, every economy in the world is aiming towards a constant escalation in the economic development, sustainable and inclusive growth. There are several key areas that are highlighted to promote the mentioned objectives of growth in an economy. "Make in India" the new national program introduced by the Government of India is aimed towards making India self sufficient and competitive in the global markets. The basic aims of the Make in India program involves facilitating investment, fostering innovation, enhancing skill development, protecting intellectual property and building best-in-class infrastructure. The small scale sector plays a vital role in this regard.

The small scale sector in India is termed as the Micro Small and Medium Enterprises (MSMEs) sector. The MSME sector is widely acknowledged as the life blood of economic growth. It is the open platform for budding entrepreneurs to take up innovative and creative ideas and start up their small ventures. The MSME sector is known for equitable growth in the country. It not only contributes towards the GDP in the country for its economic development but also social development by providing employment opportunities, raising income levels and reducing poverty up to some extent.

The MSMEs have not only provides the small business with various benefits including large employment opportunities,

competitive cost of finance, self development opportunities, etc. but also have helped in industrialisation in the rural economy of the country, leading to balanced development and equitable distribution of income in the country. These enterprises are complimentary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. In India, the Khadi and Village industry and the Coir industry are considered to be the prominent industries in the MSME sector. Various MSME units are growing in the country to support economic growth. They are prospering in an organised way by adopting cluster-based operations that has proven to be a high growth channel among these units.

The role of MSMEs in the economic and social development of the country is well established. The MSMEs sector is a nursery of entrepreneurship, often driven by individual creativity and innovation. Thus, MSMEs are important for the national objectives of growth with equity and inclusion. The micro, small and medium enterprises (MSME) sector contributes significantly to the manufacturing output, employment and exports of the country. This sector forms the backbone of the Indian Manufacturing sector and has become engine of economic growth.

Objectives of the study

- ❖ To study the Micro, Small and Medium Enterprises (MSME) sector
- ❖ To analyse the growth and performance of MSME sector in India
- ❖ To analyse MSME sector's contribution towards 'Make in India'

Research Methodology

The data required for the research was collected from the available secondary sources. The necessary data was gathered from the Annual reports of the Ministry of Micro, Small and Medium Enterprises, Government of India, Journal articles and papers published in the field, websites related to the MSME sector and other relevant sources.

Literature Review

- ❖ Girish J. Bakshi & Dr. Daniel J. Penkar (2014) in their article "A Way Forward For Indian SMEs - Through Organisational Growth" published in Global Journal of Commerce & Management Perspective opine that the Indian market is growing rapidly and Indian entrepreneurs are making remarkable progress in various industries in the local and global market. They have stressed that 'Organisational Growth' is a way forward for Indian SMEs and the success of Indian Economy.
- ❖ Dr. M.S. Vasu & Dr. K. Jayachandra (2014) in their paper "Growth and Development of MSMEs in India: Prospects and Problems" published in Indian Journal of Applied Research have agreed that the micro, small and medium enterprises (MSMEs) sector contributes significantly to the manufacturing output, employment and exports of the country. This sector has enabled our country to achieve a wide measure of industrial growth and development.
- ❖ Divyang Kiritkumar Vyas (2013) in the paper titled "Growth and Performance of Indian Micro, Small and Medium Enterprises (MSMES) in the Post Globalization Period" appearing in the Indian Journal of Research has found that there had been extraordinary growth in the number of MSMEs in the post globalization period. And it is also recommended that there is a requirement for providing support in the field of skill development, credit marketing, technology and infrastructure.
- ❖ Thunga. Subba Rayudu & Nidamaluri. Janardhana Rao (2013) in their paper titled "Growth, Performance and Opportunities of Indian MSME Industry, An Assessment Study" appeared in International Journal of Engineering and Management Research have observed that the number of MSME units is constantly increasing, this sector has provided huge employment opportunities in India, its contribution to GDP has increased but the sector has suffered from credit assistance in the country.

❖ Dr. R. Babu, Dr. C.H. Bandeiah & Prof. M. Venkateshwarlu (2014) in their research article entitled “Role of Micro, Small and Medium Enterprises in Indian Economic Development” published in Indian Journal of Applied Research have opined that the micro, small and medium enterprises (MSME) sector plays a significant role in the improvement of production, employment and exports of the country and provides the maximum opportunities for the self employment and jobs after agriculture

❖ Bhoomika Garg (2014) in her article “Role of MSMEs in Economic Development” published in Researchjournal’s Journal of Entrepreneurship has emphasised that the MSME sector in India is the major constituent sector in employment generation, production system, enhancing exports and GDP and that there is a need to carefully nurture and support this sector.

❖ Srinivas K T. (2013) in his paper Role of Micro, Small and Medium Enterprises in Inclusive Growth published in International Journal of Engineering and Management Research states that in India MSMEs are crucial for the achievement of national objectives of growth with equity and inclusion. Nurturing this sector is essential for the economic well-being of the nation.

Make In India

The need to raise the global competitiveness of the Indian manufacturing sector is imperative for the country’s long term-growth. The last few years saw that the manufacturing sector has slowed down especially the share of MSMEs in GDP, manufacturing output and exports have declined to a great extent. To revitalize the bearish sentiments in manufacturing sector, government has triggered the “Make in India” campaign to boost manufacturing sector, aiming to redesign manufacturing sector as a key engine for India’s economic growth. With successful implementation of “Make in India” concept, India’s gross domestic product (GDP) is expected to grow over \$4.5 trillion by FY20. With the help of Make in India, the dependence on imports can be brought down and at the same time, current account deficit can also be controlled. “Make in India” will not only encourage the indigenous manufacturing sector but also give tough competition to foreign rivals.

MSMEs have adequate opportunities in sectors such as information technology, telecom, textiles and garment, automobiles, leather products, chemicals, pharmaceutical, food processing, petrochemical, etc. MSME sector accounts for 36% of total exports of the country, mainly consisting of pearls, precious stones, metals, electrical, electronic equipment, pharmaceutical products, organic chemicals, iron and steel articles, etc. It can play a vital role in curbing import and boosting export system in Indian economy.

The Make in India program includes major new initiatives designed to facilitate investment, foster innovation, protect intellectual property, and build best-in-class manufacturing infrastructure.

The following are the Focus sectors taken up by Make in India program that will assist the MSME sector to grow:

- Employment-intensive industries like textiles and garments, leather and footwear, gems and jewellery and food processing industries.
- Capital goods industries like machine tools, heavy electrical equipment, heavy transport, earthmoving & mining equipment.
- Industries with strategic significance like aerospace, shipping, IT hardware & electronics, telecommunication equipment, defence equipment and solar energy.
- Industries where India enjoys a competitive advantage such as automobiles, pharmaceuticals & medical equipment.
- Small & medium enterprises.
- Public sector enterprises.

Micro, Small and Medium Enterprises in India

Micro, Small and Medium Enterprises as per MSMED Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services. The present ceilings on investment for enterprises to be classified as micro, small and medium enterprises are as follows:

Classification Investment in plant and machinery/ Equipment

	Manufacturing sector	Services sector
Micro	Rs. 2.5 million / Rs. 25 lakh	Rs. 1 million / Rs. 10 lakh
Small	Rs. 50 million / Rs. 5 crore	Rs. 20 million / Rs. 2 crore
Medium	Rs. 100 million / Rs. 10 crore	Rs. 50 million / Rs. 5 crore

MSME sector had been playing an important role in socio-economic development of the country. MSME sector contributes around 8% of GDP, 40% of the total exports and around 45% of the manufacturing output and produces more than 8000 quality products for the Indian and international markets. As per the Fourth All India Census of the Micro, Small and Medium Enterprises, total number of enterprises of the MSME sector is 361.76 lakh of which 15.64 are registered enterprises. This sector provides employment of 805.24 lakh persons. As a result, MSMEs are today exposed to greater opportunities for expansion and diversification across the sectors.

The Indian market is growing rapidly and Indian industry is making remarkable progress in various Industries like Manufacturing, Precision Engineering, Food Processing, Pharmaceuticals, Textile & Garments, Retail, IT, Agro and Service sectors. SMEs are finding increasing opportunities to enhance their business activities in core sectors. The primary responsibility of promotion and development of MSMEs is of the State Governments. However, the Government of India, supplements the efforts of the State Governments through various initiatives.

The size and importance of the SME sector varies from country to country. MSMEs occupy a position of strategic importance in Indian economy structure due to its significant contribution in terms of output, export and employment. The MSMEs provide the maximum opportunities for both self employment and jobs after agriculture sector. MSMEs are complementary to large industries as ancillary units and contribute enormously to the socio-economic development of the country. MSMEs of India has to face many challenges and utilise the opportunities in the fast changing global markets. The role of the MSME and its organisations is to assist the States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario.

Performance of the MSME Sector

Manufacturing and service sector:

The MSME Annual Report 2013-14 states has elaborately provided the details about the performance and growth of the MSME sector. Its major highlights reveal the growth rate for the number of Enterprises and Employment during the years 2006-07 was 15.30% and 15.02% respectively. And in the current period the values for number of Enterprises and Employment, including manufacturing as well as the service industry, stand at 28.02% and 26.42% respectively. (Refer ‘Chart No.1: Growth Rate of Number of Enterprises by Sector’ & ‘Chart No.2: Growth Rate of Employment by Sector’ in Annexure).

Prior to the 2006-07 (before the introduction of the MSME Act 2006), the service sector was limited to few services. The manufacturing sector had showed a growth of 22.46% for the

estimated number of enterprises and 18.49% for employment in the year 2006-07. The service industry on the other hand had recorded the growth rate of 31.21% and 34.00% respectively. During the period of 2001-02 to 2006-07 taking into account the expanded coverage of the sector, the same was 9.39% and 10.12% respectively on strictly comparable basis. Additional activities brought under the coverage of MSME Sector in 2006-07 as compared to SSI sector of 2001-02, namely wholesale /retail trade, legal, educational & social services, hotel & restaurants, transport and storage & warehousing (except cold storage), accounted for 12.72% and 11.40% points in the growth rate of estimated number of enterprises and employment respectively. The estimated value of manufacturing output of MSME Sector in the year 2011-12 is Rs. 1790804.67 crores, which accounts to be 37.52% of the total manufacturing output. And the MSME's share in GDP of manufacturing sector amounts to 7.28%.

Number of enterprises, employment and the market value of Fixed Assets:

Table 1 provides the details of the total number of working enterprises, employment and the market value of Fixed Assets over a time span of twelve years. It is observed that the growth in the number of working enterprises is more than doubled from 105.21 lakh enterprises in 2001-12 to an estimated 467.56 lakh enterprises in 2012-13 (refer 'Chart No. 3: Total Working Enterprises' in Annexure). The employment opportunities provided by the sector also shows a positive trend of development from 249.33 lakh in 2001-02 to an estimated 1061 lakh in 2012-13 (Refer 'Chart No. 4: Employment' in Annexure). The market value in Fixed Assets was recorded as Rs. 1,54,349 crore in 2001-02 and it is estimated to be Rs. 521.2691338.02 crores in 2012-13 (refer 'Table 1: Total Working Enterprises, Employment & Investments in MSME' in the Annexure) .

Industries under MSME:

There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSME sector in India, besides providing a wide range of services. The major industries with their percentage share include, The Retail Trade; Except of Motor Vehicles and Motorcycles; Repair of Personal and Household Goods amounting to the maximum of 39.85%, followed by other industries with 19.40%, Manufacture of Wearing Apparel; Dressing and Dyeing of Fur with 8.75% and Manufacture of Food Products and Beverages with 6.94%. The leading industries with their respective shares are as depicted in Chart No. 5 (refer 'Chart No. 5: Leading Industries in MSME sector' in the Annexure).

Registered and Unregistered sector of MSME:

The estimated number of enterprises grew at 3.76% annually in case of manufacturing sector and 0.47% for services sector respectively in Registered Sector. The growth in the estimated number of MSMEs was 2.61% for the period, taking manufacturing and services together. The employment increased at an annual growth rate of 9.84% for manufacturing sector and 2.06% for services sector. The employment in Registered Sector as a whole grew at 8.60 % per annum. For service sector, while the growth rate of estimated number of enterprises and employment recorded was 32.83% and 36.11% respectively, during the period of 2001-02 to 2006-07, taking into account the expanded coverage of the sector, the growth rate was 10.03% and 10.88% in case of estimated number of enterprises and employment respectively on strictly comparable basis (refer 'Table 2: Performance of the Registered and Unregistered sector of MSME' in the Annexure).

The estimated number of enterprises and employment for the unregistered sector showed recorded growth rates of 30.05% and 30.56% respectively during the period. Manufacturing sector had a

growth rate of 25.90% and 22.57% for estimated number of enterprises and employment respectively. For service sector, while the growth rate of estimated number of enterprises and employment recorded was 32.83% and 36.11% respectively, during the period. (Taking into account the expanded coverage of the sector, the growth rate was 10.03% and 10.88%)

State and Industry Wise analysis of MSME

The state-wise analysis reveals that Uttar Pradesh is leading in the MSME sector with the maximum number of enterprises and employment. (Refer 'Table 3: Leading States in terms of Enterprises and Employment' in Annexure). And the Retail Trade; Repair of Personal and Household Goods industry has recorded the maximum contribution in terms of number of enterprises and employment opportunities. (Refer 'Table 4: Leading Industries in terms of Enterprises and Employment' in Annexure).

The Ministry of MSME has announced the following initiatives for enhancing the MSME sector in India:

- New Initiatives launched by MSME that include Revamped scheme of SFURTI, Scheme for Innovation Technology Network Entrepreneurship and Agro Industries for promotion of livelihood and technology business incubation.
- Job Creation through PMEGP has significantly improved with eTracking and coordination with banks
- Creating an eco-system of world class Technology Centers to support MSMEs
- Collateral free credit is made available to MSME through CGTMSE. Exposure reaches to Rs 84000 crores.
- KVIC aids the generation of employment opportunities in the rural areas.
- Establishment of the Jannalal Bajaj Central Research Institute (JBCRI) which aims to provide high quality science, technology and management inputs to rural sector for strengthening rural industrialization.
- The Mahila Coir Yojana in the coir industry provides self-employment opportunities to the rural women artisans in regions producing coir fibre.

Conclusion:

"Make in India" the new national program introduced by the Government of India is aimed towards making India self sufficient and competitive in the global markets. Over the last few decades the Micro, Small and Medium Enterprises (MSME) sector has emerged as a vibrant sector in India. This sector contributes around 8% of GDP, 40% of the total exports and around 45% of the manufacturing output and produces more than 8000 quality products for the Indian and international markets. The total number of enterprises of the MSME sector is 361.76 lakh and it provides employment to 805.24 lakh persons. The Ministry of Micro, Small and Medium Enterprises is providing support to the sector through various initiatives. There are various opportunities for the sector. Despite the various challenges it has been facing, the MSME sector has shown admirable innovativeness, adaptability and resilience to prove that it is going to contribute its share to the vision of Make in India. As per Foreign Trade Policy (2009-14) announced by the GOI, India has an excellent opportunity to shine in technology led exports with focus shifting to newer products. Therefore, MSMEs can be instrumental in

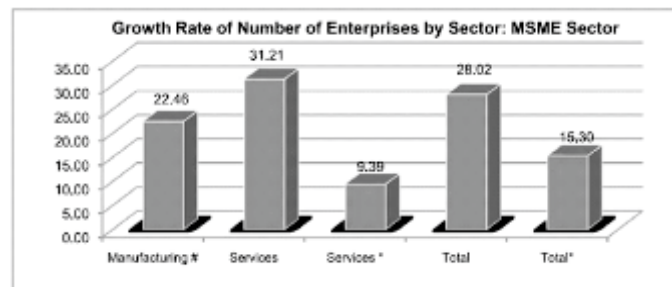
transforming “Make in India” dream to the next level.

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ANNEXURES

1. Chart No.1: Growth Rate of Number of Enterprises by Sector

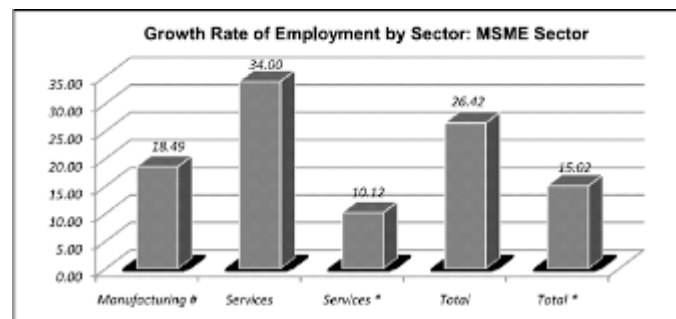


- In view of the fact that activities excluded in the coverage pertaining to service sector only, there is no change in growth rate of manufacturing sector

*-Excluding growth on account of expansion of coverage.

Source: MSME Annual Report 2013-14

2. Chart No. 2: Growth Rate of Employment by Sector

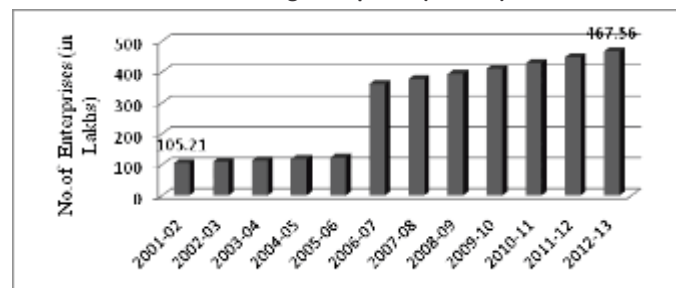


- In view of the fact that the activities excluded in the coverage pertaining to service sector only, there is no change in growth rate of manufacturing sector

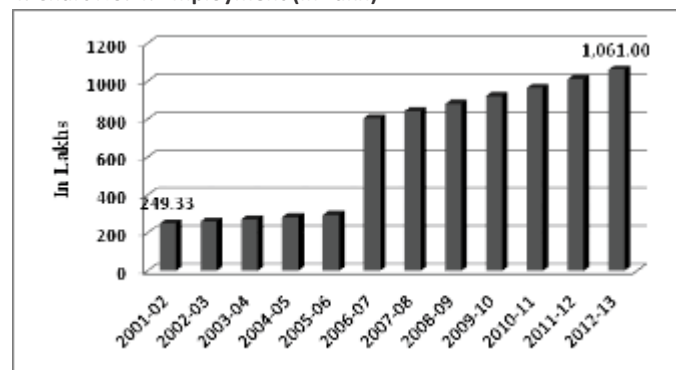
*- Excluding growth on account of expansion of coverage.

Source: MSME Annual Report 2013-14

3. Chart No. 3: Total Working Enterprises (in Lakh)



4. Chart No. 4: Employment (in Lakh)



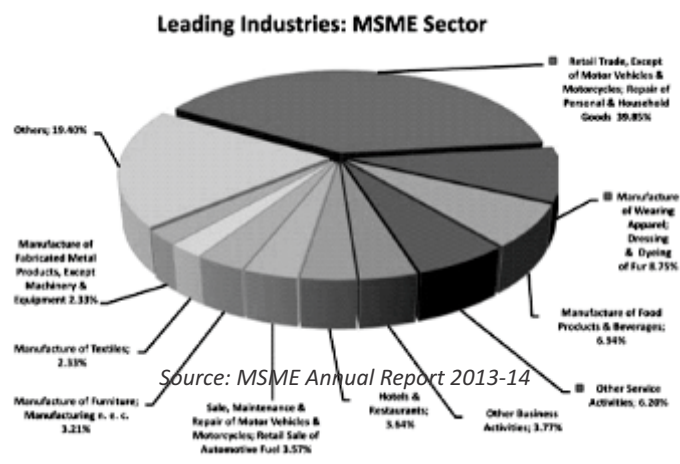
Source: Generated through MSME annual Report 2013-14

5. Table 1: Total Working Enterprises, Employment & Investments in MSME

S. No.	Year	Total Working Enterprises (in Lakh)	Employment (in Lakh)	Market Value of Fixed Assets (Rs. in Crore)
1	2001-02	105.21	249.33	1,54,349.00
2	2002-03	109.49	260.21	1,62,317.00
3	2003-04	113.95	271.42	1,70,219.00
4	2004-05	118.59	282.57	1,78,699.00
5	2005-06	123.42	294.91	1,88,113.00
6	2006-07	361.76	805.23	8,68,543.79
7	2007-08	377.36	842.00	9,20,459.84
8	2008-09	393.70	880.84	9,77,114.72
9	2009-10	410.80	921.79	10,38,546.08
10	2010-11	428.73	965.15	11,05,934.09
11	2011-12	447.66	1,011.80	11,83,332.00
12	2012-13	467.56	1,061.00	52,1,269,338.02

Source: MSME Annual Report 2013-14 (2007-08 to 2012-13 are projected figure)

6. Chart No. 5: Leading Industries in MSME sector



7. Table 2: Performance of the Registered and Unregistered sector of MSME (in %)

	Registered Sector		Unregistered sector	
	No. of Enterprises	Employment	No. of Enterprises	Employment
Manufacturing	3.76	9.84	25.90	22.57
Services	0.47	2.06	32.83	36.11
Total	2.61	8.60	30.50	30.56

Source: Created through MSME Annual Report 2013-14

8. Table 3: Leading States in terms of Enterprises and Employment

S. No.	Enterprises	(in Lakhs)	Employment	(in Lakhs)
	States		States	
1	Uttar Pradesh	44.03	Uttar Pradesh	92.36
2	West Bengal	36.64	West Bengal	85.78
3	Tamil Nadu	33.13	Tamil Nadu	80.98
4	Maharashtra	30.63	Andhra Pradesh	70.69
5	Andhra Pradesh	25.96	Maharashtra	70.04
6	Kerala	22.13	Kerala	49.62
7	Gujarat	21.78	Gujarat	47.73
8	Karnataka	20.19	Karnataka	46.72
9	Madhya Pradesh	19.33	Madhya Pradesh	33.66
10	Rajasthan	16.64	Odisha	33.24

Source: Created through MSME Annual Report 2013-14

9. Table 4: Leading Industries in terms of Enterprises and Employment

S. No.	Enterprises	(in Lakhs)	Employment	(in Lakhs)
	Industries		Industries	
1.	Retail Trade; Repair of Personal and Household Goods	144.15	Retail Trade; Repair of Personal and Household Goods	245.48
2.	Manufacture of Wearing Apparel; Dressing and Dyeing of Fur	31.65	Manufacture of Food Products and Beverages	62.99
3.	Manufacture of Food Products and Beverages	25.12	Manufacture of Wearing Apparel; Dressing and Dyeing of Fur	60.06
4.	Other Service Activities	22.43	Other Service Activities	37.65
5.	Other Business Activities	13.64	Manufacture of Textiles	35.91
6.	Hotels and Restaurants	13.18	Hotels and Restaurants	33.92

S. No.	Enterprises	(in Lakhs)	Employment	(in Lakhs)
	Industries		Industries	
7.	Sale, Maintenance and Repair of Motor Vehicles and Motorcycles; Retail Sale of Automotive Fuel	12.92	Sale, Maintenance and Repair of Motor Vehicles and Motorcycles; Retail Sale of Automotive Fuel	30.03
8.	Manufacture of Furniture & Manufacturing not elsewhere classified	11.61	Manufacture of Furniture & Manufacturing not elsewhere classified	28.19
9.	Manufacture of Fabricated Metal Products, except Machinery and Equipment	8.42	Other Business Activities	27.67
10.	Manufacture of Textiles	8.42	Education	27.26

Source: Created through MSME Annual Report 2013-14