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MSME Sampark -

Semi-Annual report on latest in MSME Lending ecosystem

3rd Edition

#MSMEAcchaHai

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Table of Content

MR. SHACHINDRA NATH

Founder & Managing Director,
U GRO Capital

Foreword

India is at a turning point in its economic destiny, and the MSME sector is poised to play an increasingly important role in shaping the country's growth path. Infrastructural development, efforts to build the economy, and the empowerment of MSMEs through initiatives like UDYAM registration and PMEGP, and women-led entrepreneurship development have provided a rich ecosystem for small businesses to thrive. Realizing the importance of it and colliding with our theme of 'MSME Accha Hai', we took the journey of MSME Sampark – A Semi-annual report on the latest in MSME Lending ecosystem, a knowledge practice by design to bridge the information gap, give wings to the voices of these small businesses and influence the policies that would help accelerate their growth.

The 1st edition of MSME Sampark laid the groundwork by tracking post-pandemic recovery trends, examining credit penetration and identifying sectoral insights. The response by policymakers and industry leaders was positive, reinforcing the need for a dedicated platform to highlight data driven perspectives on MSME financing and development. The 2nd edition of MSME Sampark furthered this mission by going beyond the big picture, unpacking the changing credit ecosystem, from placing a spotlight on co-lending as an enabler of financial inclusion, to providing sectoral recommendations to the stakeholders. Industry bodies, policymakers, and the MSME community engaged in a robust dialogue that reflected the success and increasing impact of this initiative.

With the 3rd edition of MSME Sampark, we aim to elevate the discourse further by exploring the next phase of MSME financing in India. The report clearly substantiates that MSME sector continues to be in a remarkable YoY stable growth providing actionable insights derived from an analysis of over 45,000 MSME enterprises. About 64% of MSMEs have resumed activity and ~ 54% have reported growth of > 10% YoY, indicating the momentum of this sector. The headline finding confirms that access to credit can be a catalyst to increase the top-line growth. However, our analysis also reveals a nuanced picture. We see moderation in total loan disbursement in recent quarters, a trend reflecting more conservative lending practices across the industry. While this could be attributed to stricter risk assessments, it also presents an opportunity for NBFCs to play a more strategic role in bridging the credit gap. This can be seen as the prominent sub-sectors and their products (Light Engineering, Food Processing, and Electrical Equipment) increasing. Importantly, we are encouraged by the increasing formalization of MSMEs, as evidenced by lower cash percentages and improved debt-to-turnover ratios, especially among mature and larger businesses.

MSME Sampark has been more than just a report-it has become a movement that brings together industry leaders, policymakers, and financial institutions to collaboratively shape the future of MSME financing. As we release this 3rd edition, our commitment remains unwavering-to empower India's MSMEs with the right financial solutions, insights, and policy advocacy that drive their sustained growth.

MR. AVINASH GUPTA
Managing Director & CEO - India
Dun & Bradstreet

Introduction

The global economy is expected to remain resilient despite ongoing challenges. While global trade volumes are recovering, trade policy shifts are key risks to growth. Even as India's growth moderated in FY25 to 6.5% - following three consecutive years of over 7% growth - India continues to hold its pole position as the fastest growing large economy.

In India's growth narrative, Micro, Small, and Medium Enterprises (MSMEs) have demonstrated remarkable resilience and adaptability, and significantly contributing to growth. The contribution of MSMEs to India's GDP (30%) and exports (46%) continues to be on an upward trajectory. This resilience is further evidenced by the fact that between FY21 and FY25 (April to December 2024), MSME exports grew threefold, complemented by proportional increase in the number of MSMEs.

India's push towards formalization of economy, through various incentives like UDYAM, has played a pivotal role in empowering MSMEs to scale operations. The number of UDYAM registered small businesses transitioning to medium-sized businesses and micro-businesses scaling to medium-sized businesses during July 2020 to July 2024, increased multifold. Enhancing incentives for MSMEs registered on the UDYAM, shall enable greater adoption of modern technology, and promote further formalization. Dun and Bradstreet's proprietary sector risk ratings indicate improvement in MSME's risk profile. The GNPA ratio of MSMEs have been consistently declining to a touch a multi-year low at 2.2% in Sept 2024 wherein the overall GNPA ratio stood at a 12 year low of 2.6%.

India's fiscal response to improve corporate investment sentiment through domestic demand boost and supporting high-potential start-ups would enable entrepreneurship-led growth. With ongoing government support, MSMEs are well-positioned to adopt sustainable development and make India a developed nation by 2047.

DR. ARUN SINGH
Global Chief Economist
Dun & Bradstreet

Executive Summary

- There is a growing sense of supplier risk globally, as businesses become increasingly focused on localizing supply chains. Businesses across the globe report optimism decline in sales and export reflecting broader concerns about global economic weakness and trade policy uncertainty.
- In the past 15 years, India has grown by more than 7% annually, excluding the pandemic years of FY20 and FY21, and is expected to grow by 6.6% in FY26.
- UDYAM registered MSMEs investment growth tapered down from 61% in FY22 to 22% in FY23 and 23% in FY24. The higher turnover and investment criteria for MSME classification would give boost to MSME investments and support MSMEs in scaling their operations.
- Dun & Bradstreet survey finds, both large and medium size businesses expect moderation in domestic growth during Q1 2025 compared to Q4 2024, whereas small firms continue to remain optimistic.
- Medium and small business's export optimism declined reflecting concerns over geopolitical and trade protectionist environment.
- Medium and small businesses expect cost of capital to stay elevated in Q1 2025, influencing their investment decisions.
- Medium-sized businesses have scaled back their optimism for capital expenditure, while small businesses show modest improvement. Their outlook on managing financial risks has deteriorated more sharply for medium ones, reflecting heightened uncertainty faced by them.
- Within the industrial sector, credit growth has declined for micro and small businesses (from 15.5% in May 2024 to 10.1% in November 2024), remained stable for large businesses and increased significantly for medium size businesses (from 12.6% in June 2024 to 20.0% in November 2024).
- Improved risk conditions are also reflected in the better asset quality of scheduled commercial banks (SCBs), with their gross non-performing asset (GNPA) ratio falling to a 12-year low at 2.4% for large borrowers and at 2.2% for MSMEs from 12.8% and 11% during early 2020, respectively.
- However, concerns remain on increased loan write-offs, particularly by private sector banks. The RBI highlights that write-offs have been a major driver of NPA reductions, with commercial banks writing off Rs 9.9 tn of loans between FY20 and FY24. Of this, only Rs 1.09 tn is attributed to MSE loans, including Rs 437.9 bn for industrial MSEs and Rs 648.2 bn for services MSEs.

Findings from analysis of 45,000+ MSMEs during 2021-2024 across 7 sectors

Activity

- In the sample of 45,000+ MSMEs studied at various points during 2021 to 2024, around 64% showed resumption of activity and 54% grew by >10% y/y.
- The stability in counterparty and invoice counts across different size of businesses during 2023 and 2024 show that business activity levels remain steady.
- MSMEs that availed higher credit on time saw significantly higher turnover increases, regardless of their size or the time gap between observations, reflecting that timely access to credit drives higher growth.

Debt

- While total loan disbursements have moderated in 2024, the increase in working capital loans indicates a growing preference for short-term financing to meet immediate operational needs, driven by challenges in long-term planning amid increased uncertainty.
- Among a sample of 45,000+ MSMEs, the light engineering, electrical equipment, food processing and chemical sectors emerged as the largest borrowers in recent quarters (Q1 to Q3 2024).
- In the last six months, the average new debt taken by B2C businesses has been lower than that of B2B businesses across sectors, except in auto components and hospitality.

Formalisation

- The study finds that lower cash holdings and a decline in debt-to-turnover ratios indicate increasing formalisation across sectors and size of businesses, as businesses adopt efficient financial management practices, optimise cash flows, and reduce dependency on external financing.
- The lower cash percentage and debt-to-turnover for mature and large businesses (> Rs 20 crore) suggests increased formalisation of MSMEs.

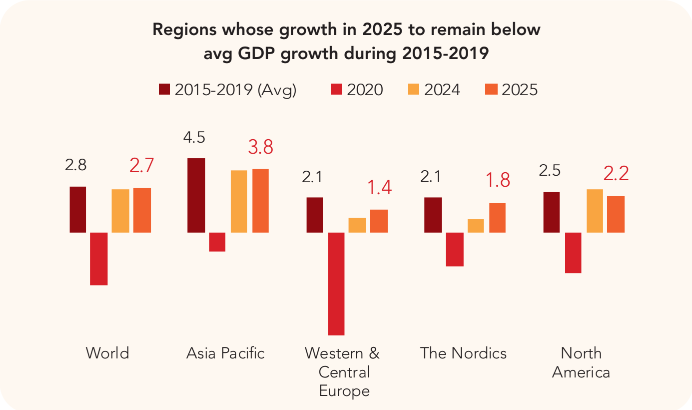
Micro Businesses

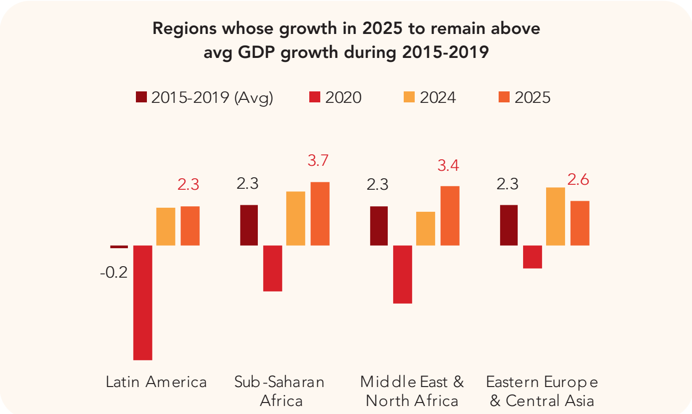
- The study of 15,000+ micro businesses show some moderation in credit penetration within the segment, leading to a decrease in the proportion of term loans in recent times. Nonetheless, higher share of term loans along with increase in large ticket-sized loans (> ₹10 lakhs) reflect lenders' confidence in their resilience and potential.

Macro Overview: Global

Global growth to remain resilient in 2025 but pre-pandemic levels elude some regions.

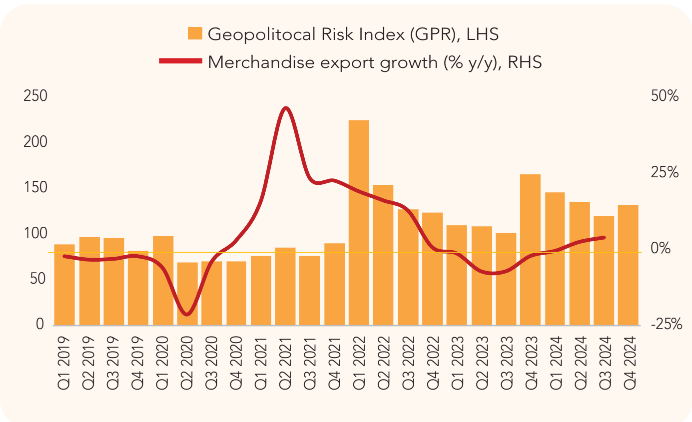
Global and regional GDP growth rate (%y/y)





Note: Data denotes annual GDP growth rates and data for FY25 are estimates.
Source: Haver Analytics and Dun & Bradstreet

Export growth amidst geopolitical uncertainty



Source: WTO and Geopolitical Risk Index developed by Dario Caldara and Matteo Iacoviello

In Asia-Pacific, export-dependent economies face slower trade growth amid softening global demand, led by China's fragile recovery.

In Latin America, economic recovery remains uneven, with inflationary pressures and currency weaknesses slowing policy easing cycle in 2025.

Eastern Europe's outlook will be influenced by the Russia-Ukraine conflict, energy security challenges, and trade disruptions. Central Asia remains politically stable under authoritarian regimes, with gradual reforms in nations like Kazakhstan.

The U.S. economy continues to perform well, driven by strong consumer fundamentals. Inflation is trending toward the Federal Reserve's target, and the labor market is rebalancing while remaining robust.

North African region is expected to see stronger economic activity in 2025, supported by rate cuts and market reforms, though geopolitical tensions remain a key risk.

The Gulf Cooperation Council (GCC) economies are set to grow, driven by non-oil sectors and a gradual resumption of oil production.

In the Nordics, recovery is shifting toward domestic demand, supported by fiscal measures and stabilizing indicators.

In Sub-Saharan Africa, diversified economies like Kenya and South Africa are poised to outperform resource dependent peers, despite disruptions from climate-induced agricultural challenges and weaker commodity prices.

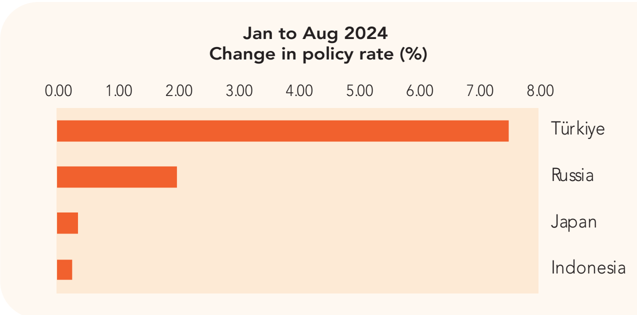
Recovery in merchandise trade volumes (growing positively during Q2 and Q3 of 2024), after recording a decline for 5 consecutive quarters likely to be impacted by elevated geopolitical risk, particularly related to regional conflicts and a disruptive trade war.

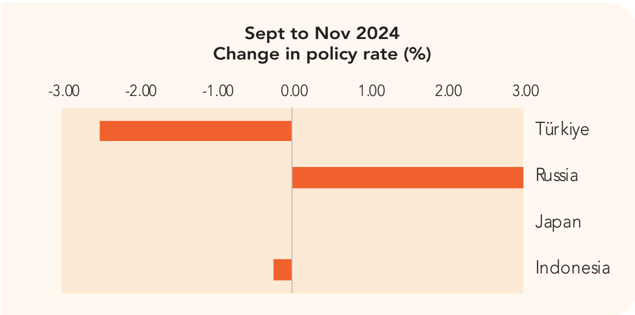
Unfavorable trade policies, if implemented, will pose risk to real GDP growth in 2025 through their impact on trade volume, inflation and business sentiment.

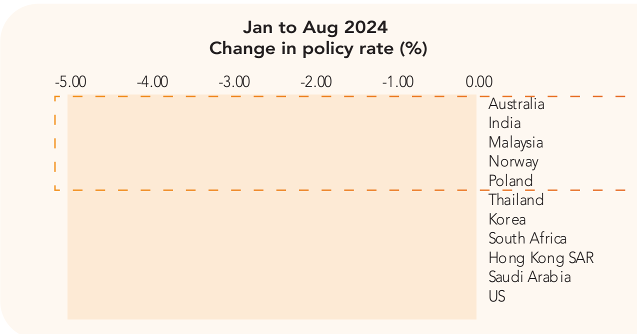
After initiating policy rate cuts in 2024, Central banks continue to signal a path towards looser monetary policy in 2025, fostering economic growth.

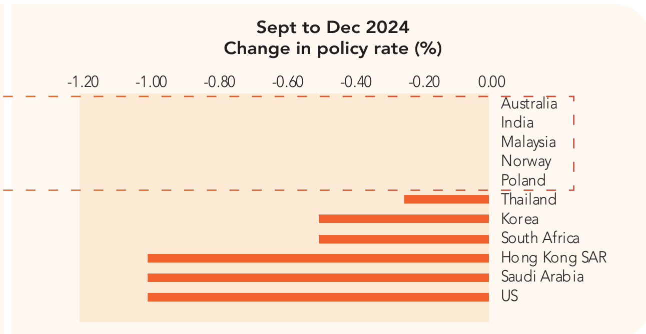
- Global inflation has cooled in response to higher rates, slower growth and a drop in energy prices. Service sector inflation is beginning to moderate as well. Despite easing global inflation, food inflation remains elevated, with nearly half of developing countries experiencing rates above 5% in 2024 deepening food insecurity in low-income countries.
- According to OECD, towards end of 2024 headline inflation has already returned to central bank targets in nearly half of the advanced economies and close to 60% of emerging market economies.
- In 2024, most developed countries began rate cuts, but the pace and magnitude varied widely. Despite these reductions, policy rates remain well above pre-COVID levels, weighing on global economic activity. Central banks continue to signal a path to looser monetary policy in 2025, though in Q4 2024, markets scaled back their expectations about the pace of rate cuts by the US FED.
- Both US Fed and the ECB cut rates by 100 bps in 2024, and ECB is expected to move closer to the neutral rate in 2025. Contrary to global trends, Japan's BoJ initiated a modest rate hike cycle in 2024. In Latin America, Brazil and Honduras reversed course into a tightening phase due to rising inflation.

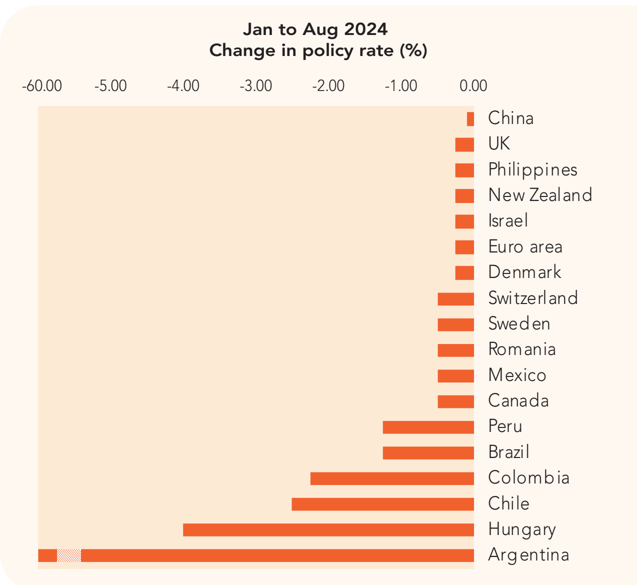
Pace and magnitude of policy rate cuts varied across countries in 2024.

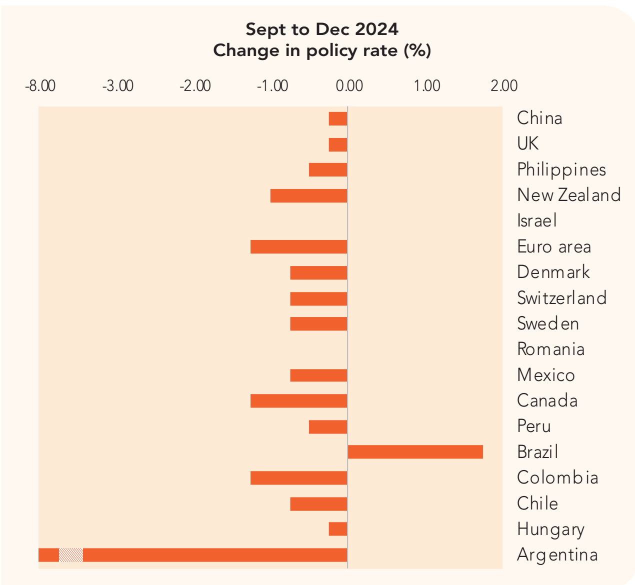










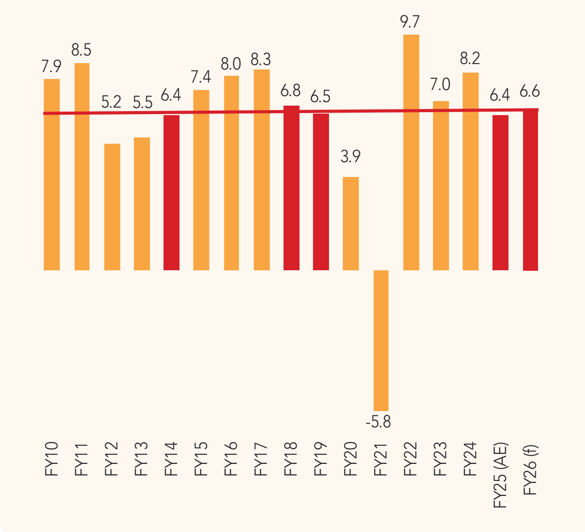


Source: Haver Analytics and BIS

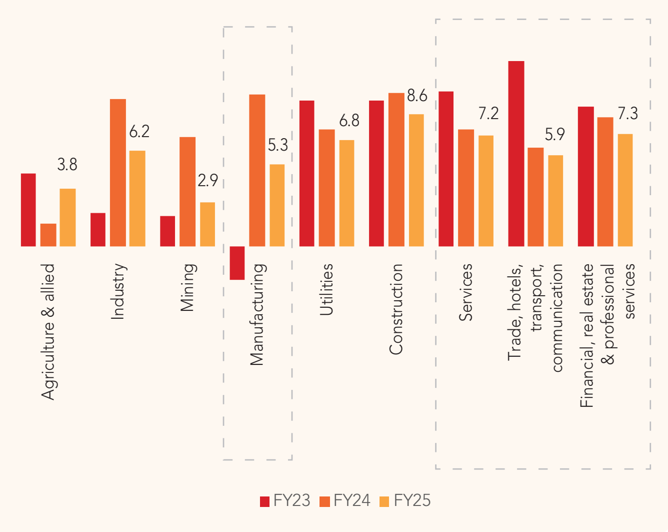
Macro Overview: India

India recorded an average growth rate of more than 7% during FY10 to FY25 barring the slowdown during the pandemic (FY20 and FY21).

Real GDP growth (% y/y)



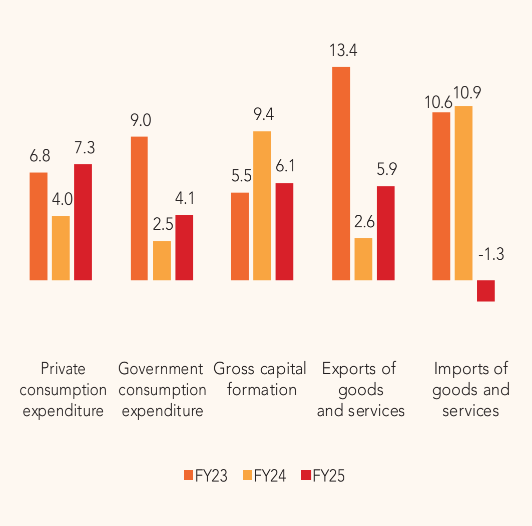
Growth in growth value added by sectors (% y/y)



Note: Data for FY25 are advanced estimates and FY26 are forecast
Source: CMIE, Dun & Bradstreet

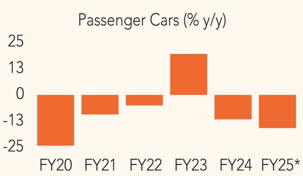
Resilient consumption drives FY25 growth amid moderating investment and subdued government demand and exports. Urban demand stays weak with concerns about income growth while rural demand remains strong, fueled by optimism for future income.

Growth in GDP components (%)



Urban

Urban Demand

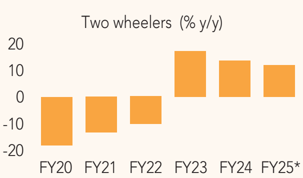


Urban Income

	Income to have increased in last one year (% of respondents)	Income to increase in the year ahead (% of respondents)
Sep-24	24.1	55.8
Nov-24	23.8	56.6
Jan-25	22.0	55.9

Rural

Rural Demand



Rural Income

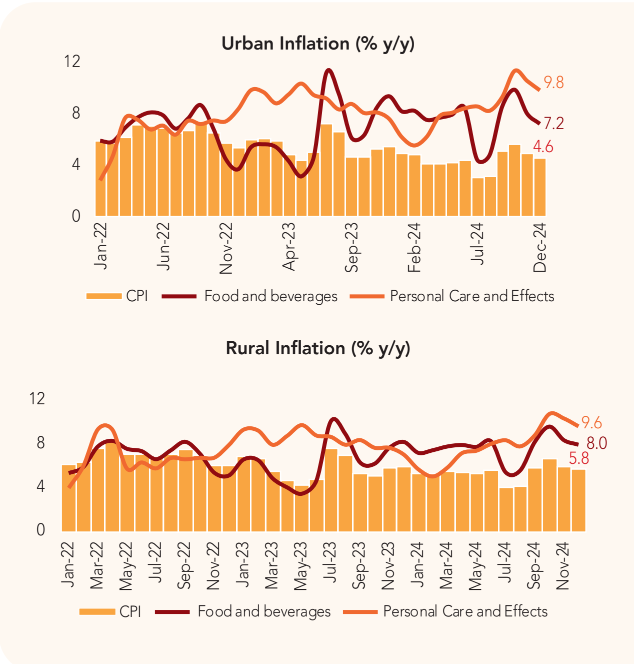
	Income to have increased in last one year (% of households)	Income to increase in the year ahead (% of households)
Sep-24	37.6	70.2
Nov-24	36.5	71.3
Jan-25	36.0	71.2

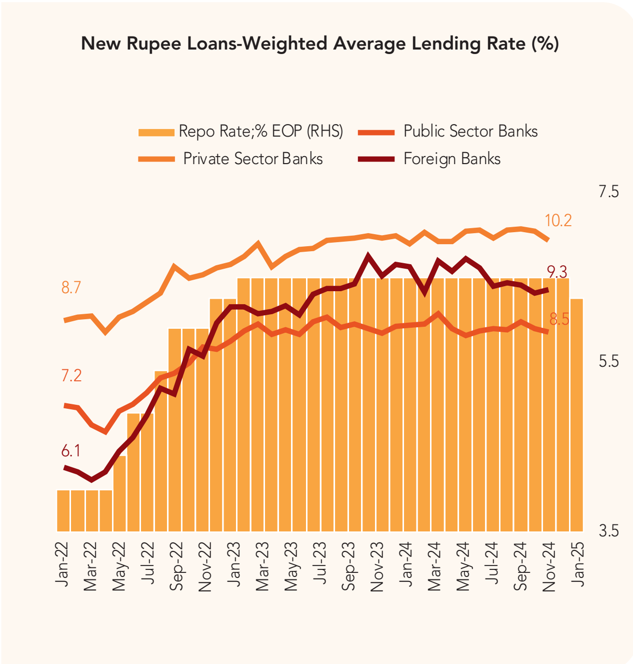
Note: Data for FY25 GDP data are advanced estimates
FY25 growth for cars and two wheelers is considered for the period Apr-Dec 2024 over Apr to Dec 2023
Optimism: Urban - % share of respondents, Rural - % share of households
Source: CMIE, NABARD and RBI Consumer confidence

Industrial production remained subdued with the slowdown most pronounced in mining, infrastructure, and primary goods, with consumer goods picking up.

Source: MOSPI

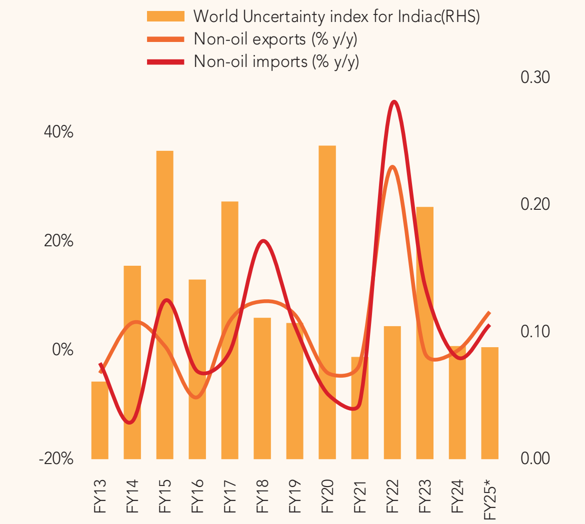
Inflation in food and personal care products continue to remain elevated. Moderating CPI inflation and slowing growth has led to policy rate cuts after 23 months; foreign banks have hiked lending rates the most followed by public and private sector banks.

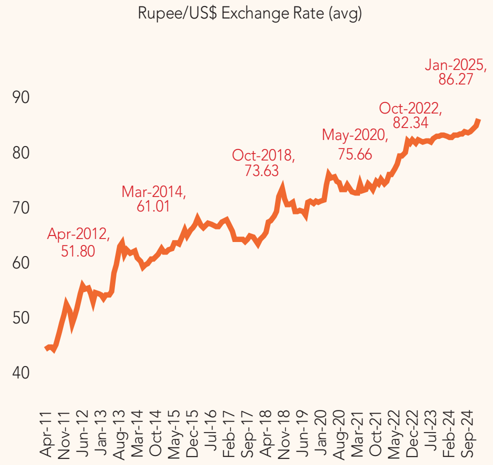




Source: MOSPI, CMIE

Global uncertainty continues to weigh upon external trade and investment flows. Nearly 2% of India's total exports and 11% of exports to the EU are exposed to the Carbon Border Adjustment Mechanism (CBAM), potentially subjecting Indian firms to tariffs of 20-35% and increasing costs and compliance obligations.

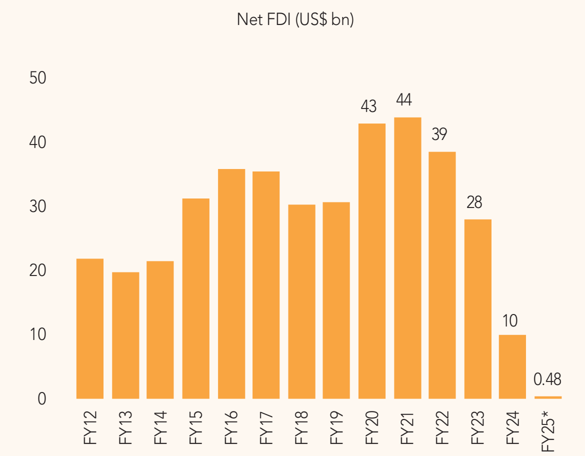


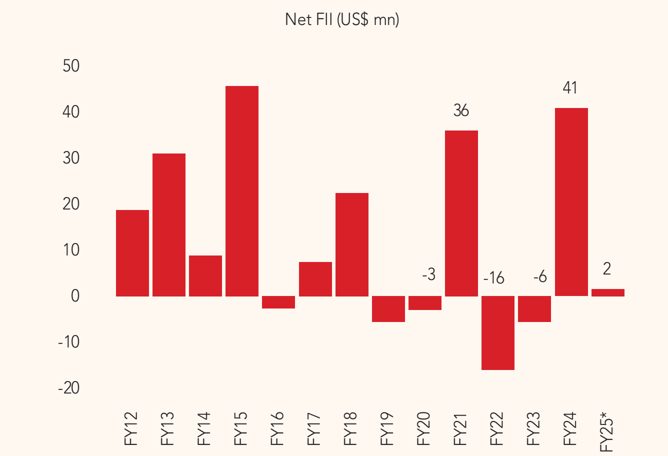


Rupee/US$ (% y/y)	
FY12	5.2%
FY13	13.5%
FY14	11.2%
FY15	1.1%
FY16	7.1%
FY17	2.4%
FY18	-3.9%
FY19	8.5%
FY20	1.4%
FY21	4.7%
FY22	0.4%
FY23	7.9%
FY24	3.0%
FY25 (Apr Jan)	1.6%

Note:*FY25 data for exports and Imports are for Apr-Dec 2024 compared to Apr-Dec 2023.
Source: CMIE, Ahir, Hites,Bloom, Nick,Furceri, Davide, World Uncertainty Index

In 2024, foreign investment in developing economies fell 2%, marking a second year of decline. China's stimulus, concerns over India's high valuations, and capital repatriation have lowered foreign investments to India mirroring the trend in other emerging markets like Mexico, Vietnam, and Indonesia. Even as FIIs' have slowed down, India saw net FII inflows in eight out of the last thirteen years.





Note: *FY25 data for FDI is for Apr-Nov and for FII it is for Apr-Jan.

MSMEs at the Centre Stage of Policy making

The Union Budget has taken a significant step towards strengthening MSMEs by providing growth incentives, enhanced credit access, export incentives, and support to startups and first-time entrepreneurs. The allocation to Ministry of MSMEs has been increased substantially by 33.8% to Rs 231.7 bn in FY26 (BE).The revised MSME classification offers three key benefits: firstly, higher turnover limits will eliminate constraints that previously discouraged growth, allowing businesses to scale without losing the MSME benefits given by the government; secondly, more enterprises will now qualify for government support, expanding access to critical incentives and financing; thirdly, increased investment thresholds will enable greater adoption of modern technology and machinery by MSMEs, boosting productivity and global competitiveness. The establishment of the National Manufacturing Mission and clean technology initiatives will further enhance MSME growth. A newly tailored Credit Card scheme will offer Rs 5 lakh in credit to micro enterprises registered on the Udyam portal encouraging Udyam registration, promoting formalization and facilitating access to other government programs.

Assisting MSMEs to tackle non-tariff barriers is a timely intervention to help MSMEs navigate the evolving global trade dynamics and expand their global reach. Initiatives such as enhanced access to export credit, cross-border factoring, and BharatTradeNet will ease financial constraints, improve global integration, and unlock new opportunities. Additionally, the six-fold increase in allocation for New Technology Centres (Rs 5.9 billion in FY26 BE) and the 100% rise in allocation to Raising and Accelerating MSME Performance (RAMP) initiative will drive innovation, enhance credit access, and support green and other technology adoption by MSMEs.

The newly introduced Rs 100 billion Fund of Funds (FOF) aims to strengthen start-ups, building on the 2016 initiatives. The Deep Tech, Fund of Funds (FOF) for next generation startups and increasing the incorporation period for start-ups by 5 years will provide critical support to high-potential start-ups and drive entrepreneurship-led economic growth. Furthermore, thrust on labour intensive sectors such as footwear, leather, and toy manufacturing and assistance for five lakh women, SC, and ST first-time entrepreneurs underscore the government's focus on self-employment and inclusive development.

Government Initiatives throughout the years

2014 - Pradhan Mantri MUDRA Yojana (PMMY)

2015 - Udyog Aadhaar Memorandum (UAM)

2016 - Stand-Up India Scheme

2017 - MSME Samadhaan, MSME Sambandh

2018 - 59-minute loan portal, Interest Subvention Scheme for MSMEs

2019 - MSME Support and Outreach Program

2020 - Emergency Credit Line Guarantee Scheme (ECLGS)

2021 - Raising and Accelerating MSME Performance (RAMP) Program

2022 - Revised Credit Guarantee Scheme for MSMEs

2023 - Credit guarantee trust, Vivad se Vishwas scheme

2025 - Revision of classification of MSMEs,- Credit Card scheme for micro enterprises, Deep Tech Fund

Financial Support for MSME Growth - Union Budget 2025-2026

Budget Allocation
- Ministry of MSME: Rs 231.7 bn
- Funds for central sector schemes for MSMEs: Rs 229 bn

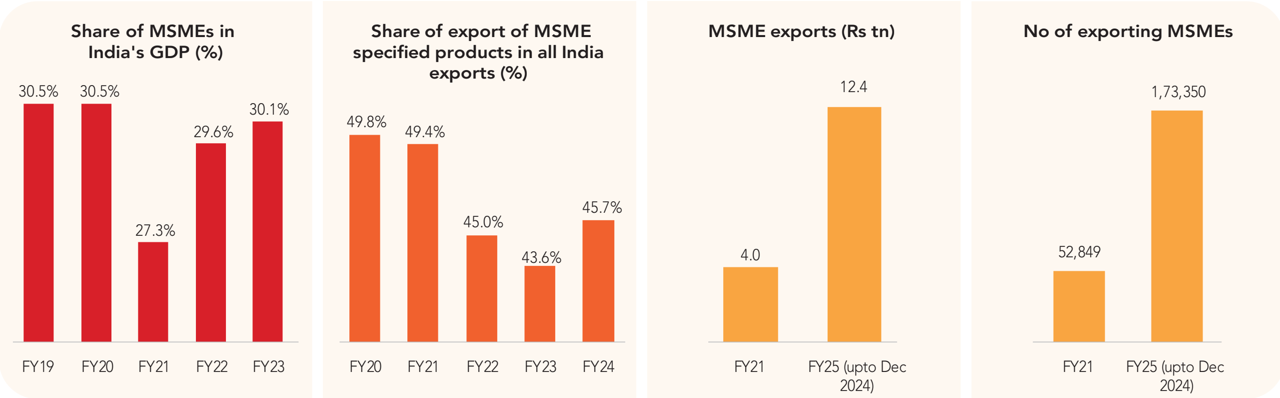
Credit and Development
- Fund of Funds – Rs 100 bn
- Guarantee Emergency Credit Line (GECL) facility to eligible MSME borrowers - Rs 90 bn
- MSME Champions Scheme – Rs 547 mn
- Raising and Accelerating MSME Performance (RAMP) - Rs 15 bn
- Procurement and Marketing Support Scheme – Rs 650 mn
- Entrepreneurship and Skill Development - Rs 8.36 bn
- PM Vishwakarma – Rs 51 bn
- Micro and Small Enterprise-Cluster Development Programme (MSE-CDP) – Rs 4 bn

Credit for Technology Adoption
- Establishment of New Technology Centres – Rs 5.9 bn
- Tool Rooms & Technical Institutions - Rs 1.6 bn
- ASPIRE (Promotion of Innovation, Rural Industry and Entrepreneurship) – Rs 200 mn
- A Deep Tech Fund of Funds to catalyze the next generation startups.

Others
- A new scheme for 5 lakh women, Scheduled Castes and Scheduled Tribes first-time entrepreneurs - Term loans up to Rs 20 mn during the next 5 years, to provide online capacity building for entrepreneurship and managerial skills.

Insights on MSMEs and Credit Environment

MSME contribution to growth and exports

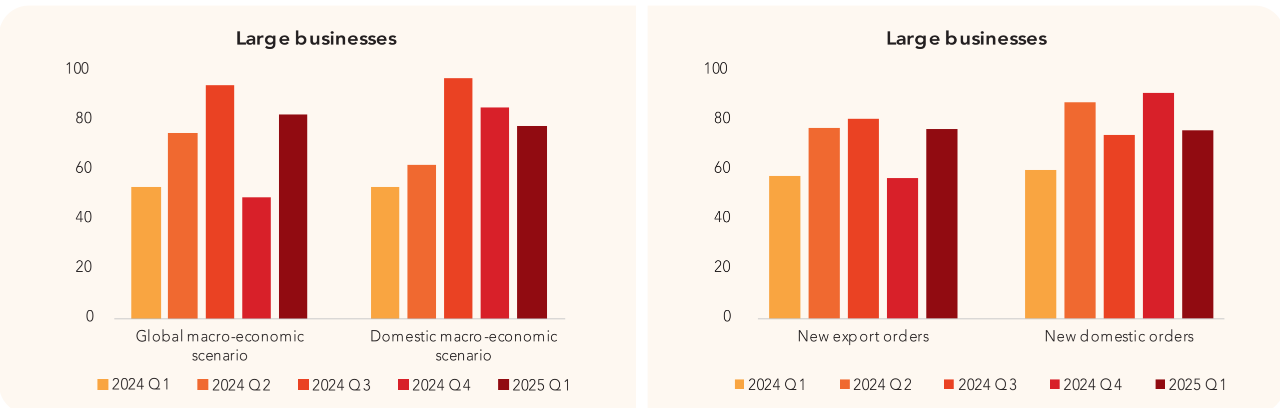


Source: PIB and other Government Sources

- MSMEs' contribution to India's GDP has steadily increased, rising from 27.3% in FY21 to 30.1% in FY23.
- This strength is further reflected in a threefold growth in MSME exports between FY21 and FY25 (April–December 2024), accompanied by a proportional rise in the number of MSMEs.
- Despite a 3% contraction in India's merchandise exports in FY24, their share in exports grew from by more than 200 bps to 45.7% in FY24, showcasing resilience despite global supply chain disruptions.
- Furthermore, initiatives such as government incentives, easier access to credit, and digital transformation have played a pivotal role in empowering MSMEs, enabling them to scale operations and enhance their competitiveness in global markets.
- As MSMEs continue to evolve, they are poised to play a critical role in bolstering India's economic growth and achieving the nation's developmental goals.

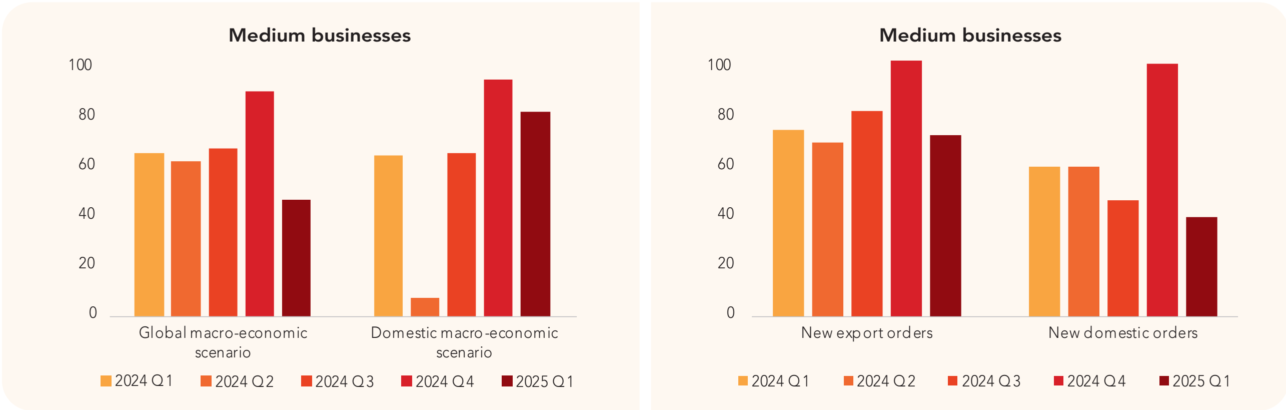
Large and medium businesses foresee slower domestic growth in Q1 2025 vs. Q4 2024, while small firms stay optimistic; Medium and small businesses expect capital cost to remain high and export demand to remain subdued.

Optimism of large businesses: Global and domestic macro environment



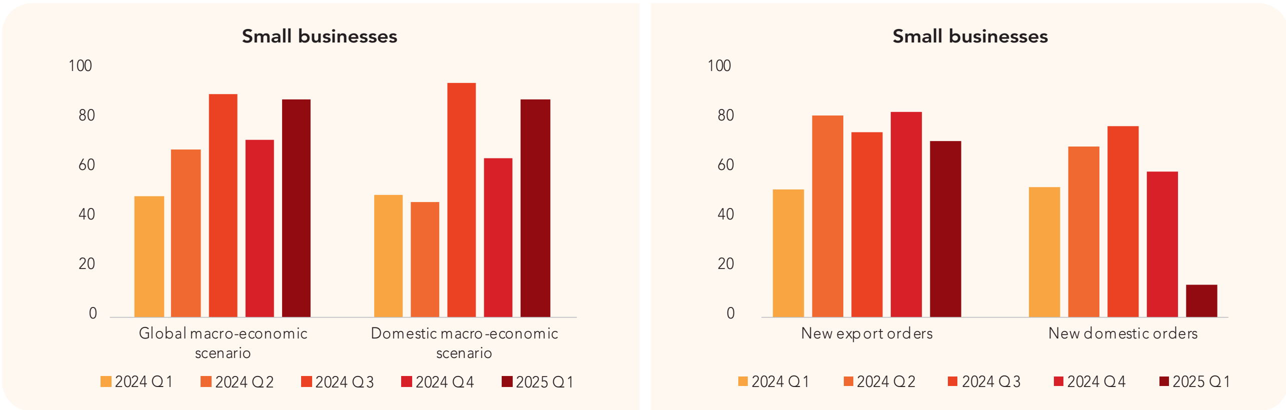
Note: The data indicates favorable responses i.e. the percentage of respondents indicating optimism.
Source: Dun & Bradstreet

Optimism of medium businesses: Global and domestic macro environment



Note: The data indicates favorable responses i.e. the percentage of respondents indicating optimism.
Source: Dun & Bradstreet

Optimism of small businesses: Global and domestic macro environment

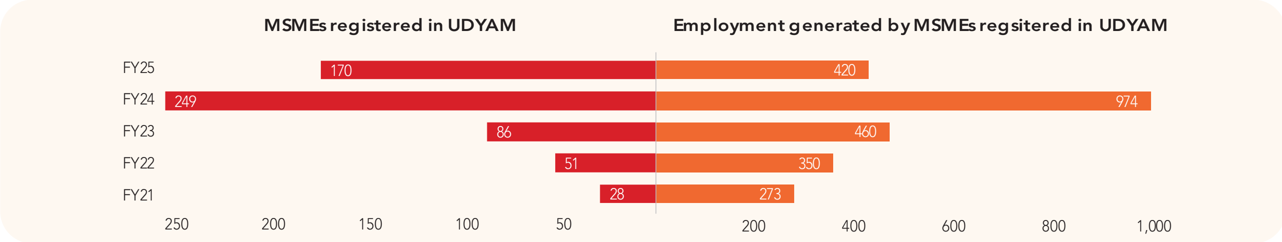


Note: The data indicates favorable responses i.e. the percentage of respondents indicating optimism.
Source: Dun & Bradstreet

- Optimism about global and domestic growth prospects varies across businesses of different sizes.
- While both large and medium businesses anticipate a moderation in domestic growth during Q1 2025, small businesses remain optimistic.
- Notably, confidence of large businesses in the domestic economy has been waning since Q4 2024.
- Across all size of businesses, expectations for domestic demand are expected to decline in Q1 2025 compared to Q4 2024, with a sharper drop in optimism observed among medium and small businesses.
- Waning optimism about domestic demand reflects the erosion of purchasing power, driven by persistent price pressures. Urban demand, in particular, has likely been affected by elevated food inflation and slower corporate wage growth.
- In terms of global growth, optimism among large and small businesses improved in Q1 2025 compared to Q4 2024, whereas medium businesses reported a decline.
- However, optimism regarding export orders weakened for medium and small businesses during the same period, contrasting with an improvement in sentiment among large businesses.
- Lower optimism about export orders reflects broader concerns over global economic weakness, persistent geopolitical tensions, and the looming threat of a more protectionist environment. India's exports during July to December 2024 fell compared to the year ago period, except for a brief recovery in October.

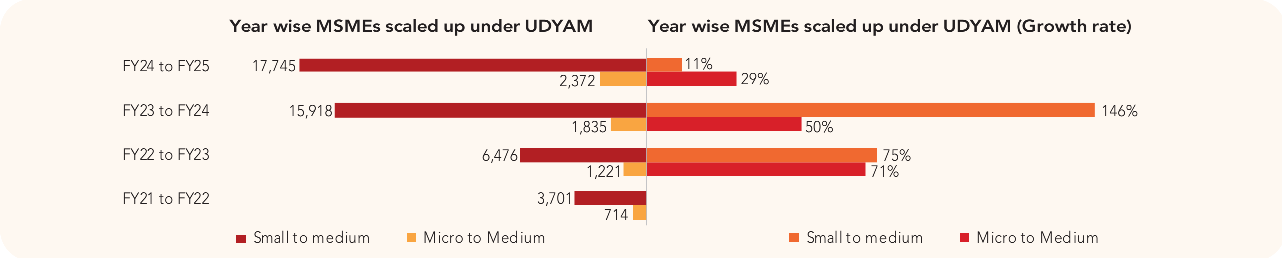
UDYAM registrations nearly doubled annually since FY21; small businesses transitioning to medium enterprises surge fivefold from 2020 to 2024, with micro-enterprises scaling up to medium-sized businesses tripled.

Formalisation of MSMEs and employment generation



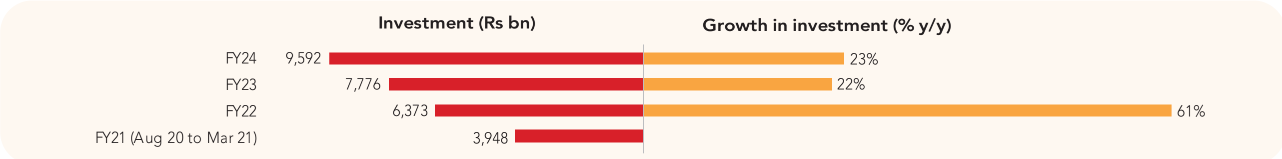
Note: Data for FY25 is till 16 Jan 2025
Source: UDYAM

Scaling up of MSMEs



Note: Data for FY25 is till July 2024
Source: Government sources

Investments by MSMEs

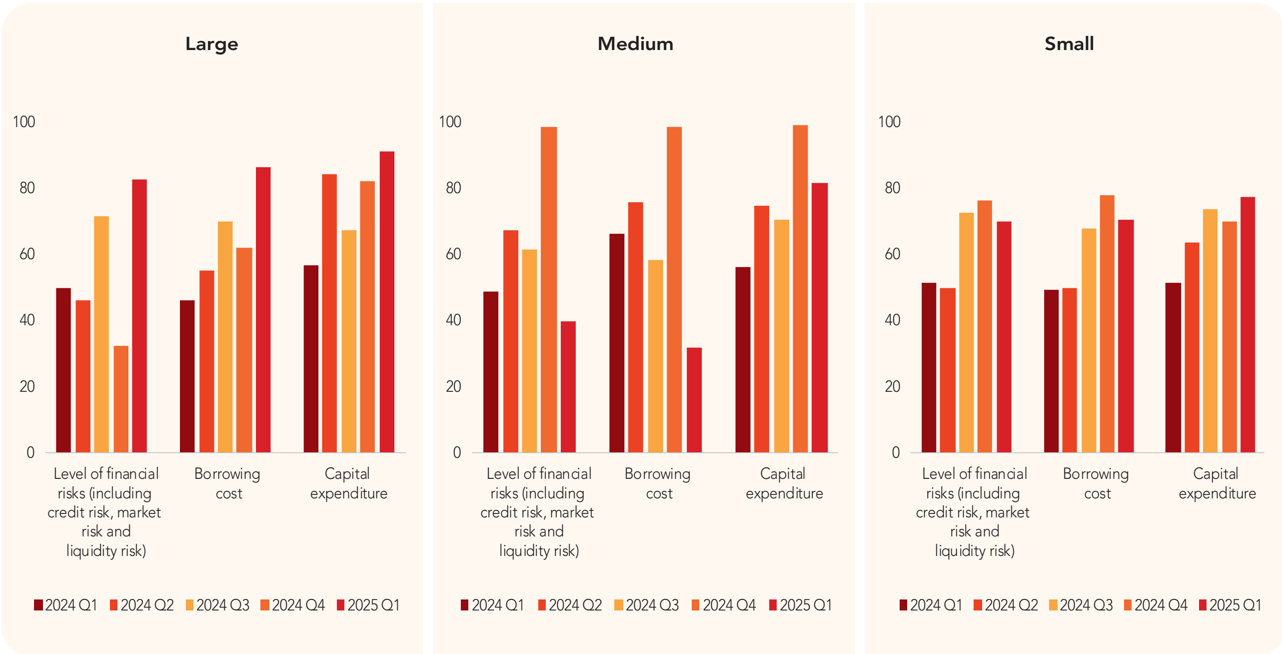


Source: Government sources

- The UDYAM registration platform has seen registrations nearly double annually since its inception in FY21, reflecting the rapid formalization of small businesses and improved access to government support.
- Key programs, such as the UDYAM Registration, GST, and government schemes like PMEGP and CGTMSE, have incentivised formalisation by offering access to credit, subsidies, and market linkages. Additionally, digital payment systems, e-commerce platforms, and online compliance tools have simplified the transition to formal operations, enabling MSMEs to grow in size and scale.
- Formalisation has facilitated the growth of MSMEs, with many transitioning from micro to small or small to medium-sized enterprises.
- Recent data also highlights the significant growth of businesses leveraging the UDYAM. The number of UDYAM registered small businesses transitioning to medium-sized enterprises grew fivefold from July 2020 to July 2024, while micro-enterprises scaling up to medium-sized businesses tripled (based on old definition i.e. prior to Union Budget of 2025-26).
- This upward trend underscores the effectiveness of government policies, the increasing willingness of businesses to formalise and substantial investments made by MSMEs during this period.
- Post-pandemic, India witnessed significant growth in investments, peaking at 29% in FY22 before moderating to 19% in FY23 and 10% in FY24. Similarly, registered MSMEs on UDYAM report a surge in investments (61%) in FY22. Growth moderated in FY23 (22%), and remained steady at 23% in FY24, indicating sustained confidence among MSMEs in scaling their operations and tapping into formal market opportunities. The Union Budget announcement of higher turnover and investment criteria for MSME classification to give further boost to investments.

Medium businesses scale back optimism for capital expenditure, while small firms see modest gains. Financial risk outlook deteriorates sharply for medium firms amid rising uncertainty.

Optimism about financial health and investment expenditure

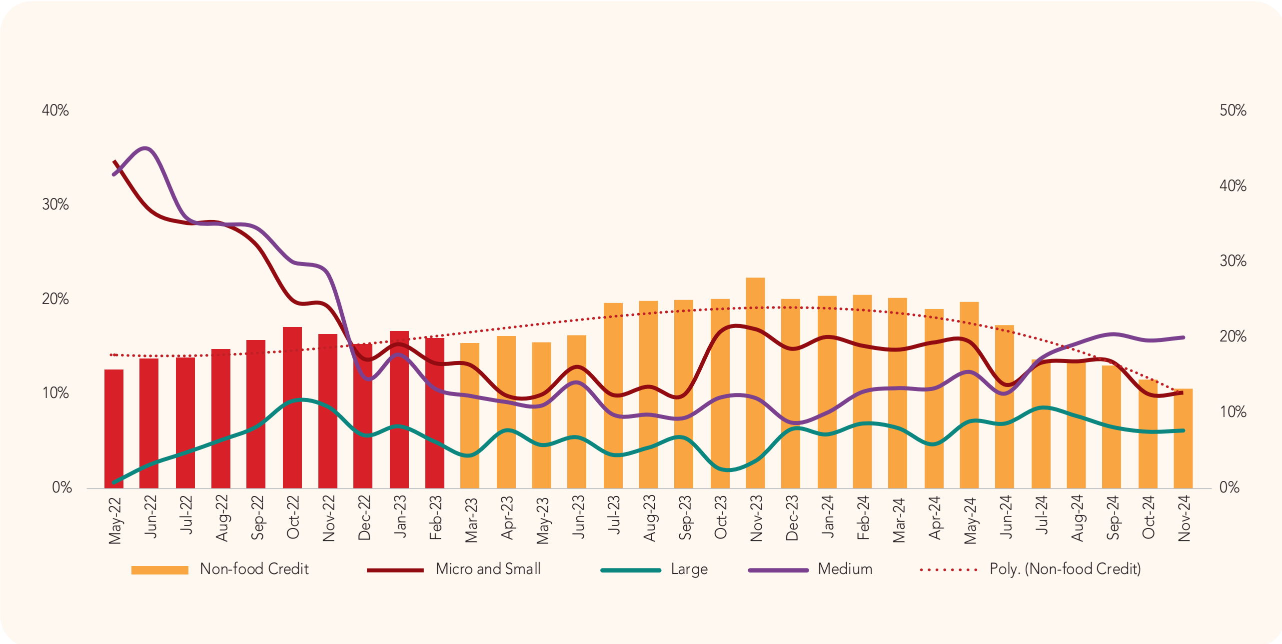


Note: The data indicates favorable responses i.e. the percentage of MSMEs indicating optimism. Optimism for borrowing cost to be inferred as decrease in cost, optimism for level of financial risk to be inferred as MSMEs expect financial risk to decrease and optimism for capital expenditure refers to increase in expenditure.
Source: Dun & Bradstreet

- The slowdown in India's growth momentum, coupled with global economic and trade uncertainties, has tempered optimism among large players regarding their ability to manage financial risks-including credit, market, and liquidity risks-in 2024.
- As we move into 2025, large businesses are showing increased resilience. Their optimism about managing financial risks has improved, and confidence in capital expenditure continues to rise, driven by expectations of falling borrowing costs. Anticipated supportive measures in the Union Budget (February 2025) and potential monetary policy easing is likely to have supported the sentiment. With global inflation cooling and central banks signaling a shift toward looser monetary policies, India is expected to further cit rates uplifting business confidence.
- In contrast, medium and small businesses remain in a "wait-and-see" mode, likely to act after key announcements in the Union Budget and observing the policy direction of the new U.S. administration. Medium and small enterprises perceive that the cost of capital will stay elevated, influencing their investment decisions. Medium-sized businesses have scaled back their optimism for capital expenditure, while small businesses show modest improvement in this regard.
- The outlook on managing financial risks has deteriorated more sharply for medium enterprises than for small ones, reflecting the heightened uncertainty they face. These differences underscore the varying levels of resilience and optimism across business segments as they navigate a complex economic landscape.

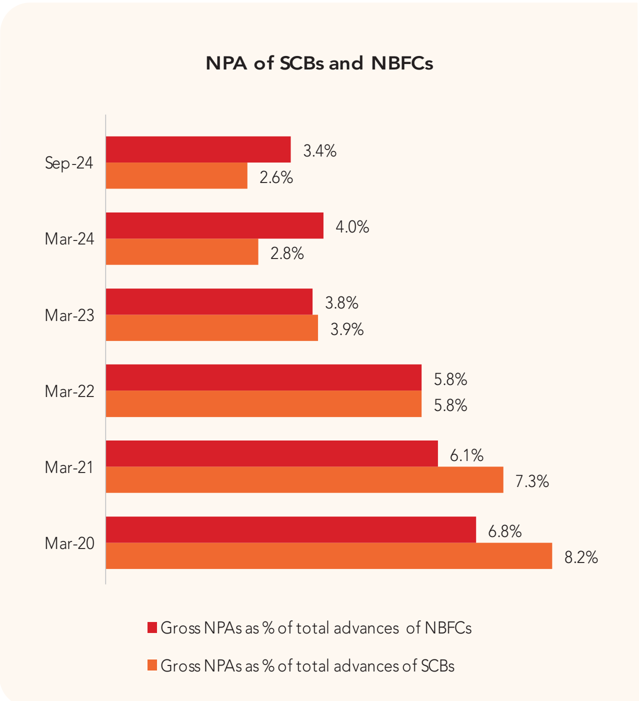
Improved risk conditions for MSMEs are reflected in SCBs' asset quality, with GNPA ratios hitting a 12-year low at 2.4% for large borrowers and 2.2% for MSMEs, down from 12.8% and 11% in early 2020.

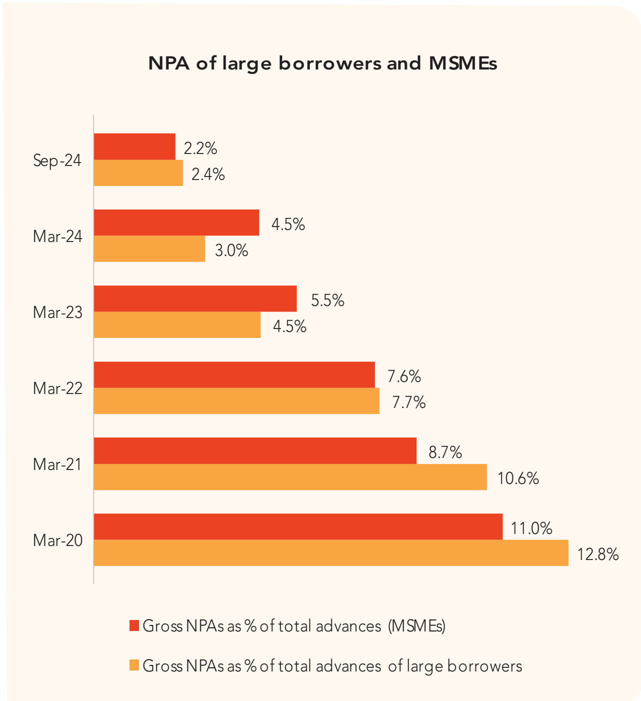
Credit growth to large firms and MSMEs



Source: RBI

Non-Performing Assets (NPAs) of SCBs and NBFCs across large borrowers and MSMEs

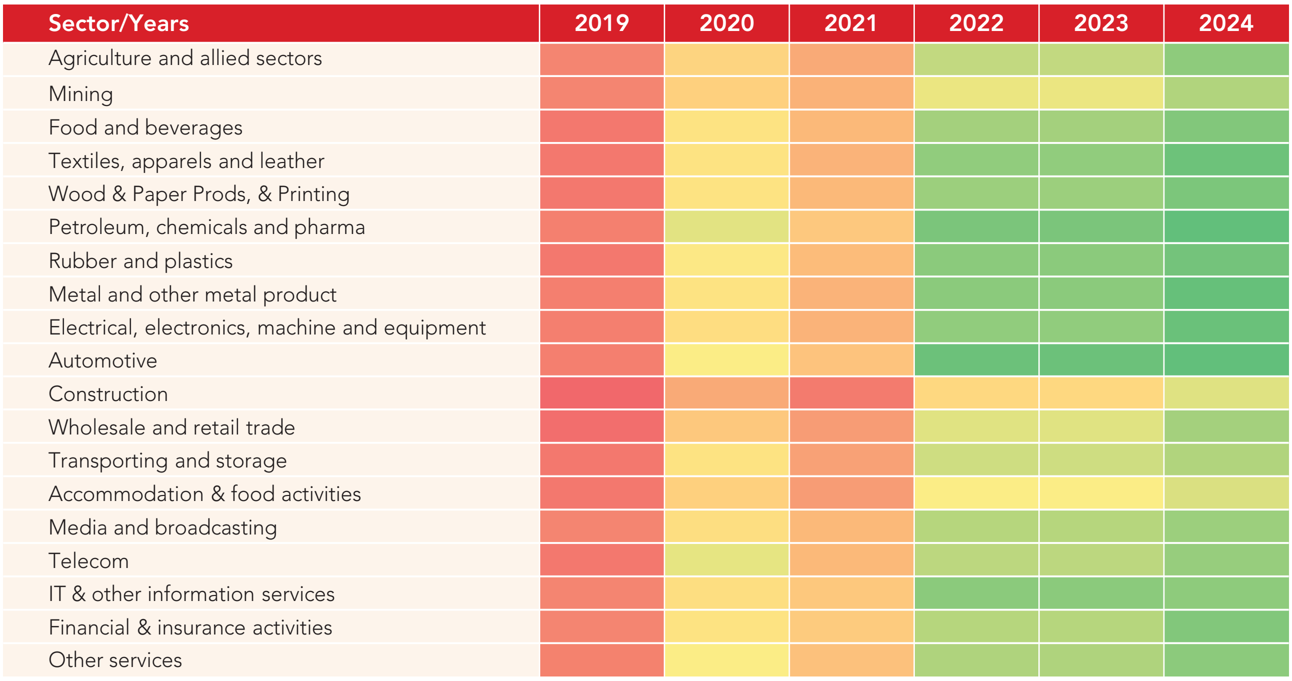




Source: RBI and Government sources

Amidst global and domestic economic uncertainties, Dun & Bradstreet's sector risk ratings indicate improvements in risk profile of MSMEs in 2024 from 2023, although at a slower pace in some sectors.

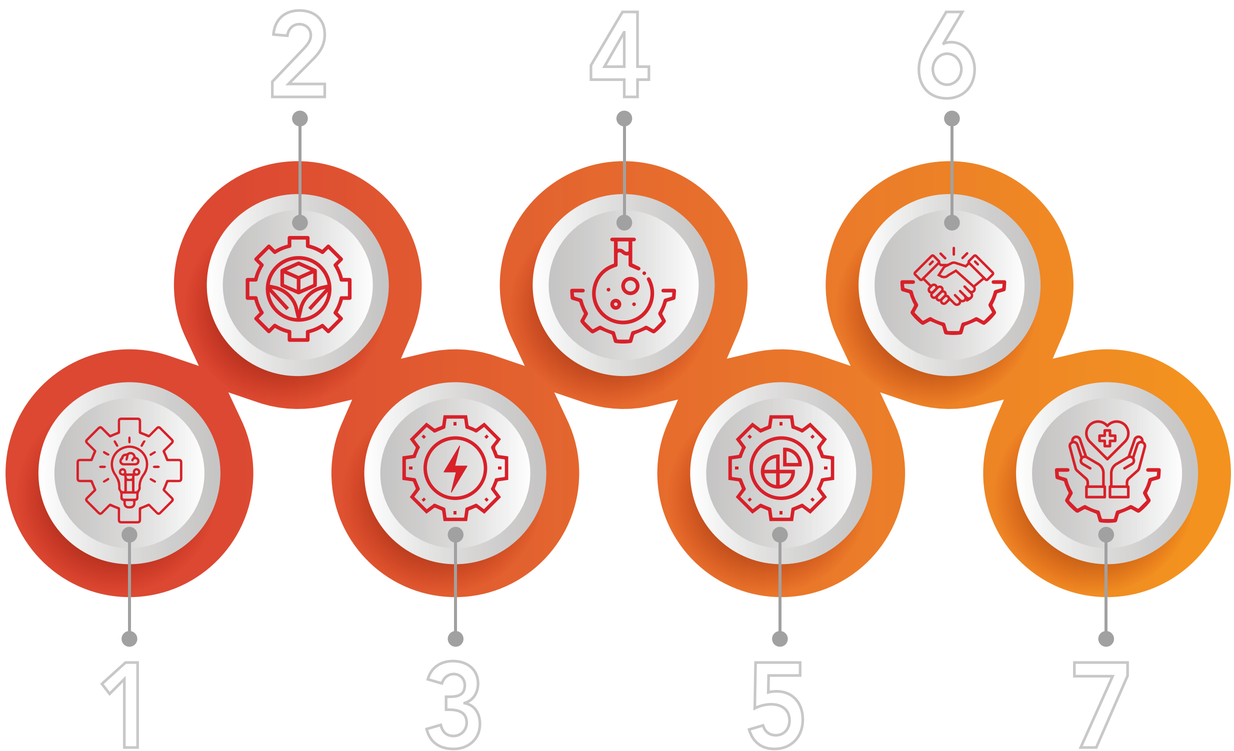
Sector Risk Ratings of MSMEs in India



Note: Green indicates low risk - Lowest degree of uncertainty associated with expected returns, such as export payments and foreign debt and equity servicing. Red indicates - Considerable uncertainty associated with expected returns.
Source: Dun & Bradstreet

- India's monetary tightening has been prolonged, distinguishing it one of the few nations not to follow the U.S. Fed's rate cuts since September 2024. In response to a cumulative policy rate hike of 250 basis points between May 2022 and February 2023, lending rates for fresh rupee loans have risen by 185 basis points.
- This rise in lending rates is likely to have impacted non-food credit growth, which has steadily moderated since June 2024. After sustaining around 20% growth between July 2023 and May 2024, credit growth declined to 17% in June 2024 and further to 11% by November 2024. However, the slowdown in credit growth is not uniform across sectors.
- Within the industrial sector, credit growth has declined notably for micro and small enterprises (falling from 15.5% in May 2024 to 10.1% in November 2024), while remaining stable for large businesses and increasing for medium enterprises (from 12.6% in June 2024 to 20.0% in November 2024). Furthermore, credit to services such as transport operators, tourism, hotels and restaurants, and commercial real estate has also slowed significantly.
- Despite moderation in credit growth, the improvement in the credit risk profile of MSMEs since the pandemic shows remarkable resilience of MSMEs. Dun and Bradstreet's proprietary sector risk ratings indicate improvement in MSME's risk profile, though at a slower pace in construction, accommodation, food services, transportation, storage, wholesale and retail trade, media, and telecommunications, where credit growth has decelerated.
- The improvement in the credit risk profile of MSMEs are also reflected through the consistent decline in the gross non-performing asset ratio (GNPA) since the pandemic. The overall GNPA ratio of SCBs touched a 12 year low in September 2024, with GNPA of large borrowers at 2.4% and GNPA of MSMEs at 2.2%, respectively, compared to 12.8% and 11% during March 2020.
- MSMEs' GNPA levels have been lower than those of large borrowers since the pandemic (FY20 to FY22), aided by support measures like debt restructuring, write-offs, and waived interest payments. However, concerns remain regarding the sharp increase in loan write-offs, particularly by private sector banks (PVBs), which may obscure deteriorating asset quality and relaxed underwriting standards.
- Data from the Central Bank highlights that write-offs have been a major component of NPA reductions, with SCBs writing off Rs 9.9 tn in loans between FY20 and FY24. Of this, Rs 1.09 tn is attributed to MSE loans, including Rs 437.9 bn for industrial MSEs and Rs 648.2 bn for services MSEs.

Insights on MSME performance on seven selected sectors



Key Budget Announcements

- Tariff rate revised for imports of stainless-steel flat products (from 22.5% to 15%), Other tubes or pipe fittings of stainless steel (from 25% to 15%), parts of electronic toys etc.
- Reduction of customs duty on key components like camera modules, PCBA, USB cables, connectors, and fingerprint sensors to zero.
- Reduction in import duties on components like printed circuit board assemblies, camera modules, connectors, microphones, receivers, fingerprint readers, USB cables, and wired headsets to zero.
- Exemption of 35 additional capital goods for EV battery manufacturing, and 28 additional capital goods for mobile phone battery manufacturing.

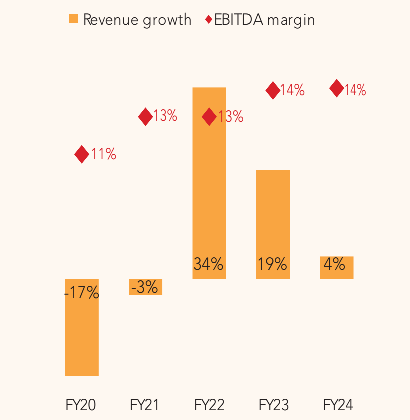
Impact on MSMEs

The government's National Manufacturing Mission to support manufacturing MSMEs by providing incentives and infrastructure support and providing a boost to the "Make in India" initiative would support the small players in the light engineering sector. The Budget focused on reducing import duties and promoting local production in the light engineering sector. These measures are likely to enhance competitiveness amongst small players, thereby strengthening domestic manufacturing in critical sectors like EVs, electronics and steel.

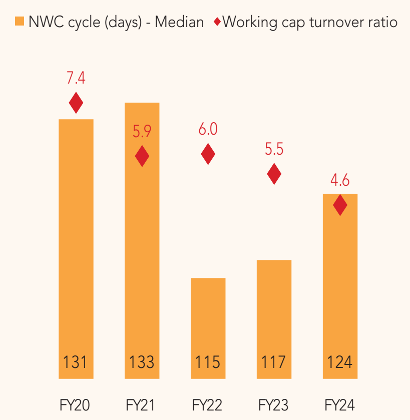
MSME Performance: Key Financial Ratios

- MSME revenue growth for our sample companies slowed to 4% y/y in FY24 from 19% in FY23, primarily due to raw material procurement delays owing to supply chain disruptions, despite domestic market demand driven by government spending in infrastructure and agriculture sector.
- Sub-segment performance varied: casting and forging (+4%), general-purpose machinery (+5.4%), machine tools (+18.4%), and wires and cables (+18.4%) grew while steel pipes and tubes declined (-6.2%).
- Interest cover ratio improved from 4.6x in FY23 to 5.2x in FY24, while Debt Service Coverage Ratio (DSCR) increased from 0.6x to 0.7x during the period, signifying stable coverage levels.
- The net working capital cycle lengthened from 117 in FY23 to 124 days in FY24, while the working capital turnover ratio dropped from 5.5x to 4.6x due to slower inventory turnover (107 days vs. 99 days), and weaker receivable (71 days vs. 66 days) and payable days (63 days vs. 58 days).
- Operating cash flow ratio declined from 24% to 14%, while the cash flow coverage ratio halved from 40% to 22%, indicating weaker cash generation capabilities. Cash conversion efficiency also fell from 8% to 5%, emphasizing challenges in converting revenues into cash.
- MSME companies in the sector are set for modest growth in FY25, driven by market expansion, rising localisation under 'Make in India', and investments in automation and advanced machinery for efficiency gains.

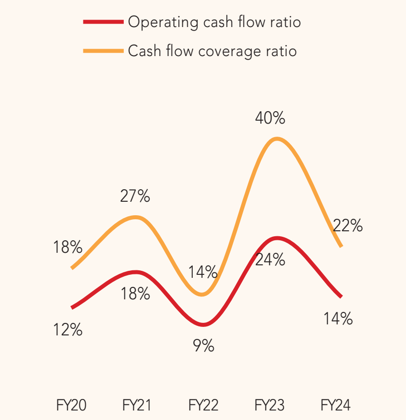
Revenue growth (% y/y) & EBITDA margin (%)



Net working cycle day (median) & Working capital turnover ratio



Cash flow ratios (%)



Note: Data in graphs is represented in single decimal point and hence might not reflect the difference that arise from the second decimal point onwards.
Source: CMIE, Dun & Bradstreet

Food Processing Sector

Key Budget Announcements

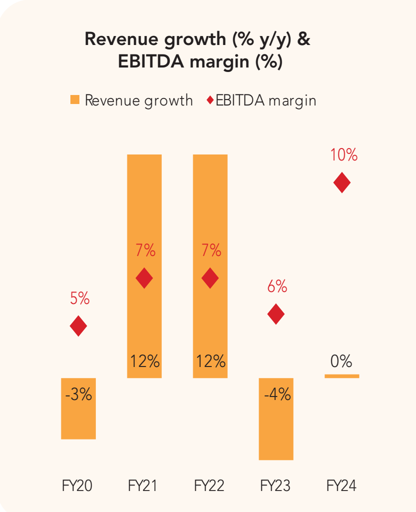
- Allocation for the Ministry of Food Processing Industries increased by 56% to Rs 44 bn in FY26 (BE).
- Allocation for Production-Linked Incentive (PLI) scheme in the food processing industry increased by 71% to Rs 12 bn in FY26 (BE).
- Corpus for Prime Minister Formalisation of Micro Food Processing Enterprises Scheme (PM FME) increased by 67% to Rs 12 bn.
- A National Institute of Food Technology, Entrepreneurship and Management to be established in Bihar. Makhana Board to be set up in Bihar with Rs 1 bn to boost production, processing, and marketing through Farmer Producer Organizations (FPOs).

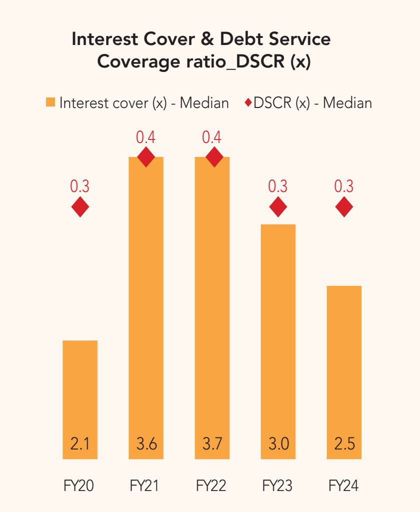
Impact on MSMEs

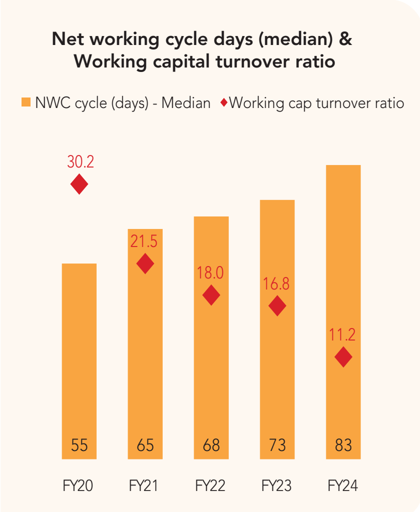
The higher allocation to the Ministry, coupled with boosts to the PLI scheme and PM FME corpus (Rs 12 bn) will improve access to funding, technology, markets and drive formalisation within the sector. The establishment of Makhana Board in Bihar will provide farmers with training, resources and support, while boosting local economies. National Institute of Food Technology will provide a strong fillip to food processing activities in the entire Eastern region along with skilling, entrepreneurship and employment opportunities for the youth.

MSME Performance: Key Financial Ratios

- Our study of selected MSMEs in the food processing sector show revenue growth remained flat in FY24, improving from -4% in FY23, as intense competition-driven pricing corrections and weak demand curbed volume growth.
- EBITDA margins rose to 10% in FY24 from 6% in FY23, driven by lower raw material costs (edible oil, sugar and grains), under government's price stabilisation policies, and enhanced operational efficiencies boosting production yields.
- Interest cover ratio declined from 3.0x to 2.5x, primarily on account of higher financing costs following the rise in interest rate, while Debt Service Coverage ratio (DSCR) held steady at 0.3x.
- The net working capital cycle lengthened to 83 days in FY24 (FY23: 73 days) due to inefficiencies in receivables terms (32 days vs. 28 days) and slower inventory turnover (77 days vs. 70 days). The sharp drop in the working capital turnover ratio from 16.8x to 11.2x, underscored reduced capital utilisation efficiency.
- Against the backdrop of normal monsoon in FY25, the food processing sector is expected to witness gradual uptick in consumption, driven by stable rural demand, rising disposable incomes, and sustained government support for the agricultural value chain.







Note: Data in graphs is represented in single decimal point and hence might not reflect the difference that arise from the second decimal point onwards.
Source: CMIE, Dun & Bradstreet

Electrical Machinery Sector

Key Budget Announcements

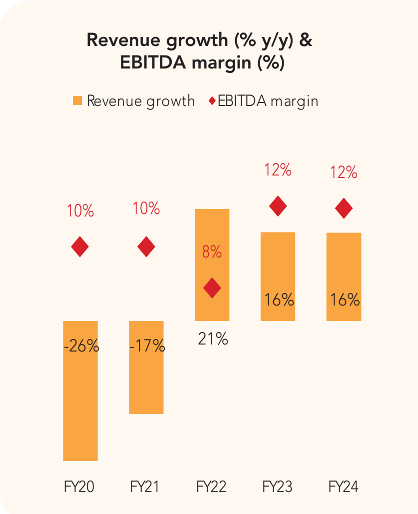
- To promote Clean Tech manufacturing under National Manufacturing Mission, the government has announced policies to promote the local manufacturing of wind turbines and motors - to support India's transition to sustainable and green energy.
- Customs duty on carrier-grade Ethernet switches reduced from 20% to 10%.
- Duties on smart meters decreased from 25% to 20%.

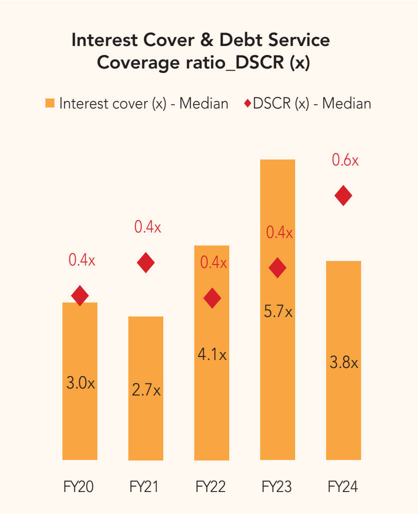
Impact on MSMEs

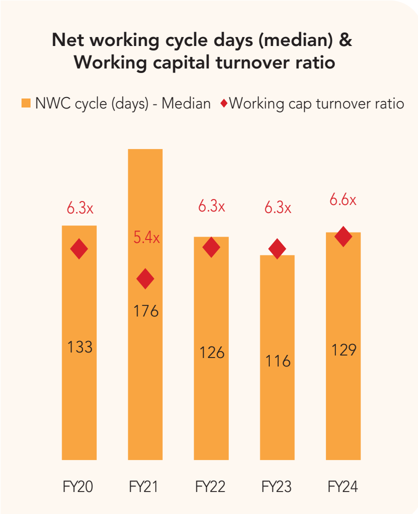
Local manufacturing of wind turbines and motors will boost MSMEs in component production and installation services. Lowering import duty on carrier-grade Ethernet switches and bringing them at par with non-carrier-grade switches, will resolve "industry classification" disputes while reducing infrastructure costs, aiding 5G expansion. Reduced smart meter duties will create opportunities for small manufacturers, promoting growth in smart meter production and related components.

MSME Performance: Key Financial Ratios

- In our MSME sample, revenue growth remained strong at 16% y/y for both FY23 and FY24, driven by government-led initiatives related to modernisation of aging grid infrastructure, rapid urbanisation, 100% electrification of Indian Railways, and strengthening of renewable energy network.
- Sector EBITDA margins remain stable at 12% supported by improved product mix, operational efficiencies on back of better capacity utilisation, and increase in export of value-added products.
- Interest cover ratio dropped significantly to 3.8x in FY24 (FY23: 5.7x), likely due to increased borrowings for capacity expansion, modernisation and working capital requirement.
- The net working capital cycle lengthened to 129 days in FY24 (FY23: 116 days) due to slower inventory turnover (86 days vs. 81 days) and weaker receivable terms (79 days vs. 77 days).
- Working capital to revenue ratio improved to 6.6x in FY24 (FY23: 6.3x), supported by robust revenue growth that offsets inefficiencies in working capital cycle.
- MSME companies in the sector are likely to have sustained the growth momentum in FY25, fuelled by external and domestic demand, despite disruptions from the General Elections, delayed contract awards, and emerging challenges from new safety regulations.







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Source: CMIE, Dun & Bradstreet

Chemicals Sector

Key Budget Announcements

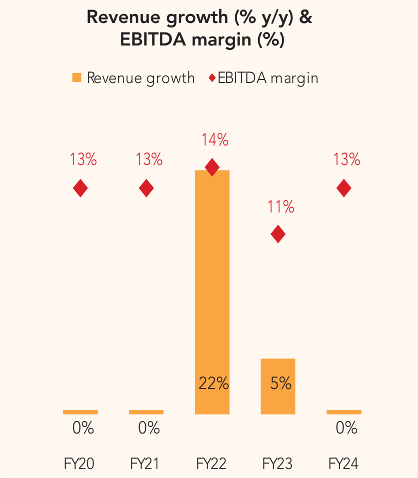
- Setting up of an additional urea plant with annual capacity of 12.7 lakh metric tons at Namrup, Assam.
- Setting up National Manufacturing Mission which will also support Clean Tech manufacturing and aiming to build ecosystem for solar PV cells, EV batteries, motors and controllers, electrolyzers, wind turbines, very high voltage transmission equipment and grid scale batteries.
- Implementation of scheme under National Action Plan for toys.
- Reduction in customs duty on various chemicals and extension of concessional customs duty rate on import of specified goods till 2026 and 2027.

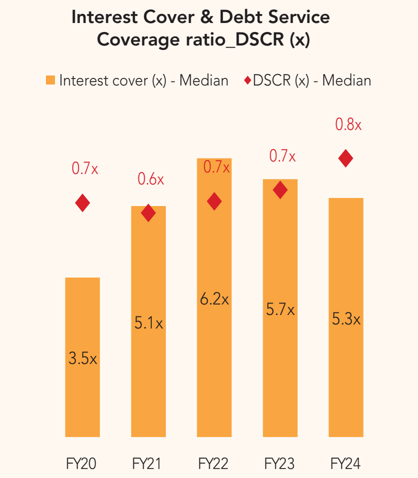
Impact on MSMEs

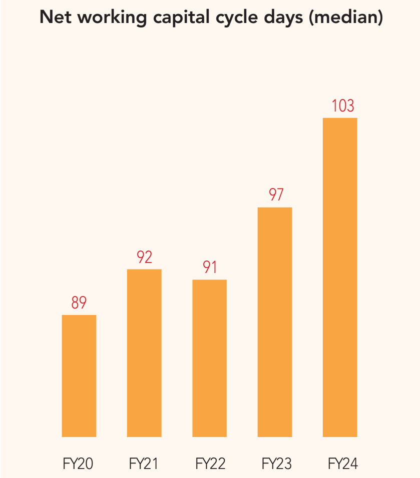
The National Action Plan for toys is expected to benefit specialty chemicals, while increased infrastructure projects will drive growth in construction chemicals. Although direct support for the chemicals sector could have been stronger, various measures aimed at strengthening MSMEs, the energy sector, and fostering research, innovation, and skill development will help boost domestic demand and exports. These initiatives will indirectly contribute to the growth of the chemical industry, creating new opportunities for expansion and investment for MSMEs.

MSME Performance: Key Financial Ratios

- Revenue growth in our sample MSME companies stagnated in FY24 likely owing to increased competition from China (oversupply from China), weak demand in developed markets, volatility in raw material prices and inventory corrections.
- Sector EBITDA margins improved to 13% in FY24 (from 11% in FY23), driven by better price realisations and a higher share of value-added products.
- Interest coverage ratio declined marginally to 5.3x (from 5.7x), suggesting a slight reduction in interest-servicing ability due to higher financing costs of long-term debts. However, Debt Service Coverage Ratio (DSCR) increased to 0.8x (from 0.7x).
- Net Working Capital (NWC) cycle increased marginally to 103 days in FY24 (from 93 days in FY23) driven by an increase in inventory days to 81 (from 76) and debtor days to 68 (from 65).
- Despite pressures from excess supply from China and rising freight costs, India's chemical sector is gaining investment traction under the China+1 and EU+1 strategies, driven by its cost advantages, skilled workforce, and proximity to key markets, with Europe's stricter climate regulations to further accelerate this shift (from Europe to other countries).
- In FY25, the companies are likely to realise higher revenue and profitability growth due to low base of FY24, sustained domestic demand, lower Chinese imports and favourable business prospects in the export market.







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Source: CMIE, Dun & Bradstreet

Auto Components Sector

Key Budget Announcements

- Corpus of Rs 29.7 bn allocated for the automobile industry in FY26 (BE) was 8-fold higher than FY25 (RE).
- Allocation for PLI scheme for Automobiles and Auto Component was Rs 28.2 bn in FY26 - 8 times higher compared to FY25 (RE).
- Allocation towards PM Electric Drive Revolution in Innovative Vehicle Enhancement (PM E-DRIVE) Scheme has been increased by 114% to Rs 40 bn. The allocation to the Scheme to Promote Manufacturing of Electric Passenger Cars in India (SMEC) doubled to Rs 120 mn in FY26 (BE).
- The Budget introduced full exemptions on basic customs duty for key EV battery materials and 35 capital goods and reduced customs duties on bicycles and motorcycles across various categories.

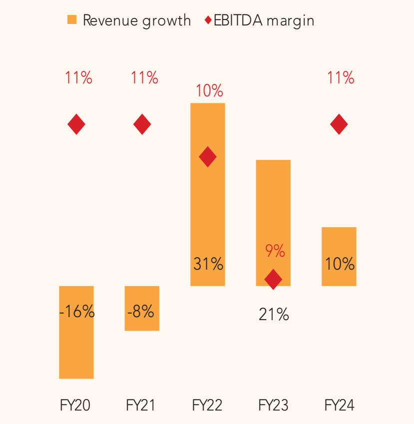
Impact on MSMEs

The Union Budget's increased allocation for the automobile sector, particularly for the PLI Scheme and EV manufacturing will drive cost efficiency, innovation, and export potential for MSMEs. The PLI allocation for auto components will boost local production, fostering innovation and supply chain integration for small manufacturers. The focus on EVs, with higher funding for ACC battery storage, PM E-DRIVE, and SMEC, will encourage MSMEs to invest in clean tech and advanced components. Customs duty reductions on key raw materials will lower input costs for MSMEs, enhancing competitiveness. Tariff reductions on motorcycles, bicycles, and steel will improve affordability, supporting small-scale suppliers and assemblers.

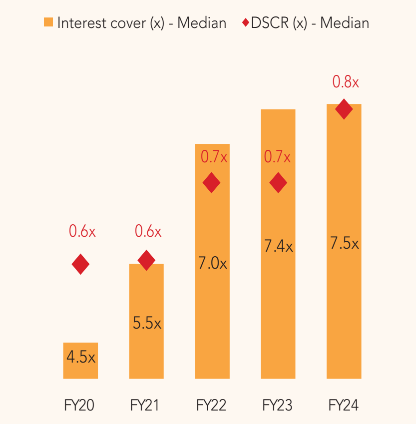
MSME Performance: Key Financial Ratios

- Our study of MSME companies in the sector shows a moderation in revenue growth to 10% y/y in FY24, driven by slower offtake in vehicle sales, particularly in passenger vehicles (PVs) and commercial vehicles (CVs). Export growth was constrained by geopolitical challenges and elevated logistics costs. However, increasing value addition per vehicle reflects resilient demand and expanding industry output.
- Sector EBITDA margins rose to 11% in FY24 (from 9% in FY23), likely driven by easing domestic supply chain constraints (semiconductor etc.) along with lower raw material costs and improved operational efficiency.
- For our sample companies, interest coverage improved to 7.5x in FY24 (from 7.4x in FY23), and Debt Service Coverage Ratio (DSCR) rose to 0.8x (from 0.7x), despite elevated interest rates.
- Net working capital cycle (NWC) increased to 80 days in FY24 from 78 days in FY23, with working capital turnover declining to 9.0x (FY23: 10.3x), driven by higher inventory days.
- MSME auto component companies are likely to have realised higher revenue growth in FY25, fueled by steady domestic OEM demand and rising aftermarket sales, though geopolitical challenges would continue to weigh on exports.

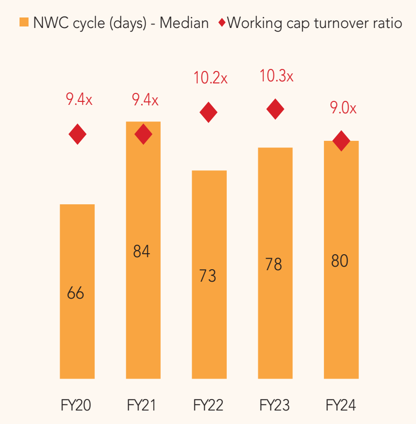
Revenue growth (% y/y) & EBITDA margin (%)



Interest Cover & Debt Service Coverage ratio_DSCR (x)



Net working cycle days (median) & Working capital turnover ratio



Note: Data in graphs is represented in single decimal point and hence might not reflect the difference that arise from the second decimal point onwards.
Source: CMIE, Dun & Bradstreet

Hospitality Sector

Key Budget Announcements

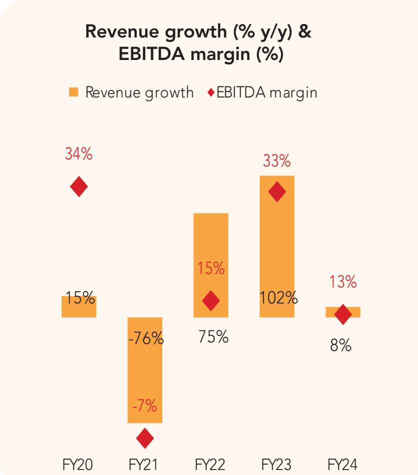
- Allocation of Rs 25.4 bn in FY26 (BE) to the Ministry of Tourism is 3-fold higher compared to FY25 (RE).
- Corpus towards Integrated Development of Tourist Circuits around specific themes (Swadesh Darshan) is 5-fold higher to Rs 19 bn and for Pilgrimage Rejuvenation and Spiritual, Heritage Augmentation Drive (PRASHAD) is 2.4 times higher to Rs 2.4 bn in FY26 (BE) compared to FY25 (RE).
- MUDRA loans to be provided for homestays. Promotion of employment-led growth of the tourism sector, including intensive skill development programs, improving ease of travel and connectivity, providing performance-linked incentives to states and zintroducing stream-lined visa facilities.
- Development of top 50 tourist destination sites in partnership with states and special focus on destinations related to the life and times of Lord Buddha.

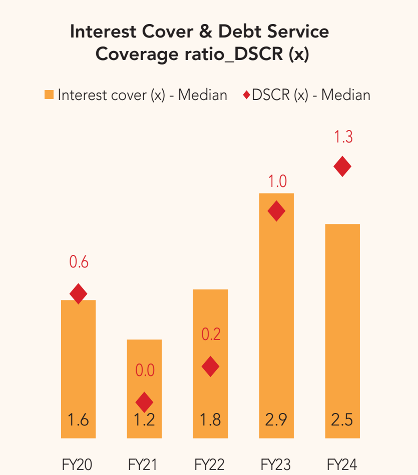
Impact on MSMEs

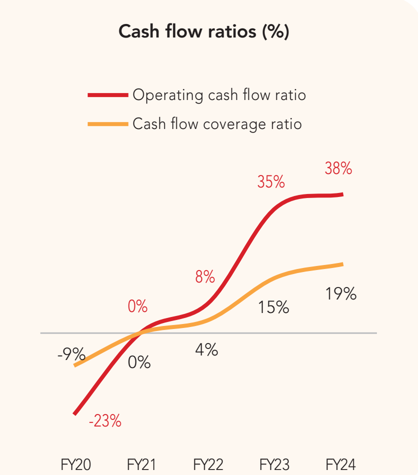
The increased budget allocation for tourism will benefit MSMEs by driving demand for local businesses, artisans, and service providers. The expansion of Swadesh Darshan and PRASHAD schemes along with emphasis on Lord Buddha-related sites will boost heritage and spiritual tourism, creating opportunities for MSMEs in hospitality, transport, and handicrafts. The introduction of MUDRA loans for homestays will empower small entrepreneurs, while skill development initiatives will enhance workforce capabilities. Enhanced promotion, streamlined visas, and improved travel infrastructure-including UDAN's expansion to 120 new destinations-will increase tourist footfall, benefiting MSMEs in food, lodging, and retail.

MSME Performance: Key Financial Ratios

- Revenue growth for the sample MSME hospitality companies moderated to 8% y/y in FY24 from 103% in FY23 (due to the post-COVID high base effect).
- The growth in the sector is driven by improved hotel occupancy (65.6% vs. 64.6% in FY23), record-high Average Daily Rates (+10.7% y/y), and a 12.4% y/y increase in Revenue Per Available Room.
- EBITDA margins fell sharply to 13% in FY24 from 33% in FY23, driven by rising operating costs and limited pricing power amid intense sector competition.
- Interest cover ratio weakened to 2.5x in FY24 (FY23: 2.9x), reflecting reduced profitability to service debt, while Debt Service Coverage Ratio (DSCR) slightly improved from 1.0x to 1.3x.
- The net working capital cycle improved from -56 days in FY23 to -65 days in FY24 days with a larger negative cycle indicating greater reliance on supplier credit to fund working capital needs. Improvement in debtor days (20 in FY24 vs. 22 in FY23) and credit days (96 in FY24 vs. 91 in FY23) highlights better cash flow management.
- Despite margin pressures, operating cash flow ratio rose to 38% in FY24 from 35% in FY23 and cash flow coverage ratio improved from 15% in FY23 to 19% in FY24, reflecting enhanced focus on cash flow efficiency.
- Hospitality companies are projected to sustain high single-digit revenue growth in FY25, driven by robust domestic leisure travel, rising MICE i..e. Meetings, Incentives, Conferences and Exhibitions and business travel demand, increasing foreign tourist arrivals (FTAs), and demand outpacing supply growth.







Note: Data in graphs is represented in single decimal point and hence might not reflect the difference that arise from the second decimal point onwards.
Source: CMIE, Dun & Bradstreet

Healthcare Sector

Key Budget Announcements

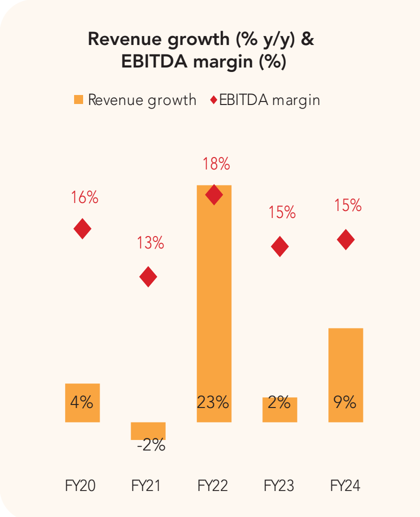
- The allocation for health has been increased by 12% to Rs 983 bn in FY26 (BE) from FY25 (RE).
- The allocation for Pradhan Mantri Ayushman Bharat Health Infrastructure Mission (PMABHIM) increased by 40% to Rs 42 bn in FY26 (BE) while allocation to developing healthcare infrastructure under Dharti Aaba Janjatiya Gram Utkarsh Abhiyan (DAJGUA) increased by 152% to Rs 4.2 bn in FY26 (BE).
- The budgetary allocation towards the National Digital Health Mission – NHM has been increased to Rs 3.4 bn in FY26 (BE) from Rs 2.3 bn in FY25 (RE).

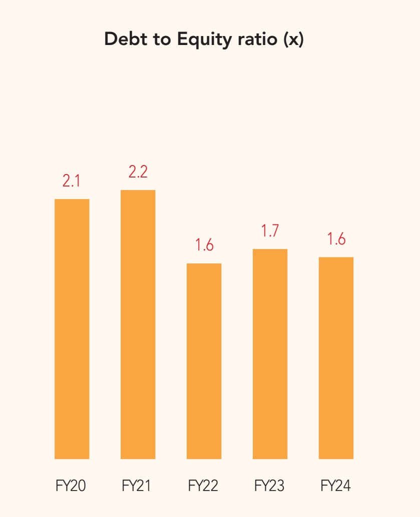
Impact on MSMEs

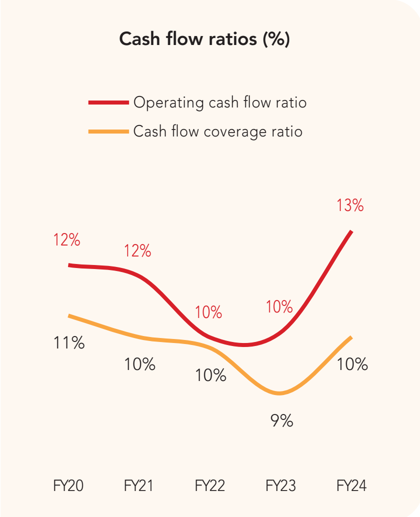
Around one trillion allocation to health and increased allocations for NHM and other health programs will drive demand for medical supplies, equipment, and services, benefiting MSMEs in these areas. Growth in digital health (NHM allocation) creates opportunities for tech-focused MSMEs. Increased focus on public health initiatives, including disease control and infrastructure development (PMABHIM and DAJGUA), will further stimulate demand for MSME products and services within the healthcare ecosystem.

MSME Performance: Key Financial Ratios

- In the examined group of MSME companies revenue growth increased to 9% (y/y) in FY24 supported by increase in high-end elective surgeries, pickup in medical tourism, strong bed occupancy levels, and healthy average revenue per occupied bed (ARPOB).
- EBITDA margin remained stable at 15% supported by benefits from cost optimisation such as consolidation of suppliers, centralised procurement of consumables and improvement in efficiencies though digitisation initiatives.
- The Debt/Equity ratio declined marginally to 1.6x in FY24 (FY23: 1.7x), indicating slight deleveraging but high leverage remains a concern.
- Operating cash flow ratio improved to 13% in FY24 (FY23: 10%), reflecting better cash flow generation, efficient working capital management and enhanced operational efficiency. Additionally, the cash flow coverage ratio rose marginally to 10% (FY23: 9%), suggesting improved ability to cover liabilities with cash flows.
- MSME companies in the sector are poised for stronger revenue growth, driven by rising healthcare demand and higher occupancy levels and supported by the government's Pradhan Mantri Jan Arogya Yojana (PMJAY) health assurance scheme.







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Source: CMIE, Dun & Bradstreet

MSMEs Through a Practitioner’s Lens:

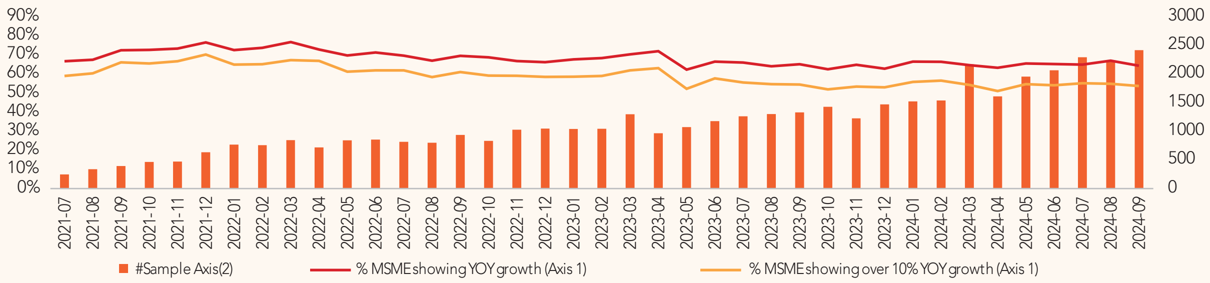
by UGRO Capital

The study is done using 45,000+ MSME enterprises and recent data highlights that the MSMEs continues to exhibit stable and significant YoY growth in recent quarters. The studied universe represents a well-distributed sectoral coverage, spans across India, with nearly 47% of entities having a vintage of less than 10 years. 85% of sampled entities report a turnover of less than ₹20 crore

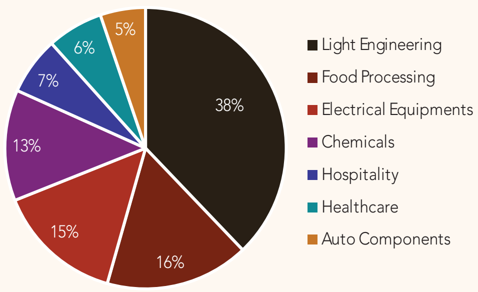
45,000+ MSMEs studied at various points during a three-year timeframe

~64% customers showing resumption of activity	~54% customers showing>10% YoY growth	Stable YoY growth can be seen in recent quarters

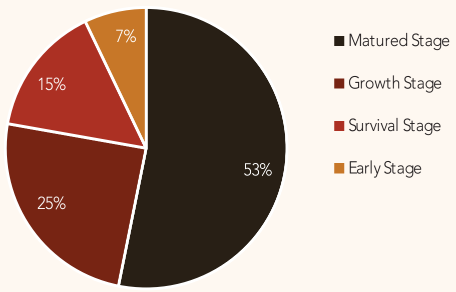
Chart showing % MSMEs studied in respective month showing positive and >10% Y-o-Y growth



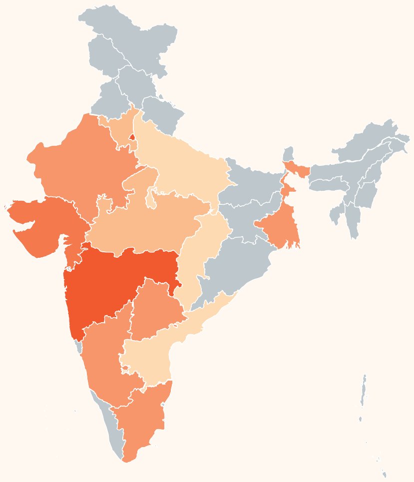
Well distributed Sectoral Representation



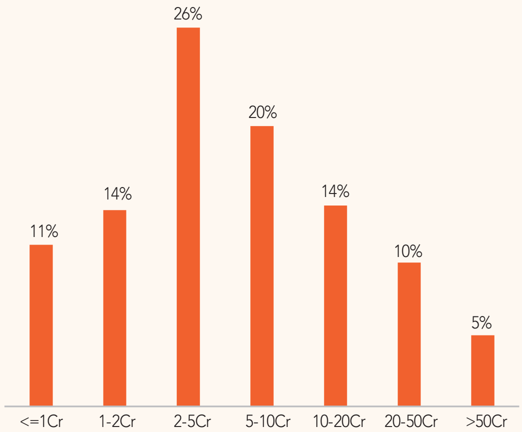
~47% entities have a vintage of <10 years



Representing a PAN India Footprint

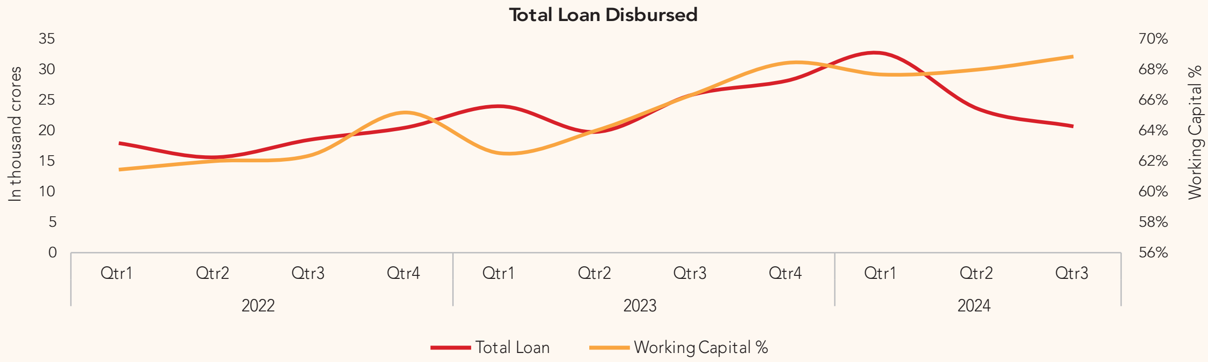


85% of sample are entities with turnover<20cr

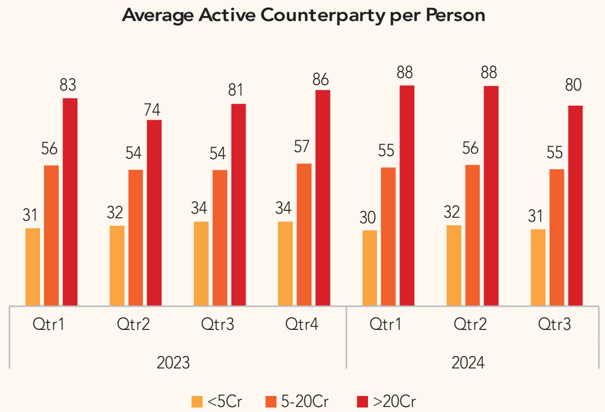


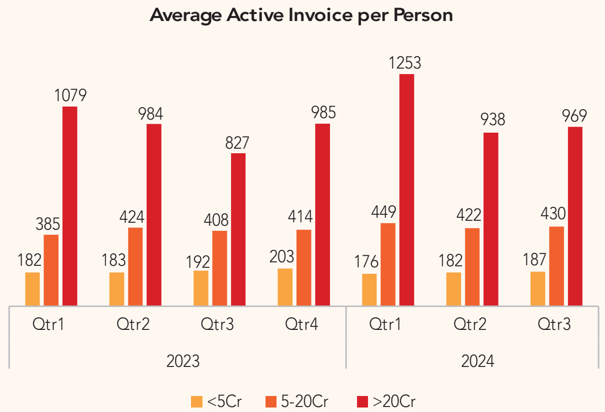
*Early Stage – 0 to 3 yrs Business Age, Survival Stage – 3 to 6 yrs Business Age,
Growth Stage – 6 to 10 yrs Business Age, Matured Stage – more than 10 yrs Business Age

While there is moderation in total loan disbursement, percentage share of working capital loans beats the trend, staying at similar/ improved levels

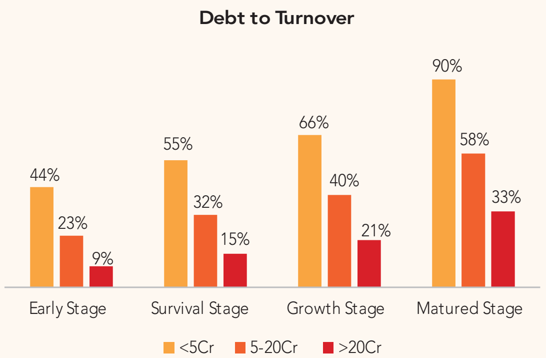


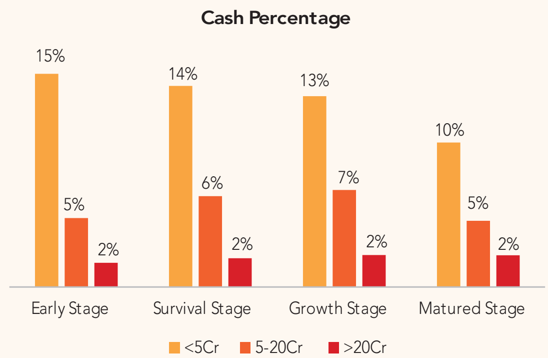
The stability in counterparty and invoice counts shows that while lending has become cautious, business activity continues to remain at same levels





As entities achieve higher turnover, both levels of debt as well as cash usage is observed to trend down, indicating transition to financial stability and formalization



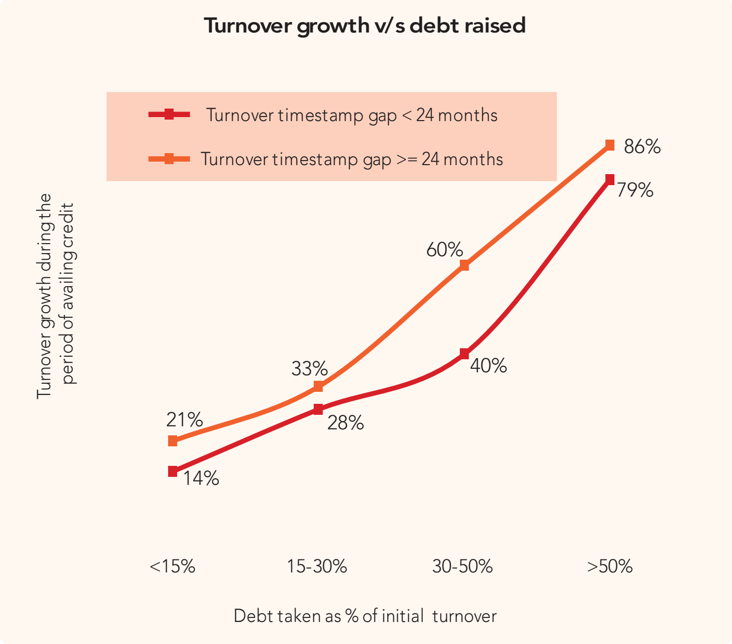


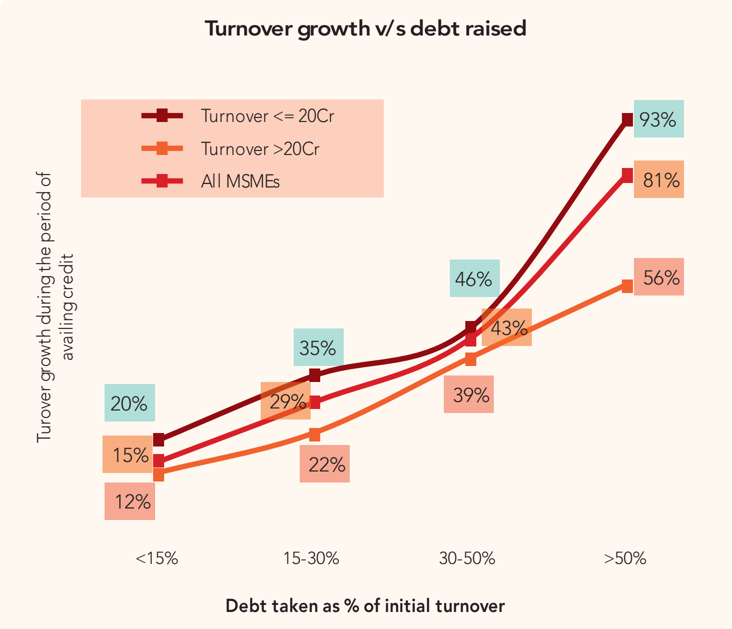
*Active Counterparties – Counterparty count in the last 6 months from login
*Active Invoice – Invoice raised in the last 6 months from login

*Early Stage – 0 to 3 yrs Business Age, Survival Stage – 3 to 6 yrs Business Age, Growth Stage – 6 to 10 yrs Business Age, Matured Stage – more than 10 yrs Business Age

Access to credit driving long term growth of MSMEs: a unique case study

A study of 7,500 MSMEs shows that timely access to credit drives higher growth. MSMEs that availed higher credit on time saw significantly higher turnover increases, regardless of their size or the time gap between observations





All MSMEs in the study were observed at two time points for the following

- Change of turnover in between two points
- Amount of debt taken during the period as % of initial turnover

The study shows that entities who have availed higher amount of debt indeed demonstrate higher percentage growth.

The same observation holds irrespective of

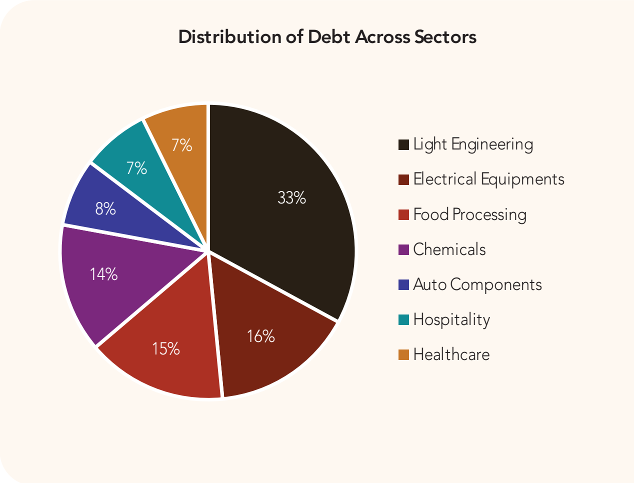
- the gap in between two time points (<24m or >24m)
- Turnover of the entity

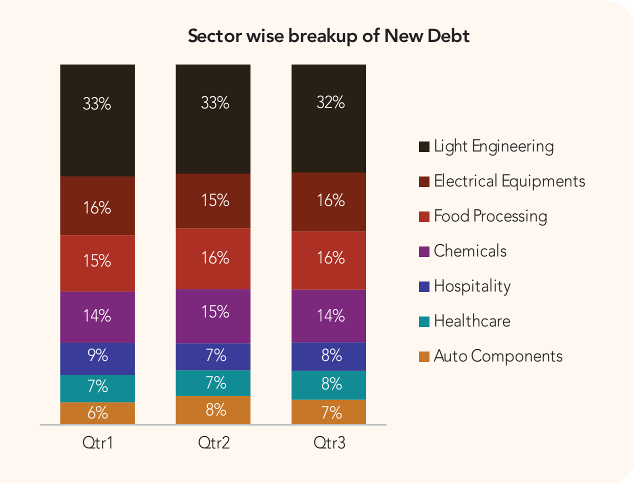
This unique study is possible by stitching together reported GST turnovers over long periods of time, and gives a strong validation of how important is the timely access to credit for MSMEs of India

Footnote: the study is performed on a base of 7,500 MSMEs, observed during last 4 years at various points in time; distributed across 13 states & 55 locations; distributed across the turnover range of 0.1-100 Cr; duration of turnover history ranges from 3 – 6 yrs

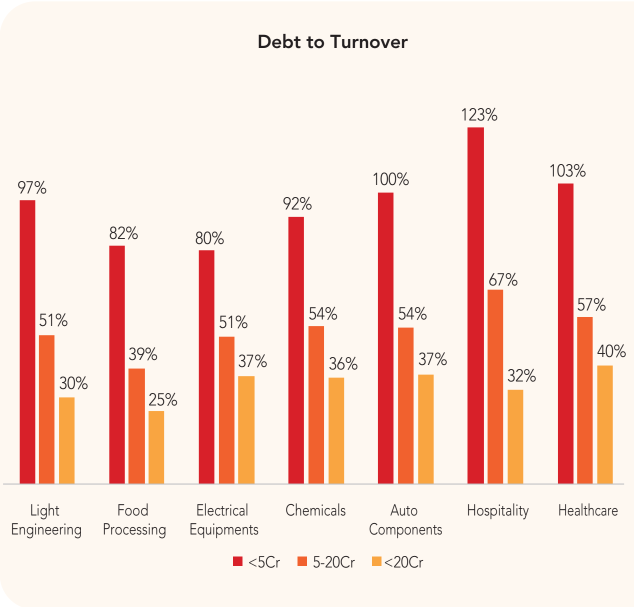
Sectoral View and Insight

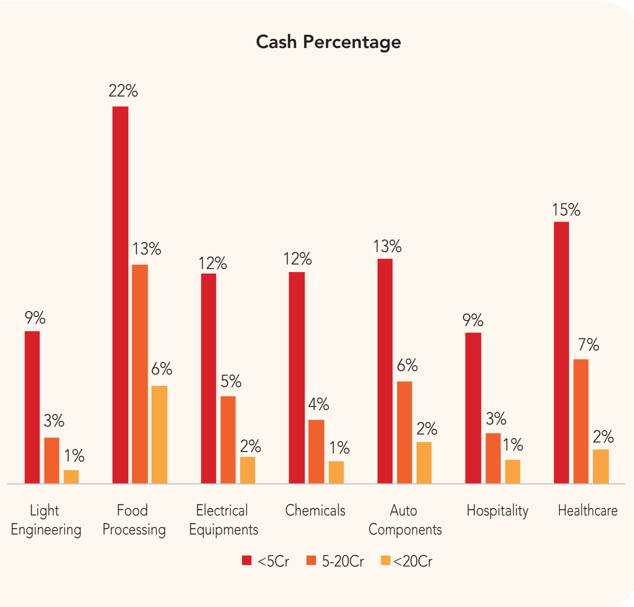
Penetration of credit: Healthy penetration of credit is visible across sectors and geographical footprint across the studied universe of business entities with Light engineering receiving dominant share





Formalization of Businesses: The observed lower cash percentages and debt-to-turnover ratios indicate that with increasing formalization across sectors businesses adopt efficient financial practices and optimize cash flow management





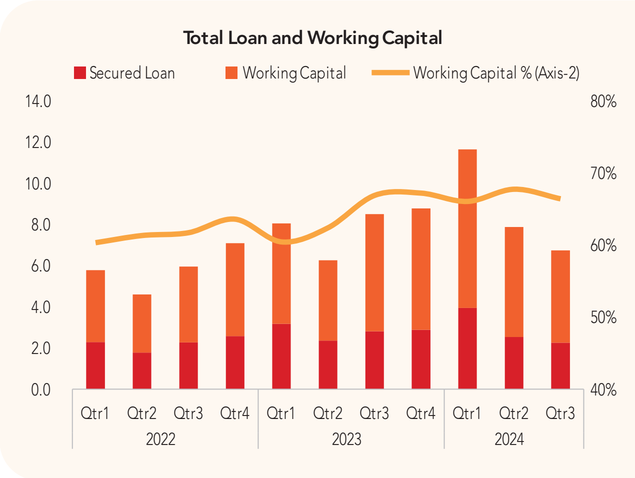
Light Engineering:

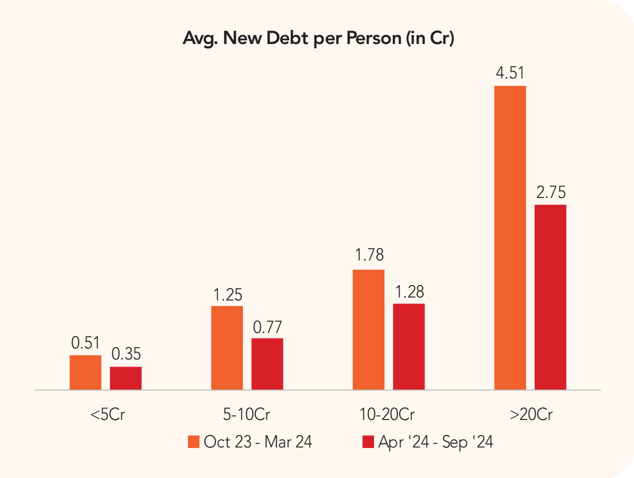
There is moderation in total loan disbursement across all sizes of borrowers reflective of overall cautionary stance. However stability in business activity indicated by number of active counterparties and invoices issued indicate resilience and continuity at ground level. Semi-finished and finished metal works is the dominant sub-industry with highest market size and most efficient sub-sector in terms of debt to turnover

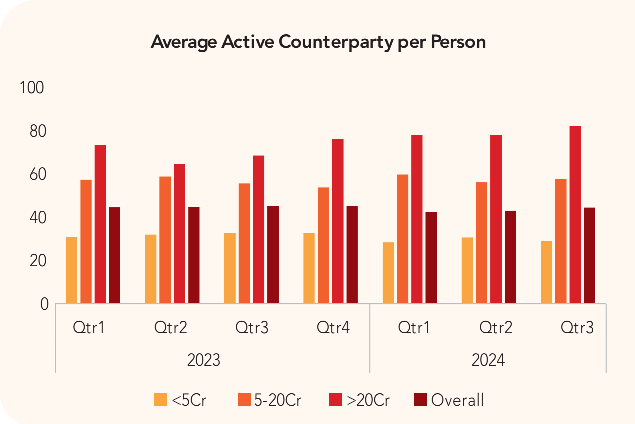
Prominent sub-sectors and their products

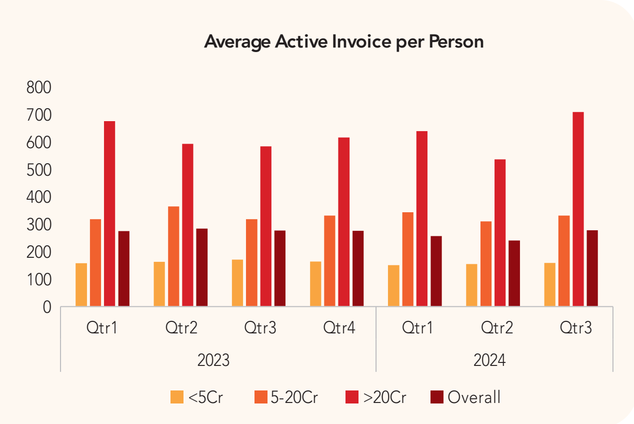
Sub Sector	Products Sold	Relative Share	Median Turnover	Avg New Debt per person (in Cr) (Apr '24 – Sept '24)	Debt to Turnover (till Sep'24)
Semi-finished Iron/ Metal Articles	Steel bars & rods, Ingots, Flat-rolled articles -Sheets etc.	52%	6.5Cr	0.92	24.1 %
Finished Iron/Metal Articles	Steel pipes & tubes, Structures- Molding boxes, Hardware fixtures	19%	3.5Cr	0.82	43.8 %
Machinery and its Parts	Hand tools, Pumps, Printing Machines, Lab equipments	16%	3Cr	0.79	51.5 %
Plastic and Rubber Articles	Plastic articles- containers (boxes, bags etc), Household articles	10%	3.5Cr	0.91	52.6 %
Ceramic and Stone Articles	Ceramic constructional goods, Toilet articles, Stone articles etc.	3%	3Cr	0.68	64.7 %
Glass Works	Safety glass, Glass containers, Glass fibres etc.	1%	4Cr	0.97	62.7 %

Stable business activity despite moderation in loan disbursement









*Active Counterparties – Counterparty count in the last 6 months from login
*Active Invoice – Invoice raised in the last 6 months from login

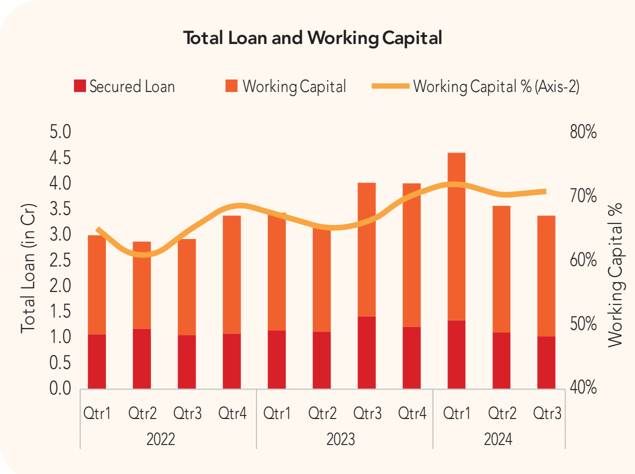
Food Processing:

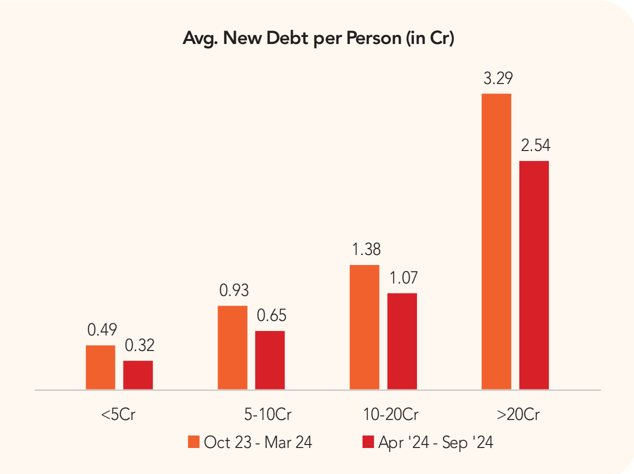
There is moderation in total loan disbursement across all sizes of borrowers reflective of overall cautionary stance. However, stability in business activity indicated by number of active counterparties and invoices issued indicate resilience and continuity at ground level. Oil seeds/ oil forms the dominant sub-industry followed by miscellaneous food items, fruits and vegetable and cereals.

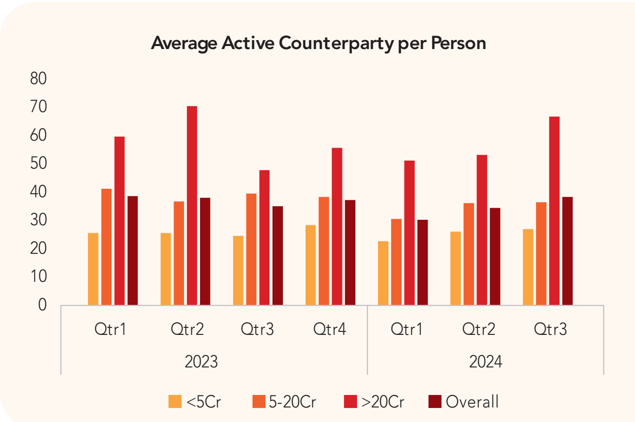
Prominent sub-sectors and their products

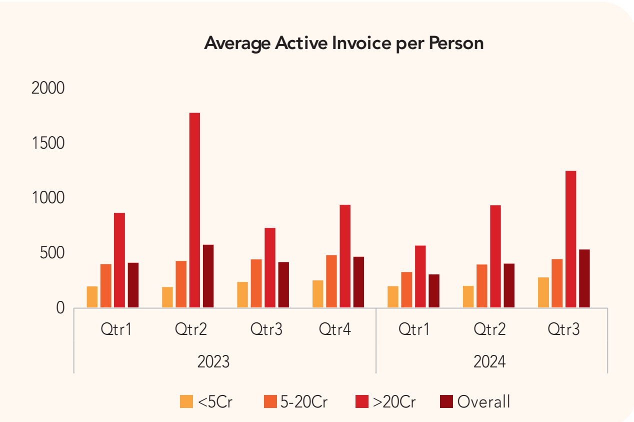
Sub Sector	Products Sold	Relative Share	Median Turnover	Avg New Debt per person (in Cr) (Apr '24 – Sept '24)	Debt to Turnover (till Sep'24)
Oil Seeds and Oil	Palm Oil, Soyabean oil, Sunflower-seed, Ground-nuts, coconut	22%	9Cr	0.76	16 %
Bakery and Confectionery	Sugar, Bread, Cakes, Ice cream , Cocoa preparations etc	18%	4.5Cr	0.63	35 %
Miscellaneous Edibles	Tea, Spices, Poultry, Honey, Meat, Fish etc	16%	5.5Cr	1.02	37 %
Fruit and Vegetables	Leguminous vegetables, Nuts, Dry fruits, Dates etc	16%	8Cr	1.17	25 %
Cereals and its Products	Rice, Wheat, Maize, Barley, Sorghum, Wheat flour etc	15%	7Cr	1.41	35%
Milk and Dairy Products	Milk, Cream, Butter, Cheese, Curds, Yogurt, Buttermilk etc	7%	7.5Cr	0.78	24 %
Mineral Water and Beverages	Mineral water, Vinegar etc	6%	5Cr	0.87	35 %

Stable business activity despite moderation in loan disbursement









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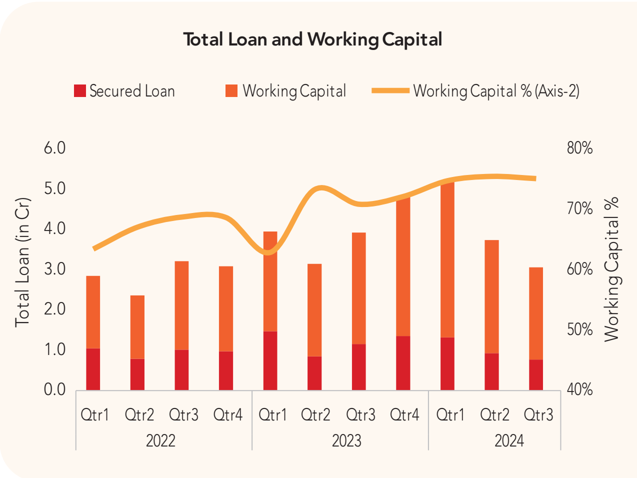
Electrical Equipments:

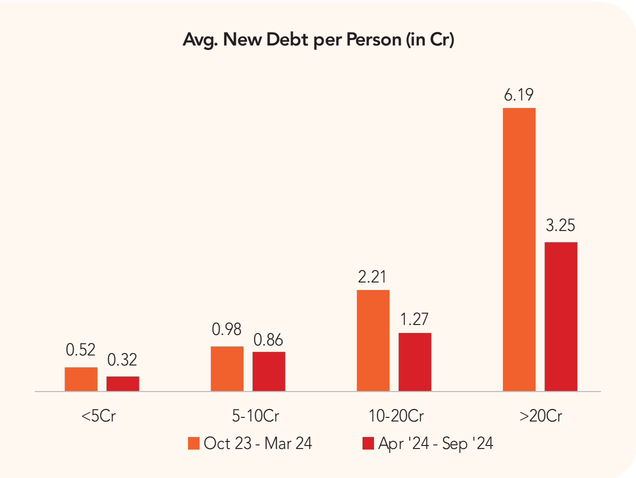
Electronic equipments, electrical appliances, electronic machines and electrical circuit and safety components are the dominant sub-industries. As with other industries, ground level business indicators remain unsubdued despite moderation in credit disbursals in recent quarters

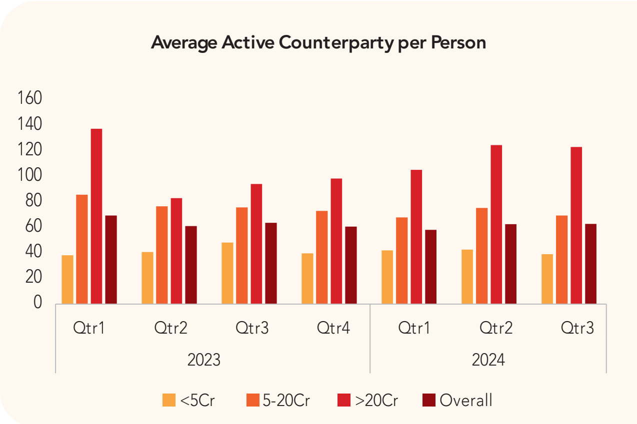
Prominent sub-sectors and their products

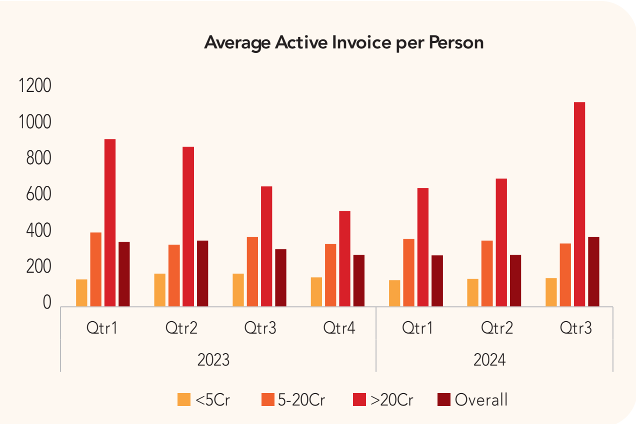
Sub Sector	Products Sold	Relative Share	Median Turnover	Avg New Debt per person (in Cr) (Apr '24 – Sept '24)	Debt to Turnover (till Sep'24)
Electronics Equipments	Semiconductor devices, ICs, Monitors, Projectors, Cameras etc	38%	6Cr	0.97	41 %
Electrical Appliances	Lamp, AC, TV, Refrigerator, Vacuum pump, Electric furnace	22%	4Cr	0.92	46 %
Miscellaneous Electronic Machines	Data processing machines, Office machines, Primary cells etc	16%	5Cr	0.99	32 %
Electrical Circuit and Safety Components	Switches, MSBs, Cables, Wires , Resistors, Capacitors etc	16%	6.5Cr	1.39	50 %
Heavy Electrical Equipments	Transformers, Electric motors and generators etc	8%	4.5Cr	1.16	44 %
Services related to Electrical Equipments	Maintenance services of telecommunication equipments	1%	4Cr	0.99	49 %

Stable business activity despite moderation in loan disbursement









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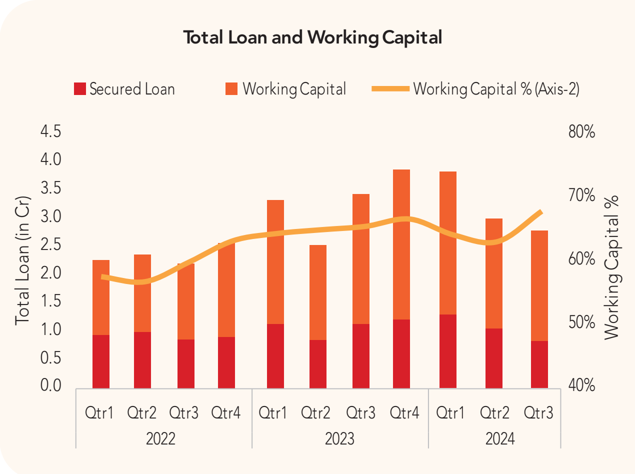
Chemicals:

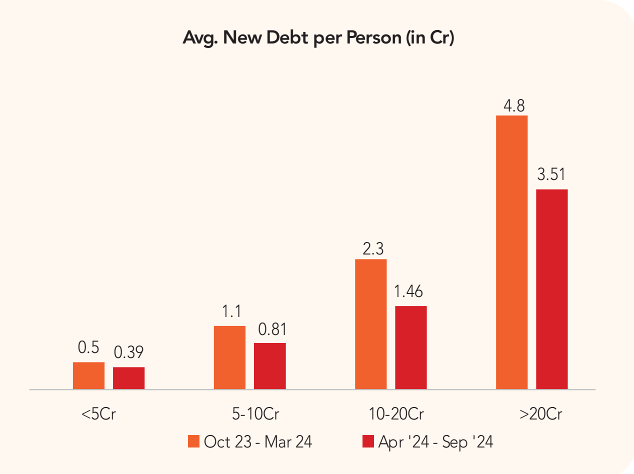
Inorganic/organic chemicals and plastic/rubber articles constitutes ~57% of chemical sector. Other sub sectors include insecticides, minor minerals and constructional goods and fertilizers.

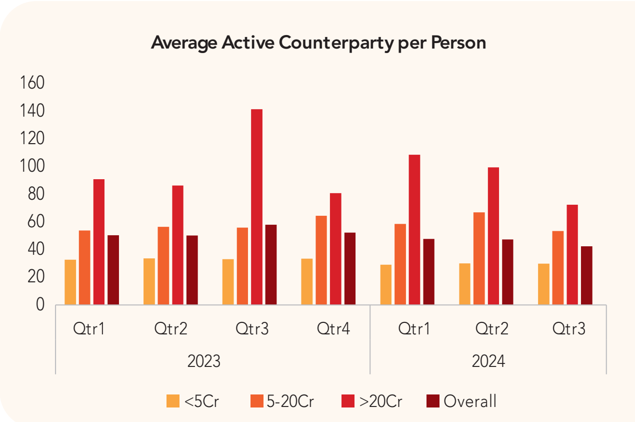
Prominent sub-sectors and their products

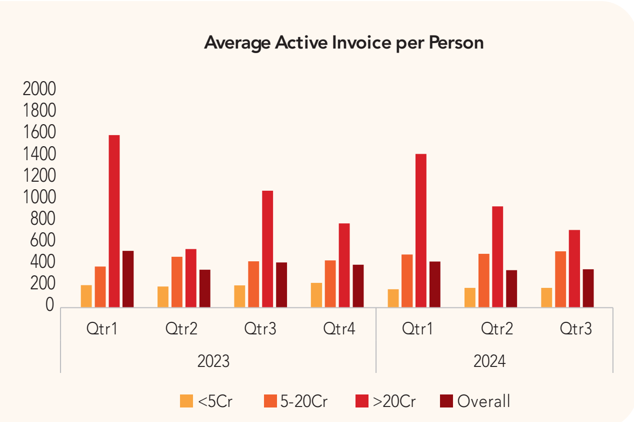
Sub Sector	Products Sold	Relative Share	Median Turnover	Avg New Debt per person (in Cr) (Apr '24 – Sept '24)	Debt to Turnover (till Sep'24)
Plastic & Rubber - Semi finished Product	Plastic - plates, sheets, films, Synthetic rubber etc	31%	4.5Cr	1.06	37 %
Inorganic/Organic Chemical	Alcohols, Acids, Oxides, Hydrocarbons etc	26%	8.5Cr	1.69	38 %
Miscellaneous Chemical Products	Insecticides, Fungicides, Binders, Toilet preparations etc	19%	5Cr	1	41 %
Minor Minerals & Constructional Goods	Cement, Sand, Pebbles, Gravel, Marble, Gypsum, lime etc	13%	3.5Cr	0.87	46 %
Fertilizers	Organic & chemical fertilizers etc.	6%	3Cr	0.89	38 %
Colouring Matters	Paints, Varnishes, Putty, Inks, Pigments etc	5%	5.5Cr	1.31	53 %

Stable business activity despite moderation in loan disbursement









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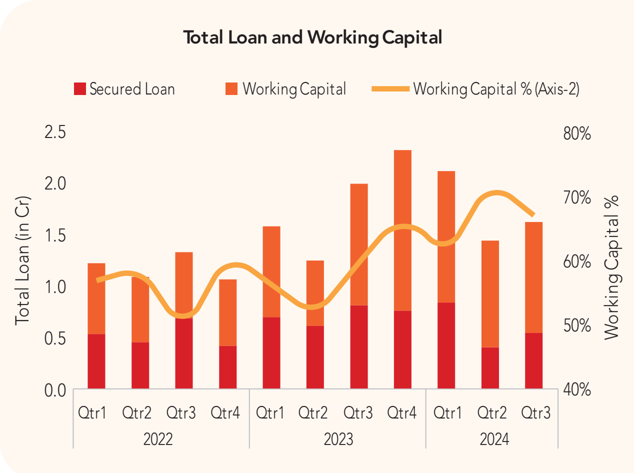
Auto Components:

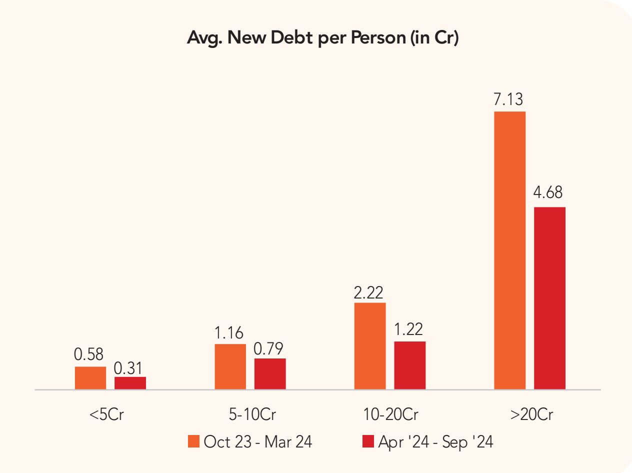
Motor Vehicle and machinery parts such as transmission parts, body and chassis constitutes ~ 77 % of the auto component industry, which has significant SME presence due to large number of small parts required to make the end product

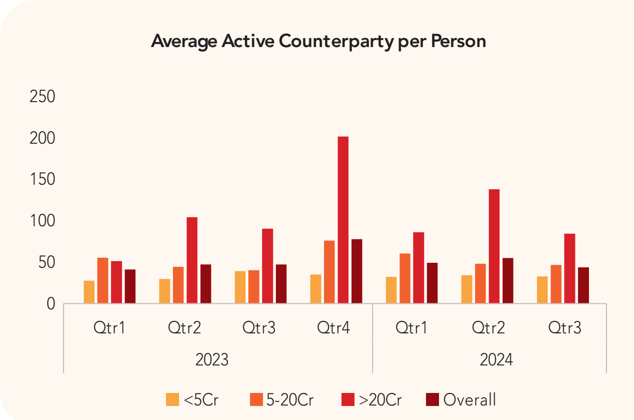
Prominent sub-sectors and their products

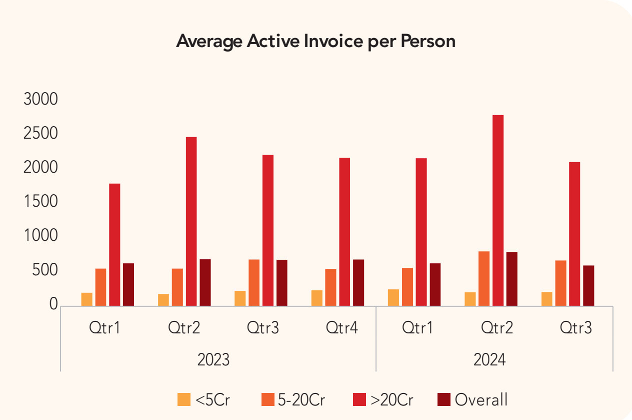
Sub Sector	Products Sold	Relative Share	Median Turnover	Avg New Debt per person (in Cr) (Apr '24 – Sept '24)	Debt to Turnover (till Sep'24)
Machine and Machinery Parts of Automobile	Body & Chassis, Transmission shaft, Gear, Ball or roller bearing etc	39%	5Cr	1.00	41 %
Motor and Other Vehicles	Motorcycles, Passenger motor vehicle, Tractors, Bicycles etc	38%	6Cr	1.77	43 %
Miscellaneous Auto Parts & Accessories	Parts & accessories of vehicles, Electric light, Windshield wiper etc	15%	4Cr	1.41	41 %
Tubes and Tyres	Tubes and tyres	6%	5Cr	0.91	43 %
Rail Locomotive and Equipments	Container, Track fixture, Mechanical signalling etc	2%	5Cr	1.48	46 %

Stable business activity despite moderation in loan disbursement









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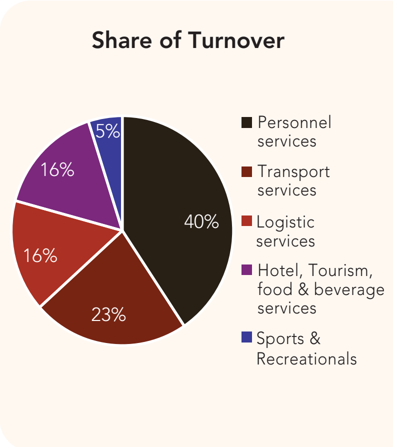
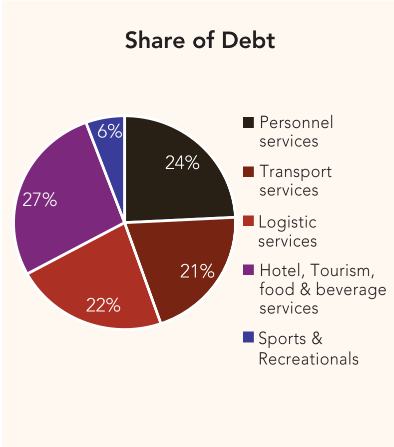
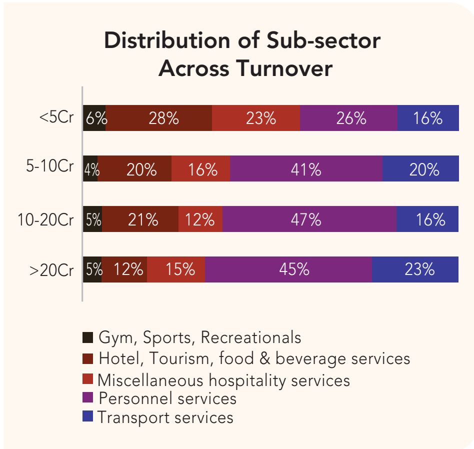
Hospitality:

Personnel services, transport and logistics, travel rental, hotel/ tourism/ dining constitute large part of the sector with highest debt to turnover observed in hotel/ tourism and dining industry. Despite headwinds in credit disbursals, the observed universe of borrowers continue to show stability in business activities except in the case of larger entities (with turnover >20 Cr), majority of which are in the business of transport services.

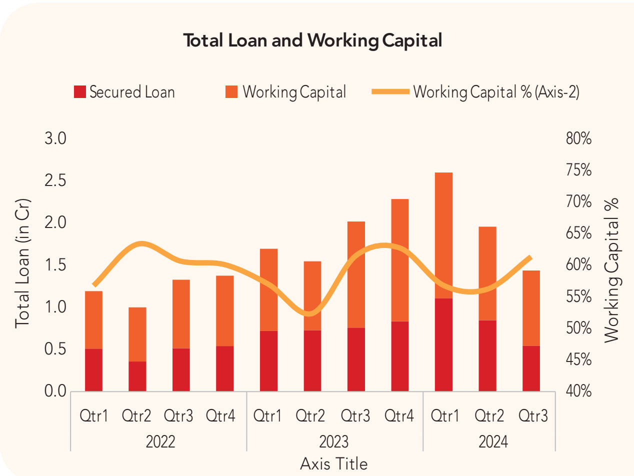
Prominent sub-sectors and their distributions

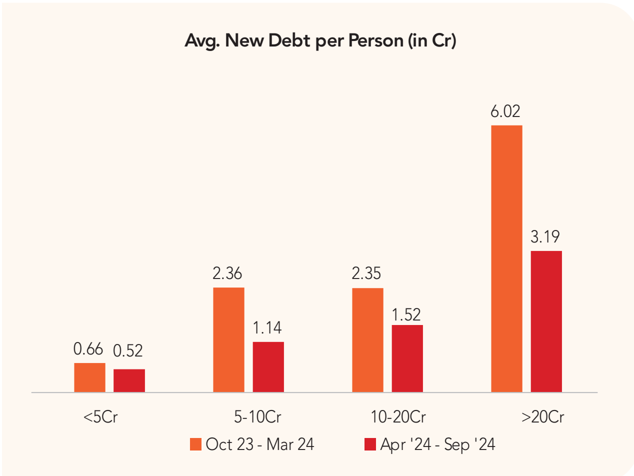


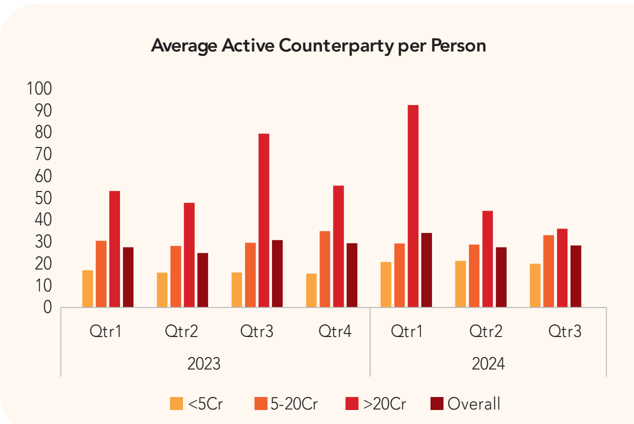


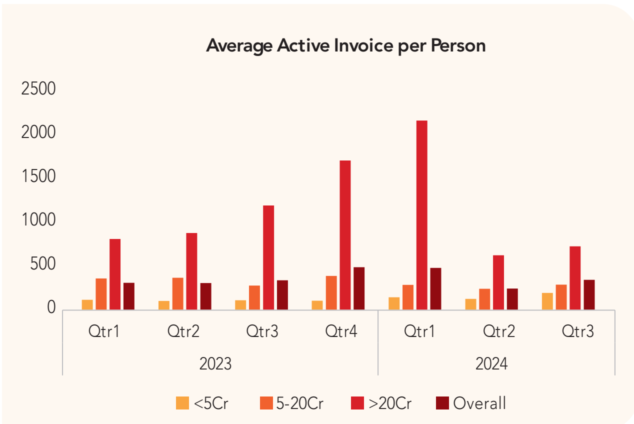


Stable business activity despite moderation in loan disbursement







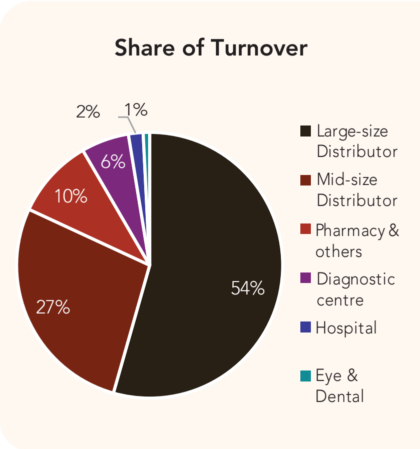


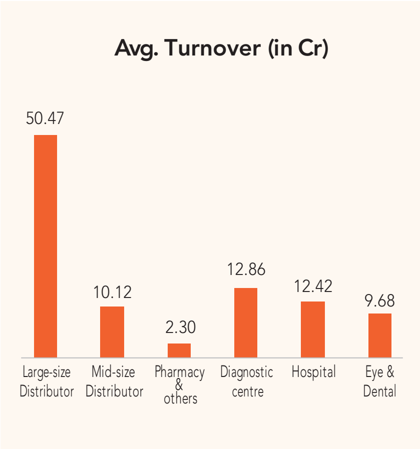
*Active Counterparties – Counterparty count in the last 6 months from login
*Active Invoice – Invoice raised in the last 6 months from login

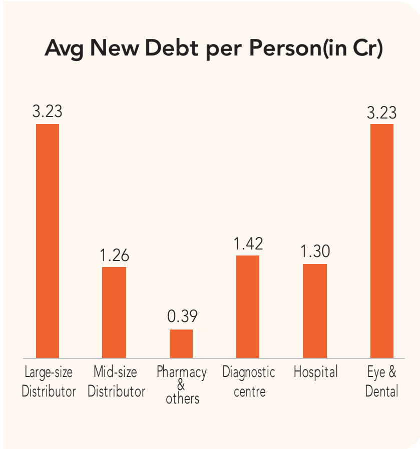
Healthcare:

Healthcare delivery and service (dealers, distributors, hospitals, diagnostic centers) constitutes major share of the market. Despite headwinds in credit disbursals, larger segment of the observed universe (turnover < 20 Cr, primarily covering pharmacies, diagnostic centers, small hospitals) continue to show stability in business activities.

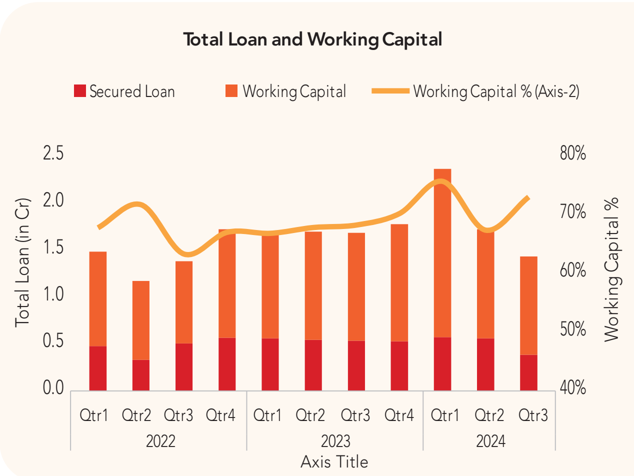
Prominent sub-sectors and their distributions

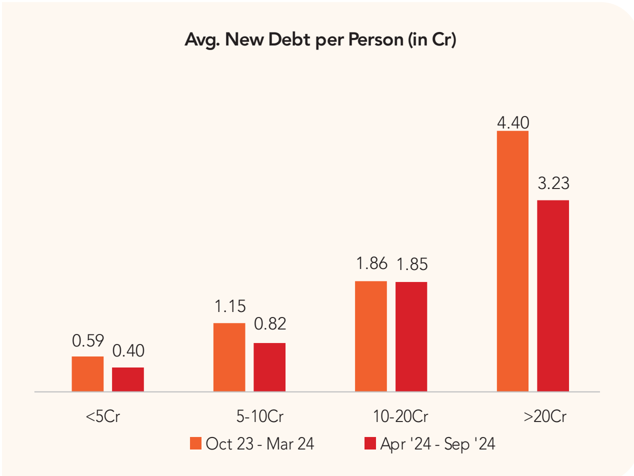


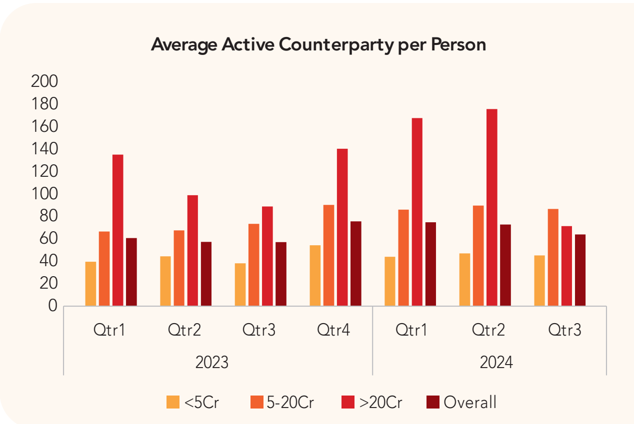


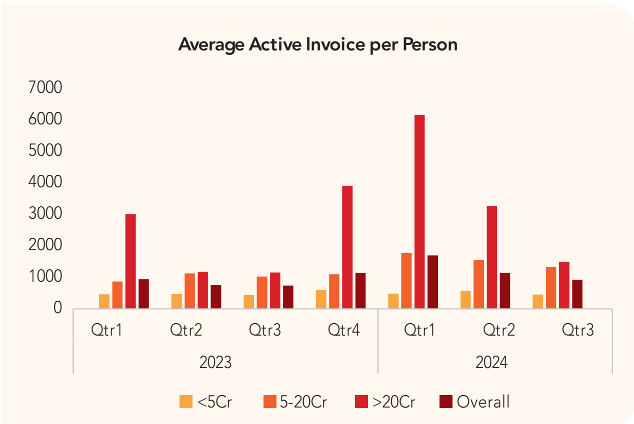


Stable business activity despite moderation in loan disbursement







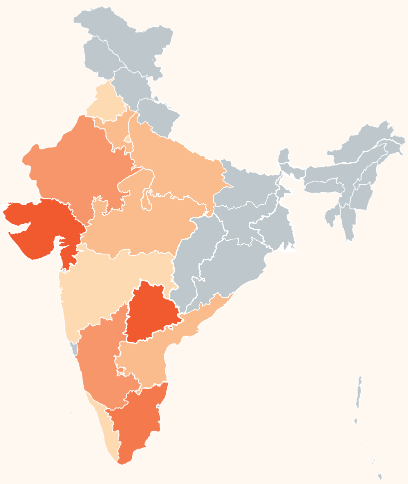


*Active Counterparties – Counterparty count in the last 6 months from login
*Active Invoice – Invoice raised in the last 6 months from login

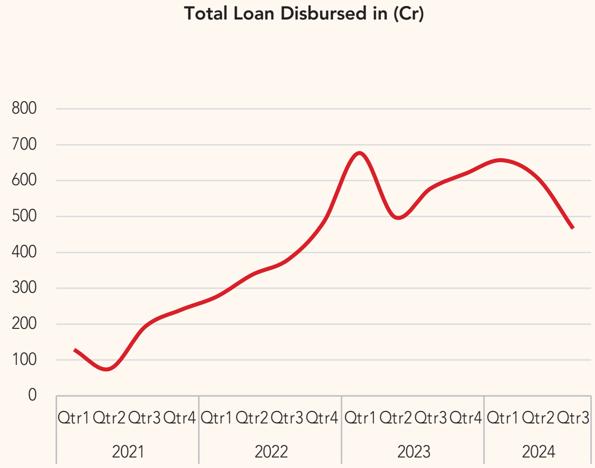
Emerging Market:

Study has been done across 15,000+ micro-sized MSMEs; some moderation in credit penetration into the sector , which led to decrease in proportion of term loans in recent time; Together with higher contribution of term loans as well as larger ticket sized (>10 lakhs) loans reflect lenders' confidence on their resilience and potential.

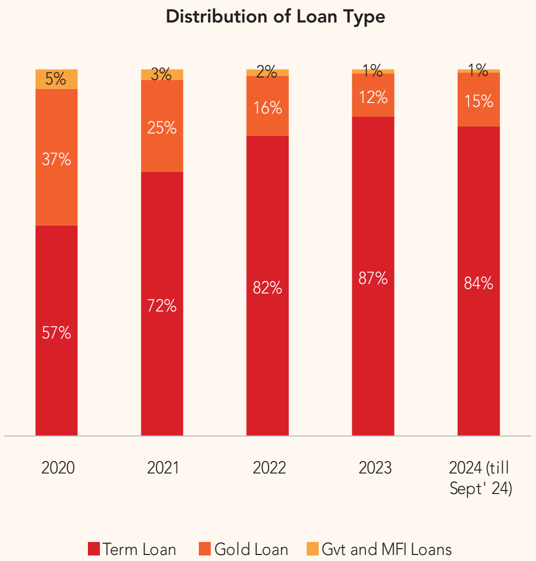
Study representing 15,000+ MSMEs across UGRO Capital's geographical footprint



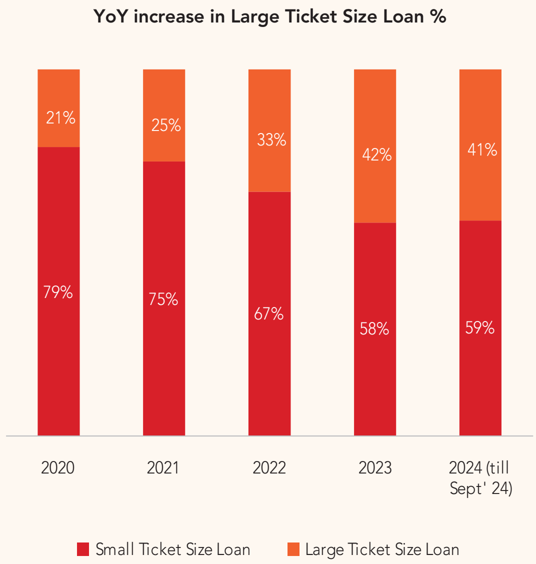
Some Moderation in yearly new sanctions during recent times



Stable growth in proportion of regular term loan across time



Stable growth in proportions of bigger ticket size (> 10 lakhs) loans across time



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About UGRO Capital Ltd.

UGRO Capital Limited is a DataTech Lending platform, listed on NSE and BSE, pursuing its mission of "Solving the Unsolved" for the small business credit gap in India, on the back of its formidable distribution reach and its Data-tech approach.

The Company's prowess in Data Analytics and strong Technology architecture allows for customized sourcing platforms for each sourcing channel - GRO Plus module which has uberized intermediated sourcing; GRO Chain, a supply chain financing platform with automated end-to-end approval and flow of invoices; GRO Xstream platform for co-lending, an upstream and downstream integration with fintechs and liability providers; and GRO X application to deliver embedded financing option to MSMEs. The credit scoring model GRO Score (3.0), a statistical framework using AI / ML driven statistical model to risk rank customers, is revolutionizing the MSME credit by providing on-tap financing like consumer financing in India.

U GRO Capital has pioneered in the Co-lending model in India through relationships with 10+ Large Public Sector Banks and large NBFCs and built a sizeable off-balance sheet asset of more than 45% of its AUM through the GRO Xstream platform. As of December 2024, in short period of 6 Years, U GRO has built an AUM of Rs. 11000+ crores. It has served over1,35,000+ customers across 9,000+ different pin codes, scrutinizing over 2,50,000+ bank statements, 80,000+ GST records,and processing more than 1,90,000+ GRO Score logins.

Looking ahead, U GRO Capital remains steadfast in its dedication to leverage technology, data-driven insights, and industry expertise to provide innovative financial solutions that meet the evolving needs of MSMEs. For more information, please visit: http://www.ugrocapital.com/

About Dun & Bradstreet

Dun & Bradstreet, a leading global provider of business decisioning data and analytics, enables companies around the world to improve their business performance. Dun & Bradstreet's Data Cloud fuels solutions and delivers insights that empower customers to accelerate revenue, lower cost, mitigate risk and transform their businesses. Since 1841, companies of every size have relied on Dun & Bradstreet to help them manage risk and reveal opportunity.

For more information on Dun & Bradstreet, please visit www.dnb.com.

Dun & Bradstreet Information Services India Private Limited is headquartered in Mumbai and provides clients with data-driven products and technology-driven platforms to help them take faster and more accurate decisions in domains of finance, risk, compliance, information technology and marketing. Working towards Government of India's vision of creating an Atmanirbhar Bharat (Self-Reliant India) by supporting the Make in India initiative, Dun & Bradstreet India has a special focus on helping entrepreneurs enhance their visibility, increase their credibility, expand access to global markets, and identify potential customers & suppliers, while managing risk and opportunity.

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