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## Growth and Performance of MSMEs: A Study across the Leading States of India

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### A B S T R A C T

Micro, Small and Medium Enterprises (MSMEs) sector has been globally considered as an engine of economic growth and a key instrument for promoting equitable development. The labour intensity of this sector is much higher than that of large enterprises. Most of the MSMEs are credited with generating the highest growth rate of employment and account for a major share of industrial production and exports. This sector caters to the needs of small entrepreneurs with lower capital and thus renders service to the rural and backward classes who are empowered to contribute to the overall national growth. MSME sector forms the backbone of economic progress and development of any State because of its versatile nature and adaptability, besides its contribution to industrial productivity, employment generation and exports. MSME sector serves the role of a torchbearer for India's growth in the years to come; the sector can further reduce the employment woes of the country. This paper seeks to examine the growth and performance of MSMEs in the leading states of India.

### Introduction

For a country to grow, the government should actively promote business enterprises. Among business enterprises, the micro, small and medium enterprises (MSMEs) deserve a special mention. Although MSMEs are small investment enterprises, yet their contribution to the [Indian economy](#) is very significant. The MSME sector is an important pillar of the Indian economy as it contributes greatly to the growth of Indian economy with a vast network of around 30 million units, creating employment

to about 70 million workers, manufacturing more than 6000 products, contributing about 45 per cent to manufacturing output and about 40 per cent of exports, directly and indirectly. This sector assumes even greater importance now as the country moves towards agenda for a faster and inclusive growth. Moreover, it is the MSME sector, which could help realize the target of the National Manufacturing Policy of raising the share of the manufacturing sector in GDP from 16 per cent at present to 25 per cent by the end of 2022.

The primary responsibility of promotion and development of MSMEs vests with the State Governments. However, the Government of India supplements efforts of the State Governments through various initiatives. The role of MSMEs and their organizations 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.

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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:

**Table-1: Classification of MSMEs**

Classification	Manufacturing Enterprises	Services Enterprises
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

Source: Ministry of MSME

A glance at the available literature indicates that there is a positive causality between MSMEs output and India’s GDP and emphasizes on nurturing MSME sector for the economic wellbeing of the nation (Dixit and Pandey, 2011; Ishu Garg et al, 2012; and Venkatesh and Muthiah, 2012). A few studies examined the contribution of MSMEs to be able to create a diversified and flexible industrial base by creating a pool of entrepreneurs willing and able to take risks leading to an energetic enterprise culture (Armstrong and Taylor, 2000). Besides, evidence from a number of developing countries indicates that small enterprises with a lower level of investment per worker tend to achieve a higher productivity of capital than do the larger, more capital-intensive enterprises. Thus, the existing literature highlights the contribution of the MSMEs in Indian economy and the need for continued research in this field.

**Objectives & Methodology**

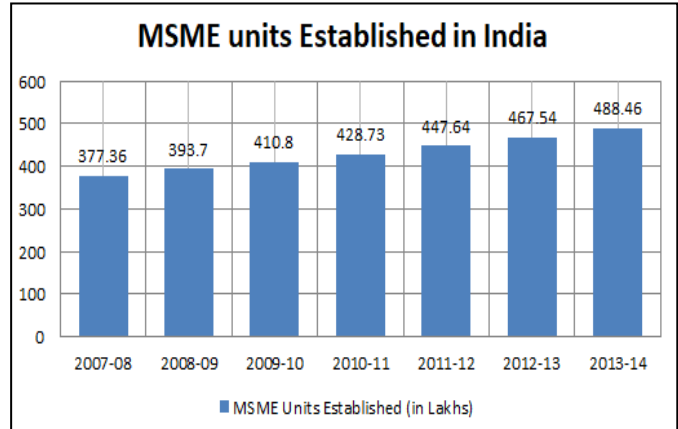
The main objective of this present paper is to examine the growth and performance of MSMEs in terms of number of units, employment and investments in India and the leading states of the country in this regard, viz., Uttar Pradesh, West Bengal, Tamil Nadu, Maharashtra and Andhra Pradesh. Further, the problem of sick units among the MSMEs and their potential for viability is analysed at the national level. To make an in-depth study of the growth of MSMEs in India and the leading states, the period of study is taken as 2007-2014.

The study is based on secondary data. All financial data are compiled from Annual report of MSMEs, Government of India and respective state governments, besides different books and articles in periodicals/ journals.

**Growth of MSMEs in India and the Leading States**

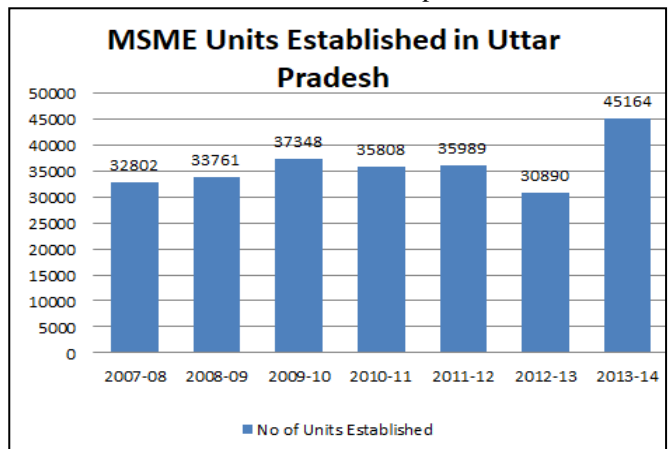
The important parameters to analyze the growth of MSMEs are the number of MSMEs, fixed capital, working capital, and productive capital, gross value of output, employment and exports. The impact of the policies and programmes could be assessed with help of the growth of MSMEs. The growth in the

number of MSMEs in India is presented in Fig. 1 and the leading states, viz., Uttar Pradesh (UP), West Bengal (WB), Tamil Nadu (TN), Maharashtra and Andhra Pradesh (AP) during 2007-14 is presented in Fig. 2, 3, 4, 5 and 6 respectively and the Compound Annual Growth Rate (CAGR) trends across India and the leading states are presented in table 2.



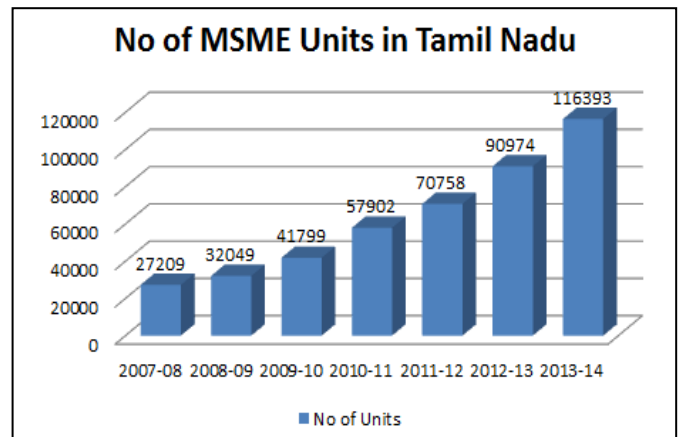
**Fig. 1: Growth in Number of MSMEs in India**

Source: MSME Annual Report 2014-15



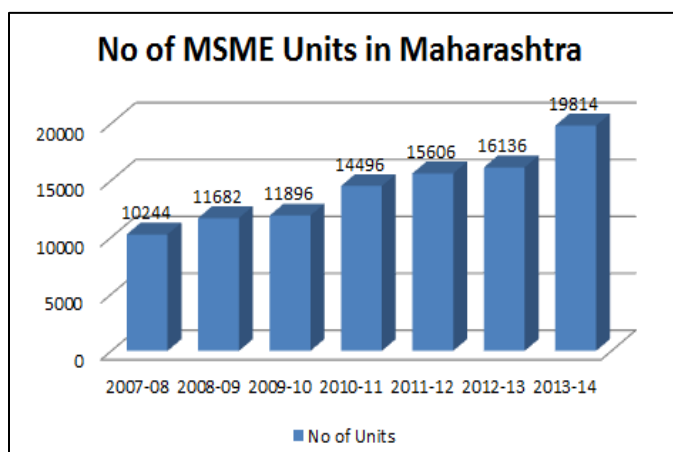
**Fig. 2: Growth in number of MSMEs in U.P**

Source: MSME Annual Report 2014-15

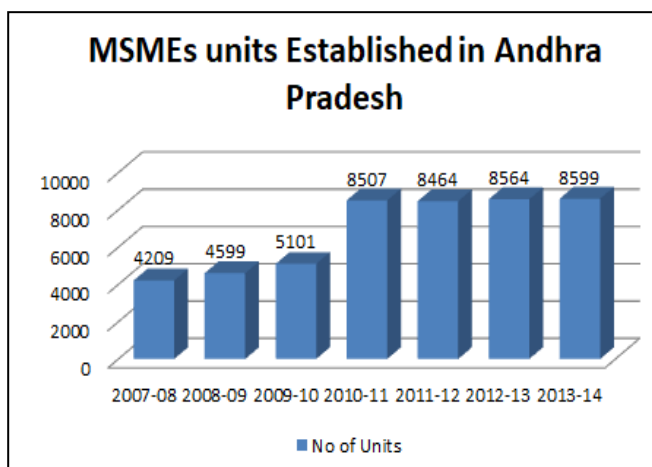


**Fig. 3: Growth in number of MSMEs in Tamil Nadu**

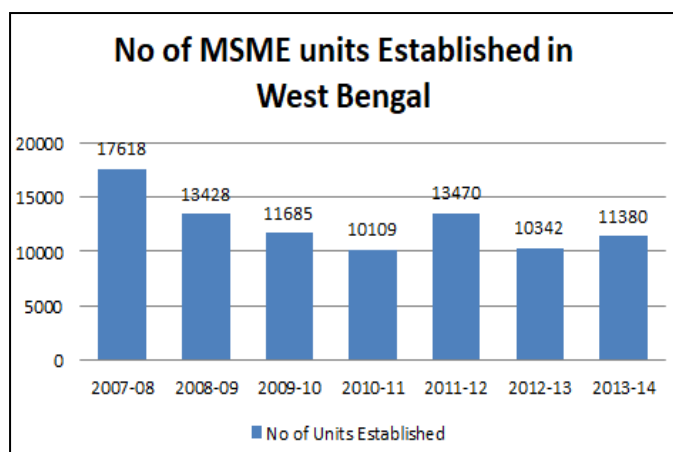
Source: State Industrial Profile of TN (2014-15)



**Fig. 4: Growth in MSMEs in Maharashtra**  
Source: Economic Survey of Maharashtra



**Fig. 5: Growth in number of MSMEs in AP**  
Source: Annual Reports of Mo MSME; Commissionerate of Industries



**Fig. 6: Growth in number of MSMEs in WB**  
Source: MSME Annual Reports 14-1; Directorate of MSME and Textiles (MSME&T), West Bengal.

An increasing trend in the number of units in the MSME sector in India is evident from the data presented in Fig.1. The number of working enterprises increased from 377.36 lakhs 2007-08 to 488.46 lakhs in 2013-14.

From Fig. 2 it could be noted that the MSME sector in UP has shown progress with fluctuating trends over time. The number of units grew during the period 2007-2010, while 2012-13 witnessed a declining trend, but in the latter years there was an upward trend.

The growth trends in TN have been positive over time, as could be seen from Fig. 3. The number of units in TN has grown from 27,209 in 2007-08 to 1,16,393 during 2013-14.

The analysis of the growth trends in Maharashtra reveals that the MSME sector has shown good performance with consistent growth over time, as could be noted from Fig. 4.

The growth trends in the number of MSME units established in the state of AP are shown in Fig. 5. The year 2010-11 witnessed a substantial jump in the number of MSMEs established from 5,101 during 2009-10 to 8,507 during 2010-11. There has been consistent growth in the number of units established from 2010 to 2014.

The growth in the state of West Bengal shows a downward or negative trend. The number of units established decreased from 17,618 in 2007-08 to 10109 in 2010-11. During 2011-12 the number of MSMEs established increased to 13470, but declined to 10,342 in 2012-13. However, the number of units increased marginally to 11,380 in 2013-14, as evident from Fig. 6.

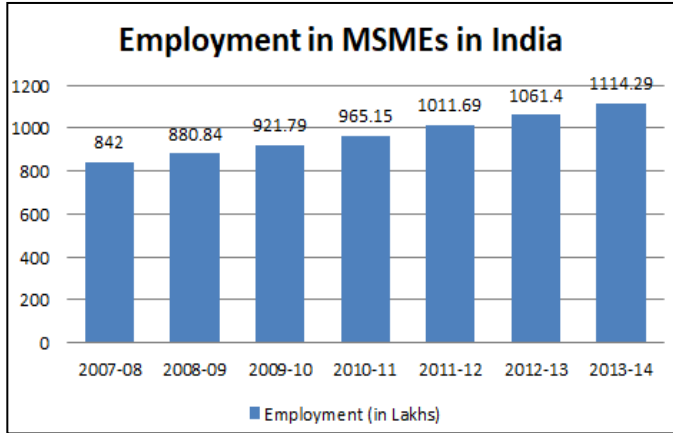
**Table 2: CAGR trends in India and the leading States in terms of number of MSMEs (2007-14)**

Particulars	India	TN	AP	Maharashtra	UP	WB
MSMEs	3.76	23.08	10.75	9.88	4.68	-6.05

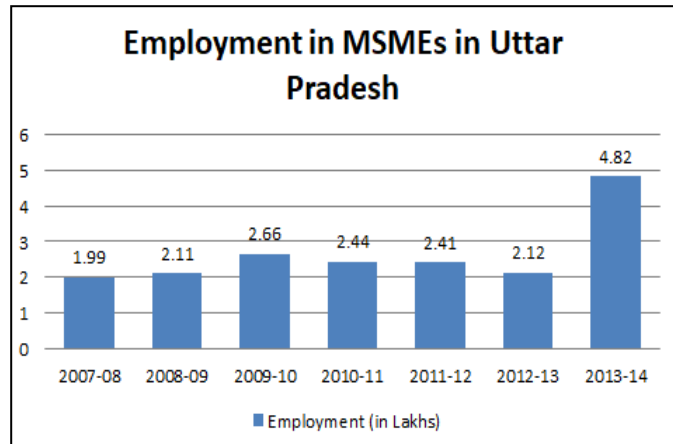
The CAGR trends in India and the leading states in regard to the number of MSME units could be seen from table 2. While the CAGR at the national level recorded 3.76 per cent per annum during 2007-14, the corresponding rate in each of the leading states is much higher than the national average, except West Bengal, which witnessed a negative growth. The growth in the setting up of MSMEs has been very encouraging as there is an increase in the growth rate consistently over the years. Despite the several challenges and problems the MSMEs face, there has been a gradual increase in the number of units set up.

**Growth in Employment generated in MSMEs in India and the leading States**

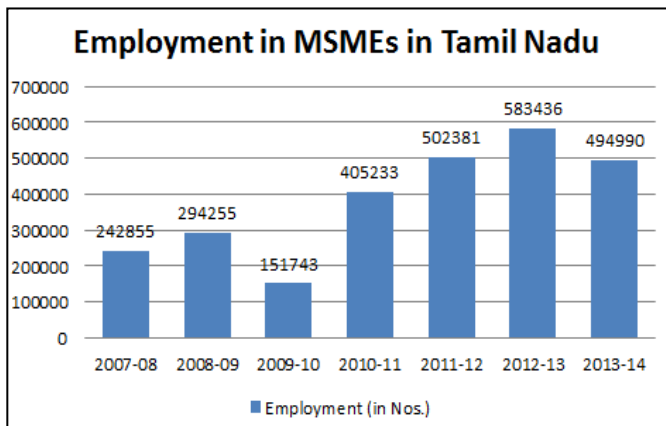
Employment generation has always been one of the main objectives of any government policy. MSMEs play an important role in generating employment in the country. The growth in employment generated in India is presented in Fig. 7 and that of the leading states, viz., UP (Fig. 8), TN (Fig. 9) AP (Fig. 10), Maharashtra (Fig.11) and WB (Fig. 12). CAGR with respect to employment is presented in table 3



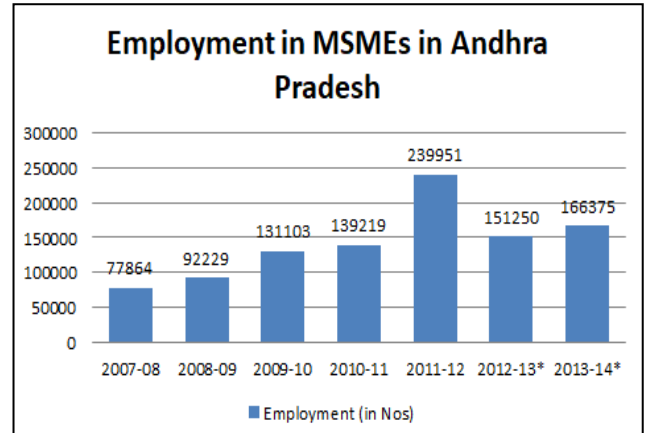
**Fig. 7: Growth in the Employment in MSMEs in India**  
Source: MSME Annual Report 2014-15



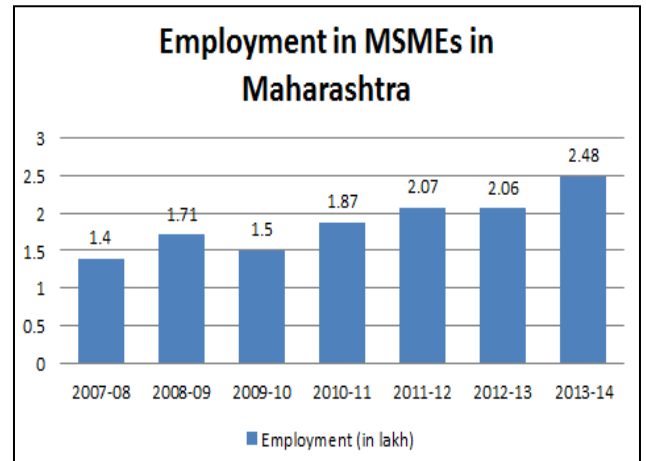
**Fig. 8: Employment in MSMEs in UP**  
Source: MSME Annual Report 2014-15



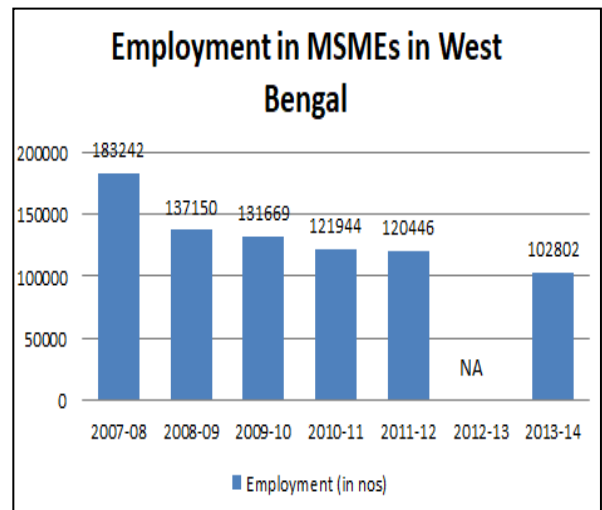
**Fig. 9: Employment in MSMEs in TN**  
Source: State Industrial Profile of TN (2014-15)



**Fig. 10: Employment in MSMEs in AP**  
Source: Annual Reports of Mo MSME; Commissionerate of Industries



**Fig. 11: Employment in MSMEs in Maharashtra**  
Source: Economic Survey of Maharashtra Projected data



**Fig. 12: Employment in MSMEs in WB**  
Source: MSME Annual Reports 14-1; Directorate of MSME and Textiles (MSME&T), West Bengal.

The MSME sector employs the second largest pool of work force in India, next only to the agricultural sector. According to the Ministry’s annual report, the number of MSMEs and the employment generated by them has been increasing consistently over the years. In terms of employment generated in India in the MSMEs, the leading states are UP, followed by WB, TN, AP and Maharashtra.

Fig. 8 shows that in UP employment generated grew continuously during the period from 2007 to 2010, but a declining trend was witnessed during 2010-13. However, during 2013-14, the number of units increased, leading to a spurt in employment.

The employment generated in MSMEs in TN has shown an increasing trend during 2009-10 and 2012-13, which declined in the subsequent year (Fig. 9). However, a consistent growth was registered in Maharashtra, as could be seen from Fig11.

The employment generated in MSMEs in AP witnessed an upward trend over time, except during 2009-10 (Fig. 10). On the other hand, the employment generated in MSMEs in WB has registered a negative growth over time (Fig. 12).

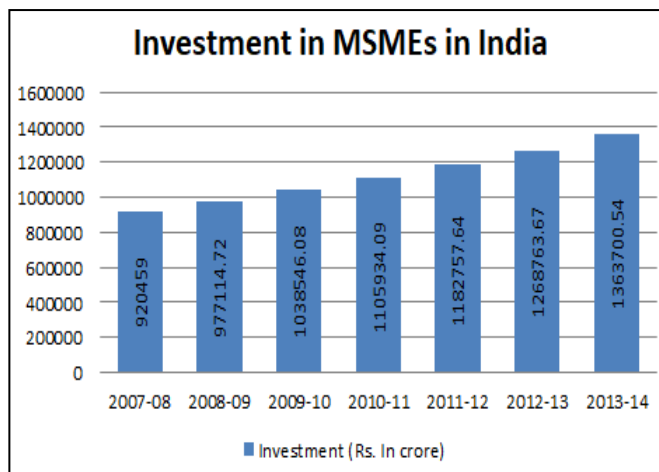
**Table 3: CAGR trends in India and leading States in terms of employment generated in MSMEs (2007-14)**

Trends	India	UP	TN	Maharashtra	AP	WB
Employment	4.08	13.47	10.71	8.51	7.4	-7.93

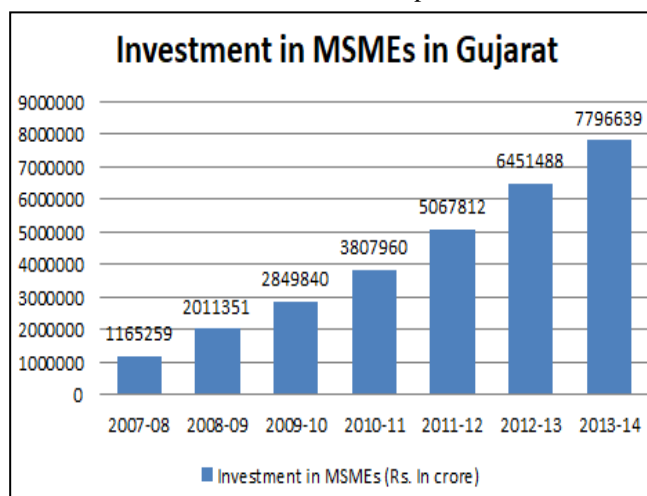
The CAGR trends in India and the leading states in respect of employment generated in MSME units during 2007-2014 are shown in table 3. While the CAGR at the national level recorded 4.08 per cent per annum, the CAGR in each of the leading states was much higher than the national average, except West Bengal, which witnessed a negative growth. Thus, the growth in the employment generated in MSMEs has been very impressive, and this is one of the positive indicators to economic growth at the national and state level.

**Growth in Investments in MSMEs in India and in the leading States**

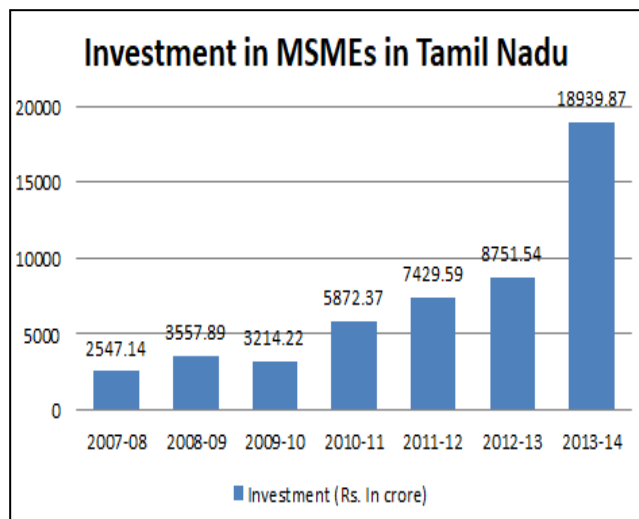
The MSME sector has opened attractive avenues for entrepreneurs, as it provided a wide scope of innovation in technology and development. As such, this sector is witnessing a growth in the investments. The growth in investments in this sector at the national level is presented in Fig. 13. Among the top five states of India in terms of investments in MSMEs, Gujarat stood first, followed by TN, Maharashtra, UP and Kerala, while WB and AP slipped to sixth and eighth positions in the country, respectively, as presented in Fig. 14 to 20.



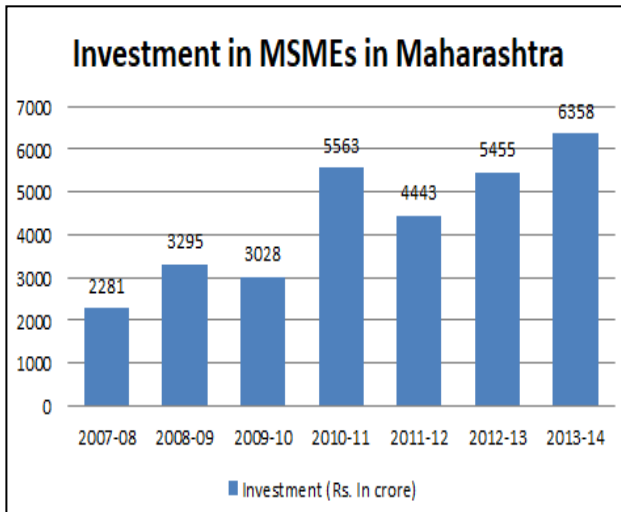
**Fig. 13: Growth in Investments in MSMEs in India**  
Source: MSME Annual Report 2014-15



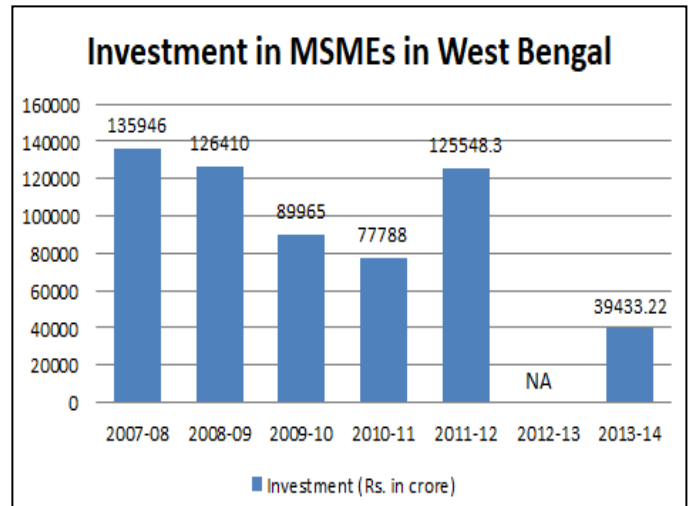
**Fig. 14: Investments in MSMEs in Gujarat**  
Source: MSME: Industries Commissioner Office



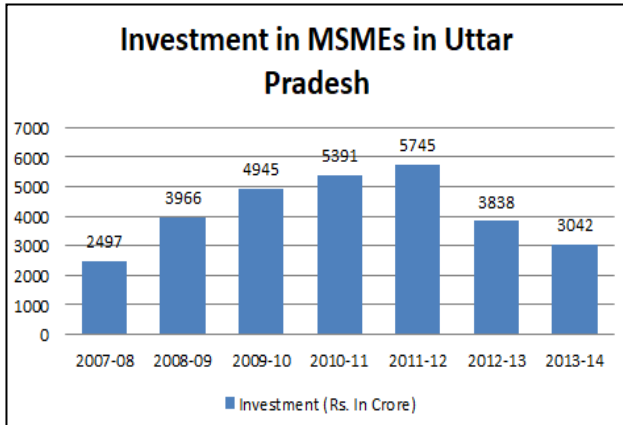
**Fig. 15: Investments in MSMEs in TN**  
Source: State Industrial Profile of TN (2014-15)



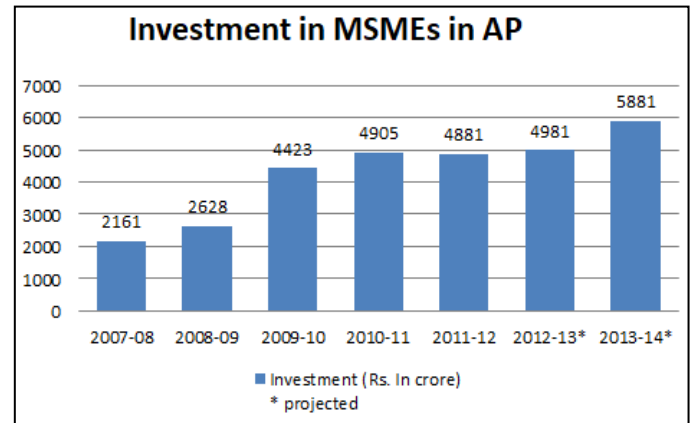
**Fig. 16: Investments in MSMEs in Maharashtra**  
Source: Economic Survey of Maharashtra



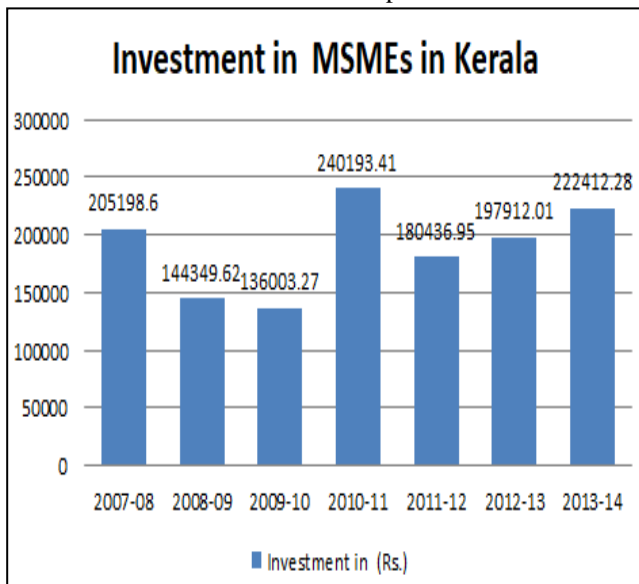
**Fig. 19: Investments in MSMEs in WB**  
Source: MSME Annual Reports 14-1; Directorate of MSME&T



**Fig. 17: Investments in MSMEs in UP**  
Source: MSME Annual Report 2014-15



**Fig. 20: Investments in MSMEs in AP**  
Source: Annual Reports of MSME; Commissionerate of Industries



**Fig. 18: Investments in MSMEs in Kerala**  
Source: MSME State Profile of Kerala 2014-15

The investments in MSME sector in the country have been growing consistently, as evident from Fig. 13; the investments went up from Rs. 9,20,459 crore in 2007-08 to Rs. 13,63,700 crore in 2013-14. Thus, the investments in the MSME sector recorded an increasing trend over time.

The investments in Gujarat, which is the leading state in terms of investment in MSMEs, showed a consistent growth over the years from 2007 to 2014. Likewise, the investments in TN also witnessed an upward trend except during 2009-10.

During the period 2007-2014, the investments in MSME have shown a continuous increase in the state of UP. However, the investments declined in the years 2012-13 and 2013-14, which may be attributed to the macro-economic slowdown as well as a shift in focus from manufacturing to the services sector, which require lower investment (Fig. 17).

The investments in the state of Kerala witnessed a decline from 2007-08 to 2009-10, but rose by 76 per cent during 2009-10 to 2010-11, and recorded a negative growth of -24.8 per cent. Thereafter the investments grew consistently (Fig. 18).

The investments in the state of AP showed a positive growth over the years, except during the year 2010-11.

West Bengal witnessed a negative trend in terms of investments in the MSME sector during 2007-08 to 2013-14, except in the year 2011-12. Only the registered MSME units have been taken into consideration for analysing the growth in investments, which could indicate a negative trend because of their limited number. For instance, the ratio of registered and unregistered units in West Bengal is 1:48 according to the 4th census of MSMEs.

**Table-4: CAGR Trends in India and leading States in terms of Investments in in MSMEs (2007-14)**

S. No.	State/Country	Trend
1	India	5.78
2	Gujarat	31.20
3	Tamil Nadu	33.19
4	Maharashtra	15.77
5	Uttar Pradesh	2.86
6	Kerala	1.16
7	West Bengal	-51.41
8	Andhra Pradesh	15.38

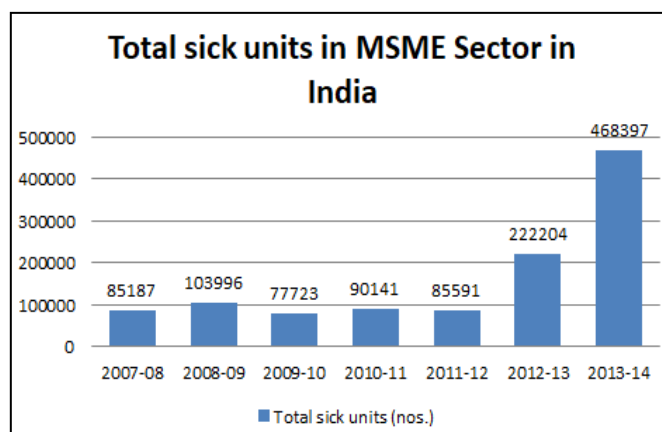
The CAGR trends in India and the leading states in terms of the growth in Investments in MSME sector could be seen from table 4. While the CAGR at the national level recorded 5.78 per cent, the CAGR figures in four leading states were much higher than the national average. But when Gujarat (24 per cent) and Kerala (6 per cent) are excluded, the other States accounted for only 40 per cent of the total investments in MSME sector.

**Sickness of MSME Units**

Industrial sickness may be an accepted phenomenon in the process of growth and development of an industrialized economy. However, this condition should not be allowed to persist beyond a particular limit, as it may be hampering the growth of the economy. The Reserve Bank of India considers a unit as sick if it has incurred a cash loss for a year and is likely to incur a cash loss in the current and coming years, along with a poor financial structure (current ratio less than 1:1, worsening debt equity ratio).

While the number of working MSMEs is on the rise, there is also a growing incidence of sickness in the sector, which is an important area of concern. When the sustenance of enterprises becomes a nagging issue, it prolongs and leads to the closure of units, thereby adding to unemployment. This has wider implications including locking of funds of the lending institutions, loss of scarce material resources and loss of employment. The causes of sickness are both internal and external. The major causes include limited financial resources, lack of organizational, financial and management skills and expertise, non-availability of power supply, shortage of raw materials, marketing difficulties, delayed and inadequate credit, obsolete technology, inadequate infrastructure, etc. (Golden Maharashtra Development Council, 2017).

The growth in the number of sick MSME units from March 2007 to March 2014 is given in Fig. 21.



**Fig. 21: Growth in number of Sick Units in MSME sector in India (2007-14)**

Source: RBI; Ministry of Commerce & Industry Department of Industrial Policy and Promotion

It could be noted from Fig. 21 that while the number of sick MSME units fluctuated during 2007-11, there has been a steady increase in this respect during 2012-14. The number of sick units has in fact doubled from 222204 units in 2012-13 to 468397 in 2013-14. The CAGR at the national level recorded 25.57 per cent during the period from 2007-08 to 2013-14. Among the states the highest number of sick units was found in Uttar Pradesh, followed by Maharashtra, Gujarat, TN, AP and WB (business-standard.com, July 23, 2015).

**Conclusions**

The CAGR trends in investments in MSMEs are higher when compared to the other two indicators, viz., number of units and employment in MSMEs during 2007-14 in India, which serves as a pointer to the growing prospects of MSMEs in the country. The higher growth in investments in MSME sector may trigger an increase in the employment opportunities as well as production over a period of time. But one disturbing factor is the higher growth rate in the number of sick MSME units (CAGR of 25.57 per cent) during 2007-14 as against the growth in the number of MSME units (CAGR of 3.76 per cent) during the same period. Thus, the number of sick units grew at an alarming rate, which is a matter of concern, as it may have an adverse impact on the economy with the employees losing their jobs from these failed units.

To conclude, it may be said that MSMEs are playing a significant role in the Indian economy through generating employment and contributing towards gross production and exports of the nation, thereby contributing to economic progress. The MSMEs are an important source of employment in many developing nations, often employing a sizable share of the labor force. However, it is often suggested that small firms are more labor-intensive, and, therefore, should be encouraged as a way of generating employment. Considering the large employment potential and commitment to provide

employment, hopes are mainly pinned on this sector, with State and Central Governments making all-out efforts to provide conducive environment and policy support to enable the MSME sector to achieve higher levels of employment, investment and production, thereby reducing the incidence of sickness in this sector.

There is huge potential for the development and setting up new MSMEs units. However, this sector has been facing challenges like global competition, use of resources, use of technology, product concept and innovation etc. Considering this, the Government of India has taken up different initiatives including programmes/schemes and providing functional support for the development and promotion of MSME sector. There is a need to hold awareness programmes for MSMEs to acquaint them with various aspects of management and business and training programmes to be conducted in technical and professional aspects. This would act as a fillip towards overcoming the operational and managerial issues faced by the MSMEs.

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