

Industry: Small and medium matters

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Abstract

The Economic Survey 2023-24 underscores the critical role of India's Small and Medium Enterprises (SME) sector in driving economic growth, employment generation, and exports. The report highlights a robust recovery in the industrial sector, with a 9% growth rate in FY-24, particularly led by manufacturing and construction. Significant government initiatives, such as the Production Linked Incentive (PLI) schemes and Credit Guarantee Fund Trust Scheme (CGFTS), have been instrumental in boosting investments, enhancing financial stability, and fostering growth, especially among MSMEs.

Despite the strong overall performance, certain sectors, including textiles, petrochemicals, and steel, face challenges like pricing pressures, capacity utilization, and competition from imports. The report emphasizes the need for continued policy support, technological innovation, and reforms across key sectors, including pharmaceuticals and electronics, to maintain industrial momentum. The survey offers an optimistic outlook for sustained industrial growth, highlighting the importance of addressing specific sectoral bottlenecks and improving R&D expenditure distribution to fuel long-term progress.

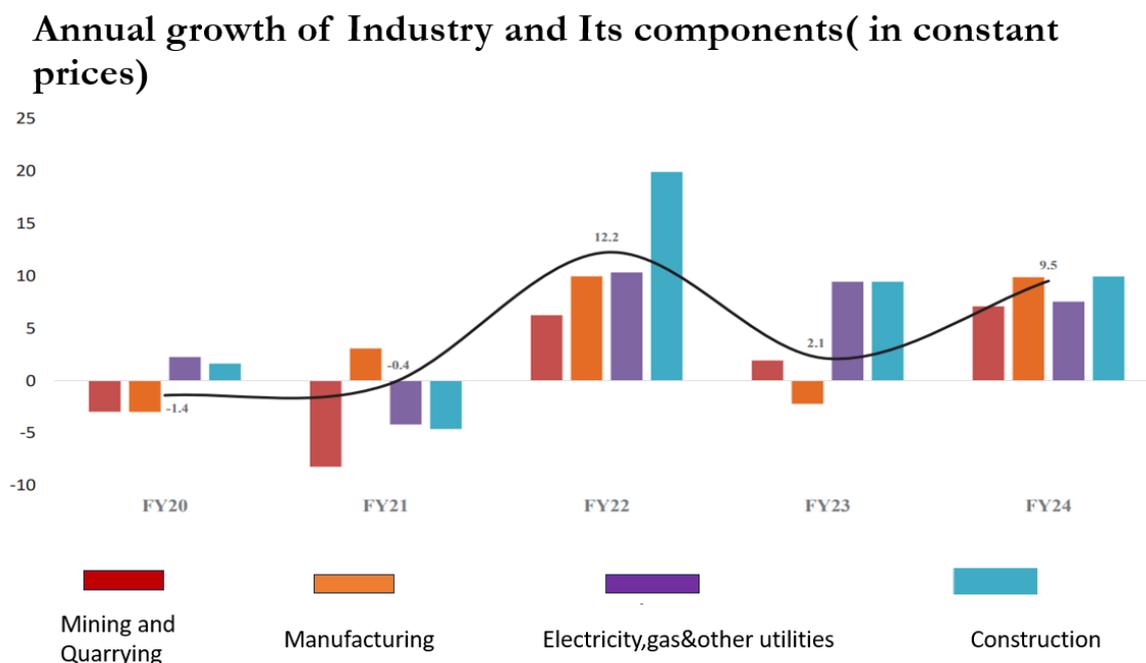
Keywords: *Small and Medium Enterprises (SME), Production Linked Incentive (PLI) schemes, Credit Guarantee Fund Trust Scheme (CGFTS)*

Report based on economic survey 2023-24 & union budget 2024-25 on Industry

The 2023-24 Economic Survey highlights the pivotal role played by the Small and Medium Enterprises (SME) sector in driving economic growth, employment generation, and exports. This report looks into the emphasize of Economic Survey 2023-24 on the industrial sector's growth across key areas such as manufacturing, construction, and consumer-oriented industries. Small and Medium Enterprises (SMEs) and other key government initiatives including the Product Linked Incentive (PLI) schemes and the Credit Guarantee Fund Trust Scheme (CGFTS).

The following are key insights and developments from the survey:

- The industrial sector's performance in FY-24 with a 9% growth, particularly led by manufacturing and construction, signifies robust recovery and momentum (fig 1). The 25% increase in Industrial Gross Value Added (GVA) compared to pre-COVID levels underlines not just a rebound but a consolidation of gains, with the sector now constituting 30.9% of the total GVA.
- This surge is especially noteworthy in manufacturing and construction, nearly hitting double-digit growth rates. Mining, quarrying, and power & water supply have also contributed significantly, reflecting broad-based expansion across industrial activities. This recovery is crucial for sustaining overall economic growth and enhancing infrastructure development.

Fig: 1 Annual growth of industry and its components (in constant prices)

- In FY-24, consumer-oriented industries, including automobiles, wood products, furniture, and pharmaceuticals, demonstrated significant increases in their output shares. This trend highlights a growing demand for consumer goods, driving the sector's contribution to overall industrial growth.
- Similarly, production-oriented sectors such as machinery, chemicals, non-metallic minerals, and rubber and plastic products have also experienced notable share gains. These industries' expansion reflected a balanced growth dynamic, contributing to both supply chain development and infrastructure needs. On the other hand, sectors such as petroleum products, textiles, beverages, and tobacco have gradually seen a decline in their output shares, signalling potential shifts in industrial focus or market demand.

Performance by key industrial intermediates

Key industrial intermediates refer to essential materials, chemicals, or components that are used in the production process of various industries. The Economic Survey 2023-24 highlights the performance of key industrial intermediates, which are essential for sustaining growth across various manufacturing sectors. According to the report, the performance of key industrial intermediates in FY23-24 reflected a mixed trend. While sectors like steel,

construction materials, and chemicals saw growth aligned with infrastructure development, other sectors like textiles and petrochemicals faced challenges. Overall, the government's focus on industrial expansion, capital goods, and manufacturing resilience has underpinned the positive performance of many intermediates. Based on the report, the following key points have been noted:

- **The Cement Industry** has met domestic demand efficiently, with minimal imports but the concerns about the capacity utilization with installed capacity need to be addressed.
- In FY 2024 during Q2 and Q3, India transitioned to being a net importer in the **steel sector** due to the low prices of finished steel in the international market. This shift could lead to increased competition for domestic steel producers, resulting in price pressure that may compel them to reduce the prices of their products.
- To ensure the timely development of mining projects in **Coal industry**, it is essential to address the procedural complexities related to acquiring forestry and environmental clearances, as well as land acquisition and possession.

Performance by major consumer-oriented industries

Consumer-oriented industries are sectors that focus on producing goods and services directly for end-users or consumers, rather than for businesses or other organizations. These industries prioritize the needs, preferences, and behaviors of consumers in their operations, product development, and marketing strategies. The following key points were identified from the analysis of the report:

- India's pharmaceutical market, the third largest in the world by volume, faces challenges that require focused attention on skill development, technological innovation, and the establishment of a strong supply chain to enhance efficiency and growth. These areas are critical to maintaining competitiveness and improving overall productivity in the sector.
- In the textile industry, fragmentation, reliance on imported machinery, and a shortage of skilled labour continue to result in higher transportation costs and delays. Addressing these inefficiencies is essential for enhancing the sector's performance and reducing its cost burden.

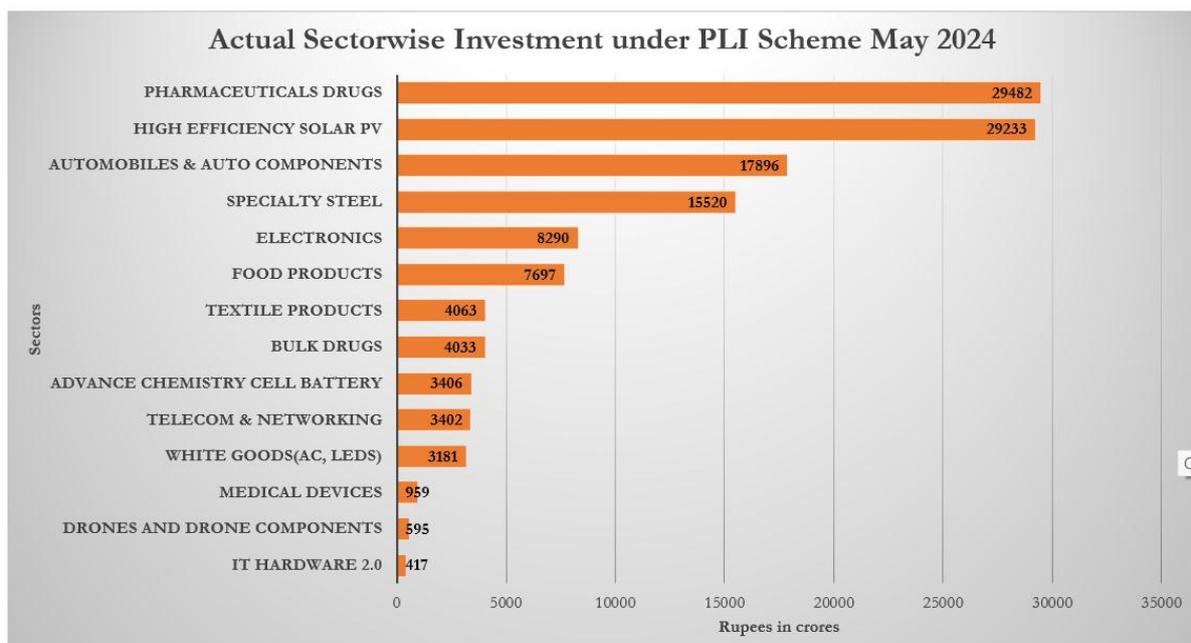
- For the electronics industry, while the Production Linked Incentive (PLI) scheme of 2023 has the potential to boost production and attract additional investments, there is a pressing need for a comprehensive policy approach. This includes reducing tariffs on intermediate inputs to facilitate smoother operations and ensure sustained growth in the sector.

Product linked incentive scheme (PLI) and its implications

- It aimed at boosting manufacturing and exports, have allocated Rs1.97 Lakh Crore for 14 key sectors.
- The PLI scheme for white goods (ACs and LEDs) had a total outlay of Rs6,238 Crore, achieving Rs3,181 Crore in investments and generating Rs13,320 Crore in sales by May 2024.
- The PLI schemes have significantly attracted investments, boosted production, sales, exports, and created jobs, especially in white goods.
- Fig 2 provides sector-wise Investment under PLI Scheme as of May 2024. It is observed that the highest investment is made in pharmaceuticals followed by high efficiency solar PV.

Fig.2 Actual sector-wise investment under PLI scheme as of may 2024

Actual sector wise Investment under PLI Scheme as of May 2024



Report on MSMEs and the impact of key initiatives

According to the survey report, the Credit Guarantee Fund Trust Scheme (CGFTS) has played a pivotal role in enhancing credit allocations for Micro, Small, and Medium Enterprises (MSMEs). Between FY 2020 and FY 2024, there has been a notable increase in loan disbursements to small and medium enterprises (SMEs), significantly bolstered by this scheme. The CGFTS has provided vital financial support, improving SMEs' access to capital.

Furthermore, the report highlights the importance of key initiatives such as the UDYAM Portal, Sambandh Portal, and Champions Portal in addressing critical challenges faced by MSMEs. These initiatives focus on issues such as formalization and inclusion, limited access to finance, market accessibility, technology adoption, digitalization, infrastructural challenges, and skill development.

Together, these efforts aim to tackle the bottlenecks that hinder the growth of SMEs, ultimately enhancing their competitiveness and fostering sustainable growth in the sector. Further discussion on the impact of these initiatives is warranted to fully understand their contributions to the MSME landscape.

As per the Union Budget 2024-25, the Credit Guarantee Scheme for MSMEs in the manufacturing sector shall facilitate the purchase of machinery and equipment without the need for collateral or third-party guarantees, offering significant support for capital investment. The public sector banks have introduced a new assessment model for MSMEs, focusing on analysing credit scores and providing credit support through Special Mention Accounts during distress periods. This approach will enhance the financial stability of MSMEs and shall help to navigate its challenging times.

The scope of MUDRA loans has been increased to ₹20 lakh crores, thereby enhancing financial access for small businesses. Furthermore, the turnover threshold for the Trade Receivables Discounting System (TReDS) has been lowered to ₹250 crores, which improves liquidity for smaller enterprises. To further promote employment, initiatives have been launched to establish industrial parks and internship programs, offering more job opportunities and practical training for workers in critical sectors.

Report on Central Public Sector Enterprises, Industrial Credit, Research and Development

- Central Public Sector Enterprises (CPSEs) are currently on a positive trajectory, marked by an increase in the number of profitable firms and a notable rise in market capitalization.
- While industrial credit was revamped in FY 2022, its growth faced challenges in FY 2023 due to a decline in credit allocations to specific sectors, including mining and quarrying, as well as petroleum, coal products, and nuclear fuels.
- Additionally, a significant portion (70%) of industrial R&D expenditure is concentrated in a few sectors, leaving certain areas with limited R&D initiatives. Furthermore, the minimal representation of public sector R&D units in relation to the public sector's role in core manufacturing warrants further discussion.

Conclusion

The Economic Survey Report 2023-24, emphasizing the industrial sector's growth, highlights significant advancements across key areas such as manufacturing, construction, and consumer-oriented industries. Small and Medium Enterprises (SMEs) remain central to this recovery, contributing substantially to economic growth, job creation, and exports. Key government initiatives, including the Product Linked Incentive (PLI) schemes and the Credit Guarantee Fund Trust Scheme (CGFTS), have enhanced capital availability, manufacturing output, and financial stability for industries, especially MSMEs.

Despite these gains, challenges persist in certain sectors, particularly textiles and petrochemicals, where performance has been hindered by external factors such as global pricing pressures and capacity utilization issues. Furthermore, pharmaceuticals and electronics industries highlight the need for technological upgrades and policy reforms to sustain competitiveness. The report also identifies the scope for improvement in R&D spending and public sector enterprise performance to ensure balanced industrial development across all sectors.

In conclusion, the Economic Survey 2023-24 portrays a promising outlook for India's industrial sector, buoyed by targeted fiscal measures, enhanced credit access, and structural reforms. However, addressing sector-specific bottlenecks and fostering greater innovation and technological advancement will be critical for sustaining long-term growth.

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