

A close-up photograph of a grinding wheel in a dark industrial setting. The wheel is spinning, creating a dense spray of bright orange and yellow sparks that fan out towards the bottom right. The background is blurred with warm, golden light from industrial lamps.

CriSidEx

The MSE sentiment index

Survey 1 | January 2018

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Gauging the pulse of Indian MSEs

CriSidEx, or the CRISIL-SIDBI MSE Sentiment Index, captures the sentiment among micro and small enterprises (MSEs) on the business environment in the survey quarter (SQ), and their expectations for the next quarter (NQ).

The index and this report are based on this survey.

No economic indicators, trade statistics or financials of MSEs have been used in computing CriSidEx.

The survey was conducted in November–December 2017. Since CriSidEx represents MSEs only, care should be taken by users when comparing it with other economic data/ indices.

For the purpose of this survey, CRISIL and SIDBI have considered enterprises with annual turnover less than Rs 25 crore as MSEs.

Survey quarter (SQ) represents the sentiment of MSEs in the quarter when the survey was conducted.

Next quarter (NQ) represents the sentiment of MSEs for the quarter that follows the survey quarter.

Foreword

This is indeed a momentous occasion for both SIDBI and CRISIL, which have joined hands to launch the CRISIL-SIDBI Index, or CriSidEx.

The index captures the sentiment of MSEs very well, and therefore, would do two crucial things: be an accurate barometer of trend on the ground, and play an important role in addressing financial and developmental gaps in the MSE ecosystem.

As you are aware, SIDBI was set up as the principal financial institution for the promotion, financing and development of the MSE sector in India and to coordinate with institutions engaged in similar activities. SIDBI has always understood the incredible contribution of MSEs to India's growth, and has done, and would continue to do, everything that would help their cause.

But one crucial piece missing to date was a sentiment index that could help stakeholders understand the predicament of MSEs and offer facilitations. All that should begin to change with the launch of CriSidEx. I am sure this initiative will lead to structural changes that will alter the MSE sector landscape by allowing policy makers to take timely and proactive steps, including those based on early warnings thrown up by the survey.

Such an index is also important because information asymmetry has been a stumbling block to MSEs' access to funds, and lenders had little to bank on in terms of understanding the prospects of industries and regions.

Towards this goal, in days to come, SIDBI will also be publishing a progress report on financing to this sector, which will complement the CriSidEx.

I am thankful to the MSEs and lenders who have wholeheartedly participated in the first survey. I congratulate SIDBI and CRISIL's teams for their tireless efforts in bringing this first-of-its-kind initiative to fruition.



Mohammad Mustafa
Chairman & Managing Director
SIDBI

Foreword

Micro and small enterprises (MSEs) are the veritable backbone of the Indian economy, and potent tools to effect socio-economic transformation.

But reliable and timely data on MSEs has been hard to come by despite its importance to credit access, policy making and monitoring of a big chunk of the economy.

That's why CRISIL and SIDBI – with our common goal of facilitating inclusive growth of small enterprises – have come together to develop CriSidEx, a sentiment index for MSEs.

CriSidEx will help in assessing the prevailing business environment by capturing the sentiment on parameters such as capacity utilisation, orders, and employment through a survey.

The index readings will also help flag potential headwinds and changes in production cycles, and thus help improve market efficiencies. Further, by capturing the sentiment of exporters and importers, it will offer actionable indicators on foreign trade.

Reasons why CriSidEx would be a key tool for stakeholders to improve the MSE ecosystem.

At CRISIL, we remain committed to helping MSEs realise their potential. Way back in 2005, we launched MSE ratings and to date, we have assessed more than 1.25 lakh enterprises – the widest coverage by anyone anywhere. As a part of our ongoing endeavours, we have also just launched www.smefirst.com, an integrated digital platform for MSEs and lenders.

And last but not the least, I would like to acknowledge the dedication and efforts of the SIDBI and CRISIL teams, which have made CriSidEx a reality.



Ashu Suyash
Managing Director & CEO
CRISIL Ltd

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Factoids

Operating MSMEs
in India

5.1 crore

Contribution to GDP
(fiscal 2015)

30.7%

Employment
in MSME sector

11.7 crore

Contribution to
exports

45.0%

Registered MSMEs
as on January 10, 2018

77.6 lakh

Dependence on
self-finance

78.2%

of which 40 lakh registered since September 2015 under Udyog Aadhaar

Share of top 10 states
in terms of number of
MSMEs

70.8%

MSE share of non-food
bank credit as on
November 2017

12.5%

Source: Ministry of MSME Annual Report 2016-17, RBI, Sixth Economic Census
Udyog Aadhaar website

Why India needs an MSE sentiment index

Effective policy making is a function of the quality of information at hand.

Because data on micro and small enterprises (MSEs) comes with a significant lag, a comprehensive and concise lead + lag indicator of ground-level sentiment becomes a crucial tool for policy makers, lenders, trade bodies, economists, rating agencies and the MSEs themselves.

Till now, there was no such barometer available in India, though indices and sentiment surveys to track large and mid-sized corporates are aplenty and have been in existence for decades.

While there have been ad hoc surveys by chambers of business and specific agencies as one-time efforts, a continuous survey leading to an index is a first.

Reasons why CRISIL and SIDBI decided to launch the CRISIL-SIDBI MSE Sentiment Index, or CriSidEx.

- Policy makers unable to assess the impact of their decisions on MSEs
- Lack of data on employment and production cycles, which can be the basis of estimation of employment and capital formation in the MSE sector
- Significant lag in availability of financial information of MSEs restricts lenders from taking timely credit decisions. Access to formal finance remains the key challenge for MSEs
- MSEs are unable to assess how they are faring versus peers
- There is no sector-specific index that projects changes in sentiment and which will help MSEs take important decisions

The case for CriSidEx

- Limited representation of MSEs – which account for 90% of enterprises in India, and are the second-largest employers after agriculture – in macro and micro assessments
- Existing business indices focus on predicting the direction of annual change of GDP but not the impact at micro level in each industry/sector

Objectives of CriSidEx

- Improving market efficiency by assessing the factors that push or curb growth
- Gauging the sentiment of the MSE sector and its constituents
- Assessing trends, predicting headwinds and the factors responsible in the MSE sector
- Anticipating and planning changes in production cycles
- Altering business strategies on time and helping businesses plan their growth
- Providing valuable information to policy makers and other stakeholders to study the changes in the economic environment that may occur

CriSidEx intends to capture the sentiment on business parameters that, when aggregated and analysed, will provide valuable insights on the way the wind is blowing. It will also have the flexibility to capture feedback on specific events/ policies through ad hoc questions.

The index is representational enough to capture the sentiments of MSEs of different sizes and across sectors, industries and regions.

For the time being, the responses are not weighted on, say, the share of gross value added (GVA) of different industry groups, or the share of a sector in gross domestic product (GDP).

MSMEs account for 33% of India's manufacturing output and ~45% of exports. However, those in the manufacturing sector account for only 6% of GDP.

As of now, given the importance of the manufacturing sector, both the manufacturing and services sectors have equal representation in CriSidEx and are tracked separately.

CriSidEx

first readings

Optimism increases

- SQ: **34%** reported a good quarter
- NQ: **52%** expect better performance

More positive sentiment in manufacturing


- SQ: **38%** of respondents in manufacturing reported a good quarter against **30%** in services
- NQ: **53%** in manufacturing expecting a better quarter against **52%** in services

Above-normal rise in production and capacity utilisation

- SQ: **31%** reported above-normal production
- NQ: **55%** expecting to increase production

Smallest players subdued

- SQ - **22%** of MSEs with < 10 employees had a subdued quarter vs **13%** for bigger counterparts
- NQ - **10%** of MSEs with < 10 employees expect a relatively subdued quarter vs **2%** for bigger counterparts
- In SQ, **66%** of leather industry respondents had a very subdued quarter. Though for NQ, this figure is lower at **19%**



Optimism higher in the west; things looking better across most regions

- SQ: **41%** in west India had a good quarter, and **29%** in north
- NQ: More than half of the respondents barring south expect a better quarter

More optimism about domestic demand

- SQ: **24%** exporters reported an above-normal orderbook vs **27%** domestic-only players
- NQ: **34%** exporters expect another above normal quarter vs **51%** for domestic-only players

Employment generation moderate

- SQ: **76%** maintained current employment levels; just **17%** respondents saw net additions
- NQ: **65%** see employment at current levels, **32%** expect to add employees

Manufacturing	Total responses	Survey quarter			Next quarter		
		Negative	Neutral	Positive	Negative	Neutral	Positive
Overall business situation	550	17%	45%	38%	4%	43%	53%
Volume of production		21%	48%	31%	8%	37%	55%
Orderbook size		20%	50%	30%	9%	36%	55%
PAT margin		26%	50%	24%	14%	42%	44%
Capacity utilisation		21%	50%	29%	9%	40%	51%
Employee base		9%	76%	15%	4%	66%	30%

Services	Total responses	Survey quarter			Next quarter		
		Negative	Neutral	Positive	Negative	Neutral	Positive
Overall business situation	550	14%	56%	30%	5%	43%	52%
Orderbook size		17%	58%	25%	7%	47%	46%
PAT margin		22%	54%	24%	12%	42%	46%
Employee base		6%	74%	20%	2%	64%	34%

CriSidEx 107

CriSidEx is a composite indicator calculated as a weighted average of 5 parameters under the manufacturing index and 3 parameters under the services index. Index computation does not include overall business sentiment. Overall business sentiment is an independent question asked to respondents to gauge their mood on the business situation of their enterprise in general.

Further details regarding index calculation have been provided under the 'Methodology' section of this report.

In SQ, CriSidEx value 107 represents mildly positive sentiment among the MSEs. In NQ, this sentiment is expected to move from Mildly Positive to positive territory.

What are lenders saying?

They see MSE performance improving

9 out of **10** lenders expect overall business situation of MSEs to improve

Asset quality expected to show some improvement

5 out of **10** lenders expect a decrease in NPA accounts

Funding challenges seen continuing for a while

5 out of **10** lenders believe it is difficult for MSEs to get bank funding



Approach and survey process

Approach

The CriSidEx survey is conducted at the end of each quarter. Respondents are asked to provide their views on the business environment in the quarter past, and their outlook on the business environment in the coming quarter.

A structured questionnaire is used to seek responses on whether the identified business parameters have improved, worsened or stayed the same compared with the previous quarter (or the corresponding season in the case of industries affected by seasonality). Similarly, the survey is carried out on a sample of lenders dealing with the MSE segment. The questionnaire covers the following business parameters:

CRISIL and SIDBI jointly conduct the survey. The questionnaire is sent to a promoter or the relevant management personnel in-person or by phoning them to participate by clicking on a survey link.

CRISIL then compiles the findings and the CriSidEx reading for the quarter is published.

Category	Parameters
Manufacturing	<ul style="list-style-type: none"> • Business situation • Production volumes (for manufacturing sector) • Orderbook size / volume of import orders placed (for importers) • PAT margin • Capacity utilisation • Employee base • Ad hoc question(s) related to any major government initiatives/policies
Services	<ul style="list-style-type: none"> • Business situation • Order/ Contracts book size • PAT margin • Employee base • Ad hoc question(s) related to any major government initiatives/policies
Lenders	<ul style="list-style-type: none"> • MSE business situation • MSE lending rates • MSE asset quality • Factors hindering MSE credit • Ad hoc question(s) related to any major government initiatives/ policies

Survey process

The survey tracks the business sentiment of MSEs in manufacturing and services (including trading) across India. Responses have been drawn from CRISIL-rated enterprises and current and past borrowers of SIDBI. It also includes micro enterprises funded by microfinance institutions (MFIs) that are, in turn, funded by SIDBI.

Additionally, there are responses from lenders (banks and non-banking finance companies, or NBFCs).

The sample has been drawn up to ensure representation of enterprises based on size, geography and nature of business. It covers MSEs with at least three years of business operations.

The broad characteristics of the sample are:

Established business

Turnover < Rs 25 crore
Representation of various legal forms – companies, partnerships and proprietorships
Appropriate sectoral representation; to have equal coverage of manufacturing and services sectors (including trading)
Appropriate geographic representation
Covers exporters and importers, besides domestic firms

CriSidEx covered 1,100 MSEs in the quarter of its launch and a similar number will be surveyed in subsequent quarters.

CRISIL and SIDBI intend to keep at least 60% of the respondents constant to ensure continuity in responses across surveys. The survey also includes viewpoints of 10 lenders (banks and NBFCs).

How to read CriSidEx

CriSidEx is a sentiment index and hence, is a qualitative measure of the mood. Respondents may not necessarily refer to actual data related to their enterprises when responding to it.

The information collected in CriSidEx is qualitative because respondents are asked to assign qualities, rather than quantities, to the variables of their interest. For example, respondents have been asked to assign qualities to the value of their orderbooks such as ‘above normal’, ‘unchanged’ or ‘below normal’. That’s different from a conventional industry survey, where respondents may be asked to give quantitative information about their orderbooks, such as the actual value of outstanding orders.

Generally, it is much easier for respondents to give a qualitative feedback than quantitative because it does not require them to consult books of accounts. As a result, responses can be obtained quickly.

The CriSidEx survey is aimed at capturing the following analytical aspects:

- **Assessment of current and future expectations:** Questions are structured to ensure that respondents provide their views on the past 3 months (quarter) and also their outlook on the business environment in the next quarter. Such a comparison is to facilitate an analysis of the expected change in sentiment through a 6-month timeframe (past 3 months + future 3 months). A strong positive shift in sentiment indicates an upbeat mood and hence, validation of current policies, and vice versa.
- **Lender view:** Lenders play a critical role in the MSE ecosystem and hence, their inputs enhance the quality of this survey. To gauge the sector’s performance from the perspective of lenders, the survey captures their views on the sector. The findings have been analysed and incorporated in the report.

Methodology

CriSidEx is based on a diffusion index of 8 parameters (5 manufacturing and 3 services parameters) with equal weights. It measures MSE business sentiment on a scale of 0 to 200, where 0 indicates extremely negative sentiment, 100 neutral sentiment and 200 extremely positive sentiment. The distance of the score from 100 is indicative of the strength of the expansion or decline. CriSidEx is calculated for (a) the respondent's assessment of the survey quarter and (b) the respondent's expectation for the next quarter.

CriSidEx is based on a diffusion index, which is used widely in computation of business expectation indices. The index for each of the parameters is computed as follows:

Index = $(C1*0)+(C2*100)+(C3*200)$; where

C1 is the number of respondents who have indicated lack of confidence (shown pessimism) divided by total respondents

C2 is the number of respondents who have indicated that there is no change (are neutral) divided by total respondents

C3 is the number of respondents who have indicated confidence (shown optimism) divided by total respondents

CriSidEx is an average of parameters for manufacturing and services sectors with equal weightage for both sectors.

Going forward, CriSidEx will have 2 indices - one for SQ and one for NQ.

The purpose of the two is to present an independent trend in the current and next quarter as a time series develops over time.

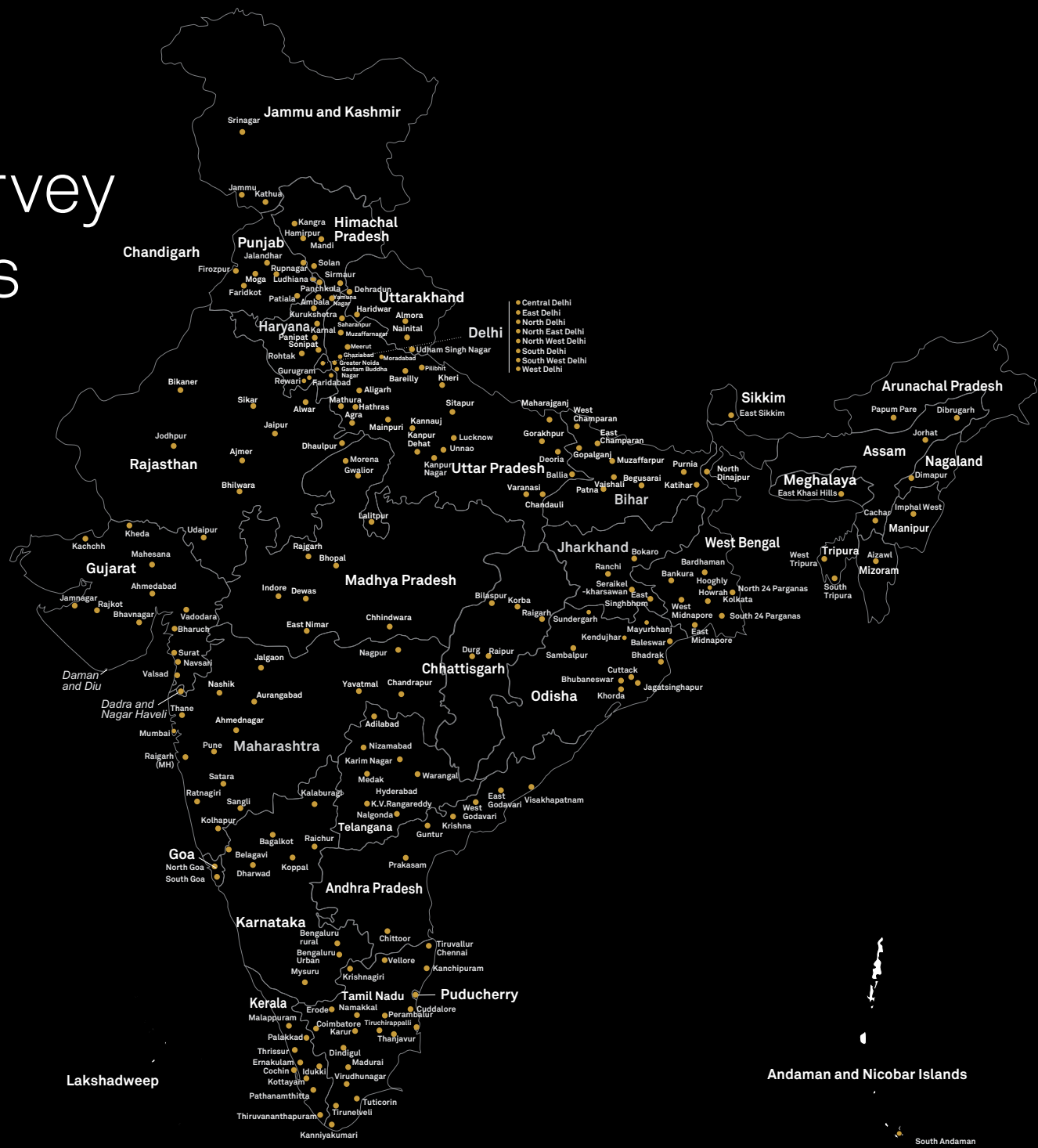
Survey sample

The survey has been done on a sample drawn from CRISIL and SIDBI databases of MSEs, and made efficient by ensuring representation of enterprises based on size, geography and nature of business.

The sample has an equal share of manufacturing and services (including trading) sectors. The geographic spread of MSEs is 30% in north India, 26% in west, 25% in south and 19% in the east.

In terms of annual turnover, 15% of the enterprises have an annual turnover < than Rs 1 crore, 30% are in the Rs 1 crore to Rs 4.99 crore range, 32% in the Rs 5 crore to Rs 9.99 crore range, and the remaining 23% in the Rs 10 crore to Rs 25 crore range. Enterprises with more than Rs 25 crore annual turnover have not been included in the survey.

Where the CriSidEx survey respondents come from



Industry-wise distribution of the survey sample

Name of the industry	Percentage	Name of the industry	Percentage
Engineering & capital goods	20%	Human resources	3%
Diversified consumer services	8%	Metals & mining	3%
Traders	8%	Commercial services & supplies	3%
Logistics	7%	Pharmaceuticals	3%
Textiles	6%	Gems & jewellery	2%
Auto components	6%	Healthcare providers & services	2%
Food products	4%	IT/ITeS	2%
Construction & real estate	3%	Power & utilities	2%
Chemicals	3%	Media	2%
Travel & hotels	3%	Professional services	1%
Leather & leather goods	3%	Others	6%

*Engineering & capital goods comprise Machinery, Electrical equipment, Electronic equipment instruments & components, Energy equipment
Diversified consumer services comprise Car rental services, Cold storage services, Repairs & maintenance services, Event organizing services, Technical advisory services
Commercial services & supplies comprise Printing services, Professional services, Security control systems, Solar panel installation services*

Sample snapshot

The demographics of 1,100 MSEs in the first survey

Sectors

50% Manufacturing +

50% Services(including trading)

Legal constitution

Companies **40%**

Firms **60%**

Turnover

Less than Rs 1 crore **15%**

Rs 1-4.99 crore **30%**

Rs 5-9.99 crore **32%**

Rs 10-25 crore **23%**

International exposure

Exporters **30%**

Importers **23%**

Industry

22 industries

50+ sub-industries

Reach

29 States and **5** Union Territories

700+ locations across **220** districts

Gauging the pulse

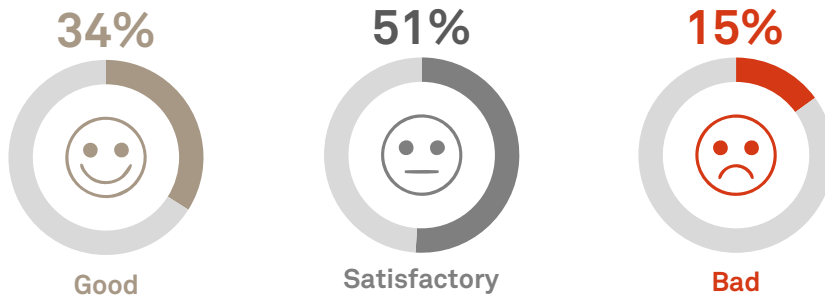
The cumulative sense

MSEs (manufacturing and services combined) expect an improvement in the business situation in the January-March 2018 quarter.

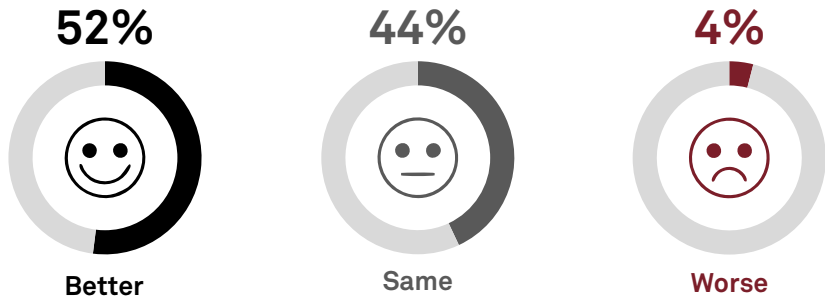
In the October-December 2017 quarter, 15% of the enterprises felt their business situation was subdued, 51% felt it was satisfactory and 34% felt it was good.

However, they are more optimistic about the NQ: A significant 52% believe business will be better this quarter, while 44% see it as satisfactory. Only 4% believe it will be subdued.

Overall business situation in the survey quarter



Overall business situation expected in the next quarter



% represents the share of respondents



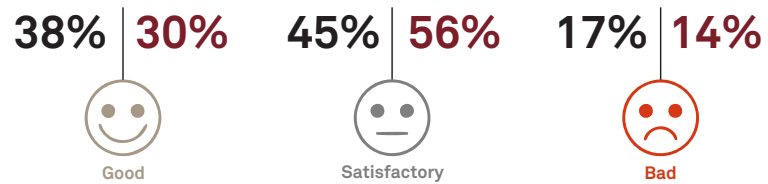
Sectoral deep-dive

Manufacturing MSEs have reported a more positive sentiment compared with services in the SQ, with 38% saying they had a good one, compared with 45% satisfactory and 17% subdued.

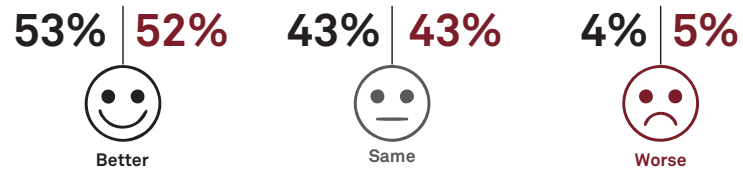
In services (including trading), the corresponding figures are 30%, 56% and 14%, respectively. The difference in optimism is on account of the relatively weaker business sentiment among traders as 25% of them reported a subdued quarter, which is 10% more than the overall average. Similarly, only 29% of the traders had a good quarter, or 5% lower than the overall average.

Going forward, though, both manufacturing and services sectors are expecting a similar performance with not much to differentiate between the two.

Business situation in survey quarter



Business situation in the next quarter



■ Manufacturing ■ Services

% represents the share of respondents



Industry sentiment

Among the sub-sectors of the manufacturing sector, chemicals, auto components, and metals and mining-related MSEs reported strongly positive sentiment, and segments with a significant presence of unorganised enterprises a subdued one.

In the leather and leather goods industry, 2 out of 3 MSEs (66%) surveyed reported a subdued quarter.

Gems & jewellery, too, did not perform well in SQ with 28% reporting a subdued last quarter, 52% a satisfactory one, and 20% a good one.

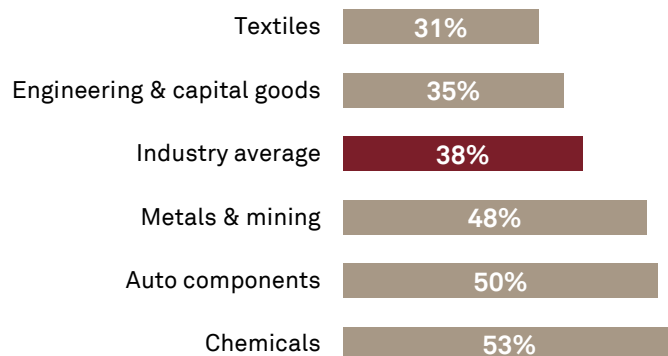
Going forward, manufacturers in auto components, food products, and engineering and capital goods industries are the most optimistic about their business performance.

Among the industries in the services sector, commercial services and supplies, IT/ITeS and diversified consumer services have reported a healthy performance in the survey quarter. However, traders and construction/real estate based MSEs had relatively higher share of respondents reporting a subdued quarter. Among traders, 25% reported a subdued last quarter, 46% reported a satisfactory one, and 29% reported a good quarter. The corresponding figures for construction/real estate segments are 21%, 58% and 21%, respectively.

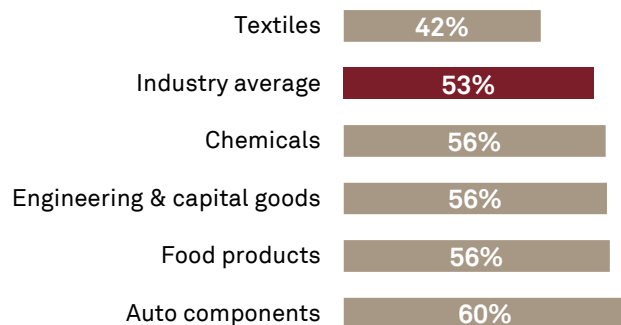
In the next quarter, commercial services & supplies and IT/ITeS are expected to continue doing well, along with MSEs in the travel and hotels segment. The services sector remains optimistic, with most industries having only a single-digit share of respondents expecting a turn for the worse.

Manufacturing sector

Good - survey quarter in each industry

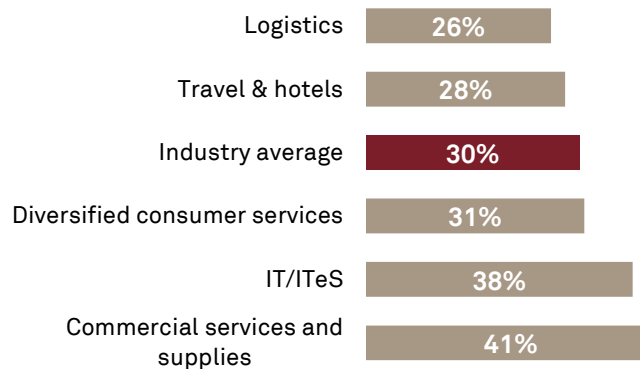


Expecting better - next quarter in each industry

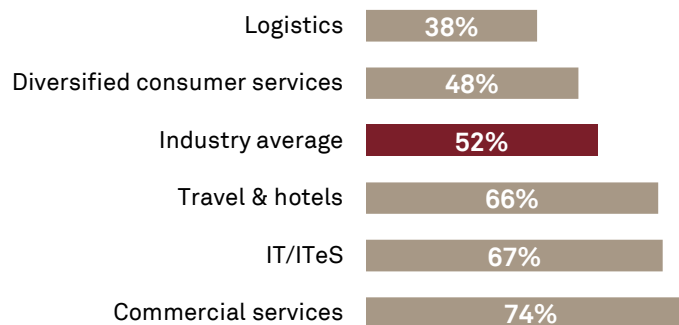


Services sector

Good - survey quarter in each industry



Expecting better - next quarter in each industry



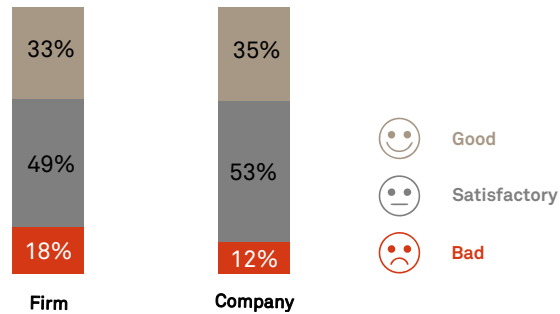
Bars represent share of respondents

Legal constitution: firm vs company

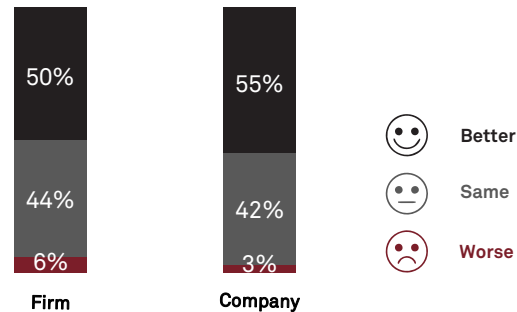
There is not much to differentiate in terms of sentiment based on legal constitution, though companies reported a marginally more positive sentiment than firms. In the survey quarter, 18% of the firms reportedly had a subdued quarter versus 12% of companies.

Going forward, 55% of the companies expect to have a better quarter against 50% of the firms.

Business situation in survey quarter



Business situation in the next quarter



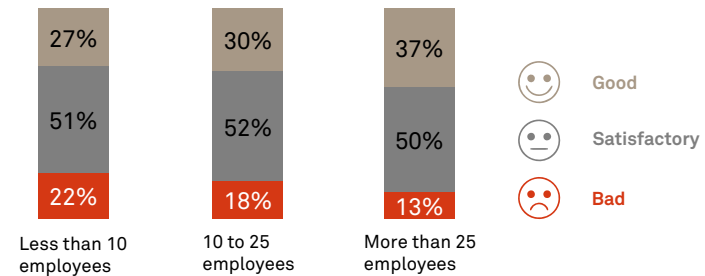
Bars represent share of respondents

Unorganised sector blues

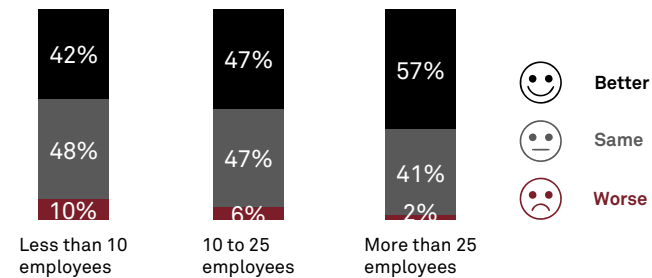
Unorganised players, mostly micro enterprises with < 10 employees, had a comparatively larger share of respondents having a subdued quarter versus those with more employees. Around 22% of the respondents in the < 10 employees bucket reported a subdued quarter versus 18% for those with 10-25 employees and 13% for those with > 25 employees.

Going forward as well, a similar pattern is visible. 57% of MSEs with > 25 employees expect to have a better quarter against 42% of MSEs with < 10 employees.

Business situation in survey quarter



Business situation in the next quarter

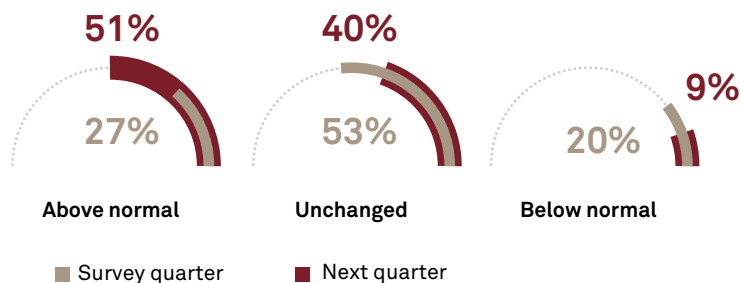


Bars represent share of respondents

Orderbook size

In the survey quarter, 27% of the MSEs reported an above-normal orderbook, 53% saw no change and 20% below normal. This is expected to improve in the next quarter with 51% anticipating improved orderbook and only 9% below-normal.

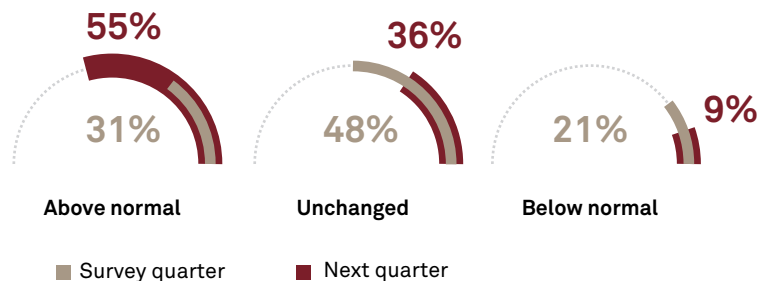
Orderbook size (domestic)



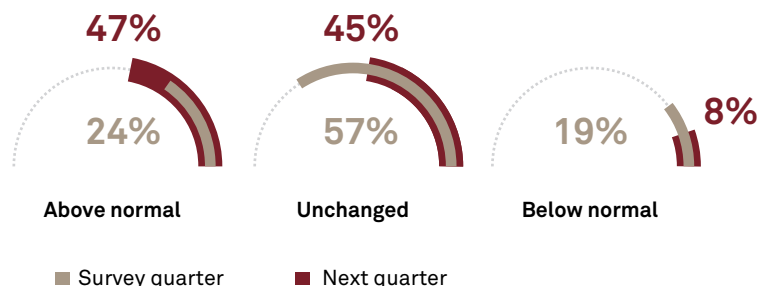
Graphs represent share of respondents

Around 31% respondents from manufacturing reported above-normal orderbook in the survey quarter versus 24% for the services sector. For the next quarter, too, 55% of the respondents in the manufacturing sector expect a better quarter compared with 47% respondents in the services sector.

Manufacturing - orderbook size (domestic)



Service - orderbook size (domestic)

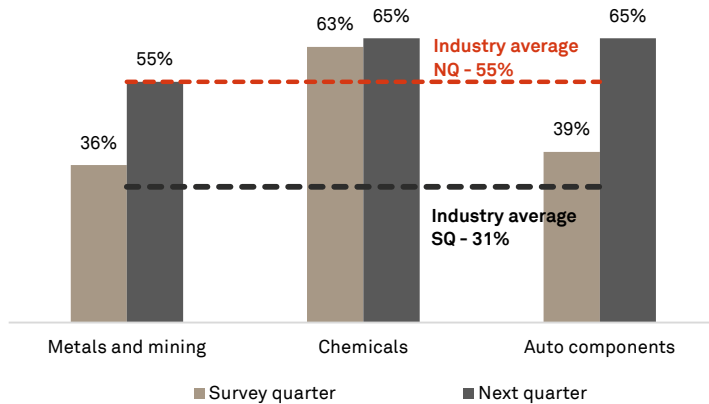


Graphs represent share of respondents

In the manufacturing sector, the industries reporting healthy orderbooks and a strong pipeline of orders were auto components and chemicals. Metals & mining, pharmaceuticals, and engineering and capital goods also have good orderbooks.

On the other hand, industries with a large presence of unorganised players such as leather products, gems & jewellery and food products, reported below-normal orderbooks and are expected to have a weaker showing in the next quarter.

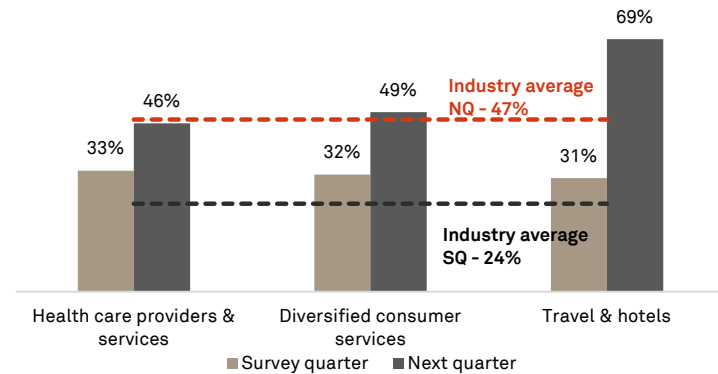
Manufacturing industries - orderbook size (domestic)



Bars and lines represent share of respondents

In the services sector, MSEs engaged travel-related businesses, health care providers and diversified consumer services executed healthy orders and expect a strong pipeline of orders in the next quarter. In SQ, traders are among those that had weakest orders in hand (33% reported a below normal orderbook). Going forward, in NQ too, 18% traders expect to have below-normal order flows.

Services industry - orderbook size (domestic)



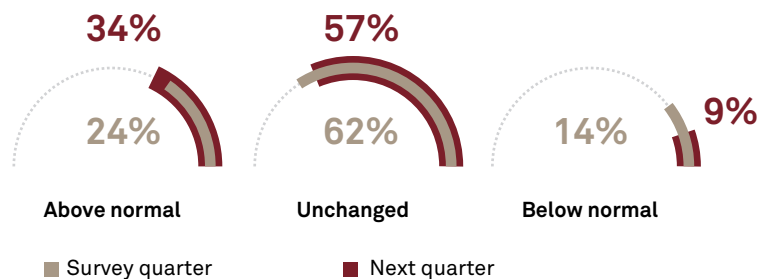
Bars and lines represent share of respondents

International business

Purely domestic players harbour more hope of improvement compared with their export-oriented counterparts. This does not necessarily mean that exporters will not perform well. It only indicates that exporters do not expect as significant a change in their business situation as the purely domestic players. This is inferred from the fact that 24% of the export-oriented respondents reported an above-normal quarter, similar to 27% in the case of domestic players. Going forward, 34% of the exporters expect an above-normal orderbook versus 51% of purely domestic players.



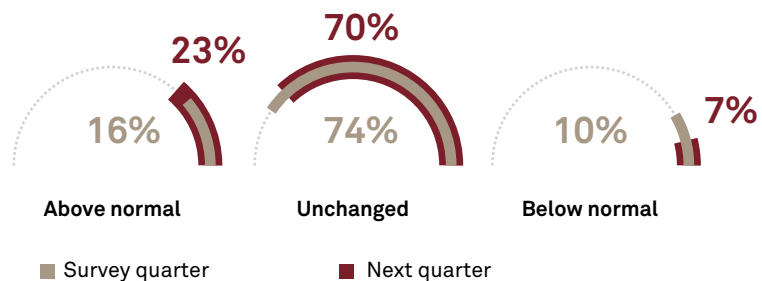
Orderbook size (exports)



Graphs represent share of respondents

Importers are expecting more stability. Nearly 3 of 4 MSEs surveyed (74%) placed normal orders for imports from their suppliers, while 16% placed higher orders. Going forward, too, there is relatively less variation expected among importers. A significant 70% expect to continue placing orders similar to current levels, while those expecting an enhanced purchase book increase to 23% from the current 16%.

Volume of import orders placed



Graphs represent share of respondents

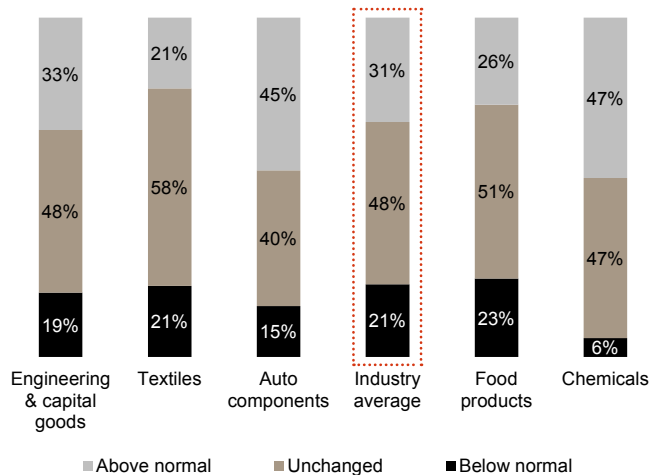
Production cycle

For the manufacturing sector, 48% respondents did not find any change in their volume of production in the survey quarter, while 21% saw it below normal and 31% above normal, indicating that overall production was marginally above normal.

In line with the overall optimism, MSEs are expecting improvement in production over the next quarter with 55% respondents expecting above-normal production and only 8% expect it to be below normal. The balance 37% believes production will remain unchanged.

On capacity utilisation, 51% of the respondents from the manufacturing sector expect an increase, 40% see no change, while the rest expect it to be below average.

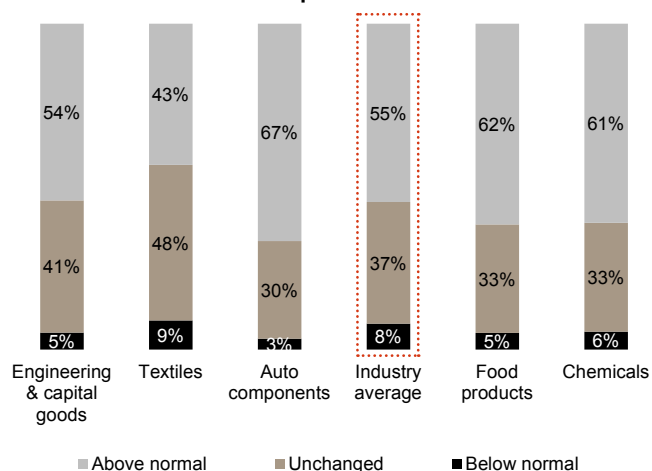
Volume of production (industry-wise) - survey quarter



Bars represent share of respondents

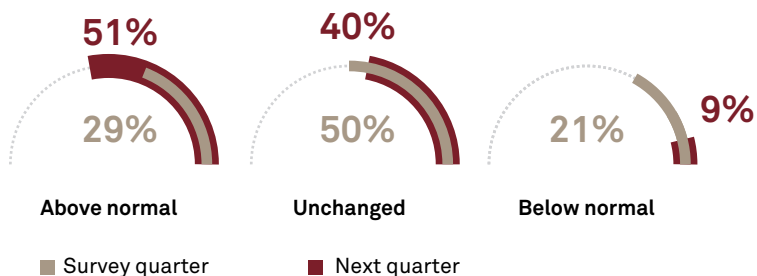


Volume of production (industry-wise) - next quarter



Bars represent share of respondents

Capacity utilisation



Graphs represent share of respondents

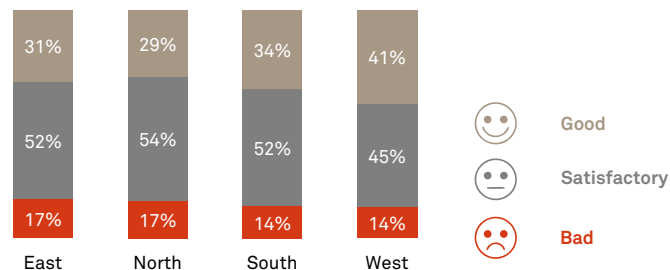
Regional sentiment

In the survey quarter, the sentiment in west India was the most positive with 41% respondents reporting a good quarter, while north was the least with only 29%. In the east, only 31% did so, but 56% expect a better next quarter.

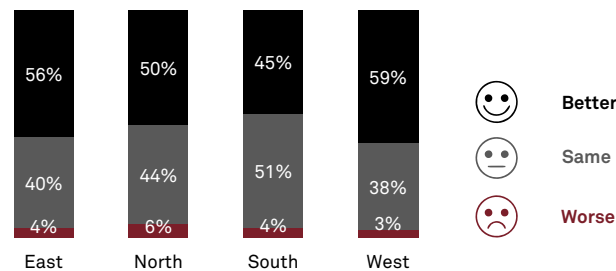
Among large states, Kerala had the toughest time in the survey quarter with 44% respondents reporting a subdued quarter. Chhattisgarh, West Bengal and Punjab had a below-average quarter, while Jharkhand (67% respondents) reported the most positive sentiment. Respondents from Odisha, Karnataka and Maharashtra also showed strong positive sentiment.

As for the next quarter, Jharkhand and Odisha remain the most positive with 81% and 71% of respondents, respectively, anticipating a better quarter. New Delhi, Uttarakhand and Maharashtra also expect to have a better performance.

Good - survey quarter



Expecting better next quarter

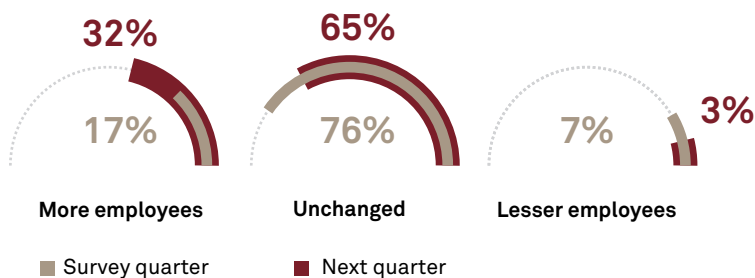


Bars represent share of respondents

Employment scenario to remain moderate

In the survey quarter, nearly 76% of the respondents reported that their employee base remained unchanged, while 17% added more staff. Only 7% either let go or did not replace outgoing employees. The employment scenario is expected to show positive movement in the next quarter as the share of respondents who intend to recruit more people is 32% versus the current share of net recruitment, while those intending to reduce their employee base is 3%. The majority, or 65%, intend to continue retaining the current employee base with no net additions.

Employee base



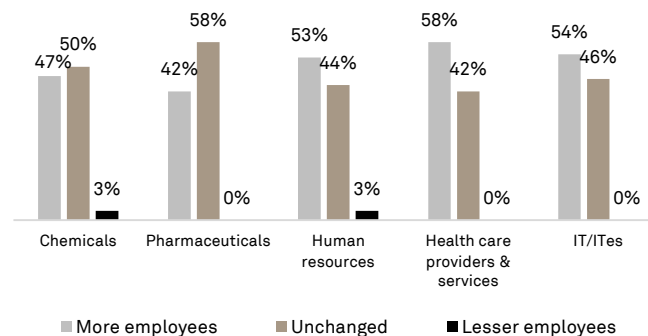
Graphs represent share of respondents

The services sector has a marginally more positive sentiment on employment with 20% respondents stating they added employees against 15% for manufacturing. And 34% in services sector are looking to add more employees in the next quarter against 30% in manufacturing.

In manufacturing, the leather industry reported the most retrenchments – as much as 34%. The segment is the least positive going forward with 13% still expecting retrenchments and only 9% willing to hire more. Chemicals and pharmaceuticals industries, though, are looking to ramp up hiring.

In services, traders were the most muted employers. This is also because, by nature, trading is not employment-heavy. Construction and real estate is a mixed bag with 16% respondents stating they let people go, while 21% were net employers. Human resources, health care providers and IT/ITeS based MSEs are relatively more optimistic about the NQ with at least 53% looking recruit in each.

Employee base in the next quarter in each industry



Note: Chemicals and pharmaceuticals industries are from manufacturing sector and remaining from services sector.

Bars represent share of respondents



What's limiting MSE growth?

According to the survey, the limiting factors, in descending order, are:

Access to capital

Skilled labour

Availability of technology

Power and infrastructure

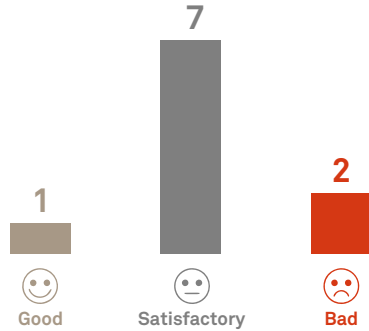
Availability of raw material

Lender view

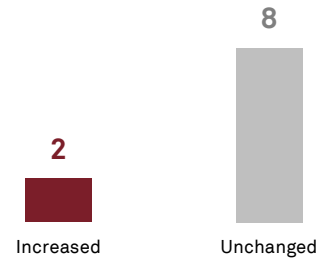
CRISIL interacted with 10 lenders, including banks and NBFCs, for their views on the MSE sector. Lenders hold a favourable view for the next quarter with 9 out of 10 saying the overall business situation will improve.

As for NPAs in the last quarter, 8 out of 10 lenders did not find any change in the situation of MSE accounts, while 2 believed NPA accounts had increased. In the next quarter, 5 out of 10 lenders expect a decrease in NPA accounts, 3 believe it will remain unchanged, while 2 believe it will increase. Overall, however, there is optimism.

Business situation in survey quarter



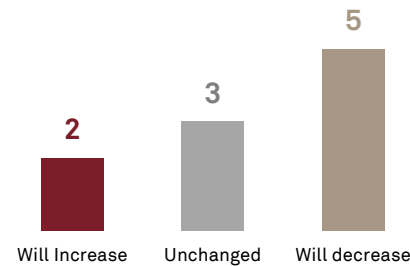
NPA in survey quarter



Business situation in the next quarter



NPA in the next quarter



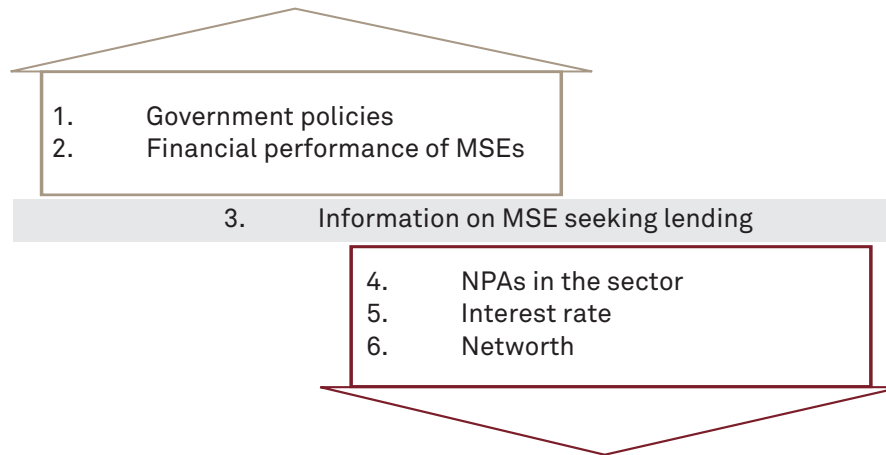
Bars represent number of respondents

Bars represent number of respondents

As per lenders, access to institutional funding remains a challenge for MSEs, as 5 out of 10 believe it is difficult for them to get loans, 2 believe it is neither difficult nor easy, while 2 believe getting a loan is easy.

NPAs are the biggest limiting factor, is the refrain among lenders. High interest rates and low networth or collateral are the other challenges to fund raising.

Lenders believe current government policies are favourable for lending to MSEs, and those delivering good financial performance with transparency in information find it easier to secure institutional funding.



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About SIDBI

Small Industries Development Bank of India (SIDBI), is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities. The business domain of SIDBI consists of Micro, Small and Medium Enterprises (MSMEs), which contribute significantly to the national economy in terms of production, employment and exports. SIDBI meets the financial and developmental needs of the MSME sector with a Credit+ approach to make it strong, vibrant and globally competitive. For more information, visit www.sidbi.in.

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