# Understanding Indian MSME Sector: Progress and Challenges (May 2025)

A VentureBean Industry Analysis

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*This analysis distils key findings from the source report and frames them through VentureBean's lens — helping scaling Indian enterprises (₹10Cr–100Cr) translate macro insights into leadership and growth strategy.*

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## VentureBean's Perspective

The recent SIDBI MSME report rightly highlights the substantial credit gap hindering Indian enterprises, but for ambitious SMBs looking to scale from ₹10Cr to ₹100Cr, capital alone will not cross the chasm. The report's deeper findings expose a critical friction point: as small enterprises attempt to scale into the medium category, they inevitably hit a wall of operational and regulatory complexity. Challenges such as intense market competition, the urgent need for technology adoption, and sudden unpreparedness for rigorous statutory compliance are not merely external market factors. They are profound symptoms of operational immaturity. At VentureBean, we constantly observe that the sheer entrepreneurial grit required to reach the first ₹10Cr is fundamentally different from the systems thinking required to build a ₹100Cr enterprise. Growth at this stage demands a deliberate pivot from tactical firefighting to building resilient, scalable architectures.

Furthermore, the report underscores pervasive struggles with attracting skilled talent and a heavy reliance on traditional, localized marketing models. This bottleneck is ultimately a question of leadership readiness. When a founder remains entangled in daily operational bottlenecks, the organization's ability to modernize market access and empower high-performing teams stagnates. Scaling requires a profound evolution from a founder-centric hustle to a process-driven organization. Leaders must develop the maturity to decentralize decision-making, integrate digital transformation as a core business strategy rather than an IT afterthought, and cultivate an organizational culture that naturally attracts and retains specialized talent.

Ultimately, the SIDBI findings validate what we champion at VentureBean: graduating to the next tier of market dominance demands executive evolution. While securing growth capital is essential, it is the strategic investment in leadership development and executive coaching that yields the highest returns for scaling SMBs. By proactively maturing their internal systems and expanding their leadership capacity, founders can transition from merely running a business to orchestrating a highly efficient, systems-driven enterprise capable of outpacing competition and sustaining long-term, exponential growth.

## Significance of the Report

Published by the Small Industries Development Bank of India (SIDBI), the "Understanding Indian MSME Sector" report provides a comprehensive analysis of the country's vibrant micro, small, and medium enterprise ecosystem. The study employs a rigorous methodology that combines secondary macroeconomic data with an extensive primary survey of over 2,000 entrepreneurs across 19 diverse industry sectors and 70 regions. It deeply examines both the progress and the persistent hurdles faced by these businesses, bringing sharp focus to critical issues such as a massive ₹30 lakh crore addressable credit gap, technological adoption barriers, and skilled labor shortages. By identifying these specific pain points alongside emerging trends in women’s entrepreneurship and sustainable green practices, the report addresses a crucial real-time informational deficit that has historically hindered proactive market interventions. Ultimately, this authoritative assessment serves as an essential tool for policymakers, financial institutions, and industry leaders to design targeted, effective support mechanisms. Equipping stakeholders with these data-driven insights is fundamental to unlocking the sector's full economic potential, fostering inclusive growth, and driving India's ambitious trajectory toward becoming a fully developed nation by 2047.

# Findings

## MSME Formalisation is Accelerating but Remains Incomplete

Udyam registrations surged to over 6.2 crore by March 2025, representing a significant jump from 2.5 crore in March 2024. However, 35% of surveyed micro-enterprises remain unregistered due to a lack of awareness and fear of regulatory scrutiny. This matters because operating informally restricts these businesses from accessing vital government support schemes and affordable formal credit.

## A Massive Credit Gap Persists Despite Increased Supply

The MSME sector faces an estimated addressable credit gap of 24%, which translates to approximately ₹30 lakh crore. This shortfall is most severe for medium enterprises (29%), trading businesses (33%), and services (27%), driving 12% of all micro-enterprises to rely on high-cost, informal credit sources. Bridging this gap is crucial because inadequate capital directly restricts scalability, operational efficiency, and overall economic growth.

## Women Entrepreneurs Face Disproportionate Financial Hurdles

Women now own 26.2% of proprietary enterprises, reflecting positive strides toward inclusive economic participation. Yet, women-owned businesses experience a drastically higher credit gap of 35% compared to just 20% for their male counterparts. This is a critical issue as 41% of women-led MSMEs highlight lack of credit access and high competition as their biggest roadblocks to scaling their operations.

## Digital Payment Adoption Outpaces Digital Lending and Marketing

A resounding 90% of surveyed MSMEs now accept digital payments, demonstrating strong foundational digital readiness. However, only 18% have utilized digital lending platforms, and nearly 70% still rely on traditional, localized marketing methods. Accelerating the use of e-commerce and digital credit tools is vital for MSMEs to reduce operational costs, secure faster working capital, and tap into global customer bases.

## MSMEs are Crucial to India's Export Momentum but Face Supply Hurdles

The sector's contribution to national merchandise exports grew to an impressive 45.73% in FY2024, with 14% of surveyed MSMEs operating as export-oriented units. While these exporters report stronger technological adoption than non-exporters, they heavily struggle with supply chain stability and raw material availability. Supporting these exporters through streamlined logistics and trade financing is essential to protect India's position in global trade.

## Sectoral Challenges Vary Significantly in Intensity

The business environment and operational hurdles differ sharply depending on the industry. Manufacturing sectors like auto components face severe distress, reporting high intensity across six major challenges including infrastructure and raw material access. Conversely, service sectors like hospitals and hotels report a more conducive environment, highlighting the need for policymakers to abandon one-size-fits-all solutions in favor of sector-specific interventions.

## Distinct Regional Disparities Exist in Credit Access and Industrialization

The addressable credit gap is notably wider in rural areas at 32%, compared to 20% in urban regions, primarily due to fewer financial institutions. Geographically, Uttar Pradesh, West Bengal, and Maharashtra lead the country in the sheer number of MSME establishments. Understanding these regional patterns is vital for deploying localized banking infrastructure and regional development funds effectively.

## Skill Gaps and Labour Shortages Constrain Specific Hubs

While the MSME sector employs roughly 26 crore individuals nationwide, a lack of skilled manpower remains a critical operational bottleneck. The intensity of this challenge peaks in specific industrial pockets, such as a 24% challenge intensity for the readymade garments (RMG) sector in Gurugram. Addressing these localized skill shortages is paramount for improving MSME productivity and enabling them to compete with larger, more automated corporations.

## Green Technology Adoption is Progressing but Requires Awareness

Sustainability is gaining measurable traction, with 36% of MSMEs reporting the adoption of green practices, including 31% utilizing energy-efficient machinery and 21% using renewable energy. However, 33% of enterprises cite limited awareness as their primary barrier to adopting climate-resilient technologies. Closing this knowledge gap is essential to help the sector reduce long-term energy costs and support India's national climate goals.

## Newly Established Businesses Severely Struggle with Initial Capital

For MSMEs operating for less than five years, 46% cite access to credit, intense competition, and utility supply as their top three survival hurdles. Strikingly, 30% of these new businesses cannot access formal credit at all due to a lack of financial history and collateral, forcing reliance on personal networks. Easing early-stage funding through cashflow-based digital lending is critical to ensuring new startups survive their vulnerable early years.

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# Thought Triggers

Provocative questions for CEOs, founders, and CXOs of scaling Indian businesses:

**1.** You've hustled your way to "Small," but are your systems ready for "Medium"?

As businesses transition from small to medium-sized entities, their credit gap widens to 29% and regulatory compliance becomes a massive bottleneck. The informal hustle that built your company will not sustain it. Are you actively building a formal, transparent, and compliant foundation today, or is your growth dangerously outpacing your governance?

**2.** Accepting digital payments doesn't make you a digitally mature business.
While over 90% of MSMEs accept digital payments, a staggering 70% still rely on traditional, localized marketing, and only 13% leverage digital channels. Are you actively utilizing digital marketing and platforms like ONDC to leapfrog competitors, or are you just digitizing your accounting while leaving customer acquisition in the past?

**3.** If your primary competitive advantage is just being "local" or "cheaper," you are highly vulnerable.

Intense competition and a lack of product differentiation are actively choking margins, particularly in crowded sectors like retail, IT, and readymade garments. What is your deliberate strategy to differentiate your value proposition or tap into the lucrative, higher-margin export market before larger players price you out?

**4.** You can't scale a modern business with an outdated talent strategy.

A severe lack of skilled manpower is actively stalling technology adoption and productivity across major manufacturing and service hubs. Are you treating talent acquisition and upskilling as a core strategic investment for your next phase of growth, or are you still viewing your workforce as a low-cost, easily replaceable commodity?

**5.** Is your financial history telling the right story to future lenders and investors?

**6.** Relying on informal credit or avoiding Udyam registration out of a fear of scrutiny might work in the early days, but it guarantees you will hit a funding wall when you need to scale. Are you meticulously building a track record of formal financial compliance and digital footprints to unlock the capital you will inevitably need?

**7.** Are you treating sustainability as a future regulatory nuisance or a present-day competitive edge?

**8.** Over a third of proactive MSMEs are already adopting green technologies and energy-efficient systems to fundamentally lower operational costs, yet many remain entirely unaware of the benefits. Will you proactively leverage green financing to build a resilient, future-proof business, or wait until larger supply chain partners force your hand?

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## Ready to Apply These Insights?

If this report resonated with you, let's explore how VentureBean can help your organisation navigate these challenges.

**Book a Discovery Call** — Schedule a Call