

Micro and Small Enterprises

8.58 The micro and small enterprises (MSEs) provide employment to an estimated 31.2 million persons in the rural and urban areas of the country. During 2003-07, the MSE sector registered continuous growth in the number of enterprises, production, employment and exports (Table 8.17). It is estimated that there are about 128.44 lakh MSEs in the country as on March 31, 2007, accounting for about 39 per cent of the gross value of output in the manufacturing sector.

8.59 Under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the definitions and coverage of the MSE sector were broadened significantly. Further, the Act also defined the medium enterprises for the first time. Informal estimates suggest the contribution of the MSME sector to be much higher than those based on the 3rd All-India Census. To capture the data for the MSME sector, the 4th Census of MSME sector is being launched.

8.60 Recently, major initiatives have been taken by the Government to revitalize the MSME sector.

Table 8.17 Performance of micro and small enterprises

Year	Number of units (in lakh)			Production (Rs. crore) (at 2001-02 prices)	Employment (in lakh)	Exports (Rs. crore)
	Registered	Un- registered	Total			
2002-03	16.03	93.46	109.49 (4.1)	3,06,771 (8.7)	263.68 (4.5)	86,013 (20.7)
2003-04	17.12	96.83	113.95 (4.1)	3,36,344 (9.6)	275.30 (4.4)	97,644 (13.5)
2004-05	18.24	100.35	118.59 (4.1)	3,72,938 (10.9)	287.55 (4.5)	1,24,417 (27.4)
2005-06	19.30	104.12	123.42 (4.1)	4,18,884 (12.3)	299.85 (4.3)	1,50,242 (20.8)
2006-07 ^a	20.32	108.12	128.44 (4.1)	4,71,663 (12.6)	312.52 (4.2)	N.A.

Source: Office of the Development Commissioner (MSME)

^a Estimates based on definitions prior to enactment of MSMED Act, 2006.

Note: Figures in parenthesis indicate percentage growth over previous year.

Box 8.4 Implementation of the MSME Development Act, 2006

For implementation of the MSMED Act, 2006, notifications of Rules were to be issued by the Central and State Governments. The Central notifications are as follows:

- Principal notification in July 2006 that MSMED Act becomes operational from October 2, 2006.
- Notification in September 2006 for the Rules for National Board for Micro, Small and Medium Enterprises (NBMSMEs) to be constituted under the Act.
- Notification in September 2006 for the constitution of the Advisory Committee.
- Notification in September 2006 for classifying enterprises.
- Notifications in September & November 2006 declaring DICs in the States/UTs as "Authority" with which the entrepreneurs memorandum could be filed by the medium enterprises.
- Notification in September 2006 for the form of memorandum to be filed by the enterprises, procedure of its filing and other matters incidental thereto.
- Notification in October 2006 for exclusion of items while calculating the investment in plant and machinery;
- Notification in May 2007 for constitution of NBMSMEs.
- Notification in May 2007 for dividing the country into six regions; and, notification in June 2007 for the amendment of EM format.
- 28 States/UTs have notified the authority for filing of entrepreneurs memorandum, 17 States/UTs have notified rules for MSEFCs and 15 States/UTs have notified constitution of MSEFCs.

They include:

- (i) Implementation of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 (Box 8.4).
- (ii) A "Package for Promotion of Micro and Small Enterprises" was announced in February 2007. This includes measures addressing concerns of credit, fiscal support, cluster-based development, infrastructure, technology, and marketing. Capacity building of MSME Associations and support to women entrepreneurs are the other important features of this package.
- (iii) To make the Credit Guarantee Scheme more attractive, the following modifications have been made: (a) enhancing eligible loan limit from Rs. 25 lakh to Rs. 50 lakh; (b) raising the extent of guarantee cover from 75 per cent to 80 per cent for (1) micro enterprises for loans up to Rs. 5 lakh, (2) MSEs operated or owned by women and (3) all loans in the North-East Region; and (c) reducing one-time guarantee fee from 1.5 per cent to 0.75 per cent for all loans in the North-East Region.
- (iv) The phased deletion of products from the list of items reserved for exclusive manufacture by micro and small enterprises is being continued. 125 items were de-

reserved on March 13, 2007, reducing the number of items reserved for exclusive manufacture in micro and small enterprise sector to 114. Further, 79 items were dereserved through a notification dated February 5, 2008.

Tourism

8.61 Global tourism continued to move upward during 2006 with the number of international tourist arrivals worldwide reaching about 846 million (UNWTO estimates) and international tourism receipts scaling US\$ 735 billion in the year. The aforesaid variables grew at 5.7 per cent and 8.4 per cent, respectively, compared to 2005.

8.62 The rate of growth of the tourism sector of India has been way above the world average in the last few years. 2006-07 is the fourth consecutive year of high growth in foreign tourist arrivals and foreign exchange earnings from tourism (Table 8.18).

8.63 The prospects for growth of tourism in India are bright. The overall development of tourism infrastructure coupled with other efforts by the Government to promote tourism such as appropriately positioning India in the global tourism map through the "Incredible India" campaign, according greater focus in newly emerging markets such as China, Latin America and CIS countries, and participating in trade fairs and exhibitions will facilitate tourism growth.

Table 8.18

Foreign tourist arrivals and foreign exchange earnings from tourism

Year	Foreign tourist arrivals		Foreign exchange earnings ^a	
	Number in lakh	Growth rate	Million US\$	Growth rate
1999-00	25.05	4.5	3,036	1.4
2000-01	26.99	7.7	3,497	15.2
2001-02	24.28	-10.0	3,137	-10.3
2002-03	24.54	1.1	3,312	5.6
2003-04	29.33	19.5	5,037	52.1
2004-05	36.03	22.8	6,666 ^b	32.3
2005-06	41.00	13.8	7,853 ^b	17.8
2006-07	46.33 ^d	13.0	9,696 ^c	23.5

Source: Ministry of Tourism.

^a figures worked out using the new methodology.

^b Revised Estimates.

^c Advance Estimates.

^d Provisional.

Prices of manufactured products

8.64 From the construction of Wholesale Price Index (WPI) and the Index of Industrial Production (IIP), it is not possible to distinguish between input and output prices at the two-digit level classification of industrial groups. This renders it difficult to verify the correspondence between industrial input and output prices. It is observed that during April-November 2007, inflation of manufactured products, in general, has been slightly higher than their levels during the corresponding period in 2006, while the growth has been lower. At the disaggregated level, for instance, among food products, sugar recorded a phenomenal growth in production and recorded a negative point-to-point inflation of -16.4 per cent during April-November 2007. Likewise, the growth performance of edible oils has been generally poor, while their inflation has been 13.2 per cent. Updated

figures of inflation in terms of absolute manufacturing price indices can be further perused from Table 4.5 (Chapter 4).

8.65 While the overall inflation could be influenced most directly by monetary factors, the rate of price change in specific segments like manufacturing (and product groups within) would be significantly affected by changing demand conditions and input prices. In this context, it is the movement in relative prices rather than absolute prices that becomes more relevant. The relative inflation of a manufacturing product group has been measured as the rate of growth in the ratio of the wholesale price index of that product group to the overall wholesale price index. As a rigorous treatment of relative manufacturing prices is beyond the scope of this section, a simple presentation of relative prices during 2005-07 is attempted in Table 8.19. While establishing correspondence between the WPI and the IIP, of the total of 17 two-digit level IIP groups, four groups pertaining to textiles are clubbed together. Similarly, basic metals and metal products are combined, while "other manufacturing" is omitted.

8.66 Table 8.19 shows that, on the whole, the relative manufacturing inflation that remained negative during 2005-06 and 2006-07 turned positive during April-November 2007. Of the 12 industrial

product groups presented in Table 8.19, product groups other than food products, textiles and transport equipments, and paper and paper products contributed towards this change.

8.67 During 2005-06 to 2007-08, the rate of growth in relative prices remained negative for food products, textiles and transport equipments, while for beverages and tobacco products, wood and wood products and non-metallic mineral products, the same has been positive during the period. Among textile products, the growth performance has been sluggish, except for jute textiles; yet their inflation levels have been mild. In the face of a near-stagnation in export growth experienced during April-September 2007, mainly on account of appreciation of rupee, price adjustments may have been attempted by the textile industry to remain internationally competitive. The RBI study of corporates has revealed that among the textile corporates, net profit to sales ratio has declined during the first half of the current fiscal.

8.68 Among the six product groups exhibiting both increasing and declining relative prices in different years, the annual fluctuations were most pronounced in the case of leather and leather products.

Table 8.19 Manufacturing relative price growth (per cent)

Product group	2005-06	2006-07	April-November	
			2006	2007(P)
Manufactured products	-1.29	-0.94	-1.35	0.55
Product groups with declining relative prices				
Food products	-3.19	-2.09	-2.24	-1.09
Textiles	-8.54	-3.10	-2.56	-3.85
Transport equipments	-0.76	-3.67	-3.23	-2.56
Product groups with increasing relative prices				
Beverages and tobacco	0.42	1.84	1.78	5.74
Wood & wood products	3.83	0.55	2.65	2.16
Non-met mineral products	3.24	7.01	7.40	4.67
Product groups with varying yearly patterns in relative prices				
Paper & paper products	-2.09	1.33	1.93	-2.08
Leather & leather products	2.60	-9.30	-10.48	1.68
Rubber & plastic products	-0.96	1.12	0.82	2.50
Chemicals & products	-0.81	-2.28	-1.83	0.50
Basic metals & products	2.88	1.32	-1.51	2.54
Machinery & machine tools	0.69	0.13	-0.58	3.73

P=Provisional

Table 8.20 Profits and profitability of corporates

Sector	Rate of growth in profit		Net profits to sales ratio	
	April-Sept. 2007-08		April-Sept.	
	Sales	Net profit	2006-07	2007-08
Computer and related activities	23.9	28.7	21.2	22.0
Cement and cement products	24.3	35.2	18.3	19.9
Mining and quarrying	24.6	38.3	12.8	14.2
Chemicals and chemical products	10.5	22.3	11.3	12.5
Petroleum refinery	10.4	31.9	10.0	12.0
Iron and steel	21.7	54.0	8.5	10.8
Fabricated metal products	15.9	19.5	10.3	10.6
Machinery and machine tools	25.0	21.6	9.4	9.2
Paper and paper products	11.6	26.8	7.3	8.3
Electrical machinery & apparatus	28.3	38.4	7.5	8.1
Motor vehicles, etc	8.1	-	8.5	7.9
Medical precision, etc,	37.9	33.4	5.4	5.2
Rubber and plastic products	14.3	128.8	2.3	4.6
Food products and beverages	23.4	-2.1	5.7	4.5
Textiles	12.9	-20.2	5.6	4.0
Jewellery and related articles	21.7	31.0	3.7	4.0

Source: Reserve Bank of India.

Corporate profitability and investment

8.69 The profits earned by companies affect their retained earnings and saving rate, their cost of capital and consequently their investment. The data on corporate profitability, relevant to the industrial sector, presented here relate to a sample of non-government, non-financial public limited companies studied and analyzed by the Reserve Bank of India (RBI). Net corporate profits (net of taxes) have increased considerably for all industrial groups except food products and beverages and textiles during the first half of the current fiscal. Corporate profitability too has been visibly higher for most industrial groups in the first half of 2007-08 compared to that of 2006-07 (Table 8.20). Nonetheless, the study has observed that the rates of growth in sales and net profits are lower during the first half of 2007-08, compared to those of the first half of 2006-07.

8.70 The table presents the industry groups in descending order of the ratio of net profits to sales during the first half of 2007-08. It shows that there

is a strong industry-specific pattern to the behavior of corporate profits and profitability (Table 8.20).

8.71 Higher profits, backed by sound balance sheets, would suggest higher capacity to invest, which is reflected in the corporate investment plans for the medium term. The analysis of the inter-temporal investment plans of the private corporate sector done by the Reserve Bank of India (RBI), on the basis of the study of 1,054 companies which were sanctioned assistance by banks and other financial Institutions in 2006-07, brings out a bright picture. Analyzing the phasing of capital expenditure of the companies over years, the RBI study estimated that the capital expenditure envisaged for 2006-07 amounted to Rs. 1,55,038 crore, which shows an increase of 60.2 per cent over 2005-06. Further, it is estimated that the total cost of the projects of the private corporate sector which were sanctioned assistance in 2006-07 went up to Rs. 2,83,440 crore (against Rs. 1,31,299 crore in 2005-06). Out of this, about 34 per cent has been planned to be spent in 2007-08. Besides this, additional capital expenditure has been envisaged from external commercial borrowings and domestic equity issuances.