

# Role of MSME Sector in Building Self-Reliant India and Role of Company Secretary in the MSME Sector\*

## Introduction

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. The MSME also play an important role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. The MSME sector contributes notably to the country's overall industrial production output, employment and exports. It is recognized with generating the maximum employment growth as well as accounting for a major share of industrial production and exports.

They have distinctive advantages due to their size and they required low investment. They have relatively high capital-labour ratio and they require a minimum gestation period. They try to capture and focus smaller markets; they make sure a more fair distribution of national income. They make possible an effective utilization of capital and skill resources and they motivate the growth of industrial entrepreneurship. The MSME sector in India is vast heterogeneous in terms of the size, variety of product and services and level of technology.

This sector is large contributes to the socioeconomic development of the country. The MSME sector is an important pillar of Indian economy as it contributes greatly to growth of Indian economy with a vast network of around 30 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. This sector even assumes greater importance now as the country moves towards a faster and inclusive growth agenda.

MSME sector is the backbone of national economic edifice and has unremittingly acted as the fulcrum for the Indian economy, providing it resilience towards global financial shocks and hard times. With approximately 63.4 million units throughout the geographical expanse of the country, MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities as well as 33.4% of India's manufacturing output. Further, there is a vision to enhance MSMEs contribution to India's GDP to over 50% from the current 29% and that for the Indian economy to scale the \$5 trillion mark, the contribution of the MSME sector will be crucial.

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*Views expressed in the Article may not express the views of the Institute.*

## Growth of MSMEs

It is to be noted that growth of any sector is gauged on various yardsticks, like the number of enterprises being registered; employment opportunities created; turnover; increase in the number of offshore business units; activity wise, i.e. number of organisations getting registered under manufacturing and service segments etc. In light of the mentioned variables of measuring growth of a sector, in this article, the parameters considered for gauging the growth of MSME sector in India are:

1. Year wise and MSME wise registration.
2. Year wise and major Activity wise registration.

### 1. Year wise and MSME wise registration

The number of registered MSMEs in FY20 has increased by 18.49 per cent to 25.13 lakh units from 21.21 lakh in FY19, according to government data. Overall the number of registered MSMEs in India in the past five years stood at 90.19 lakh. According to the MSME Ministry's FY19 annual report, the MSME sector is dominated by micro-enterprises. India has 6.33 crore MSMEs out of which 6.30 crore, i.e. 99.4 per cent are micro-enterprises while 0.52 per cent, i.e. 3.31 lakh are medium and 0.007 per cent, i.e. 5,000 are medium enterprises.

The growth of MSMEs in India with reference to the year wise and MSME wise registration may be comprehended under the following key points:

1. The percentage share of Micro Enterprises registered out of the total MSMEs registered during 2015-16(from Oct., 2015), 2016-17, 2017-18, 2018-19 and 2019-20 (till Dec., 2019) are 85.15%, 90.51%, 88.60%, 88.18% and 87.61% respectively.
2. The percentage share of Micro Enterprises registered out of total MSMEs registered from 2015-16(from Oct., 2015) to 2019-20 (till Dec., 2019) is 88%.
3. The percentage share of Small Enterprises registered out of total MSMEs registered during 2015-16(from Oct., 2015), 2016-17, 2017-18, 2018-19 and 2019-20 (till Dec., 2019) are 14.31%, 9.12%, 10.95%, 11.36% and 11.92% respectively.
4. The percentage share of Medium Enterprises in the MSMEs during 2015-16 (from Oct., 2015), 2016-17, 2017-18, 2018-19 and 2019-20 (till Dec., 2019) are 0.53%, 0.36%, 0.43%, 0.44% and 0.46% respectively.
5. Maharashtra tops the list of number of Micro, Small & Medium Enterprises registrations during 2015-16(from Oct., 2015) to 2019-20 (till Dec., 2019).

Please refer exhibit 1 for year wise and MSME wise registration.

**Exhibit 1**  
**Year wise and MSME wise registration**

Year/Category	2015-16*	2016-17	2017-18	2018-19	2019-20 <sup>#</sup>	Total
Micro	4,21,516	21,47,908	13,44,612	18,70,932	16,32,644	74,17,612
Small	70,866	2,16,558	1,66,259	2,41,187	2,22,226	9,17,096
Medium	2,631	8,592	6,584	9,426	8,506	35,739
<b>Total</b>	<b>4,95,013</b>	<b>23,73,058</b>	<b>15,17,455</b>	<b>21,21,545</b>	<b>18,63,376</b>	<b>83,70,447</b>

Note: \* From October 2015 to March 2016, <sup>#</sup>From April 2019 to December 2019

Source: dcmsme.gov.in

Now it will be of substantial academic and research interests to ascertain the trend of MSMEs getting registered under the three categories, i.e. Micro, Small and Medium. In this regard, a prognosis of enterprises that may be registered under the mentioned categories till 2030 have been undertaken with the help of the statistical tool called linear equation trend.

**Linear equation trend is:  $y = bx + a$**

Where:

- b is the slope of a trendline.
- a is the y-intercept, which is the expected mean value of y when all x variables are equal to 0. On a chart, it's the point where the trendline crosses the y axis.

**i) Forecasted value of Registration of Enterprises under Micro Segment of MSME Sector**

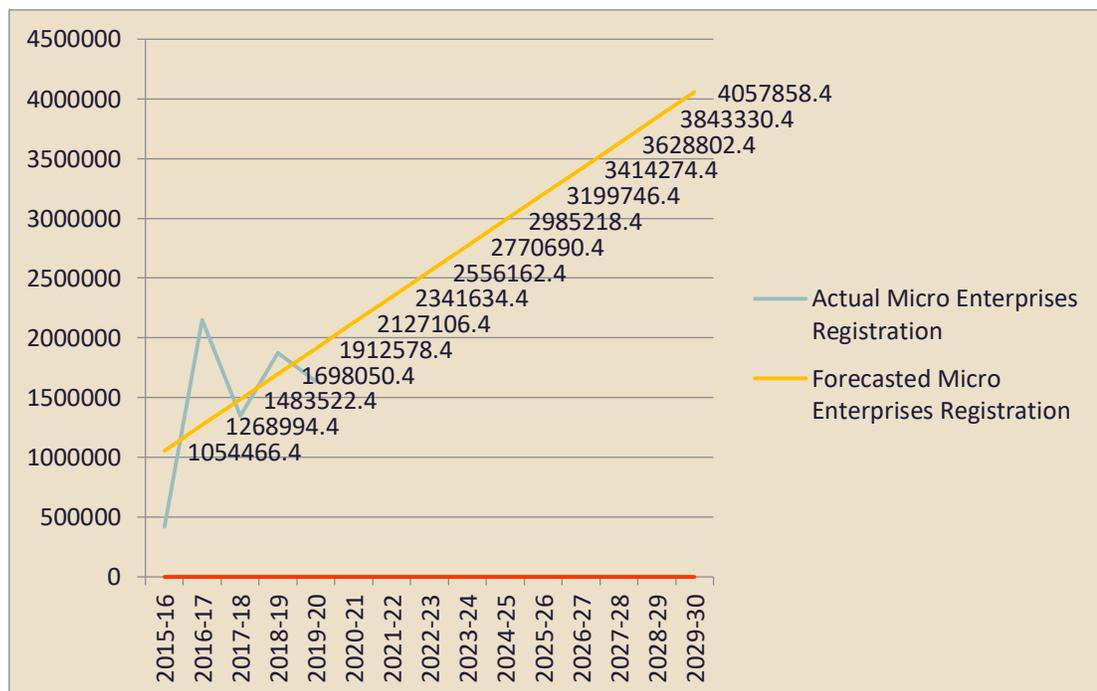
Years		Actual Micro Enterprises Registration	Forecasted Micro Enterprises Registration
2015-16	1	421516	1054466.4
2016-17	2	2147908	1268994.4
2017-18	3	1344612	1483522.4
2018-19	4	1870932	1698050.4

2019-20	5	1632644	1912578.4
2020-21	6		2127106.4
2021-22	7		2341634.4
2022-23	8		2556162.4
2023-24	9		2770690.4
2024-25	10		2985218.4
2025-26	11		3199746.4
2026-27	12		3414274.4
2027-28	13		3628802.4
2028-29	14		3843330.4
2029-30	15		4057858.4

The forecasted trend of registration of Micro Enterprises under MSME sector till 2030 is presented in the exhibit 2

**Exhibit 2**

**Forecasted Registration OF Micro Enterprises**

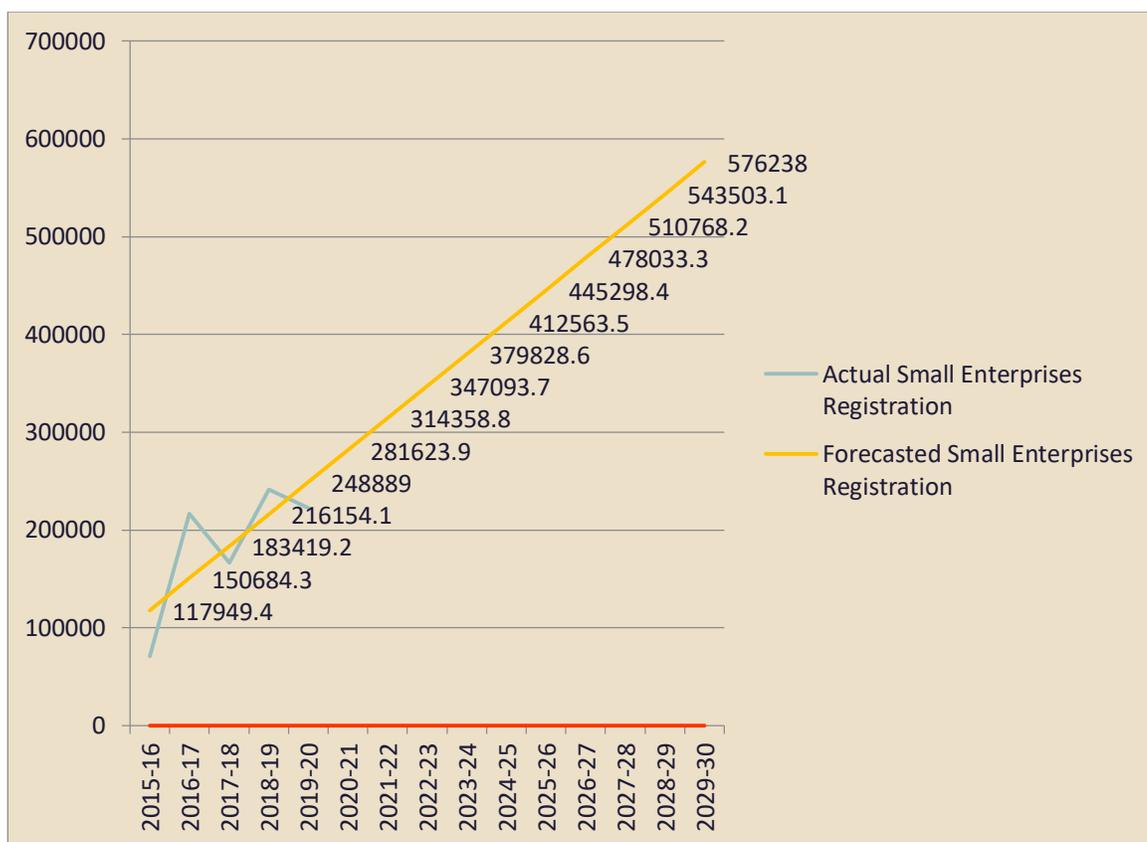


ii) **Forecasted value of Registration of Enterprises under Small Segment of MSME Sector**

<b>Years</b>	<b>Actual Small Enterprises Registration</b>	<b>Forecasted Small Enterprises Registration</b>
2015-16	70866	117949.4
2016-17	216558	150684.3
2017-18	166259	183419.2
2018-19	241187	216154.1
2019-20	222226	248889
2020-21		281623.9
2021-22		314358.8
2022-23		347093.7
2023-24		379828.6
2024-25		412563.5
2025-26		445298.4
2026-27		478033.3
2027-28		510768.2
2028-29		543503.1
2029-30		576238

The forecasted trend of registration of Small Enterprises under MSME sector till 2030 is presented in the exhibit 3

**Exhibit 3**  
**Forecasted Registration of Small Enterprises**



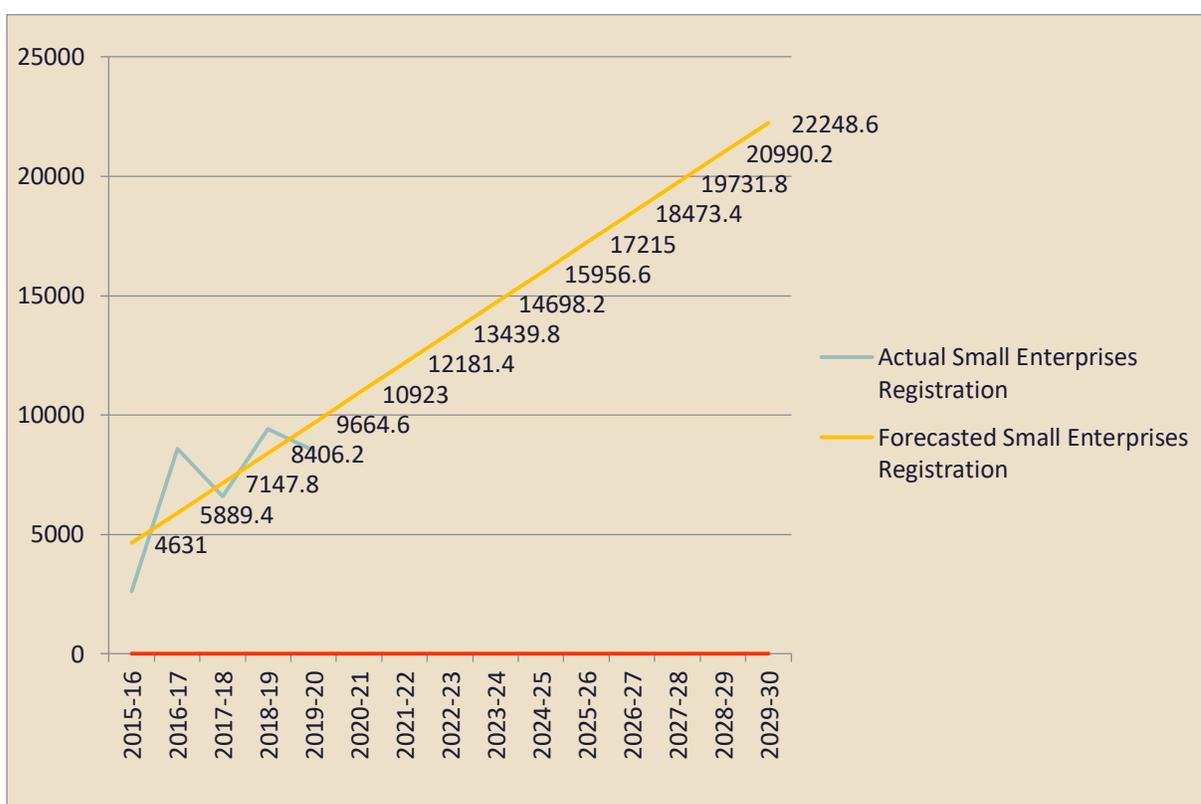
**iii) Forecasted value of Registration of Enterprises under Medium Segment of MSME Sector**

Years	Actual Small Enterprises Registration	Forecasted Small Enterprises Registration
2015-16	2631	4631
2016-17	8592	5889.4
2017-18	6584	7147.8
2018-19	9426	8406.2
2019-20	8506	9664.6
2020-21		10923
2021-22		12181.4
2022-23		13439.8
2023-24		14698.2
2024-25		15956.6

2025-26		17215
2026-27		18473.4
2027-28		19731.8
2028-29		20990.2
2029-30		22248.6

The forecasted trend of registration of Medium Enterprises under MSME sector till 2030 is presented in the exhibit 4

**Exhibit 4**  
**Forecasted Registration of Small Enterprises**



Thus, it is heartening to note from the linear trend that all the three segments of MSME, i.e. micro, small and medium enterprises are going to grow exponentially in the years to come, thereby creating mammoth employment opportunities and contribute substantially to the Gross Domestic Product.

If the above mentioned linear equation trends for micro, small and medium enterprises becomes reality, then it would be good news for large scale industries too, as numerous micro, small and medium enterprises manufacture ancillary products for the finished goods provided by the large scale industries. Next, with the growth in number of MSMEs, there is high probability of meteoric rise in exports from India and reduction of dependence on imports, thereby improving the balance of trade scenario.

Moreover, in a recent development wherein, the limits for investment in plant and machinery has been revised and concept of turnover has been ensconced will definitely act as a boon for the MSME sector in view of the rising trends.

## 2. Year wise and Major Activity wise registration.

The growth of MSMEs in India with reference to the year wise and Activity wise registration of MSMEs may be comprehended under the following key points:

1. During 2015-16 (Oct., 2015) to 2019-20 (till Dec., 2019) 41% MSMEs engaged in Manufacturing activities while 59% MSMEs engaged in the Service activities.
2. During 2015-16 (Oct., 2015) to 2019-20 (till Dec., 2019) 40.61% and 59.38% Micro Enterprises are engaged in the Manufacturing and Service activities respectively.
3. During 2015-16 (Oct., 2015) to 2019-20 (till Dec., 2019) 45.43% and 54.56% Small Enterprises are engaged in the Manufacturing and Service activities respectively.
4. During 2015-16 (Oct., 2015) to 2019-20 (till Dec., 2019) 56.77% and 42.22% Medium Enterprises are engaged in the Manufacturing and Service activities respectively.

Please refer exhibit 5 for year wise and major activity wise registration.

### Exhibit 5

#### Year wise and Major Activity Wise Registration

Year/Category	Manufacturing	Services	Total
	<b>Micro</b>		
2015-16*	2,08,376	2,13,140	4,21,516
2016-17	8,86,493	12,61,415	21,47,908
2017-18	6,04,459	7,40,153	13,44,612
2018-19	7,24,337	11,46,595	18,70,932
2019-20#	5,88,978	10,43,666	16,32,644
Total	27,81,796	39,81,625	67,63,421
Year/Category	<b>Small</b>		
2015-16*	44,811	26,055	70,866
2016-17	1,22,040	94,518	2,16,558
2017-18	80,650	85,609	1,66,259
2018-19	94,879	1,46,308	2,41,187
2019-20#	74,289	1,47,937	2,22,226
Total	3,91,696	4,42,998	8,34,694
Year/Category	<b>Medium</b>		
2015-16*	1,861	770	2,631
2016-17	5,639	2,953	8,592
2017-18	3,978	2,606	6,584
2018-19	5,015	4,411	9,426
2019-20#	3,799	4,707	8,506
Total	19,084	13,820	32,904
Year/Category	<b>Total</b>		
2015-16*	2,55,048	2,39,965	4,95,013
2016-17	10,14,172	13,58,886	23,73,058
2017-18	6,89,087	8,28,368	15,17,455
2018-19	8,24,231	12,97,314	21,21,545
2019-20#	6,67,066	11,96,310	18,63,376
Total	34,49,604	49,20,843	83,70,447

\* From October 2015 to March 2016, #From April 2019 to December 2019

Source: dcmsme.gov.in

At this juncture, it would be interesting to observe whether the deviation as well as variation in registration of enterprises under MSME sector is higher in case of Micro, Small or Medium. In order to observe the deviation and variation in registration of MSMEs, the univariate statistical tool of Standard Deviation and Coefficient of Variation have been applied.

**i) Standard Deviation and Coefficient Variation in Registration of Enterprises under Micro Segment of MSME Sector**

<b>Years</b> <b>Category</b>	<b>Manufacturing</b>	<b>Services</b>
	<b>MICRO</b>	
2015-16	2,08,376	2,13,140
2016-17	8,86,493	12,61,415
2017-18	6,04,459	7,40,153
2018-19	7,24,337	11,46,595
2019-20	5,88,978	39,81,625
<b>Mean (X̄)</b>	<b>602528.6</b>	<b>1468585.6</b>
<b>Coefficient of Variation (σ)</b>	<b>250507.8263</b>	<b>1463619.002</b>
	<b>SMALL</b>	
2015-16	44,811	26,055
2016-17	1,22,040	94,518
2017-18	80,650	85,609
2018-19	94,879	1,46,308
2019-20	74,289	1,47,937

<b>Mean (<math>\bar{X}</math>)</b>	<b>83,334</b>	<b>100,085</b>
<b>Coefficient of Variation (<math>\sigma</math>)</b>	<b>28304.05833</b>	<b>50367.0691</b>
<b>MEDIUM</b>		
2015-16	1,861	770
2016-17	5,639	2,953
2017-18	3,978	2,606
2018-19	5,015	4,411
2019-20	3,799	4,707
<b>MEDIUM</b>		
<b>Mean (<math>\bar{X}</math>)</b>	<b>4,058</b>	<b>3089.4</b>
<b>Coefficient of Variation (<math>\sigma</math>)</b>	<b>1441.847703</b>	<b>1580.75561</b>

From the above analysis it may be observed that deviation in the registration of enterprises under manufacturing and services segments of Micro category is comparatively higher than the Small enterprises segment. Similarly, the coefficient of variation is also higher for the enterprises (manufacturing and services) registered under Micro category, signifying high variability in the data series, i.e. variability in the number of enterprises registered under both manufacturing and services segments are higher.

It is to be noted that as per the above analysis no doubt both standard deviation and coefficient of variation is the lowest for the enterprises registered under Medium segment, but since the number of enterprises as a whole registered under manufacturing and services segments under the Medium segment is far less than the Micro and Small, so inferring that it has the lowest standard deviation and coefficient of variation may not provide an appropriate picture.

### **Revised Classification of Micro, Small and Medium Enterprises**

The Ministry of Micro, Small and Medium Enterprises has revised classification of Micro, Small and Medium Enterprises with effect from 1<sup>st</sup> July, 2020. The revised criteria with reference to the investment in plant and machinery / equipment and annual turnover for MSMEs are as under:

- 1. Investment in Plant and Machinery or Equipment (Micro enterprise) :** Not more than Rs.1 crore and Annual Turnover; not more than Rs. 5 crore.

2. **Investment in Plant and Machinery or Equipment (Small enterprise)** : Not more than Rs.10 crore and Annual Turnover; not more than Rs. 50 crore.
3. **Investment in Plant and Machinery or Equipment (Medium enterprise)** : Not more than fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

The aforesaid announcement was made under Atmanirbhar Bharat Abhiyaan Economic Package to assuage India's economic predicament amidst the pandemic. According to the Ministry of MSME the new definition will pave way for strengthening and growth of the MSMEs. Particularly, the provision of excluding the exports from counting of turnover will encourage the MSMEs to export more and more without fearing to lose the benefits of a MSME unit. This is expected to exponentially add to exports from the country leading to more growth and economic activity and creation of jobs. The previous and revised definition of MSMEs is provided in the exhibit 6.

**Exhibit 6**

## Existing and Revised Definition of MSMEs



Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment < Rs. 25 lac	Investment < Rs. 5 cr.	Investment < Rs. 10 cr.
Services Enterprise	Investment < Rs. 10 lac	Investment < Rs. 2 cr.	Investment < Rs. 5 cr.
Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment < Rs. 1 cr. and Turnover < Rs.5 cr.	Investment < Rs. 10 cr. and Turnover < Rs.50 cr.	Investment < Rs. 20 cr. and Turnover < Rs.100 cr.

**Source:** *The Economic Times*

By enhancing the investment limits and including of turnover in the new definition of micro, small and medium enterprises, foray of more business organisations in the following areas may be observed in near future:

### 1. **Telecommunications**

- Domestic manufacturing of low-cost mobile phones, handsets, and devices;
- Manufacturing of telecom networking equipment, including routers and switches;
- Manufacture of base transceiver station equipment;
- Mobile customer data analytics – services oriented toward analytical solutions; and
- Development of value-added services.

## 2. *Healthcare*

- Manufacturing of personal protective equipment (PPE) and face masks, as the COVID-19 pandemic has fundamentally changed social behavior, public health and hospital needs, and created new demand;
- Manufacturing of low-cost medical devices, and medical accessories such as surgical gloves, scrubs, and syringes;
- Low-cost surgical procedures to reduce the cost of healthcare;
- Telemedicine; and
- Diagnostic labs.

## 3. *Electronics*

- Domestic manufacturing of low-cost consumer electronics, consumer durables;
- Nano-electronics and microelectronics;
- Electronic Systems Design and Manufacturing including semiconductor design, electronic components design and hi-tech manufacturing under India's 'National Electronics Mission; and
- Strategic electronics, as the government is keen on encouraging the domestic manufacturing of products needed by the security forces.

Other areas that may offer more opportunities for MSMEs due to the above mentioned revision in the criteria of investments in plant and machinery and turnover include information technology, pharmaceutical, chemical, automotive, renewables, gems and jewelry, textile, and food and agriculture.

### **Role of Company Secretaries in MSMEs**

Company Secretaries under the new Companies Act are considered as 'Governance Professional' and in view of this their role in business ecosystem has increased prodigiously. Today, a Company Secretary plays a crucial role right from setting up of a business entity to its closure. He acts as an advisor to the Board of Directors, Compliance Officer, Registered Valuer, GST Professional, Key Managerial Personnel etc.

In light of the paramount position that a Company Secretary holds in today's business world, it may be opined that they have tremendous scope in MSME sector too. Since MSME may comprise of various forms of organisations, i.e. sole proprietorship, partnership, limited liability partnership, private limited company, one person company, etc. their role cannot be ignored especially, if an MSME is formed under limited liability partnership, private limited and one person company categories.

Right from assisting the owners / management of the organisation in procuring capital, registration of the company, obtaining of certificate of commencement of business, advising the board / management on both organic and inorganic growth of business and in case, the business becomes unsustainable then its winding-up, Company Secretary is the key.

As the business environment is always in a state of flux, the role of Company Secretaries become more significant in steering the organisation from tempest to truce. Further, in this era of globalisation, where phenomenal business opportunities exist in offshore markets, Company Secretaries through their corporate and legal wisdom may play a pivotal role in setting up of business entities under MSMEs in foreign lands.

Apart from acting as a lighthouse for the micro, small and medium enterprises in navigating the business activities and its expansion, a Company Secretary has a big role to play in ensuring compliances with various laws / regulations that quite often is amended with the passage of time and changing legal, business and economic scenario. Now, to run the business smoothly in view of the changes in the mentioned scenarios, a Company Secretary becomes an indispensable human capital, as by his wisdom and expertise he is able to undertake the prognosis of the impacts resulting from the changes in the aforesaid scenario and accordingly assist the management in formulation of business strategies, policies and procedures.

For stoking up the growth of MSME sector, the Government of India has launched various schemes and initiatives like, Credit Linked Capital Subsidy Scheme for Technology Upgradation; Credit Guarantee Scheme; Participation in International Fairs; Small Industry Cluster Development Program Scheme etc<sup>1</sup>. Further, in a recently announced '**Atmanirbhar Bharat Abhiyaan**' or Self-Reliant India Movement, wherein five vital areas have been focused- Economy, Infrastructure, System, Vibrant Demography and Demand, and allocation of package to cater to various sections including cottage industry, MSMEs, labourers, middle class, industries among others have been made is a metaphor of robust economic development and it is the Company Secretary who possess the potential to make a valuable contribution in accelerating the pace of economic development through their professional expertise in MSME sector.

Company Secretaries can assist the owners of MSMEs in comprehending the eligibility, advantages, economic and legal ramifications of various schemes available for the MSME sector and guide them to go for the optimum scheme, keeping in view other significant yardsticks.

As our Father of the Nation, Mahatma Gandhiji has aptly stated that **"If one takes care of the Means, the End will take care of itself"**. Similarly, a Company Secretary by ensuring proper compliance in various business activities and processes, corporate governance in the MSMEs can be ensured, thereby upholding the Vision of the Institute of Company Secretaries of India (ICSI), **"To be a global leader in promoting Good Corporate Governance"**.

With the help of Communication Skills; Legal Skills; Managerial Skills; and IT Skills, a Company Secretary can act as a 'Friend', 'Philosopher' and 'Guide' for the MSMEs in surmounting various business challenges within the framework of corporate governance. Company Secretaries through their expert knowledge, skills, professional attitude and disciplined approach in carrying out their professional assignments ensure corporate compliance management; corporate governance; stakeholder relationship management etc.

### Way Forward

MSME sector has been the backbone of the Indian economy. Apart from various schemes offered by the Government of India to strengthen the sector, the following key initiatives under unique and innovative 'Atmanirbhar Bharat' approach, i.e. Rs. 3 Lakh Crores Collateral-free Automatic loans for businesses, including MSMEs due to the menace of COVID 19, to provide additional funding in order to meet built up operational liabilities, procure raw materials and restarting of business; Allocation of Rs. 20,000 Crores Subordinate Debt for stressed MSMEs. Under this arrangement, equity assistance would be provided to the stressed MSMEs; Government of India will facilitate provision of Rs.20,000 Crore as subordinate debt; MSMEs which are functioning and currently having non-performing assets (NPAs) or stressed will be eligible to seek assistance under this arrangement; Government of India will provide a support of Rs. 4000 Crore to

<sup>1</sup> For details regarding the schemes for the MSME sector of India, please refer publications of Development Commissioner (MSME), Ministry of Micro, Small and Medium Enterprises at: <https://dcmsme.gov.in/schemes/schemes.html>

CGTMSE; CGTMSE to provide partial Credit Guarantee support to banks; Promoters of the MSMEs will be provided debt by banks, which will then be infused by promoter as equity in the business unit. It is heartening to note that this initiative will benefit approximately two lakhs MSMEs across the country.

Another significant measure under 'Atmanirbhar Bharat' is Rs. 50,000 Crore equity infusion for MSMEs through Fund of Funds in view of the fact that MSMEs witness acute paucity of equity. In this initiative, a Fund of Funds with corpus of Rs.10,000 Crores will be established to provide equity funding to MSMEs with growth potential and feasibility. In order to make this approach viable, Fund of Funds will be operated through a Mother Fund and few Daughter Funds. This initiative will assist the MSMEs substantially in expanding their business as well as capacity and foster MSMEs to get listed on main board of Stock Exchanges.

Further, as discussed above that MSME sector is poised for huge growth in view of the forecasted trends of micro, small and medium enterprises in terms of both numbers and activity-wise coupled with the prevailing schemes and initiatives announced under Atmanirbhar Bharat will pave the way for a gigantic growth of MSME sector in India and in this phenomenon of growth, the Governance Professionals, i.e. Company Secretaries will play a key role in various dimensions of the business activities of the micro, small and medium enterprises.

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