

इंडियन बैंक



Indian Bank

IND MSME OBSERVER

Monthly Insights from Your Own Bank

February 2026

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MSME Cursor – India

Total Formalisation Under MSME (MSMEs + IMEs)

MSME activity in India is primarily driven by Trading (43.2%) and Services (35.8%), with Manufacturing accounting for a relatively smaller share (21.0%), underscoring the predominantly non-manufacturing nature of the MSME sector. This distribution reflects the MSME's orientation toward service-based activities that typically require lower capital intensity. MSMEs remain a critical pillar of the economy, having generated an estimated 335.3m jobs.

Category	Registrations (as on 3rd Feb 2026)
Total Registrations	7,61,24,432
Udyam	4,55,64,355
Udyam Assist Platform (UAP)	3,05,60,077

Sources: Ministry of Micro, Small & Medium Enterprises

Credit Environment and Financing Support received by MSMEs

CGTMSE (Credit Guarantee Scheme)	(SRI) Fund	NSSH (National SC/ST Hub)	Loan Sanctions	Loan Sanctions
<p>Guarantees issued: 1,34,52,178</p> <p>Total value: Rs 12.4trn</p>	<p>MSMEs benefited: 693</p>	<p>Total beneficiaries: 2,884</p> <p>Subsidy released: Rs 3.28bn</p>	<p>PMV: 5,31,962 projects, amount Rs 45.8bn</p>	<p>PMEGP: 5,66,347 projects, amount Rs 581bn</p>

as on 3rd February 2026

- Prime Minister's Employment Generation Programme sanctioned 5,66,347 projects amounting to Rs 581bn and supported 3,91,860 units through Rs 131.3bn in margin money subsidy, generating an estimated 31,34,880 jobs.
- PM Vishwakarma supported 5,46,808 micro-projects with assistance of Rs 47.0bn as on 31 January 2026.
- The SRI Fund supports 693 MSMEs and the NSSH benefiting 2,884 SC/ST enterprises through Rs 3.28bn in subsidies, helping marginalised entrepreneurs access affordable credit.

Government and Market Support

- On 2 January 2026 the Export Promotion Mission introduced two finance-focused interventions for MSME exporters: interest support to reduce the cost of pre- and post-shipment credit, and a collateral-guarantee facility through Credit Guarantee Fund Trust for Micro and Small Enterprises to ease security constraints and expand access to export finance.
- In January 2026 Ministry of New and Renewable Energy underscored a bigger role for Indian Renewable Energy Development Agency in enabling MSME participation in renewable-energy schemes such as PM Surya Ghar, with a push to scale green-finance flows supported by stronger institutional capacity and governance.

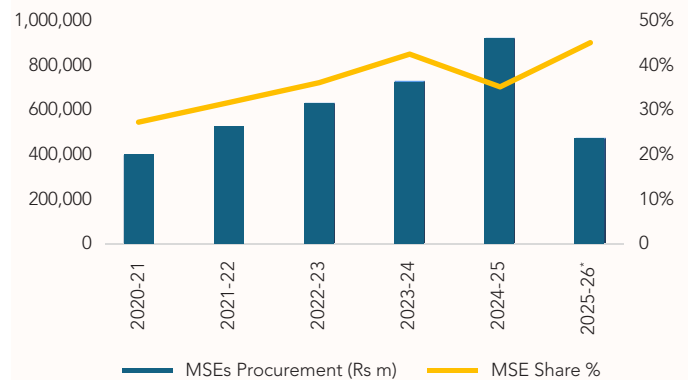
MSME Sambandh - Public Procurement data

MSE participation in Central Public Sector Enterprise (CPSE) procurement has reached its highest level to date.

Budget Announcements FY2026-27 for MSME

- Top-up of the Self-Reliant India (SRI) Fund by Rs 20.0bn to continue risk-capital support to micro enterprises.
- Creation of a Rs 100.0bn SME growth fund to support the emergence of 'Champion SMEs'.
- Mandating Trade Receivables Electronic Discounting System (TReDS) as the transaction settlement platform for CPSE purchases from MSMEs.
- Introduction of credit guarantee support for invoice discounting on the TReDS platform. Linking of the Government e-Marketplace portal with TReDS to enable faster and cheaper financing for MSMEs.
- Introduction of securitisation of TReDS receivables to deepen secondary market liquidity.
- Facilitation of a cadre of 'Corporate Mitras' to provide affordable professional and compliance support to MSMEs.

MSE Procurement Trend and Share in CPSE Purchases

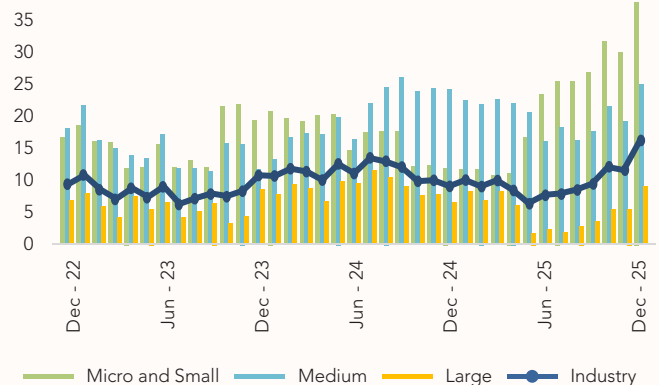


Source – Ministry of Micro, Small & Medium Enterprises

MSE's Procurement data in Rs million

*Data for FY 2025–2026 has been updated as of 29 October 2025.

Trend Analysis of MSME Bank Credit Outstanding (y/y%)



Source – Reserve Bank of India

Economy Monitor

Budget Highlights FY 2026-27

- Fiscal parameters for FY27 project a 4.3% fiscal deficit, a 55.6% debt-to-GDP ratio with a long-term target of 50% ($\pm 1\%$) by March 2031, total expenditure of Rs 53.5trn, revenue receipts of Rs 35.3 trn, and net tax receipts of Rs 28.7 trn.
- Capex increased to Rs 12.2 trn; seven rail corridors announced (incl. Mumbai–Pune, Pune–Hyderabad, Delhi–Varanasi); 20 National Waterways to be operationalised over five years; Rs 50trn allocated per City Economic Region.
- The Income Tax Act, 2025, which will replace the 1961 Act from 1 April 2026, shall introduce simplified rules and redesigned forms to make compliance easier for taxpayers, with notifications to be issued shortly to allow adequate familiarisation.
- In the Budget announcements, a tax holiday till 2047 is proposed for foreign cloud firms using data centres in India to serve global customers. The move signals a long-horizon push to scale domestic data-centre capacity and attract cloud investment.
- Electronics component manufacturing outlay raised to Rs 400bn; Rs 100bn each allocated for Biopharma SHAKTI, SME Growth Fund and container manufacturing.
- Budget guided by the three kartavyas; seafood processing input limit raised to 3% (from 1%); three new All India Institutes of Ayurveda announced.
- Defence allocation increased to Rs 7.84trn; Home Ministry allocation at Rs 2.55 trn.

Industrial & Consumption Trends

- India's Index of Industrial Production (IIP) rose sharply to 7.8% in December 2025, reaching its highest level in over two years, driven by manufacturing, mining and electricity. On a year-to-date basis, growth remains broadly stable with a slight moderation of 3.8% in Apr-Dec 2025 compared to 4.1% in Apr-Dec 2024, indicating that underlying momentum has not weakened significantly.
- December 2025 GST receipts stood at about Rs 1.74trn rising 6.1% YoY, driven by modest 1.2% growth in domestic transactions and strong 19.7% growth in import revenues; net GST revenue after refunds stood at about Rs 1.45trn.

External Sector

In January 2026, the Indian Rupee continued to exhibit volatility, trading between roughly Rs 89.86/USD with the month's peak occurring on January 28 Rs 92.04/USD.

Inflation

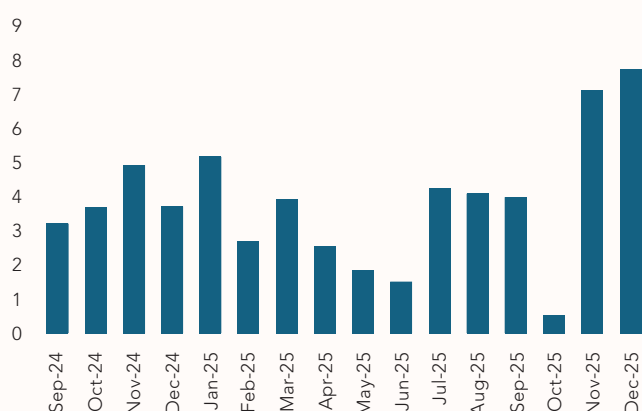
- India's inflation stayed muted in December 2025, with headline CPI at 1.3%, still below the RBI's lower tolerance limit, while food inflation remained negative for the seventh straight month at -2.7%, even as both rural and urban inflation edged up modestly from November.
- India's WPI inflation turned positive at 0.8% in December 2025, this uptick was driven mainly by higher prices in manufacturing, minerals, machinery and equipment, food products, and textiles, reflecting broad-based firming across key wholesale categories.

- The new CPI series with updated base year 2024 will be released in February 2026. The new CPI series also revises the consumption basket and the weights, reflecting a structural change in consumption patterns of the country. For methodological enhancements, the coverage of goods and services has been expanded from 299 to 358 with systematic integration of e-commerce price data.

Market Operations

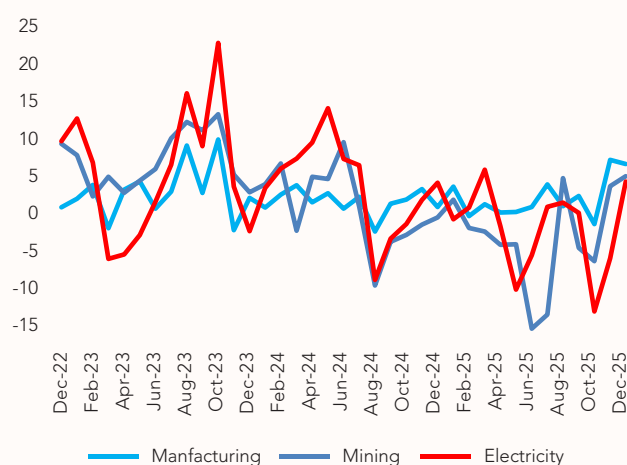
- The 10-year G-Sec yield averaged at 6.7% and the 91-day T-bill yield averaged at 5.4% in January 2026. Uptick of ~10 basis points reflect firmer short term liquidity conditions and higher government borrowing requirements at the start of the quarter.

IIP (y/y%)



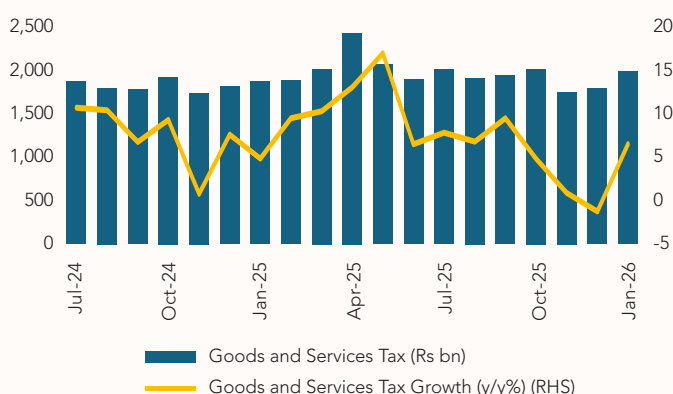
Sources: Ministry of Statistics and Programme Implementation

IIP Sectorial Performance (y/y%)



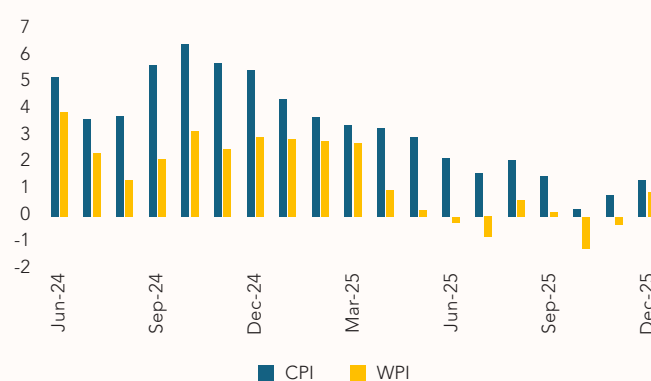
Sources: Ministry of Statistics and Programme Implementation

Goods and Service Tax



Sources: Ministry of Finance

Inflation (y/y%)



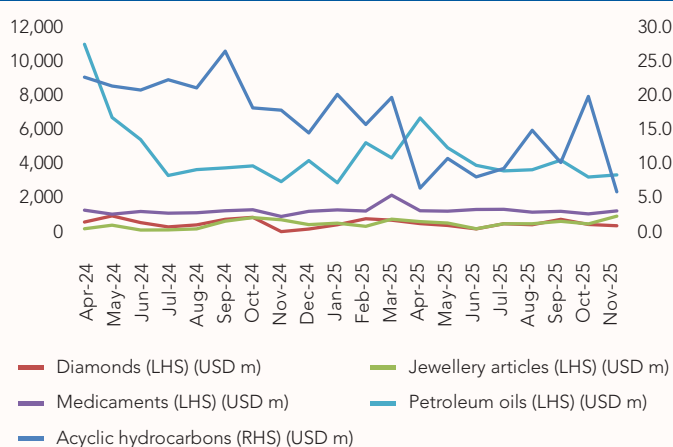
Sources: Ministry of Statistics and Programme Implementation and Office of Economic Adviser

Global Scenario

Regional Developments

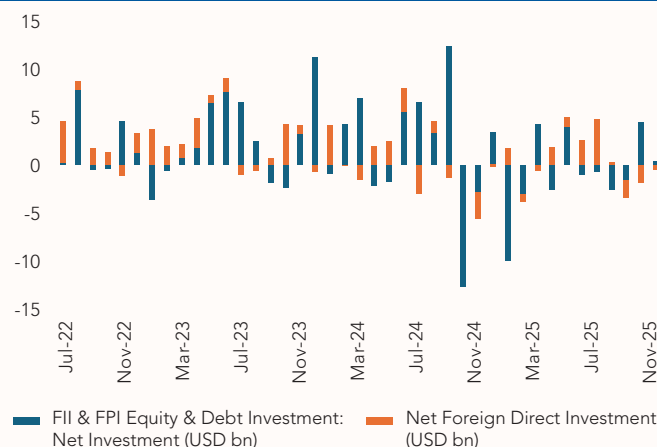
- The U.S. cut tariffs on Indian goods to 18%, down from the 50% August 2025 peak. Although still above pre-2025 levels, this supports growth and business confidence. At 18%, India aligns with Vietnam (20%) and Cambodia (19%) but remains above Japan's 15% band.
- India and the European Union concluded a Free Trade Agreement improving MSME market access by lowering tariffs, easing compliance, and aligning standards. Takes effect after legislative approvals over the next 2–3 quarters.
- India–Oman signed a Comprehensive Economic Partnership Agreement granting India 100% duty-free access across 98.08% of Oman's tariff lines (99.38% of export value). It expands opportunities across engineering goods, pharma, agriculture, chemicals, electronics, textiles, marine products, and gems & jewellery, while protecting sensitive and MSME-linked sectors.
- India and Germany signed a telecom Joint Declaration of Intent, enabling MSMEs in telecom manufacturing and digital solutions to access advanced technology, harmonised standards, clearer regulations with easier market entry strengthening global value-chain integration.

India's Top 5 Exports



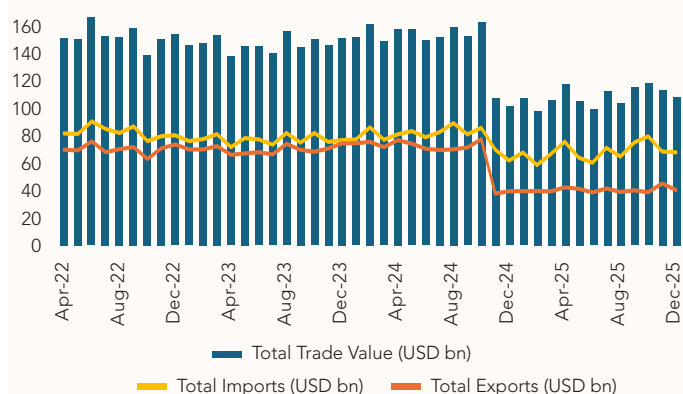
Sources: Ministry of Commerce and Industry

IIP Sectorial Performance (y/y%)



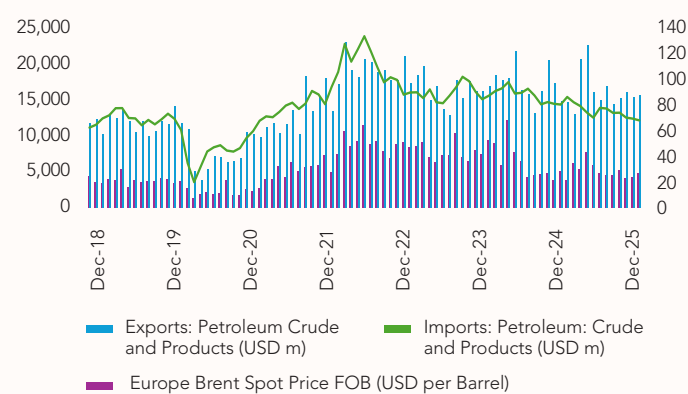
Sources: Reserve Bank of India

Total Trade Value



Sources: Ministry of Commerce and Industry

Brent Crude Oil

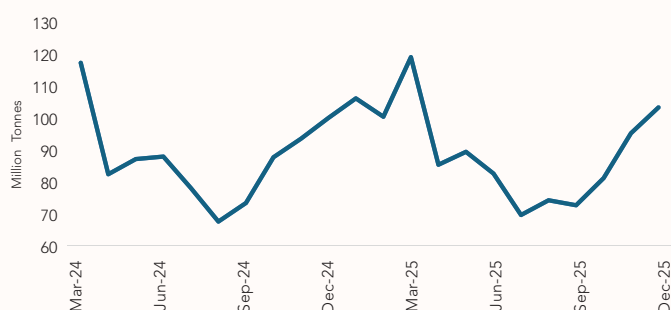


Sources: Ministry of Petroleum and Natural Gas and Wall Street Journal

Output and Price

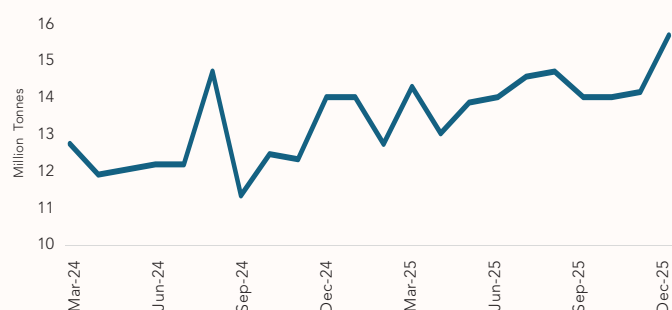
- Coal output strengthened toward year end while crude steel production continued its steady rise, easing input pressures for MSMEs dependent on energy and ferrous materials and supporting smoother production cycles across fabrication, engineering goods and capital equipment units.
- Non ferrous metals, however, turned less favourable, with aluminium, zinc and nickel entering a rising price phase due to tighter global supply and high smelting costs, while copper witnessed a correction (fall in price) from an earlier spike.

Coal Production (in Million Tonnes)



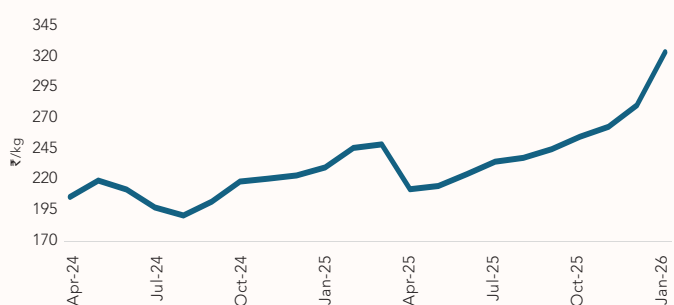
Sources: Ministry of Coal

Crude Steel Production (Million Tonnes)



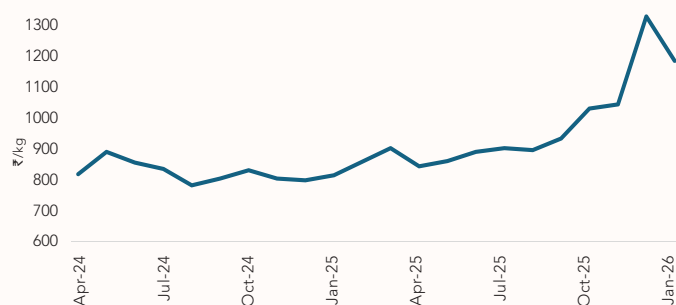
Sources: World Steel Association

Aluminium Price (Rs/Kg)



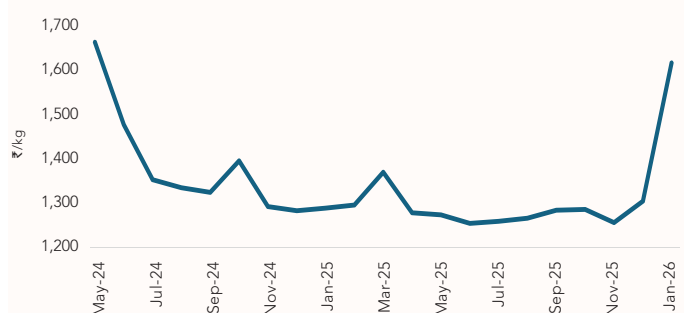
Sources: MCX India

Copper Price (Rs/Kg)



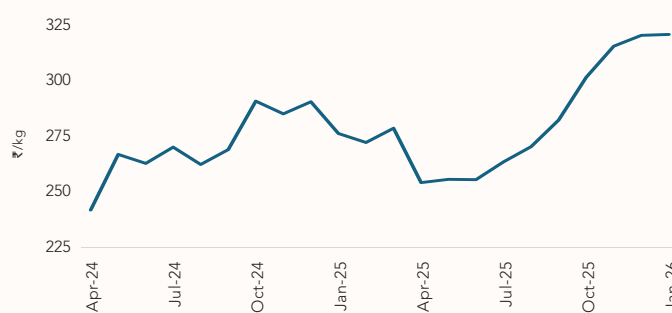
Sources: MCX India

Nickel Price (Rs/Kg)



Sources: MCX India

Zinc Price (Rs/Kg)



Sources: MCX India

Pharmaceuticals

Market Overview and Growth Scenario

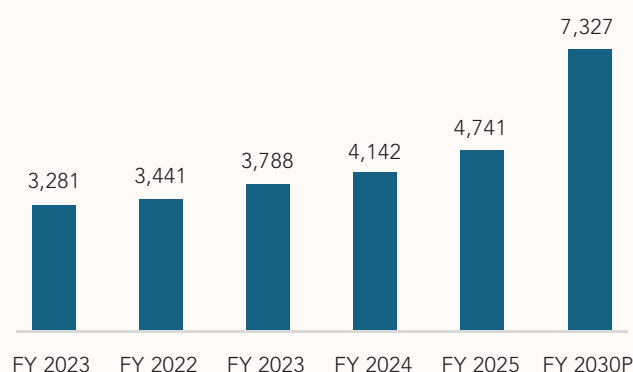
- India has steadily emerged as a credible supplier of high-value, complex drugs by strengthening its alignment with global regulatory standard and positioning itself as “pharmacy of the world”. Currently, India is the world’s 3rd largest pharmaceutical manufacturer by volume and also leading globally as the largest vaccine producer, accounting for ~60% of global vaccine production across >150 countries.

- The sector’s manufacturing landscape and India’s economic growth potential

has contributed towards making the pharmaceutical sector the 9th largest in attracting FDI inflows. Till Sept’25, overall pharmaceuticals sector attracted investments worth INR 13,193 Cr.

- Historically, the Indian Pharmaceutical market turnover has expanded from INR 3,788 Bn in FY’23 to reach INR 4,742 Bn in FY’25 at a CAGR of ~10%, and is further anticipated to continue growing at same CAGR till FY’30, reaching INR 7,327 Bn.
- Indian pharmaceutical exports touched the USD 30.5 Bn witnessing 9.67% y-o-y growth, driven by strong overseas demand. India’s pharma exports are further projected to grow over double USD 65 bn by 2030, supported by the country’s expanding global footprint.
- Further strengthening this trajectory, the recently concluded India–European Union Free Trade Agreement (FTA), has unlocked significant opportunities for Indian pharma manufacturers, providing access to EU’s USD 573.2 Bn market.
- Between 2025-30, multiple high value drugs having estimated value in range of USD 236–400 bn are expected to lose patent, offering potential opportunity for Indian pharmaceutical companies particularly benefitting firm with advance expertise in complex generic, injectable and biosimilar.
- In the Union Budget 2026-27, released on Feb,1,2026, the pharmaceuticals and healthcare sector has recorded 10% increase in allocations, however, spending has continued to remain below the National Health Policy (2017) target of 2.5% of the total Union Budget.

Growth in Annual Turnover of Indian Pharmaceutical Industry (in INR Bn)



Sources: Ministry of Chemicals and Fertilizers, PIB

Demand Insights

- **Age Based Demand:** Demand for healthcare services & pharmaceuticals is highest among people aged 60 and above which were about 101 Mn in FY'23, and industry projections indicate that the number is set to reach to over 347 Mn by FY 2050, representing surged pharmaceutical demands.
- **Demand from Lifestyle Diseases:** As per a study by Confederation of Indian Industry (CII), about 5.8 million Indians are dying every year from lifestyle diseases like heart disease, stroke, cancer, and diabetes, thereby pushing demand for better hospital infrastructure for immediate care in cases of cardiac arrests and strokes and strict monitoring pharma guidelines for diabetes and other lifestyle diseases.
- **Improving Affordability:** Support from the tariff cutdown under the EU-FTA on pharmaceutical imports from EU and surgical equipments from 11% and 27.5% to 0% respectively will benefit the domestic demand and expected to meet the pharmaceutical needs of the nation with enhanced affordability.

Competitive Focus

The Indian pharmaceutical market is undergoing a structural shift from volume-based generics (where it holds a 20% global share) to innovation-led value, aiming to mitigate thin margins caused by global pricing pressures and a 12-15% infrastructure cost disability. To compete against sophisticated world supply chains—particularly the rapid biopharma expansion in China and South Korea and consolidate its position as “pharmacy of the world” —India has launched Biopharma SHAKTI initiative in the Union Budget 2026-27 with an outlay of INR 100 Bn (for five years) in manufacturing of biologics and biosimilars segments. This allocation will strengthen India's supply chain by adding 1,000+ accredited clinical trial sites and 3 new National Institutes (NIPERs), directly addressing the critical gap in R&D and regulatory credibility required to capture 5% of the global biopharmaceutical market share by 2030.

Cost pressures

India's pharmaceutical success has been built on cost efficiency, chemistry skills and regulatory familiarity, but rests on fragile supply-chain foundation with >60% import dependency on China. Aiming at discouraging this large-scale import of raw materials from impacting sustainability of domestic inputs the government considered upon setting Minimum Import Pricing (MIP) on some medicaments including Penicillin-G, 6APA and amoxicillin.

ATS-8: In Sept'25, MIP for ATS-8 was fixed at USD 111 /kg until September 30, 2026.

Sulpha-diazines: In Nov'25, the MIP on sulpha-diazines was fixed as INR 1,174 /kg until September 30, 2026.

With the inclusion of amoxicillin, the domestic prices of medicines can surge by 40% in the government tender sector of supply, severely impacting the MSME sector.

Credit implications and emerging trend

- **Asset-Backed Securitization of Receivables:** A major trend is the mandatory transition to the Trade Receivables Discounting System (TReDS) for all CPSE purchases. Under Budget 2026-27, the government introduced a mechanism to treat TReDS receivables as asset-backed securities, allowing pharma MSMEs to access a secondary market for liquidity and use their invoices as collateral-free credit instruments to manage working capital.

- Equity-Driven “Global Champion” Funding: Moving beyond traditional debt, the government launched a INR10,000 crore SME Growth Fund and a INR 2,000 crore top-up to the Self-Reliant India (SRI) Fund. This emerging trend provides pharma MSMEs with the risk-capital needed to scale into “Future Champions,” specifically targeting those units aiming to produce complex biologics and biosimilars under the new Biopharma SHAKTI initiative.

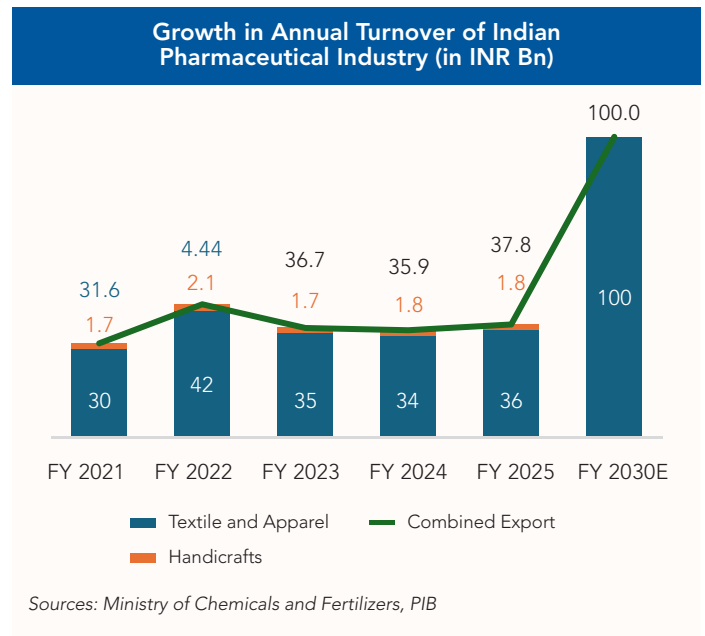
Emerging Risks for MSMEs across Pharmaceutical Sector

- The “Compliance Dilemma” and Shutdown Risk: MSMEs face a critical risk of closure as the December 2025 deadline for the Revised Schedule M (GMP) compliance has passed. According to government data, of the 8,500+ MSME units, fewer than one-third had submitted upgrade plans by early 2026. With risk-based inspections intensifying, these units face immediate penalties or shutdowns if they fail to meet international hygiene and quality standards, which are now mandatory for domestic operations and critical for entering the EU-India trade corridor.
- Relationship Strain from ODR Filing: While digital tools have improved, the Economic Survey 2025-26 highlights, a new “behavioural risk” where market sentiment hesitates to use the Online Dispute Resolution (ODR) portal for delayed payments (currently totaling over ₹8.1 lakh crore across all sectors). There is an emerging risk that filing cases against larger buyers by MSMEs may lead to “adversarial exclusion,” where MSMEs recover their current dues but lose future purchase orders, effectively locking them out of the high-growth supply chains prioritized in the latest budget.

Textile and Apparel

Market Overview and Growth Scenario

- India is among the world's largest producers and exporters of textiles and apparel, with the sector contributing around 2.3% to national GDP, 13% to industrial production, and 12% to the country's total exports.
- The textile and apparel sector continues to attract global investment interest and has received cumulative foreign direct investment of over INR 4.4 trillion between April 2000 and H1 FY'26, supported by government initiatives such as PLI, PM MITRA Parks, and integrated textile value-chain policies.
- The Indian textile and apparel industry, growing at around 3% year-on-year, was valued at approximately USD 179 Bn in FY'25, driven by a domestic market of about USD 142 Bn and exports of nearly USD 37 Bn.
- Historically, India's textile and apparel exports surged from USD 30 Bn in FY'21 to USD 44 Bn in FY'22, then moderated to USD 36–37.8 Bn during FY'23–FY'25 amid global volatility. It is targeted to reach USD 100 Bn by FY'30, supported by capacity expansion and policy initiatives. Whereas import trend surged by 9.8% between FY'23-24 and FY 2024-25, reaching about USD 9.7 Bn.
- Recently concluded India–EU FTA has unlocked near zero-duty access to the EU, sharply boosting the price competitiveness of Indian textiles and apparel and accelerating export demand momentum. Additionally, the recently concluded India-US trade deal, USA has cutdown the imposed tariffs on textiles and apparels from 25% to 18% is expect to benefit the Indian textile exporters.



Demand Insights

- Domestic Demand:** The textile and apparel market stood at USD 179 Bn in FY'25, supported by domestic demand of USD 142 Bn. Moreover, the policy driven support under the FY'26 Union Budget to rollout an integrated textile programme covering fibre development, cluster modernisation, handloom support, sustainability initiatives and skilling will further give a further push.
- Export-Led Demand Push:** Despite near-term volatility, India's textile and apparel exports have strong upside potential, driven by capacity expansion, trade agreements, and policy-led value-chain upgradation with shipments targeted at USD 100 Bn by FY'30.
- India's textile industry remains highly cluster-driven, with woollens concentrated in the North, cotton-led manufacturing anchored in the West, jute and select woollen hubs in the East, and the South emerging as a key centre for hosiery and silk, reinforcing regional specialisation across the value chain.

Competitive Focus

- **Global Supply Chain Realignment:** As global apparel brands diversify sourcing to enhance resilience and shorten lead times, India is sharpening its competitive edge against China, Bangladesh, Vietnam, and Turkey, leveraging scale, skilled labour, and an integrated value chain to capture incremental global sourcing opportunities.
- **Policy-driven Competitiveness Enhancement:** Government initiatives, including the PLI Scheme for Textiles and PM MITRA Mega Textile Parks, are enhancing India's competitiveness versus technology- and scale-intensive textile manufacturing nations by enabling capacity scale-up, modernisation, and higher value-added production.

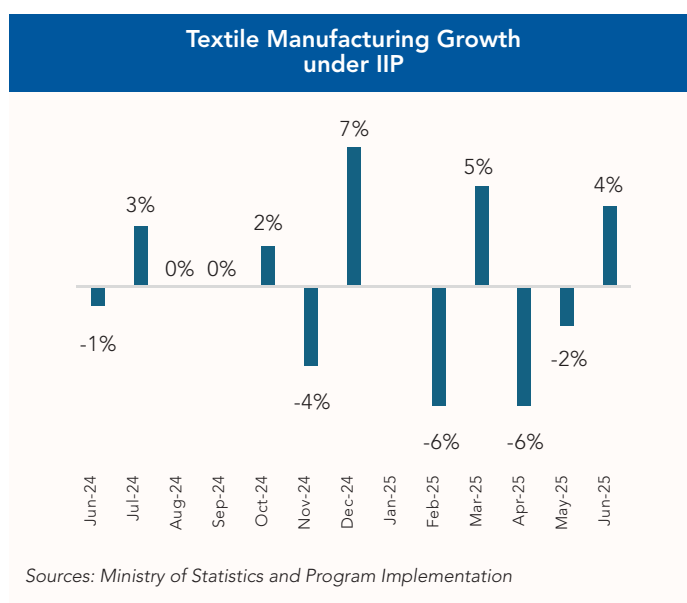
Cost Pressure

The textile industry is facing rising cost pressures amid volatility in key raw materials such as cotton, jute, silk, and man-made fibres, disproportionately impacting MSMEs by tightening margins, increasing working-capital requirements, and limiting the ability to pass on higher costs.

- **Cotton Cost Pressure:** Higher government-set cotton Minimum Support Price of Rs 7,710–8,110 / quintal (FY'2025–26) has raised the raw-material cost base for textile mills, while imports exceeding 27 lakh bales in FY'25 signal domestic supply tightness, increasing working-capital pressure and limiting cost pass-through.
- **MMF (Man Made Fibre) (Polyester) Cost Pressure:** Higher domestic polyester fibre costs versus global benchmarks, driven by regulatory constraints and limited import flexibility, are pressuring input costs for MMF-based textiles, prompting recent policy moves to ease norms and restore cost competitiveness.

Textile Manufacturing Growth under the Index of Industrial Production & Credit Implications on MSME

- The Ministry of Textiles expects India to exceed USD 10 Bn in technical textiles by FY'30, supported by manufacturing momentum and PM MITRA investments, including a USD 216 Mn Tamil Nadu park set to attract USD 1.14 billion investment.
- **MSME Credit Implications:** Volatile input costs and stretched receivables are locking textile MSMEs into high working-capital dependence, while export exposure and buyer concentration are driving frequent limit rollovers and uneven cash-flow visibility, especially among smaller, non-integrated units.



Emerging Risks in MSME Lending in the Textile Industry

- **Rising Working-Capital Stress in MSME Textile Lending:** MSME textile borrowers face elevated cash-flow pressure due to cotton and MMF price volatility, seasonal demand cycles, and limited ability to pass through costs to global buyers. Export-oriented units operating on short-term contracts show higher utilisation of bank limits and frequent roll-overs, increasing refinancing risk during demand corrections.
- **MSME Credit Growth Outpacing Earnings Stability:** Rising policy support and cluster-based lending have expanded MSME credit exposure in textiles; however, earnings visibility remains uneven due to volatile order flows, fluctuating capacity utilisation, and seasonality. This disconnect raises the risk that credit growth will translate into higher SMA/NPA formation in a downcycle.
- **Compliance-Driven Capex Risk for Export-oriented MSMEs:** Stricter EU sustainability, traceability, and chemical-use norms require incremental capex and operating costs. MSMEs with thin margins and leveraged balance sheets risk order attrition or margin compression, weakening cash flows and repayment capacity.

IND MSME Observer is a monthly publication designed to provide a comprehensive understanding of India's evolving economic landscape. Each edition delivers in-depth analysis of key macroeconomic developments, along with detailed insights into Micro, Small, and Medium Enterprises (MSMEs) and major industry sectors. The report aims to equip readers—business leaders, policymakers, and stakeholders—with valuable perspectives on trends shaping the Indian economy and their potential implications for MSMEs.

This publication is brought to you by Indian Bank, in collaboration with Dun & Bradstreet India, as part of our commitment to supporting informed decision-making and fostering sustainable growth within the MSME ecosystem.

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