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## **Analysis of MSMEs (micro, small and medium enterprises) registered under entrepreneurs memorandum (Part-II) and Indian GDP**

**Purushottam Gurjar and Sudindra VR**

### **Abstract**

Growth cannot be inclusive unless and until the fruits of the growth is percolated to the bottom of pyramid. So from the perspective of the economy, from the perspective of spreading opportunities across the country and perspective of spreading social equality, MSME is a critical sector in the economy. It has emerged as highly vibrant and dynamic sector of the economy and the major advantage of the sector is its employment potential at lower cost offering innovative solution and sustainable development to the economy as a whole. India has registered a higher economic growth (6-9%) consistently over the last decade. For the sustainability of this kind of growth, proper encouragement of SME sector is crucial. This paper analysis the relationship between GDP (in values) and filing of EM-II. Also analyses the number of Entrepreneur Memorandum-II filed by the five major south India states. The final part of this paper will provide major problems faced by the MSME in present global. It can conclude that, MSME significantly contributes to the GDP of the economy and growth rate of MSME EM-II registration depicts higher growth rate during 2007-08 to 2014-15.

**Keywords:** MSME EM (II), GDP/MSME registration, DIC

### **1. Introduction**

India is in the phase of the fourth industrial revolution, with this conventional understanding and thinking underline development models in India will have to be reconsidered. Radical new technologies like 3d printing, smart robotics and artificial intelligence are already up bending business models around the world. MSME forms a major part of India's industrial base and to ensure the benefits of fourth industrial revolution flow to the villages and country sides, we have to relook into the issues of MSME in the changing arena. MSME engine in growth of Indian economy drive almost 38% of the Indian economy, biggest employment provider sector after agriculture, employing 110 million, forming the backbone of the industrial development and the cornerstone of Make in India initiative. We need to create many more jobs and that is one of the most important things in the country in the coming years. MSMEs are (a) very important source of job creation. Job creation really takes off not when they are small but when they grow, it is important to create conditions for the growth of MSMEs and not just for start-up. It is the high time that Indian MSME should explore global market and be competitive. MSME Sector plays critical role in the industrial development of Indian economy. Historical records of presently developed countries show the importance of this sector in their development process. These units act as ancillary units and provide processed raw material to advanced industrial units. Several MSMEs also directly produce and supply final products to consumers also. In addition to this, these units also provide unskilled and semi-skilled labor to these advanced industrial units. In India during 2006-15, higher income has increased consumer demand; if these MSMEs receives continuous demand orders from domestic and global markets then it may give such a platform to this MSMEs that can improve their status and thus take the economy to the next level of industrial development.

### 1.1 Entrepreneurship

In simple terms an entrepreneur is an individual, who runs a small business, and assumes all the risks and rewards of a given business venture, idea, or good or service offered for sale. The entrepreneur is commonly seen as a business leader and innovator of new idea and business processes.

### 1.2 Introduction to Entrepreneurs Memorandum-II

Subsequent to the implementation of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 with effect from October 2006, filing of Entrepreneurs

Enterprise (Type)	Investment in Plant and Machinery (Manufacturing)	Investment in Plant and Machinery (Services)
Micro scale	Up to ` 25 lakh	Up to ` 10 lakh
Small Scale	Above ` 25 lakh up to ` 5 crore	Above ` 10 lakh up to ` 2 crore
Medium Scale	Above ` 5 crore up to ` 10 crore	Above ` 2 crore up to ` 5 crore

### 2. Objectives of the Study

- To analyze the overall trend in registration of MSMEs under EM-II in India during 2007-08 to 2014-15.
- To analyze the trends in MSMEs registration in five major south Indian during 2007-08 to 2014-15.
- Examine the significance relationship between the overall EM-II growths to Indian GDP (total value).
- To study the core challenges confronted by Indian MSMEs in the present competitive global scenario.

### 3. Review of Literature

Appasaba L.V., Kiran. G and A.M. Kadokol (2013) [2], analyzed the consistent higher growth rate of MSME compared to the overall industrial sector. The study examined the employment and output in Micro, small and medium enterprises industrial units. The study highlighted the main problems faced by MSME in general and Shimogga district in Karnataka in particular like lack of marketing, Finance and Innovation. The study described the role of MSME to improve the lifestyle of the people and suggest the policy measures for the exponential growth of the MSME. Mrs. Ashu Katyral, Mrs Betsy Xaviour (2015) [8] described the contribution of the MSME in the development of the country; challenges confronting by MSME. The study identified the current status of HR operations in MSME. The study finds out the major HR challenges in MSME and suggested some innovative HR strategies to overcome these challenges. At the end the study highlighted the importance of formalization in the various departments of MSME. Er Supratim Pratihari and Er Aavaya K. Swain focuses on innovations in the MSME sector and find out innovative schemes in the sector. The study explained the major constraints in the MSME sector like infrastructure, technology and environment. At last the study gave a designed driven strategic planning which will help MSME to compete globally.

Dr. Mukund Chandra Mehta (2013) [5] studied the need of importance of MSME and evaluate the opportunities in India. At the end study emphasis on the initiative that should be taken by Government and other financial institutions to overcome various challenges faced by the MSME. Nishanth P. and Dr. Zakkariya K. A. (2014) identified various barriers faced by MSMEs in raising funds and identified various sources of finance other than a bank. The study gave certain recommendations. Dr. K. Alamelu & R. Baskaran identified MSMEs as the key to the development of entrepreneurship in India. The study presented the contribution of the MSMEs in the GDP of the major developing nations. The study focuses on the changing definition of entrepreneurship with the course

Memorandum Part II/ EM-II came into vogue. In September 2015, the same has been replaced by Udhog Aadhaar online filing system. As per the provision of the MSMED Act, 2006 filing of EM-II is discretionary in nature. However, MSMEs file-II at District Industries Centers (DIC), after the commencement of the project. Now, filing of EM-II is discretionary for micro, small and medium enterprise engaged in both manufacturing and services. Under the Act, Micro, Small and Medium Enterprises (MSMEs) are classified as under:

of time. The study also briefed on the core challenge like economies of scale and others encountered by MSMEs.

### 4. Methodology of the Study

The study is descriptive in nature. For the purpose of study secondary data has been used which is collected from the Entrepreneurs Memorandum (Part II) Data of MSME Sector and Annual Report of Ministry of Micro, Small and Medium Enterprises 2015-16. The study involves analysis of overall growth of Indian MSME EM-II registration during the period of 2007 to 2015 and the growth was calculated using the formula:

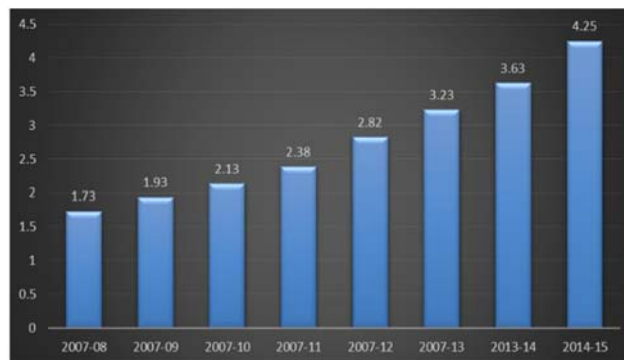
Growth = Number of EM-II filed during n period – number of EM-II filed during n-1 period/ number of EM-II filed during n-1 period.

The study also involves analysis of the total number of registrations of enterprises under EM-II in major five southern Indian states during the given period.

To analyze the relationship between Indian EM-II registrations against Indian GDP, regression has been used to test the hypothesis.

- H0-** there is no significance relationship between the growths of EM-II registration to Indian overall GDP in Billion rupees
- H1-** there is a significance relationship between growths of EM-II registration to Indian overall GDP in Billion rupees.

### 5. Data Analysis

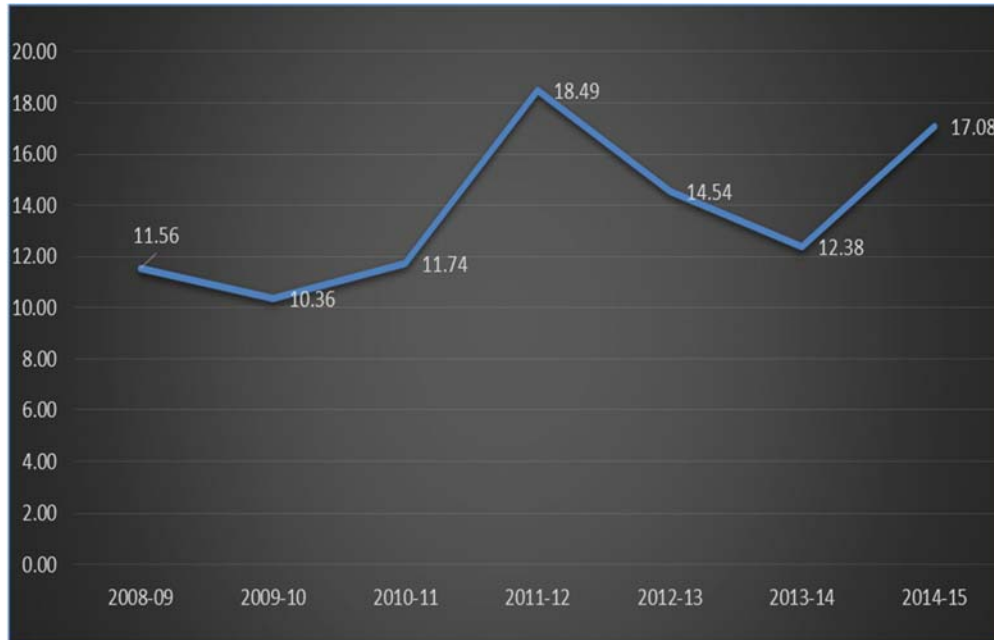


Source: Development Commissioner (Micro, Small and Medium Enterprises) Ministry of MSME.

Fig 5.1: Figure showing total number of EM -II filed by MSMEs at DICs under the various State/UT Commissionerates /Directorates of Industries during 2007-08 to 2014-15. (In lakhs)

**Inference:** MSMEs has shown consistent growth in terms of number of EM-II filed every year. The number of registrations was 1.73 lakhs during 2007-08 which has increased to 4.25 in the year 2014-15, which shows that

instead of gloomy external and internal environment, Indian MSME has grown at a sustainable and consistent pace contributing to the GDP growth of the country.

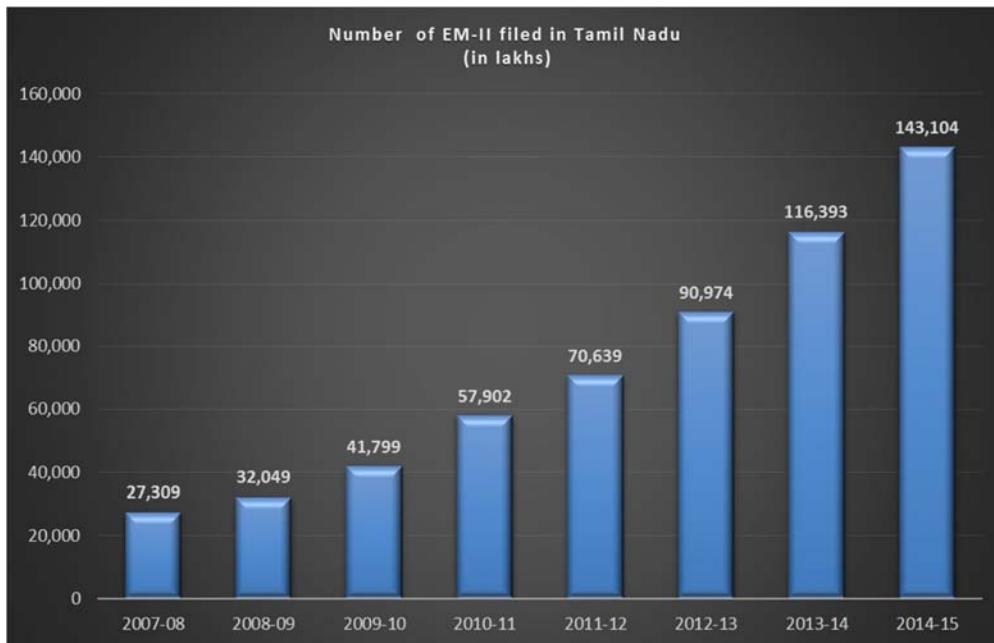


Source: Development Commissioner (Micro, Small and Medium Enterprises) Ministry of MSME

Fig 5.2: Annual Growth on preceding years

**Inference:** Number of MSMEs filling EM-II is showing consistent growth rate around 11% every year till 2010-11. The highest growth in recent time was recorded during 2011-12 (18%) whereas during year 2012-13 and 2013-14 growth

rate has declined and was around 14% and 12% respectively. The growth rate again shown positive results for the year 2014-15, it increased to around 17%.

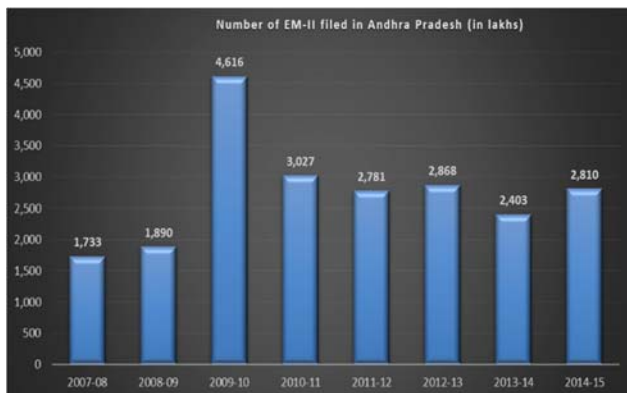


Source: Development Commissioner (Micro, Small and Medium Enterprises) Ministry of MSME

Fig 5.3: Figure showing total number of EM-II filed by MSMEs in State of Tamil Nadu at DICs under the various State/UT Commissionerates/Directorates of Industries during 2007-08 to 2014-15.

**Inference:** Since 2007-08, Tamil Nadu has recorded rapid growth in EM-II filing. It has increased its share consistently from 17% in 2008-09 to 33% in 2014-15 and is the state with highest share since 2008-09. It indicates that the concentration

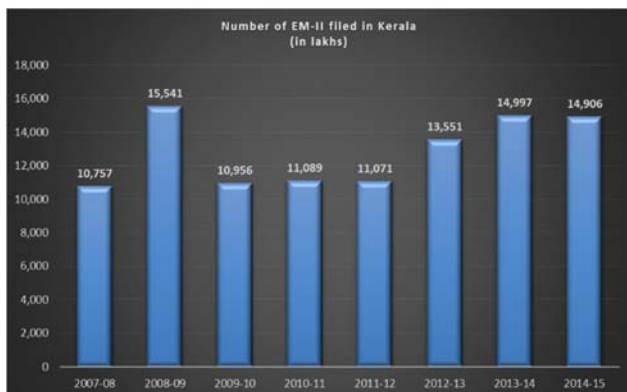
of EM-II filing is more in Tamil Nadu compared to other four south Indian States.



**Source:** Development Commissioner (Micro, Small and Medium Enterprises) Ministry of MSME

**Fig 5.4:** Figure showing total number of EM-II filed by MSMEs in State of Andhra Pradesh at DICs under the various State/UT Commissionerates/Directorates of Industries during 2007-08 to 2014-15.

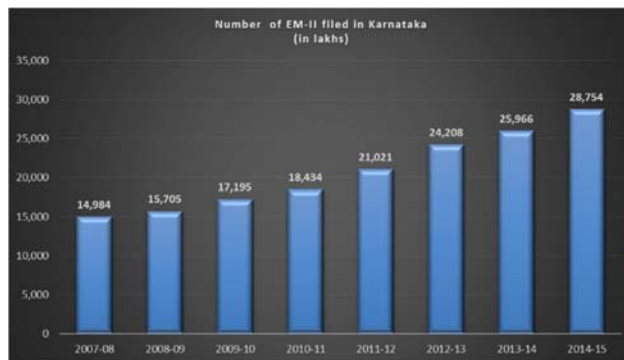
**Inference:** Andhra Pradesh has recorded a decline in number of EM-II filing by 2014-15. Since 2009-10 the number of filings has gradually decreased. The trend of growth is up and down, not static.



**Source:** Development Commissioner (Micro, Small and Medium Enterprises) Ministry of MSME

**Fig 5.5:** Figure showing total no. of EM-II filed by MSMEs in State of Kerala at DICs under the various State/UT Commissionerates/Directorates of Industries during 2007-08 to 2014-15.

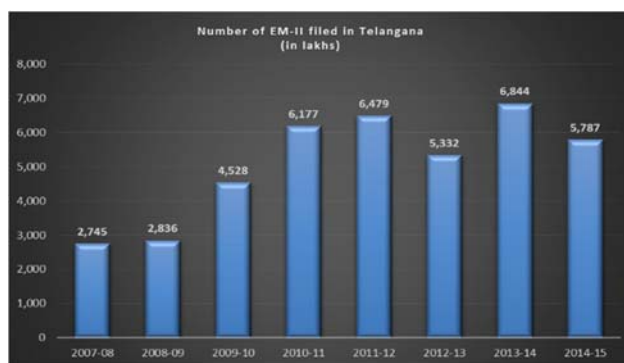
**Inference:** Kerala is a leading state in filing of EM-II. Though its share of 8% in 2008-09 has decreased to 3% in 2014-15, it has maintained its position in top 10 EM-II filing states.



**Source:** Development Commissioner (Micro, Small and Medium Enterprises) Ministry of MSME

**Fig 5.6:** Figure showing total number of EM-II filed by MSMEs in State of Karnataka at DICs under the various State/UT Commissionerates/Directorates of Industries during 2007-08 to 2014-15.

**Inference:** The state of Karnataka has shown consistent upward growth in the number of EM-II filing. From 2007-18 onwards it has maintained its position in the top ten states in India in EM-II filing.



**Source:** Development Commissioner (Micro, Small and Medium Enterprises) Ministry of MSME

**Fig 5.7:** Figure showing total number of EM-II filed by MSMEs in State of Telangana at DICs under the various State/UT Commissionerates/Directorates of Industries during 2007-08 to 2014-15.

**Inference:** The erstwhile state of Andhra Pradesh was separated into two parts in June 2014, namely as Andhra Pradesh and Telangana. But due to the district wise availability of data on EM-II, separate data is prepared for two new constituted states. Number of EM-II filing has increased from 2,745 in 2007-08 to 6,476 in 2011-12, after that it has shown a decline trend for a couple of years and again gained pace from the next years onwards.

**Table 5.1:** Table showing a growth rate of number of EM-II filed in five southern Indian states for the year 2007-08 to 2014-15. (In percentage)

Year	Karnataka	Tamil Nadu	Andhra Pradesh	Kerala	Telangana
2007-08 to 2008-09	4.81	17.36	9.06	44.47	3.32
2008-09 to 2009-10	9.49	30.42	144.23	-29.50	59.66
2009-10 to 2010-11	7.21	38.52	-34.42	1.21	36.42
2010-11 to 2011-12	14.03	22.00	-8.13	-0.16	4.89
2011-12 to 2012-13	15.16	28.79	3.13	22.40	-17.70
2012-13 to 2013-14	7.26	27.94	-16.21	10.67	28.36
2013-14 to 2014-15	10.74	22.95	16.94	-0.61	-15.44

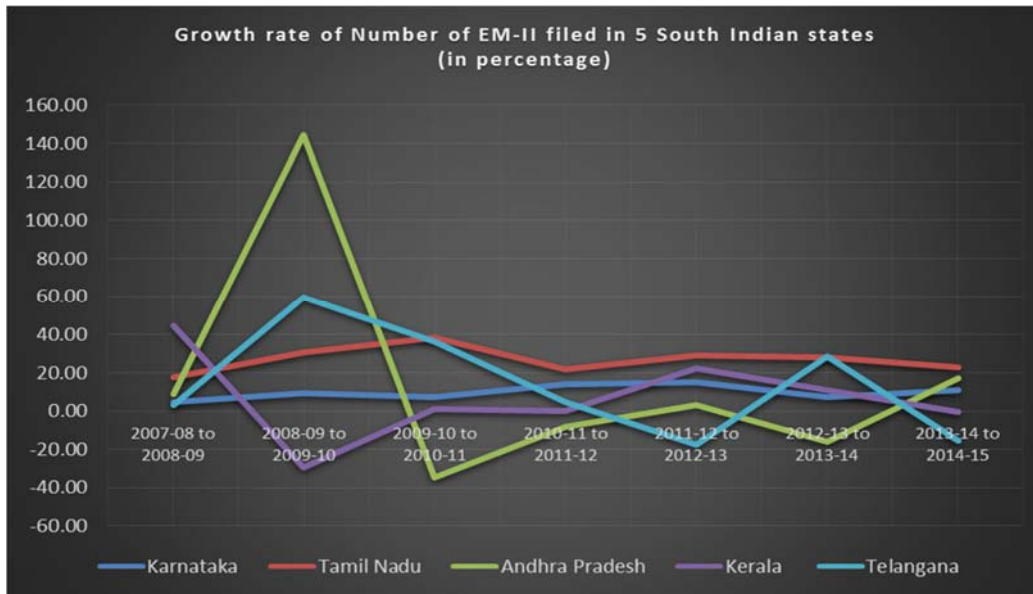


Fig 5.8: Figure showing growth rate of Number of EM-II filed in five in southern Indian States from the year 2007-08 to 2014-15.

**Inference:** Only the states of Tamil Nadu and Karnataka remained in the positive zone and shown consistent increment in the number of EM-II filing (Karnataka showed some declining trend in the year 2009-10 to 2010-11 and 2012-13 to

2013-14). Three other states have shown radical ups and down in the growth trend. They have gone in negative zone also in certain years.

Table 5.2: Table showing test of hypothesis testing of relationship between EM-II registration growth and GDP value for the year 2007-08 to 2014-15

Statistics	Value	Inference
Multiple R	0.99	The degree of association between EM-II registration and GDP is found highly positively co-related.
R Square	0.99	The tested factor explains almost 99% variation in the EM-II registration.
ANOVA Significant F	0.000*	P value from the F test is 0.000* hence we reject the null hypothesis.

\*at 95% significance level

**Inference:** It can be inferred that model fits in predicting the ability as R Square value is statistically significant. As the  $p < 0.05$  reject the null hypothesis and can conclude that the number of registrations under EM-II and GDP (in values) are significantly related. If the EM-II registration is increasing which significantly contributes to the GDP value.

**6. Challenges Confronted by Indian MSMEs**

- Infrastructural problem
- Acute capital shortage and need of venture capital investment (FDI)
- Problem of finance and marketing
- Technological up gradation
- Downfall of china, which was providing cheap foreign imports.
- Cluster development problem.
- Career development opportunities are less in comparison to large organization
- Not knowledge based and lack of creativity and innovation.
- Facing tough competition from their global counterparts due to liberalization.
- Turbulent and uncertain global and local market scenarios.
- Portable safety network for workers in the MSMEs

**7. Conclusion**

The Indian MSMEs have ample of opportunities of growth and sustainable development. The environment in which India

is emerging, MSMEs have to be in par with the ‘state-of-the-art’ and ‘cutting edge technology’. As India is improving in its ‘Ease of Doing Business’ it is time to take an explicit stand on Foreign Direct Investment and take steps on norms on ‘sourcing’ locally. For example, the center eased the rules permitting 100% in ‘Single Brand Product Retail Trading’ subject the sourcing caveat- the pre-condition that companies with more than 51% foreign ownership must source 30% of the value of goods in India, preferably from micro, small or medium enterprises. If MNREGA was made for the improvement of rural infrastructure, Make in India is made for the manufacturing sector of the country which is the biggest employment provider after agriculture, therefore MSMEs has a socioeconomic relevance given its potential to create jobs and protect livelihoods. The Special Purpose Vehicles (SPV) which are used to implement cluster projects should serve their purpose well as it enhances collective economic efficiency, create a competitive market, creates infrastructure and linkage through government schemes. It can conclude that, MSME significantly contributes to the GDP of the economy and growth rate of MSME EM-II registration depicts higher growth rate during 2007-08 to 2014-15.

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