



The role of Telangana in promoting the development of MSMEs

Dr. Mallesham Vanga

Lecturer in Commerce, University Arts & Science College, Hanumakonda, Telangana, India

Abstract

MSMEs, or micro, small, and medium-sized enterprises, are essential to hastening India's transition to globalization. They have a major impact on exports, industrial production, job creation, and balanced regional development. MSMEs, which are sometimes seen as the foundation of the economy, support local supply chains, foster entrepreneurship, and stimulate innovation. MSMEs have become important engines of economic growth in states like Telangana, especially in industries like information technology, agro-processing, handlooms, handicrafts, and pharmaceuticals. Their contribution to the state's development has been further reinforced by government measures like as financial support programs, startup incubation centers, and industrial parks. Multinational corporations (MNCs) and large-scale industries (LSIs) fiercely compete with MSMEs, notwithstanding their significance. These larger companies are able to produce things at reduced costs because of economies of scale, sophisticated technology, powerful branding, and greater access to finance. Small businesses are further strained by the entry of less expensive alternatives into domestic markets. Limited funding, antiquated equipment, marketing difficulties, and volatile raw material pricing are problems that many MSMEs face. MSMEs need ongoing policy assistance, technology advancement, talent development, and better access to international markets in order to maintain growth and stay competitive.

Keywords: MSMEs, Telangana, economic growth, challenges

Introduction

Globally, the micro, small, and medium-sized firm (MSME) sector has been acknowledged as a growth driver. Low investment requirements, operational flexibility, location-wise mobility, and import substitution are characteristics of this industry. Since independence, traditional small-scale industries in India have received attention. Medium-sized businesses are new to the market and have recently become a focus of government strategy. In terms of GDP contribution, industrial base, employment, and exports, the small-scale segment has fulfilled the nation's long-term goals and is an example of India's socioeconomic growth model. A significant portion of India's industrial base is made up of this sector.

Recognising the importance of Micro and Small Enterprises (MSEs) in the industrial development of the country, the Government has initiated a range of programmes in diverse areas, viz. financing, technology, innovation, market information, technical training and developmental assistance. These initiatives are important in facilitating the growth of the MSEs.

The first comprehensive law in India that addresses all three areas is the Micro, Small, and Medium Enterprises Development (MSMED) Act, 2006. These businesses are divided into two categories under the Act: (i) manufacturing businesses that produce or manufacture goods related to any of the industries listed in the first schedule of the Industries (Development and Regulation) Act, 1951. These are characterized by their investment in plant and machinery; (ii) service businesses that offer or render services, which are characterized by their investment in equipment.

According to the Micro, Small and Medium Enterprises (MSME) Development Act of 2006, (India) a micro enterprise is where the investment in plant and machinery does not exceed twenty five lakh rupees. A medium enterprise is where the investment in plant and machinery is

more than five crore rupees but does not exceed ten crore rupees. A small enterprise is where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees. In the case of the enterprises engaged in providing or rendering of services, as (a) a micro enterprise is where the investment in equipment does not exceed ten lakh rupees. (b) a small enterprise is where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees. (c) a medium enterprise is where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

Definition of MSMEs

Enterprise(Both Manufacturing and Services)	Investment in Plant and Machinery or Equipment	Turnover
Micro	Not exceeding Rs. 1 crore	Not exceeding Rs. 5 crore
Small	Not exceeding Rs. 10 crore	Not exceeding Rs. 50 crore
Medium	Not exceeding Rs. 50 crore	Not exceeding Rs. 250 crore

Methodology

The present study is based on the information derived from secondary sources such as MSME Telangana State Annual Reports (2021-22), Ministry of MSME, Government of India – Reports, Journals, Articles, research papers, website, etc.,

About Telangana State

There are an estimated 2.6 million MSMEs in Telangana, with 56% of them located in rural areas and 44% in urban areas. Since the state's creation, 19,954 registered MSME units have started operating with an investment of roughly

Rs. 31,023 crores. With a total area of 1,12,077 square kilometers, it ranks as the 12th largest state in the nation in terms of both people and area.

Industries in Telangana - w.r.t. MSMEs in Telangana State

The State of Telangana is home for several industries both major and small scale like Agro-Processing, Textiles, Leather, Automobiles, Apparels, Engineering, Horticulture, Poultry, Farming, Bio-Technology, Defence Equipment, etc., Despite of its growth over 10% since last five years, MSME sector is facing challenges and problems from large scale industries, multi-national companies and other units producing substitutes. The performance of MSMEs is compared with the large scale units and the preference is given to the products and services produced by the large scale industries when compared to small scale sector.

Numbers of MSMEs in Telangana

An estimated 2.6 million (26 lakh) MSMEs, or micro, small, and medium-sized businesses, operate in Telangana across several industries.

- About 8.9 lakh MSMEs have formally registered for Udyam since 2020.
- Dissection of units registered with Udyam.
- Micro businesses approximately 8,92,147 units
- Small businesses roughly 26,708 units
- Medium-sized businesses: roughly 3,028 units

Manufacturing and Production

The total number of the registered MSME units, about 1,90,669 are in the manufacturing sector and 7,31,214 are in the services sector (the remaining units include trade and others). This indicates a high level of industrial activity and production.

- A large number of these manufacturing facilities contribute to regional industrial output and supply chains by working in the fields of engineering goods, food processing, textiles, plastics, electronics, and chemicals.
- About 22,000 new manufacturing and services MSME units have been approved since 2014, according to registrations under the TG-iPASS system (industrial approvals), indicating continuous expansion in industrial capacity.

Employment & Economic Contribution

- A trillion of jobs in manufacturing and services have been created by Telangana's MSME sector, which has significantly increased employment. Over 71.8 lakh persons are reportedly employed by MSMEs in the state, according to more comprehensive registration data from 2020 to 2023.
- MSMEs in Telangana support both rural and urban economic activity, hence promoting balanced regional economic development.

Growth of MSMEs in Telangana

Telangana has seen notable expansion in the Micro, Small, and Medium Enterprises (MSME) sector since its creation in 2014. Entrepreneurs were encouraged to launch new businesses around the state by the implementation of business-friendly legislation and streamlined approval procedures. The Udyam Registration system has seen a

noticeable increase in registrations, which is indicative of small business formalization and growth. Telangana is home to thousands of MSME businesses today that work in a variety of industries, including manufacturing, services, food processing, textiles, pharmaceuticals, engineering, handicrafts, and information technology.

A favorable environment for MSMEs has been established by the state government's proactive industrial policies, infrastructure development, and financial incentives. Production capacity and competitiveness have increased thanks to industrial parks, special economic zones, and sector-specific clusters. Due to improved connectivity, the availability of skilled labor, and market access, districts like Hyderabad, Ranga Reddy, Medchal-Malkajgiri, Sangareddy, and Warangal have become important MSME hubs. Furthermore, rural areas are gradually becoming more industrialized, which supports balanced regional development. All things considered, MSMEs have grown to be a vital component of Telangana's industrial development, making a substantial contribution to the creation of jobs, exports, and inclusive economic growth.

Emerging Opportunities for MSME Sector in Telangana

As part of the MSME ecosystem, the Telangana government has developed effective policy tools centered on TSIPASS, T-PRIDE, T-IDEA, RICH, TASK, and TIHCL. MSMEs in the state do not currently experience voltage fluctuations or power interruptions. They do not experience industrial water constraint. Pollution tolerance is gradually declining. Even small businesses are evolving as a result of disruptive digital technologies, especially artificial intelligence and machine learning. Additionally, big businesses are flocking to the Industrial Parks and Clusters in greater numbers than ever before, without any prioritization. However, credit institutions have not yet matched these initiatives.

Risk profile of the MSME sector indicates the capability and capability of the financial sector. Business Risks surrounding the industry, markets, operational efficiency, Management risks and financial risks impact credit quality, and infringe on stand-alone credit risks. Low NPAs in the sector should drive the financial institutions for proactive interventions and not wait for things to happen.

Institutions with MUDRA capabilities perform better in the MSE sector, however lending to manufacturing MSEs is slower. Since the State is expected to become a significant player in the industry both domestically and internationally, Textile Mudra has raised the barrier to Rs. 20 lakhs at the most extreme, which also presents a fantastic chance for banks and NBFCs to lend for manufacturing MSEs.

The banks now have another chance to switch from balance sheet and ratio-based template lending platforms to trust and cash flow-based lending thanks to the increased CGTMSE threshold of Rs. 2cr.

Banks should have a distinct perspective on these businesses, and in any place where this shift has taken place, human resources should be respected and incorporated into risk assessments. Better credit scores and more credit to meet the challenges should be made possible by this. In the future, Industrial Clusters should offer borrowers the opportunity to transition from supply chain management to value chain management and lenders a platform for risk reduction. However, these clusters should seamlessly cross-hold the risks through interdependence between MSMEs and major firms. Everything will be on ERP platforms, making data-based monitoring simple.

Challenges Faced by MSMEs

Despite notable expansion, Telangana's MSMEs still confront a number of obstacles that compromise their competitiveness and sustainability. Limited access to financing is one of the main issues, since many small businesses find it difficult to get timely credit because of complicated banking procedures and a lack of collateral. Large industries and multinational corporations, which profit from sophisticated technology, extensive production, and robust market networks, also pose a serious threat to MSMEs.

Rising raw material costs also result in lower profit margins and higher production costs. Due to a lack of funding to replace outdated equipment and implement contemporary production methods, many units experience technological obsolescence. Their market expansion is hindered by export and marketing restrictions, such as low worldwide exposure and branding. Additionally, productivity and quality standards are impacted by a shortage of skilled labor. To ensure long-term industrial growth and strengthen the MSME sector, these issues must be resolved.

Conclusion

Micro, Small, and Medium-Sized Enterprises (MSMEs) are essential to Telangana's economic development. The MSME ecosystem has been greatly reinforced by the government's introduction of progressive industrial laws, streamlined approval procedures, financial incentives, and infrastructure development projects since the state's creation in 2014. These policies have boosted investment, promoted entrepreneurship, and made doing business easier, all of which have led to consistent growth in the manufacturing and service sectors.

MSMEs have a significant role in balanced regional development, industrial production, employment creation, and exports. Regional inequities are lessened and equitable growth is supported by the sector's promotion of local resources, innovation, and skill development. Global rivalry, rising input costs, technology gaps, and restricted access to financing are some of the issues that currently require constant attention.

MSMEs in Telangana may attain long-term sustainability and worldwide competitiveness with consistent governmental support, technology modernization, digital adoption, and enhanced market access. In addition to increasing industrial output, strengthening this sector will empower entrepreneurs, improve livelihoods, and make a substantial contribution to the state's overall socioeconomic growth.

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