



ANNUAL SURVEY OF MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA

THE ROLE OF DIGITALISATION IN ENTERPRISE DEVELOPMENT



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Key Highlights of the Report

- **Post COVID-19, Indian MSMEs have demonstrated remarkable resilience.** Contrary to the common perception that MSMEs are generally vulnerable and distressed units, ICRIER's study, based on a survey of 2,365 Udyam-registered manufacturing sector MSMEs, indicates a robust performance in recent years. Since 2021, a majority of surveyed firms have seen sales growth, profit margins have improved, and hiring has increased—showcasing enterprise growth and development.
- **Digitalisation is a key driver of accelerated growth.** Firms that have integrated with e-commerce platforms have outperformed the non-integrated ones, benefiting from faster expansion and many more opportunities opening up.
- **Beyond business growth, digitalisation offers significant second-order benefits.** This year's survey highlights that firms integrated with e-commerce platforms experience better access to finance, international markets, and critical business information—irrespective of their size—which is significantly contributing to enterprise development.
- **Access to finance remains a persistent challenge, but it is not insurmountable.** The study finds that as firms grow, financial constraints ease. E-commerce integration helps mitigate financial barriers by fostering business expansion and creating a stronger information ecosystem for MSMEs that helps them overcome a lack of collateral.
- **E-commerce serves as a gateway to global trade, particularly for micro-enterprises.** The majority of export-oriented firms that are integrated on e-commerce platforms are leveraging e-commerce platforms to reach international markets. These include a significant percentage of micro firms also, proving that even smaller and less productive firms can access global opportunities through digital channels.
- **Looking ahead, fostering the digital transformation of MSMEs can help tap the full potential.** Enhancing technology access, upgrading skills, and developing a robust support ecosystem will enable firms to maximise the benefits of e-commerce integration. Strengthening both physical and digital infrastructure is key to unlocking the full potential of MSMEs.

EXECUTIVE SUMMARY

MSMEs dominate the enterprise landscape in India.

However, they struggle to scale up because of their low productivity levels. This is due to the sector's fragmented and largely informal nature. Enterprise development is, therefore, key for MSMEs to scale up, which is a necessary for a high and sustained growth rate and employment generation in India.

Limited access to finance, markets, information, and skilled human resources are some of the key challenges impeding enterprise development in India.

Digitalisation offers a pathway to address these issues and accelerate enterprise development. Although Internet usage is growing among MSMEs, they are unable to exploit its potential. This is because MSMEs, particularly micro-enterprises, cannot independently innovate or leverage the full potential of technology-based tools and platforms, and often need support from large enterprises and the government.

While some data on MSMEs' Internet usage exists, qualitative insights on digitalisation's impact on their growth and development are currently lacking.

To examine the impact of digitalisation, specifically e-commerce platforms, on the growth and development of MSMEs, a survey of 2,365 Udyam-registered manufacturing sector firms was conducted in 2024. This is the third edition of the survey. A purposive sampling technique was used to compare integrated and non-integrated businesses. The survey's design facilitated both time series and cross-sectional data analysis, making it a key strength of the study. While previous surveys have established the key benefits, such as increased sales, higher profit margins, and positive effects on employment, this study also focuses on examining the second-order effects of digitalisation on MSMEs. Specifically, it explores how integration enhances access to finance, international markets (exports), and information—factors that play a crucial role in enterprise growth and development. This report presents the insights derived from the survey data.

Contrary to the perception that the MSMEs sector is struggling and underperforming, the surveyed enterprises exhibit a robust growth trajectory.

Most respondents reported a rise in sales, profit margins, and hiring compared to the previous two years. About 50% of the surveyed enterprises saw an increase in turnover and profits in 2023-24, compared to 2021-22. Importantly, over time, a greater percentage of firms are moving towards higher turnover ranges, employment levels and profit margin. Even though these firms are specifically Udyam-registered, it is a promising trend, as more businesses are actively registering on the Udyam and the Udyam Assist Portal of the Government of India, indicating a positive shift.

Integrated firms outperform non-integrated ones. Our sample shows that to begin with, more productive firms join e-commerce platforms. These are largely firms that have higher turnover and profit margins. Over years, these firms have shown a stronger growth trajectory, surpassing non-integrating firms, in terms of turnover, profit and employment. Notably, a substantial share of firms (90%) reported growth in sales and profit margins after e-commerce integration. Nearly 50% of the integrated firms hired new employees post integration, out of which nearly 75% firms also hired women employees.

Scaling up business is the key reason for joining e-commerce platforms, yet offline channels remain the dominant mode of sale.

A majority of integrated firms joined e-commerce platforms to boost their sales, with most enterprises starting to sell on e-commerce platforms after the onset of the COVID-19 pandemic. About 71% of enterprises joined e-commerce platforms during or after 2020. However, the survey found that while the reliance on online operations, including e-commerce platforms, is growing, offline channels remain significant medium for sale.

While previous ICRIER surveys established that e-commerce integration positively impacts business growth potential, the current study also highlighted evidence for interesting second-order effects, which can contribute significantly to enterprise development.

The survey found that as a firm's size increases, its ability to access finance and the international market improves. Additionally, firms can gain improved access to market information.

The survey found that e-commerce integration positively impacts MSMEs' ability to raise external finance at relatively more favourable terms. By enabling firms to expand, e-commerce enhances the long-term prospects of MSMEs. The survey revealed that relatively larger firms in the MSME segment and those integrated with e-commerce performed better in terms of financial access. The survey found that the average interest rate on MSMEs' loan is about 12.27%. Compared to this, on an average, medium sized firms and integrated firms pay a relatively lower rate of interest (11.59% and 12.15%, respectively). Additionally, a relatively higher share of e-commerce-integrated firms could access collateral-free loans. Among integrated firms, 51% found their e-commerce presence helpful in raising external finance from banks and non-banking financial corporations, with medium (60%) and small-size enterprises (55%) doing better on this front than micro firms (48%). Additionally, 30% of integrated firms found e-commerce beneficial for raising collateral-free loans, with medium firms (33%) leading, followed by small (31%) and micro (29%) firms.

Many enterprises made new investments or introduced innovative practices after integrating on e-commerce platforms, enhancing their long-term growth and sustainability. About 62% of the integrated firms invested in training their employees, and nearly 50% invested in the R&D of new products. More than 90% of the firms also introduced innovative practices after integrating on platforms. The survey found that while business growth remains the most important benefit of integrating on e-commerce platforms, medium-size firms value qualitative benefits (such as access to market insights and improvement in product quality) more than micro- and small-sized firms.

As the firm size increases, its export potential too, rises, and integrated export-oriented firms use e-commerce platforms extensively to export their products. About 16% of all surveyed enterprises export their products, with medium-size enterprises having a higher share of export-oriented firms. The survey found that e-commerce offers firms, especially micro-enterprises, a pathway to participate in global trade. About 93% of the export-oriented, integrated firms rely on e-commerce platforms to export their products to international markets. This includes a considerable share of micro-enterprises, highlighting that even relatively small firms can utilise e-commerce to reach global markets if they choose to export.

Importantly export potential can be tapped better through e-commerce, which can address some conventional issues that firms face in exporting their products, like information access. Nearly 21% of the firms that do not currently export believe their products have export potential. More integrated firms (24%) recognise this potential than non-integrated ones (18%). Some of the most prominent challenges in accessing international markets include information gaps and limited access to finance. About 38% of the respondents reported that integrating on e-commerce platforms can help them overcome some of these challenges.

While market access and financing are major hurdles for non-integrated firms, the primary challenges faced by integrated firms are notably distinct, necessitating a two-pronged approach to policy intervention. Non-integrated firms continue to face the conventional issues, including access to markets and finance. Compared to this, top five challenges ranked by integrated firms included unavailability of skilled manpower to run online business, targeting right customers online and marketing products, among others. Thus, while it appears that e-commerce has been able to subdue the conventional issues to an extent, there is a need to address others, which are affecting firms ability to fully leverage platforms. Notably, nearly 48% of integrated MSMEs suggested that there is a need to address errors and delays like account de-listing, and logistics/payment delays, about 44% of firms suggested that e-commerce companies should work towards checking/reducing frauds.

Going forward, it is essential for the government create a supportive digital ecosystem that empowers MSMEs to leverage e-commerce opportunities. Taking measures to strengthen cybersecurity, enhancing access to technology and bridging information gaps will be key to unlocking the sector's untapped potential. Moreover, fostering an ecosystem enabling firms to maximise the second-order benefits of e-commerce integration is important. This can be achieved by developing supportive physical and digital infrastructure that harness the advantages of e-commerce integration. By addressing these challenges, India can further accelerate enterprise development, ensuring that MSMEs continue to play a vital role in economic growth and employment generation.