



# Focus on the Manufacturing and Services Sectors

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**The Union Budget 2024-25 represents a monumental step towards achieving the vision of 'Viksit Bharat' or Developed India. This vision is predicated on sustained efforts across nine priority areas like productivity and resilience in agriculture, employment and skilling, inclusive human resource development and social justice, manufacturing and services, urban development, energy security, infrastructure, innovation, research and development, and next-generation reforms with a particular focus on generating ample opportunities for all. Among these areas, the pillar of manufacturing and services is crucial, as it holds the potential to drive economic growth, create jobs, and foster innovation.**

**M**anufacturing has historically been a cornerstone for the development of every economy. The Indian manufacturing industry generated 16-17 per cent of India's GDP pre-pandemic and is projected to be one of the fastest-growing sectors. By 2030, India will have the capacity to export goods worth US\$ 1 trillion and is on the verge of becoming a major global manufacturing hub. The manufacturing sector, with 17 per cent of the nation's GDP and over 27.3 million workers,

plays a significant role in the economy. Through the implementation of different programmes and policies, the government hopes to have 25 per cent of the economy's output come from manufacturing by 2025.

The Ministry for Heavy Industries & Public Enterprises, Government of India, has initiated *SAMARTH Udyog Bharat 4.0*, or *SAMARTH Advanced Manufacturing and Rapid Transformation Hubs*. The expectation is that this initiative will boost

the manufacturing sector's competitiveness in the capital goods market. With an impetus on developing industrial corridors and smart cities, the Government aims to ensure the nation's holistic development. The corridors would further assist in integrating, monitoring, and developing a conducive environment for industrial development and will promote advanced practices in manufacturing.

India is gradually progressing on the road to Industry 4.0 through initiatives like the National Manufacturing Policy, which aims to increase the share of manufacturing in GDP to 25 per cent by 2025, and the PLI scheme for manufacturing, which was launched in 2022 to develop the core manufacturing sector at par with global manufacturing standards. The manufacturing sector in India is gradually shifting to more automated and process-driven manufacturing, which is expected to increase the efficiency and boost production of the manufacturing industry.

In the last five years, India has seen a rise in foreign technical collaborations, particularly in sectors like mobile phones, electronics, and food processing, with the US, Germany, and Japan being major technology transfer partners. Also, during the COVID-19 pandemic, India demonstrated its manufacturing prowess by rapidly producing pharmaceuticals and vaccines, changing perceptions about its manufacturing capabilities.

India now presents itself as a favorable destination for foreign companies due to

streamlined regulatory processes, joint research and development opportunities, and capacity to manufacture and assemble high-quality products meeting international standards. As a result, major international companies are increasingly setting up in the country or exploring R&D partnerships.

In recent years, the Government has taken a structured approach to fostering growth across various sectors, including agriculture, infrastructure, digital platforms, skilling, and manufacturing. The Union Budget 2024-25 continues this trend by focusing on nine priority areas that benefit farmers, women, youth, and the economically disadvantaged. A key objective of the budget is to stimulate rural economic growth, thereby positively impacting the nation's overall development. It also maintains capital expenditure at the level set in the interim budget, ensuring sustained investment in critical areas.

The Union Budget 2024-25 places significant emphasis on the promotion and growth of micro, small, and medium enterprises (MSMEs), especially in the realm of labour-intensive manufacturing. Recognising the vital role of MSMEs in the economy, the budget has introduced a comprehensive package that includes financing, regulatory changes, and technology support to help these enterprises grow and compete globally.

To facilitate term loans for MSMEs for the purchase of machinery and equipment without requiring collateral or third-party guarantees, a new credit guarantee scheme will be introduced.

This scheme will operate by pooling the credit risks of these MSMEs. A self-financing guarantee fund will be established to provide guarantee coverage of up to Rs 100 crore for each applicant, although the loan amount can be larger. Borrowers will be required to pay an upfront guarantee fee and an annual guarantee fee on the reducing loan balance.

Public sector banks will develop in-house capabilities to assess MSMEs for credit, moving away from reliance on external assessments. A new credit assessment model will be created based on the scoring of the digital footprints of MSMEs in the economy.





This model will offer a significant improvement over traditional credit eligibility assessments that rely solely on asset or turnover criteria, thereby also covering MSMEs without a formal accounting system.

A new mechanism will be introduced to ensure the continuation of bank credit to MSMEs during periods of stress. When MSMEs are in the 'special mention account' (SMA) stage due to factors beyond their control, they need credit to sustain their business and avoid falling into the non-performing asset (NPA) stage. Credit availability will be supported by a guarantee from a government-promoted fund.

The limit of Mudra loans (Micro Units Development & Refinance Agency Ltd.) will be increased from the current Rs 10 lakh to Rs 20 lakh for entrepreneurs who have previously availed and successfully repaid loans under the 'Tarun' category. This enhancement aims to provide further support to growing businesses.

To help MSMEs unlock their working capital by converting trade receivables into cash, the turnover threshold of buyers for mandatory onboarding on the Trade Receivables Discounting System (TReDS) platform will be reduced from Rs 500 crore to Rs 250 crore. This measure will bring an additional 22 Central Public Sector Enterprises (CPSEs) and 7000 companies onto the platform, including medium enterprises within the scope of suppliers.

The Small Industries Development Bank of India (SIDBI) will open new branches to expand its reach and serve all major MSME clusters within three years. This year, 24 new branches will be opened, expanding the service coverage to 168 out of 242 major clusters.

Financial support will be provided for setting up 50 multi-product food irradiation units in the MSME sector. Additionally, the establishment of 100 food quality and safety testing labs with NABL accreditation will be facilitated.

To enable MSMEs and traditional artisans to sell their products in international markets, E-Commerce Export Hubs will be set up in a public-private partnership (PPP) mode. These hubs will provide trade and export-related services under a seamless regulatory and logistic framework, all under one roof.

These initiatives demonstrate the Government's commitment to fostering the growth and development of MSMEs in India, ensuring they have the support and resources needed to thrive in the global market. The Union Budget 2024-25 is a testament to the vital role that MSMEs play in driving economic growth and job creation in the country.

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of India's manufacturing sector. Recognising their importance, the budget has introduced a comprehensive support package for MSMEs.

In line with global trends towards sustainability, the Union Budget 2024-25 has also placed a significant emphasis on green manufacturing. Key measures include subsidies for eco-friendly technologies, where industries adopting environmentally friendly technologies and practices are eligible for subsidies, reducing the financial burden associated with transitioning to greener methods. Moreover, additional tax incentives are offered to companies that demonstrate a commitment to reducing their carbon footprint through innovative solutions.

As mentioned above, India has the potential to become a global manufacturing hub, and by 2030, it can add more than US\$ 500 billion annually to the global economy. For this, a robust infrastructure is vital.

The budget has earmarked substantial investments in infrastructure development,

including the development of new industrial corridors and the enhancement of existing ones, which are expected to facilitate smoother logistics and supply chain management. The Smart Cities initiative aims to create urban environments conducive to industrial activity with state-of-the-art facilities and efficient public services. Investment in logistics parks will streamline the movement of goods, reducing transportation costs and improving delivery times.

The services sector is not only the dominant contributor to India's GDP but also a magnet for significant foreign investment, a major contributor to exports, and a provider of large-scale employment. In 2022-23, the sector accounted for over 50 per cent of India's GDP and witnessed a growth rate of 9.1 per cent. Of the 8.12 million jobs created in FY23, nearly half were generated by service sector companies in IT, banking, and finance. As the engine of growth for India's economy, the services sector contributed 55 per cent to India's Gross Value Added (GVA) at current prices in FY24, according to advance estimates. It also ranked first in FDI inflows, as per data from the Department for Promotion of Industry and Internal Trade (DPIIT).

India's services sector encompasses a diverse range of activities, including trade, hotels and restaurants, transport, storage and communication, finance, insurance, real estate, business services, community, social and personal services, and construction-related services. To boost India's



**Viksit Bharat by 2047**

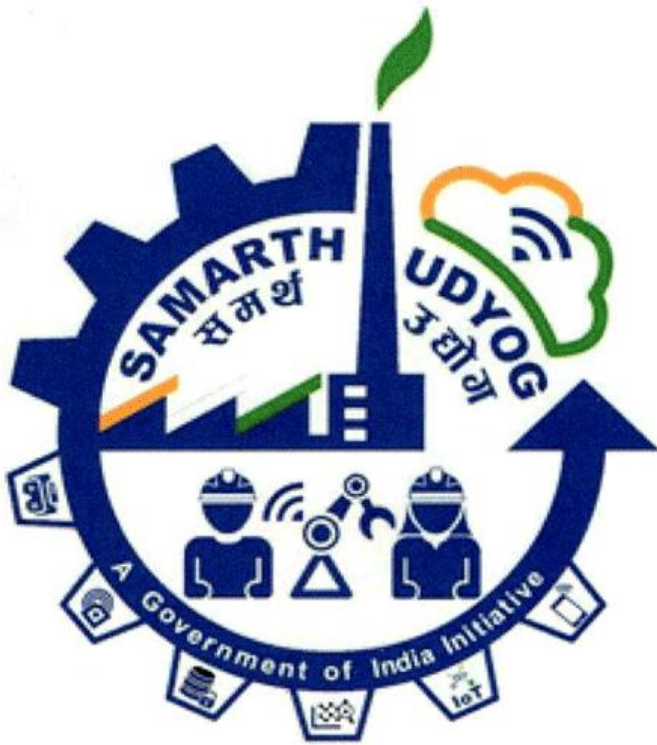
**Momentum to Nari Shakti**

- 30 crore Mudra Yojana loans disbursed to women entrepreneurs
- Female enrolment in higher education increased by 28 per cent in 10 years
- Female constitute 43 per cent of enrolment in STEM courses, one of the highest in the world
- 1 crore women assisted by 83 lakh SHGs to become Lakhpati Didis

commercial services exports and increase its share in the global services market beyond the current 3.3 per cent, the Government is making concerted efforts to facilitate a multi-fold expansion in the GDP.

India's unique position as an emerging market is bolstered by its knowledge-based services, which create a competitive advantage. The Indian services industry benefits from numerous government initiatives like Smart Cities, Clean India and Digital India, fostering an environment that strengthens the sector. This environment has the potential





to unlock multi-trillion-dollar opportunities, stimulating symbiotic growth globally. Service providers in India have continued to see positive demand trends, leading to increased business volumes and job creation.

In December 2023, services exports grew by 1.3 per cent to USD 31.6 billion, driven by software, business and travel services, while imports declined by 1.2 per cent, resulting in record-high net earnings of USD 16.0 billion. During the October-December 2023 period, India experienced a 5.1 per cent year-on-year increase in services exports to USD 87.7 billion, with a trade surplus of USD 44.9 billion, largely driven by software, business and travel services.

Both domestic and global factors influence the growth of the services sector. An extensive range of service industries has experienced double-digit growth in recent years, supported by digital technologies and institutional frameworks made possible by the Government. The ease of doing business in India has significantly increased for domestic and foreign firms due to considerable advancements in culture and the government outlook.

The services sector in India boasts the highest employment elasticity among all sectors, signifying its potential for significant growth and the ability to create highly productive jobs, which in turn drive

revenue generation. To tackle the challenge of job creation, the Skill India programme aims to skill and upskill 400 million people by 2022, primarily by fostering private sector initiatives in skill development and providing necessary funding.

Additionally, the Make in India programme, while focused on strengthening the manufacturing sector, will have a multiplier effect, enhancing the services sector's portfolio. In this context, the Startup India initiative serves as a crucial enabler for both the manufacturing and services industries in India by supporting innovative startups.

With the focused attention of the Government in the Union Budget 2024-25, the strategic measures outlined are designed to enhance the sector's capacity to drive economic growth and innovation. The services sector is rapidly evolving with the advent of digital technologies. The budget emphasises significant investments in upgrading digital infrastructure, including high-speed internet connectivity across urban and rural areas. Additionally, initiatives to improve digital literacy among the workforce ensure that employees can effectively leverage digital tools and platforms. The Union Budget 2024-25, with its comprehensive focus on manufacturing and services, marks a significant step towards realising the vision of 'Viksit Bharat'. The strategic measures outlined in the budget are expected to drive economic growth, create employment opportunities and enhance the overall standard of living for all citizens. The synergy between manufacturing and services, underpinned by integrated logistics, financial services and a robust startup ecosystem, will create a dynamic and resilient economy.

Finally, the Union Budget 2024-25 sets a robust framework for achieving 'Viksit Bharat'. By emphasising digital infrastructure, workforce digital literacy and the integration of manufacturing and services, the budget aims to build a dynamic economy that fosters innovation, growth and prosperity for all citizens. The strategic measures outlined will not only drive economic growth and employment but also enhance the overall quality of life, ensuring a resilient and inclusive future for India. □

### Reference

1. IBEF Report on Manufacturing May 2024 (Manufacturing Industries in India & its Growth | IBEF)