

# A Study on Challenges Faced by Msme's in Gujarat State

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## Abstract

This analysis examines the multifaceted challenges confronting Micro, Small, and Medium Enterprises (MSMEs) in Gujarat, a state central to India's industrial output. Despite a robust entrepreneurial culture, the sector is currently grappling with a high mortality rate, particularly within the pharmaceutical and textile industries. The research highlights a critical "credit gap" where micro-units remain excluded from formal banking, alongside a "scaling bottleneck" that prevents small firms from transitioning into medium-sized entities. Key findings suggest that while Gujarat excels in infrastructure, the rising costs of regulatory compliance and the pressure of delayed payments from large-scale buyers have created a liquidity crisis. Furthermore, the digital divide and reliance on obsolete technology hinder global competitiveness. This study synthesizes sectoral data to underscore the necessity for targeted fiscal interventions and simplified compliance frameworks to sustain the state's industrial leadership.

## Key Words

1. **Dwarfism:** The economic phenomenon where MSMEs remain small for decades to avoid regulatory complexity.
2. **Credit Gap:** The disparity between the capital required by small businesses and the formal credit actually provided by banks.
3. **Regulatory Compliance:** The process of adhering to laws and standards, such as the Revised Schedule M for pharma or GST filings.
4. **Udyam Registration:** The official digital portal for MSME certification in India, crucial for accessing government benefits.
5. **Liquidity Crisis:** A financial situation where businesses have assets but lack the "ready cash" to meet immediate obligations due to delayed payments.

## Introduction

Gujarat remains a leading industrial hub, its MSMEs (Micro, Small, and Medium Enterprises) face significant structural and operational hurdles. As of late 2024 and early 2025, approximately 5,974 MSMEs in Gujarat were reported to have closed due to a combination of post-pandemic stress, cash flow issues, and regulatory pressures.

In India, the definition of MSME (Micro, Small, and Medium Enterprises) has undergone significant revisions to align with modern economic realities. As of April 1, 2025, the government has further enhanced these limits to provide greater flexibility for growing businesses.

Revised MSME Classification (Effective April 1, 2025)

The updated criteria follow a composite system based on both investment (in plant, machinery, or equipment) and annual turnover (excluding exports).

**Table No.1 MSME Classification**

Enterprise Category	Investment Limit	Annual Turnover Limit
Micro	Not more than ₹2.5 crore	Not more than ₹10 crore
Small	Not more than ₹25 crore	Not more than ₹100 crore
Medium	Not more than ₹125 crore	Not more than ₹500 crore

Sources : The previous limits (2020–2024) were ₹1cr/₹5cr for Micro, ₹10cr/₹50cr for Small, and ₹50cr/₹250cr for Medium.

## 1.Challenges :

### 1.1.Financial & Credit Constraints

- **Credit Gap & Formalization:** A large portion of micro-enterprises operate without formal banking facilities, making them ineligible for government schemes like the Credit Guarantee Fund Trust (CGTMSE).
- **Collateral Issues:** Banks often hesitate to lend due to a lack of collateral and credit history, forcing small owners to rely on high-interest informal credit.
- **Fund Underutilization:** Despite central allocations, Gujarat has shown low utilization of key grants like the Raising and Accelerating MSME Performance (RAMP) scheme.

### 1.2. Regulatory & Compliance Burdens

- **Pharma Sector Crisis:** The Drug Marketing and Manufacturing Association (DMMA) in Gujarat has warned of potential widespread closures (affecting 4,000–5,000 units) due to costly new bio-equivalence study requirements and stringent compliance.
- **Payment Delays:** While the law mandates payment within 45 days, this has paradoxically led some large buyers to reduce orders from MSMEs to avoid strict compliance risks.
- **Complex Logistics:** Rising logistics costs and cumbersome export documentation (NOC processes) often delay shipments, causing MSMEs to lose ground to competitors in China and Vietnam.

### 1.3. Technology & Skill Gaps

- **Obsolescence:** Many units, particularly in traditional sectors like textiles and engineering, use outdated machinery, leading to lower productivity and higher costs.

- **Digital Divide:** Adoption of e-commerce and digital marketing remains low due to a lack of awareness, security concerns, and the high cost of skilled IT personnel.
- **Skilled Labour Shortage:** While informal networks help find workers, there is a lack of structured workforce development, especially for niche technical roles.

#### 1.4. Market Competition

- **Cheap Imports:** Competition from low-cost imports (especially from China) continues to squeeze the margins of domestic MSMEs.
- **Barriers to Entry in New Sectors:** While Gujarat is pushing for a Semiconductor Hub, the high minimum investment (e.g., ₹50 crore) prevents most MSMEs from participating in this growth sector.

**Table on : 2. Summary of Sector-Specific Issues**

Sector	Primary Challenge
Pharma	High cost of bio-equivalence studies & regulatory circulars.
Textiles	Loss of demand, cheap imports, and high energy costs.
Micro-Units	Lack of formal registration preventing access to subsidies.
Semiconductors	High capital entry barriers.

## 2. Sectoral Distribution & Challenges

The following table highlights the distribution of MSMEs in Gujarat and the specific intensity of challenges faced by each sector.

**Table no. 3: specific intensity of challenges faced by each sector.**

Industry Sector	Share of Total MSMEs (%)	Primary Challenge (Weighted Score 1-10)	Average Credit Access (%)	Growth Rate (YoY)
Textiles & Garments	22%	Raw Material Volatility (9.2)	45%	-2.1%
Chemicals & Pharma	18%	Regulatory Compliance (9.5)	60%	+4.3%
Food Processing	15%	Cold Chain Logistics (7.8)	35%	+6.8%
Engineering/Auto	25%	Technological Obsolescence (8.5)	55%	+3.2%
Gems & Jewellery	12%	Export Barriers (8.1)	30%	-5.4%
Other Services	8%	Skilled Labor Shortage (7.2)	20%	+1.5%

• Source: MSME Commissionerate, Gujarat. (2023). Performance and Statistics of MSME Clusters. Industries Commissionerate, Gandhinagar.

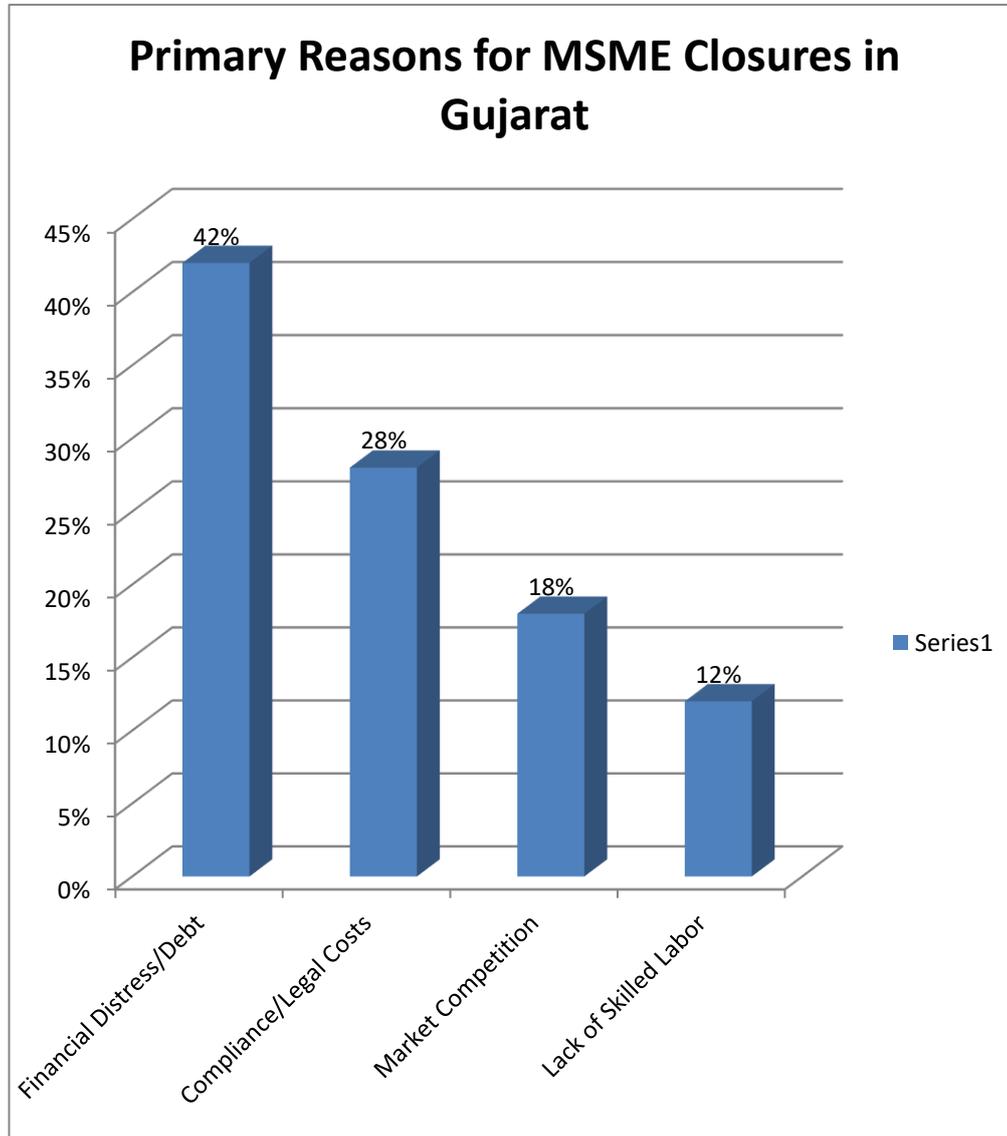
### Interpretation:

This table illustrates the diverse industrial fabric of Gujarat, where Engineering and Textiles dominate the MSME count but face the highest pressure. The "Primary Challenge" score indicates that while Chemicals/Pharma is growing, the regulatory burden (Compliance Score 9.5) creates a massive bottleneck for smaller units. Conversely, sectors like Gems and Jewellery are seeing a contraction due to global demand shifts and export barriers. The credit access data reveals a stark reality: service-based MSMEs and food processors struggle significantly more with formal banking than the capital-intensive engineering sector. This disparity suggests that government intervention needs to be sector-specific rather than

a "one size fits all" approach. Furthermore, the negative growth in textiles reflects a need for urgent modernization to compete with global markets.

### 3. Regional Performance & Operational Hurdles

Chart on 1.: Primary Reasons for MSME Closures in Gujarat



- Financial Distress/Debt (42%)
- Compliance/Legal Costs (28%)
- Market Competition (18%)
- Lack of Skilled Labor (12%)

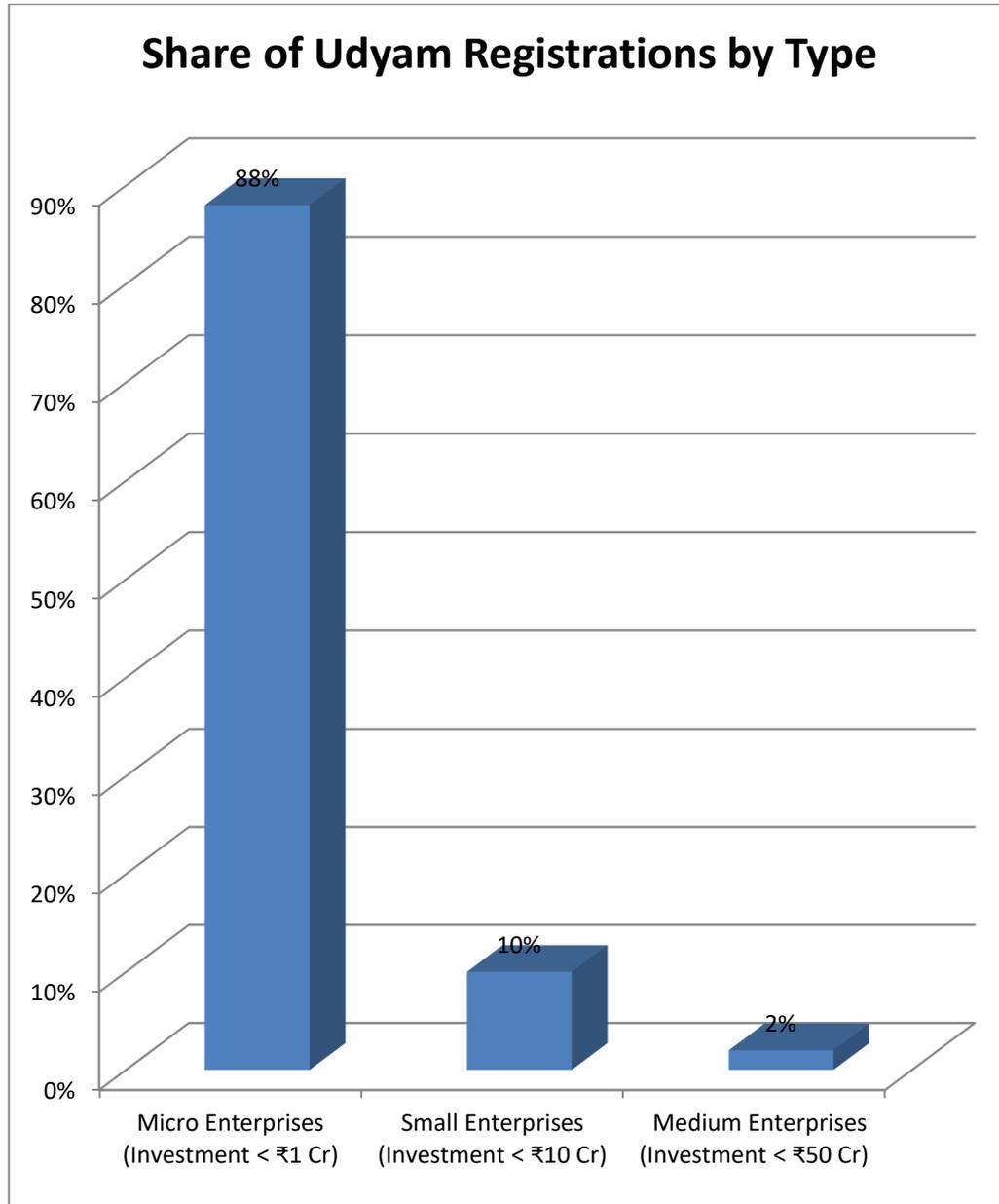
#### Interpretation:

The bar chart underscores that Financial Distress remains the leading cause of MSME mortality in Gujarat, accounting for nearly half of all closures. This isn't just a lack of capital, but rather the "vicious cycle" of delayed payments from larger corporations which chokes the liquidity of small vendors. The second-highest bar, Compliance Costs, represents the rising expenditure on GST filing, environmental norms, and digital transitions. While Gujarat is a business-friendly

state, the rapid shift toward formalization has caught many micro-units off guard. Interestingly, market competition (18%) is lower than financial issues, suggesting that Gujarat’s MSMEs are competitive in terms of product quality but fail due to structural fiscal weaknesses. Addressing the credit gap could potentially save a significant portion of these failing units.

#### 4. Investment Breakdown by MSME Category

Chart on:2. Share of Udyam Registrations by Type



- Micro Enterprises (Investment < ₹1 Cr): 88%
- Small Enterprises (Investment < ₹10 Cr): 10%
- Medium Enterprises (Investment < ₹50 Cr): 2%

#### Interpretation

The pie chart reveals a heavily skewed distribution, where 88% of the ecosystem is comprised of Micro-enterprises. This "missing middle" is a critical challenge for Gujarat’s economy; while there is a massive base of tiny units, very few successfully scale up to become "Small" or "Medium" entities. This stagnation is often termed the "dwarfism" of MSMEs, where owners prefer to stay small to avoid complex labor laws and higher tax brackets. The tiny 2% share of Medium enterprises indicates a bottleneck in technology adoption and institutional scaling. For Gujarat to become a global

manufacturing hub, the policy focus must shift from merely "starting" a business to "scaling" a business. Transitioning Micro units into Small units would exponentially increase employment and export contributions.

## 5. Conclusion

In conclusion, the MSME landscape in Gujarat stands at a critical crossroads where traditional manufacturing strengths must be reconciled with modern regulatory and digital demands. The data indicates that financial distress and compliance burdens are the primary drivers of business closures, far outweighing the impact of direct market competition. The overwhelming predominance of micro-enterprises (88%) suggests that current policies successfully encourage startups but fail to provide the "escalator" required for growth. To mitigate these issues, the state must address the systemic delay in payments and provide subsidized technological upgrades to traditional clusters like textiles and engineering. Ultimately, the long-term resilience of Gujarat's economy depends on transforming these "dwarf" enterprises into technologically empowered medium-scale industries. A shift from general incentives to sector-specific ease-of-doing-business reforms will be essential to reversing the trend of unit closures.

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