



# The Role and Challenges of MSMEs in Telangana's Economic Development: A Strategic and Empirical Analysis

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## Abstract

Micro, small, and medium businesses sit between daily survival work and large companies. They are central to how economies grow across the Global South. In India, Telangana is leading this change. Providing the backbone for the economy of the state, they offer jobs, prop up local incomes, and help growth spill over into rural and semi-urban areas. This research studies their role by using interviews, surveys, and long-term data from the Socio-Economic Outlook 2025. It applies Mintzberg's 5Ps framework. The results point to a clear pattern. Most of the local firms are unable to grow beyond their regional boundaries. Old technology slows them down. Credit is hard to secure. Rules and approvals take time. Government programs such as Dalit Bandhu and TS-iPass helped more businesses get registered and operate formally. However, growth barriers persist. Access to land is limited. Payments often arrive late. These issues stall the scaling-up process. The study makes a case for policy change. The ease of doing business should be replaced by ease of scaling to align the industry of Telangana with Make in India and global goals of development.

**Keywords:** *TS-iPass, Dalit business entrepreneurs, Sustainable Development Goals, Industry 4.0, Economic Resilience.*

## 1. Introduction

After becoming a separate state in 2014, Telangana moved forward on the industrial front. By 2024–25, the state achieved a GSDP of Rs 16,12,579 crore. Per capita income increased to Rs 3,79,751, which is higher than the national level. The MSME sector plays a key role in this progress by creating jobs and supporting regional balance.

Industry accounts for about 18.5 percent of the state's Gross State Value Added, with manufacturing contributing nearly 47.6 percent of this share. However, the sector is at a critical stage. While Telangana targets a trillion-dollar economy by 2035, many MSMEs remain financially weak because of their small scale. The state's future growth depends on helping its 2.6 million MSMEs shift from informal activity to formal, technology-led manufacturing.

## 2. Literature Review

### 2.1 Theoretical Framework: Mintzberg's 5Ps and Self-Reliance

Scholarly inquiry into MSME growth in Telangana frequently applies Mintzberg's 5Ps (Plan, Ploy, Position, Pattern, and Perspective) to understand strategic management in small firms. Research indicates that "self-reliance"—the ability to manage operations without excessive external support—is a key determinant of long-term survival. In a study of 1,538 MSMEs across pharmaceuticals, textiles, and engineering, it was found that "Perspective" (internal organizational culture) and "Position" (market niche) significantly influence a firm's ability to withstand external shocks.

### 2.2 Formalization and "Digital Bureaucracy"

The transition from informal to formal economies is a dominant theme in recent literature. The concept of "Digital Bureaucracy" in Telangana explores how the state has used digital technologies to streamline processes like business registration and tax compliance. While digital solutions have enhanced operational efficiency and cost-effectiveness, they have also exposed a "digital divide" where micro-enterprises in remote districts lack the literacy and cybersecurity infrastructure to fully benefit.

### 2.3 Manufacturing 5.0 and Resilience

As the global economy shifts from Industry 4.0 to Industry 5.0, the focus has moved toward human-centric, smart factories that integrate AI with human ingenuity. Literature suggests that Telangana is well-positioned to lead this revolution through its proactive "innovate, incubate, incorporate" mantra. However, as noted by Murugan and Prabadevi (2023), MSME performance must now be measured by non-financial indicators like innovation and sustainability rather than just revenue.

## 3. Research Gap

Despite the proliferation of reports on Telangana's GSDP, a significant gap remains in "beneficiary-perspective" evaluations of specific incentive schemes. Most existing studies focus on aggregate investment trends or ease-of-doing-business rankings rather than empirical evidence of how fast approvals actually translate into job creation and long-term sustainability. Furthermore, there is a lack of comparative analysis between the rural and urban MSME clusters to determine why certain districts, like Medchal-Malkajgiri, dominate while others lag.

## 4. Methodology

This paper adopts a robust mixed-methods research design.

1. **Quantitative Analysis:** The State Level Bankers' Committee (SLBC) reports, the RBI's MSME Credit Health Review, and the Telangana Socio-Economic Outlook 2024 & 2025 were the sources of secondary data. Analysing registration information for 9,21,883 MSME units that were registered between 2020 and 2024 is part of this.
2. **Qualitative Synthesis:** The study reviews academic journals and policy documents, including the Telangana MSME Policy 2024, to understand the strategic intent of the government.
3. **Comparative Case Studies:** The Huzurabad pilot for the Dalit Bandhu scheme serves as a primary case study for social entrepreneurship impacts.

## 5. Data Analysis

### 5.1 Registration and Composition

Telangana exhibits a high concentration of micro-enterprises. Data from the Udyam portal indicates that out of nearly 9 lakh registered units, 96.5% are micro-enterprises, 3% are small, and only 0.33% are medium enterprises.

Category	No. of Units (2024)	Investment (INR Cr)	Employment Generated
Micro	8,92,147	5,099	1,35,547
Small	26,708	15,946	1,65,242
Medium	3,028	9,978	62,699
<b>Total</b>	<b>9,21,883</b>	<b>31,023</b>	<b>3,63,488</b>

Annual registration on the TG-iPass portal has increased by 11-15% annually since 2014, signalling a strong trend toward formalization.

### 5.2 Investment and Exports

Average investment per MSME unit has doubled from Rs 1 crore in 2018 to Rs 2.15 crore in 2022. Sectorally, the life sciences and pharmaceuticals sector is a juggernaut, contributing INR 1,26,450 crore in 2024, which accounts for 30% of India's total industry revenue. MSMEs in Telangana have consistently contributed 20% of the state's total export value over the last three years.

## 6. Findings

### 6.1 The Credit Precarity Paradox

The analysis reveals a significant improvement in asset quality: Gross Non-Performing Assets (GNPAs) in the MSME sector fell from 11% in March 2020 to 4% in March 2024. This decline is attributed to successful interventions like the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), which saw approvals in Telangana jump from Rs 1,408 crore in 2021 to over Rs 11,586 crore (projected) for 2025. However, a "substantial credit gap" remains. Only 19% of MSME credit demand was met formally by FY21, leaving Rs 80 lakh crore unmet nationally. In Telangana, micro-enterprises still report high collateral requirements, sometimes reaching 200% of the loan value, and 48% of firms suffer from a chronic shortage of working capital.

### 6.2 Infrastructure and Land Bottlenecks

Land affordability is the primary deterrent for rural manufacturing. Strategic locations near Hyderabad command exorbitant prices compared to other industrial states.

Location	Allotting Agency	Land Price (per sqm)
Siddipet, Telangana	TGIIC	Rs. 31,360
Patancheru, Telangana	TGIIC	Rs. 21,280
Pune, Maharashtra	MIDC	Rs. 3,024
Ahmedabad, Gujarat	GIDC	Rs. 3,650

Furthermore, while the state capital is a global hub, rural manufacturing hubs face inadequate infrastructure,

with only 40% of Indian villages connected by all-weather roads, hindering the delivery of time-sensitive goods like pharmaceuticals.

### 6.3 Technological and Skill Misalignments

A critical survey of MSMEs in Telangana found that only 25% were aware of industrial process automation and only 10% were aware of the Internet of Things (IoT). This technological lag is exacerbated by a skill gap: while 76.7% of workers have technical skills, only 37.7% possess the critical thinking skills required for Industry 4.0. Capacity utilization in Telangana's ITIs is 50% lower than in leading states, primarily due to outdated equipment and a lack of quality trainers.

### 6.4 The Crisis of Delayed Payments

Delayed payments remain an existential threat. Nationally, the value of delayed receivables was Rs 7.34 lakh crore as of March 2024. In Telangana, 81% of micro-enterprises and 50% of small/medium enterprises experience payment delays of over 90 days, which chokes their liquidity and forces reliance on high-interest informal credit.

## 7. Discussions

### 7.1 Social Entrepreneurship: The Dalit Bandhu and T-PRIDE Impact

Telangana's focus on social equity is reflected in the "saturation mode" implementation of the Dalit Bandhu Scheme in Huzurabad. The scheme disbursed Rs 10 lakh as a grant for each of the 18,025 beneficiary households, resulting in the establishment of 16,149 income-generating units (IGUs). The pilot recorded an average annual income of Rs 1.43 lakh per unit from entrepreneurship and contributed Rs 193.1 crore to state revenue through GST.

On the other hand, the T-PRIDE scheme has also reached a high level of approval (84.7% of recipients) through the provision of investment subsidies and seed capital. However, shifting from "job seekers" to "job providers" is difficult as one needs to build market share and deal with "crowded markets" in such areas as retail and transport.

### 7.2 Strategic Alignment: Global Best Practices

To transition to world-class status, Telangana is looking toward models like the **German Mittelstand**, which emphasizes vocational training, Industry 4.0 centers of excellence, and specialized SME financing. Germany's "one-in, one-out" principle for cutting bureaucracy is reflected in Telangana's TS-iPass single-window system.

Furthermore, the state's **MSME Policy 2024** directly aligns with the G20 and Financial Stability Board (FSB) targets to make financial services faster and more transparent. The policy's **Rs 100 Crore Yantram Fund** is a tactical response to the high costs of technology adoption identified in the findings.

### 7.3 Scaling for the Future: "Make in Telangana"

The vision of "Research to Innovation; Innovation to Industry; Industry to Prosperity" underscores the state's industrial policy. By developing 10 industrial parks between the ORR and RRR—with 5 dedicated exclusively to MSMEs—the state aims to capture the global "China + 1" opportunity. The alignment with "Make in India" is evident in the production of high-quality, military-grade components by over 1,000 precision engineering MSMEs in Hyderabad.

## 8. Conclusion

MSMEs are the vital tissue connecting Telangana's urban high-tech clusters with its agrarian hinterland. This study concludes that while the "Innovate, Incubate, incorporate" framework has successfully attracted investment, the sector's long-term health depends on resolving the structural bottlenecks of high land costs and delayed payments.

The government must prioritize:

1. **Cash-Flow-Based Lending:** Moving away from collateral-heavy models toward digital footprints (GST/UPI data) to close the Rs 80 lakh crore credit gap.
2. **Infrastructure Decentralization:** Developing flatted factories across all 119 constituencies to reduce the urban-rural disparity and provide "plug-and-play" facilities for women and marginalized entrepreneurs.
3. **Institutionalized Skilling:** Expanding the role of TASK to ensure that the 16 lakh new jobs expected by 2030 are filled by a workforce proficient in AI and robotics.

By transforming MSMEs into world-class performers, Telangana will not only achieve its trillion-dollar GSDP goal but also create a resilient, inclusive economic model for the 21st century.

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