

# The epicentre of an existential crisis

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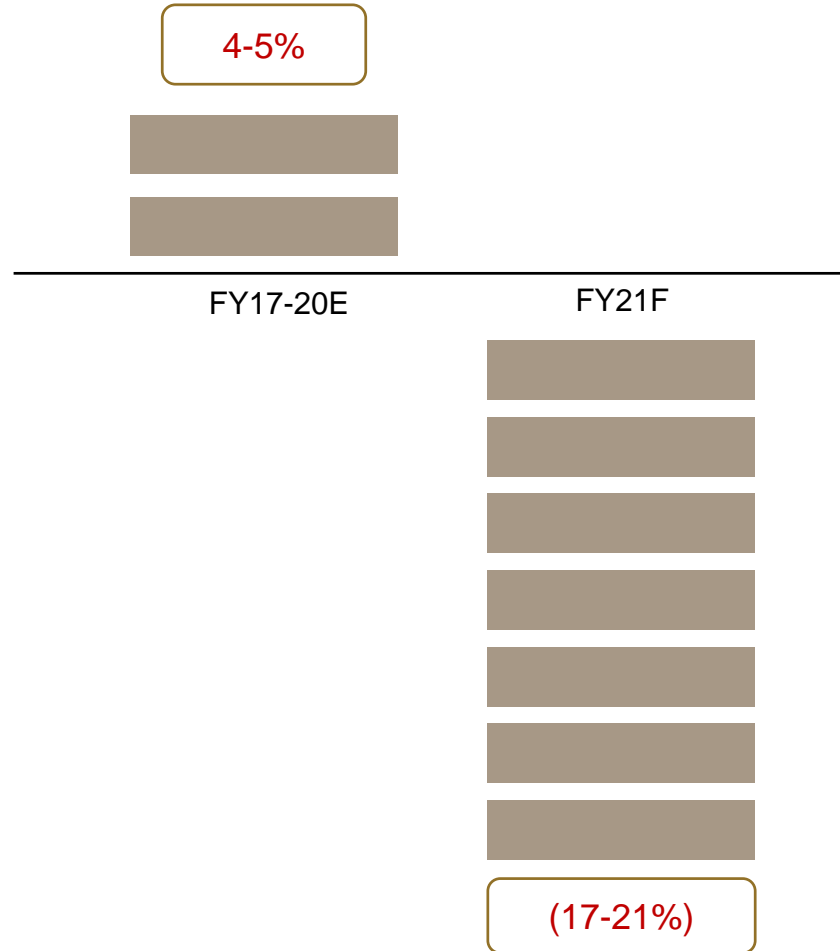
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# Key messages

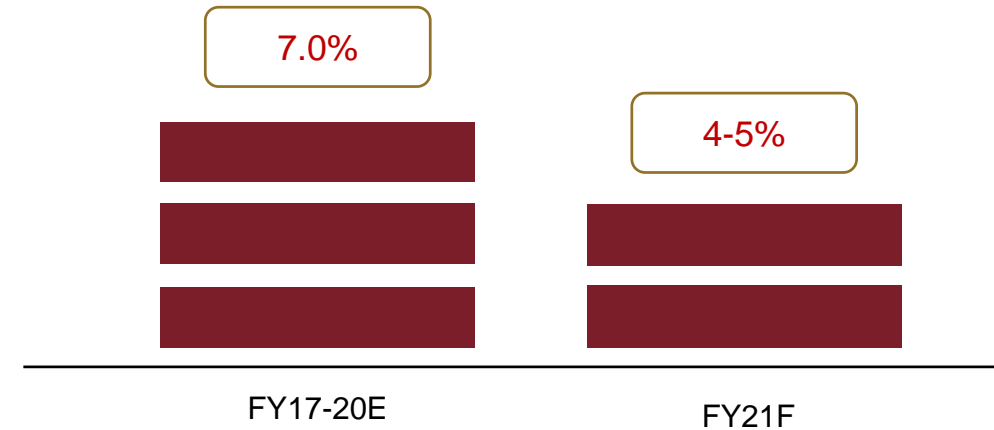
- The micro, small and medium enterprises (MSME) sector's revenue growth will plunge into deep red this fiscal because of the Covid-19 pandemic
- Earnings before interest, taxes, depreciation and amortisation (Ebitda) margins will decline despite lower commodity prices
- Higher stress in financials visible in micro units compared with small and medium firms
- Consumer discretionary, construction and export-linked MSMEs will be the most impacted
- Credit growth to MSMEs, an under-penetrated sector, will decelerate this fiscal
- Asset quality pressures to rise despite moratorium, because of slack demand
- Entrepreneurs from key sectors see varied pace of revival – those most affected do not expect a rebound before next fiscal, while a few are optimistic about the upcoming festive season

# MSME financials to take a severe hit this fiscal

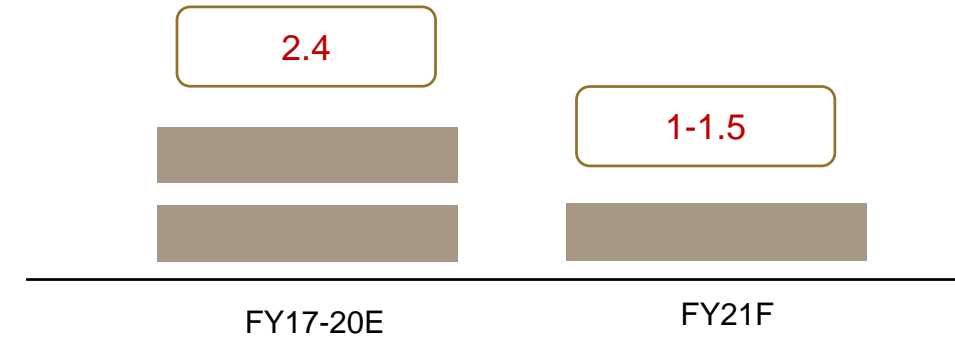
Covid-19 to push revenue growth into deep red



Ebitda margin to shrink as weak demand offsets decline in commodity prices



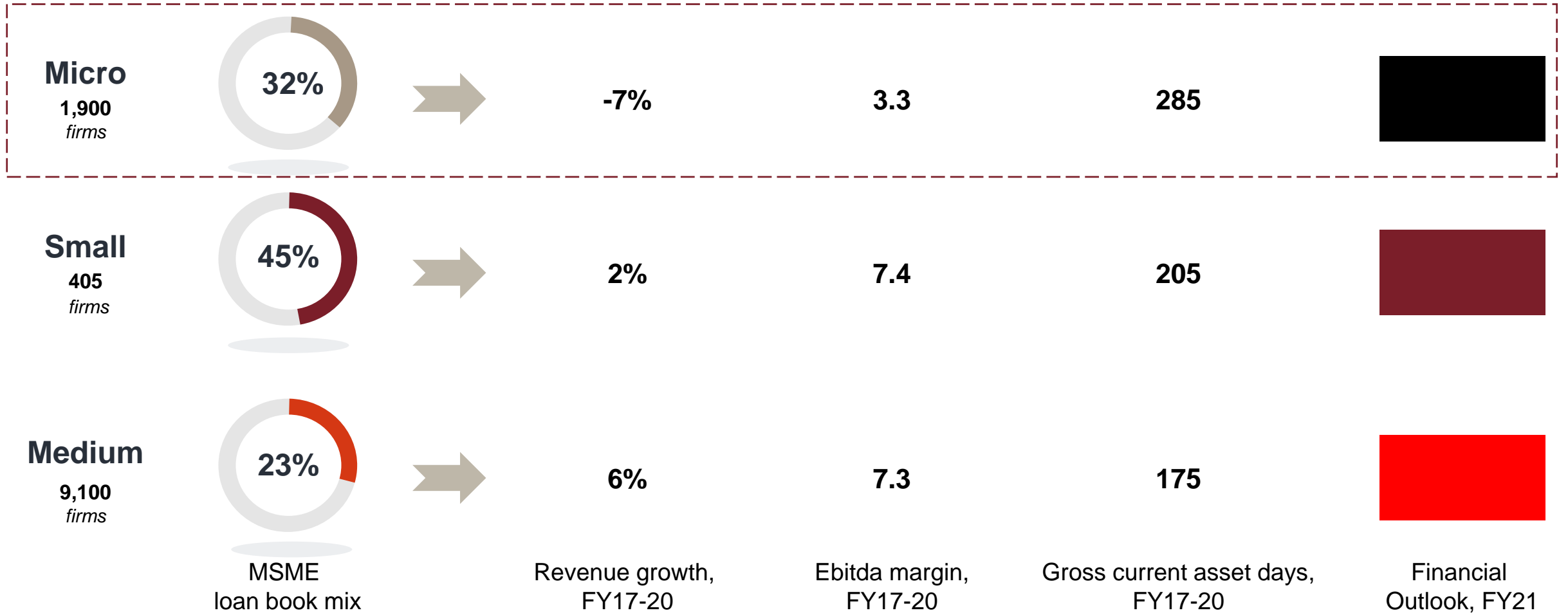
Interest service coverage ratio (ISCR) to drop despite moratorium benefit



“Note: Common sample of 11,400 entities, ISCR = EBITDA / Interest “

Source: CRISIL Research, Quantix

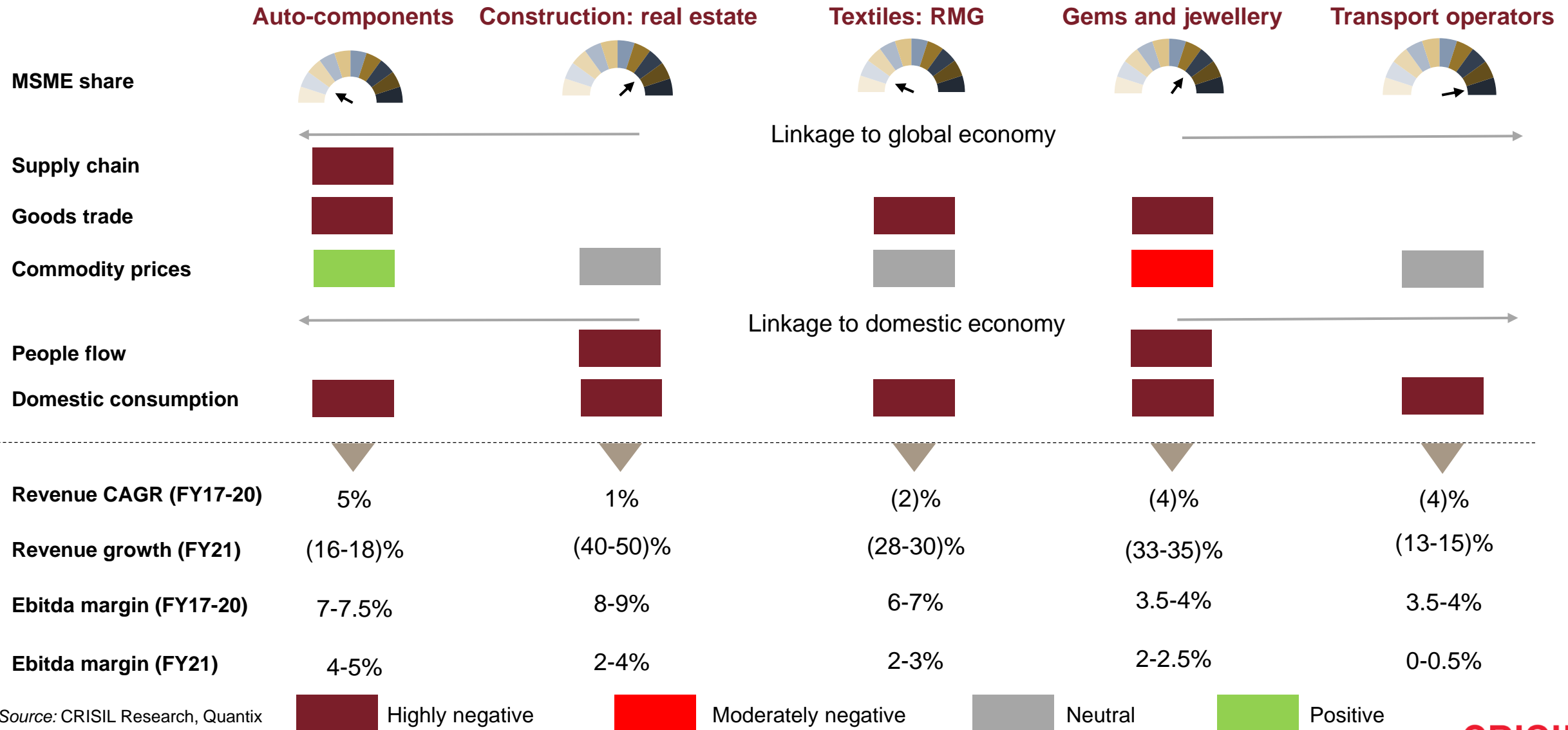
# Financials of micro enterprises under greater stress



**Note:** Micro: revenue of < Rs 5 crore and investment < Rs 1 crore  
 Small: Revenue of Rs 5 to 50 crore and investment of Rs 1-10 crore  
 Medium: Revenue of Rs 50 to 250 crore and investment of Rs 10-50 crore  
 Source: CRISIL Research, Quantix

Deep negative
  Highly negative
  Negative

# Consumer discretionary, construction and exports hit hard



Source: CRISIL Research, Quantix

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# Small EPC contractors, textiles and ceramics players bleed

Short-term impact on business

FY21 revenue outlook	High	Chemicals	Sea food, poultry, hotels, leather, light engineering, ship-breaking	Construction: real estate, gems and jewellery, textiles: RMG, ceramics, textiles: spinning, cashew processing
	Moderate	Air freight and courier, construction: roads, media: advertising	Heavy engineering, textiles: furnishing, steel re-rollers, media: movies and entertainment, packaged foods, auto components, transport operators	Edible oil, pesticides
	Minimal	Hospitals; pharma: bulk drugs; pharma: formulations	Milk and dairy products, electronics, packaging, security services	Rice milling, wheat milling
		Minimal impact	Moderate impact	High impact























## Vulnerability of credit profile

(Weighted average of ICR, D/E and working capital days for FY17-19)

Source: CRISIL Research, Quantix

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# Incremental working capital requirement to rise the most for MSMEs with higher share of B2B sales and exports

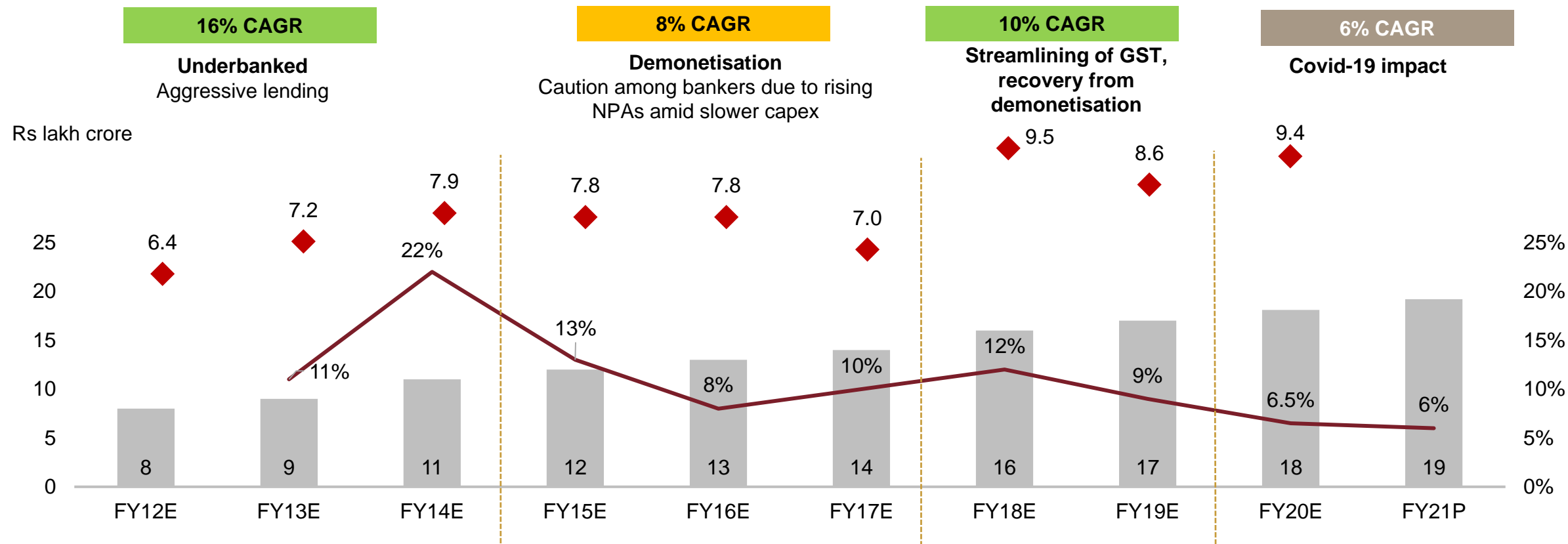
		Key business model characteristics			Liquidity characteristics and impact	
		Export revenue share (%)	Clientele category	Import dependency for raw materials	Working capital cycle (days)	Impact expected on working capital
	<b>Gems and jewellery</b>	50	B2B and B2C	High	165-170	
	<b>Textiles (RMG)</b>	25	Largely B2B	Low	120-125	
	<b>Construction (real estate)</b>	0	B2B	Low	150-155	
	<b>Sea food</b>	30	B2B and B2C	Low	85-90	
	<b>Poultry</b>	0	B2B and B2C	Low	85-90	
	<b>Dairy</b>	<5	60-65% B2C 35-40% B2B	Low	75-80	
	<b>Auto components</b>	5-10	B2B	Moderate	96-98	
	<b>Packaging and printing</b>	0	B2B	Low	100-105	
	<b>Packaged foods</b>	<5	Largely B2C	Low	90-95	
	<b>Transport operators</b>	0	B2B	Low	85-90	
	<b>Rice milling</b>	20	B2C	Low	100-110	
		High negative working capital impact	Moderate negative working capital impact	Low negative working capital impact		

Source: CRISIL Research

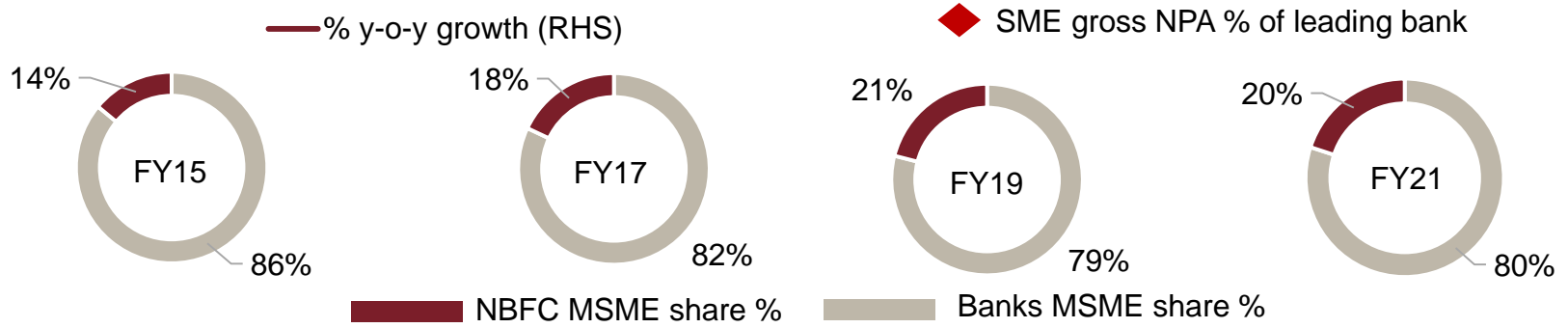
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# Credit growth slows despite an under-penetrated market; asset quality pressures to rise amid moratorium and weak demand



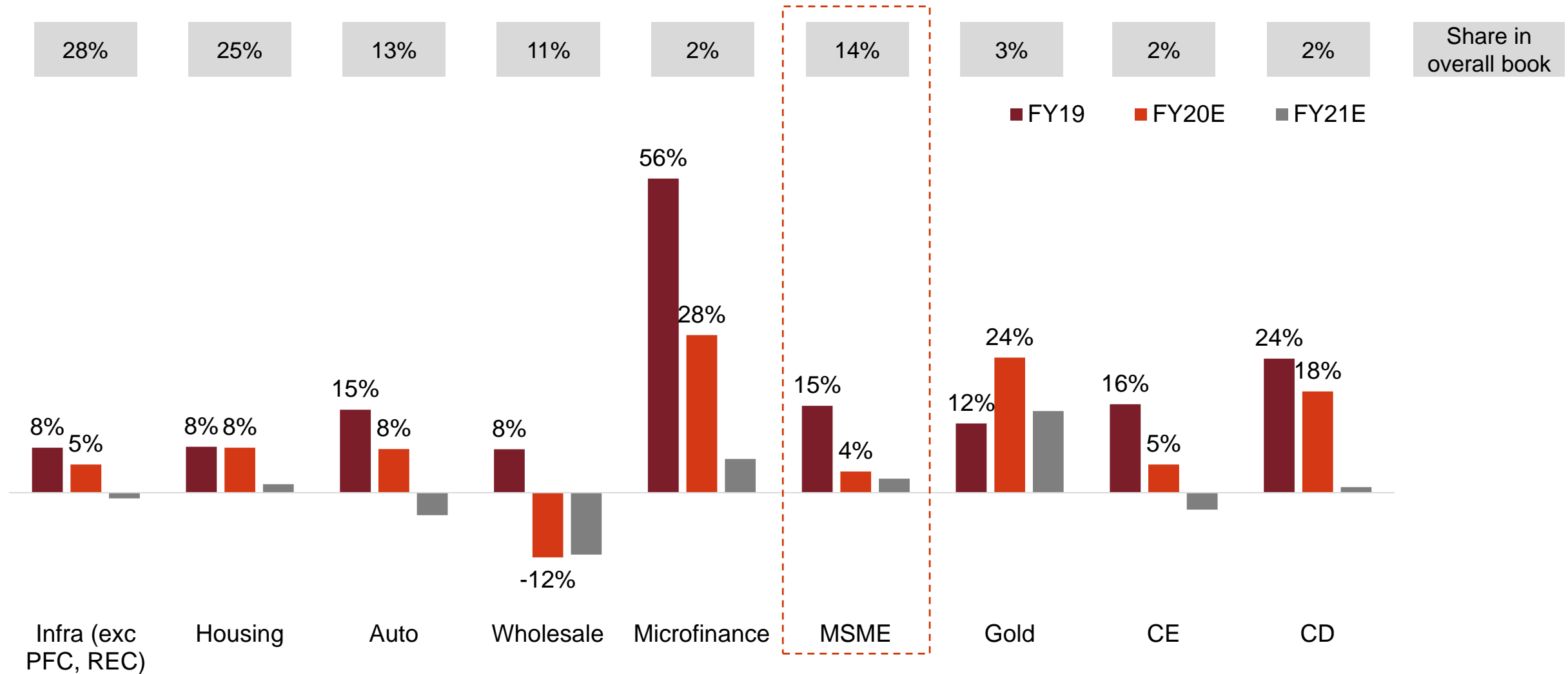
**Trend of rising market share of NBFCs to reverse**



Source: CRISIL Research

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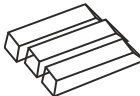
# Growth in NBFC credit to MSMEs to be among the most tepid



Source: RBI, NHB, company data, CRISIL Research

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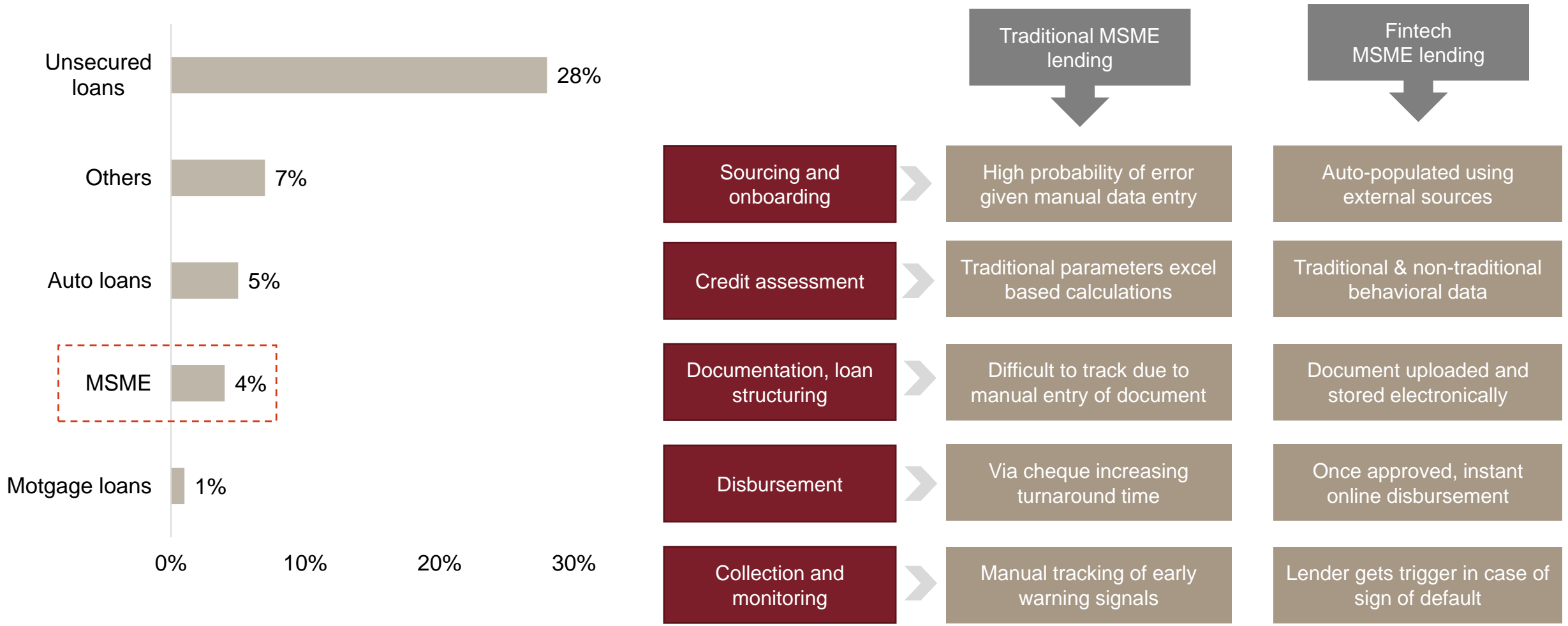
# Unsecured book, informal-segment borrowers most at risk

Non-banking segments		GNPA (%) FY18	GNPA (%) FY19	GNPA (%) FY20E	Asset quality outlook (FY21)
	Wholesale finance	1.0%	2.0%	4.0%	Red
	Microfinance	3.2%	1.3%	1.5%	Red
	MSME finance	2.7%	3.3%	4.2%	Red
	Auto finance	6.6%	5.2%	5.6%	Amber
	Infrastructure finance	8.2%	8.4%	8.6%	Amber
	Housing finance	0.5%	0.7%	0.9%	Green
	Gold finance	3.4%	2.1%	2.3%	Green

Note: Red represents a more than 200 bps deterioration in asset quality; amber represents more than 50 bps but less than 200 bps deterioration; green represents more than 0 and less than 50 bps asset quality deterioration

Source: CRISIL Research

# Digital lending is a small but enlarging pie in MSME lending

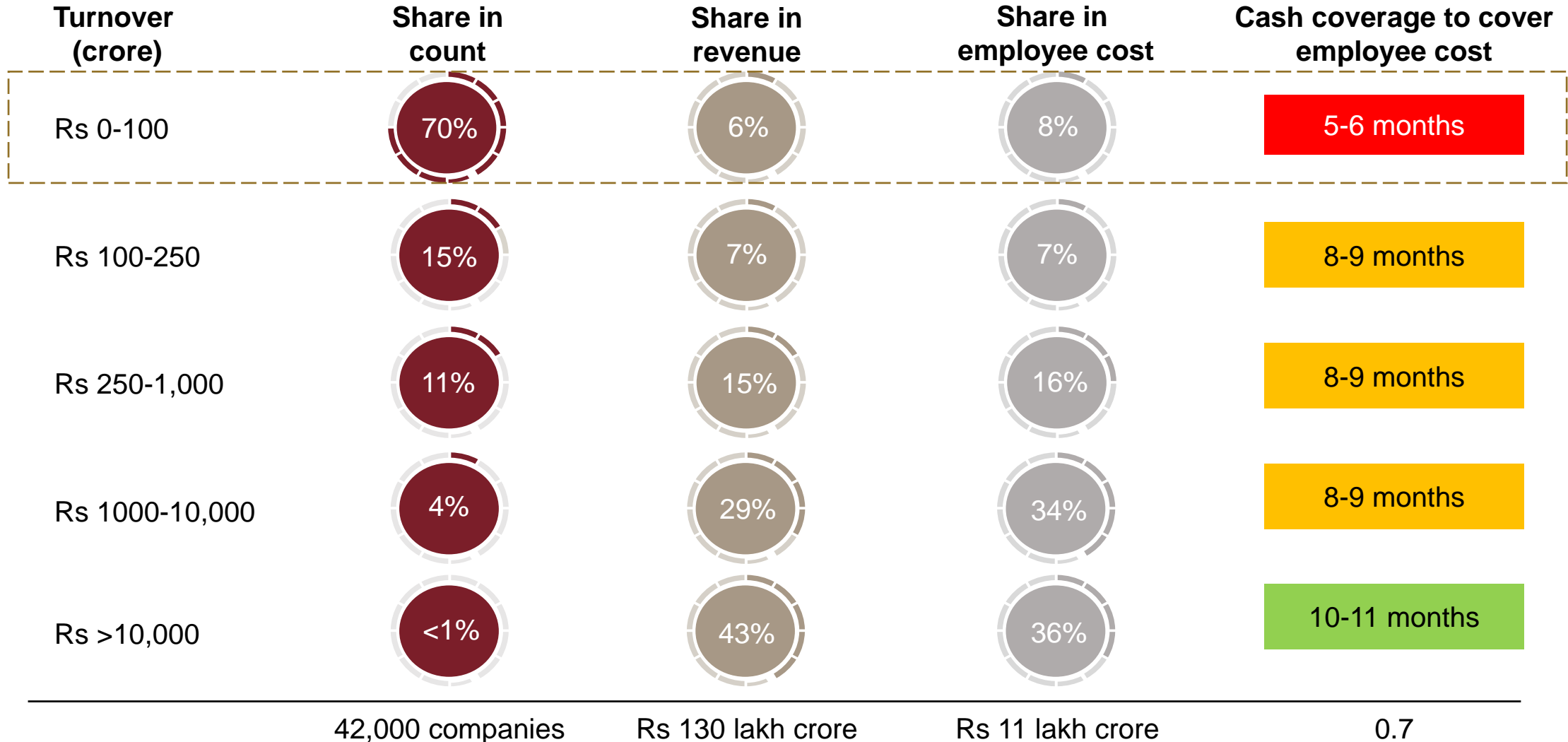


“Note: Based on disbursements as of fiscal 2019”

Source: CRISIL Research

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# About 70% of 40,000 companies have cash to cover employee cost for only two quarters, most being MSMEs



\*Cash coverage to employee is months till total cash and bank balance will last to only pay employee cost. It doesn't take into account other liabilities and fixed costs.

Source: Company reports, CRISIL Research

# Government support in the right direction

- Support MSME lending growth



Rs 3 lakh crore collateral-free loan

Rs 5,000 crore facility announced for small vendors



- Modus operandi and more details about this scheme awaited

**Government support to MSMEs**

- Interest burden for FY21 to decline 25-30% compared with FY20



Six-month moratorium

Rs 1,500 crore interest subvention for Mudra Sishu loans



- Mudra loans constitute over 14-15% of MSME lending in India

Rs 20,000 crore subordinate debt for stressed MSMEs



- Infusion by the government to CGTMSE highest in the past two decades
- Represents 60% of cumulative corpus since FY01

# Ear to the ground

A look at what's happening in the upstream supply chain

**Construction:  
Real estate**

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**Automobile  
components**

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**Textiles:  
Readymade  
garments (RMG)**


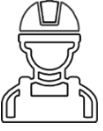







# Discretionary sectors mauled during the lockdown

	Demand impact	Top two challenges	Measures
 <b>Construction: Real estate</b>	<p><b>High</b></p>	<p><b>1] Consumer sentiment</b></p> <ul style="list-style-type: none"> <li>80-85% decline in enquiries</li> <li>Sentiment towards projects in advanced stage better than initial-stage projects</li> <li>Just 40% sites in the green and orange zones operated in May, that too, at ~30% capacity utilisation</li> </ul> <p><b>2] Operational constraints</b></p>	<p><b>Near-term focus area</b></p> <ul style="list-style-type: none"> <li>Offering price discounts</li> <li>New schemes with easy EMI option</li> <li>Offering freebies such as free car parking, stamp duty waiver and modular kitchen</li> </ul>
 <b>Auto components</b>	<p><b>Moderate</b></p>	<ul style="list-style-type: none"> <li>~25% respondents shared concerns on order cancellation</li> <li>~40% respondents informed about order deferral by original equipment manufacturers (OEMs)</li> <li>Units in the green and orange zones operated at ~35% utilisation in May</li> </ul>	<ul style="list-style-type: none"> <li>Meeting existing orders</li> <li>Adopting lean manufacturing process</li> </ul>
 <b>Textiles: RMG</b>	<p><b>Moderate</b></p>	<ul style="list-style-type: none"> <li>Kids' wear saw more demand than women's and men's wear</li> <li>~70% reported cancellations in export orders</li> <li>Units in the green and orange zones operated at ~40% utilisation in May</li> </ul>	<ul style="list-style-type: none"> <li>Meeting existing orders</li> <li>Adopting digital selling</li> </ul>



# Supply-side challenges spurted during April-May




	 % of migrant labour (approx)	 Labour availability	 Logistics issues	 Raw material availability	Plan to hire more local labour to tide over migrant labour crisis
 <b>Construction: Real estate</b> <ul style="list-style-type: none"> <li>• Metro cities</li> <li>• Non-metro cities</li> </ul>	65%-75%	High	Moderate	Low	Yes
		High	High	Moderate	
 <b>Auto components</b>	25%-35%	Low	Moderate	Moderate	No
 <b>Textiles – RMG</b>	50%-60%	High	Moderate	Moderate	Yes

■ 0%-30%    
 ■ 30%-60%    
 ■ 60%-100%

Percentages indicate respondents

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# Majority face liquidity stress, are desperate for funds

Sectors	Moratorium availed	Stretched receivables	Inventory build-up	Measures to mitigate liquidity crisis		Need for external funds
 <b>Construction (real estate)</b>	45%	30-60 days	High	1 Infusion from promoters	2 Unsecured loans from related parties	Immediate
 <b>Auto components</b>	38%	30-60 days	Moderate	Cash and bank balances	Unsecured loans from related parties	2-3 months
 <b>Textiles (RMG)</b>	32%	> 60 days	High	Cash and bank balances	Unsecured loans from related parties	1-2 months



- 80% plunge in monthly collections
- Increase in cancellations in the residential segment



- Raw material inventory pile-up due to lockdown
- Majority receivables outstanding for manufacturers supplying to the aftermarket

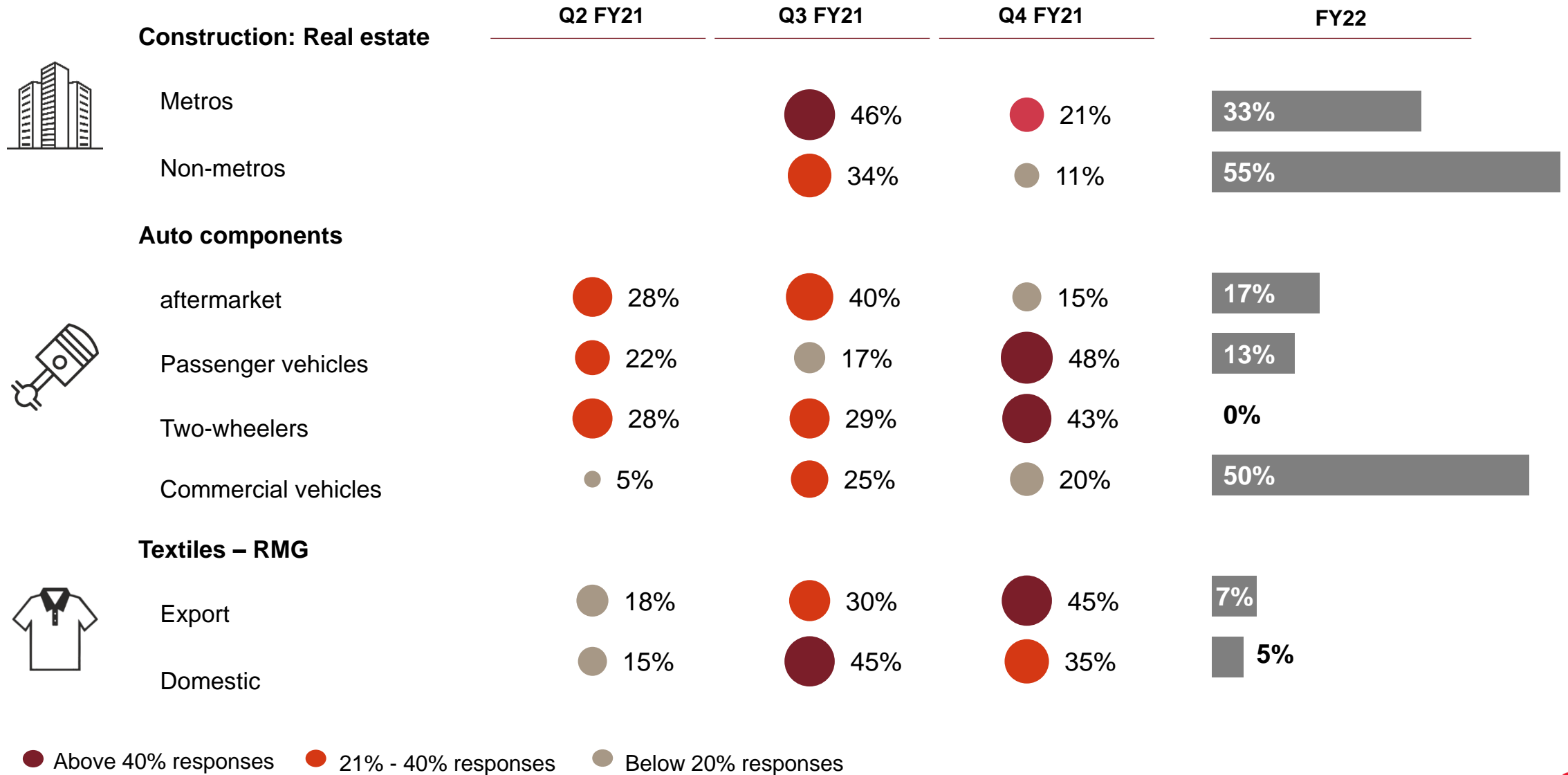


- High inventory pile-up due to unsold summer wear
- Majority of receivables outstanding from exporters

■ 0%-30%   
 ■ 30%-60%   
 ■ 60%-100%

Percentages indicate respondents

# Demand expected to bounce back from the third quarter

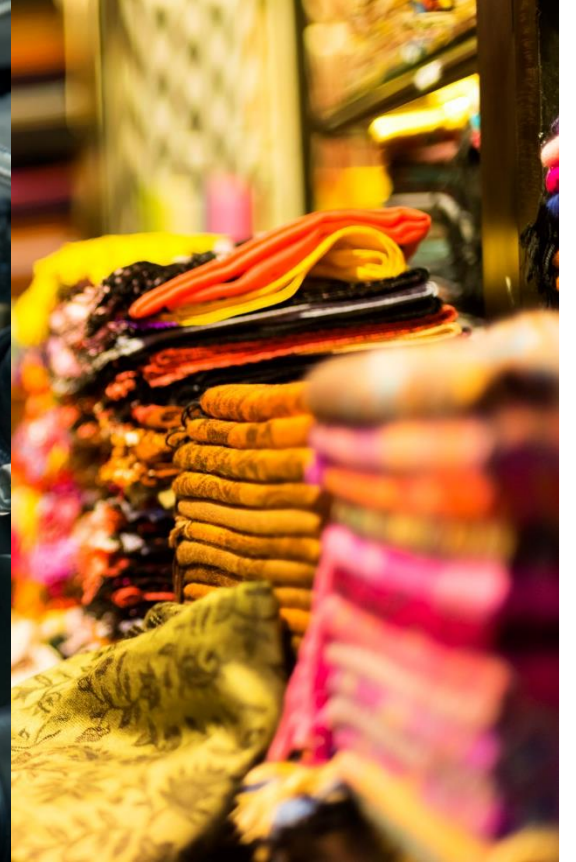


# Deep dive into upstream supply chain

Construction:  
Real estate

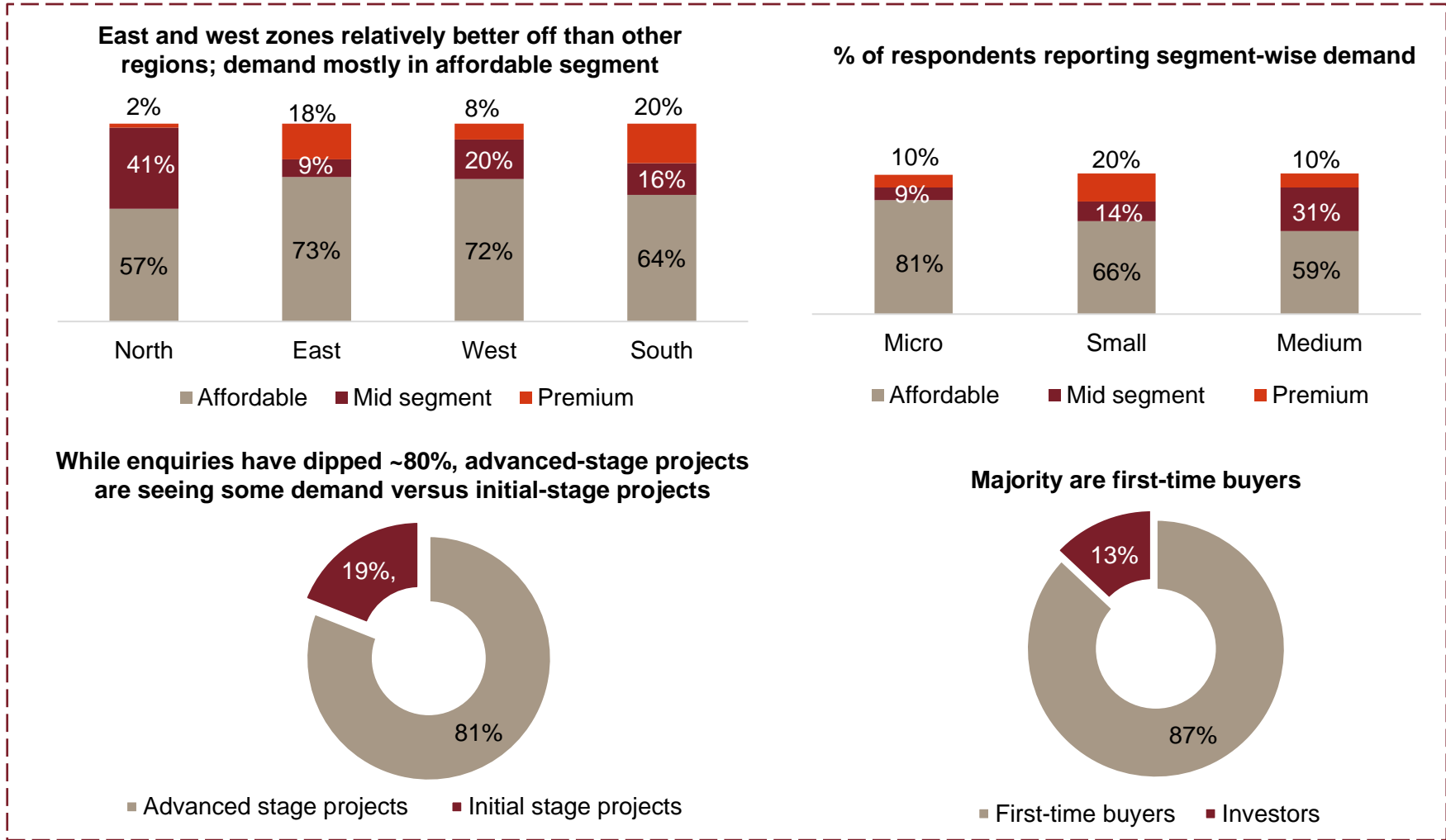
Automobile  
components

Textiles: RMG



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# Overall demand down, advanced-stage projects less roiled

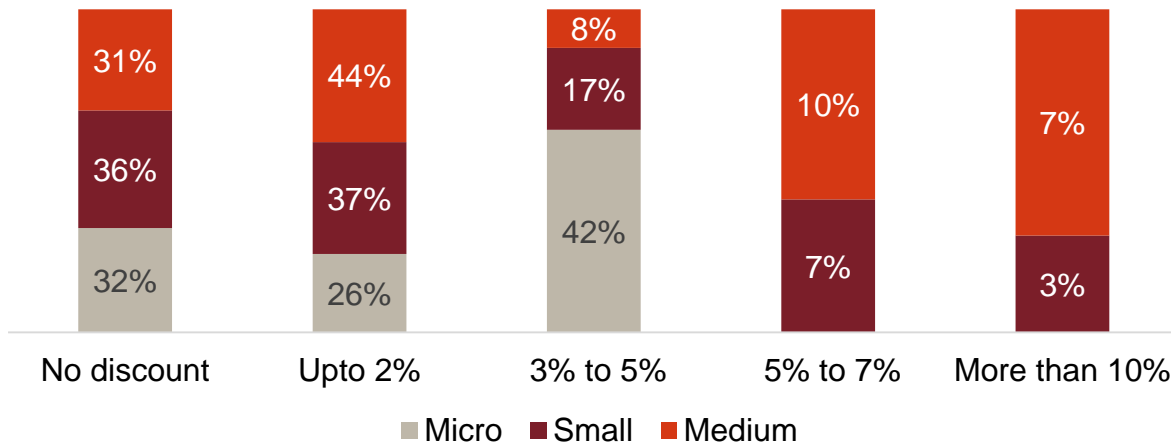


- Overall, 80-85% fall in demand seen across segments
- Due to uncertainties and project delays, buyer preference tilted towards advanced-stage projects
- Affordable projects account for majority of the demand
- Most of the demand is coming from end-users
- Investors, speculators are clearly out of market. North, an investor-driven market, has seen a sharp decline

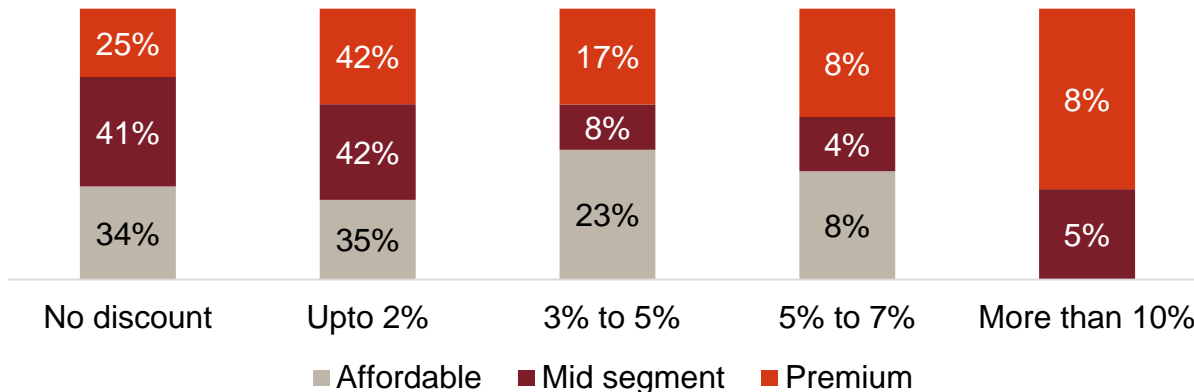
Percentages indicate respondents

# Bigger players more desperate to attract buyers

Small and medium companies offering higher discounts than micro ones



Discounts in mid- and premium segments higher than in affordable

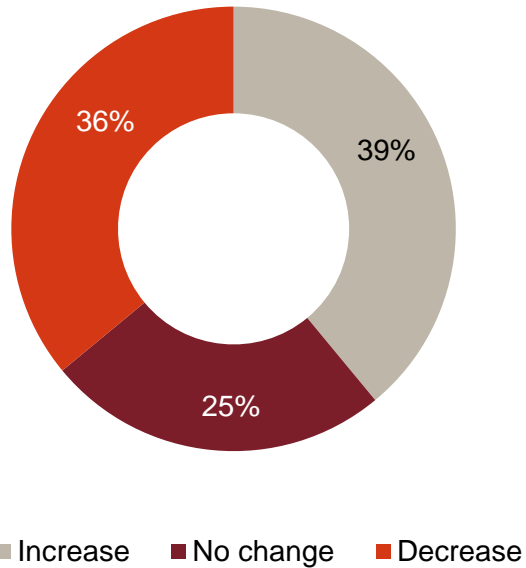


Percentages indicate respondents

- Small and medium-sized companies are offering higher discounts compared with micro ones
- Majority of premium and mid-segment respondents are offering higher discounts compared with those in the affordable segment
- Because of decline in demand, developers are willing to offer various schemes and options such as easy instalments, stamp duty waiver, and freebies such as free car parking

# Mid- and premium segments see better sales growth expectations this year

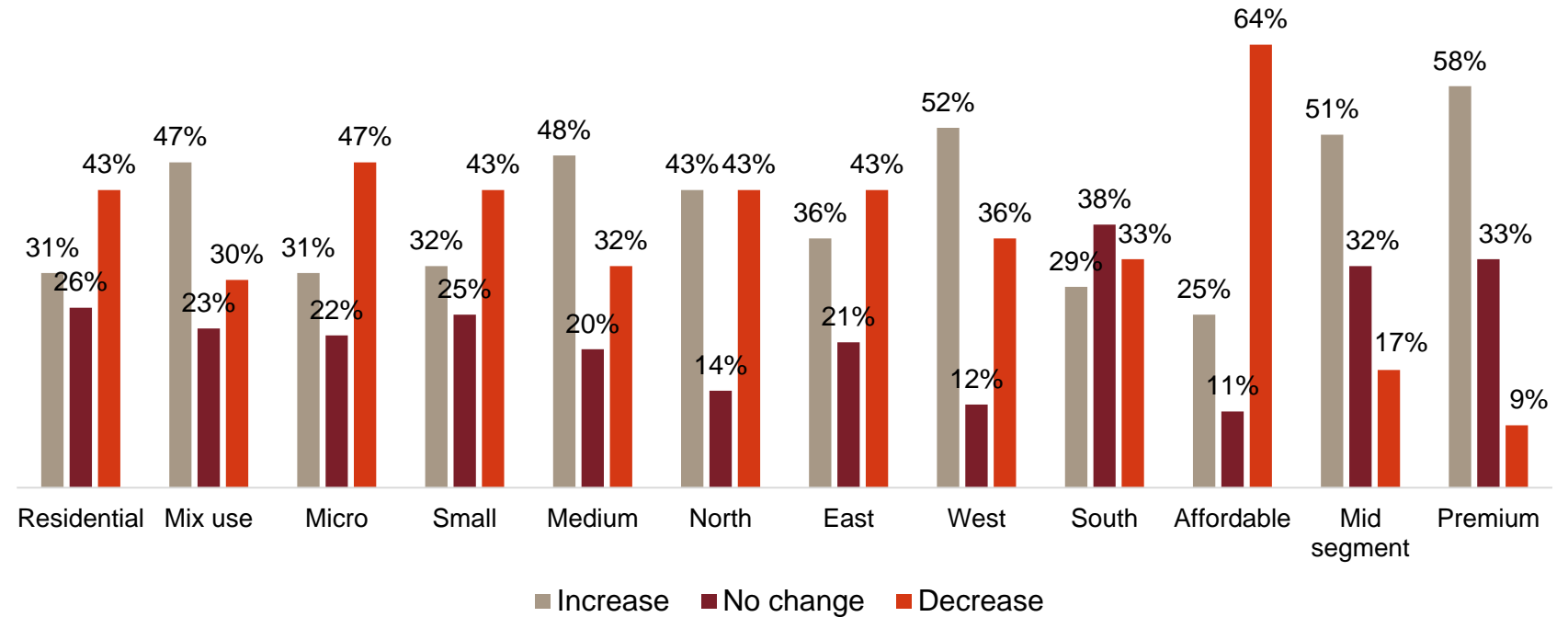
Majority of respondents indicated increase in sales growth this year



39% of respondents have positive sales growth expectation for FY21, while 36% have negative sales growth expectations

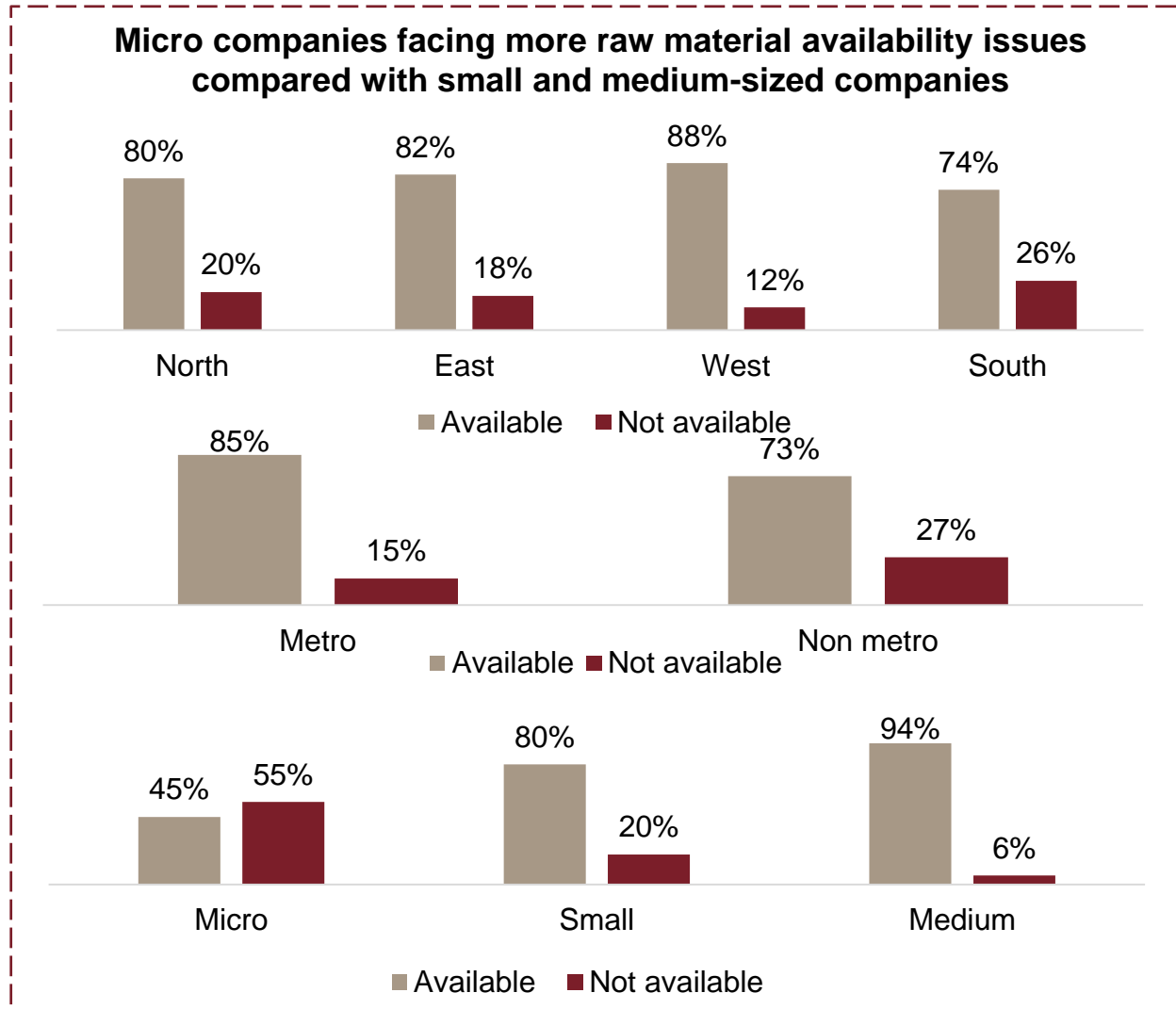
Percentages indicate respondents

Respondents in premium segment are expected to have higher positive sales growth



Premium segment believes there will be positive sales growth due to better buyer profile  
Micro-sized companies foresee sharper decline in sales growth

# Short-term supply shock may spur price fluctuations



Percentages indicate respondents

Micro companies facing major challenges in raw material availability because of their low inventory-holding capacity and bargaining power with suppliers compared with small and medium peers

Steel and cement, the major components for real estate construction are witnessing price fluctuations in some micro markets

Supply of finishing material for construction sites also seeing disruption because of transportation and logistic challenges during lockdown



# Migrant labour unavailability an overarching worry

Construction is highly labour-intensive, and real estate projects face major labour availability issues

Non-local labour constitutes 65-75% of the workforce at typical projects, which is the major reason for labour unavailability

Majority of respondents expect increase in labour cost, i.e. per-day wages

3-5% increase in labour cost seen as hiring gangs with more wages or local labour gangs may lead to an increase in wages

~42% of the developers plan to hire additional labour gangs and ~43% plan to allow gangs to work in shifts, maintaining social distancing

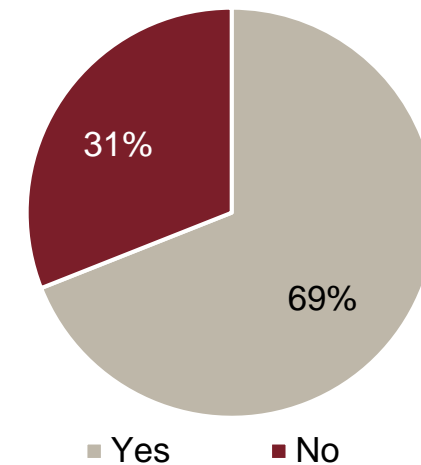
Minimum assured wages via MNREGA may result in labourers unwilling to travel far from their homes, which could put developers in a spot of bother

Percentages indicate respondents

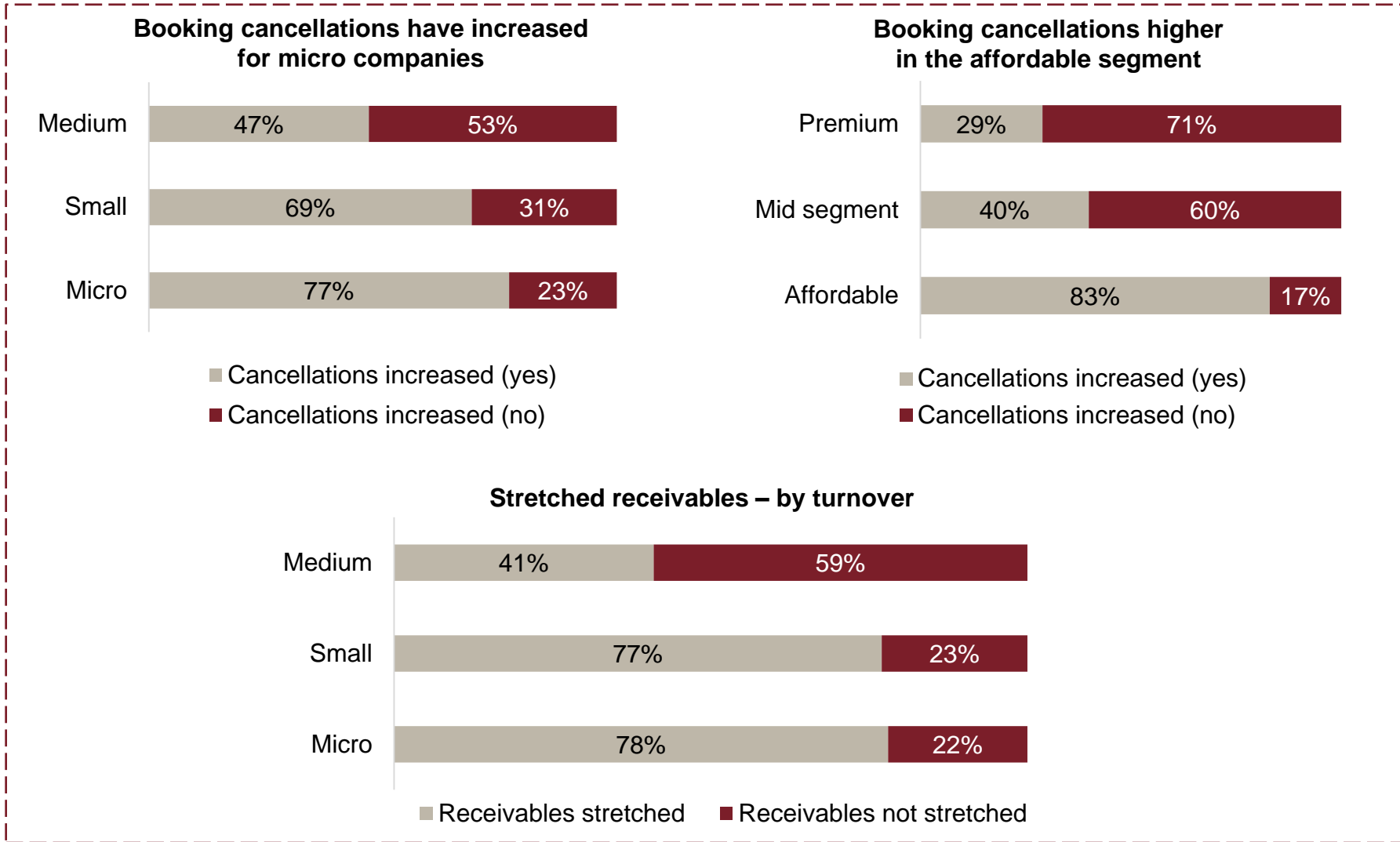
### Labour availability: Major challenge across cities



### Labour composition mix expected to change



# Small realtors see more liquidity stress; booking cancellations worsen pain for affordable segment



Percentages indicate respondents

- Micro and small realtors are seeing a wider stretch in their receivables compared with medium-sized ones
- Booking cancellations have increased for the affordable segment mainly due to the current job uncertainty among lower- and middle-class buyers
- The residential segment is witnessing an increase in cancellations compared with the mixed-use segment

# Receivables stretch more for micro companies and non-metros

	Inventory build-up	Stretched receivables
Metro	High	30-45 days
Non-metro	Moderate	30-60 days

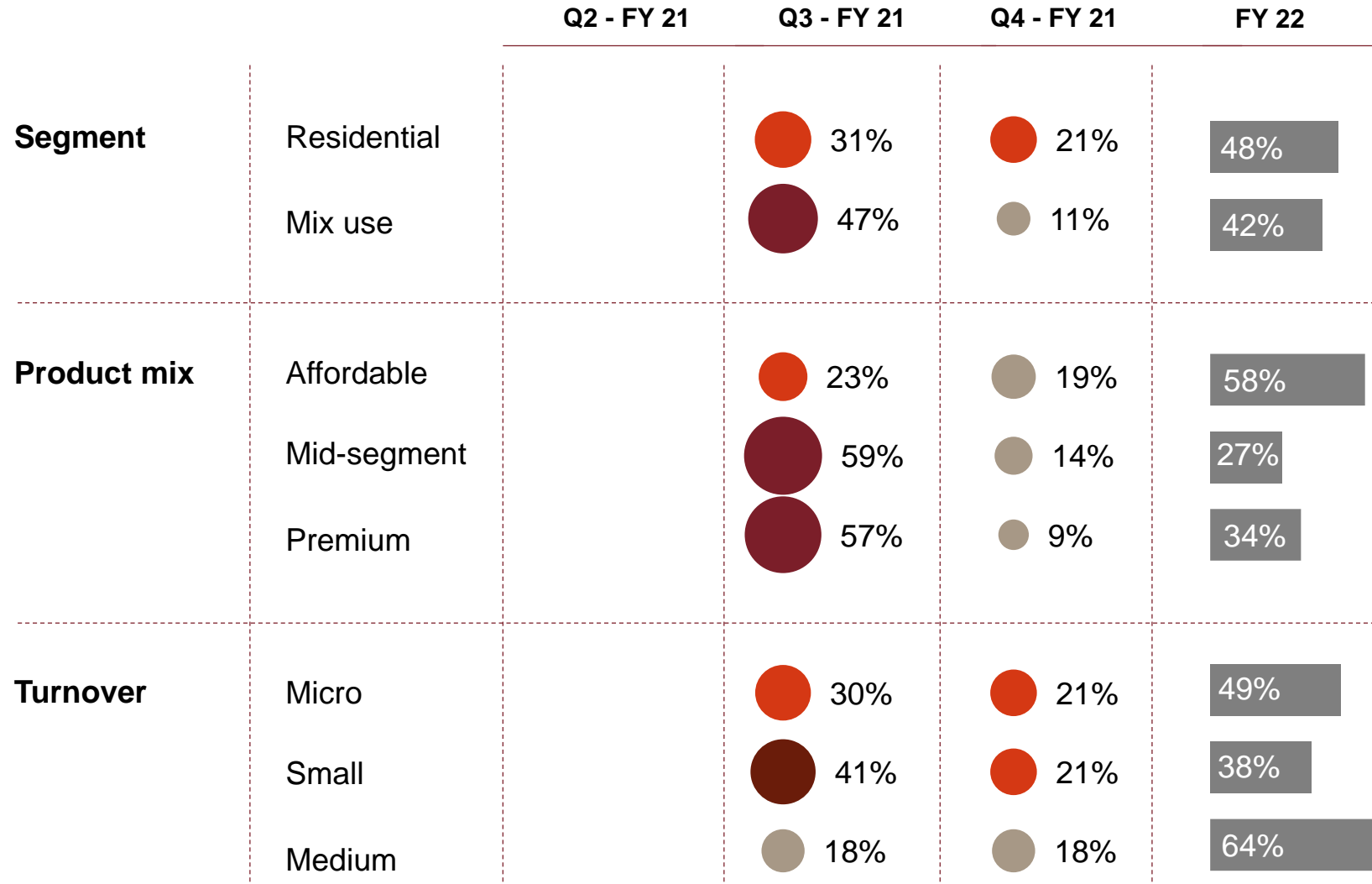
	Inventory build-up	Stretched receivables
Micro	Moderate	30-60 days
Small	High	30-60 days
Medium	High	30-45 days

More than 2/3<sup>rd</sup> of respondents are in immediate need of funds to meet their financing requirements

■ 0%-30%    
 ■ 30%-60%    
 ■ 60%-100%

Percentages indicate respondents

# Demand recovery expectations vary based on segment, product mix and turnover



● Above 40% responses    
 ● 21-40% responses    
 ● Below 20% responses

## Recovery expectations

### Q3FY21

Majority of respondents indicate that realtors in mixed-use segment are better placed than the ones operating only in residential segment

### Q3FY21

Majority of respondents indicate that mid- and premium segments are better placed than the affordable segment

### Q3FY21

Majority of respondents indicate that micro and small companies are better placed than medium-sized companies

# Aatmanirbhar Bharat scheme and further expectations

## Schemes realtors voted as the most impactful



Extension of loan moratorium

Extension of RERA deadlines

EPF support for business and workers

## Schemes in which realtors expect more action

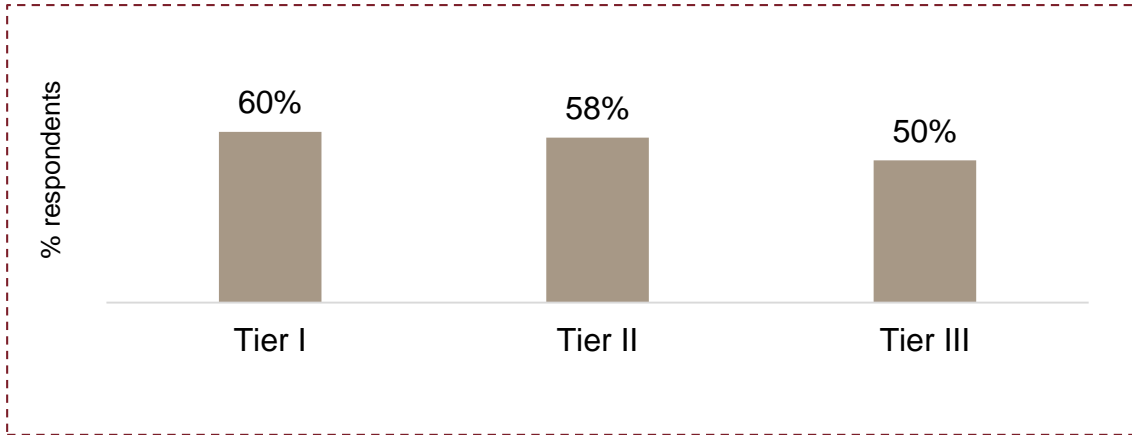


Further extension of loan moratorium

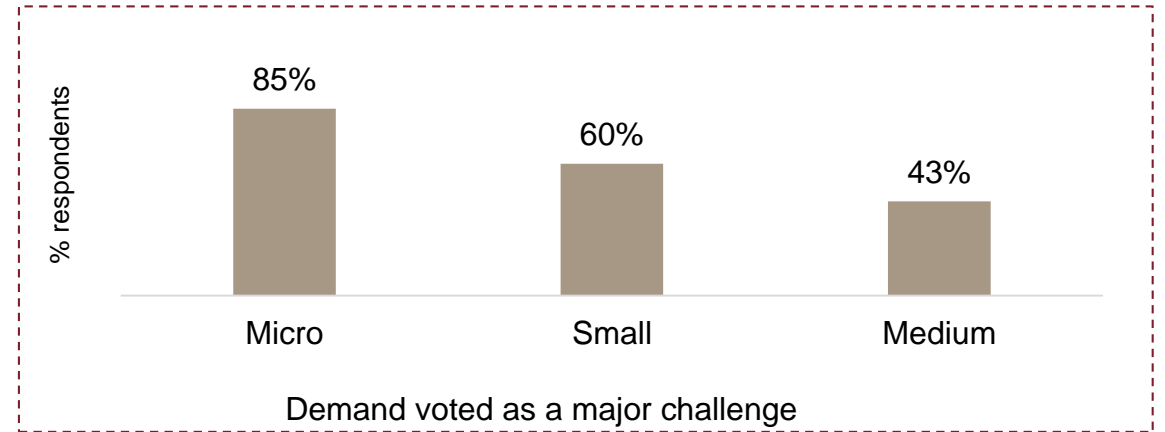
Reduction in stamp duty and registration charges

# Demand decline a challenge across segments but Tier-III suppliers, medium enterprises less downbeat (1/2)

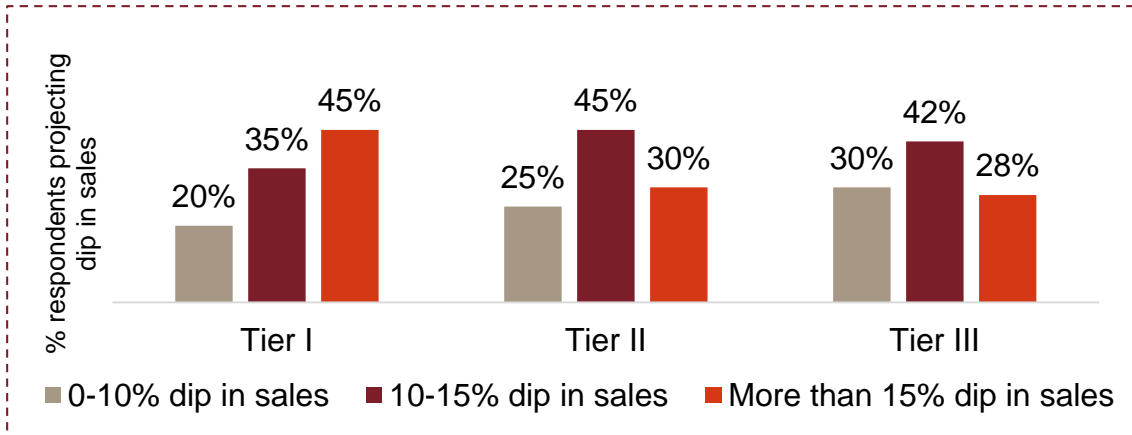
Demand voted as major challenge; diversity in revenue stream will come to their rescue



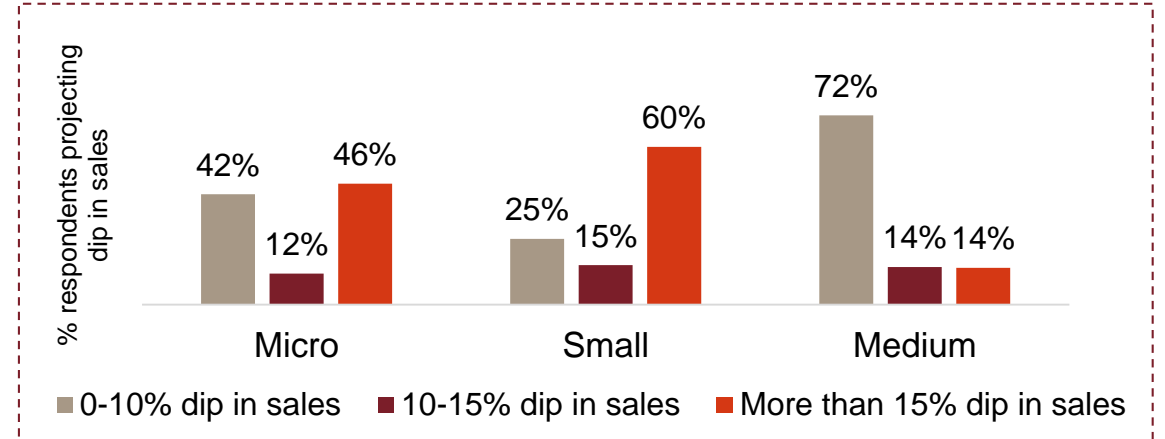
Micro enterprises most concerned about demand



Major Tier-I suppliers project sharper decline in sales compared with smaller ones in the OEM supply chain

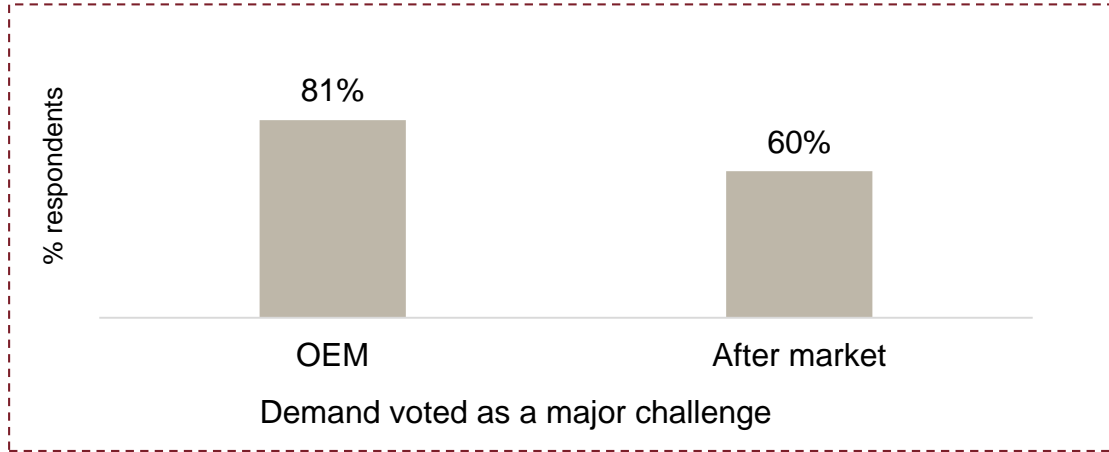


Small enterprises expect the sharpest decline in sales

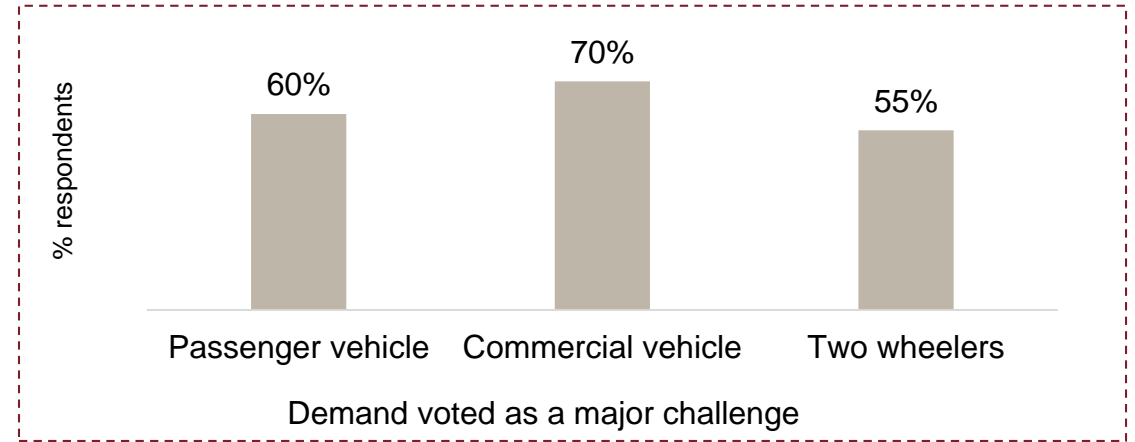


# Despite competition from unorganised units, auto-component makers supplying to the aftermarket are optimistic (2/2)

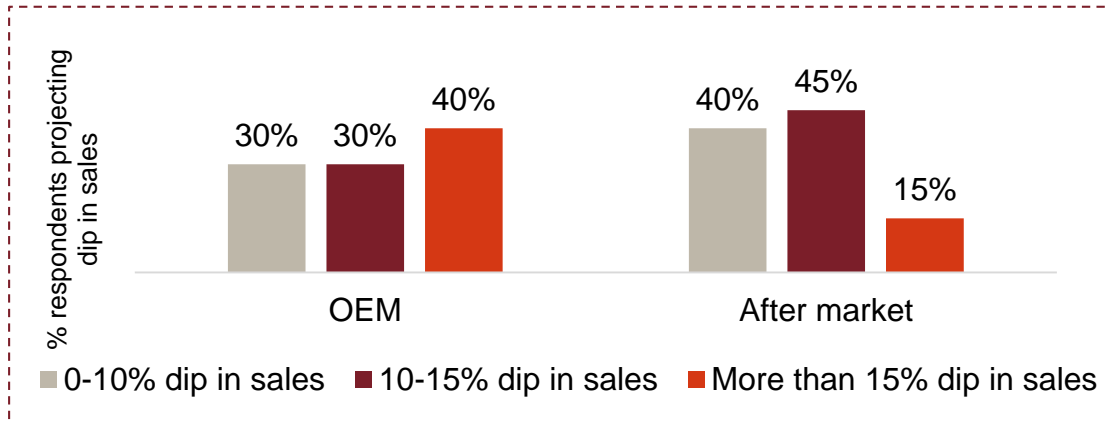
**Manufacturers supplying to OEMs expect a decline in demand from end-user industry**



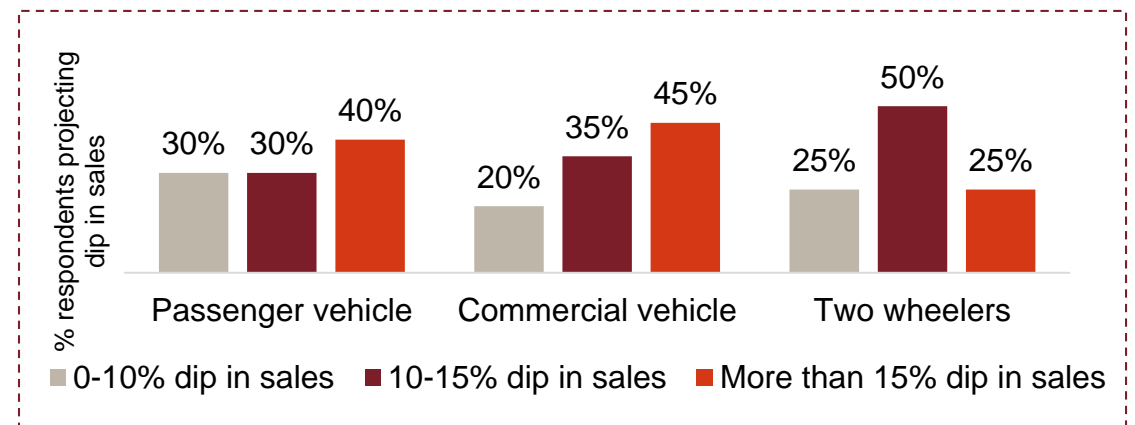
**Component suppliers to two-wheelers to see better demand than their peers who supply to other segments**



**Aftermarket players project a moderate decline in sales despite stiff competition from unorganised players**

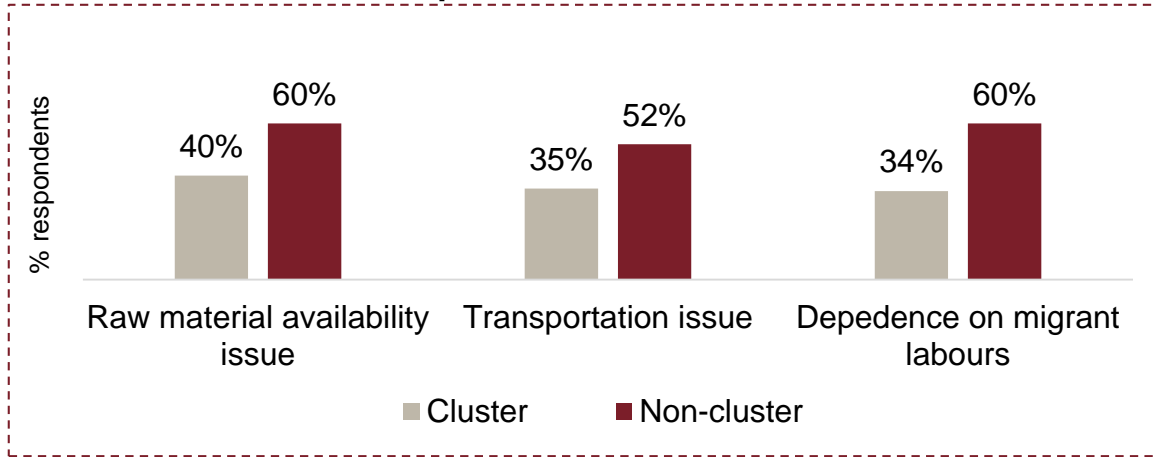


**Component suppliers to commercial vehicles see a tough time due to sales decline**

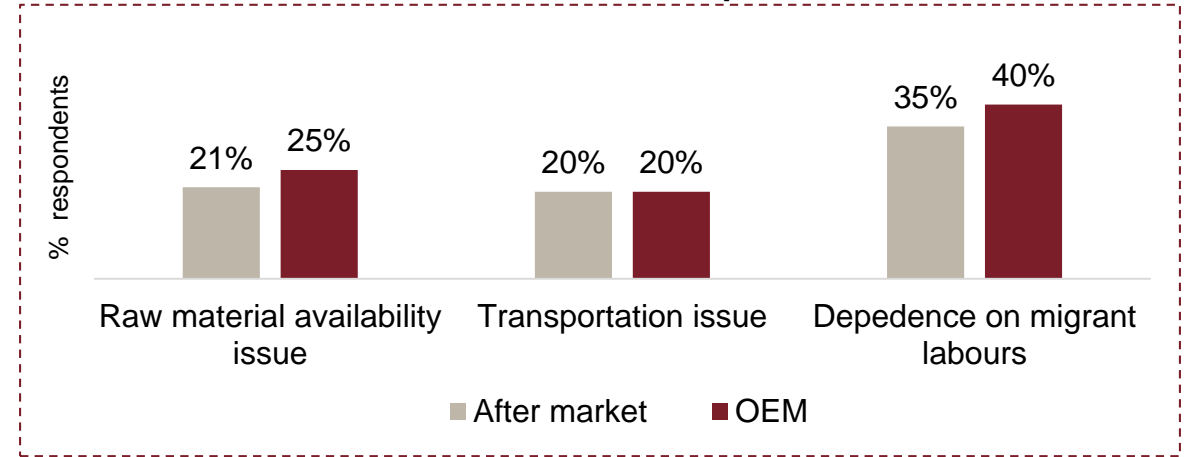


# Cluster-based manufacturers better off on most counts

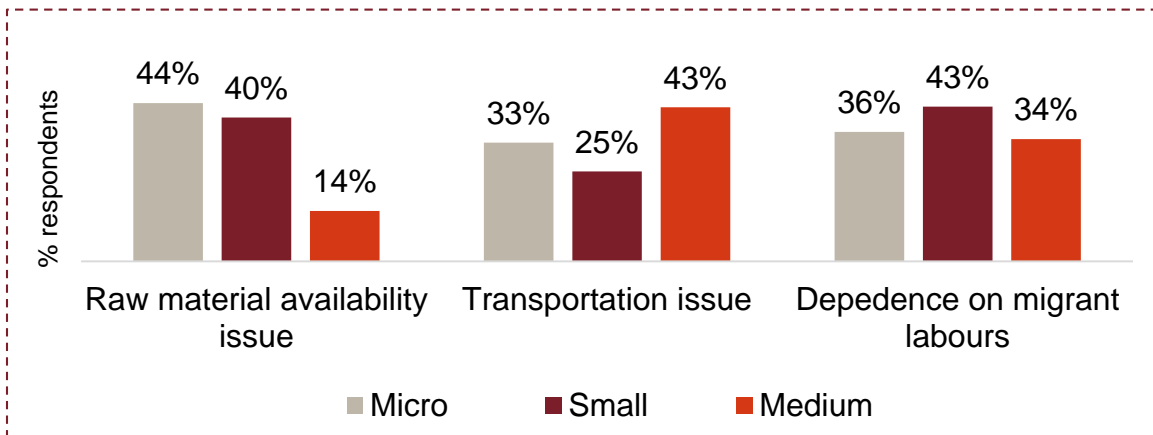
Almost all issues equally excruciating for non-cluster component manufacturers



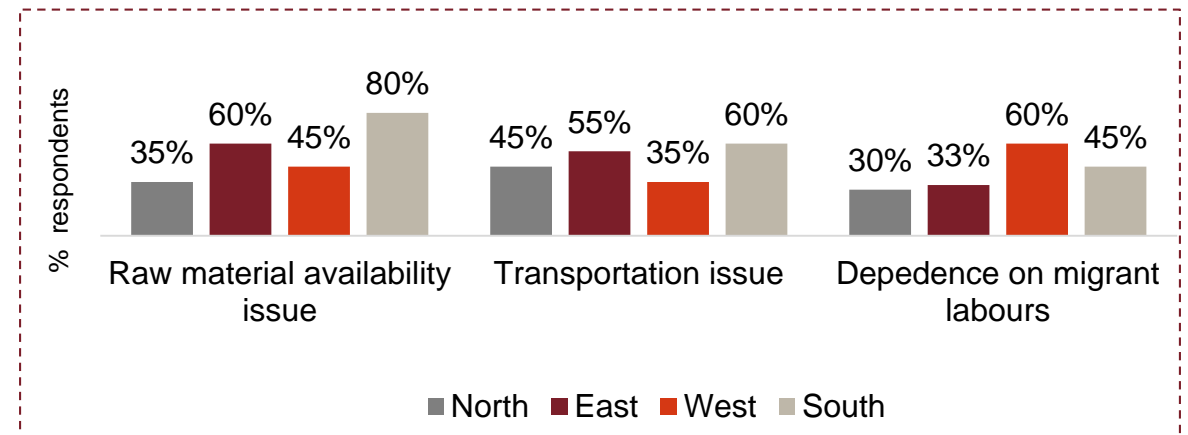
Aftermarket players likely to see slightly less supply disruption than OEM-focussed peers



Raw material availability a major issue for micro enterprises, medium firms flag transportation as a bigger worry



Raw material issue in the south overshadow all other issues across zones





# Auto-component suppliers to the aftermarket may see their working capital being stretched (1/3)

	Supplier to OEM	Supplier to aftermarket	Comment
<b>Stretched inventory</b>	45-60 days	45-60 days	Inventory pile-up mostly pertains to raw material and manufacturers are currently drawing on it
<b>Stretched receivables</b>	30-45 days	45-60 days	Suppliers to OEMs have less stretch in receivables since OEMs are more organized than aftermarket entities
<b>Increase in working capital requirement</b>	<p>Increase by more than 15% 9%</p> <p>Increase by 10-15% 34%</p> <p>Increase by 0-10% 57%</p>	<p>Increase by more than 15% 56%</p> <p>Increase by 10-15% 15%</p> <p>Increase by 0-10% 29%</p>	The overall impact of stretched receivables and inventory has resulted in a ~20% increase in working capital requirement of aftermarket suppliers

\*Stretched inventory and receivable numbers are an average of all responses

Percentages indicate respondents projecting increase in working capital

# Tier-III suppliers facing lengthier stretch in receivables (2/3)

	Tier-I	Tier-II	Tier-III	Comment
<b>Stretched inventory</b>	15-30 days	30-45 days	30-45 days	Inventory pile-up is mostly at Tier-II and Tier-III component suppliers
<b>Stretched receivables</b>	15-30 days	30-45 days	45-60 days	Substantial receivables of Tier-III component suppliers stuck with firms in other industries because of varied usage of their products
<b>Increase in working capital requirement</b>	Increase by more than 15% 28% Increase by 10-15% 35% Increase by 0-10% 37%	Increase by more than 15% 30% Increase by 10-15% 33% Increase by 0-10% 37%	Increase by more than 15% 35% Increase by 10-15% 40% Increase by 0-10% 25%	Working capital requirement of Tier-III suppliers has increased 10-20%

\*Stretched inventory and receivable are average days of all responses

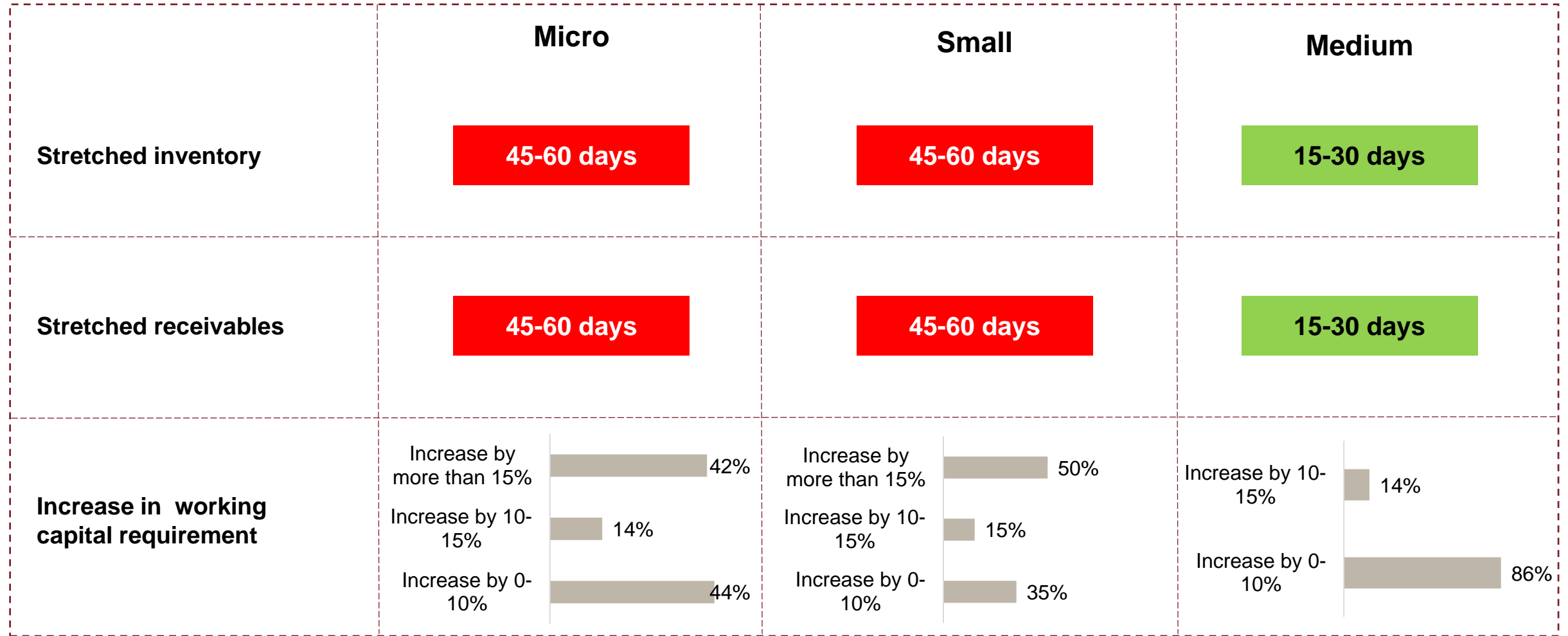
Percentages indicate respondents projecting increase in working capital

# Micro and small enterprises face the lengthiest stretch in receivables and inventory (3/3)

Construction: real estate

Automobile components

Textiles (RMG)

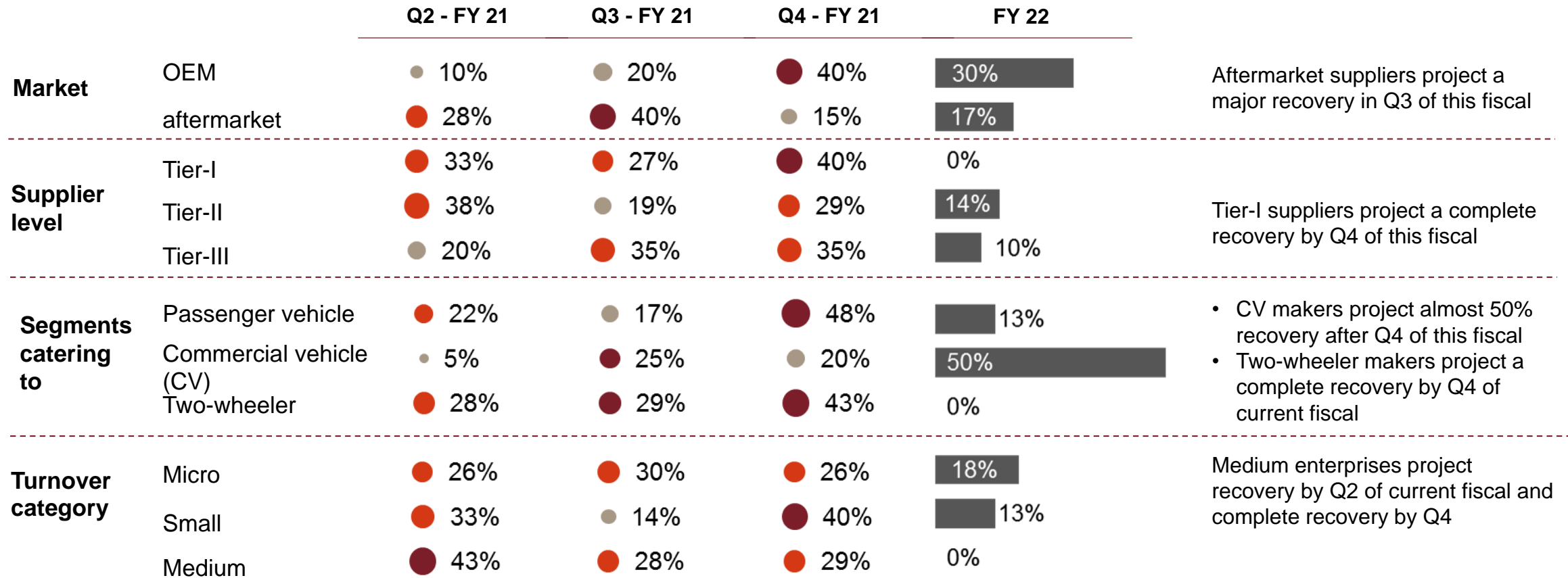


\*Stretched inventory and receivable are average days of all responses

Percentages indicate respondents projecting increase in working capital

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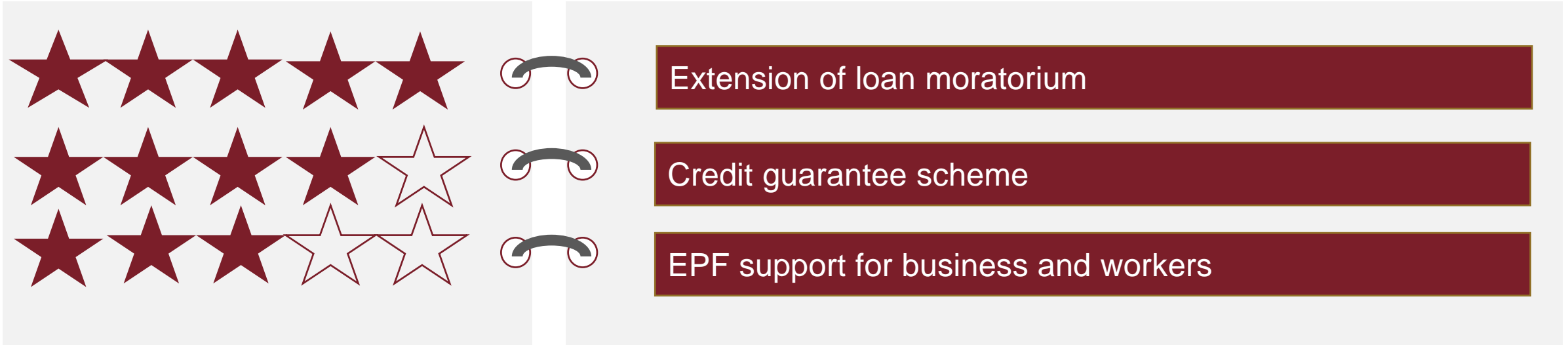
# Improvement in demand expectation a function of market and turnover category



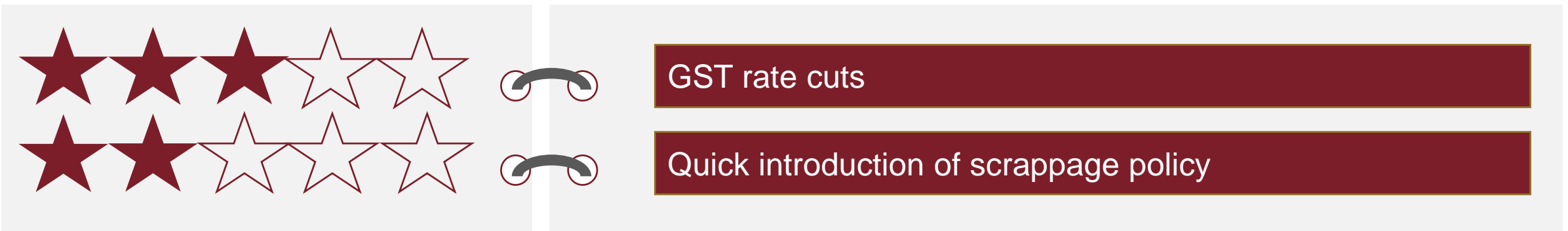
● Above 40% responses    ● 21% - 40% responses    ● Below 20% responses

# Aatmanirbhar Bharat scheme and further expectations

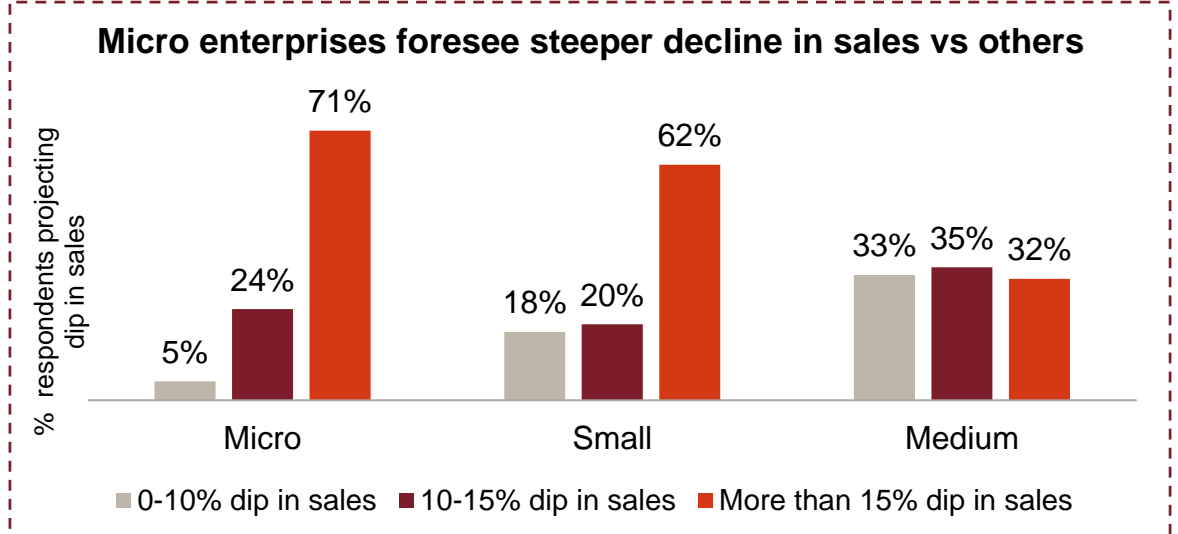
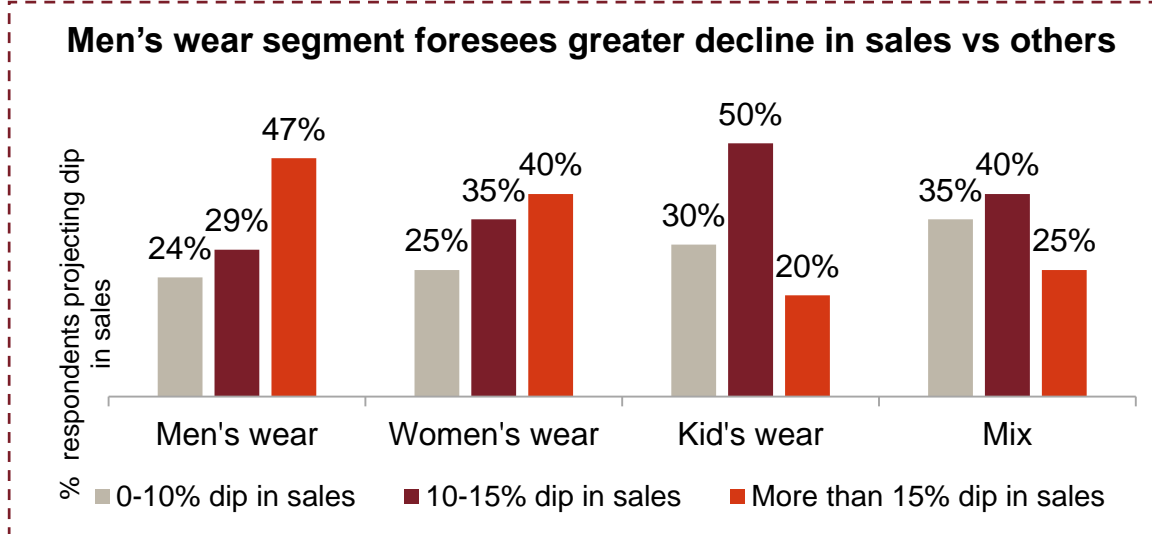
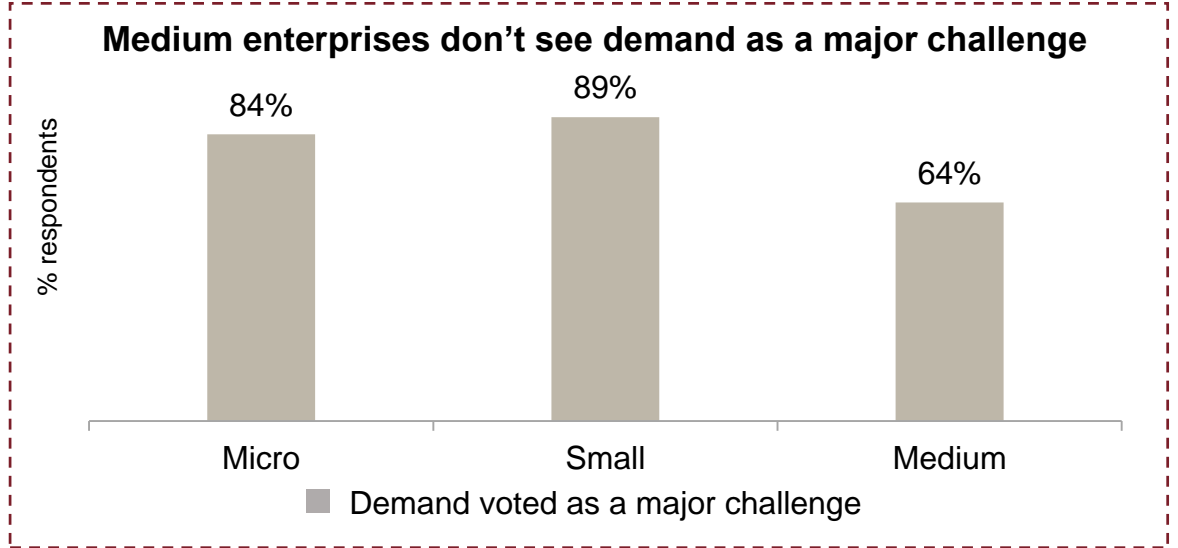
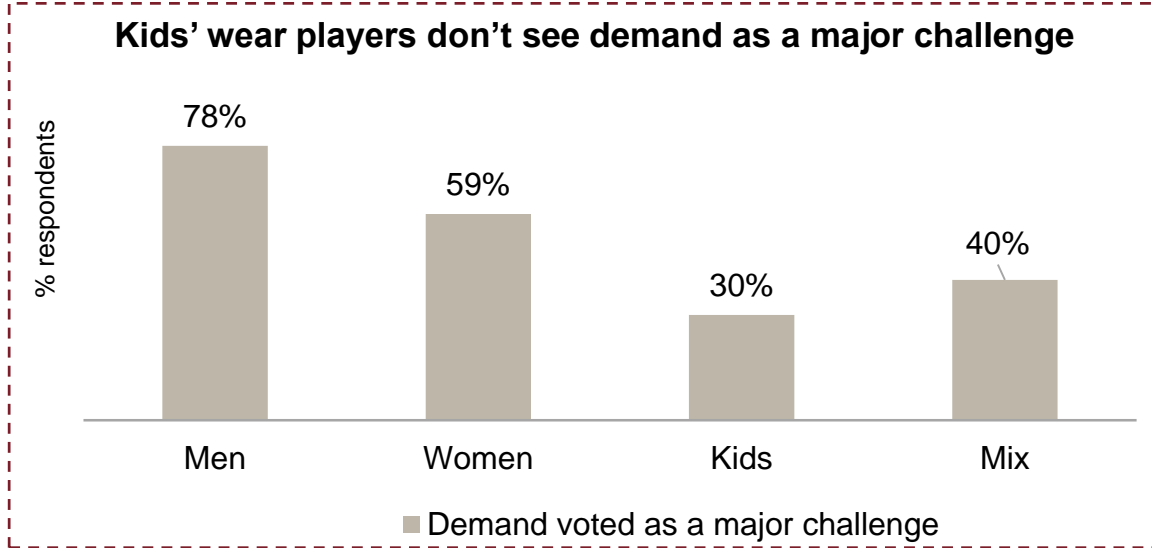
Three schemes for MSMEs that have been voted as most impactful



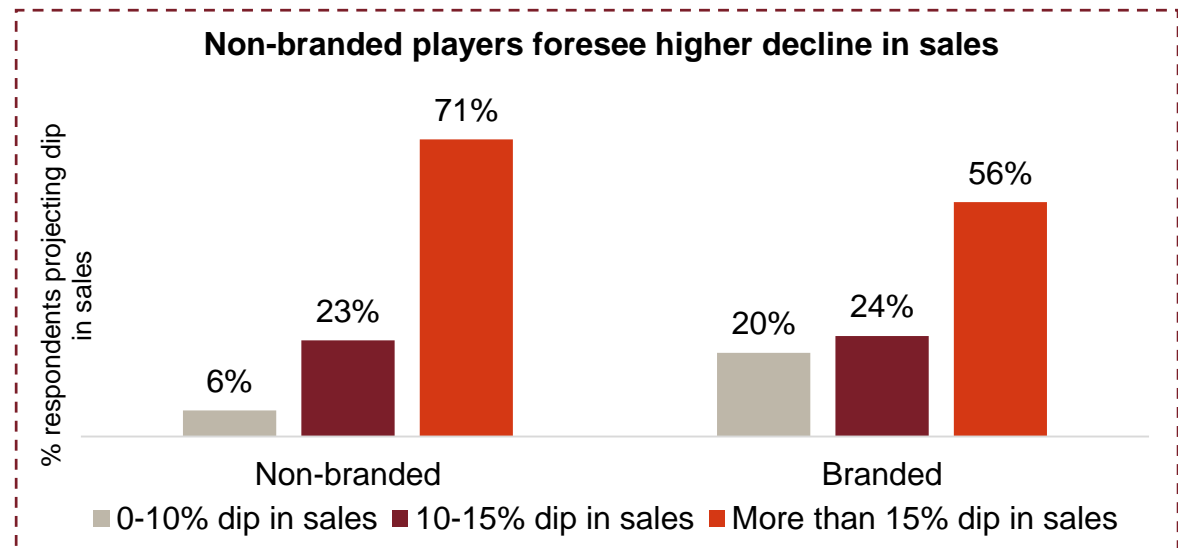
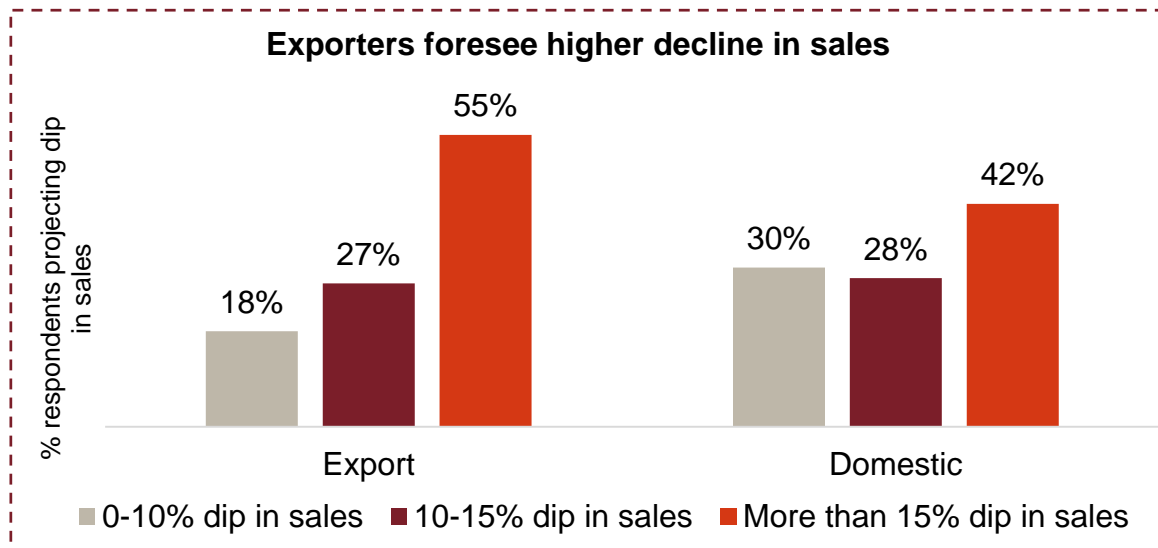
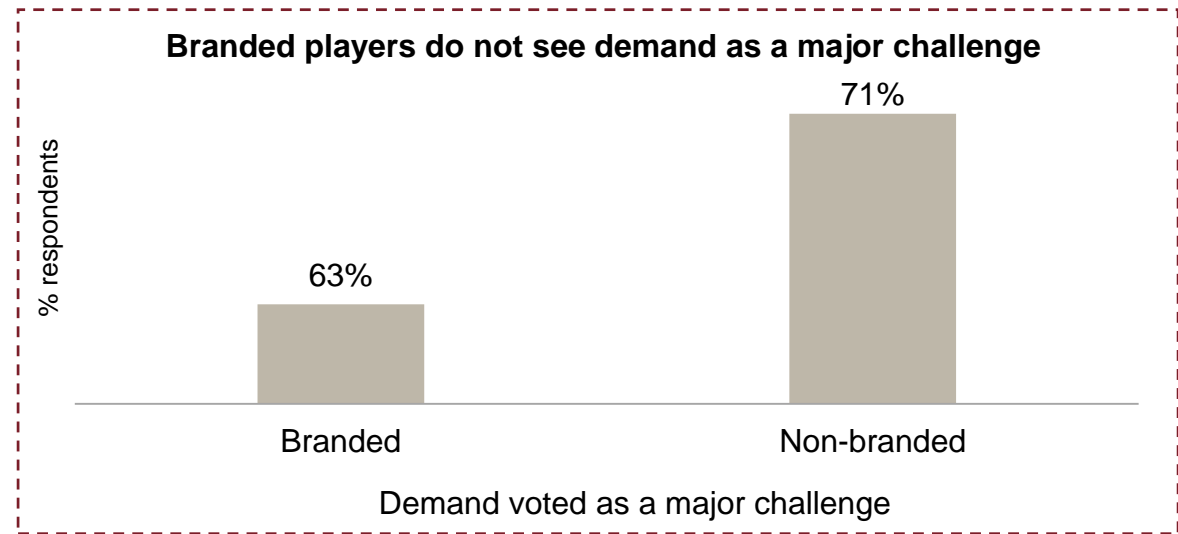
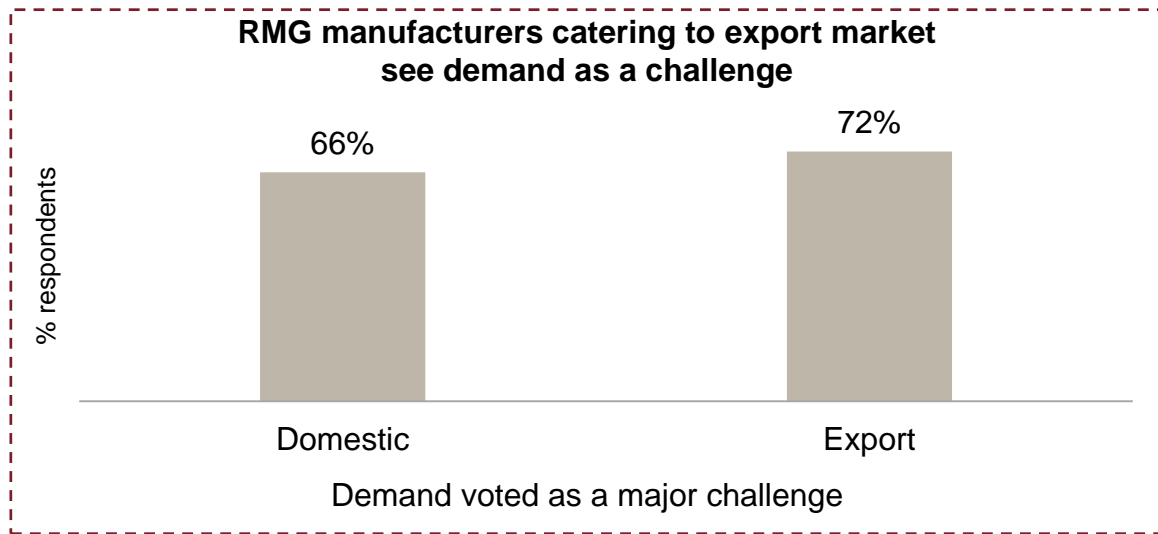
Two factors auto-component makers voted as most essential for revival of demand



# Demand fell across segments after lockdown but sentiment for kids' wear shows resilience (1/2)



# Exporters, non-branded players more worried about demand than firms focussed on domestic market (2/2)

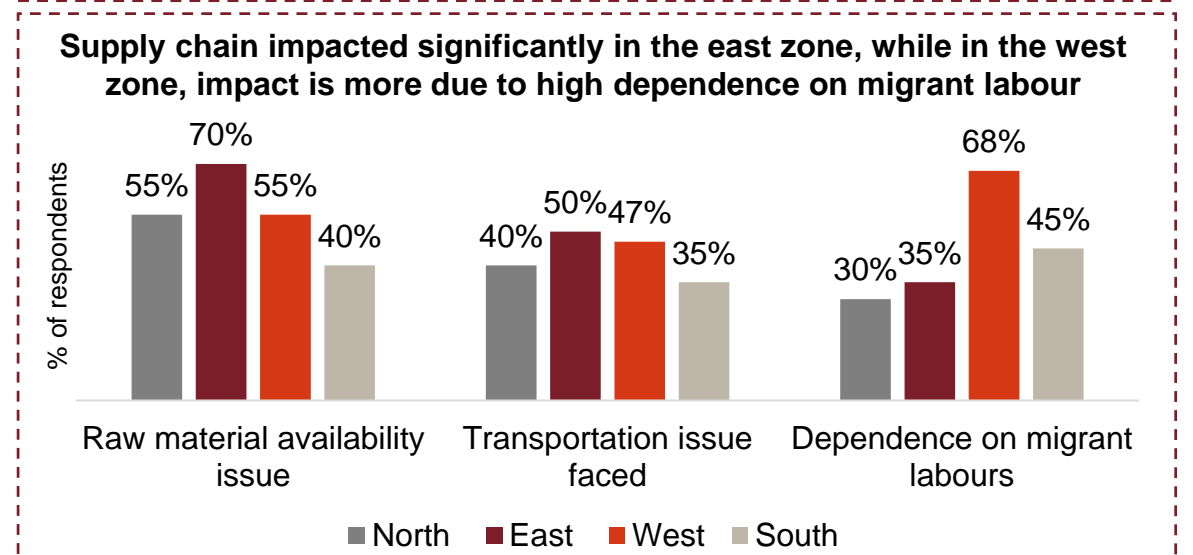
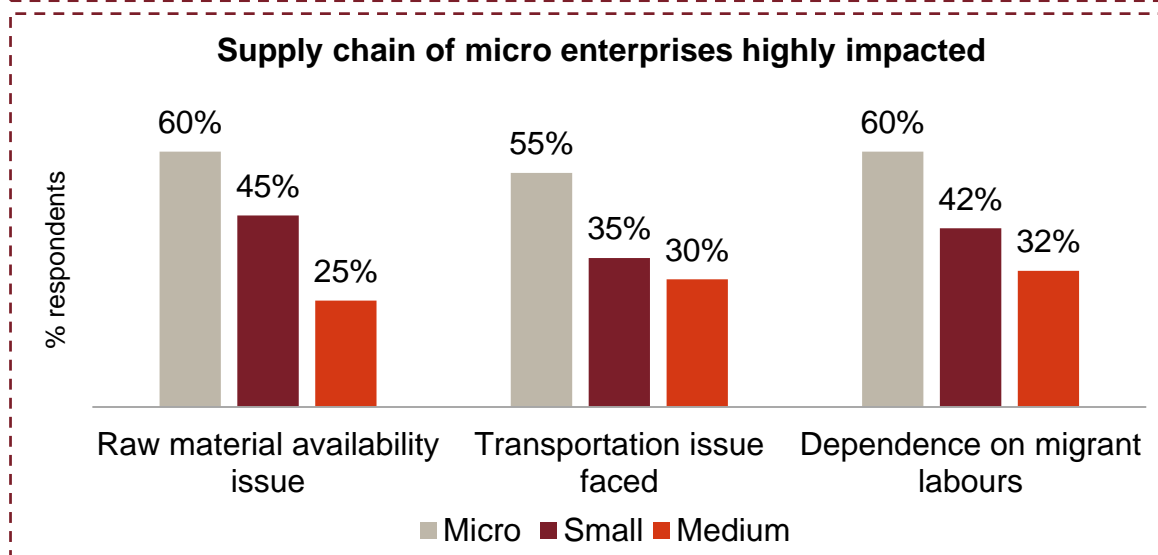
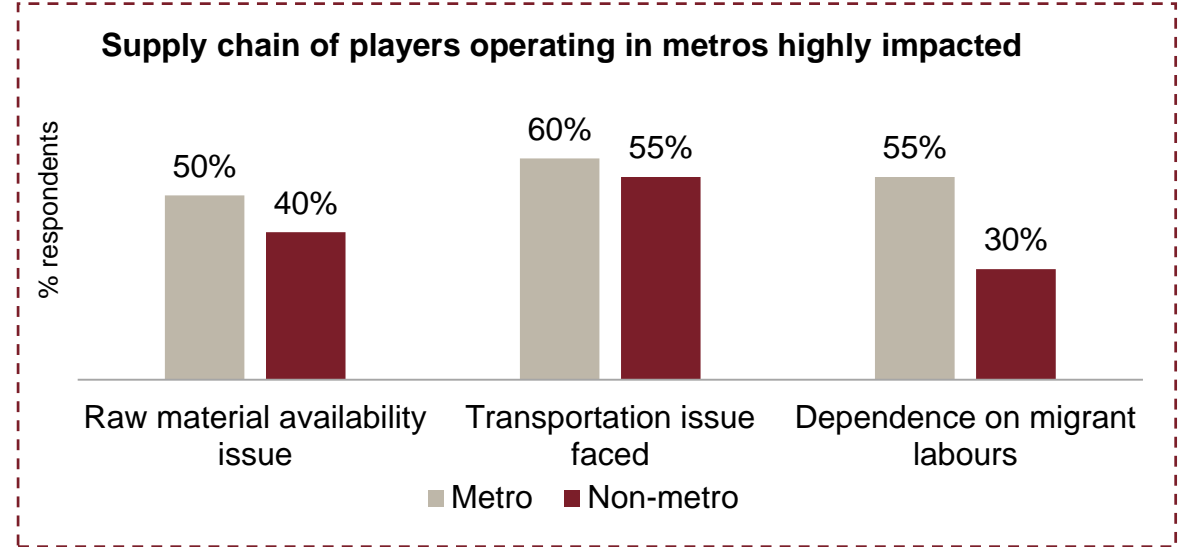
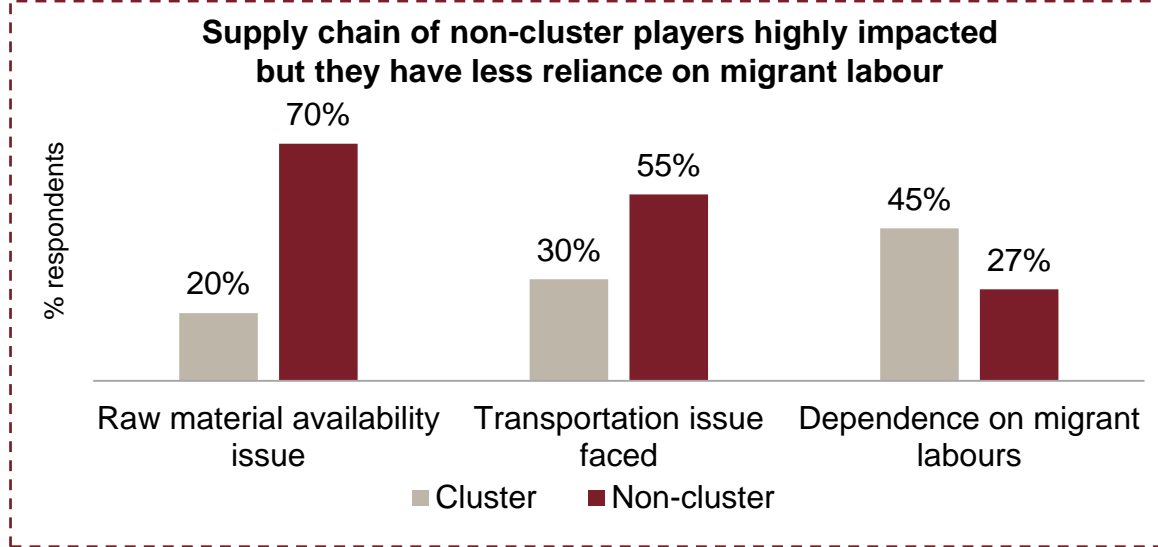


# Firms in clusters better placed to overcome supply chain challenges than standalone players

Construction: real estate

Automobile components

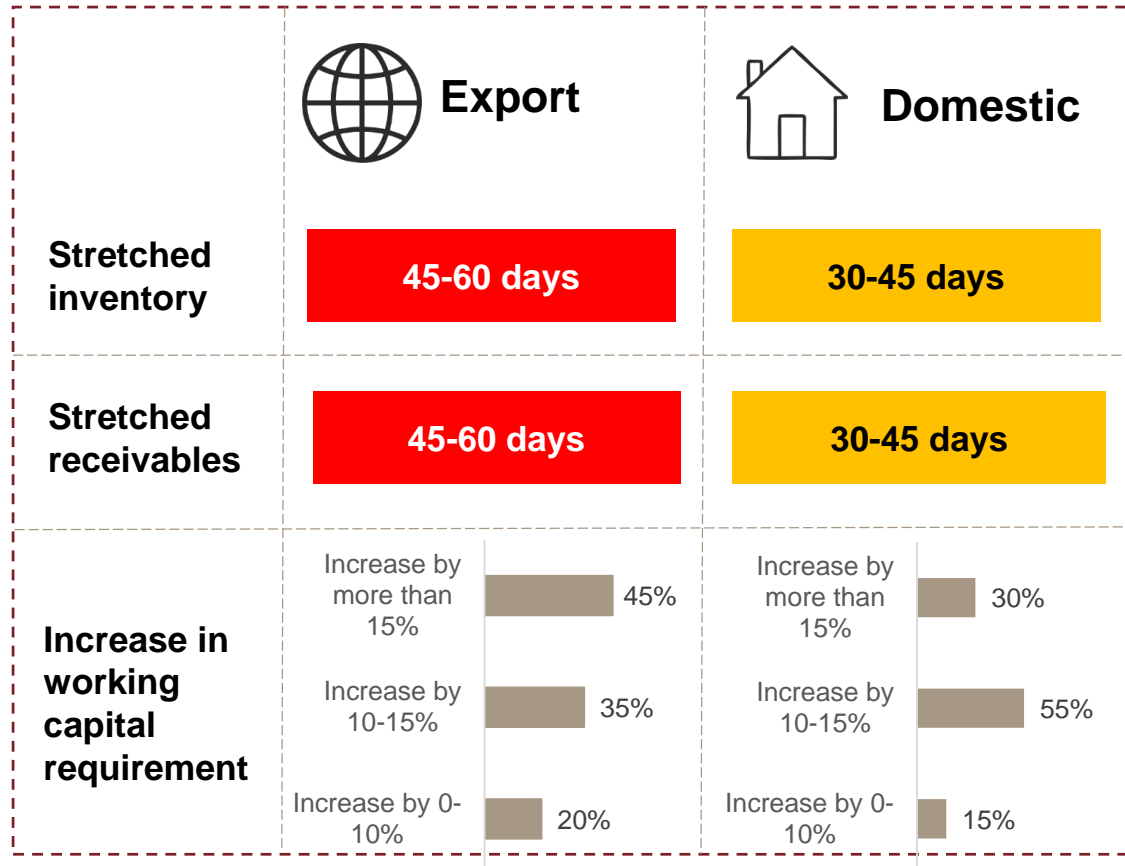
Textiles (RMG)



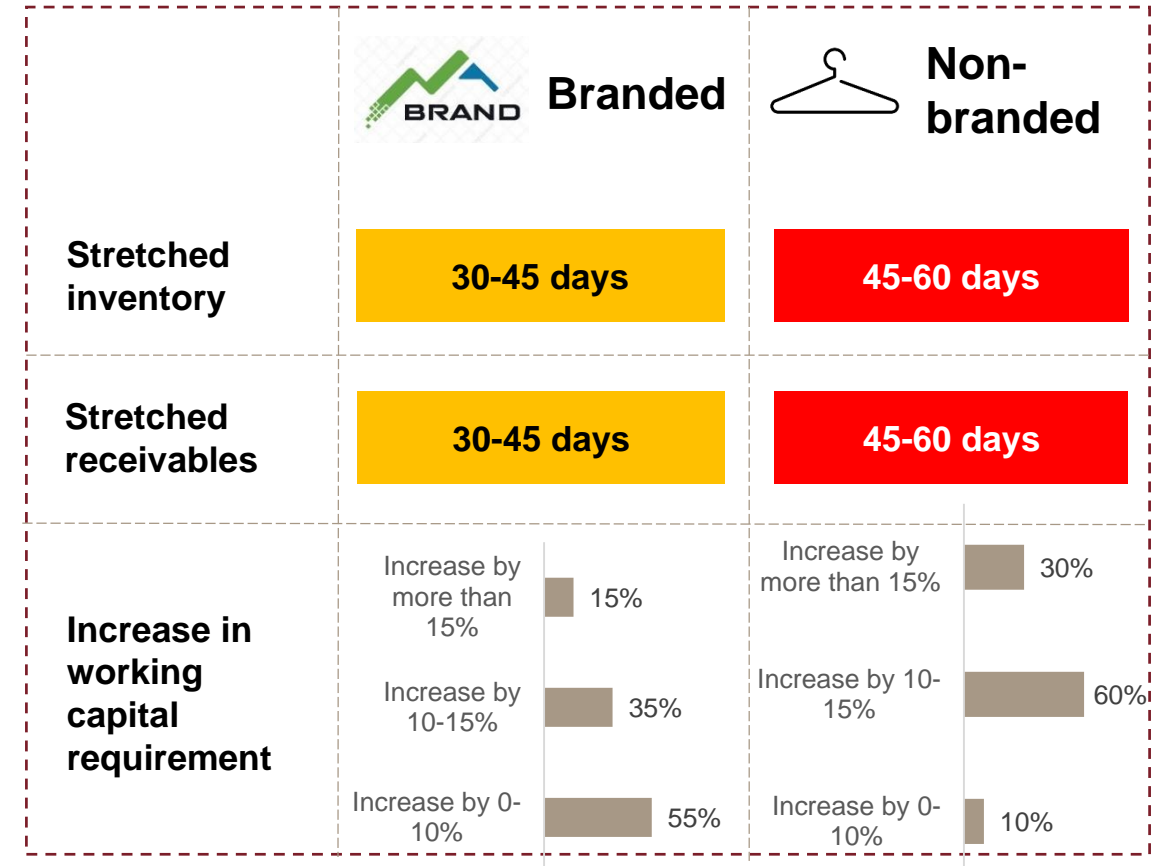
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# Exporters and non-branded apparel manufacturers see stretch in working capital (1/3)

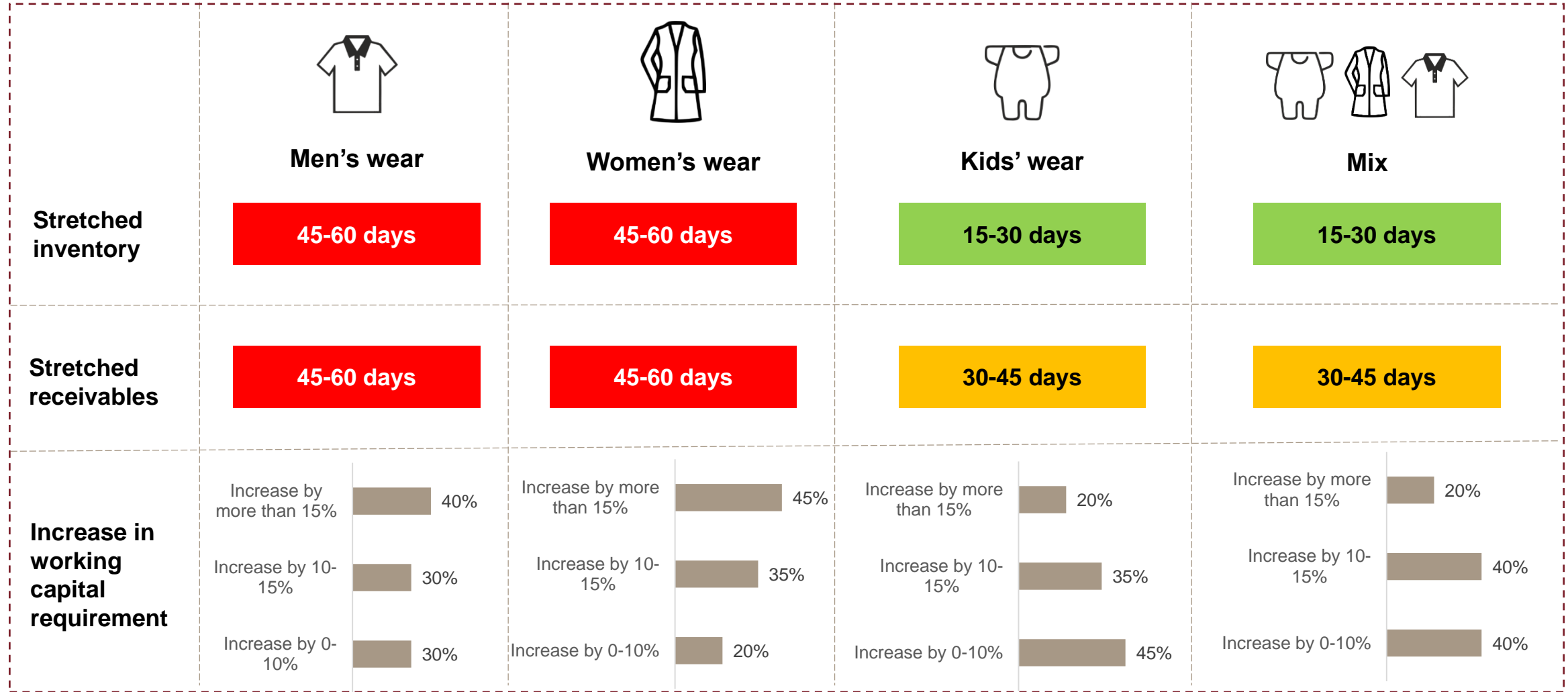


\*Stretched inventory and receivable numbers are an average of all responses



Percentages indicate respondents projecting increase in working capital













# Manufacturers of men's and women's wears see stretch in working capital (2/3)



\*Stretched inventory and receivable numbers are an average of all responses

Percentages indicate respondents projecting increase in working capital

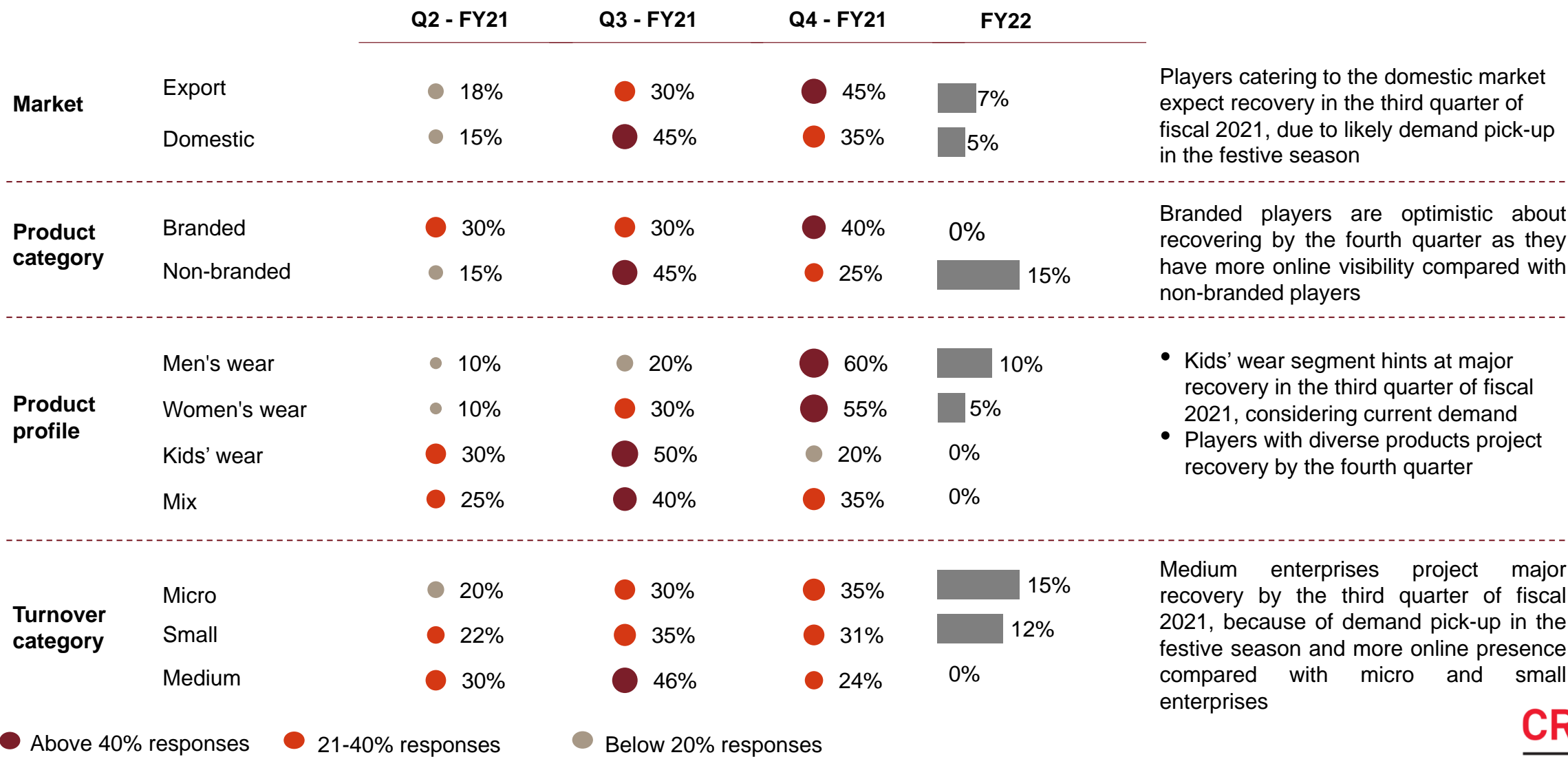
# Working capital stretch for micro enterprises (3/3)

	 <b>Micro</b>	 <b>Small</b>	 <b>Medium</b>
<b>Stretched inventory</b>	30-45 days	30-45 days	30-45 days
<b>Stretched receivables</b>	45-60 days	30-45 days	30-45 days
<b>Increase in working capital requirement</b>	<p>Increase by more than 15%  45%</p> <p>Increase by 10-15%  30%</p> <p>Increase by 0-10%  25%</p>	<p>Increase by more than 15%  17%</p> <p>Increase by 10-15%  43%</p> <p>Increase by 0-10%  40%</p>	<p>Increase by more than 15%  8%</p> <p>Increase by 10-15%  47%</p> <p>Increase by 0-10%  45%</p>

\*Stretched inventory and receivables are average days of all responses

Percentages indicate respondents projecting increase in working capital

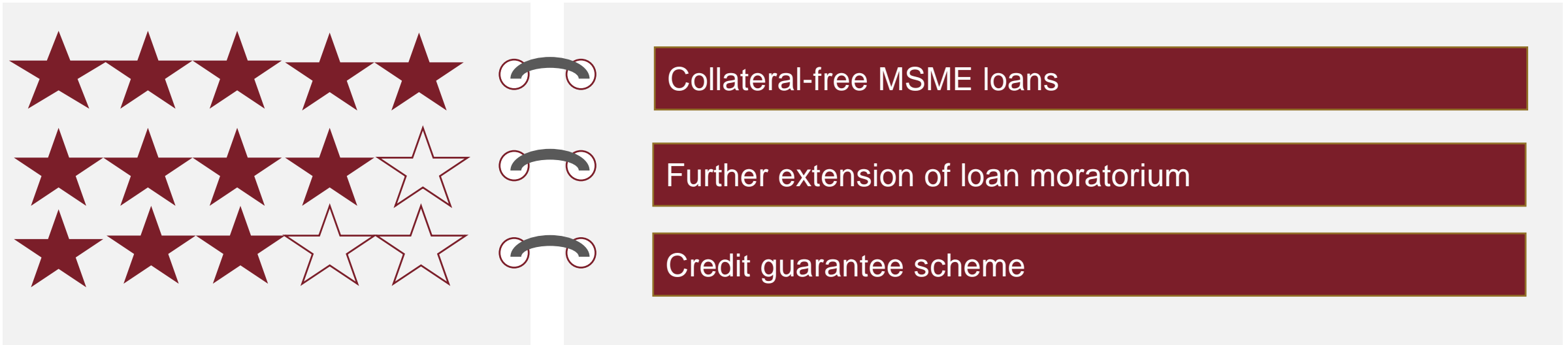
# Demand bounceback a function of markets, product profile and turnover category



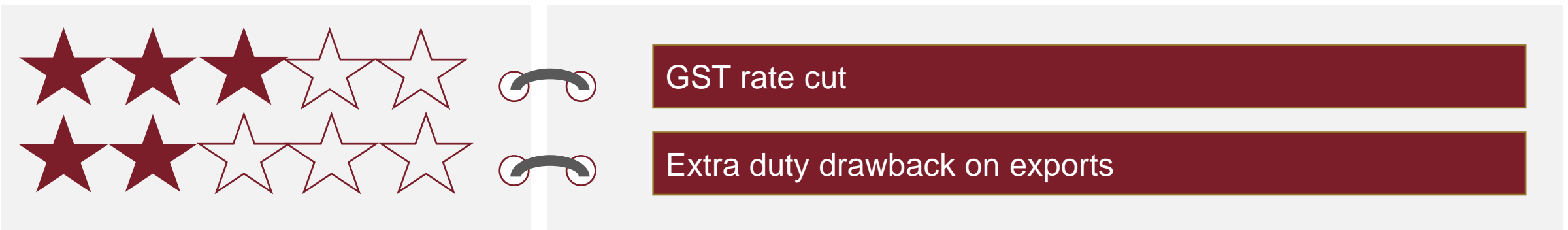
● Above 40% responses   ● 21-40% responses   ● Below 20% responses

# Aatmanirbhar Bharat schemes and expectations

## Three schemes RMG MSMEs voted to be the most impactful



## Two factors RMG MSMEs voted as crucial to demand revival



# Ear to the ground

## The downstream supply chain

Auto dealers

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FMCG distributors



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# Demand trends divergent during April-May

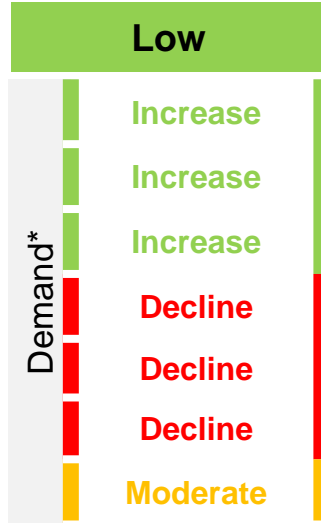


## FMCG distributors



- Packaged foods
- Home care
- Food grains
- Confectionary
- Personal care
- Cosmetics
- Beverages

### Sales impact



### Key challenges (severity)



- Initial surge in demand during lockdown, then 5-10% decline in sales volume
- Consumer preference shifting to local brands due to short supply of branded products
- Limited operational hours hampering supply to retailers

## Near-term measures

### FMCG distributors

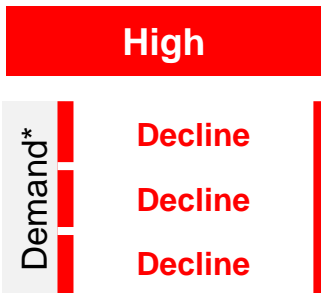
- Increase supply to pharmacies
- Increase penetration and identify new retailers



## Auto dealers



- Two-wheelers
- Passenger vehicles
- Commercial vehicles



- Nil sales in April 2020
- Low discretionary spend by consumers
- ~50% reduction in enquiries and doubling of sales conversion cycle
- Majority of dealers were shut and restarted operations in May

### Auto dealers

- Focus on digital sales
- Online marketing and usage of social media platforms

\* Demand compared with pre-lockdown

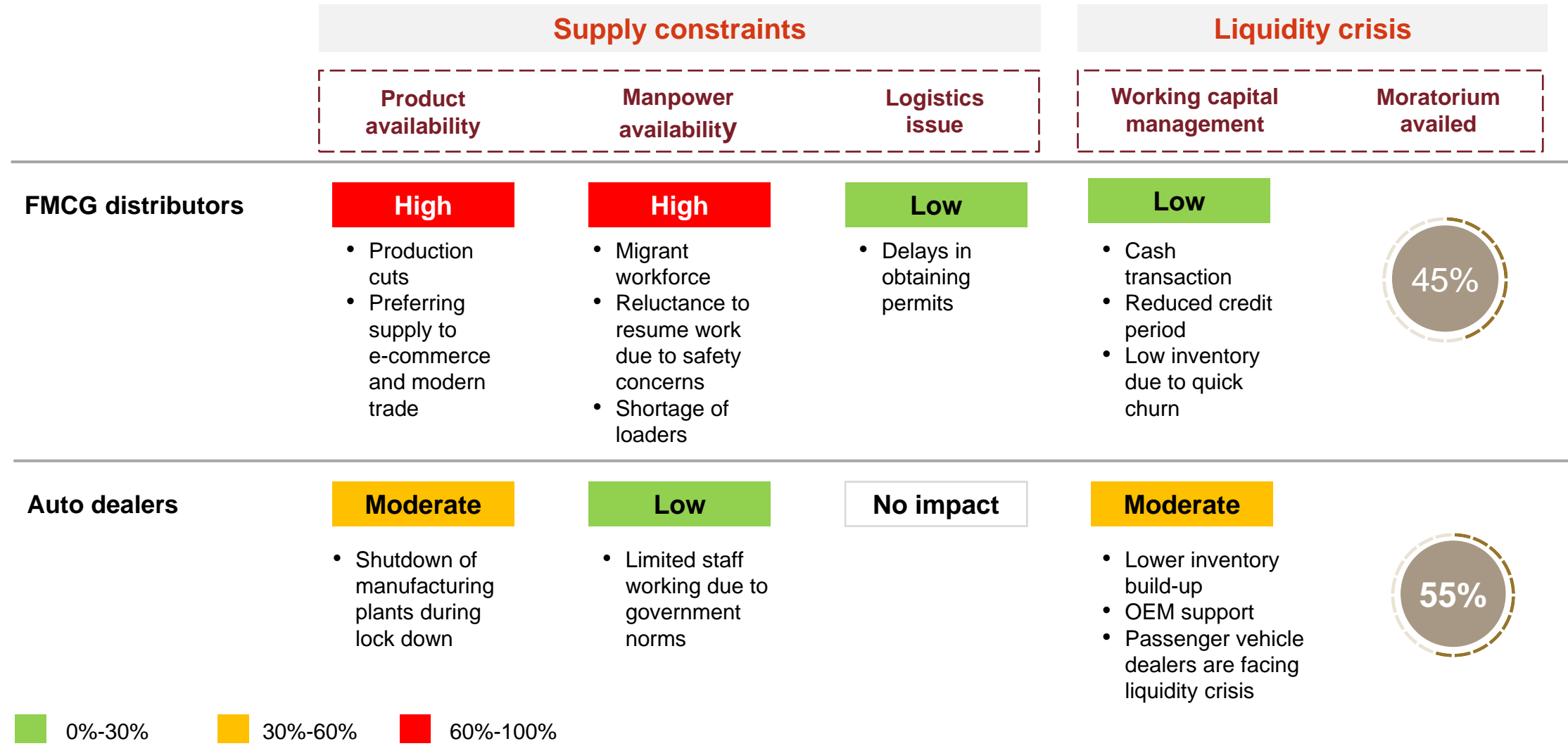
0%-30%

30%-60%

60%-100%

Percentages indicate respondents

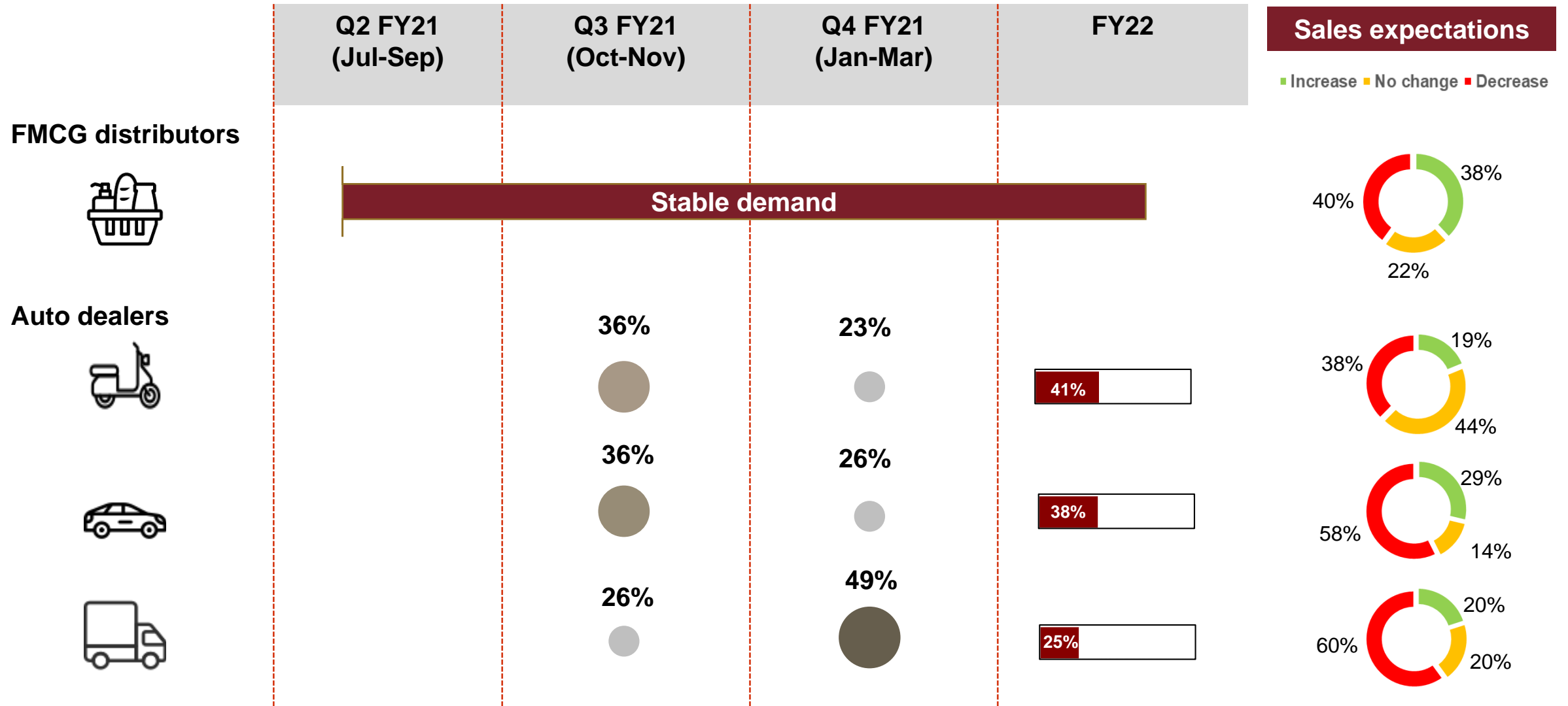
# Supply constraints affect FMCG distributors



Percentages indicate respondents



# Auto dealers foresee demand revival in the festive season



Percentages indicate respondents

# Deep dive into downstream supply chain

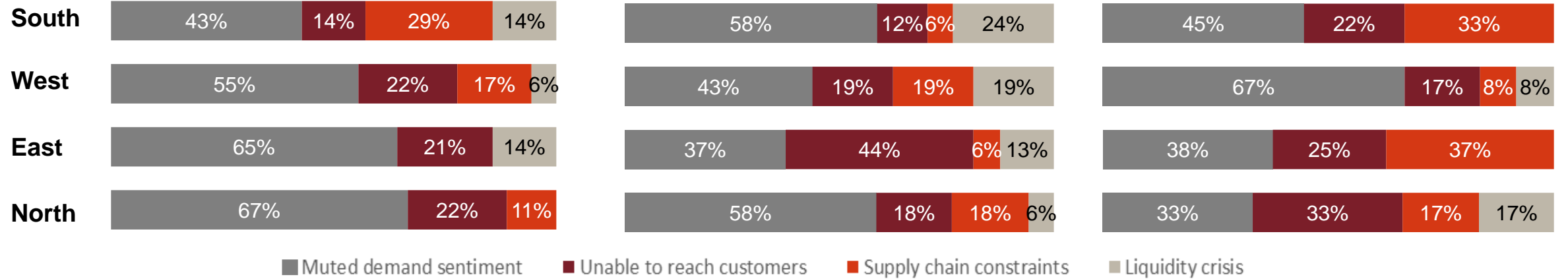
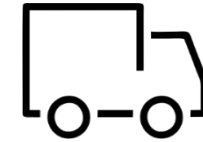
Auto dealers

FMCG distributors



# Muted demand and uncertainty worsen auto dealers' woes

## Challenges faced by dealers during the lockdown



■ Muted demand sentiment ■ Unable to reach customers ■ Supply chain constraints ■ Liquidity crisis

Muted demand sentiment
Low discretionary spend
Uncertainty of income potential
Deferring purchase and conserving cash

Unable to reach customers
Lower walk-in customers
Reduction in the number of enquires

Supply chain constraints
OEM manufacturing plants shut
Limited staff working due to government norms

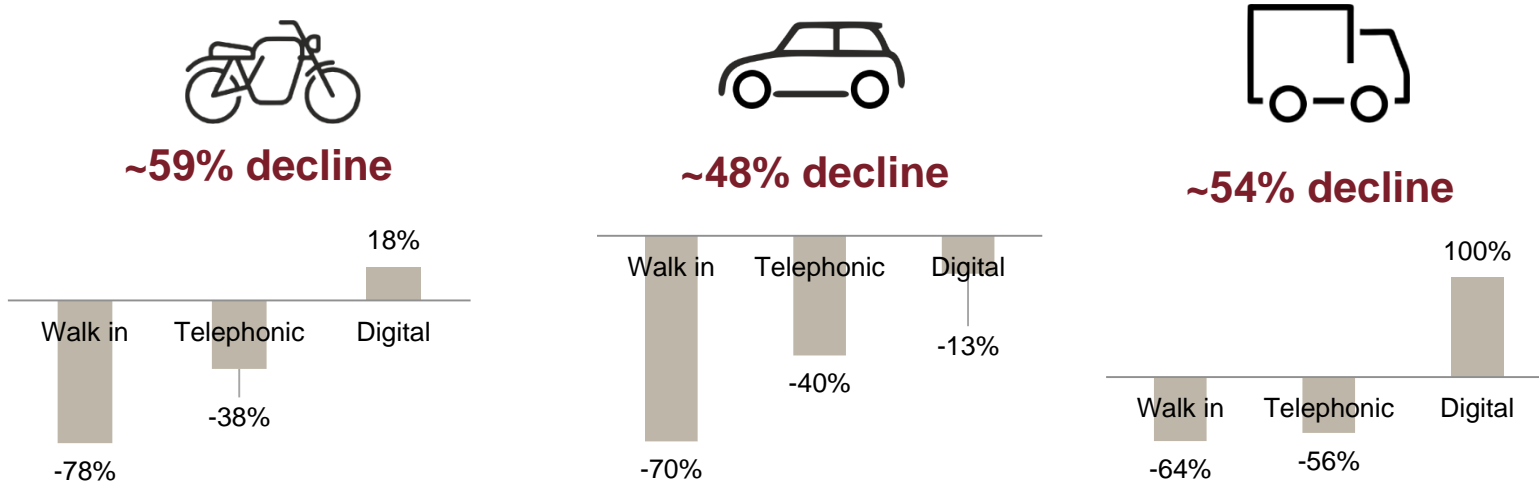
Liquidity crisis
Higher inventory
Payment of fixed costs

Percentages indicate respondents

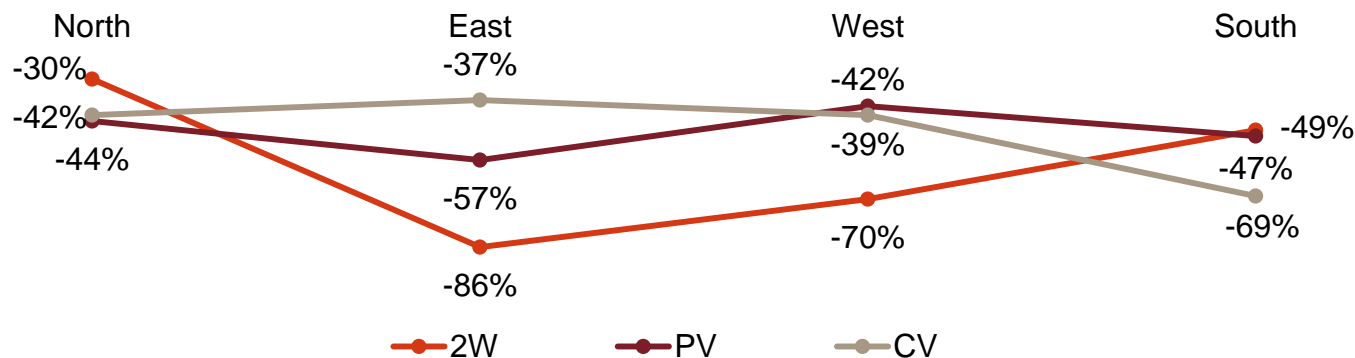
# Enquiries plunge, first-time buyers mostly browsing



Enquiries



Average number of enquiries has declined across regions, but north is better off



Non-metro dealers have seen a sharper fall in enquiries than their metro peers

Percentages indicate respondents

Dealers are focusing on digital selling and most of the passenger vehicle dealers have already adopted this mode

- **Two-wheelers:** Sales through websites such as Bikewale, Bikedekho and Just Dial
- **Passenger vehicles:** Sales through websites such as Carwale, Cardekho and Acko. Few OEMs have their own portals to which dealers have been given access
- **Commercial vehicles:** Only 9% of the dealers are selling through the digital mode

Conversion from digital mode low at 2-3%

# Sales conversion cycle has increased across segments



Increase by 2.3x



Pre-lockdown Post lockdown



Increase by 1.9x



Pre-lockdown Post lockdown



Increase by 1.5x



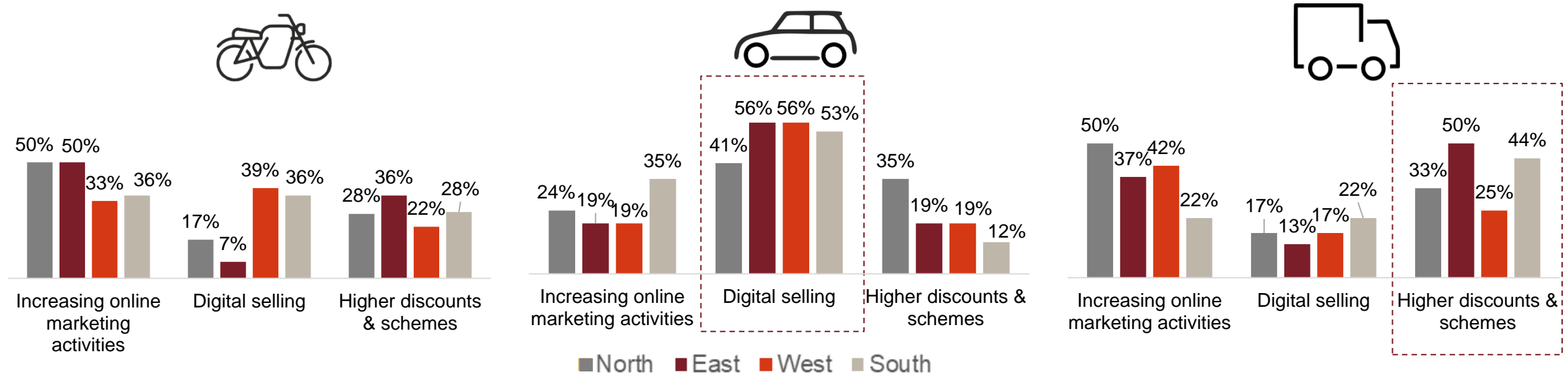
Pre-lockdown Post lockdown

Following a sharp decline in enquiries and low digital-enquiry conversion, sales conversion cycle will increase significantly, which will impact the profitability of dealers

# Dealers ramp up digital presence to boost sales

Auto dealers

FMCG distributors



Many dealers have started marketing and enquiry generation through social media platforms such as Facebook and WhatsApp. Further, they are training staff on effective utilisation of marketing tools and techniques

**31%**

Non-metro dealers believe **discounts and schemes** will boost sales

**57%**

Non-metro dealers focus on **digital selling** to boost sales

**37%**

CV dealers believe **discounts and schemes** will boost sales

**~35%** of two-wheeler dealers in the east and passenger vehicle dealers in the north plan to offer discounts and schemes to push sales

Percentages indicate respondents for key measures

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# Changing business models and muted demand will necessitate adoption of stricter cost-control measures

	Impact on cost		
	2W	PV	CV
<b>Digital selling</b> <ul style="list-style-type: none"> <li>Commission paid to portals</li> <li>Online marketing expenses</li> </ul>	Yellow	Yellow	Yellow
<b>Higher discounts</b>	Yellow	Green	Red
<b>Hygiene and safety measures</b> <ul style="list-style-type: none"> <li>Sanitisation of facilities</li> <li>Employee and customer safety measures</li> <li>Changes in way of working – adoption of new technology</li> </ul>	Yellow	Yellow	Yellow

Low impact	Moderate impact	High impact
------------	-----------------	-------------

**2W**

- 29% of the dealers in the east plan layoffs
- Dealers in the north and west to focus on increasing productivity
- A quarter of metro dealers plan to reduce employee cost

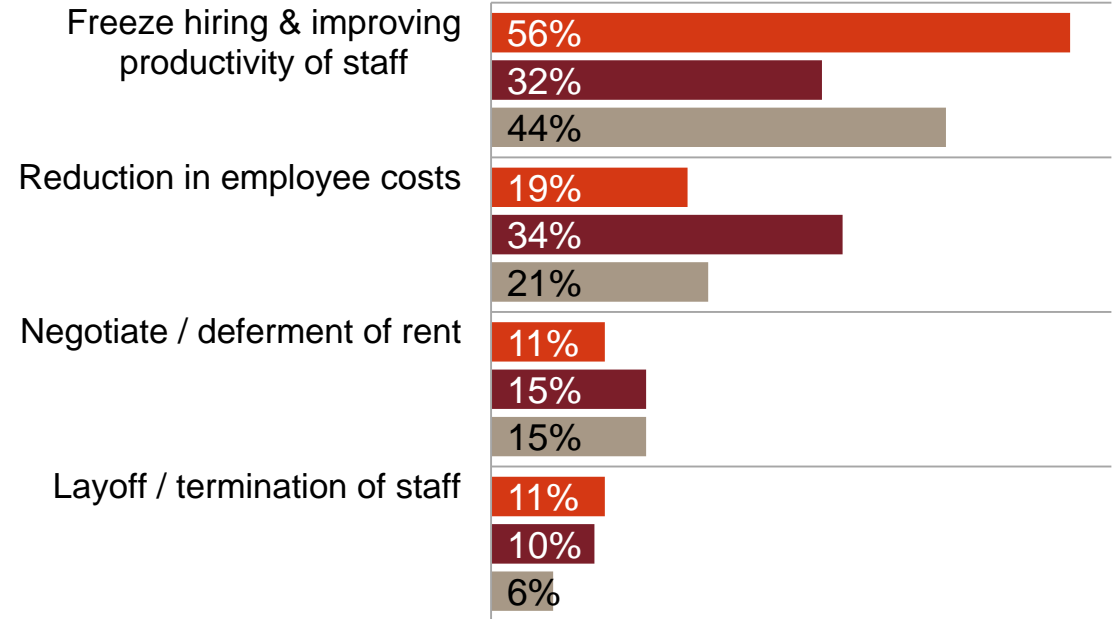
**PV**

- Dealers in the east plan to increase productivity of workers rather than reduce employee costs
- 40% of non-metro dealers plan to reduce employee cost

**CV**

- 25% of dealers in the west plan layoffs
- 30% of metro dealers plan to reduce employee cost

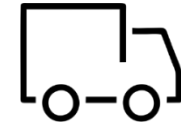
## Key cost-control measures adopted by dealers



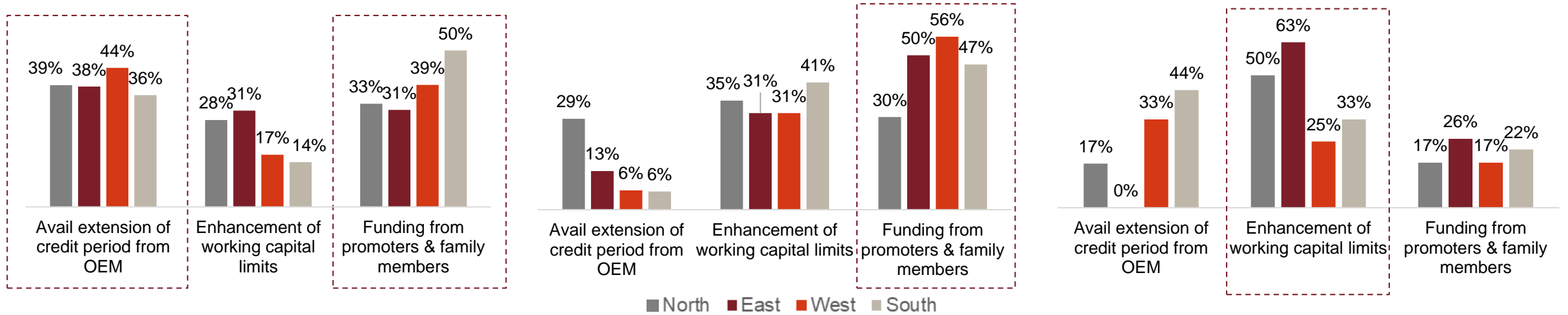
■ 2W ■ PV ■ CV

2W: Two-wheelers; PV: passenger vehicle; CV: commercial vehicle  
Percentages indicate respondents

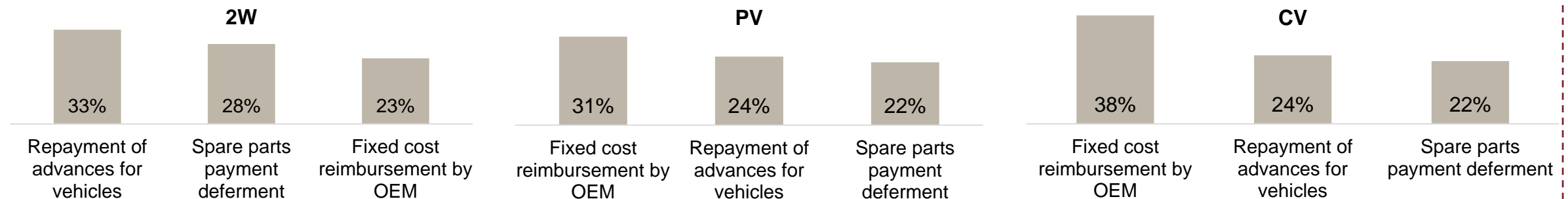
# OEM support to help dealers tide over near-term liquidity crisis



Extension of credit period from OEMs and self-funding are some of the measures undertaken to mitigate liquidity stress in the near term by two-wheeler and passenger vehicle dealers, while commercial vehicle dealers plan to increase working capital limits



A few OEMs have implemented measures to support their dealer network. Below are some of the expectations of dealers in terms of OEM support



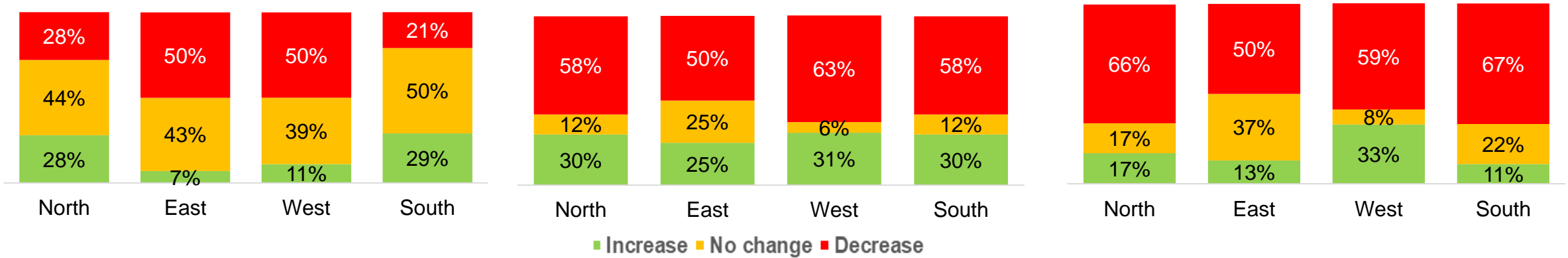
Percentages indicate respondents for key measures



# Majority expect sales to fall this fiscal; two-wheeler dealers slightly upbeat on likely higher demand for personal mobility

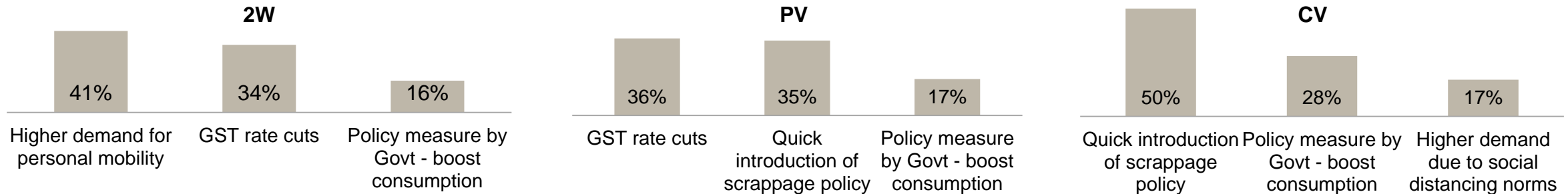
Auto dealers

FMCG distributors



- Two-wheeler dealers in northern and southern regions have more optimistic sales expectation
- Majority of passenger and commercial vehicle dealers expect sales to decline on-year

## Measures/ trends that will enable quick recovery of the industry

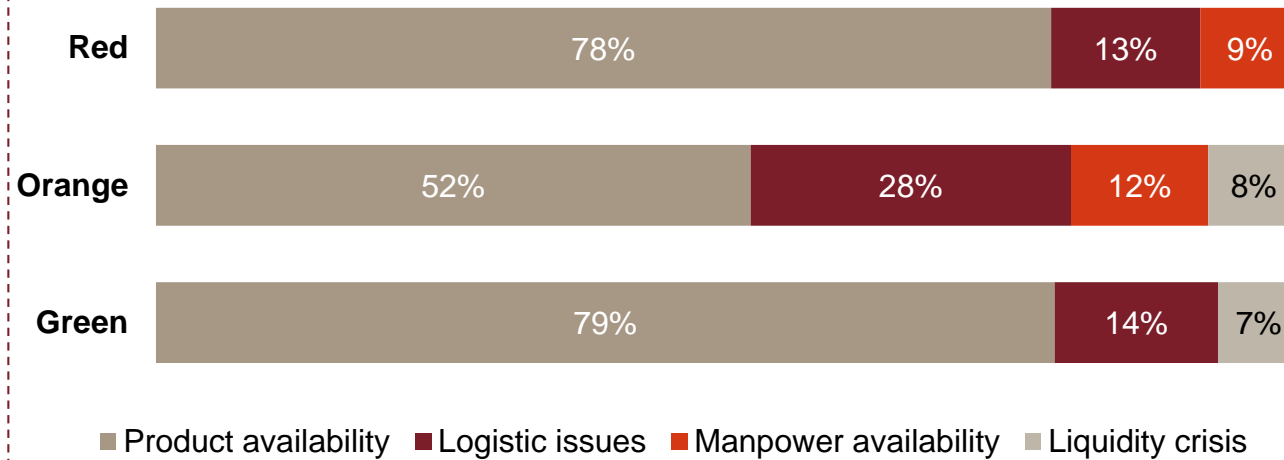


Percentages indicate respondents

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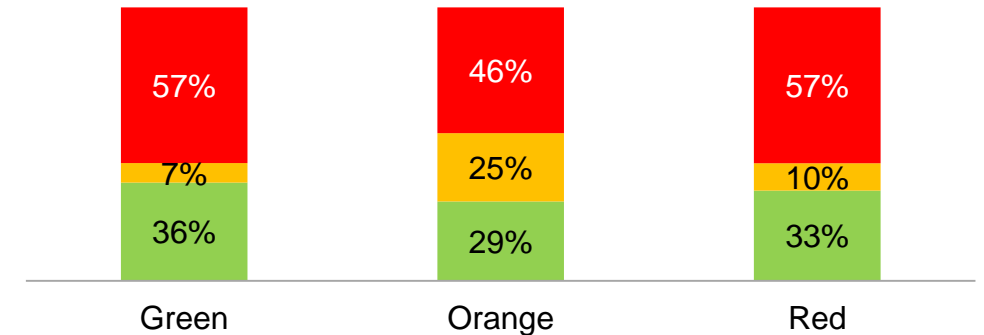
# Product availability an issue for distributors post initial surge

Major challenges faced by distributors

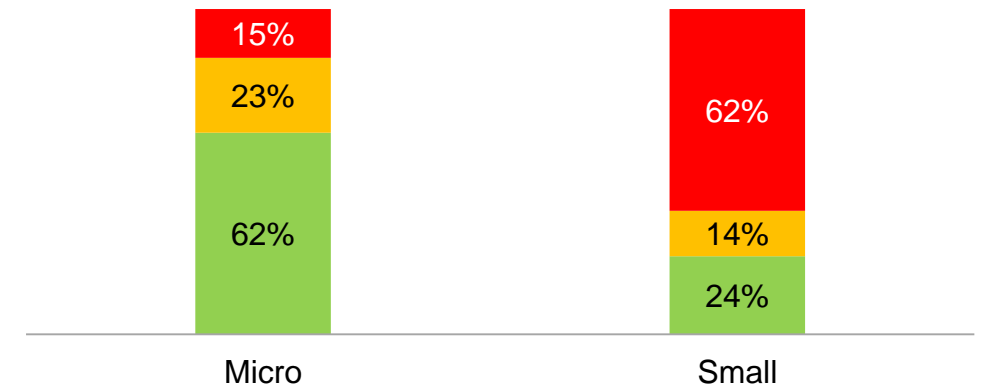


Sales fell 5-10% in May as compared to April

COVID-19 Zones



Scale of operation



- Product availability is the major concern of distributors on account of production cut by FMCG manufacturers, and severe competition from e-commerce and modern trade, which source the products in bulk directly from manufacturers
- Because of panic-buying in March, there was an initial surge in sales. But, in May, sales of distributors operating in red and orange zones plunged. Small enterprises saw a sharper decline in the month

■ Increase ■ No change ■ Decrease

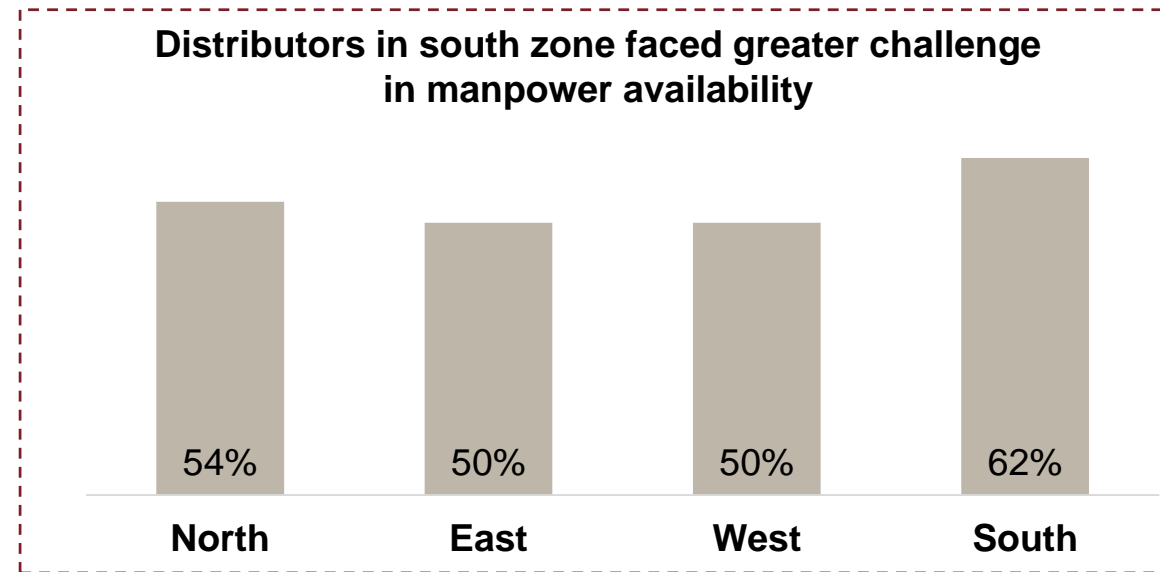
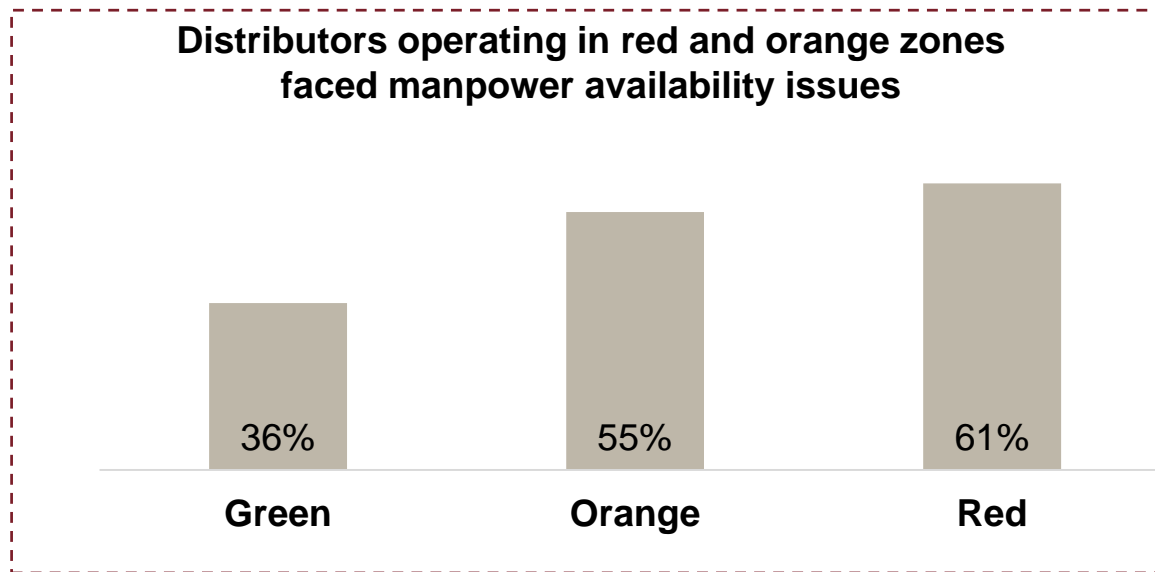
# Demand diverged among product categories, signaling shift in consumer mindset because of pervasive fears

<b>Increased demand</b>	<b>Packaged foods</b>	<ul style="list-style-type: none"> <li>• Ketchup</li> <li>• Jam</li> <li>• Biscuits</li> <li>• Noodles</li> <li>• Soup</li> </ul>
	<b>Homecare</b>	<ul style="list-style-type: none"> <li>• Soap</li> <li>• Detergent</li> <li>• Disinfectant</li> <li>• Sanitiser</li> <li>• Liquid hand wash</li> </ul>
	<b>Food grains</b>	<ul style="list-style-type: none"> <li>• Cooking oil</li> <li>• Ghee</li> <li>• Flour</li> </ul>
	<b>Hot beverages</b>	<ul style="list-style-type: none"> <li>• Tea</li> <li>• Coffee</li> <li>• Chocolate and malt drinks</li> <li>• Immunity-booster drinks</li> </ul>

<b>Decreased demand</b>	<b>Confectionary</b>	<ul style="list-style-type: none"> <li>• Chocolates</li> <li>• Snacks</li> <li>• Chips</li> </ul>
	<b>Personal care</b>	<ul style="list-style-type: none"> <li>• Face wash</li> <li>• Body lotion</li> <li>• Shaving cream</li> <li>• Deodorant</li> <li>• Talcum powder</li> <li>• Hair oil</li> </ul>
	<b>Cosmetics</b>	<ul style="list-style-type: none"> <li>• Hair colour</li> <li>• Kajal</li> <li>• Face cream</li> </ul>
	<b>Cold beverages</b>	<ul style="list-style-type: none"> <li>• Aerated drinks</li> <li>• Energy drinks</li> <li>• Ice tea</li> </ul>

- Confectionery sales declined significantly, with the eastern and northern regions reporting sharper decline
- Sales of homecare products, particularly sanitisers, hand wash and soaps, increased primarily in red zones
- Sharp fall in sales of high-margin products, such as cosmetics
- Decline in demand for aerated and energy drinks despite peak summer season

# Distributors operating in red zones faced manpower availability issues, rising employee cost



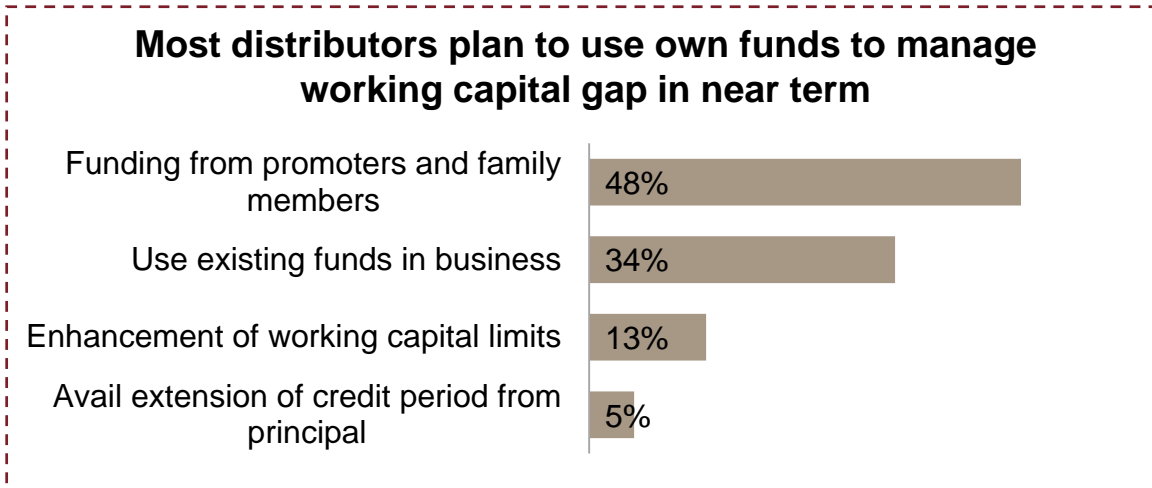
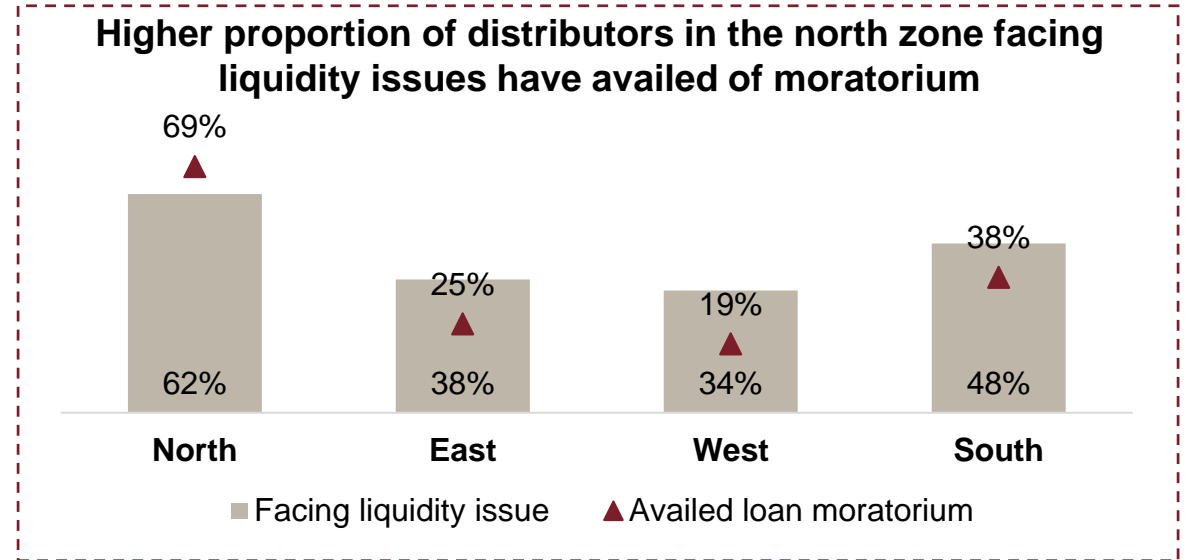
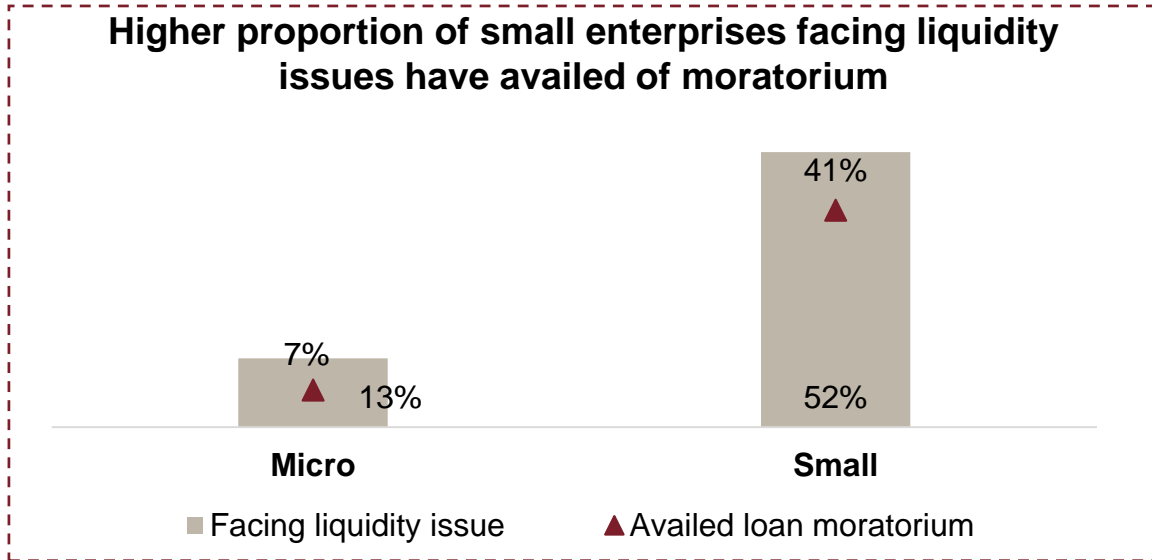
Distributors in the south zone are facing manpower shortage, owing to higher percentage of migrant workforce, and challenges because of increased absenteeism

Measures adopted by distributors to overcome manpower shortage is expected to increase employee costs by ~3%

- Loaders and unloaders are being paid ~50% additional charges
- Overtime allowance and higher salary payments

Measures adopted to overcome manpower availability constraints
Hiring temporary staff
Higher salary paid to existing staff
Operations in multiple shifts
Additional facilities and services to employees as part of safety measures

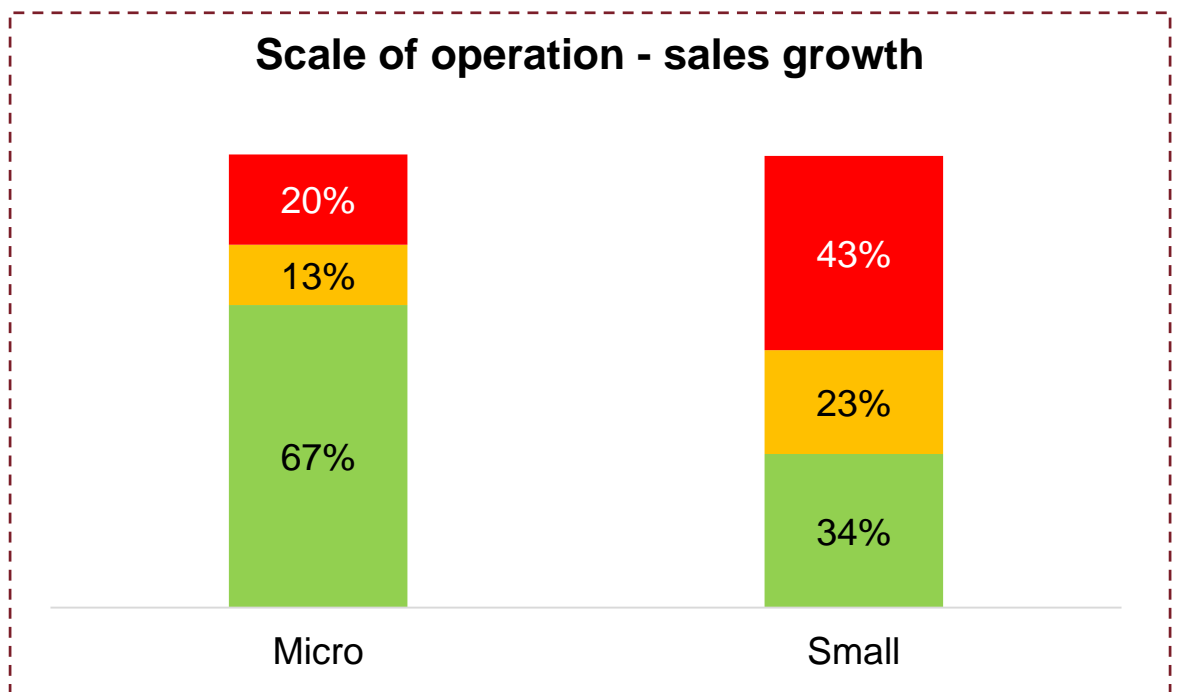
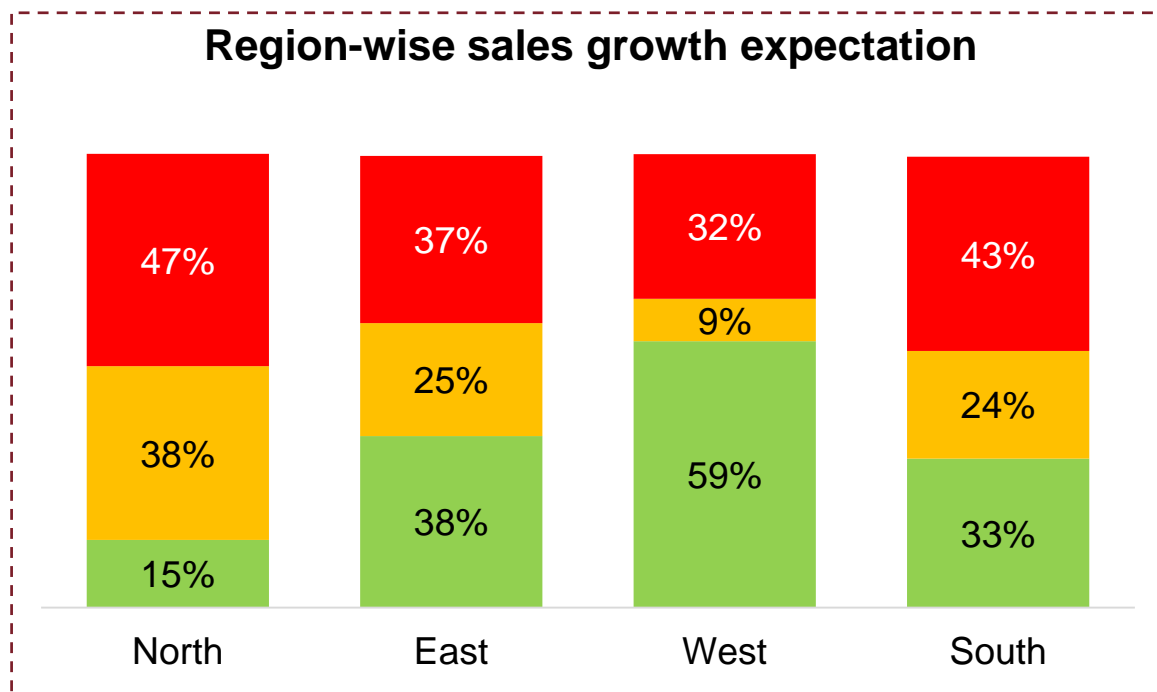
# Distributors unlikely to face near-term liquidity issues



**Measures adopted to overcome liquidity issue**

Increase in cash-based or advance payment transactions
Reduction in credit period to retailers

# Most distributors expect sales to decline this fiscal, but those operating in red and orange zones better off than others



■ Increase ■ No change ■ Decrease

- Most distributors in the western region expect sales to increase on-year this fiscal because of more red and orange zones in the region, which has seen a surge in demand
- Distributors operating in the red and orange zones also more optimistic on sales growth in fiscal 2022 compared with those in the green zone because of sustained higher demand
  - However, distributors in the red zone expect higher impact on cost owing to supply-side constraints
- Micro enterprises expect better sales growth in fiscal 2021 compared with small enterprises

Percentages indicate respondents

# Lender's view

Banks

---

NBFCs



# Credit growth sentiment weak, more so for NBFCs

## Impact of Covid-19 pandemic on credit growth in MSME sector

	Disbursements in April-May 2020	Expected normalcy in disbursements	Credit growth outlook for FY21*
<b>Banks</b>	< 30% of normal level	In 3-6 months	Up to 5% decline
<b>NBFCs</b>	<10% of normal level	In 6-9 months	5–10% decline

\* Highly dependent on MSMEs resuming operations and easing of restrictions. Over 30% lenders either refused to comment or expressed difficulty in predicting



### Drivers for credit growth

- Incremental working capital requirement
- Pent-up demand in local markets and for local brands
- Emergency Credit Line Guarantee Scheme
- Untapped rural/semi-urban areas, sectors with non-discretionary demand
- Relatively safer short-term trade/supply chain funding



### Challenges for credit growth

- Lack of demand for new/capex funding requirement
- Low recovery sentiment in unorganised sectors
- Lack of client connect owing to lockdown
- Lack of demand or revenue growth visibility
- Severely impacted cash flows of MSMEs



# Business sentiment muted, short-term opportunities few



**Sectors least vulnerable to deterioration in credit profile**

FMCG, food products, hospitals, pharmaceuticals, telecom



**Sectors most vulnerable to deterioration in credit profile**

Automobiles, construction, gems and jewellery, hospitality, textiles, tourism

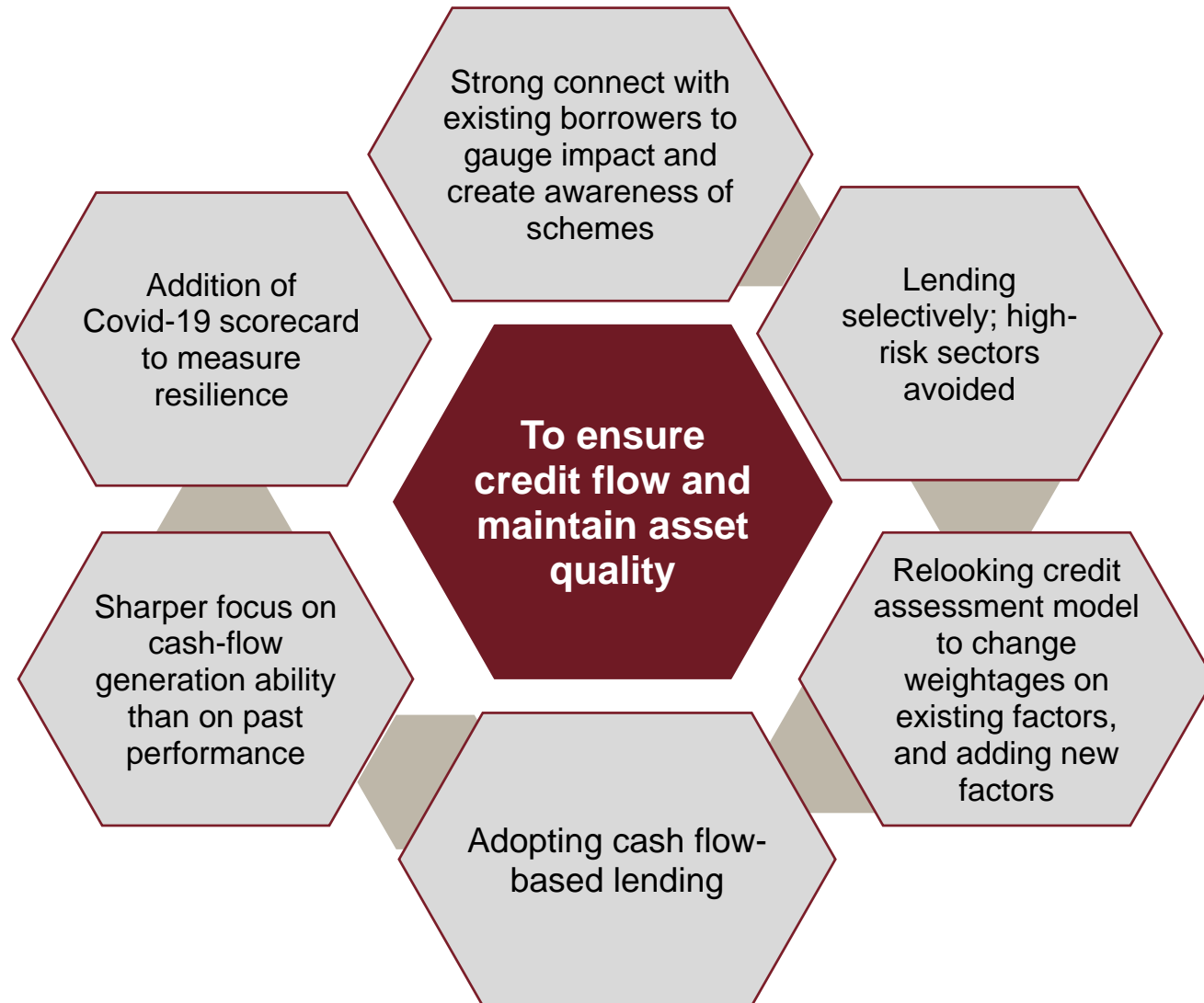
## Long-term impact on performance of MSMEs

- 15-20% of MSMEs may not be able to survive the economic slowdown
- Micro units across sectors to be impacted the most
- MSME definition change to bring more players into the category, resulting in smaller ones receiving less benefits
- Sectors with high dependence on migrant labour to be severely impacted

## Short-term opportunities for MSMEs

- Average sales volume at neighbourhood groceries/ pharmacies has increased dramatically
- Shift in business model: Producing masks/ hand sanitisers/ disinfectants, dealing in thermal screening equipment, etc. Definition of essentials is undergoing a change
- Digital-oriented education services, selling via online platforms through digital transactions has increased

# Partnering with MSMEs to tide over challenges



## Emerging trends in strategies adopted by lenders

- Portfolio assessment to assign risks – by geography, product and customer, sector, and labour composition
- Credit assessment model to include statutorily filed data, such as Goods and Services Tax, Employees' Provident Fund returns
- Digital lending and connect. Personal site visits via video interface
- Emphasis on promoter's access to capital (liquid net worth), personal savings, ability to raise funds in emergency

# Mixed voices from the ground; challenges expected to continue

Measures by the government and the Reserve Bank of India to improve lending to MSMEs to tide over the pandemic

Credit guarantee scheme

Loan moratorium

## Views of lenders on:

Coverage (volume)

Credit growth

Asset quality- FY21



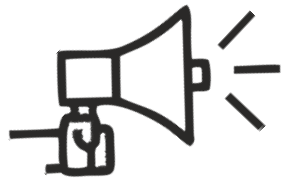
Highly favourable



Slightly favourable



Neutral



“This is the need of the hour. Moratorium on loans and collateral-free loans offer big relief to MSMEs to manage cash flows”

“Despite reduction in repo rates, NBFCs do not expect any improvement in cost of funds, as transmission of rate reduction has not happened significantly”

“Nothing much for demand revival. Some sort of direct benefit transfer to manage employee cost/rent would have helped”

“On credit guarantee scheme, the system will not be able to provide Rs 3 lakh crore of loans before October. So, we will require an extension”



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