Survey on 'Unlock India': State of Business

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Introduction

After a little over two months of the world's most stringent lockdown the government began to reopen the economy in a phased manner starting June 1st onwards with gradual relaxations being granted for various activities under each of the subsequent unlock guidelines announced since then. As India entered fourth phase of 'Unlock' starting September 1st, more relaxations were granted for activities outside the containment zones. However, the 'Unlock' process admittedly has not been smooth with several restrictions still holding for business. Schools, colleges, movie theatres, restaurants (dine-in), overseas leisure travel, local trains still remain shut. Further, there have been localized lockdowns which increase uncertainty.

To understand how the industry feels about the same CARE Ratings had launched the Survey "Unlock India: State of Business" and reached out to experts in various fields including CEOs, CFOs, investors and other stakeholders with an objective to understand their views and gauge the business sentiments. The Survey was carried out during the period August 25th to September 13th.

This Survey is a follow-up on the earlier two Surveys conducted by CARE Ratings - one released prior to the announcement of the nation-wide lockdown ("Impact of Coronavirus on the Indian economy") and the other focusing on "Impact of the extended lockdown on the Indian Economy".

621 participants responded to the "Unlock India: State of Business" Survey from various sectors like manufacturing, BFSI, construction, real estate, power, trade and other services. We have analysed the responses on an aggregate level as well as industry-level and size of businesses, wherever applicable.

Below is a gist of the result of our Survey:

- Majority of respondents felt that there has been a pick-up in demand post announcement of Unlock guidelines. Upon further analysis of the sample we found that while most large enterprises felt that demand has picked up, micro enterprises did not feel the same. Also, while participants from the power, BFSI, trade and real estate sector felt that demand has picked up since unlock measures were announced the same was not true for respondents belonging to construction and services sector
- While majority of MSME units said that recovery in their production/sales has been less than 50% compared with pre-lockdown, majority of large scale enterprises said they have reached 50% of production/sales level compared to pre-lockdown levels

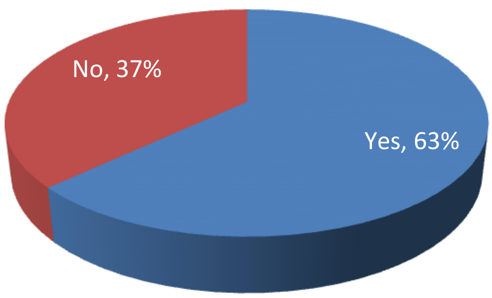
- Majority of construction, real estate and service sector companies expect to reach pre-covid levels of production/sales only by next fiscal year
- The problem of migrant labourers was most relevant in construction, real estate, manufacturing and power sector
- A greater number of micro units experienced closure of businesses compared to large units or even SME units
- However, our Survey revealed that while majority of respondents do not expect businesses to shut down over the next 6 months in their industry, they do expect consolidations to take place
- More than 50% of the respondents in the construction and real estate sector expect NPAs to rise in their sector going forward
- Majority of respondents were of the opinion that standardised unlock guidelines (central) would have been better than localised guidelines (state/city wise)
- Maximum respondents rated 'imposition of localised lockdown following easing of general lockdown' as the factor that impacted their business the most and scarcity of raw material was the least affecting factor.
- In terms of access to credit, majority of micro units said it is a challenge for them
- While majority of real estate firms believe that the issue of raw material scarcity and logistical challenges have now been resolved, 50% of manufacturing firms have responded that the issue is not yet resolved
- Majority of participants said that the government has not done enough for the revival of their sector and they expect more support from the government. 'Grant of tax subsidy by the government' is the most unanimously desired incentive by the industry followed by credit enhancement/guarantee, deferment of statutory dues, waiver of fixed charges and extension of loan moratorium
- Majority of the respondents have also pinned their hope on rural demand to support growth for their industry
- Maximum number of respondents said that they do not expect to see any capacity expansion or addition to take place in their sector in FY21

Note: Micro enterprises - turnover of less than Rs 5 crore, Small & Medium enterprises – turnover between Rs 5 crore to Rs 100 Crore, Large Enterprises – turnover more than Rs 100 Crore

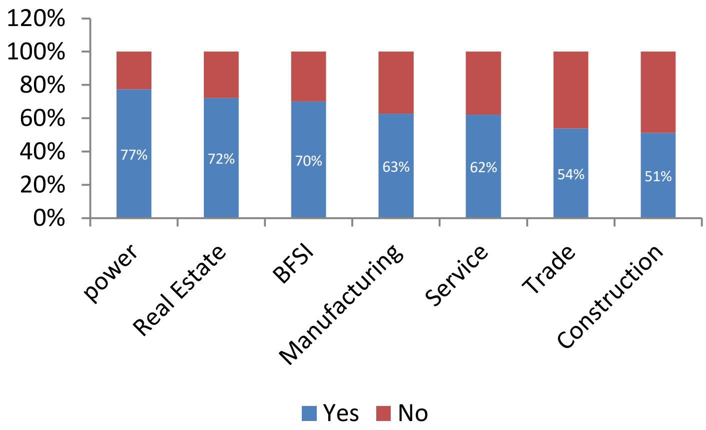
Company/Industry performance

Q1. Has there been a pick-up in demand for your company post announcement of 'Unlock Guidelines'?

- Our Survey revealed that 63% (324 out of 516) of the firms experienced a pick-up in demand post announcement of unlock guidelines while 37% (192 out of 516) of firms have said that there has been no pick-up in demand

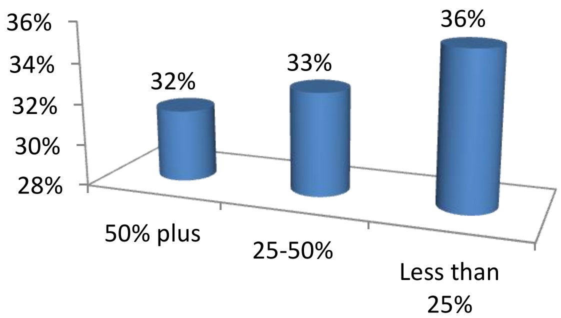


- Further, the Survey reveals that 77% of firms belonging to the power sector (17 out of 22) have said that demand has picked up for their company post announcement of Unlock guidelines. 72% real estate firms (13 out of 18) and 70% of BFSI firms (52 out of 71) have witnessed pick-up in demand. However, only 51% of construction firms (21 out of 41) feel that demand has picked up since unlock. 34% of service sector companies (34 out of 90) have said that demand has not picked up.



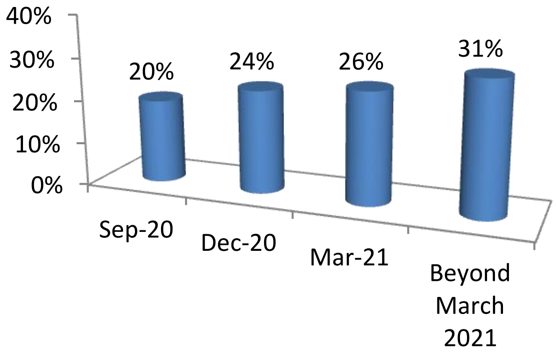
Q2. If Yes, to what extent have you witnessed recovery in production/sales compared with pre-lockdown?

- 36% of the respondents (142 out of 400) said that recovery in production/sales for their company has been less than 25% while 33% (132 out of 400) said that recovery has been around 25-50%
- 32% (126 out of 400) of the respondents said that they had witnessed recovery of more than 50%



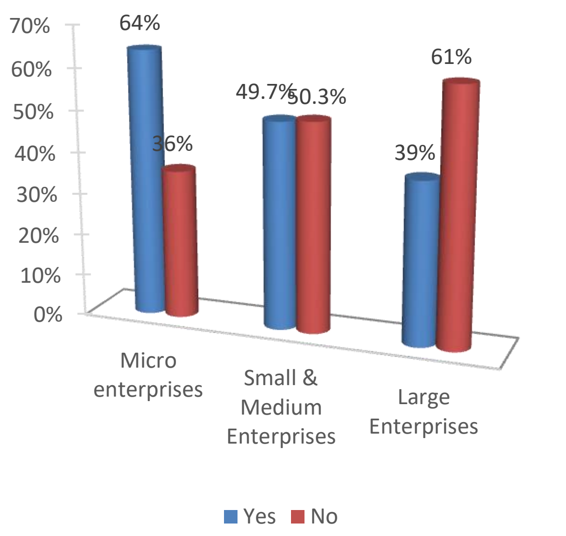
Q3. By when do you expect your company's production/sales to reach pre-Covid levels?

- 20% (96 out of 504) of the respondents said that their production/sales will reach pre-Covid levels by September 2020
- 129 respondents or 24% of respondents said December 2020 and 26% said March 2021
- Majority of respondents – 30% (152 out of 504 respondents) said they will reach pre-Covid level production/ sales only by next fiscal year
- Majority of construction, real estate and service sector companies expect to reach pre-covid levels of sales only by next fiscal year (beyond March 2020). 39% (28 out of 71) of respondents from the bfsi sector said they expect their company's sales to reach pre-covid levels by March 2021 and 32% said December 2020. Majority of trading companies voted for December 2020.



Q4. Was your company witnessing a slowdown prior to the outbreak of Covid-19?

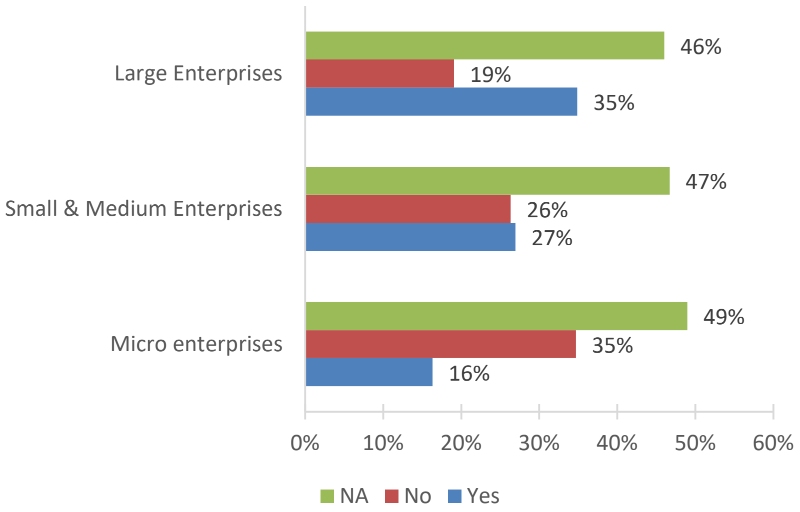
- A record 64% of the respondents (66 out of 103) from the micro enterprises' category felt that their company was witnessing a slowdown prior to the outbreak of the Covid-19. However, 61% of the respondents (139 out of 228) in the large enterprises' category believed that their company was not experiencing any slowdown prior to the Covid-19 outbreak
- For small and medium enterprises, the responses were almost equally divided as 50.3% respondents (90 out of 179) felt that their company was not witnessing slowdown prior to outbreak and 49.7% respondents (89 out of 179) felt that their company was experiencing slowdown prior to the outbreak



Viability issues

Q5. Have migrant labourers returned to work in your company?

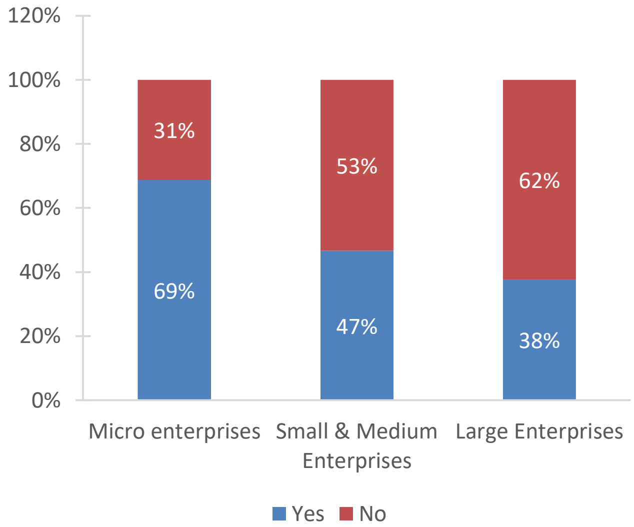
- The labour problem is more severe in the MSME sector than the large scale enterprises, reveals our Survey
- Almost 35% (34 out of 98) of the respondents from micro enterprises category stated that migrant workers had not returned to work in their company whereas for 35% of the respondents (75 out of 99) from the large enterprises' category, migrant workers had returned to work in their company
- For 27% of the respondents (45 out of 78) in the small and medium enterprises category, migrant workers had returned to work in their company



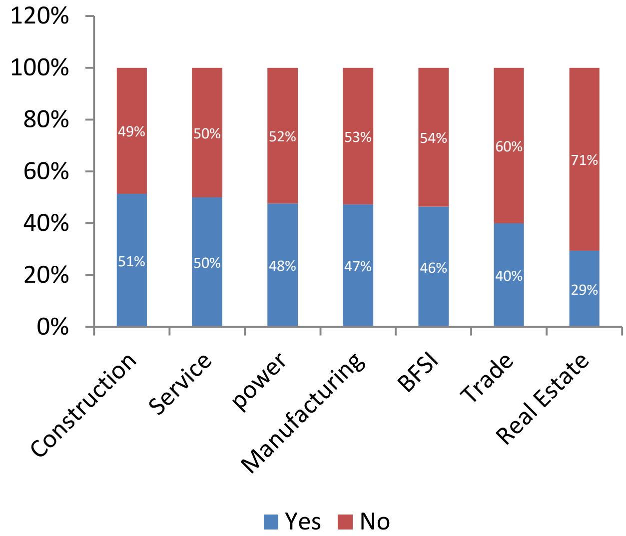
- The problem of migrant labourers was most relevant in construction, real estate, manufacturing and power sector and was least relevant for BFSI sector followed by service and trading sector (not applicable option selected)
- Majority of real estate companies (41%) said that they are still facing labour problems and 38% of construction companies said the same

Q6. Have business units in your industry closed down due to Covid-19 challenges?

- 69% of the respondents (66 out of 96) from micro enterprises category felt that business units in their industry had closed down due to Covid-19 challenges whereas 62% of the respondents (134 out of 215) from the large enterprises' category felt that business units in their industry had not closed down due to Covid-19 challenges
- Similarly, 53% of the respondents (89 out of 167) in the small and medium enterprises (SME) category felt that business units in their industry had not closed down due to Covid-19 challenges
- Here, micro units have been the worst hit among all categories, in line with expectation

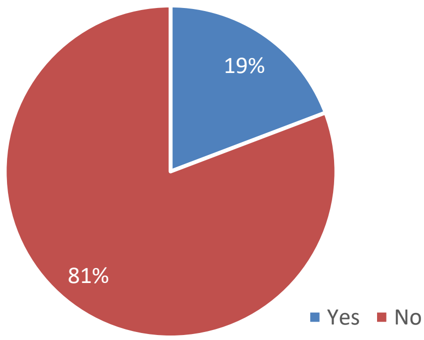


- Business units in construction and service sector faced most closures due to the Pandemic. 105 out of 222 respondents from the manufacturing sector also felt that businesses have shut down in their sector



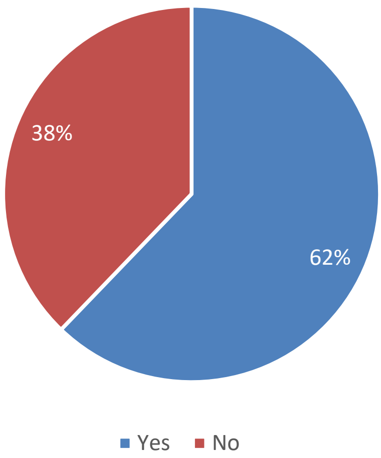
Q7. If No, are you expecting business units to shut down over the next 6 months?

- Majority of the respondents – 81% (294 out of 264) are not expecting business units to shut down over the next 6 months



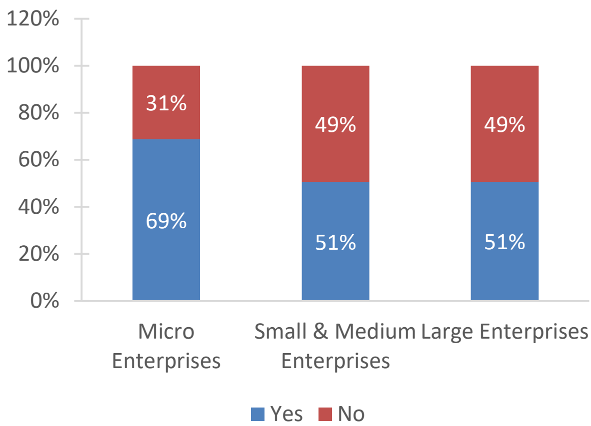
Q8. Do you expect consolidation in your industry over the next 6-12 months?

- More than 50% of the respondents (296 out of 476) expect consolidation to happen in their industry over the next 6-12 months
- More than 50% of respondents from each of the 7 sectors have said that they expect consolidation in their sector over the next 6-12 months. 71% of real estate companies (12 out of 17) and 70% of trading companies (16 out of 23) responded in positive.
- 625 of manufacturing units (137 out of 221) also expect consolidation ahead. 55 out of 82 respondents from the service sector said consolidation to take place in their sector going forward



Q9. Do you expect non-performing assets (NPAs) to rise in your industry?

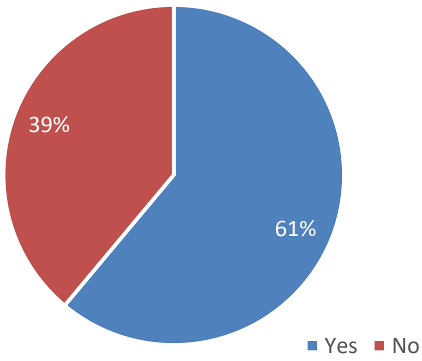
- 54% (261 out of 481) respondents across Industries (micro, small & medium and large) believe NPAs in their sector to rise
- Also, 71% (12 out of 17) real estate companies and 51% (19 out of 37) construction companies expects NPAs in their sector to rise
- Similarly, 46% (102 out of 220) manufacturing companies, 60% (15 out of 25) of trading companies, 51% (43 out of 85) of service sector companies and 48% (10 out of 21) of power companies expects NPAs to rise going forward



Barriers to recovery

Q10. Do you think standardised unlock guidelines (central) would have been better than localised guidelines (state/city wise)?

- 61% of the respondents (262 out of 429) have said standardised unlock guidelines would have been better compared to localised guidelines



Q11. Rank below factors according to their impact on your sector, starting with most severe impact to least severe impact?

- Respondents had to rank the factors mentioned in the table below on a scale of 1 to 7, with 1 being given to the factor that impacted their sector the most
- 25% of the respondents ranked 'imposition of localised lockdown following easing of general lockdown' as the number 1 factor to have impacted their sector

Type of Factor	1		2		3		4		5		6		7		Total
Imposition of localised lockdown following easing of general lockdown	25%	83	21%	68	14%	46	13%	43	10%	34	8%	27	9%	30	331
Lack of direct monetary support from government	19%	62	20%	67	15%	50	15%	48	11%	35	10%	32	11%	37	331
Availability of credit	16%	53	15%	50	21%	70	12%	40	13%	45	14%	47	9%	29	334
Supply chain bottlenecks	12%	39	11%	37	20%	67	25%	84	18%	60	10%	32	4%	14	333
Exodus of migrant labourers	10%	32	11%	37	12%	40	13%	43	17%	58	17%	58	20%	66	334
Scarcity of raw materials	5%	18	11%	37	7%	24	12%	41	17%	59	24%	83	23%	77	339
Uncertainty due to lack of clarity on Unlock guidelines	17%	64	11%	40	14%	51	11%	39	13%	49	12%	43	22%	80	366

Q12. Apart from the factors mentioned in Q11, please specify if there has been any other factor that has severely impacted your sector's performance?

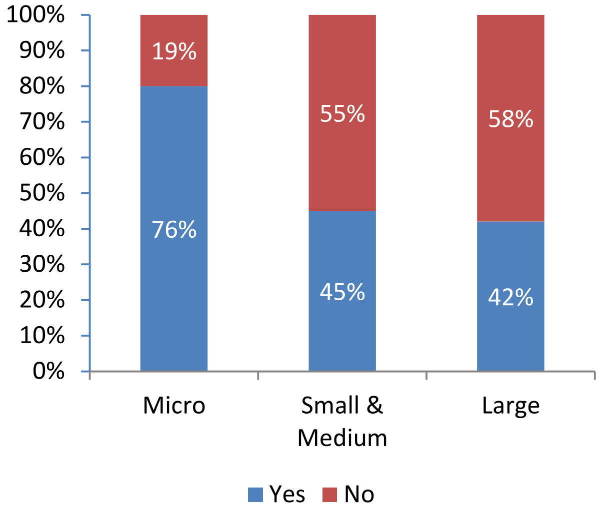
Some of the other factors that the respondents felt that had severely affected their sector performance were:

- Consumer demand affected due to fears of virus contractions
- Employees faced problems in commuting due to restrictions on public transport
- Delay in realisation of payments from debtors
- Delay in payment of dues by government authorities
- Postponement / cancellation of projects by clients
- Lack of clarity on moratorium guidelines by RBI
- Difficult to pitch life insurance products digitally as human intervention is not possible due to Covid-19

Operational issues

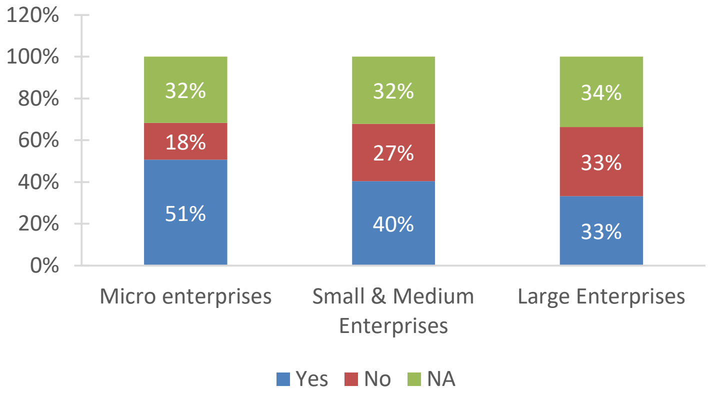
Q13. Is your company facing any difficulty in availing credit due to challenging business environment?

- 76% (60 out of 79) of micro enterprises said that they are facing difficulty in availing credit
- 55% (81 out of 147) of SME and 58% (112 out of 192) of large scale enterprises said they were NOT facing any difficulty in availing credit
- Majority of companies belonging to power (56%) and real estate sector (73%) said that they were facing difficulty in availing credit. Also, 46% of respondents (88 out of 193) from manufacturing sector said they were facing difficulty in availing credit
- About 45-50% of respondents from all other sectors like construction, services and trade have also said that availing credit was a problem for them



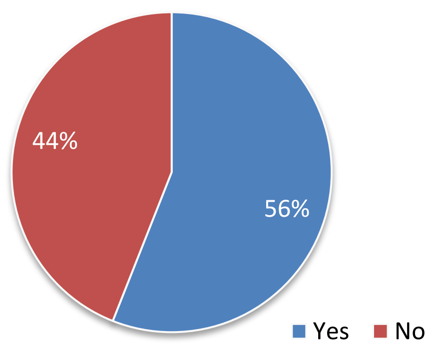
Q14. On account of Covid-19 has there been excess inventory or unsold goods?

- 51% of micro enterprises (40 out of 79) and 40% of SME units (59 out of 146) said that inventory or unsold goods have risen on account of Covid-19 while only 33% of large enterprises (64 out of 193) faced huge unsold stocks or inventory

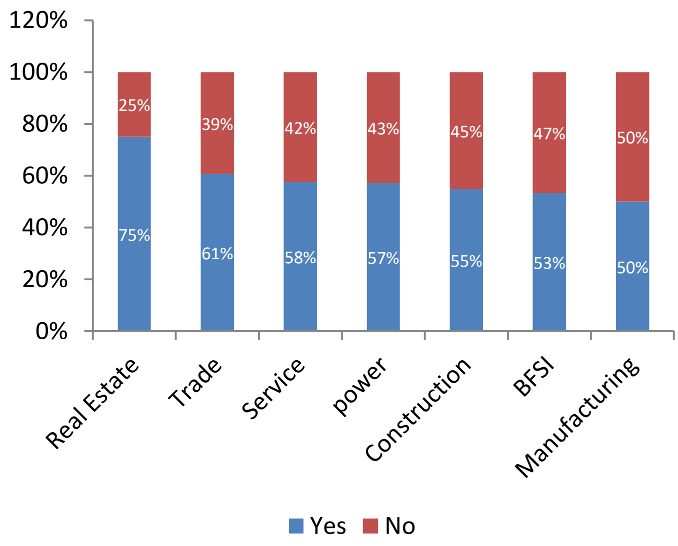


Q15. Do you think raw material scarcity and logistical challenges have now been resolved post 'unlock'?

- 56% (230 out of 409) of the respondents said that raw material scarcity and logistical challenges have now been resolved post 'unlock' however, 44% (179 out of 409) of the respondents are still facing scarcity



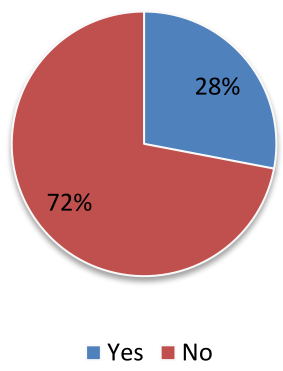
- 75% of real estate firms (8 out of 15) believe that raw material scarcity and logistical challenges have now been resolved. 50% of manufacturing firms (89 out of 197) have responded in negative



Support from government

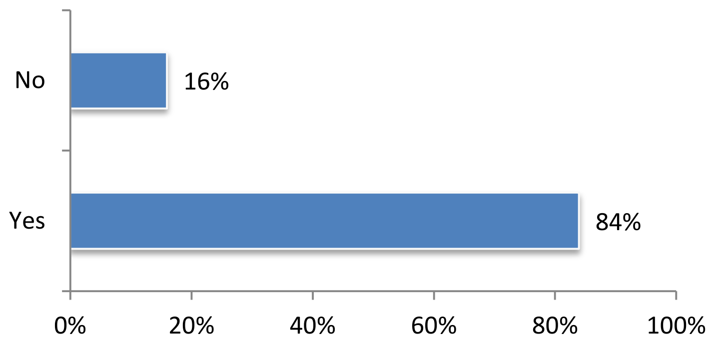
Q16. In your opinion, has the government done enough for revival of your industry?

- 72% of the respondents (297 out of 414) have responded that the government should do more for the revival of their industry while only 28% (117 out of 414) feels the government has done enough

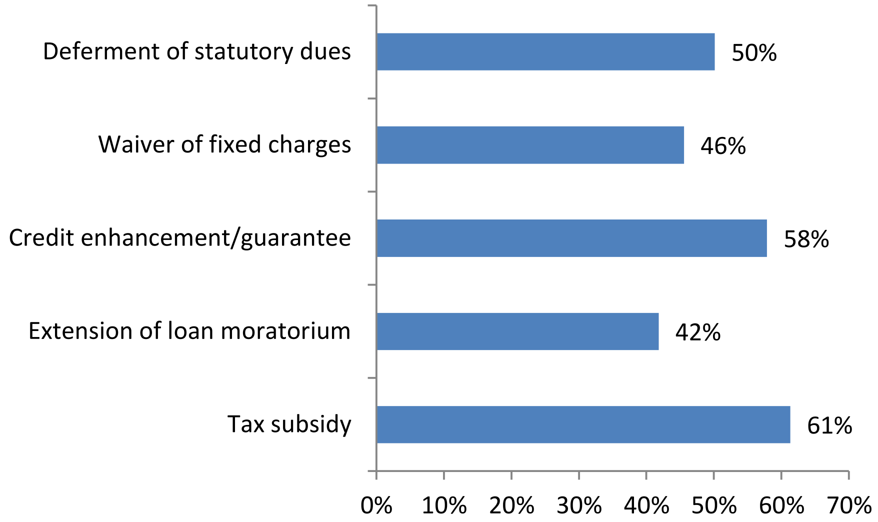


Q17. Do you expect any further support from the government?

- 84% of the respondents (348 out of 413) have said that they expect further support from the government while only 16% do not expect any further assistance



Q18. If Yes, what kind of support do you expect?

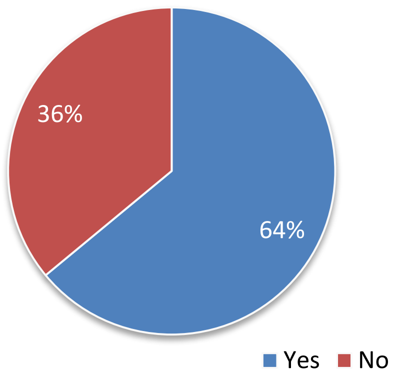


- Grant of tax subsidy by the government is the most unanimously desired incentive by the industry followed by credit enhancement/guarantee, deferment of statutory dues, waiver of fixed charges and extension of loan moratorium
- Some of the other incentives expected by the respondents were:
    - GST rate cuts
    - timely release of payments from government authorities
    - interest subvention for NBFCs
    - increase in government spending on infrastructure projects to boost demand
    - one time settlements of all dues from DISCOMs to power generating companies
    - extension to be given for completion of contracts without any penalties levied

Prospects

Q19. It is widely expected or hoped that rural demand will grow at a faster pace compared with urban demand in these times. Do you think rural demand will support growth in your industry?

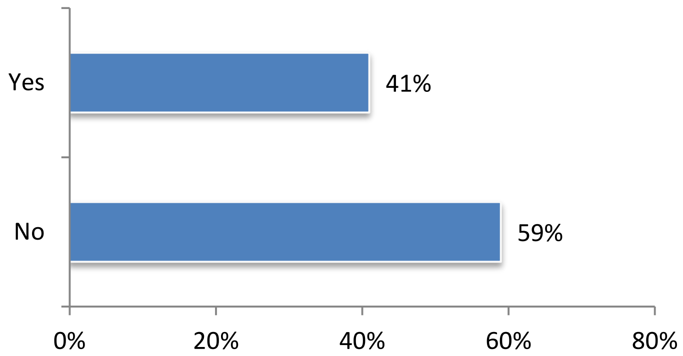
- 64% of the respondents (255 out of 399) said that rural demand will support growth of their industry while 36% believe otherwise



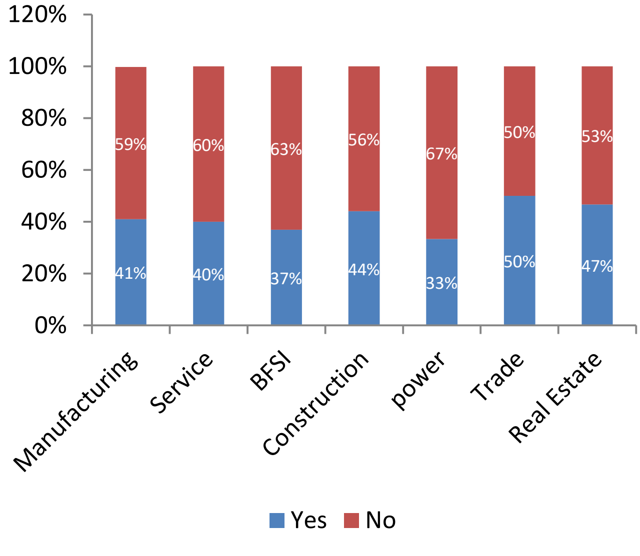
- 81% of respondents (48 out of 59) from BFSI sector said that rural demand will drive growth for their sector going forward.
- Similarly, 67% (124 out of 185) respondents from manufacturing and 10 out of 15 respondents from power sector have said that they expect strong rural demand to support growth of their sector
- However, 60% (9 out of 15) of respondents from real estate sector and 50% (16 out of 32) from construction sector do not expect rural demand to support growth of their sector

Q20. Do you see your industry expanding or adding capacity during FY21?

- 59% of respondents (235 out of 399) does not expect addition or expansion of capacity in their sector during FY21 due to Covid challenges while 41% (164 out of 399) expects their industry to add or expand capacity

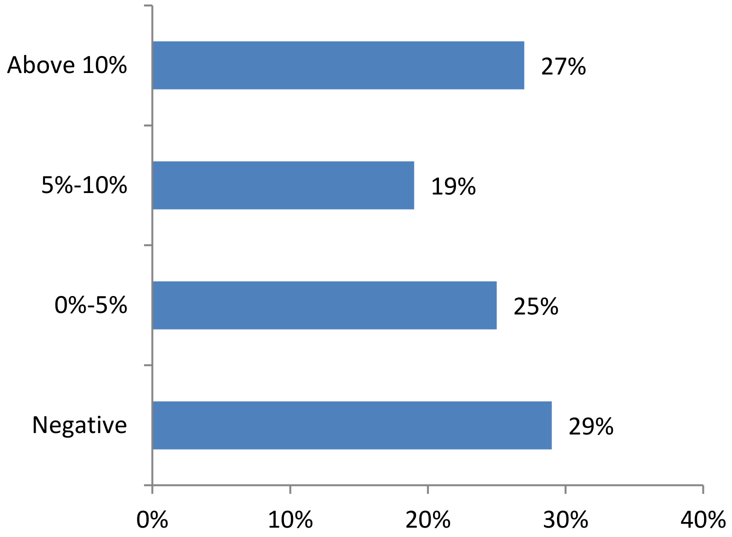


- Upon further analysis of the responses industry wise, the Survey depicted that more than 50% of the respondents from the services, BFSI, construction, power and real estate sectors do not expect their industry expanding or adding capacity during FY21



Q21. What do you expect your company's production growth to be in FY21?

- 29% of respondents (117 out of 397) expect their company's production growth to be negative in FY21 whereas 27% respondents (106 out of expect their production growth to be more than 10%
- 25% of respondents (100 out of 397) expects production growth to be in the range of 0-5%
- 19% of respondents (74 out of 397) believe their company's production to grow in the range of 5-10%
- 31% of respondents (18 out of 58) from the BFSI sector and 31% from the service sector (21 out of 68) expects growth to be more than 10% in FY21



Summing up

There is clearly a mixed picture emerging from the Survey. There has been a pick-up in activity though it will be a long way before pre-covid levels will be attained. By March 2021, a little more then 2/3 of the respondents believe they could reach the pre-covid levels of business. The micro units have been affected more in terms of impact of lockdown; and the migrant's issue has been significant. Also, their access to credit is still a challenge. Growth in NPAs is going to be a major issue for industry and more than 50% of the respondents in the micro, small & medium, and large companies expect this ratio to rise.

There are expectations of government intervention in terms of guarantees, deferral of charges, tax subsidy, waiver of payments etc. There is also big hope on rural demand driving the economy across sectors. However, there is no enthusiasm when it comes to capacity expansion which does not bode well for investment. Close to 30% of the sample companies surveyed expect negative growth in sales this year.

Hence, while things are moving in the right direction, it would be along a gradual slope with some expectations of a push from the government.