

## Survey on 'Impact of the extended lockdown on the Indian Economy'

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The unprecedented and uncertain nature of the coronavirus pandemic has nudged the global economy into a recessionary phase, and India, the 5<sup>th</sup> largest economy in the world, has not been insulated from this shock. In order to “flatten the curve” of the confirmed cases in India, the Prime Minister on March 24 had announced a nation-wide lockdown for 3 weeks which was further extended by two weeks till May 3. This means that there have been 5 consecutive weeks of limited economic activity.

**Against this backdrop, CARE Ratings had launched a Survey on 'Impact of the extended lockdown on the Indian Economy'** and reached out to experts in various fields including CEOs, CFOs, investors, analysts, economists and other stakeholders with an objective to understand their views on the likely impact of the extended lockdown on the Indian economy. This is a follow-up on the Survey conducted by CARE Ratings released prior to the announcement of the nation-wide lockdown (“Impact on the coronavirus on the Indian economy”).

The Survey was carried out during the period April 17 to April 28. *It is important to note here that at the time of preparation of the Survey, the assumption was that the nation-wide lockdown would continue till May 3 with no clarity beyond that. However, with the continuing increase in the number of confirmed cases in India, albeit at a slower exponential pace, it is likely that there could be a further extension of the lockdown with certain relaxation in some areas.*

Broadly, the Survey seeks views from experts on key macroeconomic indicators like GDP, inflation, Government finances, exchange rate, trade, employment, debt servicing position of the corporates among others and some industry specific impact on production and investment.

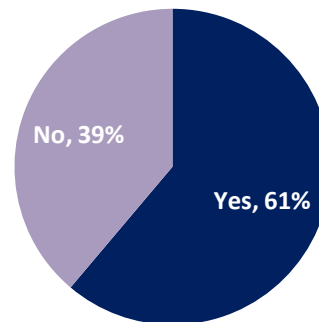
302 participants responded to the Survey from various sectors like manufacturing, financial services, banking, infrastructure, real estate and other services. Based on these responses received the gist of the responses has been summarized below:

- Majority expect India's GDP growth to contract in Q1-FY21 and be in the range of 1-3% during FY21.
- Majority also believe growth in industrial production to be subdued with almost 2/5<sup>th</sup> respondents giving a view that it could be negative.

- More than half of the respondents believe the Central Government’s fiscal deficit target of 3.5% will be exceeded by 4% of GDP and almost 90% feel that there is a need to relax the FRBM targets for the states.
- Retail inflation to be benign and close to the median inflation target of 4% set by the RBI.
- Mixed views of GSec yields but largely expecting it to be below 6.1%.
- A significant proportion believe the exchange rate to be above Rs 77/\$.
- Labour shortages across key industries like construction, real estate, manufacturing, auto among others is expected.
- Majority opined that the debt servicing ability of the corporates is likely to be strained during the fiscal.
- Majority expect the RBI to extend the loan moratorium period which would likely be for 1-3 months.
- Key industries like auto, textiles and oil and gas are expected to witness negative growth while industries like pharmaceuticals, FMCG, sugar and chemicals are expected to witness positive growth in FY21.
- Key services like hotels, restaurants and QSR, real estate, aviation and entertainment are expected to contract and the range of contraction is very severe (-1 to -75%)
- Pharmaceuticals, FMCG, healthcare, IT and banking are expected to witness a notable pickup in investment post the lifting up of the lockdown.

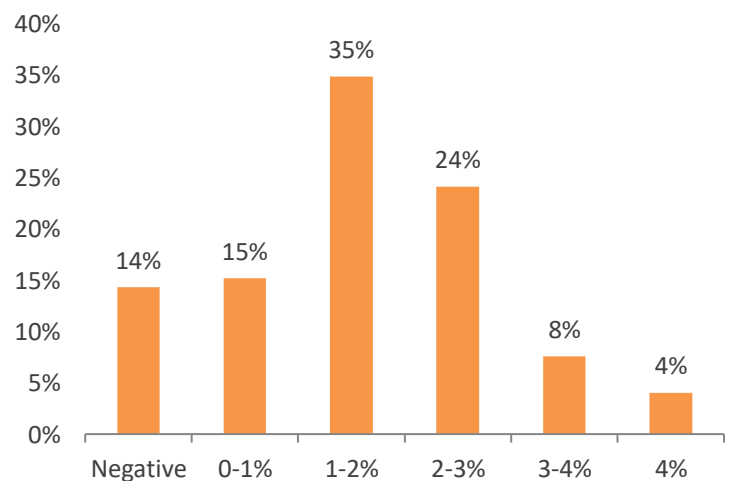
**Q1. On account of the extension of the nation-wide lockdown, will India’s GDP growth in Q1-FY21 be negative?**

- 61% of the respondents expect India’s GDP in Q1-FY21 to be negative on account of the extension of the nation-wide lockdown.
- India’s economy has not contracted during any quarter from the commencement of the new base year of 2011-12.



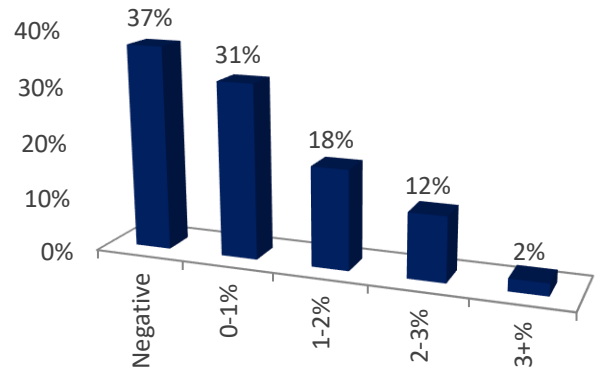
**Q2. India’s GDP growth was estimated at 5% in FY20 prior to the outbreak of the COVID-19 crisis. In view of the extended lockdown, what will be the GDP growth in FY21?**

- 35% of the respondents (78 out of 224 respondents) expect India’s GDP growth to fall to around 1-2%.
- 24% of the respondents (54 out of 224) feel that India’s GDP growth in FY21 to be around 2-3%.
- There are 32 respondents (15%) who also believe that India’s economy could even contract in FY21.
- Only 12% of the respondents feel India’s GDP growth could be more than 3% in FY21.
- Broadly, the majority believes that the growth in the Indian economy could be between 1-3% during the fiscal.



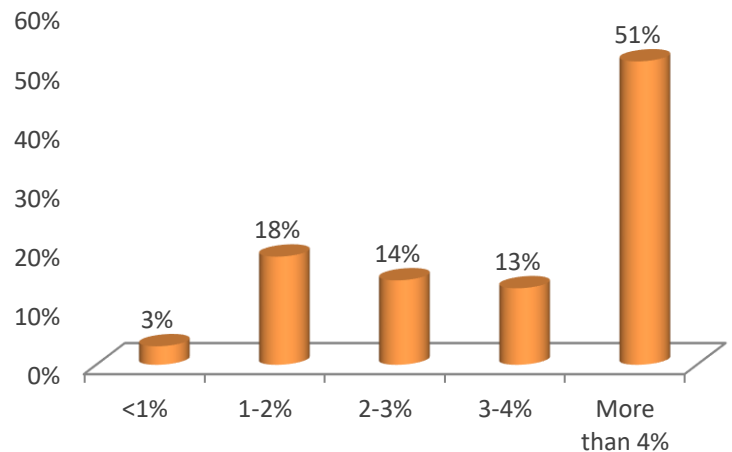
**Q3. India's growth in industrial production (IIP) was 0.9% for the 11-month period April'2019 and February'2020. With production activities likely to be disrupted, what will be the growth in industrial output in FY21?**

- 82 out of the 223 respondents (37%) feel industrial production will witness negative growth in FY21.
- This is followed by 70 respondents (31%) who feel industrial production to be muted at around 0 to 1% during the fiscal.
- 30% of the respondents believe industrial production could grow at a subdued pace of 1-3%.



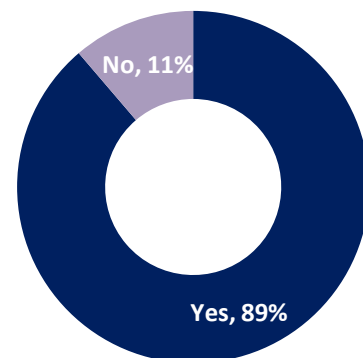
**Q4. The Central government has budgeted the fiscal deficit at 3.5% of the GDP in FY21. On account of the current stimulus package and another likely one to be announced, the fiscal deficit could exceed by what percentage of GDP?**

- Just little over half of the 224 respondents have opined that the Central governments' fiscal deficit could widen by more than 4% of the GDP in FY21 from the current budgeted level of 3.5% of GDP.
- 18% of the respondents (41) feel the fiscal deficit would widen by around 1-2% of GDP followed by 14% and 13% of the respondents providing a view that it could widen by 2-3% and 3-4% respectively.



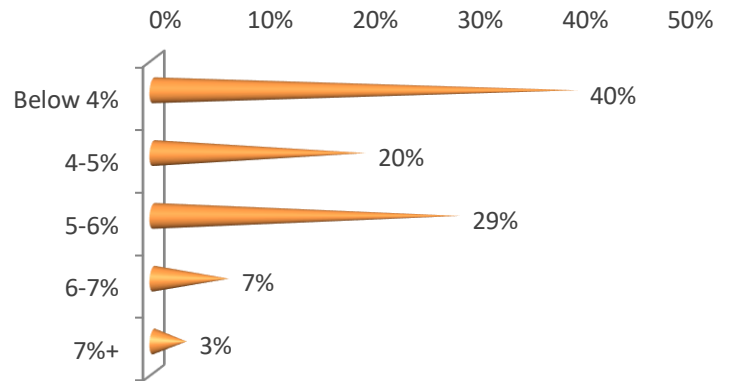
**Q5. Will FRBM targets be relaxed for the states?**

- Almost 90% of the respondents have opined that the state's FRBM targets need to be relaxed.
- It is important to note here that the Central government has made use of the "escape clause" in the FY21 budget as per the FRBM Act, but the states' (which have announced the FY21 budget so far) have not made use of the escape clause.



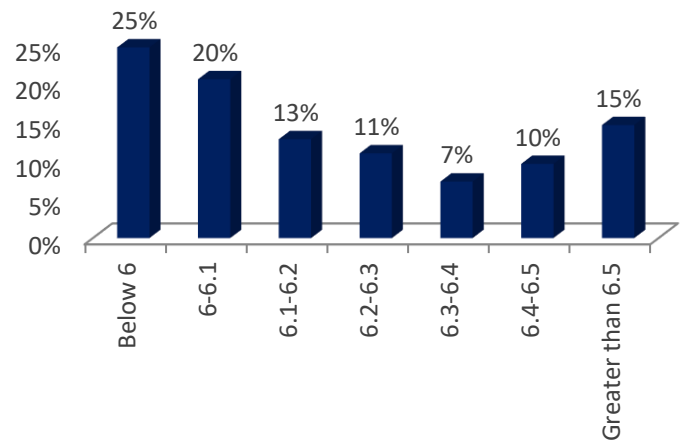
**Q6. Headline CPI inflation (y-o-y%) for FY20 was 4.8%. In the next 3 months, what will be the range of headline CPI inflation?**

- 40% of the respondents (90 out of 223 respondents) believe retail inflation to be below the 4% level in the next 3 months, which is below the RBI's median inflation target level.
- There are 20% respondents who have a view that retail inflation will be around 4-5% while 29% opine that it will be between 5-6%.
- Therefore, cumulatively 90% of the respondents believe that retail inflation will remain within the RBI inflation range of 4% (+/- 2%) in the next 3 months.
- 10% of the respondents (23) expect that retail inflation will be above 6% in the next 3 months.



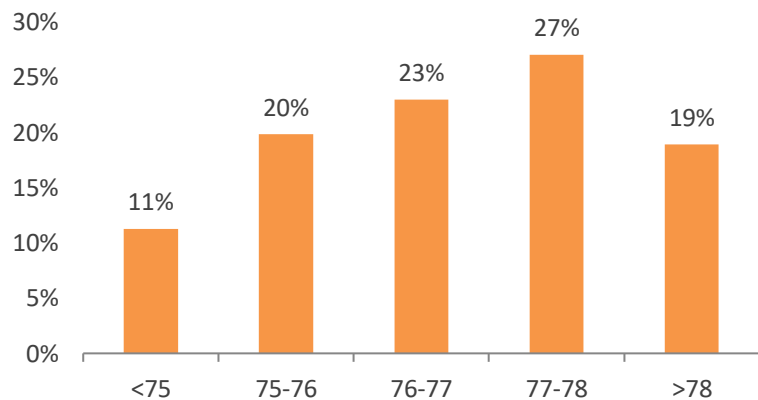
**Q7. The 10 year GSec yield as of 16 April, 2020 was 6.44%. What will the 10 year GSec yield (%) be by June end?**

- 25% of the 220 respondents believe that GSec yields will fall below 6% by June end followed by 20% of the respondents who have a view that it will be in the range of 6 – 6.1%. Cumulatively 45% opine that GSec yields will be below 6.1% by June end.
- There are also 15% of the respondents who have opined that GSec yields could be above 6.5% by June end.
- Out of the 102 respondents in the banking, finance and capital market segments, 23 expect that GSec yields will be below 6% while 17 feel that the yields will cross 6.5%.
- The GSec yields were 6.14% as on April 28.



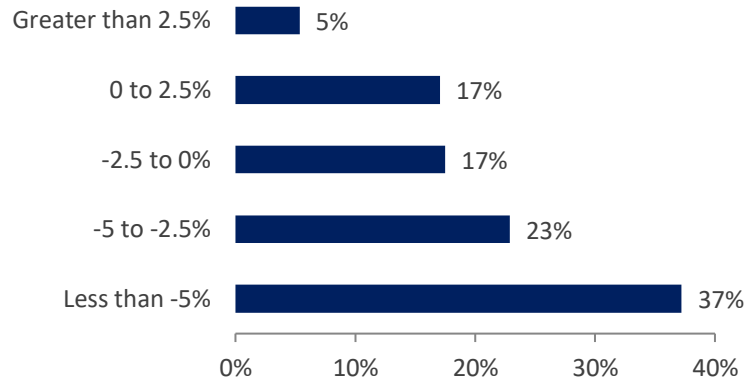
**Q8. What is the range in which the rupee/ dollar exchange rate be by June end? (Rs/\$ exchange rate was Rs 76.86/\$ as on April 16, 2020)**

- Almost 1/5<sup>th</sup> of the 222 respondents have opined that the rupee/dollar exchange rate could be above Rs 78/\$ by June end followed by 27% of the respondents believing that it could be within Rs 77-78/ \$.
- 23% of the respondents believe the exchange rate to range 76-77/\$ by end of June.
- There are 11% respondents who expect the rupee to strengthen from the current level (Rs 76.19/\$ as on April 28) and be below Rs 75/\$ by June end.



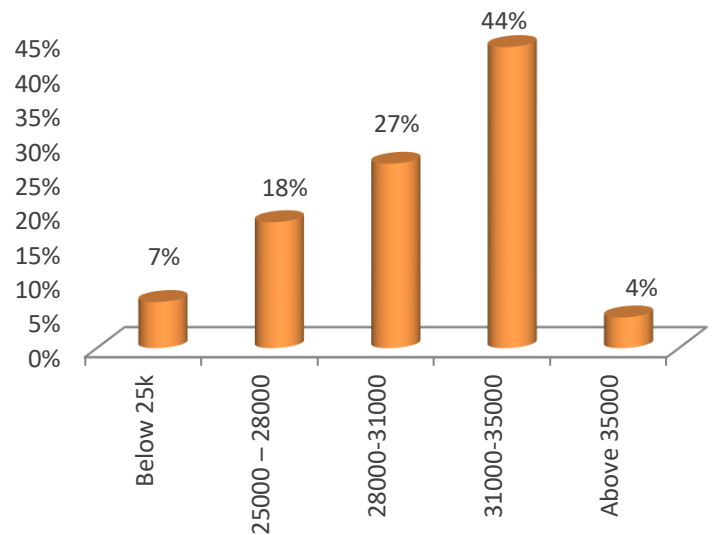
**Q9. India's exports growth (y-o-y%) during FY20 is -4.8%. What is growth in exports likely to be in FY21?**

- 37% of the respondents (83 out of 223 respondents) feel that India's export growth could contract further by more than 5% in FY21 over the 4.8% negative growth witnessed in FY20.
- 4/5<sup>th</sup> of the respondents expect exports growth to contract in FY21.
- Out of the 223 respondents, 22% feel exports growth could be positive but subdued. There are only 5% respondents who expect export growth to be above 2.5% in FY21.

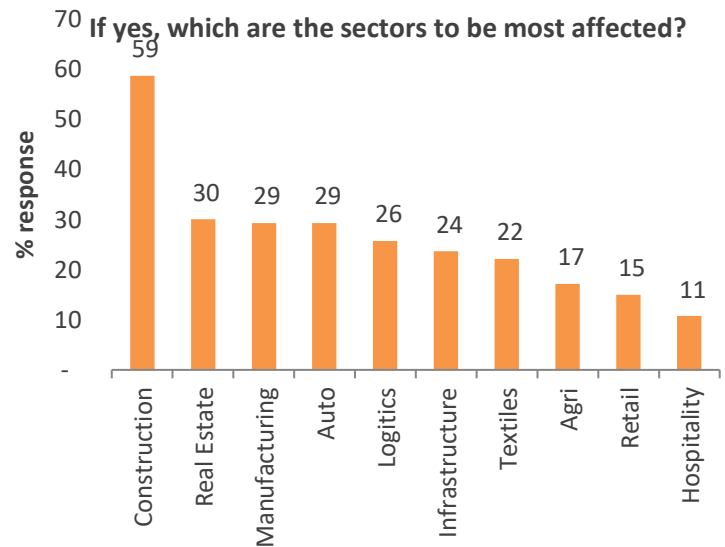
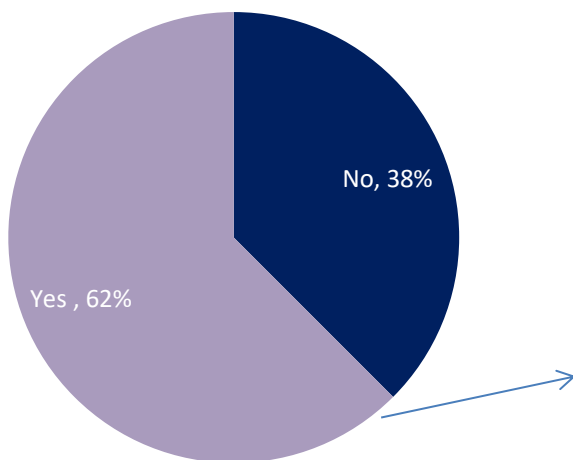


**Q10. The BSE Sensex is trading at 30,602 as on April 16, 2020. What is the range you expect the BSE Sensex to be trading at as of June end?**

- 44% of the respondents (98 out of 224) expect the BSE Sensex to be in the range 31,000-35,000 by June end.
- There are very few respondents who expect that BSE Sensex to be at the extreme ends of the available options i.e below 25,000 (7%) and above 35,000 (4%)
- 27% respondents believe that the BSE Sensex would be in the range of 28,000 to 31,000 by June end while there are 18% respondents who expect it to be in the range 25,000 to 28,000.
- The BSE Sensex ended the session on April 28 at 32,115.



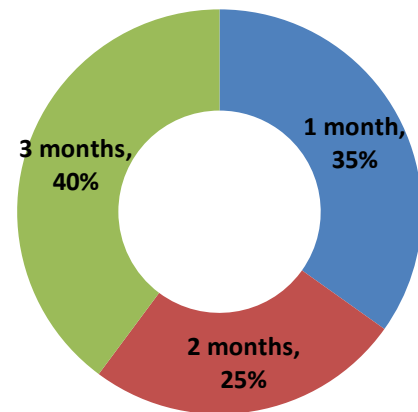
**Q11. Does the corporate sector expect labour shortages with the easing of the lockdown?**



- 62% of the 224 respondents have provided a view that there could be labour shortages in the corporate sector following the easing of the nation-wide lockdown.
- The respondents who have opined in the affirmative believe that sectors like construction (59% respondents out of 140 respondents), real estate (30%), manufacturing and auto (29%) and logistics sector (26%) could be impacted the most in terms of labour shortages. In this question, we had sought views on which are the top 5 sectors which could be the most affected.

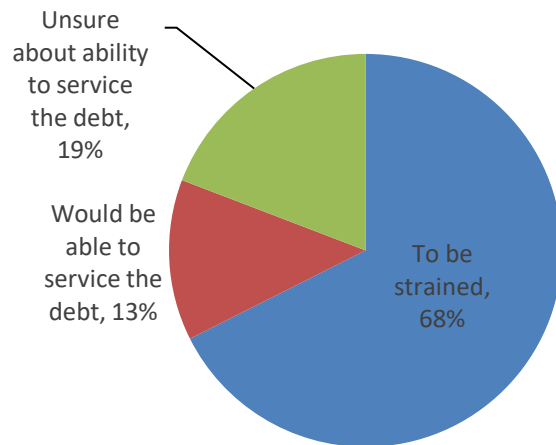
**Q12. How long will it take labour to resume work after the lockdown is lifted?**

- After the lockdown is lifted, 40% of the 221 respondents expect labour to completely resume work within 3 months.
- There are 35% of the respondents who expect labour to resume work within 1 month while 25% feel that it will take 2 months for labourers to resume work following the lifting up of the nation-wide lockdown guidelines.



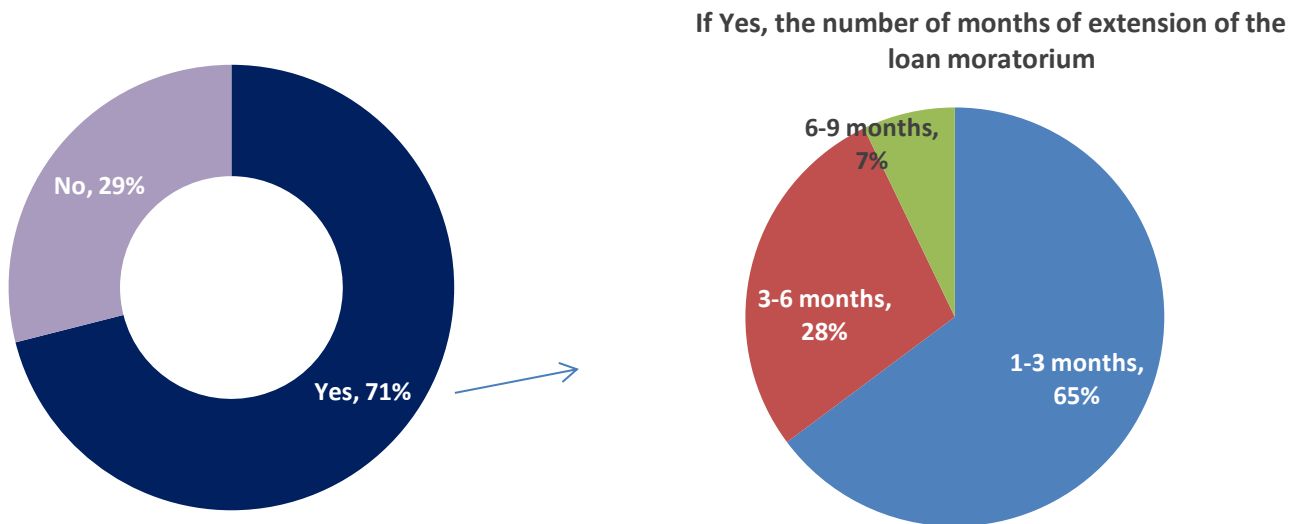
**Q13. What is the debt servicing ability of the corporate sector likely to be in FY21?**

- 68% of the 219 respondents believe that the debt servicing ability of the corporate sector is likely to be strained in FY21.
- 19% of the respondents are unsure about the debt servicing ability of the corporate sector.
- There are 13% respondents who believe that the corporate sector would be able to service the debt in FY21.



**Q14. Will the RBI extend the loan moratorium period from the current period of 3 months? If Yes, by how many more months will the loan moratorium period be extended by?**

- 71% of the 221 respondents felt that the RBI should further extend its loan moratorium period from the current period of 3 months. 61% of the respondents in the banking and NBFC sector (respondents : 94) have provided their view that the moratorium need to be extended.
- 65% of the 196 respondents have opioned that the extension of the moratorium should be around 1-3 months while 28% believed that it should be 3-6 months. Only 7% respondents felt that it should be between 6-9 months.



**Q15. In view of the negative or positive impact of COVID-19 on different sectors, what do you expect production growth in each of the following sectors to be in FY21?**

	Negative growth (% respondents)	% range	Positive growth* (% respondents)	% range	Total respondents
<b>Auto</b>	<b>74</b>	<b>-30 to 0</b>	<b>26</b>	<b>0 to 5</b>	<b>151</b>
Pharma	2	-2 to -3	98	0 to 25	150
Cement	51	-15 to 0	49	0 to 20	152
Steel	51	-25 to 0	49	0 to 20	150
<b>Textile</b>	<b>55</b>	<b>-25 to 0</b>	<b>45</b>	<b>0 to 15</b>	<b>148</b>
FMCG	14	-10 to 0	86	0 to 20	151
Consumer durables	49	-30 to 0	51	0 to 10	146
Sugar	25	-15 to 0	75	0 to 12	138
<b>Oil and Gas</b>	<b>57</b>	<b>-25 to 0</b>	<b>43</b>	<b>0 to 10</b>	<b>145</b>
Power	44	-12 to 0	56	0 to 20	142
Engineering goods	49	-20 to 0	51	0 to 5	144
Chemicals	21	-20 to 0	79	0 to 15	144

\*Including nil growth

- In case of auto, textile and oil and gas, more than half of the respondents believe that these sectors will witness negative growth in FY21.
- In case of cement, steel and consumer durables, 50% of the respondents believe that it will witness negative growth.
- In case of auto and consumer durables, the range of contraction expected during the year is between 0 to 30%.
- The sectors with more than half of the respondents who believe that there will be positive growth are pharmaceuticals, FMCG, sugar and chemicals. 98% of the 150 respondents think that the growth in the pharmaceuticals sector will be positive. The range of positive growth expected in the pharmaceuticals sector is 0 to 25%.
- 86% of the 151 respondents also believe that the FMCG sector will witness positive growth while 80% of the 144 respondents believe that the chemical sector will witness positive growth.

**Q16. What do you expect the growth in sales of the following services based sectors to be in FY21?**

	Negative growth (% respondents)	% range	Positive growth* (% respondents)	% range	Total respondents
<b>Hotels</b>	<b>80</b>	<b>-75 to 0</b>	<b>20</b>	<b>0 to 7</b>	<b>152</b>
Retail and Ecommerce	18	-20 to 0	82	0 to 25	143
<b>Restaurants and QSR</b>	<b>72</b>	<b>-60 to 0</b>	<b>28</b>	<b>0 to 10</b>	<b>148</b>
<b>Real Estate</b>	<b>76</b>	<b>-40 to 0</b>	<b>24</b>	<b>0 to 5</b>	<b>150</b>
<b>Aviation</b>	<b>77</b>	<b>-60 to 0</b>	<b>23</b>	<b>0 to 10</b>	<b>146</b>
IT	20	15 to 0	80	0 to 25	143
<b>Entertainment</b>	<b>63</b>	<b>-60 to 0</b>	<b>38</b>	<b>0 to 20</b>	<b>144</b>
Trade	42	-20 to 0	58	0 to 20	142

\*including nil growth

- As per the respondents, barring retail and ecommerce, IT and trade, all the other remaining services sector are expected to witness significant contraction in the sales in FY21.
- More than 70% of the respondents feel that hotels (80%), restaurants and QSR (72%), real estate (76%) and aviation (77%) will witness negative growth in FY21. The range of negative growth expected by respondents is also notable in all these four sectors.
- Sectors like retail and e-commerce, IT and trade are expected to do well in FY21. 82% of the 143 respondents expect positive growth in the retail and E-commerce sector. Based on a few responses, it can be inferred that the growth will be supported by the E-commerce sector rather than retail. Also 80% of the 143 respondents expect positive growth in the IT sector.

#### Q17. Specify the industry specific measures which are expected from the government?

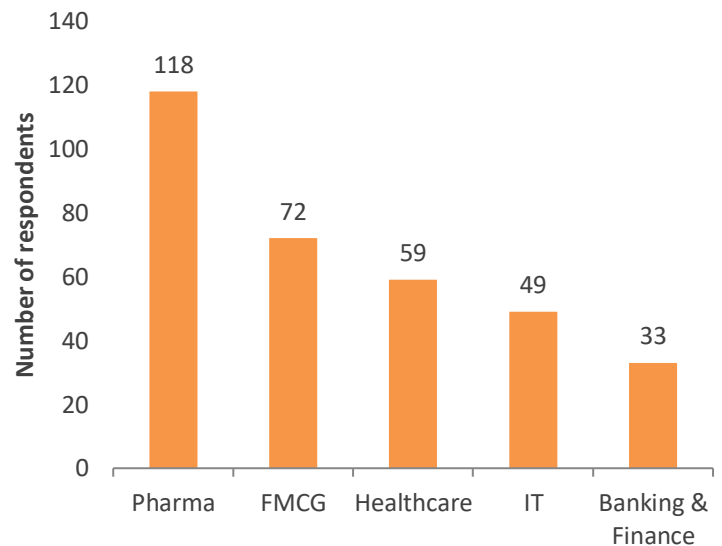
- GST rate reduction and ease of compliance
- Income tax rate reduction/ tax rebates/ tax holidays
- Industry specific measures via infusing liquidity and working capital support
- Relief for MSMEs
- Boost to infrastructure projects (especially healthcare)
- Extended moratorium, interest rate reduction and relaxation of NPA norms by the RBI
- Employee compensation (including employee guarantee, payment of salaries)



- We had sought 3 industry specific relief measures from the respondents and the chart above provides a summary of the key responses.
- GST rate reduction and income tax rate cut/rebates are key industry measures expected by the respondents.
- The industry specific measures were in the form of liquidity specific measures via providing interest free loans, meeting working capital requirements to different sectors like aviation, auto, travel, tourism, textile, real estate, agriculture, construction, road and NBFCs.
- The relief to the MSME segment is expected in the form of working capital support, consolidation of MSMEs, guarantee and refinance schemes, release of all pending payments by the Government to the MSMEs among others.
- There are also other measures which are expected by the respondents like:
  - Waiver of fixed cost payments like electricity, rent etc
  - Releasing pending dues from the Government
  - Export subsidies and trade protection measures
  - One time restructuring loan program and government guarantees on loan

#### Q18. Post lockdown, which are the top 5 industries in which you expect investment to pick up?

- Out of the 177 responses for this question, 118 respondents expect pharmaceutical industry to witness a pickup in the investment.
- The top 5 industries which are expected to see a pick-up in investment are Pharmaceuticals, FMCG, healthcare, IT and banking and finance.
- 17 out the 33 respondents are banking and financial sector experts who expect higher investment in the banking and finance sector.
- Apart from these 5, the other sectors which respondents expect higher investment are infrastructure and heavy engineering, e-commerce, agriculture and retail.



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