

Impact of ongoing lockdowns on economic prospects

May 13, 2021

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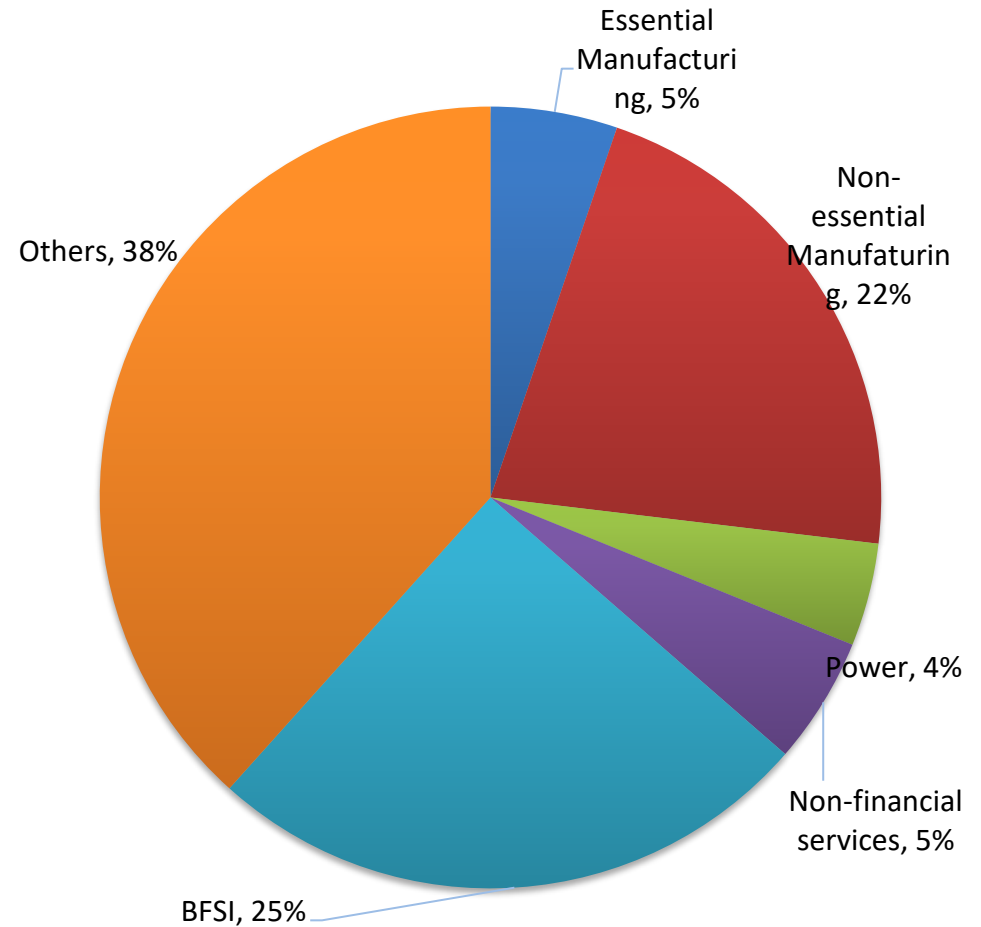
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Introduction

India has been witnessing an alarming resurgence in Covid-19 infections since March 2021. Consequently several states have imposed lockdowns/restrictive measures to curb the spread of the virus. Worsening pandemic situation, localized lockdowns and slower than expected pace of vaccinations have darkened prospects of a nascent economic recovery and accentuated business uncertainty. “CARE Ratings’ Survey on Impact of ongoing lockdowns on economic prospects” was conducted to understand and evaluate the impact of the second wave of Covid-19 and subsequent restrictions on the economy. It seeks views on the impact on business operations (including for SMEs) and likely relief measures expected from the Governments and the RBI.

Sample Details

- Total respondents : 305
- Well-distributed sample which includes respondents ranging from manufacturing, financial services, power, non-financial services and others.
- Some of the respondents in the survey also belonged to the SME sector.
- Period of survey: 27th April to 11th May, 2021



Key Takeaways

- The Survey revealed that majority of the respondents perceived lockdown to be a solution for the raging coronavirus situation in the country with a sizeable number expecting it to extend only till May-end. However, they considered the current lockdown to be less stringent than last year.
- The optimism over India's vaccination drive seems encouraging.
- At least 80% of the respondents expect consumer demand for non-essentials as well as investment demand to be severely impacted. Almost the same proportion of respondents believe NPA situation to worsen in the coming months.
- A large set of respondents (i.e. almost 3/4th) believe that the turnover of the non-manufacturing essential segment to be the most impacted followed by non-essential services (47%)
- The economic recovery is beginning to lose steam with infection rates scaling record highs. Almost 7/10 respondents expect GDP to be below 9% for FY22.
- Majority of the respondents expect moratorium by the central bank and emergency credit line to be extended by the government as a policy response to ease business conditions. In addition, release of pending dues from the government, indirect tax cuts, etc. have also found noticeable mention.
- MSMEs are faced with issues of labour shortages and escalating business uncertainty with a large set of them expecting business performance to worsen.

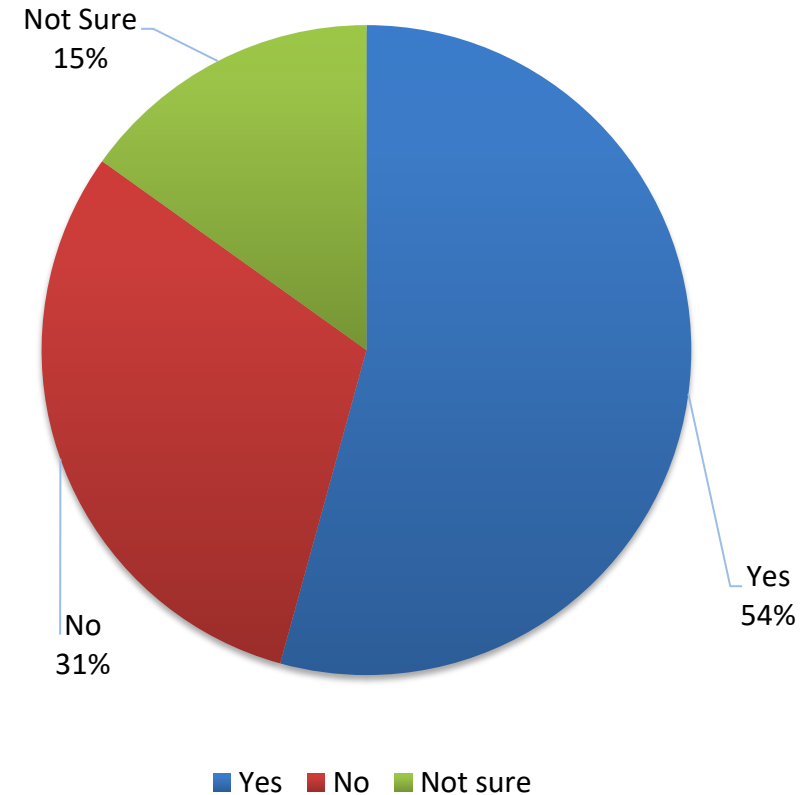
Q. In your opinion, is lockdown a solution to the current COVID-19 situation?

Majority of the respondents i.e., 54% (165 out of 304) felt that lockdown was a solution to the current Covid-19 situation in the country.

31% (93 out of 304) of the respondents stated that lockdown was not a solution.

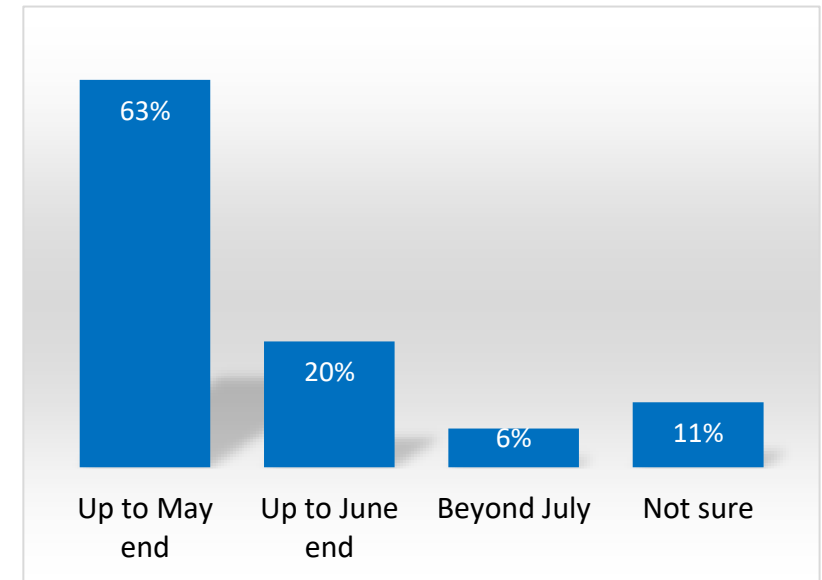
Overall 15% (46 out of 304) respondents were not sure if lockdown was a solution or not.

Although there has not been a nation-wide lockdown announced so far, states have imposed restrictions of varied characteristics since April 2021 and they have become more complete in May 2021 for some states.



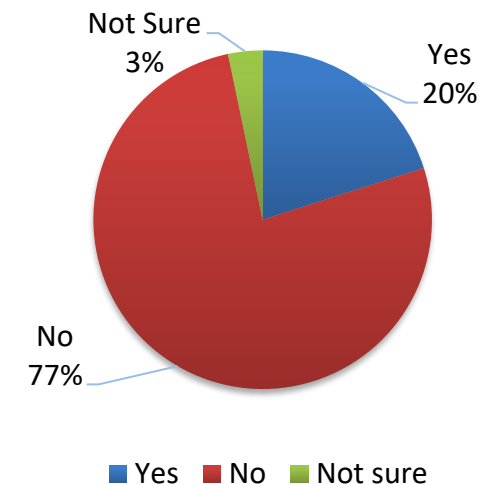
Q. Till when do you see the current lockdown last up to?

63% of the respondents (191 out of 304) felt that the current lockdown may last up to May end. 20% (62 out of 304) anticipated the lockdown to last up to June end. Only 6% (19 out of 304) felt that the lockdown can extend beyond July. 11% of the respondents (32 out of 304) were not sure. With active case-loads still high and daily cases easing at a gradual pace for some states, it will be interesting to see the timing and degree of relaxations at the state level in the coming months.



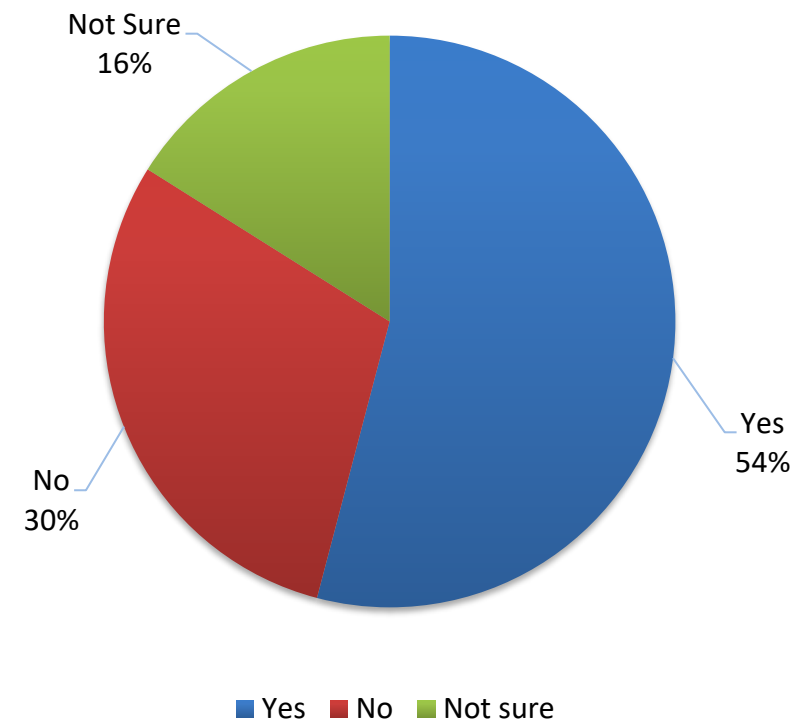
Q. Do you feel that the current lockdown is more stringent than last year?

Little more than 3/4th of the respondents (77% or 233 out of 304) were of an opinion that the current lockdown is not as stringent as the lockdown imposed last year while 20% (61 out of 304) of the respondents cited the current lockdown to be more stringent. The remaining 3% (10 out of 304) were not sure.



Q. Do you feel confident about India's vaccination drive?

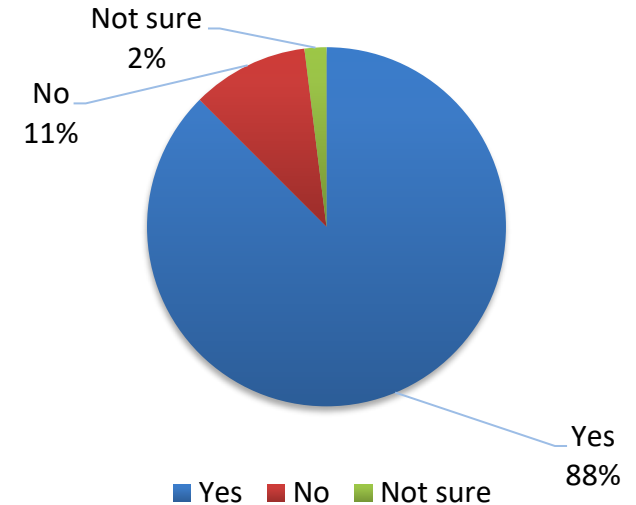
Little more than half of the surveyed individuals i.e. 54% (165 out of 305) felt confident about India's vaccination drive. On the contrary, 30% (91 out of 305) responded negatively and 16% (49 out of 305) were not sure. The 46% of respondents who are either not confident or unsure would have factored in the recent concerns around shortages in vaccines and limited suppliers to ramp up production.



Impact of ongoing lockdowns on businesses

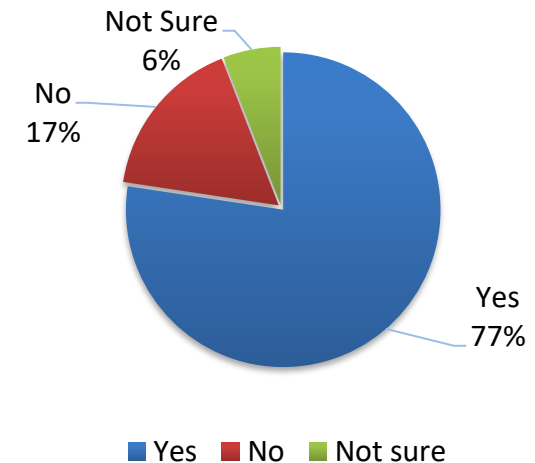
Q. Do you feel that consumer demand for non-essentials will be affected in Q1-FY22?

A large majority of the respondents (88% or 266 out of 304) expect the demand for non-essentials to be affected in the first quarter of FY22 as against the 11% (32 out of 304) who responded in negative.



Q. Do you feel the overall investment demand in the economy will be affected?

Likewise 77% (236 out of 305) believed that the investment demand in the economy will be affected while 17% (51 out of 305) stated that it will not be affected. Overall 6% (18 out of 305) were not sure of the impact on investment.

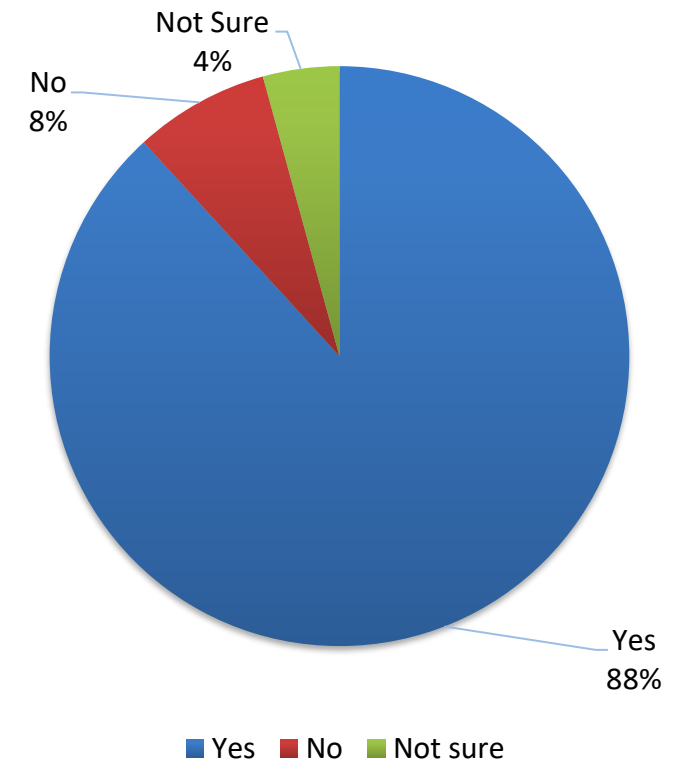


Both these components are integral aspects of India's economic growth and with a sizeable set of respondents believe them to be affected means that the green shoots of the recovery is likely to be further prolonged.

Q. Do you think lockdowns/other restrictive measures will impact migrant labourers?

Of the 305 respondents, 269 or 88% expect that migrant labourers will be impacted by the lockdown/other restrictive measures. Only 8% (23 out of 305) were of the opinion that the migrant labourers will not be affected.

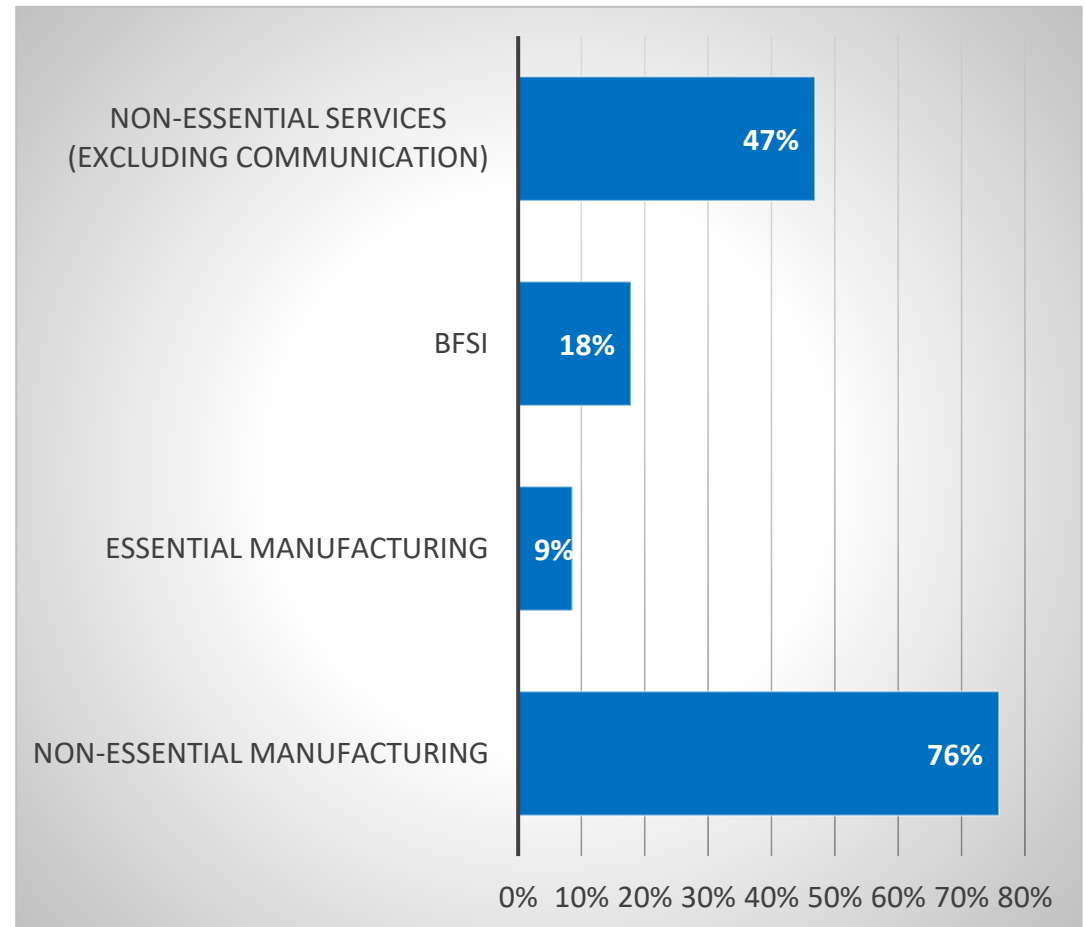
“Reverse migration” was a common theme during the nation-wide lockdown and this severely impacted business activities. With sizeable number of respondents expecting an impact on migrant labourers, one will have to see whether the degree of reverse migration is likely to be similar to the previous fiscal and the severity of impact on business operations.



Q. For which segment, turnover is likely to be most affected in Q1-FY22?

As per the Survey results the turnover in the non-essential manufacturing sector is likely to be the most affected with 76% share followed by non-essential services (excluding communication). While essential manufacturing and BFSI segments are expected to be the least affected with 9% and 18% share respectively.

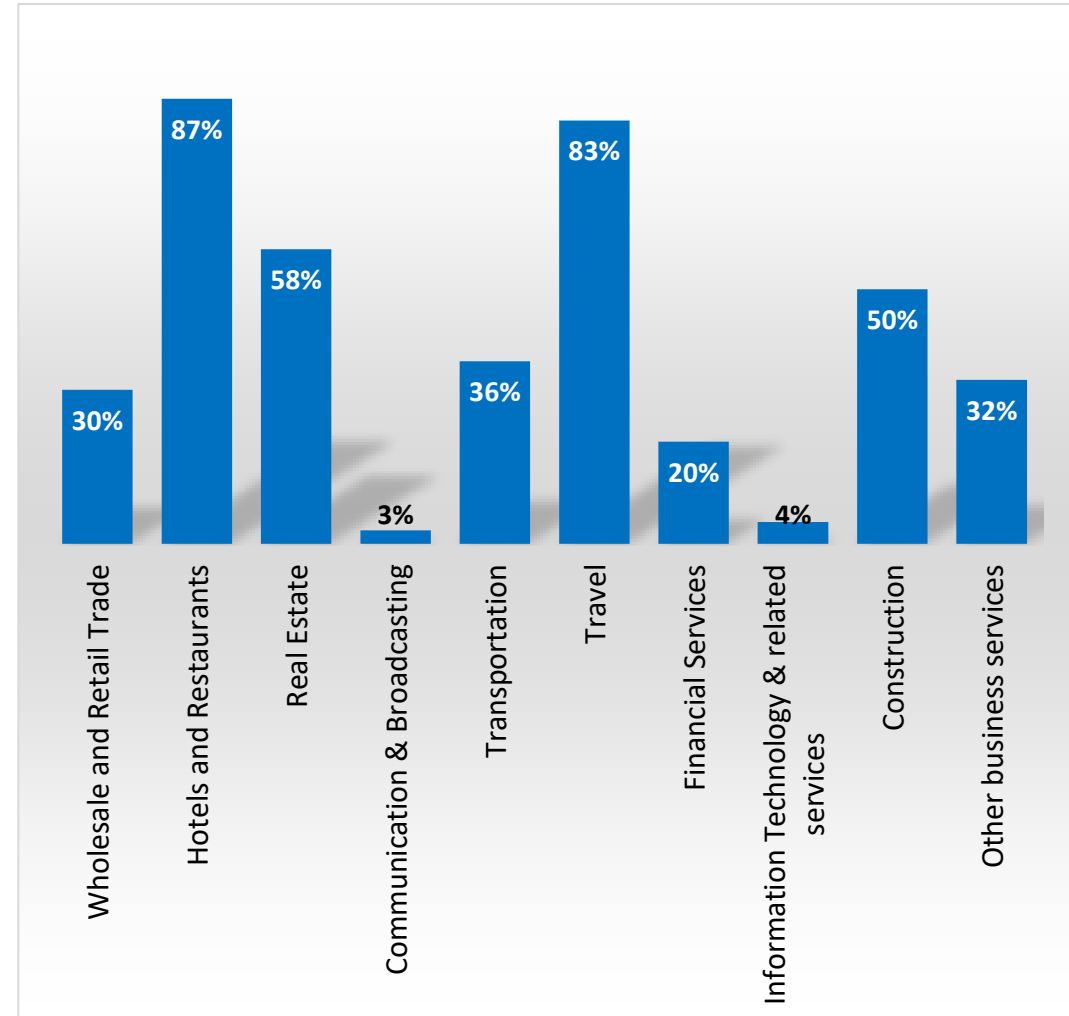
52 out of 66 respondents in the non-essential manufacturing segment expect turnover of the same segment to be impacted during the first quarter.



Q. According to you, for which services, business operations are likely to be most affected in Q1-FY22?

Majority of the respondents felt that business operations are likely to be the most affected in the hotels & restaurant and travel industry with 87% and 83% respondents expressing this view. This can be attributed to the contact intensive nature of these services and restrictions for them likely to be relaxed only at a later stage. 50% of the respondents believe that construction sector will be one of the most affected.

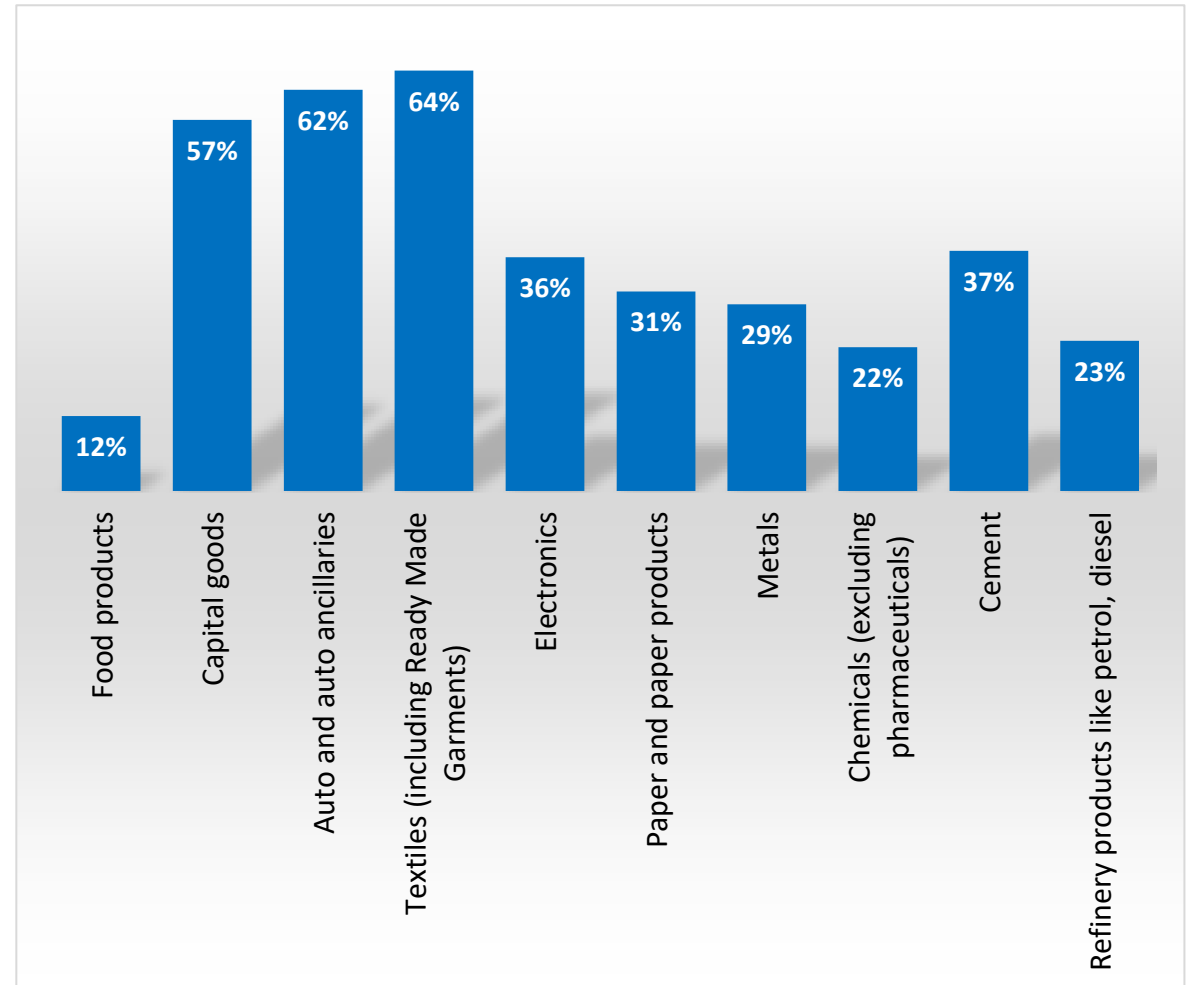
Only a small proportion of the respondents felt that communication & broadcasting and IT related services are likely to be affected with only 3% and 4% share respectively. The impact for these services is likely to be limited owing to “work from home” nature of operations.



Q. According to you, for which manufacturing based industries, business operations are likely to be most affected in Q1-FY22?

64% of the respondents expected the textile industry to be the most affected manufacturing based industry in Q1-FY22, followed by the auto industry (62% share) and capital goods industry (57%).

Only 12% of the respondents anticipate that the business operations of the food products segment to be impacted in the first quarter.

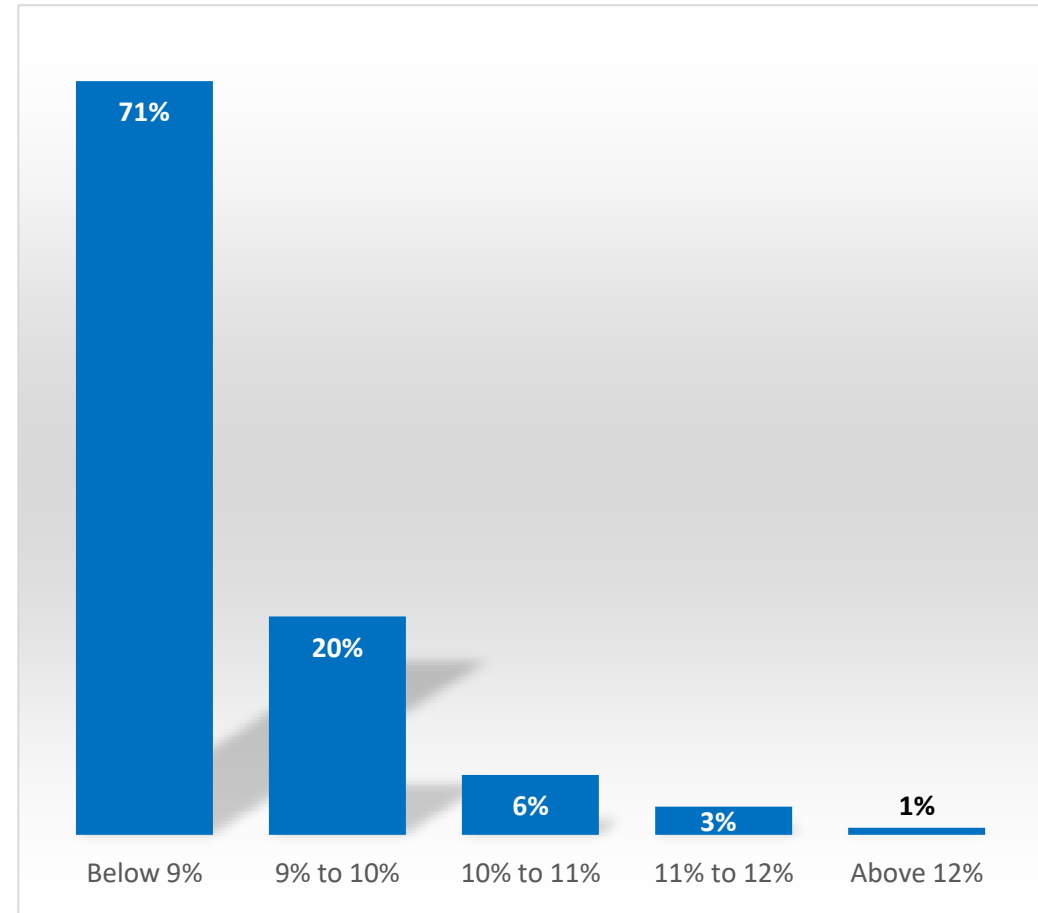


Impact of ongoing lockdowns on the economy & relief measures

Q. What is your GDP projection for FY22?

71% (214 out of 303) respondents projected GDP for FY22 to be below 9%. 20% (62 out of 303) opined that the GDP would be within the 9% to 10% range followed by 6% who believed GDP to be between 10% to 11% and 3% said that it would be between 11% to 12%. Only 1% (2 out of 303) respondents were optimistic about 12% or higher GDP.

The uncertainty following the second wave of the pandemic and the localized and varied degree of lockdowns have dampened the prospects of economic recovery. CARE Ratings' has further revised its GDP growth forecast to 9.2% for FY22 from its initial projection of 11-11.2%

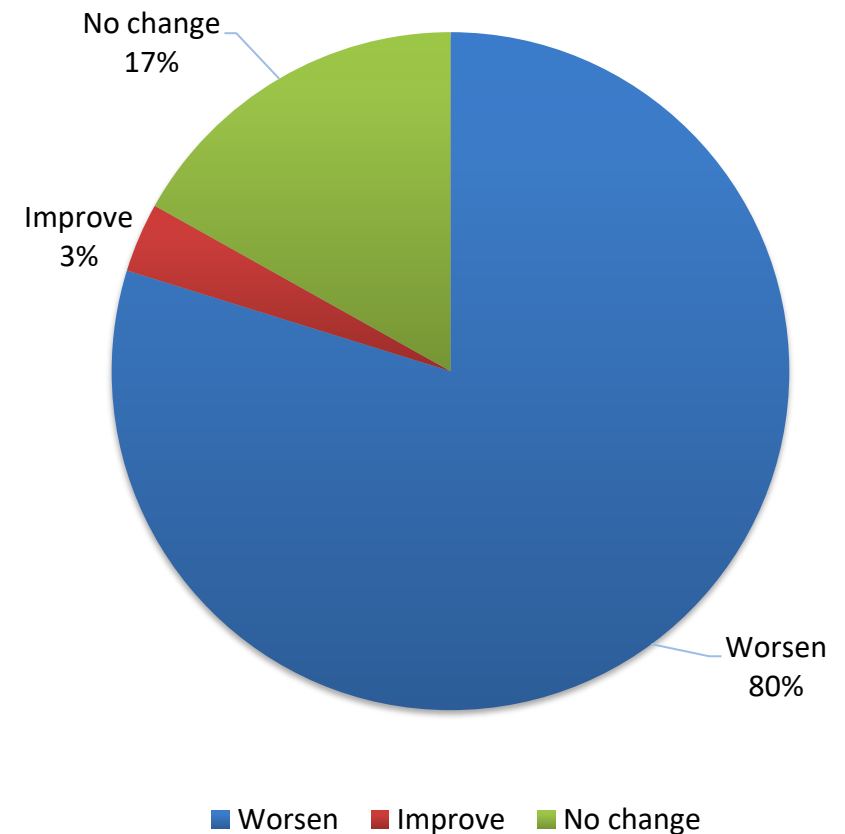


Q. What according to you will be the impact of lockdowns/restrictions on NPAs?

80% (241 out of 302) of the respondents expect the condition of NPAs to worsen as a result of the lockdowns/restrictions. 17% (51 out of 302) said that they were not sure. Only a small proportion of respondents i.e., 3% (10 out of 302) expected the condition of NPAs to improve.

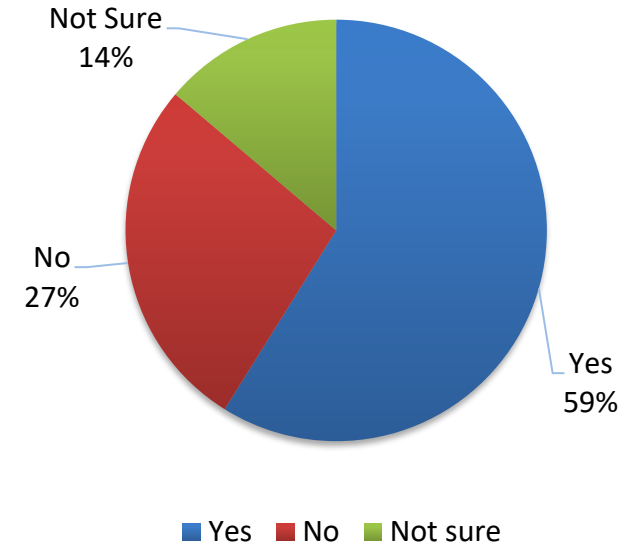
65 out of the 77 respondents i.e. 85% from the BFSI segment believe NPAs are likely to worsen on account of the lockdowns.

The RBI had projected NPAs to increase to 13.5% (baseline scenario) by September 2021 considering the lockdown impact of 2020. One will have to wait and watch for the revision in estimates (if any) as collections have weakened owing to the recent lockdowns.



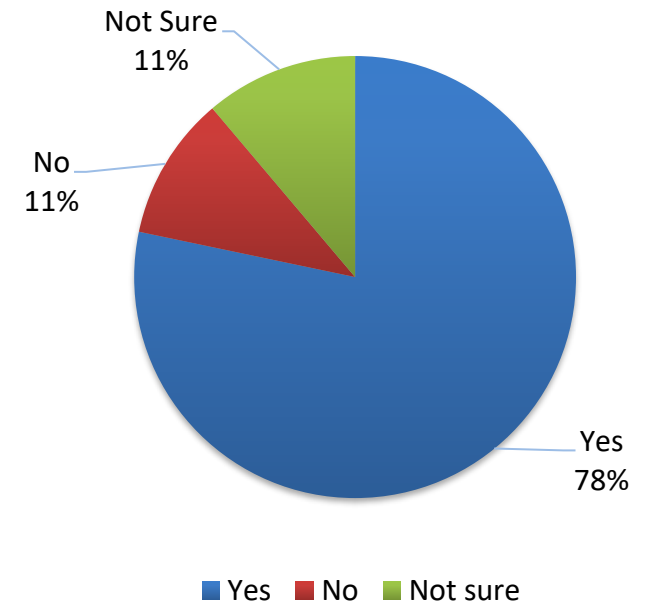
Q. Do you think another moratorium should be announced for the businesses?

59% (179 out of 304) respondents opined that another moratorium for the businesses should be announced while 27% (83 out of 304) responded negatively and 14% (42 out of 304) were not sure. The RBI so far has not announced a blanket moratorium facility across sectors (as was announced during the lockdown last year) but has extended liquidity support and announced a new restructuring facility for borrowers.



Q. Do you feel that the lockdown imposing states must extend an emergency credit guarantee?

Moreover, 78% (238 out of 304) respondents stated that the lockdown imposing states must extend an emergency credit guarantee, while 11% chose no and not sure each. So far the states have only announced relief measures in the form of cash-transfers and food .

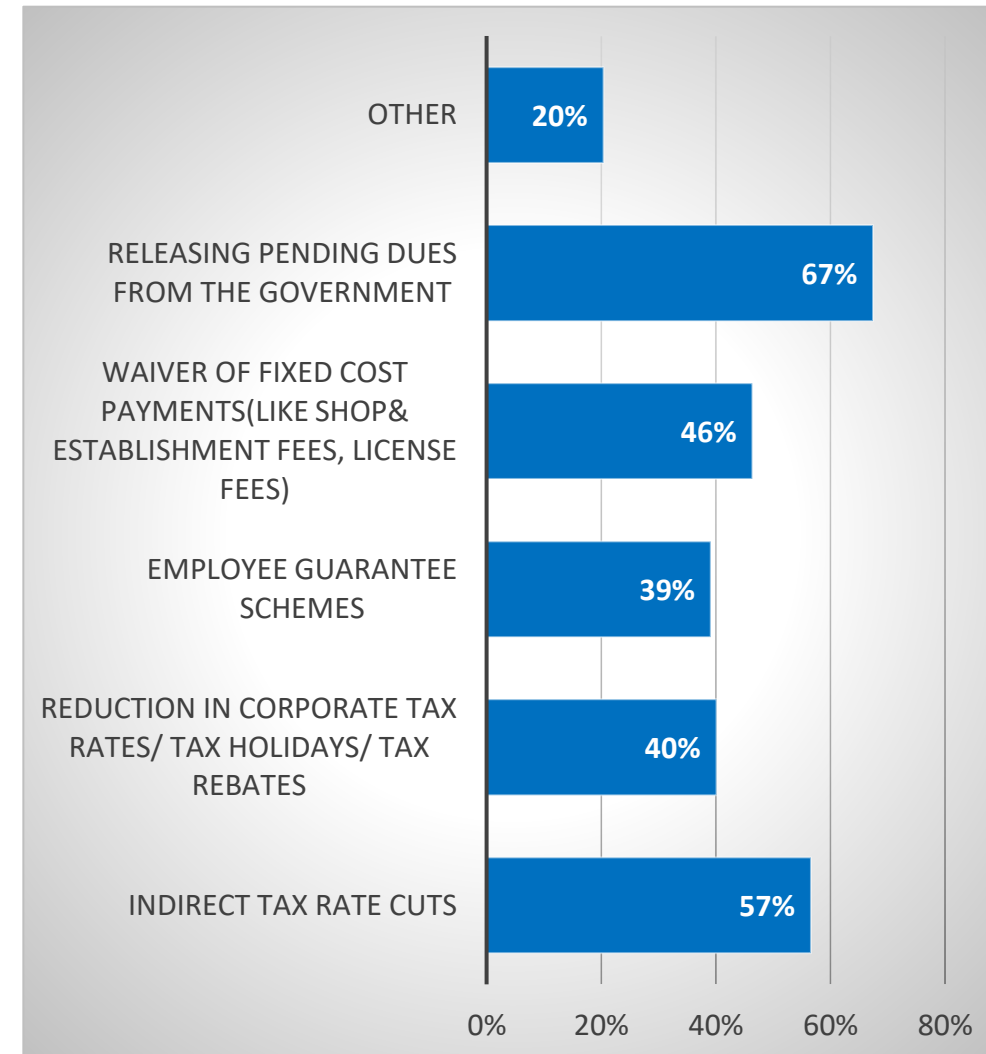


Q. Apart from moratorium and emergency credit guarantees, what relief measures should be announced by the government?

The Survey revealed that 67% (205 out of 304) respondents believed release of pending dues from the government as a relief measure to ease the burden on businesses. This was followed by indirect tax rate cuts (57% share), waiver of fixed cost payments (with 46% share), reduction in tax rates and tax holidays/rebates (40%), employee guarantee schemes (39%) and other measures (20%).

So far the Central government has announced food relief measures worth Rs 25,000 crs, waiver of import duties on pharma-related commodities and easing of certain impending compliance burden.

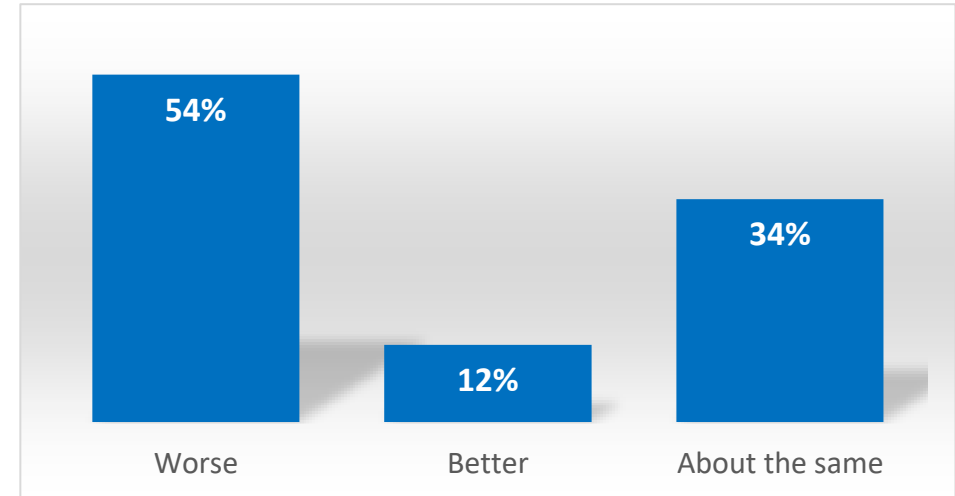
Respondents also believed several other measures (20%) such as relaxation of NPA norms, GST rebate, flexibility in payment of statutory dues were needed to ease the burden on businesses.



Impact of ongoing lockdowns on MSMEs

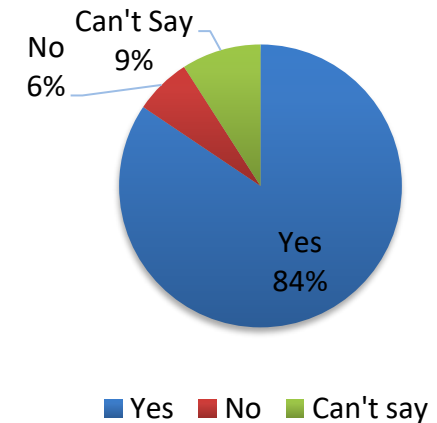
Q. How do you expect your business to be impacted over the next 6 months?

54% expected the business conditions to worsen over the next 6 months and 34% expected no change in the business conditions. Only 12% anticipated an improvement in business activities.



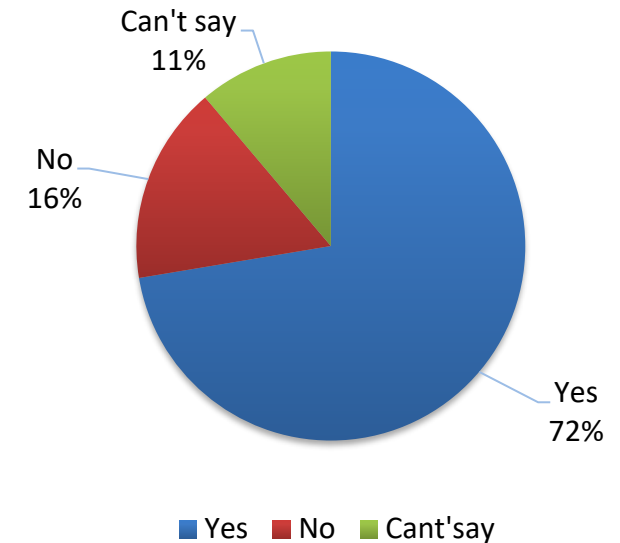
Q. Do you feel business uncertainty has escalated given Covid-19 resurgence?

84% respondents believed that Covid-19 resurgence has escalated business uncertainty while only 6% responded negatively. Meanwhile, 9% individuals were unsure.



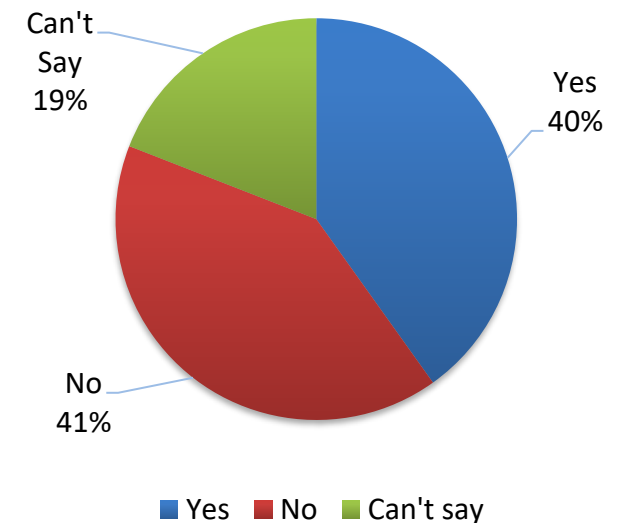
Q. Do you feel that the restrictions would cause shortages in labour supply?

A large proportion of respondents from the MSME segment i.e., 72% felt that the restrictions would cause labour supply shortages. On the contrary, 16% respondents do not foresee labour shortages and 11% were unsure.



Q. Do you propose to borrow over the next 6 months?

Responses were almost equally divided as 41% respondents said that they were not likely to borrow over the next 6 months and 40% responded in affirmative. Meanwhile, 19% responded with a 'can't say'.



Thank You