Industry wise scenario during lockdown

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The 39 day national lockdown (since 25 March'20) to contain the spread of the COVID-19 pandemic has brought most economic activity to a sudden standstill. Although this has affected all sections and sectors of the economy, it has been more severe in case of certain sectors, especially those that were already witnessing a slowdown even before the lockdown.

While the government has so far announced some relief measures it has been limited in scope. It has mainly been geared towards providing extension in compliances, providing money and food to the needy and making available liquidity at the system level. In coming days, sector specific relief and stimulus measures are expected. Industry bodies across sectors have sought relief and stimulus to help in the revival of their businesses so as to avoid loss of employment and the detrimental impact on their cash flows and dues.

We have covered here for 20 key sectors the prevailing scenario during/due to the lockdown. Sector specific relief and revival measures sought have also included. The sector covered are -

- Automobiles & components
- Aviation
- Construction
- Consumer Durables /Electronics
- Education
- FMCG
- Gems & Jewellery
- Hospitality & tourism
- IT services
- Logistics
- Oil and Gas
- Paper & paper products
- Pharma and healthcare
- Ports
- Power
- Retail
- Steel
- Sugar
- Telecom
- Textiles

The views here have been gathered from media reports and statements made by concerned professionals in industry.

Automobiles & components

The Society of Indian Automobile Manufacturers (SIAM) said that overall auto sales fell 45% in March 2020 as the spread of Coronavirus hit demand. The industry body estimates that the automobile industry is losing Rs 2,300 crore every day due to closure of production. For an industry that is going through a slowdown, this comes as an additional blow

The auto industry - already fretting lengthy factory shutdowns and depressed new-vehicle demand is starting to sound the alarm about a potential used-car price collapse that could have far-reaching consequences for manufacturers, lenders and rental companies. Used-vehicle auctions are for now virtually paralyzed, much like the rest of the economy. The grave concern market watchers have is that vehicles already are starting to pile up at places where buyers and sellers make and take bids on cars and trucks and that this imbalance will last for months. If that fear is realized and prices plummet, it will be detrimental to automakers and their in-house lending units, which likely will have to write down the value of lease contracts that had assumed vehicles would retain greater value. Rental-car companies also will get less money from selling down their fleet of vehicles, which are sitting idle amid a global pandemic that's been catastrophic for travel.

The Automobile Component Manufacturers Association of India (ACMA), urged the union government to introduce host of measures to protect the automotive component manufacturers from the adverse aspect of the Covid – 19 pandemic on their businesses. As most of the automobile manufacturers have stopped manufacturing due to the pandemic, component manufacturers – mostly small and medium enterprises – are finding it tough to manage their cash flows.

Aviation

The airlines industry has been beleaguered as countries have imposed travel restriction and are going into complete lockdown. For the period, 25th March 2020 till 3rd May 2020, the Indian government has restricted all passenger movement and air transport services too have been halted for the time being (not applicable for cargo/freight transport).

The airlines industry has also been impacted in the form of ticket cancellation, grounding of aircrafts, cut in salaries and wages of employees and in some cases employees have been sent on unpaid leaves. One regional airline has also ceased its operations until further notice and has put all its employees on a sabbatical without pay till further notice. As per the circular released by DGCA airlines are not to take any booking for domestic or international flights until they receive further orders from the government. This means airlines may not be able to commence the operation of domestic/ International flights even after the current lockdown that is in effect till 3rd May 2020 is eased. Also, as per the guidelines issued by the Ministry of Civil Aviation, airlines have to refund full flight ticket costs to passengers who were scheduled to travel between 25th March to 3rd May, 2020.

Construction

The nationwide lockdown has bought about a standstill of building and construction activities. This coupled with the reverse migration of workers has added to the stalling of on-going projects. Many interstate migrants are not expected to return to work anytime soon even with the government allowing the resumption of certain construction work since 20th April,2020 due to the ambiguity of the duration of the lockdown and fear of contracting the virus.

The MHA has now permitted the construction of roads, irrigation projects, buildings and all kinds of industrial projects including MSMEs in rural areas, i.e. outside the limits of municipal corporations and municipalities; and all kinds of projects in industrial estates. MHA has also permitted the construction of renewable energy projects and of construction sites within the limits of municipal corporations and municipalities, where workers are available on site and no workers are required to be brought in from outside.

Consumer Durables /Electronics

March and April generally contribute over 12% each in sales turnover to the consumer durables industry. But with sales in March 2020 down by 55% y-o-y amid the coronavirus-induced lockdown, the sector is staring at uncertain times. The government could definitely look at tax reduction in times to come.

Industry association Consumer Electronics and Appliances Manufacturers Association (CEAMA) has recommended measures to alleviate the stress on the sector:

- As financial support to the industry, through various independent bodies, the industry has appealed to the government for the postponement of loan repayments at least up to June 2020, 50% reduction of interest rate on active and new loans, easy credit, especially for SMEs, putting EMIs on hold for the next three months, one year of no levy of local taxes, faster GST settlement/refunds and deferment of GST payment by 90 days for the next six months and pegging GST at 50% for the rest of the year.
- To increase disposable income, for the time being, industry has also recommended temporarily stopping the employee contribution to PF, a higher exemption limit on medical expenses and lowering income tax for this financial year which, in turn, will result in greater consumer expenditure. Allowance of extra overtime to catch up with the time lost and support to industry in the form of wage payment to contract labour, from the government, will help stabilise the situation faster in the post lockdown period. Delaying the reinstatement of customs duty on open cells to 5%, waiving various custom charges on select cases and easy processes to clear consignment at ports are recommended as well.
- As various types of compliance entail capital expenditure, holding off the proposed harmonisation of select models (single-door and double-door refrigerators) with IEC standard, the regulation of membrane-based water purification systems, suspension and revision of time lines for various standard implementations under quality control orders have been suggested. With the disruption of the supply chain, as a relief measure to manufacturers, BEE may also reconsider the deferment of new energy table for air-conditioners and washing machine table (star rating plan for front load, top-load automatic and semi-automatic models), along with waiving the electricity duty. The reduction of collection target for e-waste and plastic waste for the financial year by 50% will also help the industry to a great extent.

Education

Covid-19 has created a paradigm shift in the education system as lectures are now taking place in the online mode. Due to the covid-19 pandemic in the country, all schools and colleges have been temporarily shut and learning is being held in the digital mode instead of regular classrooms. All students of grades 1 to 8 are compulsorily promoted to the next grade without holding any examination. In addition to this, there has been a surge in enrolment of online classes for tutors.

FMCG

The FMCG industry is facing supply chain constraints as sourcing of raw materials is getting increasingly difficult amidst a nation-wide lockdown. Most factories are operating at under-utilized capacities leading to fall in production. One of the biggest challenges is the shortage of labourers who can work in factories.

Sales have also taken a hit as distribution chains are disrupted. Some companies have asked their transporters to change the practice of two drivers per truck to one driver per truck, thereby reducing 50% of truckers. Companies expect sales of discretionary products to have a higher impact, compared with staples. Currently, the focus of FMCG players is to ensure availability of essential items to consumers.

Gems & Jewellery

On 15th April, 2020, the Ministry of Home Affairs, GOI announced the start of operations in certain types of industrial units outside of the demarcated containment zones from 20th April, 2020. With this, many units of the gem and jewellery industry are likely to begin limited operations. Gems and jewellery is one of those industries, that is critical from the point of view of job creation in the country. The announcement to start operations brings a ray of hope for the industry that is facing multiple challenges.

Hospitality & tourism

The country's travel and hospitality industry is staring at a Rs 5-trillion revenue loss over the next year while 35-40 million jobs, both direct and indirect, are in jeopardy. The nationwide lockdown has shuttered hotel and travel sectors, clogging their earnings. The distressed industry has sought a bailout package from the finance ministry to sustain its business in the aftermath of the pandemic. Among the foremost demands of the industry is to extend the tenure of moratorium on loans pegged at three months by the Reserve Bank of India (RBI) to 12 months.

After the Ministry of Home Affairs (MHA) order on 15th April,2020 maintained the status quo in the travel and hospitality sector, the key stakeholders said that while they support the government's decision to extend the lockdown till 3rd May,2020 in order to curb the COVID-19 pandemic, they would urge the government to take stock of the key recommendations that they had already submitted seeking immediate monetary relief. The Federation of Associations in Indian Tourism and Hospitality (FAITH), the nodal agency of all the national associations which is in touch with various ministries, said the government should take note of their key recommendations including setting up a COVID-19 tourism relief fund for interest free 10 year working capital loan for salaries and establishment costs, deferment of all statutory liabilities and increasing of the banking moratorium period to 12 months without any interest.

IT services

a) IT services industry acts as a backbone to global clients by managing their supply chains and providing other critical services. When the nation-wide lockdown was announced, the industry started facing multiple challenges in functioning efficiently. Remote working has concerns such as ensuring continuity of critical teams, slow bandwidth and data breach of clients. Therefore, the industry had stressed on the need to restrict work-from-home in the case of employees who support critical functions of global clients. Also, companies are required to seek client permission before allowing employees to work on sensitive projects outside the office, which may not be given in case of certain clients, especially in the BFSI space. The GOI recently allowed IT companies to operate with 50% staff in their offices from April 20th, 2020 which will act as a boon to the IT industry by helping in mitigating losses through a mix of on-premise and remote work, and avoid layoffs.

b) IT units/ start-ups operating from 60 Software Technology Parks of India (STPI) have been granted waiver from paying rental for a period of 4 months from March to June 2020. This will benefit nearly 200 small & medium IT/ITeS units and support nearly 3,000 direct jobs.

Logistics

The logistics sector has been marred as the national lockdown has also prompted the sealing of state borders (except for essentials) which has restricted the entire transportation ecosystem.

From 20th April 2020, many of the curbs placed on movement of trucks will see some easing, but the Indian trucking sector is also facing a shortage of drivers. In case of sea transport, container freight stations, inland container depots, warehouses and port terminals, which are all notified as essential services, are getting choked due to slow evacuation of containers and cargo.

Oil and Gas

Outburst of oil supply from Saudi Arabia over a non-agreement of a production cut deal with Russia and the spread of the novel coronavirus (COVID-19) to countries all over the world has led to oil prices decline sharply (even temporarily falling into negative category)from the start of the year till date. This is impacting the realizations of domestic E&P players as it is far below the breakeven price. In addition upstream companies are still required to pay royalty, cess and profit to the government of India which is severely impacting their financial statements.

There has also been an extension of bidding of oil and gas blocks under the OALP regime in view of the nationwide lockdown imposed to curb the spread of COVID-19 pandemic.

Paper & paper products

One of the companies that include paper segment as one of its business activity mentioned that it has resumed operations of its board and tissue plants to manufacture packaging materials for medicines, sanitizers and napkins. This segment has started tissue and board production from the plants located in one of the states in north India and 3 cutting centres are already running. Paper production is likely to start after the lockdown, the company mentioned after getting approvals from district authorities. The company's pulp and paper mills were already in operation at the plants in a restricted pattern to fulfil the essential services industry's needs. It had also started operations at its cutting centres to meet the packaging needs of pharma companies.

Pharma and healthcare

A member of AiMeD, an Umbrella Association of Indian Manufacturers of Medical Devices said that restrictions imposed on the mobility of the citizens associated with the supply, distributions and transport of medicines, raw materials, components to make masks, sanitizers and other medical devices to the factories and manufacturing plants have been holding up production adding to shortages. Also, pharma / medical device manufacturers are facing issues as the district administrations in various states / UTs have given directions to close the manufacturing operations in the pharmaceutical / medical device industry as part of various measures to contain the spread of the coronavirus.

Considering these problems, the Department of Pharmaceuticals, Government of India mentioned in the second week of April 2020 that the manufacturing units of pharmaceuticals and medical devices are working only up to 20-30% of their capacity due to the national lockdown on account of the Covid-19 outbreak. "If production does not reach the pre-lockdown level soon, it could lead to shortage of drugs and medical devices in the country," it informed the Union Home Ministry in a communication.

Post this alert, a member of the Indian Drug Manufacturers' Association says that manpower availability has improved a bit, but people who have left the cities are hard to replace. Materials movement hasn't improved much and packaging also remains difficult to procure. There is a very slight improvement in the operating capacities among our big and small members — 30% to a maximum of 50%, adding that raw material consignments were stuck at ports and airports for clearance, especially at the JNPT, the Mumbai airport and the Chennai port.

As per the Organisation of Pharmaceutical Producers of India (OPPI), its members are operating at 40%-50% of their installed capacities, an improvement from a week ago. The organisation added that truck movement has improved, coming from a zero level (when the lockdown was initiated) to 40%-50%. Availability of cold chain services, critical for moving vaccines and insulin, are still at 30% of the pre-lockdown levels, and we have been alerting this to the government.

Ports

COVID-19 has caused disruption to the supply chain, leading to delays in clearing of goods from ports and increase in the average turnaround time to 12 days from it being 3 days which has led to some cargo owners suspending their operations and detaining of containers. The ministry also intimated major ports that COVID-19 can be considered as a natural calamity that would entitle ports to invoke the force majeure (a clause absolving companies from meeting their contractual commitments for reasons beyond their control) provisions in various contracts.

Kolkata Port Trust has declared force majeure at its Haldia Dock Complex, becoming the first state-owned major port trust to invoke the clause in the wake of the outbreak of the coronavirus. Most of the private ports and terminals operating in the country too have invoked the force majeure clause as most of them are involved in end to end contracts.

Power

Being an essential service, the supply of power continues uninterrupted during lockdown. The countrywide lockdown however has led to a fall in electricity consumption, has impacted the supply of key inputs to power and has led to disruptions in billing and collections.

The sharp fall in demand from the high tariff paying industrial and commercial sector, which accounts for nearly 50% of country's electricity demand, has resulted in a 17% drop in daily power demand during the period 16 Mar-19 Apr'20 (as per data provided by POSOCO). Power generation from renewable energy sources in March'20 was 13% lower than month ago while that of conventional sources was lower by 3%. The solar power manufacturers, who have large dependence (78%) on imports of inputs (solar cells and modules) from China, have been faced with supply chain disruptions along with labour availability following the lockdown.

The finances of generators and DISCOMS are being impacted due to the lockdown. DISCOMS are unable to collect payments from consumers and they in turn are not paying generators. Some state DISCOMS (Madhya Pradesh, Telangana, Punjab and Uttar Pradesh) have invoked force majeure in their power purchase agreement and stopped power offtakes from the generation citing low electricity demand. DISCOMS have been citing force majeure condition from not paying fixed charges to generators. The government has however clarified that DISCOMS will have to continue meeting their payment obligations and pay fixed charges to the generators in case power is not being taken.

The government has announced some relief measures for the power sector. The RBI too has announced measures for the overall economy that benefit the power sector too. These measures include (i) 3 months moratorium to DISCOMS for making payments to generating companies, (ii) 3 months moratorium in debt servicing (for all sectors/segments), (iii) time extension is being provided for all renewable energy projects, which are impacted by the supply chain disruption due to COVID outbreak, under the force majeure clause, (iv) the late payment surcharge (LPS) payable by DISCOMS to Generation and Transmission companies has been reduced from 1.5% to 1% per month from 24 March'20 to 30'June 20, (v) To reduce cost of working capital for generating companies, CIL (Coal India Limited) has allowed the facility of usance letter of credit for payment of coal instead of cash advance for the fuel supply agreements (FSA) (vi) CIL is not imposing late payment penalties on power sector customers for not lifting contracted coal quantities within the stipulated time period.

Retail

Clothing, dining out and grocery retail industry will take about a year to recover, said top industry associations - Retailers Association of India (RAI), National Restaurant Association of India (NRAI) and The Clothing Manufacturers Association of India (CMAI). The three associations jointly anticipated a 25-30% impact on business with multiplier effect on subsidiary industries and lasting job losses, while emphasizing on an immediate survival plan. Selling piled-up inventory as soon as malls and stores reopen followed by increasing the number of units produced per machine at the factories would be key to recovery for apparel manufacturers in post Covid era.

Retail Association of India (RAI) said due to the current crisis, million of jobs in the retail sector is at risk. To prevent job losses, RAI has suggested the government provide 4 months job support subsidy at 50% of the minimum wages as cash support to encourage retailers to continue the employment of staff during the extended lockdown and recovery period after the lockdown is lifted.

Retailers Association of India (RAI), the body which represents some of the top retailers in the country, has asked the government of India to save one of the most important and critical service industry in the country from collapsing, in the wake of the COVID-19 crisis. According to the association, due to high inventory positions and low demand that will continue beyond the lockdown period, the industry will need longer support to survive. Banks must be mandated to extend the moratorium to 270 days for payment of installments and interest of term loans, short-term loans, corporate loans, securitized loans, Bonds, mortgages, Debentures, general-purpose loans effective from March 15, 2020, to December 31, 2020, the association said. RAI has also asked for a moratorium of 270 days for all interest payments of cash credit lines up to December 31, 2020 which should include non-fund sources such as bill discounting, and letters of credit.

Ahead of extending restrictions on the mobility of goods and persons, the government plans to set up a chain of 20 lakh retail shops called 'Suraksha Stores' across India which will provide daily essentials to citizens while maintaining stringent safety norms. The Suraksha Stores initiative will convert the neighbourhood kirana stores into sanitised retail outlets selling daily essentials while adhering to safety norms such as social distancing and sanitisation to control the spread of the novel coronavirus, sources with direct knowledge of the development said.

Steel

Steel and mining has been classified as essential commodities and are permitted to operate despite nationwide lockdowns. However, domestic steel companies have sharply scaled down their production to align it with demand and are currently working at less than half of their capacities. Many mid and small-sized steel manufactures who work on cash basis have shut their facilities in absence of demand. Shutting down blast furnaces entails huge costs as once these furnaces are shut it takes weeks or months to restart operations and bring it back to the same level of production. Despite that some large players with multiple blast furnaces have shut one or two of them to curtail production.

Demand for the metal from the user-industries has plummeted as automobiles manufacturers have shut their operations and construction activity has come to a grinding halt. Steel consumption fell by 6.4% in February and by an even sharper 23% in March 2020. For the whole year FY20, steel consumption grew by just a paltry 1.3%. For the steel factories that are operational, they are finding it difficult to move goods in and out of their factories due to restrictions on travel. Steel companies are also facing issue of reverse migration.

Steel companies are sitting on huge inventories in absence of demand both domestically and internationally. The Indian Steel Association, which represents major public and private sector units, expects steel demand to contract 7.7% in CY20 which was earlier projected to grow by 5.1%.

Sugar

The government has been trying to ensure supply of essential items during the lockdown to combat Covid-19 and thus distilleries/ sugar mills which can produce hand sanitizers in bulk have also been motivated to manufacture hand sanitizers. These manufacturers were asked to work in 3 shifts to maximize their output.

According to the ISMA, the central and state government departments and agencies, including sugar, excise, drug controllers, have worked in perfect coordination resulting in speedier sanctions of licenses and subsequent hand sanitizer production. While some sugar companies produced and marketed hand sanitizers, or supplied it to other firms for bottling and marketing, others firmed up contracts to supply its raw material viz. ethanol/ethyl alcohol/extra neutral alcohol (ENA) to external sanitizer units. There was a little disruption with the lime quarries in Rajasthan and lime transportation to the mills. However, it was sorted with the intervention of the relevant central and state authorities.

As per the National Federation of Cooperative Sugar Factories Limited, if any disruption is caused due to lockdown in the movement of cane to the mills and the transport of sugar to the market it would only result in loss to exchequer in the form of payment of compensation to farmers. Therefore, the entire value chain viz. cane, sugar, ethanol etc. and also labour has been put under the essential commodities act (ECA) providing for seamless operations.

Telecom

The top 3 telcos have extended the validity of their pre-paid users (low income users) till 3 May 2020. This will enable them to stay connected even during the hard time of lockdown. Prior to this, the incumbents had extended the pre-paid validity for the same segment till April 7 and also had offered Rs.10 talk time to these users.

On 7 April 2020, the TRAI however asked the telcos to extend the support to more users. To which the Cellular Operators Association of India (COAI) mentioned that the users who actually require aid from the telcos for continuity of their services in the initial phase of lockdown are in the range of 80-100 million while the telcos have together extended the benefits for continuity of services to around 280-300 million subscribers. The worth of such services or benefits is more than Rs.600 crore, according to COAI estimates. Thus, the extension of services or benefits to the prepaid users who can opt for recharge is not pertinent.

Textiles

As per the Clothing Manufacturers' Association of India (CMAI), from manufacturing through to retail, the garment industry employs close to 25 million people. If the current situation continues beyond a month from now, nearly a quarter of the jobs in the industry will be lost. The CMAI predicts recovery will take at least 10 months to a year. Without government support, it adds, the industry cannot survive this unprecedented crisis.

A hosiery manufacturing company mentioned that raw cotton is available in Gujarat and Maharashtra. As the spinning mills are closed due to the lockdown, production of yarn has been greatly affected. He added that the laborers, who were staying nearby factories and elsewhere, have gone to their native villages and home towns, following the coronavirus scare. Not only cotton, the entire textile industry across the country is hit as factories are shut during the lockdown imposed to contain the coronavirus outbreak.

Another fabric manufacturing company said that there has been a bumper crop of cotton this October, but the problem is lack of buyers. Godowns are full and yarn is not being produced and dispatched. So production of finished products and sales is also not happening.

The Tirupur Exporters' Association said that the European buyers, particularly from Italy and Spain, have asked its members not to export garments to them and wait for a minimum of 1-2 months till the situation improves and shops are reopened. Also, some buyers are cancelling orders outright. The association added that the small and medium enterprises will not be able to repay bank loans. It is apprehended that due to non-clearance of dues, the banks may classify such units as non-performing assets as per BASEL norms. Even those units that manage to resume operations will have to pay 30% more for dyes and chemicals which will impact their cost of production.

Amritsar Textile Processor Association (ATPA) has written to State Industries Minister and pointed out that amid the economic slowdown and the lockdown the industry is unable to meet its expenses, including interest cost on term loan and working capital, instalments of term loan, statutory taxes, dilution in value of stock due to seasonal fashion trends, revenue losses due to low demand in export as well as domestic market and salaries. The ATPA have thus have asked for financial support.

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