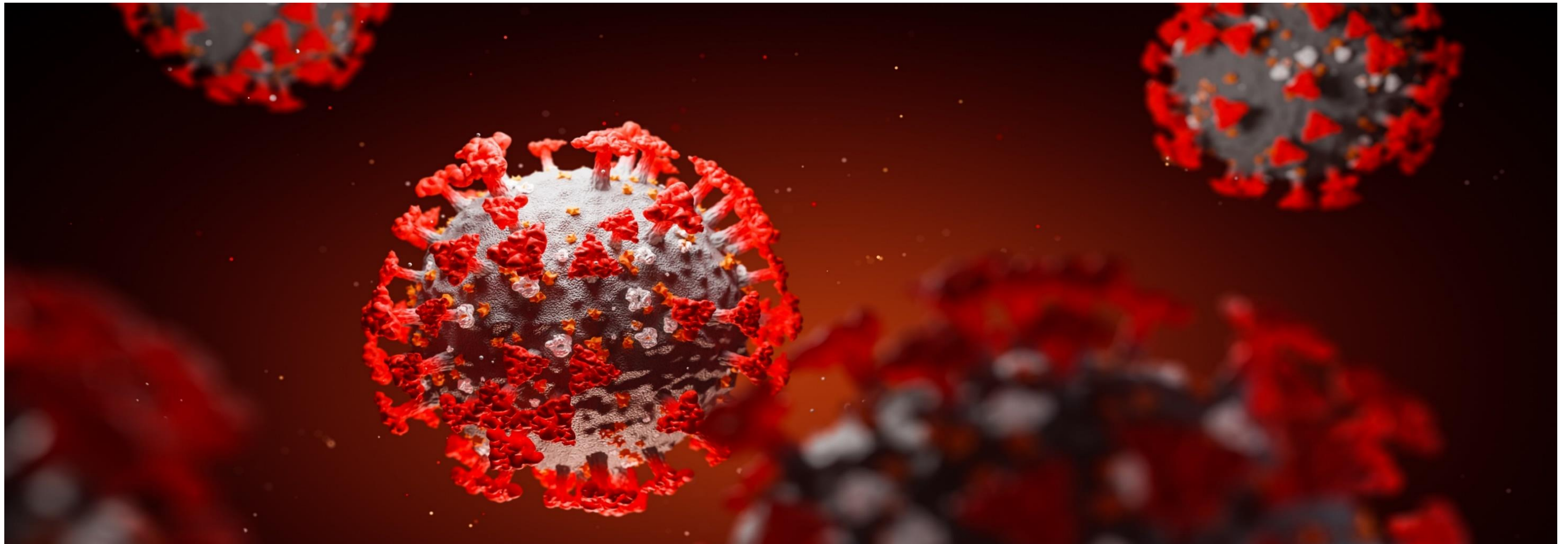


Viral fever: Covid-19 impact on economy, corporate revenue and profitability



April 30, 2020

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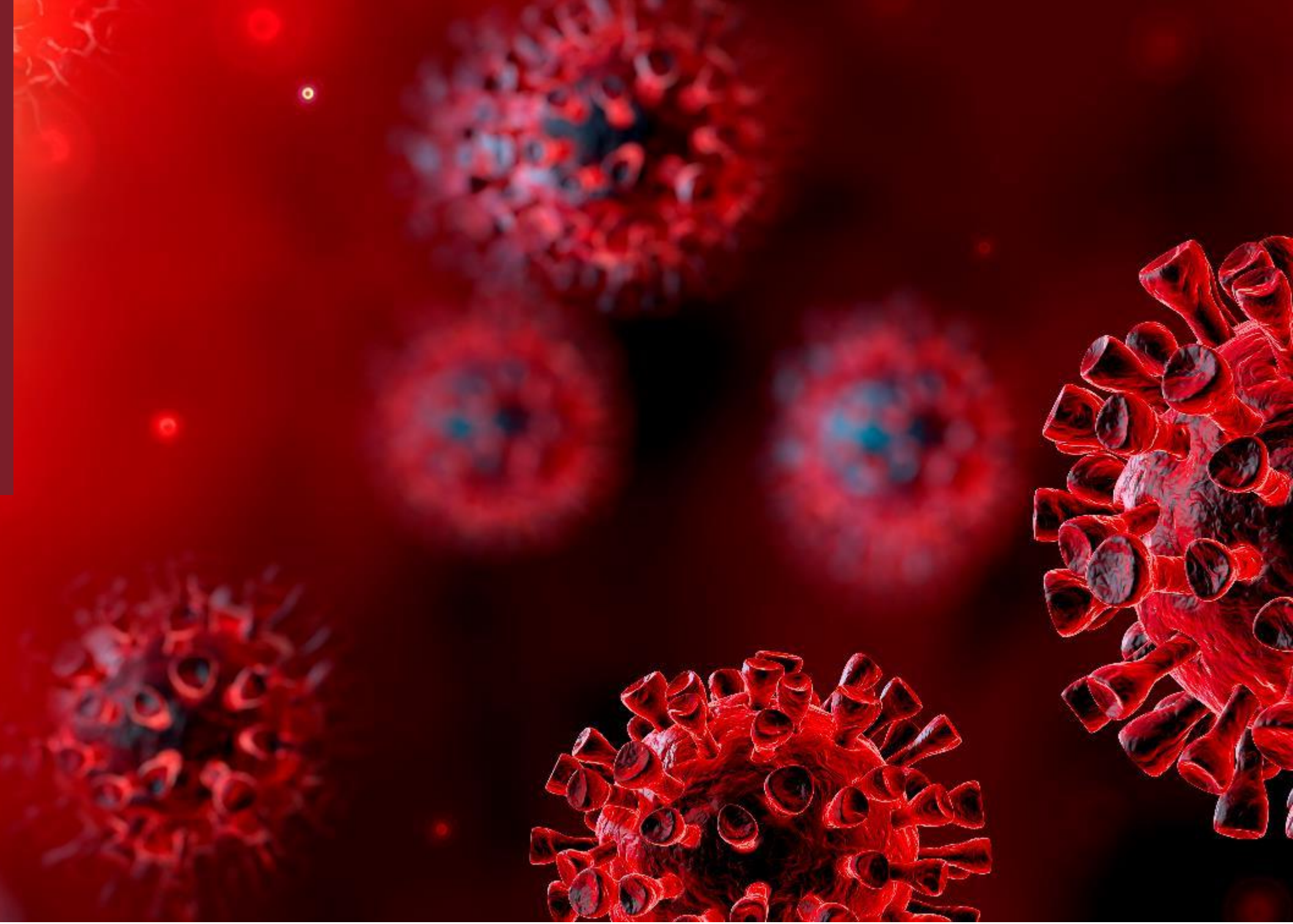
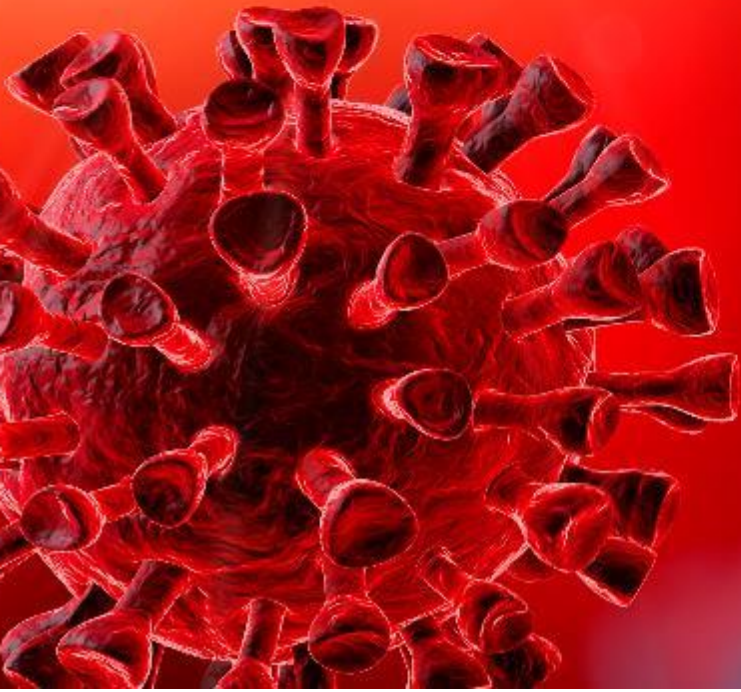
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Key messages

- Base-case GDP growth expected at 1.8% for fiscal 2021. Assumptions include effect of the pandemic subsiding materially in April-June quarter, a normal monsoon, and minimum fiscal support of Rs 3.5 lakh crore
- Risks tilted towards the downside scenario of zero GDP growth
- Permanent loss of ~4% of real GDP. Fiscal 2022 likely to see a V-shaped recovery at over 7% real GDP growth. However, its sustenance will not be able to lift GDP volume to its trend path even by 2024
- Large swathes of informal workforce of India are vulnerable to deep slowdown, particularly in construction, manufacturing and services sector
- External vulnerability likely to be low, with current account deficit (CAD) projected at 0.2% of GDP and forex reserves adequate, but domestic vulnerability rising. A risk-off scenario will, however, keep currency volatile
- Agricultural sector could be the bright spot as a bumper winter crop (rabi) is being harvested. But it will need support via fiscal measures aimed at reducing labour constraints, input provision and logistics support
- States accounting for 33% of population and 41% of national output are most at risk from Covid-19
- Fiscal support will need to be upped at the central and state level in scale and scope to go beyond vulnerable households and cover vulnerable firms as well

Problem nonpareil

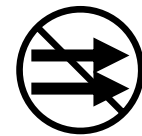


In choppy, uncharted waters



Entering an unknown terrain

- Solution will come from science, until that happens, keep the mask on, stay put. We assume medical solution only by mid-2021, and the current wave to be contained significantly in April-June quarter



Non-linear event

- High level of uncertainty on the peak and rate of spread makes it difficult to quantify outcome
- If the lockdown time doubles, the adverse impact will more than double

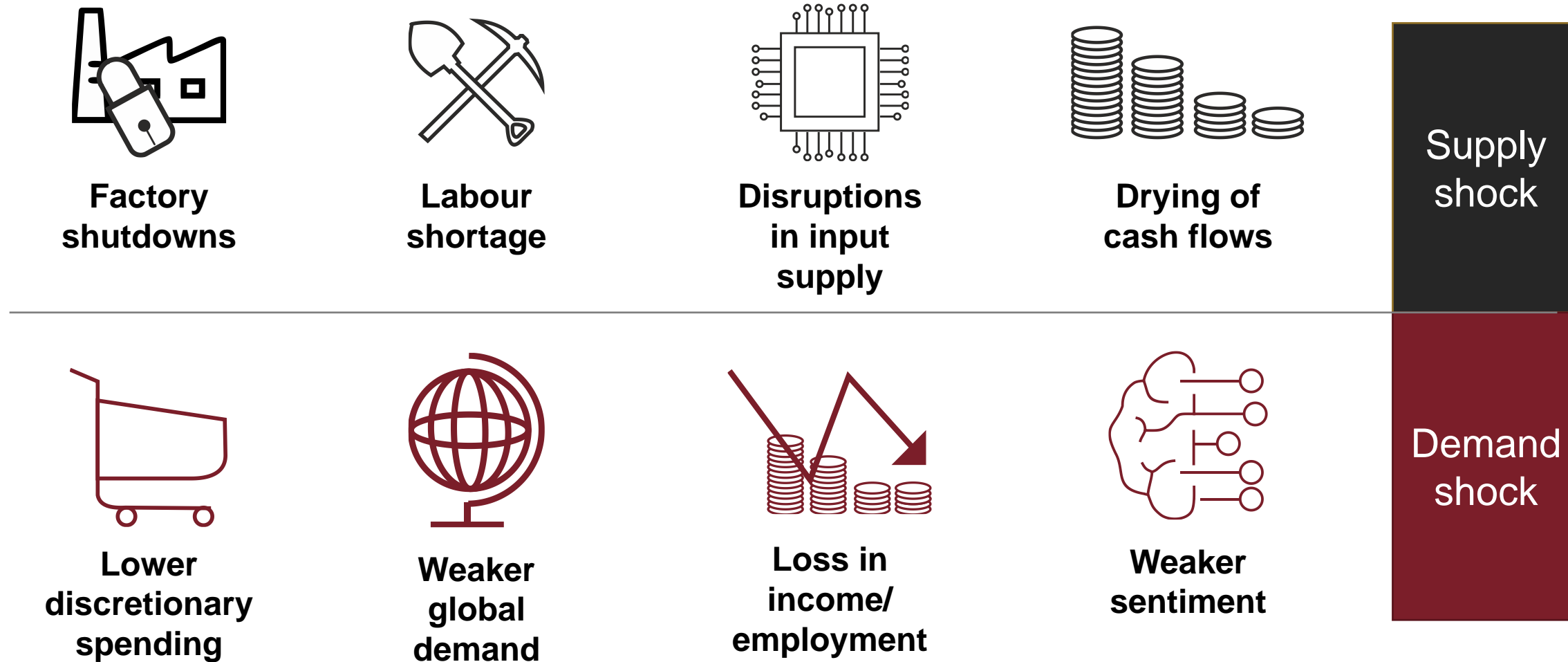


Past pandemics and crises have seen whetted desire to save – we might see it this time as well



Policy cannot offset the damage, only minimise it

Supply and demand shocks in one fell blow



The pandemic first created a supply shock, as disruptions in global supply chains and factory shutdowns affect an economy's contemporaneous ability to produce goods and services. The impact on demand is more complicated. In the short run, the perceived supply shortage could have induced consumers to hoard products, creating excess demand. However, factory shutdowns and resultant layoffs and income losses will ultimately weigh on demand as well.

Deadlier than the 2008 Global Financial Crisis

- **Double trouble**

- Unlike the 2008 Global Financial Crisis (GFC), the pandemic has resulted in enormous human suffering, not seen in decades, and has also slammed the brakes on economic activity and jeopardised financial stability

- **A dangerous cocktail of shocks**

- The GFC emanated from the financial sector, which choked financial flows. This hit demand, but did not cause supply disruptions. On the other hand, social distancing measures to arrest the pandemic's spread have led to an immediate disruption in supply owing to factory shutdowns, accompanied by a reduction in demand for non-essential goods and services

- **A crisis in every country**

- The GFC originated in the US, with impact on other countries dependent on how well they were linked to the US and the associated global financial system. The pandemic, however, has individually hit each country's economy, with impact from both, weaker global as well as domestic demand

- **Same policy tools cannot work**

- Monetary policy alone has limited ability to spur growth in the current crisis, when consumers cannot go out to spend and businesses cannot restart activity. Fiscal policy is set to do the heavy-lifting, but they cannot be used in all economies alike due to varying fiscal space available

- **Trade-off between health and economic costs**

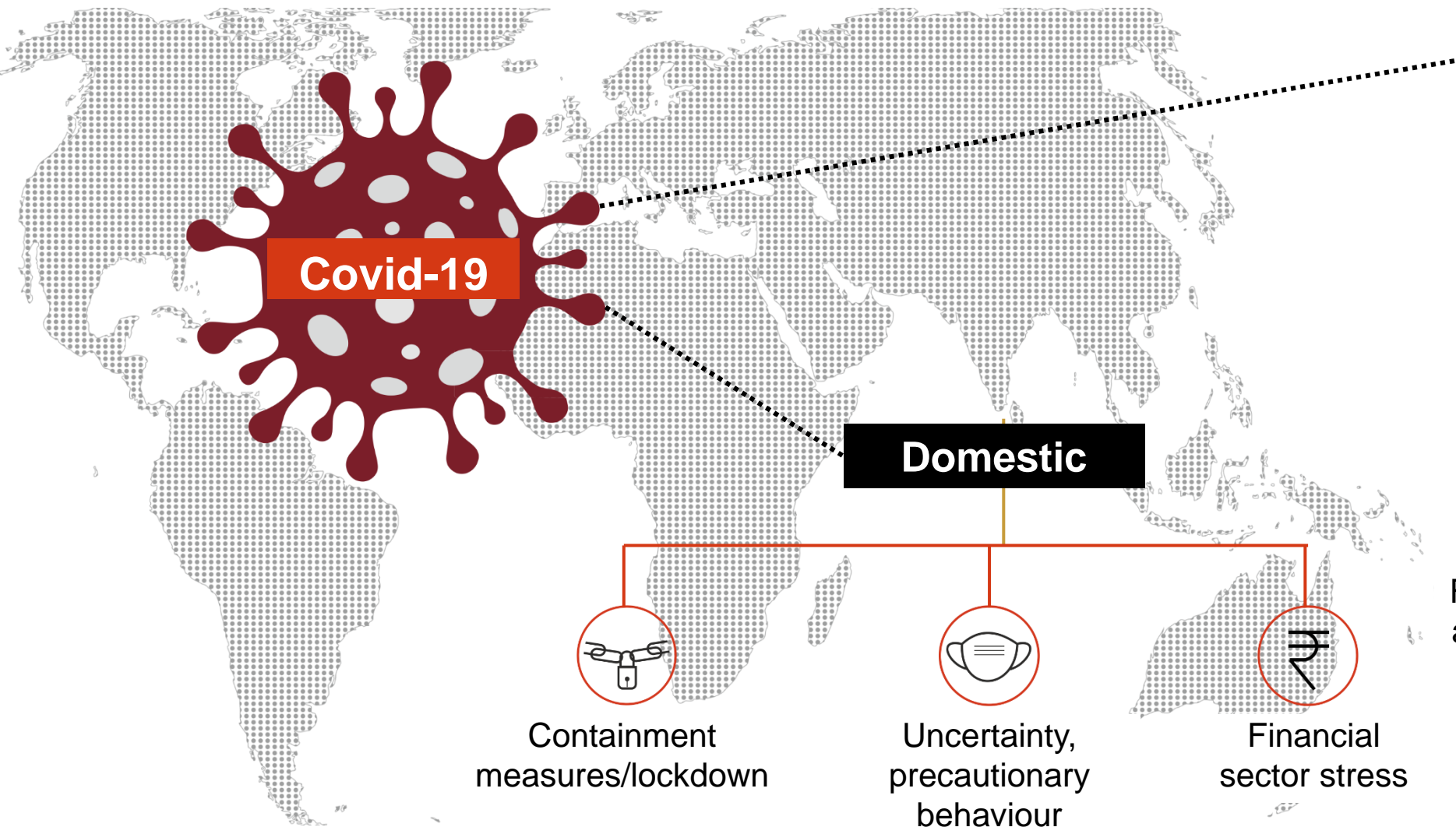
- Reviving the global economy at present is not an easy task since most economic activity would be constrained by lockdowns. Lifting the lockdowns could lead to a spurt in fresh Covid-19 cases, aggravating the present health emergency

India's growth outlook and policy responses



Channels of Covid-19 transmission

With the rising spread, domestic channel becomes dominant

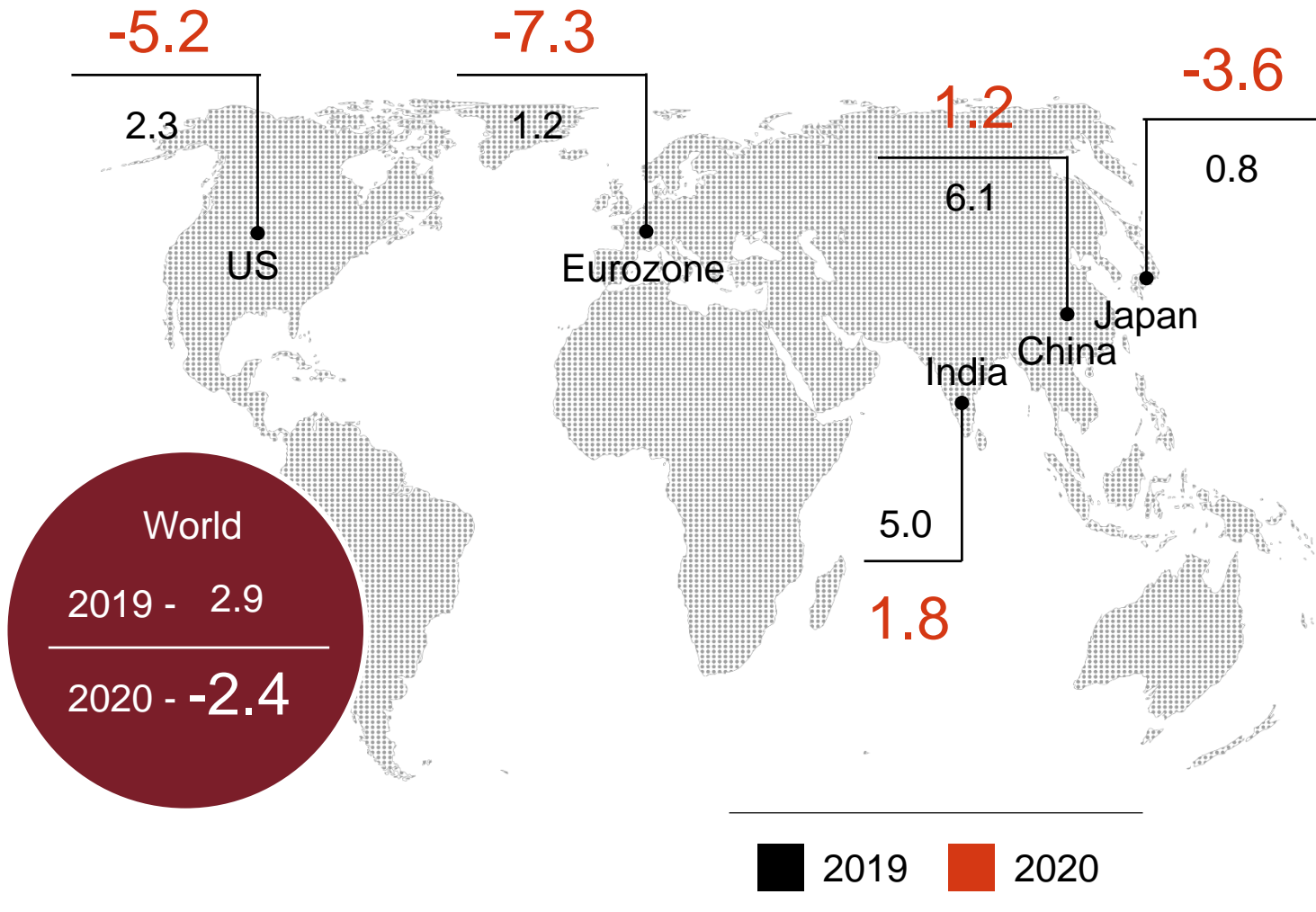


- Economic impact of Covid-19 began as a supply shock, emanating from China
- Transformed into external demand shock as the disease spread to rest of the world.
- With the pandemic eventually spreading in India and triggering a lockdown, the impact has further magnified into a domestic supply and demand shock

Source: CRISIL

Global recession certain, but its depth and length a tough call

GDP growth (%)



At the end of the first quarter of calendar 2020



Huge economic costs of pandemic apparent in downward revision of growth forecasts



Unprecedented levels of monetary and fiscal stimulus unable to prevent global recession



Non-linearity of the event and risk of second wave create downside risks to outlook



Advanced economies to face the deepest recession in decades

Source: S&P Global, April 2020

Economy was in a limbo even before the pandemic hit

Growth (y-o-y %)		Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Industry	1. IIP growth														
	a. Total	0.2	2.7	3.2	4.5	1.3	4.9	-1.4	-4.6	-6.6	2.1	0.1	2.1	4.5	n/a
	b. Manufacturing	-0.3	3.1	2.5	4.4	0.3	4.8	-1.7	-4.3	-5.7	3.0	-0.7	1.6	3.2	n/a
	c. Capital goods	-9.3	-9.1	-1.4	-2.1	-6.9	-7.0	-20.9	-20.5	-22.4	-8.9	-18.0	-4.3	-9.7	n/a
	d. Consumer durables	0.9	-3.2	2.2	0.2	-10.2	-2.4	-9.7	-10.5	-18.9	-1.4	-5.4	-3.8	-6.4	n/a
	e. Consumer non-durables	5.0	1.4	5.4	8.1	7.4	8.5	3.1	-1.1	-3.3	1.1	-3.9	-0.3	0.0	n/a
	2. Cement production (IIP cement)	8.0	15.8	2.3	2.8	-1.9	7.7	-5.1	-1.9	-7.7	4.3	5.4	5.1	8.6	n/a
	3. Steel production (Final steel consumption)	7.7	9.8	-1.3	9.4	1.6	16.0	1.7	-0.2	0.2	0.8	2.2	3.5	-2.3	-22.9
	4. PMI Manufacturing	54.3	52.6	51.8	52.7	52.1	52.5	51.4	51.4	50.6	51.2	52.7	55.3	54.5	51.8
	5. Domestic auto sales														
	a. Total	-3.7	-14.2	-15.9	-8.6	-12.3	-18.7	-23.5	-22.4	-12.8	-12.1	-13.1	-13.8	-19.1	-45.0
	b. Tractors	-2.6	-17.0	-14.0	-15.7	-13.5	-13.1	-16.5	-4.7	-5.0	-13.2	2.4	4.8	21.3	-43.5
	c. Commercial vehicles	-0.4	0.3	-6.0	-10.0	-12.3	-25.7	-38.7	-39.1	-23.3	-15.0	-12.3	-14.0	-32.9	-88.1
	d. Two-wheelers	-4.2	-17.3	-16.4	-6.7	-11.7	-16.8	-22.2	-22.1	-14.4	-14.3	-16.6	-16.1	-19.8	-39.8
	e. Cars	-4.4	-6.9	-19.9	-26.0	-24.1	-36.0	-41.1	-33.4	-6.3	-10.8	-8.4	-8.1	-8.8	-52.1
Services	1. PMI-Services	52.5	52	51	50.2	49.6	53.8	52.4	48.7	49.2	52.7	53.3	55.5	57.5	49.3
	2. Domestic airline passenger traffic	4.2	-1.5	-6.4	-0.3	4.6	1.2	3.2	0.2	2.7	10.5	1.9	1.5	n/a	n/a
	3. Railway freight cargo	4.3	6.6	3.2	2.9	2.0	1.6	-6.1	-6.6	-8.1	0.9	4.3	3.0	6.5	-13.9
	4. Number of telecom subscribers	2.2	-1.9	3.1	2.6	1.5	0.8	0.2	0.3	1.1	-1.5	-2.1	n/a	n/a	n/a
Inflation	1. CPI inflation	2.6	2.9	3.0	3.0	3.2	3.1	3.3	4.0	4.6	5.5	7.4	7.6	6.6	5.9
	a. Core CPI inflation	5.4	5.0	4.6	4.3	4.4	4.5	4.5	4.5	3.7	3.6	3.5	3.9	3.8	n/a
	2. WPI inflation	2.9	3.1	3.2	2.8	2.0	1.2	1.2	0.3	0.0	0.6	2.8	3.1	2.3	n/a
Wages	1. Agri wages	5.1	5.2	4.8	5.2	4.2	4.7	2.7	2.9	2.3	2.3	2.7	3.8	n/a	n/a
	2. Non-agri wages	3.7	3.7	3.7	4.0	3.9	4.0	4.0	3.8	3.6	3.6	3.6	3.8	n/a	n/a
Bank credit	Total credit	13.5	12.2	11.7	11.5	11.1	11.5	9.9	8.2	8.4	7.3	7.0	8.5	7.3	6.0
	a. Non-food	13.2	12.3	11.9	11.4	11.1	11.4	9.8	8.1	8.3	7.2	7.0	8.5	7.3	n/a
	b. Retail	16.7	16.4	15.7	16.9	16.6	17.0	15.6	16.6	17.2	16.4	15.9	16.9	17.0	n/a
	c. Industry	5.6	6.9	6.9	6.4	6.4	6.1	3.9	2.7	3.4	2.4	1.6	2.5	0.7	n/a
d. Services	23.7	17.8	16.8	14.8	13.0	15.2	13.3	7.3	6.5	4.8	6.2	8.9	6.9	n/a	
Commodity prices	1. Brent crude oil price (\$/barrel)	64.13	66.41	71.20	70.53	63.30	64.00	59.25	62.33	59.37	62.74	65.85	63.60	55.00	32.98
	2. Metals and minerals index	-9.6	-4.0	-5.6	-9.4	-9.7	1.6	-2.6	-0.2	-3.7	-1.7	1.8	2.5	-8.6	-15.3
G-sec	10-year G-sec yield (%)	7.57	7.50	7.39	7.29	6.94	6.52	6.50	6.67	6.68	6.47	6.65	6.58	6.42	6.24
Currency	Rs/\$	71.2	69.5	69.4	69.8	69.4	68.8	71.1	71.3	71.0	71.5	71.2	71.3	71.5	74.4
Trade	Export growth	3.2	12.2	0.3	3.4	-7.8	1.7	-6.4	-6.3	-1.1	-0.3	-1.6	-1.7	2.9	-34.6

Source: Reserve Bank of India (RBI), National Statistical Office (NSO), Ministry of Commerce, Society of Indian Automobile Manufacturers (SIAM), CEIC, CRISIL

Four assumptions behind the fiscal 2021 base case

Assumption 1: Containment measures will be relaxed as the effect of the pandemic subsides in the April-June quarter

	Q1	Q2	Q3	Q4
Stringency of containment measures				

Fiscal year quarters; Q1 = April-June, 2020

- **Assumption 2: Normal monsoon**

- According to the Indian Meteorological Department, monsoon this year is expected to be 96-104% of the long period average, which augurs well for agriculture

- **Assumption 3: Soft crude prices**

- Crude oil prices are expected to average \$30 per barrel in fiscal 2021

- **Assumption 4: Policy support**

- A ‘whatever it takes’ stance of monetary policy and a minimum fiscal support of Rs 3.5 lakh crore to support vulnerable sections and businesses

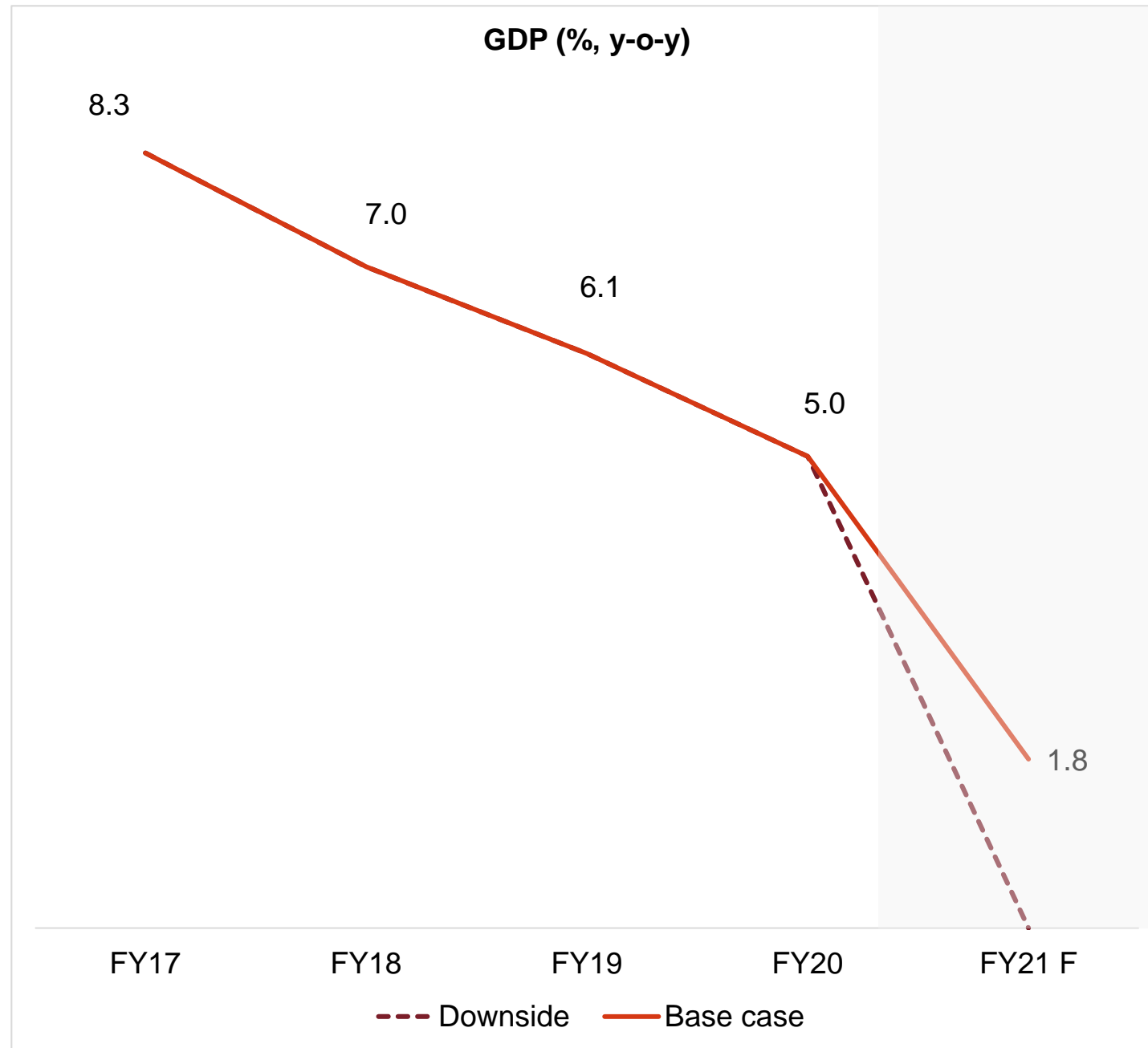
Source: IMD and CRISIL Research

The five calls of our base case

Macro variable	FY19	FY20	FY21 F	Rationale for outlook
GDP (% , y-o-y)	6.1	5.0*	1.8	The initial blow on the external front has rapidly transformed into a domestic shock, as the country reels under a forced lockdown. The impact from the pandemic's spread and the 40-day lockdown is now dominant.
CPI inflation (% , y-o-y)	3.4	4.8	4.4	Inflation should soften, as: (1) the abnormal surge in food inflation in fiscal 2019 has started to correct; (2) core inflation will remain moderate with slowing growth; and (3) the sharp drop in crude oil prices will keep fuel inflation soft
10-year G-sec yield (% , March-end)	7.5	6.2	6.5	Despite lower inflation and softer policy rates, higher market borrowings amid fiscal slippage should push up yields
CAD/GDP (%)	2.1	1.0	0.2	Current account deficit (CAD) is likely to remain under check, because of low commodity and crude prices. Yet, the rupee will be volatile, because of the selloff by foreign portfolio investors (FPIs) selloff and the risk-off scenario.
Rs/\$ (March average)	69.5	74.4	73	

Source: RBI, NSO, CRISIL

Any misses could pull GDP growth forecast down to 0%

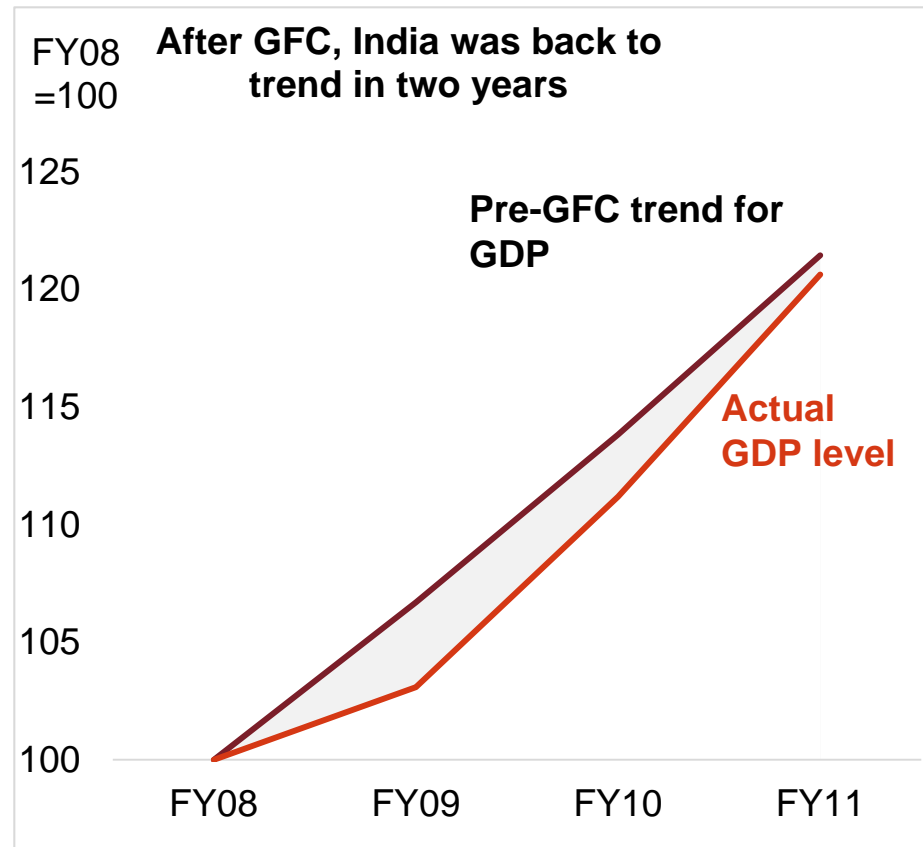


Source: CRISIL

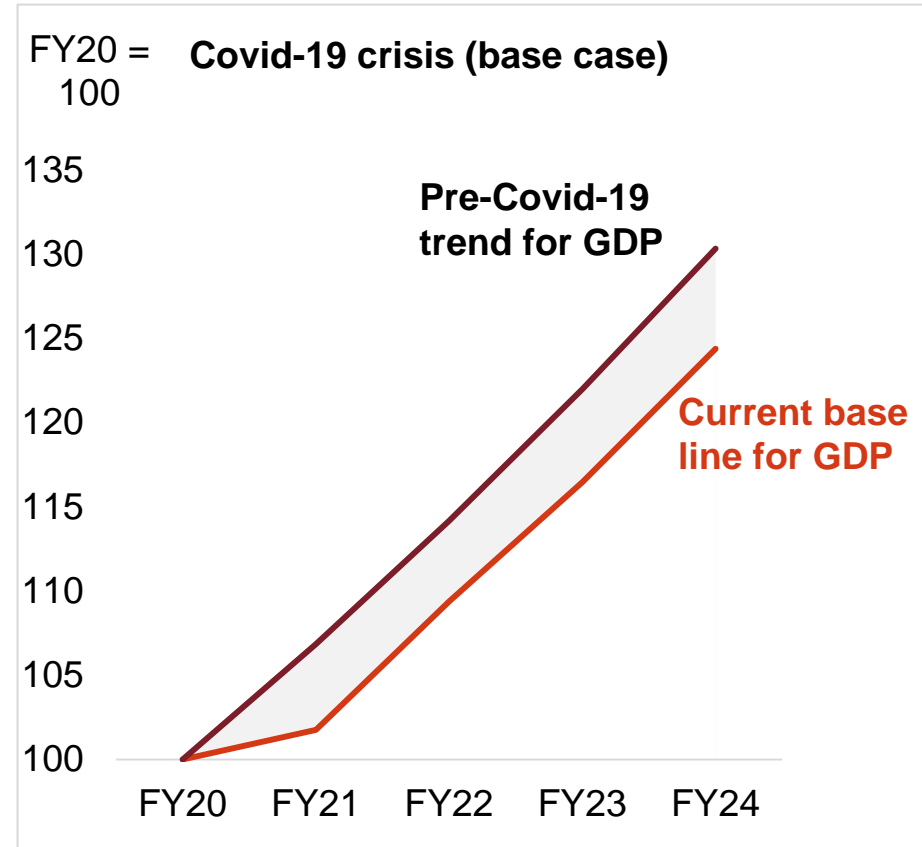
Risks to the base case

- Further mark-down in global growth in case of uneven health recovery and premature austerity in the face of a large rise in public debt in most countries
- Inability to relax restrictions materially in India – these are early days and cases are still rising with no sign of abatement in key regions driving production/demand, extending the road to recovery. Productive capacity of several sectors could get hit, constraining supply
- A second wave of cases emerging, which could further add to the uncertainty, breaking sentiments further
- No further fiscal support to incomes and demand
- A setback to agriculture on either monsoon failure or supply disruptions
- Any change in the base situation could push India's GDP growth closer to 0% in fiscal 2021

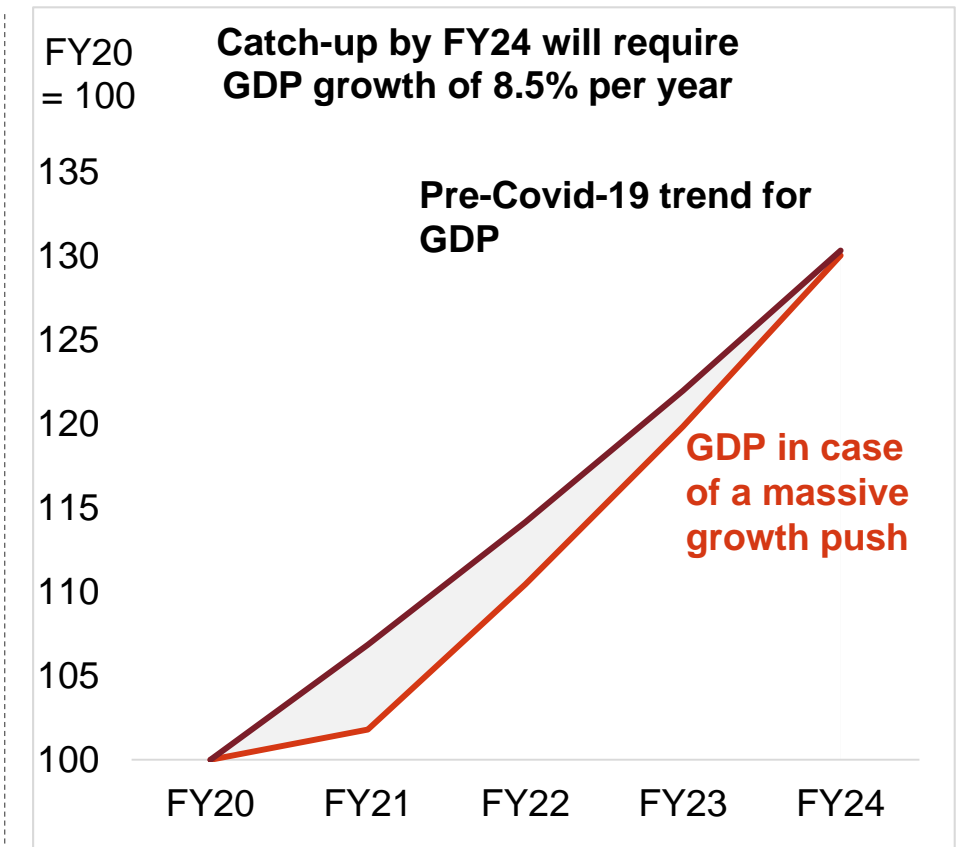
Permanent loss of 4% GDP likely if policy response is lukewarm



- Sharp growth spurt helped catch up with trend within two years of the GFC
- GDP grew 8.2% on average in the two years following the GFC
- Massive fiscal spending, monetary easing, and swift global recovery played a role in V-shaped recovery



- A catch-up to trend GDP unlikely
- Monetary policy has been supportive and proactive, but fiscal space to spend is somewhat constrained by tight fiscal position of Centre and states
- We estimate ~4% permanent loss to real GDP (from the decadal trend levels) in the base case



- Catch-up requires a never-seen-before GDP growth of 8.5% on average for three years up to fiscal 2024
- This would imply extraordinary and extended policy support, reforms and facilitations to support domestic business and supply chains, and attract foreign investment

Sectors hit hardest unlikely to see a material revival even by Q4

Industry

→ % share in GVA		Q1	Q2	Q3	Q4
→ % share in sub-sector GVA					
Sub-sector: Mining (3%)		Red	Yellow	Green	Green
Sub-sector: Manufacturing (18%)					
Food products, beverages & tobacco (10%)	Dairy products	Yellow	Yellow	Green	Green
	Beverages & consumer foods	Yellow	Yellow	Green	Green
	Textiles & leather (12%)	Red	Red	Yellow	Yellow
	Metals (14%)	Red	Yellow	Green	Green
	Machinery & equipment (25%)	Red	Red	Yellow	Yellow
Other manufacturing (39%)	Cement	Red	Yellow	Green	Green
	Pharmaceuticals	Yellow	Yellow	Green	Green
	Consumer durables	Red	Red	Yellow	Yellow
	Automobiles	Red	Red	Yellow	Yellow
	Gems & jewellery	Red	Red	Red	Yellow
	FMCG	Yellow	Yellow	Yellow	Yellow
Sub-sector: Utilities (mostly power) (2%)		Red	Red	Yellow	Yellow
Sub-sector: Construction (8%)		Red	Red	Yellow	Yellow

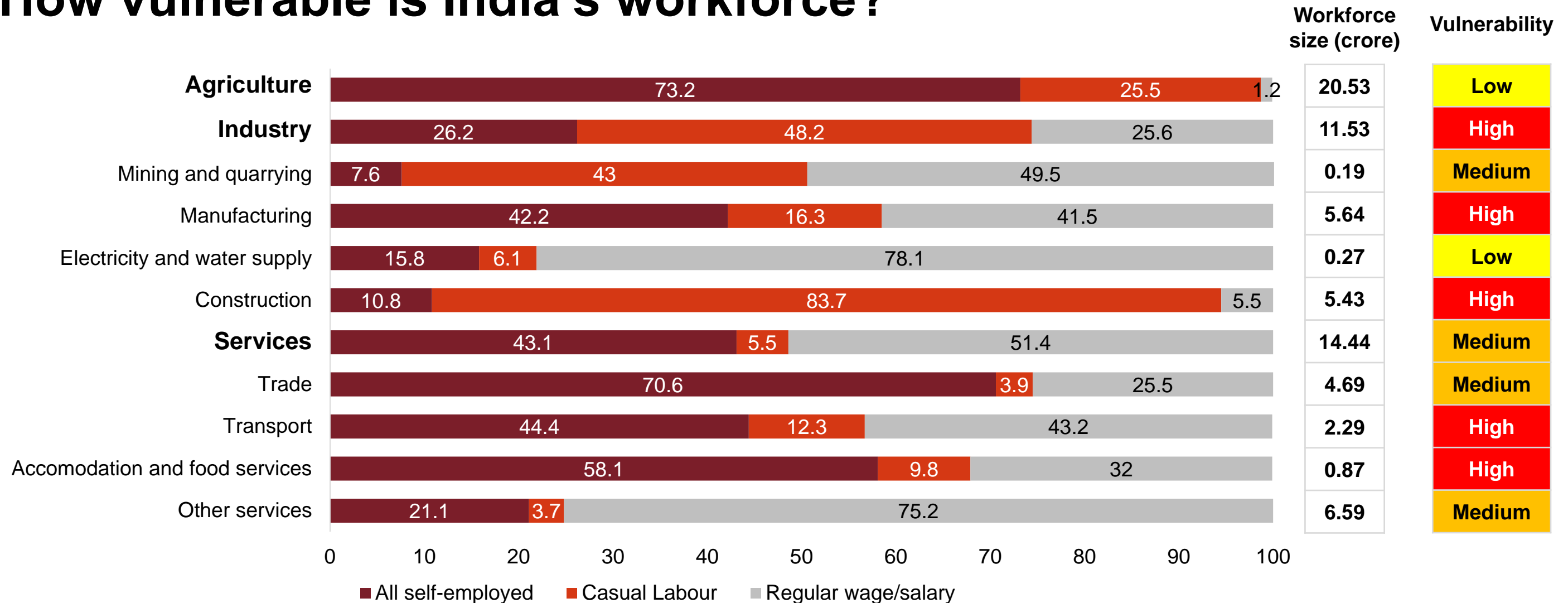
Services

→ % share in GVA		Q1	Q2	Q3	Q4
→ % share in sub-sector GVA					
Sub-sector: Services (52%)					
	Trade (w/sale, retail) (22%)	Red	Yellow	Green	Green
	Hotels & restaurants (2%)	Red	Red	Yellow	Yellow
Communication & broadcasting (3%)	Communication (telecom)	Green	Green	Green	Green
	Broadcasting (media)	Red	Yellow	Yellow	Green
Transport (9%)	Rail transport	Red	Yellow	Yellow	Yellow
	Road transport	Red	Green	Green	Green
	Air transport	Red	Red	Yellow	Yellow
	Transport services	Red	Yellow	Yellow	Yellow
	Financial services (11%)	Red	Red	Yellow	Yellow
Real estate & professional services (29%)	Real estate	Red	Red	Red	Yellow
	Professional services (IT)	Yellow	Yellow	Yellow	Green
	Public administration (11%)	Green	Green	Green	Green
Other services (14%)	Healthcare	Yellow	Yellow	Yellow	Green
	Education	Yellow	Yellow	Green	Green

Source: CRISIL



How vulnerable is India's workforce?

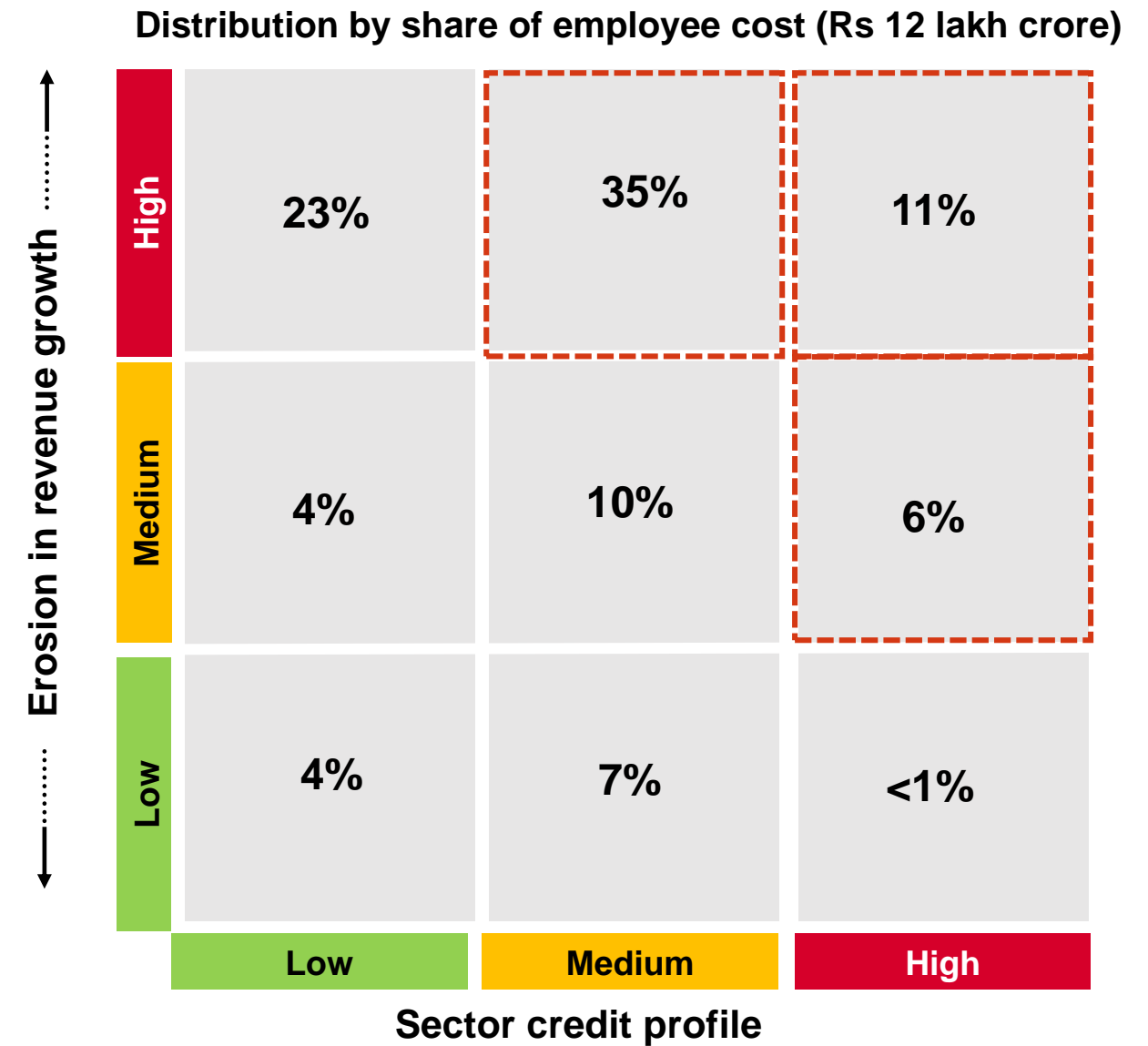
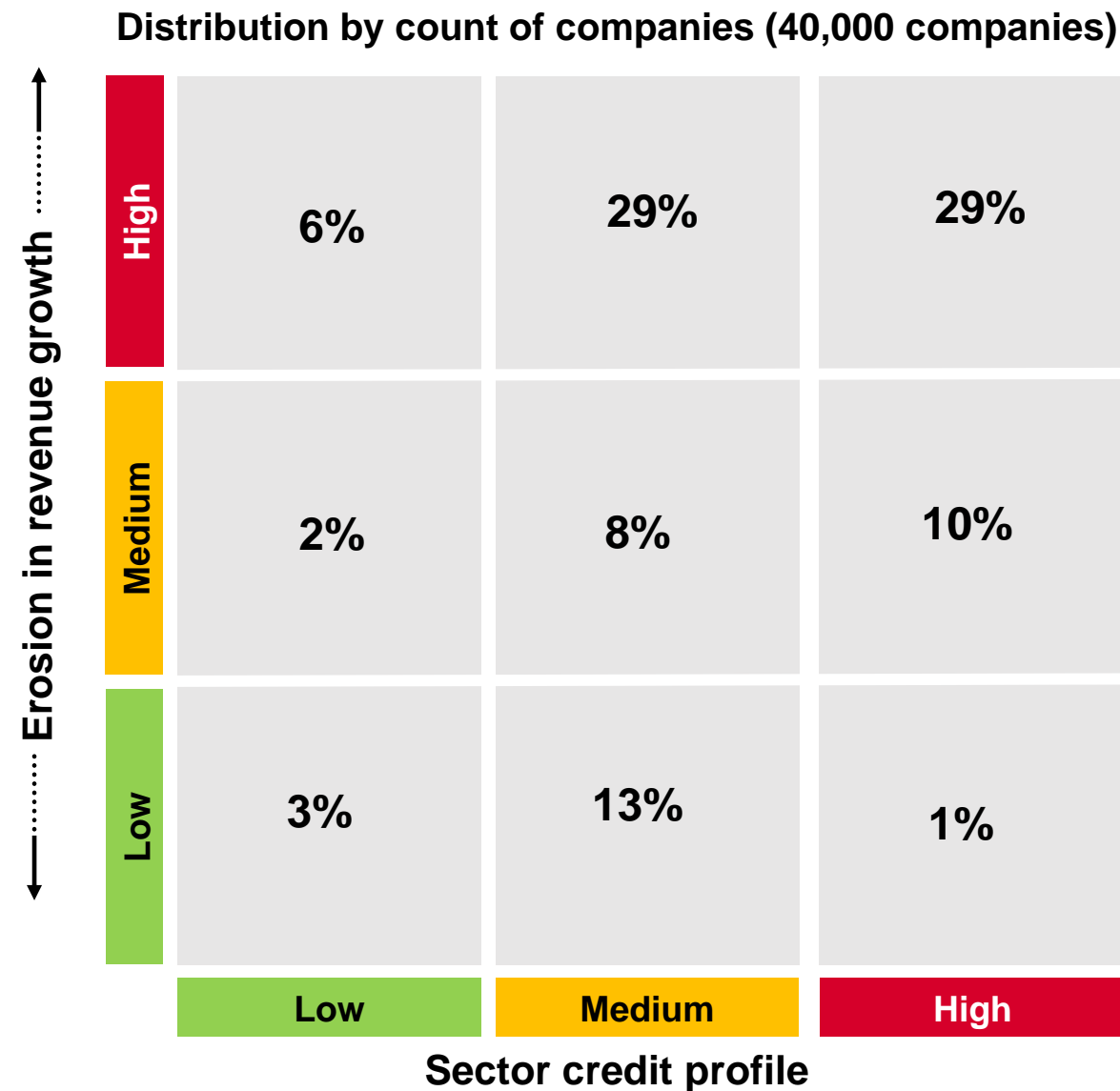


Source: PLFS 2017-18, CRISIL; **Other services** include information and communication, financial and insurance activities, real estate activities, administrative activities etc.

- India's workforce or active working population is estimated at ~46.5 crore. Of this, 89-90%, or about 41.5 crore work in informal economy (i.e., without any social security benefits)
- Casual labourers, majority of the self-employed, and a part of regular wage/salary workers in the organised sector whose work is contractual in nature constitute the base of informal workforce in India
- Though agriculture employs almost four times the informal workers that construction does, it is likely to be less impacted because of the lockdown as it is an essential activity, and also the farm economy has received support under the PM-Kisan scheme

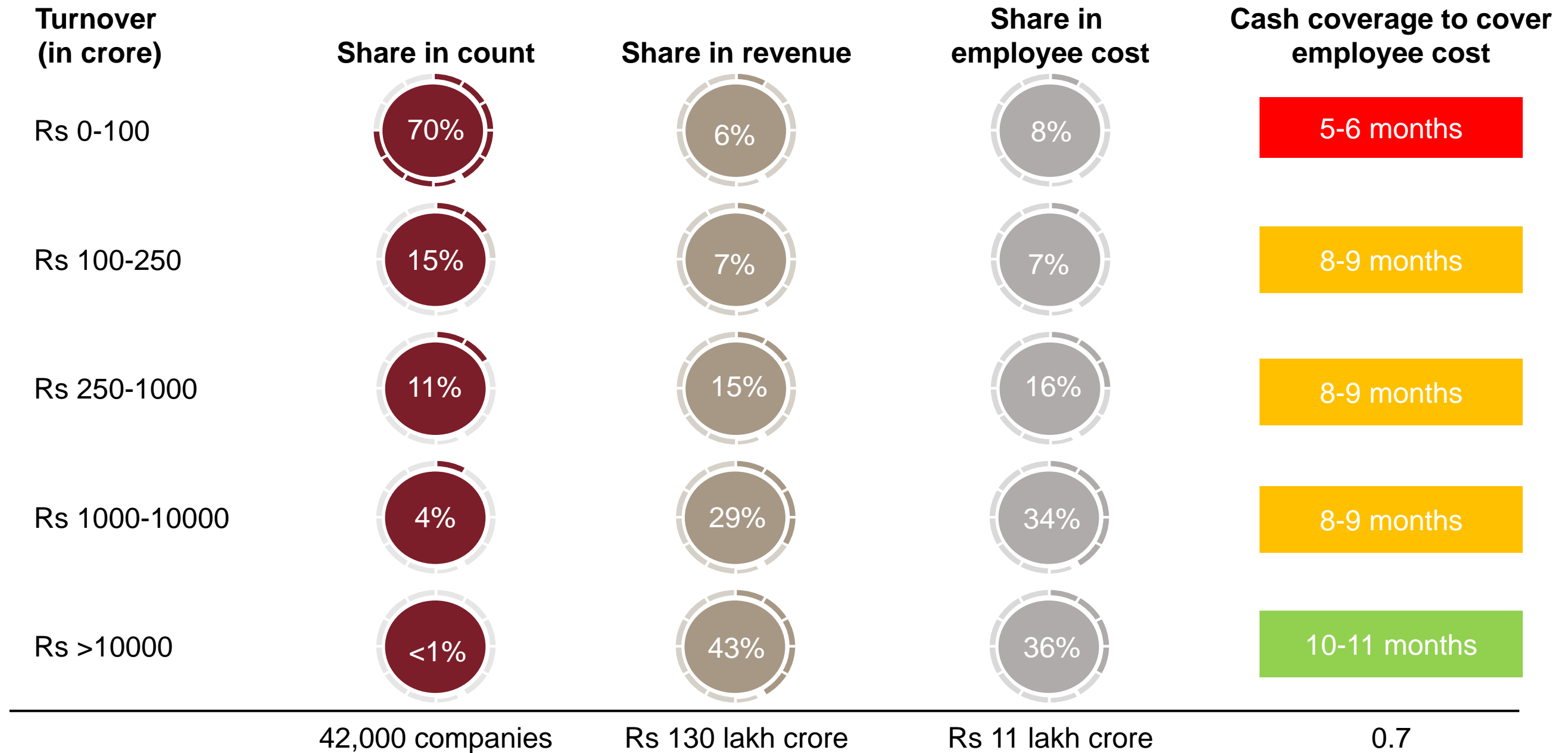
Employment sentiment likely to impact demand and retail credit

Risk matrix of 40,000 companies (across 50+ sectors) in terms of employee cost (of Rs 12 lakh crore)



Note: Companies and their employee cost distribution are based on the sectoral risk grid, where the Y axis measures magnitude of revenue erosion, while the X axis is the current credit profile. For instance, if the airlines sector is placed in the HH grid, then all companies in the sector and their employee cost are plotted in the corresponding grid. Similarly, if telecom is in the LL grid, all companies and employee cost are plotted on the LL grid. Source: Quantix, industry, CRISIL Research

About 70% of 40,000 companies have cash to cover employee cost for only two quarters (leaving aside other fixed cost)



*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

Remittances to India to decline 23% on-year in calendar 2020

Source	Remittance to India in 2018 (\$ billion)	Real GDP growth (%)	
		2019	2020F
United Arab Emirates	18.5	1.3	-3.5
United States	12.7	2.3	-5.9
Saudi Arabia	11.7	0.3	-2.3
Kuwait	6.7	0.7	-1.1
Oman	5.8	0.5	-2.8
Qatar	4.3	0.1	-4.3
United Kingdom	4.0	1.4	-6.5
Canada	3.0	1.6	-6.2
Australia	2.3	1.8	-6.7
Nepal	1.6	7.1	2.5
Bahrain	1.5	1.8	-3.6
Singapore	0.9	0.7	-3.5
Italy	0.7	0.3	-9.1
Malaysia	0.6	4.3	-1.7
Germany	0.4	0.6	-6.9

Source: World Bank, International Monetary Fund (IMF)

- At \$83 billion, India was the highest remittance recipient country in 2019
- The above 15 countries accounted for ~95% of remittance that India received in 2018
- Gulf countries, which are going to take a major hit due to sharp fall in oil prices, accounted for ~60% of the remittance received by India

Alarm bells are ringing in the financial sector

		Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Global conditions	S&P 500 (%*)	11.5	7.5	11.3	13.0	17.0	-4.2	-5.6
	US 10-year treasury yield (%)	1.7	1.8	1.9	1.8	1.5	0.9	0.7
	Brent (\$ per barrel)	59.4	62.7	65.9	63.6	55.0	33.0	24.2
Foreign capital	Net FPI (\$ billion)	2.3	3.2	0.4	0.1	1.3	-15.9	-1.3
Forex markets	Rs/\$ (month-on-month, %)	-0.4	0.6	-0.4	0.2	0.2	4.0	2.7
Equities	Sensex (%*)	-0.7	10.0	13.0	18.6	11.6	-12.1	-31.1
Debt	10-year G-sec (%)	6.7	6.5	6.6	6.6	6.4	6.2	6.3
	Term premium (%)	1.1	1.0	1.1	1.1	1.1	1.2	1.9
	Corporate spreads (%)	0.8	0.9	0.9	0.8	0.7	1.0	
Money markets	Call money rate (%)	5.1	5.0	5.0	4.9	5.0	4.9	4.1
	Commercial paper 6-month rate (%)	6.69	6.41	6.34	6.35	6.17	6.89	6.73
Liquidity	Net absorption(-)/injection(+) under LAF (Rs crore)	-195,600	-238,300	-256,400	-317,800	-316,200	-390,200	-667,900
Credit availability	Bank credit growth (total)	8.4	7.3	7.0	8.5	7.3	6.0	

■ Favourable movement
 ■ Adverse movement
 ■ Neutral

Note: *% change with respect to 2-year moving average, a positive % change in rupee implies depreciation against US dollar and vice-versa, 10 year G-sec refers to 6.45% GS2029 yield, term premium is difference between 10 year and one year G-sec yield, corporate spreads are for 10-year AAA rated public sector undertaking (PSU) benchmark over G-Sec; LAF is liquidity adjustment facility

Source: RBI, National Securities Depository Ltd (NSDL), US Treasury department, CEIC, CRISIL

- Global market volatility and risk-off sentiment has significantly impacted Indian markets
- All asset classes are seeing selloffs and high volatility
- This puts more stress on the financial sector, which already had limited ability to support economy
- Bank credit growth is expected to slow down to 2-3% in fiscal 2021

External vulnerability still low, but domestic ground shaky

	Indicator	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21F
External liabilities	CAD (% of GDP)	1.3	2.3	2.9	2.7	4.3	4.8	1.7	1.3	1.1	0.6	1.8	2.1	1.0	0.2
	External debt (% of GDP)	18.3	20.7	18.5	18.6	21.1	22.4	23.9	23.8	23.4	19.9	20.1	19.8	20.1*	N/A
	Short-term external debt (% of GDP)	3.8	3.6	3.9	3.9	4.3	5.3	4.9	4.2	4.0	3.8	3.9	4.0	3.7*	N/A
Ability to finance external liabilities	Debt service ratio	4.8	4.4	5.8	4.4	6	5.9	5.9	7.6	8.8	8.3	7.5	6.4	6.4*	N/A
	Reserves/(short-term debt + CAD)	5.0	3.5	3.1	2.7	1.9	1.6	2.5	3.0	3.4	3.6	2.8	2.5	3.4*	N/A
	Reserves/ IMF EM ARA metric	2.6	2.1	2.0	1.7	1.6	1.4	1.4	1.5	1.6	1.6	1.6	1.5	1.6	N/A
Domestic macro-economic health	GDP growth (% y-o-y)	7.7	3.1	7.9	8.5	5.2	5.5	6.4	7.4	8.0	8.3	7.0	6.1	5.0	1.8
	CPI inflation (% y-o-y)	6.2	9.1	12.4	10.4	8.4	9.9	9.4	5.9	4.9	4.5	3.6	3.4	4.8	4.4
	Government debt (% of GDP)	74.0	72.7	71.1	66.0	68.3	69.1	68.5	67.8	69.9	69.0	69.8	69.8	71.9 [#]	74.3 [#]

- Impact of an external shock to India is dependent on the quantum of shock and domestic vulnerability
- This time, the shock is much larger, even though our external vulnerability is low
- Our domestic vulnerability was deteriorating even before the pandemic hit
- Deterioration on account of slowing GDP growth and worsening fiscal health

Vulnerability indicator ■ High ■ Low ■ Neutral

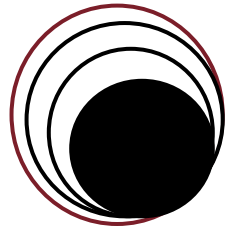
Note: *As on December 2019; #IMF estimates
Source: RBI, IMF, Ministry of Statistics, CRISIL

With more support, agriculture could still make it through

- Agriculture is one sector that could achieve trend growth despite the pandemic. This could cushion overall GDP growth as agriculture contributes ~15% to the gross value added (GVA) and is the biggest employer
- This year, the IMD has forecast normal southwest monsoon ranging 96-104% of the long-period average. Last year, monsoon had created havoc, making a delayed entry and then turning excessive, hurting crops
- So far, pre-monsoon sowing of kharif has begun and reports suggest paddy acreage is higher on-year. Sowing typically picks up with the onset of southwest monsoon in June
- However, glitches due to disruption in sowing activity due to the pandemic, constraints to procuring fertilisers and seeds owing to weak cash flows and logistics support could create challenges
- If the recent dip seen across crop prices continues, farmer incomes could be hit despite a good crop
- Policy response so far for the sector is in the form of income support through PM-Kisan. A few states have also announced provision of agricultural inputs such as seeds and farming equipment on rent, but the coverage is low
- More focused measures are warranted. which ensure ease of transportation and logistics, facilitation of storage, and better prices

Source: CRISIL

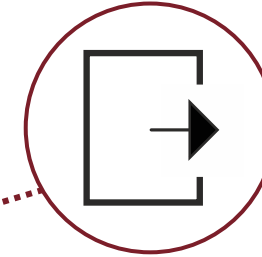
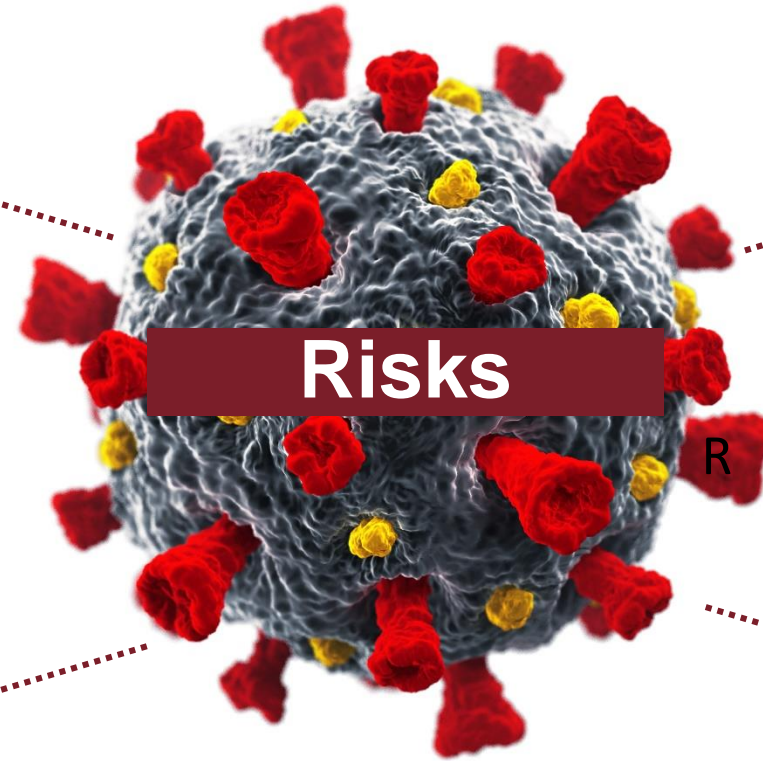
Risks to our forecast



Containment could take longer than expected, 'second wave' risks to be dealt with



If fiscal support to incomes and demand is lacking, recovery will be challenged



Existing stress in the financial sector could worsen



Monsoon fails

What is defining India's response to the pandemic

- India's high population density – thrice that of China – makes it more vulnerable to the spread of the virus
- Weak health infrastructure means India cannot take the medical overload if the pandemic spins out of control
- Limited fiscal space compared with advanced countries to spend its way out of hardship

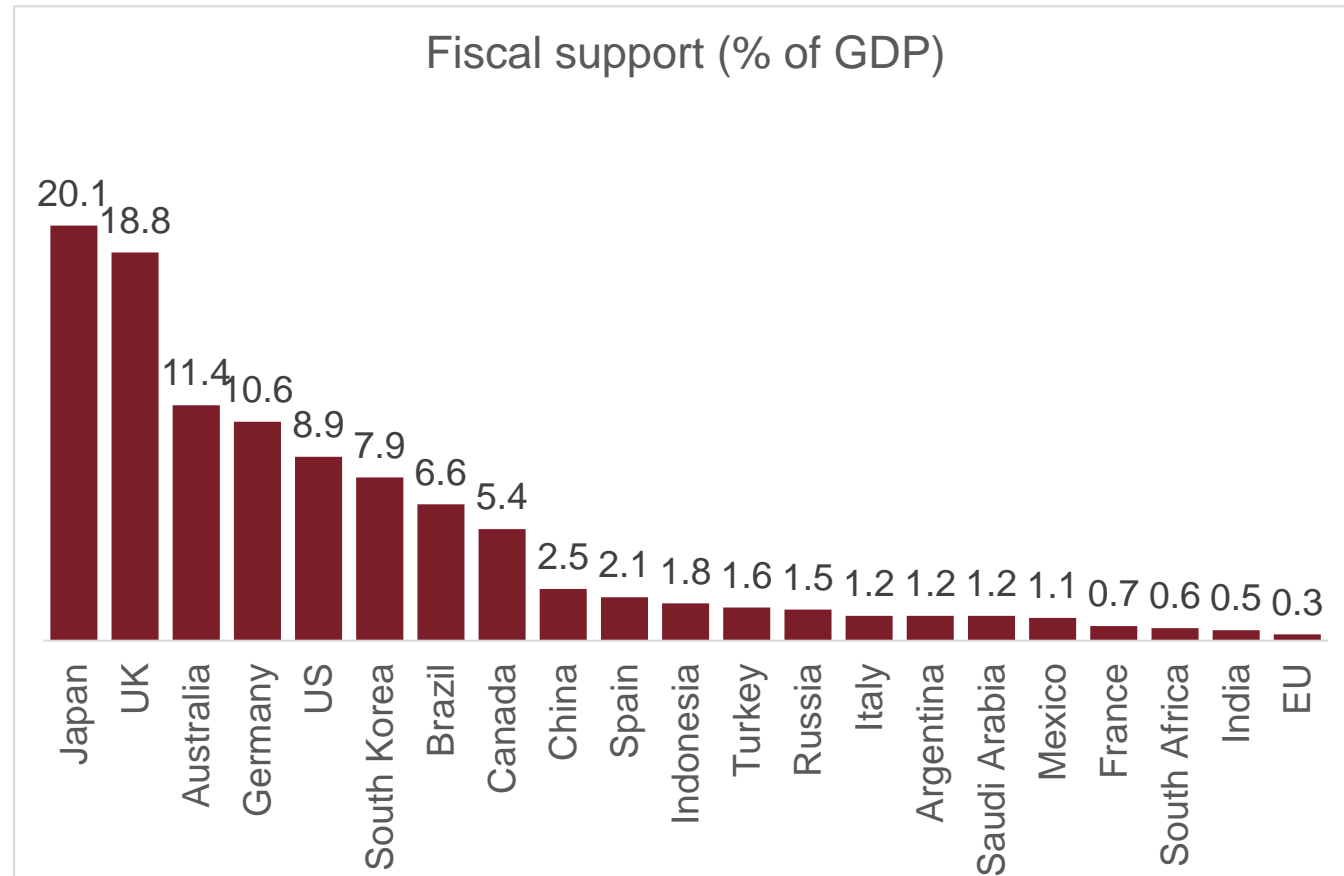
It is crucial to be aware of, and balance, the trade-offs

- The more we rely on lockdown measures, the greater will be the need to cushion the economy via monetary fiscal stimulus, which may be constrained due to limited fiscal room
- The large unorganised labour force may have little option but to return to work sooner than later, as the government may not have the fiscal muscle to support all of them beyond a point, and they will need to be protected
- India has extended the 21-day lockdown by another 19 days till May 3. The second phase (April 15-May 3) appears less stringent than the first, with attempts to balance the trade-off and include relaxation clauses, particularly for rural areas, and gradual extension to non-essential items

The need to go for broke...

Fiscal support

Excluding guarantees by G-20 nations



Source: IMF

- India's fiscal response so far seems tight-fisted, even when compared with some of the smaller emerging market peers
- Both quantum and coverage are inadequate

Monetary support

- Policy rate and cash reserve ratio cut ✓
- Targeted long-term refinance options ✓
- Loan, working capital interest moratorium ✓
- Relaxation of prudential norms ✓
- Increasing ways and means advances limits for government ✓
- Operation Twist ✓
- Quantitative easing ✗

- India's monetary policy response has been much stronger and more proactive in comparison
- The RBI has thrown the 'kitchen sink' of all conventional and unconventional tools to support the economy

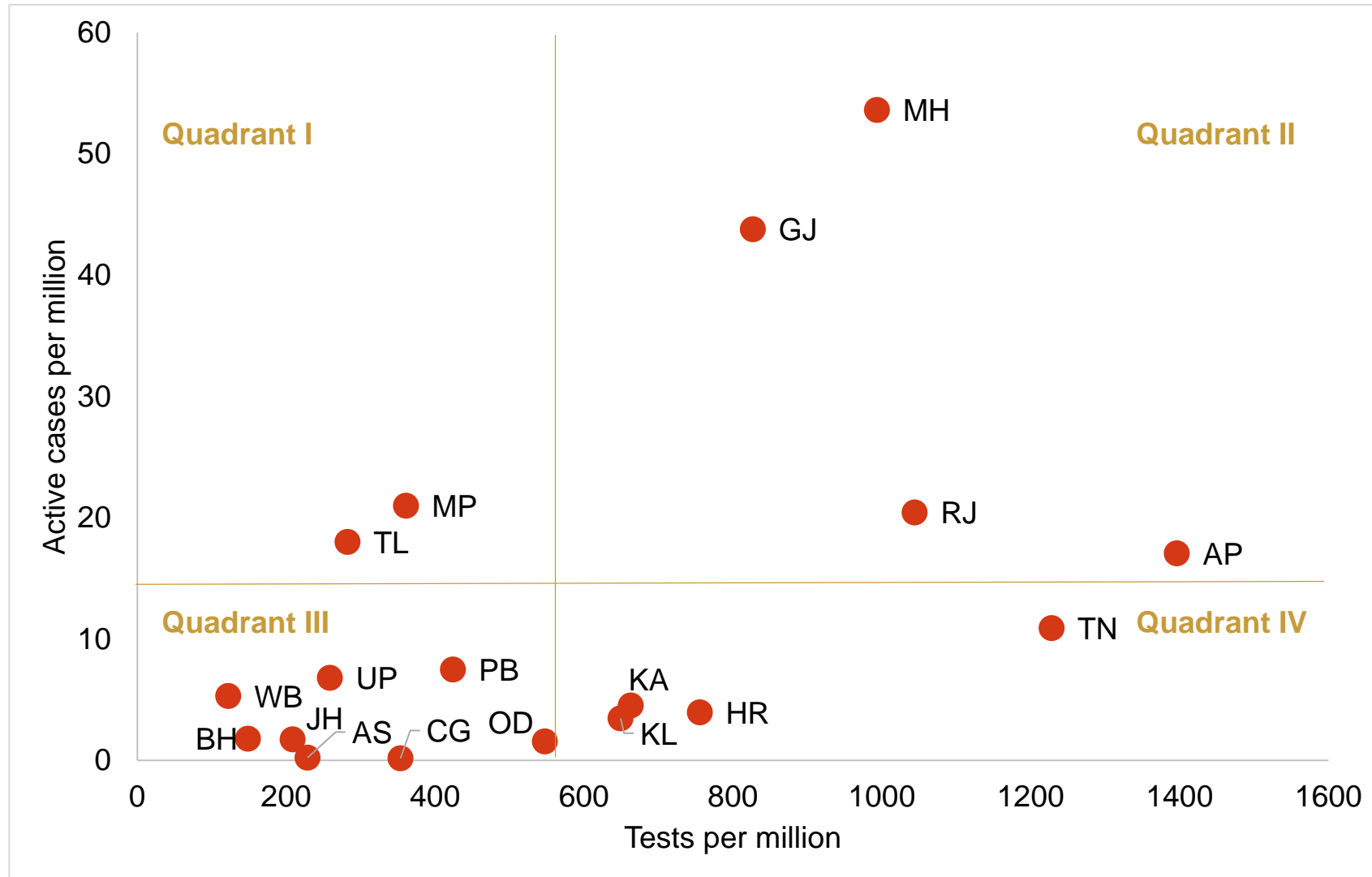
...and including the excluded and the most vulnerable

- **PM-Kisan:** Of the targeted 14.49 crore farmer families, the government has announced benefits for 8.89 crore under this scheme. This means ~5.6 crore farmer families (~39%) remain below the radar. Moreover, landless and tenant farmers would remain excluded in the current scheme of things
- **Jan Dhan accounts:** The government has announced support for only 20.51 crore women account holders. But, as per the latest statistics, India has 38.08 crore Jan Dhan accounts. Besides, there is still a huge unbanked population that would remain outside the ambit of such a bank-transfer scheme
- **Mahatma Gandhi National Rural Employment Guarantee Act:** In the past, the work supplied under the scheme has always lagged work demanded. In fiscal 2019, these figures were 5.3 crore vs 5.9 crore households. With reverse migration, demand for work is set to rise. Hence, allocation to the scheme needs to be ramped up significantly
- **Informal firms:** According to the latest Economic Census data, of the 5.85 crore establishments, ~94% were not registered with the government and ~95% of firms had employed less than five workers. Thus, it is unlikely that these small firms would benefit from the government's steps, such as contribution to the Employment Provident Fund Organisation, or credit market interventions in the form of cheaper loans. Since most MSMEs primarily operate on cash, more direct measures of liquidity may be the need of the hour
- **Support to disrupted businesses:** Small and medium enterprises and other disrupted businesses need direct fiscal support, guarantees, etc.

State of the states



Which states are seeing the most cases?



Note: Data on number of cases and tests as on April 27, Data for tests of Telangana as on April 16
 Source: Ministry of Health and Family Welfare (MoHFW), respective state health departments, news reports, CRISIL

Maharashtra (MH), Rajasthan (RJ), Gujarat (GJ), Andhra Pradesh (AP), Telangana (TL) and Madhya Pradesh (MP) are most affected where the active cases per million are higher than national average

- 33% of total population
- 41% of India's output

- Quadrant I: States have tested less but are seeing higher cases, possible risk of surge in cases as testing expands
- Quadrant II states: Have conducted more tests and are seeing higher cases, healthcare facilities may be overwhelmed in case of exponential increase
- Quadrant III states: Majority, including populous Bihar and Uttar Pradesh still have very low testing rates compared with the national average
- Quadrant IV states: Safe zone, Kerala and Karnataka have high testing rates and have managed to reduce active cases

Vulnerability matrix of all states

State	Covid-19 shock	Economic vulnerability			Workforce vulnerability		Health infra vulnerability		Fiscal vulnerability	
	Number of active cases per million as on April 27	Share of manufacturing in GSVA	Share of construction in GSVA	Share of services in GSVA	% of casual labour	% of regular salaried with no job sec	Doctor population ratio	Hospital bed per 1000 population	Per capita income (in '000 rupees)	Outstanding liabilities to GSDP (%)
		FY19	FY18	FY19	FY19	FY19	FY19	FY20RE		
Maharashtra	53.6	23.1	5.8	51.5	24.1	29.5	900	0.44	153	16.1
Gujarat	43.8	35.8	5.8	32.7	16.7	47.3	1248	0.31	155	16.1
Madhya Pradesh	21.0	12.2	8	33.2	28.2	39	2691	0.39	59	25.4
Rajasthan	20.4	12.9	8.3	39.6	16	54.3	2224	0.62	79	33.4
Telangana	18.0	13.7	4.7	60.9	24.4	40.5	9477	0.56	144	20.6
Andhra Pradesh	17.1	11.8	8	39.4	36.9	51.9	659	0.46	107	31.6
Tamil Nadu	10.9	23.3	11.8	49.1	33.5	34.4	696	1.02	139	21.4
Punjab	7.5	15.2	6.3	44.6	20.4	52.2	778	0.6	116	39.8
Uttar Pradesh	6.8	14.7	10.4	42.6	21.3	41.7	3692	0.35	44	28.2
West Bengal	5.3	14	9.4	49.8	31.8	41.7	1705	0.82	73	33.3
Karnataka	4.5	19	6.7	61.1	26.8	34.8	672	1.06	155	18.2
Haryana	4.0	23.9	7	47.6	20.6	41.6	6287	0.42	169	21.3
Kerala	3.5	12.8	13.9	58.3	29.3	30.8	740	1.11	148	30.3
Bihar	1.8	8.2	9.5	55.8	32.2	19.9	3536	0.1	31	30.2
Jharkhand	1.7	20.7	8.8	40.1	23.6	41.5	7895	0.31	57	27.1
Odisha	1.6	22.5	7.2	35.5	27.2	42.9	2495	0.41	74	17.9
Assam	0.2	15.4	8.9	34.9	18.5	26.5	1800	0.51	60	18.9
Chhattisgarh	0.2	18.5	8.9	30.9	19.6	45.3	4045	0.34	71	20.2
India	15.8	18.1	8	41.2	24.9	38	1445	0.45	92	25.4*

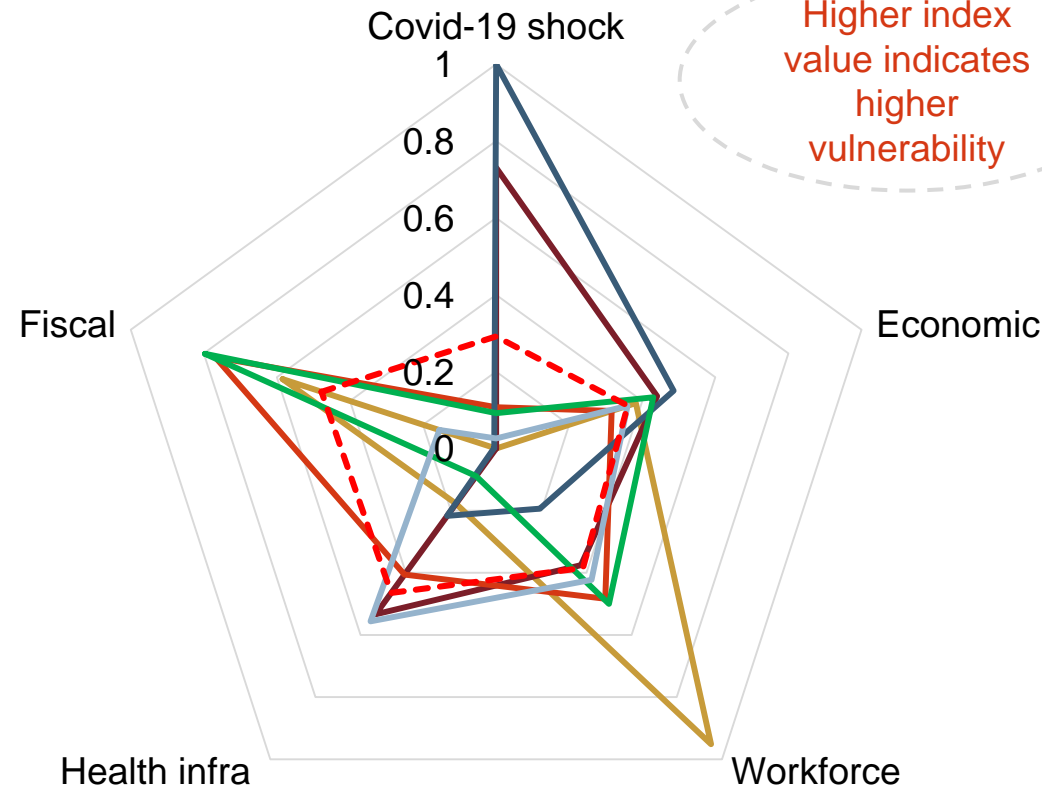
- Using the above indicators, we have constructed a vulnerability index for the most affected states across five dimensions

Note: Per capita income (PCI) and gross state value added (GSVA) of Maharashtra projected based on average growth rate of FY18 and FY17. Outstanding liabilities of Andhra Pradesh, Assam and Madhya Pradesh of FY20 budget estimates; share of services excluding public administration. *All-states average considered for India outstanding liabilities to gross state domestic product (GSDP) ratio

Source: MOHFW, MOSPI, RBI, PLFS 2017-18, National Health Profile 2019, State Budget documents, CRISIL

Vulnerability of the most-affected states

Vulnerability index

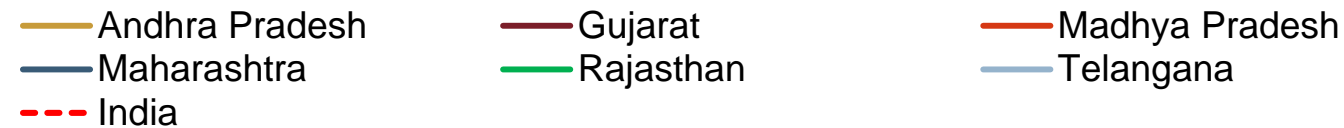


MH and GJ with higher per capita income, lower debt ratios, are better placed to push growth post the pandemic. **RJ and AP** may face borrowing constraints due to higher debt

MH and GJ have higher share of output from manufacturing, construction and services, and are at risk of sharper drop in output with continuing lockdown

TL, MP, GJ have lower number of doctors and government hospital beds compared with India average

AP, RJ, MP with higher share of casual labour and workers with little job security, are at risk of higher job losses due to extended lockdown



- Vulnerability index across five dimensions calculated based on indicators in previous slide. For each dimension, the constituent indicators were normalised as these are measured in different units. Normalisation rescales the indicators in the range [0, 1]. Inverse of 'positive' indicators such as per capita income and hospital bed-population ratio were taken for appropriate comparison
- Score on a particular dimension is computed by taking the average of the normalised scores of its constituent indicators

Corporate revenue and profitability

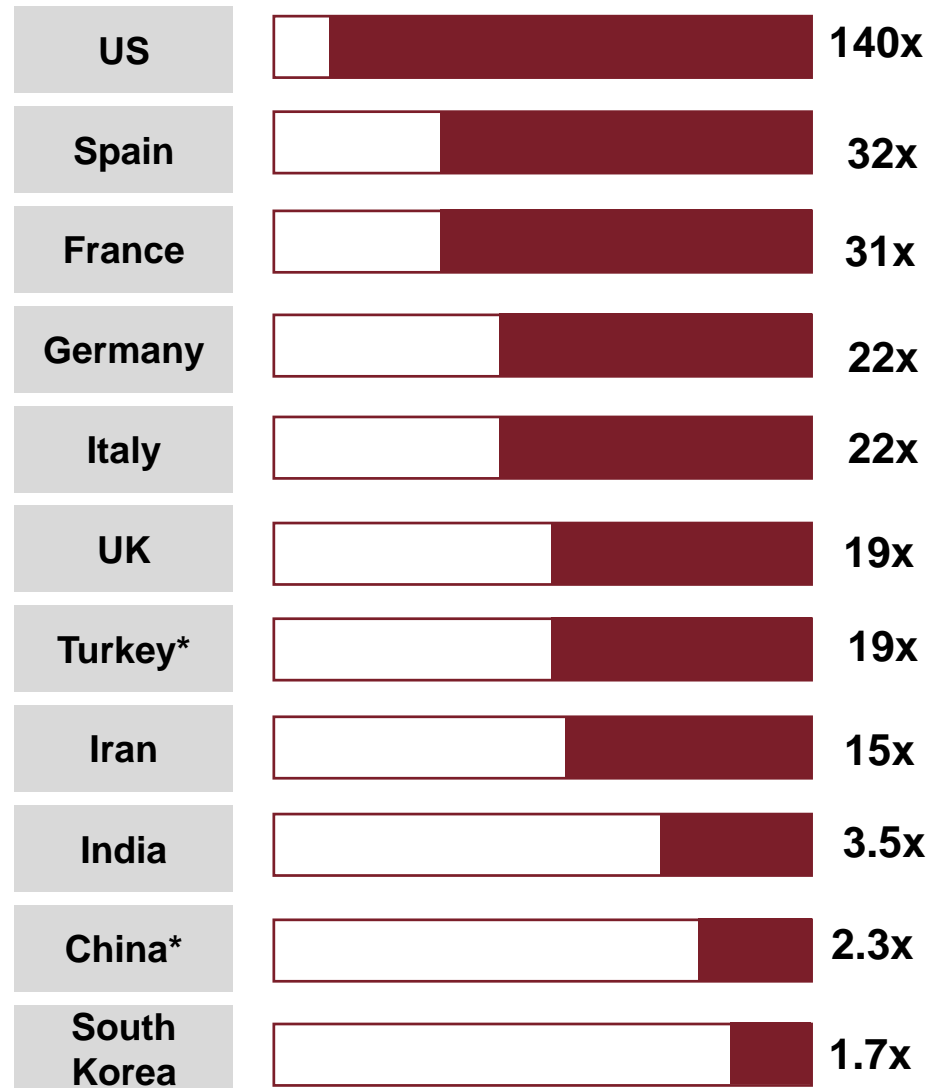


Key messages

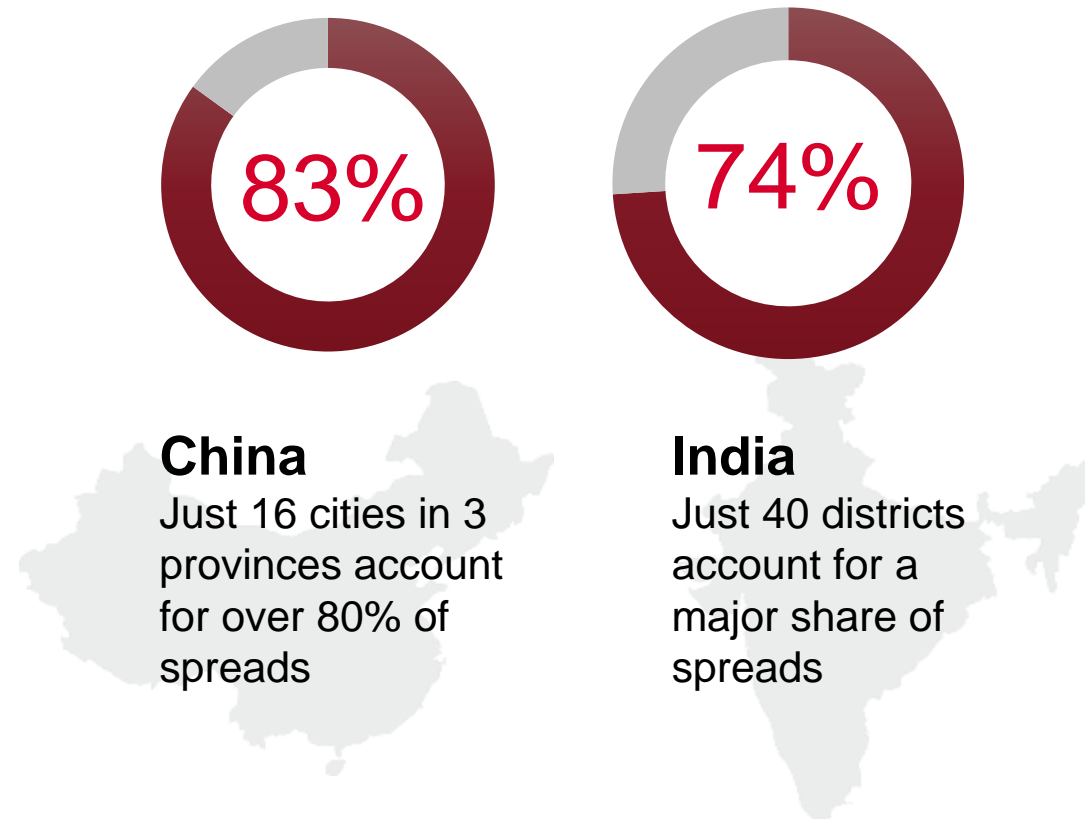
- **Revenue outlook:** India Inc to see a ~10% slide in revenue growth this fiscal, the worst in at least a decade
- **Consumption segments most impacted:** Most segments to see revenues falling. Consumer discretionary services, especially airlines and hotels, will be the worst-hit
- **Ebitda to fall faster than revenue:** This is despite lower raw material prices, due to adverse impact of operating leverage on falling utilisation and revenues
- **Liquidity squeeze and stretched working capital cycle to hurt MSMEs**
- **Many never-before trends emerging:**
 - The relatively resilient services exports to see muted growth for the first time in years
 - States to limit infrastructure spending because of higher healthcare spending, even as tax revenue from sale of liquor and excise duty collections decline
- **Credit metrics weakening across sectors:** Interest coverage ratio to drop below 1 for nearly 32% of debt this fiscal compared with 22% a year ago for the top 800 listed companies. Percentage of corporate debt with a debt-to-Ebitda above 4 times to rise to 76% from 66% a year ago.

Early lockdown has helped, but poor healthcare infra a big worry

Daily spread multiplier from first 100 cases until Day 60*



Dispersion so far has been limited, like in China, which is a positive



But fragile health infrastructure remains a key concern

US	83.5
Spain	65.9
France	68.2
Germany	66.0
Italy	56.2
UK	77.9
Turkey	52.4
Iran	37.7
India	46.5
China	48.2
South Korea	70.2

GHS (Global Health Security) Index

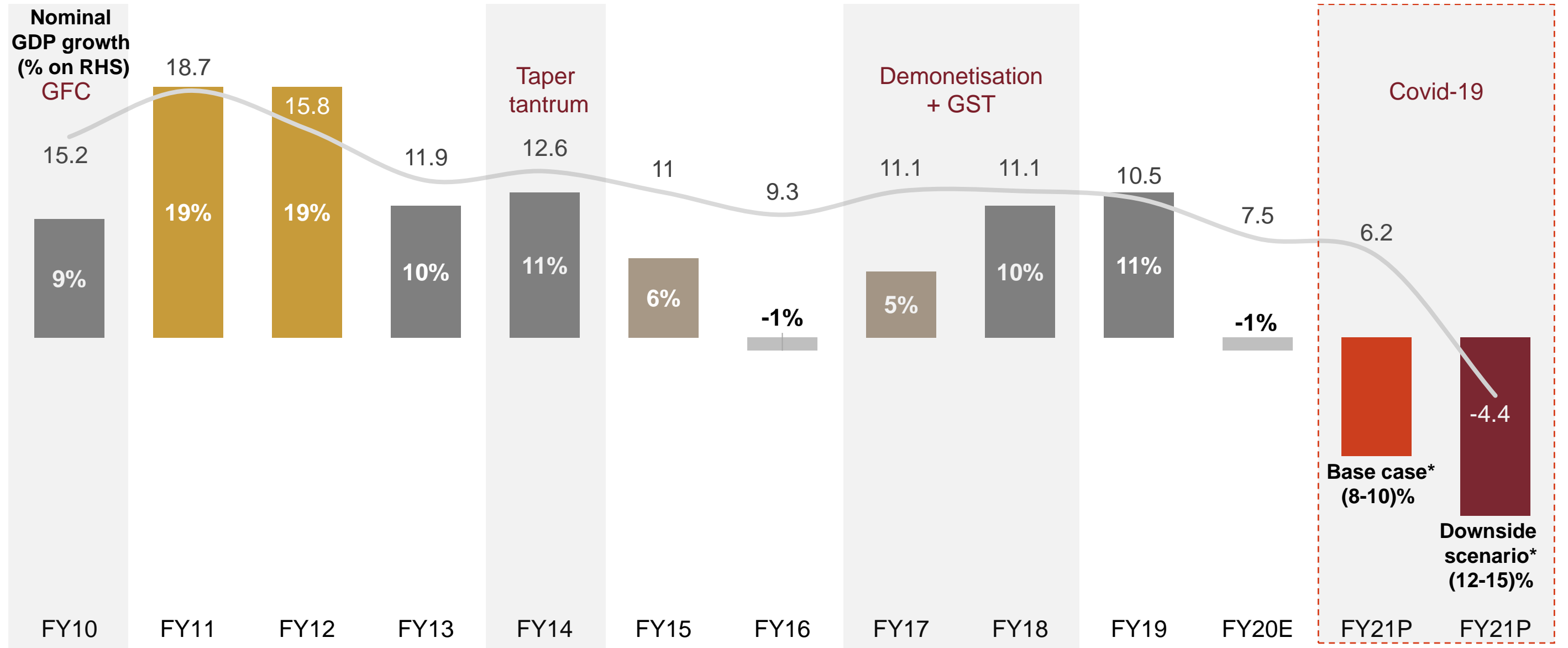
*Need to consider different levels of testing that may also impact the identification of positive cases and slope of the curve

Note: All other countries other than those specified report numbers from February 15 as Day 0;

GHS is an assessment across 6 parameters for countries including prevention, detection, reporting, responding, health infrastructure, norms and structural risk.

India Inc set to log its worst performance in a decade

Revenue growth versus nominal GDP growth (y-o-y)



Note: Based on the trend of 800+ listed companies (non-oil and non-BFSI), including standalone and consolidated companies

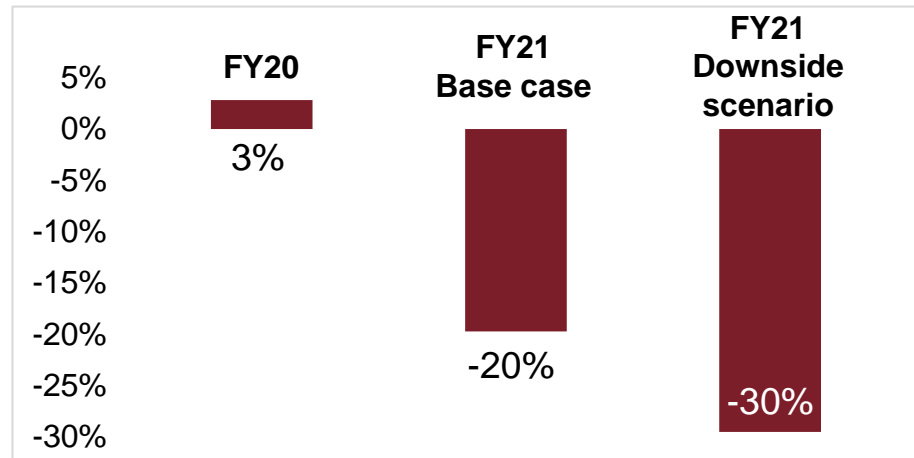
* Base case corresponds to FY21 real GDP growth forecast of 1.8% while downside scenario corresponds to 0% real GDP growth

Source: Company reports, CRISIL Research

Discretionary segments and construction to be hit hardest

Consumer discretionary services

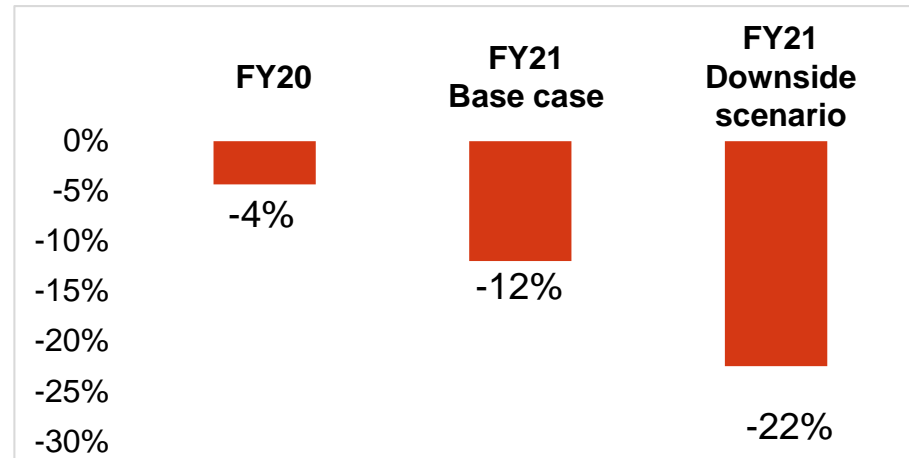
LPA: 12-14%



*Includes Airlines, Hotels, Media, Org. Retail

Consumer discretionary products

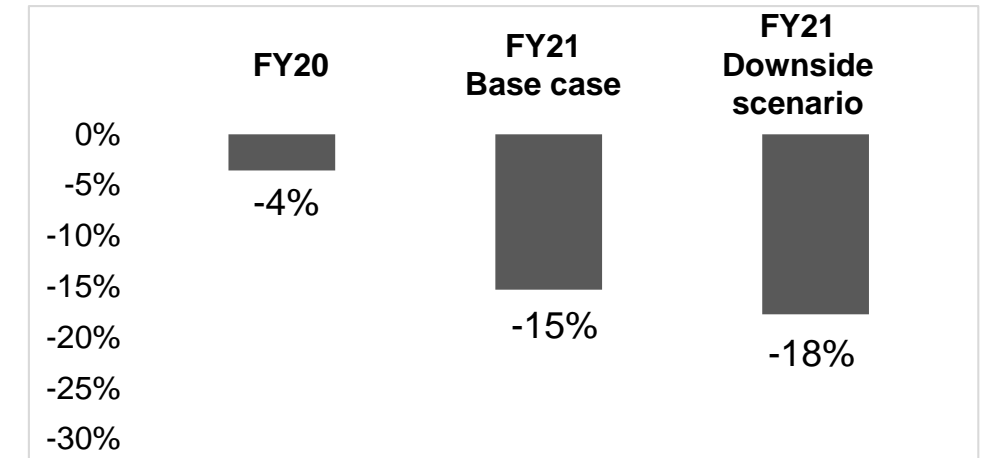
LPA: 12%



*Includes Auto, Consumer durables

Exports-merchandise (excluding pharma)

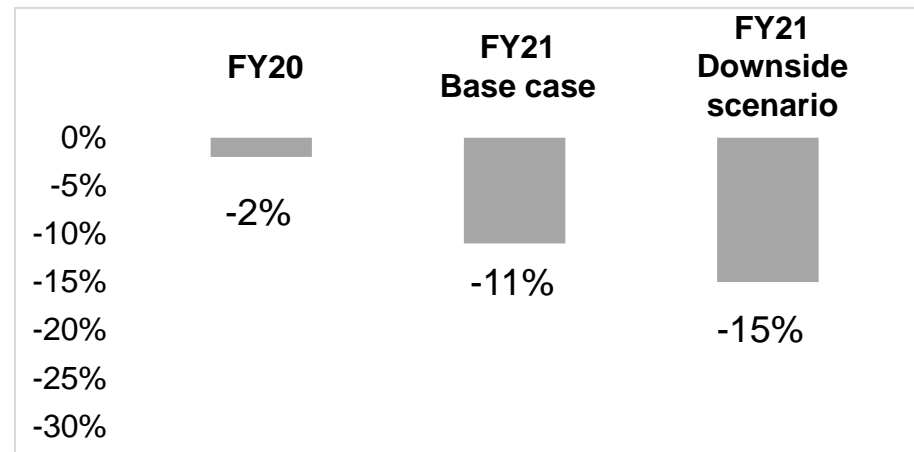
LPA: 4%



*Includes Textiles, Gems & Jewellery

Construction

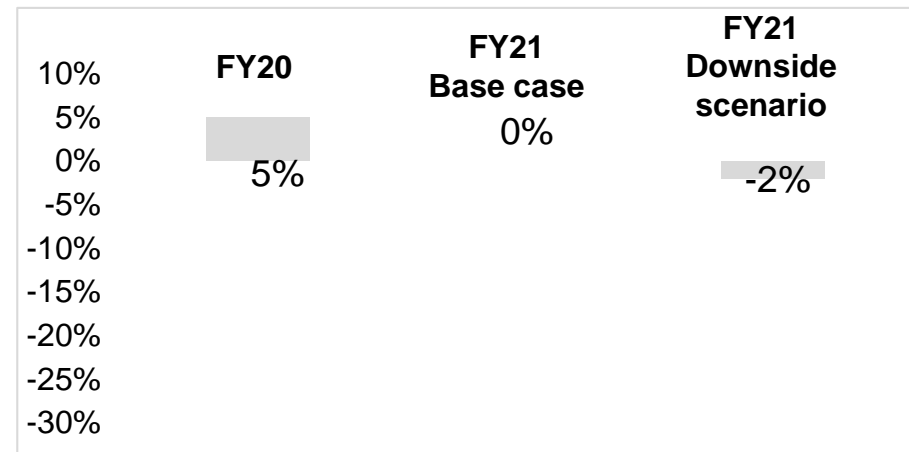
LPA: 13%



*Includes infrastructure and real estate construction

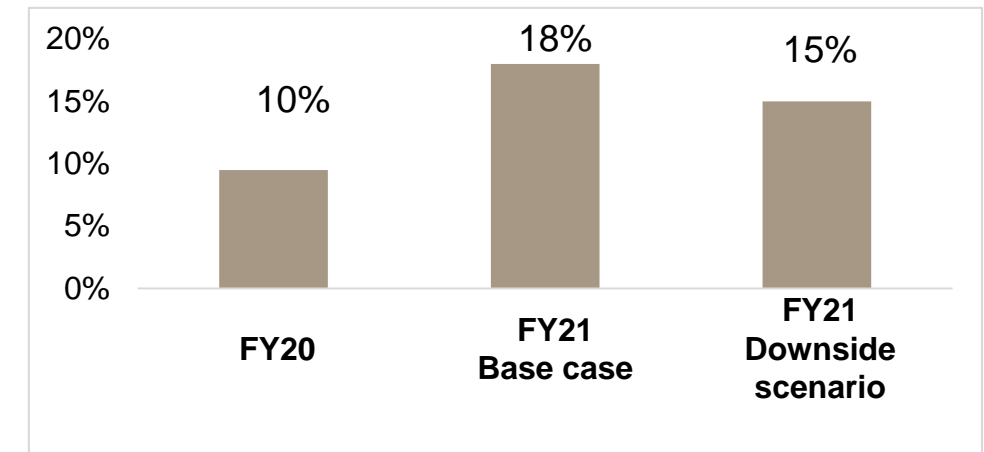
Consumer staples - FMCG

LPA: 10-12%



Telecom services

15-17%

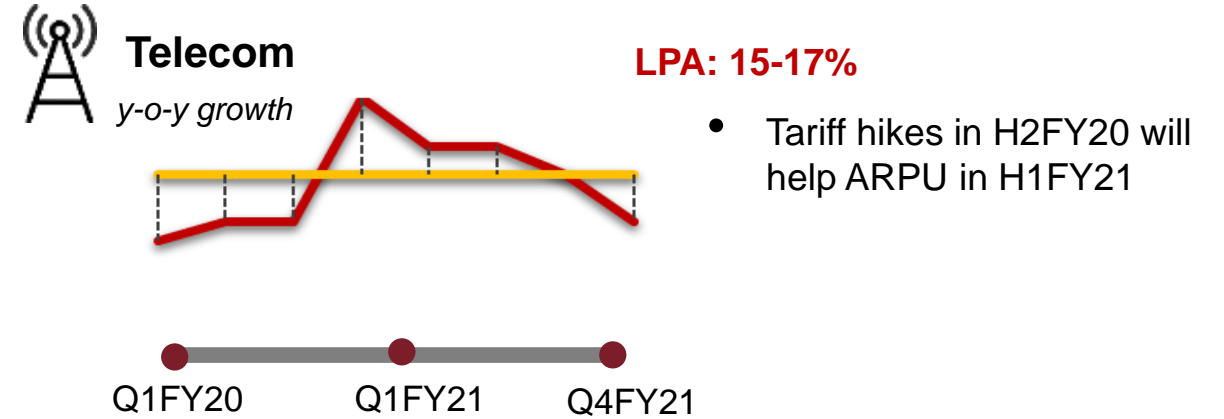
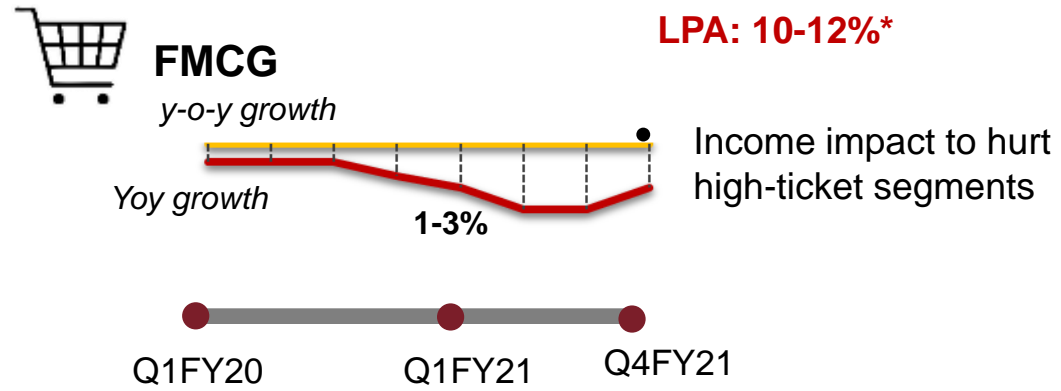


*LPA is long period (decadal) average growth up to fiscal 2019

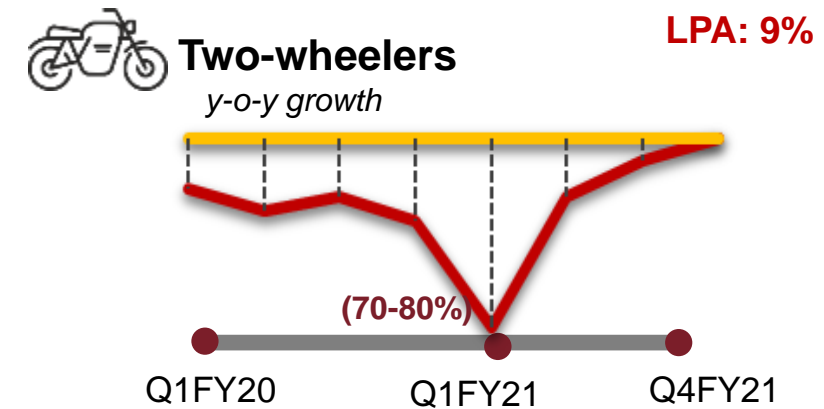
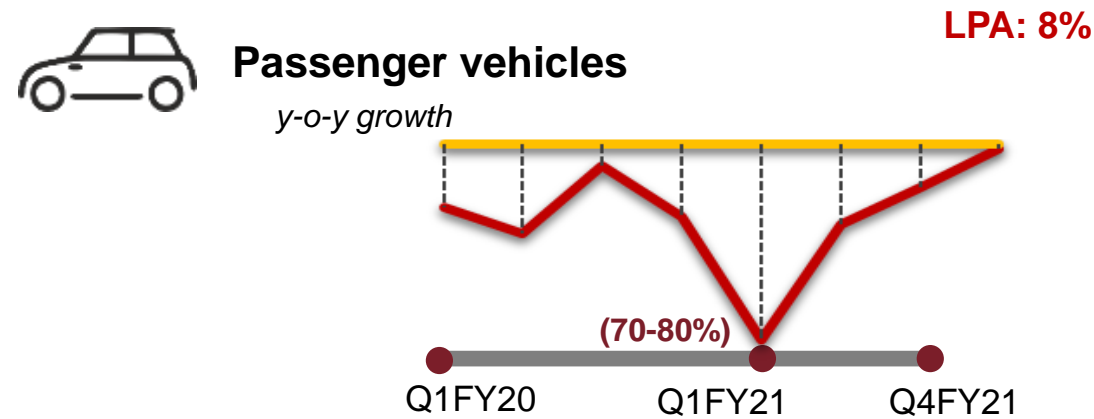
Source: Company reports, CRISIL Research

Shape and time of recovery to vary widely across sectors

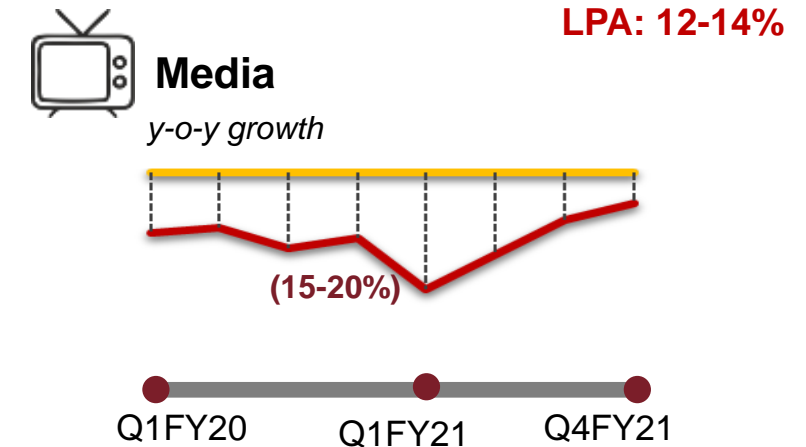
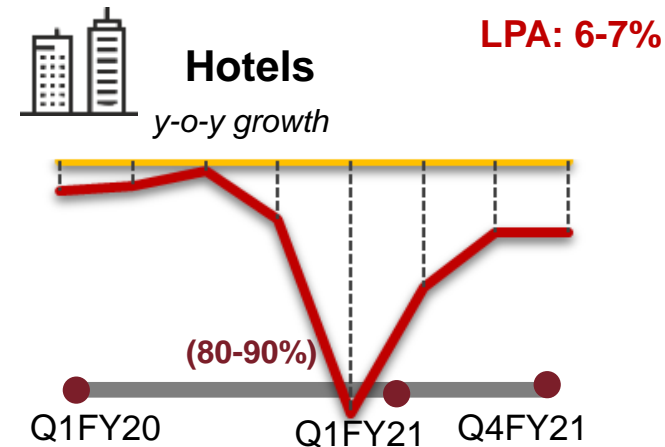
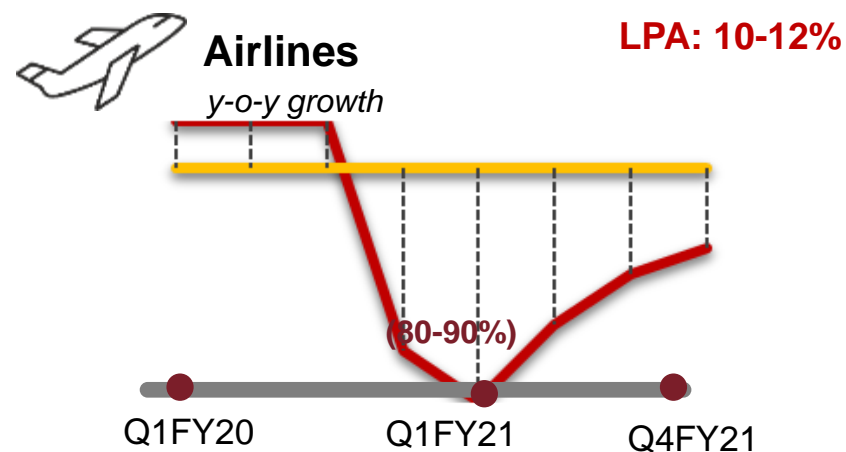
Consumer staples – mild impact and/or quick recovery



Consumer discretionary products – sharp impact but moderate recovery time



Consumer discretionary services - sharp impact and long drawn recovery



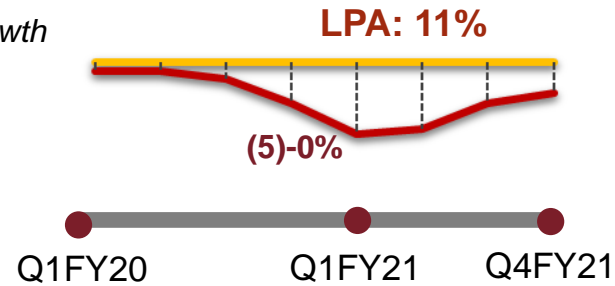
*LPA is long period (decadal) average growth up to fiscal 2019

FMCG, Telecom, consumer durables, airlines, hotels exhibited as revenue growth for listed firms;; Cars and two-wheelers exhibited as volume growth

Exports revival to take longer; construction to get low-base boost

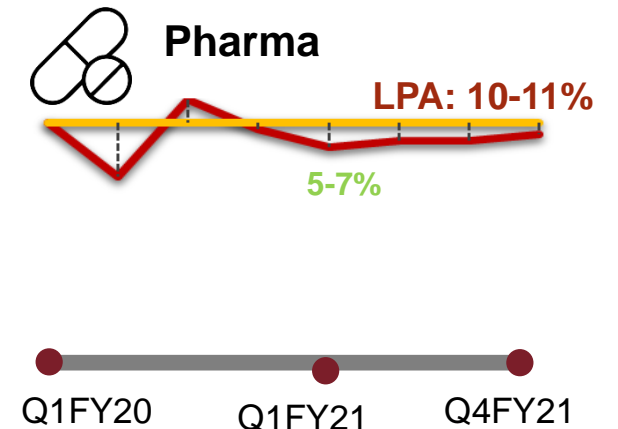
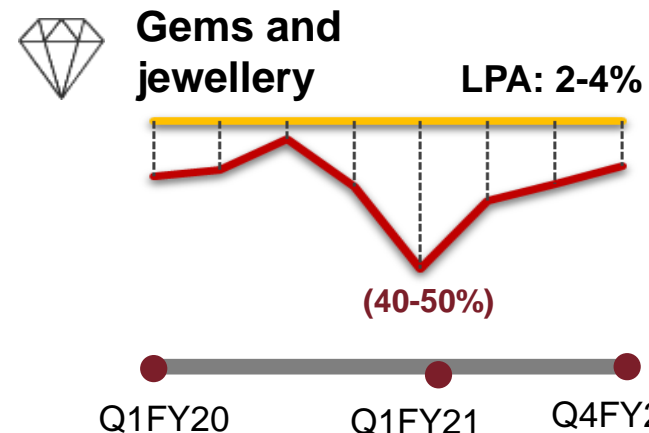
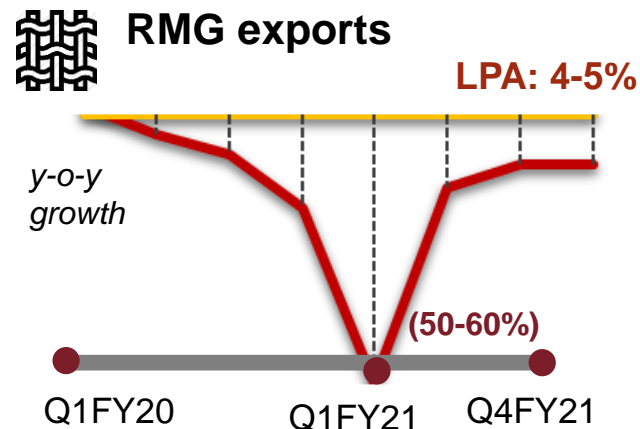
Export services – moderate recovery time

 **IT services**
y-o-y growth

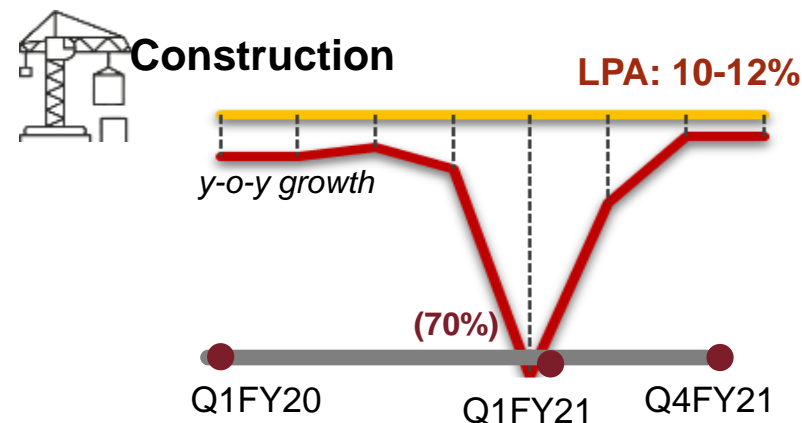


- Recovery hinges on how the rebound goes in the US, European Union and the UK

Export products – long drawn recovery excluding pharma



Construction – sharp impact



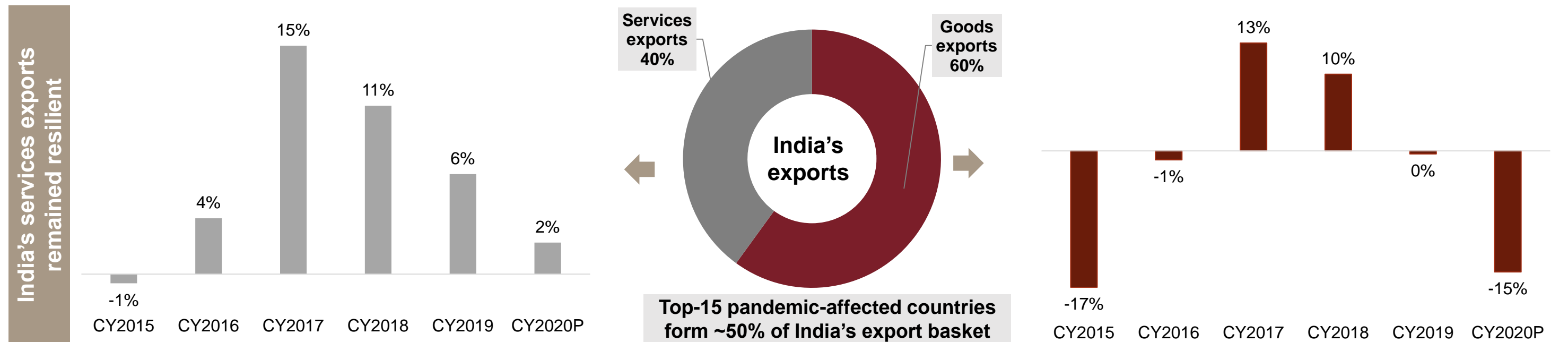
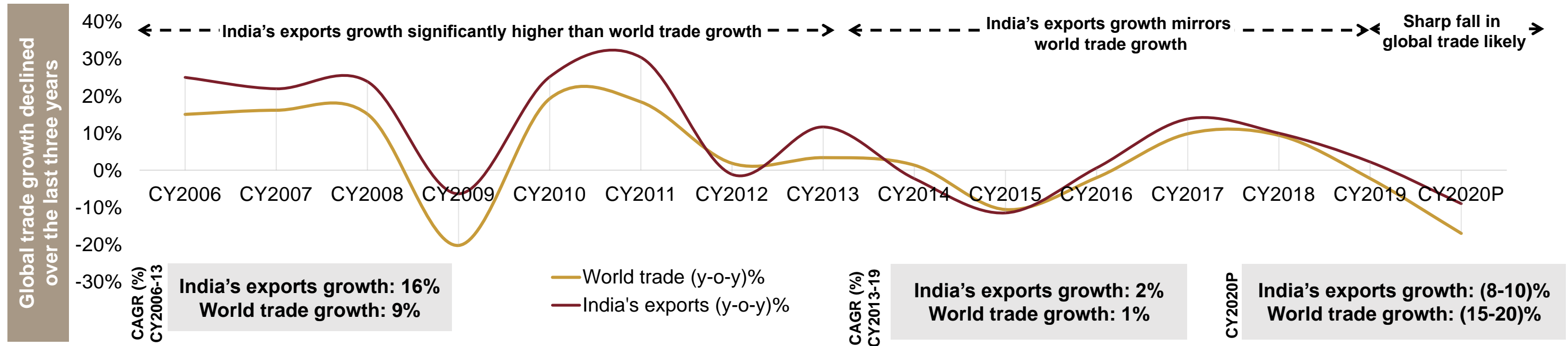
- After the washout in Q1, construction sector demand to recover to 6-7% in the second half on low base of last year. However, sector is still well away from its long period average.
- Government has started construction in some parts (infrastructure and housing)

LPA: Long period average growth for past decade until fiscal 2019

For exports, we have considered export value of those commodities (dollar terms) and for the rest we have considered revenue growth of key listed firms

Construction includes infrastructure and housing (affordable housing, real estate, IHB)

In line with global trade, little gains made over the past five years

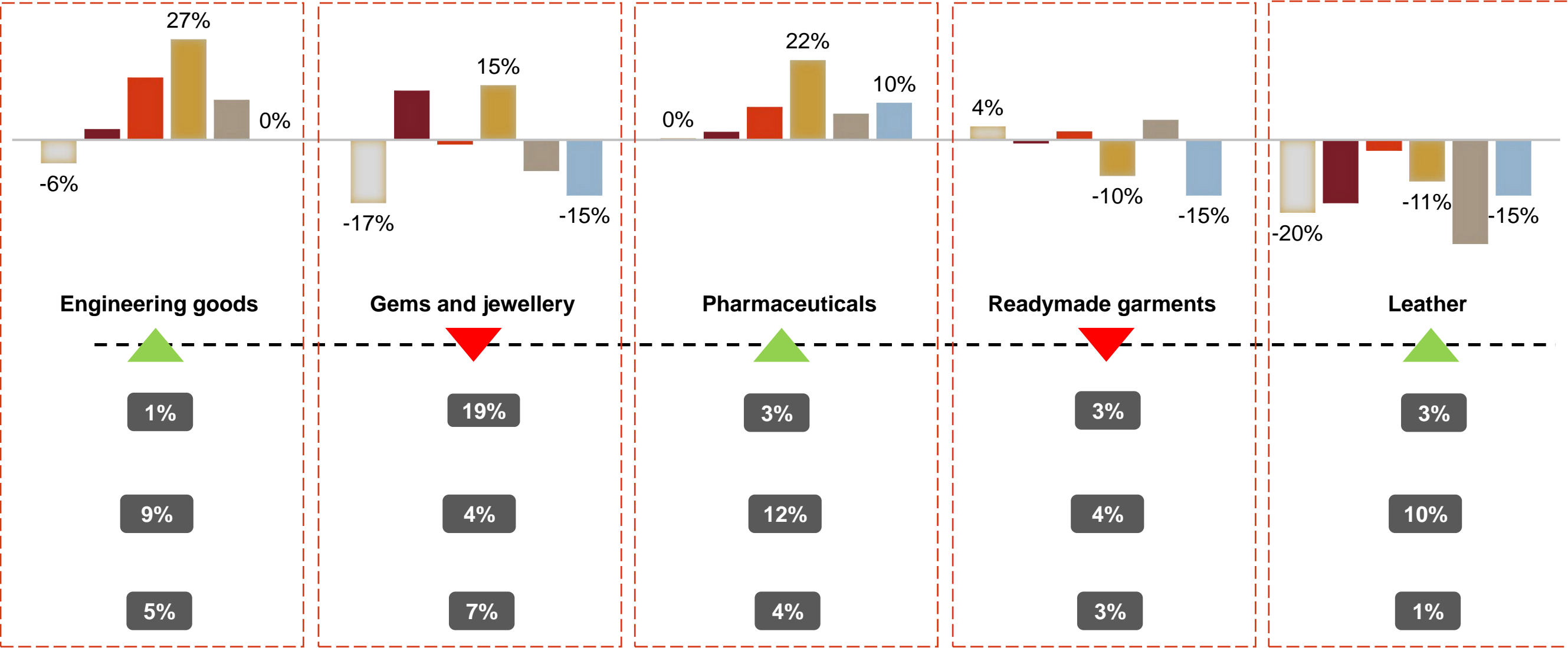


Notes: Dotted trend line in each graph indicates decadal average. All numbers are in \$ terms; P- Projected
Source: DGFT, trade portals

Large sectors haven't lost share in a decade, but the gems and jewellery, and readymade garments sectors are on the edge

Top five sectors account for more than 35% India's goods exports

CY15 CY16 CY17 CY18 CY19 CY20E

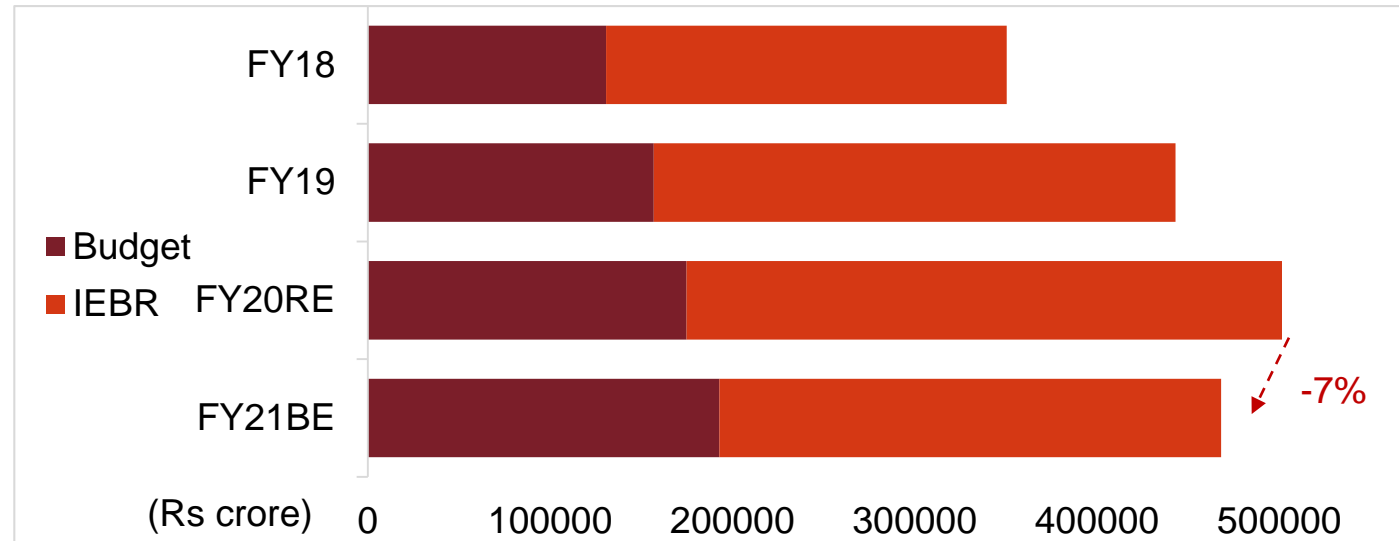


Source: DGFT, trade portals

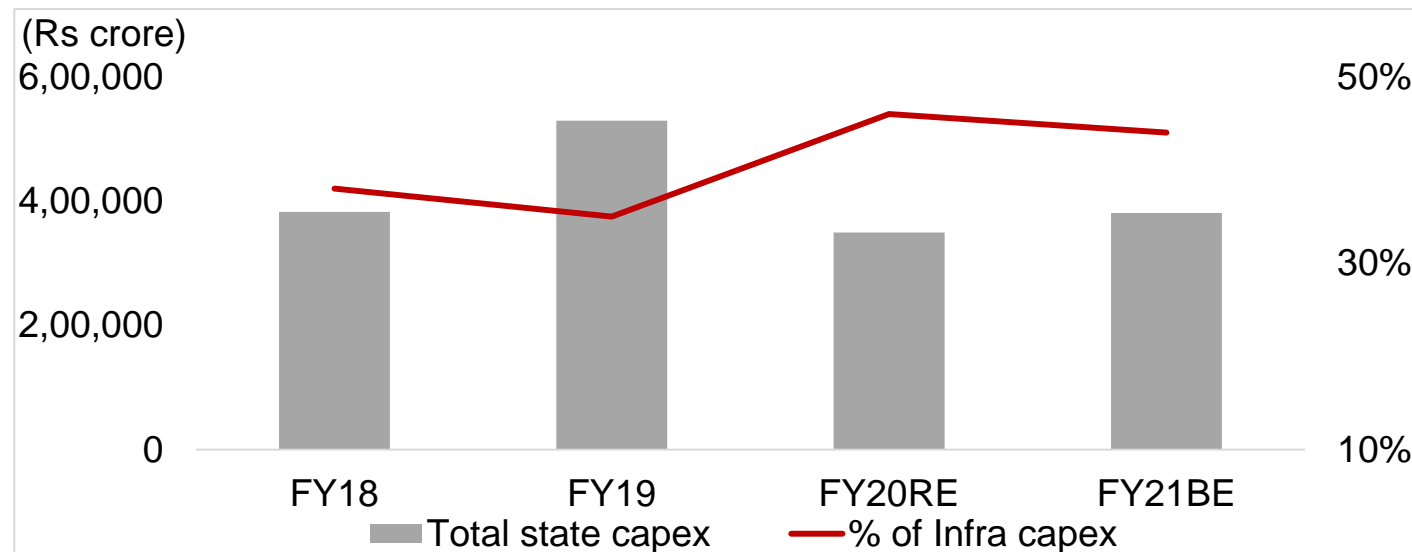
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Infrastructure capex would see further decline this fiscal as funds would be diverted towards health and social sectors

Budget estimates for infra capex fell for the first time in FY21



Budgeted infra capex of states was anyway seen stagnant in FY21

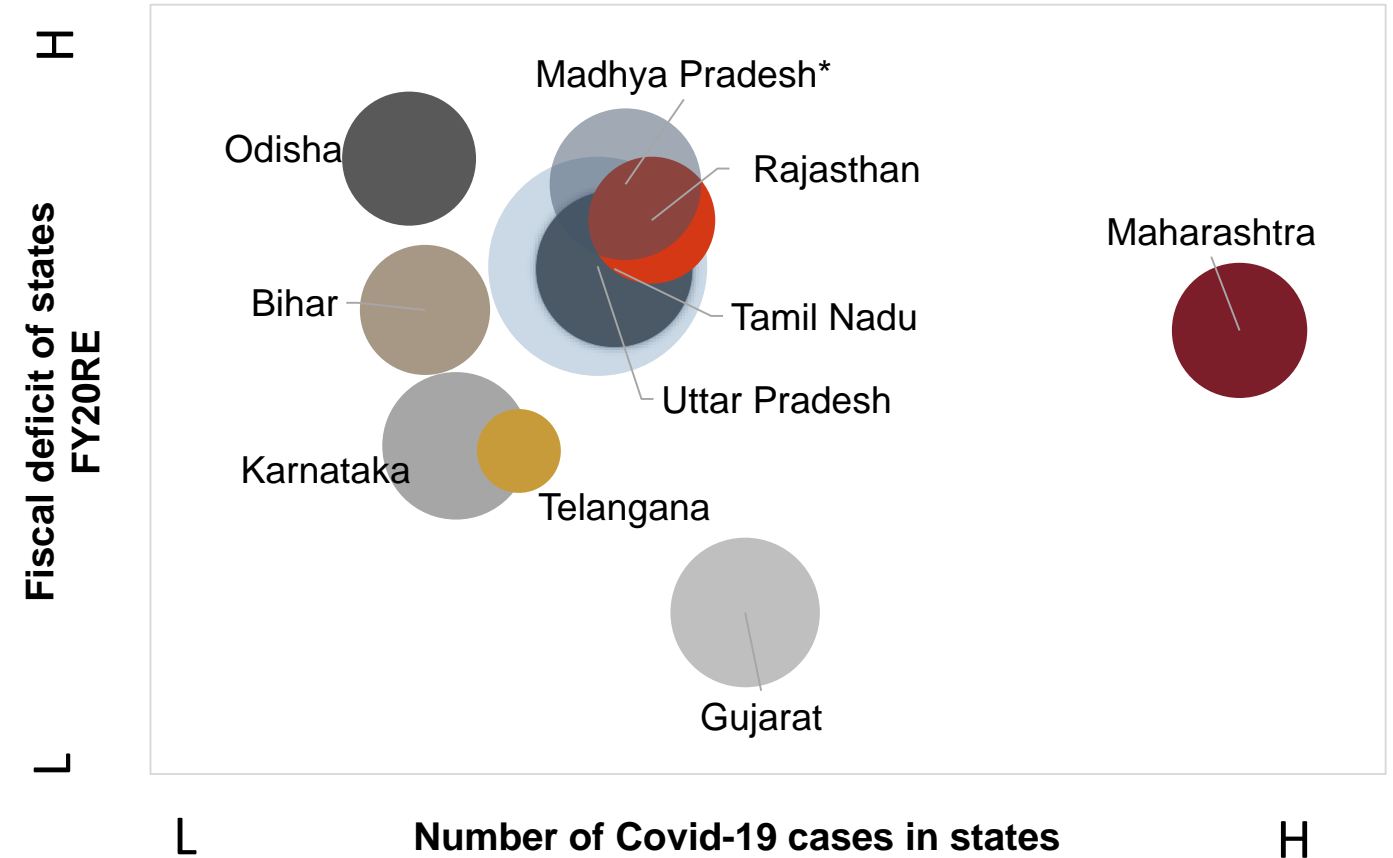


BE: Budget Estimate; RE: Revised estimate:

State infrastructure capex includes transport, WSS and irrigation

Source: Union Budget and state budget documents, CRISIL Research

Maharashtra worst affected. Tamil Nadu and Rajasthan, which had budgeted higher infra capex this fiscal, would see max shave-off

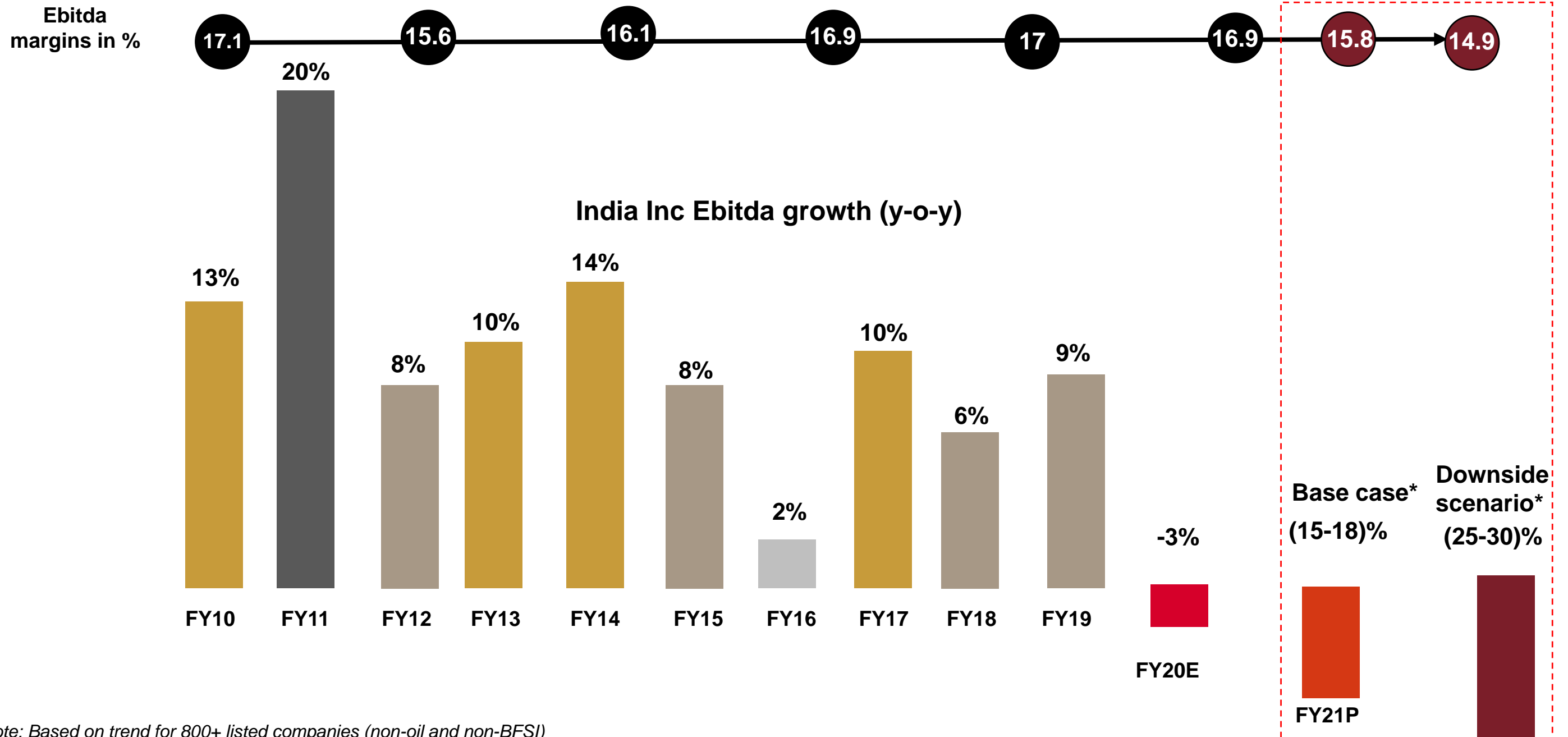


- Maroon to pink indicate states that would divert funds from infrastructure to healthcare and social, according to degree of diversion
- Dark blue to light indicate states which, despite lower Covid-19 cases, would see reduced infrastructure capex because of higher fiscal deficit.
- Size of the bubble indicates state infrastructure spend in Rs crore
- Madhya Pradesh budget for this fiscal has not been announced yet

Profitability and liquidity



Ebitda set to plunge despite low commodity prices



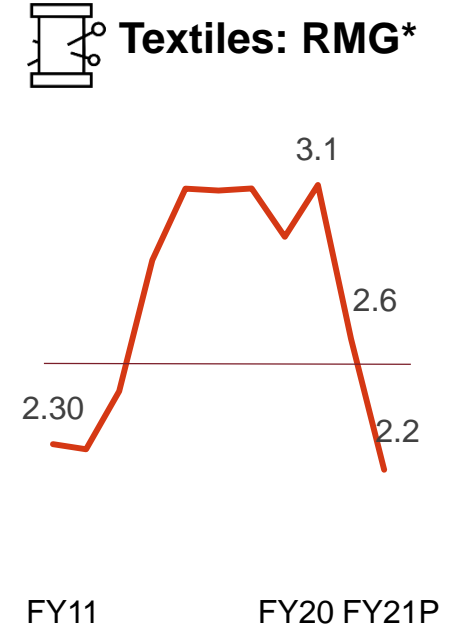
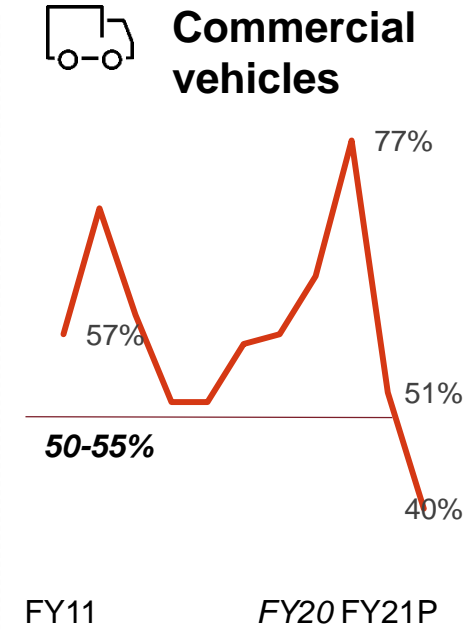
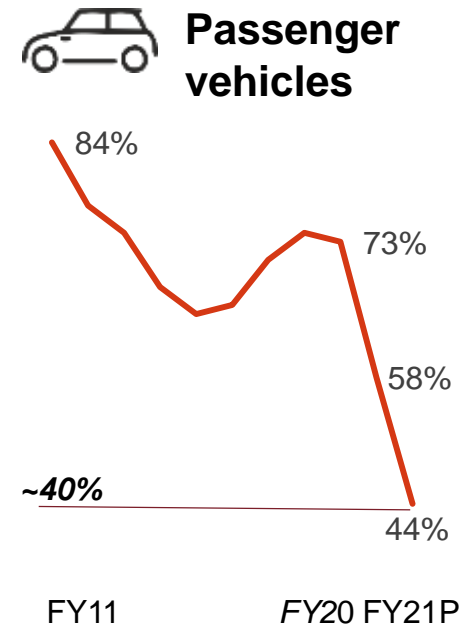
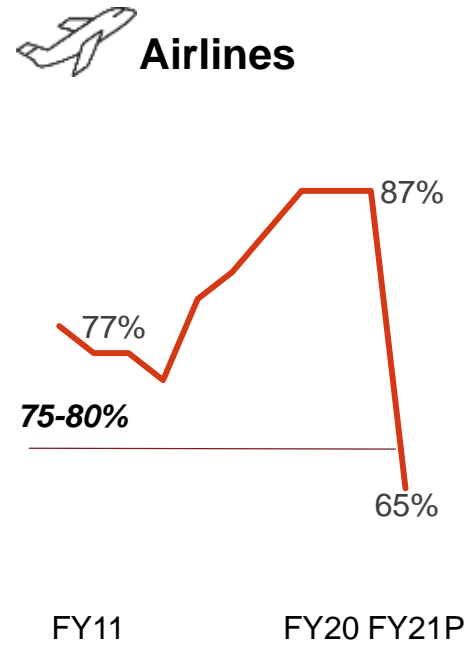
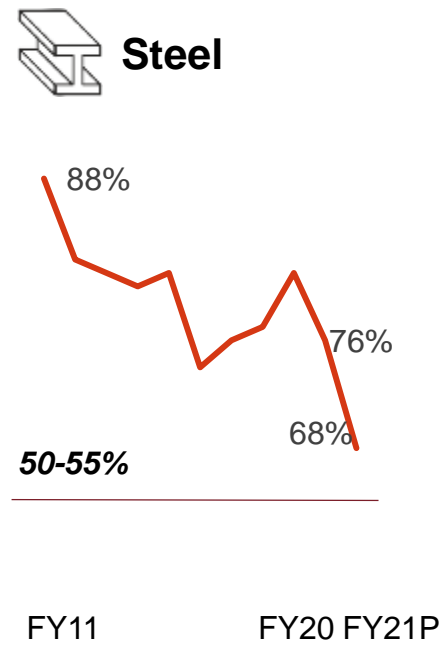
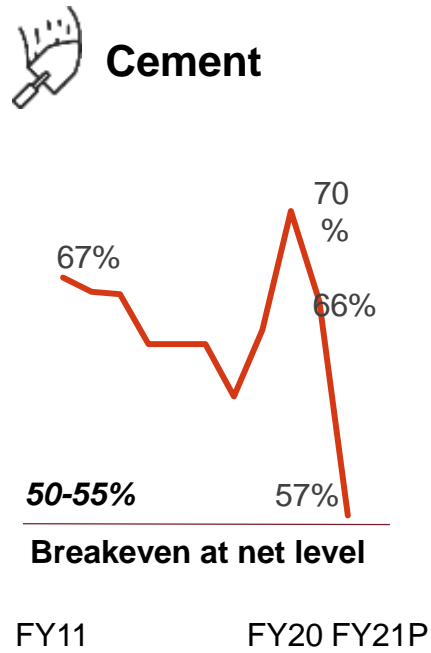
Note: Based on trend for 800+ listed companies (non-oil and non-BFSI)

* Base case corresponds to FY21 real GDP growth forecast of 1.8% while downside scenario corresponds to 0% real GDP growth

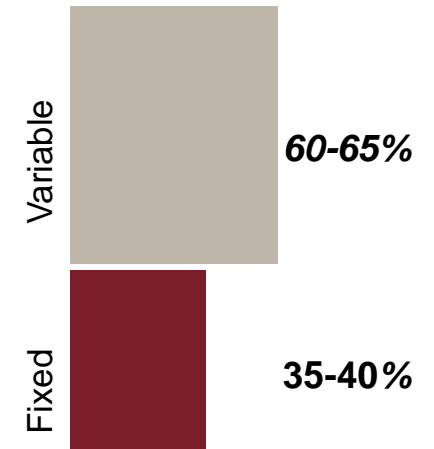
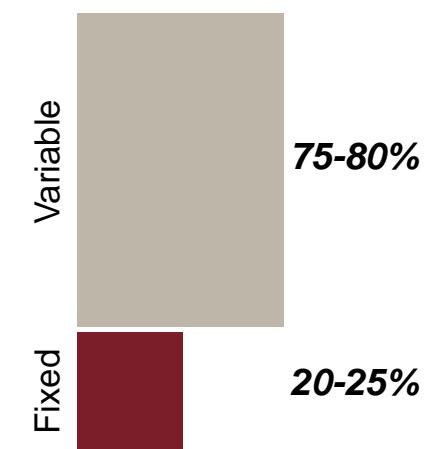
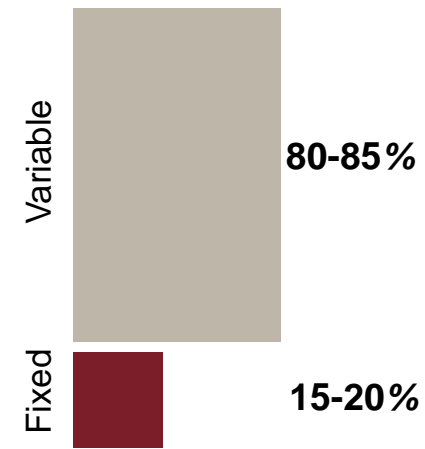
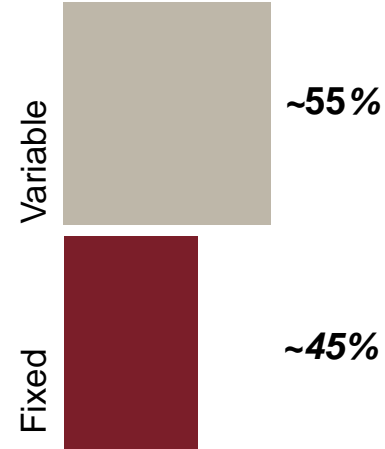
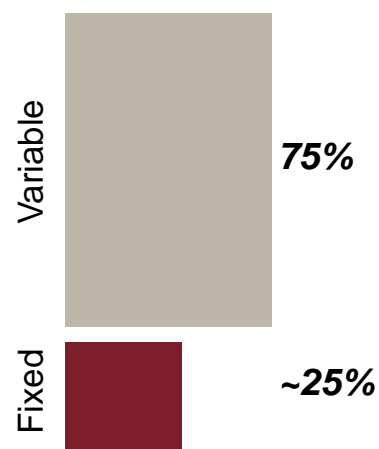
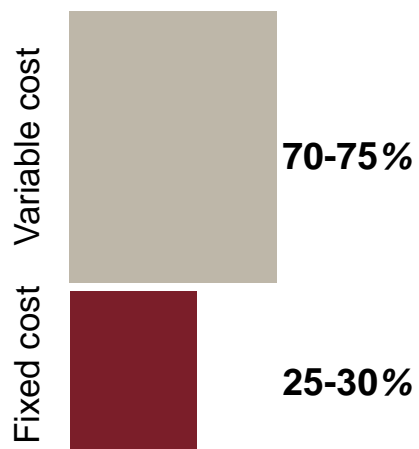
Source: Company reports, CRISIL Research

Fixed cost to hurt airlines, textiles most among asset-heavy sectors

Key sector utilisation



Cost mix#

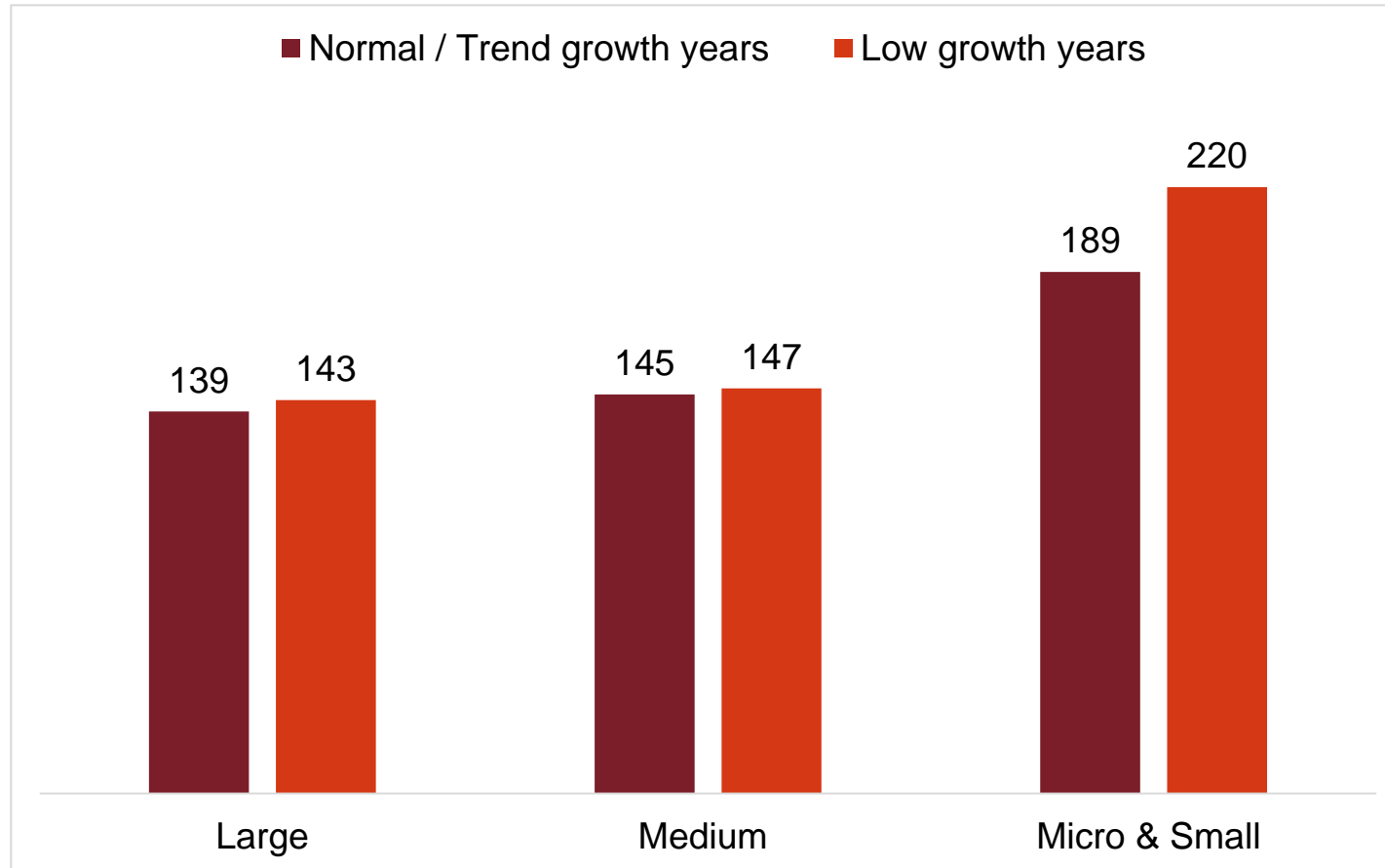


*For textiles, we have exhibited fixed asset turnover ratio. #Cost includes operating, depreciation and interest costs

Source: Industry, CRISIL Research

Stretched working capital cycle to keep smaller firms leveraged

Median gross current assets days



Source: CRISIL Quantix

Note: Micro and small < Rs 75 crore, medium Rs 75-500 crore, large >Rs 500 crore

Based on common sample set of 13,017 companies for the past 5 financial years

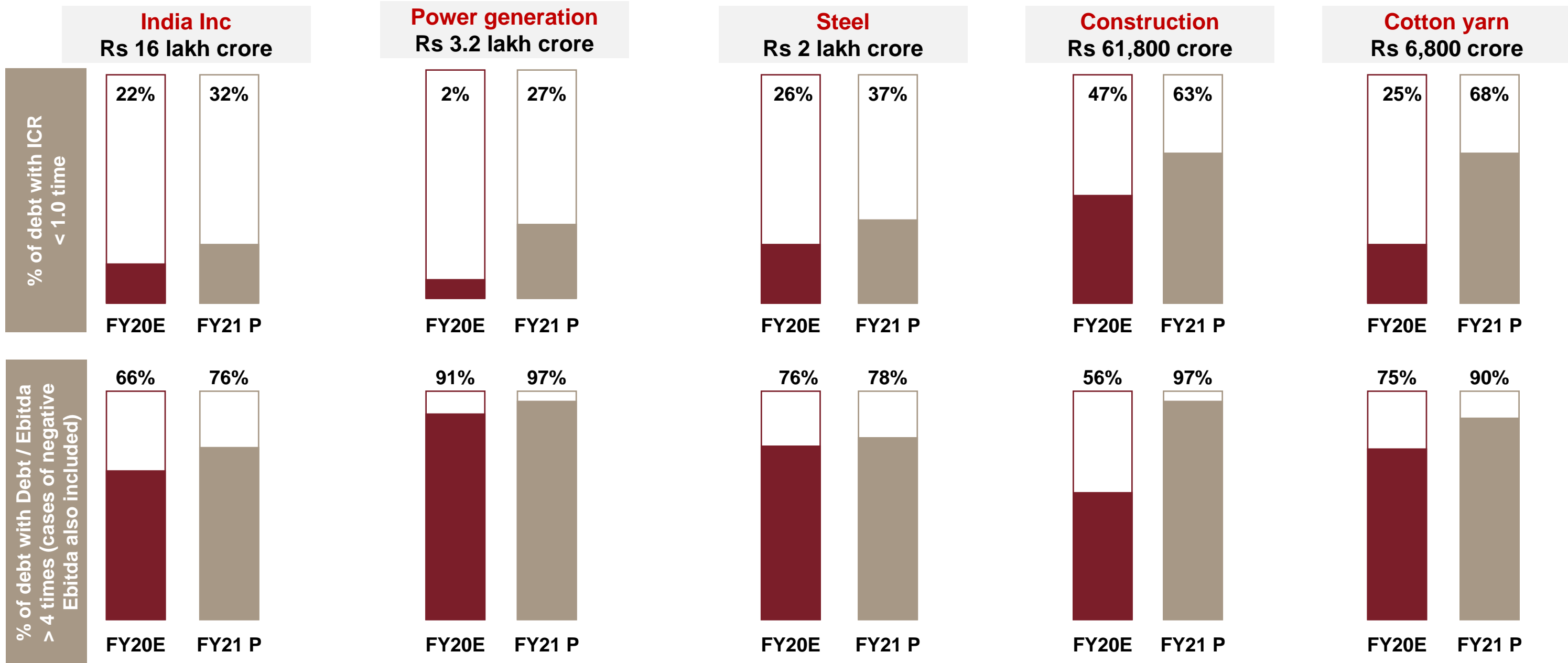
Source: CRISIL Research

- During fiscal 2021, due to severe economic stress, we expect working capital requirement to increase across corporates – but more so for MSMEs
- The increase in requirement is mainly on account of higher receivables as many MSMEs have business-to-business (B2B) business models and payment cycles for these smaller companies tend to be stretched during bad years
- However, inventory levels tend to fluctuate less and have remained largely at similar levels during the past five years

Credit



Credit metrics to weaken across sectors



Note: Based on trend for 800+ listed companies (non-oil and non-BFSI). Figures in the box indicate total debt of listed set in each vertical. Consolidated or standalone financials used as appropriate. Companies with very large international subsidiaries taken on a standalone basis.

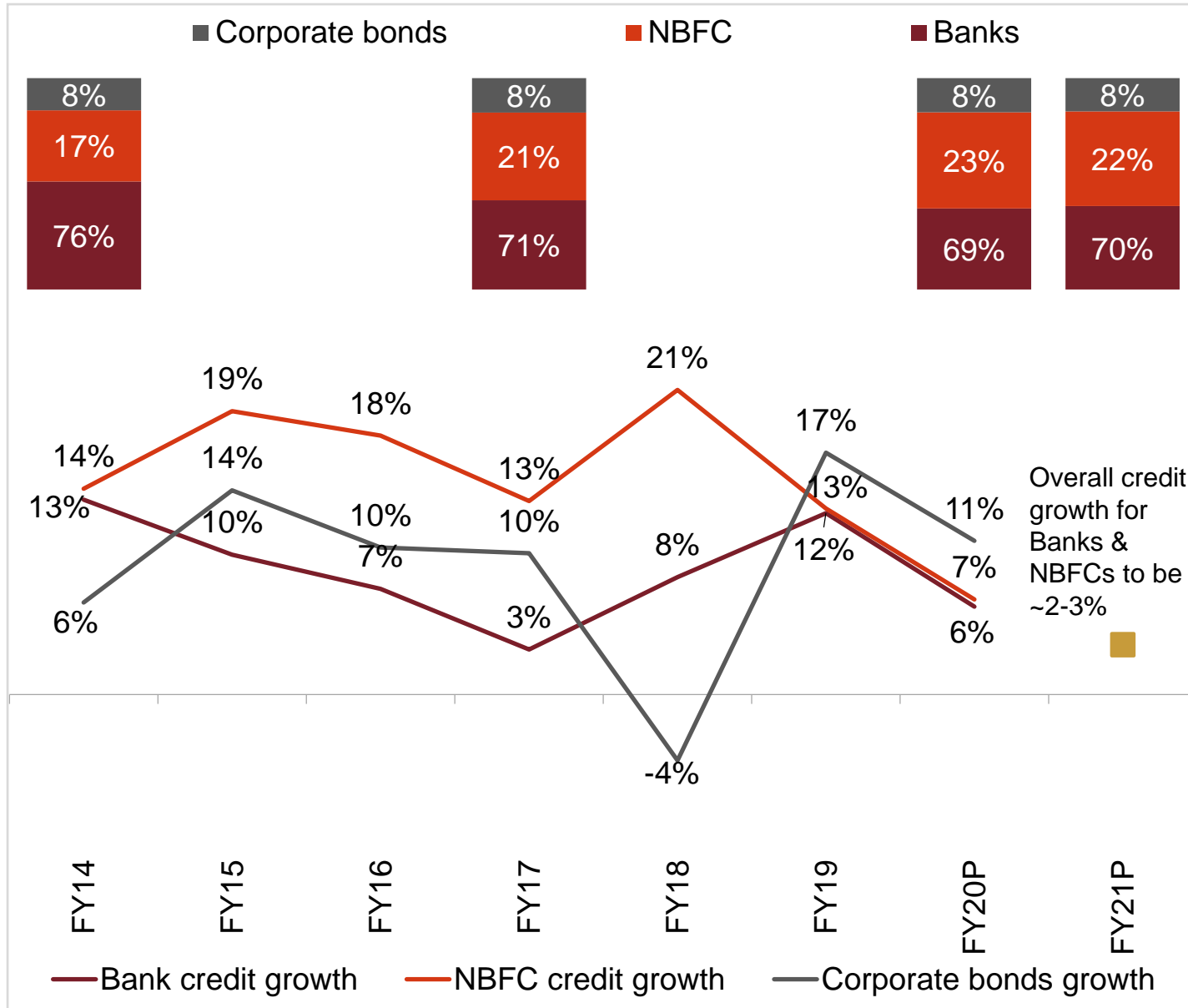
Source: Company reports, CRISIL Research

Credit scenario

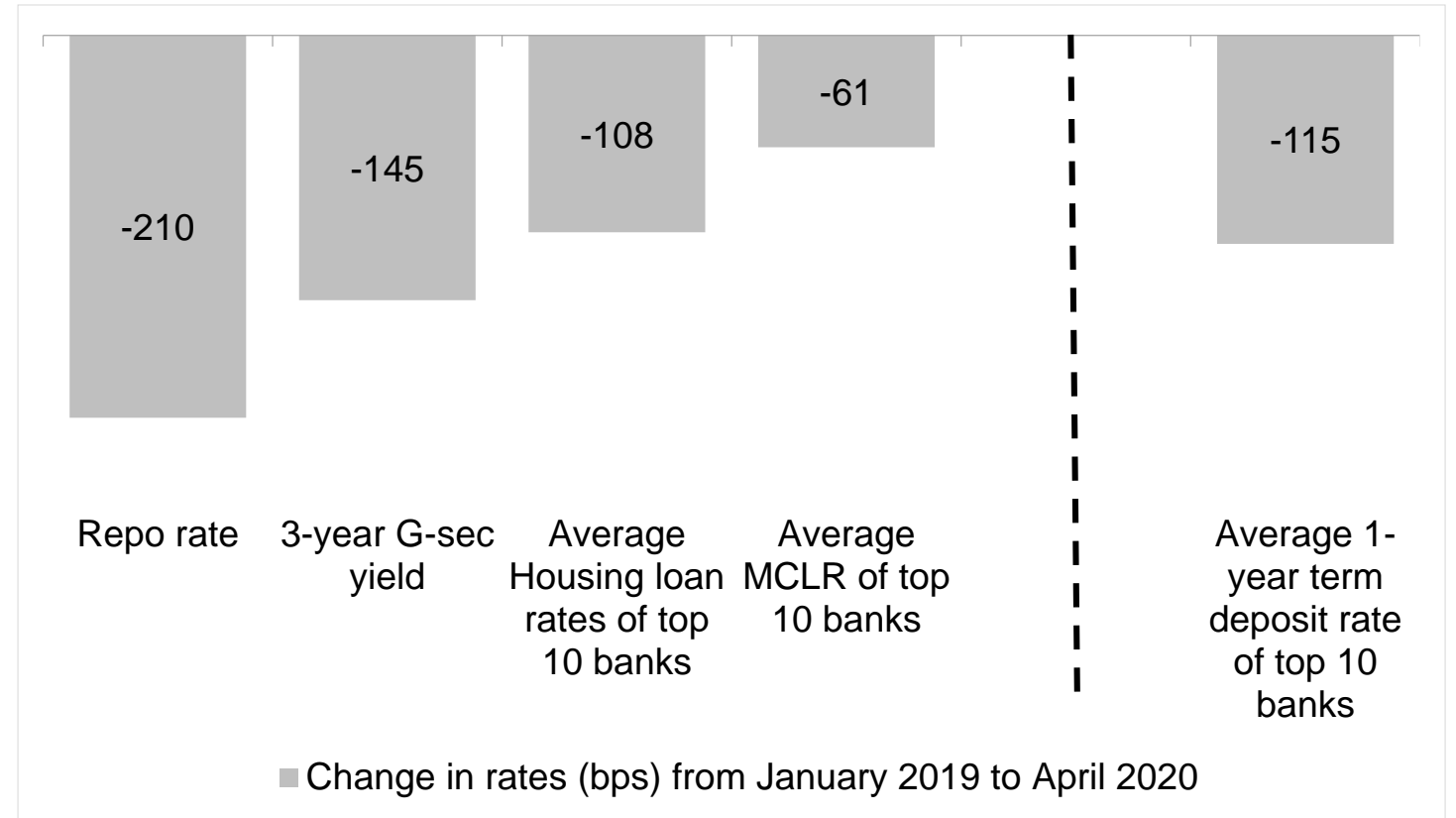


Systemic credit growth expected to slump

Lending by both banks and NBFCs* to slow



System-wide rate cut transmission remained weak

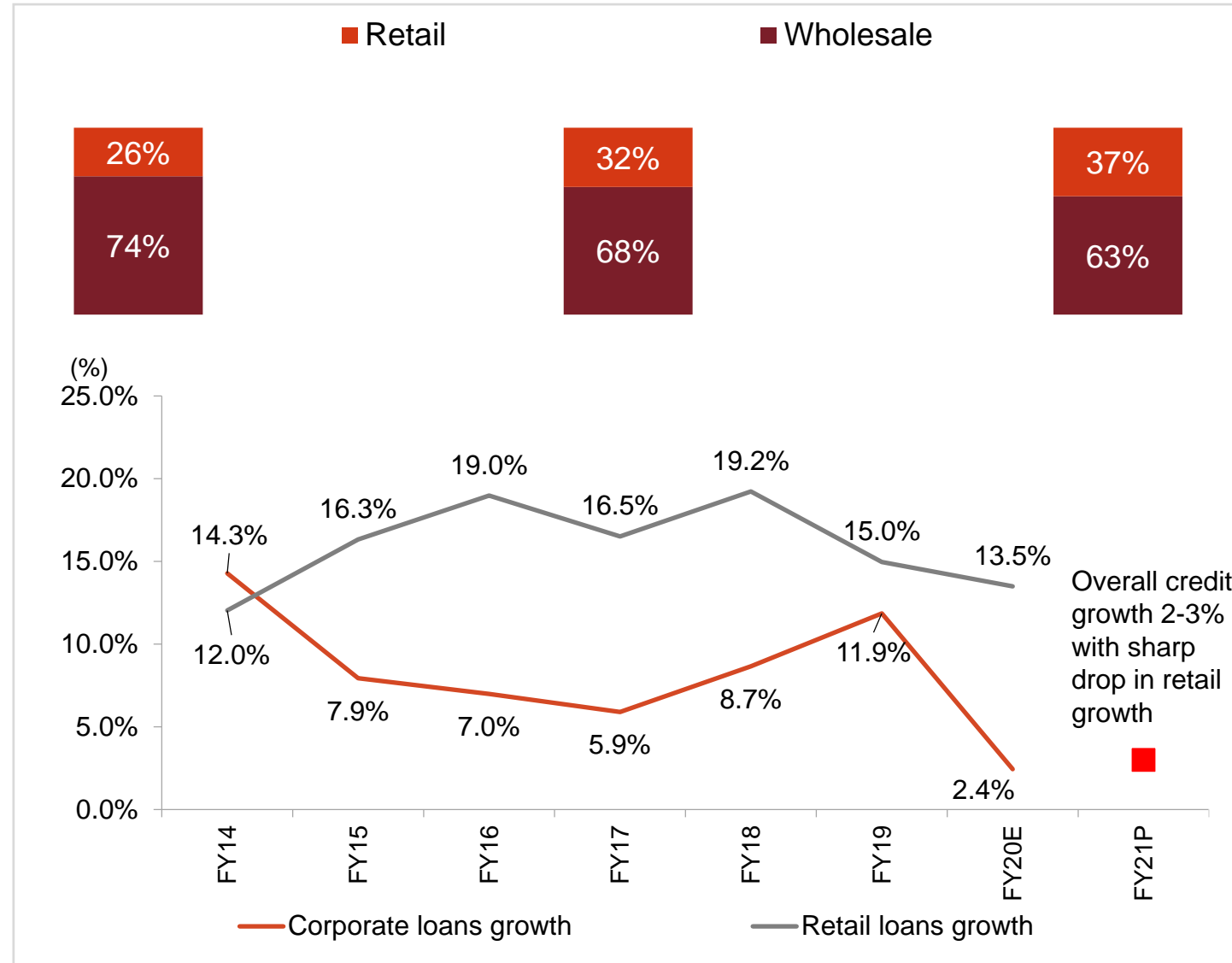


- Amidst the economic slowdown, reduced capex and working capital requirements would moderate credit growth for strong corporates. Risk aversion would check credit flow to weaker entities
- Prevailing risk aversion and higher deposit rates continue to restrict banks from passing on rates to the borrower. However, higher transmission in retail loans (like housing) was witnessed post introduction of repo rate-linked loan products

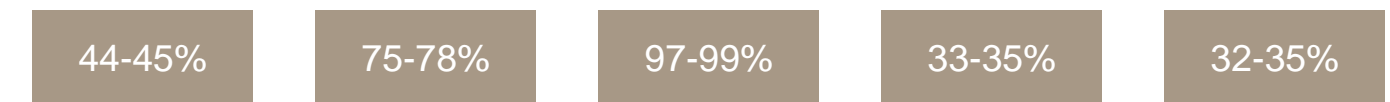
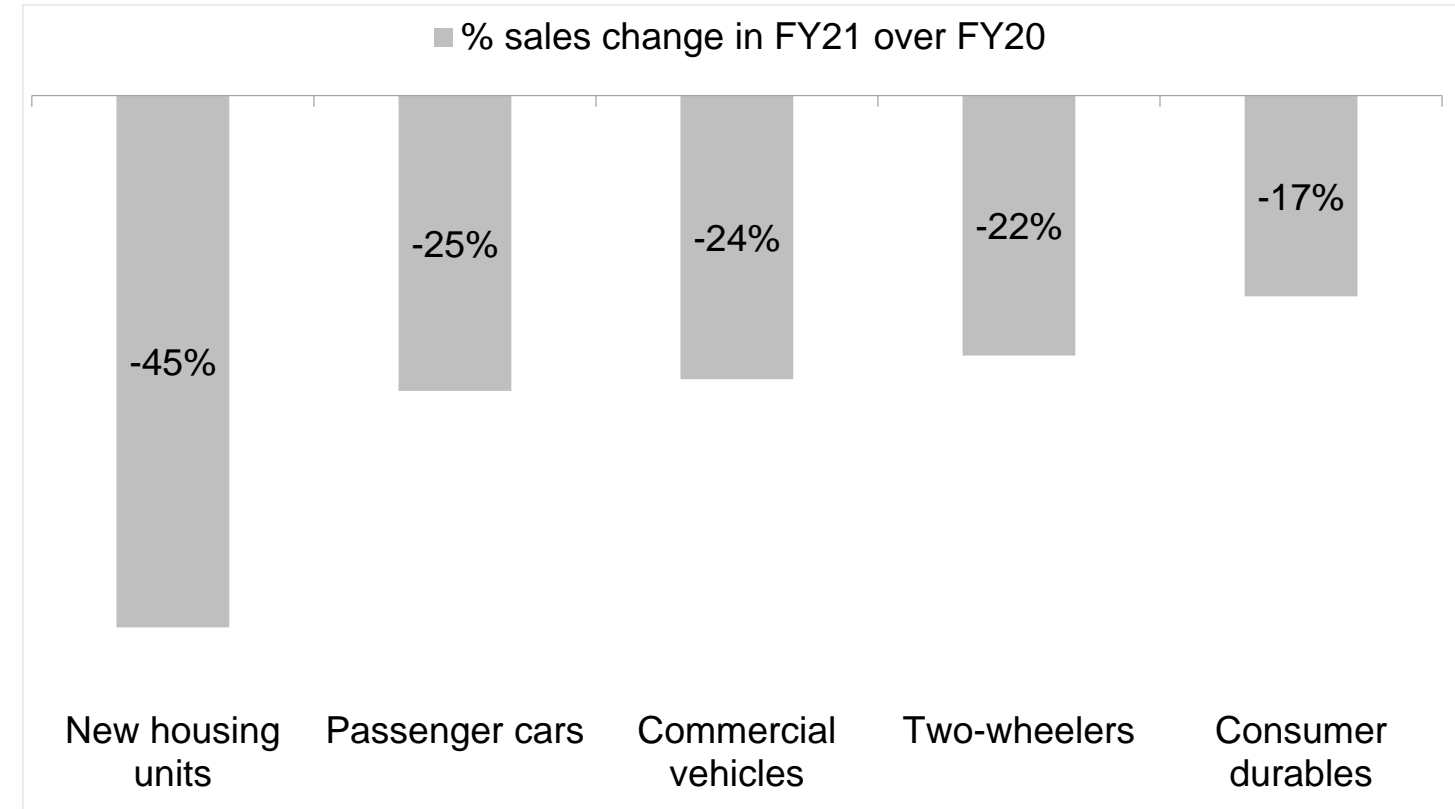
Source: Company Reports, MFIN, CRISIL Research
* Non-banking financial companies

Retail loan growth to be the lowest in the past many years

Only working capital demand to lend some support to corporate book



Significant de-growth in underlying assets to affect retail loans



Retail and wholesale loan book growth is for both banks and NBFCs combined
Source: CRISIL Research

RBI takes a proactive approach, focused on boosting liquidity

Actions/ measures from the apex bank

Impact on lenders

	Boost credit offtake	Improve liquidity in the system	Mitigate impact on credit quality
Aggressively slashed repo rate by 75 bps to 4.4%; lowest in past two decades	Green	Amber	Grey
Widened reverse repo rate corridor by lowering it to 4% and further to 3.75%	Green	Amber	Grey
Reduced cash reserve ratio requirement for banks from 4% to 3%, injecting liquidity of Rs 1.3 lakh crore	Amber	Green	Grey
Targeted long-term repo operations of Rs 1.5 lakh crore for investment in corporate bonds	Amber	Green	Grey
Refinancing window of Rs 50,000 crore from all-India financial institutions	Amber	Green	Grey
Special liquidity facility for mutual funds worth Rs 50,000 crore	Amber	Green	Grey
Three-month moratorium on all types of loans from banks as well as non-banks	Grey	Amber	Green
Standstill asset classification norms for existing loans under moratorium period	Grey	Grey	Green

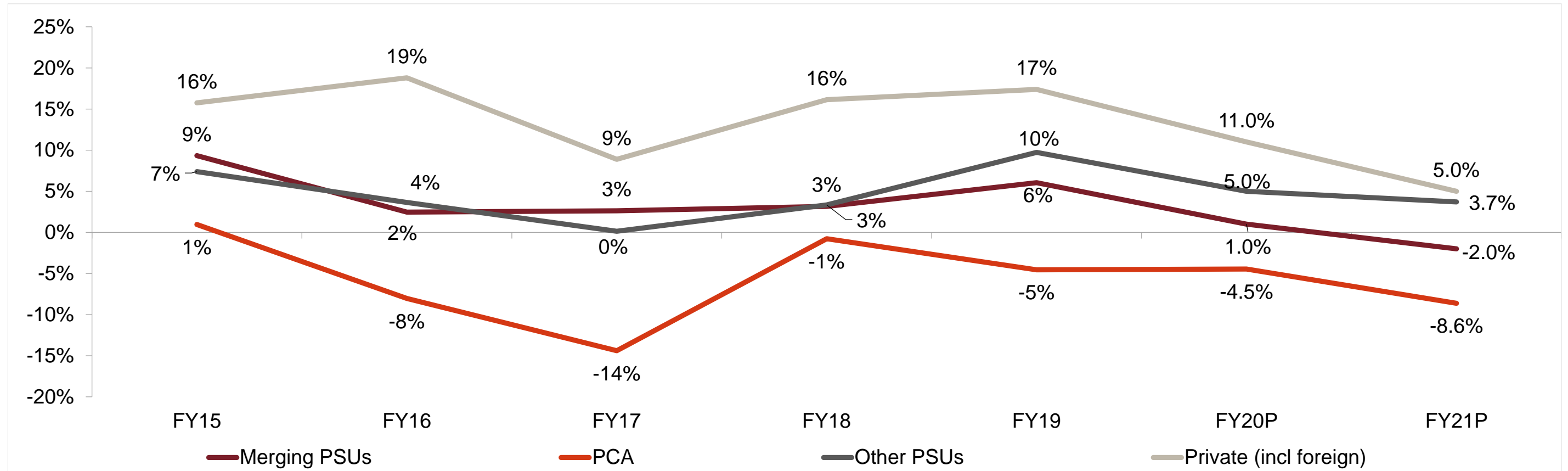
Note: Green represents high impact; Amber represents moderate impact; Grey represents no / insignificant impact

A photograph of classical architectural columns with Corinthian capitals, set against a light-colored stone wall. The columns are fluted and feature ornate capitals with acanthus leaves and volutes. A dark red rectangular overlay is positioned on the left side of the image, containing white text.

Outlook for banking sector

Decadal-low growth for pvt sector banks will slash sector growth

Overall banking credit growth to be in the range of 2-3% in fiscal 2021, compared with ~6% in fiscal 2020 and ~11% in fiscal 2019

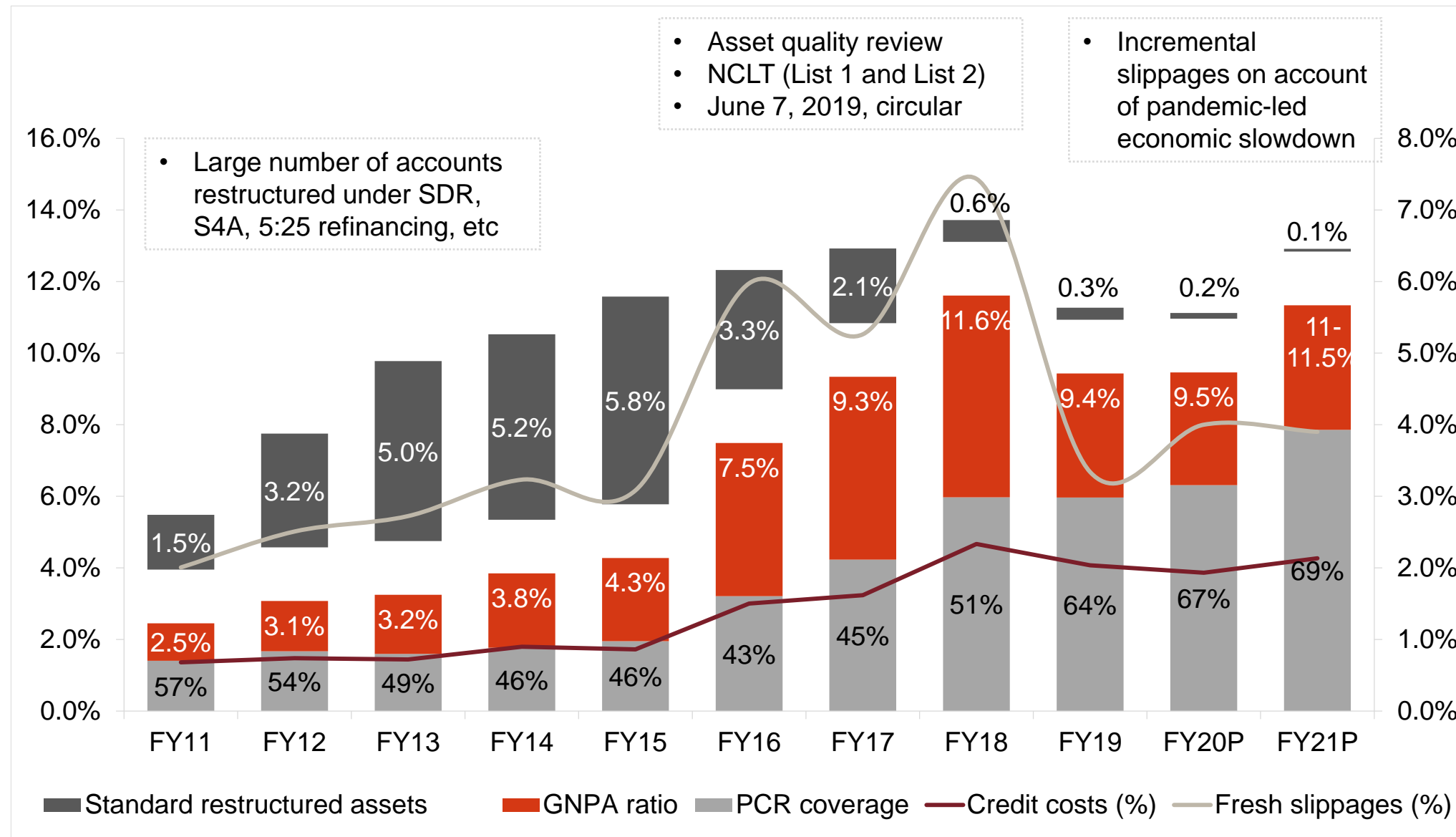


- Merging banks (~23% of banking credit) to witness de-growth in their books, as they will focus on integration post-consolidation
- The pandemic-led economic slowdown should hurt consumption demand, thereby impacting private banks' credit growth
- After the lockdown, banks should focus more on recovery/collections before looking at growing advances, pulling down the overall credit growth

10 PSU banks merging effective April 1, 2020, are considered for margining banks
 As on April 1, 2020, 4 banks were under prompt corrective action (PCA) framework
 P: projected,
 Source: RBI, company reports, CRISIL Research Estimates

NPAs to rise 150-200 bps this fiscal on higher slippage, lower recovery

No major NCLT resolution expected this fiscal, fresh slippages to increase

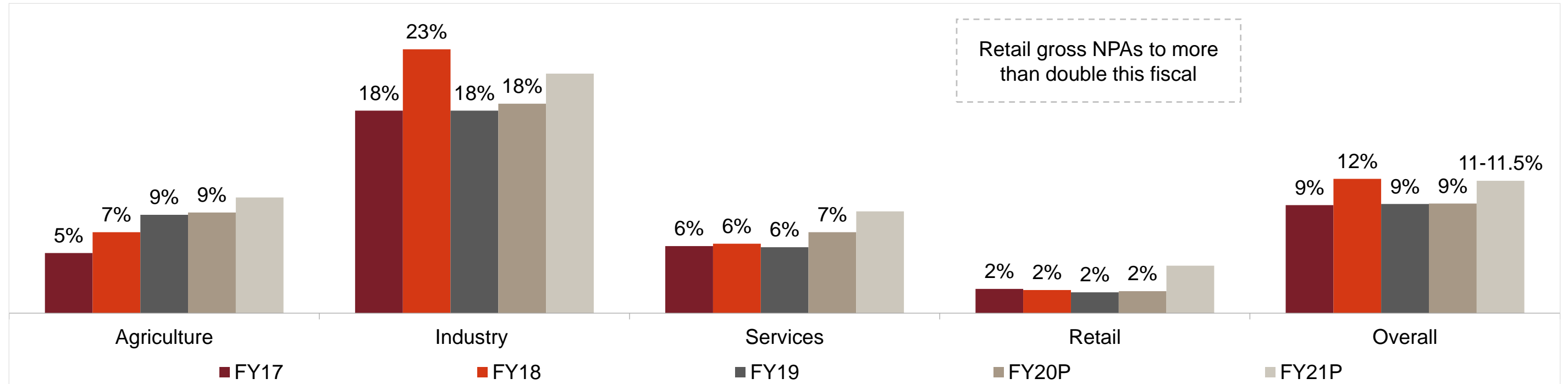


- The pandemic-led economic slowdown should result in higher incremental slippage in the current fiscal – 3.9% of net advances
- Lockdown to impact collections and resolutions – reductions to halve in fiscal 2021 compared with fiscal 2020, thus increasing NPAs
- Higher PCR and write-offs to increase credit costs, impacting the banking sector’s profitability
- In downside scenario, the GNPA’s can slip further by 200 bps in fiscal 2021

P: projected,
 Fresh slippages are % of opening net advances
 Source: RBI, company reports, CRISIL Research Estimates

Asset-quality risks to rise across sectors

Worries in the retail segment to mount as quality of unsecured loans deteriorates

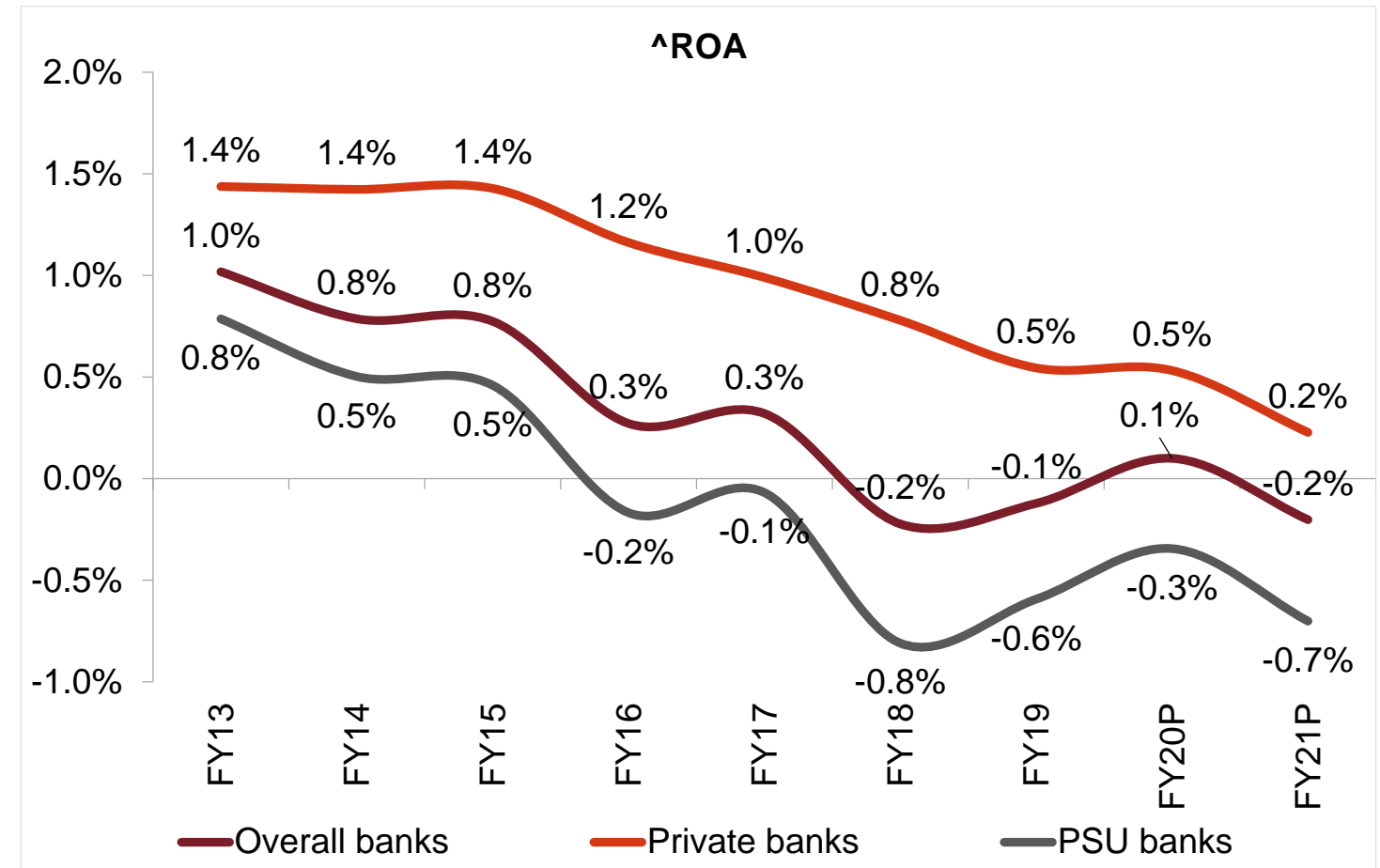
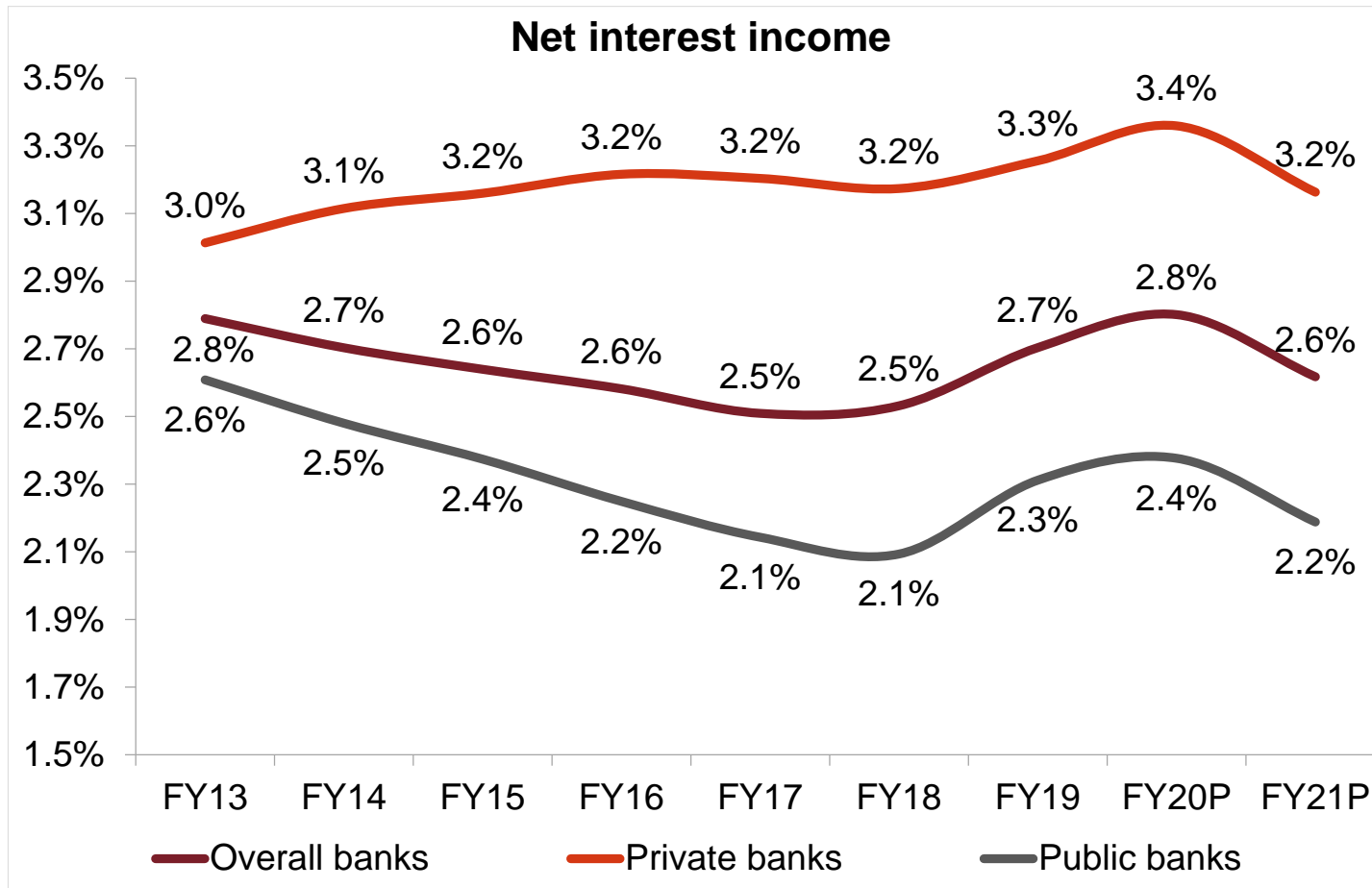


- Normal monsoon expectation suggests less impact on agriculture; horticulture and cash crops to be impacted due to lower exports amid the pandemic
- Industries such as textiles, gems and jewellery, autos, infrastructure (power) and construction to pose higher risks this fiscal
- Lockdown and sluggish economic activity to impact services sectors, including transport operators, tourism, hospitality, commercial real estate and trade
- Retail segment to witness asset-quality concerns, especially in the unsecured-loans segment. Vehicles and home loans are also expected to witness a deterioration in asset quality

Source: RBI, NHB, MFIN, CRISIL Research

Lower NII, higher credit cost to push banking sector into negative zone

PCR is expected to increase to ~69% by fiscal 2021 from 63% in fiscal 2019



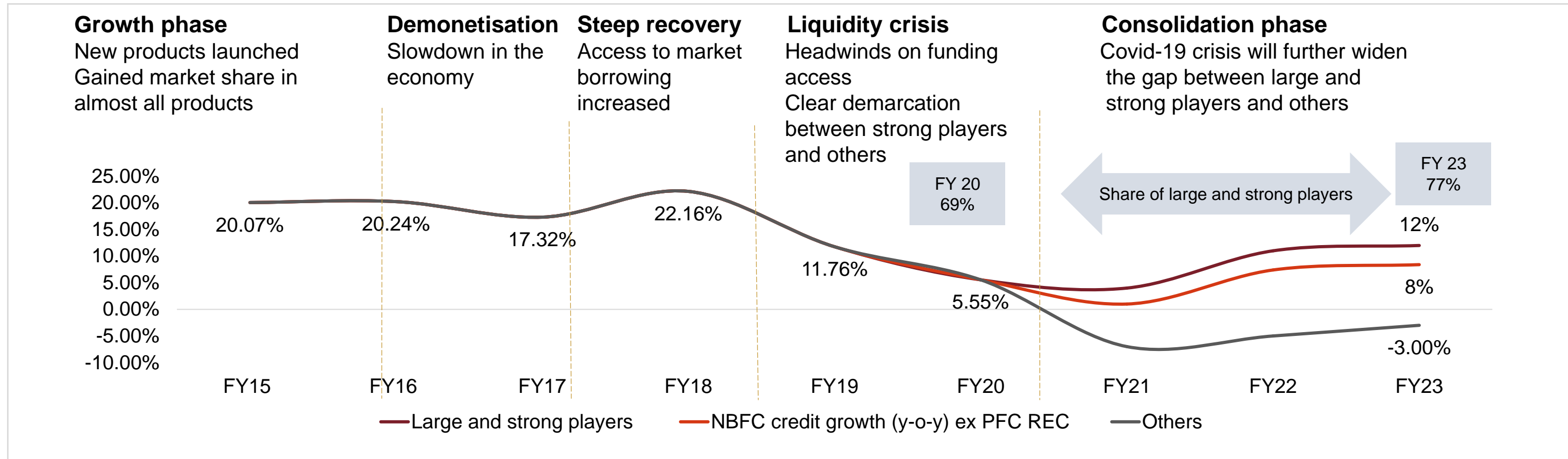
- Repo rate at 4.4% (lowest in two decade) to be a drag on interest rates in the current fiscal
- Pandemic-led economic downturn to result in lower credit growth, higher slippage and lower collections/resolutions, which will not only impact the credit costs, but also net interest income (NII) for the banking sector

P: projected; ^RoA (return on assets) doesn't include the adjustment for deferred tax assets for fiscal 2020
 Source: RBI, company reports, CRISIL Research Estimates

Outlook for NBFC sector



Larger NBFCs to gain market share at the cost of others



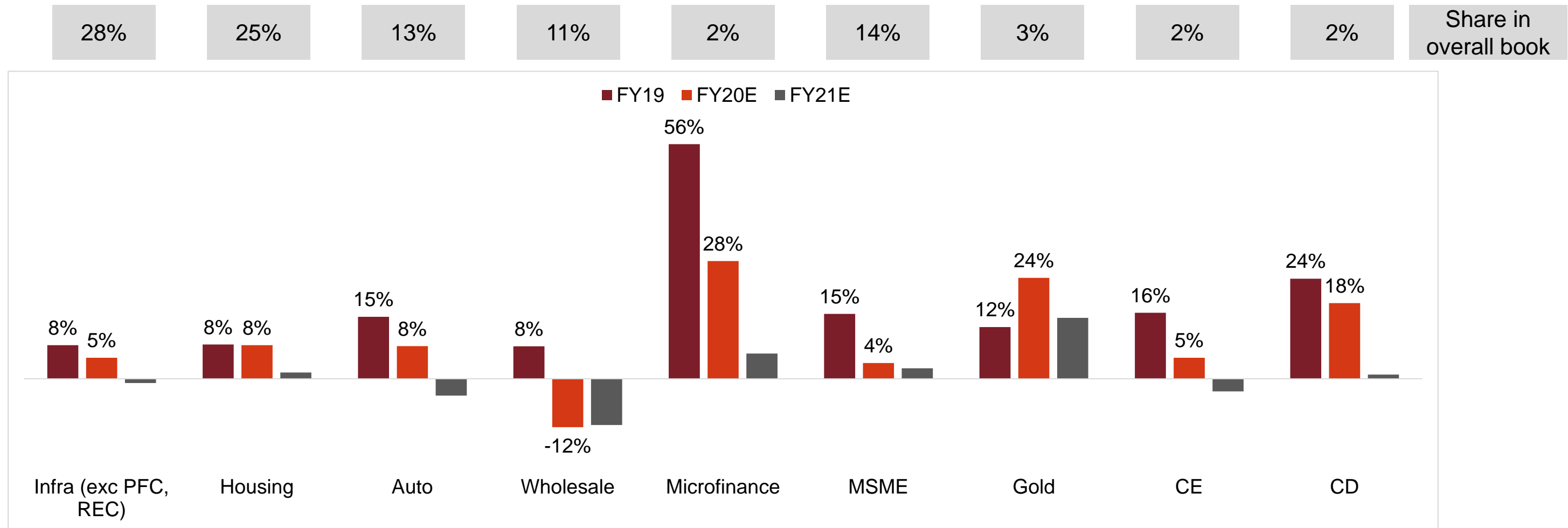
Note: Large and strong players: players with a book larger than Rs 10,000 crore and with a strong and committed parent, capital adequacy of more than 300 -400 bps over the regulatory requirement and limited exposure to the wholesale business

PFC, REC not included

Source: RBI, NHB, company data, CRISIL Research

- Players with strong balance sheets – high capital adequacy and ample liquidity – are in a better position to absorb the impact of the pandemic
- Players with strong parentage will have greater access to funding sources compared with their peers and would return to growth path once the pandemic is controlled
- Players with a higher proportion of non-retail portfolio in the overall book will see the challenges mount further, steeply

Credit growth to plunge across segments, except loans against gold







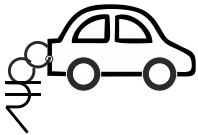

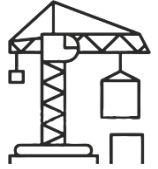



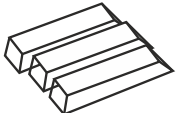



Source: RBI, NHB, company data, CRISIL Research

- Disbursement in the retail segment to be impacted on account of the lockdown and social distancing measures
- Wholesale finance players to see intense growth slowdown with sharp increase in risk perception
- Gold finance to remain relatively immune to the pandemic-driven crisis, supported by favourable ALM

ALM: Asset liability management

NBFC loan growth and asset quality to weaken sharply

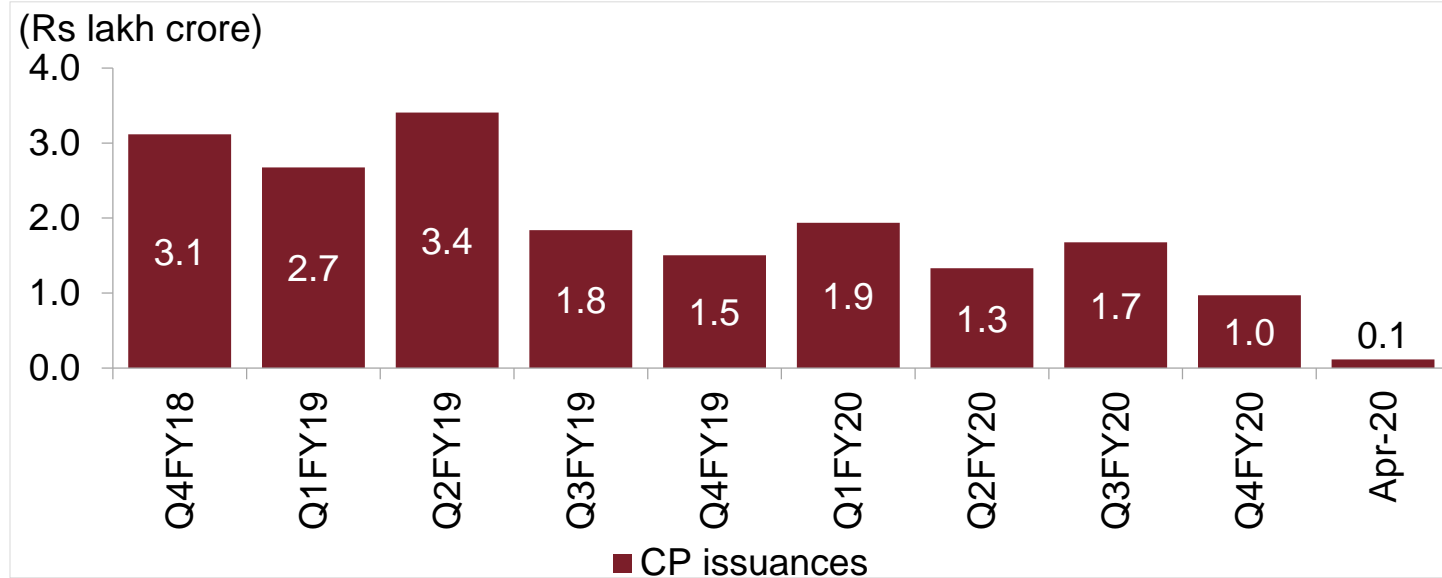
Non-banking segments		GNPA (%) FY18	GNPA (%) FY19	GNPA (%) FY20E	Asset quality outlook (FY21)
	Wholesale finance	1.0%	2.0%	4.0%	
	Microfinance	3.2%	1.3%	1.5%	
	MSME finance	2.7%	3.3%	4.2%	
	Auto finance	6.6%	5.2%	5.6%	
	Infrastructure finance	8.2%	8.4%	8.6%	
	Housing finance	0.5%	0.7%	0.9%	
	Gold finance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

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

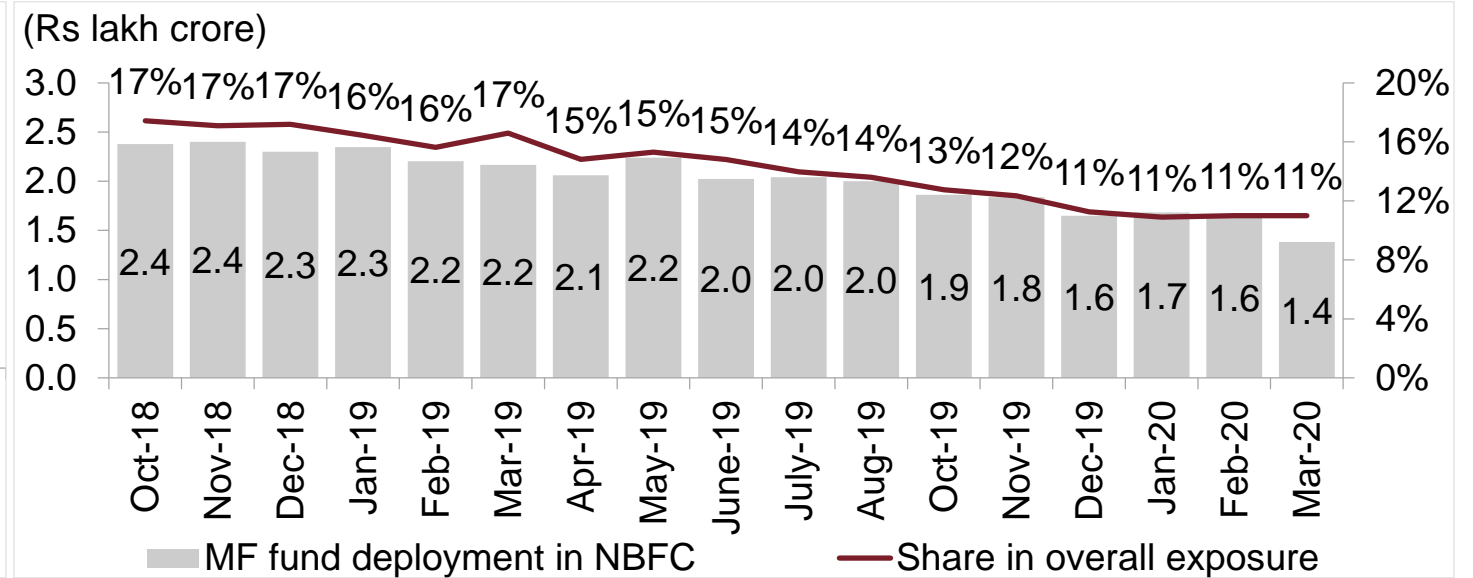
Source: CRISIL Research

With funding scarce, capital conservation to be top priority

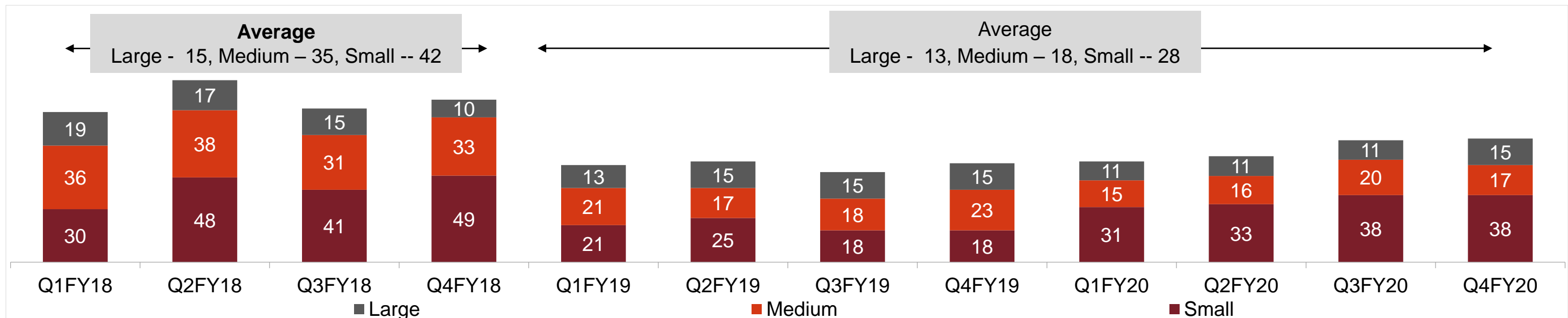
Commercial paper issuances by amount



Mutual fund money deployment to NBFCs



Unique player-wise NCD issuance per quarter

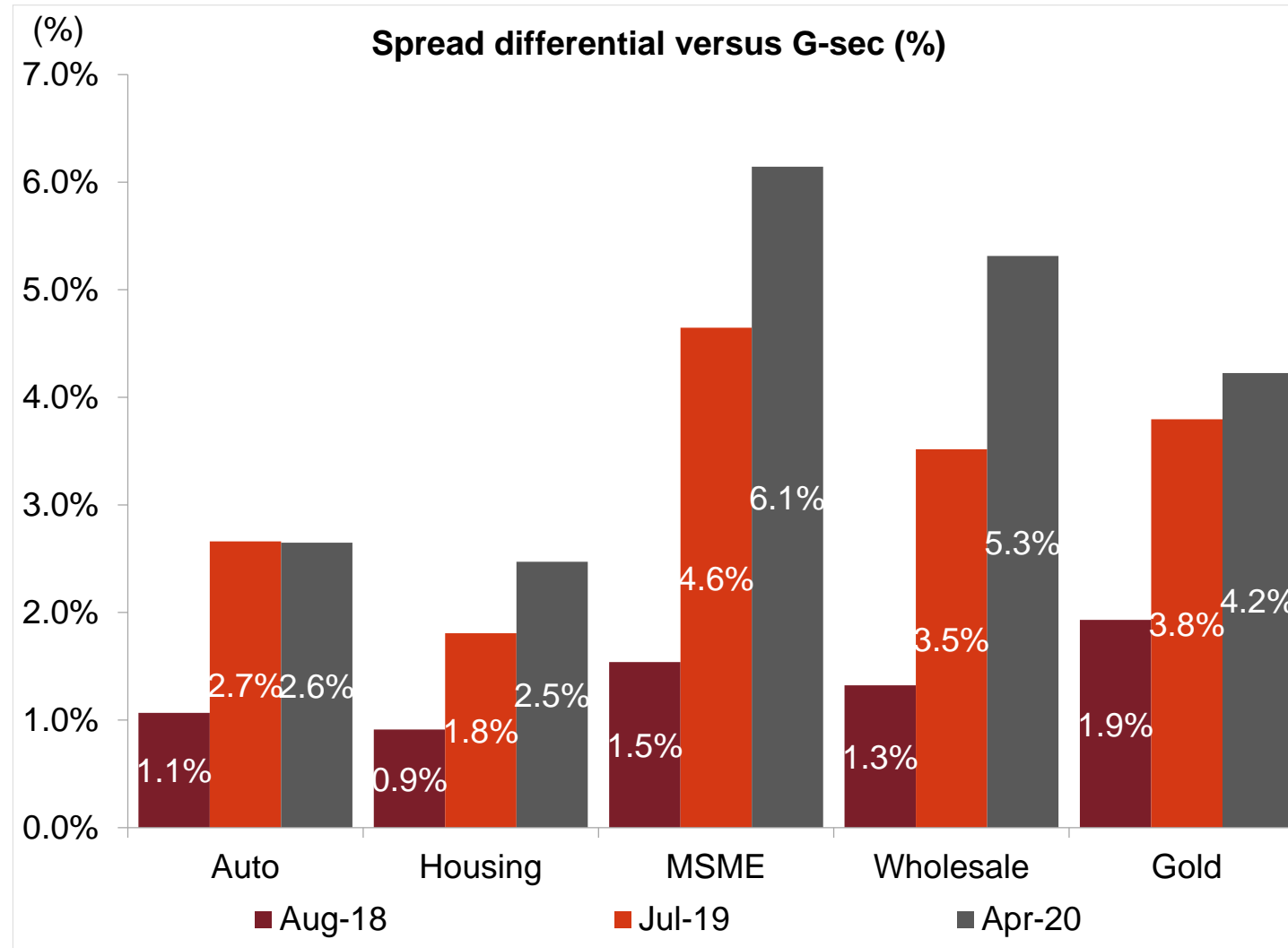


Note: Players with loan book greater than Rs 30,000 crore classified as large, those with loan book of Rs 5,000-30,000 crore as medium, and ones with less than Rs 5,000 crore as small

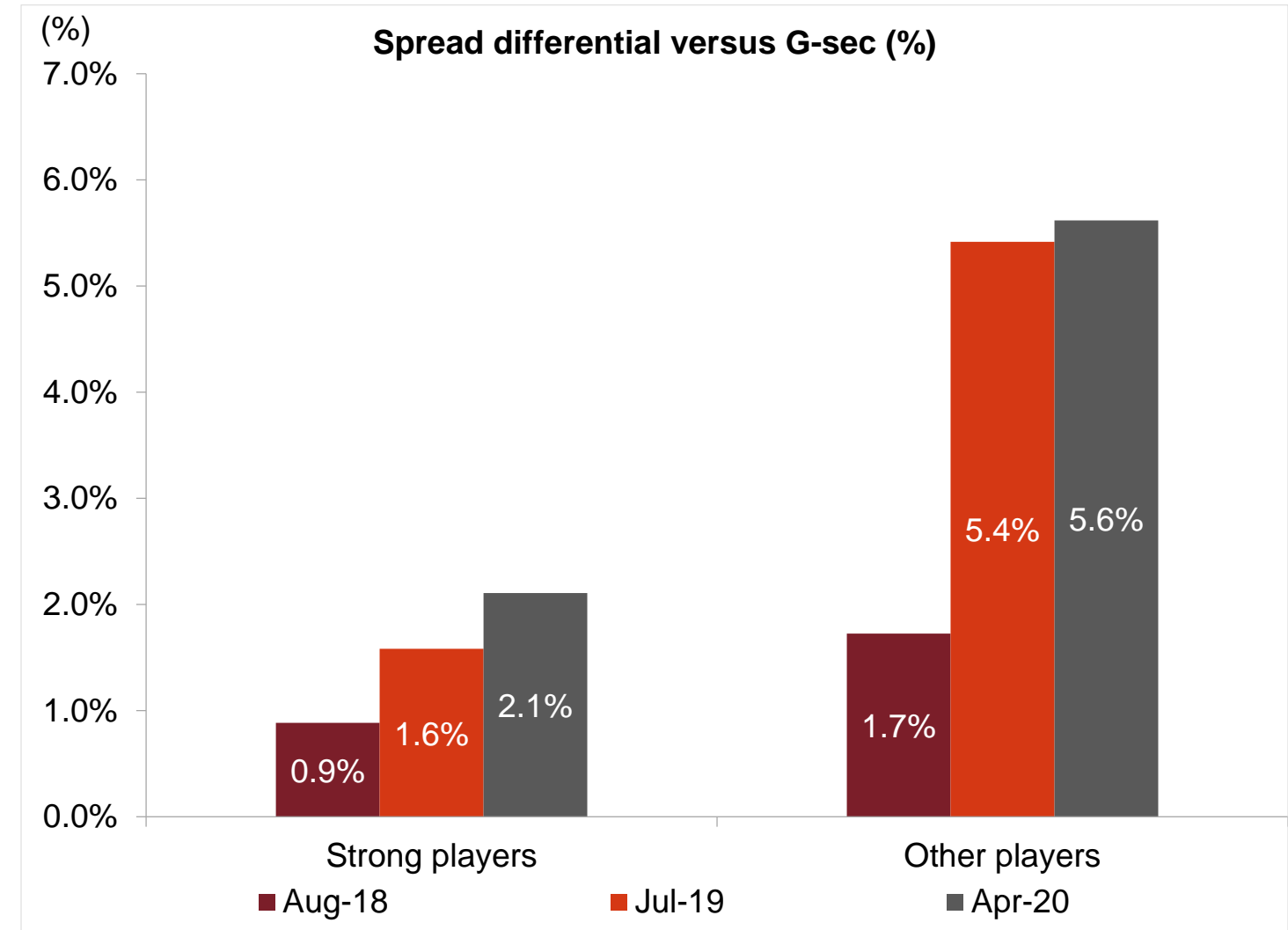
Source: CRISIL Research

Higher yields indicate elevated risk perception; cost of funds to rise

MSME and wholesale segments see the highest spike



Spreads for both player groups on the rise



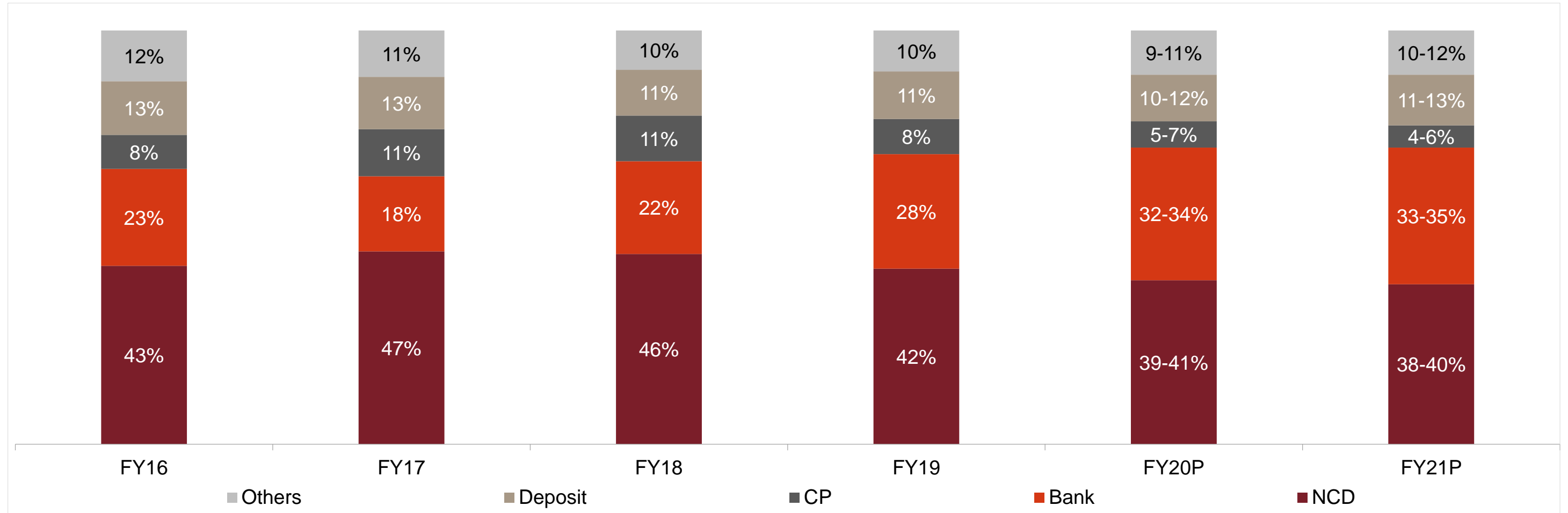
Note: Data comprises ~20 NBFCs representing 50-55% of the overall NBFC loan book

Note: Strong players are defined by their ability to raise funds from the debt capital market. Change in a player's 3-year NCD spread over G-secs between September 2018 and September 2019 is considered for the same. Players with a 0-100 bps change in spread are considered strong players. These players account for 61% of the overall NBFC market in fiscal 2019.

Source: RBI, NHB, company data, CRISIL Research

Capital market borrowings to fall, given lower ability to raise funds

Trend in resource profile of NBFCs



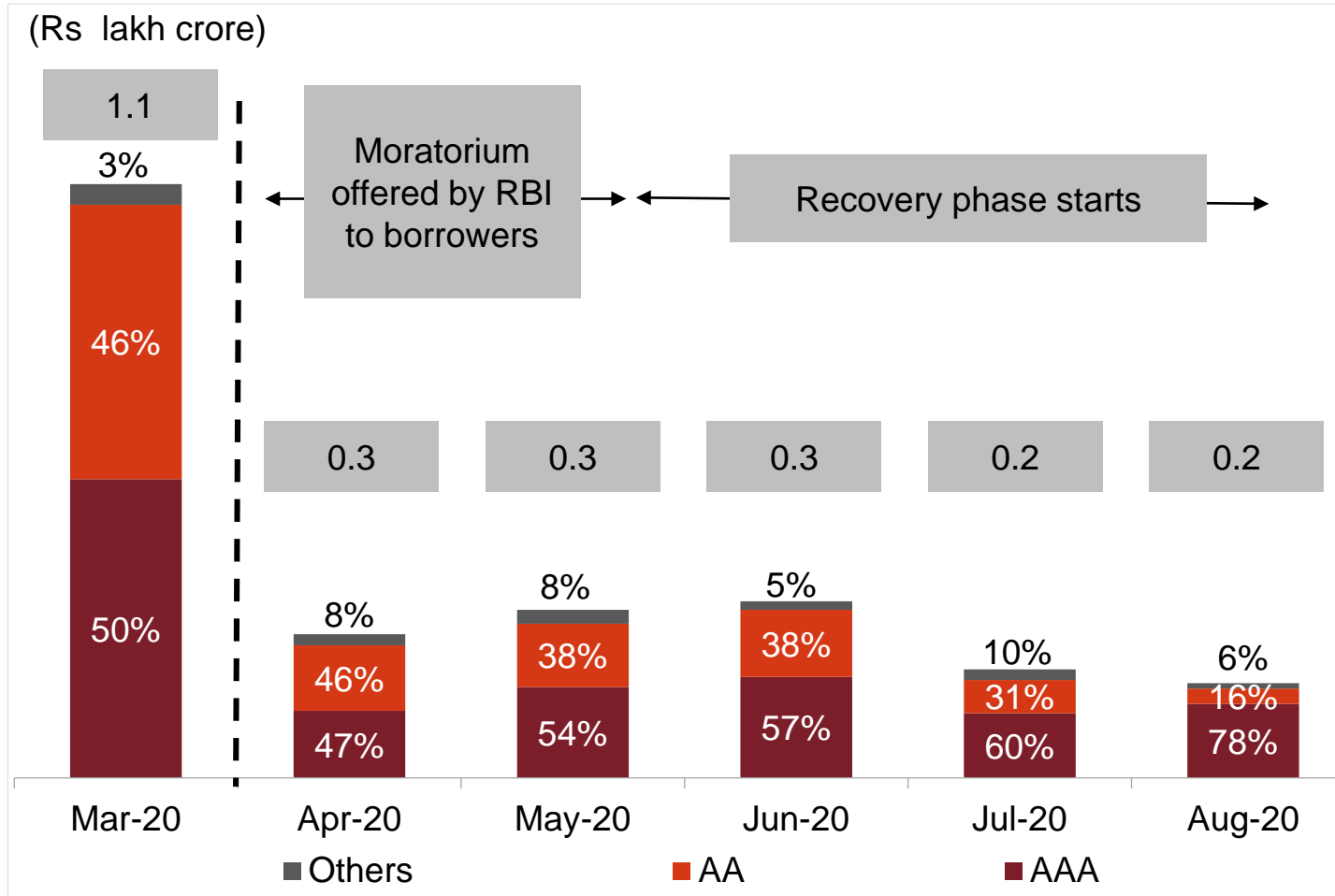
Note: Above data excludes state infrastructure finance firms

Source: RBI, NHB, company data, CRISIL Research

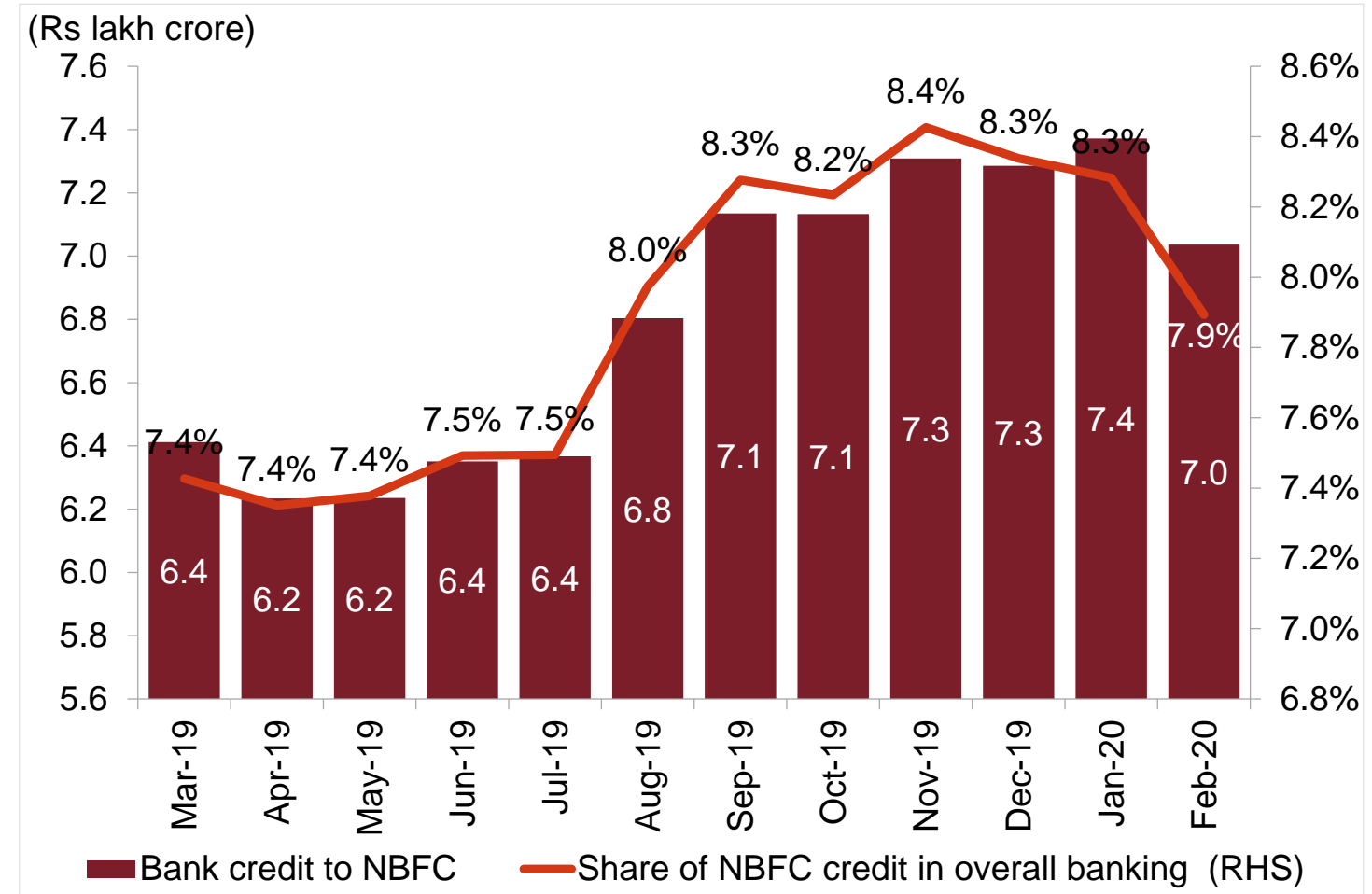
- Apart from direct lending, banks continue to increase their exposure to securitisation of loan pools
- This is beneficial to both banks (no ALM risk) and non-banks (access to funds)

Bank support will be critical in these tough times

Capital market borrowings for NBFCs up for redemption



Bank funding needs to continue supporting NBFCs



- Extended lockdown expected to sharply affect segments with high cash-based collections, especially for MSME, MFI, and commercial vehicle loans
- With redemption worth Rs 1.3 lakh crore coming up between April & August 2020 towards capital market, banking sector support to become critical
- While non-banks provides moratorium to their customers, uncertainty around their borrowing from banks & capital market could result in liquidity shortage

Note: Above data excludes state infrastructure finance firms
 Source: RBI, NHB, company data, CRISIL Research

Annexure


Shape and timeframe of recovery remain uncertain

Early indicators for China show sharp supply-side push, but demand remains weak

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Manufacturing PMI	49.5	49.2	50.5	50.1	49.4	49.4	49.7	49.5	49.8	49.3	50.2	50.2	50.0	35.7	52.0
New orders index	49.6	50.6	51.6	51.4	49.8	49.6	49.8	49.7	50.5	49.6	51.3	51.2	51.4	29.3	52.0
New export orders index	46.9	45.2	47.1	49.2	46.5	46.3	46.9	47.2	48.2	47.0	48.8	50.3	48.7	28.7	46.4
Finished goods inventory index	47.1	46.4	47.0	46.5	48.1	48.1	47.0	47.8	47.1	46.7	46.4	45.6	46.0	46.1	49.1
Import index	47.1	44.8	48.7	49.7	47.1	46.8	47.4	46.7	47.1	46.9	49.8	49.9	49.0	31.9	48.4
Employment index	47.8	47.5	47.6	47.2	47.0	46.9	47.1	46.9	47.0	47.3	47.3	47.3	47.5	31.8	50.9
Non-manufacturing business index	54.7	54.3	54.8	54.3	54.3	54.2	53.7	53.8	53.7	52.8	54.4	53.5	54.1	29.6	52.3
Crude steel production growth	4.3	9.2	10.0	12.7	10.0	10.0	5.0	9.3	2.2	-0.6	4.0	11.6	7.2	5.0	


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January-March 2020



Auto sales


42%





Real estate investments

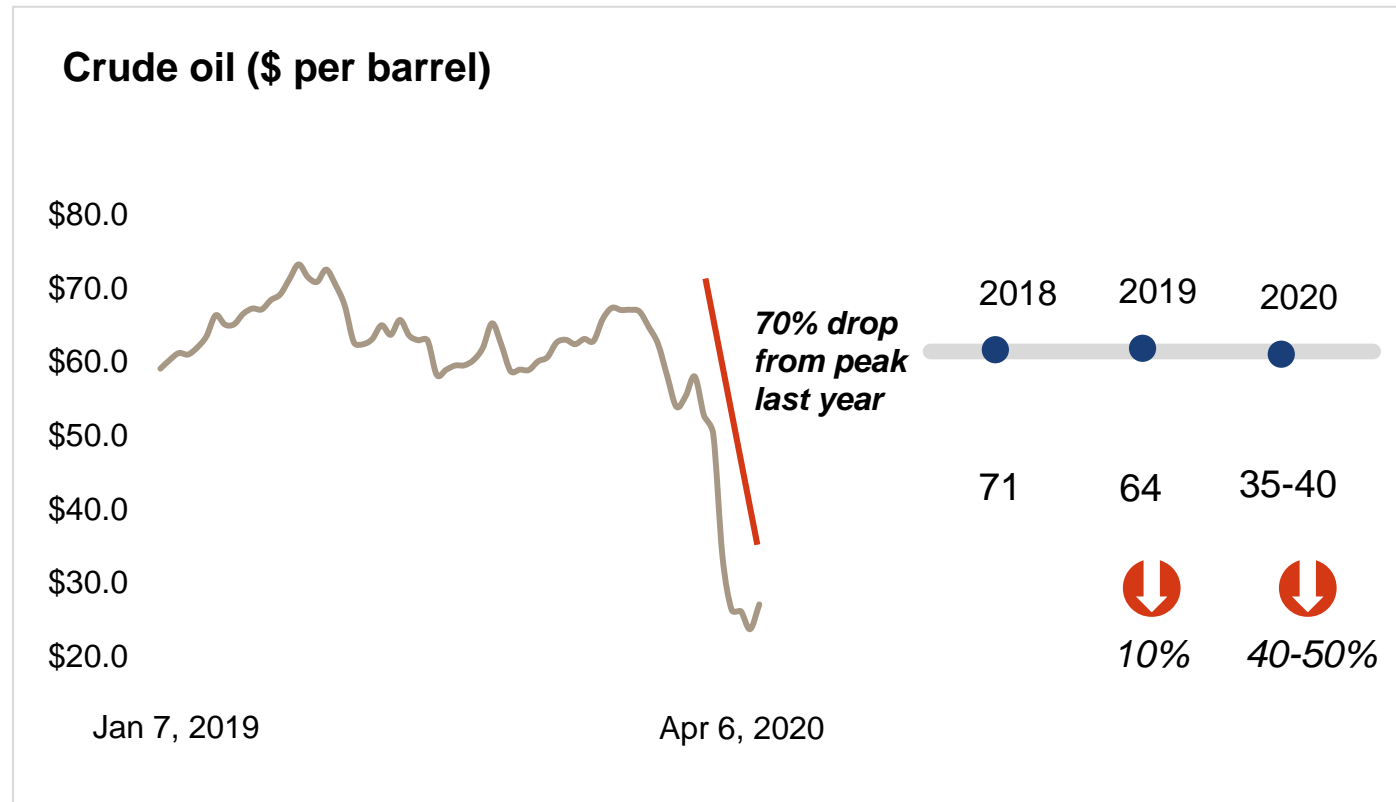
18%



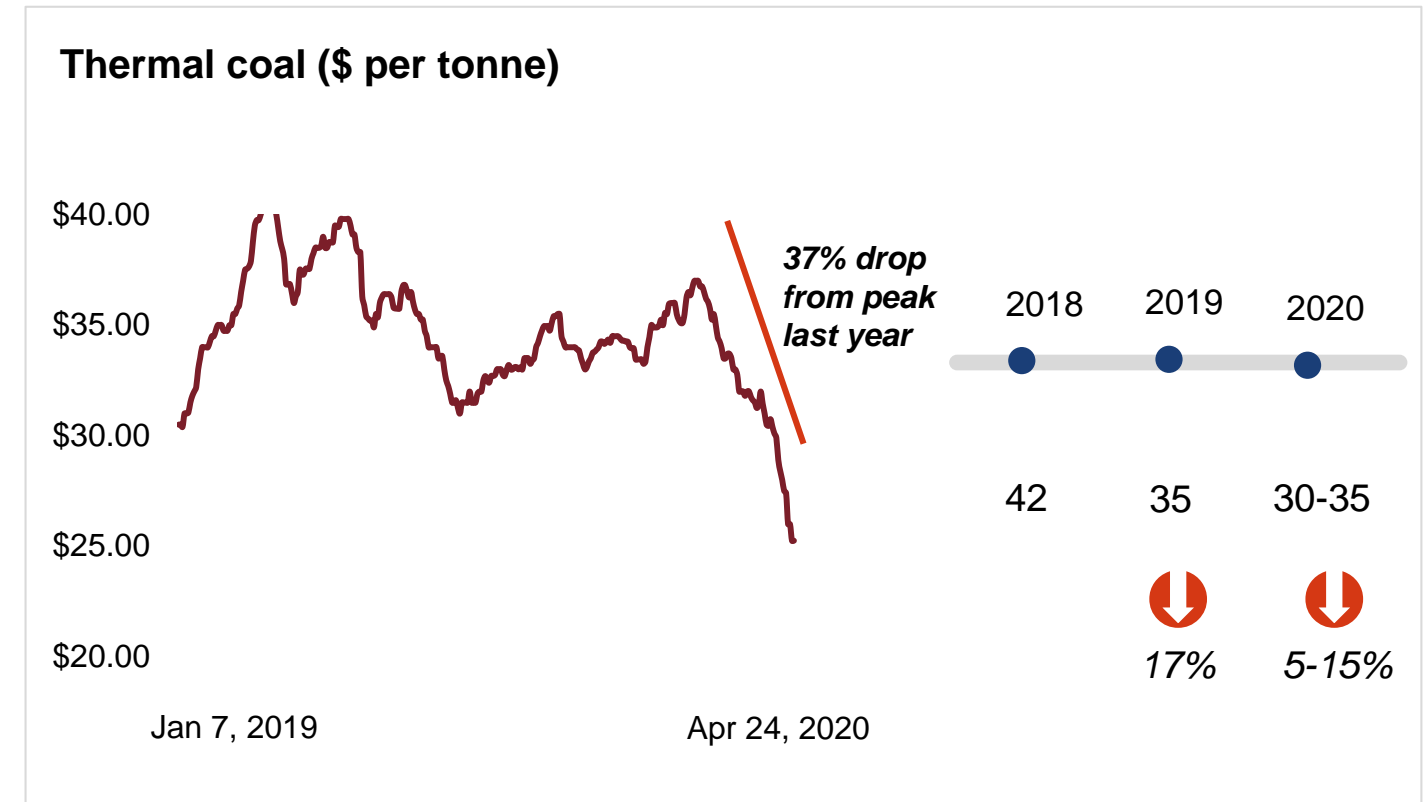
Most supply-side parameters improved in March, but demand remained weak

Source: National Bureau of Statistics of China, industry

Commodity prices to remain low in 2020...

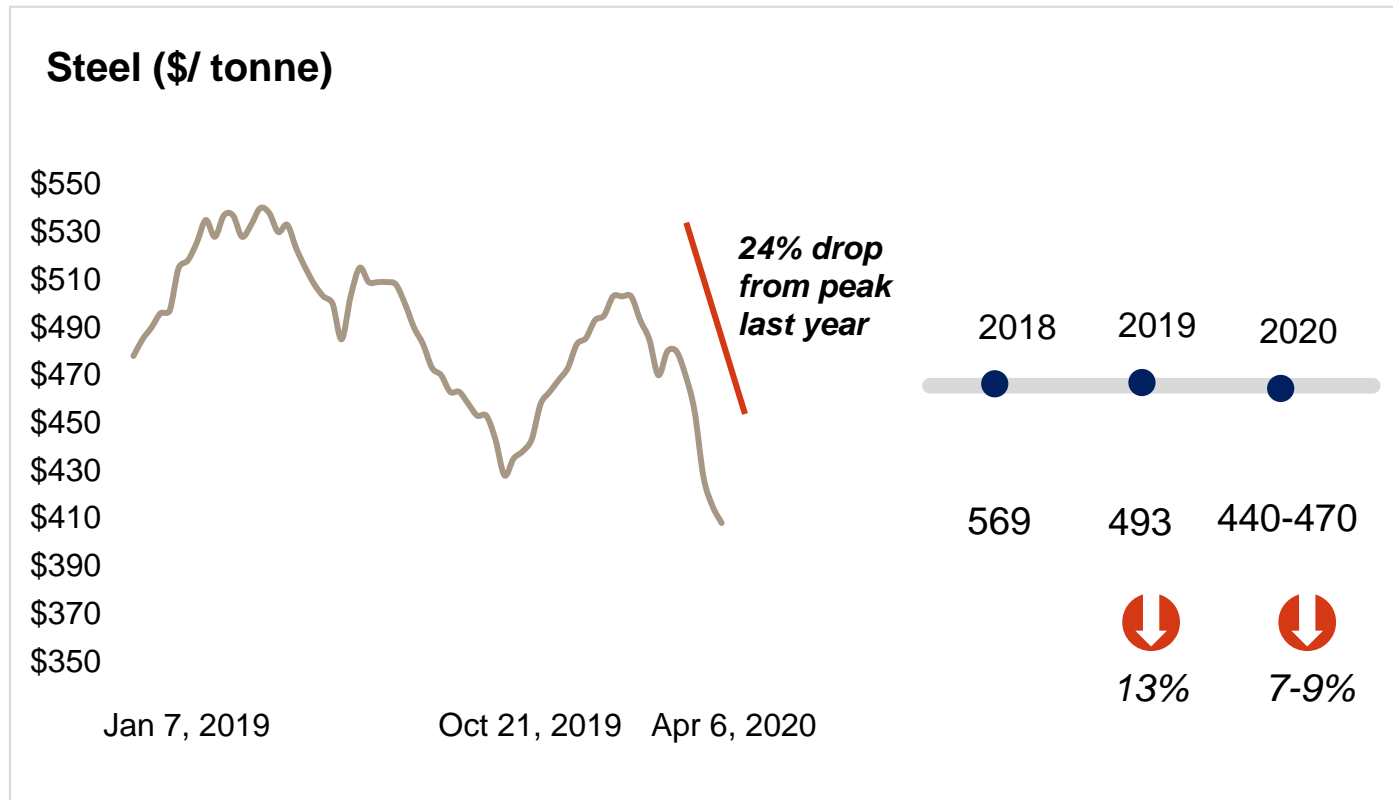


- Crude oil prices to drop in 2020, as the world grapples with the pandemic, leading to weak demand for crude oil and full capacity at refineries along with oversupply

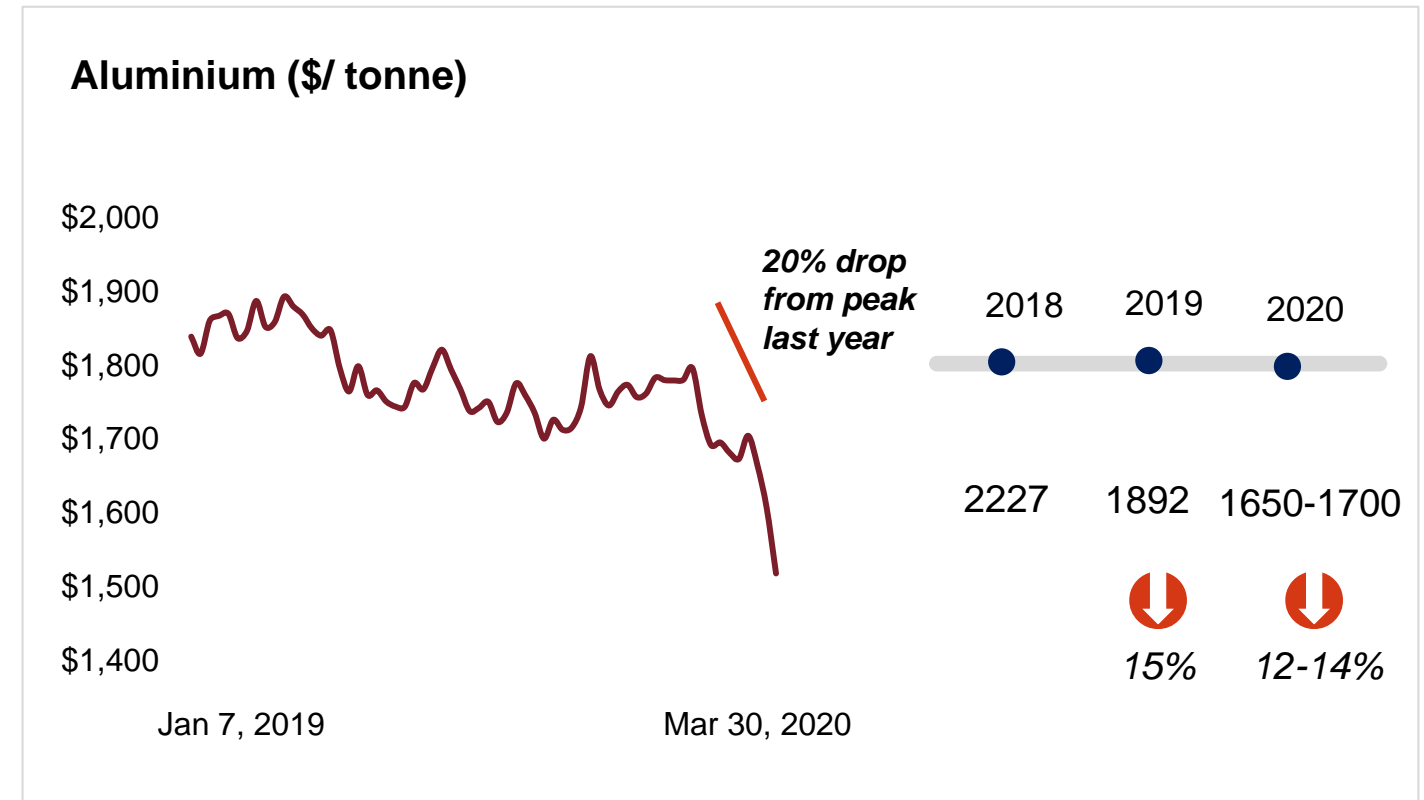


- Global economic slowdown, especially in leading importers such as China and India, coupled with limited supply disruption (as mining activities continue in most locations) to lower non-coking coal prices in 2020

...because of weak demand



- Weak local demand and almost non-existent export market for Chinese steel to correct prices to \$440-470 per tonne in 2020
- This follows 13% decline in steel prices in China in 2019



- Prices expected to drop 12-14% in 2020, on weak demand amid strong supply
- Prices are expected to rise from the third quarter as demand picks up with improvement in construction activity and higher auto production

For detailed sectoral analysis and Covid-19 impact assessments, please visit our website, www.crisilresearch.com