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Sectoral Outlook

TABLE OF CONTENTS

PREFACE 4

SUMMARY OF ANALYSIS 2

METHODOLOGY OF THE REPORT 2

ATMA NIRBHAR BHARAT 3

SECTORAL ANALYSIS 5

AUTOMOTIVE SECTOR OUTLOOK 5

METALS SECTOR OUTLOOK 8

ELECTRONICS SECTOR OUTLOOK 11

GEMS & JEWELLERY SECTOR OUTLOOK 14

TEXTILES SECTOR OUTLOOK 16

LOGISTICS AND WAREHOUSING SECTOR OUTLOOK 19

RETAIL SECTOR OUTLOOK 22

HOSPITALITY AND TOURISM SECTOR OUTLOOK 25

BANKING SECTOR OUTLOOK 27

MEDIA AND ENTERTAINMENT SECTOR OUTLOOK 30

DRUGS AND PHARMACEUTICALS SECTOR OUTLOOK 33

IT-ITES SECTOR OUTLOOK 36

TELECOMMUNICATIONS SECTOR OUTLOOK 38

E-EDUCATION SECTOR OUTLOOK 40

MSME SECTOR OUTLOOK 42

PREFACE

The global pandemic has infected more than 40 million people, killed more than 1 million and pushed millions of people globally back into poverty. It has disrupted the global economy as never before leading to unprecedented public health and socio-economic crisis. The impact of COVID-19 started as a supply shock but has also triggered a strong demand shock which has led to the collapse of confidence levels, the ripple effects of which are evident across financial markets and the real sector. To combat the worst economic fallout since the great depression, Governments worldwide have provided fiscal stimulus to the tune of around US$ 12 trillion so far as businesses have been disrupted, consumption is faltering, savings are being depleted, financial markets are in turmoil and most importantly human lives are impacted.

As India tries to gain control over COVID 19, we believe that there are three factors which will shape the course of economic activities: period of lockdown, the global recession and the changes in consumer behaviour. The lockdown had led to near halt in manufacturing units, caused severe disruption in the supply chain and left millions of migrants, casual and even blue collared workers without jobs. The collapse in global demand is depleting the savings and increasing the debt levels of households, corporates and the governments and will most likely create a channel for a new round of debt crisis. As debt levels increase and loans turn bad, the banking sector might face challenges and this can cause a financial turmoil, further depressing the income and widening the inequality levels across the world, including India. Thirdly, the changes in consumer behaviour will determine which sectors/segments are likely to flourish after the pandemic is brought under control. In fact, the resultant impact of COVID-19 on changes in consumer behaviour will play a crucial role in determining the way businesses will be impacted or restructured, and on how they manage to adopt to the 'new normal' scenario. The world with new normal norms would entail increase in automation, digitization of all major activities, reshuffling of supply chains and manufacturing hubs globally, emergence of new types of services, change in the way businesses operate besides host of other changes.

The government's larger than expected stimulus package of more than 10% of Gross Domestic Product (GDP) is expected to re-start the economic activity. India's eight-week lockdown period has been relaxed in a phased manner since the end of May 2020. The economy has since then been opened in phases. 'Unlock 1.0' started from the beginning of June 2020 and since then several strict restrictions imposed on various economic activities have been relaxed in a phased manner leading to staggered resumption in production activity and supply chains.

Dun & Bradstreet has undertaken a study to understand the impact of the pandemic on the various sectors in the economy. It is to be noted that the Indian economy had been slowing even before the pandemic struck. India's quarterly growth rate has been receding sequentially since Q4 FY18 and India recorded a growth of 4.2% in FY20, the lowest in 11 years. To comprehend how the recovery of the economy is taking shape, we have looked at how the 14 major sectors in the economy were performing during the pre-COVID period i.e. before March 2020, the extent of impact of COVID-19 on the sectors, the challenges that businesses are currently facing and are likely to face as the overall economy recovers. Based on these facts, we have tried to estimate the time period of recovery of the sectors and what could be the new normal for businesses in these sectors.

The report covers the outlook for the following 14 sectors:

A. Sectors

1. Automotive
2. Metals
3. Electronics
4. Gems & Jewellery
5. Textiles
6. Logistics and Warehousing
7. Retail and Wholesale Trade
8. Hospitality and Tourism
9. Banking
10. Media and Entertainment
11. Drugs and Pharmaceuticals
12. IT-ITeS
13. Telecommunications
14. e-Education

B. Impact on the MSME segment

SUMMARY OF ANALYSIS

	Sector	Impact (Positive/ High/ Moderate/Severe)	Recovery (Short/Medium/Long-term)
1	**Automotive**	Severe	Long term
2	**Metals**	Severe	Long term
3	**Electronics**	Severe	Long term
4	**Gems & Jewellery**	Severe	Long term
5	**Textiles**	Severe	Long term
6	**Logistics and Warehousing**	Severe	Medium term
7	**Retail and Wholesale trade**	Severe	Short term
8	**Hospitality and Tourism**	Severe	Long term
9	**Banking**	High	Long term
10	**Media and Entertainment**	High	Medium term
11	**Drugs and Pharmaceuticals**	Moderate	Short term
12	**IT-ITeS**	Moderate	Short Term
13	**Telecommunications**	Positive	
14	**e-Education**	Positive	
15	**MSMEs**	Severe	Long term

METHODOLOGY OF THE REPORT

For over a decade, Dun & Bradstreet has been tracking various sectors. It has covered nearly 180 sectors and sub-sectors and tracks a relevant cohort of sectors on a regular basis. Industry trend, demand supply pattern, regulatory landscape, competitive intensity, challenges and outlook for the sectors are covered in the sectoral reports. Dun and Bradstreet has prepared this report based on comprehensive Desk-based Research and data is sourced from government databases, D&B proprietary data and survey indices and privately subscribed database.

ATMA NIRBHAR BHARAT

The COVID-19 crisis has undoubtedly disrupted the growth trajectory of India and pushed India's progress towards becoming a US$ 5 trillion economy by a few years. The government's clarion call to find 'opportunity in times of crisis' by 'Going Local Vocal' through establishing 'Atma Nirbhar' or Self-Reliant India is a step towards strengthening the economy to achieve the goal. The initiative started when the government announced a stimulus package on 12th May to help the economy cope up with the impact of the pandemic.

To become self-reliant, India needs to strengthen its macroeconomic fundamentals, develop a robust infrastructure, build a strong and sound technology driven system, leverage on its demographic opportunity and demand from its huge consumer base. The framework of the self-reliant India is thus based on five pillars of economy, infrastructure, system, vibrant demography and demand. It is imperative that India should place a strong thrust towards becoming self-reliant, develop capabilities and strengthen its manufacturing base so that it can leverage the opportunities that change in the world order presents today. The pandemic has transformed the mindset of the people and countries at large. Strategies towards trade security, supply chain security, health security and job security has altered to a great degree from pre-COVID scenario and in this realignment and reorganization, India should emerge as a trusted and capable partner to do business with. It has been witnessed during COVID-19 that the challenges posed by the pandemic to the economies at large were much more about capabilities. Economies or sectors who were capable in realigning their supply chain strategies or developing production capabilities in the shortest period to cater to the domestic and global demand emerged as winners and gained even as the pandemic wreaked havoc on others.

India will stand to gain as it prepares in cognizance with the 'new normal' mode of operation. In the complex shift of supply chain networks that will emerge going ahead, India should garner a major share of investor's interest. India, with greater capabilities should not only boost its domestic potential but also emerge as a strong force globally. The drive for 'Going Local Vocal' or indigenization of manufacturing will ensure that and create business opportunities for its domestic players and also attract foreign players to establish their base in India. The government has thus been taking bold reforms across sectors to push towards self-reliance. Schemes like the PLI (Production Linked incentives) to support the domestic mobile and electronics market and re-shoring of large-scale electronics manufacturing to India and led to local and global companies expressing their interest to invest and set up manufacturing base in India. A big step toward driving self-reliance in defense production has been imposing an embargo on the import of 101 items for the defence sector which would be now manufactured by domestic and local companies.

To create a self-reliant India, the government has provided relief measures to support businesses including MSMEs, announced a scheme for formalisation of Micro Food Enterprises to promote the vision of 'Vocal for Local with Global Outreach', amended the Essential Commodities Act and created 'One Market One Nation' for farmers along with strengthening the agriculture supply side infrastructure. The government has initiated structural reforms to create opportunities for the private sector in strategic sectors such as coal, mineral, defense and civil aviation. It would introduce reforms in tariff policy, enable privatization of power distribution, boost private participation in space activities space and announce reforms in the atomic energy sector. Governance measures like fast-tracking of investment clearance, upgradation of industrial infrastructure, ranking of states on investment attractiveness and ranking of all industrial parks would not only create competition amongst states but would facilitate domestic as well as foreign investors to identify their investment destination. Last but not the least, the procedural and governance reforms announced in the areas of ease of doing business, online education, health, public sector enterprise, and support to state governments was needed to create an enabling eco-system for businesses to accelerate their growth and become self-reliant.

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Sectoral Analysis

SECTORAL ANALYSIS

AUTOMOTIVE SECTOR OUTLOOK

Pre-COVID scenario

The Indian automobile sector was already in slowdown phase before the COVID-19 crisis stuck. Sales of automobiles fell by almost 18% FY20. The transition from BS-IV to BS-VI, push for e-mobility, changes to the axle load norms in the Commercial Vehicles (CV) segment, limited credit availability for the MSMEs vendors in the auto component sector, low industrial output and a reduction in transit time after GST implementation had led to the slowdown in the sector. The sector was estimated to grow only modestly during FY21 before the pandemic severely affected the sector.

COVID-19 Scenario – Severe impact

- The sector faced severe demand crunch as consumers either postponed their demand or gave up their purchases owing to the uncertain environment, loss in income and employment prospects amid the worst ever slowdown that the economy faced.
- During the nation-wide lockdown till June 2020, all vehicle movements were restricted; Air, rail, metro, and inter-state movement by road were not allowed. Only limited activities were allowed in the orange zones such as e-commerce activities, public transport with passenger limits. The government allowed inter-state and intra-state movement of persons and goods without any special permission/ approval/ e-permit since June 8 under the 'Unlock 1.0'. This also led to a sudden drop or postponement in demand for commercial vehicles.
- As per statistics provided by SIAM (Society of Indian Automobile Manufacturers), sales of passenger vehicles (PV), commercial vehicles (CV), three-wheelers and two-wheelers declined by 34%, 56%, 82.3 and 38.3% respectively during April-September 2020 compared to the same period in the previous year. However, sales of passenger vehicles and two-wheelers turned positive from the month of August 2020 owing to pent-up demand and beginning of the festive season.
- While automobile companies started ramping up their production activities in a staggered manner since May, the strict restrictions of economic activities under the red zones/containment zones kept the supply chain disordered, caused a problem in sourcing components. Maharashtra, Tamil Nadu, Kerala, Andhra Pradesh and Delhi-NCR, the main automotive clusters, were the worst affected states by the pandemic.

Recovery of the sector – Long Term

- There has been no direct stimulus measure announced by the government for this sector. However, various measures announced for the agriculture sector and the MSMEs would indirectly support the sector.
- With 'Unlock 5.0', commercial vehicle demand will gain traction. Increase in e-commerce activities during and post lockdown due to social distancing norms to increase demand for commercial vehicles especially the small variants of the commercial vehicles. Outlook for buses, medium and heavy commercial vehicles, however, remains subdued.
- Two and three wheelers and passenger vehicles segment are likely to recover first followed by commercial vehicles.
- Good growth prospects in the agriculture sector followed by the rural sector bodes well for the auto sector. The timely onset of monsoon and good rainfall and increase in sowing of Kharif crops had led to more than 20% increase in domestic tractor sales since the month of June 2020. Domestic tractor sales grew by 33% during June to September period 2020 on a y-o-y basis while exports also grew by 8% during that period.

- Limited demand will prevail during the festive season as social distancing norms are here to stay. Post festive season, the outlook is expected to be far more uncertain. Consumers are likely to postpone their buying of high-end goods owing to uncertainty about the end of the pandemic, economic revival, job losses, pay cuts or delayed salary payments. Bank will remain risk averse owing to fears of default in payment by consumers. In Q3 2019 automobile loans had a delinquency rate of 4.21% slightly higher than the 3.36% delinquency rate in home loans as per a study done by CIBIL.
- Shared mobility will take a backseat hence private car sharing operators will remain impacted in the medium term.
- Preference for personal vehicle to lend traction to PV segment. Social distancing would propel demand for private vehicles, but the incremental demand would remain limited as purchasing power for vehicles in India remains low. Hence there might be a shift towards used vehicles or lower priced or smaller vehicles. Service based models such as pay-as-you-go and car rentals/leasing will witness an uptake.
- Due to expected greater demand for low priced vehicles, there might be an uptick in demand for CNG vehicles; rising petrol and diesel prices are an added incentive.
- Strong focus on cleaner technologies to drive demand for electric vehicles post COVID -19. Demand for electric three-wheelers and electric buses will increase fueled by rising urbanization and last-minute connectivity. While demand for electric cars in the shared mobility space will increase followed by penetration in the personal segment.
- Global linkages will pose multifold challenges to manufacturers. Lockdowns in North America and Europe will lead to both import and export limitations. China (32%), South Korea (19%), Germany (12%), Japan (9%), Singapore (6%) and Thailand (7%) account for 81% of imports of auto ancillaries. For Tyres and tubes, the markets of Thailand (32%), China (31%) and Vietnam (9%) account for 71% of total imports. Batteries are largely imported from China (31%), Vietnam (16%) and US (8%), Singapore (6%) and Germany (6%). While China has recovered and business operations have resumed, India is trying to reduce its import dependency on China. Except Korea and Japan which has recovered faster than most countries, constraints in production in other countries will continue to cause supply chain disruptions for the sector.
- Given the level of slowdown, OEMs (Original Equipment Manufacturers), suppliers are expected to face significant financial and operational burdens. Dealers and suppliers with strong cash reserves and better access to capital will be able to survive and many might have to close shops till demand revives.
- Initiatives are taken by OEMs to move towards online sales to digitally connect with consumers or home-deliver cars to consumers. Incentives such as flexible payment schemes, on-road funding, extended loan tenures, extended services packages and warranties or zero down payment option to pre-qualified customer are given to push up sales by different companies.
- Investment in capital expenditure by companies is expected during the year as the regulatory changes demand development of BS VI and electric vehicles.
- Given that the automotive sector contributes to more than 40% to the manufacturing value added, revival of the sector is imperative for the turnaround in the manufacturing sector.

New Normal

- Localization of supply chain and increased dependency on local workforce.
- Adoption of digital technology, automation, metatronics and robotization to take off.
- Personal mobility, CNG operated vehicles, low priced automobiles and electric vehicles to increase. Changing consumer preferences and slowdown in demand will lead to launch of more low-price vehicles in every segment.

- Car rental and leasing operations to prevail.
- Digital-connect with customers.

Challenges that business will face during recovery

- Access to working capital and managing liquidity by the MSME segment.
- Limited access to low wage labourers and increased dependency on local workforce due to reverse migration.
- Managing cost fluctuations of several commodities as a result of pandemic induced demand-supply imbalances.
- Finding alternate partners for normalizing supply chain linkages.
- Likely increase in commodity prices during the second half the current fiscal year to impact margins of the auto component players.

Summary

The Indian automobile sector was already in slowdown phase before the COVID-19 crisis stuck. The sector faced severe demand crunch as consumers either postponed their demand or gave up their purchases owing to the uncertain environment, loss in income and employment prospects amid worst ever slowdown that the economy faced. The sector is expected to recover over the long term. Good growth prospects in the agriculture sector followed by the rural sector bodes well for the auto sector. Preference for personal vehicle to lend traction to passenger vehicle segment. With 'Unlock 5.0', commercial vehicle demand will also gain traction. Further, strong focus on cleaner technologies will drive demand for electric vehicles post COVID -19.

METALS SECTOR OUTLOOK

Pre-COVID Scenario

India became the 2nd largest producer of crude steel replacing Japan during 2018, backed by rapid rise in production and continued to hold the position in 2019 as well. India is also the third largest consumer of steel globally, after China & USA. However, in terms of apparent steel use, India remains quite low; the per capita consumption of steel of India (75.7 kg) is one third of the global average (224.5 kg).

During FY20, crude steel production fell by around 2%, the lowest since FY00 and production of finished steel grew merely by 0.8%, after recording a double-digit negative growth during FY19. Finished steel consumption moderated considerably by 1.4% in FY20 after growing by an average of around 8% during FY18 and FY19. Imports contracted by around 14% while exports grew strongly by 31%.

India is the 4th largest iron ore and aluminium producer in the world.

Copper production in India has been declining since FY18, after the closure of Sterlite Industries' copper smelting plant in Tamil Nadu, which accounted for almost half of the total refined copper production in India, leading to increase in imports. Domestic demand for copper also slowed down to 5% in FY20 after 20% growth in FY19.

COVID-19 Impact – Severe

- The global recession resulted in weaker commodity demand. Globally, prices of industrial metals have declined considerably since January, although lower than the fall recorded by oil prices. Copper and zinc prices have fallen by around 15% and 19% respectively in March since January largely due to disruption of economic activity in China. Mines and refineries have remained shut or operated at reduced capacity disrupting production.
- As per World Bank, demand for metals is expected to weaken during H1 2020 as the global recession deepens with larger declines to be realised in demand and prices, particularly for metals, if the economic recession deepens. Among precious metals, gold prices have increased significantly amid heightened uncertainty and safe-haven flows.
- In India, while industrial establishments except those manufacturing of essential commodities were closed, mining activities were allowed by both the Central and State government, in all major mineral producing states until April 15, 2020, except for Rajasthan. After April 15, 2020, all states including Rajasthan allowed mining operations with certain conditions. However, lack of labour, restriction on transportation and fear of infection disrupted mining activities which operated below capacity.
- Both production and consumption of finished steel fell by more than 80% during April 2020. While both production and consumption of finished steel has picked up since July compared to the low levels in April when India had imposed strict lockdown measures, it remains low compared to last year. Production and consumption of finished steel during April to September registered a decline of 26.2% and 30.6% respectively.
- Nonetheless, the significant pick up in the iron and steel exports which recorded a 100% y-o-y growth in the month of June and a cumulative 44% y-o-y growth during Apr-June 2020, led by strong demand from China, Vietnam and UAE had supported the sector to some extent as domestic demand slumped.
- Steel imports were already slowing down since 2019. While steel imports recorded a negative growth since September 2019, it fell more strongly during the month of Jun to September 2020.

- The pandemic has further impacted copper producers suffering from slowing demand and rising imports. Copper production declined from March to May 2020 by an average of around 44% before recovering since June 2020. However, production remained lower compared to last year till August 2020. Production during April to August declined by 26%.

Recovery of the sector – Long term

- According to World Bank report released in April 2020, metal prices are projected to decline more than 13% in 2020, before recovering in 2021.
- Demand from tractors, two-wheeler, construction, infrastructure and railways are picking up after a pause during the lockdown period, however, overall demand for steel is expected to contract during FY20, albeit more than the estimate of (-)7.7% outlined by the Indian Steel Association India.
- According to World Bank, iron ore prices are anticipated to average lower in 2020 compared to 2019 due to weakening of global steel demand and a recovery of supply from Australia and Brazil. This would help softening input price pressures.
- Steel, copper, and iron ore segments are expected to recover over the medium to long term as we anticipate that the sectors which drive the demand for such metals and minerals as auto, construction, electronics and consumer durables will only recover over the medium to long term. Subdued domestic demand and surplus in the global market will continue to pressurize domestic producers. However, demand from the domestic defense segment to support the recovery process.
- Fall in industrial activity in user industries for aluminum such as automobils and construction has impacted the demand for aluminium. However, huge cost of shutting down production along with falling prices of raw materials has led to surplus production which has led to downward pressure on aluminium prices, at the international as well as the domestic market. Delay in revival of the automotive and construction sector does not bode well for the aluminium sector. However, replacement of steel with aluminium in order to produce electric vehicles would be favourable for the sector over the medium term.
- Frontloading of investments by the government outlined in the National Infrastructure Pipeline along with Steel Scrap Recycling Policy to reduce import, is expected to support the pace of recovery of the sector. The government stimulus measure announced in October to provide a fillip to the investment demand bodes well for the metals and mineral sector. Under the measure the government would provide 50 year interest free loan to states for capital expenditure worth Rs 120 bn. The government would also spend an amount of Rs 250 bn in addition to the Rs 4.13 tn capital expenditure budgeted for FY21 on roads, defence, infrastructure, water supply, urban development and domestically produced capital equipment.
- To improve efficiency and competitiveness of the mining sector the scheme of joint auction and a seamless composite exploration-cum-production regime have been adopted. The distinction between captive and non-captive mines have been removed to allow the transfer of mining leases and sale of surplus unused minerals, leading to better efficiency and increase in production post the COVID-19 phase.

New normal

- Adoption of Cloud and artificial Intelligence (AI) technologies amongst the players in the industry.
- Readymade steel installations are witnessing an increase in demand.

Challenges that the businesses will face during recovery

- Resumption of steel production in China might lead to import of steel from China.
- Rerouting of China's steel imports through Vietnam pose challenges for domestic manufacturers.
- While there are tentative signs of demand recovery in the steel sector in India on the back of realisation of pent up demand, overall subdued demand, large inventory along with supply chain bottlenecks are expected to prevent ramping up of production activities.
- There were several mine auctions in FY21 given that leases were about to expire as on March 31, 2020. However, operationalization of the auctioned mineral blocks will get delayed due to the pandemic. This is because the time taken for obtaining statutory clearances is likely to get extended given that there will be delays in completion of field activities due to pandemic related restrictions along with delays in processing the applications at the government level. The Government's plan to auction new coal and mineral blocks is also likely to get delayed.

Summary

The impact on the metal sector has been severe as a sudden halt in the economic activity has stalled mining and metal production, despite mining activity being allowed along with manufacturing of other essential commodities. The metals sector will revive over the long term as it will take a couple of quarters for demand to turn around from the user industries such as auto, infrastructure, electronics and consumer durables. While there are tentative signs of demand recovery in the steel sector on the back of realisation of pent up demand, overall subdued demand, large inventory along with supply chain bottlenecks are expected to prevent ramping up of production activities. We assume that frontloading of investments by the government outlined in the National Infrastructure Pipeline, additional pending on capex by the government along with Steel Scrap Recycling Policy to reduce import, will support the pace of recovery for the sector.

ELECTRONICS SECTOR OUTLOOK

Pre-COVID scenario

The electronics market comprises of mobile phones, consumer electronics, strategic electronics, computer hardware, LEDs and industrial electronics comprising of auto, medical and other industrial electronic products. India's electronics production has increased from Rs 1,903 bn in FY15 to an estimated Rs 5,465 bn during FY20, at a Compound Annual Growth Rate (CAGR) of about 23%. It grew by around 20% in FY20. As per Government estimates, demand for electronics hardware is expected to increase to US$ 400 bn by 2025, whereas in FY20 production stood at US$ 77 billion. Currently, the domestic production meets close to 60% of the domestic consumption demand.

COVID-19 Impact – Severe

- The impact of COVID-19 outbreak on the electronic goods sector is anticipated to be high.
- Domestically, the overall electronics hardware industry is fragmented with Delhi/NCR, Mumbai/Pune, Bangalore, Hyderabad and Chennai as key hubs for electronic hardware manufacturing in India. Given the nationwide lockdown, manufacturers had stopped operations or operated at low capacity. Besides, e-commerce companies had also stopped delivering non-essential commodities affecting the industry.
- The slowdown in demand in both the domestic and global market dampened the sales of expensive and high-end consumer and industrial electronic goods.
- However, the impact of demand was not uniform across the various segments. While demand for medical devices and electronic goods related to work from home picked up after witnessing a slowdown during the initial period of lockdown, demand for automotive components, semiconductor and high-end consumer electronics items registered a sharp decline.
- Production of Computers & Peripherals had declined by 43% in March and further by 99% in April before recovering to record a high double-digit positive growth during July and August 2020. Demand grew by a significant 47.5% during July 2020 while exports remained negative till July 2020.
- Production of high-end consumer electronic goods such as air conditioners and refrigerators declined by more than 82% and 61% respectively during April to August 2020.
- Acceleration of freight cost, rupee depreciation and lockdowns in other countries impacted the sector which is highly dependent on imports. Of the total demand for electronics in India, about 50-60% of the products and 70-80% of the components are imported. China meets 37% of India's import demand for electronics components, 40% of telecom instruments, 46% of computer hardware, peripherals and 29% of electronics instruments.
- The sector was initially impacted from the shutdown of factories in China during February to March 2020 and had to bear the brunt of domestic lockdown and subdued demand. The COVID-19 outbreak in China considerably impacted the mobile phone industry. Supply disruptions led to shortage of components of electronic goods which in turn led to increases in input prices for manufacturers amidst an already increasing price pressure due to the depreciating rupee.

Recovery of the sector – Long Term

- The financial package and special accommodation given to the MSME sector by the government will benefit small and mid-size companies in ICT sector.
- The government's Leave Travel Concesion (LTC) cash voucher scheme and interest free Rs 10,000 festival advance to its employees will boost demand for discretionary spends and is a major positive for consumer electronics goods sector.

- Offline sales will continue to remain impacted over the medium term at least. While consumers are moving to online purchases, the need for 'physical visit' to stores for the experience will constraint the pace of recovery in the consumer electronics sector.
- On the positive side, new avenues of revenue have emerged for this sector which includes connectivity products for telecoms and internet of things (IoT), online platforms for entertainments, home-office electronics for remote work, e-education, telemedicine, tele-healthcare services and shift towards digital modes of conducting business by the players in almost all the sectors.
- The digital transition that India is going through would also help the sector to pick up during the next year. Rollout of 5G/ LTE networks and IoT, 'Smart City' projects and proliferation of digital banking through payment wallets and payment banks, which will raise demand for POS and VSAT-enabled mobile ATMs, will drive the accelerated adoption of electronics products.
- Due to the expected slowdown in IT spending owing to slowdown in the economy in 2020, firms might limit their IT investments only to those sections that are critical to businesses.
- Electronic exports of India are likely to take a hit as several sectors, including airline, hospitality and banking markets in the US and Europe have been severely hit by the COVID-19 pandemic. As per the Electronics and Computer Software Export Promotion Council (ESC), India might miss the electronics and software exports forecast of US$155 billion for 2020-21. Three largest export markets of India for computer and hardware are US (31%), Singapore (12%) and UAE (7%). France, Germany and Netherland constitute another 9% of export demand.
- India might emerge as an alternative destination for new planned investments in the near to medium term. The proactive decision taken by the state governments to reform the labour laws, low wage skilled workers and India's strong position in software development can help India to become a hub for electronic components, mobile manufacturing and Internet of Things or IoT development.
- However, since China is the world's largest electronics manufacturer and also its largest components supplier, its dominance will make it difficult for countries, including India to find alternate markets in the near to medium term.
- Countries such as China along with other South East Asian countries like Malaysia, Vietnam, Indonesia, are low cost manufacturing destinations and manufacturers in these regions have an edge over Indian companies. For domestic players to dominate the market, there is a need to create a strong electronics component hub. The government has taken cognizance of the opportunity that can be leveraged and has initiated a series of policy initiatives to strengthen the supply chain and the entire eco-system of the sector. The process of creating a level playing field has already started with vigor since the unveiling of the National Policy on Electronics in 2019.
- The Production Linked Incentive Scheme (PLI) to facilitate large scale mobile manufacturing, Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS), Modified Electronics Manufacturing Clusters Scheme (EMC 2.0) along with National Policy on Electronics 2019 have been undertaken. The PLI, SPECS, EMC 2.0 have been notified as on April 2020. The Production Linked Incentive Scheme (PLI) to facilitate large scale mobile manufacturing should be extended for other electronic goods sector so support domestic players.
- Under the PLI scheme, as many as 16 domestic and international mobile phone and electronic components companies, have been given approval for manufacturing goods worth around Rs 10.5 tn over the next five years.
- However, it is to be noted that a wide gap exists between the current domestic production capability and the expected growth in demand in the electronics segment in India. This offers immense opportunities for foreign players. For domestic players, this is an opportunity as well as a challenge.
- The high fixed cost endured by the retailers during the extended lockdown period will result in low investments and liquidation of non-moving products during the year.

New Normal

- Digital adoption across industries.
- Proliferation of e-education.
- Increase in telemedicine and tele-healthcare services.

Challenges that the businesses will face during recovery

- High cost of inputs.
- Building a low-cost domestic ecosystem.
- Low spend on R&D.
- Need to create strong hold on design capabilities.
- Developing required skill to gain an edge over their counterparts.
- Since China is the world's largest electronics manufacturer and also its largest components supplier, its dominance will make it difficult for countries, including India to find alternate markets in the near to medium term.

Summary

The recovery of the sector is expected to be occur over the long term as consumer demand is likely to remain subdued. Demand for white goods and other high-end consumer durables will remain impaired. Owing to the expected slowdown in IT spending due to slowdown in the economy in 2020, business might limit their IT investments only to those sections that are critical to businesses. However, new avenues for growth for the sector such as online platforms for entertainments, home-office electronics for remote work, e-education, telemedicine and tele-healthcare services and shift towards digital modes of conducting business will limit the losses in the sector.

GEMS & JEWELLERY SECTOR OUTLOOK

Pre-COVID-19 Scenario

During 2019, India continued to be the 2nd largest market in terms of gold consumption, even as domestic consumption witnessed a fall. Gold consumption continued to decline by 74% (y-o-y) in Q2 2020 against a growth of 12.5% (y-o-y) recorded during Q2 2019. In FY20, gross exports of gems & jewellery slipped to three-year low of US$ 35.5 bn against US$ 39.7 bn in FY19, a fall of 10.2% on the back of various domestic and global challenges. On the domestic front, the sector faced policy and procedural challenges such as rise in import duty on precious stones viz. polished diamonds and coloured gemstones, tightening of lending terms by banks and stringent customs inspection procedures. On the external front, factors such as sluggish export demand and withdrawal of Generalized System of Preferences (GSP) benefit by USA also impacted the market. Even as the overall imports of gems and jewellery declined by 5.8% (y-o-y) during FY20, imports of cut and polished diamonds grew by 29% (y-o-y). India is the world's largest diamond polishing hub that employs over one million people.

COVID-19 Impact – Severe

- Challenges for the sector worsened due to the COVID-19 pandemic as it led to a halt in manufacturing, refining and trading activities, and deferment of committed order positions.
- Demand for the sector is largely driven by social events, thus lockdowns, social distancing norms and loss of income opportunities impacted the retail demand.
- Both exports and imports continued to witness severe decline in growth even after economic activities were restarted. During April-September 2020, gross exports declined by 43% to US$ 8.5 bn and imports declined by a greater significant 52.4% (y-o-y) to US$ 4.2 bn. Exports of cut and polished diamonds fell by around 36.5% and gold jewellery fell by around 66.4%. Imports of rough diamonds fell by around 56.7% and gold bars fell by 87% during the period.
- Half of the refineries engaged in refining impure gold were closed down since supply of impure gold stopped from Switzerland, Ghana and Peru as international flights ceased to operate.
- There was a marked shift in demand for gold in jewelry, as gold prices surged. Gold price surged to record high as investors resorted to the safety of bullion to hedge their exposure against riskier assets.
- According to the World Gold Council's latest report, H1 2020 was marked with a record high investment in gold-backed ETFs backed by global response of central banks and governments in the form of rate cuts and massive liquidity injections.
- Gold demand plunged by 53% to 251.5 tonnes in Q2 2020 against 529.6 tonnes during same period last year due to the closure of retail shops and factories.
- With the rise in coronavirus cases, weddings across the nation are either being postponed or being held privately, leading to a fall in demand for jewellery. Demand for jewellery has already contracted by 74% (y-o-y) during the period of April-June 2020.
- US and Europe are the major destinations for diamond exports and the significant low demand from the two nations has impacted the sector severely.

Recovery of the sector- Long term

- Going forward, the gems and jewellery sector would have a challenging time until the business sentiment and consumer confidence revive.

- The high gold and silver prices to keep retail demand low, although the investment demand would continue to remain upbeat. Massive net inflows in gold exchanged traded funds (ETFs) were recorded for five-straight months. During the month of August, inflow of Rs 9.08 bn were recorded.
- The fear of the pandemic has created a subdued environment for rituals, traditions, festivals, occasions etc. This along with low economic growth and fall in disposable income would continue to affect demand even after the pandemic subsides.
- With the beginning of the festive season in the country, the industry will experience some revival in demand for jewellery due to the pent-up demand.
- Most of the workers who engaged in the polishing of the diamonds have migrated back to their hometowns. Post resumption of work, diamond businesses may have difficulty in finding workers.
- Increased trading in digital gold to provide some respite to the sector.
- Government has extended the deadline for mandatory hallmarking of gold jewellery and artefacts to June,2021 providing some relief to the jewelers.
- The online gold market in India, which is in its nascent stage, accounting for just 1-2% of overall gold sales by value, to witness growth.

New Normal

- Virtual B2B operations would come into play wherein buyers from different countries and India's sellers of varied gems and jewellery products would be connected through online facility.
- Shift towards ETFs and gold bonds from physical gold trading will widen the trading market potential of the investors.
- India has embraced online retailing across different categories. In urban India, mobile wallets/apps to play a key role in the growth of Internet Investment Gold (IIG) in India.

Challenges that business will face during recovery

- Diamond manufacturing units not likely to reopen soon due to labour shortages.
- Gold imports expected to nosedive in the current fiscal on account of poor demand and soaring gold prices.
- Financing challenges to prevail as demand is not expected to revive soon.
- Need a supportive e-commerce policy for the sector to increase demand for online jewellery purchases.
- Due to subdued jewellery sales, jewelers are stuck with their previous stocks which they cannot replace with hallmark gold as the Government made mandatory hallmarking of gold jewellery and artefacts to June 1, 2021.

Summary

The COVID-19 pandemic has been having a severe impact on the already troubled Indian Gems and Jewelry sector. With extended lockdowns in various countries and recessionary pressures across the globe, demand for gems and jewellery is expected to be severely impacted over the next couple of quarters. Since the sector is highly export oriented, the pace of global recovery will play a very important role in the recovery of the sector.

TEXTILES SECTOR OUTLOOK

Pre-COVID Scenario

The Indian textile sector had been witnessing slowdown even prior to the eruption of COVID-19 crisis. The index of industrial production for textiles declined by 2% in FY20 as against a dismal growth of 1.5% in FY19. The decline in growth in textiles sector was largely driven by overall subdued demand conditions in the domestic and global markets as well as disruption in imports of textile raw materials and intermediate inputs from China due to the spread of COVID-19 pandemic during Q4 FY20.

In the textile value chain, cotton yarn had been witnessing sluggish demand conditions due to decline in exports demand subsequent to the emergence of Vietnam as an alternative source for India's cotton yarn. The outbreak of COVID-19 in China since January 2020 further added to the woes of cotton yarn exporters. In FY20, cotton yarn exports to China, which is a major export destination for India's cotton yarn declined by almost 50%, resulting in overall slump in India's total exports of cotton yarn.

In recent years, low-cost competitors like Bangladesh, Indonesia and Vietnam have emerged as major apparel exporters. As a result, India's apparel exports also dropped by 4% (in USD terms) in FY20 given the substantial moderation in exports demand for apparels from the US, UAE and European markets.

The decline in yarn and apparel exports resulted in piling up of yarn inventory, which in turn blocked the working capital, causing liquidity crunch for several yarn manufacturers. In addition, fall in cotton yarn prices due to domestic supply glut, impacted margins of yarn exporters. Besides, delays in clearance of input credit refunds and the repayment of export incentives booked previously subsequent to the retrospective withdrawal of export incentive scheme adversely impacted liquidity and profitability of MSME garment manufacturers.

COVID-19 Scenario – High Impact

- The Index of Industrial Production (IIP) for textiles and Wearing apparel/Readymade Garments (RMG) registered a negative growth of 49% each during the months of April to August 2020 as compared to year.
- In case of RMG, while supply was disrupted, domestic as well as export demand slowed down considerably due to closure of retail spaces and cancelation of export orders. Many RMG exporters had to incur losses due to dead stock as the orders especially for summer season could not be dispatched due to the nationwide lockdown. However, after recording negative growth rates for the first five months of the fiscal year, export growth turned positive in September 2020. On a cumulative basis, apparel exports fell by more than 39% (y-o-y) for the period April to September 2020.
- The slump in demand for apparels sector had adverse implications for the entire value chain. The production of cotton yarn declined by almost 85% during Apr-May 2020 due to lockdown and excess inventory amid cancelation of domestic and export orders. This also resulted in reduced offtake of cotton by mill owners, causing cotton prices to decline. However, production picked up since July with August recording a meagre positive growth of 0.3%.
- The supplies of synthetic yarn remained disrupted despite the abolition of anti-dumping duty on purified terephthalic acid (PTA) by the government. The supply shortages were mainly because of India's dependency on Chinese PTA imports which is manufactured in the Hubei region of China.
- The disruption in import of intermediate inputs from China exposed the Indian textile industry to supply chain vulnerabilities. Indian textile industry relies on China for import of textile machineries and spares. Around 70% of textile machineries imports were being sourced from China in FY20.

Further, Indian textile industry does not have the substantial domestic supply base for accessories like buttons, zippers, hangers and needles and relies on imports from China.

- While the traditional textiles witnessed sharp moderation in demand, demand for technical textiles like mask and Personal Protective Equipment (PPE) kits increased significantly. The manufacturers of PPE coveralls increased from zero manufacturers in March 2020 to 1,100 indigenous manufacturers till mid of September. The capacity and production of PPE coveralls touched a peak of 5 lakh units per day during mid of May 2020. The manufacturing capacity for N-95 masks has also increased to over 300,000 N-95 masks per day as of end-May 2020.
- Subsequent to the extension of lockdown in mid-April 2020, there was reverse migration of textile workers, especially from key textile clusters like Gujarat, Maharashtra, Delhi NCR and Tamil Nadu that were worst hit by the pandemic. Although the restrictions imposed under the nationwide lockdown were slowly withdrawn since May-20, manufacturing activity in textile units could not pick up pace due to labour shortage.

Recovery of the Sector – Medium Term

- The overall demand scenario for traditional textiles segment is likely to remain modest due to loss of consumer confidence amidst adverse impact of COVID-19 on personal incomes and social distancing rules.
- While the demand for daily essential clothing will witness early recovery, demand for other high-end products including fashionable apparels is likely to revive gradually, albeit at a moderate pace, from October - December 2020 with the onset of festive season and reopening of retail spaces subsequent to re-opening of the economy. Moreover, growing use of e-commerce avenues and demand resilience in the rural areas will aid the revival of the sector.
- Within technical textiles, the development of new products like anti-viral fabrics, disinfectant wipes and disposable bedsheets is expected to gain impetus to cater to the growing market for hygiene products.
- Given the sluggish demand for apparels and other textile products in the short term, the demand for other segments in the supply chain is expected to remain subdued. Further, an escalation in geo-political tensions between India and China would affect exports of cotton yarn in FY21. In FY20, China accounted for around 21% of India's total exports of cotton yarn.
- India's textile exports are unlikely to recover in the near term as its key markets namely US & Europe which together account for over 50% of India's textile exports, have been severely hit by the pandemic and the subsequent economic downturn. However, the permission for export of non-medical/non-surgical masks & non-woven fabrics other than certain specified categories, the extension for rebate of central & states taxes and levies schemes as well as weaker rupee will assist textile exporters to some extent.
- There have been no direct stimulus measures announced for textiles sector. However, the revision in definition of MSMEs is expected to bring many weaving and garment manufacturing units under the ambit of MSMEs which will qualify them to benefit from stimulus measures announced by the government. Moreover, the extension of interest subsidy scheme for pre-and post-shipment export credit by the RBI will enable textile exporters to access cheaper exports credit. The extension of rebate of State and Centre Levy of Taxes scheme till March 2021 has also provided some respite to exporters.

New Normal

- Growing market for hygiene textile products like anti-viral fabrics, disinfectant wipes and disposable bedsheets.
- Changing consumer preference to daily essential clothing instead of high-end apparels.
- RMG manufacturers to look for local sourcing opportunities or alternate textile importing destinations to reduce dependency on China.
- Digitization of B2B and B2C sales through e-commerce platforms.

Challenges that business will face during recovery

- The disruption is cash flow and difficulty in debt financing especially for small & medium textile manufacturers.
- Given the reverse migration, labour shortage in H2 FY20 when fresh orders are expected to start flowing.
- Heavy dependency on China especially for textile machineries and spares in the event of further escalation of cross border tensions between India and China.
- Indian firms yet to develop capabilities to manufacture textile machineries and spares.
- Traditional export markets of US and Europe witnessing slowdown and a second wave of infection.

Summary

Impact of COVID-19 on the Indian textile sector is expected to be high with recovery likely to be over the medium term, albeit, at moderate pace from October-December 2020. The loss of consumer confidence amidst adverse impact of COVID-19 on personal incomes and social distancing rules will be a drag on growth of the textile sector during FY21. Nonetheless, the onset of festive season will support the recovery to a certain extent, although it will remain limited. While daily-essential clothing segment will witness early recovery, technical textiles will emerge as the bright spot supporting in the revival of the Indian textile industry.

LOGISTICS AND WAREHOUSING SECTOR OUTLOOK

COVID Impact – Severe

- Lockdowns and border closures due to the COVID-19 outbreak have caused heavy disruptions in the supply chain across the globe impacting the logistics sector severely. The Indian government imposed prohibition on a set of activities nationwide; Air, rail, metro, and inter-state movement by road were not allowed till June 2020. Logistics services improved as the government relaxed the restrictions in a phased manner. From June 8, inter-state and intra-state movement of persons and goods were allowed without any special permission/ approval/ e-permit. After a month, under 'Unlock 2.0' which started from July 1st, 2020, operation of industrial units in multiple shifts, movement of persons and goods on National and State Highways and loading and unloading of cargo were allowed giving further relief to the logistics sector.
- Business-to-business logistics market were most impacted as supply chain was severely disrupted.
- Business-to-consumer logistics segment after a brief slowdown witnessed a steady growth as supply of essential goods were allowed and e-commerce activities accelerated as consumers shifted online from brick and mortar stores to source essential and non-essential goods.
- **Road –** During the initial lockdown of 52 days, daily movement of trucks were less than 10% of normal levels.
- **Railways –** During the initial period of 52 days, partial movement of freight trains were allowed. 109 Time tabled parcel trains were introduced over 58 routes to connect all the important centers. In July 2020, Indian railways has started operating only 230 special trains across the country, with an overall occupancy of 75%. During April-June 2020, railway freight revenue was down 21.4% (y-o-y) and in terms of volume was down by 31%. As on July 29, 2020, Indian Railways was expecting only 10-15% earnings from the passenger segment for FY21, leading to a loss in potential earnings of around Rs 350 – 400 billion.
- **Shipping** – During the period of nation-wide lockdown, container terminals at the major ports in India reported a few blank sailings or cancellation of port calls. Restrictions in movement of goods and social distancing norms at warehouses contributed to bottlenecks for freight. However, Customs Department were allowed to operate 24*7 to clear freights at ports in India. Rail cargo from ports continued to operate as normal. Road freight movements to and from the ports remained constrained owing to shortage of drivers. Shortage of staff pose also posed constraints even as all port terminals, container freight stations and inland container depots were operational. Logistics/Freight costs increased manifold. Total traffic (containers, POL etc.) at the major ports declined by 16% for the period of Apr – Aug 2020 compared to same period of last year.
- **Air –** The domestic passenger traffic declined by nearly 100% in April, and by around 89% during April to August 2020 compared to the previous year period. Cargo traffic dropped by 51% during April to August 2020. However, currently, domestic flights have been allowed in a limited manner. The government allowed domestic airline to increase the capacity of their flight operations from 33% to 45% from July 1st. However, restrictions on domestic flight operations have been imposed till November 24, while states will continue to impose their own rules. Ban on scheduled international commercial flights to and from India has been extended till November 30, 2020. However, international all-cargo operations and flights specifically allowed to operate by the aviation regulator such as repatriation flights, charter flights, and flights under the Vande Bharat Mission. International air travel has been allowed under Vande Bharat mission in a limited manner since July 30th. According to Agility Insights, a private organization which tracks logistic sector globally, as on mid-October 2020, there were moderate capacity constraints in the air freight from India to the rest of the world. Due to freight flight cancellations, there has been a 50-60% reduction in capacity availability. Due to passenger flight cancellation, there has been 50%-60% reduction in availability of cargo capacity.

Recovery – Medium Term

- Since the logistics sector depends on demand for manufacturing goods and trade, the global economic recession will impact the logistics sector during 2020.
- Since logistics in India have started moving more freely since 'Unlock 1.0' and the restrictions for operation of industrial unit, movement of goods and persons across borders, loading and unloading cargo during night have been relaxed since June, logistics firms are witnessing a traction in their activity.
- The number of containment zones will continue to create bottlenecks for the logistics sector to operate in a non-disruptive manner. The restrictions on people and movement of cargo, especially in containment zones will lead to delays in delivery and higher freight rates.
- Nevertheless, logistic companies that cater to e-commerce firms will see traction as online purchase of essential and non-essential commodities have increased. Demand will thus be driven by e-commerce and 3rd Party Logistic players. Cost pressures would lead to increase in outsourcing activities to 3rd Party Logistic (3PL) players.
- Sectors that cater to the high-end consumer goods such as automobile and other electronics will be slow to recover.
- Change in consumer behaviour towards e-commerce will lead to higher penetration of ecommerce of groceries in urban and also in Tier-1 and Tier 2 cities. Warehousing sector will gain traction.
- Demand for warehousing, especially in Tier 1 and 2 cities will increase driven by inventory requirement by e-commerce firms.
- The last-mile delivery of essential goods and services, driven by safety concerns, has gained traction during the lockdown and will continue to grow post the lockdown period offering employment opportunities.
- The reconfiguration of global supply chain by countries to reduce their dependency on China will lead to nearshoring (shorten or diversify) or reshoring (bring home) of strategic value chains. High probability of relocation of global supply chains to India and post lockdown increase in domestic demand would drive the demand for warehousing and logistics.
- The government's thrust on agriculture supply chain and warehousing to support the sector. As per the initiative announced in May 2020, the government has launched the Rs 1 tn Agriculture Infrastructure Fund on August 9, 2020.
- Slowdown in the tourism sector will have subdued passenger traffic growth in the aviation and railways sector. Heightened risk aversion will prolong the recovery.
- Indian Railways announced that it expects a loss of Rs 300-350 bn in earnings from the passenger traffic segment in FY21 down from Rs 500 bn earned during last year. Freight earnings are expected to increase by 50% from the previous year earnings of around Rs 1,232 bn, which will offset the decline in revenue from passenger traffic.
- The impact on the aviation sector has been severe due to the travel bans imposed by several countries and low domestic passenger traffic driven by heightened risk averseness. Restrictions on domestic flight operations till November 24, with states imposing their own rules and limited international air travel till August 31st will have a severe impact on the aviation sector. Even after the sector is fully opened, the lower tourist travels and cut down in business related travels will continue to impact the sector. The sector is likely to recover only over the long run.
- For ocean freight, as per the data collected by Agility Insights, as on mid-October 2020, there were acute container or equipment shortages at Indian ports and significant capacity constraints. Muted consumer demand and industrial activity will continue to have a bearing on the global shipping activity till 2020 at the least.
- The google mobility report shows that as of mid-October 2020, 77% of people as compared to the pre-COVID level (i.e. during the 5-week period January 3–February 6, 2020) have started going to

workplace while more than 80% of people as compared to the pre-COVID level are using public transport hubs, such as underground, bus and train stations.

- Nonetheless, given the high level of infection, restrictions are likely to prevail, and this will continue to severely impact the logistics sector, the recovery of which is expected over the medium term.

New normal

- With social distancing being the norm, companies will reduce human interface. Companies in the last-mile segment are offering no-contact delivery options.
- Logistics providers to optimize and automate to ensure safe and efficient movement of goods.
- Cargo stakeholders to switch to digitization. Automation in cargo handling equipment to increase.
- Increase in the usage of Cloud Platforms and SaaS solutions to enable organisations to adopt digital solutions without increasing their capex.
- Increase in the usage of intelligent supply chain technologies, big data and analytics and machine learning to track and optimize supply chain operations.
- Robotics Process Automation (RPA), Artificial Intelligence (AI) and business intelligence will be adopted in various supply chain processes including warehousing operations.
- Drones and use of smart locker solutions for safe, convenient and contactless pick-ups.
- Robotics, drones and autonomous vehicles to reduce dependence on labour.

Challenges that the businesses will face during recovery

- Increase in logistics costs due to tighter cross-border processes and controls.
- Cost pressures in terms of ensuring safe and hygienic delivery of goods.
- Optimizing cost for the contactless last-mile delivery solutions. As per various reports last mile usually constitutes more than 40% of the total logistics cost.
- Small logistic players will find it difficult to invest in technologies such as cloud computing, automation, and data analytics while companies with digital capabilities that allow them to provide cargo traceability will be at an advantage.

Summary

Since the logistics sector depends on demand for manufacturing goods and trade, the global economic recession will impact the logistics sector during 2020. In India, logistics firms are witnessing a traction given the various relaxations by the government and the surge in the e-commerce activities. However, capacity constraints prevail in the railways, shipping and aviation sector as these sectors have not been fully opened up. Given the high level of infection, restrictions are likely to prevail, and this will continue to severely impact the logistics sector, the recovery of which is expected over the medium term.

RETAIL SECTOR OUTLOOK

Pre-COVID scenario

India's retail sector was booming before COVID-19 impacted the economy. India ranked 2nd in Global Retail Development Index (GRDI) in 2019. It is the 3rd largest retail market in Asia and 4th largest globally after US, China and Japan. The retail sector received Foreign Direct Investment (FDI) equity inflow amounting to US$ 2.12 billion during April to March 2020.

COVID-19 Impact – Severe

- The consumer durables sector was severely impacted as consumer demand collapsed and shifted away from discretionary spending. With all retail outlets (except grocery stores and pharmacies) kept closed in red and containment zones, demand for textile, footwear, furniture and other household electronic appliances fell significantly. Steep fall in physical footfall in retail outlets and malls in non-containment areas were witnessed as well.
- Large retail formats such as malls, multiplexes and non-essential segments like garments and electronics were the worst hit sub-sectors.

April- August 2020 Production (cumulative % y-o-y growth)	
TV sets	-34.7
Telephones and mobile instruments	-44.7
Air conditioners	-82.7
Refrigerators	-61.6
Leather and Related Products	-42.0
Washing machines & laundry	-29.6
Wearing Apparel	-49.4

Consumer non-durables

- Segments that cater to essential services such as food and other fast-moving consumer goods witnessed an increase in sales driven by panic buying and hoarding behavior.
- Grocery retailers had to deal with out-of-stock situations on many key products owing to hoarding by consumers and supply disruptions.

Recovery of the sector – Short term

- Consumer optimism remains muted and spending intent remains low. Uncertainty in economic revival and loss of income will lead to delay in revival of consumer demand.
- As per the RBI's survey, the consumer confidence recorded its third successive all-time low in September 2020 as the respondents perceived further worsening in general economic situation and employment scenario.
- Consumer perception of the prevailing economic situation, employment scenario and own income for September 2020 was lower than that in July 2020, while optimistic about these parameters for

the same period (September 2021) next year stands improved from the levels recorded in September 2020.

- The survey revealed that respondents are not optimistic on spending for essential commodities, while non-essential stands improved probably led by the festive season.

Consumer Confidence Survey - Perceptions and Expectations on Income						
(Percentage responses indicating an improvement)	Current Perception			One year ahead Expectation compared with the current situation		
	Jan-20	**Jul-20**	**Sep-20**	**Jan-21**	**Jul-21**	**Sep-21**
Consumer Confidence Index	**83.7**	**53.8**	**49.9**	**105.4**	**115.9**	**115.1**
Income	21.9	8.3	8.9	51.9	43.5	53.2
Employment	24.6	13	10.1	48.4	48.6	54.1
Spending	76.3	48.1	47.2	78.7	60.2	65.3
Essential spending	85.3	64	61.4	83.7	69.4	71.9
Non-essential spending	28	9.2	10.7	34.3	22.2	31.3

- The pandemic has altered consumers preference and purchasing behaviour of consumers such as how they consume and purchase their products through offline and online platforms.
- Consumer preference is expected to increase towards health and well-being products.
- While consumers initially stockpiled essential goods owing to unavailability related concerns, going ahead lower disposable income, subdued sentiment and uncertainty will lead to cut in consumption expenditure, both for essential and non-essential goods.
- Revival of e-commerce activities since 'Unlock 1.0' since June 2020 has led to some pick up in the pent-up demand for both essential and non-essential goods facilitated by digital payments.
- Consumers to look at availability and quality and low-priced brands, thus there will be a shift in brand loyalty.
- There would be a focus on strategic stockpile industries related to production of face masks, sanitizers, medical and daily supplies, energy and food.
- Due to high caseloads, various restrictions over communal gatherings and festival celebrations amid low disposable income during the upcoming festival season would be a drag on the sector.
- Certain consumer non-durable segments are highly driven by seasonal sales, such as air conditioners during summer season and electronics during festive season. Due to lockdown during the summer season and restrictions on festival related celebrations, these segments will witness a traction in sales only during next year. Nonetheless, the government's LTC cash voucher scheme and interest free Rs 10,000 festival advance to its employees will provide an interim boost to the sector during the festive season.
- Around 3%-5% of the overall retail industry was related to e-commerce before COVID-19. This is likely to increase as most business will now like to adopt digitization to reach out and service their customers.

New normal

- Shift to value added goods and essentials products.
- Shift to digital and omnichannel strategy in sales.

- In the urban area, new online shoppers such as elderly will continue to adopt digital channels.
- E-commerce players to alliance with neighborhood kirana grocery stores to meet the demand and increase their service delivery.
- Es-commerce will continue to grow and become prevalent across all product categories.
- Other contactless services which include drive-through services will witness higher adoption rates.

Challenges that the businesses will face during recovery

- Social distancing might have a negative supply side impact on the sector.
- Businesses dealings in both essential and non-essential commodities to face challenges which include managing change in consumer demand, management of store operations to ensure social distancing and proper hygiene, adhering to governance rules and maintaining positive cash flows.
- Restructuring existing deals, resorting to digitization and redesigning of revenue models will take place.
- Sector is likely to witness consolidation for cost optimization, managing cash flows, adopting new service delivery models and targeting large customer base.
- Given the industry's high dependency on cash to pay for stock, financing will remain a challenge.
- Medium term supply challenges will include accommodating drop in demand, long lead time and managing warehousing inventory till demand recovers fully.
- Since around 88% of the sector is unorganised shifting to digital and omnichannel sales strategy will be a challenge.

Summary

The retail sector was severely impacted as consumer demand collapsed and shifted away from discretionary spending to spending on necessity. Even demand for essential goods remained constrained as consumer footfalls decreased during the strict nationwide period of lockdown. The sector is expected to recover in the short term driven by revival of e-commerce activities since ‘Unlock 1.0’ since June 2020 and pick up in the pent-up demand for both essential and non-essential goods facilitated by digital payments. However, going ahead lower disposable income, subdued sentiment and economic uncertainty will lead to constrained consumption expenditure, both for essential and non-essential goods. The government’s stimulus measures will only provide an interim boost to the sector during the festive season.

HOSPITALITY AND TOURISM SECTOR OUTLOOK

Pre-Pandemic scenario

In 2019, India's Travel and Tourism contribution to GDP was 4.9% which was higher than the global average of 3.5%. India stood third after Philippines and China. India ranks 10th out of a group of 185 countries for their contribution of Travel & Tourism to GDP. Share of domestic expenditure on tourism by the residents of India stood at 83% while the international share of spending was 17%. According to the World Travel and Tourism Council report, India witnessed the strongest growth in the number of jobs created which stood at 6.36 million in the tourism sector in 2019 followed by China which stood at 5.47 million in the Asia Pacific Region.

COVID-19 Impact – Severe

- Indian tourism & hospitality industry is one of the biggest casualties of the COVID-19 pandemic as travel restrictions across the world and nationwide lockdown during the months of April-June led to a grinding halt in demand. Foreign Tourist Arrivals into the country started softening since February as COVID-19 had spread in various countries and plunged in March registering a negative growth of 66.4% (y-o-y).
- With the cancellations of flights and trains across the country, hotel bookings faced enormous cancellations and hotels had zero booking for months that has had a ripple effect on the segments associated with tourism and travel such as travel agents, taxi operators and others. Indian Association of Tour Operators (IATO) estimates the Indian hotel, aviation and travel sector together may incur a loss of about Rs 85 billion due to travel restrictions imposed on foreign tourists. Small restaurants and eateries have borne the maximum brunt of the pandemic and their inability to move onto online platforms like Zomato or Swiggy has led to closure of many businesses. According to the 'Indian Restaurant Industry – Mid COVID-19 Report' by Zomato, out of the 83% restaurants that are not open for business, 10% have already shut down permanently and additional 30% are not expected to open at all.

Recovery of the sector – Long Term

- The global recession and the resulting lower disposable income coupled with fear of infection will result in long term recovery of the sector.
- Travel will remain restricted even after the pandemic subsidies. Uncertainties about the pandemic has led to few future bookings. Most of the future bookings for the period of October-March FY21, considered as the strong season for the industry, that usually takes place during the summer months have largely evaporated.
- Mounting credit stress may force several hotels to shut down their business permanently. The debt servicing holiday for six months announced by the RBI is inadequate for asset heavy industry like hospitality as the expected duration of decline in demand in quite substantial.
- With the transition of business meetings, conferences and events to online platforms, revenue to travel and hospitality from this segment remains severely constrained.
- Social gatherings, marriages and religious festival will remain less with limited gathering as announced in the guidelines for 'Unlock 5.0'. This will also impact the hospitality and tourism sector over the medium term.
- Some of the hotels have now converted into quarantine centers. This has helped revenue to flow in for a certain segment. The hotel industry will have to put up with additional cost of maintaining hygiene and ensuring social distancing norms which will prevent full occupancy of hotel rooms.

- The demand from foreign tourist arrivals (FTAs) are not expected to pick up any time soon. Even though the process of travel restrictions across the globe are being relaxed to some extent, people will take some time to recover from the overcast of the pandemic. Tourism related travels will witness some improvement only in the next year.
- Business related travels will pick up when air travel restrictions are removed. Currently several restrictions have been imposed by the states on people travelling from different states based on the condition of COVID-19 cases in those states. International flight operations were restricted until August 31st. However, travel continues to take place under the travel bubbles India has created with US, Germany and France.
- Going forward, travelers will be looking forward to demanding more customized experiences in the hospitality segment.
- During 'Unlock 2.0' i.e. from July 1, restaurants were only allowed to operate at 25%-30% of their monthly service levels to maintain social distancing norms. However, under 'Unlock 5.0' guidelines, this capacity was further increased to 50% which provided some relief to their revenues after the remaining shut for almost 3 months.
- Post-pandemic, the small eateries and restaurants, which had closed are expected to re-open.

New Normal

- Hybrid Meetings will be the norm. Instead of attending a meeting in person, people will pivot towards virtual participation resulting in greater outreach and more attendees at lower cost.
- Health and well-being segment to witness an increase. In the post pandemic scenario, travelers will look forward to more enhanced wellness services.

Challenges that the businesses will face during recovery

- Managing working capital and servicing debt.
- Maintaining the strict hygiene requirements as demand picks up.
- High maintenance expenditure of the hotels to impact their cash reserves.

Summary

The global recession and the resulting lower disposable income coupled with fear of contamination will result in long term recovery of the sector. Travel will remain restricted even after the pandemic subsidies. Business related travels will pick up when air travel restrictions are removed followed by personal/tourism related travels. For business travels, demand will return unevenly due to the new adjustments made with virtual technology. Post-pandemic, the small eateries and restaurants, which had closed is expected to re-open. Hospitality sector to come up with several new initiatives to gain confidence of the consumers.

BANKING SECTOR OUTLOOK

Pre-COVID Scenario

The financial system in India remained sound before the pandemic hit the Indian economy. The capital to risk-weighted assets ratio (CRAR) of Scheduled Commercial Banks (SCBs) moderated to 14.8% in March 2020 from 15.0% in September 2019. Gross non-performing asset (GNPA) ratio also declined to 8.5% from 9.3% and provision coverage ratio (PCR) improved to 65.4% from 61.6% during the same period.

Bank Deposits grew by 8% to Rs 136 tn and bank credit grew by 6.1% to Rs 104 tn in FY20. In FY20, bank credit growth at 6.1% was the lowest growth recorded during the last two decades, showing signs of risk aversion even as the RBI reduced the policy rate by 185 bps i.e. from 6.25% in January 2019 to 4.40% in March 2020. Continuing the trend, bank credit remained muted till June 2020.

Of the total credit outstanding at the end of March 2020, in terms of borrowers grouped by ownership, PSU banks had a share of 62% and in terms of borrowers grouped by rating agencies, investment grade borrowers accounted for about 63%. Non-financial sector remained overleveraged. Debt levels among governments, businesses and households also remained elevated.

COVID-19 impact – High

- The policy measures taken by the RBI including the infusion of liquidity has led to surplus liquidity in the banking system.
- The RBI reduced the repo rate by 75-basis point during March to May 2020 which was in addition to the 135-basis point reduction in repo rate made during 2019. Consequently, borrowing costs have eased and deposit rates have fallen. The weighted average lending rates on outstanding rupee loans of scheduled commercial banks have fallen from a high of 10.45% in August 2019 by 75 basis points (bps) to 9.74% in June 2019 and on fresh rupee loans sanctioned it fell by 133bps from 9.68% to 8.35%. Weighted Average Domestic Term Deposit Rates fell from 6.89% in June 2019 to 6.0% in June 2020.
- Weighted average call money rate fell continuously from 4.9% in March 2020 to 3.38% by the end of Sep 2020. Yields on various T-bills also fell from 5.1% in February 2020 to 3.3% in September 2020.
- Nonetheless, risk aversion and significant reduction in domestic and cross-border trade impacted credit growth. While bank credit growth fell from 8.1% in January 2020 to 5.1% in September 2020, deposits grew by 10.5% in September led by precautionary savings from 7.9% in March 2020.
- After increasing in July, bank credit growth has tapered off in August 2020 and is the lowest since June 2017. The sectoral credit data shows that the credit to the micro & small continued to decline in August. With the credit guarantee scheme in place for the small and medium (SMEs) firms, credit off-take was expected to strengthen.
- Credit growth remained in the negative zone for a quite a few industry groups till the month of May 2020; food processing (7 months), textiles (18 months), leather (10 months), glass and glassware (11 months), engineering (6 months), gems & jewellery (15 months). As of August, while credit growth has turned positive for food processing, textiles and leather, it remains negative for glass & glassware, engineering and gems & jewellery.

Recovery of the sector – Long term

- The global recession and the expansionary monetary policies undertaken by countries globally is expected to have ramifications of the financial sector with banking sector likely to remain impaired over the next few years.
- The economic impact of the pandemic would result in increase in higher non-performing assets (NPAs) along with capital erosion of banks.
- In the Reserve Bank of India's *Financial Stability Report*, it was estimated that non-performing assets of all Scheduled Commercial Banks (SCBs) would rise from 8.5% of total as of end-March, to 14.7% of total at end-March 2021, in a very severe scenario, one that the pandemic is likely to produce. This would see five banks fail or require emergency recapitalisation and/or rescues, in the central bank's analysis.
- The government plans to disinvest 4 PSU banks which would help in meeting the resources for recapitalisation of banks, in case banks fail.
- The RBI has suggested to lower stake in top 6 PSBs to 51% within a framework of 12-18 months which will help to recapitalize banks. The government is also planning to infuse Rs 200 bn in public sector banks.
- Loan losses is expected to be realised by the banks after the moratorium expires. As per RBI's report, around 50% of total customers of SCB's have availed the RBI's loan moratorium which amounts to 50% of total outstanding loans as on 30th April. By end-August when the moratorium period ends, non-food credit around was Rs 102 tn. Assuming 50% of the loans go under moratorium and 10% of those loans default it would add to around Rs 5 trillion to the existing bad loans.
- Instead of continuing with the moratorium, the RBI has allowed one-time restructuring of debt of the borrowers facing stress owing to the pandemic, provided they were not in default till March 1, 2020. The loans will be allowed to remain as standard even if they go into default i.e. banks will not report default in personal loans to credit bureaus and corporate loans will not be classified as NPAs. For MSMEs, this restructuring shall be implemented by March 31, 2021. The resolution plan for personal loans under this framework may be invoked till December 31, 2020 and shall be implemented within 90 days thereafter.
- The RBI had constituted a 5-member expert committee under the Chairmanship of KV Kamath, to suggest parameters to cope up with the COVID-19 related stressed assets. The committee will scrutinize restructuring of loans above Rs 15 billion. The resolution under this framework is applicable only to those borrowers who have been impacted on account of COVID-19. Only those borrowers which were classified as standard and with arrears less than 30 days as at March 1, 2020 are eligible under the Framework. The committee identified 26 sectors and also recommended sector specific thresholds for these sectors.
- While this will prevent the increase in the number of NPAs recognized in the banking system as of now, the banking system will have to bear the burden of recovering the bad loans during next two years. This would be applicable for loans that were not classified as standard and eligible for restructuring and in cases where borrowers fail to repay restructured debt.
- As per the RBI's Systemic Risk Survey, about 56% of the respondents stated that the prospects of the Indian banking sector are going to deteriorate considerably in the next one year. Earnings of the banking industry to be impacted from slow recovery post lockdown, lower net interest margins, asset quality concerns and a possible increase in provisioning requirements.
- The recovery rate for the cases resolved through IBC by FY19 was around 4%. However, average time taken for a resolution is around 340 days as compared to 4.3 years earlier, which means that the recovery of the banking sector would take place only in the long term.

- This could be aggravated by the defaults that are likely to materialise in the NBFC sector as defaults in the NBFC sector would block the funds lent by the banking sector to NBFCs. As on August 2020, the bank lending to NBFCs was around Rs 8 tn.
- Low credit growth and high deposits along with low monetary policy rates and continued injection of funds by the RBI is expected keep surplus liquidity in the banking system at the least till March 2021.

New normal

- Preference of customers towards digital channels.
- Comprehensive digital platform. Increased customer preference towards digital channels to increase digitization of services such as video collaboration tools, new chat and messaging software and other fintech innovations.
- Growing preference for health and life insurance policies and COVID-19 related insurance plans.
- Increase in digital trade financing.

Challenges that the businesses will face during recovery

- Need to build new skills to adapt to a changing business environment.
- Flight to safety with preference for big banks and asset-backed instruments (e.g., gold).
- Financial intermediaries will have to undertake reappraisal of their business models.
- Lack of adequate information hindering the credit scores/credit rating activities to prevent estimating probable default cases.
- Large corporate bail-out packages, if required during the aftermath of the crisis, will impair the banking system.
- To establish normalcy without disrupting markets and the health of financial intermediaries while unwinding of stimulus and support packages in a calibrated manner.

Summary

The policy measures taken by the RBI including the infusion of liquidity has led to surplus liquidity in the banking system. Consequently, borrowing costs have eased and deposit rates have fallen. Nonetheless, risk aversion and significant reduction in domestic and cross-border trade impacted credit growth. The global recession and the expansionary monetary policies undertaken by countries globally is expected to have ramifications of the financial sector with banking sector likely to remain impaired over the next few years. The economic impact of the pandemic would result in increase in higher non-performing assets (NPAs) along with capital erosion of banks. While the one-time restructuring of loans will prevent the increase in the number of NPAs recognized in the banking system as of now, the banking system will have to bear the burden of recovering the bad loans during next two years. This would be applicable for loans that were not classified as standard and eligible for restructuring and in cases where borrowers fail to repay restructured debt. Earnings of the banking industry to be impacted from slow recovery post lockdown, lower net interest margins, asset quality concerns and a possible increase in provisioning requirements and hence this sector will recover only over the long term.

MEDIA AND ENTERTAINMENT SECTOR OUTLOOK

Pre-COVID-19 Scenario

The Media and Entertainment (M&E) industry grew by 9% (y-o-y) in 2019 reaching a market value of US$ 25.7 bn. In 2019, digital media overtook the film entertainment to become the third largest segment of the industry generating a revenue of US$ 3.1 bn. Digital subscription revenues in 2019 more than doubled from 2018 levels and digital advertising revenues grew to command to almost one fourth of total advertising spend.

COVID-19 Impact – Severe

- The lockdown and social distancing norms kept around 3,000 multiplex theatres across the country shut completely which resulted into near-zero revenue during the period from Unlock 1.0 to Unlock 5.0 when it was allowed to open. Fixed overheads such as rental, maintenance, etc., added to the crisis. However, the Force Majeur clause would have provided some respite to the multiplexes on fixed costs.
- During April-May 2020, production of newspapers and journals/periodicals slipped 42.74% and 46.16% respectively compared to the same period last year.
- Television media was partially impacted during the nation-wide strict lockdown phase with no fresh content and strong reduction from advertisement avenues, however, news channels remained operational. With the gradual opening up of the economy, regional and mainstream media and entertainment and film industry had started their operations, albeit at a slower pace. From 'Unlock 5.0', the industry has witnessed an increased traction in production activities as cinemas/ theatres/ multiplexes with 50% of their seating capacity have been allowed.
- Events such as award shows, meetings, conferences, exhibitions, competitions, music festivals, IPL etc. which are completely based on gatherings have been suspended or canceled during the lockdown leading to a huge revenue loss during the period from end of March to September 2020. From October 2020 onwards permission have been granted to hold Business to Business (B2B) exhibitions, entertainment parks and ilk, and swimming pools for training of sportspersons. Social/ academic/ sports/ entertainment/ cultural/ religious/ political functions and other congregations have already been permitted with a ceiling of 100 persons, outside Containment Zones only from Unlock 4.0. However, State/ Union Territory Governments have been given the flexibility to permit such gatherings beyond the limit of 100 persons, outside the Containment Zones, after 15 October. In closed spaces, a maximum of 50% of the hall capacity will be allowed, with a ceiling of 200 persons. Even as these activities have been allowed, social distancing norms will continue to pose constraints for the media & entertainment sector.
- However, with so many people being home bound due to lockdown, consumption of TV and Over the Top (OTT) media services have increased. Overall TV viewing increased but there was absence of new content. According to a global survey, India saw highest news intake among major countries during lockdown.
- Events and Entertainment Management Association of India claims that livelihoods of 60 million people have been impacted by the lockdown and the losses incurred due to lockdown were over Rs 30 bn.

Impact on OTT Platforms

- The usage of Over-the-top platforms have increased due to the social distancing norms and the closure of the entertainment complexes.
- In the period between March 1 and 21, entertainment and OTT have registered a 34% increase. A survey report found that over 50% of the respondents bought new subscriptions during the pandemic.

- Multiple platforms were providing subscription-free usage of their services to instigate new habit formation.
- Several movies have been released on the OTT platforms due to the closure of the cinema multiplexes. Such movie releases on the OTT platforms will pave the way for surge in viewership and therefore rise in subscriptions.
- Going forward online entertainment will clearly emerge as a new norm for the industry.

Impact on Online Gaming Platforms

- The impact on the online gaming portal due to the pandemic has been positive.
- Online gaming applications and websites experienced an increase in traffic during the period of lockdown. According to research, online gaming companies have seen a 24% surge in traffic during the lockdown in May 2020 as people shifted to online games for entertainment.
- With features like video/voice chat usage while gaming has given consumers a whole new experience. More exposure to online games to the general public during the lockdown could lead to mainstreaming of the industry in India.

Recovery of the sector - Medium term

- Theatres were permitted to operate from 15th October with only 50% strength. However, the occupancy rate is expected to remain at sub-par levels due to the fear of contamination.
- Regional entertainment industry has opened up and activity has resumed, even if not at full capacity.
- OTT will be an additional channel of revenue generation for content creators and will create more opportunity for the entertainment industry.
- Recovery process will vary across different demographics based on specific COVID-19 experiences and perceived risk from social distancing.
- Advertisement industry would witness a decline until all other sectors of the economy restore normalcy.
- The current crisis provides an opportunity to increase the proportion of paid subscription, led by the new habit formation of at-home OTT viewing.
- Indian Premiere League is being held in UAE which started during the month of September and is scheduled to continue till November 2020. It will provide some respite to the industry. However, the matches are being conducted without any audience. This will impact the revenue severely.

New Normal

- OTT to be an additional channel of revenue generation for content creators.
- Shift in advertisers' preference from linear TV to online platforms.

Challenges that the businesses will face during recovery

- Occupancy in the theatres and social gatherings would remain subdued as consumers are likely to stay away from crowded places.
- The levels of per capita expenditure on Media and Entertainment is only 1.8% in urban areas and 1.1% in rural areas. The redistribution of expenditure towards essential goods and services will further deteriorate the spending of the consumers for this segment.

- Since the entertainment sector is largely unorganised and heavily dependent on cash flows this segment is likely face financial constraints during the year.

Summary

The impact on the sector has been high as the both the print media, television and film production were severely impacted but digital media which overtook film entertainment in 2019 witnessed high demand as the extended period of lockdown led to huge increase in consumer traffic towards this segment. The overall sector will recover over the medium term with digital media and at-home entertainment continuing to lead the pace of recovery. The outdoor entertainment would continue to deteriorate even after the lockdown is withdrawn as consumers are likely to avoid crowded places. The print media will likely to see improvement once restrictions are lifted.

DRUGS AND PHARMACEUTICALS SECTOR OUTLOOK

Pre-COVID scenario

India is the world's largest supplier of cost-effective generic medicines, and accounts for 20% of the world generics and more than 60% of the total demand for vaccines. India is the source of 60,000 generic brands. The range and volume of medicines that India is able to produce as a low-cost manufacturing destination with high skilled labour capabilities makes it a potential manufacturing hub.

COVID-19 Scenario – High

- The impact of COVID-19 outbreak on the drugs and pharmaceuticals sector is expected to be high. Pharmaceutical production recorded a decline for two consecutive months, March (-14%) and April (-19%) before posting a recovery from May 2020. Given the negative growth recoded in August the cumulative growth on a y-o-y basis for the period April to August 2020 stood at -1.0%.
- The global supply chain disruptions impacted all the sectors including essential goods like pharma. Prices of raw materials increased amidst limited supply. Raw material cost for various medicines including antibiotics have increased as it is imported from China. Indian pharmaceutical industry is heavily dependent on China and imports about 85% of its total requirement of active pharmaceutical ingredients (API) requirements, according to the Trade Promotion Council of India. Profits margins of firms have thus been impacted especially in the segment where government imposes price control.
- With people abstaining from non-COVID and non-chronic related treatments or health care services, delay in electives surgeries and lower doctor visits due to fear from the pandemic has also impacted the sector.

Recovery of the sector – Medium term

- It is expected that major pharmaceutical markets will witness reduced growth this year owing to the COVID-19 pandemic. Few launches as a result of delayed clinical trials, lower prescription volumes through fewer non-Covid-19 doctor visits and constrained government spending for non-COVID related medical facilities due to the economic downturn will impact the sector.
- Demand for generic drugs to remain high, as they are used in COVID-19 related cases. India is one of the largest manufacturers of generic drugs and its share in global generic drug supply is 20%. However, India faces challenges from its high dependency on China, as China caters to 70% of key starting materials (KSMs), intermediate and APIs.
- India's stance to reduce dependency on China will continue to impact supply of raw materials from the country. Sourcing less from China would lead to high input cost initially, especially for generic drug manufacturers for whom APIs constitute a significant portion of cost of production, unless India gains self-sufficiency or finds alternate sources. However, given China's dominance in APIs, it is unlikely to have substitutes widely available not only for India but also for other countries.
- Supply chain disruption will boost local production and benefit the sector in the medium to long term. India has already announced plans (March 21st, 2020) to increase local production of APIs in order to have a more resilient supply, following the Covid-19 pandemic. The government has announced plans to develop 3 mega Bulk Drug parks with an investment of Rs 30 bn to reduce the cost and dependency on other countries. A sum of sum of Rs 69.40 bn will be spent on the Production Linked Incentive Scheme, wherein financial incentive will be given to eligible manufacturers of identified 53 critical bulk drugs.
- Spending by the pharmaceutical sector will remain restrained over the medium term. The slowdown in the economy, patients avoiding health care services to avoid infection or to cut down their

expenses along with the delay in new product launches will lead to lower spending by the pharma companies. Delay in new product launches, owing to restriction in movement of people and goods, to impact cash flows from new product launches.

- Difficulties faced by Indian drug companies to sell in the US and other overseas markets, as ban on international travel has closed doors for inspection and approval by the US FDA.
- India's potential as an alternative low-cost nation to source supplies would help the sector to recover faster once countries ease lockdowns. India's expertise in the manufacture of drugs and highly skilled labours, would help India to gain from the global restructuring of supply chains.
- As the lockdown further eases demand for chronic drugs will recover faster as demand for this segment is usually 'sticky'.
- Covid-19 will accelerate digital healthcare. Digital healthcare options such telehealth and other digital solutions are expected to witness an uptake as social distancing norms will prevail till 2021, at the least.
- The return of the pent-up demand once hospital and doctor visits begin post COVID will help the sector to recover faster.
- Of the top 10 countries that account for more than 80% of India's pharmaceutical imports, seven countries - China, US, Germany, Italy France, Netherlands, UK - have been severely impacted by COVID-19, putting at risk domestic supply from these countries.
- The three major markets from where India imports bulk drugs and drug intermediaries are China (68%), US (4%) and Italy (3%), of which US and Italy continue to be impacted by the pandemic.
- The largest markets from where India imports drug formulations and biologicals are Switzerland (15%), US (13.5%), Belgium (12.5%), Germany (9.9%) and China (7.4%). Staggered revival of commercial activities in these countries, except China and Switzerland, to have a bearing on the supply from these countries.

New normal

- Tele-health and telemedicine to increase with a shift in demand toward remote care options.

Challenges that the businesses will face during recovery

- Limited government-supported research ecosystem due to the economic slowdown.
- Reduced access to funding for R&D.
- Reversing the weighted deduction of 200% on spend on R&D, which ends by 2021 will affect the R&D segment.
- The sector faces eroding competitive advantage in the US generics market. US accounts for a third of the total exports by India. The limited presence in other markets and products continues to be a challenge.
- India faces scrutiny in quality compliance, especially from USFDA inspections. The industry will need to continuously invest in upgrading quality standards.

Summary

The sector was highly impacted, in spite of the government allowing for manufacturing activity, supply of pharma products and unrestricted movement of healthcare professionals. The global supply chain disruptions impacted all the sectors including essential goods related to the pharma sector. Prices of raw materials increased amid

limited supply and production declined during April and May 2020. People also abstained from heath care services amidst fear of contamination. The slowdown in the economy, patients avoiding health care services to avoid infection or to cut down their expenses along with the delay in new product launches will lead to lower spending by pharma. Constrained government spending for non-COVID related medical facilities due to the economic downturn is also likely to impact the sector. The sector is expected to recover over the medium term. India's potential as an alternative low-cost nation to source supplies would help the sector to recover faster once countries ease lockdowns. India's expertise in the manufacture of drugs and highly skilled labours, would help India to gain from the global restructuring of supply chains. As the lockdown further eases demand for chronic drugs will recover faster as demand for this segment is usually 'sticky'.

IT-ITES SECTOR OUTLOOK

Pre COVID-19 scenario

Information & Technology (IT) sector is the largest employer within the private sector, employing 3.9 mn people. According to the National Association of Software and Services Companies (NASSCOM), India's software and services exports grew by 8.1% to US$ 147 billion in FY20. In India, the Business Process Outsourcing (BPO) sector is the fastest growing segment of the ITeS industry. The BPO boom in India is credited to low labour costs and India's huge talent pool of skilled professionals.

COVID-19 Impact – Moderate

- The pandemic has impacted the IT & ITeS businesses disproportionately depending on the size of the firm, impacting the small and mid-sized firms more severely than the large firms. The portfolio of the larger firms was largely balanced unlike the smaller firms.
- The larger IT & ITeS companies have successfully achieved a transition to 'Work-From-Home' as they continued to service their clients through the lockdown, showcasing a robust technological enablement and focused workforce.
- In March 2020, Department of Telecommunications modified the Other Service Providers (OSP) licensing norms till 31st July to enable around 4.5 million employees of India's IT & ITeS sector to work from home. Under the new norm, the firms were not required to set up Provider Provisioned Virtual Private Network (PPVPN) connectivity and share locations of the employees.
- Some of the IT and IT enabled service companies in India have also made workforce adjustments as part of the cost cutting measures with the projects getting delayed due to the pandemic.
- However, on the positive side, the growth was shaped by demand for cloud application, application modernization, increasing IT expenditure by businesses, cloud-native software start-ups, and government initiative for data localization.
- Key factors that has impacted the BPO organizations are data security and the impact on productivity due to either inadequate infrastructure at employees' home or the lack of supervision.
- Some other issues are difficulty in recording calls when working remotely and risk of data exposure.
- However, with the adoption of several advanced technologies like cloud computing, companies ensured continuity of work.

Recovery of the sector – Short Term

- The Reserve Bank of India has extended the realization period of the export proceeds from 9 months to 15 months from date of export, for exports made till 31st July 2020. This will provide sufficient time to the IT & ITeS companies to realize revenues from the COVID-19 impacted countries further providing greater flexibility in negotiating export contracts with their global partners.
- The ongoing pandemic has pushed many enterprises to implement work-from-home policies for the first time, and this has created a demand for collaborative applications as well as an increase in security threats. International Data Corporation (IDC) expects a rise in demand for technologies such as VPN, authentication, endpoint security, encryption, and application security. This will lead to reduction in cost for the companies making it attractive for enterprises seeking to reduce their networking expenditure.
- In the application platform segment, enterprises have mostly prioritised their spending based on the criticality of applications or processes as enterprises focus on automation, demanding application

agility, and speed to market. This has boosted the sector and will help the companies gain traction in their revenue collection.

- According to research reports, IT spending is going to be limited only to the areas that are critical to the business positioning. However, the sector is expected to experience the strongest rebound in 2021 by 4% due to acceleration of digitization efforts by enterprises.

New Normal

- Work from home model to be the new norm with many companies providing long term or permanent options for employees to work from home.

Challenges that the businesses will face during recovery

- Work from home model over a long period of time is expected to pose challenges including risks of cyber security and data privacy.
- The on-site delivery model of IT companies in India are being impacted due to the visa restrictions imposed by several countries especially US. According to an RBI report, the share of the on-site delivery model has come down from 25.5% in FY08 to 15.5% in FY19. This is going to further worsen due to the problems imposed by the pandemic as several countries are restricting the issuance of work-visas to the foreigners.
- US has ordered to suspend the issuance of new visas till the end of 2020 including the H1-B visas. It will impact the technology companies as they hire thousands of employees each year from countries like China and India. Due to this several of the Indian IT professionals have already lost their jobs in US during the pandemic.
- Firms have also faced several project cancellations by the clients due to limitations in air travel and shutting down of cities and countries which is expected to persist as long as the travel limitations imposed by the countries are there in place.

Summary

The pandemic has provided an opportunity for the IT companies to become more resilient and innovative with a strong growth prospects in the medium to long term. The IT & ITeS companies are reshaping their strategies and evolving with the changing environment. The quarterly financial statements for the quarter ending September 2020 show positive results for the sector. Six of the major IT companies have reported around 60% of profit after tax (PAT) which is evident of strong recovery going ahead. With the businesses at large transforming to the work from home model, demand for the IT based services will be on the rise to adjust with the new normal. Indian businesses have the opportunity to seize the moment with this structural shift, to enhance and upscale the digital workforce, supporting clients in a secure way and shaping the digital way of working with its clients.

TELECOMMUNICATIONS SECTOR OUTLOOK

Pre-Pandemic scenario

The Telecommunication industry in India has grown exponentially to become the second largest in the world with approximately 1191.8 mn subscribers in August 2019. The industry is dominated by key domestic players and 88.7% of the market shares are held by the private players. However, even though the user base is expected to increase considerably in the coming years, the telecom service revenue is not increasing at the same pace due to the intense oligopolistic competition with the market transitioning to 5G.

COVID-19 Impact - Positive

- As the global economy continues to come to terms with the shock posed by the outbreak, work from home and social distancing have become the new normal in the current business landscape, with the telecom sector driving this shift.
- Higher dependency of the companies on digital tools such as video conferencing, webinars, conference calls, cloud-computing have increased and rapidly materialized as the key enablers for business operations, increasing the telecom traffic to a great extent.
- According to data released by the Department of Telecom, India's internet consumption rose by 13% since the nationwide lockdown. Indians consumed 308 petabytes (PB) of data daily on an average for the week beginning March 22. However, the industry was unprepared for this overnight surge in demand with the mobile networks struggling to augment capacity and manage the heavy data traffic. During the lockdown, Mobile Network Operators (MNOs) worked closely with satellite operators utilizing additional backhaul capacity to ensure connectivity to suburban and rural areas.
- Demand from schools and educational institutions for distance learning has surged as social distancing norms are likely to prevail over 2021, creating increased additional revenue stream for the telecom companies.
- With the entertainment places shut down due to lockdown during the period of end of March to mid-October, Over-The-Top media services and online gaming portals has gained the spotlight as the go-to-source for entertainment boosting the sector.
- The overall traffic in the telecom sector jumped by 10% and streaming platforms witnessed a 20% spike in viewership during the period April-May 2020.
- To maintain a seamless network connectivity for the people as they adjust to the norm of work from home, Government of India exempted the telecommunications, internet services, broadcasting and cable services from the guidelines for lockdown. These measures included setting up of Network Operating Centers (NOCs), and virtual war rooms for coordinating efforts with team members and obtaining permission from Department of Telecommunications for hassle-free travel for critical workers who are required to maintain their NOCs to resolve network-related glitches.
- At this stage, India is in a dire need of a flexible and resilient telecommunications sector, having the potential to meet the newer demand and the ever-increasing traffic. With the upsurge in demand from the industries as well as the household consumers, it is expected to improve the revenue of the telecom sector. The industry will have to increase its investment in infrastructure to maintain the resiliency of demand as the country experiences a major technological transition. It is also expected that the pandemic will accelerate developments in advanced digital infrastructure systems, elevating investment justifications for 5G technology, thereby providing the much-needed boost to the sector.

New Normal

- Businesses and individuals will be more connected with the technological shift occurring across the world making the telecommunications sector the focal point of change.
- Consumers and businesses will demand a consistent and resilient digital experience with an emphasis on digital self-service.
- Cyber security will be high on the agenda with the increased level of digital access to businesses and information around the globe.

Challenges that the businesses will face during recovery

- Though the impact of COVID-19 on the telecom sector would be positive, it’s the payment of past dues that will create uncertainty for the sector during these difficult times. There is a chance that the debt levels of the sector will increase further on account of dues incurring from the adjusted gross revenue. The industry also witnessed a shift in market dynamics with one of the companies capturing the major share of the market. Most of the operators lost revenue and EBITDA share to the conglomerate.
- While the demand for telecom services continue to escalate, given India’s increasing dependence on wireless traffic, the burden has been build-up on the telecom infrastructure.
- Telecommunication, being a people-intensive sector, a large part of the workforce works at call centres, offices, and retail storefronts, etc. Because of the remote working conditions during the two-month long lockdown, productivity was adversely impacted. However, with the phase wise re-opening of the economy, the offices were allowed to reopen providing some respite to the sector.

Summary

The current pandemic situation has driven major changes in the telecom sector. At this juncture, India is in a dire need of a flexible and resilient telecommunication sector which has the potential to meet the newer demands and dynamic network traffic. With the increasing dependency on the digital tools it is important to ensure equitable access to high-quality broadband and India needs to significantly ramp up its communication infrastructure. A focused move toward building a cohesive digital ecosystem is needed to support people, governments, and economies beyond COVID-19. In these challenging times to bridge the existing digital gaps, satellite connectivity offers an alternative path to terrestrial networks and holds enormous potential to achieve India’s ambitions.

E-EDUCATION SECTOR OUTLOOK

Pre-Pandemic Scenario

India is currently home to the second largest number of EdTech companies. But India's market share in the EdTech globally is only around 2.09%.

COVID-19 Impact – Positive

- COVID-19 is transforming the education system in India to a great extent driven by the lockdown. While the countrywide lockdown led to shutting down of the educational institutions, it led to the emergence of e-learning solutions coupled with a rise in its adoption catering to the need of the largest group of youth globally. Demand for online educational software has increased multifold.
- Open source digital learning solutions and learning management software are being adopted to conduct online teaching.
- With the increase of mobile internet penetration in the country, ubiquitous access and personalization of education is being channelized to the remotest part of the country.
- Many aspirational districts have initiated innovative, mobile-based learning models for effective delivery of education, which can be adopted by others.
- This will change the schooling system and increase the effectiveness of learning and teaching, giving students and teachers multiple options to choose from.
- Many students and professionals are signing up for online classes either for the entrance exams or for upskilling.
- Demand for online courses from the professionals who are working from home have also increased as they can find time to upgrade their skills.
- A web-survey conducted by 'SimilarWeb' revealed that between April 19 to Mar 20 EdTech segment saw an increase in user visits by 26% compared to the similar period in 2018-19.
- EdTech sector is growing significantly and, with careful planning and legal assistance, investors can navigate through the web of legal and regulatory challenges in the sector and see significant returns on their investment.

New Normal

- Growing partnerships between traditional education players and EdTech companies.
- The adoption of smart classroom systems by schools will help in transforming the traditional education system catering to a wider section of the society.

Challenges that the businesses will face during recovery

- The major challenge in EdTech reforms at the national level is the seamless integration of technology in the present Indian education system, which is the most diverse and largest in the world with more than 15 lakh schools and 50,000 higher education institutions.

- Insufficient digital infrastructure – It's not just poor electricity but the availability of reliable internet connectivity and bandwidth. The next wave of internet users are from Tier 2 and Tier 3 towns and rural areas. Network latency in India is very high as compared to US & China especially in these areas.
- Availability of professional tech savy teachers and professors will be a roadblock for the EdTech companies.

Summary

The adoption of online learning with the use of technology will accelerate exponentially due to the situations created by COVID pandemic providing a paradigm shift in the learning environment of the country. During the lockdown many start-ups are pivoting to other businesses. Edtech is one of the key sectors that start-ups are looking forward to expanding either by building new solutions to cater to the huge requirement available or by partnering with other stakeholders to provide services. EdTech could significantly improve the quality of educational content and overall learning experience especially for the rural population. However, the challenges of inefficient bandwidth and lack of digital literacy needs to be dealt with to generate proper returns from this sector.

MSME SECTOR OUTLOOK

Pre – COVID-19 scenario

MSMEs in India contribute to 29% to GDP, almost half of India's exports and employs 110 mn people. The informal nature and lack of impetus for MSMEs to grow have led to low productivity. Structural initiatives such as demonetization and GST to formalize the informal sector have caused disruptions to growth for MSMEs. Further, formal credit disbursements remained weak. Bank credit disbursements to MSMEs have remained weak since 2016. From an average of around 13% growth, clocked during FY12-FY14, bank credit to MSMEs dropped steeply to 1% during FY20. The liquidity crisis of NBFC sector since late 2018 have also impacted the access to credit for MSMEs.

COVID Impact – Severe

- The pandemic has severely curtailed consumption and production activities and the MSMEs which constitute more than 99% of businesses has been significantly affected. MSMEs have largely borne the brunt of the disruption in the supply chain, scarcity of raw materials, unavailability of migrant labours and restrictions in transportation till at least May 2020. Export orders were help up. Disruptions in cash flows, lack of adequate working capital and delayed payment from their vendors had worsened their situation.
- Moreover, MSMEs have been relatively less resilient than large firms to withstand the crisis in terms of cash reserves, access to technology, ability to adopt to the new normal scenario with new product launches and engaging with customers through various digital platforms.
- The nationwide lockdown posed challenges for companies that did not have a Business Continuity Plan (BCP) in place. MSMEs are vulnerable as they do not have the requisite tools and infrastructure to facilitate remote working. In a survey conducted by Dun & Bradstreet in the pre-COVID scenario, it was observed that only 32% of the surveyed MSMEs had a 'work from anywhere' policy for their employees.
- Owing to the pre COVID-19 economic slowdown along with demonetisation and GST, the debt burden of MSMEs had increased. Cash strapped MSMEs were thus considerably affected by the pandemic. A global survey across seven countries including India conducted towards late March 2020 revealed that, self-employed businesses in India had six weeks of cash reserves, if their revenues were to fall by half or more due to the pandemic.
- The delayed payment to the MSMEs by the government and the private sector has added to their struggle of staying afloat amidst severe demand crunch. The delayed payment to MSMEs monitoring system of the Government shows that (as of October 22, 2020) more than 38,000 cases filed by MSMEs to collect outstanding dues from governments, public sector units and the private sector are pending (application and cases) which amounts to more than Rs 128 bn. Although this amount when compared to bank credit disbursed to MSMEs during FY20 stands at only 2%, it should be noted that the government portal only captures the cases filed by MSMEs through the portal and does not capture the entire universe of MSMEs facing delays in payment. Dun & Bradstreet data also shows that around 34% of large companies in India pay their suppliers on time. A slowdown in demand due to the outbreak of COVID-has exacerbated the situation. Delayed payments to MSMEs might have triggered credit defaults and permanent business closures of highly leveraged MSMEs. According to a survey conducted by All India Manufacturers Organization (AIMO) along with nine ot her industry organizations in May 2020, more than one third of the MSMEs foresee no recovery of their business and are likely to close down in 2020.
- A pan India survey on Start-ups by Federation of Indian Chambers of Commerce and Industry (FICCI) in June 2020 reveals that 70% of start-ups have been impacted by Covid-19. Of those surveyed, 12% have shut down their businesses and only 22% of the start-ups have cash reserves to meet the fixed cost expenses of their companies over the next 3-6 months.

Recovery of the sector – Long term

- An expected steep decline in overall growth owing to the pandemic would be largely owing to the deterioration in business operations of medium and small-scale industries as cash rich large business are bracing themselves with various survival strategies. Further, the ability of large companies to avail the various policy benefits are usually greater than MSMEs. MSMEs on the other hand often lack awareness. The recovery across different scales of business would thus be uneven. The most impacted would be the labour intensive sectors.
- With most the economic activities being allowed under 'Unlock 5.0' from October 1, 2020, businesses in the unorganised segment i.e. mostly the MSMEs are likely to gain further traction. The MSME units engaged as vendors with the government of public sector units are likely to revive first followed by the other segments.
- Overall, the recovery time of an MSME will be tied to the sector in which it is operational. Sectors like online gaming, telecommunications and e-education operating in the digital space are witnessing a positive impact by leveraging opportunities arising from the pandemic. On the other hand, traditional sectors like food, drugs, pharmaceutical, ITeS (IT-enabled services), banking, retail, automotive, real estate and jewellery are witnessing moderate to high to severe impact. The recovery of these sectors will take six months to more than a year. Sectors like logistics and warehousing, metals, media and entertainment will also take up to one year to recover and return to February 2020 levels.
- The government's thrust towards localization would provide MSMEs opportunities to manufacture substitutes for imports, especially from China. In May, the government announced that it would disallow global companies from applying for government procurement tenders amounting for up to Rs 2 bn to support local micro, small and medium-sized businesses.
- Seven of India' 39 States and Union Teritories account for 50% of all MSMEs. These are Uttar Pradesh (14%), West Bengal (14%), Tamil Nadu (8%), Maharashtra (8%), Karnataka (6%), Bihar (5%) and Andhra Pradesh (5%). Out of these seven states, four states i.e. West Bengal, Tamil Nadu, Maharashtra, and Karnataka faced extended period of lockdown and disruption to businesses. Besides, the large number of containment and non-containment zones pose supply chain hurdles throughout the country.
- Extended period of lockdown in some parts of the economy, cash flow disruptions and delayed demand recovery could potentially trigger an increase in credit defaults and permanent business closures of highly leveraged MSMEs.
- As part of stimulus measures, liquidity support worth Rs 3.7 tn are to be provided to MSMEs largely in the form of complete/partial guarantees on loans and equity infusion out of which Rs 3 tn collateral-free loans would be given to MSMEs units having existing loans. As barely 5% of India's MSMEs have access to institutional credit, a large section of the MSMEs would be left out of this benefit. The access to credit is expected to become even more challenging given that the risk appetite of creditors will likely decline during the pandemic as businesses stand impaired and order book is yet to revive. Under the scheme, additional working capital finance of 20% of the outstanding credit as on 29th February 2020, in the form of a Term Loan at a concessional rate of interest will be provided. However, this loan will be available to units with upto Rs 25 crore outstanding loan and turnover of up to Rs 100 crore and whose accounts are standard. As on September 9, 2020, Rs 1.3 tn has already been disbursed to 2.7 mn borrowers.
- The Rs 200 bn subordinate loans announced by the government is expected to provide some respite to the MSMEs who are likely to face increased risk averseness from banks and formal institutions.
- The government's initiative to revise the definition of MSMEs' would help a larger section of firms to avail the benefits from the government schemes. However, revising the turnover limit for medium enterprises upward to Rs 2.5 bn from Rs 1 bn means that a greater number of companies will be eligible for the benefits that the government has enlisted for the MSME sector. This also calls for a detailed monitoring of the delivery system so that smaller and micro enterprises do not get crowded out in this process. It should be noted that the micro and small firms are at a greater disadvantage to

securing loans from formal institutions than medium enterprises as they have limited financial literacy. Lower levels of regulatory adherence and financial discipline by MSMEs makes them higher risk for banks.

- The deferment of payment of term loans by banks during the 6 months of moratorium announced would help the MSME tide off the period of economic inactivity, however, it would add to the interest burden of the MSMEs, which would increase their debt burden and erode their profitability when demand revives.
- Besides, the other financial support measures taken by the RBI and SIDBI, World Bank has announced a US$ 750 million MSME Emergency Response program to support increased flow of finance for MSMEs.

Challenges that the businesses will face during recovery

- Depressed domestic consumption demand and lower disposable income would keep the revival of demand constrained.
- The global recession will limit the revival for export demand for MSMEs.
- Lack of technical expertise and the perceived costs of developing a web presence will continue to pose challenges for MSMEs to use digital technology to enable business online.
- The challenges are greater for the micro segment which are not registered. The micro segment which remains below the threshold limit of GST are not registered and it becomes difficult for the government to identify and address them adequately.
- Costs for maintenance for required hygiene levels and change in work processes in the services sector such as shift to teleworking would be higher for the MSMEs.
- Lack of information of business strategy to survive the shock and limited resources to adapt to the new normal.

Summary

With most the economic activities being allowed under 'Unlock 5.0' from October 1, 2020, businesses in the unorganised segment i.e. mostly the MSMEs is likely to gain further traction. The MSME units engaged as vendors with the government of public sector units are likely to revive first followed by the other segments. The overall, recovery time of an MSME will be tied to the sector in which it is operational. Sectors like online gaming, telecommunications and e-education operating in the digital space are witnessing a positive impact by leveraging opportunities arising from the pandemic. On the other hand, traditional sectors like food, drugs, pharmaceutical, ITes (IT-enabled services), banking, retail, automotive, real estate and jewellery are witnessing moderate to high to severe impact. The recovery of these sectors will take six months to more than a year. Sectors like logistics and warehousing, metals, media and entertainment will also take up to one year to recover and return to February 2020 levels.

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