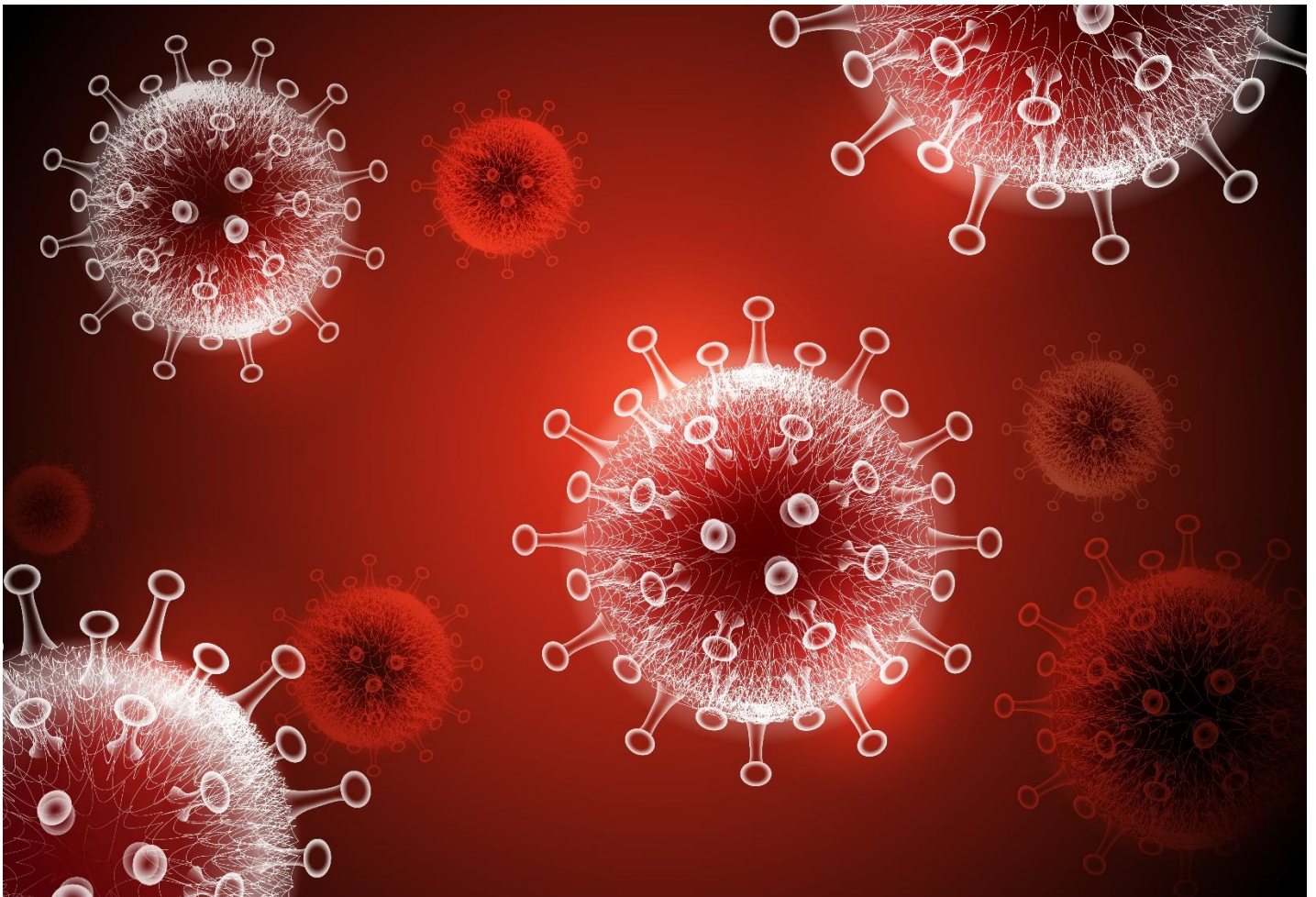


The Covid-19 fallout

Quantifying first-cut impact of the pandemic

Impact note | March 19, 2020



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Slashing India's base-case GDP growth 50 bps

The Novel Coronavirus (Covid-19) has cast a long shadow over a much-anticipated mild recovery in the Indian economy in fiscal 2021, with the World Health Organization (WHO) declaring it a pandemic.

External risks to global growth has increased significantly now.

S&P Global foresees a recession in the US and the Eurozone, and has its forecast for China's growth slashed to 2.9% from 4.8% announced on March 5.

Domestically, some hit to consumption demand because of social distancing is likely, though it is too early for that to reflect in data. Currently, the other downside to growth is also due to the financial sector stress now percolating to private sector banks.

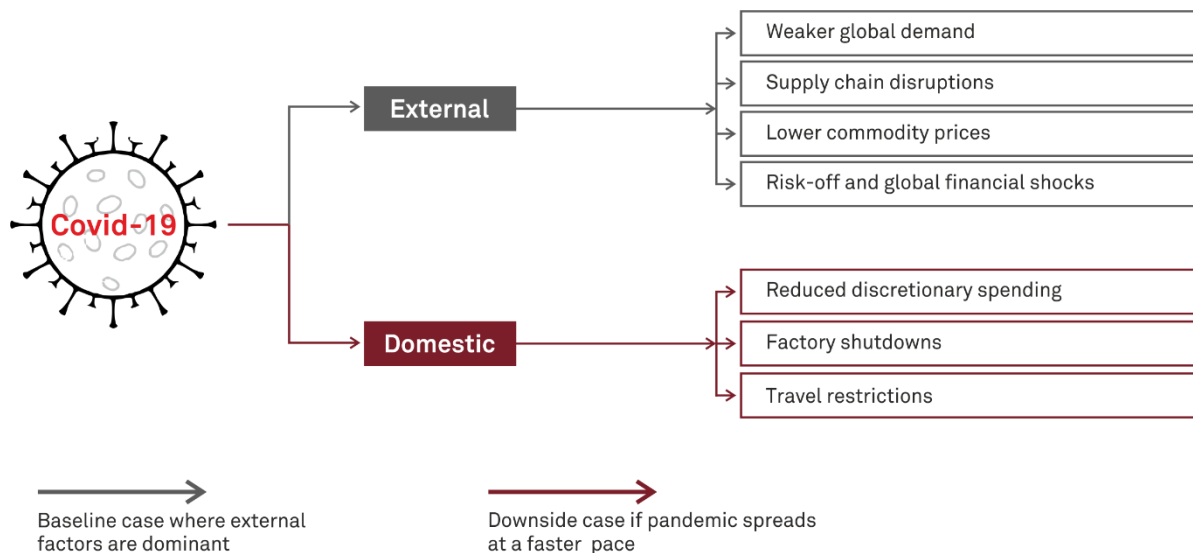
In view of this, CRISIL has cut its base-case gross domestic product (GDP) growth forecast for fiscal 2021 to 5.2%, from 5.7% announced recently. This factors in the huge uncertainty because of Covid-19, with risks to the forecast tilted downwards. The forecast will be reassessed continuously as new information becomes available.

A serious downside to our base case can emerge from two developments. One, the pandemic is not contained by April-June 2020 globally, and makes the global slowdown more severe. And two, it spreads rapidly in India, affecting domestic consumption, investment, and production. These would further hurt confidence and the financial markets (see flow chart below).

Channels of transmission

In any case, India has little policy firepower to give a meaningful push to growth, and the pandemic is making it more difficult. While there will be steeper deceleration in global growth and India's trade, what is unclear is the extent of impact on economy through domestic channels of production (supply) and consumption (demand).

Possible channels of Covid-19 impact on India



Source: CRISIL

The answer would depend largely on the extent of spread within India. So far, India is among the Asian economies that aren't deeply impacted.

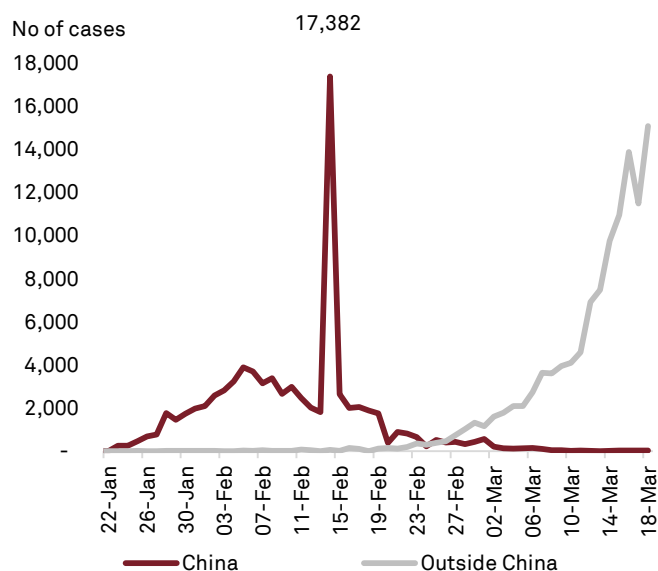
With the number of Covid-19 cases nearing 2 lakh and the death toll topping 7,800, the impact of the virus on global sentiment, economic and otherwise, has been immense. While new afflictions have been declining in China – the epicentre of the outbreak – since the end of February, it is spreading fast outside. New cases outside China now surpasses those in China, with Italy, Iran and South Korea being the worst affected.

With more than 120 countries reporting confirmed cases of Covid-19, its implications on the global economy is more threatening than envisaged a month ago.

India reported its first confirmed case on January 30. Over the past few weeks, that number has risen sharply to 137. However, there are only some signs of community transmission – the percentage of affected people is still low, with most cases related to travel. That said, the domestic situation remains fluid and warrants constant monitoring.

More people being diagnosed outside China now

Trend of new case detections



Note: Data as per WHO situation report of March 18, 2020

Source: WHO

Top 15 countries (in terms of virus detection)

Countries	Confirmed cases (nos.)	Deaths (nos.)	Mortality rate (%)
World	191,127	7,807	4.1%
China	81,116	3,231	4.0%
Italy	31,506	2,503	7.9%
Iran	16,169	988	6.1%
Spain	11,178	491	4.4%
Republic of Korea	8,320	81	1.0%
France	7,652	175	2.3%
Germany	7,156	13	0.2%
USA	3,536	58	1.6%
Switzerland	2,650	14	0.5%
United Kingdom	1,954	55	2.8%
Netherlands	1,705	43	2.5%
Belgium	1,486	14	0.9%
Austria	1,332	3	0.2%
Norway	1,308	3	0.2%
Sweden	1,167	3	0.3%

What impact will the worldwide spread of Covid-19 have on the global economy? Let us address this question by examining the following aspects:

Supply chains, especially linked to China, hurting

Industrial activity in China plunged in February, though it may nose up in March. In many parts of that country, businesses were set to resume after the Chinese New Year. However, data indicates slow progress. Our industry interactions, especially in sectors such as automobiles and auto components, suggest that while some factories/ industrial activities have resumed partially, utilisation remains low and will take time to reach normalcy. In addition, while production has resumed, port despatches have not. So supply chain normalisation may be possible only by the end of May – provided the rate of new Covid-19 cases continues to fall in China.

Far from business as usual in China

	Jan -19	Feb -19	Mar -19	Apr -19	May -19	Jun -19	Jul -19	Aug -19	Sep -19	Oct -19	Nov -19	Dec -19	Jan -20	Feb -20
Manufacturing Purchasing Managers' Index (%)	49.5	49.2	50.5	50.1	49.4	49.4	49.7	49.5	49.8	49.3	50.2	50.2	50	35.7
New orders index (%)	49.6	50.6	51.6	51.4	49.8	49.6	49.8	49.7	50.5	49.6	51.3	51.2	51.4	29.3
New export orders index (%)	46.9	45.2	47.1	49.2	46.5	46.3	46.9	47.2	48.2	47	48.8	50.3	48.7	28.7
Finished goods inventory index (%)	47.1	46.4	47	46.5	48.1	48.1	47	47.8	47.1	46.7	46.4	45.6	46	46.1
Import index (%)	47.1	44.8	48.7	49.7	47.1	46.8	47.4	46.7	47.1	46.9	49.8	49.9	49	31.9
Raw materials inventory index (%)	48.1	46.3	48.4	47.2	47.4	48.2	48	47.5	47.6	47.4	47.8	47.2	47.1	33.9
Employment index (%)	47.8	47.5	47.6	47.2	47	46.9	47.1	46.9	47	47.3	47.3	47.3	47.5	31.8
Non-Manufacturing Business Index (%)	54.7	54.3	54.8	54.3	54.3	54.2	53.7	53.8	53.7	52.8	54.4	53.5	54.1	29.6

Note: Manufacturing Purchasing Managers' Index (%) – monthly statistical summary of the findings of the corporate purchasing managers. PMI above 50% reflects the manufacturing economy is expanding; less than 50% reflects the manufacturing economy is shrinking. New orders index (%) – month-on-month changes in the diffusion index based on the number of orders received by enterprises. New export orders index (%) – month-on-month diffusion index established on the basis of the month-on-month changes of the main products for export orders the company received. Finished goods inventory index (%) – diffusion index compiled based on the physical monthly changes of enterprises' products which remain unsold and placed in finished good storage. Import index (%) – physical month-on-month changes in the import quantities of the enterprise's main raw materials. Raw materials inventory index (%) – physical quantity of month-on-month changes in the main raw materials the enterprises have purchased and registered but not yet used. Employment index (%) – diffusion index which is compiled based on the month-on-month changes in the number of production and operation staff in the enterprises. Non-Manufacturing Business Index (%) – month-on-month change on basis of the amount of business activities which have been done

Source: National Bureau of Statistics, China

In the countries where the virus is spreading faster than China – Italy, Iran, South Korea, Spain, France, Germany and the US, among others – domestic spending has been impacted in addition to trade.

Departmental store sales, tourism-related activity, entertainment (cinema halls, restaurant and hotels), public transport, air travel, and some categories of discretionary and luxury spending appear to have taken a hit because of self-quarantine and wariness in regards public places. However, an increase in online purchases (such as of groceries and pharmaceuticals) is providing some offset. The impact for India will have to be reassessed continuously, based on spread and containment.

Asia-Pacific stares at a recession



Shaun Roache
Managing Director and Chief Economist,
Asia-Pacific, S&P Global

The global spread of the coronavirus has accelerated, and its economic effect has worsened sharply. Economic data remains scarce, but the long-awaited initial figures from China for January and February were much worse than feared. The spread of the virus, which the World Health Organization declared to be a pandemic on March 11, appears to be stabilising in much of Asia. However, increasing restrictions on person-to-person contact in Europe and the US have sent markets reeling as risk-aversion rises and views on economic activity, earnings, and credit quality deteriorate sharply. As a result, we now forecast a global recession this year, with annual GDP rising 1%-1.5%.

A recession across Asia-Pacific is guaranteed due to the deep first-quarter shock in China and the shutdown of activities across G7 economies. S&P Global Ratings believes this, together with a loss of household and business confidence in these economies, will translate into severe and more persistent supply and demand shocks across the region. Unemployment rates will rise.

The global policy response, including the Federal Reserve's policy-rate cut to zero and the Bank of Japan's scaled-up asset purchases, will help cushion, but not quickly reverse, these shocks. Local measures aiming to support vulnerable sectors and workers, such as a payroll tax cut in China, may help but their effect will wane the longer the crisis lasts. Domestic demand will be hit almost everywhere by restrictions on movement and risk aversion.

External spill-overs will be felt through four channels: people flows, such travel, tourism, and education; trade via demand for the region's exports; supply chains, which are likely to be disrupted, and commodity prices, from oil to iron ore. The amplifier, which has taken an outsized role, is tightening financial conditions. This could tip an economic recession into a regional financial crisis.

We lower our forecasts for China and Japan for 2020 to 2.9% and -1.2% (from 4.8% and -0.4% previously). Our US colleagues have revised their 2020 forecast to a range of 0% to -0.5%. Risks are still on the downside. Aside from failure of virus containment, the key risk is that tighter financial conditions could trigger destabilisation in the more vulnerable pockets of the region's financial system. Emerging markets, for now, remain most vulnerable to skew risks.

External shocks weighing more on India now

With weaker demand estimated in China, Europe, the Middle East, and the US for most of the first half of 2020, exports from India will be impacted next fiscal. Assessment of global trade suggests the top 15 countries contribute ~64% of global gross domestic product (GDP). In terms of global trade, their share stands at more than 60% (for 2018).

Top 15 countries account for more than 60% of world GDP, nearly 45% of India's exports

	Number of cases	% of world GDP	Exports to world	Imports from world	Exports by India	Imports by India
China	81,116	17%	18%	16%	10%	19%
Italy	31,506	2%	3%	3%	2%	1%
Iran	16,169	1%	1%	0%	1%	1%
Spain	11,178	2%	2%	2%	1%	0%
Republic of Korea	8,320	2%	3%	3%	1%	3%
France	7,652	3%	3%	3%	2%	1%
Germany	7,156	4%	8%	7%	3%	3%
US	3,536	25%	9%	13%	17%	7%
Switzerland	2,650	1%	2%	1%	0%	4%
United Kingdom	1,954	3%	3%	3%	3%	1%
Netherlands	1,705	1%	3%	3%	3%	1%
Belgium	1,486	1%	2%	2%	2%	2%
Austria	1,332	1%	1%	1%	0%	0%
Norway	1,308	0%	1%	0%	0%	0%
Sweden	1,167	1%	1%	1%	0%	0%

Note: GDP current prices in \$ for 2019; World trade data for 2018, Indian trade data for 2019; Number of cases as on March 18, 2020

Source: Trade data, IMF, WHO

Similar to other economies, the impact on India can be assessed using a framework that incorporates external and domestic factors as the channels. So far, the external factors are casting a bigger shadow on India's macros, leading to downward revision in GDP growth forecast for next fiscal. For countries with a high share of private consumption and relatively low spread of the virus, the impact on domestic macros is expected to be limited.

India's growth will be impacted through reduced demand for exports, given the slowdown in global growth and supply chain disruptions. The supply disruptions are expected to play out through non-availability of raw materials and intermediate inputs.

China, the epicentre of the outbreak, is one of India’s top trading partners. In fiscal 2019, India’s imports from China amounted to \$70 billion and exports, \$17 billion. If the pandemic is not contained soon, China’s demand for cotton, iron ore, and petroleum products from India is likely to suffer. Imports related to pharmaceuticals, automobiles, consumer durable, electronics and telecom/ smartphone equipment could also bear the brunt, hurting these sectors domestically.

Given the spread of the virus worldwide, the impact on the economy will not be limited to just the slowdown in demand from China, but also as a result of lower demand from other affected regions. India’s goods trade dependency on affected countries is significant: Eurozone, China, and rest of Asia Pacific – which are facing at least 200 bps hit to their growth forecast so far – account for ~48% of India’s exports and ~50% of imports. Growth slowdown in these regions is likely to hit India’s trade and thereby growth.

Further, India’s trade composition has undergone a marked change in recent years, with services exports showing rapid growth. These now account for 41% of total exports. So far, services exports have been resilient but with weaker growth in major trading partners, this, too, could take a hit. The IT/ITeS industry in particular, which accounts for a major share of services exports would be affected because the US, Europe (ex-UK) and Asia together account for 81% of its exports. The recession in advanced countries is likely to dampen prospects for IT-ITES, tourism and bring down services exports growth

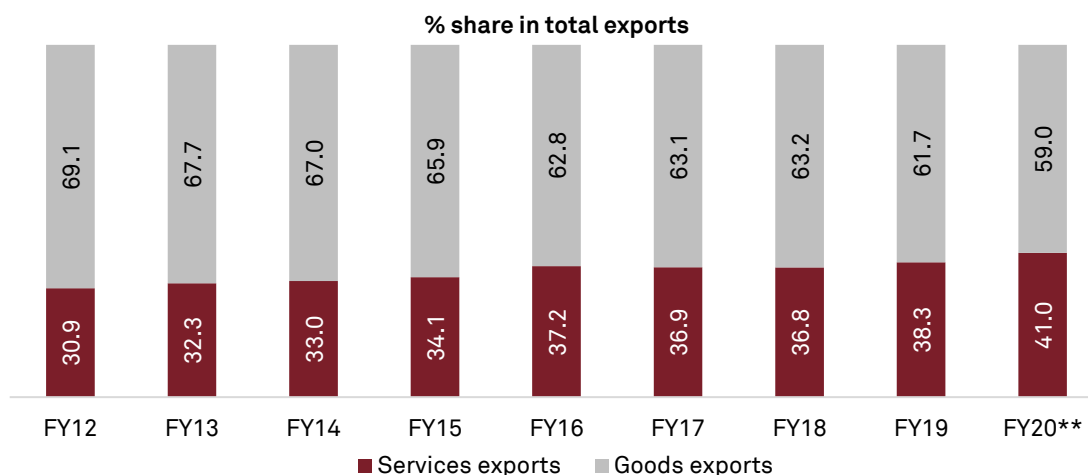
Slowing economic growth in major trading partners is bad news for India’s exports

Economy	Change in 2020 GDP forecast (percentage points)	Share in India’s goods exports* (%)	Share in India’s goods imports* (%)
US	-2.15	15.9	6.9
Eurozone	-1.75	14.5	11.4
China	-2.75	5.1	13.7

Note: *As of fiscal 2019, **compared with estimates made in December 2019

Source: S&P Global, Ministry of Commerce, CRISIL

Resilient services also vulnerable to slowdown



Note: **As of December 2019

Source: Ministry of Commerce, CRISIL

India Inc credit quality under the pump

Credit quality pressures on India Inc, which has been rising because of economic slowdown and consumption slump is set to intensify with the Covid-19 pandemic. The impact will vary with sectors, and will be influenced by the extent of trade disruption, social distancing and the resultant economic slowdown.

Based on the depth and timing of impact, sectors witnessing credit quality pressures have been broadly classified into three. Those facing significant loss of revenue and profit have been categorised as 'high risk', while others are termed 'moderate' and 'low impact'. Those in the high-risk bucket are further classified based on the timing of impact. Firms facing high near-term risks are more exposed to liquidity stress.

High risk

Near-term impact

Services sector including as airlines, hotels, malls, multiplexes, restaurants and retailers	<ul style="list-style-type: none"> • The current social distancing measures will severely impact airlines, hotels, malls, multiplexes, restaurants and retailers. Lower footfalls and occupancies, decline in business volume and sub-optimal operating efficiencies will impact cash flows of companies in these sectors • The poultry sector also could be affected significantly owing to consumers turning very cautious • While some affected companies may move to cut cost, but these may not be enough because of inflexible overheads and therefore their credit profiles could be impaired • Near-term liquidity is critical to ensure timely servicing of debt as businesses adjust to the fast-changing environment. Around 9% of CRISIL's portfolio (~900 companies) is in this category. These companies are being closely monitored to understand the impact on credit profiles based on liquidity and near-term debt servicing requirements
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Impact if the pandemic prolongs

While Covid-19 may not have a direct impact, the evolving global and domestic economic slowdown will impact demand and realisation in steel, gems & jewellery, construction & engineering, and textiles sectors.

Construction & engineering sector	<ul style="list-style-type: none"> • The sector has seen credit pressure this fiscal because of slowdown in public spending and stretched working capital cycles • With state resources focused on fighting Covid-19 and issues of labour availability, order execution and/or receivable collections are likely to be impacted, adding to working capital pressure
Steel	<ul style="list-style-type: none"> • Demand slowdown in the construction and automobiles sectors have affected the steel sector significantly this fiscal • Continuing slowdown in these sectors owing to Covid-19 and other factors, besides difficulty in realisations, could add to the credit pressure on steel makers

Gems & jewelry	<ul style="list-style-type: none"> • Mired by challenges in fund raising and market dislocation in key consuming countries such as Hong Kong, companies have been in significant credit distress over the past two fiscals. • The situation has exacerbated, especially for diamond exporters since January this year because of demand slowdown following Covid-19
Textiles	<ul style="list-style-type: none"> • Ready-made garment makers dependent on export markets are facing intense competition, which is impacting their credit profiles • With key export markets such as the US and the EU facing headwinds, there could be significant demand pressure for exporters including cotton yarn exporters. Already, the business performance of cotton yarn exporters has been impacted in the fourth quarter of fiscal 2020 because of disruption in supplies to China, which accounts for a quarter of such business. • Further social distancing measures could also weaken demand for domestic apparel retail, which, in turn, would darken the cautious credit outlook

Moderate impact

Sectors facing limited supply disruptions of a couple of quarters, and those with strong balance sheets would see moderate impact on credit profiles. These include automobiles and auto components.

Automobiles	<ul style="list-style-type: none"> • Domestic automobile demand is expected to be impacted for an extended period as consumers cut discretionary spending. The sector was already seeing slack demand and higher prices because of compliance with Bharat Stage VI emission norms • However, strong balance sheets of automobile manufacturers will insulate credit profiles to some extent
Auto-components	<ul style="list-style-type: none"> • In fiscal 2020, the credit quality of auto component makers was impacted because of slowing demand for automobiles and sluggish exports. Those with limited diversification or recent capacity additions were hit the most • Domestic and export demand are seen subdued next fiscal. Disruptions in supply of critical components from China is expected to be limited to a few players which are not significant in the affected segment • Players with diversified profiles and strong balance sheets would weather near-term challenges better, while the rest will remain vulnerable next fiscal
IT	<ul style="list-style-type: none"> • Travel restriction could impact revenues, a significant portion of which is typically from exports • While the credit profiles of large-sized IT firms would be supported by strong balance sheets and sizeable cash surpluses, mid-sized ones could face delays in obtaining new deals and possible liquidity challenges if the pandemic prolongs
Petrochemicals	<ul style="list-style-type: none"> • Realisations are expected to be under pressure given demand challenges in key consuming countries like China, and global oversupply • Large players with strong balance sheets and parent support would weather the challenges better, while others would be vulnerable to sharp variations in realisations

Renewables	<ul style="list-style-type: none"> Under-construction projects to be commissioned by July and August of 2020 are at risk of missing their respective scheduled commercial operation dates if trade with China continues to be affected for long. That is because India sources ~80% of its solar modules from China. Business has been impacted due to measures implemented to combat the spread of the virus Operating projects may be relatively safe as exposure to further trade is limited
Consumer durables and electronics	<ul style="list-style-type: none"> India imports 45% of completely built units of consumer durables from China. In addition, India also imports bulk of consumer durable components from there. Besides, 70-80% of mobile phone components/CKD kits are supplied by China Supply disruptions from China have led to depleted inventories for Indian consumer durable firms in categories like mobile phones, air-conditioners and electronic components, as well as TVs. These segments saw price hikes of 3-7% in March 2020 Most large consumer durables firms have very strong balance sheets and surplus liquidity. While the Covid-19 will impact business levels, strong balance sheets should provide offset and help sustain credit profiles in near term

Low impact

Companies in sectors that are domestically reliant and not exposed to significant demand pressures may not be impacted significantly owing to Covid-19. Some of these include:

Pharmaceuticals	<ul style="list-style-type: none"> India is a net importer of pharma bulk drugs from China. The country accounted for 68% of Indian imports by value last fiscal. Domestic drug makers had already sourced their raw material and created sufficient inventory for two-three months because of holidays in China We are seeing Chinese production facilities coming back on stream as the impact of Covid-19 abates and supplies resume A few players have seen price escalation in some bulk drugs and intermediates due to supply constraints, which could temporarily impact their margins However, credit quality of pharmaceutical companies is expected to remain by and large stable, especially for large pharma, who benefit from strong balance sheets
Power (other than renewables)	<ul style="list-style-type: none"> Given the domestic-focused nature of operations, there is no significant impact envisaged Existing challenges in terms of fuel supply, weak financial risk profile of state distribution companies and stressed power assets would continue to play a role in the credit quality of these players

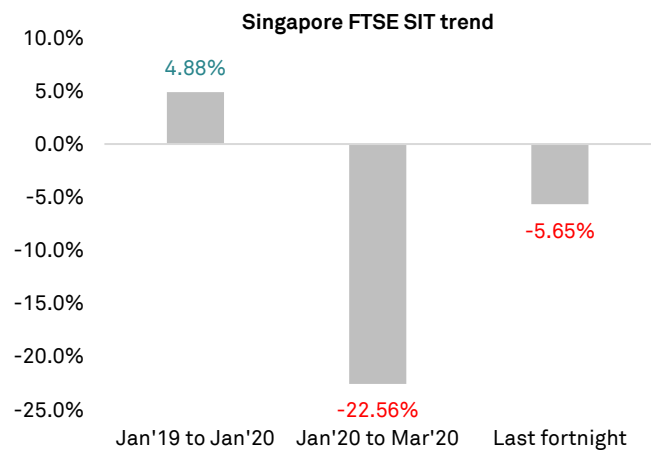
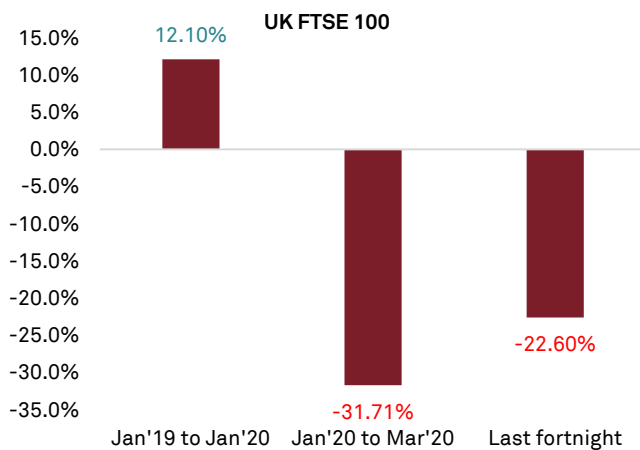
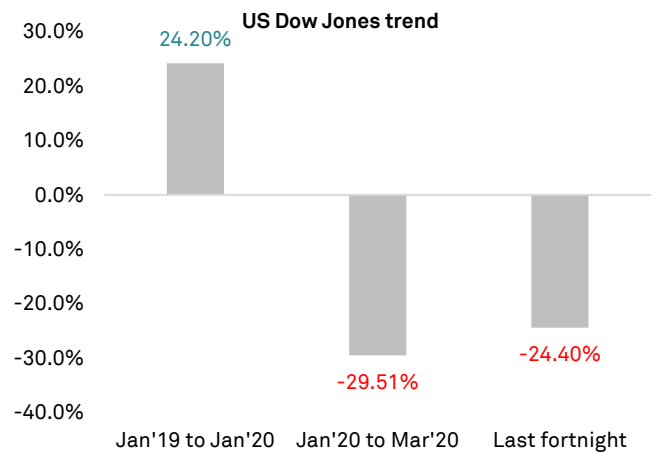
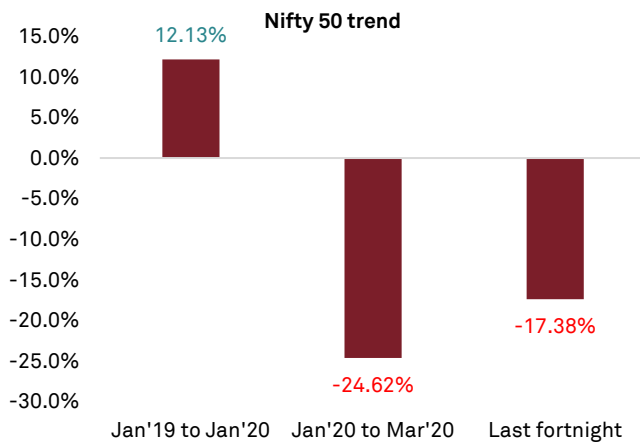
Financial sector	<ul style="list-style-type: none"> ● The trifecta of muted economic growth, anemic manufacturing activity and low capex demand has led to subdued credit growth for the banking sector this fiscal, while non-banks have been impacted by multiple headwinds since September 2018. Now, the pandemic means the slowdown in growth will continue ● The impact on financial sector entities is expected to be mainly on the business and asset quality fronts ● On the business front, retail disbursements will be impacted because of lockdown in states that has led to a decline in underlying retail sales. Some physical operations such as in-person borrower checks, and verification of property will also be impacted. The impact would vary across business segments and is not expected to be material if the lockdown tides over in a few months. ● As for asset quality front, delinquency metrics were expected to inch up this fiscal because of slowdown. The impact due to Covid-19 will add to that but is not expected to be significant if the situation stabilises in a few months. If the situation prolongs, the impact on delinquencies would be higher ● Asset quality impact on retail segments will depend on borrower profiles. The impact on the salaried segment is expected to be lower as salaries are not expected to be disrupted, even as companies have been re-orienting operations with employees increasingly working from home in many sectors. However, self-employed borrowers could face headwinds if the situation prolongs as there could be impact on operating cash flows depending on the sector ● In the near term, delinquencies in the corporate loan books of banks and non-banking financial companies will depend on the cash flows of the companies that they have lent to. These could go up where exposures are to high-risk sectors ● But many financial sector entities rated by CRISIL have strengthened their balance sheets in the past few years with higher capitalisation and on-balance sheet liquidity. These entities are expected to manage the current situation, if temporary, without material impact on credit profiles as capital buffers should be able to absorb asset-side risks
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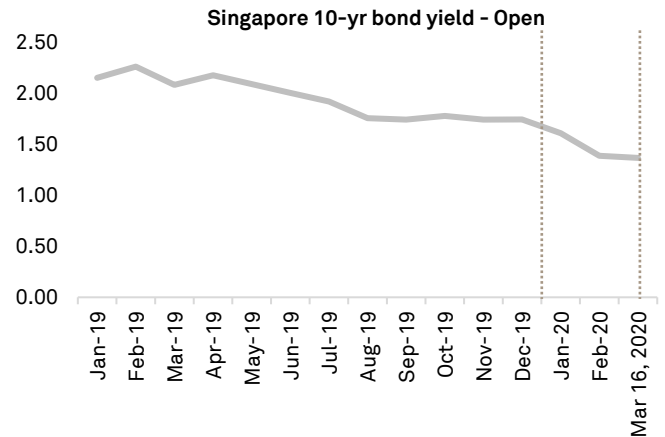
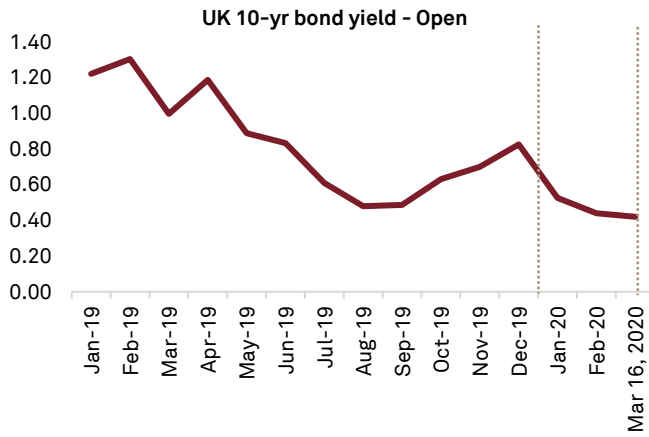
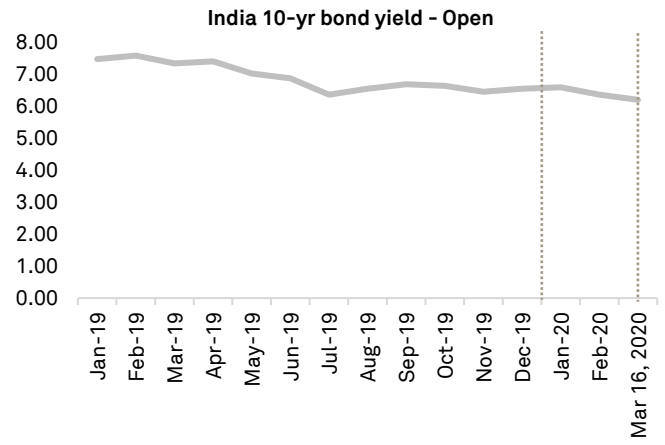
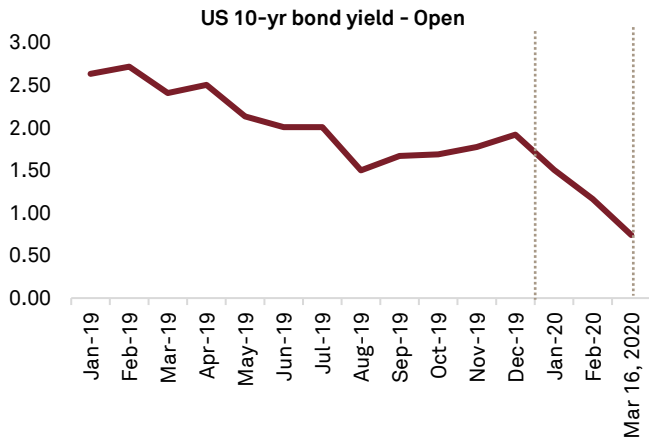
The base case assumptions the impact of Covid-19 will be restricted to 1-2 quarters in India. If the pandemic prolongs, more firms would see downward pressure on credit profiles.

Markets reflecting large-scale disruption

Over the past few days, the sharp fall in equity indices and deterioration in bond yields of some key markets indicate the virus outbreak may have prolonged impact on the world economy and recovery will not be as envisaged before.

And they all fall down





Note: Equity performance as on March 16, 2020

Source: Stock exchanges

Rooting for 5.2% growth next fiscal

Our forecasts have been made in a fluid situation surrounding the spread of the virus and the depth of its impact. As such, uncertainties abound regarding the economic impact of the outbreak, given no precedence of this magnitude and its non-linear spread.

So far (monthly data for February 2020), the impact of Covid-19 on key macro parameters such as industrial production is not visible. But there is mounting evidence that both services and industrial sectors will face the heat in coming months. Social distancing measures and cut in discretionary spending are beginning to hit economic activity, particularly in transport and hospitality. Growth slowdown in our major trading partner countries will serve a blow on exports, too.

As revenue streams of firms get impacted, employment, particularly of daily wagers and temporary workers, will be in the firing line. Anecdotal evidence suggests hit to services such as restaurants, transport (including air and ground), entertainment/film industry, tours and travel, retailing and sports events, which could intensify if the crisis worsens leading to prolonged lockdowns. The prospects of the already stressed MSME sector, with limited ability to cope up with a deep slowdown, have worsened further.

We expect the Indian economy to grow at 5.2% in fiscal 2021, with risks tilted to the downside. External risks have risen significantly and pose a further downside risk to global growth. The negative impact on India's trade is obvious.

Our base case assumes domestic containment of the pandemic and no major dent to spending. The situation however, remains fluid, with the virus spreading to more countries and the count of people testing positive in India reporting a gradual uptrend. Currently, the other downside to growth is also due to financial sector stress now moving to private sector banks. India's financial system is undergoing a clean-up witnessed after more than decade, which has some bearing on growth in the near term.

The forecast also assumes a normal monsoon and Brent crude prices at \$35-40 per barrel in calendar 2020. Current trends suggest prices could end up well lower next fiscal. Given the downside to growth, some policy support akin to other economies could be expected. If the outbreak within India is not contained and the number of cases escalate rapidly, the impact will get amplified – services such as transport, retail trade, hotels, and entertainment will be hit significantly. The impact of the shock will stretch longer for these sectors as some demand will be lost permanently, and a rebound may not be imminent.

A mix of monetary and fiscal policy measures necessary to cushion demand

In most economies, the spread of the virus and rising weakness in sentiments have fuelled uncertainty in financial markets. Equity markets have slid, whereas debt markets have tightened.

In view of this, and given that fiscal policies have limited muscle, monetary policies have stepped in. The US Federal Reserve alone cut rates thrice in 2019 and twice so far in 2020, bringing them close to the zero lower bound. Central banks of the UK, Australia, Canada, New Zealand and Indonesia have started to cut rates, while the European Central Bank announced additional asset purchases and more long-term financing operations to fight the downside risks to demand from Covid-19.

So far, while the equity markets have been battered, debt markets have eased, given global cues and the fall in oil prices. Therefore, while the RBI has the option to lower the repo rate further, we expect it to choose a combination of rate cut and other liquidity easing measures to support the financial system in the wake of any tightening conditions.

If the pandemic spreads in India, it will be imperative to deploy aggressive plans to support incomes/cash flows in the vulnerable categories, which would include MSMEs, small businesses and wage earners in India's humongous informal sector

Softer yields on government bonds will come in handy if the government decides to borrow more to cushion the blow to demand from Covid-19 (*see our latest Quickonomics note titled, 'The yields poser'*).

The IMF, in its recent blog, also advocated fiscal stimulus when it said the case for a coordinated and synchronised global fiscal stimulus is becoming stronger by the hour.

Exports to droop, services sectors to see pain as consumption recovery stretches

We have already factored the impact of the global slowdown in our base case. In sync, revenues of export-oriented sectors are likely to be substantially lower. Our assessment across sectors includes covering the impact on people flow (both domestic and international), linkage with global economy covering trade, supply chain and commodity prices and domestic demand.

Our base case is that the maximum impact of global demand slowdown, supply chain disruptions and domestic demand will be limited to the first half of fiscal 2021.

The impact is expected to be felt even on services exports, which have been largely resilient in past. IT services exports could see concerns in terms of seamless deliveries, postponement of deliverables linked to new developments, and reduction in flow of new contracts.

Sectors such as gems and jewellery and textiles are likely to face headwinds in exports given the recessionary trends in key global markets – the US and Europe.

Our base case is Covid-19 will stretch India Inc's recovery in fiscal 2021. Risk aversion amid Yes Bank-linked liquidity issues should stabilise after the first quarter, and may not pose a significant downside risk to our forecast. On the other hand, lower crude and linked commodity prices would help profitability.

Sectors such as auto components, pharma bulk drugs, and agrochemicals can survive the headwinds to some extent in the near term, given inventory of two months and impact on production pending normalisation of supply chain. As inventories run down, industry will face significant pressures. Services-linked sectors such as airlines and hotels will face sharp drop in off-take at least in the first quarter – which is among their better seasons – and flow will normalise only over a period, resulting in drop in revenues. Even higher discretionary items like cars, two wheelers may take more time to see recovery on an already low base.

Also, the revenue of India Inc. will be affected if the outbreak continues for a few more weeks (including in India). Not only will the global slowdown limit export revenues, but sharp deterioration in domestic consumer sentiment if lockdown ramp up in urban areas. That would result in more sectors being negatively impacted, outweighing the positives, especially on the consumption side.

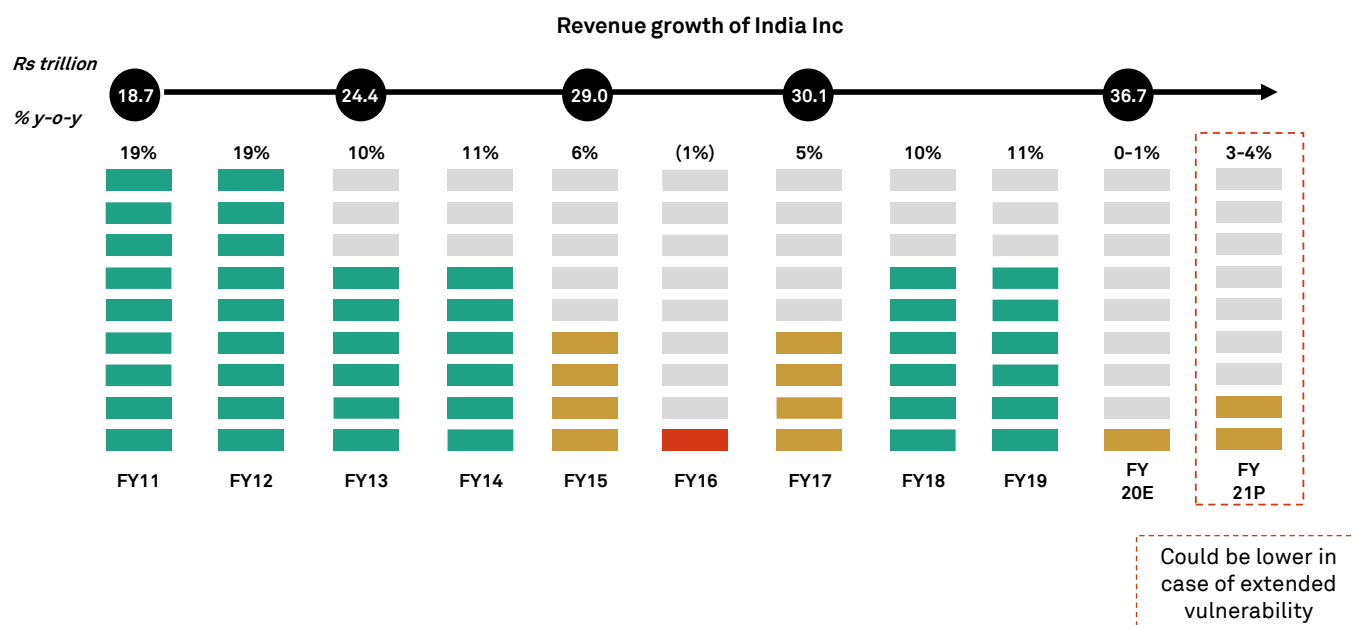
Extended outbreak will dampen prospects for consumption sectors in fiscal 2021

Category	Sector	Share in corporate revenue	Material linkage of sector with global economy				Linkage to domestic economy		Sectoral growth for FY20 (estimated)	Sectoral growth for FY21 (base case)	Impact of extended vulnerability on sector revenues
			People flow	Supply chains	Goods trade	Commodity prices	People flow	Consumption			
Consumption - Products	Auto components	Medium	✓	✓	✓	✓	✓	(8-10)%	2-3%	High	
	Cars & UVs	Medium	✓	✓			✓	(4-6)%	2-3%	High	
	Commercial vehicles	Low	✓	✓	✓		✓	(36-38)%	6-7%	High	
	Consumer durables	Low	✓	✓	✓		✓	5-6%	2-3%	Medium	
	FMCG	Medium					✓	4-5%	2-3%	Medium	
	Paper	Low	✓	✓	✓		✓	4-5%	3-4%	Medium	
	Two-wheelers	Low	✓	✓			✓	(7-9)%	5-6%	High	
	Tyres	Low	✓	✓			✓	-8%	3-4%	High	
Consumption- Services	Airline services	Low	✓		✓	✓	✓	3-4%	(1-3)%	High	
	Hospitals	High	✓	✓			✓	15-16%	15-16%	Medium	
	Hotels	Low	✓				✓	4-5%	(15-20)%	High	
	Media	Medium					✓	6-7%	3-4%	Medium	
	Organised retailing	High					✓	16-17%	7-8%	Medium	
	Power	Medium					✓	2-3%	4-5%	Medium	
	Telecom	Medium					✓	9-10%	16-18%	Medium	
Export linked	Cotton yarn	Low		✓	✓	✓	✓	(6-7)%	(3-5)%	High	
	Gems & jewellery	High	✓	✓	✓	✓	✓	(2-3)%	(4-5)%	High	
	IT services	High	✓	✓			✓	7-8%	5-6%	Medium	
	Leather	Medium		✓	✓	✓	✓	-	-	High	
	Pesticides	Low		✓	✓	✓	✓	7-8%	1-2%	High	
	Pharmaceuticals	Medium		✓	✓	✓	✓	10-11%	9-11%	Medium	
	Readymade garments	High		✓	✓	✓	✓	5-6%	1-3%	Medium	
	Seafood	Low		✓	✓	✓	✓	5-6%	(12-14)%	High	
Construction	Construction	High				✓	✓	8-10%	4-5%	High	
	Ceramics	Low		✓	✓		✓	5-7%	2-3%	Medium	
Commodity	Aluminium	Low		✓	✓	✓	✓	(3-5)%	(2-4)%	High	
	Cement	Medium					✓	5-6%	2-3%	Medium	
	Fertilizer*	Low		✓	✓	✓	✓	1-2%	1-2%	Medium	
	Petrochemicals	Medium		✓	✓	✓	✓	(15-16)%	(10-11)%	Medium	
	Steel	High		✓	✓	✓	✓	(5-6)%	2-3%	High	

Note: High Medium Low, *Considers volume growth

Source: CRISIL Research

Revenues of India Inc to grow at 3-4% in fiscal 2021; more downside risk if pandemic



Note: E-estimated, P-projected

Source: CRISIL Research

While revenue growth will suffer, profit growth will be relatively better, led by weak commodity prices (especially on the oil front).

For capital goods, India continues to have high import dependency. In terms of product categories, high share in imports comprises data processing machines, turbines and turbo jets, internal combustion diesel engines, and other miscellaneous process machinery. Of total imports, more than 40% is sourced from China.

With the pandemic continuing for a few more weeks and manufacturing facilities resuming operations only slowly, there could be a delay in sourcing of critical parts while setting up plants in India. This may delay commissioning of such units. However, given that companies were already operating at low utilisation (69% in Q2 fiscal 2020) and industrial and private investments had slowed down, delay in sourcing of capital goods is unlikely to cause widespread adverse impact on corporate India.

On their part, the micro, small and medium enterprises (MSMEs) face the double whammy of Covid-19 and lower confidence in financial markets following the Yes Bank event. While the funding line-up from state-run banks, private banks and inter-bank loans backed by the RBI will infuse some confidence in the bank's operations, deposit outflow will be a key monitorable.

We believe MSME promoters may need to bring in additional capital to fund higher working capital needs amid slowing demand, high inventory and delays in payments. Availability of labour and staff will become a key challenge if the pandemic prolongs, which will also result in production shutdowns.

How Covid-19 is playing out in different sectors in India

Auto components



Base scenario elaborated

		Linkage with global economy				
		People flow*	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter			✓	✓	✓	✓
Extent of impact	No major impact envisaged	19% dependency on imports of raw materials, mainly sub-components; Of these, more than 65-70% from Top 15 infected countries	Of total production, 18% is exported. Of this, almost 50% is the share of Top 15 infected countries	Key raw materials - steel and aluminium - which will see sharp correction in price. Some steel is imported from Japan for body parts	OEMs and replacement account for 80% of the auto component market size, albeit the lower base to protect in base case	

Note: *Considers domestic and international people flow

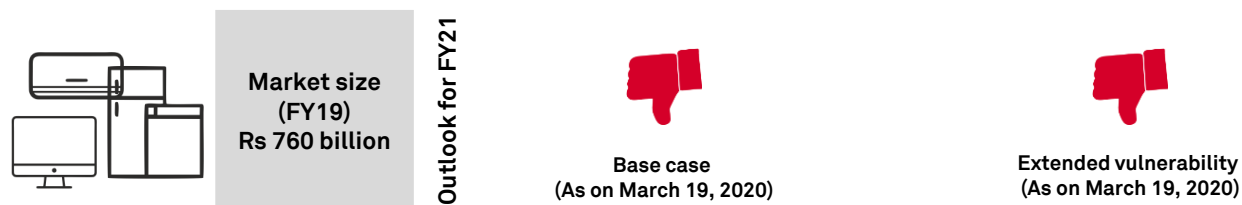
Source: CRISIL Research

Base case: Import of critical components such as electronic control chips and sub-components is common in the auto-component sector. Our interactions suggest manufacturing has resumed in China, though not at full capacity, and we expect production to start improving as we move into April. However, the logistics between India and China remain impacted. This can increase the cost of procurement of supplies as some players would look to airlift critical components such as engine control units. On the demand side, export demand is likely to get impacted negatively, with the top 15 infected countries accounting for ~52% of exports (exports account for 18% of industry production in value terms). Further, domestic demand is also expected to remain impacted amid weak consumer sentiment, low incomes in the first half of fiscal 2021.

MSMEs constitute 25-30% of the auto-component industry. Most of them are Tier 2 or 3 players and supply components to Tier 1 players. At present, companies that import from China are witnessing difficulties in procuring sub-components. This has halted production of downstream players. While some factories/ industrial activities have resumed partially, utilisation remains low and will take time to reach normalcy.

Extended vulnerability impact: Domestic automobile demand could be hit for an extended period as consumers cut discretionary spending, which would worsen further owing to price hikes on account of Bharat Stage VI (BS-VI) norms. Poor domestic demand and a sharp drop in demand from export destinations will hit auto-component manufacturers for a second consecutive year. Non-availability of labour could also impact domestic production if the spread extends in India.

Consumer durables



Base scenario elaborated

		Linkage with global economy				
		People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter			✓	✓	✓	✓
Extent of impact	Not a relevant parameter. No major impact envisaged		India imports 45-50% completely built units of consumer durables (mainly from China) and has high import dependency for components. Supply disruptions have already led to scarcity of components / units, thus increasing prices.	India is a net importer of consumer durables. No major export impact envisaged	Raw materials (copper, aluminium, plastic) form major share (70-75%) of total cost. Drop in prices to benefit	Consumer durables, i.e., discretionary items, will see a sharp drop in demand on account of elevated prices (new energy norms) amid weak sentiment

Note: *Considers domestic and international people flow

Source: CRISIL Research

Base case: Domestic demand may not be impacted initially as people stay indoors, enabling purchases for only segments such as air conditioners. Currently, India doesn't have large-scale manufacturing capability in this sector and imports 45-50% completely built units of consumer durables, mainly from China. India also imports the bulk of consumer durables components. Our interactions suggest supply disruptions have already led to scarcity of components/ units, thus increasing prices. For segments such as air-conditioners, where the peak season is close, the impact may be significantly high.


Extended vulnerability impact: Price increase on account of short supply of components will upset domestic demand amid the slowdown in India. This will affect most segments significantly. Consumer sentiment may be impacted negatively as overall business gets effected. Demand may reach new lows in this case.

Paper




Market size (FY19)
Rs 747 billion

Outlook for FY21



Base case
(As on March 19, 2020)



Extended vulnerability
(As on March 19, 2020)

Base scenario elaborated

		Linkage with global economy				
		People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter			✓	✓	✓	✓
Extent of impact	Not a relevant parameter. No major impact envisaged		Due to limited availability of wood pulp and wastepaper, imports form more than 40% of total pulp requirement. Share of Top 15 impacted countries is ~50%. Thus, supply chain disruption is limited	Of total production, 11% is exported. Of this, 25-30% is the share of Top 15 infected countries. Exports may be impacted adversely	Some dependency on prices for imported raw materials (pulp and wastepaper). Paper prices to remain key monitorable	Largely domestic focussed production. Slowdown envisaged in plyboard consumption

Note: *Considers domestic and international people flow

Source: CRISIL Research

Base case: Fall in demand has been steeper than the decline in supply since units outside Hubei province have continued production, increasing inventory. Prices of paper are expected to moderate, with Chinese manufacturers pushing built-up inventories into the market once regular trading activity resumes. This can lead to lower realisations for paper manufacturers in India as well. This will have moderately negative impact on the industry which has high contribution of MSME (more than 60% of industry revenues).

Extended vulnerability impact: In case of continued supply disruption, we forecast the prices of writing, printing and industrial papers to swing since China is a leading consumer and exporter of finished paper products. However, any major uptick will be limited by an overall economic slowdown brought about by a continued shutdown in China and India. In that case, MSMEs will be impacted adversely.

Airline services



Base scenario elaborated

		Linkage with global economy				
		People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter		✓		✓	✓	✓
Extent of impact		International passenger traffic constituting 30-35% of total passenger traffic in India to get severely impacted. Top 15 affected countries account for more than 25% of total international passenger traffic from / to India	Not a relevant parameter. No major impact envisaged	International freight traffic constitutes 70-75% of total freight traffic in India, in volume terms. Key affected countries account for ~35-40% of total international traffic from / to India	ATF constitutes 30-40% of total cost. With Brent crude prices expected at \$38-43/ barrel for 2020, lower fuel price provides some cushion. Typically, 1% dip in ATF price would increase EBITDAR margins by 45-50 bps	Business travellers to decline significantly owing to advisories issued by government authorities. Leisure travellers may defer international trips and may gradually prefer domestic travel

Note: *Considers domestic and international people flow

Source: CRISIL Research

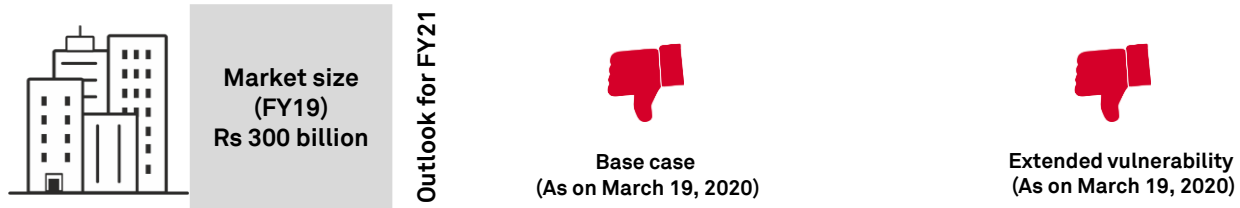
Base case: Restricted air traffic, both on domestic and international fronts, will hit the sector hard, with revenues expected to contract by 1-3% in fiscal 2021. Typically, Q1 (peak summer break season) and Q3 (festive period) constitute 25-26% each in annual passenger traffic and hence direct traffic and price discount impact in Q1 and delayed confidence recovery in Q3 will leave the industry struggling.

International traffic, which is ~20% for Indian carriers, will be impacted severely. The top 15 affected countries account for more than 25% of total international passenger traffic and more than 30% of total international freight traffic from/ to India.

However, decline in fuel costs, which constitutes 30-40% of costs, should provide some respite.

Extended vulnerability impact: Prolonged consumption slump in India will hit domestic freight traffic further. In case of extended outbreak, the rebound in the third quarter (festive season) will also be hit severely and will have adverse impact on industry revenue.

Premium hotels



Base scenario elaborated

		Linkage with global economy				
		People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter		✓				✓
Extent of impact		Hotel industry is highly dependent on people flow. Decline in FTAs, MICE activities and lower corporate travel will hit occupancies. Availability of labour an issue.	Not a relevant parameter. No major impact envisaged	Hotel industry does not have direct linkage with global trade. However, cancellation of trade-linked fairs/ meetings - especially in business destinations - will have adverse impact on industry revenue	Not a relevant parameter. No major impact envisaged	Demand in both business as well as leisure destinations to decline significantly on account of advisories issued by government authorities

Note: *Considers domestic and international people flow

Source: CRISIL Research

Base case: The premium hotel industry is highly dependent on MICE (meetings, incentives, conferences, and exhibitions) activities and corporate travel, and will be the first to be impacted in this pandemic situation. According to industry interactions, cancellations were received for March, April and May, and occupancies in March were sub-30%. Curbs on visa till April 15 and progression of Covid-19 globally will have a severe impact on influx of foreign travellers, bringing down occupancies of hoteliers. Fall in occupancy below a certain level (60-65%) will push up operating costs, eroding margins.

Extended vulnerability impact: Limited corporate travel and decline in foreign tourist arrivals will aggravate the situation for the hotel industry. Room rates will be subject to downward revision to attract demand. Adverse impact of Covid-19 on profitability of different sectors and sluggishness in the economy will also lead to corporates cutting down travel-related costs, causing hotel occupancies to take a hit and impacting their revenues and margins. Opening of new supply could also be delayed in a low demand scenario.

Textiles (cotton yarn)



Market size (FY19)
Rs 970 billion

Outlook for FY21



Base case
(As on March 19, 2020)



Extended vulnerability
(As on March 19, 2020)

Base scenario elaborated

Linkage with global economy

	People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter		✓	✓	✓	✓
Extent of impact	Not a relevant parameter. No major impact envisaged	India is a net exporter of cotton yarn and share of imports in total consumption is very low. However, India exports cotton to China, where prices may drop	India plays a vital role in global trade with 28% share in exports. Of total exports, Top 15 affected countries consume 45-50%	Slowing global demand, shutting of ports led to excess yarn supply, affecting cotton yarn spreads and the profitability of yarn manufacturers	Demand for readymade garments (for which cotton yarn is used as raw material) to be impacted as key markets slow down

Note: *Considers domestic and international people flow

Source: CRISIL Research

Base case: India, being one of the largest cotton producers, has a high share in global trade of cotton yarn. Almost 20% of total production is exported. Hence, the slowdown in global demand will directly impact cotton yarn manufacturers. While cotton prices may drop sharply, yarn players may not benefit as demand slumps. MSMEs, constituting ~75% of the spinning sector, are expected to be impacted adversely due to lower export demand.

Extended vulnerability impact: With global demand slumping further, exports to China and Bangladesh will decline, exerting pressure on yarn prices and margins. Further weak derived demand from the domestic market would also impact cotton yarn players.

Gems and jewellery



Market size (FY19)
Rs 5,200 billion

Outlook for FY21



Base case
(As on March 19, 2020)



Extended vulnerability
(As on March 19, 2020)

Base scenario elaborated

Linkage with global economy

	People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter	✓	✓	✓	✓	✓
Extent of impact	Recent rescheduling of the Hong Kong International Jewellery Show from March to May has been a big blow to exporters. Availability of people/labour a concern	India depends largely on imports for gold and rough diamonds, and imports 20% of world trade. Of this, India imports more than 60% of products from Top 15 affected countries	Over 50% of industry revenue is export dependent. Of this, 84% is the share of Top 15 infected countries	Raw materials (gold or rough diamond) form a major share (80-90%) of total cost. Gold prices to remain high	~50% of sector revenue is driven by domestic consumption. Elevated gold prices amid global uncertainty may keep demand under check

Note: *Considers domestic and international people flow

Source: CRISIL Research

Base case: Led by weak global demand and the trade war, India’s exports of gems and jewellery declined 17% on-year during April-December 2019. Revenues of Indian exporters are expected to be affected adversely on account of further slowdown in global growth, decline in world trade and postponement of global trade events/ diamond and jewellery shows. Despite a low base, exports will continue to drop in fiscal 2021.

Extended vulnerability impact: The sector has high dependency (50% of revenue) on domestic consumption, too. Gold and diamonds, being discretionary purchases, will be impacted severely if the virus outbreak extends. Delayed marriages will impact domestic demand. People availability may be an issue for execution of existing orders.

IT services



Market size (FY19)
~Rs 6,340 billion

Outlook for FY21



Base case
(As on March 19, 2020)



Extended vulnerability
(As on March 19, 2020)

Base scenario elaborated

		Linkage with global economy				
		People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter		✓	✓			✓
Extent of impact		Travel restrictions to impact deal closures with some impact on project deliveries too	Export forms more than 80% of revenue for the industry with countries like the US, UK and Europe accounting for more than 60% of the total revenue	Not a relevant parameter. No major impact envisaged	Not a relevant parameter. No major impact envisaged	Domestic revenue forms only ~20% of total revenue. So, no immediate impact expected

Note: *Considers domestic and international people flow

Source: CRISIL Research

Base case: The Indian IT services sector, which derives more than 80% of its total revenue from exports, with higher share of the US, the EU and the UK, will see challenging times, given cuts in discretionary spend, travel restrictions, and closures of offices.

- Demand-side impact can emerge from economic slowdown, especially in the US and the EU, where new deal flow will be slower, especially in H1 fiscal 2021
- Travel restrictions could lead to delays both in terms of new deal signings/ closures and execution of projects

Regular maintenance work will continue with a few hiccups, given work from home requirements. However, given that it is a global crisis, a few delays/ productivity losses can potentially be accommodated at the client's end.

We also envisage some impact on operations for captive IT and outbound BPO services.

Currency depreciation will provide some respite to the industry.

Extended vulnerability impact: In case of extended shutdowns with travel restrictions across major developed economies, signing of technology-based deals is expected to be negatively impacted, with an expected moderation/ rationalisation by clients in the medium term. Clients, especially in manufacturing, retail and logistics, which constitute more than 10% of total revenue, are expected to defer deal closure in case of extended shutdowns. This will result in growth of IT services players to moderate significantly.

Leather and leather goods



Market size
(FY19)
Rs 780 billion

Outlook for FY21



Base case
(As on March 19, 2020)



Extended vulnerability
(As on March 19, 2020)

Base scenario elaborated

Linkage with global economy

	People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter		✓	✓	✓	✓
Extent of impact	Low dependency. No major impact	11% dependency on imports; Of this, China contributes to ~35-40%	~50% production is exported; 70-75% of that is to Top 15 impacted countries. China accounts for 35% of global exports, where India can gain	Raw hide demand is met through domestic production. Domestic supply could be impacted as meat exports suffer	Domestic consumption accounts for 50% of the leather sector. Base case assumes low impact on domestic demand

Note: *Considers domestic and international people flow

Source: CRISIL Research

Base case: China accounts for ~35% of the global leather exports, whereas India accounts for only ~3%. India's current capacity utilisation for leather manufacturers is at 60-70%. With weak global demand, there is hardly any benefit that India may be able to garner. Leather exports to be impacted due to lower demand from major importing countries (Europe and US contribute to ~70% of the demand). Domestic demand may also be impacted in the first quarter of the financial year.

Extended vulnerability impact: With the spread of the virus in India, we expect domestic consumption, which accounts for ~50% of the revenue, to be under pressure, leading to lower capacity utilisation as well as industry margins.

Pesticides



Market size (FY19)
Rs 433 billion

Outlook for FY21



Base case
(As on March 19, 2020)



Extended vulnerability
(As on March 19, 2020)

Base scenario elaborated

		Linkage with global economy				
		People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter			✓	✓	✓	✓
Extent of impact	Not a relevant parameter. No major impact envisaged		40-45% of the raw material requirement for the manufacture of pesticides is met through imports. In FY19, China accounted for 52% imports	In FY19, exports accounted for 52% of the industry. Major export destinations are the US, Brazil, France, Germany and China, accounting for ~50% of export value	50% of the technical raw materials are imported from China. Raw material prices move in line with crude oil prices. Lower crude oil prices will benefit domestically produced raw materials; imported raw materials will be impacted due to disruptions	Industry relies on China for key materials/ intermediates, and so are global countries. Players procure from China during March-May for manufacturing and placement of final product for sales during May-June

Note: *Considers domestic and international people flow

Source: CRISIL Research

Base Case: If production and supplies resume in April, players will be able to meet the requirement with a 15-20 day lag as peak season starts post May. Typically, pesticides players manufacture from March to May for the peak season. Given that raw material has been an issue for February, there would be some delay in manufacturing and final stocking. However, in our base case, this will only have a moderate impact. We also believe exports impact can be high as the US, China and Brazil account for a large proportion of exports from India. Prices of materials are also expected to swing upwards given the shortage of chemicals from existing Chinese suppliers. Given the product is classified under hazardous category and is voluminous, air transport may also not be a possibility. Margin pressures would hence remain high in the base case as well at least for first half of the year.

Extended vulnerability impact: In case the virus spreads rapidly globally as well as in India, both domestic and global demand will be impacted sharply. While domestic demand may not be fully impacted, the impact of low crude oil prices will be negated by supply disruptions and hence higher prices of active ingredients. Export demand will continue to be a concern given short supply of raw materials.

Pharmaceuticals



Base scenario elaborated

		Linkage with global economy				
		People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter			✓	✓	✓	✓
Extent of impact	Not a relevant parameter. No major impact envisaged		Huge raw material dependency on China (65-70% of total bulk drugs and intermediate imports)	FY19 exports (both bulk drugs and formulation) totalled ~\$18 billion. Europe and the US account for a major share in overall exports	Raw material price is dependent on commodities such as crude oil.	The government is taking steps to ensure availability of medicines in the domestic market by curbing exports. This will ensure sufficient stock for domestic consumption.

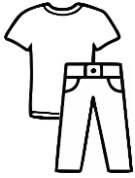
Note: *Considers domestic and international people flow

Source: CRISIL Research

Base case: As manufacturing resumes in China, though not at full capacity, we expect production to start improving as we move into April. However, logistics between India and China is still impacted, leading to an increase in input costs. Raw material cost for basic antibiotics have increased now. This will impact margins for players. On the exports front, the government has now restricted exports of 13 key active pharmaceutical ingredients (40% of total bulk drug exports) and their formulations (which accounts for ~10% of overall exports revenues) to prevent shortage of medicines. MSMEs' share in the industry is 35-40% and the current situation is likely to impact them as raw material sourcing will be a challenge. Our interactions indicate inventory is sufficient to cover sales only until mid-April.

Extended vulnerability impact: There would be a double whammy since imports would get far costlier and domestic production would be hit (India imports ~68% of bulk drugs from China). Moreover, 20% of the domestic market is under price control and hence, players would take a huge hit on margins. However, with rising cases, we expect continued domestic demand for pharma products.

Textiles (readymade garments)



Market size (FY19)
Rs 4,860 billion

Outlook for FY21



Base case
(As on March 19, 2020)



Extended vulnerability
(As on March 19, 2020)

Base scenario elaborated

Linkage with global economy

	People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter		✓	✓	✓	✓
Extent of impact	Not a relevant parameter. No major impact envisaged	India is a net exporter of readymade garments, and the share of imports in total consumption is very low	Share in global exports is low; exports form 20-25% of total demand. Of this, 60-65% exports are consumed by Top 15 affected countries	Globally, the fabric mix is in favour of man-made fibres. With moderation in global demand, fabric prices will remain range bound	The sector has high dependency on domestic consumption (75-80% of industry revenue). Domestic consumption will also moderate on account of lower income growth and hence restricted spending

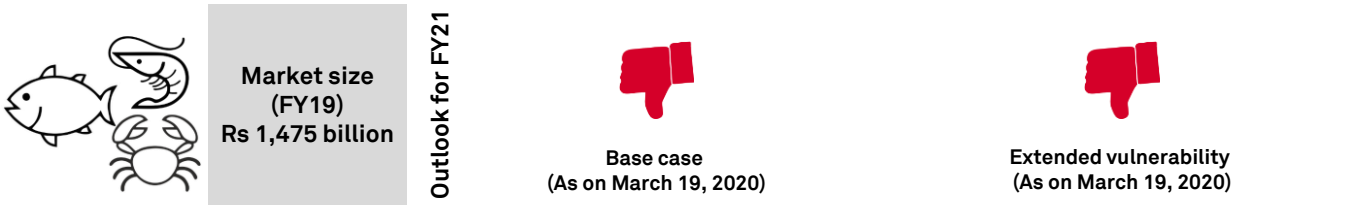
Note: *Considers domestic and international people flow

Source: CRISIL Research

Base case: With moderation in global economy, exports to key markets such as the US and the EU will face headwinds. In addition, domestic consumption will moderate on account of lower income growth and hence restricted spending. This will lead to moderately negative impact on industry revenues. Extent of impact will be more on MSMEs who contribute almost 25-30% of industry revenues.

Extended vulnerability impact: In case of an extended outbreak, consumption slump in India may hit the retail industry adversely. This will have highly negative impact on the sector. Also, this being an MSME sector, working capital issues will lead to concerns for many players stuck with high inventory, especially in the first quarter of fiscal 2021.

Seafood



Base scenario elaborated

		Linkage with global economy				
		People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter			✓	✓	✓	✓
Extent of impact	No major impact envisaged		Food for aquaculture specifically depends on imports from China and other Asian countries	Exports constitute 30% of the seafood industry; of which, China accounts for 1/5th share. Top 15 impacted countries form ~70% of India's export basket	Global shrimp prices will see downward pressure	Domestic consumption accounts for ~70% of the seafood industry

Note: *Considers domestic and international people flow

Source: CRISIL Research

Base case: Exports comprise 30% of India’s seafood industry. Lower demand from China, which has a 22% share in India’s export basket, would lead to a surplus of fisheries in the Indian as well as global seafood market. This would put downward pressure on prices, affecting domestic suppliers. Fears regarding the virus have also impacted domestic consumption. MSMEs, constituting ~70% of the industry revenue, are likely to be impacted by lower prices and muted domestic demand.

Extended vulnerability impact: The domestic market accounts for 70% of the seafood industry. Lower domestic consumption and muted demand from key countries that import from India would lead to a decline in prices, and thus, supplier margins. This being an MSME sector, working capital issues will lead to concerns for many players stuck with high inventory, especially in the first quarter of fiscal 2021.

Construction



Base scenario elaborated

		Linkage with global economy				
		People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter		✓			✓	✓
Extent of impact		People availability / workers sentiment especially in urban areas will be critical	Not a relevant parameter. No major impact envisaged	Not a relevant parameter. No major impact envisaged	Prices of key construction material like steel, cement, sand, etc.	Delay in project award during Q4FY20 and Q1FY20 coupled with few hiccups expected on people availability can impact demand in H1

Note: *Considers domestic and international people flow
Source: CRISIL Research

Base case: Weak ordering spanning Q4 fiscal 2020 and Q1 fiscal 2021, and diversion of state funds towards healthcare, will weigh on demand growth, especially in H1 fiscal 2021. Weak business sentiment and some issues on labour availability can also derail execution, especially on the urban side during Q1 fiscal 2021.

Extended vulnerability impact: Extended impact would hit construction primarily led by non-availability of people and lockdown. Sales in real estate – specifically, the mid and high category – could be impacted as consumer sentiment remains weak. Commercial real estate demand could also decline.

Ceramic tiles



Base scenario elaborated

		Linkage with global economy				
		People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter			✓	✓		✓
Extent of impact	Not a relevant parameter. No major impact envisaged	High dependency on zinc oxide and zinc peroxide, mainly imported. Top 15 affected countries contribute to over 60% of India's imports	Of total production, 20-25% is exported. However, only 11% is exported to Top 15 impacted countries as we have high exports to GCC countries	Raw materials form 45-50% of total cost. Most of them, i.e., clay and silica, are procured domestically	80% production is consumed domestically. With lower imports from China, domestic players may benefit	

Note: *Considers domestic and international people flow

Source: CRISIL Research

Base case: The ceramic tiles industry, having high contribution from MSMEs (mainly from Morbi), depends mainly on domestic construction (75-80% of total demand) followed by exports (mainly to the Gulf Cooperation Council countries). India is a net exporter of ceramic tiles. The top 3 exporters in the world (Italy, Spain, and China form more than 70% of world exports) are Covid-19-affected. With weak global demand, export sales may see a decline. Domestic demand will also remain weak in first quarter of the year. However, given supply-chain disruptions from China, pricing may improve. Some raw material procurement is dependent on global supply chains and this will be a monitorable.

Extended vulnerability impact: We expect slowing construction activities to affect domestic demand since 80% of production is domestic, including new construction and replacement demand. Non-availability of labour on construction sites, too, may impact deliveries. Further, both commercial and retail real estate demand will be hit, impacting sales considerably.

Aluminium



Market size (FY19)
~Rs 600 billion

Outlook for FY21



Base case
(As on March 19, 2020)



Extended vulnerability
(As on March 19, 2020)

Base scenario elaborated

		Linkage with global economy				
		People flow	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter			✓	✓	✓	✓
Extent of impact	Not a relevant parameter. No major impact envisaged		While dependence on bauxite is limited to Guinea, over 90% of the calcined pet coke is imported from the US, UK, Japan and China	~40% of primary aluminium exports to affected nations will slow. Lower Chinese imports to India to cushion impact	Aluminium prices on a decline, led by slower global demand outpacing supply	Domestic market led by power, construction, auto industries. Slower capex, power conductor exports to impact demand

Notes: For reference (will need repasting)

Colour code for linkage with global economy and domestic consumption	Highly negative impact	Moderate negative impact	No major impact	Positive impact
Colour code for outlook	Positive impact	Neutral impact	Moderately negative impact	Highly negative impact

Note: *Considers domestic and international people flow

Source: CRISIL Research

Base case: Demand is largely impacted in China, but disruption of the supply chain for key industries worldwide has led to lower global demand. Domestic players, which benefitted from the fall in primary products from China, are likely to face challenges in the export market. The top 15 impacted countries account for 45% of the total exports, while exports are ~50% of total domestic production. Further, a fall in global prices would weigh on the profitability of players.

Extended vulnerability impact: We expect domestic aluminium to be hit by a fall in construction activity and lower demand for power cables and conductors on the back of the global slowdown. A continued fall in global and domestic demand amid limited supply disruptions will lead to a steep decline in domestic prices, eroding the profitability of domestic players.

Fertilisers



Market size
(FY19)
55.6 million
tonne

Outlook for FY21



Base case
(As on March 19, 2020)



Extended vulnerability
(As on March 19, 2020)

Base scenario elaborated

Linkage with global economy

	People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter		✓	✓	✓	✓
Extent of impact	Not a relevant parameter	Out of the total fertiliser consumption, 25% is imported. Import dependency on the Top 15 affected countries is 25-30%	Fertiliser exports to the affected countries account for ~6% of the total fertiliser exports	With crude oil prices falling, prices are expected to remain range bound	With kharif production likely to be good expecting normal monsoon, demand to grow at 2.5% on-year

Note: *Considers domestic and international people flow

Source: CRISIL Research

Base case: Urea is the major fertiliser used in India, with 25% of its consumption met through imports. Import dependency on Top 15 affected nations is ~40%. For phosphatic fertilisers, ~63% is imported and 95% of the dependency is on Top 15 affected nations. Potassium fertiliser is primarily imported, however, the import dependency on Top 15 affected nations is ~5%. Further, demand for fertilisers for upcoming kharif season, which is expected to begin from April will not be impacted due to coronavirus. This is because, the country has sufficient capacity of urea and moreover, urea imported from China is not manufactured in China, rather it is imported from Middle East countries such as Saudi Arabia and Qatar. Thus, China only deals with traded urea. As the imported urea stays at the port, it is unlikely that its supply will be affected. Further, in case of phosphatics, supplies have already been purchased.

Extended vulnerability impact: If the situation persists, supplies of fertilisers can be impacted for the next rabi season, supplies for which will be procured from June. In case of urea, as domestic capacity is sufficient, import dependency will remain low, but in case of phosphatic fertilisers, constraints in supply can push the prices of phosphatic fertilisers up.

Petrochemicals



Market size (FY19)
Rs 2,300 billion

Outlook for FY21



Base case
(As on March 19, 2020)



Extended vulnerability
(As on March 19, 2020)

Base scenario elaborated

		Linkage with global economy				
		People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter			✓	✓	✓	✓
Extent of impact	Not a relevant parameter. No major impact envisaged	India is a net importer of petrochemicals, with imports accounting for ~20% of domestic consumption. Of this, ~45% of imports is met from Top 15 impacted countries	Exports account for ~15% of domestic production. Of this, ~30% exports are to China. However, India's contribution in world exports is less than 5%; hence, we do not expect any major impact on global trade	Petrochemical prices to be under pressure owing to drop in crude oil prices coupled with weak demand	Domestic consumption to be impacted on account of slowdown in economy	

Note: *Considers domestic and international people flow

Source: CRISIL Research

Base case: Shutdown of downstream manufacturing segments such as electronics and automobiles in China is expected to impact demand for petrochemicals. However, decline in prices may be restricted owing to the ongoing turnaround. On the demand side, export demand from China to be impacted.

Extended vulnerability: The major impact on the sector would be on account of prices coming under pressure. Petrochemicals prices were already declining given concerns over global oversupply and slowdown in demand. Now, with the drop in input prices, i.e., crude oil, and further slowdown in Chinese demand, petrochemicals prices are likely to remain low. Furthermore, given that China is a raw material supplier for some of the key inputs used in the chemicals industry, their unavailability would have an impact on overall production

Steel



Market size (FY19)
Rs 4,990 billion

Outlook for FY21



Base case
(As on March 19, 2020)



Extended vulnerability
(As on March 19, 2020)

Base scenario elaborated

Linkage with global economy

	People flow *	Supply chains	Goods trade	Commodity prices	Domestic consumption
Relevance of parameter		✓	✓	✓	✓
Extent of impact	Not a relevant parameter. No major impact envisaged	8% dependency on finished steel imports; Of this, 30-35% is from Top 15 impacted countries (in volume terms)	Of total production, 6% is exported; Of this, ~18% is the share of Top 15 impacted countries (in volume terms)	Steel prices to be under pressure owing to weak demand in global markets	Domestic consumption to moderate in FY21 as construction and automobile segments slow down

Note: *Considers domestic and international people flow

Source: CRISIL Research

Base case: Moderation in domestic demand is envisaged given the impact of lower construction (60-65% of domestic steel demand) and weak automotive and capital goods production. Benefit from exports may also be limited as global demand weakens from the first quarter of fiscal 2021. Global steel prices are expected to come under pressure in the wake of muted demand prospects, especially from China, in H1 2020. However, anti-dumping duty will continue to protect domestic steel prices.

Extended vulnerability impact: Stoppage of construction activities in case of lockdown and poor export prospects will hit steel players hard. Further global prices can willow down in case of global slowdown, though anti-dumping duties will continue to protect domestic manufacturers.

Annexure

China accounts for ~18% of global exports

China, including Hong Kong, had a trade surplus of \$301 billion, according to the latest available data (2018). It accounted for 18% of global exports.


Majority of Covid-19 outbreak is in east China, over 80% in the Hubei province



Source: WHO

Key exports from China impacted since majority of the factories, except steel, are in affected areas

Covid-19 impact	Major commodities manufactured province-wise and exported from China	Electronics (mobile handsets)	Textile RMG	Steel	Plastics	Leather & leather goods	Aluminium	Ceramics	Gems and jewellery	Paper	Consumer durables
	Hubei										
	Guangdong										
	Zhejiang										
	Henan										
	Hunan										
	Anhui										
	Jiangxi										
	Jiangsu										
	Chongqing										
	Shandong										
	Sichuan										
	Heilongjiang										
	Beijing										
	Shanghai										
	Fujian										
	Hebei										
	Shaanxi										
	Guangxi										
	Yunnan										
	Hainan										
	Shanxi										
	Guizhuo										
	Liaoning										

 Significant presence of the respective sector's manufacturing in province

Source: CRISIL Research

Major segments of India-China trade in 2019

Imports from China (~18% of India's imports)	% imports from China
Electrical machinery	34%
Nuclear reactors and machinery	18%
Organic chemicals	10%
Gems and jewellery	6%
Iron and steel	4%
Plastic goods	4%
Fertilisers	2%
Medical equipment	2%
Automobiles and components	2%
Chemicals, etc.	2%
Total of above	84%
Grand total (Rs billion)	6,036
Grand total (\$ billion)	86.2

Exports to China (~9% of India's exports)	% exports to China
Gems and jewellery	36%
Mineral and ores	15%
Organic chemicals	11%
Sea food	5%
Electrical machinery	4%
Cotton	4%
Plastic	3%
Nuclear reactors and machinery	3%
Iron & steel	3%
Salt	2%
Total of above	86%
Grand total (Rs billion)	2,069
Grand total (\$ billion)	29.5

Note: China including Hong Kong

Source: Intracen

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