

# Sanguinity sustains

CriSidEx survey of business sentiment among micro and small enterprises in April-June and July-September

August 2018 | Volume 3



**CriSidEx** is India's first sentiment index for micro and small enterprises (MSEs) that indicates the current state and expected outlook on the MSE sector every quarter. CriSidEx is based on a diffusion index of 8 parameters (5 manufacturing and 3 services parameters) with equal weights. It measures MSE business sentiment on a scale of 0 to 200, where 0 indicates extremely negative sentiment, 100 neutral sentiment and 200 extremely positive sentiment. The distance of the score from 100 is indicative of the strength of the expansion or decline.

The index is calculated for (a) the respondent's assessment of the survey quarter and (b) the respondent's expectation for the next quarter.

Responses were received from 1,100 MSEs.

Survey 1 was conducted for October-December 2017, Survey 2 for January-March 2018, and Survey 3 for April-June 2018.

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## Gauging the MSE pulse

CriSidEx, or the CRISIL-SIDBI MSE Sentiment Index, captures the sentiment among micro and small enterprises (MSEs) in India on the business environment in the survey quarter (SQ), and their expectations for the next quarter (NQ).

The index and this report are based on a survey. No economic indicators, trade statistics or financials of MSEs have been used in computing CriSidEx.

Since CriSidEx represents MSEs only, care should be taken by users when comparing it with other economic data/ indices. SQ represents the sentiment of MSEs in the quarter when the survey was conducted. NQ represents the sentiment of MSEs for the quarter that follows the survey quarter.

### Survey process

The survey tracks business sentiment among MSEs in manufacturing and services (including trading) across India. Responses have been drawn from CRISIL-rated enterprises, current and past borrowers of SIDBI, and non-SIDBI and non-CRISIL MSEs. It also includes micro enterprises funded by microfinance institutions (MFIs). Additionally, there are responses from lenders (banks and non-banking finance companies).

CRISIL and SIDBI acknowledge the support of all the participant banks and financial institutions, with special thanks to Fullerton India Credit Company Limited, Vistaar Financial Services Private Limited, and Reliance Commercial Finance Limited for eliciting sizeable responses from their MSE borrowers for the current survey.

The sample has been drawn up to ensure representation of enterprises based on size, geography and nature of business. It covers MSEs with at least three years of business operations.

The broad characteristics of the sample are:

<b>Established business</b>
Turnover < Rs 25 crore
Representation of various legal forms – companies, partnerships and proprietorships
Appropriate sectoral representation; to have equal coverage of manufacturing and services sectors (including trading)
Appropriate geographic representation
Covers exporters and importers, besides domestic firms

### How to read CriSidEx

CriSidEx is a sentiment index and hence, is a qualitative measure of the mood. Respondents may not necessarily refer to actual data related to their enterprises when responding to it.

The information collected in CriSidEx is qualitative; because respondents are asked to assign qualities, rather than quantities, to the variables of their interest. For example, respondents have been asked to assign qualities to the value of their order-books such as 'above normal', 'unchanged' or 'below normal'. That's different from a conventional industry survey, where respondents may be asked to give quantitative information about their order-books, such as the actual value of outstanding orders.

For more details, please refer to the first CriSidEx report available at

<https://www.crisil.com/en/home/our-analysis/reports/2018/01/crisidex-the-mse-sentiment-index.html>

## Sanguinity sustains for July-September

Micro and small enterprises (MSEs) have expressed optimism about their business environment in July-September, 2018, the third straight quarter they have done so, vindicating our forecast.

The score for CriSidEx, the only lead-lag indicator of business sentiment among MSEs across India, printed at 127 for the April-June, 2018 survey quarter, well above the 121 seen in January-March, 2018 and 107 in October-December, 2017.

### **Business sentiment in the April-June 2018 quarter**

#### **Sectors that saw a positive trend**

The services sector continued to display high growth momentum. Within this, segments such as information technology (IT) & information technology-enabled services (ITeS), traders, logistics, construction & real estate, travel & hotels and professional services reported improvement in business sentiment.

Respondents from the manufacturing sector said they were on a better footing than in January-March. MSEs in metals & mining, chemicals, pharmaceuticals, and gems & jewellery were strongly positive. The leather & leather goods sector was largely positive barring a few respondents who reported a subdued outing.

#### **Sectors that saw a subdued trend**

Only respondents from the media and power & utilities sectors said they had a subdued run.

### **Business sentiment for the July-September, 2018 quarter**

60% of the respondents from the manufacturing sector and 53% from the services sector foresee a continuation of the positive momentum.

#### **Sectors anticipating a positive trend**

In the services sector, respondents from IT/ITeS, logistics, traders professional services, healthcare, human resources services, and construction & real estate were the most optimistic.

In manufacturing, respondents from auto components, pharmaceuticals, metals & mining, chemicals, leather & leather goods, and gems & jewellery were the most optimistic

#### **Sectors foreseeing a subdued trend:**

The media sector had the highest share of respondents anticipating a subdued quarter.

### **Companies more optimistic than firms**

Classifying by legal constitution, companies were marginally more optimistic, with 46% reporting a good survey quarter compared with 44% of firms.

### **Larger MSEs were more positive in April-June...**

Respondents from MSEs with 10-25 employees, and those with >25 employees, were the most optimistic, expecting a big improvement in their business situation. Those with <10 employees said the ground situation was much better than in January-March.

### **...ditto July-September**

Half of the respondents from MSEs with <10 employees, and 55% of those with more staff, expect a better quarter in July-September

### **Domestic order book trends in the April-June 2018 quarter**

For April-June, 45% of MSEs surveyed reported an increase in order book compared with 38% in January-March.

#### **Manufacturing sector**

Respondents from gems & jewellery, chemicals, leather & leather goods and food products sectors reported an increase in order book. But in the pharmaceuticals and auto components sectors, the proportion of respondents saying their order books have increased was smaller compared with January-March.

#### **Services sector**

Respondents from sectors such as IT/ITeS, traders, logistics, human resources, construction & real estate, and professional services providers witnessed an increase in order book, while a sizeable proportion of those in power & utilities saw a decrease compared with the January-March quarter. Interestingly, in media, while the proportion of respondents claiming an increase in order book was higher, the share of those who saw a decrease was also up on-quarter.

### **Order book outlook for July-September**

The sentiment remains positive as MSEs anticipate strong pipeline.

#### **Manufacturing sector**

Respondents from most industries, especially the gems & jewellery, metals & mining, pharmaceuticals, engineering & capital goods and textiles, expect order books to increase in next quarter.

#### **Services sector**

Construction & real estate, professional services providers, traders, healthcare and ITT/ITeS segments said they expect order books to increase.

### **Order book trends among export-oriented units**

The proportion of respondents from export-oriented MSEs saying their order books have improved was more than in January-March. Respondents from export-oriented units in both the manufacturing (pharmaceuticals, metals & mining, engineering & capital goods, leather & leather goods, and textiles) and the services (IT/ITeS & logistics) sectors said order books had increased in April-June.

The proportion of positive respondents increased the most in the pharmaceuticals and metals & mining sectors.

### **Not much change in import plans**

Majority of importers continue to report no change in their import plans. About 80% of importer MSEs placed normal orders from their suppliers, while 17% ordered more. They also do not expect significant variation in import orders in NQ.

### **Production to mostly rise in July-September...**

58% MSEs expect an increase in production in July-September, and only 7% see it lower. The balance 35% expect production to be unchanged.

### **...and therefore, capacity utilisation**

As many as 48% of the respondents from the manufacturing sector expect an increase in capacity utilisation, compared with 37% in April-June, while 46% see no change. Only 6% foresaw a reduction.

### **Hiring picture largely unchanged for April-June and July-September**

As many as 71% MSEs intend to continue with their current employee base with no net additions, while only 3% foresee a reduction. And 26% said they intend to hire in July-September, compared with 17% actually reporting an increase in hiring in April-June.

MSEs in pharmaceuticals, food products, gems & jewellery, engineering & capital goods, auto components, metals & mining, leather & leather goods from the manufacturing sector, and IT/ITeS, health care, construction & real estate, human resources and professional services from the services sector were positive about hiring in July-September.

### **Lenders positive on business situation...**

Sentiment among lenders in the April-June quarter was positive, with four out of 10 rating the overall business situation of MSE sector as good and a similar number as satisfactory.

In January-March, 1 out of 10 respondents had rated it as good, and 8 as satisfactory.

For July-September, lenders anticipate a positive quarter with 5 out of 10 saying it would be good and four as satisfactory.

**... but see credit growth muted in July-September**

In April-June, respondent-lenders witnessed maximum credit exposure to the small segment, with Rs 10 lakh to Rs 1 crore ticket size and bulk of it was to undertake long-term capital expenditure. However, their credit exposure to the unorganised segment (ticket size <Rs 10 lakh), and to medium enterprises (ticket size of Rs 1-5 crore), was stagnant.

For July-September, the small segment with Rs 10 lakh to Rs 1 crore ticket size should continue to outperform with 6 out of 10 respondents staying positive compared with 5 out of 10 in the April-June quarter.

**Asset quality weak in April-June**

Asset quality in the unorganised segment was weak in April-June, with 5 out of 10 lenders classifying them as risky given the highest NPA levels, compared with 4 out of 10 lenders in January-March. Lenders expect non-performing assets (NPAs) in the segment to remain high in July-September as well.

And most respondent-lenders expect interest rates on MSE loans to increase in July-September.

## CriSidEx readings

Manufacturing							
Index parameters		Survey quarter			Next quarter		
		Negative	Neutral	Positive	Negative	Neutral	Positive
Overall business situation	Q3 FY18	17%	45%	38%	4%	43%	53%
	Q4 FY18	9%	54%	37%	5%	44%	51%
	<b>Q1 FY19</b>	<b>9%</b>	<b>46%</b>	<b>45%</b>	<b>6%</b>	<b>34%</b>	<b>60%</b>
Volume of production	Q3 FY18	21%	48%	31%	8%	37%	55%
	Q4 FY18	9%	49%	42%	5%	39%	56%
	<b>Q1 FY19</b>	<b>10%</b>	<b>47%</b>	<b>43%</b>	<b>7%</b>	<b>35%</b>	<b>58%</b>
Order-book size	Q3 FY18	20%	50%	30%	9%	36%	55%
	Q4 FY18	7%	49%	44%	4%	43%	53%
	<b>Q1 FY19</b>	<b>8%</b>	<b>45%</b>	<b>47%</b>	<b>7%</b>	<b>34%</b>	<b>59%</b>
PAT margin	Q3 FY18	26%	50%	24%	14%	42%	44%
	Q4 FY18	15%	51%	34%	9%	48%	43%
	<b>Q1 FY19</b>	<b>13%</b>	<b>48%</b>	<b>39%</b>	<b>9%</b>	<b>46%</b>	<b>45%</b>
Capacity utilisation	Q3 FY18	21%	50%	29%	9%	40%	51%
	Q4 FY18	7%	53%	40%	5%	49%	46%
	<b>Q1 FY19</b>	<b>6%</b>	<b>57%</b>	<b>37%</b>	<b>6%</b>	<b>46%</b>	<b>48%</b>
Employee base	Q3 FY18	9%	76%	15%	4%	66%	30%
	Q4 FY18	4%	81%	15%	3%	69%	28%
	<b>Q1 FY19</b>	<b>3%</b>	<b>79%</b>	<b>18%</b>	<b>2%</b>	<b>71%</b>	<b>27%</b>

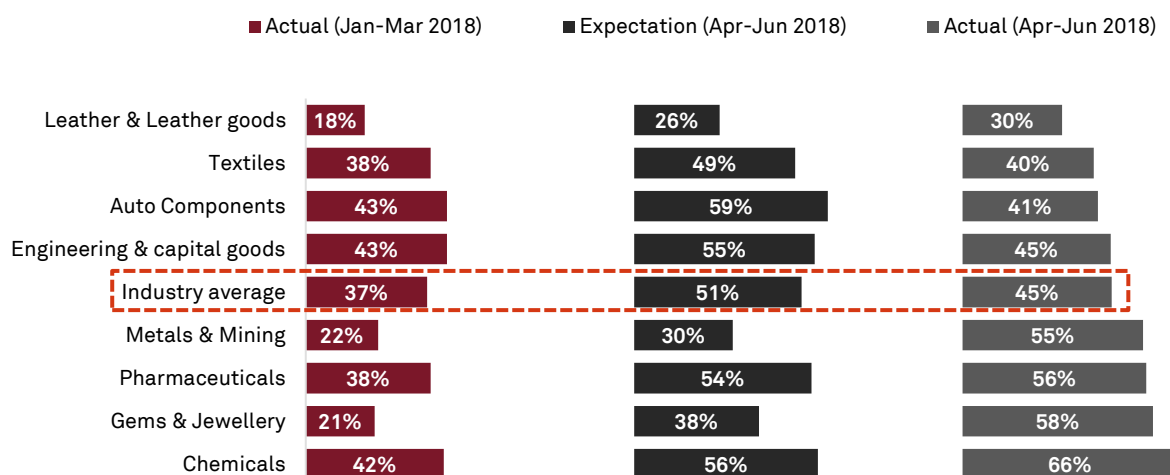


Services							
Index parameters		Survey quarter			Next quarter		
		Negative	Neutral	Positive	Negative	Neutral	Positive
Overall business situation	Q3 FY18	14%	56%	30%	5%	43%	52%
	Q4 FY18	10%	61%	29%	6%	46%	48%
	<b>Q1 FY19</b>	<b>9%</b>	<b>47%</b>	<b>44%</b>	<b>8%</b>	<b>39%</b>	<b>53%</b>
Order-book size	Q3 FY18	17%	58%	25%	7%	47%	46%
	Q4 FY18	8%	62%	30%	6%	46%	48%
	<b>Q1 FY19</b>	<b>9%</b>	<b>47%</b>	<b>44%</b>	<b>6%</b>	<b>43%</b>	<b>51%</b>
PAT margin	Q3 FY18	22%	54%	24%	12%	42%	46%
	Q4 FY18	16%	55%	29%	10%	47%	43%
	<b>Q1 FY19</b>	<b>13%</b>	<b>47%</b>	<b>40%</b>	<b>10%</b>	<b>42%</b>	<b>48%</b>
Employee base	Q3 FY18	6%	74%	20%	2%	64%	34%
	Q4 FY18	4%	81%	15%	4%	68%	28%
	<b>Q1 FY19</b>	<b>5%</b>	<b>79%</b>	<b>16%</b>	<b>4%</b>	<b>70%</b>	<b>26%</b>
CriSidEx	Q3 FY18	<b>SQ</b>	107		<b>NQ</b>		Positive
	Q4 FY18	<b>SQ</b>	121		<b>NQ</b>		Positive
	<b>Q1 FY19</b>	<b>SQ</b>	<b>127</b>		<b>NQ</b>		<b>Positive</b>

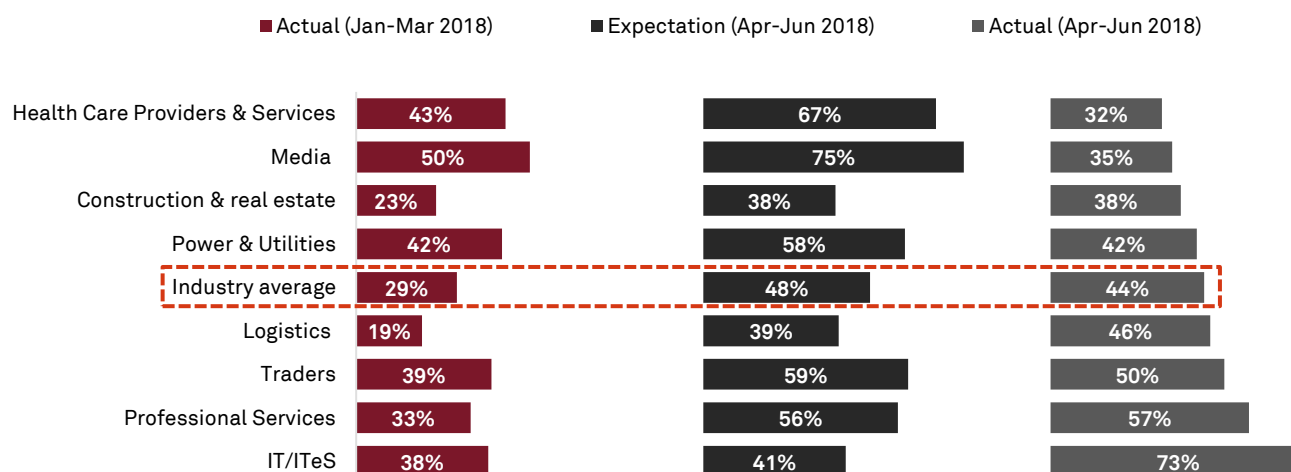
## How the segments performed

Survey 3 (April-June 2018) vs Survey 2 (January-March 2018)

### Manufacturing



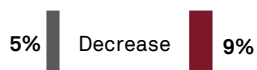
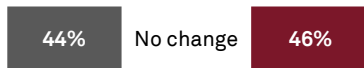
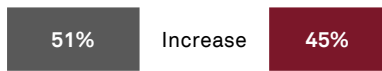
### Services



Bars represent share of respondents

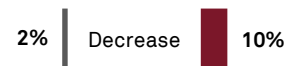
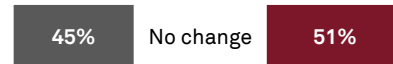
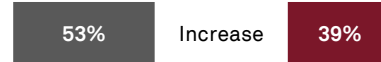
### Order book size (domestic)

■ Expectation (Apr-Jun FY 19) ■ Actual (Apr-Jun FY 19)



### Order book size (exports)

■ Expectation (Apr-Jun FY 19) ■ Actual (Apr-Jun FY 19)



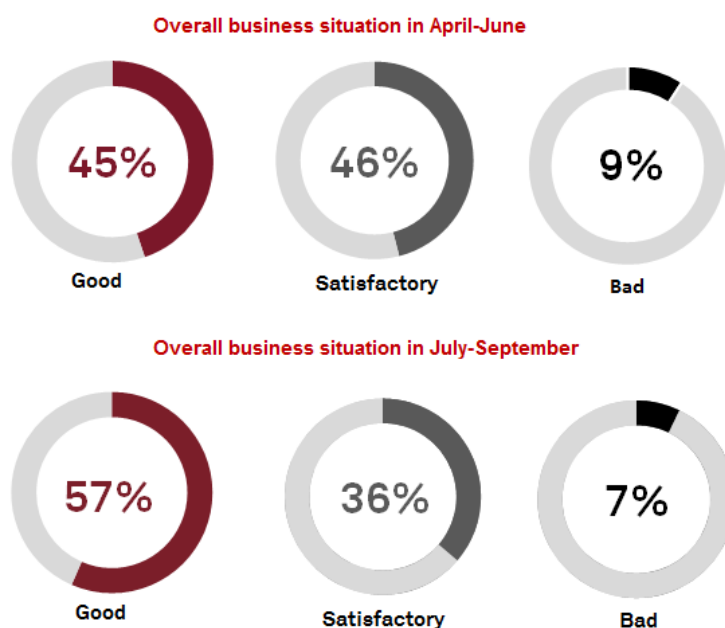
*Bars represent share of respondents*

## Looking back, looking ahead

### The cumulative sense

Business sentiment for MSEs (manufacturing and services combined) in April-June, 2018, is positive with 45% of respondents indicating a good quarter compared with 33% in January-March, 2018. This was only marginally lower than the expectation for April-June, 2018 wherein 49% respondents had expected good quarter.

Optimism remains high for the next quarter (July-September, 2018), with 57% believing it would be good and 36% satisfactory. Only 7% see it subdued.



*% represent share of respondents (manufacturing and services combined)*

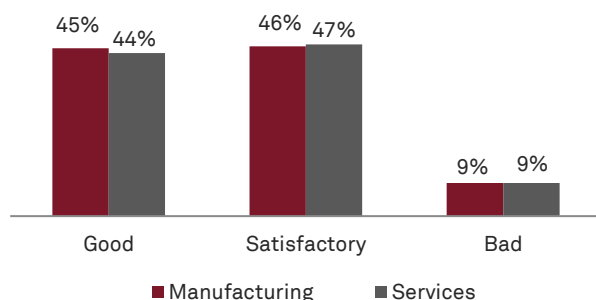
### Sectoral deep-dive

Manufacturing sector MSEs reported positive sentiment in April-June, 2018 with 45% MSEs reporting a good quarter, up from 37% in January-March, 2018. This, however, was below the expectations for the quarter as captured in the previous survey, where 51% respondents had expected the next quarter to be good.

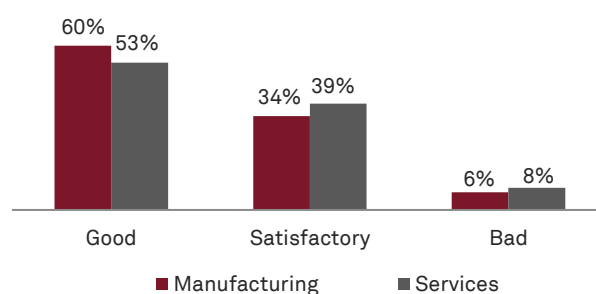
Services sector MSEs had seen substantial improvement; 44% of the MSEs reported a good April-June, 2018 as against only 29% MSEs in January-March, 2018. The reported positive sentiment for April-June, 2018 was close to their expectation during the previous survey.

For July-September, 2018, 60% of the respondents from the manufacturing sector and 53% from the services sector foresee a continuation of the positive momentum.

**Business situation in April-June**



**Business situation in July-September**



*Bars represent share of respondents*

## Industry sentiment

In the manufacturing sector, MSEs in chemicals, pharmaceuticals, metals & mining, and gems & jewellery segments performed better than their expectation in April-June, 2018. About 66% of the respondents in chemicals, 56% in pharmaceuticals, 55% in metals & mining, and 58% in gems & jewellery reported a good quarter compared with 56%, 54%, 30%, and 38%, respectively, who had expected to do so in the previous-quarter survey.

The improvement gets amplified when we consider the actual performance of these sectors over the previous quarter. In January-March, 2018, 42% of respondents from the chemicals sector, 38% from pharmaceuticals, 22% from metals & mining, and 21% from gems & jewellery had reported a good outing.

Leather & leather goods was tepid compared with other industries despite a decline in the proportion of those reporting a subdued quarter to 21% in April-June, from 32% in January-March. The proportion of respondents saying they had a good outing rose to 30% from 18% in previous quarter.

Those reporting good outing in engineering & capital goods and auto components remained at similar levels in April-June, 2018 as in the previous quarter, much lower than the expectation for April-June, 2018. Only 45% in engineering & capital goods and 41% in auto components reported a good quarter against the 55% and 59%, respectively, expecting to do so.

For July-September, 2018, almost all key industries within manufacturing are expecting an improvement in sentiment. MSEs in auto components, chemicals, pharmaceuticals, metals & mining, leather & leather goods, and gems & jewellery are the most optimistic with 59%, 62%, 72%, 65%, 61%, and 71% respondents predicting a good quarter. Food products and textiles MSEs share this optimism, though the proportion is a tad lower at 58% and 54%, respectively.

The services sector witnessed a strong surge in positive sentiment with 73% in IT/ITeS, 46% in logistics, 38% in construction & real estate, 57% in professional services, 50% in trading and 48% in travel & hotels reporting a good quarter in April-June, 2018. The number of MSE respondents reporting a good quarter has doubled in IT/ITeS and logistics.

Media and healthcare have witnessed lower proportion of MSEs reporting good performance in April-June, 2018, compared with the previous quarter. In media, 35% of respondents reported good quarter as against

50% in the previous quarter, while in healthcare, 32% reported good quarter down from 43% earlier. MSEs in Media segment have also reported two consecutive subdued quarters, at 13% in January-March and 29% in April-June.

Besides media, the power & utilities segment had the highest share of respondents with subdued performance at 21% in April-June 2018. This rose sharply from 5% in the previous quarter.

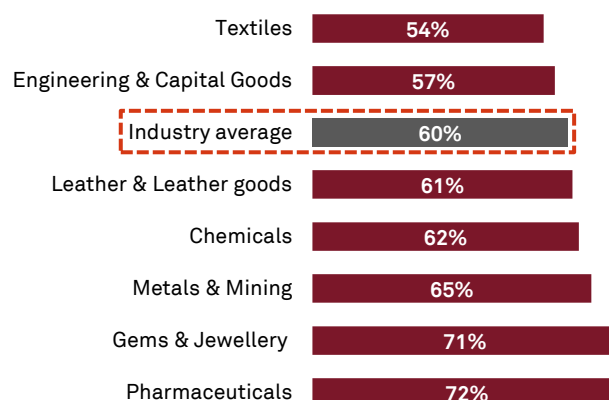
In July-September, 2018, MSEs related to IT/ITeS, construction & real estate, professional services, and logistics are expected to continue doing well along with MSEs in healthcare, human resource services, and traders. On the contrary, media-based MSEs expect to have a subdued quarter.

## Manufacturing sector

### Good – April-June quarter



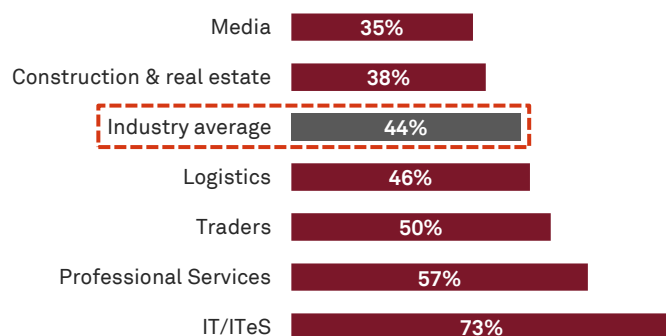
### Expecting better – July-September quarter



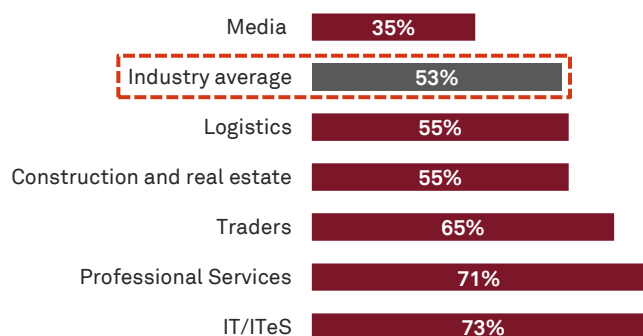
Bars represent share of respondents

## Services sector

### Good – April-June quarter



### Expecting better – July-September quarter

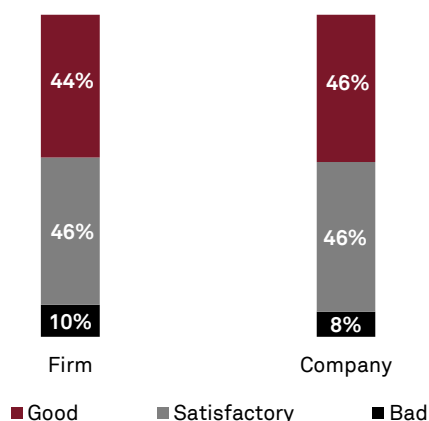


Bars represent share of respondents

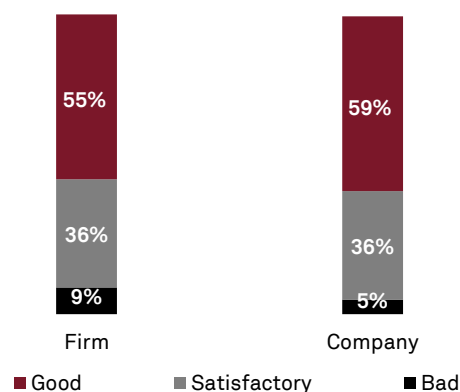
## Companies more positive than firms

Both companies and firms have reported a good quarter in April-June, 2018, with 46% of companies and 44% of firms versus 32% of companies and 34% firms in January-March, 2018. Going forward, 59% of companies expect to have a better quarter along with 55% of firms.

Business situation in April-June



Business situation in July-September



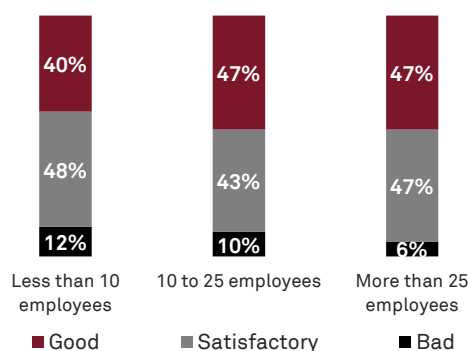
Bars represent share of respondents

## Some silver lining for the unorganised sector

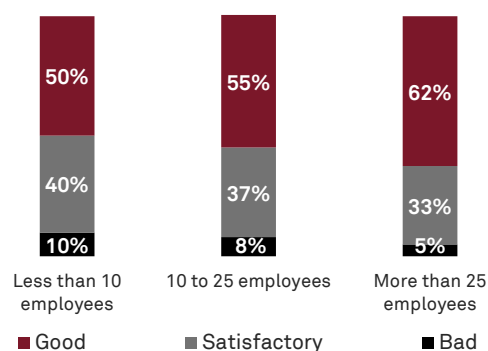
Unorganised players, which are largely micro enterprises with <10 employees, saw a sharp improvement in the business situation, with 40% reporting a good quarter in April-June, 2018, compared with only 26% in January-March, 2018. Optimism amongst MSEs with 10-25 employees and >25 employees remained higher than their unorganised peers with 47% of respondents in these two segments reporting a good quarter in April-June, 2018.

This was largely the trend in expectations for the next quarter (July-September, 2018), too. Half of those with <10 employees expect a better quarter along with 55% of those with 10-25 employees and 62% with >25 employees.

Business situation in April-June



Business situation in July-September



Bars represent share of respondents

## Domestic order book improves

In the survey quarter, 45% of the MSEs catering to the domestic market reported higher order book compared with 38% in the previous quarter. Those witnessing a reduction remained stagnant at 9%, while 46% saw no change in April-June, 2018, compared with 53% in January-March, 2018.

Services sector led the improvement, with a 44% increase in order book in April-June, 2018, from 31% in the previous quarter.

Manufacturing sector order book remained muted, with only a 1% growth to 47% in April-June, 2018. This was much below the 53% expectation for the quarter captured in the previous survey.

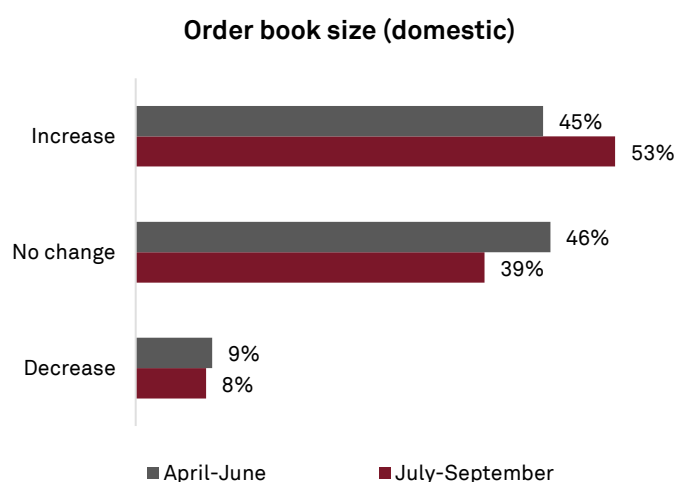
The outlook for July-September, 2018 is positive, with 55% of manufacturing MSEs and 52% of services MSEs expecting an improvement in order book size.

The domestic order book position of manufacturing MSEs in gems & jewellery, chemicals, leather & leather goods and food products was healthy in April-June, 2018.

Gems & jewellery and leather & leather goods segments witnessed pronounced improvement in MSEs reporting increased order book in April-June, 2018, compared with the previous quarter. The number of respondents reporting increased order book grew to 48% from 30% in gems & jewellery, and to 55% from 21% in leather & leather goods.

On the other hand, pharmaceuticals and auto components witnessed a decline in respondents reporting increased order book in April-June, 2018 over the previous quarter. In pharmaceuticals, the number of respondents reporting increased order book declined to 40% from 56%, while in auto components it declined to 51% from 57%.

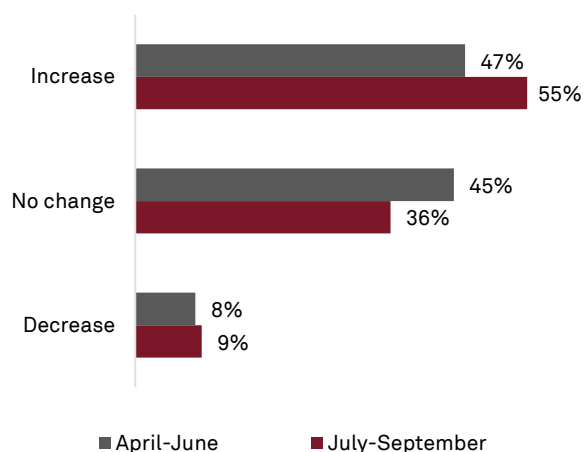
For July-September, 2018, MSEs related to gems & jewellery, engineering & capital goods, metals & mining, pharmaceuticals and textiles segments anticipate an improvement in order book compared to April-June 2018.



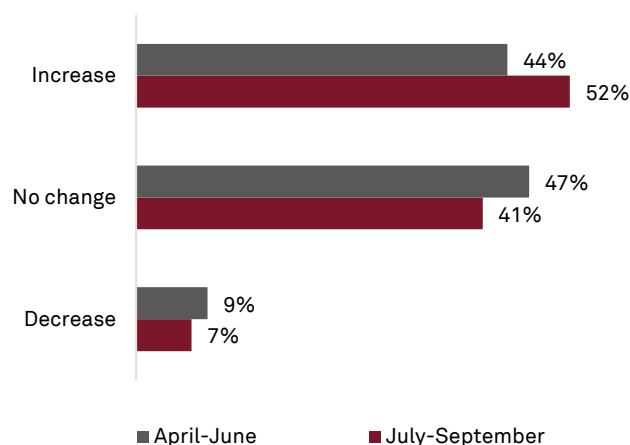
*Bars represent share of respondents*



### Manufacturing – order book size (domestic)



### Services – order book size (domestic)



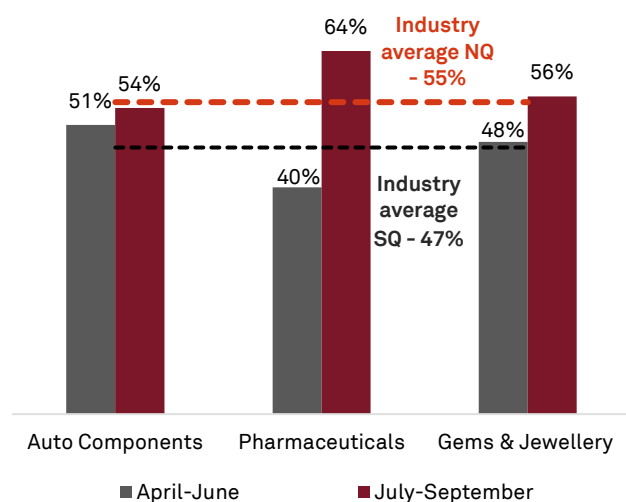
Bars represent share of respondents

In the services sector, MSEs related to IT/ITeS, traders, logistics, human resources, construction & real estate, and professional service providers reported healthy orders in April-June, 2018.

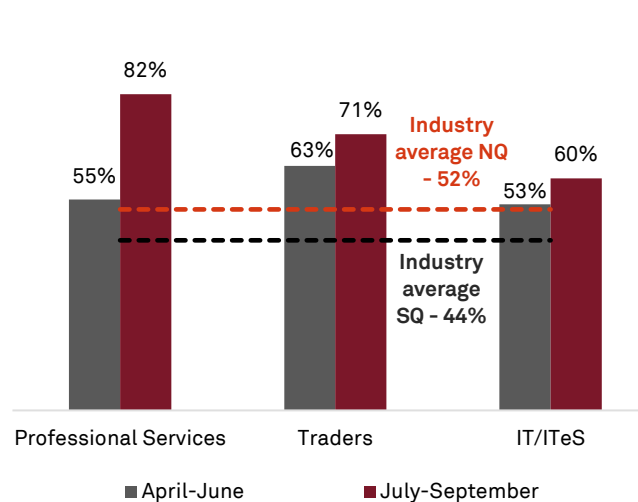
Pronounced improvement was witnessed in MSEs reporting increased order book over the previous quarter. Proportion of respondents reporting increased order book grew to 55% from 25% in professional services, 63% from 37% in traders, 56% from 23% in logistics, and 48% from 11% in human resources services. At the other end, media and power & utilities reported the weakest business volumes with 29% and 27% respondents, respectively, seeing lower orders.

For July-September, 2018, 69% of human resources, 58% each of construction & real estate and power & utilities, 82% of professional services, and 71% of traders anticipate strong pipeline along with healthcare and IT/ITeS sectors.

### Manufacturing industries – order book size (domestic)



### Services industry – order book size (domestic)

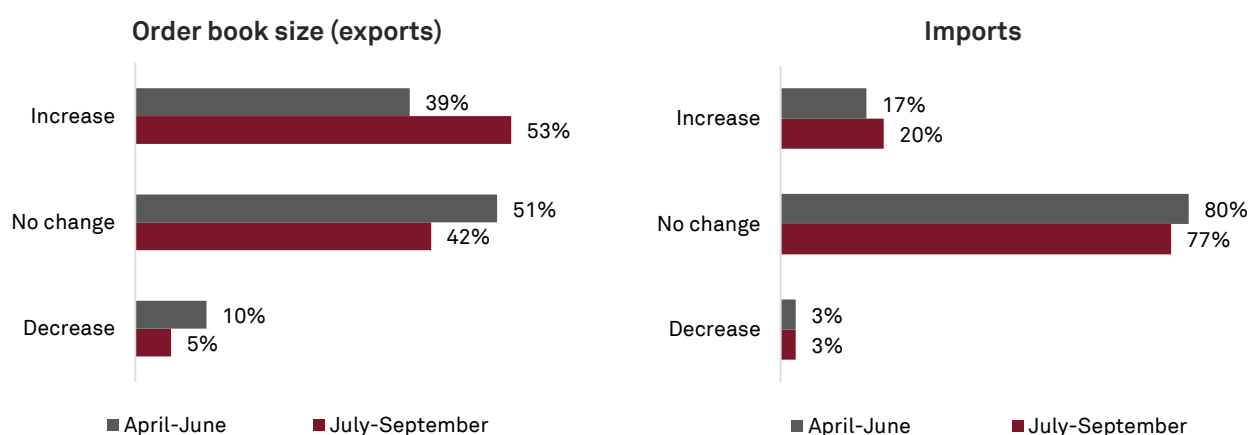


Bars and lines represent share of respondents

## International business

Exports by MSEs have seen a substantial surge with about 39% of the export-oriented respondents reporting an increase in orders in April-June, 2018, compared with 21% in January-March, 2018. However, this was lower than the 53% respondents in the January-March, 2018 survey who had expected increased order book in the next quarter.

Both manufacturing and services sector witnessed high export order book in April-June, 2018. Within manufacturing sector, marked improvement in MSEs reporting increased order book was witnessed in April-June, 2018, compared with the previous quarter. Export order book size grew for pharmaceuticals MSEs to 67% from 20%, metals & mining MSEs to 57% from 33%, textiles MSEs to 30% from 18%, engineering & capital goods MSEs to 39% from 22% and leather & leather goods MSEs to 32% from 20%.



*Bars represent share of respondents*

Within services sector, 64% of IT/ITeS and 36% of logistics MSEs reported increased order book position in April-June, 2018, which was higher than proportion of respondents (42% and 16% respondents respectively) reporting increased order book in January-March, 2018. This was also more than the expectations for the next quarter as captured in the January-March 2018 survey. MSEs in these two sectors expect a strong pipeline in July-September, 2018 as well.

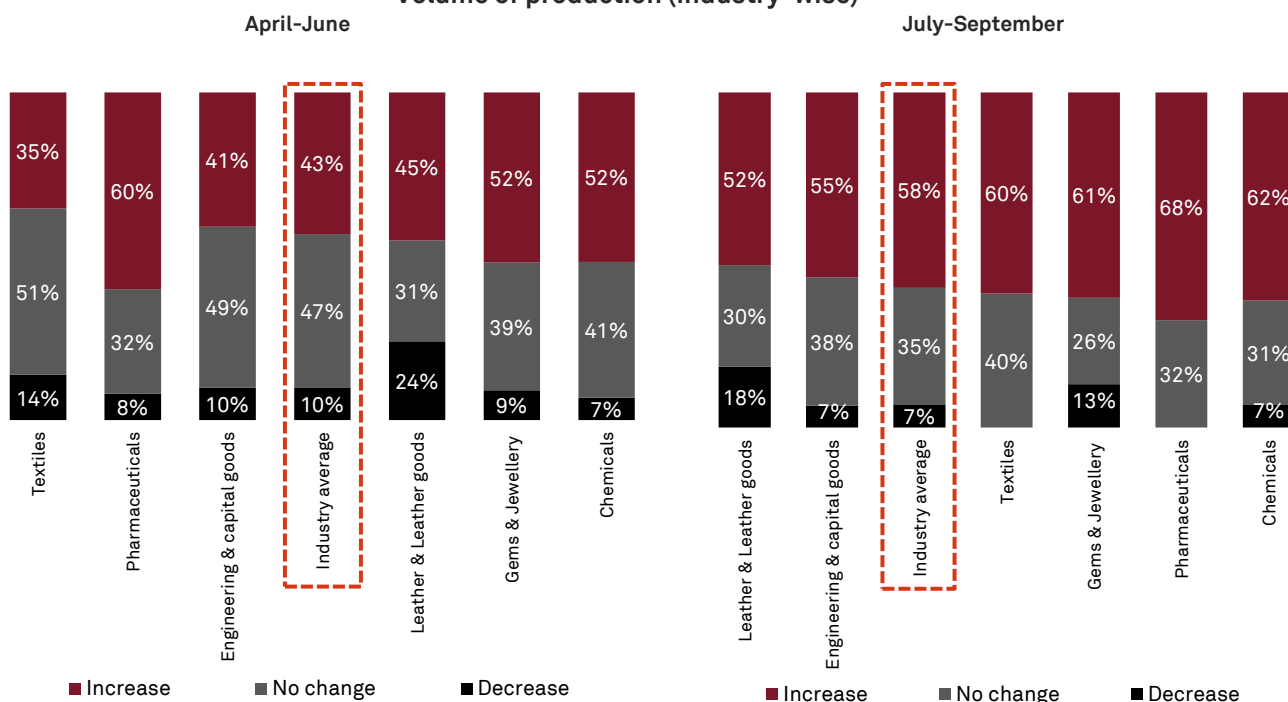
Importer MSEs expect more stability. Nearly 80% of them placed normal orders for imports from their suppliers, while 17% ordered for more. In April-June, 2018, 21% MSEs in the services sector reported increased imports compared with 14% in January-March, 2018. Within the manufacturing sector, those reporting increase in imports declined to 14% from 21%.

## Production cycle

For the manufacturing sector, 47% of respondents did not find any change in their volume of production in April-June, while 10% witnessed a decrease and 43% an increase, indicating similar level of production as seen in the previous quarter.

MSEs are expecting improvement in production over the next quarter with 58% respondents expecting production to rise and only 7% expecting it to fall. The balance 35% believe production will remain unchanged.

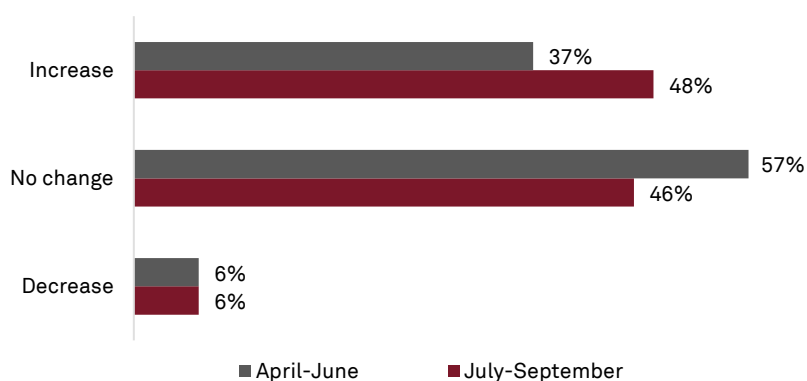
### Volume of production (industry-wise)



Bars represent share of respondents

In April-June, capacity utilisation levels were reported at similar levels as seen in the previous quarter. For July-September, 48% of the respondents from the manufacturing sector expect an increase in the utilisation levels compared with 37% in the April-June quarter.

### Capacity utilisation



Bars represent share of respondents

### Regional sentiment

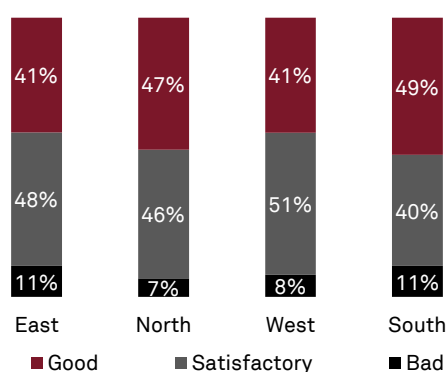
In the survey quarter, sentiment in south and north India was the most positive with 49% and 47% respondents, respectively, reporting a good quarter, followed by the east and west with 41% each.

71% MSEs in Himachal Pradesh and 75% in Uttarakhand were most positive. 58% of respondents in Haryana, 50% in Telangana, 53% in Andhra Pradesh and 59% Tamil Nadu also showed strong positive sentiment.

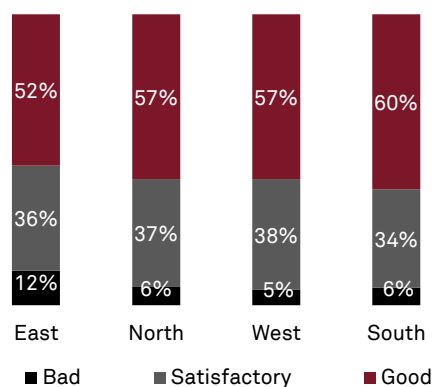
Chhattisgarh and West Bengal had a relatively weaker survey quarter with 25% and 14%, respectively, of the respondents reporting a subdued quarter.

Going forward, sentiment is very optimistic for the next quarter. Maharashtra and Bihar are the most positive with 70% and 75% of respondents, respectively, anticipating a good quarter. Haryana, Andhra Pradesh, and Tamil Nadu also expect a better performance.

**Good April-June quarter**



**Expecting better July-September quarter**



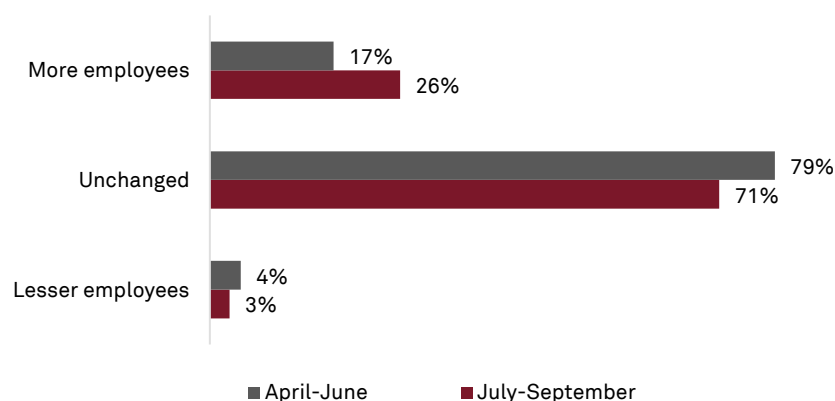
Bars represent share of respondents

## Employment scenario to remain moderate

New job additions remain flat. In April-June, nearly 79% of the respondents reported that their employee base remained unchanged, while 17% added more staff. Only 4% either let go or did not replace outgoing employees.

In July-September, 71% MSEs intend to continue with their current employee base with no net additions, while only 3% foresee a reduction and 26% said they intend to hire.

**Employee base**



Bars represent share of respondents

Within manufacturing sector, 34% of chemicals, 32% of pharmaceuticals, 19% of gems and jewellery, and 21% of engineering & capital goods related MSEs added more staff in the April-June quarter compared with 14%, 25%, 4%, and 15% respondents respectively in the January-March quarter.

Leather & leather goods is a mixed bag with 12% respondents saying they parted ways with employees or did not replace outgoing ones, while 12% were net employers in April-June, 2018. A similar trend is visible in July-September, 2018, with 12% respondents stating they will let people go, while 21% plan to be net employers.

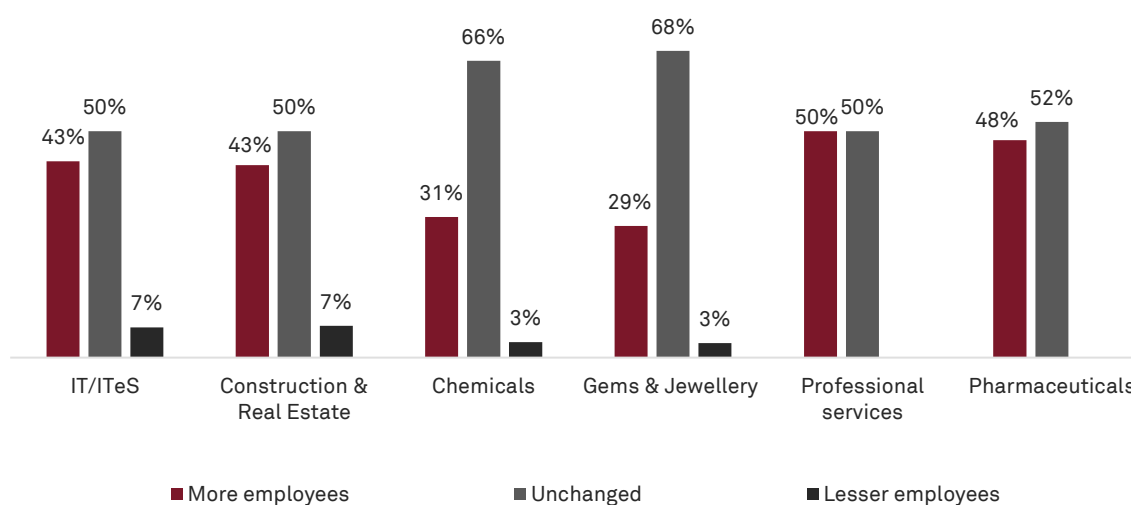
In July-September, 2018, MSEs in pharmaceuticals, food products, gems & jewellery, engineering & capital goods, auto components, metals & mining, leather & leather goods were the most positive in terms of recruitment, with 48%, 30%, 29%, 28%, 25%, 23% and 21% of respondents, respectively, planning to add employees. Additionally pharmaceuticals and food products MSEs anticipate no reduction of employees in next quarter.

Within services sector, 33% of IT/ITeS, 38% of human resources, 36% of professional services, and 28% of construction & real estate related MSEs added more staff in the April-June quarter, which was higher than 31%, 19%, 11%, and 18%, respectively, in January-March.

In services, media and construction & real estate related MSEs were the most subdued employers. Construction & real estate is a mixed bag with 13% respondents stating they let people go, while 28% were net employers.

IT/ITeS, construction & real estate, professional services, healthcare and human resource services providers are relatively more optimistic about the next quarter with at least 42% in each segment looking to recruit.

**Employee base in July-September quarter in each industry**



*Bars represent share of respondents*

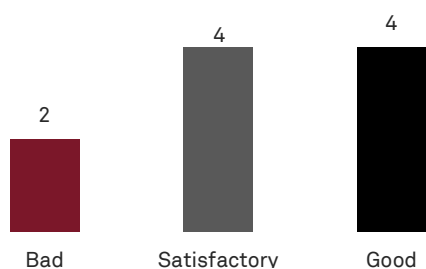
## Lender view

CRISIL also solicited views from lenders, including banks, MFIs and non-banking finance companies on the MSE sector.

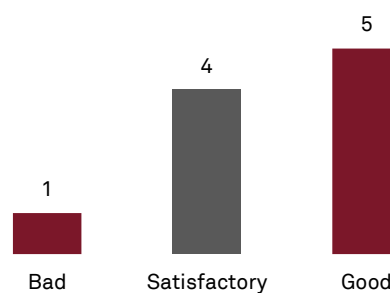
Sentiment among lenders in April-June, 2018 was positive, with four out of 10 rating the overall business situation of MSE sector as good and four as satisfactory. In the January-March, 2018 survey, only one out of 10 respondents has rated it as a good quarter, while 8 out of 10 respondents had rated it as satisfactory.

In July-September, 2018, lenders anticipate a positive quarter with 5 out of 10 saying it would be good and four as satisfactory.

Business situation in April-June quarter



Business situation in July-September quarter

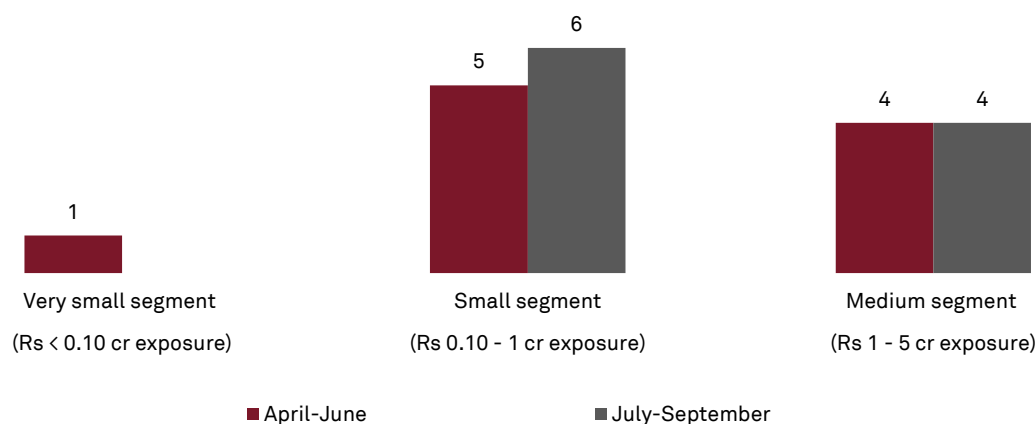


Bars represent number of respondents

In April-June, respondent-lenders witnessed maximum credit exposure to the small segment, with Rs 10 lakh to Rs 1 crore ticket size and bulk of it was to undertake long-term capital expenditure. However, their credit exposure to the unorganised segment (ticket size <Rs 10 lakh), and to medium enterprises (ticket size of Rs 1-5 crore), was stagnant.

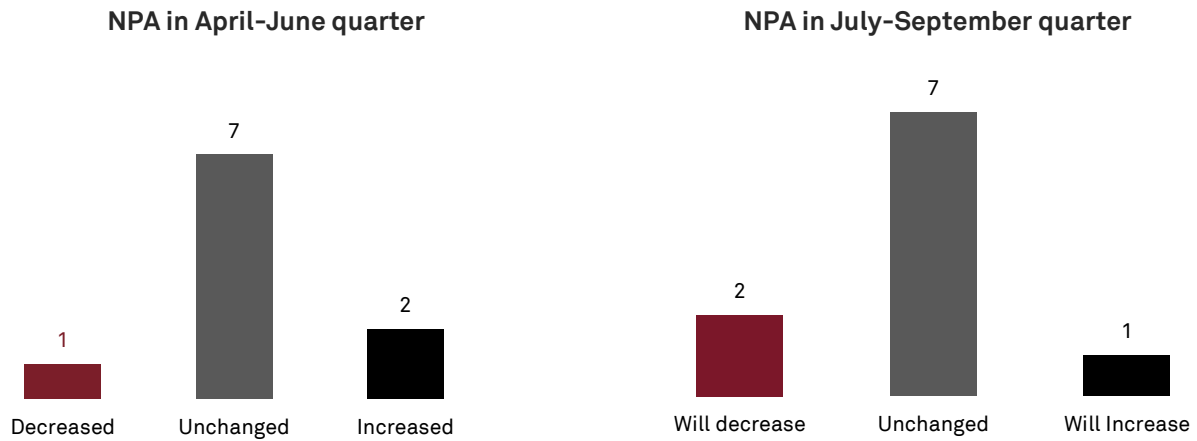
For July-September, the small segment with Rs 10 lakh to Rs 1 crore ticket size should continue to outperform with 6 out of 10 respondents staying positive compared with 5 out of 10 in the April-June quarter.

Highest credit growth in segments (based on size of exposure)



Bars represent number of respondents

Asset quality in the unorganised segment was weak in April-June, with 5 out of 10 lenders classifying them as risky given the highest NPA levels, compared with 4 out of 10 lenders in January-March. Lenders expect non-performing assets (NPAs) in the segment to remain high in July-September as well.



Bars represent number of respondents

Given this, 8 out of 10 lenders expect interest rates on MSE loans to increase in July-September, 2018 compared with just 3 out of 10 in April-June, 2018.

5 out of 10 lenders believe it is easy for MSEs to get loans. However, weak performance history with bank loans, growing NPAs, and absence of any formal independent assessment remains the biggest challenges when funding MSEs, followed by lack of network and collateral, and weak financial performance.

## About CRISIL Limited

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## About SIDBI

Small Industries Development Bank of India (SIDBI), is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities. The business domain of SIDBI consists of Micro, Small and Medium Enterprises (MSMEs), which contribute significantly to the national economy in terms of production, employment and exports. SIDBI meets the financial and developmental needs of the MSME sector with a Credit+ approach to make it strong, vibrant and globally competitive. For more information, visit [www.sidbi.in](http://www.sidbi.in).

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