



# Services sentiment still numb, but recovering

December 2020 | Volume 12

CriSidEx survey for July-September 2020 and October-December 2020

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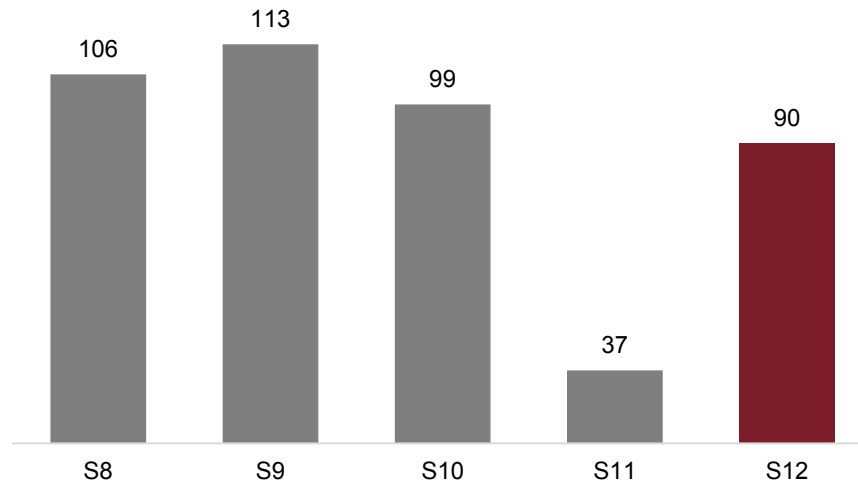
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## Weak sentiment reflects pandemic-piloted sluggish economy



At 90, the CriSidEx\* score for July-September (Survey 12), although above 37 logged in April-June (Survey 11), is still much lower than the pre-Covid-19 scores. The index for S11 is based on 767 surveys compared with 1,100 surveys in all other quarters. Lower response was due to the pandemic-related lockdown in India.

### Abbreviations

| CriSidEx survey | Survey quarter (SQ)         | Next quarter (NQ)            |
|-----------------|-----------------------------|------------------------------|
| Survey 8 (S8)   | July-September 2019 (SQ8)   | October-December 2019 (NQ8)  |
| Survey 9 (S9)   | October-December 2019 (SQ9) | January-March 2020 (NQ9)     |
| Survey 10 (S10) | January-March 2020 (SQ10)   | April-June 2020 (NQ10)       |
| Survey 11 (S11) | April-June 2020 (SQ11)      | July-September 2020 (NQ11)   |
| Survey 12 (S12) | July-September 2020 (SQ12)  | October-December 2020 (NQ12) |

\* See 'How to read CriSidEx' on page 12

### On-year movement in index parameters

#### Manufacturing

| Component parameters | Actual |     |        |
|----------------------|--------|-----|--------|
|                      | S8     | S12 | S12-S8 |
| Volume of production | 105    | 104 | -1     |
| Order-book size      | 103    | 108 | 5      |
| PAT margin           | 113    | 92  | -21    |
| Capacity utilisation | 107    | 111 | 4      |
| Employee base        | 101    | 82  | -19    |
| Manufacturing index  | 106    | 99  | -7     |

#### Services

| Component parameters | Actual |     |        |
|----------------------|--------|-----|--------|
|                      | S8     | S12 | S12-S8 |
| Order-book size      | 102    | 87  | -15    |
| PAT margin           | 112    | 76  | -36    |
| Employee base        | 101    | 79  | -22    |
| Services index       | 105    | 81  | -24    |

On-year drop in index is steeper in the service sector than in manufacturing. The Manufacturing Index improved slightly on two parameters: order book size and capacity utilisation. All the other parameters recorded a decline for both sectors.

Positive Negative

## CriSidEx readings | Manufacturing

| Index parameters     | SQ         |             |            |            | NQ         |            |             |            |            |            |
|----------------------|------------|-------------|------------|------------|------------|------------|-------------|------------|------------|------------|
|                      |            | Negative    | Neutral    | Positive   | Index      | Negative   | Neutral     | Positive   | Index      |            |
| Volume of production | S8         | 14%         | 68%        | 18%        | 105        | S8         | 7%          | 65%        | 28%        | 121        |
|                      | S9         | 14%         | 57%        | 29%        | 115        | S9         | 8%          | 55%        | 37%        | 129        |
|                      | S10        | 22%         | 57%        | 21%        | 99         | S10        | 49%         | 37%        | 14%        | 65         |
|                      | S11        | 75%         | 20%        | 5%         | 31         | S11        | 42%         | 35%        | 23%        | 81         |
|                      | <b>S12</b> | <b>31%</b>  | <b>34%</b> | <b>35%</b> | <b>104</b> | <b>S12</b> | <b>16%</b>  | <b>40%</b> | <b>44%</b> | <b>128</b> |
| Order-book size      | S8         | 15%         | 67%        | 18%        | 103        | S8         | 7%          | 63%        | 30%        | 123        |
|                      | S9         | 14%         | 58%        | 28%        | 115        | S9         | 7%          | 57%        | 36%        | 129        |
|                      | S10        | 21%         | 55%        | 24%        | 102        | S10        | 48%         | 35%        | 17%        | 69         |
|                      | S11        | 72%         | 21%        | 7%         | 35         | S11        | 42%         | 33%        | 25%        | 83         |
|                      | <b>S12</b> | <b>28%</b>  | <b>36%</b> | <b>36%</b> | <b>108</b> | <b>S12</b> | <b>15%</b>  | <b>44%</b> | <b>41%</b> | <b>126</b> |
| PAT margin           | S8         | 18%         | 51%        | 31%        | 113        | S8         | 10%         | 47%        | 43%        | 133        |
|                      | S9         | 13%         | 66%        | 21%        | 108        | S9         | 9%          | 63%        | 28%        | 119        |
|                      | S10        | 26%         | 53%        | 21%        | 95         | S10        | 49%         | 36%        | 15%        | 65         |
|                      | S11        | 75%         | 19%        | 6%         | 31         | S11        | 46%         | 35%        | 19%        | 73         |
|                      | <b>S12</b> | <b>37%</b>  | <b>34%</b> | <b>29%</b> | <b>92</b>  | <b>S12</b> | <b>18%</b>  | <b>46%</b> | <b>36%</b> | <b>118</b> |
| Capacity utilisation | S8         | 15%         | 63%        | 22%        | 107        | S8         | 9%          | 58%        | 33%        | 124        |
|                      | S9         | 13%         | 62%        | 25%        | 112        | S9         | 7%          | 61%        | 32%        | 125        |
|                      | S10        | 22%         | 57%        | 21%        | 99         | S10        | 46%         | 40%        | 14%        | 68         |
|                      | S11        | 73%         | 24%        | 3%         | 31         | S11        | 41%         | 39%        | 20%        | 79         |
|                      | <b>S12</b> | <b>24%</b>  | <b>40%</b> | <b>36%</b> | <b>111</b> | <b>S12</b> | <b>14%</b>  | <b>52%</b> | <b>34%</b> | <b>120</b> |
| Employee base        | S8         | 5%          | 89%        | 6%         | 101        | S8         | 4%          | 86%        | 10%        | 105        |
|                      | S9         | 9%          | 79%        | 12%        | 103        | S9         | 6%          | 80%        | 14%        | 108        |
|                      | S10        | 10%         | 80%        | 10%        | 100        | S10        | 24%         | 67%        | 9%         | 84         |
|                      | S11        | 61%         | 38%        | 1%         | 40         | S11        | 35%         | 56%        | 9%         | 74         |
|                      | <b>S12</b> | <b>25%</b>  | <b>68%</b> | <b>7%</b>  | <b>82</b>  | <b>S12</b> | <b>9%</b>   | <b>83%</b> | <b>8%</b>  | <b>99</b>  |
| Manufacturing Index  | S8         | SQ8         |            |            | 106        | S8         | NQ8         |            |            | 121        |
|                      | S9         | SQ9         |            |            | 110        | S9         | NQ9         |            |            | 122        |
|                      | S10        | SQ10        |            |            | 99         | S10        | NQ10        |            |            | 70         |
|                      | S11        | SQ11        |            |            | 34         | S11        | NQ11        |            |            | 78         |
|                      | <b>S12</b> | <b>SQ12</b> |            |            | <b>99</b>  | <b>S12</b> | <b>NQ12</b> |            |            | <b>118</b> |

In the Manufacturing Index, on-year index for PAT margin and employee base dropped 18-19%. All the other parameters showed marginal increase or decrease. The next quarter (NQ) index for all the parameters is expected to increase. Overall, the Manufacturing Index recorded 7% on-year drop, which is expected to improve 19% next quarter

## CriSidEx readings | Services

| Index parameters                  | SQ  |          |         |          |       | NQ  |          |         |          |       |
|-----------------------------------|-----|----------|---------|----------|-------|-----|----------|---------|----------|-------|
|                                   |     | Negative | Neutral | Positive | Index |     | Negative | Neutral | Positive | Index |
| Order-book size                   | S8  | 12%      | 74%     | 14%      | 102   | S8  | 6%       | 63%     | 31%      | 125   |
|                                   | S9  | 7%       | 63%     | 30%      | 123   | S9  | 6%       | 57%     | 37%      | 131   |
|                                   | S10 | 22%      | 62%     | 16%      | 94    | S10 | 33%      | 52%     | 15%      | 82    |
|                                   | S11 | 72%      | 19%     | 9%       | 37    | S11 | 40%      | 46%     | 14%      | 74    |
|                                   | S12 | 42%      | 29%     | 29%      | 87    | S12 | 32%      | 40%     | 28%      | 96    |
| PAT margin                        | S8  | 14%      | 60%     | 26%      | 112   | S8  | 8%       | 50%     | 42%      | 134   |
|                                   | S9  | 10%      | 65%     | 25%      | 115   | S9  | 9%       | 59%     | 32%      | 123   |
|                                   | S10 | 23%      | 59%     | 18%      | 95    | S10 | 32%      | 53%     | 15%      | 83    |
|                                   | S11 | 74%      | 18%     | 8%       | 34    | S11 | 40%      | 52%     | 8%       | 69    |
|                                   | S12 | 48%      | 29%     | 23%      | 76    | S12 | 38%      | 37%     | 25%      | 87    |
| Employee base                     | S8  | 6%       | 87%     | 7%       | 101   | S8  | 3%       | 84%     | 13%      | 109   |
|                                   | S9  | 7%       | 77%     | 16%      | 109   | S9  | 5%       | 77%     | 18%      | 113   |
|                                   | S10 | 14%      | 64%     | 22%      | 108   | S10 | 17%      | 73%     | 10%      | 93    |
|                                   | S11 | 57%      | 38%     | 5%       | 48    | S11 | 28%      | 70%     | 2%       | 75    |
|                                   | S12 | 23%      | 75%     | 2%       | 79    | S12 | 12%      | 86%     | 2%       | 90    |
| Services Index                    | S8  | SQ8      |         |          | 105   | S8  | NQ8      |         |          | 123   |
|                                   | S9  | SQ9      |         |          | 116   | S9  | NQ9      |         |          | 122   |
|                                   | S10 | SQ10     |         |          | 99    | S10 | NQ10     |         |          | 86    |
|                                   | S11 | SQ11     |         |          | 40    | S11 | NQ11     |         |          | 72    |
|                                   | S12 | SQ12     |         |          | 81    | S12 | NQ12     |         |          | 91    |
| CriSidEx (Manufacturing+Services) | S8  | SQ8      |         |          | 106   | S8  | NQ8      |         |          | 122   |
|                                   | S9  | SQ9      |         |          | 113   | S9  | NQ9      |         |          | 122   |
|                                   | S10 | SQ10     |         |          | 99    | S10 | NQ10     |         |          | 78    |
|                                   | S11 | SQ11     |         |          | 37    | S11 | NQ11     |         |          | 75    |
|                                   | S12 | SQ12     |         |          | 90    | S12 | NQ12     |         |          | 105   |

In case of services, on-year drop is sharper for PAT margin compared with order book and employee base. The Service Index recorded 23% on-year drop, which is much higher than that reported by manufacturing. Overall, the index posted 15% on-year drop, which is expected to improve 17% next quarter



## Business sentiment for July-September 2020

S12 findings need to be viewed in the context of the Covid-19 pandemic in the last quarter of fiscal 2020, which caused a sudden halt in economic activities globally. In addition, continued nationwide lockdown by the Indian government in the first quarter of fiscal 2021, to arrest the spread of the virus, led to supply disruption along with reduction in demand for non-essential goods and services. S12 reflects gradual re-opening of businesses with unlocking of the economy in phases.

### Sectors that saw a positive trend

- Among manufacturers, 20% reported a good SQ12, higher than 4% in SQ11, but lower than 27% in the same quarter a year ago (SQ8).
  - In SQ12, pharmaceuticals, food products and chemicals sectors had the highest share of respondents who reported a good quarter
  - On-year (SQ8 to SQ12), pharmaceuticals and auto components reported growth in the share of respondents with positive sentiment
- Among service providers, 18% reported a good SQ12, higher than 7% in SQ11, similar to 19% in the same quarter a year ago (SQ8)
  - In SQ12, health care providers & services and logistics sectors had the highest share of respondents who reported a good quarter
  - On-year (SQ8 to SQ12) also, logistics and health care providers & services sectors reported an increase in the share of respondents with positive sentiment

### Sectors that saw a subdued trend

- Among manufacturers, 31% reported a bad SQ12, lower than 72% in SQ11, but higher than 14% in the same quarter a year ago (SQ8)
  - In SQ12, leather & leather goods, textiles, and gems & jewellery sectors had a high share of respondents with a subdued quarter
  - On-year, (SQ8 to SQ12), textiles and metal & mining sectors witnessed a sharp decline in growth in the share of respondents with positive sentiment
- Among service providers, 49% reported a bad SQ12, lower than 71% in SQ11, but higher than 14% in the same quarter a year ago (SQ8)
  - In SQ12, travel & hotels, professional services and diversified consumer services sectors had a high share of respondents with a subdued quarter
  - On-year, (SQ8 to SQ12), diversified consumer services, construction & real estate and commercial services & supplies sectors witnessed a sharp decline in growth in the share of respondents with positive sentiment

## Business sentiment for October-December 2020

- 18% of respondents in manufacturing and 42% in services expect a subdued next quarter (NQ12)
- Compared with SQ12, expectation for manufacturing is higher than for services in NQ12

### Sectors anticipating a positive trend

- Among manufacturers
  - For NQ12, pharmaceuticals, gems & jewellery and chemicals sectors had the highest share of respondents who anticipate a good quarter
  - On-year (NQ8 to NQ12), pharmaceuticals and auto components sectors reported an increase in the share of respondents with positive sentiment
- Among service providers
  - For NQ12, respondents from logistics, health care and IT/ITeS sectors had the highest share of respondents who anticipate a good quarter
  - On-year (NQ8 to NQ12), power & utilities and health care providers & services reported an increase in the share of respondents with positive sentiment

### Sectors foreseeing a subdued trend

- Among manufacturers
  - In NQ12, leather & leather goods and textiles sectors had a higher share of respondents expecting a subdued quarter
  - On-year, textiles and chemicals sectors witnessed a sharp decline in optimism

- Among service providers
  - For NQ12, travel & hotels, professional services, media and construction & real estate sectors had a higher share of respondents expecting a subdued quarter
  - On-year, travel & hotels, media and construction & real estate sectors witnessed a sharp decline in optimism

## Other trends in business sentiment

### Companies more positive than firms

- Companies were more positive; 22% reported good SQ12 as against 18% of firms

### MSEs with more than 25 employees positive

- 21% of micro and small enterprises (MSEs) with more than 25 employees reported a good SQ12, as against 19% for MSEs with 10 to 25 employees and 14% for MSEs with less than 10 employees
- For NQ12, 32% of MSEs with more than 25 employees expect a good next quarter compared with 30% of MSEs with 10 to 25 employees and 23% of MSEs with less than 10 employees



# On-year improvement in top line-related parameter But profitability and employee base show less optimism

## Manufacturing

Change in share of positive respondents

| Component parameters | Actual    |          |
|----------------------|-----------|----------|
|                      | S12 - S11 | S12 - S8 |
| Volume of production | 30%       | 17%      |
| Order-book size      | 29%       | 18%      |
| PAT margin           | 23%       | -2%      |
| Capacity utilisation | 33%       | 14%      |
| Employee base        | 6%        | 1%       |

## Services

Change in the share of positive respondents

| Component parameters | Actual    |          |
|----------------------|-----------|----------|
|                      | S12 - S11 | S12 - S8 |
| Order-book size      | 20%       | 15%      |
| PAT margin           | 15%       | -3%      |
| Employee base        | -3%       | -5%      |

- On-year, the share of positive respondents improved for volume of production, order book size and capacity utilisation parameters for manufacturing. The share of positive respondents for the employee base showed marginal improvement, whereas the share of positive respondents for PAT margin declined for the manufacturing segment
- On-year, the share of positive respondents improved for order book size for the service segment. However, the share of positive respondents for the employee base and PAT margin declined

Positive  Negative 

## Domestic order book for July–September 2020

Nearly 40% of MSEs reported decline in order book; sentiment well below SQ8

- In SQ12, 38% of MSEs reported a decline in domestic order book compared with 13% in SQ8
- In manufacturing, pharmaceuticals, gems & jewellery and chemicals sectors had a larger share of respondents with increase in order book
  - Leather & leather goods, textiles and auto components sectors had a larger share of respondents with a subdued quarter
- In services, IT/ITeS, logistics and power & utilities sectors reported an increase in order book
  - Travel & hotels and media sectors had a relatively muted quarter

## Domestic order book for October–December 2020

Nearly one-fourth of MSEs expect next quarter to be muted

- MSEs have low expectations for NQ12 with 26% expecting decline in domestic orders compared with 7% in NQ8
- In manufacturing, pharmaceuticals, gems & jewellery and food products sectors are relatively more optimistic
  - Leather & leather goods, metal & mining and auto components expect a muted quarter
- In services, logistics and healthcare providers & services anticipate enhanced order book position in NQ12
  - Construction & real estate, diversified consumer services and travel & hotels had a higher share of respondents expecting a muted quarter

## Other order book trends

Export-oriented MSEs performed marginally better than domestic peers

- In SQ12, 34% of export-based MSEs reported an increase in orders compared with 21% in SQ8
  - These players performed marginally better than their domestic peers (31% reported a good quarter)
- In NQ12, 34% of exporters expect an increase in order book size as against 40% in NQ8
  - Going ahead, higher share of export-based MSEs anticipate a marginally higher order book compared with their domestic peers (33%)

Importers show negative sentiments

- In SQ12, the share of importers who increased their orders declined to 5% from 9% in SQ8
- For NQ12, only 5% importers expect an increase in orders as against 11% in NQ8

## Miscellaneous trends

Production and capacity utilisation expected to improve

- For NQ12, 44% manufacturing MSEs expect an increase in production, 40% see it unchanged and 16% expect a decline
- In terms of capacity utilisation, 34% manufacturing MSEs expect improved utilisation in NQ12 as against 16% service MSEs

Declining hiring

- In SQ12, 24% MSEs reported decline in their employee base compared with 6% in SQ8; 72% maintained the base, while only 4% reported an addition

- In manufacturing, the leather & leather goods sector witnessed the highest reduction
- In services, travel & hotels reported huge reduction in employee base
- In NQ12, 11% intend to reduce employees, while 5% intend to increase the headcount

**Lenders sentiment muted on business situation of MSEs, but optimistic for next quarter**

- In SQ12, only one out of 10 lenders surveyed saw improvement in the business situation of MSEs; six rated it as satisfactory and three reported it as below satisfactory
- For NQ12, five out of 10 expect it to be satisfactory, one expects it to be below satisfactory and four foresee improvement in the business situation

**Lenders expect credit growth for the medium-ticket segment towards working capital requirement**

- In SQ12, six out of 10 lenders reported the highest credit growth in the Rs 1-5 crore credit exposure segment versus four in the below-Rs 1 crore segment. None of the lenders expected credit growth in the above-Rs 5 crore credit exposure segment. Lenders shared similar preference for NQ12

**Lenders see deterioration in asset quality**

- Five out of 10 lenders reported no change in non-performing assets (NPA), while four reported an increase and only one reported a decrease in SQ12. In NQ12, four lenders reported no change in NPAs, while five reported an increase and one a decrease
- Two out of 10 in the very small segment, six in the small segment and two in the medium segment reported an increase in NPAs in SQ12



## About CriSidEx

CriSidEx is India's first sentiment index for MSEs that indicates the current state and expected outlook on the sector every quarter based on a survey. Survey 1 was conducted for September-December 2017.

The index is based on a diffusion index of eight parameters (five manufacturing and three service parameters) with equal weights. It measures MSE business sentiment on a scale of 0 to 200, where 0 indicates extremely negative sentiment, 100 neutral 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 or SQ and (b) the respondent's expectation for the next quarter or NQ. Responses were received from 1,100 MSEs. No economic indicators, trade statistics or financials of MSEs have been used in computing it.

Since CriSidEx represents MSEs only, care should be taken by users when comparing it with other economic data/ indices.

## Survey process

The survey tracks the business sentiment of MSEs in manufacturing and services (including trading) across India. Responses have been drawn from CRISIL-rated enterprises and current and past borrowers of SIDBI. It also includes micro enterprises funded by microfinance institutions (MFIs) that are, in turn, funded by SIDBI. Additionally, there are responses from lenders (banks and non-banking finance companies, or NBFCs). CRISIL and SIDBI acknowledge the support of all the participant banks and financial institutions, with special thanks to Fullerton India Credit Company Ltd, IndusInd Bank, Kotak Mahindra Bank, North Eastern Development Finance Corporation Ltd 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:

### Established business

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, a qualitative measure of the mood. Respondents are asked to assign qualitative, rather than quantitative inputs, to variables of their interest. Thus, they may not necessarily refer to actual data related to their enterprises when responding to the survey. For example, respondents are asked to assign qualitative inputs 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:

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

<https://sidbi.in/Crisidex.php>



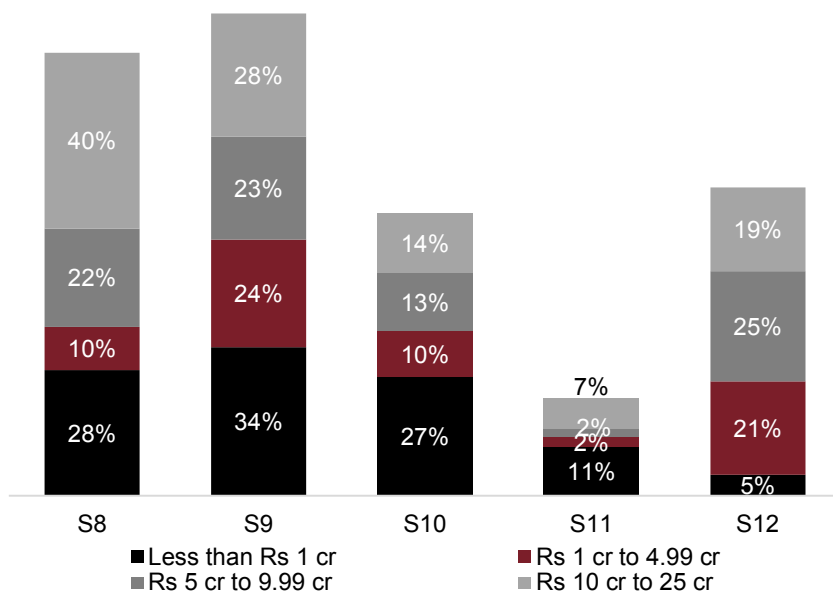




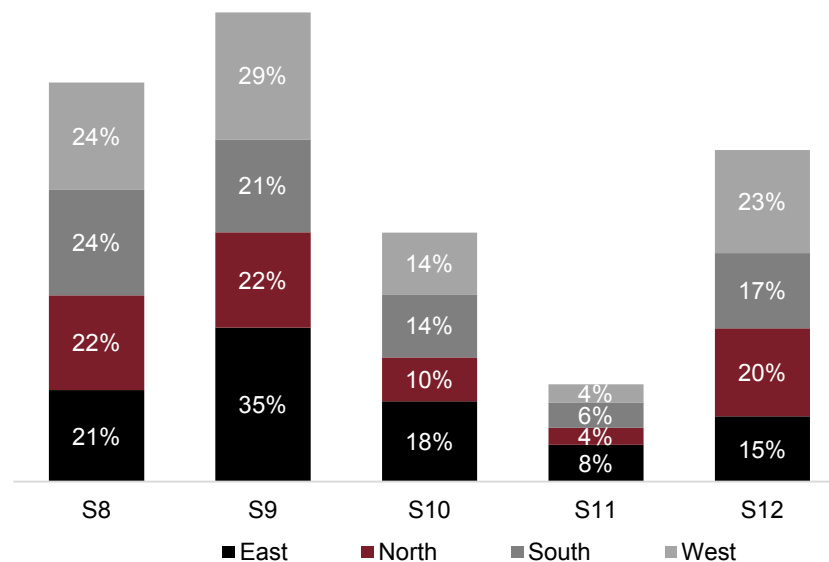
**Comparison across  
surveys**

# Decline in sentiment across all sizes and locations

Based on size of business



Regional sentiment



- 5% of MSEs with annual turnover of less than Rs 1 crore expressed positive sentiment – the lowest among peers in S12 with the highest fall compared with S8
- Positive sentiment in the Rs 1-4.99 crore and Rs.5-9.99 crore segments increased over S8

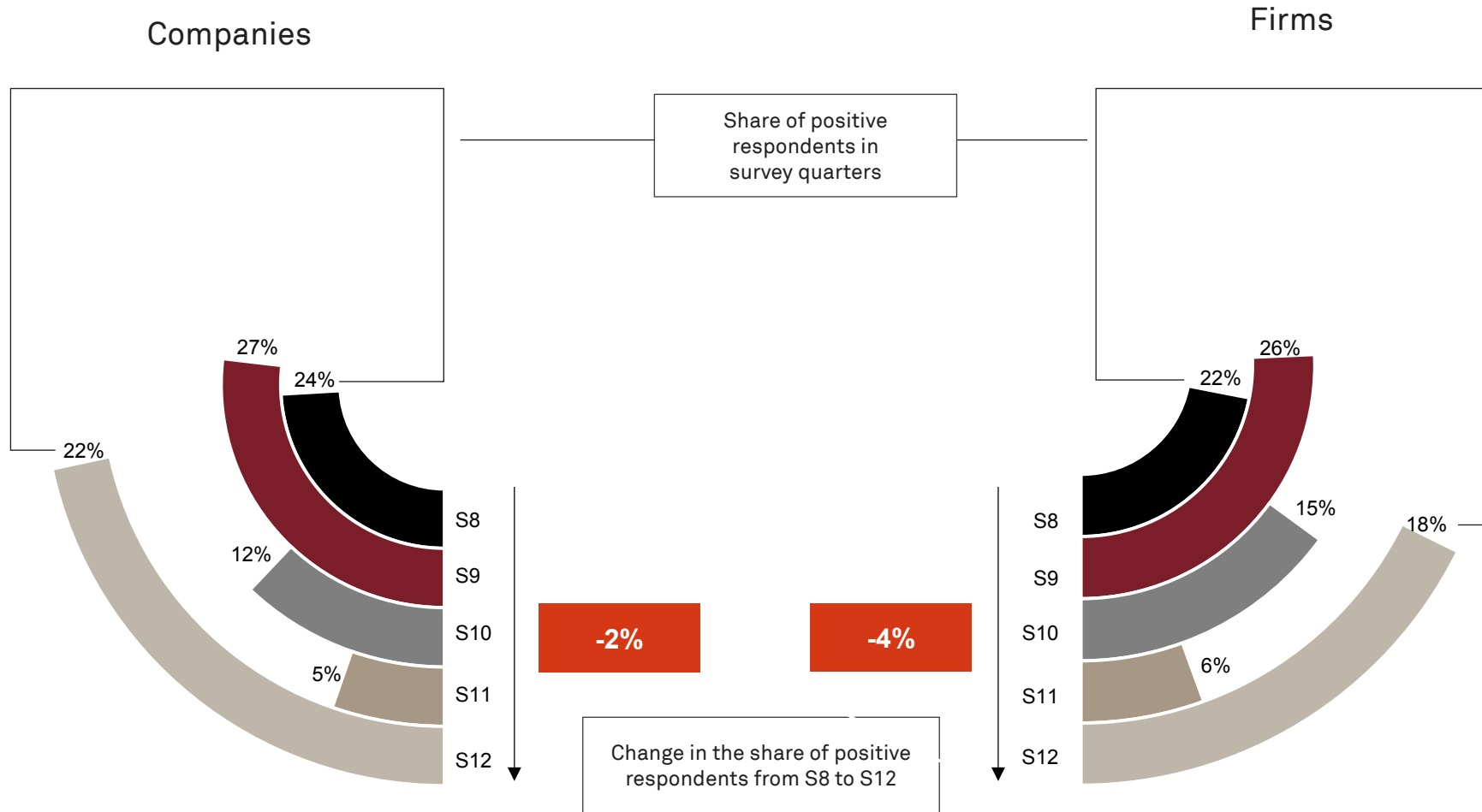
**Positive sentiment fell across regions; east and south show maximum variation**

- In S12, the share of positive respondents in the west was the highest compared with other regions
- East and south showed maximum dip in sentiment and west reflected the lowest variation over S8

% represent share of positive respondents



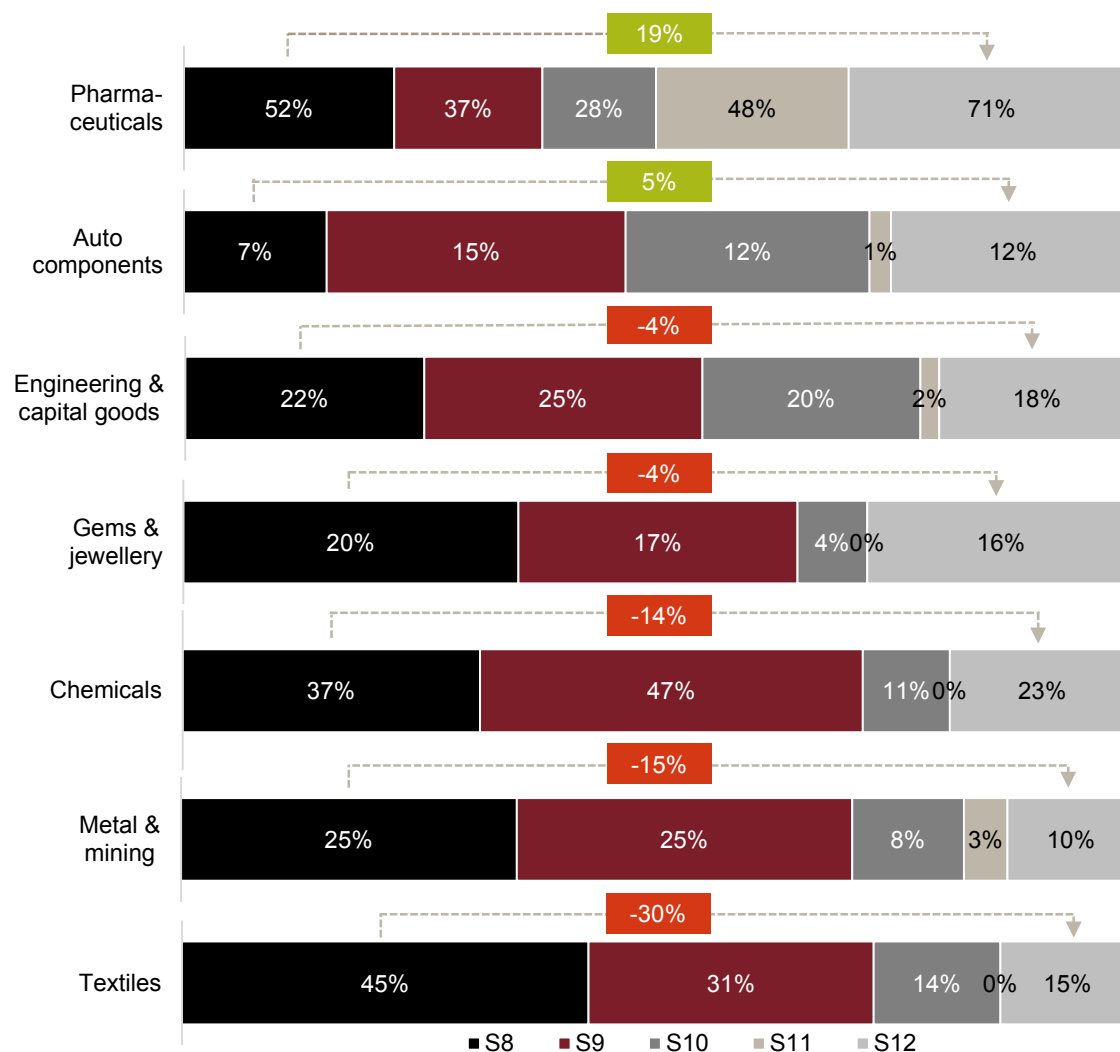
# Companies more optimistic than firms



- Positive sentiment remained marginally higher for companies compared with firms
- Compared with S8, companies showed smaller decrease (2%) in the share of positive respondents than firms (4%)

## Manufacturing: Weakest sentiment in textiles, metal & mining

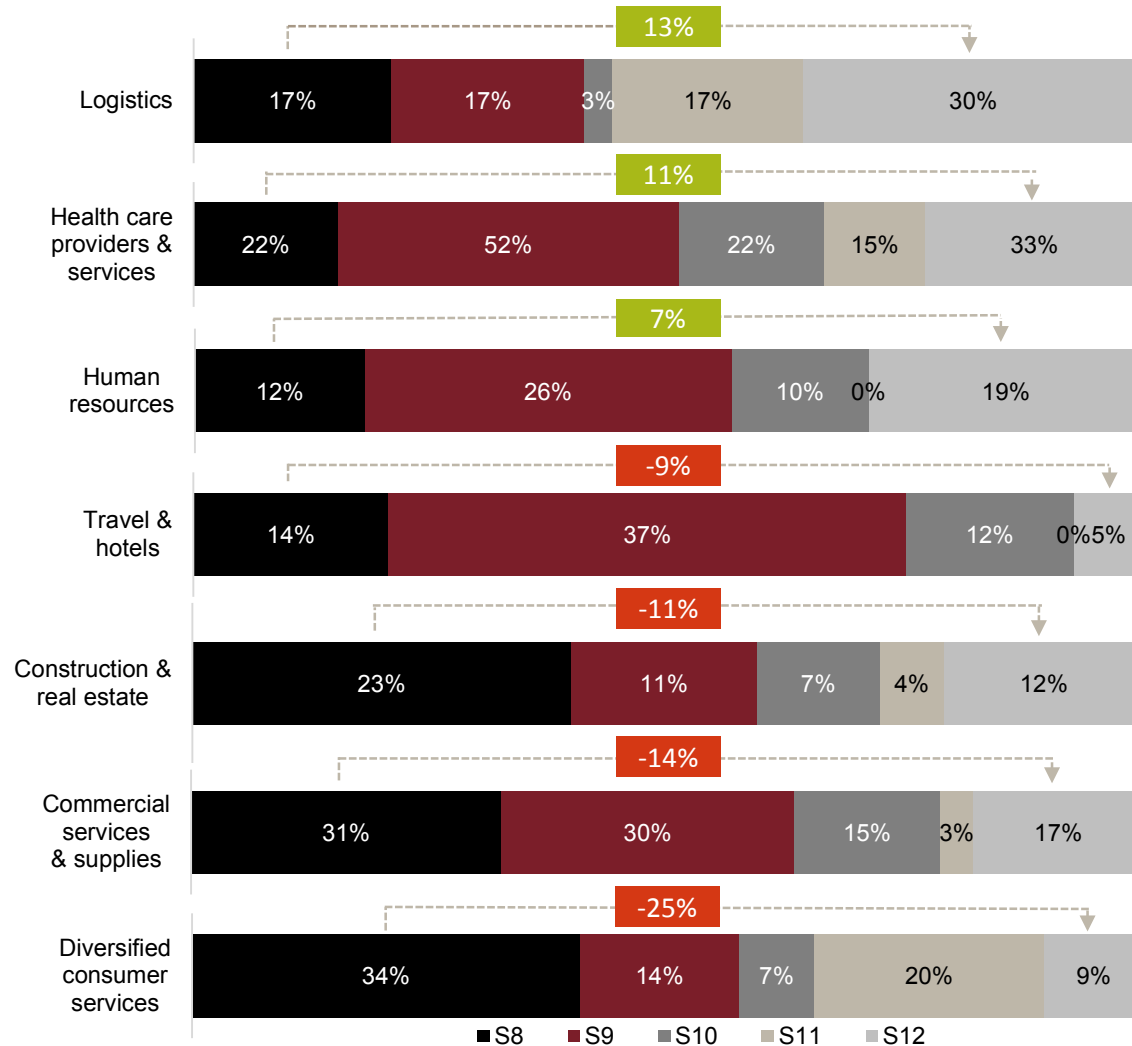
Movement of positive respondents from S8 to S12



- Textiles and metal & mining MSEs reported the most subdued sentiment over S8
- Pharmaceutical MSEs reported higher positive sentiment than peers in S12, followed by auto components











# Services: Muted on-year sentiment in diversified consumer services and commercial services & supplies

Change in positive respondents from S8 to S12



- MSEs in diversified consumer services and commercial services & supplies reported sharpest decline in sentiment over S8
- Logistics, and healthcare providers & services had higher share of positive respondents among peers in S12

## Sector underpinnings

|   |  |   |
|---|--|---|
|    | <b>Auto components</b>                     | Demand for automotive components improved sequentially in Q2 this fiscal from the lows of Q1 when automobile demand was hit by the Covid-19 pandemic. Domestic demand was aided by improving demand from OEMs as they focused on building up inventory ahead of the festive season in Q3. Exports, on the other hand, improved due to a drop in Covid-19 cases at export destinations in Q2. In Q3, however, although demand from domestic OEMs is expected to improve further, a second wave of the pandemic in the USA and Europe remains a key monitorable for export demand.  |
|    | <b>Chemicals</b>                           | Improvement in demand sentiment from downstream automobiles and consumer durables, coupled with lifting of lockdowns, should have a positive impact on the sector. That said, realisations could decline with a decline in raw material prices.   |
|    | <b>Engineering &amp; capital goods</b>     | Easing of restrictions, and hence, mobility constraints, has allowed execution momentum in construction activity to improve q-o-q, leading to a slight uptick in positive sentiment. While, the ongoing fiscal is expected to remain slow as the pandemic lingers, we expect improved momentum in H2 of the fiscal relative to the first.   |
|    | <b>Gems &amp; jewellery</b>                | High prices, recurring lockdown and inauspicious periods of Pitru-Paksha and Adhik impacted demand sentiment during June-September. Sentiment should improve in Q3 on account of the festive season.  |
|    | <b>Leather &amp; leather goods</b>         | In Q1, major export destinations USA, Germany, Italy, France Spain (accounting for over 55% share) were either cancelling or putting orders on hold, or negotiating for a lower price. Exports dropped ~55% in value terms as close to 70% orders were canned, while domestic demand wilted due to demand disruption in the retail segment. In Q2, exports improved sequentially and fell only 5% on-year as lockdown restrictions eased in importing nations. In Q3, domestic demand is expected to improve further with income sentiment picking up, but a second wave of Covid-19 in the USA and Europe remains a key monitorable for export demand. |
|    | <b>Pharmaceuticals</b>                     | In Q3, export demand is likely to remain robust as players launch new products alongside ramping up existing lines. Domestic demand is likely to be stable with the easing of restrictions and increase in hospital footfalls.  |
|  | <b>Construction &amp; real estate</b>      | In Q2, mobilisation of labour and raw materials eased and construction activities improved q-o-q with phased lifting of the lockdown. Q3 would see further improvement as monsoons end and labourers return to construction sites. In the real estate sector, measures by some state governments, such as a reduction in stamp duty on residential properties – leading to sequential improvement in housing sales – and major commercial transactions in recent months resulted in moderate improvement of developer sentiment for Q2. The sequential growth is expected to be better in Q3 with a rebound in residential and commercial real estate.  |
|  | <b>Healthcare providers &amp; services</b> | The improvement in sentiment in Q2 was owing to relative ease in movement for availing healthcare services in the case of non-Covid-19 facilities and higher caseload in the case of Covid-19 facilities. With cases expected to abate in Q3, pent-up demand from normal business is expected to come back to the sector.   |
|  | <b>Textiles</b>                            | Cotton yarn revenue increased in Q2 due to a spurt in demand from Bangladesh, China and Vietnam in anticipation of increase in RMG demand from EU. However, domestic demand remained muted due to weak downstream demand. In Q3, export demand is expected to remain muted amid a second wave of Covid-19 cases across Europe. Domestic demand is also expected to remain muted in Q3. RMG sector revenue continued to decline in Q2 as demand from both domestic and exports market continued to plummet amid a recessionary environment.  |
|  | <b>Logistics</b>                           | As supply chains returned to normalcy with the opening up of the economy, pent-up demand gave an impetus to the logistics sector. Thus, fleet utilisation of transporters improved q-o-q in Q2. The sector is expected to improve further in Q3 owing to higher freight demand in the festive season.   |



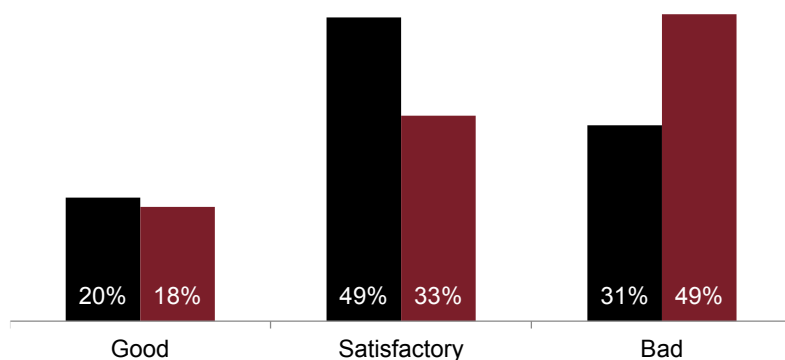




**Sentiment in S12**

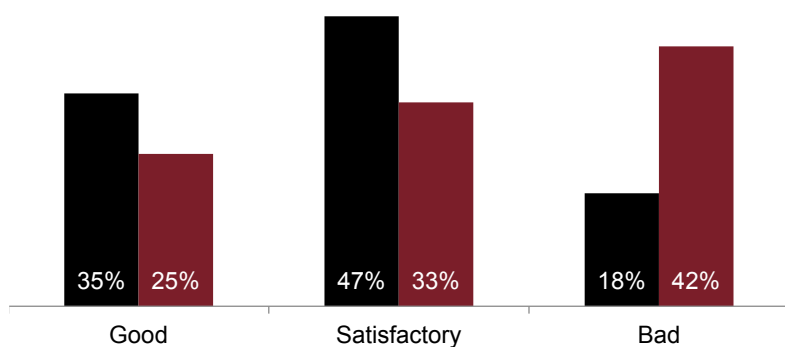
## Higher negative sentiments about business situation in services sector vis-à-vis manufacturing

SQ12 (Jul-Sep' 2020)



- 31% of the respondents in manufacturing and 49% in services sectors were negative about overall business situation in survey quarter (SQ12)

NQ12 (Oct-Dec' 2020)

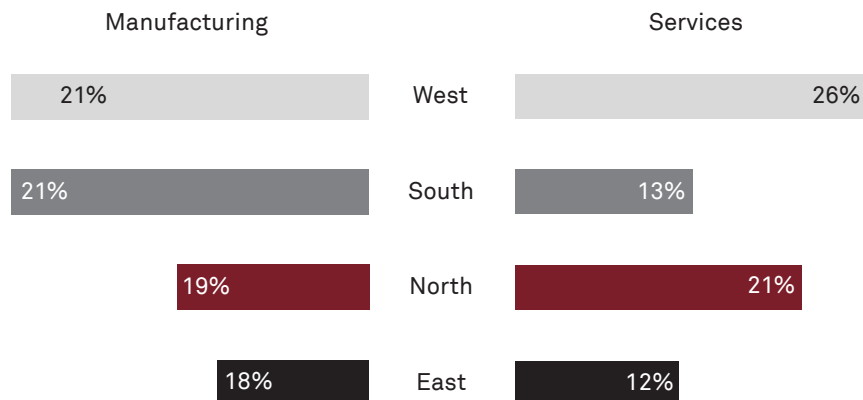


- Sentiments have improved, with a lower 18% and 42% of the respondents in manufacturing and services, respectively, projecting a bad next quarter (NQ12)

■ Manufacturing ■ Services

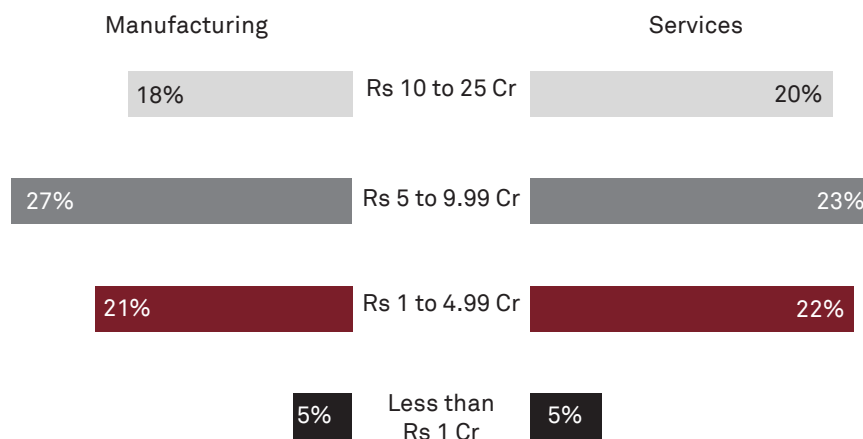


## Services doing better in West, manufacturing in West and South



- Manufacturing MSEs based in the West and South each had 21% share of positive respondents whereas services MSEs based in West had 26% share of positive respondents.
- Manufacturing and services MSEs based in the East had lowest share of positive respondents compare with other regions

21

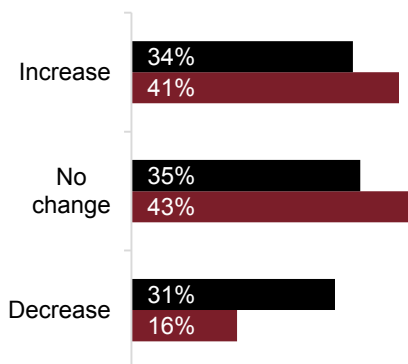


### Medium-sized MSEs more positive

- In manufacturing and services, MSEs with annual turnover of Rs 5.00-9.99 crore were more optimistic, at 27% and 23%, respectively, vis-à-vis peers from other turnover buckets

## Order book size (domestic): Manufacturing to improve in NQ12

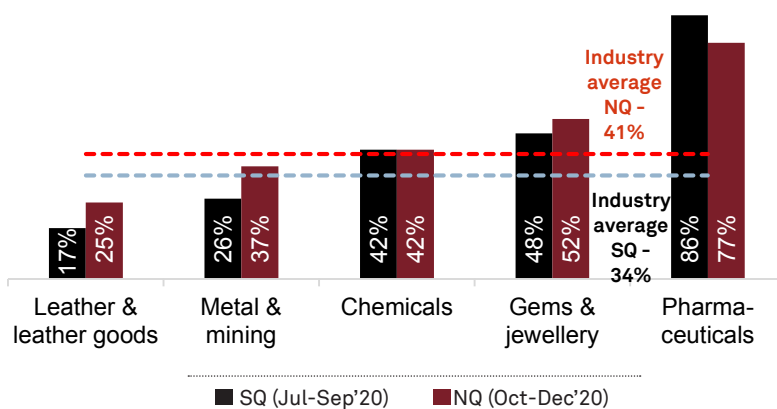
Manufacturing - order book size (domestic)



- 34% of MSEs in manufacturing sector posted growth in domestic order book in SQ12. Also, 41% of the respondents anticipate growth in domestic order book in NQ12

22

Manufacturing industries - order book size (Domestic)

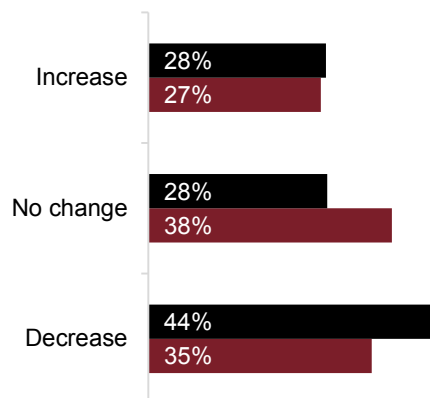


- Share of respondents that reported increase in order book size higher than the industry average in SQ12 were in the pharmaceuticals, gems & jewellery, and chemicals segments
- In leather & leather goods and metal & mining, the share of respondents that reported increase in order book size in SQ12 were lower compared with the industry average

% represent share of positive respondents

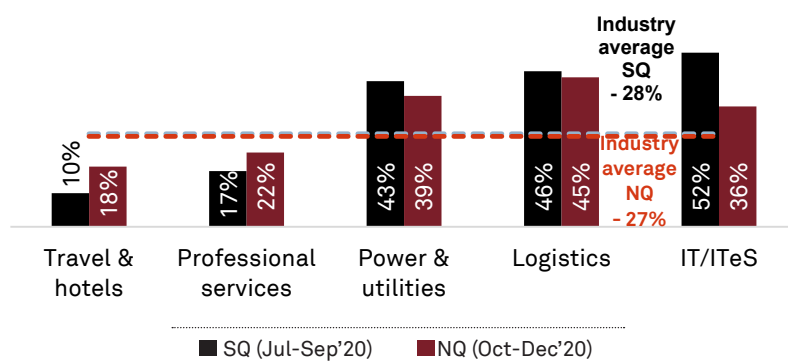
## Order book size (domestic): Services to edge lower in NQ12

Services - order book size (domestic)



- While 28% of MSEs in the services sector reported increase in domestic order book in SQ12, the figure is lower at 27% for NQ12

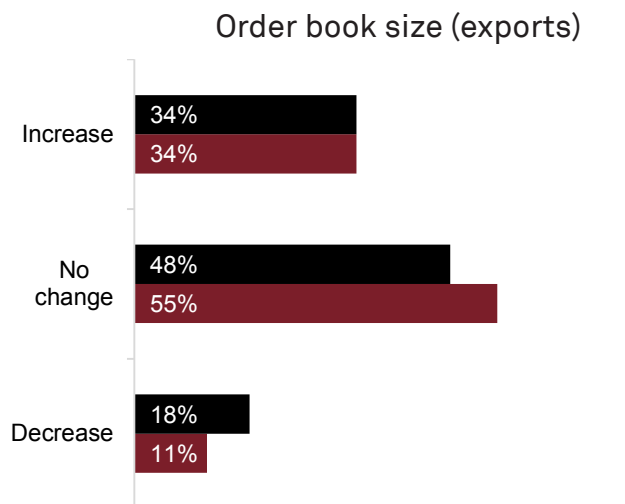
Services industries - order book size (domestic)



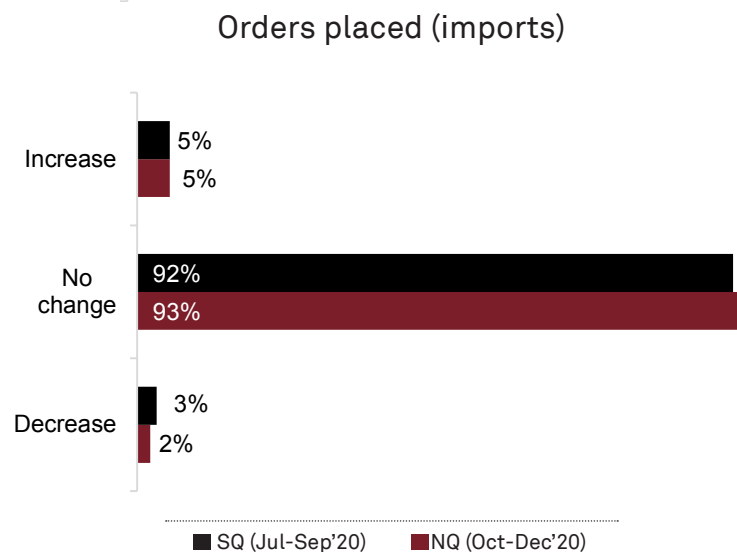
- The share of respondents that reported higher order book size in SQ12 compared with the industry average were in IT/ITeS, logistics, and power & utilities segments
- The share of respondents that reported lowest increase in order book size in SQ12 compared with the industry average were in travel & hotels and professional services segments

% represent share of positive respondents

## Order book (international): Share of exporters anticipating improvement considerably higher compare with importers



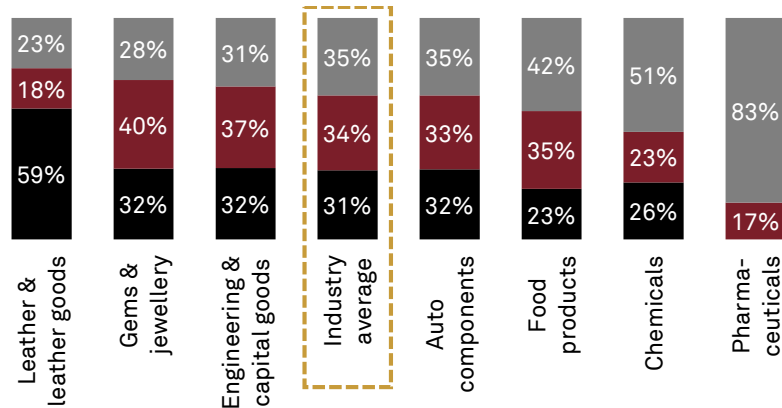
- 34% of MSEs with export order book saw improvement in orders in SQ12. The % is expected to sustain in NQ12



- Only 5% of importers expect the order book size to increase in NQ12. This was the same share of respondents in SQ12

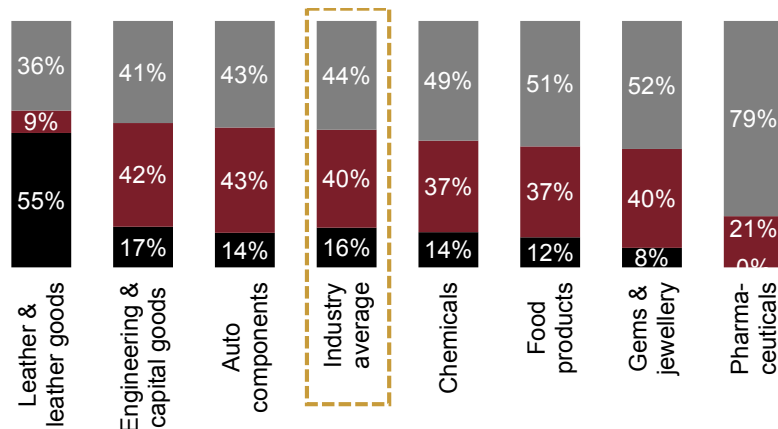
# Production volume: Pharma and chemicals did well, leather & leather goods and gems & jewellery were subdued

Volume of production (industry-wise) - survey quarter



- In SQ12, MSEs in pharmaceuticals, chemicals and food products had highest share of respondents reporting increase in production volume compared with the industry average of 35%
- Leather & leather goods, gems & jewellery, and engineering & capital goods MSEs had lowest share of respondents reporting increase in production volume compared with the industry average

Volume of production (industry-wise) - next quarter

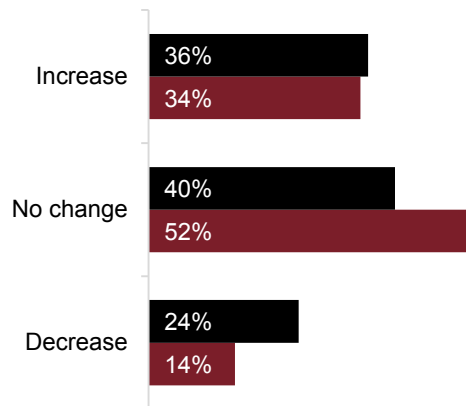


- Pharmaceuticals, gems & jewellery, and food products conveyed higher optimism for NQ12 compared with the industry average of 44%, whereas leather & leather goods, and engineering & capital goods has seen the lowest share of respondents reporting increase in production volume

■ Increase ■ No change ■ Decrease

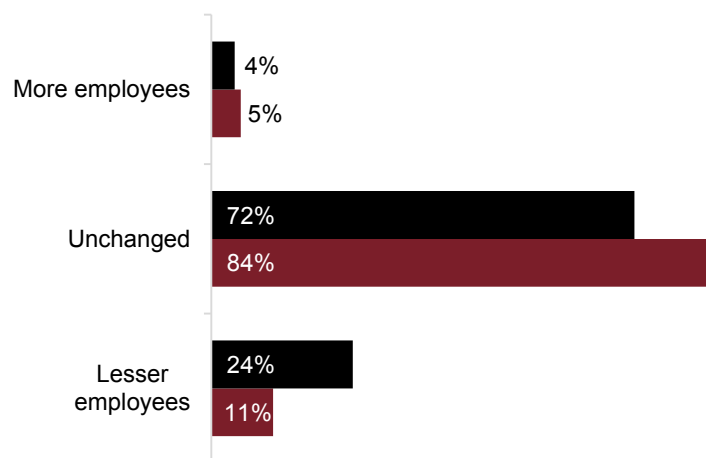
# Capacity utilisation to remain subdued with hiring mirroring the trend

Capacity utilisation (manufacturing)



- In SQ12, 24% of manufacturing-based MSEs reported decrease in capacity utilisation, whereas for 40%, it was unchanged
- For NQ12, 14% of the respondents expect a decline in capacity utilisation, and 52% anticipate no change

Employee base (manufacturing and services)



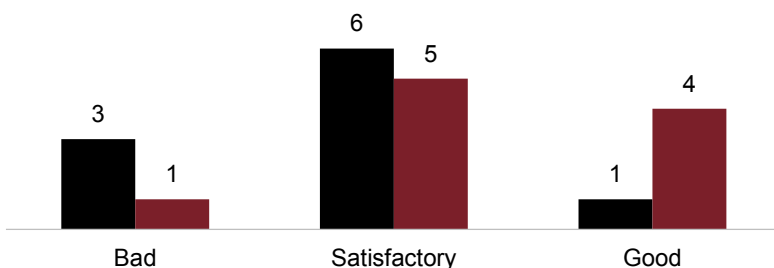
- The employee base of 24% of the respondents reduced in SQ12, whereas 72% reported no change
- Only 5% of the respondents foresee their employee base to increase in NQ12. 84% do not expect addition to their workforce, and 11% expect a reduction

■ SQ (Jul-Sep'20) ■ NQ (Oct-Dec'20)



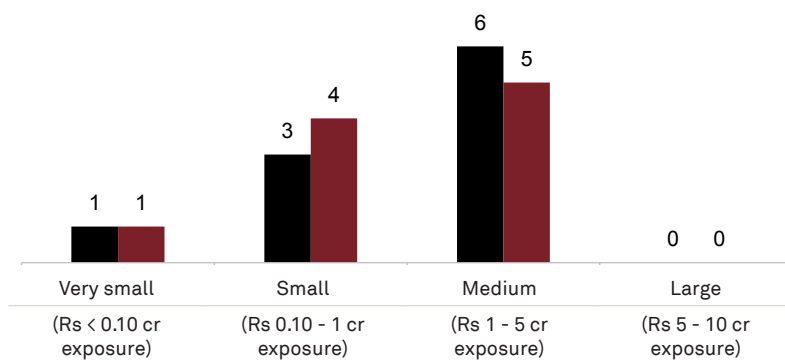
# Lenders sentiment muted on business situation of MSEs; medium size players to see credit growth though

Business situation



- In SQ12, only one out of 10 lenders surveyed saw improvement in the overall business situation of MSEs, six out of 10 rated it as satisfactory, and three out of 10 as bad
- For NQ12, five out of 10 expect it to be satisfactory, one out of 10 as bad and four out of 10 foresee improvement in the overall business situation of MSEs

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

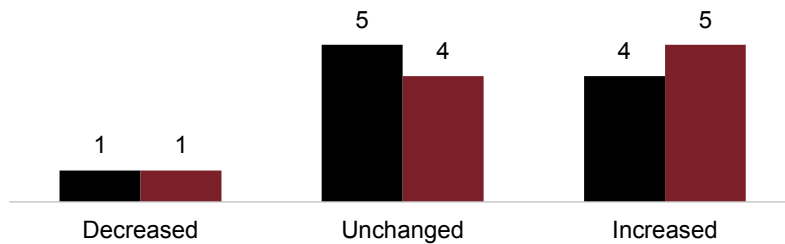


- In SQ12, six out of 10 lenders reported highest credit growth in the Rs 1-5 crore credit exposure segment vs four out of 10 in the below Rs 1 crore segment. None of the lenders expect growth in the above Rs 5 crore credit exposure segment. Lenders shared a similar view for NQ12

■ SQ (Jul-Sep'20) ■ NQ (Oct-Dec'20)

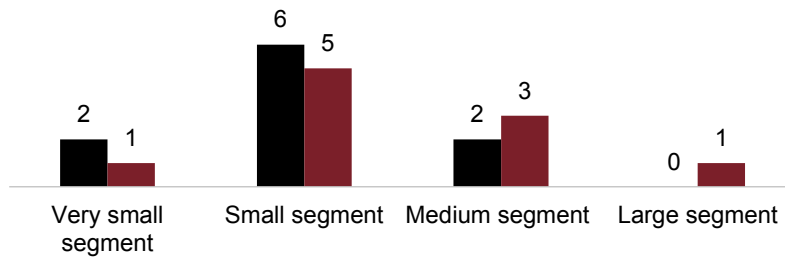
## Lenders see deterioration in asset quality

Asset quality



- Five out of 10 lenders reported no change in NPAs in SQ12, while four reported increase, and one a decrease
- In NQ12, four out of 10 lenders expect no change in NPAs, while five foresee an increase, and one a decrease

Highest NPA rate in segments (based on size of exposure)



- Two out of 10 in the very small segment, six out of 10 in the small segment, two out of 10 in the medium segment, and none in the large segment saw increase in NPA levels in SQ12

■ SQ (Jul-Sep'20) ■ NQ (Oct-Dec'20)







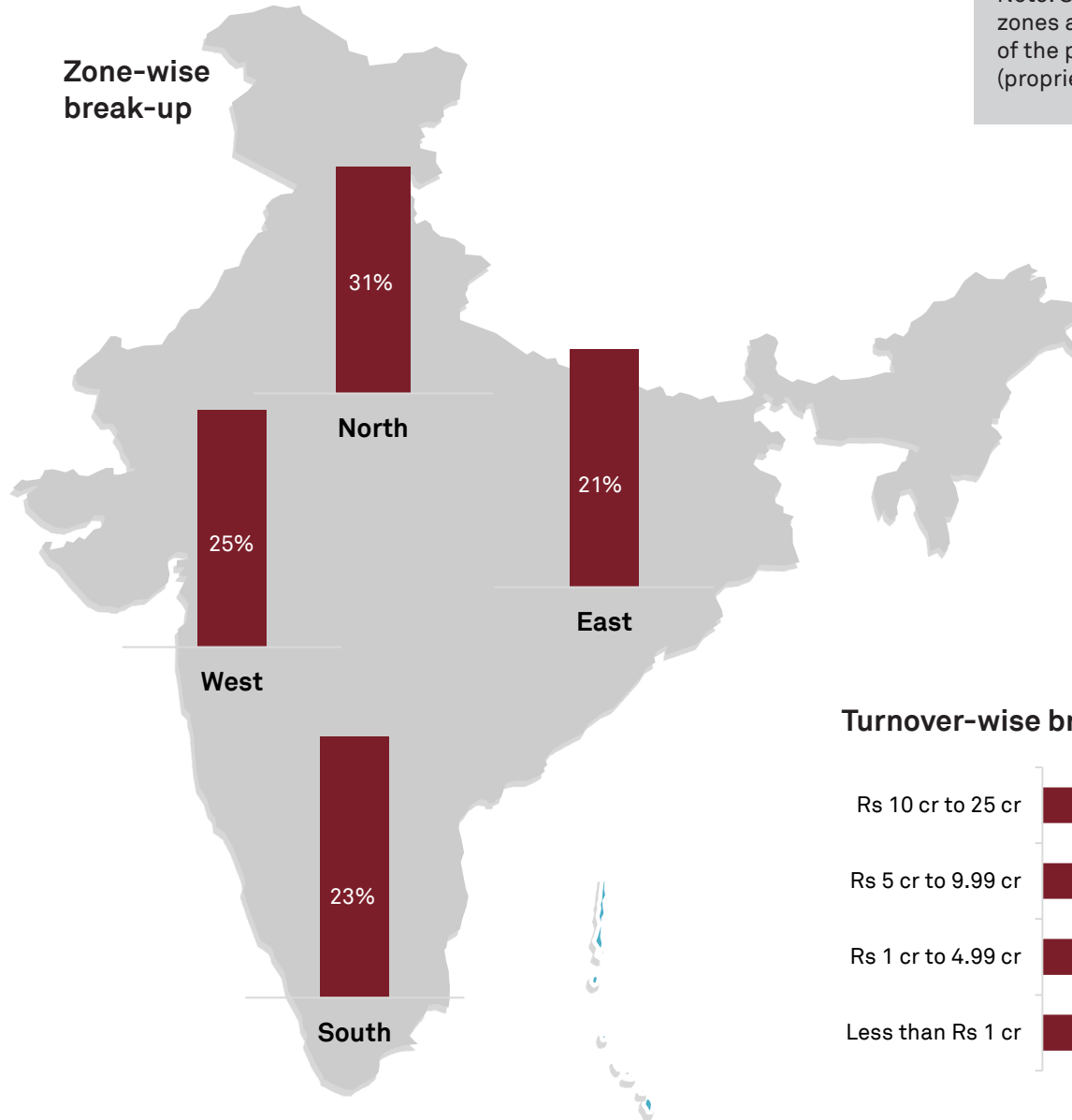
# Annexures



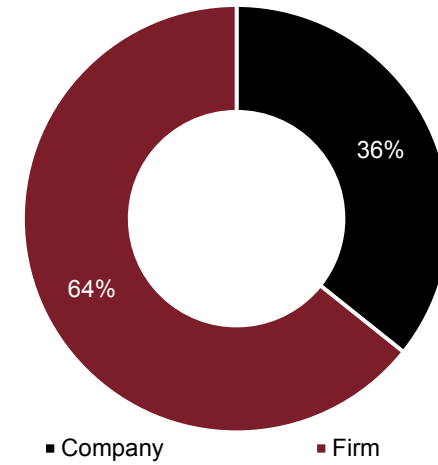
# Sample summary

Note: Sample selected for the survey is well-distributed across zones and turnover categories. In terms of legal status, 36% of the participating MSE were companies and 64% were firms (proprietorships and partnerships)

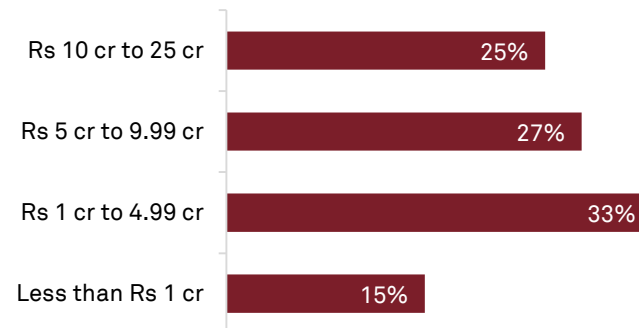
Zone-wise break-up



Legal status break-up



Turnover-wise break-up



## Glossary

### Broad products/ services included under respective segments

|  |
|--|
| Auto components comprise manufacturers of auto parts, die casting products, motor / tractor parts, diesel and fuel engine parts, etc   |
| Chemicals comprise manufacturers of fabric chemicals, dyes, specialty chemicals, paint products, water treatment chemicals, etc        |
| Engineering & capital goods comprise elevator parts, crane manufacturing, machinery parts, cutting tools, etc                          |
| Food products comprise manufacturers of bakery products, ice cream, poultry and cattle feed, processing of agro-based products, etc    |
| Gems & jewellery comprises manufacturers of gold jewellery and retailing, diamond cutting, and polishing                               |
| Leather & leather goods comprise manufacturers of leather footwear and all types leather accessories                                   |
| Pharmaceuticals comprise manufacturers of bulk drugs, tablets, capsules, injections, sanitisers, syrup, handwash, etc                  |
| Commercial services & supplies comprise all types of printing, Car rental services, security system installation, etc                  |
| Diversified consumer services comprise education, cold storage services, cab / catering services, maintenance services, etc            |
| Healthcare providers & services comprise hospitals, fitness and medical equipment, pathological services, etc                          |
| Human resources comprise manpower management, security services, employment services, housekeeping services, etc                       |
| IT/ITeS comprises software developers, computer hardware services, internet services, business process outsourcing, IT consulting, etc |
| Logistics comprise air freight, transportation services, warehousing service, etc  |
| Power & utilities comprise power transmission, solar products, electronic equipment, etc   |
| Professional services comprise consultancy, courier services, tailoring, beauty parlours, videography, etc                             |
| Travel and hotels provides Hotels and Restaurants, Travel and tour operators   |
| Media services provide advertising, hoarding, outdoor advertising, shootings, etc  |
| Metal & mining comprise manufacturers of alloy, steel, aluminum extrusion products, foundry, etc                                       |

# Notes





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Small Industries Development Bank of India has been established under an Act of the Parliament in 1990. SIDBI is mandated to serve as the Principal Financial Institution for executing the triple agenda of promotion, financing and development of the Micro, Small and Medium Enterprises (MSME sector) and co-ordination of the functions of the various Institutions engaged in similar activities. Over the years, through its various financial and developmental measures, the Bank has touched the lives of people across various strata of the society, impacted enterprises over the entire MSME spectrum and engaged with many credible institutions in the MSME ecosystem. Under Vision 2.0, SIDBI has spearheaded various Initiatives to address the Information Asymmetry in MSME sector like 'CriSidEx', for gauging the MSE sentiments & aspirations, 'MSME Pulse', the health tracker of MSME, 'Fintech Pulse', for credit data insights on Fintech lending segment, 'Microfinance Pulse', insight report on Microfinance sector and 'Industry Spotlight', a comprehensive report on major industry sectors.

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