Survey

Global

COVID-19

International Business Report - India mid-market survey: Half-year review

Impact of COVID-19 and outlook for H2 2020

September 2020

Content

About the survey

The Grant Thornton International Business Report (IBR) is a flagship thought leadership that analyses inputs from a survey of mid-market businesses. Launched in 1992, the IBR provides insight into the views and expectations of **approximately 5,000 businesses across 29 economies**. Fieldwork is undertaken on a biannual basis through online and telephone interviews with chief executive officers, managing directors, chairpersons and other senior executives from all industry sectors.

For the current edition of the IBR, **265 Indian business leaders** were surveyed to provide insights on the views and expectations of Indian mid-market businesses.

Global and regional overview

The start of the new decade has commenced with sharp economic contraction across the world, but a modest recovery is expected in 2021

The COVID-19 pandemic has affected all sectors and economies, with the most severe impact felt in sectors, such as travel, tourism and hospitality because they have been hard hit by travel restrictions imposed by countries as well as a fall in discretionary spending.

Now, over six-months into the pandemic, developed and developing economies alike can feel the negative impacts of the economic slowdown in the first half of 2020 (H1 2020). Further, recovery is projected to be more gradual than previously forecast.

According to the most recent projections by the International Monetary Fund, the global economy is expected to contract by approximately 5% in 2020, after growing by 3% in 2019. It is expected to bounce back in 2021, with growth of 5.4%.

Advanced economies are likely to see a contraction of 8% in 2020, followed by a 4.8% growth in 2021, with Eurozone countries including, France, Italy and Spain expected to experience a greater economic impact than the USA, Japan and Germany.

Developing countries are collectively likely to contract by 3% in 2020, with Latin American region and South Africa likely to feel a more severe impact, with contraction in the range of 8-10%, while India and emerging European economies are likely to contract by 4-6%. China, on the other hand, is the only major country to see an expansion in economy, though by only 1%. As things are likely to improve during H1 2021, collectively, the emerging and developing countries are likely to expand by 6% in 2021.

Economic optimism levels are at their lowest since the Eurozone crisis of 2011-2012

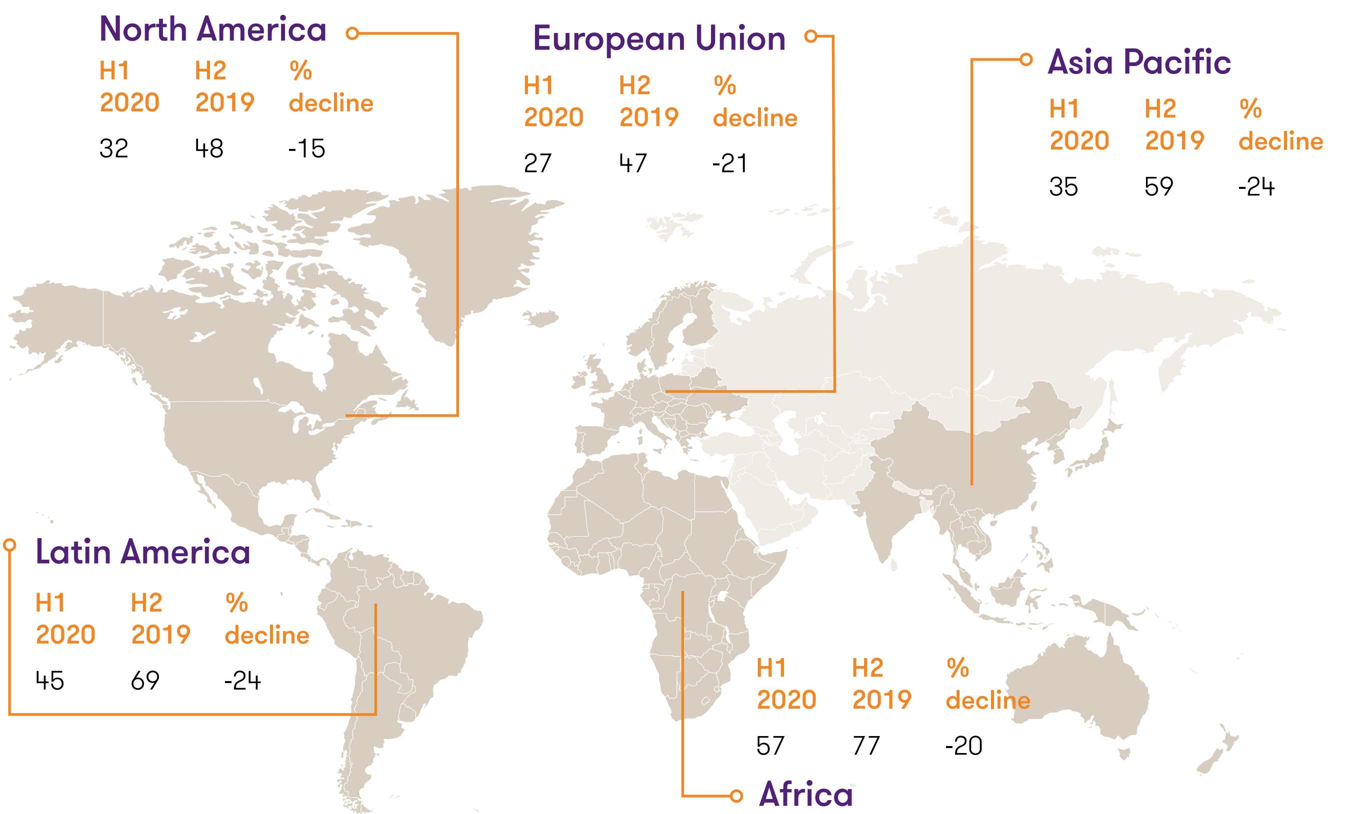
Amongst the 5,000 mid-market business leaders interviewed globally as part of the IBR global economic outlook, only 43% are optimistic about the economic outlook for the next 12 months, a sharp decline of 16 percentage points from 59% in the second half of 2019 (H2 2019).

The decline in economic optimism reflects the challenging economic conditions created across the world by the pandemic and the potentially difficult months ahead as the global economy aims to emerge from lockdown.

Only 34% of the business leaders are expecting an increase in revenues in the next 12 months, down from 54% in H2 2019. The outlook for profitability is similarly cautious, with only 32% of the firms surveyed globally expecting to increase profits over the next year. The slowdown in demand, elevated levels of uncertainty and concerns over finance availability are expected to contribute to a decline in investment intensions.

The COVID-19 pandemic has also significantly impacted the labour force and plans for firms to increase the workforce. Less than 30% of the firms anticipate hiring new staff in the next 12 months, down from nearly one-half in H2 2019.

Percentage of business leaders expecting an increase in revenue over the next 12 months



Half of mid-market leaders in APAC remain cautiously optimistic

47% of mid-market businesses surveyed retain an optimistic outlook for the economy over the next 12 months, with optimism declining by 9 percentage points. This is significantly lower than the average global decline of 16 percentage points, and contrasts with the trend seen in other regions.

Emerging APAC countries are more optimistic than the rest of the world, with average optimism levels standing at 62%. Business growth expectations of emerging APAC firms is also higher than the global average, with 45% and 43% of the mid-market firms expecting an increase in revenue and profitability, respectively.

At 65% and 61%, economic uncertainty and reduced demand respectively, have been identified as the potential constraint to business by firms in the APAC region.

India economic overview

Hopes for a stronger 2021, led by government support and strong structural changes after a difficult start to 2020

Due to the ongoing COVID-19 crisis, the Indian economy has witnessed weaker economic activity, aggravated by extended lockdowns. Businesses are facing workforce issues, disrupted supply chains, concerns with weak demand levels and **liquidity challenges**.

All major sectors were considerably impacted during the April–June quarter, however, to varied proportions. The auto, aviation, travel and hospitality sectors were hit the hardest due to stringent lockdowns and social distancing measures. This was followed by the labour-intensive sectors, such as real estate, construction and infrastructure, due to lack of availability of semi-skilled labour during the lockdown period.

However, on the brighter side, not all was washed out for India Inc. as pharma, IT, financial services, and consumer had a lesser than expected impact due to various reasons. To support the economy during the biggest human-economic crisis of recent years, the government and the Reserve Bank of India (RBI) launched several focused initiatives as part of the **Atmanirbhar Bharat Abhiyan**, which included an overall package of INR 20 lakh crore (about 10% of the GDP), with a focus on land, labour, liquidity, and laws. Majority of this package also includes policy rate cut and other measures to boost liquidity.

Similar announcements have been made by other major economies as well, to support their businesses through a mix of various aspects. For example, measures by the USA included, 2.3% of GDP in Paycheck Protection Program and Healthcare Enhancement Act and another 11% of GDP in CARES fund or USD 2 trillion worth of packages, which includes – economic stabilisation fund to support business, states and municipalities, small business loans programme, unemployment insurance and various tax rebates and credits.

Germany announced a supplementary budget of 4.9% of GDP, focusing on providing short-term work and preserve jobs. It also invoked plans to ensure using government guarantees to increase credit volume by at least 23% of GDP.

While in Asia, China announced fiscal measures worth 2.5% of GDP, liquidity infusion of ~3.2% of GDP and announced local bonds worth 1.3% of GDP. On the other hand, Japan announced an emergency economic package of 21.1% of GDP of which 16% aimed at protecting employment and business.

Indian mid-market growth expectations outperform global average

Growth expectations in India have outperformed the global and APAC regional average, with more than half of the mid-market leaders surveyed being optimistic about business growth. 58% of Indian mid-market leaders expect to increase turnover and 56% expect to increase profitability in the next 12 months. 52% expect to increase export levels over this period.

To take advantage of decreasing dependencies on China for production of electronics, India recently launched multiple programmes to attract mobile and electronic manufacturers set-up operations. Similar trends are likely in the pharma sector, where India can leverage the already established contract manufacturing facilities in various parts of the country.

Percentage of business leaders expecting an increase in revenue, profitability and exports over the next 12 months

India's comparative position with top 5 economies expecting business growth

	Revenue		Profitability		Exports	
	H1 2020	H2 2019	H1 2020	H2 2019	H1 2020	H2 2019
Vietnam	66	93	67	94	47	75
Turkey	64	67	57	60	58	56
Nigeria	61	86	54	86	50	68
India	58	72	56	64	52	69
South Africa	53	68	45	73	39	49

The Indian mid-markets firms also outperformed on intentions to invest. Over half of the firms surveyed intend to increase investment in buildings as well as plant and machinery over the next 12 months. Investment intentions across intangible assets is above average, with over 60% intending to increase investment in technology and research and development (R&D). India ranked in the top three, out of the 29 countries surveyed, on percentage of business leaders expecting to increase investment across these areas.

Uncertainty caused by the pandemic has emerged as the key concern for mid-market firms in India, with 81% of respondents citing economic uncertainty as a constraint, the joint highest country with Nigeria. A reduction in demand, labour costs and transport infrastructure were also key constraints to expanding business in the country.

COVID-19 impact: Survival of the fittest

The latest International Business Report also finds that Indian mid-market firms have taken decisive steps to counter the negative impacts of the pandemic on their businesses and ensure survival, including making vital changes to their business strategies

Key findings from the survey

Dealing with the pandemic

Reflecting the agile nature of the mid-market, 51% of the firms in India have already adjusted their business strategy in response to the COVID-19 crisis, while over 50% have made changes to working patterns within operations and 46% have reduced or suspended operations.

The unique nature of this pandemic has also forced companies to change the way they work. 57% of firms have implemented flexible working arrangements, while around 42% of the firms have reduced labour costs through cutting pay or staff or both.

Steps taken to prepare for recovery

With the country slowly 'unlocking', the Indian mid-market is planning for recovery and future growth. Workplace safety is a consideration for 57% of the firms in preparation for the recovery in their markets.

Prioritising the resources is important too, while 53% of the firms stated they have started planning which markets or customers they will prioritise, 49% know the products/services to prioritise. Access to finance is also a concern, and over half of the firms (54%) surveyed have started to **plan for the financial resources** that will be needed during the recovery phase.

The COVID-19 pandemic has ushered in a 'new normal' and business models also need to evolve. The IBR research has found that Indian mid-market firms are planning to make specific changes to their business strategies after COVID-19.

Future changes around increasing the use of technology as well as enhanced organisational flexibility are the key areas identified for future business strategy development. Almost half of the respondents also identified supply-chain resilience as future area of strategic focus.

Which of the following actions has your business taken or planned to deal with the COVID-19 outbreak?

India

Implemented remote or flexible working	57%
Adjusted business strategy	51%
Changed working patterns within operations	50%
Prepared or implemented plans for supply and demand disruptions	49%
Revised annual budget and investment plans	48%
Reduced capacity or closed operations	46%
Made staff redundant, cut pay for staff or offered unpaid holidays	42%
Cancelled or reduced orders with suppliers	26%

Regional comparison - percent of businesses that have impleted remote or flexible working

Region	% of respondents
Africa	53%
Developed APAC	50%
Emerging APAC	51%
European Union	42%
Latin America	54%
North America	61%
Global	53%

In preparation for the recovery in your markets, have you started to plan for any of the following?

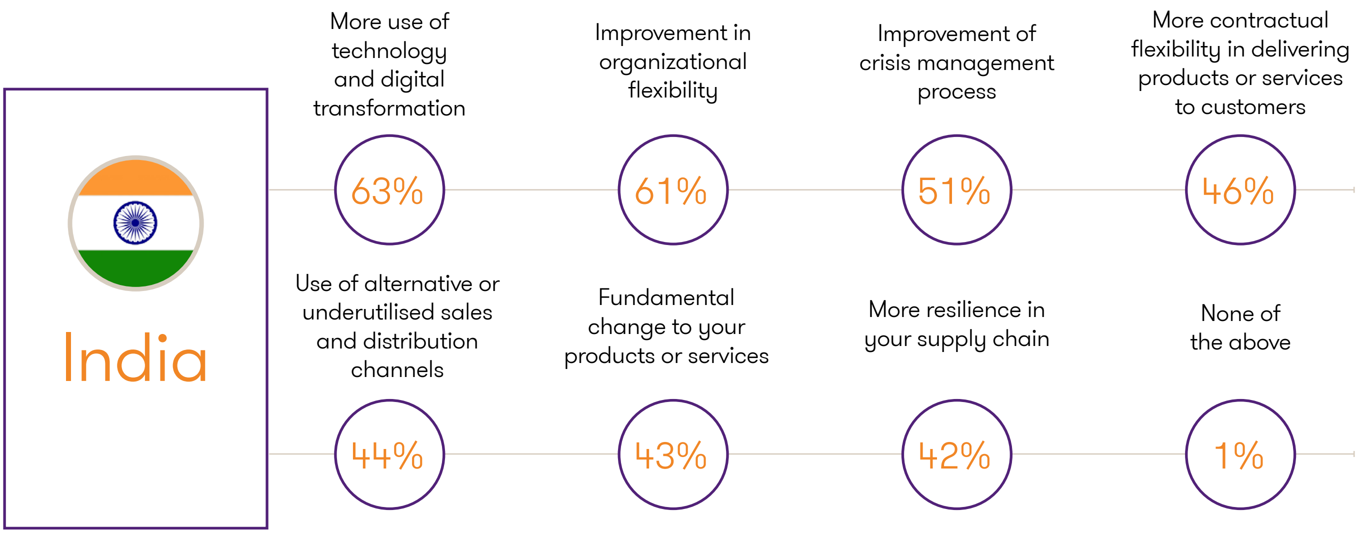
India

Workplace safety in the future	58%
Financial resources that will be needed	54%
Customers/ markets that you will prioritise	53%
People and leadership challenges	50%
Products/services that you will prioritise	49%
Mobilising your supply chain	47%
Different scenarios for the scale-up of your company operations	46%
None of the above	1%

Regional comparison - percent of businesses that have started to plan for workplace safety in the future

Region	% of respondents
Africa	52%
Developed APAC	30%
Emerging APAC	50%
European Union	38%
Latin America	46%
North America	56%
Global	47%

What areas of your business strategy, if any, do you think will need to change after the COVID-19 crisis?



Regional comparison - percent of businesses that plan to focus on more use of technology and digital transformation after the Covid-19 crisis

Region	% of respondents
Africa	44%
Developed APAC	31%
Emerging APAC	55%
European Union	36%
Latin America	49%
North America	48%
Global	45%

Sectoral trends and outlook

Agriculture

A recent **Grant Thornton Thought Leadership** on the agricultural sector found that it is one of the least impacted sectors, as evident from record fertiliser sales and crop-sown area during May-June period. The sector, which provides a source of livelihood to 58% of the country's population, is successfully navigating these troubled times due to the aggressive measures announced as part of the Atmanirbhar Bharat Abhiyan by the central government.

The sector has emerged with some positive results at the back of a good monsoon and immediate interventions by the government. There are still many elements of the agricultural value chain, which have been disrupted and are threatening the sustainability of businesses and farm workers.

The Indian agriculture sector's contribution to the Indian economy and its existing vulnerabilities has reemphasised the need for structural reforms, adoption of technology and investments in infrastructure.

IT and ITeS

The Indian IT and ITeS industry, which accounts for 8% of India's GDP, has been acutely impacted by the lockdowns in key global as well as domestic markets. Many Indian IT organisations have invoked their business continuity plans (BCPs) and the current situation has forced the industry to consider work from home as the new normal way of doing business, while ensuring consistent quality of service and data security for their clients.

As clients of IT businesses navigate through this crisis, they are expected to cut discretionary IT and ITeS spend, renegotiate pricing of services and in some cases, resort to deferring or cancelling contract commitments. It is further accentuated by findings from a recent **survey of IT business leaders** by Grant Thornton, in which over 90% of the IT companies believe revenue growth in FY21 over last year will be either flat or negative. In addition, more than 40% of all businesses across small, mid-sized and large IT and ITeS companies expect a 30% plus impact on their new business pipeline.

The crisis also presents an unprecedented opportunity for Indian technology players to accelerate digital transformation for global commerce and trade. Transactions and deal activity is expected to increase in the areas of digital captives, data analytics and cloud services. Despite a slight decline in the likeliness of investments, the IBR reveals that India is still looking forward to boosting its business. At 68%, the country ranks first in its willingness to invest in technological advancements.

Healthcare and Pharma

The healthcare sector has been at the forefront of combating the pandemic and has experienced rapid structural changes for the short and medium term owing to the increase in demand for ICU and emergency services.

Medical tourism, which forms ~35% of the private hospital revenue, is severely impacted. Outpatient centres have seen a reduction in footfall due to social distancing norms, whereas telemedicine and digital outreach have emerged as more attractive alternatives. The in-patient segment has also faced challenges as elective surgeries are deferred to ensure sufficient capacity for more critical COVID-19 related cases.

In the medium to long-term, significant investments are expected in the Active Pharmaceutical Ingredient (API) segment, while selective mergers and acquisition (M&A) opportunities are being discussed to add new capabilities or offerings for drug development.

Banking

Due to stringent lockdown and distancing measures, digital banking has gained wider acceptance under the new normal, as substantial part of the corporate and retail banking is being carried out remotely. Consequently, it is likely to lead to further investments by the banking industry in strengthening their digital platforms and upgrading their cyber security measures. In addition, FinTech start-ups are also expected to find a lot of interest within the banking industry.

As part of the government relief measures, moratoriums on EMIs were announced, which is likely to result in non-performing assets of the banks once the moratorium period ends. As normal lending has significantly reduced, banks are investing in central government securities and secured investments, which have significantly lower returns.

Insurance

In response to the pandemic, the Insurance Regulatory and Development Authority of India (IRDAI) has designed two standardised COVID-19 health insurance policies that have to mandatorily be offered by companies. Also, significant investments are likely in digitalisation of the sector as BCP and cybersecurity are given significant emphasis, since a large volume of policies are now being sold electronically.

Further, change in the mix of product sales is expected due to increased awareness of life protection and health insurance. Due to lower interests and yields, insurance companies are likely to appropriate a larger amount to its policy liability reserves, as the investment income would be adversely impacted, leading to a higher contribution towards the actuarial reserves.

Real estate

Residential sales for H1 2020 have been at a 10-year low, as uncertainty caused by the COVID-19 pandemic has delayed the purchasing prowess of the consumers. However, developers expect overall demand will bounce back post pandemic.

In the commercial real estate segment, office space absorption is significantly down, about 40% year-on-year. The sector was traditionally a laggard in terms of digital adoption; however, virtual tours and augmented reality are being significantly used as an effective marketing tool. To increase traction, developers are more open and willing to adopt technology, which will result in demand for RealTech solutions to increasing productivity and optimise marketing and administration.

Also, to help navigate these uncertain times, the sector is looking to try new business models such as – rent restructuring, portfolio rebalancing and increase focus on affordable housing.

Auto

After an unpresented period of near-zero sales in April, the auto sector has been gradually picking up, though the overall June production was at only 40% of pre-covid levels for two of the largest passenger vehicle makers in India. Led by rural and semi-urban demand, the sales are likely to go up to 70-80%, largely driven by demand for smaller cars and the 2-wheeler segment. Similar trends are likely for 3-wheelers, though commercial vehicles may take more time to revive, due to lower economic and construction activity, stalled projects and labour shortage.

Overall vehicles sales could plunge anywhere between 25-30% in the current fiscal year. Increased role of technology is likely to change the business models in the used car market – resulting in better leads and negotiations. Lower sales volume per dealer (due to expansion of network by original equipment manufacturers) will have multiple impacts due to subdued sales, carry-over of BS VI inventory and reduced profitability.

However, findings from **Grant Thornton India's Auto Track report** show that from launching new models to going digital in a bid to enable hassle-free purchase, auto companies have been trying to mitigate the negative impact of the COVID-19 pandemic on the sector.

Consumer, retail and e-commerce

As economies worldwide grapple with lockdowns, businesses are struggling to ensure their products reach end users and consumers are trying to minimise exposure while ensuring that their necessities are met. E-commerce is bridging this demand and supply gap in the current challenging times.

In a recent **survey** by Grant Thornton, it emerged that consumer staples, household supplies, medicines and entertainment at home, have shown increased demand while, segments, such as electronics, apparel and personal care products are likely to pick up in near term. While traditional retailers are still facing challenges with capitalising on e-commerce sale channels, omni-channel presence will be an important trend in the near- to medium-term.

Way forward

After a difficult H1 2020, businesses are embracing the ‘new normal’

Indian mid-market businesses are looking beyond the pandemic. Despite the challenging conditions, the IBR has found that more than half of mid-market business leaders are optimistic about the outlook of India’s economy over the next 12 months. Economic optimism declined modestly by 6 percentage points from H2 2019, to 63% in H1 2020.

Mid-market leaders are taking steps to embrace the ‘new normal’, by embedding technology, increasingly flexibility and focusing on building resilience across their operations, to ensure growth in the post-COVID-19 world. This might result the emergence of new business models in the post-COVID-19 era.

“The first six months of 2020 have been really testing for developed and developing countries alike. However, this has given an opportunity for businesses to innovate and look beyond the normal. To ensure when things become better, organisations are ready to have a faster road to recovery and that is evident from our survey as well, where business leaders indicated that despite the challenges, they are optimistic about the outlook of India’s economy over the next 12-24 months.”

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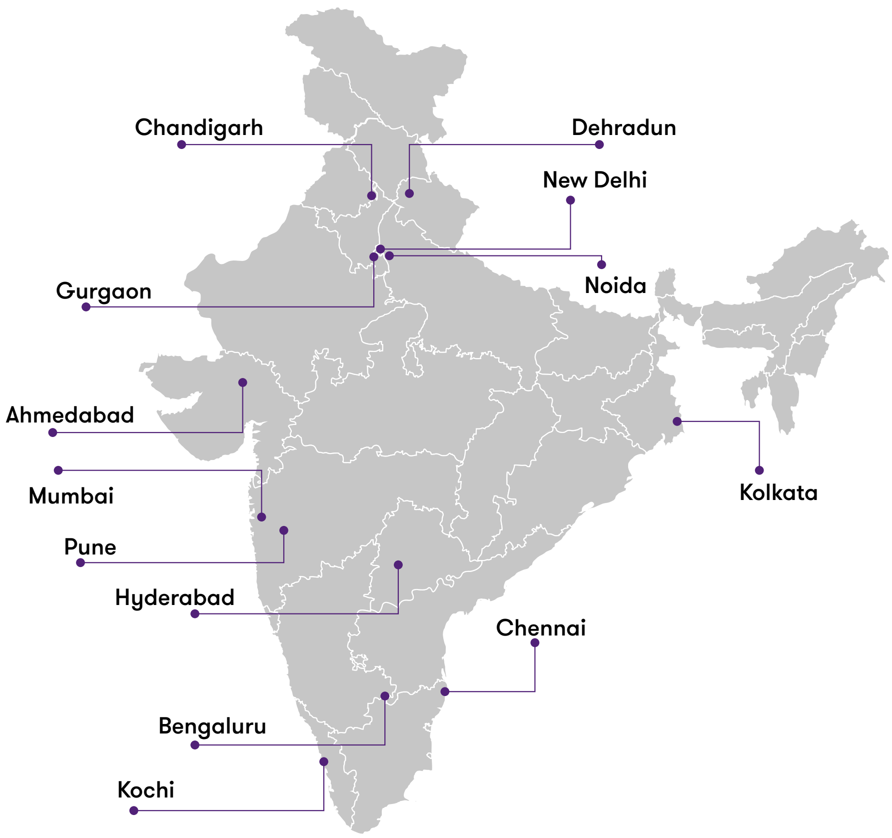

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