

Foreword

The second Covid-19 wave has thrown cold water over the Indian economy that was beginning to warm up after the most severe contraction since Independence. The rash of afflictions that followed forced states to lock down, hurting consumer and business confidence yet again. Mercifully, daily cases seem to have peaked for now, though they remain above the peak of the first wave. But the risks of another wave and tardy vaccinations mean states would be chary of fully unlocking anytime soon. Further, the full extent of economic impact of second wave and potential third wave of pandemic will be determined by covid caseload, nature of lockdowns, structural composition of output and pace of vaccination. The second half of fiscal is expected to be led by better-spread economic growth, owing to increased inoculations and better adaptability to the pandemic, which would support sectors that are lagging. Globally, pace of vaccination has acted as one of the key driving factor for recovery with US and UK recording GDP growth owing to faster vaccination while Japan witnessed decline in GDP owing to resurgence of cases and slow pace of vaccination.



In this edition of YES- MSME Dialogue, the focus is on the 'Agri inputs' sector and the MSME outlook of the same in the present scenario. Favourable rainfall, reservoir levels, prices and arrivals point towards a positive farmer sentiment leading to a healthy growth in Agri inputs in fiscal 2022 which extend to MSMEs as well. MSMEs, which have a moderate presence across the pesticides and farm equipment value chain are likely to benefit from the relatively lower penetration of pesticides in the country along with an increased focus on rural electrification aimed at boosting equipment sales.

Furthermore patents of key active ingredients manufactured domestically or imported are set to lose patent protection in the next few years, which is expected to open up the market to make technical capacity additions to boost domestic manufacturing of the same. This is expected to help MSMEs as well due to lower cost of input

Macro Monitor

| INDUSTRIAL OUTPUT (y-o-y %) | | | | Inflation (y-o-y %) | | | | GDP (y-o-y %) | | | | | |
|-----------------------------|--------|--------|--------|---------------------|--------|--------|--------|------------------------|------------------|--------|--------|--------|--------|
| Industrial (IIP) | Feb-21 | Mar-21 | Apr-21 | CPI | Mar-21 | Apr-21 | May-21 | Private consumption | Q2FY21 | Q3FY21 | Q4FY21 | | |
| | -3.4 | 22.4 | 134 | | 5.5 | 4.3 | 6.3 | | -11.3 | -2.8 | 2.7 | | |
| CRUDE OIL (y-o-y %) | | | | WPI | Mar-21 | Apr-21 | May-21 | Government consumption | Fixed investment | GDP | Q2FY21 | Q3FY21 | Q4FY21 |
| Brent Crude | Mar-21 | Apr-21 | May-21 | | | | | | | | | | |
| | 93.5 | 171.3 | 113 | Exports | 60.3 | 201.5 | 67.4 | -6.8 | 2.6 | 10.9 | | | |
| Exchange Rate | | | | Imports | 53.7 | 167.6 | 68.5 | | | | | | |
| Rs/\$ | Mar-21 | Apr-21 | May-21 | Trade balance | 39.6 | 118.1 | 74.7 | | | | | | |
| | 72.8 | 74.5 | 73.3 | | | | | | | | | | |

India's growth next fiscal to be a story of two halves

| Macroeconomic outlook | FY18 | FY19 | FY20 | FY21 | FY22F | Rationale for FY22 outlook |
|------------------------------|------|------|------|------|-------|--|
| GDP growth (%) | 6.8 | 6.5 | 4.0 | -7.3 | 9.5 | The second wave and the resultant localised lockdowns has impeded the path to economic recovery, leading us to revise down our growth forecast for this fiscal to 9.5%, from 11.0% earlier. That said, expected pick-up in economic activity post-vaccination and support from global growth would act as positives. |
| Inflation CPI (%) | 3.6 | 3.4 | 4.8 | 6.2 | 5.3 | Upside risks on inflation are growing from surging international commodity prices. While producers are bearing a greater burden of rising input costs for now, these could get passed to retail prices once demand recovers. Food inflation could also face pressure from disruptions to rural economy due to the pandemic's spread, and rising global prices. |
| Exchange rate (Rs/\$, March) | 65 | 70 | 74 | 74 | 75 | Soaring Covid-19 cases posing a strong downside risk to India's growth forecast may weaken the rupee more against the dollar. Impact of a second wave amid inflationary pressures and stress on government finances are expected to weigh on sentiment. |

Global Snapshot

US

Robust Q1 GDP growth in the US, but inflation concerns remain

- \$1.9 trillion fiscal stimulus finally passed in the US to positively impact demand.
- US CPI rose 1.6 percentage points to 4.2% on-year in April 2021. Sharp rise in inflation intensified concerns over the tapering of the quantitative easing policy implemented by the Fed, going ahead, implying demand-push inflationary pressures.
- US jobs data showed encouraging signs, with non-farm payrolls rising 260,000 in April, though down from massive gain in March.

UK

Faster vaccination and fewer Covid-19 cases propel economic activity in the UK

- GDP is estimated to have grown 2.1% in March 2021 as country eased restrictions, the fastest monthly pace since August 2020.
- Annual CPI rose by 1.5% in the 12 months to April 2021, up from 0.7% growth in March. Price movements for household utilities, clothing, and motor fuels are the main reasons for the higher monthly rate this year than a year ago.
- The services sector grew 1.9% in March, as schools re-opened and retail trade sales continued to show strength.

China

China's Q1 GDP numbers at record highs

- Q1 GDP grew by a record 18.3% on-year, driven by external and domestic demand recoveries and low base of last year.
- Manufacturing PMI came in at 51.1, 0.8pp lower on-month, since supply bottlenecks stifled production.
- Consumer prices continued to decline on-year, with deflation at -0.3%, slightly higher than -0.5% in the previous month. On a monthly basis too, inflation inched up, after three months of consecutive slowdown.

Japan

Private consumption remains a weak spot for Japan

- Private consumption remained weak, and export pace slowed in April. Consumption trends based on card spending showed goods spending remained stable, but services spending was weak.
- Trade exports were faster to grow than imports at 38% in April while the imports improved 12.8% on-year. Japan had trade surplus of ¥253,072.
- Deflation eased slightly, with CPI inflation declining 0.4% on-year and on-month in April.

MSME News & developments



Auto components; Post marginal recovery, exports estimated to be under pressure again with second wave of COVID-19. MSME to feel the blow too

| On - year Growth | %share to Auto component OEM segment | Mar-20 | Apr-20 | May-20 | Jun-20 | July-20 | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 | Jan-21 | Feb-21 | Mar-21 | Apr-21 |
|------------------|--------------------------------------|--------|--------|--------|--------|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 51% | -38% | -100% | -90% | -58% | -24% | -2% | 20% | 35% | 8% | 28% | -2%* | 13% | 79% | -11%* |
| | 26% | -28% | -99% | -86% | -50% | -28% | 0% | 15% | 40% | 4% | 9% | 13% | 17% | 68% | -23%* |
| | 16% | -83% | | -88% | | | -17% | | | 12% | | | 51% | | |
| | 5% | -18% | -100% | -53% | 51% | 14% | 24% | 29% | 59% | 46% | 86% | 42% | 40% | 85% | -15%* |

Source: SIAM, TMA, CRISIL Research | Note: *: m-o-m change in production data; Passenger Vehicle data for January-April 2021 does not include Tata Motors



Textiles RMG: Low base and ban of imports from China to fracture supply chain; textile MSMEs too expected to see some gain

| On - year Growth (in value terms) | Apr-20 | May-20 | Jun-20 | July-20 | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 | Jan-21 | Feb-21 | Mar-21E | Apr-21E | May-21E |
|-----------------------------------|--------|--------|--------|---------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| RMG (in %) | -90.1% | -63.4% | -28.9% | -15.0% | -9.8% | 13.7% | 10% | 2.7% | -12.2% | -8.6% | -7.1% | 26.4% | 927.1% | -29.4% |

Source: Department of Commerce, Ministry of Commerce & Industry, CRISIL Research | Note: *: RMG stands for Readymade garments



Engineering & capital goods; export demand estimated to increase in Q1 FY22 over a lower base which is positive for MSMEs

| On - year Growth (in value terms) | Mar-20 | Apr-20 | May-20 | Jun-20 | July-20 | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 | Jan-21E | Feb-21 | Mar-21E | Apr-21E |
|---|--------|--------|--------|--------|---------|--------|--------|--------|--------|--------|---------|--------|---------|---------|
| Engineering and Capital Goods export (in %) | -27.4% | -75.8% | -32.2% | -4.3% | 14.2% | -2.8% | 8.5% | 0.1% | -13.8% | -1.2% | 14.5% | -1.3% | 70.3% | 234.6% |

Source: Department of commerce, CRISIL Research

Agri inputs to continue strong growth from the previous year; MSMEs to benefit from the same in fiscal 2022 as well

Agri inputs remained resilient amidst the second wave as well due to underlying demand; Pesticides and farm equipment saw the highest jump in demand

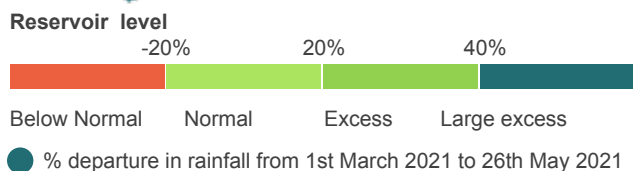
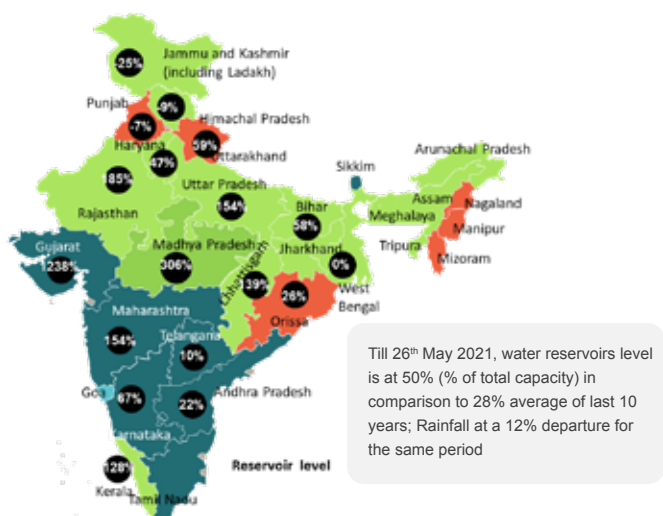
| | | Units | FY15 | FY20 | FY21E | FY22P |
|--------------------|-----------------|-----------|------|------|---------|---------|
| Agri inputs market | Pesticides | Rs Bn | 304 | 476 | 520-540 | 585-605 |
| | Farm equipment | Rs Bn | 279 | 370 | 410-430 | 430-450 |
| | Seeds | Rs Bn | 193 | 239 | 240-260 | 250-270 |
| | Bio Fertilisers | Rs Bn | 6 | 15 | 15-20 | 20-25 |
| | Bio pesticides | Rs Bn | 5 | 7 | 5-10 | 5-10 |
| | Tractors | 000 units | 625 | 785 | 760-780 | 830-850 |
| | Fertilisers | Mn Tonnes | 53 | 57 | 55-60 | 57-62 |

Source: CRISIL Research

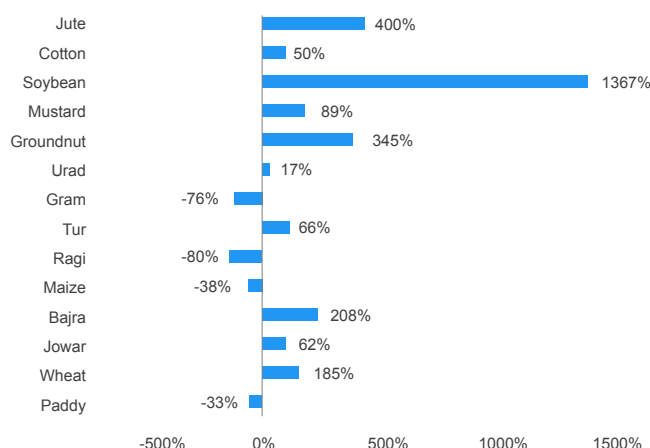
FY21: An estimated increase in kharif crop acreage by 2-3% on-year, normal monsoon, government support on farmer income through income support schemes and crop procurement aided growth in demand for pesticides in fiscal 2021. Positive farmer sentiments, favourable monsoon, higher use of tractors and unavailability of labour in most states due to the lockdown led to higher demand for power driven equipment, positively impacting the farm equipment sector.

FY22: Normal monsoon, labour shortage amidst the second wave of the pandemic and higher subsidies from the government along with higher acreage expected to continue the positive trend in farm equipment with major growth driven from unbranded, smaller players. Strong export demand from countries like Brazil and USA and domestic demand for pesticides due to labour unavailability is expected to continue in fiscal 2022.

Favourable rainfall, reservoir levels, prices and arrivals point towards a healthy growth in agri inputs in fiscal 2022



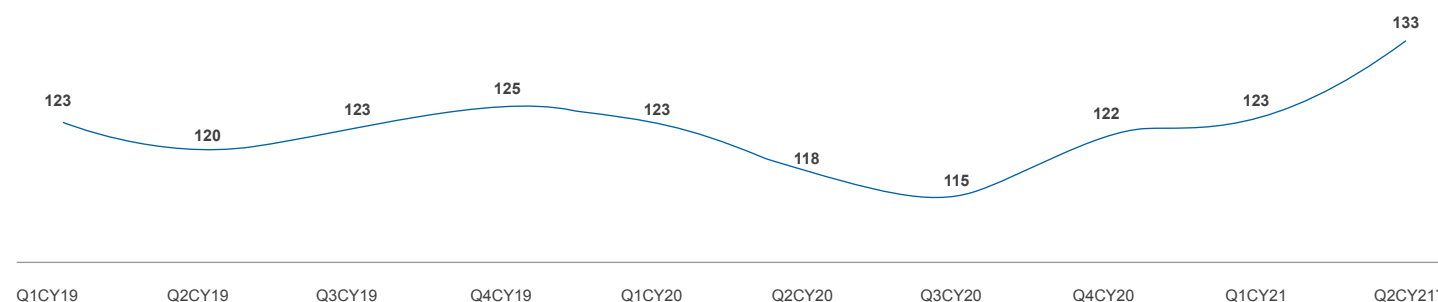
Field crop arrivals data (April 2021 vs 2020)



- Healthier reservoir levels along with a positive departure from normal rainfall all point towards a healthy year for agriculture
- Arrivals and price index in April for most of the commodities in field crops accounting for ~70-80% of crops were higher indicating a rise in demand as compared to April 2020 lockdowns
- Positive farmer sentiment along with higher acreage is expected to lead the growth for agri

Source: IMD, Ministry of Agriculture, CRISIL Research

Weighted average crop price index shows a 13% rise on-year in Q2 CY21 with rise in prices of oilseeds, pulses and cash crops due to a bump in demand as compared to previous year

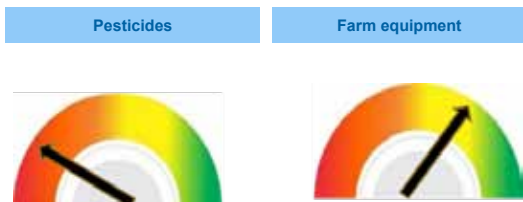


Pan India mandi prices of 14 major crops have been taken into consideration to arrive at aggregate price index. (Arhar, Bajra, Bengal Gram, Urad, Cotton, Groundnut, Jowar, Jute, Maize, Mustard, Paddy, Ragi, Soyabean, Wheat) Prices are indexed considering weights as per base ajor year production, Base Year: 2015;*Q2 CY21 includes prices for April 2021 only

Source: CRISIL Research

Pesticides and farm equipment form larger chunk of agri input industry; growth momentum to continue in these in fiscal 2022 due to consistent demand

MSME presence higher for farm equipment



Source: CRISIL Research, Industry

| Rs bn | MSME revenues for pesticides | MSME revenues for farm equipment |
|--------|------------------------------|----------------------------------|
| FY 18 | 70-90 | 205-225 |
| | 7-9% | 5-7% |
| FY 20 | 85-105 | 230-240 |
| | 10-12% | 13-15% |
| FY 21E | 100-120 | 260-280 |
| | 9-11% | 5-7% |
| FY 22P | 110-130 | 280-300 |

Source: Industry, CRISIL Research



MSME revenue outlook- Pesticides and Farm equipment

FY21: Pesticides to see rise in both exports and domestic sales. Customer de-risking from China to prove beneficial. Farm equipment to see an uptick in demand due to positive farmer sentiment due to normal monsoon, higher sowing and farmer profitability

FY22: Demand for pesticides domestic as well as exports to increase on account of increase in crop acreage and normal monsoon. Demand for farm equipment to see an uptick at a slower pace, albeit higher than the industry due to more preference for unbranded SME players.

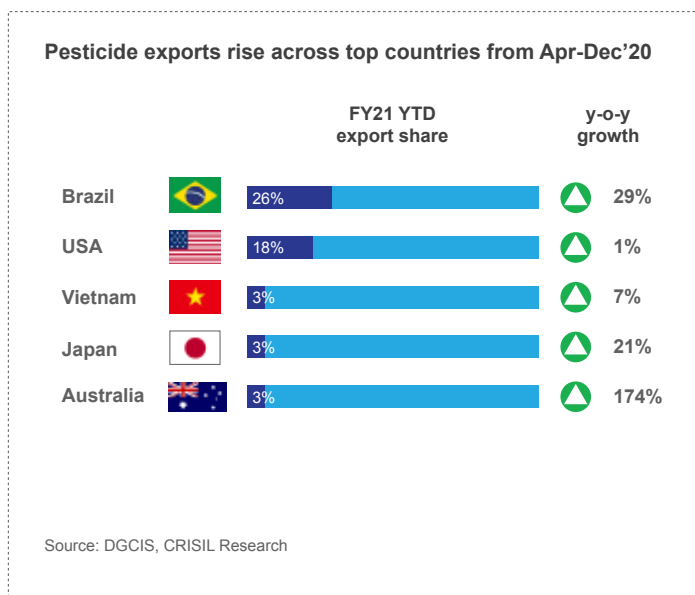
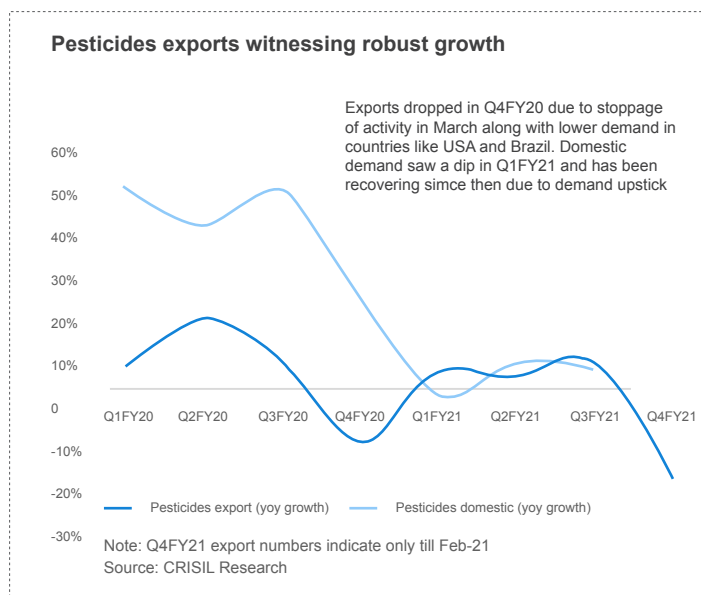


MSME margin outlook- Pesticides and Farm equipment

FY21: Margins for pesticides players improved on account of lower crude oil prices in the first half of the fiscal. Margins for equipment players improved on account of higher demand amidst higher capacity utilisation despite higher raw material prices

FY22: Margins for pesticides are expected to decline on account increase in raw material prices and crude oil prices. Margins for farm equipment are expected to improve on account of further growth in demand along with a slightly lower raw material price due to better availability

Robust demand from most economies boost pesticide exports



Opportunities galore for MSME Agri Input entities

1. Low penetration for pesticides

India's pesticide usage is well below global norms. Though overall pesticide penetration has been rising in recent years, driven by increase in per hectare penetration and usage, India's pesticide usage is very low at 0.6 kg per hectare against 5-6 kg/ha in UK and around 21 times at 13 kg/ha in China. The relatively low level of pesticide consumption is a further indicator of potential growth in crop protection chemicals for large players along with SMEs in the space.

2. Increased coverage of rural electrification

Government has allocated an amount of ₹ 344.22 billion to be released over next five years under the KUSUM scheme in fiscal 2021 which aims to replace diesel pumps and grid-connected electric tube wells for irrigation by solar irrigation pumps (SIPs) with a buy-back arrangement for farmers' surplus solar energy at a remunerative price. The government's push to use energy-efficient electric pumps and solar pumps, which forms a part of the farm equipment industry will drive growth for the pumps segment where presence of SMEs is high.

3. Patent expiry boost for pesticides

In the next few years, patents of key active ingredients manufactured domestically or imported are set to lose patent protection, which is expected to open up the market to make technical capacity additions to boost domestic manufacturing of the same. This is expected to help MSMEs as well due to lower cost of input.

Key risks / monitorables

1. Forex fluctuations for pesticides

30-40% of inputs such as basic hydrocarbons and intermediates are imported. While some players do have a natural hedge as they also export, most players who sell solely in the domestic market, which are mainly SMEs witness pressure on profitability in a depreciating rupee environment.

2. Rising commodity prices

Major fluctuation in raw material prices such as crude oil for pesticides and pig iron for farm equipment acts as a major deterrent for SME players largely impacting their profitability.

YES BANK MSME solution

Problem Faced by the customer :

Customer was based in Ambarnath, and used to avail banking services in Nariman Point, Mumbai. Upon the dawn of the pandemic, the entire system got on hold, and the client was facing a lot of delays in order to get their banking services



Solution offered by YES BANK :

We on boarded the client on our Trade on Net Platform, trained them on all the features which they could avail using our platform. This facility provided them with paperless documentation for import payments, bank guarantees, export documentation closures and much more



How it has helped the customer

- Completely paperless transaction system now used by the customer
- Time and Manpower savings
- Saving paper wastages and maintenance of hardcopies



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