

Foreword

The fierce second wave of Covid-19 pandemic took the healthcare ecosystem to the brink and beyond, but it does not seem to have hit economic activity as hard as the first wave did. The main reason for this would be decentralised and less-stringent lockdowns, that reflects the 'learning to live with the virus attitude' that authorities adopted. Many states also permitted construction and manufacturing activities to continue during the lockdown.

With private consumption taking a hit from the second wave, private investments will yet again be relegated to the backburner. Though large corporates have deleveraged and are in a position to invest now, low capacity utilisation and overall uncertainty on the economic course will discourage decision-making.

Smaller firms and services continue to face pressure amid the second wave. Private consumption remained weak. The economy is down but not out as it walks on the recovery path. Second half of fiscal 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 'Packaged Food' sector and the MSME outlook of the same in the present scenario. MSMEs have a strong presence in the sector, however due to constrained spending and higher demand for branded products, especially in the Ready to Eat/ Ready to Cook segments, they witnessed moderate growth during the COVID-19 affected fiscal 2021. On the low base of last fiscal, MSMEs are expected to witness revival in growth, despite the partial lockdowns on account of the second wave.



Macro Monitor

INDUSTRIAL OUTPUT (y-o-y %)				Inflation (y-o-y %)				GDP (y-o-y %)			
	Mar-21	Apr-21	May-21		Mar-21	Apr-21	May-21		Q2FY21	Q3FY21	Q4FY21
Industrial (IIP)	22.4	134	29.3	CPI	5.5	4.3	6.3	Private consumption	-11.3	-2.8	2.7
CRUDE OIL (y-o-y %)				WPI	7.4	10.5	12.9	Government consumption	-24	-1.0	28.3
Brent Crude	93.5	171.3	113	TRADE (y-o-y growth %)				Fixed investment	-6.8	2.6	10.9
	Mar-21	Apr-21	May-21		Mar-21	Apr-21	May-21	GDP	-7.3	0.5	1.6
Exchange Rate				Exports	60.3	201.5	67.4				
Rs/\$	72.8	74.5	73.3	Imports	53.7	167.6	68.5				
				Trade balance	39.6	118.1	74.7				

India's growth sliced by second wave of infections

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

US inflation spikes again, unemployment rate declines

- CPI increased sharply to 5% on-year in May, up from 4.2% in the previous month. It has trend upwards since January, when inflation was at 1.4%. However, the on-year inflation reading is largely attributed to the low base of the previous year (when prices rose 0.1%).
- Total non-farm payroll employment increased by 5.6 lakh in May, significantly higher than the gains of 2.6 lakh the previous month.
- The unemployment rate, declined by 0.3% to 5.8%. Leisure and hospitality, education, and healthcare accounted for the largest gains.

China

China's manufacturing activity stumbles

- In May manufacturing PMI came in at 51, 0.1pp lower on-month, since supply bottlenecks stifled production.
- Consumer prices sustained their upward trajectory on-year in China, with CPI-linked inflation at 1.3% in May, higher than 0.9% in the previous month.
- Exports increased by a robust 37.4% on-year. This is largely attributed to the base effect from 2020, though China's rapid recovery from the pandemic and rebound in other advanced economies in this quarter of 2021 supported trade figures.

UK

Eased restrictions support monthly uptrend in UK

- UK's GDP grew 2.3% in April — the fastest monthly rise since July 2020. The service sector grew 3.4% in April 2021, as restrictions eased and retail sales volumes grew by a sharp 9.2% on-month.
- CPI-linked inflation rose 1.5% in April on-year, up from 0.7% growth to March
- The trade deficit narrowed to £0.9 billion in April from £2.0 billion in March, as exports grew faster than imports.

Japan

Renewed surge of infections in early 2021 weaken economic recovery

- Japan's economy shrank 3.9% on-quarter in the first quarter of 2021, following an 11.7% expansion in the last quarter of 2020.
- Private consumption was the largest drag on domestic demand, declining 5.8%. Government consumption, too, was in the red, down 4.5%.
- Resurgence in cases and low vaccine coverage in Japan impeded economic recovery.

MSME News & Developments



PMI manufacturing witnessed moderation on account of second wave

Y-o-y growth	May-20	Jun-20	July-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21
PMI manufacturing	30.8	47.2	46.0	52.0	56.8	58.9	56.3	56.4	57.7	57.5	55.4	55.5	50.8



IIP across manufacturing of machinery, equipment and fabricated metal products, too, moderated

IIP	May-20	Jun-20	July-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21
Manufacturing of machinery & equipment	44.6	80.2	85.6	92.6	108.9	113.2	105.4	118.5	110.0	112.0	129.0	98.7	82.1
Manufacturing of electrical equipment	31.6	61.7	82.6	94.4	126.5	132.4	114.4	131.8	109.7	106.0	108.6	86.0	66
Manufacturing of fabricated metal products	44.2	67.3	82.0	83.9	92.1	95.7	81.8	99.0	93.7	93.2	100.9	80.0	65.7



Metal prices on an upward trajectory, to hurt MSME margins

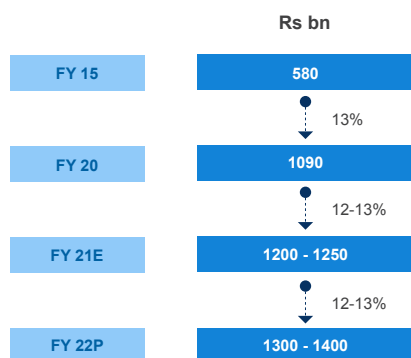
Y-o-y growth	May-20	Jun-20	July-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21
Pig Iron	95	94	97	103	103	105	106	116	126	121	128	134	138
Aluminium	91	92	96	101	102	103	109	115	115	115	121	129	140
Steel (HR coil)	90	88	88	95	99	102	107	120	127	121	124	138	155

Note: Indexed to May 2019 prices | Source: CRISIL Research
Source: MOSPI, Industry, CRISIL Research

Packaged food industry's growth momentum to continue

In a country where fresh food has traditionally ruled the palate, rapid urbanisation, rising disposable incomes, growing working women in urban areas and changing consumer tastes are driving up demand for ready-to-eat/ ready-to-cook (RTE/RTC) foods, bakery products, chocolates and confectioneries. The sector is expected to witness a 12-13% in fiscal 2022 backed by these structural factors as well as the government's incentives to boost growth.

The packaged food industry grew despite the pandemic, stride to prevail



Source: Industry, CRISIL Research

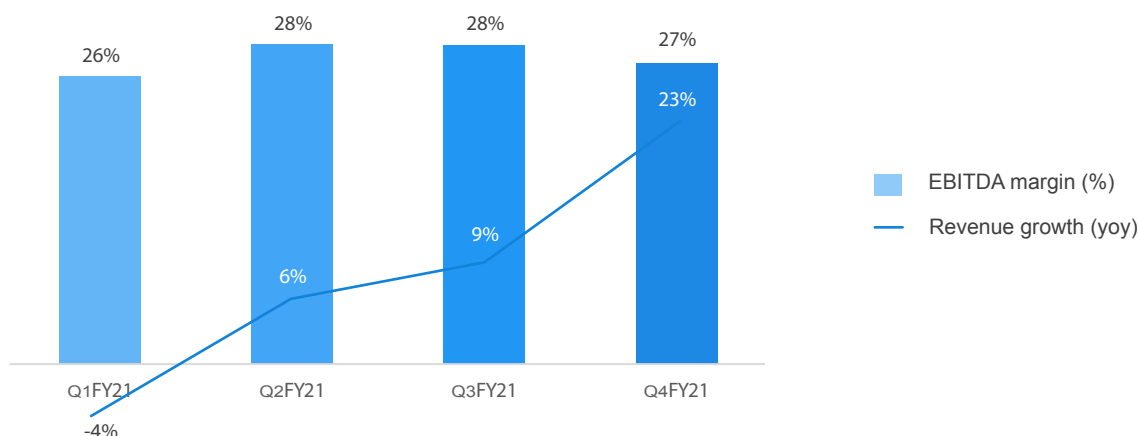
Chocolates and confectionary to witness revival, RTE/RTC growth to moderate

Product	Share in overall packaged food industry FY20	MSME share	FY15-20 CAGR	FY21E	FY22 P
Bakery products (Biscuits, Bread, Cake)	34%	40-45%	11.6%	11-13%	12-13%
Chocolates and sugar confectionary	20%	15-20%	12.6%	1-2%	12-13%
Snacks	32%	60-65%	16.2%	11-13%	12-13%
RTE/RTC	15%	15-20%	13.7%	18-20%	12-13%

Note: Above data pertains only to organised packaged food industry; RTE: Ready to Eat, RTC: Ready to Cook
Source: Industry, CRISIL Research

- Consumers increasingly prefer to buy 'all under one roof', which is expected to drive sales of packaged foods. Online sales are estimated to have risen from 1% share in fiscal 2019 to about 5% share in fiscal 2021 amid the pandemic with more people preferring to order from the convenience of their home rather than exposing themselves to the health risk by stepping out.
- The chocolates and sugar confectionary segment, after witnessing only a 1-2% growth due to constrained discretionary spending, is expected to revive by 12-13% in fiscal 2022.
- On the other hand, the ready to eat segment witnessed a 18-20% increase on account of the lockdowns in fiscal 2021 and is expected to moderate to 12-13% in fiscal 2022.

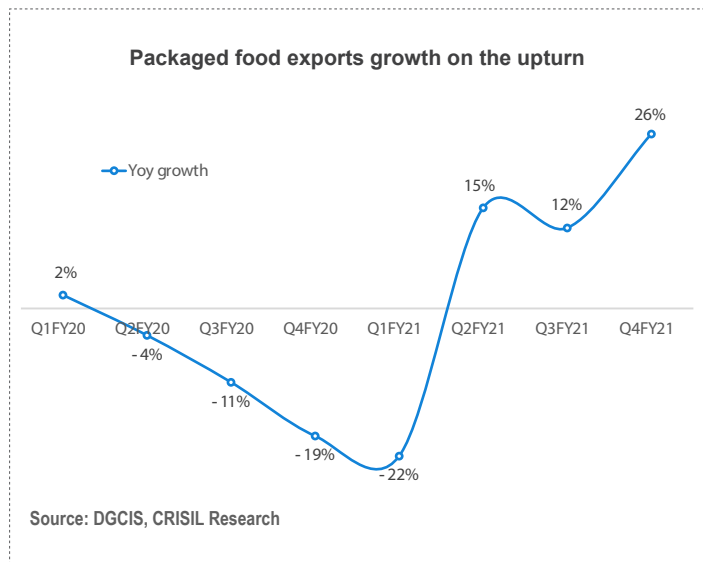
Good revenue growth seen in Q4 FY21, margins remain largely steady



Note: Data for 5 companies representative of 10-15% of market share is considered
Source: Industry, CRISIL Research

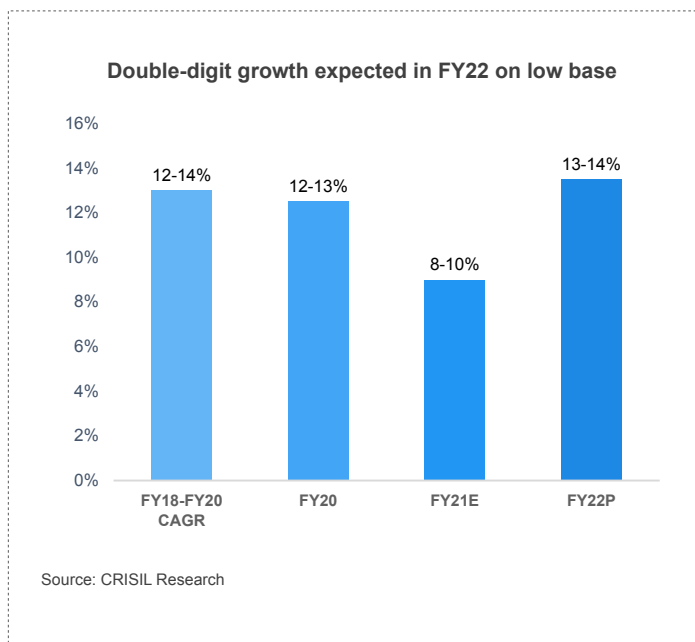
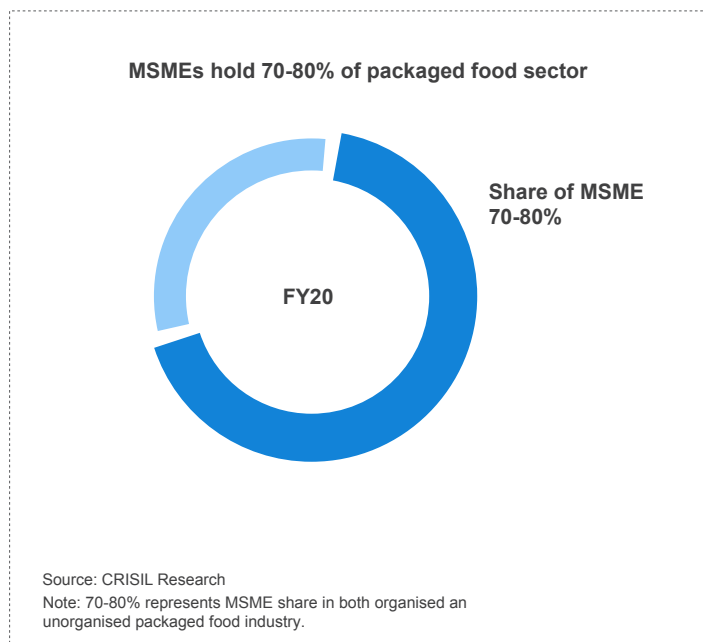
After a year of consecutive decline, exports started picking up in Q2FY21

Though exports form less than 5% of the total packaged foods industry, the PLI scheme presents a good opportunity for MSME players in this segment, especially those that manufacture innovative products.



MSMEs in the packaged food sector are likely to bounce back to pre-covid growth levels

MSMEs have strong presence in the packaged food industry with high focus towards snacks and biscuits and bakery segments.



Packaged Food MSME revenue outlook

FY21: Higher preference of consumers on branded (non-SME) packaged foods than unbranded foods during the pandemic hurt demand growth
FY22: Higher growth over a low base of fiscal 2021 is expected, as impact of the pandemic dissipates

Margin outlook for MSME Packaged food

FY21: Margins improved due to lower raw material cost which accounts for ~60% of total cost
FY22: Healthy demand for high value generating premium products to lead to expansion in players' margins

Opportunities galore for packaged food

1. PLI scheme for Food Processing industry

The government has earmarked Rs 10,790 crore for the food processing industry under the Production Linked Incentive Scheme offering 4-6% incentives for boosting domestic manufacturing and enhancing exports.

- The first component relates to incentivising manufacturing of four major food product segments viz. Ready to Cook/ Ready to Eat (RTC/ RTE) foods including Millets based products, Processed Fruits & Vegetables, Marine Products, Mozzarella Cheese. Innovative/ Organic products of SMEs including Free Range - Eggs, Poultry Meat, Egg Products in these segments are also covered under this component.
- The second component relates to support for branding and marketing abroad to incentivise emergence of strong Indian brands. For promotion of Indian Brands abroad, the scheme envisages grant to the applicant entities for - in store Branding, shelf space renting and marketing.

The scheme provides opportunities to the SME sector for innovative/ organic products in the domestic as well as exports markets.

Key risks / monitorable

Volatility in raw material prices

Adverse environmental conditions such as weak monsoon, affect availability of raw materials (wheat, sugar and milk) leading their price upwards. This affects profitability of players as they have limited ability to pass on the rise in input costs due to intense competition in the industry



Limited diversity in revenue stream –

SME players are typically exposed to one or two segments. Large players like Nestle that are diversified into many products prove to be a threat to small companies.



YES BANK MSME solution

Challenges faced by the customer :

Our client used to import his items from a supplier in Malaysia, who used to supply the items for a credit period of 60 days at an interest rate of 1.5% per month, (which translated to 18% per annum). Our client also had to provide credit to his buyers for a similar period, for which he was paying a high interest cost to his supplier. This was leading to a decline in margins of our customer.



Solution offered by YES BANK :

We offered the proposition of supplier's credit to our customer wherein he would be opening a CONFIRMED USDANCE LC of 90 days on the supplier and the supplier would be getting immediate funds on esentation of complying documents to the confirming bank. On the due date we would be making the payment to the confirming bank. The indicative cost of such stransaction would be in the range of 4.5- 5% per annum – against the previous 18%.



How it has helped the customer :

- There was a considerable reduction in transactional cost for the applicant.
- The supplier was also assured of getting his payment on complying presentation from the confirming bank without incurring any additional charge.



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