We will not be able to kick-start the economy at one go: Crisil COO

SURIABH
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“Life is coming back to normal in a large part of the country, which is a good sign,” believes Amish Mehta, Chief Operating Officer and President, Crisil. In an interview with BusinessLine, Mehta, however, said the government needs to look at policies to revive demand and said that extension of lockdown beyond the first quarter will lead to a larger impact on the GDP.

Is there any change to Crisil’s growth forecasts after the extension of the lockdown?
Countries are going to move randomly on the continuum between lockdown and business as usual as the pandemic plays out. Our forecast of 1.6 per cent GDP growth for India for FY21 was made with the assumption of a normal monsoon, lockdown to be over in the first quarter, and fiscal support at Rs 5.54 lakh crore. But after that, the government has extended the lockdown in red zones, which is something that tilts to the downside risk scenario of zero per cent growth. If the lockdown continues beyond this quarter, there will be a larger impact on GDP.

In the current scenario, we see a kilometre to the downside. However, agriculture for India will be a large saviour.

Will the resumption of activities in green and orange zones spur growth?
We will not be able to kick-start the economy at one go. This will be the new normal. With the possibility of a second wave and a third wave, some parts will work; others will be in a lockdown till we find a vaccine. Companies are trying to come back to normalcy.

Lot of large factories and manufacturing facilities are reopening. The opening of green and orange zones will help revive the manufacturing sector and MSMEs in these areas, and will also help bring the economy back on track in an organised way. However, supply chains will be impacted. The lockdown in red zones, which comprise key economic hubs and cities with lots of consumer hubs, is likely to have a relatively larger impact.

How does demand get revived if people buy only essential goods?
The current policies are aimed at helping companies tide over their cash flow issues, but not to get growth back. Policies have to see how to get demand back, especially in discretionary products and services. There is a need to improve the sentiment around job security for formal and informal employees to boost consumption. The current fiscal support is limited and only to vulnerable households. That’s fine to start with, but the bigger challenge will be how to reach out to self-employed individuals and entities with less than five workers. These are the smallest of the smallest firms. The government will also have to look at reforms in areas such as land and labour to kick start investments.

If we want to get investments in India from companies operating in China, or companies that are looking to diversify their supply chains, then reforms are essential. Once investments start, then growth and demand pick-up will also increase.

What is your expectation on job losses?
There is a lot of vulnerability on employment as a large part of the workforce in the informal economy and a big part of the labour are contractual, casual, or self-employed.

According to our analysis, when we looked at the salary cost of 40,000 companies accounting for a total employee wage bill of over Rs 14 lakh crore, we see that about two-thirds of it pertains to companies that will see a material hit on revenues and profitability with worsening of their credit metrics. So, they would have a challenge of cash and credit.

So, even if we do not witness mass scale retrenchments and job losses, salary freeze or reduction, cut in variable pay and bonuses and temporary ban on new recruitment will be the new reality.

MSME is another sector that is seeing a lot of stress in the current pandemic...
Corporate India will see a decline in topline and EBITDA with the current GDP forecast we have. This will have a cascading impact on MSMEs. We have seen some support from the government, but the question is how much more is required. Our analysis shows that during the previous downturns, the large and medium companies saw a temporary challenge with working capital, but were able to manage it. However, in case of micro and small enterprises with turnover of less than Rs 75 crore, the working capital stretches by 15 to 20 per cent. They are the most vulnerable and likely to face significant liquidity squeeze.

What will be the impact of the oil price hike when demand is already subdued?
Low crude prices always benefit India since we import over 80 per cent of our requirement. In the past, government has used lower crude prices to collect more revenues by hiking excise duties. While this helps alleviate fiscal pressure, it can impact consumption.

In these times, the first priority should be to revive growth and demand rather than increase revenue through tax hikes. Otherwise, the fiscal situation will be difficult. With low sales, there will be low GST collection. Timeliness of the measures will equally important.

Which sectors do you see impacted most by the lockdown?
A lot of sectors will be impacted differently. Consumer discretionary products such as consumer durables, automobiles, consumer discretionary services such as travel, airlines, hotels, restaurants, and sectors such as construction and real estate will be impacted the most.

In the BFSI sector, the large NBFCs with strong parentage and balance sheets will gain market share, versus some of the smaller ones that will see challenges in liquidity management and funding. There could possibly be consolidation of market share. We also expect the asset quality to deteriorate in segments such as MSME and retail with higher NPAs and delinquencies. Microfinance and MSME finance will have to be monitored, as there might be deterioration in asset quality.