Momentum positive, but caution prevails

November 2018 | Volume 4

CriSidEx survey for July–September and October–December

sidbi

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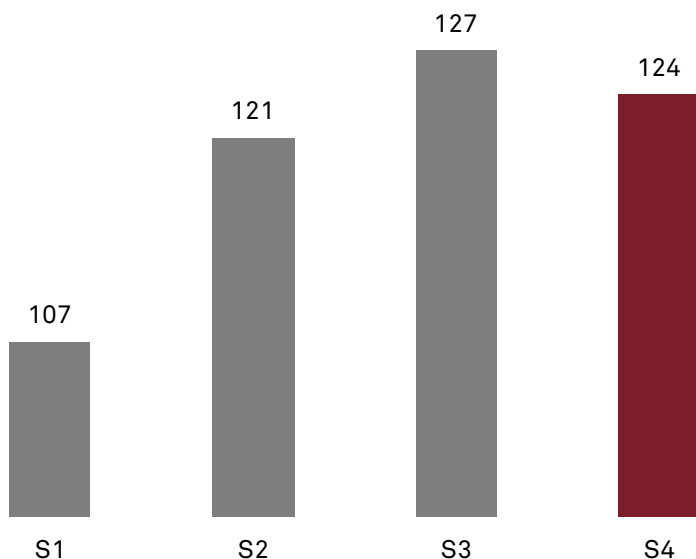Associate Manager-SME Ratings
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CriSidEx S4 score is higher than S1 and S2

At 124, the CriSidEx score for July-September, 2018 (S4) quarter was below the 127 logged in April-June, 2018 (S3). The share of positive respondents was lower on the following index parameters:

- Order book size, PAT margin and employee base among manufacturing-based MSEs

- Order book size and PAT margins among services-based MSEs

The change in index is also driven by an increase in the share of respondents reporting a satisfactory quarter, even as the share of respondents reporting negative sentiment was largely unchanged.

Abbreviations

CriSidEx survey	Survey quarter (SQ)	Next quarter (NQ)
Survey 1 (S1)	Oct-Dec 2017 (SQ1)	Jan-March 2018 (NQ1)
Survey 2 (S2)	Jan-Mar 2018 (SQ2)	Apr-Jun 2018 (NQ2)
Survey 3 (S3)	Apr-Jun 2018 (SQ3)	Jul-Oct 2018 (NQ3)
Survey 4 (S4)	Jul-Sept 2018 (SQ4)	Oct-Dec 2018 (NQ4)

CriSidEx readings

Manufacturing

Index parameters		SQ				NQ		
		Negative	Neutral	Positive		Negative	Neutral	Positive
Overall business situation	S1	17%	45%	38%	S1	4%	43%	53%
	S2	9%	54%	37%	S2	5%	44%	51%
	S3	9%	46%	45%	S3	6%	34%	60%
	S4	**9%**	**54%**	**37%**	**S4**	**5%**	**45%**	**50%**
Volume of production	S1	21%	48%	31%	S1	8%	37%	55%
	S2	9%	49%	42%	S2	5%	39%	56%
	S3	10%	47%	43%	S3	7%	35%	58%
	S4	**9%**	**48%**	**43%**	**S4**	**5%**	**39%**	**56%**
Order-book size	S1	20%	50%	30%	S1	9%	36%	55%
	S2	7%	49%	44%	S2	4%	43%	53%
	S3	8%	45%	47%	S3	7%	34%	59%
	S4	**8%**	**50%**	**42%**	**S4**	**5%**	**38%**	**57%**
PAT margin	S1	26%	50%	24%	S1	14%	42%	44%
	S2	15%	51%	34%	S2	9%	48%	43%
	S3	13%	48%	39%	S3	9%	46%	45%
	S4	**12%**	**52%**	**36%**	**S4**	**6%**	**44%**	**50%**
Capacity utilisation	S1	21%	50%	29%	S1	9%	40%	51%
	S2	7%	53%	40%	S2	5%	49%	46%
	S3	6%	57%	37%	S3	6%	46%	48%
	S4	**7%**	**57%**	**36%**	**S4**	**5%**	**45%**	**50%**
Employee base	S1	9%	76%	15%	S1	4%	66%	30%
	S2	4%	81%	15%	S2	3%	69%	28%
	S3	3%	79%	18%	S3	2%	71%	27%
	S4	**4%**	**84%**	**12%**	**S4**	**2%**	**77%**	**21%**

CriSidEx readings

Services

Index parameters		SQ				NQ		
		Negative	Neutral	Positive		Negative	Neutral	Positive
Overall business situation	S1	14%	56%	30%	S1	5%	43%	52%
	S2	10%	61%	29%	S2	6%	46%	48%
	S3	9%	47%	44%	S3	8%	39%	53%
	S4	**9%**	**53%**	**38%**	**S4**	**5%**	**45%**	**50%**
Order-book size	S1	17%	58%	25%	S1	7%	47%	46%
	S2	8%	62%	30%	S2	6%	46%	48%
	S3	9%	47%	44%	S3	6%	43%	51%
	S4	**8%**	**53%**	**39%**	**S4**	**5%**	**41%**	**54%**
PAT margin	S1	22%	54%	24%	S1	12%	42%	46%
	S2	16%	55%	29%	S2	10%	47%	43%
	S3	13%	47%	40%	S3	10%	42%	48%
	S4	**13%**	**51%**	**36%**	**S4**	**7%**	**43%**	**50%**
Employee base	S1	6%	74%	20%	S1	2%	64%	34%
	S2	4%	81%	15%	S2	4%	68%	28%
	S3	5%	79%	16%	S3	4%	70%	26%
	S4	**4%**	**81%**	**15%**	**S4**	**3%**	**74%**	**23%**
CriSidEx	S1	SQ1	107		NQ1	Positive		
	S2	SQ2	121		NQ2	Positive		
	S3	SQ3	127		NQ3	Positive		
	S4	**SQ4**	**124**		**NQ4**	**Positive**		

Business sentiment, July–September 2018

The Survey 4 findings need to be viewed in the context of macroeconomic factors such as seasonality due to monsoon and onset of the festive season, rising crude oil prices, rupee depreciation, and the fact that July-September is preceded by a usually buoyant quarter – the first quarter of the fiscal.

Sectors that saw a positive trend

- Momentum was positive for both manufacturing and services sectors

- Among service providers, 38% reported a good SQ4, indicating significant improvement over the four quarters, from 30% in SQ1

  — Commercial services & supplies providers, healthcare and travel & hotels segments had the highest share respondents who had a good quarter

  — Power & utilities providers had a mixed quarter with high share on both sides – good and subdued business situation

- Among manufacturers, 37% reported a good SQ4, indicating a consistent run

  — The share of positive respondents was similar to those in SQ1 and SQ2, though lower than in SQ3

  — Auto-components, metals & mining, chemicals & pharmaceuticals had a higher share of respondents with a good quarter

Sectors that saw a subdued trend

- In services, media-related MSEs, logistics, and human resource service providers had a higher share of respondents reporting a subdued quarter

- In manufacturing, food products, gems & jewellery and leather & leather goods had a higher share of respondents reporting a subdued quarter

Business sentiment, October–December 2018

- Half of all respondents in both manufacturing and services

expect a good next quarter

- Compared with NQ3, however, there has been some moderation

Sectors anticipating a positive trend

- In manufacturing, respondents from auto components, engineering & capital goods, and metals & mining are the most optimistic

  — Compared with NQ3, there is a small shift in the share of respondents in some sectors expecting a satisfactory NQ4 rather than a good one

  — For instance, 54% of the respondents in auto components expect a good and 42% a satisfactory NQ4 compared with 59% and 38%, respectively, in NQ3

- In services, respondents from healthcare, power & utilities and travel & hotel segments are the most optimistic

Sectors foreseeing a subdued trend

- In manufacturing, gems & jewellery had a higher share of respondents expecting a subdued quarter

- In services, human resource had a higher share of respondents expecting a subdued quarter

Other takeaways

Companies more optimistic than firms

- Companies were more optimistic, with 41% reporting a good survey quarter, compared with 36% of firms

- The trend was in line with that in the previous 3 surveys as well

Larger MSEs had a better quarter and are more optimistic

- 40% of MSEs with more than 25 employees reported a good SQ4 compared with 37% of those with less than 10 employees

- The trend also held for the next quarter, with larger MSEs expecting a better NQ4

Order books and margins showing improvement since S1

Manufacturing

Change in the share of positive respondents

Component parameters	Actual	
	S4 −S3	S4 −S1
Overall business situation	-8%	-1%
Volume of production	0%	12%
Order-book size	-5%	12%
PAT margin	-3%	12%
Capacity utilisation	-1%	7%
Employee base	-6%	-3%

Services

Change in the share of positive respondents

Component parameters	Actual	
	S4 −S3	S4 −S1
Overall business situation	-6%	8%
Order-book size	-5%	14%
PAT margin	-4%	12%
Employee base	-1%	-5%

- Between S1 and S4, the share of respondents who reported an increase in their order book size increased by 12% in manufacturing and 14% in services

- Share of respondents who reported a positive overall business sentiment in services sector has increased by 8% between S1 and S4, while that of manufacturing has remained largely stable

- However, positive sentiments have remained muted in comparison to S3

Positive | Negative

Order book, July–September 2018

- For SQ4, 40% of MSEs reported an increase in order book, lower than 45% in SQ3 but higher than both SQ1 and SQ2
- In manufacturing, auto components, engineering & capital goods, metals & mining and pharmaceuticals segments reported an increase in order book
  — Leather & leather products, gems & jewellery and textiles had a larger share of respondents reporting a subdued quarter
- In services, healthcare, construction & real estate, commercial service providers & travel & hotels segment reported an increase in order book
  — Human resources, logistics and consumer services had a relatively muted quarter

Order book, October–December 2018

- MSEs are largely optimistic for NQ4 with 53% expecting increased orders – similar to NQ3
- In manufacturing, engineering & capital goods and pharmaceuticals are the most optimistic
  — Textiles and food products have a lower share of respondents expecting increased order book size, though they still expect the order book position to be satisfactory
- In services, healthcare, commercial services, construction & real estate and healthcare segments anticipate enhanced order book position in NQ4
  — Optimism is lower in logistics, human resources and consumer services

Other takeaways

Export-oriented MSEs lag domestic peers

- In SQ4, 37% of export-based MSEs reported an increase in order book, down marginally from 39% in SQ3
  — These units continued to lag domestic market-focused units in line with the previous three surveys
- For NQ4, 46% of exporters expect an increase in order book size as against 53% in NQ3
  — Here too, more domestic players anticipate an enhanced order book as against their export based peers

Importers play cautious

- In SQ4, the share of importers who increased their orders reduced to 14%, from 17% in SQ3
  — This was the lowest of all four surveys, indicating rupee depreciation had a role
- For NQ4, only 21% of the importers plan to increase their orders

Miscellaneous trends

Production and utilisation expected to improve

- 56% of manufacturing MSEs expect an increase in production in NQ4, 5% expect it to be lower and 39% see it unchanged
- Capacity utilisation is expected to broadly mirror the production trends

Hiring growth to continue, but marginally slower

- In SQ4, 14% of the MSEs reported additions to their employee base compared with 17% in SQ3; 4% reported reductions, while 82% maintained the base

- In NQ4, 22% intend to add employees while only 2% intend to reduce headcount

  — In manufacturing, engineering & capital goods, pharmaceuticals and even leather & leather goods are looking to add more employees

  — In services, travel & hotels, construction & real estate, professional services and human resources are the most optimistic about hiring more

Lenders upbeat on business situation

- In SQ4, 6 out of 10 lenders surveyed saw improvement in overall business situation of MSEs and 3 out of 10 rated it as satisfactory compared with 4 out of 10 each for positive and satisfactory in SQ3

- For NQ4, a 9 out of 10 of the lenders have a positive outlook on MSEs compared with 5 out of 10 in NQ3

Small-ticket segment the hottest for lenders

- In SQ4, 6 out of 10 lenders reported highest credit growth in the sub-Rs 1 crore exposure segment versus 4 out of 10 in Rs 1-5 crore

- For NQ4, too, lenders expect a similar trend

Lenders see weakness in asset quality persisting

- 6 out of 10 lenders believe the NPAs in MSEs will not change going forward, 1 out of 10 believe it will increase and only 3 in 10 believe it will decrease

- 4 out of 10 expect to see the most increase in NPA levels in the very small segment, 3 out of 10 each in the small segment and medium segment

About CriSidEx

CriSidEx is India's first sentiment index for micro and small enterprises (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 8 parameters (5 manufacturing and 3 services parameters) with equal weights. It measures MSE business sentiment on a scale of 0 to 200, where 0 indicates extremely negative sentiment, 100 neutral sentiment 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 (SQ) and (b) the respondent's expectation for the next quarter (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 Bajaj Finserv Limited, Fullerton India Credit Company Limited, IndusInd Bank, Kotak Mahindra Bank, North Eastern Development Finance Corporation Limited, Reliance Commercial Finance Limited, State Bank of India and Vistaar Financial Services Private Limited 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 orderbooks, such as the actual value of outstanding orders.

For more details, please refer to the first CriSidEx report available at:

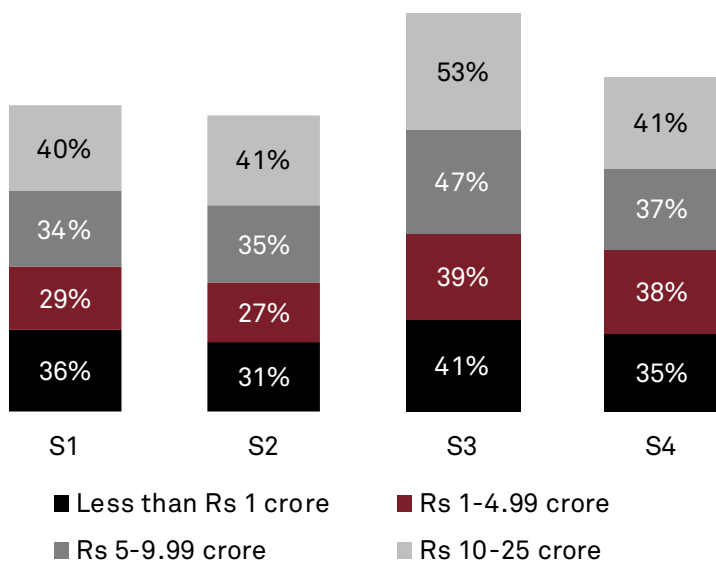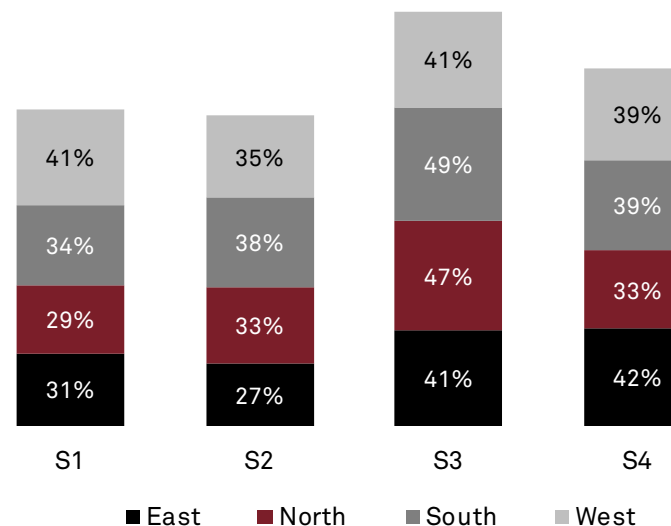https://www.crisil.com/en/home/our-analysis/reports/2018/01/crisidex-the-mse-sentiment-index.html

https://sidbi.in/Crisidex.php

Comparison across surveys

Larger MSEs most positive, small segment most improved

Based on size of business

	S1	S2	S3	S4
Rs 10-25 crore	40%	41%	53%	41%
Rs 5-9.99 crore	34%	35%	47%	37%
Rs 1-4.99 crore	29%	27%	39%	38%
Less than Rs 1 crore	36%	31%	41%	35%

■ Less than Rs 1 crore ■ Rs 1-4.99 crore
■ Rs 5-9.99 crore ■ Rs 10-25 crore

- MSEs with annual turnover of Rs 10-25 crore have consistently had over 40% positive respondents
- Positive respondents in MSEs with turnover in Rs 1-4.99 crore range increased from 29% in S1 to 38% in S4

Regional sentiment

	S1	S2	S3	S4
West	41%	35%	41%	39%
South	34%	38%	49%	39%
North	29%	33%	47%	33%
East	31%	27%	41%	42%

■ East ■ North ■ South ■ West

- The share of positive respondents in the East has increased from 31% in S1 to 42% in S4.
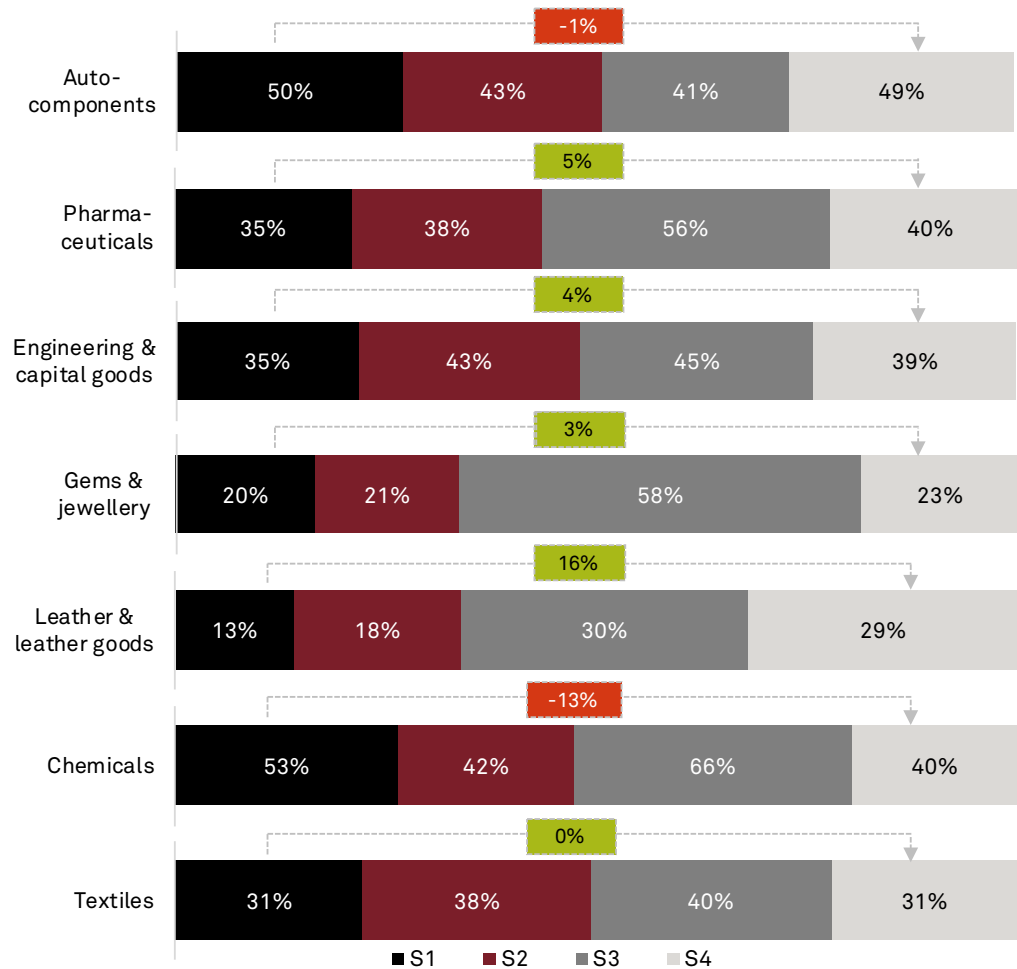- West has shown lesser variation in sentiment and has largely had a high share of positive respondents

Companies outpacing firms consistently

Firms

Companies

36% 44%

34%

33%

41%

46%

35% 32%

Share of positive respondents in survey quarters

S1
S2
S3
S4

S1
S2
S3
S4

3%

6%

Change in the share of positive respondents from S1 to S4
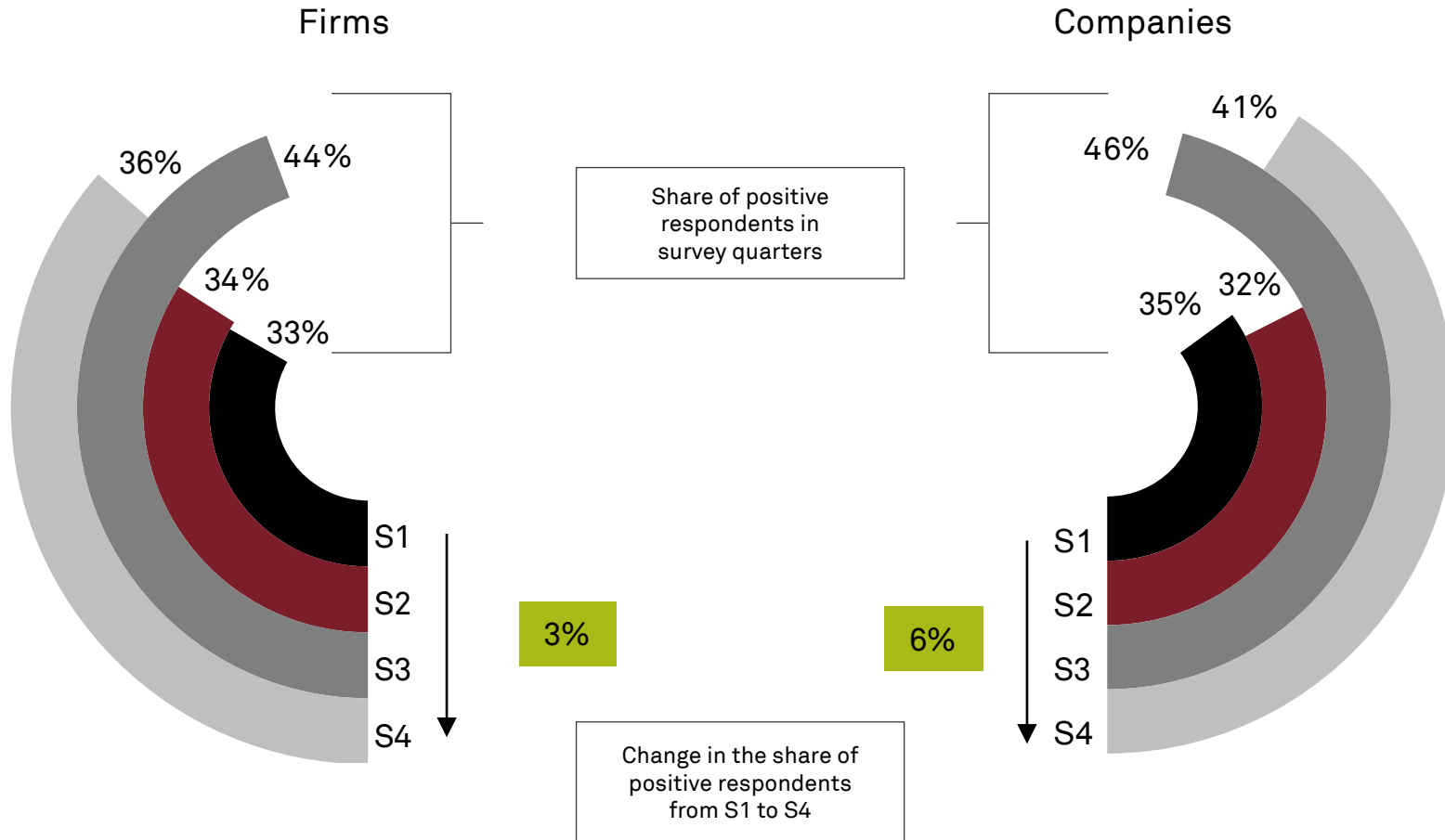
• MSEs irrespective of legal status had higher positive sentiment in S4 compared with S1, though lower compared with S3. Positive sentiment was higher for companies compared with firms.
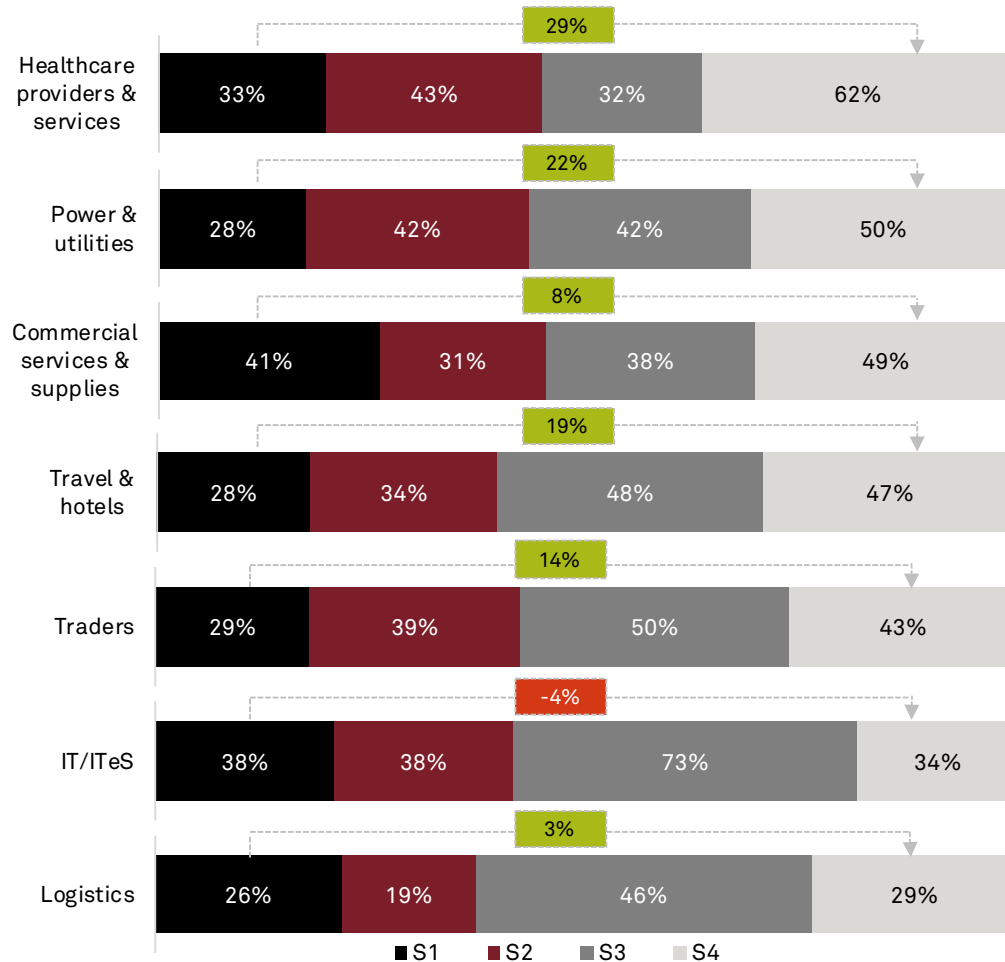
Manufacturing: auto-components doing well, leather subdued

Movement of positive respondents from S1 to S4

Auto-components	50%	43%	41%	49%	-1%
Pharma-ceuticals	35%	38%	56%	40%	5%
Engineering & capital goods	35%	43%	45%	39%	4%
Gems & jewellery	20%	21%	58%	23%	3%
Leather & leather goods	13%	18%	30%	29%	16%
Chemicals	53%	42%	66%	40%	-13%
Textiles	31%	38%	40%	31%	0%

■ S1 ■ S2 ■ S3 ■ S4

- Auto-component manufacturers have shown higher positive sentiment, with an increase of 8% in the share of positive respondents in S4

- MSEs in engineering & capital goods, gems & jewellery, and pharmaceuticals have reported lower positive sentiment compared with S3 but higher than in S1

- Textiles is at similar levels, while chemicals – though among higher positive segments – reported a dip in comparison to S1

- Despite significant pick-up in S4 compared with S1, leather & leather goods is among the more subdued segments

Services: healthcare a good performer, logistics a laggard

Movement of positive respondents from S1 to S4

Category	S1	S2	S3	S4	Change
Healthcare providers & services	33%	43%	32%	62%	29%
Power & utilities	28%	42%	42%	50%	22%
Commercial services & supplies	41%	31%	38%	49%	8%
Travel & hotels	28%	34%	48%	47%	19%
Traders	29%	39%	50%	43%	14%
IT/ITeS	38%	38%	73%	34%	-4%
Logistics	26%	19%	46%	29%	3%

Legend: ■ S1 ■ S2 ■ S3 ■ S4

- The share of positive respondents in healthcare has increased from 33% in S1 to 62% in S4

- Healthcare providers and services have reported high growth in positive sentiment in S4 despite a subdued S3

- Additionally, positive sentiment of MSEs in commercial services & supplies and power & utilities providers was higher in S4 compared with S1

- On the contrary, IT/ITeS and professional service providers have lower positive sentiment in S4 compared with S1
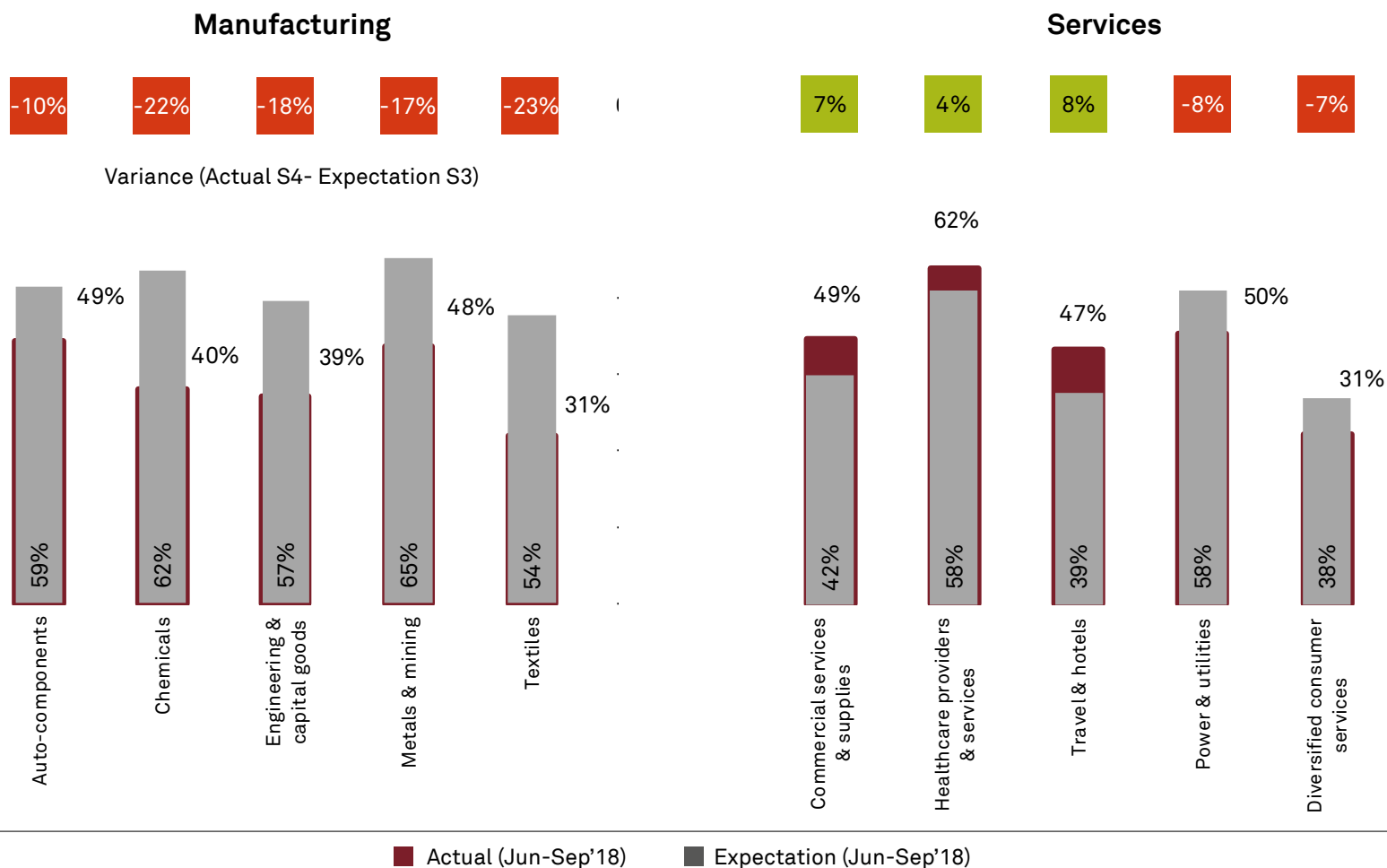
Sector underpinnings

	Auto-components	Owing to the festive season in Q3, there is an inventory build-up across vehicle segments in Q2FY19, which led to positive sentiment for auto-component MSEs
	Gems and jewellery	Higher domestic prices due to rupee depreciation dented demand. Further, July-September quarter is leaner compared with April-June as rural population (comprising two-thirds of gold demand) is engrossed in sowing activities and does not buy much gold
	Chemicals	For chemical manufacturers, raw material prices account for ~60% of costs. Since major raw materials are derivatives of crude oil, any movement in crude oil prices directly impacts input cost. During Q2F19, volatile crude oil prices resulted in higher raw material cost. Given the MSEs inability to pass on the entire price increase, margins of chemical MSEs are expected to be impacted
	Healthcare providers and services	Increasing health awareness and the seasonal spike in health related medical cases during monsoon led to greater demand for healthcare services
	Travels and hotels	With online aggregators expanding rapidly, the visibility of economy segment hotels has considerably improved over the last few quarters
	Pharmaceuticals	Input costs are rising due to supply issues in China and rupee depreciation. Inability to pass on the rise in input costs owing to pricing pressure in export markets dampened sentiment for Q2FY19
	IT/ITeS	Lower spending by clients and lower demand led to a muted quarter for the IT/ITeS sector
	Logistics	Decline in sentiment in Q2 can be attributed to the steep hike in fuel prices, which is impacting the players' profitability

Expectation in S3 vs performance in S4

Commercial services, healthcare, travel beat expectations

Manufacturing

| -10% | -22% | -18% | -17% | -23% |

Variance (Actual S4- Expectation S3)

| | 49% | 40% | 39% | 48% | 31% |
| Auto-components 59% | Chemicals 62% | Engineering & capital goods 57% | Metals & mining 65% | Textiles 54% |

Services

| 7% | 4% | 8% | -8% | -7% |

| 49% | 62% | 47% | 50% | 31% |
| Commercial services & supplies 42% | Healthcare providers & services 58% | Travel & hotels 39% | Power & utilities 58% | Diversified consumer services 38% |

■ Actual (Jun-Sep'18)   ■ Expectation (Jun-Sep'18)

- It has been observed that expectations for the next quarter is generally a few percentage points higher than the actual achievement. However, a few segments have been able to exceed the expectations for SQ4 positive sentiment
- MSEs operating commercial services and supplies, healthcare providers & supplies, and travel & hotels reported better overall business situation compared with expectations
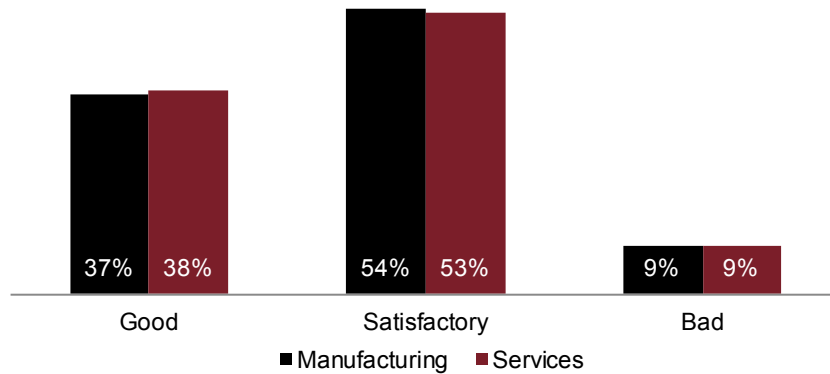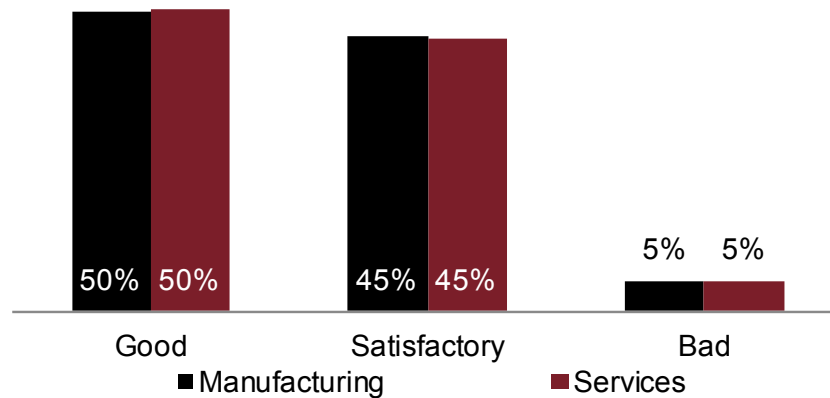
Sentiment in S4

Business situation in positive territory

SQ4 (Jun-Sep'18)

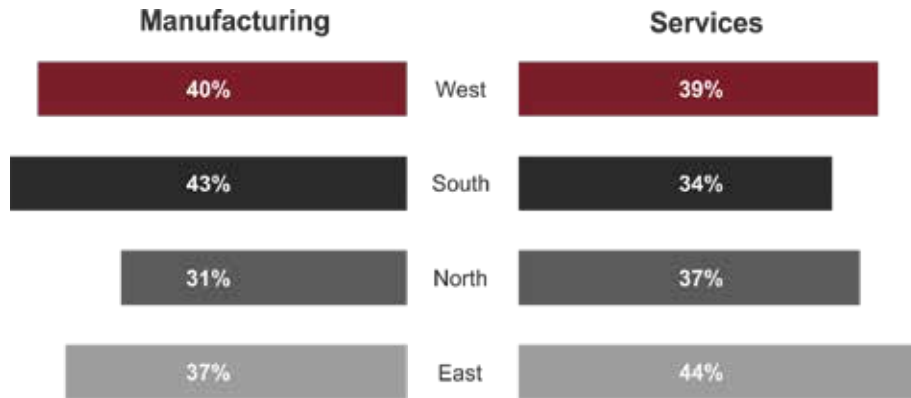|	Good	Satisfactory	Bad
Manufacturing	37%	54%	9%
Services	38%	53%	9%

- Over a third (37% and 38%) of respondents in manufacturing and services sectors, respectively, are positive about the overall business situation

NQ4 (Oct-Dec'18)

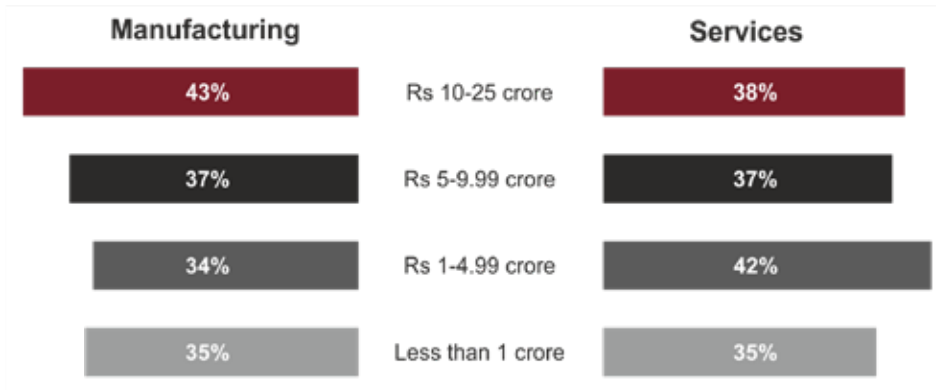|	Good	Satisfactory	Bad
Manufacturing	50%	45%	5%
Services	50%	45%	5%

- A higher percentage of MSEs expect a better NQ. 50% of the respondents each in manufacturing and services are expecting a good next quarter

Services doing better in the east, manufacturing in the south

Manufacturing / Services (by region)

Manufacturing	Region	Services
40%	West	39%
43%	South	34%
31%	North	37%
37%	East	44%

- Manufacturing MSEs based in the South registered 9% higher positive sentiment compared with service MSEs operating in the same region
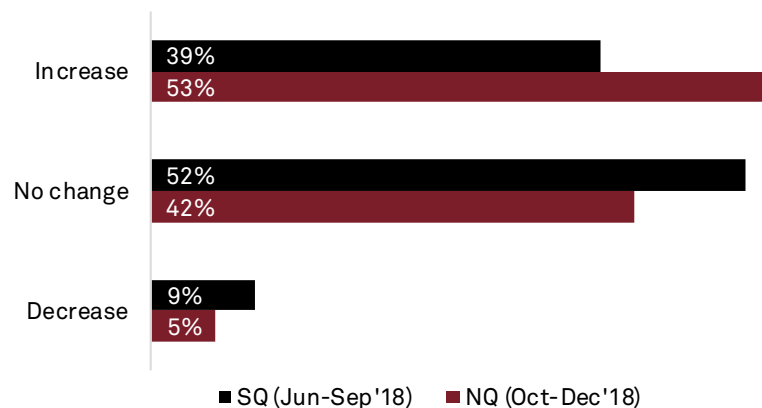- Service MSEs fared better in the North and the East compared with manufacturing

Larger MSEs more positive in manufacturing; smaller ones in services

Manufacturing / Services (by turnover)

Manufacturing	Turnover	Services
43%	Rs 10-25 crore	38%
37%	Rs 5-9.99 crore	37%
34%	Rs 1-4.99 crore	42%
35%	Less than 1 crore	35%

- Larger manufacturing-based MSEs with annual turnover in the Rs 10-25 crore range are more positive than their services counterparts
- In services, it is the small segment, with annual turnover in the Rs 1-4.99 crore range, that is the most positive
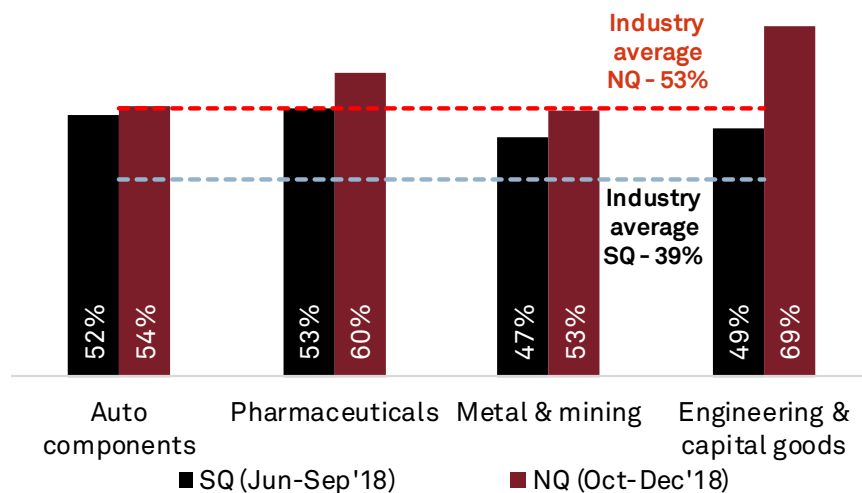
Order book size (domestic): Manufacturing in good shape

Manufacturing - order book size (domestic)

	SQ (Jun-Sep'18)	NQ (Oct-Dec'18)
Increase	39%	53%
No change	52%	42%
Decrease	9%	5%

■ SQ (Jun-Sep'18) ■ NQ (Oct-Dec'18)

- 39% of MSEs in manufacturing sector saw a growth in domestic order book in SQ while 53% expect domestic order book to grow further in NQ
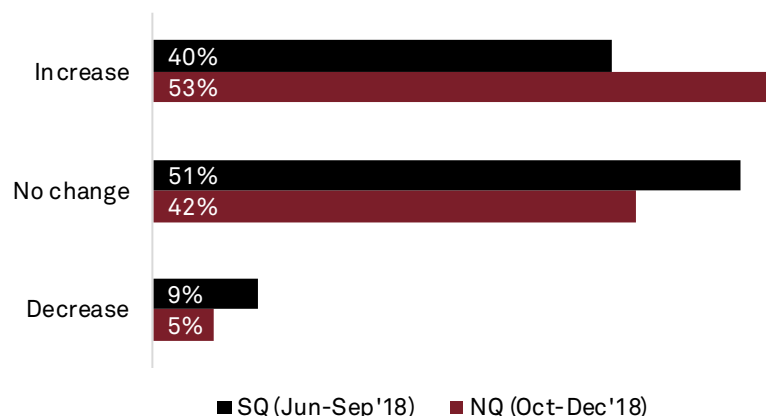
Manufacturing industries - orderbook size (domestic)

Industry average NQ - 53%

Industry average SQ - 39%

	Auto components	Pharmaceuticals	Metal & mining	Engineering & capital goods
SQ (Jun-Sep'18)	52%	53%	47%	49%
NQ (Oct-Dec'18)	54%	60%	53%	69%

■ SQ (Jun-Sep'18) ■ NQ (Oct-Dec'18)

- Auto-components, engineering and capital goods, metal & mining and pharmaceuticals reported an increase in order book size, and above industry average
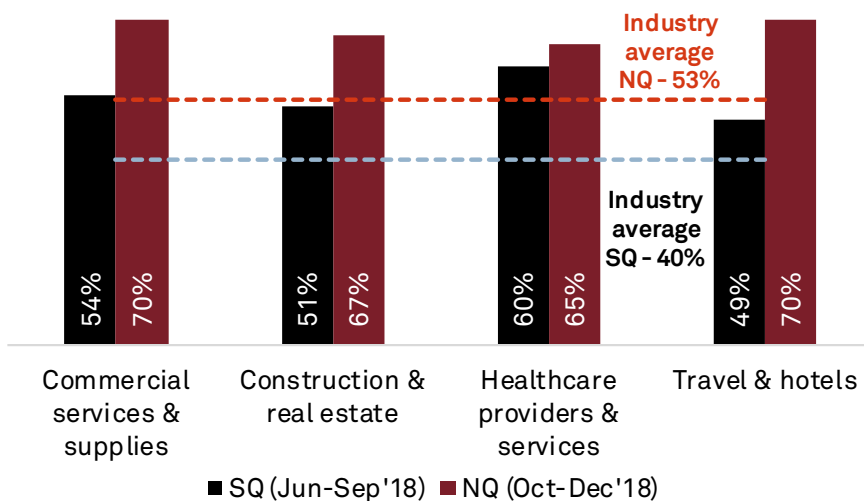
Order book (domestic): Services also well placed

Services - order book size (domestic)

|	
Increase	40% (SQ), 53% (NQ)
No change	51% (SQ), 42% (NQ)
Decrease	9% (SQ), 5% (NQ)

■ SQ (Jun-Sep'18) ■ NQ (Oct-Dec'18)

- 40% of MSEs in services sector reported an increase in domestic order book
- 53% service-based MSEs expect growth in domestic order book in NQ

Services industry - orderbook size (domestic)

Industry average NQ - 53%

Industry average SQ - 40%

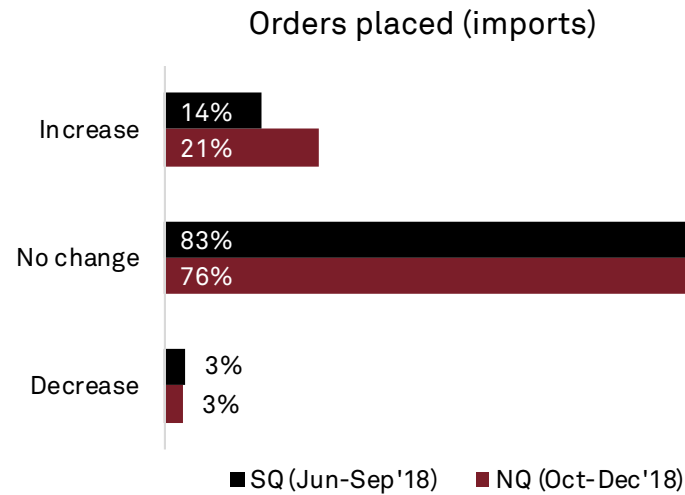|	Commercial services & supplies	Construction & real estate	Healthcare providers & services	Travel & hotels
SQ (Jun-Sep'18)	54%	51%	60%	49%
NQ (Oct-Dec'18)	70%	67%	65%	70%

■ SQ (Jun-Sep'18) ■ NQ (Oct-Dec'18)

- Commercial service & supplies, construction & real estate, healthcare providers & services and travel & hotels were more optimistic about growth in domestic order book both in SQ4 and NQ4

Order book (international): Marginally subdued

Order book size (exports)

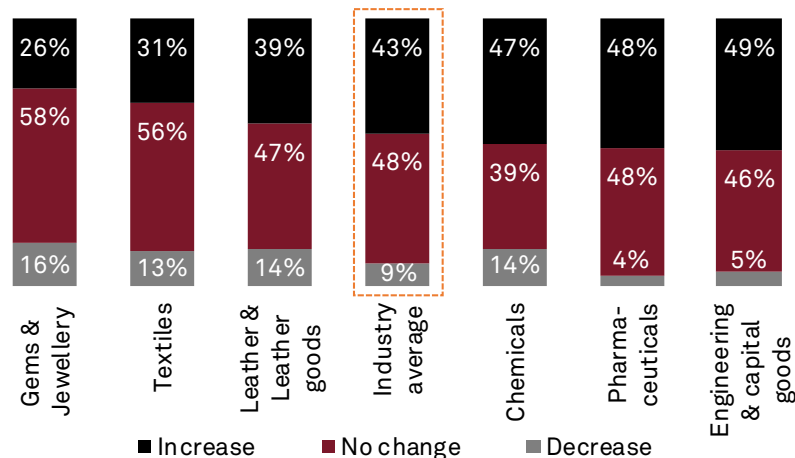|	SQ (Jun-Sep'18)	NQ (Oct-Dec'18)
Increase	37%	46%
No change	56%	51%
Decrease	7%	3%
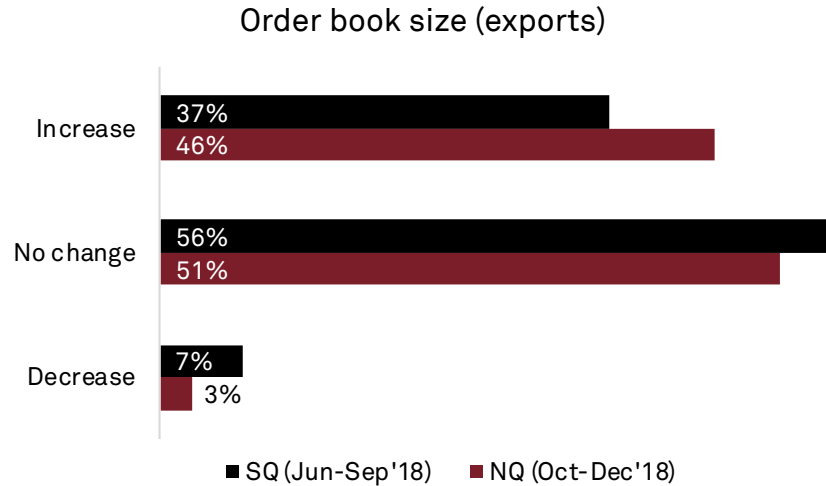
- 37% of MSEs with export order book reported an increase in orders in SQ4, though marginally lower compared with 39% in SQ3.
- 46% expect better NQ4 compared with 53% in NQ3

Orders placed (imports)

	SQ (Jun-Sep'18)	NQ (Oct-Dec'18)
Increase	14%	21%
No change	83%	76%
Decrease	3%	3%

- Importers have witnessed a subdued quarter with share of respondents reporting an increase in their order books marginally declining to 14% in SQ4 from 17% in SQ3
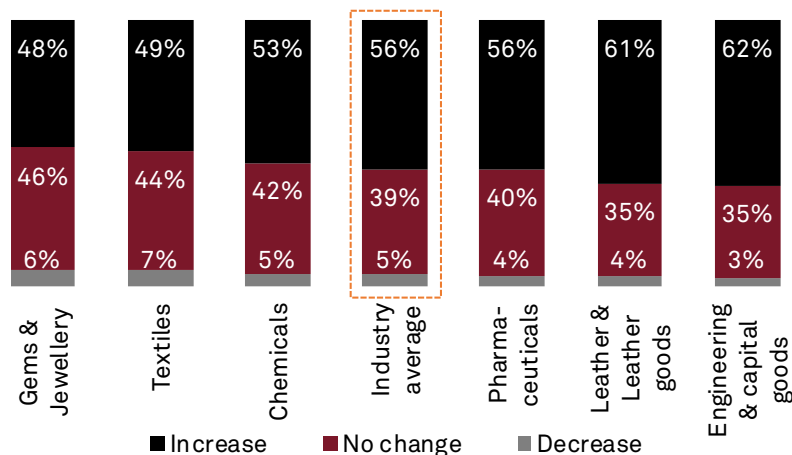
Volume of production: Engineering and pharma doing well

## Volume of production (industry-wise) - Survey quarter

Industry	Increase	No change	Decrease
Gems & Jewellery	26%	58%	16%
Textiles	31%	56%	13%
Leather & Leather goods	39%	47%	14%
Industry average	43%	48%	9%
Chemicals	47%	39%	14%
Pharma-ceuticals	48%	48%	4%
Engineering & capital goods	49%	46%	5%

■ Increase ■ No change ■ Decrease

- In SQ4, higher share of MSEs in chemicals, pharmaceuticals and engineering & capital goods segments reported increase in volume of production compared with the industry average of 43% increase

- Gems & jewellery, textile and leather & leather goods MSEs reported a lower increase in volume of production compared with the industry average in SQ4

Volume of production (industry-wise) - Next quarter

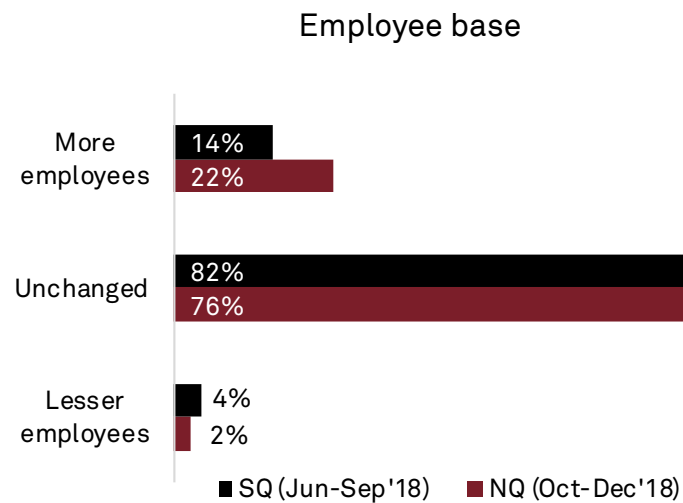| Industry	Increase	No change	Decrease
Gems & Jewellery	48%	46%	6%
Textiles	49%	44%	7%
Chemicals	53%	42%	5%
Industry average	56%	39%	5%
Pharma-ceuticals	56%	40%	4%
Leather & Leather goods	61%	35%	4%
Engineering & capital goods	62%	35%	3%

■ Increase ■ No change ■ Decrease

- While pharmaceuticals and engineering & capital goods MSEs conveyed optimism for NQ4, those in chemical sector expect lower volume compared with the industry average

Capacity utilisation to increase; hiring stable

Capacity utilisation

|	
Increase	36%
	50%
No change	57%
	45%
Decrease	7%
	5%

■ SQ (Jun-Sep'18)   ■ NQ (Oct-Dec'18)
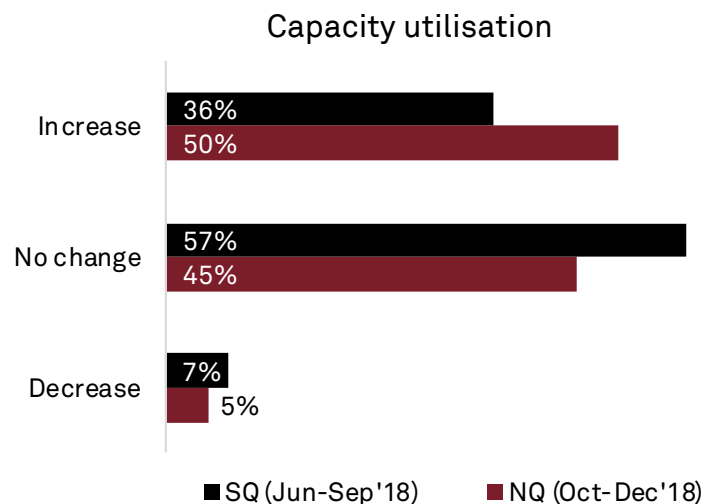
- 36% of manufacturing-based MSEs reported an increase in capacity utilisation, while 57% had it unchanged

- Going forward, 50% of the respondents are expecting enhanced capacity utilisation in NQ4, while only 5% expect a reduction and the balance 45% expect no change

Employee base

More employees	14%
	22%
Unchanged	82%
	76%
Lesser employees	4%
	2%

■ SQ (Jun-Sep'18)   ■ NQ (Oct-Dec'18)

- 14% of respondents reported an enhancement in their employee base in SQ4, while 82% reported no change

- 22% of respondents expect to enhance their employee bases in NQ4, while 76% do not expect any addition in their workforce
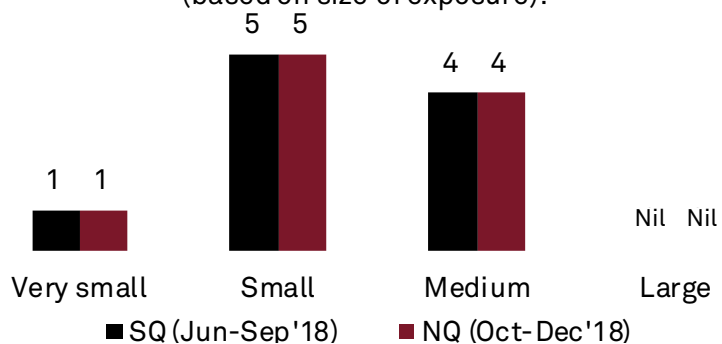
Lenders upbeat on the MSE sector

Business situation

Bad: SQ 1, NQ Nil
Satisfactory: SQ 3, NQ 1
Good: SQ 6, NQ 9

■ SQ (Jun-Sep'18)   ■ NQ (Oct-Dec'18)
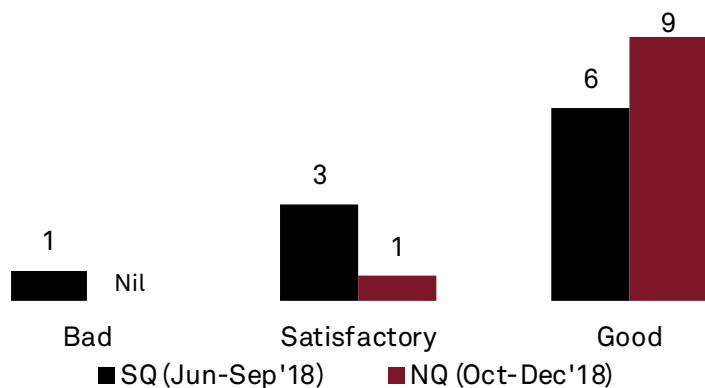
- In S4, 6 out of 10 lenders surveyed witnessed improvement in the overall business situation of MSEs and another 3 rated their performance as satisfactory
- Lenders have an optimistic outlook on MSEs, with 9 out of 10 reporting positive outlook for the sector in NQ4
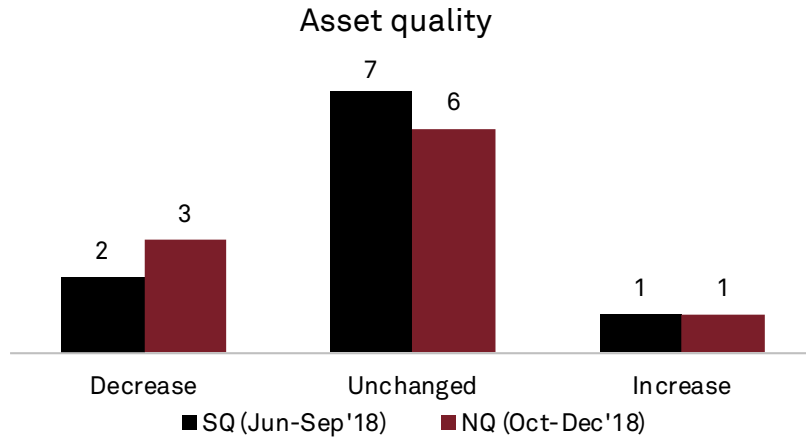
Highest credit growth in segments (based on size of exposure):

Very small: SQ 1, NQ 1
Small: SQ 5, NQ 5
Medium: SQ 4, NQ 4
Large: Nil, Nil

■ SQ (Jun-Sep'18)   ■ NQ (Oct-Dec'18)

Very small	Small	Medium	Large
(Rs < 0.10 cr exposure)	(Rs 0.10 - 1 cr exposure)	(Rs 1 - 5 cr exposure)	(Rs 5 - 10 cr exposure)

- 6 out of 10 lenders reported highest credit growth in the segment where MSEs have credit exposure of less than Rs 1 crore and another 4 out 10 for the Rs 1-5 crore segment
- Going forward, too, lenders expect a similar trend

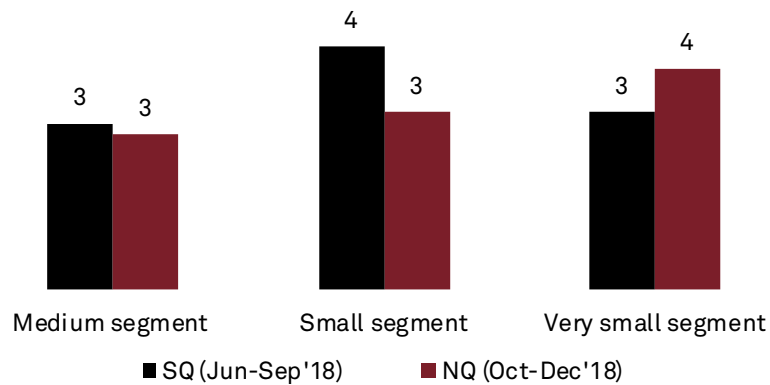![sidbi]

Lenders see weakness in asset quality persisting

Asset quality

- Decrease: SQ 2, NQ 3
- Unchanged: SQ 7, NQ 6
- Increase: SQ 1, NQ 1

■ SQ (Jun-Sep'18)   ■ NQ (Oct-Dec'18)

- 6 out of 10 lenders believe the NPAs in MSEs will not change going forward, 1 out of 10 believe it will increase and only 3 in 10 believe it will decrease

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

- Medium segment: SQ 3, NQ 3
- Small segment: SQ 4, NQ 3
- Very small segment: SQ 3, NQ 4

■ SQ (Jun-Sep'18)   ■ NQ (Oct-Dec'18)

- 4 out of 10 expect to see the most increase in NPA levels in the very small segment, 3 out of 10 each in the small segment and medium segment
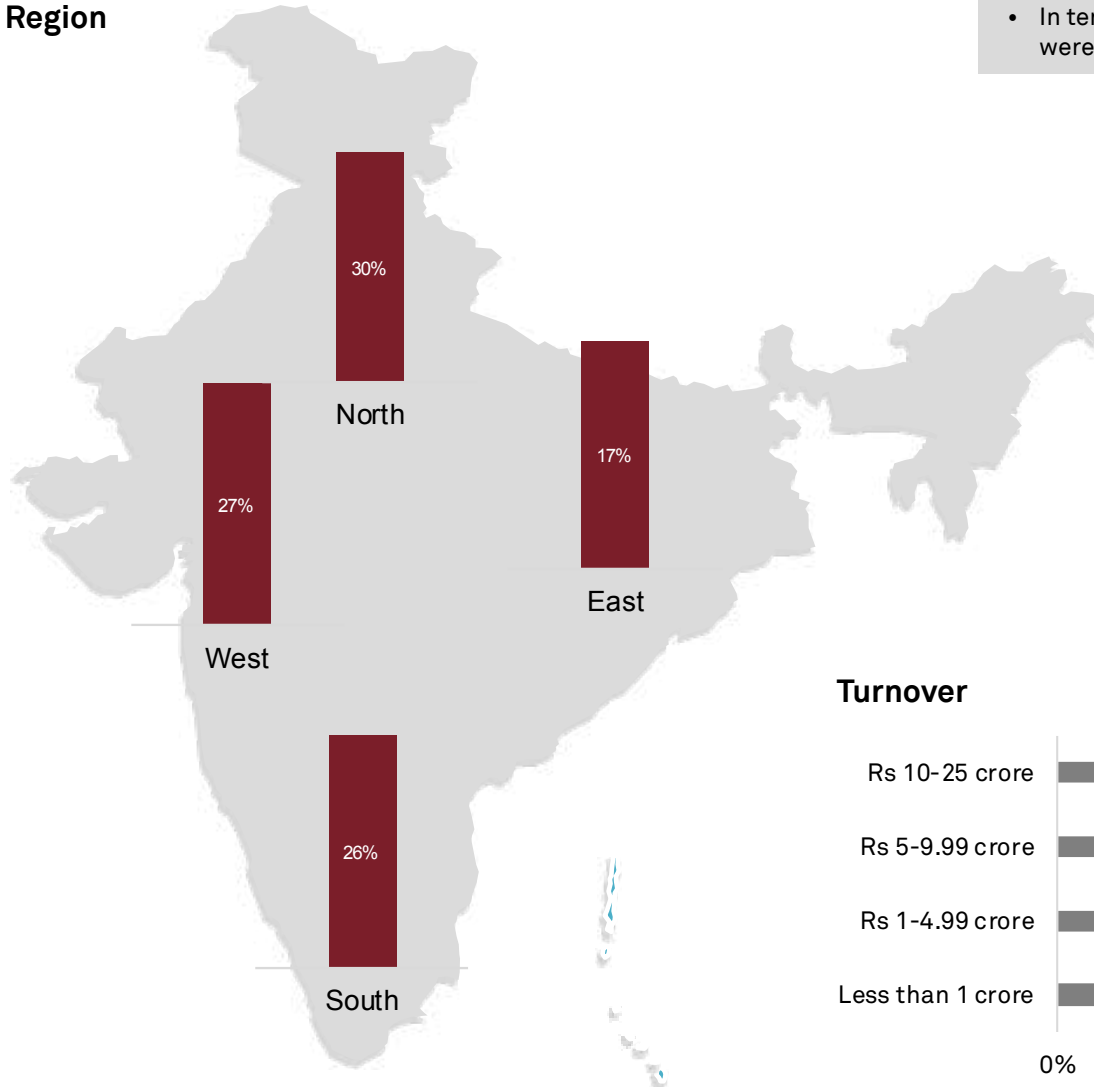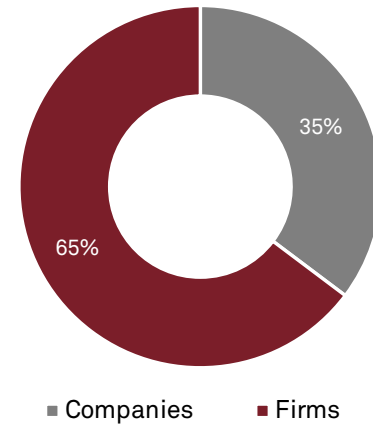
Annexures

Sample summary

Region

30%

North

27%

West

17%

East

26%

South

- Sample selected for the survey is well distributed across the zone and turnover categories. No turnover category or zone accounts for more than 31% of the total sample

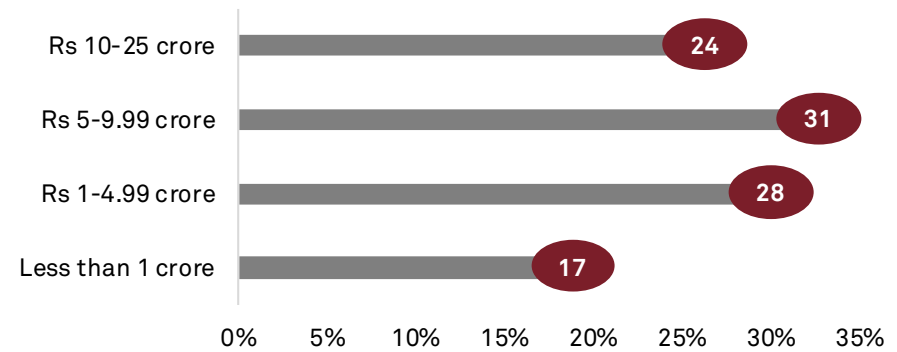- In terms of legal status, 65% of the participating entities were companies where as 35% were firms

Legal status

35%

65%

■ Companies ■ Firms

Turnover

Rs 10-25 crore	24
Rs 5-9.99 crore	31
Rs 1-4.99 crore	28
Less than 1 crore	17

0%   5%   10%   15%   20%   25%   30%   35%

Glossary

Broad products/ services included under respective segments

Commercial services & supplies comprise printing, mall management, solar panel installation, procurement

Diversified consumer services comprise car rental, cold storage, repairs & maintenance, organising events, skill development

Engineering & capital goods comprise machinery, electrical equipment, electronic equipment, instruments & components, energy equipment

Healthcare providers & services comprise hospitals, fitness centres, nursing homes, diagnostic centres, ambulance services, auxiliary services

Human resources comprise industrial manpower providers, consultancy & training services, security services, housekeeping services, employment services

IT/ITeS comprise software developers, web designing services, document verification services, IT consulting, cyber security, networking

Logistics comprise air freight, rail, road and transportation service providers

Power & utilities comprise industrial gas providers, energy & power management services, solar module services, power engineering procurement construction, wind mill power generation, water utilities

Professional services comprise valuation services, business process outsourcing, consultancy/ advisory/ research services, interior designing, beauty parlours, boutiques

Notes

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