



# Sentiment springs back after a steep drop

December 2021 | Volume 16

CriSidEx survey for July-September and October-December 2021

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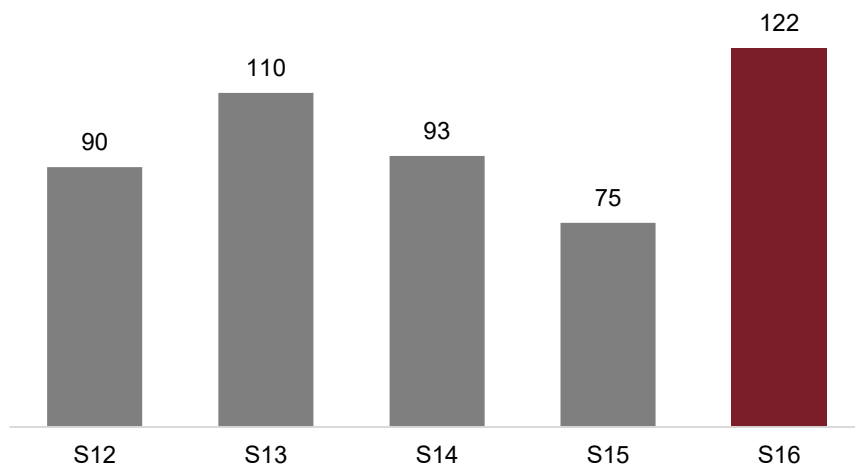
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# High on-year and on-quarter index growth; signs of recovery



The CriSidEx\* score of 122 for July-September 2021 (Survey 16 or S16) was higher than that in the corresponding period last year (S12) and the previous quarter (S15)

*S11 was based on 767 respondents vs 1,100 for all other quarters, given the nationwide lockdown to contain the pandemic. S15 and S16 are based on 700 respondents given the second wave of Covid-19*

## Abbreviations

| CriSidEx survey | Survey quarter (SQ)          | Next quarter (NQ)            |
|-----------------|------------------------------|------------------------------|
| Survey 12 (S12) | July-September 2020 (SQ12)   | October-December 2020 (NQ12) |
| Survey 13 (S13) | October-December 2020 (SQ13) | January-March 2021 (NQ13)    |
| Survey 14 (S14) | January-March 2021 (SQ14)    | April-June 2021 (NQ14)       |
| Survey 15 (S15) | April-June 2021 (SQ15)       | July-September 2021 (NQ15)   |
| Survey 16 (S16) | July-September 2021 (SQ16)   | October-December 2021 (NQ16) |

\* See 'How to read CriSidEx' on page 12

## On-year trend across index parameters

### Manufacturing

| Component parameters | Actual |     |         |
|----------------------|--------|-----|---------|
|                      | S12    | S16 | S16-S12 |
| Volume of production | 104    | 123 | 19      |
| Order book size      | 108    | 131 | 23      |
| PAT margin           | 92     | 122 | 30      |
| Capacity utilisation | 111    | 115 | 4       |
| Employee base        | 82     | 100 | 18      |
| Manufacturing index  | 99     | 118 | 19      |

### Services

| Component parameters | Actual |     |         |
|----------------------|--------|-----|---------|
|                      | S12    | S16 | S16-S12 |
| Order book size      | 87     | 137 | 50      |
| PAT margin           | 76     | 131 | 55      |
| Employee base        | 79     | 106 | 27      |
| Services index       | 81     | 125 | 44      |

On-year improvement in services indices is more than double the improvement in manufacturing indices. The PAT margin recorded the highest expansion in both indices

Positive ■ Negative ■

## CriSidEx readings | Manufacturing

| Index parameters     | SQ         |             |            |            | NQ         |            |             |            |            |            |
|----------------------|------------|-------------|------------|------------|------------|------------|-------------|------------|------------|------------|
|                      |            | Negative    | Neutral    | Positive   | Index      | Negative   | Neutral     | Positive   | Index      |            |
| Volume of production | S12        | 31%         | 34%        | 35%        | 104        | S12        | 16%         | 40%        | 44%        | 128        |
|                      | S13        | 22%         | 37%        | 41%        | 119        | S13        | 13%         | 37%        | 50%        | 136        |
|                      | S14        | 23%         | 46%        | 31%        | 108        | S14        | 39%         | 50%        | 11%        | 72         |
|                      | S15        | 44%         | 35%        | 21%        | 76         | S15        | 21%         | 34%        | 45%        | 124        |
|                      | <b>S16</b> | <b>15%</b>  | <b>45%</b> | <b>40%</b> | <b>123</b> | <b>S16</b> | <b>12%</b>  | <b>29%</b> | <b>59%</b> | <b>147</b> |
| Order book size      | S12        | 28%         | 36%        | 36%        | 108        | S12        | 15%         | 44%        | 41%        | 126        |
|                      | S13        | 16%         | 38%        | 46%        | 130        | S13        | 9%          | 42%        | 49%        | 141        |
|                      | S14        | 30%         | 36%        | 34%        | 105        | S14        | 45%         | 43%        | 12%        | 68         |
|                      | S15        | 50%         | 26%        | 24%        | 75         | S15        | 20%         | 28%        | 52%        | 131        |
|                      | <b>S16</b> | <b>15%</b>  | <b>40%</b> | <b>45%</b> | <b>131</b> | <b>S16</b> | <b>10%</b>  | <b>25%</b> | <b>65%</b> | <b>154</b> |
| PAT margin           | S12        | 37%         | 34%        | 29%        | 92         | S12        | 18%         | 46%        | 36%        | 118        |
|                      | S13        | 25%         | 40%        | 35%        | 111        | S13        | 12%         | 51%        | 37%        | 125        |
|                      | S14        | 33%         | 41%        | 26%        | 94         | S14        | 42%         | 51%        | 7%         | 65         |
|                      | S15        | 53%         | 26%        | 21%        | 67         | S15        | 23%         | 44%        | 33%        | 110        |
|                      | <b>S16</b> | <b>18%</b>  | <b>42%</b> | <b>40%</b> | <b>122</b> | <b>S16</b> | <b>14%</b>  | <b>32%</b> | <b>54%</b> | <b>141</b> |
| Capacity utilisation | S12        | 24%         | 40%        | 36%        | 111        | S12        | 14%         | 52%        | 34%        | 120        |
|                      | S13        | 15%         | 48%        | 37%        | 122        | S13        | 9%          | 60%        | 31%        | 121        |
|                      | S14        | 26%         | 46%        | 28%        | 102        | S14        | 35%         | 58%        | 7%         | 72         |
|                      | S15        | 41%         | 34%        | 25%        | 85         | S15        | 18%         | 43%        | 39%        | 121        |
|                      | <b>S16</b> | <b>12%</b>  | <b>62%</b> | <b>26%</b> | <b>115</b> | <b>S16</b> | <b>9%</b>   | <b>46%</b> | <b>45%</b> | <b>136</b> |
| Employee base        | S12        | 25%         | 68%        | 7%         | 82         | S12        | 9%          | 83%        | 8%         | 99         |
|                      | S13        | 17%         | 77%        | 6%         | 89         | S13        | 9%          | 83%        | 8%         | 99         |
|                      | S14        | 15%         | 80%        | 5%         | 89         | S14        | 16%         | 82%        | 2%         | 86         |
|                      | S15        | 13%         | 83%        | 4%         | 91         | S15        | 3%          | 88%        | 9%         | 105        |
|                      | <b>S16</b> | <b>8%</b>   | <b>85%</b> | <b>7%</b>  | <b>100</b> | <b>S16</b> | <b>2%</b>   | <b>78%</b> | <b>20%</b> | <b>117</b> |
| Manufacturing index  | S12        | SQ12        |            |            | 99         | S12        | NQ12        |            |            | 118        |
|                      | S13        | SQ13        |            |            | 114        | S13        | NQ13        |            |            | 124        |
|                      | S14        | SQ14        |            |            | 100        | S14        | NQ14        |            |            | 72         |
|                      | S15        | SQ15        |            |            | 79         | S15        | NQ15        |            |            | 118        |
|                      | <b>S16</b> | <b>SQ16</b> |            |            | <b>118</b> | <b>S16</b> | <b>NQ16</b> |            |            | <b>139</b> |

For the manufacturing index, on-year growth in S16 for the PAT margin was the highest, whereas in capacity utilisation, it recorded the lowest growth. In the case of NQ16, all parameters improved for the manufacturing index, with production volume growing 20%, the highest growth. The NQ16 index jumped 18% to 139 vs S16

## CriSidEx readings | Services

| Index parameters                  | SQ         |             |            |            | NQ         |            |             |            |            |            |
|-----------------------------------|------------|-------------|------------|------------|------------|------------|-------------|------------|------------|------------|
|                                   |            | Negative    | Neutral    | Positive   | Index      | Negative   | Neutral     | Positive   | Index      |            |
| Order book size                   | S12        | 42%         | 29%        | 29%        | 87         | S12        | 32%         | 40%        | 28%        | 96         |
|                                   | S13        | 23%         | 34%        | 43%        | 121        | S13        | 15%         | 39%        | 46%        | 131        |
|                                   | S14        | 30%         | 43%        | 27%        | 97         | S14        | 48%         | 43%        | 9%         | 61         |
|                                   | S15        | 54%         | 30%        | 16%        | 62         | S15        | 32%         | 36%        | 32%        | 100        |
|                                   | <b>S16</b> | <b>12%</b>  | <b>40%</b> | <b>48%</b> | <b>137</b> | <b>S16</b> | <b>9%</b>   | <b>23%</b> | <b>68%</b> | <b>159</b> |
| PAT margin                        | S12        | 48%         | 29%        | 23%        | 76         | S12        | 38%         | 37%        | 25%        | 87         |
|                                   | S13        | 27%         | 36%        | 37%        | 110        | S13        | 17%         | 44%        | 39%        | 122        |
|                                   | S14        | 38%         | 43%        | 19%        | 81         | S14        | 48%         | 45%        | 7%         | 59         |
|                                   | S15        | 56%         | 27%        | 17%        | 60         | S15        | 35%         | 35%        | 30%        | 95         |
|                                   | <b>S16</b> | <b>18%</b>  | <b>34%</b> | <b>48%</b> | <b>131</b> | <b>S16</b> | <b>12%</b>  | <b>24%</b> | <b>64%</b> | <b>151</b> |
| Employee base                     | S12        | 23%         | 75%        | 2%         | 79         | S12        | 12%         | 86%        | 2%         | 90         |
|                                   | S13        | 18%         | 77%        | 5%         | 86         | S13        | 8%          | 87%        | 5%         | 96         |
|                                   | S14        | 19%         | 78%        | 3%         | 85         | S14        | 20%         | 78%        | 2%         | 81         |
|                                   | S15        | 11%         | 87%        | 2%         | 91         | S15        | 4%          | 89%        | 7%         | 102        |
|                                   | <b>S16</b> | <b>7%</b>   | <b>80%</b> | <b>13%</b> | <b>106</b> | <b>S16</b> | <b>2%</b>   | <b>76%</b> | <b>22%</b> | <b>121</b> |
| Services index                    | S12        | SQ12        |            |            | 81         | S12        | NQ12        |            |            | 91         |
|                                   | S13        | SQ13        |            |            | 106        | S13        | NQ13        |            |            | 116        |
|                                   | S14        | SQ14        |            |            | 87         | S14        | NQ14        |            |            | 67         |
|                                   | S15        | SQ15        |            |            | 71         | S15        | SQ15        |            |            | 99         |
|                                   | <b>S16</b> | <b>SQ16</b> |            |            | <b>125</b> | <b>S16</b> | <b>NQ16</b> |            |            | <b>144</b> |
| CriSidEx (manufacturing+services) | S12        | SQ12        |            |            | 90         | S12        | NQ12        |            |            | 105        |
|                                   | S13        | SQ13        |            |            | 110        | S13        | NQ13        |            |            | 120        |
|                                   | S14        | SQ14        |            |            | 93         | S14        | NQ14        |            |            | 70         |
|                                   | S15        | SQ15        |            |            | 75         | S15        | NQ15        |            |            | 109        |
|                                   | <b>S16</b> | <b>SQ16</b> |            |            | <b>122</b> | <b>S16</b> | <b>NQ16</b> |            |            | <b>141</b> |

For services, the PAT margin posted the highest improvement (72%) in S16, followed by order book size (57%) and employee base (34%). Consequently, the services index improved 54% on-year. Hence, in SQ16, the overall CriSidEx index (manufacturing + services) at 122 reflected an on-year improvement of over 35%. In NQ16, it improved a further 16% to 141

## Business sentiment for July-September 2021

Share of respondents seeing a good SQ16 jumps to 31% for manufacturing, 39% for services

S16 findings need to be viewed in the context of a decline in the number of Covid-19 cases and a pick-up in economic activity as restrictions eased gradually across the country, allowing services and facilities to claw back to normalcy. Any further rise in cases, especially in view of the threat from the omicron variant, can dampen progress in coming quarters.

### Sectors with a positive trend

- Among manufacturers, 31% reported a good SQ16, higher than 16% in SQ15 and 20% in the same quarter a year ago (SQ12)
  - In SQ16, the highest share of respondents in pharmaceuticals and leather & leather goods reported a good quarter
  - On-year (SQ12 vis-à-vis SQ16), leather & leather goods and auto component sectors reported the sharpest rise in share of respondents with positive sentiment

- Among service providers, 39% reported a good SQ16, higher than 13% in SQ15, and 18% in SQ12
  - In SQ16, the highest share of respondents in logistics and media sectors reported a good quarter
  - On-year (SQ12 vis-à-vis SQ16), the share of respondents with positive sentiment was the highest in logistics and diversified consumer services sectors

### Sectors with subdued trend

- Among manufacturers, 12% reported a weak SQ16, lower than 43% in SQ15 and 31% in SQ12
  - In SQ16, a high share of respondents in chemicals and auto-components had a subdued quarter
  - On-year (SQ12 vis-à-vis SQ16), pharmaceuticals and textiles saw the most decline in share of respondents with positive sentiment
- Among service providers, 19% reported a weak SQ16, lower than 49% in SQ15 and SQ12 each
  - In SQ16, a high share of respondents in education and commercial services & supplies sectors had a subdued quarter
  - On-year (SQ12 vis-à-vis SQ16), share of respondents with positive sentiment in commercial services & supplies sectors decreased



## Business sentiment for October-December 2021

45% of respondents in manufacturing and 55% in services expected a good NQ16

### Sectors anticipating positive trajectory

- Among manufacturers
  - For NQ16, the share of respondents that anticipated a good quarter was the highest in pharmaceuticals, and leather and leather goods sectors
  - On-year (NQ12 vs NQ16), leather & leather goods and food products recorded highest increase in the share of respondents with positive sentiment
- Among services
  - For NQ16, the share of respondents that anticipated a good quarter was the highest in logistics and human resources
  - On-year (NQ12 vs NQ16), traders and diversified consumer services sector recorded highest increase in the share of respondents with positive sentiment

### Sectors foreseeing subdued trend

- Among manufacturers
  - For NQ16, the share of respondents that expected a subdued quarter was higher in textiles and auto components sectors
  - On-year, leather and leather goods, and textile saw the sharpest decline in optimism

- Among service providers
  - For NQ16, the share of respondents that expected a subdued quarter was higher in commercial services and supplies, and traders
  - On-year, optimism in commercial services & supplies and health care providers & services sector declined sharply

## Other trends in business sentiment

Companies are more upbeat compared with firms about SQ16 and NQ16

- Companies had 41% respondents reporting a good SQ16, whereas firms had only 29% such respondents
- For NQ16, the trend continues with better optimism among companies, with 57% respondents expecting a better quarter, as against 44% for firms

### Negative sentiment more pronounced among MSEs with less than 10 employees

- 12% of micro and small enterprises (MSEs) with less than 10 employees reported a good SQ16, as against 35% and 38% for MSEs with 10-25 employees and over 25 employees, respectively
- 28% of MSEs with less than 10 employees had expected a good NQ16 compared with 54% with 10-25 employees and 50% with more than 25 employees



# All on-year parameters in S16 improved, except capacity utilisation and employee base for manufacturing

## Manufacturing

Change in share of positive respondents

| Component parameters | Actual    |           |
|----------------------|-----------|-----------|
|                      | S16 - S15 | S16 - S12 |
| Volume of production | 19%       | 5%        |
| Order book size      | 21%       | 10%       |
| PAT margin           | 19%       | 11%       |
| Capacity utilisation | 1%        | -10%      |
| Employee base        | 3%        | 0%        |

## Services

Change in share of positive respondents

| Component parameters | Actual    |           |
|----------------------|-----------|-----------|
|                      | S16 - S15 | S16 - S12 |
| Order book size      | 32%       | 19%       |
| PAT margin           | 31%       | 25%       |
| Employee base        | 11%       | 11%       |

- In the case of manufacturing, on-year share of positive respondents improved for all parameters, except capacity utilisation, which declined, and employee base, which remained unchanged. The share of positive respondents for PAT margin reflected the highest on-year increase
- In the case of manufacturing, on-quarter share of positive respondents improved for all parameters. The share of positive respondents for the PAT margin reflected the highest on-quarter growth
- On-year and on-quarter, the share of positive respondents improved for all parameters for services. On-year improvement was the highest for the PAT margin, whereas on-quarter improvement was the highest for order book size



## Domestic order books in July-September 2021

Order books of nearly 44% of MSEs increased; sentiment was well above SQ15 and SQ12

- Domestic order book size of 44% MSEs increased in SQ16 compared with 31% in SQ12
- In manufacturing, order book size rose for a large share of respondents in leather and leather goods, and pharmaceuticals
  - Order book size was subdued for a larger share of respondents in textiles and gems & jewellery
- In services, order book size increased for a larger share of respondents in logistics and traders
  - Media had a relatively muted quarter

## Domestic order books in October-December 2021

Nearly 64% of MSEs were optimistic about order-book expansion

- 11% MSEs expected a decline in domestic orders in NQ16 compared with 26% in NQ12
- In manufacturing, leather and leather goods and pharmaceuticals sectors were relatively more optimistic
  - Textile and gems and jewellery sector expected a muted quarter
- In services, human resources and logistics anticipated an enhanced order-book position in NQ16
  - Media and traders, though, had a higher share of respondents expecting a muted quarter

## Other order book trends

Domestic MSEs performed lower than export-oriented peers

- Orders of 55% of export-focussed MSEs increased in SQ16 compared with 34% in SQ12
  - These players performed better than domestic peers (44% reported a good quarter)
- 78% of exporters expected order-book size to increase in NQ16 vs 34% in NQ12
  - 64% domestic MSEs anticipated an increase in order book size

### Importers' sentiment weak

- Share of importers that saw an increase in orders was 5% in SQ16; same as that in SQ12
- 8% of importers expected an increase in orders in NQ16, as against 5% in NQ12

## Miscellaneous trends

MSEs optimistic about production and capacity utilisation

- In SQ16, production of 39% MSEs increased. For NQ16, 59% manufacturing MSEs expected an increase in production, 29% expected it to be unchanged, and 12% projected a decline
- In terms of capacity utilisation, 27% manufacturing MSEs saw an improvement in SQ16. For NQ16, this share improved to 45%

### Hiring improving

- 7% MSEs reported a decline in employee base in SQ16 (versus 24% in SQ12), 83% maintained the base, and 10% added to it

- In manufacturing, the auto component sector saw the highest increase in employee count
- In services, the education sector reported a considerable improvement in employee count
- In NQ16, 2% intended to reduce employee headcount and 21% planned to increase it

#### **Lenders' sentiment muted on business situation of MSEs for NQ16**

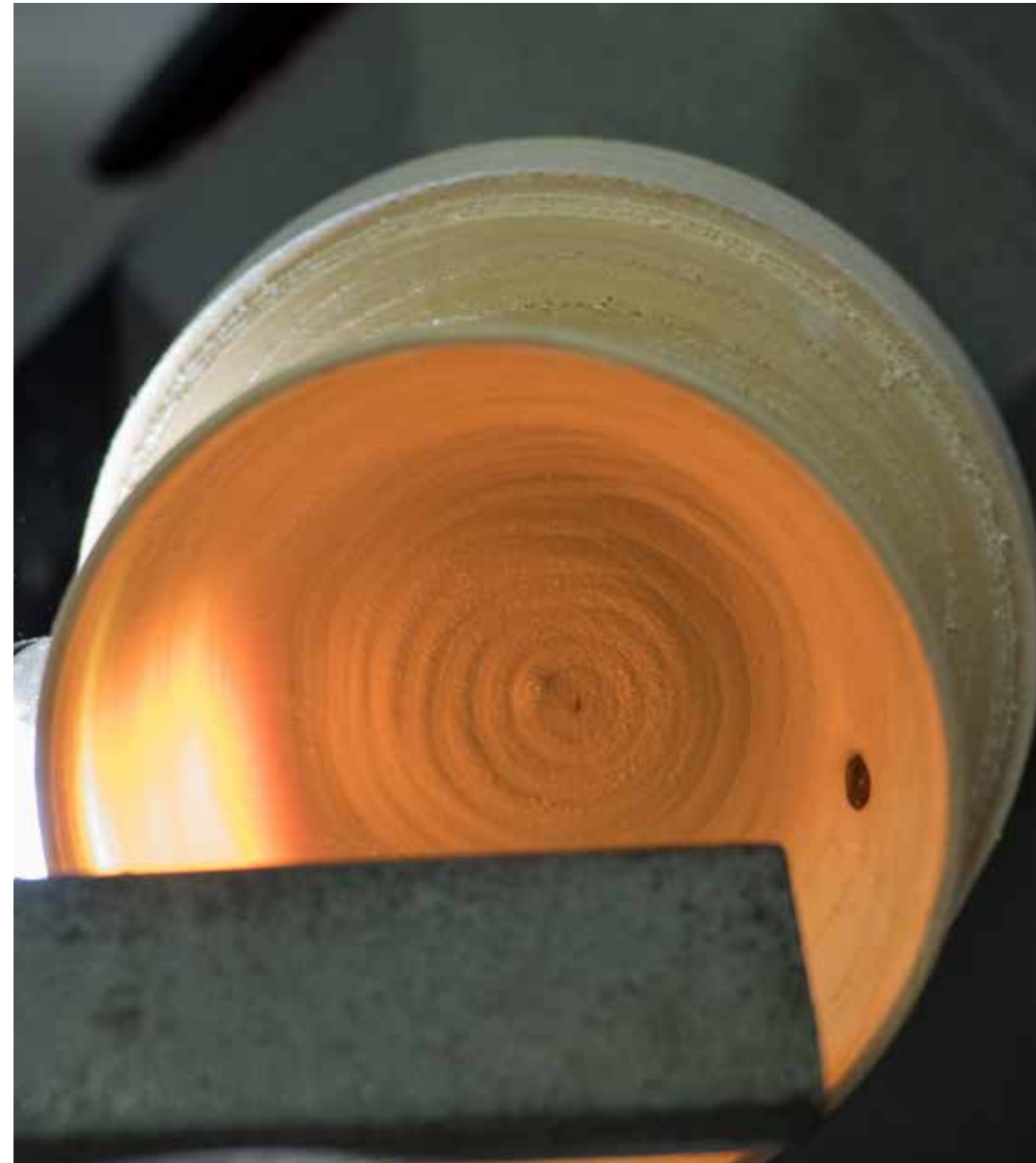
- In SQ16, only three out of 10 lenders surveyed saw improvement in the business situation of MSEs, four rated it as satisfactory, and three as below satisfactory
- For NQ16, 5 out of 10 expected it to be satisfactory, four forecast it to be below satisfactory, and one foresaw improvement

#### **Lenders were less optimistic about the very small segment**

- In SQ16, 1 out of 10 lenders reported credit growth in the <Rs 10 lakh credit exposure segment. Lenders shared a similar expectation for NQ16
  - In SQ16, five out of 10 lenders reported highest credit growth in the Rs 10 lakh-1 crore credit exposure segment versus three in the Rs 1-5 crore segment and one in the Rs 5-10 crore segment

#### **Lenders saw improvement in asset quality**

- Seven out of 10 lenders reported no change in non-performing assets (NPAs) in SQ16, while three reported an increase, and none reported a decrease. In NQ16, six lenders reported no change in NPAs, while two reported an increase in NPAs and two reported a decrease in NPAs
  - In SQ16, NPAs increased for one out of 10 in the very small segment, five in the small segment, none in the medium segment, and four in the large segment



## About CriSidEx

CriSidEx is India's first sentiment index for MSEs, which indicates the current state of and expected outlook for sectors every quarter, based on a survey. Survey 1 was conducted for September-December 2017.

The index is based on a diffusion index of eight parameters (five manufacturing and three services parameters) with equal weights. It measures MSE business sentiment on a scale of 0-200, where 0 indicates extremely negative sentiment, 100 indicates neutral sentiment, and 200 indicates an extremely positive sentiment. The distance of the score from 100 indicates the strength of the expansion or decline.

The index is calculated for the respondent's i) assessment of the survey quarter or SQ and ii) expectation for the next quarter or NQ. No economic indicators, trade statistics or financials of MSEs have been used for computing it.

As CriSidEx represents only MSEs, users should be careful 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. It also includes micro-enterprises funded by microfinance institutions (MFIs), which, in turn, are funded by SIDBI. Responses have been drawn from CRISIL-rated enterprises, and current and past borrowers of 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 Fullerton India Credit Company Ltd, IndusInd Bank, Kotak Mahindra Bank and North Eastern Development Finance Corporation Ltd 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 as follows:

### 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 geographical 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'. This is different from a conventional industry survey, where respondents may be asked to give quantitative information about their order books, 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>



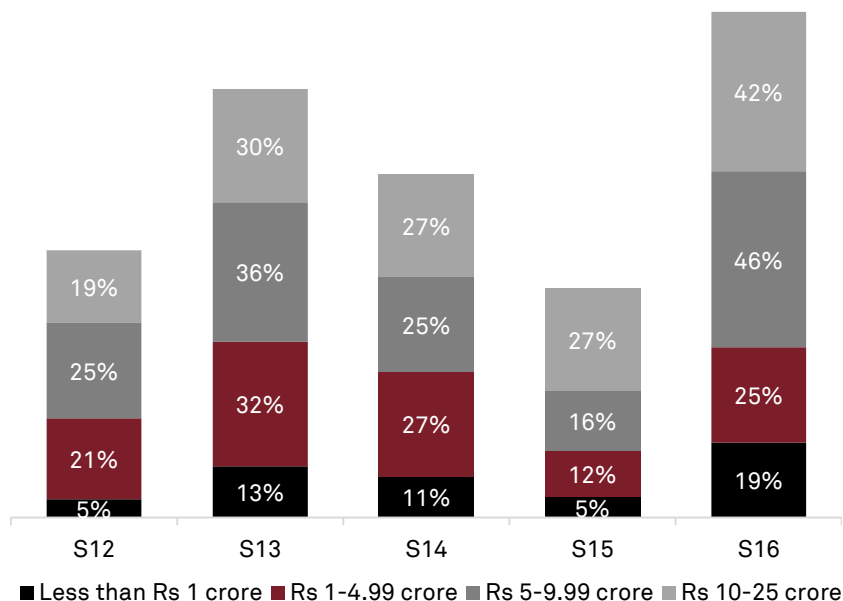




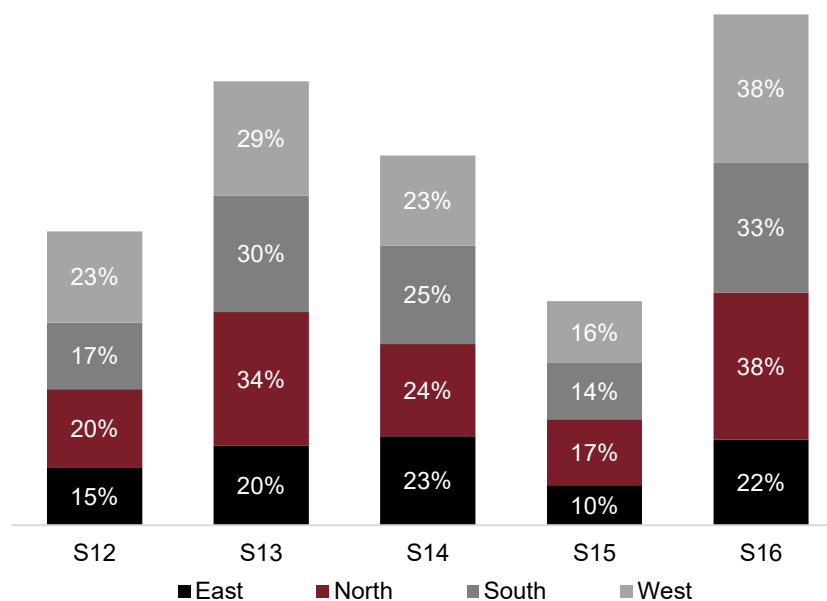
**Comparison across surveys**

# On-quarter and on-year improvement in sentiment across sizes and locations

Based on size of business



Regional sentiment



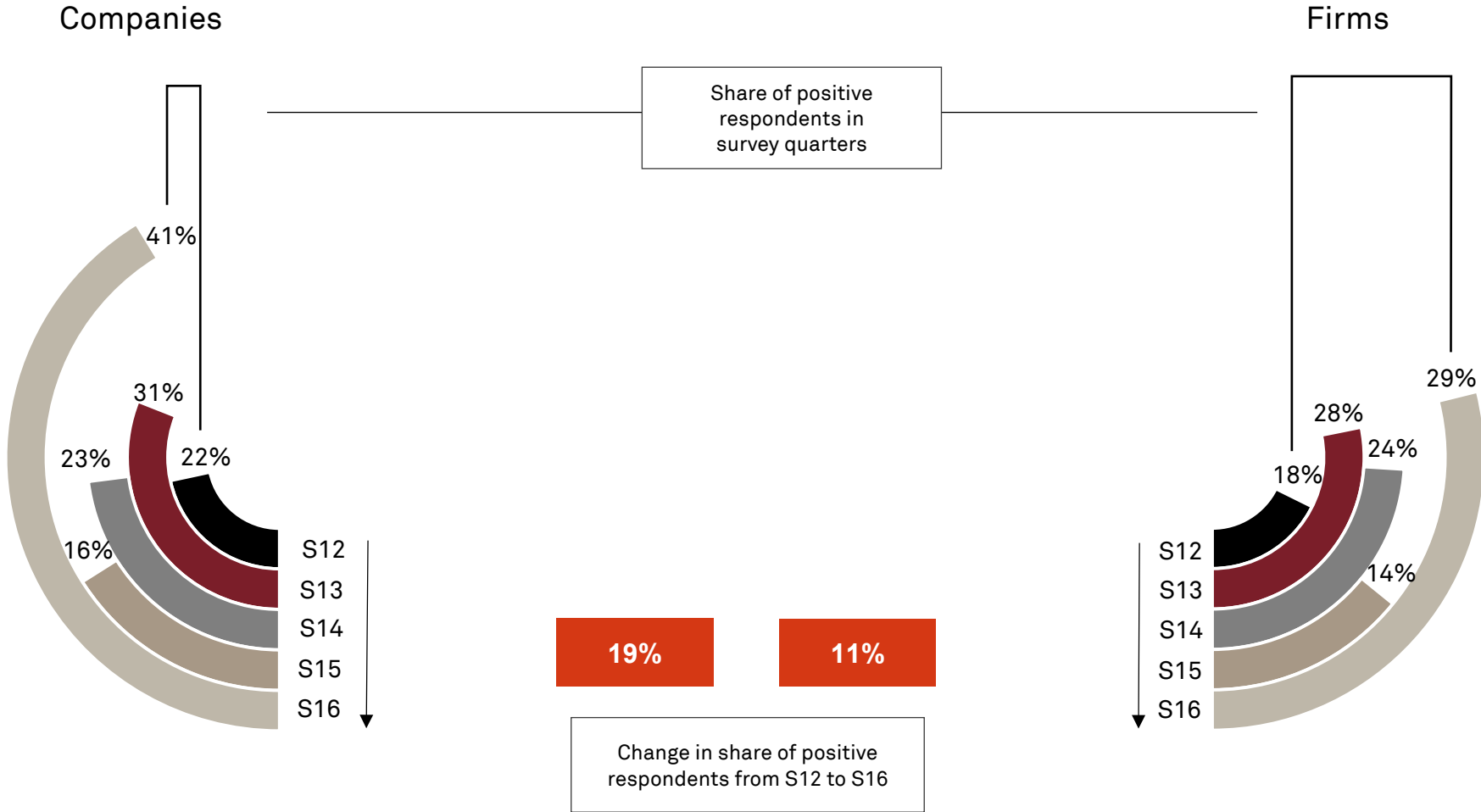
- 19% of MSEs with annual turnover of less than Rs 1 crore expressed positive sentiment – the lowest among peers in S16
- However, MSEs from the same turnover category reflected highest on-quarter and on-year growth in positive sentiment in S16

**Positive sentiment improved across regions on-quarter and on-year; east showed lowest growth**

- In S16, the share of positive respondents in the north and west was the highest
- All regions showed an increase in sentiment over S12

% represents share of positive respondents

# Companies more optimistic than firms

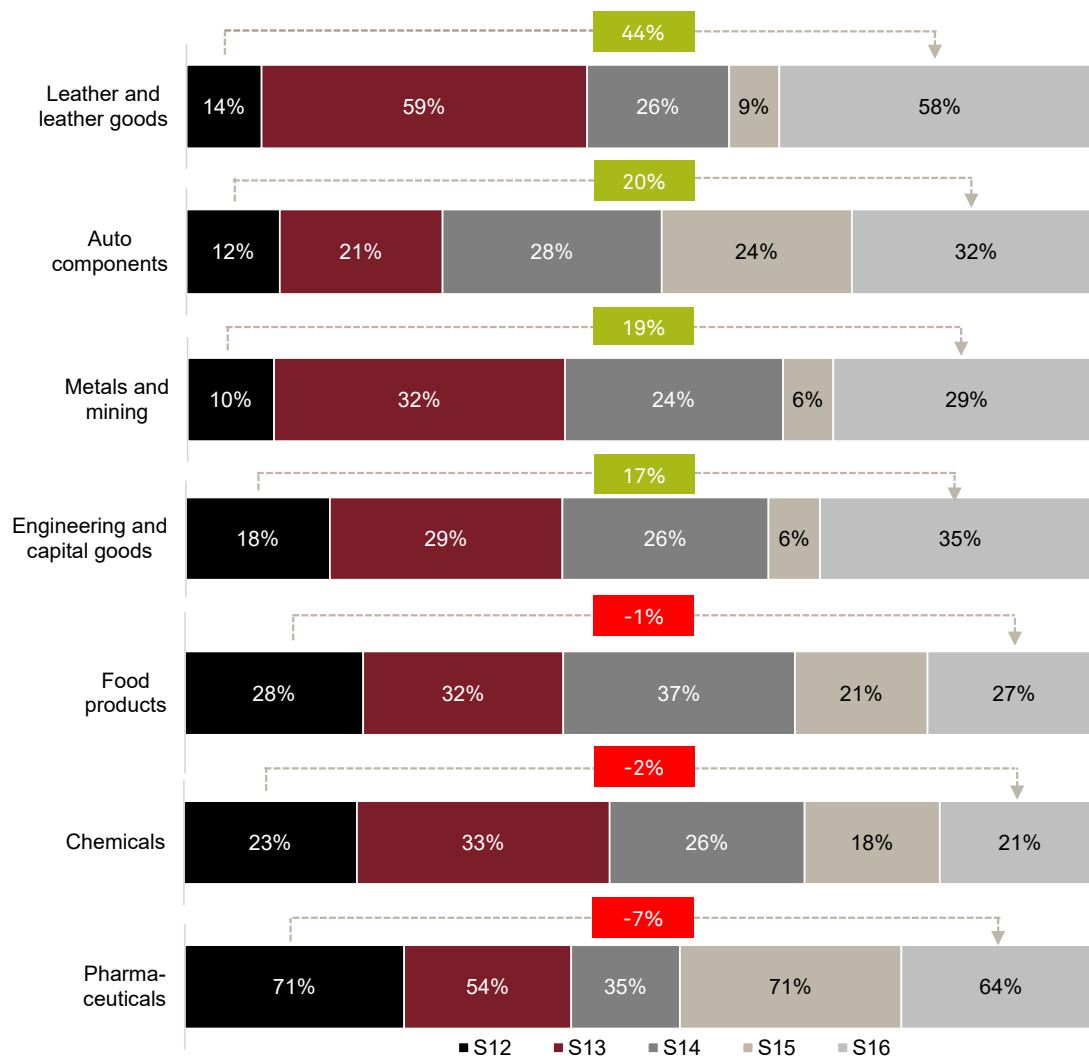


- Positive sentiment much higher for companies than for firms
- Compared with S12, companies showed better improvement (19%) in the share of positive respondents than firms (11%)



# Manufacturing: highest uptick in leather and leather goods sector

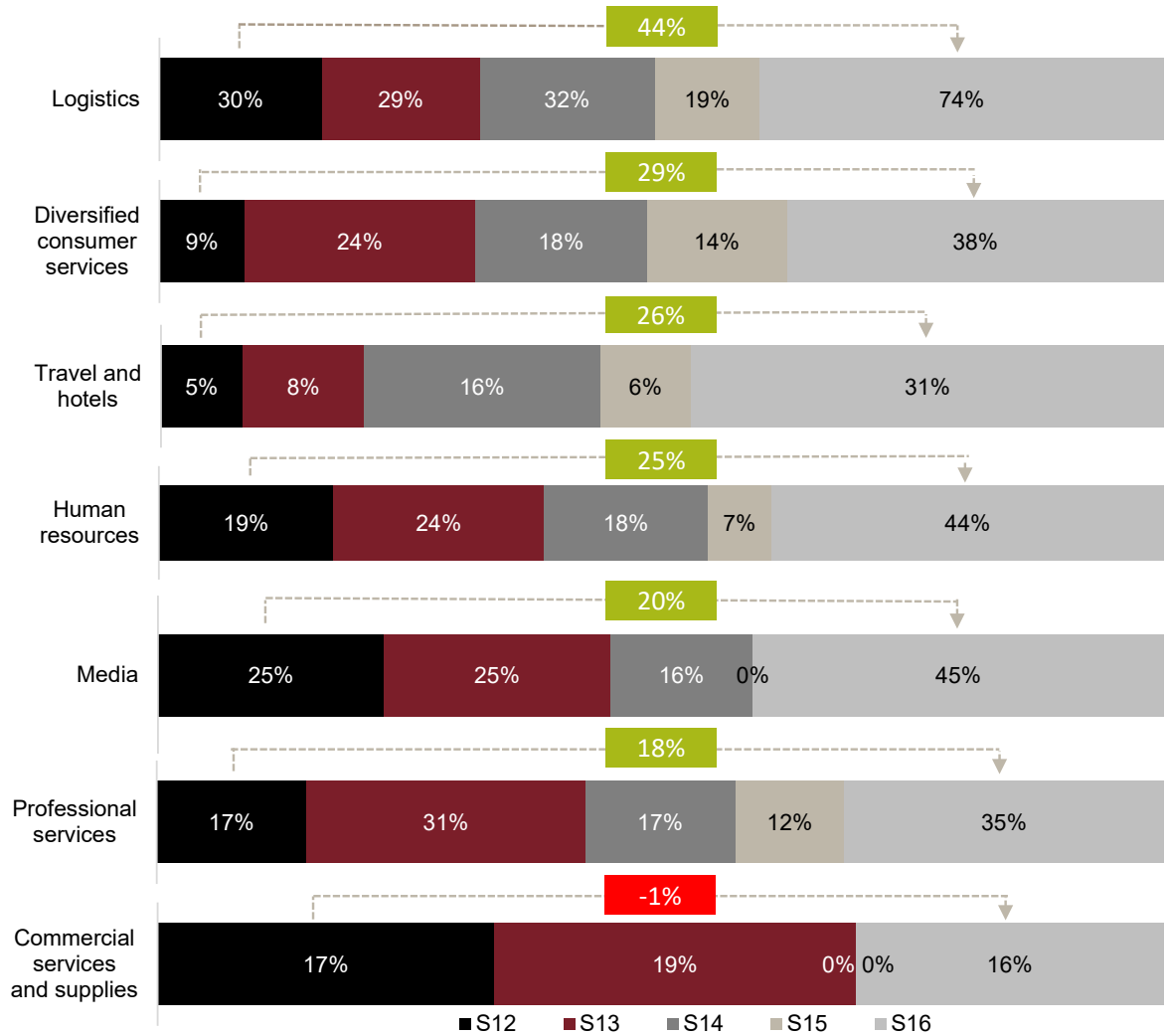
Movement of positive respondents from S12 to S16



- Leather and leather goods, auto components, metal and mining MSEs reported the highest improvement in sentiment over S12
- Pharmaceuticals, chemicals and food products MSEs reflected a decline in positive sentiment over S12





# Services: improvement in on-year sentiment in most sectors except commercial services & supplies

Change in positive respondents from S12 to S16



- Logistics and diversified consumer services MSEs reported the sharpest increase in sentiment over S12
- Commercial services and supplies MSEs reported a marginal decline in sentiment over S12

## Sector underpinnings

|   |  |   |
|---|--|---|
|    | <b>Auto components</b>                 | <p>Demand for automotive components in Q2FY22 kept improving on-year over a low base owing to decent recovery in domestic OEMs demand. Moreover, aftermarket witnessed an uptick in demand bolstered by healthy OEM industry performance during fiscal 2017-2019 and two-three years replacement cycle for replacement products. Export offtake improved despite an impact of semiconductor shortage owing to global demand recovery. The growth would be on the back of healthy demand from key destinations like North America and Europe. In Q3FY22, OEM segment's revenue is estimated to remain subdued due to muted festive season demand. Export demand is expected to be robust due to healthy demand from international OEMs. However, persisting semiconductor shortage issue might have an impact on exports</p> |
|    | <b>Textile</b>                         | <p>Restricted access to markets led to sluggish growth in the domestic market in Q1FY22. Demand was boosted at the end of Q2FY22 with the arrival of the festive season. Exports continued to grow on a low base of the previous year due to increased demand for Indian cotton and derived products, supported by the US ban on cotton and derived products from Xinjiang (China) region. The industry revenue increased in Q2FY22, both on-year and on-quarter. In Q3FY22, demand is estimated to reach pre-pandemic levels with improvement in consumer sentiment and recovery in economic activity with the reopening of schools, colleges, offices, etc.</p>   |
|    | <b>Engineering &amp; capital goods</b> | <p>Performance of the sector improved sequentially and on-year in Q2FY22 on a low base due to local lockdowns and lower industrial production in the preceding quarter in the wake of the second wave. The improvement is also attributed to rising demand with the opening up of the economy, increasing vaccinations, fall in Covid-19 cases and rising exports, and rising infrastructure spends. In Q3FY22, demand is expected to be subdued in light engineering due to the semi-conductor shortage that is expected to limit production, while other engineering and capital goods sectors are expected to witness a pick-up in demand with a pick-up in the economy, infrastructure spends and exports.</p>  |
|    | <b>Gems &amp; jewellery</b>            | <p>Lower gold prices (~1% lower than in Q1FY22), a low base, and pent-up demand led to an improvement in Q2FY22. Q3FY22 is also expected to see an improvement on the back of festive season and wedding demand, besides lower prices and pent-up demand.</p>   |
|  | <b>Travel &amp; hotels</b>             | <p>Sentiment improved in Q2FY22, both on-year and sequentially, led by fewer Covid-19 cases, rising vaccinations, easing of entry/quarantine norms by various states, and the advent of the festive season towards the fag end of the quarter. Airline operations picked up sequentially with rising passenger numbers as revenge leisure travel drove demand for hotels even as essential and migratory travel continued. Q3FY22 is expected to see extremely positive travel sentiment attributable to low Covid-19 caseloads, rising vaccinations, end of local travel restrictions and quarantine requirements, and the festive season. Recovery in travel is expected to be led by leisure travel, corporate travel as offices reopen, and visiting friends and relatives (VFR) travel amid the festive season.</p>    |
|  | <b>Pharmaceuticals</b>                 | <p>In Q2FY22, domestic formulations growth moderated due to waning of the second Covid-19 wave, which had peaked in Q1FY22. Also, exports growth was flat due to weak exports to the US, while other geographies helped offset the US decline. In Q3FY22, domestic growth is expected to moderate across therapies, while pricing pressure in the US is expected to moderate exports growth. The country's Covid-19 vaccination programme, however, is expected to add to industry growth significantly in Q3FY22.</p>  |
|  | <b>Leather &amp; leather goods</b>     | <p>In FY21, the leather industry declined by 18-20% on-year. The sector has also seen a sharp rise in its share value with many international firms investing in this lucrative market. Exports took a sharper hit due to the ripple effect of the pandemic and consequent slowdown in major importing countries, which are cancelling or putting orders on hold, or negotiating for lower prices. However, as the pandemic situation normalises and economies reopen, exports are expected to gather pace. This was reflected in a continuous improvement in growth rate to ~47% on-year in H1 FY22. For the fiscal overall, we expect the leather industry to grow 20-25% on a two-year low base as exports rebound and the domestic segment gathers pace.</p>  |





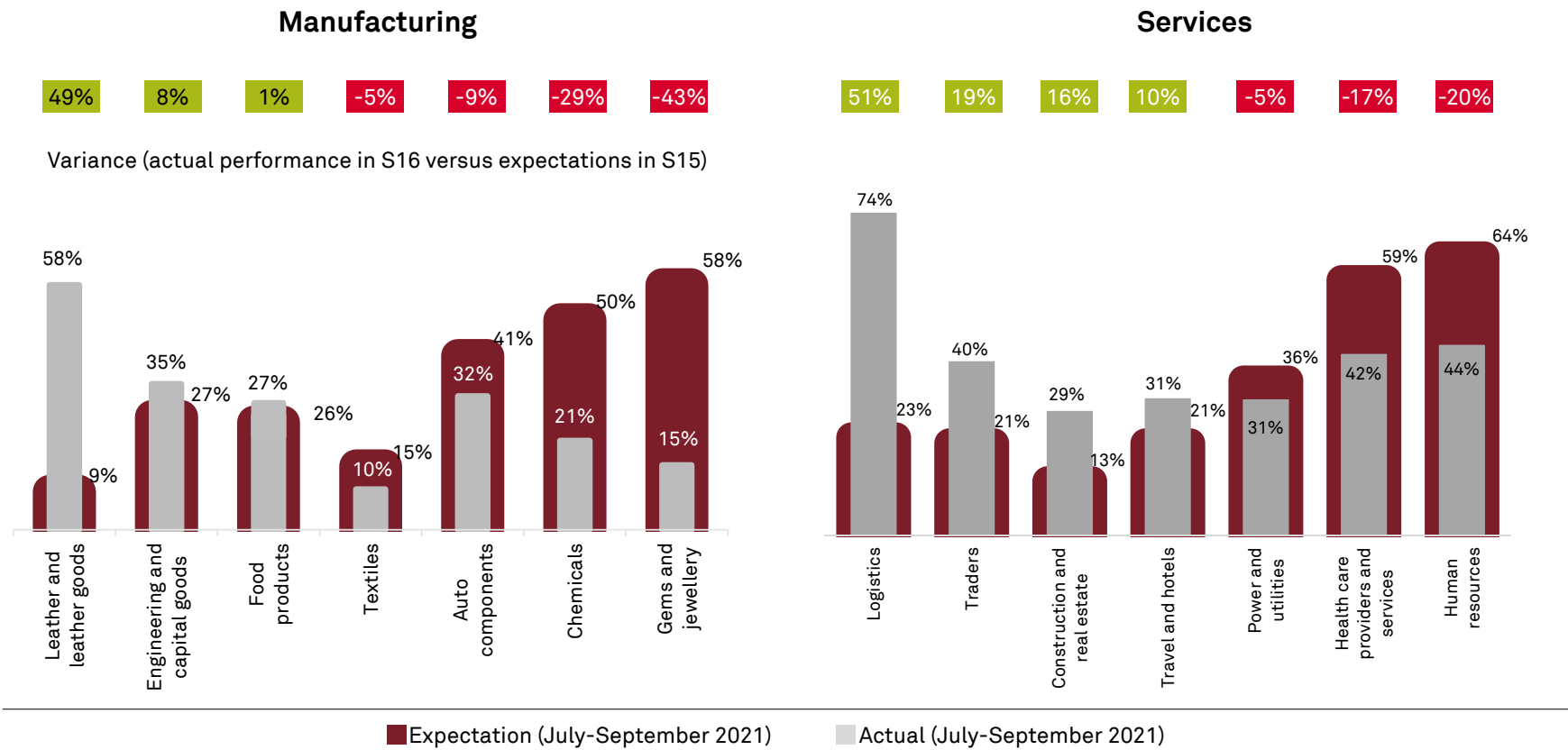


**Expectation in S15 versus  
actual performance in S16**



# Some sectors still struggling to match the expectation

Highest variance for gems and jewellery, chemicals and human resources sector

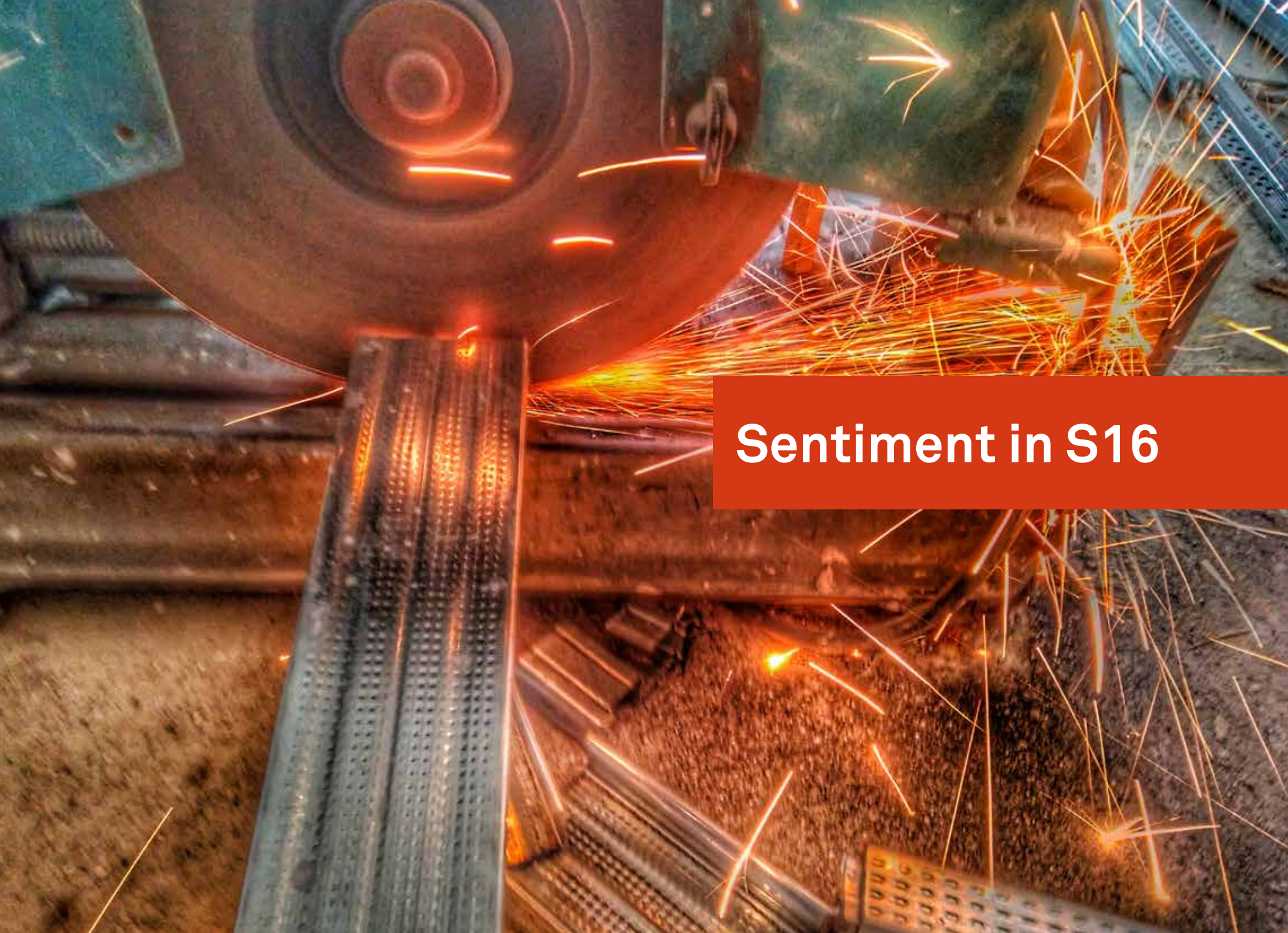


- Human resources and healthcare providers and services among service sectors and gems and jewellery and chemicals among manufacturing sectors fell short of expectations the most

% represent share of positive respondents



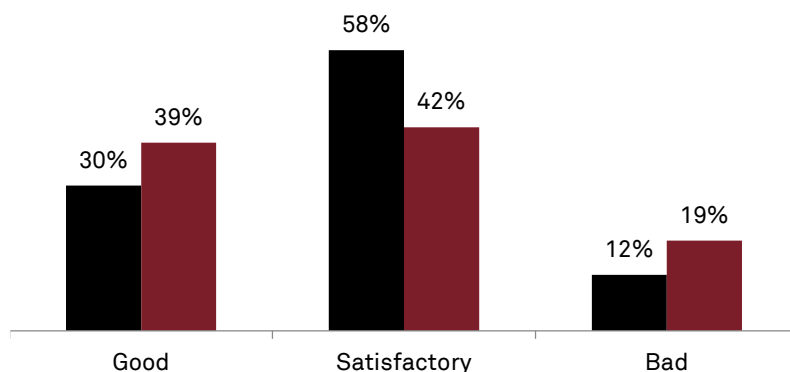




**Sentiment in S16**

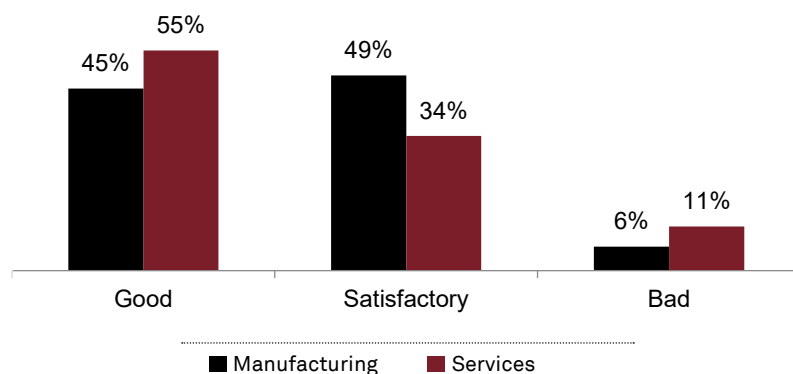
## Positive sentiment surrounding business in services versus manufacturing

SQ16 (July-September 2021)



- 12% of respondents in manufacturing and 19% in services sectors rated the overall business situation in SQ16 as bad
- 30% of respondents in manufacturing and 39% in services sectors rated the overall business situation in SQ16 as good

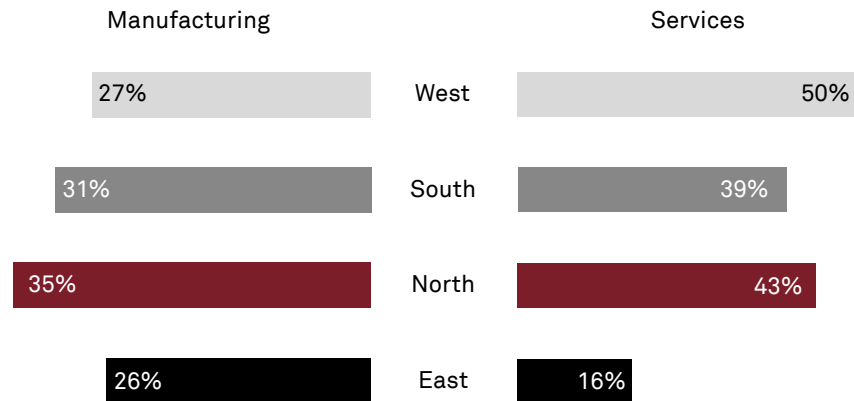
NQ16 (October-December 2021)



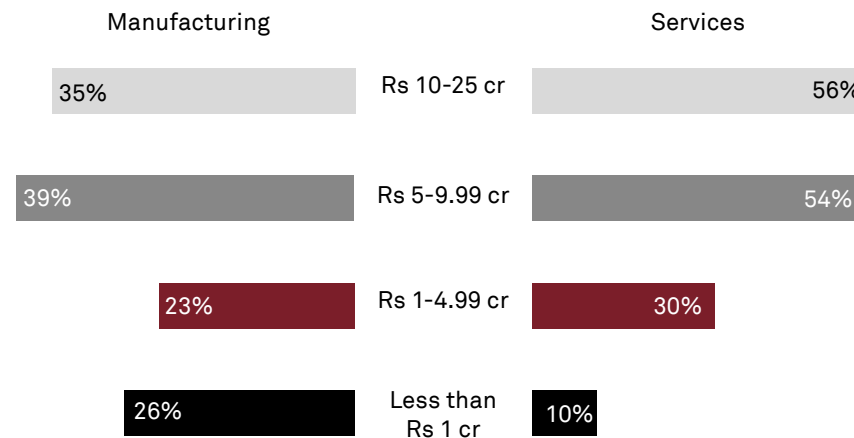
- Sentiment improved, as only 6% and 11% of respondents in manufacturing and services sectors, respectively, projected a bad NQ16, and 45% and 55%, respectively, projected a good NQ16



## Services fares better across regions and turnover categories except east, manufacturing in <Rs 1 cr turnover category



- In all the regions except east, the share of positive respondents in services MSEs was higher than manufacturing MSEs
- Across regions in manufacturing and services, services MSEs based in the west had the highest share of positive respondents and those in the east had the lowest

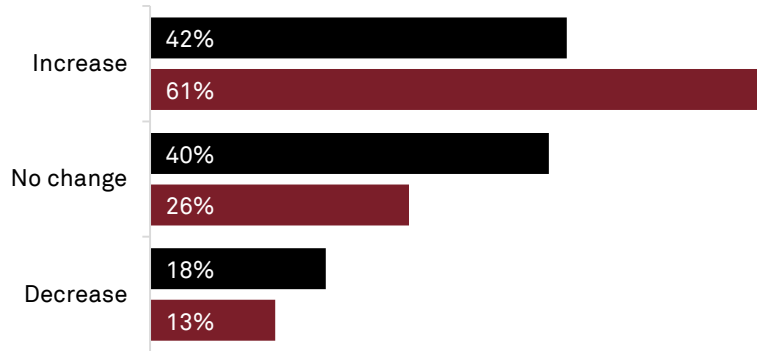


### Larger MSEs better placed

- Among services MSEs with annual turnover of Rs 10-25 crore, 56% were more optimistic, the highest across turnover buckets

# Manufacturing MSEs optimistic about domestic order book

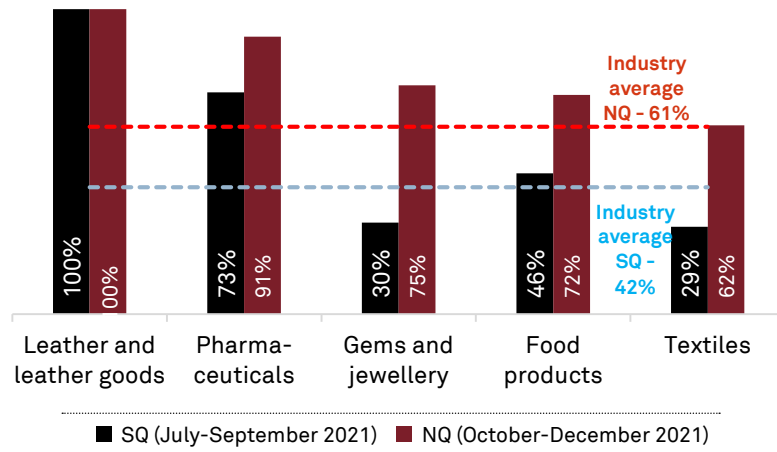
Manufacturing - order book size (domestic)



- 42% of manufacturing MSEs saw growth in their domestic order books in SQ16. The number is expected to improve to 61% in NQ16

24

Manufacturing industry wise – order book size (domestic)

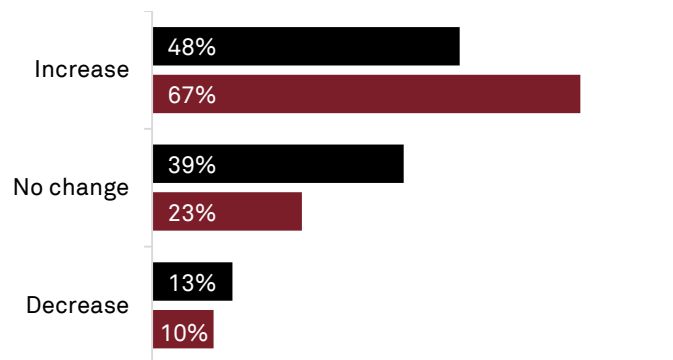


- The number of respondents in the leather & leather goods and pharmaceutical segments that saw an increase in their order book size exceeded the industry average in SQ16
- The number of respondents in the textile and gems & jewellery that saw an increase in their order book size were lower than the industry average in SQ16

% represents share of positive respondents

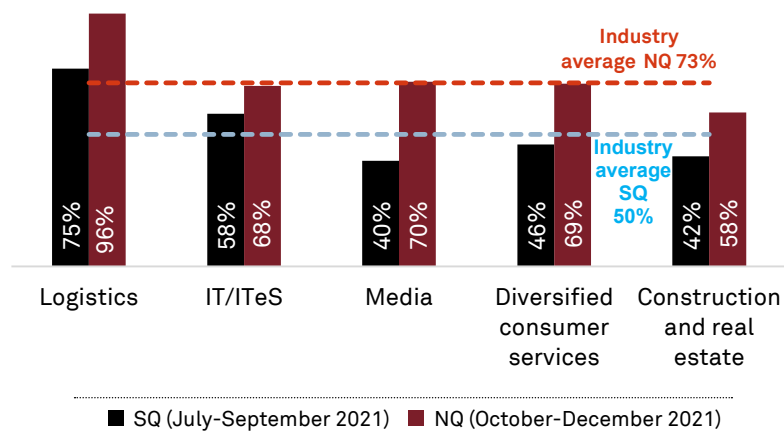
# Services MSEs see sharper growth in domestic order book

Services - order book size (domestic)



- 48% of services MSEs saw improvement in their domestic order books in SQ16. This is estimated to improve to 67% in NQ16

Services industry wise- order book size (domestic)

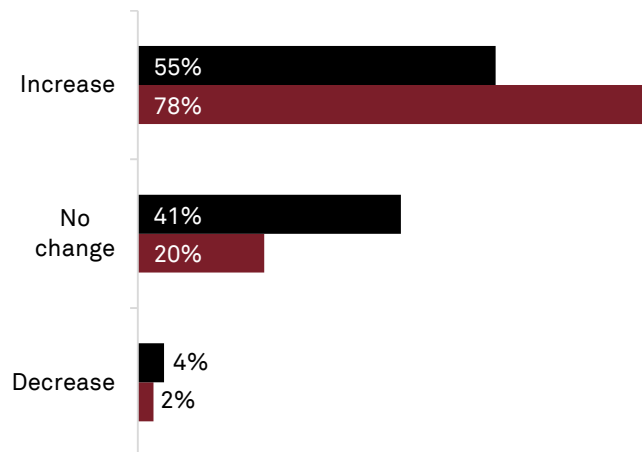


- In the logistics and IT/ITeS segments, the number of respondents who saw an increase in their order book size exceeded the industry average in SQ16
- The number of respondents in the media, diversified consumer services and construction & real estate sectors that saw an increase in their order books was lower than the industry average in SQ16

% represents share of positive respondents

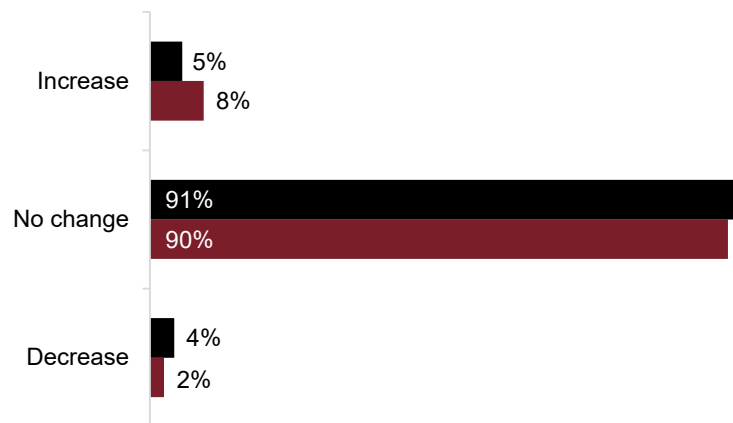
## More export-oriented MSEs expect improvement in their order books than importer-oriented peers

Order book size (exports)



- 55% of MSEs with export order books saw an improvement in SQ16. In NQ16, 78% of them expect an increase

Orders placed (imports)

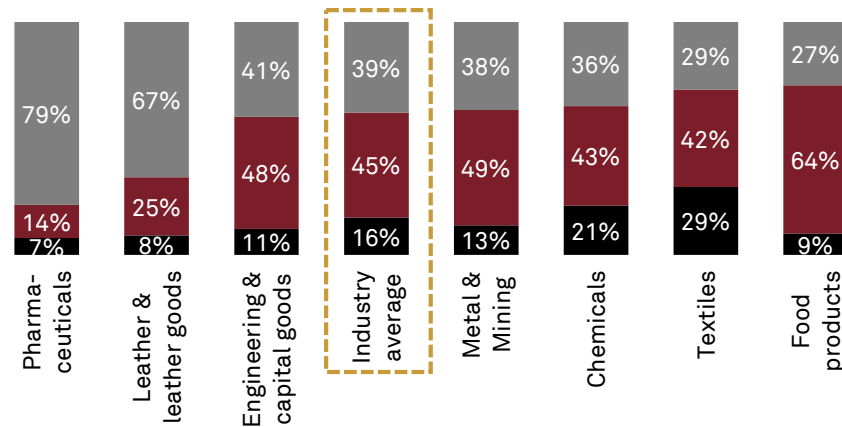


- Only 5% importers expect their order book size to increase in SQ16 as against 91% who expect it to remain unchanged. NQ16, too, reflects a similar trend

■ SQ (July-September 2021) ■ NQ (October-December 2021)

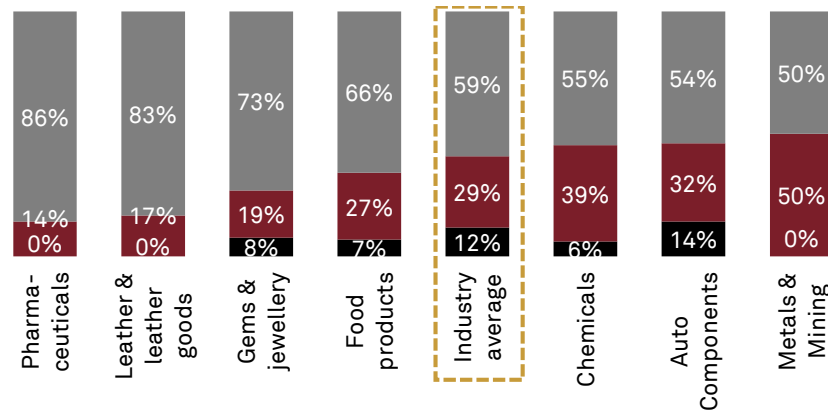
# Pharmaceuticals and leather & leather goods fare well; metal & mining and chemicals see subdued production volume

Production volume by industry - survey quarter



- In SQ16, MSEs in pharmaceuticals, leather & leather goods and engineering & capital goods sectors had the highest share of respondents that saw an increase in production volume (industry average 39%)
- Food products and textiles MSEs had the lowest number of respondents that saw an increase in production volume

Production volume by industry - next quarter

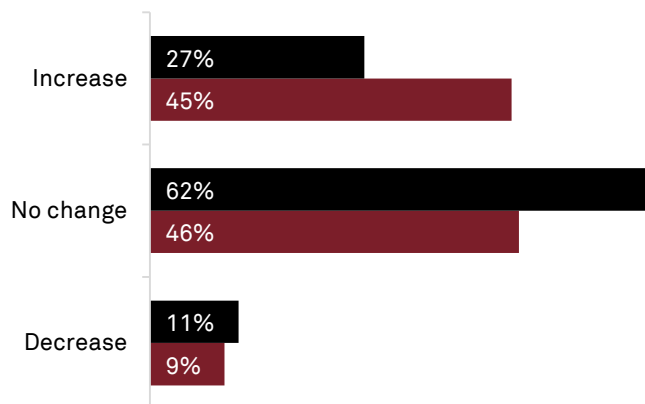


- Pharmaceuticals, leather & leather goods and gems & jewellery MSEs account for the highest share of respondents optimistic about production volume growth, exceeding the industry average of 59% in NQ16. Metal & mining and auto components had the lowest share of respondents expecting an increase in production volume

■ Increase ■ No change ■ Decrease

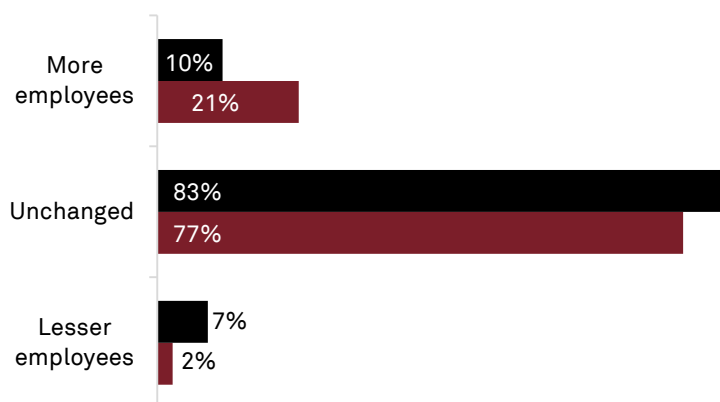
## Sharp rise in utilisation, workforce expected next quarter

Capacity utilisation (manufacturing)



- In SQ16, 27% of manufacturing-based MSEs reported an increase in capacity utilisation, 11% a decline, and 62% no change
- In NQ16, 45% respondents expect an increase in capacity utilisation, and only 9% a decline

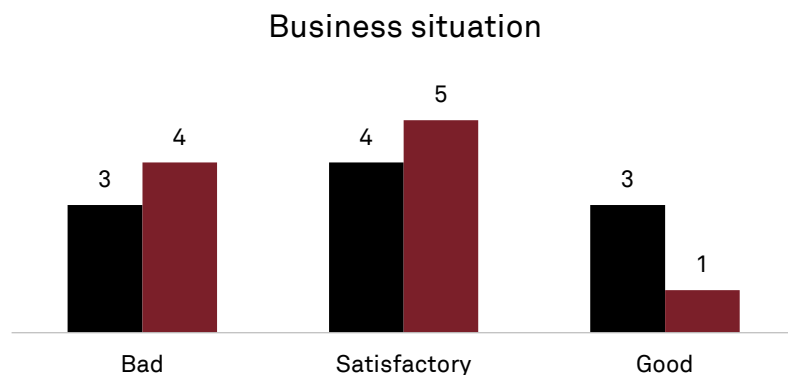
Employee base (manufacturing and services)



- In SQ16, 7% respondents saw a decline in employee base, 10% an increase and 83% no change
- In NQ16, only 2% foresee a decline in their employee base, 77% no change and 21% an increase

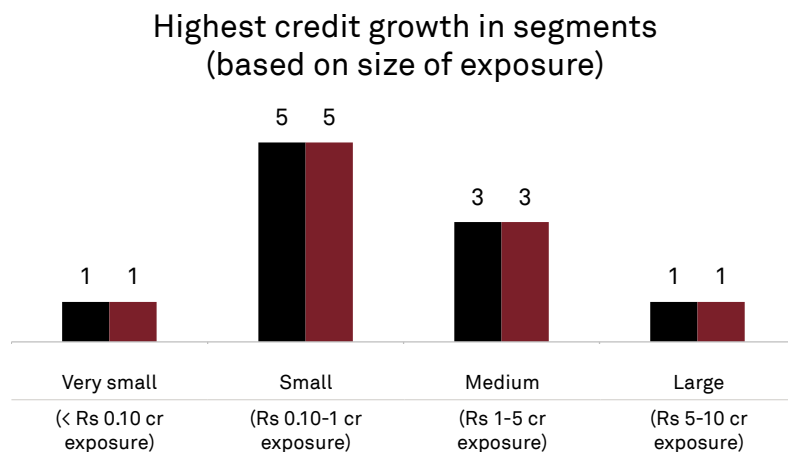
■ SQ (July-September 2021) ■ NQ (October-December 2021)

## Sentiments of lenders on business situation muted



- In SQ16, out of 10 lenders surveyed, three rated the overall business situation of MSEs as good, four as satisfactory, and three as bad
- In NQ16, five expect it to be satisfactory, four to be bad and only one an improvement

29

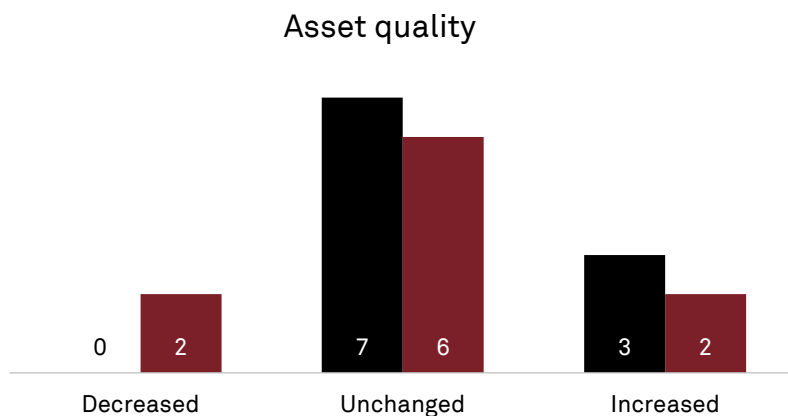


- In SQ16, five lenders reported the highest credit growth in the Rs 0.10-1 crore range, three in the Rs 1-5 crore range, and one each in the below Rs 1 crore range and in the above Rs 5 crore range. Lenders' view for NQ16 remain unchanged

■ SQ (July-September 2021) ■ NQ (October-December 2021)

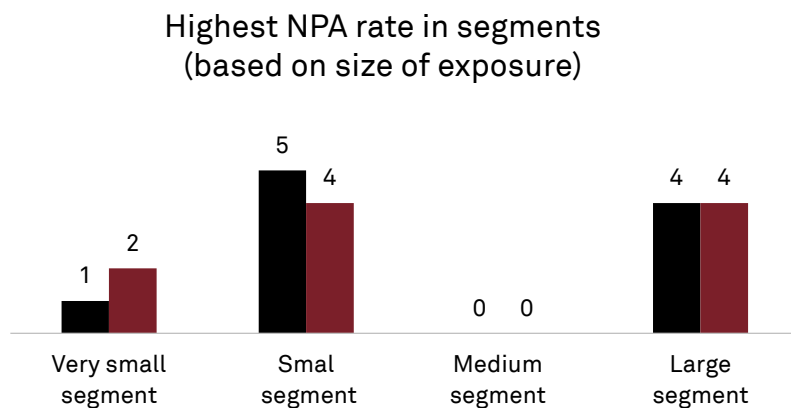


## Lenders see marginal improvement in asset quality



- Of the 10 surveyed lenders, seven reported no change in NPAs in SQ16 and three an increase
- In NQ16, six expect no change in NPAs, two an increase, and two a decrease

30



- One lender saw an increase in NPAs in the very small segment, five in the small segment, and four in the large segment in SQ16. No lender saw an NPA increase in the medium segment. They expect similar trend in NQ16

■ SQ (July-September 2021) ■ NQ (October-December 2021)

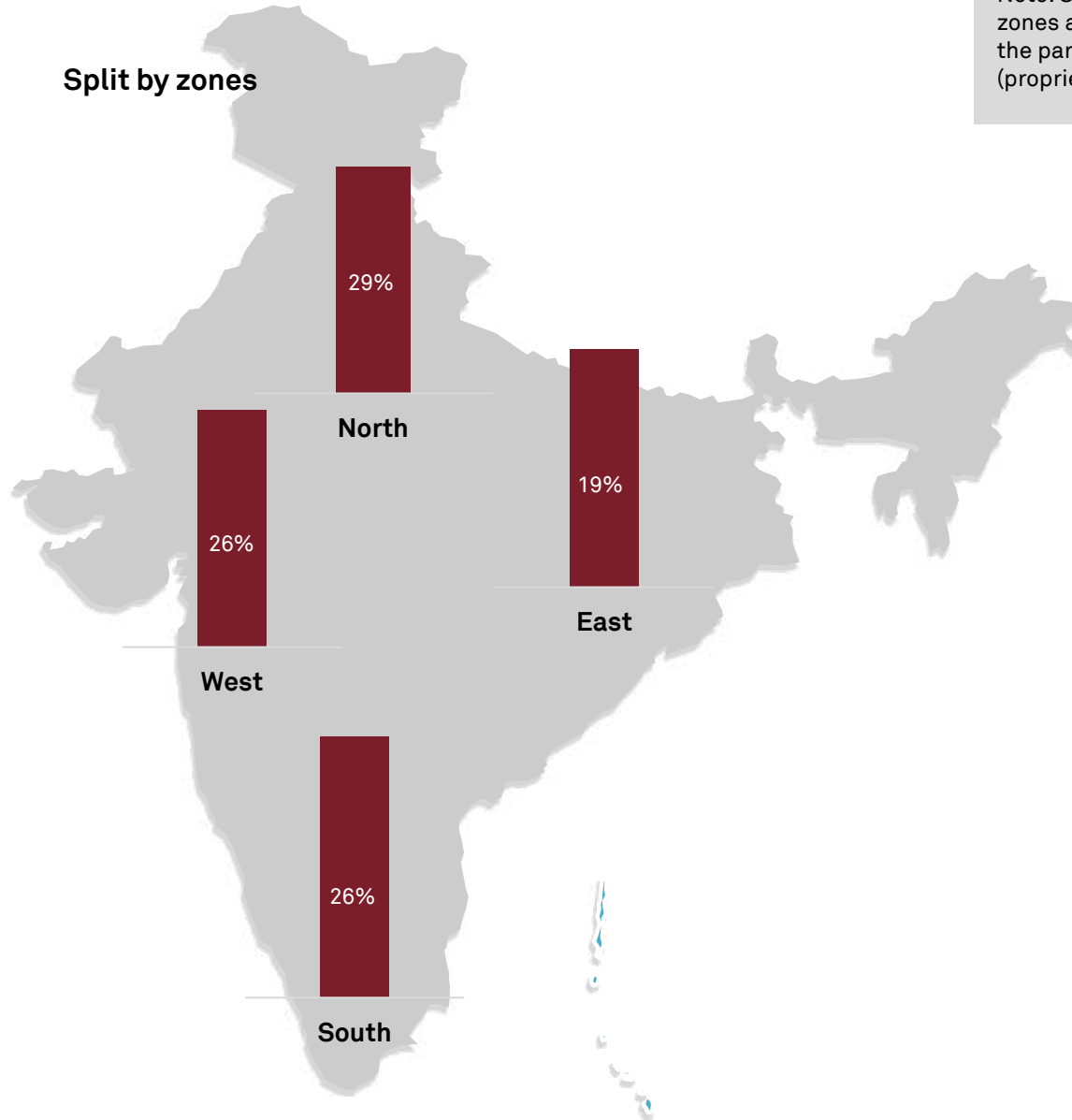


## Annexures

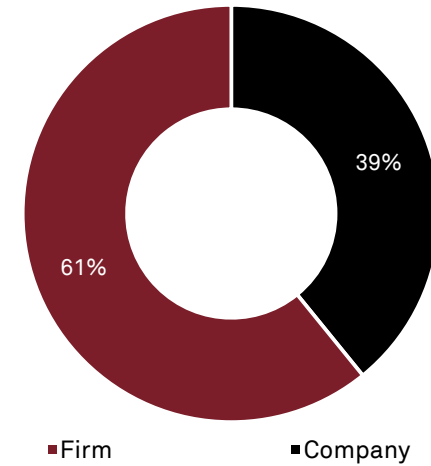
# Sample summary

Note: Sample selected for the survey is well-distributed across zones and turnover categories. In terms of legal status, 39% of the participating MSEs were companies and 61% were firms (proprietorships and partnerships)

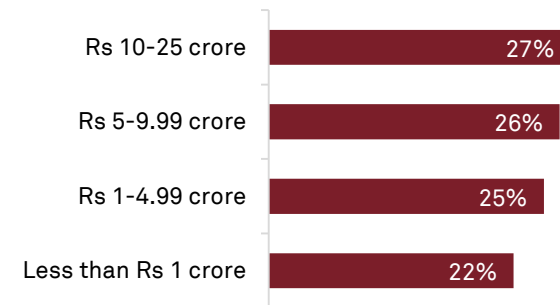
Split by zones



Split by legal status



Split by turnover



## Glossary

### Broad products/ services included under respective segments

Auto components include manufacturers of auto parts, die casting products, motor/ tractor parts, diesel and fuel engine parts

Chemicals include manufacturers of fabric chemicals, dyes, specialty chemicals, paint products and water treatment chemicals

Engineering & capital goods include elevator parts, crane manufacturing, machinery parts and cutting tools

Food products include manufacturers of bakery products, ice cream, poultry and cattle feed and processing of agro-based products

Gems & jewellery includes manufacturers of gold jewellery and retailing, diamond cutting, and polishing

Leather & leather goods include manufacturers of leather footwear and all types of leather accessories

Pharmaceuticals include manufacturers of bulk drugs, tablets, capsules, injections, sanitisers, syrup and handwash

Commercial services & supplies include all types of printing, car rental services and security system installation

Diversified consumer services include education, cold storage services, cab/catering services and maintenance services

Healthcare providers & services include hospitals, fitness and medical equipment and pathological services

Human resources include workforce management, security services, employment services and housekeeping services

IT/ITeS include software developers, computer hardware services, internet services, business process outsourcing and IT consulting

Logistics include air freight, transportation services and warehousing service

Power & utilities include power transmission, solar products and electronic equipment

Professional services include consultancy, courier services, tailoring, beauty parlours and videography

Travel and hotels include Hotels and Restaurants, Travel and tour operators

Media services include advertising, hoarding, outdoor advertising and shootings

Metal & mining includes manufacturers of alloy, steel, aluminium extrusion products and foundry

# Notes



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Small Industries Development Bank of India has been established under an Act of the Parliament in 1990. SIDBI is mandated to serve as the Principal Financial Institution for executing the triple agenda of promotion, financing and development of the Micro, Small and Medium Enterprises (MSME sector) and co-ordination of the functions of the various Institutions engaged in similar activities. Over the years, through its various financial and developmental measures, the Bank has touched the lives of people across various strata of the society, impacted enterprises over the entire MSME spectrum and engaged with many credible institutions in the MSME ecosystem. Under Vision 2.0, SIDBI has spearheaded various Initiatives to address the Information Asymmetry in MSME sector like 'CriSidEx', for gauging the MSE sentiments & aspirations, 'MSME Pulse', the health tracker of MSME, 'Fintech Pulse', for credit data insights on Fintech lending segment, 'Microfinance Pulse', insight report on Microfinance sector and 'Industry Spotlight', a comprehensive report on major industry sectors.

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