

# IMPACT OF COVID-19 ON INDIAN ECONOMY

MARCH 20, 2021



## Impact of Covid-19 on the Indian Economy

The Indian economy has been experiencing significant slowdown over the past few quarters. In the third quarter of the current fiscal, the economy grew at a six-year low rate of 4.7%. Investment and consumption demand had been languishing and a number of stimulus measures have been taken to bring back the economy on a growth path. There was a strong hope of recovery in the last quarter of the current fiscal. However, the new coronavirus epidemic has made the recovery extremely difficult in the near to medium term. The outbreak has presented fresh challenges for the Indian economy now, causing severe disruptive impact on both demand and supply side elements which has the potential to derail India's growth story.

**Demand Side Impact** - Tourism, Hospitality and Aviation are among the worst affected sectors that are facing the maximum brunt of the present crisis. Closing of cinema theatres and declining footfall in shopping complexes has affected the retail sector by impacting consumption of both essential and discretionary items. Consumption is also getting impacted due to job losses and decline in income levels of people particularly the daily wage earners due to slowing activity in several sectors including retail, construction, entertainment, etc. With widespread fear and panic now increasing among people, overall confidence level of consumers has dropped significantly, leading to postponement of their purchasing decisions. Travel restrictions have severely impacted the transport sector. Hotels are seeing large scale cancellations not only from leisure travellers but even business travellers as conferences, seminars and workshops are getting cancelled on a large scale.

**Impact on Financial Market** - Greater uncertainty about the future course and repercussion of Covid-19 has also made the financial market extremely volatile, leading to huge crashes and wealth erosion, which in turn is impacting consumption levels. One of the major slides in the domestic equity markets was seen on March 12, when following the trend of the global equity markets, both the BSE Sensex and NSE Nifty crashed by more than 8% in a single day. The BSE Sensex dropped over 2,919 points – its biggest one-day fall in absolute terms while the NSE Nifty dropped by 868 points. An estimated Rs 10 lakh crore of market cap was reportedly wiped off due to this single day fall. The fall has continued till date as investors resorted to relentless selling amid rising cases of coronavirus. On March 19, Indian equity markets again plunged to new low. Sensex closed 581 points lower at 28,288 and Nifty fell 205 points to end at 8,263. With equity markets likely to remain volatile in future as well, further wealth erosion of investors is expected.

**Supply Side Impact** - On the supply side, shutdown of factories and the resulting delay in supply of goods from China has affected many Indian manufacturing sectors which source their intermediate and final product requirements from China. Some sectors like automobiles, pharmaceuticals, electronics, chemical products etc. are facing an imminent raw material and component shortage. This is hampering business sentiment and affecting investment and production schedules of companies. Besides having a negative impact on imports of important raw materials, the slowdown in manufacturing activity in China and other markets of Asia, Europe and the US is impacting India's exports to these countries as well.

**Impact on International Trade** - China has been a major market for many Indian products like sea food, petrochemicals, gems and jewellery etc. The outbreak of coronavirus has adversely impacted exports of these items to China. For instance, the fisheries sector is anticipated to incur a loss of more than Rs 1,300 crore due to fall in exports. Similarly, India exports 36% of its diamonds to China. The cancellation of four major trade events between February and April is likely to cause an estimated loss of Rs 8,000-10,000 crore in terms of business opportunity for Jaipur alone.<sup>1</sup> India also exports 34% of its petrochemicals to China. Due to exports restrictions to China, petrochemical products are expected to see a price reduction.

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<sup>1</sup> <https://www.indiatoday.in/magazine/the-big-story/story/20200323-an-economic-coronary-1654645-2020-03-13>

According to UNCTAD, India's trade impact due to coronavirus outbreak could be about US\$ 348 million. India is among the top 15 countries that have been affected most as a result of manufacturing slowdown in China that is disrupting world trade. For India, the overall trade impact is estimated to be the most for the chemicals sector at 129 million dollars, textiles and apparel at 64 million dollars, automotive sector at 34 million dollars, electrical machinery at 12 million dollars, leather products at 13 million dollars, metals and metal products at 27 million dollars and wood products and furniture at 15 million dollars. As per UNCTAD estimates, exports across global value chains could decrease by US\$ 50 billion during the year in case there is a 2% reduction in China's exports of intermediate inputs.

### India's Growth Projections Revised Down

Given the challenges that the businesses and people are facing currently, the Indian economy is most likely to experience a lower growth during the last quarter of the current fiscal. In case the spread of corona virus continues, growth may remain subdued in the first quarter of FY 20-21 as well. Most multilateral agencies and credit rating agencies have therefore revised their 2020 and 2021 growth projections for India keeping in view the negative impact of coronavirus-induced travel restrictions, supply chain disruptions, subdued consumption and investment levels on the growth of both global and the Indian economy.

**ADB<sup>2</sup>** - ADB has estimated that Covid-19 outbreak could cost the Indian economy alone between US\$ 387 million and US\$ 29.9 billion in personal consumption losses. The projections have been made by ADB under four different scenarios: best-case, moderate-case, worse-case and a hypothetical worst-case. Under the best-case scenario if the outbreak is contained and the precautionary measures are put on halt after two months from late January, the impact on India will be limited to about US\$ 387 million worth of decline in retail sales. Similarly, in a moderate case, the losses will be about US\$ 640 million while in a worse-case scenario when the precautionary measures continue for six months, personal consumption expenditure in India can decline by US\$ 1.2 billion.

**OECD<sup>3</sup>** - As against the forecast made in November 2019, OECD has revised down India's growth forecast by 110 basis points to 5.1% for 2020-21 and by 80 bps to 5.6% for 2021-22. OECD has also warned that global growth in 2020 could come down by 50 bps as compared to what was projected in November last year.

**Fitch Ratings<sup>4</sup>** - Fitch has also cut its forecast for India's economic growth to 4.9% for 2019-20 from 5.1% projected earlier, as it expects weak domestic demand and supply chain disruptions due to the coronavirus outbreak to affect the manufacturing activities adversely.

**Moody's<sup>5</sup>** - Moody's Investors Service has revised down its growth forecast for India to 5.3% for 2020 from its earlier estimate of 5.4% made in February.

**S&P Global Ratings** – S&P has lowered India's economic growth forecast to 5.2% for 2020 as against 5.7% projected earlier.

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<sup>2</sup> <https://www.livemint.com/news/india/coronavirus-outbreak-in-india-could-cost-the-economy-29-9-billion-adb-11583480504316.html>

<sup>3</sup> <https://www.livemint.com/news/india/india-s-growth-could-be-the-next-casualty-of-the-coronavirus-outbreak-11583175486263.html>

<sup>4</sup> <https://www.financialexpress.com/economy/growth-pangs-fitch-cuts-indias-fy20-gdp-growth-forecast-check-revised-estimate/1886220/>

<sup>5</sup> <https://economictimes.indiatimes.com/news/economy/indicators/coronavirus-moodys-cuts-india-growth-forecast-to-5-3-for-2020-on-dampened-domestic-demand/articleshow/74551392.cms>



## Key Findings of FICCI's Industry Survey to Assess Impact of Coronavirus

FICCI has attempted to assess the immediate impact of coronavirus on businesses across the country through conducting interactive sessions and survey amongst the industry members. The survey reveals that besides the direct impact on demand and supply of goods and services, businesses are also facing reduced cash flows due to slowing economic activity which in turn is having an impact on all payments including to those for employees, interest, loan repayments and taxes.

According to the survey results [details are annexed] –

- A significant 53 per cent of Indian businesses indicate the marked impact of the Coronavirus pandemic on business operations even at early stages.
- The pandemic has significantly impacted the cash flow at organisations with almost 80 per cent reporting a decrease in cash flow.
- The pandemic has had a major impact on the supply chains as more than 60 per cent respondents indicate that their supply chains were affected. The companies also highlighted that they are closely monitoring the situation and expect the impact of the pandemic on supply chain to worsen further.
- Organisations have brought in a renewed focus on hygiene aspects concerning the pandemic. Almost 40 per cent have put in place stringent checks on people entering their offices and disinfection. Nearly 30 per cent organisation have already put in place Work-from-Home policies for their employees.
- Nearly 42 per cent of the respondents feel that it could take upto 3 months for normalcy to return.

While for some of the sectors, the work from home proposition is posing implementation challenges as it has a direct bearing on the business operations. This is particularly true for manufacturing units where workers are required to be physically present at the production sites, and services sector like banking and IT where lot of confidential data is used and remote working can enhance security threat. Hence companies operating in these sectors are finding it difficult to implement work from home facility without compromising with their day to day operations.

The industry members have also shared suggestions on possible actions that the government and RBI can take to contain the spread of coronavirus in India and mitigate the immediate concerns of the Indian companies. The following section details out the challenges that members of Indian industry are facing either due to decline in consumption demand or due to supply chain disruptions owing to closure of factories in China, and the suggestions received from the industry to address their present concerns.

### Need for Policy Intervention

There is an urgent need to take immediate steps to not only contain the spread of the virus but also to address the key pain areas of the industry which can help in minimising the impact of the outbreak on the Indian economy and businesses. A combination of monetary, fiscal and financial market measures is needed to help the businesses and people cope with the crisis. Therefore, to be able to frame correct actions and policy measures, it is important to understand clearly the specific problems that people and businesses are facing currently. This alone can enable government to take appropriate measures.

The Indian Government & RBI need to support the Indian industry and economy at this juncture in different ways:

- Bring down the cost of funds further through reduction in policy rates (say, by ~ 100 basis points)



- Maintain liquidity at surplus levels and provide special liquidity support for any companies / NBFCs / banks that come under strain due to intensifying risk aversion in financial markets or due to large demand shock.
- Enable Credit and support easier credit facilities to effected sections of the businesses that operate on very short financial cycles and will be forced to stop production / trading for financial wants. Government / RBI should direct banks not to stop disbursement of loans under the expectation of project delays due to COVID-19.
- Increase credit limits for all regular banking accounts by 25 percent across the board.
- Furthermore, flexibility needs to be given to the banking system to reschedule payment terms without the need for provisioning.
- The Corporate bond and commercial paper market are suffering illiquidity. RBI may take some steps to intervene, either directly or through the commercial banking system, to ensure that adequate funds flow into this market. In the US, the Fed has stepped in to directly buy commercial paper, a strategy that it last used in the financial crisis of 2008.
- Increase Drawing Power (DP) – by (a) asking banks to take weightage of 1.5X for current assets instead of 1.00X OR (b) asking banks to remove the margin of 25% for a period of 6 months to a year in the DP calculations.
- Direct banks to look at a limited window of next 6 months for GCP (General Corporate Purpose) loans limited to maximum of say 15% of existing credit limits as an addendum to the current credit limits as of end Dec 2019.
- Not paring down government’s capital spending plans despite any shortfall in tax collections. In current times, it would be appropriate to relax fiscal deficit targets in order to support growth.
- Substantial increases in public health spend is needed to ensure adequate supplies to deal with COVID-19: masks, gloves, medical kits for the health workers, medicine, health centres, more hospitals etc.
- Increase overdraft facility to state governments from the RBI. Pay the pending GST compensation immediately.
- IBC to be suspended for a short period for aviation and hotel sector as they are under severe duress.
- After the global financial crisis, India had cut excise duties sharply, which helped the revival of demand for the industry. Such measures (on GST) may be needed again if global economy slips into recession and India’s growth falls below 4%. The GST Council may get into discussions to prepare itself for such situation. Now is the time to reduce the GST rates and widen the net to include electricity, petro-products, real estate.
- Give MSMEs across the board interest rate subvention at 3 per cent, on standard loans (i.e. those that are healthy and not NPA’s). Ensure all pending payments to vendors are cleared immediately by the government departments. GST refunds should be cleared at the earliest.
- Since a large number of people will stand to lose their jobs especially in the retail, hospitality, travel, construction sector, the government can consider giving incentives for employers to keep the



workers, while the corona virus problem tides over. Germany did this in 2008 when employers were paid incentive to NOT fire workers.

- Relax factory compliances to enable the industry to continue operation with a much lesser workforce over longer work / shift hours but in a healthier environment. This will directly contribute to the governments call on social distancing. Further, while health concerns obviously take precedence and decision to lockdown localities should be taken if necessary, some thought needs to be given as regards continuous process industries where a 2-week lockdown will result in an outage of 1-2 months depending upon the industry.
- Provide income support to low income families through DBT. PM Kisan is already doing it for farm households. Support farmers through higher MSP and also those who have lost output due to unseasonal rains. Need to kickstart a lot of relief programs just like drought relief.
- Constant communication at district level for response planning is a must. Any early communication of planned measures and joint planning with industry will help avoid shock to supply chains at a local level.
- Shipments from China have started to arrive; however, the ships are not being allowed to unload their goods in India due to fear of contagion. Government should find ways to facilitate the safe and fast unloading of shipments in India. Work out mechanism to reduce quarantine delays at ports.
- GST Returns/Procedures: The deadlines for paying taxes every month (i.e. 20th) to be deferred; filing of returns extended; All show-cause notices/ enquiries may be suspended including those relating to excise.
- Levy of penalties for late filings / payments like late filing of Bill of Entries, late filing of Import General Manifest (IGM) etc needs to be leniently viewed (waiving penalties).
- Compliances under Companies Act : The deadlines for declaration of financial results (31st May), filing of returns with ROC & Others etc to be extended, as audits also would be affected, leave alone preparation of financial statements.
- Allow for 30-60 days grace period in utility, statutory and GST payments for affected areas and industries without impacting credit history.
- Direct Taxes:
  - Carry forward period of MAT may be increased by a year or two from 15 to 17 years.
  - **Personal taxation:** Additional deduction may be given for salaried employees at a flat rate, for incurring additional expenditure on the Corona preventive measures.
- Operation of other services: It may be noted that the governments directed closure of malls, gyms, clubs etc. But certain services like Banking cannot be restricted. Special incentives to those employed in these sectors as well as to the companies, to be thought of.
- So far, no guidelines are available on handling of Cash, which could be strong source of spreading of the virus.
- The employers need to continue paying salaries for this period, but this can be adjusted in OT working and Sundays working once production restarts so that the economic loss is minimized. The

normal 10-day period for holidays to be given to workers will not apply when making this adjustment.

- It is important that goods vehicle transporting food items in particular are allowed access and no entry times zones within the cities can be relaxed for them. Also, in many cities there is shut down of shops that is taking place, the same needs to be managed in such a way that consumers still have access to be able to purchase the same. It could include announcing time when these will be open.
- Make rules for buyback of shared simpler. For QIPs, there is a need to suspend the minimum floor rule to energize the primary market.

## Sectoral Impact and Losses

### Sectors witnessing demand slowdown due to outbreak of Coronavirus

#### Agriculture & Food Processing

Agriculture and allied activities sector is likely to be adversely hit by the Coronavirus scare. In fact, the poultry sector is already being affected severely. The poultry sector which is the fastest growing sub-sector of India agriculture eco-system and where the country has created a foothold at the global level (India is the third largest producer of eggs and fifth largest producer of broilers) is already facing losses to the tune of 150-200 crore each day. The social media has been spreading misinformation by correlating Coronavirus infection to consumption of meat and poultry products. This has caused enormous destruction in demand for poultry products and the prices realized by farmers have crashed to Rs 10-15 per kg – whilst the production cost of about Rs 70 - 80 per kg.

Furthermore, the prices of several commodities including soybean, maize and chana have fallen. Once the rabi crop will start arriving in the market from second week of April, mandis are going to see large gatherings of farmers. There is a need to ensure preventive measures to avoid the spread of virus in rural areas.

#### Suggestions

- Government should mount an enthusiastic media campaign to counter the rumors being spread on social media regarding consumption of poultry products.
- Government may also consider giving direct assistance to poultry farmers through direct benefit transfer so that they are compensated to some extent for the losses incurred by them.
- Given the extensive interactions and concentration of people in agri-mandis, steps must be taken to regulate the entry and exit of people in agriculture mandis.
- Given the good rabi season, the supply of agri products in the markets is expected to be sizable and government must ensure that the agri-products are procured and stored well in time. The 'bhawantar scheme' can be used for this purpose more effectively.
- Payments due to various agencies dealing with Central and State Governments should be released on a priority basis. This will help ensure liquidity in the trading system in rural areas.

#### Aviation

Aviation is amongst the worst affected sector amidst the Covid-19 crisis that has taken the scale of a pandemic. According to the International Air Transport Association, airlines globally can lose in passenger revenues of up to US\$ 113 billion due to this crisis. Airfares have also come under pressure





due to nearly 30% drop in bookings to virus affected destinations. As a result, airfares to such destinations have fallen by 20-30%.

Domestic traffic growth is also gradually being affected with domestic travellers postponing or cancelling their travel plans. Some companies have reported more than 30% drop in domestic travel this summer compared with last year. Airfare in the popular domestic routes have been reduced by 20-25% and airfares are expected to remain subdued for the summer season as well. According to the data available with the Ministry of Civil Aviation, nearly 585 international flights have been cancelled to-and-from India between February 1 and March 6 because of the outbreak of coronavirus. Cash reserves of airline companies are running low and many are almost at the brink of bankruptcy. Moreover, the crisis could lead to loss of many jobs. Already, some airlines have asked many of their staff/ employees to go on leave without pay. The airline industry needs an urgent bailout from the Government.

### **Suggestions**

- Financial aid in terms of reduction in airport charges, overflight fees, taxation on passengers on security, etc.
- Financial aid to deal with the higher expenses incurred to prevent the spread of the disease such as screening of passengers and disinfection.
- Suspend invoking of bankruptcy under IBC for companies in aviation sector.
- Bring ATF under the ambit of GST to provide long-term relief to airlines, as well as rebates on landing, parking and housing charges.
- Oil marketing companies be directed to extend unsecured interest-free credit terms to aviation sector.
- Rationalization of VAT charged on ATF can grant temporary relief to airlines.
- Support from government for additional manpower, sourcing of the critical personal protective equipment sanitizers etc. where there is an acute demand in the market and there is supply constraint.
- Relief in cost incurred by airport developers in terms of revenue share given to AAI under OMDA guidelines, for a period till the traffic situation improves to near pre-outbreak levels.
- Levying an additional passenger service fee to support the medical and hygiene facilities provided by Delhi International Airport Ltd. (DIAL) at the airport.

### **Tourism, Hospitality & Medical Value Travel<sup>6</sup>**

With large scale cancellation of travel plans by both foreign and domestic tourists, there has been a drop in both inbound and outbound tourism of about 67% and 52%<sup>7</sup> respectively since January to February as compared to the same period last year. Of all the segments of the hospitality sector, the Meetings, Incentives, Conferences and Exhibitions — popularly known as MICE segment — has been hit the most.<sup>8</sup> Some of the major international business events have also been cancelled including tech events such Mobile World Congress (MWC), Google I/O, and Facebook's F8 event, which has led to huge economic losses.<sup>9</sup>

<sup>6</sup> <https://www.indiatoday.in/india/story/indian-travel-industry-suffers-losses-as-high-as-rs-200-crore-due-to-coronavirus-outbreak-1651733-2020-03-02>

<sup>7</sup> <https://www.thehindubusinessline.com/economy/tourism-industry-stares-at-300-m-loss/article31025324.ece#>

<sup>8</sup> <https://www.thehindubusinessline.com/economy/tourism-industry-stares-at-300-m-loss/article31025324.ece>

<sup>9</sup> <https://gadgets.ndtv.com/mobiles/news/mwc-cancellation-facebook-f8-google-event-caused-half-billion-direct-loss-2189821>



The tourism industry expects the situation to further deteriorate in March and in the forthcoming summer season i.e. April-June. Usually, the number of Indian travellers to both domestic and international destinations peak during the months of March and April. However, this time around nearly 90% bookings of hotel and flights for the peak time have been cancelled. Cruise bookings for destinations such as Thailand, Singapore and Malaysia have also been cancelled by travellers in huge numbers. According to the Indian Association of Tour Operators (IATO), the hotel, aviation and travel sector together may incur loss of about Rs 8,500 crore due to travel restrictions imposed on foreign tourists by India for a month. This is also expected to have a negative impact on jobs in the industry.

Medical Value Travel business has also been affected deeply.

### ***Suggestions***

- The removal of fees for any upcoming licenses and permit renewal for the hospitality and travel industry across states. Hotels pay a hefty bar license in addition to many taxes like property taxes. The validity period of these taxes and licenses be extended by at least one year without further payments.
- A deferment for twelve months of all statutory dues whether GST, Advance Tax, PF, custom duties, excise fees, water and power charges, licenses, bank guarantee across hospitality, travel & aviation industry.
- Restoration of SEIS scrips for duty credit of 10% to Tourism, Travel & Hospitality Industry.

### **Capital Markets**

Currently there is a need to ensure flow of funds to the industry through the primary markets and hence certain rules need to be tweaked to make this easier. Some measures are also required to stem the volatility in the market.

### ***Suggestions***

- Relax pricing formula for QIP and preferential issues to facilitate raising of emergency equity capital by companies especially financial services companies.
- Alternate day trading holiday or reduced trading hours daily to contain corona spread.
- Extend deadline for announcing audited results from May 31st to June 30th.
- Extend accounting period to April 30th for FY 2020 (will need to work jointly with MCA)
- Ban short selling in markets
- The deadlines for declaration of financial results (31st May), filing of returns with ROC & others etc to be extended, as audits would be affected due to current scenario, leave alone preparation of financial statements.
- All pricing guidelines such as floor price for QIP, Preferential Allotment, Takeover code etc. to be reviewed in view of the current market condition and relaxed.
- All limits on size and pricing to be relaxed for buyback and takeover code to facilitate support to the market
- New set of guidelines required for a very quick solution for any stress or potential stress situation. This will include relaxation from pricing, open offer etc.
- Evaluate putting restrictions on open future position by Institutional investors to avoid volatility in markets.

### **Ecommerce**

With a view to prevent community spread of Covid-19, the Government has issued advisory for social distancing and isolation by asking corporates to allow work from home to their employees. Moreover,

several State Governments have imposed city lockdown as a preventive measure. Given the likelihood of such lockdowns being extended to several regions across the country, there could be unintended consequences on the e-Commerce industry as some of their operations get disrupted. This could affect the e-commerce business, especially at a time when there is a surge in demand for home delivery of goods under present circumstances. While there is a need to ensure safety of all citizens, it is suggested that unintended consequences of any lockdown on the e-commerce industry be looked into.

### ***Suggestion***

- There is a need for a carve out for the e-commerce company operations in case of urban lockdowns. The government should ensure that e-commerce operations do not get affected due to lockdowns and other restrictions imposed by the State governments.

## **Education – Schools**

As the covid-19 disease spreads wide across the country, the State governments have ordered closure of schools and educational institutes until March 31<sup>st</sup>, 2020, which may even be extended in case the disease is not contained. In some place, examinations have also been postponed. The closure of educational institutions has hampered the studies of children. As such, the schools may increasingly turn to online mode of teaching during this transitory phase.

### ***Suggestion***

- Provision of extra bandwidth to meet requirements of work from home as well as for online learning/ classes.

## **Entertainment/Events/ Sports**

In some parts of the country like Kerala, Jammu and Kashmir, Delhi, Karnataka and Mumbai, cinema theatres, shopping malls and gyms have been closed till March 31<sup>st</sup>, 2020 to stop the spread of the virus. While exact loss is difficult to calculate presently, but some estimates suggest that theatres in Delhi alone may have to incur a loss of Rs 2 - Rs 10 lakh<sup>10</sup> within a period of 10 days. The announcement has also adversely impacted the television and film industry. While shootings have been suspended and promotional events have been put on hold, it has also affected release of new movies. Several sport events have been either postponed or cancelled, and this brings huge losses for the sports industry. For instance, cancellation of IPL matches alone could mean a loss of Rs 10,000 crore for the industry.

### ***Suggestions***

- Provide loans to the multiplex players at low interest rates immediately with one-year moratorium to avoid default on salaries, electricity dues, loans, interest etc.
- Exemption in Electricity Duty.
- Deferment of ESI and PF of employees for 1 year.
- Exemption from license fee/duties and show taxes etc charged by the Municipal Corporations and State Governments.

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<sup>10</sup> <https://economictimes.indiatimes.com/industry/media/entertainment/coronavirus-indian-entertainment-industry-stares-at-losses/articleshow/74615854.cms>

## Financial Services & Fintech

Fintech is emerging as a backbone for the banking industry and can play an increasingly important role especially at a time when RBI is laying focus on promotion of Digital Banking. Measures are required to support the fintech sector to enable players to provide support to the banking sector at the current juncture.

### *Suggestions*

- Since usage of cash can be a source of virus spread, there is a need to give a renewed thrust on promoting digital payments and digital banking. Government must reinstate subsidies for digital payments for transaction below Rs 2000 immediately.
- For fintechs [Regulated entities of RBI], the Aadhar based E-KYC authentication needs to be immediately implemented as this will help them continue with their business and support financial inclusion. The importance of usage of CKYC registry should be highlighted by the RBI in its master circular. Simplification of the usage of video-KYC is also required.
- Banks have been classified as essential services that will continue operations. Similar consideration should be accorded to Fintechs and other allied banking service providers that work with banking partners.
- Relaxation of data privacy norms based on self-declaration is important for maintaining continuity of business especially when work from home is being implemented.
- In the insurance sector, there is a need to make the entire process of issuance and servicing of policies digital including through plugging the KYC gaps.

## Private security services

The Indian personal security market was estimated at INR 57,000 crore (~USD 8.8 billion) in 2016 and is likely to touch INR 99,000 crore (~USD 15.2 billion) by 2020 and INR 1.5 lakh crores (~USD 23.1 billion) by 2022 (as per latest industry estimates). The private security industry is amongst the largest employers in India. The total employees in the sector today stand at approximately 8.5 million securing thousands of establishments across the country.

At a time when a virulent pandemic has sneaked into India, Private Security Industry is playing a very critical role in managing the establishments with adequate controls, restricted movements and temperature checks. In order to be able to continue to provide this vital support, the Government needs to take certain urgent measures.

### *Suggestion*

- In a recent communication from Municipal Commissioner of Greater Mumbai, closure of offices, reduction of employee's work force to under 50% for all non-essential services has been advised. There can be a situation of panic and chaos if Private Security Agencies have to reduce the deployment by 50% or shut the operations. Therefore, immediate priority is to communicate to all State Governments and all local civic bodies to **category** Private Security Services under **essential services**.

## Real Estate & Construction

The year 2019 was a difficult one for the real estate sector, which continues to struggle with a funding crisis in the midst of issues plaguing the NBFC and banking sector. The situation has been exacerbated by the economic slowdown resulting in poor housing demand. There have also been structural changes in the industry, as a fallout of events like demonetisation and the introduction of the RERA and the GST in the last few years. The industry was hoping to recover from this prolonged slowdown

in 2020. The health contagion of COVID-19 disease, however, has the potential to put some brakes on India's real estate market, given the anticipated slump in demand.

The outbreak of coronavirus has not had a major impact on the domestic real-estate market so far. However, a prolonged impact of the coronavirus may not have a favorable impact on the prospects of the real estate industry.

The sector is taking all possible measures to mitigate the impact of n-Covid19 on business such as deferring the house registrations, moderating sales targets in alignment with the current realities etc. Some other measures that could be extended from the Government include

### ***Suggestions***

- IT department may provide time concessions for paying various taxes. This will help the industry in managing overall cash flows.
- The RBI should come up with steps to contain the possibility of debt defaults in these extraordinary circumstances
- A large number of companies will see sharp slump in demand, hence a debt restructuring scheme, any form of extension of debt repayment etc will be much required
- Sharp cut in policy interest rate to improve economic sentiments
- Moratorium period to be exercised as due to cash flow issues it will be difficult to repay the loans on time

### **Other Measures**

- Unorganised Workers: Industry should plan out a process for them as they will be the most affected ones. One plan could be to increase the number of hours to 10 hours & 3 days minimum work for all.
- Construction workers Cess: Government may consider to utilise labour cess fund and pay to all the construction workers from the cess collected every year which is about INR 96,000 crores.
- Large basement facilities in unoccupied buildings can be used as makeshift hospitals/ isolation facilities if required.

## **Retail**

The outbreak of Coronavirus is having a severe impact on people, economy and business. As responsible corporates, all retail players are adopting necessary preventive actions to ensure safety of their employees and customers. The end objective is to ensure easy and uninterrupted availability of essential food and grocery products at affordable prices so that people don't panic. During these critical times, it is imperative for all stakeholders to come together.

Given the widespread effect of COVID, business across sectors is looking gloomy, impacting economy at large. Shutting down of malls has severely hurt business for all retailers. This could lead to major job losses as companies won't be able to sustain this for too long.

### ***Suggestions***

- Ministry of Finance to provide financial relief to retail players by announcing special rebate measures to ease cash flow and provide some relief on GST front.
- Reduce GST on essential food and grocery items and also waive off 0.1% TCS provisions that will be effective April 1, 2020.
- There should be a moratorium on TDS for all service providers.



- GST payments to be deferred by 3-6 months.

This will give some respite to the organizations by easing cash flows at a time when business is on a steep downturn and also help avoid massive job cuts and closure of businesses.

### **Transport & Logistics**

The outbreak of coronavirus has had an impact on transport and logistics sector as well. The transport sector revenues have been affected and are likely to be further impacted with the slowdown in economic activities due to the urban lockdown across several states, combined with the supply disruptions caused globally.

Public transport, including metro and railways have also seen a downfall in passenger traffic amidst the government advisory for social distancing and work from home.

### ***Suggestions***

- Shipments from China have started to arrive; however, the ships are not being allowed to unload their goods in India due to fear of contagion. Government should find ways to facilitate the safe and fast unloading of shipments in India. Work out mechanism to reduce quarantine delays at ports.
- Reduce / subsidise freight rate for railways.
- Suspending/ reducing of port fee and other logistics fees over the next few months to help revive the imports and exports.

## **Sectors affected due to Supply Chain Disruption**

### **Automobiles<sup>11</sup>**

China accounts for 27% of India's automotive part imports and major global auto part makers such as Robert Bosch GmbH, Valeo AS and ZF Friedrichshafen AG have factories located in the Hubei province. Owing to the closure of the factories of these companies, there has reportedly been a delay in the production and delivery of vehicles like Bharat Stage Four (BS-IV) compliant models. These models can now be produced and sold until the end of March this year.

Moreover, the situation has become more precarious after the decision of the Chinese government to limit all shipments by sea until further notice. Since air shipments are not suitable for Auto Components and forging industries, the Indian OEMs are finding it difficult to plan production beyond the available inventory. According to a report released by the Fitch Solutions recently, vehicle production in India is likely to contract by 8.3% in 2020 following an estimated 13.2% decline in 2019. Covid-19 will also make the transition to Bharat Stage Six (BS VI) emission norms difficult which is scheduled from 1<sup>st</sup> of April 2020

Uncertainty surrounding the coronavirus has also impacted the demand for vehicles as consumers have been postponing their vehicle purchase decisions. The Federation of Automobile Dealers Association (FADA) has expressed concern over the availability of BS-VI vehicles which has been impacted due to COVID-19 situation in China. This has made the transition difficult for the sector and hence the March 2020 outlook is negative.

### **Suggestion**

- Fiscal stimulus be given to the industry by adopting "Cash for Clunkers" scheme for the sector to that can provide the required incentives to consumers to exchange their old vehicles for new, more fuel-efficient vehicles. This can help in increasing the demand for automobiles in the country.

### **Consumer Durables & Electronics**

India imports 45% completely built units of consumer durables from China. In addition to finished products, India also imports nearly 70% of the components for television, and other consumer durable products such as air conditioners, refrigerators, and washing machines. Due to supply disruption, sales of these items are likely to be hampered. Also, Chinese suppliers have reportedly increased the prices of some components by more than 2%, and prices of TV panels by more than 15%.<sup>12</sup> Hence, it is anticipated that prices of these consumer durable items will see a price increase in the range of 3-5%.

### **Medical Devices**

India imports a variety of consumables, disposables and capital equipment including orthopaedic implants, gloves, syringes, bandages, computed tomography and magnetic resonance imaging devices from China. Due to the current crisis in China, the medical device manufacturers across India are finding it difficult to source important raw materials and electronic components from Chinese factories. Even though some of the factories in China have restored operation, shortage of some

<sup>11</sup> <https://www.businesstoday.in/sectors/auto/another-blow-to-indias-auto-sector-this-time-due-to-coronavirus/story/397125.html>  
<https://www.pharmaceutical-technology.com/features/coronavirus-affected-countries-india-measures-impact-pharma-economy/>

<sup>12</sup> <https://www.forbes.com/sites/krnkashyap/2020/03/04/indias-economy-feels-the-pain-of-the-coronavirus-outbreak-in-neighboring-china/#6b6bec54d7cc>

critical electronic parts and raw material still exists. This is adversely affecting the margins and profitability of Indian companies importing medical devices and small components to manufacture finished products. This can also put upward pressure on prices of medical devices in the short term.<sup>13</sup>

### **Suggestions**

- Step up customs clearance for medical device imports. Special channels can be opened to speed up customs services and additional staff can be deputed to ensure imported supplies reach on time.
- Ports in India may consider opening a green channel for emergency medical supplies to ensure the smooth transit of cargo.

### **Mobile Phones<sup>14</sup>**

Most of the components for mobile manufacturing is sourced from China. With continued shutdown of factories in China, mobile manufacturing companies are also facing a fate similar to that of pharma and auto companies. Short supply of components led to a rise in prices of mobile parts, which in turn resulted in increase in the prices of mobiles. Companies have also been forced to postpone launch of new variants of mobile. India Cellular & Electronics Association estimates suggest that mobile phone manufacturers could see a production impact worth Rs. 6,000 crore during March and April due to the disruption in the supply chain.

### **MSME**

MSMEs are likely to be severely impacted if the lockdown continues for a longer duration in wake of the Coronavirus epidemic. A large number of MSMEs could incur business losses and also face severe cash flow disruption, which in all likelihood will have an adverse effect on the livelihood of several people working in this sector.

Given the severity of the crisis, it is important to ensure health safety of MSME workforce, especially those involved at shop floors. Additionally, from economic perspective, it is extremely important to ensure the flow of money into the working capital of such enterprises otherwise there will be a risk to survival of these enterprises.

### **Suggestions**

- To prevent the spread of coronavirus in MSME industries, it is essential that a guideline for preventive measures and infection control is disseminated across all enterprises at the earliest.
- All payments and dues by central and state government undertakings to the MSMEs should be cleared at the earliest. GST refunds should be cleared at the earliest. This will ensure availability of working capital for such enterprises.
- Give MSMEs across the board interest rate subvention at a higher rate of 3%, on standard loans (i.e. those that are healthy and not NPA's).
- Additionally, to ensure cash flows for meeting working capital requirement, RBI should instruct banks not to restrict working capital credit to MSMEs.
- Debt repayment and interest payment by MSMEs should be deferred by at least six month.
- Given the economic difficulty faced by MSMEs in wake of coronavirus, RBI should relax the norms for classification of MSME loans as NPAs.

<sup>13</sup> <https://www.globaldata.com/coronavirus-to-impact-import-dependent-medical-devices-industry-in-india-says-globaldata/>

<sup>14</sup> <https://www.thehindubusinessline.com/economy/electronics-industry-fears-supply-disruptions-production-cuts-price-rise-due-to-coronavirus/article30807445.ece>



- Government should defer all tax payments (including corporate tax and GST) for MSMEs by at least six months.
- All compliances related to filing of tax returns by MSMEs should be deferred by a few months. Additionally, there is a need to delink tax payments from the filing of GST form 2B.

### Pharmaceuticals<sup>15</sup>

India imports about 85% of its total requirement of active pharmaceutical ingredients (APIs) from China, according to the Trade Promotion Council of India. In 2018-19, around 67% of total imports of bulk drugs and drug intermediates were sourced from China. As per the records of Pharmexcil, out of the total 58 molecules that are imported from China, 12 are imported from the Hubei province which is the epicentre of coronavirus. With the situation still remaining critical in China particularly in Wuhan, supply disruptions from China is likely to continue for several weeks more.

Amidst uncertainty over future supply of bulk drugs and intermediaries from China, the possibility of a shortage in availability of medicines in India has led to increase in prices of some items like paracetamol which has seen a price hike of about 40%. The scenario has put negative pressure on some raw material items as well like the price of Penicillin G, a key raw material used in antibiotics has reportedly gone up by about 58%.

A committee has been formed by the Department of Pharmaceuticals to regularly review the availability of stocks of API. The drug regulatory authority has reported to the government that the stock of 57 APIs (amoxicillin, ofloxacin, vitamin tablets and capsules such as B12, B1, B6) could soon run out. In case the supply disruptions continue, it could affect pharma production levels adversely. The government has restricted exports of certain medicines to deal with the situation.<sup>16</sup>

#### **Suggestion**

- As a short-term solution to the problem, it is suggested to consider increasing the capacity utilisation level of existing pharmaceutical manufacturing plants, which run at a lower 30-40% capacity as against 75% of China.

### Power

The corona virus outbreak is expected to have an impact on power demand and in fact the latest data for the first two weeks of March 2020 has already reported a negative growth (-3.6%) in power consumption. The consumption had noted a 10.8% growth during the month February 2020. Press reports indicate that power demand was growing favorably in the first week of March but has been contracting ever since. The decline coincides with the measures being undertaken across the country to contain the spread of corona virus through closure of malls cinemas etc. This is expected to adversely impact the revenue flow of discoms which already have dues of about Rs 90 000 crore from various government institutions. In light of the current situation, it is urged that the:

#### **Suggestions**

- Central government considers giving the States a capital injection to pay power generating companies, if necessary, by relaxing state fiscal limits.

<sup>15</sup> <https://economictimes.indiatimes.com/small-biz/sme-sector/trade-in-the-time-of-coronavirus-sectors-overdependent-on-chinese-imports-face-a-grim-reality/articleshow/74312184.cms?from=mdr>

<sup>16</sup> <https://www.forbes.com/sites/krnkashyap/2020/03/04/indias-economy-feels-the-pain-of-the-coronavirus-outbreak-in-neighboring-china/#6b6bec54d7cc>

- Suspend NPAs of power companies. Given the current situation, it is possible that the 10/12 assets revived recently will once again turn bad.
- Government should advise banks not to stop disbursing loans in anticipation of possible delays in project implementation.

### **Publishing/Paper/Printing**

India is arguably the fastest growing paper market in the world. The paper industry, especially wood-based paper manufacturers, supports about 5 lakh farmers who are engaged in agro forestry, and supply raw material to the paper mills. Unfortunately, growth in demand is being met increasingly by imports, with under-utilisation of existing domestic manufacturing capacity. Several small industries operating largely in the MSME sector are facing raw material supply disruptions in the wake of the coronavirus outbreak. The Government is currently focusing all energies and efforts in containing the covid-19 threat. As a first step, there is a need to spread vital information about precautions that could help protect individuals from contracting or spreading the virus. A multi-channel approach, covering all mediums of mass communication including television media, advertisements, and posters in public spaces is pivotal to spread awareness among 1.34 billion Indians in a bid to restrict the pandemic in India.

#### ***Suggestions***

- Provide subsidy on paper for printing of school books and newspapers as import of pulp from China and other countries has been impacted. A subsidy on paper will enable industry user to spread the messages, advisories and precautions to be taken with regard to limiting spread of COVID-19 in a larger manner.

### **Renewable Energy**

India imports nearly 80% of its solar cells requirement from China. Indian players are facing uncertainty regarding the supply of solar panels from China. Delay in supply of solar panels beyond the available inventory with the manufacturers is impacting timely completion of solar projects resulting in a force majeure situation. The Finance Ministry has issued a circular stating that the current situation of COVID-19 should be treated as Force Majeure for solar projects. However, the Ministry of New and Renewable Energy (MNRE), SECI and State Governments have not yet issued any circular with respect to the same. This is creating confusion in the renewable energy industry. Moreover, the Renewable Energy Industry is a capital-intensive industry where availability of liquidity is important. The current outbreak of coronavirus has affected the liquidity of the renewable energy companies due to the impact on supply chain.

#### ***Suggestions***

- MNRE, SECI and State Government should declare the present situation in the renewable sector as Force Majeure for Solar Projects.
- Power purchase bills raised by Renewable Power Suppliers to SECI/ NTPC should be paid within 15 days instead of 30-45 days, which will help in easing the liquidity of renewable energy players
- Disbursement of Term Loans for project construction should continue. Government should direct the banks not to stop disbursement of loans under the expectation of project delays due to COVID-19.
- Ways should be explored for safe unloading of shipments from China into India. Shipment from China has started to arrive, however, the ships are not being allowed to unload their goods in India due to fear of contagion. Government should find ways to facilitate the safe unloading of shipments in India.

## Textiles

India imports US\$ 460 million worth of synthetic yarn and US\$ 360 million worth of synthetic fabric from China annually. The country also imports over US\$ 140 million worth of accessories like buttons, zippers, hangers and needles. India does not have the domestic supply base to cater to such a huge demand of these raw materials.<sup>17</sup> Chinese textiles factories were shut down after the outbreak of coronavirus. In case the outbreak continues, Indian garment manufacturers would have to look for at alternatives sources, including local sourcing. This may increase the cost of finished goods by 3-5%. In addition to this, both quality and cost may have adversely impact due to this change.

India also exports 20-25 million kg of cotton yarn a month to China. There has been a drop in cotton yarn prices in the domestic market as traders have anticipate a decline in demand from China due to the current situation. Moreover, textiles exports have also been impacted due to the spread of Covid-19 in Europe, UK and the US, which are the main markets for Indian garments. Inventories have piled up as many foreign buyers have put their purchases on hold. Also, many of them are deferring their payments for goods which have been shipped already. If the condition continues to remain same, exporters may have to cut production which will impact jobs as well.

### ***Suggestions<sup>18</sup>***

- Extend the scheme for reimbursement of taxes and levies for cotton yarn and fabric exports
- Provide 3% interest subvention beyond March 31, 2020 including products such as quilts and cotton shopping bags for ROSCTL (Reimbursement of State and Central Taxes and Levies)
- Expedite GST refunds
- Banks should provide moratorium for repayment of principal and interest amounts and exempt raw materials from anti-dumping duty and customs duty.

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<sup>17</sup> <https://economictimes.indiatimes.com/industry/cons-products/garments-/textiles/indian-textile-and-apparel-industry-to-be-affected-due-to-coronavirus-attack-in-china-cmai/articleshow/74223014.cms>

<sup>18</sup> <https://www.thehindu.com/news/cities/Coimbatore/textile-associations-seek-financial-support/article31093800.ece>

## Annexure – Coronavirus Mitigation Measures taken by Companies

In wake of the coronavirus crisis and its likely impact on employees and businesses, FICCI has carried out a quick survey of industry to find out how companies are coping up with this crisis and to understand various strategies they have adopted to meet the associated challenges. Most of the companies in India are taking various precautionary measures for safety of their employees and many of them have started taking steps to mitigate the impact on their business operations, costs and revenues. These are listed below -

### **Precautionary measures taken by companies to prevent employees contracting the disease**

- Awareness measures to educate staff on Corona Virus
  - Posters have been put up at various locations in offices
  - E-mails are being circulated to spread awareness
  - Awareness programmes are being conducted by Medical team in the shop floors / offices / townships
  - Circulation of Do's and Don't Do's List
  - Asking people to avoid public transportation
  - Spreading awareness through social media
  - Lists of hospitals where testing is available is being circulated
  - Advisory regarding no handshakes
- Sanitisation and health safety measures
  - Regularly sanitizing premises; continuous sanitization of door handles / taps being carried out
  - Making available sanitizers, soaps at relevant points (e.g. security desk, front office, washrooms and pantry space, etc.)
  - Frequency of housekeeping routines have been increased multi-fold
  - Temperature checks at entry points
  - Daily Doctor visits
  - Employees with mildest of symptoms are advised to stay at home and employees with any symptoms of covid-19 are asked to contact nearby Government Hospital for check-up.
  - Masks for floor employees made available
  - Mask, gloves, sanitizers made available to office admin staff
  - Isolation rooms provided at office complexes
- Changes made in HR practices
  - Biometric attendance discontinued
  - Employees exempted from marking attendance till 31.03.2020
  - Allowed work-from-home for employees
  - Work From Home made mandatory for all pregnant female employees and other employees with medical history
  - No Face to Face Interviews, only via zoom / skype
- Changes with respect to travel, meetings and visitors entry
  - All meetings, trainings & other employee gatherings have been stopped till further notice
  - Most meetings with vendors/ clients are being held telephonically or via video-conference
  - Official Travel is not allowed and any personal travel is required to be reported back to office
  - While some companies have stopped allowing visitors in office premises, some are doing strict monitoring of people entering the premises



- Some companies are checking travel history of visitors and asking them to fill a self-declaration form
- Face masks are being provided to visitors in some companies

### **Measures taken by companies to mitigate the impact of n-Covid19 on their business**

- *Measures to manage sales and revenue*
  - Some companies are offering discounts on products
  - Since global orders of products like garments have been affected, companies are trying to increase sales in domestic market.
  - Some companies in freight industry are trying to find out alternative opportunities that can be explored during the post corona phase given the probable set back expected from majorly infected countries.
- *Measures related to operations/ production*
  - Companies are trying to maintain optimum production level
  - Some companies are liquidating inventory
  - Some companies are keeping high inventory of raw materials
  - Since many companies have offered Work from home option to their employees, the companies are also trying to address the cyber security concerns associated with such schemes.
  - Media companies are preparing alternate broadcast up-linking and downlinking plans in the event of quarantine situation of telecast facilities.
  - Companies are finding alternates to business travel; meetings are being held via teleconference/ video-conference.
- *Measures to manage costs and finances*
  - Some companies have reduced credit
  - Companies are curtailing overall operating costs and all non-essential expenses
  - Even some essential costs are being reduced such as marketing cost, vehicle supply cost, business development cost, customer care cost, etc.
  - New product launches are being cancelled
  - Capital investment is being deferred
  - Some companies are trying to reduce their labour/ manpower cost by sending people on unpaid long leaves, reducing workforce and through salary reduction
  - Some companies are negotiating with vendors for increased credit period
- *Relationship management with vendors and clients*
  - Companies are planning and undertaking effective communication with customers and suppliers; arrangements are also being made to review contracts in anticipation of continuation of covid-19.
  - Exporters are informing their international customers on the possible delays in supplies and requesting for extensions
  - They are also offering in-house stocks for alternate products with similar performance levels
  - Some exporters are looking at sourcing costlier products from Indian and other global sources to complete the orders in hand
  - Some companies are looking for alternative suppliers.
  - Some companies are exploring other channels of supply chain including ecommerce and home delivery



- Some Fintech companies are encouraging banks and NBFC to keep the momentum going for discounting of invoices to support MSME businesses; they are also making available helpline for MSME enterprises to enable them to transact from home.