The Q2 FY22 Business Confidence and Performance Index (BCPI) Report

IMA

Strictly Confidential Jul 2021

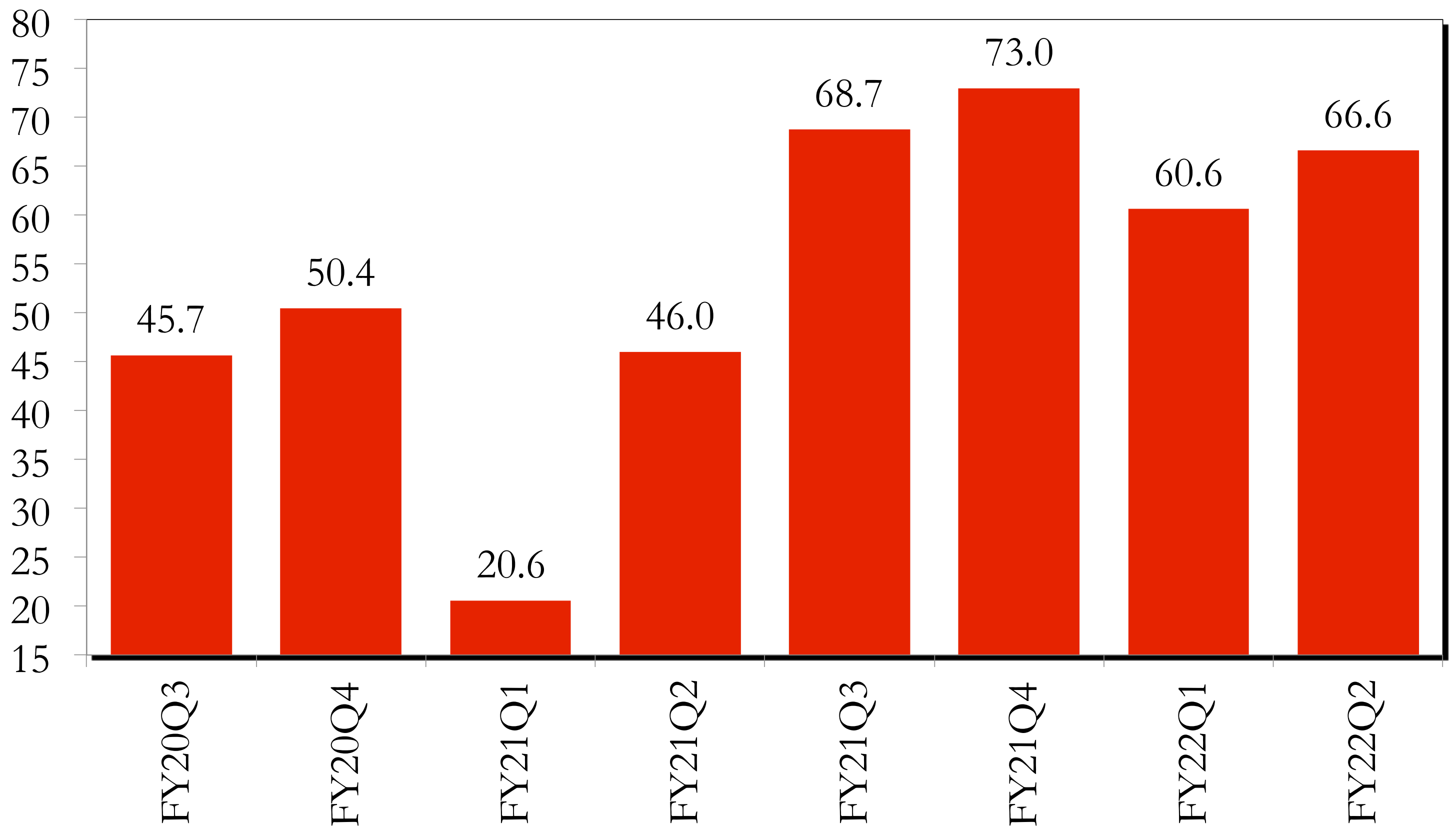
Table of Contents

BCPI Methodology

- Over 200 CEOs and CFOs responded to our quarterly BCPI survey, run in July 2021
- Respondents were asked to indicate the following:
  - Their outlook on **current and future (3 months from today) macroeconomic conditions**
  - **Business performance on 5 parameters (sales, confirmed new orders, net profit, net hiring, and capacity utilisation)** in the most recent quarter, and one quarter ahead on an 'Up', 'Down' and 'Same' scale
  - Whether or not they have made/will make **new capital expenditures** in a specific quarter
  - **Spending on the 'soft things':** advertising and marketing; team/morale building exercises (offsites, company parties, etc); and aggregate travel expenditure
- **The 'headline' (overall) BCPI is a weighted average** of **current conditions (40%)** and **expected future conditions (60%)**. In turn, each of these is a composite of:
  - **Macroeconomic conditions (25%)**
  - **Business performance (60%**) on the 5 parameters noted above
  - **New investments (15%)**
- **Index values can ranges between 0 and 100:**
  - **Values above 50 indicate a net positive outlook** on a particular parameter (more respondents say 'Up' than 'Down')
  - **Readings below 50 suggest a net-negative view** (more say 'Down' than 'Up')
  - Hypothetically, a value of 100 would suggest that **every** respondent has a positive outlook, while a value of 0 would indicate the opposite

Headline Results

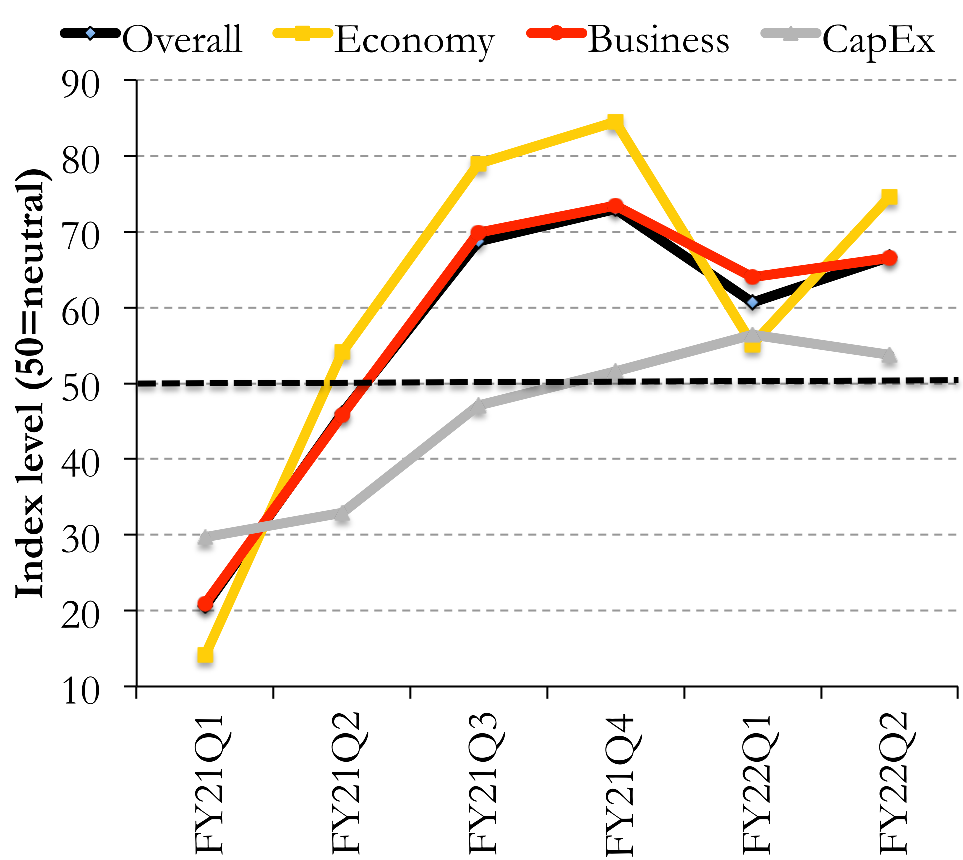
The Q2 FY22 BCPI: Easing second wave…



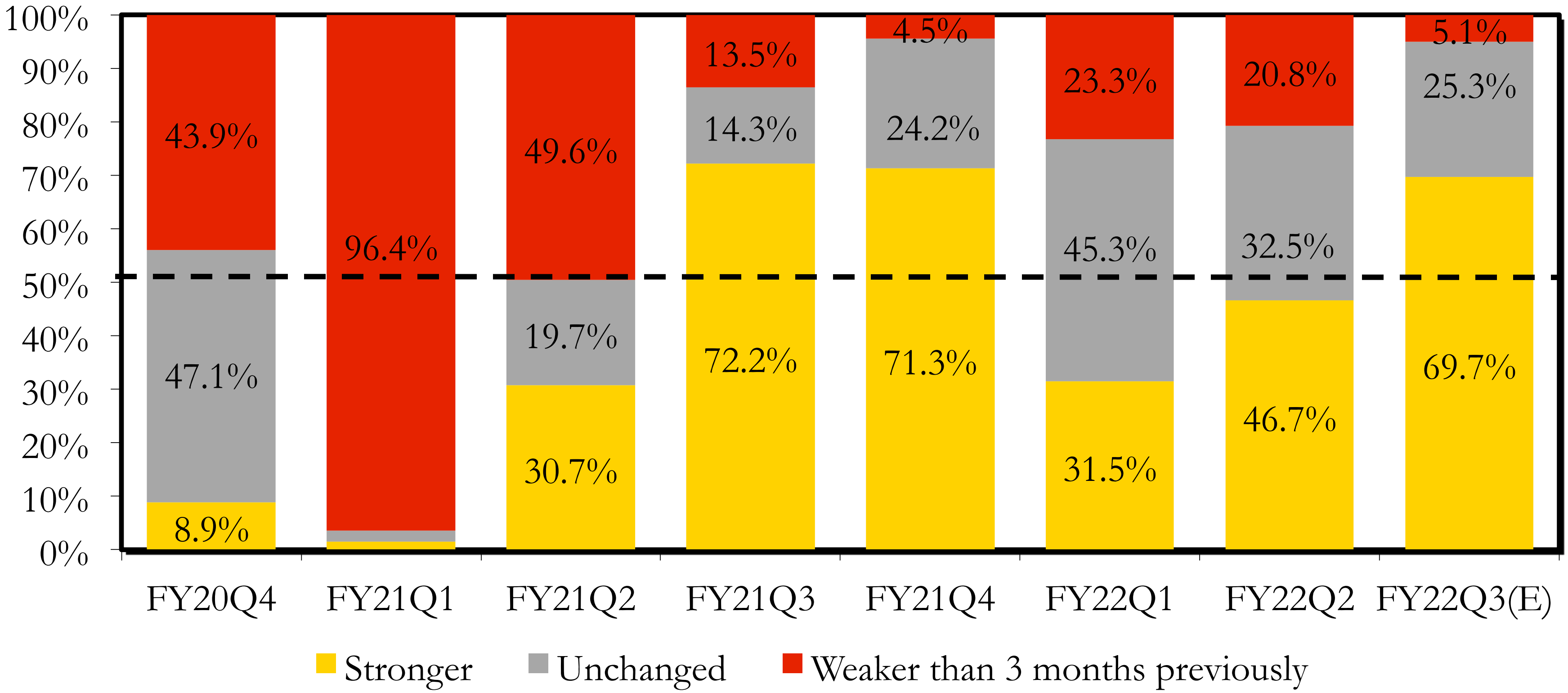
Recovering from the drop-off seen in April – when Covid's second wave was about to make landfall – the BCPI headline index has risen 6 points, to a more robust 66.6. Plainly, businesses are feeling more optimistic about their growth prospects.

…and recovering sentiment

- The **headline and business performance indices** have both moved up, largely in lock-step.
- Although still positive – over half of all business are planning to make investments – the **capex outlook** appears to have plateaued. This suggests a more cautious wait-and-watch approach to new sign-offs.
- In comparison, the **macro index** has seen a V-shaped recovery. After dipping to near-contractionary levels in April, it has bounced back up to the mid-70s.



The Macro Outlook:
On the mend

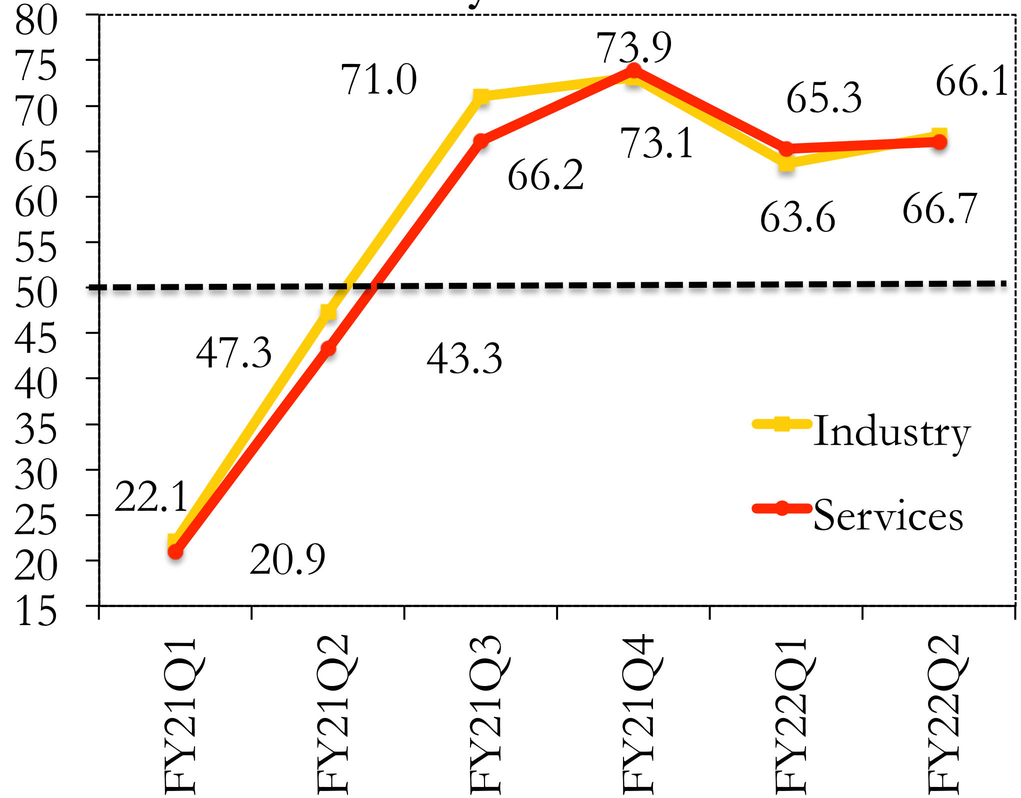


Last quarter (Q1), close to one-fourth of firms said that the macro-economy had deteriorated. Today, this ratio has shrunk to 20.8% but more importantly, 46.7% say that conditions have improved in the last 3 months. By October, nearly 70% say that the economy will be stronger still, and just 5% expect some pull-back from here.

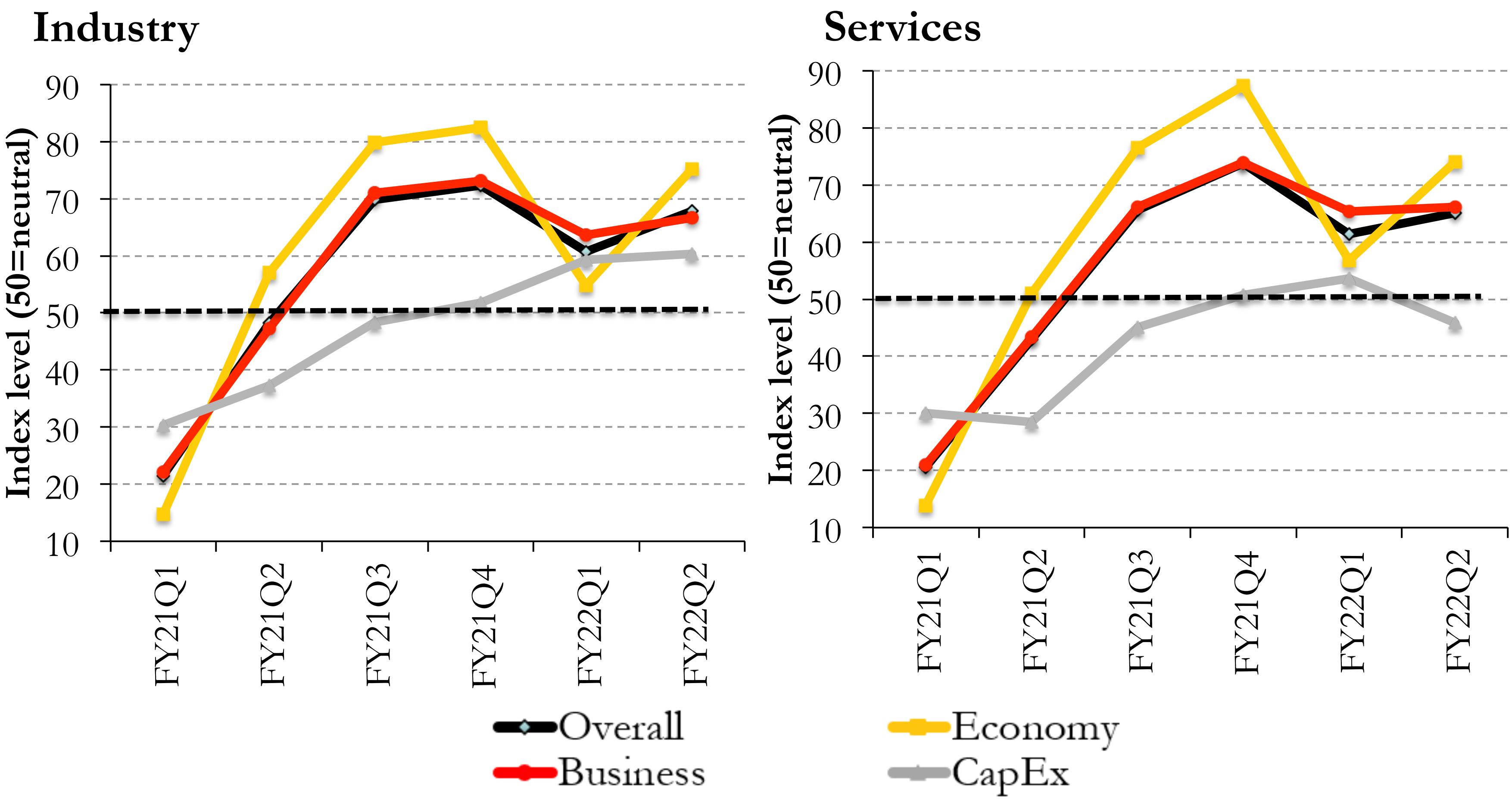
A narrowing Services-Industry gap (1/2)

- For years, **services companies maintained a 'lead' over industrial ones** on the headline BCPI index, indicating generally-higher levels of optimism/ performance.
- This **changed early in FY21**, when the lockdowns put a damper on services.
- In the **last 2-3 quarters, this gap has narrowed markedly**. In Q1, services companies were nearly 2 percentage points ahead, but today, it is industrial companies, though by a hair's-breadth (60 basis points).

Headline BCPI index: Industry vs Services



A narrowing Services-Industry gap (2/2)

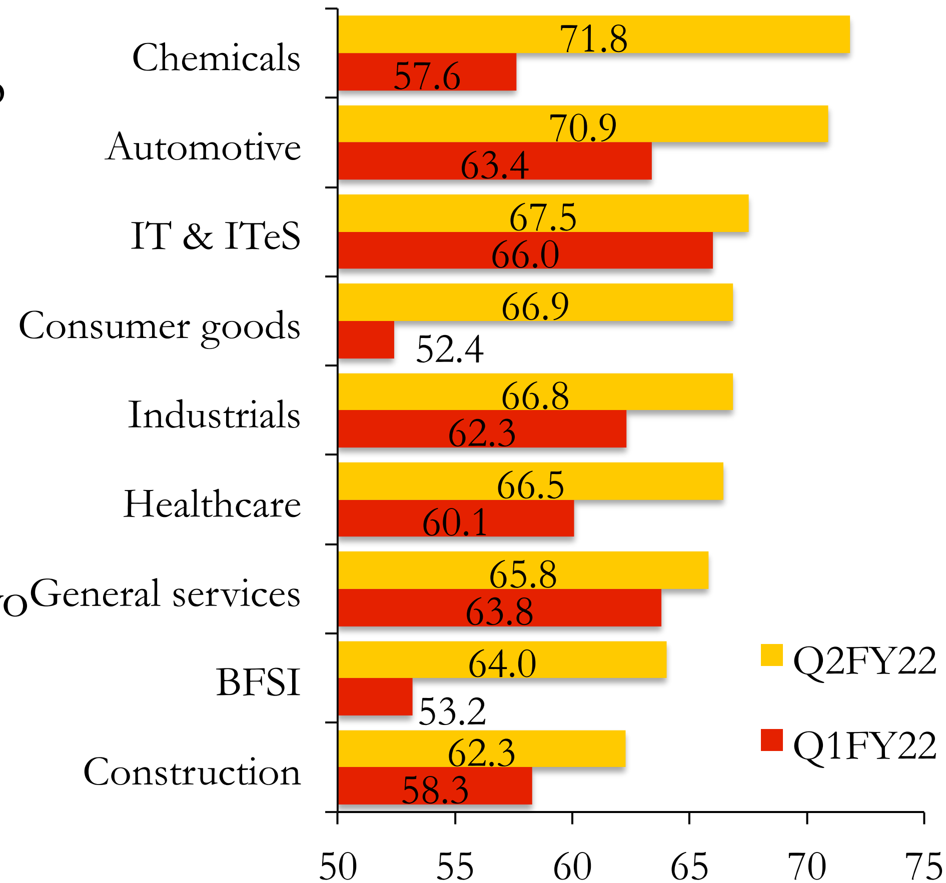


The two groups are indistinguishable in terms of the business performance and macro indices in Q2, but manufacturers are more bullish on capex, whereas services firms have turned net-pessimistic on this score.

Sector-wise expectations: Reviving

- Three manufacturing-heavy industries are at the leading edge, with **chemicals** and **auto** at the top in absolute terms and **consumer goods** recording the sharpest QoQ improvement.
- **IT-ITeS, general services, industrials and healthcare** are all solidly in the mid-60s, but tech companies have seen little or no change in sentiment between the two quarters.
- **Construction and BFSI** are currently at the bottom of the list, but still better than last quarter.

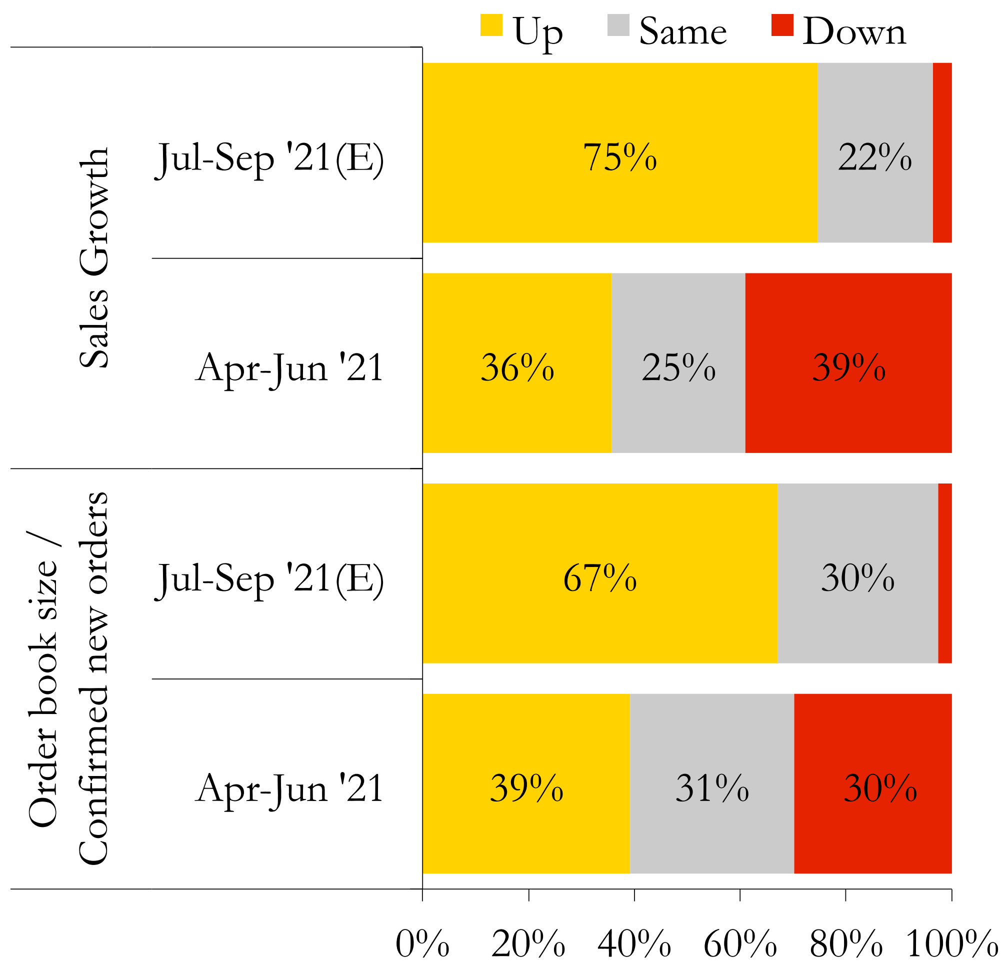
Overall BCPI index



Business Performance

Sales and New Orders: Strongly up

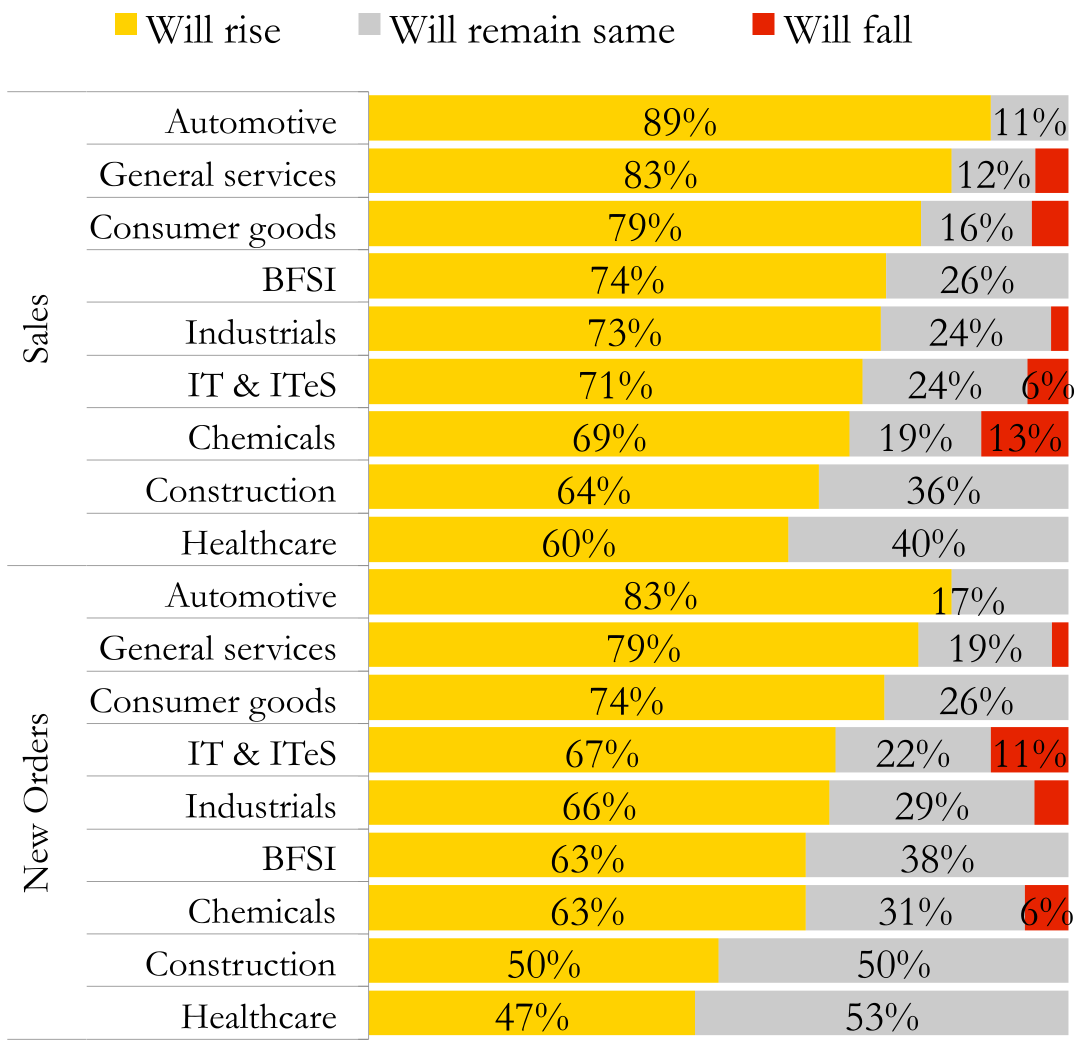
- Q1 (Apr-Jun) was **weak in terms of new orders and sales**, with more firms reporting a pull-back than an expansion.
- Q1 also turned out **weaker than the advance projections** made in the April survey, when about a fifth of companies had forecast de-growth.
- The **second quarter is forecast to be markedly stronger**, with 2/3rds to 3/4ths of firms expecting a QoQ improvement on these two parameters.



* *All data points in this chart refer to quarter-on-quarter (QoQ) changes*

Q2 Sales and New Orders: Sector-wise

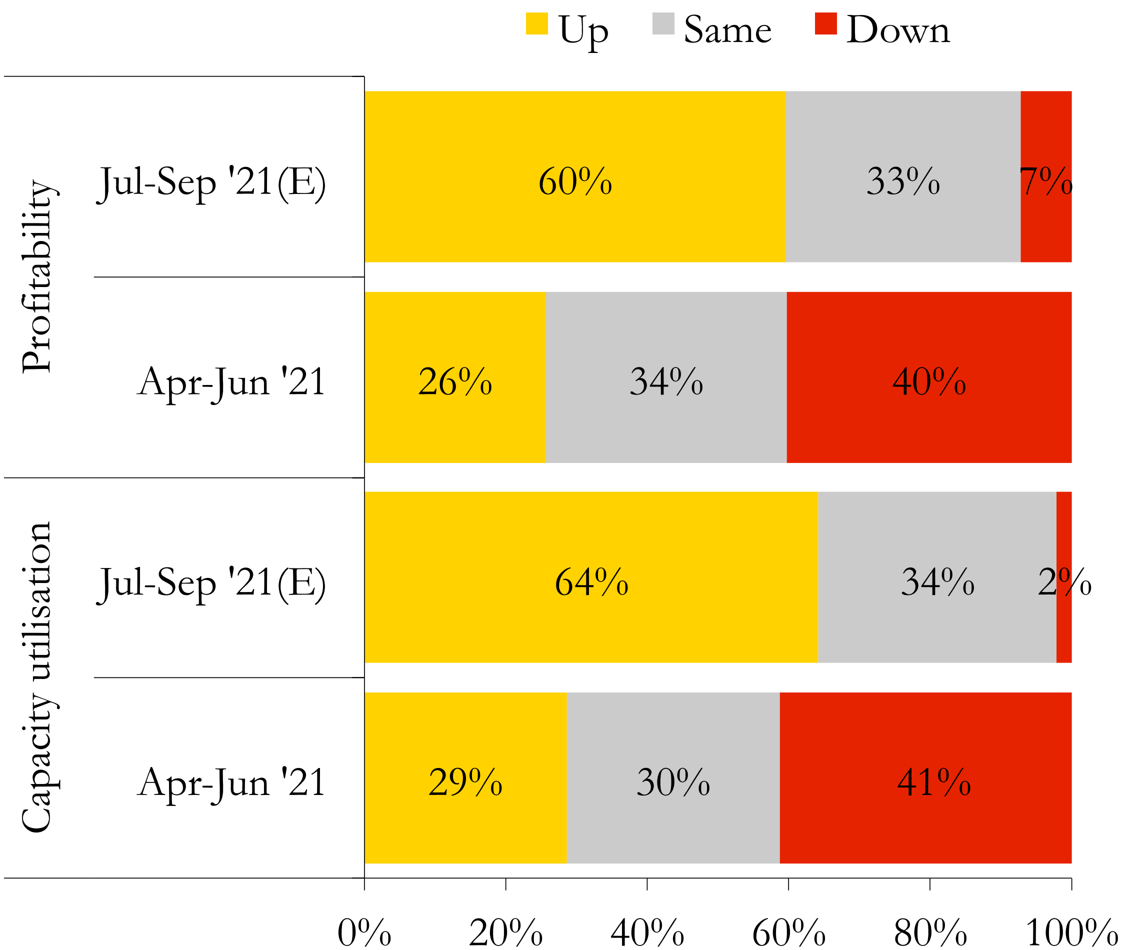
- After a very poor Q1, **automotive, general services and consumer-goods** companies are forecasting a big pick-up this quarter on both sales and new orders.
- **BFSI, industrial and IT/ITeS** come next, with BFSI more bullish about sales and tech companies about new orders (though 1/10 expect a drop here).
- **Chemical companies** are the most pessimistic about sales, with 13% expecting a QoQ drop.



** All data points in this chart refer to quarter-on-quarter (QoQ) changes*

Profitability, Capacity Utilisation: Mending

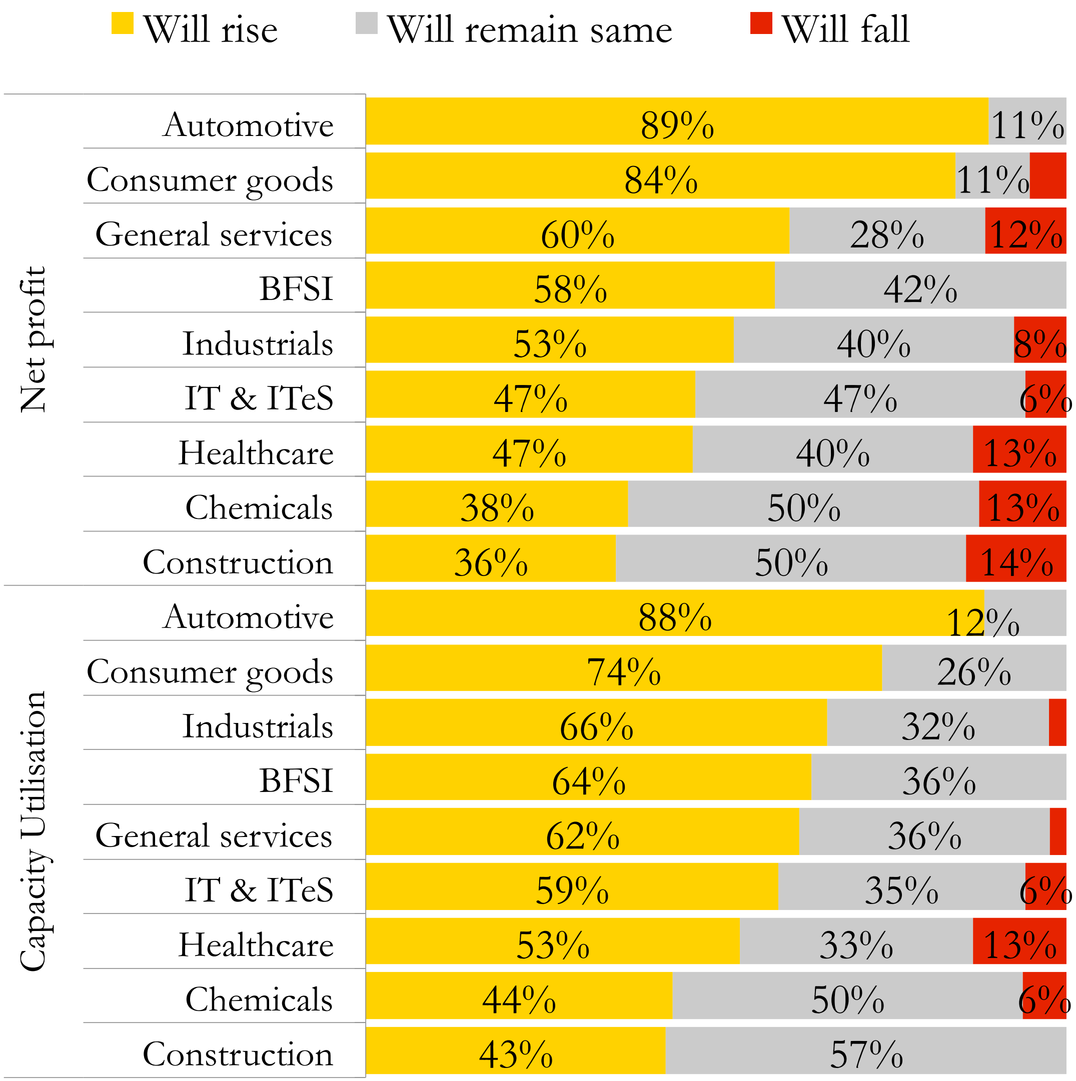
- On both profitability and capacity utilisation, **our respondent companies did worse than projected in Q1.**
- In April, about **20% each** said that Q1 would see a drop in profitability and/or utilisation rates – but in fact, this ratio was much worse – **about 40%.**
- As with sales, though to a lesser degree, **Q2 is likely to bring improvements**. Very few (2-7%) expect further drops, while 60%+ expect QoQ increases.



** All data points in this chart refer to quarter-on-quarter (QoQ) changes*

Q2 Profitability, Utilisation: Sector-wise

- Largely mirroring the sales and order-book rankings, **auto and consumer goods** come out at the top of the list on expectations for net-profit and capacity utilisation rates in Q2.
- **BFSI** comes next, followed by **general services** (on profit) and **industrial companies** (on capacity utilisation).
- **Healthcare, construction and chemical companies** are under pressure on both scores.

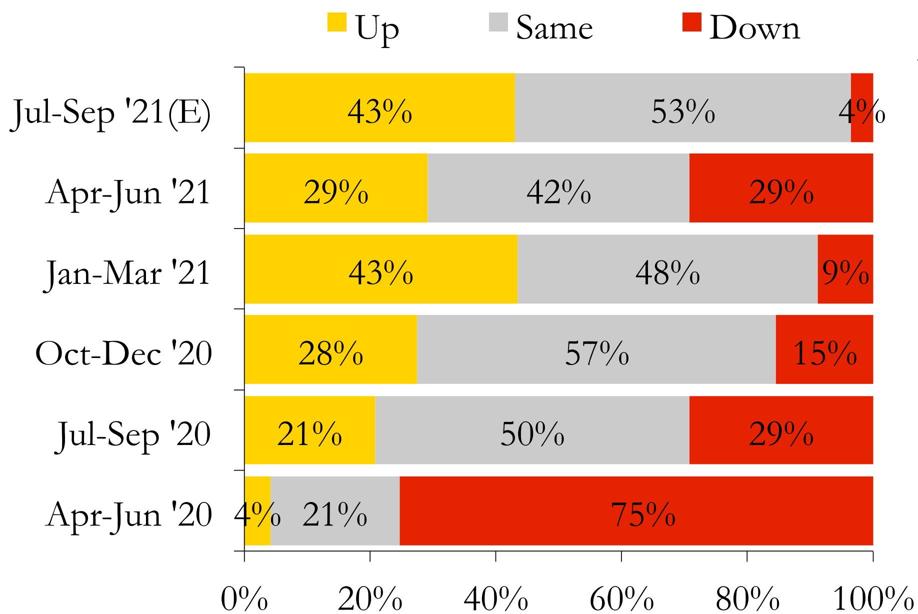


** All data points in this chart refer to quarter-on-quarter (QoQ) changes*

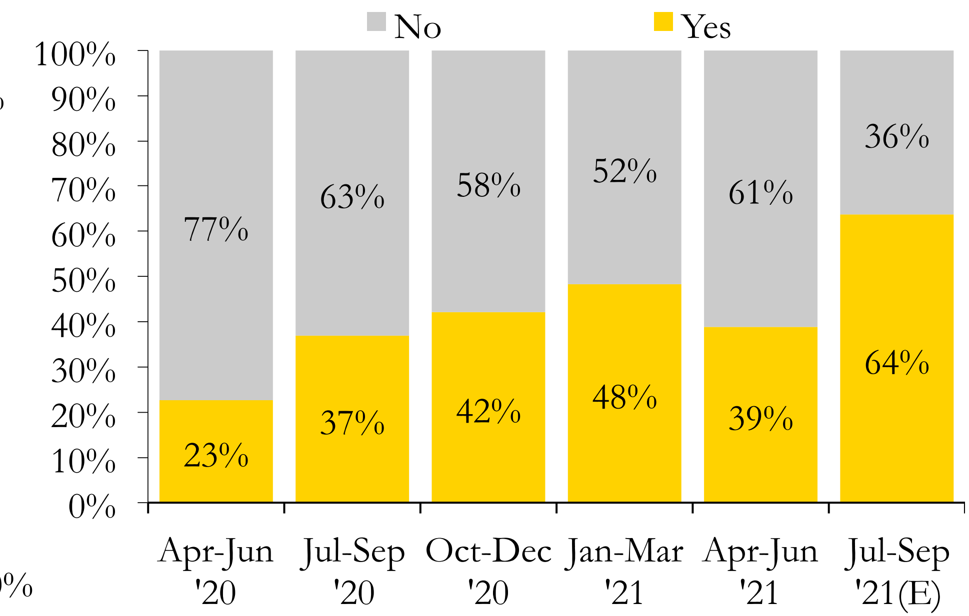
New Hiring: steadying, CapEx: expansive

IMA

New hiring*



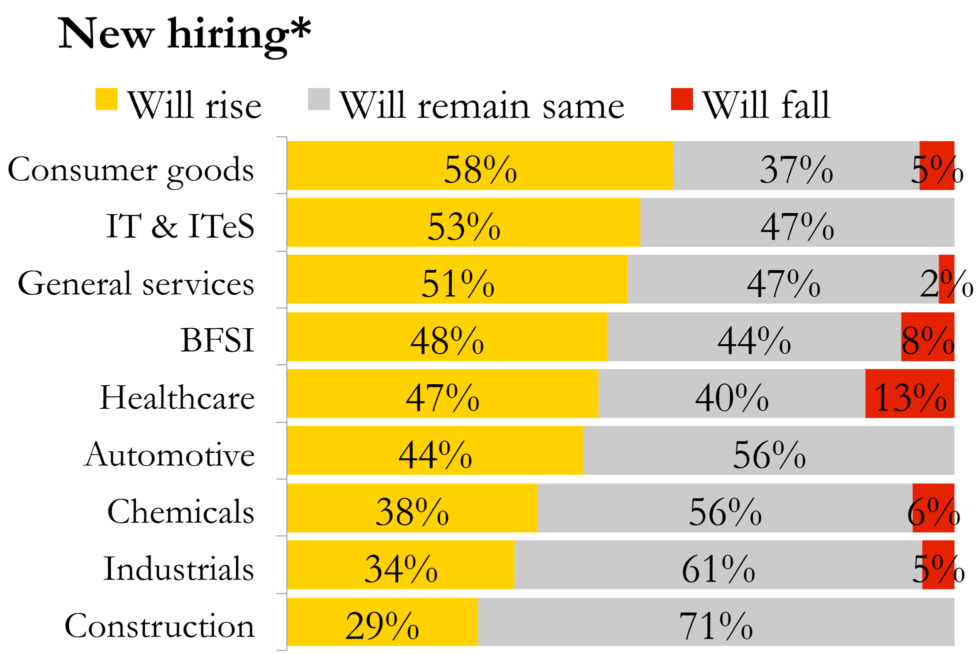
Made/signed off on new investments+

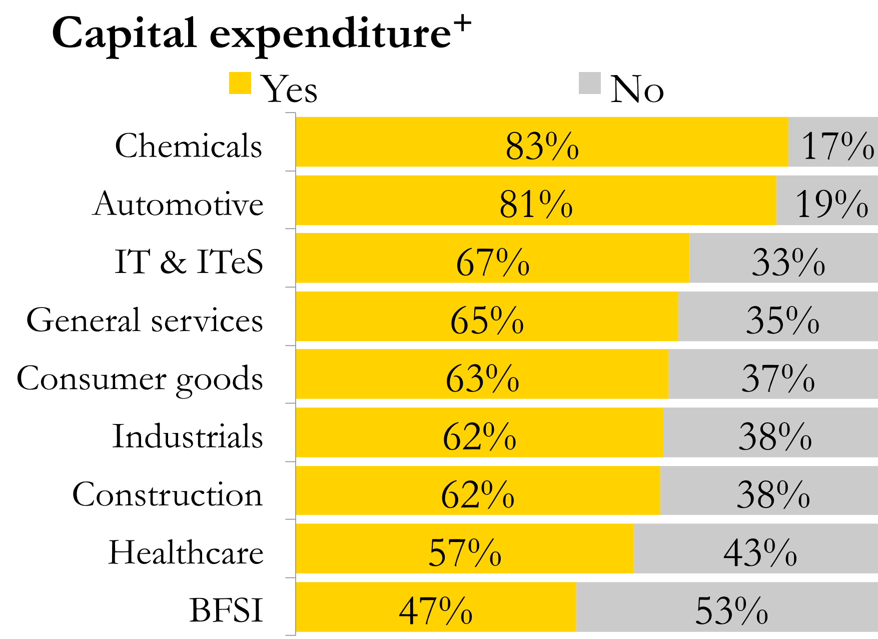


- After stalling in Q1, net new hiring appears to be on the rise this quarter – just 4% of firms say they will pull back on hiring, but 43% will accelerate.
- Actual investment (39% spent on CapEx) vastly under-shot expectations (62% said they would spend) in April-June. This quarter, too, nearly two-thirds of companies say they will make or sign-off on investments, but this remains to be seen.

** Quarter-on-quarter (QoQ) changes; + Respondents were asked whether they either made or signed off on new investments in that quarter*

Q2 New Hiring and CapEx: Sector-wise



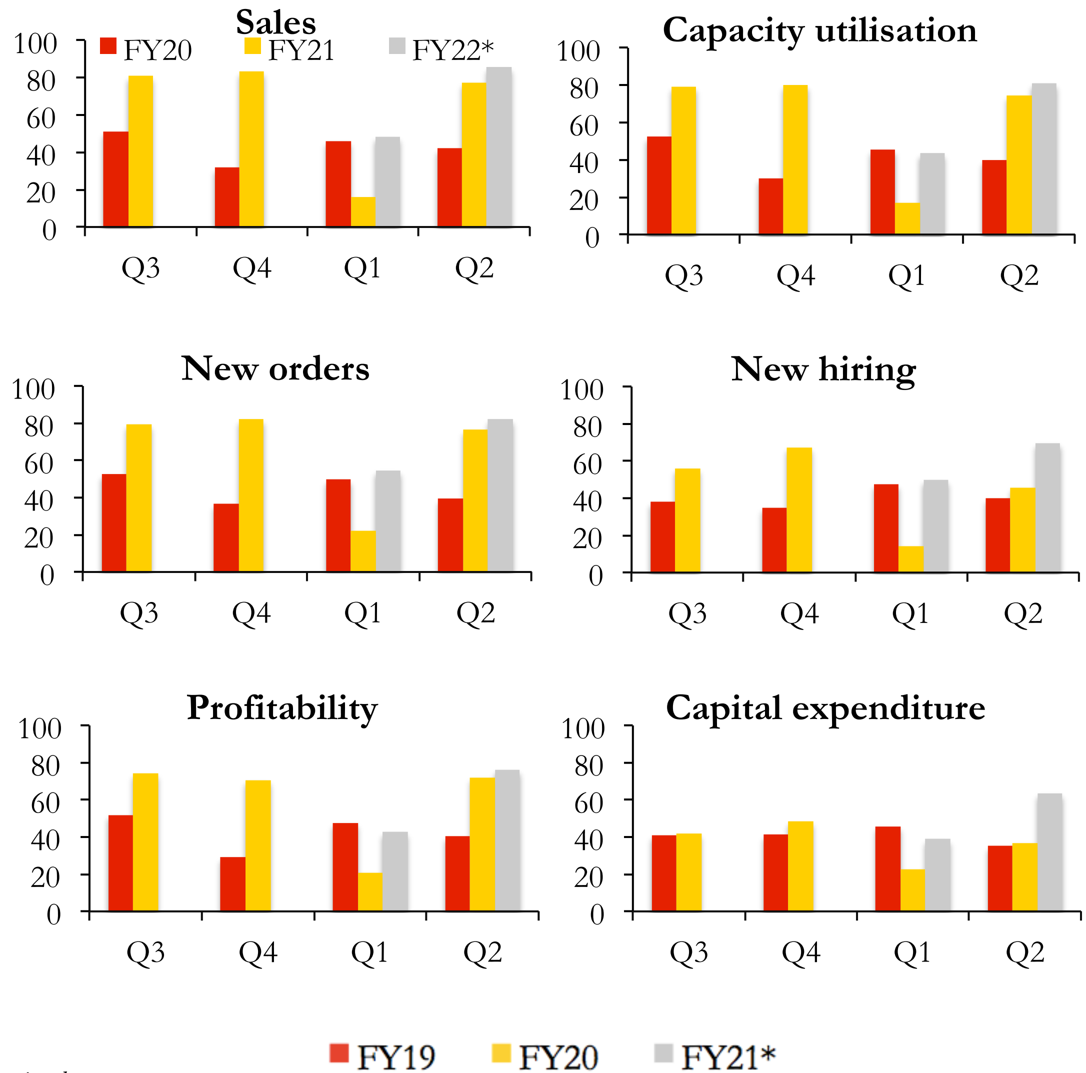


- In 3 of the 9 industries we track, over 50% of companies say they will increase hiring this quarter, and another 2 are nearly at 50%. Chemical, industrial and construction companies are much less optimistic.
- The CapEx-intent rankings are mainly in line with expectations for sales and new-order growth, though chemicals firms (admittedly a diverse group) are a surprise, given their mid-to-low expectations on these parameters.

** Quarter-on-quarter (QoQ) changes; + Respondents were asked whether they either made or signed off on new investments in that quarter*

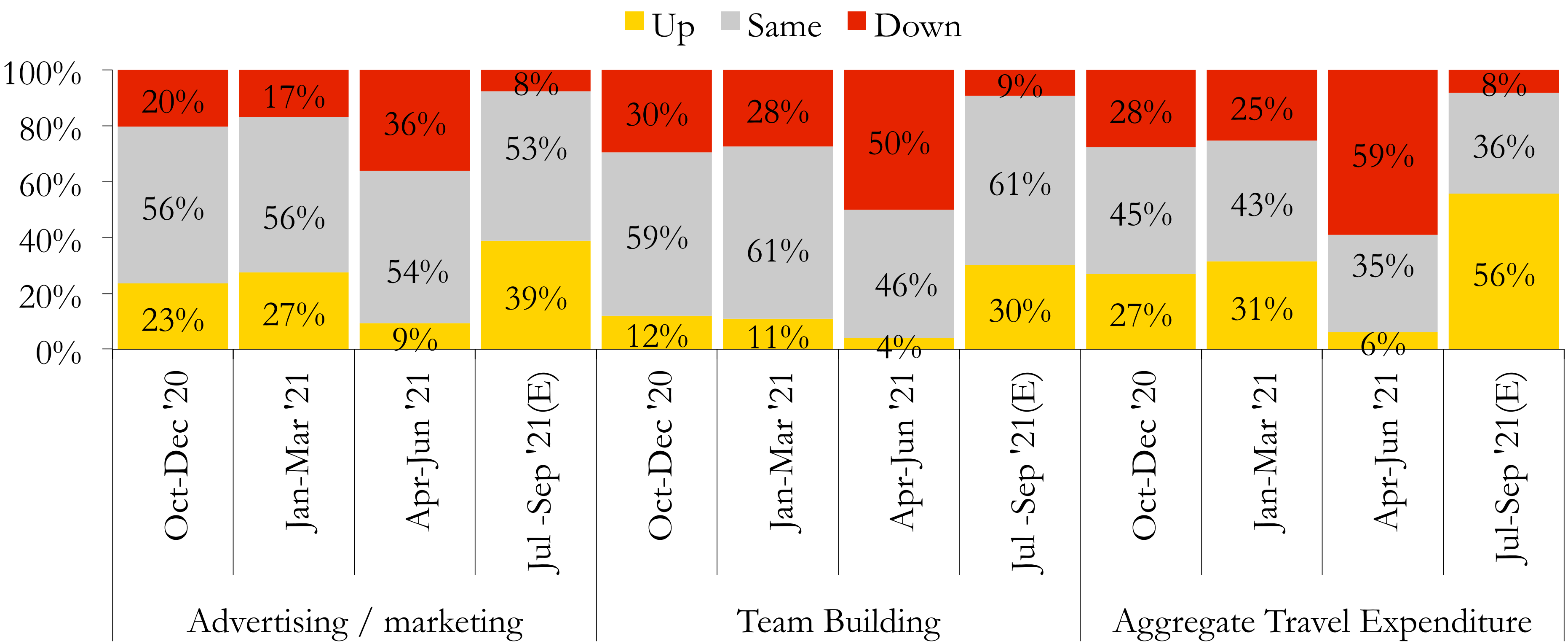
Business Parameter Index Levels:
YoY comparisons

- Comparing across years, and on all of the business parameters we track, Q1 FY22 was markedly better than the year-ago period – and either similar or better than the same quarter in 2019.
- This would suggest that the second wave's impact was milder than the initial forecasts had suggested.
- Q2 (Jul-Sep) is forecast to be stronger still, with gains relative to last year as well as two years ago.



Note: All figures reflect index levels (50=neutral) for each parameter in the respective quarter, allowing for direct YoY comparisons

‘Soft spends’: Revenge spending?



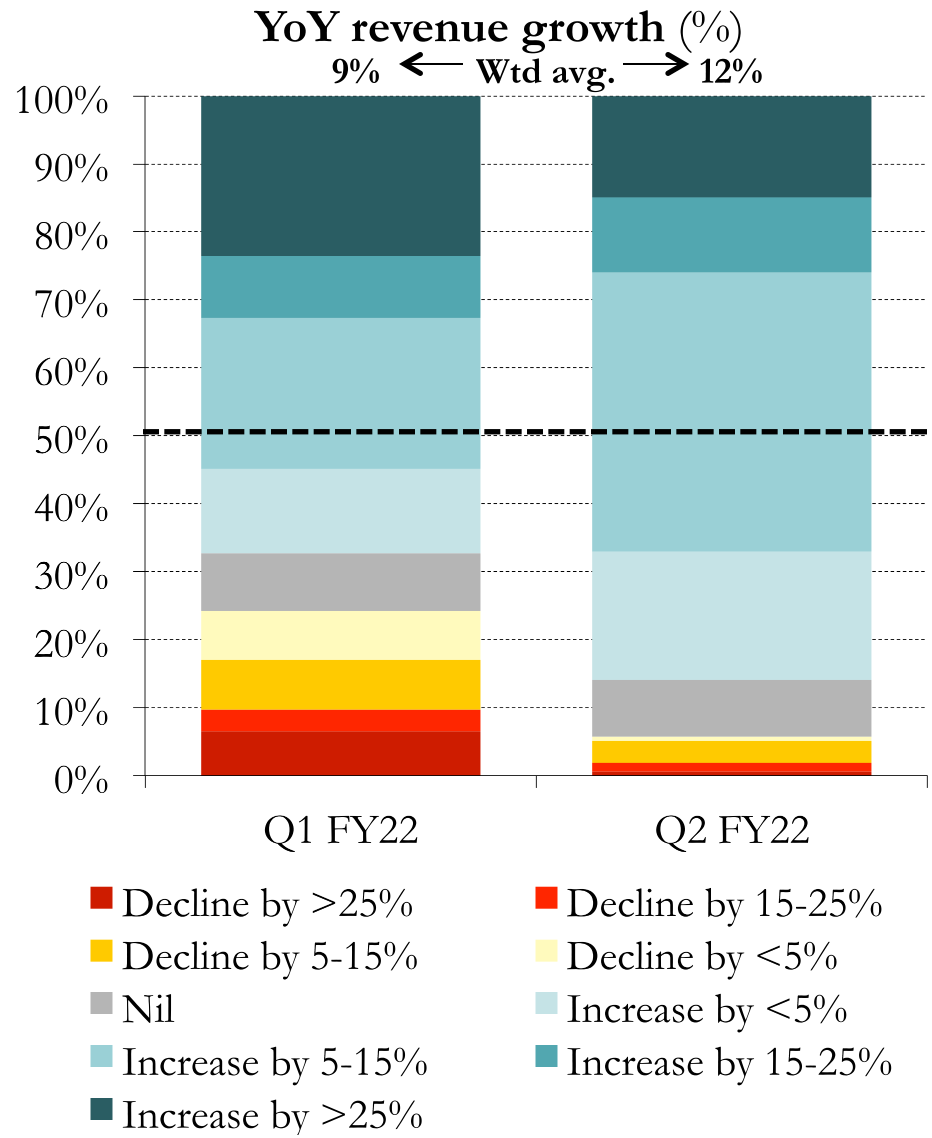
- For obvious reasons, a significant share of companies reduced their spending on advertising/marketing, team-building and travel in Apr-Jun.
- The bounce-back this quarter is projected to be V-shaped on all three counts.

** All data points in this chart refer to quarter-on-quarter (QoQ) changes*

Revenue and Profit Growth

Revenue Growth: Actual and Expected

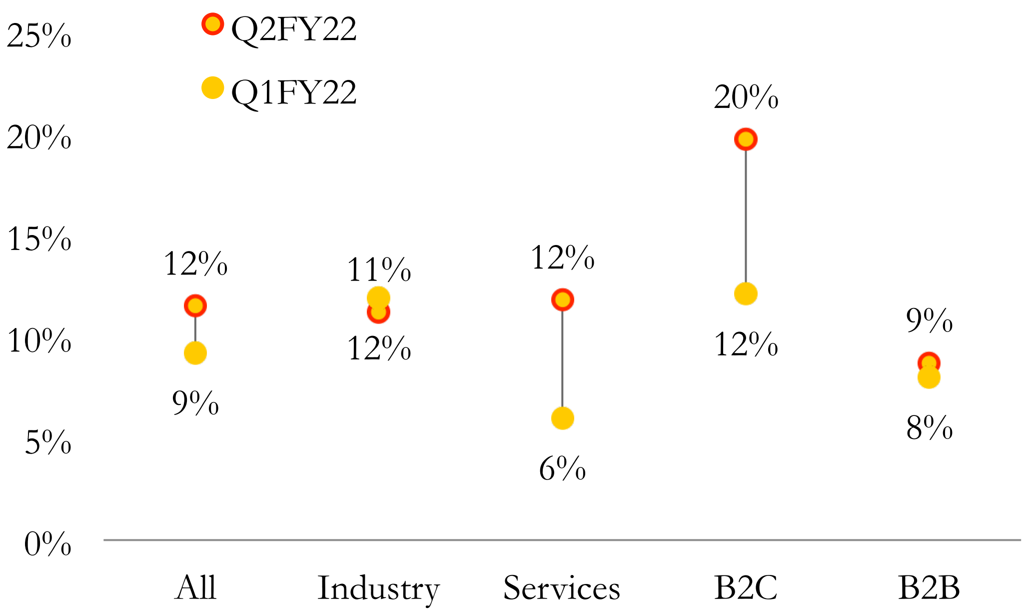
- Revenue growth projections are normalising, with fewer companies each quarter recording negative growth.
- In Q1, roughly 25% of firms de-grew, but this ratio is expected to fall to under 15% in Q2.
- Conversely, fewer companies (15%, compared to 24%) expect outsized (25%+) growth in Q2.
- On a weighted average basis, top-line growth is projected to be 12% in Q2, up from 9% in Q1.



Q1/Q2 Revenue Growth: By Group

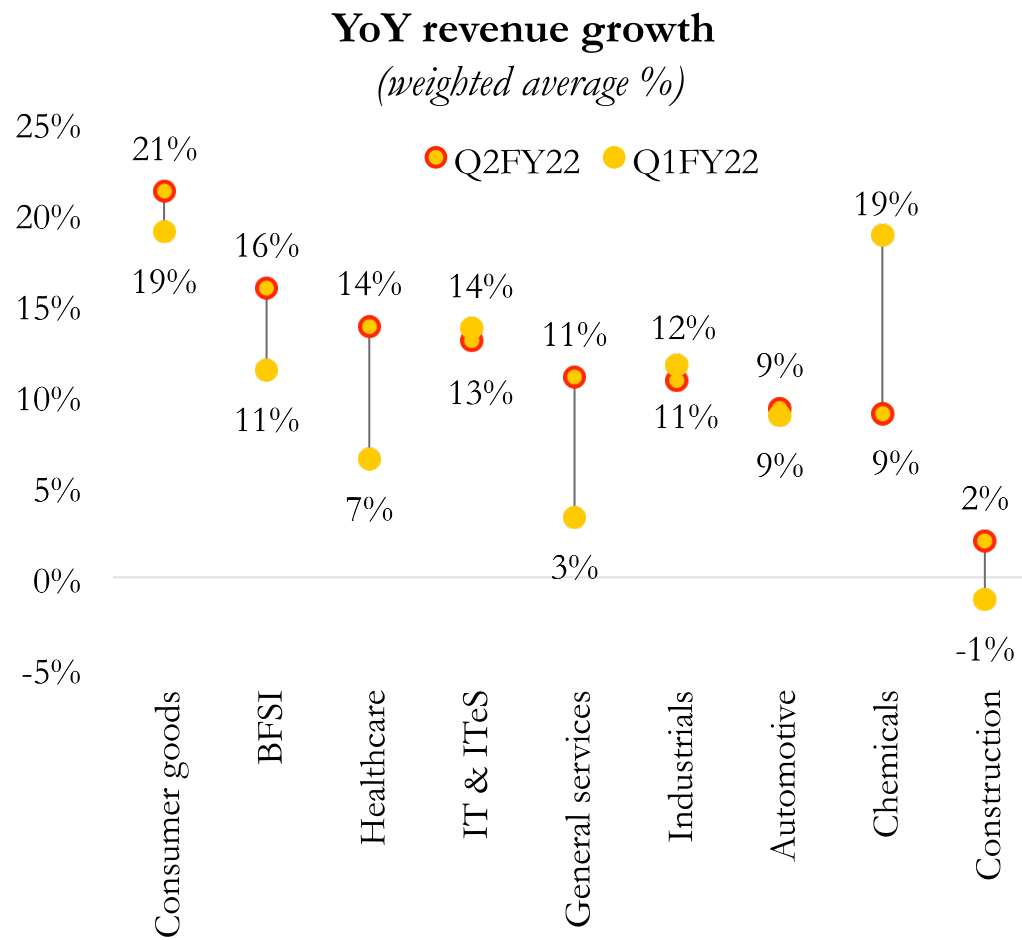
- On average, services companies companies expect to do much better in Q2 than in Q1 – whereas industrial firms are projecting a slight plateauing of revenue growth.
- Buoyed by the easing of lockdowns, B2Cs anticipate an average revenue growth of 20% in Q2, up from 12% in Q1.
- B2Bs are much more circumspect, edging up from 8% to 9%.

YoY revenue growth
(weighted average %)



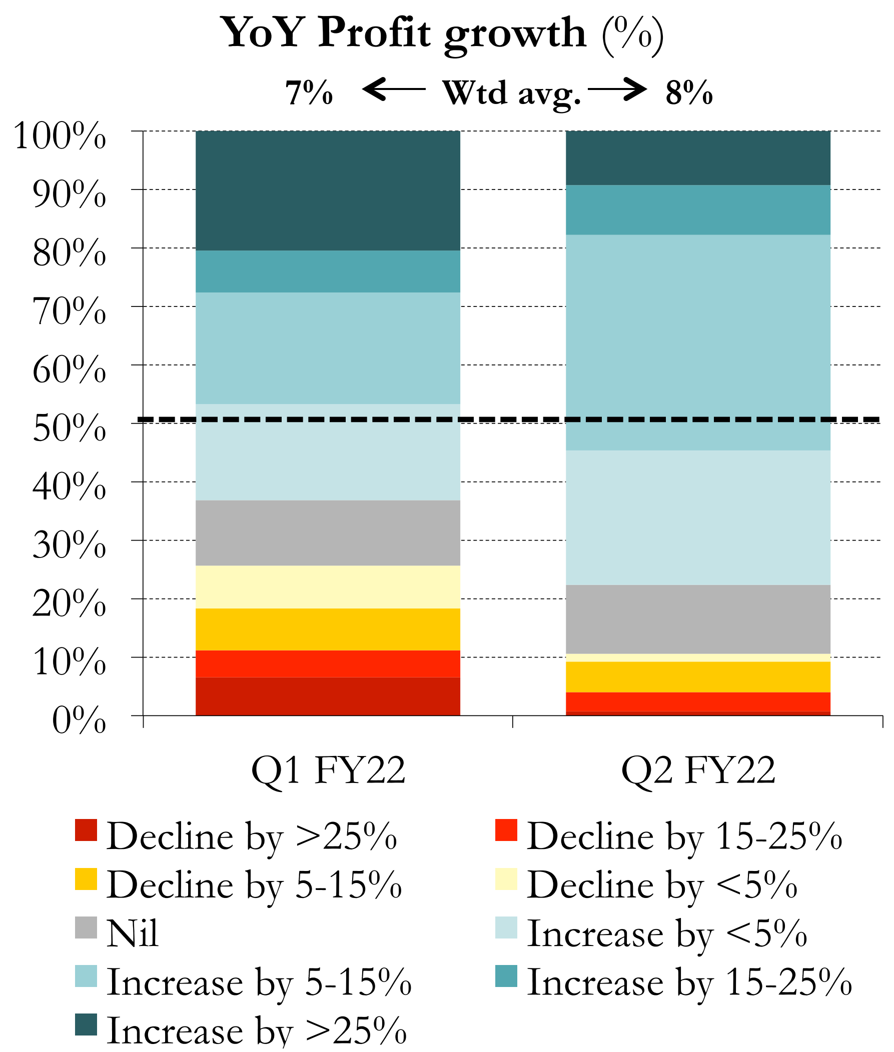
Q1/Q2 Revenue Growth: By Sector

- Most sectors expect Q2 revenue growth to be stronger than Q1's, with **chemicals, IT/ITeS and industrials the exceptions to the rule.**
- Construction companies forecast only mildly-positive growth, up from -1% in Q1.
- Consumer goods are forecasting the fastest growth rates, but presumably, this comes on the back of a negative base from last year.
- Fresh lockdowns dampened auto sales growth in Q1; in Q2, last year's high base will cap growth at ~10%.



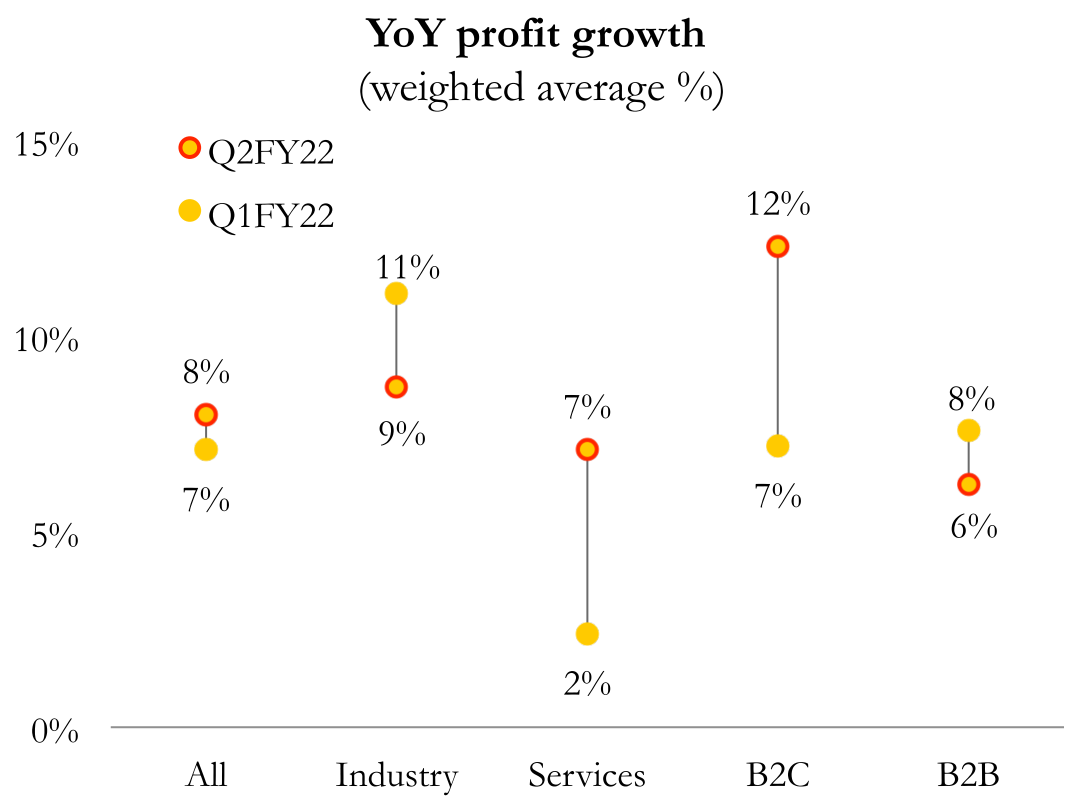
Profit Growth: Actual and Expected

- Net profit growth has also moved upwards, but at a more measured pace than sales.
- 26% of firms saw profits de-grow in Q1, but this ratio is expected to just 11% in Q2.
- At the other end of the scale, however, fewer companies expect 25%+ profit growth in Q2 than saw it in Q1.
- The bulk are seeing middling (5-15%) growth, with the weighted average moving up from 7% to 8%.



Q1/Q2 Profit Growth : By Group

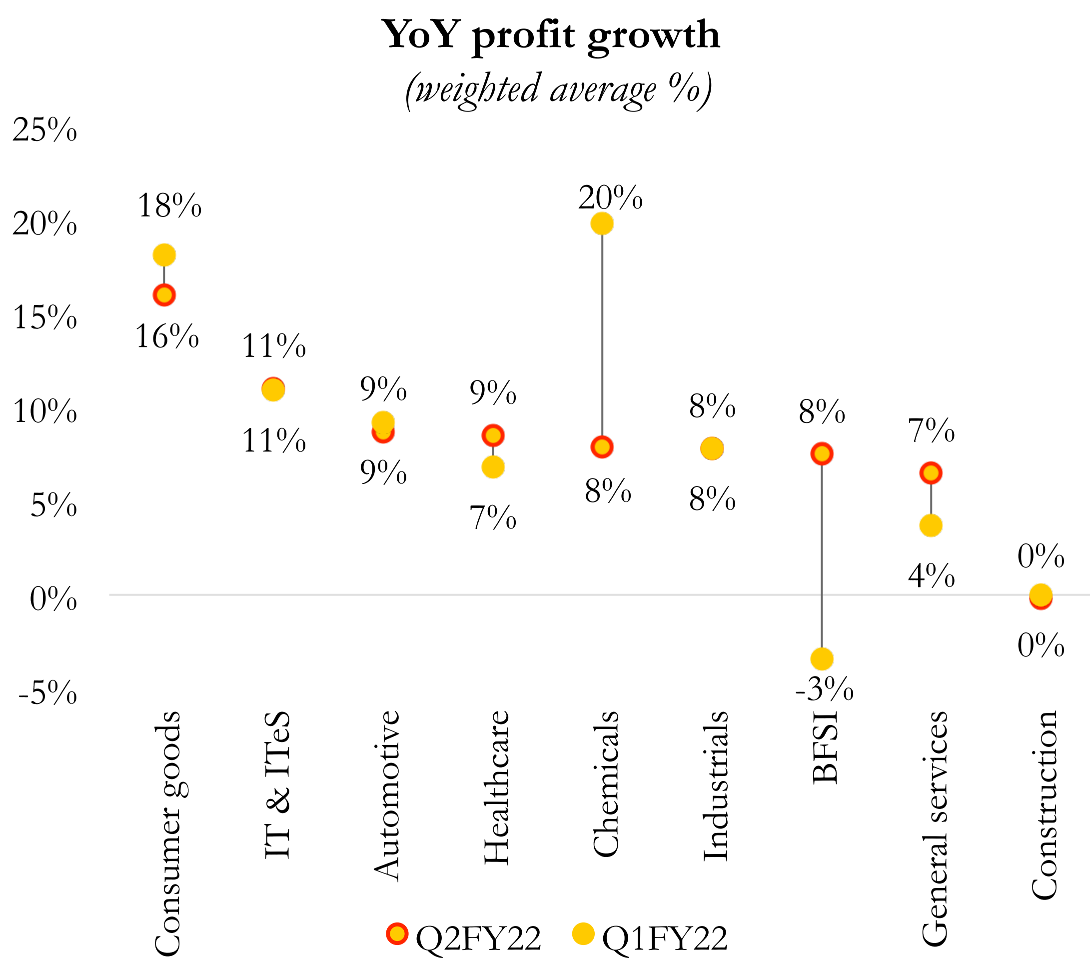
- Services companies expect a big increase in profit growth between quarters. Industrial companies are ahead in absolute terms but are expecting a decline in profit growth.
- B2Cs are projecting a big improvement in profit growth – from 7% to 12% - while B2Bs actually expect a small decrease, from 8% to 6%.



Q1/Q2 Profit Growth: By Sector

IMA

- Construction firms are on average seeing little or no net profit growth, while chemical companies are witnessing a sharp pull-back, falling from 20% to 8%.
- Conversely, BFSIs expect a recovery in profit growth this quarter.
- Consumer goods companies are all projecting a fall in profitability between Q1 and Q2, but from a high level.

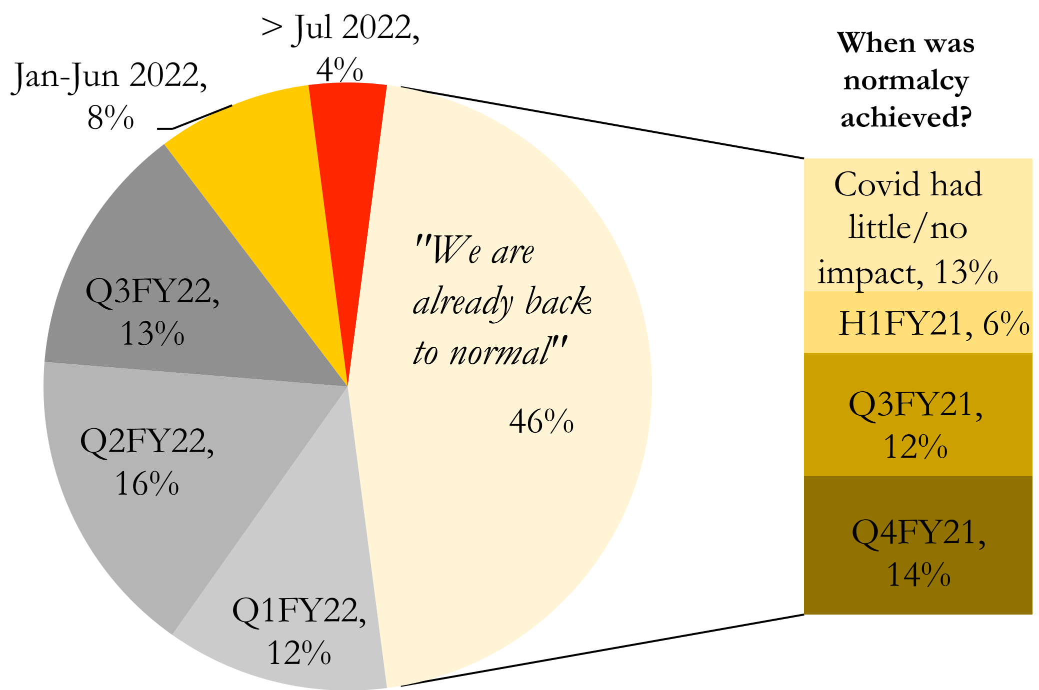


Return to Normal

When will Businesses Return to Normal?...

- Nearly half (46%) of companies report that they had already achieved 'normalcy' – most did so in the second half of FY21 – before the second wave hit.
- Another 28% had expected to regain BAU levels by the first half of the current fiscal.
- A significant minority (25%) felt that it would take until the third quarter of FY22, or later, for normalcy to be achieved.

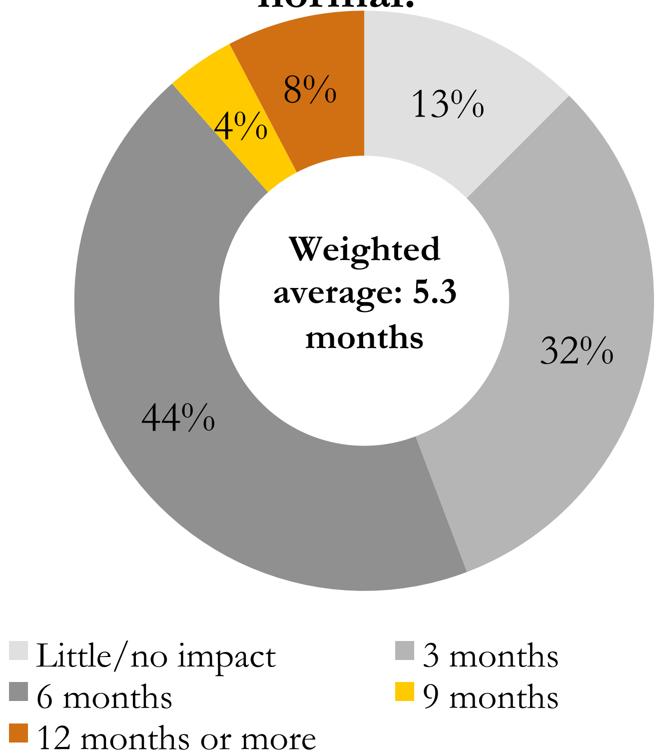
Expected timeframes for 'return to normal' *(pre-Second Wave assessment)**



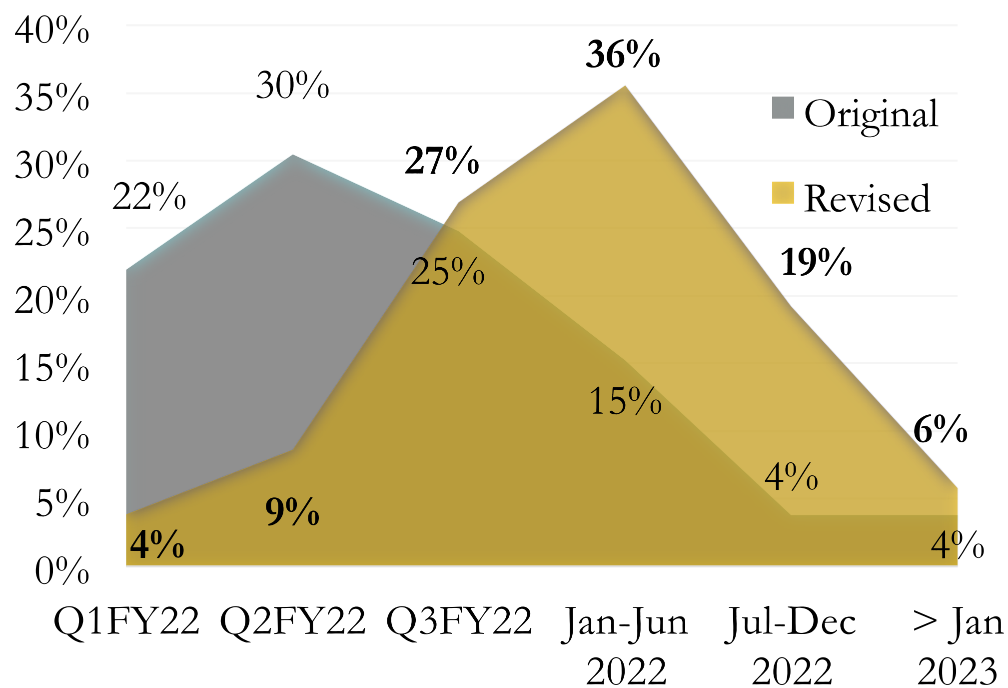
** Businesses were asked for their baseline forecast of how long it would take to return to normal (defined as pre-Covid business volumes) before the impact of the second wave was factored in*

…and how has Wave 2 Changed this?

By how long has the second wave pushed back the return to normal?



Original and revised timeframes for return to normal* *(% of companies)*



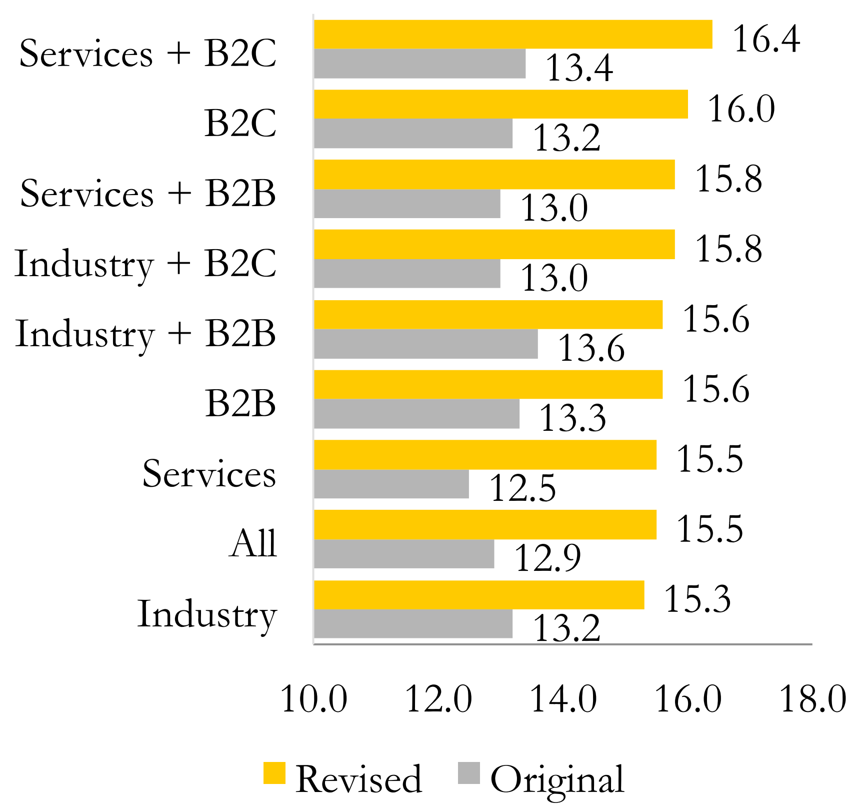
** This group only includes companies that had not achieved normalcy by April 2021*

On average, for companies that were not yet at BAU in April 2021, the second wave has pushed back the 'return to normal' by a little over 5 months. 36% may have to wait until Jan-Jun 2022, and another 25% until at least the second half of 2022.

The Return to Normal: By Group…

- Whereas 'non-BAU' companies say that it will take 5.3 months *longer than previously thought* to regain normalcy, industry as a whole has suffered a smaller, 2.6-month hit.
- Measured from the *start of the first lockdown* (end-March 2020), the average company – including those that were *at* BAU by Q1 – *had* expected to return to normalcy in 12.9 months, i.e. April 2021.
- The second wave has increased this to 15.5 months (July).
- B2Cs in general, and services-oriented B2Cs in particular, have taken the biggest hit. Industrial companies are generally better off than services firms.

Months taken to 'return to normal'

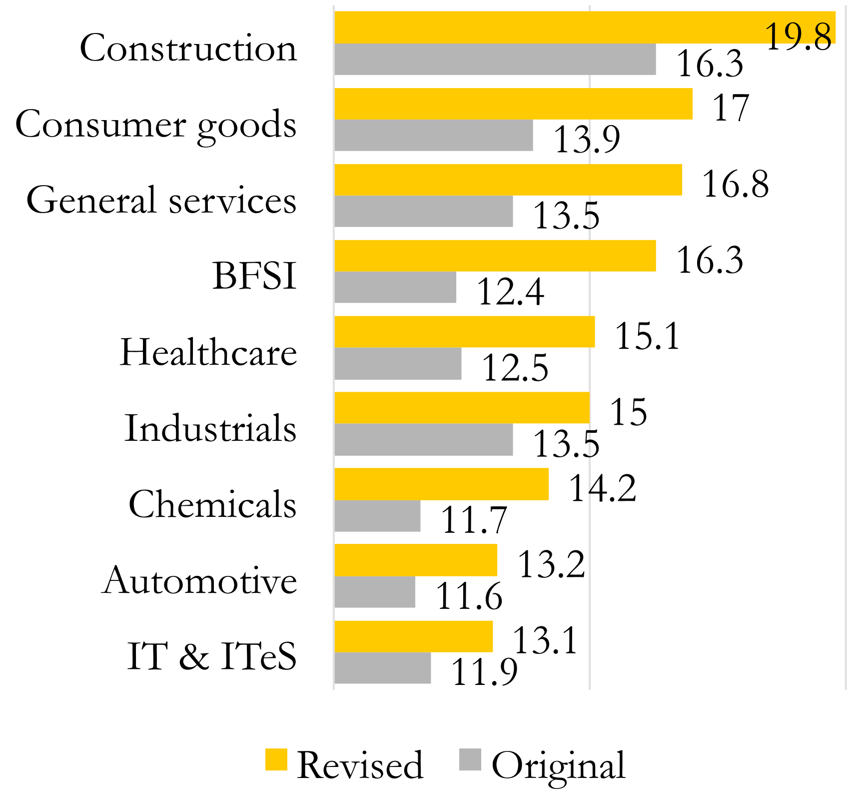


** Weighed average of estimated number of months taken to recover to pre-Covid levels, from end-March 2020. Includes all companies, even those who say they were 'back to normal'*

…and by Sector

- Across sectors, the second wave has pushed back the timelines for normalcy to be achieved, mainly by 3-4 months.
- Construction companies are now looking at a ~20 month horizon (November 2021), compared to 16 months (July 2021).
- At the other end, automotive companies are already on the cusp of normalcy, with a revised timeframe of 13.2 months (July 2021).

Months taken* to return to normal'



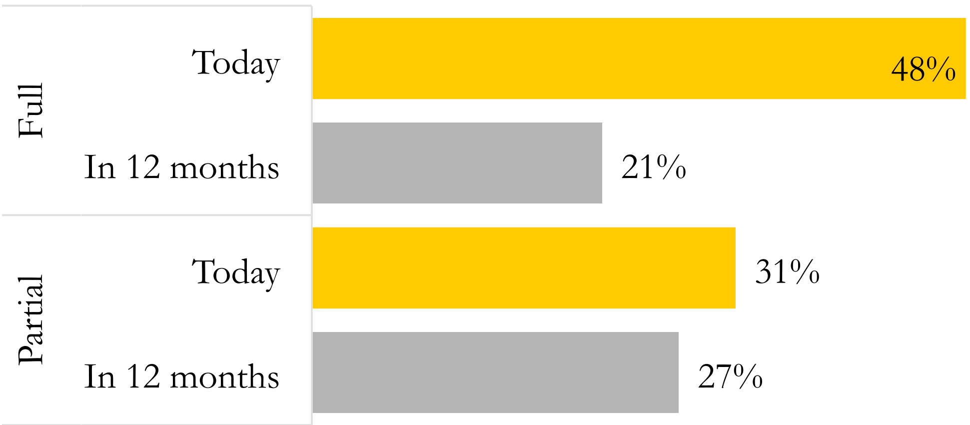
** Weighed average of estimated number of months taken to recover to pre-Covid levels, from end-March 2020. Includes all companies, even those who say they were 'back to normal'*

Work From Home

WFH Shares: Actual and Forecast

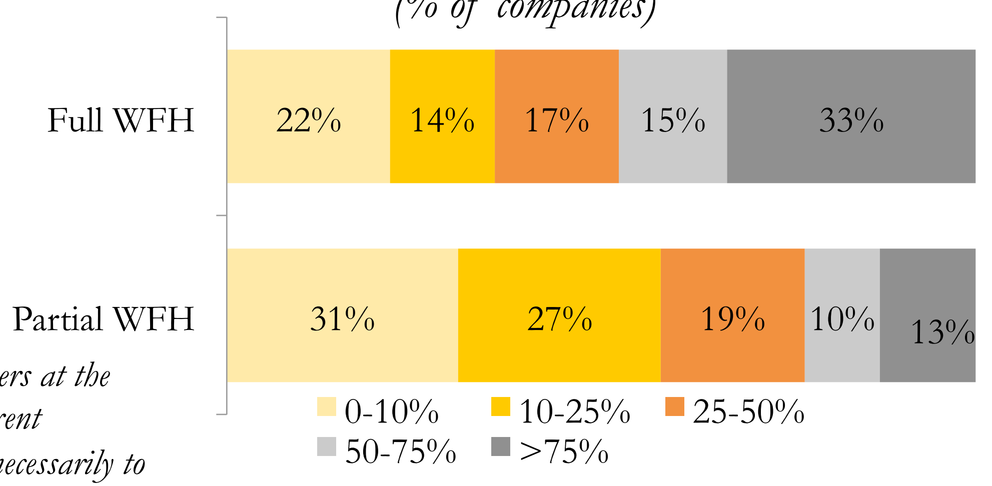
- On an aggregate, weighted-average basis, 48% of the workforce at the typical company is currently working from home on a full-time basis. One-third of companies report that 75% or more of their workforce is doing so.
- 31% of workers, on average, are doing a partial WFH*.
- These ratios are projected to fall to 21% and 27%, respectively, a year from now – strongly suggesting that hybrid work models are here to stay.

WFH shares: Today and in 12 months



Current WFH shares: Full and Partial

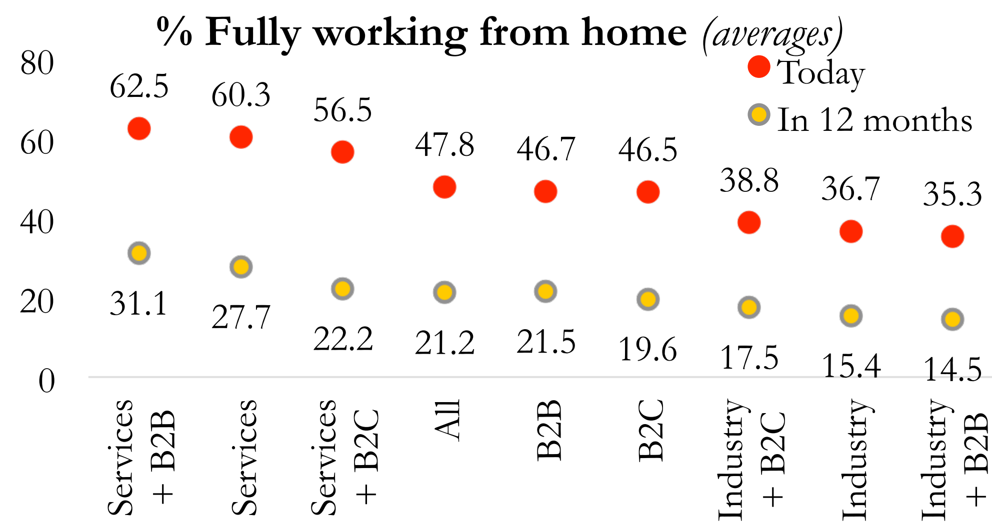
(% of companies)

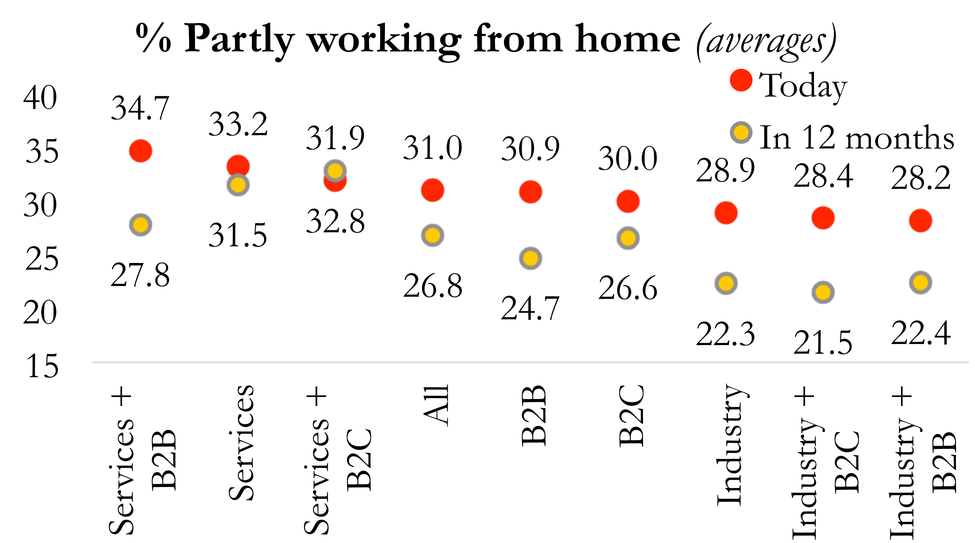


** It would be incorrect to conclude that 79% (48%+31%) of workers at the average company are either partly or fully working from home. Different companies may have responded to one question or the other, but not necessarily to both*

WFH Shares: By Group

- As would be expected, services companies have considerably higher WFH shares than industrial firms – both today and expected 12 months from now.
- However, the fact that even manufacturing-intensive companies see ~15% of their workforce in a fully WHF mode, and another ~22% working partly from home next year, suggests that they are open to flexible models of work.

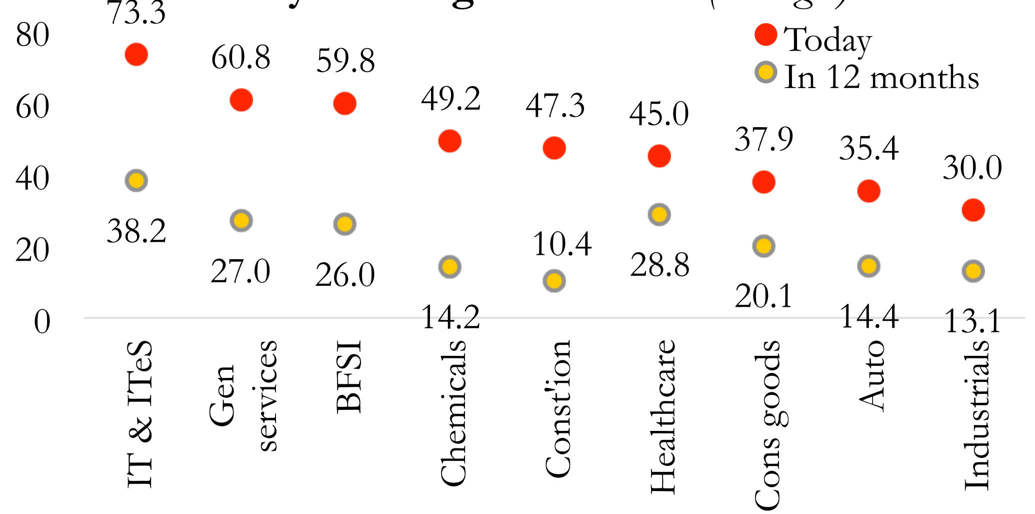




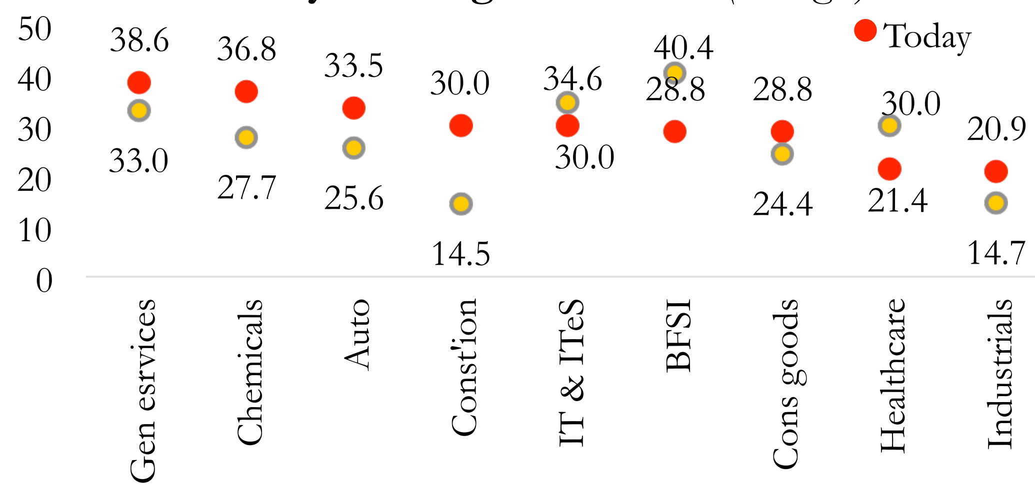
WFH Shares: By Sector

- By a long distance, IT & ITeS companies have the biggest share of their workers in a fully WFH mode.
- General services and BFSI firms come next – and expectedly, auto and industrial firms are at the other end of the scale.
- The differences narrow significantly when it comes to partial WFH shares.
- WFH shares are expected to shrink in the next 12 months, but will remain significant in several industries. Partial WFH may actually *increase* in IT/ITeS, BFSI and healthcare.

% Fully working from home *(averages)*



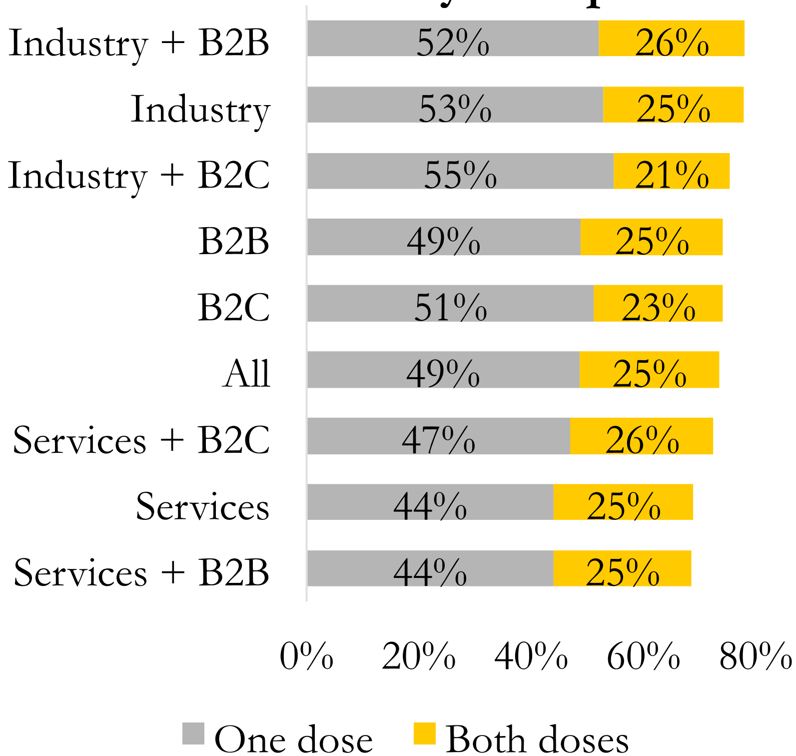
% Partly working from home *(averages)*



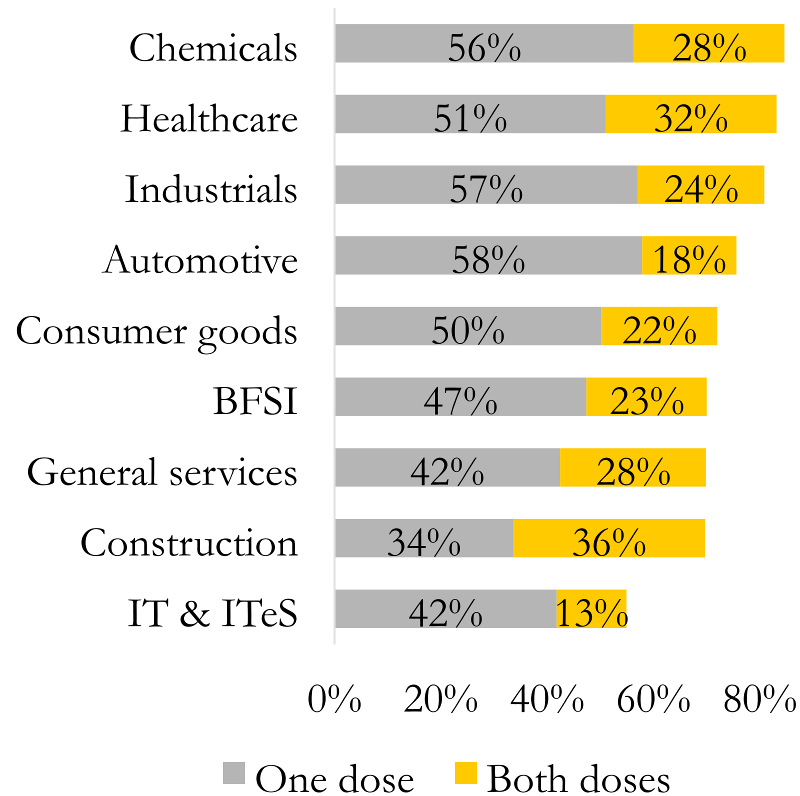
Vaccination Policies and Measures

Vaccination Rates…

Average % of workforce vaccinated: By Group…



…and sector

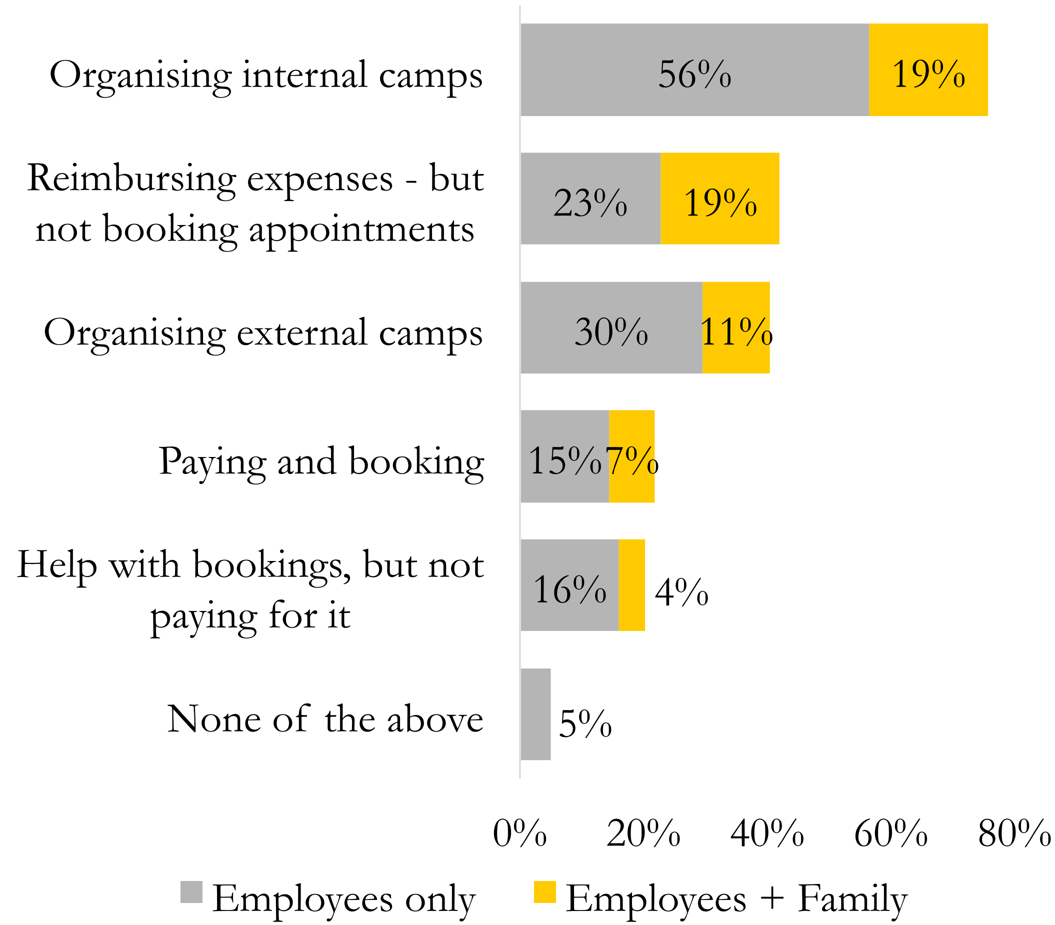


As of today, industrial companies are generally ahead of services-oriented ones in terms of the share of the workforce that has been vaccinated. As might be expected, there is a strong inverse correlation between vaccination rates and WFH shares.

…and policies

- Businesses are using a variety, and often a combination*, of measures to get their employees vaccinated.
- 75% are organising in-house camps for employees – of which about a quarter are extending the benefit to families
- 45% are paying for vaccinations, and about 20% each are either helping with bookings but not paying, or else both paying for and booking appointments.
- A small minority (5%) report that they are not actively taking any steps to vaccinate their people.

What are you doing to get your employees vaccinated? *(% of companies)*

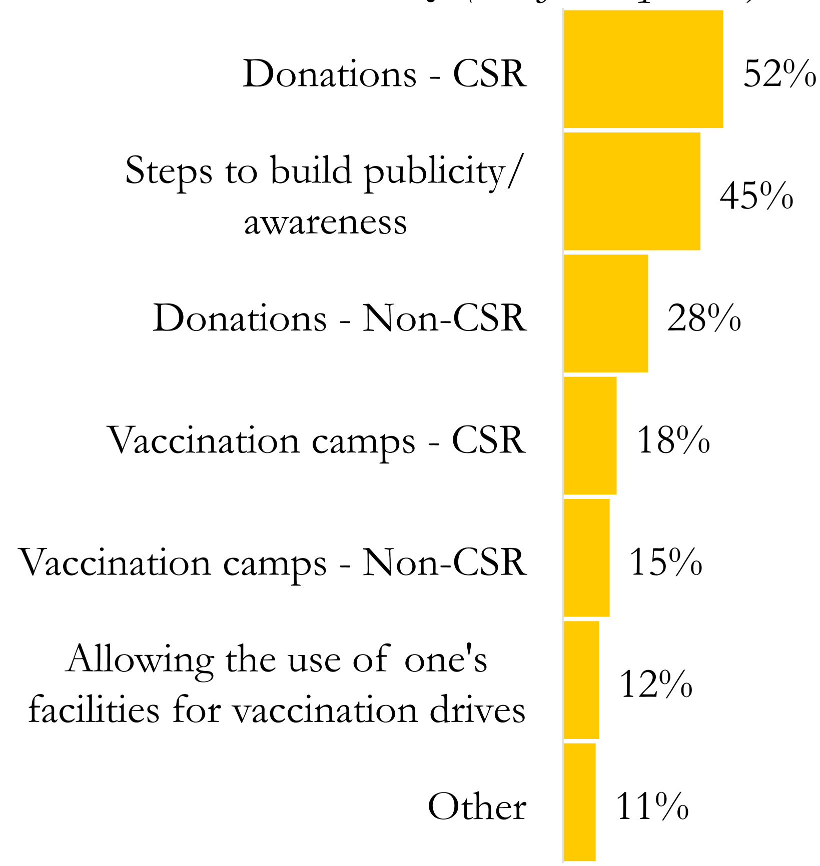


** These options are not mutually exclusive, and respondents were allowed to tick multiple choices*

Reaching out Beyond the Workplace (1/2)

- Just over half of all companies are donating CSR funds to vaccine-related initiatives. Many are also trying to ‘spread the word’ to help overcome vaccine hesitancy.
- About a quarter have or will make donations above and beyond their CSR obligations, and ~33% are organising vaccination camps, either within or outside their CSR budget.
- A fair number are also allowing the use of their facilities for vaccination drives.
- Other initiatives include donations of medical equipment or food.

Measures to vaccinate the wider community *(% of companies)*



Reaching out Beyond the Workplace (2/2)

% of companies

	Donations		Publicity / awareness building	Vaccination camps		Allowing the use of one's facilities for vaccination drives	Other
	CSR	Non-CSR		CSR	Non-CSR		
All	52%	28%	45%	18%	15%	12%	11%
Industry	59%	27%	43%	23%	18%	12%	13%
Services	44%	29%	47%	12%	12%	12%	8%
Automotive	64%	36%	43%	21%	21%	0%	21%
BFSI	47%	37%	32%	21%	11%	0%	0%
Chemicals	77%	46%	54%	8%	31%	23%	15%
Construction	40%	20%	70%	30%	50%	60%	10%
Consumer goods	69%	8%	31%	31%	8%	0%	15%
General services	41%	31%	51%	13%	15%	18%	8%
Healthcare	42%	33%	33%	17%	8%	17%	17%
IT & ITeS	67%	13%	33%	7%	7%	7%	7%
Industrials	53%	15%	50%	18%	12%	9%	12%

There is great uniformity, across sectors, in terms of community-outreach measures, with some exceptions: (1) Relatively few services companies are making CSR-linked donations; (2) Construction firms and chemical manufacturers are spending more on awareness building than others; construction firms are also organising vaccination camps and allowing the use of their own facilities for such drives.

The Q2 FY22 BCPI: Key take-aways

- With Covid's second wave retreating, the headline BCPI has risen 6 points in Q2 FY22, to a robust 66.6. The macro index has jumped ~20 points.
- Q1 was much weaker than expected in terms of business performance, but expectations are high that sales, new orders, profitability and capacity utilisation rates will be stronger in the present (Jul-Sep) quarter.
- Wave 2 has stretched the timelines for a 'return to normal' – by an average of 5.3 months for companies that were *not yet at BAU* as of April 2021, and 2.6 months for all respondents (including those who were already at BAU).
- Automotive, consumer-goods and general services firms are the cheeriest about Q2, thanks to reviving consumer sentiment and fewer operating restrictions. Chemical, healthcare and construction are more guarded.
- WFH shares remain high (particularly in IT/ITeS), with 48% of workers at the average company still working entirely from home, and 31% partly so.
- On average, some 75% of workers have received at least one dose of the vaccine and this varies inversely with WFH ratios.

International Market Assessment India Private Limited
107 Time Square, Sushant Lok I
Gurgaon, Haryana 122002
www.ima-india.com