

**The Q1 FY22
Business Confidence and Performance Index
(BCPI) Report**



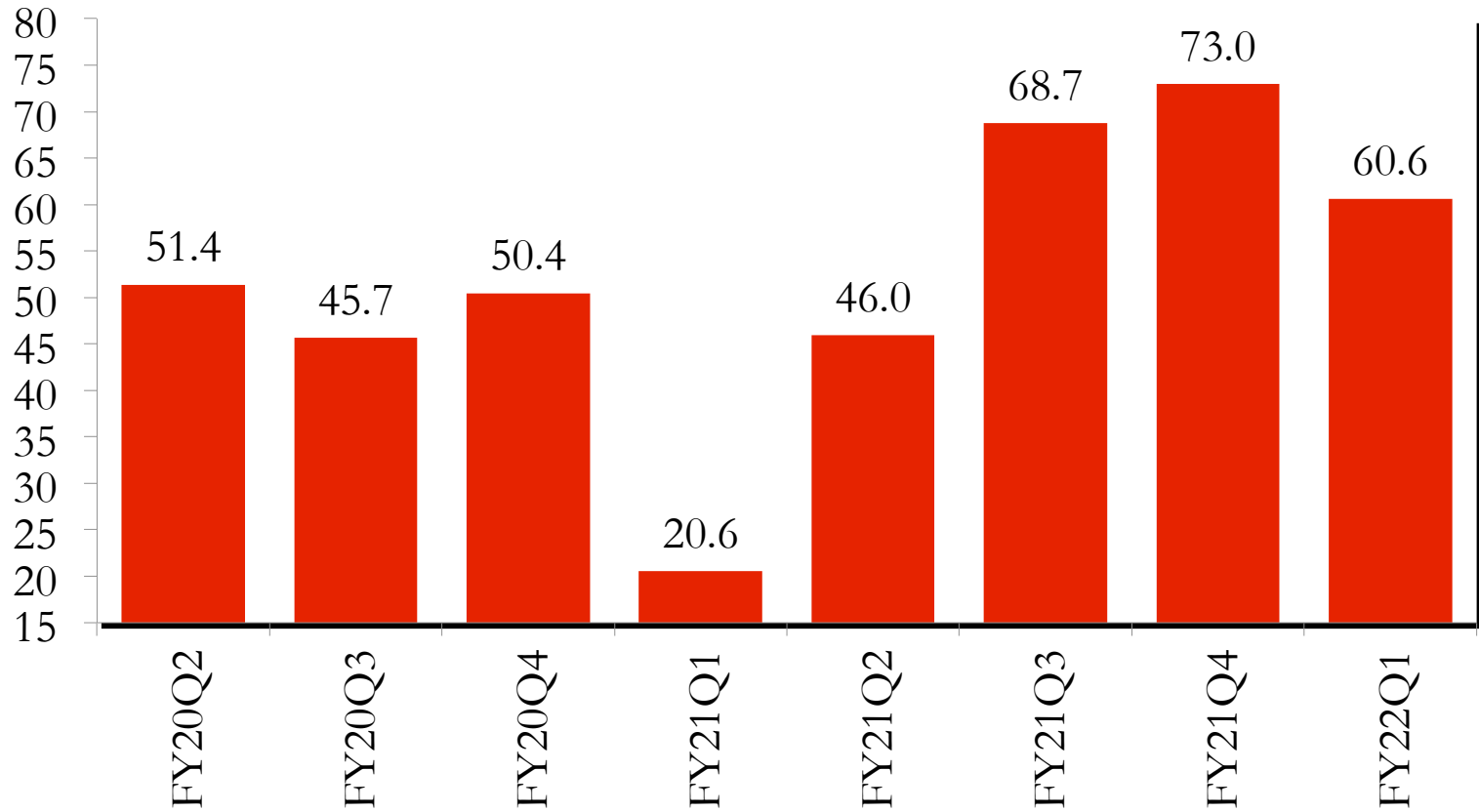
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- Over **230** CEOs and CFOs responded to our quarterly BCPI survey, run in **April 2021**
- Respondents were asked to indicate the following:
 - ❖ Their outlook on **current and future (3 months from today) macroeconomic conditions**
 - ❖ **Business 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 range 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 Q1 FY22 BCPI: **Second-wave impact...**

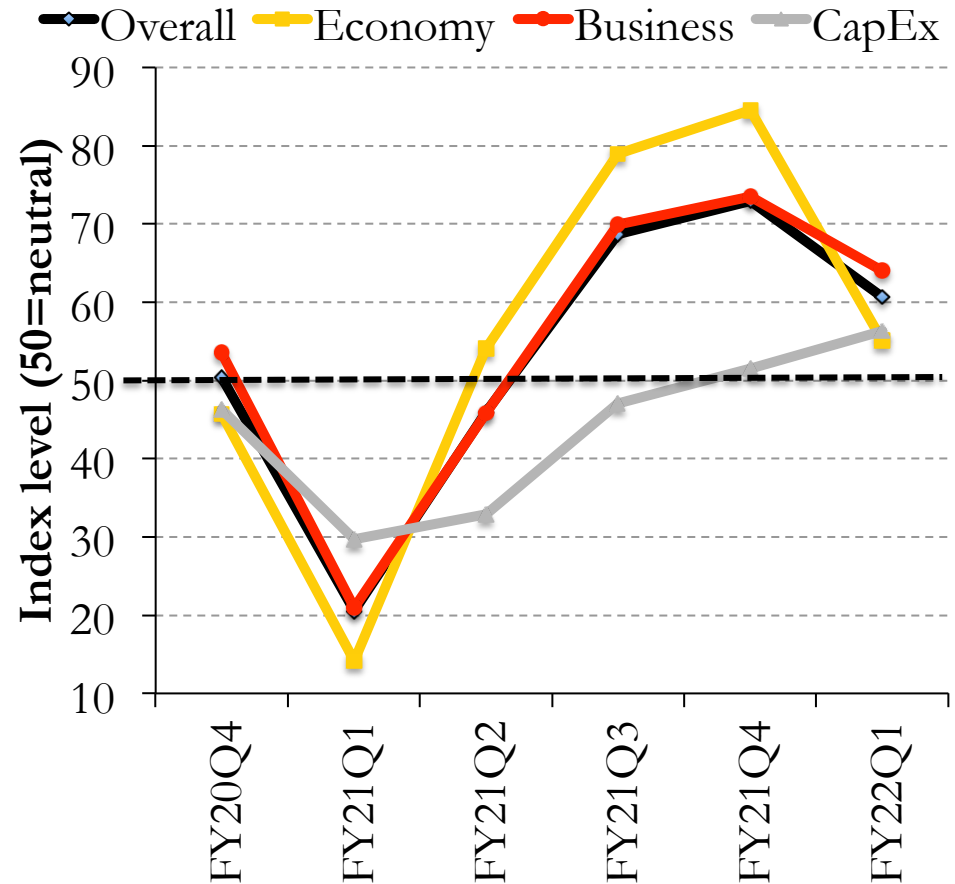


Having touched a new multi-year high of 73 in January, the BCPI headline index has fallen this quarter to a still-high 60.6. Pulling it down are Covid-related concerns and a tempering of business performance.

Capex sentiment continues to strengthen

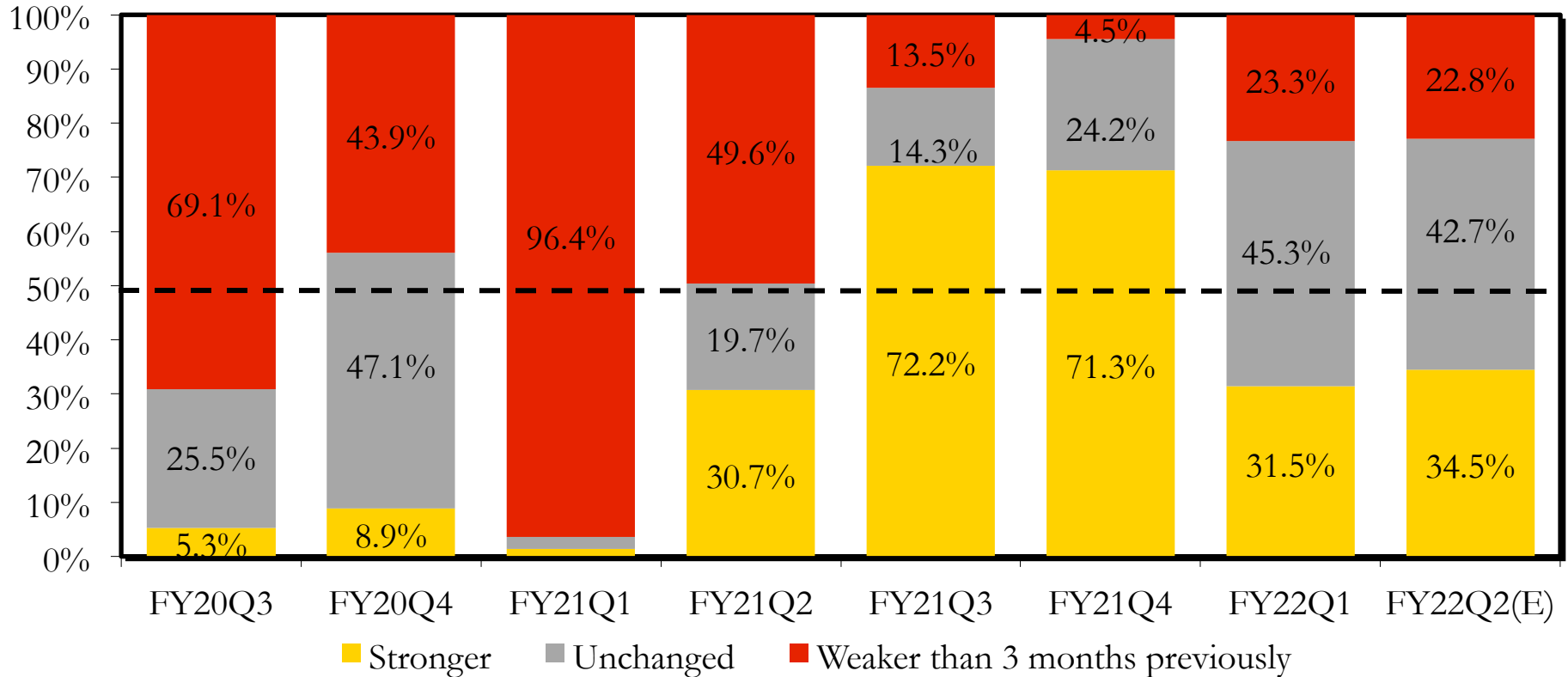


- The **headline index** is down by over 12 points, indicating some ‘normalisation’.
- The biggest drop is in terms of the **macro index**, which has plunged from over 80 to 55.
- The **business performance index** has fallen, too, but more gently, from the low 70s to the mid 60s.
- Significantly, the **capex outlook** continues to strengthen. It has moved up more firmly into positive territory, indicating that well over half of all businesses plan to put money on the ground.



The Macro Outlook:

Weakening



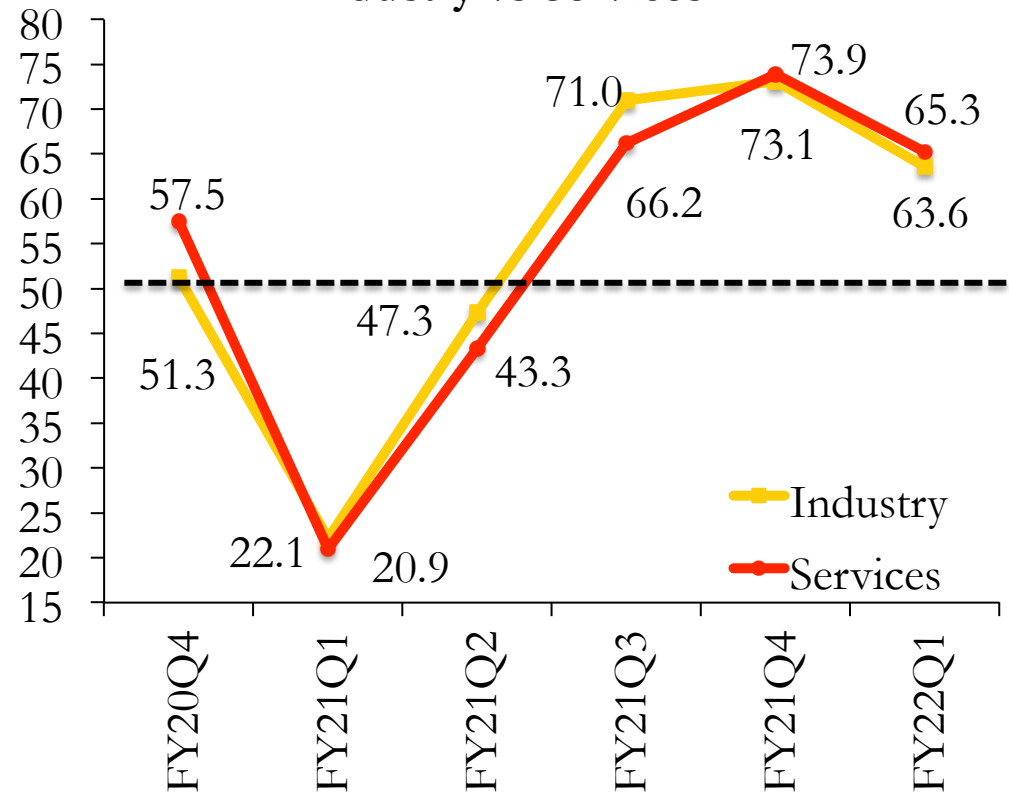
In January, 71% of companies said the economy had improved since October, and even more (73%) had expected further improvement by April. Today, however, those shares have dropped to about a third of all businesses, with a significant number (~23%) saying that the economy is weakening. However, things are still better than they were last April, with 85% saying that conditions have strengthened YoY.

Services – **overtaking** Industry (1/2)



- Early in FY21, for the first time in years, **industrial companies moved ahead of services in net optimism terms**, staying ahead for 3 quarters in a row.
- However, both in January (Q4 FY21) and now (Q1 FY22), **services firms have regained the 'lead'** but only marginally.
- These figures suggest that, while continuing to face demand- and supply-side issues, **services companies are on the road to recovery**. For manufacturers, the momentum appears to have eased a bit.

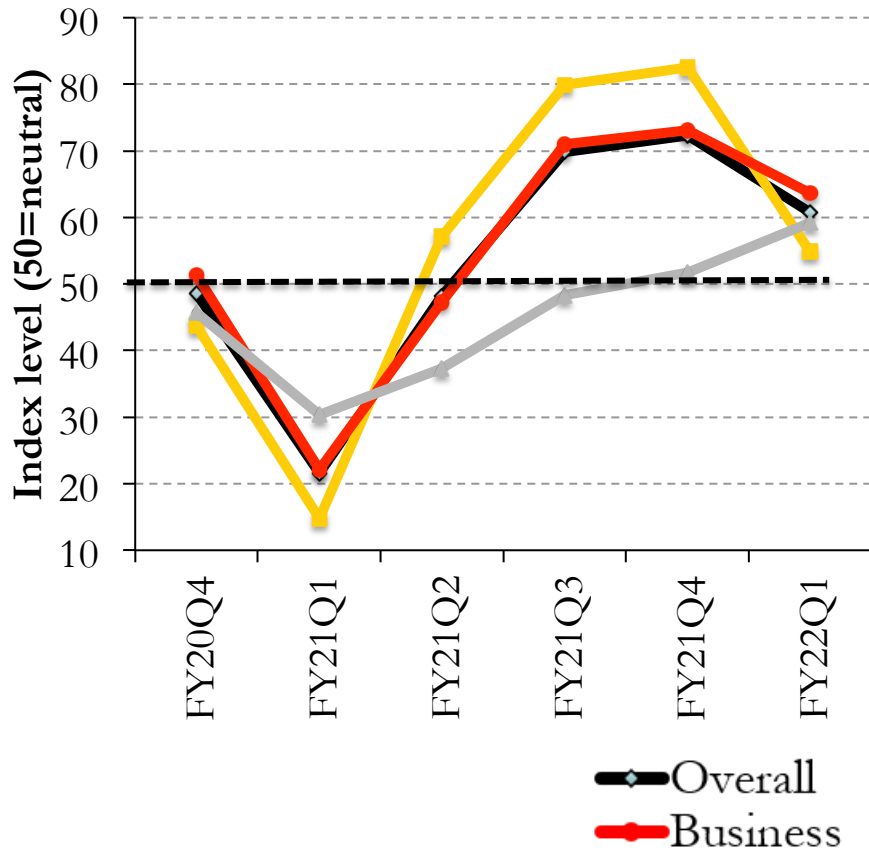
Headline BCPI index:
Industry vs Services



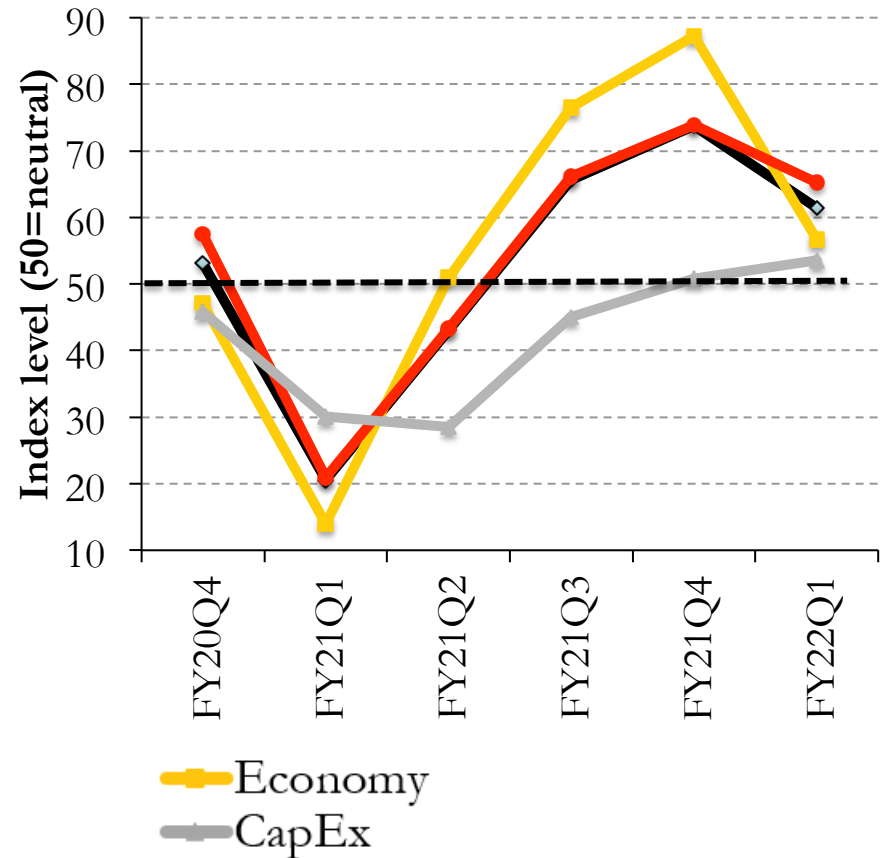
Services – overtaking Industry(2/2)



Industry



Services

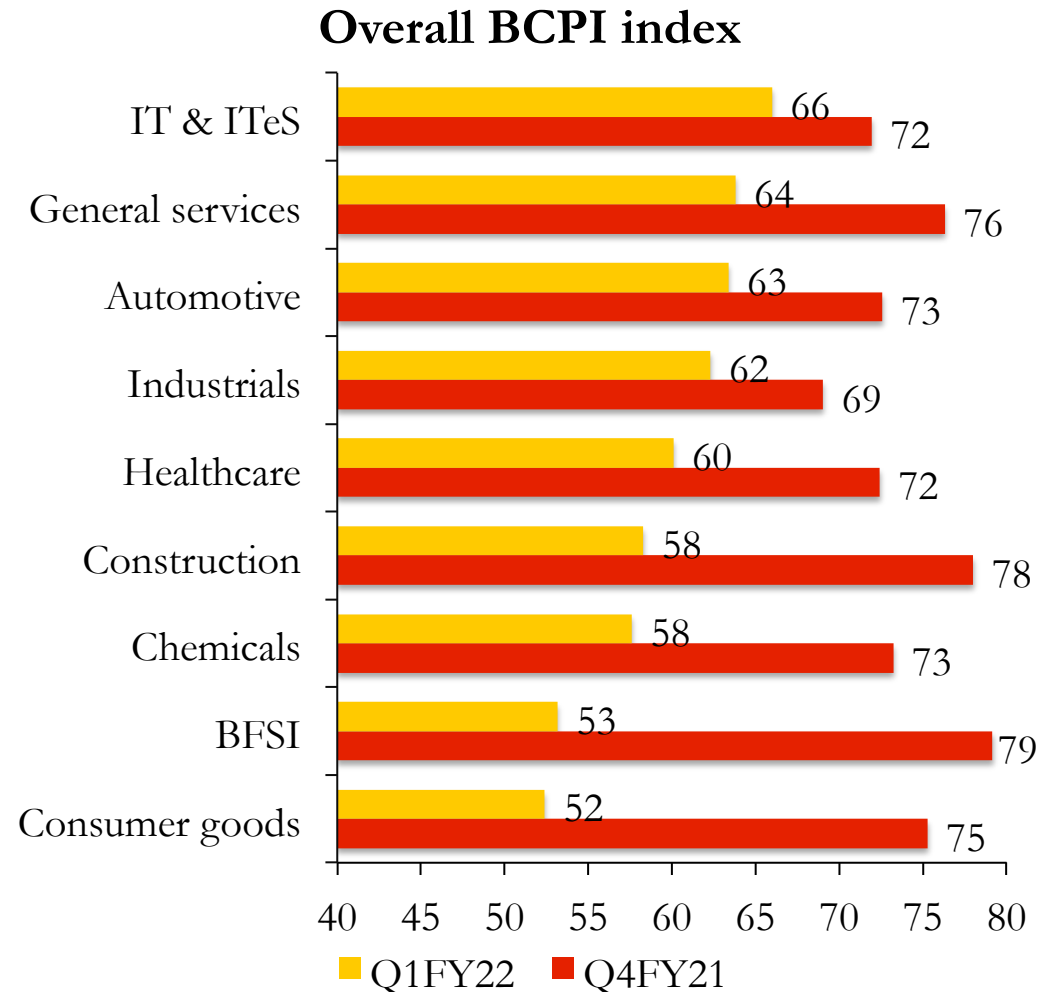


- Services companies are slightly ahead in terms of business performance.
- Manufacturers are more bullish on capex but about the same as services on the macro-economic view.

Sector-wise expectations: Pulling back



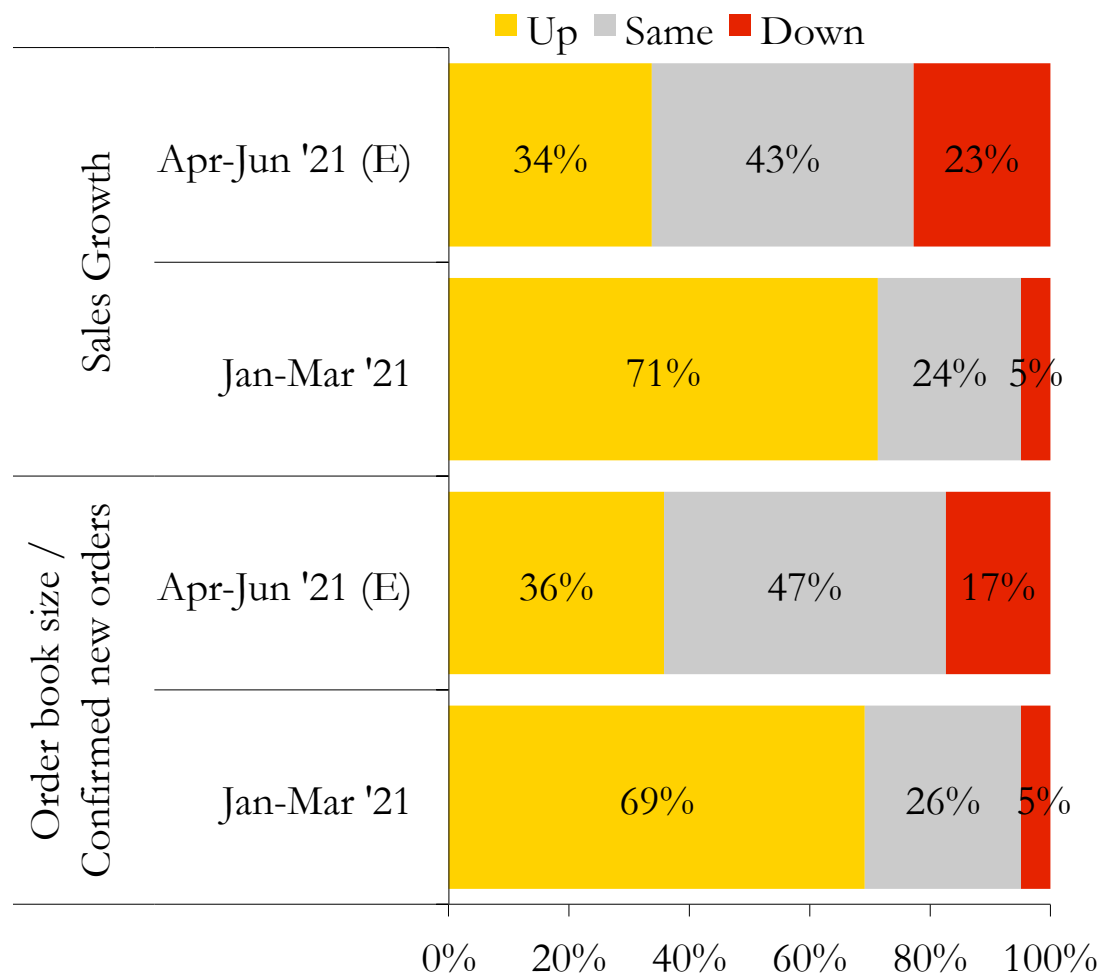
- Across sectors, there is a **sharp pullback** in the headline indices, but nowhere more so than among **BFSI** and **consumer goods firms**, which are both *down* by over 20 points QoQ.
- **Construction** is down nearly as much but is better in absolute terms (58.3 compared to 52-53).
- **IT/ITeS, general services, auto and industrial companies** have seen smaller drops and remain firmly above the 60 mark.



Business Performance

Sales and New Orders: Roadblocks ahead

- On a QoQ basis, 71% of companies saw stronger growth in terms of **sales** in Q4 of FY21 (Jan-Mar) and 69% in terms of **order books**.
- These **numbers broadly match the expectations** shared in our January edition, wherein 72% and 67% expected sales and new orders to gather pace.
- Q1 of FY22 (Apr-Jun) is likely to be markedly weaker**, with just over a third (34-36%) saying that sales/new orders will grow faster, and close to one-fifth of companies expecting de-growth.

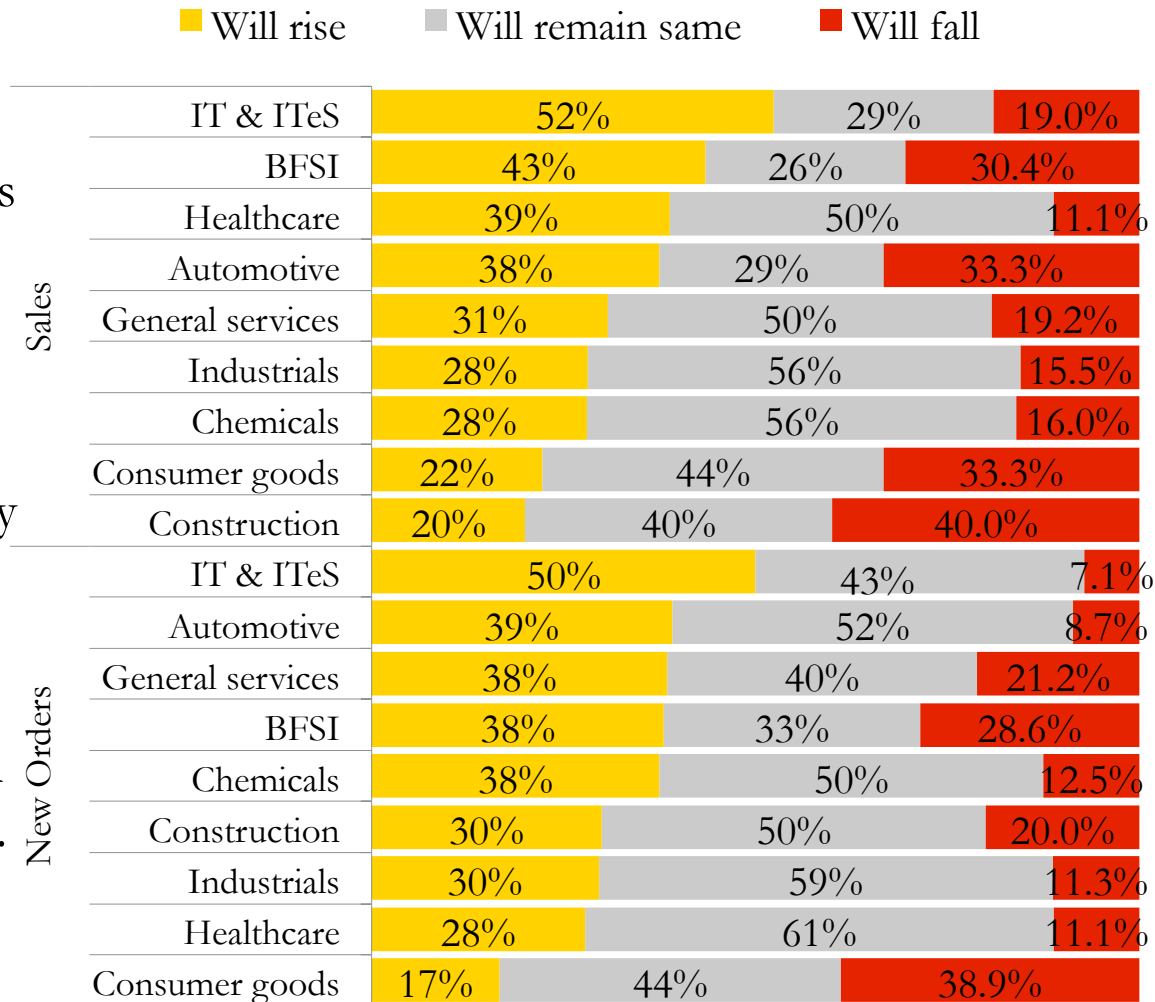


* All data points in this chart refer to quarter-on-quarter (QoQ) changes

Q1 Sales and New Orders: Sector-wise



- Half of all **IT & ITeS** firms expect stronger growth in Q1 than in Q4 of FY21. **BFSI** has held on to its second-place position on sales but is less optimistic about new orders.
- **General services** has moved down from top-spot in January to middle-of-the-road today.
- Significantly, in **4 of the 9 sectors we track**, 30% or more of companies expect Q1 to be weaker than Q4 on sales.
- **Consumer goods** is most pessimistic about sales; **construction** about new orders.

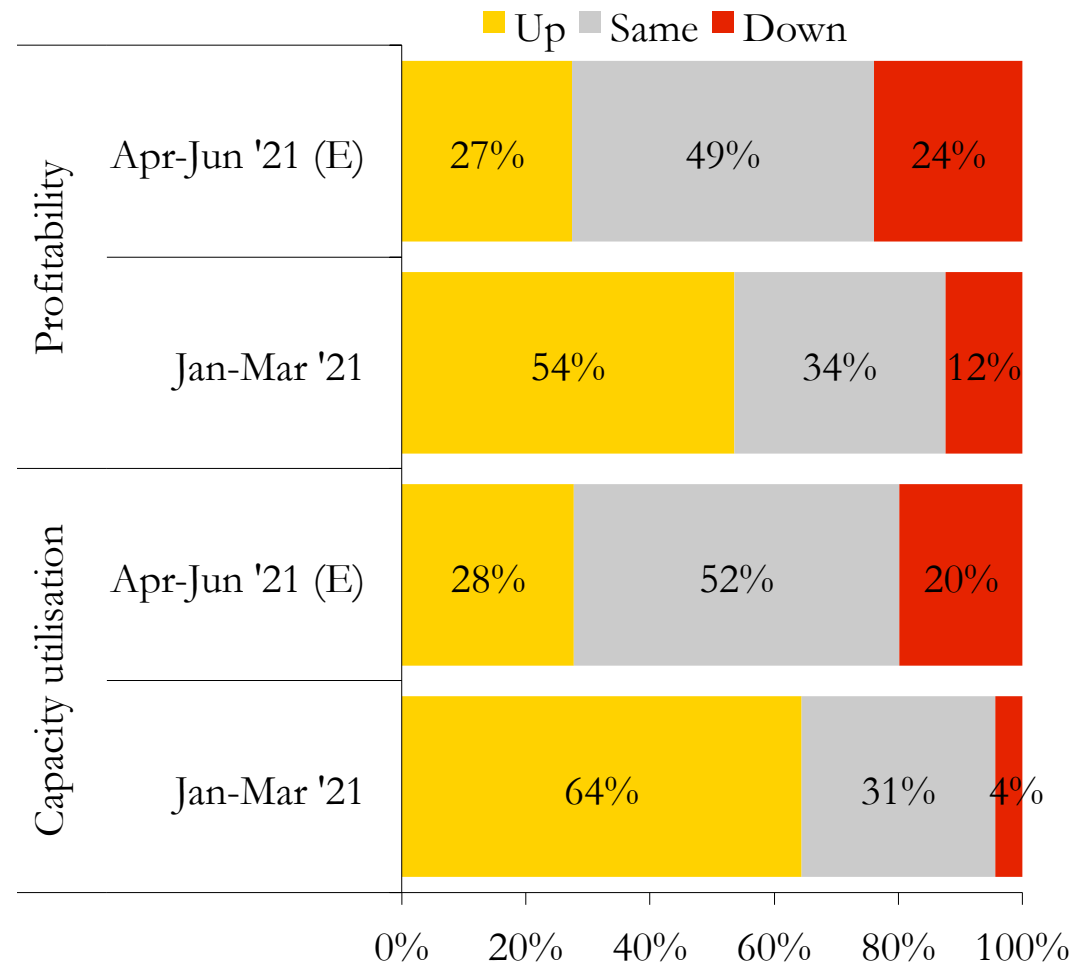


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Profitability, Capacity Utilisation: **Dipping**



- Our respondent companies generally did **better than expected** on both **profitability growth and capacity utilisation in Q4**.
- Three months ago, 49% and 53%, respectively, said that **Q4 would be 'better' than Q3** but the actual numbers were higher at 54% and 64%.
- The **June quarter is likely to bring a pronounced drop on both counts**. Just 27-28% of companies expect QoQ improvements, but over 20% anticipate a fall in profitability and/or capacity utilisation.

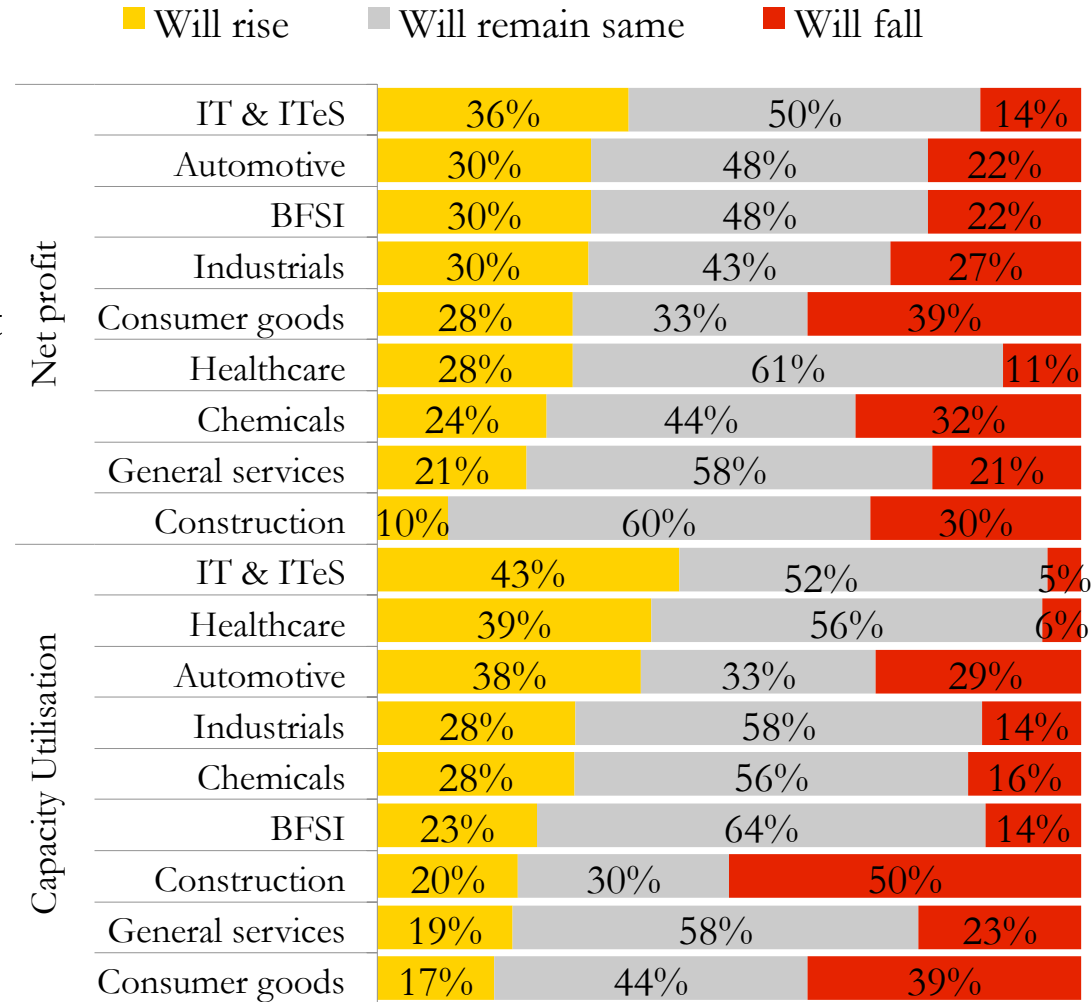


* All data points in this chart refer to quarter-on-quarter (QoQ) changes

Profitability, Capacity Utilisation: **By Sector**



- **IT & ITeS** companies are (comparatively) bullish about profit growth and capacity utilisation in the Apr-Jun quarter.
- **Construction firms** are the least optimistic, with just 10% expecting stronger net-profit growth and 50% seeing a *fall* in capacity utilisation in Q1.
- **Consumer goods** are under pressure on both counts.
- **Auto** is holding up on the net-profit front but less so in terms of capacity utilisation.

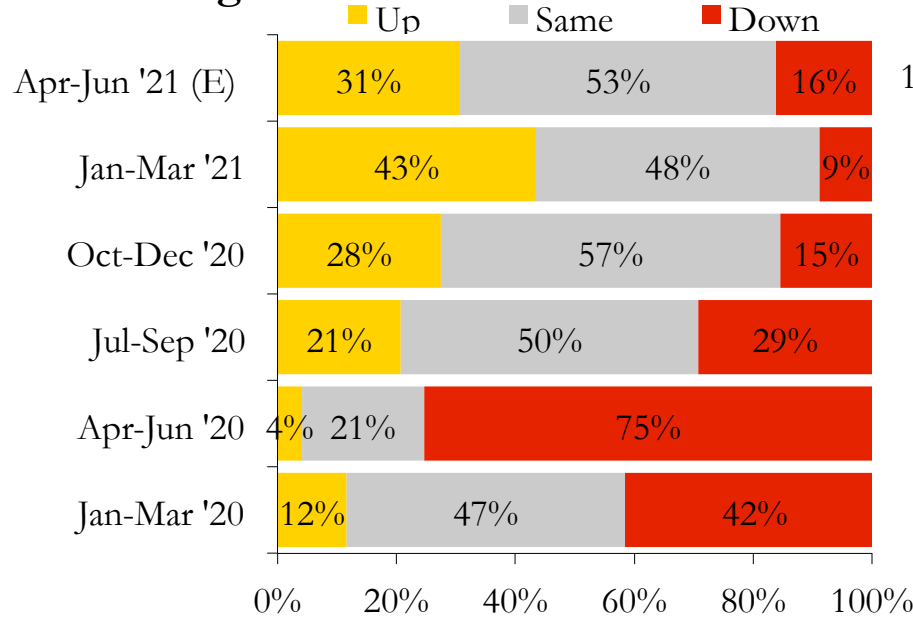


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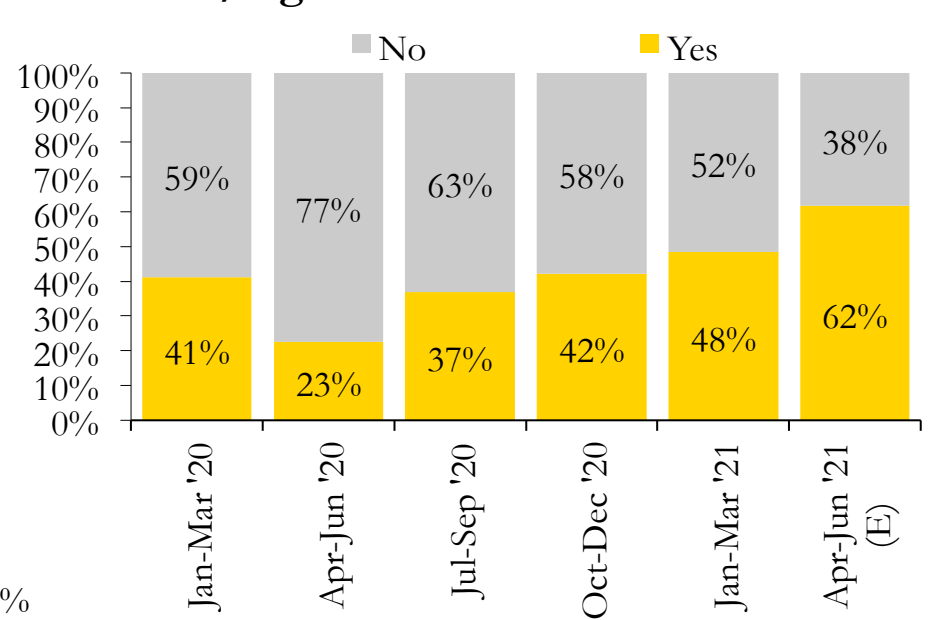
New Hiring: **slowing**, CapEx: **net positive**



New hiring*



Made/signed off on new investments⁺



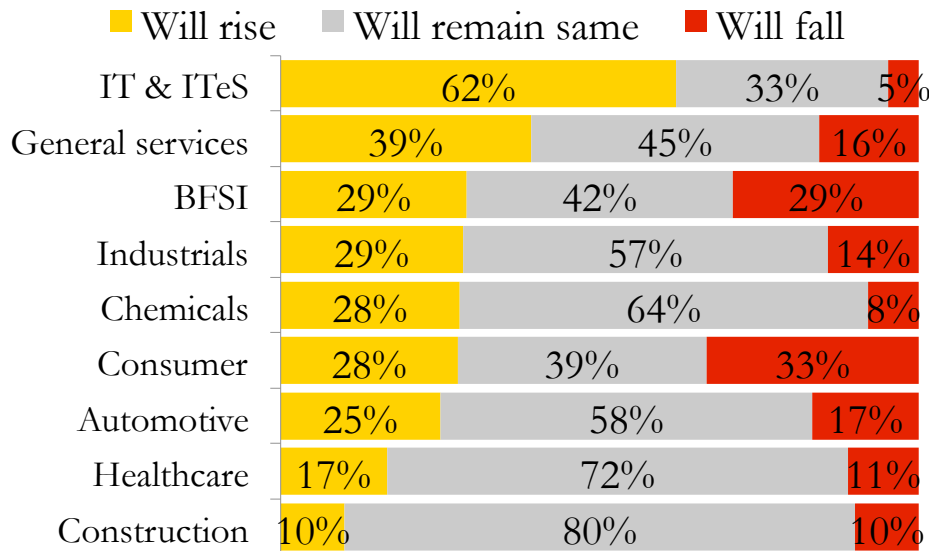
- Having accelerated strongly in Q4, hiring has started to temper. 31% expect to increase their hiring this quarter, down from 43%, and 16% say they will scale back, up from 9% in Jan-Mar.
- Investment plans continue to strengthen, with 62% planning to make or sign-off on capex this quarter. However, *actual investments* are under-shooting. In Q4, 48% made/signed off on investments compared to the 54% that *expected* to do so.

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

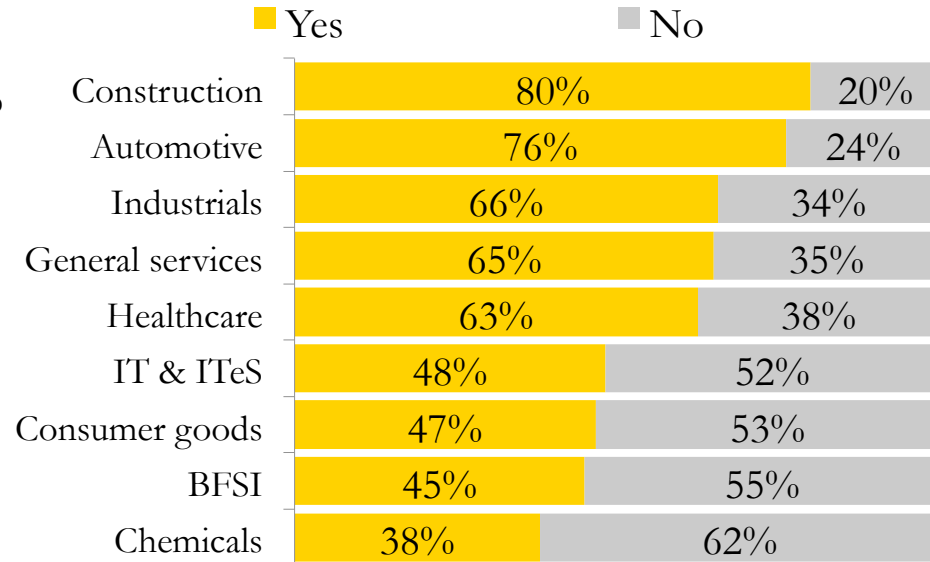
Q4 New Hiring and CapEx: Sector-wise



New hiring*



Capital expenditure⁺



- IT & ITeS is a clear outlier in terms of hiring, with a substantial majority planning to scale-up this quarter. General services comes a distant second, while BFSI and consumer goods seem to be pulling back.
- In 5 of our 9 sectoral groupings, the majority of companies expect to make new investments this quarter. Construction and auto are the most buoyant on this score.

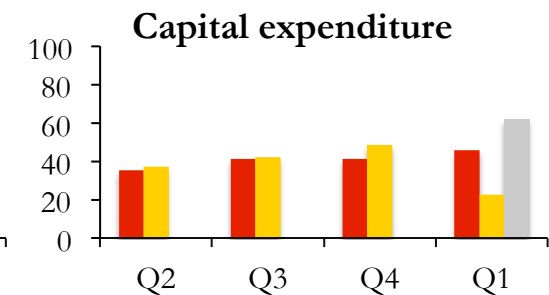
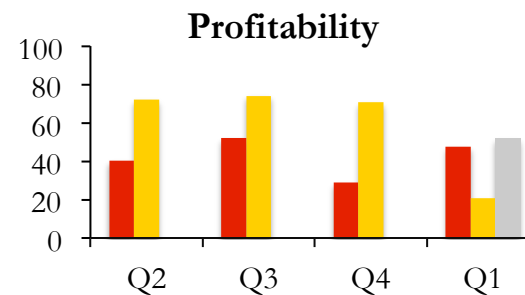
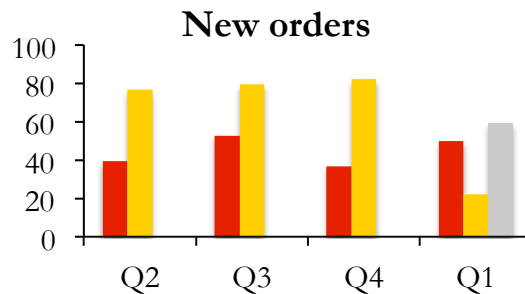
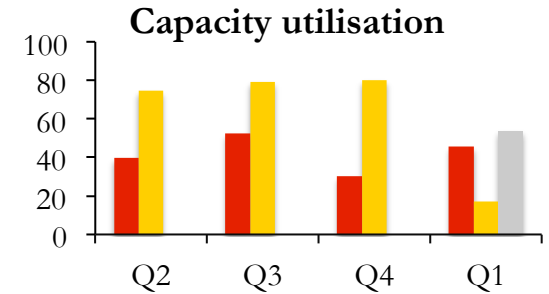
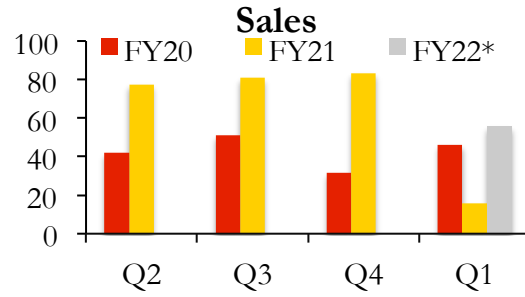
* Quarter-on-quarter (QoQ) changes; + Respondents were asked whether they either made or signed off on new investments in that quarter

Business Parameter Index Levels:

YoY comparisons



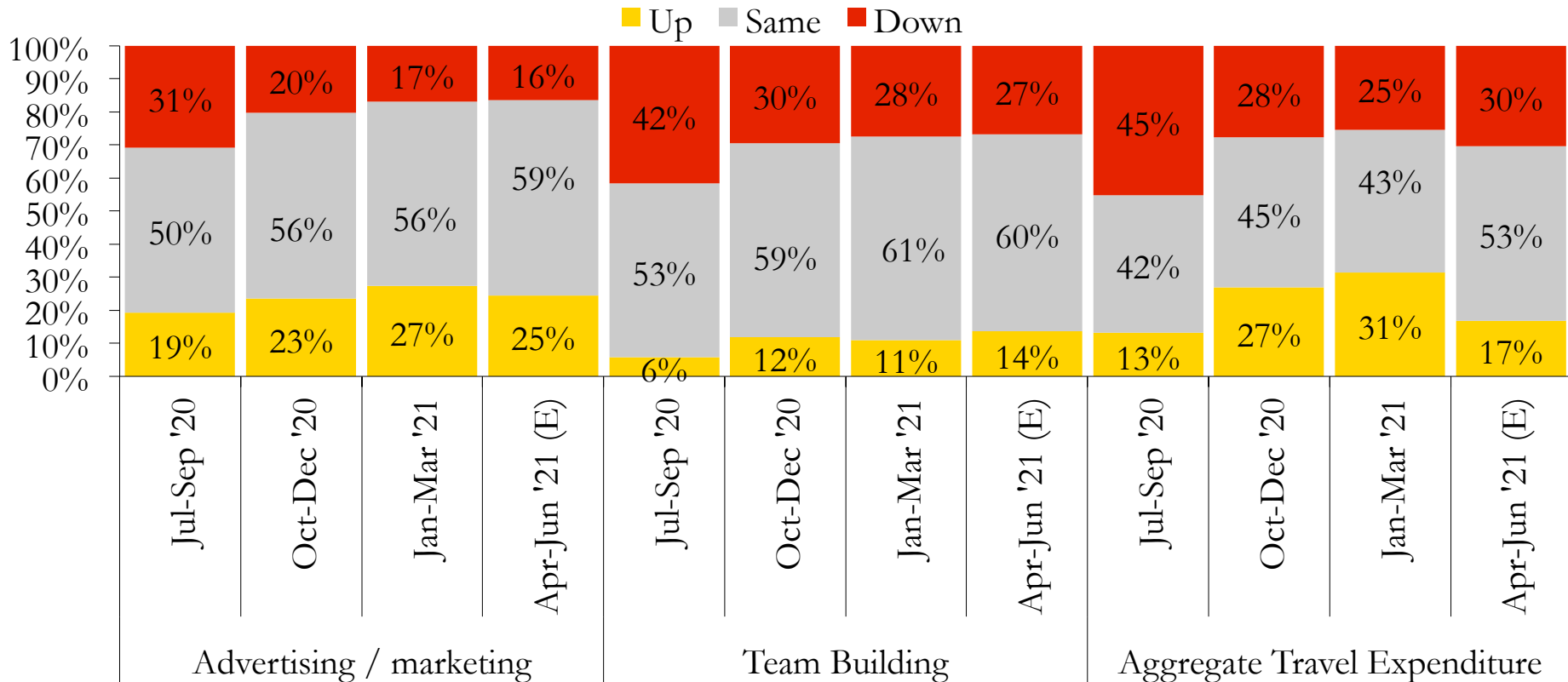
- Unsurprisingly, given the awful quarter India Inc had last Apr-Jun, the expectations for the present quarter, on all business-related parameters, are comparatively stronger.
- In fact, Q1 this year looks even better than *2 years ago*.
- However, on a sequential basis, there is a clear drop-off in performance compared to Q4, with one exception: capex, which has continued to accelerate.



■ FY19 ■ FY20 ■ FY21*

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

'Soft spends': Pulling back (again)



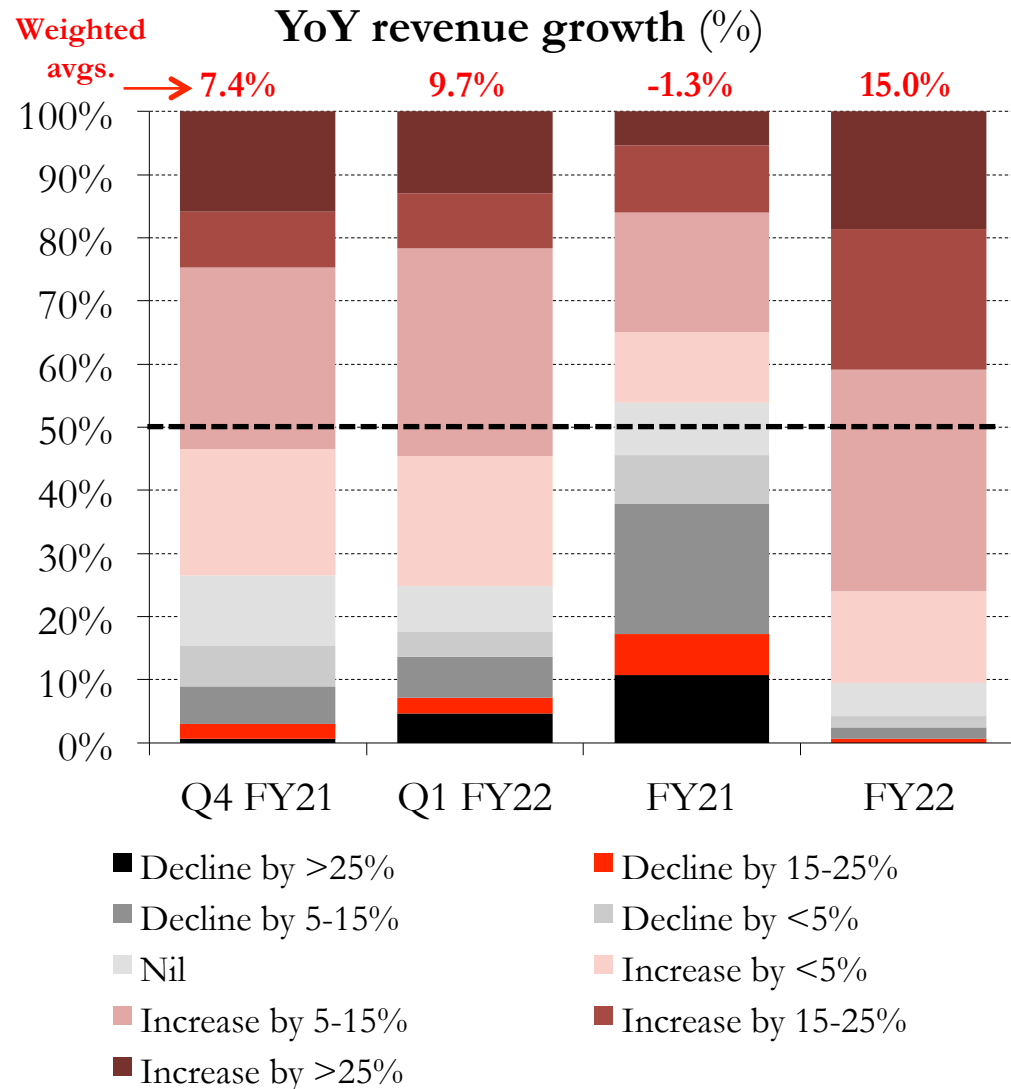
- In Q4, spending on travel and team/morale-building fell well short of expectations but advertising/marketing spends were broadly in line with forecasts.
- Expectations for Q1 are slightly more cautious on advertising/marketing, largely similarly on team-building, but – understandably – travel budgets have been scaled back sharply.

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

Revenue and Profit Growth

Revenue Growth: Actual and Expected

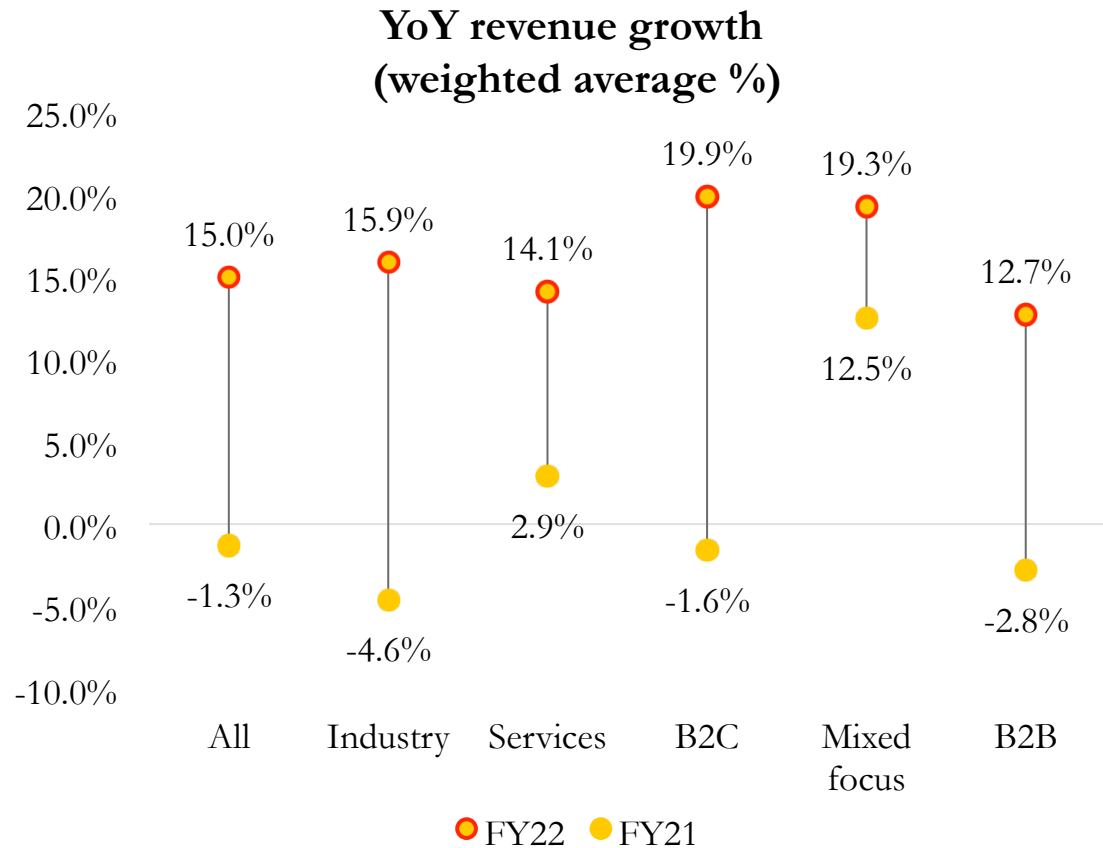
- Top-line growth continues to improve.
- Slightly more companies – 18%, up from 15% - expect de-growth in Q1 than in Q4 of FY21. However, the average firm also expects to do better this quarter: 9.7%, compared to 7.4%.
- On a full-year basis, just 4% expect negative growth in FY22, sharply down from 46% last year.
- Weighted average revenue growth is projected to jump from -1.3% in FY21 to 15% this year.



FY21/FY22 Revenue Growth: **By Group**



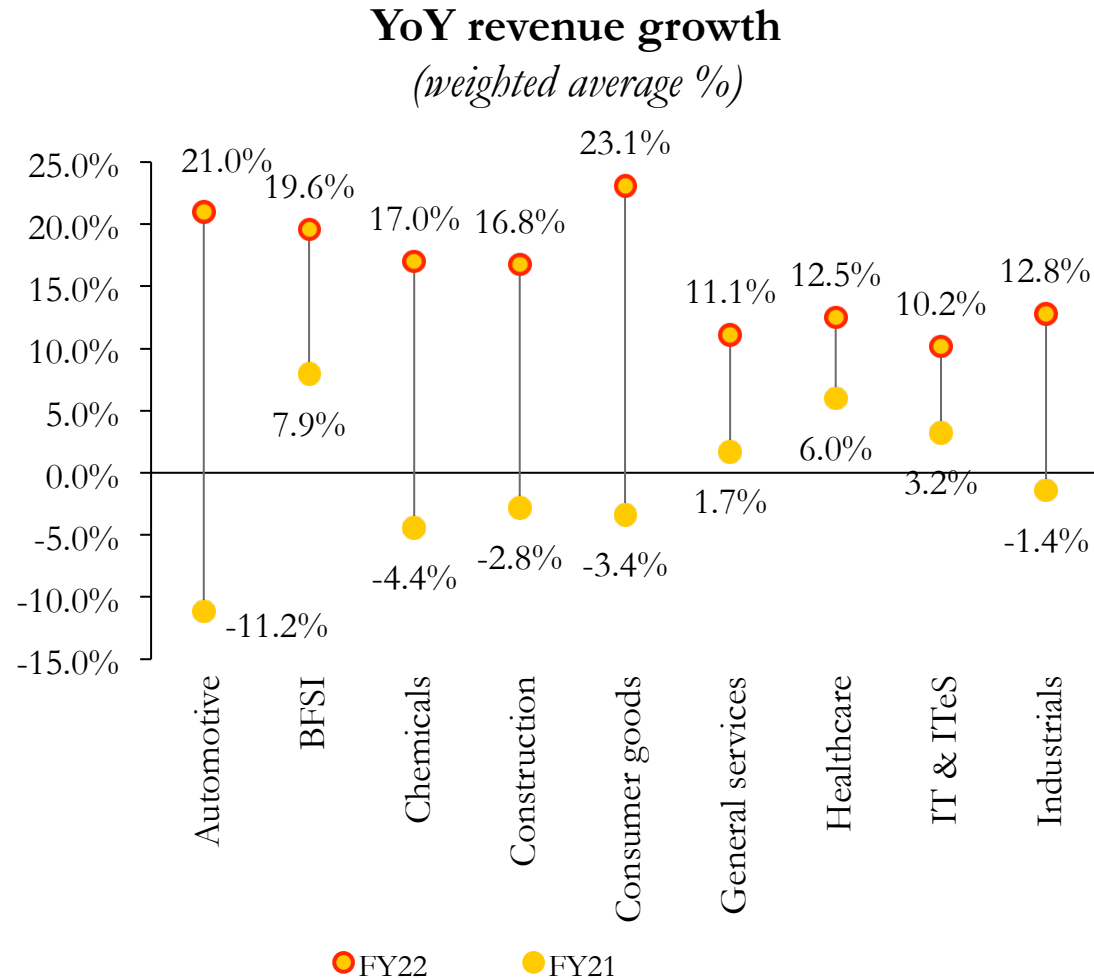
- On average, industrial companies expect to do better than services firms in FY22: 15.9% top-line growth, compared to 14.1%.
- Strikingly, manufacturing companies are also seeing the biggest change over last year, rising from -4.6% (+2.9% for services).
- Curiously, B2C firms have turned more bullish than B2Bs, anticipating an average increase of 19.9%. This reverses the trend observed in previous rounds of our survey.



FY21/FY22 Revenue Growth: **By Sector**

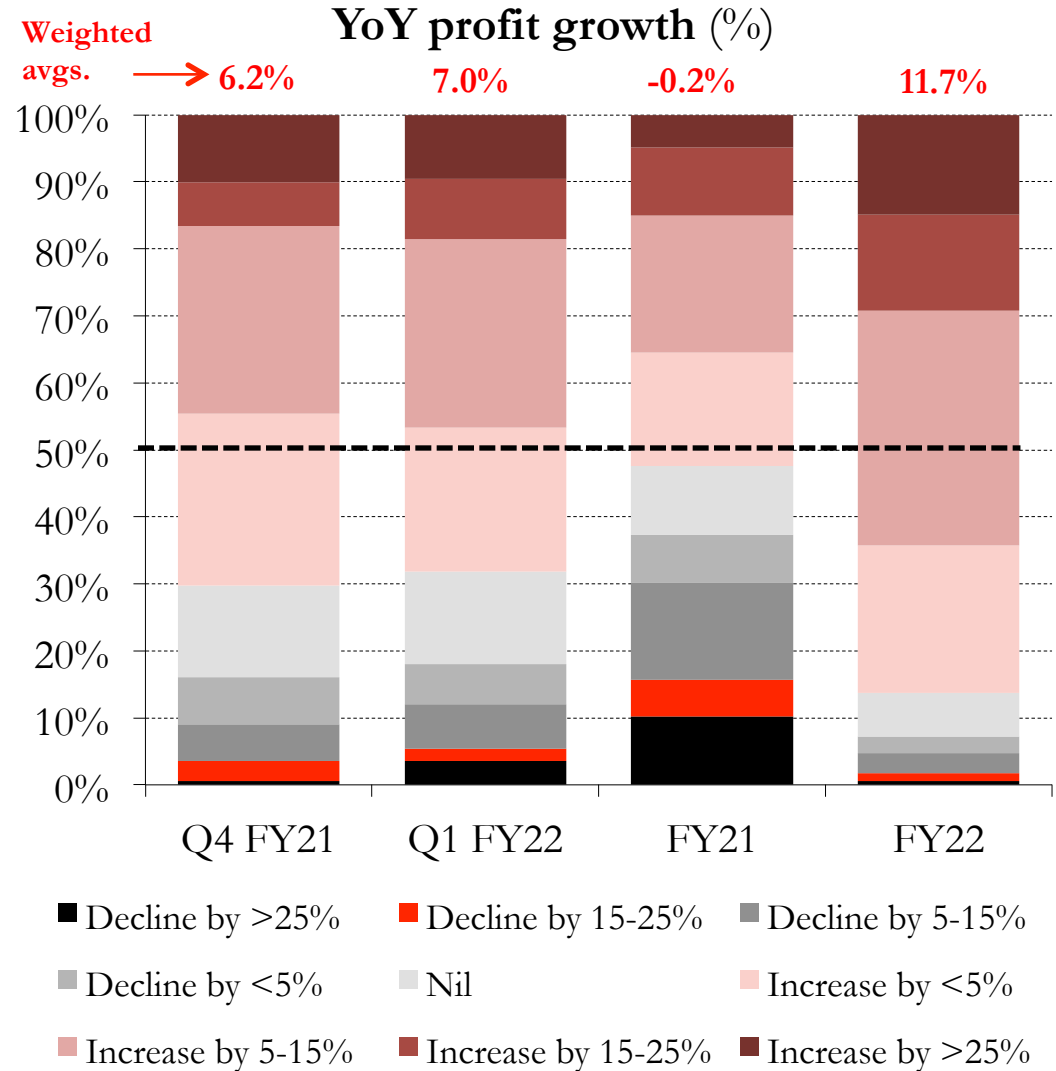


- Partly because of a negative base-effect, automotive companies expect to see some of the highest top-line growth numbers, on average, in FY22.
- Consumer goods firms project average revenue growth at 23.1%, up from -3.4% last year.
- BFSI, chemicals and construction all expect 15%+ revenue growth.
- Other sectors expect lower, but still double-digit, growth this year.



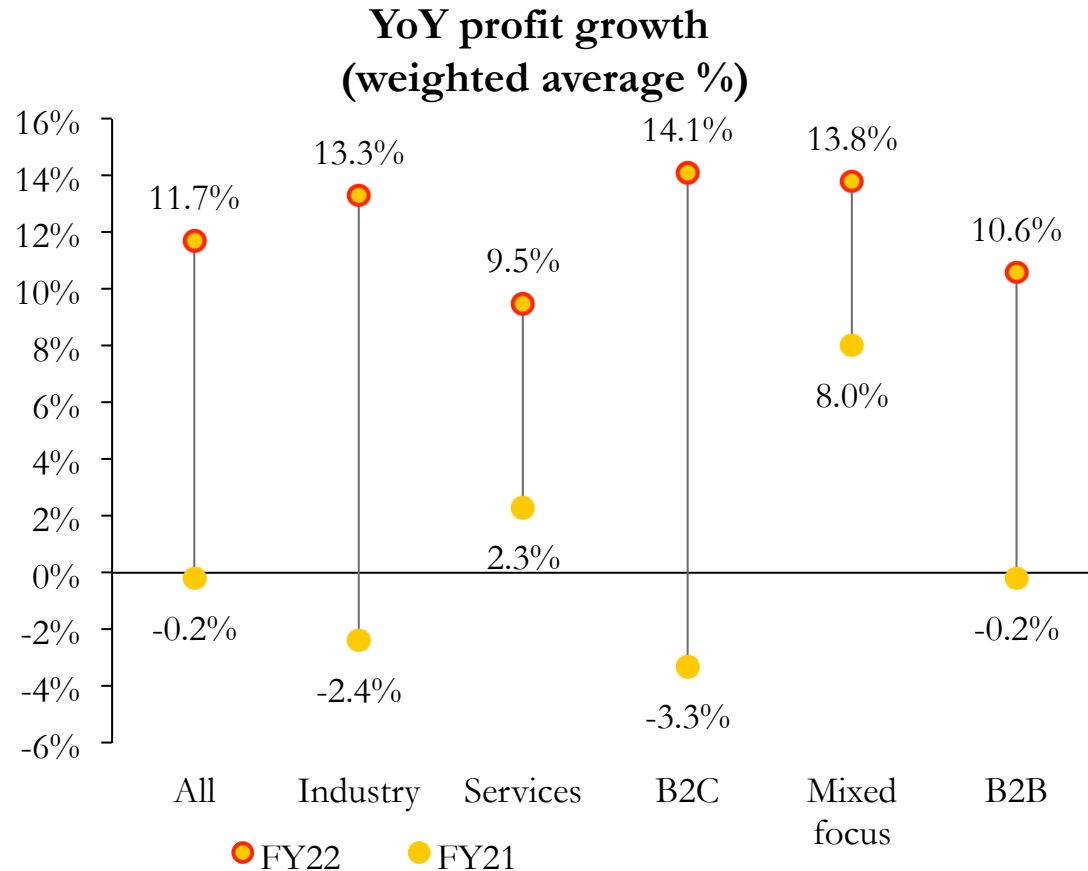
Profit Growth: Actual and Expected

- Net profit growth has also steadily improved, but the change between quarters is far less pronounced than that between fiscal years.
- 18% expect negative net-profit growth in Q1, up from 16% in Q4 of FY21, but the average growth rate is expected to rise from 6.2% to 7%.
- For FY21 as a whole, 37% of companies saw profits decline, but this share may fall to just 7% in FY22.
- Correspondingly, average profit growth is expected to jump from -0.2% to 11.7%



FY21/FY22 Profit Growth : **By Group**

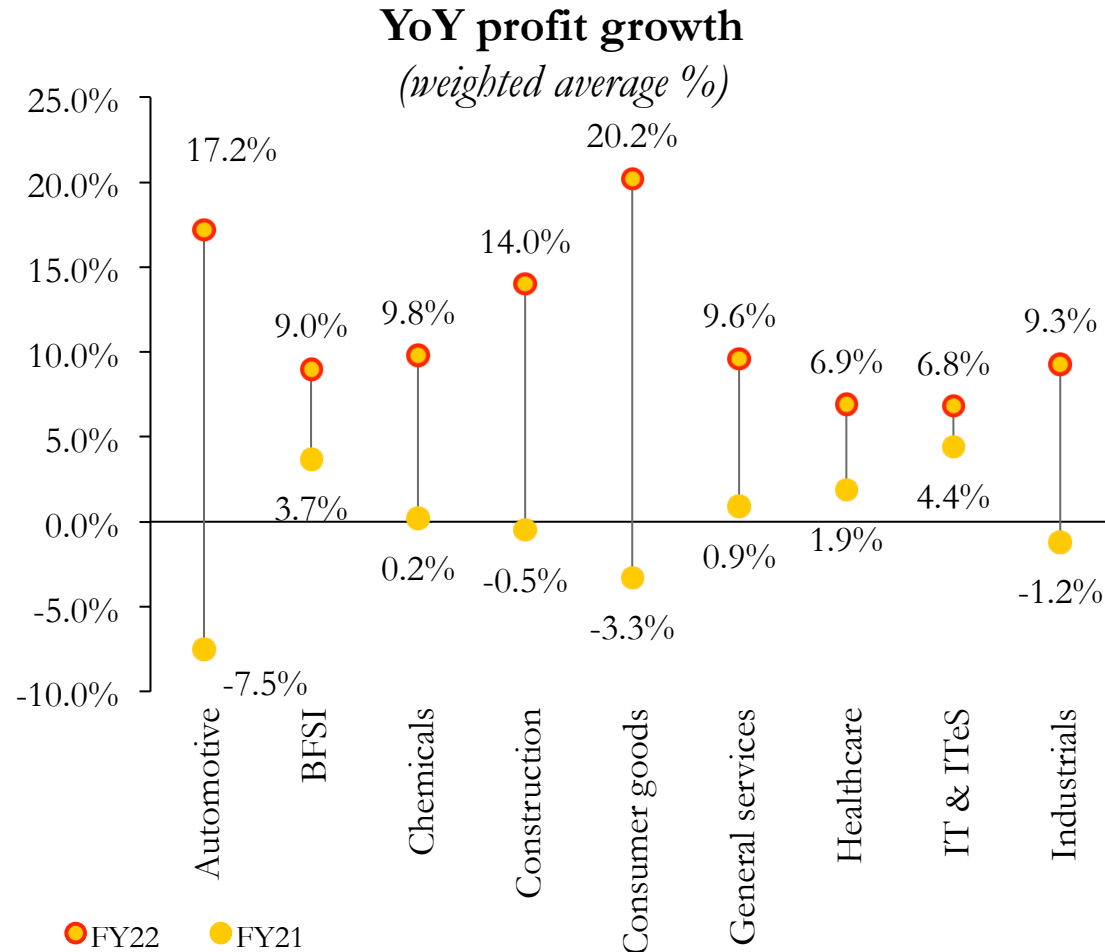
- Services companies stayed in the black in FY21, recording 2.3% profit growth. However, their projections for FY22 growth are lower than those of industrial companies.
- B2Cs, which have been more pessimistic about their growth prospects for the last few quarters, are anticipating much stronger profit growth this year (albeit on a lower base) than their B2B peers.



FY21/FY22 Profit Growth: By Sector



- Net-profit growth was low-to-negative across sectors last year.
- The FY22 projections range widely, all the way from 6.8% in IT/ITeS to 20.2% among consumer-goods firms.
- The base effect appears to be driving this year's forecasts, particularly in the automotive sector, which expects to go from an average of -7.5% to +17.2%.

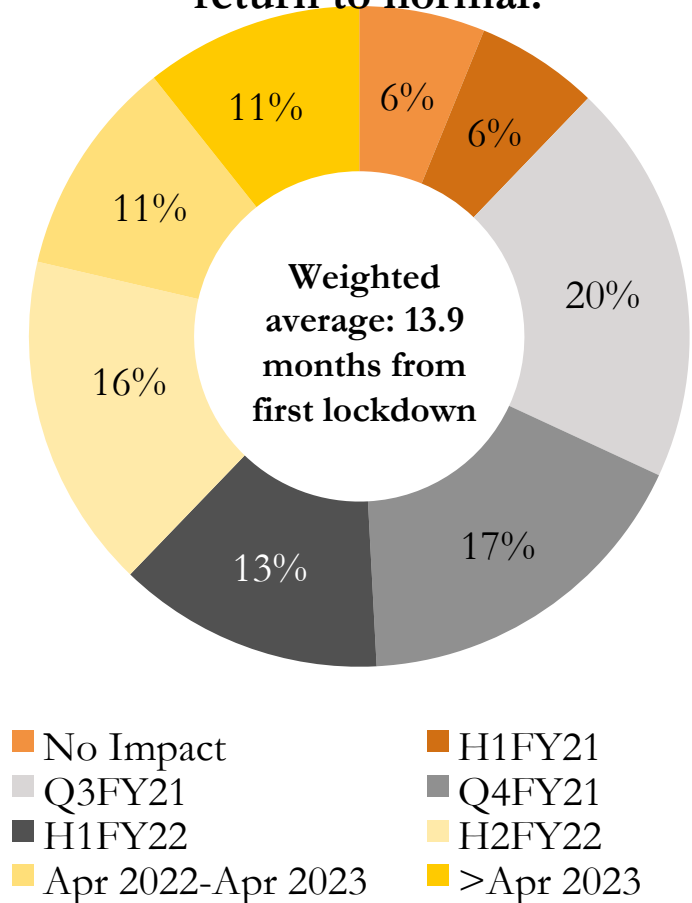


Return to Normal

When will Businesses Return to Normal?

- For 12% of companies, Covid either had little impact, or it had fully played out in the first half of FY21.
- 20% of companies were back to BAU by December 2020 and another 17% by the end of FY21.
- The average company projects a 13.9 month timeframe for achieving a full ‘return to normal’ from the first lockdown of April 2020.
- However, for the 51% of firms that were still not out of the woods as of early-April 2021*, this timeline stretches to **22.1 months**

When did/will demand conditions return to normal?



* Includes only companies that have an estimated return-to-normal timeframe of April 2021 or later.

The Return to Normal: **By Group**



- Whether by orientation, broad sector of operations, or combinations thereof, the timelines for a ‘return to normal’ have gradually pushed outwards.
- From 10.7 months overall in our July survey, it has now stretched to 13.9 months, up slightly from 13.5 in the January round.
- Service companies, particularly those with a mix of B2B and B2C customers, anticipate the longest road to recovery.

		Timeframe for return to normal – estimate as of...				
		<i>(weighted average of months)</i>				
		July 2020	Oct 2020	Jan 2021	Apr 2021	
					All firms	Those still not at BAU*
	Overall	10.7	11.6	13.5	13.9	22.1
Sector	Industry	10.5	11.5	13.3	13.5	21.8
	Services	11.2	12.1	14.4	14.6	22.5
Orientation	B2C	11.9	11.6	14.6	13.1	21.9
	Mixed focus	11.1	11.7	13.8	15.1	22.9
	B2B	10.3	11.5	13.2	14.0	22.1
Industry	Industry + B2C	10.1	9.6	10.5	12.1	20.8
	Industry + Mixed	10.8	11.4	14.7	10.9	16.5
	Industry + B2B	9.6	11.1	11.3	13.9	22.5
Services	Services + B2C	14.1	13.9	16.6	15.0	23.6
	Services + Mixed	11.3	11.9	13.4	16.0	24.1
	Services + B2B	10.8	11.9	14.5	14.1	21.7

** Includes only companies that have an estimated return-to-normal timeframe of April 2021 or later.*

The Return to Normal: **By Sector**



- Sector-wise, construction and general services companies expect the longest path back to normalcy – 20.9 and 16 months, respectively, from the start of the lockdown.
- Companies engaged in the chemicals sector are at the other end of the spectrum, at 8.9 months. This implies that on average, they have already ‘recovered’.
- Industrial companies are the only other group that report a quarter-on-quarter *reduction* in the expected timelines.

Timeframe for return to normal – estimate as of...					
<i>(weighted average of months)</i>					
				Apr 2021	
	July 2020	Oct 2020	Jan 2021	All firms	Those still not at BAU*
All	10.7	11.6	13.5	13.9	22.1
Automotive	NA	11.4	12.0	12.5	22.9
BFSI	10.0	11.0	11.5	13.6	21.0
Chemicals	NA	9.6	12.2	8.9	16.8
Construction	9.9	12.8	16.5	20.9	26.1
Consumer goods	11.4	12.6	14.0	15.2	21.1
General services	12.8	12.5	15.9	16.0	24.4
Healthcare	9.1	11.5	10.4	11.5	19.1
IT & ITeS	8.7	8.2	11.6	13.0	22.0
Industrials	10.6	12.0	15.2	14.2	22.5

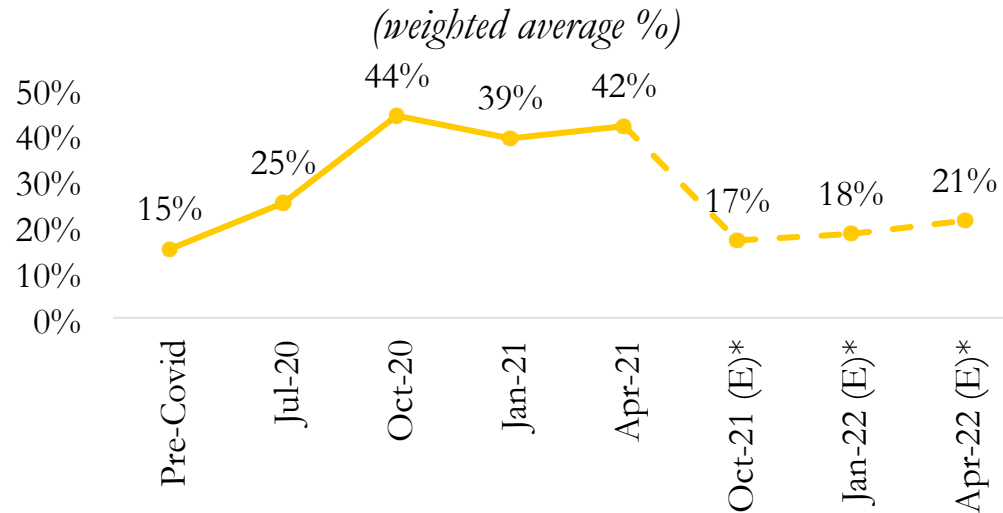
* Includes only companies that have an estimated return-to-normal timeframe of April 2021 or later.

Work From Home

WFH Shares: Actual and Forecast

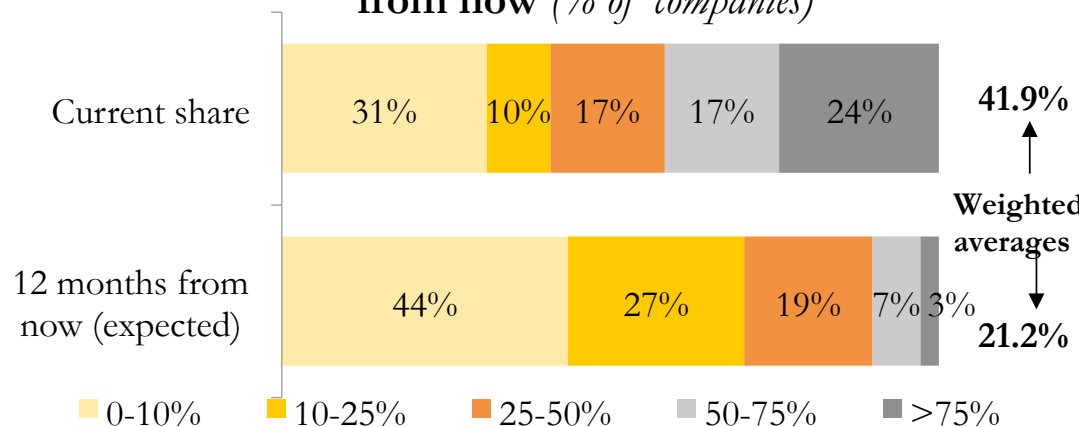
- After dipping to 39% in January, the cross-sector, weighted-average work-from-home (WFH) share of employees has increased again, to 42% with the onset of Covid's second wave.
- Currently, 24% of companies have a WFH share exceeding 75%.
- 12 months from now, expectations are that the average share will be 21% - higher than the 18% projection made in January.

WFH shares: Current and projected



* Oct-21 and Jan-22 projections are from previous surveys; Apr-22 from the current survey

WFH shares: Today and 12 months from now
(% of companies)

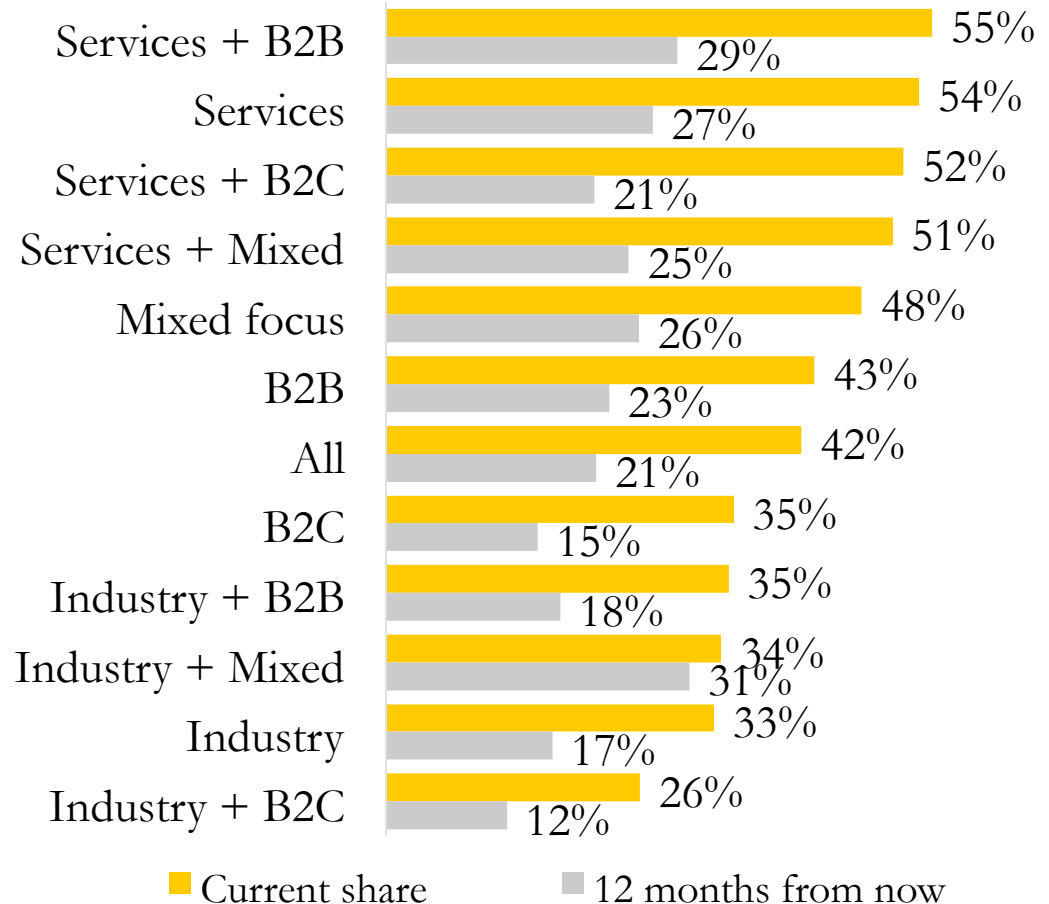


WFH Shares: **By Group**



- Similar to last quarter's survey results, services companies, particularly B2B-oriented ones, have the highest WFH shares.
- On average, these groups project that over 25% of their workers will still be working from home 12 months from today.
- Industrial firms continue to have the lowest WFH shares, and in most cases, these numbers are expected to drop by about half.

WFH shares: current and 12 months
from now (*weighted average %*)

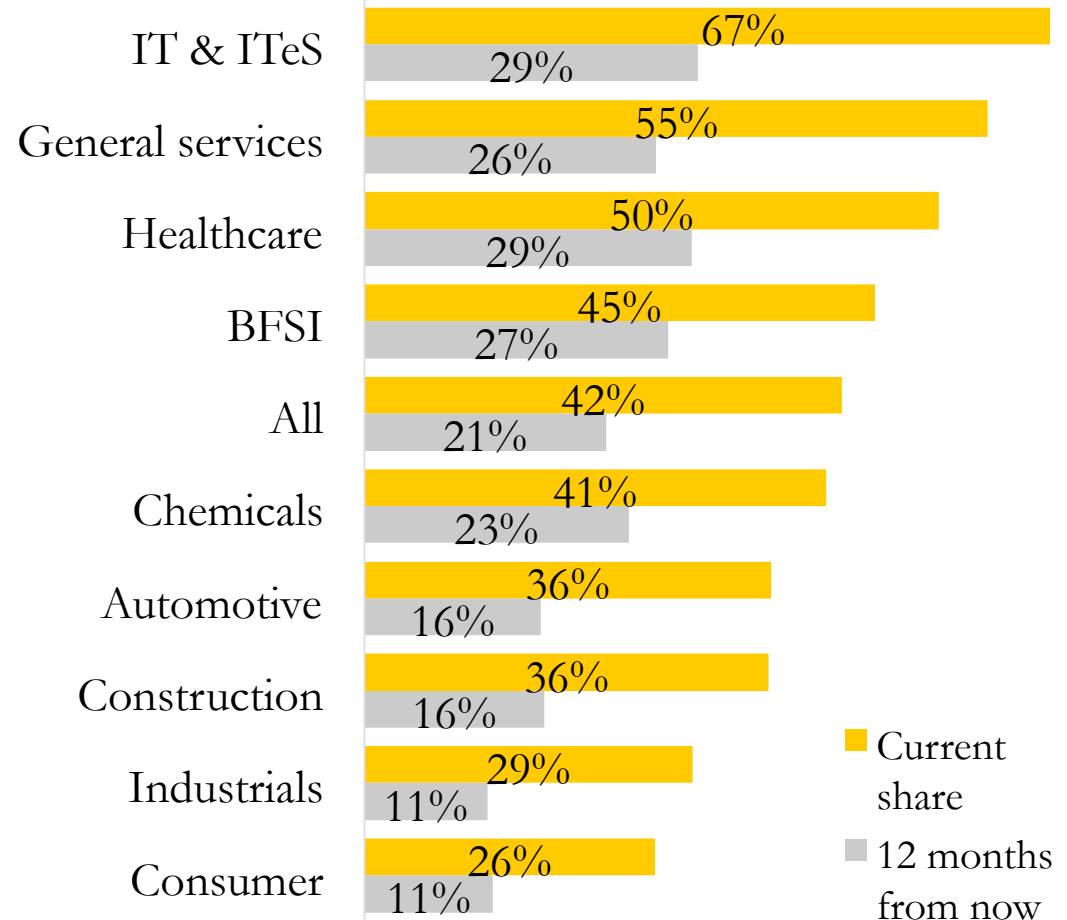


WFH Shares: **By Sector**



- IT & ITeS continues to have the highest WFH shares, followed by general services and healthcare – all at 50% or more.
- Manufacturing-intensive sectors have generally-lower WFH shares, with consumer goods and industrials at below 30%.
- Predictably, the 12-months-from-now forecast WFH shares for services firms are higher than those oriented around manufacturing.

WFH shares: current and 12 months from now *(weighted average %)*

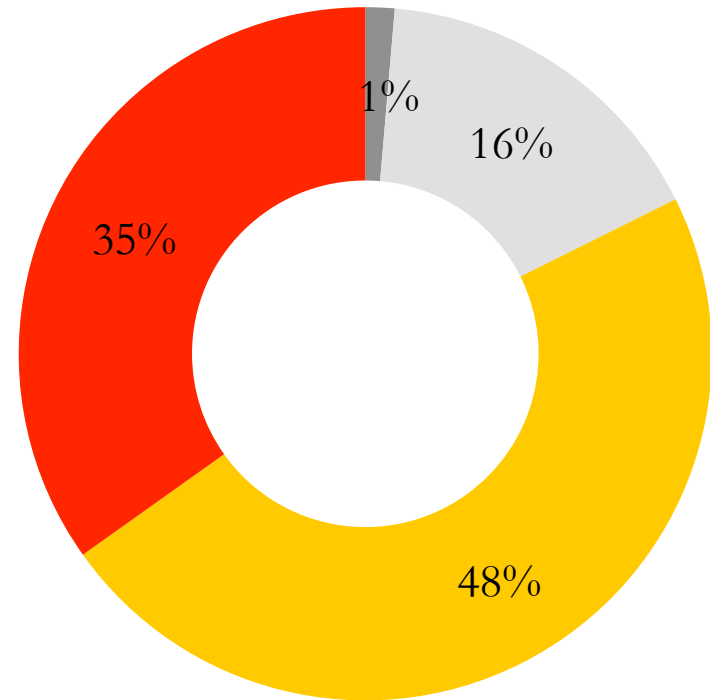


Second Wave Impact

Second Wave Impact: Overall

- As might be expected, the majority of companies anticipate a negative impact from the second wave of Covid-19, with 35% saying that the fallout will be ‘significant’.
- 16% say that the impact will be negligible and a tiny fraction, say that it will benefit them.

Second-wave impact
(% of companies)

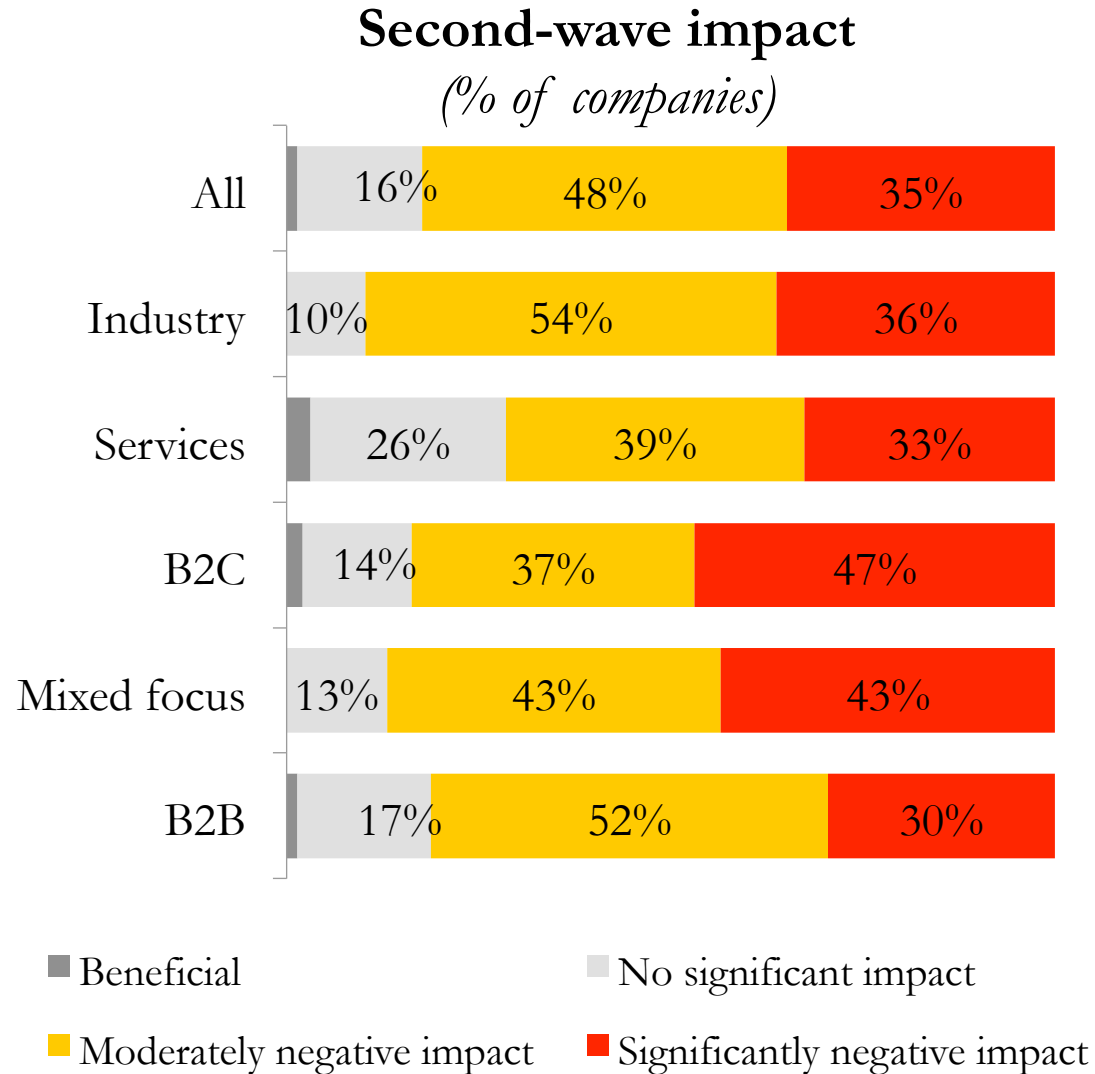


- Beneficial
- No significant impact
- Moderately negative impact
- Significantly negative impact

Second Wave Impact: **By Group**



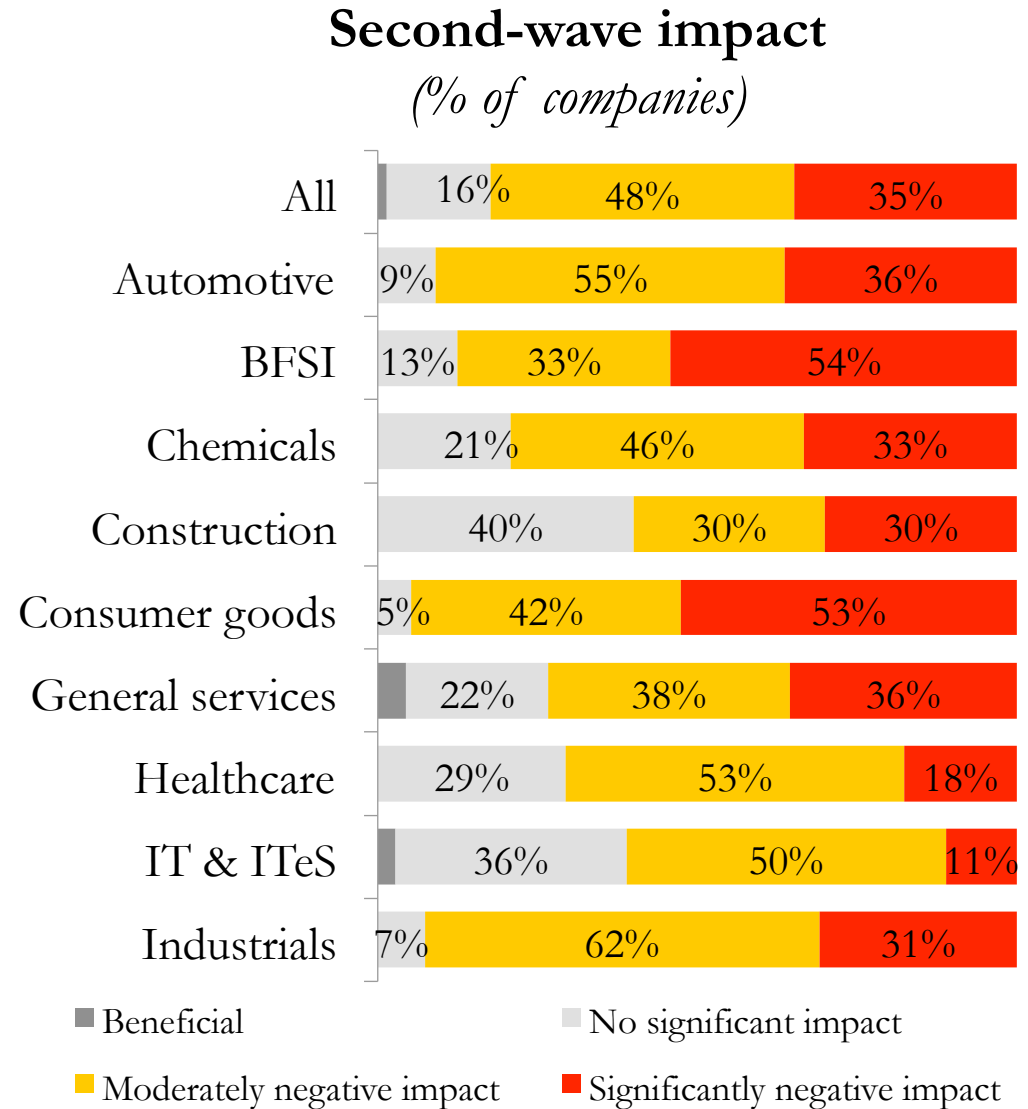
- On the whole, B2C companies expect to be the worst-impacted by the second wave, with 47% projecting a severe hit.
- B2Bs are worried, but slightly less so.
- Curiously, services companies as a whole are less worried than industrial companies. Close to 30% expect no real impact (or even some gains) compared to 10% of manufacturing firms.



Second Wave Impact: **By Sector**



- Nearly all consumer goods companies (95%), BFSIs (93%), automotive (91%) and the vast majority of industrials (87%) expect a moderately-to-significantly-negative hit from the second wave of Covid-19.
- Construction and IT/ITeS are relatively insulated, as are healthcare and chemical-sector companies.



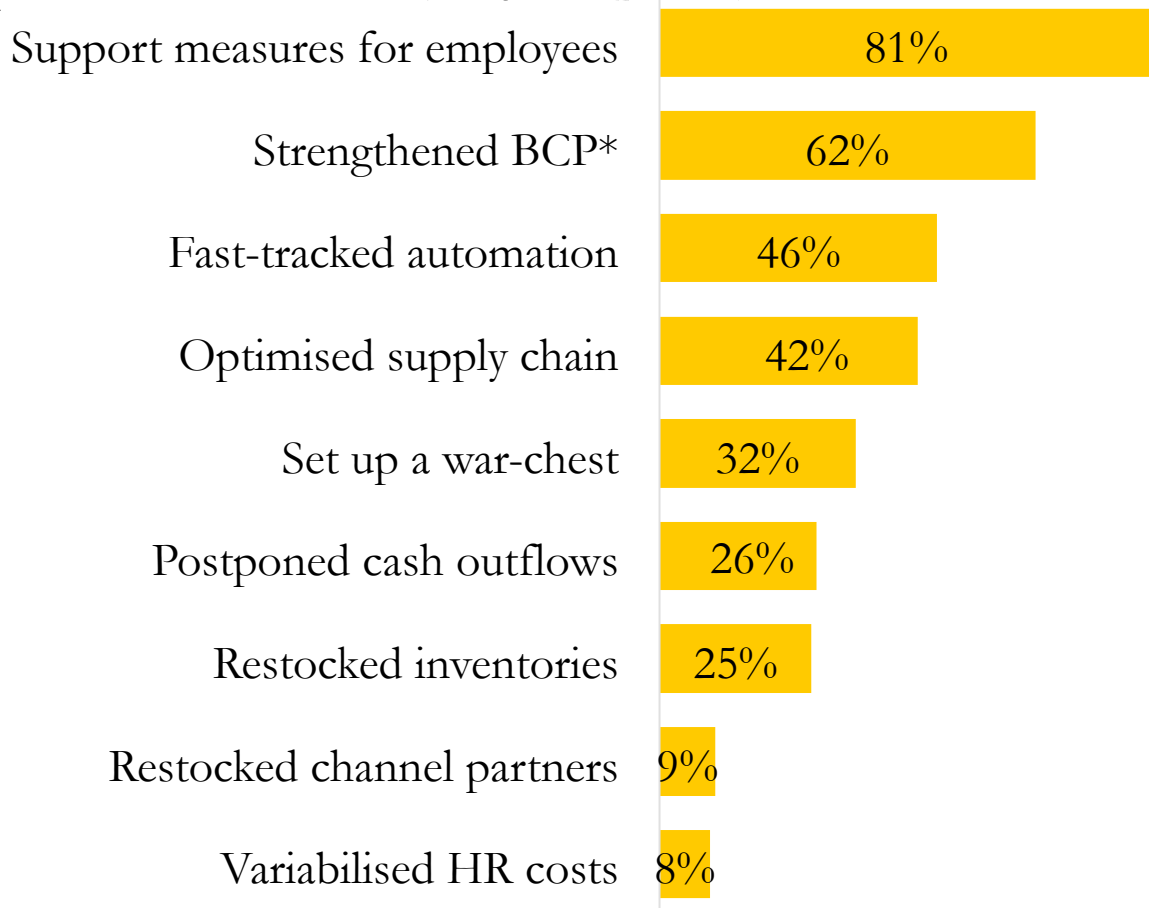
Responding to the Second Wave: Overall



- In preparation for the second wave, over 80% of firms are implementing measures to support their employees and 62% have strengthened business continuity planning.
- Fast-tracking automation, optimising distribution and supply chains, setting up cash reserves and delaying major cash outflows are the other key response measures being undertaken.

Second-wave response measures

(% of companies)



* *Business continuity plan*

Responding to the Second Wave: **By Group**



Second wave response measures (% of companies)

	All	Industry	Services	B2C	Mixed focus	B2B
Support measures for employees	81%	81%	81%	83%	87%	80%
Strengthened BCP*	62%	63%	60%	69%	78%	57%
Fast tracked automation	46%	36%	58%	52%	70%	40%
Optimised supply chain	42%	59%	23%	60%	44%	36%
Set up a war-chest	32%	35%	28%	54%	30%	25%
Postponed cash outflows	26%	25%	27%	15%	17%	31%
Restocked inventories	25%	37%	9%	35%	0%	25%
Restocked Channel partners	9%	12%	5%	19%	9%	6%
Variabilised HR costs	8%	6%	11%	6%	0%	10%

- Across groups, the top-two priorities are identical: support measures for employees and stronger business-continuity planning.
- While industrial firms are focusing on optimising their supply chains and restocking inventories, services firms are prioritising automation. B2Cs – which cut across manufacturing and services – are adopting a range of measures.

Responding to the Second Wave: **By Sector**



Second wave response measures (% of companies)

	All	Auto	BFSI	Chem	Const	Consumer goods	General services	Healthcare	IT & ITeS	Industrials
Support measures for employees	81%	86%	71%	78%	60%	84%	82%	75%	92%	82%
Strengthened BCP*	62%	68%	58%	83%	40%	68%	64%	75%	61%	53%
Fast tracked automation	46%	32%	63%	44%	50%	47%	56%	31%	56%	30%
Optimised supply chain	42%	50%	13%	70%	40%	79%	22%	69%	19%	53%
Set up a war-chest	32%	23%	17%	44%	20%	47%	44%	44%	19%	23%
Postponed cash outflows	26%	23%	21%	22%	30%	5%	31%	19%	19%	41%
Restocked inventories	25%	46%	0%	30%	10%	42%	7%	38%	11%	38%
Restocked Channel partners	9%	9%	4%	4%	0%	32%	2%	25%	6%	12%
Variabilised HR costs	8%	9%	17%	13%	20%	5%	13%	0%	0%	5%

- Aside from the 2 common priorities, sector-wise responses go along expected lines, with manufacturing zoning in on supply chain, distribution and inventories.
- BFSI, general services and IT/ITeS are prioritising automation more than others.
- Construction and BFSI are looking to variablise HR costs.

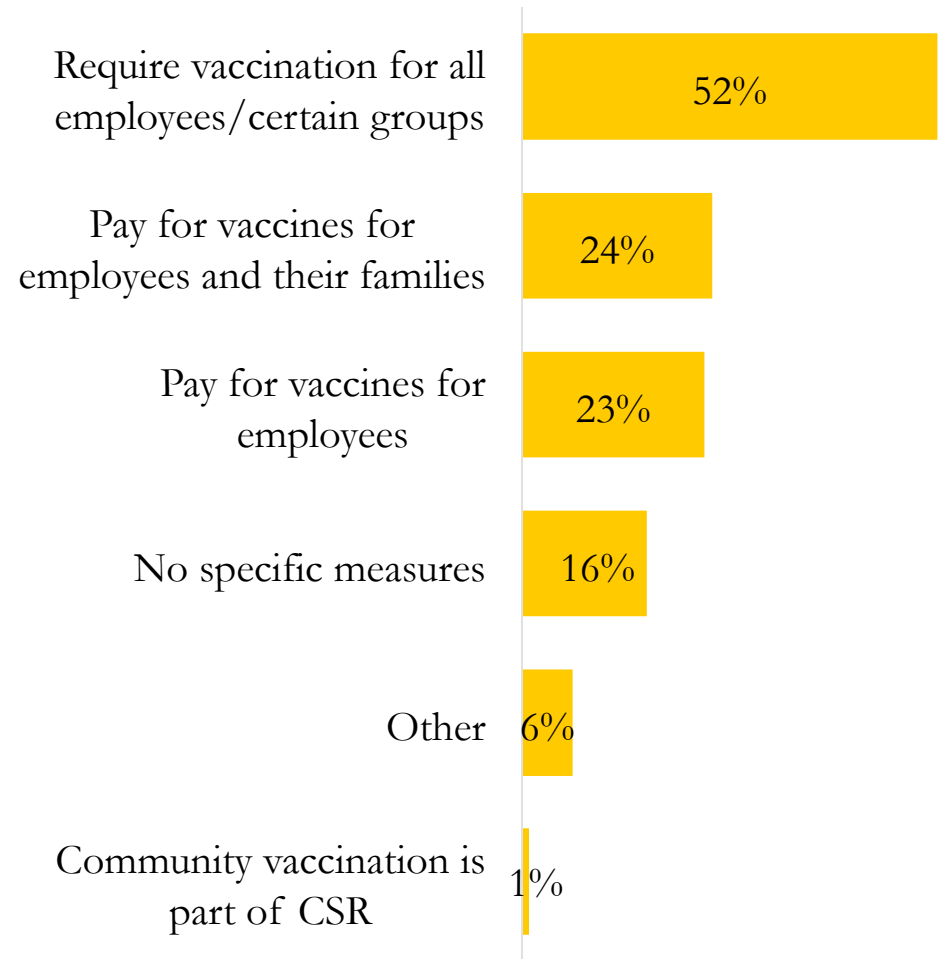
Vaccination Measures: Overall



- Over half of all companies (52%) will require all or at least a certain section of their employees to be vaccinated.
- ~24% each will pay for vaccinations for their employees, and for employees as well as their families.
- A number of businesses are yet to decide on their vaccination policies, and a few will sponsor community vaccinations as part of their CSR initiatives.

Vaccination measures

(% of companies)



The Q1 FY22 BCPI: Key take-aways



- The headline BCPI has retreated from its multi-year highs with concerns around the second-wave of Covid weighing on the macro outlook.
- Q4 was a solid quarter in terms of business performance, but few companies expect to sustain sales, new orders, profitability or capacity utilisation rates in the present (Apr-Jun) quarter.
- The timelines for a ‘return to normal’ have continued to stretch out – now averaging 13.9 months (~May 2021) from the start of the lockdown.
- IT & ITeS firms are the most buoyant on performance, but there is no clear ‘second runner’. Construction and consumer-goods are at the bottom.
- With ‘Wave 2’ setting in, WFH shares are higher than in January (42%, up from 39%), and expected to fall to ~21% in a year. Services – including IT & ITeS, BFSI, healthcare and general services – will be at 25%+.
- The key response measures to the second wave include supporting employees, bolstering business-continuity plans, automation (mainly services) and supply-chain/inventory issues (manufacturing firms).

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