# Corporate Sector in India: Coping with Covid-19

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Over the past year and a half, Corporate India witnessed an oscillating performance, with the Covid-19 pandemic and associated disruptions largely responsible for the same. Given the nationwide lockdown that commenced in March 2020, and continued for almost two months, Q1 of FY2021 was essentially washed out, with both demand and supply disruptions, both domestically and globally, wreaking havoc. Prices of commodities also crashed globally, due to the demand disruptions, which also had repercussions. The sharp contraction and disruption witnessed across sectors even mandated the Government to roll out several support packages and measures, including the blanket moratorium on debt obligations over the March to August 2020 period.

However, as the world came to terms with the impact of the pandemic, and the situation eased progressively, the performance of Corporate India also improved sequentially. The sequential recovery was visible not just as demand recovery, but also as profitability improvement and return of pricing power among corporates, as pent-up demand and consumer sentiment recovery provided much-needed impetus to demand. Following the pandemic-induced disruptions to operations from March 2020 onwards, many entities aggressively rationalised costs through salary cuts, downsizing of workforce, renegotiation of rentals and interest rates, curtailment of overheads etc. to survive the challenging period. The benefits of these percolated into the subsequent quarters, which coupled with sequential recovery in demand and revenues, contributed to a significant recovery in margins from Q2 FY2021 onwards.

Although the recovery trends continued to gain pace in Q3 FY2021, on the back of the festive season, and remained strong in Q4 FY2021 as well, the trend reversed in Q1 FY2022 as the pandemic again rampaged through the country, with the second wave of the pandemic being much more intense and deadly than the first wave. Almost the entire country again promptly went under lockdown, starting in April and intensifying in May 2021, although there was no nationwide lockdown imposed. However, as per ICRA's assessment, the risks posed by the second wave of the pandemic to various sectors have been quite different from that of the first wave due to a) less widespread and stringent lockdowns (vis-à-vis the prolonged nationwide lockdown last year), b) lower global disruptions, c) absence of pricing pressures on commodity producers, d) enhanced digitisation, and e) gradual pick up in vaccination drive.

Nevertheless, the impact on consumer sentiment, was debilitating, especially due to the highly negative impact on consumer purchasing power due to high medical spends, in addition to the restrictions and risk aversion. Accordingly, consumer-oriented sectors, especially contact-intensive ones like aviation, hospitality and retail, and that involving large-ticket discretionary purchases, such as automotive, were significantly impacted even in the second wave of the pandemic. However, the situation again progressively eased into June and July 2021, as the count of infections abated through the country, and the restrictions were lifted across states. Nevertheless, concerns of a possible and deadlier third wave continue to play on the minds of the people.

The impact of the pandemic, both in the first wave as well as the second wave, varied across sectors, and was even different across both waves of the pandemic. The sectors that continued to be at high risk from the contagion, both in the first and second waves were Aviation, Hospitality, Retail etc. where the impact has been both severe and prolonged. On the other hand, certain sectors like Automobiles, Logistics etc. witnessed immediate disruptions on account of the fear-factor and restrictions, but faster pace of recovery as the situation normalised. Essential services or sectors such as FMCG, Pharmaceuticals, Education etc., on the other hand, witnessed relatively lower level of business disruption even during the lockdown periods, largely due to their essential nature, although the medium of carrying out business progressively turned digital even for these sectors.

The travel and hospitality sectors have been amongst the worst impacted by the pandemic, and continue to remain so over the foreseeable future, given the overall risk aversion brought about by the pandemic. Despite sequential recovery trends till Q4 FY2021, daily airline passenger traffic was yet to reach even half of pre-covid levels, and this again suffered a sharp setback over April and May 2021 on account of the spike in reported cases. While traffic has again bounced back over the past two months as the infections abated, it remains quite subdued, at only one-third of pre-Covid levels. In addition to the subdued load factors, the rising fuel price trends and weak rupee would also continue to exert pressure on a sector already plagued by the pandemic.

The hotel sector is also reporting similar trends, with recovery trends visible till Q4 FY2021 again setback by the second wave. In addition to increased risk aversion towards public spaces and events, the restrictions on large gatherings impacted MICE activities as well. The business traveller and leisure traveller segments were also setback by the rising infections and lockdowns, even as quarantine traffic offered some respite. Overall, recovery in the travel and hospitality segments has been significantly setback by the second wave of the pandemic, and is expected to take much longer to revert to earlier levels.

The retail sector also faces challenges, with store and mall closures and lockdowns and restrictions impacting their ability to function normally. Furthermore, even for stores that were functional, the increased wariness regarding public spaces impacted the footfalls and spends. The impact has been highest in value and lifestyle fashion retailers, while the food and grocery retailers were relatively spared, given their essential nature. Additionally, the growing preference for digital platforms and delivery-focussed formats would be a key trend shaping the sector over the near to medium term and accordingly, many retailers would increasingly embrace online deliveries as a channel of distribution in order to stay relevant.

The automotive sector reported mixed trends across sub-segments over the past year, with relatively resilient rural demand supporting the tractor industry to all-time high volumes, while the commercial vehicle industry contracted to multi-year lows on account of the subdued economic environment. While two-wheeler demand fizzled out to some extent after satiation of pent-up demand immediately post the lockdown, passenger vehicle sales picked up significant momentum, with preference for personal mobility in the wake of the pandemic lending support to demand. However, emerging constraints such as chip shortages, severe commodity headwinds etc. are likely to pose challenges for the sector going forward.

In contrast to the sharp weakening visible in consumer-oriented sectors across both pandemic waves, the construction-oriented sectors remained relatively resilient during the second wave. Despite the regional lockdowns, most states permitted construction activities during the second wave, especially outside urban clusters. Additionally, construction companies were better prepared and retained labour with accommodation and other such facilities, thereby preventing the mass labour migration issue that crippled the sector last year. Overall, with the increased capital outlay towards infrastructure activities envisaged in the Budget 2021-22, and limited impact on construction activities in the second wave, construction and other-allied sectors are likely to support the recovery momentum going forward, despite some temporary setbacks, if any.

Commodity-oriented sectors also witnessed significant turnaround over the past year. During the first wave of the pandemic, prices had collapsed globally for key metals, crude oil and other commodities,due to the precipitous drop in global demand. However, subsequently, the prices recovered firmly, first led by recovery in China, and then augmented by recovery in other economies as well. Accordingly, prices of most commodities rallied over the past few months, and continue to remain elevated. The firm prices, coupled with stable industrial demand, have supported the commodity-oriented sectors such as Iron & Steel, Metals & Mining, Oil & Gas etc. over the past few quarters, even during the peak of the second wave, and enabled them to report relatively encouraging trends.

Overall, while India Inc. is again recovering from the impact of the second pandemic wave, concerns of a possible third wave abound. While current trends remain encouraging, the overall credit outlook would continue to remain contingent on the evolving situation, with vaccination drive, Government initiatives to boost economic recovery through investments etc. remaining key.