

Sentiment sustains

CriSidEx readings, Jan-Mar and Apr-Jun 2018

April 2018 | Volume 2



CriSidEx is India's first sentiment index for Micro and Small Enterprises (MSEs) that indicates the current state and expected outlook on the MSE sector every quarter. CriSidEx is based on a diffusion index of 8 parameters (5 manufacturing and 3 services parameters) with equal weights. It measures MSE business sentiment on a scale of 0 to 200, where 0 indicates extremely negative sentiment, 100 neutral sentiment and 200 extremely positive sentiment. The distance of the score from 100 is indicative of the strength of the expansion or decline. CriSidEx is calculated for (a) the respondent's assessment of the survey quarter and (b) the respondent's expectation for the next quarter. Responses were received from 1,100 MSEs. Survey 1 was conducted for September-December 2017 and Survey 2 for January to March 2018.

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Gauging the MSE pulse

CriSidEx, or the CRISIL-SIDBI MSE Sentiment Index, captures the sentiment among micro and small enterprises (MSEs) in India on the business environment in the survey quarter (SQ), and their expectations for the next quarter (NQ).

The index and this report are based on this survey. No economic indicators, trade statistics or financials of MSEs have been used in computing CriSidEx.

Since CriSidEx represents MSEs only, care should be taken by users when comparing it with other economic data/ indices. Survey quarter (SQ) represents the sentiment of MSEs in the quarter when the survey was conducted. Next quarter (NQ) represents the sentiment of MSEs for the quarter that follows the survey quarter.

Survey process

The survey tracks the business sentiment of MSEs in manufacturing and services (including trading) across India. Responses have been drawn from CRISIL-rated enterprises and current and past borrowers of SIDBI. It also includes micro enterprises funded by microfinance institutions (MFIs) that are, in turn, funded by SIDBI.

Additionally, there are responses from lenders (banks and non-banking finance companies, or NBFCs).

The sample has been drawn up to ensure representation of enterprises based on size, geography and nature of business. It covers MSEs with at least three years of business operations.

The broad characteristics of the sample are:

Established business
Turnover < Rs 25 crore
Representation of various legal forms – companies, partnerships and proprietorships
Appropriate sectoral representation; to have equal coverage of manufacturing and services sectors (including trading)
Appropriate geographic representation
Covers exporters and importers, besides domestic firms

How to read CriSidEx

CriSidEx is a sentiment index and hence, is a qualitative measure of the mood. Respondents may not necessarily refer to actual data related to their enterprises when responding to it.

The information collected in CriSidEx is qualitative because respondents are asked to assign qualities, rather than quantities, to the variables of their interest. For example, respondents have been asked to assign qualities to the value of their orderbooks such as ‘above normal’, ‘unchanged’ or ‘below normal’. That’s different from a conventional industry survey, where respondents may be asked to give quantitative information about their orderbooks, such as the actual value of outstanding orders.

For more details, please refer to the first CriSidEx report available at

<https://www.crisil.com/en/home/our-analysis/reports/2018/01/crisidex-the-mse-sentiment-index.html>

Executive summary

The second quarterly CriSidEx survey shows micro and small enterprises (MSEs) had a better outing in SQ (survey quarter, or January–March 2018), driven by the manufacturing sector, compared with October–December 2017. That lifted the CriSidEx score to 121 from 107 in October–December, validating the prediction of higher optimism made by the first quarterly survey.

For NQ (the next quarter, or April–June 2018), expectations remain positive, with 51% manufacturers and 48% services providers anticipating a good outing.

Within manufacturing, chemicals, auto components, and engineering and capital goods-related MSEs reported strongly positive sentiment, while segments with a significant presence of unorganised enterprises such as leather & leather goods, and gems & jewellery were subdued. MSEs in auto components, chemicals, and engineering and capital goods were the most optimistic about NQ.

The services sector remains optimistic, with most industries having only a single-digit share of respondents expecting a turn for the worse. IT/ITeS, traders and health care providers had a healthy showing in SQ, but not so logistics and construction/real estate-based MSEs. Traders and health care providers were expected to continue doing well along with MSEs in human resource services.

In terms of legal constitution, companies were marginally more positive than firms, while unorganised players, or mostly micro enterprises with <10 employees, had a marginally larger share of respondents citing a subdued SQ. For NQ, too, a similar pattern is visible, with 53% of MSEs with >25 employees expecting a better ride versus 44% with <10 employees.

In terms of orderbook, around 46% of manufacturing sector MSEs reported an increase in SQ versus 31% for those in services. And 53% of manufacturing MSEs expect a better NQ compared with 48% from the services sector. On the other hand, industries with a large presence of unorganised players, such as leather products, gems & jewellery and food products, said orderbooks have fallen more, and expect a weaker showing in NQ.

As for international trade, only 21% of the export-oriented respondents reported an increase in orders, much lower than the 38% by domestic-focussed MSEs. For NQ, 34% of exporters foresee above-normal orders versus 51% of domestic MSEs. Importers expect more stability. Nearly 80% of the importer MSEs placed normal orders for imports from their suppliers, while 18% ordered for more. Going forward, too, less variation is expected among importers.

MSEs are expecting improvement in production over the next quarter with 56% of respondents expecting increased production and only 5% expecting it to be reduced. The balance 40% believe production will remain unchanged. On capacity utilisation, 46% of the respondents from the manufacturing sector expect an increase, 49% see no change, while the rest expect it to be lower.

New job additions remain flat. In SQ, nearly 81% of the respondents reported that their employee base remained unchanged, while 15% added more staff. The services and manufacturing sectors were optimistic on employment with 15% of respondents in each stating they added employees in SQ.

The employment scenario is expected to look up in NQ with 28% MSEs saying they intend to hire versus 4% foreseeing a reduction. The majority, or 68%, intend to continue with their current employee base with no net additions.

Snapshots

Survey quarter (SQ) readings: Q4 FY18

1. CriSidEx for SQ Q4 FY18 has increased to 121 from 107 for SQ Q3 FY18, which validates the initial survey's predictions of higher optimism in the next quarter (NQ) Q4 FY18.
2. Manufacturing continues to do well, with 37% of the respondents in manufacturing saying they had a good SQ compared with 29% for services-based MSEs.
3. New job additions remain flat. In SQ, nearly 81% of the respondents reported that their employee base remained unchanged, while 15% added more staff.
4. Domestic demand has done better than exports. Only 21% of the export-oriented respondents reported increased orderbook size, much lower than 38% in the case of domestic players.
5. Slight improvement reported in performance of unorganised players. In SQ Q4 FY18, 13% of MSEs with less than 10 employees reported a bad survey quarter against 22% in SQ Q3 FY18.

Next quarter (NQ) expectations: Q1 FY19

1. The assessment period SQ Q4 FY18 showed improvement in business confidence, which is similar to the previous survey, and the expectation period NQ Q1 FY19 is also in a positive range, indicating optimism continues.
2. Going forward, though, both manufacturing and services sectors expect better performance with 51% of manufacturers and 48% of service providers anticipating a good quarter.
3. 51% of MSEs are anticipating improved orderbooks and only 5% below-normal.
4. MSEs are expecting improvement in production over the next quarter with 56% of respondents expecting increased production and only 5% expecting it to be reduced. The balance 40% believe production will remain unchanged.

Lender view

1. Lenders hold a neutral view for NQ Q1 FY19, with 9 out of 10 saying the overall business situation will be satisfactory.
2. In SQ Q4 FY18, 7 out of 10 lenders did not find any change in the situation of MSE non-performing assets (NPA) accounts, while 2 believed NPA accounts had increased. For NQ Q1 FY19, 4 out of 10 lenders expect a decrease in NPA accounts, 5 believe it will remain unchanged, while 1 believes it will increase.

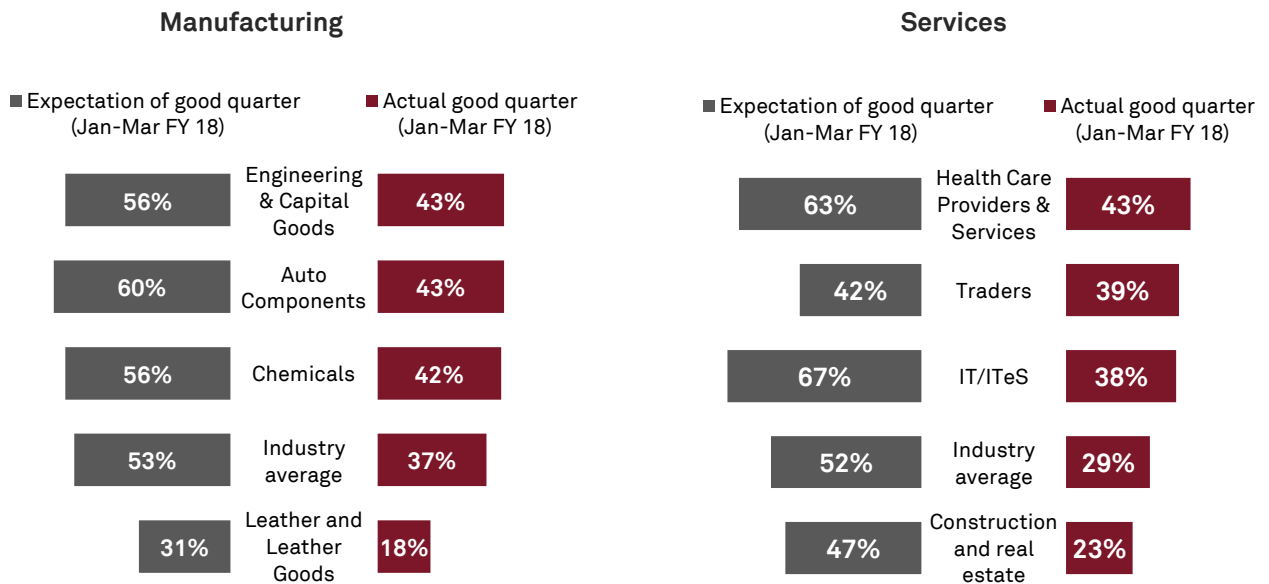
CriSidEx readings

Manufacturing							
Index parameters		Survey quarter			Next quarter		
		Negative	Neutral	Positive	Negative	Neutral	Positive
Overall business situation	Q3 FY18	17%	45%	38%	4%	43%	53%
	Q4 FY18	9%	54%	37%	5%	44%	51%
Volume of production	Q3 FY18	21%	48%	31%	8%	37%	55%
	Q4 FY18	9%	49%	42%	5%	39%	56%
Orderbook size	Q3 FY18	20%	50%	30%	9%	36%	55%
	Q4 FY18	7%	49%	44%	4%	43%	53%
PAT margin	Q3 FY18	26%	50%	24%	14%	42%	44%
	Q4 FY18	15%	51%	34%	9%	48%	43%
Capacity utilisation	Q3 FY18	21%	50%	29%	9%	40%	51%
	Q4 FY18	7%	53%	40%	5%	49%	46%
Employee base	Q3 FY18	9%	76%	15%	4%	66%	30%
	Q4 FY18	4%	81%	15%	3%	69%	28%

Services							
Index parameters		Survey quarter			Next quarter		
		Negative	Neutral	Positive	Negative	Neutral	Positive
Overall business situation	Q3 FY18	14%	56%	30%	5%	43%	52%
	Q4 FY18	10%	61%	29%	6%	46%	48%
Orderbook size	Q3 FY18	17%	58%	25%	7%	47%	46%
	Q4 FY18	8%	62%	30%	6%	46%	48%
PAT margin	Q3 FY18	22%	54%	24%	12%	42%	46%
	Q4 FY18	16%	55%	29%	10%	47%	43%
Employee base	Q3 FY18	6%	74%	20%	2%	64%	34%
	Q4 FY18	4%	81%	15%	4%	68%	28%

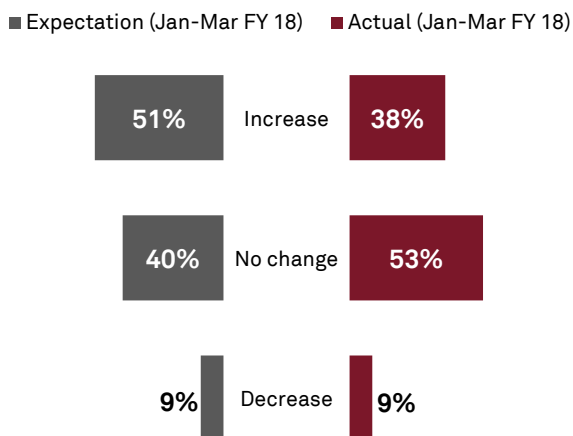
CriSidEx	Q3 FY18	SQ	107	NQ	Positive
	Q4 FY18	SQ	121	NQ	Positive

How the segments performed in January-March 2018 versus expectations of Survey 1 (October-December 2017)

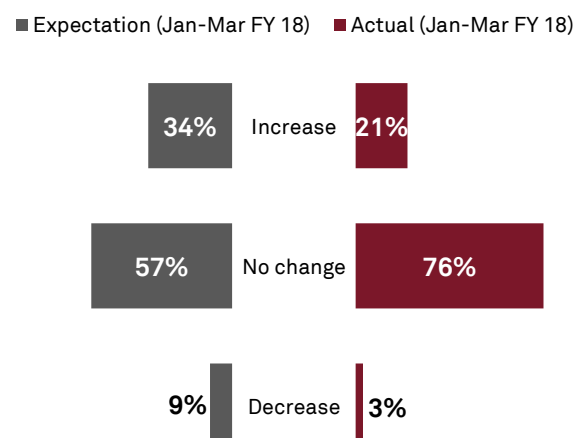


Bars represent share of respondents

Orderbook size (domestic)



Orderbook size (exports)



Bars represent share of respondents

Detailed findings for SQ Q4 FY18 and NQ Q1 FY19

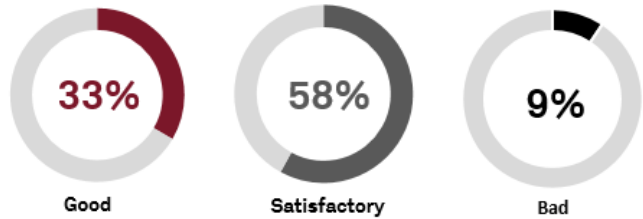
The cumulative sense

MSEs (manufacturing and services combined) expect an improvement in the business situation in the April-June quarter.

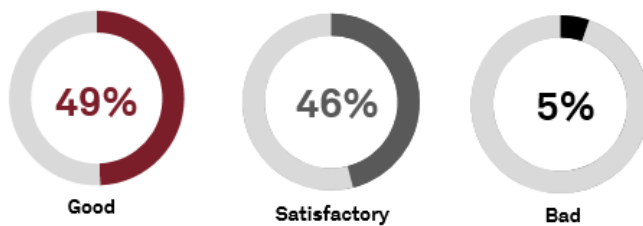
In the survey quarter, 9% of the MSEs felt their business situation was subdued, 58% felt it was satisfactory, and 33% felt it was good. In the previous survey, expectations were 52% good, 44% satisfactory/ same, and 4% bad.

Optimism continues to be higher for the next quarter, with 49% believing it would be good and 46% expecting it to be satisfactory. Only 5% saw a subdued quarter.

Overall business situation in survey quarter



Overall business situation in the next quarter



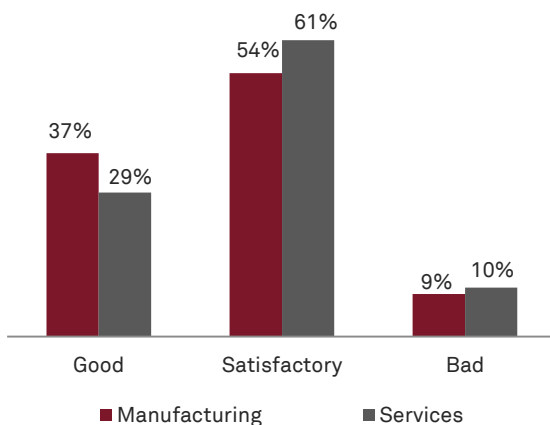
% represent share of respondents (manufacturing and services combined)

Sectoral deep-dive

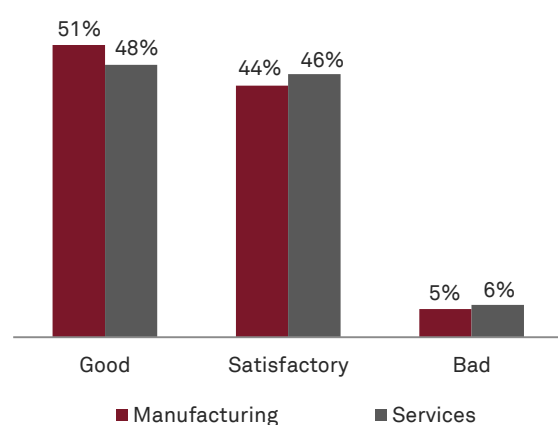
Manufacturing MSEs have reported a more positive sentiment compared with services in the SQ, with 37% saying they had a good quarter, compared with 54% satisfactory and 9% subdued. In services (including trading), the corresponding figures are 29%, 61% and 10%, respectively.

Going forward, though, both manufacturing and services sectors expect better performance, with 51% of manufacturers and 48% of service providers anticipating a good quarter.

Business situation in survey quarter



Business situation in the next quarter



Bars represent share of respondents

Industry sentiment

Among the sub-sectors¹ of the manufacturing sector, chemicals, auto components, and engineering and capital goods-related MSEs reported strongly positive sentiment, while segments with a significant presence of unorganised enterprises like leather & leather goods and gems & jewellery were more subdued.

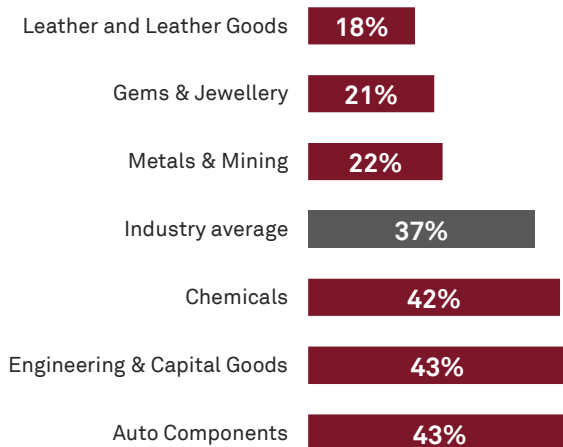
Among sectors which did not perform well include leather & leather goods industry and gems & jewellery industry with 32% and 21% of MSEs surveyed respectively reporting a subdued quarter

Going forward, manufacturers in auto components, chemicals, and engineering and capital goods industries are the most optimistic about their business performance. Among the industries in the services sector, IT/ITeS, traders and health care providers have reported a healthy performance in the survey quarter. However, logistics and construction/real estate-based MSEs had a relatively higher share of respondents reporting a subdued quarter. Among commercial services and supplies providers, 21% reported a subdued quarter, 48% reported a satisfactory one, and 31% reported a good quarter. The corresponding figures for the construction/real estate segments are 15%, 62% and 23%, respectively.

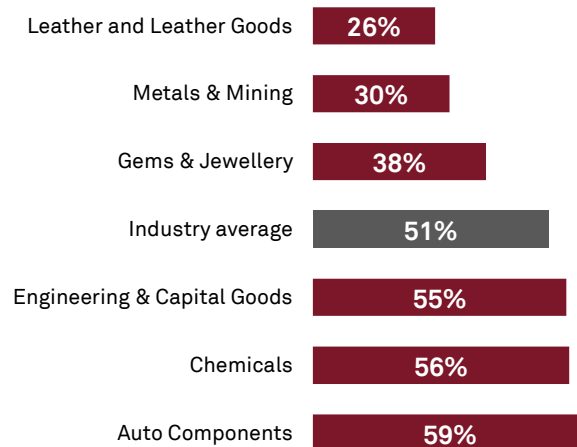
In the next quarter, traders and health care providers are expected to continue doing well along with MSEs in human resource services. The services sector remains optimistic, with most industries having only a single-digit share of respondents expecting a turn for the worse.

Manufacturing sector

Good - survey quarter in each industry



Expecting better - next quarter in each industry



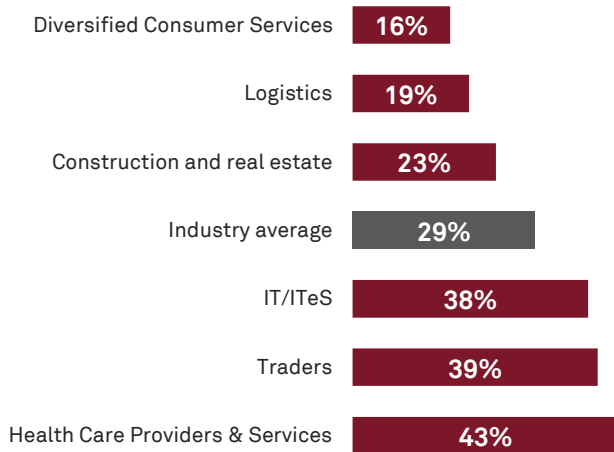
Bars represent share of respondents

¹ Engineering & capital goods comprise Machinery, Electrical equipment, Electronic equipment instruments & components, Energy equipment
Diversified consumer services comprise Car rental services, Cold storage services, Repairs & maintenance services, Event organizing services, Technical advisory services

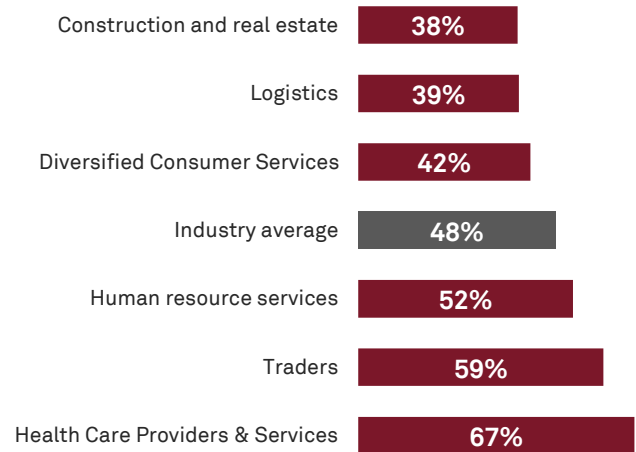
Commercial services & supplies comprise Printing services, Professional services, Security control systems, Solar panel installation services

Services sector

Good - survey quarter in each industry



Expecting better - next quarter in each industry

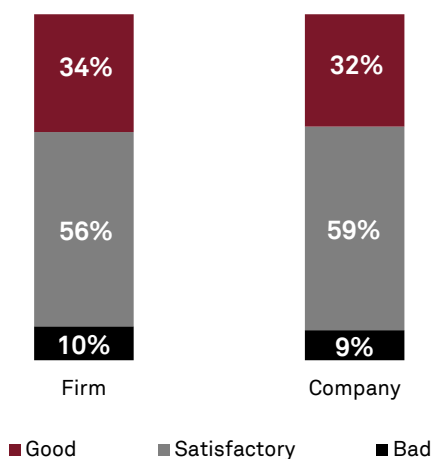


Bars represent share of respondents

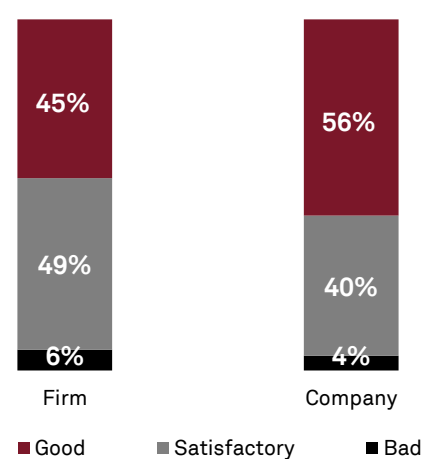
Legal constitution: firm vs company

There is not much to differentiate in terms of sentiment based on legal constitution, though companies reported a marginally more positive sentiment than firms. In SQ, 34% of firms reported a good quarter versus 32% of companies. Going forward, 56% of companies expect to have a better quarter against 45% of firms.

Business situation in survey quarter



Business situation in the next quarter

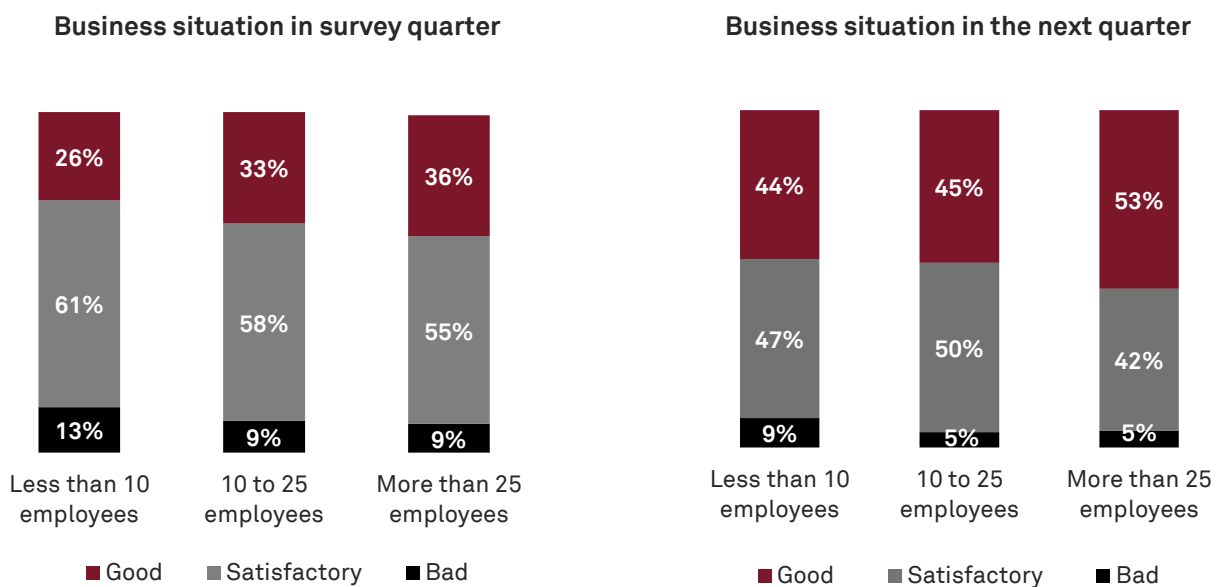


Bars represent share of respondents

Unorganised sector blues

Unorganised players, mostly micro enterprises with <10 employees, had a marginally larger share of respondents flagging a subdued quarter versus those with more employees. Around 13% of the respondents in the <10 employees bucket reported a subdued quarter versus 9% each for those with 10-25 employees and those with >25 employees.

Going forward as well, a similar pattern is visible, with 53% of MSEs with >25 employees expecting a better quarter against 44% of MSEs with <10 employees.

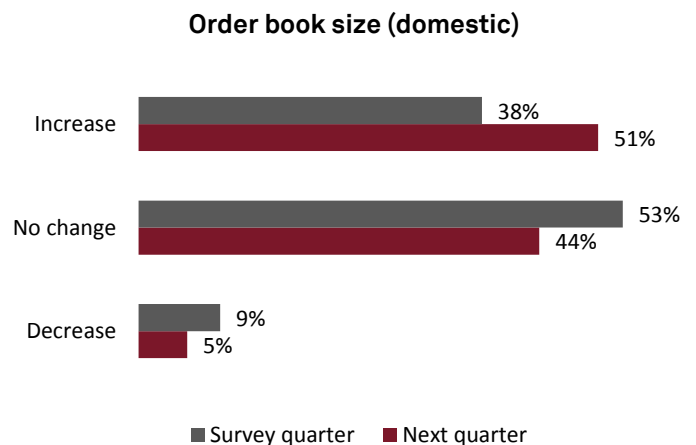


Bars represent share of respondents

Orderbook size

In the survey quarter, 38% of the MSEs catering to the domestic market reported a bigger orderbook, while 53% saw no change, and 9% witnessed a reduction in orders. This is expected to improve in the next quarter with 51% anticipating an improved orderbook and only 5% below-normal.

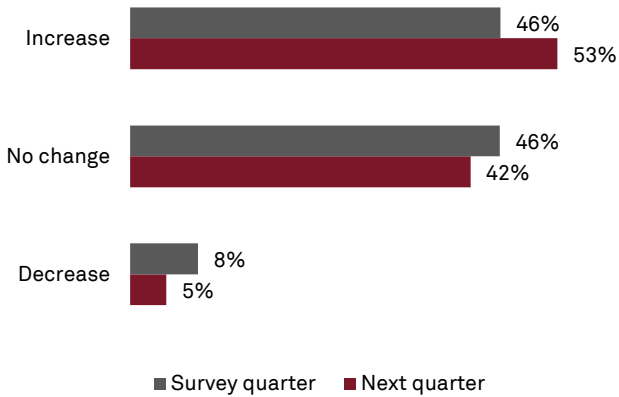
Around 46% of respondents from manufacturing reported an increased orderbook in SQ versus 31% for the services sector. For the next quarter, too, 53% of the respondents in the manufacturing sector expect a better quarter compared with 48% of respondents in the services sector.



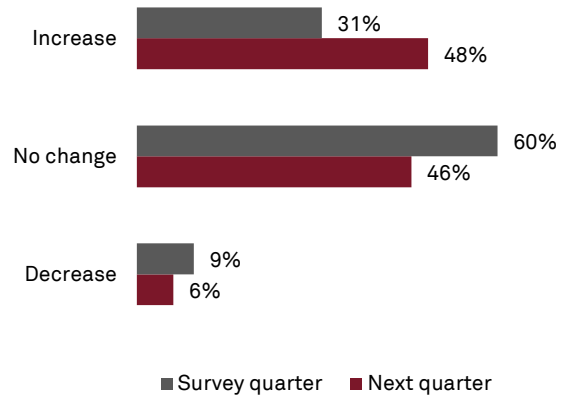
Bars represent share of respondents

In the manufacturing sector, auto components and chemicals industries reported healthy orderbooks. Textiles, pharmaceuticals, and engineering and capital goods also have a strong pipeline of orders.

Manufacturing - orderbook size (domestic)



Services - orderbook size (domestic)

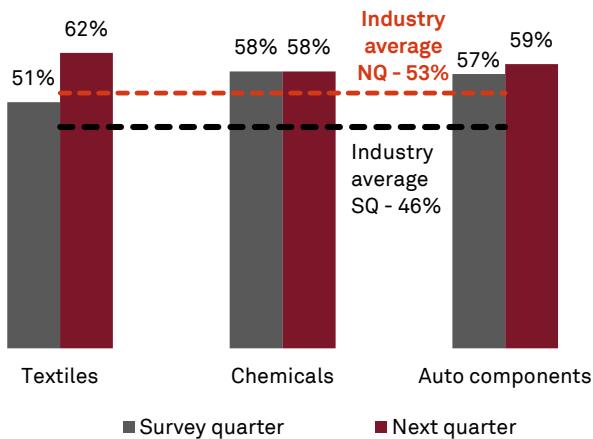


Bars represent share of respondents

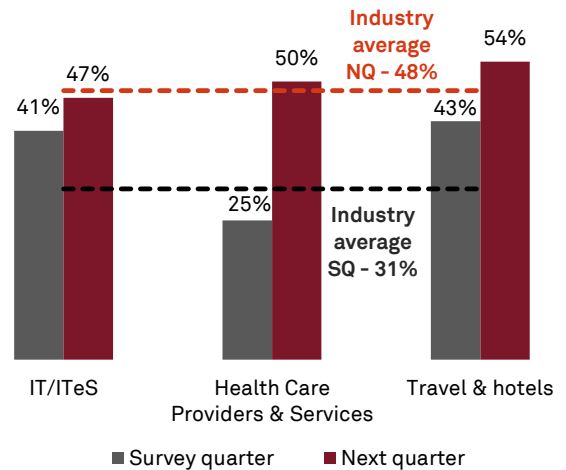
On the other hand, industries with a large presence of unorganised players, such as leather products, gems & jewellery and food products, reported a larger reduction in orderbooks and expect a weaker showing in the next quarter.

In the services sector, MSEs engaged in healthcare providers and services, IT/ITeS and travel-related businesses executed healthy orders and expect a strong pipeline of orders in the next quarter. In SQ, human resource services-related and logistics reported the weakest business volumes. Going forward, in NQ too, 18% logistics-based MSEs reported lower expectations of increased orderbooks.

Manufacturing industries - orderbook size (domestic)



Services industry - orderbook size (domestic)



Bars and lines represent share of respondents

International business

Domestic players reported a much healthier quarter compared with their export-oriented peers. This is inferred from the fact that only 21% of the export-oriented respondents reported increased orderbook size, much lower than 38% in the case of domestic players. Going forward, too, 34% of the exporters expect an above-normal orderbook versus 51% of purely domestic players.

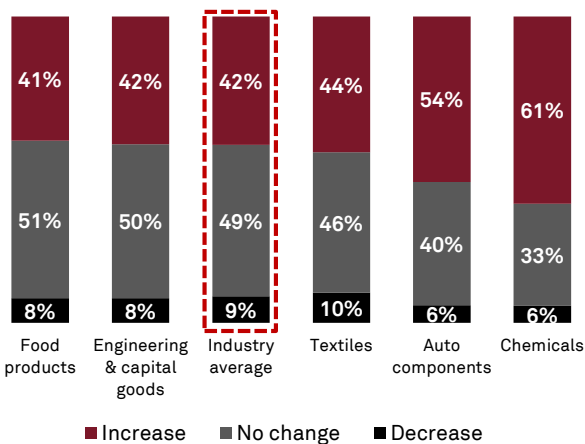
Importers expect more stability. Nearly 80% of MSEs surveyed placed normal orders for imports from their suppliers, while 18% placed higher orders. Going forward, too, less variation is expected among importers. A significant 73% expect to continue placing orders similar to current levels, while those expecting an enhanced purchase book have increased to 25% from the current 18%.

Production cycle

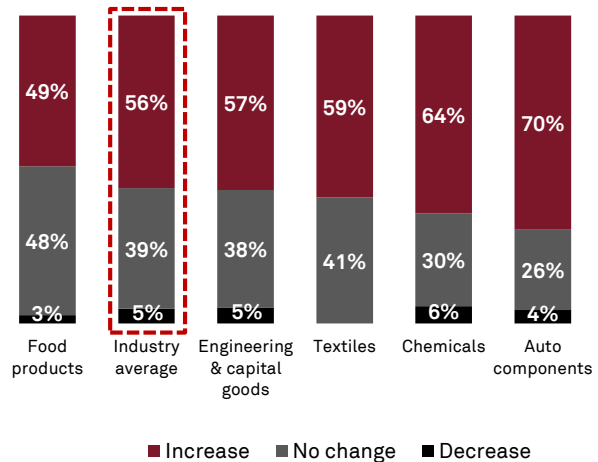
For the manufacturing sector, 49% of respondents did not find any change in their volume of production in SQ, while 9% witnessed a decrease and 42% an increase, indicating overall production was higher than the previous quarter.

MSEs expect improvement in production over the next quarter with 56% of respondents expecting increased production and only 5% expecting it to be reduced. The balance 39% believe production will remain unchanged.

Volume of production (industry-wise) - survey quarter

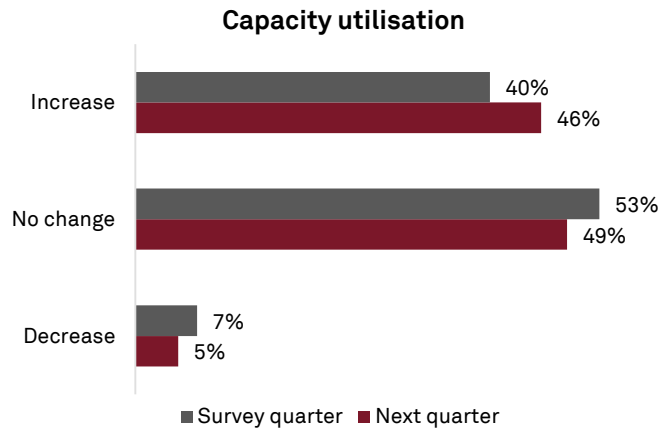


Volume of production (industry-wise) - next quarter



Bars represent share of respondents

On capacity utilisation, 46% of the respondents from the manufacturing sector expect an increase, 49% see no change, while the rest expect it to be lower.



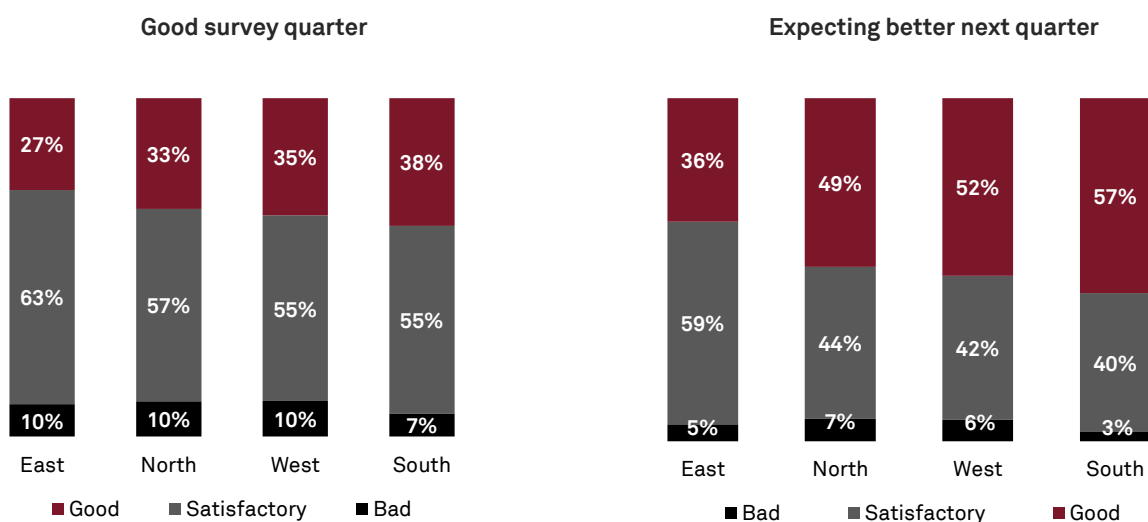
Bars represent share of respondents

Regional sentiment

In the survey quarter, sentiment in South India was the most positive with 38% respondents reporting a good quarter, while the East was the least with only 27%.

Among large states, West Bengal and Uttar Pradesh had a relatively weaker SQ with 17% and 15%, respectively, of the respondents reporting a subdued quarter. Tamil Nadu and Gujarat (46% of respondents each) reported the most positive sentiment. Respondents from Karnataka and Rajasthan also showed strong positive sentiment.

As for the next quarter, Gujarat and Tamil Nadu remain the most positive with 62% and 60% of respondents, respectively, anticipating a good quarter. Delhi, Telangana, Karnataka and Haryana also expect a better performance.



Bars represent share of respondents

Employment scenario to remain moderate

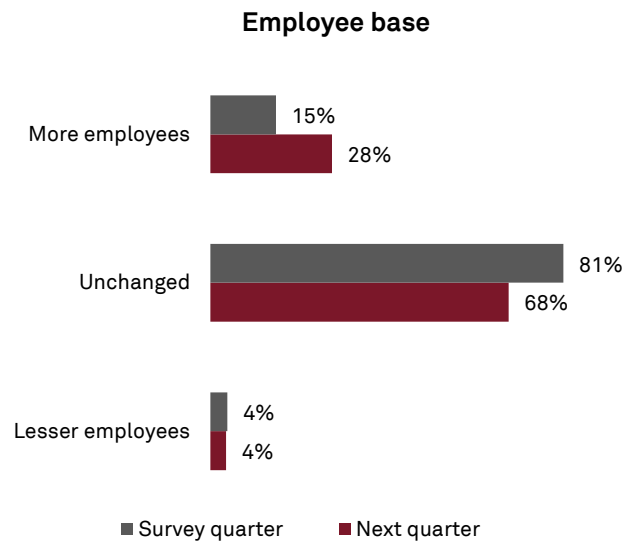
In the survey quarter, nearly 81% of the respondents reported that their employee base remained unchanged, while 15% added more staff. Only 4% either let go or did not replace outgoing employees.

The employment scenario is expected to look up in the next quarter as the share of respondents who intend to recruit more people is 28% versus the current share of net recruitment, while those intending to reduce their employee base is 4%. The majority, or 68%, intend to continue retaining their current employee base with no net addition.

The services and manufacturing sectors are equally optimistic on employment with 15% of respondents in each stating they added employees.

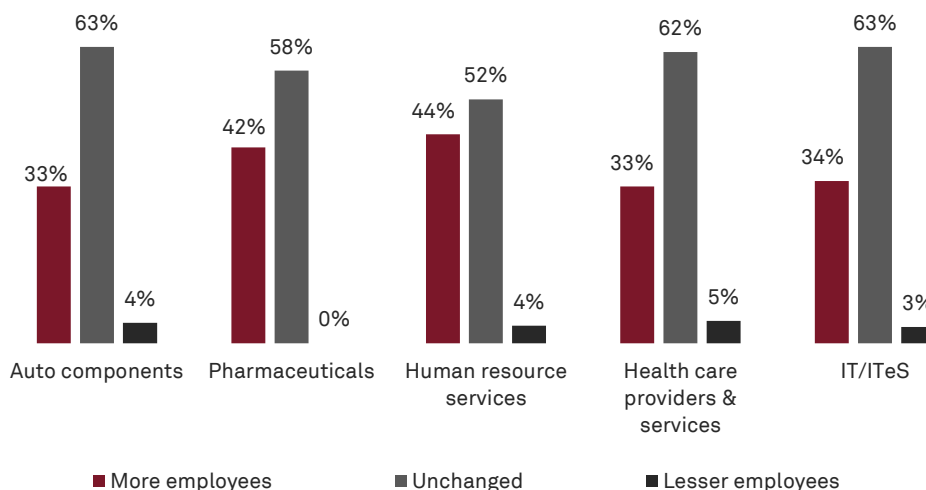
In manufacturing, at 15%, the leather industry had the maximum respondents admitting to a reduction in employee base. The segment is also among the less positive ones going forward with 15% still expecting reduced employee base and only 18% willing to hire more. The pharmaceuticals industry was the most positive in terms of recruitments, with 42% of respondents planning to add employees.

In services, diversified consumer services related players were the most muted employers. Construction and real estate is a mixed bag with 10% respondents stating they let people go, while 18% were net employers. Human resource services and travel-based MSEs are relatively more optimistic about the NQ with at least 40% in each looking to recruit.



Bars represent share of respondents

Employee base in the next quarter in each industry

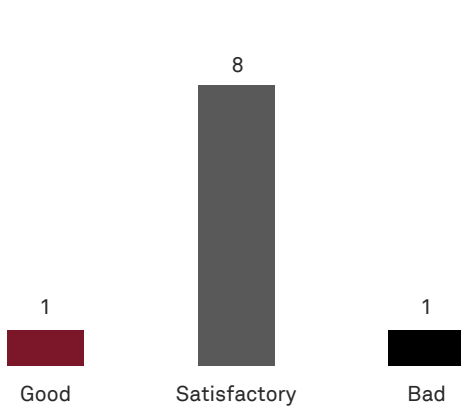


Bars represent share of respondents

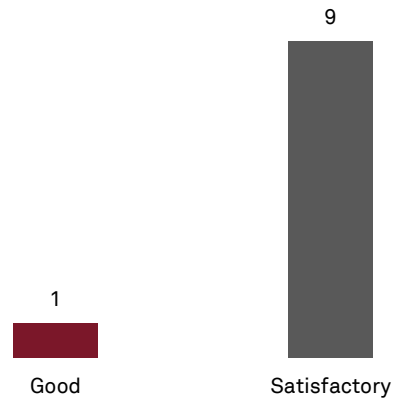
Lender view

CRISIL interacted with lenders, including banks and NBFCs, for their views on the MSE sector. Lenders hold a neutral view for the next quarter with 9 out of 10 saying the overall business situation will be satisfactory.

Business situation in survey quarter



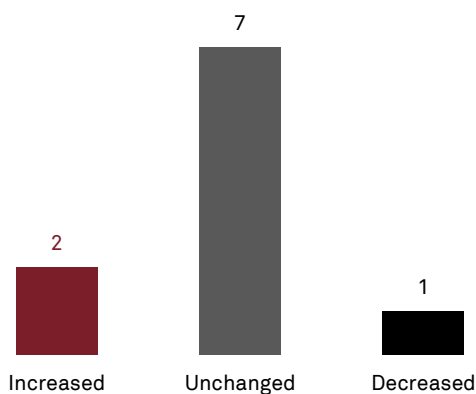
Business situation in the next quarter



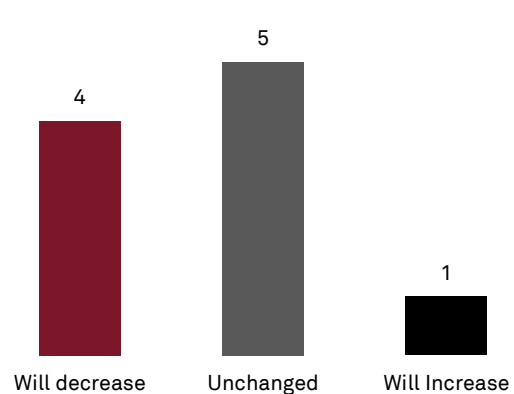
Bars represent number of respondents

As for NPAs in the last quarter, 7 out of 10 lenders did not find any change in the situation of MSE accounts, while 2 believed NPA accounts had increased. In the next quarter, 4 out of 10 lenders expect a decrease in NPA accounts, 5 believe it will remain unchanged, while 1 believes it will increase.

NPA in the survey quarter



NPA in the next quarter



Bars represent number of respondents

8 out of 10 lenders believe it is easy for MSEs to get loans, bulk of it to meet working capital requirements. While demand for credit under government initiatives such as Pradhan Mantri Mudra Yojana and schemes under Central Guarantee Fund Trust for Micro and Small Enterprises has witnessed increased interest, as per lenders, it is the smallest accounts with exposure less than Rs 10 lakh that still find it difficult to get loans.

Low networth and lack of collateral remain the biggest challenges for MSEs to raise funds, followed by absence of bureau scores and weak financial performance of these enterprises.

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

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About SIDBI

Small Industries Development Bank of India (SIDBI), is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities. The business domain of SIDBI consists of Micro, Small and Medium Enterprises (MSMEs), which contribute significantly to the national economy in terms of production, employment and exports. SIDBI meets the financial and developmental needs of the MSME sector with a Credit+ approach to make it strong, vibrant and globally competitive. For more information, visit www.sidbi.in.