

# Thoughts

Reflexion and Analysis for the Indian Market

April 2020

## Impact of COVID-19 on Indian Consumer



## Foreword

The pandemic has set foot in India and is expected to lead the country towards a major slowdown.

Major financial institutions have lowered growth estimates for India by 0.5-1.5%. For example Moody's from 6.6% to 5.3%; OECD from 5.1% to 6.2%; UBS from 5.6% to 5.1% or Fitch from 5.9% to 5.4%.

This is likely to put a downward pressure on markets and industries – Automotive is expected to slowdown at -23.1%; Power -18.3%; IT -16.2%; FMCG -16%; Healthcare -9.2% or Telecom -3%.

## Scenarios of COVID-19's impact on Indian economy and employment

Sector – impact as a % share within the sector		Agriculture, mining	Business, trade, public services	Manufacturing, construction, utilities	Hotels, restaurants	Transport	Total Economy
Best case	GDP	-0.01	-0.01	-0.01	-0.1	-0.03	<b>-0.01</b>
	Employment	-0.01	-0.01	-0.01	-0.09	-0.01	<b>-0.01</b>
Moderate case	GDP	-0.02	-0.01	-0.02	-0.18	-0.04	<b>-0.02</b>
	Employment	-0.01	-0.01	-0.01	-0.17	-0.02	<b>-0.02</b>
Worse case	GDP	-0.04	-0.03	-0.03	-0.31	-0.07	<b>-0.04</b>
	Employment	-0.02	-0.03	-0.02	-0.29	-0.04	<b>-0.03</b>
Hypothetic worst case	GDP	-1.62	-1.11	-0.57	-1.64	-1.25	<b>-1.1</b>
	Employment	-1.7	-1.16	-0.62	-1.64	-1.24	<b>-1.31</b>

## Impact of the COVID-19 on these sectors

- Supply Disruptions

Dependence on China for imports of raw and intermediate materials

Higher input prices and reduced profitability, leading to decline in capacity building

Supply-side disruptions may be temporary as China revives production units

- Global and domestic demand

Consumer spending to take a hit due to movement restrictions and fear of falling sick

Reduced wealth effect due to falling share prices

Hospitality and aviation sectors are impacted the most at a short span of time

Low profitability and production disruptions impact business sentiments and investments

Loss of employment, especially in the informal sector and for contractual workers, reduces consumer spending

Demand in top few export destinations – China, USA, Europe – accounting for 40% of India's exports is severely hit

- Stress on banking and financial sectors and parameters

Banks – exposure to stressed industries and MSMEs; rising consumer loan default because of high unemployment and household leverage; stress on banks impact credit growth

Capital market and financial parameters – the stock market has fallen 30% since pandemic started spreading in the West; a sharp depreciation of rupee against the dollar worsens trade deficit as exports contribution to GDP is low; rising bond yields make borrowing more expensive, thereby reducing bank margins.

- Falling oil prices

Oil prices have fallen sharply. Brent crude oil fell from \$68.5 per barrel on January 3<sup>rd</sup> to \$28.2 per barrel on March 20<sup>th</sup>

Lower oil prices could be a boon for India's twin deficit – the fiscal and current account

Gives policymakers some headroom to act

The rupee depreciation may partially offset the gains. Rupee has depreciated from INR 71.7 per \$ on January 3<sup>rd</sup> to INR 75 per \$ on March 20<sup>th</sup>

## Outlook of select segments within consumer markets

- Food and beverage

Development of the frozen and instant food industry chain is likely to be promoted to ensure supplies during the pandemic

The lockdown situation has led to consumers stocking essential products at home leading to greater demand initially. Further, quick recovery for F&B products is expected after this situation concludes

Consumers' close attention to hygiene and their awareness to improve immunity is expected to surge, prompting escalating consumer demand that can only be met with upgraded materials, techniques and equipment.

- Apparel and footwear

Inventory and distribution challenges amid the lockdown would imply that most enterprises' survival is likely to be determined by two quarters of destocking and withdrawal of funds, prompting reshuffles and integration

Use of on-site workplaces, party venues, gyms and other places of gathering is expected to remain limited, leaving companies with a demand only for indoor products  
Some brands might need to temporarily shut down or even close stores, providing an opportunity for business restructuring and store network reorganization

- Beauty

Fewer makeup scenarios are expected to give rise to new areas of demand, including home makeup, mask makeup and contrast makeup, influencing the pattern of beauty products

Amid the downturn for offline beauty stores, demand for in-home skincare is expected to increase

Supported by increasing use of virtual technologies, online shopping is likely to gradually replace offline shopping, making decentralization imperative for the industry.

- Retail

Non-contact demand during the pandemic is expected to boost sales at smaller stores that can host smaller crowds at a time. However, supermarket chains have ensured supply of products at regular prices

Due to the pandemic's impact on consumer behavior and habits, online-sales are expected to witness a significant surge, even after the industry recovers

The establishment of online platforms is expected to become indispensable for offline stores, and online-offline service integration is expected to increase.

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