



## **Brickwork Ratings Credit Alert - COVID-19**

### **Vaccination Program and Measured Restrictions Help Businesses Stay Afloat during Second Wave**

**Brickwork Ratings, Mumbai, 31 May 2021:** The deadly coronavirus disease (COVID-19) has continued to spread at a faster pace in the second wave, crossing the grim milestone of over 4 lakh cases and over 4,500 deaths recorded in a single day. India's record high infections have put the country's health infrastructure under tremendous pressure, resulting in a shortage of hospital beds, oxygen and essential drugs. This prompted many states to take safety measures and announce localised restrictions and curfews in different forms. The magnitude of these restrictions was not as stringent as it was in the first wave. As per Brickwork Ratings (BWR), while uncertainties prevail, the impact on the business and overall economy is likely to be lower than that in the first wave as agriculture, construction, manufacturing and other essential activities are permitted to continue.

Without hampering the nation's economic state, the safety of the Indian population has been taken care of in the form of localised lockdowns, restricting mobility in an effective manner in this global fight against the virus. Vaccination programmes have been initiated at optimised levels in all hospitals. The earlier imposed complete lockdown of businesses, factories and firms is not considered to be the effective tool anymore; now, restrictions have been imposed in a precise manner. Thus, economic activities continue, and the Reserve Bank of India (RBI) has announced several measures to help healthcare providers, medical suppliers and small businesses through various financial packages.

The RBI relaxed lending and restricting norms for small businesses and MSMEs impacted by Covid-19 and allowed priority lending facilities for vaccine manufacturers and other firms supplying medical equipment. The RBI also allowed access to term liquidity facilities worth Rs 500 billion for emergency health services.

According to the Finance Ministry report, the overall financial conditions remained accommodative, but credit growth remained muted at 5.3% as on 9 April 2021. Sectorally, agriculture, the medium industry and trade services led the credit offtake in March 2021, while credit to the small and large industries and NBFCs remained subdued. However, easy financial conditions enabled the corporate sector to raise funds from financial markets.

At present, the infections seem to have peaked, and the daily cases and positivity rate are gradually declining; however, the high number of deaths continues to remain a cause of concern. Although there has been a shortage of vaccines, the situation is expected to improve substantially in the coming weeks, with the government focusing on accelerating the immunisation of the working group (18-45 years).



With steady decline in cases and the increase in vaccine coverage, BWR expects a staggered lifting of the restrictions, albeit cautiously, by the state governments. Hence, certain sectors that were under the high-impact category during the first wave will not be severely impacted in the second wave and will see a faster recovery if the pandemic situation subsides in the country.

**Rajee R, Chief Ratings Officer, Brickwork Ratings, says, "We are closely monitoring the impact of the second wave of Covid-19 on the business operations and liquidity position of our rated clients, as businesses are facing crisis on multiple fronts. There remains a high degree of uncertainty about the economic effects of the pandemic and its impact on credit conditions. We expect that the measured restrictions imposed by the governments, recent steps taken by RBI for pandemic-impacted MSMEs and the extension of the scope and reach of the Covid-19 vaccination programme may pave the way for some normalcy in economic recovery."**

BWR will take appropriate rating actions based on its assessment and publish them in due course.

#### **BWR-Rated Sectors and Expected Impact of Covid-19 Second Wave**

Sectors	Impact of Covid-19 (First wave)*	Impact of Covid-19 (Second wave)	Entities Rated by BWR (Share in total)	Reason
Engineering & Capital Goods	High	Moderate	7.4%	Partial opening of economic activities. While concerns around labour migration remain to some extent, declining interest rates and a pick-up in execution on the ground would provide a fillip to the sector
Automobiles & ancillaries	High	Moderate	4.1%	Demand revival over low base last year, robust delivery channels of hotel industry and pent-up demand being the major reason. While the sector has been impacted due to the discretionary nature of consumer spending, the revival is expected on the back of expected acceleration in India's vaccination program
BFSI	High	Moderate	2.7%	Credit growth may remain low, however revival in collection cycle to support. As economic activity has not been impacted much, cash flow remains positive
Hotels & Tourism	High	High	1.9%	Continue to suffer the consequences of restricted mobility. Restrictions and curfews imposed by states have resulted in sharp decline in footfalls leading to permanent shutting down of many units in the sector
Gems & jewellery	High	High	1.4%	Continue to suffer buying deferment due to lower disposable income and also high dependence on labour. Given that the economies to which these are exported are at advanced stages of vaccination, if this trend persists, the recovery in this sector could be faster.
Transportation	High	High	1.1%	Restrictions on train travel remain and mobility remains reduced. The aviation sector continues to reel under the impact of restricted mobility, both in domestic as well as international travel.

Sectors	Impact of Covid-19 (First wave)*	Impact of Covid-19 (Second wave)	Entities Rated by BWR (Share in total)	Reason
Media & Entertainment	High	Moderate	0.6%	Localised and less stringent restrictions allow a slight scope of growth. Extended WFH and online schooling helped growth in online streaming, but led to a stoppage in film production, and the non-release of movies in theatres had a major impact. Print media continues to be highly impacted.
Textile & Accessories	Moderate	Moderate	10.6%	Fall in demand for discretionary goods. While supply chain disruptions are likely to impact, an improved recovery in export markets could accelerate recovery of the sector.
Metal & Metal products	Moderate	Moderate	7.4%	Pick-up in demand; certain disruptions due to diversion of industrial oxygen. The sector has witnessed a slight halt after an impressive growth witnessed in Q3FY21 and Q4FY21
Real Estate	Moderate	Moderate	5.2%	Disruptions at regular intervals a major drag. Pandemic-induced negative sentiments, inclination towards cash conservation for exigencies, exodus of labourers and piling up of unsold inventory remain key concerns. Extended WFH situation has impacted rentals and sale of commercial spaces
Infrastructure	Moderate	Moderate	5.6%	High government spending announced in budget a positive, however timing of spending and labour migration or return to the sites remain uncertain
Construction & construction material	Moderate	Moderate	3.5%	Has the potential to withstand disruptions. Increase in prices for raw materials like cement, steel, etc. and exodus of labourers compound the issues in the pandemic
Chemical & chemical products	Moderate	Moderate	3.1%	Higher crude prices getting offset by rising demand from Pharma industry. That said, slower growth in demand from industrial and automotive sectors, disruptions in supply chain plus the risk of on-ground work force contracting the virus could further worsen things
Power	Moderate	Moderate	2.2%	Demand growth remain muted mainly on account of lockdown like restriction resulting in industries operating at lower capacity
Consumer Durables	Moderate	Moderate	1.3%	Lower purchasing power keeps demand in check and also the discretionary nature of the sector could delay recovery.
IT & ITES	Moderate	Low	0.7%	Higher demand for IT/ITeS; better economic prospects in US and Europe
Agriculture & Agro-Based Products	Low	Low	9.4%	Agriculture being under essential category barely impacted by the pandemic. Spread of virus in rural areas is a concern.
FMCG	Low	Moderate	6.8%	The sector witnessed higher offtake, is functioning with minimal restrictions; however, negative sentiments & cost consciousness remain a concern
Education	Low	Moderate	3.3%	There is a looming uncertainty on the back of prolonged disruptions due to pandemic resulting in educational institutes remaining shut for an indefinite period.
Pharma & Healthcare	Low	Low	2.7%	Higher demand for medical supplies in domestic and global market. Pricing, product and volume growth have all contributed towards improved numbers amidst the pandemic
Oil & Natural Gas	Low	Moderate	0.2%	Rise in prices pinches the sector

Note:\* Please refer to our earlier report in this [link](#)



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