COVID-19: India Perspective
Global Overview

- COVID-19 confirmed cases accelerating exponentially in several epicenters, particularly Europe and North America; Spread to 160 countries now

- Global equity markets have aggressively reacted to virus’ spread beyond China with 30-35% erosion in value since past 4 weeks; S&P500 saw the fastest 10% fall from the peak in a week

- Many countries, including India, have imposed travel and assembly restrictions, non-essential business closures to contain the spread

Perspective on current situation in India

- Indian GDP growth was slowing down but was showing early signs of recovery

- COVID-19 cases in India are doubling every 5 days, with majority of cases concentrated in 3 states; currently standing at 195

- Impact of COVID-19 beginning to show - Consumer footfall declined and spending pattern has changed in past 2-4 weeks

- Industries are getting differently impacted by COVID-19, though too early to call. Pharma, Digital Media, Consumer-staples protected so far, some others, such as Travel & tourism, Entertainment, Automotive, Durables, Consumer-discretionary, etc. are seeing significant disruptions. Second order effects started to play out
Emerging Macro-scenarios

- COVID-19 impact and recovery scenarios are changing by the day; Three potential scenarios could emerge - Rapid recovery (V) or Slow comeback (U) or Protracted challenge (L) driven by 1. Evolving properties of the virus, 2. Containment & mitigation efforts, 3. Treatment / vaccine development lead-time, 4. Policy & fiscal response

- Significant uncertainty around the geometry and intensity of the shock

- COVID-19 scenario is unprecedented - high contagious rate (vs. earlier flus), large scale lockdowns, and fear & panic due to digital connectivity

Call for action

- Prepare for multiple scenarios - Understand the drivers for your sector and develop an action plan across three time horizons
  - Act Now:
    - Setup a rapid response office
    - Safeguard people and customers
  - Prepare for Near term:
    - Stress test the financials
    - Manage revenue & demand
    - Reconfigure supply chain
    - Renew business planning
  - Build for Medium term
    - Restructure, Reposition, Reimagine the business
Focus of this document

- Global Overview
- Current situation in India
- Emerging Macro-scenarios
- Call for action
Global overview
160 countries infected; Most following similar path of exponential growth until strong interventions made

Total cumulative number of confirmed cases (Log scale)

World-wide COVID-19 Cases
(Link to animated map of daily movement)

1. Number of days after exceeding 30 confirmed cases
Source: Johns Hopkins CSSE, BCG Henderson Institute analysis
Global equity markets have aggressively priced risks following spread to Europe, US and other nations

Markets looked past COVID-19’s spread in China

Inflection with virus’ spread to Europe, USA and beyond

Cumulative returns (%)

Source: Bloomberg; BCG Center for Macroeconomics analysis
Global & Indian indices fell by ~30% in 4 weeks - impact of COVID-19

COVID-19 drawdown from Feb 21st to 27th stands out as fastest 10% fall in the S&P 500 index from peak

Market has continued to decline due to COVID-19, at a much faster pace on both indexes than SARS (2002); it is comparable with 2008 recession

Source: Bloomberg; BCG Center for Macroeconomics analysis
### Most countries now responding strongly to the outbreak

<table>
<thead>
<tr>
<th>Country</th>
<th>School closure</th>
<th>Restricted assembly</th>
<th>Non-essential business closure</th>
<th>International travel restrictions</th>
<th>Internal travel restrictions</th>
<th>Non-essential local movement</th>
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**Note:** Includes nationwide actions and actions taken by major local or regional governments. 2 Some German + US rail services are being reduced but not through government pressure. International travel restrictions flagged if any bans put in place or limits in place; Internal travel restriction includes reductions in public transport, or restricted access; Non-essential businesses include at least restaurants, entertainment venues; School closures are any mandatory state closures; Assembly restrictions include mandatory and advised restrictions on large groups, restrictions on e.g., faith based gatherings; Non-essential local mvmt includes stated restrictions on being outside or curfews; Source: Government and media reports

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**US** announced ban on non-citizen travel from EU countries; all federal govt. bodies taking active measures

**Italy** has expanded lockdown to cover entire country and call on for student doctors into service

**Despite limited restrictions, new cases in South Korea have significantly reduced due to its extensive & organized testing & quarantine efforts**

Data as of 19 Mar
Current situation in India
Indian GDP growth was slowing down

Quarterly growth, % change Y-o-Y

Note: Past year/quarter data may vary from the previous versions of the Economic Monitor owing to restating of previous years’ data by the CMIE/reporting agencies. Recasts for the upcoming quarters (bar graph) and estimated overall growth rate (line graph).

Source: CMIE, BCG Analysis
Multiple indicators were showing early signs of recovery in Q4’19 & early Q1’20

Exports & imports recovering in Q4’19 after a 6 month slowdown

Steady growth observed in IIP since Q4’19

Expansion in manufacturing & services PMI since Q4’19

Source: CMIE
COVID-19 hit India in Mar-20; cases are doubling every 5 days, with majority of cases concentrated in 3 states

Total confirmed cases of COVID-19, India
- Out of these 195 cases, 20 have been cured/discharged and 4 deaths

Source: Ministry of health website; Johns Hopkins CSSE, Ministry of health & family welfare, World Health organization, Economic times
Indian health ministry & state governments have exercised varying degrees of precautionary measures

**Travel advisory**
- Ban exercised on all international commercial passenger flights;
  - SpiceJet, Vistara, etc have suspended their international operations
- Internal travel bans implemented by state government at varying degrees
  - Punjab govt. suspended public transportation
  - AC local train services suspended in Mumbai
  - Chhattisgarh interstate bus services suspended

**Social distancing**
- National lockdown 'Junta Curfew' declared by PM Modi on 22 Mar
- Closure of all educational establishments, gyms, museums, cultural & social centers, swimming pools & theatres initiated by states to contain the spread incl.
  - Lockdown announced in cities of Mumbai, Pune, Nagpur until 31 Mar
  - Section 144 invoked in select areas across the country
  - All tourist places in Meghalaya to remain closed
  - Karnataka under partial lockdown; international flyers isolated

**Testing & quarantine**
- All individuals requiring to be tested are offered tests at no cost
- Kolkata Port to quarantine vessels arriving from COVID-19 hit countries
- Maharashtra, Karnataka, Delhi stamping people under home quarantine

Source: Ministry of health & family welfare, Press release
Consumer footfall declined, spending pattern changed in past 2-4 weeks

Significant impact on footfall, sales for different categories observed in past 2-4 weeks across major Indian cities

<table>
<thead>
<tr>
<th>Category</th>
<th>Impact Description</th>
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<tbody>
<tr>
<td>Pulses, Cooking Oils, Hygiene Products, Packaged Food, Fast-moving Staples, Healthy Consumables</td>
<td>15-80% sales increase depending on category, retailer</td>
</tr>
<tr>
<td>Eateries</td>
<td>40% fall in customers, recent shutdowns will lead to further decline</td>
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<tr>
<td>Shopping Malls</td>
<td>20% decline in footfalls, recent shutdowns will lead to further decline</td>
</tr>
<tr>
<td>Apparel Stores</td>
<td>25% decline in footfalls, recent shutdowns will lead to further decline</td>
</tr>
<tr>
<td>Entertainment</td>
<td>35% decline in sales, recent shutdowns will lead to further decline</td>
</tr>
</tbody>
</table>

Data as of 19 Mar

Press Reports, Secondary Research
Among other sectors, Travel, Auto continue to remain sluggish, Financials may face further challenges in recovery

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Demand Side Impact</th>
<th>Supply Side Impact</th>
<th>Net Magnitude of Impact</th>
</tr>
</thead>
</table>
| Travel & tourism | • Airlines, Hotels witnessing **substantial decline**  
                     • Mobility platforms have seen **volumes dip 30%** | • Airlines **reducing capacity**, Hotels may close  
                     • Select airlines with new fleet could be disproportionately impacted | **↓ ↓ ↓** |
| Consumer (Discretionary) | • **Demand to decline**, impact expected on Food (Eating Out), Apparel, Alco-bev | • Malls, multiplexes, Gyms **shutdown across cities**  
                     • Conferences, Sports events postponed/cancelled | **↓ ↓** |
| Auto          | • **Passenger Cars: Will remain sluggish** due to postponement of purchase  
                     • Commercial Vehicles: **uncertainty** in demand | • **Restriction of parts from China** and other severely impacted countries will impact manufacturing  
                     • **Possible shutdowns**, reduction in production | **↓ ↓** |
| Financials    | • **Economic fallout of shutdowns can create challenges** for MSME/SME sector leading to **new wave of NPAs** | • **Limited supply side impact** | **↓ ↓** |
| Infrastructure | • Govt may **postpone announcement** of new large capex projects | • **Infrastructure will continue to face funding constraints** due to tight government balance sheet and risk aversion in banks/NBFCs | **↓ ↓** |
| Petroleum     | • **Potential demand decline** in the short term due to reduced travel | • **Oil price decline will be positive for downstream companies** | **↓ ↓** |
| Steel/Cement  | • **Demand slowdown seen**—recent price rise in Steel with Chinese imports has come down  
                     • Building Materials—**some slow down expected** due to reduction in overall economic activity | • **Possible reductions** in production | **↓** |
| Chemicals     | • **Some slowdown expected** due to reduction in overall economic activity | • China and other severely impacted countries **supply disruptions** can create some short term impact | **↓** |

Source: Industry report analysis, Analyst reports, Press reports, BCG Analysis, Expert interviews
Pharma, Consumer-Staples witnessing increase in demand

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<th>Net Magnitude of Impact</th>
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</thead>
<tbody>
<tr>
<td>Energy &amp; Utilities</td>
<td>Some slowdown expected due to reduction in overall economic activity</td>
<td>Disruptions in coal, solar, wind etc. supply chains; Solar PV industry is dependent on China for supplies</td>
<td>↓</td>
</tr>
<tr>
<td>IT/IT Services</td>
<td>Demand impacted due to slowdown in the broader economy of developed markets; Dollar appreciation is positive</td>
<td>Supply model affected in several places with travel restrictions, lockdowns</td>
<td>↓</td>
</tr>
<tr>
<td>Consumer Durables</td>
<td>Consumer appliances like Fans, Coolers might see some slowdown due to economic disruption</td>
<td>Supply chain issues related to sourcing from China, other severely impacted countries</td>
<td>↓</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Limited impact on demand side, especially for staples</td>
<td>Possible labor shortages, logistics issues due to lockdowns, restricted movements</td>
<td>–</td>
</tr>
<tr>
<td>Consumer (Staples)</td>
<td>Demand to remain stable—might increase in short term because of stocking demand</td>
<td>Increase in servicing customers through online and last mile delivery</td>
<td>↑</td>
</tr>
<tr>
<td>Telecom</td>
<td>Demand for telecom services could increase slightly due to cut down on travel</td>
<td>China, South Korea supply disruptions can create some short term impact on equipment sourcing</td>
<td>–</td>
</tr>
<tr>
<td>Pharma</td>
<td>Positive for the sector with demand for essential medicines going up</td>
<td>Might be short term disruption due to shortage of certain APIs</td>
<td>↑</td>
</tr>
<tr>
<td>Media</td>
<td>Significant high demand for online streaming, e-gaming expected</td>
<td>Movie, other new media production may slow down, Mandatory closures of movie theaters</td>
<td>↑ Digital ↑ Traditional</td>
</tr>
</tbody>
</table>

Source: Industry report analysis, Analyst reports, Press reports, BCG Analysis, Expert interviews
Emerging Macro-scenarios
Three macro-impact scenarios emerging under COVID-19

1. **Sharp-rapid recovery (V)**
   - *De minimis* impact on the present value of future output
   - No lost output
   - Lost output

2. **Slow comeback (U)**
   - Large and perpetual loss of present value of future output
   - Same perpetually lost output
   - Perpetually growing lost output

3. **Protracted challenge (L)**
   - Ever growing loss in future output & infinite loss of future value
   - Perpetually growing lost output
   - Lost output

Multiple factors will determine scenarios:
- Evolving properties of the virus
- Containment & mitigation efforts
- Cure / vaccine development lead-time
- Policy & fiscal response

Source: BCG Center for Macroeconomics analysis
Flu shocks in the past have all been V-shape
Historical precedents interesting, not predictive

2003 SARS
(299 deaths in Hong Kong)

1957/58 H2N2
(116k deaths in U.S.)

1968 H3N2
(100k deaths in U.S.)

1918 Spanish Flu
(675k deaths in U.S.)

Source: U.S. Census, BEA, CDC, Census and Statistics Department (Hong Kong), BCG Center for Macroeconomics analysis
Significant uncertainty around the geometry and intensity of the shock

Scenario description

1. Tactical call
   - i.e. “intensity” of the shock, a different dimension from “geometry”
   - Will be basis for near-term response (activity, output, staffing, suppliers, etc)

2. Strategic macro call
   - i.e. “geometry” of the shock: will it be a V, U, or L shape and what does it imply
   - Will be basis for strategic response (capex decisions, business model adjustments,...)

Source: BCG Center for Macroeconomics analysis
Constant monitoring of factors needed to identify type of scenario that might emerge

Best Case - Scenario V

- Employment maintained through economic support measures
- Significant policy response & fiscal support
- Single main spike of infections with small manageable subsequent spikes
- Rapid drive to vaccine / effective treatment
- Single lock down lasting for a short period, with a return to normal afterwards

Worst Case - Scenario U/L

- Multiple spikes of infection, in different phases across countries
- Slow / unsuccessful treatment, or sustained effort needed
- Repeated lock downs with only moderate return to normalcy in-between
- Large scale unemployment leading to reduced income and consumption
- Slow or insufficient policy response

Source: Imperial college paper, BCG analysis
Situation under COVID-19 is still evolving and unprecedented

3.5 - 5.5\(^1\) People infected per person, highly contagious

~160 Countries affected till date, globalization has lead to rapid spread

12-18 months Lead-time expected for vaccines, no credible cure available today

2.1 Billion Media mentions so far. Digital connectivity adding to fear & panic

? Effects of large scale lockdowns & social distancing are unclear

Source: Press search, analyst reports; 1. \(R_0\): Avg. # of people infected by each sick person at the peak of transmission (when the susceptible population is at its greatest); Source: Bridgewater Associates, National Health Commission China, American Journal of Epidemiology, US National Library of Medicine, BCG Henderson Institute analysis
the reality is unknown ... ... and we need to plan for all eventualities
Call for action
Call for action: Act now, Prepare for near term, Build for medium term

Now:
Act on immediate priorities

1. Set up a rapid response squad
   Dedicated responses & decisions for immediate priorities

2. Safeguard employees, teams & customers
   Ensure business continuity

Near-term:
Prepare for the rebound

3. Stress test the financials
   Manage liquidity and cash

4. Manage revenue & shape demand
   Re-focus product & service offerings

5. Re-assess business plans
   Re-strategize in uncertain scenario

6. Reconfigure supply chain
   New operating models

Medium-term:
Build structural competitive advantage

7. Restructure, Reposition, Reimagine
   Act to win, take advantage of adversity, redefine purpose
Set up a rapid response squad

1.1 Mobilize senior team to act immediately

1.2 Identify a cross functional senior stakeholder team to set-up a “rapid-response team” with clear decision rights to take control of the situation led by CEO

1.3 Build a rapid response check-list and actively setup tracking capabilities

1.4 Setup PMO to identify & monitor risks to business; Plan for contingency

1.5 Set process to have a day-to-day agile approach to navigate changing environment & actively monitor the situation

1.6 Design a communications mechanism for decisive & accurate information transfer

1.7 Continuously monitor the regulatory requirements & ensure adherence

1.8 Collate & build in the learnings from crisis management to make it an essential part of the business going forward

Access BCG’s Rapid-response checklist here
2.1 Update hygiene program (incl. quarantine requirements) to ensure safe environment for employees and customers

2.2 Prepare for various incident use cases & train people to act as per protocol

2.3 Plan & execute logistical support/ required infrastructure/ solutions for both employees & customers to enable new ways of working

2.4 Accelerate smart work by arranging flexible working plans (rosters etc.) for business continuity

2.5 Outreach to key accounts / customers to understand and address consumer sentiments/ requirements

2.6 Assess potential impact of virus spread on company workforce and plan for mitigations strategy (scenarios, training)

2.7 Build communication plans to have more regular touchpoints and monitor employees’ morale & performance during crisis period, plan for relief measures

2.8 Spread awareness and follow the protocols highlighted by health authorities

2.9 Plan to incorporate new working styles, leadership continuity & fungibility into “new normal” post crisis
Stress test the financials

3.1 Establish liquidity office to forecast cash flows and manage/mitigate risks

3.2 Ensure rigorous, prudent cash management and governance and reduce non-critical uses of cash

3.3 Assess viability of current investment roadmaps and dividend policy and share repurchase plans

3.4 Stress test cash-flow from financing / investing based on market scenarios

3.5 Develop concrete action plans based on 3-5 medium term macro-economic scenarios (i.e. "U", "L", "V")

3.6 Engage with shareholders and clearly communicate action plans to key stakeholders

3.7 Revise target-setting and objectives (e.g., sales targets, production plans, related KPIs)

3.8 Re-define budgets and targets as frequently as possible and necessarily (e.g., daily, weekly, monthly) by geography/market/segment
4.1 Establish demand-side rapid response team to monitor marketing, sales and pricing implications

4.2 Understand changing customer needs, assess 1st order impact, downside risks on revenues, customer pipeline, accounts receivables

4.3 Optimize pricing and product offering to meet immediate consumer needs

4.4 Targeted account management to protect high risk accounts and potentially expand share of business

4.5 Reach out to customers/distributors to understand their needs (e.g. provide credit line), leveraging your salesforce in new ways

4.6 Define actions/messages to show confidence and ensure ability to deliver to customers (e.g., multichannel, people-light approaches)

4.7 Craft new product and service story and create new selling points, cautiously select marketing channels during epidemic

4.8 Look for new channels and new disruptive formats that work under epidemic

4.9 Explore opportunities to configure “comeback celebration campaign” in advance, quickly pick up ad spending post-epidemic

Manage revenue & shape demand
5.1 Understand and prioritize scenarios & analyze their potential evolution

5.2 Evaluate potential impact on the company’s financial performance and operations & stakeholders (employees, customers and suppliers)

5.3 Create tailored response plans to mitigate scenarios

5.4 Build a roadmap for response plans laid out

5.5 Plan new cost take out to improve profitability
Reconfigure supply chain

6.1 Set up an operational core team to create transparency (e.g. along supply chain)

6.2 Categorize operations by business criticality (systemic, critical, optional) & assess exposure; Plan for contingency, right sizing / closing select operations

6.3 Adjust inventory in real time, reshuffle to new reality, avoid inventory glut

6.4 Understand liquidity & business position of key suppliers and associated risks
   - Identify alternative suppliers for critical components, plan for changing lead times and re-route logistics
   - Set up dedicated funding or adjust trade terms to address cash flow concerns of suppliers

6.5 Ensure procurement control tower in place (e.g., PO authorization processes, active management of open POs and delivery schedules)

6.6 Maintain ongoing relationship and extend credit to key distributors to secure core channels and quickly replenish after the epidemic

6.7 Leverage intelligence (e.g. activate your salesforce for customer/distributor reach out or surveys) to identify "infection point" and ramp up sales activities, inventory, and trade support

6.8 Deploy resources to jumpstart social/O2O strategic collaborations, and pilot test new operation models

6.9 Identify and implement levers to improve efficiency
Restructure, Reposition, Reimagine

7.1 Leverage lessons learned from global firms in countries where the crisis has progressed further (e.g., China)

7.2 Track competitors’ situations and actions to inform strategic, operational, and financial decision-making

7.3 Conduct market landscaping to understand the changed market dynamics

7.4 Lay out a dynamic roadmap to go on offense against competition

7.5 Begin scanning M&A landscape and organic growth opportunities,

7.6 Scan market for new potential opportunities to diversify into as adjacencies (e.g., collaboration models, health insurance etc.)

7.7 Prepare for shift in customer behaviors (e.g., going digital)

7.8 Integrate new ways of working to make the new normal
How can BCG help you?

Engage as a partner
We will partner with you in getting the rapid response team kick-started with an agile working model

Plan for the unknown
We will drive a scenario wise assessment of company's exposure & outline mitigation roadmap

Support on immediate priorities
We will work with you to deep-dive on critical priorities to layout a detailed action plan

Capitalize on emerging opportunities
We will work with you to scan for emerging new opportunities (M&A, diversification) to enable acting early

Bringing best-practices to you
We will bring in the latest learnings and best-practices from around the world
Legal context regarding our support

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