

Arthimpact Digital Loans Private Limited

Impact of COVID on Micro Businesses and the Road to Resilience



JULY 2021

CONTEXT



The Micro Small and Medium Enterprise (or MSME) sector is the country's second-largest employment generator and accounts for nearly one-third of the country's GDP. As per MSME Ministry's annual report 2020-21, there are around 6.33 crore MSMEs in India out of which 6.30 crore (over 99 per cent) are micro-enterprises.

With 94% of the micro-enterprises in India being informal, the sector is more likely to bear the brunt of the pandemic. According to an RBI survey, the MSME segment has been among the five sectors adversely affected by the pandemic.

The first wave of COVID and the national lockdown implemented to contain it had given an unexpected blow to the MSME sector. The MSMEs had not recovered completely from the first wave when the emergence of the second wave cast another blow to the already fragile sector. This led us to connect with the micro-enterprises, empathize with them and assess:

- How deeply have they been impacted by the pandemic?
- What are their and their families' health conditions?
- How is their sentiment about the market?
- How is their business performing currently?
- What kind of support do they need for their business?

Preeti Awasthi, Garment Shop Owner, Lucknow



CHAPTER 1

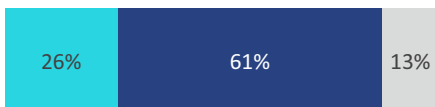
IMPACT OF COVID ON THE BUSINESS & SENTIMENT OF MICRO-ENTERPRISES

Micro-businesses are resilient and optimistic about recovery despite being affected due to the pandemic

KEY INSIGHTS

- **26%** Micro-enterprises have robust business despite the pandemic
- **79%** businesses are optimistic about the future market scenario
- While **61%** businesses faced a decline in their business, only **1%** businesses were permanently shut down
- Out of the total negatively impacted micro-enterprises, **81%** were optimistic about future market scenario
- Out of the total positively impacted micro-enterprises, **94%** are optimistic towards future market scenario

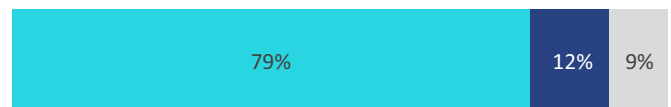
State of business during COVID



No of **Micro-enterprises**

■ Robust ■ Decline ■ Prefer not to say

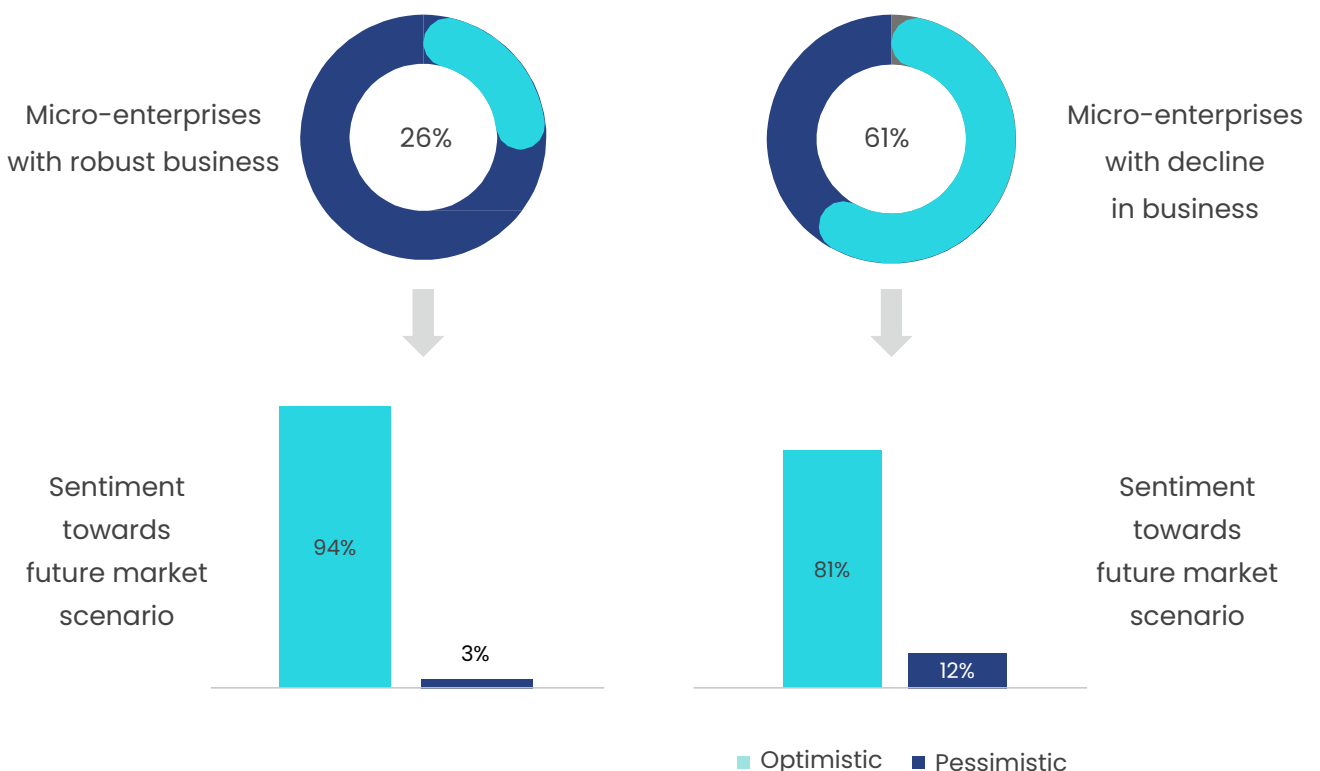
Sentiment towards future market scenario



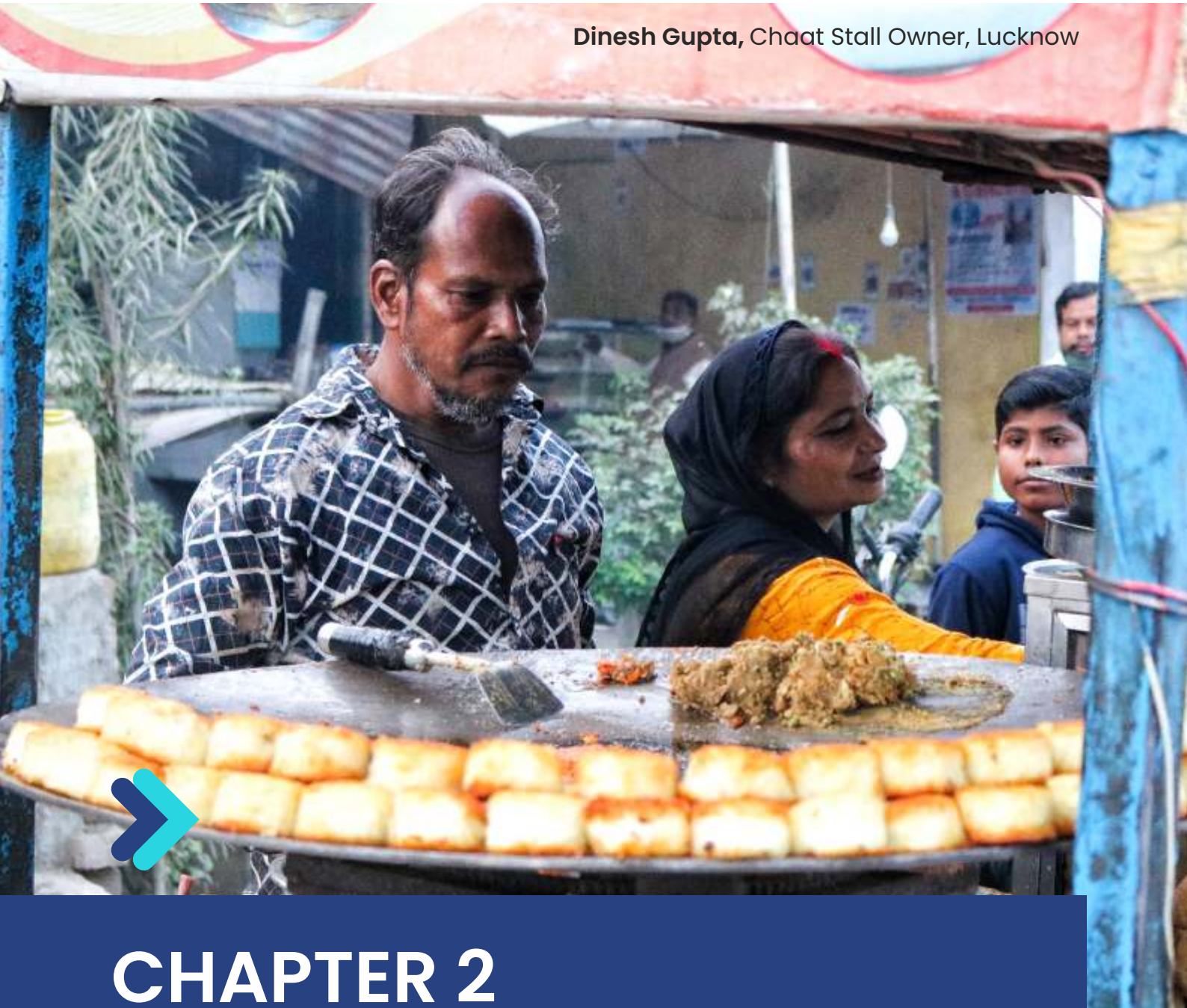
No of **Micro-enterprises**

■ Optimistic ■ Pessimistic ■ Prefer not to say

⊗ Strong Resilience: Only **1%** micro-enterprises permanently shut down



Dinesh Gupta, Chaat Stall Owner, Lucknow



CHAPTER 2

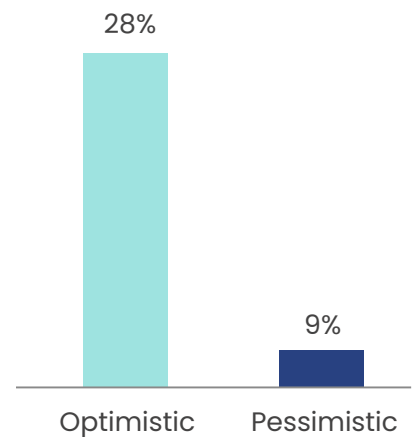
IMPACT OF COVID ACROSS DIFFERENT
BUSINESS CATEGORIES – ESSENTIAL
& NON-ESSENTIAL

Essential Business Categories Remain Optimistic; Pharmacies & Gas Agencies Are The Strongest

KEY INSIGHTS

- **82%** of the Micro-enterprises in essential categories are optimistic about future market scenario
- All essential categories, except kirana stores, have a majority of the micro-enterprises staying robust despite the pandemic
- Best performing categories:
 - ▣ 75% of the gas agencies are doing good business
 - ▣ 65% of the pharmacies are doing good business
- The anomaly behind kirana stores: Due to restricted timings, lack of digitization of small-scale kirana stores, and consumer disposition inclined towards online groceries; the businesses of kirana stores faced a decline, especially during lockdown

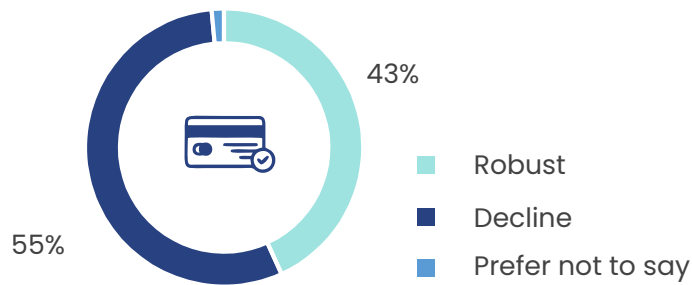
Sentiment Of Essential Micro-enterprises Towards Future Market Scenario



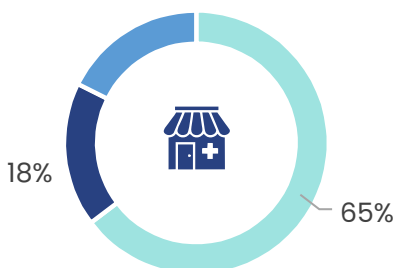
Kirana Stores



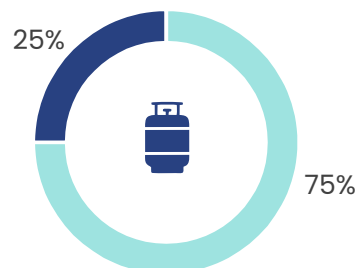
Payment Service Provider



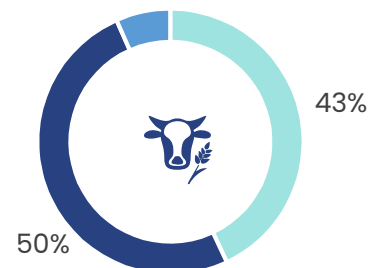
Pharmacy



Gas agency



Agriculture & Dairy

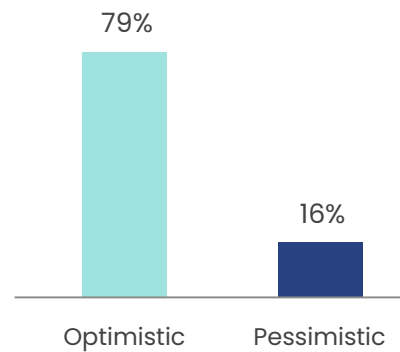


Non-essential categories involving discretionary spending remain optimistic despite being deeply impacted due to lockdown

KEY INSIGHTS

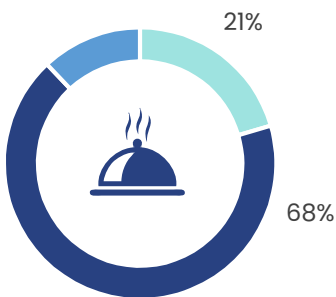
➤ **79%** of the Micro-enterprises in non essential categories are optimistic about future market scenario

Sentiment Of Non-essential Micro-enterprises Towards Future Market Scenario

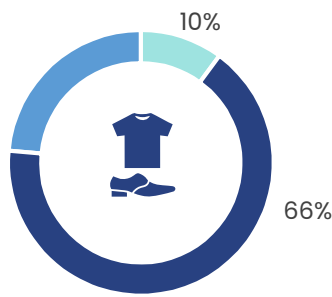


Non-essential segments involving discretionary spending like food & restaurant businesses, beauty parlors, tours & travels businesses and garments & footwear stores are the most affected as they suspended their services during lockdown as per their local guidelines.

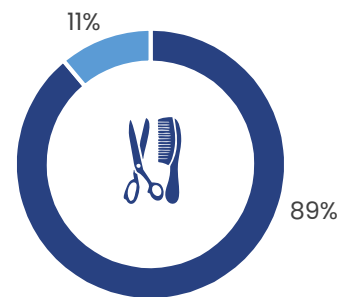
Food & Restaurant



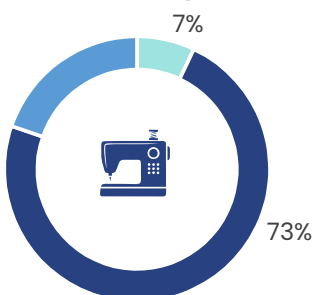
Garments & Footwear



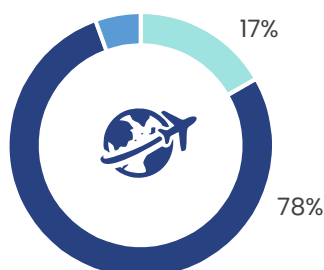
Beauty Parlour



Tailoring



Tour & travels



- Robust
- Decline
- Prefer not to say

Children of Shamim Jahan, Timber Business, Lucknow



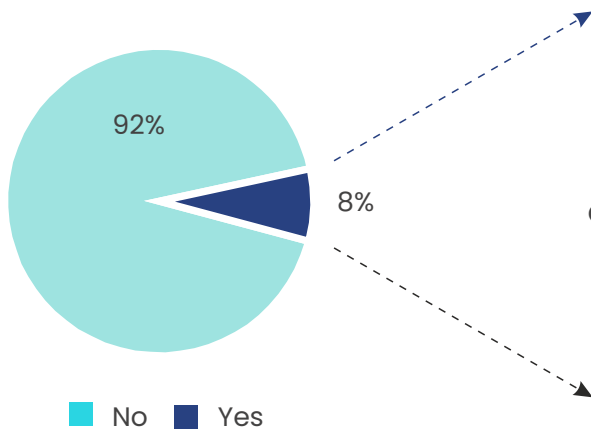
CHAPTER 3

IMPACT OF COVID ON THE HEALTH
CONDITION OF MICRO-ENTREPRENEURS
AND THEIR HOUSEHOLDS

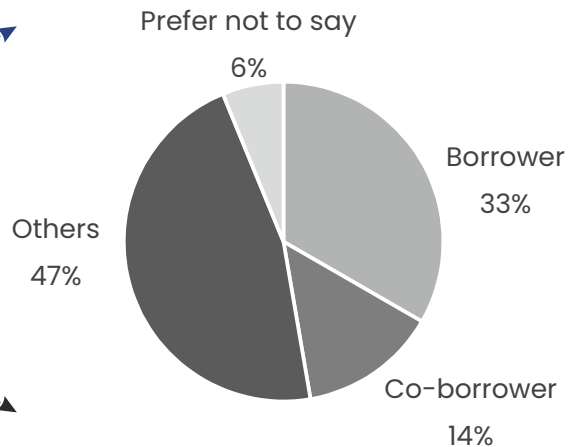
A minor percentage of micro-entrepreneurs declared a recent medical emergency in their family

HEALTH CONDITION - CUSTOMER & FAMILY

Recent Medical Emergency

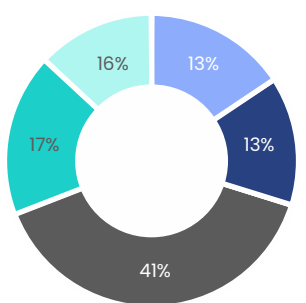


Affected Member



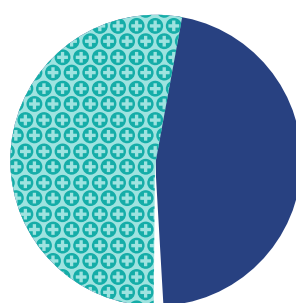
- 48% of the customers were aware of insurance (Hospicash)
- Only 8% of the micro business owners faced a recent medical emergency in their family, out of which 33% were borrowers.
- 16% of the affected members had suffered from COVID.

Type of Medical Condition



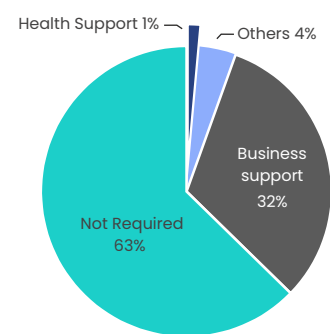
- Dengue
- Typhoid
- Malaria
- Covid
- Others

Hospicash Awareness?



- Yes 48%
- No 49%

Support Required



- Health Support
- Business support
- Not Required
- Others

Ramawati, Grocery Store Owner, Lucknow

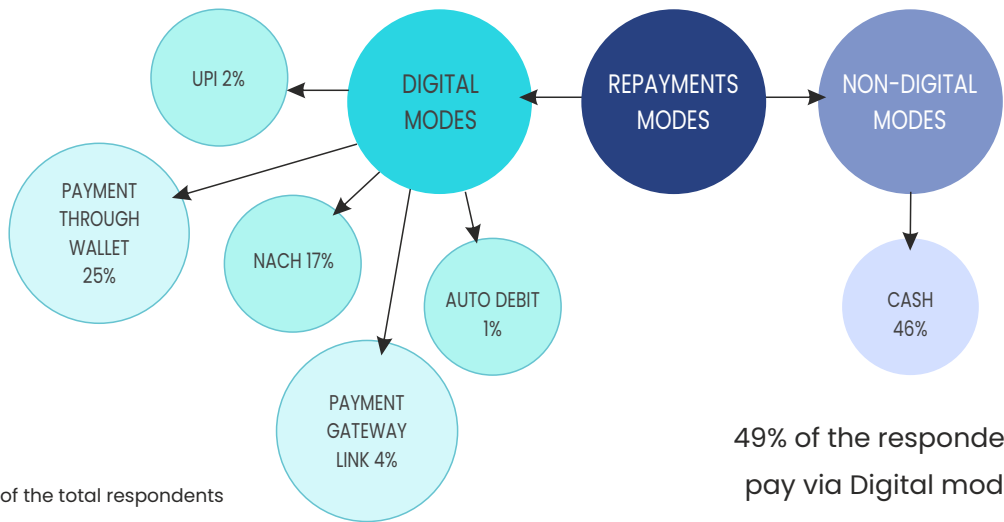


CHAPTER 4

IMPACT OF COVID ON THE REPAYMENT BEHAVIOUR OF MICRO-ENTERPRISES

Despite the pandemic, customers share willingness to make their credit repayments with a significant inclination towards easy digital modes

Utilization of various Repayment Channels*



*As a percentage of the total respondents

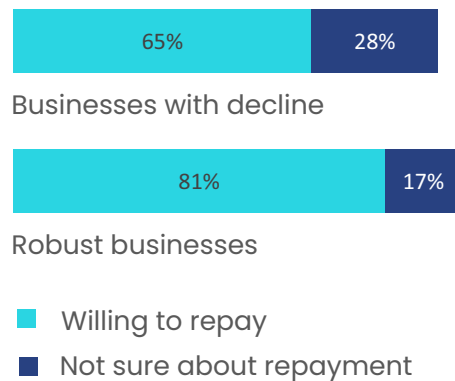
DIGITAL ADOPTION: COPING WITH THE PANDEMIC, ENTERPRISES HAVE STARTED SWITCHING TO EASY & COST EFFECTIVE OPERATIONS

- 49% of the rural & semi urban micro businesses are making their payments via Digital modes.

STATE OF BUSINESS VS WILLINGNESS TO REPAY

MOST CUSTOMERS HAVE THE WILLINGNESS TO MAKE THEIR CREDIT REPAYMENT DESPITE THE IMPACT OF COVID ON MICRO BUSINESSES

- 81% of the customers with robust businesses are showing willingness to repay
- 65% of the customers whose businesses have declined during COVID are showing their willing to repay



CONCLUSION

In the current complex business environment posed by the pandemic, the strength of the recovery of micro-enterprises in India would be a determining factor for the economy. Based on the findings of the study, we can infer that the micro-enterprises continue to remain resilient and optimistic despite the challenges faced due to the COVID-induced slowdown.

Micro-enterprises exhibit Strong Resilience & Optimism despite the pandemic

With **79%** of the respondents claiming that they are optimistic about the future market scenario, it is evident that the micro-enterprise sector is confident to return to normalcy and even exceed the pre-COVID business levels.

- The optimistic outlook can also be seen in their sentiment towards credit repayment, with **81%** of the customers with robust business having the willingness to repay
- While **61%** micro-enterprises witnessed decline in their business due to the pandemic, only **1%** permanently shut down their business thus giving testimony to their strong resilience amidst challenges
- Despite the impact due to COVID, **81%** of the negatively affected businesses are optimistic about bouncing back to normalcy.

Essential Categories better off as compared to non-essential categories

- While micro-enterprises have been affected by the pandemic-induced slowdown, the essential commodity businesses have been better off and **82%** of them are optimistic about future market scenario.
- All essential categories, except kirana stores, have a majority of the micro-enterprises staying robust despite the pandemic. With **65%** of the pharmacies and **75%** of the gas agencies reporting strong business, these segments emerge as the best performing ones.
- Most of the small-scale kirana stores do not have an online presence and rely on face-to-face interactions to make sales, which was limited due to COVID guidelines.
- With restricted timings during curfews and consumer disposition inclined towards online groceries, the business volumes of kirana stores were affected to some extent. Due to suspension of non-essential services in maximum regions, segments involved in discretionary spending like beauty parlours, restaurants and tours & travels were the maximum hit.
- However, with the market reopening now, **79%** of the Micro-enterprises in non-essential categories are optimistic about the future market scenario.

Health condition of Micro-entrepreneurs and households is largely stable

- **8%** of the respondents declared a recent medical emergency in their families, out of which **16%** of the affected members had suffered from COVID.

COVID-infused Environment leading to a demand for credit by the micro-enterprises.

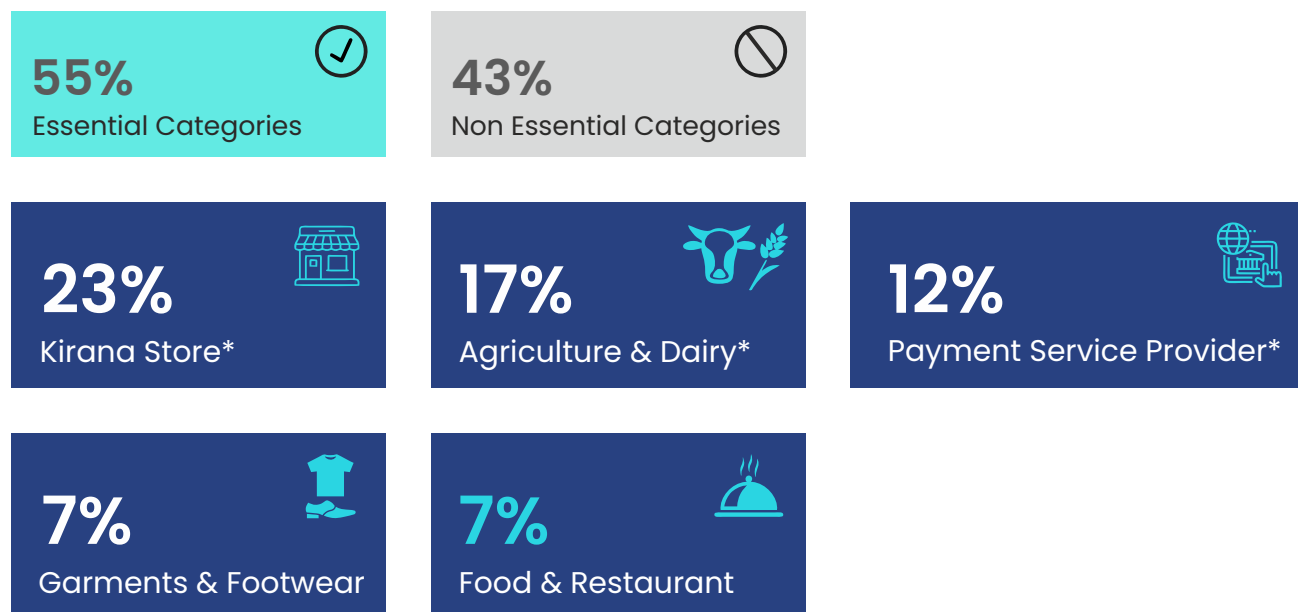
- **32%** of the respondents claimed that they required business support via access to credit for managing their working capital needs.

To achieve sustainable growth in the post-pandemic era, micro-enterprises need to embrace digitization and re-orient the way they run their businesses. With social distancing being the new normal, adoption of digital modes of payment is going to play a critical role for micro-enterprises to stay competitive and relevant. In fact, **49%** of the respondents are using digital modes for making loan repayment.

With support measures like better access to credit and adoption of the right technology, micro-enterprises can revive their businesses and emerge stronger from the pandemic. A collaborative effort by all the players in the ecosystem including the government, banks, NBFCs and fintechs will be required to propel the micro-enterprises towards sustainable growth.

RESPONDENTS' PROFILE

Business Distribution Across Categories



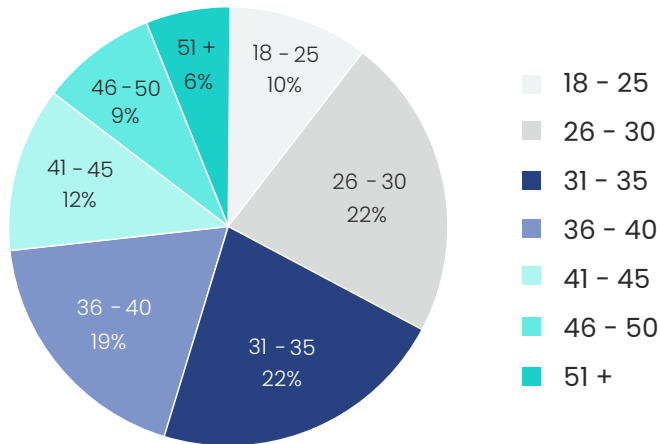
OTHER CATEGORIES

Beauty Parlor	Artisan
Mobile Shop	Construction
Fruits & Vegetables*	Jewellery
Cosmetics	Tent Service
Pharmacy*	Auto Shop & Repair
Beauty Parlor	General Repair
Small Scale Manufacturing	Photo Studio
Cyber café	Gas Agency*
Tailoring	Printing & Packaging
Electronics	

*Essential categories

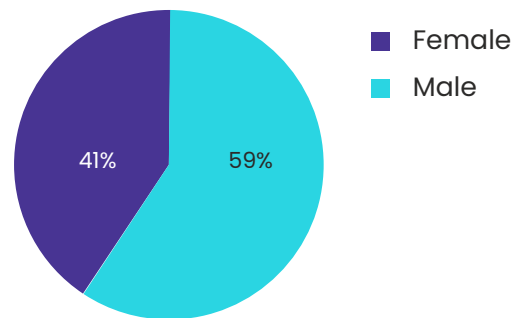
DEMOGRAPHIC SEGMENTATION

AGE PROFILE



The mean age of the participants in the study is 35.65 years. There is Inclusion of all Age Groups, with 73% of them being under 40 years of age

GENDER



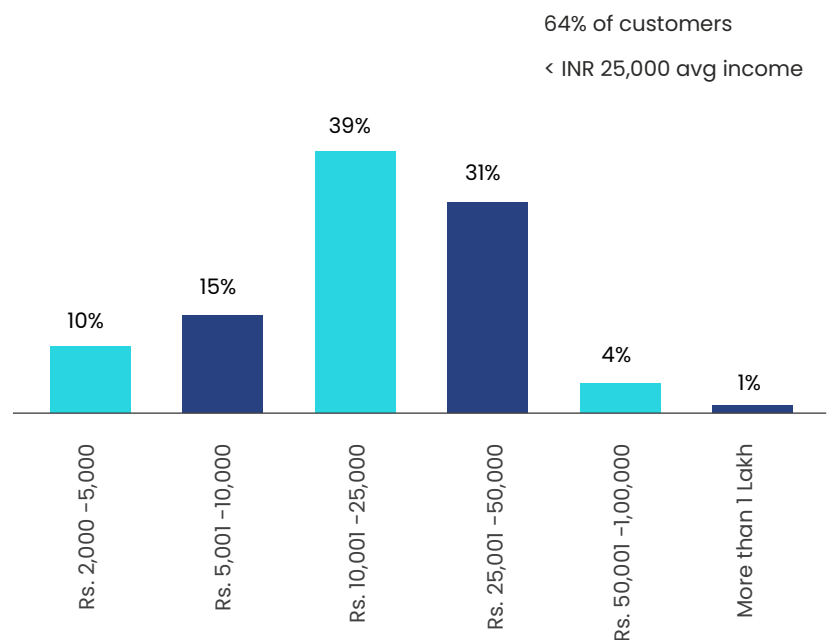
Healthy male-female borrower mix

REGIONAL SEGMENTATION

Top Clusters	
Cities / Town	Distribution %
Lucknow	15%
Raebareli	15%
Sultanpur	8%
Gurgaon	7%
Faizabad	6%
Alwar	6%
Unnao	2%
Mewat	1%
Bangalore	1%
Rewari	1%
Mumbai	1%
Pune	1%
Hyderabad	1%

INCOME PROFILE

Average Income



METHODOLOGY

Design

The study assessed the impact of COVID on the existing customer base of ARTH. A mixed approach (qualitative & quantitative) was adopted with survey & in-depth interview research methods using primary and secondary data (company database) collection method for pre- and post- comparative evaluation.

Key Evaluation Questions

- How deeply have they been impacted by the pandemic?
- What are their and their families' health conditions?
- How is their sentiment about the market? How is their business performing currently?
- What kind of support do they need for their business?

Sampling Approach

The Random Sampling approach was followed for the micro-business owner population as given below. The total sample size of 1700 micro business owners was calculated using the population frame (total active customer base of ARTH) based on 95% Confidence Interval and 5% Margin of Error.

Data Sources

The study aims to assess the impact of COVID on ARTH customers across India from the following sources:

Primary Source of Data

Quantitative data: Survey method based on telephonic outreach program was conducted with standard questionnaire as research tool.

Qualitative data: In-depth interview was carried out to assess the impact of COVID on the micro-enterprises and their sentiment towards the future market scenario..

Data Collection

Given the pandemic situation in the country, the combinational approach to data collection was as below:

- Conducted by customer engagement team & on-ground staff
- Training - virtual & in-person
- Monitoring of ground-staff - virtual and in-person
- Customer Relationship Management CRM-based data collection
- In-person visit to the location

Data Analysis, visualization and presentation

The data was evaluated and analyzed to provide descriptive statistics that gives valuable impact related insights serving as fundamental to provide actionable measures to the road to resilience.



Shrikrishna, Grocery Store Owner, Lucknow

ARTH is a Digital MSME Finance Company founded in 2018, to deliver access to affordable financial services with focus on credit to millions of underserved micro entrepreneurs in India. The company is closely aligned to deliver the key impact objectives:



Micro-enterprise
Finance



Livelihood
Support



Hyper Local
Economy Development

ARTHIMPACT DIGITAL LOANS

RBI registered NBFC vide Certificate of Registration (CoR) No. B-07.00797

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