

IMPACT OF COVID-19

DISCLAIMER

This white paper is internal and confidential to HAPPY and is prepared based on the primary and secondary research conducted by HAPPY. This is the first paper in the series of white papers that HAPPY is going to publish. The next paper is based on the statistical analysis to determine the infection rate of COVID in India using machine learning models.

EXECUTIVE SUMMARY

COVID-19 has led to lockdown of almost all businesses in India except those which are in dealing in commodities and healthcare. The cash flow cycle has been broken and this is the time that small business owners really require financial assistance to deal with the liquidity crises that has arisen. The business shock due to COVID-19 is expected to last for next 3-6 months, and small business owners require sufficient capital to manage their working capital for the coming months. Given the background, this report covers the impact of COVID-19 on the world economy, government interventions, the voice of HAPPY's stakeholders (customers, partners, and lenders).

WHAT IS COVID-19 AND ITS IMPACT ON THE WORLD ECONOMY

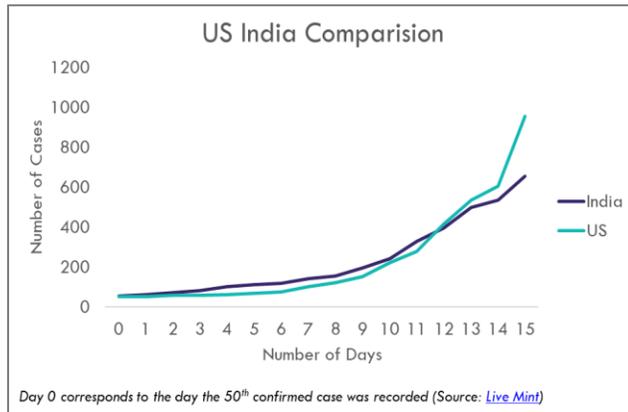
WHO has characterized COVID-19 as a pandemic, and this is the first instance that a pandemic has been caused by a coronavirus. The outbreak was first identified in Wuhan, Hubei Province, China in late 2019 and has now gone on to affect 199 countries till date. Every nation had asked its citizens to perform Social Distancing, but this comes at a great economic cost. To simplify it further, cancellation of large gatherings in any venue, will reduce the consumption by a great extent in the coming months thus impacting the economy².

Advanced economies and China have put together massive government packages which according to an initial assessment by UNCTAD estimates that they will translate to a \$1 trillion to \$2 trillion injection of demand into the major G20 economies. Even with these efforts, the world economy will go into a recession with predicted loss of global income in trillion of dollars. This is going to create serious trouble for developing countries with the exception of China and possibly India too³.

GOVERNMENT INTERVENTIONS

Honorable Prime Minister Narendra Modi announced that an additional 150 billion rupees (about 0.1 percent of GDP)³ will be devoted to health infrastructure, including for COVID-19 testing facilities, personal protective equipment, isolation beds, ICU beds and ventilators. Government has also announced 1.7 lakh crore rupees of Gareeb Kalyan Yojana as a part of the relief package. Uttar Pradesh government has also announced a financial support for daily wage workers via Direct Benefit Transfer (DBT) who have lost their jobs due to COVID-19.

RBI, on 27th March 2020 had announced several measures to inject liquidity in the system and promote on-lending to productive sectors by reducing the repo rate by 75 basis points to 4.4%, reducing reverse repo rate by 90 basis points to 4.0%, and reducing the Cash reserve ratio of all banks by 100 basis points to 3.0% among other measures. Furthermore, all lending institutions were permitted to allow a moratorium of three months on EMIs on all term loans⁴.

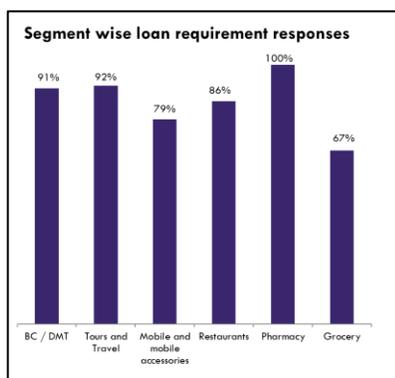


India was following US trajectory in terms of total number of cases when mapped day wise.

US had 53,740 cases on the 29th day, India's curve on the other hand has flattened in comparison to the US, and that was because of the pro-active approach taken by the government by announcing the lockdown.

VOICE OF HAPPY'S STAKEHOLDERS

HAPPY had initiated the voice of customer campaign where in it had surveyed 100 customers to understand their view on the lockdown. Business correspondence and DMT being classified as essential services, had been impacted due to lockdown as there was decrease in transactions but not to a great extent. They expected the business to normalize in short term as the cash withdrawals and deposits would continue to happen. Customers who were in Tours & Travels, mobile repairs & accessories and restaurant business were impacted as their shops were closed during the lockdown, but they expected the business to normalize in the medium to long term once the lockdown is over. Pharmacy and Grocery store owners also being classified as essential services had an increase in demand and shortage of supply, but they were also of the view that the impact is going to be in short term and business would normalize once the lockdown is over.



77% of the customers surveyed said yes when they were enquired for any loan requirements, which shows that the demand for credit is there to match the cash flow mismatch that has taken place due to lockdown. Pharmacy segmented had a great demand, and shortage of supply meant increase in costs for them, and thus every customer in the pharmacy segment needed financial assistance.

HAPPY's partners also held the same view that the impact of the COVID-19 lockdown is short term and the business as usual would start very soon. Though due to lockdown, there was a drop in the active base by more than fifty percent, but going forward, business

correspondence would be the first segment to revive fully due to the initiatives taken by the state and the central government. Growth of active merchant base would remain unaffected by the lockdown.

	IMPACT ON SUPPLY, CONSUMER DEMAND	ADEX
	Auto: An already negative sales growth further worsened by component dependency on China and production stoppage in India to control the virus spread	
	Consumer durables & electronics: Hike in import duty, import dependence on China and production stoppage to hit sales in the immediate & short-term	
	FMCG, Ecomm: short-lived supply disruptions may occur but likely to ease; certain categories seeing good growth (hygiene products, soaps, linen, food delivery) while discretionary may see short-term decline; possibility of job / income loss if restrictions continue for longer than 4-6 weeks i.e. May-mid	
	Retail, Cinema, Outdoor: badly hit, return to normalcy to take a few months after movement restrictions are lifted	
	Travel & Hospitality: prolonged movement restriction may affect jobs & incomes	
	Telecom: increased data consumption due to work from home & study from home initiatives a clear positive for telecoms Hike in GST on handsets from Apr-2020, import dependence for components & shutdown of production facilities a dampener for mobile handsets	

WPP India's report on impact of COVID-19 on India's sentiment & impact on brands, also aligned to the responses gathered by HAPPY's customers and partners that tour and travel industry, and electronics were impacted due to the global crisis.

While the lenders have chosen to take the stance of 'wait and watch' for certain segments which are completely shut down, responsible lending with tightened credit criteria is still happening. RBI's announcement has the sentiment to promote on-ward lending to certain sectors to revive the economy, thus the credit availability is going to ease in the coming months once the business environment normalizes.

Type of Lending Institution	% drop in enquiries in week 4 as compared to week 3
Private Banks	(13.9%)
NBFCs	(8.1%)
Foreign Banks	(11.9%)
Others	(8.8%)
PAN India	(9.0%)

Industry sources reveal that there has been slight drop in number of enquiries in fourth week of march as compared to the third week, which reemphasizes the point that lending has not stopped completely, and responsible lending continues.

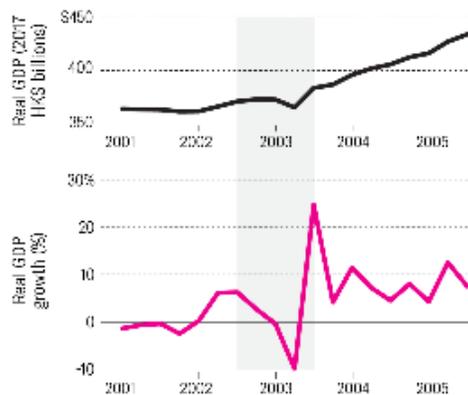
HAPPY is addressing the situation with responsible credit lending to the needful and has also developed an innovative product by partnering with health insurance companies that would help the micro-businesses face the crisis which has been created both in terms of breaking of the cash flow cycle and health.

CONCLUSION

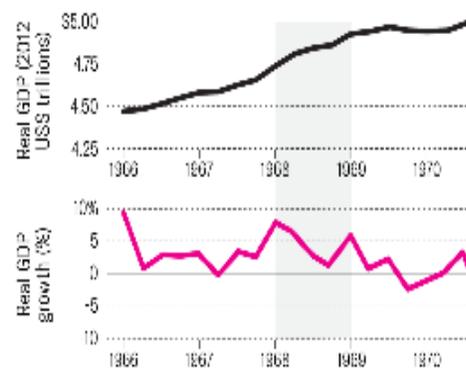
The sentiments of the ecosystem players do indicate that the lockdown has led to a business shock, but it being a short term. Several reports suggest that the country would have a ‘V’ shaped recovery⁵ i.e. there would be no long-term business impact of COVID-19. Also, all the previous pandemics have shown a ‘V’ shaped recovery in the past.

Prior Epidemics Were All V-Shaped

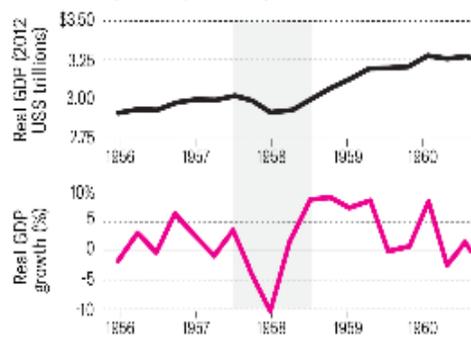
2002 Hong Kong SARS – 286 global deaths



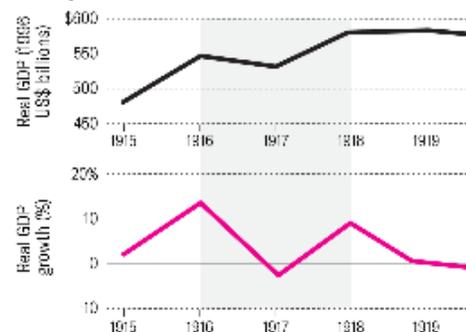
1968 H3N2 ("Hong Kong") flu – 100,000 U.S. deaths



1958 H2N2 ("Asian") flu – 115,000 U.S. deaths



1918 Spanish flu – 675,000 U.S. deaths



ABOUT HAPPY

Micro enterprises account for more than 99% of the total number of MSMEs, amounting to 63.05 Mn as per MSME Report 2018-19. 95% of the MSMEs are proprietary in nature¹. HAPPY is a digital lending fintech targeting a multi-billion-dollar credit gap in India’s micro businesses. HAPPY has access to more than 3.5 Mn merchants (micro businesses/entrepreneurs) through 20 plus partners in various categories like payments, telecom, agri-tech and dairy-tech.

SOURCE

- 1) MSME Report 2018-19
- 2) COVID-19 Economic Impacts – KPMG Report (19/03/2020)
- 3) United Nations conference on Trade & Development (Title: UN Calls for \$2.5 trillion coronavirus crisis package for developing countries)
- 4) RBI (Title: COVID-19 – Regulatory Package)
- 5) Harvard Business Review (Title: What Coronavirus Could Mean for the Global Economy)