

The Impact of COVID-19 on Small Businesses

Prof. Nitya Garg , Chitranjan Kumar
Deepanshu Sonwani

EXECUTIVE SUMMARY

Small businesses usually face many problems, like their size. Mostly the reason behind bankruptcy is under capitalization. Failure to provide required funding will end-up as bankruptcy.

It is clear that the small businesses in the country has suffer unprecedented level of disruption and uncertainty .Small businesses play important role and act as backbone of the country and a major contributor to the country's GDP. During this pandemic the small businesses remain unnoticed and suffer the consequences of force shutdown on production line, it make difficult for them generate any sale as some small businesses required contact some were totally dependent on online shipping. As per Government guidelines non-essential goods were restricted from shipping in order to fulfill public demand of essential goods. Which in turns out to make business bodies to rethink and some to shut down their operations permanently and to start in another field of operations

Even after all these hardships many small businesses have adapted to new methods and are working. During this crisis time technology played the role of savior and helped many businesses and individuals with the availability different digital solutions are enabling businesses to continue their business activities which give them confidence that despite of all loses their businesses can recover and thrive.

Government has also introduced many new policies to support small businesses and their owners by giving them a new hope to thrive.

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I. Introduction

In Indian economy, small businesses play a very important role to keep running the economic system. Small Businesses are like small but important part of the economy. In a survey they found that about 65-75% of the innovation comes from these small businesses in India.

In economy of India, the industrial units in the country is consist of 95% of small business, total industrial output is contributed by small business is 40% and about 45% of total exports are contributed by small businesses in India.

In the rural and semi-urban areas of India small businesses provide a large amount of opportunities like, these small businesses lift the load of unemployment from the economy. Their importance can be understood by knowing that the Indian government itself tries many practices to encourage small businesses operations to utilize the large labour forces by making new policies and introducing low interest rates for loans.

Small businesses are one of the largest employment providers in India. As compare to big corporations, small businesses provide more number of employment opportunities as per unit of capital invested. Small businesses are the second largest employment provider in India.

Small businesses are great in utilizing the local resources as the needs and demands of local population are the main concern of them. They usually focused on few areas as they are community based. This helps these small businesses to get access of local resources like local talent, raw material, labour. By the use of local resources the economic conditions of that area rise.

As being limited in size and finance, there is little or sometime no intervention of government. So these small businesses have to become adaptive because ones strength to adapt and grow in time changes gives them an advantage as being, manufacturer or distributor, of a particular area gives them proper knowledge of customer behavior of that particular area which varies area to area.

Small businesses help in encouraging the people from those family backgrounds who spend their ages in craftsmanship and handicrafts, these people get the chance to continue their heritage of their family and sustain living in this modern era.

Small businesses promotes the entrepreneurship and their skills, it promotes rural and semi-urban area development as most small business grow in rural areas and helps to improve the living standard of the local people of those rural areas by providing them employment.

Problem

Despite of being a promoter and encourager of local people of rural and semi-urban areas the small businesses have to face a lot of problems in day to day business activities like; finance, Raw material, Managerial skills, skilled labour, Marketing etc. and also the COVID-19 has its adverse impact on small businesses their functions, earnings, production, marketing and profitability.

The small businesses mostly face inadequacy of funds this problem has become major obstacle to the development of the firm because being operated from rural areas, they lack the collateral security to get loan from the possible investors and banks.

For the small businesses, production is also become a problem for them because due to lack in finance part efficiently they have to compromise with raw material quality as the final product quality is depends upon material used for the production the other problem that comes with it is shortage of storage.

After outbreak of Covid-19 and becoming a pandemic situation has it different effects on daily life of everyone this study is based on Covi-19 impact on small business owners. So, this pandemic year has initiated with many different policies introduce by government to support people and to reduce the adverse effect, they are like Atmanirbhar Bharat, new MSME policies Labour codes. India has initiated Vocal for Local and Production Linked Incentives.

Covid-19 had negative impact on Indian economy, the micro and small business were shut down. Their production had completely stop as the units are shut. As small businesses which are relied on online delivery system are facing problems, as shipping partners were prohibited to deliver non-essential items as per government. Businesses which fall under non-essential category were at the greater risk. And businesses especially parlor and salons which require contact had face difficulties due to government rules like social distancing etc.

We can further understand Covid-19 impact by an example)



As INDIA INFOLINE

IIFL Holdings Limited is an Indian diversified financial services company headquartered in Mumbai. It was founded by Nirmal Jain on Oct 17, 1995. IIFL and its group companies are backed by Canadian investor Prem Wasta, private equity firm General Atlantic and CDC Group. IIFL is ranked among the top seven financial conglomerates in India and as the top independent financial services firm in India in terms of market capitalization.

Key people are Nirmal Jain as Chairman and R Venkataraman as Group managing director. Number of employees 10500

Website: iifl.com

IIFL has been awarded by Euromoney for the Best Private Banking Services Overall in India for 2017.

Adjudged as the Best Private Bank in India at the Global Finance Best Private Bank Awards in 2017.

ET NOW- Dealing Room Heroes, 2017

Research Questions

1. What are the problems that are facing by Small Businesses?
2. What is the impact of COVID-19 on the Small Businesses?

Research Objectives

The research aims to measure the impact of COVID-19 on Small Businesses. They are as follows:

1. To analyze the impact of closures.
2. To analyze the effects of decline in active employment.
3. To analyze the impact of alternative policy and proposals made.

HYPOTHESIS

Alternative Hypothesis (H_1): The Impact COVID-19 on Small Business has positive effect.

Null Hypothesis (H_0): Impact COVID-19 on Small Business has negative or no effect.

II. Research Design And Methodology

This research is casual in nature which enlightens the impact and effect relationship of COVID-19 to that of Small Businesses. Casual effect occurs when variation in one phenomenon, an independent variable results on average in another phenomenon the dependent variable.

I chose causal research as it facilitates investigation into an issue or topic that looks at the effect of one thing or variable on another. This type of research is used to measure what impact a specific change will have on existing norms and assumptions. It might be use in an environment to quantify the effect that a change to its present operations will have on its future. This research design seeks to find the relationships between dependent and independent variables after an action or event has already occurred. Causality research designs help researchers understand why the world works the way it does through the process of proving a causal link between variables and eliminating other possibilities. Replication is possible. There is greater confidence that the study has internal validity due to the systematic subject selection and equity of groups being compared.

Data Analysis Procedure

Research Design

This causal research focuses on quantitative and descriptive aspects of the variables. It focuses on describing the characteristics of events and takes numerical data into consideration. This research takes secondary data into accounts for formulating results and conclusion. This study may be thought of as understanding a phenomenon in terms of conditional statements in the form, "If X, then Y." This type of research is used to measure what impact a specific change will have on existing norms and assumptions.

Most social scientists seek causal explanations that reflect tests of hypotheses. Causal effect (nomothetic perspective) occurs when variation in one phenomenon, an independent variable, leads to or results, on average, in variation in another phenomenon, the dependent variable.

Research Methodology

The research uses secondary data and uses statistical tools.

Limitations

1. Conclusions about causal relationships are difficult to determine due to a variety of extraneous and confounding variables that exist in a social environment. This means causality can only be inferred, never proven.
2. However, even though two variables might be causally related, it can sometimes be difficult to determine which variable comes first and therefore to establish which variable is the actual cause and which is the actual effect.
3. It is difficult to consider which secondary data is more reliable? Due to the fact that sometimes it is altered for some propaganda or to promote someone's interest.
4. It is difficult to conclude a single result from a wide variety of secondary data.

Financial Analysis of IIFL

KEY FINANCIAL RATIOS OF IIFL FINANCE (in Rs. Cr.)	MAR 20	MAR 19	MAR 18	MAR 17	MAR 16
PER SHARE RATIOS					
Basic EPS (Rs.)	3.94	11.94	6.75	4.94	5.49
Diluted EPS (Rs.)	3.94	11.86	6.73	4.92	5.46
Cash EPS (Rs.)	6.30	14.88	6.77	4.99	5.44
Book Value [ExclRevalReserve]/Share (Rs.)	95.36	110.61	46.47	47.17	46.63
Book Value [InclRevalReserve]/Share (Rs.)	95.36	110.61	46.47	47.17	46.63
Dividend / Share(Rs.)	2.25	5.00	5.00	4.50	4.25
Revenue from Operations/Share (Rs.)	68.94	92.52	7.72	4.49	6.68
PBDIT/Share (Rs.)	41.39	59.43	7.92	4.49	6.22
PBIT/Share (Rs.)	39.03	58.67	7.88	4.43	6.22
PBT/Share (Rs.)	6.25	19.52	7.72	4.43	6.02
Net Profit/Share (Rs.)	3.93	14.13	6.73	4.93	5.43

PROFITABILITY RATIOS					
PBDIT Margin (%)	60.03	64.23	102.52	100.00	93.12
PBIT Margin (%)	56.60	63.41	102.06	98.64	93.07
PBT Margin (%)	9.07	21.09	100.01	98.64	90.07
Net Profit Margin (%)	5.70	15.27	87.17	109.93	81.35
Return on Networth / Equity (%)	4.12	12.77	14.48	10.45	11.65
Return on Capital Employed (%)	13.50	15.95	16.80	9.37	11.26

Return on Assets (%)	0.76	2.53	14.30	9.97	11.16
Total Debt/Equity (X)	3.92	3.69	0.00	0.00	0.03
Asset Turnover Ratio (%)	13.47	16.59	16.40	9.07	13.72

LIQUIDITY RATIOS					
Current Ratio (X)	2.17	2.81	255.10	1.27	5.87
Quick Ratio (X)	2.17	2.81	255.10	1.27	5.87
Inventory Turnover Ratio (X)	0.00	0.00	0.00	0.00	0.00
Dividend Payout Ratio (NP) (%)	54.90	38.26	74.17	91.16	77.96
Dividend Payout Ratio (CP) (%)	34.29	36.32	73.77	90.04	77.92
Earnings Retention Ratio (%)	45.10	61.74	25.83	8.84	22.04
Cash Earnings Retention Ratio (%)	65.71	63.68	26.23	9.96	22.08

VALUATION RATIOS					
Enterprise Value (Cr.)	15,306.42	25,412.21	22,417.14	12,693.56	6,576.77
EV/Net Operating Revenue (X)	5.87	8.60	91.03	89.01	31.11
EV/EBITDA (X)	9.77	13.40	88.79	89.01	33.41
MarketCap/Net Operating Revenue (X)	1.08	4.67	91.13	89.07	30.89
Retention Ratios (%)	45.09	61.73	25.82	8.83	22.03
Price/BV (X)	0.78	3.91	15.14	8.47	4.42
Price/Net Operating Revenue	1.08	4.67	91.13	89.07	30.89
Earnings Yield	0.05	0.03	0.01	0.01	0.03

BALANCE SHEET OF IIFL FINANCE (in Rs. Cr.)	MAR 20	MAR 19	MAR 18	MAR 17	MAR 16
	12 mths	12 mths	12 mths	12 mths	12 mths

EQUITIES AND LIABILITIES					
SHAREHOLDER'S FUNDS					
Equity Share Capital	75.67	63.84	63.80	63.58	63.31
TOTAL SHARE CAPITAL	75.67	63.84	63.80	63.58	63.31
Reserves and Surplus	3,532.14	3,466.79	1,413.28	1,435.91	1,412.58
TOTAL RESERVES AND SURPLUS	3,532.14	3,466.79	1,413.28	1,435.91	1,412.58
TOTAL SHAREHOLDERS FUNDS	3,607.81	3,530.63	1,482.29	1,499.49	1,475.89
NON-CURRENT LIABILITIES					
Long Term Borrowings	7,223.89	8,071.70	0.00	0.00	50.00
Deferred Tax Liabilities [Net]	0.00	0.00	0.00	0.00	0.00
Other Long Term Liabilities	64.14	84.28	9.03	0.00	0.00
Long Term Provisions	37.63	43.24	3.72	1.11	0.69
TOTAL NON-CURRENT LIABILITIES	7,325.65	8,199.22	12.74	1.11	50.69
CURRENT LIABILITIES					
Short Term Borrowings	6,918.35	4,959.41	0.00	0.00	0.00
Trade Payables	52.28	53.15	1.41	1.11	0.00
Other Current Liabilities	1,457.99	1,041.07	4.29	64.76	9.92
Short Term Provisions	0.00	0.00	0.00	4.35	3.79
TOTAL CURRENT LIABILITIES	8,428.62	6,053.64	5.70	70.22	13.72
TOTAL CAPITAL AND LIABILITIES	19,362.08	17,795.21	1,501.15	1,570.96	1,540.30
ASSETS					
NON-CURRENT ASSETS					

Tangible Assets	349.86	88.62	1.82	0.79	0.87
Intangible Assets	0.64	1.53	0.83	1.28	0.05
Capital Work-In-Progress	2.49	6.02	0.00	0.00	1.61
Other Assets	203.02	263.43	0.00	0.00	0.00
FIXED ASSETS	556.01	359.59	2.66	2.06	2.53
Non-Current Investments	0.00	0.00	0.00	1,443.84	1,417.35
Deferred Tax Assets [Net]	202.81	258.20	8.13	13.30	14.69
Long Term Loans And Advances	0.00	0.00	0.00	22.72	25.15
Other Non-Current Assets	348.01	172.69	37.54	0.00	0.00
TOTAL NON-CURRENT ASSETS	1,106.83	790.47	48.32	1,481.92	1,459.72
CURRENT ASSETS					
Current Investments	1,958.55	1,305.27	1,419.05	78.00	0.00
Inventories	0.00	0.00	0.00	0.00	0.00
Trade Receivables	9.62	2,025.45	2.54	1.09	5.24
Cash And Cash Equivalents	1,650.67	1,419.73	24.69	8.53	3.34
Short Term Loans And Advances	14,231.86	12,170.39	0.00	0.68	70.72
Other Current Assets	404.55	83.90	6.53	0.74	1.27
TOTAL CURRENT ASSETS	18,255.25	17,004.74	1,452.82	89.04	80.58
TOTAL ASSETS	19,362.08	17,795.21	1,501.15	1,570.96	1,540.30
OTHER ADDITIONAL INFORMATION					
CONTINGENT LIABILITIES, COMMITMENTS					
Contingent Liabilities	2,342.73	3,516.47	77.51	37.96	35.55
CIF VALUE OF IMPORTS					

Raw Materials	0.00	0.00	0.00	0.00	0.00
Stores, Spares And Loose Tools	0.00	0.00	0.00	0.00	0.00
Trade/Other Goods	0.00	0.00	0.00	0.00	0.00
Capital Goods	0.00	0.00	0.00	0.00	0.00
EXPENDITURE IN FOREIGN EXCHANGE					
Expenditure In Foreign Currency	0.00	0.00	0.00	0.22	0.16
REMITTANCES IN FOREIGN CURRENCIES FOR DIVIDENDS					
Dividend Remittance In Foreign Currency	--	--	--	--	--
EARNINGS IN FOREIGN EXCHANGE					
FOB Value Of Goods	--	--	--	--	--
Other Earnings	--	--	--	0.89	28.08
BONUS DETAILS					
Bonus Equity Share Capital	18.04	18.04	18.04	18.04	18.04
NON-CURRENT INVESTMENTS					
Non-Current Investments Quoted Market Value	--	--	--	--	8.01
Non-Current Investments Unquoted Book Value	--	--	1,409.05	1,443.84	1,409.35
CURRENT INVESTMENTS					
Current Investments Quoted Market Value	--	--	--	--	--
Current Investments Unquoted Book Value	1,958.55	1,305.27	--	--	--

PROFIT & LOSS ACCOUNT OF IIFL FINANCE (in Rs. Cr.)	MAR 20	MAR 19	MAR 18	MAR 17	MAR 16
	12 mths	12 mths	12 mths	12 mths	12 mths
INCOME					
REVENUE FROM OPERATIONS [GROSS]	2,608.30	2,953.34	246.26	142.61	199.19
Less: Excise/Sevice Tax/Other Levies	0.00	0.00	0.00	0.00	0.00
REVENUE FROM OPERATIONS [NET]	2,608.30	2,953.34	246.26	142.61	199.19
TOTAL OPERATING REVENUES	2,608.30	2,953.34	246.26	142.61	211.41
Other Income	21.58	9.26	23.79	0.27	0.00
TOTAL REVENUE	2,629.88	2,962.59	270.06	142.87	211.41
EXPENSES					
Cost Of Materials Consumed	0.00	0.00	0.00	0.00	0.00
Operating And Direct Expenses	405.45	311.66	0.00	0.00	0.00
Changes In Inventories Of FG,WIP And Stock- In Trade	0.00	0.00	0.00	0.00	0.00
Employee Benefit Expenses	440.74	415.61	8.43	0.26	8.78
Finance Costs	1,244.50	1,365.18	5.05	0.00	6.35
Depreciation And Amortisation Expenses	89.41	24.11	1.14	1.93	0.09
Other Expenses	285.38	337.19	9.14	0.00	5.76
TOTAL EXPENSES	2,397.85	2,454.90	23.77	2.20	20.98
PROFIT/LOSS BEFORE EXCEPTIONAL, EXTRAORDINARY ITEMS AND TAX	232.03	507.69	246.29	140.68	190.43
Exceptional Items	4.61	115.33	0.00	0.00	0.00
PROFIT/LOSS BEFORE TAX	236.64	623.02	246.29	140.68	190.43
TAX EXPENSES-CONTINUED OPERATIONS					
Current Tax	41.93	125.83	26.19	0.00	15.96

Less: MAT Credit Entitlement	0.00	0.00	0.00	0.00	0.00
Deferred Tax	9.86	45.03	3.44	0.00	2.49
Tax For Earlier Years	-2.07	1.14	1.98	0.00	0.00
TOTAL TAX EXPENSES	49.72	171.99	31.60	0.00	18.45
PROFIT/LOSS AFTER TAX AND BEFORE EXTRAORDINARY ITEMS	186.91	451.03	214.69	140.68	171.98
PROFIT/LOSS FROM CONTINUING OPERATIONS	148.80	451.03	214.69	140.68	171.98
PROFIT/LOSS FOR THE PERIOD	148.80	451.03	214.69	156.78	171.98
OTHER ADDITIONAL INFORMATION					
EARNINGS PER SHARE					
Basic EPS (Rs.)	3.94	11.94	6.75	4.94	5.49
Diluted EPS (Rs.)	3.94	11.86	6.73	4.92	5.46
VALUE OF IMPORTED AND INDIGENIOUS RAW MATERIALS STORES, SPARES AND LOOSE TOOLS					
Imported Raw Materials	0.00	0.00	0.00	0.00	0.00
Indigenous Raw Materials	0.00	0.00	0.00	0.00	0.00
STORES, SPARES AND LOOSE TOOLS					
Imported Stores And Spares	0.00	0.00	0.00	0.00	0.00
Indigenous Stores And Spares	0.00	0.00	0.00	0.00	0.00
DIVIDEND AND DIVIDEND PERCENTAGE					
Equity Share Dividend	81.71	172.58	159.24	142.92	134.08
Tax On Dividend	7.93	18.30	0.10	0.06	0.00
Equity Dividend Rate (%)	113.00	250.00	250.00	225.00	213.00

III. Results

COVID-19 lead to negative action, The downgrade and negative movement of IIFL and IDR rating reflects the pressure and heightened uncertainty around its operating environment , asset quality and funding and liquidity profile, as the coronavirus pandemic creates considerable downside risk for the global and Indian economy.

India Infoline finance limited company has committed itself on placing the investor first, for increasing the efficiency of the operations, processes and system. Its objective is to make use of corporate resources efficiently, in order to maximize the value to the stakeholders.

IIFL offers home loans which help people to build a lifetime asset without much complex system they try to make their services user friendly.

IIFL also provides home loans to NRIs.

IIFL facilitates the balance transfer option under which they transfer existing home loan from another bank.

IIFL also offer Gold loans, they are most trusted way to money in urgent need, they are very good in fulfilling immediate requirements.

IV. Limitations

1. This study was based only on impact of COVID-19 on small businesses. Further, small businesses surveys on large scale could be conducted to strengthen the inferences drawn in this paper.
2. It can be difficult to reach appropriate conclusions on the basis of causal research findings. This is due to the impact of a wide range of factors and variables in social environment. In other words, while casualty can be inferred, it cannot be proved with a high level of certainty. Also Coincidences in events may be perceived as cause-and-effect relationships.
3. Documents may lack authenticity, parts of the document might be missing because of age, and we might not even be to verify who actually wrote the document, meaning we cannot check whether it's biased or not.
4. Official statistics may reflect the biases of those in power – limiting what you can find out. The way things are measured may change over time, making historical comparisons difficult
5. Secondary data can be general and vague as well as the information and data may not be accurate.

V. Conclusions

1. The impact on different sectors has indirect affect on the banking and finance sector. For the smooth functioning of economy and funding Banks play an important role, the stability of businesses is important for banking industry.
2. Due to shut down loans provided to small and medium enterprises are becoming risky.
3. Slowdown Heightens Credit Risks as the credit quality to deteriorate as a sharp economic slowdown hits borrowers incomes, with ensuing pressure on earnings and capital.
4. The loan portfolio to be relatively sensitive to macroeconomic deterioration in light of its riskier exposure to developer finance, SMEs, capital market finance and microfinance.
5. The near term loan collections to slow significantly as dampened domestic activity curtail borrower repayment capacity.

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