

# SME REPORT 2021

## Leasing & Business Sentiment Analysis



A Research Report By

**360** REALTORS  
COMMERCIAL

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# FOREWORD

Indian SMEs play a crucial role in the economy, contributing around a quarter of service sector GDP and around 6% of the industrial output. Alongside micro-enterprises, the segment is responsible for over 100 million jobs, thereby playing a role of a growth enabler.

However, an otherwise bullish SME sector did not remain unscathed from the COVID crisis. Besides lack of business, Indian SMEs also suffered from a labour shortage, cash flow challenges, and disruption in international and domestic supply chains, thereby going into a tailspin.

Sectors such as tourism & travel, retail, logistics, conventional entertainment, sports, etc. went into a complete shutdown, while others showed limited manoeuvring. There were also net gainers such as online commerce, healthcare & wellness, Edutech, cloud based IT services, OTP platforms, content streaming & online gaming, etc.



**Ankit Kansal**

Founder & MD, 360 Realtors & 360 Realtors Commercial

After a period of slowdown, once the lockdown was suspended, the Indian SME sector made a remarkable comeback, which was also backed by GOI's liquidity infusion and demand boosting initiatives.

SMEs rapidly embraced digital mediums and relook their strategy to ensure business continuity, showing high spirit in otherwise sullen times.

Despite business coming back on track, COVID is going to change the course of how businesses will be conducted throughout the world.

This will also include office and commercial space leasing and management ranging from workstation remodelling to the change in demand patterns to the adoption of alternative business models to the likelihood of rental corrections.

Like larger enterprises, leasing business in the SMEs is also set for a large reform.

To further scrutinize the trends and evaluate the futuristic shifts, at 360 Realtors we have conducted our inaugural SME leasing survey- pan Indian market research comprising of 410 SME business units spread all over the country.

These SMEs come from a wide range of industries such as BFSI, technology, retail, trading, manufacturing, wellness & healthcare, etc to render incisive inputs. The survey encompasses numerous aspects of office leasing such as the impact of COVID on SMEs, business expansion plans, change in demand for commercial spaces, industry outlook, etc.

**Hope you enjoy reading the report.**  
Feel free to share your valuable feedback and inputs.

# INDIAN SME SECTOR KEY PILLAR TO THE ECONOMY

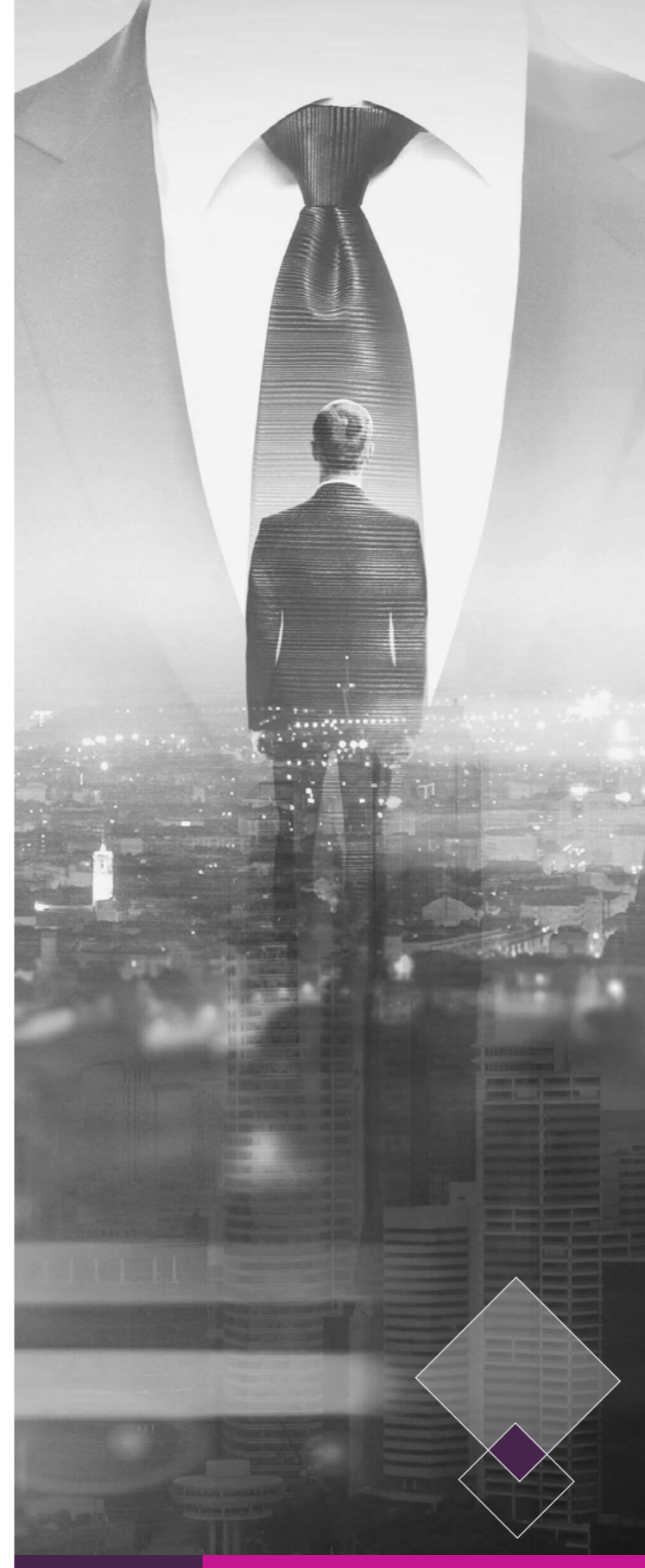
India's Small & Medium Enterprises (SMEs) play a pivotal role in the economy. The sector has emerged as one of the key growth enablers in the past two decades. As per the government estimates, India's SME sector alongside Micro enterprises (together they are termed as MSME) contributes to the employment of more than 106 million people.

It comprises over 6% of the industrial GDP and roughly a quarter of the service sector GDP, which further underscores their significance. SMEs contribute around 40% of the nation's export. Collectively, the segment has amassed a total wealth of around USD 179 billion.



As per the government, data revealed recently, out of the 63.3 million MSMEs, around 63 million qualify as Micro enterprises, contributing a bulk share. As per the latest guidelines notified by the MSME Ministry of India, any enterprise with an Investment of Up to INR 10 million and a turnover of INR 50 million can be termed as a Micro enterprise.

A small enterprise has an investment of up to INR 100 million and a turnover of INR 500 million. Medium enterprises have investments up to INR 200 million and a turnover of INR 1 billion. Currently, there are around 3,30,000 Small and 5,000 Medium enterprises.



The government also realizes the important role SMEs play in boosting exports, creating mass level employments, and fostering sustainable growth and development of the nation. In GOI's underlined strategy to realize USD 5 trillion Indian economy (Out of which manufacturing will contribute 25%), the SME sector is set to be a crucial lever.

As a result, in recent years, the Government of India (GOI) in coordination with the state government has taken a host of steps to support the SME sector. This includes the provision of easy credits, credit-linked subsidy schemes, production linked subsidy schemes, R&D support, export promotion support, and much more.

The introduction of the GST is also a constructive step in this direction as it will remove interstate trade complexities, lower prices of raw materials, and give an overall boost to the burgeoning Indian SME sector.

Relentless steps by the government have also helped the SME segment to fortify its growth. In FY 20, over 2.5 million MSMEs have registered in India, growing by over 18% on a Y/Y basis. The underlying strength of Indian SMEs and their overall vibrant outlook was also chronicled in the American Express SME outlook survey conducted in 2017.

As per the survey, 71% of the Indian SMEs reported a positive outlook for their business, which is higher than China (62%) and Japan (54%).

Although COVID has been a destabilizing factor in an otherwise upbeat growth trajectory (discussed in length in the next section), in a Post-COVID world, more opportunities are expected to unravel for the SME industries in the country.

Tremendous new avenues will emerge in food processing, electronics & communication (handset manufacturing, routers and switch productions, etc), IT & digital technologies, data research & analytics, healthcare (PPE kits, face masks, telemedicines, diagnostic services, etc.)

## IMPACT OF COVID-19 ON INDIAN SME'S COMMERCIAL LEASING



An otherwise upbeat SME sector In India was taken aback when the compulsory (but required) lockdown was announced by the end of March.

The suspension of economic activities weighed badly on the businesses of SMEs. The disruptions of business cycles and market uncertainties further affected the cash flows for SMEs.

However, there were exceptions to the general rule. Numerous technologies & cloud-based enterprises, e-commerce businesses, healthcare companies, OTP platforms, content streaming, and data analytics companies thrived. But as a general rule most of the manufacturing, service, and trading-based SMEs have to navigate rough waters.

As business activities took a beating, leasing activities were also hit hard. Like other major businesses SMEs also adopted a temporary WFH mode of operations, which further affected their leasing decisions.

Most of the SMEs in India, like their international peers, renegotiated their rental agreements with their landlords. Waivers, discounts, and deferrals followed to emerge on mutually agreeable terms between the landlords and the tenants to offer some relief.

However, as gradually lockdown was suspended, business activities resumed and many offices started to open. With time, the fervour of WFH also started to fade, as organizations realized that numerous important functions are best suited to perform in a Face to Face (F2F) set-up. Likewise, new joiners, interns, sales-based professionals might not function very effectively from home and would need an office space.

# SURVEY OUTPUTS

## IMPACT OF COVID ON SME BUSINESS



The unfolding of the COVID crisis is believed to be one of the biggest events in our lifetime.

As most of the social, economic, and business activities came to halt, a jolt to SMEs was inevitable in India.

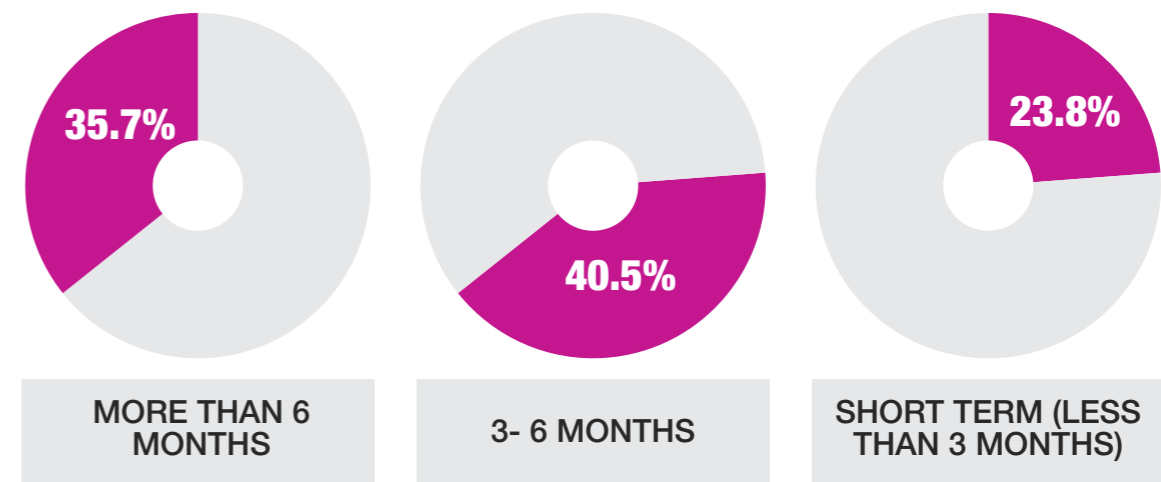
There was a multi-sector crisis emanating from a disruption in the supply chain and labour force as well as a slump in demand and investor activities.

Consequently, offices started to reopen, and gradually new leasing activities started setting in. Though the rules of leasing were altered. There has been an unprecedented amount of focus on maintaining social distancing norms and safety standards.

New guidelines have been outlined to enforce de-densification, security & screening, overall hygiene, etc. Spaces across Grade- A, B & C premises have been redesigned and reconfigured to accommodate the new norms.



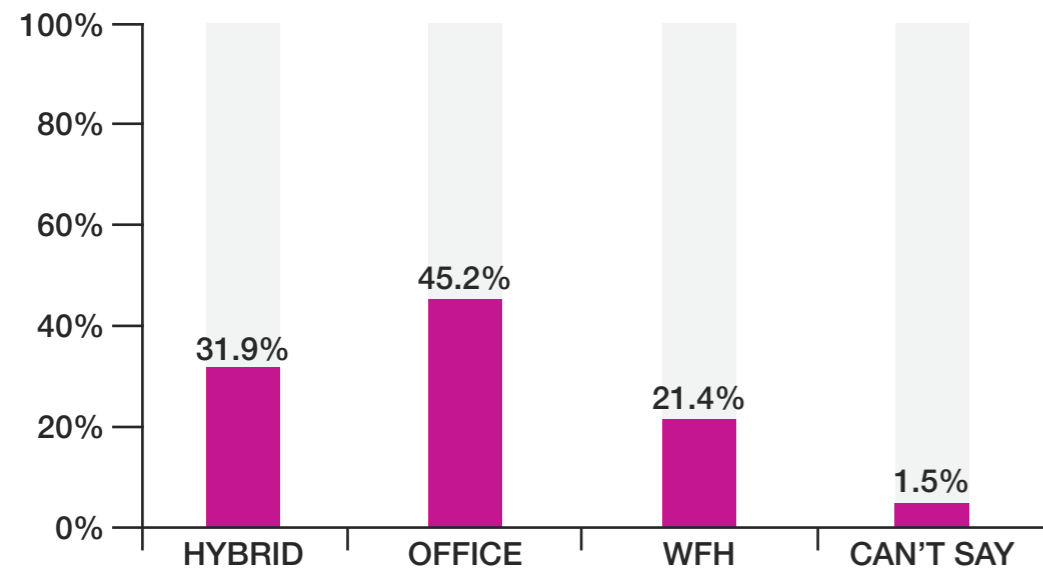
### DURATION OF IMPACT OF COVID ON INDIAN SMEs



However, COVID also proved to be an inflection point resulting in accelerated digitization and makeover in business models for numerous SMEs. It led or rather forced many SMEs to rethink their business model and gave the impetus to make the necessary changes.

Organizations that were able to rethink/reimagine and bring the required changes were able to adapt fast to the new normal. As shown in the survey, for around a quarter of SMEs the impact did not last for more than 3 months. A large portion of SMEs (40.5%) were able to recover in 3-6 months.

### POST-COVID WORKFLOW MODEL



Like other businesses, SMEs in India are also altering their workflow models. Little less than 32% of the SMEs are adopting a hybrid model. More than 45% of the SMEs have reopened and following office-based models.

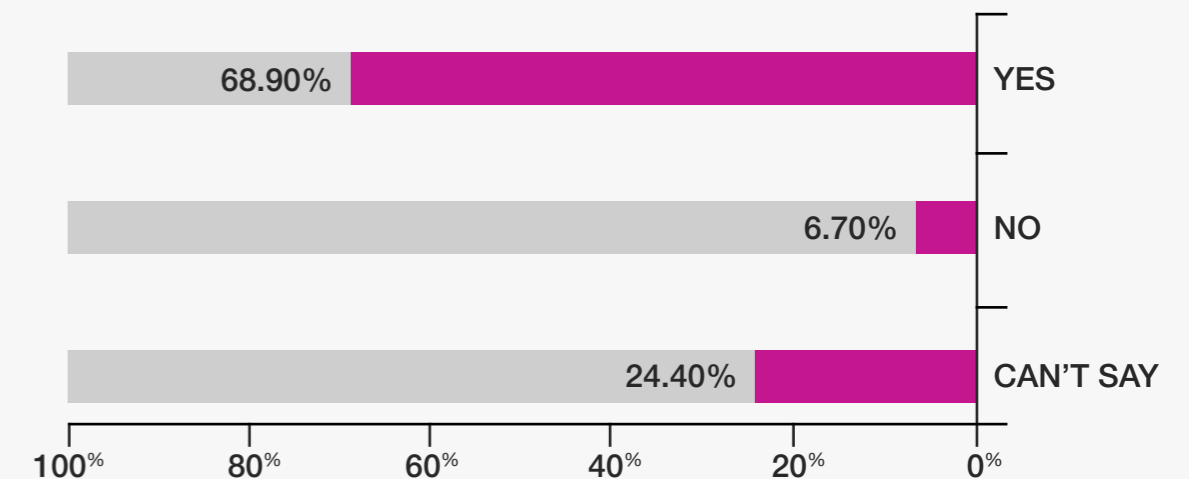


# BUSINESS EXPANSION PLANS OF SMEs POST-COVID

As COVID caused the economy to shrink, SMEs in India have suffered a rollback in revenue. However, the silver lining is that after the current crisis, business activities are reviving and hence painting an overall optimistic picture for the economy.

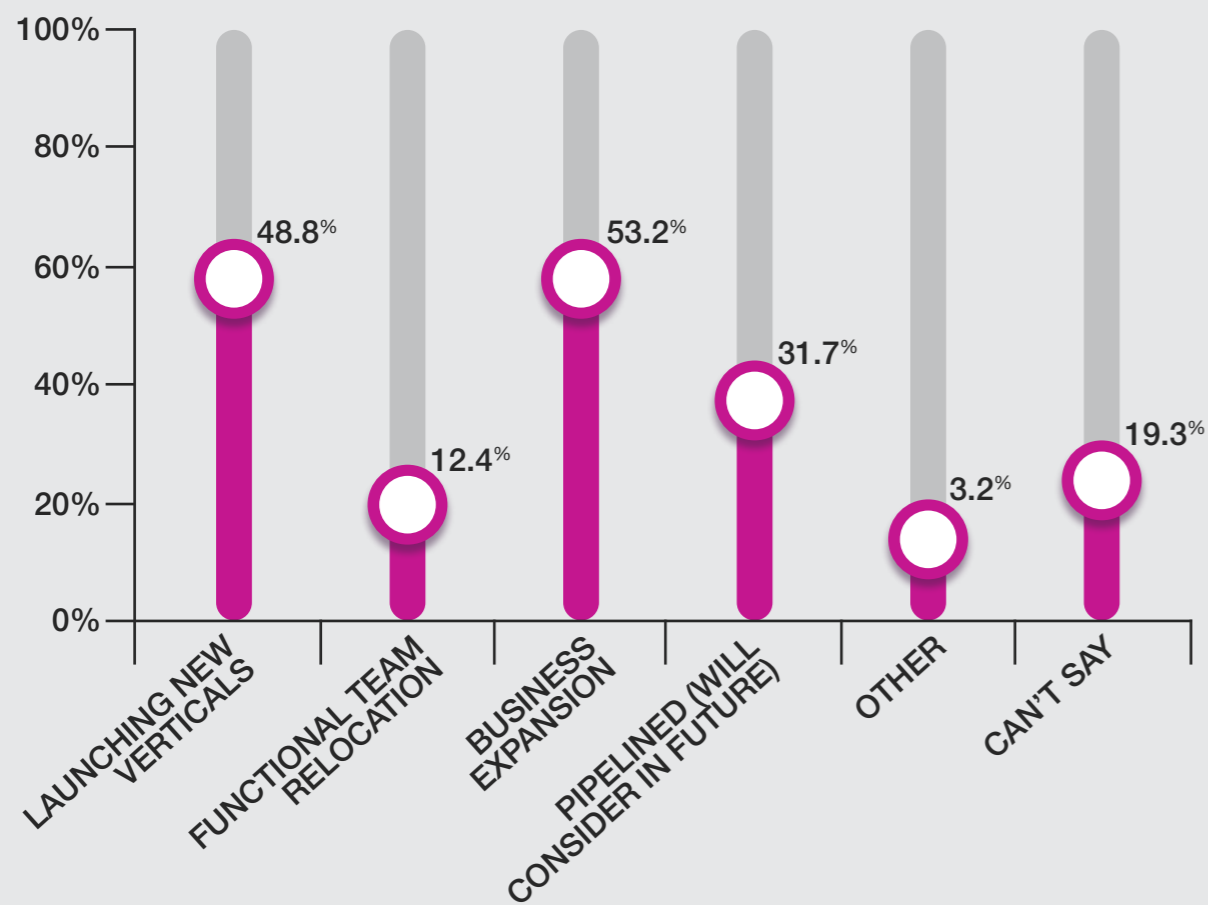
This is also resulting in SMEs not losing their overall strategic intent. A whopping 69% of the respondents have demonstrated their plans to expand their business. However, a quarter of businesses are also clueless about future expansion, which further underpins the visible uncertainty in the markets.

### PLANS TO EXPAND BUSINESS AMONGST SMEs





## KEY DRIVERS BEHIND BUSINESS EXPANSION FOR SME



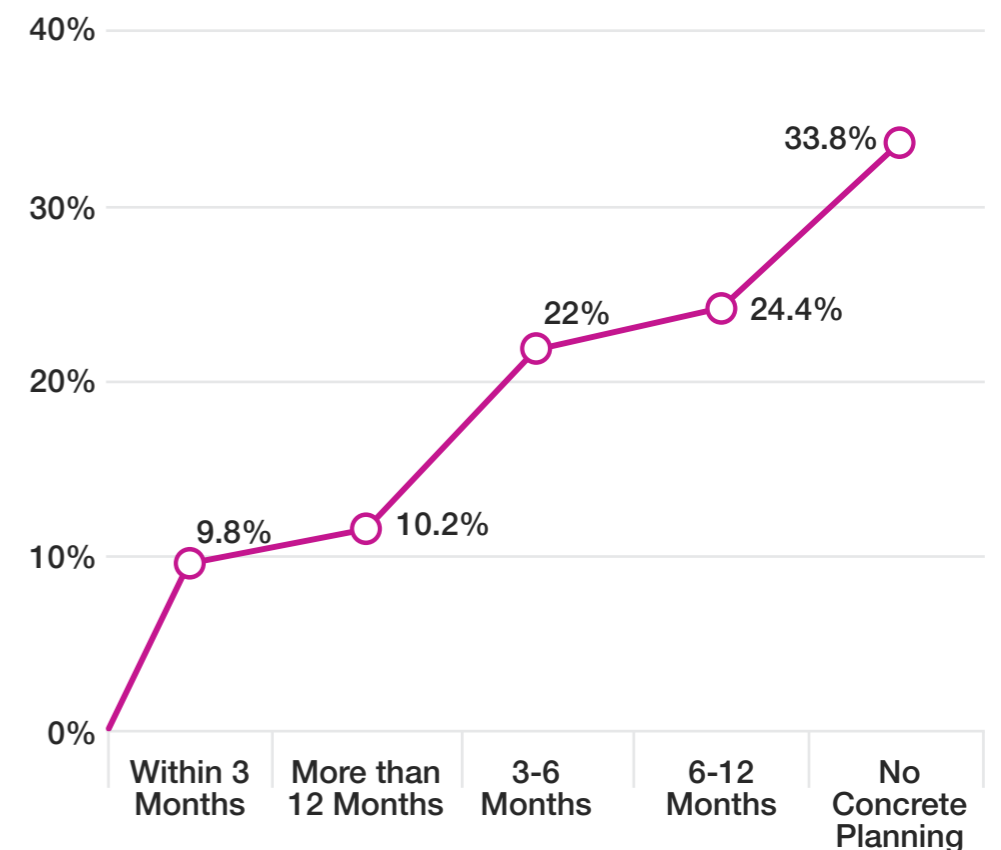
Respondents were asked to mark more than one option if applies

Businesses are also gaining confidence in the overall economic outlook of India, as the country is expected to register a growth in the range of 8-10% in FY 22- as estimated by most of the leading Banks and Rating Agencies.

As the economy is expected to expand in FY 22, there will be significant growth in demand and consumption.

49% of the respondents have said that they will launch new verticals, whereas 53% have indicated business expansion in the coming time. Slightly over 12% have suggested functional team reallocation.

## TENTATIVE TIMELINE FOR EXPANSIONS



# DEMAND FOR COMMERCIAL SPACE AMONGST SMEs

SME business in India is now recovering after the COVID-triggered cataclysmic disruptions. Business activities are reviving across both tech-based start-ups and cross-line functions such as essentials, e-commerce, retail, consumer durables, etc.

As business activities are rising fast, leasing is also expected to pick up in the SME domain. The pipeline of anticipated deals is also painting a positive picture for the overall industry outlook. After lockdown suspension, there has been around ~3X rise in site visits and expression of interests.

A sizable portion of EOIs & site visits are emanating from BFSI, IT & tech, research & analytics, FMCG, healthcare & wellness, etc.



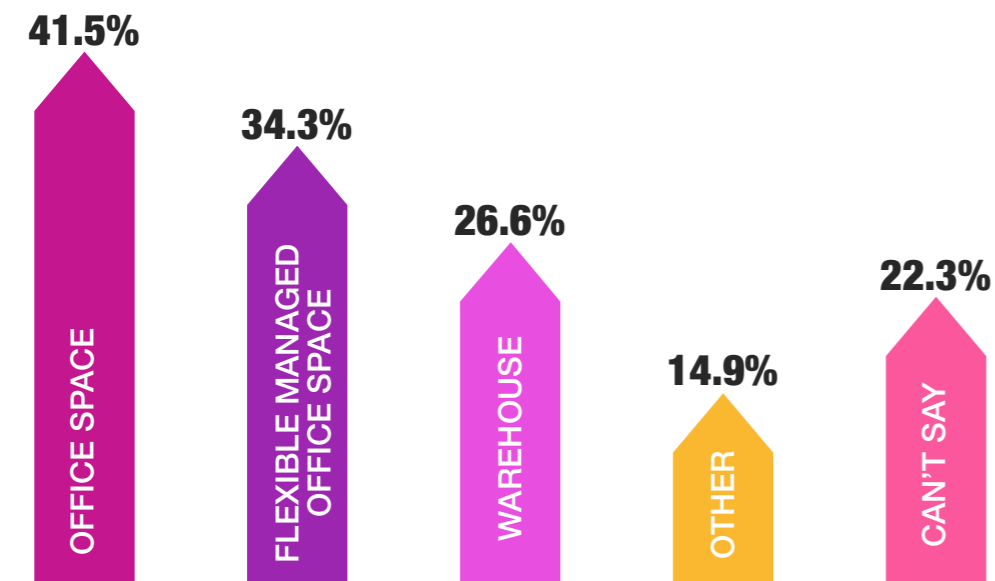
However, a quick turnaround will still take some more time. Most of the markets are still yet to fully open. Currently, on an average level, the vacancy levels are hovering north of 70%.

In bigger IT parks and business campuses, the occupancy is even lower at around ~ 10%, as most of the enterprises are operating on Work From Home basis. Until around ~ 70-80% of the markets become operational, a full-blown rise in leasing activities will have to wait.

Moreover, PE funding and leverages are becoming scarce for start-ups, which will weigh adversely on the overall leasing business. Start-ups are now operating in revenue-based models, with more emphasis on business flow and transactions rather than raising large funds.



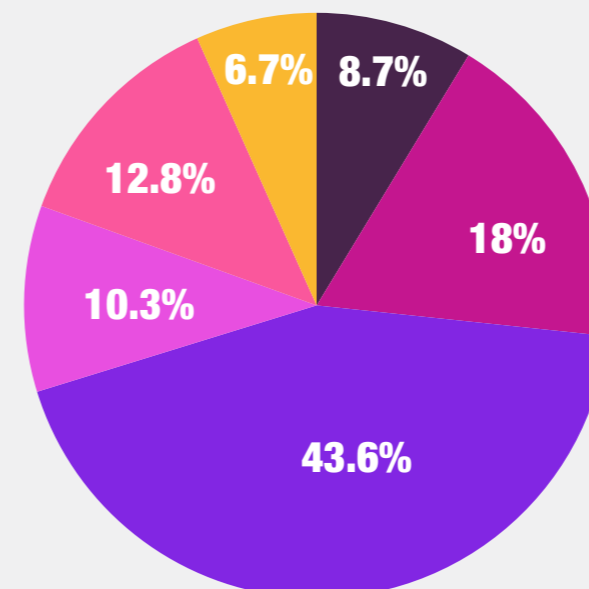
## PREFERRED COMMERCIAL PROPERTY FOR INDIAN SMEs



Respondents were asked to mark more than one option if applies

Overall, demand for Co-working will rise in the foreseeable future, as indicated in the survey (~ 34%). Alongside Tier-1 cities, managed co-working spaces are seeing a lot of interest in Tier-2 cities as well such as Indore, Lucknow, Cochin, etc. In recent years, e-commerce, healthcare, and BFSI companies are rapidly growing in non-metros, giving a push to office demand.

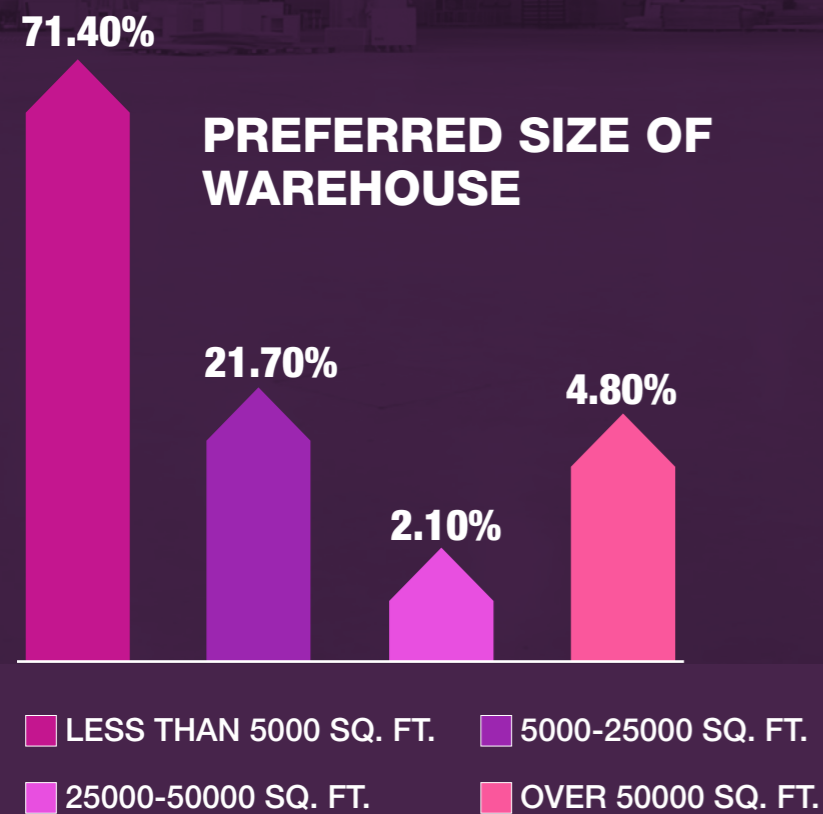
## PREFERRED OFFICE SPACE SIZES FOR INDIAN SMEs



- LESS THAN 500 SQ. FT
- 500-1500 SQ. FT
- 1500-2500 SQ. FT
- 2500- 4,000 SQ. FT
- 4000-6500 SQ. FT
- OTHERS



In terms of size, the focus will be more on small and medium-sized office spaces of 1500-2500 sq ft of leasable area. As financial uncertainty will stay here, SMEs will shy away from making big-ticket size investments. ~ 44% of SME respondents have indicated that 1500-2500 sq. ft is their most preferred size in the current market. ~27% of respondents have suggested that up to 1500 sq ft is the most preferred office size. Roughly 13% have demonstrated their will to go after larger office sizes (4000- 6500 sq ft).

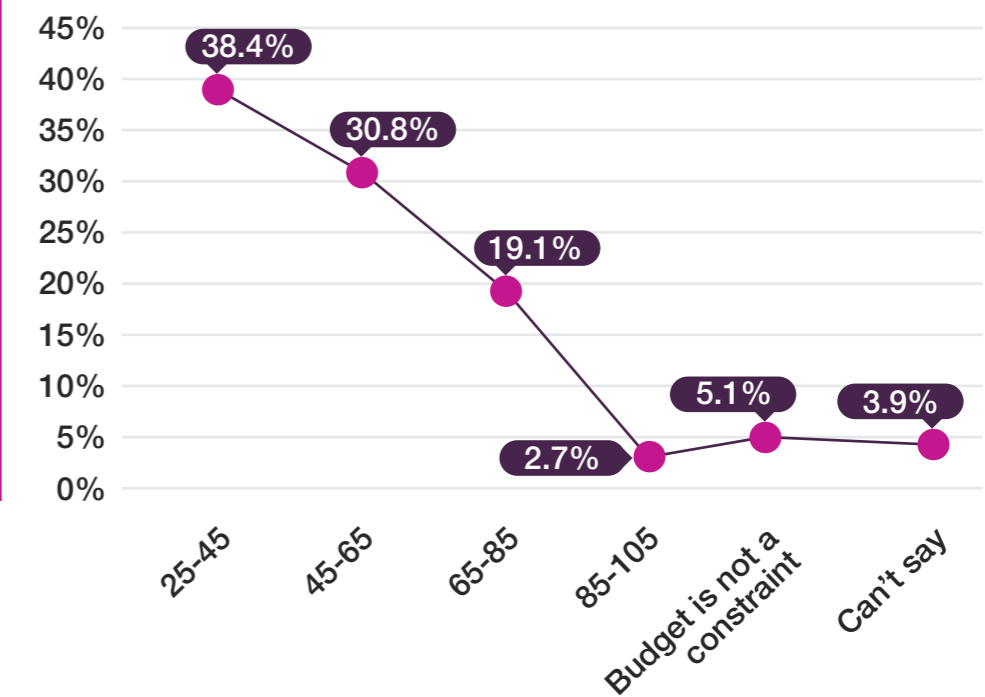


As crossline functions comprising essentials, durables, pharma, food items, etc. are on a rise, demand for warehousing has also taken a shot in the arm. The uptrend will continue with emphasis on renting space either in the city or in adjacent areas to ensure seamless last-mile supply.

This is in stark contrast to previous trends, where warehouses are mostly leased out in remote areas to contain cost. Investments in cold storage are also picking up fast as many food processing, dairy, meat, pharma companies, etc. are streamlining their supply chain.



**PREFERRED MONTHLY OFFICE RENTAL FOR SHELL & CORE (INR/ SQ FT)**



# FUTURE OUTLOOK

The Mumbai Metropolitan Region (MMR) remains one of the major destinations for SME's business expansion in the future. 42% of respondents have hinted to expand new commercial spaces in MMR.

The commercial capital of the country has contributed more than USD 5 billion in Indian GDP in the previous FY, underscoring its prominence on the Indian business map. The city is a prominent hub for Indian infrastructure, manufacturing, and financial growth.

In recent years, it is witnessing a growing concentration of numerous emerging industries including fintech, gems & jewellery, automobile, e-commerce, media & entertainment, gaming, OTP, and much more. Naturally, most of the SMEs will like to have an extended presence in the MMR region to leverage bigger business opportunities and boost export.

Similarly, 55% of the SMEs have also expressed their interest to expand in the Delhi NCR- the political capital of India. Delhi alongside Noida, Ghaziabad, and Gurugram is becoming a formidable SME hotspot.

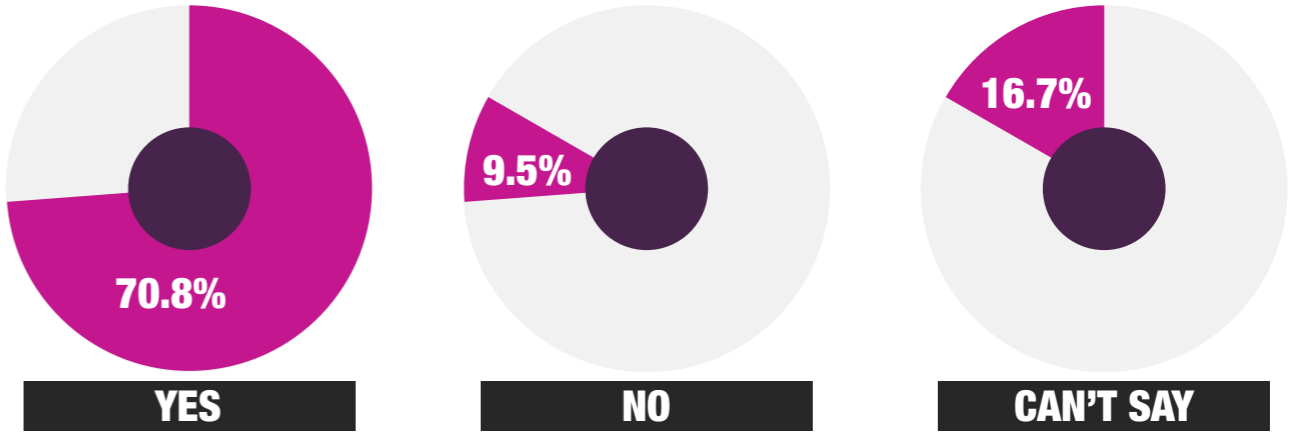
Ghaziabad, Noida, and Greater Noida are also getting thrust from the proactive policies by the UP government, which has fostered growth in ICT, electronic appliances & smartphone manufacturing, paper, and media industries. As work has begun on Jewar airport, soon Greater Noida is expected to see a further sharp jump in business and commercial activities.

27.5% and 32.5% of SMEs are planning expansion in Hyderabad and Bengaluru respectively. Around 27% of the SMEs will like to expand in Pune.



Respondents were asked to mark more than one option if applies

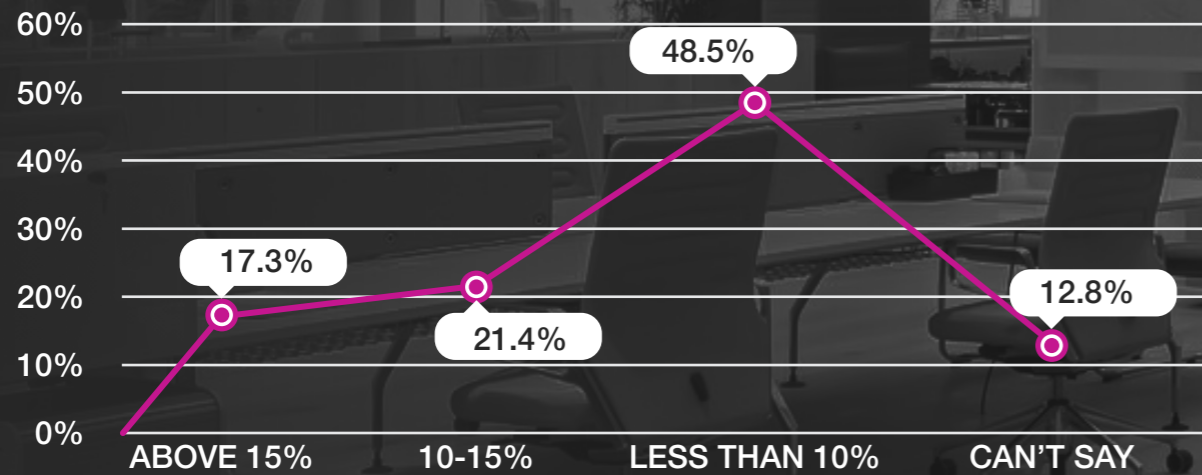
## WILL LEASING RATES COME DOWN?



The majority of SMEs in India believe that there will be a slowdown in office leasing rates, a view chronicled by most of the stratum of India INC. 70.8% of the respondents have shown in the survey that the leasing rates will further correct in the market.

Less than half of respondents believe that leasing will come down by less than 10%. Little more than 21% of the respondents have suggested a correction in leasing to the tune of 10-15%. Over 17% of the respondents indicate a correction of more than 15%.

## BY WHAT % LEASING RATES WILL CORRECT



## NEW OPPORTUNITIES FOR THE SME SEGMENT

Although the disarray in the economy will continue for some time, markets have started showing revival marked by an improvement in the overall macroeconomic parameters of the country. PMI indices have risen sharply for both the service and manufacturing industry, which further underlines a bounce back in business activities.


As a healthy moderation to the economy is taking place, Indian SMEs are coming back to action besides new opportunities unlocking in numerous upcoming segments. This will also fuel demand for new office spaces and boost overall leasing activities in the country.

In the service industry, digital and tech-enabled services will lead the industry revival. Already e-commerce, online education & Edutech, telemedicine have witnessed a sharp rise in demand during the mandatory lockdown period. Although the recent crisis has given impetus to digital trade & commerce, its subsequent growth will be based more on favourable underlying structural parameters.

India is home to one of the cheapest 4G internet in the world. Its smart penetration is pegged at 290 million and is rising fast. Besides, India is also home to one of the youngest populations in the world, with around 65% of the population aged below 35. These factors make the country an enabling ground for digital trade and commerce to flourish.

India's online education industry that amassed investments of USD 700 million in 2018 has racked up around USD 1 billion in investments in the last 6 months. The industry is expected to grow by another 200% in the next 2-3 years, chronicling a new era for the USD 120 billion Indian education industry.

India's entertainment, music, OTT industries are also set for remarkable growth. India is home to 200 million TV sets with additional space for 100 million more. This will drive growth in the music and entertainment industries. Similarly, OTT, digital news, animation industries, etc. are also growing swiftly in the country.



Wellness & pharma industry  
is also growing vigorously.

“  
The recent pandemic has also seen a windfall of opportunities for the SAAS based remote working software companies, data analytics platforms, and big data enterprises. Going forward, in the new normal the uptrend will continue.  
”

The ~ USD 300 billion healthcare, wellness & pharma industry is also growing vigorously. Besides telemedicine, which is one of the fastest-growing sub-sectors, diagnostics and pharma are also expected to register smarter growths.

The government is also putting coordinated efforts and building new business parks and dedicated SEZs for the pharma industry. India already is one of the market leaders in global generic sales and now it is aiming to move towards higher value-added products such as bio-similar, APIs, medical devices, etc. GOI is spending USD 1.3 billion to further support growth in the pharma sector.

Indian government policy impetus to become self-reliant in manufacturing is bringing renewed optimism in a host of sunrise industries such as defence hardware manufacturing, textiles, consumer durables, electronic appliances, etc. The government has already announced a massive package of USD 290 billion to help the manufacturing industry.

Likewise, India's relatively small processed food industry can also grow multi-fold. The country is one of the largest producers of numerous food items such as pulses, grains, fruits & vegetables, dairy, and poultry. The ministry of food is developing 42 mega parks and 297 cold chains to help the food processing industry in the country.

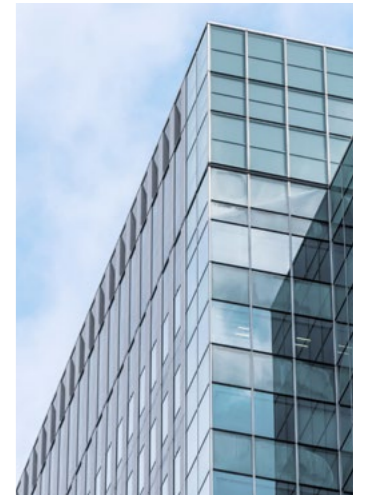
The recent pandemic has also seen a windfall of opportunities for the SAAS-based remote working software companies, data analytics platforms, and big data enterprises. Going forward, in the new normal the uptrend will continue.

**Ajay Rakheja**  
Head- 360 Realtors' Commercial



## CONCLUSION

**THE INDIAN SME SECTOR CONTINUES TO BE ONE OF THE MAJOR GROWTH DRIVERS OF THE INDIAN ECONOMY.**



The Indian SME sector continues to be one of the major growth drivers of the Indian economy. It plays an important role in the GDP, contributes significantly to the export, and is a major source of employment generation.

No doubt, the current crisis has knocked-off a significant amount of business activities for them. The slowdown in business and economic activities has adversely affected the Indian SME sector. Also, a poor cash flow situation has further aggravated the business for many SMEs.

Mounting pressure on the SME sector has also undermined the office leasing activities as many new lease agreements either got cancelled or deferred.

Likewise, rents were renegotiated, or at least temporary deferment or waiver was asked For. Most of the SMEs went back to their account books to recalibrate the deals matching the new reality.

However, with the restoration of business activities, leasing in the SME sector is also expected to slowly and gradually recover. The focus would be more on smaller spaces (1500- 2500Sq. Ft) or managed co-working properties with an overall objective of containment of overheads.

As PE investments are drying up with focus shifting to run seed-funded ventures, big leasing activities will further be affected. As far as existing leases are concerned, leasing till FY 21 has been concluded.

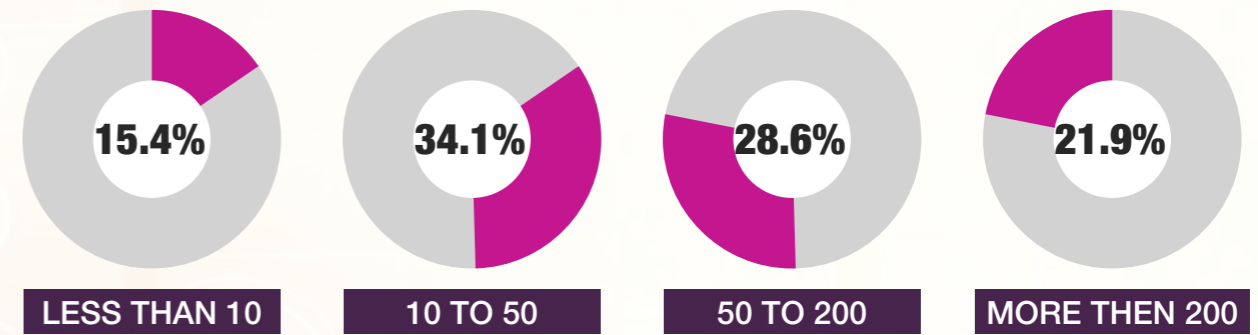
In FY 22, when the leases will be renewed, the focus will be more on striking deals that can ensure the long-term benefits of both the lessee and the lessor.

Although the lessee will like to have some discounts in the earlier rates (as also shown in the survey results), the lessor will opt for alternate arrangements such as staggering discounts. This can offer some financial levy to the tenant without affecting the market values.

# RESPONDENT PROFILE

The market research has been conducted with the help of an online survey of 410 SME owners/ employees cutting across numerous geographies and industrial verticals. The respondents were asked numerous questions pertaining to business outlook, leasing activities, expansion plans, changes in business operations, and much more

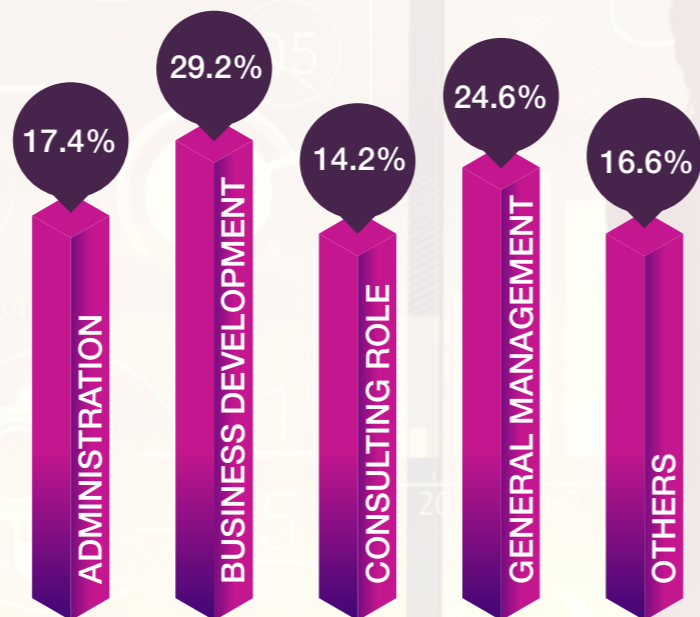
## RESPONDENTS' - COMPANY SIZE



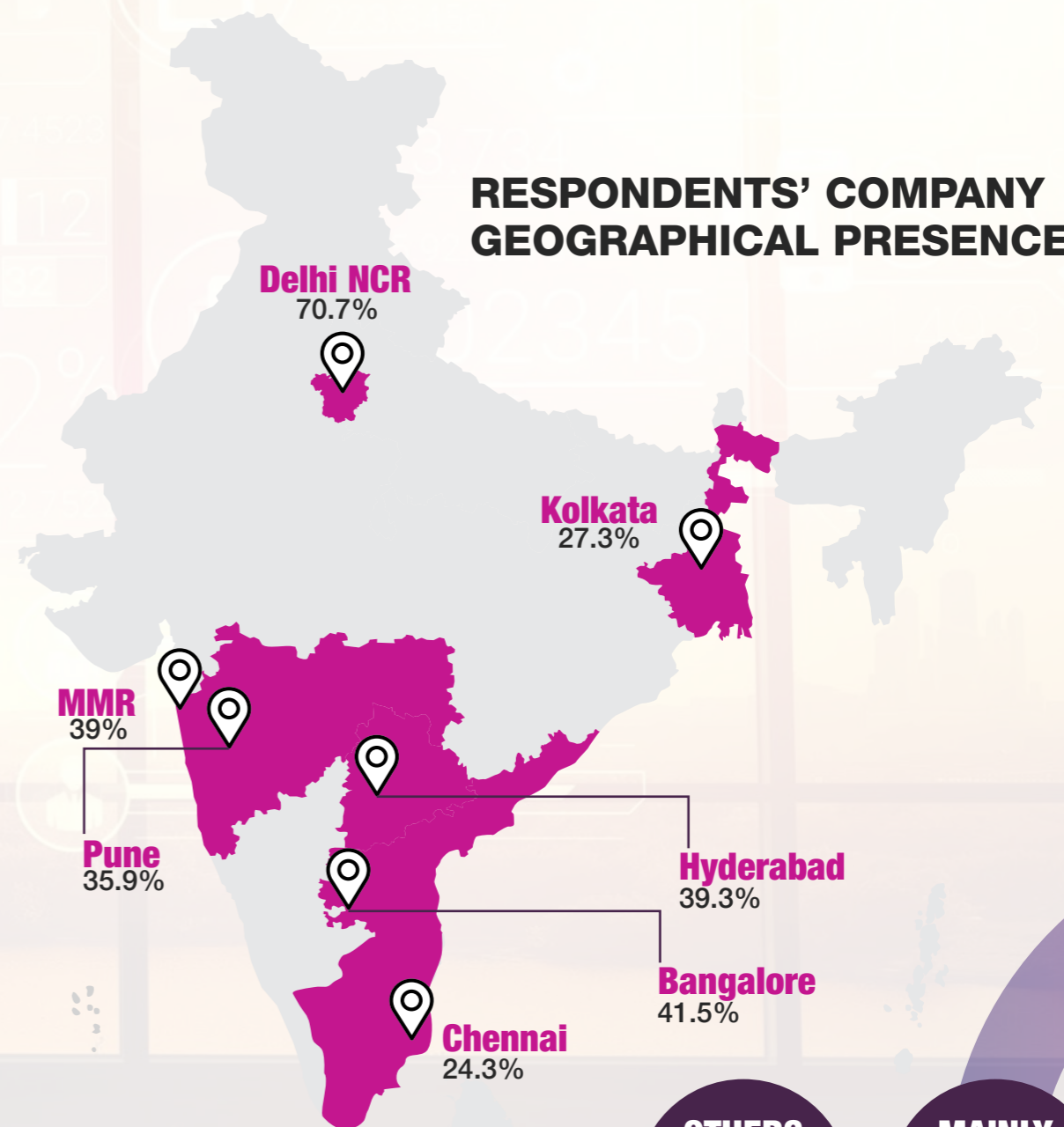
## MALE VS FEMALE



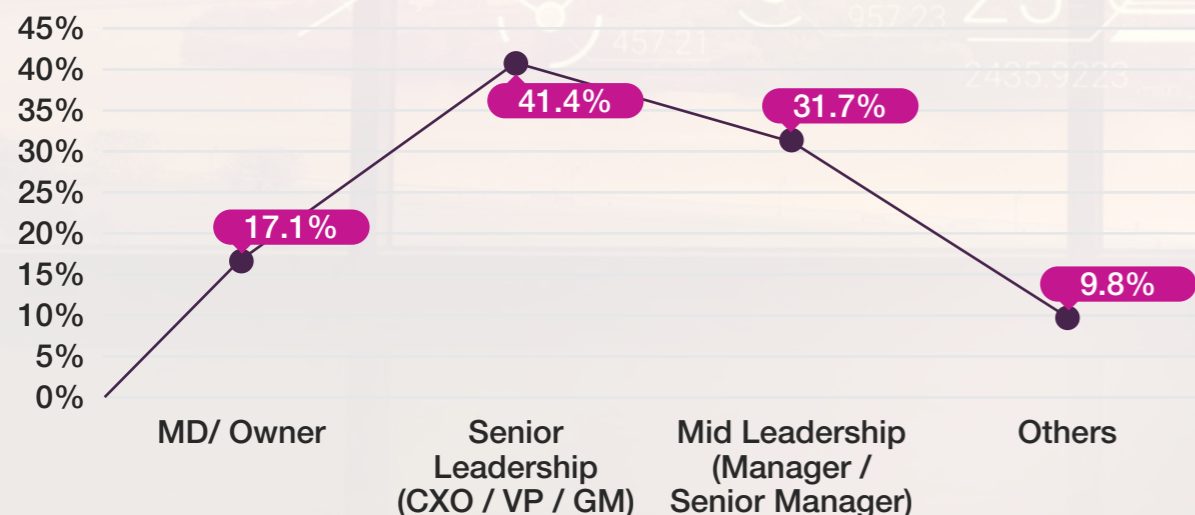
## RESPONDENTS' WORKING PROFILE



## RESPONDENTS' COMPANY GEOGRAPHICAL PRESENCE



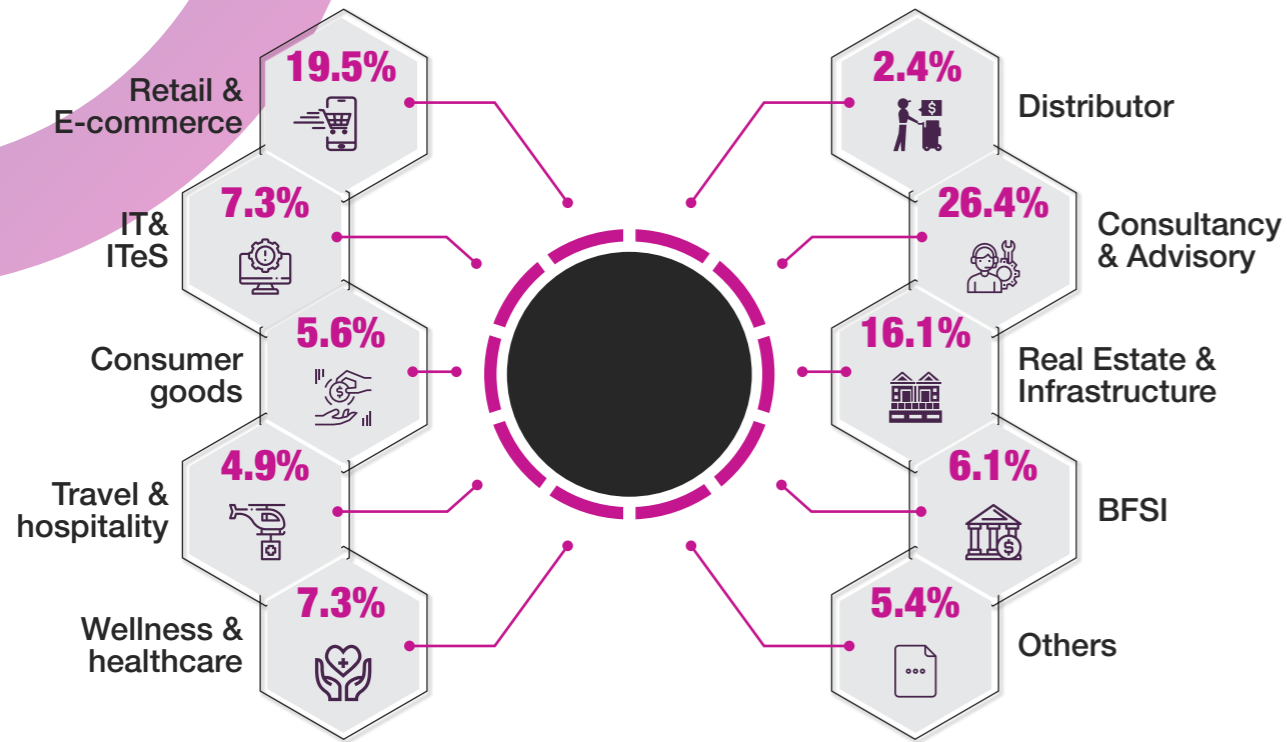
## RESPONDENTS' - LEADERSHIP PROFILE



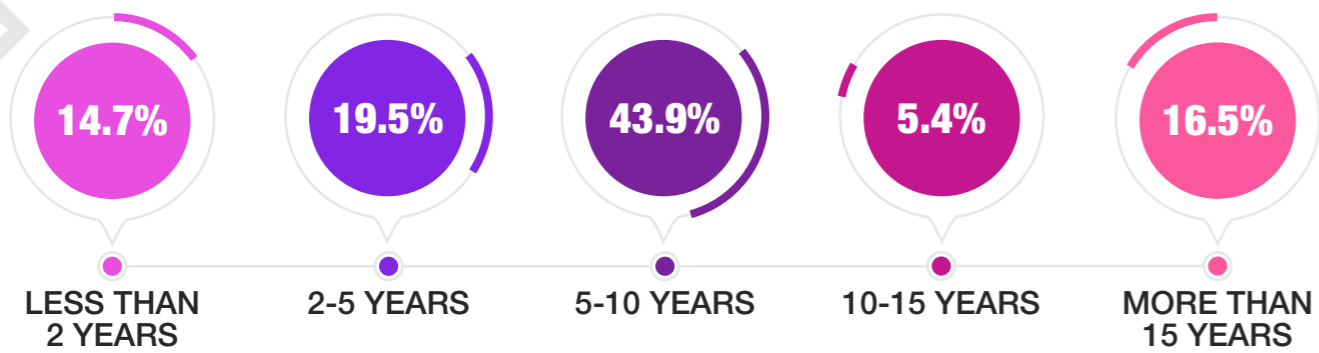
**OTHERS (TIER 2 & 3 CITIES)**  
44.1%

**MAINLY REMOTE WORKING**  
2.4%

## RESPONDENTS' INDUSTRY TYPE



## RESPONDENTS' EXPERIENCE



**360** REALTORS  
COMMERCIAL

**PRESENCE**  
IN 9 COUNTRIES  
GLOBALLY

**23546+**  
SATISFIED  
CUSTOMERS

**680+**  
REPUTED  
DEVELOPERS

**40+**  
CITIES  
IN INDIA

**360 REALTORS**