ICRA
A MOODY'S INVESTORS SERVICE COMPANY

INDIAN ECONOMY

MARCH 2020

"Indian GDP growth to range from 4.7% to 5.2% in FY2021, depending on intensity, duration and spread of Covid-19 outbreak"

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OUTLOOK

The likely duration, intensity and spread of the Coronavirus (Covid-19) has injected a lot of uncertainty into the global and domestic economic outlook. The concerns have morphed from the impact of imports from China on domestic supply chains, into a domestic and external demand shock, the duration of which remains uncertain, with social distancing and lockdowns raising the prospect of production shutdowns and job losses in some sectors. ICRA expects a sharp downturn in various indicators of the manufacturing and services sectors, particularly those catering to domestic discretionary activities, such as travel, tourism and recreation, labour intensive sectors such construction and transport, as well as exports from March 2020 onwards. A brighter outlook for the rabi crop and steady Central government spending may however cushion the impact on economic activity to some extent. Depending on the duration of the lockdowns that have been imposed in several districts, Indian GDP growth appears likely to range from 4.7% to 5.2% in FY2021. However, if the unprecedented situation continues into Q2 FY2021, there could be considerable downside risks to our growth forecasts. A mix of conventional and unconventional fiscal and monetary policies would be required to prevent a sharper plunge in economic activity. A moratorium on debt servicing may be warranted in the current circumstances, to mitigate liquidity stress that would be inevitable across a large cross section of borrowers.

Indian GDP and GVA growth stood at a subdued 5.1% and 4.9%, respectively, in 9M FY2020. While the performance of various lead indicators in January 2020 was mixed, it was surprisingly upbeat in February 2020, other than the deepening contraction in automobile production. Nine of the 15 early indicators recorded a narrower YoY contraction or higher growth in February 2020 in sequential terms, such as scooter production, output of Coal India Limited, electricity generation, non-oil exports etc., although some of these sectors benefitted from a favourable base effect in that month.

Following the Covid-19 outbreak, the initial concern was related to the impact of imports from China affecting Indian supply chains and production. With the rapid spread of the outbreak, most countries have enforced stringent restrictions on the movement of international flights and people. In India, many districts have imposed a near-lockdown to ensure social distancing, and the curtailment of passenger trains and domestic flights has also been announced. Accordingly, the concerns have morphed into a domestic and external demand shock, the duration of which remains uncertain, with the prospect of production shutdowns and job losses in some sectors. We expect a sharp downturn from March 2020 onwards in various indicators of the manufacturing and services sectors, particularly those catering to domestic discretionary activities, including tourism, hospitality and recreation, labour intensive sectors such construction and transport, as well as exports, which will likely intensify in April 2020, especially if the prevailing near-lockdown situation in several districts persists. Such factors would also negatively impact transport, freight, fuel consumption and the demand for electricity.

With some large companies involved in production of discretionary items announcing shutdowns, the SME sector as well as unorganized sector are likely to be adversely impacted. In addition to a severe demand slowdown, many sectors could witness disruptions in payments and an elongation of the receivables cycle, along with the emergence of contractual disputes, all of which would strain the liquidity situation, and may lead to a rise in delays in servicing debt obligations unless forbearance is extended. Sectors that would be particularly affected include hotels and restaurants, aviation, construction, real estate, retail, hospitals, automobiles, electronics etc. Additionally, given the flight to safety and increased risk aversion, the availability and cost of credit is likely to emerge as a constraint, with credit spreads expected to widen considerably for borrowers perceived to carry higher risk.

Moreover, job losses, especially of contractual employees in manufacturing as well as retail sectors may rise. In a similar vein, the temporary halt in activity in some sectors such as construction and transport is likely to result in a permanent loss of daily wages. Additionally, the loss of incomes may result in constrained consumption, some rise in defaults on personal loans, and could emerge as a risk for microfinance institutions, especially in the urban areas. However, the stockpiling of essential items would partly offset the impact on consumption, and may result in a production boost to cater to inventory restocking, unless factory activities face production shutdowns in such sectors. Further, while traditional retail is likely to be adversely affected during the lockdown period, demand is likely to shift to ecommerce firms.

A mix of conventional and unconventional fiscal and monetary policies would be required to prevent a sharper plunge in economic activity. In our view, the meaningfulness of the revenue and expenditure growth assumptions made in the Union and various state budgets for FY2021, has drastically reduced following the rapid escalation of the current crisis. The loss of economic activity is expected to dampen tax collections in Q1 FY2021, which would constrain the cash flows of the Central and state governments. Additionally, the dividend receipts and inflows from disinvestment are likely to be below the targets set by the Union Budget for FY2021. Expenditure would rise sharply in H1 FY2021, especially if stimulus programmes are provided for certain sectors and cash transfers are announced to offset the loss in daily wages, including the possible extension of the number of man-days permitted under the MGNREGA, which may help to soften the impact of the Covid-19 outbreak on economic growth. As a result, there is likely to be a considerable front-loading of debt raising through Government of India securities (G-sec) and state development loans in H1 FY2021.

On a relatively positive note, the expected healthy outlook for the rabi crop would provide some buffer through enhanced rural demand, although the impact of social distancing measures on harvesting and procurement needs to be observed. The sharp 9.5% YoY growth in rabi sowing in FY2020, coupled with the healthy groundwater and reservoir levels, resulted in the 2nd Advance Estimates (AE) of crop production forecasting favourable trends for the output of most rabi crops except oilseeds. However, if the domestic spread of Covid-19 intensifies, it could impact the availability of seasonal labour for rabi harvesting and kharif sowing in the following months. At present, we expect the growth of agriculture, forestry and fishing to rise to around 5.0% in Q4 FY2020 (in line with the implicit growth embedded in the CSO's 2nd AE), as well as Q1 FY2021, driven by the expectation of healthy rabi yields. This, in conjunction with the recent rise in food prices, should support the terms of trade in favour of agriculture, and boost rural demand and sentiment to some extent in H1 CY2020.

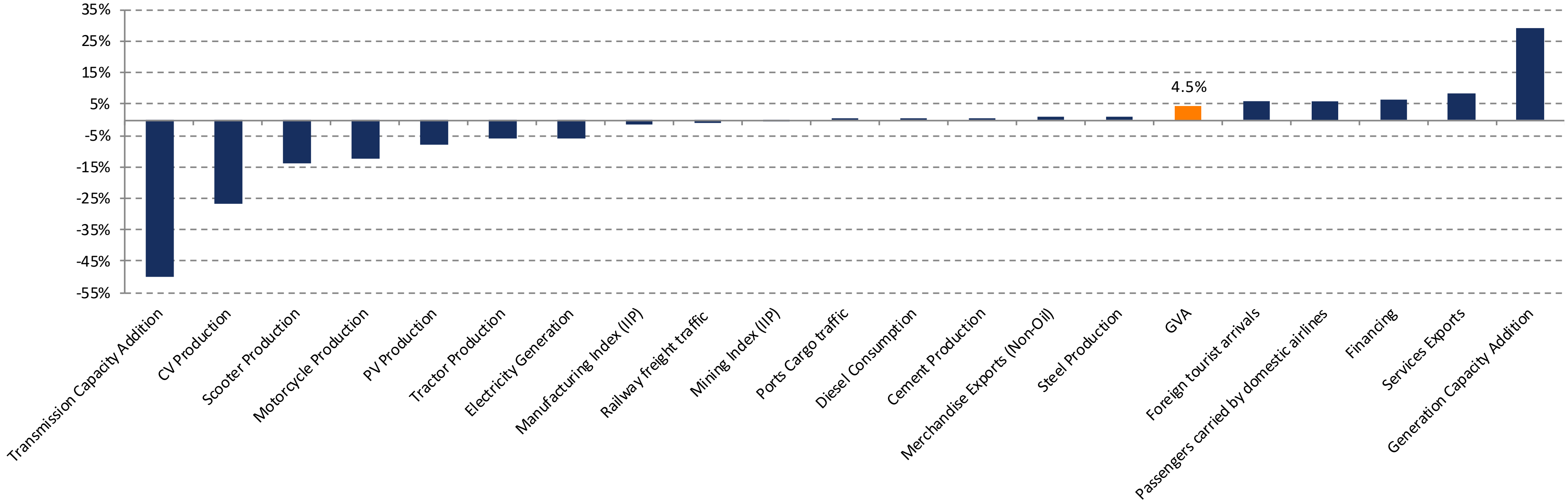
In the near term, the negative impact of the Covid-19 outbreak on economic growth and sentiment may be modestly softened by higher Government spending, a brighter outlook for crop yields and emergency stockpiling of essential items. Moreover, the fall in commodity prices would provide some cushion to earnings in the near term, which provides a modicum of comfort. On balance, we have revised our GDP and GVA growth projections for FY2020 to 4.7% and 4.5%, respectively. Depending on the duration of the near-lockdowns that have been imposed in several districts, Indian GDP growth appears likely to range from 4.7% to 5.2% in FY2021. However, if the unprecedented situation continues into Q2 FY2021, there could be considerable downside risks to our growth forecasts.

We have assumed that the Indian basket of crude oil would average US$40/barrel in FY2021, building in a near-normalisation of the oil market in H2 FY2021. However, the sharp depreciation in the INR will offset some of the impact of lower global commodity prices on the landed price of imports. Additionally, the retail prices of petrol and diesel may not fall substantially, as the Central and state governments may increase taxes and cesses to shore up their revenues. At present, we expect the WPI to slip to a disinflation of around 1.5% in FY2021 from an inflation of 1.6% in FY2020, whereas the CPI inflation would soften somewhat to 4.0% from 4.8%, respectively.

In our view, the correction in the CPI inflation to 6.6% in February 2020 from 7.6% in January 2020 suggests a high likelihood of a rate cut of 25 bps in the next review of the Monetary Policy Committee (MPC) scheduled to be held in April 2020, in light of the growing concerns regarding economic growth, with a guidance towards additional cuts depending on the evolving growth-inflation dynamics. A larger rate cut in the next policy review itself, may have a counter-productive impact on sentiment, even as modest transmission may result in a feeble impact on growth. Instead, we expect the Central Bank to continue to announce measures to support INR and USD liquidity, such as the additional long-term repo operations of Rs. 1.0 trillion, variable rate term repos of Rs. 1.0 trillion, open market purchases of G-sec of Rs. 400.0 billion and USD-INR sell buy swaps of US$4.0 billion. In addition, a moratorium on debt servicing may be warranted in the current circumstances, to mitigate liquidity stress that would be inevitable across a large cross section of borrowers.

UPDATE ON PROJECT ACTIVITY

Exhibit 1: Majority of the sectoral growth trends were clustered below the GVA growth in Q3 FY2020



Source: Central Statistics Office (CSO), Centre for Monitoring Indian Economy (CMIE), Society of Indian Automobile Manufacturers (SIAM), Ministry of Commerce and Industry, Government of India (GoI), Office of the Economic Adviser, Reserve Bank of India (RBI), Ports Authority of India, Indian Railways, Central Electricity Authority (CEA), Ministry of Tourism; CEIC; ICRA Research, Securities and Exchange Board of India (SEBI)

GDP and GVA growth posted a slowdown to a 27-quarter low 4.7% and 4.5%, respectively, in Q3 FY2020 from 5.6%, each in Q3 FY2019. Moreover, the performance of various indicators of production was unfavourable in Q3 FY2020, with almost half of them recording a YoY decline. For instance, electricity transmission capacity addition and generation, output of automobiles, tractor production, manufacturing, railway freight traffic, and mining displayed a YoY contraction during Q3 FY2020 (refer Exhibit 1). Ports cargo traffic, diesel consumption, cement production, merchandise non-oil exports, and steel production recorded a mild YoY uptick, while financing, services exports, passengers carried by domestic airlines, and foreign tourist arrivals recorded a modest growth in Q3 FY2020. However, electricity generation capacity addition was an outlier, posting a robust expansion of 29.1% in Q3 FY2020.

- Capacity utilisation declined considerably to 69.1% in Q2 FY2020 from 73.6% in Q1 FY2020 (Source: Order Books, Inventories and Capacity Utilisation Survey conducted by the RBI) as well as 74.8% in Q2 FY2019.

- Capacity utilisation is expected to record a considerable YoY decline in Q3 FY2020, as well as in the subsequent two quarters, with the latter related to the disruptions on account of the spread of Covid-19.

- Moreover, the pace of contraction of gross fixed capital formation (GFCF) worsened to a series low of 5.2% in Q3 FY2020, from 4.1% in Q2 FY2020.
  - Capital goods output contracted by 16.5% in Q3 FY2020, similar to the 16.6% YoY decline in Q2 FY2020.
  - Moreover, the capital outlay of 22 state governments, for which the data is available, contracted by 6.0% in Q3 FY2020, in contrast to the 10.0% growth in Q2 FY2020.
  - Additionally, the pace of growth in the GoI's capital expenditure and net lending moderated to 41.7% in Q3 FY2020 from the high 69.7% in Q2 FY2020, while remaining robust.

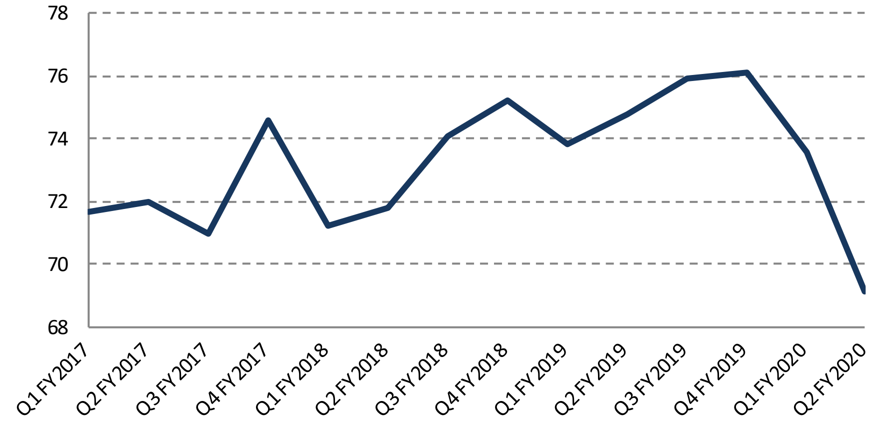
- Data released by the CMIE indicates broadly positive trends. For instance, the value of new project announcements rose sharply to Rs. 4.8 trillion in Q3 FY2020 from Rs. 3.1 trillion in Q3 FY2019 and Rs. 1.9 trillion in Q2 FY2020 (refer Exhibit 3; source: www.economicoutlook.cmie.com, Centre for Monitoring Indian Economy, March 17, 2020). However, this was driven primarily by InterGlobe Aviation Limited's aircraft order worth Rs. 2.3 trillion in that quarter.

- In addition, the value of completed projects rose to Rs. 1.6 trillion in Q3 FY2020 from Rs. 1.4 trillion in Q3 FY2019 and Rs. 0.8 trillion in Q2 FY2020. The pickup in the value of completed projects in Q3 FY2020 compared to Q3 FY2019 was led by the private sector (Rs. 1.2 trillion vs. Rs. 0.6 trillion), even as the same declined for government-owned projects (Rs. 0.4 trillion vs. Rs. 0.8 trillion).

- In addition, the value of stalled projects decreased sharply to Rs. 0.6 trillion in Q3 FY2020 from Rs. 3.2 trillion in Q3 FY2019.

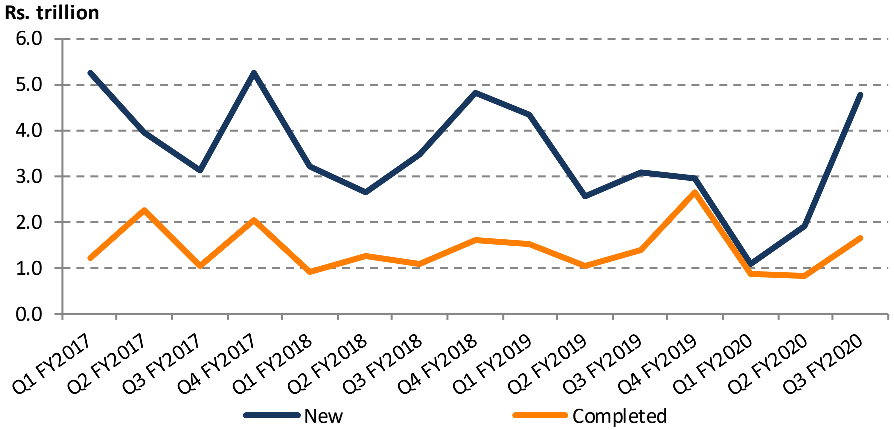
- However, the value of revived projects declined mildly to Rs. 0.8 trillion in Q3 FY2020 from Rs. 0.9 trillion in Q3 FY2019.

Exhibit 2: Capacity utilisation fell sharply to 69.1% in Q2 FY2020 from 74.8% in Q2 FY2019 and 73.6% in Q1 FY2020



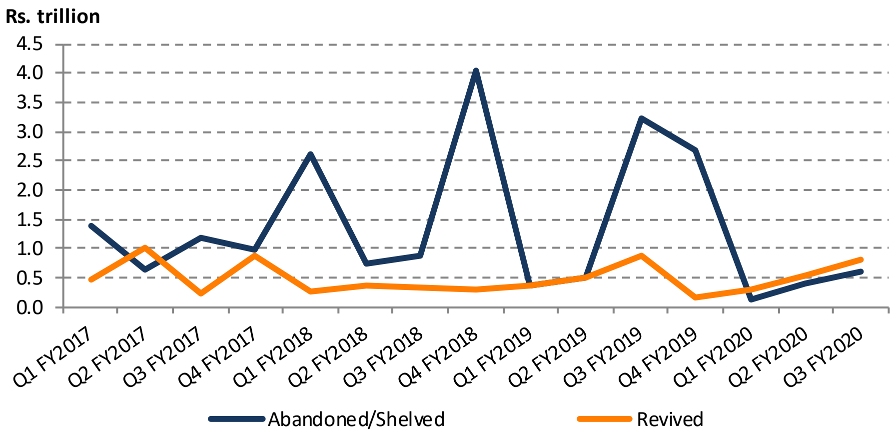
Source: RBI; ICRA research

Exhibit 3: Value of new projects posted a sharp rise in in Q3 FY2020. Moreover, value of completed projects rose to Rs. 1.6 trillion in Q3 FY2020 from Rs. 1.4 trillion in Q3 FY2019



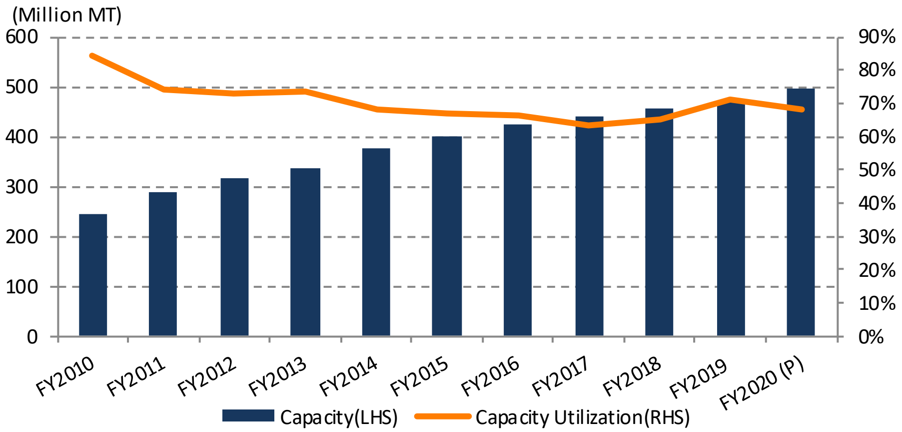
Source: CMIE, www.economicoutlook.cmie.com, March 17, 2020

Exhibit 4: The value of abandoned projects as well as revived projects recorded a YoY decline in Q3 FY2020



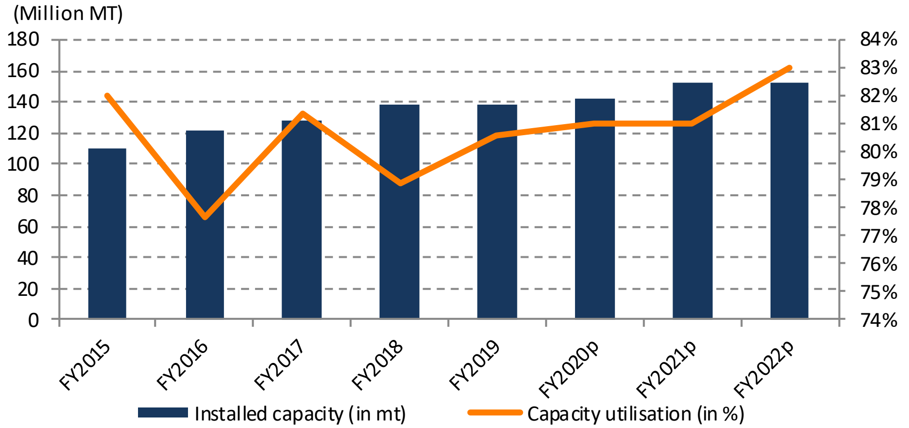
Source: CMIE, www.economicoutlook.cmie.com, March 17, 2020

Exhibit 5: Cement capacity utilisation is projected to ease to ~68% in FY2020 from 71.2% in FY2019; Covid-19 outbreak to dampen demand in the next few months



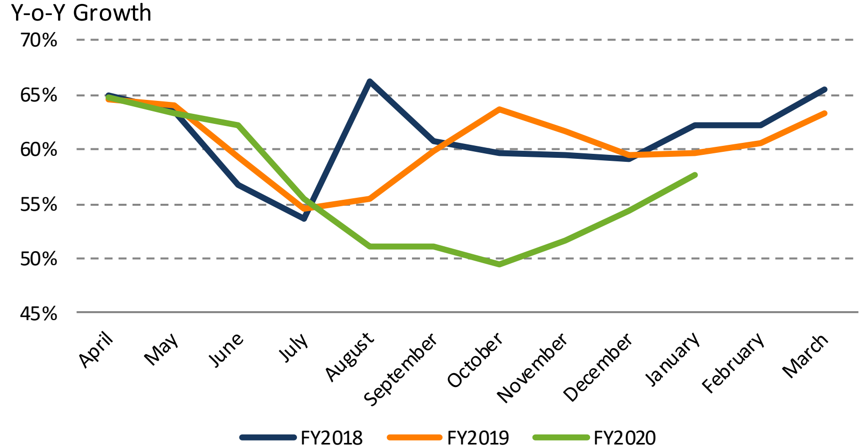
P: Projected
Source: Company Announcements and Media Releases, Company Annual Reports, Cement Manufacturers Association, Office of Economic Advisor, ICRA estimates

Exhibit 6: Steel capacity utilisation is projected to remain unchanged at ~81% in FY2020, in line with FY2019, partly on account of tepid domestic growth; expectation of demand slowdown in Q1 FY2021 following the Covid-19 outbreak would exert pressure on capacity utilisation rates in the near term



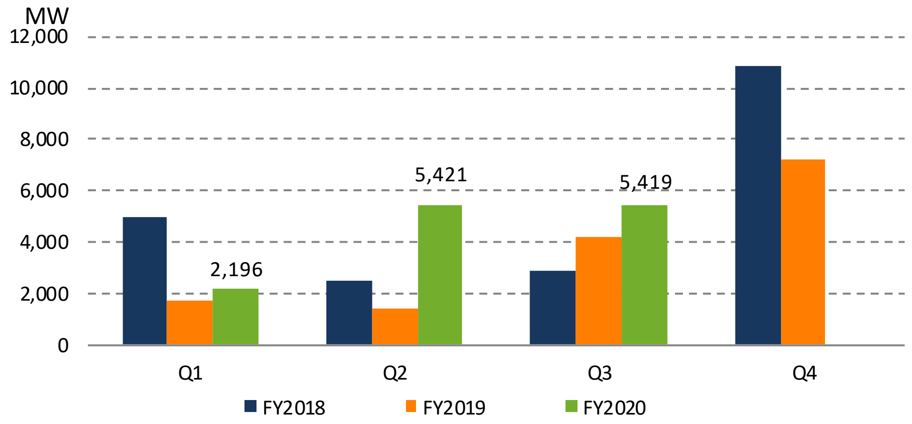
P: Projected
Source: Ministry of Steel; JPC; ICRA estimates

Exhibit 7: The all-India plant load factor for thermal power plants recorded a pickup from 49.5% in Oct 2019 to 57.6% in Jan 2020, with some rebound in energy demand; however, demand growth and thermal PLF are likely to be adversely impacted in the near term because of the Covid-19 lockdown



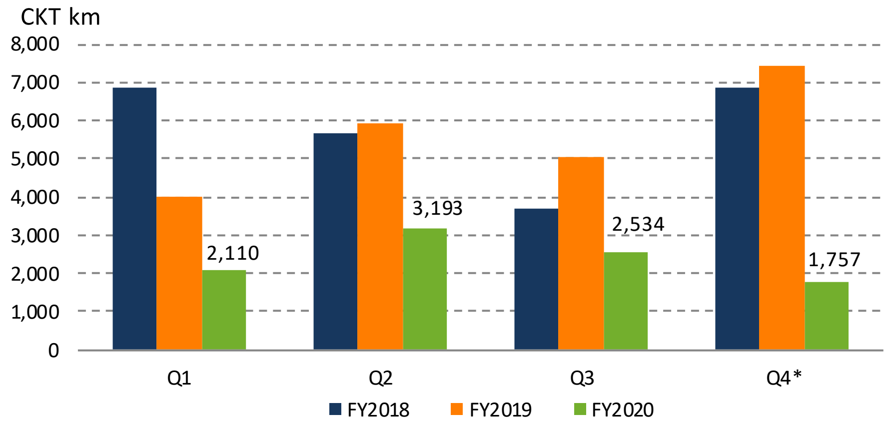
Source: CEA; ICRA research

Exhibit 8: Power generation capacity addition (including renewables) increased to 13,036 MW in 9M FY2020 from 7,329 MW in 9M FY2019, led by a pickup in renewable and thermal capacity addition



Source: CEA; ICRA research

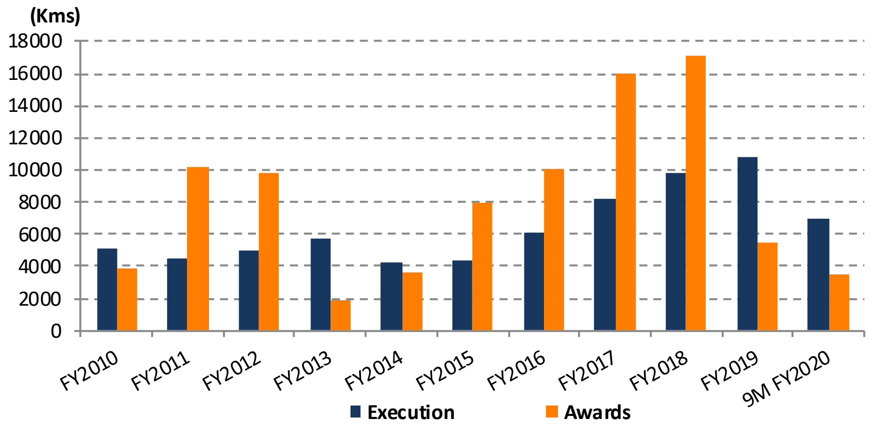
Exhibit 9: In contrast, power transmission capacity addition halved to 7,837 CKT kms in 9M FY2020 from 14,974 CKT kms during 9M FY2019; subsequently, 1,757 CKT kms of transmission capacity was added in Jan 2020



**Data for Q4 FY2020 available till January 2020*

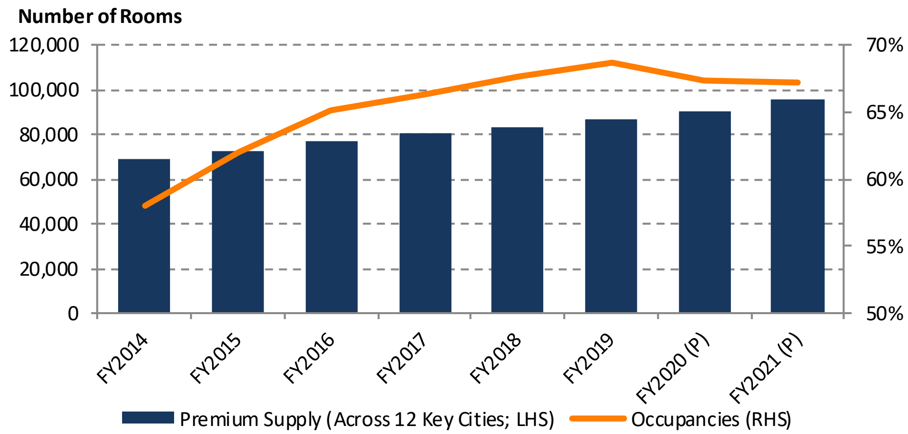
Source: CEA; ICRA research

Exhibit 10: Road contracts awarded directly under the Ministry of Road Transport and Highway (MoRTH) stood at a modest 3,434 kms in Apr-Jan FY2020, compared to 5,493 kms in FY2019, owing to the land acquisition and funding challenges



Source: ICRA research

Exhibit 11: Hotel occupancies are projected to ease in FY2020, driven by the crash in occupancies in Mar 2019 following the spread of Covid-19; moreover, the outlook for the hospitality sector is negative, given the domestic and international travel restrictions placed to contain the transmission of Covid-19



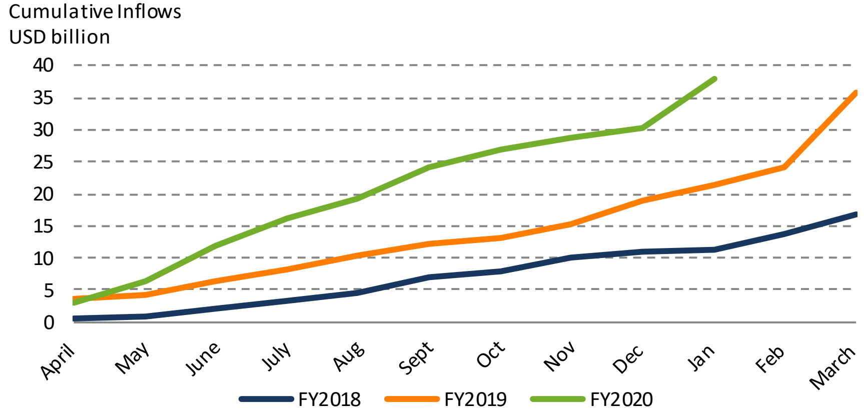
P: Projected

Source: ICRA research

UPDATE ON FINANCING

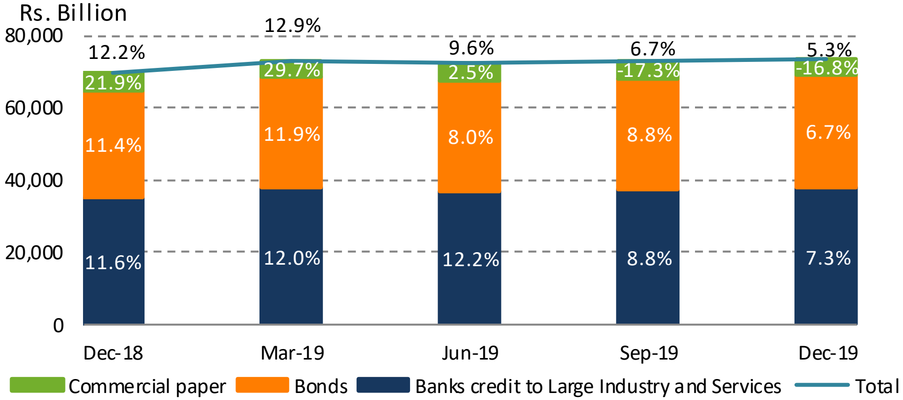
- Growth in total financing through bank credit to large industry and services, commercial paper (CP), and bonds moderated to 5.3% at end-December 2019 from 12.2% at end-December 2018, led primarily by a significant YoY contraction in CP outstanding (to -16.8% from +21.9%), as well as a decline in the growth of bonds outstanding (to +6.7% from +11.4%) and bank credit to large industry and services (to +7.3% from +11.6%).
    - *Non-food bank credit growth fell sharply to 6.1% on February 28, 2020 from 14.4% on March 1, 2019. Moreover, deposit growth eased to 9.0% from 9.6% between these two dates.*
    - *ICRA expects bank credit growth to ease considerably to 5.0-6.0% in FY2020 from 13.4% in FY2019, with a meaningful pickup unlikely in FY2021.*
- Gross external commercial borrowings (ECB) approvals rose sharply to US$40.5 billion in April-January FY2020 from US$26.1 billion in April-January FY2019, led by higher on-lending/sub-lending and rupee expenditure on local capital goods. This was on account of declining global interest rates, risk aversion of domestic lenders for financing NBFCs, and an attempt by the latter to diversify their lending base.
- Domestic equity fund raising rose sharply to Rs. 1.3 trillion in April-February FY2020 from Rs. 369.3 billion in April-February FY2019, driven by significantly higher rights issues and QIP of equity, but would dampen in the next few months until market conditions stabilise.

Exhibit 13: Net of refinancing, ECB volumes rose sharply to US$37.9 billion in Apr-Jan FY2020 from US$21.3 billion in Apr-Jan FY2019



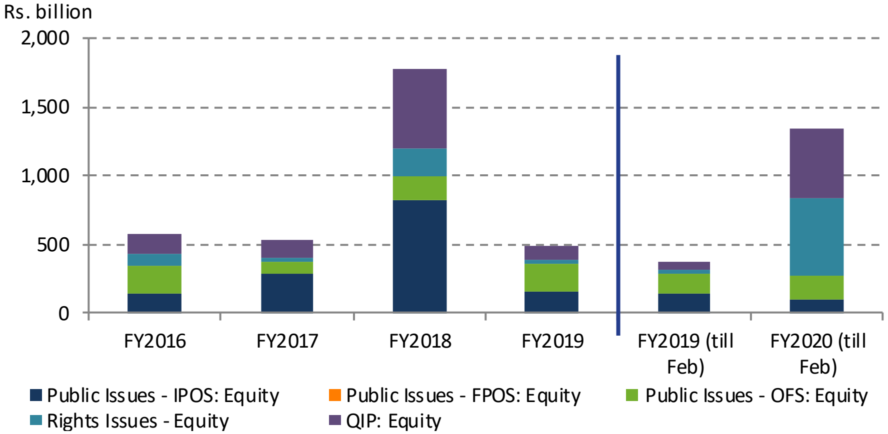
Source: RBI; ICRA research

Exhibit 12: The pace of growth of bank credit to large industry and services, bonds and CP eased considerably to 5.3% at end-Dec 2019 from 12.2% at end-Dec 2018



Source: RBI; SEBI; ICRA research

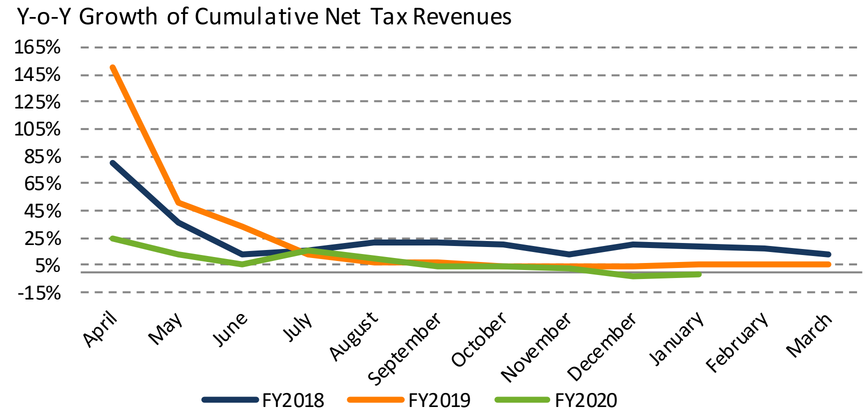
Exhibit 14: Domestic equity fund raising increased considerably in Apr-Feb FY2020 relative to Apr-Feb FY2019, primarily driven by higher rights issues and QIP



Source: Prime Database; ICRA research

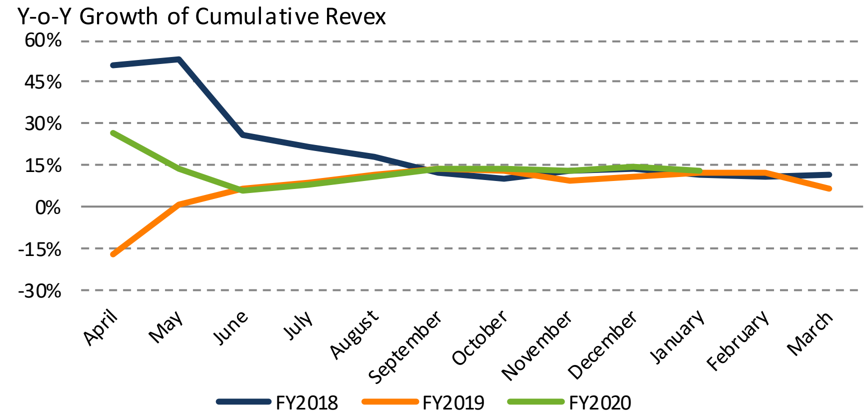
UPDATE ON UNION GOVERNMENT FINANCES

Exhibit 15: The GoI's net tax revenues (net of devolution to states) contracted by 2.1% during Apr-Jan FY2020, in contrast to the 14.2% growth included in the FY2020 revised estimates (RE); a YoY decline in the central tax devolution to the states in Feb-Mar 2020 would boost the GoI's net tax collections in these months, despite an expected shortfall in its gross tax collections relative to the FY2020 RE



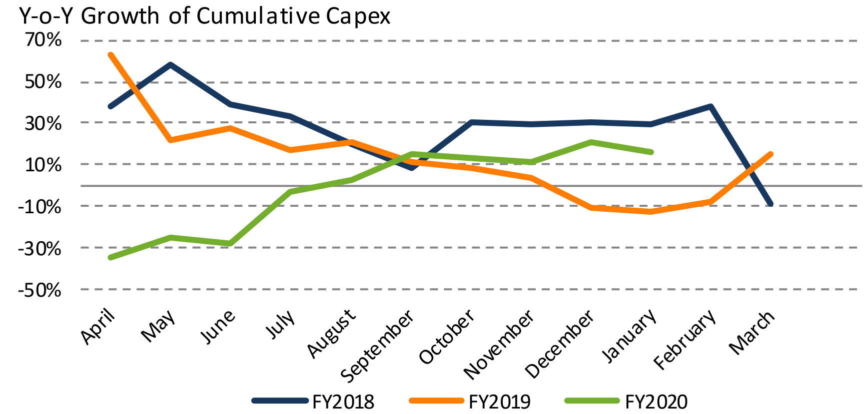
Source: Controller General of Accounts (CGA); ICRA research

Exhibit 16: Revenue expenditure rose by 12.9% in Apr-Jan FY2020, lower than the FY2020 RE growth (+17.0%); the GoI's revenue expenditure would need to expand by a high 48.2% in Feb-Mar FY2020 to meet the FY2020 RE, accordingly, further saving in expenditure relative to the FY2020 RE can't be ruled out



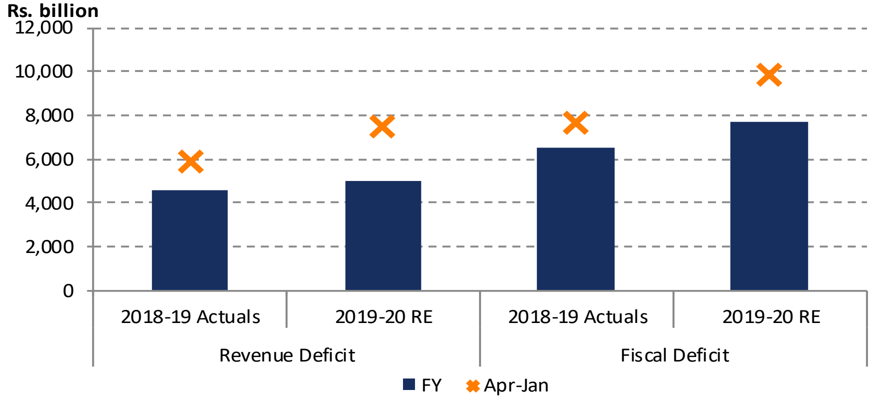
Source: CGA; ICRA research

Exhibit 17: Capital expenditure recorded a healthy YoY growth of 16.5% in Apr-Jan FY2020, higher than the expansion of 13.4% included in FY2020 RE



Source: CGA; ICRA research

Exhibit 18: The GoI's fiscal deficit stood at 128.5% of the FY2020 RE in Apr-Jan FY2020, higher than 118.7% of the FY2019 Actuals in Apr-Jan FY2019; meaningfulness of the revenue and expenditure growth assumptions made in FY2021 Budgets, has drastically reduced following the rapid escalation of the current crisis

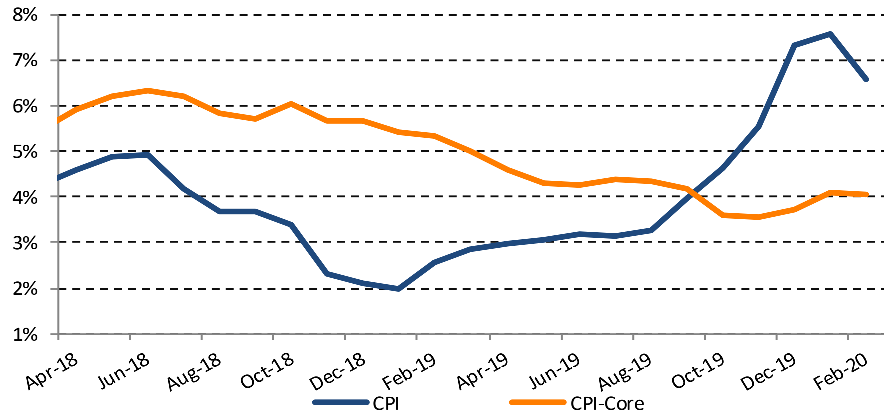


Source: CGA; ICRA research

INFLATION

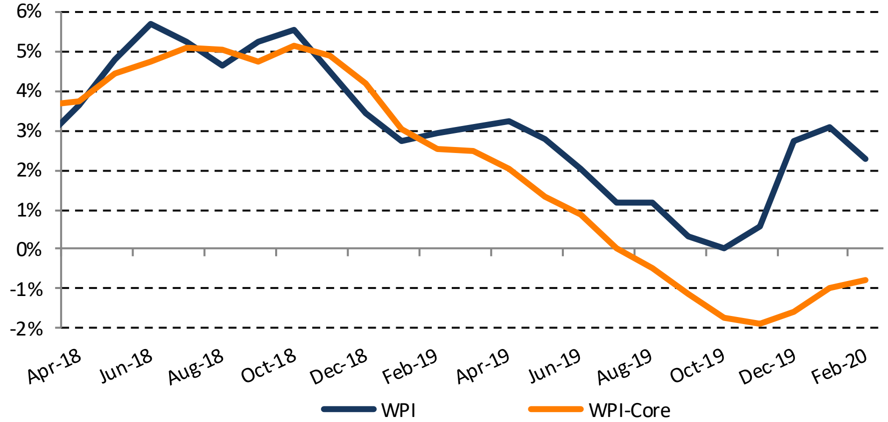
- The CPI inflation declined to 6.6% in February 2020 from the 68-month high 7.6% in January 2020, driven by a softening in inflation for food and miscellaneous items, while breaching the upper threshold of the MPC's medium term target of 4.0%+/-2% for the third month in a row. However, the core-CPI inflation (CPI excl. food and beverages, fuel and light, petrol, and diesel prices for vehicles) remained unchanged at 4.1% in February 2020, in line with January 2020.
- The WPI inflation eased to 2.3% in February 2020 from the nine-month high 3.1% in January 2020, driven by a softening in the pace of inflation for primary food articles, and manufactured food items, in addition to a slippage in crude petroleum and natural gas to a YoY disinflation in that month from the inflation in January 2020. In contrast, the YoY disinflation in manufactured non-food products (core-WPI) narrowed to 0.8% from 1.0% between these two months.
- The MPC voted unanimously to retain the Repo rate at 5.15%, in the Sixth Bi-monthly monetary policy statement for FY2020. Moreover, the Committee retained the stance of monetary policy as 'accommodative', also in a unanimous vote.
- In our view, the correction in the CPI inflation in February 2020 suggests a high likelihood of a 25 bps rate cut in the next policy meeting, in light of the growing concerns regarding economic growth. This would bolster sentiment to some extent, but modest transmission may result in a feeble impact on growth.

Exhibit 20: CPI inflation declined to 6.6% in Feb 2020, while core CPI remained unchanged at 4.1% relative to the previous month



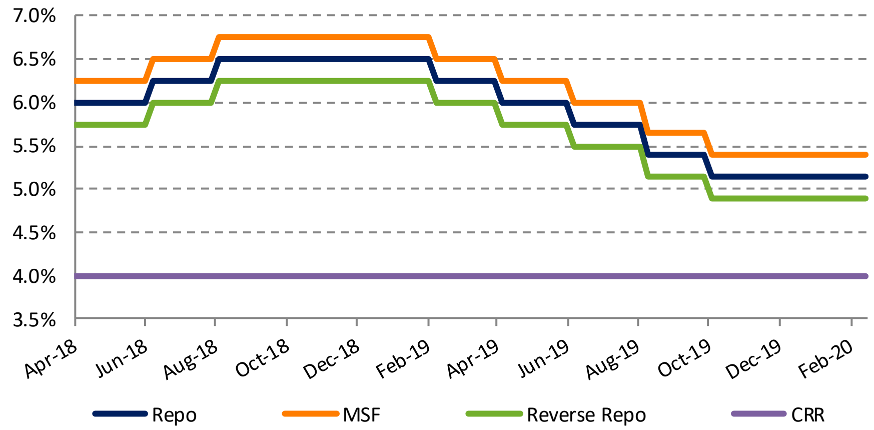
Source: CSO; CEIC; ICRA research

Exhibit 19: WPI inflation eased to 2.3% in Feb 2020 from the nine-month high 3.1% in Jan 2020, whereas the disinflation in core-WPI narrowed to 0.8% from 1.0%, respectively



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; CEIC; ICRA research

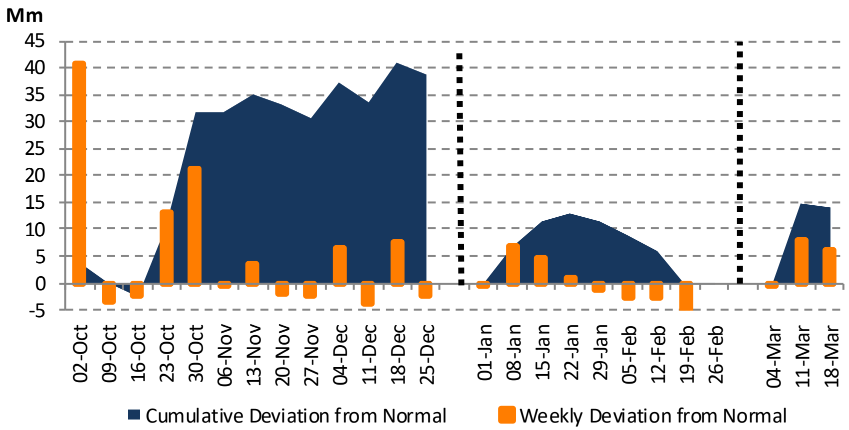
Exhibit 21: Moderation in the CPI inflation in Feb 2020 suggests high likelihood of 25 bps repo rate cut in Apr 2020 MPC review, to address growing concerns to economic growth and sentiment on account of Covid-19 outbreak



Source: RBI; CEIC; ICRA research

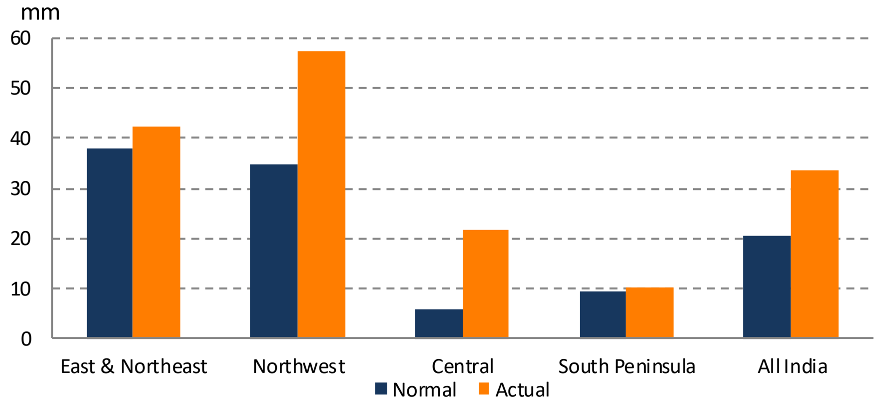
SECTORAL TRENDS

Exhibit 22: Northeast monsoon (Oct-Dec) recorded excess precipitation at 110% of the Long-Period Average (LPA), while winter monsoon (Jan-Feb) was normal at 99% of LPA; subsequently, the ongoing pre-monsoon season (Mar-May) has seen abundant cumulative rainfall of 163% of LPA till Mar 22, 2020



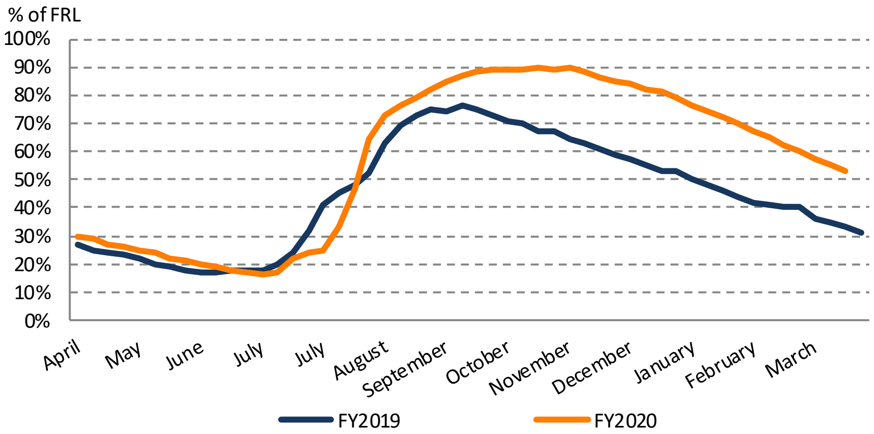
Source: Indian Meteorological Department (IMD); CEIC; ICRA research

Exhibit 23: Spatial distribution of the pre-monsoon rainfall reveals large excess precipitation in the Northwest (164% of LPA), and Central (364% of LPA) sub-divisions, and normal rainfall in the South Peninsula (106% of LPA), and East and Northeast (112% of LPA) regions till March 22, 2020



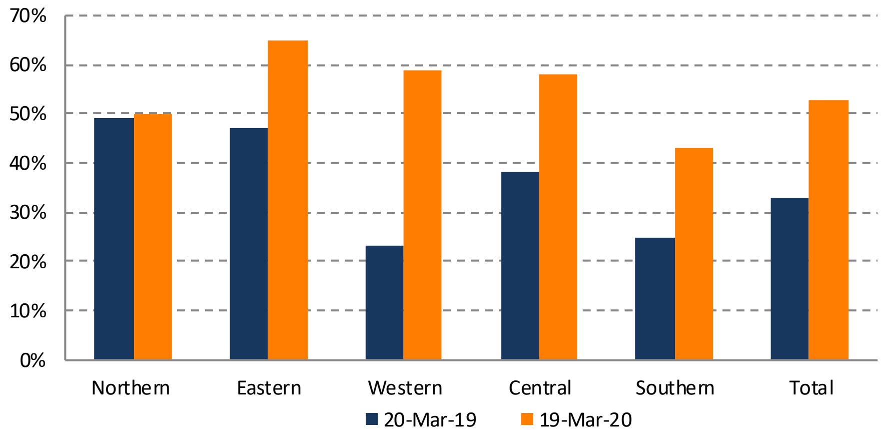
Source: IMD; CEIC; ICRA research

Exhibit 24: Heavy rainfall in H2 FY2020 has contributed to healthy reservoir storage levels, which stood at 53% of the Full Reservoir Level (FRL) as on Mar 19, 2020, substantially higher than the year-ago level of 33% as on Mar 20, 2019



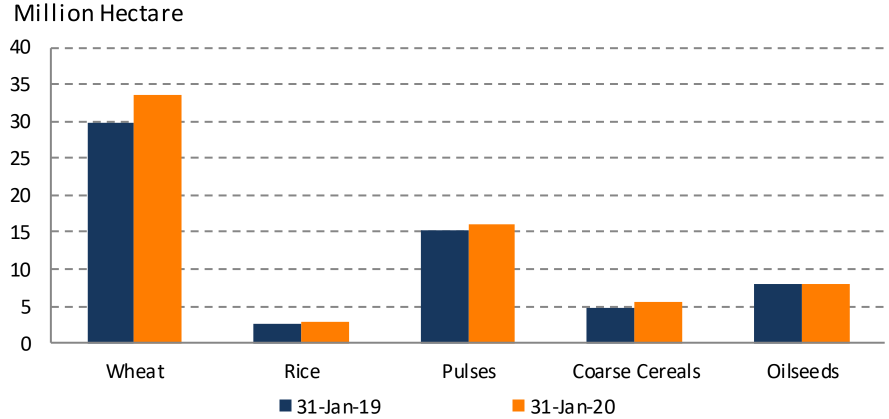
Source: Central Water Commission (CWC); CEIC; ICRA research

Exhibit 25: Reservoir storage exceeded the year-ago levels in the Western (59% vs. 23%), Eastern (65% vs. 47%), Central (58% vs. 38%), Southern (43% vs. 25%), and Northern (50% vs. 49%) regions, as on Mar 19, 2020



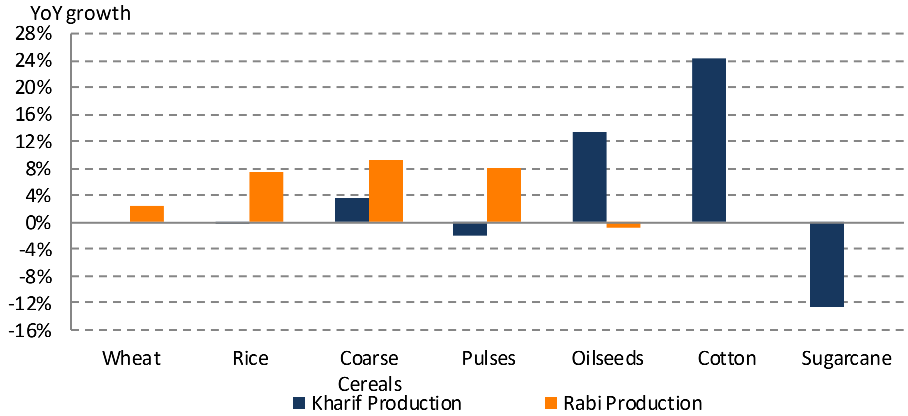
Source: CWC; CEIC; ICRA research

Exhibit 26: Total rabi sowing stood at 66.2 million hectares at end Jan 2020, 9.5% higher than the year-ago levels, led by wheat (+12.3%), pulses (+6.2%), coarse cereals (+16.6%) and rice (+13.8%), whereas oilseeds (-0.1%) mildly trailed the year-ago level



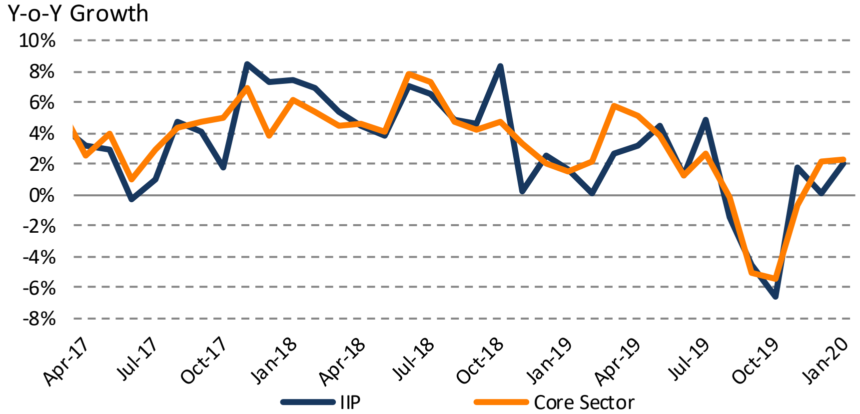
Source: Directorate of Economics and Statistics, Department of Agriculture, Cooperation and Farmers Welfare, Ministry of Agriculture, GoI; ICRA research

Exhibit 27: In line with the sowing trends, the 2nd AE of rabi crop production forecast a rise in output of rice (+7.5%), coarse cereals (+9.3%), pulses (+8.1%) and wheat (+2.5%) in FY2020, compared to the final estimates for FY2019



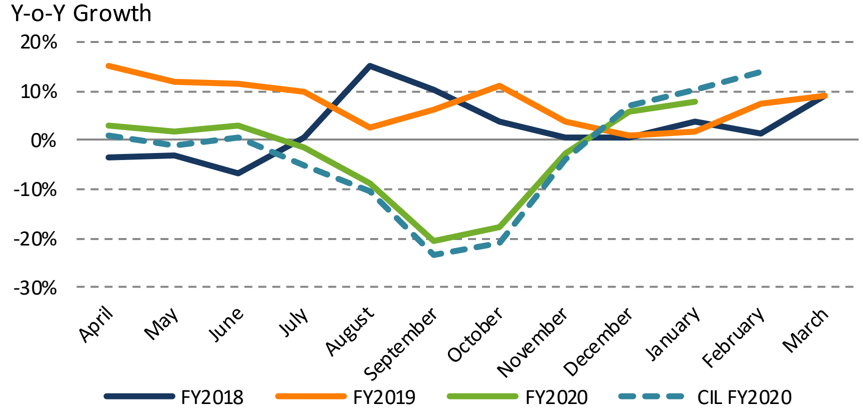
Source: Directorate of Economics and Statistics, Department of Agriculture, Cooperation and Farmers Welfare, Ministry of Agriculture, GoI; ICRA research

Exhibit 28: Core sector growth rose mildly to 2.2% in Jan 2020 from 2.1% in Dec 2019, whereas the IIP growth recorded a sharper improvement to 2.0% from 0.1%, respectively; double-digit growth in coal and electricity in Feb 2020 is encouraging, although the concerns related to Covid-19, and sharper contraction in auto output would weigh upon the IIP growth in that month



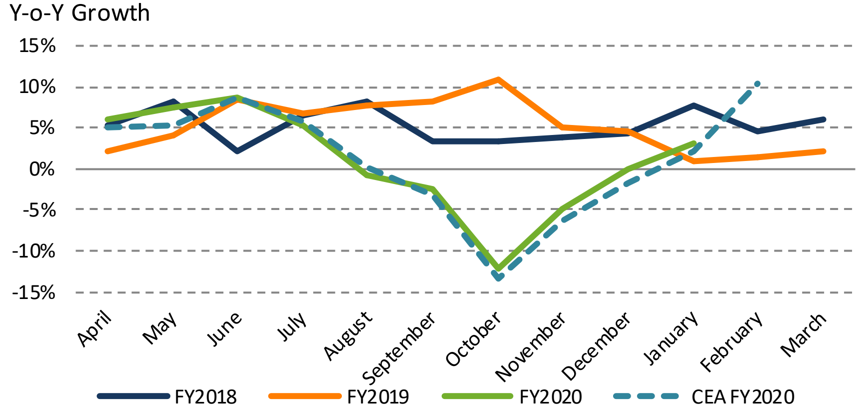
Source: CSO; Office of the Economic Adviser, GoI; CEIC; ICRA research

Exhibit 29: Growth in coal output improved to a ten-month high 8.1% in Jan 2020 from 6.0% in Dec 2019; subsequently, the YoY expansion in the output of the predominant producer, CIL, improved further to 14.2% in Feb 2020 from 10.3% in Jan 2020; given the high base, the pace of expansion may moderate in March 2020



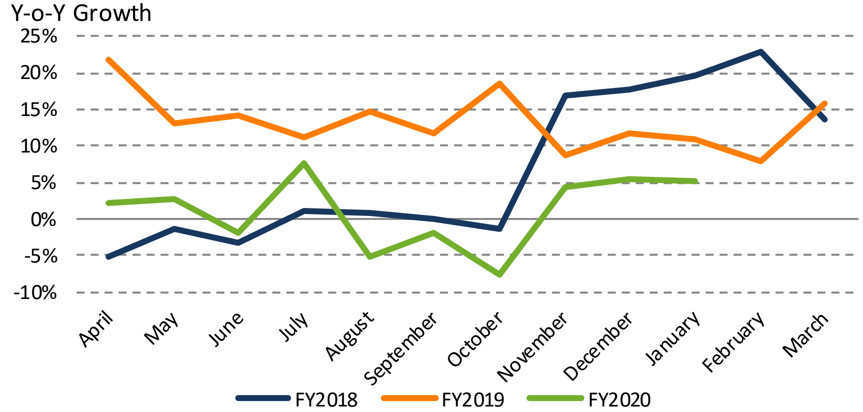
Source: Office of the Economic Adviser, GoI; CIL; ICRA research

Exhibit 30: Electricity generation posted a YoY growth of 3.1% in Jan 2020, after a gap of five months (Source: CSO); subsequent data released by the CEA indicates that the pace of electricity generation improved sharply to 10.4% in Feb 2020 from 2.1% in Jan 2020, led by thermal and hydroelectricity; a slowdown in economic activity related to Covid-19 containment would weigh upon electricity generation from Mar 2020 onwards



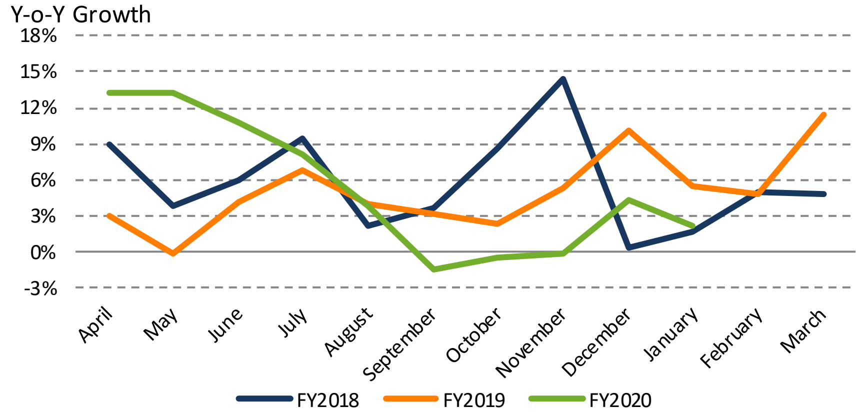
Source: CSO; CEA; CEIC; ICRA research

Exhibit 31: The YoY growth in cement output remained largely steady at 5.1% in Jan 2020, similar to the 4.3% in Nov 2019 and 5.4% in Dec 2019; in YTD terms, the growth in cement output declined to a mild 1.1% during Apr-Jan FY2020, from the high 13.6% in Apr-Jan FY2019



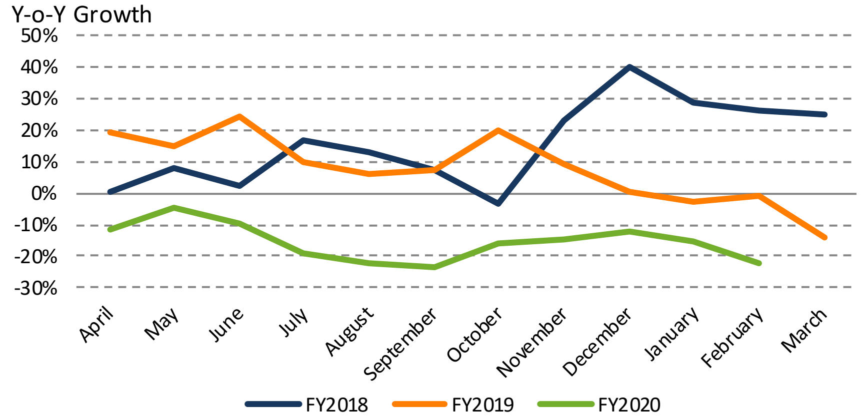
Source: Office of the Economic Advisor, GoI; ICRA research

Exhibit 32: The YoY growth in steel output halved to 2.2% in Jan 2020 from 4.3% in Dec 2019; in YTD terms, the growth in steel output stood at 5.2% during Apr-Jan FY2020 from 4.4% in Apr-Jan FY2019; disruption to construction activities following the Covid-19 outbreak would restrain the demand for steel and cement in the near term



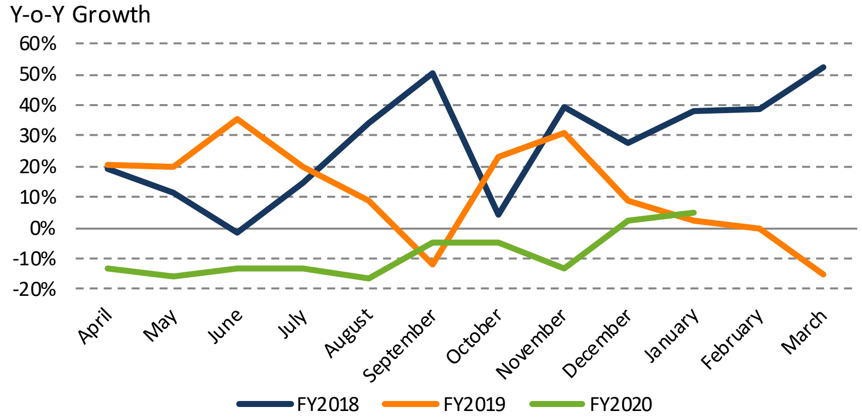
Source: Office of the Economic Advisor, GoI; ICRA research

Exhibit 33: The contraction in motorcycle sales worsened considerably to 22.0% in Feb 2020 from 15.2% in Jan 2020 as inventory correction by OEMs reached culmination; rural consumer sentiment and off-take may benefit from healthy rabi realisations, although impact of Covid-19 outbreak remains to be seen



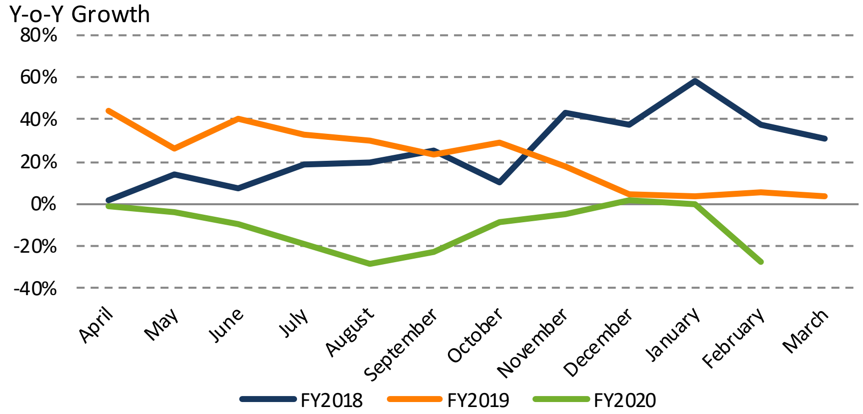
Source: SIAM; ICRA research

Exhibit 34: After contracting for ten months in a row, tractor sales rebounded to a YoY growth of 2.4% and 4.8%, respectively, Dec 2019 and Jan 2020; growing expectations of healthy rabi output are likely to aid a recovery in tractor volumes in FY2021



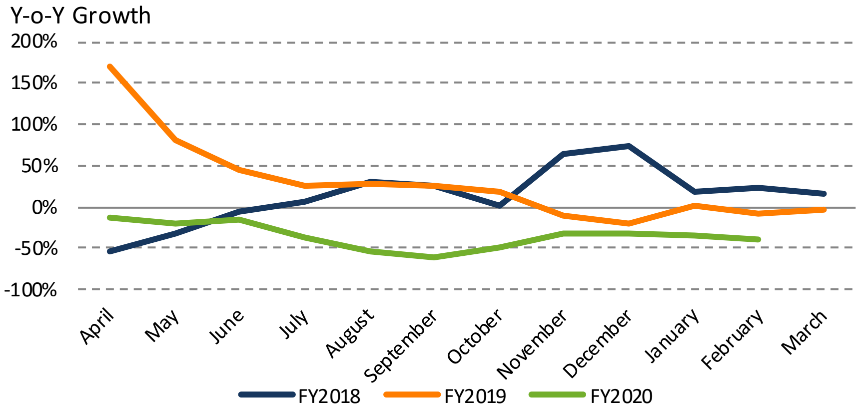
Source: CMIE; ICRA research

Exhibit 35: The YoY contraction in the sales of light commercial vehicles (LCVs) worsened sharply to 28.0% in Feb 2020 from 0.7% in Jan 2020 with final slew of inventory correction by OEM; going forward, the revival in rural demand should support sales although the extent of Covid-19 outbreak impact remains unclear



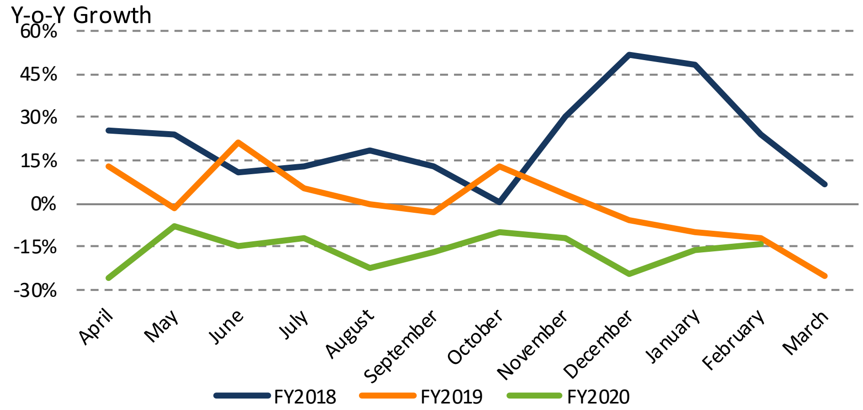
Source: SIAM; ICRA research

Exhibit 36: YoY contraction in sales of medium & heavy commercial vehicles (M&HCVs) widened to a steep 40.4% in Feb 2020 from 34.6% in Jan 2020, with continued inventory rationalisation before transition to BS-VI norms; near-term performance to be muted given current weak macro environment and price hikes post BS-VI norms



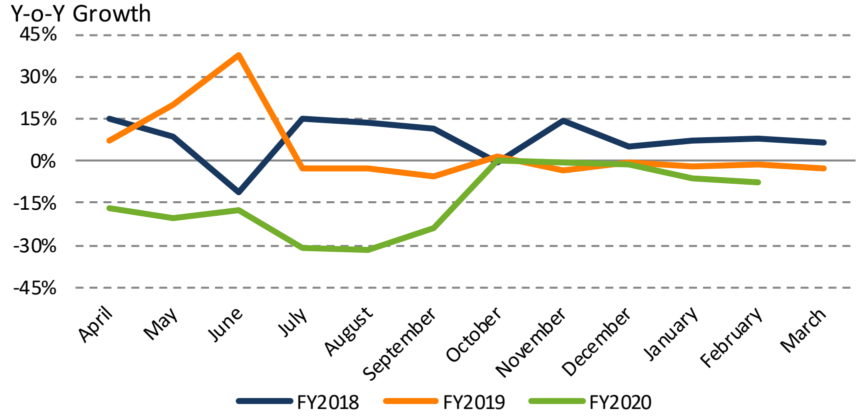
Source: SIAM; ICRA research

Exhibit 37: The YoY contraction in scooter sales narrowed somewhat to 14.3% in Feb 2020 from 16.2% in the previous month; Covid-19 outbreak leading to deferment of discretionary purchases and social distancing, particularly in urban areas, is likely to restrain sales of both scooters and passenger vehicles (PVs)



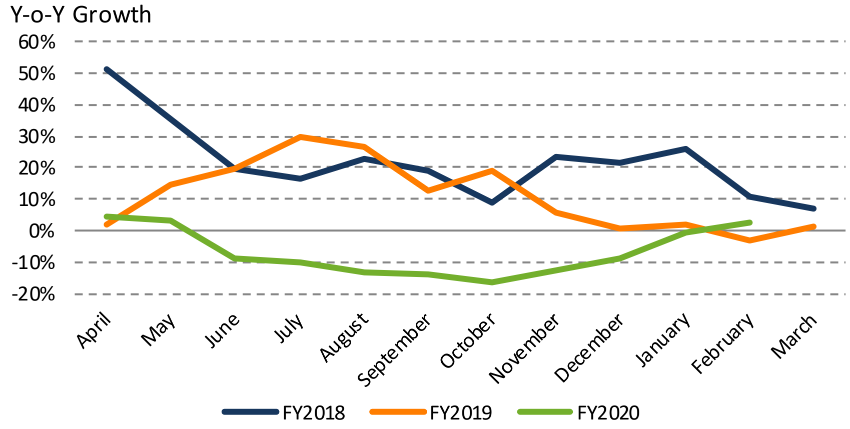
Source: SIAM; ICRA research

Exhibit 38: PV sales also recorded a steeper YoY decline of 7.6% in Feb 2020 as compared to 6.2% in Jan 2020; going forward, the prolonged impact of Covid-19 will be detrimental for this industry's growth in FY2021



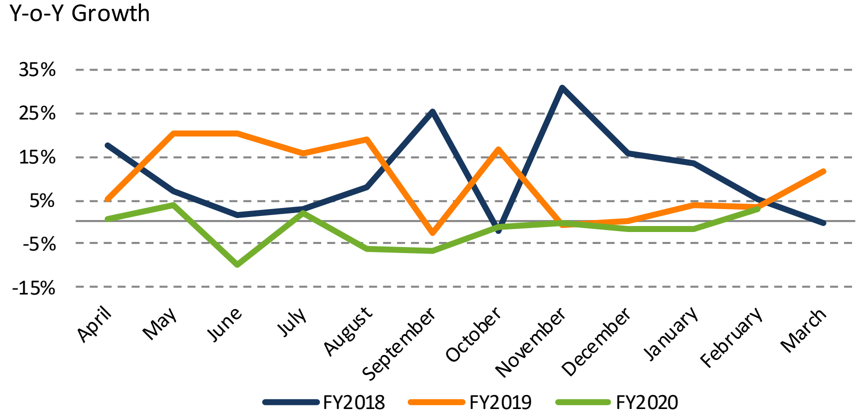
Source: SIAM; ICRA research

Exhibit 39: Merchandise imports (in US$ terms) recorded a mild growth of 2.5% to US$37.5 billion in Feb 2020, in contrast to the YoY decline 0.7% in Jan 2020, partly on account of a low base, as well as the trend for oil imports; the decline in commodity prices could lead to a contraction in merchandise imports in the near term



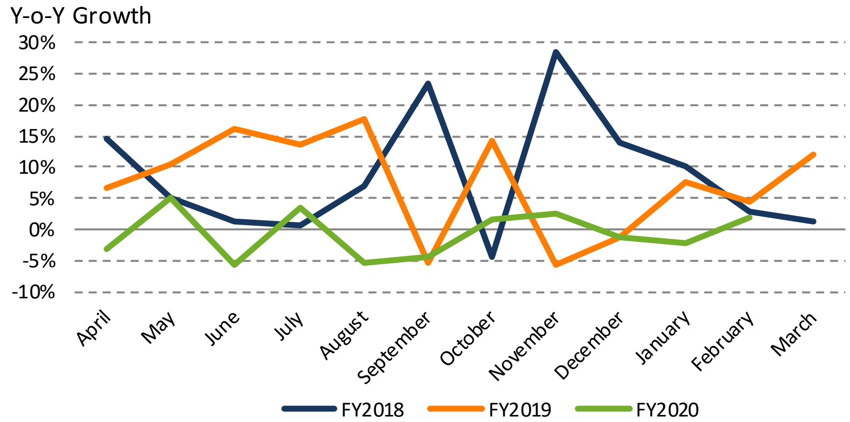
Source: Ministry of Commerce, GoI; ICRA research

Exhibit 40: Merchandise exports also rebounded to a YoY growth of 2.9% in Feb 2020 from the 1.7% contraction in Jan 2020, driven by engineering goods, electronic goods, chemicals and drugs and pharmaceuticals; a demand shock after the global spread of the Covid-19 would curtail merchandise and services exports in the next few months



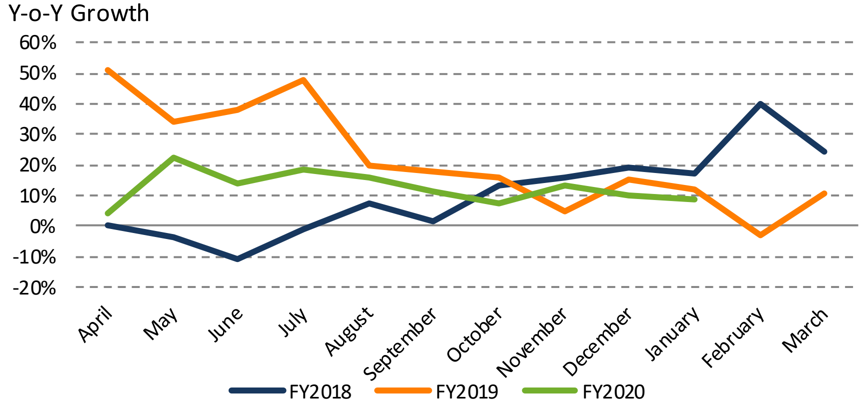
Source: Ministry of Commerce, GoI; ICRA research

Exhibit 41: Non-oil merchandise exports (in US$ terms) recorded a growth of 2.0% in Feb 2020, after contracting by 2.3% in Jan 2020; the merchandise trade deficit declined sharply to ~US$143.1 billion in Apr-Feb FY2020 from ~US171.7 billion in Apr-Feb FY2019



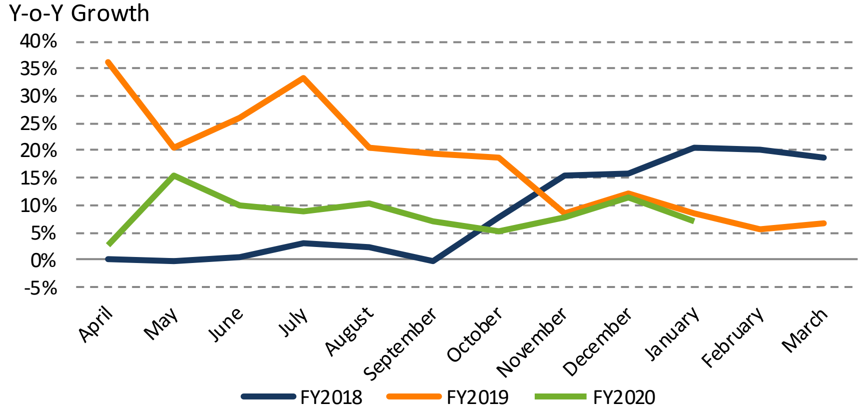
Source: Ministry of Commerce, GoI; ICRA research

Exhibit 42: The pace of growth of services imports moderated to 8.8% in Jan 2020 from 10.4% in Dec 2019; nevertheless, the YTD growth stood at a healthy 12.6% in Apr-Jan FY2020



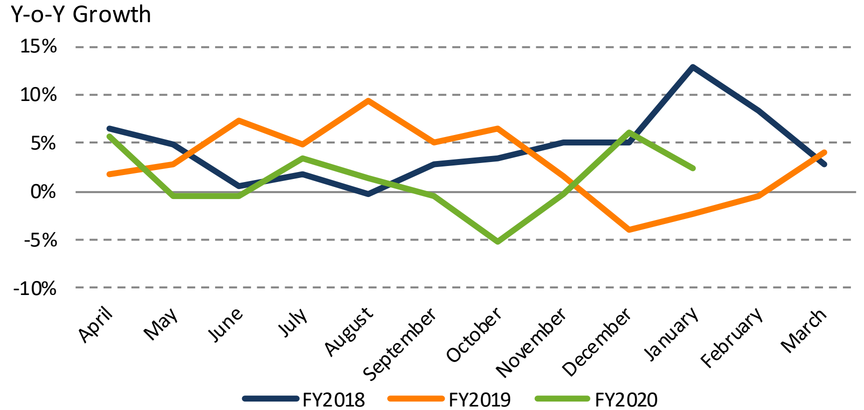
Source: RBI; ICRA research

Exhibit 43: Moreover, the expansion in services exports eased to 7.0% in Jan 2020 from 11.6% in Dec 2019; overall, the pace of YTD expansion of services exports stood at a healthy 8.6% in Apr-Jan FY2020



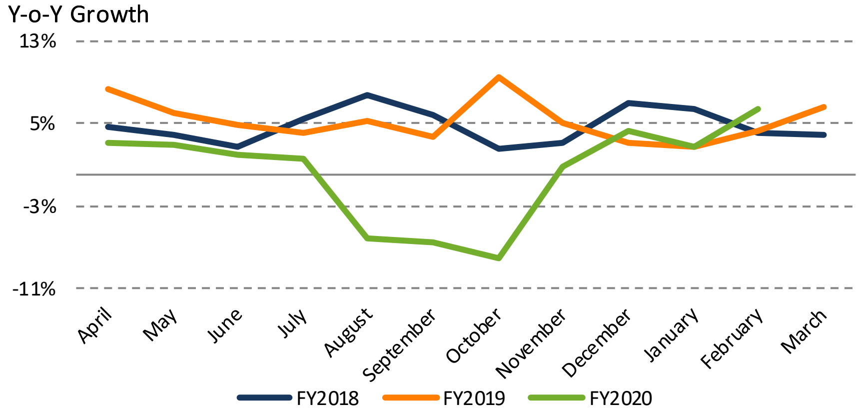
Source: RBI; ICRA research

Exhibit 44: The pace of YoY growth in cargo handled at major ports eased sharply to 2.5% in Jan 2020 from 6.1% in Dec 2019; in YTD terms, cargo handled at major ports rose by a mild 1.2% during Apr-Jan FY2020, and is likely to remain tepid in the next few months led by weaker export volumes



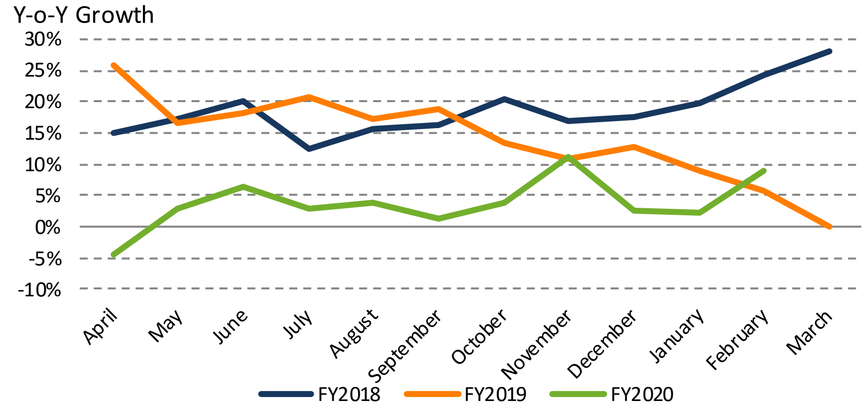
Source: Ports Authority of India, GoI; ICRA research

Exhibit 45: Railway freight traffic recorded an 11-month high YoY growth of 6.5% in Feb 2020 from 2.8% in Jan 2020, which may have benefitted from higher coal dispatches; despite this, growth eased to a muted 0.4% in Apr-Feb FY2020, from 5.2% in Apr-Feb FY2019, and would mirror the trends in industrial activity over the next few months



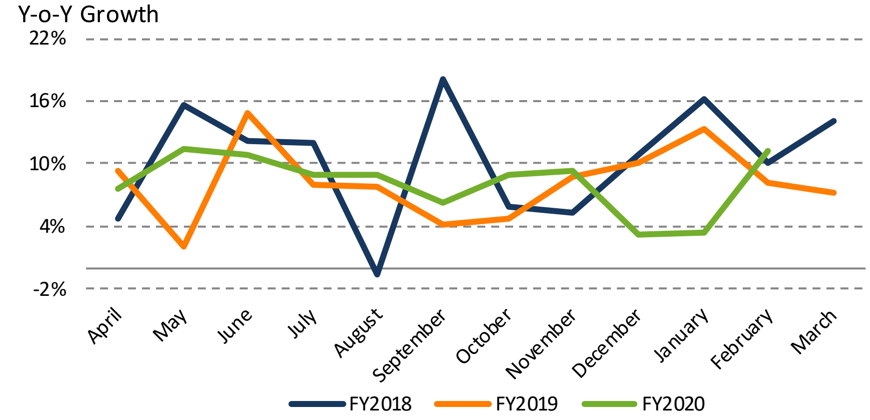
Source: Railway Board, GoI, CMIE; ICRA research

Exhibit 46: The growth in passenger traffic by domestic airlines picked up sharply to 9.0% in Feb 2020 from 2.2% in Jan 2020, although the YTD rate of growth stood at a subdued 3.7% in Apr-Feb FY2020; the impact of travel restrictions in response to the COVID-19 outbreak would severely dampen the performance of air passenger traffic, going forward



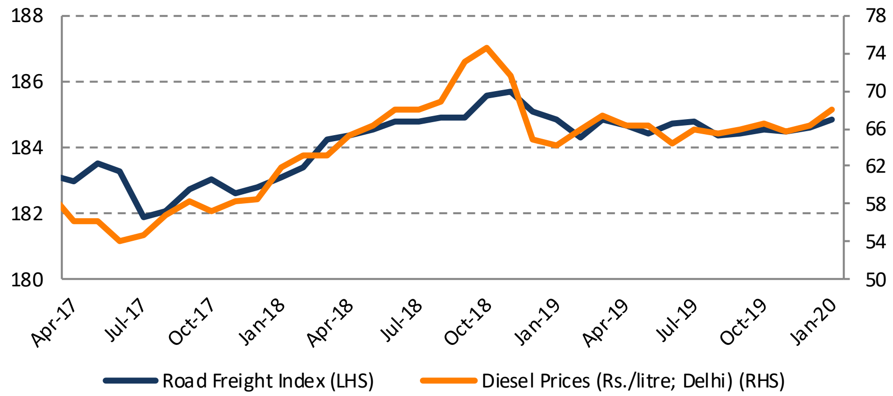
Source: Directorate General of Civil Aviation (DGCA); ICRA research

Exhibit 47: Growth of petrol consumption rose to 11.2% in Feb 2020 from 3.5% in Jan 2020, partly benefitting from the base effect; while petrol consumption has recorded a healthy YoY expansion of 8.2% in Apr-Feb FY2020, social distancing and subdued economic activity would curtail consumption in the near term



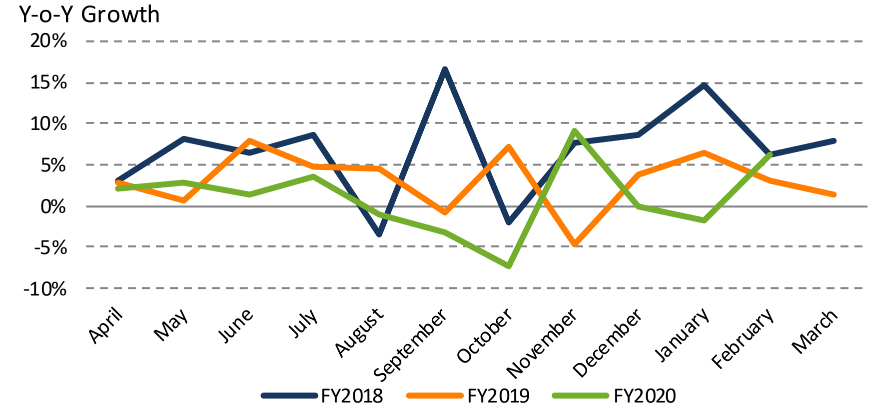
Source: PPAC, GoI; ICRA research

Exhibit 48: Road freight rates recorded a mild rise of 0.1% in Jan 2020 relative to Apr 2019, lower than the ~2.8% rise in diesel prices during this period; road freight rates are expected to remain subdued over near-term given the reduced freight activity on account of domestic Covid-19 outbreak



Source: Transport Corporation of India; ICRA research

Exhibit 49: Diesel consumption rebounded to a YoY growth of 6.2% in Feb 2020 from the YoY contraction of 1.8% in Jan 2020; nevertheless, in YTD terms, diesel consumption posted a subdued growth of 1.1% in Apr-Feb FY2020, and may well slip into a contraction in the near term



Source: PPAC, GoI; ICRA research

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