ICRA
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GDP OUTLOOK

GDP contraction in FY2021 to be limited to 7.8%; recession to end in Q4 FY2021

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OUTLOOK

Fragile recovery under way in Q3 FY2021.

The recovery under way in the Indian economy in Q3 FY2021 is fragile, and appears prone to risks related to rising costs, as well as a re-appearance of supply-side disruptions in some areas. We forecast a continued, albeit mild contraction in Indian GDP of 1.0% in Q3 FY2021. However, a bright outlook for the rabi season, and greater visibility of an approaching vaccine rollout will strengthen demand and economic activity in Q4 FY2021. The technical recession is likely to end in that quarter, with a muted 1.3% growth benefitting from a real recovery as well as the low base effect. This is expected to limit the contraction in Indian GDP in real terms to 7.8% in FY2021.

Consumption demand yet to stabilise. Volumes remain below FY2019 levels in a number of sectors.

Available data suggests that the recovery in consumer demand as well as volumes in Q3 FY2021 remains tentative in many sectors. Urban consumer sentiment improved only modestly as per the latest survey conducted by the Reserve Bank of India (RBI). In our view, the spending seen during the festive season was driven by pent-up demand, and consumption is yet to fully stabilise in various sectors. While many indicators have displayed growth in the ongoing quarter relative to a weak performance in the same period in FY2020, volumes still remain below FY2019 levels in a number of sectors, highlighting that a full recovery remains at a distance. We await further confirmation of a broad-basing of demand in sectors such as automobiles and capital goods.

GDP likely to contract by 1.0% in Q3 FY2021, implying a continued recession.

Additionally, supply-side and logistical disruptions appear to have re-emerged in some states. Further, the tailwinds of low commodity prices are turning into headwinds, as the visibility of vaccine availability is now pushing up global commodity prices. Moreover, various companies have reportedly started to enhance salaries, lifting the freeze that had been instituted during the pandemic. In Q3 FY2021, rising raw material and wage costs would absorb a portion of the improvement in profitability afforded by higher volumes in the industrial sector. With a steady performance of the agricultural sector and a lagged recovery in the contact-intensive parts of the services sector, we forecast a small contraction of 1.0% in the Indian GDP in real terms in Q3 FY2021, which implies that the recession is yet to end.

Easing Covid-19 infections, and greater visibility of vaccine rollout to contribute to 1.3% growth in Q4 FY2021.

Contraction in Indian GDP in FY2021 in real terms now forecast at 7.8%.

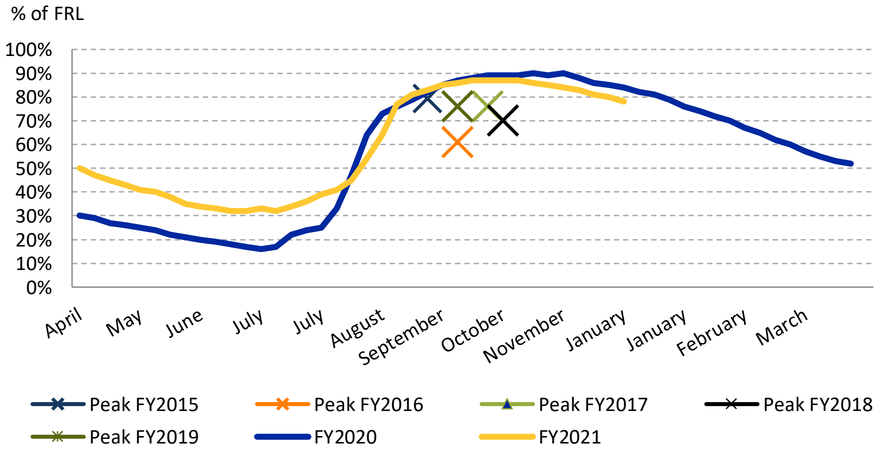
However, improving economic fundamentals, healthy procurement, a bright outlook for the rabi season, and visibility of vaccine availability are expected to strengthen demand over the next quarter, hastening the pace of normalisation in volumes in many non-contact intensive sectors. Exports, which faltered in Q3 FY2021, given renewed restrictions in many key trading partners and some logistical disruptions, may revive modestly in Q4 FY2021, as the vaccine rollout gathers traction. Private sector investment activity may gather some pace in certain sectors, but may not revive in a broad-based manner until H2 FY2022. Moreover, an uptick in revenue visibility is expected to boost the spending of the Government of India (GoI) in the rest of this fiscal. With improving tax inflows during the festive season, state government borrowings have eased in the ongoing month. However, anecdotal evidence reveals mixed trends in state-wise capex. We caution that an impending adjustment in central tax devolution to the state governments could supress their expenditure in Q4 FY2021. Overall, we expect a muted 1.3% growth in Q4 FY2021, limiting the contraction in Indian GDP in FY2021 to 7.8%.

Agriculture and rural consumption: Amid a late withdrawal of monsoon rains, the overall precipitation has been normal at 105% of the long period average (LPA) so far in the post-monsoon months (October-December 16, 2020) in 2020. However, the rainfall has been geographically uneven, with below average rains in the Northwest and Central regions, amid substantial deviation from normal in the months of October and November 2020.

After rising to 87% of FRL in October 2020, all-India reservoir storage has charted a seasonal downtrend. It stood at 78% of the FRL on a pan-India basis on December 10, 2020, below the year-ago levels (84% on December 12, 2019). Reservoir storage in the Northern (55% of FRL on Dec 10, 2020 vs. 74% of FRL on Dec 12, 2019) and Eastern (70% vs. 86%) regions trailed the year-ago levels by a sizeable margin, with only mild gaps in the other regions on December 10, 2020. Nonetheless, on a pan-India basis, reservoir storage remains at or above the peaks reported in the previous four years (refer Exhibit 1), which should support a modest rise in rabi acreage and boost yields.

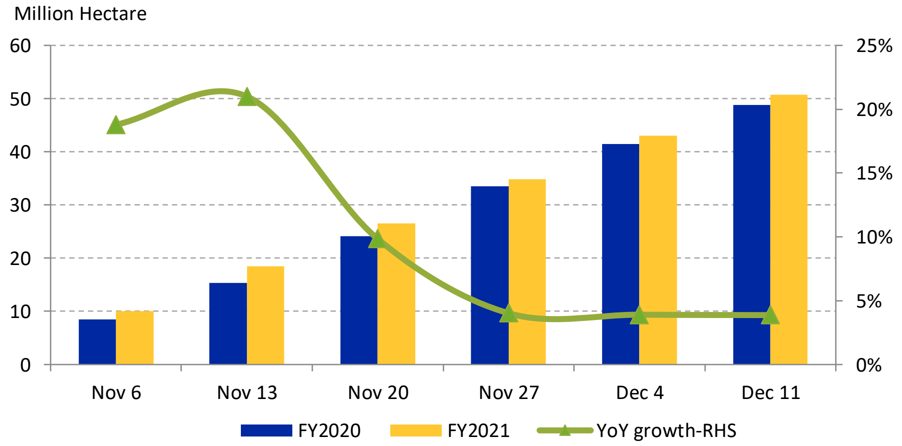
The pace of YoY growth in the rabi acreage stood at a modest 3.9% on December 11, 2020 (refer Exhibit 2), led by pulses (+9.1%), oilseeds (+7.1%) and wheat (+2.5%). However, the area under rice (-5.9%) and coarse cereals (-6.2%) trailed the year-ago levels. Sowing had already been completed on an area equivalent to 76.6% of the total rabi acreage in the previous year. **Following the 9.5% increase in the rabi acreage last year (at end-Jan 2020), the area sown under rabi crops in FY2021 is unlikely to report a YoY growth of more than 1-2%, subdued relative to the 4.8% rise in kharif acreage in 2020. However, with early sowing and healthy moisture levels, we expect the GVA growth of agriculture, forestry and fishing to ease only marginally to 3.3% in H2 FY2021, from 3.4% in H1 FY2021, in spite of an unfavourable base. While we expect this sector to continue to out-perform the rest of the economy, its relatively small share within the overall economic base would limit the benefit provided to the overall momentum.**

Exhibit 1: Reservoir storage levels as percentage of Total Live Capacity



***Source**: CWC; CEIC; ICRA research*

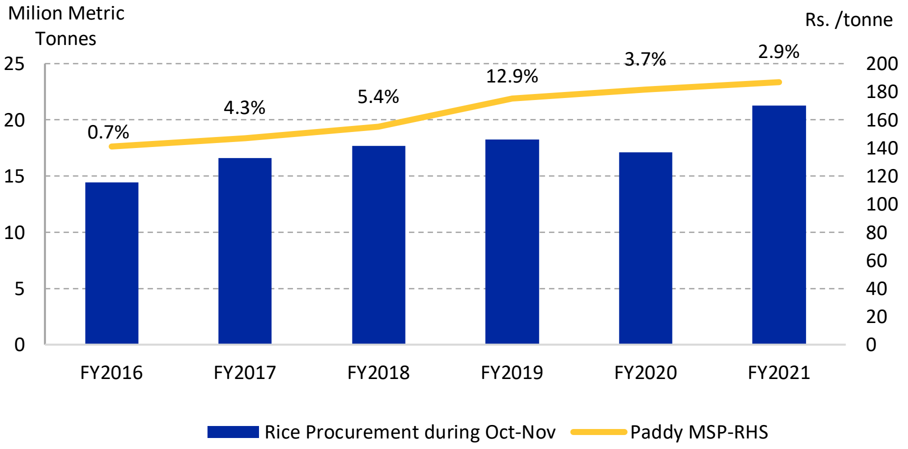
Exhibit 2: Trends in rabi sowing



***Source**: Department of Agriculture, Cooperation and Farmers' Welfare, Ministry of Agriculture, GoI; ICRA research*

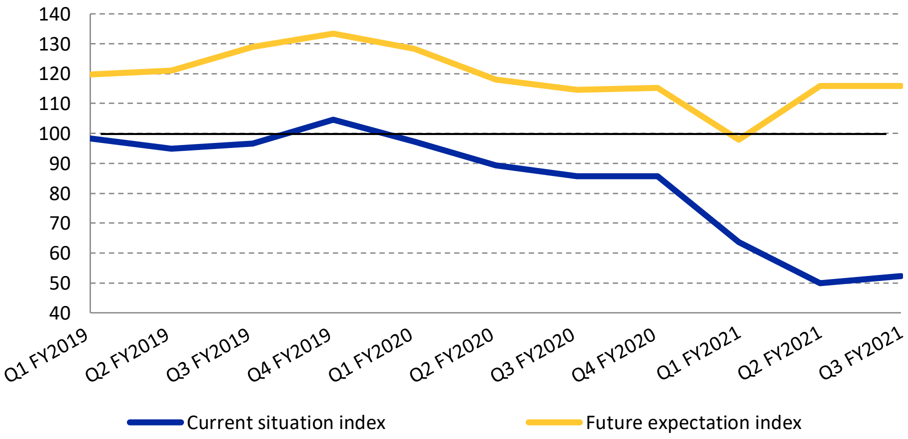
The favourable trends in procurement (YoY expansion of 24.3% for paddy during October-November 2020; refer Exhibit 3) combined with a modest MSP hike, are expected to have generated a healthy increase in the cash flows of the farm sector, especially in the states with a sizeable presence of procurement through state/central agencies. This is expected to boost the consumption sentiment of the farm sector in the ongoing quarter. Overall, **higher procurement and MSP hikes would support sentiment and consumption of the farm sector in H2 FY2021. Additionally, migration of labour back to the urban areas would restart remittances, providing some support to non-farm demand.**

Exhibit 3: YoY trends in paddy procurement during October-November



Data labels represent YoY growth rate in MSP for paddy; ***Source****: Cabinet Committee on Economic Affairs (CCEA); Department of Food & Public Distribution; ICRA Research*

Exhibit 4: Trends in Current Situation Index and Future Expectation Index of the RBI's Consumer Confidence Survey



Source*: RBI; ICRA research*

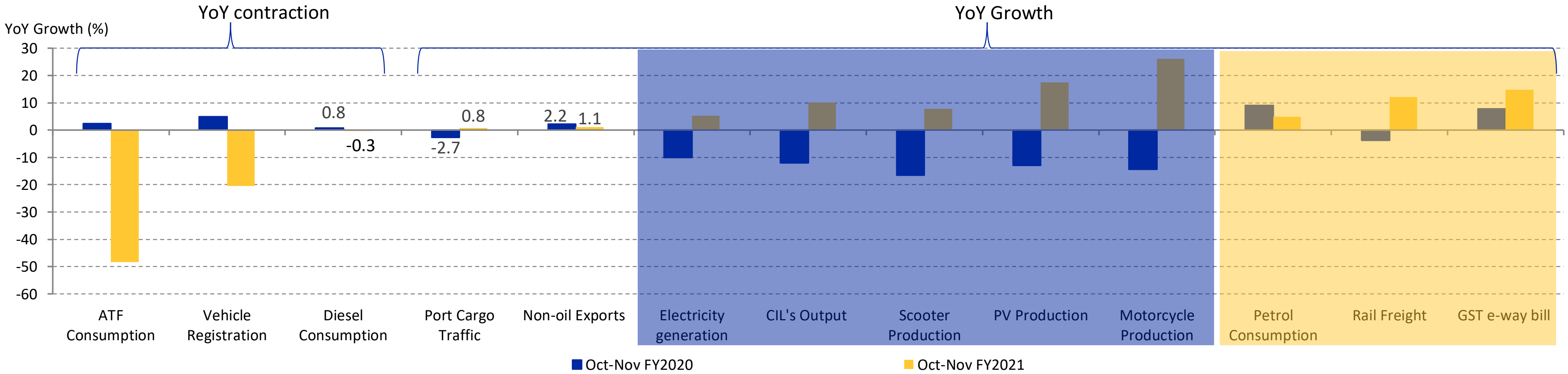
Urban consumption: The November 2020 round of the RBI's Consumer Confidence Survey of respondents in 13 major cities, had indicated a surprisingly mild improvement in the urban consumer sentiments from the all-time low recorded in the previous round. The Current Situation Index rose modestly to 52.3 in November 2020 from 49.9 in September 2020 round (refer Exhibit 4). It remained much lower than the year-ago level (85.7), attributed to the weaker consumer sentiments on general economic situation, employment scenario, price levels and household incomes.

On a positive note, households continued to maintain a relatively positive economic outlook for the next year, with the Future Expectations Index remaining unchanged at 115.9 in November 2020 relative to the September 2020 round (115.9), and similar to the pre-pandemic levels. In addition, the urban households reported a higher current perception of overall and essential spending in the November 2020 round, with a mild dip in the response for discretionary expenditure. Moreover, non-essential spending is expected to worsen in the coming year. **We believe that urban consumer sentiment will improve in Q4 FY2021 with the recovery in the economy. The recent trend of salary hikes being rolled out in some sectors would improve the visibility of earnings, and support sentiment as well as consumption going forward.**

Performance of non-agri lead indicators in October-November 2020: Many indicators displayed a decline in the pace of YoY expansion in November 2020 relative to October 2020, reflecting unfavourable base effects (coal, electricity, diesel, rail freight, auto output, GST e-way bills, etc.), as well as a stalling of the momentum after the completion of the festive season (auto production and electricity generation), and fewer working days related to the shift in the festive calendar in 2020 relative to 2019 (generation of GST e-way bills).[1]

To reduce the distortion related to the shift in the festive calendar, we have averaged the performance of the lead-indicators in October-November 2020 (refer Exhibit 5). As many as 10 of the tracked 13 non-financial indicators (except vehicle registrations, and consumption of diesel and ATF) registered a YoY growth in this period, relative to October-November 2019. Out of these, **the encouraging growth in the generation of GST e-way bills, petrol consumption and rail freight traffic during October-November 2020, provides a meaningful signal of a sustainable improvement in economic activity, in our view.**

Exhibit 5: The YoY performance of non-agri lead indicators in October-November 2020 and October-November 2019



Source: *SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; PPAC; RBI; CEIC; ICRA research*

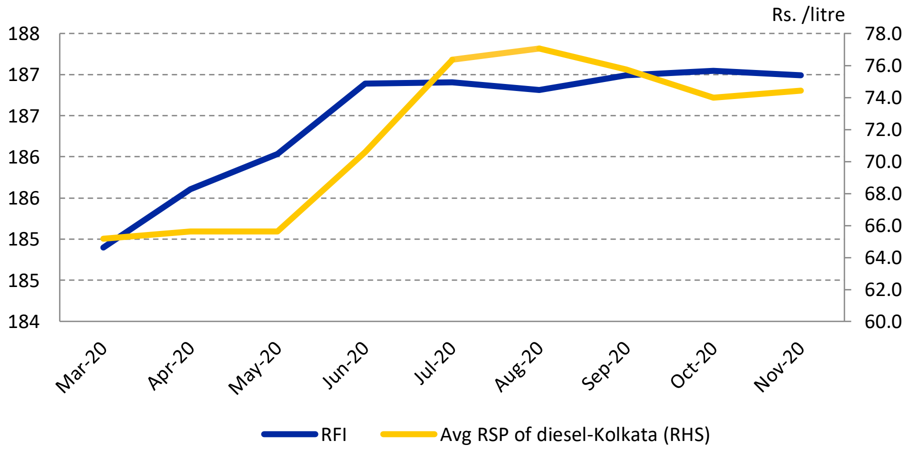
While another five indicators (CIL's output, electricity generation, and output of PVs, scooters and motorcycles) recorded a healthy YoY expansion in October-November 2020, it was on the back of a sharp contraction in the same period of 2019, and is therefore not convincing in terms of the sustainability of the growth momentum. Six out of the 13 tracked monthly indicators reported lower volumes in October-November 2020 relative to October-November 2018, which include vehicle registrations, output of scooters and CIL, electricity generation, ports cargo traffic, and ATF consumption. Hence, we remain cautious regarding the inherent strength and breadth of the economic recovery that is under way in the ongoing quarter.

[1] *Refer to ICRA's publication, Average volume trend in October-November 2020 implies subdued recovery in Q3 FY2021, published in December 2020*

Notably, the domestic steel sector had witnessed a strong recovery in Q2 FY2021, supported by a combination of pent-up demand, retail demand from the rural sector, and the recovery in white goods and the automobile sector. In ICRA's assessment, the momentum has strengthened further in Q3 FY2021, with the cumulative domestic steel demand in October-November 2020 surpassing the year-ago level.

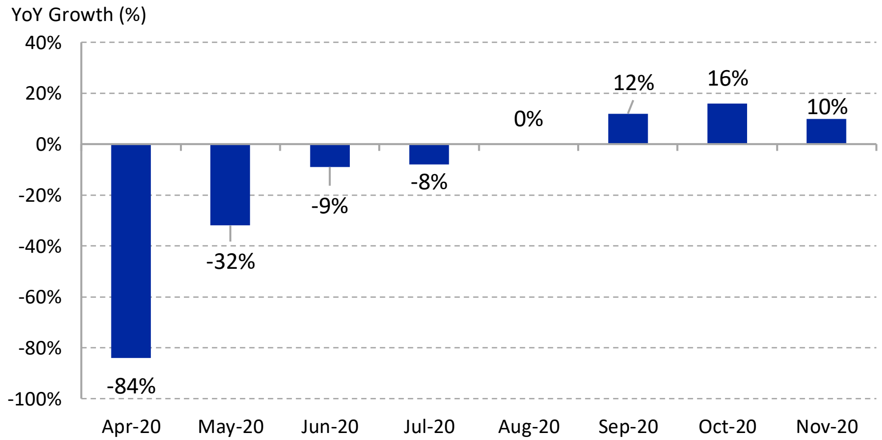
Indicators of freight were mixed during October-November 2020. Rail freight traffic recorded a robust YoY growth of 12.1%, which may have partly been led by the base-effect led surge in coal output. On the other hand, ports cargo traffic witnessed a muted YoY rise of 0.8% in October-November 2020, similar to the mild growth in non-oil exports. However, diesel consumption was lacklustre with a 0.3% dip in this period, which may reflect a muted demand from the agricultural/household/commercial sectors with better availability of grid power, as well as lower usage for public transport. Notably, the road freight index (RFI) had risen steadily between April-June 2020, partly on account of rising fuel prices led by the global trend in crude oil prices as well as higher domestic taxes (refer Exhibit 6). It has largely plateaued between July-November 2020, even as prices have eased, suggesting a continued recovery in demand.

Exhibit 6: Monthly RFI and Average RSP of diesel in Kolkata



RSP: Retail Selling Price; ***Source****: PPAC; Transport Corporation of India; CEIC; ICRA research*

Exhibit 7: YoY performance of Toll collections



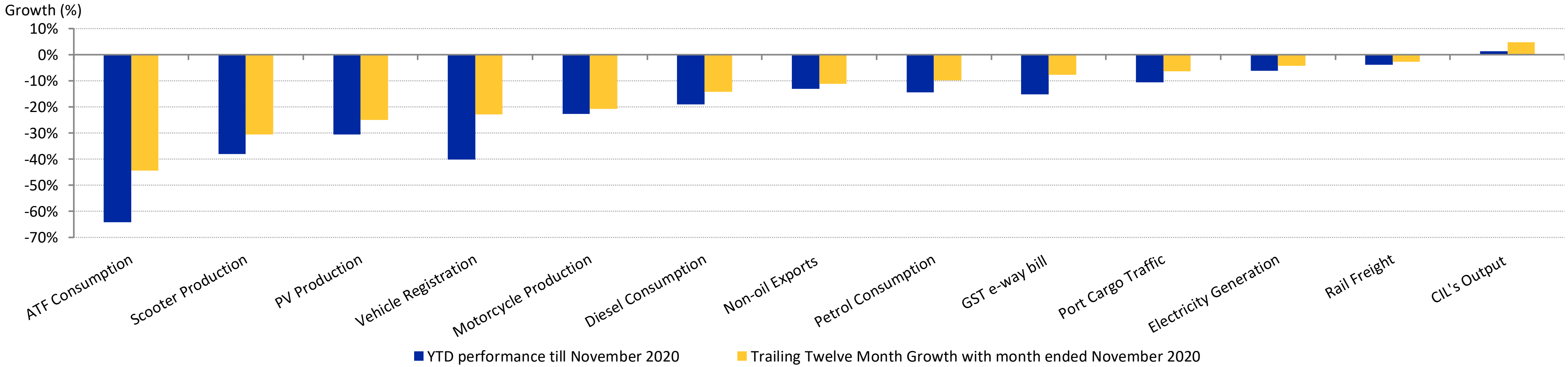
Source*: ICRA research*

Additionally, the FASTag data released by the NPCI reveals a continued recovery since the lows recorded in April 2020, with the all-time high number of transactions at 124.9 million in November 2020, relative to 110.1 million and 122.4 million, respectively, recorded in September 2020 and October 2020 at an all-India level.

Moreover, ICRA's analysis of a sample of toll road projects spread across 11 states, reveals that toll collections have witnessed a marked improvement on the back of increased movement of both passenger and commercial vehicles, and have surpassed pre-Covid levels. This has been supported by the gradual unlocking of the economy, the recovery in the industrial and services sectors, limited availability of public transport (both bus and passenger rail) and preference for social distancing in personal mobility. Benefiting from the rise in commercial and personal traffic during the festive season, the YoY growth in toll collections peaked at 16% in October 2020 (refer Exhibit 7). In November 2020, the toll collections recorded a 10% YoY growth, which has sustained in the first week of December 2020. On average, the increase in toll collections in September – November 2020 stood at around 13%, implying a growth in traffic of 8-9% in terms of passenger car units; one-third of this growth is contributed by passenger vehicle category and the remaining from commercial vehicles.

YTD performance of non-agri lead indicators: The YTD performance (April-November 2020) reveals a mixed trend across the sectors (refer Exhibit 8); as expected, the performance of ATF consumption was sharply inferior to the other indicator, which is likely to be mirrored by other contact-intensive sectors. This was followed by auto production and vehicle registrations; however, motorcycles have outperformed PV and scooters during April-November 2020, highlighting the relative resilience of the rural demand. Many indicators related to fuel consumption (excluding ATF) and freight have posted a moderate double-digit YoY contraction of 10-20% on a YTD basis till November 2020. Moreover, the YTD decline in two indicators (electricity generation and rail freight traffic) was in single-digits during this period. In contrast, only CIL's output recorded a growth on a YTD basis in the same period, benefitting from a low base.

Exhibit 8: YTD and TTM trends for non-agri non-financial lead indicators



***Source**: SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; PPAC; RBI; CEIC; ICRA research*

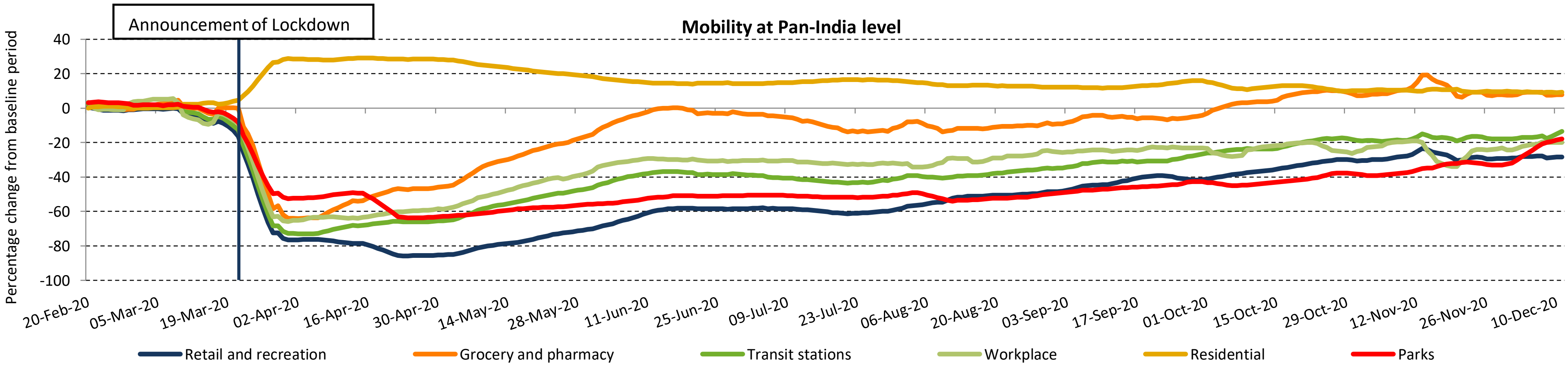
On a TTM basis ending November 2020, all of the non-financial monthly tracked indicators except CIL's output, recorded a YoY de-growth; ATF consumption declined by 44.5%, the severest among the rest of the indicators.

Early trends of lead economic indicators in December 2020: The early data on various indicators that are available for December 2020 is cautiously optimistic. According to the data released by POSOCO, the growth in electricity demand at all-India level rose modestly to 4.8% on a YoY basis in the first half of December 2020 from 3.5% in November 2020. Additionally, the rail freight traffic stood at 37.3 million tonnes in the first ten days of December 2020, a robust 9.6% higher than the level recorded in the corresponding period of December 2019. Moreover, the pace of YoY expansion so far in December 2020, exceeded the growth recorded in November 2020 (+9.0%), which is an encouraging sign.

Further, in the first two weeks of December 2020, vehicle registrations stood at around 0.8 million or ~48% of the level in December 2019; we expect the pace of YoY decline in registrations to narrow further in the ongoing month from 20.4% in October-November 2020, on the back of a small base, as well as price hikes that may be on the anvil. At the same time, some automobile producers may choose to moderate output in December 2020, to correct the inventory levels at dealerships in light of concerns regarding the persistence of pent-up demand. Moreover, production disruption on account of supply chain issues may pose a risk to output in the immediate term in this as well as some other sectors. Perhaps reflecting the latter, as well as satiation of pent-up demand, the daily average generation of GST e-way bills has declined somewhat to 1.77 million (data available till December 13, 2020), from 1.80 million, 1.87 million and 1.93 million, respectively, in the similar period of September 2020, October 2020 and November 2020.

As on December 12, 2020, the mobility of people at the pan-India level for retail and recreation purposes had dipped to ~28% below the pre-Covid levels, from 23% witnessed during the festive season in November 2020 (during Diwali week). However, the contraction in the mobility for workplaces, and grocery and pharmacy, had eased to around 20% and 8%, respectively, below the baseline, from 25% and 10%, respectively, in November 2020 (refer Exhibit 9).

Exhibit 9: Seven-day moving average of percentage change from the baseline period in Google mobility at pan-India level



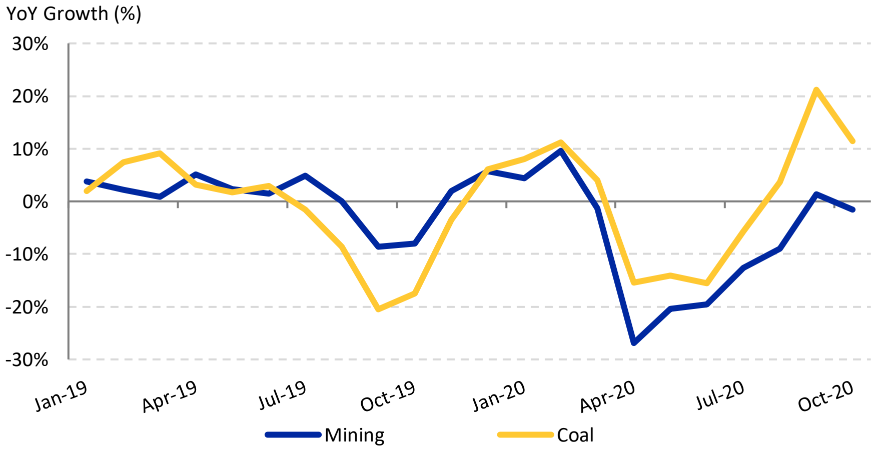
**Data available till December 12, 2020; The index is smoothed to the seven-day moving average; baseline period: January 3, 2020- February 6, 2020*
***Source**: Google LLC; Google Global Mobility Report; CEIC; ICRA research*

Outlook for key non-agri sectors: We expect volumes in many sectors to record a recovery in H2 FY2021 as compared to H1 FY2021. However, while many indicators have displayed growth in the ongoing quarter relative to a weak performance in the same period in FY2020, volumes still remain below FY2019 levels in a number of sectors, highlighting that a full recovery is somewhat distant. In particular, we await further confirmation of a broad-basing of demand in sectors such as automobiles and capital goods. Additionally, supply-side and logistical disruptions have re-emerged in some states. We expect a trend of consolidation in market share in many sectors, in favour of the market leaders, especially if they have a strong presence in the entry-level segments, with a good rural distribution network and well diversified vendor base to help withstand localised disruptions.

Further, the tailwinds of low commodity prices are turning into headwinds, as the visibility of vaccine availability is now pushing up global commodity prices. Moreover, various companies have reportedly started to enhance salaries, lifting the freeze that had been instituted during the pandemic. Rising raw material and wage costs would absorb a portion of the improvement in profitability afforded by higher volumes in H2 FY2021.

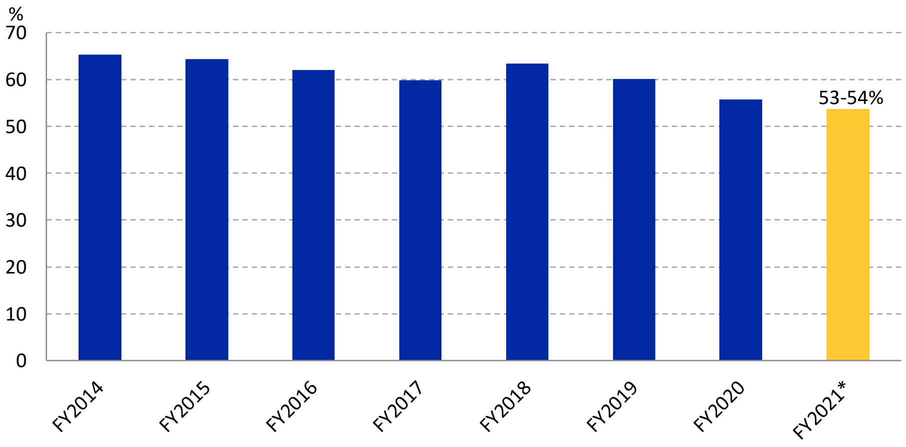
In terms of mining, base effects related to a varied pace of monthly rainfall in 2019 and 2020, have distorted recent trends. Moreover, overall mining performance (-13.3% in April-October 2020) has sharply lagged the production trends in the coal sector (-3.6%; refer Exhibit 10), led by other minerals such as iron ore as well as natural gas. Regardless, mining volumes and GVA should record a modest rise in H2 FY2021.

Exhibit 10: YoY performance of coal and mining output



***Source**: Ministry of Commerce and Industry; NSO; ICRA research*

Exhibit 11: Average thermal PLF level since FY2014 and ICRA's forecasts for FY2021



FY2021 includes our projections; **Source: CEA; ICRA research*

The resumption of economic activities, as well as the base effect related to heavy rainfall in year-ago period, which had reduced the demand for electricity from agricultural as well as household segments, have supported the growth in electricity generation and demand in the recent months. Overall, electricity demand may witness a 2-3% decline in FY2021, following the Covid-19 induced disruption to economic activity. This is expected to suppress the average thermal PLF level to about 53-54% in FY2021 from 56.1% in FY2020 on an all-India basis, as per ICRA's analysis (refer Exhibit 11). Moreover, the capacity addition is expected to witness a moderation in FY2021, owing to delays in implementation caused by lockdown in Q1 FY2021.

The recovery in the performance of key inputs of construction such as cement and steel in the recent months may have been linked to rural demand following the reverse migration, as well as affordable housing. The former is expected to moderate somewhat as labour returns to the urban areas, but may get offset by rising activities in the latter. Government capex trends are expected to be mixed in H2 FY2021, with a better performance of the Central Government and an uneven trend across the states. Private sector capex, which generally contributes around 25-30% of construction revenue is likely to remain compressed in H2 FY2021, with capacity utilisation remaining moderate.

Looking ahead, we expect the trade and transportation indicators of the services sector, to continue to chart a revival, whereas demand would remain constrained in the contact-intensive sectors such as tourism, hospitality, and recreation until a Covid-19 vaccine becomes widely available. Service sector exports barring tourism are likely to be somewhat less affected in the near term. Moreover, domestic occupancies in the health sector have largely returned to pre-Covid levels, although medical tourism continues to suffer.

ICRA projects the incremental credit of banks of Rs. 3.9-5.4 trillion during FY2021 (Rs. 5.9 trillion during FY2020), which will translate into a YoY credit growth of 3.9-5.2% during FY2021 (6.1% in FY2020). Looking ahead, incremental bank credit is likely to grow as economic activity recovers further. The relaxations to restructured stressed accounts could reduce asset quality pressure and reduce capital requirements; however, lenders are likely to remain risk averse till more clarity emerges on the impact of the pandemic on the debt servicing ability of borrowers. ICRA expects fresh bond issuance of Rs. 8.0-8.2 trillion and YoY growth in the volume of bonds outstanding of 9.2-10% for FY2021 (6.1% in FY2020). CP volumes are unlikely to witness a major rebound because of significant difference in short-term and long-term rates in the current surplus liquidity environment, apart from changes in the regulatory framework for Mutual Funds. We expect the overall credit growth from these sources to be modest at 5.1-6.5% in FY2021 (4.8% in FY2020).

Outlook for drivers of demand: Available data suggests that the recovery in consumer demand in Q3 FY2021 is tentative. In our view, the spending seen during the festive season was driven by pent-up demand, and consumption is yet to fully stabilise in various sectors. However, with rural demand expected to sustain and urban sentiment expected to improve in Q4 FY2021, we foresee a strengthening of consumption demand in the coming quarter. We also expect unevenness to persist across consumption categories in the coming months. Consumer non-durables, especially items of in-home consumption that substitute out-of-home services, would see steady demand. Social distancing in personal mobility may support purchases of entry-level automobiles, and also manifest in a rise in traffic data and fuel consumption. However, contact-intensive sectors such as travel, hospitality, etc. will revive durably only after a vaccine becomes widely available.

In terms of external demand, the economic recovery in many advanced economies has been disrupted with the reinstatement of partial lockdowns amid surging Covid-19 cases. This, in conjunction with logistical disruptions related to the availability of containers, has led to a downtrend in the growth of merchandise exports growth since September 2020. We expect exports to revive modestly in Q4 FY2021, as the vaccine rollout gathers traction, providing some support to the overall economic activity in that quarter.

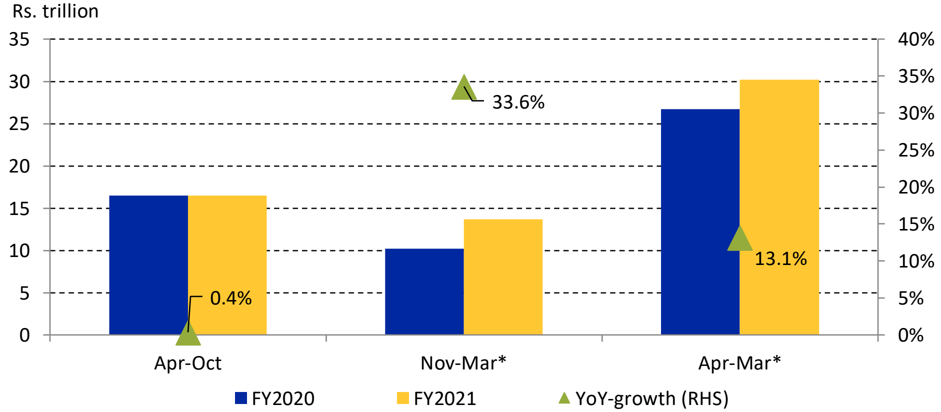
Although business sentiment has improved, we expect a broad-based uptick in investment activity by the private sector to be back-ended until H2 FY2022, after a Covid-19 vaccine becomes widely available, and there is greater clarity regarding the domestic and global growth outlook.

Moreover, improved visibility of tax revenues is expected to boost the spending of the GoI. For instance, after contracting by a mild 0.6% in H1 FY2021, the GoI's total expenditure increased by 9.5% on a YoY basis in October 2020. We have estimated the GoI's total expenditure (excluding recovery of loans) at Rs. 30.2 trillion in FY2021, mildly lower than the budgeted level (Rs.

30.3 trillion), despite the fiscal support measures that have been announced so far. This translates into a projected expenditure (excluding recovery of loans) of Rs. 13.7 trillion in Nov-Mar FY2021, which is a considerable 33.6% higher than the outgo in the last five months of FY2020 (refer Exhibit 12). If this materialises, it should provide a fair boost to economic activity, in the remainder of FY2021.

Improving tax inflows during the festive season seem to have eased the pressure on state government borrowings in the ongoing month; the gross amount raised through SDLs between December 1-15, 2020, recorded a YoY contraction of 8.2%, after the high 48.4% expansion recorded in April-November 2020. However, anecdotal evidence on state-wise capex reveals mixed trends, and we expect the pace of expenditure may be uneven across the state governments in the remainder of this fiscal year. We also remain cautious that an impending large adjustment in Central Tax Devolution could cause expenditure strains to re-emerge in Q4 FY2021 (refer Exhibit 13)[2]. Reflecting the adverse impact of the Covid-19 crisis on the tax revenues of the GoI, and adjusting the excess taxes that were devolved to the states in FY2020, ICRA estimates the Central Tax Devolution to all state governments for FY2021 at Rs. 5.0 trillion, substantially lower than the amount of Rs. 6.5 trillion provided in FY2020. With funds of Rs. 3.0 trillion transferred in April-October 2020, we estimate the devolution in November 2020-March 2021 would be limited to Rs. 2.0 trillion, a considerable 28.3% lower than the amount transferred in the year-ago period.

Exhibit 12: Total Expenditure^ in Apr-Oct FY2021 along with ICRA's forecast for Nov-Mar FY2021



*^Excluding recovery of loans; *ICRA's expenditure forecasts for Nov-Mar FY2021 and FY2021*
***Source:** Union Budget; CGA; ICRA research*

Exhibit 13: ICRA's estimate of CTD for FY2021

Rs. Trillion	Q1	Q2	Oct	Nov - March	Total
FY2020 (A)	1.5	1.6	0.6	2.8	6.5
FY2021 (B)	1.3	1.3	0.4	2.0*	5.0*
Growth (%; B/A)	-9.8%	-22.6%	-33.1%	-28.3%	-23.1%

**As per ICRA's forecasts*
***Source**: Union Budget; CGA; ICRA research*

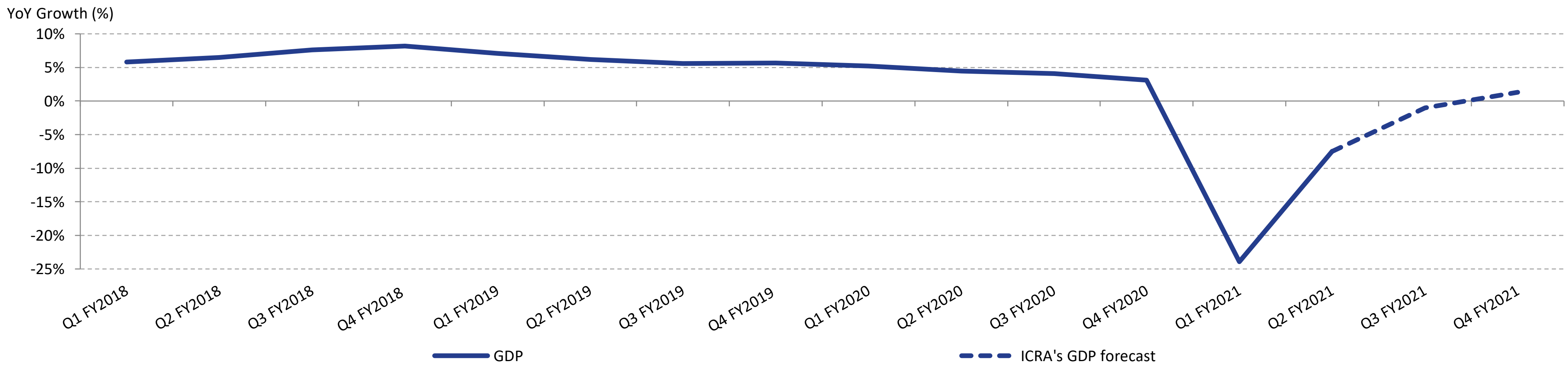
[2] *Refer to ICRA's publication, Revenue shock engendered by Covid-19 enlarged GoI's fiscal deficit to Rs. 9.1 trillion in H1 FY2021, despite expenditure compression, published in October 2020*

GDP forecasts: In Q3 FY2021, rising raw material and wage costs would absorb a portion of the improvement in profitability afforded by a modest rise in volumes in the industrial sector. With a steady performance of the agricultural sector, and a lagged recovery in the contact-intensive parts of the services sector, we forecast a small contraction of 1.0% in the Indian GDP in real terms in Q3 FY2021, which implies that the recession is yet to end (refer Exhibit 14).

However, improving economic fundamentals, healthy procurement, a bright outlook for the rabi season, and visibility of vaccine availability are expected to strengthen demand over the next quarter, resulting in an uptick in the pace of normalisation in volumes in many non-contact intensive sectors. Exports, which faltered in Q3 FY2021, given renewed restrictions in many key trading partners and some logistical issues, may revive modestly in Q4 FY2021, as the vaccine rollout gathers traction. Private sector investment activity may gather some pace in certain sectors, but may not revive in a broad-based manner until H2 FY2022. Moreover, improved tax revenue visibility is expected to boost the spending of the GoI in the rest of this fiscal. However, anecdotal evidence reveals mixed trends in state-wise capex. Overall, we expect a muted 1.3% growth in Q4 FY2021.

After the NSO had released the GDP data for Q2 FY2021, we had projected the GDP contraction in FY2021 to range between 7-9%, milder than our previous forecast of 11.0%. With our updated projections for Q3 and Q4 FY2021, we now expect a contraction in Indian GDP in FY2021 of 7.8%.

Exhibit 14: ICRA's forecasts of GDP (at constant 2011-12 prices) for Q3 FY2021 and Q4 FY2021



***Source**: NSO; CEIC; ICRA Research*

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ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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