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SERVICE COMPANY

INDIAN ECONOMY: MONTH IN REVIEW JUNE 2021

Gradual unlock spurs incomplete recovery
in June 2021

JULY 2021

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HIGHLIGHTS



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With base normalisation, the YoY expansion of most indicators expectedly flattened in June 2021, relative to May 2021

However, several indicators recorded a sequential improvement in June 2021 as states started unlocking

Volumes for most non-financial indicators in June 2021 were weaker than both April 2021 and June 2019, suggesting that the recovery is incomplete

Moreover, 11 of the 14 indicators reported lower volumes in Q1 FY2022 compared to Q1 FY2020

As expected, base normalisation led to a flattening of the year-on-year (YoY) expansion of most high frequency indicators in June 2021, relative to the previous month. However, several indicators recorded a sequential improvement in June 2021, as the states started lifting restrictions with the subsiding of the second wave of Covid-19. While a revival has undoubtedly set in, volumes for most non-financial indicators in June 2021 were weaker than the levels in both April 2021 and June 2019, suggesting that the recovery is incomplete. Moreover, 11 of the 14 indicators reported lower volumes in Q1 FY2022 compared to Q1 FY2020.

With the normalisation of the base related to the unlocking after last year's stringent nation-wide lockdown, the YoY performance of 13 of the 15 high frequency indicators, barring the output of Coal India Limited (CIL) and banks' deposits, flattened in June 2021, relative to May 2021 (refer Exhibit 1). Diesel consumption stood out as the only indicator recording a contraction in YoY terms in June 2021 (-1.5%).

More importantly, the majority of the indicators witnessed an improvement in the sequential momentum during June 2021, after several states started phased unlocking with the decline in Covid-19 cases (refer Exhibit 2). As many as 10 of the 13 non-financial indicators such as vehicle registrations (+127.2%), automobile output (109.9%), generation of GST e-way bills (+36.8%), consumption of petrol (+21.0%) and diesel (+12.0%), non-oil merchandise exports (+5.8%), and electricity generation (+2.9%) recorded a month-on-month (MoM) increase in June 2021. However, the output of CIL, ports cargo traffic and rail freight traffic eased sequentially by a modest 1.8-5.0% in June 2021.

To gauge the strength of the recovery across sectors, we have compared the performance of indicators in June 2021 with both June 2019 i.e. pre-Covid level, as well as April 2021, prior to the peak of the second Covid-19 wave (refer Exhibit 3 and 4). Discouragingly, volumes in June 2021 trailed the June 2019 level for eight of the 13 non-financial indicators, and were weaker than April 2021 for nine indicators, highlighting that the recovery that has set in, is incomplete.

Given the further relaxation by many states in the ongoing month, we expect volumes to improve in sequential terms in July 2021. Encouragingly, the daily average generation of GST e-way bills has risen to 1.9 million in the first 11 days of July 2021 from 1.8 million in June 2021. Moreover, the electricity demand data released by POSOCO reveals that the pace of YoY growth rose considerably to 17.7% in July 1-13, 2021 from 8.4% in June 2021. However, this coincided with a lull in the rains, and its sustenance at such a high level remains uncertain.

Given the distorted base of Q1 FY2021, we have compared the quarterly volume performance of indicators in Q1 FY2022 with Q1 FY2020, which reveals a decline in 11 of the 14 non-financial indicators (including quarterly CV output; refer Exhibit 5). This confirms our expectation that the real GDP in Q1 FY2022 will trail the Q1 FY2020 level, while recording a double-digit YoY expansion. Only rail and port cargo traffic, and non-oil merchandise exports improved in Q1 FY2022, relative to Q1 FY2020, reflecting the robust trade with economic rebound in major trading nations, as well as improved efficiency in rail operations backed by tariff and non-tariff initiatives undertaken in August 2020.

- The aggregate auto output (spanning passenger vehicles or PVs, two- and three-wheelers) expanded by a considerable 54.7% in June 2021 (-51.4% in June 2020). In MoM terms, auto output more than doubled to 1.7 million units in June 2021 from 0.8 million units in May 2021, as many original equipment manufacturers resumed production with the easing of state-wise restrictions. The sequential pickup in the auto output in June 2021 relative to May 2021 was broad-based across scooters (+213%), passenger vehicles (+131%), motorcycles (+97%) and three-wheelers (+11%). Nevertheless, the aggregate output in June 2021 was equivalent to only three-fourth of the output in June 2019, and around 90% of the level in April 2021.
- Similarly, the retail demand for vehicles rose to 1.2 million units in June 2021 (+22.3% on a YoY basis) from 0.5 million in May 2021, reflecting pent-up demand after the re-opening of showrooms. Moreover, it was a mild 2.5% higher than the registrations during April 2021. However, the retail demand in June 2021 was a considerable 28.3% lower than the pre-Covid level of June 2019, driven by all the segments barring tractors (+~28% relative to June 2019). Subsequently, the vehicle registrations stand at 0.6 million during July 1-14, 2021, accounting for roughly 55% of the July 2020 level, and around 52% of the registrations recorded in the previous month.
- The pace of YoY growth in the output of CIL rose somewhat to 2.0% in June 2021 (-12.8% in June 2020) from 1.7% in May 2021 (-11.3% in May 2020), on the back of a mildly favourable base effect. In MoM terms, the output of CIL in June 2021 (~40.0 million tonnes) was 5.0% lower than in May 2021 (~42.1 million tonnes), which can be attributed to the onset of the monsoon. In addition, production in June 2021 was 11.0% lower than the June 2019 level (~45.0 million tonnes).
- The provisional data released by the Central Electricity Authority (CEA) indicates that electricity generation (spanning thermal, hydro, nuclear and renewable energy) expanded by 7.3% in June 2021 (-10.7% in June 2020). In MoM terms, the electricity generation rose by a modest 2.9% in June 2021 as states started unlocking. Nevertheless, the electricity generation in June 2021 was 4.2% and 4.6%, respectively, lower than June 2019 and April 2021 level. The electricity demand data released by POSOCO reveals that the pace of YoY growth rose considerably to 17.7% in July 1-13, 2021 from 8.4% in June 2021. However, this coincided with a lull in the rains, and its sustenance at such a high level remains uncertain.
- Given the post-vaccine revival in economic activity in many trading partners as well as the higher commodity prices, non-oil merchandise exports (in US\$ terms) expanded by a sharp 41.8% in June 2021 (-9.7% in June 2020). Moreover, they were ~6% higher than the level recorded in April 2021 and May 2021, as per the provisional data released by the Ministry of Commerce and Industry. Additionally, non-oil exports in June 2021 were a healthy 28.0% higher than the pre-Covid level of June 2019, reflecting higher commodity prices.
- The pace of YoY growth of cargo handled at major ports stood at 19.5% in June 2021 (-14.6% in June 2020), driven by thermal and steam coal, iron ore, as well as raw fertilizers shipments. Relative to April 2021 and May 2021, the cargo traffic lagged by 4.7% and 3.0%, respectively, in June 2021, while it was a mild 2.0% higher than the June 2019 level.
- Encouragingly, the daily average GST e-way bills generated rebounded to a healthy 1.8 million in June 2021 from 1.3 million in May 2021, reflecting revival in momentum of overall economic activity with phased unlocking by states. While the daily average bills in June 2021 were ~10% higher than the pre-Covid level of June 2019 (1.7 million), they trailed the level recorded in April 2021 (2.0 million) by 6.9%. Subsequently, the daily average generation of GST e-way bills has risen further to 1.9 million in the first 11 days of July 2021, with the widening of relaxations by the states.
- On a similar note, the consumption of petrol recorded a healthy MoM increase of 21% in June 2021, with a rise in mobility amid the easing of state-wise restrictions, and was a mild 1.0% higher than the level in April 2021. In YoY terms, consumption of petrol rose by 5.6% in June 2021, although it trailed the pre-Covid level of June 2019 by 8.7%. With a further improvement in mobility as more states are relaxing curbs, petrol consumption is expected to rise further in the ongoing month.

- Diesel consumption stood out as the only indicator recording a contraction in YoY terms in June 2021 (-1.5%), which reflects some shift of freight to the Railways amidst all-time high diesel prices, and tariff and non-tariff measures taken by the Indian Railways in August 2020 to boost the operations and improve efficiency. The consumption of diesel recorded a relatively lower MoM rise of 12% in June 2021. Volumes in this month were 7.2% lower than the level in April 2021, and a considerable 16.7% below the level in June 2019. We expect the YoY growth of diesel consumption in FY2022 to trail the expansion in petrol consumption.
- The YoY expansion in rail freight traffic stood at a healthy 20.5% in June 2021 (-7.7% in June 2020). Although it recorded a sequential dip of 1.8% in June 2021 (which may be linked to the lower dispatches of coal), it exceeded the April 2021 level by ~1%. Relative to the pre-Covid level of June 2019, rail freight was a robust 11.2% higher in June 2021, benefitting from a number of tariff and non-tariff measures taken by the Indian Railways in August 2020 to boost the operations and improve efficiency.
- Following the decline in fresh and active Covid-19 cases, domestic airlines' passenger traffic recorded a sequential increase of 41-42% in June 2021 to 2.9-3.0 million as per ICRA's estimates, compared to the subdued 2.1 million in May 2021. Regardless, domestic airlines' passenger traffic in June 2021 was a considerable ~75.5% lower than June 2019 (12.0 million).
- The YoY growth in bank deposits rose to 10.3% on June 18, 2021 from 9.7% on May 21, 2021, whereas that of non-food bank credit remained unchanged at 5.9%.

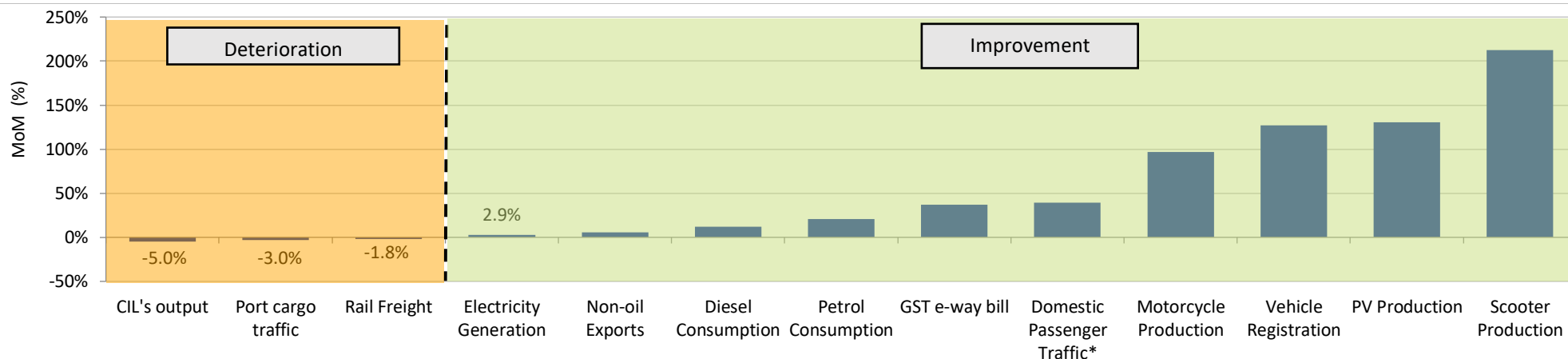
EXHIBIT 1: Base normalization expectedly flattened the YoY expansion of most indicators in June 2021, relative to May 2021, despite the unlocking-led sequential pickup

Months	PV	Scooter	Motor Cycle	Vehicle registration	CIL Prod.	Electricity Gen.	Non-oil Exports	Ports Cargo traffic	GST e-way bill	Rail Freight	Petrol	Diesel	Domestic Airlines' Passenger	Bank Deposit	Non-Food Bank Credit
Apr -21	163510.7	*	8759.5	215.3	3.7	38.8	196.3	29.5	582.5	70.7	145.3	105.4	*	10.3	5.7
May -21	340.1	277.9	111.2	158.4	1.7	7.8	54.6	33.0	56.8	39.1	12.5	0.8	650.0	9.7	5.9
June -21	174.9	80.1	38.9	22.3	2.0	7.3	41.8	19.5	25.9	20.5	5.6	-1.5	48.7~	10.3	5.9

*Scooter Production and Domestic Airlines Passenger Traffic stood at 0.4 million units and 5.7 million, respectively, in April 2021 vs. nil each in April 2020; ~Based on ICRA's estimates; ^Electricity generation comprises thermal, hydro, nuclear and renewable energy; NA: Not Available; **Source:** Society of Automobile Manufacturers (SIAM); CIL; Central Electricity Authority (CEA); Indian Ports Association; Ministry of Commerce, Government of India (GoI); Goods and Services Tax Network (GSTN); Ministry of Petroleum & Natural Gas; Directorate General of Civil Aviation (DGCA); Petroleum Planning and Analysis Cell (PPAC); Indian Railways; Reserve Bank of India (RBI); Ministry of Road Transport and Highways; CEIC; ICRA research

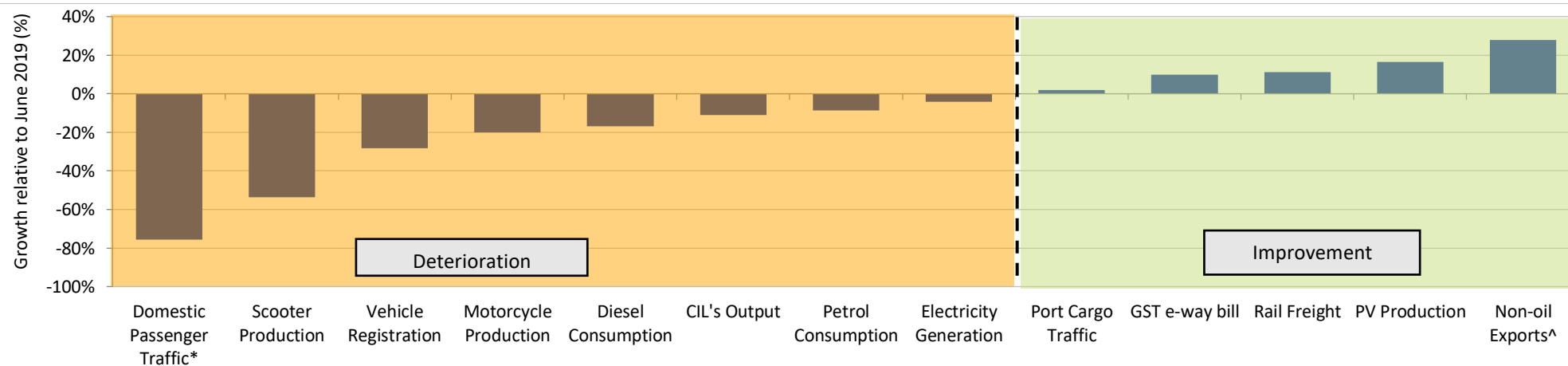
YoY growth; sequential pickup	YoY growth; sequential dip	YoY growth/contraction; no sequential change	YoY contraction; sequential pickup	YoY contraction; sequential dip
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EXHIBIT 2: Sequential momentum of most indicators improved in June 2021, as economic activity picked up and improvement in mobility levels with unlocking by many states



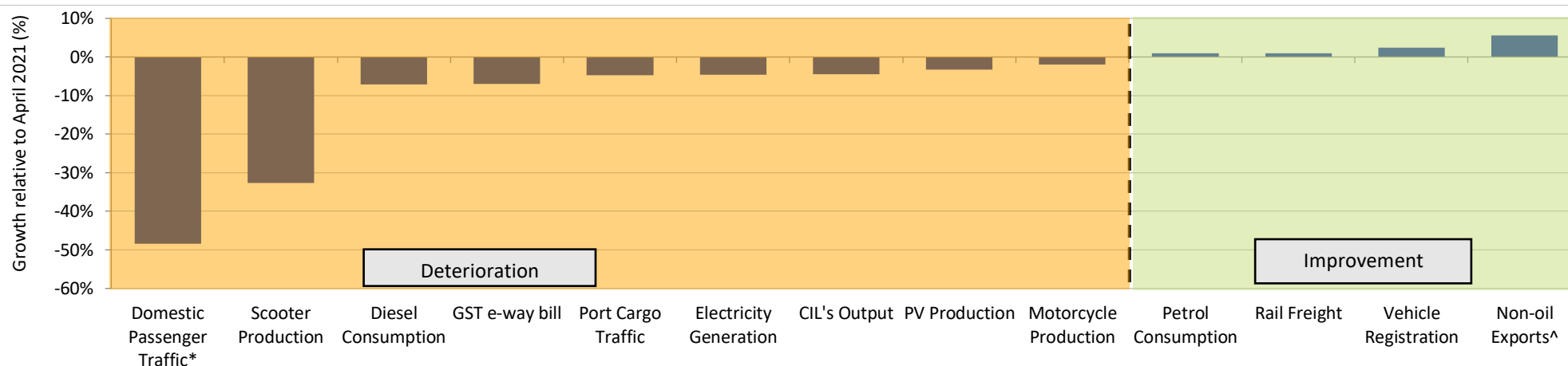
*Based on ICRA's estimates for June 2021; **Source:** SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA research

EXHIBIT 3: However, eight of the 13 non-financial indicators recorded lower volumes in June 2021 relative to June 2019, revealing the underlying weakness in activity



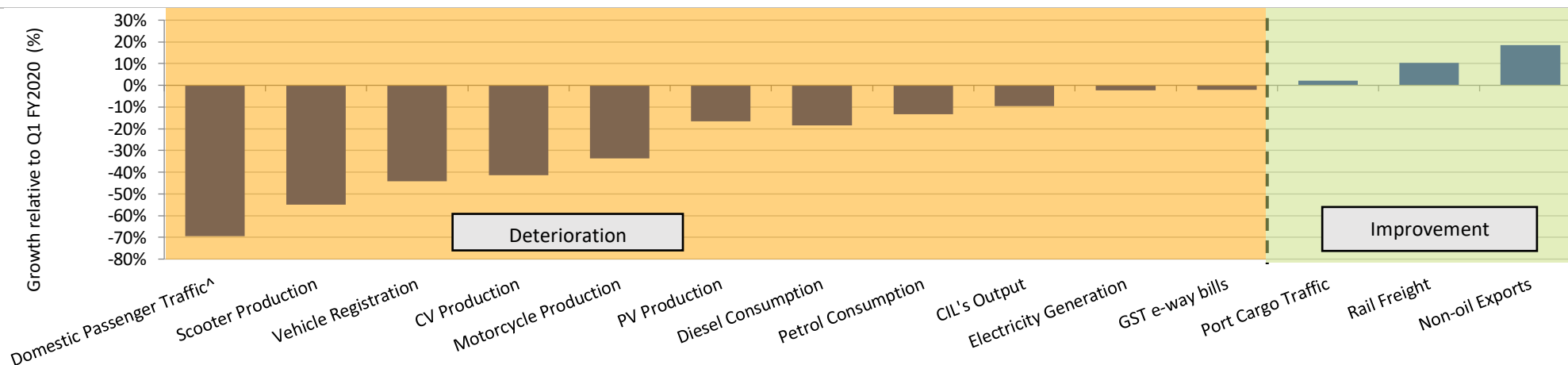
*Based on ICRA's estimates for June 2021; **Source:** SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA research

EXHIBIT 4: Moreover, nine out of the 13 non-financial indicators recorded weaker volumes in June 2021 relative to April 2021; further relaxations should support volumes in July 2021

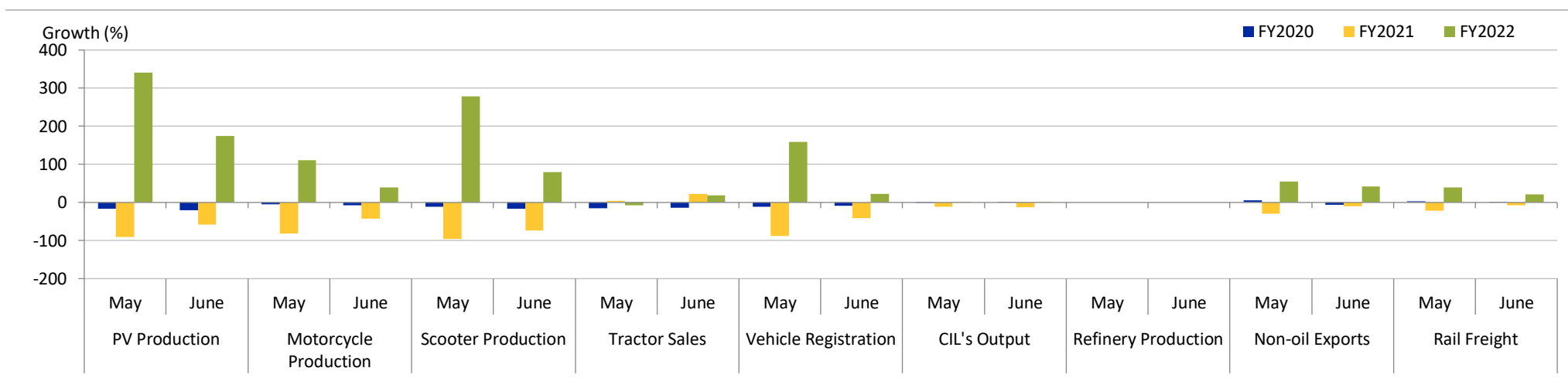


*Based on ICRA's estimates for June 2021; **Source:** SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA research

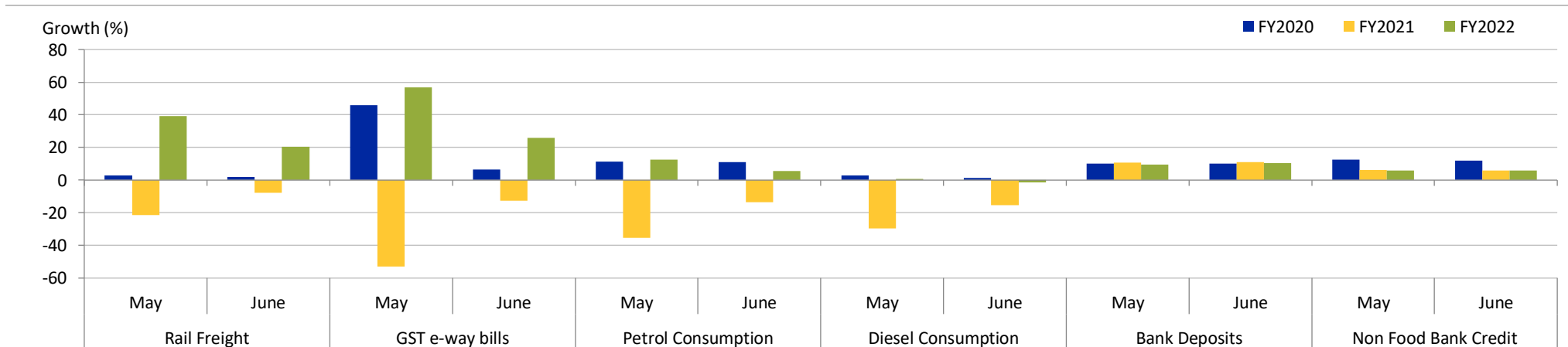
EXHIBIT 5: Majority of non-financial indicators recorded a weaker volume performance in Q1 FY2022 relative to pre-Covid level of Q1 FY2020, in line with our expectation that real GDP in Q1 FY2022 will trail the Q1 FY2020 level, while recording a double-digit YoY expansion



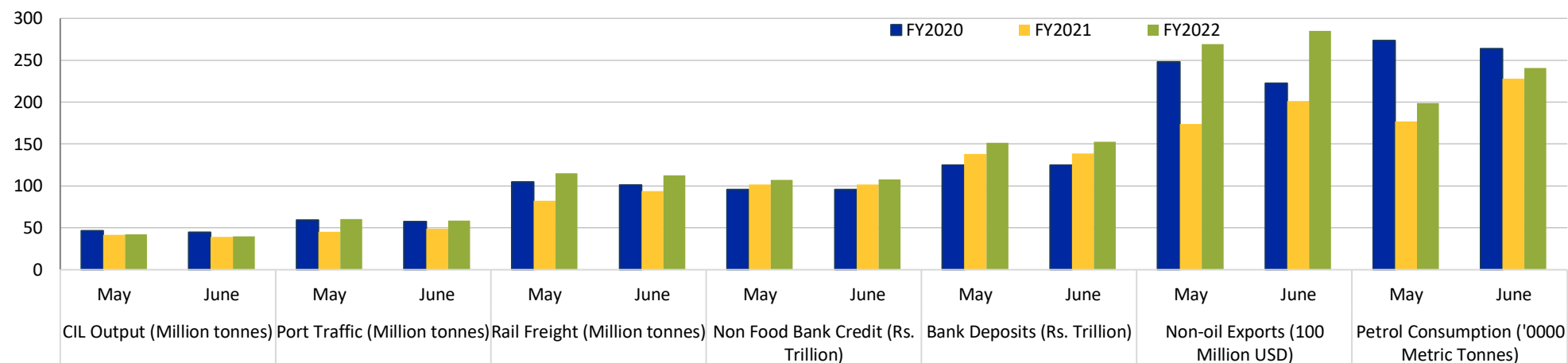
^Based on ICRA's estimates for June 2021; **Source:** SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA research

EXHIBIT 6: YoY Growth for Last Three Years in May and June (Part -I)


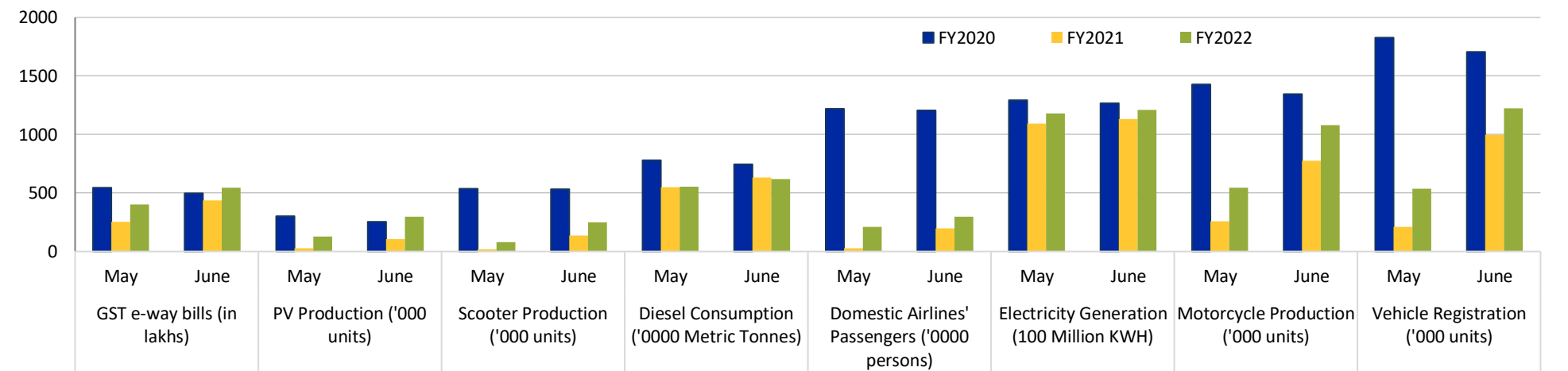
Source: MoRTH; SIAM; CIL; CEAA; Indian Ports Association; Ministry of Commerce, GoI; CEIC; ICRA research

EXHIBIT 7: YoY Growth for Last Three Years in May and June (Part -II)


[^]We have not included Domestic Airlines Passenger Traffic as it recorded an exceptionally high growth in May 2021; **Source:** Indian Railways; GSTN; PPAC; RBI; CEIC; ICRA research

EXHIBIT 8: Trends in Volumes for Last Three Years in May and June (Part -I)


Source: CIL; Ministry of Commerce, GoI; Indian Railways; Indian Ports Association; RBI; PPAC; CEIC; ICRA research

EXHIBIT 9: Trends in Volumes for Last Three Years in May and June (Part -II)


Source: SIAM; PPAC; CEA; GSTN; DGCA; Ministry of Road Transport and Highways; CEIC; ICRA research



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