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INDIAN ECONOMY: MONTH IN REVIEW SEPTEMBER 2021

Recovery widened, while remaining uneven, multi-speed in Q2 FY2022

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HIGHLIGHTS

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The YoY performance of 14 of the 15 indicators eased in Sep 2021, led by normalising base, supply constraints and heavy rainfall

Volumes of seven of the 14 non-financial indicators rose above their pre-Covid levels in Q2 FY2022

ICRA expects real GDP in Q2 FY2022 to grow by 7.7% on YoY basis, mildly trailing the pre-Covid level of Q2 FY2020

Continued base normalisation, emerging supply-side constraints and excess rainfall dampened the year-on-year (YoY) performance of most of the high frequency indicators in September 2021. In quarterly terms, half of the indicators had recovered above their pre-Covid levels in Q2 FY2022, an improvement as compared to Q1 FY2022, when only three of the 14 indicators had bettered their pre-pandemic performance. Accordingly, the economic recovery widened in Q2 FY2022, while remaining uneven and multi-speed.

The YoY performance of 14 of the 15 high frequency indicators (except non-food bank credit) worsened in September 2021 compared to August 2021. This was on account of a combination of factors such as continued base normalisation (especially for motorcycles and scooters, domestic airline passenger traffic, and generation of GST e-way bills), supply-side constraints (non-availability of semi-conductors particularly for passenger vehicles or PVs) and excess rainfall (35% above long period average or LPA; on electricity and coal) in September 2021 (refer Exhibit 1). In particular, four indicators reported a YoY contraction (related to auto production and vehicle registrations), and only three recorded a double-digit growth (GST e-way bills, non-oil exports, domestic airline passenger traffic) in September 2021. With a further normalisation of the base, the pace of growth of several indicators may decline further in October 2021.

Moreover, while most of the indicators displayed a slowdown in month-on-month (MoM) terms in September 2021, the trend was mixed when compared to the pre-Covid volumes of September 2019 (refer Exhibit 2 and 3). The mobility for retail and recreation and retail payments improved mildly in September 2021 from August 2021 (refer Exhibits 5, 6 and 7), in contrast to the easing in FASTag toll collections.

The trend was split when comparing the quarterly volume performance of Q2 FY2022 with Q2 FY2020 (refer Exhibit 4); half of the 14 non-financial indicators rose above their pre-Covid volumes in Q2 FY2022, such as non-oil exports, GST e-way bills, output of Coal India Limited (CIL) and electricity generation. However, the performance of sectors like aviation (air travel), supply and demand of automobiles, ports cargo traffic and diesel consumption in Q2 FY2022 lagged the level in Q2 FY2020. In comparison, only three out of the 14 indicators had exceeded their pre-pandemic performance in Q1 FY2022, with activity supressed by the second wave of Covid-19.

The early data for October 2021 reveals that the daily average generation of the GST e-way bills remains healthy at 2.2 million indicating pre-festive stocking; we expect the average for the month of October 2021 to surpass the peaks seen in Feb-Mar 2021. While the sales of state refiners in the first half of October 2021 exceeded the pre-Covid levels for petrol, those for diesel declined. The electricity demand growth has risen mildly to 2.7% in Oct 1-19, 2021 from 0.8% in Sep 2021, contained by the dip in temperature levels with surplus rainfall (refer Exhibit 8) amid concerns regarding coal availability. Further, semi-conductor shortage is likely to supress auto production in October 2021 as well.

Based on the total number of first doses of Covid-19 vaccines administered, the split between the different varieties and the relevant gaps between the two doses (refer Exhibit 9 and 10), we now expect 60-65% of Indian adults will be fully vaccinated by end-December 2021.

- The aggregate auto output (spanning passenger vehicles or PVs, two- and three-wheelers) recorded a YoY contraction for the second consecutive month, and the pace of the same widened to 18.9% in September 2021 (+11.7% in September 2020) from 8.2% in August 2021 (-3.1% in August 2020), reflecting a combination of supply constraints such as the non-availability of semi-conductors, a moderation in demand for two-wheelers as well as the unfavourable base effect. While the output of PVs (-37.5%; 15-month low) and scooters (-9.5%; nine-month low) slid into a YoY contraction after seven and eight months, respectively, in September 2021, that of motorcycles contracted for the second consecutive month, with the pace of the same widening to 20.6% in September 2021 from 14.8% in August 2021. In MoM terms, auto output rose by 7.1% in September 2021, reflecting the uptick in the output of scooters (+13.2%), and motorcycles (+11.4%), as original equipment manufacturers ramped-up production for the upcoming festive season. However, the PV output declined by a considerable ~25% given the supply-side constraints. Moreover, the auto output in September 2021 trailed the pre-Covid level by 9.3%, reflecting the trend for PVs (-27.1%), scooters (-7.4%) and motorcycles (-3.9%). Semi-conductor availability is likely to remain a constraint for production in October 2021, with a gradual normalisation over the course of the following two-three quarters.
- Moreover, retail demand for vehicles witnessed a YoY decline of 5.3% in September 2021 (+14.5% in August 2021), after a gap of five months. This partly reflected non-availability of models, purchase deferrals due to the inauspicious Shradh period as well as the unfavourable base effect (-8.4% in September 2020; -25.4% in August 2020). Additionally, the retail demand in September 2021 lagged the level in September 2019 by 13.5%, driven by two-and three-wheeler segments, as well as a few categories of commercial vehicles, even as the registrations for PVs and tractors exceeded their pre-Covid levels. Subsequently, vehicle registrations stood at 0.7 million during October 1-20, 2021, accounting for roughly 54% of the previous month's level and 48% of the October 2020 level.
- As per the provisional data released by the Central Electricity Authority (CEA), the YoY growth in electricity generation (spanning thermal, hydro, nuclear and renewable energy) decelerated to a muted 0.4% in September 2021 (seven-month low; +4.7% in September 2020) from 16.4% in August 2021 (-2.2% in August 2020). This was led by the demand slowdown from household/agri segments given the heavy rainfall in September 2021, as well as the impact of coal shortages on thermal power generation. In MoM terms, the electricity generation in September 2021 fell by a sharp 11.6%, while exceeding the September 2019 level by a modest 5.1%. The electricity demand data released by POSOCO reveals that the YoY growth has risen only mildly to 2.7% in October 1-19, 2021 from 0.8% in September 2021, with demand contained by easing temperature levels and surplus rainfall, even as coal availability posed a concern.
- The YoY growth in the output of CIL dipped to a six-month low 0.4% in September 2021 (+31.6% in September 2020) from 14.6% in August 2021 (+7.1% in August 2020), given the impact of the heavy rainfall in September 2021 (35% above long period average or LPA vs. 24% below LPA in Aug 2021), even as the offtake was similar to the August 2021 level. In MoM terms, the output of CIL declined by 4.5% in September 2021, while surpassing the September 2019 level by a healthy 32.2%. We expect the coal availability to power plants to improve gradually during October 2021 with expected ramp-up in both coal production and dispatch levels, as well as a mild rise in imports.
- The pace of expansion of non-oil merchandise exports (in US$ terms) halved to 18.9% in September 2021 (+6.4% in September 2020) from 36.8% in August 2021 (-8.1% in August 2020), on the back of a high base. In sequential terms, non-oil merchandise exports were largely stable, easing by a mild 0.2% in September 2021. Nevertheless, the elevated commodity prices and to a smaller extent, healthy demand from major export destinations have resulted in a considerable 26.5% expansion in non-oil merchandise exports in September 2021, relative to pre-Covid level of September 2019.

- The YoY growth of cargo handled at major ports decelerated sharply to 0.4% in September 2021 (-1.8% in September 2020) from 11.4% in August 2021 (-10.4% in August 2020), partly reflecting the base effect. This was led by petroleum, oil and lubricants, iron ore, coal and container shipments. The cargo traffic during September 2021 was a mild 1.4% lower than the pre-Covid level of September 2019, in contrast to the sharp expansion displayed by merchandise exports (+29.9%) as well as merchandise imports (+49.6%), suggesting the higher commodity prices have a large role to play in the relatively superior performance of the value of merchandise trade.
- The daily average generation of GST e-way bills rose to a six-month high 2.3 million in September 2021 after remaining steady at 2.1 million each in July 2021 and August 2021, suggesting inventory build-up ahead of the festive season. However, in YoY terms, the expansion fell considerably to 18.3% in September 2021 (+9.6% in September 2020) from 33.3% in August 2021 (-3.5% in August 2020), on the back of a high base. Subsequently, the daily average generation of GST e-way bills has remained healthy at 2.2 million during October 1-17, 2021; we expect the October 2021 average to surpass the peaks seen in February-March 2021.
- The YoY expansion in rail freight traffic moderated to a 14-month low 3.6% in September 2021 (+15.5% in September 2020) from 16.9% in August 2021 (+3.9% in August 2020), on account of the high base effect related to tariff and non-tariff measures undertaken last year to boost the rail operations. In sequential terms, rail freight decreased by 4.1% in September 2021. However, it exceeded the September 2019 level by nearly 25%, benefitting from the aforementioned incentives.
- In addition, the YoY growth of diesel consumption fell to a marginal 0.3% in September 2021 (-5.9% in September 2020) from 15.6% in August 2021 (-20.7% in August 2020), reflecting the continued base normalisation. Moreover, it recorded a decline of 5.6% relative to September 2019. Subsequently, the preliminary data compiled by state refiners reveals that diesel sales in the first half of October 2021 have fallen by a sharp 9.2% on a YoY basis, and by a mild 0.9% relative to the corresponding pre-Covid period of October 1-15, 2019.
- On a similar note, the YoY growth in consumption of petrol recorded a base-effect led decline to 6.0% in September 2021 (+3.3% in September 2020) from 13.1% in August 2021 (-7.5% in August 2020). However, petrol consumption exceeded the pre-Covid of September 2019 by a healthy 9.5%. Subsequently, the preliminary data compiled by state refiners reveals that the petrol sales in the first half of October 2021 remained higher than the pre-Covid volumes.
- Domestic airlines' passenger traffic continued to improve gradually from the May 2021 lows with the easing of state-wise restrictions and rising vaccine-led confidence to travel. In sequential terms, it rose by 5.4% to 7.1 million in September 2021 from 6.7 million in August 2021. However, in YoY terms, the pace of expansion moderated to 79.2% in September 2021 (-65.8% in September 2020) from 136.6% in August 2021 (-76% in August 2020), chiefly due to the base effect. In addition, domestic airlines' passenger traffic in September 2021 was a considerable 38.7% lower than the level recorded in September 2019 (11.5 million).
- In YoY terms, the growth in non-food bank credit inched up to 6.8% on September 24, 2021 from 6.7% on August 27, 2021, whereas that of bank deposits declined further to 9.3% from 9.5%, respectively. Non-food bank credit has recorded a marginal incremental rise of Rs. 0.06 trillion in the first half of FY2022 (up to September 24, 2021), considerably lower than the incremental rise in bank deposits of Rs. 4.8 trillion in the same period. The recent rise in outstanding non-food bank credit of Rs. 0.52 trillion for the fortnight ended September 24, 2021, compared to the previous fortnight, may be a sign of some festive-related pickup in the demand for credit.

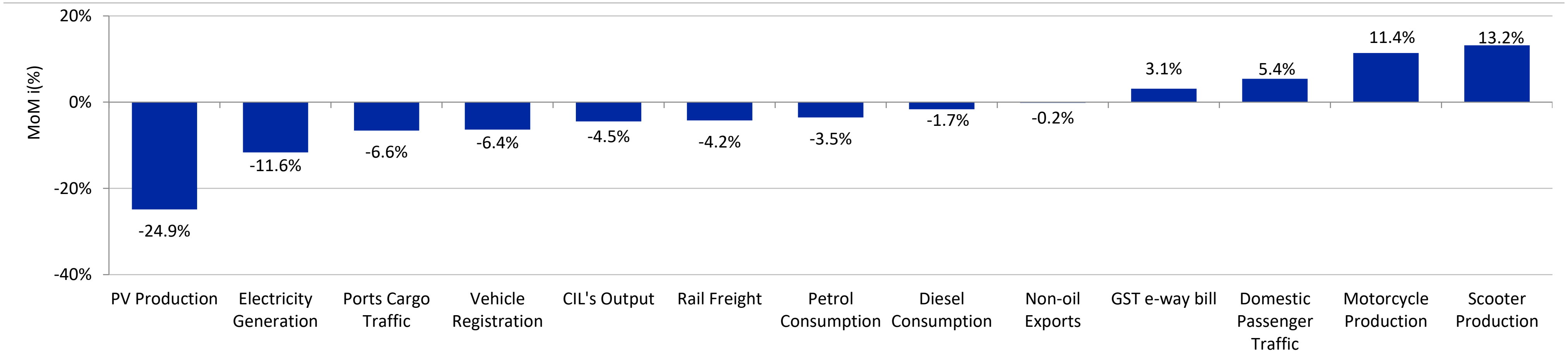
EXHIBIT 1: Barring non-food bank credit, the YoY performance of 14 high frequency indicators worsened in September 2021 compared to August 2021, reflecting a combination of factors such as normalising base, supply-side constraints and excess rainfall in September 2021

YoY (%)	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
Jul -21	52.6	31.1	13.2	33.9	14.1	11.5	35.2	6.7	32.7	18.4	16.4	11.3	137.6	9.8	6.2
Aug-21	5.0	1.5	-14.8	14.5	14.6	16.4	36.8	11.4	33.3	16.9	13.1	15.6	136.6	9.5	6.7
Sep-21	-37.5	-9.5	-20.6	-5.3	0.4	0.4	18.9	0.4	18.3	3.6	6.0	0.3	79.2	9.3	6.8

^Electricity generation comprises thermal, hydro, nuclear and renewable energy; ***Note:*** *The output for PVs provided by SIAM does not include that of Tata Motors Limited;* ***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*

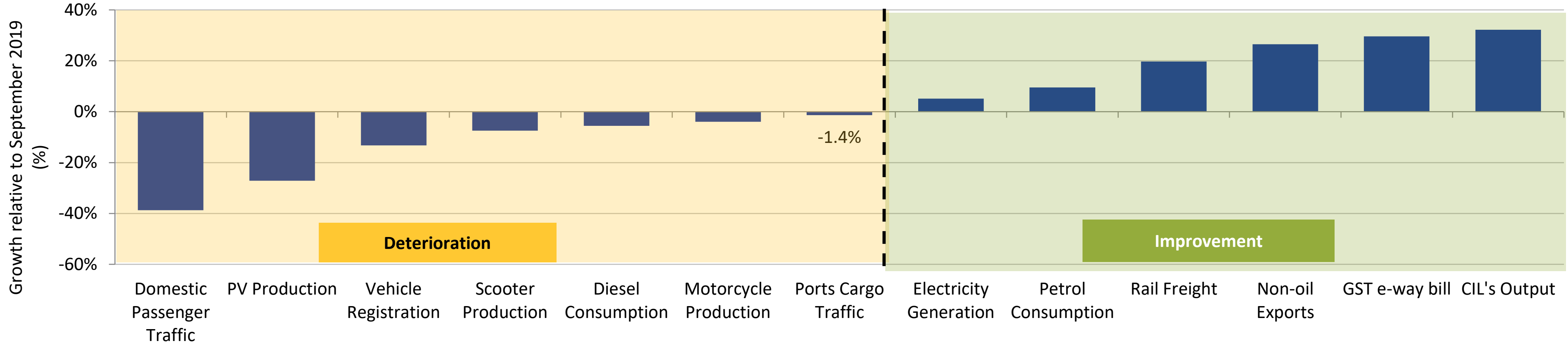
YoY growth; sequential pickup	YoY growth; sequential dip	YoY growth/contraction; no sequential change	YoY contraction; sequential pickup	YoY contraction; sequential dip

EXHIBIT 2: The MoM performance of as many as nine of the 13 non-financial indicators eased in September 2021, with a sharp decline in the PV output (semi-conductor shortage) and electricity generation (excess rainfall); while non-oil exports were flattish in September 2021, GST e-way bills, air passenger traffic and two-wheeler output recorded an uptick



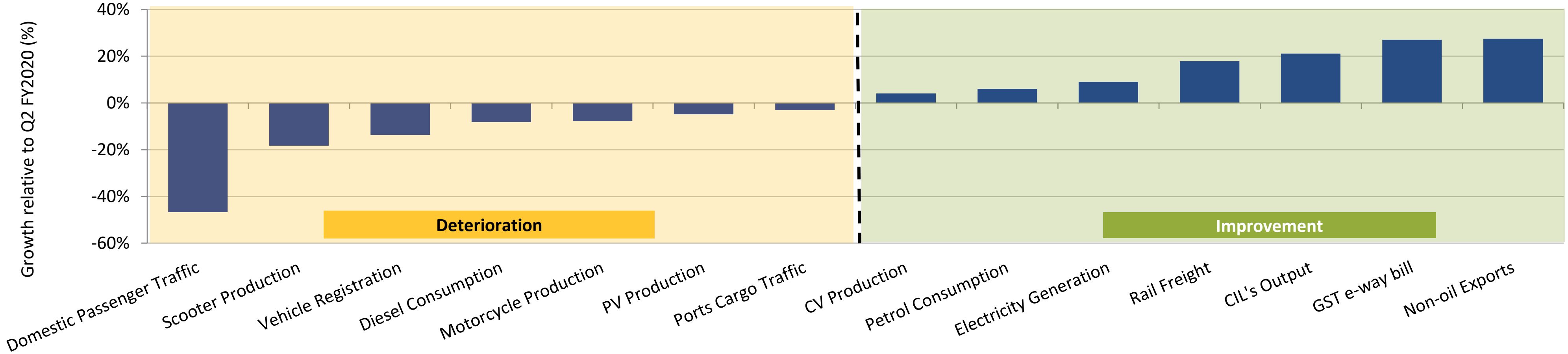
Source: *SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA Research*

EXHIBIT 3: Relative to September 2019 levels, the non-financial indicators displayed a mixed trend in September 2021; seven of indicators reported a lower volume performance in September 2021, with the decline ranging from 1-39%, while the other six recorded a growth



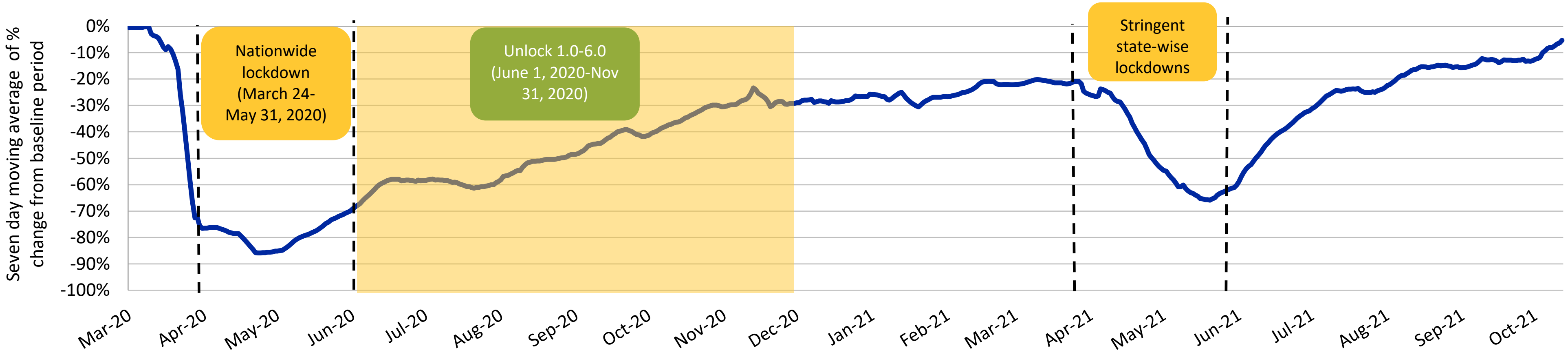
Source: *SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA Research*

EXHIBIT 4: Similarly, the quarterly volume performance was mixed in Q2 FY2022 compared to Q2 FY2020; seven indicators rose above their pre-Covid volumes in Q2 FY2022, such as non-oil exports, GST e-way bills, CIL output and electricity; the performance of sectors such as aviation, supply and demand of some automobiles, and diesel consumption lagged in Q2 FY2022



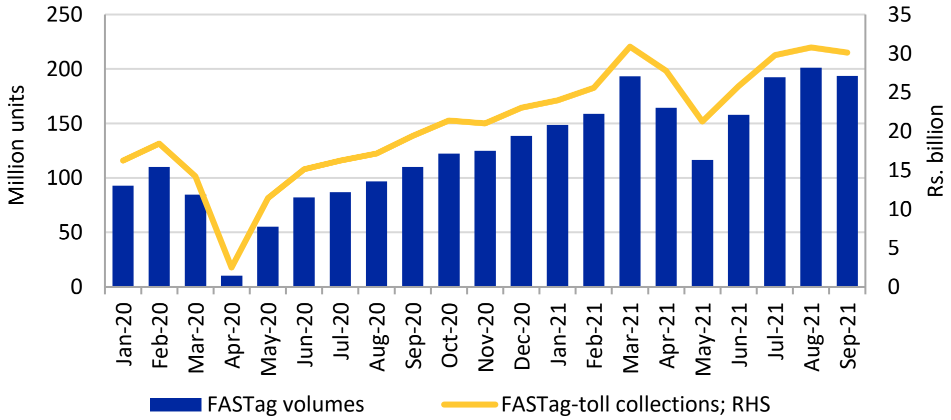
Source: *SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA Research*

EXHIBIT 5: The mobility for retail and recreation had improved mildly to 13% below baseline by end-September 2021 from ~16% below baseline by end-August 2021 (seven-day moving average); subsequently, it stands at only 5.3% below baseline as on October 12, 2021 amid the ongoing festive season



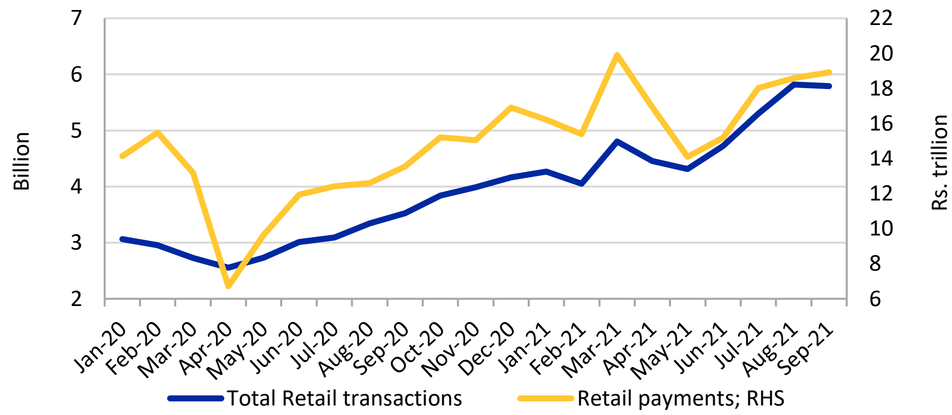
Data is available up to Oct 12, 2021; The percentage change is compared to a baseline value for the same day of the week, Baseline period: Jan 3, 2020- Feb 6, 2020; ***Source:*** *CEIC; ICRA Research*

EXHIBIT 6: After three months of gradual sequential pickup, FASTag transactions and collections eased in September 2021 by 3.8% and 2.2%, respectively



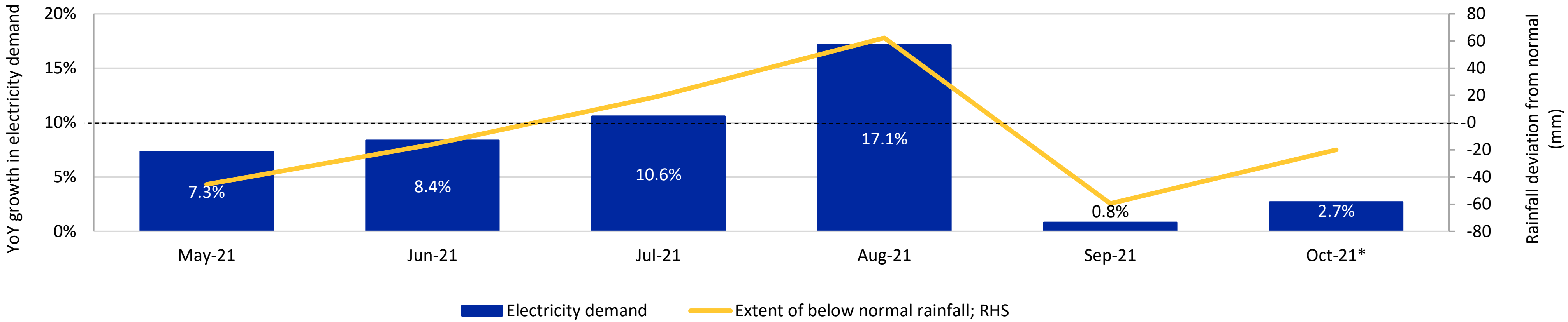
Source: *National Payments Corporation of India; ICRA Research*

EXHIBIT 7: In contrast, retail payments rose to a six-month high Rs. 18.9 trillion in Sep 2021, with a sequential increase of ~2%, despite a mild easing in transactions



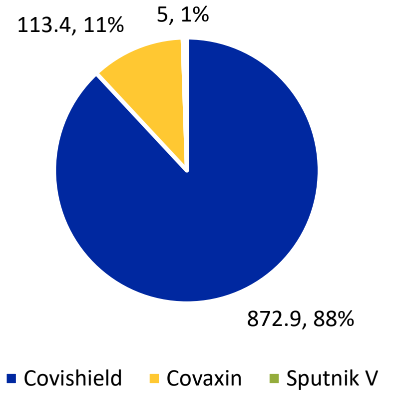
Source: *National Payments Corporation of India; ICRA Research*

EXHIBIT 8: The electricity demand growth plunged to 0.8% during Sep 2021, with surplus rainfall of 59.5 mm, after having recorded a deficit of 62.3 mm in Aug 2021, supporting our view that industrial/commercial usage has not been the chief determinant of the volatile trend in power consumption in the recent months; subsequently, the demand has risen mildly to 2.7% during Oct 1-19, 2021, with the decline in the surplus rainfall amid tight coal supplies



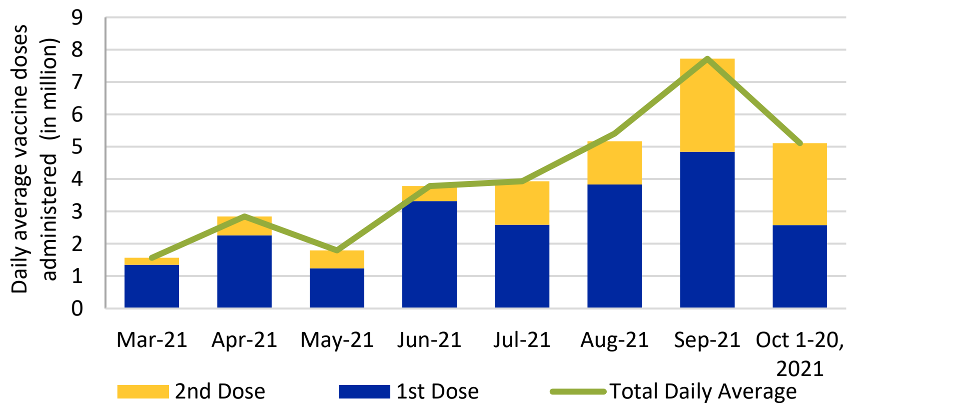
Till October 19, 2021; **Source: IMD; POSOCO; CEIC; ICRA Research*

EXHIBIT 9: Covishield vaccines account for 88% of total Covid-19 vaccine doses administered in India as on Oct 20, 2021; the gap between two doses of this category has been set at 12-16 weeks, suggesting that the sub-set of adults that received their first shot of this vaccine in Q2 FY2022, are likely to be double-vaccinated during Q3 FY2022



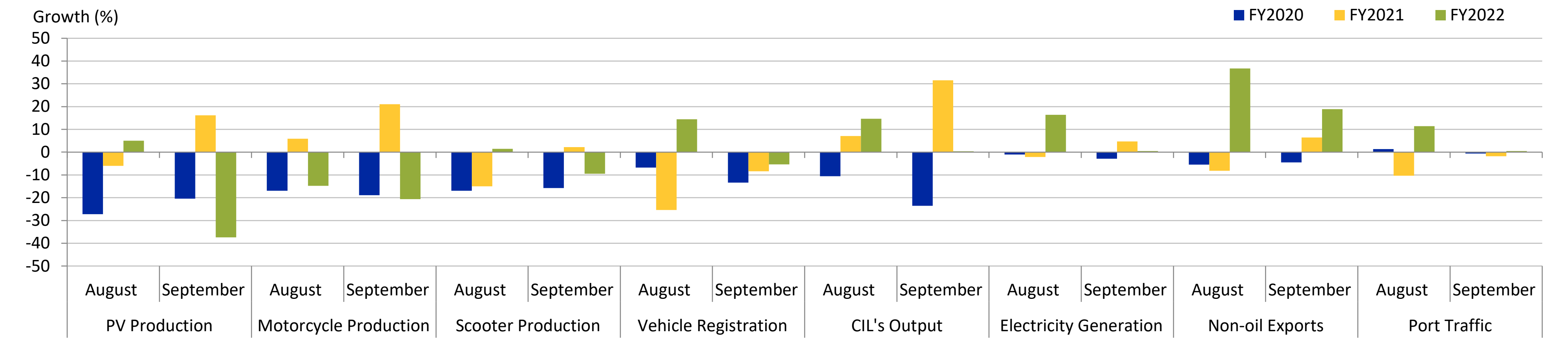
*Figures for vaccine doses are in million terms; **Source:** CEIC; ICRA Research*

EXHIBIT 10: ~75% of adults have received their first Covid-19 vaccine by Oct 20, 2021, although the daily average first shots administered have eased in Oct 2021, relative to Sep 2021; based on the relevant gaps between two doses for the different Covid-19 vaccines, we expect 60-65% of Indian adults to be fully vaccinated by end-Dec 2021



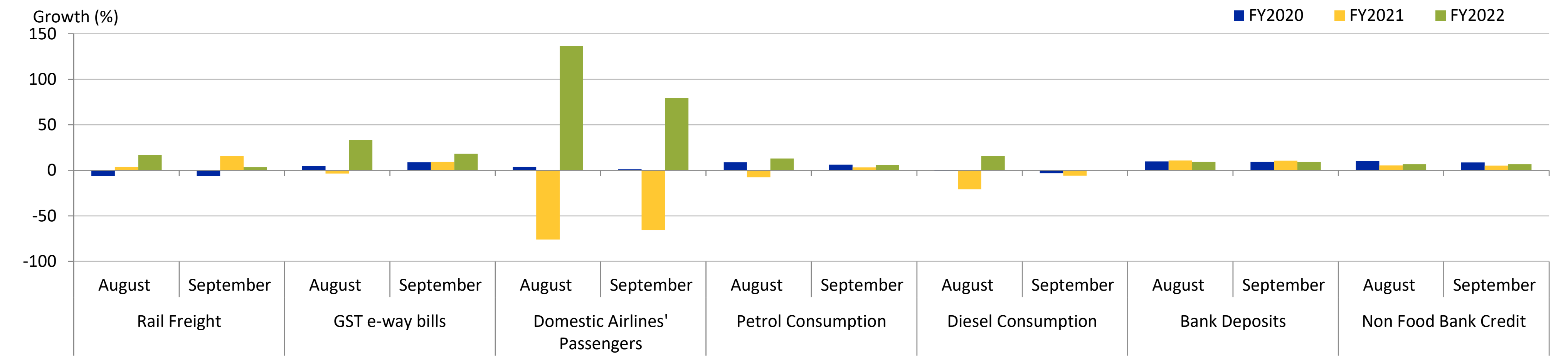
***Source:** CEIC; ICRA Research*

EXHIBIT 11: YoY Growth for Last Three Years in August and September (Part -I)



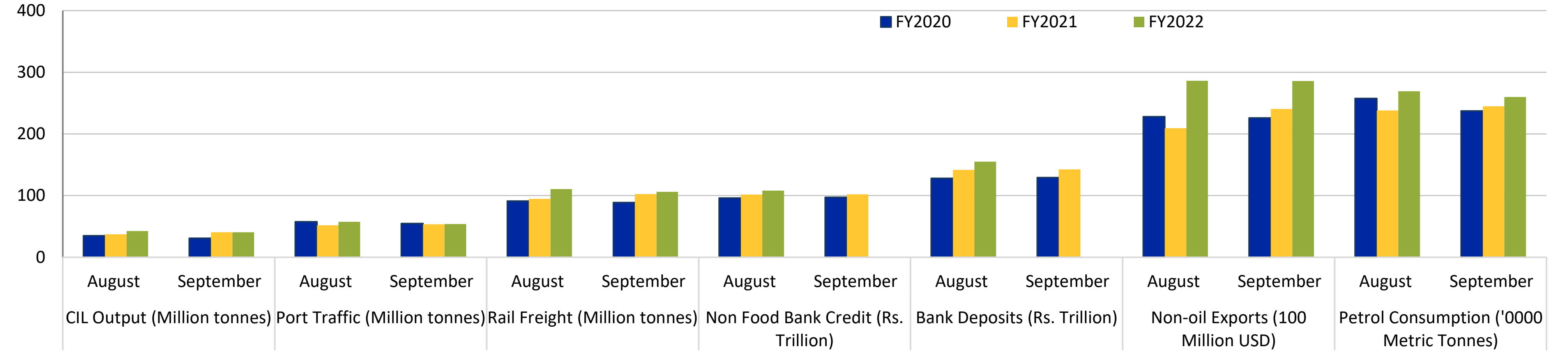
Source: *MoRTH; SIAM; CIL; CEA; Indian Ports Association; Ministry of Commerce, GoI; CEIC; ICRA Research*

EXHIBIT 12: YoY Growth for Last Three Years in August and September (Part -II)



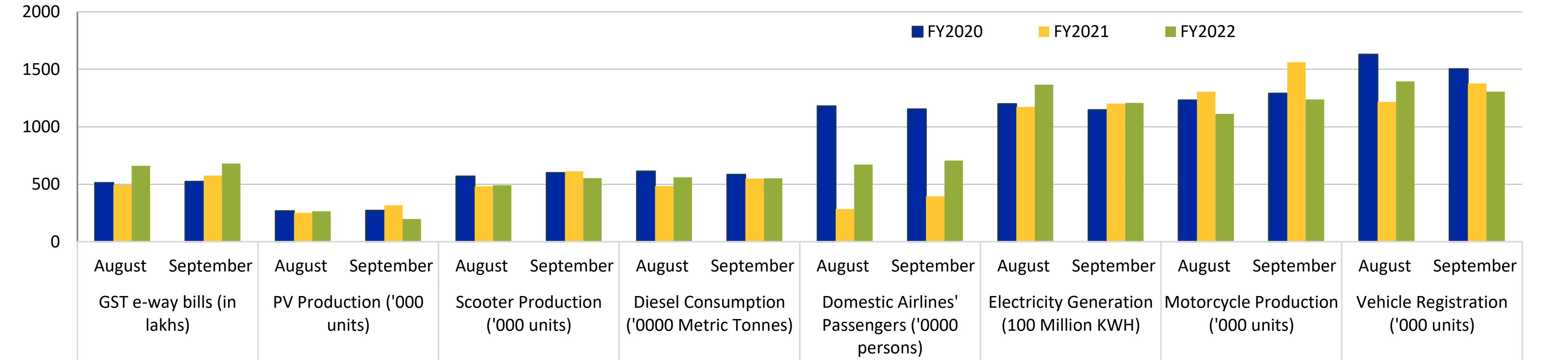
Source: *Indian Railways; GSTN; PPAC; DGCA; PPAC; RBI; CEIC; ICRA Research*

EXHIBIT 13: Trends in Volumes for Last Three Years in August and September (Part -I)



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

EXHIBIT 14: Trends in Volumes for Last Three Years in August and September (Part -II)



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

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