ICRA

INDIAN ECONOMY

ICRA maintains FY2023 GDP growth projection at 7.2%, with strengthening service sector growth offsetting commodity price headwinds

JUNE 2022

Outlook

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ICRA's GDP projection for FY2023 is in line with that of the MPC; however, our quarterly forecasts differ

While we project Q1 FY2023 GDP growth at a lower ~12-13% as against the MPC's 16.2%, we foresee H2 FY2023 growth at 5.0-5.5% vs. MPC's ~4%

ICRA expects rate hikes of 35 bps and 25 bps in the Aug 2022 and Sep 2022 policies, respectively

ICRA forecasts GDP to grow by 7.2% in FY2023, in line with the Monetary Policy Committee's (MPC's) projections. However, our estimates for Q1 FY2023 (~12-13%) are lower than that of the MPC (16.2%) on expectations of an acute impact of elevated commodity prices on consumer demand and business margins, as well as the delayed monsoons tempering farm demand in the quarter. At the same time, our projections for H2 FY2023 (5.0-5.5%) are relatively optimistic vis-à-vis the MPC's (at ~4.0%) owing to expectations of a gradual improvement in capacity utilisation levels and a back-ended pick-up in private capex, as well as strengthening demand for services. Looking ahead, a sustained moderation in commodity prices, in the event of demand destruction owing to an impending recession in the US, could provide some respite to Indian businesses and consumers, although a prolonged and/or severe recession would eventually take a toll on sentiments and hurt India's exports. Notwithstanding the elevated domestic inflation levels, severe monetary tightening is unwarranted in our view, and could hurt the uneven economic recovery; we expect shallow rate hikes of a further 60 bps followed by an extended pause.

ICRA's Macroeconomic Projections	FY2022	FY2023
GDP Growth (at 2011-12 prices)	8.7%	7.2%
GVA Growth (at 2011-12 prices)	8.1%	7.0%
CPI Inflation (average)	5.5%	~6.5% with upside risks
WPI Inflation (average)	13.0%	~11.5%
Current Account Balance	Deficit of US$38.7 billion; 1.2% of GDP	Deficit of ~US$100 billion; 2.9% of GDP
INR	77.0-80.0/US$ in remainder of H1 FY2023	
G-sec Yields	10-year yield to range between 7.5-7.8% in H2 CY2022	
GoI's Fiscal Deficit	Fiscal deficit at Rs. 15.87 trillion (6.7% of GDP) as per prov. estimates, below RE of Rs. 15.91 trillion (6.9% of GDP)	Budget Estimate of Rs. 16.6 trillion (6.4% of GDP) to be overshot by Rs. 1.0 trillion; FD/GDP expected at 6.5%
Repo rate	Rate hikes of 60 bps over the next two policies scheduled in Aug and Sep 2022, followed by an extended pause to assess the impact of monetary tightening on growth	

Agenda

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1 India’s FY2023 Growth Prospects

2 Update on Project Activity

3 Update on Financing

4 Union Government Finances

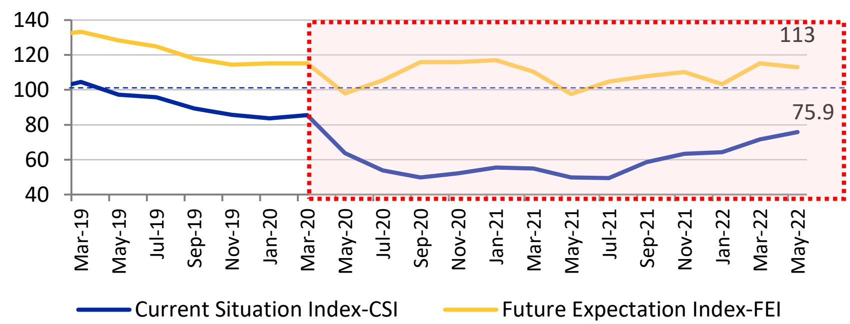
5 Inflation

6 Sectoral Trends

FY2023 GROWTH PROSPECTS FOR INDIA

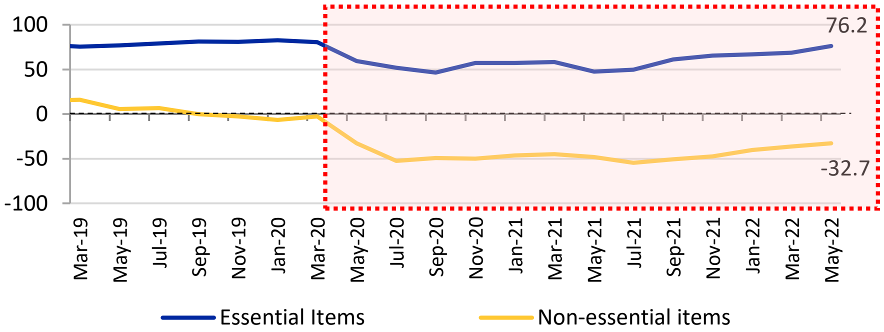
Consumer confidence inched up in May 2022; however, sentiments around spending on non-essential items remained weak

EXHIBIT: Current Situation and Future Expectation Index of the Reserve Bank of India's (RBI's) Consumer Confidence Survey



Source: RBI; ICRA Research; survey conducted in 13 major cities, which are Ahmedabad; Bengaluru; Bhopal; Chennai; Delhi; Guwahati; Hyderabad; Jaipur; Kolkata; Lucknow; Mumbai; Patna; and Thiruvananthapuram

EXHIBIT: Current perceptions on spending on essential and non-essential items as per the RBI's Consumer Confidence Survey (Net Response, %)

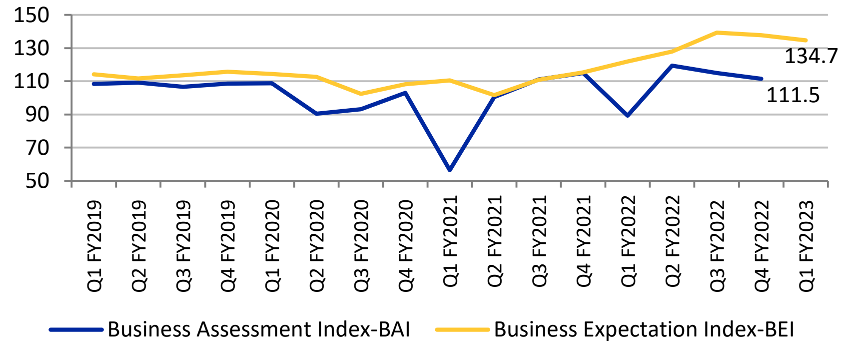


Net Response (NR) is the difference between the percentage of respondents reporting optimism and those reporting pessimism. Positive value indicates expansion/optimism and negative value indicates contraction/pessimism.; Source: RBI; ICRA Research

- Consumer confidence levels, as measured by the Current Situation Index (CSI), improved to 75.9 in May 2022 from 71.7 in March 2022, with an uptick seen in parameters such as incomes, spending and employment, although they persisted in the pessimistic zone.
- The one-year ahead outlook of households, as measured by the Future Expectations Index (FEI), witnessed a slight dip in May 2022 as compared to the March 2022 round of the survey, while remaining in the positive territory.
- Households' future expectations on spending improved further in the May 2022 round of the survey, with both essential and non-essential spending seeing an uptick. However, the gap between the two remains elevated, as expectations around spending on non-essential items remained lodged in the negative territory.

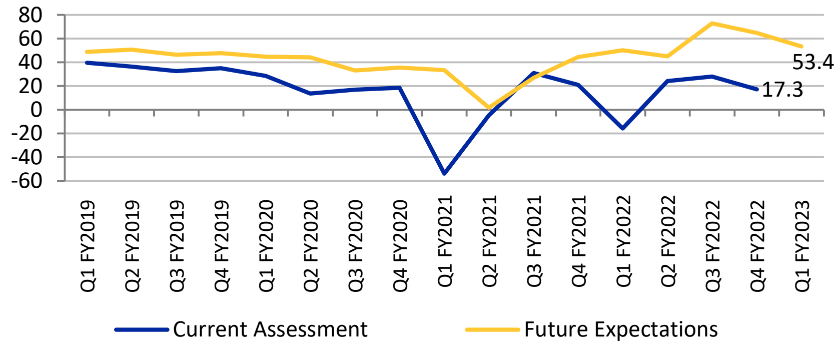
Business sentiments across manufacturing and services segments dipped as companies internalized impact of higher input costs

EXHIBIT: Business Assessment Index and Business Expectation Index of the manufacturing sector in RBI's Industrial Outlook Survey



Source: RBI; ICRA Research; Overall, 1283 manufacturing companies responded in March 2022 round of the survey

EXHIBIT: Overall business situation for the services sector as per the RBI's Services and Infrastructure Outlook Survey (Net Response*, %)



Source: RBI; ICRA Research; Overall, 493 service sector companies responded in March 2022 round of the survey

- Business sentiments for the manufacturing sector dipped as per the latest round of the RBI's Industrial Outlook Survey, with the Business Assessment Index (BAI) falling to 111.5 in Q4 FY2022 from 115.0 in Q3 FY2022. Besides, future expectations also waned with the Business Expectations Index (BEI) moderating to 134.7 in Q1 FY2023 from 137.8 in Q4 FY2022.
- While manufacturers assessed demand parameters to improve in Q1 FY2023, they expected pressure from input prices to intensify in the quarter.
- Service sector enterprises also turned less optimistic on the prevailing situation in Q4 FY2022 and the expectations for Q1 FY2023. Firms expected their cost burden to remain elevated in the quarter and expressed guarded optimism for selling prices and profit margins in Q1 FY2023.
- Overall, while businesses had internalised the impact of higher commodity prices, households may not have done so (upto the May 2022 round of the RBI's consumer confidence survey) – this explains the divergence between business and consumer sentiments in the recent period.

**Net Response (NR) is the difference between the percentage of respondents reporting optimism and those reporting pessimism. Positive value indicates expansion/optimism and negative value indicates contraction/pessimism.*

YoY growth in ICRA Business Activity Monitor surged in Apr-May 2022 as most indicators witness an optical improvement aided by a low base

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EXHIBIT: Level of ICRA Business Activity Monitor (FY2019=100)

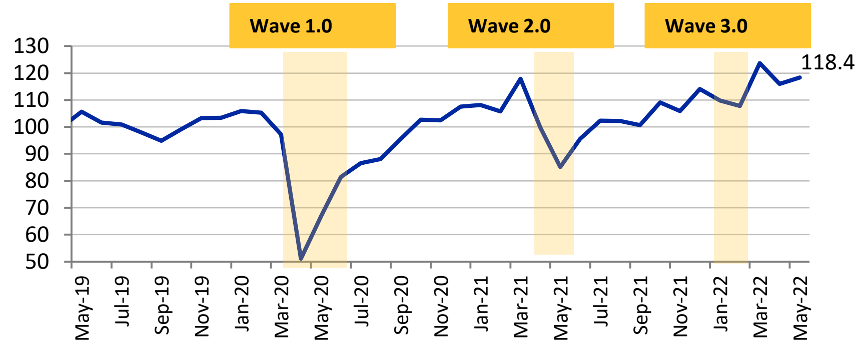
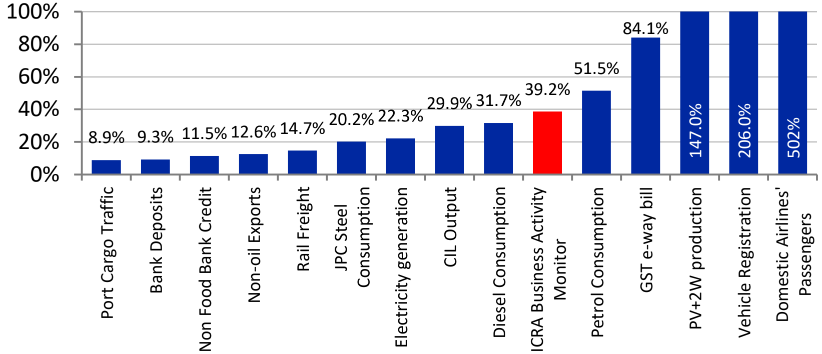


EXHIBIT: YoY growth of high frequency indicators in May 2022



Note: While the monthly data for 16 indicators is available, for computation of ICRA Business Activity Monitor, we have clubbed the production of PVs, scooters and motorcycles together as a single indicator; Source: SIAM; CIL; CEA; MoRTH; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; JPC; RBI; CEIC; ICRA Research

- The YoY growth in the ICRA Business Activity Monitor more-than-doubled to 39.2% in May 2022 from 16.4% in April 2022, reflecting the falling base of May 2021, when stringent state-wise restrictions were imposed following the onset of the Covid 2.0 wave.
- As many as 14 of the 16 constituent high-frequency indicators witnessed a base-effect led boost in their pace of YoY growth in May 2022 relative to April 2022, barring non-oil merchandise exports (to +12.6% from +17.7%) and bank deposits of scheduled commercial banks (to +9.3% from +9.8%).
- The pace of YoY growth exceeded 100% for indicators related to the auto sector and domestic airline passenger traffic and ranged between 30-100% for another four indicators (generation of GST e-way bills, consumption of petrol and diesel, and output of Coal India Limited) in May 2022, depending on the severity of the impact that the restrictions had on activity across different sectors in May 2021.
- Mirroring the ICRA Business Activity Monitor, the growth in the Index of Industrial Production too is likely to spike in May 2022.

However, economic activity lost momentum on a sequential basis; MoM performance of most indicators in May 2022 was weaker than May 2019

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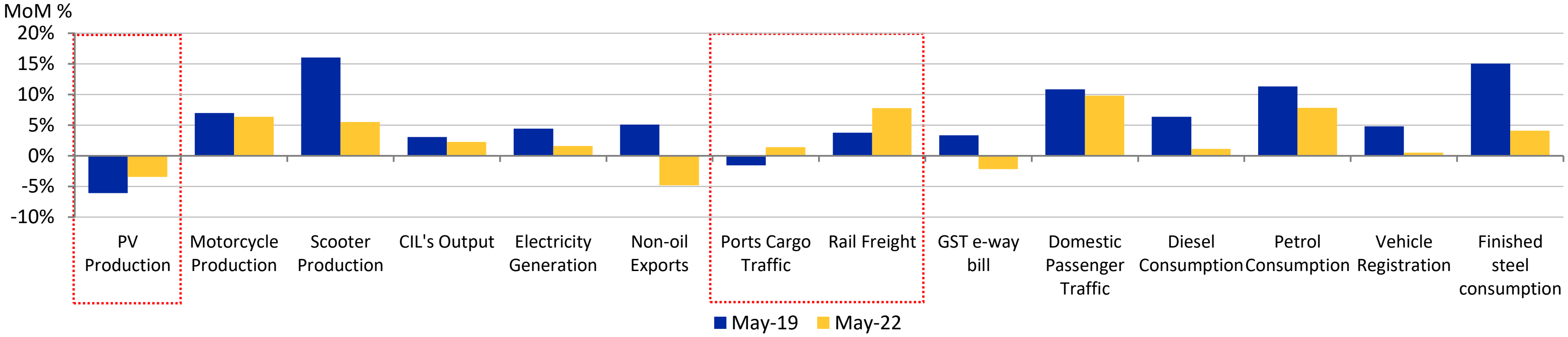
EXHIBIT: MoM performance of non-financial economic indicators in May 2019 and May 2022

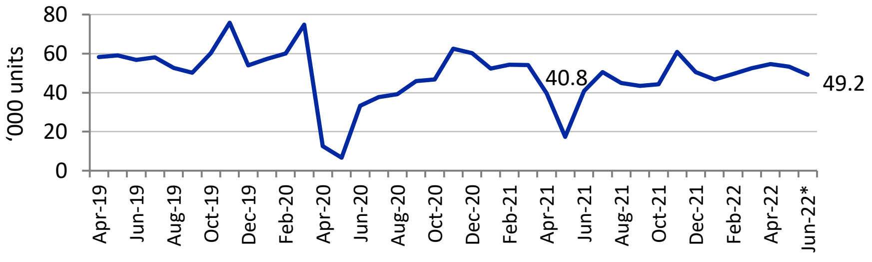


Source: SIAM; CIL; CEA; MoRTH; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; JPC; RBI; CEIC; ICRA Research

- In MoM terms, the ICRA Business Activity Monitor reported a tepid growth of 2.1% in May 2022, lower than the trends seen during the pre-pandemic period (MoM: +6.7% in May 2018; +5.8% in May 2019), implying a mild sequential momentum amidst the geopolitical tensions, rising commodity prices, tightening monetary policy across the world and elevated inflation levels.
- If we compare the MoM trends with the pre-Covid month (May 2019), as many as 11 out of the 14 non-financial monthly indicators, other than PV production (-3.5% in May 2022 vs. -6.1% in May 2019), ports cargo (+1.4% vs. -1.6%) and rail freight traffic (+7.8% vs. +3.8%), displayed a weaker performance in May 2022 vs. May 2019. This implies that the overall performance in May 2022 should be interpreted with caution.
- In particular, the average daily generation of GST e-way bills declined to a four-month low of 2.37 million in May 2022 from 2.51 million in Apr 2022, pointing to some disruption caused by higher prices on household budgets, especially for discretionary purchases like consumer durables.

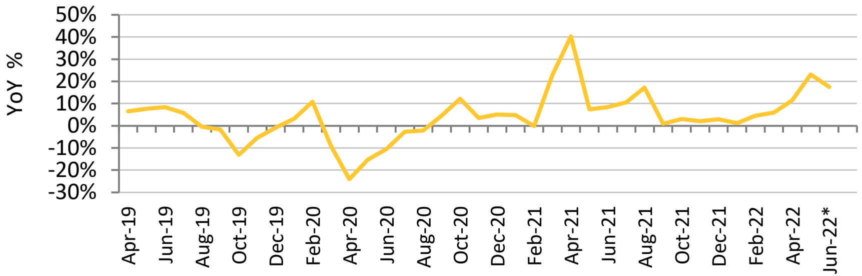
Early trends for June 2022 are optimistic; normalising base may taper down YoY growth in several non-financial indicators from May 2022 highs

EXHIBIT: Daily average registration of vehicles stands at 49.2k units in Jun 1-29, 2022, a modest 7.8% MoM dip while indicating a YoY growth of ~21% (+208% in May 2022)



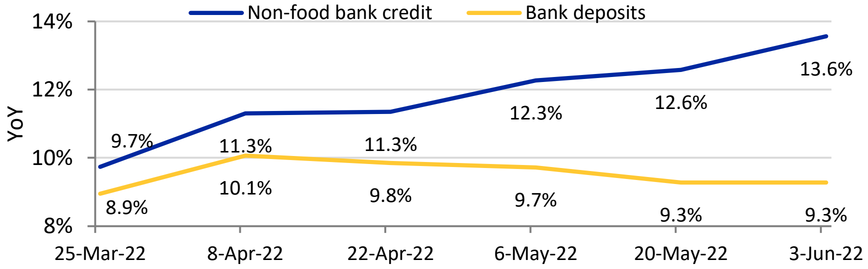
Source: Vahan portal, MoRTH; ICRA Research

EXHIBIT: All-India electricity demand moderated to 17.5% in Jun 1-28, 2022 from 23.2% in May 2022, while remaining in double-digits amid some pickup in demand from industrial and commercial establishments and a lagged progress of the monsoon



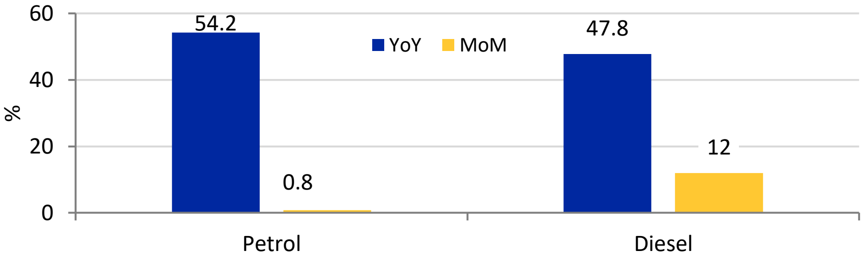
**Till June 28, 2022; Source: POSOCO; ICRA Research*

EXHIBIT: Non-food bank credit growth further rose to a healthy 13.6% as on June 3, 2022, aided by higher working capital requirements and shift of corporate credit demand from bond markets to banks; deposit growth was steady at 9.3%



Source: RBI; ICRA Research

EXHIBIT: Petrol and diesel sales of state refiners grew by 0.8% and 12%, resp., on an MoM basis during Jun 1-14, 2022, with the latter reflecting a pick-up in agri demand with the delayed monsoon and bulk buyers shifting their purchases to retail outlets



Source: News articles, ICRA Research

Kharif sowing is off to slow start amidst delayed progress of monsoon and uneven spatial distribution of rainfall

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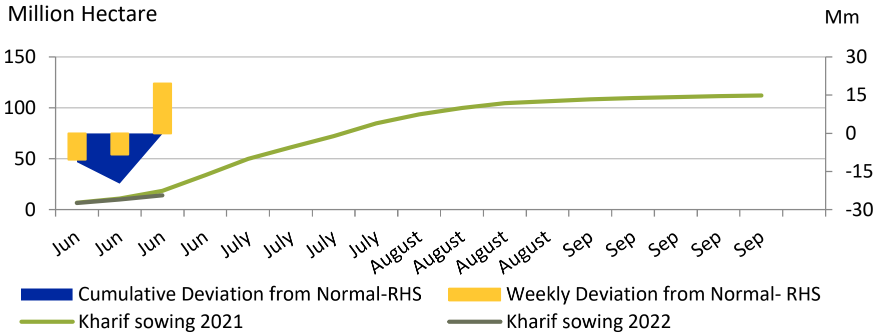
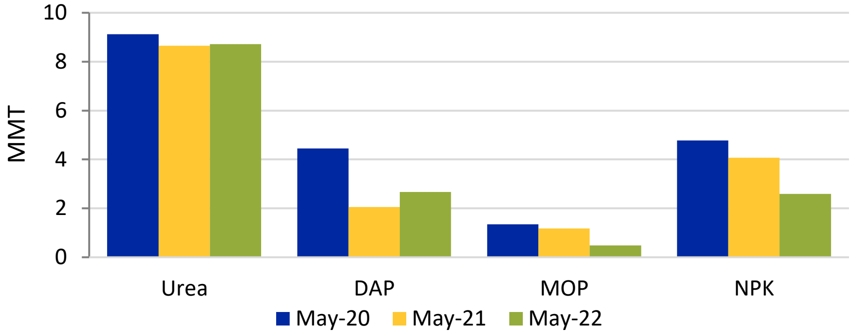
EXHIBIT: Kharif sowing trends in 2021-22 and Southwest Monsoon Rainfall deviation from Normal in 2022 season



Source: IMD; Agricoop.nic.in; ICRA Research

EXHIBIT: Trend in availability of key fertilisers in India



Source: Fert.nic.in, DoF, ICRA Research; DAP: Diammonium Phosphate, MOP: Muriate of Potash and NPK: Nitrogen Phosphate and Potash

- The sowing of kharif crops as on June 24, 2022 lagged the year ago level by 23.8% following the delay in the progress of the monsoon (rainfall stood at 4% below LPA till June 1-24, 2022, as against 26% above LPA rains in the year-ago period) as well as an uneven spatial distribution of rainfall.
- A pick-up in the rainfall as well as its healthy distribution in the coming months remains critical to accelerate sowing of kharif crops.
- Fertiliser inventory levels are significantly below historic levels across most segments, mainly due to lower imports amid limited availability in the international market and elevated prices.
- **The progress of kharif sowing as well as the availability of fertilisers amidst a modest hike in MSPs of such crops for the upcoming marketing season, would determine farm sentiment going forward.**

Manufacturing and services companies expect cost burden to remain elevated during Q2-Q3 FY2023

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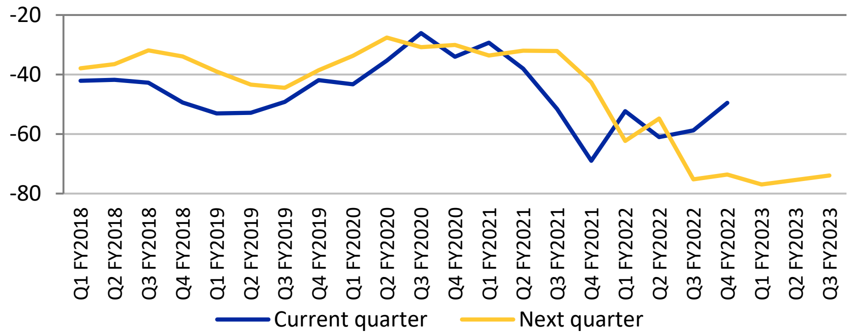
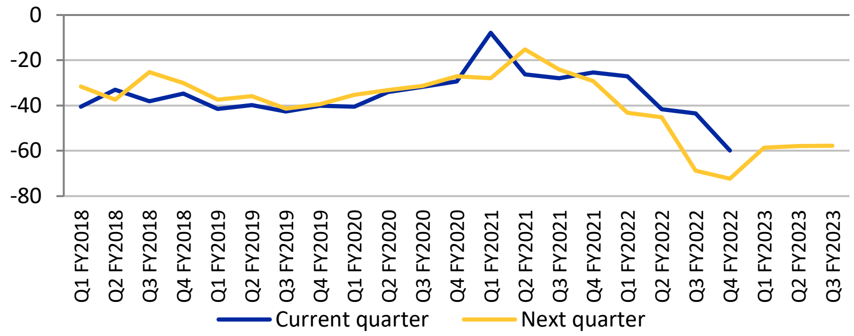
EXHIBIT: Assessment and Expectations for Raw Material costs by manufacturing companies (Net Response, %)



Note: NR (Net Response) = Proportion of optimistic responses minus proportion of pessimistic responses; A decrease in RM costs is considered an optimistic response; Source: RBI, ICRA Research

EXHIBIT: Assessment and Expectations for Raw Material costs by service sector enterprises (Net Response, %)



Note: NR (Net Response) = Proportion of optimistic responses minus proportion of pessimistic responses; A decrease in RM costs is considered an optimistic response; Source: RBI, ICRA Research

- As per the 97th round of the IOS conducted by the RBI, while manufacturers are positive on the overall business situation, they expect input cost pressures to continue and selling price to remain high in Q2 FY2023 and Q3 FY2023.
- Service sector enterprises expect elevated input cost burden in Q2 FY2023 and Q3 FY2023, a significant portion of which is expected to be transmitted to selling prices. This transmission will be aided by expectations of an improvement in demand parameters.
- Overall, **margin compression on account of inability to fully transmit input cost pressures is expected to squeeze value added growth. Further, a large pass-through of input cost pressures to end consumers, would eventually hurt demand and growth in turn.**
- **However, a sustained moderation in commodity prices, in the event of demand destruction owing to an impending recession in the US, could provide some respite to Indian businesses and consumers, although a prolonged severe recession would eventually take a toll on sentiments and hurt India's exports.**

ICRA expects consumption of services to be prioritised over goods in near term

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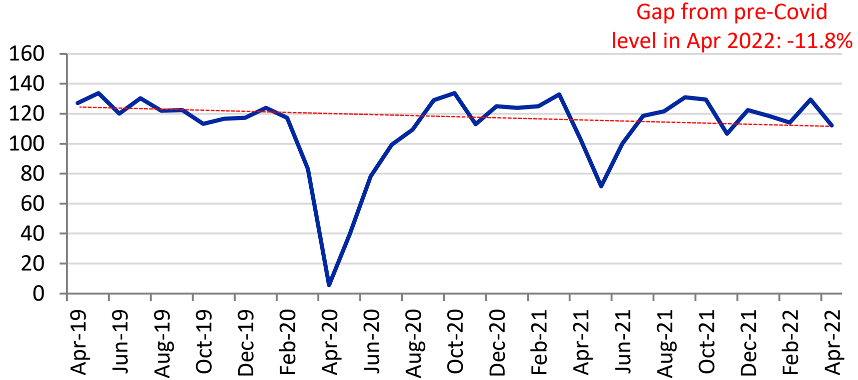
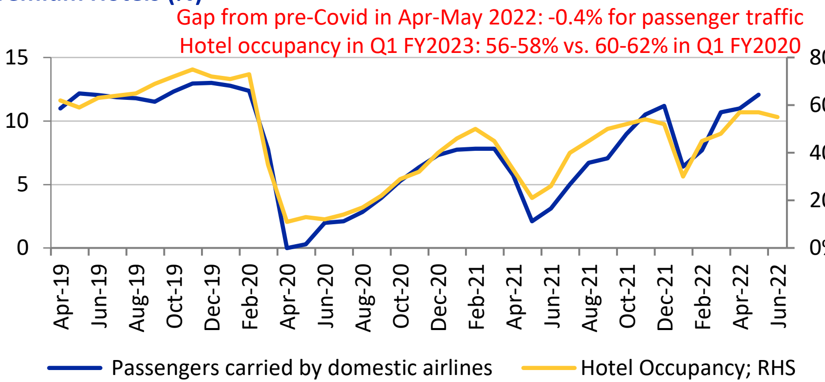
EXHIBIT: Index of Consumer Durables' output



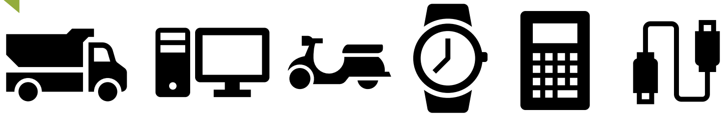
Source: NSO; ICRA Research

EXHIBIT: Domestic Airlines' Passenger Traffic (millions) and Occupancy of Premium Hotels (%)



Source: DGCA; ICRA Research; Based on total supply

Goods such as consumer durables are still lagging the pre-Covid levels by an unpleasant margin, reflecting some weakness in the demand amidst ongoing pass-through of elevated input costs; consumer durables firms may continue to grapple with margin headwinds in the near term



Demand for services is recovering relatively faster than demand for durable goods compared to their pre-Covid levels in FY2023 so far, benefitting from pent up demand related to corporate travel, increasing confidence for availing leisure services amid overall decline in trajectory of Covid-19 infections

Near-term outlook for economic activity remains uneven

External demand is expected to be cautious following the ongoing geopolitical tensions, which could weigh upon on the performance of the manufacturing sector

The surge in domestic inflation is expected to strain household budgets and compress discretionary consumption, particularly in the low-to-middle income segments

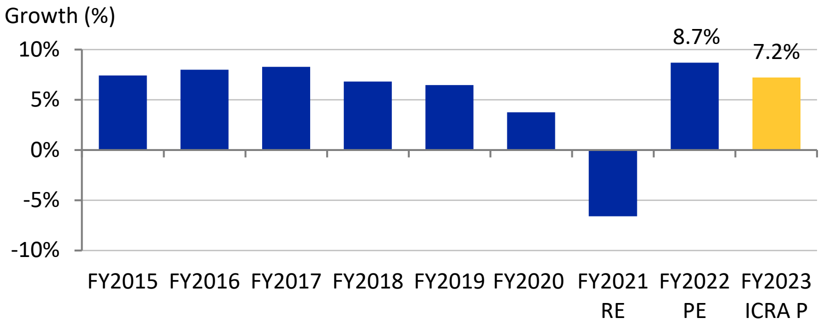
The consumption of contact-intensive services is likely to be prioritised, boosting the output in such sectors while simultaneously constraining the demand for consumer goods

However, some households are likely to have a better income visibility now, compared to the last two years, boosting their overall consumption levels

Source: ICRA Research

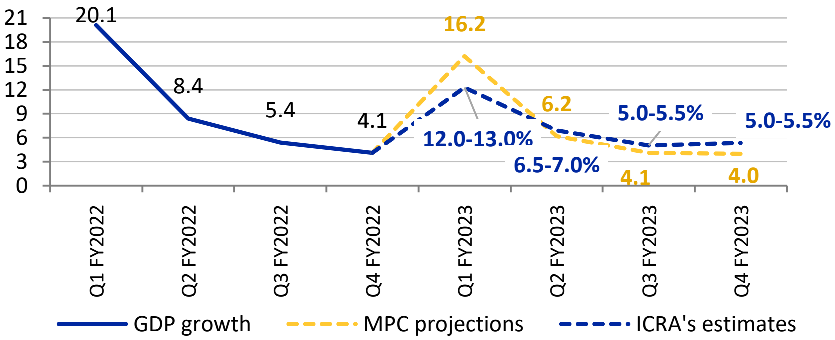
GDP to grow by 7.2% in FY2023; however, Q1 FY2023 seen as weaker, and H2 FY2023 expected to turn out relatively better than MPC's projections

EXHIBIT: GDP growth (at constant 2011-12 prices)



RE: Revised Estimates; PE: Provisional Estimates; P: Projected; Source: ICRA Research

EXHIBIT: Quarterly real GDP growth (YoY %)



Source: RBI; NSO; ICRA Research

- ICRA expects GDP to grow by 7.2% in FY2023, in line with the MPC's projections. However, our forecasts differ from the MPC's quarterly projections.
- The MPC had placed its baseline projections for real GDP growth in Q1, Q2, Q3 and Q4 FY2023 at 16.2%, 6.2%, 4.1% and 4.0%, respectively, in the June 2022 review of Monetary Policy. ICRA estimates the same in a range of 12-13% in Q1 FY2023, 6.5-7.0% in Q2 FY2023 and 5.0-5.5% in Q3 and Q4 FY2023.
- **Our estimates for Q1 FY2023 are lower than that of the MPC on expectations of an acute impact of elevated commodity prices on consumer demand and business margins, and delayed monsoons tempering farm demand in the quarter**.
- **ICRA foresees a broad-based pick-up in private sector capex to set in only by the end of 2022, notwithstanding the higher-than-expected capacity utilisation of 74.5% in Q4 FY2022. This, as well as an expected strengthening in demand for services, leads us to expect a somewhat higher GDP growth in H2 FY2023 relative to the MPC's projections**.

UPDATE ON PROJECT ACTIVITY

Encouraging performance of GFCF in Q4 FY2022 was echoed by trends in construction, Government capex and new project announcements

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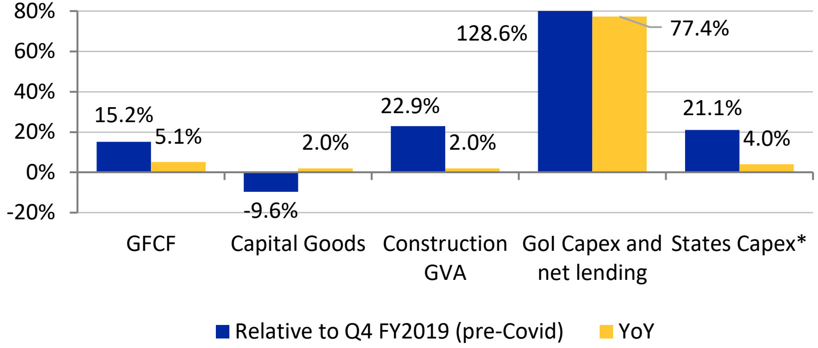
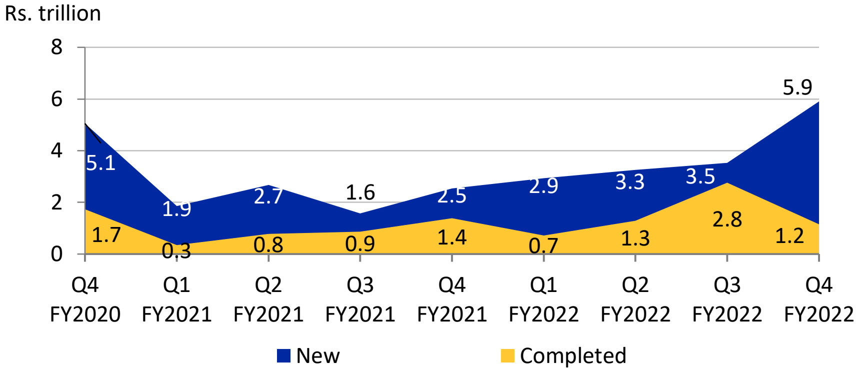
EXHIBIT: Trends in GFCF, capital goods, GoI capex and states' capex



**Provisional actuals is available for 25 Indian states, except Andhra Pradesh, Assam and Goa;*
***Source**: NSO; CGA; CAG; GoI; ICRA Research*

EXHIBIT: Value of new project announcements and completed investment projects



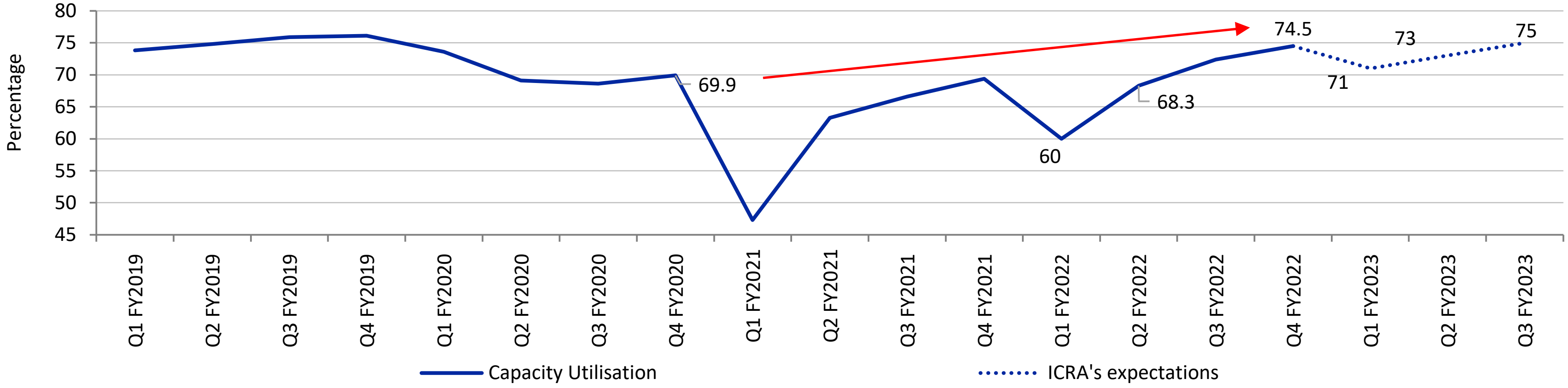
As on June 20, 2022; Source: CMIE, ICRA Research

- GFCF recorded a YoY growth of 5.1% in Q4 FY2022 and exceeded the pre-Covid levels of Q4 FY2019 by a healthy 15.2%. This was mirrored by the trends in construction GVA as well as capex by the GoI and the state governments.
- On the contrary, output of capital goods was 9.6% below the pre-Covid levels but posted a mild YoY growth of 2.0% in Q4 FY2022. However, imports of machinery and equipment were healthy in the quarter.

- Value of new project announcements rose sharply to a nine-quarter high Rs. 5.9 trillion in Q4 FY2022, twice as high as the year-ago level, on account of a surge in project announcements in the power sector. Moreover, it also exceeded the Rs. 4.5 trillion seen in Q4 FY2019.
- However, the value of project completion of Rs. 1.2 trillion in Q4 FY2022 was lower than the levels recorded in Q4 FY2021 (Rs. 1.4 trillion) and Q4 FY2019 (Rs. 2.6 trillion).

Expansion drive in private capex to kick off only by end-CY2022, despite recent uptrend in capacity utilisation

EXHIBIT: Quarterly trends in Capacity Utilisation

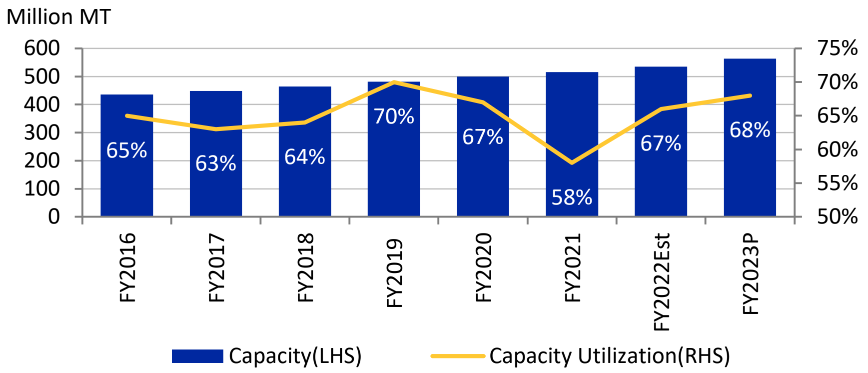


Source: RBI; ICRA Research

- Capacity Utilisation (CU) for the manufacturing sector rose to 74.5% in Q4 FY2022, highest level in past three years. ICRA expects CU to ease modestly to 71% in Q1 FY2023, reflecting seasonal trends as well as escalation of geopolitical conflict and commodity price pressures impacting margins.
- With the investment climate being clouded by geopolitical developments and elevated commodity prices, ICRA foresees a broad-based pick-up in private sector capex to set in only by the end of CY2022.

Cement CU may remain moderate at 68% in FY2023; steel CU pegged at a higher 82% this fiscal

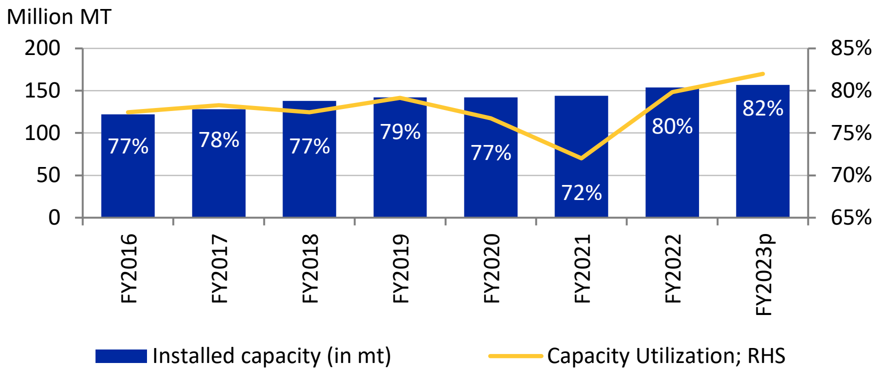
EXHIBIT: Annual trends in cement capacity utilisation



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

- Cement production volumes are expected to grow by 7-8% to around 388 million MT in FY2023, backed by the housing demand in both rural as well as urban segments and the infrastructure sector.
- Despite the expected increase in demand, cement capacity utilisation is likely to remain moderate at around 68% in FY2023 on an expanded base (67% in FY2022).

EXHIBIT: Annual trends in steel capacity utilisation

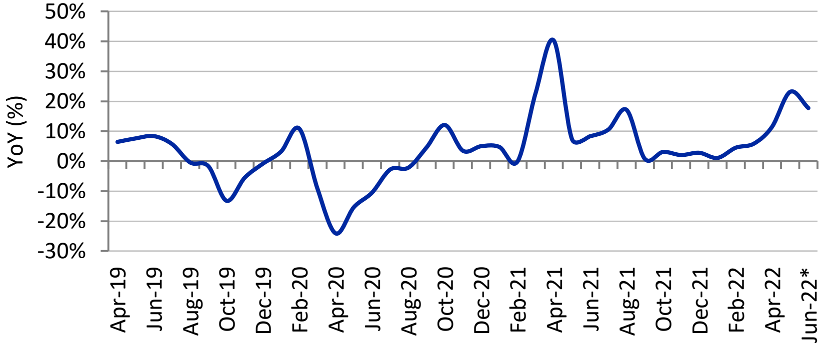


**FY2021 are provisional estimates; P: Projected; Source: Ministry of Steel; JPC; ICRA Research*

- With a healthy recovery in demand, CU of domestic steel players touched 80% in FY2022, after a gap of seven years.
- While domestic steel demand is likely to remain soft in Q2 FY2023 owing to monsoon season, a likely pick-up in infra/construction activity in core sectors in H2 FY2023 may potentially increase the demand for steel, even as exports are likely to be curtailed after the imposition of export duty on various finished items by the GoI.
- Overall, ICRA expects the steel CU to rise to a multi-year high 82% in FY2023 from 80% in FY2022.

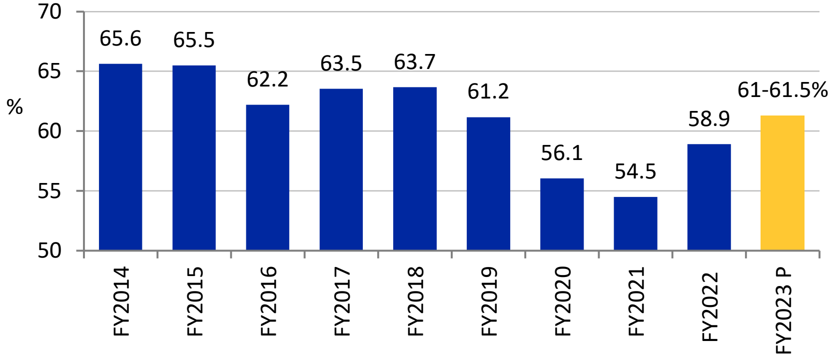
All-India PLF for thermal power plans set to rise to 61.0-61.5% in FY2023 amid healthy demand growth

EXHIBIT: All-India Electricity demand growth



**Till June 28, 2022; Source: POSOCO; ICRA Research*

EXHIBIT: Annual trends in all-India PLF for thermal power plants



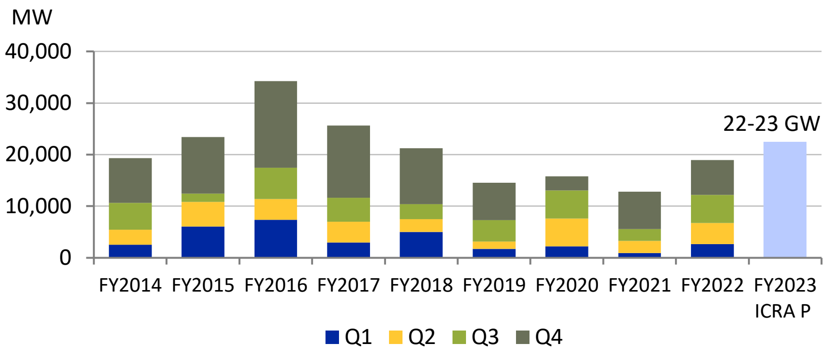
P: Projected; Source: CEA; ICRA Research

- Given the heatwave conditions in Northwest and Central regions, the YoY growth in all-India electricity demand stood at an elevated 17.5% during June 1-28, 2022. However, it is lower than 23.2% recorded in May 2022, on account of base normalisation during the second half of June 2022.
- ICRA expects all-India electricity demand to grow by 6.5-7.0% for FY2023, up from 6.0-6.5% projected earlier, driven by heatwave-led high demand in Q1 FY2023.

- Benefitting from the healthy growth in electricity demand, PLF of thermal power plants is estimated to rise to 61.0-61.5% in FY2023 from 58.9% in FY2022.
- However, this segment continues to face some challenges related to payments from discoms, fuel availability issues, and lack of new medium-term or long-term purchasing power agreements (PPAs).

Power generation capacity addition set to rise further to 22-23 GW in FY2023, backed by strong pipeline of RE projects

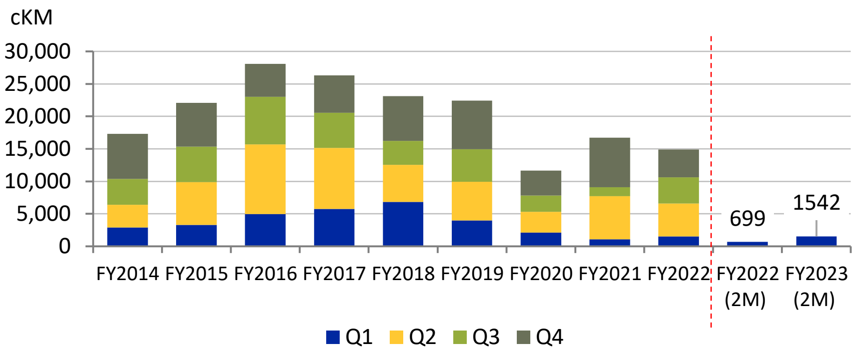
EXHIBIT: Trends in power generation capacity addition



Source: CEA; ICRA Research

- Power generation capacity addition expanded by 47.6% to ~19.0 GW (four-year high) in FY2022 (12.8 GW in FY2021), with a sizeable 74% contribution stemming from the renewable energy (RE) segment.
- ICRA expects the capacity addition to further increase to 22-23 GW in FY2023, mainly led by the RE segment, backed by a strong project pipeline. The capacity addition from the thermal and hydro segments is likely to remain modest.

EXHIBIT: Trends in power transmission capacity addition

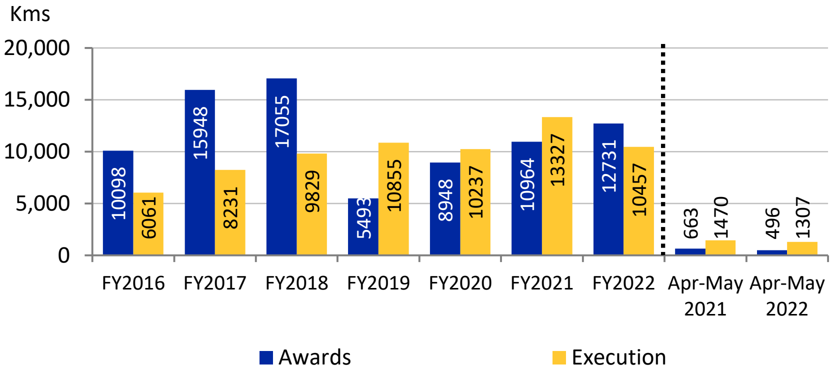


Source: CEA; ICRA Research

- Power transmission capacity addition declined by 11.1% to 14,895 CKMs in FY2022 from 16,750 CKMs in FY2021.
- In Apr-May or 2M FY2023, transmission lines addition more-than-doubled to 1,542 CKMs from 699 CKMs in 2M FY2022, partly on the back of a low base related to Covid 2.0 related disruptions.
- Project pipeline remains strong in this segment, with several projects under bidding, mainly to augment the transmission infrastructure for evacuating power from the upcoming renewable energy projects.

Prolonged rainfall impacted execution of road projects in FY2022; hotel occupancies improved significantly in Q1 FY2023, expected to reach 68-70% this fiscal

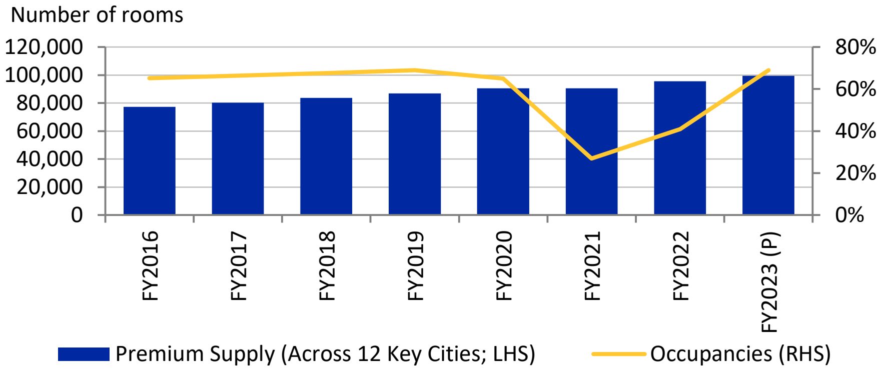
EXHIBIT: Trends in road awards and execution



Source: MoRTH; ICRA Research

- Execution of road contracts under MoRTH moderated by a significant 22% to 10,457 Kms in FY2022 from 13,327 Kms in FY2021, owing to prolonged rains especially in H2 which is traditionally the peak season for execution.
- However, awards increased by a healthy 16% to 12,731 Kms in FY2022 from 10,964 Kms in FY2021, implying a robust pipeline.
- Subsequently, both awards and execution in Apr-May 2022 have lagged their year-ago levels.

EXHIBIT: Annual trends in hotel occupancies



P: Projected; Source: ICRA Research

- Hotel industry has witnessed a healthy start to FY2023, with 56-58% occupancy in premium hotels in Q1 FY2023, up from ~40-42% in FY2022 and closer to pre-Covid occupancy of 60-62% in Q1 FY2020.
- Benefitting from higher leisure demand and resumption of corporate travel, hotel occupancies are expected improve to 68-70% in FY2023 from 40-42% in FY2022.

UPDATE ON FINANCING

Financing witnessed healthy improvement at end-March 2022

ICRA

EXHIBIT: Outstanding Bank credit to large industry and services, corporate bonds and CP volumes^

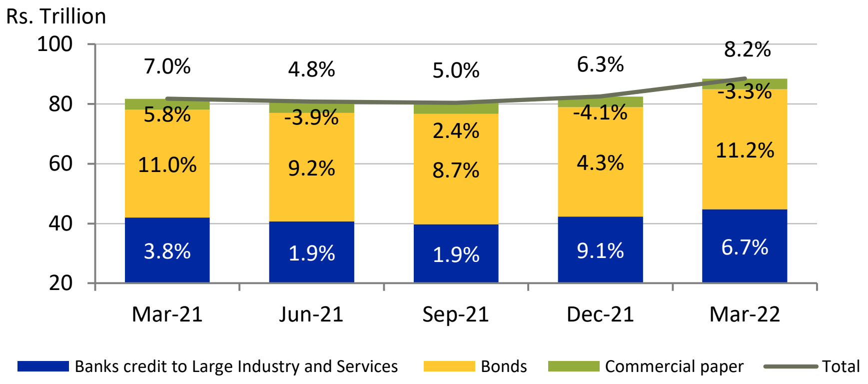
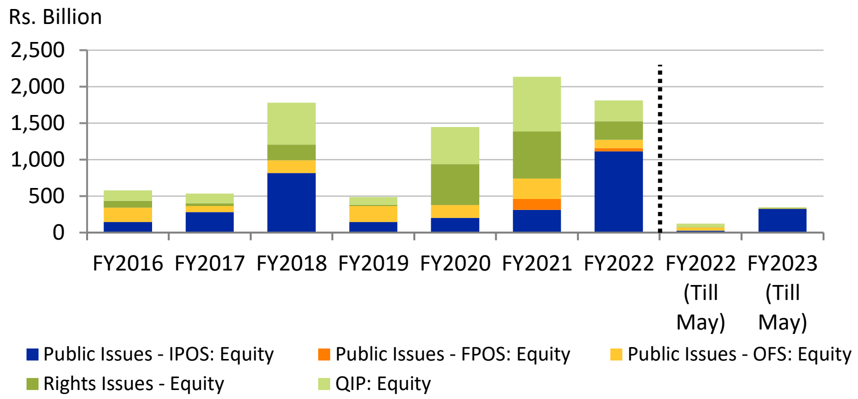


EXHIBIT: Trends in domestic equity funds raising (Rs. Billion)



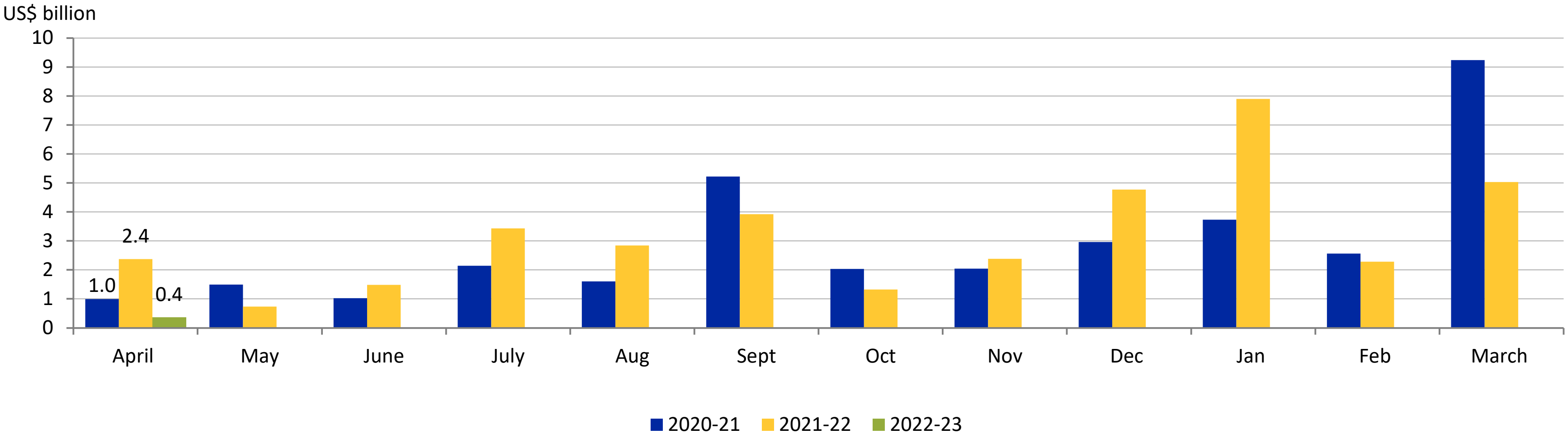
- The growth in total financing* rose to an 11-quarter high of 8.2% at end-Mar 2022. The quarter-on-quarter (QoQ) uptrend in end-Mar 2022 was largely driven by bonds amidst a mild rise in CP volumes, while there was a moderation in bank credit growth.
- Domestic equity funding more-than-doubled to US$344.7 billion in Apr-May 2022 from US$124.8 billion raised in Apr-May 2021, driven by the IPO segment.

*^Data labels correspond to YoY growth rates; *Through bank credit to large industry and services, CP and corporate bonds; Source: RBI; SEBI; Prime Database; ICRA Research*

Rising interest rate environment, INR depreciation may dull plans for external commercial borrowings (ECB) this fiscal

ICRA

EXHIBIT: Monthly Gross ECB volumes



- After a 10% growth in FY2022, gross ECB approvals plunged to a low US$0.4 billion in Apr 2022 (US$2.4 billion in Apr 2021). This can be attributed to lower attractiveness of this funding source among corporates amidst an environment of rising interest rates across the globe and depreciation in the INR vs. the US$.
- **Given that the withdrawal of monetary accommodation is likely to continue across the world, ECB plans may weaken in FY2023 and India Inc. may rely more on domestic sources of funding, especially through banks. Moreover, a likely rise in long-term borrowing costs may push CP volumes in the near term.**

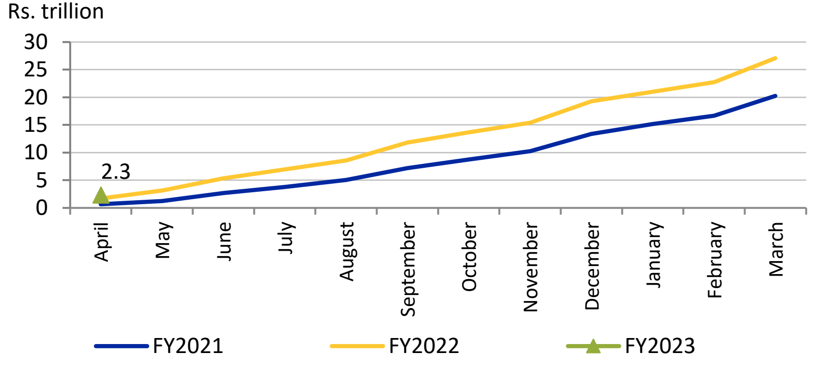
Source: RBI; ICRA Research

UNION GOVERNMENT FINANCES

GoI's gross tax revenue to exceed FY2023 BE by Rs. 2.3 trillion; revex may overshoot the target amid higher subsidy requirements unless savings materialise

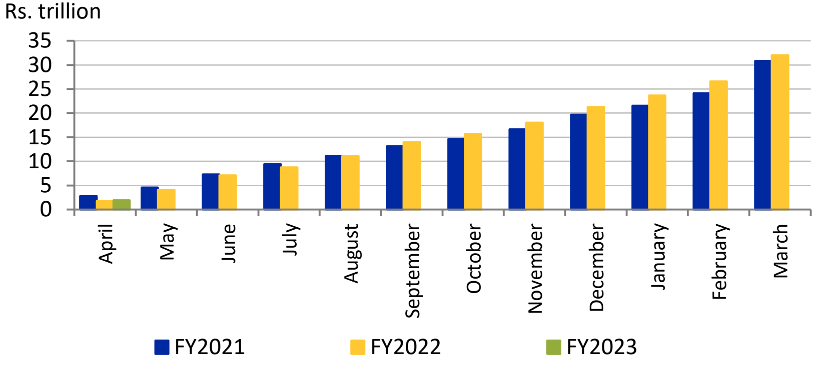
ICRA

EXHIBIT: Trends in cumulative Gross Tax Revenues of GoI



Source: CGA; ICRA Research

EXHIBIT: Trends in cumulative Revenue Expenditure of GoI



Source: CGA; ICRA Research

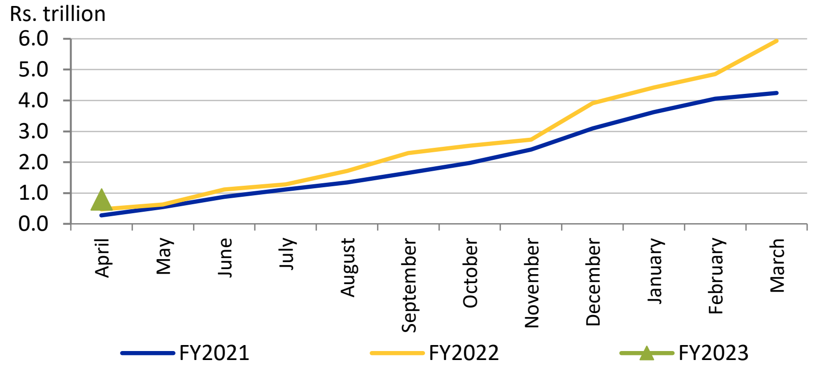
- The GoI had garnered gross tax revenues of Rs. 27.1 trillion in FY2022, Rs. 1.9 trillion higher than the revised estimates (RE) projected for that fiscal.
- For FY2023, the GoI had budgeted gross taxes of Rs. 27.6 trillion, which has turned out to be a mild 1.8% higher than the FY2022 level. Out of the FY2023 BE, 8.4% or Rs. 2.3 trillion was collected in April 2022, a YoY expansion of 36.5%.
- **ICRA expects gross tax revenues in FY2023 to exceed the BE by Rs. 2.3 trillion, stemming from the non-excise tax inflows, whereas excise inflows will trail the budgeted level following the cut in cesses on petrol and diesel in May 2022.**

- In April 2022, revenue expenditure grew by 9.1% YoY to Rs. 2.0 trillion or 6.1% of the FY2023 BE, but trailed the level recorded in April 2020.
- In FY2023, the GoI has made several announcements related to subsidies - additional fertiliser subsidy outlay of Rs. 1.1 trillion over BE, extension of free foodgrain scheme until Sep 2022 and LPG cylinder subsidy to PMUY beneficiaries.
- **We estimate revex in FY2023 to overshoot the BE by Rs. 2.0 trillion, amid higher subsidy requirements unless savings materialise in other heads.**

Early kick-off of capex programme key for accelerating growth amidst geopolitical uncertainties

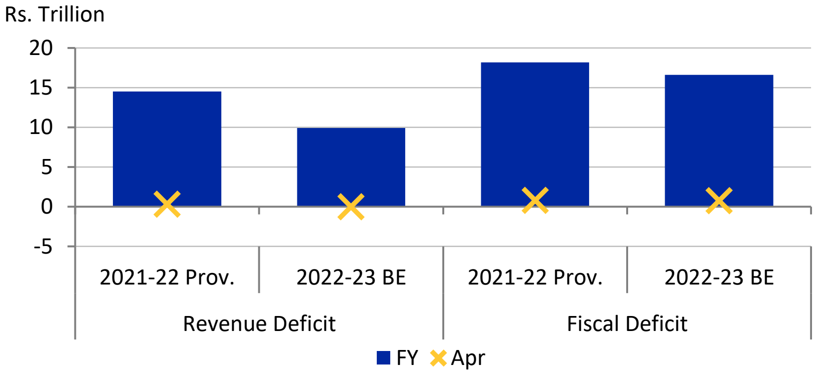
ICRA

EXHIBIT: Trends in cumulative Capital Expenditure of GoI



Source: CGA; ICRA Research

EXHIBIT: Revenue deficit and fiscal deficit of GoI



Source: CGA; ICRA Research

- The GoI's capex expanded by a sharp 67.5% YoY to Rs. 0.8 trillion in April 2022 (11% of FY2023 BE), from Rs. 0.5 trillion in April 2021 (8% of FY2022), which is encouraging.
- Capex is budgeted to grow by 26.6% in FY2023 BE over the FY2022 Prov.. The special assistance to states for capital investment is budgeted to rise multi-fold to Rs. 1.0 trillion from Rs. 0.2 trillion in FY2023.
- A timely release of funds to the states will be critical to boost capex and support economic growth amidst growing uncertainties triggered by geopolitical tensions and elevated commodity prices.

- With a sharp 33% growth in revenues, and 9% rise in revenue expenditure, the GoI reported a rare revenue surplus of Rs. 5.9 billion in April 2022 (against a deficit of Rs. 319.5 billion in April 2021).
- Its fiscal deficit stood at Rs. 748.5 billion in April 2022, similar to the year-ago level, owing to the enthusing 68% growth in capex.

Fiscal deficit to overshoot FY2023 BE by Rs. 1.0 trillion

ICRA

EXHIBIT: Factors that will impact the GoI's budgeted fiscal deficit for FY2023

Positives

- **Low nominal GDP assumption:** The nominal GDP for FY2023 assumed in the FY2023 Union Budget (Rs. 258.0 trillion) is only 9.0% higher than the NSO's Provisional Estimate for FY2022 (Rs. 236.6 trillion). We expect it to expand by 14-15% in FY2023.
- **Modest growth assumed in tax revenues:** We foresee a considerable upside to non-excise tax revenues in FY2023, relative to the BE, in spite of the margin pressure for Corporates created by the elevated commodity prices.
- **Spillover of inflows from LIC IPO to FY2023:** The spillover of the LIC IPO to FY2023 would augment the GoI's non-debt capital receipts in this fiscal.

Negatives

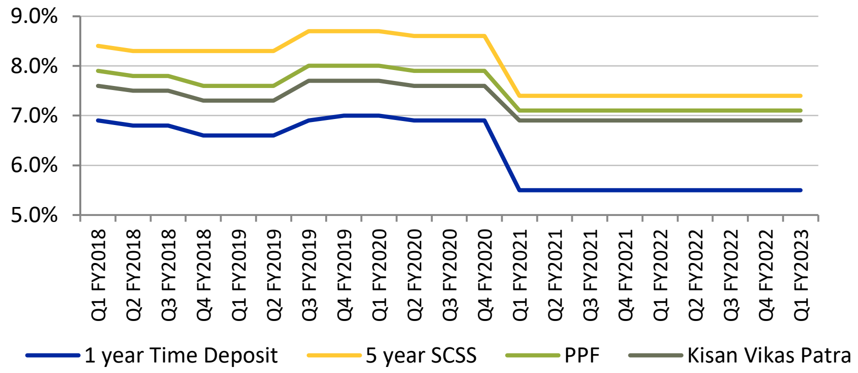
- **Revenue losses related to excise duty cuts:** The revenue loss to the Centre in FY2023 from the recently announced excise duty cut is estimated at Rs. 860 billion for the rest of FY2023.
- **Lower-than-budgeted RBI surplus transfer:** The recently announced surplus transfer of Rs. 0.3 trillion appears to be a modest Rs. 0.3-0.4 trillion lower than the budgeted amount for FY2023.
- **Higher spending on subsidies:** Given the surge in input costs, ICRA pegs the fertiliser subsidy requirement for FY2023 at 2.0 trillion, Rs. 1.1 trillion higher than the budget estimate (BE). Moreover, the free foodgrain extension under the PMGKAY until Sep 2022 will cost Rs. 800 billion to the GoI, pushing up the outgo for food subsidy.
- **LPG subsidy and reduction in customs duties:** The GoI announced a subsidy of Rs. 200 per gas cylinder up to 12 cylinders (cost of Rs. 61 billion) and has also reduced customs duty on coking coal, coke, semi-coke, naptha, PVC, etc.

PMGKAY: Pradhan Mantri Garib Kaylan Ann Yojana; LIC; Life Insurance Corporation; Source: ICRA Research

Hike in interest rates on small savings schemes could limit need for extra market borrowings on account of a modest fiscal slippage

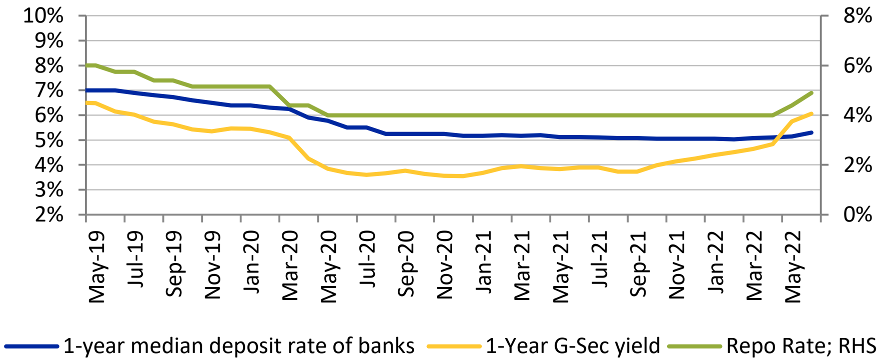
ICRA

EXHIBIT: Trends in Interest Rates on Selected Small Savings Schemes



Source: Ministry of Finance, GoI; RBI; CCIL; CEIC; ICRA Research

EXHIBIT: Trends in Repo Rate, 1-year G-sec Yield and 1-year Median Deposit Rate



Source: Ministry of Finance, GoI; RBI; CCIL; CEIC; ICRA Research

- Interest rates on various small savings schemes have not been changed for the last eight quarters since Q1 FY2021. Rates for the small savings schemes for Q2 FY2023 are set to be announced in end-June 2022.
- The average month-end yields on Government of India securities (G-Sec) for one-year, two-year and five-year bonds have increased substantially by 138 bps, 93 bps and 79 bps, respectively, during Mar 2022- May 2022, following an increase of 38 bps, 31 bps and 31 bps, respectively, during Dec 2021-Feb 2022.
- Accordingly, **we expect the interest rates on small savings schemes to be hiked for Q2 FY2023, given the sharp increases seen in the G-Sec yields of various maturities, to which such rates are linked. An increase in small savings rates could lead to higher flows into such schemes, limiting the need for additional market borrowings on account of the overshooting of fiscal deficit.**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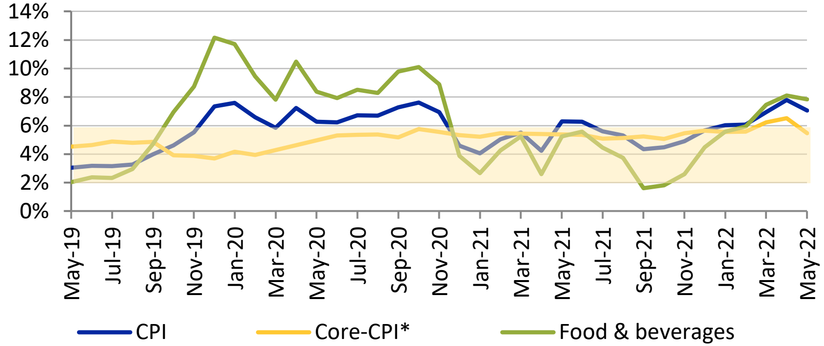
INFLATION

Commodity price pressures, supply disruptions likely to keep inflation elevated

ICRA

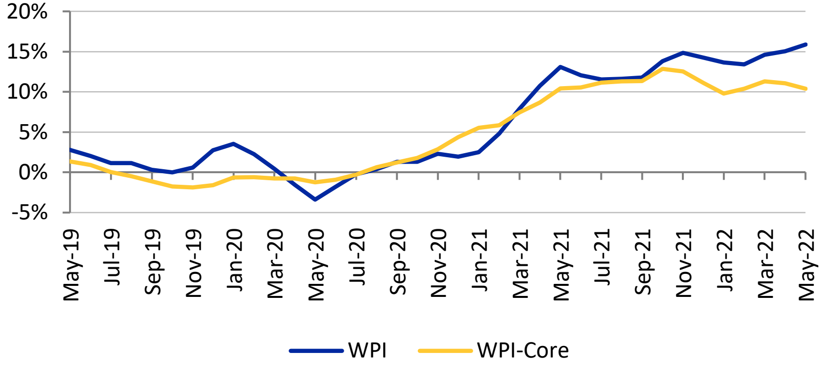
EXHIBIT: Trends in CPI, core-CPI and food and beverages inflation



**Since the detailed data for March-May 2020 is not available, we have not excluded prices for petrol and diesel of vehicles in the calculation of the core-CPI index for the YoY inflation rates in March-May 2021; Source: NSO; ICRA Research*

- While the CPI inflation posted a base-effect led moderation to 7.0% in May 2022 (+6.3% in May 2021) from the 95-month high of 7.8% in April 2022 (+4.2% in April 2021), it stayed well above the MPC's 6% tolerance level.
- Benefitting from the impact of excise duty cuts on fuels, and other measures taken by the GoI, we peg the June 2022 CPI inflation at a similar 7.0%; in this case, the Q1 FY2023 average CPI inflation would undershoot the MPC's forecast of 7.5%.
- ICRA projects headline CPI inflation in FY2023 at 6.5% with an upward bias, amid supply disruptions and its impact on commodity prices.

EXHIBIT: Trends in WPI and core-WPI inflation

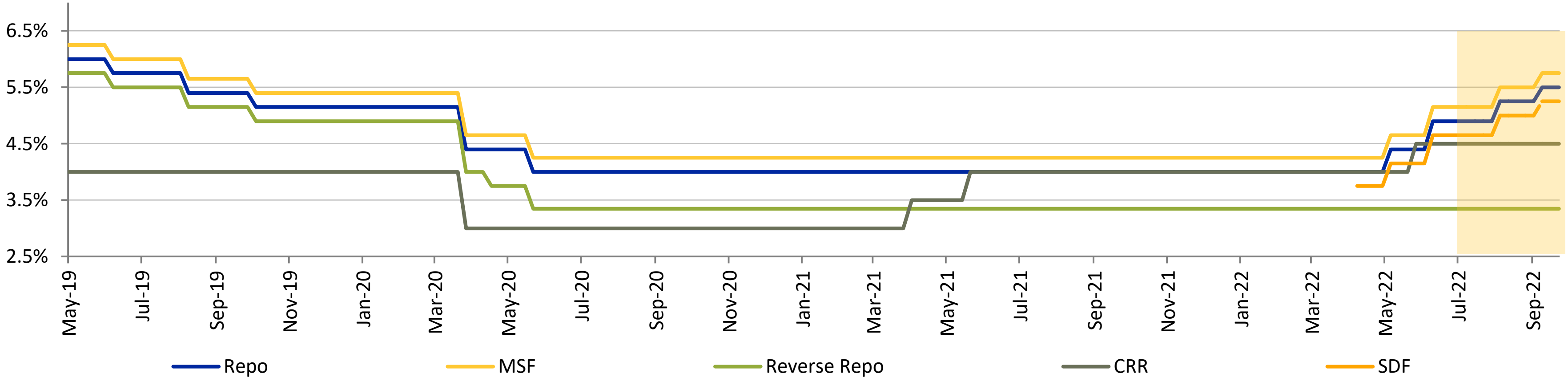


Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; ICRA Research

- Shrugging off the higher base, the YoY WPI inflation surged further to 15.9% in May 2022, the highest level since Sept 1991, from 15.1% in April 2022.
- We expect the WPI inflation to remain elevated at ~15-16% in June 2022, led by rise in global crude oil prices and the weakening of the INR against the US$.
- With inflation in industrial raw materials remaining stubbornly entrenched, the core inflation print is likely to remain elevated above 9% over the next few months.

ICRA expects 60 bps of rate hikes in next two policy meetings

EXHIBIT: Movement in Key Rates and ICRA's projections for Jul-Sep 2022



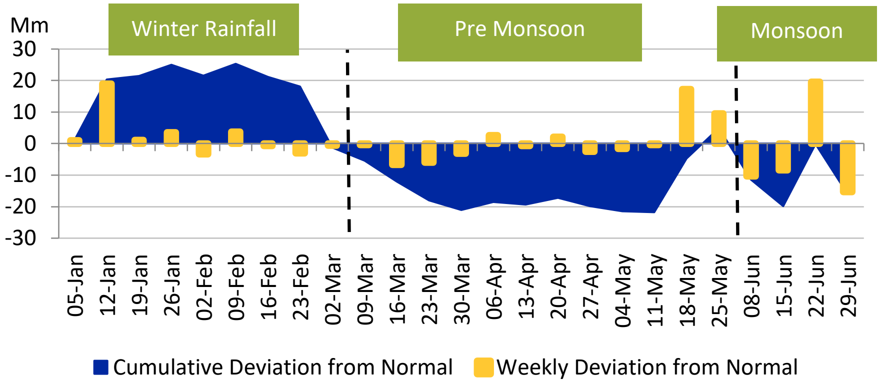
Source: RBI; CEIC; ICRA Research

- The MPC hiked policy rates by 90 bps in May-June 2022 following the surge in inflation readings.
- The MPC members' minutes reveal a mixed tone regarding inflationary concerns and growth supportiveness that may be warranted.
- **We continue to expect additional, front-loaded policy rate hikes of 35 bps and 25 bps in the Aug 2022 and Sep 2022 policy meetings, respectively, followed by an extended pause to gauge the impact on growth.**

SECTORAL TRENDS

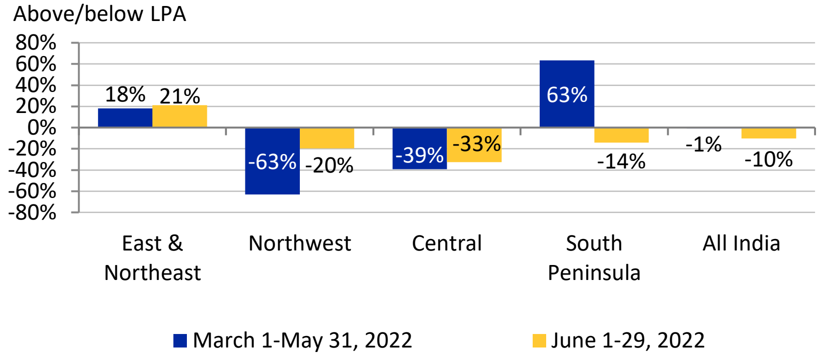
Rainfall has been below normal during ongoing monsoon season so far, with significant temporal and spatial variations

EXHIBIT: Cumulative and weekly rainfall deviation from normal



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

EXHIBIT: Region-wise distribution of rainfall*



**On a pan-India basis, rainfall between 96% and 104% of the LPA is considered to be normal. The other classifications are deficient (below 90% of LPA), below-normal (90-96% of LPA), above-normal (104-110% of LPA) and excess (more than 110% of LPA) Source: IMD; CEIC; ICRA Research*

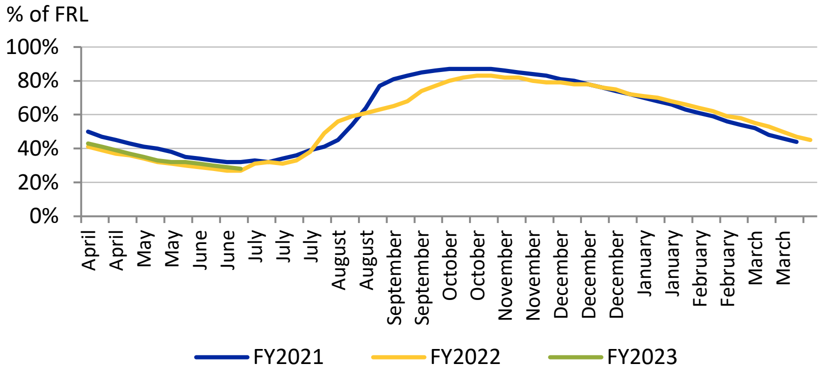
- The cumulative pre-monsoon rainfall (March-May) was normal at 99% of the LPA on a pan-India basis, albeit with significant spatial variation.
- Subsequently, below-normal rainfall (90% of LPA) has been recorded during the ongoing monsoon season (June-September) so far (till June 29, 2022), reflecting the deficiency seen in the first half of June 2022.

- The region-wise rainfall distribution during the ongoing season (as on June 29, 2022) has been deficient in three regions, namely Central India (67% of LPA), Northwest India (80% of LPA), and the South Peninsula (86% of LPA).
- However, the East and Northeast (121% of LPA) region has reported excess rainfall in this period, as per the IMD’s classification.

Reservoir storage now trails year-ago level with large deficit in Western, Eastern and Southern regions

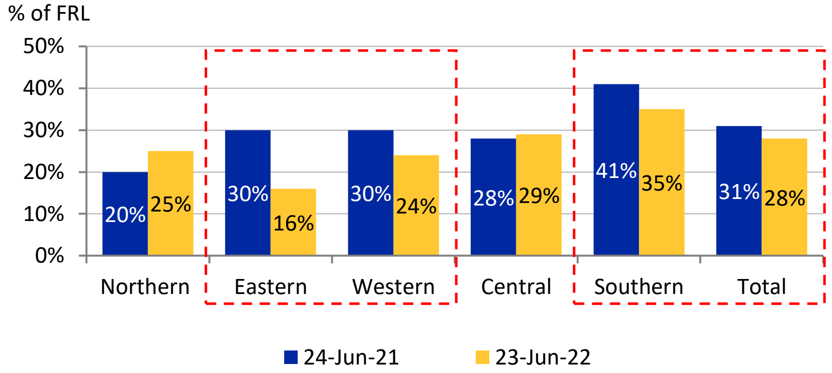
ICRA

EXHIBIT: Reservoir storage levels as percentage of Live Capacity at Full Reservoir Level (FRL)



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

EXHIBIT: Region-wise reservoir storage levels



Source: CWC; CEIC; ICRA Research

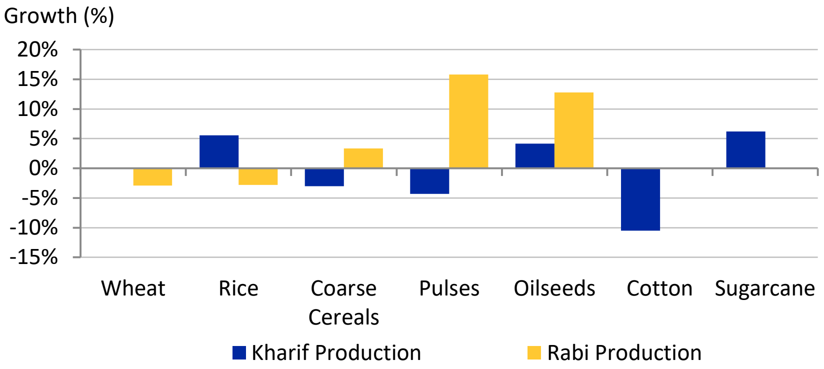
- Reservoir storage has declined in line with seasonal trends, and stood at 28% of FRL as on June 23, 2022, lower than the year-ago level (31% of FRL).

- In terms of the region-wise distribution, reservoir storage was higher than the year ago levels in the Northern (25% vs. 20%) and Central (29% vs. 28%) regions and lower in the Western (24% vs. 30%), Eastern (16% vs. 30%) and Southern (35% vs. 41%) regions.

Kharif sowing trails year-ago levels; 13% of 2021 kharif area has been covered so far

ICRA

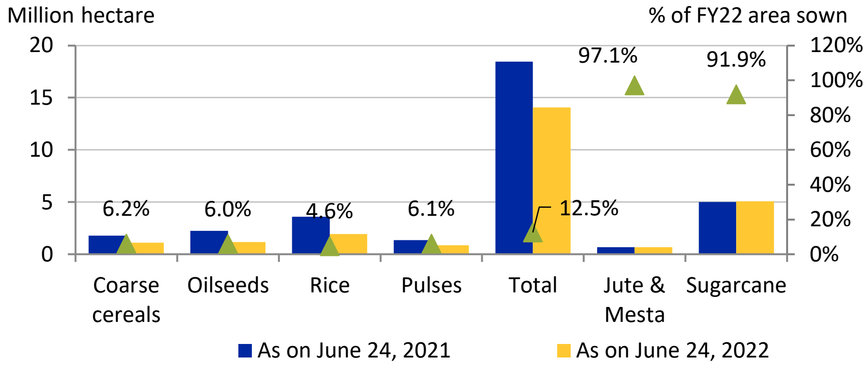
EXHIBIT: YoY trends in kharif and rabi production as per 3rd AE for FY2022, relative to Final Estimates for FY2021



Source: Department of Agriculture, Cooperation and Farmers Welfare, Ministry of Agriculture, ICRA Research

- The 3rd Advance Estimate (AE) of crop production, released by the Ministry of Agriculture and Farmers Welfare, indicated a mixed trend in the production of rabi crops relative to the Final Estimates for FY2021.
- While the output of pulses (+15.8%), oilseeds (+12.8%) and coarse cereals (+3.4%) is expected to have risen in FY2022, the output of wheat (-2.9%) and rice (-2.8%) is expected to have trailed the FY2021 levels.
- The rabi output for wheat estimated by the 3rd AE was significantly lower than the 2nd AE (-4.9 MT); concerns persist of a further downward revision owing to a sharp drop in yields on account of the heat wave across parts of India.

EXHIBIT: YoY trends in kharif sowing as on date

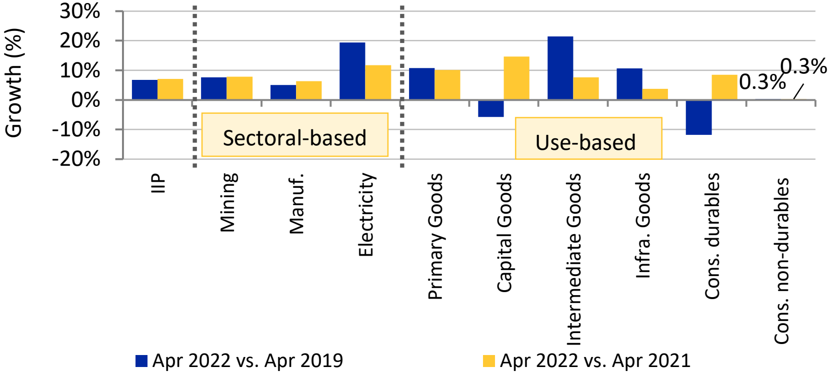


Source: Department of Agriculture, Cooperation and Farmers Welfare, ICRA Research

- As on June 24, 2022, the cumulative sowing of kharif crops trailed the year-ago level by 23.8%, led by all major crops, apart from sugarcane (+1.2%).
- Sowing has been completed for 12.5% of the total area sown in 2021 so far, lower than 18.2% during the corresponding period in 2021.
- We remain concerned that with labour having shifted back to urban centres with a revival in service sector demand, the availability of manpower in the rural areas to till the land may be limited in 2022. Additionally, the availability of fertilisers poses a concern. Accordingly, acreage in 2022 may well end up lagging the 2021 levels.

YoY growth in IIP, core sector output spiked in April 2022, boosted by low base

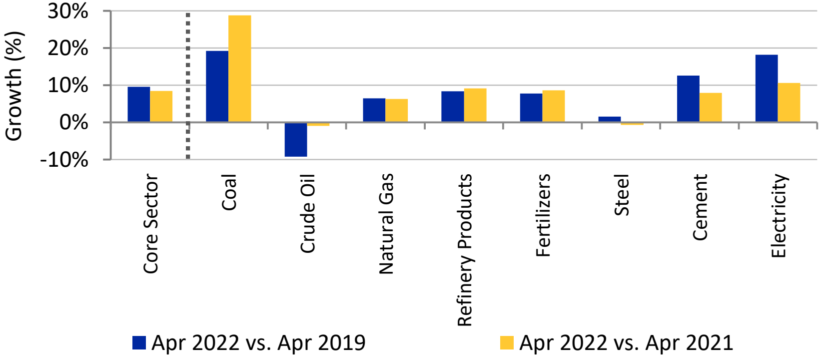
EXHIBIT: Trend in performance of IIP and its sub-components in April 2022 relative to April 2019 and April 2021



Manuf.- Manufacturing, Infra. – infrastructure/construction goods, Cons. durables – Consumer Durables, Cons. non-durables – Consumer non-durables; Source: NSO; CEIC; ICRA Research

- The YoY growth in the IIP spiked to an eight-month high 7.1% in April 2022 from 2.2% in March 2022, led by the low base of the second Covid-19 wave.
- The IIP rose above the pre-Covid level (of April 2019) by a healthy 6.8% in April 2022, with a double-digit growth in intermediate (+21.4%), infrastructure (+10.7%) and primary goods (+10.7%), amidst a flattish performance of consumer non-durables (+0.3%), and an unpalatable contraction in capital goods (-5.8%) and consumer durables (-11.8%).

EXHIBIT: Trend in performance of core sector and its sub-components in April 2022 relative to April 2019 and April 2021



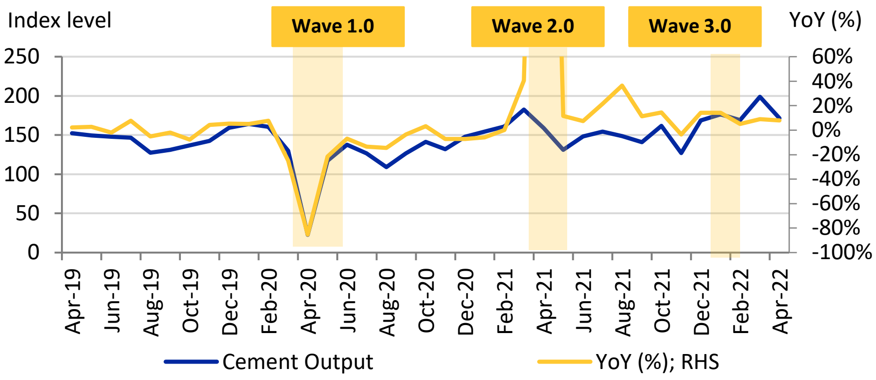
Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry, CEIC; ICRA Research

- The core sector output rose by 8.4% in April 2022 in YoY terms, led by a double-digit expansion in coal output (+28.8%) and electricity generation (+10.7%). However, steel output (-0.7%) contracted after a gap of three months.
- Relative to April 2019, core sector output increased by a higher 9.6%, led by coal (+19.2%), electricity generation (+18.2%) and cement (+12.6%).

Divergent trend in output of cement and steel in April 2022; high input costs likely to weigh on margins

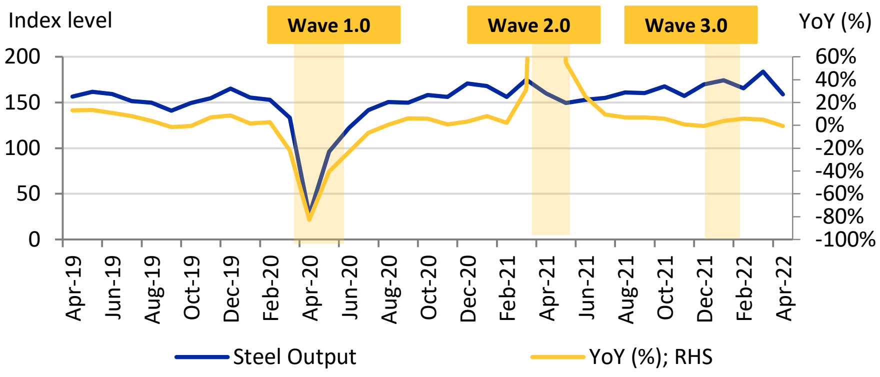
ICRA

EXHIBIT: Trends in cement output



Source: Office of the Economic Adviser, GoI; ICRA Research

EXHIBIT: Trends in steel output



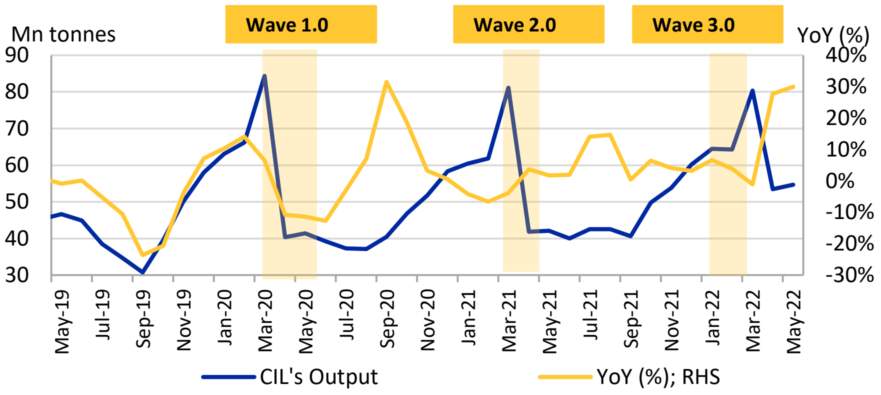
Source: Office of the Economic Adviser, GoI; ICRA Research

- Cement output recorded a YoY growth of 8.0% in April 2022 and exceeded the pre-Covid level of April 2019 by a healthy 12.6%.
- ICRA expects cement volumes to grow by ~7-8% YoY in FY2023, supported by the demand from housing (both rural and urban segments) and the infrastructure sectors.
- However, elevated input costs are likely to exert pressure on operating margins, which are expected to decline by 440-490 bps in FY2023.

- After a gap of 20 months, steel output slid into a YoY contraction in April 2022 (-0.7%), but it was a mild 1.6% higher than the output in April 2019.
- Going forward, input cost pressures are likely to dampen output in this sector. Moreover, the imposition of 15% export duty on various finished steel products is a significant negative for the steel makers.

CIL output and electricity demand were healthy in May 2022; coal stock position improved with increase in supply

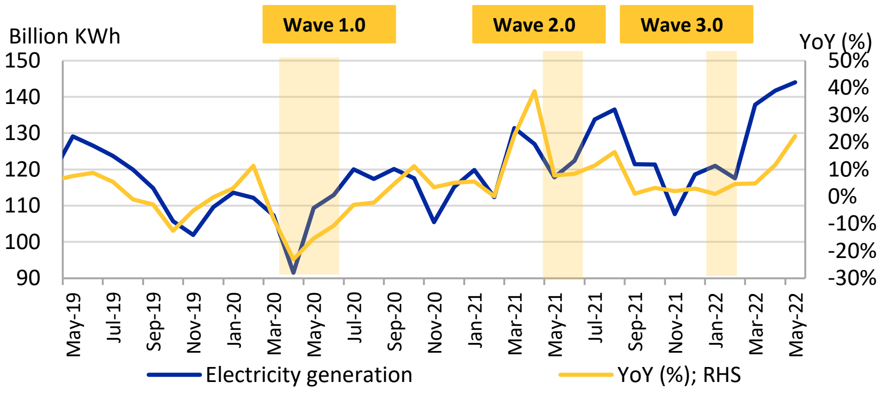
EXHIBIT: Trends in output of Coal India Limited (CIL)



Source: CIL; CEIC; ICRA Research

- The output of the predominant producer, CIL, expanded by 30.0% YoY in May 2022, and even exceeded the May 2019 volumes by a significant 17.2%.
- Against the normative requirement of 24 days, all-India coal stock level in power plants rose mildly to 9.5 days as on June 26, 2022 from 8.0-8.5 days in Apr-May 2022, with some improvement in supply, including imports.
- With CIL issuing tenders to import coal in the next few quarters to meet electricity demand, supply is expected to improve further, going forward.

EXHIBIT: Trends in electricity generation

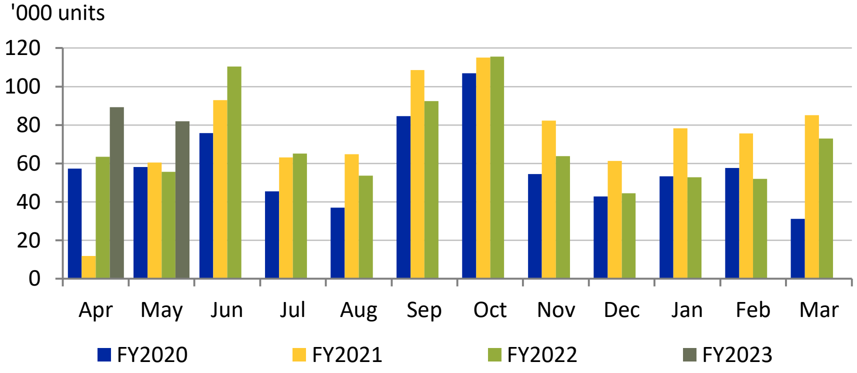


Electricity generation includes thermal, hydro, nuclear and renewable energy; Source: CEA; ICRA Research

- The YoY growth in electricity generation doubled to 22.3% in May 2022 from 11.6% in Apr 2022, echoing the heatwave-led rise in demand, as well as some pickup from commercial and industrial establishments.
- With the advancement of monsoon rains in the coming month, demand is likely to taper down from Mar-May 2022 highs, as seen in late-June 2022.
- The average spot power tariffs in the day-ahead-market moderated from Rs. 10.1/unit in Apr 2022 to Rs. 6.6-6.8/unit in May-June 2022 (till Jun 29, 2022), benefitting from improved supply amidst elevated demand levels.

Domestic tractor sales showed encouraging trends in Apr-May 2022; motorcycle sales sharply trailed pre-Covid levels amid inflationary headwinds, supply constraints

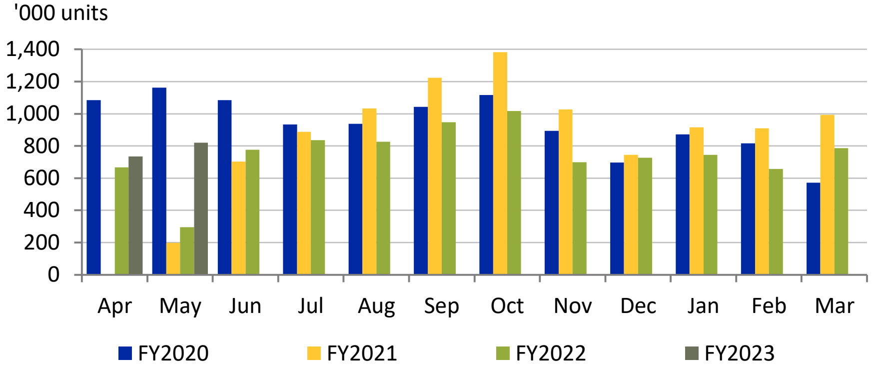
EXHIBIT: Trends in domestic tractor sales



Source: CMIE; ICRA Research

- After a period of lull in demand, tractor sales have grown by a sharp 43.8% YoY in Apr-May 2022, reflecting a combination of better price realisation for farmers, health rabi procurement and a low base of Covid 2.0.
- Moreover, they exceeded pre-Covid volumes of Apr-May 2019 by a considerable 48.2%.
- Industry volumes are estimated to remain at healthy levels in FY2023 aided by favourable underlying drivers for rural cash flows. However, given the high base and increase in cost of ownership, volumes are likely to represent only a marginal YoY growth of 0-4% growth in FY2023.

EXHIBIT: Trends in domestic motorcycle sales



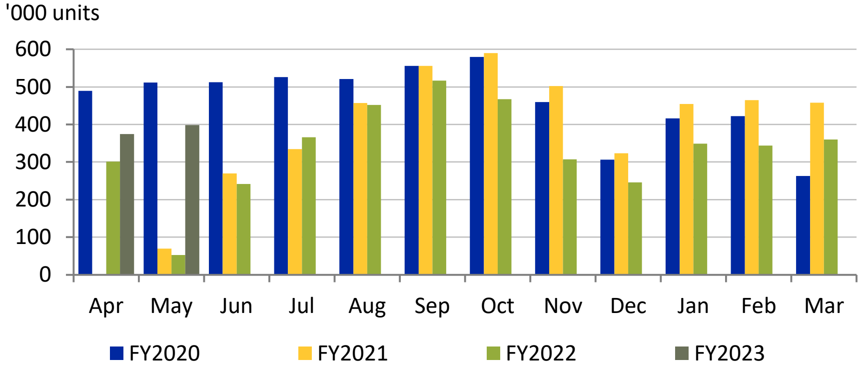
Source: SIAM; CEIC; ICRA Research

- While the domestic motorcycle sales posted a YoY expansion of 61.5% in Apr-May 2022, it was on the back of a low base as well as some pick-up in offtake levels owing to a good festive and wedding season in Northern India.
- However, the volumes were a sharp 30.8% lower than the sales during Apr-May 2019, reflecting the impact of elevated ownership costs (vehicle cost and petrol prices), inflationary headwinds and supply side challenges.
- ICRA expects motorcycle sales to grow by ~9-10% in FY2023 on a low base.

Sequential pick-up in scooter sales during May 2022; PV volumes constrained by ongoing supply chain disruptions

ICRA

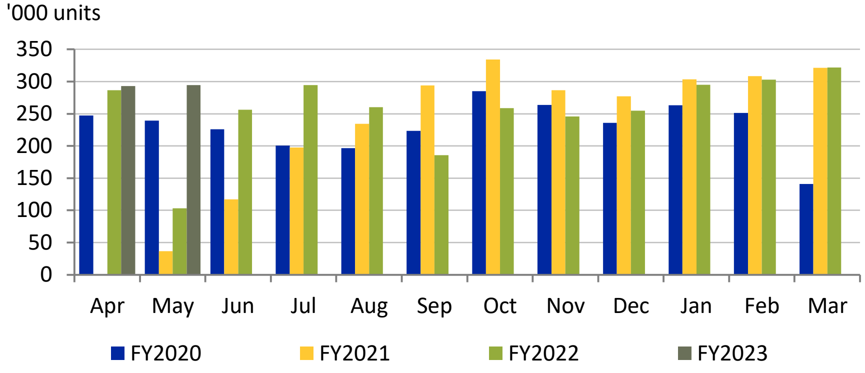
EXHIBIT: Trends in domestic scooter sales



Source: SIAM; CEIC; ICRA Research

- Domestic scooter volumes more-than-doubled to 7.7 lakh units in Apr-May 2022, from 3.5 lakh units in Apr-May 2021 (+118.5%), reflecting the low base of Covid 2.0 wave, and a modest sequential pick-up in volumes in May 2022.
- Nevertheless, they trailed the Apr-May 2019 volumes by ~23%, constrained by sustained increase in the cost of ownership.
- The reopening of education institutes and reversal in work-from-home trends in the corporate sector are likely to support industry volumes, going forward; we expect domestic scooter sales to grow by ~9-10% in FY2023.

EXHIBIT: Trends in domestic PV sales

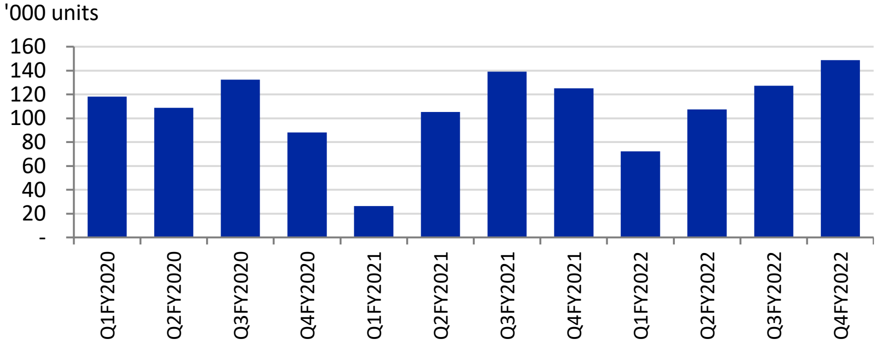


**Including Tata Motors Limited (TML) volumes; Source: SIAM; CEIC; ICRA Research*

- While domestic PV sales expanded by 50.7% YoY in Apr-May 2022 on the back of a low base, the volumes were 20.6% higher than the corresponding pre-Covid levels of Apr-May 2019.
- We expect volumes to grow by 9-12% in FY2023, led by a gradual improvement in semi-conductor supplies and healthy demand trends.

Domestic CV industry on recovery track; truck segment to lead recovery over near term

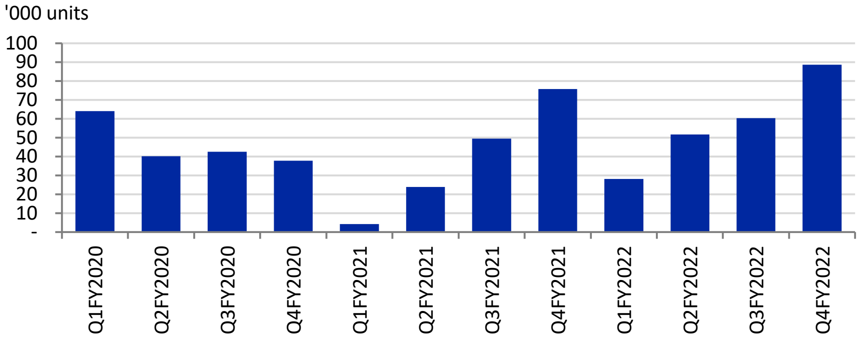
EXHIBIT: Trends in domestic LCV sales (truck)



Source: SIAM; CEIC; ICRA Research

- Sales of light commercial vehicles (LCVs: truck segment) reverted to a YoY growth of 19.0% in Q4 FY2022, after having contracted by 8.5% in Q3 FY2022.
- Aided by freight demand and ongoing recovery in economic activity, we expect total volumes to grow by ~8-10% in FY2023. Nevertheless, headwinds such as commodity inflation and rising fuel costs pose downside risks for this industry.

EXHIBIT: Trends in domestic M&HCV sales (truck)

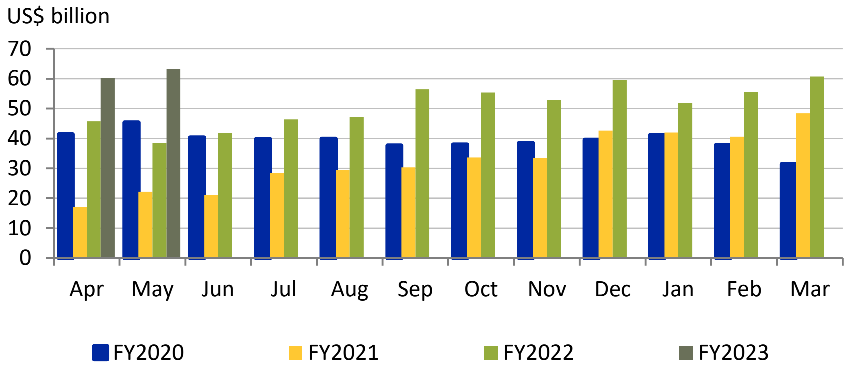


Source: SIAM; CEIC; ICRA Research

- The YoY growth in the sales of medium and heavy commercial vehicles (M&HCV: truck segment) moderated to 16.9% in Q4 FY2022 relative to 22.0% in Q3 FY2022, albeit on the back of an improved base.
- Going forward, volumes in this segment are likely to be supported by construction and mining activities, macro economic recovery, and impending replacement demand, which was deferred earlier.
- We expect volumes to expand by ~15-20% in FY2023.

Growth of merchandise imports expected to outpace that of exports in FY2023

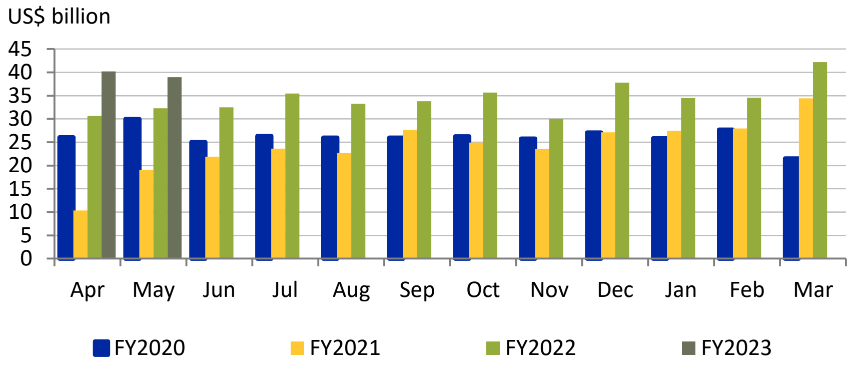
EXHIBIT: Trends in merchandise imports



Source: Ministry of Commerce, GoI; ICRA Research

- Merchandise imports remained above US$60 billion for the third consecutive month in May 2022, depicting the strengthening of domestic demand and elevated commodity prices, including crude oil.
- The MoM growth of 4.9% in imports during May 2022 was entirely led by a surge in gold imports, even as oil and non-oil non-gold items saw some moderation.
- We expect merchandise imports to rise by ~19% to US$733-736 billion in FY2023 from US$618.6 billion in FY2022, driven by the non-gold items.

EXHIBIT: Trends in merchandise exports

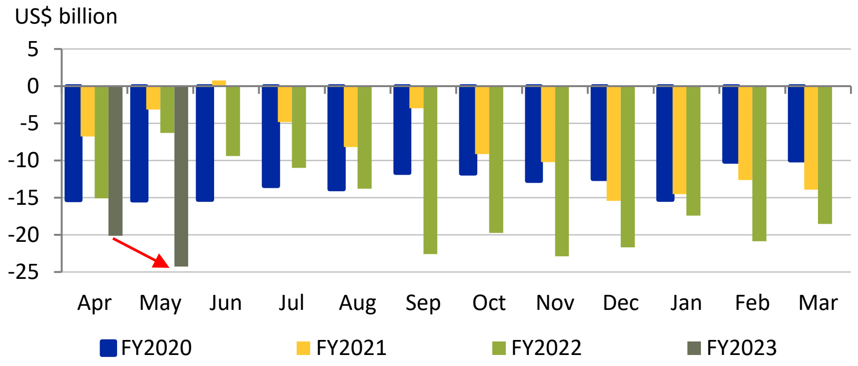


Source: Ministry of Commerce, GoI; ICRA Research

- Merchandise exports eased from US$40.2 billion in April 2022 to US$38.9 billion in May 2022, amidst geopolitical uncertainties.
- We expect merchandise exports to rise by ~10% to US$472-476 billion in FY2023 from US$429.2 billion in FY2022, driven by the anticipated surge in the value of oil exports.
- However, non-oil exports are likely to grow modestly in FY2023 amidst tepid global trade, relatively weaker CNY vis-à-vis the INR and export restrictions/duties on certain items levied by the GoI to curb domestic inflation.

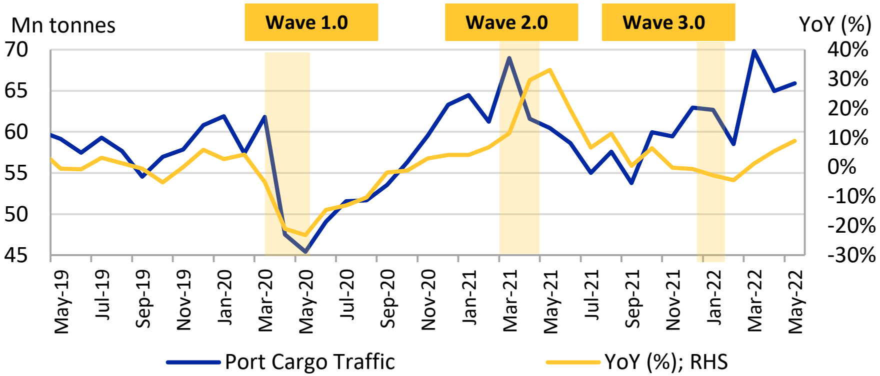
Trade deficit to widen to US$260 billion in FY2023, with surge in crude oil prices

EXHIBIT: Trends in merchandise trade deficit (US$ billion)



Source: Ministry of Commerce, GoI; ICRA Research

EXHIBIT: Trends in port cargo traffic



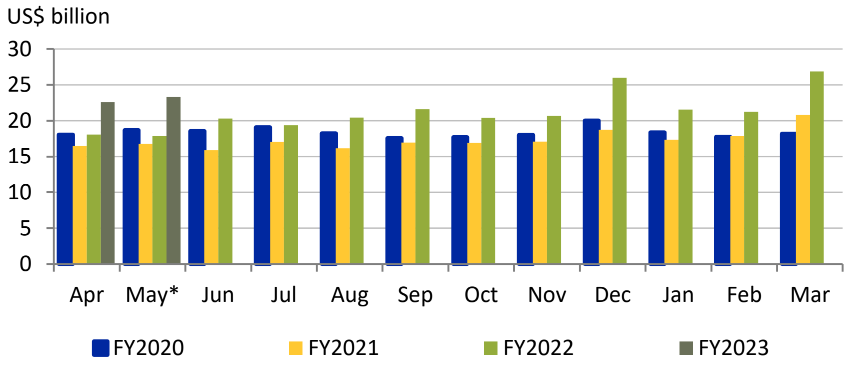
Source: Indian Ports Association (IPA); ICRA Research

- India's merchandise trade deficit widened to a massive US$24.3 billion in May 2022 from US$20.1 billion in April 2022, driven by sequential dip in non-oil exports amidst a sharp jump in gold imports.
- We expect the merchandise trade deficit to increase considerably to ~US$260 billion in FY2023, from ~US$189.5 billion in FY2022. The widening is expected to be largely driven by a sharp rise in net oil imports.

- Aided by a low base and a sequential rise of 1.4%, cargo handled at major ports recorded a nine-month high YoY growth of 8.9% in May 2022, relative 5.5% in Apr 2022.
- Moreover, traffic in May 2022 exceeded the pre-Covid volumes of May 2019 by a healthy 11.4%, with a broad-based trend across shipments of thermal and steam coal, containers, POL, iron ore and raw fertilisers.

Services trade surplus to rise by ~8% in FY2023 on back of robust services exports

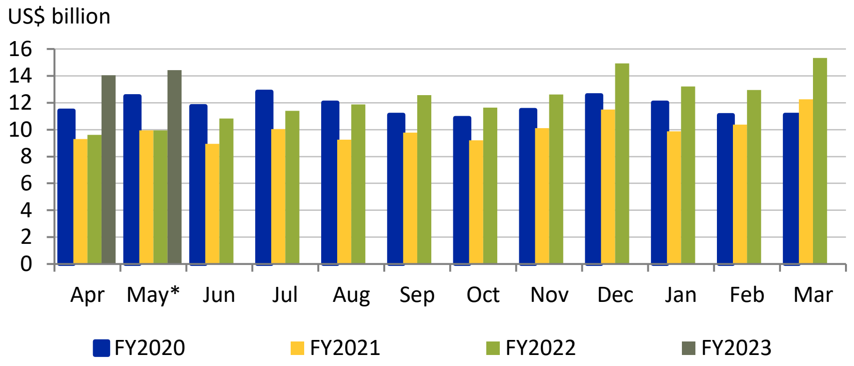
EXHIBIT: Trends in services exports



**Data for May 2022 are based on initial estimates by the Ministry of Commerce and Industry; Source: RBI; ICRA Research*

- As per the early estimates provided by the Ministry of Commerce, service exports rose by 30.3% YoY to US$23.3 billion in May 2022. This was the twelfth consecutive month of a double-digit expansion.
- Service exports were also 24.6% higher in May 2022 than the pre-Covid levels of May 2019 (April 2022: +25.1%).

EXHIBIT: Trends in services imports



**Data for May 2022 are based on initial estimates by the Ministry of Commerce and Industry; Source: RBI; ICRA Research*

- Services imports expanded by a faster 45.1% YoY in May 2022 (April 2022: +46.1%) as compared to the growth seen in services exports. Imports were 15.5% higher vis-à-vis pre-Covid levels of May 2019.
- The services trade balance improved to US$8.9 billion in May 2022 from US$ 8.5 billion in April 2022 and US$7.9 billion in May 2021.
- We expect the services trade balance to increase by ~8% to US$116 billion in FY2023 on the back of robust services exports and a weaker INR, even if there is some recovery in outbound tourism.

Rail freight traffic remains healthy in May 2022; aviation sector improved further with domestic travel only ~1% lower than pre-Covid levels

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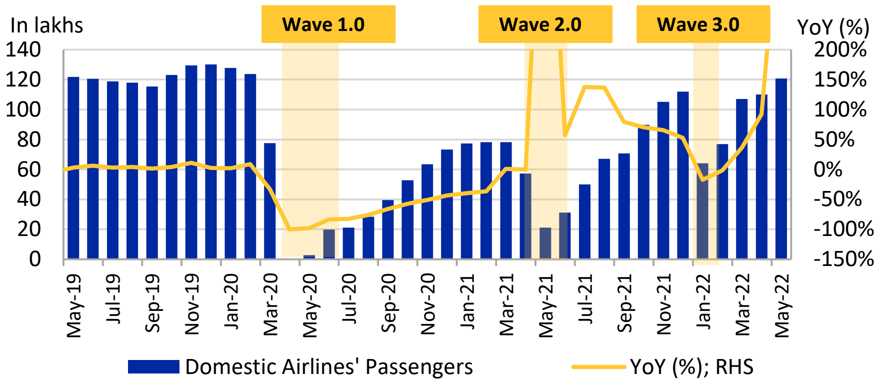
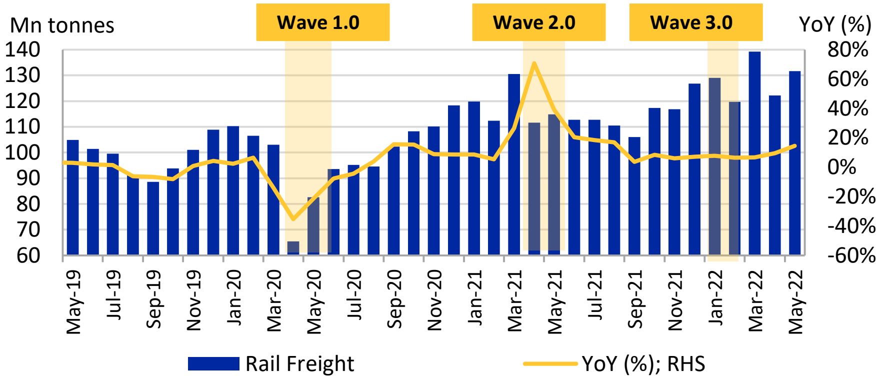
EXHIBIT: Trends in domestic airlines' passenger traffic



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

- Domestic airlines' passenger traffic recorded a sequential uptick of ~10% to 12.1 million in May 2022, although it trailed the May 2019 level (12.2 million) by ~0.9%.
- A muted base related to the severe impact of the Covid 2.0 wave and curbs on domestic air travel translated to an optically high YoY growth of 502% in May 2022 (+95% in Apr 2022).
- Recovery in corporate travel and steady demand from leisure traffic are likely to support passenger traffic in FY2023; nevertheless, any further Covid waves and a rise in air fares remain the key monitorables.

EXHIBIT: Trends in rail freight traffic



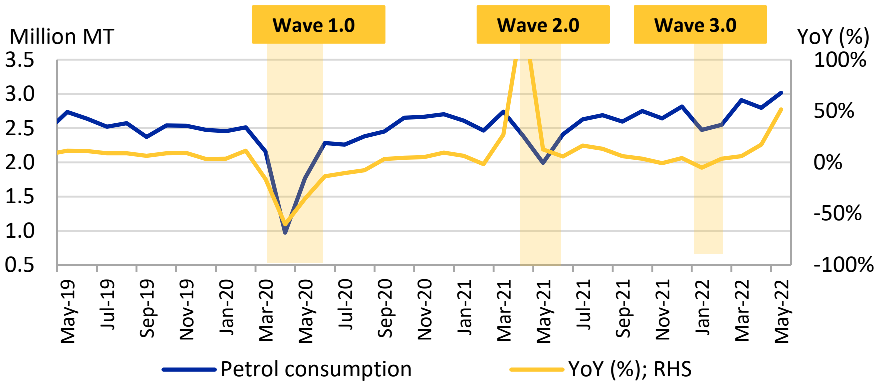
Source: Indian Railways, GoI; ICRA Research

- India witnessed the second-best rail freight traffic volumes in May 2022 (after March 2022), recording a higher YoY expansion of 14.7%, relative to 9.4% in April 2022.
- The MoM increase of 7.8% or 9.5 MT in overall freight volumes in May 2022 was dominated by coal (7.0 MT; to augment supplies to power plants to meet rising demand), followed by fertilizers (0.5 MT) and cement (0.4 MT).
- Regardless, freight in May 2022 exceeded the May 2019 volumes by a robust 25.5%, benefitting from the tariff and non-tariff measures that had been undertaken in August 2020 to boost the rail operations.

With reduction in excise duties, petrol and diesel consumption improved sequentially in May 2022; nevertheless, diesel sales still trail pre-Covid levels

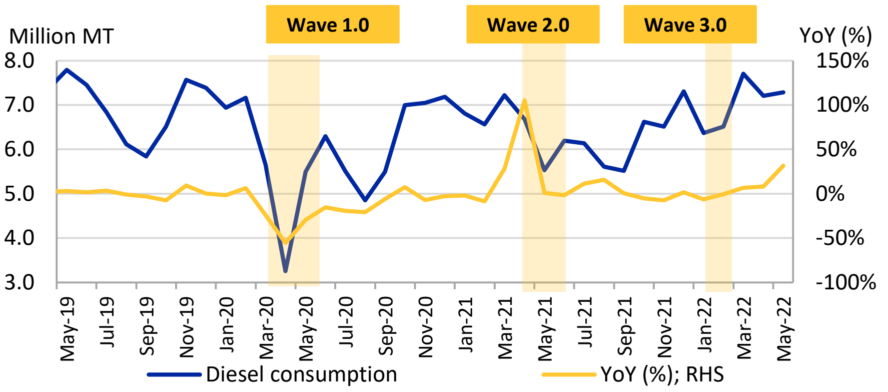
ICRA

EXHIBIT: Trends in petrol consumption



Source: PPAC; ICRA Research

EXHIBIT: Trends in diesel consumption



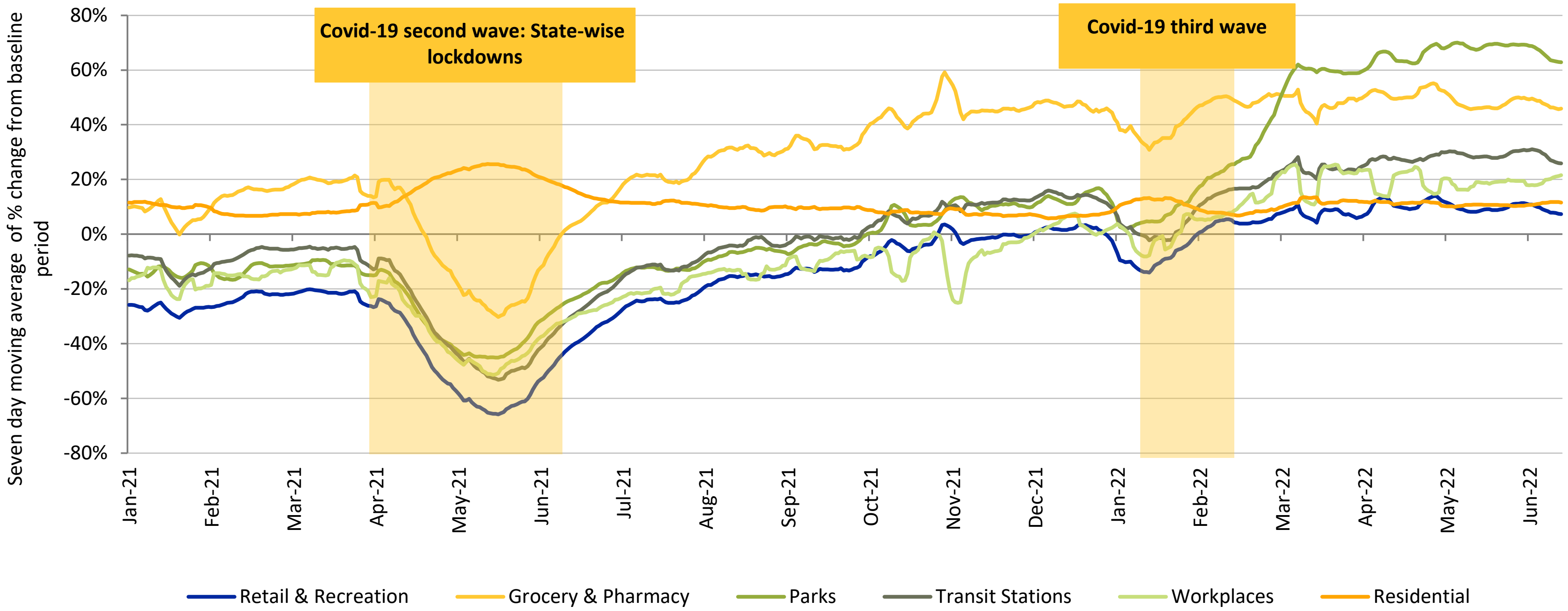
Source: PPAC, ICRA Research

- With a healthy 7.8% MoM growth, petrol consumption touched all-time highs of 3.0 million MT in May 2022. Retail prices were unchanged in the earlier part of the month, before the Government reduced the excise duty on May 22, 2022, which aided consumption.
- Petrol sales rose by a considerable 51.5% on a YoY basis in May 2022 on a low base; volumes were 10.2% higher than pre-Covid sales of May 2019.
- Going forward, pass-through of the ongoing uptrend in international crude oil prices by the OMCs could constrain the demand for petrol.

- Similarly, while the YoY growth in diesel consumption rose to an optically high 31.7% in May 2022 (7.9% in Apr 2022) owing to subdued base of Covid 2.0 wave, consumption rose by a mild 1.1% in sequential terms to 7.3 million MT in the month, benefitting from the reduction in excise duty.
- However, consumption trailed the May 2019 volumes by a significant 6.5%, partly dampened by elevated prices and a likely diversion of freight to rail.

Annexure

Mobility at pan-India level has flattened but at elevated levels post the abatement of third wave of Covid-19



Data available till June 24, 2022; Source: Google LLC; Google Global Mobility Report; ICRA Research; The index is smoothed to the seven-day moving average; The percentage change is compared to a baseline value for the same day of the week, calculated on a median basis during the 5-week period January 3, 2020- February 6, 2020

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Thank You!