ICRA

INDIAN ECONOMY

ICRA maintains GDP growth forecast of 7.2% for FY2023; surge in e-way bills in Aug 2022, moderation in commodity prices augur well for festive season

SEPTEMBER 2022

Agenda

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1 India’s FY2023 Growth Prospects

2 Update on Project Activity

3 Update on Financing

4 Inflation

5 Union Government Finances

6 Sectoral Trends

Outlook

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ICRA maintains its GDP projection for FY2023 at 7.2%

The record generation of average daily GST e-way bills and moderation in commodity prices augur well for the upcoming festive season

ICRA expects the MPC to hike rates by 50 bps in the end-Sep 2022 meeting and turn data-dependent thereafter

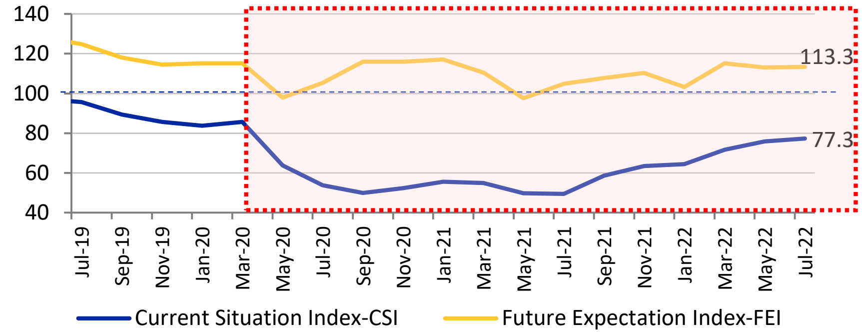
ICRA maintains its forecast that India's GDP will rise by 7.2% in FY2023, aided by a revival in contact-intensive services owing to pent-up demand, and a back-ended pick-up in Government and private capex. While the YoY growth is expected to slow from Q1 FY2023 to Q2 FY2023 and further to H2 FY2023, this would largely be optical in nature; growth is expected to pick-up compared to pre-Covid levels of FY2020. The record generation of average daily GST e-way bills in August 2022, owing to pre-festive stocking, indicates a revival in confidence and this coupled with softening commodity prices bodes well for the upcoming festive season. However, the decline in output of key kharif crops such as rice and flagging external demand pose risks to growth and remain the key monitorables. The latter, along with buoyant imports, following relatively stronger domestic demand, is expected to lead to a sharp widening in the CAD to ~3.5% of GDP in FY2023, although we expect some relief on this front in H2 FY2023 relative to the readings foreseen for H1 FY2023. We expect the MPC to hike rates by 50 bps in end-Sep 2022 and turn data-dependent thereafter, taking a cue from the latest CPI prints and the strength of the Q2 FY2023 GDP growth.

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%
WPI Inflation (average)	13.0%	10.1%
Current Account Deficit (CAD)	US$38.7 billion; 1.2% of GDP	~US$120 billion; 3.5% of GDP
INR	80-83.0/US$ in remainder of CY2022	
G-sec Yields	10-year yield to range between 7.3-7.8% in rest of 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. 0.3-0.8 trillion; FD/GDP expected at 6.4%
Policy repo rate	50 bps rate hike in Sep 2022 meeting, after which MPC to be increasingly data dependent	

FY2023 GROWTH PROSPECTS FOR INDIA

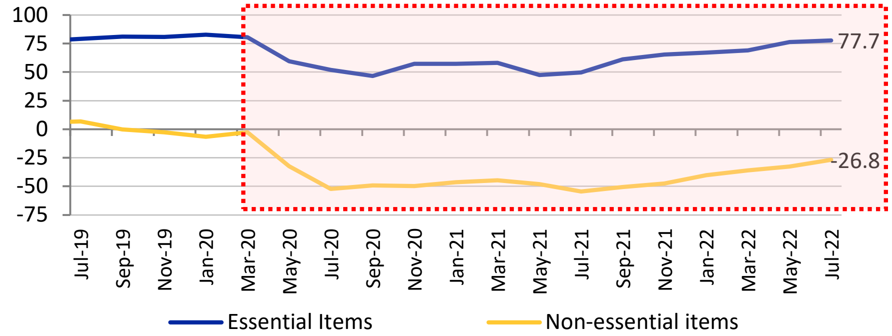
Consumer confidence continued to improve in July 2022; however, sentiments around spending on non-essential items remained in the negative territory

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 77.3 in July 2022 from 75.9 in May 2022, with a pick-up in perceptions around employment, household income and spending. However, they remained in the pessimistic zone.
- The one-year ahead outlook of households, as measured by the Future Expectations Index (FEI), witnessed a marginal improvement in July 2022 compared to the May 2022 round of the survey, while remaining in the positive territory. While consumers expressed optimism on the overall economic situation and spending over the next one year, this was partly offset by a moderation in expectations around employment, price levels and household incomes.
- Households' current expectations on spending improved further in the July 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 in the negative territory.

YoY growth in ICRA Business Activity Monitor in double-digits in August 2022; sequential momentum in activity healthy in the month

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

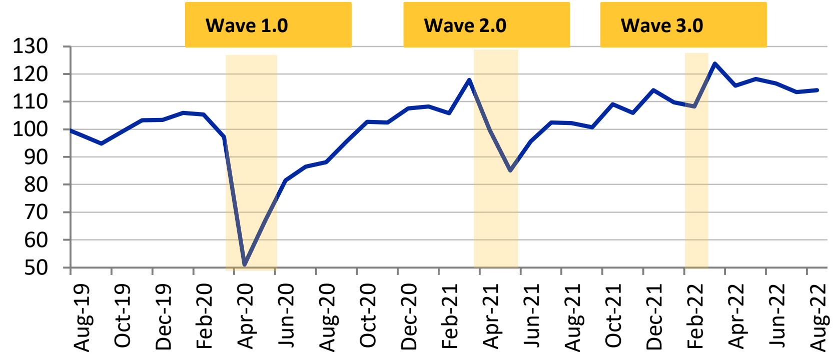
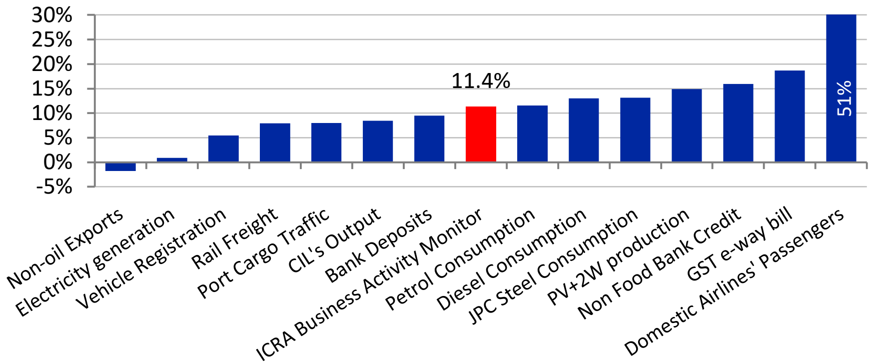


EXHIBIT: YoY growth of high frequency indicators in August 2022



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 ICRA Business Activity Monitor rebounded to 114.1 in August 2022, after having declined to the five-month low of 113.5 in July 2022. In YoY terms, the growth in the index rose to 11.4% in August 2022 (+16.2% in August 2021) from 10.9% in the previous month (+18.2% in July 2021), with an improvement in the performance of nine of the 16 high frequency indicators, including the generation of GST e-way bills, production of motorcycle and PVs, vehicle registrations, consumption of finished steel, petrol and diesel.
- Moreover, as many as nine of the 16 constituent indicators posted a double-digit YoY growth in August 2022.
- After declining for two consecutive months, the index rose by 0.6% in August 2022, better than the MoM trends seen in August 2019 (-3.0%) and August 2021 (+0.2%), indicating widening of economic activity momentum amid some moderation in rainfall, easing of supply-side issues like semiconductor availability for the auto sector, and pre-festive accumulation of inventories, even as the slowdown in external demand acted as a dampener for domestic economic activity.

Growth of most indicators expectedly moderated in Jul-Aug 2022 on normalised base; GDP growth pegged at ~6.5-7.0% YoY for ongoing quarter

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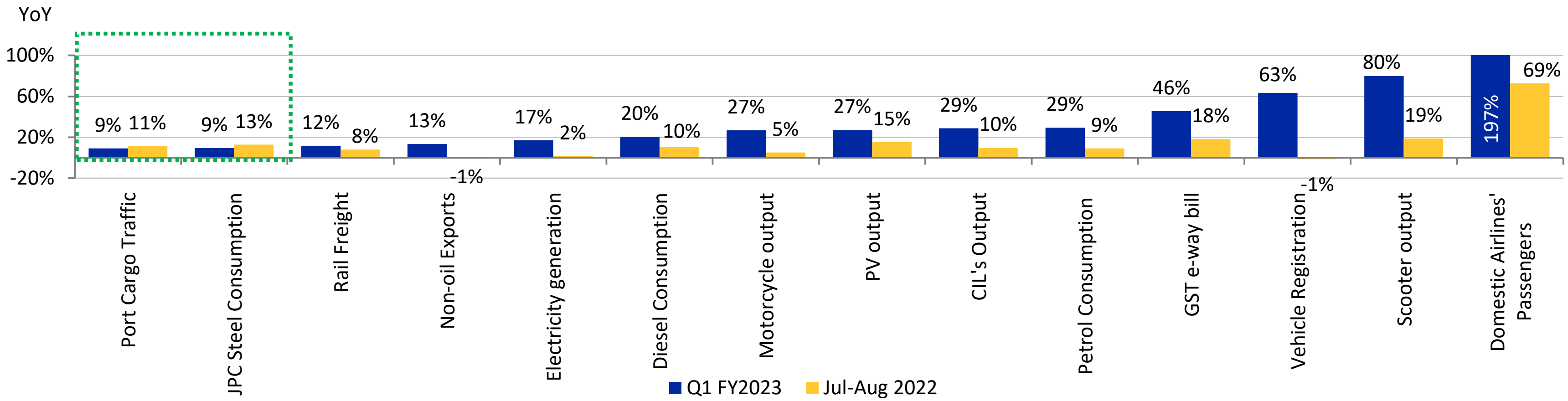
EXHIBIT: YoY performance of high frequency indicators in Q1 FY2023 and Jul-Aug 2022

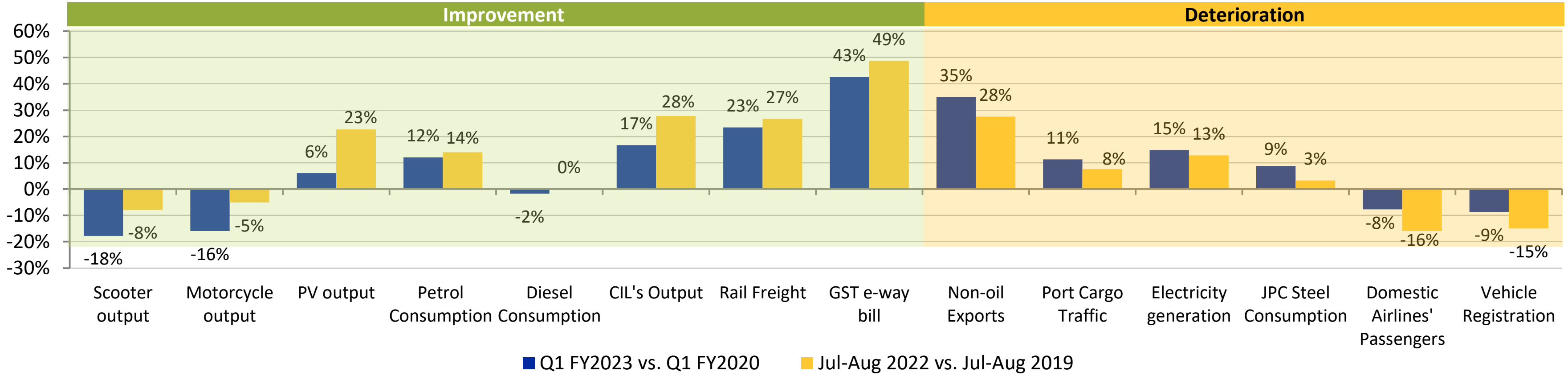


Source: ICRA Research

- The YoY performance of 12 of the 14 non-financial indicators (except ports cargo traffic and finished steel consumption) witnessed an expected deterioration in July-August 2022 relative to Q1 FY2023, on account of the normalisation of the base after the easing of the Covid 2.0 wave.
- The pace of YoY growth in Jul-Aug 2022 ranged widely from 2% (electricity generation) to as high as 69% (domestic airlines' passenger traffic), depending upon the extent of improvement the sector had experienced in July-Aug 2021 after the second wave of Covid-19. Only two indicators, namely, non-oil exports and vehicle registrations, displayed a YoY decline in Jul-Aug 2022.
- Given the available trends for the non-agri indicators, the decline in global commodity prices and the recovery in the demand for services amidst the YoY lag in kharif sowing, we project the GDP expansion at 6.5-7.0% for Q2 FY2023, a base-effect led moderation from 13.5% in Q1 FY2023.

Majority of indicators witnessed an improvement in pre-Covid performance in Jul-Aug 2022; Q2 FY2023 GDP growth to pick up vis-à-vis pre-Covid levels

EXHIBIT: Performance of high frequency indicators in Q1 FY2023 and Jul-Aug 2022, relative to their respective pre-Covid period of FY2020

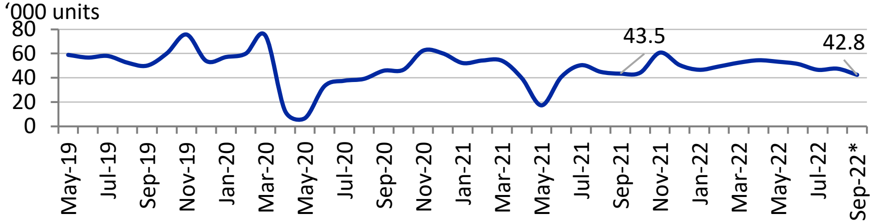


Source: ICRA Research

- While the YoY growth of most indicators posted a base-effect led moderation in Jul-Aug 2022, relative to Q1 FY2023, the performance of eight of the 14 non-financial indicators witnessed an improvement compared to the pre-Covid volumes of Jul-Aug 2019, relative to the corresponding pre-Covid performance of Q1 FY2023. This set of indicators include automobile production, consumption of petrol and diesel, GST e-way bills, rail freight traffic and the CIL's output.
- This implies that economic recovery gained pace in Jul-Aug 2022 vis-à-vis Q1 FY2023, relative to the pre-Covid levels of 2019, but is yet to become broad-based.
- Mirroring the improving trend in the pre-Covid performance of majority of non-agri indicators in Jul-Aug 2022, compared to Q1 FY2023, the increase in real GDP in Q2 FY2023 over Q2 FY2020 is expected to pick up to ~8.0%, twice as high as the 3.8% seen in Q1 FY2023 over Q1 FY2020.

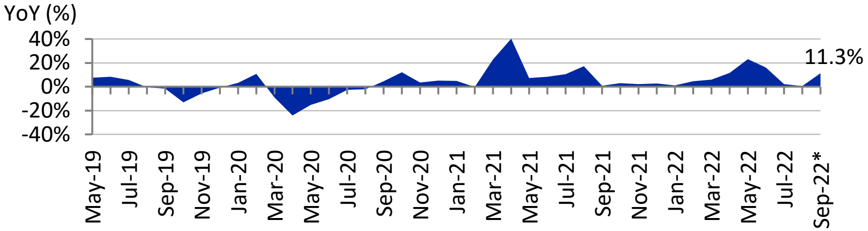
Early trends for September 2022 are mixed

EXHIBIT: Daily average registration of vehicles stands at 42.8k units in Sep 1-28, 2022, a sharp ~10% MoM dip, indicating a YoY decline of 1.6%, reflecting subdued demand owing to the *Shradh* period



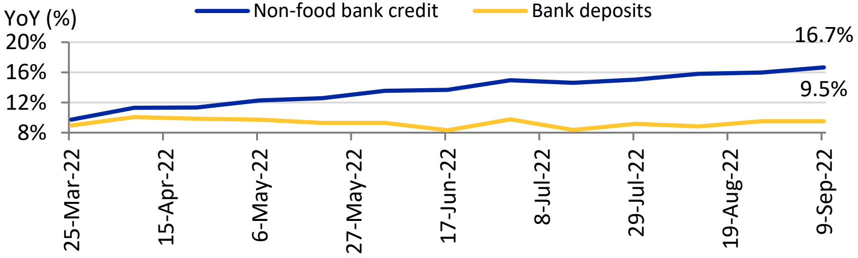
**Till Sep 28, 2022; Note: For comparability analysis, we have removed newly issued data on Andhra Pradesh and Madhya Pradesh; Data on Lakshadweep and Telangana is not available; Source: Vahan portal, MoRTH; ICRA Research*

EXHIBIT: All-India electricity demand growth rebounded sharply to 11.3% YoY in Sep 2022 (till Sep 27, 2022; +0.5% in Aug 2022), led by the low base of Sep 2021 (+0.8%)



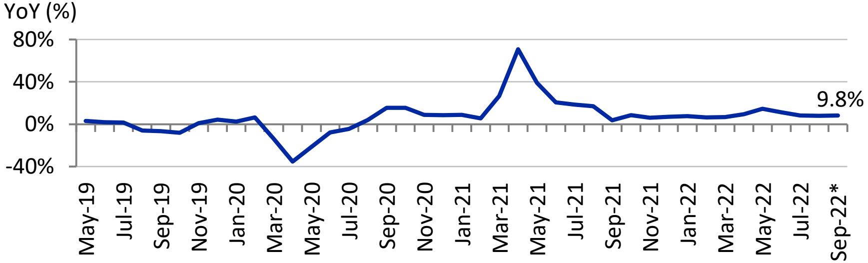
**Till Sep 27, 2022; Source: POSOCO; ICRA Research*

EXHIBIT: Non-food bank credit growth surged to 16.7% as on Sep 9, 2022 (highest level since Oct 2013), led by higher working capital requirements; deposit growth inched up to 9.5% (+9.3% as on Sep 10, 2021)



Source: RBI; ICRA Research

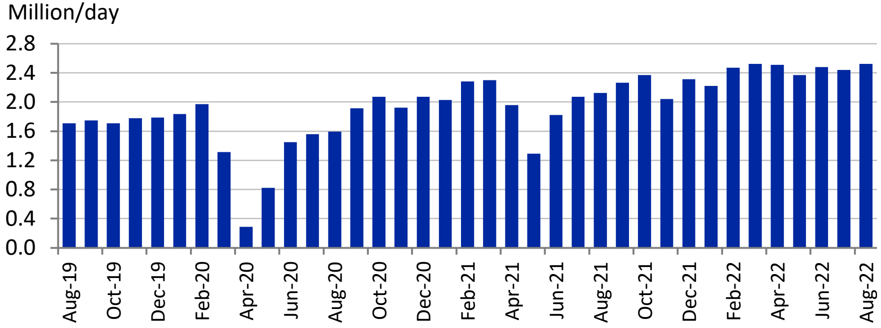
EXHIBIT: Rail freight traffic recorded a YoY growth of 9.8% during Sep 1-20, 2022, twice as high as the growth recorded during the corresponding period of Sep 2021 (+4.5%)



**Till Sep 20, 2022; Source: Indian Railways, ICRA Research*

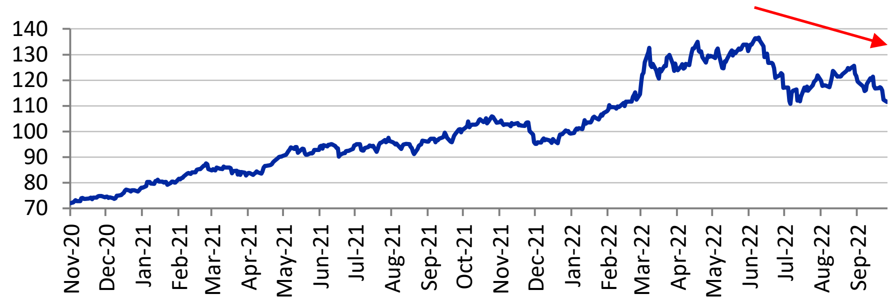
Record high generation of GST e-way bills on account of pre-festive stocking, fall in commodity prices are positive developments ahead of festive season

EXHIBIT: Trends in average generation of GST e-way bills



Source: GSTN; CEIC; ICRA Research

EXHIBIT: Trends in Bloomberg Commodity Index

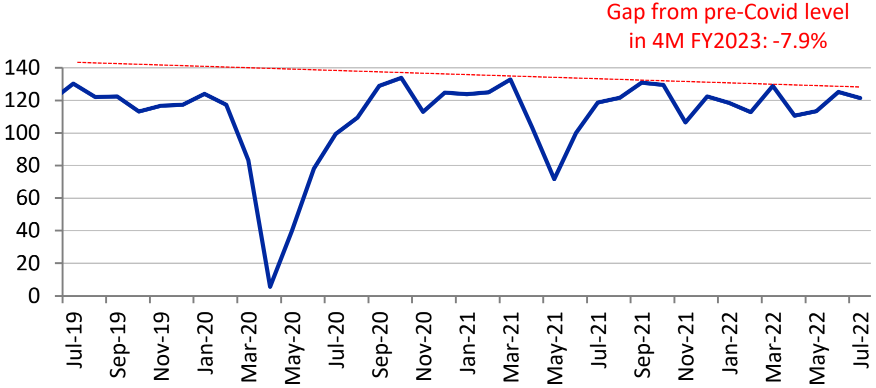


Source: Bloomberg; ICRA Research

- India witnessed a record-high 2.5 million/day generation of GST e-way bills in August 2022 (2.1 million in Aug 2021), indicating the onset of building up of inventories ahead of the festive season amid a healthy momentum of activity and consumption of services.
- These trends, along with robust imports and improved compliance portend that the GST collections are expected to remain healthy in September 2022, in the range of Rs. 1.4-1.5 trillion.
- Additionally, there has been a sizeable drop in commodity prices, amidst fears of a global recession. This is likely to ease margin pressure for businesses in Q2-Q3 FY2023 and augur well for the YoY growth in GDP in these quarters.

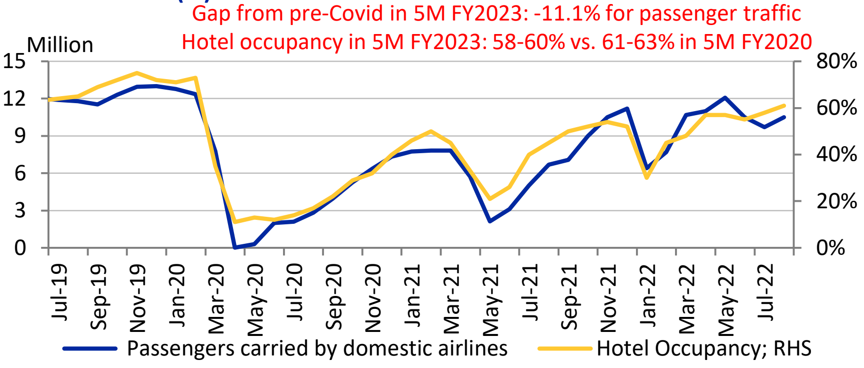
Consumption of services to be prioritised over goods amidst revival in corporate travel and confidence to avail leisure services

EXHIBIT: Index of Consumer Durables' output



Source: NSO; ICRA Research

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



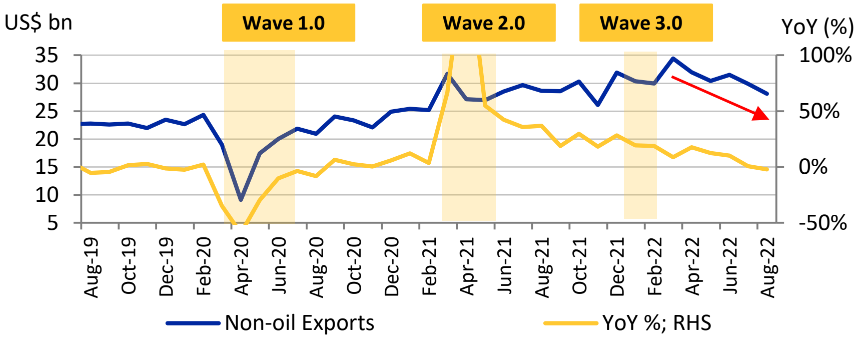
Source: DGCA; ICRA Research; Based on total supply

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.

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.

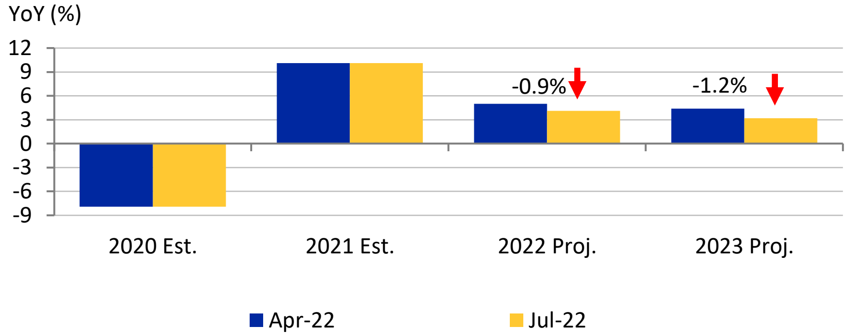
Flagging external demand poses risk to growth in near term

EXHIBIT: Trends in non-oil merchandise exports



Source: Ministry of Commerce and Industry; ICRA Research

EXHIBIT: IMF growth projections in world trade volumes of goods and services as per April 2022 and July 2022 World Economic Outlook (WEO)

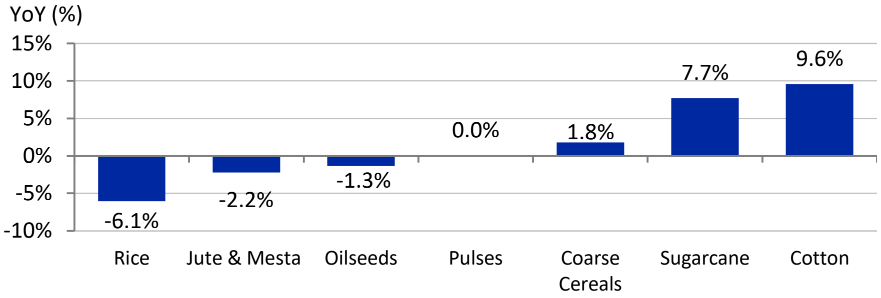


Est.: Estimates; Proj.: Projections; Source: World Economic Outlook; IMF; ICRA Research

- In August 2022, non-oil merchandise exports recorded a sharp sequential dip of 5.7%, declining to a nine-month low of US$28.2 billion from US$29.9 billion in July 2022, reflecting the slowdown in external demand.
- Moreover, non-oil exports recorded a YoY contraction of 1.8% in August 2022 (+0.8% in July 2022), after a gap of 23 months.
- In the WEO report released in July 2022, the IMF revised its growth projections for world trade volumes of goods and services downwards to 4.1% (+5.0% in Apr 2022 WEO) for CY2022 and 3.2% (+4.4% in Apr 2022) for CY2023. It highlighted that global trade is anticipated to slow by more than previously expected owing to the decline in global demand and supply chain disruptions.
- Overall, flagging external demand amidst Monetary Policy tightening across the globe and expectations of a slowdown across major economies poses a key risk to India’s growth outlook.

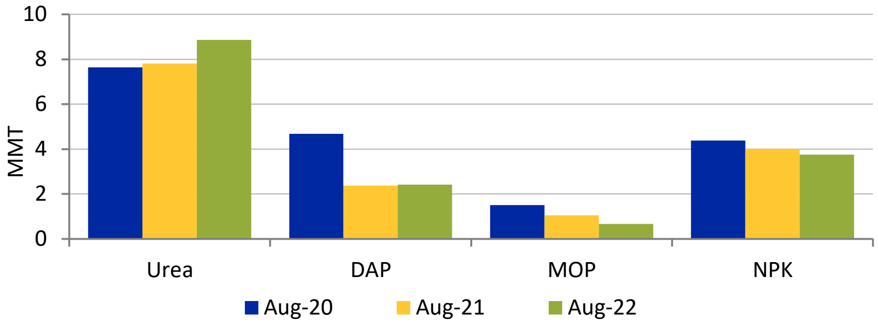
Kharif rice output estimated to trail year-ago levels sharply in FY2023; agri-GVA growth expected to moderate to ~2% in FY2023

EXHIBIT: YoY growth in kharif production as per 1st AE for FY2023, relative to 4th AE for FY2022



Source: Department of Agriculture, Cooperation and Farmers Welfare; 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

- As per the 1st Advance Estimates (AE) of kharif production for FY2023 released by the Ministry of Agriculture and Farmers' Welfare, the kharif output for rice, oilseeds, and jute and mesta is estimated to decline in FY2023, relative to the 4th AE for FY2022, whereas the output is likely to increase in the case of coarse cereals, sugarcane and cotton.
- However, the heavy rainfall in the middle of September 2022 in some states will add to the moisture levels of the crops, which does not portend well for yields and a timely harvest.
- Fertiliser inventory levels remain below historic levels across most segments, mainly due to lower imports amid limited availability in the international market and elevated prices. **However, reservoir levels are healthy across all regions and this, in our view, augurs well for a timely onset of rabi sowing, although concerns around the availability of labour in specific states as well as fertilisers remain. Overall, we expect agri-GVA growth to moderate to ~2% in FY2023 from 3.0% in FY2022.**

Near-term outlook for economic activity remains uneven

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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

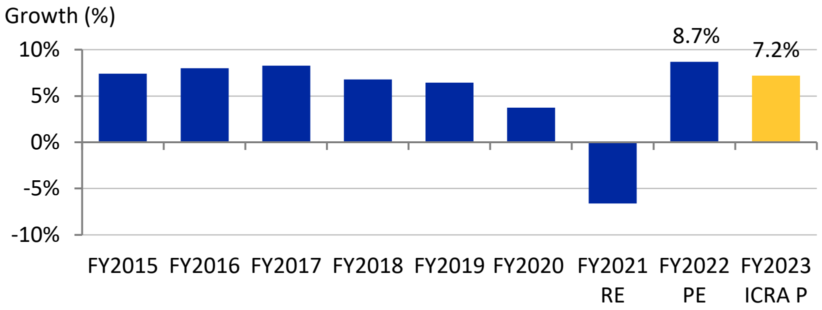
The consumption of contact-intensive services is likely to be prioritised, boosting the output in such sectors while simultaneously constraining the demand for consumer goods

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

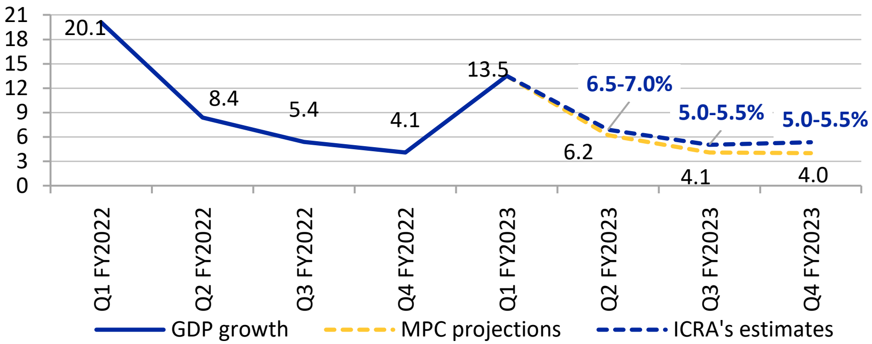
ICRA maintains GDP growth projection for FY2023 at 7.2%; however, Q2-Q4 FY2023 expected to turn out relatively better than the MPC's projections

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

- At 13.5% YoY, the Q1 FY2023 GDP growth was in line with ICRA's projections, albeit significantly lower than the MPC's forecast of 16.2%. Given this and our expectations around economic activity for Q2-Q4 FY2023, we have maintained our full-year FY2023 growth estimate at 7.2%.
- ICRA expects GDP to grow by 6.5-7.0% in Q2 FY2023 and 5.0-5.5% each in Q3 and Q4 FY2023, higher than the MPC's estimates for these quarters.
- **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 continued strengthening in demand for services and the recent correction in commodity prices lead us to expect a somewhat higher GDP growth in H2 FY2023 relative to the MPC's projections. However, the expected dip in kharif output and a flagging external demand poses downside risks and remain the key monitorables.**
- **Notably, while GDP growth is expected to decelerate in H2 FY2023 from Q1-Q2 FY2023, this is largely optical. When compared to pre-Covid levels, GDP growth is expected to improve in H2 FY2023.**

UPDATE ON PROJECT ACTIVITY

GFCF growth was healthy in Q1 FY2023 backed by robust Government capex, construction activity

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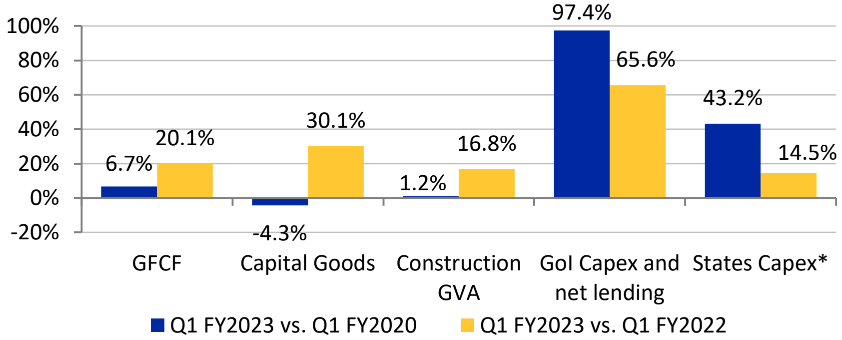
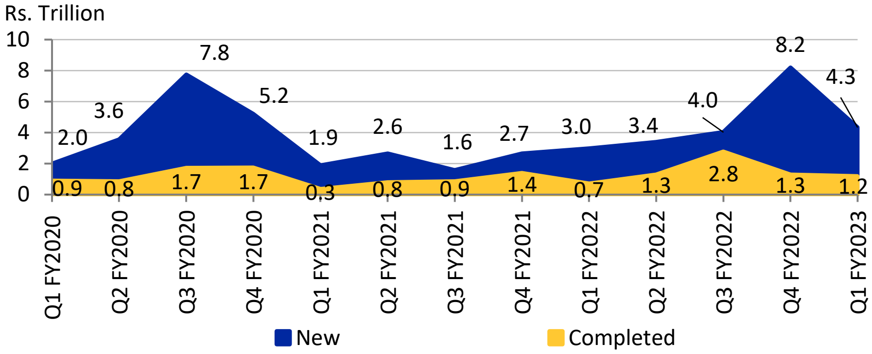
EXHIBIT: Trends in GFCF, capital goods, GoI capex and states' capex



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

EXHIBIT: New and completed investment projects



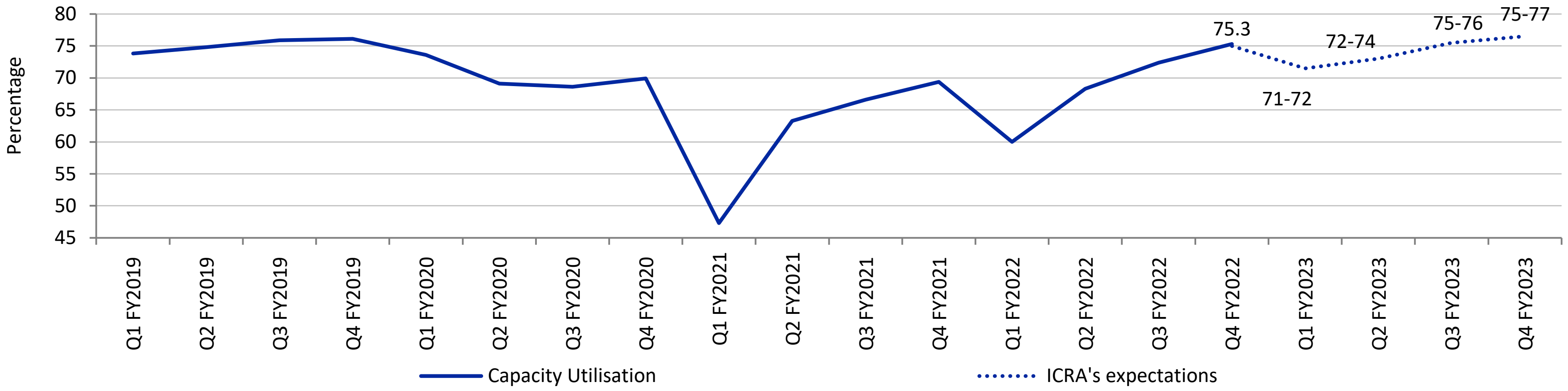
As on Sep 26, 2022; Source: CMIE, ICRA Research

- GFCF expanded by 20.1% YoY in Q1 FY2023 on a low base of Covid 2.0, with its share in GDP increasing to a healthy 34.7%, the highest since Q2 FY2013.
- Moreover, it exceeded the pre-Covid levels of Q1 FY2020 by 6.7%, mirroring the trends in Government capex and construction GVA.
- On the contrary, the output of capital goods trailed the pre-Covid levels in Q1 FY2023, highlighting the tentativeness in investment demand. Nevertheless, India's imports of machinery and equipment were healthy in the quarter.

- While the new project announcements rose to Rs. 4.3 trillion in Q1 FY2023 from Rs. 3.0 trillion in Q1 FY2022 and Rs. 2.0 trillion in Q1 FY2020, they were modestly lower than the historical average (Rs. 4.4 trillion in Q1 FY2008-22).
- Despite the uncertainty caused by the Russia-Ukraine conflict, new proposals by the private sector were seasonally buoyant in Q1 FY2023, albeit concentrated in a few sectors such as power.
- In contrast, the project completions declined to a four-quarter low of Rs. 1.2 trillion in Q1 FY2023 but were largely in line with the quarterly average seen during FY2020-22.

CU likely to have witnessed a seasonal dip in Q1 FY2023; expected to improve gradually thereafter to ~75-76% by Q3 FY2023

EXHIBIT: Quarterly trends in Capacity Utilisation



Source: RBI; ICRA Research

- Capacity utilisation (CU) for the manufacturing sector had risen to 75.3% in Q4 FY2022, the highest level in past three years. ICRA expects CU to have eased modestly to 71-72% in Q1 FY2023, reflecting seasonal trends as well as escalation of geopolitical conflict and commodity price pressures impacting margins.
- Thereafter, it is likely to rebound gradually to 75-76% by Q3 FY2023, in anticipation of recovery in the domestic demand for goods during the festive season, amidst the ongoing slowdown in exports owing to fears of a global recession.
- We expect the CU to continue to exceed 75% in Q4 FY2023, which would likely trigger a broader capacity expansion by the private sector.

Cement CU to remain moderate at 68% in FY2023; steel CU levels could slip this fiscal from seven-year high 80% in FY2022

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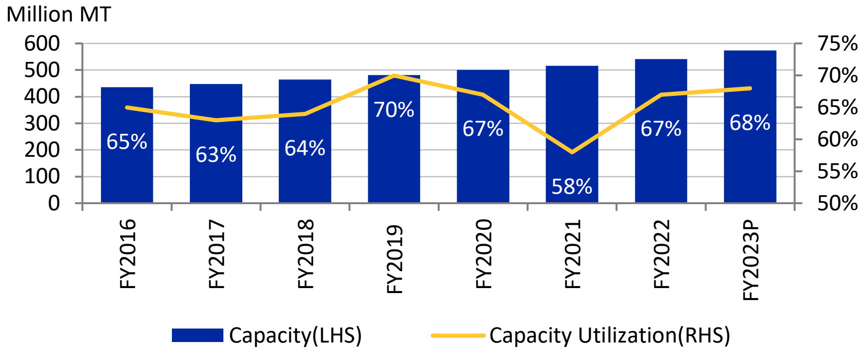
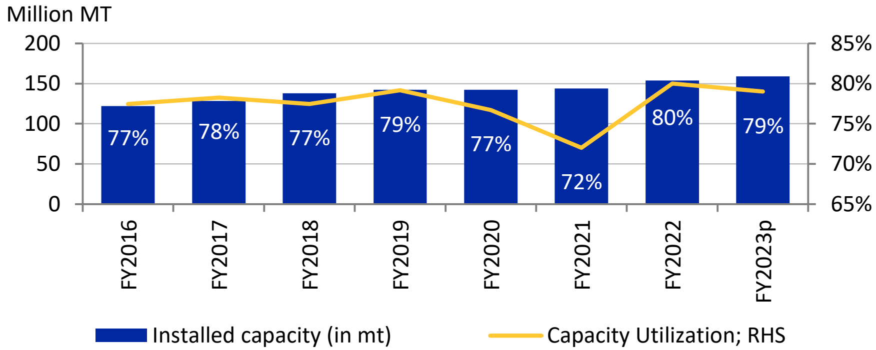
EXHIBIT: Annual trends in cement capacity utilisation



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

- After rising by 17.2% in Q1 FY2023, the YoY growth in cement production volumes slowed to 2.0% in July 2022 on account of the base normalisation related to Covid 2.0, and the seasonal impact of monsoons.
- We expect the cement production volumes to grow by 8% to ~389 million MT in FY2023, backed by the demand from housing, both rural and urban, and the infrastructure sectors.
- Despite the expected increase in demand, cement capacity utilisation is likely to remain moderate at ~68% in FY2023 on an expanded base (67% in FY2022).

EXHIBIT: Annual trends in steel capacity utilisation

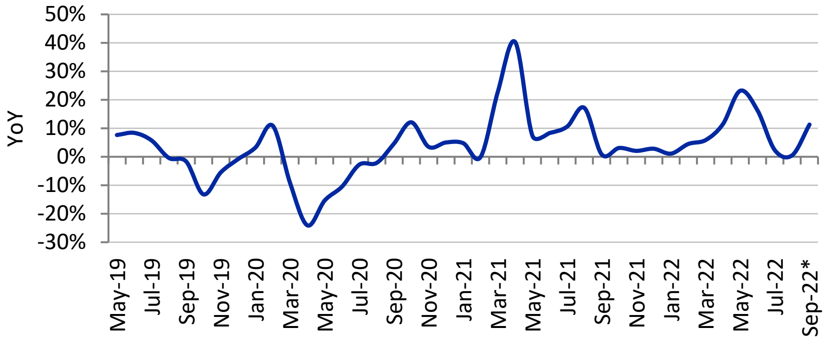


P: Projected; Source: Ministry of Steel; JPC; ICRA Research

- The domestic steel demand growth rose to 12.8% YoY during Jul-Aug 2022 from 9.4% in Q1 FY2023, despite the excess rainfall across some states. Domestic demand is projected to grow by 7.5% in FY2023.
- However, finished steel exports are expected to contract by a steep 40-45% in FY2023, following the imposition of export duty by the GoI, as well as the correction in seaborne steel prices amid softer demand from key countries.
- With the capacity addition of 4.8 mtpa lined up for FY2023 likely to exceed incremental steel demand, the CU may slip to 79% this fiscal, from the seven-year high of 80% in FY2022.

All-India PLF for thermal power plants set to rise to 61.5-62.0% in FY2023 amid healthy demand growth

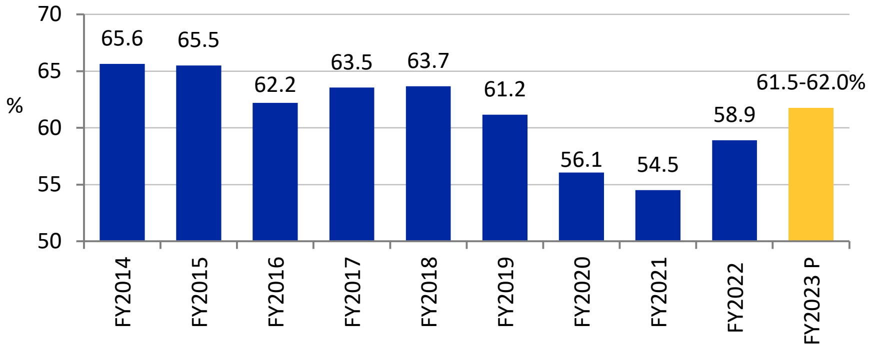
EXHIBIT: All-India Electricity demand



**Till Sep 27, 2022; Source: POSOCO; ICRA Research*

- After printing in low single-digits in Jul-Aug 2022, the YoY growth in all-India electricity demand rebounded sharply to 11.3% during Sep 1-27, 2022. This can be attributed to a low base (+0.8% in Sep 2021), as well as deficient rainfall in the early part of Sep 2022, pushing up the demand from household and C&I segments.
- ICRA expects all-India electricity demand to grow by 6.5-7.0% for FY2023, based on the growth prospects for the economy and the heatwave-led surge in the demand during Q1 FY2023.

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



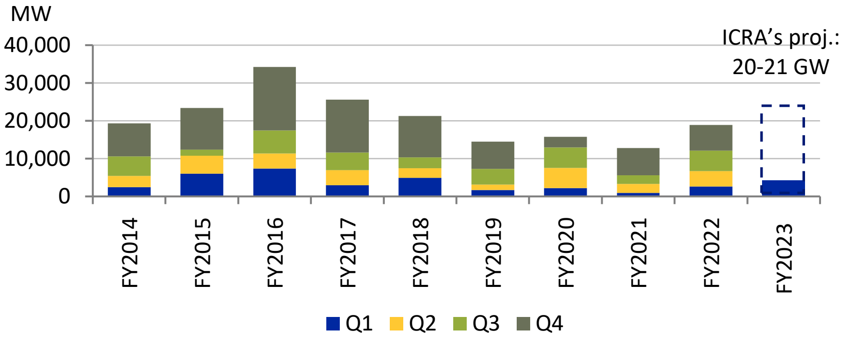
P: Projected; Source: CEA; ICRA Research

- Owing to the healthy growth in electricity demand and limited capacity addition, the PLF of thermal power plants is estimated to rise to 61.5-62.0% 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 20-21 GW in FY2023, backed by strong pipeline of RE projects

ICRA

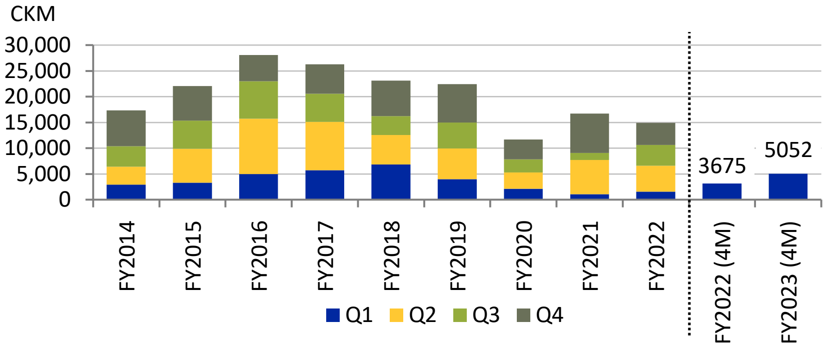
EXHIBIT: Trends in power generation capacity addition



Source: CEA; ICRA Research

- Power generation capacity addition rose considerably to 4.2 GW in Q1 FY2023 from 2.6 GW in Q1 FY2022 (impact of Covid 2.0 on execution of projects) and was also twice as high as the 2.1 GW addition seen in Q1 FY2020, led by the renewable energy segment.
- ICRA expects the capacity addition to increase to 20-21 GW in FY2023 from 19 GW in FY2022, stemming from the strong project pipeline for the RE segment. The capacity addition from the thermal and hydro segments is likely to remain modest.

EXHIBIT: Trends in power transmission capacity addition



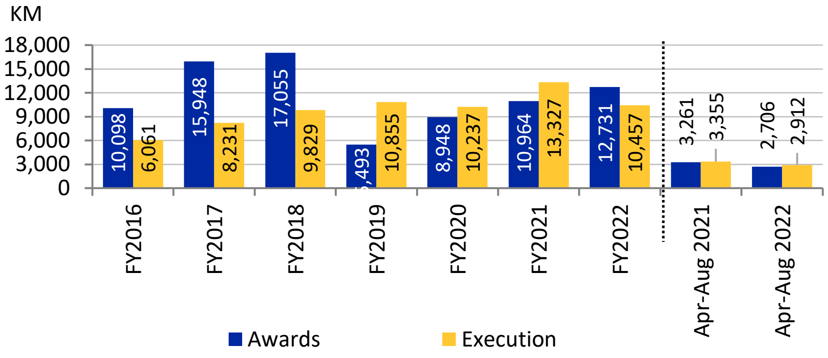
Source: CEA; ICRA Research

- In Apr-July FY2023 or 4M FY2023, transmission lines addition doubled to 5,052 CKMs from 3,675 CKMs in 4M FY2022, partly on the back of a low base owing 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.

Pace of road execution expected to improve in FY2023; hotel occupancies rose significantly in 5M FY2023, expected to reach 68-70% this fiscal

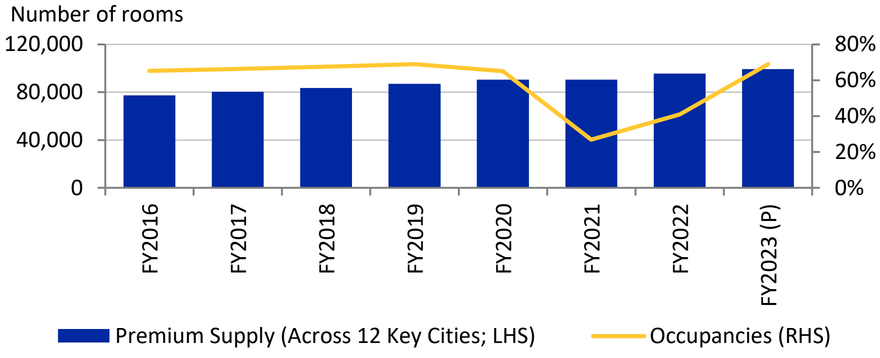
ICRA

EXHIBIT: Trends in road awards and execution



Source: MoRTH; ICRA Research

EXHIBIT: Annual trends in hotel occupancies



P: Projected; Source: ICRA Research

- The Government set a construction target of 40km/day for FY2023. However, the execution of road projects declined by 13.2% YoY to 2,912 km (19.4 km/day) in Apr-Aug 2022 from 3,355 km (21.4 km/day) in Apr-Aug 2022, owing to delays in land acquisition and environmental clearances, as well as some seasonal disruptions. Similarly, awards were subdued at 2,706 km in Apr-Aug 2022, compared to 3,261 km in the year-ago period.
- We expect the pace of road execution to improve in H2 FY2023, after the monsoon season is over, backed by a strong pipeline of awards.

- Hotel industry has witnessed a healthy start to FY2023, with 58-60% occupancy in premium hotels in 5M FY2023, up from ~40-42% in FY2022 and closer to pre-Covid occupancy of 61-63% in 5M FY2020.
- Benefitting from higher leisure demand and resumption of business travel, hotel occupancies are expected improve to 68-70% in FY2023 from 40-42% in FY2022.

UPDATE ON FINANCING

Surge in bank credit growth supported total financing volumes at end-June 2022

ICRA

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

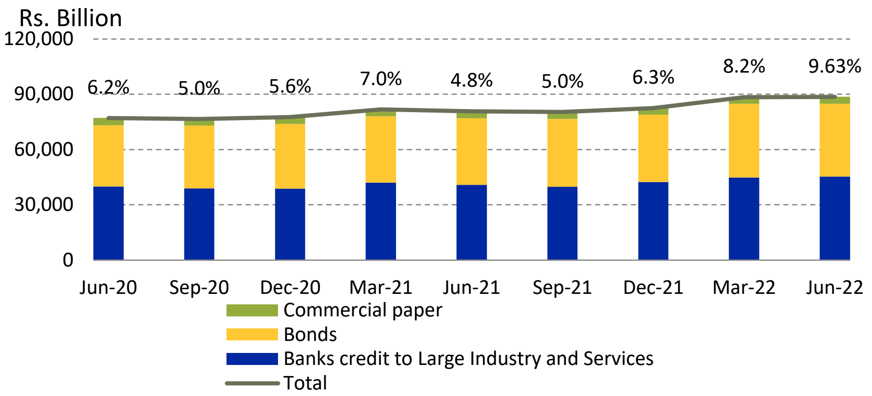
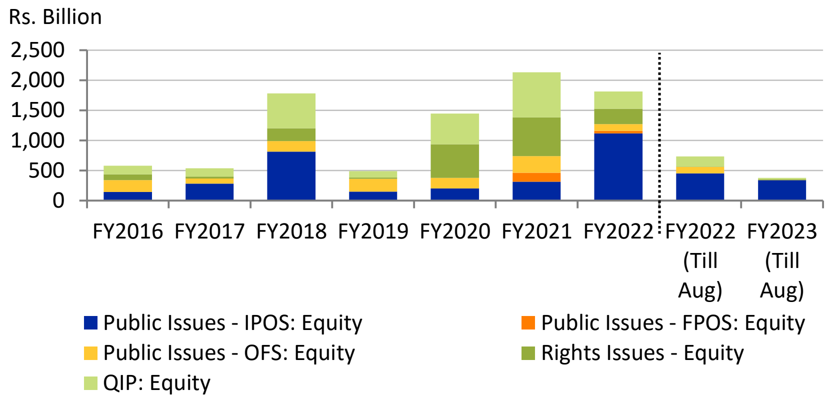


EXHIBIT: Trends in domestic equity funds raising (Rs. Billion)

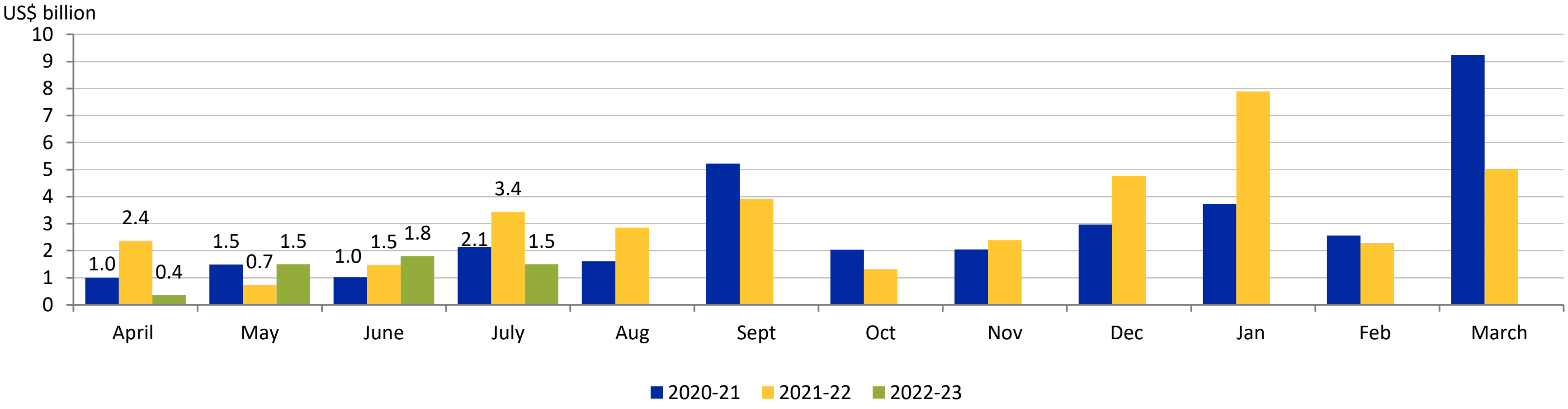


- The growth in total financing* rose to a 12-quarter high of 9.6% at end-June 2022 from 8.2% at end-March 2022. The uptick was largely driven by a surge in the bank credit growth (to a two-year high 11.1% at end-June 2022 from 6.6% at end-March 2022 and 1.9% at end-June 2021) amid rising working capital requirements for corporates and relatively lower pace of transmission of interest rate hikes into lending rates levied by banks vis-à-vis the bond markets, as evinced by a moderation in the YoY growth of outstanding corporate bonds (to 9.1% at end-June 2022 from 11.2% at end-March 2022) during the period.
- This trend is expected to continue in the near term, unless there is a faster transmission of rate hikes into banks' lending rates. The rise in financing was also supported by a narrowing in the YoY decline of CP volumes outstanding to 1.0% at end-June 2022 from 3.3% and 3.9%, respectively, at end-March 2022 and end-June 2021.
- Domestic equity funding halved to Rs. 380.1 billion in Apr-Aug 2022 from Rs. 731.6 billion raised in Apr-Aug 2021 amidst challenging market conditions. With multiple IPOs lined up over the next six months amid improving FII-equity inflows and sustained interest of DIIs, funding is expected to improve in H2 FY2023.

*^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*

ECB plans have been sluggish in FY2023 amidst rising interest rates across the globe, and volatility in the USD/INR pair

EXHIBIT: Monthly Gross ECB volumes



- Unlike the trend seen in FY2022, gross external commercial borrowings (ECB) have been subdued in FY2023 so far, contracting by a sharp 35.2% YoY to US$5.2 billion during Apr-Aug 2022 from US$8.0 billion during Apr-Aug 2021. This can be attributed to lower attractiveness of this funding source among corporates amidst rising interest rates across the globe and volatility in the USD/INR pair.
- **The RBI's recent relaxations on increasing the automatic route limit and all-in-cost ceiling for eligible investment grade entities rated by Indian CRAs may improve the ECBs to some extent. Nevertheless, we believe that with the withdrawal of monetary accommodation expected to continue across the world, the ECB plans may weaken in FY2023, relative to FY2022 and India Inc. may continue to rely on domestic sources of funding, especially through banks.**

Source: RBI; ICRA Research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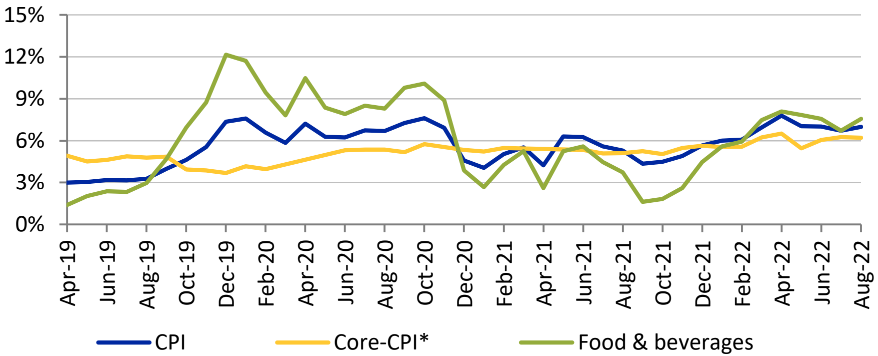
INFLATION

While ebbing of input cost pressures augurs well for core inflation, volatile food prices amid weak kharif output prospects and robust services demand pose risks

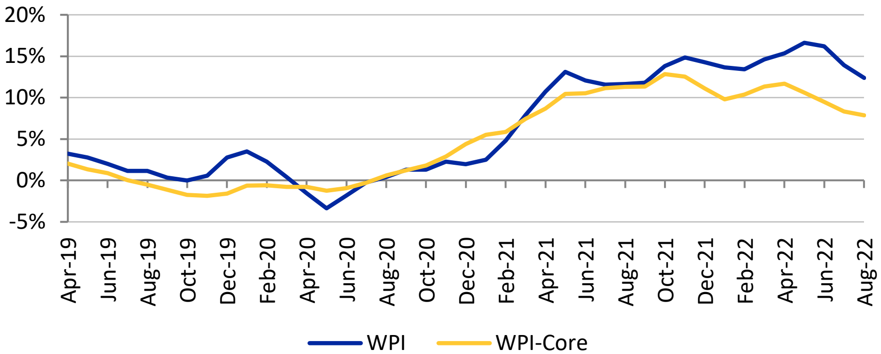
EXHIBIT: Trends in CPI, core-CPI and food and beverages inflation



**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; AE: Advance estimates*

- After declining for three months in a row, the CPI inflation rebounded to 7.0% in Aug 2022 from 6.7% in July 2022, led by a broad-based hardening in food items, even as the core-inflation witnessed a mild dip.
- We expect the CPI inflation print to inch up further to 7.1% in September 2022, implying a marginal undershooting in Q2 FY2023 vis-à-vis the MPC's projection of 7.1% for the quarter.
- ICRA projects the headline CPI inflation at 6.5% in FY2023 (+5.5% in FY2022), with a likely YoY decline in the kharif output for rice and oilseeds (as per 1st AE for FY2023), as well as the healthy demand for services posing key risks.

EXHIBIT: Trends in WPI and core-WPI inflation

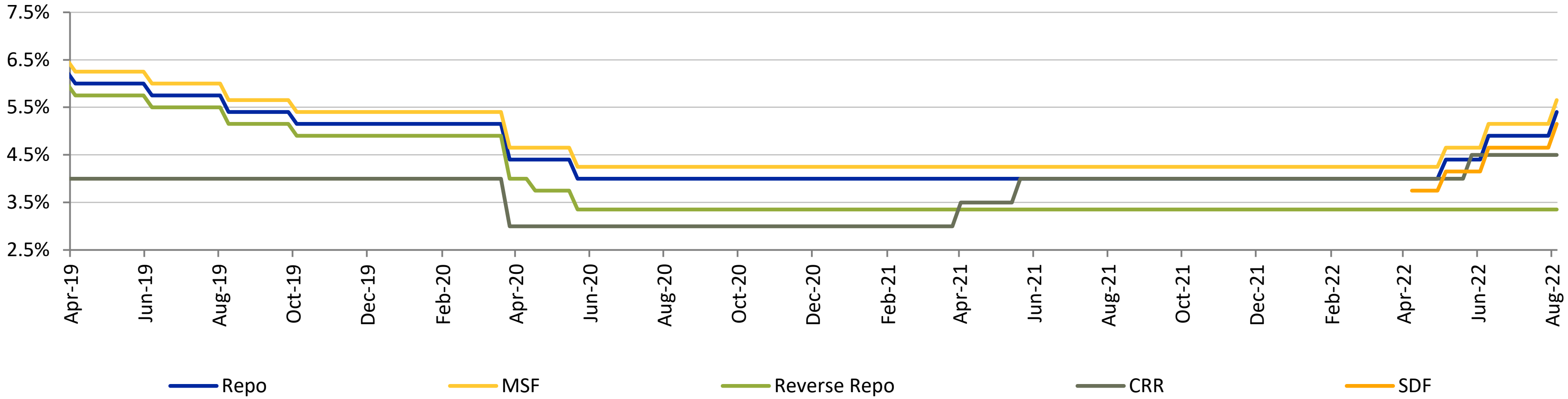


Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; ICRA Research

- The YoY WPI inflation moderated to an 11-month low of 12.4% in Aug 2022 from 13.9% in July 2022, on account of an easing in inflation in the fuel and power, crude petroleum, primary non-food articles, and manufactured food and non-food product segments.
- We expect the WPI inflation to ease to ~11-12% in Sep 2022 aided by the correction in global commodity prices. Consequently, the WPI inflation is likely to ease to ~13% in Q2 FY2023 from 16.1% in Q1 FY2023, before slipping into single digits by Oct 2022, after a gap of 18 months, if the downtrend in commodity prices sustains across the board.

ICRA foresees another "new normal" 50 bps hike in Sep 2022 policy; Dec 2022 policy decision to be data dependent

EXHIBIT: Movement in Key Rates



Source: RBI; CEIC; ICRA Research

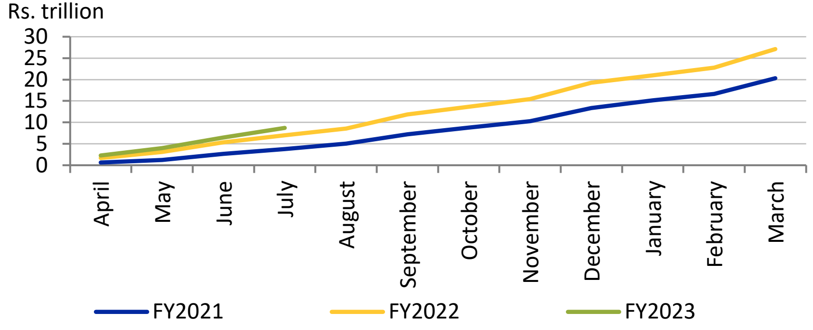
- The MPC's Aug 2022 minutes reveal a broad-based commitment to anchor inflationary expectations and strengthen policy credibility, amidst the RBI Governor's comments on ensuring that the CPI inflation moves closer to the target of 4.0% over the medium term. We expect that the MPC will stick to the 'new normal' rate hike of 50 bps in its late-September 2022 meeting, with the headline inflation having rebounded to 7.0% in August 2022, and aggressive tightening by various global Central Banks.
- Nevertheless, the CPI inflation in Q2 FY2023 is anticipated to marginally undershoot MPC's 7.1% projection for that quarter. Subsequently, the high base is likely to soften the headline inflation print to sub-6% levels in the early part of H2 FY2023. The December 2022 policy decision is likely to be data dependent, taking a cue both from the latest CPI prints and the strength of the Q2 FY2023 GDP growth.

UNION GOVERNMENT FINANCES

Higher-than-budgeted net tax revenues in FY2023 may absorb a significant portion of upside in revex stemming from subsidies

ICRA

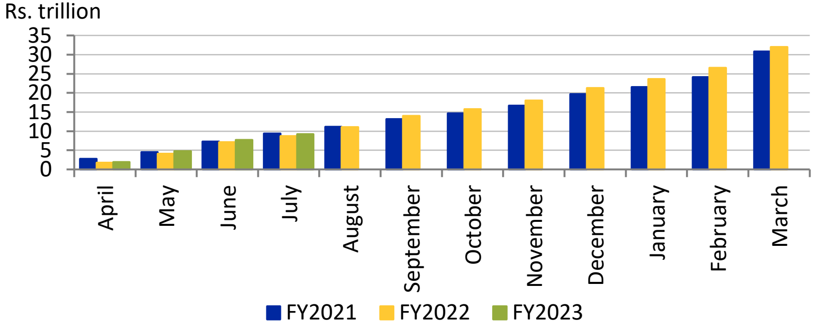
EXHIBIT: Trends in cumulative Gross Tax Revenues of GoI



Source: CGA; ICRA Research

- During Apr-Jul FY2023, the GoI raised gross tax revenues of Rs. 8.7 trillion, 31.5% of the FY2023 BE (Rs 27.6 trillion, 1.8% higher than FY2022 Prov.), and ~25% higher than year-ago levels, led by direct taxes (~43% of BE).
- Moreover, advance tax collections were healthy in the Sep 2022 quarter, with a YoY growth of 40% in gross direct taxes (before adjusting for refunds) till Sep 16, 2022, as per the press release dated Sep 17, 2022.
- **We expect the non-excise gross tax revenues of the GoI to exceed the conservatively estimated FY2023 BE by a sharp Rs. 3.0-3.5 trillion, a portion of which would be shared with the states.**

EXHIBIT: Trends in cumulative Revenue Expenditure of GoI



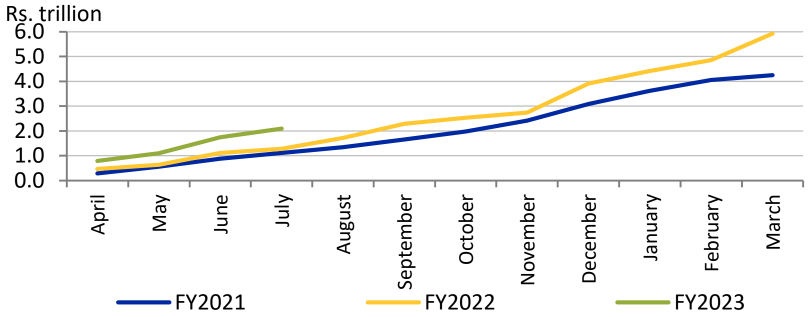
Source: CGA; ICRA Research

- In Apr-July FY2023, revenue expenditure grew by modest 4.8% YoY to Rs. 9.2 trillion or ~29% of the FY2023 BE.
- 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 (Rs. 0.8 billion partly to be offset by lower cost of wheat procurement) and LPG cylinder subsidy to PMUY beneficiaries. Further, news reports indicate that the fuel subsidy may be enhanced by Rs 200 billion over the BE for FY2023 to support the OMCs.
- **We estimate the upside risks to the GoI's revenue expenditure in FY2023 over the BE level at around Rs. 2.0 trillion, led by subsidies.**

Capex growth robust in Apr-Jul FY2023; extent of fiscal slippage over BE likely to be limited at Rs. 0.3-0.8 trillion this fiscal

ICRA

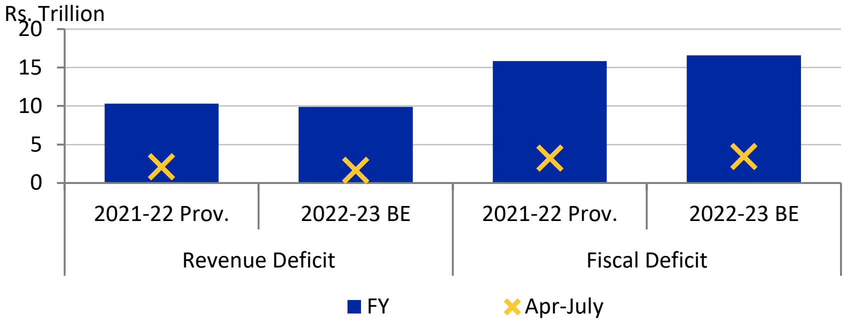
EXHIBIT: Trends in cumulative Capital Expenditure of GoI



The sizeable step-up of Rs. 1.6 trillion in the budgeted capex in FY2023 relative to FY2022 Prov. is dominated by special assistance to states for capital investment ("capex scheme"; to Rs. 1.0 trillion in FY2023 BE from Rs. 0.2 trillion in FY2022 RE) Source: CGA; ICRA Research

- In Apr-Jul FY2023, capital expenditure expanded by 62.5% YoY to Rs. 2.1 trillion (~28% of FY2023 BE). In July 2022, it doubled to Rs. 336 billion from Rs. 169 billion in July 2021, while remaining modest relative to the release of Rs. 680 billion in June 2022, as execution of capital projects typically witnesses a slowdown during the monsoon months.
- The capital transfers to states stood at a subdued Rs. 30.9 billion in Apr-Jul 2022, in spite of the capital expenditure amounting to Rs. 315 billion that was approved for 10 states under "capex scheme" in July 2022.
- ICRA expects a back-ended pick-up in Government capex, supported by higher transfers under the capex scheme to the states in H2 FY2023.

EXHIBIT: Revenue deficit and fiscal deficit of GoI



Source: CGA; ICRA Research

- The GoI's non-tax revenues fell sharply by 36% YoY to Rs. 895.6 billion in Apr-Jul 2022, owing to the lower-than-budgeted surplus transfer by the RBI. Disinvestment receipts, on the other hand, were healthy at Rs. 246 billion (38% of BE), owing to the receipts from the LIC IPO during this period.
- With a healthy expansion in tax revenues outweighing the fall in non-tax revenues amid robust capex growth, the fiscal deficit rose mildly to Rs. 3.4 trillion in April-July FY2023 from Rs. 3.2 trillion in the year-ago period.
- We expect the extent of the overshoot in the GoI's fiscal deficit in FY2023 relative to the BE to be limited to Rs. 0.3-0.8 trillion, at present.

FY2023 fiscal deficit unlikely to exceed 6.4% of GDP, unless Free Foodgrain Scheme is extended beyond September 2022

ICRA

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

Positives

- Low nominal GDP assumption in the FY2023 Union Budget
- Considerable upside to non-excise tax revenues in FY2023 relative to the BE, owing to modest growth assumptions
- Windfall tax on crude oil and export duties on petroleum products (to partly offset the shortfall from excise duty cut)
- Lower cost of wheat procurement
- Spillover of inflows from LIC IPO to FY2023 to augment GoI's non-debt capital receipts

Negatives

- Revenue losses related to excise duty cuts on petrol and diesel
- Lower-than-budgeted RBI surplus transfer
- Higher spending on fertiliser and LPG subsidies, MNREGA
- Reduction in customs duties on certain items
- Windfall tax on crude oil negative for upstream oil players, to lower margins and hence, corporate tax collections
- A potential enhancement in fuel subsidy* to support the OMCs

**Additional support of Rs. 200 billion as per news reports, against the BE of Rs. 81 billion; Source: ICRA Research*

Rates on small saving schemes likely to be revised upwards for Q3 FY2023 …

ICRA

EXHIBIT: Spread between 1Y/2Y Term deposits vs comparable maturity of G-sec yields for the corresponding reference period

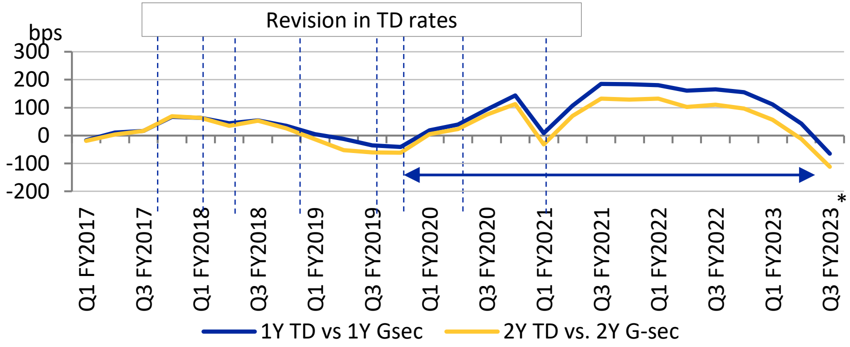
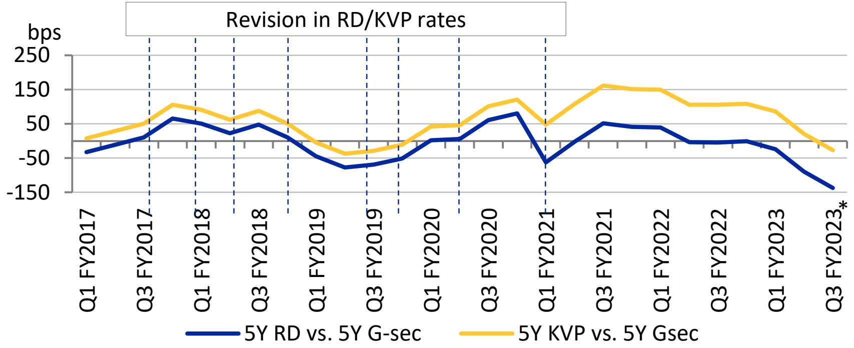


EXHIBIT: Spread between 5Y Recurring deposits and KVP vs 5Y G-sec yields for the corresponding reference period



- The interest rates on small saving schemes~ are fixed on a quarterly basis and are linked to the average end-month G-Sec yields of corresponding maturity in the trailing three months (termed as the reference period). The rates on such schemes were last revised for Q1 FY2021. For the 1Y and 2Y term deposit schemes, 5Y Recurring Deposits and 5Y Kisan Vikas Patra, the interest rates are calibrated to move closer to the interest rates of the similar instruments of the banking sector, and hence, do not enjoy a spread over comparable G-sec yields since April 2016.
- The spreads between 1Y and 2Y term deposits and their comparable G-sec yields would turn negative (vs. the reference period) if the rates on these schemes are not revised upwards for Q3 FY2023; moreover, these would be lower than the spreads in Q4 FY2019, when small savings rates were last revised upwards.
- Similarly, the spreads between 5Y Recurring deposits/5Y RD and G-sec yields of corresponding maturity would fall into the negative territory, if left unchanged for Q3 FY2023, when compared with the reference period for the quarter.

**Q3 FY2023 shows an estimated spread over comparable G-secs if there is no revision in the rates on small savings schemes for the quarter; ~Small saving schemes are categorized under three broad heads (i) postal deposits, comprising savings account, recurring deposits, time deposits of varying maturities and monthly income scheme (MIS); (ii) savings certificates, including National Small Savings Certificate (NSC) and Kisan Vikas Patra (KVP); and (iii) social security schemes such as public provident fund (PPF) and Senior Citizens' Savings Scheme (SCSS)*

Source: DEA; CCIL; ICRA Research

… owing to a sustained dip in their spreads over comparable maturity of G-sec yields

EXHIBIT: Spread between 5Y small savings schemes vs 5Y G-sec yields for the corresponding reference period

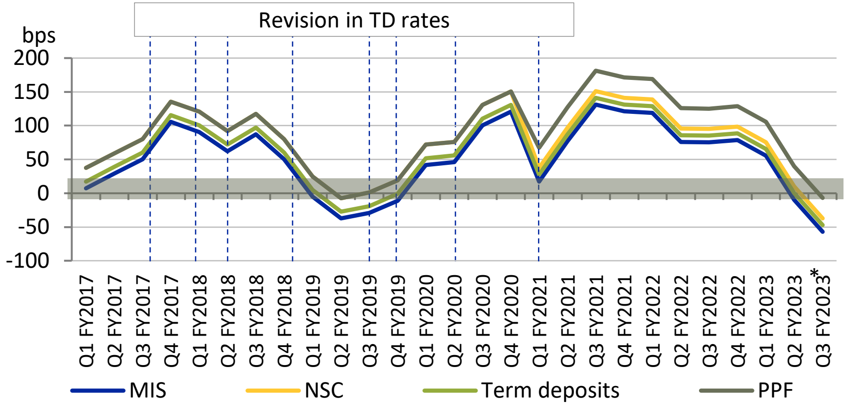
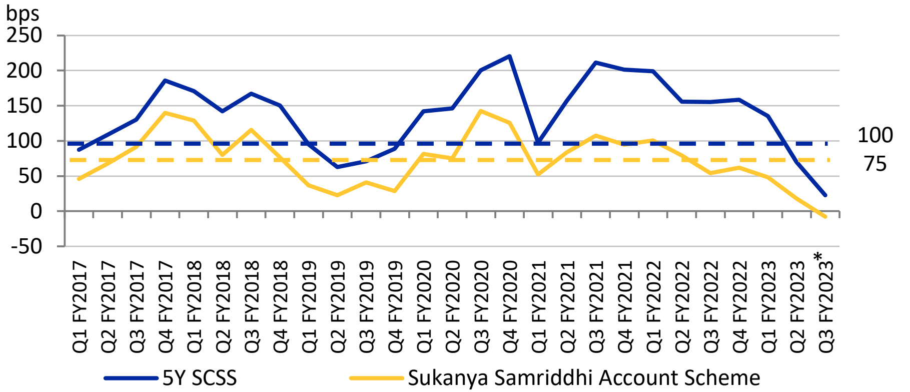


EXHIBIT: Spread between 5Y SCSS and 21Y Sukanya Samriddhi Account scheme vs. comparable G-sec yields for the corresponding reference period



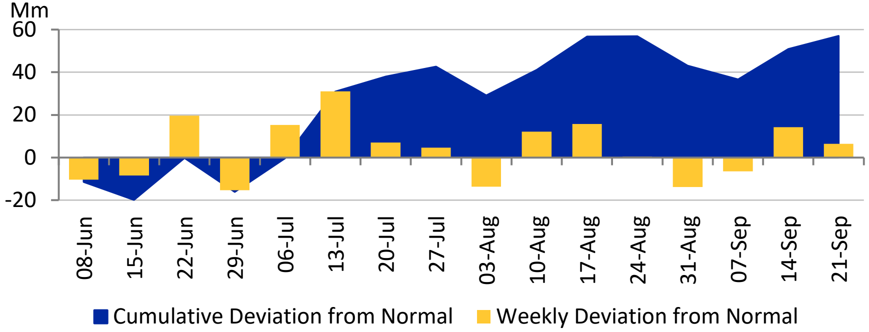
- The interest rates of national savings schemes such as the Sukanya Samriddhi Yojana (SSY) and the Senior Citizen Savings Scheme (SCSS) enjoy a spread of 75 bps and 100 bps, respectively, over the comparable maturity of G-secs, while the five-year tenures schemes, namely, the Monthly Income Scheme (MIS), Term Deposits, National Saving Certificates (NSC) and Public Provident Fund (PPF) enjoy a spread of 25 bps.
- The spreads between 5-year MIS, NSC, Term deposits and PPF would fall into the negative territory in Q3 FY2023 (vs. the reference period), if the rates are not revised upwards for the upcoming quarter.
- Compared to the acceptable spread of 100 bps for 5-year SCSS and corresponding tenure of G-sec yields, the spread would fall to 23 bps for Q3 FY2023 (when compared with the reference period for the quarter), if rates are left unchanged. Moreover, the spread would turn negative for SSY for this quarter, as against an acceptable spread of 75 bps over the comparable maturity of G-sec yield.

**Q3 FY2023 shows an estimated spread over comparable G-secs if there is no revision in the rates on small savings schemes for the quarter; for Sukanya Samriddhi Account Scheme (21-year maturity) we have taken 20-year G-sec yield for our analysis; Source: DEA; CCIL; ICRA Research*

SECTORAL TRENDS

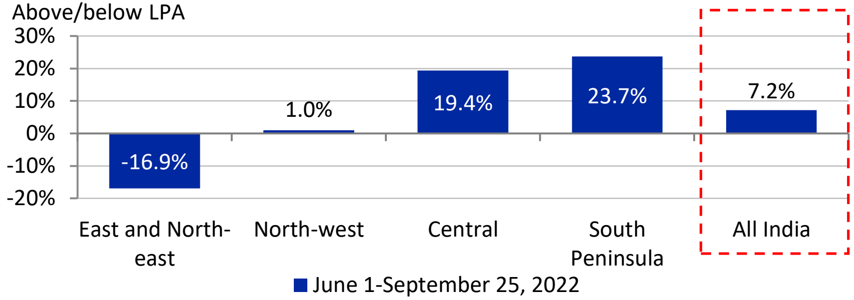
Rainfall has been above-normal during ongoing monsoon season so far, with significant temporal and spatial variation

EXHIBIT: Cumulative and weekly rainfall deviation from normal



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

EXHIBIT: Cumulative 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*

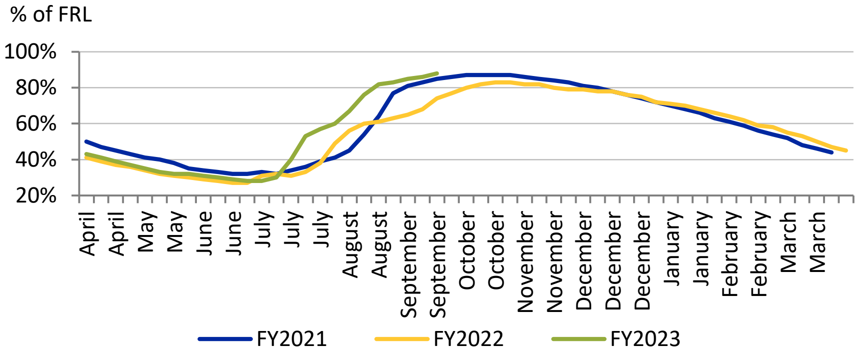
- In the ongoing South-west Monsoon season (June-September), India has witnessed above-normal rainfall at 107% of LPA till September 25, 2022, with significant temporal and spatial variation.
- The rainfall in August 2022 (103.5% of LPA) was lower than the above-normal rainfall (108% of LPA) witnessed in the first half of the monsoon season (June-July). Subsequently, excess rainfall has been recorded in September 2022 so far (112% of LPA; till Sep 25, 2022).

- The region-wise rainfall distribution during the ongoing season (as on September 25, 2022) has been excess in two regions, namely Central India (119% of LPA), and South Peninsula (124% of LPA).
- However, North-west India (101% of LPA) recorded normal rainfall during this period, while it was deficient in the East and North-east region (83% of LPA), as per the IMD's classification.

Reservoir storage is now appreciably higher than year-ago and historical levels

ICRA

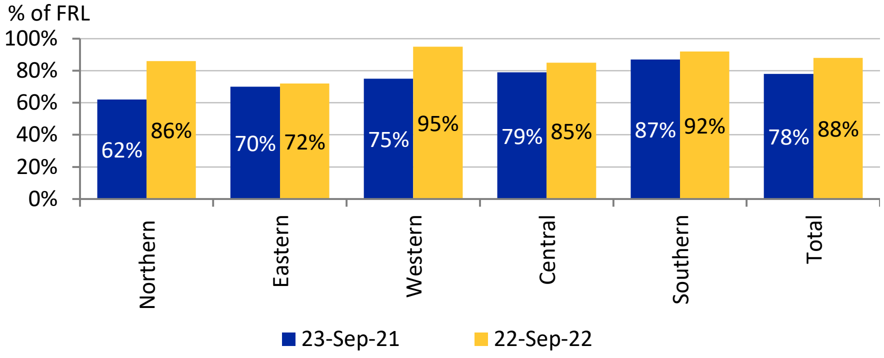
EXHIBIT: Reservoir storage levels as percentage of Live Capacity at Full Reservoir Level (FRL)



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

- The all-India reservoir storage rose above last year's peak (83% of live capacity at FRL), to 88% of live capacity at FRL as on September 22, 2022.
- This was considerably higher than the year-ago levels (78% as on September 23, 2021) period as well as the historical period (75%; last 10 years).

EXHIBIT: Region-wise reservoir storage levels



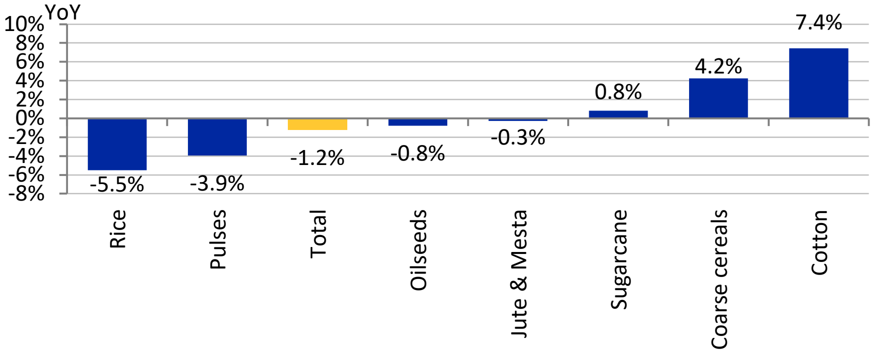
Source: CWC; CEIC; ICRA Research

- The storage was higher than the year-ago levels in all the regions as on September 22, 2022, led by significantly higher storage in the western (95% vs. 75%) and northern (86% vs. 62%) regions.
- This was followed by the southern (92% vs. 87%), central (85% vs. 79%), and eastern (72% vs. 70%) regions.

Kharif sowing down 1.2% YoY as on Sep 23, 2022; unlikely to exceed year-ago level

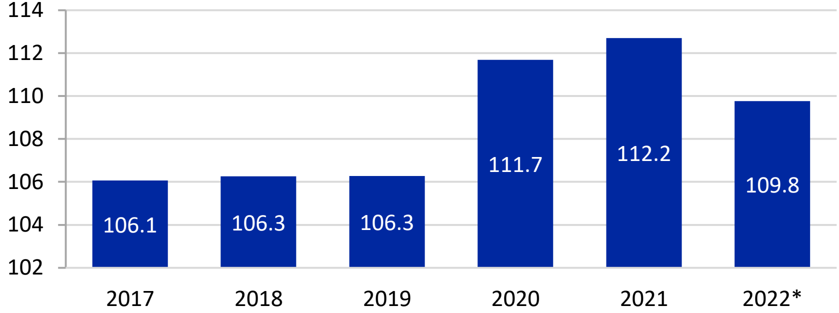
ICRA

EXHIBIT: YoY trends in kharif sowing as on September 23, 2022



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

EXHIBIT: Total acreage sown for kharif crops



**Till Sep 23, 2022; Source: Department of Agriculture, Cooperation and Farmers Welfare, ICRA Research*

- While kharif sowing gathered pace through July-August 2022, it continues to trail the year-ago levels by a mild 1.2% as on September 23, 2022.
- This was mainly led by the sharp contraction in rice (-5.5%) and pulses (-3.9%), followed by a relatively lower decline in oilseeds (-0.8%), and jute and mesta (-0.3%).
- In contrast, the area sown under sugarcane (+0.8%), coarse cereals (+4.2%), and cotton (+7.4%) exceeded the corresponding year-ago levels.

- The kharif acreage in the 2022 season is unlikely to exceed the final level recorded in 2021, with the YoY growth required to cover in the last week of Sep 2022 remaining quite substantial at 274% (2.4 million hectare).

YoY growth in IIP and core sector output moderated sharply in July 2022, led by normalising base and heavy rainfall

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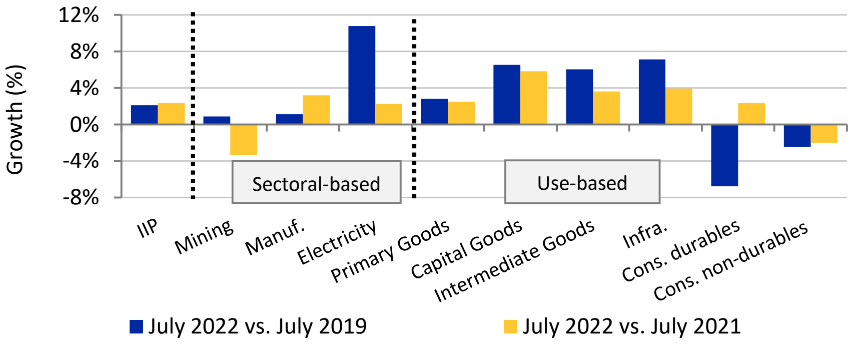
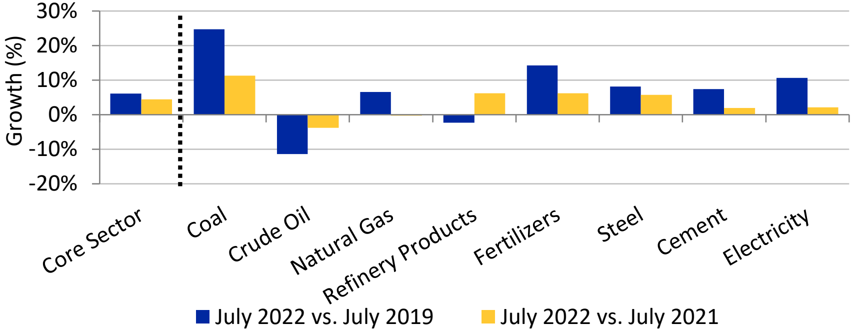
EXHIBIT: Trend in performance of IIP and its sub-components



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

- The IIP growth plunged to a four-month low 2.4% in July 2022 from 12.7% in June 2022, led by base normalisation and heavy rainfall in some areas, amidst a shift in consumer preferences towards contact-intensive services.
- Moreover, industrial output was only 2.1% higher than pre-Covid levels of July 2019, with the consumer durables and non-durables segment lagging their pre-Covid levels by 6.8% and 2.5%, respectively, reflecting the weakness in demand for goods.

EXHIBIT: Trend in performance of core sector and its sub-components



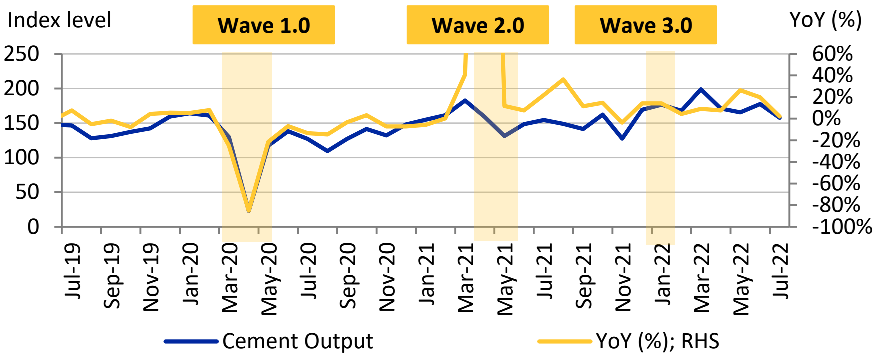
Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry, CEIC; ICRA Research

- The core sector output rose by 4.5% in July 2022 in YoY terms, led by a double-digit expansion in coal output (+11.3%), followed by refinery products (+6.2%). However, the output of natural gas (-0.3%) contracted after a gap of 16 months.
- Relative to July 2019, core sector output increased by a higher 6.1%, led by coal (+24.8%), fertilisers (+14.3%), electricity generation (+10.7%), steel (+8.2%), cement (+7.4%), and natural gas (+6.6%).

Divergent trend in output of cement and steel in July 2022; elevated input costs likely to weigh on margins in FY2023

ICRA

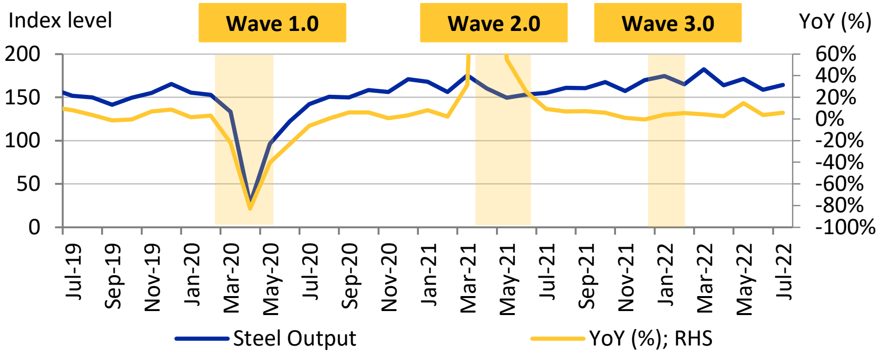
EXHIBIT: Trends in cement output



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

- The YoY growth in cement output eased to an eight-month low 2.0% in July 2022 from 19.7% in June 2022, while exceeding the pre-Covid level of July 2019 by 7.4%.
- ICRA expects cement volumes to grow by ~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.

EXHIBIT: Trends in steel output

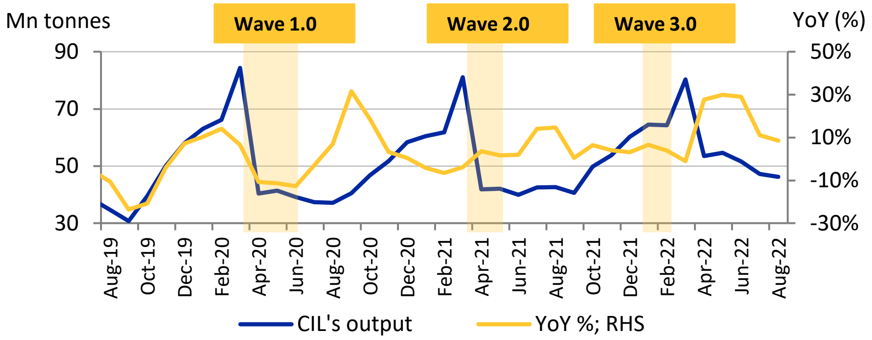


Source: Office of the Economic Adviser, GoI; ICRA Research

- The YoY growth in steel output rose to 5.7% in July 2022 from 3.7% in June 2022 and was 8.2% higher than the pre-Covid level of July 2019.
- Going forward, steel prices are likely to remain under pressure in the remainder of FY2023, with a slowdown in economic activity in key steel consumption hubs such as the US, the European Union, Japan and South Korea.

Normalising base and surplus rains expectedly dampened CIL's output and electricity generation in Jul-Aug 2022

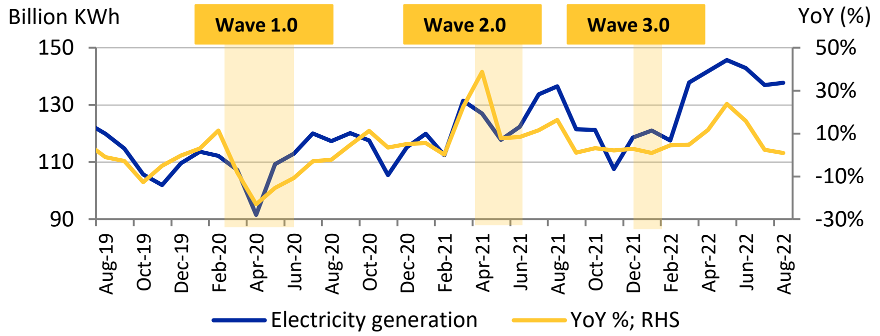
EXHIBIT: Trends in CIL's output



Source: CIL; ICRA Research; MT: Million tonnes

- The output of CIL has moderated consistently since May 2022 and stood at an 11-month low of 46.2 MT in August 2022, owing to excess rainfall across several regions.
- Moreover, the YoY growth in CIL's output eased considerably to 9.8% during Jul-Aug 2022 from 28.9% in Q1 FY2023, partly led by a normalising base.
- On a positive note, output exceeded the pre-Covid levels of Jul-Aug 2019 by a healthy 27.8% in Jul-Aug 2022.

EXHIBIT: Trends in electricity generation



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

- The YoY growth in electricity generation eased to a muted 1.6% in Jul-Aug 2022 from 17.7% in Q1 FY2023, with the waning of the favourable base effect and heavy rainfall across states.
- However, it exceeded the pre-Covid levels by 12.8% during Jul-Aug 2022.
- Moreover, the average spot power tariffs in the day-ahead-market (DAM) dipped mildly to Rs. 5.2/unit in August 2022 from Rs. 5.4/unit in July 2022, with moderation in demand coupled with higher supply from non-thermal sources, such as solar and hydro.

Domestic tractor sales deteriorated in Jul-Aug 2022, led by seasonal trends and base normalisation; motorcycle sales rose mildly amidst pre-festive stocking

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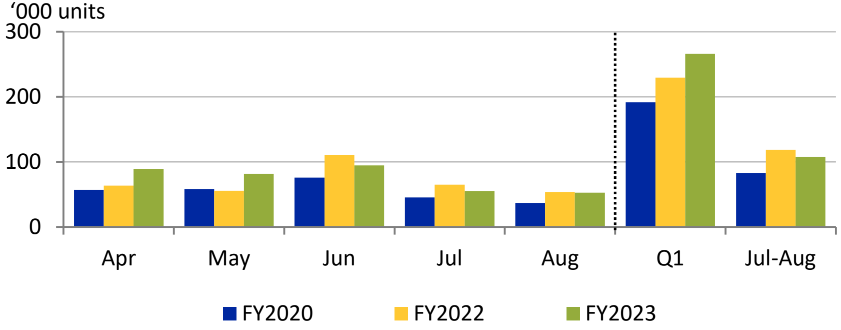
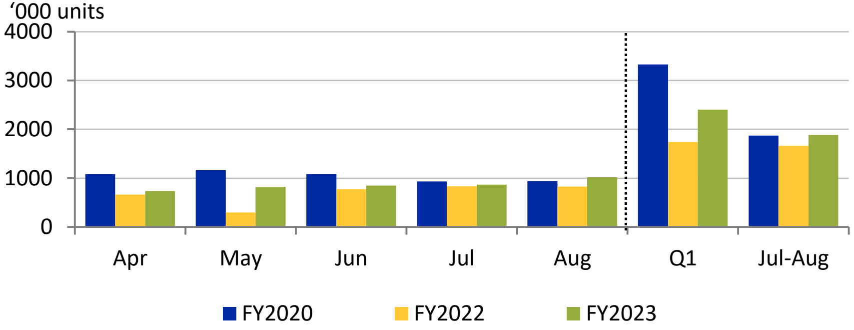
EXHIBIT: Trends in domestic tractor sales



Source: CMIE; ICRA Research

EXHIBIT: Trends in domestic motorcycle sales



Source: SIAM; CEIC; ICRA Research

- The average monthly tractor sales dipped sharply in Jul-Aug 2022 from the levels seen in Q1 FY2023, partly reflecting seasonal trends. Moreover, on a YoY basis, volumes declined by 9.3% in Jul-Aug 2022 (+15.8% in Q1 FY2023.
- Encouragingly, tractor sales in Jul-Aug 2022 exceeded the pre-Covid volumes of Jul-Aug 2019 by a robust 30.6%.
- **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% in FY2023.**

- Similarly, the YoY growth in domestic motorcycle sales moderated to 13.5% in Jul-Aug 2022 from 38.2% in Q1 FY2023, led by a normalising base.
- However, the volumes were only 0.8% higher than the sales during Jul-Aug 2019, reflecting the impact of elevated ownership costs (vehicle cost and petrol prices), inflationary headwinds and supply side challenges.
- **Going forward, sales in this segment is expected to remain healthy with the onset of the festive season as well as expectation of a normal monsoon. ICRA expects motorcycle sales to grow by ~9-10% in FY2023 on a low base.**

While scooter sales trailed pre-Covid levels in Jul-Aug 2022, PV volumes remained healthy with improving semiconductor supplies

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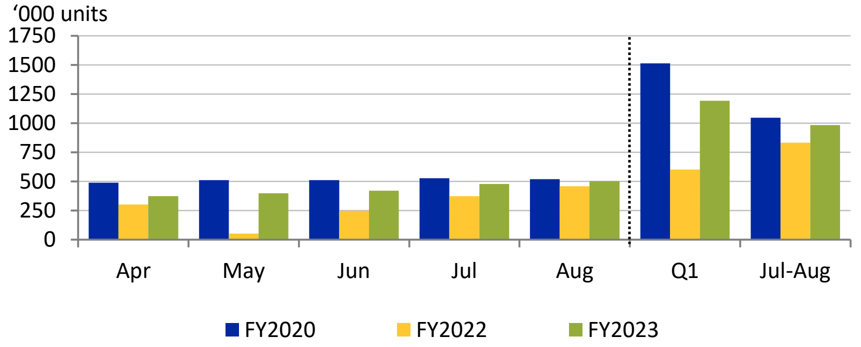
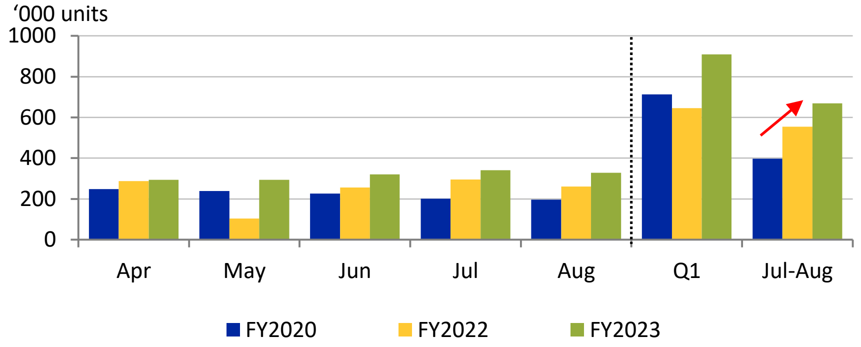
EXHIBIT: Trends in domestic scooter sales



Source: SIAM; CEIC; ICRA Research

- Domestic scooter volumes have risen consistently on a sequential basis, in FY2023 so far. However, the YoY growth in sales dipped to 17.9% in Jul-Aug 2022 from 98.6% in Q1 FY2023, mainly driven by base normalisation.
- Additionally, sales trailed the pre-Covid volumes by 6.1% in Jul-Aug 2022, constrained by sustained increase in the cost of ownership.
- **We expect domestic scooter sales to grow by ~9-10% in FY2023. However, persistently high cost of ownership, increase in financing rates and inflationary headwinds remain key monitorables.**

EXHIBIT: Trends in domestic PV sales



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

- While domestic PV sales expanded by 20.7% YoY in Jul-Aug 2022 (+40.6% in Q1 FY2023), the volumes exceeded the pre-Covid volumes of Jul-Aug 2019 by a substantial 68.6%, led by pent-up demand amid a gradual improvement in semiconductor supplies.
- **We now expect volumes to grow by 13-16% in FY2023, led by the improvement in semiconductor supplies and healthy demand trends. However, any further supply chain disruptions continue to be a monitorable.**

Domestic CV volumes to remain healthy in FY2023, aided by economic recovery and healthy demand from end-user industries

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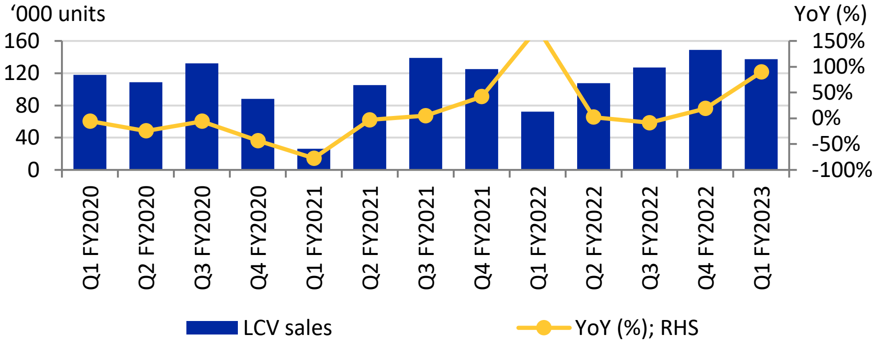
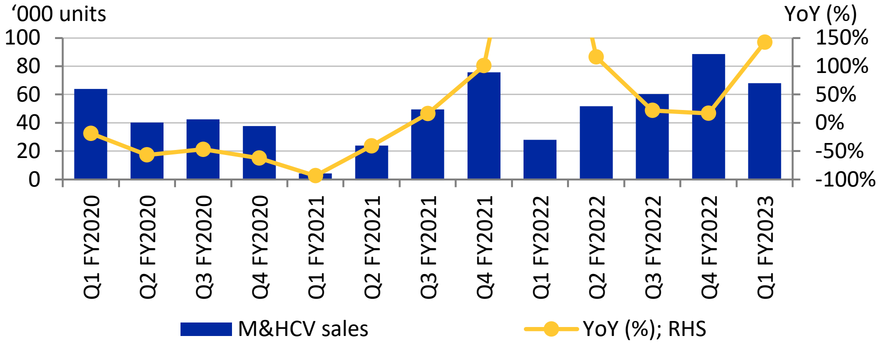
EXHIBIT: Trends in domestic LCV sales (truck)



Source: SIAM; CEIC; ICRA Research

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



Source: SIAM; CEIC; ICRA Research

- While the volumes of light commercial vehicles (LCVs: truck segment) dipped in Q1 FY2023, relative to Q4 FY2022, this segment recorded a four-quarter high YoY growth of 89.7% in Q1 FY2023, supported by the low base of the previous year.
- In addition, it exceeded the pre-Covid level of Q1 FY2020 by 16.2% in Q1 FY2023.
- **Going forward, the upswing in the e-commerce sector is likely to continue to support the volume growth in this segment. Accordingly, ICRA expects volumes within this segment to grow by ~8-10% in FY2023.**

- On a similar note, the sales of medium and heavy commercial vehicles (M&HCV: truck segment) posted a four-quarter high YoY growth of 142.2% in Q1 FY2023, on the back of a low base.
- This segment has witnessed a gradual improvement in volumes post the pandemic, supported by demand from the end-user industries such as steel, cement and mining as well as an overall pickup in economic activity.
- **With these factors expected to remain favourable, ICRA expects M&HCV truck volumes to grow by ~15-20% in FY2023.**

While merchandise imports surged in Jul-Aug 2022, exports rose mildly amidst flagging external demand

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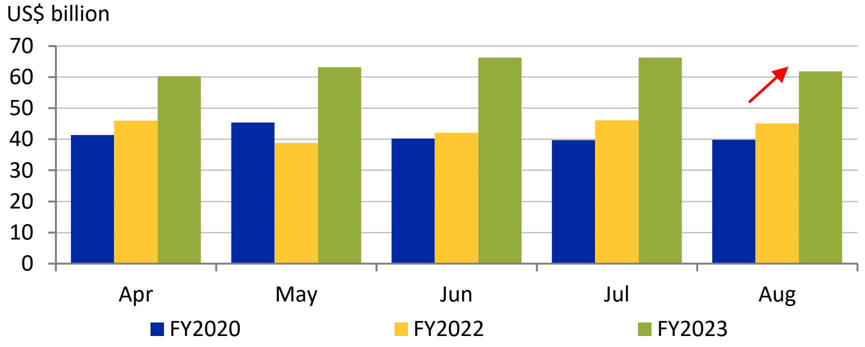
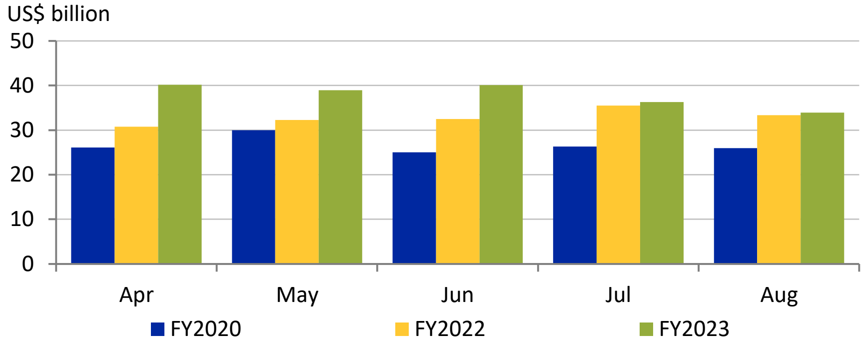
EXHIBIT: Trends in merchandise imports



Source: Ministry of Commerce, GoI; ICRA Research

- India's merchandise imports surged by 40.5% to US$128.2 billion in Jul-Aug 2022 from US$91.2 billion in Jul-Aug 2021, driven by a spike in oil imports (YoY: +77.8%), even as gold imports nearly halved (-45.5%).
- Imports exceeded US$60 billion for six consecutive months in August 2022.
- **We estimate merchandise imports to expand by ~21% at US$735-739 billion in FY2023 (US$611.9 billion in FY2022), aided by resilience in domestic demand, and higher imports of certain non-gold items such as coal to meet domestic requirements in the first half of the year.**

EXHIBIT: Trends in merchandise exports



Source: Ministry of Commerce, GoI; ICRA Research

- In contrast, India's merchandise exports rose by a mild 1.9% to US$70.2 billion in Jul-Aug 2022 from US$68.9 billion in Jul-Aug 2021, mainly driven by a contraction in non-oil exports (-0.5%) during this period.
- Moreover, exports dipped sequentially from US$40 billion in June 2022 to US$36 billion in July 2022 and further to US$34 billion in August 2022.
- **Overall, merchandise exports are projected to rise by a relatively modest ~7% to US$447-449 billion in FY2023 from US$419.7 billion in FY2022, with a slowdown in global growth amid Monetary Policy tightening.**

Merchandise trade deficit expected to nearly double in Q2 FY2023 compared to year-ago levels

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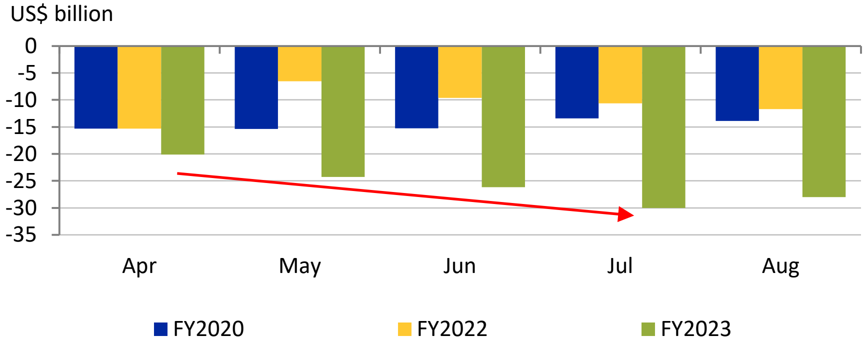
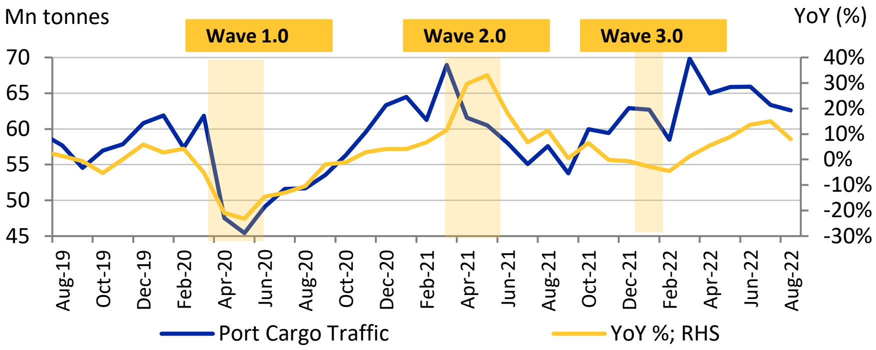
EXHIBIT: Trends in merchandise trade deficit (US$ billion)



Source: Ministry of Commerce, GoI; ICRA Research

- The average monthly trade deficit rose to US$29.0 billion in July-August 2022 from US$23.5 billion seen in Q1 FY2023.
- **We project the merchandise trade deficit at a record US$82-84 billion in Q2 FY2023, nearly twice as high as the level seen in Q2 FY2022, and a worrying ~17% higher than the US$71 billion estimated for Q1 FY2023.**

EXHIBIT: Trends in port cargo traffic

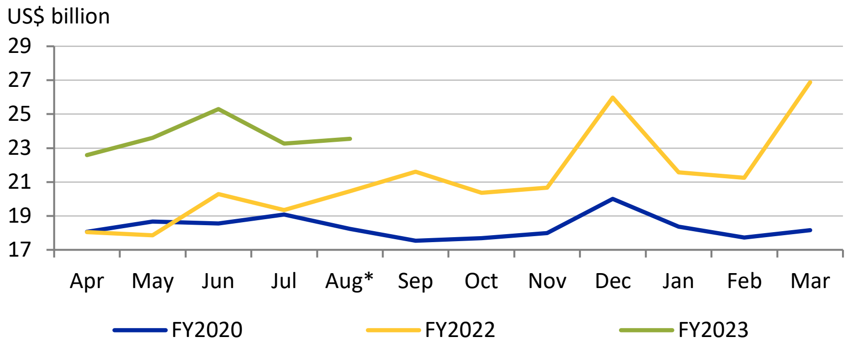


Source: Indian Ports Association (IPA); ICRA Research

- While the average monthly ports cargo traffic dipped mildly to 63.0 MT during Jul-Aug 2022 from 65.6 MT in Q1 FY2023, the YoY growth remained healthy at 11.4% in Jul-Aug 2022 (+9.3% in Q1 FY2023). This was led by coal (YoY: +69.3%), POL (+9.7%), other liquids (+10.2%) and containers (+1.7%).
- Traffic at major ports exceeded the pre-Covid levels by 7.6% in Jul-Aug 2022.

Services trade surplus to rise by ~8% in FY2023, led by robust services exports

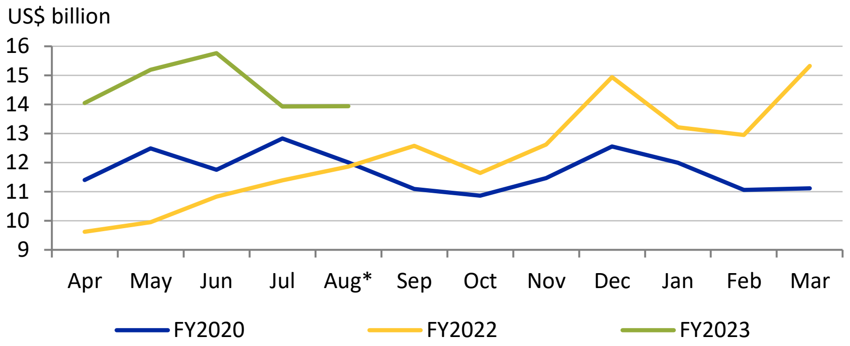
EXHIBIT: Trends in services exports



**Data for Aug 2022 is 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, services exports averaged at US$23.4 billion during July-August 2022, a mild 1.8% lower than the monthly average of US$23.8 billion in Q1 FY2023.
- Moreover, service exports were 25.4% higher in Jul-Aug 2022 than the pre-Covid levels of Jul-Aug 2019 (US$18.7 billion).

EXHIBIT: Trends in services imports

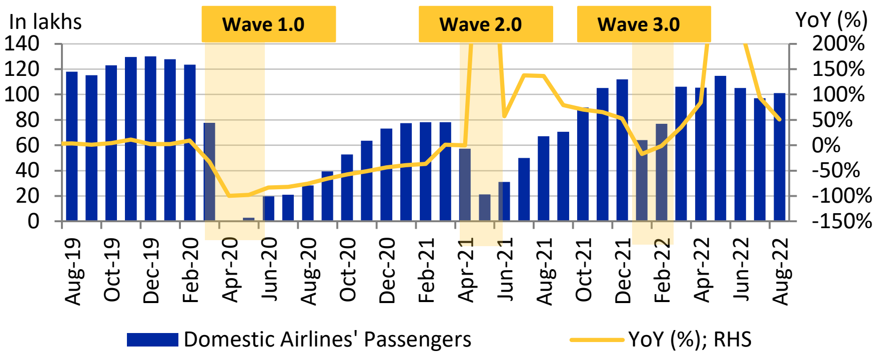


**Data for Aug 2022 is based on initial estimates by the Ministry of Commerce and Industry; Source: RBI; ICRA Research*

- Services imports averaged at US$13.9 billion in Jul-Aug 2022, a substantial 7.1% lower than the monthly average of US$15.0 billion in Q1 FY2023.
- Consequently, the average monthly services trade surplus rose to US$9.5 billion in Jul-Aug 2022 from US$8.8 billion in Q1 FY2023.
- **We expect the services surplus to rise by ~8% to US$115-117 billion in FY2023 from US$107.5 billion in FY2022, on the back of robust exports and a weaker INR, in spite of some recovery in outbound tourism.**

Rail freight traffic declined consistently since June 2022; aviation continues to trail pre-Covid levels by ~16% in Jul-Aug 2022

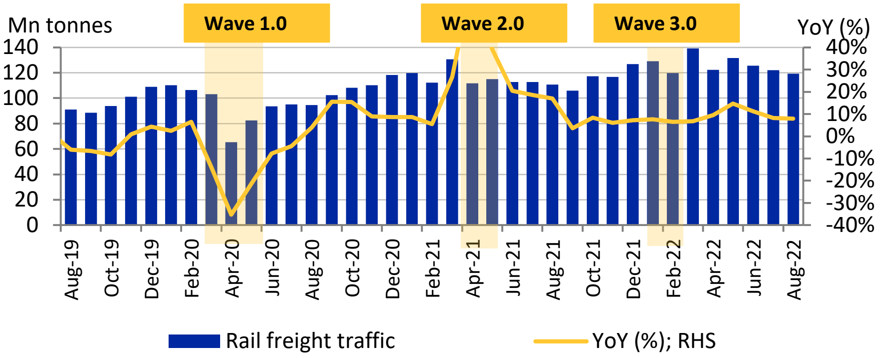
EXHIBIT: Trends in domestic airlines' passenger traffic



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

- The YoY growth in domestic airlines' passenger traffic eased to 69.3% YoY during Jul-Aug 2022 from 196.9% in Q1 FY2023, led by a normalising base.
- Traffic trailed the pre-Covid level of Jul-Aug 2019 level by 16.3% in Jul-Aug 2022.
- **The recovery in corporate travel and steady demand from leisure traffic are likely to support passenger traffic in FY2023. Nevertheless, any further Covid waves and movement in air fares remains a monitorable.**

EXHIBIT: Trends in rail freight traffic

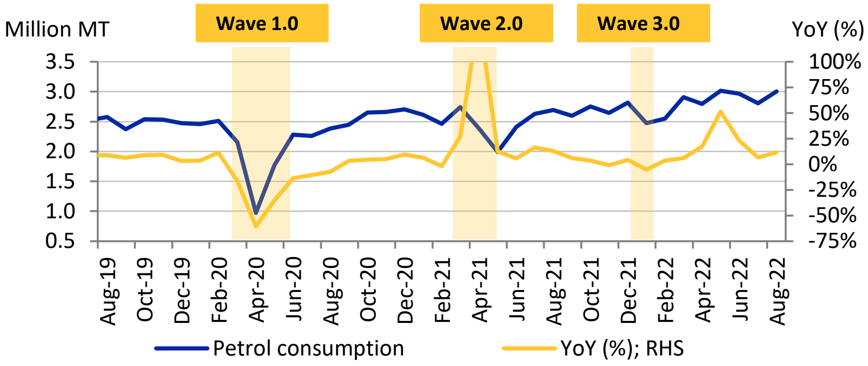


Source: Indian Railways, GoI; ICRA Research

- The YoY growth in rail freight volumes moderated to 8.1% in Jul-Aug 2022 from 11.8% in Q1 FY2023, led by the trends in freight volumes of foodgrains, iron ore, cement, fertilisers and POL.
- On a sequential basis, rail freight traffic declined for the third consecutive month in August 2022.
- Regardless, rail freight volumes continued to remain above the pre-Covid levels of Jul-Aug 2019 by 26.6% in Jul-Aug 2022.

YoY expansion in petrol and diesel consumption moderated in Jul-Aug 2022, relative to Q1 FY2023

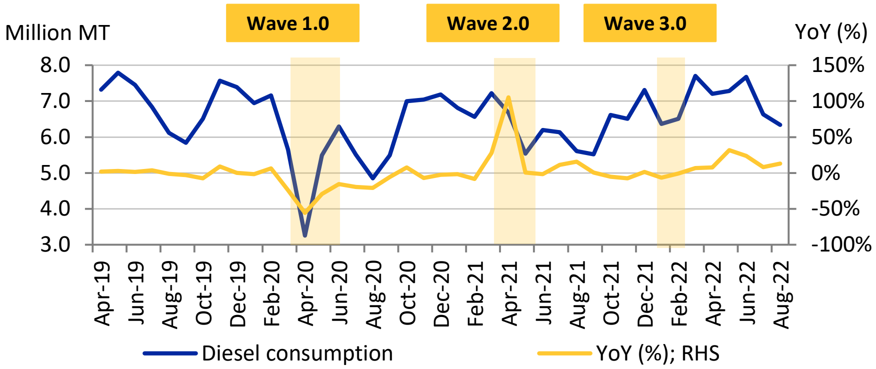
EXHIBIT: Trends in petrol consumption



Source: PPAC; ICRA Research

- The YoY expansion in petrol consumption eased to 9.2% in Jul-Aug 2022 from 29.4% in Q1 FY2023, led by a fading base effect.
- However, petrol sales exceeded the pre-Covid levels by a healthy 14.0% in Jul-Aug 2022, benefitting from the preference for personal mobility despite higher retail prices.

EXHIBIT: Trends in diesel consumption



Source: PPAC, ICRA Research

- Similarly, the YoY growth in diesel consumption dipped to 10.5% in Jul-Aug 2022 from 20.4% in Q1 FY2023.
- Diesel consumption stood at an 11-month low 6.3 million MT in Aug 2022, as excess rains in the South Peninsula and Central India continued to weigh on demand from agriculture, construction and other segments.
- In Jul-Aug 2022, consumption was flattish (+0.1%) relative to the Jul-Aug 2019 level.

Annexure

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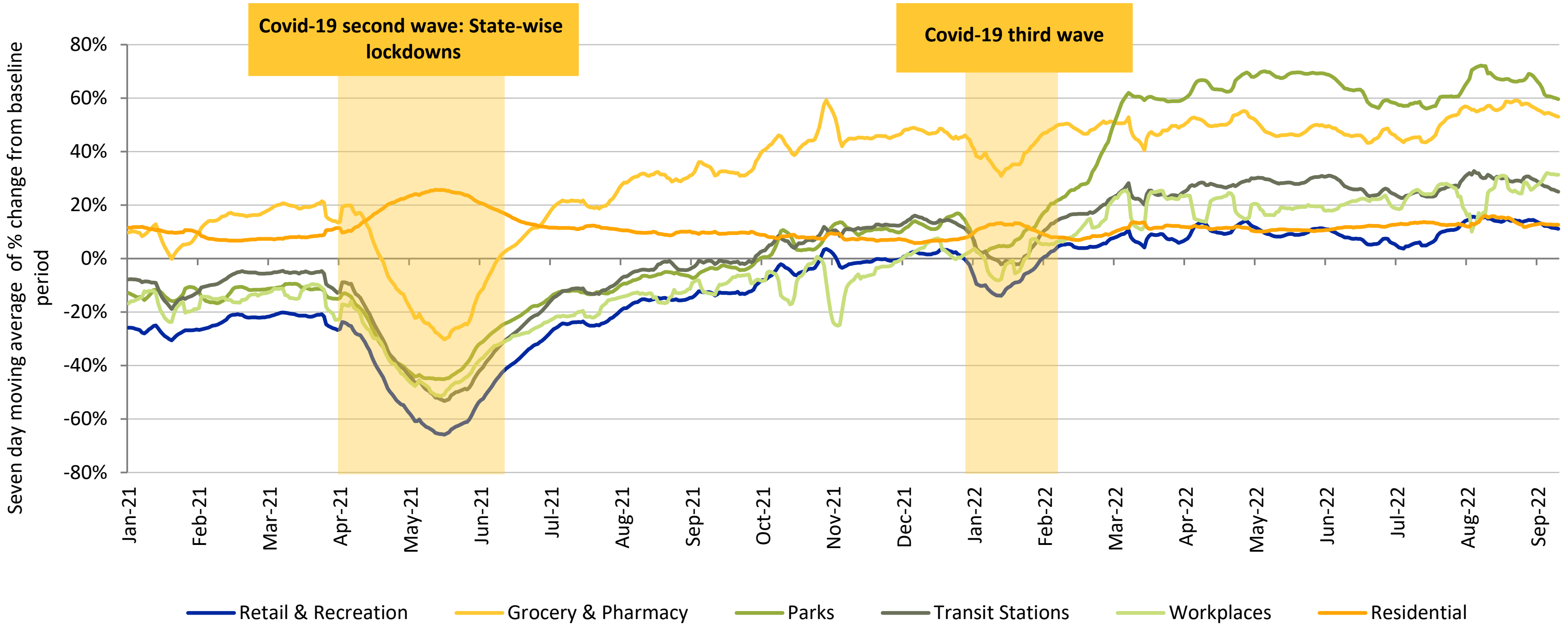
Mobility at pan-India level has flattened but remains at elevated levels post the moderation in Covid-19 infections



Data available till September 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!