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INDIAN ECONOMY

GDP growth to decelerate to 6.0% in FY2024 amid external slowdown; weak monsoon poses downside risk

MARCH 2023

Agenda

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1 India's Q4 FY2023 and FY2024 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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India's GDP growth is expected to moderate to 6.0% in FY2024 on account of flagging external demand; weak monsoon poses downside of up to 50 bps

Sizeable increase in the budgeted capex by the GoI and several states is expected to provide support to economic activity

With two consecutive CPI inflation prints above-6.0% during Jan-Feb 2023 the MPC is likely to vote for another non-unanimous rate hike in Apr 2023

India's GDP growth is expected to inch up to ~4.5-5.0% in Q4 FY2023 from 4.4% in Q3 FY2023, amid the healthy rise in rabi output, uptick in YoY growth of high frequency indicators in Jan-Feb 2023 partly led by a low base, robust services demand and a moderation in commodity prices, even as the unseasonal rainfall in mid-March 2023 could adversely impact crop yields. ICRA expects consumer sentiments to improve through FY2024, auguring well for consumption demand, although it would remain uneven. The potential return of El Nino conditions could hurt the prospects of crop output and rural demand, and put upward pressure on food inflation. Nevertheless, the sizeable increase in the budgeted capex by the Government of India (GoI) and several states is expected to provide support to economic activity, amid signs of an uptick in private capex, although execution remains key. We expect India's GDP growth to moderate to ~6% in FY2024 from 6.9% expected in FY2023, largely on account of a drag stemming from slackening external demand, with downside of up to 50 bps stemming from a deficient monsoon. With two consecutive CPI inflation prints above-6.0% during Jan-Feb 2023, the Monetary Policy Committee (MPC) is likely to vote for another non-unanimous rate hike in Apr 2023, following the recent rate hike by the US Fed.

ICRA's Macroeconomic Projections	FY2023	FY2024
GDP Growth (at 2011-12 prices)	6.9%	6.0%
GVA Growth (at 2011-12 prices)	6.5%	5.9%
CPI Inflation (average)	6.7%	5.4%
WPI Inflation (average)	9.5%	2-3%
Current Account Deficit (CAD)	Deficit of $88-90 billion; 2.7% of GDP	Deficit of $102-104 billion; 2.9% of GDP
INR	USD/INR pair to trade between 81.0-84.0/$ in H1 FY2024	
G-sec Yields	10-year yield to range between 7.3-7.55% in Q1 FY2024	
GoI's Fiscal Deficit	Fiscal deficit unlikely to materially overshoot the FY2023 RE of Rs. 17.6 trillion (6.4% of GDP)	Fiscal deficit to print in line with the BE of Rs. 17.9 trillion (5.9% of GDP)
Policy repo rate	Final rate hike of 25 bps in Apr 2023; rates to remain unchanged thereafter in FY2024	

Q4 FY2023 and FY2024 GROWTH PROSPECTS FOR INDIA

Consumer confidence rose to highest level in 17 rounds; however, perceptions around spending on essential items dipped marginally in Jan 2023

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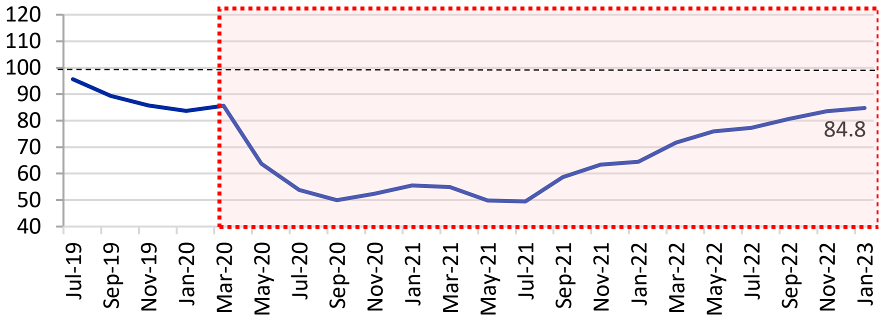
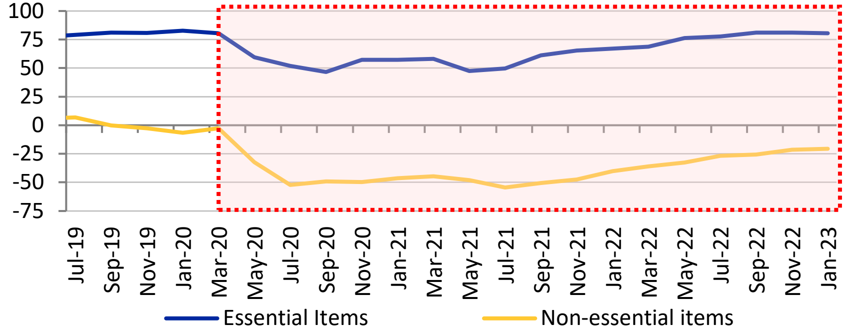
EXHIBIT: Current Situation Index of the Reserve Bank of India's (RBI's) Consumer Confidence Survey



Source: RBI; ICRA Research; survey conducted in 19 major cities

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

- In Jan 2023, the consumer confidence levels, as measured by the Current Situation Index (CSI), improved to the highest level since the onset of the pandemic in March 2020. The index rose by 1.3 basis points to 84.8 in Jan 2023 from 83.5 in Nov 2022, led by improved sentiments on general economic situation and household income. Nevertheless, confidence levels continued to be in the pessimistic zone, i.e. below 100 for the 23rd consecutive round.
- Improved urban consumer confidence levels have translated into robust consumption, as reflected by the healthy performance of the contact-intensive services segment, such as the rapid recovery in domestic air passenger traffic and pan-India premium hotel occupancy.
- Households' current expectations on spending dipped marginally in the Jan 2023 round of the survey, amidst a decline in the perception on essential spending. However, non-essential spending witnessed an uptick, while remaining in the negative territory in Jan 2023. Consequently, the gap between the two continues to remain elevated in the Jan 2023 round.

YoY performance of most high frequency indicators displayed either limited moderation or an improvement in Jan-Feb 2023, vis-à-vis Q3 FY2023

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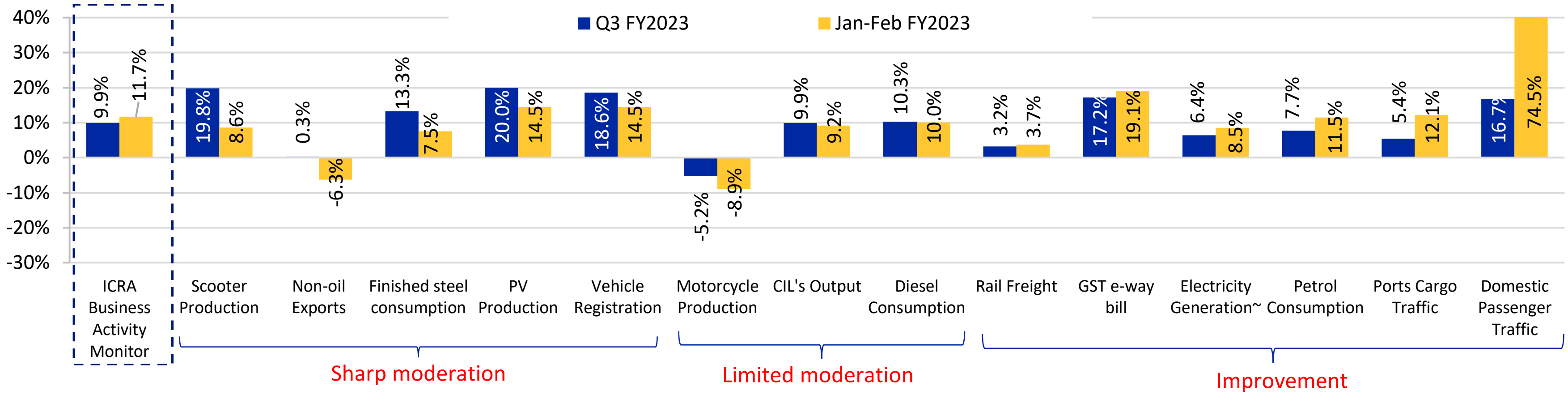
EXHIBIT: YoY performance of non-financial indicators in Q3 and Jan-Feb FY2023

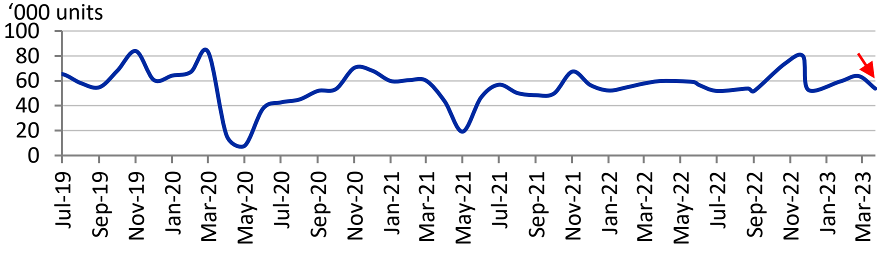


~excludes renewable energy; Source: ICRA Research

- The ICRA Business Activity Monitor recorded an improved YoY expansion of 11.7% in Jan-Feb FY2023, relative to 9.9% seen in Q3 FY2023. While the index exceeded the pre-Covid levels of Jan-Feb 2020 by a robust 15.3%, this was lower than the 18.2% expansion seen in Q3 FY2023.
- The YoY performance of eight of the 14 non-financial indicators witnessed a moderation in Jan-Feb FY2023, relative to Q3 FY2023, although the extent of easing in some indicators was relatively modest. Non-oil exports slipped into a YoY contraction in Jan-Feb FY2023 (+0.3% in Q3 FY2023), led by the slackening of external demand and lower commodity prices. Moreover, the continued base normalisation in several indicators such as scooter and PV production, CIL's output, and finished steel consumption resulted in a dampening of their YoY growth in Jan-Feb FY2023 relative to Q3 FY2023.
- Overall, the YoY growth in the ICRA Business Activity Monitor is expected to moderate to mid-single digits in March 2023, led by a high base and discouraging early data for March 2023.

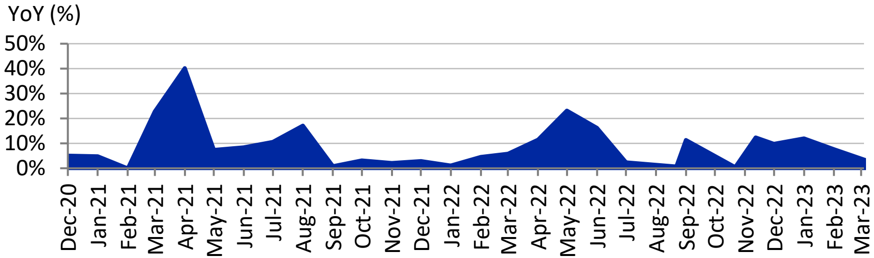
Early data for March 2023 is discouraging

EXHIBIT: Daily average registration of vehicles stood at 53.8k units in Mar 1-21, 2023, a sharp ~16% MoM dip, indicating a YoY decline of 7.1%, partly on account of a high base due to post-Covid recovery seen in Mar 2022



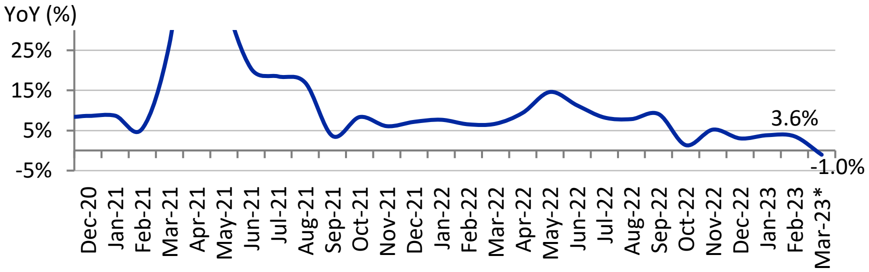
**Till Mar 21, 2023; Data for Lakshadweep and Telangana is not available; Source: Vahan portal, MoRTH; ICRA Research*

EXHIBIT: The all-India electricity demand growth moderated sharply to a muted 1.0% in Mar 2023 so far (till Mar 19, 2023) from 7.7% in Feb 2023, on a high base of heatwave-led surge in demand in Mar 2022



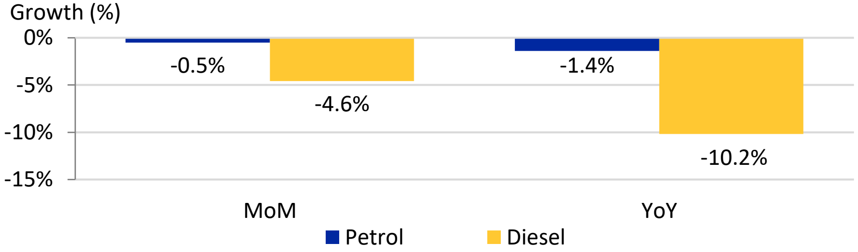
**Till Mar 19, 2023; Source: POSOCO; ICRA Research*

EXHIBIT: The YoY growth in rail freight traffic slipped into a marginal YoY contraction of 1.0% during Mar 1-10, 2023 from 3.6% in Feb 2023



**Till March 10, 2023; Source: Indian Railways; ICRA Research*

EXHIBIT: As per the preliminary data by state refiners, fuel sales moderated on a YoY as well as sequential basis during Mar 1-15, 2023



Based on preliminary data by state refiners for Mar 1-15, 2023; Source: ICRA Research

Future expectation index at two-year high in Jan 2023; sustained elevated inflation, adverse weather events pose risks to consumption in FY2024

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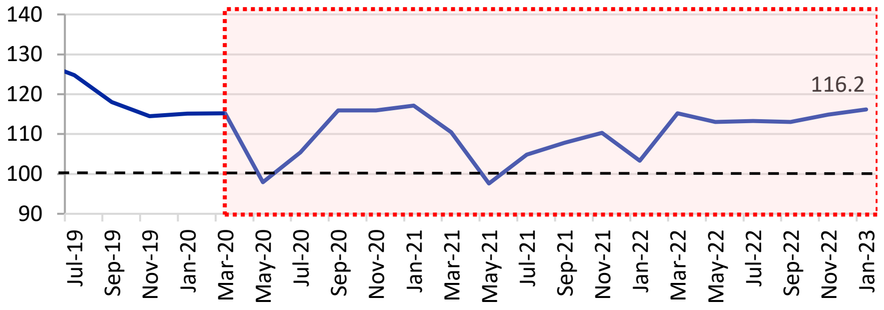
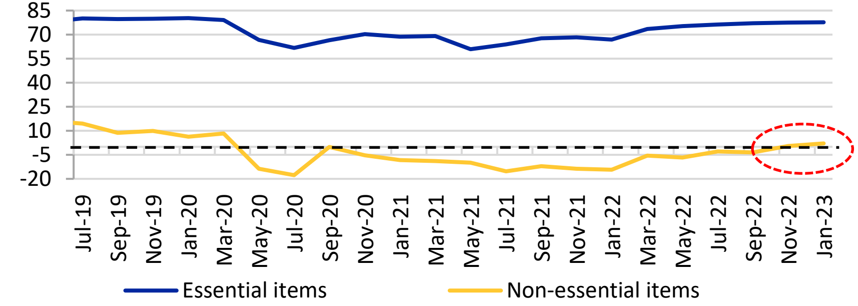
EXHIBIT: Future Expectation Index of the Reserve Bank of India's (RBI's) Consumer Confidence Survey



Source: RBI; ICRA Research; survey conducted in 19 major cities

EXHIBIT: Future expectations 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

- As per the RBI's Consumer Confidence Survey, the Future Expectation Index rose to a two-year high of 116.2 in the Jan 2023 round from 114.9 in Nov 2022. The respondents continued to display optimism on the general economic situation, employment conditions and income over the next one year.
- Encouragingly, the one-year ahead expectations on non-essential spending had turned positive in the Nov 2022 round of survey for the first time since March 2020, and the level further improved in the Jan 2023 round.
- In ICRA's assessment, consumer sentiments are likely to improve in FY2024; while this bodes well for consumption demand, ICRA expects the consumption of contact-intensive services to continue to be prioritised over goods in the near-term.
- **ICRA foresees two key risks that could contain the pickup in consumption. The first stems from sustained elevated inflation; a broad-based moderation in the CPI inflation would be key to support discretionary consumption, particularly of the low- and middle-income households. Secondly, crop damage on account of a heatwave/excess unseasonal rains or a shortfall in monsoons could also impact farm incomes and rural consumption.**

Merchandise exports expected to contract; services export growth to slow down in FY2024, dampening India's GDP growth

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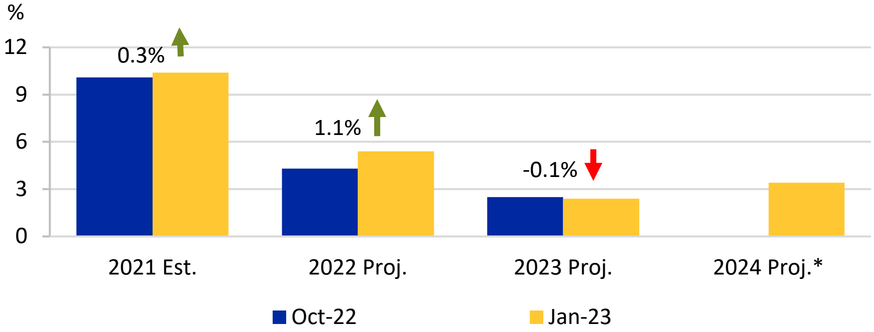
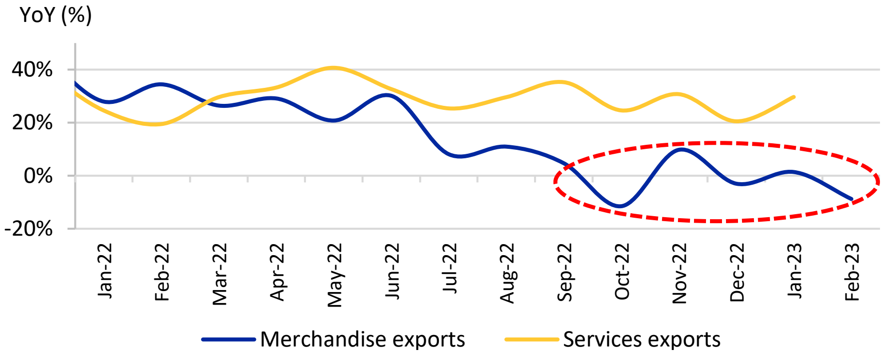
EXHIBIT: IMF growth projections in world trade volumes of goods and services as per Oct 2022 and Jan 2023 World Economic Outlook (WEO)



**2024 Proj as per Oct 2022 WEO is not available; Est.: Estimates; Proj.: Projections; Source: World Economic Outlook; IMF; ICRA Research*

EXHIBIT: India's merchandise and services exports (% YoY)

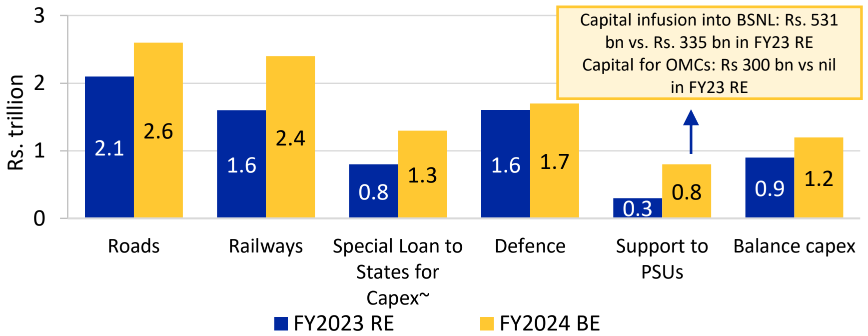


Source: Ministry of Commerce and Industry, GoI; ICRA Research

- Merchandise exports have experienced a slowdown during H2 FY2023, slipping into a YoY contraction of 2.8% during Oct-Feb FY2023 from the expansion of 16.9% seen during Apr-Sep FY2023. Notably, the sustained contraction in exports of certain segments such as man-made yarn, textiles, jute manufacturing, handicrafts, plastic and linoleum, engineering goods, etc. may impact the employment levels and opportunities in these sectors and could affect household incomes, injecting further unevenness into consumption demand in FY2024. **ICRA projects merchandise exports to contract by ~6% in FY2024 amid a slackening external demand and lower commodity prices, after rising by ~4% in FY2023.**
- While India's services exports rose by a robust ~30% YoY during Apr-Jan FY2023, the hiring by some IT services companies has slowed as they turned cautious regarding the impact of a recession in the US and Europe. **This suggests that India's software services exports may witness a slowdown in growth in FY2024.**
- In its World Economic Outlook for January 2023, the IMF projected the growth in world trade volumes of goods and services to ease to 2.4% in CY2023 (+2.5% projected in Oct 2022), despite an easing of supply-side bottlenecks, before rising to 3.4% in CY2024, mainly driven by the slowdown in advanced economies. **This is likely to weigh on India's manufacturing sector volumes as advanced economies account for a large share in India's exports.**

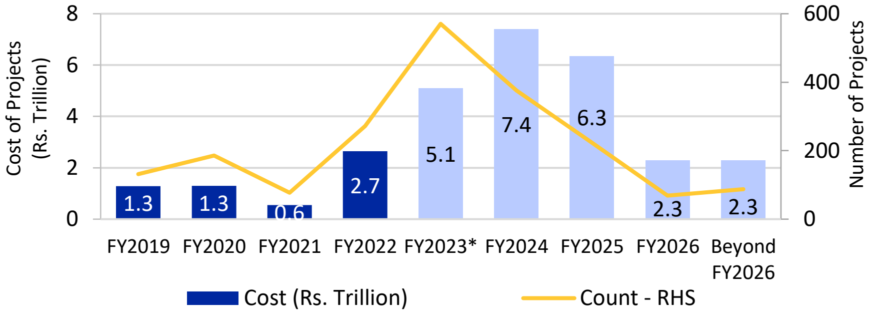
Sizeable increase in budgeted capex by the GoI and states to support economic activity in FY2024 amidst global headwinds

EXHIBIT: Detailed Capital Expenditure by the Centre in FY2023 RE and FY2024 BE



~Special assistance as an interest free loan provided to States for capex; RE: Revised Estimates; BE: Budget Estimates; Source: GoI Budget Documents, ICRA Research

EXHIBIT: Annual completion schedule~ of central sector infrastructure projects



*~The completion schedule is derived by the data provided on the anticipated date of commissioning for all ongoing projects costing at least Rs. 150 crore in the Dec 2022 flash report; *for FY2023 we have used actual completions for Q1, Q2 and Q3 FY2023 and scheduled completions for Q4 FY2023; **Source**: Infrastructure and Project Monitoring Division; MOSPI; GoI; ICRA Research*

- The GoI has indicated a massive ~37% (+Rs. 2.7 trillion) rise in its capex target in the FY2024 Union Budget, led by increased allocation for roads (+Rs. 0.5 trillion), railways (+Rs. 0.8 trillion; partly offset by a Rs. 0.4 trillion decline in the IEBR), and the 50-year interest free capex loan to the states (+Rs. 0.5 trillion).
- The sharp increase in allocation for roads and railways is likely to augment activity in projects that are under implementation in these segments during the year. Based on the data released by MOSPI, the pipeline of central sector infrastructure projects that is scheduled to be completed in FY2024 is massive, at ~Rs. 7.4 trillion, with the road transport and highway, and railways accounting for over one-third of this amount. The push to commission projects that are nearing their final stages of completion is likely to support India's GDP growth in FY2024.
- The combined capex of 15 states is budgeted to expand by a robust ~21% to Rs. 7.4 trillion in FY2024 BE from Rs. 6.1 trillion in FY2023 RE. Moreover, more than half of the capital spending in FY2024 BE is concentrated in transport, irrigation and water supply, sanitation and urban development (WSSH&UD) sectors.*
- **ICRA believes that if the budgeted levels of the GoI and states' capex materialise in FY2024, this would have a multiplier effect and thereby support the pace of GDP growth amidst growing fears of a global slowdown. However, timely execution remains key.**

**Refer ICRA's publication, "Fiscal deficit of 15 states budgeted to ease to 3.1% of GDP in FY2024, amidst ambitious capex plans", published in Mar 2023.*

Drop in commodity prices, amidst fears of global slowdown likely to augur well for margins and support GVA growth in near term

EXHIBIT: Bloomberg Commodity Index

Source: Bloomberg; ICRA Research

- There has been a sizeable correction in commodity prices, amidst fears of a global recession, which is likely to ease margin pressures. Overall, the Bloomberg Commodity Index has averaged ~5.4% lower in Q4 FY2023 (till Mar 20, 2023) as compared to Q3 FY2023, led by weak global demand amidst rising interest rates. On a YoY basis, the index has contracted by 5.4% on an average in Q4 FY2023 (till Mar 20, 2023) as against a 13.0% rise seen in Q3 FY2023.
- **Given the high base of H1 FY2023 owing to the Russia-Ukraine conflict, and expectations of weak global demand, the deflation in commodity prices is expected to intensify in H1 FY2024, even if prices remain at the current levels. This bodes well for corporate margins and value-added growth during this period.**

GDP growth to moderate to 6.0% in FY2024 led by external headwinds; weak monsoons pose key downside risk

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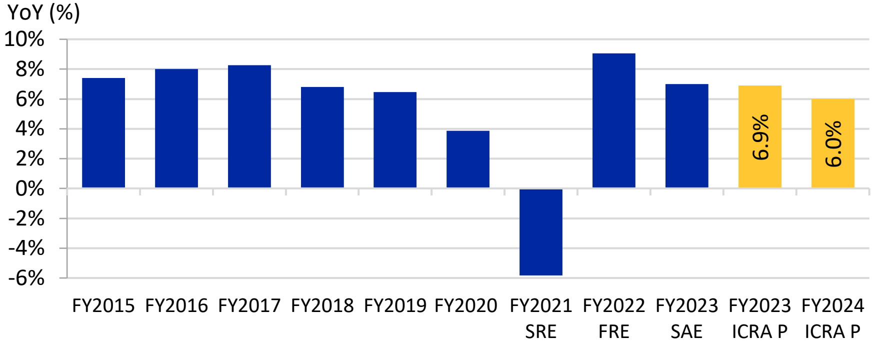
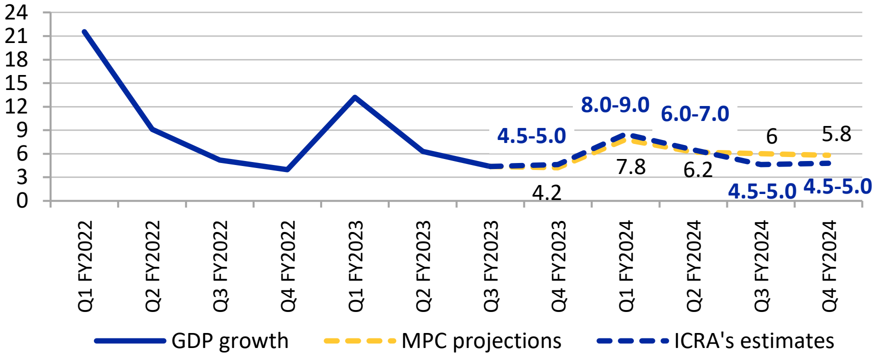
EXHIBIT: GDP growth (at constant 2011-12 prices)



SRE: Second Revised Estimates; FRE: First Revised Estimates; SAE: Second Advance Estimates; P: Projected; Source: NSO; CEIC; ICRA Research

EXHIBIT: Quarterly real GDP growth (YoY; %)



Source: RBI; NSO; ICRA Research

- The YoY GDP growth moderated to a weaker-than-expected 4.4% in Q3 FY2023, trailing ICRA's projections (+5.1%). **ICRA expects the YoY GDP growth to witness an uptick to ~4.5-5.0% in Q4 FY2023, on a normalising base**; this is marginally higher than the MPC's estimates for the quarter, given the healthy rabi trends, recovery in demand for contact-intensive services and moderation in commodity prices, although flagging external demand and unseasonal rains in March 2023 pose key risks. However, relative to the pre-Covid levels, GDP growth is expected to record an improvement in Q4 FY2023, relative to the previous quarter (+11.5% in Q3 FY2023, relative to Q3 FY2020). If the growth for Q1-Q3 is not revised from the NSO's current estimates, we project the FY2023 GDP growth at 6.9%.
- **ICRA expects India's GDP growth to moderate to ~6% in FY2024, largely on account of a drag on account of external demand, with downside risks stemming from a weak monsoon. Importantly, ICRA currently projects GDP growth at ~4.5-5.0% in H2 FY2024, which is assessed to be relatively free from base-effects. This is below ICRA's projection for the potential GDP growth for the Indian economy and is also below the Monetary Policy Committee's (MPC's) projection of ~5.9% for that period.**

UPDATE ON PROJECT ACTIVITY

GFCF growth healthy in Q3 FY2023 as reflected by trends in capital goods, construction and Government capex; new investments rose to three-quarter high

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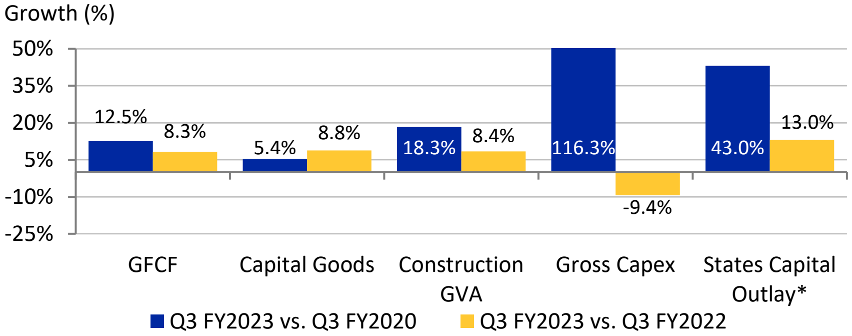
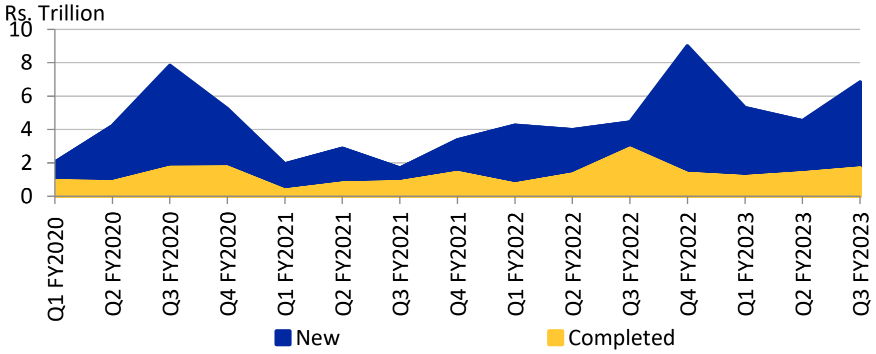
EXHIBIT: Trends in GFCF, capital goods, GoI capex and states' capex



** Provisional actuals are available for 26 Indian states, except Mizoram and Goa; Source: NSO; CGA; CAG; GoI; ICRA Research*

EXHIBIT: New and completed investment projects



As on Mar 19, 2023; Source: CMIE, ICRA Research

- The YoY growth in GFCF eased to a three-quarter low of 8.3% in Q3 FY2023 from 9.7% in Q2 FY2023. Regardless, the performance over pre-Covid levels was healthy in the quarter, with a growth of 12.5% relative to Q3 FY2020.
- The output of capital goods and construction GVA improved over the year-ago and pre-Covid levels in Q3 FY2023, with the latter benefitting from the seasonal pick-up in the activity post the monsoon period.
- While GoI's capex recorded a YoY contraction of ~9% in Q3 FY2023 (+42.4% in Q2 FY2023), the absolute level was twice as high as the pre-Covid levels. Similarly, states' capital outlay grew, albeit by a lower ~13% and ~43%, respectively, in Q3 FY2023 relative to the year-ago and pre-Covid levels.

- With several states holding investor meets, new project announcements rose to a three-quarter high Rs. 6.8 trillion in Q3 FY2023 from Rs. 4.5 trillion in Q2 FY2023 but trailed the Rs. 7.8 trillion seen in Q3 FY2020.
- Moreover, the project completions increased to a four-quarter high Rs. 1.67 trillion in Q3 FY2023 from Rs. 1.39 trillion in Q2 FY2023, while remaining similar to the pre-Covid level of Rs. 1.71 trillion recorded in Q3 FY2020.
- **The surge in new project announcements in Q3 FY2023 was dominated by a few big-ticket deals associated with the GoI's initiatives such as India Semiconductor Mission and Green Hydrogen/Green Ammonia policy**.

Festive demand likely to have pushed CU levels further to 75-76% in Q3 FY2023; CU to flatten in Q4 amid slowing exports and rising interest rates

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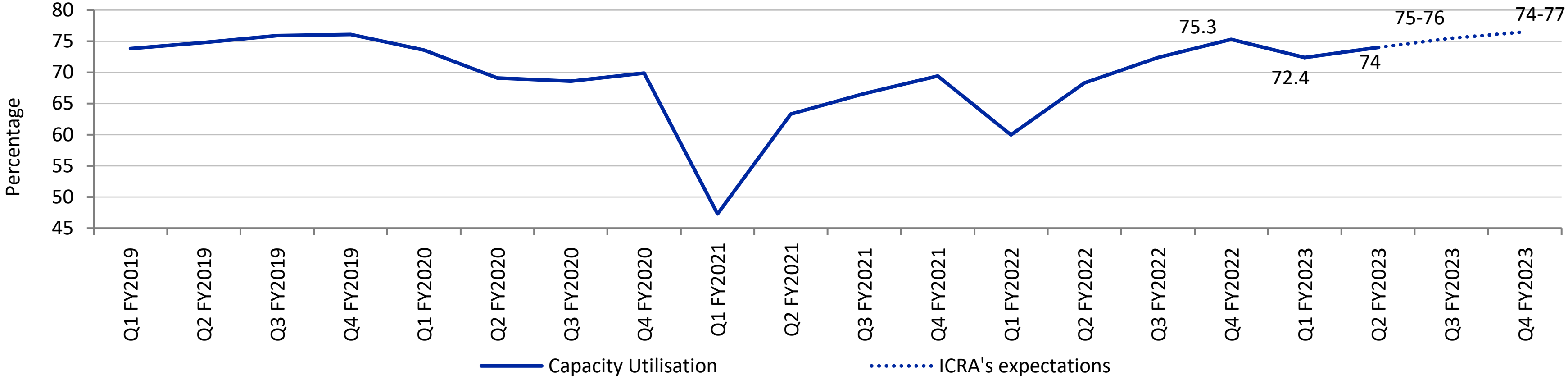
EXHIBIT: Quarterly trends in Capacity Utilisation



Source: RBI; CEIC; ICRA Research

- As per the data released by the RBI, capacity utilisation (CU) for the manufacturing sector had risen to 74.0% in Q2 FY2023 from 72.4% in Q1 FY2023, and even trended higher than the average of 71.6% seen in the historical period (FY2013-22). Moreover, the seasonally adjusted CU had increased by 20 bps in QoQ terms to 74.5% in Q2 FY2023.
- Subsequently, ICRA expects the unadjusted CU of the manufacturing sector to rise to 75-76% in Q3 FY2023 after taking into account the robust demand for goods during the festive period and the YoY growth of 5.4% in the non-agri non-PADOS GVA seen in the quarter. Thereafter, ICRA foresees the CU to print at 74%-77% by the end of FY2023, with downsides stemming from rising interest rates and flagging exports.
- After remaining elevated in Q3 FY2023, new project announcements are expected to surge further in Q4 FY2023 owing to investor summits in several states including Andhra Pradesh and Uttar Pradesh, and Air India’s record aircraft order during the quarter.

Cement CU to rise marginally to 69% in FY2024; steel CU levels to slip in FY2023 from the seven-year high of 81% in FY2022, before inching up in FY2024

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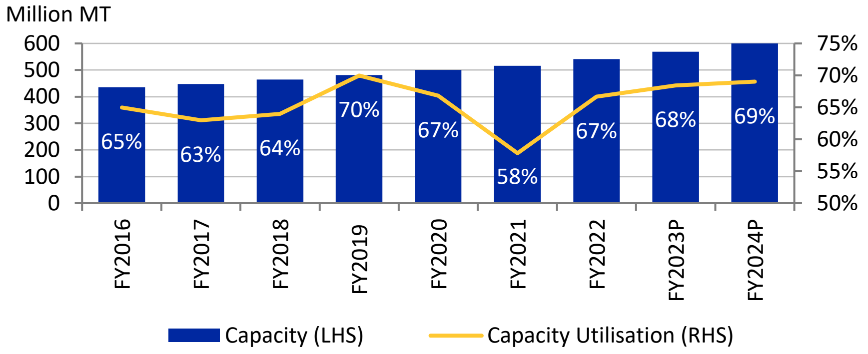
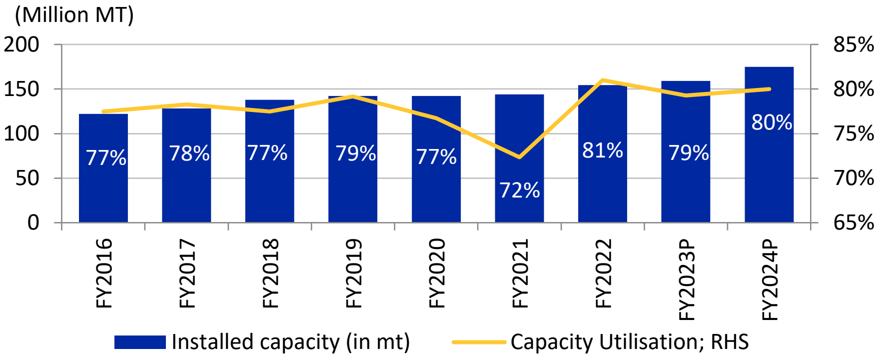
EXHIBIT: Annual trends in cement capacity utilisation



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

- In January 2023, cement production volumes rose by 4.6% YoY, moderating from the 10.1% growth recorded in Q3 FY2023, partly led by a high base (+14.1% in Jan 2022).
- ICRA estimates cement volumes to increase by ~8% YoY to ~389 million MT in FY2023. Thereafter, it is expected to rise by ~7% to ~416 million MT in FY2024, supported by the demand from housing (both rural and urban), and the infrastructure sectors.
- Cement capacity utilisation is likely to remain moderate at ~68% in FY2023 on an expanded base, before rising marginally to ~69% in FY2024.

EXHIBIT: Annual trends in steel capacity utilisation



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

- The domestic steel demand growth eased slightly to 7.5% YoY during Jan-Feb 2023 from 13.3% in Q3 FY2023. Overall, domestic steel demand is expected to rise by 11.3% in FY2023. Further, with the surge in the GoI's capex in FY2024, ICRA expects steel consumption growth to print at 7-8% in FY2024.
- Moreover, finished steel exports contracted by ~52% in Apr-Feb of FY2023.
- With the capacity addition of 4.8 mtpa lined up for FY2023 likely to exceed incremental steel demand, the capacity utilisation may slip to 79% this fiscal, from the seven-year high of 81% in FY2022. Thereafter, it is projected to rise marginally to ~80% in FY2024.

All-India PLF for thermal power plants set to rise to 65.5% in FY2024 with healthy demand growth of 5.5-6.0%; potential El Nino poses upside to estimates

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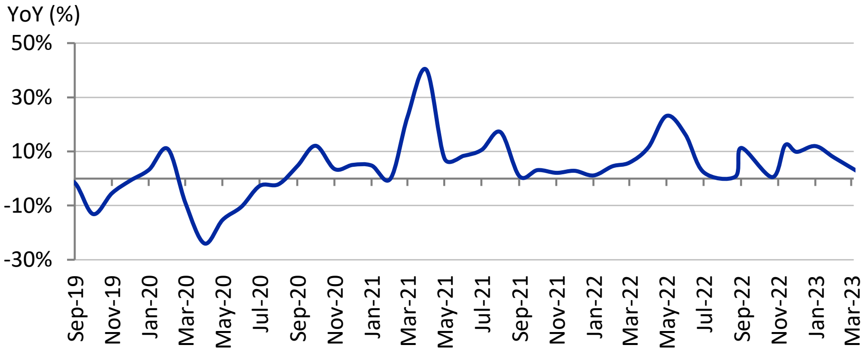
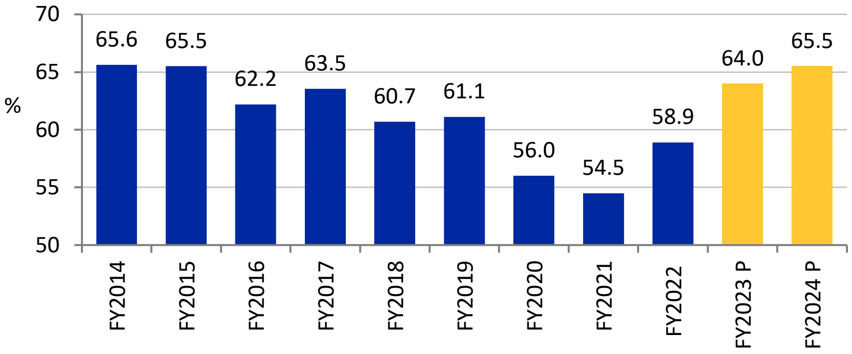
EXHIBIT: All-India Electricity demand



**Till Mar 19, 2023; Source: POSOCO; CEIC; ICRA Research*

- After having remained robust at 12.0% in Jan 2023, all-India electricity demand growth moderated to 7.7% in Feb 2023, and further to a muted 1.0% in March 2023 so far (till March 19, 2023) on a high base related to the heatwave.
- Average spot power tariffs in the day-ahead-market (DAM) eased from Rs. 6.7/unit in Feb 2023 to Rs. 6.0/unit during Mar 1-19, 2023. They are expected to remain elevated over the next 3-4 months owing to strong demand growth in summer season and elevated coal prices.
- The electricity demand growth for FY2023 is estimated at ~9.5-10.0%, which is likely to moderate in FY2024, though remain healthy at 5.5-6.0%.

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

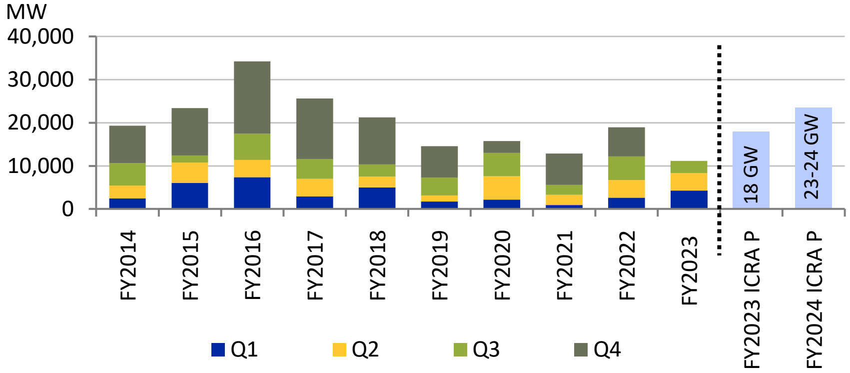


P: Projected; Source: CEA; ICRA Research

- The all-India plant load factor for thermal power plants is estimated to rise to 64% in FY2023 from 58.9% in FY2022 owing to the healthy growth in electricity demand as well as limited capacity addition in the segment.
- Subsequently, with demand growth expected to grow by 5.5-6.0% in FY2024, the thermal PLF appears set to rise to ~65.5% in FY2024.
- Moreover, the electricity demand growth in FY2024 would be influenced by a potential occurrence of El Nino during the summer season, which could lead to higher requirements from the agri and household sectors, thereby impacting the thermal PLF levels.

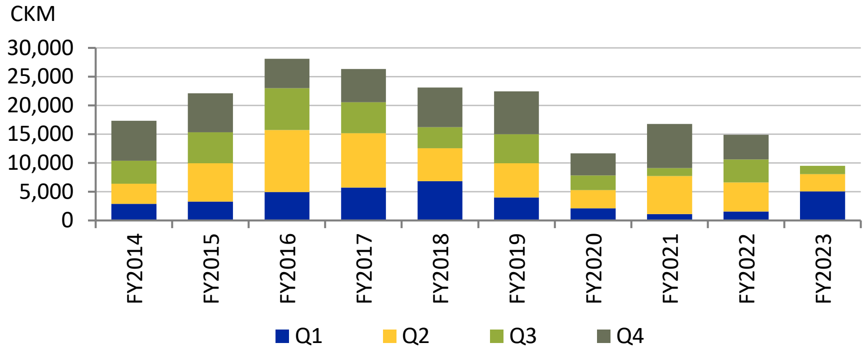
Power generation capacity addition to dip slightly to ~18 GW in FY2023, before rising to ~23-24 GW in FY2024, led by strong RE project pipeline

EXHIBIT: Trends in power generation capacity addition



P: Projected; Source: CEA; ICRA Research

EXHIBIT: Trends in power transmission capacity addition



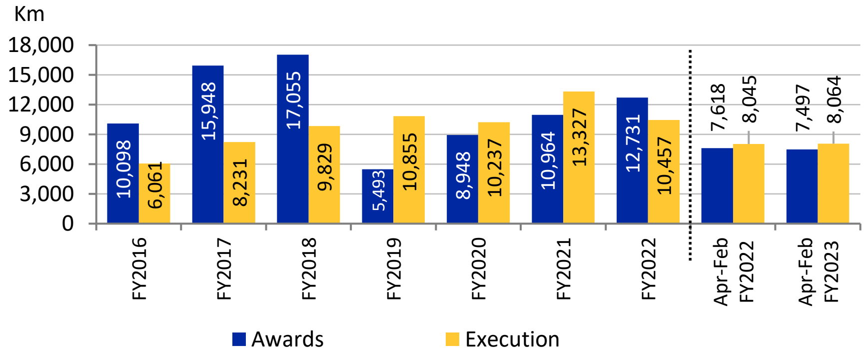
Source: CEA; ICRA Research

- Power generation capacity addition dipped sharply by 48.2% YoY to 2.8 GW in Q3 FY2023 from 5.4 GW recorded in Q3 FY2022. Moreover, it sharply trailed the Q3 FY2020 levels by ~48%.
- ICRA expects capacity addition to ease slightly to ~18 GW in FY2023 from 19 GW in FY2022, due to execution-related challenges and elevated input prices for solar power projects. Thereafter, capacity addition is expected to rebound to ~23-24 GW in FY2024 backed by a strong renewable project pipeline and extension in timeline provided for solar and hybrid projects by the Ministry of Power.
- The transmission line addition declined sharply to 1,418 CKMs in Q3 FY2023 from 4,033 CKMs in Q3 FY2022, while trailing the Q3 FY2020 level by ~44%.
- Going forward, the project pipeline in the power transmission segment remains quite strong with expected investments of Rs. 2.4 trillion over the next seven years.

Road execution target to be met in FY2023; hotel occupancies in 11M FY2023 at par with pre-Covid levels, occupancy expected to improve further in FY2024

ICRA

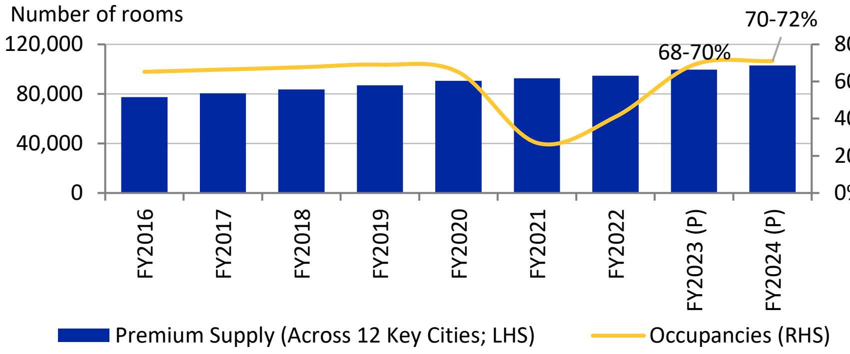
EXHIBIT: Trends in road awards and execution



Source: MoRTH; ICRA Research

- Against the target of 10,500 km (~30 km/day) for FY2023, ~77% or 8,064 km of national highways were constructed during Apr-Feb FY2023 (YoY: +0.2%) owing to a healthy pick-up in Dec-Feb FY2023 in line with the seasonal trends.
- However, awards declined to 7,497 km in 11M FY2023 from 7,618 km in the year-ago period.
- The execution is likely to improve further going ahead amid moderation in key input prices and healthy order book of road players. ICRA expects the NH construction to be ~10,000-10,500 km for FY2023, in line with FY2022.

EXHIBIT: Annual trends in hotel occupancies

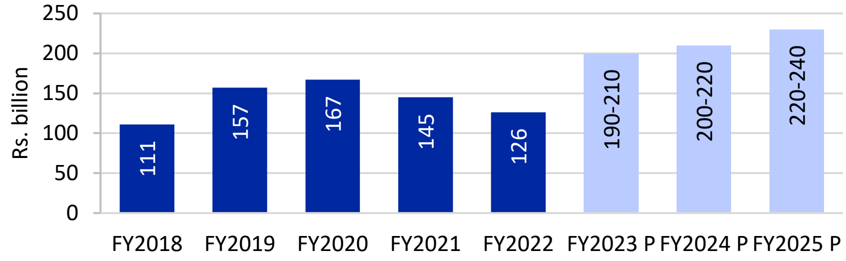


P: Projected; Source: ICRA Research

- The hotel industry has posted a healthy recovery, with 68-70% occupancy in premium hotels during 11M FY2023, at par with the pre-Covid occupancy seen in 11M FY2020.
- The recovery has been better than expected, aided by leisure demand, pent-up demand from MICE (including weddings) and gradual pick-up in business travel and foreign tourist arrivals (FTAs).
- ICRA estimates pan-India premium hotel occupancy at ~70-72% in FY2024, on account of sustenance of domestic leisure and business travel, and MICE demand as well as an improvement in FTAs.

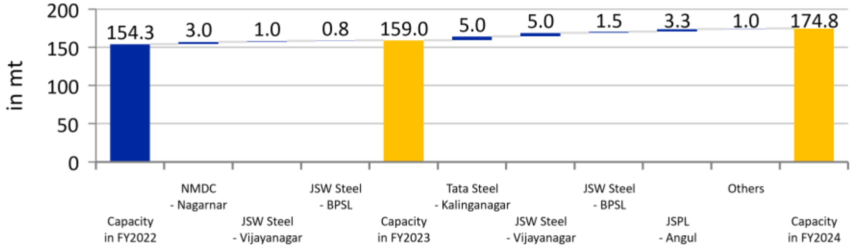
Capacity expansion plans announced by certain sectors over next few years

EXHIBIT: Capex by PV OEMs estimated to be nearly Rs. 200-230 billion per annum over the next 3-4 years



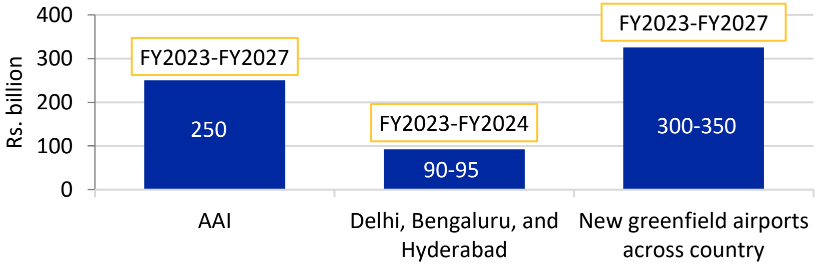
Source: ICRA Research; SIAM; Sample set of 6 leading PV OEMs

EXHIBIT: Domestic steel capacity addition plans likely to gather pace during FY2023-FY2024



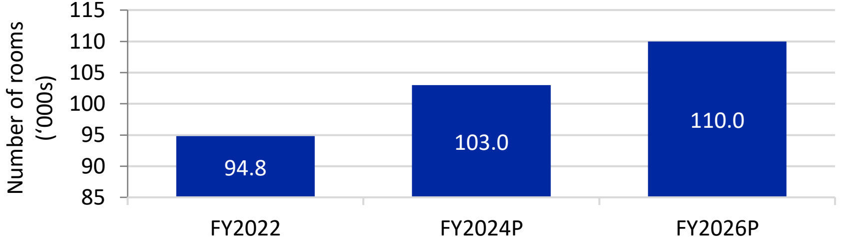
Source: Ministry of steel; ICRA Research

EXHIBIT: Investments over Rs. 850 billion are in the pipeline to develop airport infrastructure during the period FY2023-FY2027



Source: AAI; ICRA Research

EXHIBIT: Estimated supply addition for hotels to rise steadily over the period FY2022-26



Source: ICRA Research; supply addition estimated in Q4 of a financial year is factored in the pipeline of the next financial year for analytical purposes

UPDATE ON FINANCING

Growth in total financing steady at end-Dec 2022 vis-à-vis end-Sep 2022; improved corporate bond growth offset easing bank credit, CP volume growth

ICRA

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

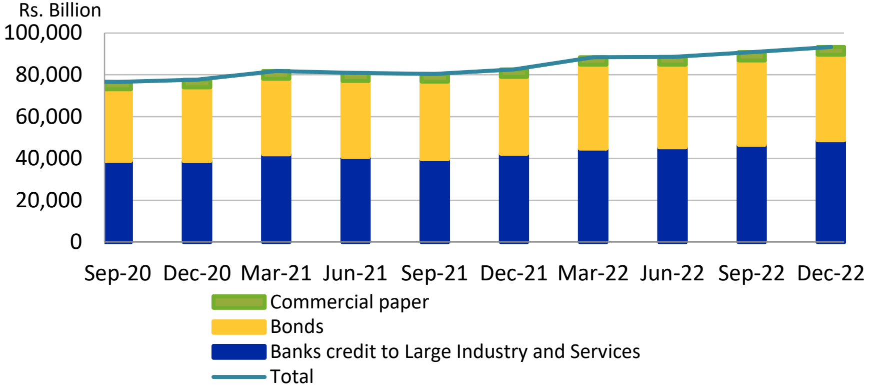
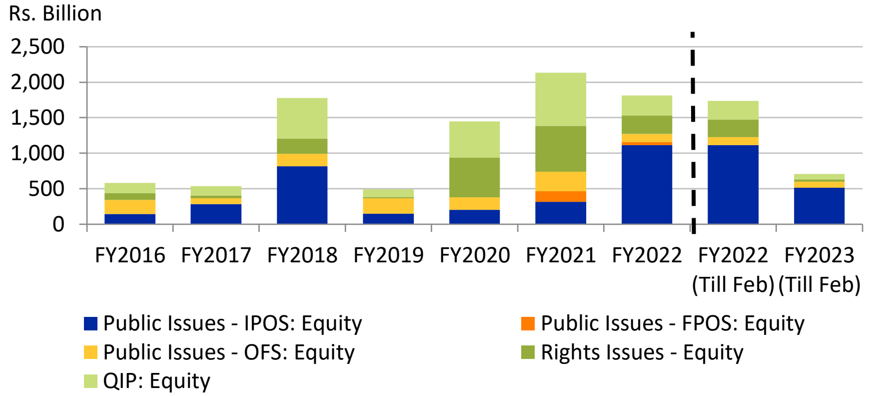


EXHIBIT: Trends in domestic equity funds raising

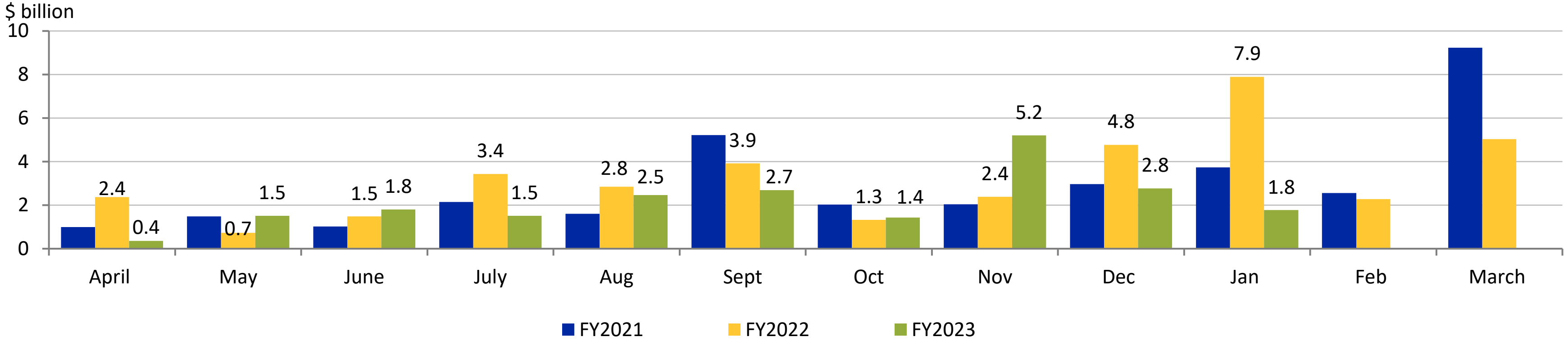


- The expansion in total financing* stood at an elevated 13.0% at end-Dec 2022, in line with what was recorded at end-Sep 2022, while standing twice as high as the 6.3% growth seen at end-Dec 2021. While the YoY growth in bank credit (to +15.2% at end-Dec 2022 from +17.4% at end-Sep 2022 vs. +9.1% at end-Dec 2021) and outstanding CP volumes (to +2.7% from +8.1% vs. -4.1%) recorded some moderation during the quarter ended Dec 2022, relative to Sep 2022, it remained higher than the levels seen in the quarter ended Dec 2021.
- On the contrary, the YoY growth in outstanding corporate bonds surged to an eight-quarter high of 11.6% at end-Dec 2022 (+4.3% at end-Dec 2021) from 8.9% at end-Sep 2022 (+8.7% at end-Sep 2021), partly supported by a low base.
- Domestic equity funding more-than-halved to Rs. 707.3 billion in Apr-Feb FY2023 from Rs. 1,735.8 billion raised in Apr-Feb FY2022 amidst challenging market conditions. While the FII equity flows have remained volatile amidst sustained interest from DIIs, the pipeline for IPO for the current calendar year is strong. Nevertheless, the actual funding would be guided by domestic and global developments.

*^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 approvals subdued in Apr-Jan FY2023 amid rising global interest rates; to print at sub-$25 billion in FY2023 vs. $39 billion in FY2022

EXHIBIT: Monthly Gross ECB volumes



Source: RBI; ICRA Research

- Gross external commercial borrowings (ECB) have contracted by a sharp ~31% YoY to $21.5 billion during Apr-Jan FY2023 from $31.2 billion during Apr-Jan FY2022. 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.
- **Although ECB approvals are typically stronger in the last quarter, ICRA still expects overall approvals to remain at sub-$25 billion in FY2023 (as against $38.5 billion in FY2022).**
- **Owing to the continued rise in global interest rates, ECB approvals are expected to remain tepid, at sub-$20 billion, in FY2024.**

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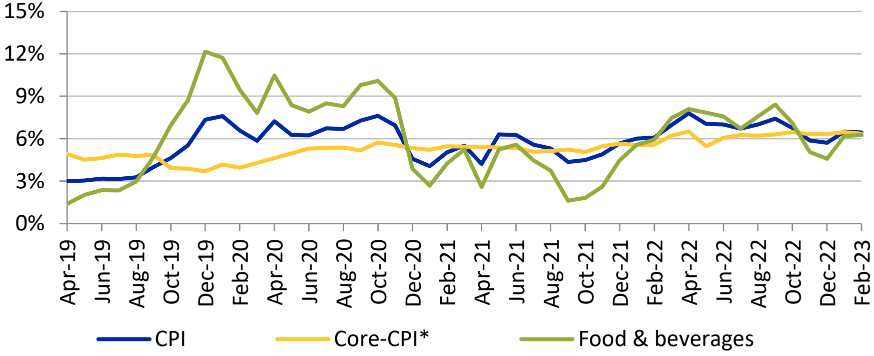
INFLATION

CPI and WPI inflation expected to average at 5.4% and 2-3%, respectively, in FY2024; upside risks emanate from food items amid possible El Nino occurrence

ICRA

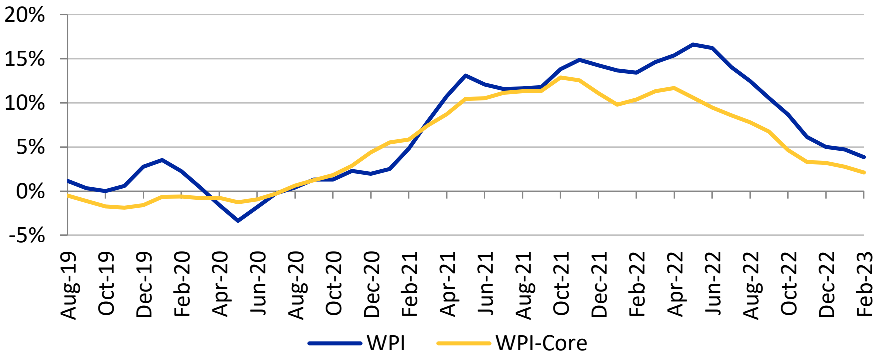
EXHIBIT: Trends in CPI, core-CPI and food and beverages inflation



**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*

- The CPI inflation softened to 6.4% in Feb 2023 from 6.5% in Jan 2023.
- ICRA estimates the CPI inflation to average at 6.7% in FY2023 (MPC's proj.: +6.5%), before recording a base-effect led dip to 5.4% in FY2024 (MPC's: +5.3%). There was a relatively larger step-up in prices of some services in the post-pandemic period, following the reopening in the economy. However, annual changes in the services segment are likely to be of a smaller quantum going ahead, which may lead to some tempering in the core inflation in FY2024. Nevertheless, ICRA remains circumspect regarding the evolving impact of the feared El Nino on food inflation.

EXHIBIT: Trends in WPI and core-WPI inflation

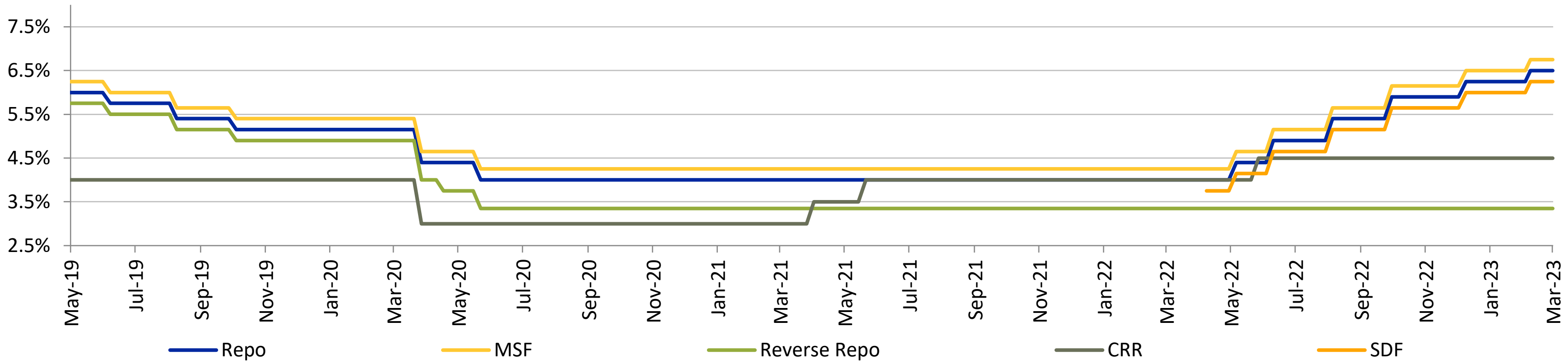


Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; ICRA Research

- As expected, the WPI inflation witnessed a broad-based moderation to 3.9% in Feb 2023 from 4.7% in Jan 2023, led by a correction across all sub-sectors (apart from primary food articles) to multi-month lows in Feb 2023.
- The core-WPI inflation declined to a 28-month low of 2.1% in Feb 2023 from 2.8% in Jan 2023.
- ICRA expects the WPI inflation to average at an elevated 9.5% in FY2023, and moderate thereafter to ~2-3% in FY2024, largely on account of the base effect related to commodity prices. A likely return of El Nino in summer season poses upside risks to our estimates for FY2024.

MPC raised repo rate by 25 bps in Feb 2023; ICRA expects final 25 bps rate hike in Apr 2023 policy meeting followed by an extended pause

EXHIBIT: Movement in Key Rates



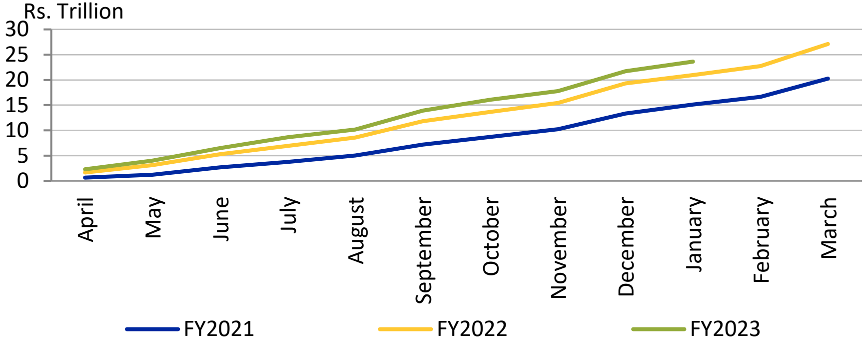
Source: RBI; ICRA Research

- With a majority vote of four of the six members, the Monetary Policy Committee (MPC) raised the policy repo rate by 25 basis points (bps) and kept the policy stance unchanged in its Feb 2023 policy review. The overall tone of the minutes of the meeting was decidedly mixed, with two of the external members highlighting the negative consequences of further rate hikes on growth.
- **The US Fed hiked rates by 25 bps in its meeting on Mar 22, 2023 despite the recent developments in the US banking system and has signalled that another rate hike is likely in its next policy meeting in May 2023.**
- **After taking into account the CPI inflation for Jan-Feb 2023 and ICRA's expectations for March 2023, the Q4 FY2023 inflation average is expected at 6.3%, higher than MPC's estimate of 5.7%, suggesting that another rate hike may be in the offing in April 2023. While we foresee a moderation in the CPI inflation in FY2024, the MPC is also likely to consider the uncertainty related to emerging developments such as the occurrence of El Nino, which could pose material upside risks to the food inflation outlook. In ICRA's view, the MPC should pause through the remainder of FY2024 and assess the transmission of policy tightening, with a shift in focus towards growth amidst a likely drag from exports.**

UNION GOVERNMENT FINANCES

Net cash outgo of Rs. 1.5 trillion under the second supplementary demand for grants may be partly offset by savings under other heads

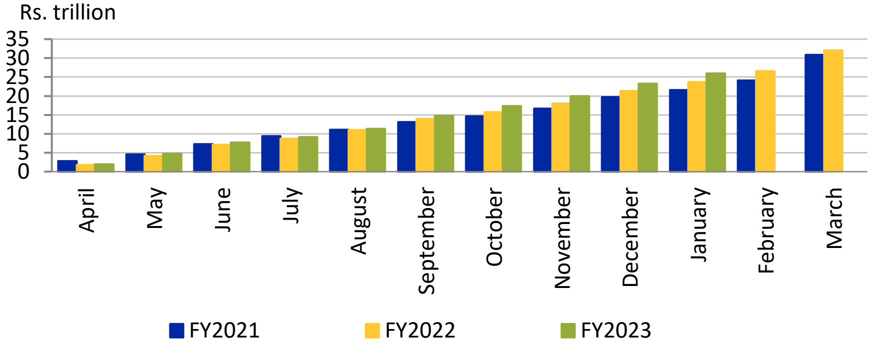
EXHIBIT: Trends in cumulative Gross Tax Revenues of GoI



Source: CGA; ICRA Research

- Similar to the 12.3% growth target for the FY2023 RE, the GoI's gross tax revenues rose by 12.6% YoY in Apr-Jan FY2023 to Rs. 23.6 trillion from Rs. 21.0 trillion in Apr-Jan FY2022. This was led by a healthy YoY expansion in direct taxes (+16.8%), followed by a relatively lower growth in indirect taxes (+7.4%) in Apr-Jan FY2023.
- ICRA believes that the Feb-Mar FY2023 growth target for direct tax revenues of 18.3% is slightly optimistic, with growth having slowed to 8.2% in Oct-Jan FY2023 from 23.5% in H1 FY2023. This might lead to a small undershooting relative to the FY2023 RE for gross tax revenues.

EXHIBIT: Trends in cumulative Revenue Expenditure of GoI

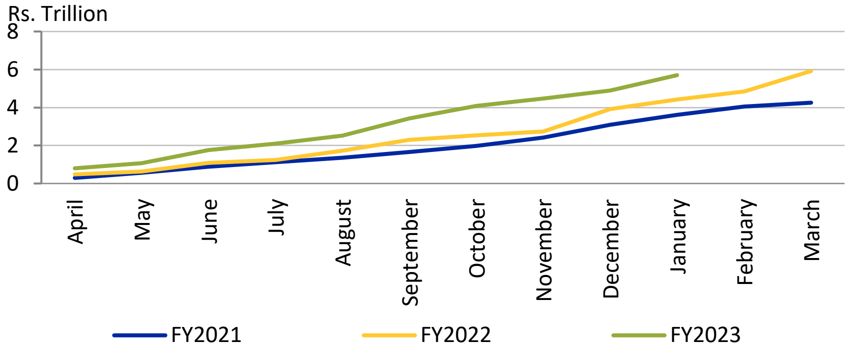


Source: CGA; ICRA Research

- Revex grew by a moderate 9.7% YoY in Apr-Jan FY2023, led by an expansion in subsidy outgo (+22%) and interest payments (+20%), amidst a modest 2.4% rise in the balance portion of revex.
- The revenue spending needed in Feb-Mar FY2023 to meet the FY2023 RE is a mild 3.4% higher than the year-ago levels, led by a modest growth required in subsidies (+3.2%) and interest payments (+5.8%).
- The second supplementary demand for grants entailed a net cash outgo of Rs. 1.5 trillion, a portion of which may be offset by savings under other heads.

Capex growth remained robust during Apr-Jan FY2023; fiscal deficit to remain largely in line with FY2023 RE

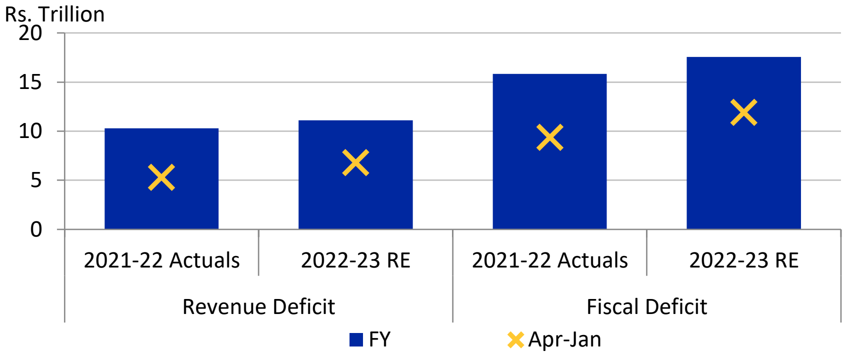
EXHIBIT: Trends in cumulative Capital Expenditure of GoI



Source: CGA; ICRA Research

- In Apr-Jan FY2023, capex rose by 29.0% YoY to Rs. 6.0 trillion (~78.3% of FY2023 RE). The monthly capex of Rs. 0.8 trillion in Jan 2023 sharply exceeded the average of Rs. 0.54 trillion in the previous nine months.
- **The balance capital spending needed to meet the FY2023 RE is only ~5% higher than the actual capex incurred in Feb-Mar FY2022. However, at Rs. 0.8 trillion, the required monthly amount is much higher than the average monthly capex seen during 10M FY2023.**
- **Continued offtake of the interest free capex loan scheme by the states in Feb-Mar FY2023 will be crucial to ensure that the budgeted target is met.**

EXHIBIT: Revenue deficit and fiscal deficit of GoI



Source: CGA; ICRA Research

- In Apr-Jan FY2023, the GoI's fiscal deficit widened to Rs. 11.9 trillion from Rs. 9.4 trillion in Apr-Jan FY2022.
- **While there may be modest deviations from the FY2023 RE for direct taxes, disinvestment receipts and certain categories of expenditures, ICRA does not expect the fiscal deficit to materially exceed the FY2023 RE of Rs. 17.6 trillion, given the considerable upside seen in non-excise tax revenues as well as savings expected under other expenditure heads.**
- **As a proportion of GDP, the fiscal deficit in FY2023 is unlikely to exceed the RE of 6.4%.**

FY2024 budget balanced growth with fiscal consolidation; ICRA expects fiscal deficit target to be met

ICRA

EXHIBIT: Trends in GoI's Gross Capital Expenditure

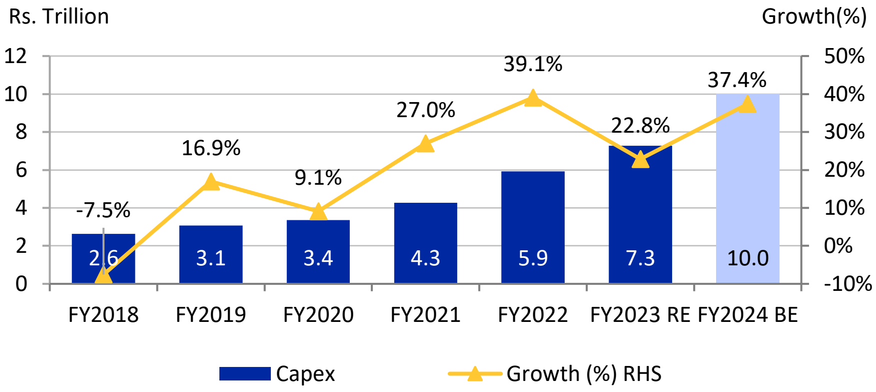
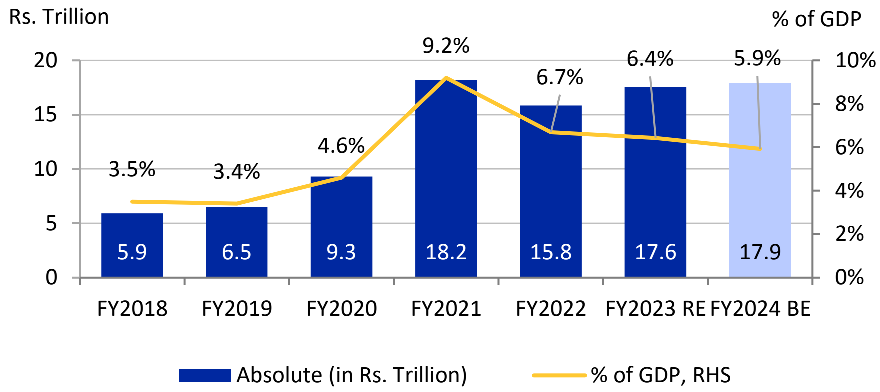


EXHIBIT: GoI's Fiscal Deficit (Absolute and % of GDP)



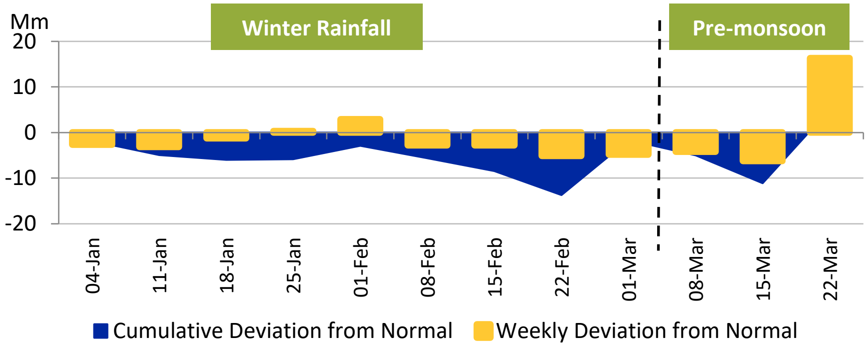
- Amidst the global growth slowdown and an uneven domestic recovery, the Union Budget for FY2024 raised the high-multiplier capital spending to a massive Rs. 10.0 trillion, while simultaneously pursuing fiscal consolidation, aided by the cushion provided by a sharp decline in the subsidy burden.
- With a substantial 37.4% expansion in the capex target in FY2024, the fiscal deficit is budgeted to rise to Rs. 17.9 trillion from Rs. 17.6 trillion in the FY2023 RE. Nevertheless, as a proportion of GDP, the deficit is projected to moderate to 5.9% of GDP from the 6.4% of GDP indicated in FY2023 RE.
- The FY2024 budget math broadly seems credible, although the estimates for non-tax revenues and customs duty collections appear slightly optimistic. However, these could be offset via expenditure savings and a cut in capex towards the end of the fiscal. At present, ICRA expects the fiscal deficit target for FY2024 to be met.

Actuals for FY2018-22; RE: Revised Estimates; BE: Budget Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

SECTORAL TRENDS

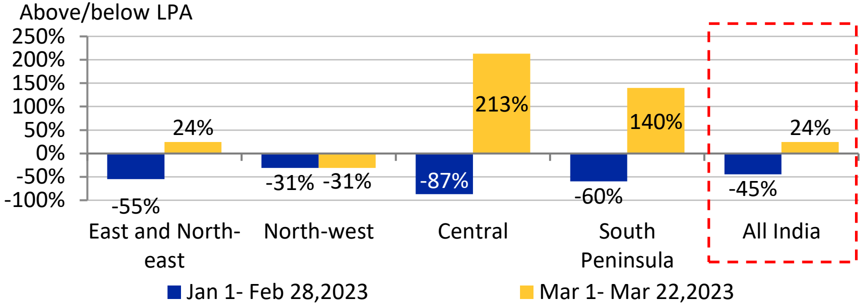
India has received excess rainfall during the ongoing pre-monsoon season so far, amidst spatial unevenness

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*

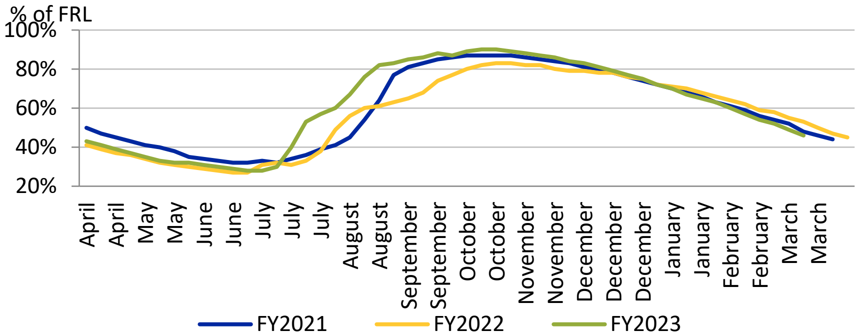
- India witnessed deficient rainfall at 55% of LPA during the winter season (January-February), with all the sub-divisions recording below-LPA rainfall.
- Subsequently, in the ongoing pre-monsoon season (March-May), India has recorded excess rainfall at 124% of LPA in March 2023 so far (till March 22, 2023), with heavy rainfall in the central and southern parts of the country during March 18-22, 2023.

- As per the IMD's classification, the spatial distribution of rainfall in the ongoing season (till March 22, 2023) has been quite uneven.
- Central India (313% of LPA), South Peninsula (240% of LPA) and the East and North-east region (124% of LPA) received excess rainfall during March 1-22, 2023.
- In contrast, the North-west region (69% of LPA) has received deficient rainfall during this period.

Reservoir storage mildly trails year-ago levels, but exceeds historical average

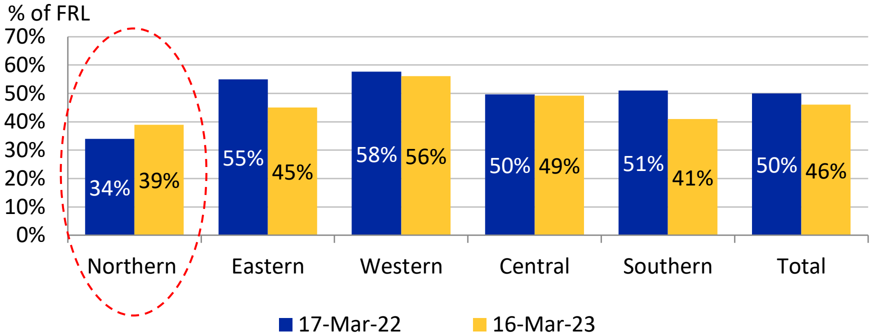
ICRA

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

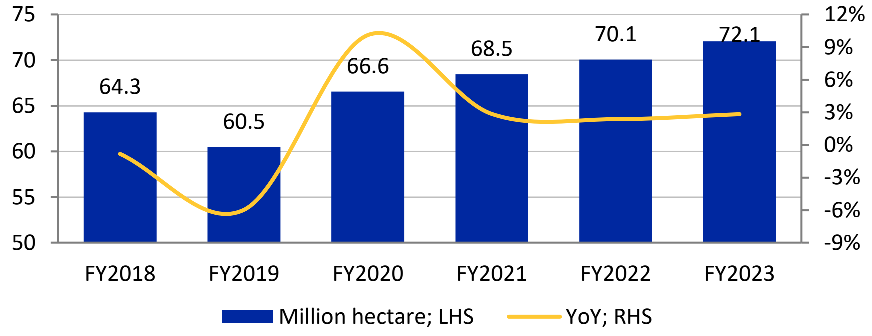
- While displaying a seasonal downtrend, the all-India reservoir storage stood at 46% of live capacity at FRL as on March 16, 2023, trailing the year-ago levels (50%).
- However, it remained comfortably above the historical levels of the last 10 years (40%).

- On a region-wise basis, only the northern region (39% vs. 34%) recorded reservoir storage above the year-ago levels as on March 16, 2023.
- All the remaining four regions witnessed storage levels lower than the preceding year, such as the western (56% vs. 58%), eastern (45% vs. 55%), central (49.2% vs. 49.7%), and southern (41% vs. 51%) regions.

Rabi sowing rose by higher-than-expected 3.3% YoY in FY2023; March 2023 rains likely to impact yields

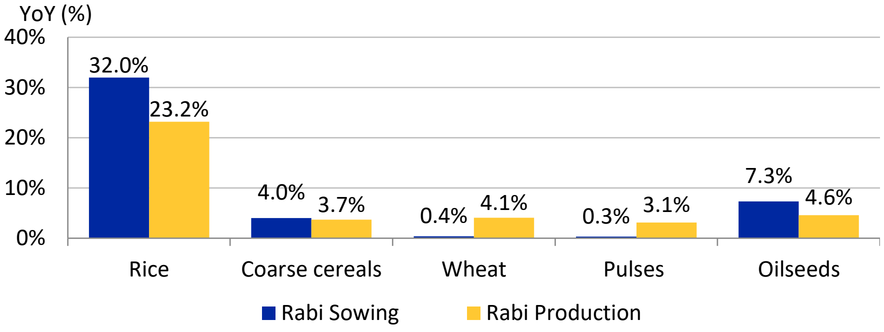
ICRA

EXHIBIT: Annual trends in total area sown for rabi crops



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

EXHIBIT: YoY trends in rabi sowing as on February 3, 2023 and rabi production as per 2nd AE drop total



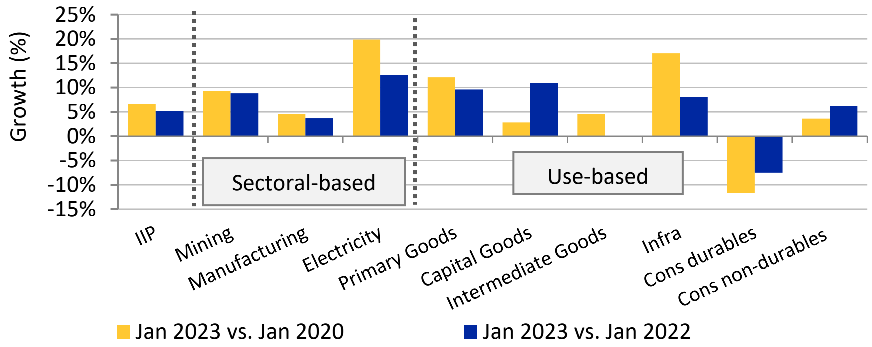
Source: Department of Agriculture, Cooperation and Farmers Welfare, ICRA Research

- At the end of the rabi sowing season for FY2023 (as on Feb 3, 2023), the total area sown stood at a record 72.1 million hectare, exceeding the year-ago level by 3.3% (ICRA's exp.: +1-2%), aided by healthy reservoir levels. Amongst major crops, rice (1.12 million hectare) and oilseeds (0.75 million hectare) accounted for 82% of the YoY increase of 2.27 million hectare in the total rabi acreage.
- Moreover, the 2nd Advance Estimate of crop production for FY2023, indicated a healthy trend in the production of rabi crops relative to the Final Estimates for FY2022. The output of oilseeds (+4.6%), pulses (+3.1%), wheat (+4.1%), rice (+23.2%; record-high production), and coarse cereals (+3.7%) is expected to exceed the FY2022 level.
- **While the healthy rise in the output of rabi crops in FY2023 augurs well for the agriculture sector, the heavy rains in mid-March 2023 could adversely impact yields.**

Industrial output witnessed an uptick in Jan 2023, relative to Q3 FY2023, boosted by low base

ICRA

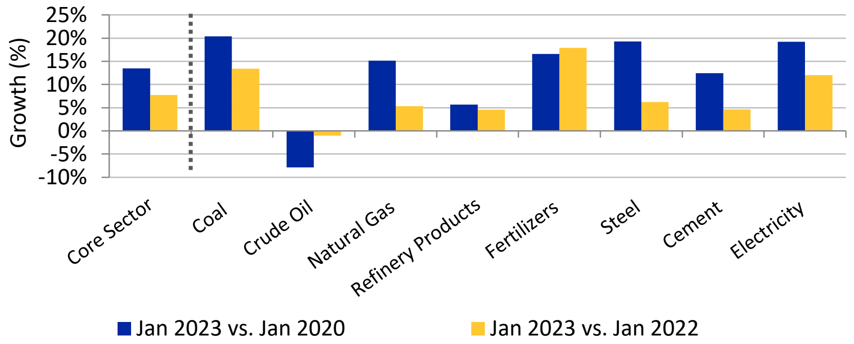
EXHIBIT: Trend in performance of IIP and its sub-components



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

- The YoY IIP growth doubled to 5.2% in Jan 2023 from the tepid 2.6% in Q3 FY2023, led by an improvement across all the sub-sectors and use-based categories (except intermediate goods: to +0.1% in Jan 2023 from +0.5% in Q3 FY2023).
- Relative to the pre-Covid levels of 2019, the IIP rose by 6.6% in Jan 2023.
- **The IIP growth is likely to improve in Q4 FY2023, boosted by the typical year-end push in volumes to achieve targets as well as a low base of Covid 3.0. However, ICRA remains watchful of the impact of slackening external demand on the performance of the manufacturing sector.**

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



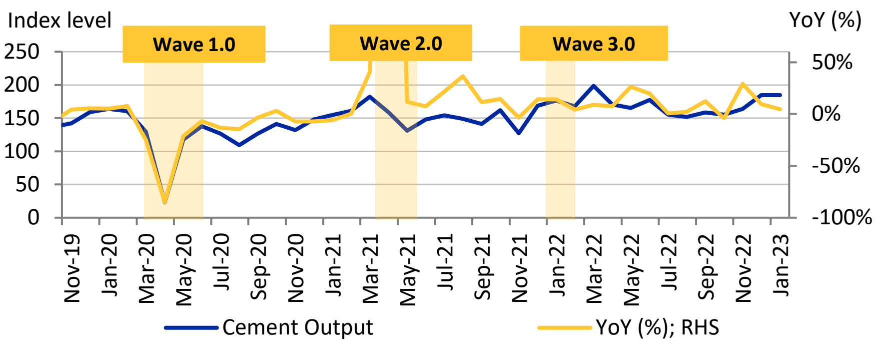
Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry, CEIC; ICRA Research

- The YoY growth in core sector output rose to 7.8% in Jan 2023 from 4.5% in Q3 FY2023, partly on account of a low base. Moreover, six of the eight sub-sectors recorded an improvement in their YoY performance in Jan 2023, relative to Q3 FY2023.
- Relative to January 2020, core sector output increased by a healthy 13.5%, led by a double-digit growth in coal (+20.4%), electricity (+19.2%), steel (+19.3%), cement (+12.5%), fertilisers (+16.5%), and natural gas (+15.1%). In contrast, crude oil (-7.8%) trailed the respective pre-Covid volumes in Jan 2023.

Growth in cement and steel output eased in Jan 2023; operating margins of both industries are expected to decline in FY2023

ICRA

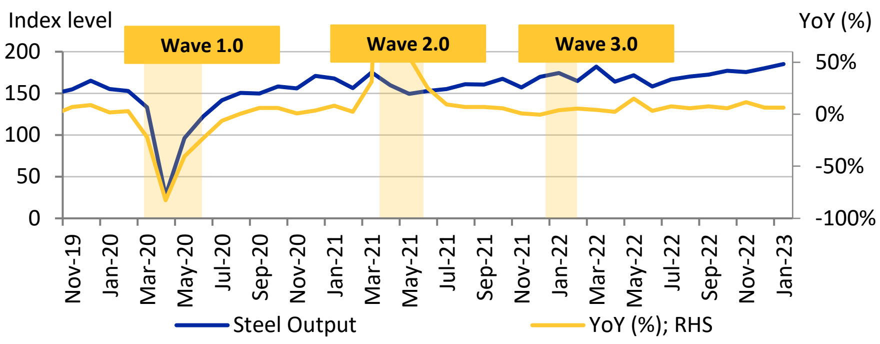
EXHIBIT: Trends in cement output



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

- While the output of cement exceeded the year-ago levels by 4.6% in Jan 2023, the pace of YoY growth moderated from 10.1% seen in Q3 FY2023.
- **ICRA expects cement volumes to rise by ~8% to 389 MMT in FY2023, and by 7% to 416 MMT in FY2024, supported by the demand from the housing and infrastructure sectors.**
- **While cost-side pressures are likely to dent the operating margins by 600-690 bps to 13.9-14.8% in FY2023, the expected easing of such pressures, would improve the margins by 200-240 bps YoY ~16.3%-17.0% in FY2024.**

EXHIBIT: Trends in steel output

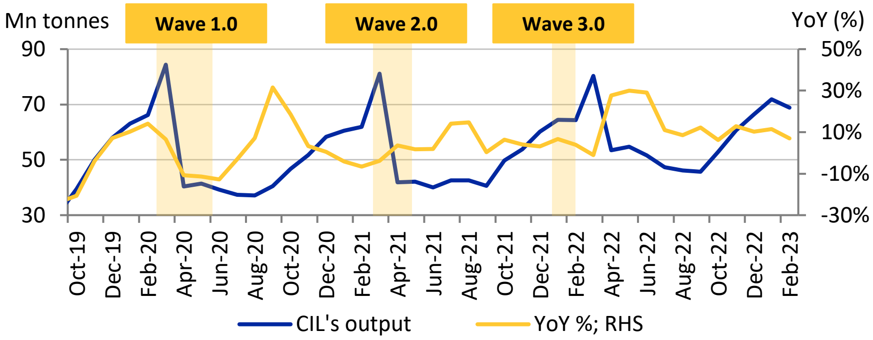


Source: Office of the Economic Adviser, GoI; ICRA Research

- The YoY growth in steel output eased to 6.2% in Jan 2023 (+3.8% in Jan 2022) from 7.8% in Q3 FY2023 (+2.0% in Q3 FY2022), partly on account of a high base.
- **With rising borrowing levels and declining earnings, the steel industry's operating profits are expected to contract by 45-50% in FY2023.**
- **While India's finished steel exports are expected to gradually increase from the Nov 2022 lows following the withdrawal of export duty, they are unlikely to go back to levels seen in FY2021-22, even in FY2024, as the external demand environment remain challenging.**

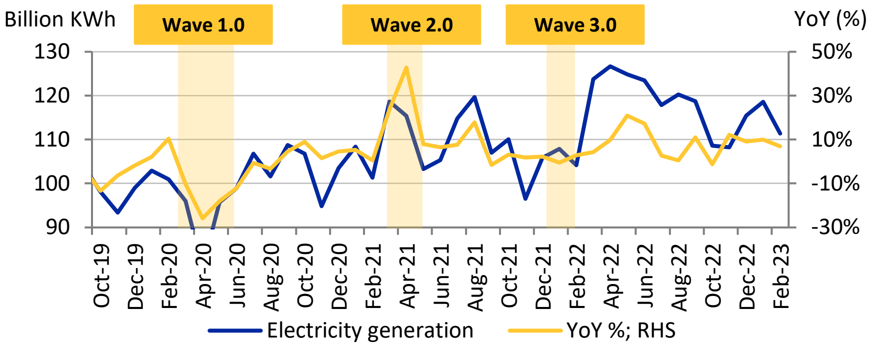
While growth in CIL's output eased marginally in Jan-Feb 2023, that in electricity generation improved, aided by low base and deficient rainfall

EXHIBIT: Trends in CIL's output



Source: CIL; ICRA Research; MT: Million tonnes

EXHIBIT: Trends in electricity generation



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

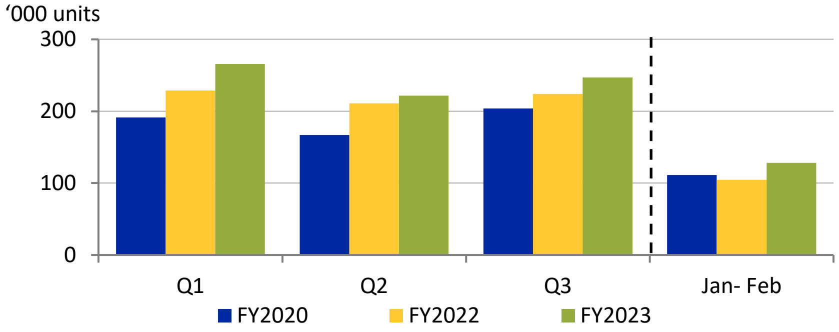
- Led by a low base of the third wave of Covid-19, the output of CIL expanded by 9.2% YoY in Jan-Feb 2023, and was also ~9% higher than the pre-Covid levels of Jan-Feb 2020. However, the YoY performance in Jan-Feb 2023 recorded a slight moderation relative to Q3 FY2023 (+9.9%).
- The annual target of 700 MT for FY2023 is likely to be met as the output needs to grow by a marginal 0.1% YoY in Mar 2023.
- **The Ministry of Coal has set the coal production target for FY2024 at 1,107 million tonnes (CIL: 780 MT). The various steps taken by the GoI to ensure adequate supply of coal to the power plants and other sectors, are likely to support coal production in the next fiscal.**

- The YoY growth in electricity generation (excluding renewable) rose to 8.4% in Jan-Feb 2023 from 6.4% in Q3 FY2023 partly aided by a low base related to Covid 3.0 and deficient winter rainfall (55% of LPA during Jan-Feb 2023).
- Additionally, the generation exceeded the pre-Covid levels by 12.8% during Jan-Feb 2023, in tune with the uptrend seen in demand (+15.5%).
- The average spot power tariffs in the day-ahead-market (DAM) rose to Rs. 6.4/unit in Jan-Feb 2023 from Rs. 4.6/unit in Q3 FY2023, amidst elevated demand and coal prices, and lower-than-required domestic coal stock levels (12 days in Jan-Feb 2023 vs. required 24).

YoY growth in tractor and motorcycle sales improved in Jan-Feb 2023, relative to Q3 FY2023, led by low base

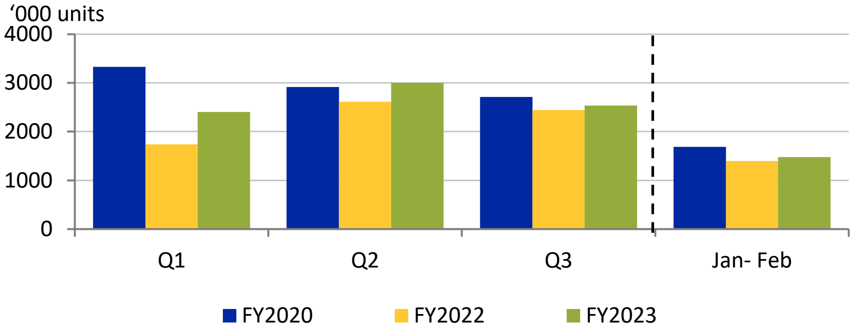
ICRA

EXHIBIT: Trends in domestic tractor retail volumes



Source: CMIE; ICRA Research

EXHIBIT: Trends in domestic motorcycle wholesale volumes



Source: SIAM; CEIC; ICRA Research

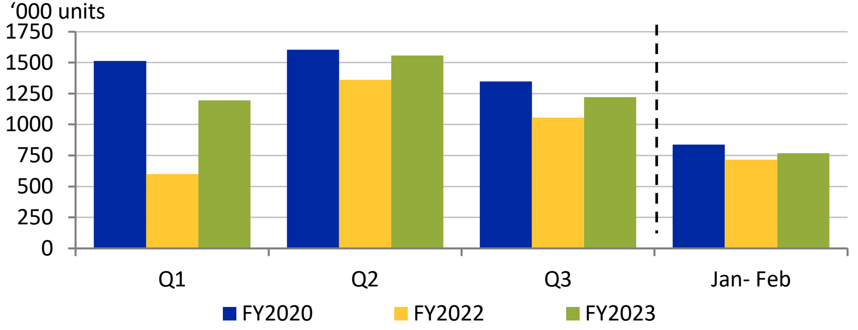
- The YoY growth in domestic tractor retail volumes rose to 22.2% during Jan-Feb 2023 from 10.5% seen in Q3 FY2023, led by a low base (-32.0% in Jan-Feb 2022).
- Encouragingly, such volumes exceeded the pre-Covid volumes by a considerable 15.2% in Jan-Feb 2023.
- **Industry volumes are estimated to remain healthy in FY2023 (YoY growth: 7-9%) and FY2024 (0-2% YoY growth on a high base) aided by favourable underlying drivers for rural cash flows. However, crop damage or deficient monsoon precipitation pose downside risks to these estimates.**

- The YoY growth in motorcycle wholesale dispatches rose to 5.2% in Jan-Feb 2023 from 3.6% in Q3 FY2023, led by the low base of Jan-Feb 2022 (-23.3%), amidst the third wave of Covid-19.
- Nevertheless, the volumes were still 12.7% lower than the levels during Jan-Feb 2020, amid elevated ownership costs and inflationary headwinds.
- **Overall, ICRA expects domestic motorcycle volumes to grow by 13-15% in FY2023, aided by a low base.**
- **Subsequently, YoY growth is expected to print at 6-9% in FY2024, led by stable rural cash flows and easing supply chain issues.**

Scooter wholesale dispatches eased in Jan-Feb 2023, relative to Q3 FY2023; PV sales remain healthy, aided by strong underlying demand conditions

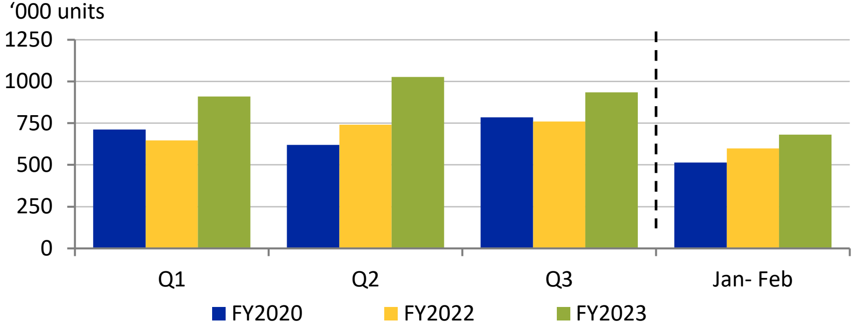
ICRA

EXHIBIT: Trends in domestic scooter wholesale volumes



Source: SIAM; CEIC; ICRA Research

EXHIBIT: Trends in domestic PV wholesale volumes



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

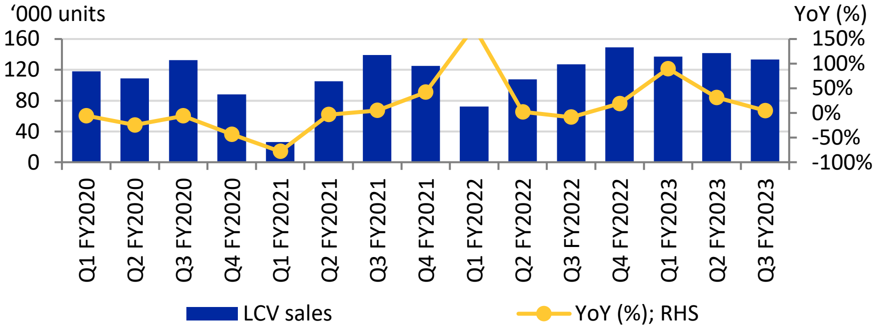
- The YoY growth in scooter volumes eased to 6.9% in Jan-Feb 2023 from 15.8% seen in Q3 FY2023. The volumes trailed the pre-Covid levels by 8.5% in Jan-Feb 2023, amidst higher ownership costs, increase in financing rates and inflationary headwinds constraining the growth.
- **ICRA expects domestic scooter sales to grow by 20-22% in FY2023, led by an improvement in offtake with work-from-home and online education policies being reversed. The growth in volumes is expected to moderate in FY2024, as headwinds owing to high cost of ownership and rising interest rates persist.**

- Domestic PV sales rose by 13.9% YoY in Jan-Feb 2023 (+23.2% in Q3 FY2023). On a sequential basis, volumes have risen to 3.4 lakh units during Jan-Feb 2023 from the average of 3.1 lakh units in Q3 FY2023, suggesting that the underlying demand conditions remain strong.
- Moreover, sales exceeded the pre-Covid levels by 32.3% in Jan-Feb 2023.
- **ICRA expects the industry to expand by a healthy 21-24% in FY2023 and thereafter grow at a moderate pace of 6-9% YoY in FY2024, aided by steady industry demand. However, any further supply-chain disruptions remain a key monitorable.**

CV wholesale volumes continue to recover, aided by improved demand from end-user industries, replacement demand and economic recovery

ICRA

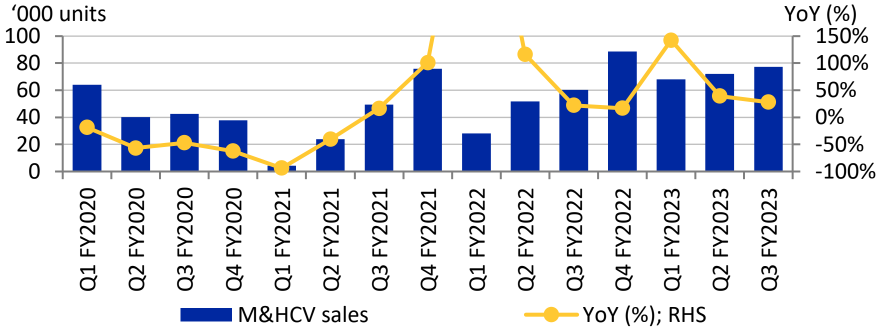
EXHIBIT: Trends in domestic LCV wholesale volumes (truck)



Source: SIAM; CEIC; ICRA Research

- The wholesale volumes of light commercial vehicles (LCVs: truck segment) exceeded the year-ago levels by 4.8% in Q3 FY2023 (+31.5% in Q2 FY2023).
- However, on a QoQ basis, sales contracted by 5.7% in Q3 FY2023, while exceeding the pre-Covid levels of Q3 FY2020 by a marginal 0.7%.
- **ICRA expects volumes of this segment to grow by ~15-17% in FY2023, benefitting from the demand from e-commerce and for last mile transportation, as well as improved domestic economic environment.**
- **Subsequently, volumes are expected to moderate to 4-6% in FY2024, partly on account of a high base.**

EXHIBIT: Trends in domestic M&HCV wholesale volumes (truck)



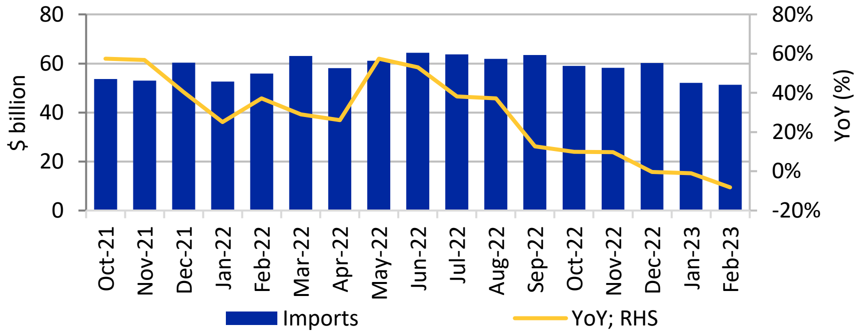
Source: SIAM; CEIC; ICRA Research

- The wholesale volumes of medium and heavy commercial vehicles (M&HCV: truck segment) rose by 28.1% YoY in Q3 FY2023, while also recording a QoQ growth of 7.4%, supported by the demand from the end-user industries such as mining and construction, replacement demand as well as improving macro environment.
- Moreover, the volumes in this sector exceeded the pre-Covid levels by a substantial 81.8% in Q3 FY2023.
- **With these factors expected to remain favourable, ICRA expects M&HCV truck volume growth at ~25-30% in FY2023, before easing to ~8-10%, on a high base.**

Both merchandise exports and imports deteriorated during Jan-Feb 2023, led by external slowdown and lower commodity prices

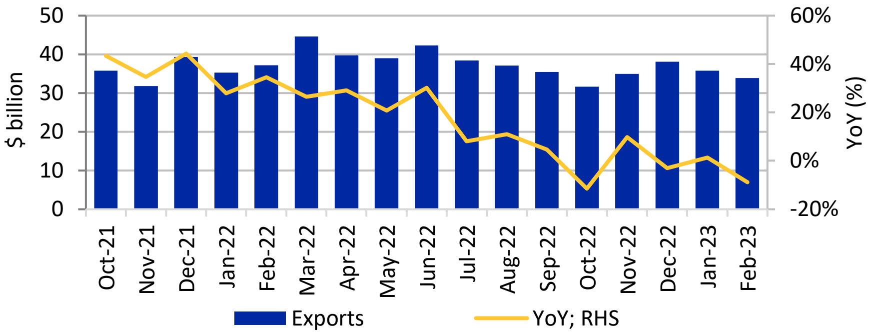
ICRA

EXHIBIT: Trends in merchandise imports



Source: Ministry of Commerce, GoI; ICRA Research

EXHIBIT: Trends in merchandise exports



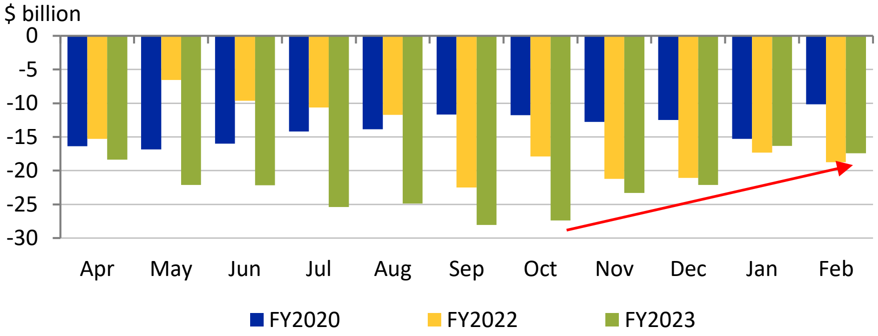
Source: Ministry of Commerce, GoI; ICRA Research

- Merchandise imports declined by 4.7% YoY to an average of $51.7 billion during Jan-Feb 2023 ($54.2 billion in Jan-Feb 2022). Moreover, on a monthly basis, imports continued to contract for the third consecutive month, on a YoY basis in Feb 2023 (-8.2% in Feb 2023), with the extent of the contraction being the sharpest since Nov 2020.
- However, imports exceeded the pre-Covid levels by ~31% in Jan-Feb 2023.
- **Merchandise imports are expected to rise by ~17% to $723-725 billion in FY2023, driven by non-gold components. Thereafter, they are projected to ease to $696-698 billion in FY2024, amidst lower commodity prices.**

- Similarly, India's merchandise exports contracted by 3.9% YoY to an average of $34.8 billion in Jan-Feb 2023 ($36.2 billion in Jan-Feb 2022). amidst a slowdown in external demand and a moderation in commodity price inflation.
- **ICRA expects merchandise exports to rise by a muted ~4% to $444-446 billion in FY2023, led by the anticipated surge in oil exports and a modest rise in non-oil segment**. **Subsequently, ICRA projects exports to ease to $416-418 billion in FY2024, due to the impact of a slackening global demand and lower commodity prices.**

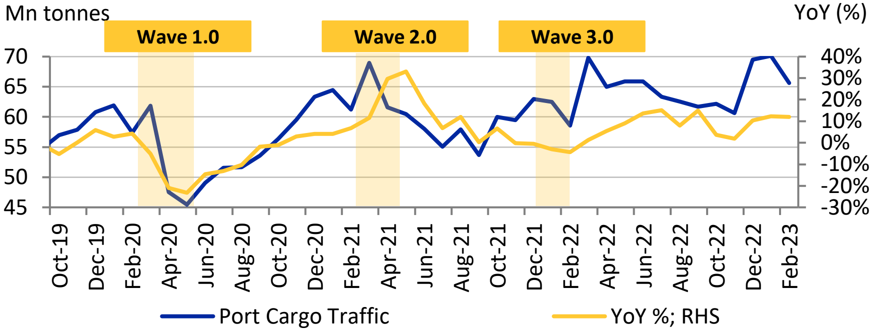
Merchandise trade deficit narrowed in Jan-Feb 2023, owing to flagging external demand; ports cargo traffic growth improved during Jan-Feb 2023

EXHIBIT: Trends in merchandise trade deficit ($ billion)



Source: Ministry of Commerce, GoI; ICRA Research

EXHIBIT: Trends in port cargo traffic



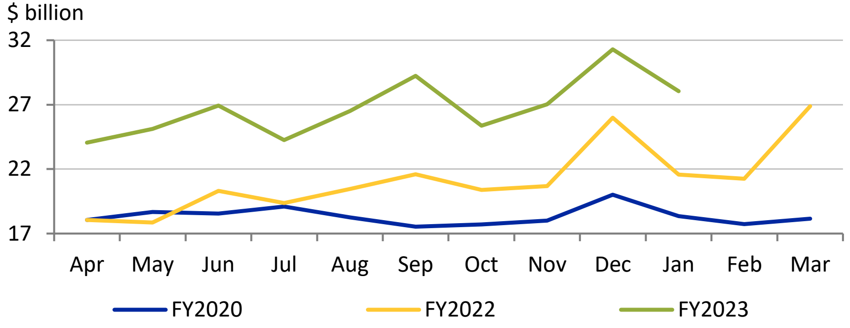
Source: Indian Ports Association (IPA); ICRA Research

- Owing to a sharper decline in imports vis-à-vis exports during Jan-Feb 2023, the merchandise trade deficit narrowed quite sharply to $16.9 billion in Jan-Feb 2023, from the average of $24.3 billion recorded in Q3 FY2023. Consequently, we foresee the CAD to narrow substantially in Q4 FY2023 vis-à-vis the levels expected in Q3 FY2023.
- **Overall, we project the CAD to widen to $88-90 billion (-2.7% of GDP) in FY2023 from $38.7 billion (-1.2% of GDP) in FY2022. Subsequently, it is projected to rise to an all-time high of $102-104 billion (-2.9% of GDP) in FY2024, largely driven by expectations of a widening merchandise trade deficit as well as a decline in the services trade surplus.**

- Despite the deterioration in the value of imports and exports, the YoY growth in ports cargo traffic rose to 12.1% in Jan-Feb 2023 from 5.4% in Q3 FY2023. The improvement was led by coal (to +34.3% from +26.8%), POL (to +4.1% from -0.6%) and containers (to +2.8% vs. -2.2%).
- Moreover, traffic at major ports exceeded the pre-Covid levels by 13.8% in Jan-Feb 2023, largely driven by coal (+14.5%) and containers (+6.1%).
- **ICRA projects cargo growth at ~6-8% in FY2023; thereafter, the growth slowdown in major advanced economies is likely to hurt global trade, thereby posing risk to ports cargo volumes in FY2024.**

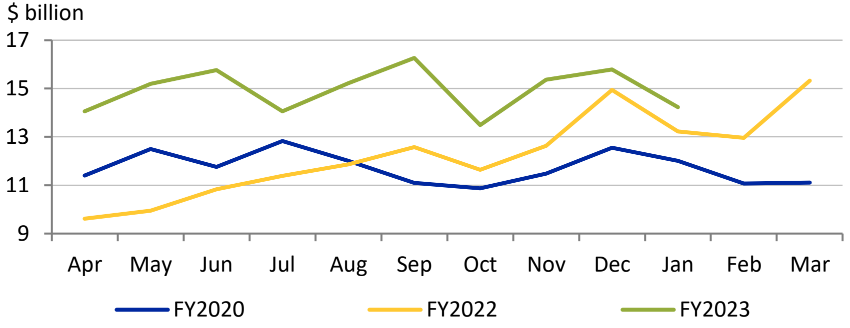
Services trade surplus moderated in Jan 2023; slowdown in US and Europe may weigh on India's software service exports in FY2024

EXHIBIT: Trends in services exports



Source: RBI; ICRA Research

EXHIBIT: Trends in services imports



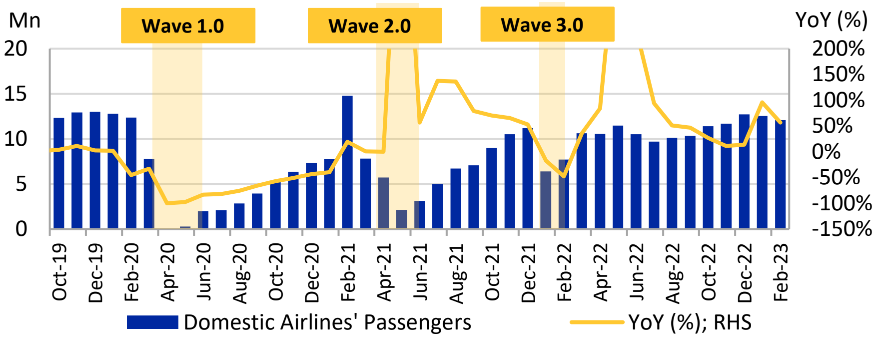
Source: RBI; ICRA Research

- While services exports (-10.4%) and imports (-9.9%) contracted on a sequential basis in Jan 2023, the YoY growth remained quite robust at 29.6% and 7.5%, respectively. Moreover, such exports and imports exceeded the corresponding pre-Covid levels by 53% and 31%, respectively, in Jan 2023.
- Consequently, the services trade surplus dipped to $13.8 billion in Jan 2023 from $15.5 billion recorded in the previous month, while standing comfortably higher than the year-ago (+65%) as well as pre-Covid levels (+85%), providing a cushion to partly offset the merchandise trade deficit.
- While India's services exports have risen by a healthy ~30% YoY in Apr-Jan FY2023, hiring by some IT services companies has slowed as they turned cautious regarding the impact of a recession in the US and Europe, which may weigh on software exports going ahead**. Overall, ICRA expects the services trade surplus to rise to $137-140 billion in FY2023 from $107.5 billion in FY2022, on the back of robust services exports and a weaker INR. Subsequently, the services trade surplus may moderate to ~$132 billion in FY2024, driven by the impact of the global slowdown.**

YoY growth in domestic air passenger traffic and rail freight volumes improved in Jan-Feb 2023, relative to Q3 FY2023

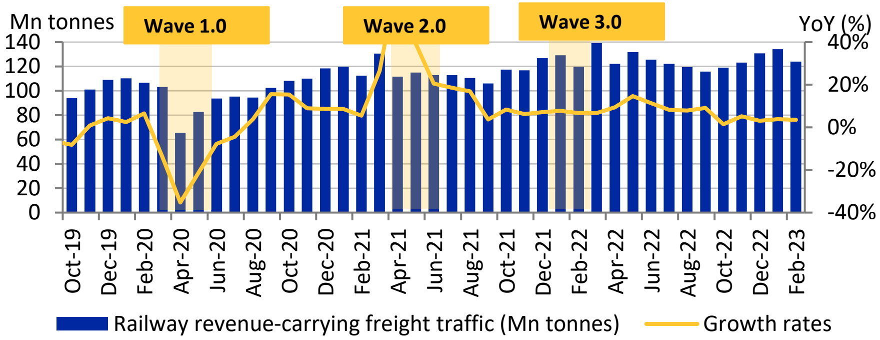
ICRA

EXHIBIT: Trends in domestic airlines' passenger traffic



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

EXHIBIT: Trends in rail freight traffic



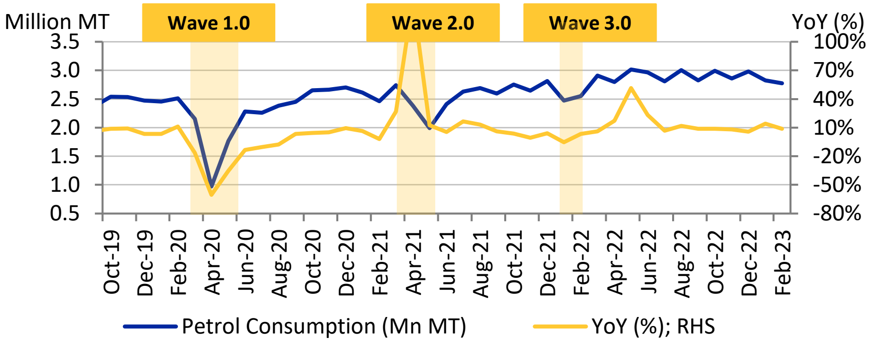
Source: Indian Railways, GoI; ICRA Research

- The YoY expansion in domestic airlines' passenger traffic rose sharply to an optically-high 74.5% in Jan-Feb 2023 from 16.7% in Q3 FY2023, partly led by the low base of Covid 3.0.
- The lag from pre-Covid levels of FY2020 narrowed to a marginal 2.1% in Jan-Feb 2023 (-6.4% in Q3 FY2023, relative to Q3 FY2020), amidst a robust demand for leisure and business travel.
- **Going forward, the recovery in corporate travel and steady demand from leisure traffic are likely to support this sector. The domestic passenger traffic growth is expected to rise by ~8-13% in FY2024 to reach 14.5-15.0 million post the 55-60% expansion expected in FY2023.**

- The YoY growth in rail freight volumes improved mildly to 3.7% in Jan-Feb 2023 from 3.2% in Q3 FY2023, led by the trends in freight volumes of coal, fertilisers and POL.
- On a sequential basis, rail freight traffic rose by 3.9% to an average of 129 MT per month during Jan-Feb 2023 from the monthly average of 124 MT in Q3 FY2023.
- Moreover, rail freight volumes exceeded the pre-Covid levels of Jan-Feb 2020 by 19.1% in Jan-Feb 2023.

Fuel consumption remained healthy in Jan-Feb 2023 in YoY terms, supported by low base and deficient rainfall

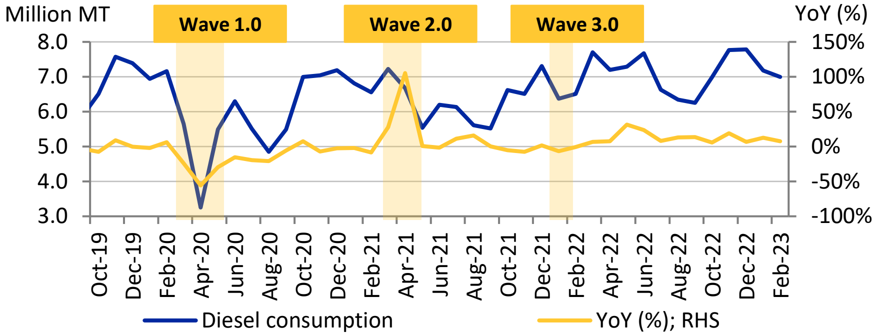
EXHIBIT: Trends in petrol consumption



Source: PPAC; ICRA Research

- The YoY growth in petrol consumption rose to 11.5% in Jan-Feb 2023 from 7.7% in Q3 FY2023, partly boosted by the low base of Jan-Feb 2022, amidst the third wave of Covid-19.
- Moreover, petrol sales exceeded the pre-Covid levels of Jan-Feb 2020 by a healthy 12.8% in Jan-Feb 2023, benefitting from the preference for personal mobility as well as increased travel for business and leisure.

EXHIBIT: Trends in diesel consumption



Source: PPAC, ICRA Research

- The YoY growth in diesel consumption eased marginally to 10.0% in Jan-Feb 2023 from 10.3% in Q3 FY2023, while remaining healthy amidst deficient rainfall in the North-east monsoon (Oct-Dec) and winter (Jan-Feb) seasons.
- In Jan-Feb 2023, consumption was 0.5% higher relative to the pre-Covid volumes, albeit lower than the growth seen in petrol consumption during this period.

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Thank You!