CRISIL
An S&P Global Company

India outlook, fiscal 2022

March 2021

CRISIL's INDIA OUTLOOK
ECONOMY • INDUSTRIES • MARKETS

Analytical contacts

Dharmakirti Joshi, Chief Economist	dharmakirti.joshi@crisil.com
Prasad Koparkar, Senior Director and Head, GIX	prasad.koparkar@crisil.com
Dipti Deshpande, Director, CCER	dipti.deshpande@crisil.com
Isha Chaudhary, Director, CRISIL Research	isha.chaudhary@crisil.com
Hetal Gandhi, Director, CRISIL Research	hetal.gandhi@crisil.com
Sehul Bhatt, Associate Director, CRISIL Research	sehul.bhatt@crisil.com
Mayur Patil, Associate Director, CRISIL Research	mayur.patil@crisil.com
Elizabeth Master, Associate Director, CRISIL Research	elizabeth.master@crisil.com
Gaurav Chattopadhay, Manager, CRISIL Research	gaurav.chattopadhay@crisil.com
Aashima Khatri, Manager, CRISIL Research	aashima.khatri@crisil.com
Priyanka Agrawal, Senior Research Analyst, CRISIL Research	priyanka.agrawal@crisil.com
Mohit Adnani, Senior Research Analyst, CRISIL Research	mohit.adnani@crisil.com
Abhishek Pal, Senior Research Analyst, CRISIL Research	abhishek.pal@crisil.com
Thrilok Kumar Kandagatla, Senior Research Analyst, CRISIL Research	thrilok.kandagatla@crisil.com
Shraddha Maroo, Senior Research Analyst, CRISIL Research	shraddha.maroo@crisil.com
Karishma Pariani, Senior Research Analyst, CRISIL Research	karishma.pariani@crisil.com
Aman Jobanputra, Research Analyst, CRISIL Research	aman.jobanputra@crisil.com
Adhish Verma, Senior Economist	adhish.verma@crisil.com
Pankhuri Tandon, Economist	pankhuri.tandon@crisil.com
Amruta Ghare, Junior Economist	amruta.ghare@crisil.com

Editorial

Raj Nambisan, Director
Subrat Mohapatra, Associate Director
Sowmya Sivakumar
Nisha Prabhakaran
Mustafa Hathiari
Arnab Mukherjee
Rita Ghose
Derin Justin

Design
Kedarnath Khandalkar, Harshal Bhavsar

Contents

Executive summary

CRISIL expects India's gross domestic product (GDP) growth to rebound to 11% in fiscal 2022, after an estimated 8% contraction this fiscal, as four drivers – people learning to live with the new normal, flattening of the Covid-19 affliction curve, rollout of vaccinations, and investment-focused government spending – converge.

However, as in this fiscal, the pace of growth will differ in the first and second halves next fiscal. While the first half will benefit optically because of low-base effect, the second half will see a more broad-based pick-up in economic activity.

But recovery would not be easy, with scars of the pandemic running deep for small businesses and the urban poor; the rural economy has been more resilient versus the urban, and services are lagging manufacturing in recovery. Trade has also normalised faster than the rest of the economy, with both exports and imports scaling pre-pandemic levels.

GDP growth would average 6.3% between fiscals 2023 and 2025. That would be lower than the 6.7% average growth seen in the decade preceding the pandemic, but higher than the 5.8% average in the three fiscals prior.

Despite the growth, the Indian economy will suffer a permanent loss of 11% of GDP in real terms over fiscals 2022-2025. The size of the economy next fiscal will be a mere 2% bigger in real terms than in fiscal 2020.

As for corporate revenue, a study of ~800 firms across 35 sectors – excluding oil, banking, financial services and insurance – for the first nine months of this fiscal shows contraction of only 8% on average compared with far grimmer prognostications at the peak of the pandemic.

Next fiscal, revenue should grow 15-16%, led by volume recovery across sectors on two consecutive low-base years and higher investment spend by the government, especially on core infra segments of roads, railways and urban infrastructure. Shorn of the optical base-effect, revenue will be only 8-9% higher than in fiscal 2019.

CRISIL Research's analysis of Production-Linked Incentive (PLI) scheme indicates potential incremental revenue generation of Rs 35-40 lakh crore over the coming five fiscals across 14 sectors, aided by Rs 2-2.7 lakh crore capex in the next 24-30 months.

The incentive-to-capex ratio is particularly attractive at >3.5 times for mobile phones, electronics, telecom equipment, and IT hardware where our local manufacturing base is relatively low.

As for bank credit, it is seen growing 400-500 basis points (bps) higher at 9-10% next fiscal, riding on economic recovery, and policy and regulatory spurs.

Economy

A multi-speed, inequitable recovery

Five growth premises for fiscal 2022

Weak base: An 8% contraction in GDP in fiscal 2021 will give a statistical push to growth next fiscal.

Global upturns: Higher expected global growth in calendar year 2021 (world GDP by 5%*, advanced economies 4.3%**, emerging economies 6.3%**) should lift exports.

Covid-19 curve: India is seeing a fortuitous mix of a flattening curve and learning to live with the virus, the rollout of vaccinations and herd immunity. These should broaden growth next fiscal, especially in the services and unorganised sectors.

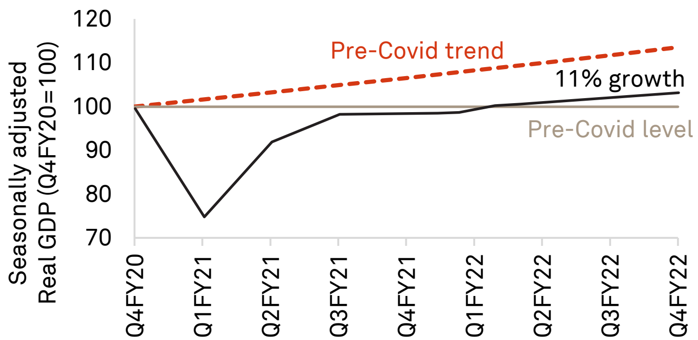
Fiscal push: Stretch in fiscal glide path and focus of the Union Budget for next fiscal on capex are expected to have a multiplier effect on growth.

Recovery is uneven

- Smaller firms harder hit than larger ones; urban economy less resilient than rural; services have lagged manufacturing recovery
- Medium-term growth seen at 6.3% (between fiscals 2023 and 2025). That would be lower than the 6.7% average growth seen in the decade preceding the pandemic, but higher than the 5.8% average in the three fiscals prior
- Prospects through fiscal 2025 hinge on investment revival and success of reforms – neither is without its own set of challenges
- An untamed pandemic is still a real risk

* S&P Global, ** IMF

Next fiscal will also be a story of two halves



Note: The flat line refers to the indexed level of GDP in Q4FY20

Source: Ministry of Statistics and Programme Implementation (MoSPI), CEIC, CRISIL

First half will be optical growth, second half the real rebound

The first half, characterised by base-effect-driven recovery, amid challenges of a resurgence in Covid-19 cases.

The second half, likely marked by a more broad-based pick-up in activity amid vaccination rollout and rising herd immunity domestically and supported by stronger anticipated global growth.

Economy will still operate below trend GDP is likely to touch the pre-pandemic level only by the second quarter of fiscal 2022.

By the end of fiscal 2022, GDP will only be ~2% higher than fiscal 2020 level and ~10% below its pre-pandemic trend level.

Not just uneven, but also unequal recovery

Smaller firms hit harder than larger ones

Amid the pandemic, revenue of small firms saw a sharper dip relative to large firms due to lower bargaining power and cash crunch.

According to CRISIL Research*, less than 20% of 400 smaller companies (among ~800 listed ones) saw positive revenue growth in the first half of fiscal 2021, compared with 35% of the top 100 companies.

Bank credit growth has been the weakest for micro and small enterprises, while large firms tapped into a wider array of financing options.

Manufacturing recovering faster than services

The pandemic hit contact-based services harder than manufacturing. Within services, the sharpest decline was in trade, hotels, transport and communication (THTC) services, which account for ~16% of employment.

Manufacturing growth is projected to turn positive at 0.6% in the second half of this fiscal, whereas THTC will likely remain negative at -2.8%.

The rural economy remained more resilient than urban

Agriculture (contributing ~39% to rural economy) has been largely unaffected by the pandemic and benefited from normal monsoon. It is estimated to grow a healthy 3.4% on-year in fiscal 2021 and 3% in fiscal 2022.

Non-agriculture rural economy has also fared well due to higher fiscal support to MGNREGA* and PM Kisan.

But the urban economy was less resilient, with higher concentration of services gross value-added, or GVA (~70%) in urban centres. Lack of social safety nets for the urban poor added to distress.

Markets and the real economy show divergent gains

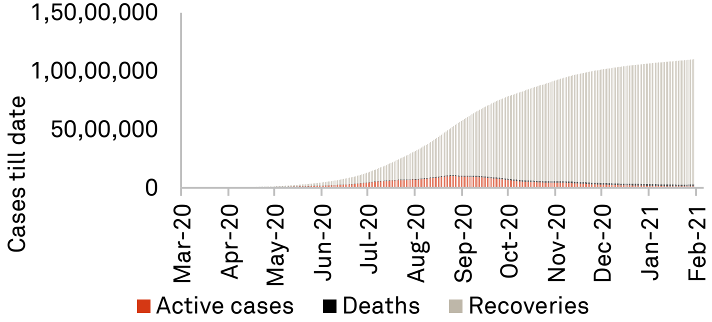
Equities have surged, with price-to-earnings ratio of Sensex above 30 since November 2020 (versus decadal average of ~20), even as the economy is set to contract ~8%. Bank credit growth slowed to 5.8% in January 2021, versus 8.5% in January 2020. Credit growth has been slowing since 2019.

Government security (G-sec) and higher-rated corporate bonds have seen yields falling. Spreads between AAA-rated public sector bonds and G-secs were ~80 bps, compared with ~266 bps for AA-rated bonds in February 2021.

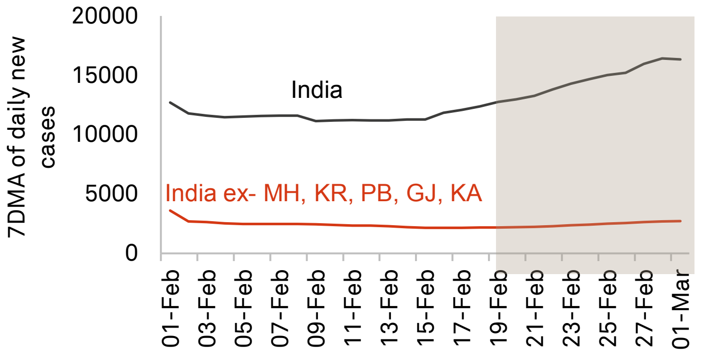
Note: *CRISIL Research (December 2020). Size matters in viral bout; G-secs refer to government securities
*MGNREGA: Mahatma Gandhi National Rural Employment Guarantee Act,2005

No taming the scourge

Active cases at less than 2% of total



Recent surge in cases is localised

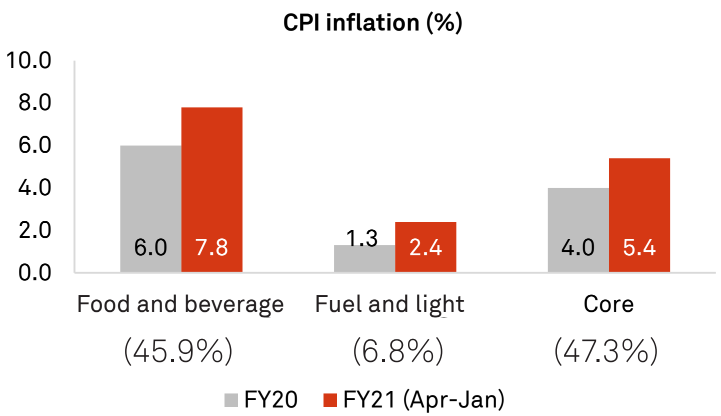


Note: MH = Maharashtra, KR = Kerala, PB = Punjab, GJ = Gujarat, KA = Karnataka
Source: Ministry of Health and Family Welfare (MoHFW), CEIC, CRISIL

Active cases edging up again

- **Under control, for now:** Recoveries are at more than 97% of total cases; daily cases fewer than 20,000
- **Non-linear trajectory:** Recent surge in cases, primarily in Maharashtra, Kerala, Punjab, Karnataka and Gujarat – which together account for ~83% of all new cases in the last week of February – is localised
- **Virus variants:** A few states have reported new strains from Brazil, the UK and South Africa

And then the price-rise heat



PS: Figures in parentheses are weights of respective categories in Consumer Price Index (CPI)

Source: National Statistical Office (NSO), CRISIL

Inflation spurts across the board

- Inflation has risen across all three categories – food, fuel, and core – in the pandemic year
- Rise in food inflation is understandably linked to supply-side disruptions (both domestic and international) and unseasonal rains towards end of monsoon
- Uptick in core inflation (an indicator of underlying demand conditions) during an economic slump is, however, surprising

Core inflation
not demand-driven

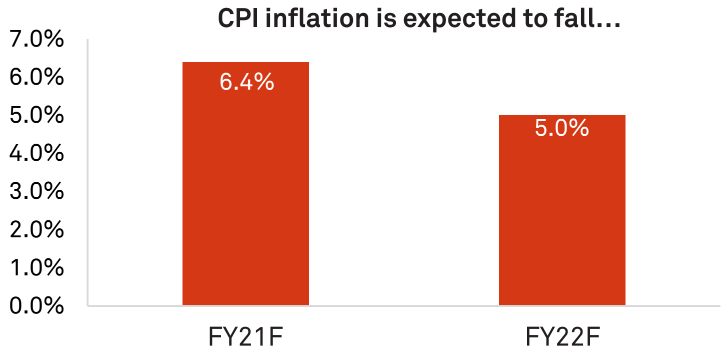
Inflation	Weights (%)	Categories	FY13-FY20 (average) %	FY20 %	FY21 (Apr-Jan) %
↑	3.89	Personal care and effects	5.3	5.6	12.1
↑	2.38	Pan, tobacco and intoxicants	7.7	4.2	9.9
↑	8.59	Transport and communication	3.6	2.4	9.4
↑	5.58	Clothing	6.4	1.6	3.2
↑	0.95	Footwear	5.5	1.6	2.9
↔	1.68	Recreation and amusement	4.9	4.9	4.9
↓	5.89	Health	5.9	6.2	4.9
↓	10.07	Housing	6.3	4.5	3.3
↓	3.8	Household goods and services	5.7	3.1	3
↓	4.46	Education	6.5	5.5	2.9

Source: MoSPI, CRISIL

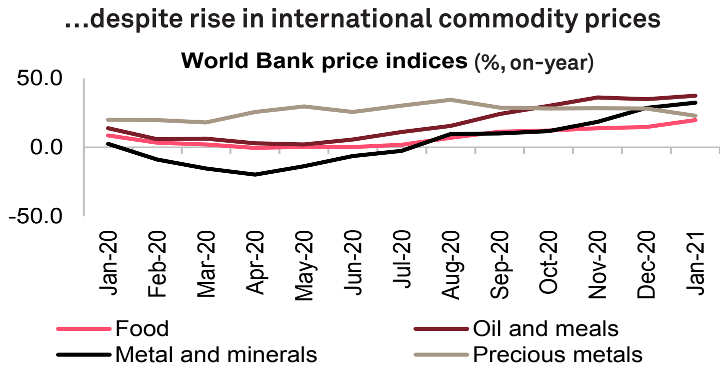
The categories on fire

- Core categories that saw highest inflation in fiscal 2021 so far (and also much above their previous eight-year averages) are:
  - Personal care and effects, largely reflecting a sharp rise in gold and silver prices
  - Pan, tobacco and intoxicants, likely on account of higher taxation; and
  - Transportation and communication, on account of fuel excise tax hikes and increased telecom tariffs, respectively

CPI inflation to moderate next fiscal



Source: MoSPI, CRISIL



Source: World Bank

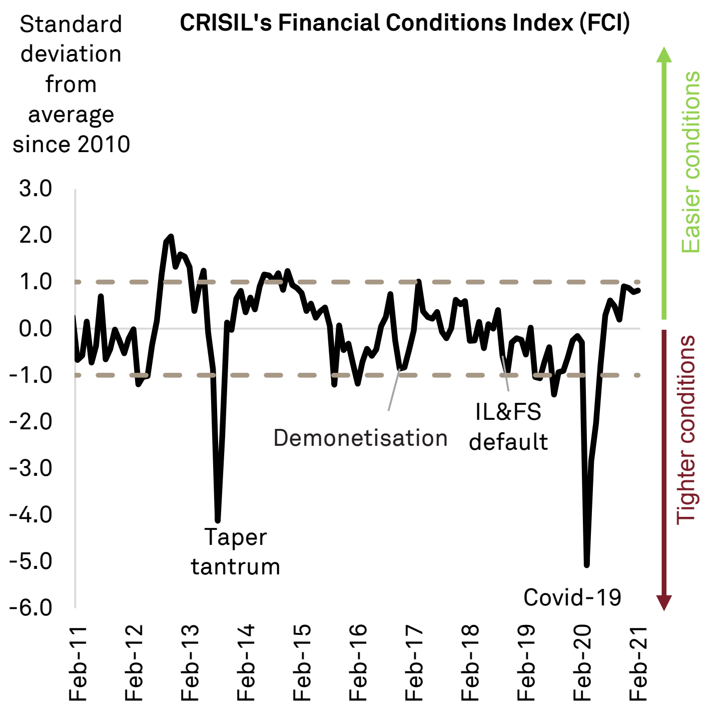
- **Food and beverage:** Helped by a steep fall in vegetable inflation and a broad-based softening in other categories, food inflation has subsided substantially in recent months. Going ahead, prospects of a bumper rabi harvest, expectation of a normal monsoon and fully functional supply chains suggest food inflation should remain in check

- **Core:** It remains stubborn around 5.5% and the ongoing economic recovery/improvement in demand is expected to keep it sticky. Rising commodity prices, especially that of crude oil, would add to price pressures. On balance, a decline in gold prices (one of the key idiosyncratic factors that pushed up core this fiscal) should tame the upside to core

- **Fuel and light:** Inflation in this category, which includes coal, electricity and other petroleum products like LPG, kerosene, etc., is also expected to gather pace. However, its contribution to overall inflation will remain low, given its low weight

Upshot: Softer food inflation is set to offset price pressures in other categories and lower headline inflation next fiscal

Will financial conditions challenge monetary policy?



Note: CRISIL's FCI is a monthly tracker that combines 15 key parameters across equity, debt, money and forex markets along with policy and lending conditions. A positive index value implies easier conditions and a negative index, tighter conditions relative to long term average since 2010
Source: CRISIL

Despite easy monetary policies from the Reserve Bank of India (RBI) and other central banks, financial conditions have started tightening in 2021.

Stress persists because of

- Weak bank credit growth
- High term premium
- Wider spreads on lower-rated corporate bonds

Fiscal 2022 could see tighter conditions

- High government borrowing leading to firmer government bond yields
- Moderation of excess liquidity by the RBI
- Adverse global factors (rising commodity prices, US Treasury yields)
- Inflation, a key monitorable

Fiscal-monetary coordination becoming tough…

- Both fiscal and monetary policies have been expansionary and well-coordinated this fiscal
- Fiscal policy stance will remain expansionary into the next fiscal, as the government has announced a significant relaxation in the fiscal consolidation path
- But monetary policy, which did the heavy lifting so far, needs to start moving towards normalisation, as the economy recovers (introduction of variable reverse repo auction and restoration of cash reserve ratio, or CRR, to pre-pandemic level of 4.0% of NDTL*, can be considered as initial steps in that direction)

*NDTL = net demand and time liabilities

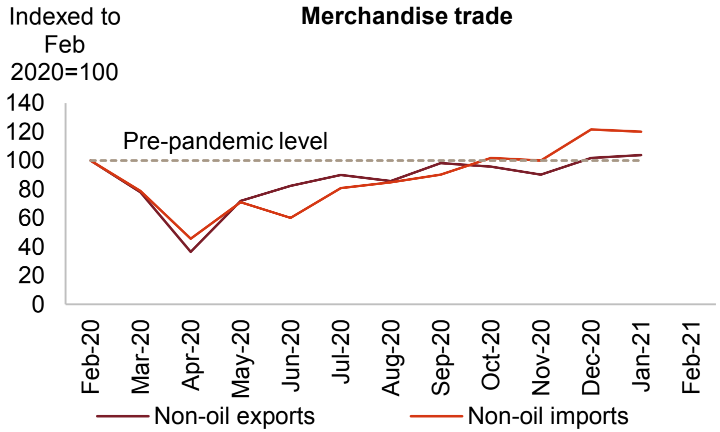
Where is the conflict?

- Given the need to support the nascent recovery and the government's large borrowing plan, the RBI has assured continuation of accommodative monetary policy
- But excess liquidity in the system could add to the inflation risk, currently being looked through by the RBI and most other central banks which have communicated higher tolerance to inflation in the near term
- The rise in yields in most major economies also poses a challenge in keeping domestic 10-year G-sec yields low – they have already risen 20 bps in the last one month

...reflecting the new challenge of reining in yields

- **Supply of G-secs will not pull back to pre-pandemic levels next fiscal**
  - That's because the Centre's gross market borrowing is budgeted at Rs 12.1 lakh crore in fiscal 2022, only marginally lower than Rs 12.8 lakh crore in fiscal 2021, and sharply up from Rs 7.1 lakh crore in fiscal 2020
- **Excess liquidity needs to be reduced**
  - Else, a rapid surge in asset prices could lead to financial instability. And elevated CPI inflation could play spoilsport
- **Credit will find other takers**
  - Improving growth prospects could spur credit growth by banks and reduce attractiveness of safe-haven G-secs
- **Adverse global developments could weaken foreign investor appetite**
  - Surging crude oil prices, a rise in US Treasury yields could affect capital flows to emerging markets like India

Current account will return to deficit as imports rise



Note: Export and import values are indexed relative to their values in February 2020
Source: Ministry of Commerce, CEIC, CRISIL

- Non-oil exports and imports turned higher in January 2021 than in February 2020
- Imports have seen a stronger recovery, indicating a consistent improvement in demand
- Current account is set to return to deficit with rising imports. Rising crude oil prices will further crank up import growth in fiscal 2022

Exports to major destinations have taken off

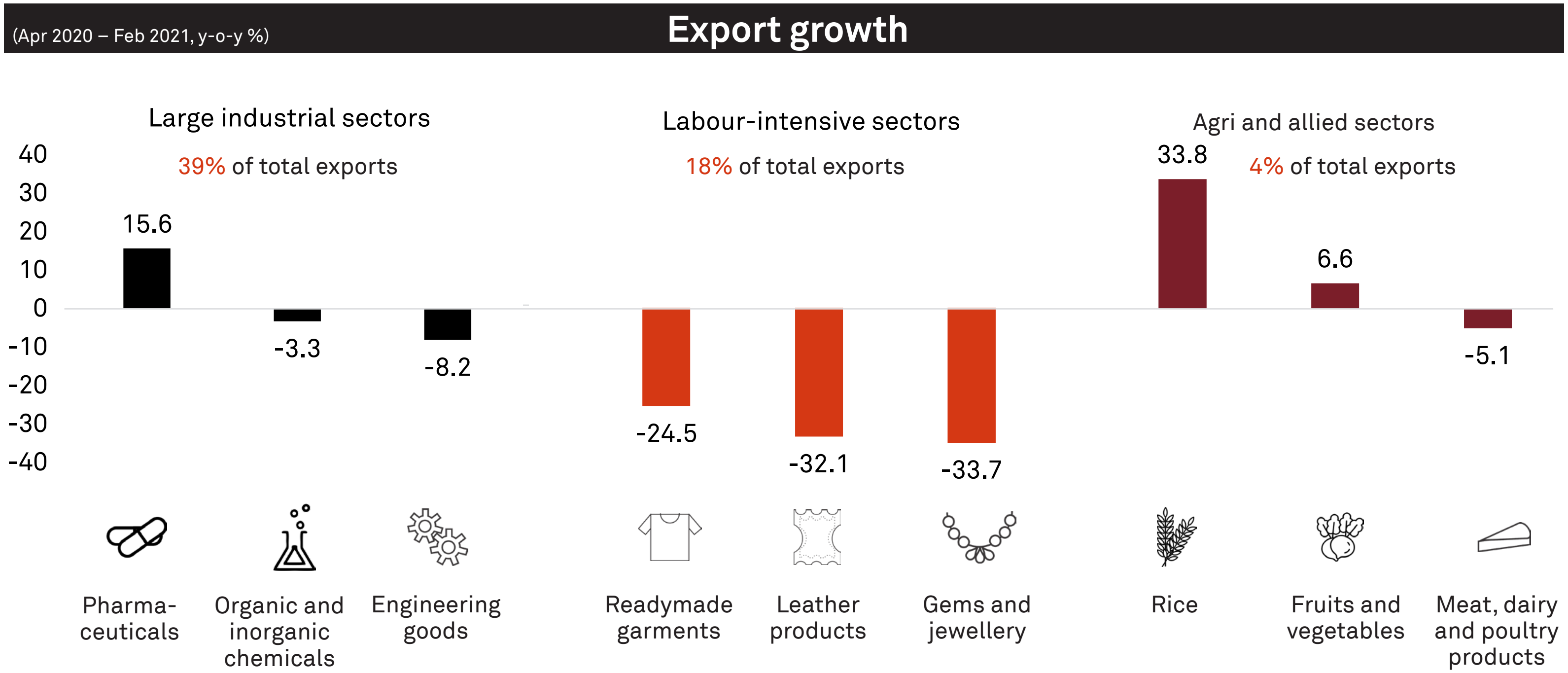
Top 10 export destinations	Share in India's exports (%)	India exports (y-o-y growth, %)		
	FY20	Q1 FY21	Q2 FY21	Q3 FY21
US	17	-38.9	3	5.5
UAE	9.2	-64.5	-44.2	-35.5
China	5.3	32.9	20.4	2.3
Hong Kong	3.5	-35.7	-22.3	14.4
Singapore	2.9	-23	-18.1	30.4
UK	2.8	-54.5	-0.3	14.3
Netherlands	2.7	-58.4	-14.9	-19.7
Germany	2.7	-37.8	3	5.3
Bangladesh	2.6	-46.7	27.5	9.9
Nepal	2.3	-60.7	-19.1	16.5

Note: Q1, Q2, Q3 – first, second and third quarter, respectively
Source: Ministry of Commerce, CRISIL

- Exports to China and Asian economies have been the strongest
- Rising global growth this calendar year should further strengthen export growth

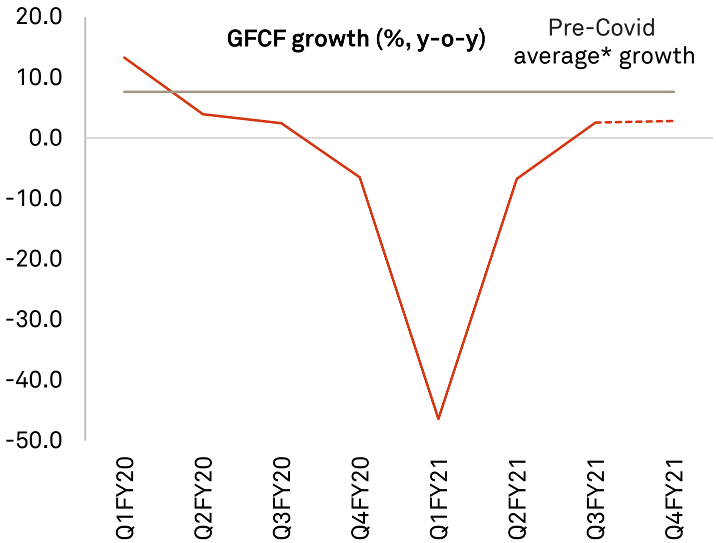
But recovery has a 'missing middle'

Exports are recovering well for large industries and the agri and allied sectors, but remain weak in low-end manufacturing – a segment that creates significant employment for the low and semi-skilled workforce.

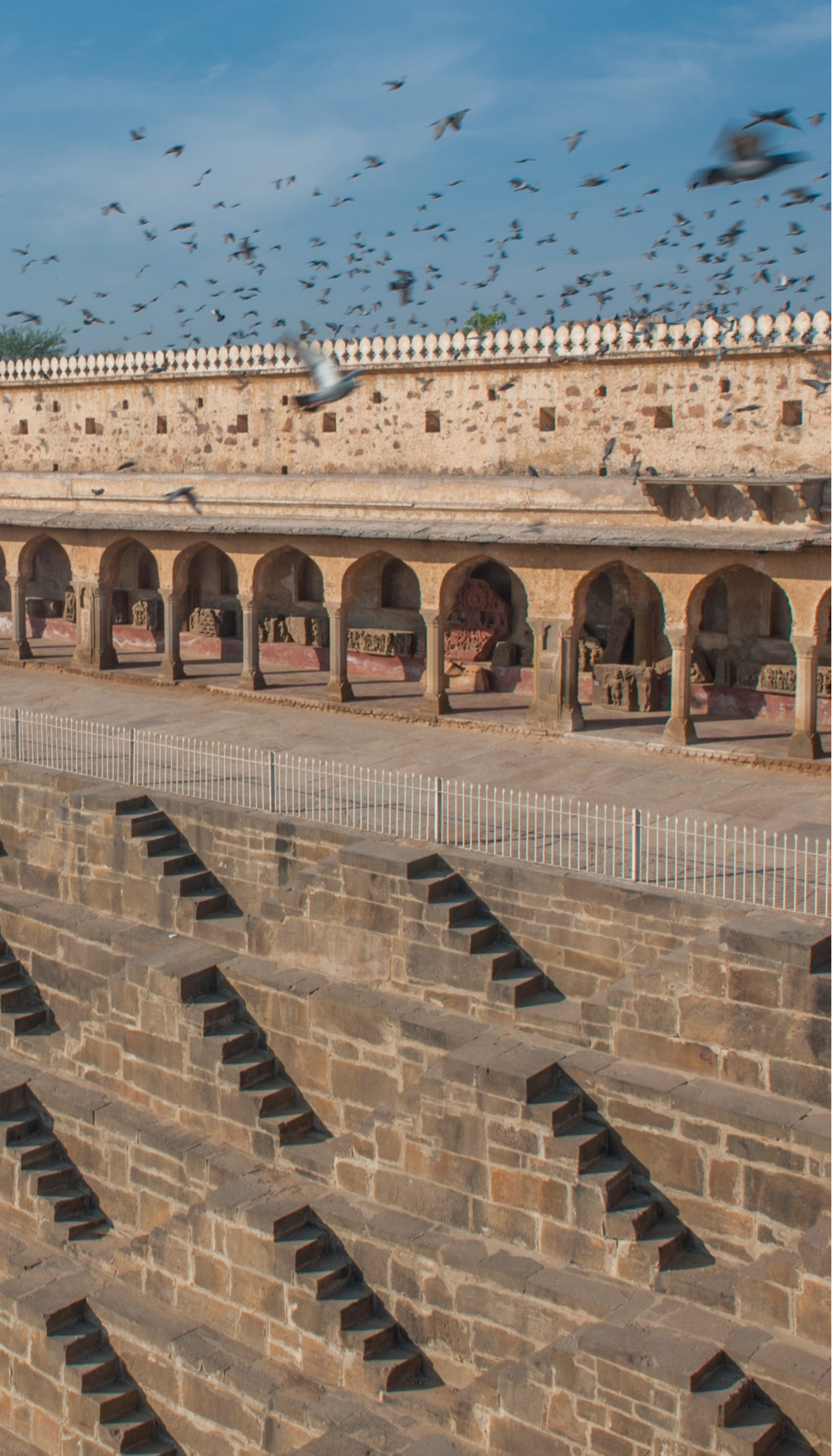


Source: Ministry of Commerce, CRISIL

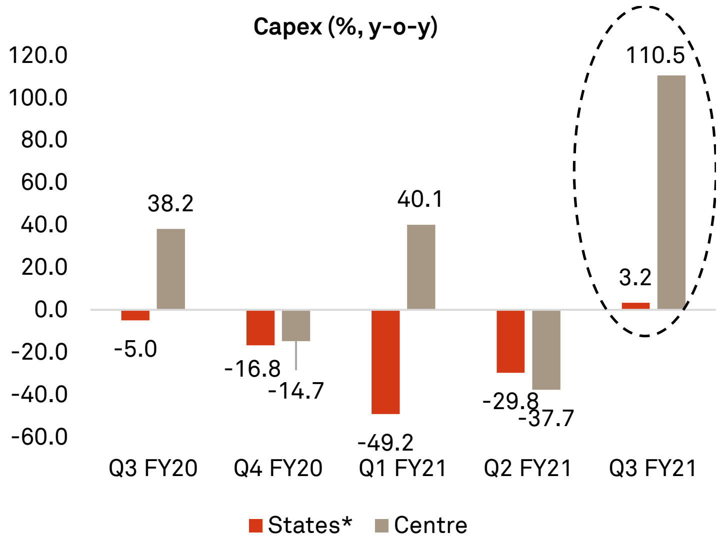
Investments climb out of trench, but remain sub-par



Note: *FY15-FY20, Q4 growth is estimated; GFCF – gross fixed capital formation
Source: MoSPI, CEIC, CRISIL



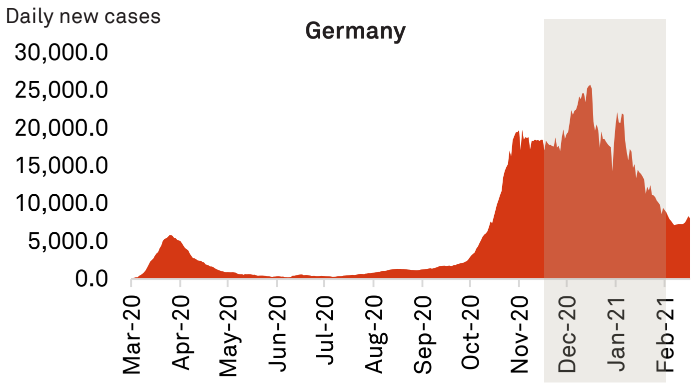
Sharp rise in capex by Centre supportive of pick-up

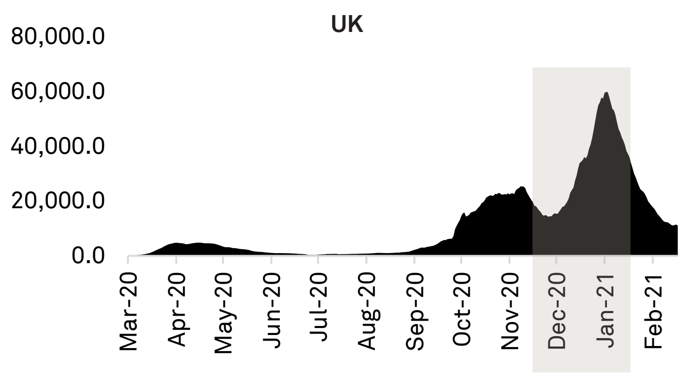


* Corresponds to 16 large states
Source: CEIC, Controller General of Accounts

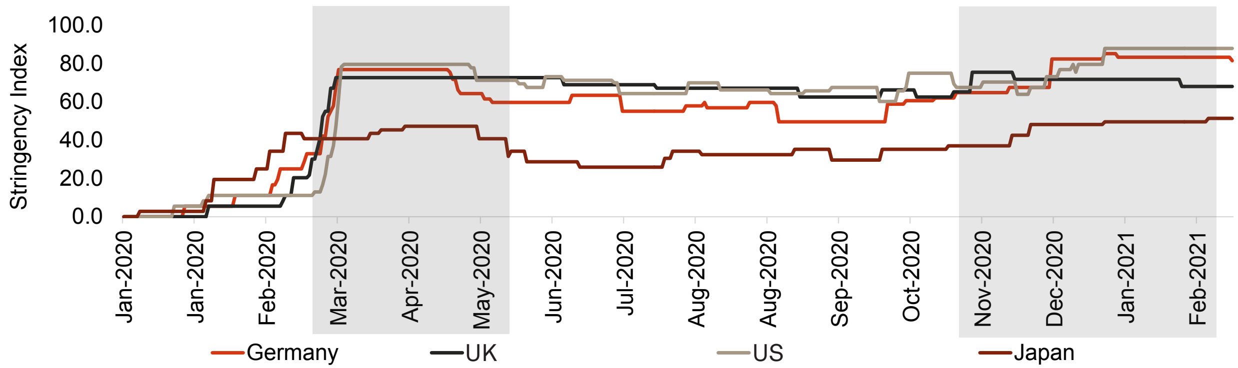
The second and third waves

Major economies have had to fight recurrence of afflictions towards the end of 2020...



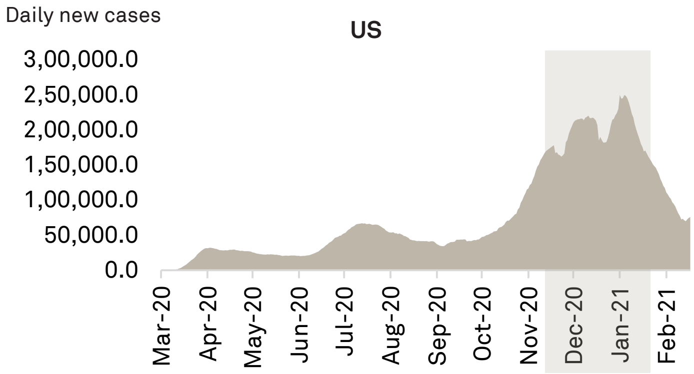


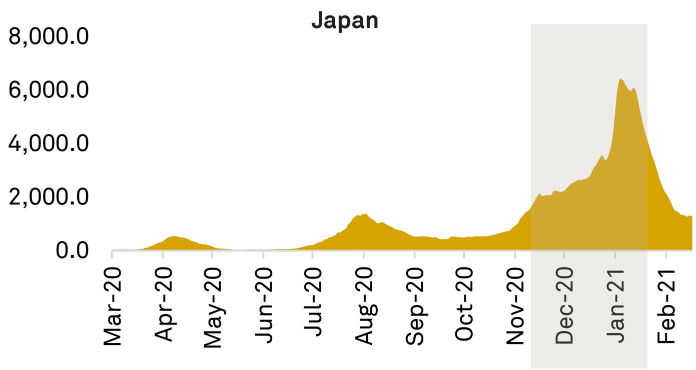
...leading to renewed restrictions continuing into the new year...



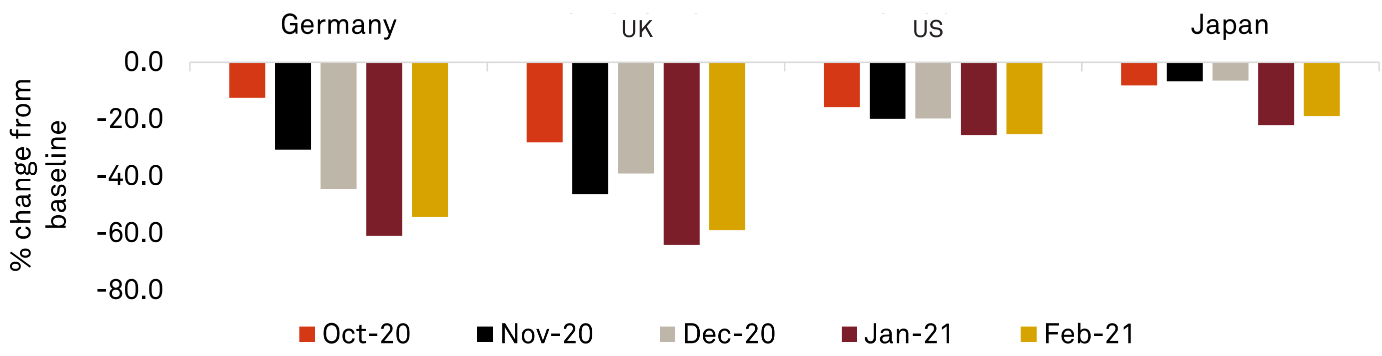
Note: Mobility here refers to mobility to 'retail and recreation' spaces
Source: World Health Organization, Blavatnik School of Government, University of Oxford, Google LLC

The second and third waves

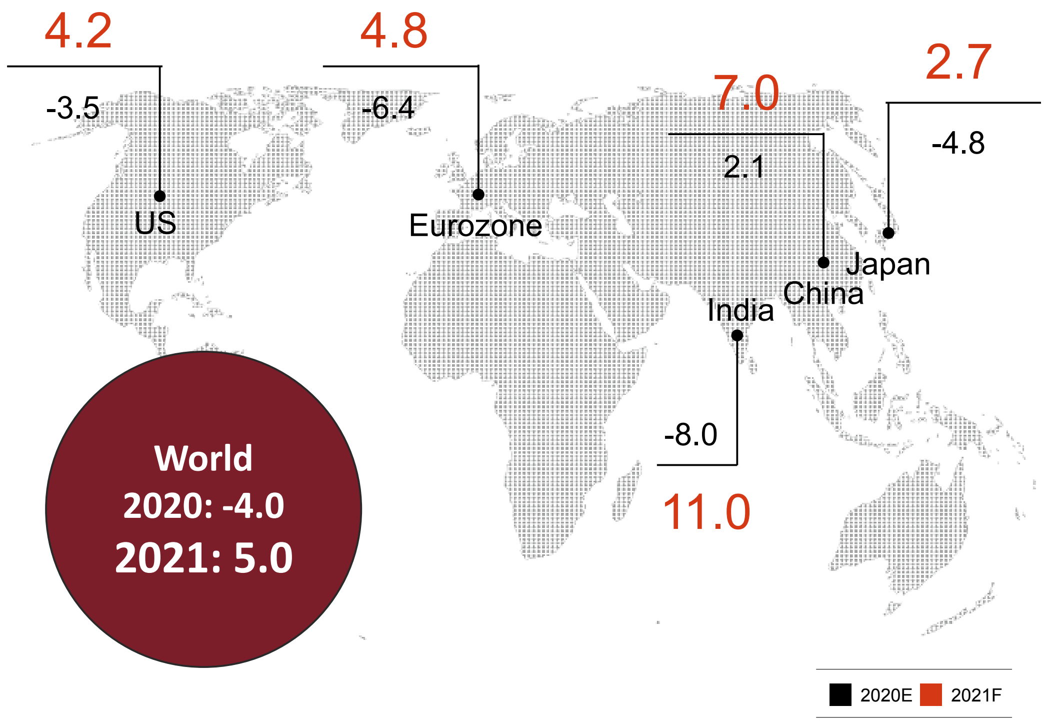




...and decline in mobility



Global rebound in the second half



Weaker start to new year with infections, new virus variants and renewed restrictions softened momentum in early 2021.

But, vaccine administration and additional fiscal stimulus from a few large economies are expected to power economic activity later in the year.

Renewed surge in infections, longer-than-expected new lockdowns and stimulus fatigue pose risks to baseline forecast.

Source: Statistical bureaus of respective countries, S&P Global, December 2020; India outlook is for fiscal year

Global influence on domestic growth outlook

Parameter	FY21	FY22	Rationale
Global growth	Adverse	Favourable	Vaccine approvals, rollout expected to strengthen economic recovery. New wave of infection + virus variants + more stringent lockdowns in some advanced economies pose risk to growth
Fiscal policy	Favourable	Favourable	Fiscal support announced towards the end of the year (e.g., in the US and Japan) expected to help advanced economies and exports of their trading partners
Monetary policy	Favourable	Favourable	Major central banks likely to maintain status quo on monetary policy and use of unconventional measures until recovery is well-entrenched
Oil prices	Favourable	Neutral	Oil prices expected to rise from the low base of 2020, banking on global recovery in demand
Commodity prices	Favourable	Neutral	Metal prices have risen 38% on-year in February 2021; projected to accelerate strongly during the rest of the year
Trade	Adverse	Neutral	Global trade volume forecast to go up after collapsing last year, but services trade expected to recover more slowly than merchandise volumes

Favourable Neutral Adverse

Source: S&P Global (December 2020), International Monetary Fund (IMF) World Economic Outlook (January 2021)

India's macro outlook for the next fiscal

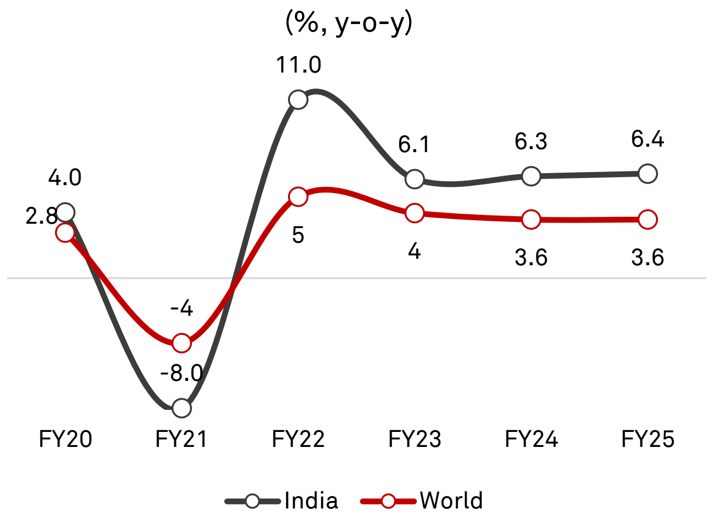
		FY16	FY17	FY18	FY19	FY20	FY21F	FY22F
1	GDP growth (%)	8.0	8.3	6.8	6.5	4.0	-8.0*	11.0
2	Inflation (%)	5.0	4.5	3.6	3.4	4.8	6.4	5.0
3	Current account deficit (CAD)/GDP (%)	1.1	0.6	1.8	2.1	0.9	-1.8	1.2
4	Fiscal deficit/GDP (%)	3.9	3.5	3.5	3.4	4.6	9.5^	6.8^^
5	Exchange rate (Rs/$, March)	67.0	65.9	65.0	69.5	74.4	73.5	75.0
6	10-year G-sec yield (March, %)	7.5	6.8	7.6	7.5	6.2	6.2	6.5

Note: F - forecast; *NSO advance estimate, ^revised estimates ^^budget estimates

Source: MoSPI, RBI and CRISIL

Medium-term GDP growth to average 6.3%

Real GDP growth (% y-o-y)



Note: Global outlook is for calendar year (FY21 = 2020)
Source: S&P Global, November 2020; MoSPI and CRISIL

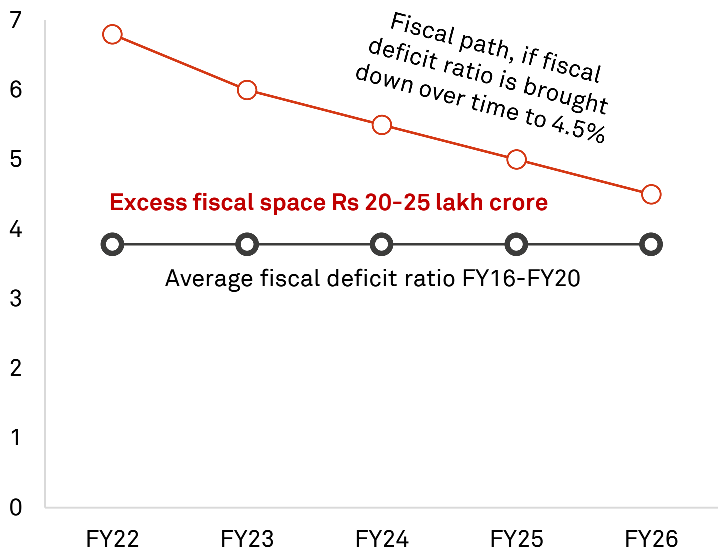
India is projected to grow at 6.3% annually between fiscals 2023 and 2025

Drivers of growth

- A stretched fiscal deficit glide path and expectation that additional fiscal space – estimated at Rs 20-25 lakh crore over the next five years – will be used for capex
- A promising set of reforms that have potential to create a platform for growth in the medium term
- Deleveraging by corporates over the past few years improving appetite for investment
- More support from global GDP and trade growth

Additional fiscal space of ~Rs 25 lakh crore over five years

Fiscal deficit to GDP (%)



Source: Budget documents, CRISIL

A new fiscal path for the medium term

- Government has chosen to look past the elusive Fiscal Responsibility and Budgetary Management target of 3% fiscal deficit to GDP ratio, till fiscal 2026
- Compared with the base case, the new normal now allows the government to spend more and focus its attention on capex
- Pursuing this path can push public investments with high multiplier and crowd-in private investment

Reforms hold promise of efficiency gains

Key recent reforms and where they stand

Direct benefits transfer	2013	Completed
Liberalisation of FDI in sectors	2014	WIP*
Power sector reforms	2015, 2020	WIP
Insolvency and Bankruptcy Code	2016	WIP
Agricultural reforms	2016, 2020	WIP
GST	2017	WIP
Reduction in corporate tax rate	2018-2019	Completed
Labour laws	2019, 2020	WIP
PLI scheme for manufacturing	2020	WIP

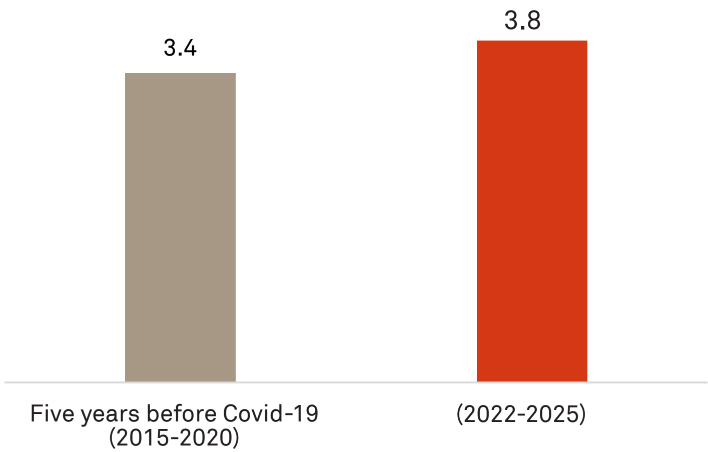
*WIP = Work in progress
Source: Center for Strategic and International Studies, CRISIL

Recent reforms could expand platform for growth

- That, however, hinges on streamlining of key reforms initiated in the past, which should be fast-tracked to reap benefits
- **Goods and Services Tax (GST):** Helped create a common national market, enhancing efficiency in logistics and formalisation of the economy. While it is still getting streamlined, the next challenge is to bring petroleum into the GST ambit
- **PLI scheme:** A concerted push to drive manufacturing with greater focus on large employment-generating and export-oriented sectors, is positive. Simultaneous focus on easing physical and infrastructural bottlenecks is critical to reap benefits
- **Labour reforms:** Simplification of labour laws by replacing over 40 central laws and over 100 state-level statutes by four labour codes is a long-awaited reform to help improve ease of doing business. Several states are now reported to be firming up rules under the four codes

Global growth to turn more supportive

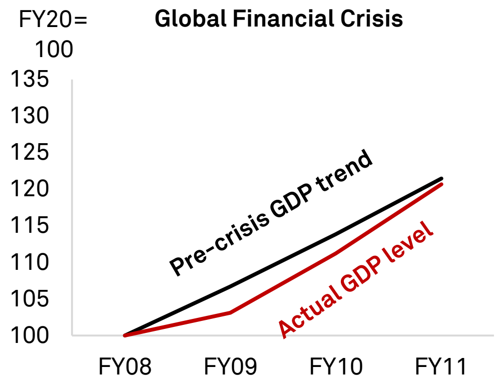
Average world GDP growth (%, y-o-y)

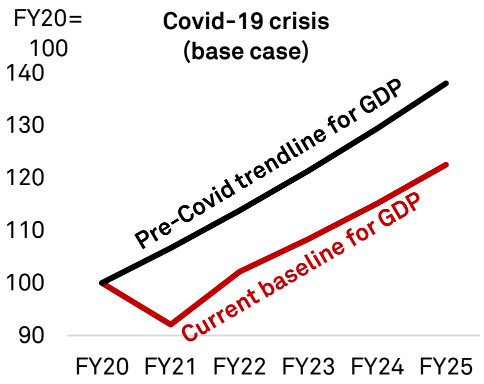


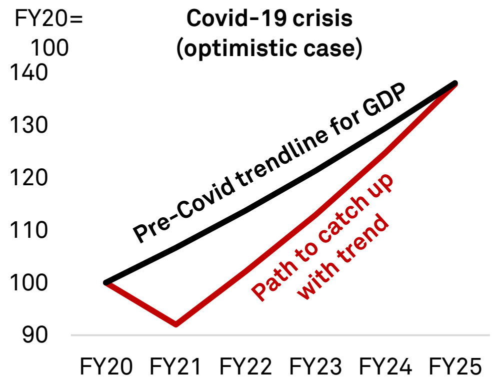
Source: IMF, CRISIL

- India's exports could leverage higher global growth, supported by higher trade volume growth
- The IMF forecasts trade volumes to grow 4.3% during 2022-2025, compared with 3.1% in 2015-2020
- But, rising import substitution globally could remain a challenge

Still, India will see permanent GDP loss of 11% in the base case...







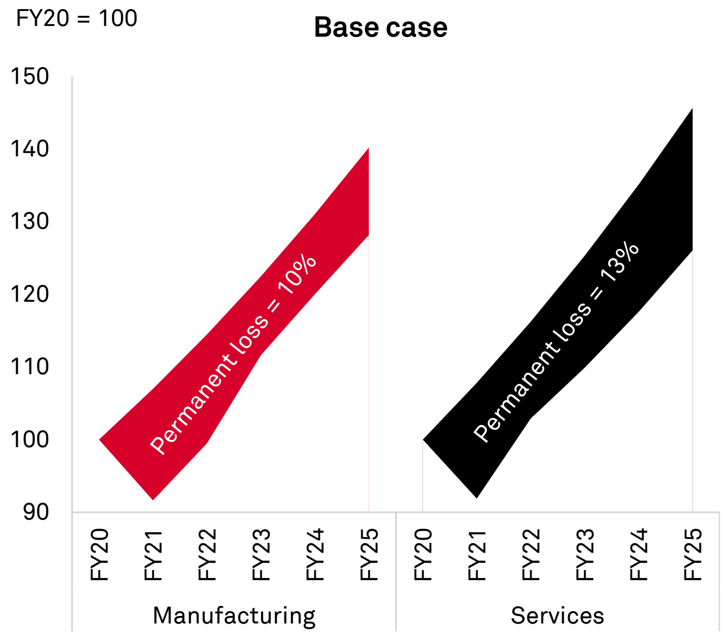
Source: MoSPI, CEIC, CRISIL

- Sharp growth spurt helped catch up with trend in GDP within two years of the Global Financial Crisis (GFC)
- GDP grew 8.2% on average in the two years following the GFC
- Massive fiscal spending, monetary easing, and swift global recovery played a role in V-shaped recovery

- A catch-up with trend GDP unlikely over the next three fiscals despite
  - 11% growth in fiscal 2022 and
  - 6.3% per year growth thereafter
- Permanent loss in this case estimated at 11% in real terms over fiscals 2022 to 2025

- Catch-up requires GDP growth of 10.5-11% annually over the next three fiscals, something that has never happened before

...and 10-13% in manufacturing and services sectors



Source: MoSPI, CEIC, CRISIL

Risks to outlook for next fiscal

- **Premature withdrawal of policy support globally:** Most major economies have taken on debt to fund their Covid-19 fiscal stimulus packages. This has added to existing high debt levels and will need to be reduced soon, entailing normalisation of fiscal stimulus. Any premature withdrawal of monetary or fiscal stimulus could threaten to slow the pace of economic recovery

- **Worsening stress in the financial sector/deteriorating financial conditions:** Rise in non-performing assets (NPAs), especially from smaller enterprises, is leading to stress and impairing the financial system's ability to support a sustained, rapid pick-up in growth. The RBI is expected to keep the policy repo rates stable, but firmer 10-year G-sec yields could put upside pressure on market interest rates benchmarked to it

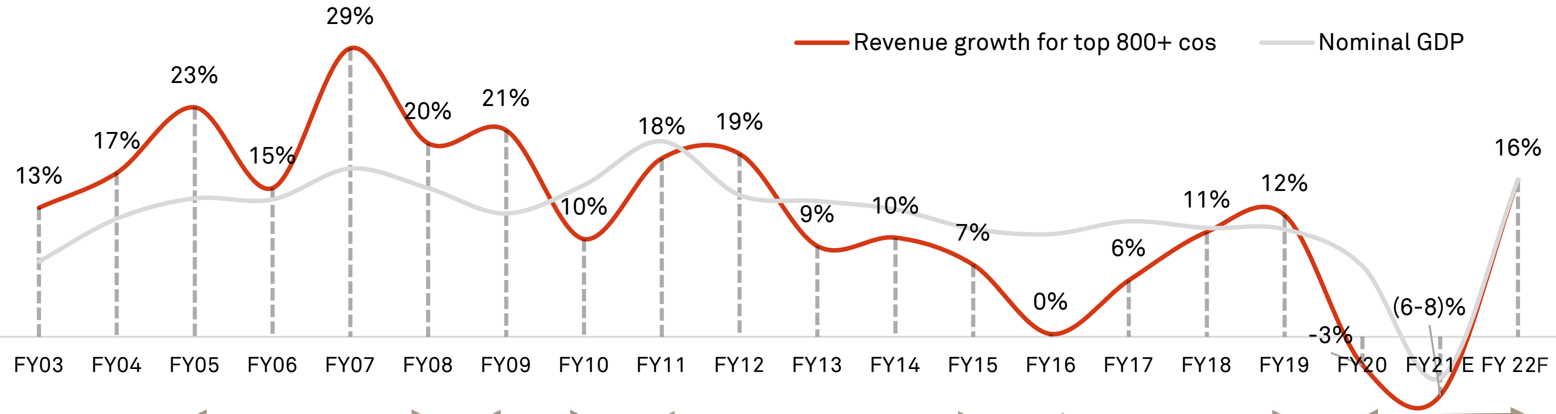
- **A second wave, currently localised:** A second wave in several economies and the recent resurgence in a few states in India suggest that the pandemic remains an ongoing risk

- **Unfavourable monsoon:** After two consecutive years of normal monsoon, a third year of timely and well-distributed rains is not a given. In the past 20 years, only once has the Indian economy seen three good monsoon years in a row

Corporate
revenue,
profit and
other trends

High government spend to ensure revenue recovery...

Revenue growth recovery to be at multi-year high over a low base

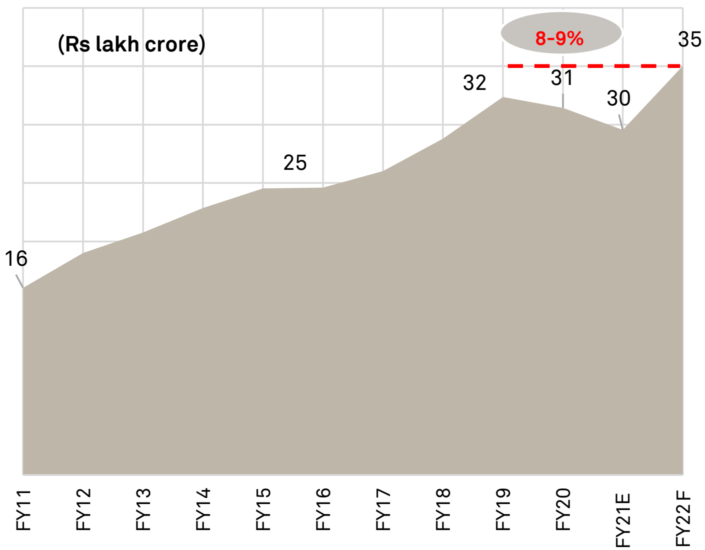


	Gaining share in exports	GFC	Policy logjam	Structural reforms	NBFC crisis, pandemic
Average revenue growth	21%	15.5%	12.7%	7.3%	2.4%
Average nominal GDP growth	15%	14%	14.4%	11.1%	6.3%
Average fiscal deficit	3.5%	6.4%	4.9%	3.6%	7.0%

Note: Includes ~800 companies from 35 sectors (except oil & gas, and BFSI)
Source: Quantix, CRISIL Research

...but that recovery will be mainly optical

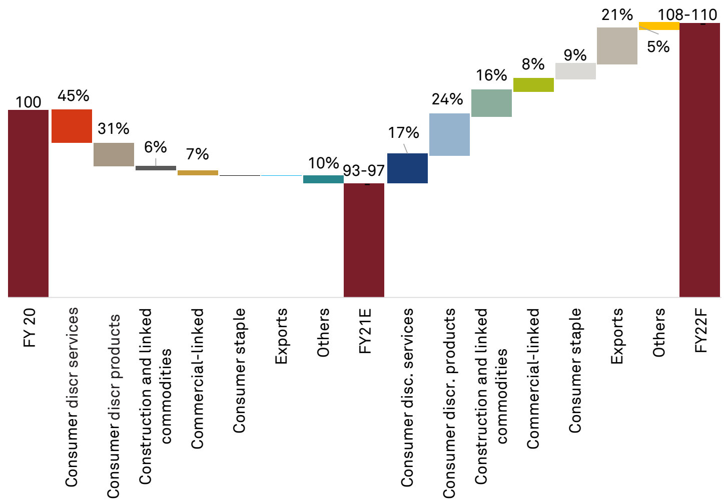
Revenue of top 800 companies to post only 8% rise over FY19



- Most services sectors may not even breach fiscal 2019 levels
- Of the 30-35 sectors spread across 800 companies, only a third to post double-digit revenue growth over fiscal 2019

Note: Includes ~800 companies from 35 sectors (except oil & gas, and BFSI)
Source: Quantix, CRISIL Research

Recovery to be led by products, infra spend, and exports

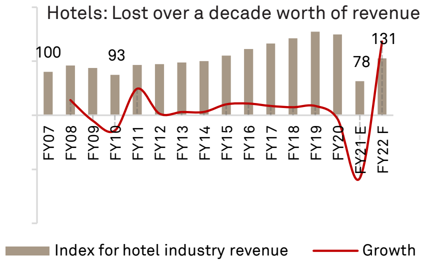


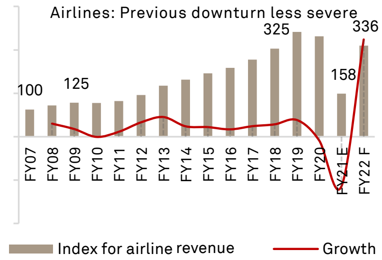
- 76% of the drop in revenue this fiscal contributed by two verticals - consumer discretionary services and products
- 20% rise in public spending next fiscal to drive recovery in infrastructure sectors
- Recovery also supported by resilient export segments, such as IT services and pharmaceuticals

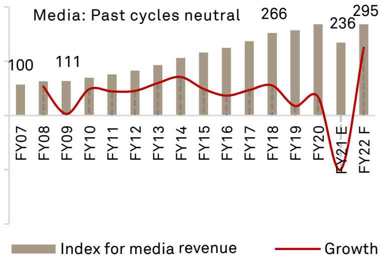
CRISIL
An S&P Global Company

Some services segments to see nearly a decade of revenue shaved off

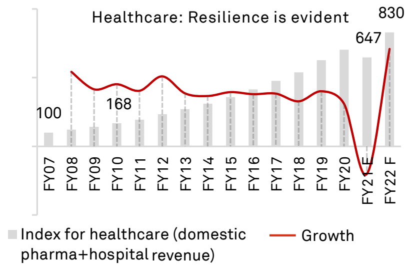
Consumer discretionary services

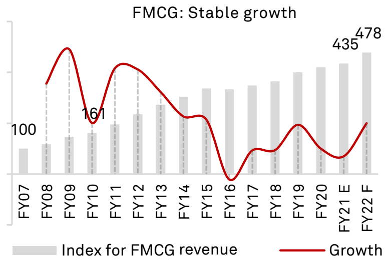




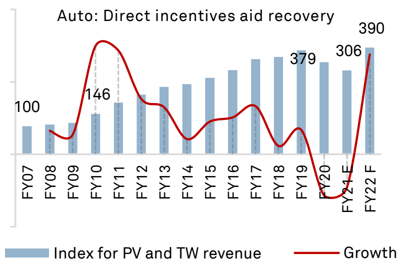


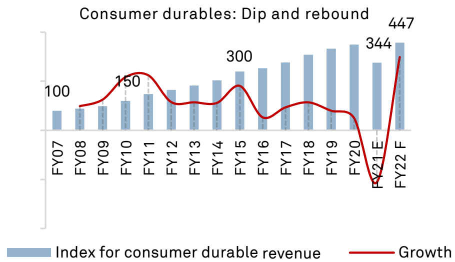
Consumer staples





Consumer discretionary products

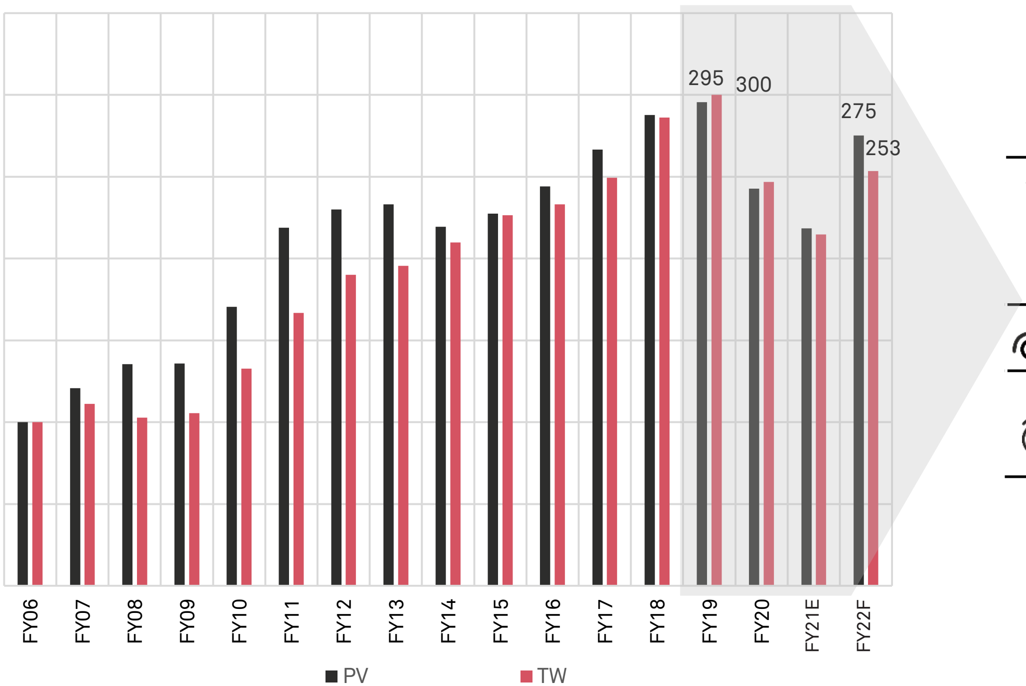




Note: Auto includes TW and PV; Healthcare includes domestic pharmaceuticals segment and hospitals; FMCG includes food, non-food and non-alcoholic beverages companies
Source: CRISIL Research

Price-led recovery in auto segments, but volume to trail fiscal 2019 level

Volume index for two-wheeler (TW) and passenger vehicle (PV) sales



Source: SIAM, CRISIL Research

Diesel variant phase-out and launch of lower-priced UV models limit the impact of price hikes

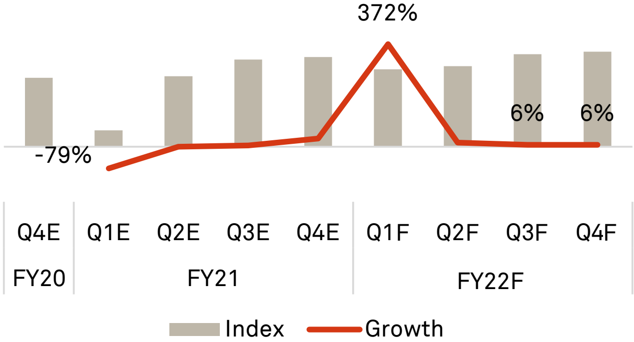
Segment	Volume in FY22F versus FY19	Net realisation in FY22F versus FY19
	(6-7%)	5-7%
	(15-16%)	17-18%

CRISIL
An S&P Global Company

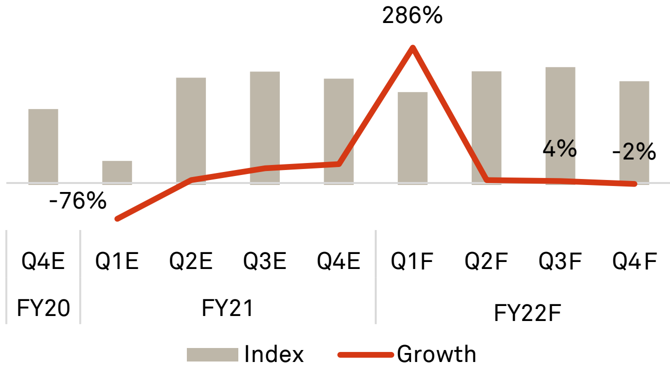
Motown's story of two halves coming up

High growth on low base in the first half, moderate growth in the second half

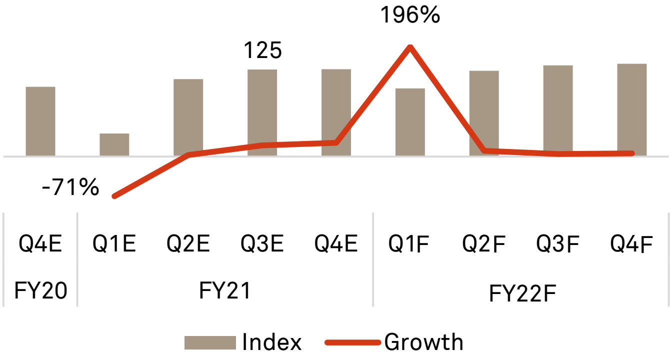
Cars and UVs



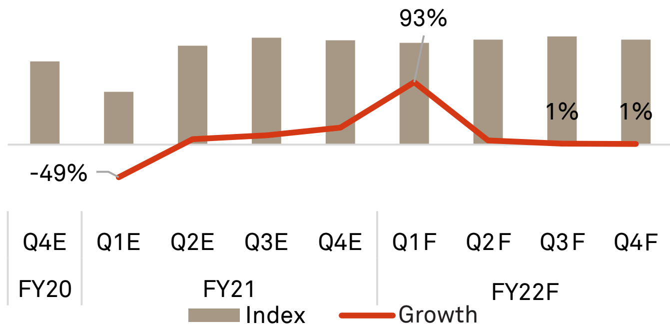
TWs



Auto-components



Tyres

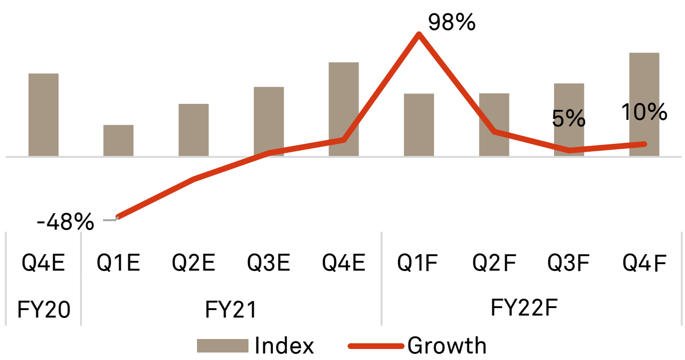


Source: CRISIL Research

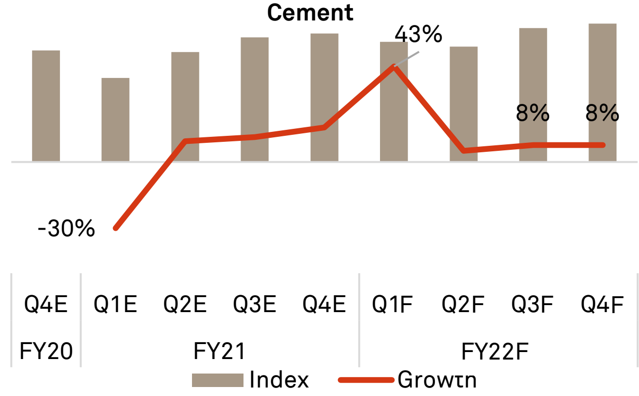
Not so great for organised retail and airlines

Construction-driven and services segments, too, show a trend similar to automobiles

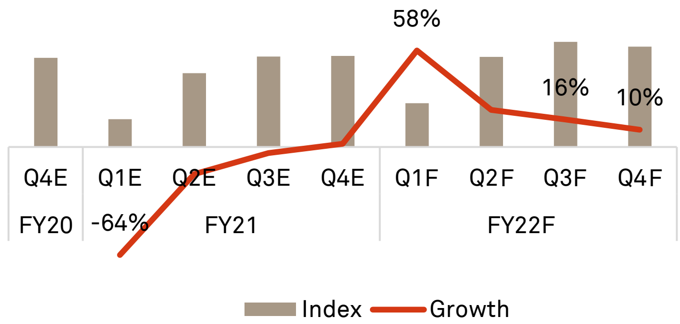
Construction



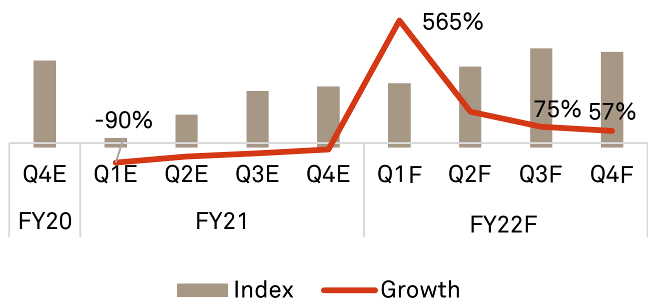
Cement



Organised retailing



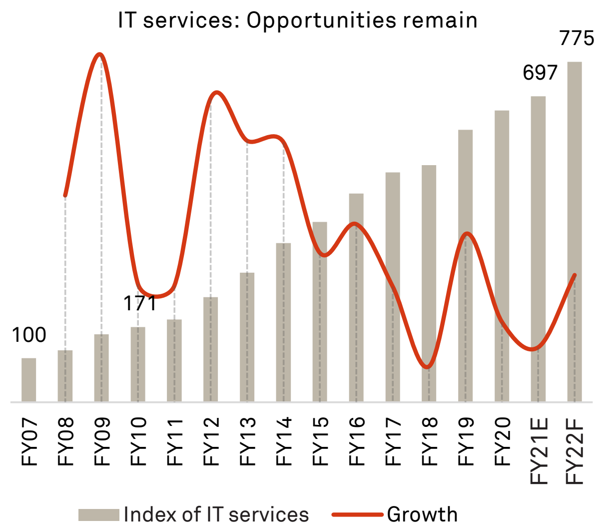
Airline services

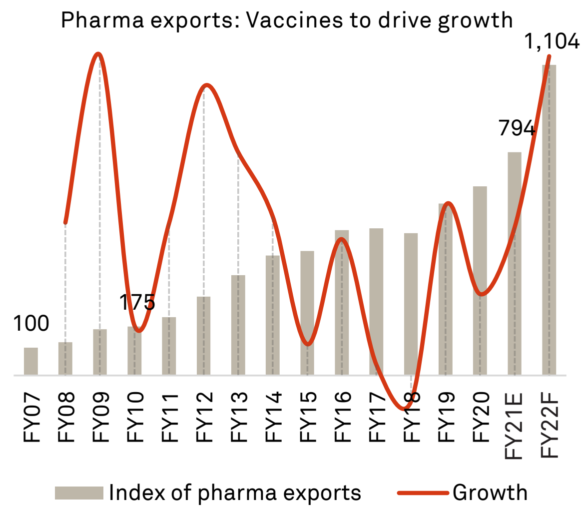


Source: CRISIL Research

Exports propelled by resilient segments

Exports-driven pharmaceuticals and IT services to reach all-time high next fiscal





Share of digital rises to 42% for Tier I companies from 37% a year ago

Vaccines to comprise 25-30% of exports next fiscal, compared with 5% in fiscals 2020 and 2021

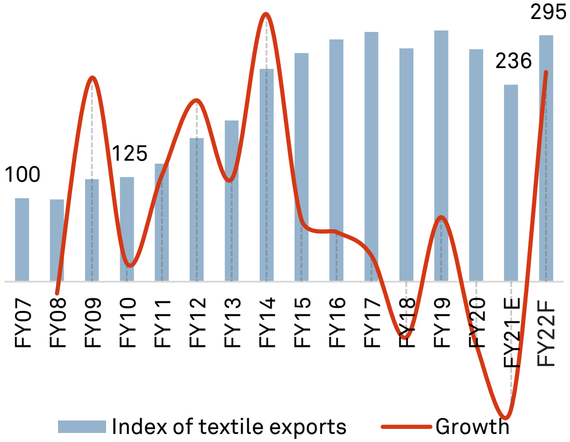
Source: Company, Ministry of Commerce, CRISIL Research

Exports in consumption segments likely to lag

Consumption segments, which have been impacted for a while, are structurally weak so it'll be tough to gain global market share

FY10: 4.1% FY20: 4.5%

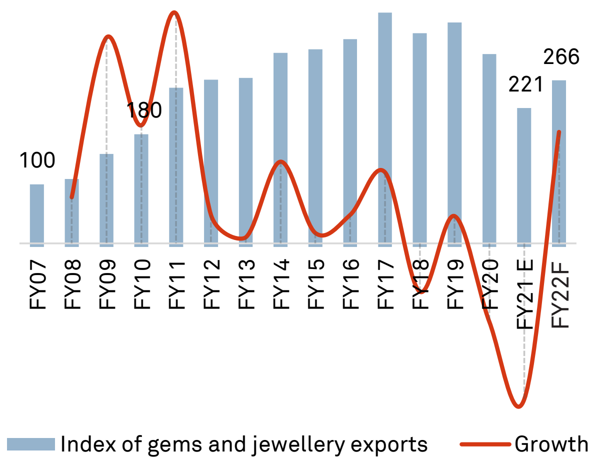
Textile exports have shown vulnerability in the past, too



Expiry of the Merchandise Exports from India Scheme and weak pricing power indicate need for incentives

FY10: 10% FY20: 6%

Gems and jewellery losing sheen structurally



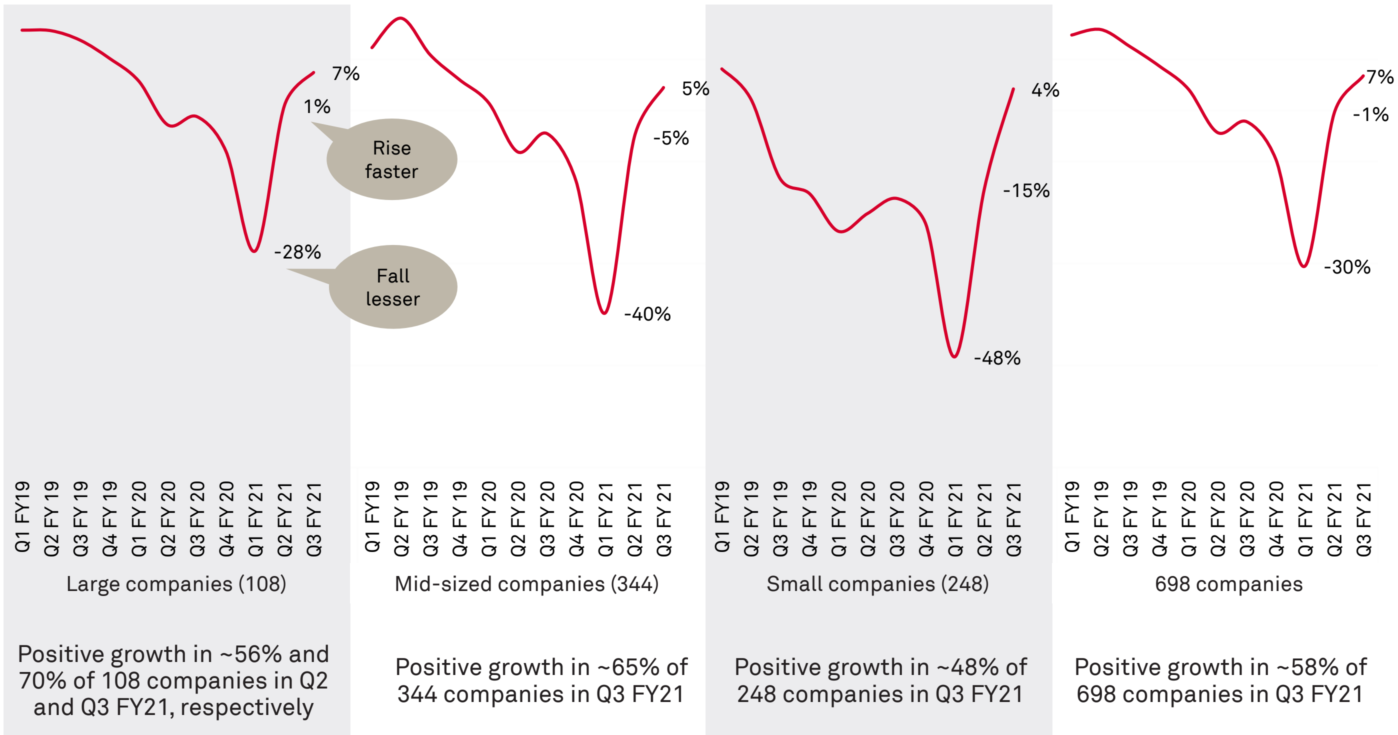
Global recovery may be staggered, so the road ahead will be challenging

Represent share in global trade for that particular year

Source: Ministry of Commerce, CRISIL Research

Large companies have been more resilient...

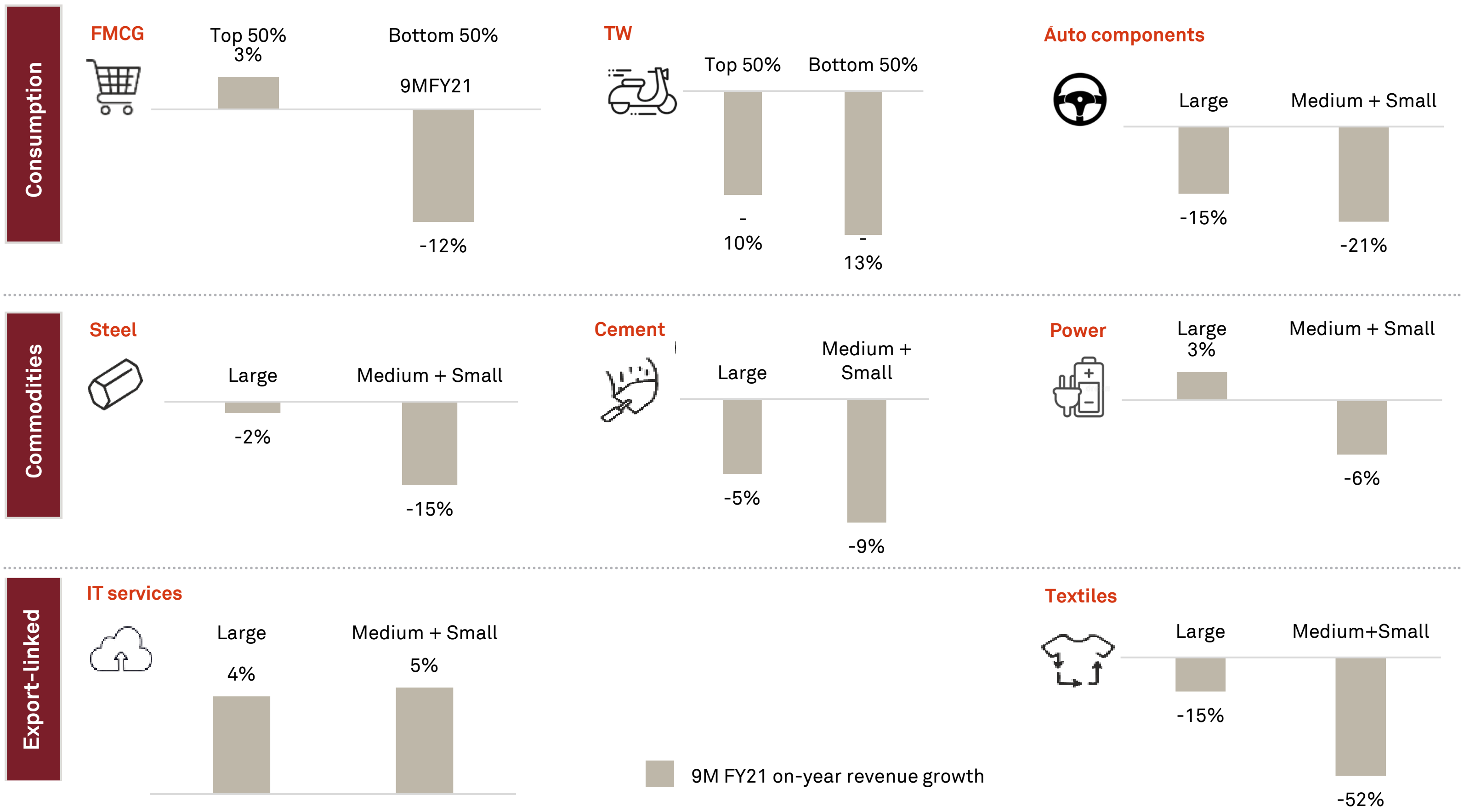
Trend in quarterly revenue of ~700 key listed players, by size



Note: Large players are defined as those with annual revenue of Rs 5,000 crore, mid-sized are those between Rs 500- 5,000 crore, and small are those with revenue below Rs 500 crore, as on fiscal 2020

Source: CRISIL Research

...and the resilience continues across sectors

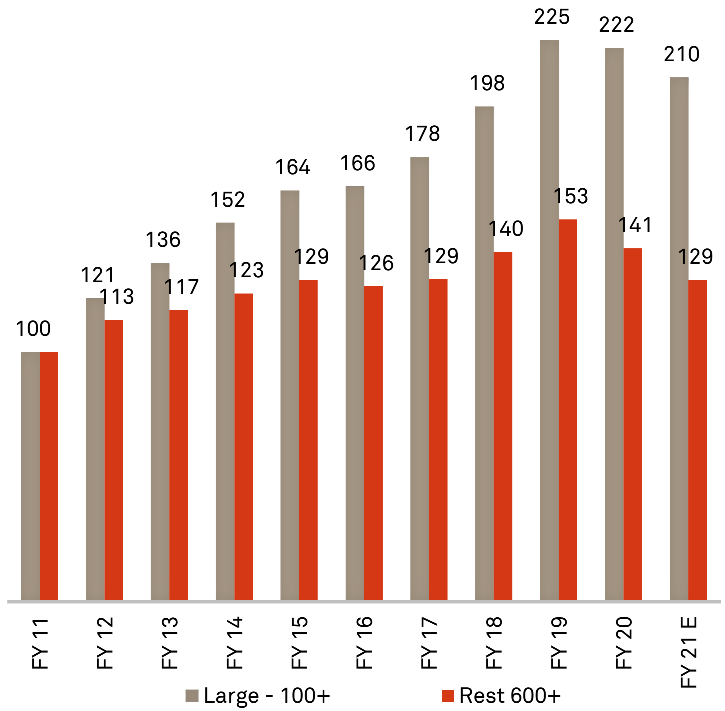


Note: For sectors like auto-components and textiles, companies with FY20 revenue greater than Rs 500 crore have been classified as large. Tier-I IT companies, too, are classified as large, while for other sectors, companies have been classified as large on the basis of their capacity.
Source: CRISIL Research

Small companies have seen a decade of underperformance

Large companies have consistently outperformed smaller ones, though the extent of outperformance has reduced after the advent of GST...

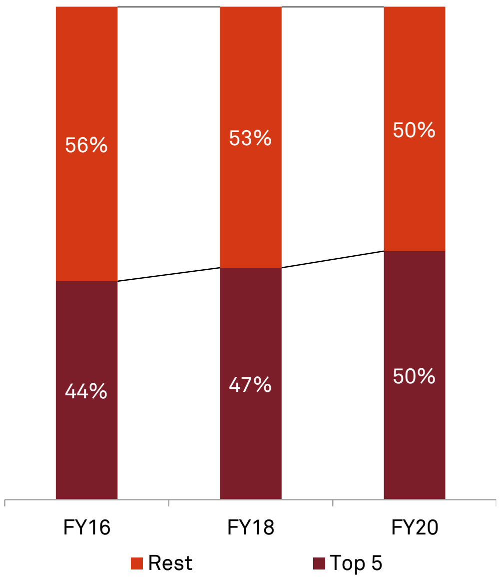
...consequently, large companies have increased their share of the overall revenue



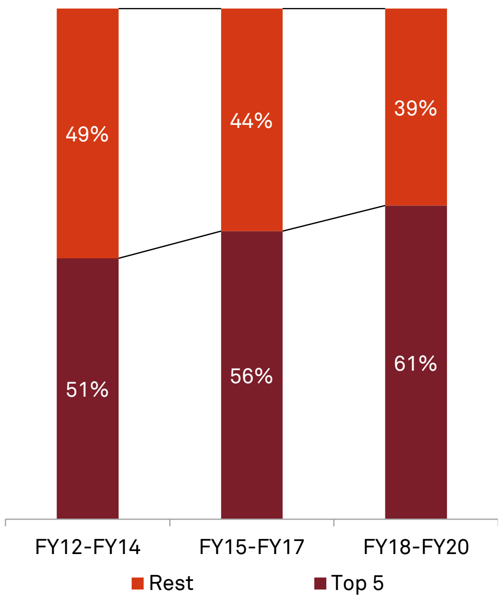
Note: Large players are defined as those with annual revenue of Rs 5,000 crore, as on fiscal 2020
Source: CRISIL Research

Large companies have gained share in key sectors over the past decade

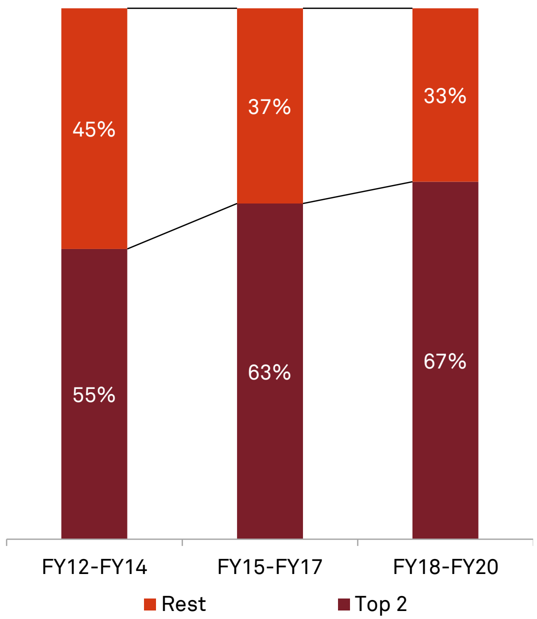
Cement
Industry has undergone consolidation over the past three years



Steel
Pace of consolidation has accelerated post recent liquidation of a few smaller players

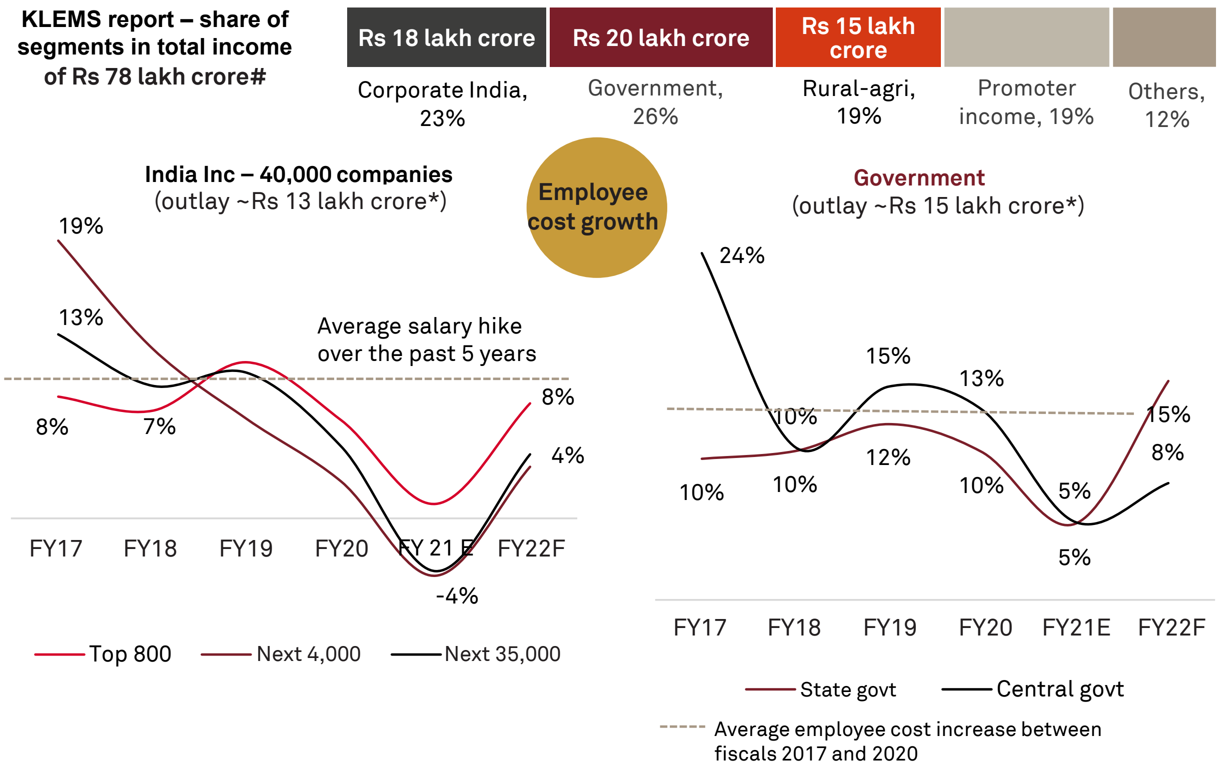


PVs
Top two players now cater to two-thirds of domestic demand



Note: Market shares of steel, cement and PV sectors are in volume terms
Source: CRISIL Research

~Half of income earners may return to 2017-2019 growth levels



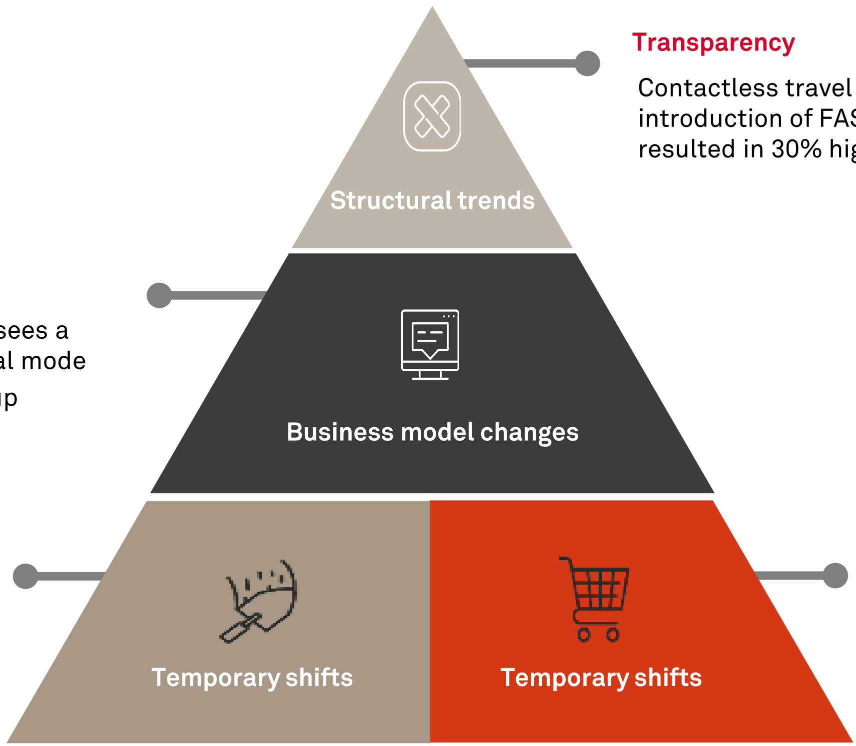
Top 100 companies comprise 22% of corporate India's employee cost

States account for ~70% of all government expenditure, while the Centre and defence contribute the rest

Average salary hikes across years is more than the rise in employee cost, implying a reduction in the number of employees

Notes:
Revenue estimates for the top 700 companies are for the first 9 months of this fiscal; for fiscal 2020, data is for 5,000 companies; government estimates for this fiscal are based on revenue disclosed for 9-10 months, and for the next fiscal, they are based on budget estimates of the top 6 states and the Centre
refers to fiscal 2018 and * to fiscal 2020
Source: CRISIL Research

New trends
in the new normal



Transparency

Contactless travel necessitated introduction of FASTag, which has resulted in 30% higher toll revenue

E-commerce-based business models

- The media industry sees a big shift to the digital mode
- E-commerce picks up across categories

Modal shifts

Cement makers have benefited from high rail rake availability

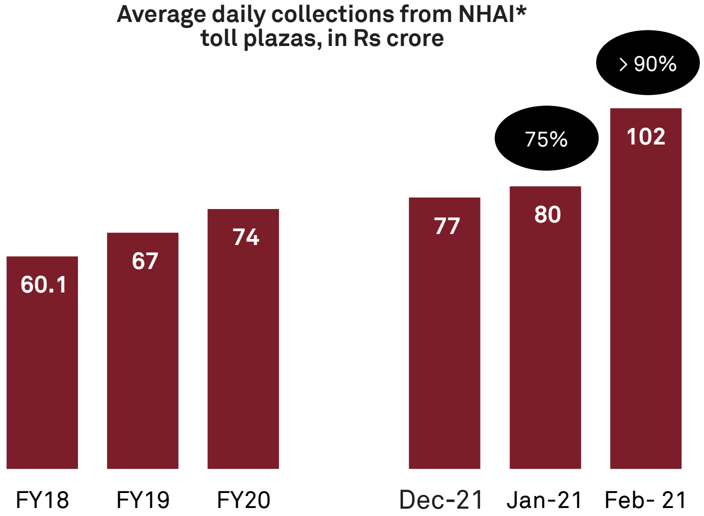
Re-negotiation of fixed cost

Organised retailers temporarily shift to profit-sharing rental agreements

Source: CRISIL Research

Transparency is here to stay

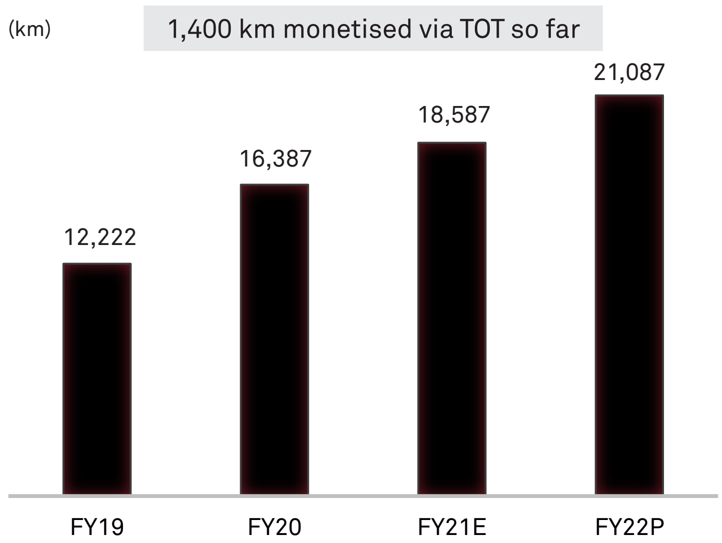
FASTag has ushered in more transparency



*NHAI = National Highways Authority of India

- FASTag collections ~30% higher following 90% adoption
- FASTag accounted for only 35% of collections at beginning of fiscal 2021

More than 20,000 km available for asset monetisation with NHAI

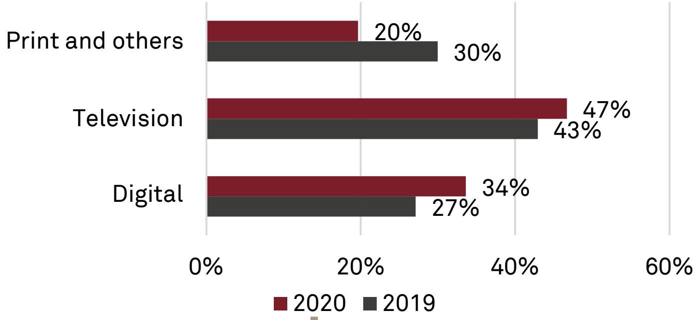


- Total kilometres under toll between fiscals 2018 and 2020 rose ~33%, driving growth in collections over the period
- Asset monetisation to fetch better valuations

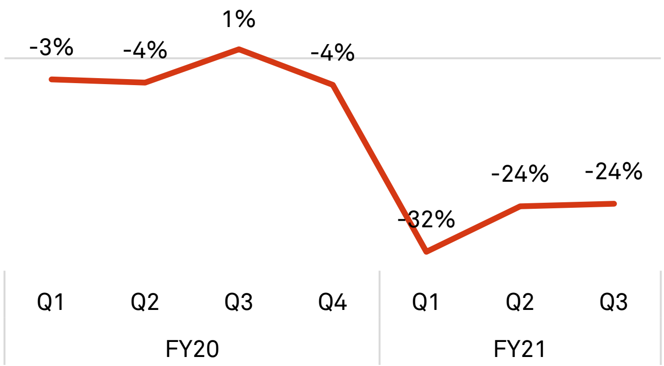
Note: TOT: Toll-operate-transfer
Source: NHAI, CRISIL Research

Business models of many have pivoted

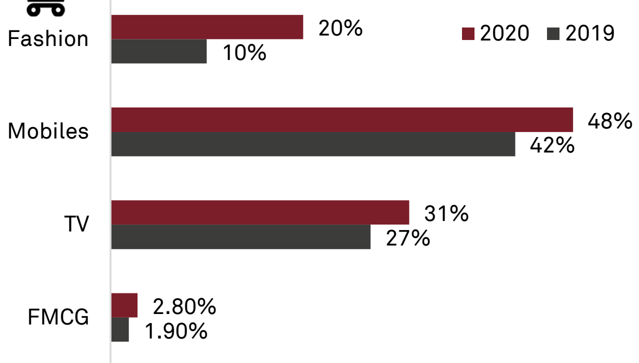
Media industry goes digital, as share of advertising revenue shifts



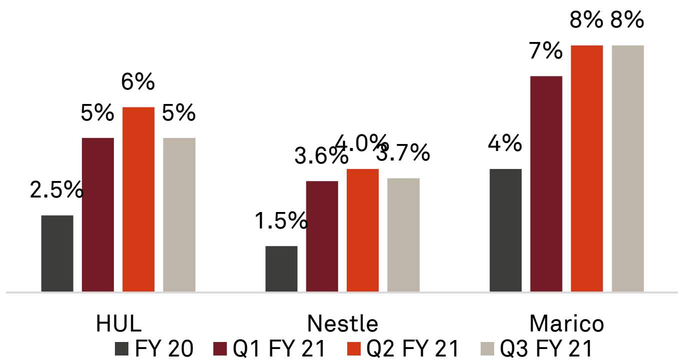
Declining circulation revenue points to digital uptick



E-commerce share grows sharply in India



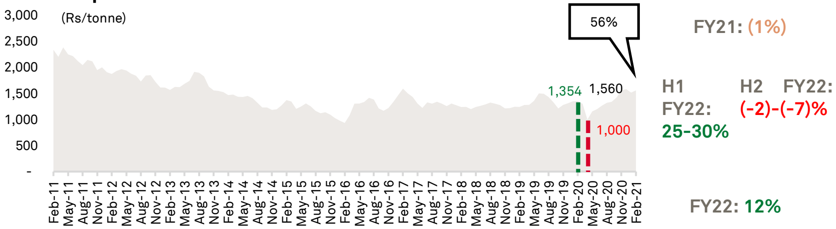
Digital sales sustain for key FMCG players



Source: CRISIL Research

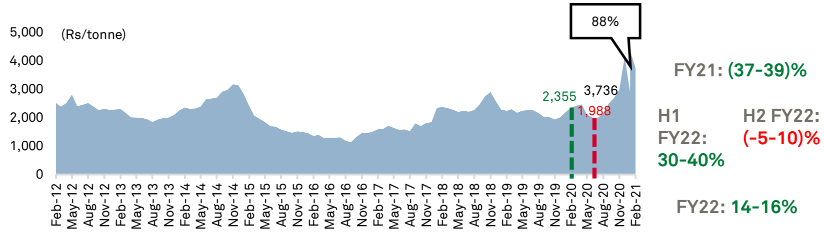
Sharp price rise in most commodities may not sustain-1

Natural rubber: Supply constraints and higher expected global prices to increase prices in H1 FY22



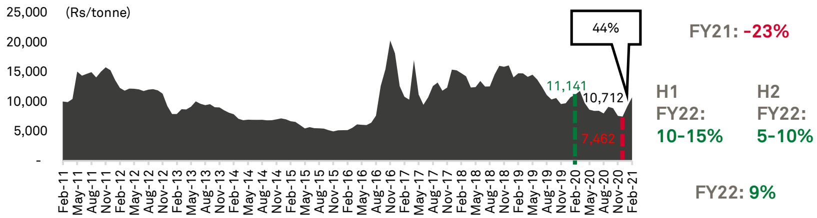
Global prices to be supported by improving demand from China and other economies while political unrest in Thailand, floods in Vietnam and Cambodia impact natural rubber production.

Iron ore: Domestic price rise due to supply crunch because of delays in operation of auctioned mines



Additional supply from NMDC and OMC mines to reduce demand supply gap slightly but high bid premiums to be paid by auctioned mines to keep prices resilient.

Coking coal: Economic recovery to spur prices in FY22, China's ban on Australian imports a monitorable

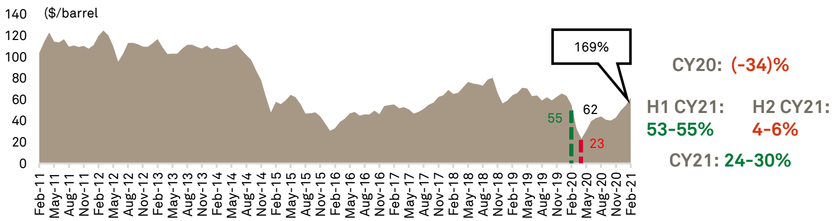


Coking coal prices to be propped up by global demand recovery next fiscal; sustained Chinese ban on Australian coal imports likely to weigh on price recovery.

Note: NMDC: National Mineral Development Corporation; OMC: Odisha Mining Corporation
Source: CRISIL Research

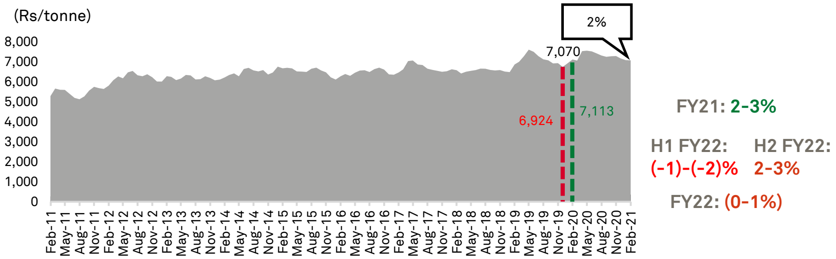
Sharp price rise in most commodities may not sustain-2

Crude oil: Demand recovery and higher-than-anticipated production cuts to increase prices in 2021



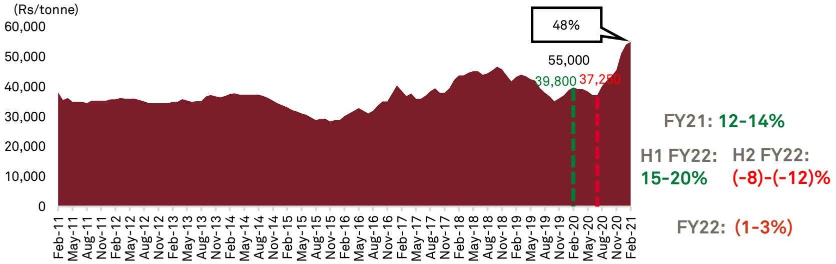
Easing of supply cuts by OPEC+ and increase in US shale production to remain a key monitorable.

Cement: Prices' upward trajectory in FY21 to offset sluggish demand



Higher freight (higher fuel prices) and power and fuel (higher coking coal prices) cost to keep prices elevated going ahead.

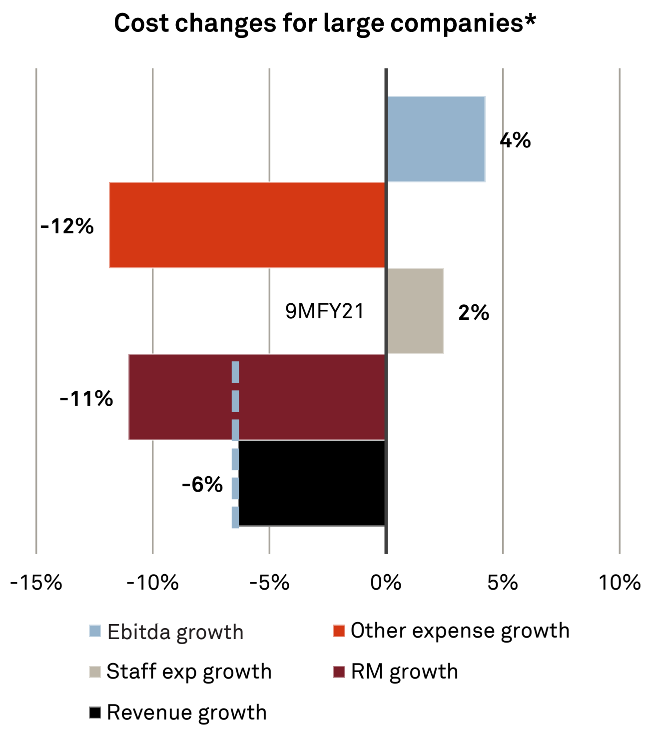
Steel: After reaching decadal highs, prices to trend south over next few months

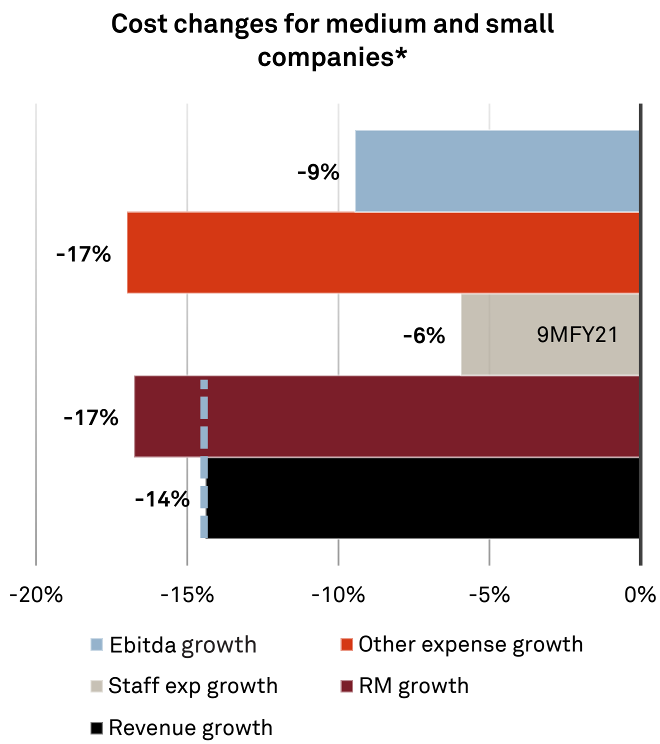


Any major fall in steel prices will be limited by higher iron ore and coking coal prices (key input materials for steel).

Source: CRISIL Research

Better raw material negotiation ability gives large companies the edge

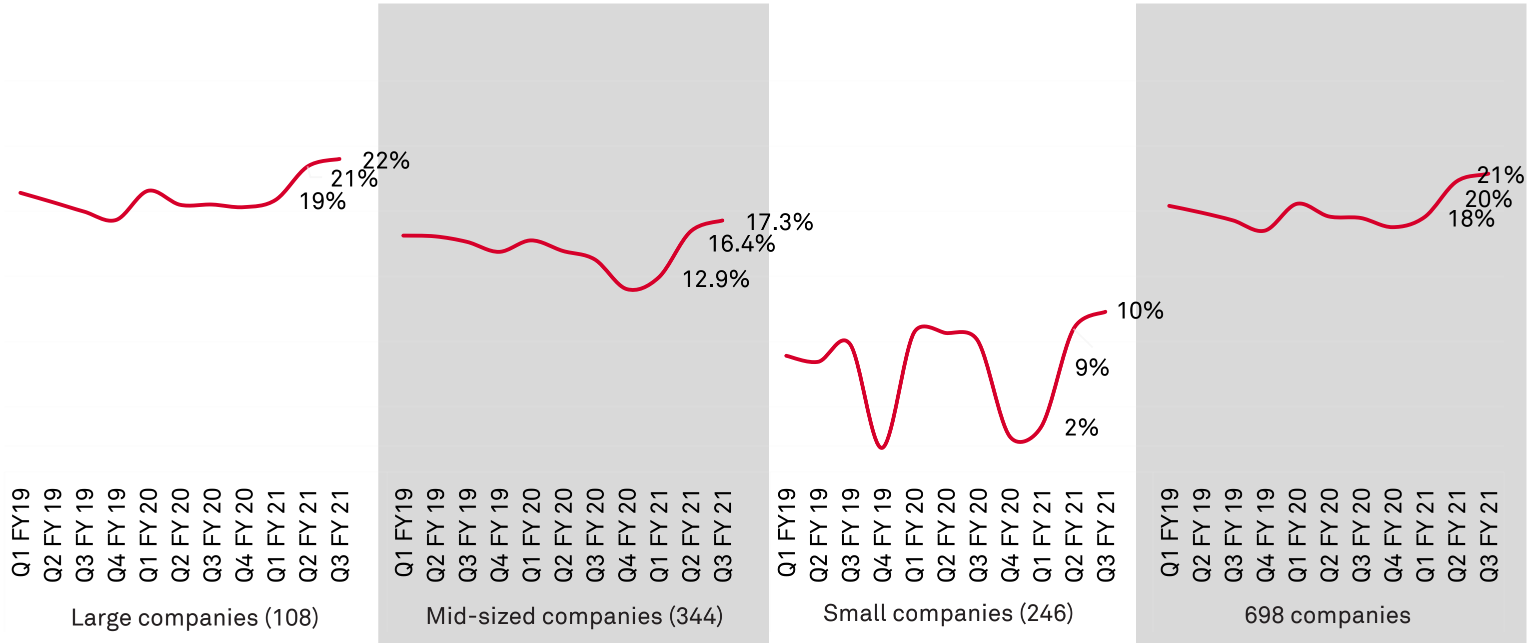




Note: * for nine months of current fiscal
Source: Quantix, CRISIL Research

Ebitda margin
shows superior bargaining power of large companies...

Ebitda margins of large players were resilient even during the peak of the pandemic

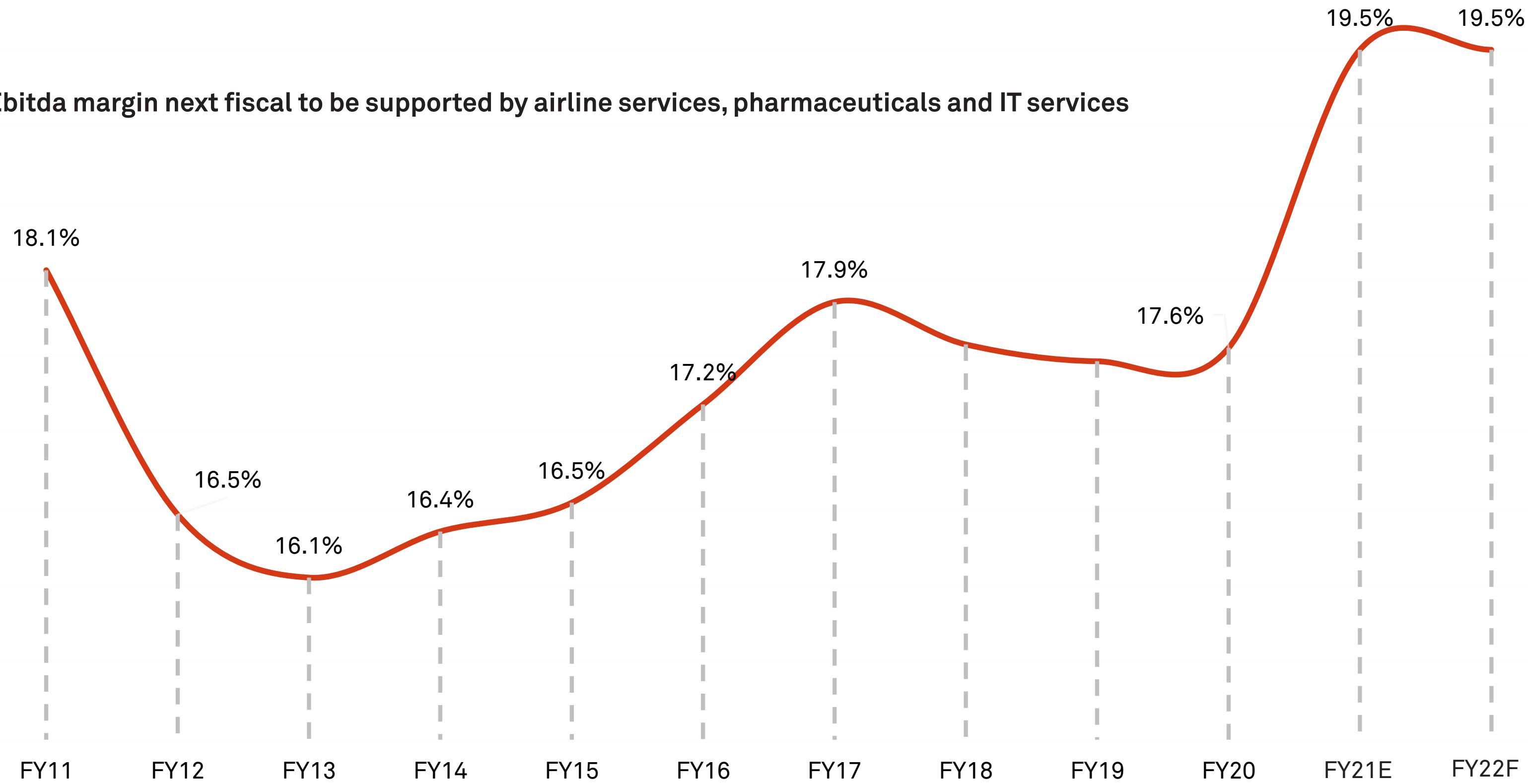


~30% of companies in each revenue segment have shown over 300 bps improvement in margins in the first nine months of this fiscal

Source: CRISIL Research

...but all-time high margins may just about sustain

Ebitda margin next fiscal to be supported by airline services, pharmaceuticals and IT services

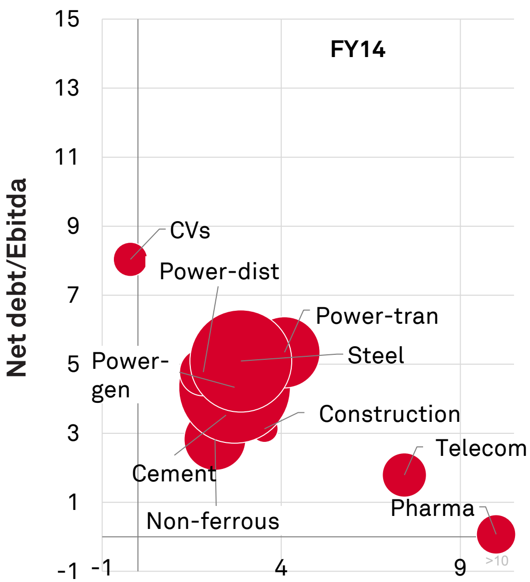


Next fiscal, margins to sustain at this fiscal's levels owing to improving demand for consumer discretionary services and consumer staples

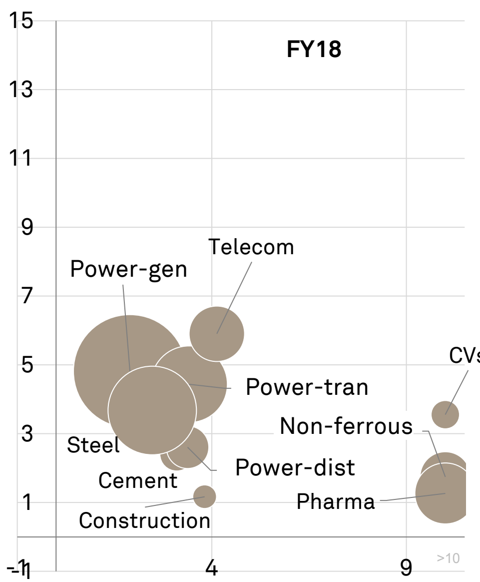
Source: Quantix, CRISIL Research

Pharma and commodity sectors drive improvement in financial metrics

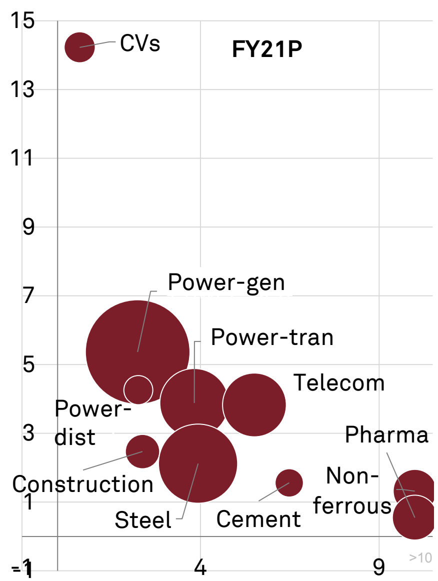
Net debt to Ebitda for power companies remain elevated



Marginal improvement in overall performance led by cement and metals companies



Quick recovery in second half, market share gain and commodity prices supporting metrics of top companies



Note: Median ratios of key 100 listed companies (sales of more than Rs 5,000 crore in fiscal 2020) (excluding oil & gas, BFSI); company set is spread across sectors such as IT, power, steel, pharmaceuticals, FMCG and others. Size of bubble indicates total debt of companies in the sector
Source: Company reports, CRISIL Research

Investments

Government push

to drive investments up 20-25% next fiscal on low base

Government capex to push infrastructure investments up 17-20% next fiscal; industrial investments to rise 45-55%

Sector	FY17-19 (CAGR)	FY20E (Rs lakh crore)	FY21P	FY22P	FY22-24 (CAGR)	FY22-24/ FY19-21	Source of funds (FY20E)
Roads	21%	3-3.2	0-2%	10-15%	9-11%	1.2x	39% 43% 18%
Power	-6%	2-2.1	(5-10)%	20-25%	4-6%	1.3x	28% 51% 21%
Railways	10%	1.4-1.5	7-10%	14-18%	5-7%	1.3x	95% 5%
Urban infrastructure	15%	0.9-1	(2)-0%	15-19%	8-10%	1.3x	43% 52% 5%
Irrigation	6%	0.8-0.9	(8-12%)	10-15%	9-11%	1.1x	4% 96%
Infrastructure	**8%**	**9.7-9.8**	**(5)-0%**	**17-20%***	**6-8%**	**1.25x**	43% 43% 14%
Industrial	**12%**	**3.3-3.4**	**(30-35%)**	**45-55%**	**6-7%**	**1.3x**	35% 65%
Infrastructure and industrial investments	**9%**	**13-13.1**	**(8)-(12)%**	**20-25%**	**6-7%**	**1.2x**	41% 32% 27%

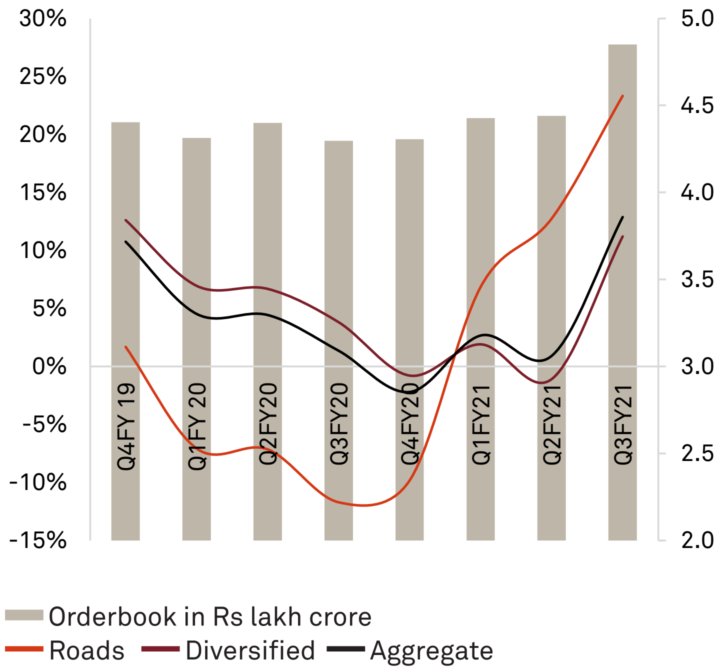
Centre State Private

Note: E:estimated; P: projected; BE: budget estimate; RE: revised estimate
Source: CRISIL Research

* Centre-focussed investments, also supported by states (capex of five states up 37% in FY22BE over FY21RE)

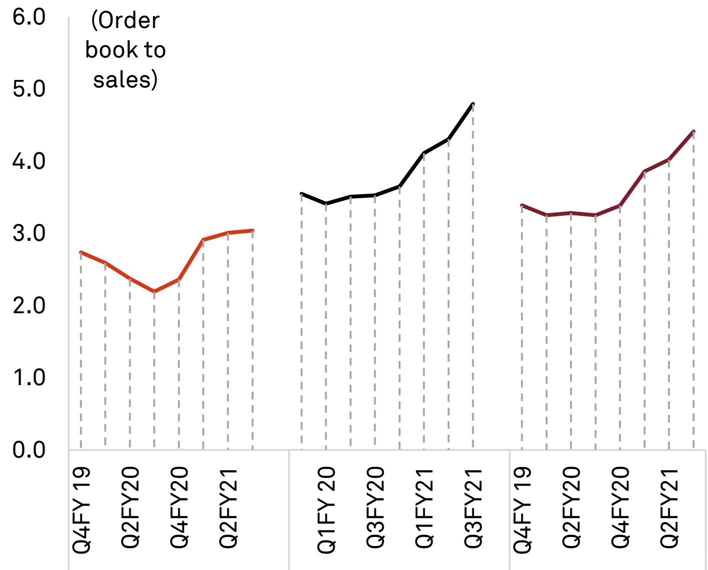
Construction, road firms log strong order book despite pandemic

Order book growth has caught up (for top 11 players in India)



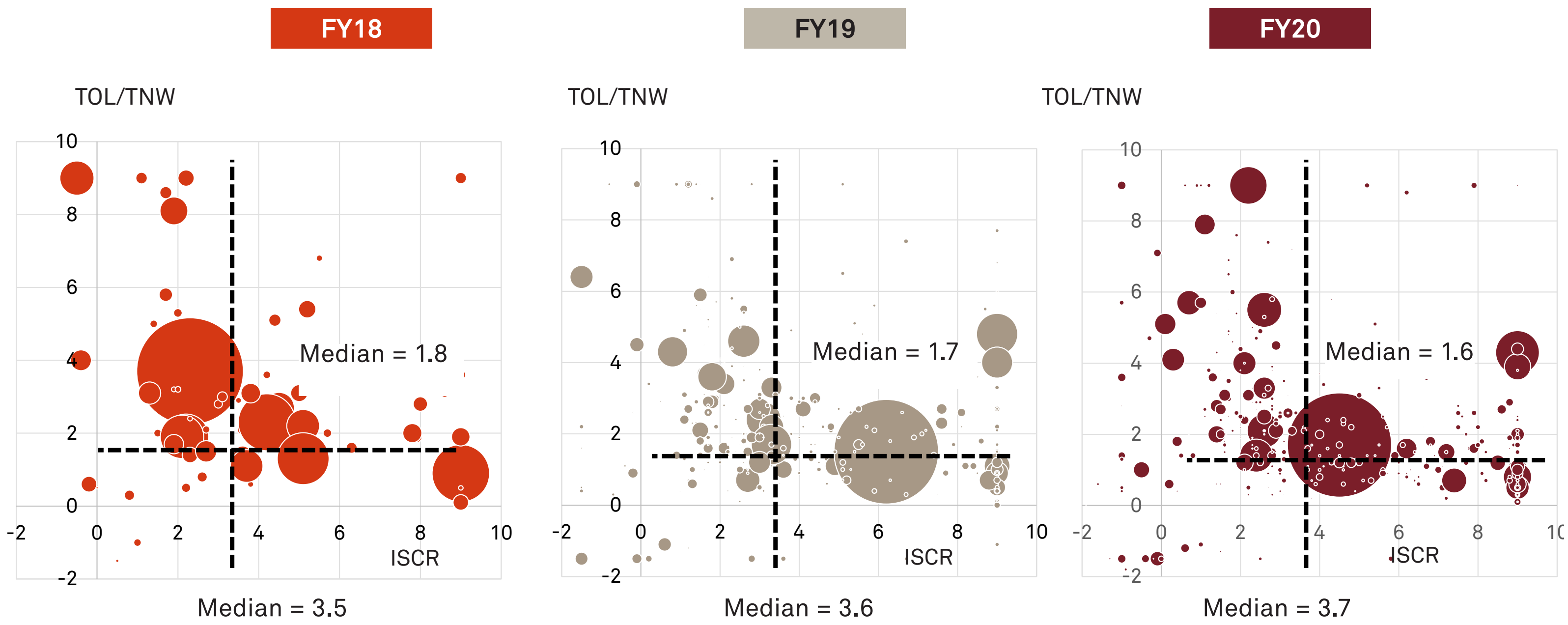
Source: CRISIL Research

Order book-to-sales ratio is also on the rise



Source: CRISIL Research

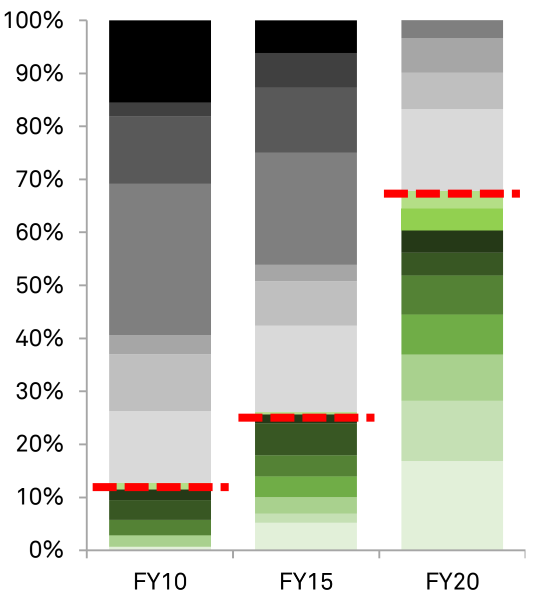
EPC construction companies, mainly into roads, have stronger balance sheets



Notes:
1) Based on set of 399 companies that accounted for 50-55% of revenue for all construction firms in India as of fiscal 2019
2) TOL/TNW: Total outside liabilities/Tangible net worth; ISCR: Interest service coverage ratio
3) ISCR and TOL/TNW greater than 9 have been taken as 9, while lesser than <-2 have been taken as -1.5
Source: Company reports, CRISIL Research

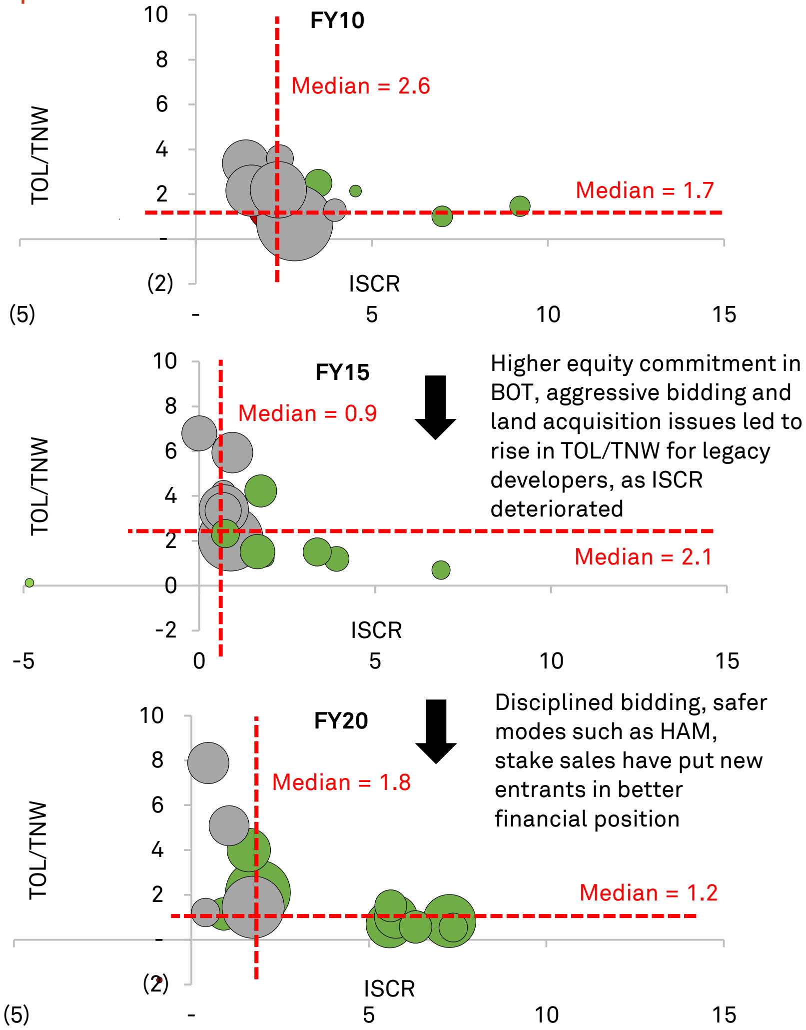
New entrants in roads racing legacy developers as award modes evolve

New entrants gained share post BOT phase-out



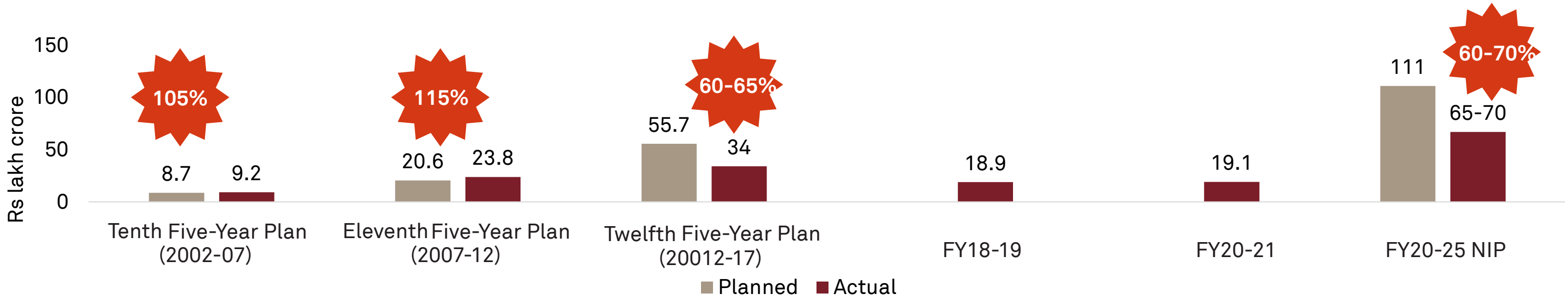
Notes:
1. BOT: Build-operate-transfer; HAM: Hybrid annuity model
2. Shades of grey are for legacy developers; shades of green for new entrants
3. Market share based on revenue of the company for that year
4. ISCR: Interest service coverage ratio
Source: Company reports, CRISIL Research

Financial health of legacy developers worsen, new entrants better off



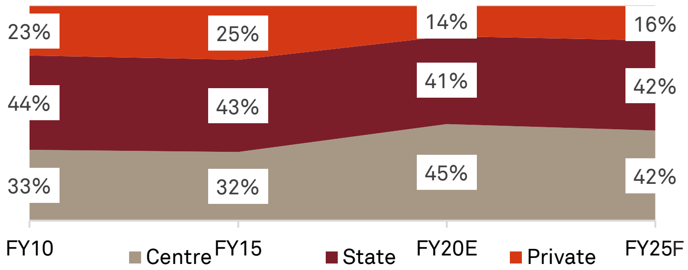
Ambitious NIP target relies a lot on government funding

National Infrastructure Pipeline (NIP) a tall order compared with earlier plans; CRISIL Research expects 60-70% target achievement



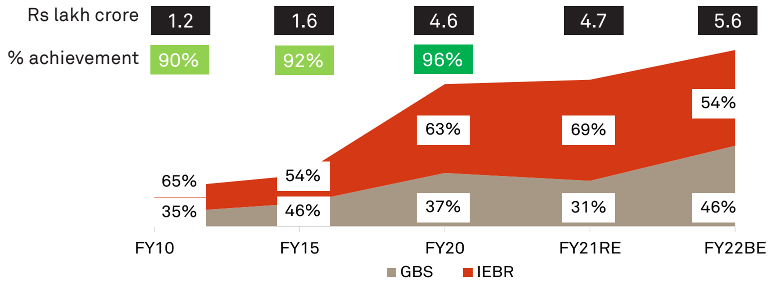
Note: Investments from fiscal 2015 in the Twelfth Five-Year Plan are CRISIL's estimates. The numbers in the red callout reflect achievement ratio
Source: CRISIL Research, Planning Commission, NITI Aayog, India Investment Grid

Private participation already on a declining trend; NIP funding pattern to retain the skew



Source: CRISIL Research, India Investment Grid

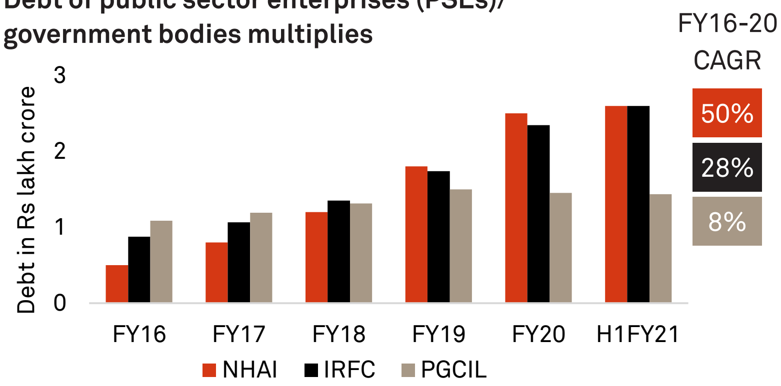
Centre's reliance shifts from extra-budgetary to budgetary support



Source: CRISIL Research, budget documents

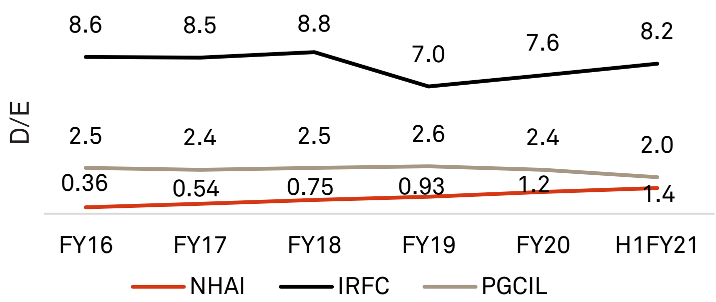
As PSE debt burden rises, innovative funding methods explored

Debt of public sector enterprises (PSEs)/ government bodies multiplies



Source: CRISIL Research, company reports

Debt-to-equity worsens, leading to government increasing budgetary support in FY22



Notes: IRFC: Indian Railway Finance Corporation; PGCIL: Power Grid Corporation of India Ltd
Source: CRISIL Research, company reports

Structural initiatives in innovative funding channels

REIT / InvIT

	US	Singapore	Japan	Hong Kong	India
Year	1960	2001	2001	2003	2014
Market cap/GDP	5-6%	20-21%	2-3%	7-8%	0.70%

Nascent stage; can potentially unleash Rs 8 lakh crore in the next five fiscals

DFI

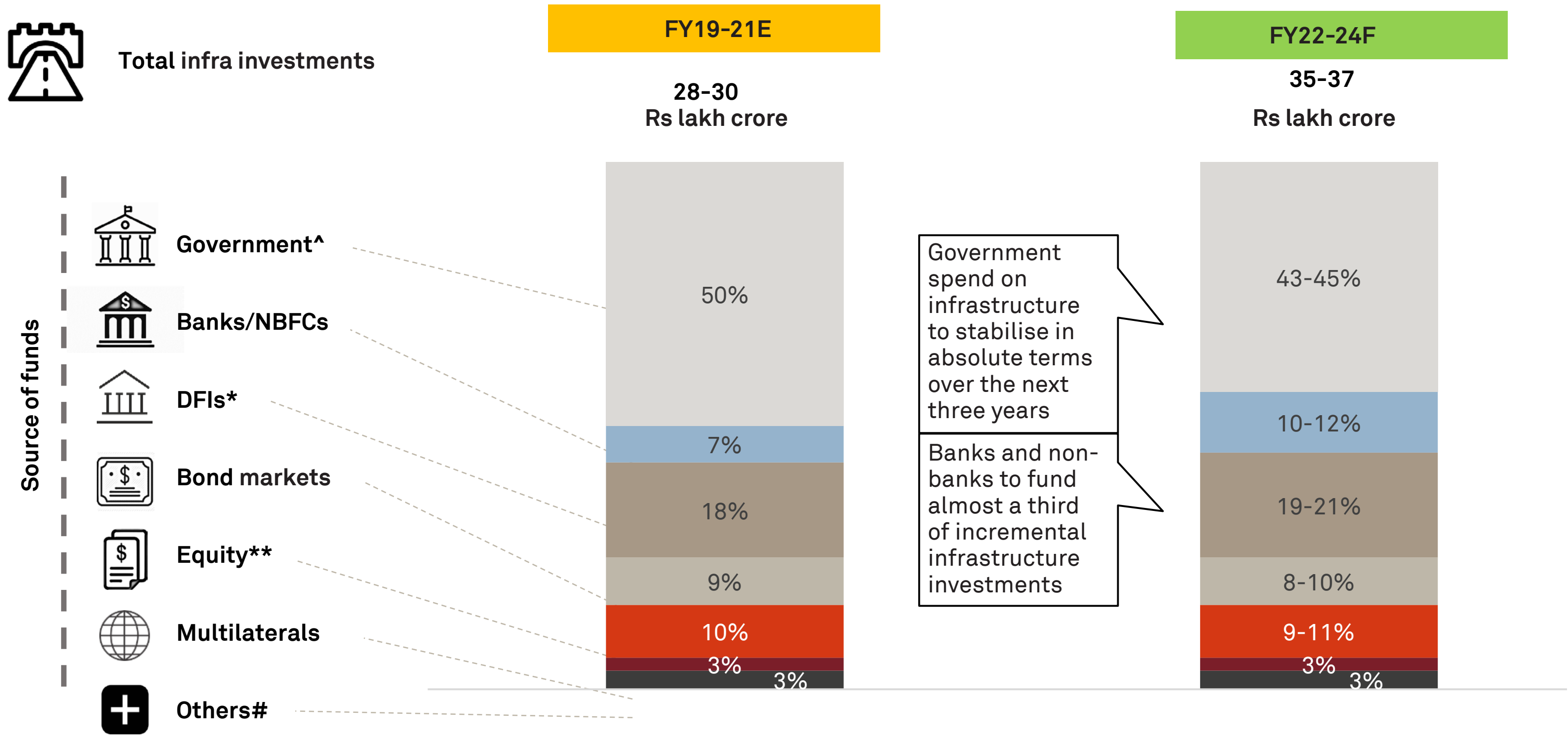
Rs 20,000 crore development financial institution (DFI) aims to have a lending portfolio of Rs 5 lakh crore in three fiscals

Asset moneti-sation

Establishment of national monetisation pipeline on the lines of NIP for ease of monetisation of operational projects

Note: Market cap is as of September 2020
Source: CRISIL Research

Banks, DFIs to support incremental requirement for infra financing



Note: Total infrastructure spend is incremental investment for block of three years. ^Includes central and state governments. * DFI includes contribution from new DFI over the next three years. ** includes internal accruals/FDI. #Others include asset monetisation plans by private players.
Source: Government reports, industry, CRISIL

CRISIL
An S&P Global Company

Liquidity at banks
to support PLI and infra funding; intent a monitorable

Pandemic-driven risk aversion led to increase in banking system liquidity

	Last 10 years	FY21E	Next 3 years
Investment % of total assets	~26%	~29%	~27%
Deposit CAGR	~9%	~11%	~6-7%
Credit CAGR	~11%	~5-6%	~9-10%
Credit to deposit ratio	~77%	~70%	~73%

Tier I ratio as on Sep 2020 (%)

PSU banks	10.8
Private banks	16.5

Against mandatory requirement of 8.875% as on Sep 2020

Excess liquidity in the banking system

~ Rs 6 lakh crore

Additional 3% investments this fiscal are parked with the RBI at the reverse repo rate

Retail and services to drive bank lending book

	% share in gross bank credit as of FY20	CAGR for the past 10 fiscals	FY21E	CAGR for the next 3 fiscals
Retail	28%	~16%	~8-9%	~13%
Services	28%	~14%	~6-7%	~9%
Corporate	19%	~7%	~(0-1)%	~6%
Agriculture	13%	~11%	~9-10%	~7%
Infrastructure	11%	~11%	~(2-3)%	~4%

Notes: Colour code for CAGR> Green depicts increasing share and orange depicts no major change in bank credit share and red depicts declining share
Source: RBI, Company reports, CRISIL Research

NIP projects worth approximately Rs 40 lakh crore under construction

Transport, energy and water projects account for ~80% of NIP spending of Rs 111 lakh crore

Road	Rail (including MRTS)	Power	WSS	Others
18%	18%	24%	14%	26%

~Rs 40 lakh crore of projects currently under implementation

Planning	Pre-construction	Under construction	Completed
21%	36%	43%	<1%

High pressure on public funds as EPC dominates mode of implementation

EPC	HAM	PPC	Undecided
62%	9%	9%	20%

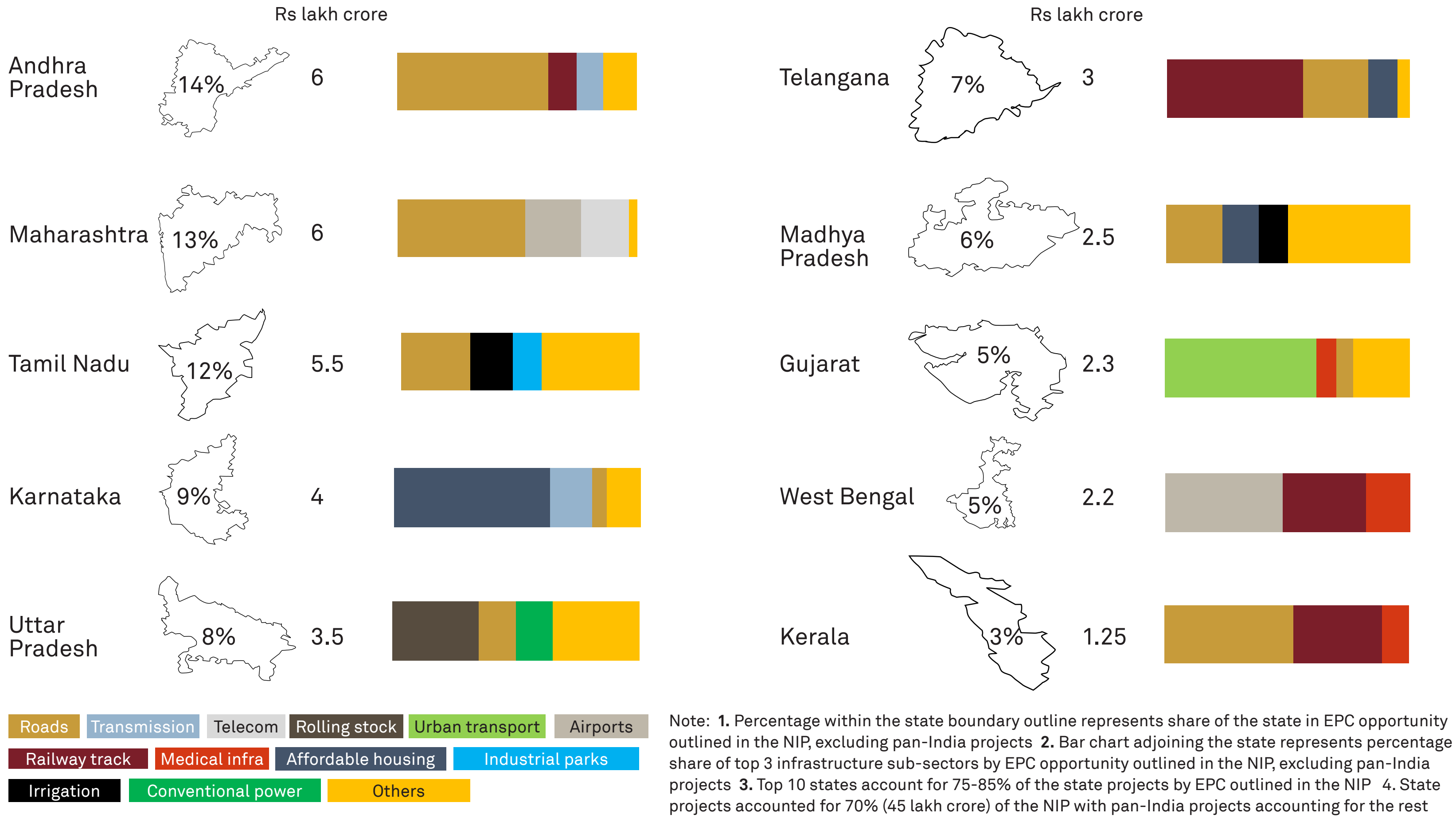
EPC opportunity at Rs 65 lakh crore is the highest in the transport sector

Road	Rail (including MRTS)	Power	WSS	Others
31%	15%	6%	15%	33%

Note: All charts are for FY20-25
Source: CRISIL Research, Indi a Investment Grid

Note: Others include: irrigation, rural infra, ports, airports, health, petroleum, natural gas, and education

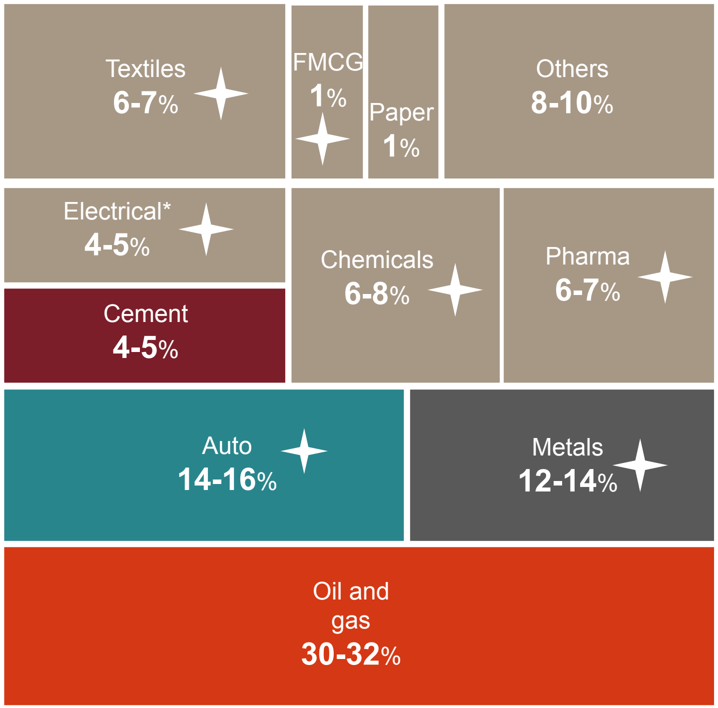
Highest EPC opportunity in NIP in Maharashtra and Andhra Pradesh



Note: **1.** Percentage within the state boundary outline represents share of the state in EPC opportunity outlined in the NIP, excluding pan-India projects **2.** Bar chart adjoining the state represents percentage share of top 3 infrastructure sub-sectors by EPC opportunity outlined in the NIP, excluding pan-India projects **3.** Top 10 states account for 75-85% of the state projects by EPC outlined in the NIP **4.** State projects accounted for 70% (45 lakh crore) of the NIP with pan-India projects accounting for the rest
Source: CRISIL Research, India Investment Grid

Industrial capital investment to get major push from PLI

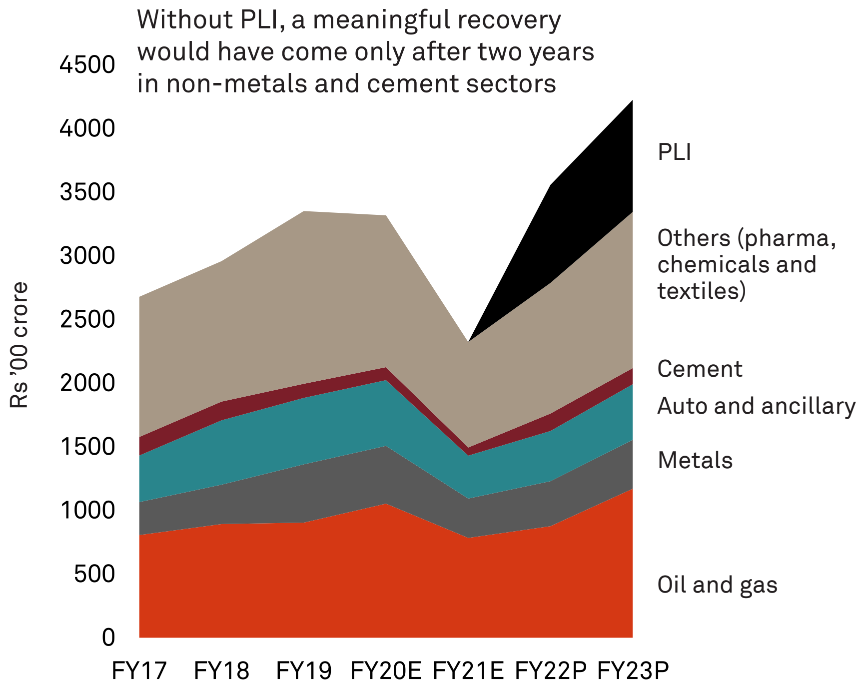
~16,000 manufacturing companies spent Rs 3-3.5 lakh crore on capex annually over the past three years



Notes: 1) Electrical includes all electrical, consumer durables, appliances, electronics and heavy equipment 2) auto includes auto-components and tyres 3) metals includes ferrous and non-ferrous 4) Star marks are for sectors where PLI has been introduced

Source: CRISIL Research,

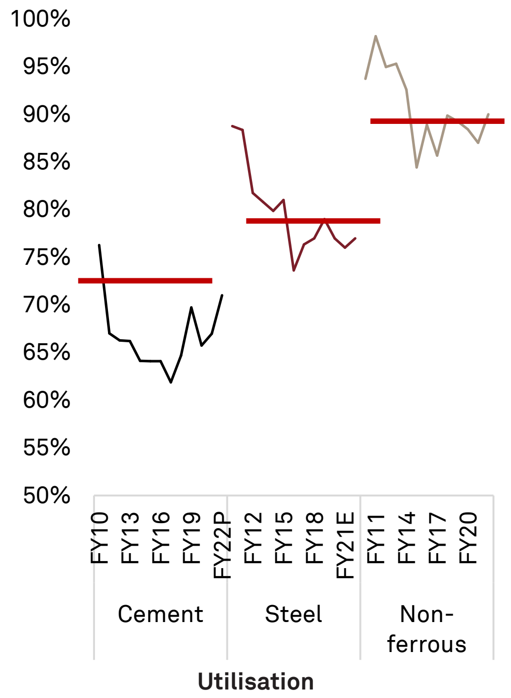
Industrial capex to rise 45-55% next fiscal after 35% contraction this fiscal, driven by core sectors and PLI



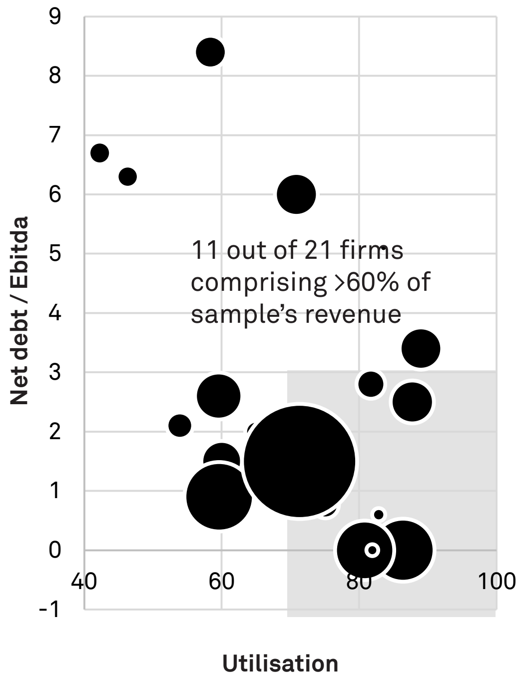
Source: CRISIL Research, CRISIL Quantix, industry

Core industry utilisation sub-par; large companies better placed

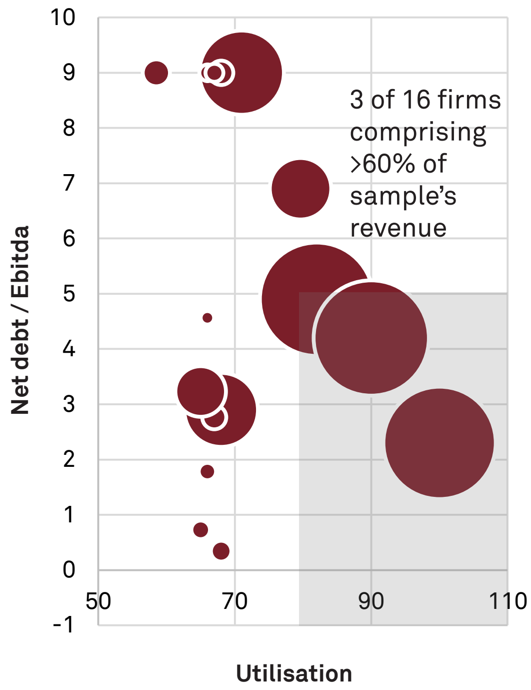
Industry utilisation below threshold



Cement: Dispersion analysis of 21 companies (70-80% sales) for FY20



Steel: Dispersion analysis of 16 companies (65-75% sales) for FY20

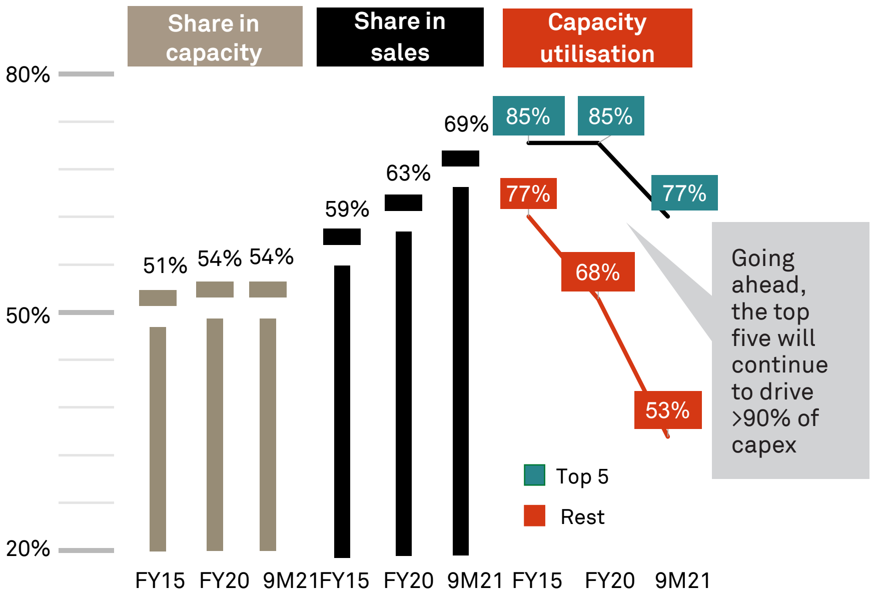


Utilisation across most industrial sectors will remain below optimum, except for non-ferrous, even in fiscal 2022

Note: Scale adjusted for net debt/Ebitda as <0 and >9 to show all companies
Source: CRISIL Research, CRISIL Quantix, Industry

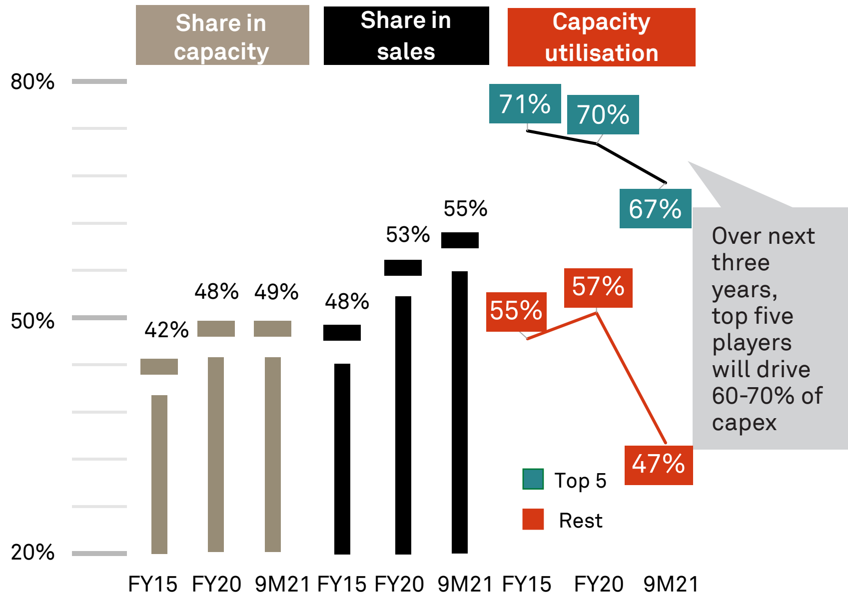
Steel, cement biggies adding capacity as share in sales rises

Steel: Share of top five players



Steel sector added 26 million tonne (MT) of capacity over past five years, with the top five players accounting for >90% addition, driving capex. In comparison, 37 MT capacity was added over fiscals 2010 to 2015, with top five players contributing only 50-55%

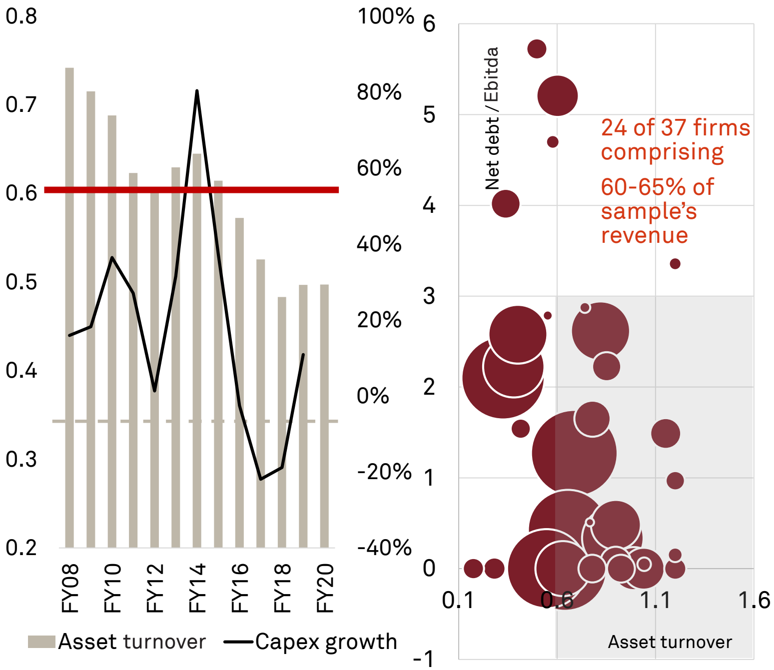
Cement: Share of top five players



Capacity and market share of top five players have risen over past six years, driving almost half of sector's capex. Also, acquisitions led to the capex rise

In pharma and FMCG, big players driving capex in pockets

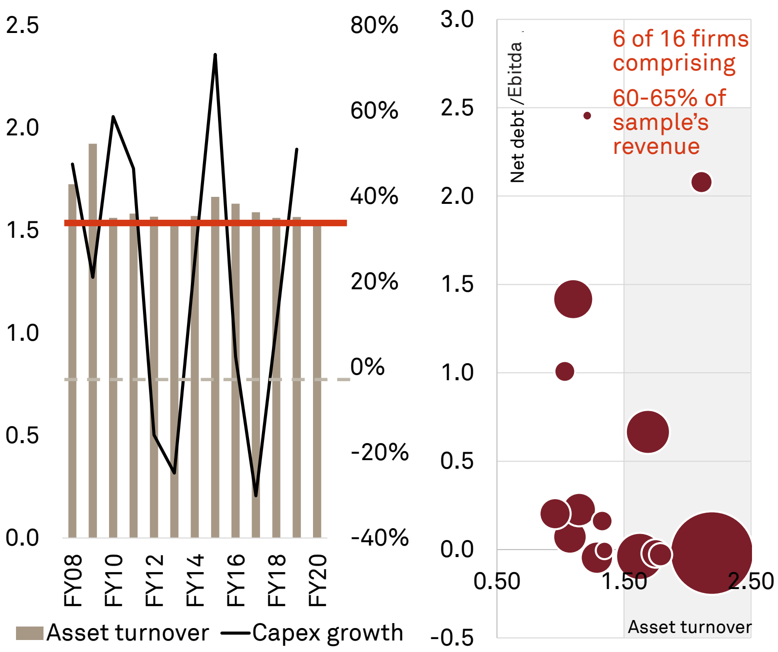
Pharma: Asset turnover and capex growth last fiscal



Note: Sample of 37 companies constituting 65-70% of sector revenue

Source: CRISIL Research

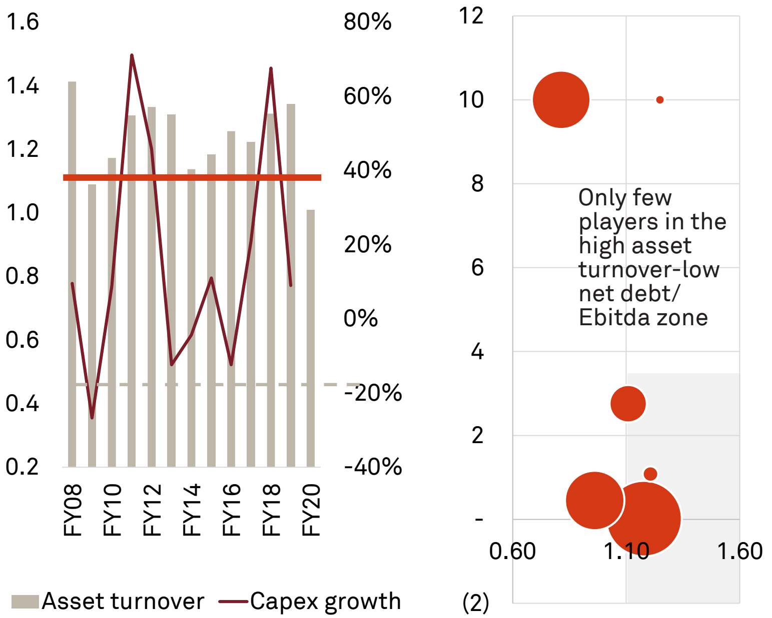
FMCG: Asset turnover and capex growth last fiscal



Note: Sample of 16 companies constituting 75-80% of sector revenue

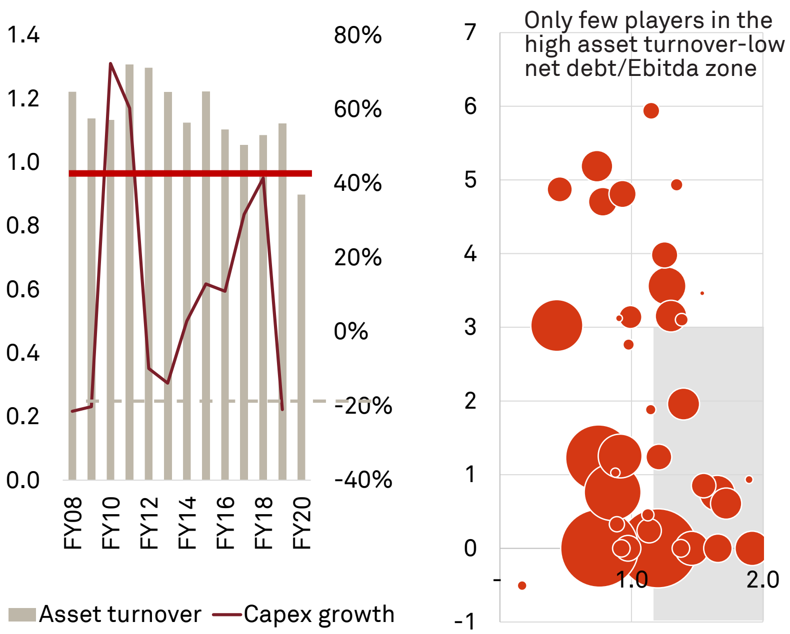
Auto and auto-components hobbled by low asset turnover

Auto: Asset turnover and capex growth for six companies



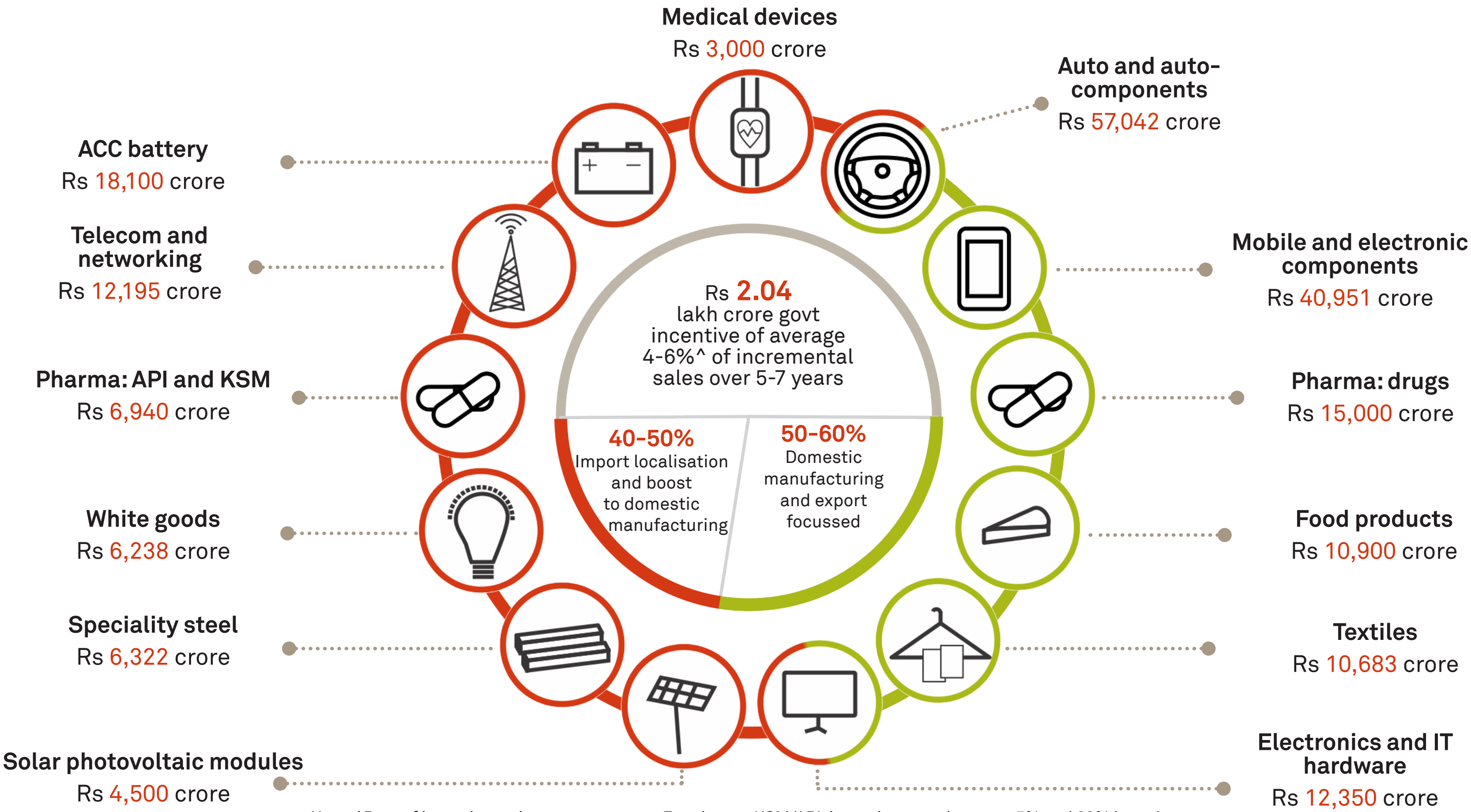
Note: Sample of six players constituting 50-55% of sector revenue
Source: CRISIL Research

Auto-components: Asset turnover and capex growth for 42 companies



Note: Sample of 42 firms constituting 20-25% of sector revenue
Source: CRISIL Research

PLI to boost capex in many sectors

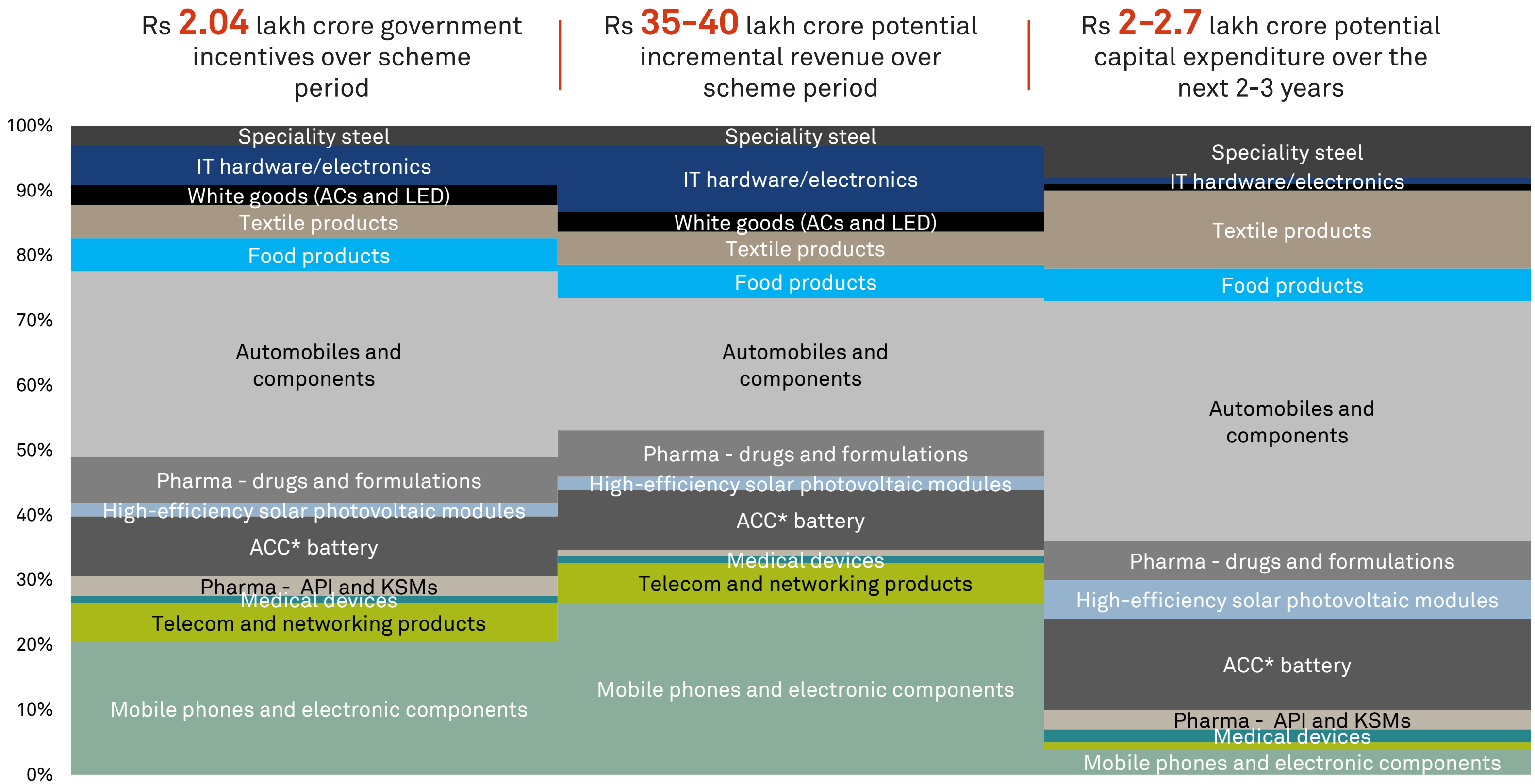


Note: ^Rate of incentive varies across sectors. For pharma KSM/API, incentives vary between 5% and 20% based on products. For IT hardware, rate of incentives is 1-4%. For most others, incentives range between 4% and 6%.

Source: CRISIL Research

PLI can lead to Rs 35-40 lakh crore revenue in five years

Also, Rs 2-2.7 lakh crore investments with stark variation in sector mix



Key monitorables

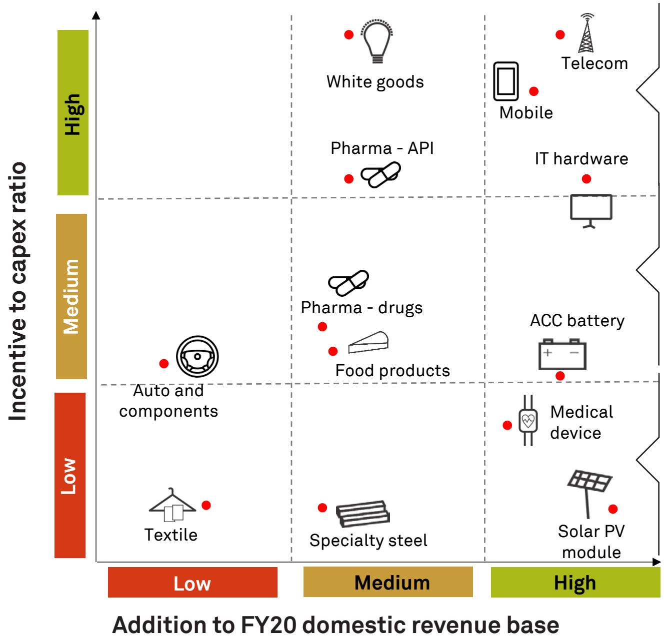
- Timely release of incentives and implementation
- Dual intervention, especially for import localisation sectors
- Global supply-chain dynamics

*ACC: Advance chemistry cell
Source: Union Cabinet, CRISIL Research

PLI spells faster growth for select sectors

Wage bill addition of 15-20%* on the cards

Scheme most attractive for mobile, telecom and IT hardware



High-growth sectors with high dependence on imports in their value chain and relatively lower domestic base

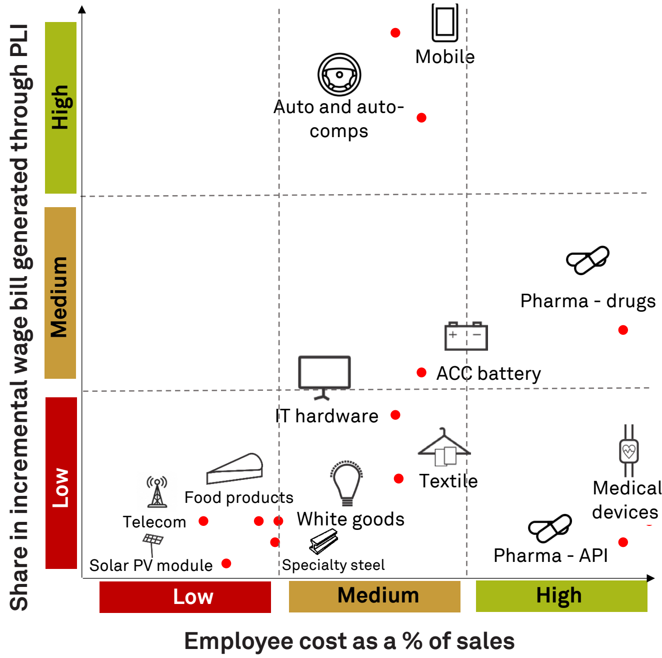
Most sectors (except ACC battery) have fairly established base

Relatively capex-intensive segments with focus on domestic manufacturing and import localisation (except textile); players can cautiously evaluate opportunities

Note: Incentive to capex ratio: High: >1x, Medium: 0.5-1x, Low: <0.5x
Revenue addition from PLI to FY20 domestic revenue base: High: >50% , Medium: 25-50%, Low: <25%

Source: CRISIL Research

Rs 3.5-4 lakh crore of potential incremental wage bill over scheme tenure, ie. 15-20% over annual wage bill of 16,000 manufacturing companies



Note: Employment cost as a % of sales: High: >15%, Medium: 10-15%, Low: <10%; Share in incremental wage bill generated through PLI: High: >15%, Medium: 10-15%, Low: <10%
*based on annual wage bill of 16,000 manufacturing companies

Source: CRISIL Research

PLI directed at

sectors that account for 30-35% of non-oil import bill

Sectors	Import dependence across value chains			Import bill FY20	Import as a % of consumption	Geographical dependence
	Raw material	Semi-finished	Final product			
IT hardware (laptops, PCs, tablets and servers)	Low	High	High ☆	**Rs 25,000-30,000 crore**	**80-85%** of India's domestic laptop, tablet and server demand	China, Hong Kong
Solar photovoltaic modules	High	High	High ☆	**Rs 11,000-12,000 crore**	**80-85%** of India's domestic photovoltaic module demand	China, Singapore, Vietnam
Telecom and networking products	High	High	High ☆	**Rs 50,000-60,000 crore**	**65-75%** of India's requirement	China, Korea
Pharmaceuticals (API and KSM)	High ☆	Medium	Low	**Rs 20,000-25,000 crore**	**30-40%** of India's consumption of API/KSM	China
Speciality steel	Medium	Low	Medium ☆	**Rs 20,000-25,000 crore**	**30-35%** of India's alloy steel consumption	China, Korea, Japan
Automobiles and components	Low	Medium ☆	Low ☆	**Rs 80,000-90,000 crore**	**20-25%** of India's auto-component requirement	China, Korea
White goods (AC and LED lights)	Low	High	Medium ☆	**Rs 35,000-45,000 crore**	**20-30%** of India's RAC and LED light demand	China

☆ Indicates focus of PLI

● High dependence on imports
● Low dependence on imports
● Medium dependence on imports

Notes:
1) Raw materials for auto, white goods, IT hardware and medical devices are considered to be metals and plastic. Semi-finished refers to components and sub-components. Raw material for pharma is KSM, semi-finished is API and final product is drug/formulation
2) Import bill for white goods largely on account of LED lights
3) Import bill for all auto and components, TW, 3W, CVs and PVs. For pharma imports, only API/KSMs are considered. For white goods, imports of only RAC and LED lights is considered. For IT hardware, imports of only laptops, PCs, tablets and servers is considered

PLI also focuses

on enhancing local manufacturing and exports base

Sectors	Focus of PLI across value chains: Raw material	Semi-finished	Final product	Export value FY20	Share in global exports (value)	Competing economies
Automobiles and components		☆	☆	**Rs 1.3-1.4 lakh crore**	1-2%	Germany and Japan for auto; Germany and the US for auto components
Pharmaceuticals (formulations)			☆	**Rs 1-1.2 lakh crore**	**3-4%**	India is leading generics supplier
Food products			☆	**Rs 30,000-35,000 crore**	**<2%**	Brazil, China, Spain and the US
Mobile and electronic components		☆	☆	**Rs 25,000-30,000 crore**	**1-2%**	China with >**45%** share
Textiles (man-made fibre, technical)	☆			**Rs 9,000-10,000 crore**	**5-6%**	China, Indonesia and Korea

☆ Indicates focus of PLI

- Low domestic base
- Medium domestic base
- High domestic base

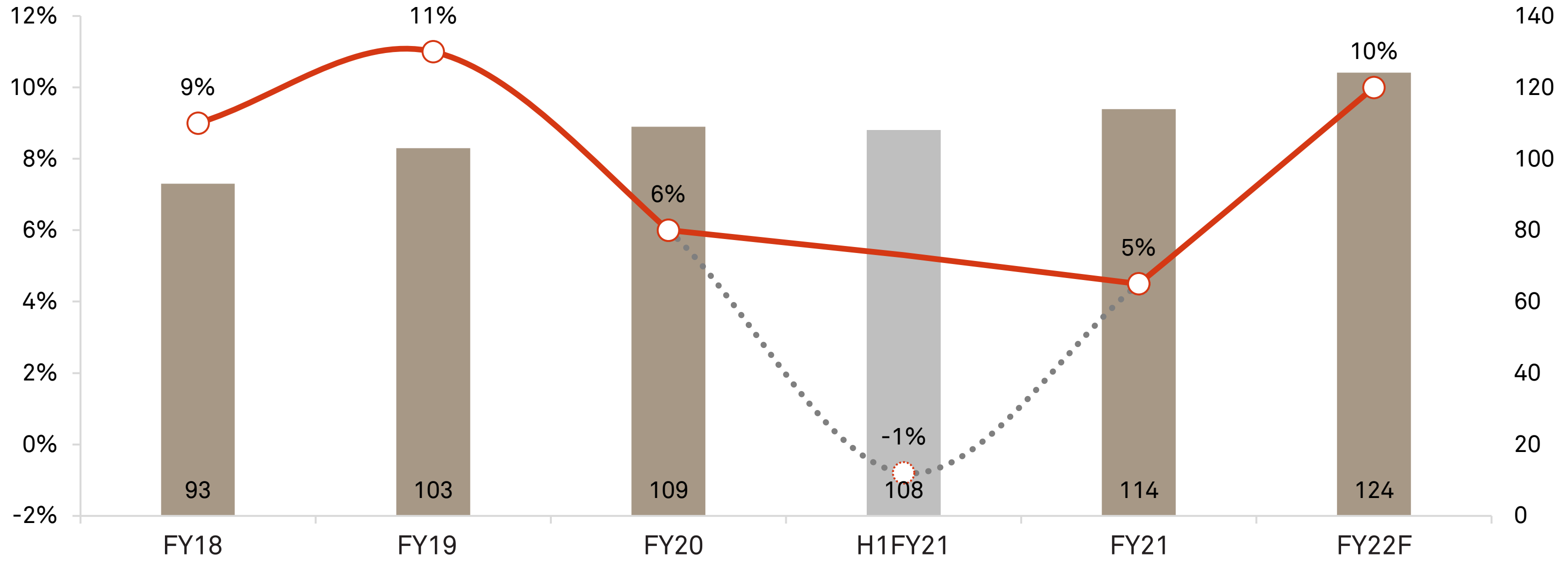
Notes:
1) Raw materials for mobile phones are considered to be metals and plastic. Semi-finished are components and sub-components
2) Raw material for pharma is KSM, semi-finished is API and final product is drug/formulation
3) Export value for mobiles; drugs and formulations for pharma; consumer foods for food products and MMF and technical textiles for textiles are considered
4) There is limited domestic capability for ACC battery in India currently
5) Details of electronic/tech products are awaited from the ministry

Source: Ministry of Commerce, CRISIL Research

Financial sector

Bank credit has shown a V-shaped recovery

Trend in gross bank credit

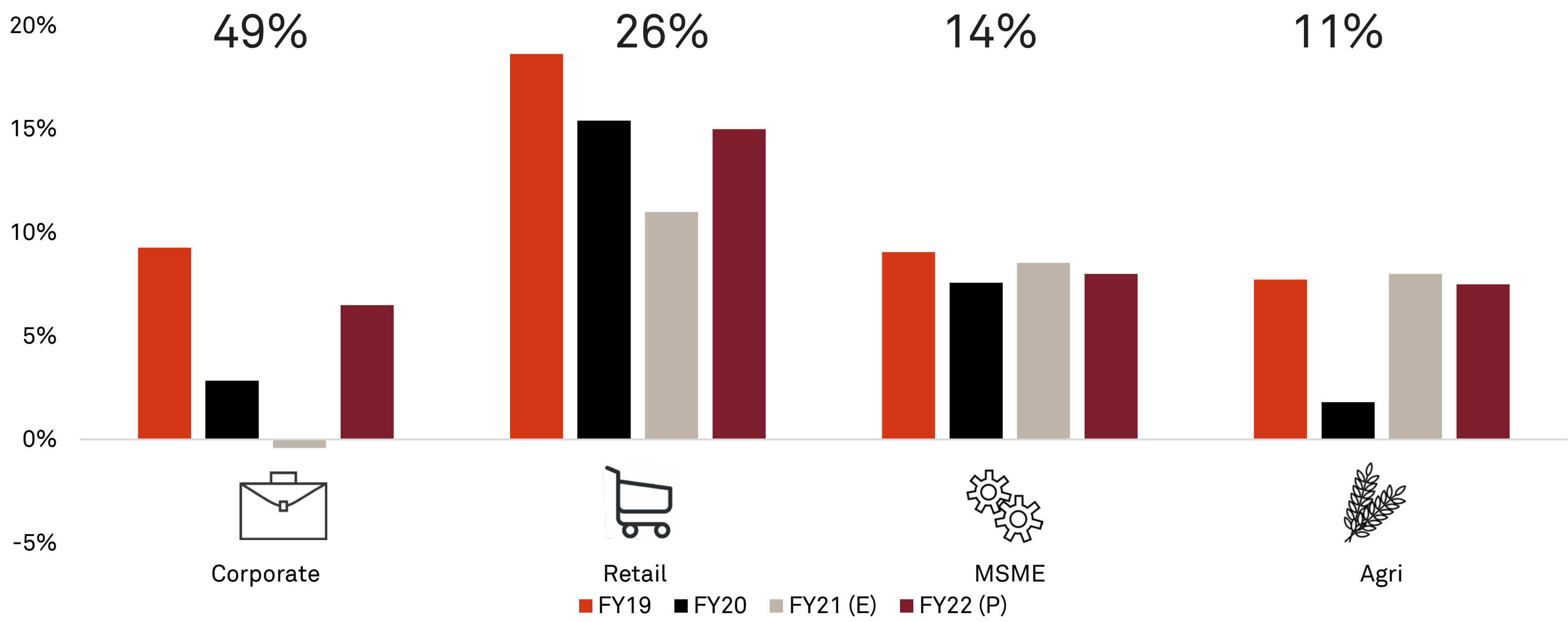


Source: RBI, CRISIL estimates

- Degrowth of 0.8% in the first half of this fiscal; sharp sequential recovery of 3% in the third quarter
- ECLGS disbursements at Rs 1.6 lakh crore in the first nine months of this fiscal have lent support

Retail credit to lead the way; corporate loans to also bounce back

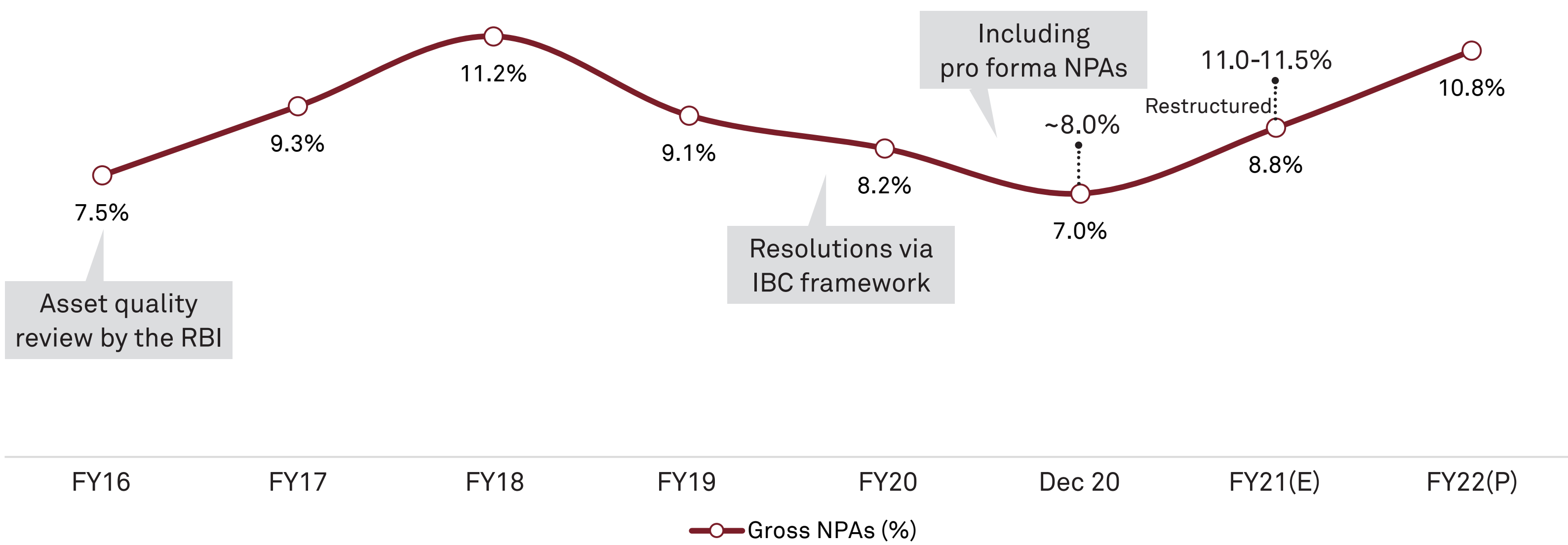
Break-up of gross bank credit



Note: Figures in boxes represent expected proportion in overall bank credit as on March 31, 2021
Source: RBI, CRISIL estimates

Rise in NPAs controlled by regulatory/legal dispensations

Trend in gross NPAs, %

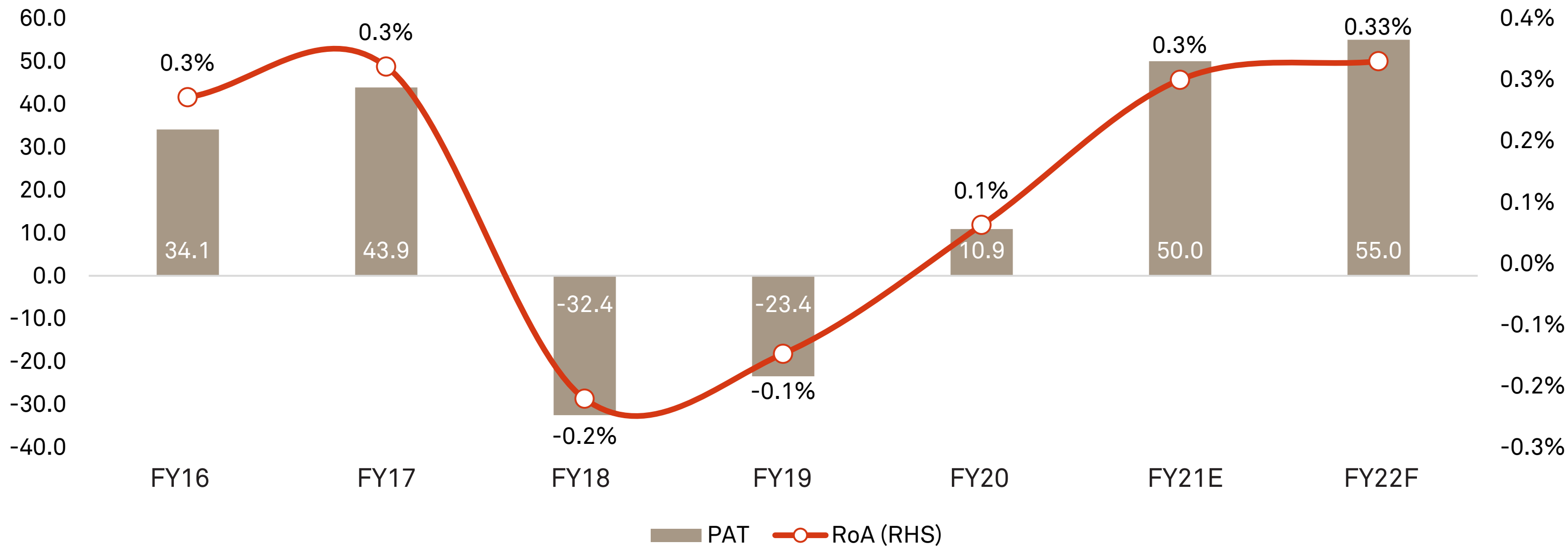


Source : RBI, CRISIL estimates

- GNPAs in nine months this fiscal lower by ~100 bps at ~7% due to current standstill on NPA recognition
- NPAs to inch up driven by delinquencies in MSME and retail segments; larger corporates more resilient
- Restructuring to be restricted to ~2-3% of loans for the banking system

Profitability to gradually improve for banks as credit growth picks up

Trend in profits and return on assets

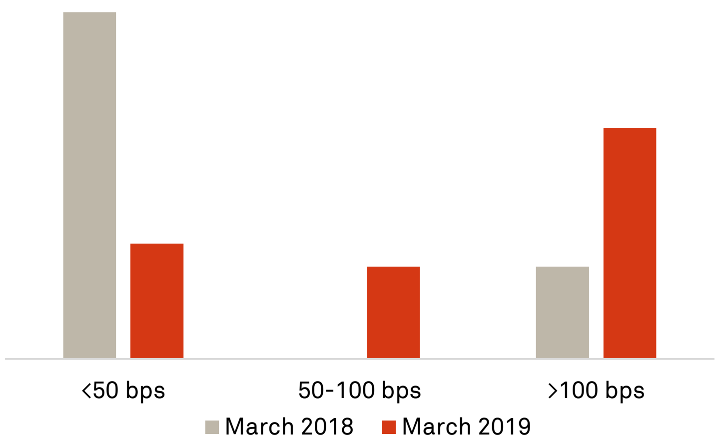


Note: PAT: Profit after tax; RoA: Return on assets
Source: RBI, CRISIL

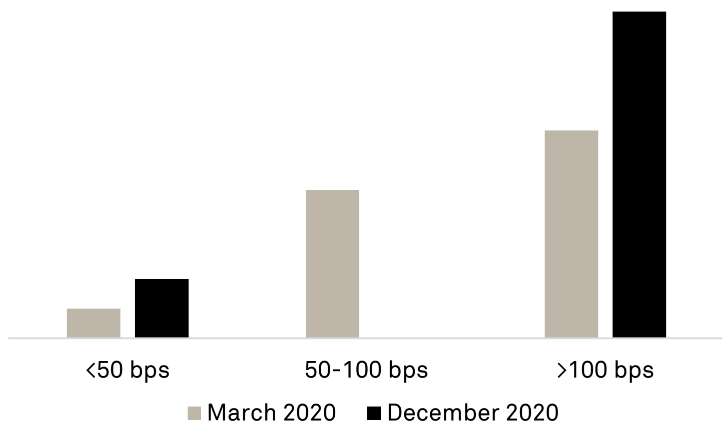
- Public sector banks (PSBs) to be back in black after five fiscals of consecutive losses
- Provision coverage ratios have improved, providing greater resilience to NPA shocks

Capital buffers of PSBs better after government infusion

Improvement in buffers post recapitalisation



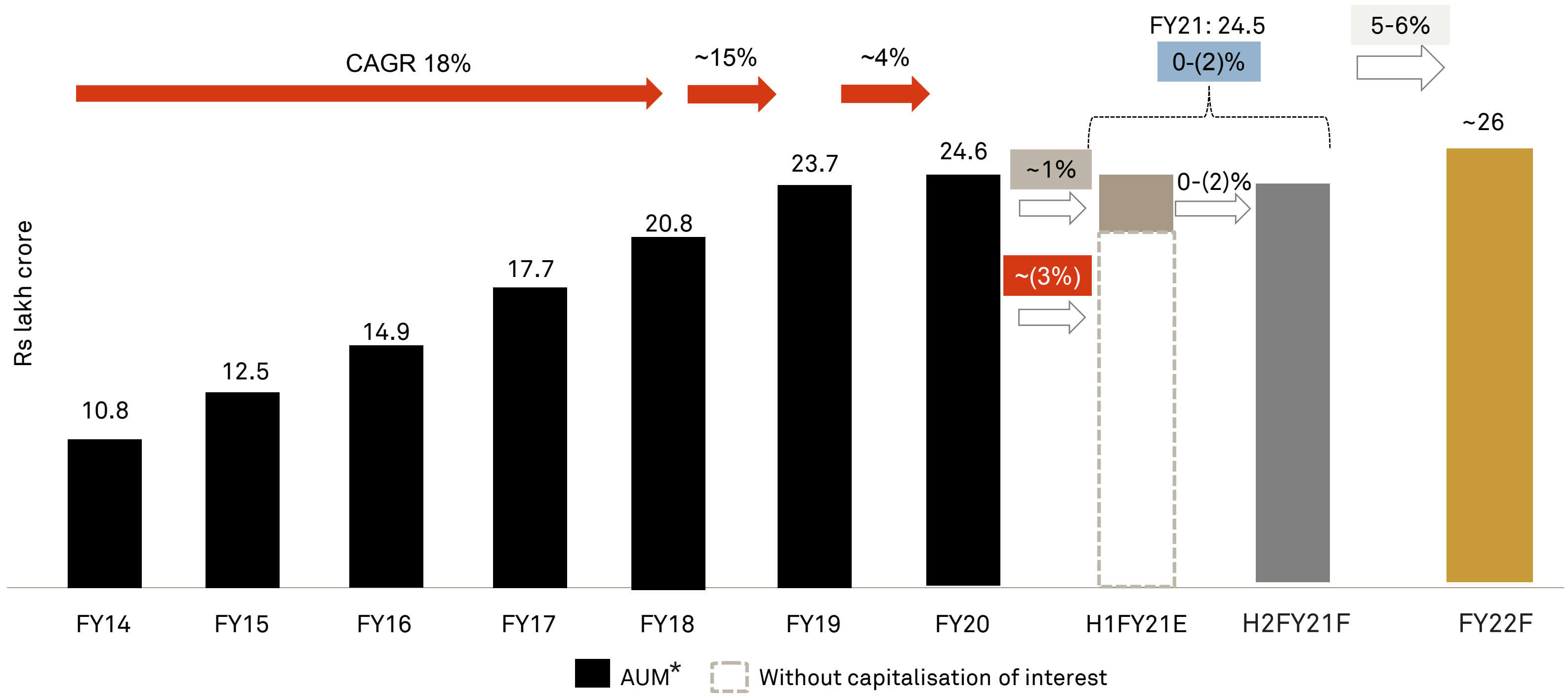
Average Tier I cushion of 200 bps as of Dec 2020



Note: Left chart indicates data for 19 PSBs and right chart data for 13 PSBs. IDBI Bank is included in PSBs
Source: RBI, CRISIL estimates

- Capital cushion of PSBs better than before, propped by infusion of Rs 2.6 lakh crore by government in the past three fiscals
- PSBs have raised Rs 17,000 crore via AT1 bonds and a few others via institutional placement this fiscal

NBFC degrowth this fiscal, mellow rebound ahead



Notes: Growth numbers for first and second halves of this fiscal are annualised
*AUM: Assets under management
Source: Company reports, CRISIL

Pandemic has thrown a raft of challenges at NBFCs

- Asset quality concerns started last year amid economic slowdown
- These were exacerbated by the pandemic, lockdown and slowdown in economic activity
- Access to funding remains confidence-sensitive
- Parent-backed entities relatively less impacted
- Exposure of debt mutual funds to NBFCs has reduced substantially in the past two fiscals. Bank funding has grown
- Green shoots seen due to the government and the RBI measures, but sustainability is key
- Competition is intensifying. With low-cost funding access, banks will be aggressive in the retail segments, especially housing and new vehicle finance

Stressed assets
of NBFCs to touch Rs 1.5-1.8 lakh crore this fiscal

AUM share		GNPA, March 2020	Stressed assets, March 2021
4%	Gold loans	1.9%	Limited volatility
38%	Home loans	1.2%	1.8-2.0%
21%	Vehicle finance	**6.0%**	**9.0-10.0%**
4%	Unsecured loans	**2.2%**	**9.5-10.0%**
11%	MSME finance	**3.4%**	**7.5-8.0%**
12%	Real estate finance	**4.5%**	**15.0-20.0%**

Notes:
Stressed assets: GNPA estimated as on March 31, 2021 + estimated restructuring
MSME: Micro, small, and medium enterprise
AUM share is estimated as of March 31, 2021
Source: Company reports, CRISIL estimates

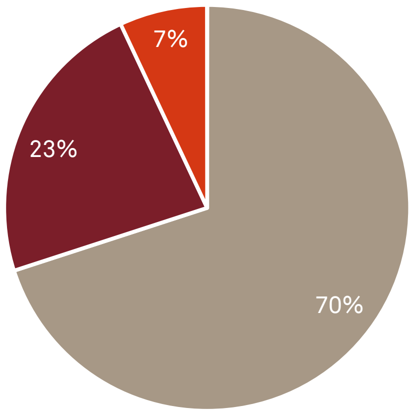
Parent-backed

NBFCs much better placed to navigate challenges...

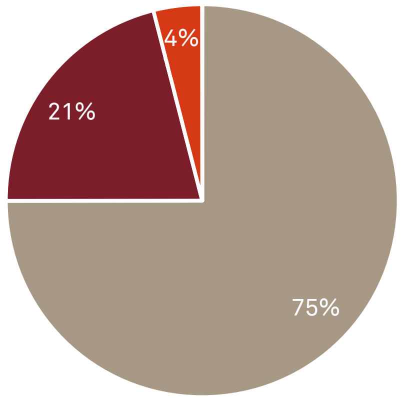
Challenges	Funding access	Funding costs	Asset quality	Competition
Parent-backed				
Standalone retail				
Standalone wholesale				

...hence, expected to gain further market share

AUM composition by parentage (March 2019)



Expected AUM composition by parentage (March 2021)



■ Parent-backed non-banks*
■ Retail-focused non-banks
■ Wholesale-focused non-banks

*includes HDFC Ltd
Source: Company reports, CRISIL estimates

NBFCs have taken steps to navigate the situation

Stricter and strengthened underwriting norms
Use of multiple alternate data sources for underwriting

Embracing digitalisation
New modes of payments embraced; UPI handles initiated; WhatsApp bots, general reminders to borrowers before due date via Interactive Voice Response System

Collections team strengthened
Following the pandemic, employees have been shifted to collection teams

Focus on safer asset classes
Incremental disbursements largely for gold and home loans

The way forward for NBFCs

Asset side

- Retailisation trend to firm up
- Co-lending and partnerships to be the next growth drivers
- Focus on asset quality to strengthen
- Digitalisation across customer lifecycle to grow

Funding

- NBFCs with strong parentage will continue to have better funding access
- High on-balance-sheet liquidity to instill confidence among stakeholders
- Effective utilisation of retail bonds, securitisation and offshore borrowings
- Strengthening capital base and operating at lower leverage levels

Going forward, the banking model is expected to be closely evaluated by many non-banks

Notes

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

CRISIL Privacy

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

Argentina | China | Hong Kong | **India** | Poland | Singapore | UK | USA | UAE
CRISIL Limited: CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India
Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com
/company/crisil @CRISILLimited /CRISILLimited /user/CRISILLimited /lifeatcrisil

CRISIL
An S&P Global Company