Acuite
RATINGS & RESEARCH

MACRO PULSE REPORT

March 2022

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From the desk of the Chief Analytical Officer

It is our pleasure to bring you the **fifteenth** edition of **Acuité Macro Pulse (Mar-2022)** which also marks the end of the previous financial year. Our monthly publication on the state of the economy is not only a comprehensive commentary on a wide spectrum of macroeconomic indicators but it also endeavours to capture the interlinkages and draw insights on the emerging economic landscape.

As we stand at the starting point of another financial year, it is time to summarise the developments in FY22. It has been a mixed year, starting on a negative tone in the first quarter with the extensive impact of the second Covid wave particularly on the informal sector, from which it is yet to fully recover from. Subsequently, the intensity of the pandemic has progressively reduced over the next 2 quarters only to raise its head again for a brief period in the last quarter through Omicron. The economy is estimated to have grown by around 9.0% in the concluded year after a pandemic devastated FY21 when the real GDP saw a contraction by 6.6%. While the growth print for FY22 has been supported by the base factor, most of the high frequency macro-indicators recorded modest if not significant growth over the pre-pandemic FY20 which reflects the materiality of the economic revival in FY22. Unfortunately, the year ended again on a negative note with the pandemic headwinds getting replaced by geo-political headwinds. The conflict between Russia and Ukraine has continued for over a month and along with the increasing sanctions being imposed by the developed economies on Russia, is a clear threat to the global growth outlook for FY23.

Needless to say, the biggest elephant in the economy room is inflation. We have been talking about the increasing risks from inflation even before the breakout of the Russia-Ukraine conflict which has pulled up commodity prices further. Crude oil prices spiked to almost USD 140 pb in the midst of the crisis and continues to remain over USD 100 pb which is being passed on to the retail fuel prices in a gradual manner over the last 2 weeks. With headline CPI inflation already hovering over the MPC upper band of 6.0%, the print is set to harden over the next few months even assuming that food prices will remain benign. We have revised our inflation forecast significantly to 5.9% in FY23 based on an average crude price of USD 97 pb. RBI is also expected to revise its forecast and this may be followed by a reverse repo rate hike, change in the accommodative stance and finally a repo rate hike over the next few bi-monthly meetings. The liquidity calibration exercises through variable repo rate auctions have already led to the hardening of the short term interest rates and interestingly enough, some banks have also started to raise deposit rates. We are getting into an interest upturn cycle, sooner or later and the corporate sector needs to be prepared for at least a moderate increase in interest rates over the next 1-2 years.

Nevertheless, we expect GDP growth for FY23 at 7.5% amidst government's strong thrust on infrastructure segment, solid coverage on vaccination, moderate recovery in rural consumption and the full play out of pent-up demand although it is likely to be partly offset by higher than expected inflationary pressures. The optimism around the economy is also corroborated through the annual rating trends for FY22 which show that rating upgrades have exceeded downgrades by almost 3 times and this is captured in our **special article on Corporate Credit Quality**. Happy reading,

Suman Chowdhury
Chief Analytical Officer

Growth

Flagging off downside risks

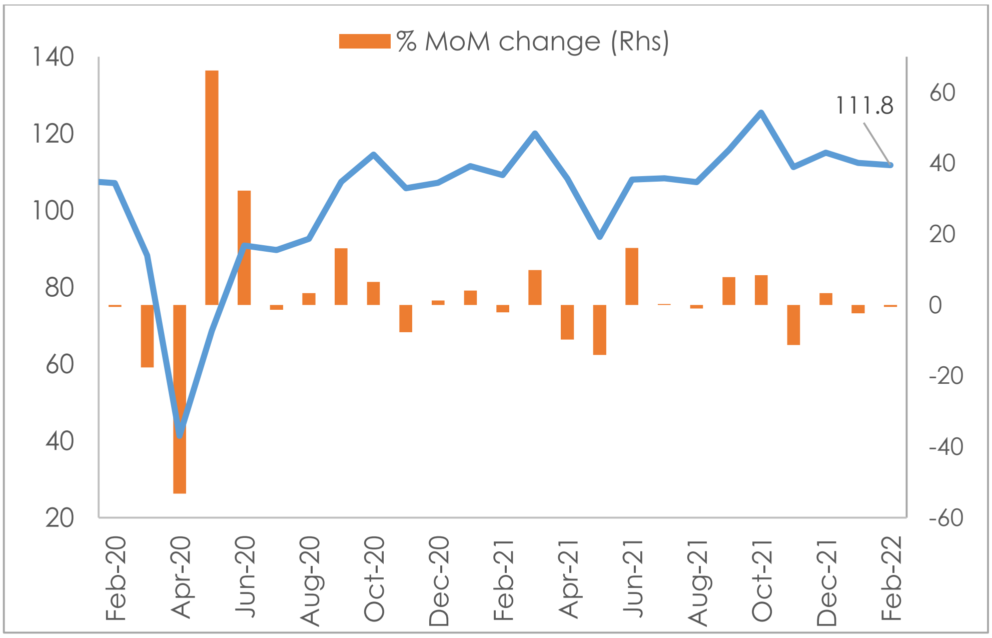
KEY TAKEAWAYS

- The Indian economy returned to path of recovery in Feb-22 after a brief setback in Jan-22 owing to the Omicron wave. Covid cases continued to decline well into the month of Mar-22, allowing scale back of nearly all restrictions at the state-level.
- Heading into FY23, the recovery is looking somewhat on a weaker footing owing to the outbreak of the Russia-Ukraine conflict. The geopolitical crisis has heightened the uncertainty, with crude and other commodity prices pushing to multi-year highs. This has clouded the domestic macroeconomic landscape.
- Amidst expectation of higher inflation and likely disruption to global trade and growth and the domestic recovery in private investment still somewhat tentative, we flag possible downside risks to our FY23 GDP growth of 7.5%.
- Unfolding geopolitics and its impact remain on close watch.

The Indian economy returned to a path of recovery in Feb-22 after a short setback in Jan-22 owing to the Omicron wave. While the third Covid wave was short lived in India the performance of certain economic indicators didn't witness a commensurate pickup Feb-22 as compared to Jan-22. This led to our proprietary **AMEP (Acuité Macroeconomic Performance) index** declining marginally by 0.5% MoM to 111.8 in Feb-22 from 112.4 in Jan-22. The sequential moderation needs to be seen, however also in the context of a lower number of working days in the month of February. Notably, with relatively lower severity of Omicron wave backed by the healthy vaccination coverage, the index on annualized basis expanded by 2.3% YoY in Feb-22 from 0.7% in Jan-22.

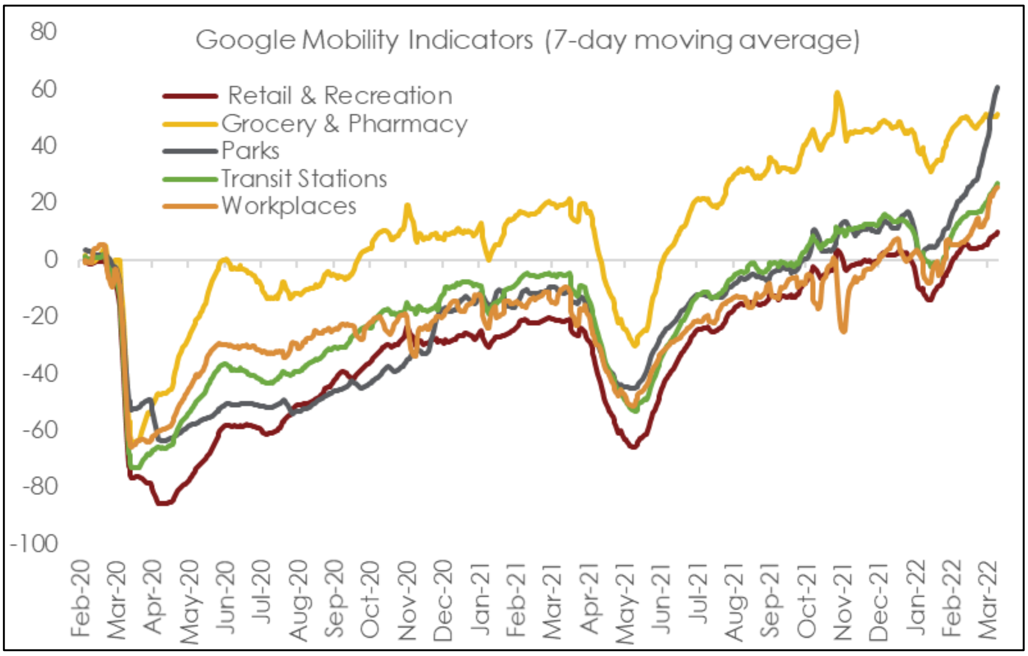
With decline in Covid cases most of the states have lifted nearly all restrictions with reopening of schools, allowing movie theaters and restaurants to operate at full capacity, along with other high contact services. This has led to a sharp rise in mobility for all sub-categories of retail and recreation, grocery and pharma, parks, workplaces, and transit stations to record levels since the outbreak of the pandemic.

Chart 1: AMEP index weighed down by lower number of working days in Feb-22



Heading into FY23, the recovery is looking somewhat on a weaker footing (than envisaged earlier) owing to the outbreak of Russia-Ukraine conflict. The geopolitical crisis has heightened uncertainty, with crude and other commodity prices pushing to multi-year highs. This has clouded the domestic macroeconomic landscape.

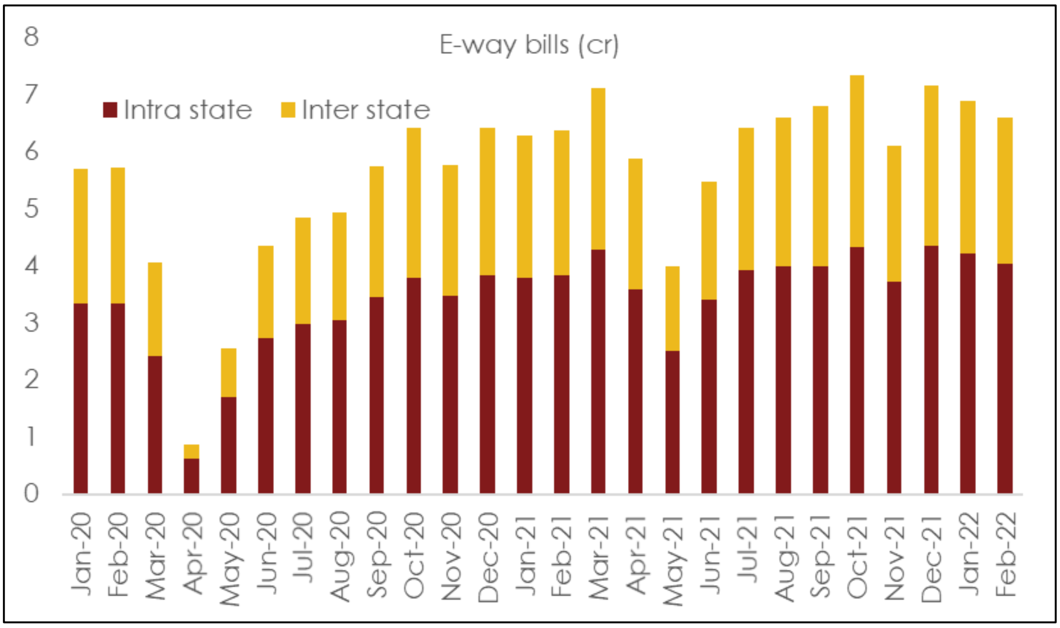
Chart 2: Google mobility, across sub-categories has risen to a record high in the post pandemic phase



Recent data releases: A granular look at recovery

- India's IIP growth rose marginally in Jan-22, in line with expectations to 1.3%YoY vs. an upwardly revised 0.7% (prior 0.4%) in Dec-21. In addition, on a positive note, sequentially the index remained unchanged vs. Dec-21 despite the month capturing nearly the full impact of the Omicron wave. This validates our view of COVID related restrictions being less severe on industry and export-oriented sectors amidst the third wave.
- PMI manufacturing eased slightly to 54.0 in Mar-22 from 54.9 in Feb-22 primarily due to geopolitical tensions which led inflationary concerns amongst the manufacturers to rise. On the other hand, PMI services rose to 53.6 in Mar-22 from 51.8 in Feb-22 led by a revival in the contact intensive services on the back of normalization of consumer mobility, uptick in new business orders and strengthening demand conditions. The improving demand was primarily from the domestic market.
- GST collections in Mar-22 rose to an all-time high of Rs 1.42 tn, translating into 15% YoY, on the back of rate rationalization and anti-evasion steps.
- Exports in Mar-22 touched a record high of USD 40.4 bn; with FY22 cumulative exports exceeding Government's FY22 target of USD 400 bn.
- Total number of E-way bills in Feb-22 remained buoyant at 66 mn, marginally lower than 69 mn in Jan-22.

Chart 3: E-way bills generated though eased marginally in Feb-22, remain resilient



Second advance estimate of GDP for FY22

As per NSO, the Indian economy is expected to clock a growth of 8.9% in FY22, revised lower by 30 bps vis-à-vis first advance estimate at 9.2%. The downward revision reflects the upward adjustment to FY21 GDP (i.e., the base) along with impact of Omicron wave. We believe that the impact of Omicron wave has been milder than envisaged earlier, but the Russia-Ukraine geopolitical situation has complicated the outlook.

Outlook

Omicron concerns have given way to geopolitical worries since late Feb-22. The invasion of Ukraine by Russia has sent commodity prices soaring including crude oil prices. The actual impact on macros (such as inflation, trade balance) and in particular growth will remain dependent on longevity and severity of tensions, via impact on -

- **Higher input costs**

  Input cost pressures have remained elevated over the past one year, with WPI inflation averaging at over 12.7%YoY over Apr-Feb FY22. The run-up in the commodity prices since Jan-22, runs the risk of reaccelerating producer prices which will exert pressure on profit margins and value add. As per our estimates, a rise in India crude basket to close to in the range of USD 90-95 pb on average in FY23, could push average CPI inflation close to 6.0% in the next fiscal year.

- **Trade channel disruption**

  While Russia and Ukraine both are relatively small trade partners for India, the ongoing conflict can adversely impact some sectors disproportionately such as Project goods, Paper and Printing, Vegetable oils, Defence Equipment, Chemicals etc., along with the possibility of extending ongoing supply disruptions for longer. Further, downside in global growth will adversely impact domestic exports in FY23.

- **Investment cycle**

The recovery in private investment cycle anticipated in H2 FY23 could turn somewhat tentative, owing to possible downside in domestic demand amidst lurking inflationary pressures from fuel price revisions.

Further, downside risks to growth have emerged from possible financial market volatility, as key global central banks normalize monetary policies at a faster pace amidst prevailing geopolitics fanning inflation pressures further.

Owing to these factors, we see mild downside risk to our FY22 and FY23 GDP growth forecast of 9.2% and 7.5%, both respectively. Having said so, we believe that weaker impact of Omicron, backloaded government spending in Mar-22, and year-end seasonality in economic activity, may limit the downside in growth in FY22. Validating this, direct tax collections are believed to have exceeded the budgeted RE for FY22 by Rs 1.13 tn.

Our base case growth forecast for FY23, rests on infrastructure spending highlighted in the Union Budget FY23, healthy progress on vaccination (~61% of population fully vaccinated) along with broadly accommodative monetary and fiscal policies. Geopolitics and its impact remain on close watch.

Inflation

FY23 trajectory reset

KEY TAKEAWAYS

- Both retail and wholesale inflation moved up mildly in Feb-22 to 6.07% YoY and 13.11% YoY respectively.
- CPI and WPI inflation in Feb-22 portray similar messages, that of gradually creeping annualized rate of inflation, powered by moderate to strong sequential momentum. It is not surprising that the sequential momentum is relatively higher in case of WPI vs. CPI, since the former captures input price of tradables better.
- Looking at FYTD CPI inflation run rate, we continue to stick to our FY22 forecast of 5.5%.
- For FY23, inflation drivers are likely to face considerable challenges from persistent hardening of input prices in an environment where the economy is unlocking post the Omicron wave and vaccination cover is gaining critical mass.
- We currently project FY23 CPI inflation at 5.9% assuming Brent price at USD 97 pb (average of monthly future prices for next 12 contracts).
- The balance of risk around our forecast is wider than usual as there is uncertainty with respect to the ongoing geopolitical conflict as well as domestic policy response.

The month of Feb-22 was testimony to firming of price pressure, as both, WPI and CPI inflation moved up mildly belying expectations of a marginal moderation.

CPI inflation: Headline exceeds upper end of policy target yet again

CPI inflation rose to 6.07%YoY in Feb-22, to mark the second consecutive reading of retail inflation coming in above the upper end of the inflation targeting band of 6.0%. The was driven by a positive monthly momentum of 0.24% MoM, reversing the contraction seen over the past two months.

CPI inflation: Key highlights

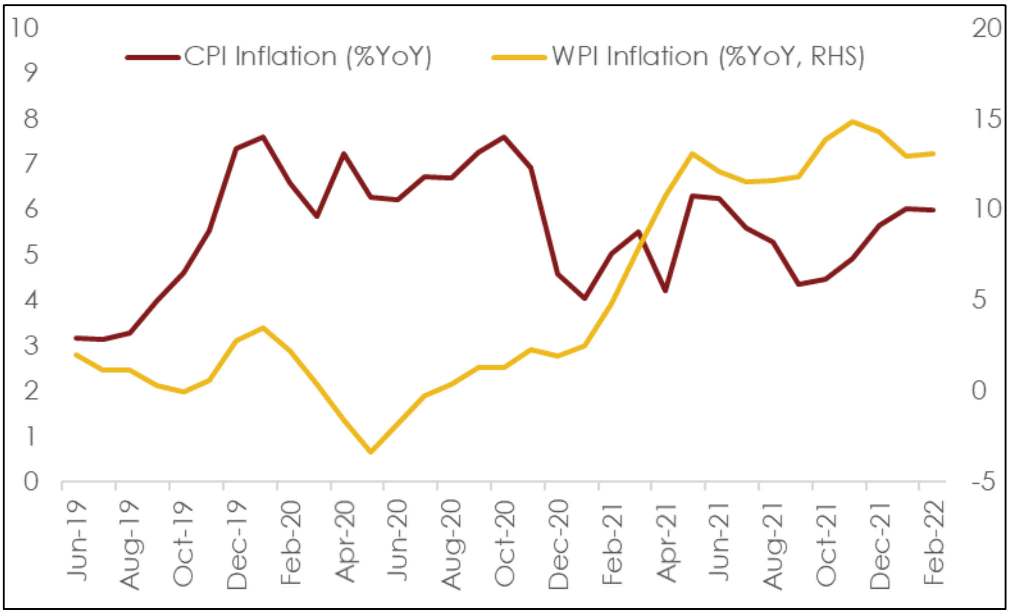
- Food and Beverages index posted its third consecutive decline, with Feb-22 sequential change of -0.12% MoM. The decline was led by Vegetables, Eggs, Sugar & Condiments among others. While the correction in food & beverages in last three months is predominantly seasonal in nature, its magnitude appears to be lower than usual.
- The index of Clothing & Footwear once again posted a strong momentum of 0.65% MoM. This not only reflects the impact of a hike in GST rate on footwear but is also reflective of producers passing on higher input and transportation costs amidst increased retail mobility and strengthened demand.
- Fuel and light index rose by a sharp 0.91% MoM – the strongest sequential expansion in 4-months. Price increase was predominantly led by sharp upward adjustment in case of Kerosene. Retail petrol and diesel prices continue to remain unchanged since Dec-21.
- Core inflation (i.e., CPI ex Food & Beverages and Fuel & Light indices) increased by 0.5% MoM in Feb-22 vs. 0.4% MoM in Jan-22. On annualized basis, core CPI inflation has averaged close to 6.0% in FY22 so far – the highest in eight years.

WPI inflation: Stays firm

WPI inflation too inched up mildly to 13.11% YoY in Feb-22 from 12.96% in Jan-22. Sequentially, the index rose by a strong 1.40% MoM compared to a sequential contraction of 0.28% each seen in the previous two months.

- Primary food prices rose by 1.09% MoM in Feb-22. Sequential contraction in food prices were more than offset by sharp increase in prices for crude petroleum & natural gas, non-food items, and minerals.
- Fuel & Power index jumped up by 4.35% MoM in Feb-22, led by higher price of ATF, Kerosene, Naphtha, Bitumen, Furnace Oil, along with petrol and diesel for industrial users. This reflects the partial impact of sharp jump in price of India Crude Basket to USD 93 pb in Feb-22 from an average level of USD 78 pb in Dec-21 and Jan-22.
- Core inflation (headline WPI excluding food & beverages and all forms of fuel items) rose to 11.25% YoY in Feb-22 from 10.66% in Jan-22. The monthly sequential momentum printed at a strong level of 1.02%. This is the 3rd instance of more than 1% MoM increase in core WPI inflation in FY22 so far and is reflective of elevated imported price pressures.

Chart 1: CPI and WPI inflation both record a mild rise in Feb-22



Outlook

Both CPI and WPI inflation in Feb-22 resonate similar messages, that of gradually creeping annualized rate of inflation, powered by moderate to strong sequential momentum. It is not surprising that the sequential momentum is relatively higher in case of WPI vis-à-vis CPI, since the former captures input price of tradables better and earlier.

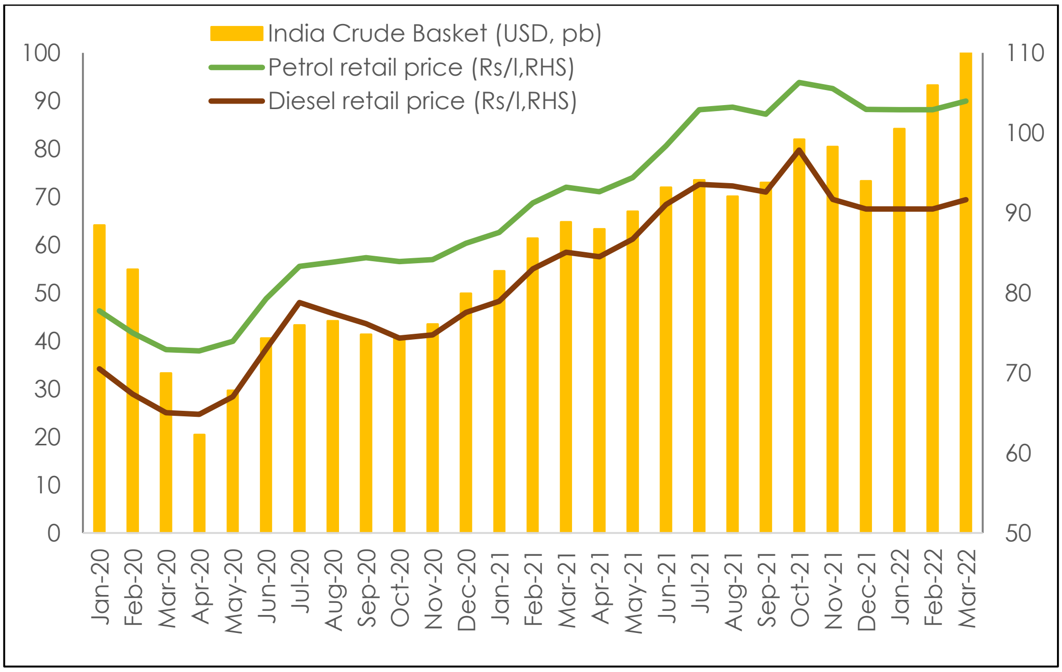
We continue to stick to our FY22 forecast of 5.5%. The decline in inflation from 6.2% in FY21, has primarily been a function of softer food prices (with third successive year of surplus monsoon), even though Fuel and Clothing & footwear sub-categories added to inflation pressures amidst reopening of economies (global and domestic respectively) in FY22.

For FY23, inflation drivers are likely to face considerable pressure from persistent hardening of input prices. What started as a supply side disruption (exacerbated by elevated transportation costs and aided by recovery in global demand) in major part of FY22, later gave way to a spike in geopolitical risk premium on account of the ongoing conflict between Russia and Ukraine. While heightened uncertainty on account of geopolitical risk has primarily impacted energy prices, there is considerable stress in case of few other commodities like fertilizers, select food items, semiconductors, precious and few industrial metals, etc.

For India, heightened pressure from commodity prices is coinciding with unlocking of the economy post Omicron wave while vaccination coverage continues to gain traction. As pent-up and organic demand take root, pass-through of elevated input costs could face lower hurdles.

As such, we now adjust our expectation of a moderation in FY23 CPI inflation by incorporating commodity price risks. For our estimate, we benchmark our expectation of FY23 average price of oil to the 12-month average of current Brent futures (at USD 97 pb). Taking the average sensitivity of 20 bps (of first order impact) on CPI inflation for every 10% change in oil price, we now project FY23 CPI inflation at 5.9% (considering the residual price adjustment over Dec-Mar FY22, second order impacts, and Rs 5 cut in excise duty by the central government). We acknowledge considerable uncertainty in projecting inflation due to high volatility in commodity prices, which in the current environment is taking cues from unpredictable geopolitical events. This widens the balance of risk around our forecast.

Chart 2: Increase in oil prices have begun to reflect in domestic retail fuel costs



Government Finances

FY22 fiscal deficit target likely to be met

KEY TAKEAWAYS

- India's central government's fiscal deficit for the period Apr-Feb stood at 82.7% of revised estimates (RE) for FY22 compared to 77.2% of actuals in the corresponding period of FY21.
- Although the central government projected a minor slippage of 0.1% of GDP in FY22 (with RE of fiscal deficit getting re-pegged at 6.9% of GDP vis-à-vis the initial budget estimate of 6.8%), incoming signals indicate a mixed fiscal position.
- While anticipation of a positive surprise in tax collection and favorable denominator support from upward revision to FY22 Nominal GDP are supportive, the deferment of LIC IPO to FY23 would create a shortfall in budgeted receipts for FY22.
- We expect the risks to broadly offset each other helping the government to stick to the revised fiscal deficit target of 6.9% of GDP in FY22.

India's central government fiscal deficit for the period Apr-Feb stood at 82.7% of revised estimates (RE) for FY22 compared to 77.2% of actuals in the corresponding period of FY21. The sharp rise in the fiscal deficit can be attributable to the disinvestment target which has fallen significantly short of expectation amidst deferment of LIP IPO. Taking into consideration the revised fiscal deficit target, the government has a fiscal deficit leeway to the tune of Rs 2745 bn for the remaining one month.

Receipts: Strong performance continues

Total receipts have been buoyed by robust tax as well as non-tax revenue accretion.

On FYTD basis (Apr-Feb), gross tax revenue collection clocked a robust growth of36.6% YoY compared to a contraction of 0.74% seen in the corresponding period in FY21. It's not just the annualized growth that looks better (which is strongly aided by a favourable statistical base) – in fact, gross tax revenue has already clocked 90.4% of RE for the full year (vs. 82.2% of actuals in the corresponding period in FY21), thereby concluding eleven months of the fiscal year on a strong note. Further, vis-à-vis 2-years ago period (to avoid the pandemic related statistical distortion), gross tax revenue still clocks a healthy growth of 35.6% during Apr-FebFY22 vs. the corresponding pre pandemic period in FY20.

- While strong momentum in tax collection is broad based, it is being powered by robust growth in corporate tax (reflecting healthy earnings performance) and customs (reflecting pickup in imports). We also note that total GST collections in the last five months have averaged above Rs 1.30 tn, with the month of Mar-22 recording record high collections of Rs 1.42 tn

Non-tax revenue too recorded a strong annualized growth of 101.1% YoY in Apr-Feb FY22 compared to a contraction of 41.4% seen during the corresponding period in FY21. Notwithstanding the favourable statistical base support, the key reason for robust performance under this category stems from a significantly higher than budgeted dividend from the RBI.

Meanwhile, non-debt capital receipts contracted by 15.3% YoY in Apr-Feb FY22 vs. -16.2% seen in the corresponding period in FY21. The month of Jan-22 saw Rs 27 bn revenue accretion from privatization of Air India. As of end Jan-22, the total revenue generation on account of disinvestment stood at Rs 135 bn compared to the downwardly revised estimate of Rs 650 bn.

Expenditure: Momentum gradually picking up

Expenditure disbursal failed to gather momentum in Feb-22 because of which the FYTD (Apr-Feb) run rate moderated to 11.5% YoY compared to 14.3% seen in the corresponding period in FY21. Nevertheless, on RE basis, this translates to 83.4% of the full year target vis-à-vis 80.3% (of actuals) seen in the corresponding period in FY21. Few observations:

- Headline revenue expenditure expanded at a slower pace of 10.2% YoY (83.9% of FY22 RE) during Apr-FebFY22 vis-à-vis an expansion of 11.7% (78.2% of FY21 actuals) seen in the corresponding period in FY21, bulk of the growth continues to be led by interest payments and subsidies. Excluding these, revenue expenditure stood at a subdued level of 7.9% YoY during Apr-Feb FY22 However, the pace of revenue could gather momentum in the month of Mar-22 to meet revised budget targets as well as extra budget expenses.

- The FYTD run rate for capex disbursals moderated to 19.7% YoY in FY22 (as of Feb) compared to 33.0% in the corresponding period in FY21. Disbursals until Feb-22 continue to be led by the Ministry of Road Transport and Highways. Since utilization of capex budget is trailing at 80.5% of RE during Apr-Feb FY22 compared to 95.4% of full year actuals achieved in the corresponding period in FY21, there is, the government missing the revised capex target of Rs 6027 bn remains quite a possibility.

Outlook

Although the central government projected a minor slippage of 0.1% of GDP in FY22 (with RE of fiscal deficit getting re-pegged at 6.9% of GDP vis-à-vis the initial budget estimate of 6.8%), incoming signals indicate a mixed fiscal position.

On the positive front:

- Fortunately, the Omicron wave turned out to be relatively less severe for India, both from the perspective of lives as well as livelihood. As such, this is unlikely to have dented the strong momentum in tax collections. In fact, recent media commentary suggests likelihood of government exceeding its net tax collections vis-à-vis the RE (as of Mar 17^{th}, direct tax collections have been reported to exceed FY22 RE by Rs 1 tn).
- The NSO went for a substantial upward revision to its FY22 Nominal GDP. As such, the FY22 nominal growth is now projected at 19.4% vs. 17.6% estimated earlier. This will provide a favourable denominator support of 0.2% of GDP.

On the negative front, volatility in equity markets on account of ongoing geopolitical conflict between Russia and Ukraine and the normalization of monetary policy by the US Fed has led to a deferment of the budgeted LIC disinvestment in FY22. This would be tantamount to a shortfall of Rs 600-700 bn. While a setback indeed, but we believe it is temporary as the preparatory work done would help in expediting the IPO proceeding in FY23 as soon as market conditions stabilize. As far as the impact on FY22 fiscal position is concerned, the combination of an upside to tax collections (vis-à-vis RE), buffer provided by higher Nominal GDP, and some mild pruning of expenditure would help in sticking to the revised fiscal deficit target of 6.9% of GDP.

Having said so, the potential for a pleasant surprise to FY22 fiscal deficit outturn would now shift to FY23 as the LIC IPO would add an additional receipt of Rs 600-700 bn. Although it is early to conjecture on FY23 fiscal prospects, we can nevertheless conclude that this additional buffer from LIC IPO would be useful in mitigating the slippage risks from:

- likely cut in excise duty on petroleum products and some rationalization in select custom duties to share the burden of the sharp spike in global commodity prices.
- higher than budgeted subsidy bill, especially on account of fertilizers, which currently face supply as well as price disruption from the ongoing conflict between Russia and Ukraine.

Table1: FYTD (Apr-Feb) comparison of key drivers of fiscal deficit

Key Fiscal Variables (Cumulative Position as of Apr-Feb)				
	% FY Actual/Target		%YoY	
	FY21	FY22	FY21	FY22
Revenue Receipts	84.0	86.2	-0.5	30.7
Net Tax	85.4	83.9	9.1	21.8
Non-Tax	74.1	98.8	-41.4	101.1
Non-Debt Capital Receipts	74.3	36.3	-16.2	-15.3
Total Receipts	83.6	83.9	-1.1	29.3
Revenue Expenditure	78.2	83.9	11.69	10.16
Capital Expenditure	95.4	80.5	33.03	19.72
Total Expenditure	80.3	83.4	14.33	11.54
Fiscal Deficit	**77.2**	**82.7**	**-**	**-**

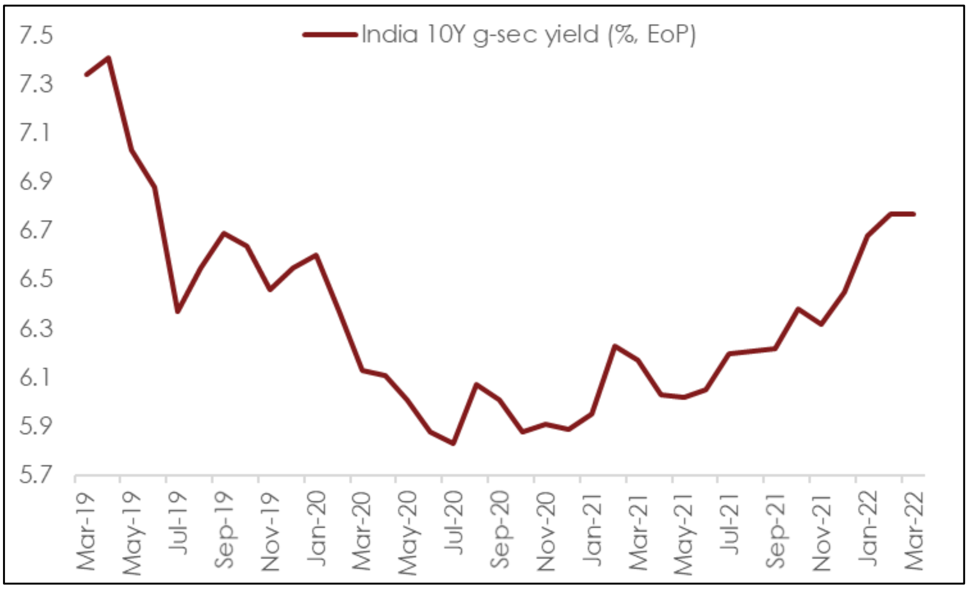
Rates

Global risks mount

KEY TAKEAWAYS

- India's 10Y g-sec yield hardened to 6.84% in Mar-22 from 6.77% in Feb-22.
- The surge in g-sec yields was primarily on account of the spike in international commodity prices amidst the ongoing geopolitical conflict between Russia and Ukraine.
- Although the crisis continues to remain unresolved, pressure on commodity prices appears to have abated somewhat despite the looming uncertainty.
- Elevated commodity prices are expected to fan inflationary pressures with CPI inflation projected at 5.9% in FY23, up from an expected 5.5% in FY22.
- Meanwhile, systemically important central banks have accelerated their monetary policy normalization with the US Fed and the BoE taking lead among DMs.
- However, due to fresh risk to growth amidst geopolitical unrest we expect the RBI to remain status-quo in the upcoming monetary policy. However, due to overwhelming risks to India's inflation outlook amid spurt in commodity prices along with tighter global financial conditions, we expect the central bank to revise its inflation forecast upwards and lay the ground for a gradual exit from their accommodative stance.
- We continue to expect 10Y g-sec yield to move towards 7.25% by Mar-23.

Chart 1: 10Y g-sec yield has exceeded pre-COVID levels despite unchanged monetary policy rates and stance



- **Surge in international commodity prices**
  The economic implication of the Russia-Ukraine conflict continues to evolve. For the global economy, the primary channel of impact is via disruption in trade volumes and the concomitant surge in commodity prices. After a brief phase of moderation over Nov-Dec 2021 on account of Omicron related uncertainty, international commodity prices started hardening since Jan-22 as Omicron's relatively milder economic impact supported demand for commodities. Even as this gradual trend was underway, commodity prices got a shot in the arm from Russia's invasion of Ukraine in the last week of Feb-22. In the month of Mar-22, the World Bank Commodity Price Index surged by ~48%, the highest on record. In particular, prices of crude oil, natural gas, metals, and certain food grains and fertilizers have soared amid disruptions caused by geopolitical uncertainty and economic sanctions stemming from the conflict.

- **Emergence of inflation risks**
  India's CPI inflation has remained above the upper end of the policy target band of 6% for two months in a row. Basis the trend seen in Jan-Feb, inflation in Q4 FY22 is currently tracking 6.1%, higher than RBI's projection of 5.7% provided in Feb-22 policy review. Going forward in FY23, inflation risks continue to remain tilted to the upside:
    - The surge in crude oil price (from an average Brent price of USD 75 pb in Dec-21 to USD 113 pb in Mar-22) offers a significant source of concern as the country imports close to 4/5th of its crude oil requirement. Empirical evidence suggests a 20 bps direct impact on CPI inflation for every 10% change in crude oil price. While that may appear moderate, the overall

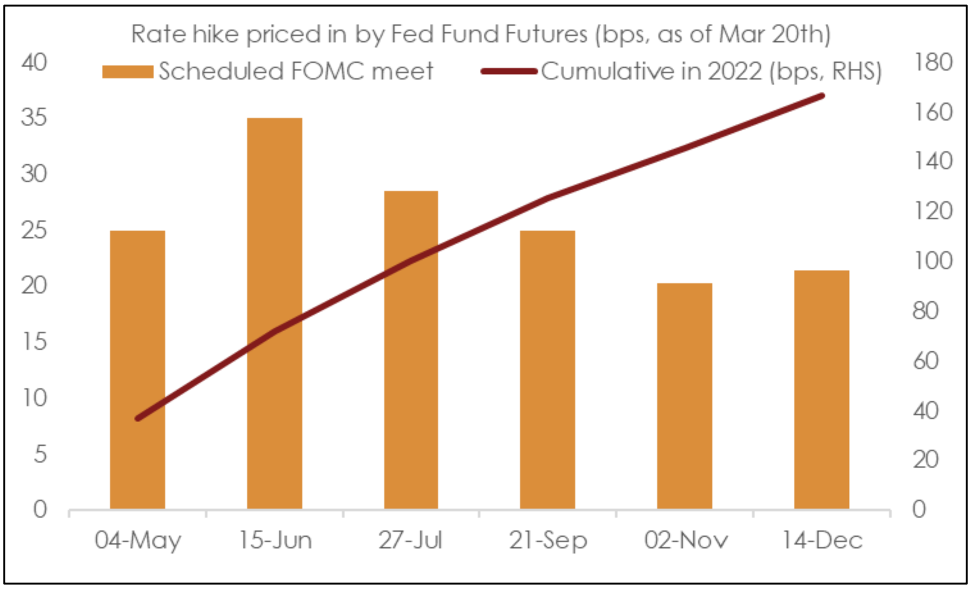
impact could be larger depending upon the second order impact at sectoral levels as well as the extent of pass-through. In addition, there is also likely to be attendant impact on food inflation from disruption in supply of sunflower oil, fertilizers, etc.

  - India has currently vaccinated ~60% of its total population with two doses of vaccine. Ongoing progress on this front coupled with recovery in personal mobility (to a new post COVID high in Mar-22 so far) will continue to support pent-up demand and could potentially keep core CPI inflation elevated.

- **FY23 Borrowing Pressure**
  To recall, the government in the FY23 Union Budget had announced a higher-than-expected gross g-sec borrowing of Rs 14.3 tn and net borrowing of Rs11.2 tn which had led to a significant upside pressure on bond yields. In the recently released borrowing calendar for H1 FY23, the government has targeted to borrow around 59% of total gross borrowings in H1 FY23. This implies a gross G-sec borrowing of Rs 8.45 tn while net borrowing will be at Rs 6.18 tn. Given the impact of heavy bond supply we expect the bond yields to gradually inch up from Apr-22.

- **The turn in global monetary policy**
  Central banks across many countries continue to scale back pandemic era extraordinary monetary accommodation. Among developed countries, the US Fed (with 25 bps hike) and the BoE (with 65 bps hike) are major central banks who have initiated their monetary policy normalization with an aim to start refocusing on inflation management. Meanwhile, several EM central banks appear to be ahead in terms of policy normalization, prompted by concerns on inflation and/or financial market stability.
  - Among key central banks tracked by the BIS who have seen rate action in the pandemic period, currently: i) 15 have their monetary policy rate below their pre pandemic levels, ii) 4 have their monetary policy rate at their pre pandemic level, and iii) 10 have their monetary policy rate above their pre pandemic levels.
  - Most importantly, the US FOMC is now projecting practically one rate hike every meeting in the rest of 2022, taking the projected cumulative rate hike in 2022 sharply up to 175 bps (vis-à-vis 75 bps projected in the previous meeting in Dec-21).

Chart 2: Market expects Fed to hike rates by 150 bps cumulatively in 2022



Outlook

Amidst the deleterious impact of the war, the RBI will be walking a tightrope on its monetary policy decisions, striving to control inflation within the tolerance band while at the same time supporting nascent growth impulses. In our opinion, given the deteriorating global growth outlook and its cascading impact on India's growth recovery, there remains a limited scope for the RBI to tighten monetary policy at the current juncture. However, due to overwhelming risks to India's inflation outlook amid spurt in commodity prices along with tighter global financial conditions, we expect the central bank to revise its inflation forecast upwards and lay the ground for a gradual exit from their accommodative stance. Going forward, we expect RBI to restore the width of the LAF corridor to its pre pandemic levels by hiking the reverse repo rate by 40 bps over Jun-Aug 2022 policy review, followed by a cumulative 50 bps hike in the repo rate in the rest of FY23. This should push 10Y g-sec yield to towards 7.25% by Mar-23 from 6.8% currently as supply pressures would dominate and the central bank might not be willing to deploy large scale OMO purchases as it did in FY21 and FY22 to infuse liquidity and support yields. Nevertheless, we do expect the RBI to partially curb the upside pressure on yields by conducting Operation Twist and providing temporary relaxation in regulatory dispensation of HTM holding for banks in FY23.

Rupee

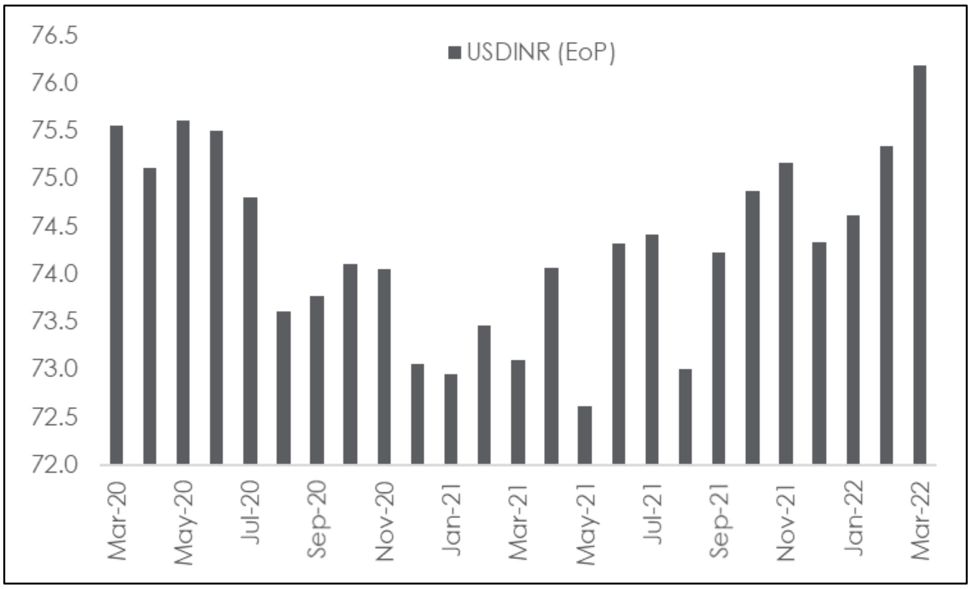
Mild weakness in store

KEY TAKEAWAYS

- The Indian rupee weakened for the third consecutive month in Mar-22.
- The dollar is likely to continue deriving support from aggressive pricing in of monetary policy normalization in the US along with geopolitical led risk aversion.
- The combination of elevated global commodity prices, sequential improvement in domestic growth (notwithstanding the temporary disruption from Omicron), and gradually increasing vaccination coverage is resulting in widening of trade and current account deficit for India.
- Portfolio outflow has picked up momentum with markets adjusting pricing of US monetary policy normalization and spike in commodity prices amidst ongoing geopolitical conflict between Russia and Ukraine.
- We expect India's current account deficit to widen to USD 85 bn in FY23 from USD 50 bn (with a mild upside risk) in FY22.
- We continue to expect rupee to depreciate moderately, and project USDINR pair to touch 78 levels before Mar-23.

The INR has been depreciating since the beginning of 2022. After weakening by 0.4% in Jan-22, the Indian rupee depreciated further by 1.0% in Feb-22, closing the month at a level of 75.34 vs. the US dollar. The currency pair has weakened further closing the month of Mar-22 at 75.78 close to our target of 76 for year end.

Chart 1: INR is currently trading close to its weakest levels



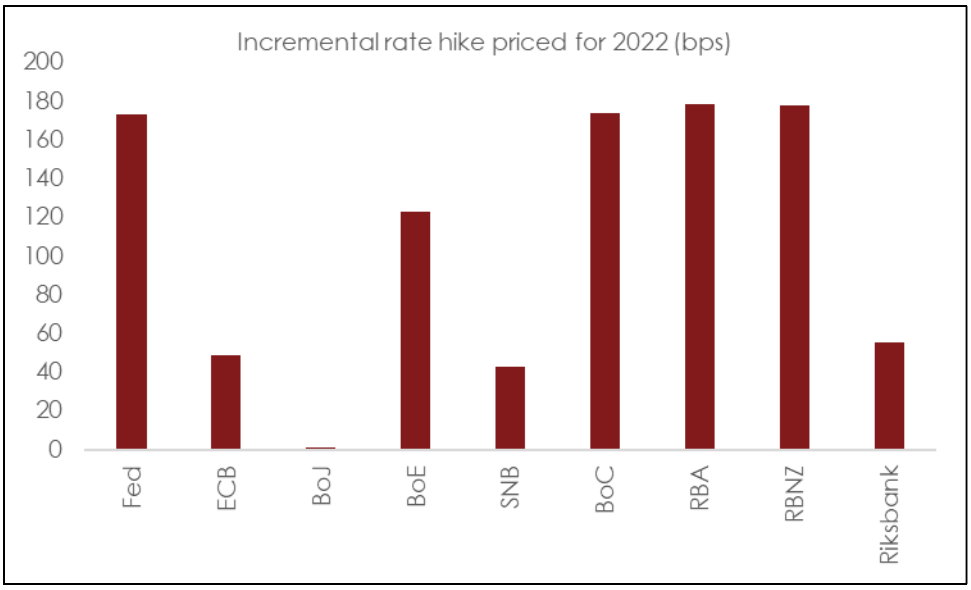
The overall narrative on rupee has remained broadly unchanged since the January edition of our "Acuité Macro Pulse" report. Global and domestic developments continue to point towards the likelihood of moderate weakness in INR. In fact, the pipeline factors for moderate rupee depreciation have strengthened in the last one month amidst the surge in global commodity prices amidst the ongoing geopolitical conflict between Russia and Ukraine.

On the global front, we continue to remain dollar bulls.

- Although not the first among DMs, high inflation finally prompted the US Fed to start scaling back exceptional monetary policy accommodation provided since the onset of the pandemic in Mar-20. The FOMC raised policy rate by 25 bps in Mar-22, joining its DM peers (BoE, BoC, RBNZ, and Norges Bank) in taking a formal step towards interest rate normalization. The turn in US monetary policy cycle is critical as
    - The Fed is likely to emerge as one of the most hawkish DM central banks in aggressively scaling back monetary accommodation. In the remaining months of 2022, the FOMC currently projects one rate hike every scheduled meeting, thereby taking the mid-point of the Fed Funds rate to 1.875% by Dec-22 from 0.375% currently. Since this will put the policy rate above its pre pandemic levels of 1.625%, the entire interest rate accommodation provided post COVID would then stand to get neutralized.
    - The Fed is also expected to start unwinding its balance sheet support from mid-2022 onwards. The beginning of quantitative tightening

(although likely to be at a gradual pace) will reinforce the message of monetary policy normalization and would provide a supplementary tailwind to the USD.

Chart 2: US monetary policy is likely to be one among the most aggressive in scaling back pandemic era accommodation



On the domestic front, the BoP comfort is expected to peter out completely amidst the commodity price shock from the ongoing conflict between Russia and Ukraine.

- Basis the surge in commodity prices since the last week of Feb-22, we now see a minor upside risk (of ~USD 2 bn) to our FY22 current account deficit forecast of USD 50 bn.
- For FY23, assuming an average price of Brent oil at USD 97 pb levels, we project current account deficit to widen to USD 85 bn. The expectation of widening of current account deficit not just rests upon the likelihood of elevated global commodity prices, but it also is contingent upon the following factors playing a role:
    - Unlocking of the economy post the Omicron wave will once again revive pent-up demand.
    - Improving vaccination cover (~60% of the population has so far received two doses) will limit future COVID led disruptions and also aid organic recovery, which continues to find support from accommodative monetary policy and capex focused fiscal policy.
    - While PLIs would start accreting to export buoyancy in a gradual manner from FY23 onwards, we also need to be cognizant of continued disruption due to COVID (of late there is resurgence in infections in South Korea, Vietnam, Japan, China, Germany, etc.).
- The pressure on trade deficit is increasing at a time when portfolio outflows have been persistent since Oct-21. Compared to a net FPI inflow of USD 4.3 bn in H1 FY22, H2 has so far seen a net outflow of USD 22.0 bn from Indian equity

and debt markets. Elevated domestic equity valuations, surge in global commodity prices on account of geopolitical conflict, aggressive normalization of US monetary policy, and lack of any firm commitment from the FY23 Union Budget with respect to India's inclusion in global bond indices could keep portfolio flows subdued in the near term.

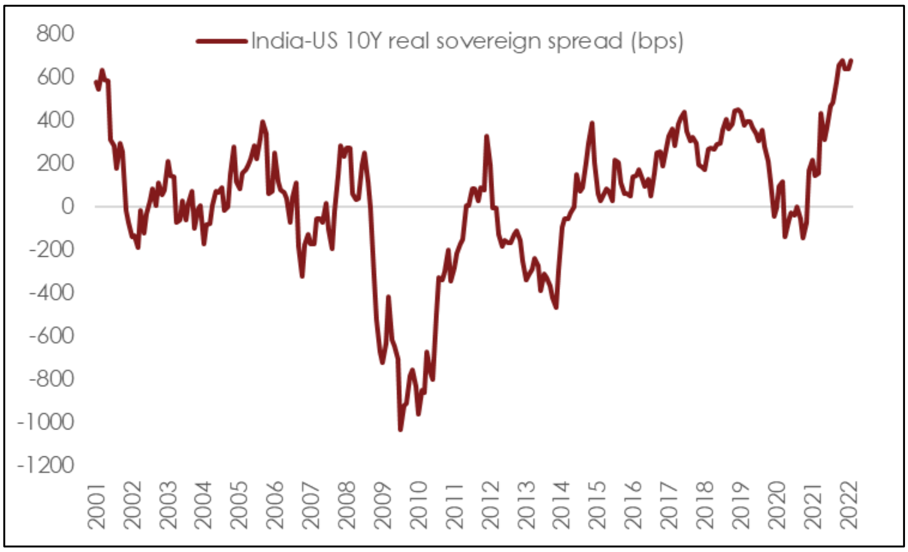
- As such, we expect FY23 BoP to register a moderate deficit to the tune of USD 8 bn.

Despite the buildup of depreciation bias, rupee appears to be broadly stable as:

- Improving medium-term outlook for India's economy and the urge to lock-in rates before significant interest rate hikes in US has been prompting high quality corporates to tap the international market for funding. Growth in foreign currency loans (via ECBs, FCCBs, and RDBs) accelerated to 31.3% YoY in Q3 FY22 from 13.0% in Q2. The strong momentum is likely to have continued in Q4 FY22.
- India's FX Reserves (including net forward reserves) appears comfortable at ~14 months of import cover, its highest in last 12-years. This provides the first line of defense against any excessive volatility.
- India's long term (10Y) sovereign real yield spread vis-à-vis the US has averaged over 650 bps in last 5-months, the highest in nearly two decades. With adequate FX Reserves helping to curb volatility, the risk-adjusted carry will continue to favor rupee, thereby providing partial insulation from aggressive rate hikes in the US.

As such, we expect a mild depreciation in rupee in FY23, with a move in USDINR towards 78 levels before Mar-23 from close to 76 levels by Mar-22.

<u>Chart 3: The real yield spread for INR over US is currently at a two-decade high</u>



Global Overview

A spring of uncertainty

KEY TAKEAWAYS

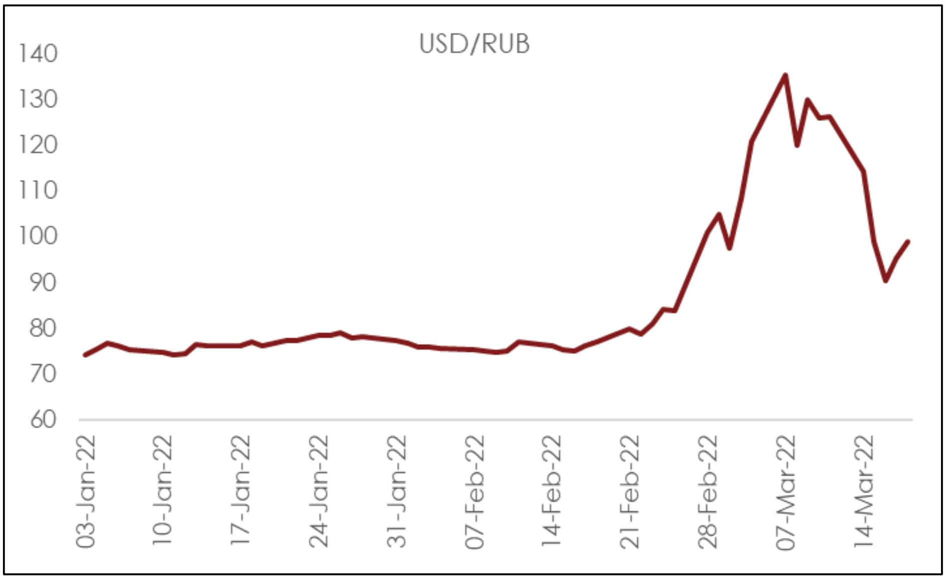
- At the global level, the Russia-Ukraine conflict continues to capture headlines. The lingering military confrontation now in its second month has been accompanied by some tentative 'peace talks', which though have remained inconclusive so far.
- What is more perceptible is that sanctions imposed on Russia are having an impact. Following the sanctions, the Russian Ruble has fallen precipitously (~30% vs. USD since Feb-22), with the central bank increasing its benchmark interest rate from 9.5% to 20%.
- Amid the ongoing uncertainty, global economy too is expected to bear the brunt of the ongoing geopolitical conflict. The OECD estimates global economic growth to be at least 1% lower this year, while inflation, already at elevated levels, could rise further by up to 2.5%.
- On Covid front, the number of new cases globally have begun to rise yet again, primarily led by Asia and Europe of which, China, Hong Kong, South Korea, Germany have seen a considerable rise in caseload. This remains on watch as an added downside risk.

Global overview

At global level, the Russia-Ukraine conflict continues to capture headlines. The continued military confrontation now in its second month has been accompanied by some tentative 'peace talks', which though have remained inconclusive so far. From an economic perspective, what is more perceptible is that sanctions imposed on Russia are having an impact. Recall, major western countries have over the last few weeks banned secondary trade in Russian government bonds, shut out Russia from the SWIFT payment system, banned exports of critical technology, along with sanctioning of the Central Bank of Russia (CBR). Following the sanctions, the Russian Ruble has fallen precipitously (~30% vs. USD since Feb-22), with the central bank increasing its benchmark interest rate from 9.5% to 20%. Russian financial markets remain closed to avoid capital outflows and the economy is on the brink of defaulting on its sovereign debt obligations. Credit rating agencies have already downgraded Russia's sovereign credit rating to reflect the high likelihood of default and have suggested that additional downgrades could be imminent. Russian president, Putin has acknowledged the impact of the sanctions, saying that it will lead to temporary rise in inflation and unemployment.

Global economy too is expected to bear the brunt of the ongoing geopolitical conflict. The OECD estimates global economic growth will be at least 1% lower this year, while inflation, already at elevated levels, could rise further by up to 2.5%. The International Monetary Fund (IMF) too has acknowledged that the conflict could fundamentally reshape the global economic order over the long term and will impact the entre global economy by slowing growth and jacking up inflation. As of Mar-22, World bank commodities index is up ~48% YoY, with price of crude, metals, food articles and fertilizers soaring to multi-year highs.

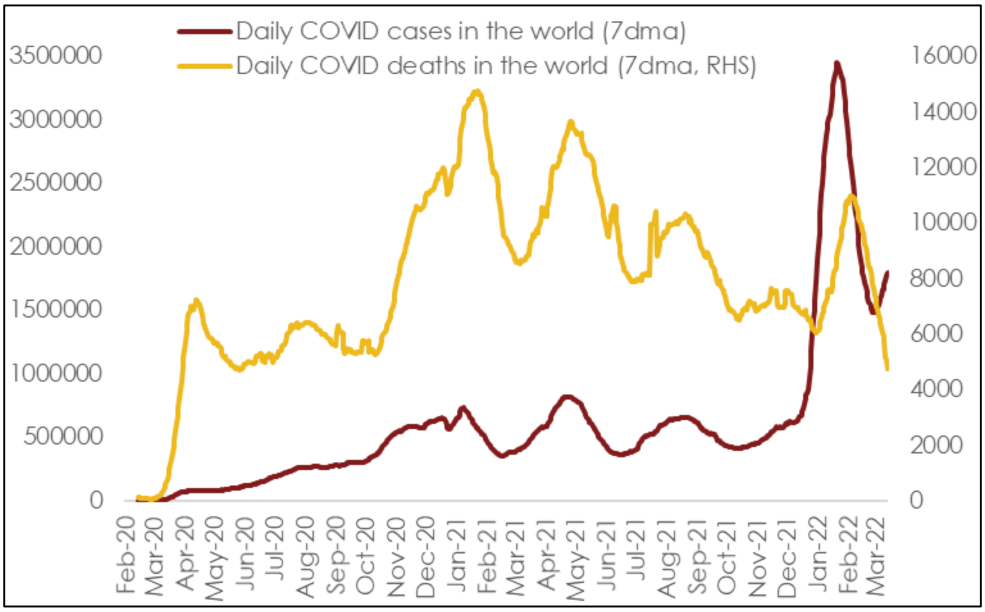
Chart 1: Ruble has faced sharp depreciation pressures



On the macroeconomic front, global manufacturing PMI for Mar-22 fell to an 18-month low of 53.0 from 53.7 in Feb-22 with Ukraine-Russia conflict and the recent lockdowns in China amidst resurgence in COVID cases creating a drag on global manufacturing activities. On the monetary policy front, hawkish sentiment has dominated key global central banks. European Central Bank (ECB) has announced an accelerated tapering of its bond purchase, along with Fed raising the policy rate in line with expectations by 25 bps for the first time since 2018. The BoE announced its third rate hike in this tightening cycle in Mar-22. The central bank actions reflect concerns on elevated inflation that is set to rise further in the aftermath of the Russia-Ukraine war.

On the COVID front, the number of new cases after falling through Feb-22, have seen a small increase in Mar-22 at the global level. On geographical basis, cases continue to decline in South America, Africa, along with North America. Europe and Asia have seen an increase in caseload led by China, Hong Kong, South Korea in Asia. Meanwhile, it is comforting to note that, ~64% of world's population has received at least one dose of COVID-19 vaccine and despite cases rising of late, accompanying deaths remain low.

Chart 2: COVID cases are seeing a rise yet again, led by Asia and Europe



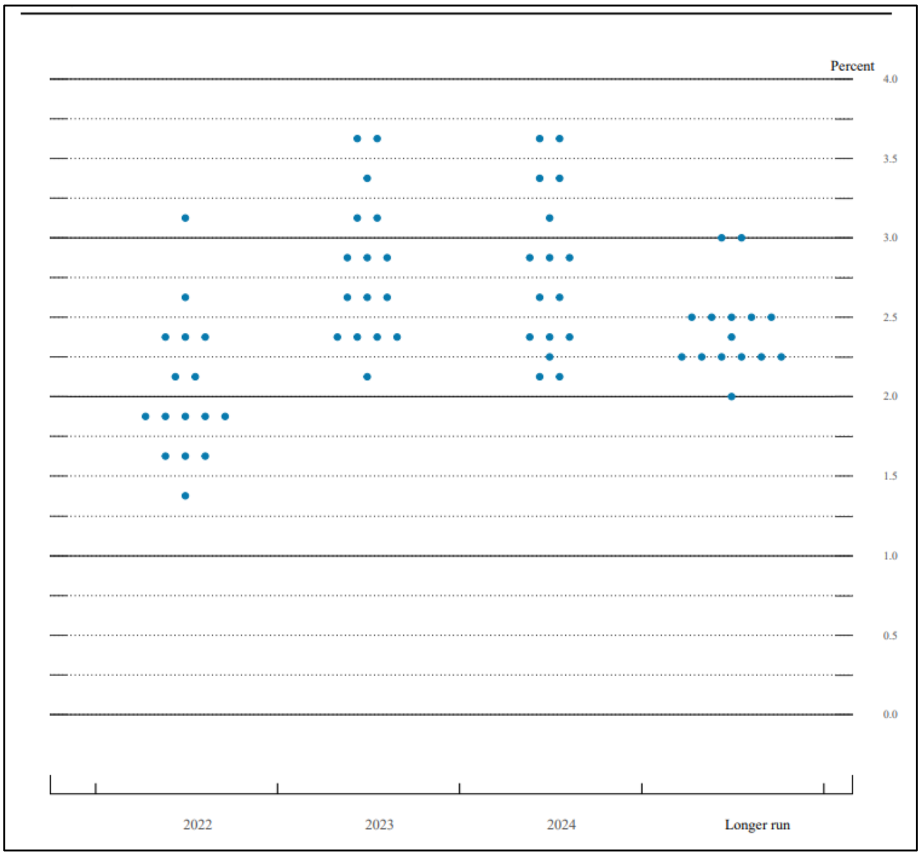
US

For the US economy, Mar-22 FOMC was a much-awaited event. True to expectations, Federal Reserve raised interest rates by 25 bps for the first time since 2018. Updated Fed forecasts released alongside suggest an aggressive pace of policy tightening in 2022 and 2023. As per the dot plot, median FOMC members now expect a total of seven rate hikes this year, and a further four rate hikes next year. Alongside new rates projections, the Committee downgraded its 2022 growth forecast relative to Dec-21 projections to 2.8% from 4.0% which Chair Powell attributed largely to the impact of the Russia-Ukraine conflict. It also upped its PCE inflation forecast for 2022, to 4.3% from 2.6%, and signalled increased concern about the medium-term inflation outlook by also raising forecasts for 2023 (+0.4pp to 2.7%) and 2024 (+0.2% to 2.3%). With inflation continuing to rise, labour market remaining tight and the recent Russia's invasion to Ukraine adding further pressure to supply chains and commodity prices, Fed officials clearly appear more concerned about price stability (than growth). Further, minutes of the Federal Reserve's March meeting showed that many officials favoured a 50 bps rate hike in the next meeting. Participants also generally agreed to cut USD 95 bn per month from asset holdings (USD 60 bn in treasuries and USD 35 bn in mortgage-backed securities with the amounts phased in over three months or slightly longer) which could likely begin in May-22.

Among the incoming macro data, retail sales continued to remain resilient. For Feb-22, sales rose by 0.3%MoM accompanied by sharp upward revision to already strong increase in Jan-22 (revised up 1.1% to 4.9%MoM). Gains were led by higher sales at gasoline stations followed by bars and restaurants. In addition, industrial production increased by 0.5%MoM in Feb-22, with manufacturing output posting a strong gain at 1.2% sequentially. Gains were led by sub-industries of Primary and fabricated metals, Non-metallic minerals, wood products among others. In line with expectations, annualised CPI inflation jumped to 7.9% in Feb-22 from 7.5% in Jan-22, on the back of 00.8%MoM jump led by higher gasoline, food and shelter costs. With this, inflation continues to remain at a four-decade high, with the recent Ukraine-Russia crisis threatening to add to cost pressures further.

Amidst the evolving economic scenario, Fed Governor Powell in his recent commentary sounded optimistic, saying that "*all signs are that this is a strong economy, one that will be able to flourish*" despite a less accommodative monetary policy.

<u>Chart 3: Fed's Mar-22 dot plot indicates indicates a total of 7 rate hikes in 2022</u>



EUROZONE

Like for most other regions, it was monetary policy that captured centre stage for the Eurozone as well in Mar-22. The ECB surprised markets as it announced an accelerated tapering of its bond purchases despite uncertainty owing to Russia-Ukraine conflict. To be sure markets were anticipating the ECB to taper given increased risks of stagflation, but the thought of beginning to normalize amidst high global uncertainty had kept the market participants guessing.

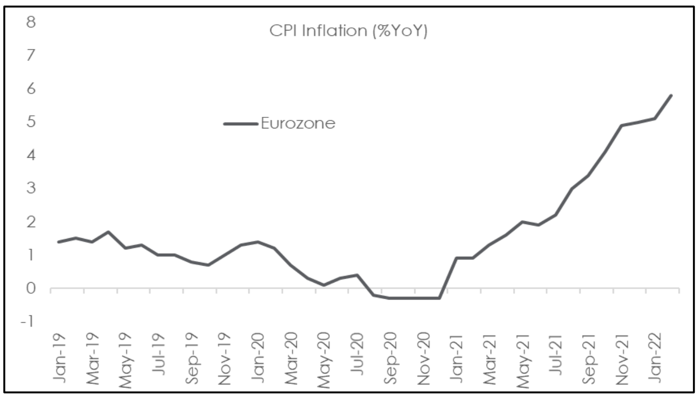
Key highlights of ECB announcement were –

- The benchmark interest rates were left unchanged, including a status quo on Deposit Rate at -0.50%.
- Confirmed the completion of Pandemic Emergency Purchase Programme (PEPP) this month.
- Accelerated the pace of tapering under its Asset Purchase Programme (APP). The ECB signalled net APP purchases of EUR 40 bn for Apr-22, EUR 30 bn for May-22, and EUR 20 bn for Jun-22.
- The ECB also indicated that it stands ready to revise its schedule for purchases, which in some sense is an acknowledgement of Ukraine-related uncertainty.
- The central bank also removed a pledge to maintain its policy interest rates at current or lower levels. However, the ECB confirmed that adjustments to key ECB interest rates will occur "*some time after the end of net asset purchases, and will be gradual*", in contrast to its prior pledge to begin raising interest rates shortly after it ends the asset purchase programme.

In terms of its economic projections, the ECB raised its 2022 CPI inflation forecast to 5.1% vs. 3.2% earlier. In contrast, GDP growth projection for 2022 was lowered to 3.7% from 4.2% previously, reflecting the impact of Ukraine-Russia war.

Recent data from the region continues to reflect weakness owing to Omicron wave and the war more recently. Germany's widely tracked ZEW expectations index plummeted in Mar-22, falling to -39.3 from +54.3 in Feb-22. The current conditions index too declined to -24.1 from -8.1 in Feb-22, reinforcing the possibility of GDP growth slipping into a contraction. Reflecting impact of Omicron wave, industrial production was flat for the region in Jan-22, compared to an expansion of 1.3% in Dec-21. CPI inflation for the region increased to 5.8%YoY in Feb-22 from 5.1% in Jan-22, on the back of energy prices along with higher food and transport costs.

Chart 4: Upside risks to elevated inflation led ECB to taper its bond purchases sooner



UK

The Bank of England (BoE) raised interest rates by another 25 bps, taking its policy rate to 0.75%. The Committee voted 8-1 in favour of the hike with one member opting for no change. In comparison, in the Feb-22 meeting, four members had voted in favour of a 50 bps hike. As such, while the decision to raise rates was though largely expected, but the change in voting pattern is being seen as relatively dovish stance. Unsurprisingly, the softer stance of the central bank appears to have been driven by the Russia-Ukraine war, which is likely to escalate inflation pressures further. On the front of policy guidance, policymakers did not outrightly commit to raising interest rates further but said that only "some modest further tightening in monetary policy may be appropriate". As a consequence, market participants are pencilling in a fourth hike in May-22, followed by a pause thereafter.

On the macroeconomic front, GDP for the month of Jan-22 jumped by 0.8%MoM, beating market expectations and reversing the 0.2% contraction recorded in Dec-22. Services sector activity rose 0.8%, led by wholesale and retail activity, accommodation and food services among others. In other data, industrial output rose 0.7%MoM in Jan-22 vs. 0.3% in Feb-22 led by manufacturing sub-sector with services too gathering steam as validated by PMI services index soaring to 60.5 in Feb-22 from 54.1 in Jan-22; the highest pace of increase since Jun-21. As such, data up to Feb-22 has been broadly encouraging, but it does not capture the war impact. UK economic outlook heading further in 2022 remains somewhat uncertain with higher energy prices likely to weigh on consumer purchasing power and with uncertainties surrounding the geopolitical conflict.

CHINA

Recent economic data published for China reflects combined activity for the months of Jan-22 and Feb-22 owing to the Lunar New Year period. The data overall suggests stronger than anticipated activity in the economy. Looking at specifics, industrial production rose by 7.5%YoY (consensus: 4.0%) led by hi-tech manufacturing. Retail sales expanded by 6.7%YoY with consumption of both goods and services faring stronger. China's Caixin's PMI survey too showed a stronger output, as it rose above the threshold of 50 in Feb-22, coming in at 50.4 compared to 49.1 previously.

The Jan-Feb-22 economic performance indicates that targeted easing of monetary policy and fiscal support has started to reflect in improving economic data. Having said so, downside risks remain on the table from the Ukraine-Russia conflict weighing on global growth in general and on China's key trade partners, along with accompanying surge in commodity prices and the recent flare up in COVID cases. Daily cases in China have risen to the highest level in nearly 2-years. The zero tolerance on COVID has led to reimposition of localised lockdowns in several cities including the technology port-centre of Shenzhen, which is likely to prolong supply disruptions.

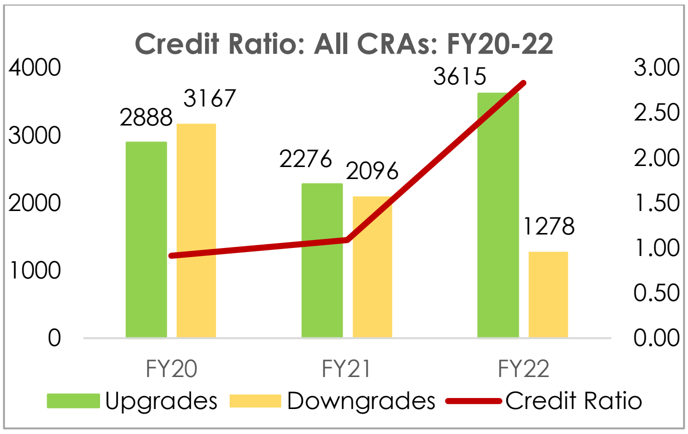
From a policy perspective, among the evolving growth-inflation drivers, China is likely to continue with piecemeal easing of monetary and fiscal policy, as well as cautious relaxation of macroprudential standards including for real estate sector. This policy support will remain critical to achieve this year's annualised growth target of 5.5% (the lowest growth in 30 years) – as announced at the annual National People's Congress recently.

Corporate Credit Quality: FY22

Sharp recovery in corporate credit quality

Expectation of complete normalization of economic activities drive rating upgrades

Acuité has undertaken a comprehensive analysis of the CRA industry rating migration data for FY22. Clearly, there is a very significant recovery in the [1]Credit Ratio (CR) of the industry to 2.83x in FY22 from 1.09x in FY21 and 0.91x in FY20 i.e. the pre-pandemic year respectively.

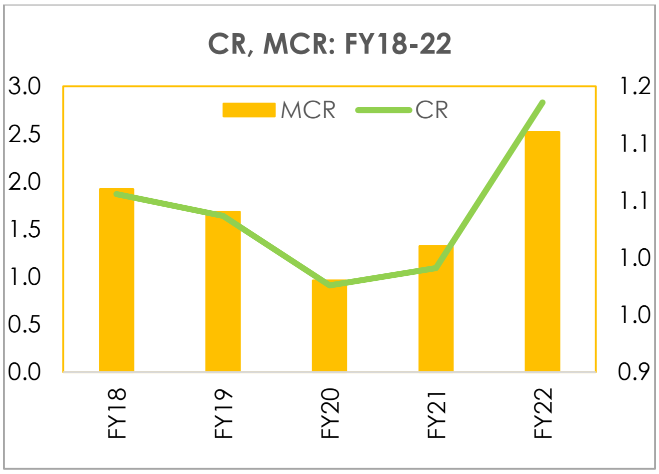


All CRAs	FY20	FY21	FY22
Upgrades	2888	2276	3615
Downgrades	3167	2096	1278
Credit Ratio	**0.91**	**1.09**	**2.83**

Source: Prime-Acuité Rating Migration Database

The number of upgrades have climbed up sharply by 58.8% in the previous year vis-à-vis FY21 while the downgrades have reduced by 39%. Further, as compared to the pre-pandemic FY20, upgrades have increased by 25.2% while downgrades have more than halved from those levels.

[1] CR is the ratio of upgrades to downgrades in a given period, non-cooperative issuers excluded



	FY18	FY19	FY20	FY21	FY22
CR	1.87	1.64	0.91	1.09	2.83
MCR	1.06	1.04	0.98	1.01	1.11

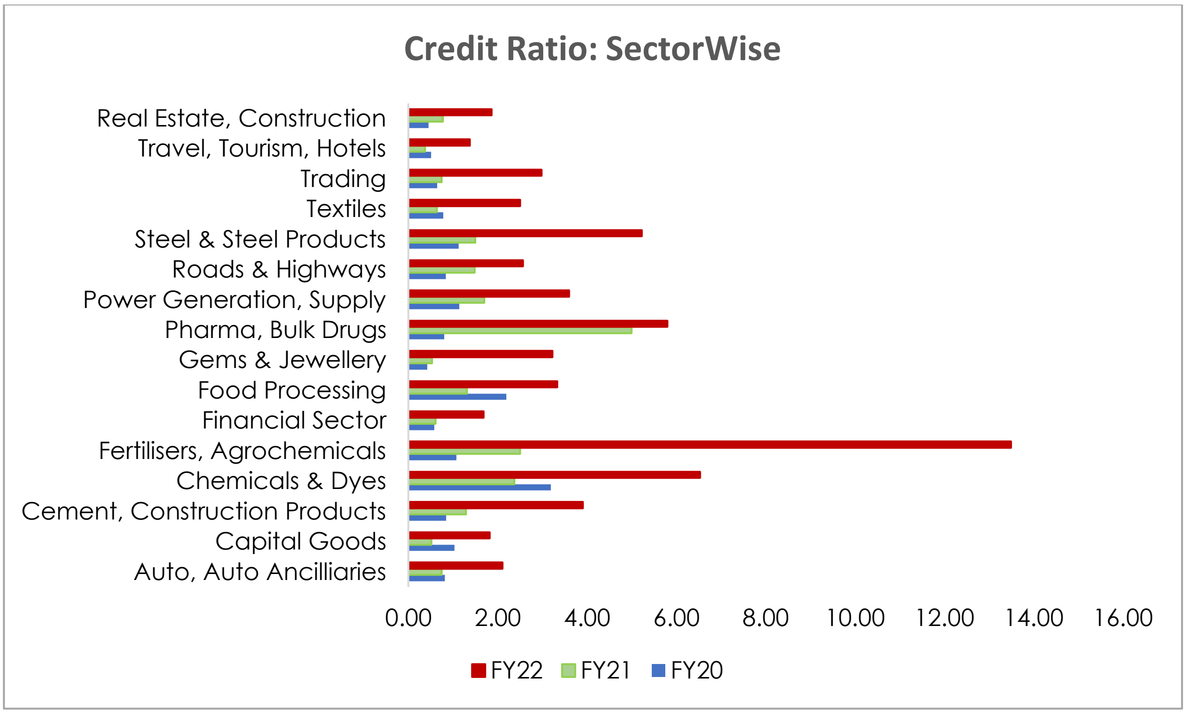
Source: Prime-Acuité Rating Migration Database

We have also looked at a longer time horizon since FY18 and analysed the movement of both Credit Ratio (CR) and [2]Modified Credit Ratio (MCR). While the volatility in the MCR is far less than the CR given the stability provided by addition of the reaffirmation cases, the trajectory in both the ratios reflect (i) initially, the slowdown in the economy since FY19 (ii) the prolonged Covid pandemic starting from the last quarter of FY20 which led to a severe economic disruption through lockdowns and a significant contraction in GDP in FY21 and (iii) the subsequent economic recovery that has been shaping up since Q2FY22. The downgrades during Q1FY21-QFY22 had taken into account the actual or expected deterioration in the liquidity position and a severe impact on the business position of the rated entities in the wake of the prolonged pandemic and the severe lockdowns across India.

The sharp upsurge in the Credit Ratio in FY22 which is a record high over the last ten years can be explained by the following:

- A resilient corporate performance in FY21-FY22 in a significant part of the manufacturing sector including lower debt levels vis-à-vis the apprehensions in the early part of the pandemic
- With healthy progress in vaccination and gradually declining risks of future waves of the pandemic, private consumption demand is expected to revive from H1FY23 and the ratings have started to factor in such a scenario
- Significant number of monetary policy measures taken by RBI since the outbreak of Covid which has helped the corporate and the financial sector to meet their funding requirements and stabilise their liquidity position
- Various relief measures announced by the Government of India importantly, the Emergency Credit Line Guarantee Scheme (ECLGS) and its further extensions which enabled banks to disburse additional funds to borrowers facing a working capital crunch
- Buoyancy in the export sector since H2FY21 which have partly offset the weak demand in the domestic sector

[2] MCR is the ratio of upgrades and reaffirmations to downgrades and reaffirmations



The credit ratio across the various sectors highlights the following aspects:

- In all the major sectors, upgrades exceeded downgrades by a significant margin, reflecting the expectation of a strong economic recovery over the medium term. Some of the downgrades effected earlier due to the pandemic impact, have been subsequently reversed and this is also captured in the enhanced credit ratio.
- There is a distinct recovery in the core infrastructure sectors with the focus on higher infrastructure investments leading to higher demand scenario in steel, cement, and power.
- With the removal of lockdown restrictions, the road sector has also started to see a recovery both in terms of project completion and toll collection.
- There is also a significant revival in sectors such as auto, gems and jewellery and textiles with expectation of a pent up demand.
- Few sectors such as chemicals, pharma and fertilisers were not only resilient to the economic disruption caused by the Covid pandemic but their business and financial position have strengthened over the last one year
- The improving credit ratio in the financial sector reflects a significant moderation in concerns on asset quality deterioration with improving monthly collections in the retail has also and the MSME loan portfolios. The liquidity for most NBFCs has also seen a distinct improvement, given the monetary and the fiscal support measures.
- The travel and the hospitality sector had been severely impacted during the pandemic as observed from the particularly low credit ratio in FY21 but with the declining intensity of the pandemic and the associated lockdowns, the prospects of these contact intensive sectors have improved, reflecting in higher pace of upgrades from H2FY22.

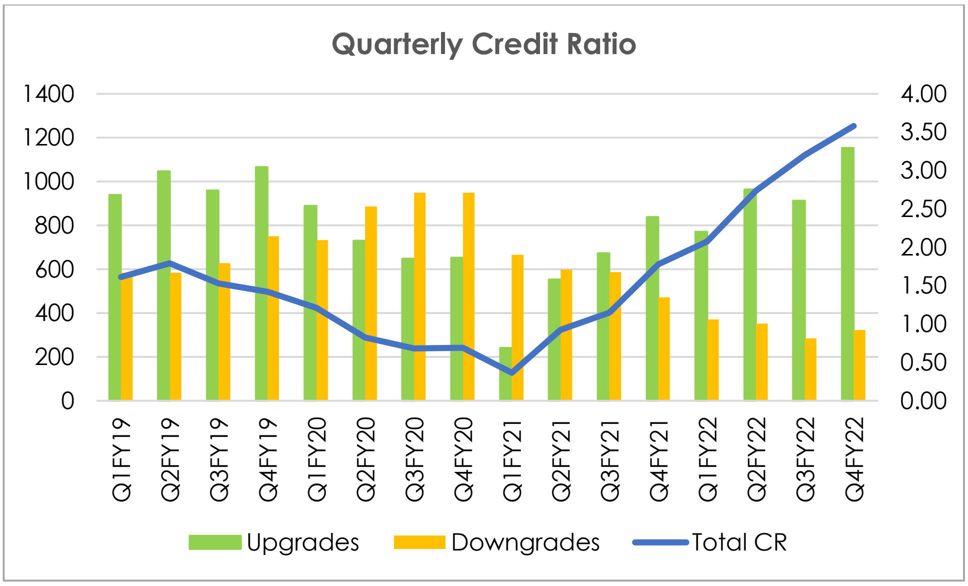
- There also appears to be an uptick in the capital goods sector due to a gradual pickup in both public and private sector capital expenditure from FY22 as well as due to the buoyancy in exports.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research, "The sharp and broad based improvement in the credit ratio in FY22 was not really surprising given the visible domestic economic recovery particularly after the disastrous second pandemic wave in Apr-May'22. With limited impact of the Omicron wave, the operating environment for the contact intensive sectors have also seen a healthy revival in Q4FY22. We expect the momentum of upgrades to continue in FY23 amidst government's strong thrust on infrastructure segment, solid coverage on vaccination, moderate recovery in rural consumption and the full play out of pent-up demand. However, a moderation of the record high credit ratio is on the cards with the headwinds from the Russia-Ukraine crisis, the high crude oil prices and higher than expected inflationary pressures which are likely to have an impact on the operating margins in the corporate sector."

Annexure

Sector-Wise Credit Ratio	FY20	FY21	FY22
Auto, Auto Ancillaries	0.81	0.75	2.11
Capital Goods	1.03	0.52	1.82
Cement, Construction Products	0.84	1.29	3.91
Chemicals & Dyes	3.19	2.38	6.53
Fertilisers, Agrochemicals	1.07	2.50	13.50
Financial Sector	0.57	0.61	1.68
Food Processing	2.19	1.31	3.33
Gems & Jewellery	0.42	0.53	3.22
Pharma, Bulk Drugs	0.80	5.00	5.80
Power Generation, Supply	1.14	1.70	3.60
Roads & Highways	0.83	1.48	2.56
Steel & Steel Products	1.12	1.50	5.23
Textiles	0.78	0.64	2.50
Trading	0.64	0.74	2.98
Travel, Tourism, Hotels	0.51	0.37	1.37
Real Estate, Construction	0.45	0.77	1.86

Source: Prime-Acuité Rating Migration Database



About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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