

Floods to have a significant impact on the Kerala economy

Impact: Negative (Economic Sentiment); Negative (Fiscal Deficit)

Brief: The monsoon induced floods lashing Kerala for the last ten days has had severe repercussion on the state economy. Our initial analysis reveals that 2.2% of the state's annual GDP has been already impacted. Without Central Grants-in-Aid, the state Fiscal Deficit may exceed 5% this FY

Acuité Ratings believe that the catastrophic floods that lashed Kerala in August will have a significant impact on the economy of the state. The intense and incessant spate of rainfall for a period of over ten days may lead to a GSDP loss of nearly Rs. 10,800 Cr as per an analysis undertaken by Acuité. This may further lead to a sharp increase in the state fiscal deficit to over 5.0% in FY19 as compared to an estimate of 3.2% in FY18 which may only get partly offset by the grants-in-aid from the Central Government and other sources.

The key sectors in the Kerala economy are the tourism and the agro based industries which are expected to suffer severe losses given the damage to infrastructure assets and the local crop or plantations. The hospitality and the tourism sector is estimated to account for around 25% of the GSDP and may witness an impact in the current year through a likely drop in tourist flows and the loss in property due to the floods. The agro based and the plantation industries such as rubber, tea, paper, textiles, food processing etc. are likely to suffer aggregate losses of over 1200 Cr.

Acuité also believes that there will be a significant impact on the financial services sector in the state. The retail lending portfolio of the banks and the NBFCs may witness some deterioration in the asset quality given the loss of employment and livelihood in certain areas. The SME portfolio of the lenders are also expected to be impacted particularly that portion that is linked to the hospitality and the agro-based sectors. Acuité estimates an increase of up to 2.0%-2.5% in the NPA levels of the retail and the SME portfolio of banks and NBFCs operating in the state over the near term. This may further slowdown the growth of bank credit and disbursements in the state further impacting the growth in GSDP.

The scale of the calamity will expectedly, have an impact on the state finances and Acuité estimates the state fiscal deficit to reach up to 5.4% in FY19 from 3.3% in FY18. This will be both due to the impact on state GSDP and the likely rise in state borrowings to finance the reconstruction activities in the infrastructure sector such as roads. In Acuité's opinion, this will also put a brake on the fiscal consolidation efforts and the planned reduction of 20 bps in the fiscal deficit in FY19. However, these fiscal estimates are yet to

Acuité Ratings & Research Limited

(Erstwhile SMERA Ratings Limited)

CIN: U74999MH2005PLC155683

102, Sumer Plaza, Marol Maroshi Road, Marol, Andheri (East), Mumbai – 400059

Board: +91 22 67141111 | SMS: +91 9969898000 | www.acuite.in

take into account any significant Central Government support in terms of Grants-in-Aid and other contingency funding. Kerala may also benefit from other sources of funding like grants from other states and higher remittances from abroad particularly the Middle-East. It is encouraging to note that the nation has taken note of the seriousness of the calamity in Kerala and support is pouring in from both various quarters apart from the Central Government. This may help to expedite the reconstruction and the recovery efforts of the State Government and bring the economy back on track in FY20.

Sector	Notional loss incurred due to flood (In Rs. Crore)
Hotels & shopping complex	161.5
Agro Based Industries	1216.5
Mining & Quarrying	75.4
Hospitals	161.5
Financial Services	549.1
Road Transport	656.7
Real Estate Ownership	1725.7

Source: Acuite Ratings and Research

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