

# India outlook, fiscal 2022



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# 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

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# 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.

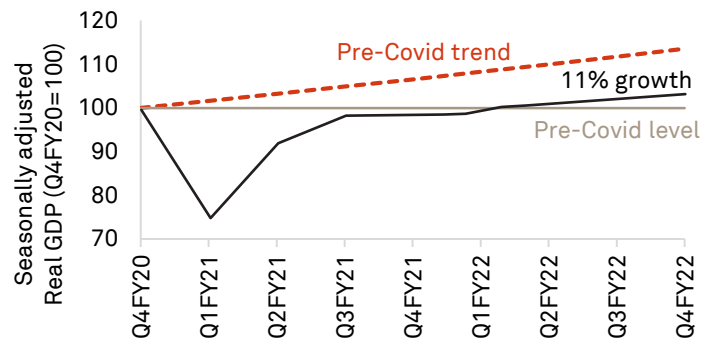
**Fiscal push:** Stretch in fiscal glide path and focus of the Union Budget for next fiscal on capex are expected to have a multiplier effect on growth.

## 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

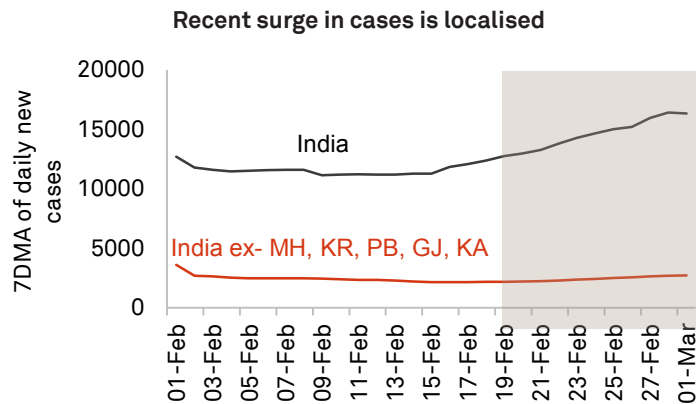
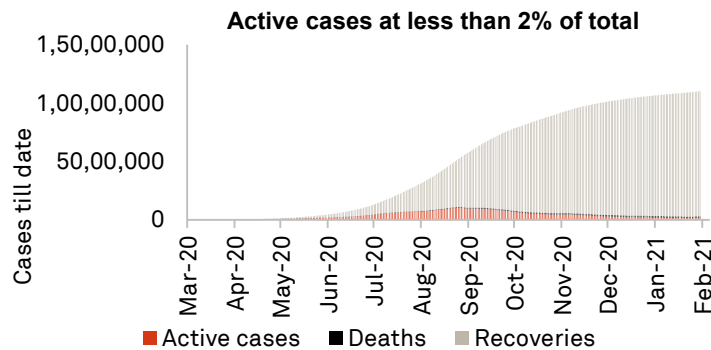
Equities have surged, with price-to-earnings ratio of Sensex above 30 since November 2020 (versus decadal average of ~20), even as the economy is set to contract ~8%. Bank credit growth slowed to 5.8% in January 2021, versus 8.5% in January 2020. Credit growth has been slowing since 2019.

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



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