Acuite RATINGS & RESEARCH

Press Release

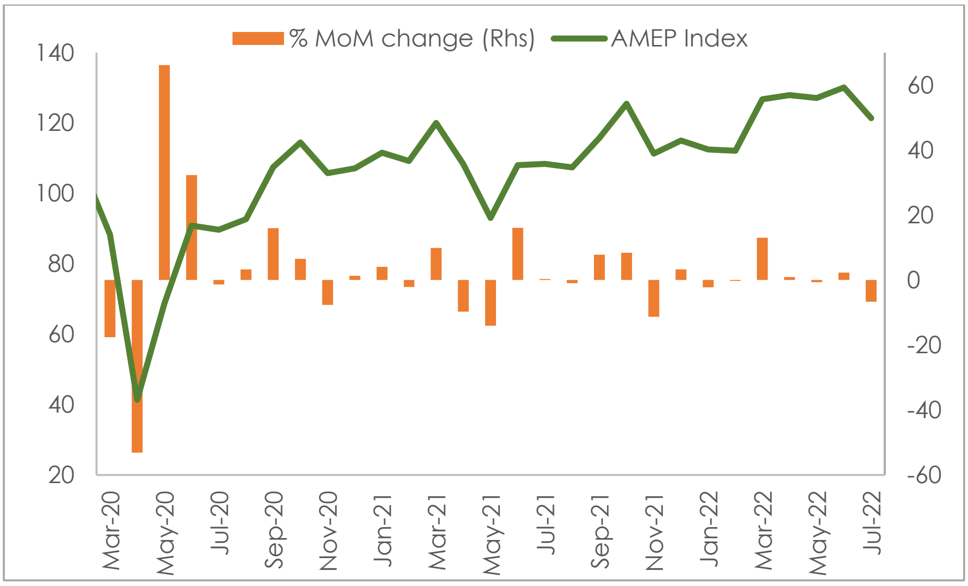
Q1 FY23 GDP likely to be in the band of 15%-16% YoY

Favourable base along with pick-up in services sector to buoy growth print

29 August 2022

India's GDP growth in Q1 FY23 is expected to come between 15%-16% on an annualized basis amidst support from a favourable statistical base due to the adverse impact of the disruptive Delta Covid wave in the previous year along with continued recovery in the services sector aided by pent-up demand (especially in sectors such as tourism, hospitality), normalized personal mobility and an expansive vaccination coverage. This is also corroborated by our proprietary **AMEP index** (Acuité Macroeconomic Performance index) which averaged at a post pandemic high of 128.5 in Q1 FY23 from 117.1 in Q4 FY22. Out of the spectrum of 16 indicators tracked by the index, services sector indicators recuperated somewhat at a faster clip than the manufacturing segment.

Chart 1: AMEP index averaged at a post pandemic high of 128.5 in Q1 FY23



Within services sector 'trade, hotel and transportation' is expected to outperform with indicators such as passenger rail and air travel along with google mobility indicator especially the 'retail and recreation' and 'parks and transit stations' consolidating near peak levels in Jun-22.

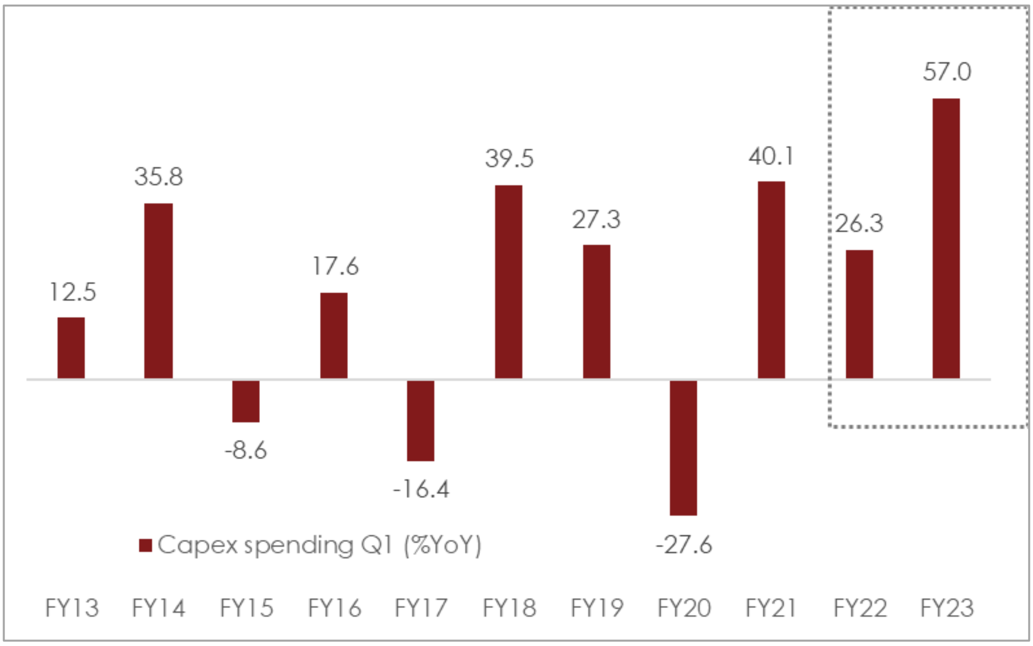
That said, elevated commodity prices and higher inflationary pressures could weigh on the industrial growth momentum on a sequential basis. Within industrial space, manufacturing sector is expected to remain broadly resilient in the first quarter on account of favourable base at play and relatively stronger exports. This is also validated by the manufacturing IIP print which improved to 12.9% YoY in Q1 FY23 from 1.8%in Q4FY22. Electricity generation has also witnessed a strong expansion at 17.1% YoY due to an unusually hot summer that added to the demand for electricity during the quarter. However, some downside on agriculture growth is anticipated for the quarter, amidst the lower output of wheat in the last rabi season given the unusual heat wave witnessed during the harvesting season in Mar-Apr'22. Our Q1FY23 GDP estimate stands marginally lower than RBI's projection of 16.2%YoY.

In Q2 so far, growth impetus has remained largely intact. The softness in global commodity prices and the pick-up in southwest monsoon at an all-India level have provided some comfort from growth perspective. Having said so, the global growth prospects have turned bleaker. IMF in its Jul-22 World Economic Outlook update revised lower its 2022 global growth forecast to 3.2% from 3.6% earlier. This could have a stronger bearing on India's exports in the coming months. As a harbinger of impending slowdown, exports growth contracted by 0.8%YoY in Jul-22, the first annualized de-growth in last 17-months, though the imposition of windfall tax on oil exports had an outsized role to play. To rationalize our perspective on growth-

- Cumulative rainfall between Jun 1 and Aug 21 stands at an 8% surplus vis-à-vis long period average, could support Kharif output though the downside in paddy output due to deficient rainfall in UP and Bihar remains on watch.
- CRB commodity price index has eased by nearly 12% since Jun-22 peak, this should offer some incremental reprieve in input costs to producers.
- Capex disbursal by the central government has grown by 57%YoY over Apr-Jun FY23 – the highest Q1 run-rate in last one-decade (see chart below) augurs well for investments
- Strong vaccination cover (with nearly 70% of the population covered by two doses) supports pent-up demand, especially for contact intensive services and mitigates against the risks of another disruptive Covid wave.

Assuming risks to be broadly balanced at this stage, we continue to retain our FY23 GDP growth projection of 7.5%.

Chart 2 : Central Govt Capex in Q1 FY23, strongest run-rate in nearly a decade



Says **Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research Ltd** "Our **AMEP index** provides mixed signals on economic growth in the current fiscal; beyond the base factor, the double digit annualized growth nos for most macro indicators reflects resilience and a gradual pickup in services sector as well as domestic private consumption despite inflationary headwinds and the global slowdown. This makes up optimistic about a GDP growth print of over 7.0% in FY23. On the other hand, a few high frequency indicators such as rail freight, exports and diesel consumption have shown a lack a steady and sustainable momentum, leading to moderate downside risks to that forecast."

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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