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# Press release

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# Growth next fiscal will be a story of two halves

Base-effect lift in first half, broad-based growth in the second
Infrastructure, PLI projects to drive investment cycle

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 next fiscal will benefit optically because of low-base effect, the second half would see a more broad-based pick-up in economic activity owing to a commodity price lift, large-scale vaccinations and likely stronger global growth.

**Says Ashu Suyash, Managing Director and CEO, CRISIL, "The journey from the pervasive darkness cast by an unprecedented pandemic to the beginnings of a clawback has not been easy. Policymakers and regulators have primarily facilitated the revival. India's medium-term growth now hinges on a kickstart of the investment cycle. There are early positive signs, powered by government spending such as through the National Infrastructure Pipeline, demand-driven capex, and the Centre's Production-Linked Incentive (PLI) scheme."**

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

While exports are recovering well for large industries, and agriculture and allied sectors, they remain weak for labour-intensive, small-enterprise driven segments such as gems and jewellery, garments, and leather products because of their discretionary nature.

**Says Dharmakirti Joshi, Chief Economist, CRISIL, "CRISIL expects GDP growth to 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. And in real terms, the size of the economy next fiscal will be a mere 2% bigger than what it was in fiscal 2020. Importantly, the dynamics of domestic demand and trade continue to be unfavourable for small businesses. Policy support, therefore, must continue for them and for the urban poor, who have borne the brunt of the pandemic."**

Corporate revenue growth has surprised with a V-shaped recovery in the first nine months of this fiscal by cresting three tailwinds: resilience in exports of information technology services and pharmaceuticals, the commodity upcycle, and price hikes that offset volume declines in automobiles.

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 in core infrastructure segments of roads, railways, urban infrastructure. Shorn of the optical base-effect, revenue will be only 8-9% higher than in fiscal 2019.

Operating profit margin, which touched a decadal high this fiscal, should sustain despite some cost pressure.

In the context, medium-term prospects of the economy hinge critically on revival of the investment cycle, which has been one of the biggest impediments to structural growth for many years now. The recent pick-up in public investment provides a glimmer of hope.

**Says Amish Mehta, Chief Operating Officer, CRISIL, "Next fiscal, many pieces can fall into place leading to 20-25% overall growth in investments to ~Rs 14.6 lakh crore. The push by Centre and states, especially to**

**roads, railways and urban transport, will drive up overall infrastructure investments 17-20%. Corporate capex will see 45-55% growth driven by two distinct trends: one, large companies in core industrial segments, which have gained market share and are operating at higher-than-industry-average utilisation rates, pushing pedal on capex after staying away last fiscal; and two, time-bound PLI-driven projects."**

Among the core industrial segments, cement and metals are expected to see healthy investments, while for other sectors, a meaningful recovery will be at least two years away.

CRISIL Research's analysis of PLI scheme indicates potential incremental revenue generation of Rs 35-40 lakh crore over the coming 5 years across 14 covered sectors, aided by Rs 2-2.7 lakh crore capex in 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.

Both trends will drive a 45-50% surge in industrial investments in fiscal 2022 after a fall of 35% this fiscal. After this surge, investment growth will moderate to 7% through fiscal 2025. This front-loading of capex augurs well for the economy because of its high multiplier effect.

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

While bank credit growth had contracted 0.8% in the first half of this fiscal, it recovered sharply in the third quarter by growing ~3% sequentially. In the fourth quarter, too, it should clock ~3% sequential growth. Government measures, including the Rs 3 lakh crore Emergency Credit Line Guarantee Scheme, have been supportive.

As for NBFCs, they have navigated a raft of headwinds for over two fiscals culminating in de-growth in the current fiscal. They are set to grow again, but at a relatively subdued 5-6% next fiscal, compared with 18% between fiscals 2014 and 2018. The turnaround will be led by larger entities with stronger parentage.

**For further information,**

**Media Relations**


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|---|---|---|
| **Saman Khan** | **Hiral Jani Vasani** | **Riddhi Savla** |
| Media Relations | Media Relations | Media Relations |
| **CRISIL Ltd** | **CRISIL Ltd** | **CRISIL Ltd** |
| M: +91 9594060612 | M: +91 982003 9681 | M: +91 981995 7423 |
| B: +91 22 3342 3895 | D: +91 22 3342 5916 | D: +91 22 3342 1812 |
| B: +91 22 3342 3000 | B: +91 22 3342 3000 | B: +91 22 3342 3000 |
| saman.khan@crisil.com | hiral.vasani@crisil.com | riddhi.savla@ext-crisil.com |


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