Press release

March 10, 2022 | Mumbai

CRISIL reiterates 7.8% GDP growth next fiscal, with risks tilted to the downside; corporate revenue seen up 10-14%

Strong passthrough key to limiting Ebitda margin erosion to 80-100 basis points

CRISIL today reiterated its December 2021 forecast of India's gross domestic product (GDP) growth at 7.8% in fiscal 2023. Any potential upside due to the early end of a mild third wave of Covid-19 infections will be offset by the ongoing geopolitical strife stemming from Russia's invasion of Ukraine, which is creating a dampening effect on global growth and pushing up oil and commodity prices. The risks to growth are also tilted to the downside.

Speaking at CRISIL's flagship event, 'India Outlook, Fiscal 2023', Amish Mehta, Managing Director & CEO, CRISIL Ltd, said, "Spiking commodity prices, especially of crude oil, will have a bearing on India's macros, including the current account deficit and inflation. These would create headwinds to growth. The good part is, the health of the financial sector is on the mend, with better capitalisation, profitability and asset quality. That, and enhanced public spending on infrastructure, private investments driven by the Production-Linked Incentive scheme, and a chunk of green capex should deliver some good-quality tailwinds."

As for the average Consumer Price Index (CPI)-based inflation, it will stay firm at 5.4% next fiscal — if the price of crude oil averages $85-90/barrel — and takes into account the excise duty cuts announced last year. However, upside risks will build if the geopolitical strife prolongs, keeping oil and commodity prices higher for longer.

Interestingly, when the price of crude oil averaged $110/barrel between fiscals 2012 and 2014, inflation was in double digits. That situation is unlikely to repeat this time due to the relatively benign domestic prices of foodgrains following sumptuous agricultural output, and comparatively lower core inflation. During that period, food and core inflation, which together have 86% weight in CPI, had averaged 9.8% and 8.6%, respectively.

Private consumption, which is the largest component of demand and has been the slowest to recover from the pandemic, will also face headwinds from high inflation. The pandemic had exacerbated the underlying weakness in private consumption seen in fiscal 2020.

Says Dharmakirti Joshi, Chief Economist, CRISIL, "We believe the fiscal policy will need to be deployed more aggressively than envisaged in the Union Budget for next fiscal. This can be done by increasing allocation for employment-generating schemes and food subsidy, and cutting duty on petroleum products. This can be a relief bridge for those most affected by the pandemic till such time the virtuous cycle of investment-led growth plays out in the labour market, and private consumption demand becomes self-sustaining."

Higher price of crude oil will widen India's current account deficit to 2.2% in fiscal 2023. Typically, a $10 increase in the price of crude oil increases the current account deficit to GDP ratio by about 40 basis points.

The near-term impact of high oil prices on inflation, assuming a significant passthrough, will be more pronounced than on growth. However, all bets are off if oil stays around or above $100/barrel for a prolonged period.

The ripple effects of higher commodity prices have reflected strongly in the operating profitability of India Inc during past cycles. This time around, passthroughs have been good and hence we expect the earnings before interest, tax, depreciation and amortisation (Ebitda) margin to sustain above 20% for the second year in a row for the top ~700 corporates (excluding oil and banking, financial services and insurance, or BFSI) this fiscal.

Strong passthroughs could limit the erosion in the Ebitda margin to 80-100 bps and keep it at 19.5-20.5% next fiscal versus 20.5-21.5% this fiscal. Retail fuel price hikes will have a bearing here.

Revenue growth in most sectors has been driven by prices this fiscal. The pace is significantly above fiscal 2019 (pre-pandemic period), especially in the exports and commodity-linked sectors. While both volume and value growth are above pre-pandemic levels in the exports sectors, prices have driven a higher proportion of recovery in the metals sector.

The recovery next fiscal will be broad-based, supported by normalisation of volumes if geopolitical and other unforeseen events don't pose significant challenges.

Across consumption segments, recovery curves have been staggered and income sentiment will be the key driver. As things stand, we expect India Inc to see revenue growth of 10-14% next fiscal.

Rural incomes may remain muted and below the long-term average growth because of higher crop area and yield base. The cuts made in the budget for key schemes will also impact rural payouts. The Mahatma Gandhi National Rural Employment Guarantee Scheme, for one, has seen a 26% drop in budget for next fiscal compared with the revised spend for the current fiscal.

On the other hand, sentiment for growth in corporate payouts remains strong for fiscal 2023. This is led by services sectors such as IT services, which are seeing healthy demand, and BFSI, where digitalisation and newer business models are driving growth.

The divide between urban and rural sentiment is evident already, with faster recovery in segments such as passenger cars compared with two-wheelers. A dissection of these segments by price point also reveals that high-priced segments have grown faster compared with the entry-level ones.

Says Suresh Krishnamurthy, Senior Director, CRISIL Market Intelligence & Analytics, "Amid all this, better credit profiles of large companies spur hope of a kickstart in the private sector investment cycle — even as commodity prices, especially crude oil and natural gas, and their attendant volatility remain the key risks to recovery prospects. To be sure, the net debt to Ebitda ratio for the top 700 players is at decadal low of 2.3 times in fiscal 21 and may remain at similar levels in fiscal 22 compared with a peak of 3 times in fiscal 2016."

Further, while utilisation levels in legacy sectors do not support a rounded capex recovery, spends under schemes such as Production Linked Incentive (PLI) may result in industrial capex rising to above Rs 4-4.5 lakh crore on average in the medium term (through fiscal 2026) compared with Rs 3-3.5 lakh crore in the three years through fiscal 2020.

India's investment focus is now shifting towards green capital expenditure, with an expected spend of over Rs 2.85 lakh crore per annum over fiscals 2023 to 2030, accounting for nearly 15-20% of total investments — into the infrastructure and industrial sectors — per annum. This will further help push a supply-driven recovery for the economy as a whole.

For further information contact,

Media relations

Pankaj Rawat
Media Relations
CRISIL Limited
M: +91 99 872 61199
pankaj.rawat@crisil.com

Hiral Jani Vasani
Media Relations
CRISIL Limited
M: +91 98 200 39681
hiral.vasani@crisil.com

Analytical contacts

Dipti Deshpande
Principal Economist
CRISIL Limited
dipti.deshpande@crisil.com

Hetal Gandhi
Director
CRISIL Market Intelligence & Analytics.
hetal.gandhi@crisil.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

Connect with us: LINKEDIN | TWITTER | YOUTUBE | FACEBOOK

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.