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INDIAN ECONOMY: MONTH IN REVIEW JULY 2021

**Recovery deepens roots in July 2021, with
further unlocking at state level**

August 2021

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HIGHLIGHTS



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Eight out of 15 indicators recorded an improved YoY performance in July 2021

Sequentially, 10 of the 13 non-financial indicators rose in July 2021, although the momentum eased compared to June 2021

Volumes of seven indicators in July 2021 exceeded their pre-Covid levels

Moreover, 10 indicators improved relative to April 2021, when the second Covid-19 wave had started to surge

Mobility for retail and recreation posted a sharp improvement in July 2021

With the further easing of the state-wise restrictions, especially across the southern states, the roots of the economic recovery deepened in July 2021. Despite a normalizing base, eight of the 15 tracked high frequency indicators recorded an improvement in their year-on-year (YoY) expansion in July 2021. Moreover, 10 of the 13 non-financial indicators recorded a month-on-month (MoM) uptick in July 2021, although the pace of the improvement expectedly eased from the levels seen in June 2021. Encouragingly, the volumes of several indicators in July 2021 rose above their pre-Covid (July 2019) as well as the April 2021 levels.

The YoY performance of eight of the 15 high frequency indicators improved in July 2021 compared to June 2021, such as generation of GST e-way bills, fuel consumption, electricity generation, output of Coal India Limited (CIL), vehicle registrations, domestic passenger traffic, etc. (refer Exhibit 1). Moreover, the worsening in the YoY performance of some of the remaining indicators such as the output of passenger vehicles (PVs), scooters and motorcycles, was primarily due to the unfavourable base effect.

However, the sequential momentum of growth eased in July 2021, after having recorded a sharp uptick in June 2021 when the state-wise unlocking commenced (refer Exhibit 2). While 10 of the 13 non-financial indicators displayed an MoM increase in July 2021, the pace of the uptick was lower than the surge in June 2021, for indicators such as vehicle registrations, generation of GST e-way bills and auto output. Moreover, diesel consumption dipped in July 2021, in contrast to the MoM uptick in the previous month.

To gauge the strength of the recovery across sectors, we have compared the performance of indicators in July 2021 with the pre-Covid level of July 2019, as well as the levels recorded in April 2021 (refer Exhibit 3 and 4). The volumes of seven of the 13 non-financial indicators (non-oil merchandise exports, GST e-way bills, electricity generation, CIL's output, petrol consumption, PV output and rail freight traffic) rose above both their pre-Covid as well as April 2021 levels in July 2021. While three indicators, namely, the output of scooters and motorcycles, and vehicle registrations surpassed their April 2021 levels, they trailed the level of July 2019. In contrast, domestic passenger traffic, ports cargo traffic and diesel consumption reported lower volumes in July 2021, relative to both July 2019 and April 2021.

As the states started unlocking, the mobility for retail and recreation improved sharply from ~60% below baseline at end-May 2021 to 23% below baseline by end-July 2021 (refer Exhibit 5; seven-day moving average). Additionally, FASTag toll collections rose by 15.5% to Rs. 29.8 bn in July 2021, while mildly trailing the record-high Rs. 30.9 bn of March 2021 (refer Exhibit 6).

The early data for August 2021 indicates a mixed trend across the available indicators. While petrol sales of state refiners in the first half of August 2021 exceeded both the year-ago and pre-Covid levels, those for diesel continued to trail their pre-Covid performance. The daily average generation of GST e-way bills remained flattish in the first half of August 2021, relative to July 2021. The YoY rail freight growth stood at a healthy 14.1% during August 1-10, 2021. While the YoY growth of electricity generation has picked up in August 2021 so far, we believe this has been chiefly driven by the deficient rains (27% below the long period average or LPA during August 1-22, 2021; refer Exhibit 8).

- The pace of YoY expansion in aggregate auto output (spanning passenger vehicles or PVs, two- and three-wheelers) moderated to 22.3% in July 2021 (-29.3% in July 2020) from 54.7% in June 2021 (-51.4% in June 2020), on account of the normalising base. However, in MoM terms, auto output expanded by 24.0% to 2.1 million units in July 2021 from 1.7 million units in June 2021, as manufacturers started building up inventory levels with the further easing of state-wise restrictions as well as signs of demand recovery. The sequential pickup in the auto output in July 2021 relative to June 2021 was driven by scooters (+71.6%), followed by three-wheelers (+21.9%), motorcycles (+13.6%) and passenger vehicles (+12.6%). Nevertheless, the aggregate output in July 2021 was 13.6% lower than the level recorded in July 2019, reflecting a decline in the output of scooters (-32.8%), three-wheelers (-34.2%) and motorcycles (-9.6%), even as the PV output exceeded the same by 12.3%.
- On the other hand, the YoY growth in retail demand for vehicles recorded a broad-based improvement to 33.9% in July 2021 (-35.2% in July 2020) from 22.4% in June 2021 (-41.4% in June 2020), benefitting from pent-up demand with the widening of localised relaxations in the southern states. However, the retail demand in July 2021 was lower than the level in July 2019 by 13.4%, similar to the trend for auto production. Subsequently, vehicle registrations stood at 0.9 million during Aug 1-23, 2021, accounting for roughly 77% and 60%, respectively, of the levels recorded in Aug 2020 and July 2021.
- The pace of YoY growth in the output of CIL improved substantially to 14.1% in July 2021 (-3.0% in July 2020) from 2.0% in June 2021 (-12.8% in June 2020), which can be partly attributed to some pickup in mining activities owing to the sub-par monsoon rainfall witnessed at the pan-India level in July 2021 (93% of LPA), after having reported above-normal rains in the previous month (110% of LPA in June 2021). In MoM terms, the output of CIL in July 2021 increased by 6.5% (even as despatches eased), and was 10.6% higher than the pre-Covid level of July 2019.
- As per the provisional data released by the Central Electricity Authority (CEA), the YoY growth in electricity generation (spanning thermal, hydro, nuclear and renewable energy) rose to 9.3% in July 2021 (-3.0% in July 2020) from 7.3% in June 2021 (-10.7% in June 2020), which we believe was led by the lull in the rainfall during parts of the month. In MoM terms, the electricity generation rose by 8.3% in July 2021, reflecting a sizeable 17.5% growth in hydroelectricity generation, followed by thermal (+7.6%) and renewable energy (+5.9%) sources. Moreover, the overall electricity generation in July 2021 exceeded the July 2019 level by 6.1%. The electricity demand data released by POSOCO reveals that the YoY growth rose further to 17.6% in Aug 1-21, 2021 from 10.6% in July 2021, which can be partly attributed to the deficient pan-India rainfall (27% below LPA during Aug 1-21, 2021) in Aug 2021.
- Given the post-vaccine demand revival in major export destinations, as well as the higher commodity prices, non-oil merchandise exports (in US\$ terms) were robust at a four-month high US\$29.6 billion in July 2021, even as a normalising base cooled the pace of YoY expansion to 35.2% in that month (-3.6% in July 2020) from 42.1% in June 2021 (-10.1% in June 2020). Moreover, non-oil merchandise exports were a considerable 30.4% higher than the pre-Covid level of July 2019. The exports of gems and jewellery, engineering goods, electronic goods, textiles and apparels, etc. were the dominant drivers of the enthusing performance of non-oil merchandise exports in July 2021.
- The YoY growth of cargo handled at major ports eased sharply to 6.7% in July 2021 (-13.0% in July 2020) from 19.5% in June 2021 (-14.6% in June 2020). Moreover, cargo traffic during July 2021 declined by 6.2% and 7.2%, respectively, relative to the June 2021 and pre-Covid level i.e. July 2019, in contrast to the trend displayed by non-oil merchandise exports, suggesting that higher commodity prices have a large role to play in the relatively superior performance of the latter.
- Encouragingly, the daily average GST e-way bills generated rose from 1.3 million in May 2021 to 1.8 million in June 2021, and further to 2.1 million in July 2021, reflecting the continued revival in the momentum of economic activity with easing state-wise restrictions. Moreover, the daily average bills in July 2021 were a robust 23.0% higher than the pre-Covid level of July 2019 (1.7 million). Subsequently, the daily average generation of GST e-way bills has remained flattish at 2.05 million in the first half of August 2021 (2.07 million in July 2021).

- On a similar note, consumption of petrol increased consistently from 2.0 million tonnes in May 2021 to 2.4 million tonnes and 2.6 million tonnes, respectively, in June 2021 and July 2021, with improving momentum in mobility given the lifting of state-wise restrictions. In YoY terms, the growth of petrol consumption rose to 16.4% in July 2021 (-10.4% in July 2020) from 5.6% in June 2021 (-13.5% in June 2020). Subsequently, the preliminary data compiled by state refiners for the first half of August 2021 reveals that petrol sales grew by 9.4% on a YoY basis, following a healthy pickup in the overall mobility, and was also 3.7% higher than the pre-Covid sales during the first half of August 2019.
- Diesel consumption improved from 5.5 million tonnes in May 2021 to 6.2 million tonnes in June 2021 as some states started unlocking, before easing by a mild 1.0% to 6.1 million tonnes in July 2021. However, in YoY terms, the consumption of diesel reverted to a growth of 11.5% in July 2021 (-19.5% in July 2020) from the 1.5% decline in June 2021 (-15.5% in June 2020), partly aided by the low base effect. Relative to the pre-Covid level of July 2019, it recorded a 10.2% contraction in July 2021, in contrast to the trend displayed by petrol consumption. Subsequently, diesel sales have risen by 18.5% in the first half of August 2021 on a YoY basis, while remaining 7.9% lower than the pre-Covid period of August 1-15, 2019.
- The YoY expansion in rail freight traffic declined modestly to 18.4% in July 2021 from 20.5% in June 2021. In sequential terms, rail freight eased by a marginal 0.1% in July 2021 (in tune with the lower dispatches of coal). However, it exceeded the July 2019 level by a healthy 13.2%, benefitting from a number of tariff and non-tariff measures taken by the Indian Railways in Aug 2020 to boost the operations and improve efficiency. Subsequently, rail freight growth has moderated to 14.1% on a YoY basis in the first 10 days of August 2021, and trailed the level recorded in the same period of July 2021 by 7.2%.
- Following the decline in fresh and active Covid-19 cases, domestic airlines' passenger traffic recorded a sharp sequential increase of 61.0% in July 2021 to 5.0 million from 3.1 million in June 2021. Regardless, domestic airlines' passenger traffic in July 2021 was a considerable ~58% lower than the level recorded in July 2019 (11.9 million).
- The YoY growth in non-food bank credit rose modestly to 6.2% on July 30, 2021 from 5.9% on June 18, 2021, whereas that of bank deposits declined to 9.8% from 10.3%, respectively.

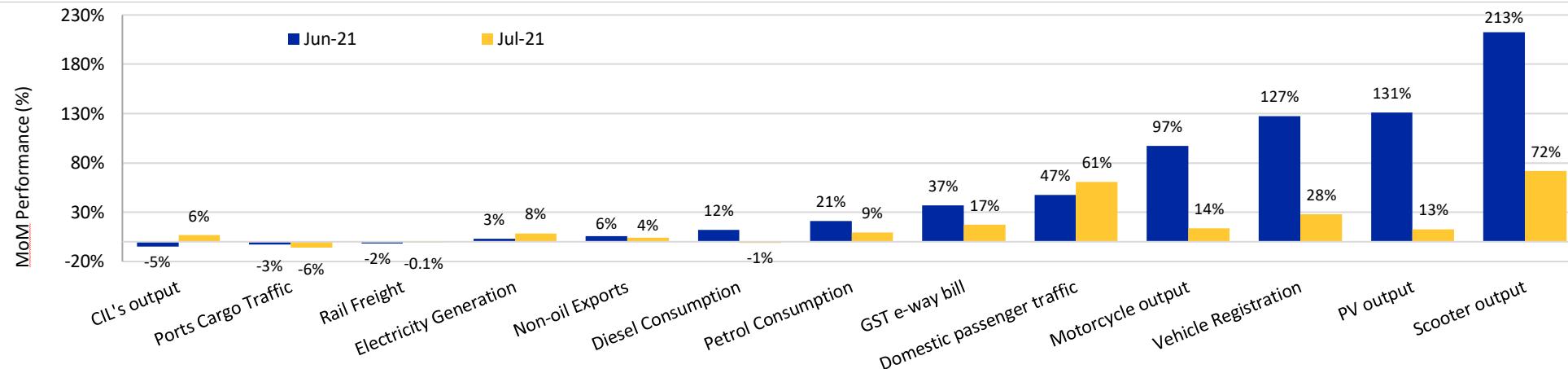
EXHIBIT 1: Encouragingly, the YoY performance of eight of the 15 high frequency indicators improved in July 2021 compared to June 2021, such as generation of GST e-way bills, fuel consumption, electricity generation, etc.; the sequential worsening in the July 2021 YoY performance of indicators such as auto output and non-oil exports, was due to the unfavourable base effect

| YoY (%) | PV | Scooter | Motor Cycle | Vehicle registration | CIL Prod. | Electricity Gen. | Non-oil Exports | Ports Cargo traffic | GST e-way bill | Rail Freight | Petrol | Diesel | Domestic Airlines' Passenger | Bank Deposit | Non-Food Bank Credit |
|----------|-------|---------|-------------|----------------------|-----------|------------------|-----------------|---------------------|----------------|--------------|--------|--------|------------------------------|--------------|----------------------|
| May -21 | 340.1 | 277.9 | 111.2 | 158.4 | 1.7 | 7.8 | 54.6 | 33.0 | 56.8 | 39.1 | 12.5 | 0.8 | 650.0 | 9.7 | 5.9 |
| June -21 | 174.9 | 80.1 | 38.9 | 22.4 | 2.0 | 7.3 | 42.1 | 19.5 | 25.9 | 20.5 | 5.6 | -1.5 | 57.0 | 10.3 | 5.9 |
| July -21 | 52.6 | 31.1 | 13.2 | 33.9 | 14.1 | 9.3 | 34.4 | 6.7 | 32.7 | 18.4 | 16.4 | 11.5 | 137.6 | 9.8 | 6.2 |

^aElectricity generation comprises thermal, hydro, nuclear and renewable energy; **Source:** Society of Automobile Manufacturers (SIAM); CIL; Central Electricity Authority (CEA); Indian Ports Association; Ministry of Commerce, Government of India (GoI); Goods and Services Tax Network (GSTN); Ministry of Petroleum & Natural Gas; Directorate General of Civil Aviation (DGCA); Petroleum Planning and Analysis Cell (PPAC); Indian Railways; Reserve Bank of India (RBI); Ministry of Road Transport and Highways; CEIC; ICRA research

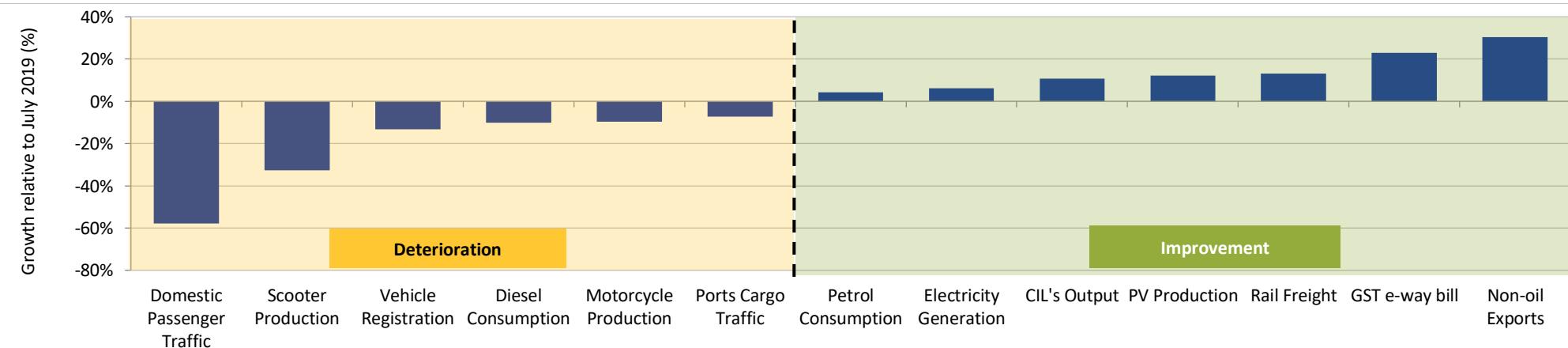
| | | | | |
|-------------------------------|----------------------------|--|------------------------------------|---------------------------------|
| YoY growth; sequential pickup | YoY growth; sequential dip | YoY growth/contraction; no sequential change | YoY contraction; sequential pickup | YoY contraction; sequential dip |
|-------------------------------|----------------------------|--|------------------------------------|---------------------------------|

EXHIBIT 2: Most indicators (except port cargo traffic, rail freight and diesel consumption) continued to display an improvement in volumes in MoM terms in July 2021 with the continued lifting of state-wise restrictions, albeit at a slower pace than June 2021



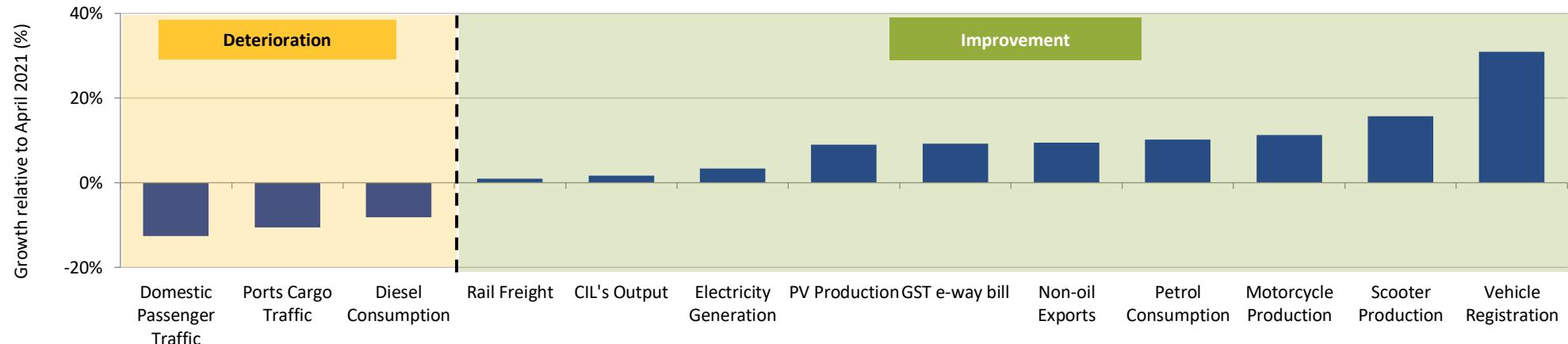
Source: SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA research

EXHIBIT 3: Relative to pre-Covid levels of July 2019, the non-financial indicators display a mixed trend in July 2021; seven of the 13 indicators such as petrol consumption, electricity generation, PV output, GST e-way bills and non-oil exports recorded higher volumes, whereas the remaining lagged their pre-Covid levels



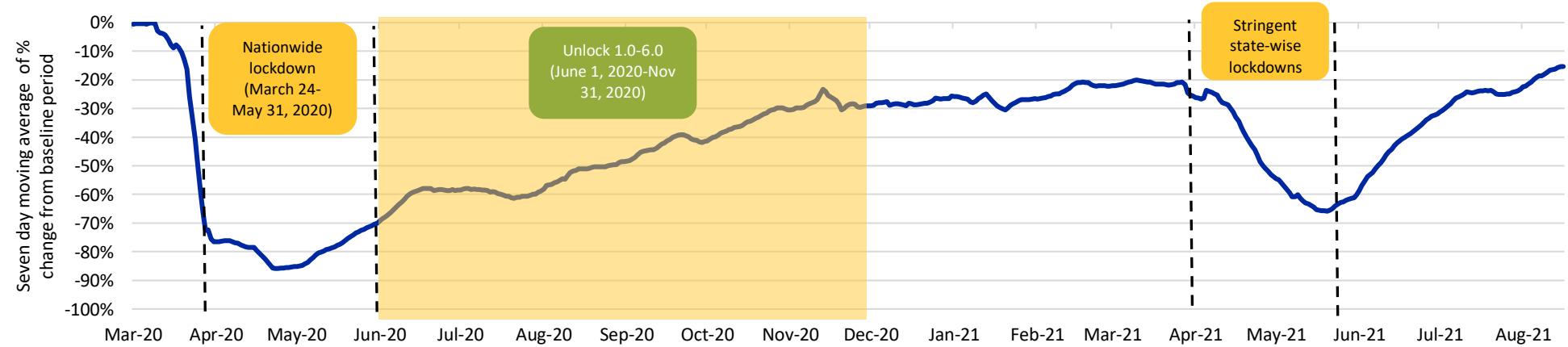
Source: SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA research

EXHIBIT 4: Encouragingly, the volumes of as many as 10 of the 13 non-financial indicators rose in July 2021 relative to April 2021, with the widening of state-wise relaxations; the volumes of only domestic airlines' passenger traffic, port cargo traffic and diesel consumption in July 2021 trailed their April 2021 levels



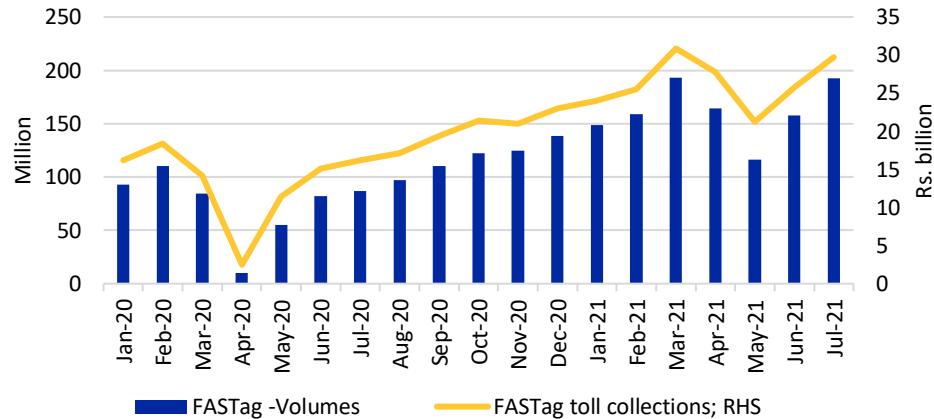
Source: SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA research

EXHIBIT 5: As states started unlocking, the mobility for retail and recreation posted a sharp improvement from ~60% below baseline at end-May 2021 to 23% below baseline by end-July 2021 (Seven day moving average); subsequently, it has improved to around 15% below baseline by mid-Aug 2021, similar to the average seen on Mar 21, 2020* (-16.3%)



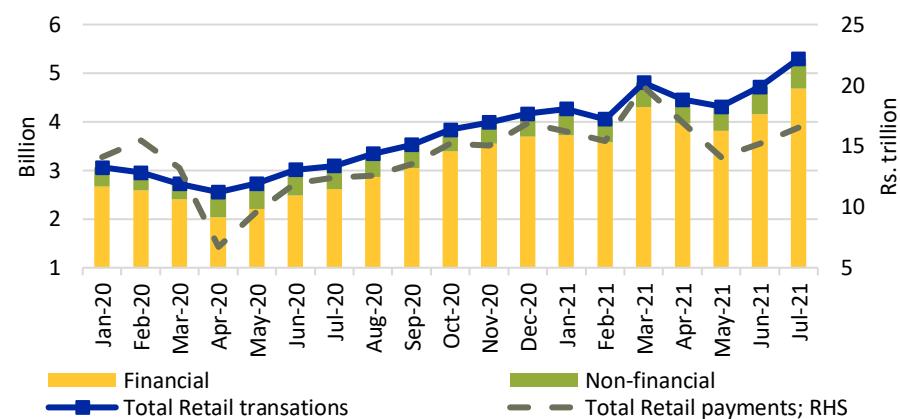
*Prior to the nationwide lockdown; Data is available up to Aug 16, 2021; The percentage change is compared to a baseline value for the same day of the week, Baseline period: Jan 3, 2020- Feb 6, 2020; Source: CEIC; ICRA research

EXHIBIT 6: With the further lifting of state-wise curbs, FASTag toll collections rose by 15.5% to Rs. 29.8 bn in July 2021, while trailing the record-high Rs. 30.9 bn of March 2021



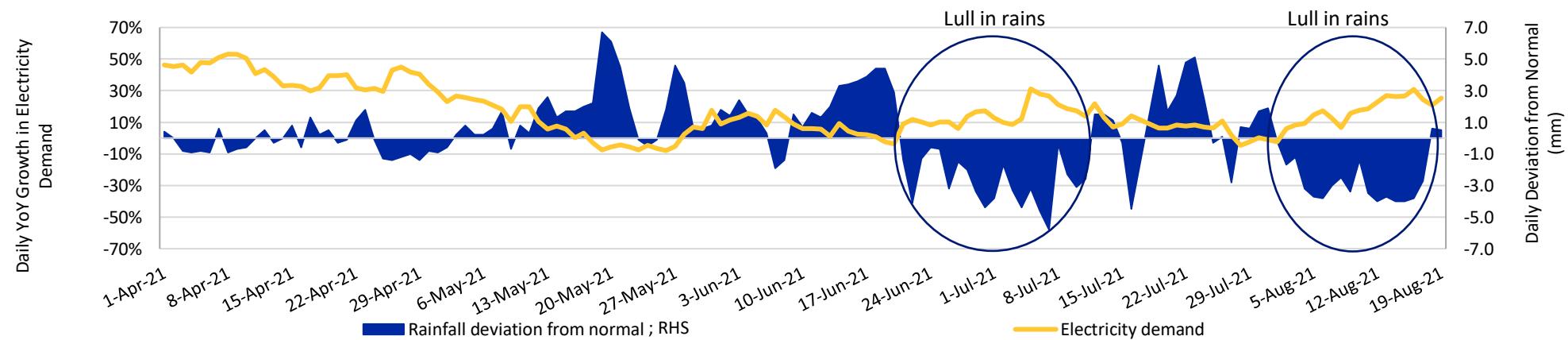
Source: National Payments Corporation of India; ICRA research

EXHIBIT 7: While retail transactions rose to an all-time high in July 2021, payments grew to a three-month high Rs. 16.5 trn, 8.9% higher than Rs. 15.2 trn in June 2021

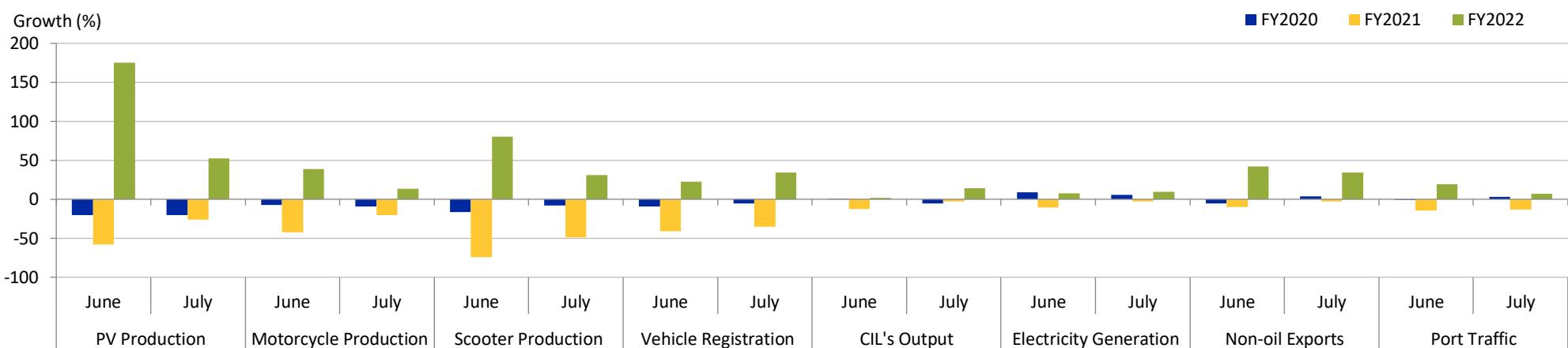


Source: National Payments Corporation of India; ICRA research

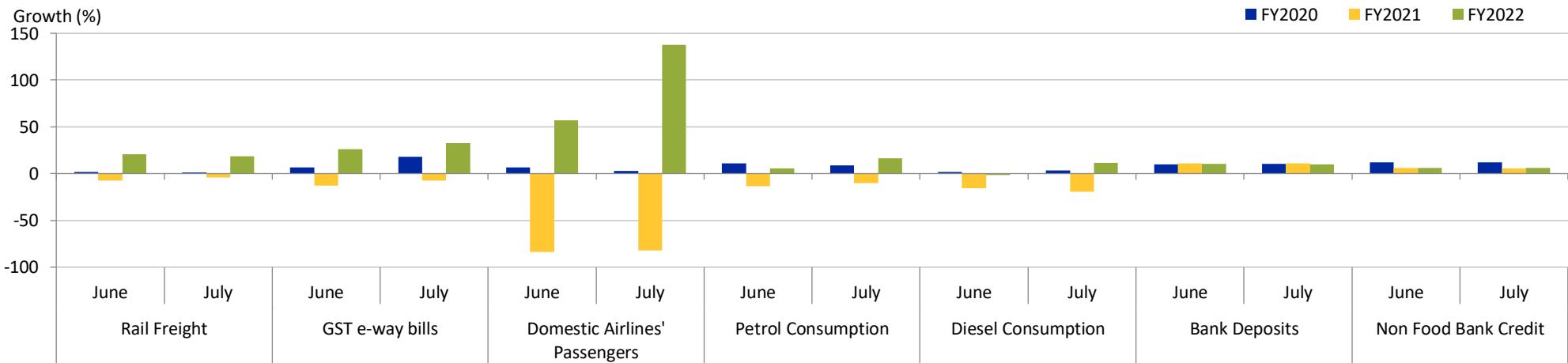
EXHIBIT 8: Since July 2021, the episodes of the pickup in the YoY growth of electricity demand seem to have coincided with the lull in the rainfall activity at an all-India level, suggesting that an industrial/commercial pickup is not the chief driver behind high electricity growth



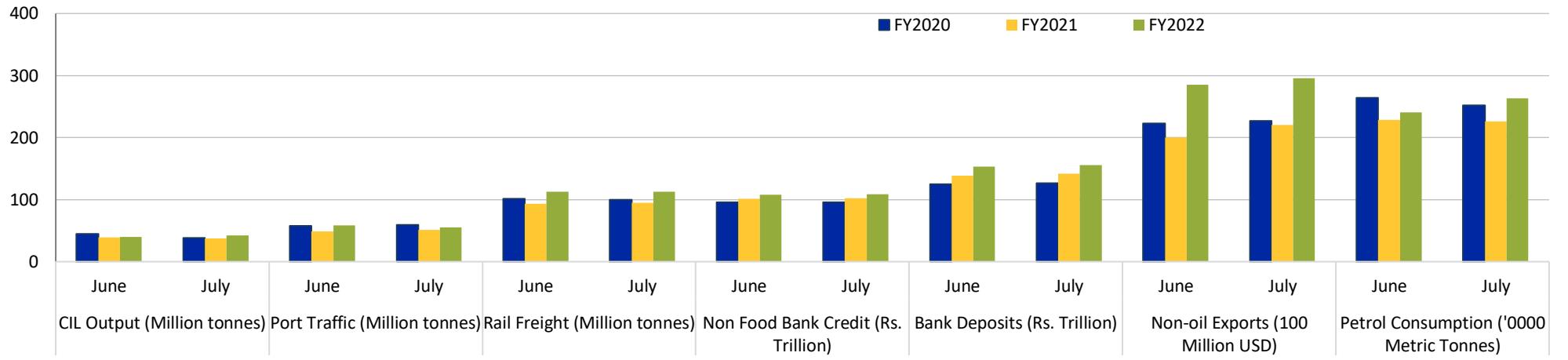
Source: IMD; POSOCO; CEIC; ICRA research

EXHIBIT 9: YoY Growth for Last Three Years in June and July (Part -I)


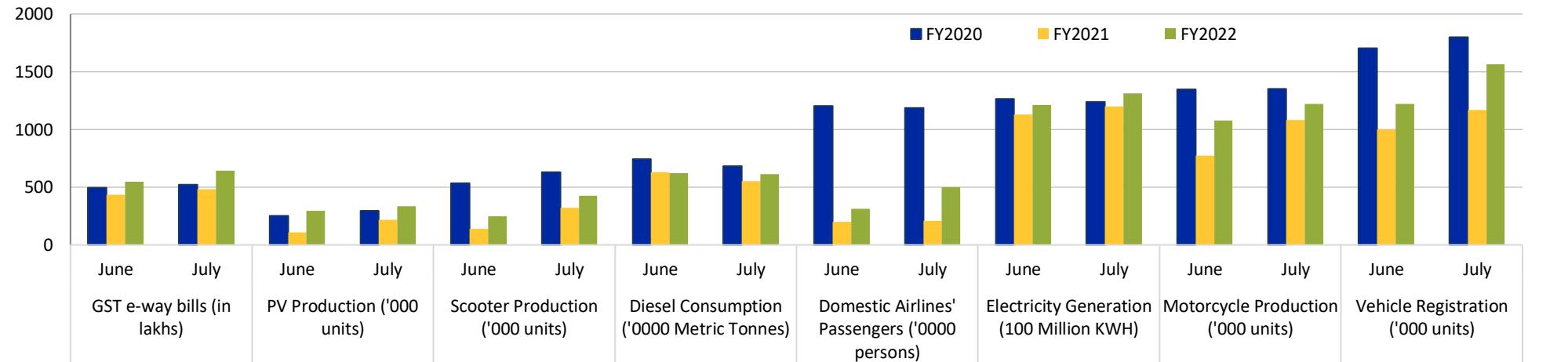
Source: MoRTH; SIAM; CIL; CEA; Indian Ports Association; Ministry of Commerce, GoI; CEIC; ICRA research

EXHIBIT 10: YoY Growth for Last Three Years in June and July (Part -II)


Source: Indian Railways; GSTN; PPAC; DGCA; PPAC; RBI; CEIC; ICRA research

EXHIBIT 11: Trends in Volumes for Last Three Years in June and July (Part -I)


Source: CIL; Ministry of Commerce, GoI; Indian Railways; Indian Ports Association; RBI; PPAC; CEIC; ICRA research

EXHIBIT 12: Trends in Volumes for Last Three Years in June and July (Part -II)


Source: SIAM; PPAC; CEA; GSTN; DGCA; Ministry of Road Transport and Highways; CEIC; ICRA research



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