



ICRA
A MOODY'S INVESTORS
SERVICE COMPANY

FINANCIAL MARKETS & BANKING UPDATE Vol.2: FY2021-22

Heightened risk aversion keeps bond issuances muted in Q1 FY2022

AUGUST 2021

Aditi Nayar
+91 124 4545 385
aditin@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Aashay Choksey
+91 22 6114 3430
aashay.choksey@icraindia.com



CONTENTS

Highlights during the quarter ended June 2021	2
<u>FOREIGN INSTITUTIONAL INVESTMENT: Marginal FII inflows in Q1 FY2022, amid elevated global bond yields and resurgence of Covid-19 cases</u>	8
<u>FOREIGN INSTITUTIONAL INVESTMENT (EQUITY): Inflows eased to a US\$0.7 billion in Q1 FY2022 from US\$7.6 billion in Q4 FY2021</u>	9
<u>FOREIGN INSTITUTIONAL INVESTMENT (DEBT): Outflows increased to US\$0.47 billion during Q1 FY2022 from US\$0.01 billion in Q4 FY2021</u>	10
<u>INWARD FOREIGN DIRECT INVESTMENT: Highest ever FDI inflows during FY2021; big ticket investments and PE/M&A deals key to sustain inflows in the future</u>	11
<u>OUTWARD FOREIGN DIRECT INVESTMENT: FDI outflows gathers pace during H2 FY2021 and sustains momentum in April-May 2021</u>	12
<u>EXTERNAL COMMERCIAL BORROWINGS: ECB approvals expected to marginally pick up to US\$35-40 billion in FY2022</u>	13
<u>GROWTH: India’s real GDP in Q1 FY2022 to trail the pre-Covid level for Q1 FY2020, while recording a double-digit YoY growth on low lockdown base</u>	14
<u>INFLATION: CPI inflation rose in Q1 FY2022 driven by food items and fuel; WPI inflation surged to a series-high led by core items and crude oil</u>	19
<u>DEPOSITS: Despite moderation in the pace of deposit accretion during Q1 FY2022, deposits growth expected to outpace credit growth in FY2022</u>	23
<u>BANK CREDIT: Second wave unlikely to impact the credit growth for FY2022, however impact of any future rise in cases remain uncertain</u>	24
<u>LIQUIDITY: Liquidity surplus eased in Q1 FY2022 after the RBI scaled backed the CRR to 4% in two phases</u>	25
<u>CORPORATE DEBT: Sharp YoY de-growth in bond issuances in Q1 FY2022 because of higher base of last year</u>	28
<u>BOND YIELDS: Corporate bond spreads narrow in Q1 FY2022</u>	29
<u>Table A1: Capital and Financial Market Indicators</u>	31
<u>Table A2: Macro Economic Indicators</u>	32
<u>Table A3: Top bond issuers during Q1 FY2022</u>	33

EXECUTIVE SUMMARY

Marginal FII inflows in Q1 FY2021, amid elevated global bond yields and resurgence of Covid-19 cases: The net FII inflows (equity, debt and hybrid) eased significantly to a mild US\$0.3 billion in Q1 FY2022 from US\$7.6 billion in Q4 FY2021, amid escalating domestic Covid-19 cases and widening of state-level restrictions.

Highest ever FDI inflows during FY2021; big ticket investments and PE/M&A deals key to sustain inflows in the future: FDI flows remained strong during April-May 2021 at US\$ 15.1 billion. FDI Inflows in FY2022 are expected to remain lower than levels seen during FY2021, subject to big ticket deals.

FDI outflows gathers pace during H2 FY2021; sustains momentum in April-May 2021: During April-May 2021, gross outward FDI flows spiked to US\$ 3.0 billion as compared to US\$ 1.1 billion during April-May 2020, while repatriations were higher at US\$ 0.3 billion compared to US\$0.1 billion, respectively.

ECB approvals expected to marginally pick up to US\$35-40 billion in FY2022: During April-May 2021, ECB approvals (including RDB) increased by 25% to US\$ 3.11 billion from US\$2.49 billion during the same period last year.

India's real GDP in Q1 FY2022 to trail the pre-Covid level for Q1 FY2020, while recording a double-digit YoY growth on low lockdown base: The YoY growth in India's GDP and Gross Value Added (GVA) at basic prices (at constant 2011-12 prices) had risen modestly to 1.6% and 3.7%, respectively, in Q4 FY2021 from 0.5% and 1.0%, respectively, in Q3 FY2021.

CPI inflation rose in Q1 FY2022 driven by food items and fuel: The YoY combined CPI inflation rose to 5.6% in Q1 FY2022 from 4.9% in Q4 FY2021

WPI inflation surged to a series-high led by core items and crude oil: The YoY WPI inflation surged to 11.9% in Q1 FY2022 from 5.1% in Q4 FY2021

Despite moderation in the pace of deposit accretion during Q1 FY2022, deposits growth expected to outpace credit growth in FY2022: The incremental deposits of the banking system rose by Rs. 1.9 trillion during Q1 FY2022 as against Rs. 3.0 trillion during Q1 FY2021 and Rs. 6.3 trillion during Q4 FY2021.

Second wave unlikely to impact the credit growth for FY2022, however impact of any future rise in cases remain uncertain: The YoY credit growth remained muted at 5.9% as on June 18, 2021 as compared to 6.0% as on June 19, 2020 and 5.6% as on March 26, 2021.

Liquidity surplus eased in Q1 FY2022 after the RBI scaled back the CRR to 4% in two phases: The daily average liquidity surplus under the LAF eased from ~Rs. 5.6 trillion in Q4 FY2021 to ~Rs. 4.9 trillion in Q1 FY2022, after the RBI scaled backed the CRR to 4% in two phases.

Sharp YoY de-growth in bond issuances in Q1 FY2022 because of higher base of last year: Fresh rupee denominated bond issuances witnessed a sharp decline of -45% to Rs. 1.3 trillion in Q1 FY2022 on a YoY and a QoQ basis (Rs.2.3 trillion each in Q4FY2021 and Q1FY2021).

New benchmark 10-year G-sec yield to range between 6.0% and 6.3% in the next two months: The Gross market borrowings of GoI during FY2022 (including back to back loans) is expected to remain at Rs. 13.7 trillion, similar to the last year. Net of redemptions of Rs. 2.6 trillion during FY2022 (Rs. 2.4 trillion in FY2021), the net borrowings are budgeted to be marginally lower by 2.8% at Rs. 11.0 trillion in FY2022 (Rs. 11.4 trillion in FY2021).

Gross SDL issuance to rise by 4.9% to Rs. 8.4 trillion in FY2022 from Rs. 8.0 trillion in FY2021: ICRA projects the net SDLs in FY2022 at Rs. 6.3 trillion, a modest 3.5% lower than the net SDL issuance of Rs. 6.5 trillion in FY2021. Based on the SDL redemption of Rs. 2.1 trillion in FY2022, we expect gross SDL issuance to rise by 4.9% to Rs. 8.4 trillion in FY2022 from Rs. 8.0 trillion in FY2021.

Corporate bond spreads narrow in Q1 FY2022: The daily average 1-Yr, 3-Yr, 5-Yr and 10-Yr AAA corporate bond yields eased to 4.18%, 5.17%, 5.89% and 6.79% respectively during Q1 FY2022 from 4.24%, 5.27%, 6.00% and 6.93% respectively during Q4 FY2021. On a closing basis, the 10-year AAA corporate bond yield declined by 29 bps during Q1 FY2021 to 6.90% (16 bps reduction in TTMs), and that for 5-Year AAA corporate bonds softened by 30 bps to 5.97% (19 bps reduction during TTM). Similarly, the yield on 3-Year AAA corporate bond was lower by 7 bps during Q1 FY2022 to close at 5.40% (22 bps reduction during TTM).

ABBREVIATIONS

AUM: Assets Under Management

BSNL: Bharat Sanchar Nigam Limited

CASA: Current and Savings Account Ratio

CAD: Current Account Deficit

CD: Certificates of Deposit

CDSL: Central Depository Services (India) Limited

CEA: Central Electricity Authority

CIC: Currency in Circulation

CP: Commercial Paper

CPI: Consumer Price Index

CMB: Cash Management Bills

CRR: Cash Reserve Ratio

CSO: Central Statistics Office

CWP: Cash with Public

CY: Calendar Year

DII: Domestic Institutional Investors

DIPP: Department of Industrial Policy and Promotion

ECBs: External Commercial Borrowings

EM: Emerging Markets

FCCBs: Foreign Currency Convertible Bonds

FCI: Food Corporation of India

FDI: Foreign Direct Investment

FII: Foreign institutional Investment

FPI: Foreign Portfolio Investment

FPO: Follow on Public Offer

FRL: Full Reservoir Level

FSB: Fully Serviced Bonds

FY: Financial Year

G-Sec: Government Securities

GDP: Gross Domestic Product

GFCE: Government Final Consumption Expenditure

GFCE: Gross Fixed Capital Consumption

Gol: Government of India

GST: Goods and Services Tax

GVA: Gross Value Added

HFC: Housing Finance Company

IDBI: The Industrial Development Bank of India

IIP: Index of Industrial Production

IPO: Initial Public Offer

IMD: Indian Meteorological Department

INR: Indian National Rupee

JV: Joint Venture

LAF: Liquidity Adjustment Facility

LIBOR: London Interbank Offered Rate

LPA: Long Period Average

LRS: Liberalised Remittance Scheme

MPC: Monetary Policy Committee

MSCI: Morgan Stanley Capital International

MSF: Marginal Standing Facility

MSP: Minimum Support Prices

MSS: Market Stabilisation Scheme

NABARD: National Bank for Agriculture & Rural Development

NDTL: Net Demand & Time Liabilities

NBFC: Non-Banking Financial Company

NSDL: National Securities Depository Limited

OMO: Open Market Operations

PFCE: Private Final Consumption Expenditure

PSB: Public Sector Bank

PVB: Private Sector Bank

QoQ: Quarter-on-Quarter

RBI: Reserve Bank of India

RDB: Rupee Denominated borrowings

SIAM: Society of Indian Automobile Manufacturers

SIDBI: Small Industries Development Bank of India

SCB: Schedule Commercial Bank

SDL: State Development Loans

SLR: Statutory Liquidity Ratio

UAE: United Arab Emirates

UK: United Kingdom

US\$: United States Dollar

VRR: Voluntary Retention Route

WPI: Wholesale Price Index

YTD: Year to Date

LTRO: Long-term repo operations

TLTRO: Targeted long-term repo operations

T-Bill: Treasury Bill

TTM: Trailing Twelve Months

WoS: Wholly Owned Subsidiary

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
+91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: Jayantac@icraindia.com
Tel: +91 80 4332 6401 / +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: Communications@icraindia.com
Tel: +91 124 4545 860

Registered Office

B-710, Statesman House 148,
Barakhamba Road
New Delhi-110001
Tel: +91 11 23357940-45

Corporate Office

Building No. 8, 2nd Floor,
Tower A, DLF Cyber City, Phase II,
Gurgaon - 122 002
Tel: +91-124-4545300

Ahmedabad

1809-1811, Shapath V,
Opp: Karnavati Club,
S.G.Highway, Ahmedabad - 380015
Tel: +91 79 4027 1500/501

Bengaluru 1

'The Millenia', Tower B Unit No. 1004,
10th Floor, 1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

4th Floor, 'Shoban'
6-3-927/A&B, Somajiguda
Raj Bhavan Road,
Hyderabad - 500 082
Tel: +91 40 4067 6500

Hyderabad 2

No. 7-1-58, 301, 3rd Floor, 'Concourse',
Above SBI-HPS Branch, Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Kolkata

A-10 & 11, 3rd Floor,
FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg,
Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony, S. No. 210
CTS 3202 Range Hills Road,
Shivajinagar, Pune - 411 020
Tel: +91 20 2556 1194

Email: Info@icraindia.com

Helpdesk: 9354738909

Website: www.icra.in/ www.lcraesearch.in