After witnessing pandemic waves in the last two years, we are witnessing a positive trend across various parameters of corporate health. Whether its deleveraging, preserving cash, mobilising funds through equity market or increasing promoters holding, corporates are leaving no stone unturned to keep the balance sheet in shape and preparing themselves for a future ready organization. While private participation in the investment announcements increased to 70% from around 50% a year ago, indicating revival of the capex in the economy, improvement in credit ratios across sectors in 9MFY22 as compared to 9MFY21 suggest improving balance sheet strength and outlook. During the pandemic, more than 1000 listed corporates, in NSE have increased their promoter’s shareholding, particularly in sectors including Finance, Textiles, Trading, Chemicals, Pharmaceuticals, IT -Software, Steel, Capital Goods – Non Electrical Equipment, Auto Ancillary etc.

Despite FY21 being overshadowed by the pandemic, Indian corporates have raised an all-time high amount of Rs 1.89 lakh crore through public equity markets, more than double of Rs 91,670 crore raised in FY20. In current year also, in first nine months i.e., up to Dec’2021, corporates raised equity of more than Rs 1.50 lakh crore through public equity market.

Against this backdrop, India has been experiencing robust export performance with Apr’21-Jan’22 cumulative exports at $335.9 billion, which is higher than the maximum amount achieved in any year. Exports of engineering goods, petroleum products, gems and jewellery, organic and inorganic chemicals, drugs and pharmaceuticals, textiles, electronic goods have all done well.

When we look at imports, India continues to reduce its trade deficit with China in FY21, however, share of China in our total merchandise imports has been steadily increasing to 16.5% currently. At 8-digit level, in FY22 Apr-Dec’21 there were 6367 products with total value of $68 billion (or 15.3% of the total imports) imported by India from China. We estimated the import dependence of each product on China, by checking the share of Chinese imports in India’s overall imports of these categories. The maximum aggregate value ($9.7 billion) is of the products in which our import dependence on China is between 50-60%, although the number of products is lower. Although number wise the imports were highest in the category where our dependence was lowest (0-10%), the value is not that high at around $1894 million.

The most important imports for FY22 so far are personal computers and parts of telephonic and telegraphic equipment, electronic integrated circuits, solar cells, urea and micro-assemblies’ lithium-ion and diammonium phosphate. There are other goods also under the electrical and electronics imports. Our dependence on China is huge in these products, constituting around 48% of total imports of these. Drastic reduction in these areas can only be possible if, we source from other countries, while building a domestic manufacturing base for these. The items in the low value category are a mix of finished goods and intermediate inputs and India has a revealed comparative advantage in most of these imports. If India wants to wean itself off its dependence on China, capabilities have to be developed in these areas, especially chemicals, textiles, footwear, so that both inputs and final consumer goods in these low value imports can be manufactured domestically.

Amidst the increasing imports from China, the PLI scheme deserves to be mentioned. In FY21 of $65 billion of imports from China, around $39.5 billion is commodities and goods where PLI scheme has been announced (textile, agri, electronics goods, pharmaceuticals & chemicals). If by leveraging PLI scheme we can reduce our dependence on China even to the extent of 20%, then we can add around $8 billion to our GDP and overtime if our dependence is further reduced by 50%, we can add $20 billion to GDP because of the incentives to domestically manufacture these goods owing to the PLI scheme.

Lastly, about our participation in Global Value Chains (GVC). As per the Global Value Chain Development Report 2021 of ADB India’s participation has improved over the years in production-based GVC. The good thing is that there has been a significant improvement in case of medium to high technology manufacturing. When compared to China, India’s participation is higher in case of both trade based and production based GVC. India should focus on building the right infrastructure which can help in making India’s exports more cost competitive. Also increased investment in R&D spend is required so that more innovative products are developed.
THE STAGE IS SET FOR A PRIVATE INVESTMENT REVIVAL

- After witnessing pandemic waves in last two years, we are now seeing a visible positive trend across various parameters of corporate health. Whether its deleveraging, preserving cash, mobilising funds through equity market or to increase promoters holding, corporates are leaving no stone unturned to utilize the opportunity and keep the balance sheet in shape and preparing themselves for a future ready organization.

- While private participation in the investment announcements increased to 70% from around 50% a year ago, indicating revival of the capex in the economy, improvement in credit ratios across sectors in 9MFY22 as compared to 9MFY21 suggest improving balance sheet strength and outlook.

- New investment announcements which were around Rs 10 trillion in last two years, as per Projects Today, improved to Rs 12.78 trillion in first nine months of FY22 (April – Dec), and can report more than 50% growth in FY22 as compared to previous year.

- Major industries where new announcements were made during last nine month includes Roadways (Rs 1.79 lakh crore), Community Services (Rs 1.16 lakh crore), Real Estate (Rs 1.19 lakh crore), Iron & Steel (Rs 1.08 lakh crore) and Non-Conventional power (Rs 0.80 lakh crore).

- Credit ratio (upgrades to downgrades) improved, in 9MFY22 as compared to 9MFY21, across sectors including Cement, Energy, Telecom, NBFC etc.

- During the pandemic, more than 1000 listed corporates, in NSE, increased their promoter’s shareholding by nearly 400 basis points to 56.7% at the end of Dec’2021 from 53% on March’2020. Sectors where increased promoter’s shareholding reported includes Finance, Textiles, Trading, Chemicals, Pharmaceuticals, IT -Software, Steel, Capital Goods – Non Electrical Equipment, Auto Ancillary etc.

- Despite FY21 being overshadowed by the pandemic, Indian corporates have raised an all-time high amount of Rs 1.89 lakh crore through public equity markets (including FPO/OFS/QIP/InvITs etc.), more than double of the Rs 91,670 crore raised in FY20. In current year also, in first nine months i.e., up to Dec’2021, corporates raised equity of more than Rs 1.50 lakh crore through public equity market.
EXXPORTS CONTINUE TO REMAIN ROBUST

- After posting a record monthly exports of $37.8 billion in Dec’21, India witnessed a robust export performance in Jan’22 as well amounting to $34.06 billion representing 23.4% yoy growth. Engineering goods, petroleum products, gems and jewellery, organic and inorganic chemicals, drugs and pharmaceuticals, textiles, electronic goods have been the major exports during the month. Cumulatively, Apr’21-Jan’22 exports were $335.5 billion, which is higher than the maximum amount achieved in any year.

- 2-digit HS classification shows that top 15 commodity exports accounted for more than 72% in our total exports during Apr-Dec’21. A large number of these commodities showed higher export growth not only viz-a-viz 2020, but also in relation to corresponding periods of 2019 as well as 2018.

- In particular, exports of iron and steel showed robust growth of more than 100% over the past three years. Electrical machinery is another component whose exports increased close to 50% in Apr-Dec’21 when compared to Apr-Dec’20 and also Apr-Dec’18. Export of aluminium also grew strongly viz-a-viz the previous 3 years.

- Mineral fuel, oil and products which is our biggest export component grew significantly over 2020, but it can also be attributed to higher oil prices besides increase in volume growth.

- Gems and jewellery, Apparel & Clothing (knitted or crocheted), vehicles (other than railway or tramway) and nuclear reactor, boiler and machinery grew strongly during Apr-Dec’21 when compared to Apr-Dec’20. However, their growth was less when compared to the previous two years.

- Cotton is another component whose exports grew abundantly over 2020 as well as 2019. Exports of cereals too grew during Apr-Dec’21 specially when compared to the same period in 2019 and 2018. If we look at the total agriculture exports, that have increased significantly around 18% to $41.9 billion in FY21 from $35.6 billion in FY20.

- Pharma exports are another interesting component as their growth stalled this year when compared to last year, however its growth is decent when compared to Apr-Dec of 2019 and 2018.

- It is pertinent to note that the major sectors in which the PLI scheme has been introduced includes automobiles, food products, specialty steel, pharmaceuticals, electronics/technology goods, textiles, aviation. Thus, PLI scheme has benefited many of the top 15 commodity exports, specially mobile and electronic goods, drugs and pharma.

INDIA CONTINUES TO REDUCE TRADE DEFICIT WITH CHINA IN FY21

- In FY20 India imported $5 billion less from China than in FY19 and further $48 million less in FY21. However, share of China in total merchandise imports has steadily increased to 16.5% currently. Interestingly, the CAGR for India’s overall imports between FY97 and FY21 is 10.1% while that for imports from China is 20.4%, almost double.

- When we look at our exports to China, share of China in our total exports has been rising since FY17 and it now stands at 7.3%. When we compare the CAGR of India’s overall merchandise growth rate between FY98 and FY21, with China’s CAGR, there is good news. The CAGR for India overall is 9.6% and that for China is 15.8%.
HOWEVER, HUGE DEPENDENCE STILL REMAINS

♦ At 8-digit level, in FY22 Apr-Dec'21 there were 6367 products with total value of $68 billion (or 15.3% of the total imports) imported by India from China. We estimated the import dependence of each product on China, by checking the share of Chinese imports in India's overall imports of these categories. The maximum aggregate value ($9.7 billion) is of the products in which our import dependence on China is between 50-60%, although the number of products is lower. Although number wise the imports were highest in the category where our dependence was lowest (0-10%), the value is not that high at around $1894 million.

♦ The most important imports for FY22 so far are personal computers and parts of telephonic and telegraphic equipment, electronic integrated circuits, Solar cells, urea and micro-assemblies’ lithium-ion and diammmonium phosphate. There are other goods also under the electrical and electronics imports. Our dependence on China is high in these products, constituting around 48% of total imports of these. Drastic reduction in these areas can only be possible if, we source from other countries, while building a domestic manufacturing base for these.

♦ When we look at the data where the import value was between $100 million and $500 million, where the import dependence was more than 50%, the sectors in which the imports are concentrated are Chemicals especially Organic, Machinery and Mechanical appliances and Electrical Machinery, Textiles and Textile Articles, Motorcycle Accessories, Oxygen Therapy Apparatus etc.

♦ On the other end, if we take commodities which have an import value of less than $100 million, but which command more than 90% share in our imports, we have more than 877 products from China worth around $3.7 billion. The concentration again is in Organic Chemicals, Machinery and Mechanical Appliances & Electrical Machinery, Textiles.

♦ The items in the low value category are a mix of finished goods and intermediate inputs and India has a revealed comparative advantage in most of these imports. If India wants to wean itself off its dependence on China, capabilities have to be developed in these areas, especially chemicals, textiles, footwear, so that both inputs and final consumer goods in these low value imports can be manufactured domestically.
LEVERAGING PLI CAN ADD UPTO $20 BN IN GDP

- Coming back to imports in FY21 of $65 billion of imports around 39.5 billion is commodities and goods where PLI scheme has been announced (textile, agri, electronics goods, pharmaceuticals & chemicals).
- If because of the PLI scheme we can reduce our dependence on China even to the extent of 20%, then we can add around $8 billion to our GDP and over-time if we reduce our dependence by 50%, we can add $20 billion to GDP because of the incentives to domestically manufacture these goods owing to the PLI scheme.

GLOBAL VALUE CHAINS AND INDIA

- India should integrate more and more into the Global Value Chains (GVCs). GVCs refer to international production sharing, a phenomenon where production is broken into activities and tasks carried out in different countries.
- Countries can participate in GVCs by engaging in either backward or forward linkages. Backward linkages are created when country A uses inputs from country B for domestic production. Forward linkages are created when country A supplies inputs that are used for production in country B.

GVC participation rate of India

GVC participation rate of China

Source: ADB, SBI Research
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Contact Details:
Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India, Corporate Centre
M C Road, Nariman Point, Mumbai - 400021
Email: soumya.ghosh@sbi.co.in,
gcea.erd@sbi.co.in
Phone:022-22742440
Twitter: kantisoumya